STANDARD & POOR'S

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Research Update:

Republic of Ireland Outlook To Negative On Concerns About Public Finances; Ratings Affirmed

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Rationale

On Jan. 9, 2009, Standard & Poor's Ratings Services revised its outlook on the Republic of Ireland to negative from stable, on what we view as mounting fiscal pressures and deterioration of key economic sectors. At the same time, the 'AAA' long-term and 'A-1+' short-term sovereign credit ratings were affirmed. Standard & Poor's also affirmed its 'AAA/A-1+' ratings on the debt programs and instruments of those Irish banks where they are guaranteed until maturity by the Republic of Ireland. For more details, see "S&P Details How The Irish Government Guarantee Applies To Debt Programs Of Four Irish Banks," published on Nov. 11, 2008, on RatingsDirect.

The outlook revision reflects our opinion of the rising economic policy challenges stemming from the contraction of the key housing, construction, and financial sectors, which have spurred many years of strong economic growth and fiscal consolidation. According to the European Commission, property-related tax (capital gains tax and stamp duty) accounted for 15% (3.8% of GDP) of total tax revenues in 2006, falling to 8% in the first eight months of 2008, the single most important factor in the deterioration in the general government balance. We have observed that general government debt levels also increased substantially between 2007 and 2008, by more than 16% of GDP, as a result of the widening deficit, although a substantial portion of the increased indebtedness (10% of GDP) remains in Exchequer cash balances as a liquidity buffer.

We note that the government has also extended guarantees to seven domestic credit institutions through Sept. 29, 2010, increasing general government guaranteed debt to an estimated 228% of GDP in 2009. Banking system exposure to the property and construction sector of about one-third of total loans (excluding interbank lending) suggests a high risk of asset deterioration at these institutions.

The ratings on the Republic of Ireland are supported by what we view as the flexibility of its economy, high per capita income, and a favorable demographic structure. The government's commitment to contribute 1% of GNP per annum to the National Pensions Reserve Fund (NPRF), in our opinion, reduces the fiscal burden of population aging more than in some other European countries. However, the government is expected to use NPRF assets to assist in funding an estimated €10 billion (5% of GDP) recapitalization of its domestic banking sector.

Outlook

The negative outlook reflects our view of the likelihood of a downgrade if ongoing fiscal measures to recapitalize the banks and boost the economy fail to improve competitiveness, diversity, and growth prospects, thereby leaving a more difficult-to-manage debt burden. Conversely, the negative outlook could revert to stable if the government's strategy is successful and allows public finances to return to the stronger position of recent years.

Ratings List

Ratings Affirmed; CreditWatch/Outlook Action

	To	From
Ireland (Republic of)		
Sovereign Credit Rating	AAA/Negative/A-1+	AAA/Stable/A-1+

N.B.--This does not include all ratings affected.

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Ratings information is available to subscribers of RatingsDirect, the real-time Web-based source for Standard & Poor's credit ratings, research, and risk analysis, at www.ratingsdirect.com. It can also be found on Standard & Poor's public Web site at www.standardandpoors.com; select your preferred country or region, then Ratings in the left navigation bar, followed by Credit Ratings Search. Alternatively, call one of the following Standard & Poor's numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow (7) 495-783-4017.