

FITCH AFFIRMS IRELAND'S 'AAA' RATING

Fitch Ratings-London-18 May 2004: Fitch Ratings, the international rating agency, has today affirmed the Republic of Ireland's Long-term foreign currency and local currency ratings at 'AAA' and the Short-term foreign currency rating at 'F1+'. The Outlook for the Long-term ratings is Stable.

Ireland's economic and social transformation over the last decade and a half has been remarkable. GDP per head (at market exchange rates) has risen to 140% of the EU average from around 70% since 1990. And while the era of the "celtic tiger" is over, Ireland is still expected to outperform its European and 'AAA'-rated peers in growth over the medium-term. Ireland's economic success has also been accompanied by a social transformation. Access to, as well as the quality of education has steadily improved; women's participation in the (formal) labour force has increased, supporting employment growth; and the political environment has matured.

The factors that have underpinned Ireland's rapid rate of growth over the last decade and more are likely to remain in place over the medium-term. Macroeconomic stability, a highly productive and profitable export-orientated multinational sector, which continues to invest in Ireland, strong productivity growth and positive demographic trends should support 4%-6% real GDP growth over the medium-term. Potential trend growth will, however, diminish between 2010-2020, in line with the expected tailing off in the growth of the labour force.

Ireland's openness in international trade and investment flows, supported by membership of the EU and EMU, has brought major benefits, but it has also increased Ireland's exposure to developments in the global economy. While the adoption of the euro has reduced Ireland's vulnerability to potential balance of payments shocks, the loss of control over domestic monetary policy places an even greater onus on sound public finances and maintaining international competitiveness.

The gap between inflation in Ireland and the rest of the euro area has fallen noticeably recently which, combined with the stabilisation of the euro against the US dollar, has eased concerns about international competitiveness. Nonetheless, containing wage pressures will be important if Ireland's competitive position is not to be eroded over the medium-term. Moreover, the enlargement of the European Union to include some of the former Communist countries of Central and Eastern Europe will pose competitive challenges to Ireland, as well as the other EU-15 countries, in terms of attracting and keeping foreign investment.

Ireland's 'AAA' status reflects its competitive and dynamic economy, underpinned by macroeconomic stability, including membership of EMU, as well as very strong public finances. Moreover, its strong economic and credit fundamentals mitigate the potential vulnerabilities to external shocks faced by a small and very open economy.

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