The Irish Economic Update:

Tough start to year, but brighter prospects ahead as vaccine begins to be rolled out

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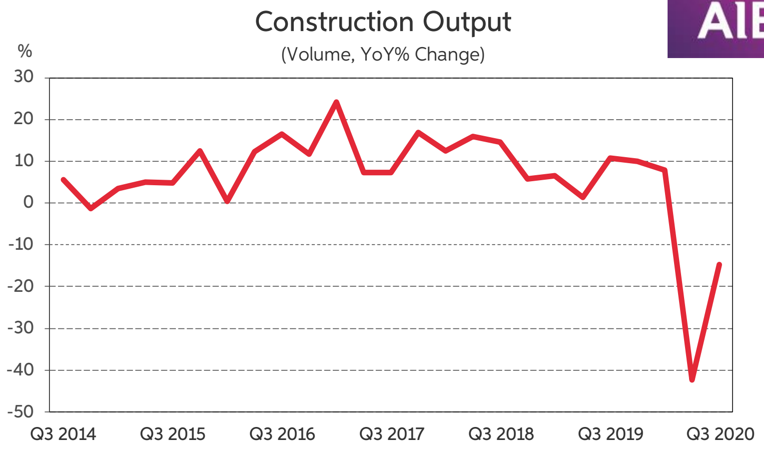
Economy in very strong shape ahead of Covid shock

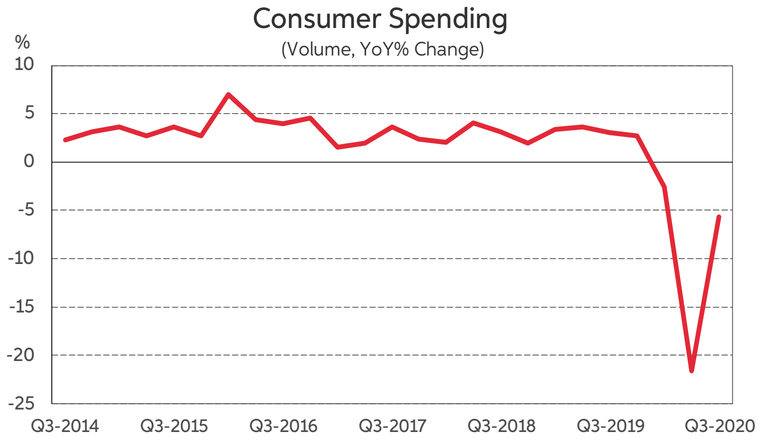
- Economy was in very strong shape ahead of being hit by very deep 2020 Covid recession
- Well balanced, robust underlying growth of circa 5% per annum over 2013-19 period
- Large inflows of FDI and strong export growth remain key features of the economy
- Strong jobs growth, averaging over 3% per annum during the period 2013-19
- Unemployment rate fell from 16% in early 2012 to below 5% in H2 2019
- Budget deficit eliminated quicker than expected. Public finances in surplus in 2018/19
- Major deleveraging by private sector, including households, during the past decade
- Sound financial system, with well capitalised banks
- Stable housing market - house price inflation at 1%, moderate growth in mortgage market
- Very low, stable CPI inflation of below 1% over 2013-19 period
- Balance of payments returned to large surplus

Strong Q3 rebound after big Covid hit to economy in H1'20

- Modified final domestic demand up by 18.7% in Q3, after declines of 1.6% & 15.5% in Q1 and Q2 2020
- Overall, modified domestic demand was down by 6.4% yoy over Q1-Q3 2020 period
- Consumer spending up by 21% in Q3 after falls of 2.2% in Q1 & 20% in Q2 – down 10% yoy in Q1-Q3
- Domestic fixed investment rebounded by 34.4% in Q3 after 27.5% fall in Q2 –down 10% yoy in Q1-Q3
- Construction output rebounded by 53.5% in Q3 after 45.5% in Q2 –down 16.5% yoy over Q1-Q3
- GDP was boosted in 2020 by strong performance of net trade, so up 3.6% yoy in Q1-Q3 period
- GNP up 0.3% yoy in same period – takes account of big rise in profits outflows from multi-nationals

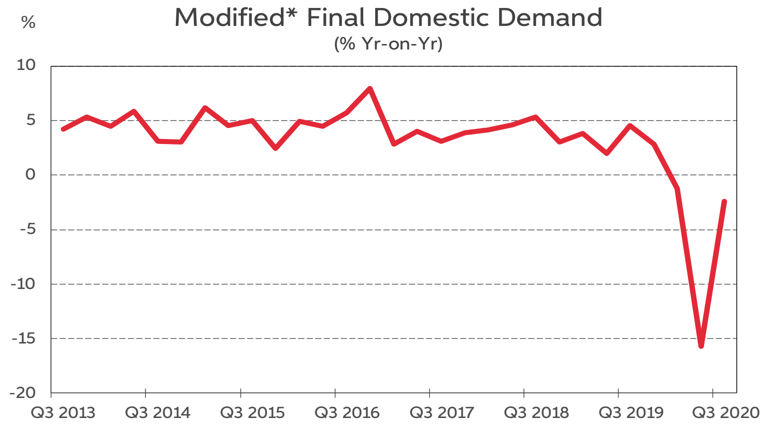


Source : CSO via Refinitiv

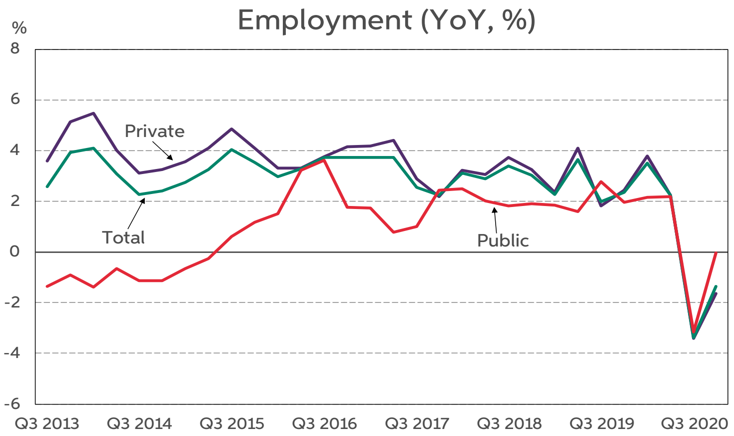


Source: CSO via Refinitiv

Spending and employment started to recover in Q3



Source: CSO (*Excludes imports of I.P. & Aircraft Leasing) via Thomson Datastream



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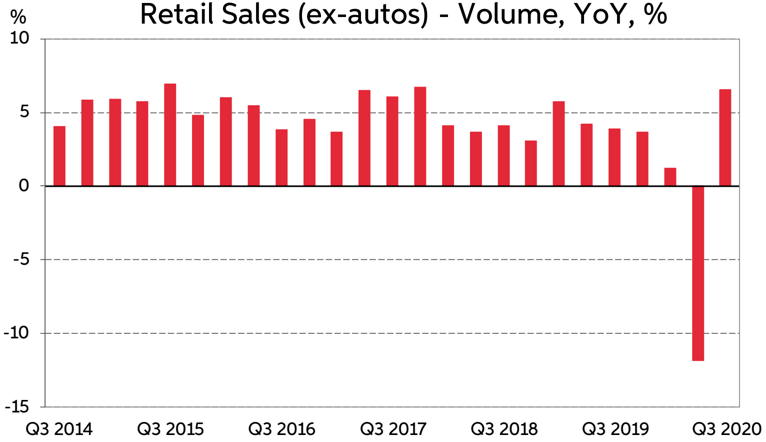
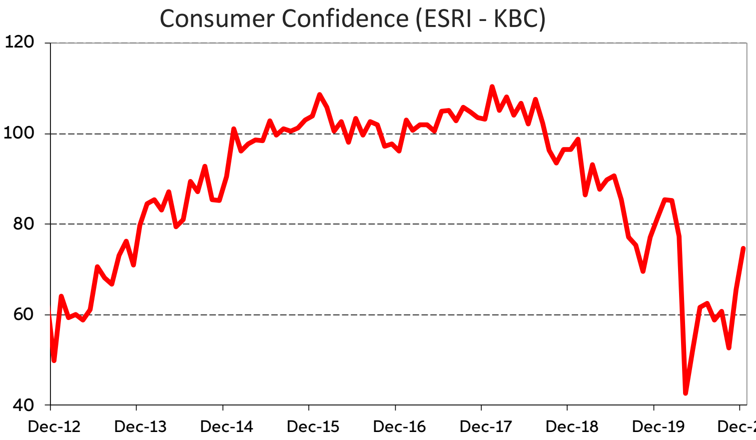


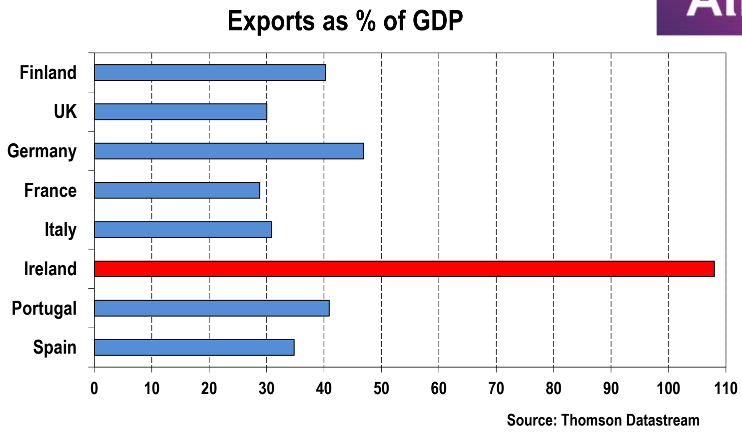
Source: CSO via *Refinitiv*

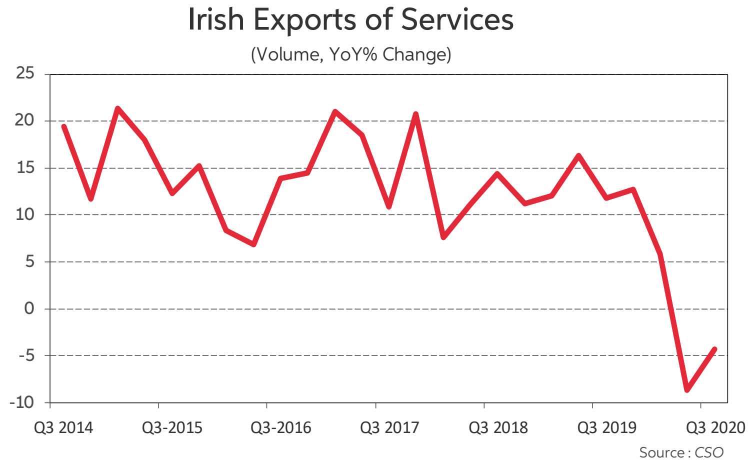


Source: Refinitiv

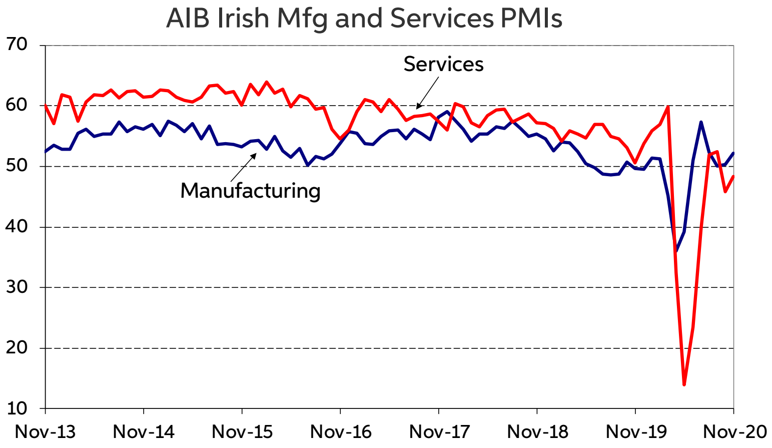
Goods exports up strongly in 2020, but services exports fell

- Ireland a very open economy – exports, driven by large scale FDI, are a huge part of economy
- Exports rise strongly in recent years, helped by large FDI inflows
- Total exports rose by 10.4% in 2018 and 11.1% in 2019.
- Pharma, medical care products, IT equipment, and food & drink are main goods exports
- IT, business, financial and tourism are the main service exports
- Total exports rise 4.4% yoy in Q1-Q3 2020
- Goods exports up 10.7% yoy over the period, fuelled by very big jump in pharma exports
- Service exports down 4.3% yoy in Q1-Q3 2020
- Collapse in earnings from tourism & travel, but computer service exports show strong growth





Second lockdown sees activity slow somewhat in Q4



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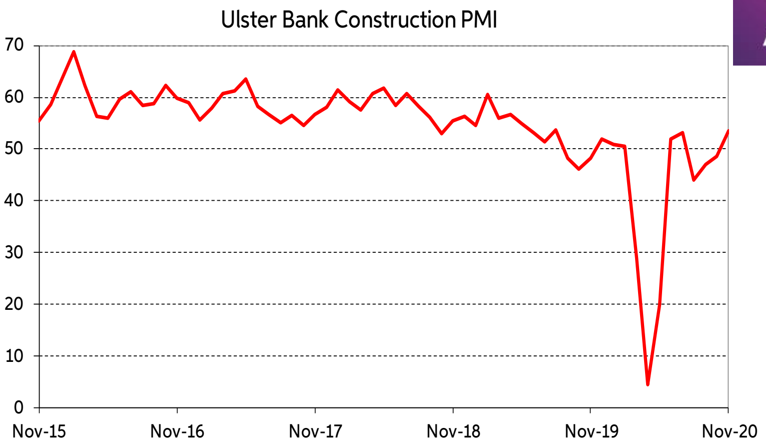

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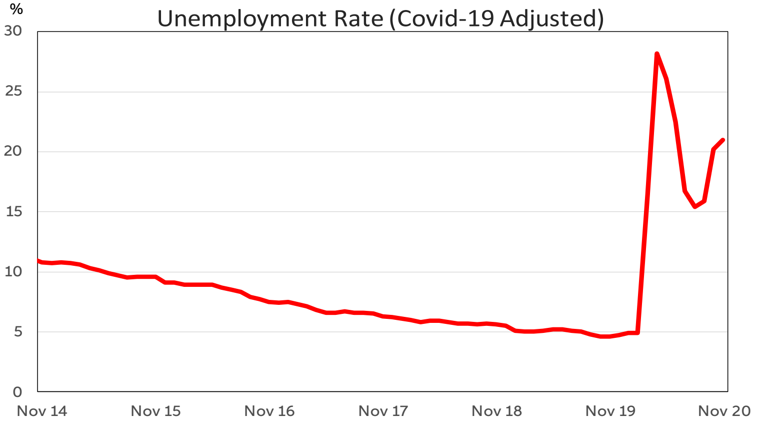

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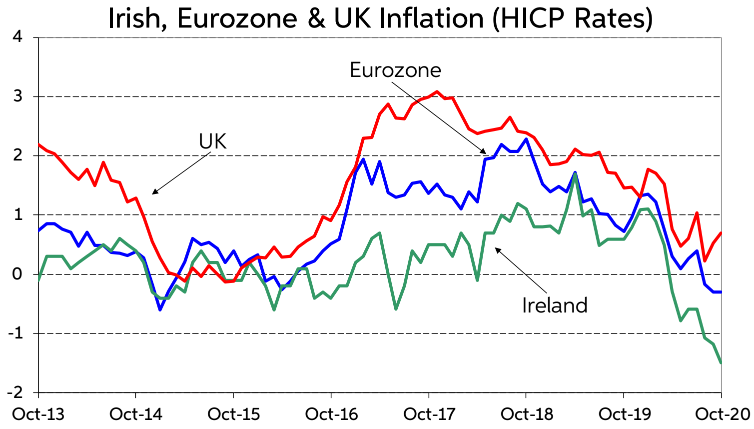


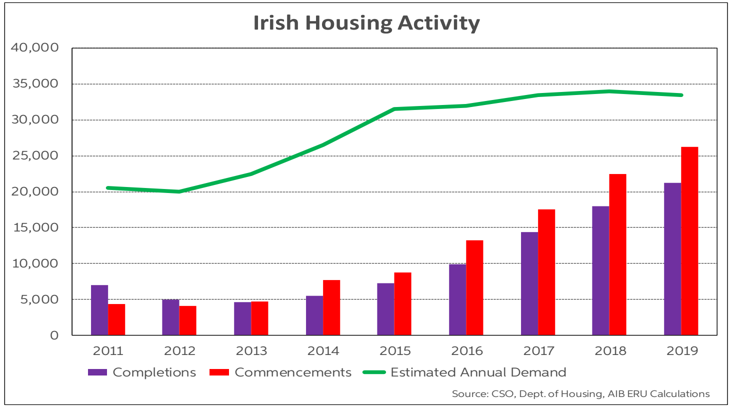
Source: Refinitiv

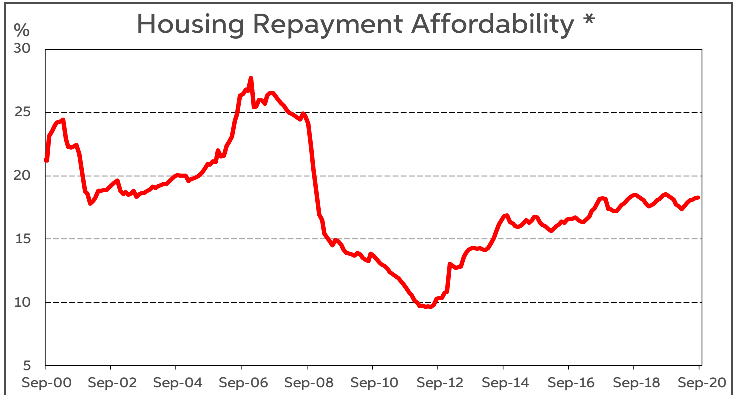
Now in third lockdown, but outlook brightens on vaccines

- Second lockdown imposed from late Oct to end November as Covid cases spiked higher
- Third lockdown imposed over Xmas period, which could last for much of first quarter
- Jobless rate including those on pandemic unemployment payments down to 14.7% by September, but rises back to over 20% as economy went back into lockdown – but below April peak near 29%
- Good pick-up in consumer sentiment during second half of year – though still at quite subdued level
- Manufacturing PMI rebounded strongly to 57.3 by July, but in 50-52 range from August to November
- Services PMI picked-up to 52.4 in August but back well below 50 in Sept-Nov on second Covid wave
- Construction PMI below 50 from August-October but rises to 53.5 in November
- Domestic economy may have contracted again in Q4 given lockdowns re-imposed for a period
- Weak start on the cards for economy in Q1 2021, with country back in lockdown again
- But, growth prospects improve for 2021-22, with positive news on vaccines. Roll out has started
- Strong rebound likely from Q2. Underlying growth rate of economy to pick up to 5% in 2021-22

New house building activity holds up in 2020

- Housing completions rose 18% to 21,240 units in 2019
- Completions down by 32% yoy in Q2 on lockdown, but recover strongly in Q3 – down 9% yoy in Q1-Q3 period
- House commencements up 17% in 2019 to 26,000 units
- Commencements fall sharply in 2020 – down 30% year-to-date to October. Heading for sub 20,000 figure
- Planning permissions jump sharply -up 25% yoy to September despite weak second quarter
- Overall, completions hold up better than expected in 2020. May be above 19k and could reach 21k in 2021
- Housing output remains well below annual new housing demand, estimated at 30,000 units
- Mortgage lending rose by 9.5% to €9.6bn in 2019, but Covid sees drawdowns fall by 20% yoy to end Q3'20
- But mortgage approvals surge over the autumn
- Housing affordability metrics remain quite stable



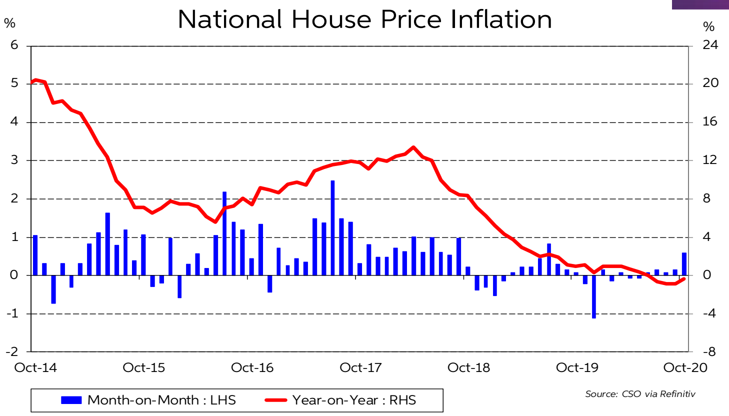


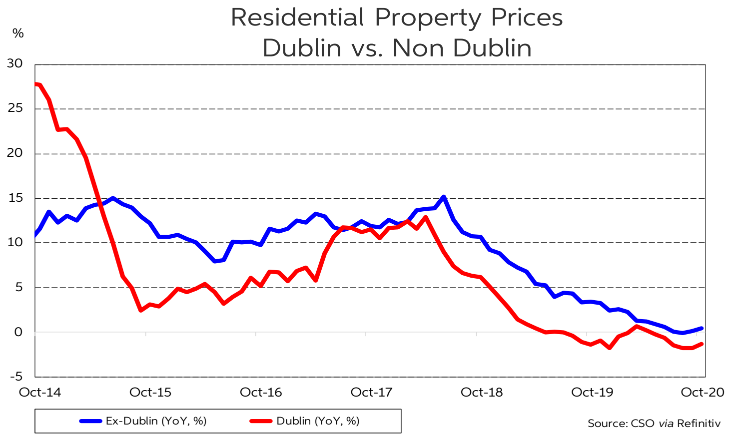
* % of disposible income required for mortgage repayments for 2 average income household, 30 year, 90% LTV, AIB variable mortgage rate. Based on Permanent TSB/ESRI national house price & CSO residential property price index

Source: *AIB, Permanent TSB/ESRI, CSO, Dept. of Finance*

House prices broadly stable over past year

- House prices declined by very sharp 55% over 2007-13
- Prices have since recovered strongly; 85% above trough by October 2020, but still some 17% below 2007 peak
- House price inflation slowed sharply in 2018/19 reflecting tighter Central Bank lending rules
- House prices little changed in 2020, though have risen modestly for five consecutive months to October
- Prices down 0.4% yoy nationally in October 2020: Dublin down 1.7%, while non-Dublin up 0.5% yoy
- Property web-sites see big jump in asking prices in Q3
- Low supply, remote working, strong public/institutional demand, enhanced help-to-buy scheme, support prices
- Growth in rents had slowed a lot before the virus hit
- Rents recover in Q3 after steep falls in H1’20, but fall again in Q4. Down 3.2% yoy in November





AIB Model of Estimated Housing Demand

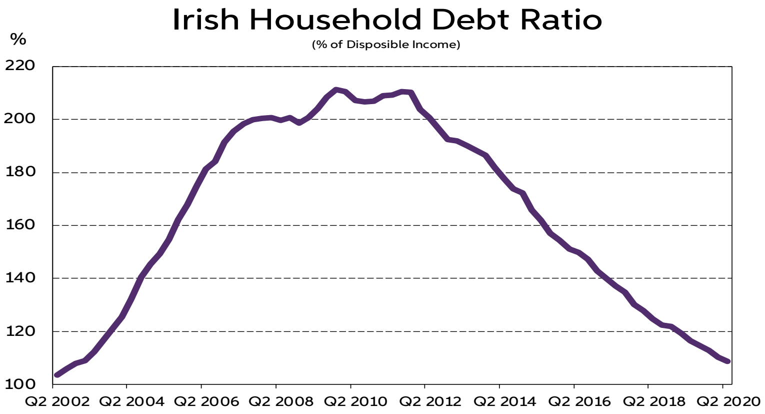
- Rising headship rates added circa 8,000 per year to housing demand in 2002-2011 period
- Shortage of housing, high rents, tighter lending rules saw average household size rise in 2011-16. Thus, headship fell – was a drag of circa 10,000 p.a. on housing demand
- Assume no change in headship in 2016-2021 – 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	2017	2018	2019	2020	2021
Household Formation	28,000	32,000	31,000	25,000	25,000
of which					
Indigenous Population Growth	*18,500*	*21,000*	*21,000*	*17,500*	*16,000*
Migration Flows	*9,500*	*11,000*	*10,000*	*7,500*	*9,000*
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	**33,500**	**37,500**	**36,500**	**30,500**	**30,500**
Completions	**14,400**	**18,100**	**21,250**	**19,250**	**21,000**
Shortfall in Supply	*-19,100*	*-19,400*	*-15,250*	*-12,250*	*-9,500*

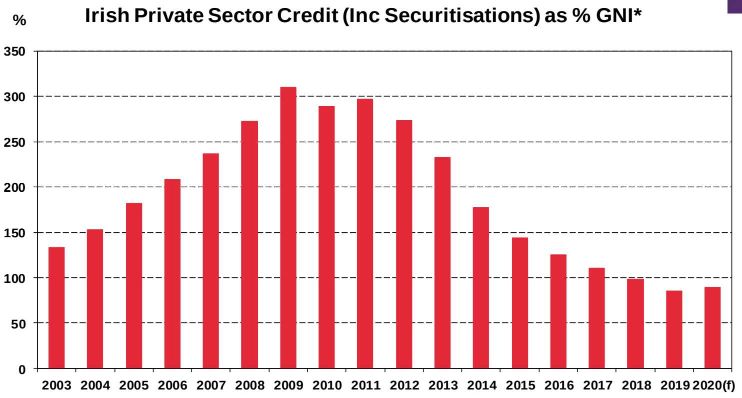
**Headship is % of population that are heads of households.*

Sources: CSO, DoECLG, AIB ERU.

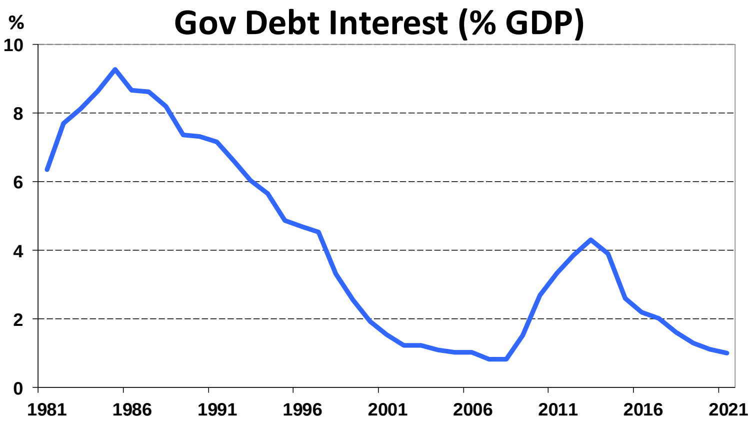
Private sector deleverages, Govt. debt ratios rising again



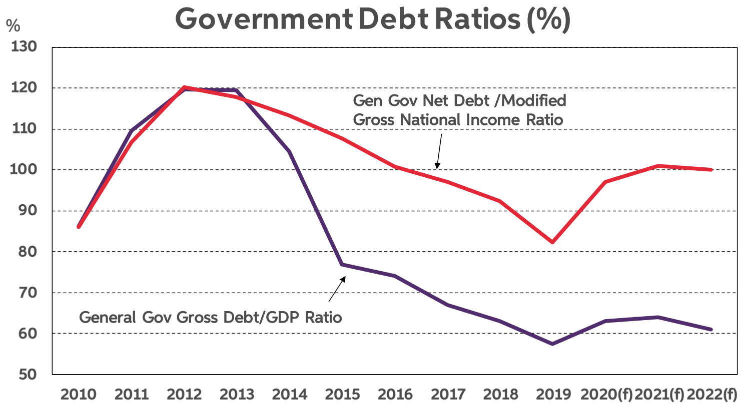
Source: *CSO, Central Bank, AIB ERU*



Sources: Central Bank, CSO, AIB ERU Calculations



Source: NTMA; Dept of Finance (Pre Coronavirus)

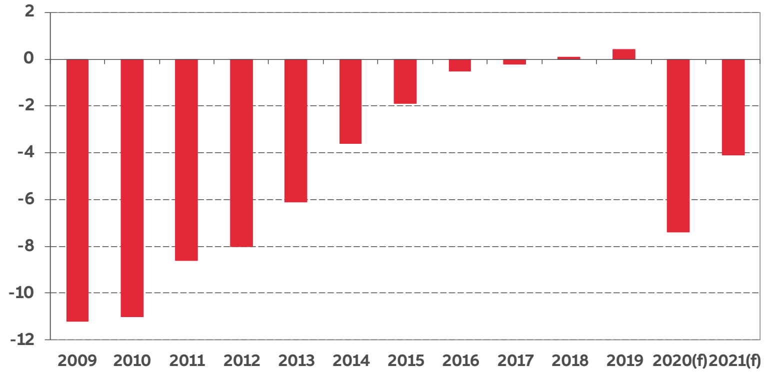


Sources: Dept of Finance, CSO, AIB ERU (Inflated/Distorted GDP figues from 2015)

Large budget deficit in 2020 and again in 2021

- Budget deficit declined sharply over last decade, with small surpluses recorded in 2018 and 2019
- Primary budget surplus (i.e. excluding debt interest) of 1.8% of GDP in 2019
- However, Covid-19 and efforts to mitigate it see the public finances deteriorate during 2020
- Tax receipts down 7% to end November, while voted government spending soars by 24%
- Budget deficit expected to be circa €22bn in 2020, or close to 6.5% of GDP
- Dept. of Finance forecasting another large budget deficit of above €20bn in 2021
- Gov Debt ratios had fallen in past decade, but will moved higher in 2020
- Bond yields low and stable despite blow-out in budget deficit and big rise in debt issuance
- Ireland's sovereign debt ratings hold steady; S&P at AA-, Fitch at A+, Moody's A2

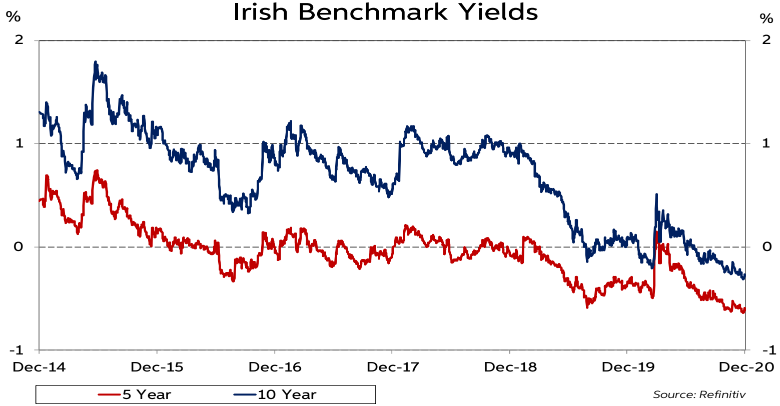
General Government Balance* (% GDP)



*Excludes banking recapitalisation costs in 2010-11

Source : Dept of Finance

Irish Benchmark Yields



Source: Refinitiv

Main points about the EU-UK Free Trade Agreement

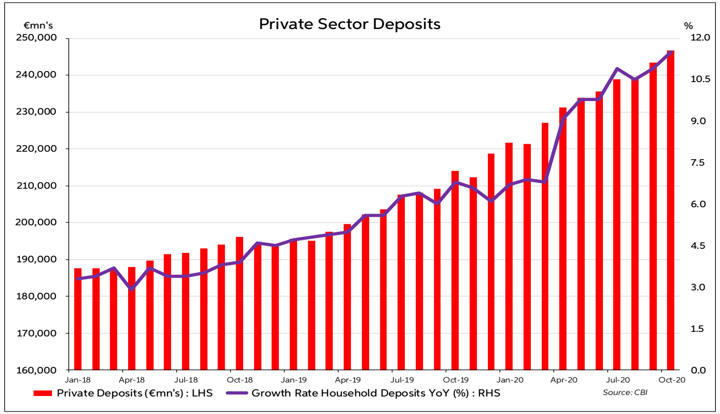
- EU and UK finally agreed on a trade deal just before Christmas, thereby allow for continuing tariff-free and quota-free trade in goods
- However, the FTA is much inferior to the EU Single Market, involves a lot of extra admin costs and likely delays at ports, including the land bridge route to Europe via UK
- The FTA is unique in that it increases trade barriers– new customs procedures, compliance with onerous rules of origin requirements, documentary evidence needed to move goods
- Agri-food products may require export health certs and veterinary inspections at borders
- UK not fully implementing all customs checks until July so gradual impact on exports to UK
- FTA does not extend to services. Financial services not given equivalence/passporting rights
- Maintains current common standards. Tariffs possible if they diverge appreciably
- No right of redress for companies via courts. Provision for an arbitration panel in disputes
- Estimated that higher trade costs will knock circa 0.5% off Irish annual GDP growth rate

Key medium-term Irish growth drivers remain in place

- Favourable medium-term drivers of strong Irish growth remain in place
- House building picking up from still low output levels – big focus of new government
- Government spending supportive of growth
- Activity to be aided by continuing very low interest rate environment
- Still an attractive destination for FDI
- Labour market dynamics supportive of growth
- Economy has deleveraged, big jump in savings
- World economy expected to rebound from 2021, helped by roll out of Covid vaccines
- Strong Irish growth to be expected next year on, after sizeable fall in GDP in 2020
- The EU-UK trade deal also has removed major near term risk to Irish economy

OECD GDP Forecasts (Dec 2020)

% Vol	2020	2021	2022
World	-4.2	4.2	3.7
OECD	-5.5	3.3	3.2
US	-3.7	3.2	3.5
Eurozone	-7.5	3.6	3.3
UK	-11.2	4.2	4.1
Japan	-5.3	2.3	1.5



AIB Irish Economic Forecasts

% change in real terms unless stated	2018	2019	2020 (f)	2021 (f)	2022 (f)
GDP	**8.5**	**5.6**	**3.0**	**5.0**	**4.5**
GNP	7.3	3.4	-0.5	4.5	4.0
Personal Consumption	2.8	3.2	-9.0	5.5	3.5
Government Spending	5.8	6.3	8.7	-2.5	2.0
Fixed Investment*	-6.2	74.8	-16.5	-0.2	5.0
Exports	11.1	10.5	4.0	5.5	5.0
Imports*	4.0	32.4	-7.5	3.0	4.7
HICP Inflation (%)	0.7	0.9	-0.5	0.3	1.0
Unemployment Rate (%)	5.8	5.0	10.4	10.0	7.5
Budget Balance (% GDP)	0.1	0.5	-6.5	-5.7	-3.0
Gross General Gov Debt (% GDP)	63.0	57.4	63.0	64.0	61.0

*Data very distorted by aircraft and intangibles (IP)

Source: CSO, D/Finance; AIB ERU Forecasts

Risks to the Irish economy

- Main near term risk is still Covid-19 – continues to weigh heavily on growth & employment
- Persistence of virus could see scarring effects – high business failures, rising bad debts, job losses
- Very open nature of Irish economy means it is exposed to weakening global trade patterns
- Changed EU-UK trading relationship may yet negatively impact on some Irish industries
- Questions around Ireland's corporation tax regime (moves on tax harmonisation in EU, OECD tax reform/minimum tax rate proposals) and rise in protectionism could impact FDI
- Supply constraints in new house building activity, with output still at very low levels
- Competitiveness issues - high Dublin house prices, high rents, high personal taxes, high wages
- Credit constraints – tightening of lending rules, on-going deleveraging, weak credit demand