RATING AGENCIES WELCOME MOVES TO STABILISE IRISH PUBLIC FINANCES

Government to announce further budget measures in April

The Exchequer Returns for the opening two months of the year show that tax receipts are running well below target, while rising jobless numbers are putting upward pressure on government expenditure. Thus, further corrective measures will have to be introduced if the government wishes to contain the budget deficit within the stated target of 9.5% of GDP for 2009. In this regard, the government has indicated that it will announce new measures to achieve savings on the public finances in early April.

The indications are that these measures, which will be both tax increases and expenditure cutbacks, could amount to €4.5 billion or 3% of GNP, which would be a very significant tightening of fiscal policy. It comes on top of other corrective measures taking effect this year including: the introduction of a pension levy averaging 7.5% of income for all public sector workers; a new income levy of 1-3%; hikes in indirect taxes; and cutbacks in both capital and current government spending programmes.

Rating Agencies welcome the latest moves to stabilise public finances

The three main rating agencies, in interviews with Reuters, have all welcomed the fact that the government is set to introduce further corrective measures in April to help stabilise the public finances*.* The following are the main points that they made in these interviews:

- **S&P** said they would not put too much weight on the latest rise in the budget deficit. Their focus in on the medium to long-term and anything that the government can do to stabilise the public finances in the longer term;
- **S&P** also noted that competitiveness is improving because of cuts in wages and this needs to continue over the longer term, arguing that public sector wages need to be cut;
- **Moody's** said that the willingness to stabilise the government balance sheet is positive;
- **Fitch** indicated that the Irish government's quick response to its deteriorating finances is one of the reasons that the country has retained its AAA rating - it said that the Irish government has responded more quickly than any other government in recent months;
- **Fitch** also said that the market's negative view of Ireland was overdone and reflected a certain amount of grim satisfaction overseas that the former "Celtic Tiger" had fallen off its perch. Many commentators were not upset to see Ireland take such a fall;
- **Fitch** believes that AAA was still the most appropriate rating for Ireland given the country's low public debt and government's determination to tackle the rise in the public deficit. **S&P** have Ireland's AAA rating on negative watch but do not seem inclined to make a decision anytime soon, saying a country could be on negative watch for around two years. Meanwhile, **Moody's** also seems likely to bide its time, while noting that Ireland remains vulnerable. Indeed, it was noteworthy that Ireland retained its AAA rating recently when a number of other eurozone countries were downgraded.

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