



The Irish Economic Update:

*Tough start to 2021, but prospects brighten
as vaccine rollout sees economy reopening*

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Economy starts reopening from long third lockdown

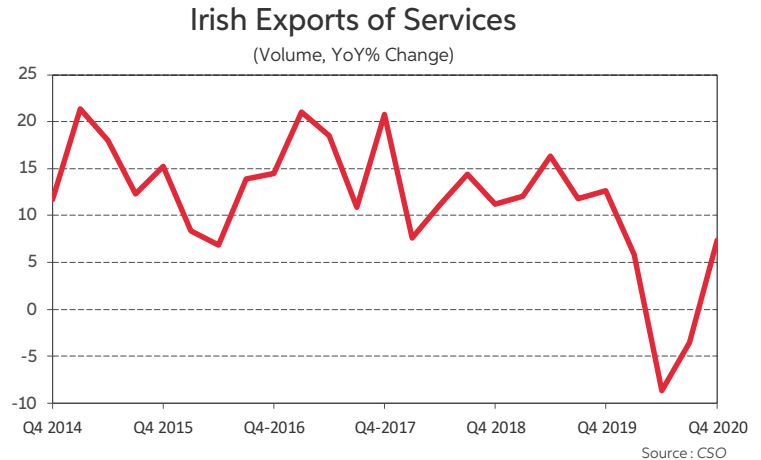
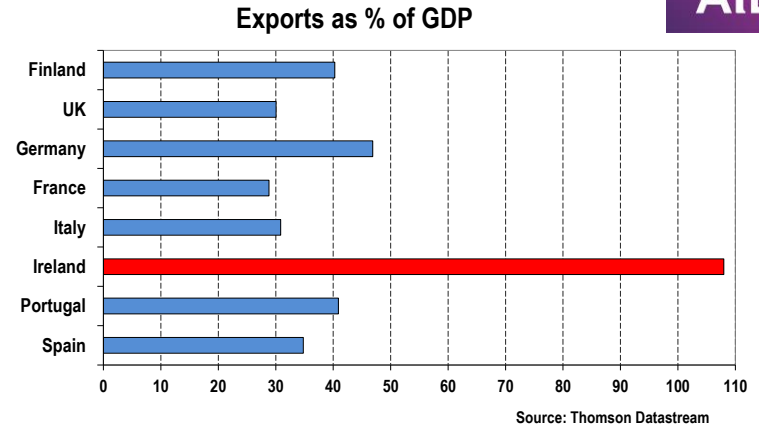


- Irish GDP grew by 3.4% in 2020, with GNP up 0.6%, as exports increased by 6.2%
- Domestic economy contracted by 5.4%, with consumer spending down 9% and fixed investment falling by 8.5%, partially offset by 9.8% rise in government expenditure
- Long third lockdown imposed since Xmas, with restrictions only being lifted during Q2
- Sharp fall in construction & services PMIs in early 2021, decline in consumer spending
- Economic contraction not as severe as last spring – more activity and spending this time
- More modest decline in retail sales in Q1, down 4% yoy, versus 12% yoy fall in Q2 2020
- Mfg PMI rises during Q1, hits 57.1 in March. Services PMI jumps from 41.2 to 54.6 in March
- Vaccination programme ramping up considerably in Q2, restrictions start to be eased
- Growth prospects improve for H2 2021 and 2022, following economy reopening during Q2
- DoF sees GDP growth of 4.5% in 2021, 5.0% in 2022. ESRI at 4.4% and 5.2%
- CBI has higher GDP f'cast in 2021 of 5.9%, but IMF and EC at 4.2% and 3.4%, respectively

Goods exports up strongly last year, services exports flat



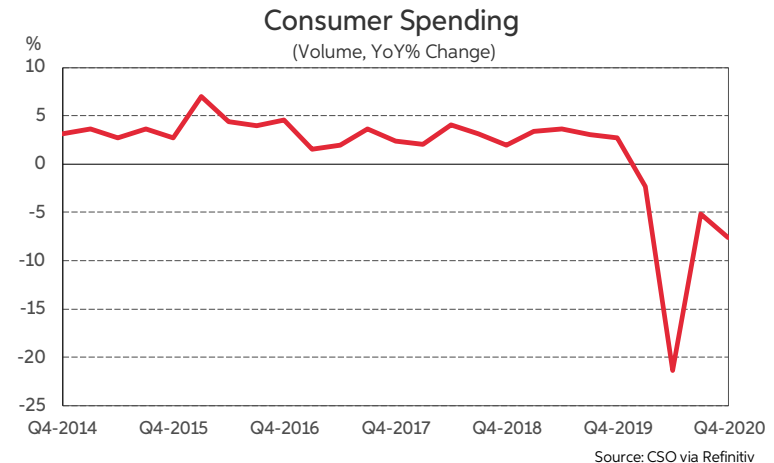
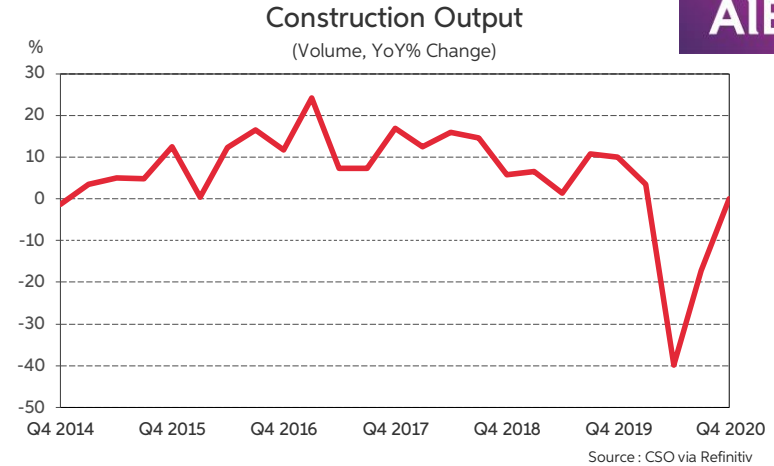
- Ireland a very open economy – exports, driven by large scale FDI, are a huge part of economy
- Exports rise strongly in recent years, helped by large FDI inflows
- Total exports rose 10.4% in 2018, 11.1% in 2019
- Pharma, medical care products, IT equipment, and food & drink are main goods exports
- IT, business, financial and tourism are the main service exports
- Total exports rise 6.2% in 2020
- Goods exports up 11.8% last year, fuelled by very big jump in pharma exports
- Service exports flat in 2020 – fell sharply in H1 but strong rebound in second half of year
- Collapse in earnings from tourism & travel, but computer service exports showed strong growth



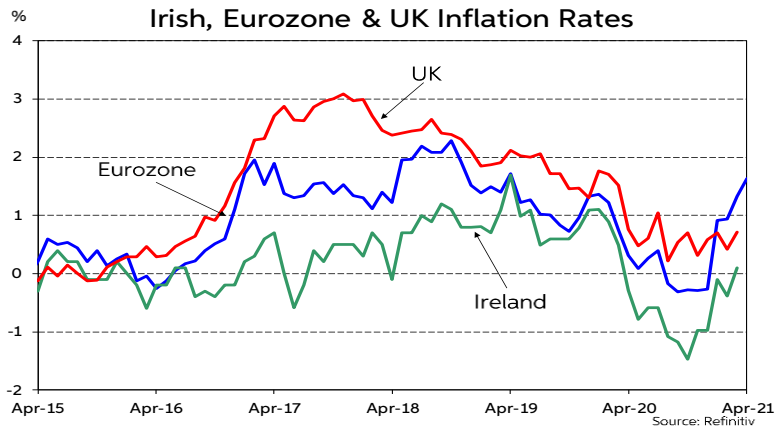
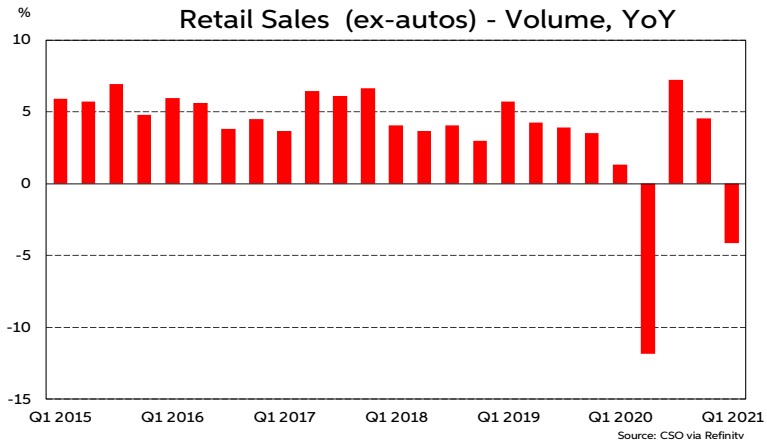
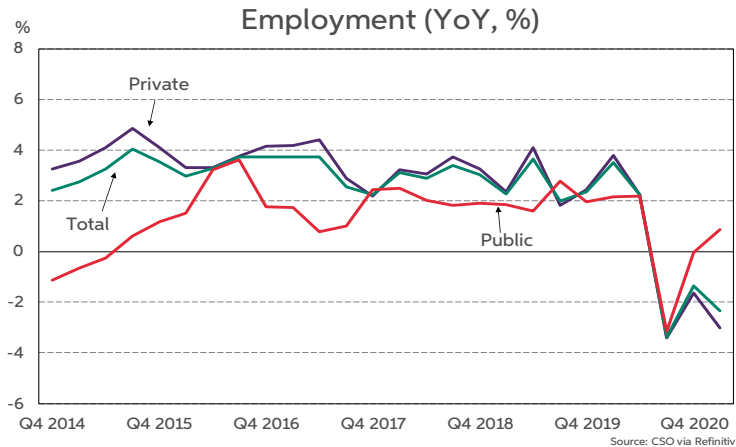
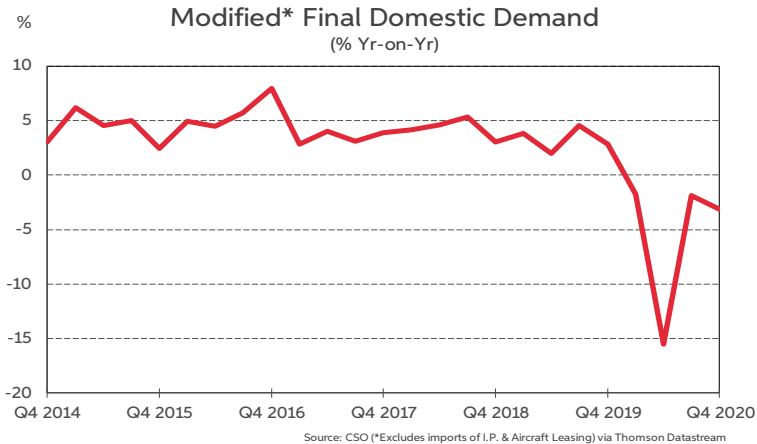
Strong economic rebound followed big Covid hit in H1'20



- Modified final domestic demand up by 18.8% in Q3, with small fall of 2.2% in Q4, after big H1'20 decline
- Overall, modified domestic demand contracted by 5.4% in 2020. It was running at -3% yoy by Q4
- Consumer spending fell by 2.9% in Q1, 19.6% in Q2. Rebounded by 21% in Q3. Fell by 2.2% in Q4,
- Domestic fixed investment fell by 25% in Q2. Up by 35% in Q3. Fell by 4% in Q4 and down 3.4% yoy
- Construction investment fell by 9% in 2020, though new housing output was down by just 2.3%
- GDP rose by 3.4% in 2020, boosted by strong performance of net trade, with exports up 6.2%
- GNP up 0.6% in 2020 – takes account of big rise in profits outflows from multi-nationals last year



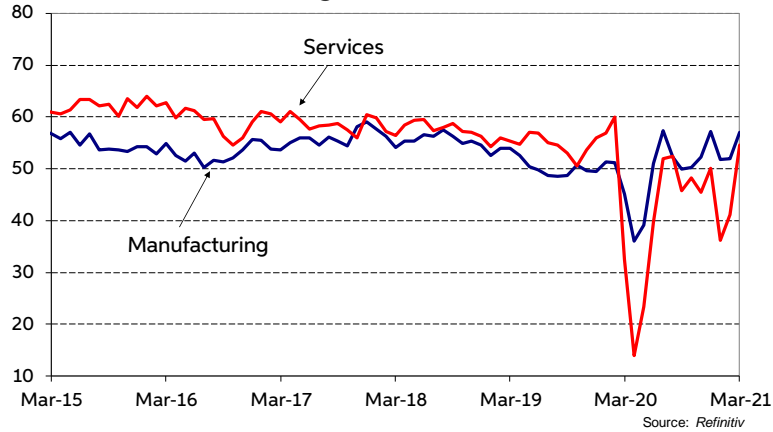
But domestic recovery interrupted by new lockdowns



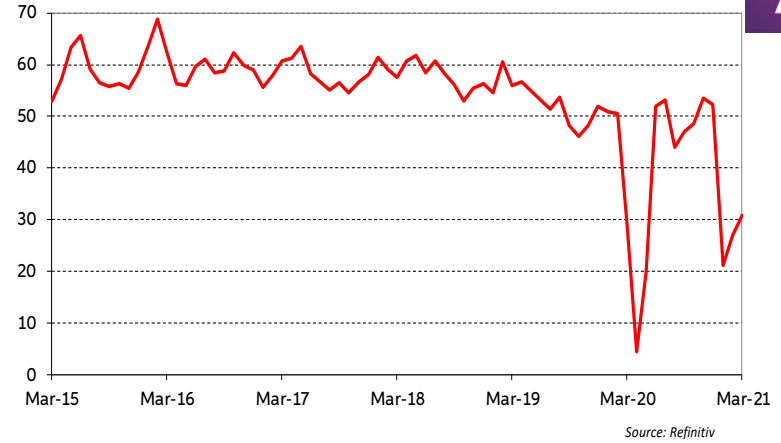
Weak start to 2021, but lead indices now starting to pick up



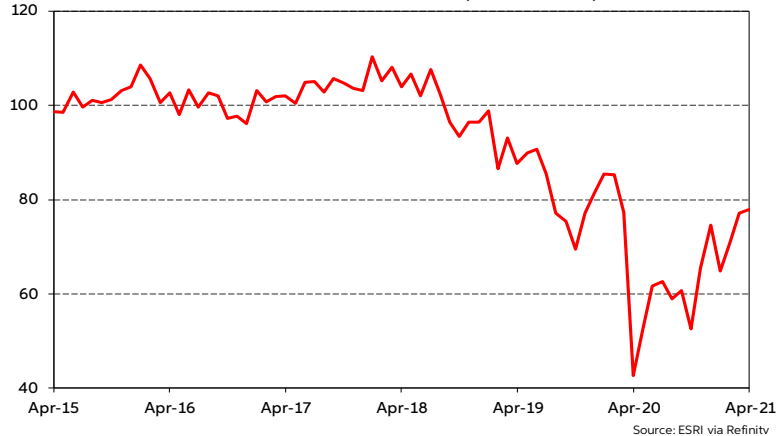
AIB Irish Mfg and Services PMIs



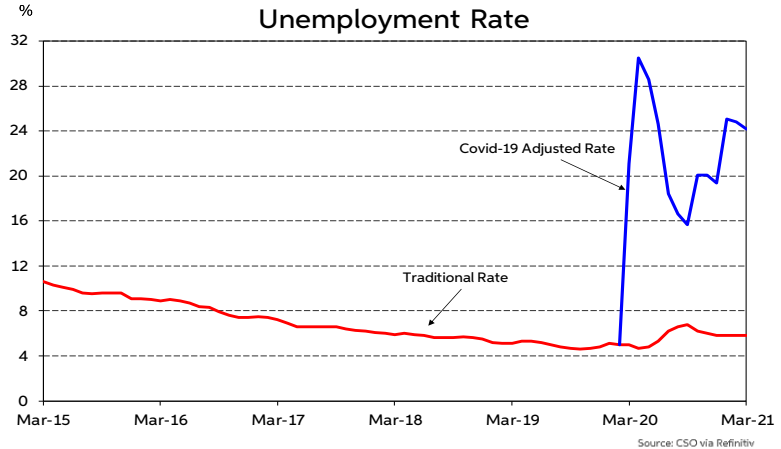
Ulster Bank Construction PMI



Consumer Confidence (ESRI - KBC)



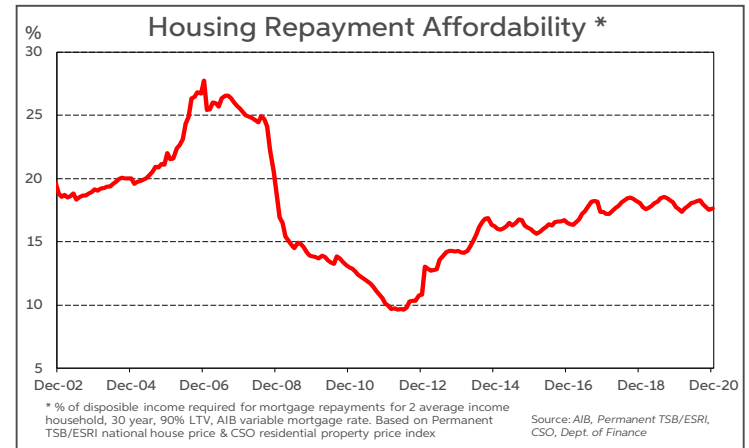
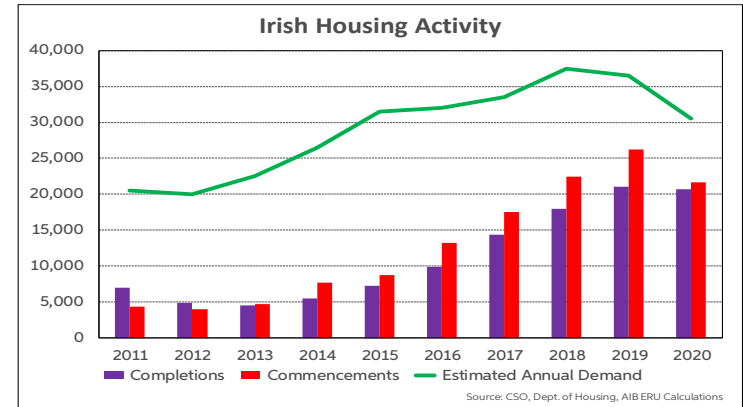
Unemployment Rate



House building likely to fall back given big decline in starts



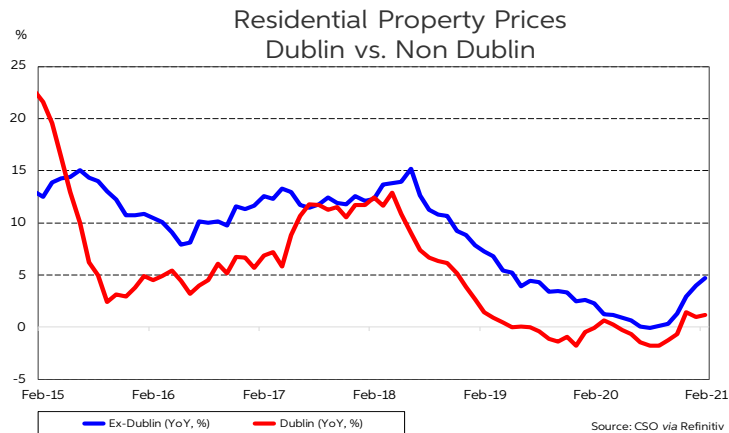
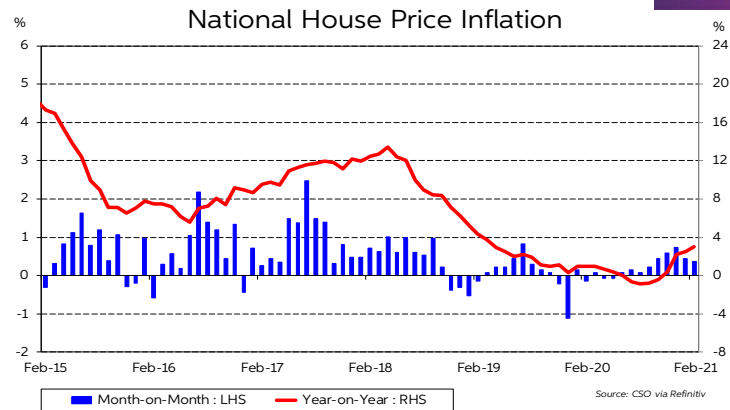
- Total completions amounted to 20,676 in 2020, just 2% down on 2019 level despite a 6-week lockdown
- Commencements fell by over 17% to 21,700 in 2020 from 26,240 in 2019. Further big fall at start of 2021
- Planning permissions jumped sharply last year – up 13.5% as apartments surged for second year
- Housing output likely to be less than 20,000 this year, given long lockdown & fall in commencements\starts
- Thus shortfall in supply could worsen, with annual housing demand estimated at circa 30k
- Mortgage lending rose by 9.5% to €9.5bn in 2019, but Covid saw it fall by 12% to €8.4bn in 2020
- However, mortgage approvals surged in H2 2020 and rose by 7.3% yoy in Q1 2021
- Market forecasts are for €9.5-10.0bn market in 2021
- Housing affordability metrics remain quite stable



House price inflation up to 3% in early 2021 and rising



- House prices declined by very sharp 55% over 2007-13
- Prices have recovered strongly; 88.5% above trough by Feb'21, but still some 15.5% below 2007 peak
- CSO data show house prices little changed over 2019-20, until moving much higher in Q4 last year
- Further rise in house prices in early 2021, with Feb yoy at 3%. Prices rise at 5.5% annualised rate since autumn
- Non-Dublin prices up 4.7% yoy in February, well above Dublin rate of 1.2% yoy
- Property websites show big jump in asking prices since mid-2020. Running at 7.5% yoy in Q1 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 2020 during first lockdown
- Rents recovering well in recent months, but still down 1.4% yoy at March 2021



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
<i>of which</i>					
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

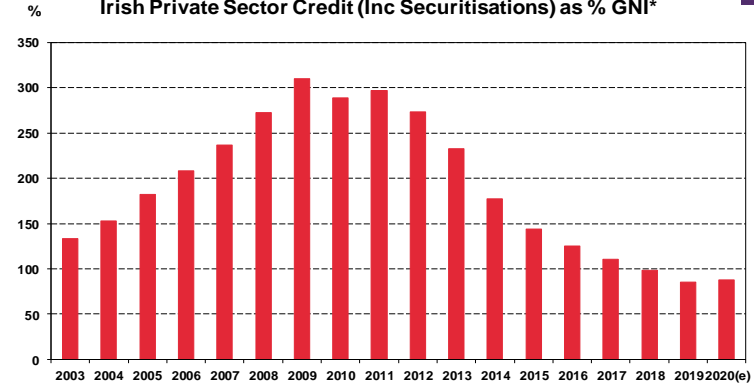


Irish Household Debt Ratio



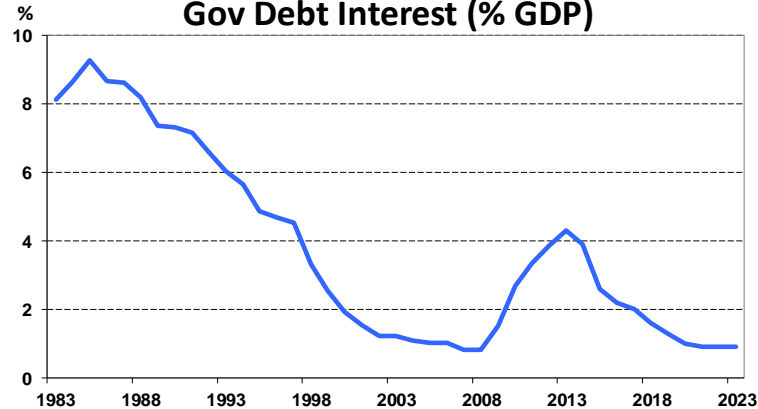
Source: CSO, Central Bank, AIB ERU

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



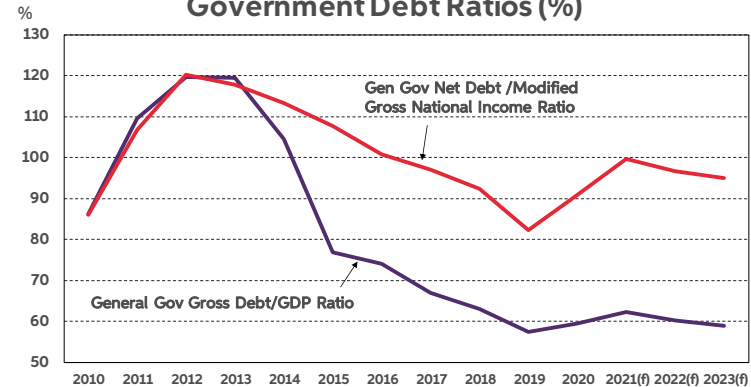
Sources: Central Bank, CSO, AIB ERU Calculations

Gov Debt Interest (% GDP)



Source: NTMA; Dept of Finance

Government Debt Ratios (%)

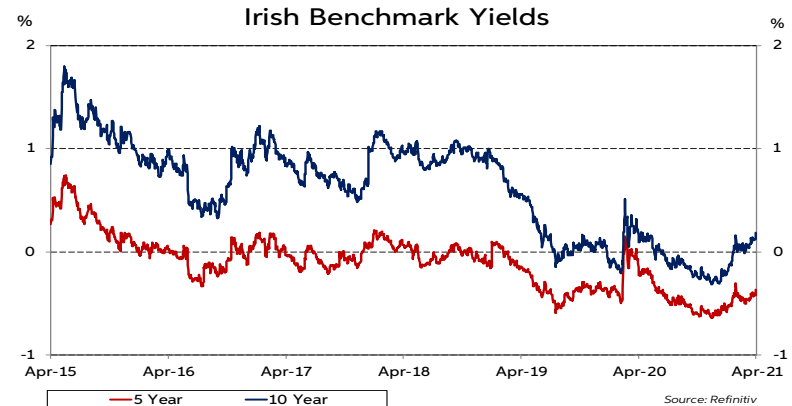
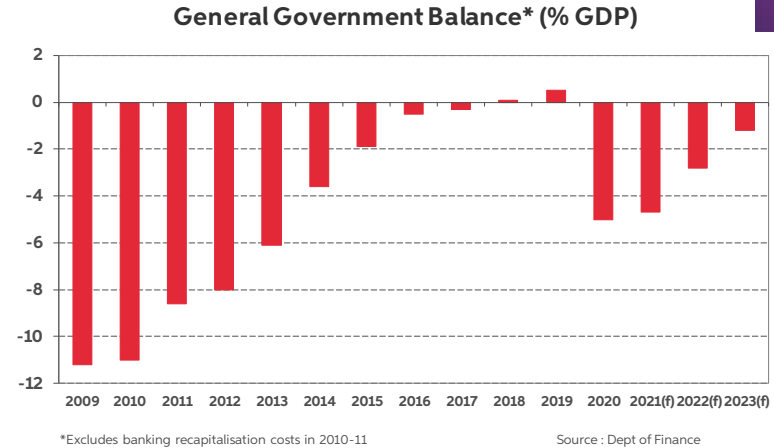


Sources: Dept of Finance, CSO, AIB ERU (Inflated/Distorted GDP figures from 2015)

Big 2020-21 budget deficits to decline sharply over 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



Economy was in very strong shape ahead of Covid shock



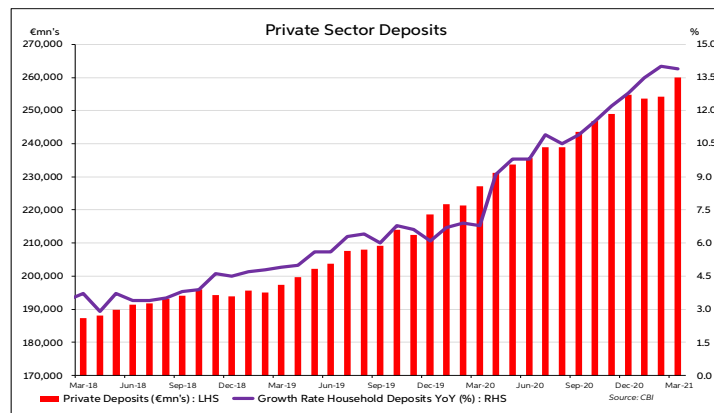
- Economy was in very strong shape ahead of being hit by very deep 2020 Covid recession
- Well balanced, robust underlying growth of circa 5% per annum over 2013-19 period
- Large inflows of FDI and strong export growth remain key features of the economy
- Strong jobs growth, averaging over 3% per annum 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 - house price inflation at 1%, moderate growth in mortgage market
- Very low, stable CPI inflation of below 1% over 2013-19 period
- Balance of payments returned to large surplus

Factors in place for a strong rebound by Irish economy



- Key ingredients for a strong rebound by Irish economy from mid-2021 onwards moving into place
- Rollout of vaccines gathering momentum, which should allow big reopening of economy by summer
- World economy rebounding strongly, which augurs well for export orientated countries like Ireland
- House building to pick up 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 to be aided by continuing very low interest rate environment
- Economy has deleveraged; low private sector debt
- Large build-up in private savings in 2020-H1'21 will unwind, fuelling strong growth in domestic spending
- GDP to rise by cumulative 13% over 2021-23 period

IMF GDP Forecasts (April 2021)			
% Vol	2020	2021	2022
World	-3.3	6.0	4.4
OECD	-4.7	5.1	3.6
US	-3.5	6.4	3.5
Eurozone	-6.6	4.4	3.8
UK	-9.9	5.3	5.1
Japan	-4.8	3.3	2.5



AIB Irish Economic Forecasts



<i>% change in real terms unless stated</i>	2019	2020	2021 (f)	2022 (f)	2023 (f)
GDP	5.6	3.4	3.0	5.5	4.0
GNP	3.4	0.6	2.5	5.0	3.5
Modified Final Domestic Demand	3.3	-5.4	2.8	5.5	3.5
Personal Consumption	3.2	-9.0	3.0	7.5	4.0
Government Spending	6.3	9.8	1.5	-3.0	1.0
Fixed Investment*	74.8	-32.3	-6.5	8.0	4.5
Exports	10.5	6.2	4.5	5.0	4.5
Imports*	32.4	-11.3	1.5	5.2	4.3
HICP Inflation (%)	0.9	-0.5	0.5	1.0	1.2
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 rates
- 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 under threat



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
- President **Biden is proposing to increase global minimum tax rate for US companies from 10.5% to 21%**. This would mean US firms based here would have to pay top up rate in the US of 8.5%
- **OECD seeking to introduce a minimum global corporate tax rate**. This is being supported by larger EU economies. Not clear if US would align its proposed minimum global rate with OECD, or have higher rate
- **OECD also planning new digital sales tax** whereby multinationals would pay taxes on profits in countries where they make digital sales, rather than where they are based

Major Uncertainties Remain:

- DoF has allowed for a €2bn hit to Irish corporation tax receipts by 2025 from likely changes to tax system
- Huge uncertainty as (1) unclear what minimum global rate will be agreed by US Congress – may be less than proposed 21%; (2) OECD has not yet proposed a minimum global corporate tax – may not be that far above Irish 12.5% rate; and (3) unclear if will get agreement on digital sales tax if a minimum corporate tax rate introduced
- Big push to get reforms done, so new global corporate tax regime may be agreed by G20 Finance Ministers in July

Tax changes coming, but Ireland still has advantages

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”
- 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
- OECD changes may be phased in and MNCs unlikely to make any quick decisions on moving locations
- Strong inflow of FDI continues (Intel, Stripe) despite moves to change global corporate tax rules
- Of all the changes, US move to a higher global minimum corporate tax rate looks the biggest threat

Reprise of risks to the Irish economy



- Main near term risk is still Covid-19 – continues to weigh heavily on growth & employment
- 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 trade
- 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

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.