The Irish Economic Update:

Very strong rebound in activity set to continue in 2022 as Covid restrictions end

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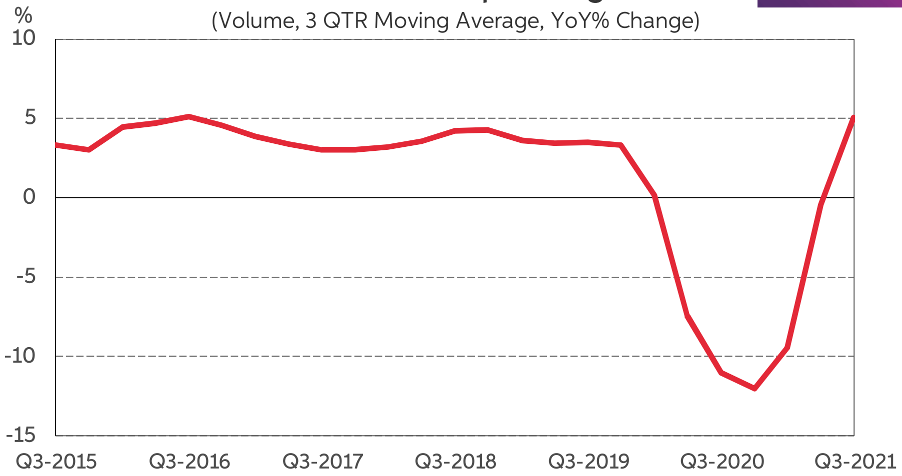
Economy rebounded strongly in 2021

- GDP grew by 5.9% in 2020, with GNP up 3.4%, but modified final domestic demand fell by 4.9%
- Domestic economy picked up strongly in 2021
- MFDD fell by 5% in Q1’21but rebounded strongly thereafter as economy re-opened.
- It rose by 9.4% in Q2 and further 1.4% in Q3, and grew by 5.3% yoy in first 3 quarters of 2021
- Consumer spending rose 5% yoy in Q1-Q3 2021
- Domestic fixed investment up 6.8% yoy Q1-Q3 2021
- Construction output yet to fully recover from 2020 & 2021 lockdowns – down 4% yoy in Q1-Q3 2021
- Growth in manufacturing output and goods exports overstated by the activities of some multi-nationals
- This is inflating GDP & GNP, which were up 14.4% & 12.8% in Q1-Q3 2021. Actual growth much lower

Consumer Spending

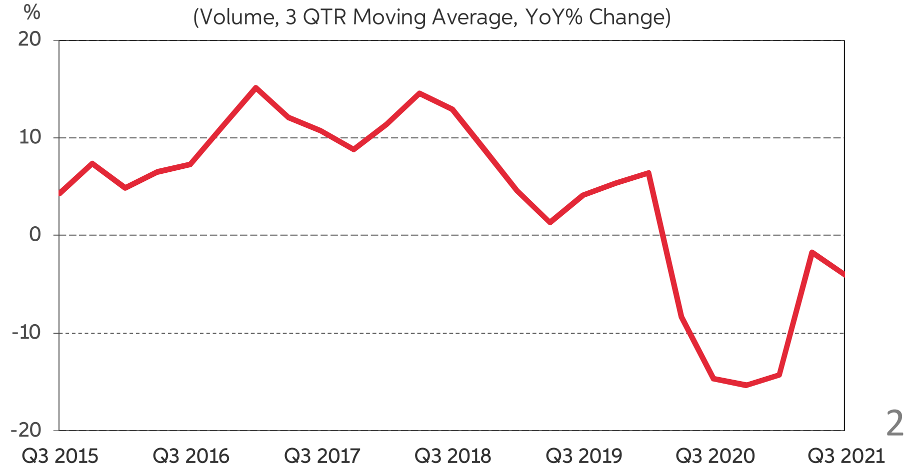
(Volume, 3 QTR Moving Average, YoY% Change)



Source: CSO via Refinitiv

Construction Output

(Volume, 3 QTR Moving Average, YoY% Change)

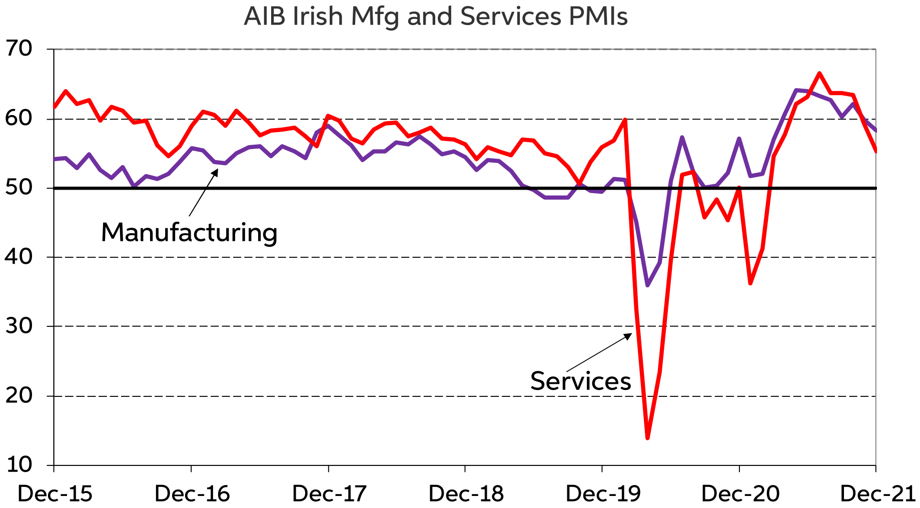


Source : CSO via Refinitiv

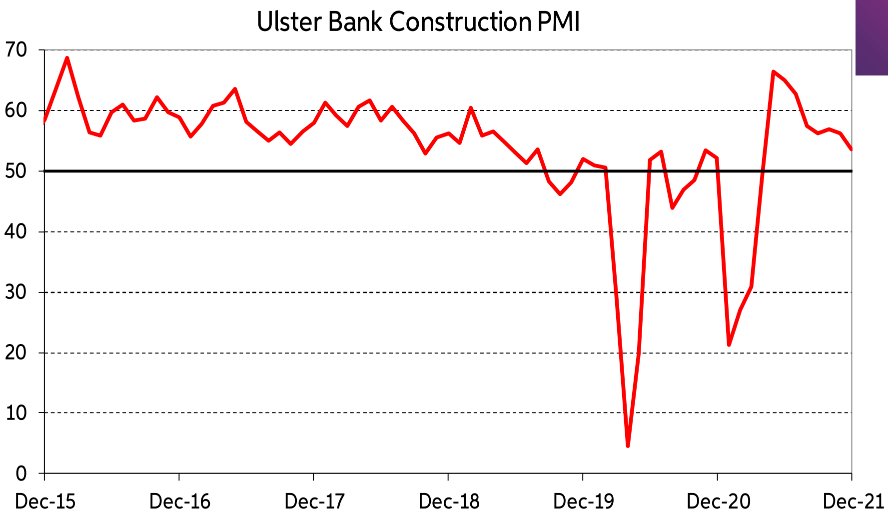
Robust recovery evident across the economy

- Indicators show very strong rebound in activity from Q2’21 onwards after third lockdown ended
- Mfg PMI hit record high of 64.1 in May. Remained very high 59.9 in Nov and 58.3 in December
- Services PMI jumped to 20-year high of 66.6 in July. Fell to 55.4 in December as Covid surged
- Construction PMI soared in May to 66.4. Eased back in H2’21 to 53.7 by December
- Housing commencements surged to 30,700 last year, up from 21,700 in 2020
- Big jump of 10% in core retail sales in Q2. Rise further 4.2% in Q3, flat in Q4. Up 5% in 2021
- New car sales rose by 20% last year, but still down 10% on 2019 levels
- Tax receipts surged by 20% last year and were 15% higher than 2019 levels – i.e. pre-Covid
- Jobless rate (including PUP) fell sharply – down from 27% early last year to 7.5% in December
- Very strong growth in both the labour force and employment in 2021 to well above 2019 levels
- Inflation accelerated sharply; rose to 5.5% by December from trough of -1.5% in late 2020
- Some loss of momentum at year end when restrictions re-imposed to contain new Covid wave

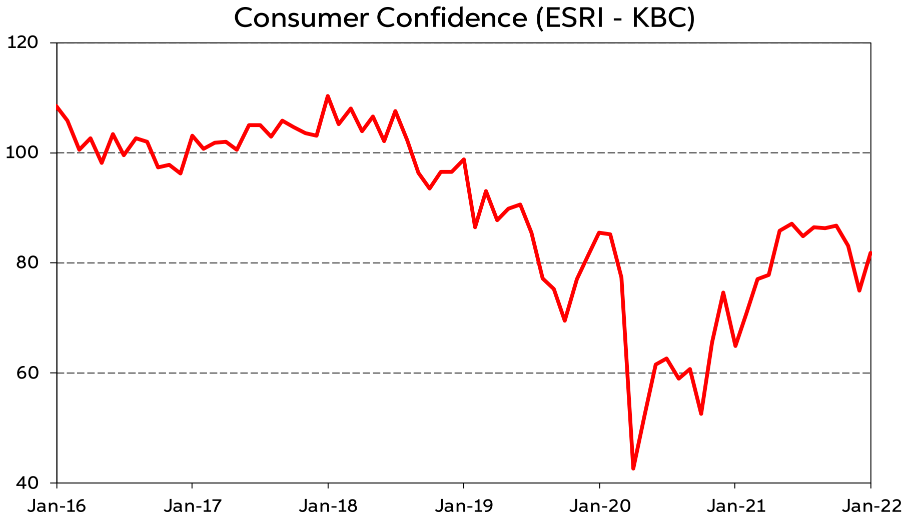
Indicators pick up strongly as economy rebounds



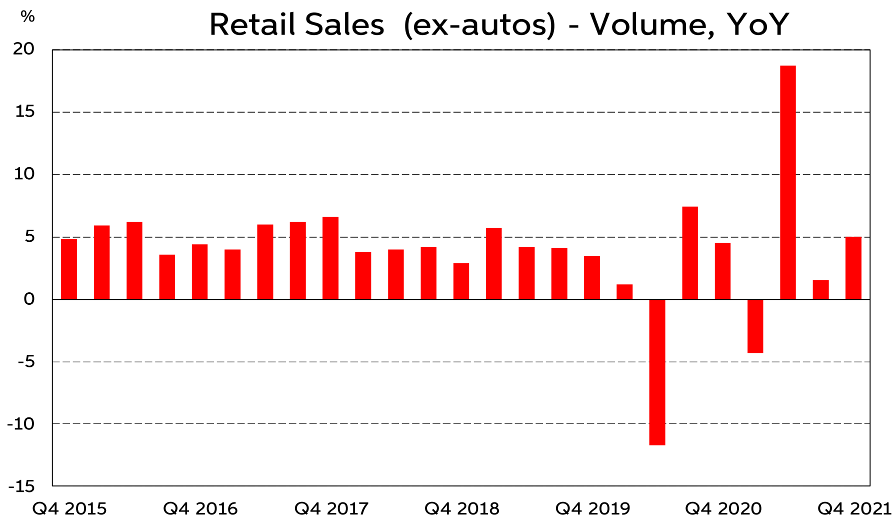
Source: Markit via *Refinitiv*



Source: Refinitiv

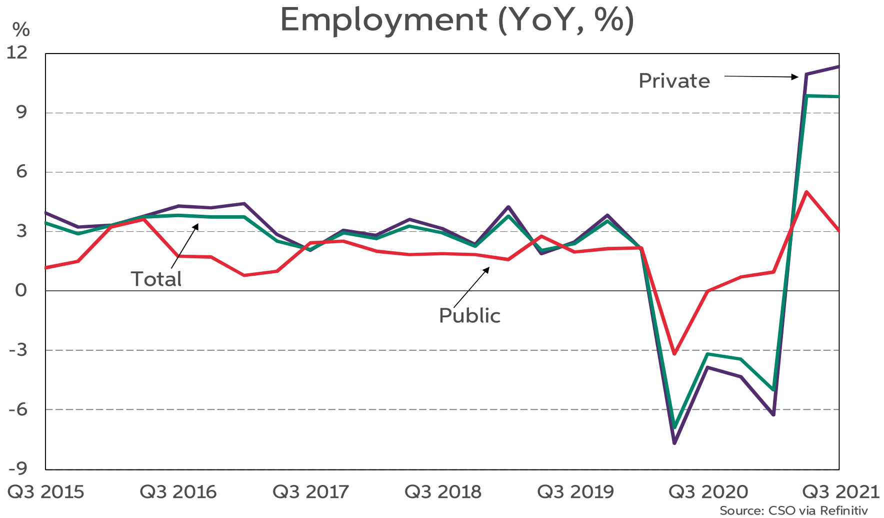


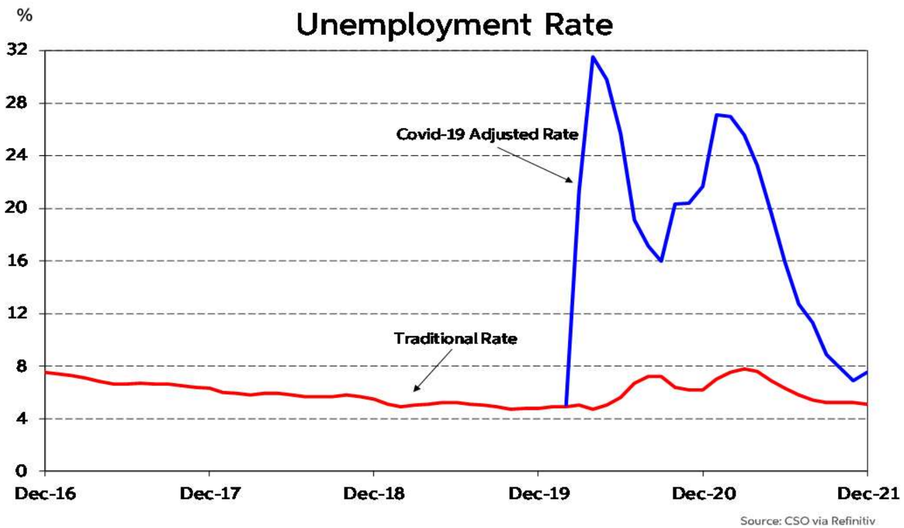
Source: ESRI via Refinitv

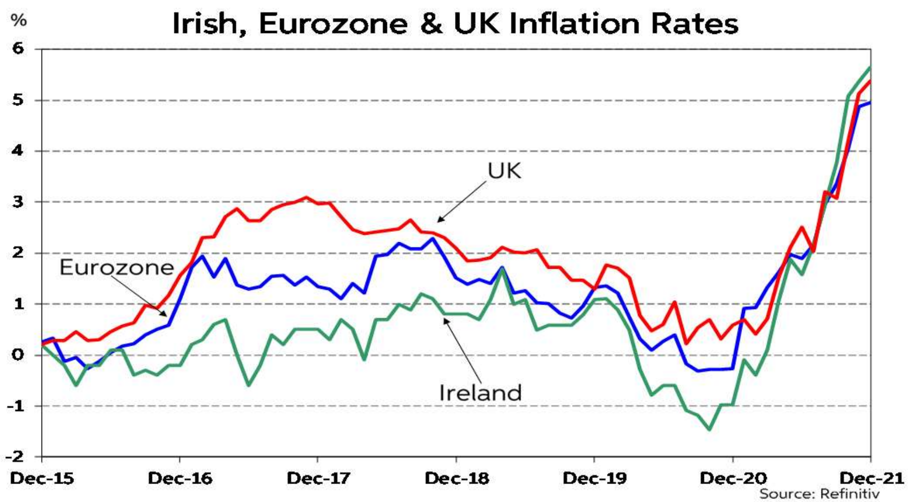


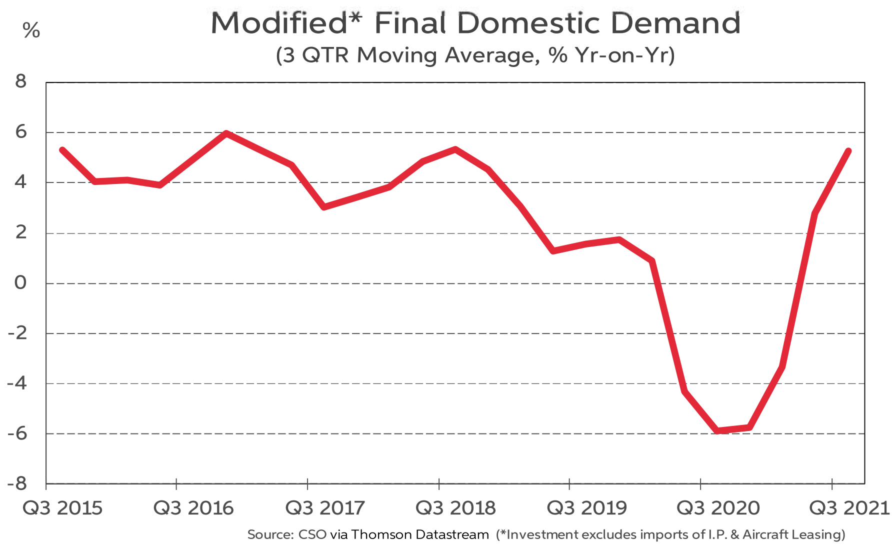
Source: CSO via Refinitv

Unemployment declines rapidly, inflation rising sharply



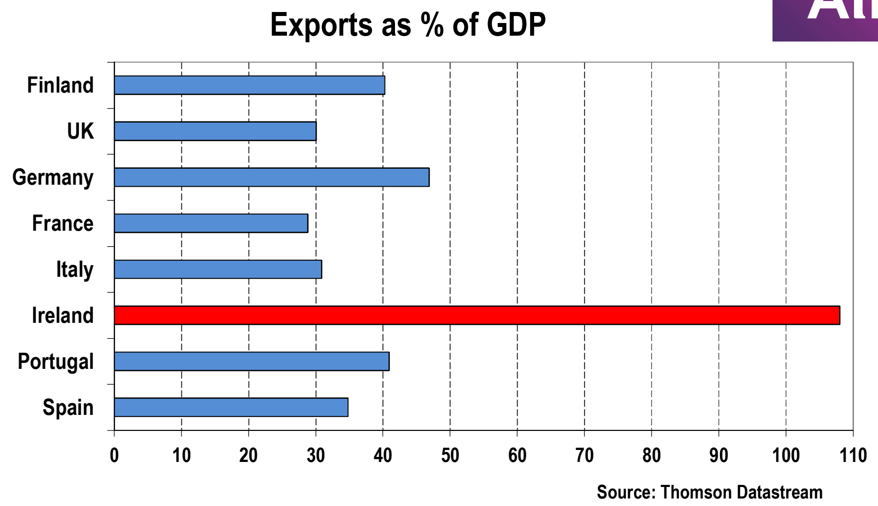


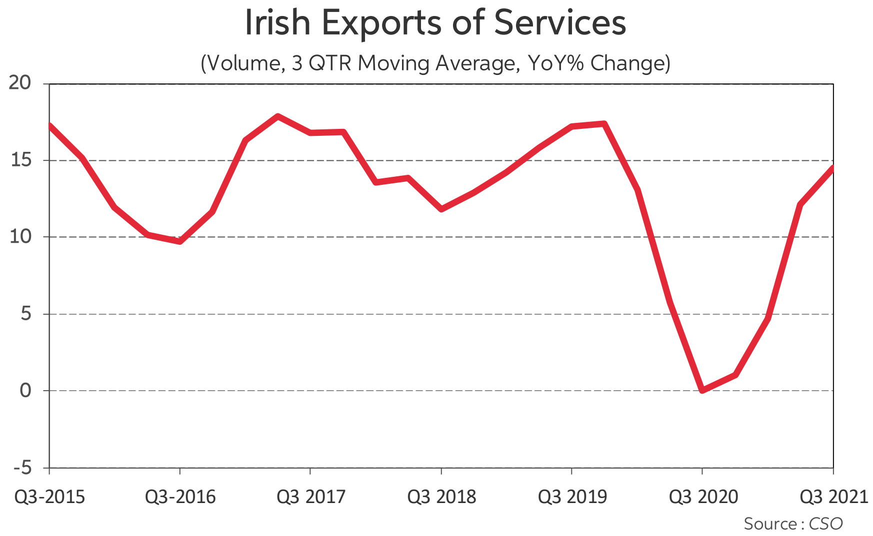




Exports perform impressively throughout the pandemic

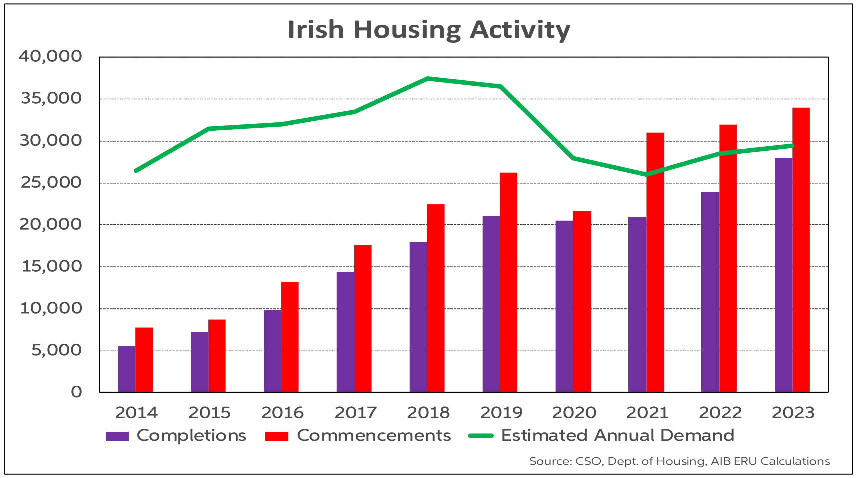
- Ireland a very open economy – exports, driven by large scale FDI, are a huge part of economy
- Exports have risen strongly in recent years, helped by large FDI inflows – though growth overstated
- Pharma, medical care products, IT equipment, and food & drink are main goods exports
- ICT, business & financial services and tourism are the main service exports
- Total exports rose by 9.5% in 2020 and 21% yoy in Q1-Q3 2021, but these are inflated figures
- Goods exports up 16.5% in 2020 and 25% yoy in Q1-Q3 2021 – overstates actual growth
- Irish exports include some goods manufactured abroad by sub-contractors on behalf of Irish firms
- Service exports rose by 2.6% in 2020, but picked up to 14.5% yoy growth in Q1-Q3 2021

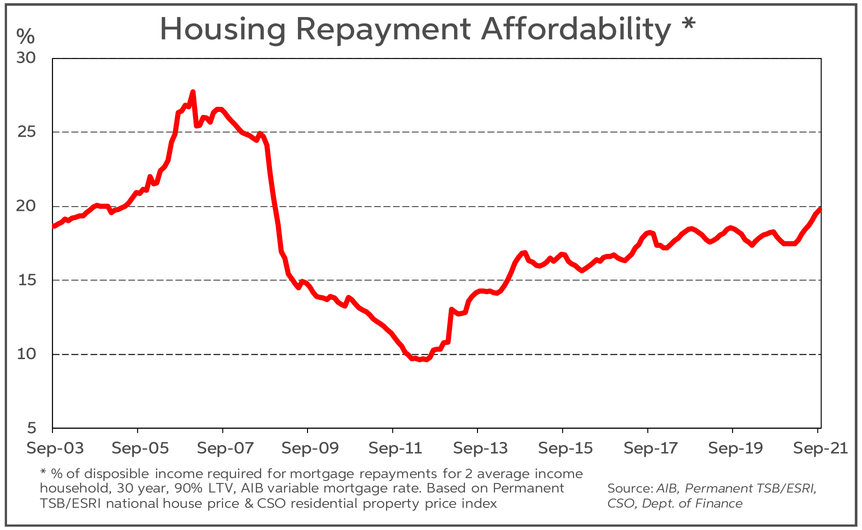




House building holds up, commencements surged in 2021

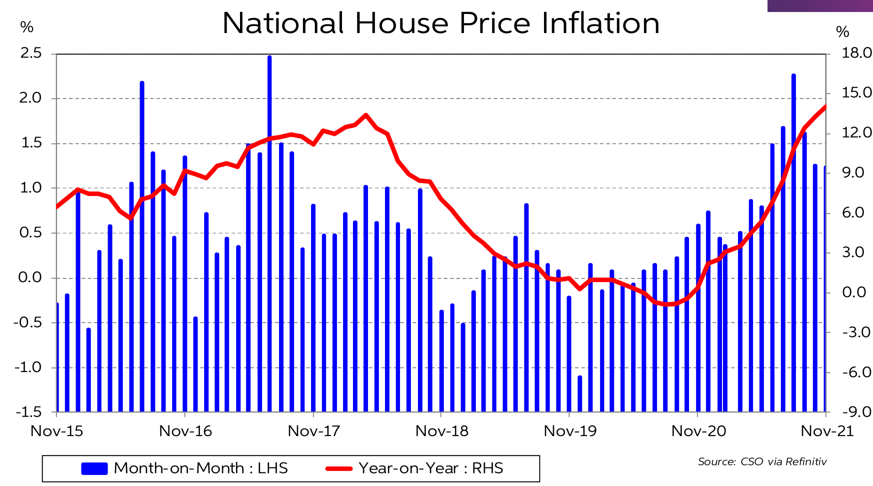
- Total completions amounted to 20,535 in 2020, just 2.6% down on 2019 level despite a 6-week lockdown
- Commencements fell by over 17% to 21,700 in 2020
- They rebounded very strongly from last Spring and commencements reached 30,700 for all of 2021
- Big jump in planning permissions in past couple of years
- Completions fell in Q1 2021 with sector in lockdown, but then recovered over balance of year
- Completions totalled 20,500 again in 2021, and should pick up considerably in 2022-23
- Mortgage lending fell by 12% to €8.4bn in 2020
- However, mortgage lending rebounded strongly 2021 to €10.5bn – compares to pre-pandemic €9.6bn in 2019
- Housing affordability deteriorates as prices rise sharply

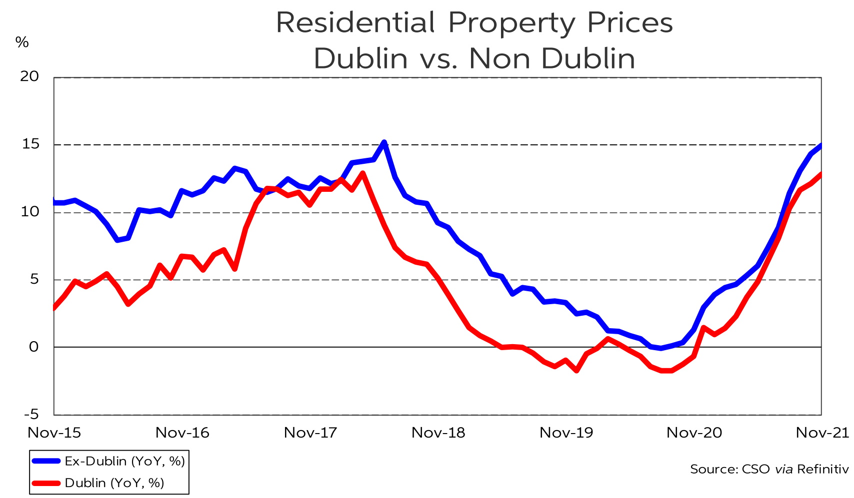




House prices on sharp upward trend

- House prices declined sharply, by 55% over 2007-13
- Prices have recovered strongly; 5% below 2007 peak
- CSO data show house prices little changed over 2019-20
- Strong rise in house prices in 2021, especially from June-November, with average monthly rise of 1.6%
- National house price inflation hits 14% yoy in November. Non-Dublin prices up 15% yoy, Dublin rate at 12.8%
- Highest annual rates for house prices since early 2015
- Property websites show big jump in asking prices from mid-2020 to mid-2021, but signs levelling off in H2 2021
- Low supply, remote working, strong public/institutional demand, enhanced help-to-buy scheme, rising personal savings, pent-up demand are all supporting house prices
- Rents recover strongly after declining last year. Jump sharply in recent months. Up 8.4% yoy in December





AIB Model of Estimated Housing Demand

- Rising headship rates added circa 8,000 per year to housing demand in 2002-2011 period
- Shortage of housing, high rents, tighter lending rules saw average household size rise in 2011-16. Thus, headship fell – was a drag of circa 10,000 p.a. on housing demand
- Assume no change in headship in 2016-2021 – note long-term trend is upwards, adding to demand
- Pent-up demand has also built up in recent years from lack of supply
- Thus, forecast table may be under-estimating actual real level of housing demand
- Shortfall in supply met from run down of vacant stock and demand being reduced by fall in headship rate. Both factors very evident in 2011-16 and most likely in 2016-21

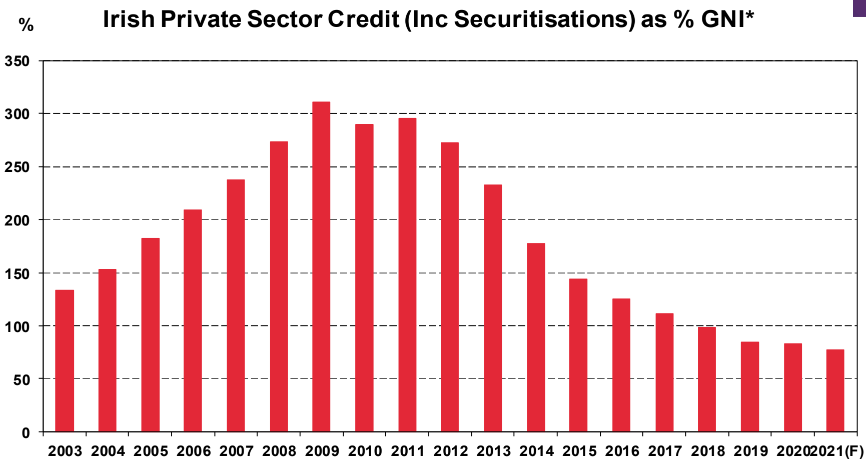
Calendar Year	2019	2020	2021	2022	2023
Household Formation	31,000	22,500	20,500	23,000	24,000
of which					
Indigenous Population Growth	*21,000*	*17,500*	*16,000*	*15,500*	*14,500*
Migration Flows	*10,000*	*5,000*	*4,500*	*7,500*	*9,500*
Headship Change*	*0*	*0*	*0*	*0*	*0*
Second Homes	500	500	500	500	500
Replacement of Obsolete Units	5,000	5,000	5,000	5,000	5,000
Estimated Demand	**36,500**	**28,000**	**26,000**	**28,500**	**29,500**
Completions	**21,000**	**20,500**	**21,000**	**24,000**	**28,000**
Shortfall in Supply	*-15,000*	*-7,500*	*-5,000*	*-4,500*	*-1,500*

**Headship is % of population that are heads of households.*

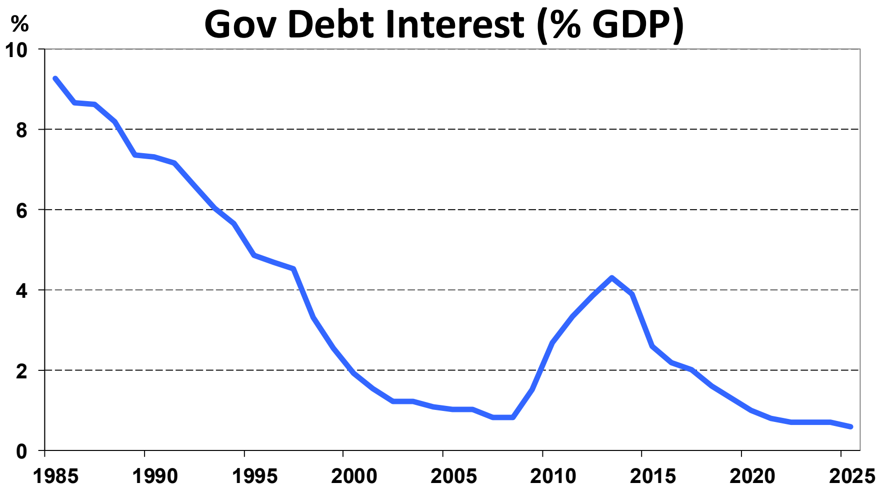
Sources: CSO, DoECLG, AIB ERU.

Private sector deleverages, Gov. debt ratios to resume downtrend

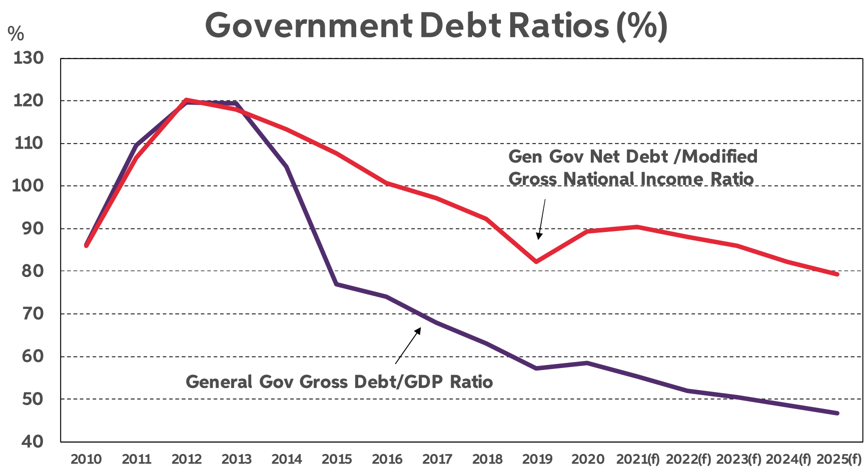
Source: *CSO, Central Bank, AIB ERU*



Sources: Central Bank, CSO, AIB ERU Calculations



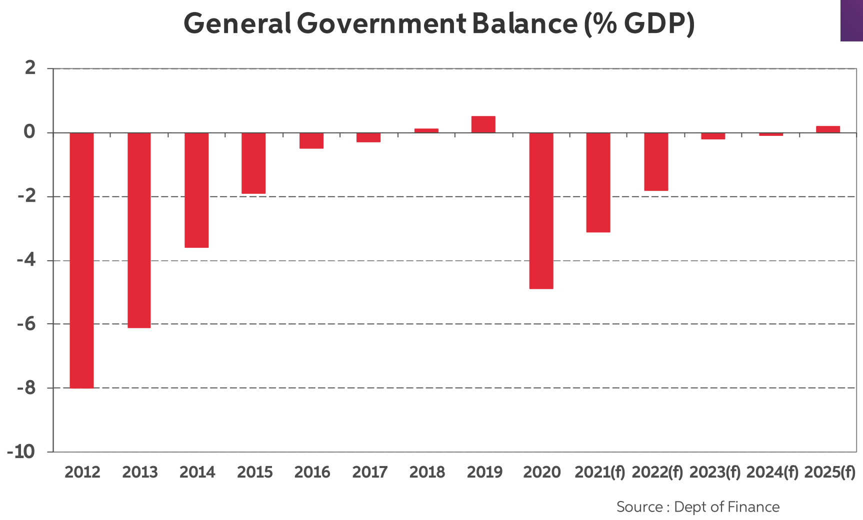
Source: NTMA; Dept of Finance

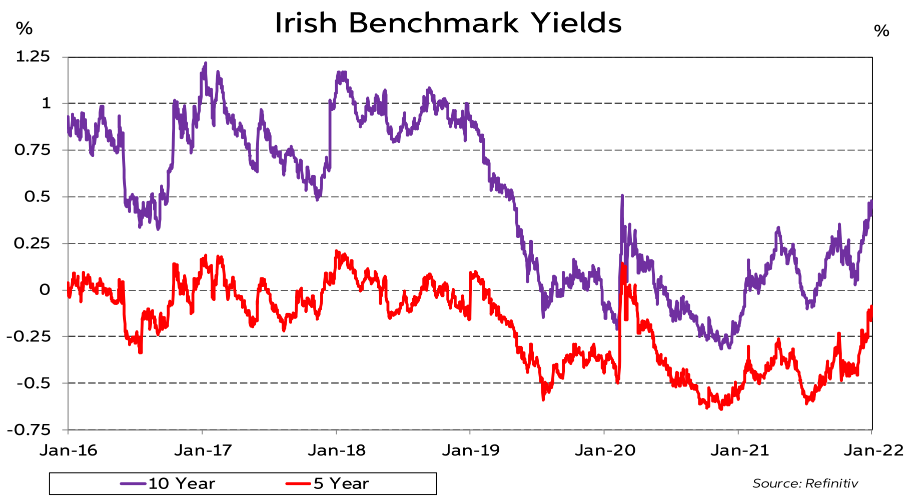


Sources: Dept of Finance, CSO, AIB ERU (Inflated/Distorted GDP figues from 2015)

Budget deficit fell sharply in 2021 as economy rebounded

- Budget deficit fell sharply during last decade, with small surpluses recorded in 2018 and 2019
- General Gov budget deficit of €18.4bn in 2020, or 5% of GDP, as Covid-19 hit public finances
- Strong rebound in tax receipts in 2021 – up 20% & 15% higher than 2019. Covid spending declined
- Budget deficit turned out much lower than expected in 2021, falling by half to €9bn
- Deficit forecast by Dept. of Finance to fall to €1.1bn by next year
- Fiscal policy to remain supportive of growth. Rise of 5.0-5.5% in non-Covid spending planned
- Gov. Debt ratios fell in last decade, but moved higher in 2020-21. Downtrend set to resume
- Bond yields low and stable despite big jump in budget deficit and large rise in debt issuance
- Ireland's sovereign debt ratings ; S&P at AA-, Fitch at AA-, Moody's A2. Fitch upgraded in Jan.

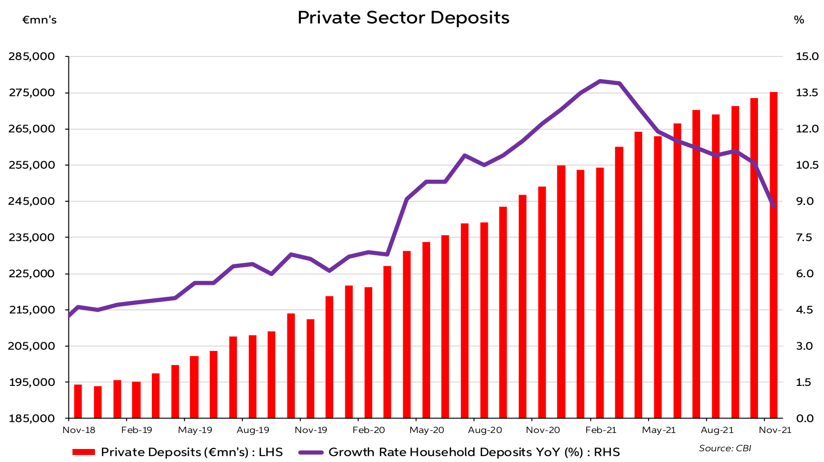




Strong economic growth to continue as restrictions end

- Key ingredients in place for continued strong growth by Irish economy, following sharp rebound in 2021
- Very high Irish vaccination rates against Covid-19, with all restrictions on activity lifted in late January
- World economy rebounding strongly, which augurs well for export orientated countries like Ireland
- House building to pick up in coming years from still low output levels – big focus of government policy
- Fiscal policy will remain supportive of growth -DoF forecasts provide for 5% p.a. rise in core spending
- Activity aided by very low Eurozone interest rates
- Economy has deleveraged; low private sector debt
- A rundown of some of the build-up in private savings in 2020-2021 should boost domestic spending
- Strong growth projected for 2022-2024 period
- GDP and domestic economy forecast to grow by circa 6% in 2022 and 4% in 2023

OECD Global GDP Forecasts (Dec 2021)			
% Vol	**2021**	**2022**	**2023**
World	5.6	4.5	3.2
OECD	5.3	3.9	2.5
US	5.6	3.7	2.4
Eurozone	5.2	4.3	2.5
UK	6.9	4.7	2.1
Japan	1.8	3.4	1.1



AIB Irish Economic Forecasts

% change in real terms unless stated	2019	2020	2021 (f)	2022 (f)	2023 (f)
GDP	**4.9**	**5.9**	**14.0**	**6.0**	**4.0**
GNP	5.0	3.4	8.0	5.0	3.5
Modified Final Domestic Demand	**1.7**	**-4.9**	**5.5**	**6.3**	**3.8**
Personal Consumption	3.3	-10.4	6.5	8.5	4.0
Government Spending	7.1	10.9	2.5	-1.5	1.5
Fixed Investment*	99.5	-23.0	-42.0	7.7	5.0
Exports	10.4	9.5	15.0	7.0	5.0
Imports*	41.7	-7.4	-8.0	7.5	5.5
HICP Inflation (%)	0.9	-0.5	2.4	3.9	2.0
Unemployment Rate (Estimated %)	**5.0**	**10.4**	**10.4**	**7.2**	**6.0**
Budget Balance (% GDP)	0.5	-5.0	-4.0	-2.5	-1.8
Gross General Gov Debt (% GDP)	57.4	59.5	60.3	59.0	58.0

*Data very distorted by aircraft and intangibles (IP)

Source: CSO, D/Finance; AIB ERU Forecasts

Residual Brexit Issue Remains over NI Protocol

- UK has not ruled out triggering Article 16 in dispute with EU over operation of NI Protocol
- EU has offered concessions on Protocol. Discussions with UK continuing, which is a positive sign
- Triggering Article 16 would effectively suspend operation of NI Protocol – relates to GB-NI trade
- Should not have any great immediate impact as many checks on trade are not in operation
- Any EU response would have to be proportionate and thus limited. Both parties must enter talks
- Overall then, triggering Article 16 would lead to much uncertainty and protracted negotiations
- Solutions, though, expected to be found in current talks on freer flow of goods from GB to NI
- Strong support in NI to remain in Single Market. ECJ has to retain key oversight role
- Sterling shows no reaction to issue as markets expect problems with NI Protocol to be resolved
- In the event of a deep crisis in EU-UK relationships, 12 months notice must be given to terminate Trade & Co-operation Agreement if either wished to go down that route
- Talks must be held over this period to try to resolve differences and save the TCA

Changes to Corporate Tax Regime Agreed

Importance of FDI:

- Some 1,600 multinational companies are based in Ireland, accounting for over 250,000 jobs in direct employment
- Corporation tax receipts of €15.3bn in 2021 or 22.5% of total tax revenue – over 80% comes from MNCs

Changes to Corporate Tax Regime Agreed:

- Ireland’s 12.5% corporate tax rate in place for last two decades and a key cornerstone in attracting FDI
- Ireland signs up to OECD proposal of minimum global corporate tax rate of 15%. Due to take effect in 2023
- It also agrees to other OECD tax proposal whereby larger multinationals, mainly digital, would pay some taxes on profits in countries where they make sales, rather than where they are based- to apply to 20% of their sales
- DoF has allowed for a €2bn hit to Irish corporation tax receipts by 2025 from changes to global tax system
- Ireland is retaining the 12.5% rate for smaller companies – the SME sector

Ireland to Remain Attractive FDI Location :

- Ireland’s main competitor for FDI has been UK, but it is now out of EU, Single Market & Customs Union
- Ireland has many other attractions –English speaking, well educated mobile workforce, Common law legal system
- Key industries have large presence in Ireland, with its strong pro-enterprise culture, leading R&D and innovation
- Ireland’s new 15% rate still comparatively low. Big rises in corporate tax rates in the pipeline for major economies (proposal to raise US rate from 21% to 28%; UK going from 19% to 25% in 2023)
- Strong inflows of FDI continued in 2021 despite the changes to global corporate tax rules

Risks to the Irish economy outlook

- Covid-19 remains a risk – still high case numbers, concerns about new variants
- Restrictions could be re-imposed if there was a new virulent, vaccine resistant variant
- Persistent high inflation could trigger sharp tightening of monetary policy globally
- Very open Irish economy vulnerable to any global slowdown, disruptions to trade
- Changed EU-UK relationship impacting trade. Issues remain over NI Protocol
- Reforms to global corporation tax regime could still have some impact on Irish economy
- Supply constraints in new house building activity, with output still at very low levels
- Competitiveness issues - high house prices, high rents, high personal taxes, high wages
- Credit constrained – tight lending rules, on-going deleveraging, weak credit demand