Standard & Poor's Ratings Services cut its rating on Spain and maintained a negative outlook, citing the mounting pressures from the country's economic recession.

The ratings company warned Wednesday that Spain's creditworthiness might continue to deteriorate as Madrid struggles to close a yawning budget gap, and said the Spanish government's "hesitation" to request a bailout from the European Union is "potentially raising the downside risks to Spain's rating."

S&P's downgrade to triple-B-minus from triple-B-plus puts its rating on an equal footing with where Moody's Investors Service rates Spain, just one notch above speculative-grade, or "junk," status. Moody's, however, has Spain on review for a potential downgrade and expects to complete its review by the end of October. The market has been closely waiting to see if Moody's will cut Spain to junk status.

Egan-Jones, a smaller ratings firm, has been aggressive in cutting its rating of Spain and has already sent it deep into junk status.

"The capacity of Spain's political institutions...to deal with the severe challenges posed by the current economic and financial crisis is declining," S&P said in a statement.

Spain's government has so far put off a request for a European bailout, rattling the nerves of investors who say the government's fiscal actions are on an unsustainable path. If the government asks for assistance, it opens the door for the European Central Bank to begin buying Spanish government bonds, but European authorities may require Spain to make more painful adjustments to budget and labor policies in exchange for the aid.

The S&P downgrade "keeps a certain underlying element of pressure on European politicians to continue to do something," said Carl Forcheski, foreign-exchange strategist at Societe Generale. "It's just one of the many things that can help keep their feet to the fire."

The euro quickly lost ground against the dollar after S&P announced its downgrade, erasing earlier gains to close slightly down at $1.2875.

The ratings firm said that the unpredictable nature of the policy framework in Europe is weighing on Spain's credit rating. When S&P affirmed its previous rating on Spain in August, it assumed that the EU's €100 billion ($128.5 billion) line of credit to bail out Spanish banks, approved earlier this year, wouldn't add to the Spanish central government's overall debt burden, because it would be shared among all members of the monetary union. But S&P says it now views that Spain may be ultimately liable for all loans from the European Stability Mechanism, the euro zone's permanent bailout fund.

S&P also said that, with local elections approaching and provincial governments facing financial problems, rising pressures are "likely to limit" the central government's policy options. The firm said that Spain's economy will likely contract 1.8% in 2012, and that lending conditions remain tight and fiscal targets aren't likely to be met unless more cuts are made.

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