

Republic of Ireland 'AAA' LT, 'A-1+' ST Ratings Affirmed On Economic Strength; Outlook Stable

Primary Credit Analysts:

Trevor Cullinan
London
(44) 20-7176-7110
trevor_cullinan@
standardandpoors.com

Secondary Credit Analyst:

Konrad Reuss
London
(44) 20-7176-7102
konrad_reuss@
standardandpoors.com

Additional Contact: Sovereign
Ratings
SovereignLondon@
standardandpoors.com

Publication Date

Dec. 20, 2005

LONDON (Standard & Poor's) Dec. 20, 2005—Standard & Poor's Ratings Services said today it affirmed its 'AAA' long-term and 'A-1+' short-term sovereign credit ratings on the Republic of Ireland. The outlook is stable.

"The ratings on the Republic are supported by the diversified and flexible nature of its economy, strong general government finances, and its favorable demographic structure and future pension liabilities," said Standard & Poor's credit analyst Trevor Cullinan. "The economy continues to expand strongly, fuelled by domestic demand in the context of a less positive contribution to GDP growth from net exports."

This economic strength is reflected in the public finances, which are characterized by expenditure restraint and have, on average, posted surpluses during the past decade. Moreover, the government sets aside 1% of GNP each year to help fund future pension obligations. The general government budget balance is expected to post a surplus of 0.3% of GDP in 2005, compared with the official forecast of a deficit of 0.8% proposed in the 2005 budget. Standard & Poor's estimates deficits in the region of 1.0% of GDP over the coming years, albeit well below the 3.0% Maastricht ceiling, even including infrastructural investment that is more than double the EU average.

Ireland's real economic growth has outpaced that of peers over the past decade, and although the heady double digit growth rates of the late 1990s have come to an end, the economy continues to expand strongly on the back of buoyant consumer spending, supported by high employment, robust earnings growth, and low interest rates. Against this backdrop, household indebtedness doubled during the course of the 1990s, and is now well above 100% of disposable income, leaving the economy susceptible to a sharp rise in interest rates or unemployment. In this regard, variable rate mortgages have made the largest contribution to this rise in indebtedness.

“In the medium term, Ireland’s extremely strong credit standing should remain secure against nearly all foreseeable downside economic, political, and financial risks,” said Mr. Cullinan.

Strong GDP growth, the ongoing commitment to sustainable public finances, and the implementation of measures addressing the challenge of an aging population will support the ratings. The ratings on Ireland could come under pressure, however, should there be a sharp housing market correction, undermining output growth and employment, and potentially leading to a deterioration in the public accounts.

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