The Irish Economic Update:

Strong first half to 2022, but inflation rises sharply with signs of slower growth ahead

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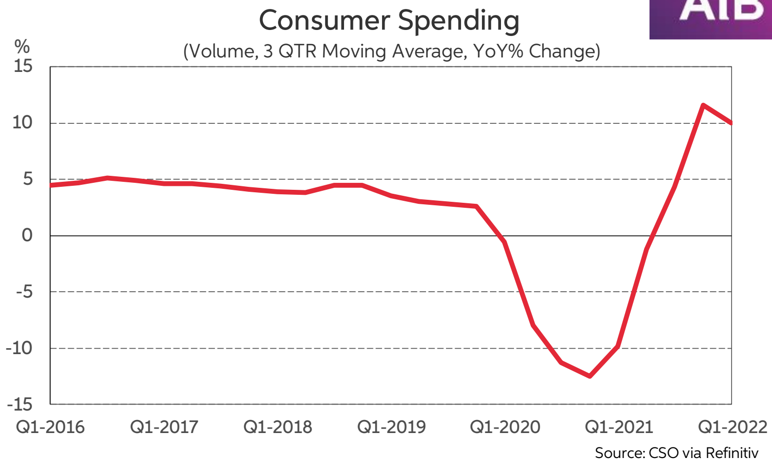
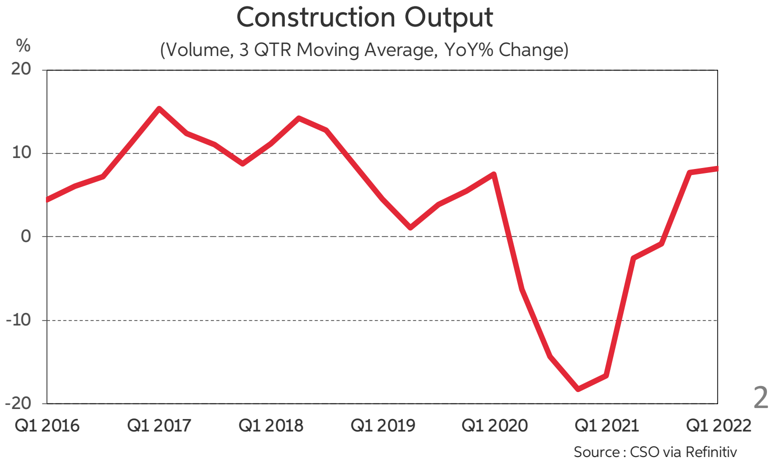
Economy rebounds very strongly from COVID pandemic

- GDP grew by 6.2% in 2020, with GNP up 2.7%, but modified final domestic demand fell by 6.1%
- Domestic economy picked up strongly in 2021, with modified final domestic demand rising by 5.8%
- Consumer spending rose by 4.6% in 2021, with domestic fixed investment up by 8.2%
- Meanwhile, GDP rose by 13.6% in 2021, with GNP up by 14.7% - trade flows again distorted data
- Strong rise in GDP in Q1 2022, up 10.7% yoy, with another big rise in output from multi- nationals
- Exports up strongly again in Q1 at +14.8% yoy
- MFDD fell by 1% in Q1, but total modified domestic demand rose by 6% on inventory rebuilding
- Construction output has not returned to pre-COVID levels, with weakness in non-residential activity

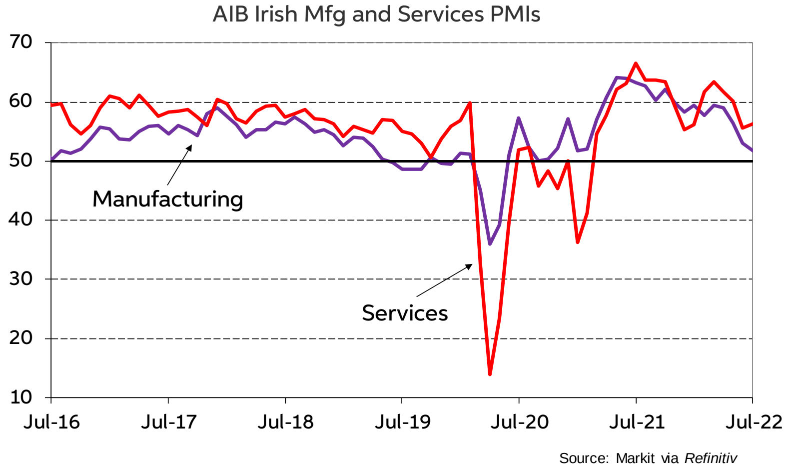


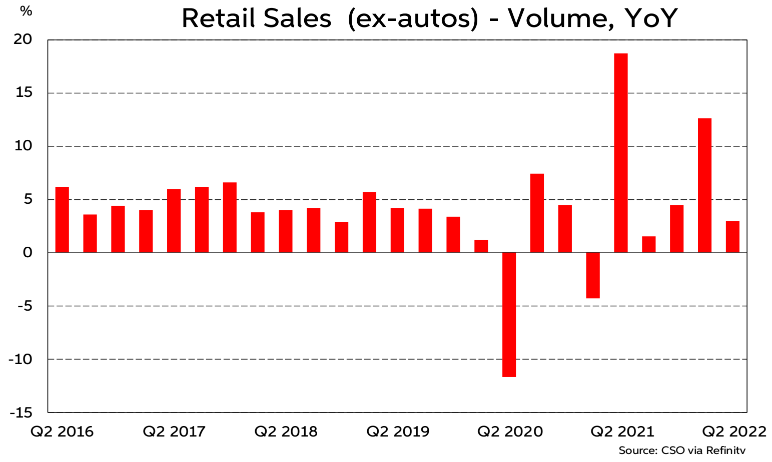


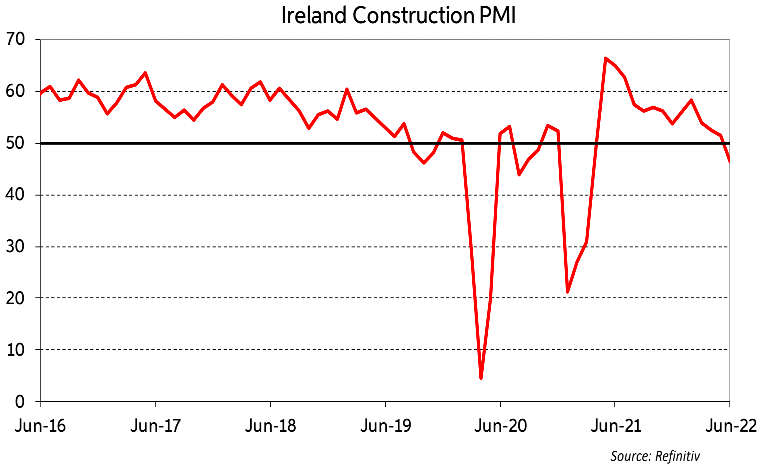
Strong performance in H1 2022, though inflation surging

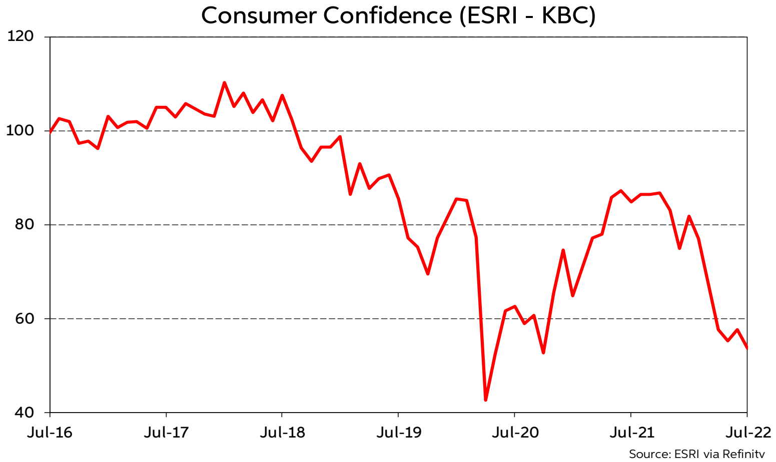
- Indicators show the very strong rebound in activity in 2021 continued in H1 2022
- Mfg PMI has remained at strong levels into early summer, though then fell to 51.8 by July
- Services PMI still high, but off peaks at 55.6 in June and 56.3 in July
- Housing commencements surged to 30,700 last year, and still running at circa 30k to mid 2022
- Big jump in completions in H1 2022, with 12 month total rising to 25,000 from 20,500 in Q4'21
- Mortgage lending rebounded in 2021 and up 17% year-on-year in Q1 2022
- PMI, though, for all construction slowed sharply in H1 2022, before falling to 46.4 in July
- Rise of 5% in core retail sales in 2021. Subdued in H1 2022 as high inflation hits sales volumes
- New car regs rose by 20% last year, but down 10% on 2019 levels. Up 4% yoy in H1 2022
- Tax receipts surged by 20% last year and remain very strong in 2022; rose 25% yoy in H1 2022
- Unemployment rate falls to 4.8% in Q2, with no impact from ending of PUP scheme
- Employment up 1.4% in quarter, 12.3% year-on-year in Q1 2022 – and up 6.8% on Q1 2020
- Inflation accelerates sharply; HICP rate at 9.6% in June
- Surge in inflation and War in Ukraine sees big drop in consumer confidence since early spring

Clear signs in surveys that growth is starting to slow

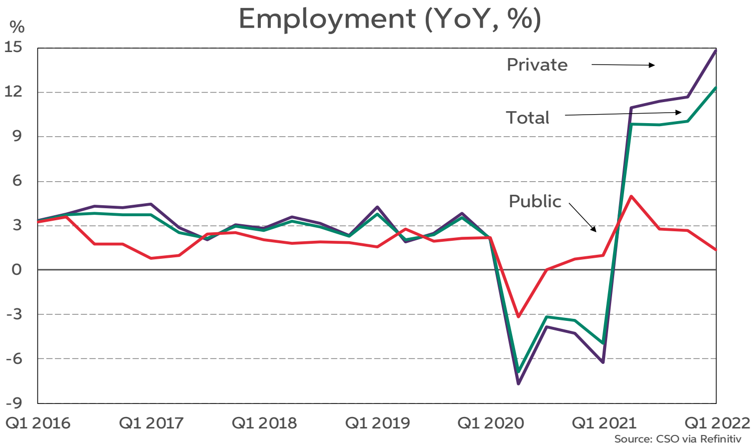


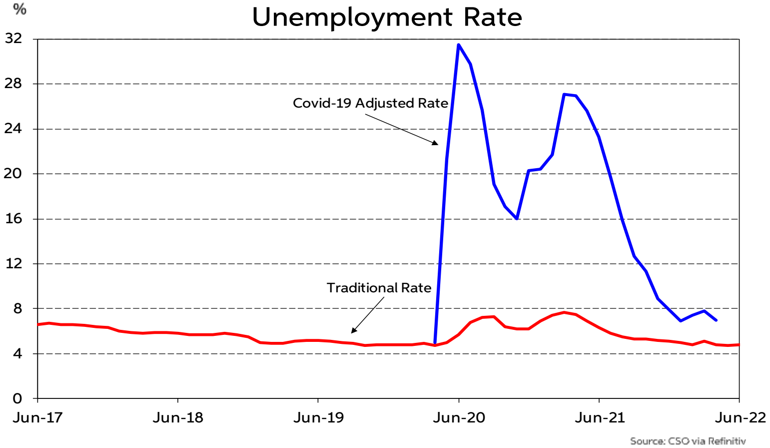


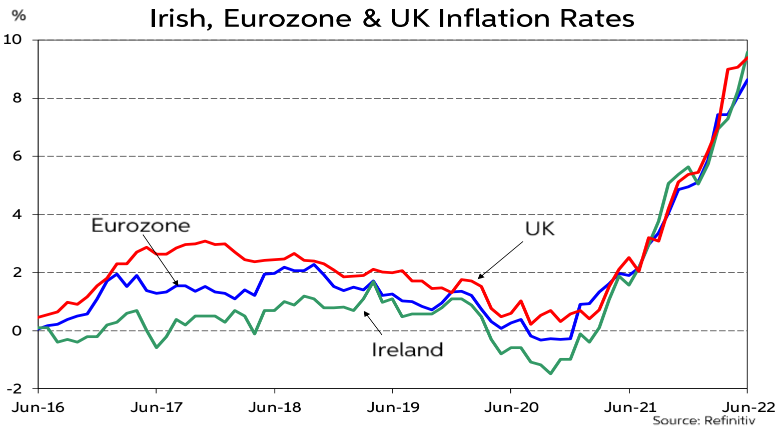


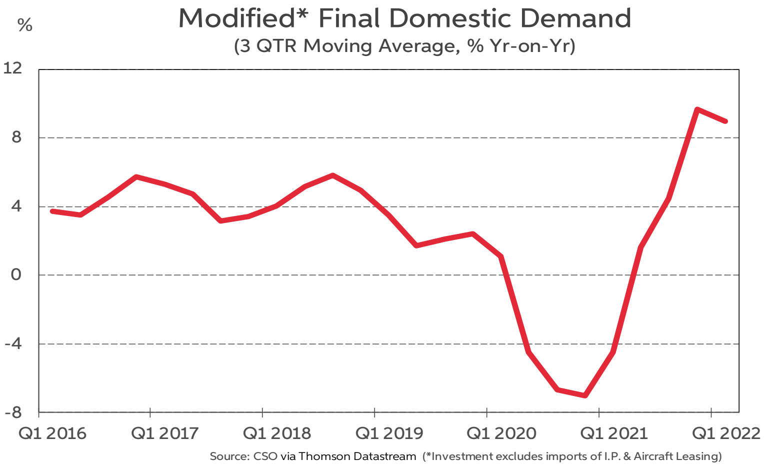


Unemployment falls to very low level, inflation rising sharply



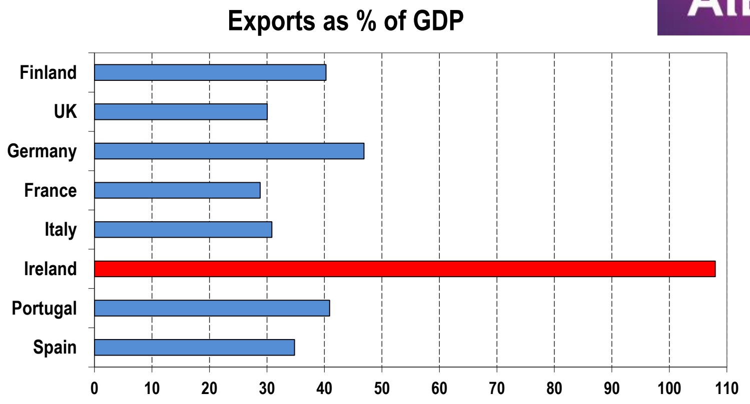






Exports perform impressively throughout the pandemic

- Ireland is 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 11.2% in 2020 and 14.1% in 2021, but these are inflated figures
- Goods exports up 15% in 2020 and 18.5% in 2021 – this greatly overstates actual growth
- Irish exports include goods manufactured abroad by sub-contractors on behalf of Irish based firms
- Service exports up by 7% in 2020 and then rose 11% in 2021 as global economy recovered
- Exports of goods up by 6.7% in Q1'22 while service exports rose 4%

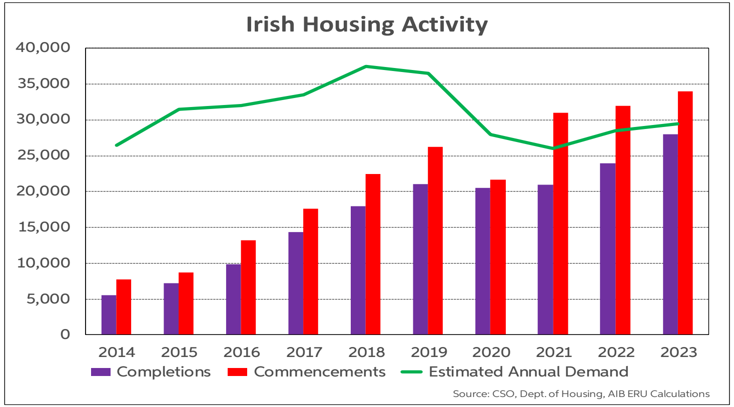


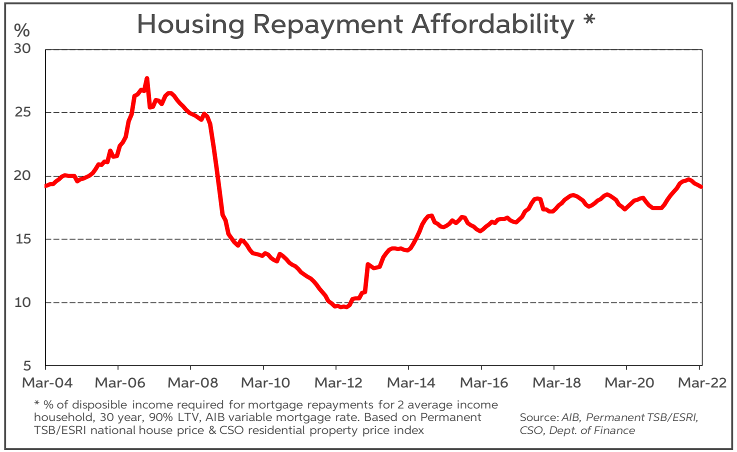
Source: Thomson Datastream

Source : CSO

House building picking up as commencements surge

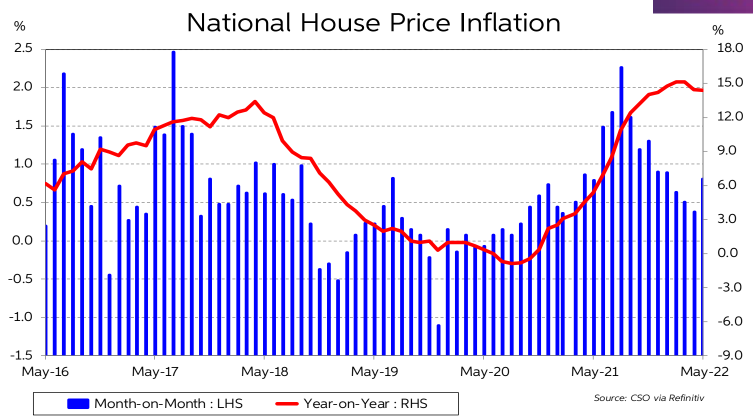
- Completions amounted to 20,500 in 2020 & 2021, just 2.6% down on 2019 level despite lockdowns
- Big jump in planning permissions since 2018
- Commencements fell by over 17% to 21,700 in 2020
- But, they rebounded strongly in 2021 and 12 month total running at 30,000 in mid-2022
- 12 month total for completions picked up to 25,000 in Q2'22 as sector recovered from COVID lockdowns
- Still running well below estimated annual demand of near 30k, plus pent-up demand of recent years
- Mortgage lending fell by 12% to €8.4bn in 2020
- However, it rebounded strongly in 2021 to €10.5bn
- Rose 17% in Q1 2022 - 12-month total at €10.85bn
- Housing affordability has deteriorated as prices rise

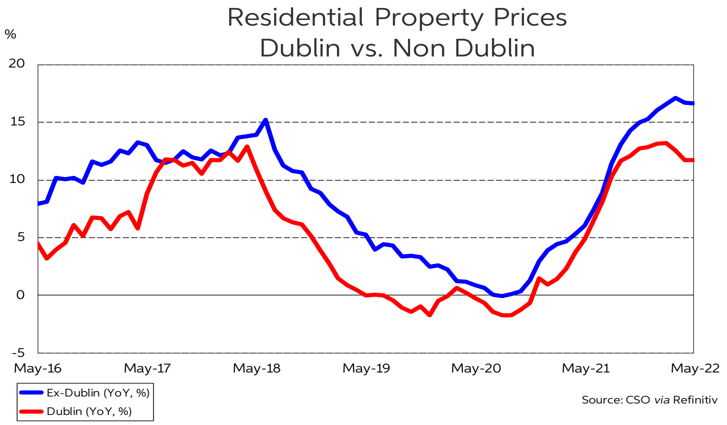




Sharp upward trend in house prices starts to moderate

- House prices declined sharply, by 55% over 2007-13
- Prices have now recovered; just 1% below 2007 peak
- CSO data show house prices little changed over 2019-20
- Strong rise in CSO house prices in 2021, especially in H2
- Moderation in monthly rises in H1 2022
- Property websites showed moderation in asking prices in H2 2021, though picked up again in H1 2022
- National house price inflation at 14.4% yoy in May 2022, down from peak of over 15% in Feb/Mar
- Non-Dublin prices up 16.6% yoy, Dublin rate at 11.7%
- Highest annual rates for house prices since early 2015
- 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 have recovered strongly after declining in 2020. Jumped sharply in past year. Up 11.9% yoy in June 2022





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 again in 2016-22

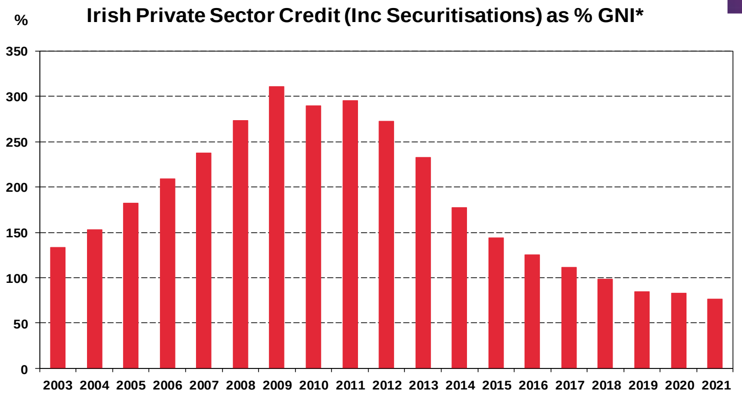
Calendar Year	2019	2020	2021	2022	2023
Household Formation	31,000	22,500	20,500	23,000	24,000
of which					
Indigenous Population Growth	*21,000*	*17,500*	*16,000*	*15,500*	*14,500*
Migration Flows	*10,000*	*5,000*	*4,500*	*7,500*	*9,500*
Headship Change*	*0*	*0*	*0*	*0*	*0*
Second Homes	500	500	500	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**	**20,500**	**25,000**	**28,000**
Shortfall in Supply	*-15,000*	*-7,500*	*-5,500*	*-3,500*	*-1,500*

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

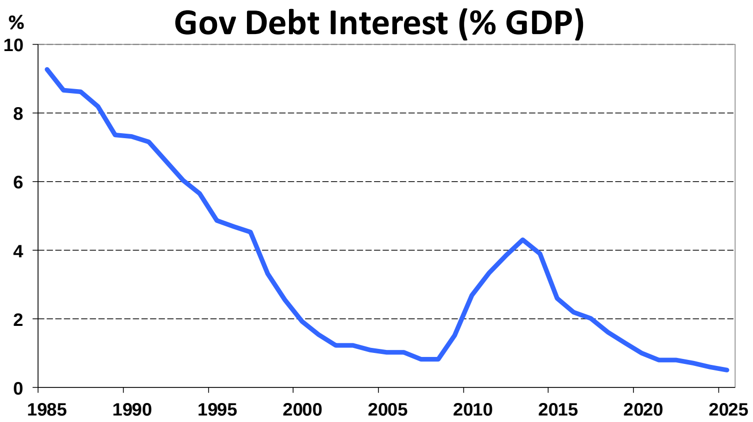
Sources: CSO, DoECLG, AIB ERU.

Private sector deleverages, Gov. debt ratios resume downtrend

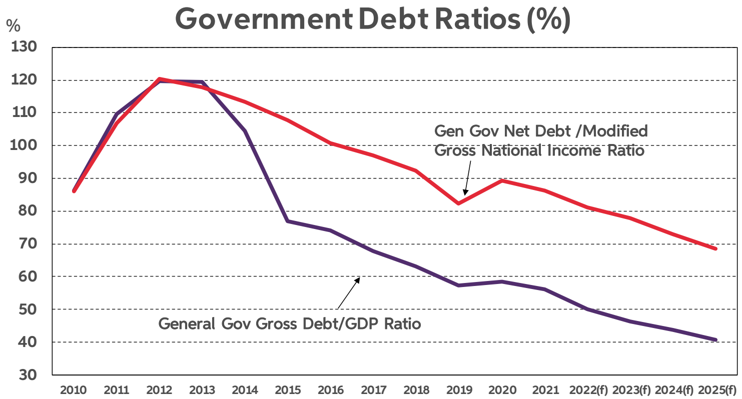
Source: CSO, Central Bank, AIB ERU



Sources: Central Bank, CSO, AIB ERU Calculations



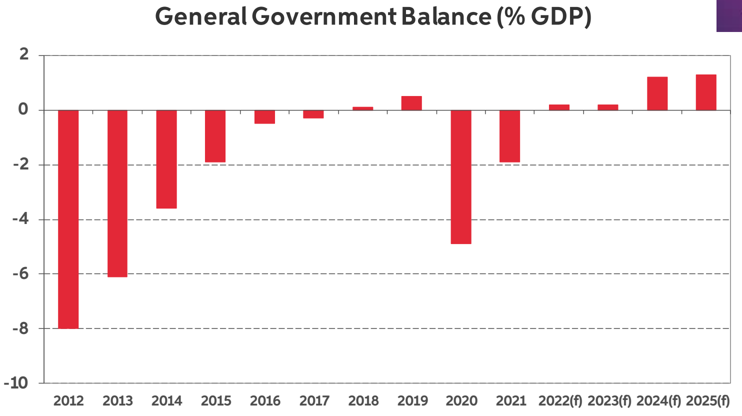
Source: NTMA; Dept of Finance



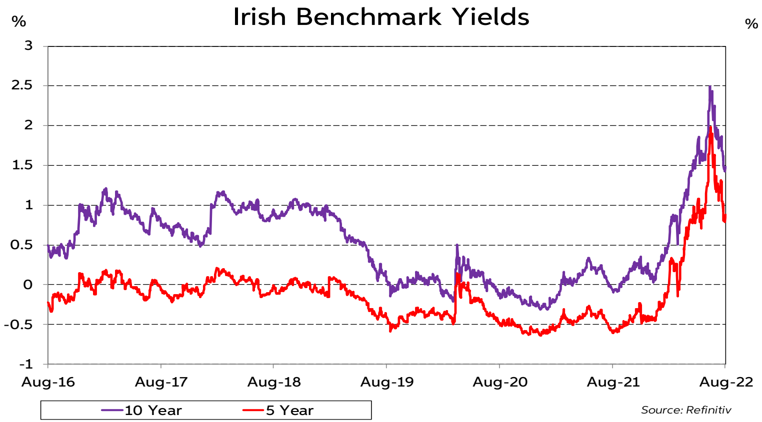
Sources: Dept of Finance, CSO, AIB ERU (Inflated/Distorted GDP figues from 2015)

Public finances head back into surplus

- 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 much lower than expected in 2021, falling by over half to €8bn or 1.9% of GDP
- Tax revenues very strong in 2022; + 25% end June
- Budget balance back into surplus on 12-month running total basis as at mid-2022
- Fiscal policy to remain supportive of growth. Rise of 5.0-5.5% p.a. in non-Covid spending planned
- Gov. Debt ratios fell in last decade, but moved higher in 2020. Downtrend resumed in 2021
- Irish bond yields rise in H1 2022 as elsewhere, before falling back again - still very low
- Irish sovereign debt ratings; S&P AA-, Fitch AA-, Moody's A1. Fitch & Moody's upgraded in H1'22



Source : Dept of Finance



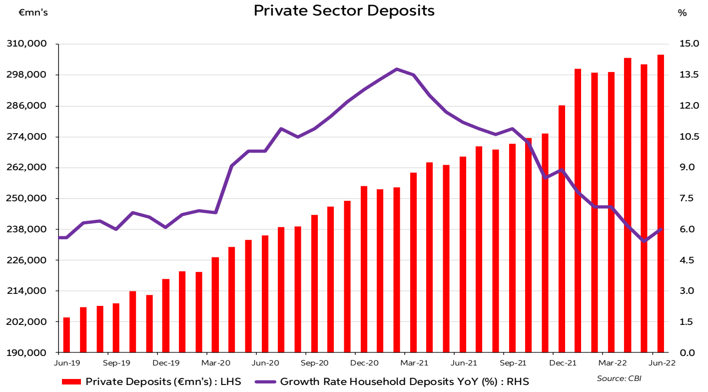
Source: Refinitiv

Good Irish economic growth forecast despite headwinds

- Many ingredients in place for further 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
- Strong FDI inflows continuing, boosting exports
- House building picking up 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
- Economy has deleveraged; low private sector debt
- A rundown of some of the 35% surge in private savings since COVID began could boost spending
- Sharp rise inflation and slowing global growth are significant headwinds, though, for Irish economy
- Irish GDP growth forecast at 8% in 2022 and 4.5% in 2023-24. Growth in modified domestic demand below these rates at 4.5% in 2022 and 4% in 2023-24

OECD Global GDP Forecasts (June 2022)

% Vol	2021	2022	2023
World	5.8	3.0	2.8
Advanced Econs.	5.5	2.7	1.6
US	5.7	2.5	1.2
Eurozone	5.3	2.6	1.6
UK	7.4	3.6	0.0
Japan	1.7	1.7	1.8



AIB Irish Economic Forecasts

% change in real terms unless stated	2020	2021	2022 (f)	2023 (f)	2024 (f)
GDP	**5.9**	**13.5**	**8.0**	**4.5**	**4.5**
GNP	3.4	11.5	6.0	4.0	4.0
Modified Final Domestic Demand	**-6.1**	**5.8**	**4.7**	**4.0**	**4.0**
Personal Consumption	-10.9	4.6	5.0	4.0	4.0
Government Spending	11.6	6.5	1.0	2.3	2.0
Fixed Investment**	-16.5	-39.0	6.5	5.5	6.0
Exports	11.2	14.1	10.0	6.0	5.0
Imports**	-2.1	-8.3	9.5	5.8	5.0
Employment (%)	-2.8	6.2	5.8	2.0	1.8
Unemployment Rate (%)	**5.9**	**6.3**	**4.8**	**4.7**	**4.5**
HICP Inflation (%)	-0.5	2.4	8.2	5.0	2.5
Budget Balance (GGB % GDP)	-5.1	-1.9	0.2	0.2	1.2
Gross General Gov Debt (% GDP)	58.4	56.0	50.0	46.3	43.8
Net General Gov Debt (% GNI*)	89.3	86.2	81.2	77.9	73.0

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

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

Residual Brexit Issue Remains over NI Protocol

- UK has indicated has introduced legislation to unilaterally overturn parts of the NI Protocol
- EU has offered concessions on Protocol. Discussions with UK have not made much progress
- Legislation will take a considerable time to enact and get through Parliament
- Thus no immediate impact – in any event, many checks on GB-NI trade are not in operation
- Any EU response would have to be proportionate and thus limited
- Overall creates much uncertainty about NI trade and further negotiations could take place
- Hoped that agreed solutions can be found to allow 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
- Also larger multinationals, mainly digital, to pay some taxes on profits in countries where sales made
- 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
- 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 Corporate tax regime, most notably the US

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 continuing despite the changes to global corporate tax rules

Risks to the Irish economy outlook

- Very open Irish economy so vulnerable to global downturn, especially in advanced economies
- High inflation, weakening global economy, rising interest rates risks to Irish growth
- Very reliant on energy imports, and could be impacted by disruption to European gas supplies
- Covid-19 remains a risk, with concerns about new variants
- Changed EU-UK relationship impacting Irish trade. Issues remain over NI Protocol
- Changes to US corporation (Gilti) tax regime still possible, with negative impact on FDI here
- Supply constraints in new house building activity, with output still at low levels
- Competitiveness issues - high house prices, high rents, high personal taxes, high wages & prices
- Credit constrained – tight lending rules, on-going deleveraging, subdued credit demand