

# Demand for Irish debt high despite S&P downgrade

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DESPITE A downgrading of the Government's creditworthiness on Tuesday night, investors yesterday bought €600 million of short-term Government debt at a lower interest rate than when it was last auctioned two weeks ago.

Auctions of short-term debt – known as treasury bills – are usually held twice a month by the National Treasury Management Agency (NTMA).

Financial markets appeared little affected by the decision on Tuesday of Standard and Poor's (S&P), one of three major international credit rating agencies, to move the Irish State down one notch in its credit rating.

Among the likely reasons for the better-than-expected auction result was the general calm in international financial markets yesterday, including the market for government debt. Yields on most debt instruments of most developed economies changed little.

The unusual public criticism of S&P's outlook on Ireland by the Government and the NTMA may also have offset the effect of the downgrade.

Speaking on RTÉ radio yesterday, Minister of State Dara Calleary said “the message that we are sending to the markets is that our economy is strong, our funding requirement as a country is well catered for into 2011, and we will continue to address our public finances and address our banking system”.

On Wednesday, NTMA chief executive John Corrigan criticised the logic and quality of S&P's analysis as “flawed”.

Before yesterday's auction, the debt agency said it was seeking to raise €400-600 million, around half of the usual auction amount. The total value of the sale of the two bills was at the upper limit of €600 million. This was less than the €1 billion raised on August 12th.

“In light of the S&P downgrade, I think it's a very good result,” said Fergal O'Leary at Dublin-based Glas Securities.

The European Central Bank (ECB) had no involvement in the auction. Although the ECB has had a remit since May to buy government debt, it can only do so in the secondary market, where previously issued instruments are subsequently traded among those who hold them. The ECB is

prohibited by EU treaty law from purchasing debt directly from governments, known as the primary market.

The average yield on bills maturing in February 2011 fell to 1.978 per cent from 2.458 per cent two weeks ago and attracted a strong bid-to-cover ratio of 10: 1 on a sale of just €200 million versus €500 million at the last auction.

Paper maturing in April 2011 had an average yield of 2.348, down from 2.81 per cent previously, with a sale amount of €400 million compared with €500 million on August 12th.

Earlier yesterday in Dublin, Canadian finance minister Jim Flaherty came to Ireland's defence, saying it had a solid bank plan and was Europe's leader in fiscal reform. He advised against taking rating agency views such as S&P's too seriously. – (Additional reporting: Reuters)

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