

**Credit Opinion: Ireland**

**Ireland**

**Ratings**

Category	Moody's Rating
<b>Ireland, Government of</b>	
Outlook	Rating(s) Under Review
Government Bonds	*Aaa
Commercial Paper -Dom Curr	P-1

\* Placed under review for possible downgrade on April 17, 2009

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**Key Indicators**

**Ireland**

	2004	2005	2006	2007	2008	2009F	2010F
Real GDP (% change)	4.7	6.4	5.7	6.0	-2.3	-7.7	-2.9
CPI Inflation (yearend, % change)	2.6	2.5	4.9	4.7	1.1	-2.0	1.0
General Government Balance/GDP	1.4	1.7	3.0	0.3	-6.3	-10.8	-10.8
General Government Primary Balance/GDP	2.5	2.7	3.9	1.3	-4.8	-7.8	-6.6
General Government Debt/GDP	29.4	27.3	24.7	24.8	41.0	76.5	108.8
General Government Debt/Revenues	83.9	77.0	67.1	69.4	126.9	246.8	350.8

**Opinion**

**Credit Strengths**

The credit strengths of Ireland include:

- Highly-educated and skilled labor force with a favourable demographic profile
- Still-competitive tax environment

**Credit Challenges**

The credit challenges for Ireland include:

- Macroeconomic adjustment in an environment that is characterized by strong global headwinds
- Preservation of government financial strength through a phase of low growth and declining tax revenues

**Rating Rationale**

Ireland's government debt ratings are Aaa. According to Moody's sovereign bond rating methodology, the country's "very high" economic strength is a result of structural adjustments that have opened up the Irish economy to the outside world. As a consequence, per capita income rose substantially, and the country now ranks among the EU's high income countries. Ireland's "very high" institutional strength is based on its government effectiveness.

Although the Irish government - along with other European governments - has taken calculated fiscal risks in order to stabilize the banking system in this ongoing global crisis, the government financial strength is assessed as still being "very high." Moody's sees the measures that have been conducted as appropriate under the current circumstances, implying a "low" susceptibility to event risk. Whereas EMU membership shelters the country in the short run from an even more pronounced slowdown, it may however complicate the necessary adjustments that Ireland has to undergo in the medium to long run.

## Rating Outlook

Ireland's Aaa long-term government bond ratings are on review for possible downgrade, reflecting the severe economic adjustment taking place in Ireland, which threatens to undermine the country's low tax, financial services-driven economic model. Moreover, the government's debt affordability metrics are likely to be lastingly impaired. The authorities are being proactive to the extent possible in their effort to restore the country's economic and financial stability, but their room for manoeuvre is limited. Although Ireland is not alone in seeing a sharp deterioration in credit metrics, it is constrained by the small scale of its economy and the erosion of its dynamic core relative to larger Aaa countries that have similar structural challenges. Accordingly, Ireland has lost some of both its economic and government financial strength relative to its Aaa peers.

## What Could Change the Rating - Down

The review focuses on whether Ireland is able to stabilise debt affordability at a level compatible with a Aaa rating without endangering the prospects for a robust economic recovery. Should Moody's come to the view that Ireland will emerge from the crisis with relatively weak growth prospects and a much higher debt burden for the foreseeable future, Ireland would be downgraded to the mid to high Aa rating range.

## Recent Developments

Economic activity is contracting on the back of a severe correction in the housing market, as well as faltering consumption and a steep decline in investment. Export growth has also been trending downwards. The recession's impact on the labor market is considerable: the unemployment rate is set to double within one year from 6.3% (2008) to 12.6% (2009). The pronounced weakness in economic activity has been translating into a reversal of public finance dynamics from virtuous to vicious. Without additional budgetary measures the general government deficit in 2009 and 2010 would be close to 13% of GDP. With the supplementary budget presented in early April, the Department of Finance now projects a 10.8% of GDP deficit for both years, and deficits of 8.5% of GDP and 5.5% of GDP for 2011 and 2012, respectively. The mix of measures to stabilize public finance poses risks, as it relies on tax hikes and capital spending cuts rather than on reductions in the cost of public services.

The Irish banks are struggling in the current environment, as the recession results in a substantial increase in bad debts for lenders. The banks have entered the downturn with relatively low capital bases given their large real estate exposures, and the dislocation in the global markets continues to pressure funding. To stabilise the banking system, the Irish authorities have employed a range of different policy instruments, including a blanket guarantee for Irish banks, the nationalization of Anglo Irish Bank and the recapitalization of AIB and Bank of Ireland. In April, the Irish authorities announced the creation of a National Asset Management Agency (NAMA), which will have the power to acquire bank assets without management and shareholders' agreement if deemed necessary. That being said, NAMA's actions will merely convert an off-balance sheet exposure of the government into an on-balance sheet liability and have only a limited impact on Ireland's net government debt.

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