



# NEWS RELEASE

No.2009-C-323  
Apr 10, 2009

## R&I Downgrades to AA+, Negative: Ireland

Rating and Investment Information, Inc. (R&I) has announced the following:

**ISSUER:** Ireland  
Foreign Currency Issuer Rating  
Domestic Currency Issuer Rating

**R&I RATING: AA+ (Downgraded from AAA)**

**RATING OUTLOOK: Negative**

Foreign Currency Short-term Credit Rating  
Domestic Currency Short-term Credit Rating

**R&I RATING: a-1+ (Affirmed)**

### RATIONALE:

The Irish government announced a supplementary budget on April 7 that features higher taxes and a plan to purchase non-performing assets from financial institutions. According to the macroeconomic and fiscal projections the government released at the same time, real gross domestic product (GDP) in 2009 will shrink at an annual rate of nearly 8%. Considering that in January 2009 the economy was expected to contract by only 4%, the shock to the economy delivered by the rapid adjustment in the residential property market can only be regarded as greater than first anticipated. The projected growth rate in 2010 has been revised sharply, from minus 0.8% to approximately minus 3%.

Because of a large drop in property-related tax revenue, the fiscal balance in 2008 fell into the red to the equivalent of 7% of GDP. In 2009 the deficit is expected to expand further, to about 11% of GDP, even after the annual spending controls and measures to increase the income levy and raise the capital gains tax announced by the government are taken into account. Although R&I had not expected the ratio of public debt to GDP, which stood at the very low level of 25% at the end of 2007, to become a very large burden even after the fiscal outlays mobilized as a response to Ireland's economic crisis, an increase significantly greater than anticipated will be unavoidable as a result of the rapid widening of the fiscal deficit, and will reach nearly 80% of GDP in 2011 according to the government's projections. Should the economic slump be prolonged, there is a concern the government's countermeasures could be constrained from a fiscal perspective.

The government has decided to establish, simultaneously with its fiscal measures, a National Asset Management Agency to acquire real estate-related assets from financial institutions. The book value of the assets targeted for acquisition is expected to be equivalent to roughly 50% of 2008 GDP. Although the actual amount for the purchase of the assets will be smaller than that, the issuance of additional government bonds to provide funds for the agency unquestionably will produce a corresponding fiscal burden. R&I will closely follow the developments of the scheme, and ascertain if this would contribute to revitalizing the economic activity.

In February 2009, R&I changed the Rating Outlook for Ireland's Issuer Rating to Negative in light of the probability the level of public debt will expand beyond the government's projection at that time. Because the debt burden is now certain to exceed R&I's expected level as a result of the rapid deterioration of Ireland's economic and fiscal situation, however, R&I has downgraded both

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**Rating and Investment Information, Inc.** Nihonbashi 1-chome Bldg., 1-4-1, Nihonbashi, Chuo-ku, Tokyo 103-0027, Japan  
Investors Service Division TEL: 03-3276-3511 FAX: 03-3276-3413 <http://www.r-i.co.jp> E-mail: [infodept@r-i.co.jp](mailto:infodept@r-i.co.jp)

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the Foreign Currency Issuer Rating and Domestic Currency (Euro) Issuer Rating to AA+. As it is uncertain whether the government can improve the fiscal balance and restrain public debt in line with its current outlook, the Rating Outlook continues to be Negative. R&I will watch if Ireland can capitalize on its flexible market economy to seize an opportunity for an economic turnaround by regaining its competitiveness. R&I has affirmed the Foreign Currency and Domestic Currency Short-term Credit Rating at a-1+.

The primary rating methodology applied to this rating is provided at "R&I's Analytical Approach to Sovereigns". The methodology is available at the web site listed below, together with other rating methodologies that are taken into consideration when assigning the rating.  
<http://www.r-i.co.jp/eng/rating/rating/methodology.html>

## **R&I RATINGS:**

**ISSUER:** Ireland

**FOREIGN CURRENCY ISSUER RATING:** AA+ (Downgraded from AAA)

**DOMESTIC CURRENCY ISSUER RATING:** AA+ (Downgraded from AAA)

**RATING OUTLOOK:** Negative

**FOREIGN CURRENCY SHORT-TERM CREDIT RATING:** a-1+ (Affirmed)

**DOMESTIC CURRENCY SHORT-TERM CREDIT RATING:** a-1+ (Affirmed)

**LONG-TERM ISSUE RATING:** Issue Date Redemption Issue Amount (mn)

4.50% Treasury Bond due 2018 Oct 23, 2007 Oct 18, 2018 Euro 6,000

**R&I RATING:** AA+ (Downgraded from AAA)

In principle, an Issuer Rating is R&I's opinion on an issuer's overall capacity to repay its financial obligations as agreed and is assigned to all issuers. The rating of individual obligations includes the prospect of recovery and reflects the terms and conditions of the agreement and it may be lower or higher than the Issuer Rating.

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Investors Service Division TEL: 03-3276-3511 FAX: 03-3276-3413 <http://www.r-i.co.jp> E-mail: [infodept@r-i.co.jp](mailto:infodept@r-i.co.jp)

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