Rating Report
Report Date:
July 21, 2010

Republic of Ireland

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Rating

Debt	Rating	Rating Action	Trend
Long-Term Foreign Currency	AA	New Rating	Stable
Long-Term Local Currency	AA	New Rating	Stable

Rating Update

DBRS has assigned initial ratings on Ireland's long-term foreign and local currency debt at AA. The trend on both ratings is Stable. The AA ratings balance Ireland's structural strengths – an open economy, highly skilled workforce, flexible labor market and strong political institutions – with the large increase in public indebtedness and a weakened financial sector. The Stable trends reflect DBRS's view that Ireland's exemplary policy response to date has helped stabilize both public finances and the financial sector, and that the economy is in the process of recovery. While public debt ratios will continue to rise until 2012, DBRS believes that the public sector balance sheet is sufficiently robust to absorb the additional stress. However, the Stable trends could be changed to Negative if the planned austerity measures for the 2011 budget are not fully implemented, or if financial market volatility or weak demand from Ireland's main trading partners impair the recovery.

The bursting of Ireland's massive property bubble and, to a lesser extent, the global economic and financial crisis, revealed the unsustainable structure of Ireland's public finances. These events also threatened the stability of the banking system and contributed to one of the most severe recessions of any advanced economy in the last 60 years. Notwithstanding the scale of these challenges, Ireland's policy response has been timely, transparent and well-articulated. First, the government has taken decisive action to address its large fiscal imbalances. The budgetary consolidation program is front-loaded, realistic and aims to reduce the deficit below 3% of GDP by 2014. Political commitment to fiscal sustainability has helped firm up market confidence and forestall negative feedback loops to the real economy. (Continued on page 2.)

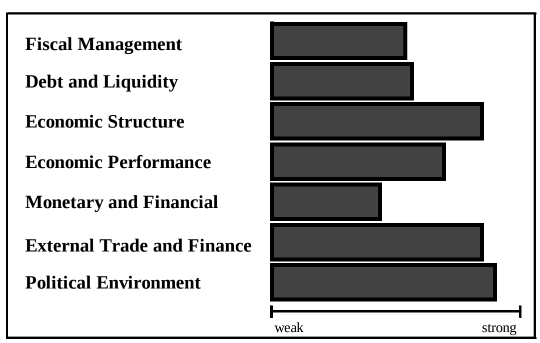
Rating Considerations

Strengths
(1) Open economy with high income per capita
(2) Young, highly educated workforce
(3) Flexible labor market
(4) Strong political institutions
(5) Benefits of EMU membership

Challenges
(1) Severe fiscal imbalances
(2) Weakened financial sector
(3) High public sector liabilities
(4) High private sector indebtedness

Summary Statistics

For the year ended Dec. 31	2011E	2010E	2009	2008
Nominal GDP (€, billions)	169.9	160.9	159.6	180.0
Nominal GNP (€, billions)	135.4	129.1	131.2	154.7
GDP per capita (€)	38,309	36,285	35,997	40,703
Real GDP (% change yoy)	3.0%	1.0%	-7.6%	-3.5%
Inflation (HICP, annual % change)	1.0%	-1.2%	-1.7%	3.1%
Current Account Balance (% GDP)	-0.6%	-0.9%	-3.0%	-5.6%
Gen. Government Balance (% GDP)*	-10.0%	-11.6%	-12.1%	-7.3%
Gen. Government Debt (% GDP)	98.2%	94.1%	65.6%	44.4%
Net Gen. Government Debt (% of GDP)	72.5%	66.9%	38.2%	23.2%



* Does not include recapitalization costs of 2.5% of GDP in 2009 and 8.0% in 2010.

Rating Update (Continued from page 1.)

Second, extraordinary policy action has been taken to rehabilitate a severely weakened financial system. Since September 2008, the government has provided a guarantee for bank liabilities, nationalized Anglo-Irish Bank, created the National Asset Management Agency (NAMA) to transfer EUR81 billion in risky loans off bank balance sheets, and provided EUR25 billion (16% of GDP) in recapitalizations. DBRS estimates recapitalizations could ultimately total more than EUR33 billion. While the financial system remains under considerable stress, these measures, in addition to European Central Bank (ECB) support, have helped improve funding conditions and reduce uncertainty about the health of bank balance sheets. In addition, Ireland's Central Bank and Financial Regulator is demanding that banks recapitalize, either through the private markets or with public support, to meet new capital standards. Third, the government is tackling past regulatory failures with a series of legislative proposals that will enhance accountability, strengthen oversight and improve transparency in the financial sector.

After contracting 7.6% in 2009, the economy is in the early stages of recovery. GDP growth was 2.7% in the first quarter of 2010, retail sales are rebounding and consumer confidence is improving. The European Commission estimates 3.0% GDP growth in 2011, double the rate of the euro area. DBRS estimates that net public debt will peak at 74% of GDP in 2012 and fall to 70% by 2014. Strong liability management helps reduce liquidity concerns. Ireland has already raised EUR18.1 billion, or 90% of this year's financing needs, and funding for 2011, estimated at EUR20 to EUR25 billion, appears to be manageable. Furthermore, the Exchequer has over EUR20 billion in cash balances, providing flexibility in the event of market turbulence.

Internal rebalancing of the economy to the tradable sector is setting the stage for an export-led recovery. Over the past decade, high price and wage inflation eroded Ireland's cost competitiveness. Regaining lost competitiveness is a multi-year process, but there are clear signs of progress. Inflation in Ireland has been below the euro area average for more than two years and the European Commission expects unit labor costs in Ireland to decline through 2011. However, with a subdued outlook for domestic demand, Ireland's economic performance going forward will depend in large part on a sustained recovery in global demand.

Rating Considerations Details

Strengths

(1) **Open economy with high income per capita.** Openness to international trade and investment has fueled strong economic expansion for two decades. From 1988 to 2009, average annual GDP growth was 5.3%. Despite the severe recession experienced over the last two years, gross national income per capita in 2009 was nearly EUR30,000, approximately 10% higher than the euro area average.

(2) **Young, highly educated workforce.** Ireland's young, educated and English-speaking workforce attracts high levels of foreign direct investment (FDI) and supports strong productivity growth. In 2008, 42.3% of the population aged 25-34 had a tertiary degree, compared with 30.3% across the EU. Ireland has also the youngest population in the EU.

(3) **Flexible labor market**. Unlike some other EMU members, Ireland has a highly flexible labor market, which helps accelerate wage adjustments and maintain external competitiveness within the context of a currency union. According the Organisation for Economic Co-operation and Development's (OECD) "Strictness of Employment Protection" index, Ireland's labor market is among the most flexible among advanced economies, along with Canada, the United Kingdom and the United States. Wage flexibility and labor mobility also facilitate the reallocation of labor to more productive sectors of the economy, thereby enhancing productivity growth.

(4) **Strong political institutions.** Ireland enjoys a tradition of effective and accountable government. The party system is stable, providing policy predictability and moderate politics. Strong political institutions have fostered investment and business confidence. Furthermore, DBRS believes the pillars of current economic policy – including budgetary consolidation and financial sector reform – will continue regardless of which party is in power. Ireland has a successful track record of fiscal consolidation in the 1980s and 1990s, and the policy response to the recent fiscal and banking crises has been clear and decisive.

(5) **Benefits of EMU membership.** Euro membership supports price stability, facilitates trade and provides banks with access to the ECB liquidity. Ireland's flexible labor market is also consistent with its euro membership, helping accelerate adjustments to shocks and maintain external competitiveness.

Challenges

(1) **Severe fiscal imbalances.** Transitory revenues derived from the property bubble concealed a widening structural, or non-cyclical, deficit. As the property market deflated from 2007 to 2009, the budget (not including bank recapitalizations) shifted from a surplus of 0.2% of GDP to a deficit of 12.1%. While the government's fiscal consolidation plan is clear and well-articulated, it will require sustained fiscal discipline and further austerity measures to reduce the deficit below 3% of GDP by 2014, as planned.

(2) **Weakened financial sector.** Undercapitalized and highly exposed to the domestic property bubble, Ireland's financial sector faced a systemic crisis in late 2008. In response, the government provided bank guarantees, nationalized Anglo-Irish Bank, created NAMA and spent EUR25 billion (16% of GDP) in recapitalizations. The Department of Finance has indicated that another EUR8 billion in capital injections could be needed. While the government is implementing a comprehensive strategy to recapitalize the banking system and strengthen the regulatory framework, financial sector restructuring has increased borrowing costs, limited credit growth and added explicit and contingent liabilities to the public sector balance sheet.

(3) **High public sector liabilities.** Large fiscal deficits and costly bank recapitalizations have sharply increased the public debt burden, reducing Ireland's room to maneuver in the event of further financial or economic shocks. However, DBRS believes the increased debt burden is manageable. DBRS estimates that net public debt (assuming NAMA breaks even and the net fiscal cost of bank recapitalizations is EUR26 billion) will peak at 74% of GDP in 2012 and decline to 70% by 2014.

(4) **High private sector indebtedness.** Ireland's private sector is among the most heavily indebted in Europe. In December 2009, outstanding credit to the private sector totaled 229% of GDP. Household and corporate deleveraging, combined with wage deflation, higher unemployment and fiscal retrenchment, is likely to dampen a recovery in domestic demand in the coming years. On the other hand, an adjustment to more sustainable debt levels is well underway. From November 2008 to May 2010, total private sector debt declined to EUR351 billion from EUR404 billion.

Fiscal Management and Policy

The property market correction revealed severe structural weaknesses in Ireland's public finances. From 2007 to 2009, the budget shifted from a surplus of 0.2% of GDP to a deficit of 12.1%. The deterioration was largely caused by an over-reliance on transitory revenues derived from property-related transactions. Consequently, the structural, or non-cyclical, deficit persistently widened from 2000 to 2007, even as the fiscal accounts were balanced or in surplus. As the property market deflated from 2007 to 2009, Exchequer tax revenues declined 30.1%.

In response to the rapid deterioration in fiscal accounts, Ireland has implemented a budgetary consolidation program that is front-loaded and lays out a clear and realistic plan to reduce the deficit below 3% of GDP by 2014. Tax increases and spending cuts totaled EUR8 billion (5.0% of GDP) in 2009 and EUR4 billion (2.5% of GDP) in 2010. Excluding recapitalization costs, the deficit is expected to narrow in 2010 to 11.5% of GDP. These measures have restored a degree of confidence in Ireland's public finances. Recent data indicate that tax receipts and spending for the first six months of 2010 are broadly in line with government targets.

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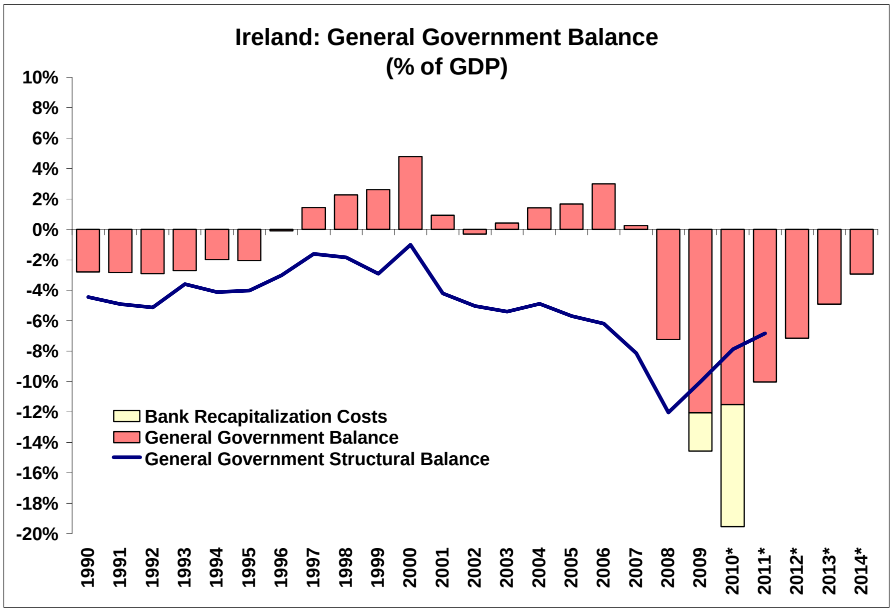


Note: While Eurostat decided to treat bank recapitalizations as capital expenditures, DBRS considers these below-the-line items. For the purpose of clarity, we distinguish bank recapitalizations in the graph above.
Source: Department of Finance, IMF, DBRS

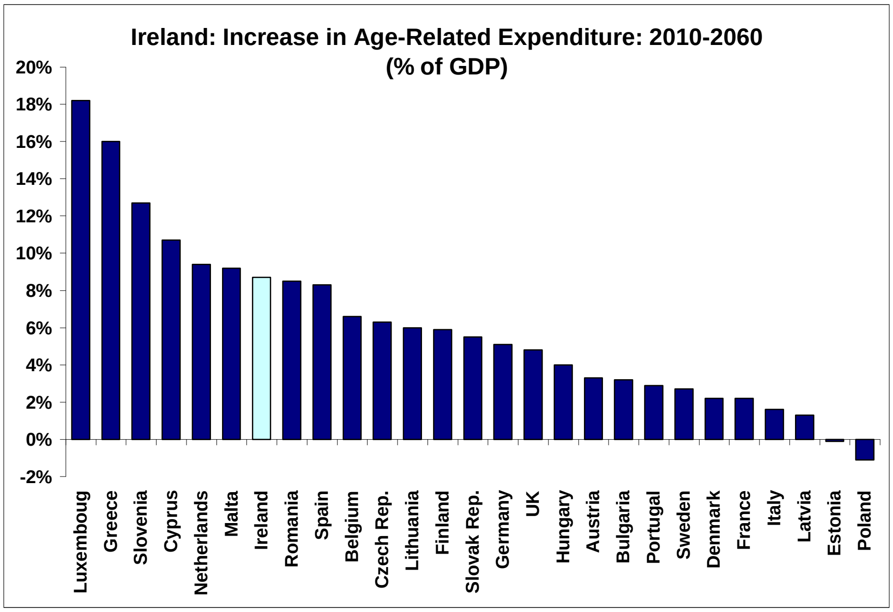
In addition to reducing the deficit, the consolidation program lays the foundation for a more competitive economy. The onus of the adjustment is on permanent cuts in current expenditures, particularly public sector wages and social welfare benefits. Salary and benefit reductions for over 360,000 public workers will help induce economy-wide nominal wage deflation and accelerate Ireland's return to competitiveness. At the same time, the government's pledge to keep the corporate tax rate at 12.5%, less than half the euro area average of 25.9%, should attract investment and support growth.

Central Government - Exchequer Finances
(billions of €)

Revenue	**2011E**	**2010E**	**2009**	**2008**	**2007**
Tax Revenue	32.8	31.1	33.0	40.8	47.3
Income tax	12.1	11.5	11.8	13.2	13.6
VAT	10.5	10.1	10.7	13.4	14.5
Excise	4.7	4.5	4.7	5.4	5.8
Corporation	3.6	3.2	3.9	5.1	6.4
Stamp	1.0	1.0	0.9	1.7	3.2
Capital Gains	0.3	0.3	0.5	1.4	3.1
Other	0.5	0.4	0.5	0.6	0.7
Non-tax Revenue	1.1	2.4	0.8	0.8	0.6
Capital Income	1.6	1.7	1.5	1.4	1.4
Total Revenue	**35.5**	**35.1**	**35.3**	**43.0**	**49.3**
Expenditure					
Net Voted Expenditure	41.4	40.2	40.3	40.8	37.0
Central Fund Services	8.3	6.9	5.0	3.9	3.9
Interest Payments			2.5	1.5	1.6
Capital Expenditure	5.8	6.7	10.7	11.0	10.0
Total Expenditure	**55.5**	**53.9**	**56.0**	**55.7**	**50.9**
Planned Adjustment	-2.0				
Exchequer Balance*	**-18.0**	**-18.8**	**-20.6**	**-12.7**	**-1.6**
% of GDP	**-10.6%**	**-11.7%**	**-12.9%**	**-7.1%**	**-0.9%**
General Government Balance*	**-17.0**	**-18.5**	**-19.4**	**-13.2**	**0.3**
% of GDP	**-10.0%**	**-11.5%**	**-12.1%**	**-7.3%**	**0.1%**

* Does not include recapitalization costs of 2.5% of GDP in 2009 and 8.0% in 2010.
Source: Department of Finance, DBRS

Additional measures are still needed to address some of the structural shortcomings of Ireland's public finances. First, the government is considering several new taxes, including a "social universal tax", with the objective of broadening the tax base and stabilizing revenues. Currently, only 50% of taxpayers pay income tax, primarily due to personal income tax credits. Second, the government recently proposed a public pension reform, which gradually increases the retirement age and adjusts benefits in order to reduce the long-term budgetary impact of an ageing population. While Ireland has the youngest population in the EU today, the projected increase in age-related expenditure over the next 50 years is among the highest in the Europe.



Source: European Commission Sustainability Report 2009, DBRS

While deficit targets have been spelled out through 2014, specific measures to curb spending by EUR3 billion in 2011 and 2012 have not been fully identified. Clarification on future expenditure cuts and tax increases could reassure international capital markets of Ireland's ability to meet the deficit targets. Furthermore, the consolidation plan assumes average real GDP growth will be above 4% from 2011 to 2014. If the recovery underperforms, authorities will need to be ready to implement contingency measures. For Ireland to maintain its AA ratings, it is critical that the government meets its deficit targets. Any fiscal slippage could damage Ireland's hard-won market credibility and negatively impact debt dynamics.

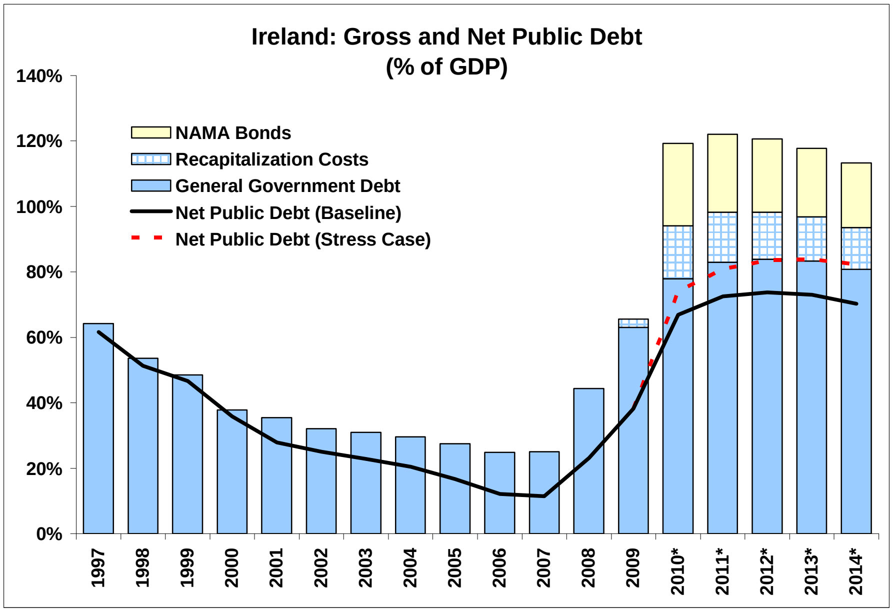
Debt and Liquidity

Large fiscal deficits and costly bank recapitalizations have led to a sharp rise in government liabilities. In 2007, Ireland's general government debt was 25.0% of GDP, one of the lowest debt burdens among advanced economies. Due to greater government borrowing and a EUR4 billion capital injection into Anglo-Irish Bank, general government debt increased to 65.6% of GDP in 2009. Assuming the government provides another EUR22 billion in capital injections this year, general government debt is projected to increase to 94% of GDP in 2010 and peak at 98% in 2012.

Though classified as off-balance sheet by Eurostat, NAMA bonds will add to the public debt burden. The NAMA business plan estimates it will issue EUR40.5 billion (25% of GDP) in bonds, although this is subject to change, depending on the final price paid for bank assets. While this will increase government liabilities, the public sector balance sheet is sufficiently robust to withstand the additional burden, and debt ratios are expected to stabilize over the outlook period.

Given the significant sum of assets held by the Exchequer and the National Pension Reserve Fund (NPRF), net public debt is a more appropriate metric to gauge the sustainability of Ireland's public finances. Net public debt incorporates the liquid assets held by the public sector and estimates the long-term costs of

NAMA and bank recapitalizations. In the case of NAMA and recapitalizations, the net cost will be far less than the upfront liabilities. Although there is uncertainty regarding the long-term costs of NAMA, it is designed to break-even over its lifetime. In addition, DBRS estimates net recapitalization costs could total EUR26 billion (16% of 2009 GDP). In our baseline scenario, net public debt peaks at 74% of GDP in 2012. In our stress case, which includes a EUR8 billion nominal loss for NAMA, an additional EUR4 billion in recapitalization costs and a slower than expected recovery, net debt reaches 84% of GDP in 2013 before starting to descend.



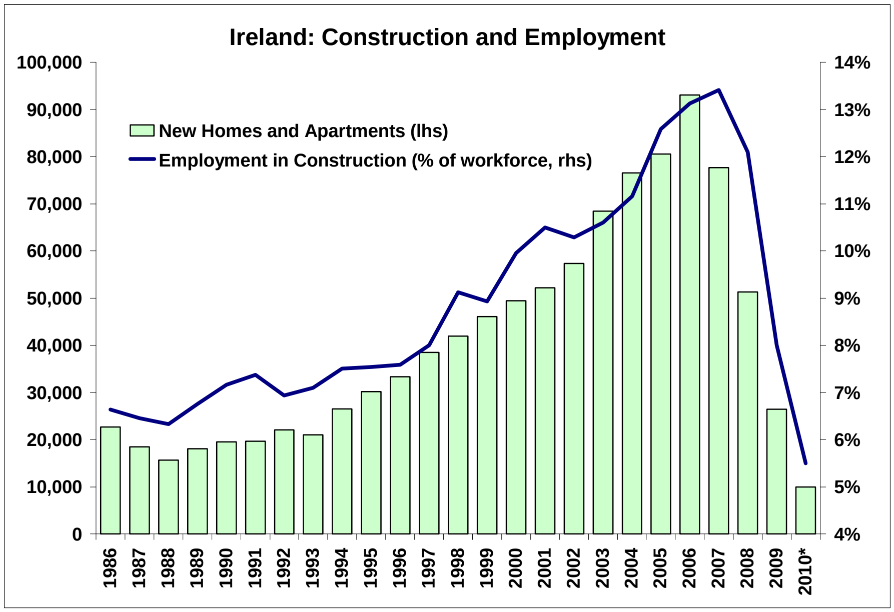
* GDP and interest rate projections for 2010-14 are based on the December 2009 Stability Programme Update.
Note: Baseline net public debt includes Exchequer cash balances and NPRF assets, assumes no net long-term cost from NAMA and estimates net recapitalization costs of EUR26 billion. In the stress case, the net long-term cost of NAMA is EUR8 billion, net recapitalization costs total EUR30 billion and nominal growth from 2010-14 is 2% less than the government's estimates presented in December 2009.
Sources: Eurostat, Department of Finance, DBRS.

Strong liability management, in addition to the European Financial Stability Facility, helps reduce liquidity concerns. The National Treasury Management Agency (NTMA) raised EUR18.1 billion in the first seven months of 2010 (including a EUR5 billion syndicated deal in January), accounting for 90% of this year's EUR20 billion financing target. Monthly auctions to date have been well-received by the market. Moreover, the Exchequer has approximately EUR20 billion in cash balances, providing a degree of flexibility in the event of market turbulence. If external conditions improve, the NTMA will likely act opportunistically to pre-finance some of next year's funding needs, which are estimated at EUR20 to EUR25 billion. Additional funding for bank recapitalizations will come from the NPRF and the issuance of promissory notes. These notes will spread the cost over 10-to-15 years and are unlikely to put pressure on the government's financing plans.

Economic Structure and Performance

Ireland is recovering from one of the most severe recessions of any advanced economy in the last 60 years. After 14 years of strong growth, the economy contracted 3.5% in 2008 and 7.6% in 2009. While weak external demand contributed to the downturn, the recession was primarily driven by a sharp contraction in domestic demand. Investment declined 31.0% in 2009 as the construction industry downsized and business confidence collapsed. Private consumption fell 7.0% on rising unemployment, deteriorating household balance sheets and a sharp increase in precautionary savings. Despite this, the fundamental strengths of the economy remain intact. Ireland is a highly open economy with a flexible labor market, a young and highly educated workforce, and a pro-business environment.

There are signs of stabilization in the real economy. After eight consecutive quarters of contraction, GDP increased 2.7% (quarter-over-quarter) in the first three months of 2010. However, domestic demand remains weak and unemployment has yet to stabilize. GNP declined 0.5% in the first quarter. With a subdued outlook for domestic demand, the recovery is likely to be export-led, with the strength and timing largely dependent on the global recovery and the restoration of international competitiveness.



* DBRS estimates
Source: ILO, CSO, DEHLG, DBRS

The Irish economy is undergoing a major structural adjustment. For the last decade, low real interest rates, rapid credit growth and rising incomes channeled capital and labor into domestic-oriented activity. The economic imbalance was most clearly visible in the construction and real estate sectors. When the housing market reached its peak in 2006, the number of new homes and apartments completed totaled over 93,000, the construction industry employed 13% of the Irish workforce, and residential construction accounted for 14% of GDP. To put this in perspective, Spain channeled only 9% of GDP into residential construction at the peak of its recent property boom. The correction in the Irish housing market is having a sharp impact on investment, employment and household balance sheets. In 2009, new houses and apartments totaled 26,420, a decline of 72% since 2006, and construction employment fell 52% from 2007 levels. The overhang of unsold stock will likely dampen a recovery in investment as the economy shifts resources from housing and property development to the tradable sector.

One legacy of the real estate boom is high household indebtedness. In April 2010, Irish household debt totaled EUR168 billion (105% of 2009 GDP). Of this total, 87% is in the form of residential mortgages. Household deleveraging, in addition to wage deflation, tightened credit conditions and the eventual rise in mortgage interest rates is likely to dampen the rebound in private consumption.

Domestic demand will also be constrained by weak labor market conditions. From its peak in the third quarter of 2007 to the first quarter of 2010, employment fell 13.6%. Lower labor force participation, partly due to net outward migration, has moderated the rise in the unemployment rate. Unemployment rose to 13.4% in June 2010, up from 11.9% one year earlier. Employment gains could lag the recovery as economic growth is likely to be concentrated in the less labor-intensive export sector.

Monetary Policy and Financial Stability

The government has taken extraordinary action to stabilize the Irish financial system. The measures include: a guarantee of bank liabilities, the nationalization of Anglo-Irish, the establishment of NAMA and a recapitalization program. Although this has added significant stress to the public sector balance sheet through direct fiscal costs and higher risk premiums on sovereign bonds, the government has put in place a comprehensive framework to rebuild a healthy, properly-functioning and well-regulated financial system.

Undercapitalized and highly exposed to the property market, the financial system faced large losses and severe liquidity pressures at the onset of the global financial crisis. The government responded in September 2008 by providing a two-year guarantee on bank liabilities. This, in addition to low interest rates and non-standard ECB support facilities, helped restore market confidence and stabilize funding conditions. Though the original bank guarantee ends in September 2010, the government created a new scheme in December 2009 which guarantees issuances at longer maturities but on a more limited basis and at a higher cost. The new scheme incentivizes banks to transition away guaranteed funding as liquidity concerns recede. During the second half of 2009, Bank or Ireland (BoI) and Allied Irish Bank (AIB) successfully placed non-guaranteed issuances in the market.

To reduce uncertainty about the health of bank balance sheets and improve liquidity, NAMA is buying distressed land and property development loans from the banks at a discount. NAMA estimates it will pay EUR40.5 billion for assets with a book value of EUR81 billion. This implies a 50% haircut. NAMA will purchase the loan portfolio with government-guaranteed bonds, which pay a floating interest rate and are repo-eligible at the ECB. All loan transfers are scheduled to be completed by February 2011.

While there is considerable uncertainty regarding the long-term cost of NAMA, DBRS believes it is likely to be manageable. NAMA will aim to maximize the return on the loan portfolio and recover initial outlays and expenses over a seven-to-ten year horizon. In the interim, NAMA will use the income generated on performing loans to cover the interest payments on its bonds, although it is unclear if NAMA will be able to remain cash flow positive given the high percentage of non-performing loans. If NAMA ends up with a loss, the government has pledged to make up the difference through a levy on the banking sector.

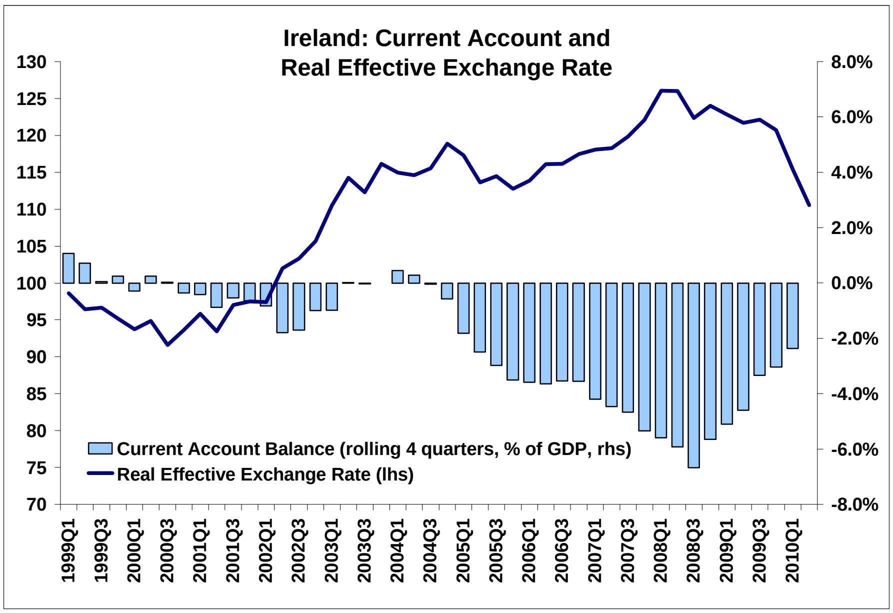
As assets are transferred to NAMA, banks are realizing large upfront losses on their balance sheets. To ensure Irish banks are strongly capitalized, the Central Bank and Financial Regulator set new capital standards, conducted stress tests and specified the recapitalization needs of each institution. Incorporating the projected impact of the NAMA transfers and expected future loan losses, regulators calculated the additional capital each bank required to maintain core Tier 1 capital above 8% (of which 7% must be equity) in a baseline scenario and above 4% in a severely stressed scenario. BoI has already raised the required capital in private markets, and AIB is planning to raise EUR7.4 billion by the end of 2010, partially through asset sales. If necessary, the government could end up providing AIB with additional capital. Bank recapitalizations will ensure that the banks are solvent, capable of attracting funding on a stand-alone basis and better prepared to lend as the economy recovers.

The government is also tackling past institutional and regulatory failures. Several legislative proposals seek to enhance the accountability of regulatory authorities, strengthen oversight and improve transparency in the financial system.

Notwithstanding these initiatives, significant uncertainties remain about the restructuring of the financial sector and its impact on public finances and the real economy. First, the full cost of the recapitalization program is unclear. The government nationalized Anglo-Irish in January 2009 and has since injected EUR14.3 billion in capital. While Finance Minister Brian Lenihan has indicated that an additional EUR8 billion could be needed for Anglo-Irish, total precise recapitalization needs of the financial sector are uncertain, though becoming clearer as the banks' capital-raising plans and the NAMA transfers take place. Second, credit remains tight and could dampen the recovery as banks manage distressed loans, particularly residential mortgages. The adjusted annual rate of change of credit to the private sector was minus 10.4% in May 2010, though this is due to both demand and supply side constraints. Third, bank consolidation could limit competition in the financial sector, and thereby impose higher costs on the real economy in the future.

Balance of Payments

As a small, open economy, Ireland is highly dependent on international trade and investment. In 2009, exports and imports totaled 165% of GDP. However, over the last decade high price and wage inflation led to a loss of international competitiveness, as illustrated by the appreciation of the real effective exchange rate and widening external imbalances. To regain lost competitiveness, domestic prices and wages need to be adjusted. This is a multi-year process, but recent evidence indicates Ireland has made significant progress. Inflation (HICP) has been negative since March 2009 and below the euro area as a whole since April 2008. Furthermore, Ireland's flexible labor market and cuts in public sector pay are also facilitating a recovery in wage competitiveness.



Note: Real effective exchange rate is measured by the Harmonised Competitiveness Indicator-CPI deflated.
Source: Central Bank & Financial Services Authority of Ireland, CSO, DBRS

With weak import demand and global trade rebounding, the current account deficit is narrowing and could move into surplus this year. Ireland's exports demonstrated resilience in 2009 amid a sharp contraction in international trade. Merchandise and service exports declined 3.6%, compared to 11.3% globally. This is largely due to the acyclical performance of some of Ireland's key exports, particularly pharmaceuticals and medical devices. Traditional exports have also been supported by a weaker euro during the first six months of 2010. On the other hand, merchandise imports declined 22% in 2009, reflecting a broad decline in investment and consumer demand, in addition to fiscal tightening.

Ireland's export sector is increasingly comprised of modern services. Over the last decade, annual merchandise exports stagnated while service exports rose to EUR67 billion from EUR22 billion. Computer and business services have led the expansion. From 2000 to 2009, computer service exports tripled and business service exports increased tenfold.

Though FDI inflows have declined as Ireland has became more expensive, Ireland's comparative advantage is largely based on its educated and English-speaking workforce, favorable tax regime, access to European markets and excellent reputation in certain fields. Export industries, such as pharmaceuticals and medical technology, depend more on Ireland's strong regulatory environment and internationally recognized track record than any cost advantage. These structural and reputational factors are likely to attract FDI in the future.

Political Environment

Last election:	May 24, 2007
Next election:	On or before June 14, 2012
Party in power:	Fianna Fáil-led coalition
Dáil (lower house):	Fianna Fáil holds 72 out of 166 seats
Seanad (Senate):	Fianna Fáil holds 28 out of 60 seats

Ireland's political landscape is dominated by two political parties, Fianna Fáil and Fine Gael. Both parties gravitate towards the middle of the electorate, providing the political system with relative stability and policy predictability.

The governing coalition, led by Fianna Fáil, has a slight majority in the Dáil. Rising unemployment, budget austerity measures and the view that past policies contributed to the crisis have eroded public support for the government. The next election is not scheduled until 2012, but there is a possibility of an early general election. Nevertheless, there is a consensus among the two main political parties on Ireland's free-trade, low-tax economic model, and DBRS believes that any new government is likely to maintain the major elements of current economic policy, including fiscal consolidation. Furthermore, memories of the economic turmoil Ireland suffered in the 1980s, partially due to unsustainable public finances, have helped maintain the public's support for fiscal reform.

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Selected Indicators

For the year ended December 31 (€ billions unless otherwise noted)	2009	2008	2007	2006	2005	2004	2003	2002
Public Debt								
General Government	104.7	79.9	47.4	44.1	44.7	44.3	43.3	41.9
% GDP	65.6%	44.4%	25.0%	24.8%	27.5%	29.6%	30.9%	32.1%
Net General Government	61.0	41.7	21.8	21.6	27.1	30.5	32.0	32.7
% GDP	38.2%	23.2%	11.5%	12.2%	16.7%	20.4%	22.9%	25.0%
External Debt								
General Government	75.2	57.7	30.2	27.3	27.0	25.7	23.7	22.1
% GDP	47.1%	32.1%	15.9%	15.4%	16.6%	17.2%	16.9%	17.0%
Monetary Authority	53.5	44.5	0.7	2.7	4.6	6.8	10.5	3.7
% GDP	33.5%	24.7%	0.4%	1.5%	2.8%	4.6%	7.5%	2.9%
Private Sector (non-IFSC)	540.9	552.6	549.1	424.2	389.6	309.4	261.0	248.0
% GDP	339%	307%	290%	239%	240%	207%	186%	190%
Gross External	669.6	654.8	580.0	454.1	421.2	341.8	295.1	273.8
% GDP	419%	364%	306%	256%	260%	229%	211%	210%
Net External	-120.3	-124.1	-119.4	-72.4	-91.9	-93.3	-86.0	-70.5
% GDP	-75.4%	-68.9%	-63.1%	-40.8%	-56.6%	-62.5%	-61.4%	-54.1%
Fiscal Balances (% GDP)								
Central Government Balance	-12.9%	-7.1%	-0.9%	1.3%	-0.3%	0.0%	-0.7%	0.1%
Revenues	22.1%	23.9%	26.0%	27.1%	25.2%	25.1%	24.6%	25.4%
Expenditures	35.1%	31.0%	26.9%	25.8%	25.5%	25.1%	25.3%	25.3%
Interest Payments	1.6%	0.9%	0.9%	1.0%	1.1%	1.1%	1.1%	0.9%
Interest Payments (% Revenues)	7.2%	3.6%	3.3%	3.9%	4.2%	4.5%	4.4%	3.5%
General Government Balance	-12.1%	-7.3%	0.1%	3.0%	1.7%	1.4%	0.4%	-0.4%
Balance of Payments & Liquidity								
Current Account Balance	-4.9	-10.2	-10.1	-6.3	-5.7	-0.9	0.0	-1.3
% GDP	-3.0%	-5.6%	-5.3%	-3.6%	-3.5%	-0.6%	0.0%	-1.0%
Trade Balance	32.4	23.8	19.8	25.0	28.2	31.4	32.6	35.4
Foreign Direct Investment (% GDP)	0.3%	-13.4%	1.4%	-9.4%	-22.8%	-15.5%	10.9%	14.9%

Notes: General Government (Maastricht definition) includes: central government, local authorities, non-commercial state sponsored bodies. Net General Government Debt deducts National Pensions Reserve Fund assets and Exchequer cash balances from General Government debt. External Debt statistics are calculated from the International Investment Position (IIP); it is the value of the stock of the economy's financial liabilities to the rest of the world. Unlike the strict defintion of External Debt, IIP statistics include Equity and Financial Derivative contracts. Fiscal Balances exclude recapitalization costs.

Republic of Ireland

Report Date:
July 21, 2010

Rating Table

Debt	Rating	Rating Action	Trend
Long-Term Foreign Currency	AA	New Rating	Stable
Long-Term Local Currency	AA	New Rating	Stable

Rating History

	Current	2009
Long-Term Foreign Currency	AA	NR
Long-Term Local Currency	AA	NR

Related Research

- Fiscal Consolidation Supports Ireland's Stabilization and Medium-Term Recovery, February 3, 2010
- Prudent Policies and Global Demand Key to Ireland's Recovery, August 19, 2009

Note:
All figures are in euros unless otherwise noted.