

The Irish Economic Update:

*Economy makes very strong start to 2022
as COVID restrictions end*

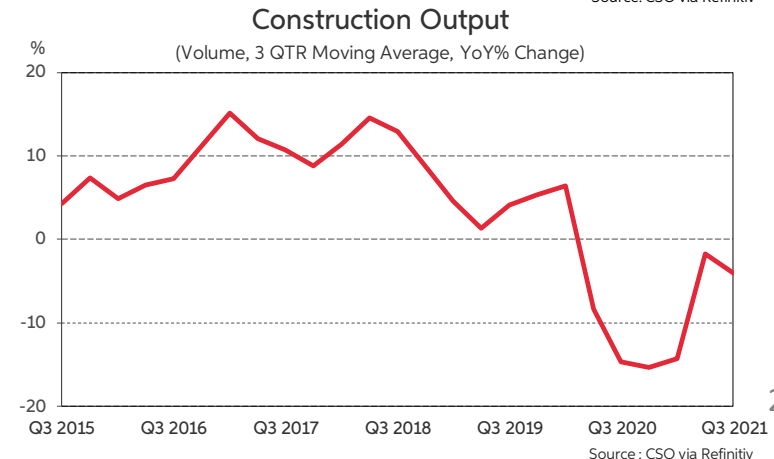
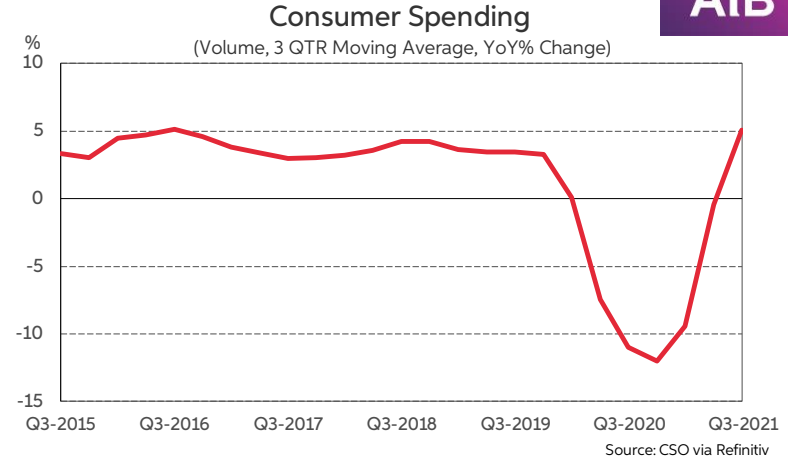
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Economy rebounded very strongly during 2021



- 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 Q1'21 but 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



Robust recovery continuing in early 2022

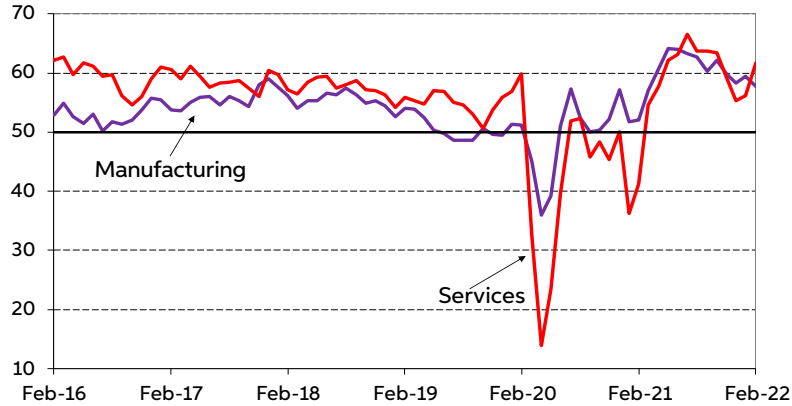


- Indicators show the very strong rebound in activity in 2021 is continuing in early 2022
- Mfg PMI remained at strong levels at start of this year; 59.4 in January, 57.8 in February
- Services PMI rose to very high 61.8 in February, with a big surge in new business
- Construction PMI at strong 56.1 in January
- Housing commencements surged to 30,700 last year, up from 21,700 in 2020
- Rise of 5% in core retail sales in 2021 – also up 5% yoy in final quarter of year
- New car sales rose by 20% last year, but still down 10% on 2019 levels. Still soft in early 2022.
- Tax receipts surged by 20% last year and remained very strong in Jan-Feb; still rising 20% yoy
- Official jobless rate falls sharply – at 5.2% in Jan-Feb, with big drop in numbers on PUP also
- 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
- Private sector deposits continued strong rise; up 31% or €68bn between end 2019 and end 2021

Indicators pick up strongly as rebounds continues

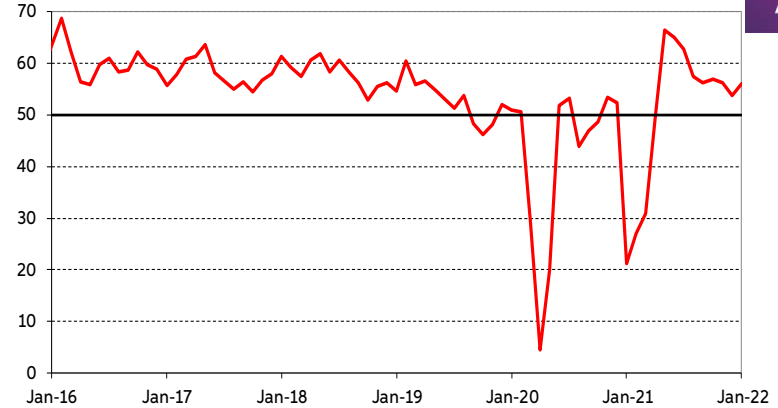


AIB Irish Mfg and Services PMIs



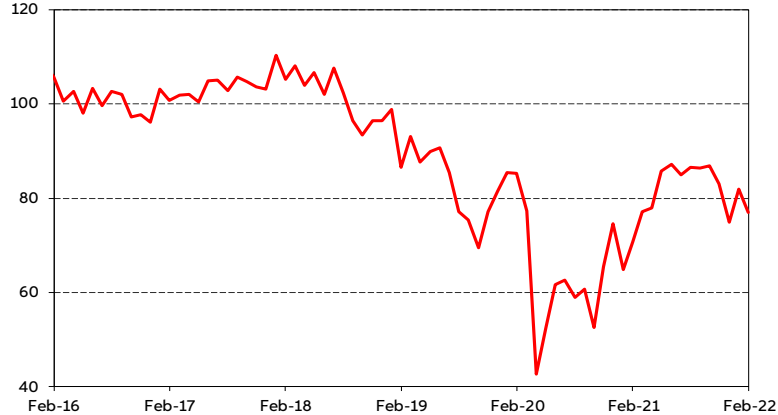
Source: Markit via Refinitiv

Ireland Construction PMI



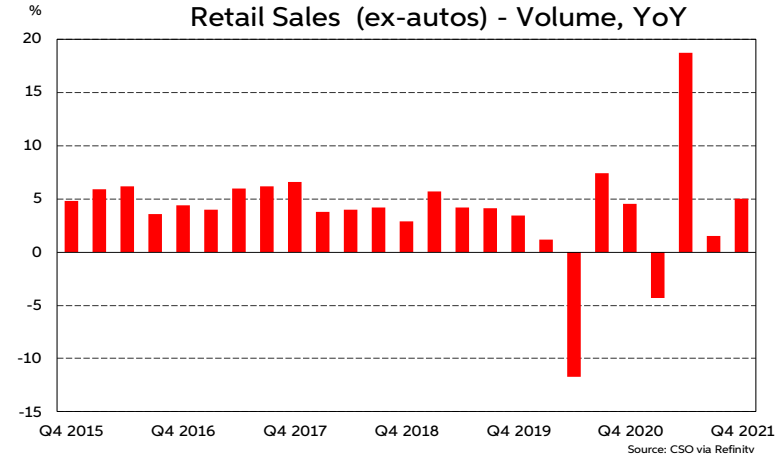
Source: Refinitiv

Consumer Confidence (ESRI - KBC)



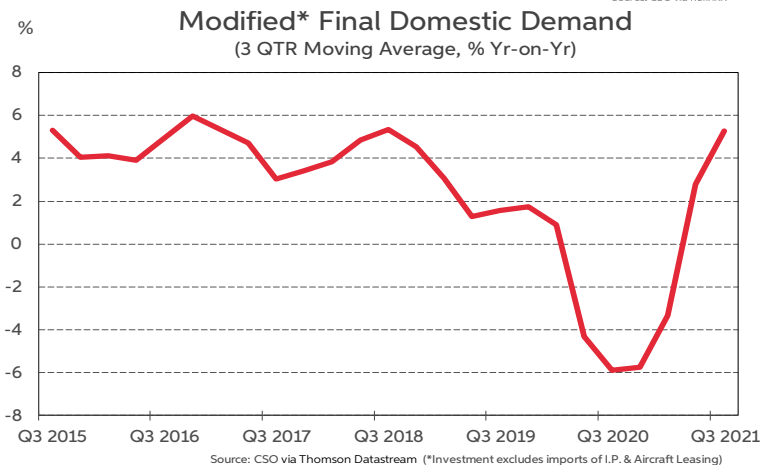
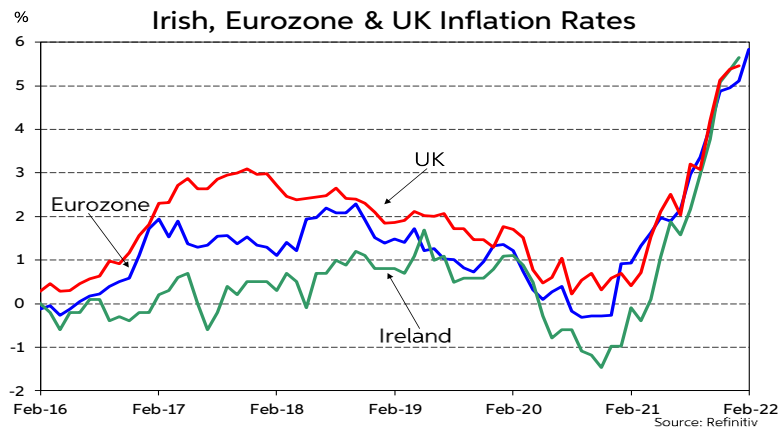
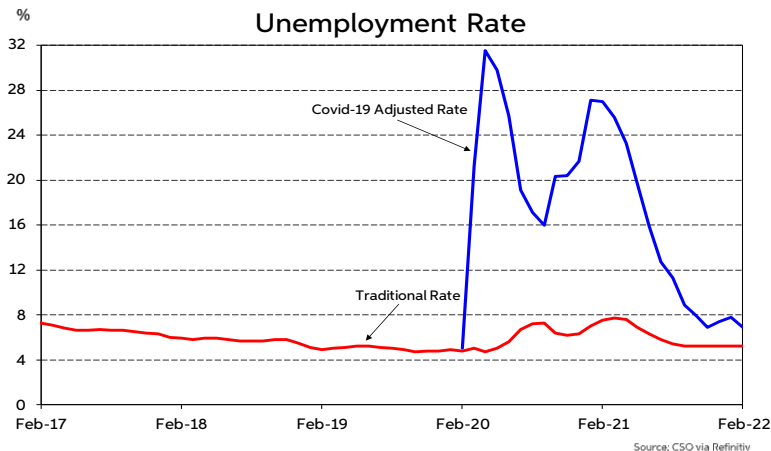
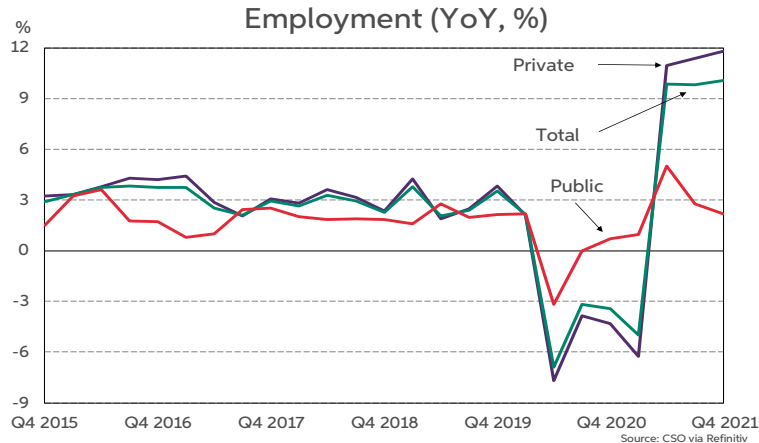
Source: ESRI via Refinitiv

Retail Sales (ex-autos) - Volume, YoY



Source: CSO via Refinitiv

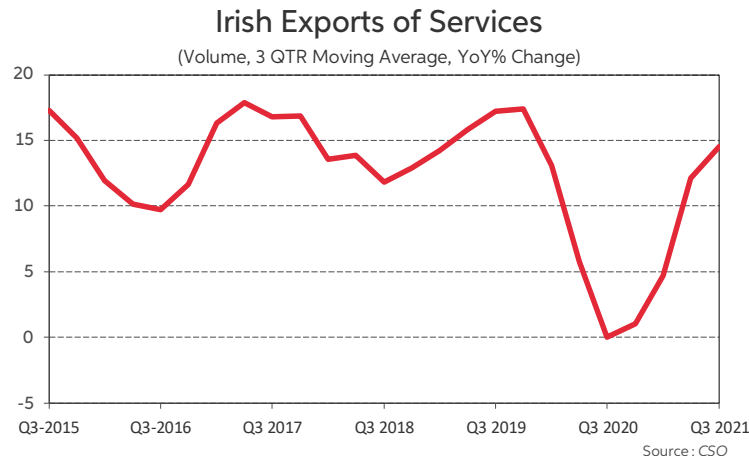
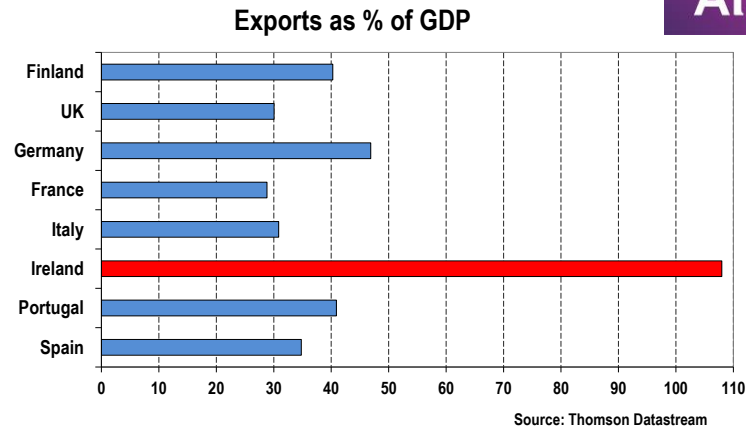
Unemployment declines rapidly, inflation rises sharply



Exports perform impressively throughout the pandemic



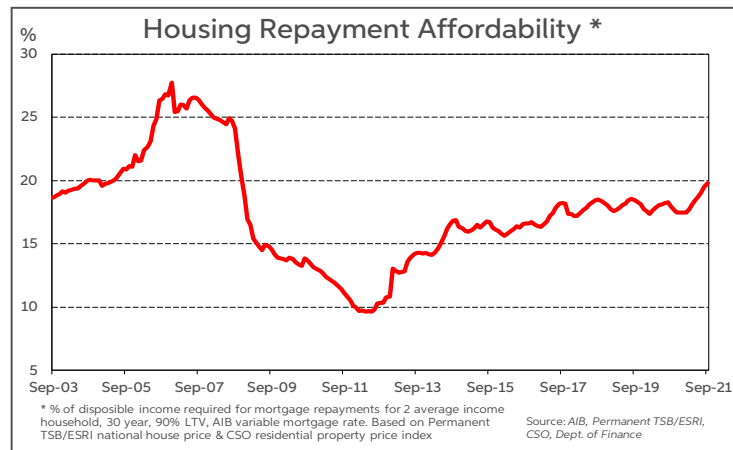
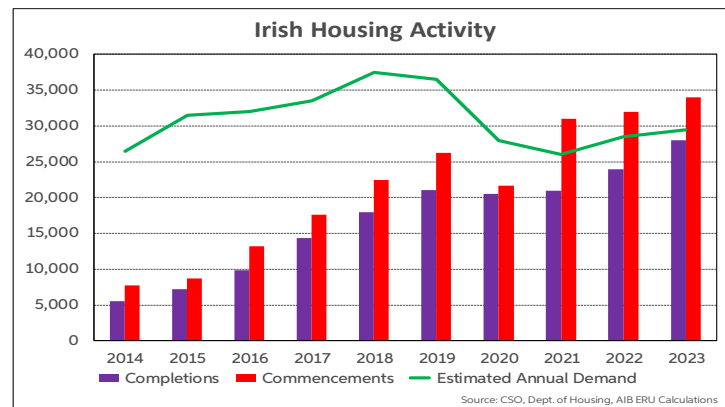
- Ireland a very open economy – exports, driven by large scale FDI, are a huge part of economy
- Exports have risen strongly in recent years, helped by large FDI inflows – though growth overstated
- Pharma, medical care products, IT equipment, and food & drink are main goods exports
- ICT, business & 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 surge



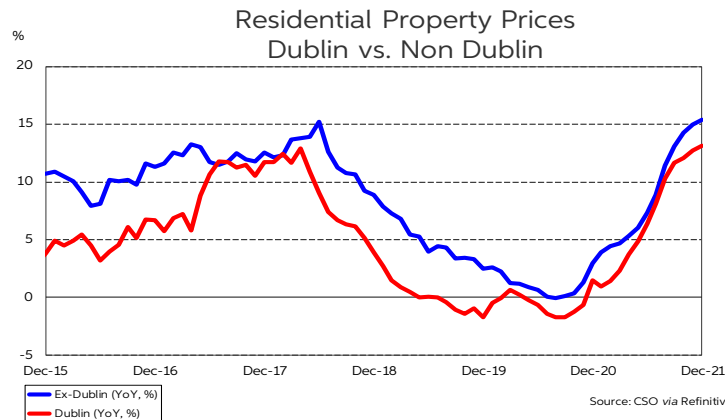
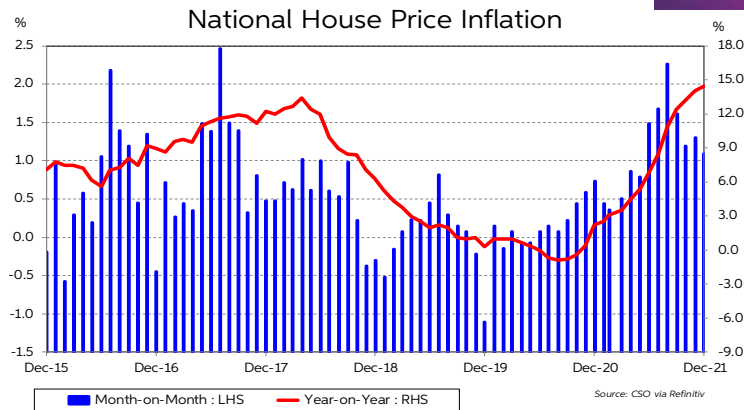
- Total completions amounted to 20,535 in 2020, just 2.6% down on 2019 level despite a 6-week lockdown
- Commencements fell by over 17% to 21,700 in 2020
- They rebounded very strongly from last Spring and commencements reached 30,700 for all of 2021
- Big jump in planning permissions in past couple 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 over past year



- 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-December, with average monthly rise of 1.5%
- National house price inflation at 14.4% yoy in December
- Non-Dublin prices up 15.4% yoy, Dublin rate at 13.1%
- Highest annual rates for house prices since early 2015
- Property websites show big jump in asking prices to mid-2021, but level off since then; up 5.4% yoy in Dec
- 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 in 2020. Jumped sharply last year. Up 8.4% yoy in December & January



AIB Model of Estimated Housing Demand



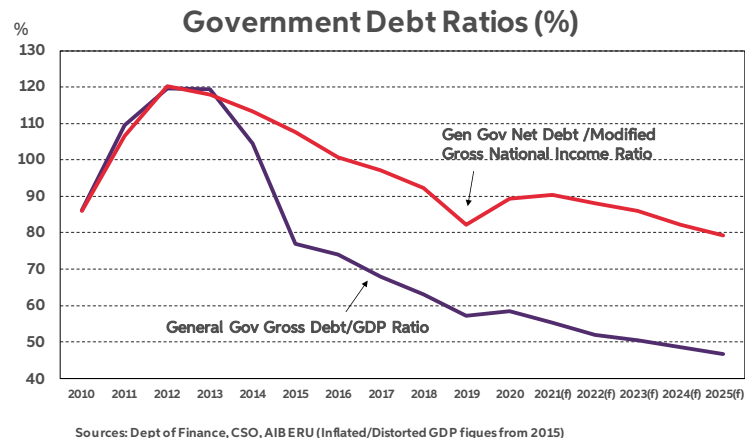
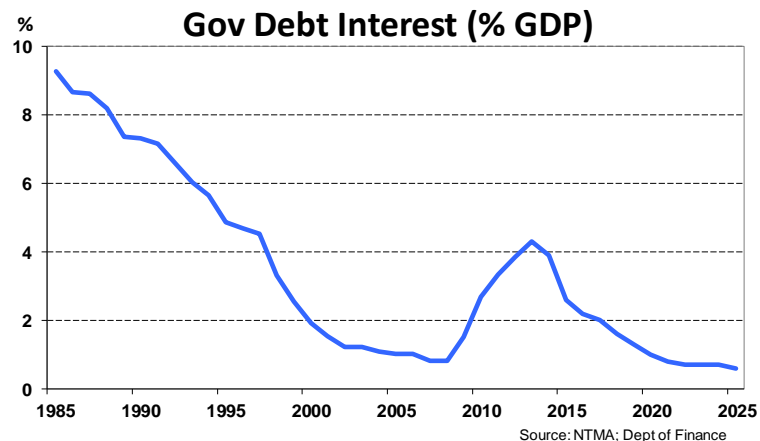
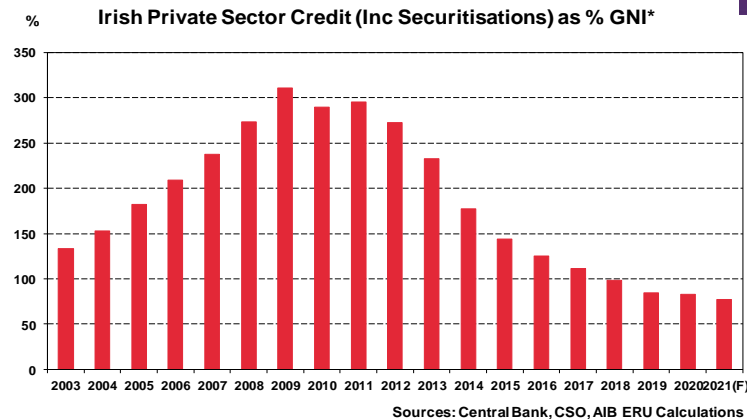
- Rising headship rates added circa 8,000 per year to housing demand in 2002-2011 period
- Shortage of housing, high rents, tighter lending rules saw average household size rise in 2011-16. Thus, headship fell – was a drag of circa 10,000 p.a. on housing demand
- Assume no change in headship in 2016-2021 – 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
<i>of which</i>					
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.

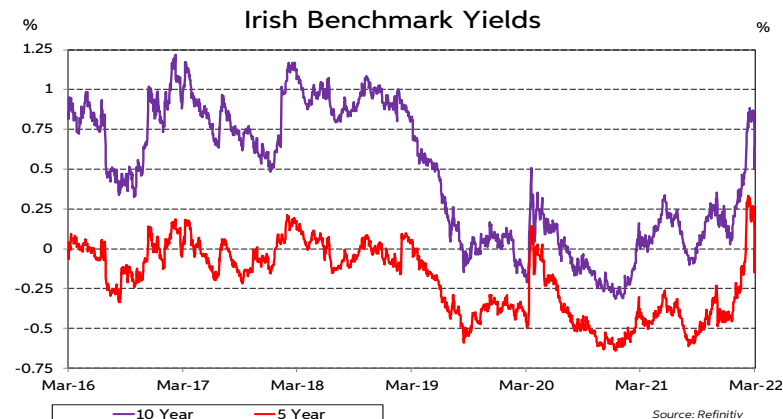
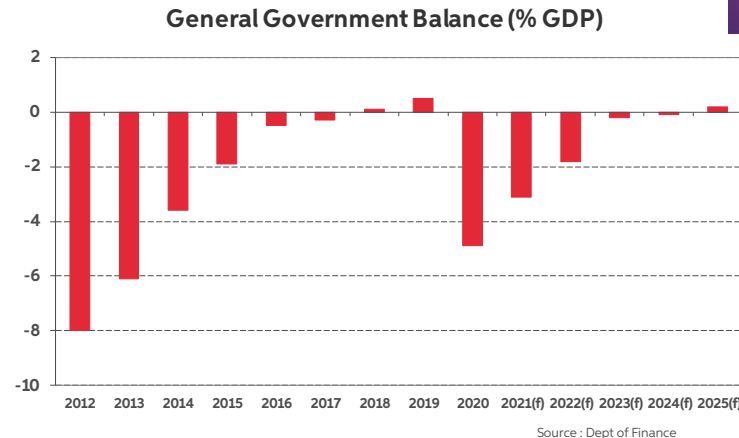
Private sector deleverages, Gov. debt ratios to resume downtrend



Budget deficit in sharp decline as economy rebounds



- Budget 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
- Tax revenues remains strong in early 2022; + 20%
- Deficit forecast by Dept. of Finance to fall to just €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.

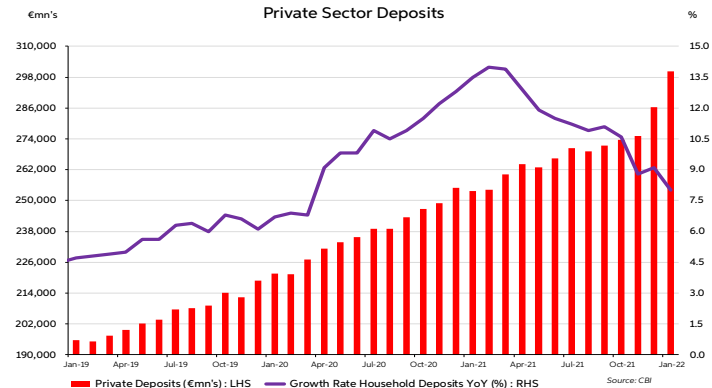


Strong economic growth to continue as restrictions end



- 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 31% surge in private savings in 2020-2021 would 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

IMF Global GDP Forecasts (Jan 2022)			
% Vol	2021	2022	2023
World	5.9	4.4	3.8
Advanced Econs	5.0	3.9	2.6
US	5.6	4.0	2.6
Eurozone	5.2	3.9	2.5
UK	7.2	4.7	2.3
Japan	1.6	3.3	1.8



AIB Irish Economic Forecasts

<i>% change in real terms unless stated</i>	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 very 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

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