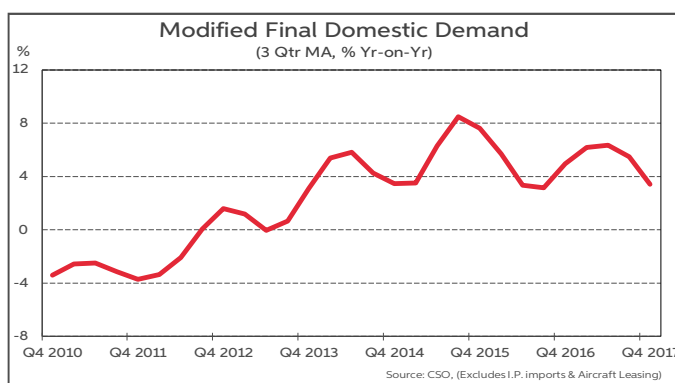


Irish growth forecasts revised upwards

The past month has seen updated forecasts published on the Irish economy for 2018 and 2019 by the ESRI, Central Bank and Dept. of Finance. All three have upgraded their outlook on the economy for the next two years. Three factors underpin the improved outlook: a generally more favourable external environment, continuing strong data on the Irish economy in recent months and an increasing likelihood of a soft Brexit by the UK in March 2019 that should have little impact on the Irish economy in the next two years.

All three bodies are basing their forecasts on the assumption that there will be a transition period that allows trade between the UK and EU to continue on its current basis post Brexit until the end of 2020. They warn, though, that there is still a risk of a disruptive UK exit from the EU next year. A withdrawal agreement still needs to be concluded by the late autumn that would pave the way for a smooth Brexit. The agreement will then have to be ratified by the UK's and numerous EU parliaments.



The Irish economy performed strongly for a fifth consecutive year in 2017. National Accounts data show that GDP grew by 7.8%, with GNP up by 6.6%. However, Irish GDP/GNP figures are distorted by large flows associated with the activities of some multi-national companies. A better measure of underlying activity is modified final domestic demand, which excludes factors that distort GDP figures such as certain intellectual property rights and aircraft leasing. It grew by 4% in 2017, which gives a better measure of domestic activity. Net trade is also estimated to have made a positive contribution to growth last year. **The Central Bank believes that the real underlying growth rate of the economy was “in the region of 5%” in 2017.**

Growth is expected to show just a slight deceleration in 2018, with both the Central Bank and ESRI forecasting that the economy will grow by 4.8% this year. AIB and the European Commission are forecasting a growth rate of around 4.5%. Growth is expected to moderate somewhat further in 2019, with the Central Bank, ESRI, Dept. of Finance and AIB all forecasting that GDP will rise by around 4% next year. This would still represent a strong performance by the economy.

Consumer spending is expected to rise by around 2.5% in 2018 and 2019, with strong growth forecast in business investment, construction and exports in both years.

AIB and the Dept. of Finance are forecasting that growth will remain impressive at circa 3.5% in

GDP Forecasts	2017*	2018(f)	2019(f)	2020(f)
Dept. Of Finance	7.8	5.6*	4.0	3.4
Central Bank	7.8	4.8	4.2	N.A.
ESRI	7.8	4.8	3.9	N.A.
AIB	7.8	4.5	4.0	3.5

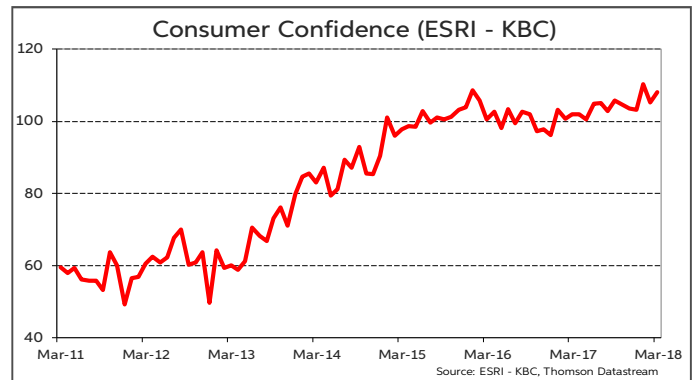
* GDP in 2017 and D/Finance 2018 forecast inflated by flows associated with some multi-national companies

2020 and 3.0% in 2021 on the basis that the UK and EU conclude a trade deal by end 2020. Although, there is much uncertainty on what shape any trade deal will take. Meanwhile, the ESRI in its most recent medium-term outlook on the Irish economy, estimated that it could grow at a rate of around 3.25% over the period 2021-2025.

Strong growth expected to continue in coming years

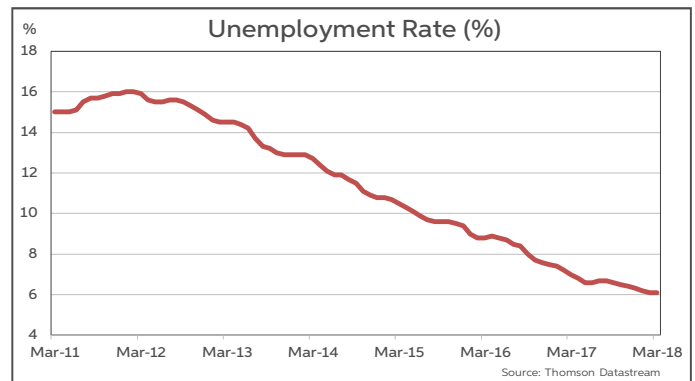
The Irish economy is expected to continue performing strongly over the next number of years against a backdrop of good growth by the global economy, a continuing low interest rate environment, more expansionary fiscal policy, on-going recovery in house building activity and improving household incomes.

On the external front, the IMF is forecasting good growth of 3.9% for the world economy in 2018 and 2019. It expects growth to moderate somewhat thereafter as monetary policy is tightened and the boost to activity from stimulatory fiscal policies fades. Meanwhile, interbank rates in the Eurozone are expected to remain negative until end 2019 and rise only slowly thereafter to around 1% by mid-2022. The UK's exit from the EU next March is not expected to have a major impact on the Irish economy given the agreement on a transition period to end 2020 that should largely maintain the existing trading arrangements between the EU and UK.



Meantime, the indicators released in the opening months of this year point to a continuing strong growth performance by the Irish economy. The Purchasing Managers Indices (PMIs) for the manufacturing, services and construction sectors of the economy, which are viewed as good leading indicators of activity, remained at high levels in the opening months of the year. There was some softening in the March indices owing to bad weather, but this should reverse in April.

Meanwhile, consumer confidence picked up to its highest level since 2001 in the opening months of the year. Retail sales remain strong, with core retail sales volumes (i.e excluding the motor trade) rising by 1.4% in January/February from their levels in the final quarter of 2017. This left them almost 6% above year earlier levels. Meantime, total car registrations (new and second-hand imports) maintained their very high 2017 levels in the opening quarter of 2018.



The improvement in the labour market continues, with the unemployment rate dropping to 6.1% in February/March and the Live Register declining by a further 8,300 in the opening quarter of the year. House building activity continues to recover, with both commencements and completions rising further in the opening two months of the year. External trade figures have also been strong in the opening two months of the year. The general strength in economic activity is reflected in figures on the public finances for the first quarter of the year, with tax revenues more or less on target, growing by 3.5%.

Overall, while there are risks to the economic outlook from Brexit, a changing global tax environment and increasing trade protectionism, the Irish economy is expected to continue performing strongly.

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