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'UK will press on with austerity'

BY **DANICA KIRKA**
The Associated Press

LONDON – The British government attempted Monday to cast as good a light as possible on the loss of the country's cherished triple-A credit rating, arguing it showed the need to press ahead with austerity measures to lower debt.

Treasury chief George Osborne had long boasted that the triple AAA rating validated his policies of spending cuts and tax hikes, but began backing off that argument as a downgrade became increasingly likely.

On Friday, Moody's pulled the trigger, cutting Britain's rating to AA1. It said sluggish economic growth would hinder the government's ability to control rising debt levels and deal with new financial shocks.

Osborne said the downgrade could not be blamed on his government's policies and underscored the need to stay the course.

"Ultimately that is the choice for Britain: We can either abandon our efforts to deal with our debt problems and make a difficult situation very much worse, or we can redouble our efforts to overcome our debts," he told lawmakers in the House of Commons.

The pound dropped to $1.5069 against the dollar – its lowest level since July 2010 – in early trading before recovering to $1.5125. Against the euro, it hovered around 18-month lows, with one euro worth 0.8711 pound.

Because it was the first such downgrade for Britain, which unlike the U.S. or France had managed to hold onto its top rating during the global financial crisis, the knee-jerk market reaction was negative. But experts said the rating cut was somewhat expected.

"It is hardly a bolt from the blue," said Jonathan Loynes, the chief European economics at Capital Economics. "Moody's had the U.K. on negative watch since February 2012."

Two other ratings agencies – Fitch and Standard & Poor's – have Britain on so-called negative outlook, signaling they could also downgrade it.