

**Rating Action: Ireland, Government of**

**Moody's changes outlook to negative on Ireland's Aaa ratings**

Frankfurt, January 30, 2009 -- Moody's Investors Service has today changed the outlook to negative from stable on Ireland's Aaa debt ratings. Today's change in outlook reflects Moody's view that the current economic crisis is likely to significantly affect Ireland's economic strength and government financial strength for the years to come -- both in absolute terms and relative to the country's rating peers.

"That said, Ireland's Aaa ratings remain appropriate at this point, as the country entered the current financial crisis in a relatively favourable fiscal position and as it is too early to conclude that most of the factors that contributed to its economic vitality have been structurally eroded" says Dietmar Hornung, a Vice President-Senior Analyst in Moody's Sovereign Risk Group.

Thanks to the budget surpluses of recent years, Ireland has indeed some room to manoeuvre, even under the current circumstances. Moody's assessment of "very high" government financial strength reflects the country's still relatively low level of government debt.

At the same time, Moody's observes that Ireland's pronounced weakness in economic activity is translating into a distinct reversal of public finance dynamics. Furthermore, Ireland's fiscal adjustment capacity seems constrained, as the government can only modestly raise taxes without risking further damage to its economic model.

Moody's recognises that Ireland's economic activity is contracting on the back of a severe correction in the housing market, as well as faltering consumption in connection with increased job uncertainty and a steep decline in investment. Export growth has also been trending downwards. "Moreover, the sizeable indebtedness of households points to a particularly painful de-leveraging process," says Mr. Hornung.

Furthermore, Moody's regards the government liabilities that could possibly arise from the troubled banking system as considerable. At the end of September 2008, the Irish government announced a two-year guarantee to stabilise its banking system -- an 'intervention' which represents an off-balance sheet liability for the government. In December 2008, the government announced a EUR5.5 billion recapitalisation of three banks. In January this year, Anglo Irish Bank was nationalised.

Moody's notes that a downgrade would follow if Ireland, in the coming year, were to exhibit: (i) an economic downturn suggesting a structural erosion of what underpins the Irish "economic model"; (ii) a further significant deterioration of government financial strength, aggravated by liabilities arising from the troubled banking system; and/or (iii) a fiscal adjustment capacity that would fall short of being able to stabilise -- in the foreseeable future -- debt coverage ratios (debt/GDP, debt/general government revenue) and debt affordability indicators (interest payment/revenue) at levels compatible with a Aaa rating.

Moody's last rating action with respect to the Government of Ireland occurred in May 1998 when the foreign currency government bond rating was raised to Aaa from Aa1.

The principal methodology used in rating Ireland was Moody's Sovereign Bond Methodology, which can be found at [www.moody.com](http://www.moody.com) in the Credit Policy & Methodologies directory, in the Ratings Methodologies sub-directory. Other methodologies and factors that may have been considered in the process of rating Ireland can also be found in the Credit Policy & Methodologies directory.

Press releases concerning other issuers affected by this action will follow separately.

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