The Irish Economic Update:

Strong rebound underway as vaccine rollout allows re-opening of economy

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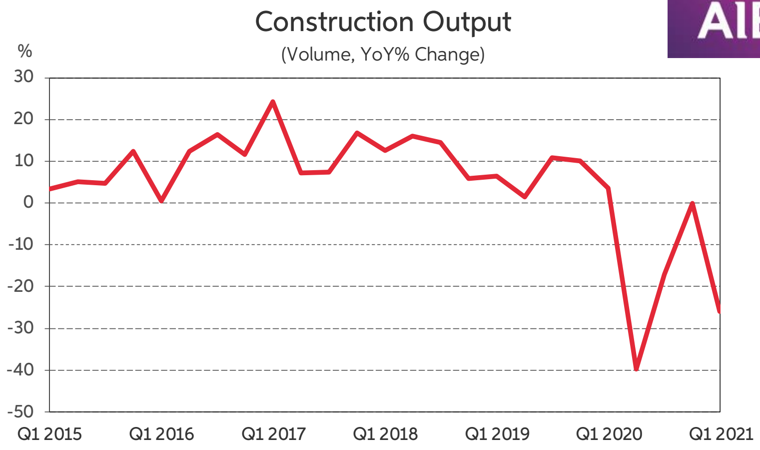
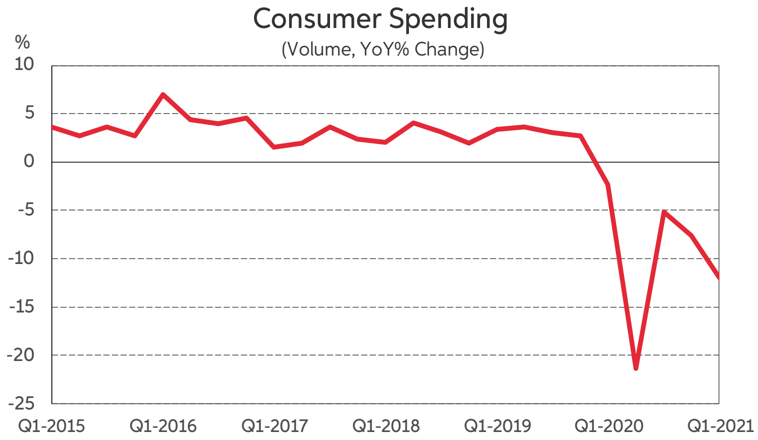
Lockdown sees contraction in economy in Q1 2021

- GDP grew by 3.4% in 2020, with GNP up 0.6%
- Modified final domestic demand contracted by 5.4% in 2020, a smaller than expected decline
- Consumer spending down 9% and fixed investment 8.5%, partially offset by 9.8% rise in gov. spending
- Third lockdown in Q1 2021 saw GNP contract by 1% with a 2.9% fall in modified domestic demand
- Consumer spending fell by 5.1 % in Q1, leaving it 11.2% below year earlier levels
- Domestic fixed investment declined by 1.5% in Q1, and down just 2.5% yoy
- Construction output fell 23.4% in Q1, down 26% yoy, with housing completions falling by 20% yoy
- Transport and hospitality saw a 10% output decline in Q1, leaving it 20% down yoy



Source : CSO via Refinitiv

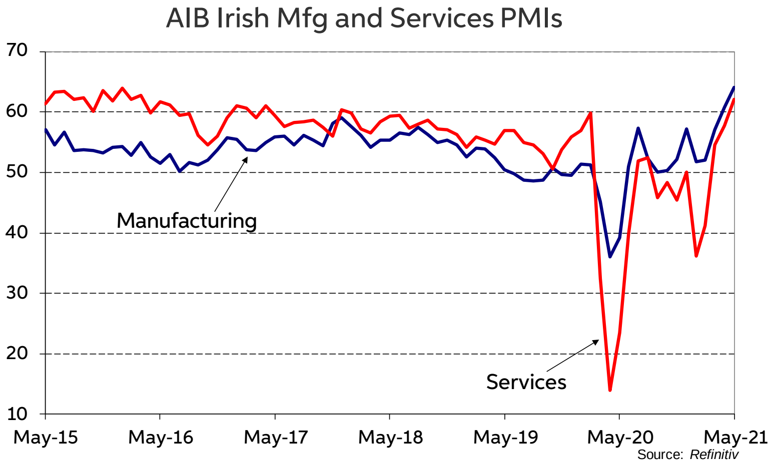


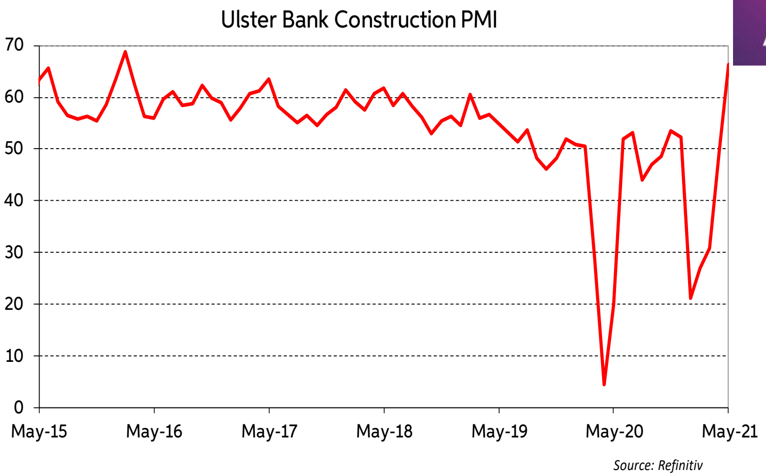
Source: CSO via Refinitiv

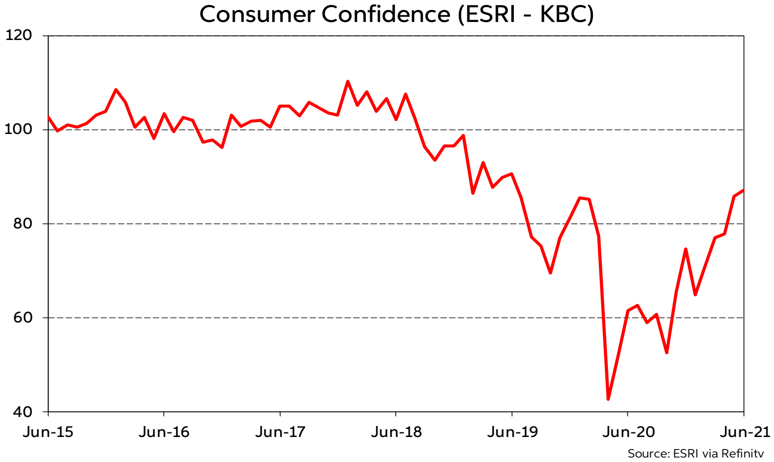
Signs of very strong rebound in Q2 as restrictions eased

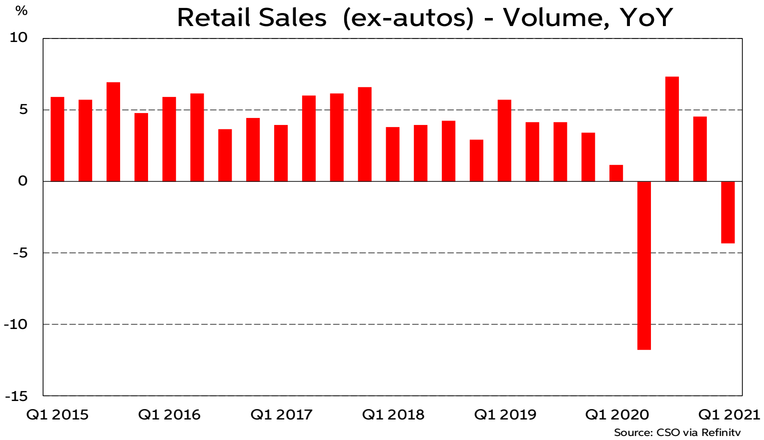
- Long third lockdown imposed at end 2020, with restrictions only being lifted during Q2
- Indicators point to strong rebound getting underway in Q2 as lockdown ends
- Mfg PMI hits record highs of 60.8 in April and 64.1 in May
- Services PMI jumps to five year high of 62.1 in May
- Construction PMI soars in May to 66.4, housing PMI at record high of 73.4
- Strong pick-up in core retail sales in May. Tax receipts in May exceed target by 8.2%
- Number on PUP scheme falls to 244,000 in late June from a peak of 485,000 in Q1
- Prospects for strong growth in H2 2021 and 2022, with economy now on the rebound
- Wide range, though, to forecasts for GDP growth in 2021-22. ESRI at 11% and 7%.
- Inflation accelerating; rises to 1.7% in May from -1.5% last autumn. Could hit 3% later in year
- Spike to prove temporary. HICP rate forecast to average circa 1.5% in 2021 and 2022

Lead indicators rebound strongly after weak start to 2021

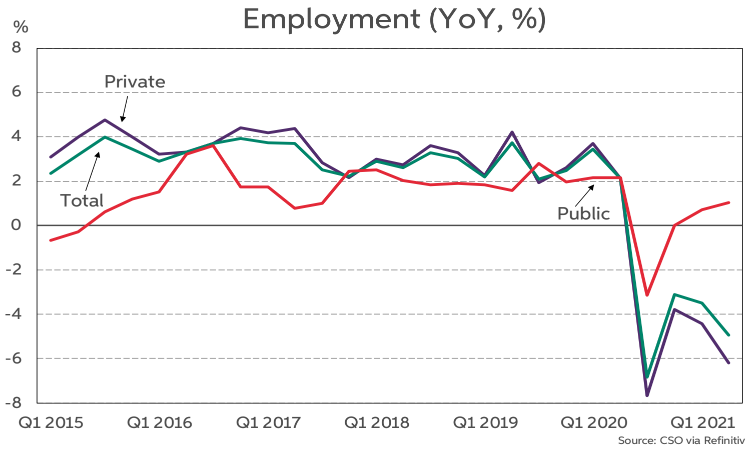


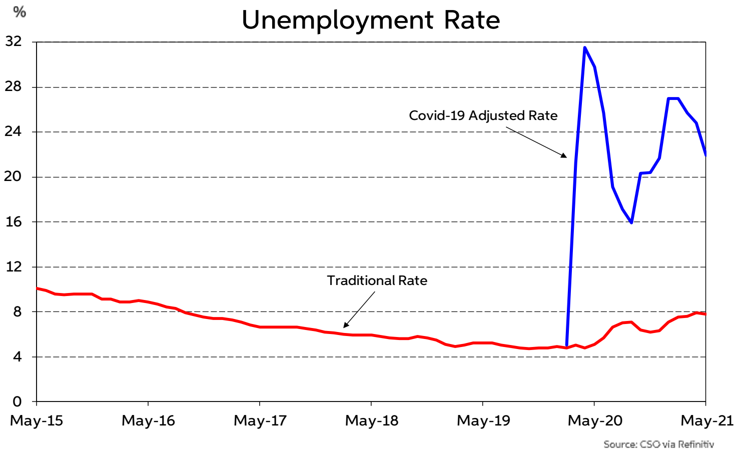


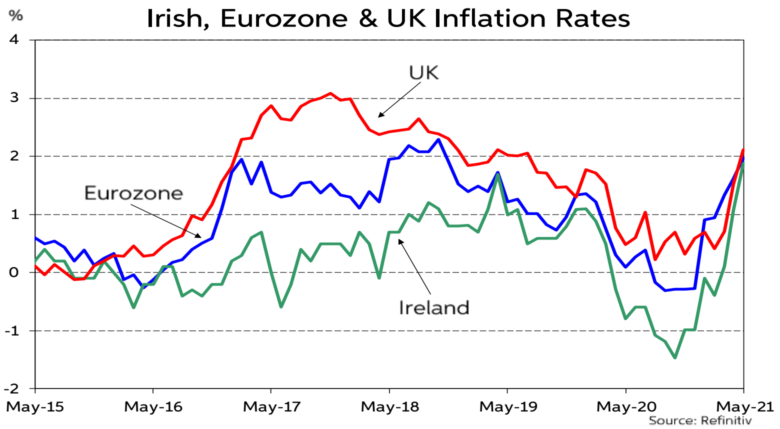


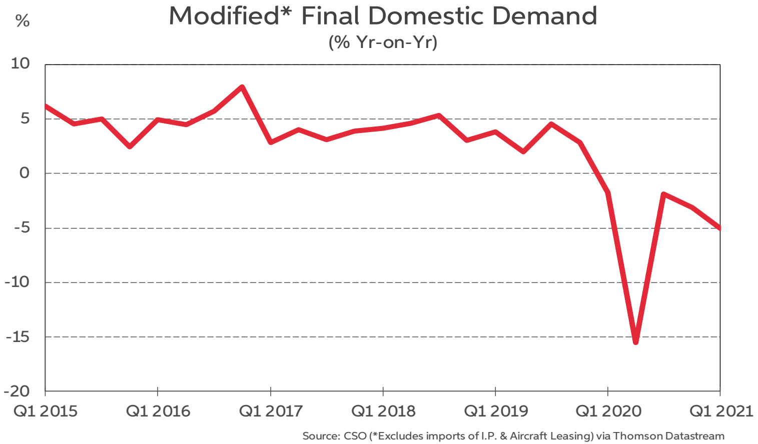


Unemployment starting to fall again, inflation picking up



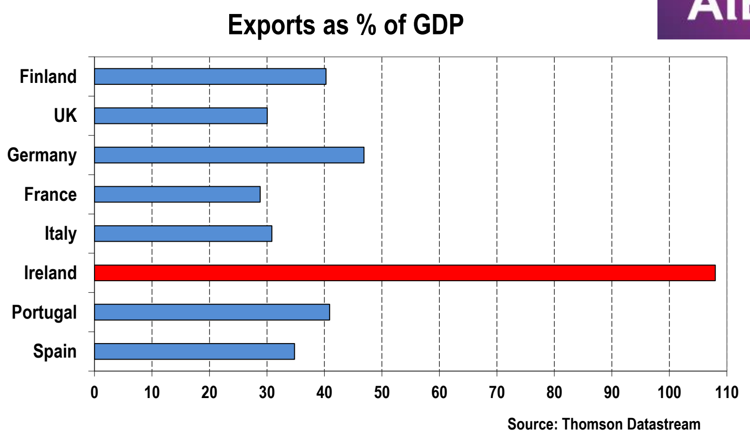


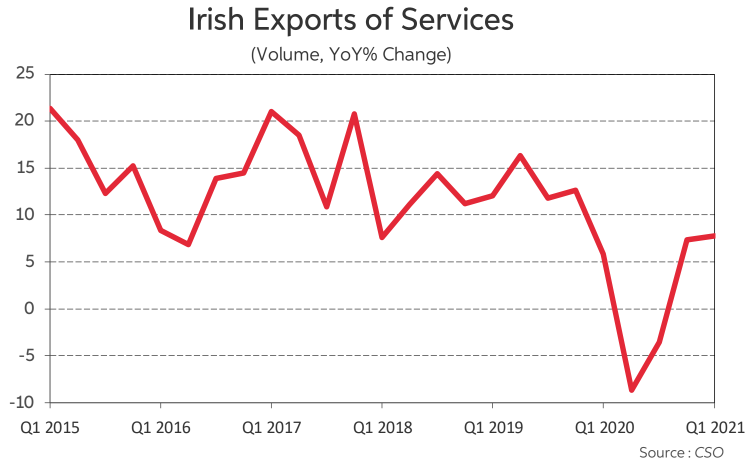




Exports perform very strongly throughout the pandemic

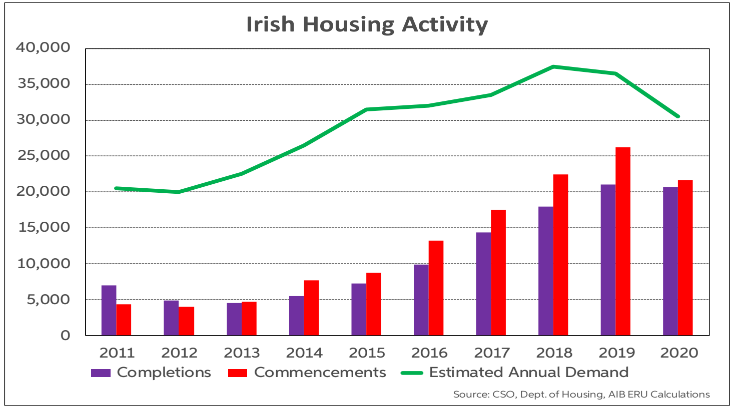
- Ireland a very open economy – exports, driven by large scale FDI, are a huge part of economy
- Exports rise strongly in recent years, helped by large FDI inflows
- Pharma, medical care products, IT equipment, and food & drink are main goods exports
- IT, business, financial and tourism are the main service exports
- Total exports rose by 6.2% in 2020 and were up 18% yoy in Q1 2021
- Goods exports up 11.8% in 2020 and 25.8% in Q1’21, fuelled by very big jump in pharma
- Service exports flat in 2020 – fell sharply in H1 – but were up 7.8% yoy in Q1 2021
- Collapse in earnings from tourism & travel, but computer service exports show strong growth

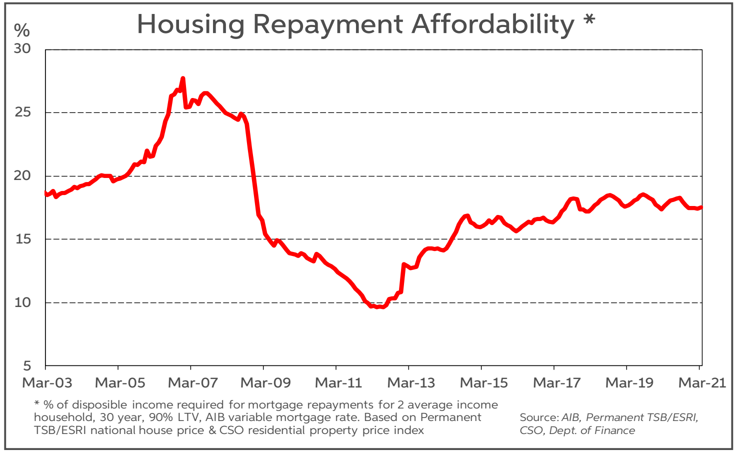




House building hold up, but commencements fall sharply

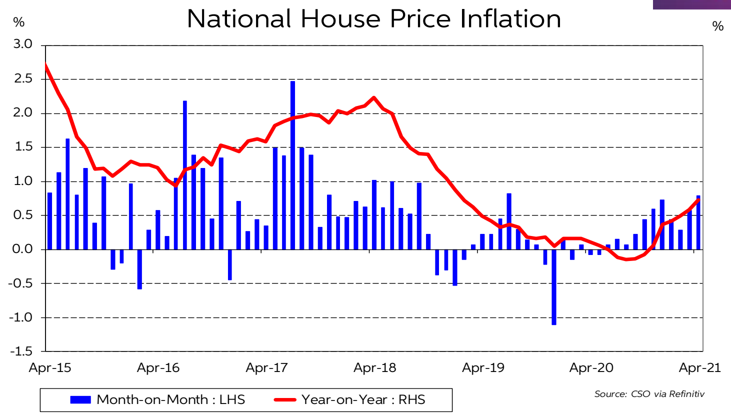
- Total completions amounted to 20,676 in 2020, just 2% down on 2019 level despite a 6-week lockdown
- Planning permissions increased again last year – up 13.5% - but steep fall in Q1 2021 during lockdown
- Commencements fell by over 17% to 21,700 in 2020 from 26,240 in 2019
- Further sharp fall in commencements in Q1'21, but rebound strongly in April as sector reopens
- Smaller than expected fall in completions in Q1 2021
- Completions likely to decline to below 20,000 in 2021, but recover to this level or above in 2022
- Mortgage lending fell by 12% to €8.4bn in 2020
- However, mortgage approvals surged in H2 2020 and rose by 7.3% yoy in Q1 2021
- Forecasts are for €9.5-10.0bn mortgage market in 2021
- Housing affordability metrics remain quite stable

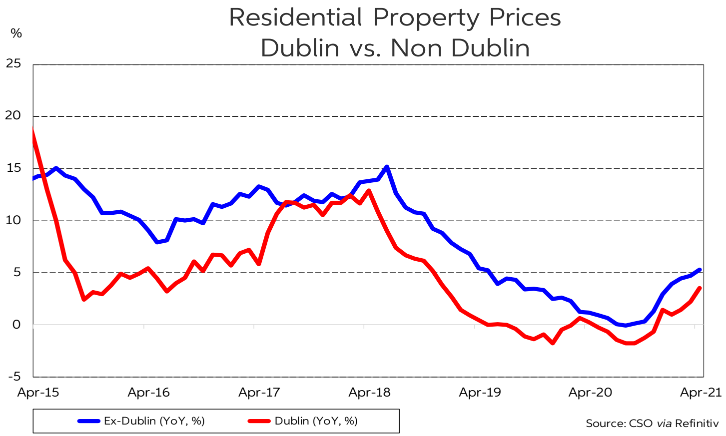




House prices on marked upward trend

- House prices declined by very sharp 55% over 2007-13
- Prices have since recovered strongly; 91% above trough by April 2021, but still 14.5% below 2007 peak
- CSO data show house prices little changed over 2019-20, until moving much higher since Q4 last year
- Further rise in house prices in H1‘21, with April yoy at 4.5%. Prices rise at 7% annualised rate Nov to April
- Non-Dublin prices up 5.3% yoy in April, still well above Dublin rate of 3.5% yoy
- Property websites show big jump in asking prices since mid-2020. Running at 13% yoy in Q2 2021
- Low supply, remote working, strong public/institutional demand, enhanced help-to-buy scheme, rising personal savings are all supporting house prices
- Marked fall in rents in H1 2O2O during first lockdown
- Rents rise strongly since December. Up 0.8% in March and 1.2% in April. Annual rate at +2.6% in May





AIB Model of Estimated Housing Demand

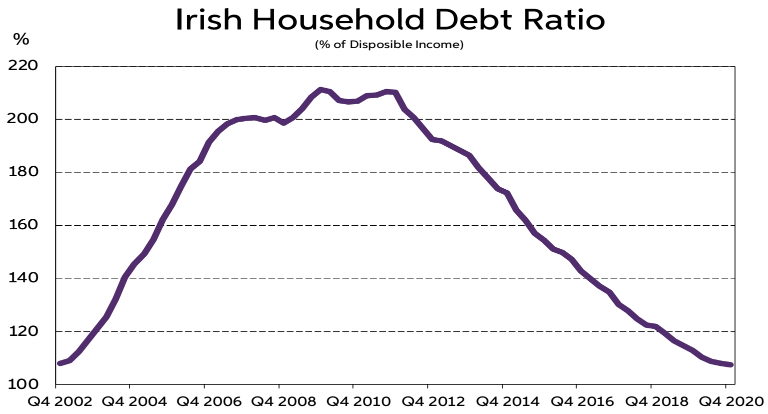
- Rising headship rates added circa 8,000 per year to housing demand in 2002-2011 period
- Shortage of housing, high rents, tighter lending rules saw average household size rise in 2011-16. Thus, headship fell – was a drag of circa 10,000 p.a. on housing demand
- Assume no change in headship in 2016-2021 – 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	2017	2018	2019	2020	2021
Household Formation	28,000	32,000	31,000	25,000	25,000
of which					
Indigenous Population Growth	*18,500*	*21,000*	*21,000*	*17,500*	*16,000*
Migration Flows	*9,500*	*11,000*	*10,000*	*7,500*	*9,000*
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	33,500	37,500	36,500	30,500	30,500
Completions	14,400	18,100	21,100	20,700	17,500
Shortfall in Supply	*-19,100*	*-19,400*	*-15,400*	*-9,800*	*-13,000*

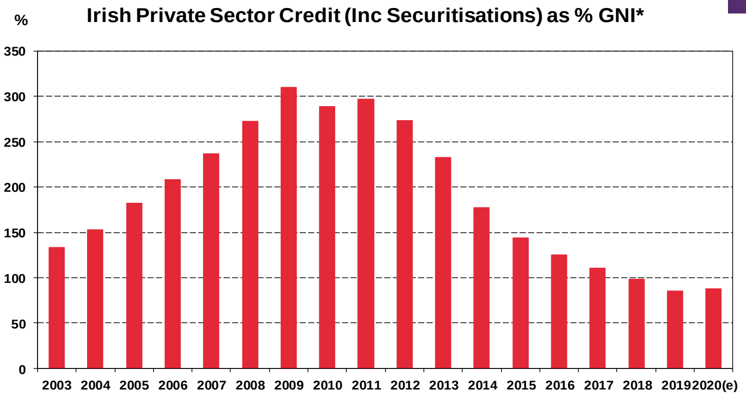
**Headship is % of population that are heads of households.*

Sources: CSO, DoECLG, AIB ERU.

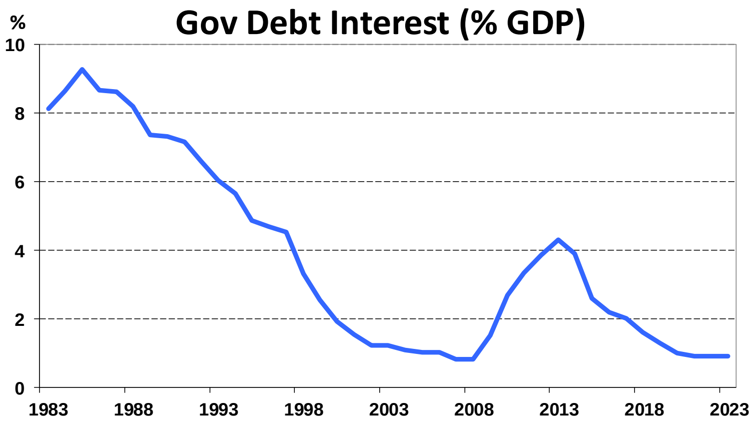
Private sector deleverages, Gov. debt ratios move higher



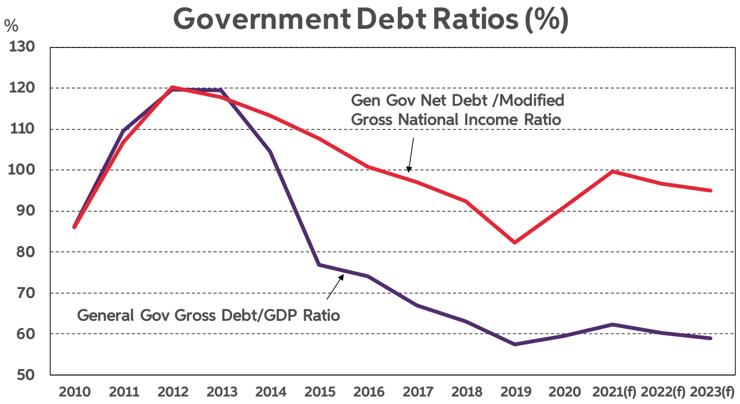
Source: CSO, Central Bank, AIB ERU



Sources: Central Bank, CSO, AIB ERU Calculations



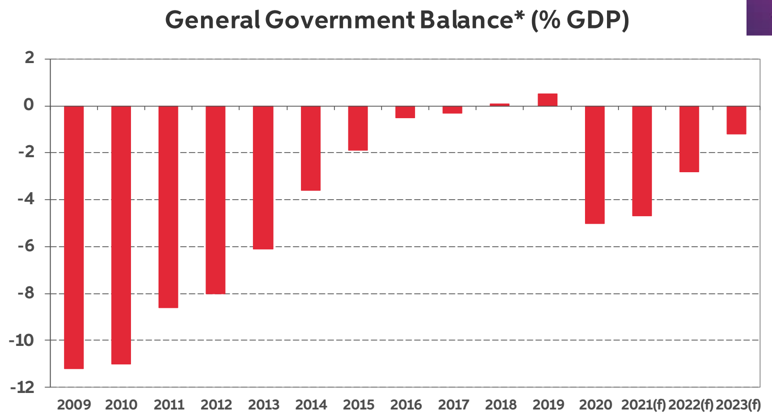
Source: NTMA; Dept of Finance



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

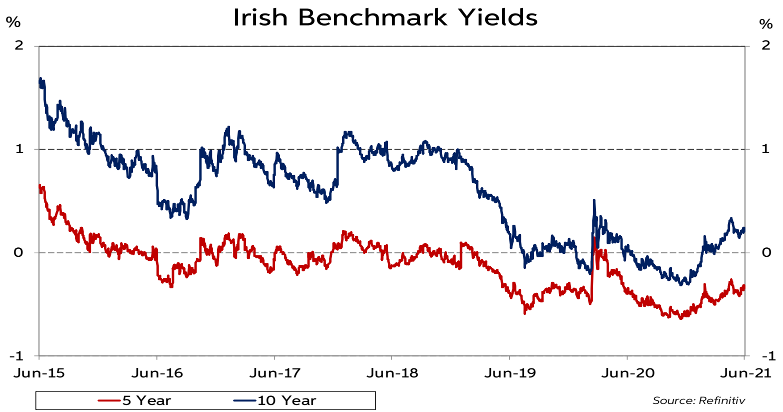
Big 2020-21 budget deficits to decline sharply in 2022-23

- Budget deficit fell sharply in last decade, with small surpluses recorded in 2018 and 2019
- However, Covid-19 and efforts to mitigate it saw the public finances deteriorate during 2020
- Tax receipts were down 3.5% last year, while net voted government spending soared by 25%
- General Government budget deficit of €18.5bn in 2020, or 5% of GDP
- Dept. of Finance forecasting another large deficit of €18bn in 2021, 4.7% of GDP
- Deficit then forecast to fall sharply to 2.8% in 2022 and 1.2% in 2023 as economy recovers
- Gov. Debt ratios had fallen in past decade, but move higher in 2020 and 2021
- Bond yields low and stable despite big jump in budget deficit and large rise in debt issuance
- Ireland's sovereign debt ratings hold steady; S&P at AA-, Fitch at A+, Moody's A2



*Excludes banking recapitalisation costs in 2010-11

Source : Dept of Finance



Source: Refinitiv

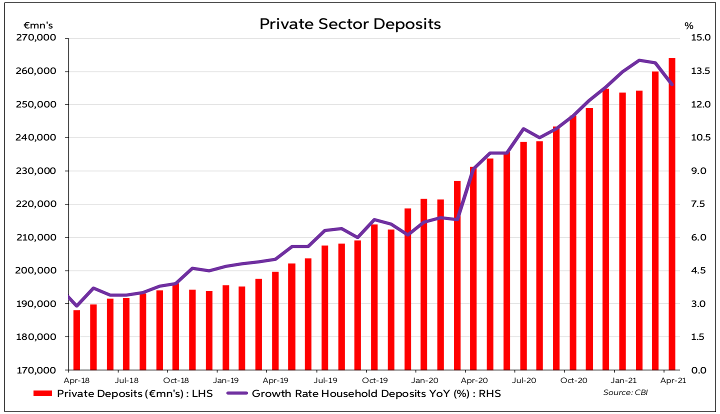
Economy was in very strong shape ahead of Covid shock

- Economy was in very strong shape ahead of being hit by very deep 2020 Covid recession
- Well balanced, robust underlying growth of circa 5% per annum over 2013-19 period
- Large inflows of FDI and strong export growth remain key features of the economy
- Strong jobs growth, averaging over 3% per annum during the period 2013-19
- Unemployment rate fell from 16% in early 2012 to below 5% in H2 2019
- Budget deficit eliminated quicker than expected. Public finances in surplus in 2018/19
- Major deleveraging by private sector, including households, during the past decade
- Sound financial system, with well capitalised banks
- Stable housing market - moderate growth in mortgage market and house prices pre-Covid
- Very low, stable CPI inflation of below 1% over 2013-19 period
- Balance of payments returned to large surplus

Factors in place for strong rebound by Irish economy

- Key ingredients in place for a strong rebound by Irish economy from mid-2021 onwards
- Rollout of vaccines gathering momentum, with economies reopening here and elsewhere
- 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
- Government policy can remain supportive of growth - DoF forecasts provide for increased core spending
- Activity aided by continuing very low interest rates
- Economy has deleveraged; low private sector debt
- Large build-up in private savings in 2020-Q1'21 will help fuel strong growth in domestic spending
- Strong growth forecast for 2021-22, though wide range for GDP forecasts – ESRI at 11% and 7%

OECD GDP Forecasts (June 2021)			
% Vol	2020	2021	2022
World	-3.5	5.8	4.4
OECD	-4.8	5.3	3.8
US	-3.5	6.9	3.6
Eurozone	-6.7	4.3	4.4
UK	-9.9	7.2	5.5
Japan	-4.7	2.6	2.0



AIB Irish Economic Forecasts

% change in real terms unless stated	2019	2020	2021 (f)	2022 (f)	2023 (f)
GDP	**5.6**	**3.4**	**8.0**	**5.5**	**4.0**
GNP	3.4	0.6	5.0	5.0	3.5
Modified Final Domestic Demand	**3.3**	**-5.4**	**4.0**	**5.3**	**3.7**
Personal Consumption	3.2	-9.0	3.5	7.5	4.0
Government Spending	6.3	9.8	2.0	-1.5	1.0
Fixed Investment*	74.8	-32.3	-25.0	7.0	4.5
Exports	10.5	6.2	10.0	5.0	4.5
Imports*	32.4	-11.3	-2.1	5.2	4.5
HICP Inflation (%)	0.9	-0.5	1.6	1.6	1.5
Unemployment Rate (Estimated %)	**5.0**	**10.4**	**11.0**	**8.2**	**6.9**
Budget Balance (% GDP)	0.5	-5.0	-4.7	-2.8	-1.2
Gross General Gov Debt (% GDP)	57.4	59.5	62.5	60.5	59.0

*Data very distorted by aircraft and intangibles (IP)

Source: CSO, D/Finance; AIB ERU Forecasts

Brexit: The EU-UK Trade & Cooperation Agreement

The Trade Deal:

- EU and UK finally agreed on a trade deal before end 2020, thereby allow for continuing tariff-free and quota-free trade in goods
- However, the FTA is much inferior to the EU Single Market, involves a lot of extra admin costs and delays at ports – it marks an end to frictionless UK-EU trade
- The FTA is unique in that it increases trade barriers– new customs procedures, compliance with onerous rules of origin requirements, documentary evidence needed to move goods
- Agri-food products may require export health certs and veterinary inspections at borders
- FTA does not extend to services. Financial services not given equivalence/passporting rights

The Fall-Out:

- Irish PMI surveys show firms reporting considerable import delays at ports, with longer supply chains and higher admin costs as a result of Brexit
- Estimated that higher trade costs will knock circa 0.5% off UK/RoI annual GDP growth rate in next few years
- UK not fully implementing all customs checks until 2022 when Irish exporters to GB will see impact
- Issues with NI protocol and GB-NI trade flows – Customs declarations, regulatory checks, political impact

Ireland's 12.5% Corporate Tax regime at risk

Importance of FDI:

- Some 1,600 multinational companies are based in Ireland, accounting for over 250,000 in direct employment or about 18% of total jobs in terms of direct and indirect employment.
- Corporation tax accounts for €12bn or circa 20% of total tax revenue... 80% of this comes from MNCs

Threats to Ireland's Corporate Tax Regime:

- Ireland's relatively low & stable 12.5% corporate tax rate has been seen as key cornerstone in attracting FDI
- OECD seeking to introduce a minimum global corporate tax rate. Move is being supported by larger economies. Recent speculation that this could be set at 15%, not that far above the Irish rate
- President Biden initially proposed 21% global minimum tax rate for US companies, up from the current 10.5%. He may instead now move in line with OECD and adopt 15% rate
- OECD also planning other changes whereby larger multinationals, mainly digital, would pay some taxes on profits in countries where they make sales, rather than where they are based- could apply to 20% of their sales

Major Uncertainties Remain:

- DoF has allowed for a €2bn hit to Irish corporation tax receipts by 2025 from likely changes to tax system
- Uncertainty remains as (1) still unclear what minimum US global rate will be – needs to be approved by Congress; (2) OECD has not yet formally proposed a minimum global corporate tax (3) unclear if OECD will also get agreement on digital tax on 20% of sales (4) No indication on when any changes would take effect
- Irish Finance Minister hopes to be able to keep the Irish 12.5% corporate tax rate in place

Ireland has other advantages besides low tax rate

Ireland will remain attractive FDI location:

- Big multinationals will still need to retain large global operations, whatever happens in the tax field
- US companies require employees with language skills to service European customers in European time zone
- English speaking country with common law system remains key attraction of Ireland for US companies
- Ireland’s main competitor for FDI has been UK, but it is now out of EU, Single Market & Customs Union
- Strong talent pool of internationally mobile, highly skilled, well educated workers (17% of workforce is non-Irish)
- Key industries have large presence in Ireland, with its strong pro-enterprise culture, leading R&D and innovation

Change is coming, but FDI inflows continue:

- Irish Finance Minister has conceded that a “period of significant change is coming”
- Could see agreement on new global corporate tax regime reached later this year, but ratification is not guaranteed
- Tax changes usually phased in, while MNCs unlikely to make any quick decisions on moving locations
- 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). Thus, even if it is raised, Ireland’s rate will likely remain comparatively low
- Strong inflow of FDI continues (Intel, Stripe) despite moves to change global corporate tax rules

Reprise of risks to the Irish economy

- Main near term risk is still Covid-19 – concerns about new variants
- Virus could leave lasting scarring effects – high business failures & bad debts, job losses
- Very open nature of Irish economy means it is exposed to any weakening in global economy
- Changed EU-UK trading relationship may yet negatively impact some Irish industries
- Questions around Ireland's corporation tax regime (pressure for tax harmonisation in EU, OECD digital tax/minimum tax rate proposals, changes to US overseas corporate tax rate)
- 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