The Irish Economic Update:

Sharp slowdown in growth this year, but economy still performing quite well

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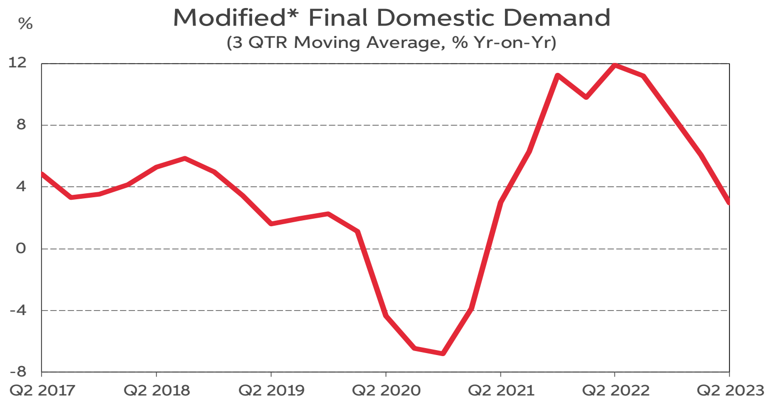
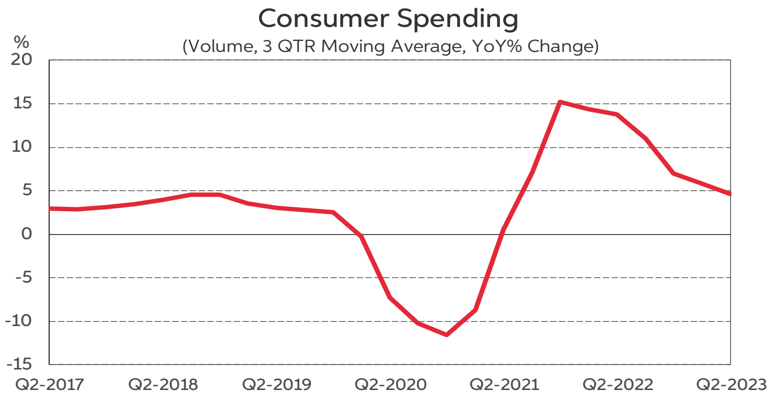
Irish growth slows sharply in 2023 after buoyant 2021-22

- GDP increased by 15.1% in 2021 and 9.4% in 2022
- Domestic economy grew by 7.3% in 2021, 9.5% in 2022 as it rebounded strongly from COVID
- GNI* (volume) up by 13.9% in 2021 and 6.7% in 2022
- Surging inflows of foreign direct investment a key factor in rapid growth of economy in 2021-22
- High levels of fiscal supports for household/businesses also important in strong performance of economy
- GDP growth slowed sharply in H1 2023 to just 0.2% yoy. GDP fell 2.6% in Q1 and then rose by 0.5% in Q2
- Reflects big fall in industrial output of multi-nationals, after exponential growth in 2021-22
- This saw exports fall by 1.7% in Q1 and 4.1% in Q2
- Domestic demand contracted by 0.2% in Q1, but then expanded by 1.0% in Q2. Rose by 1.9% yoy in H1 2023
- Consumer spending up 3.75% yoy in H1 2023
- Thus, sharply lower GDP growth in 2023, but wide range to forecasts from 0% to 5% given volatility of the data

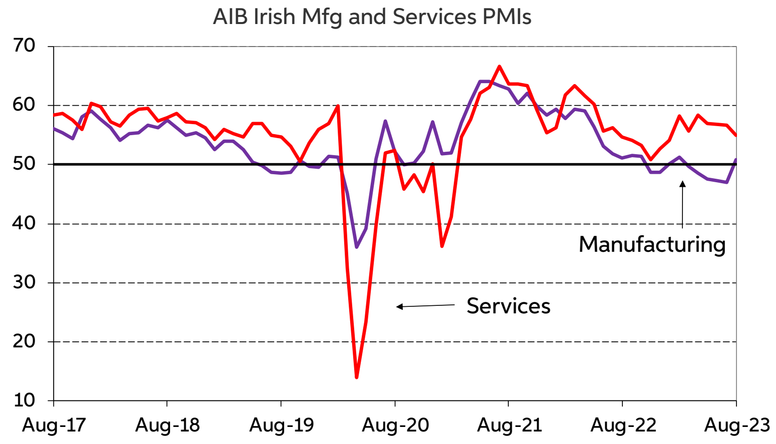


Source: CSO via Thomson Datastream (*Investment excludes imports of I.P. & Aircraft Leasing)

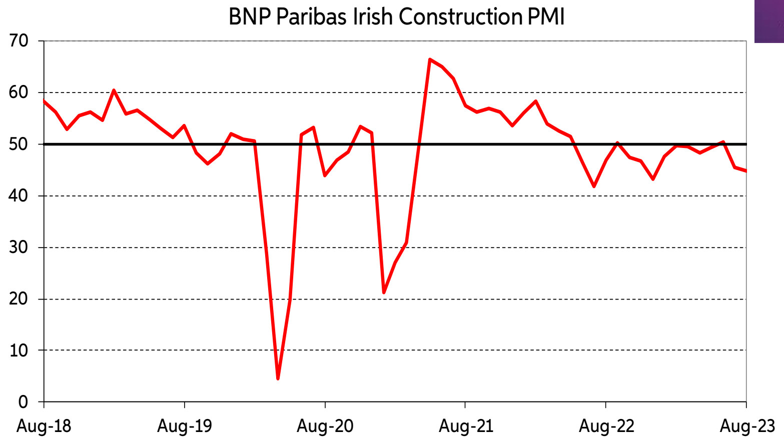


Source: CSO via Refinitiv

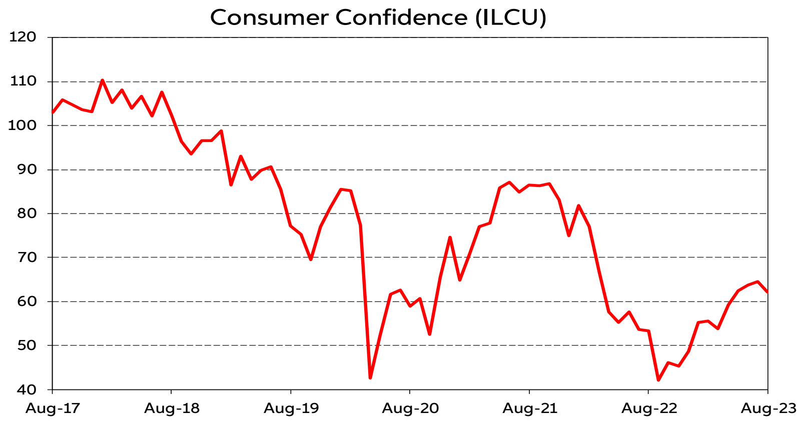
Survey indicators consistent with slower growth this year



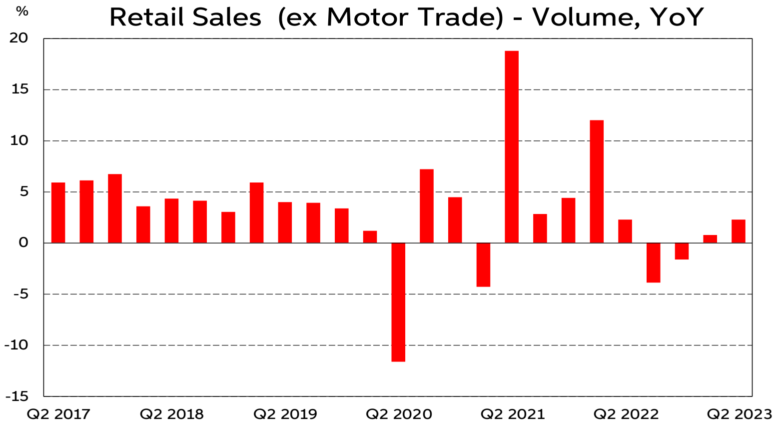
Source: Markit via *Refinitiv*



Source: Refinitiv



Source: ILCU via Refinitv

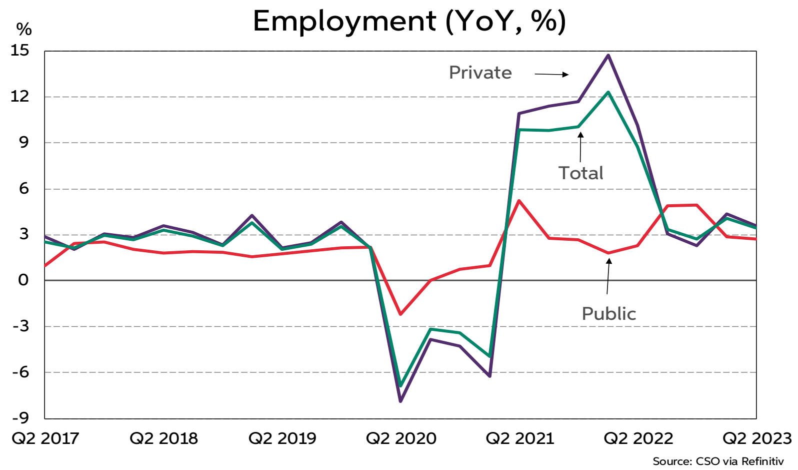


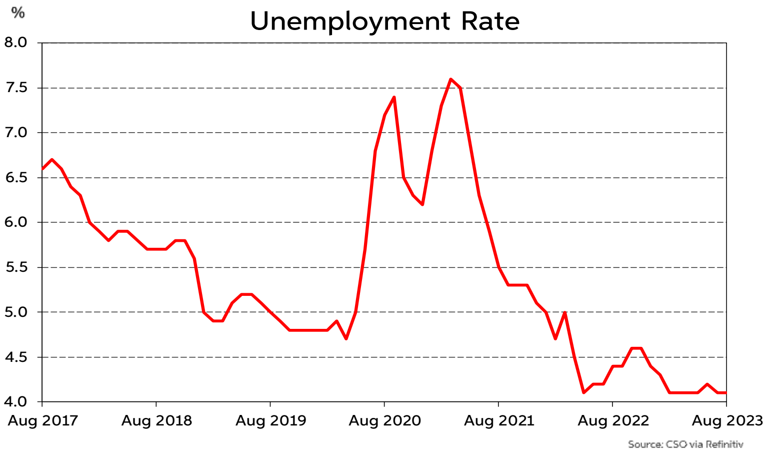
Source: CSO via Refinitv

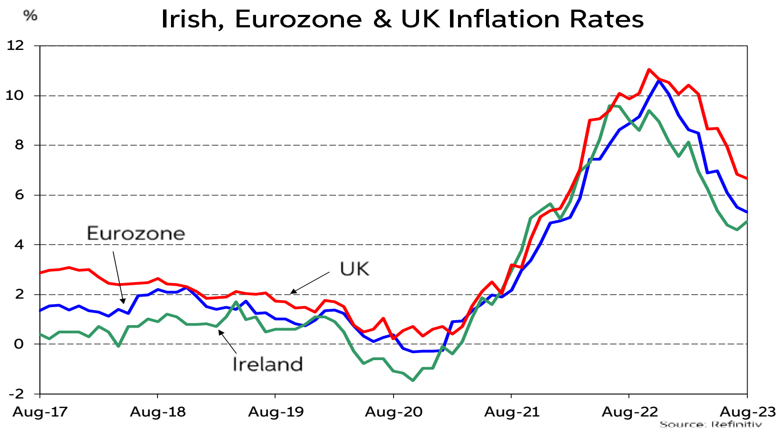
Mixed data on economy in 2023, labour market very strong

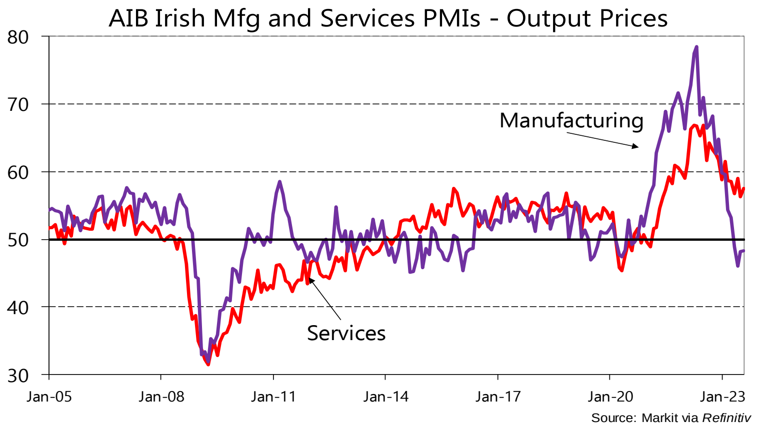
- Mfg PMI data weak in 2023 - at 47.0 in July, but picked up to 50.8 in August as orders rose
- Services PMI performs strongly this year; at 56.7 in July and 55.0 in August
- Housing commencements fell back to a low of 26.5k last October, but rise to 29k by July 2023
- Housing completions jumped by 45% to 30k in 2022. Annual run rate steady at 30.5k to end H1 2023
- PMI for construction picked up in H1 2023 to 48-50.5, but fell to 45.6 in July and 44.9 in August
- Solid core retail sales (excluding motor trade) in H1 2023. Volumes rose by 0.6% in Q1 and 1.8% in Q2
- New car sales registrations rise by strong 18% year-to-date to end August
- Consumer confidence recovers some ground in 2023 after sharp fall from spring to autumn 2022
- Tax receipts rose by very robust 21.5% last year. Slower growth of 6.6% yoy to end August 2023
- Unemployment rate fell to 4.4% in 2022. Declined further to 4.1-4.2% range in Jan-Aug 2023
- Employment rose by 6.8% in 2022. Strong jobs growth averaging 1% in Q1/Q2 2023, up 3.8% yoy
- Inflation rose sharply in 2022 - peaked at 9.6%. HICP has fallen sharply in 2023 – at 5.0% in September

Unemployment rate falls to very low level, inflation easing



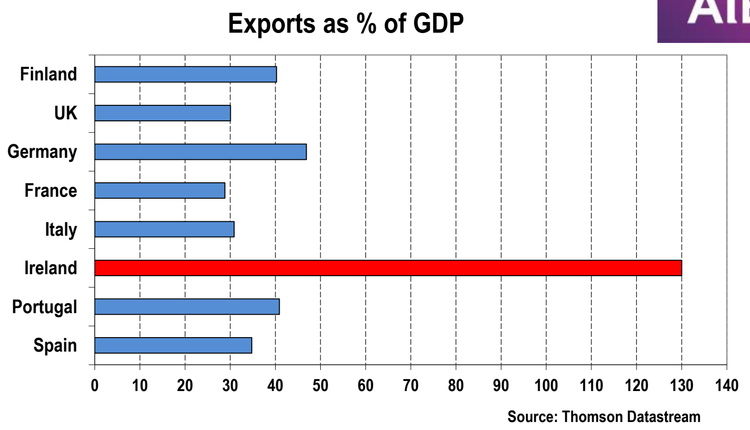


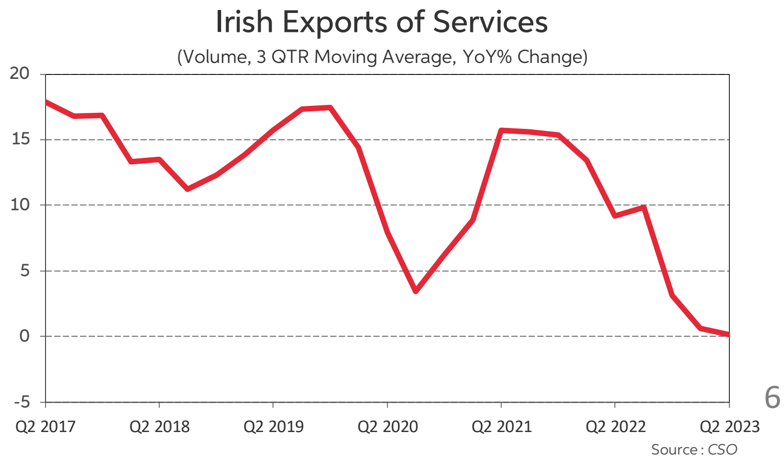




Exports weaken sharply in 2023 after very strong 2021-22

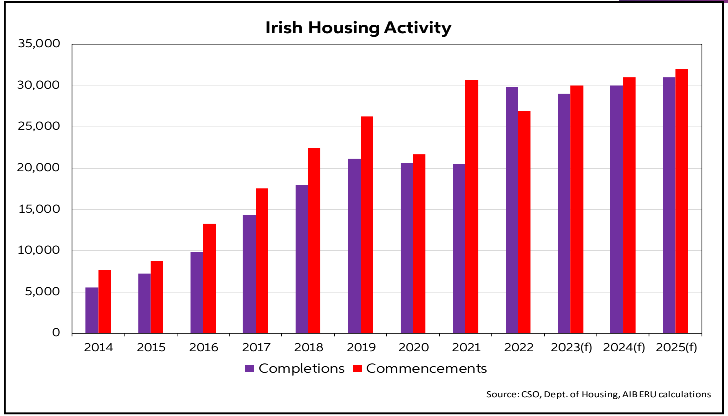
- Ireland is a very open economy – exports, driven by large scale FDI, are a huge part of economy
- IDA reported record FDI in 2021 and again in 2022, with continuing strong inflows in H1 2023
- Pharma, medical care products, ICT, business & financial services main components of FDI
- Irish FDI inflows may be benefitting from Brexit
- Total exports up by 15% in 2021 and 14% in 2022, led by big jump in good exports, especially Pharma
- Sharp weakening of exports this year, fall by 1.7% in Q1 and 4.1% in Q2. Up just 1.4% yoy in H1 2023
- Goods exports fell 4.8% in Q1 and 10.2% in Q2 on decline in manufacturing output of multi-nationals
- Pharma exports down 11.5% yoy and electrical machinery fall 36% yoy in value terms during H1'23
- Service exports, though, perform well in H1 2023, rising by 2% in Q1 and 2.5% in Q2
- Overall, 2023 a year of payback for exports after the multi-national led exponential growth of 2021-22

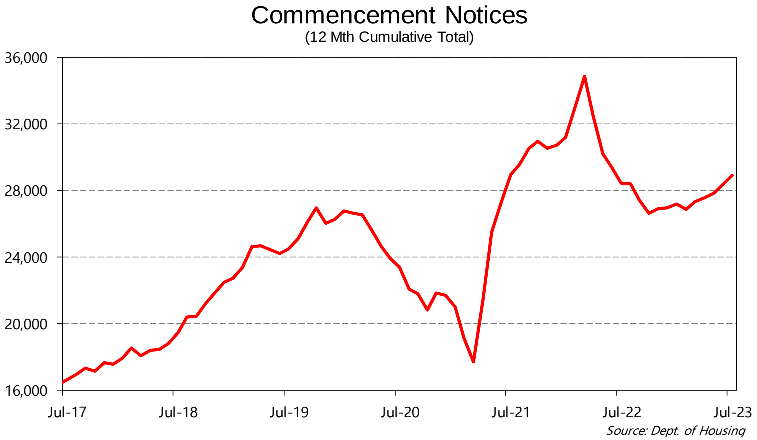




House completions running at around the 30k level

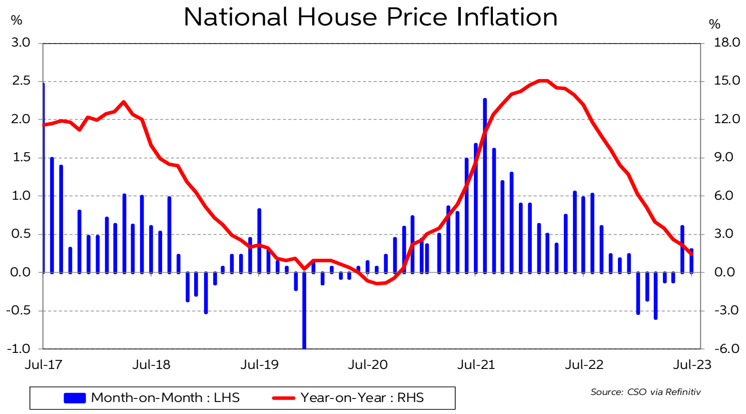
- Completions amounted to 20,500 in 2020 & 2021, just 2.6% down on 2019 level despite lockdowns
- Completions then jumped sharply to 30,000 in 2022, and at 30,500 in year to Q2 2023, so steady in 2023
- Estimated annual housing demand put at circa 30k, but considerable pent-up demand from years of low supply
- Big jump in planning permissions from 2018-2021. Sharp fall in 2022, but rise strongly in Q1 2023
- 12 month commencements fell from peak of 35k to 26.5k last year, but rise back up to 29k by July 2023
- Completions expected to remain around the 30,000 level over the 2023-2025 period
- Mortgage drawdowns jumped 34% to €14bn in 2022. Big impact from switching in H2 2022
- Still at €14bn in H1 2023, but set to fall back in H2'23
- Mortgage approvals pick-up this year; +11.4% yoy in three months to July

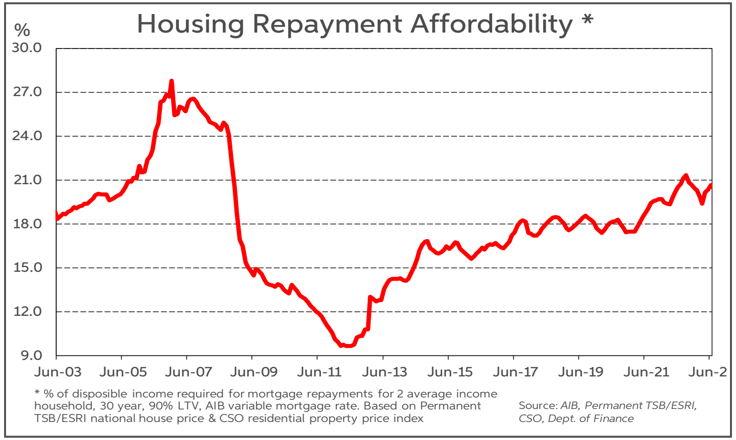




Marked deceleration in house price inflation

- 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
- House price fell in first five months of 2023, before rising by 0.6% in June and 0.3% in July, per CSO data
- Annual rate eased to 1.5% yoy in July 2023, down from peak of 15% in Feb/Mar 2022
- Non-Dublin prices up 3.8% yoy, Dublin prices down 1.4%
- Further deceleration in official house price inflation likely
- Property websites show asking prices broadly stable in past year, though signs they may be picking up recently
- 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. Stood at 7.1% y/y in August 2023





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
- Headship resumed rise in 2016-22. Long-term trend is upwards - adding to demand, estimated at 5,000 p.a.
- Pent-up demand has also built up in recent years from lack of supply
- Thus, forecast table may be under-estimating the actual real level of housing demand
- Shortfall in new supply being partly met by return of vacant stock to the market. Quite evident in 2011-16 and even more so in 2016-22 when it ran at close to 6,000 units p.a.

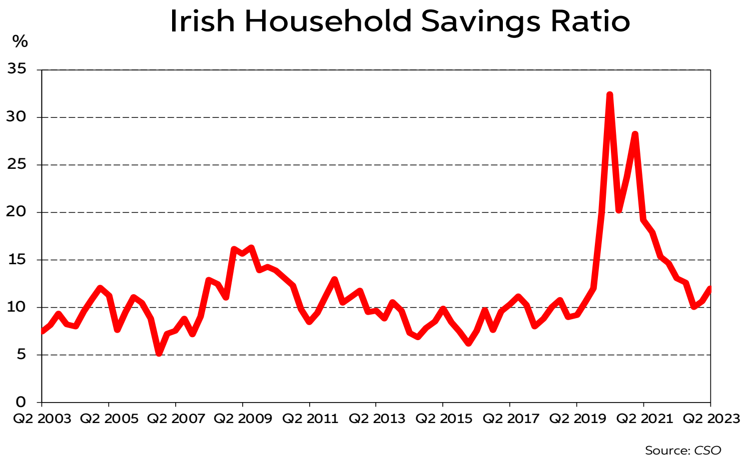
Calendar Year	2020	2021	2022	2023	2024
Household Formation	26,000	29,000	28,000	25,000	24,500
of which					
Indigenous Population Growth	*21,000*	*20,000*	*16,500*	*14,500*	*14,500*
Migration Flows	*5,000*	*9,000*	*11,500**	*10,500**	*10,000**
Headship Change*	*0*	*0*	*0*	*0*	*0*
Second Homes	500	500	500	500	500
Replacement of Obsolete Units	5,000	5,000	5,000	5,000	5,000
Estimated Demand	**31,500**	**34,500**	**33,500**	**30,500**	**30,000**
Completions	**20,500**	**20,500**	**30,000**	**29,000**	**30,000**
Shortfall in Supply	*-11,000*	*-14,000*	*-3,500*	*-1,500*	*0*

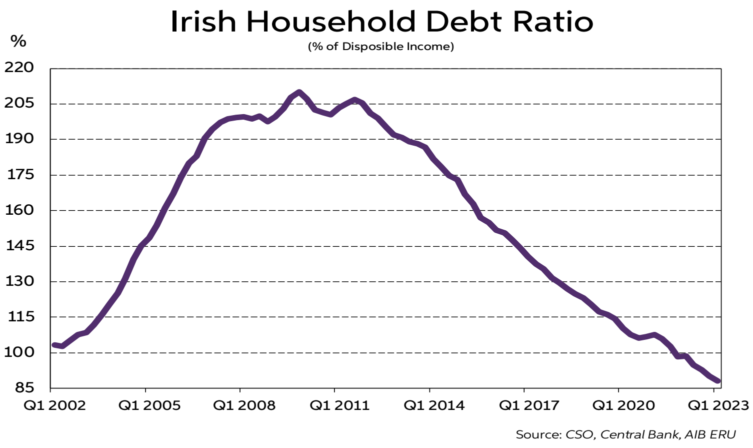
***Headship is % of population that are heads of households. Assumed it remains constant in 2022-24*

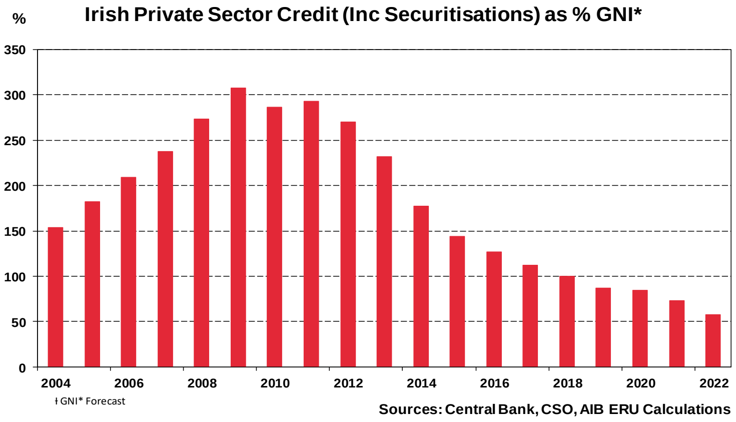
** Does not include Ukrainian refugees*

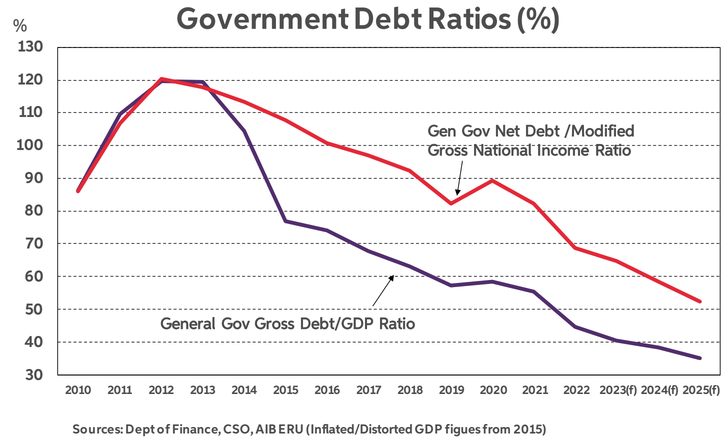
Sources: CSO, DoECLG, AIB ERU.

High household savings, while Debt ratios fall to low levels



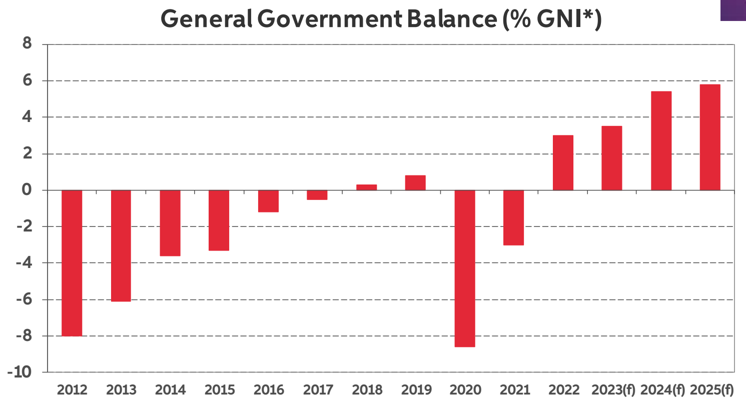




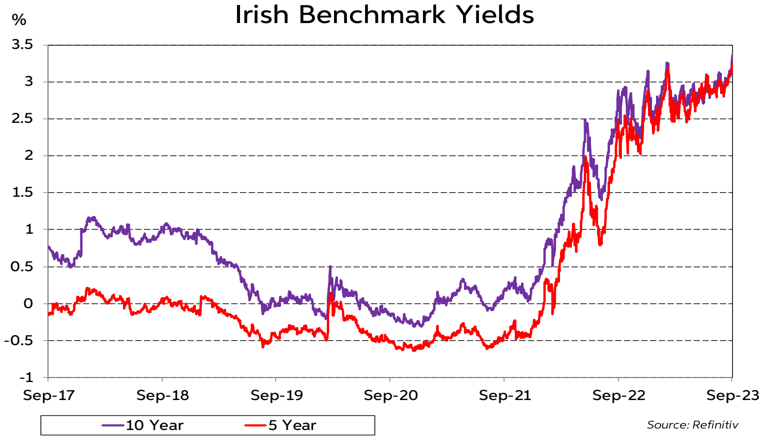


Strong economy leads to large budget surpluses

- Budget deficits in 2020 and 2021 owing to COVID
- Tax revenues rose very strongly across the board in 2021-22; up 21.5% in 2022 and 20% in 2021
- Budget target was a deficit of €8bn for 2022, but a surplus of €8bn was recorded (3% of GNI*)
- Solid Exchequer data in 2023, with tax receipts up by 6.6% to end August, but surplus lower
- Sizeable budget surpluses expected over 2023-2025. Surplus of 3% of GNI* likely again in 2023
- Ireland to establish sovereign wealth and capital spending stabilisation funds to house surpluses
- Gov. Debt ratios falling sharply – net Gov. Debt forecast at 65% of GNI*in 2023, 52% by 2025
- Irish bond yields rise sharply as elsewhere
- Budget surpluses, very large cash balances and long-dated debt mean very little funding needed
- Meanwhile, Ireland continues to run a very large balance of payments surplus
- Irish sovereign debt ratings; S&P AA, Moody's Aa3, Fitch AA-. Upgrades from Moody's, S&P this year



Source : CSO & Dept of Finance (GDP pre 2015)



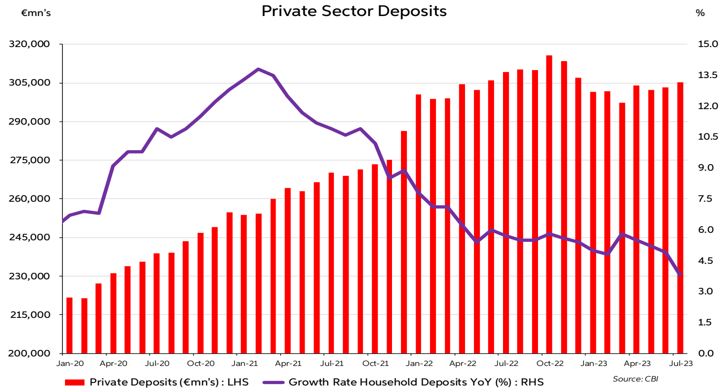
Source: Refinitiv

Economy moves to slower growth path, but in good shape

- Mounting headwinds and capacity constraints, but Irish economy is well underpinned by many positive factors
- FDI inflows continuing, boosting investment, exports and employment – good pipeline in 2023
- Fiscal policy to remain supportive of growth – Budget allows for 5-6% rise in core gov. spending in 2024-2025
- 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
- High inflation, rising rates and slowing global growth are significant headwinds, though, for Irish economy
- Capacity constraints emerging also – housing, labour, electricity, water, infrastructure, planning
- Sharp slowdown in growth during H1 2023
- GDP growth in 2023 much lower than in 2021-2022, possibly in 3.0-3.5% range, but economy in good shape
- Strong fundamentals suggest economy should continue to perform well over the next couple of years

OECD Global GDP Forecasts (Sept. 2023)

% Vol	2021	2022	2023	2024
World	6.3	3.3	3.0	2.7
US	5.9	2.1	2.2	1.3
Eurozone	5.3	3.4	0.6	1.1
UK	7.6	4.1	0.3	0.8
Japan	2.2	1.0	1.8	1.0
China	8.4	3.0	5.1	4.6



AIB Irish Economic Forecasts

% change in real terms unless stated	2021	2022	2023 (f)	2024 (f)	2025 (f)
GDP	**15.1**	**9.4**	**3.5**	**3.7**	**4.0**
GNP	13.9	3.9	3.0	3.3	3.5
Modified Final Domestic Demand	**7.3**	**9.5**	**3.3**	**2.8**	**3.0**
Personal Consumption	8.4	9.4	4.5	3.5	3.3
Government Spending	6.3	3.5	0.5	1.5	2.0
Fixed Investment**	-40.4	5.1	2.5	3.0	3.0
Exports	15.1	13.9	5.7	5.0	5.0
Imports**	-7.5	15.9	5.0	4.3	4.8
Employment (%)	6.2	6.8	3.0	1.8	1.7
Unemployment Rate (%)	**6.3**	**4.5**	**4.2**	**4.3**	**4.4**
HICP Inflation (%)	**2.4**	**8.1**	**5.3**	**3.0**	**2.4**
Budget Balance (GGB % GNI*)	**-3.0**	**3.0**	**3.0**	**3.5**	**4.0**
Gross General Gov Debt (% GDP)	55.3	44.7	40.5	38.2	35.0
Net General Gov Debt (% GNI*)	82.2	68.7	64.7	58.4	52.3

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

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

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 €22.6bn in 2022 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 signs 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
- DoF 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. Takes 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 corpo. 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

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-national dominated sectors in terms of investment, output, employment, exports and tax receipts
- High inflation and rising interest rates headwinds for Irish economy, as elsewhere
- Very reliant on energy imports so could be impacted by disruptions to European gas supplies
- Changes to US corporation (Gilti) tax regime still possible, could negatively impact FDI here
- Supply constraints in new house building activity, with output still at quite 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