

# The Irish Economic Update:

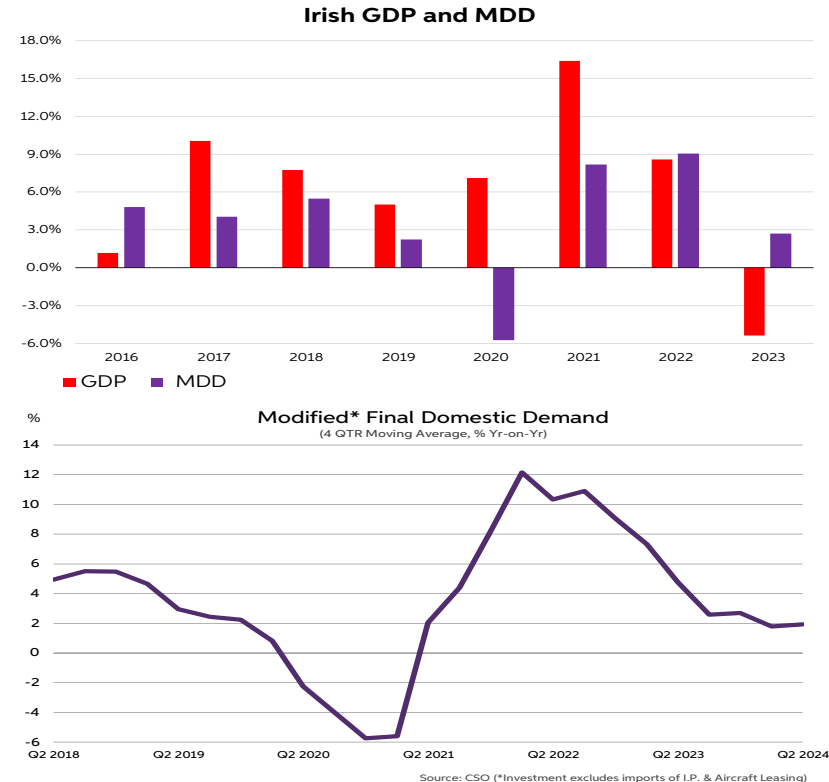
*Economy moves onto a slower growth trajectory*

November 2024

# Irish economy slowed in 2023, but domestic economy remains solid in 2024



- GDP fell by 5.4% GDP, after increasing by 8.6% in 2022
- Surge in FDI, big jump in pharma & ICT output, key factors in rapid growth in 2021-22
- Unwinding of Covid-era revenues in Pharma key driver of GDP fall in 2023
- Underlying/domestic economy grew by 2.7% in 2023
- Domestic indicators point to continued solid underlying growth in H1 2024
  - Modified Domestic Demand: +1.9% y/y
  - Consumer Spending: +1.9% y/y
- Employment continuing to grow strongly, up 2.3% y/y in H1 2024, helped by surge in labour force growth.
- Unemployment rate at 4.2% in October, near to historic lows
- Inflation slowing sharply, HICP measure down to 0.1% in October 2024
- Services PMI remained firmly in expansion mode, rising to 53.8 in October
- Manufacturing PMI also in expansion territory at (51.5) in October, but it was below 50 for six of the ten months YTD
- Consumer confidence recovered significant ground, but not back to pre-Covid levels
- Tax receipts rose by 14.9% YTD to October, driven by personal income and corporate tax

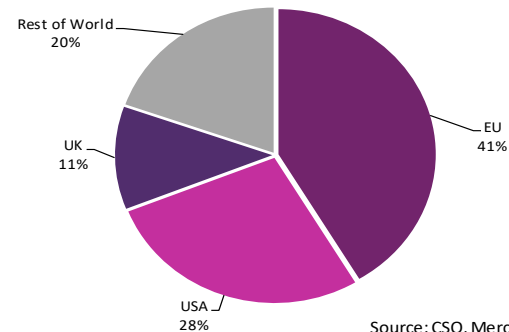


## Exports bouncing back following weak 2023



- Ireland is a very open economy – exports, driven by large scale FDI, are a huge part of economy
- Pharma, medical care products, ICT, business & financial services main components of FDI
- Irish FDI inflows may also be benefitting from Brexit
- 2024 saw global demand normalise post-COVID for Pharma/ICT after exponential growth in 2021-22
- Sharp weakening of exports in 2023, down by 5%
- Goods exports fell 12.3%, due to decline in manufacturing output in Pharma/ICT
- Pharma exports down 5.4% and electrical machinery fall 39% y/y in value terms during 2023
- Service exports though, rose by 3.1% in 2023
- Trade data point to upturn in pharma exports once again in the first three quarters of 2024

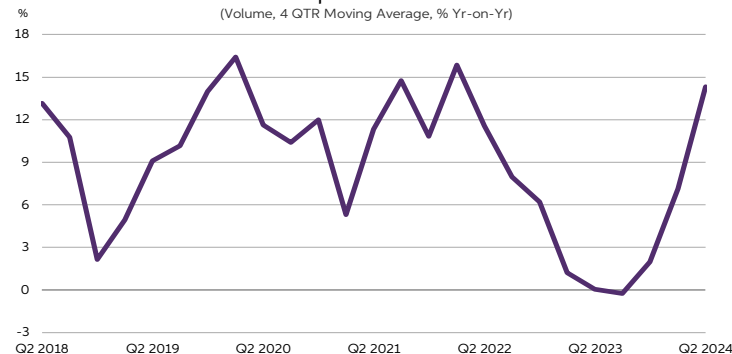
Export Destinations 2023



Source: CSO, Merchandise Trade

Irish Exports of Services

(Volume, 4 QTR Moving Average, % Yr-on-Yr)

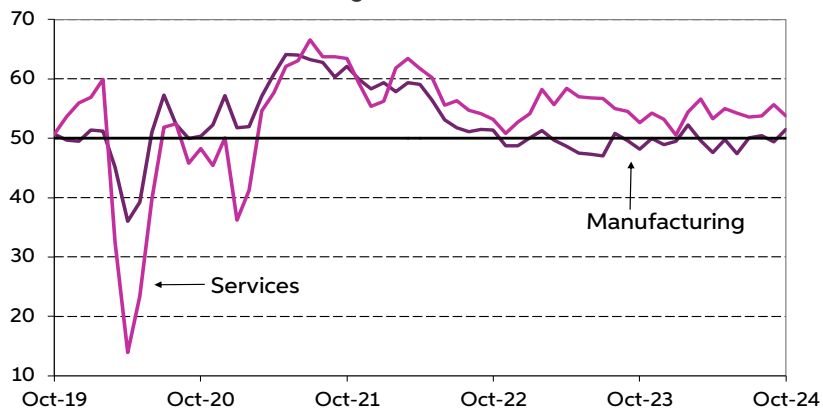


Source : CSO

# Survey indicators consistent with continued growth in 2024

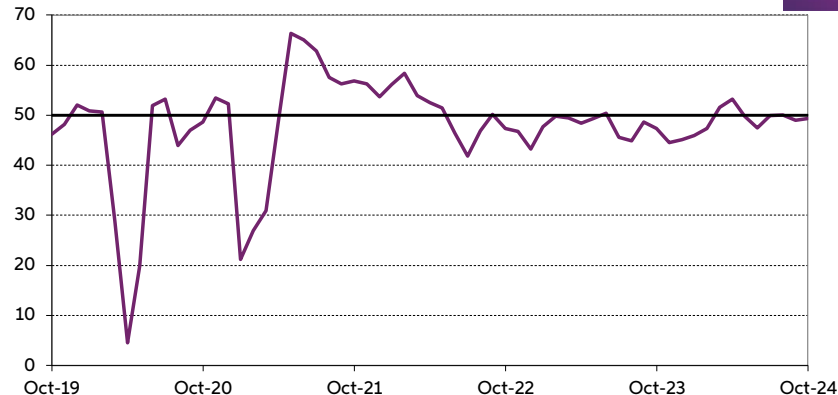


AIB Irish Mfg and Services PMIs



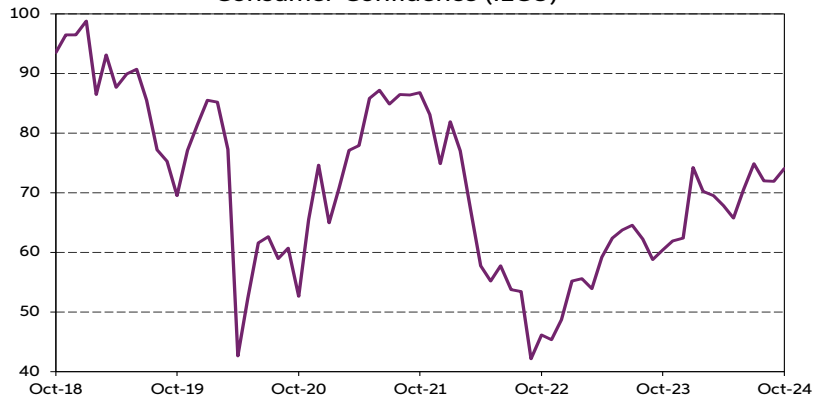
Source: S&P Global

BNP Paribas Irish Construction PMI



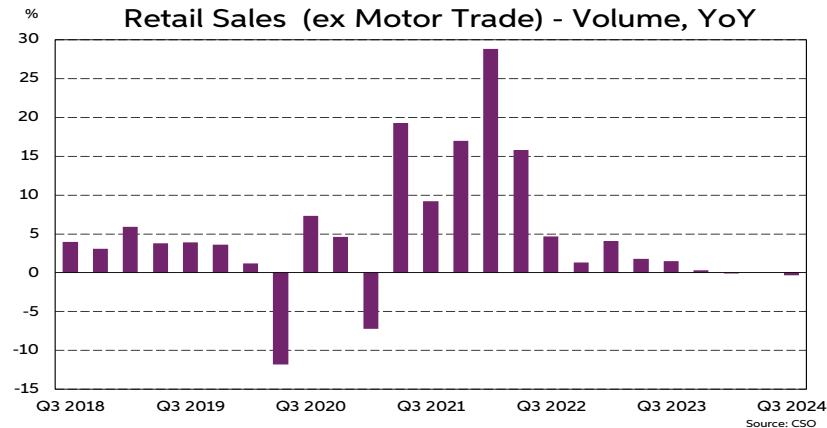
Source: S&P Global

Consumer Confidence (ILCU)



Source: ILCU

Retail Sales (ex Motor Trade) - Volume, YoY

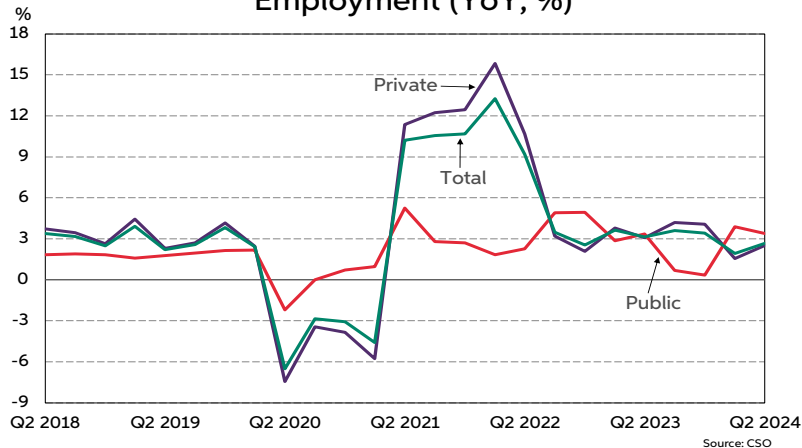


Source: CSO

# Unemployment rate at low level, inflation falls sharply. Overall, data consistent with more modest growth



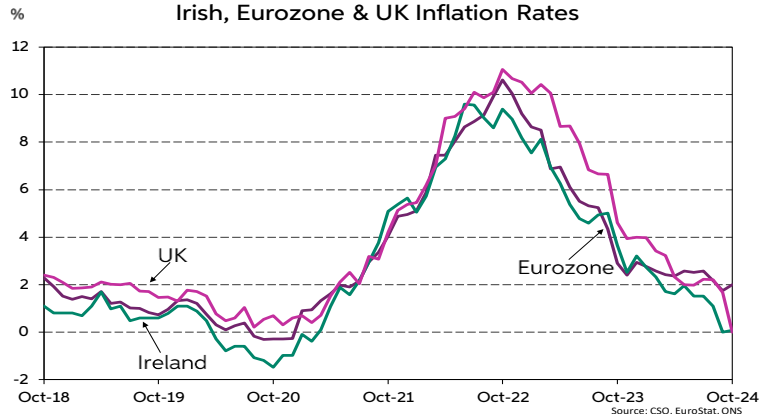
### Employment (YoY, %)



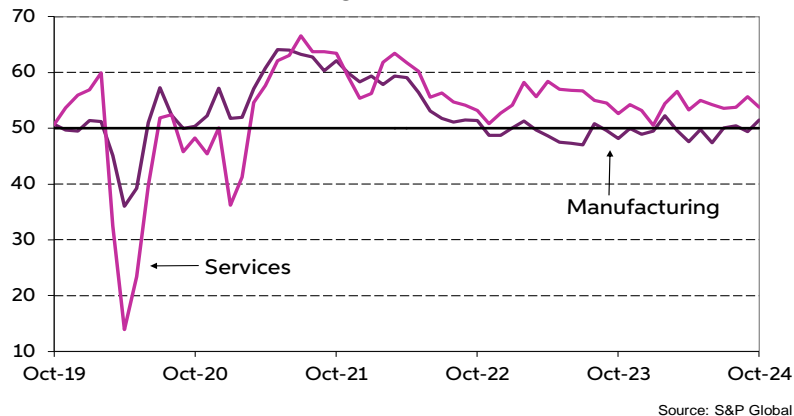
### Unemployment Rate



### Irish, Eurozone & UK Inflation Rates



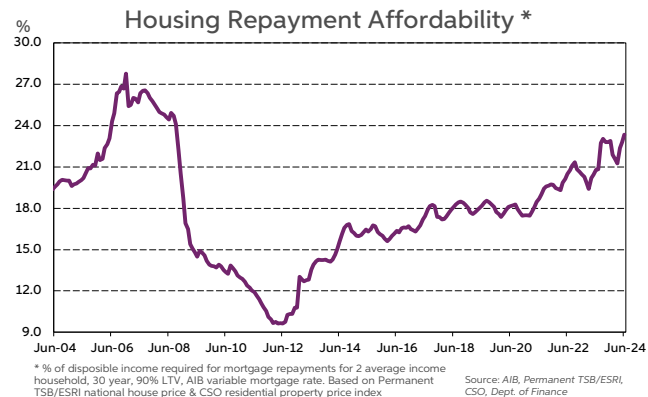
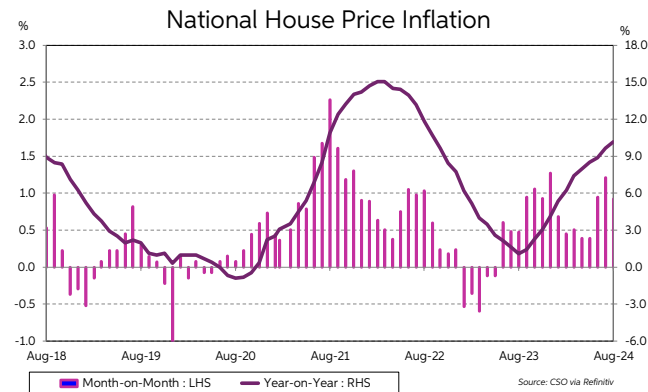
### AIB Irish Mfg and Services PMIs



# House price inflation gathers momentum



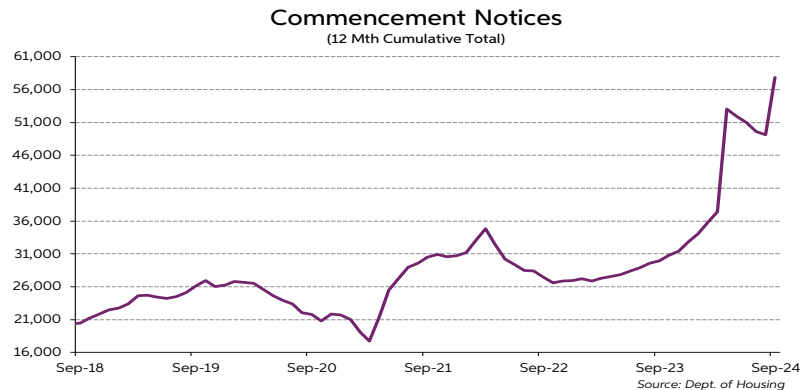
- House prices declined sharply, by 55% from 2007-2013. Prices have fully recovered - back above 2007 peak level
- Low supply, remote working, strong public/institutional demand, enhanced help-to-buy scheme, high personal savings, pent-up demand all supportive of house prices
- Nationally, house prices rose 3.1% in 2023, compared to a 12.4% increase in 2022
- House prices have been on an accelerating trend since H2'23, up by 10.1% y/y in August
- Non-Dublin prices up 9.6%, Dublin prices up 10.8%
- Housing affordability has deteriorated since end 2020 on higher house prices and increases in mortgage rates
- Rents jumped sharply over 2021-23. Annual rate peaked at 12.9% in July 2022. Slowed to 4.0% in Aug 2024



## House completions rise above 30k level



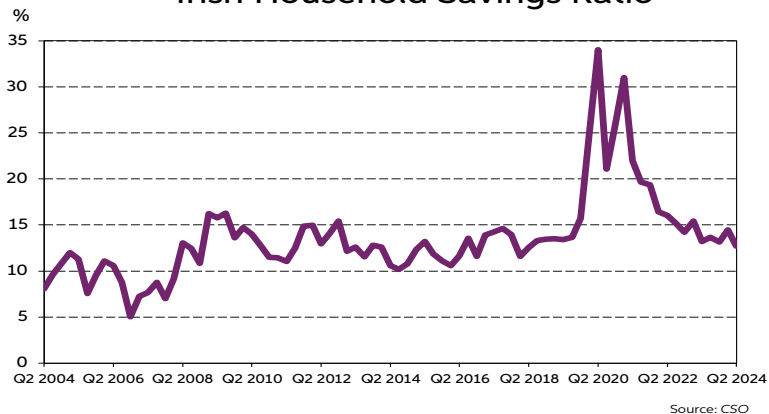
- Completions jumped sharply to 30,000 in 2022.
- New supply rose to 32.7k in 2023.
- Lead indicators for 2024 suggest upward momentum in supply may have stalled
- Supply could rise to 35k over next couple of years
- Estimated that 52,000 units needed per annum (out to 2050) to meet demand (annual and accumulated pent-up)
- Commencements remain distorted. Having surged in April and September ahead of the Government waiver/rebate deadlines. 12 month total at 58k.
- Mortgage approvals seen softening trend recently. 12 mth running total at 42.1k. FTBs remain key driver of activity.



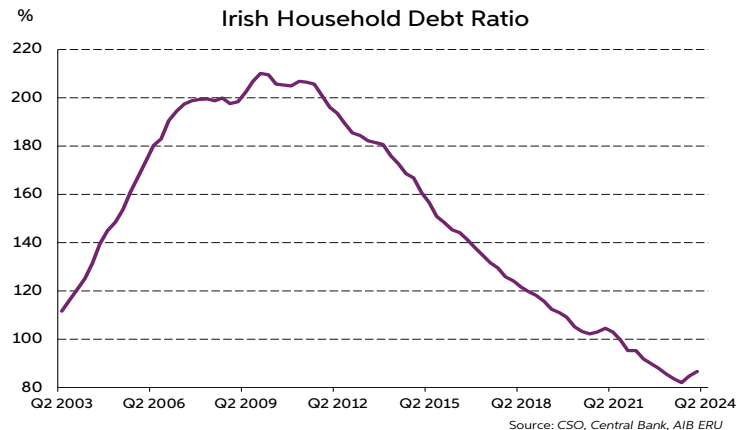
# Public & private sector balance sheets in robust shape



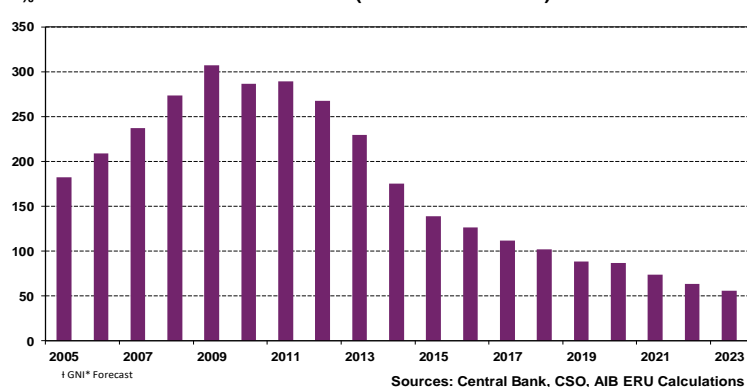
## Irish Household Savings Ratio



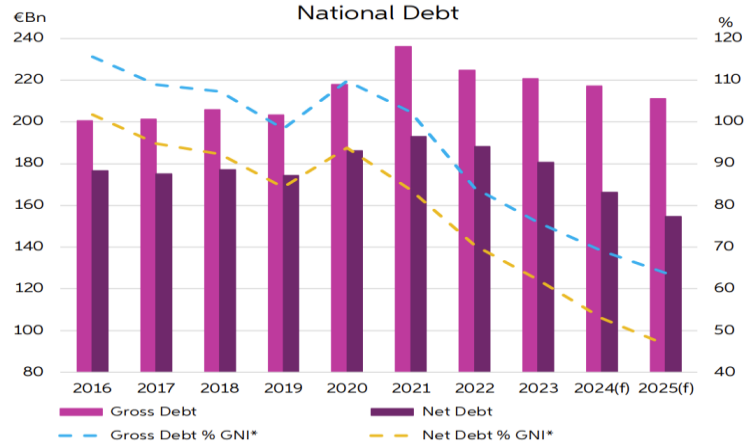
## Irish Household Debt Ratio



## Irish Private Sector Credit (Inc Securitisations) as % GNI\*



## National Debt

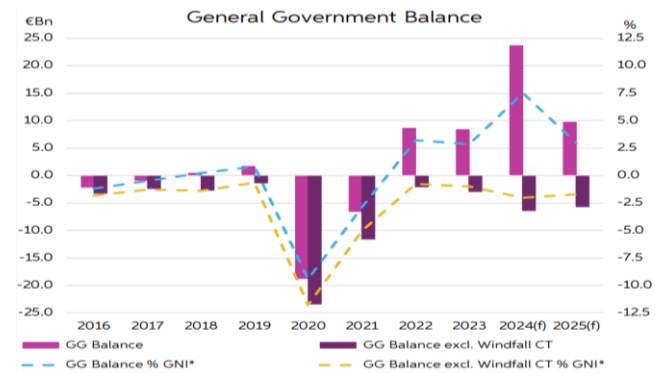
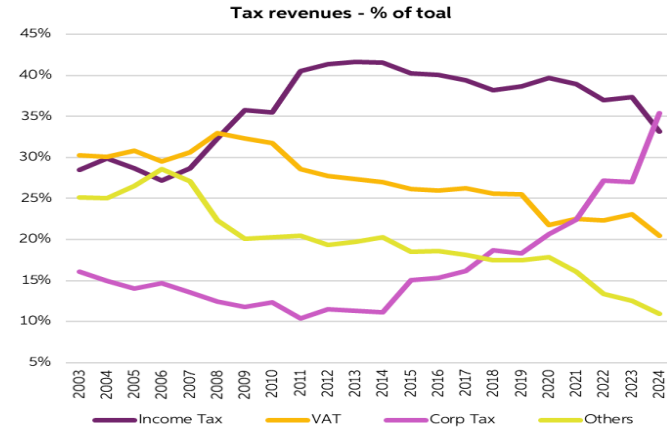




# Strong economy leads to large budget surpluses



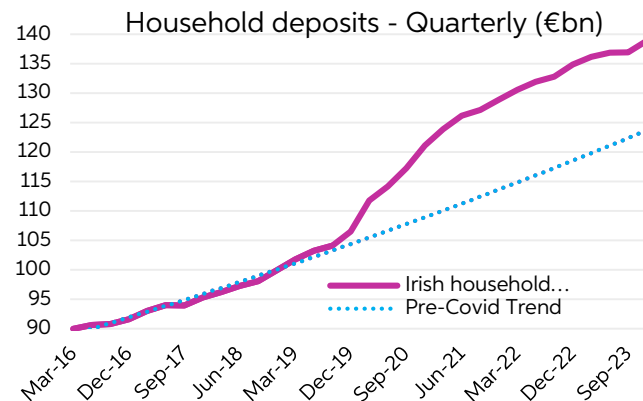
- Budget 2025: **€10.5bn** in new measures
  - Including **€2.2bn** in largely one-off payments in 2024 – welfare, energy credits etc.
  - **€8.3bn** package guided in the Budget, €6.9bn spending, €1.4bn in tax
  - Within this a **€1.6bn increase** in the Capital budget in 2025 to record high of €15bn
- Apple proceeds drawn down (€14bn), and framework on the use of these funds to be delivered in new year – will also flow into infrastructure
- Marks one of the largest Budget day packages ever, and does not come without risks of overheating the economy
- Another large budget surplus expected in 2024 of €23.7bn, €9.7bn in 2025 and €8.3bn in 2026
- Ireland has established sovereign wealth and capital spending stabilisation funds to house surpluses
- Gov. Debt ratios falling sharply – net Gov. Debt forecast at 52.9% of GNI\* in 2024, 43% by 2026
- Budget surpluses, very large cash balances and long-dated debt mean very little funding needed
- Irish sovereign debt ratings; S&P AA, Moody's Aa3, Fitch AA.



## Economy moves to slower growth path, but in good shape



- Continuing global headwinds and capacity constraints, but Irish economy is underpinned by positive factors
- FDI inflows continuing, boosting investment, exports and employment
- Fiscal policy to remain supportive of growth
- Economy has deleveraged; low private sector debt
- A rundown of some of the 40% surge in private sector deposits during 2020-2023, could support spending
- Inflation, higher interest rates, slow global growth and potential trade tensions, are significant headwinds, though, for Irish economy
- Capacity constraints emerge also – housing, labour, electricity, water, infrastructure, planning
- Strong fundamentals suggest economy should continue to perform well in period ahead
- Forecasting underlying growth of 2-3% over period 2024-26



# AIB Irish Economic Forecasts – October 2024



<i>% change in real terms unless stated</i>	2022	2023	2024 (f)	2025 (f)	2026 (f)
<b>GDP</b>	<b>8.6</b>	<b>-5.4</b>	<b>-0.3</b>	<b>2.8</b>	<b>2.8</b>
<b>GNP</b>	2.3	5.5	1.3	2.3	2.3
<b>Modified Final Domestic Demand</b>	<b>8.8</b>	<b>2.6</b>	<b>2.3</b>	<b>2.8</b>	<b>2.7</b>
<b>Personal Consumption</b>	10.7	4.8	2.7	3.0	2.9
<b>Government Spending</b>	3.0	4.3	2.9	2.8	2.1
<b>Fixed Investment**</b>	3.7	2.8	-23.7	16.3	2.2
<b>Exports</b>	13.5	-5.8	8.1	2.7	2.9
<b>Imports**</b>	16	1.2	5.2	4.0	2.8
<b>Employment (%)</b>	6.8	3.5	2.2	1.6	1.5
<b>Unemployment Rate (%)</b>	<b>4.5</b>	<b>4.3</b>	<b>4.5</b>	<b>4.4</b>	<b>4.4</b>
<b>HICP Inflation (%)</b>	<b>8.1</b>	<b>5.2</b>	<b>1.9</b>	<b>2.0</b>	<b>2.0</b>
<b>Budget Balance (GGB % GNI*)</b>	<b>3.1</b>	<b>2.9</b>	<b>2.8</b>	<b>3.0</b>	<b>2.6</b>
<b>Gross General Gov Debt (% GDP)</b>	44.4	43.7	41.5	39.5	37.8
<b>Net General Gov Debt (% GNI*)</b>	68.9	62.2	58.7	56.5	53.8

\*\*2021-22 data very distorted by aircraft leasing and intangibles (IP)

Source: CSO, D/Finance; AIB ERU Forecasts (except public debt)

# Risks to the Irish economy



- Very open Irish economy vulnerable to weaker global outlook, including FDI inflows
- Concentration risk from heavy reliance of economy on a small number of multi-nationals in terms of investment, output, employment, exports and tax receipts
- Higher interest rates headwinds for Irish economy
- Very reliant on energy imports so could be impacted by disruptions to European gas supplies
- Changes to US corporation tax regime still possible, could negatively impact FDI
- Supply constraints in new house building activity, with output still at relatively low levels
- Other capacity constraints emerging – labour, electricity, water, infrastructure, planning laws
- Competitiveness issues - high house prices, high rents, high personal taxes, high wages & prices
- Credit growth subdued; tight lending rules, low housing supply, weak loan demand, high savings

Note: All Irish data in tables are sourced from the CSO unless otherwise stated. Non-Irish data are from the IMF, OECD and Thomson Financial. Irish forecasts are from AIB Economic Research Unit. This presentation is for information purposes and is not an invitation to deal. The information is believed to be reliable but is not guaranteed. Any expressions of opinions are subject to change without notice. This presentation is not to be reproduced in whole or in part without prior permission. In the Republic of Ireland it is distributed by Allied Irish Banks, p.l.c. In the UK it is distributed by Allied Irish Banks, plc and Allied Irish Banks (GB). In Northern Ireland it is distributed by Allied Irish Bank Northern Ireland (NI). In the United States of America it is distributed by Allied Irish Banks, plc. Allied Irish Banks, p.l.c. is regulated by the Central Bank of Ireland. Allied Irish Bank (GB) and Allied Irish Bank (NI) are trade marks used under licence by AIB Group (UK) p.l.c. (a wholly owned subsidiary of Allied Irish Banks, p.l.c.), incorporated in Northern Ireland. Registered Office 92 Ann Street, Belfast BT1 3HH. Registered Number NI 018800. Authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. In the United States of America, Allied Irish Banks, p.l.c., New York Branch, is a branch licensed by the New York State Department of Financial Services. Deposits and other investment products are not FDIC insured, they are not guaranteed by any bank and they may lose value. Please note that telephone calls may be recorded in line with market practice.

# Changes to Global Corporate Tax Regime



## Importance of FDI:

- Some 1,800 multinational companies are based in Ireland, accounting for over 300,000 jobs in direct employment
- Corporation tax receipts of €23.8bn in 2023 or 27% of total tax revenue – well over 80% comes from MNCs

## Changes to Corporate Tax Regime:

- Ireland's 12.5% corporate tax rate in place for last two decades and a key cornerstone in attracting FDI
- Ireland signed up to OECD proposal of minimum global corporate tax rate of 15% for very large companies
- Larger multinationals, mainly digital, to pay some taxes on profits in countries where sales made. Details to be agreed
- Government has allowed for a €2bn hit to Irish corporation tax receipts from changes to global tax system
- Ireland retaining its 12.5% rate – will be 2.5% top-up for larger companies. Took effect from 1 Jan 2024 in line with EU
- Close watch still needs to be kept for any changes in US Corporate tax rate on companies overseas earnings (Gilti rate)
- Doubts also remain about whether all countries will ratify the new Global Corporate tax deal, most notably the US

## Ireland Remains 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
- Irish corp tax rates still comparatively low by European standards. UK rate raised from 19% to 25% in 2023
- Strong inflows of FDI continue despite the changes to global corporate tax rules. Brexit may be helping inflows