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Greeks justified in questioning rating

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From Prof Costas Milas and Dr Theo Panagiotidis.

Sir, The FT has reported that Moody's reduced Greek bonds to "highly speculative" status ("**Greece attacks Moody's over cut to rating**", March 8). The implication of Moody's decision is that **Greece and its banking sector** will face rising liquidity problems and a significant blow to their efforts to exit from the ongoing recession. Other peripheral countries face the prospect of a similar decision.

The Moody's decision should be considered with a lot of scepticism. Recent academic work published by the **International Journal of Finance and Economics** suggests that the credit decisions made by the three main credit rating agencies (Moody's Investors Service, Standard & Poor's and Fitch Ratings) are affected by the following economic factors: per capita gross domestic product, GDP growth rate, government deficit, public debt, amount of foreign exchange reserves and the country's history of default.

According to the research, the above economic factors explain up to 40 per cent of the decisions made by the credit rating agencies leaving the majority of their decisions unexplained. In other words, Greek officials (to the delight of other peripheral countries facing similar problems) have a point in complaining about Moody's latest decision.

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