

Fitch: "fiscal cliff" failure may cost U.S. 3A rating

NEW YORK, Dec. 19 -- Rating firm Fitch Wednesday warned that the United States may lose its gold-plated AAA rating if it failed to avert the so-called "fiscal cliff".

In its latest statement, the rating agency said the U.S. fiscal cliff, some 600 billion dollars of tax increases and spending cuts that come into effect from the beginning of 2013, was the single biggest, near-term threat to the world economy.

According to Fitch, failure to avoid the fiscal cliff "would exacerbate rather than diminish the uncertainty over fiscal policy ", and "tip the U.S. into an avoidable and unnecessary recession."

"That could erode medium-term growth potential and financial stability. In such a scenario, there would be an increased likelihood that the U.S. would lose its AAA status," said the agency.

In Fitch's opinion, a compromise will be reached to avoid the full fiscal cliff, but only with a significant fiscal tightening equivalent to 1.5 percent of GDP during 2013 as part of a gradual reduction of the budget deficit.

The agency also stressed that the challenge faced by Congress and the administration is to secure agreement on a credible plan to reduce the federal budget deficit and stabilize government debt over the medium term.

Agreement on a multi-year deficit reduction plan to stabilize government indebtedness and secure the sustainability of public finances would be likely to lead to Fitch affirming the US "AAA" rating and revising its rating outlook from current "negative" to "stable".