The Irish Economic Update:

Tough start to 2021, but prospects brighten with vaccines roll out ramping up from April

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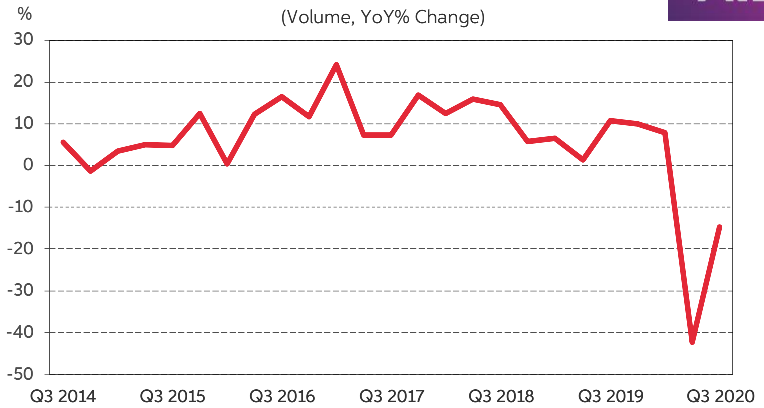
Now in third lockdown, but outlook brightens on vaccines

- Second lockdown imposed from late Oct to end November as Covid cases spiked higher
- Domestic economy may have contracted again in Q4 given lockdowns re-imposed for a period
- However, core retails sales up 4% yoy in Q4’20, well above pre-Covid levels
- Third lockdown imposed over Xmas period, which is set to last for much of H1 2021
- Sharp fall in construction and services PMIs in early 2021, new car sales in steep decline
- Contraction in economy will not be as severe as last Spring– more activity going on
- Major ramp-up of vaccination programme planned from April onwards – 1 million a month
- Restrictions on activity in some sectors set to last until mid-year, given virus more infectious
- However, growth prospects improve for H2 2021 and 2022 as vaccines roll out gathers pace
- Central Bank forecasts GDP growth of 3.8% in 2021 and 4.6% in 2022
- It sees modified domestic demand rising by 2.9% this year and 3.6% in 2022

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

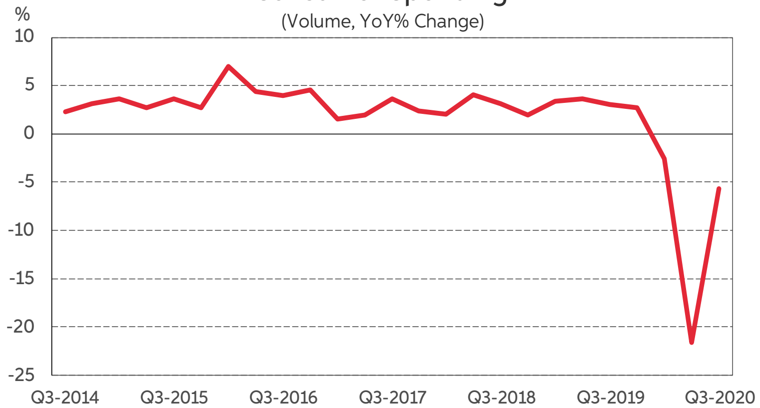
- Modified final domestic demand up by 18.7% in Q3, after declines of 1.6% & 15.5% in Q1 and Q2 2020
- Overall, modified domestic demand was down by 6.4% yoy over Q1-Q3 2020 period
- Consumer spending up by 21% in Q3 after falls of 2.2% in Q1 & 20% in Q2 – down 10% yoy in Q1-Q3
- Domestic fixed investment 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

Construction Output
(Volume, YoY% Change)



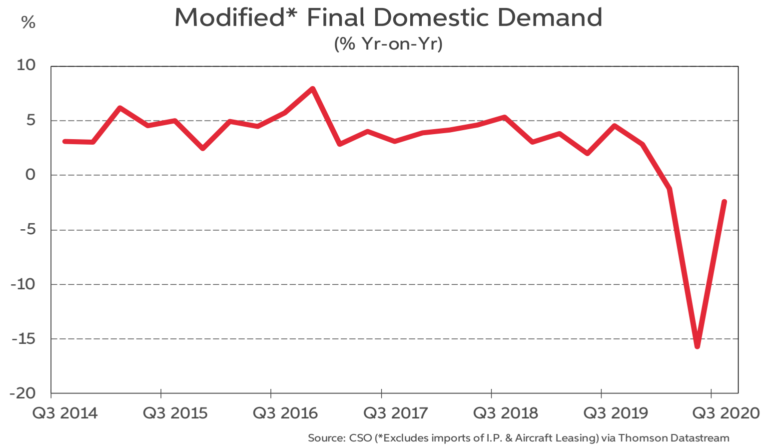
Source : CSO via Refinitiv

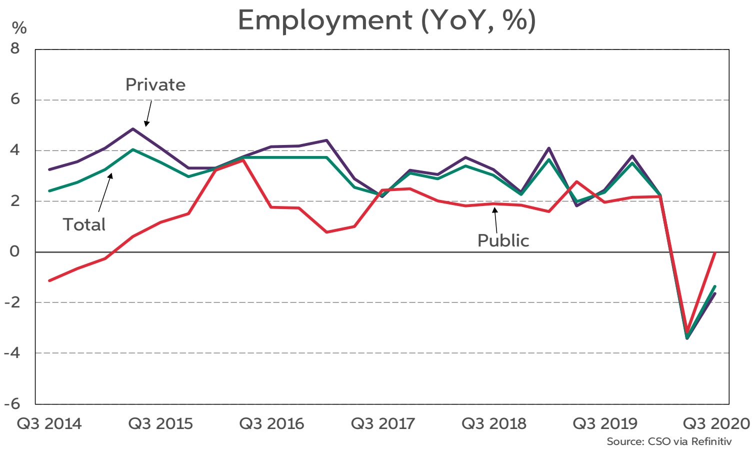
Consumer Spending
(Volume, YoY% Change)

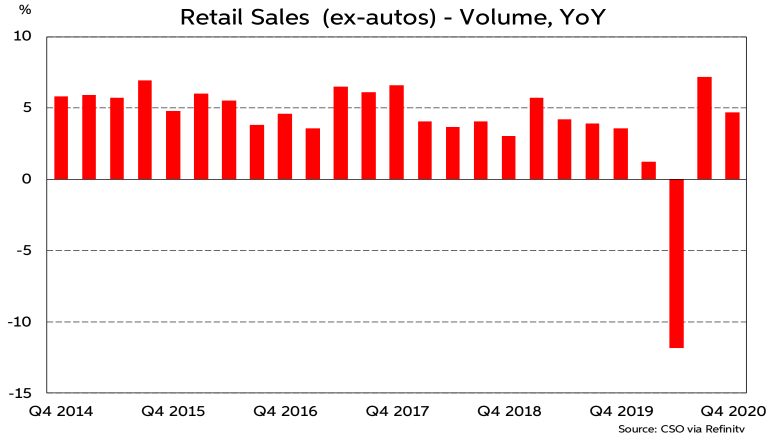


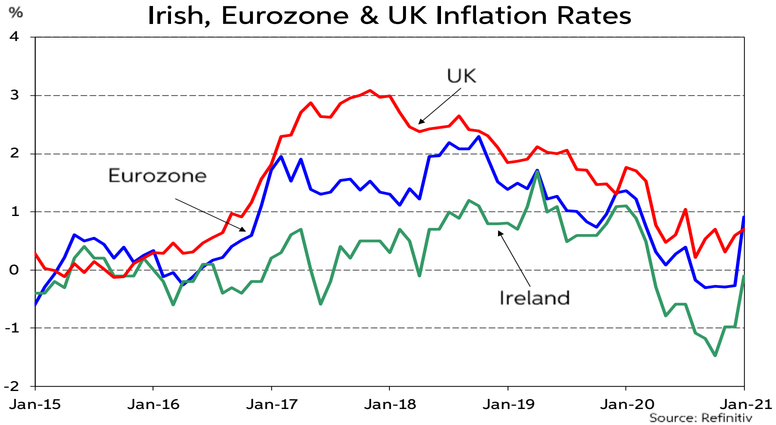
Source: CSO via Refinitiv

Recovery in spending continued in Q4, despite lockdown

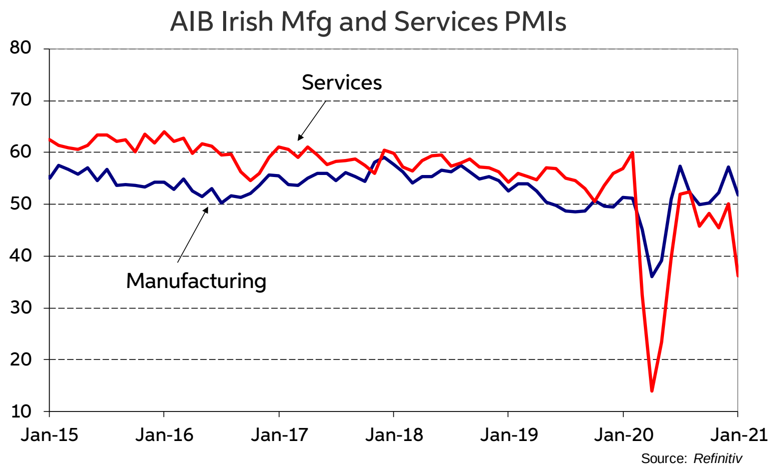


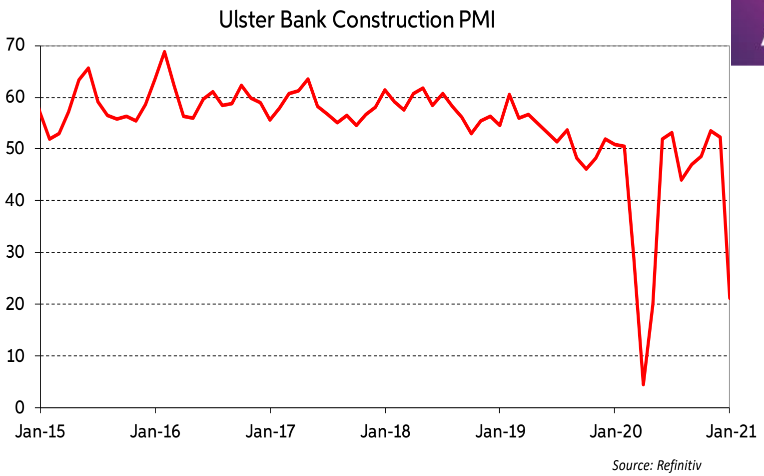


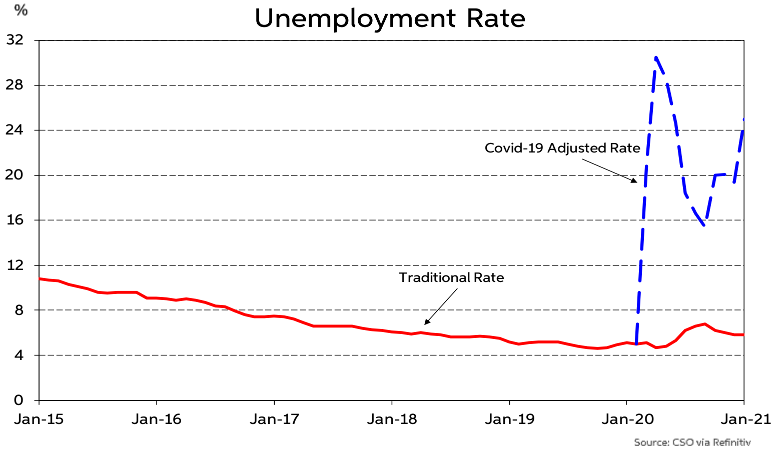


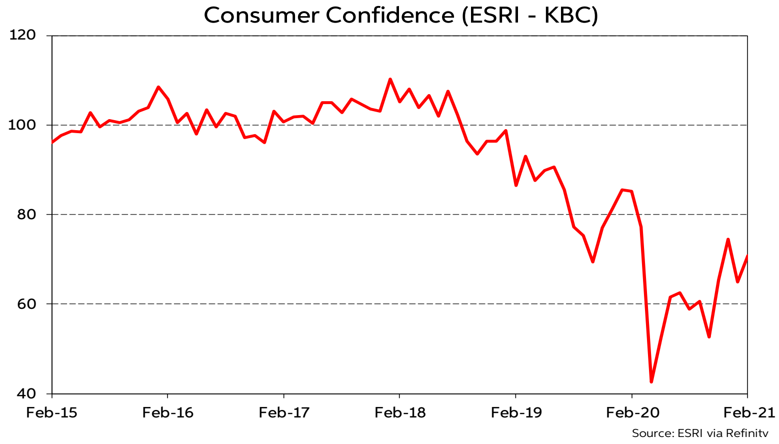


Third lockdown sees activity weaken at start to 2021



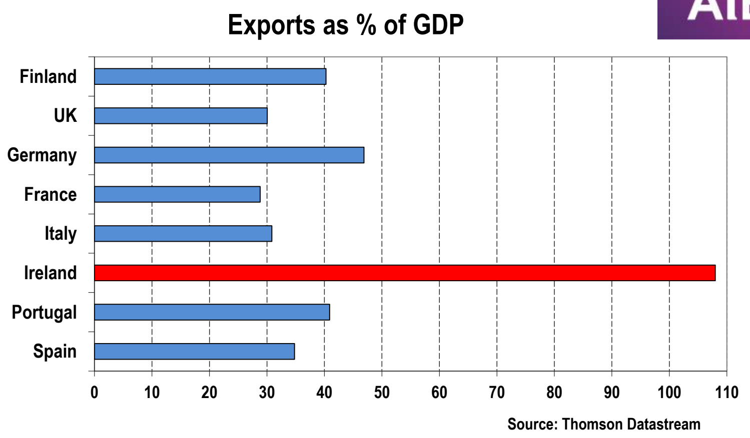


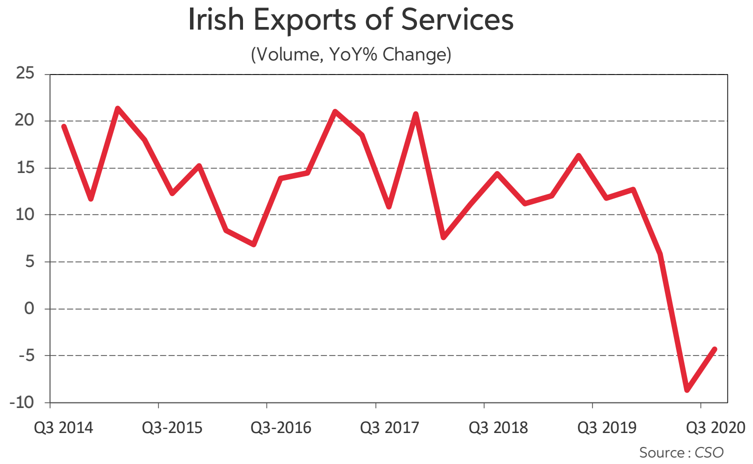




Goods exports up strongly in 2020, but services exports fell

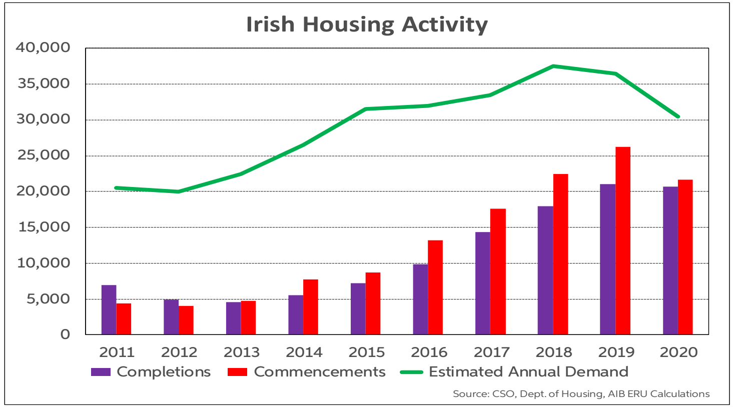
- Ireland a very open economy – exports, driven by large scale FDI, are a huge part of economy
- Exports rise strongly in recent years, helped by large FDI inflows
- Total exports rose by 10.4% in 2018 and 11.1% in 2019.
- Pharma, medical care products, IT equipment, and food & drink are main goods exports
- 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

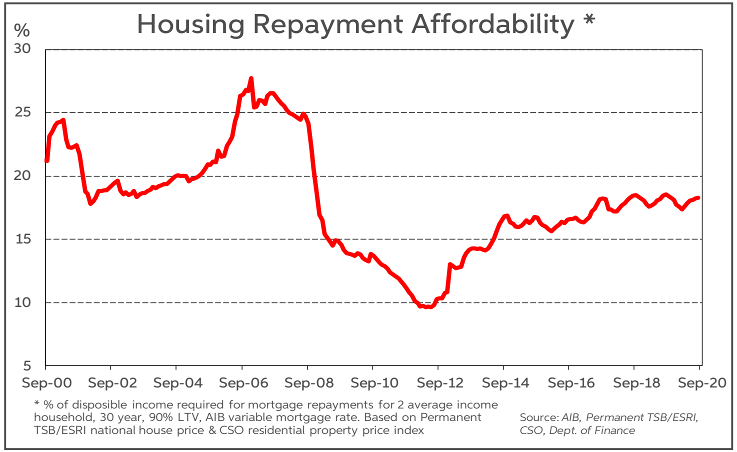




New house building activity held up in 2020

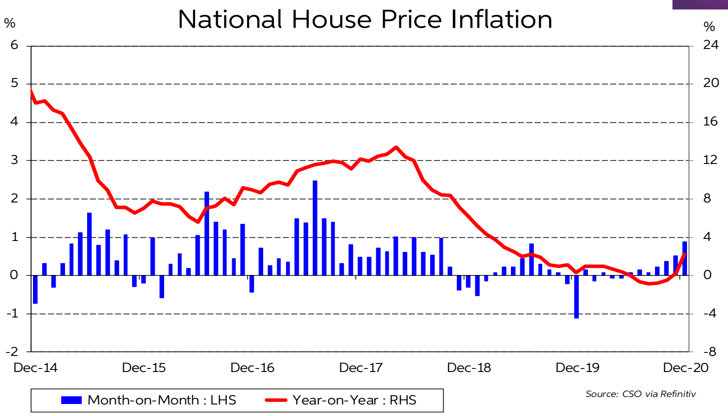
- Completions down by 32% yoy in Q2'20 on lockdown, but recovered strongly in Q3 and Q4
- Total completions amounted to 20,676 in 2020, just 2% down on 2019 level of 21,087
- Commencements fell by over 17% to 21,700 in 2020 from 26,240 in 2019
- Planning permissions jump sharply last year – up 25% yoy to September despite weak second quarter
- Housing output likely to be less than 20,000 this year, well below estimated annual demand of 30,000 units
- Mortgage lending rose by 9.5% to €9.5bn in 2019, but Covid saw it fall by 12% to €8.4bn in 2020
- However, mortgage approvals surged in H2 2020
- Housing affordability metrics remain quite stable

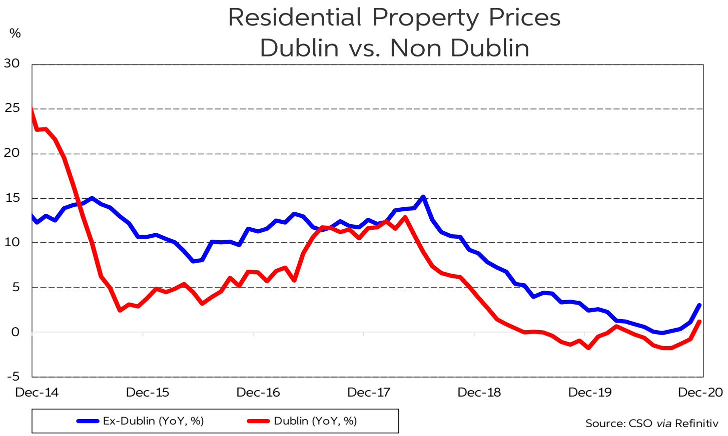




House prices start to move higher again

- House prices declined by very sharp 55% over 2007-13
- Prices have since recovered strongly; 86% above trough by end 2020, but still some 16% below 2007 peak
- House price inflation slowed sharply in 2018/19 reflecting tighter Central Bank lending rules
- House prices little changed in 2020 until moving much higher in Q4 -prices up by 2.2% yoy at December
- Dublin prices up 1.2% yoy in December 2020, while non-Dublin up 3.1% yoy
- Property websites - big jump in asking prices in H2'20
- Low supply, remote working, strong public/institutional demand, enhanced help-to-buy scheme, rising personal savings are all supporting prices
- Growth in rents had slowed a lot before the virus hit
- Rents recover somewhat in H2 after steep falls in H1'20. Still down 2.5% yoy in January 2021





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

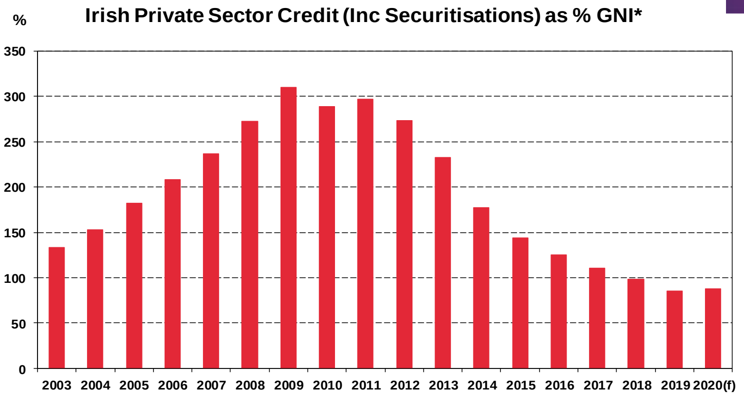
Calendar Year	2017	2018	2019	2020	2021
Household Formation	28,000	32,000	31,000	25,000	25,000
of which					
Indigenous Population Growth	*18,500*	*21,000*	*21,000*	*17,500*	*16,000*
Migration Flows	*9,500*	*11,000*	*10,000*	*7,500*	*9,000*
Headship Change*	*0*	*0*	*0*	*0*	*0*
Second Homes	500	500	500	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**	**21,100**	**20,700**	**20,000**
Shortfall in Supply	*-19,100*	*-19,400*	*-15,400*	*-9,800*	*-10,500*

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

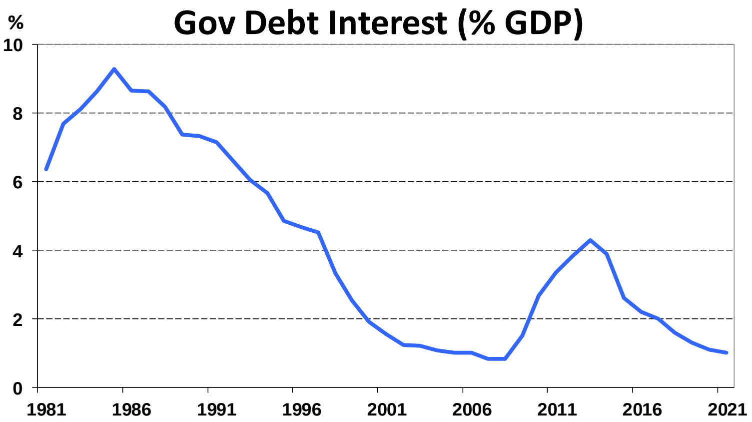
Sources: CSO, DoECLG, AIB ERU.

Private sector deleverages, Gov. debt ratios rising again

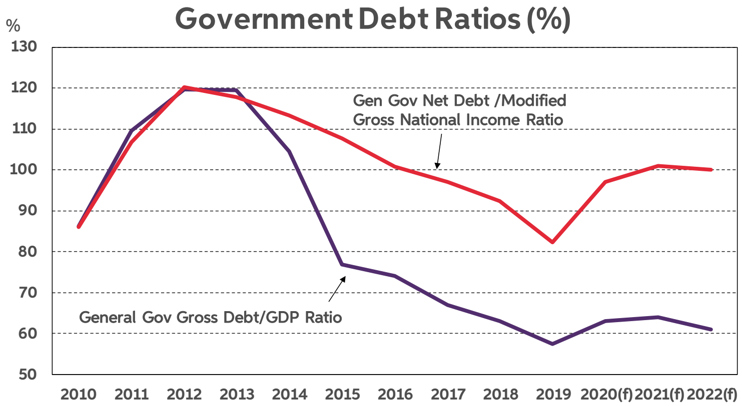
Source: CSO, Central Bank, AIB ERU



Sources: Central Bank, CSO, AIB ERU Calculations



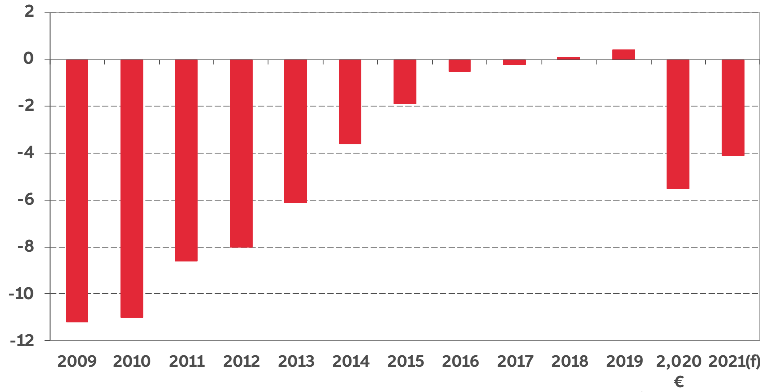
Source: NTMA; Dept of Finance (Pre Coronavirus)



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

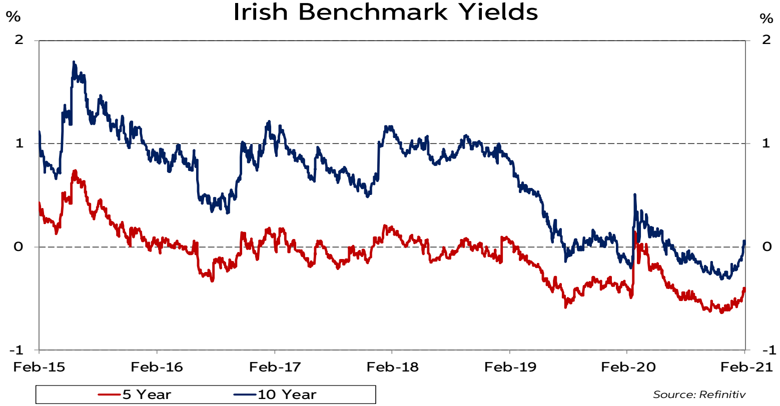
Large budget deficits in 2020 and 2021

- 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 saw the public finances deteriorate during 2020
- Tax receipts were down 3.5% last year, while net voted government spending soared by 25%
- Budget deficit of circa €19bn in 2020, or around 5.5% of GDP
- Dept. of Finance forecasting another large budget deficit of above €20bn in 2021
- Gov. Debt ratios had fallen in past decade, but moved higher in 2020
- Bond yields low and stable despite big jump in budget deficit and large rise in debt issuance
- Ireland's sovereign debt ratings hold steady; S&P at AA-, Fitch at A+, Moody's A2



*Excludes banking recapitalisation costs in 2010-11

Source : Dept of Finance



Source: Refinitiv

Main points about the EU-UK Free Trade Agreement

- EU and UK finally agreed on a trade deal in late December 2020, thereby allowing 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 with delays at ports, including the land bridge route via UK - longer supply chains
- 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
- 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 annual Irish GDP growth rate
- Issues with NI protocol and impact on trade flows from GB to NI

Economy was in very strong shape ahead of Covid shock

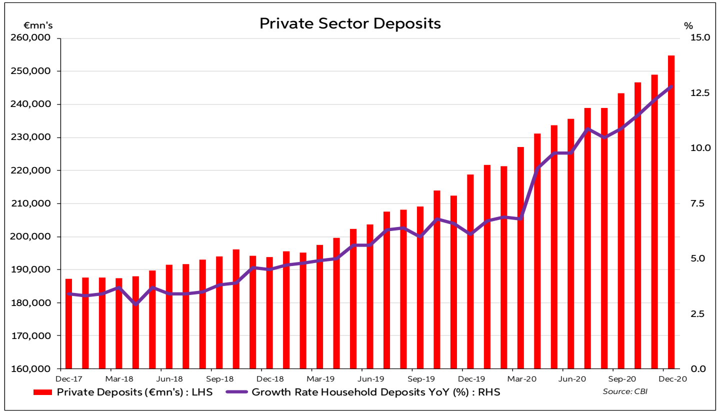
- Economy was in very strong shape ahead of being hit by very deep 2020 Covid recession
- Well balanced, robust underlying growth of circa 5% per annum over 2013-19 period
- Large inflows of FDI and strong export growth remain key features of the economy
- Strong jobs growth, averaging over 3% per annum 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

Key medium-term Irish growth drivers remain in place

- Favourable medium-term drivers of strong Irish growth remain in place
- House building to pick up from still low output levels – big focus of government policy
- Government spending supportive of growth
- Activity to be aided by continuing very low interest rate environment
- Ireland still an attractive destination for FDI
- Labour market dynamics supportive of growth
- Economy has deleveraged. Big jump in savings to unwind, fuelling domestic rebound in 2021-22
- World economy expected to rebound from 2021, helped by roll out of Covid vaccines
- The EU-UK trade deal has removed a major risk to Irish economy
- Strong Irish growth likely over next few years

IMF GDP Forecasts (Jan 2021)

% Vol	2020	2021	2022
World	-3.5	5.5	4.2
OECD	-4.9	4.3	3.1
US	-3.4	5.1	2.5
Eurozone	-7.2	4.2	3.6
UK	-10.0	4.5	5.0
Japan	-5.1	3.1	2.4



AIB Irish Economic Forecasts

% change in real terms unless stated	2018	2019	2020 (e)	2021 (f)	2022 (f)
GDP	**8.5**	**5.6**	**3.0**	**3.0**	**5.0**
GNP	7.3	3.4	-0.5	2.5	4.5
Personal Consumption	2.8	3.2	-9.0	2.5	5.5
Government Spending	5.8	6.3	8.7	1.0	-2.5
Fixed Investment*	-6.2	74.8	-16.5	-3.0	7.0
Exports	11.1	10.5	4.0	4.5	5.0
Imports*	4.0	32.4	-7.5	2.3	5.0
HICP Inflation (%)	0.7	0.9	-0.5	0.5	1.0
Unemployment Rate (Estimated %)	5.8	5.0	10.4	10.8	8.0
Budget Balance (% GDP)	0.1	0.5	-5.5	-5.5	-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 & bad debts, job losses
- Very open nature of Irish economy means it is exposed to weaker global trade patterns
- Changed EU-UK trading relationship may negatively impact 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 house prices, high rents, high personal taxes, high wages
- Credit constrained – tight lending rules, on-going deleveraging, weak credit demand