

Credit Update

Ireland

Ratings

	Current Ratings
Foreign Currency	
Long-Term IDR	AA+
Short-Term IDR	F1+
Local Currency	
Long-Term IDR	AA+
Country Ceiling	AAA

Outlook

Foreign Long-Term IDR	Negative
Local Long-Term IDR	Negative

Financial Data

Ireland	
USDbn	2008
GDP	271.9
GDP per head (USD 000)	62.2
Population (m)	4.4
International reserves	1
Net external debt (% GDP)	-162.3
Central government total debt (% GDP)	27.1
CG foreign-currency debt	0
CG domestically issued debt (EURbn)	50.4

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Rating Rationale

- The outlook for Ireland's public finances and fiscal risks is no longer consistent with a 'AAA' rating. The government's recently published budget projections show that, even ignoring the impact of the newly established National Asset Management Agency (NAMA), gross government debt will rise to around 80% of GDP by 2011, a more than three-fold increase from its pre-recession level of 25% at end-2007. This is a much faster increase than Fitch Ratings expects in any other 'AAA'-rated sovereign.
- A severe economic downturn – Fitch expects GDP to decline by 7%-8% in 2009 as activity suffers from both the domestic property market correction and the international recession – has taken a heavy toll on both public finances and the banks that financed the initial boom. The collapse in government revenues – which Fitch expects to fall by 16% in 2009 following a similar decline in 2008 – has revealed structural weaknesses in the underlying budgetary position, previously disguised by buoyant revenue related to property and asset markets.
- The financing of the new agency, NAMA, will place further massive demands on public finances. The face value of loans to be purchased is up to EUR90bn – equivalent to around 50% of 2008 GDP. Although these loans will be purchased at a perhaps hefty discount from the banks, the associated crystallisation of losses for the banks is likely to entail a requirement for additional capital support from the government. While the government is acquiring assets, the return on these loans is uncertain, and the bigger the discounts, the bigger the necessary capital injection.

What Could Trigger a Downgrade?

- Government policy and its determination to tackle fully both the fiscal and banking crises are a major cause for optimism in the longer run, but in the short term the problems it faces are severe.
- The government's fiscal tightening in the April supplementary budget showed considerable resolve and will contain slippage in the 2009 deficit relative to the previous 9.5% of GDP target to just over 1pp. However, the need to engage in pro-cyclical tightening on this scale during the steepest recession in recent memory demonstrates the government's lack of policy flexibility and options, in stark contrast to the belief even a year ago that successful efforts over the previous decade to cut public debt would provide the scope, if needed, for a considerable discretionary counter-cyclical stimulus.
- The proposal to "carve out" property development and investment loans from banks' balance sheets is also an innovative and bold measure to shore up confidence in the Irish banks. However, the up-front costs, to be funded directly with government debt issued to the banks, will be very substantial.
- Fitch's assumption is that there will be some real GDP growth in 2010 and only a small further fall in nominal growth. Significant underperformance could lead to further downgrades.
- With economic and financial prospects remaining very weak and the fiscal deficit expected to remain very large in the near term, the Outlook is Negative.