



NEWS RELEASE

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R&I View: Ireland to Guarantee Bank Deposits and Debts

The government of Ireland announced on September 30 that it will guarantee all types of deposits, covered bonds, senior debt and dated subordinated debt of six financial institutions including three commercial banks (Allied Irish Bank, Bank of Ireland, Anglo Irish Bank, Irish Life & Permanent, Irish Nationwide Building Society and the Educational Building Society). The guarantee, which is a temporary measure until September 30, 2010, is a proactive step designed to avoid a run on banks and preserve the entire financial system, at a time when financial institutions are having difficulty securing funds because of turmoil in the global financial markets. A rough calculation indicates the total amount of liabilities subject to the guarantee is about 425 billion euro, more than 200% of Ireland's nominal GDP (190 billion euro in 2007). Although it had just raised the deposit amount protected by deposit insurance to 100,000 euro from 20,000 euro on September 20, the government believed it needed to establish stronger safeguards in the wake of the confusion that has further rocked the financial market.

Based on its positive evaluation of, among others, the robust economic growth Ireland has achieved through its flexible market economy and low level of public debt, R&I has assigned a rating of AAA to both Ireland's euro-denominated Domestic Currency Issuer Rating and Foreign Currency Issuer Rating. Since the beginning of 2008, however, Ireland's economy has decelerated sharply following a rapid adjustment in housing market, becoming the first eurozone economy to slip into recession (negative growth for two consecutive quarters). The real GDP growth rate for 2008 is forecasted to be zero or slightly negative, while the outlook suggests growth in the 0-1% range for 2009 as well. Government revenue is shrinking because of a decline in property-related taxes, and the general government fiscal balance in 2008 is projected to swing into deficit equivalent to about 4% of GDP, following a small surplus in 2007. Outstanding general government debt at the end of 2007 was low at 25% of GDP, meaning a deficit will not cause Ireland's creditworthiness to suffer immediately. If the economic slowdown is prolonged, however, this could place downward pressure on Ireland's creditworthiness over the medium to long-term.

Ireland's government is taking measures to eliminate to the extent possible uncertain factors to its economic management, including forward scheduling to October 14 of the date for presentation of its budget, which normally is scheduled in December, and the latest measure can be evaluated positively as one facet of these measures. Nevertheless, with the introduction of the government proposal to protect certain bank debts under these circumstances, the possibility has emerged that the government will be compelled to shoulder a larger burden, depending on how the situation unfolds. R&I will follow the government's actions including additional measures carefully, and plans to review Ireland's rating after considering the economic forecast that will be announced with the fiscal 2009 budget and other factors.

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