Ireland attacks ‘flawed’ S&P move

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Ireland accused a rating agency on Wednesday of a “flawed” analysis of the country’s debt position after its credit rating downgrade sparked a sell-off in Dublin’s bond markets.

The Irish criticised Standard & Poor’s as it raised concerns that the country’s public debt would spiral much higher than thought.

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S&P cut Ireland’s long-term credit rating one notch to double A minus, and placed a negative outlook on its debt because of worries over its economy.

The agency forecasts debt will peak at 137 per cent of gross domestic product compared with 97 per cent estimated by the Irish government. S&P also warned that the cost of recapitalising the country’s banks would rise to €50bn ($63bn, £41bn) – more than twice government predictions.

John Corrigan, chief executive of Ireland’s National Treasury Management Agency (Nama), said: “We have taken issue [with S&P]. It’s something we don’t like to do, but there comes a point when the analysis is not robust.”

Ireland’s debt agency says the analysis does not take into account assets the government controls in return for bailing out the country’s banks through Nama.

But S&P said: “We understand that Nama has been organised in such a way as to keep it off the Irish government’s balance sheet under Eurostat’s [the pan-European statistics agency] accounting rules. We take a different approach and have treated similar off-balance-sheet arrangements to support national financial systems in other countries as direct obligations of the government.”

Investors ignored the finer points of the argument on Wednesday and sold Irish bonds as benchmark 10-year bond yields, which have an inverse relationship with prices, jumped a quarter of a point to 5.48 per cent.

The extra premium the Irish must pay to borrow in the market over 10 years against Germany, the benchmark European economy, rose above 3 percentage points, the widest level since May.

Padhraic Garvey, head of rates strategy for developed markets at ING Financial Markets, said: "Ireland is the chief concern in the market after Greece, regardless of how you work out public debt."

The S&P cut to double A minus takes Ireland to the same level given by Fitch, which has the country on a stable outlook, and one lower than Moody's, which downgraded Ireland in July, citing deteriorating debt ratios and weakening growth outlook. S&P puts no value on the property assets acquired by Nama, even though the collateral for 25 per cent of the loans is properties in London. "Is S&P seriously suggesting that property is worth nothing?" he said.

The International Monetary Fund said in May that Dublin might have to make more budget cuts to retain credibility with debt markets if economic growth was slower than forecast.

Ireland was the first eurozone member to enter recession. A property collapse ravaged public finances and hit banks that had lent billions to builders and developers during the boom.