The Irish Economic Update:

Much slower, but still solid growth expected in 2023, after stellar year in 2022

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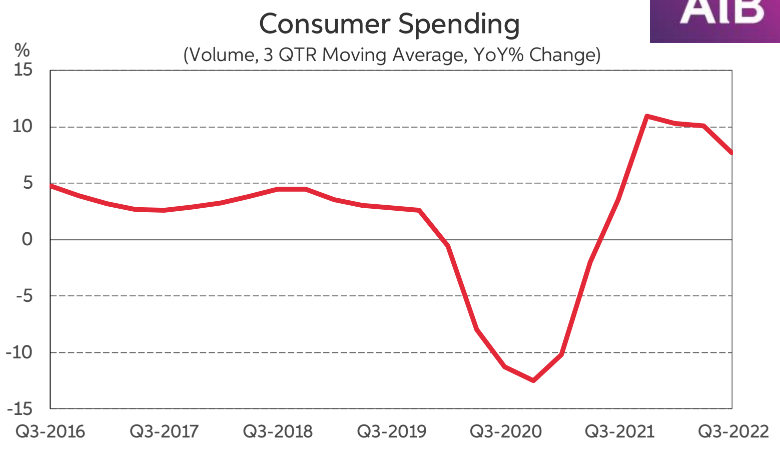
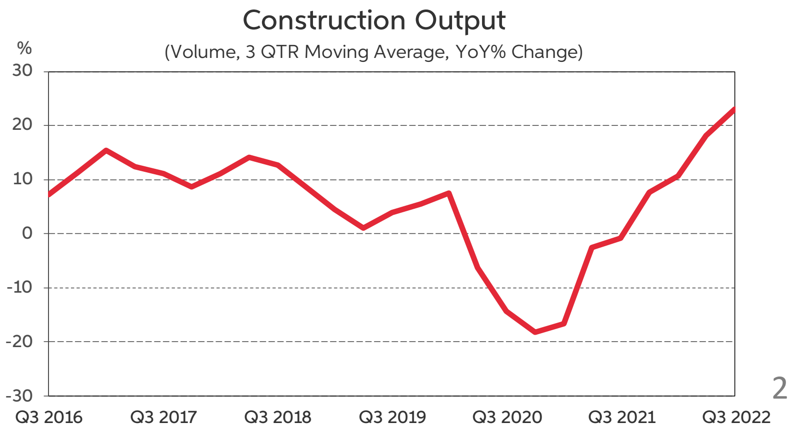
Economy rebounds very strongly in 2021-22 from COVID

- GDP grew by 13.6% in 2021, with GNP up by 14.7% - trade flows again boosted data
- Domestic economy picked up strongly in 2021, with modified final domestic demand rising by 5.8%
- Another very strong rise in GDP in 2022, up 11.7% yoy in Q1-Q3, with broad based growth
- Surging inflows of foreign direct investment key factor in rapid growth of economy in 2021-22
- Exports up strongly again in Q1-Q3 2022, at 14.8% yoy
- Modified domestic demand rose by 10.2% yoy in Q1-Q3 2022 as rebound from COVID continued
- Consumer spending up 7.7% yoy in Q1-Q3 2022
- Very strong growth in investment continues, up 28% in Q1-Q3, with buoyant business investment
- Construction output rebounds in 2022 from COVID hit, especially house building. Up 23% yoy Q1-Q3



Source: CSO via Refinitiv



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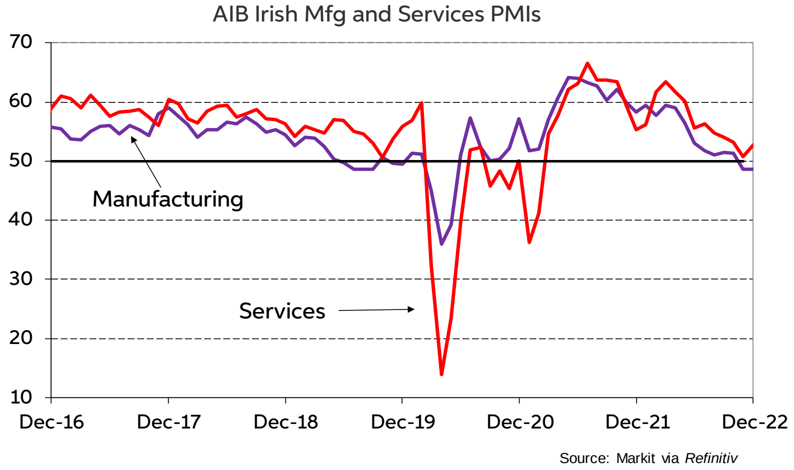
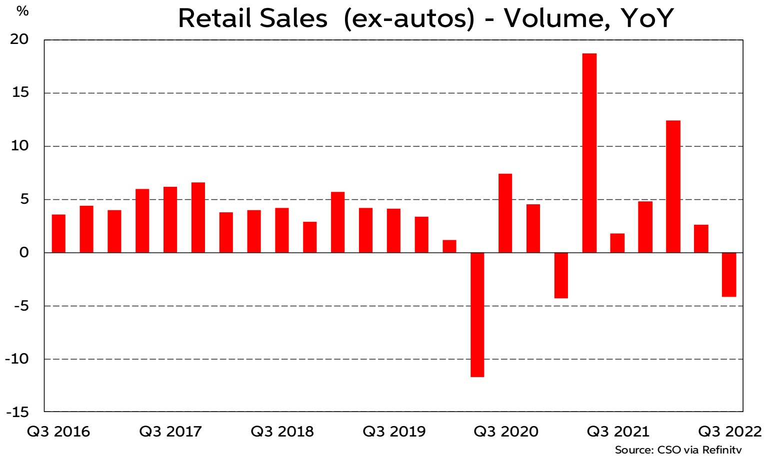
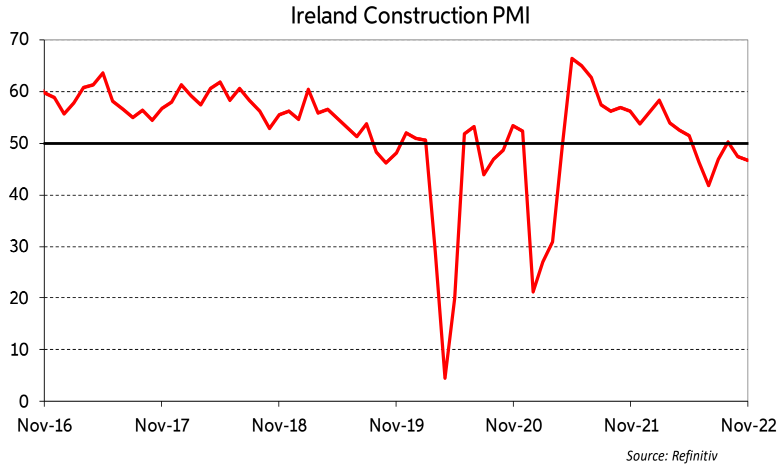
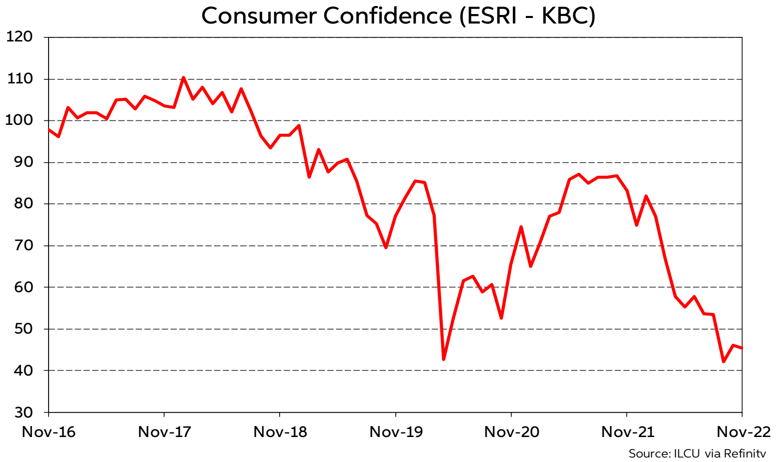
But clear signs that growth slowing after strong H1'22





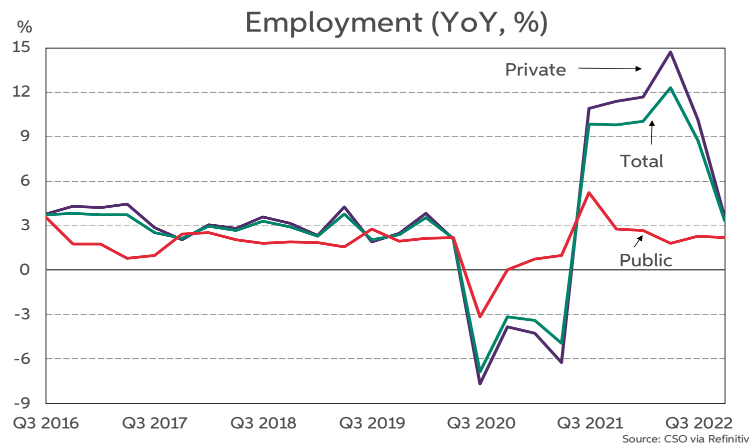


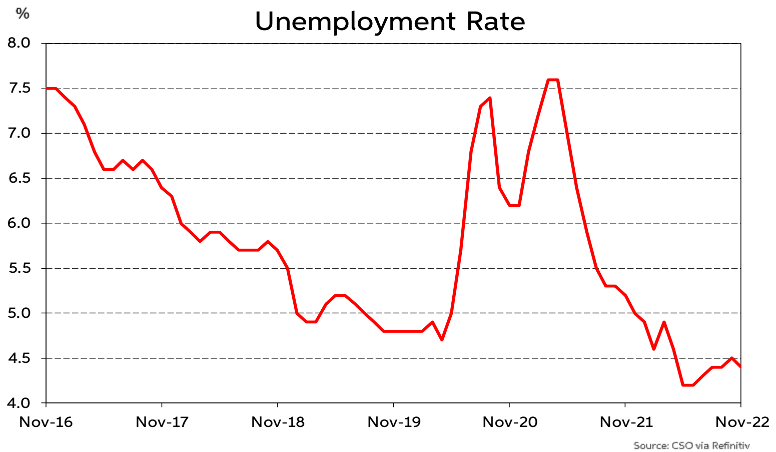


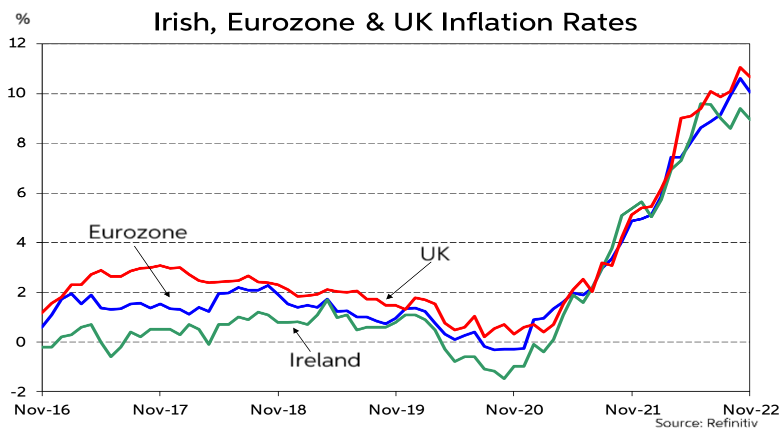
PMIs and retail sales data point to softening activity

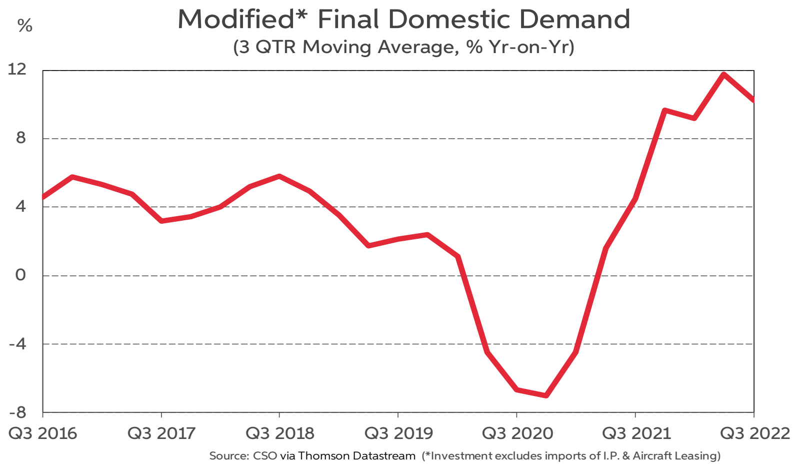
- Mfg PMI at strong levels into early summer, before falling sharply to below 50 by Nov/Dec
- Services PMI still solid, but well off H1 2022 peaks. At 52.7 in December
- Housing commencements surged to 35k peak by March, but fell back to 27k by Sept-Nov period
- PMI for construction fell sharply in 2022. At 46.8 in November, down from 47.4 in October
- OECD Leading Indicator for Ireland slips in Q2 and Q3, but still at a solid level in October
- Core retail sales subdued in H1 2022 and fall sharply by 2.4% in Q3 to be down 4.2% yoy
- New car sales improved in H2, and broadly flat for 2022. Shortage of stock an issue
- Surge in inflation and War in Ukraine sees big drop in consumer confidence since early spring
- Tax receipts, though, remain very strong. Rose by 21.5% in 2022 after 20% rise in 2021
- Unemployment rate falls to 20-year lows. Below 4.5% since May, with high job vacancies
- Employment up 3.4% yoy in Q3 2022 – and up 10% on Q3 2019; labour force up 9% since Q3’19
- Inflation accelerates sharply; HICP rate at 9% in November, down from peak of 9.6% in June/July

Unemployment falls to very low level, inflation rises sharply



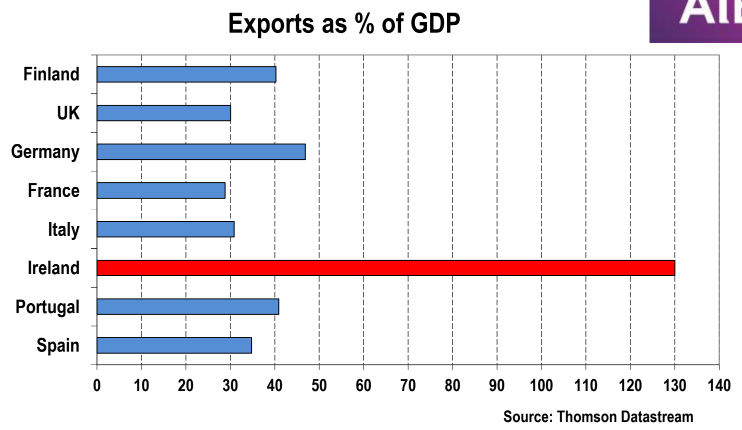


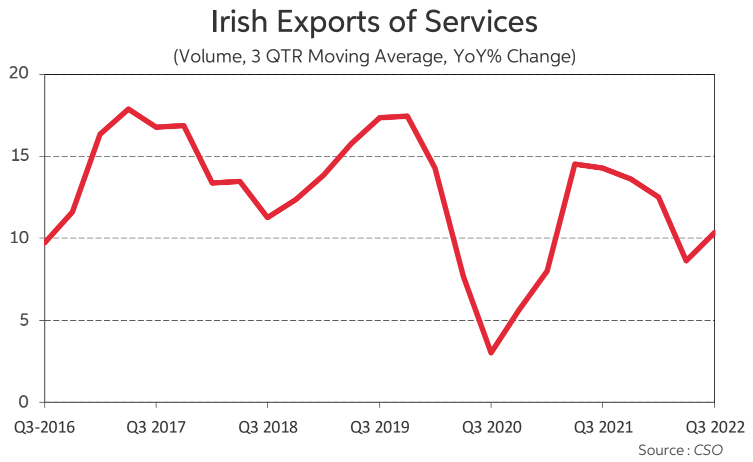




Exports perform very strongly in 2021-22 as FDI surges

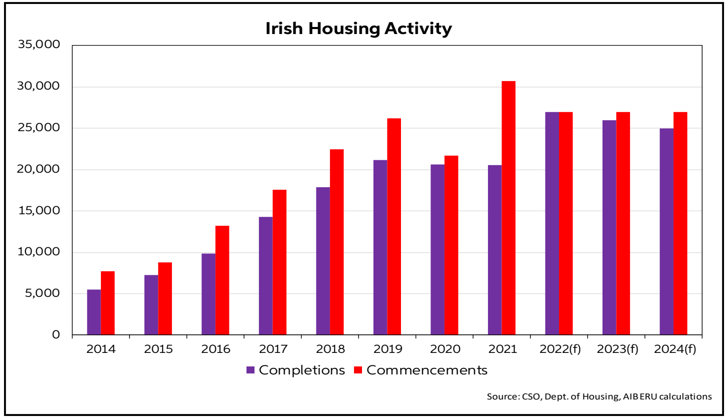
- Ireland is a very open economy – exports, driven by large scale FDI, are a huge part of economy
- Exports have risen strongly in recent years, helped by very large FDI inflows
- IDA reported record FDI in 2021 and high levels again in 2022, with good pipeline for H1 2023
- Pharma, medical care products, ICT, business & financial services mains elements of FDI
- Irish FDI inflows may be benefitting from Brexit
- Eastern Europe may also becoming less attractive for FDI following Russian invasion of Ukraine
- Total exports up 14% in 2021 and 15% to Q3’22
- Goods exports rose 18.5% in 2021 and 19.5% in Q1-Q3 2022– this overstates actual growth
- Exports include goods manufactured abroad by sub-contractors on behalf of Irish based firms
- Service exports up 11% in 2021 and 10.3% in Q1-Q3 2023, a better measure of export performance

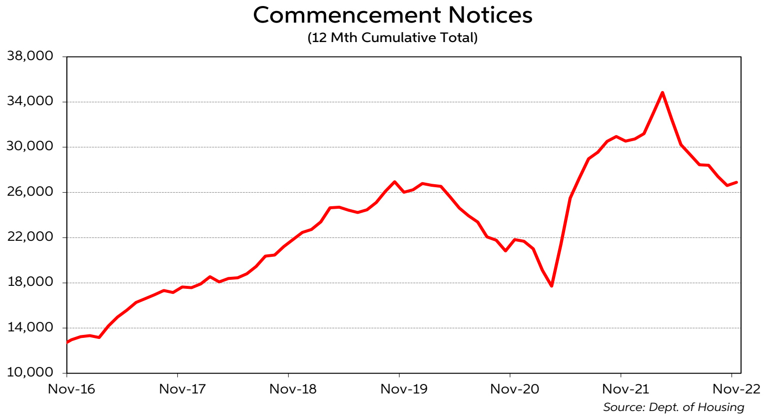




House completions pick up, but commencements fall back

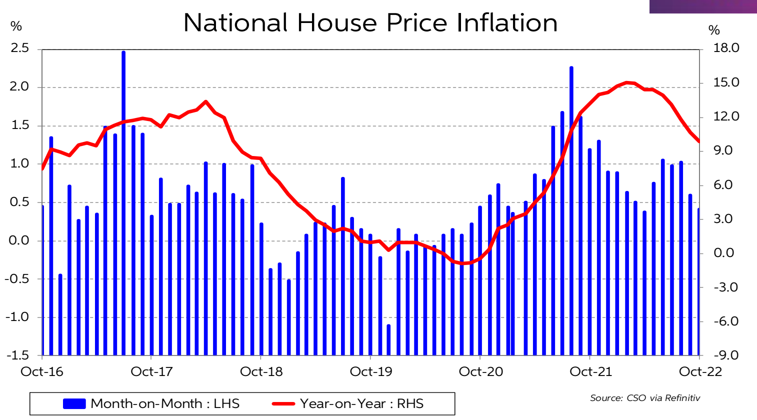
- Completions amounted to 20,500 in 2020 & 2021, just 2.6% down on 2019 level despite lockdowns
- 12 month total for completions picked up to near 28K by Q3’22 on rebound from COVID lockdowns
- Estimated annual housing demand put at over 30k
- Big jump in planning permissions since 2018, but very sharp fall recorded in Q3 2022
- Commencements 12 month total reached 35,000 in Q1 2022 but then fell to 27k by Sept-Nov period
- Completions may stall at 25-27k in 2023-24. Concern rising costs/yields may dampen apartment builds
- Mortgage lending rebounded strongly in 2021 to €10.5bn after COVID related fall in 2020
- Mortgage lending rose 36% yoy to Q3 2022. Big impact from switching. 12mth total at €13bn in Q3.

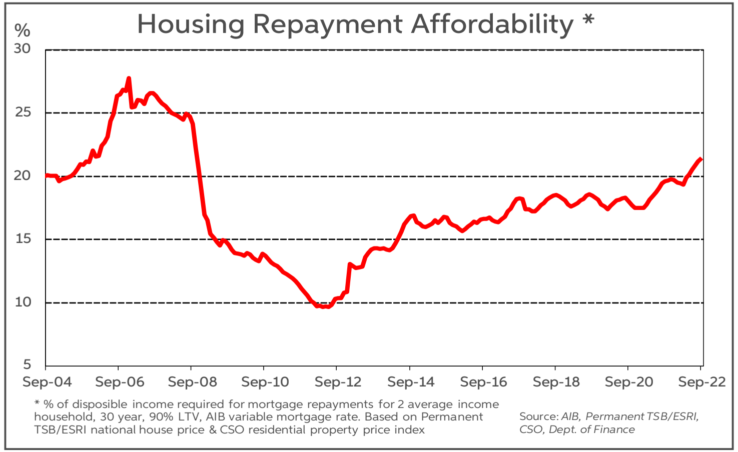




House price growth and rent inflation now moderating

- House prices declined sharply, by 55% over 2007-13. Prices have fully recovered and back at 2007 peak level
- Strong rise in CSO house prices in 2021. Moderation in price rises in 2022 vs H2 2021
- Low supply, remote working, strong public/institutional demand, enhanced help-to-buy scheme, rising personal savings, pent-up demand all supportive of house prices
- National house price inflation fell to 9.8% yoy by Oct. Compares to 13.9% in June and peak of 15% in Feb/Mar
- Non-Dublin prices up 11% yoy, Dublin rate at 8.3%
- Rising interest rates and slowing economic activity suggest house price inflation will continue to decelerate
- Indeed, property website data show a flattening out of asking prices for houses during H2 2022
- Housing affordability has deteriorated as prices rise
- Rents jump sharply in 2021/22. Annual rate peaked at 12.9% in July and falls to 11% by October/November





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 2016-2022 – 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

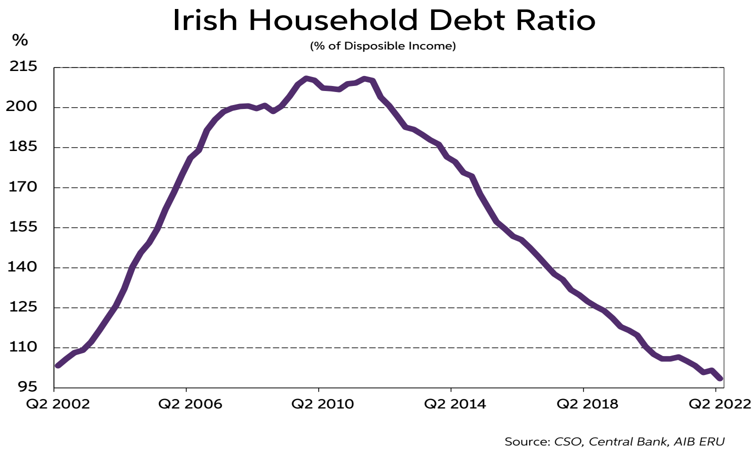
Calendar Year	2020	2021	2022	2023	2024
Household Formation	26,000	29,000	28,000	25,000	24,500
of which					
Indigenous Population Growth	*21,000*	*20,000*	*16,500*	*14,500*	*14,500*
Migration Flows	*5,000*	*9,000*	*11,500**	*10,500**	*10,000**
Headship Change	*0*	*0*	*0*	*0*	*0*
Second Homes	500	500	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	21,000	27,000	26,000	25,000
Shortfall in Supply	*-11,000*	*-13,500*	*-6,500*	*-4,500*	*-5,000*

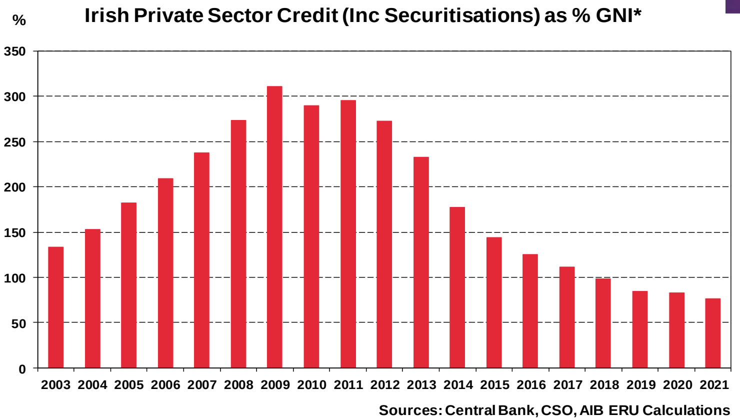
Headship is % of population that are heads of households. Assumed it remains constant

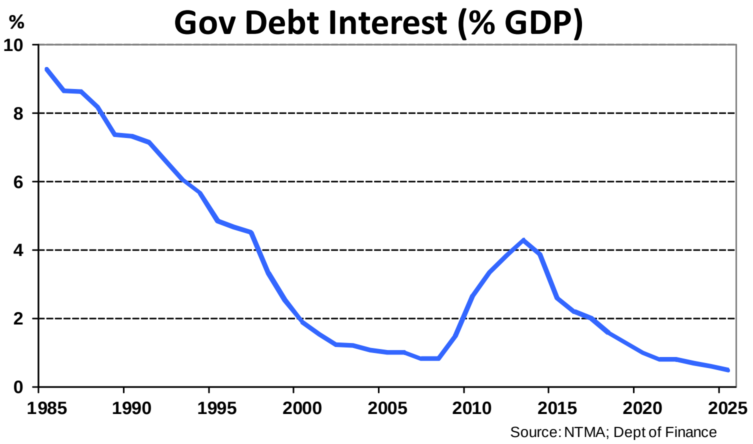
** Does not include Ukrainian refugees*

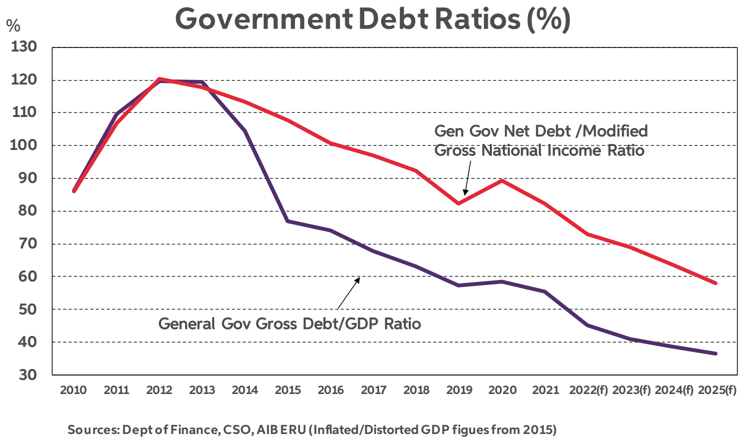
Sources: CSO, DoECLG, AIB ERU.

Private sector deleverages, Gov. debt ratios fall to low levels



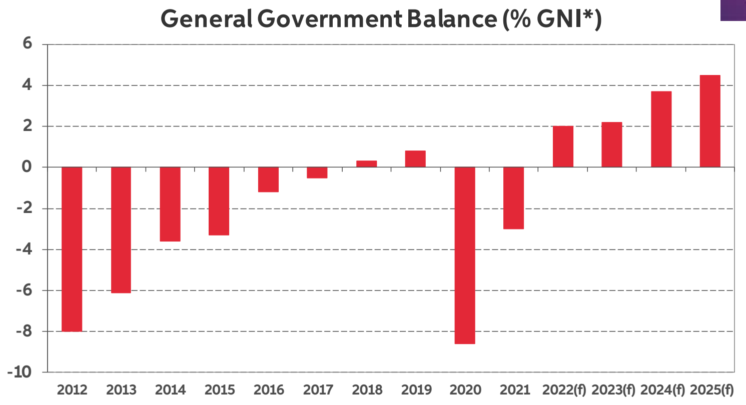




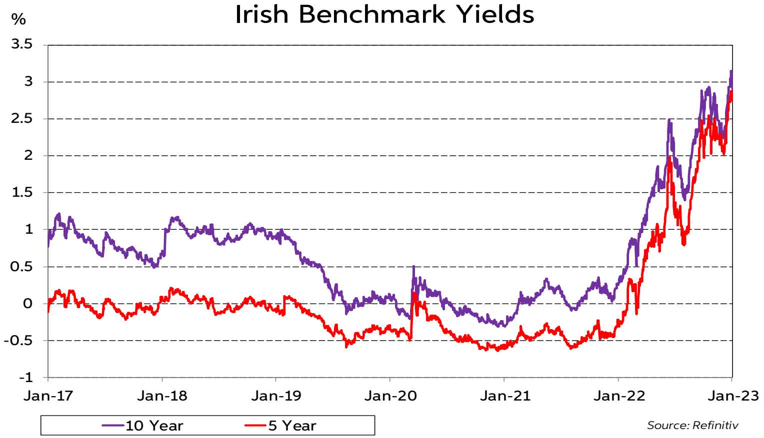


Strong growth sees public finances return to surplus

- General Gov. budget deficits of €18bn in 2020 and €7bn in 2021 as COVID-19 hit public finances hard
- Tax revenues rise very strongly in 2022; up 21.5% after a 20% rise in 2021
- Corporation tax up by 48%, VAT 20% and Income tax rose 15% in 2022.
- Budget target was a deficit of €8bn for 2022, but a surplus of €5bn was recorded (2% of GNI*)
- Government providing some temporary energy support payments for households and firms
- Budget surplus targets of 2.2% and 3.7% of GNI* set for 2023 and 2024, respectively
- Gov. Debt ratios falls sharply – at 73% of GNI*
- Irish bond yields rise sharply in 2022 as elsewhere
- Budget surpluses, very large cash balances and long-dated debt mean very little funding needed
- Irish sovereign debt ratings; S&P AA-, Fitch AA-, Moody's A1. Fitch & Moody's upgraded in H1'22



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



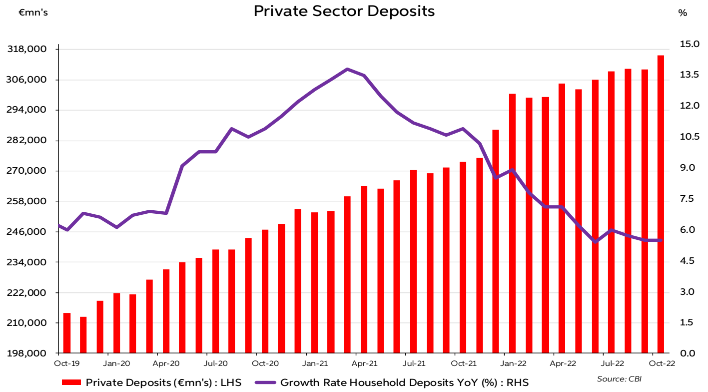
Source: Refinitiv

Headwinds and capacity constraints to see growth slow

- Mounting headwinds and capacity constraints, but solid growth expected by Irish economy in 2023-24
- FDI inflows to continue, boosting investment, exports and employment
- Fiscal policy to remain supportive of growth – Budget has 5-6% rise in core gov. spending in 2023 and 2024
- Economy has deleveraged; low private sector debt
- A rundown of some of the 44% surge in private sector deposits during 2020-2022, could support spending
- Sharp rise in inflation and slowing global growth are significant headwinds, though, for Irish economy
- Capacity constraints emerging also – housing, labour, electricity, water, infrastructure, planning laws
- Irish GDP growth forecast at 10-12% in 2022, slowing markedly to 3-5% in 2023 and 3-4% in 2024
- Lower growth rates expected for modified domestic demand in 2023-24

OECD Global GDP Forecasts (Nov 2022)

% Vol	2021	2022	2023	2024
World	5.9	3.1	2.2	2.7
US	5.9	1.8	0.5	1.0
Eurozone	5.3	3.3	0.5	1.4
UK	7.5	4.4	-0.4	0.2
Japan	1.6	1.6	1.8	0.9
China	8.1	3.3	4.6	4.1



AIB Irish Economic Forecasts

% change in real terms unless stated	2020	2021	2022 (f)	2023 (f)	2024 (f)
GDP	**5.9**	**13.6**	**11.0**	**4.0**	**3.7**
GNP	3.4	14.7	7.0	3.5	3.3
Modified Final Domestic Demand	**-6.1**	**5.8**	**8.5**	**3.0**	**2.8**
Personal Consumption	-10.9	4.6	6.0	3.0	3.0
Government Spending	11.6	6.5	0.5	2.3	2.0
Fixed Investment*	-16.5	-39.0	42.5	3.5	3.0
Exports	11.2	14.1	13.5	6.0	5.0
Imports*	-2.1	-8.3	21.5	4.5	5.0
Employment (%)	-2.8	6.2	6.0	1.5	1.5
Unemployment Rate (%)	**5.9**	**6.3**	**4.6**	**4.8**	**5.0**
HICP Inflation (%)	-0.5	2.4	8.1	5.5	2.5
Budget Balance (GGB % GNI*)	-8.6	-3.0	2.0	2.2	3.7
Gross General Gov Debt (% GDP)	58.4	55.3	45.0	41.0	39.0
Net General Gov Debt (% GNI*)	89.3	82.2	73.0	69.0	63.5

**2020-22 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 introduced legislation to unilaterally overturn parts of the NI Protocol
- The reality is that many checks on GB-NI trade are not in operation
- EU has offered concessions on Protocol. Discussions have not made much progress to date
- Legislation will take a considerable time to enact and get through Parliament
- UK could trigger Article 16, suspending Protocol - EU response would have to be proportionate
- Overall, creates much uncertainty about NI trade and impacting politics in NI – no Executive
- 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 oversight role key part of Single Market.
- UK Government opens fresh discussions with EU. Both sides looking for common resolution
- 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 in 2023

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 €22.6bn in 2022 or 27% of total tax revenue – well 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%. 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 by European standards. UK rate being 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 outlook

- Very open Irish economy vulnerable to weakening global outlook, including FDI inflows
- High inflation and rising interest rates will weigh on Irish activity, as elsewhere
- Very reliant on energy imports so could be impacted by disruptions to European gas supplies
- Covid-19 retreats as a risk, but concerns remain about possible new variants
- Changed EU-UK relationship has impacted 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, falling starts
- Other capacity constraints emerging – labour, electricity, water, infrastructure, planning laws
- Competitiveness issues - high house prices, high rents, high personal taxes, high wages & prices
- Credit constrained – tight lending rules, on-going deleveraging, subdued credit demand