MOODY'S
INVESTORS SERVICE

Rating Action: Moody's upgrades Ireland's sovereign ratings to Baa3/P-3: outlook changed to positive

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New York, January 17, 2014 -- Moody's Investors Service has today upgraded Ireland's government debt ratings to Baa3/P-3 from Ba1/NP. The outlook on the ratings is now positive.

The two main drivers for the upgrade are:

(1) The growth potential of the Irish economy, which together with ongoing fiscal consolidation is expected to bring government debt ratios down from their recent peak;

(2) The Irish government's exit from its EU/IMF support programme on schedule, with improved solvency and restored market access.

In a related rating action, Moody's also upgraded the debt ratings of Ireland's National Asset Management Agency (NAMA), whose debt is fully and unconditionally guaranteed by the Irish government, to Baa3/P-3 from Ba1/NP. The outlook on NAMA's rating is also positive. In addition, Moody's has assigned its Baa3 rating to the recent 2024 benchmark bond issue that the government sold earlier in January.

In addition, Ireland's foreign and local-currency country ceilings for long-term debt and deposits have been raised to A2 from A3. The country ceilings for short-term foreign-currency debt and deposits were also raised to P-1 from P-2. These ceilings reflect a range of undiversifiable risks to which issuers in any jurisdiction are exposed, including economic, legal and political risks. Ireland's ceilings also incorporate the risk of euro exit and redenomination, consistent with our treatment of other sovereigns in a currency union. These ceilings act as a cap on ratings that can be assigned to the foreign and local-currency obligations of entities domiciled in the country.

RATINGS RATIONALE

-- RATIONALE FOR THE UPGRADE TO Baa3 --

The first driver of the upgrade is the recent acceleration of economic growth, which indicates an increased likelihood of securing the sustained long-term growth needed to achieve a turnaround in Ireland's public finances. A key positive signal is the faster pace of employment creation, with the unemployment rate having dropped 2.7 percentage points from its Q2 2012 peak, despite a rise in the participation rate.

Moody's expects a stronger expansion of net exports in the next few years as the negative impact lessens from the expiry of key pharmaceutical patents and as Ireland's major trading partners register more robust growth. Improved competitiveness has been a hallmark of Ireland's economic upturn since the 2009 recession, contributing to the shift from large current account deficits before the crisis to the current surpluses. Moreover, there are signs of a revival in domestic demand as household savings rates come down from historic highs. Foreign direct investment also remains extremely strong, attracted by Ireland's innovative and flexible labour force, and the housing sector appears to have stabilized.

The second driver of the upgrade is the Irish government's exit from its three-year economic adjustment programme in mid-December 2013. Its ability to do so without a precautionary credit line reflects that the government's reform agenda stayed largely on track throughout the programme, despite weaker than expected domestic and external economic conditions. The government regularly outperformed quantitative fiscal goals, which helped it regain and retain market confidence. Similarly, Moody's expects that Ireland will be able to address its excessive deficit (i.e. bringing it sustainably below 3% of GDP) by 2015.

The Irish government's return to the capital markets started in mid-2012. Subsequent bond and Treasury bill issuance allowed it to build up substantial cash reserves that will make its borrowing program more flexible. Debt maturities are already elongated and bond yields are below pre-crisis levels, having been virtually impervious last year to various market events such as the Fed's announcement that it would be gradually reducing its purchases of US government securities.

The government's ability to recover the confidence of the markets has been bolstered by a reduction in its contingent liabilities from the banking system over the past year. The expiry of the Eligible Liability Guarantee, the banks' own deleveraging, their ability to access private funding and the recent stability of deposits have arrested the decline in confidence in the Irish banking system and allowed the banks to reduce their reliance on European Central Bank (ECB) borrowing. As a consequence, our baseline expectation is that the government will need to provide very little, if any, of the capital that the Irish banks may need following the upcoming EU-wide stress tests, consistent with its Baa3 rating.

That said, the clean-up of the banking system's non-performing loans is still in the early stages. In 2013, the Central Bank of Ireland (CBI) used its increased powers to establish a schedule requiring banks to resolve mortgage and SME loan arrears on a sustainable basis. The CBI is also demanding that banks strengthen collection efforts from customers who are able to pay. In the meantime, however, these mortgage resolutions are likely to increase foreclosures, impairing profitability and potentially dampening the housing market recovery.

-- RATIONALE FOR THE POSITIVE OUTLOOK --

The positive outlook on the Baa3 rating reflects Moody's expectation of a sustained recovery of the Irish economy just as the government finances are shifting into a primary surplus position, as well as heightened conviction that the stability in euro area debt markets will be sustained. Signs of stronger growth are also coming through from the rest of Europe and are increasingly well-entrenched in the US, accompanied by improved business and consumer confidence. These trends will be supportive for the very open Irish economy.

Moody's also expects that the government's debt ratios will start to decline this year, initially supported by the drawdown of accumulated cash reserves. Further improvements are likely as the primary surplus widens. If bond yields remain low, the refinancing of upcoming bond maturities is likely to reinforce the credit-positive debt dynamics. Moreover, the large share of fixed-rate debt in the government's debt stock considerably lessens its vulnerability to interest-rate shocks.

WHAT COULD CHANGE THE RATING -- UP/DOWN

Upward pressure would develop on Ireland's government ratings if (1) the government continues to comply with its fiscal consolidation targets; and (2) the economy grows rapidly enough to place government debt metrics on a firm downward path, ensuring debt sustainability over the medium to long term. Continued stabilization in the banking system in the run-up to and aftermath of the ECB's asset quality review would also prompt upward pressure, further emphasizing the low likelihood of additional contingent liabilities crystallizing over the medium term.

Downward pressure would develop on Ireland's government rating and/or rating outlook should the country's fiscal consolidation process falter, bringing Moody's projected government net debt significantly above its current level of roughly 100% of GDP. Additional drivers of downward credit pressure would be an increased risk of contagion to stress elsewhere in the euro area, or an increase in losses in the banking system expected to be transferred to the government's balance sheet.

GDP per capita (PPP basis, US$): 40,716 (2012 Actual) (also known as Per Capita Income)

Real GDP growth (% change): 0.2% (2012 Actual) (also known as GDP Growth)

Inflation Rate (CPI, % change Dec/Dec): 1.7% (2012 Actual)

Gen. Gov. Financial Balance/GDP: -8.1% (2012 Actual) (also known as Fiscal Balance)

Current Account Balance/GDP: 4.4% (2012 Actual) (also known as External Balance)

External debt/GDP: [not available]

Level of economic development: High level of economic resilience

Default history: No default events (on bonds or loans) have been recorded since 1983.

On 13 January 2014, a rating committee was called to discuss the rating of the Ireland, Government of. The main points raised during the discussion were: The issuer's economic fundamentals, including its economic strength, have materially increased. The issuer's solvency has improved and its market access has been restored. The issuer has become less susceptible to event risks. Other views raised included: An analysis of this issuer, relative to its peers, indicates that a repositioning of its rating would be appropriate.

The principal methodology used in these ratings was Sovereign Bond Ratings published in September 2013. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

The weighting of all rating factors is described in the methodology used in this rating action, if applicable.

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