

U.S. avoids default but fails to dispel economy fears

The Edge Malaysia

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WASHINGTON: The United States stepped back from the brink of default on Tuesday, Aug 2 but congressional approval of a last-gasp deficit-cutting plan failed to dispel fears of a credit downgrade and future tax and spending feuds.

President Barack Obama and lawmakers from across the political divide expressed relief over the hard-won compromise to raise U.S. borrowing authority. Nevertheless, U.S. stocks fell sharply as investors fretted over persistent economic and political uncertainties dogging the world's largest [economy](#).

The possibility of an eventual downgrade of the top-notch American credit rating grew when Moody's Investors Service, one of the three major ratings agencies, said it was slapping a negative outlook on America's AAA-rated sovereign debt.

The move, announced after U.S. [markets](#) closed, could lead to a downgrade within 12 to 18 months that would probably raise borrowing costs and further hurt the struggling U.S. economy.

Moody's, affirming the AAA rating, said the [deal](#) signed by Obama was a first step toward fixing the budget problems but that the United States was at risk of a downgrade if there was a weakening of fiscal discipline in the coming year, if no further measures were taken in 2013 or if the economy deteriorated.

Another agency, Fitch Ratings, did not rule out slapping a negative outlook on the U.S. AAA rating when it concludes a review of the country later this month, the agency's top analyst for the United States told Reuters on Tuesday.

Ratings agency Standard and Poor's said in mid-July there was a 50-50 chance it would cut the U.S. rating in the next three months if lawmakers failed to craft a meaningful deficit-cutting plan.

The \$2.1 trillion deficit-reduction plan approved by Congress falls short of S&P's previous assertion that \$4 trillion in deficit-reduction measures would be needed to show that Washington was putting the country's finances in order.

The Senate's approval through a 74 to 26 vote of the \$2.1 trillion deficit-reduction plan, already passed on Monday by the Republican-controlled House of Representatives, warded off the immediate specter of a catastrophic U.S. debt default.

Obama immediately signed the bill into law, lifting the government's \$14.3 trillion debt ceiling hours before a Tuesday midnight deadline. But the rancorous debt and deficit battle between his Democrats and their Republican rivals left Obama politically bruised as he heads into a campaign for a second term in 2012.

The agreement drew a line -- for the moment -- under months of bitter partisan squabbling over debt and deficit strategy that had threatened chaos in global financial

markets and dented America's stature as the world's economic superpower.

The bill lifts the debt ceiling enough to last beyond the November 2012 elections, calls for \$2.1 trillion in spending cuts spread over 10 years and creates a bipartisan joint House and Senate committee to recommend a deficit-reduction package by late November. It does not include any tax increases.

Signaling tough political battles ahead over spending cuts and tax reform as the deficit-cutting plan is implemented, both Obama and Democratic and Republican leaders said their agreement, while a welcome first step, was not enough alone.

Wall Street [stocks](#) fell broadly by more than 2 percent, ending down for a seventh consecutive session as the wrangling over the U.S. debt ceiling faded and investors turned their attention to the stalling economy. - Reuters

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