Rating Agency Lowers Its Outlook for Britain

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LONDON — Britain was in danger of losing its AAA credit rating because of concerns by the Standard & Poor's rating agency about the government's deteriorating finances and the limited ability to lift the debt burden anytime soon.

The ratings agency on Thursday lowered its outlook to "negative" from "stable", prompting Britain's currency, the pound, to slide against the dollar, and stocks and bonds to decline.

"Even assuming additional fiscal tightening," S.&P. said in a report, "the net general government debt burden could approach 100 percent of gross domestic product and remain near that level for the medium term."

A rival agency, Moody's, has a "stable" rating for Britain, and says it is not under review.

Prime Minister Gordon Brown, who is facing a general election next year, increased borrowing to rescue the banking system, lubricate the credit markets and cut some taxes to fuel consumer spending. Coupled with low interest rates, the money was intended to pull the country out of the recession but the spending program also burdened the government with the highest debt level since World War II.

Britain's budget deficit reached £8.5 billion, or $13.4 billion, in April. The Treasury said earlier that it expected the deficit to reach £175 billion, or 12.4 percent of gross domestic product, this year, a forecast many economists called optimistic. The British economy shrank 1.9 percent in the first quarter, and the government expected the economy to contract 3.5 percent this year.

S.&P. "had to reflect the deteriorating fiscal situation and we won't see any significant steps of fiscal tightening until after the election and that will calm the rating agencies," said Brian Hilliard, a senior economist at Société Générale in London.

In the report, S.&P. estimated that Britain would spend up to £145 billion, or 10 percent of the G.D.P. expected for the year, to support the banking system.

The agency also voiced concern about "how quickly the erosion in the government's revenue base may be repaired, the extent to which the growth in government spending can be curtailed and consequently the pace at which historically high fiscal deficits are likely to narrow."

Losing its top-level credit rating would make it more difficult for Britain to raise money through bond sales and more expensive to finance its debt. If it happened, Britain would be the fifth country in Western Europe after Greece, Ireland, Portugal and Spain to have its credit rating lowered.

But Britain's latest bond auction of £5 billion on Thursday was well received. The outcome came as a relief to the government after a similar sale in March failed to attract enough buyers. The sale is part of the government's plan to auction £220 billion of gilts this year.

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