The Irish Economic Update

Continuing Robust Growth But Risks Remain

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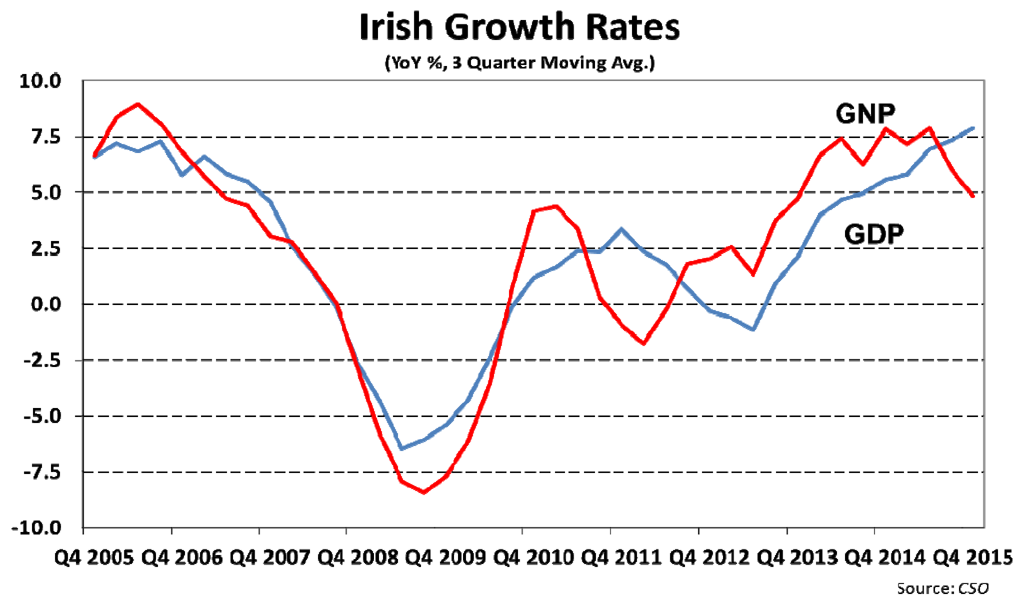
Irish recovery gains very strong momentum

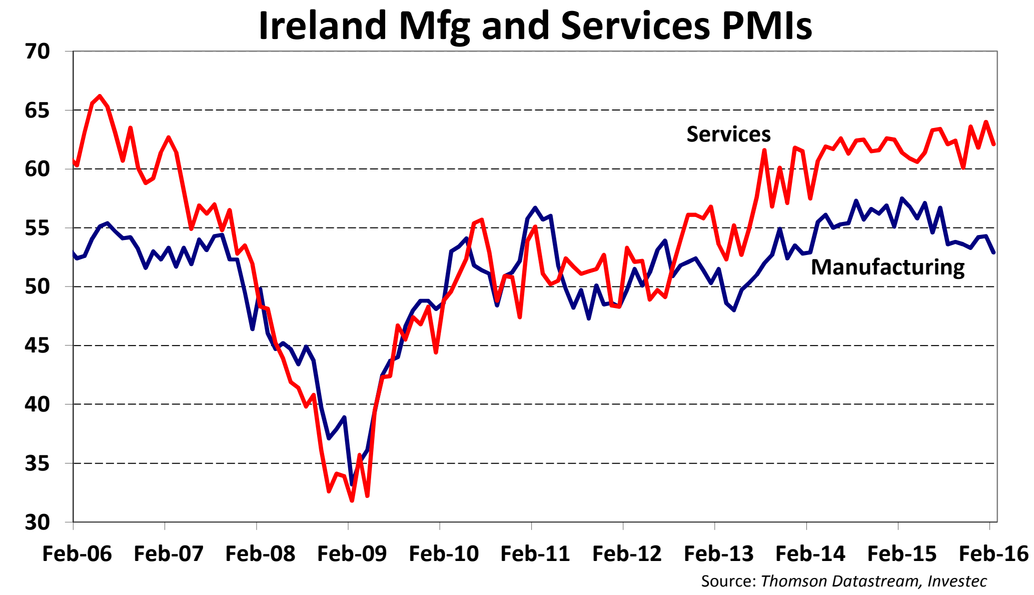
- Irish economy boomed from 1993 to 2007 with GDP up by over 250% – Celtic Tiger
- Very severe recession in Ireland in 2008-2009. GDP fell by 8% and GNP down 10%
- Collapse in construction activity and banking system, severe fiscal tightening, high unemployment. Ireland entered a 3 year EU/IMF assistance programme from 2010-2013
- GDP at end of 2008-09 recession still over 25% higher than in 2001, highlighting that the economic crash came after a very strong period of growth, unlike in other countries
- Ireland tackled its problems aggressively in the public finances, banking sector and property market. Imbalances in economy unwind – housing, debt levels, competitiveness, BoP
- Ireland focused on generating growth via its large export base as the route to recovery
- Domestic economy has recovered strongly, led by rebound in investment and retail spending
- Domestic spending averages growth of 3.75% in past three years
- GNP growth averages 5.7% and GDP 4.8% in the three year period 2013-15
- Strong jobs growth. Unemployment rate falls from 15% in 2012 to below 9% by early 2016
- Budget deficit has declined at quicker than expected pace. Balanced budget now in sight.
- Economy now on very strong growth path. GDP could grow by 4-5% p.a. in next few years

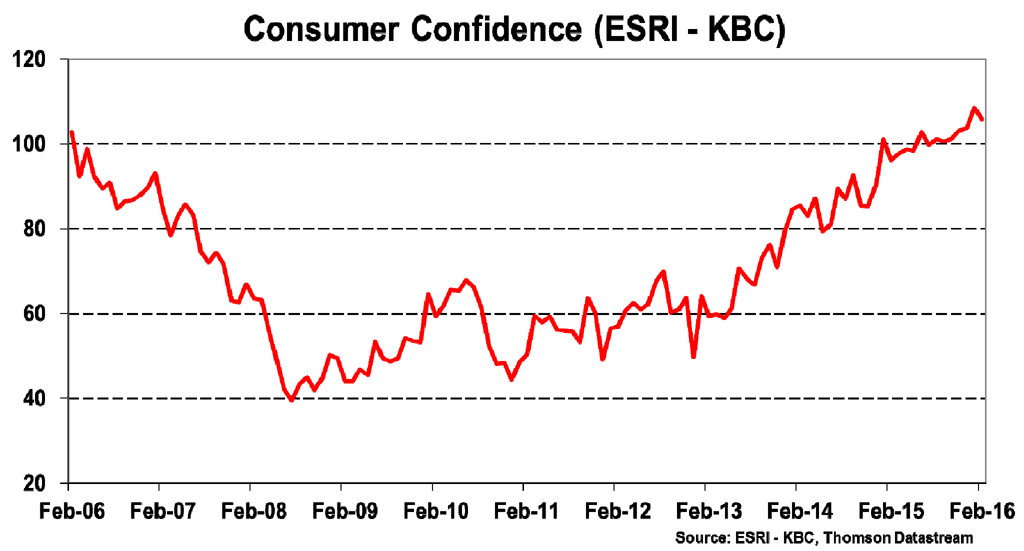
Continuing very strong data in early 2016

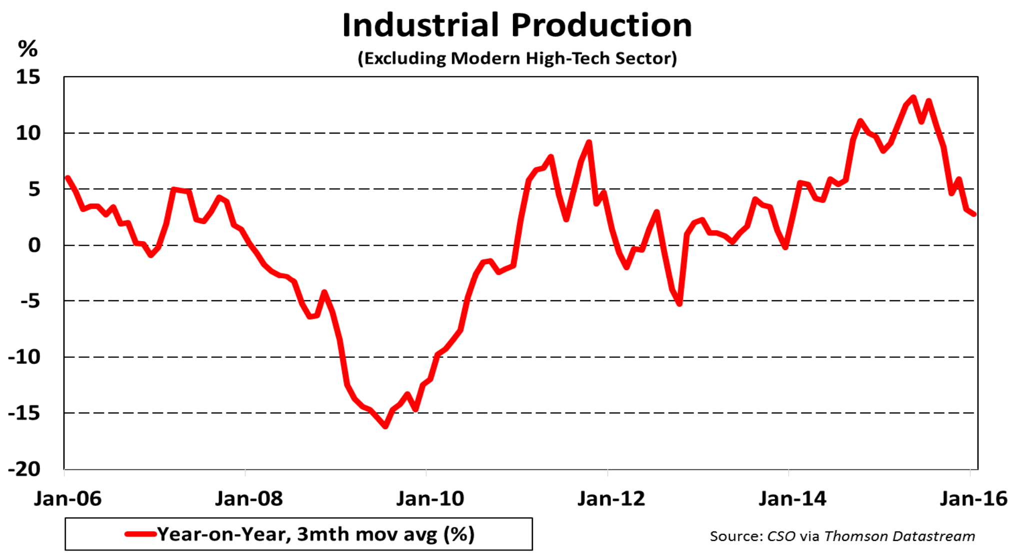
- GDP growth of 7.8% and GNP growth of 5.7% in 2015
- Very strong export growth in 2015 of 13.8%
- BoP surplus of 4.4% of GDP in 2015, up from 3.6% in 2014
- Industrial production rose strongly in 2015, including from indigenous sectors
- Continuing solid Manufacturing PMI data in early 2016 – averages 54 in Q1
- Very robust Services PMI data in early 2016 – averages 63 in Jan/Feb, near ten year high
- Construction PMI hit 15 year high of 68.8 in Feb. Housing PMI at 71.2 in same month.
- Consumer confidence also reaches 15-year highs in early 2016
- Core retail sales (ex motor trade) up by 6.2% in 2015. Strong start for sales in early 2016.
- Car sales increased by 30% in both 2014 & 2015. Rose by 28.5% yoy in Q1 2016
- Employment up for 13 consecutive quarters. Rose by 2.6% in 2015
- Live Register continues to fall. Jobless rate moves below 9% in early 2016 – peaked at 15.1%
- Exchequer deficit virtually eliminated in 2015. Gov budget deficits falls to 1.5% of GDP
- Further improvement is budget balance in Jan/Feb 2016, with tax receipts remaining strong

Many indicators show very robust growth









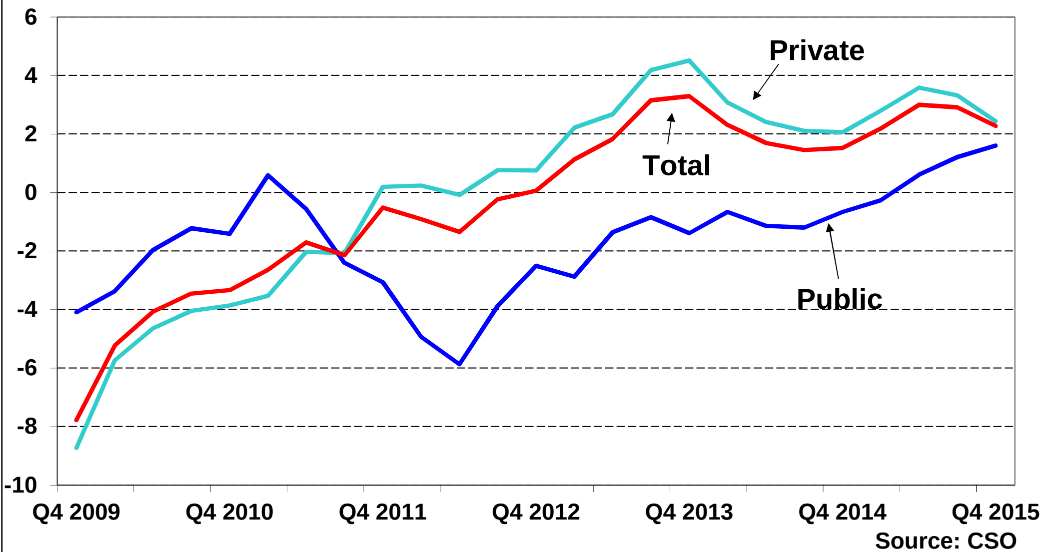
Labour market improves – strong jobs growth

Year Average	2012	2013	2014	2015	2016(f)	2017(f)
Unemployment Rate %	14.7	13.1	11.3	9.5	8.3	7.5
Labour Force Growth %	-0.6	0.4	-0.3	0.5	1.0	1.4
Employment Growth %	-0.6	2.4*	1.7	2.6	2.3	2.2
Net Emigration : Year to April ('000)	34.4	33.1	21.4	11.6	5.0	0.0

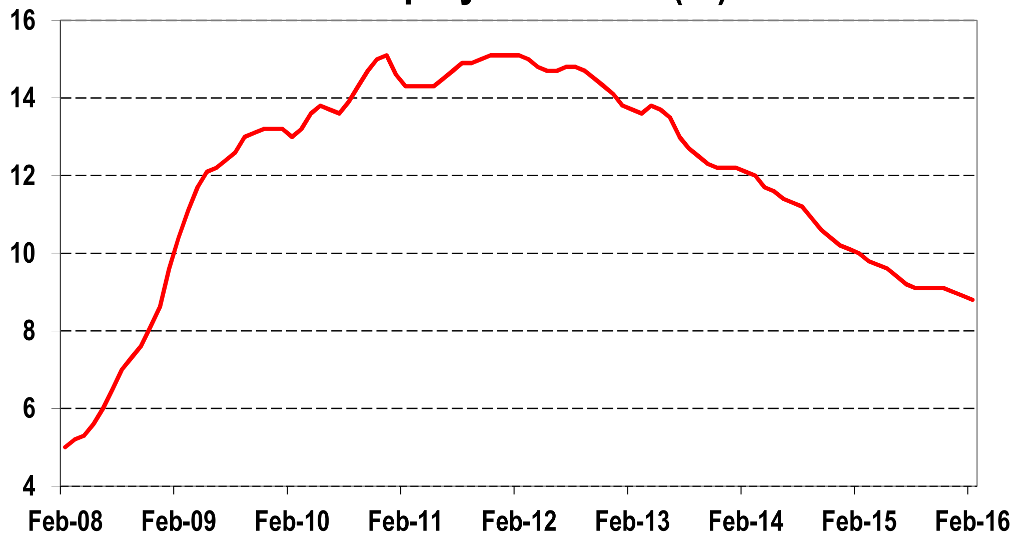
Note: Employment ex Agriculture +1.3% in 2013

Source: CSO and AIB ERU forecasts

Employment (% Chg YoY)



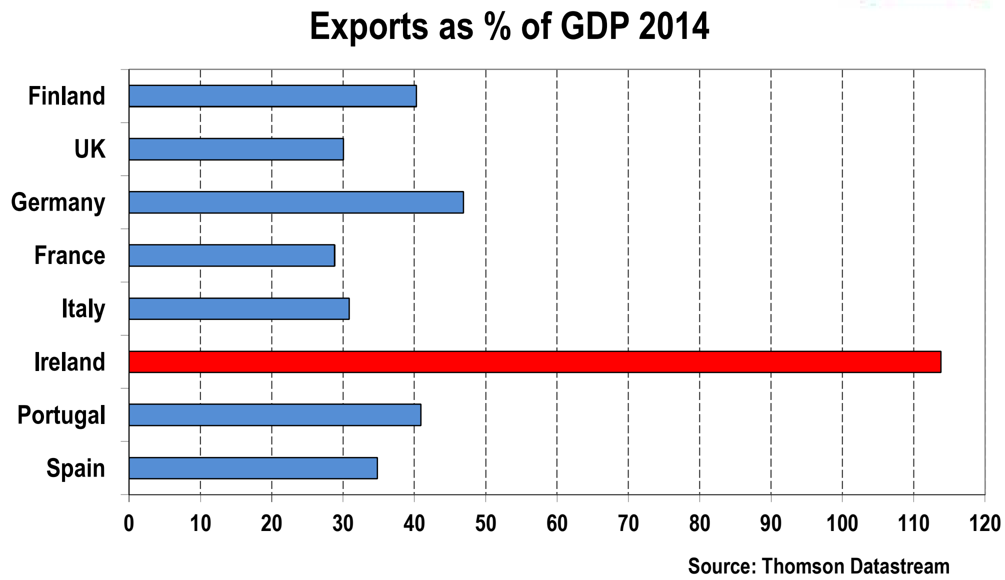
Unemployment Rate (%)

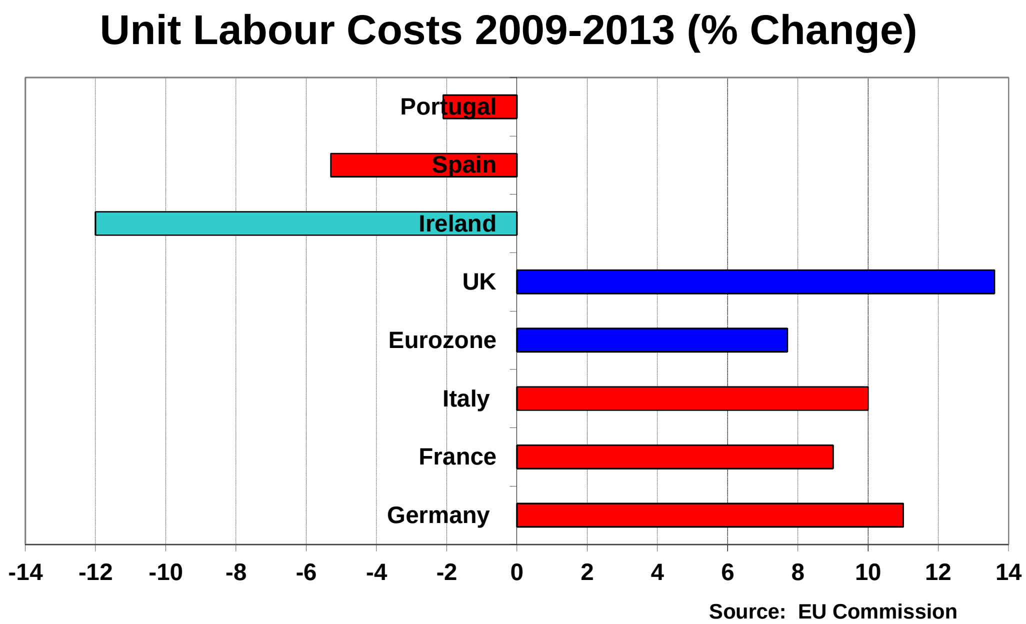


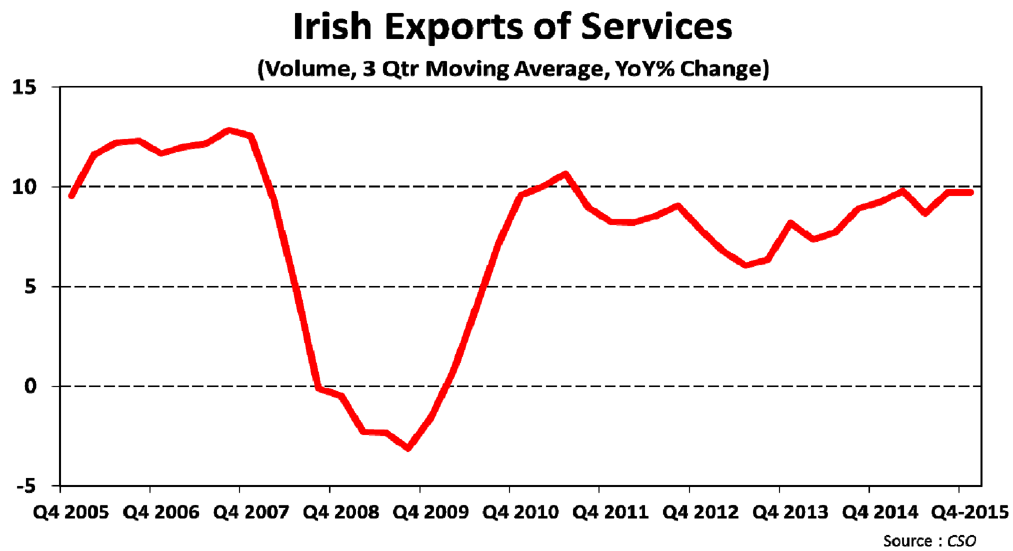
Source: Thomson Datastream

Impressive performance by exports

- Ireland a very open economy – exports, driven by huge FDI, equated 121.5% of GDP in 2015
- Major gains in Irish competitiveness since 2009
- Exports rise strongly helped by large FDI inflows and recovery in global economy
- Euro weakness gives additional boost to exports. Up by some 21% in value (14% in vol) in 2015







Impact of FDI on economy (Source IDA)

KEY FDI IMPACTS ON THE IRISH ECONOMY

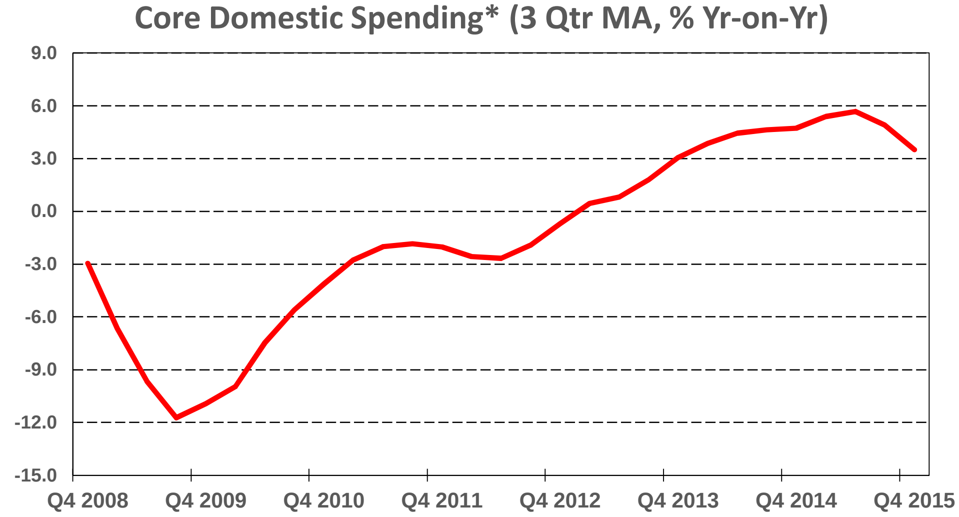
- 1,050 multinational companies
- €121bn Exports (70% of Irish exports)
- 161,000 Jobs in FDI, 275,000 in total
- 70% of Corporation Tax
- €11bn Spending on services/materials
- €8bn in Payroll
- 67% of Business R&D expenditure

WORLD LEADERS CHOOSE IRELAND

- 8 of the top 10 in ICT
- 9 of the top 10 in Pharmaceuticals
- 17 of the top 25 in Medical Devices
- 3 of the top 5 Games companies
- 10 of the 'top born on the Internet' firms
- More than 50% of the world's leading Financial Services firms

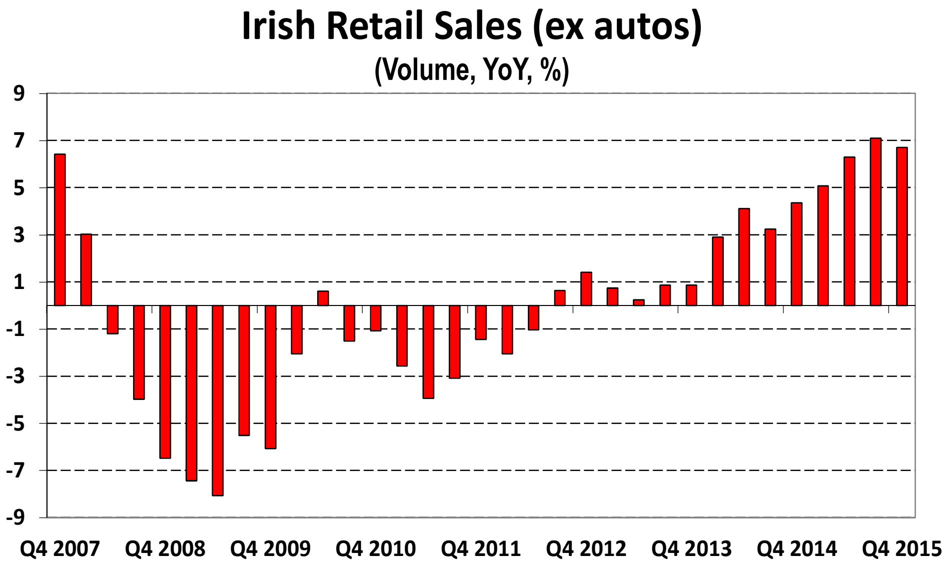
Strong rebound by domestic economy

- Domestic economy contracted by 20% from 2008-12
- Collapse in construction was big drag on GDP - fell from 13.5% of GDP in 2005-07 to 5.3% by 2012
- Construction has seen modest pick up since then – output rose by 8-10% in each of last three years
- Construction\house building still at very low levels
- Business investment (ex planes/R&D) up by 23% in 2015 after growth of 33% in 2014
- Total investment (ex planes, R&D) up 15% in 2015 after rise of 18% in 2014
- Core domestic spending (ex planes, R&D) rose by 2.3% in 2013, 4.7% in 2014 and 4.3% in 2015
- Consumer spending grew by 2% in 2014 and 3.5% in 2015 – but spending on services still very weak
- Core retail sales (ex motor trade) up by 6.2% in 2015
- New car sales rose by 30% in both 2014 & 2015 and by 35% yoy in Jan/Feb 2016



*Domestic Spending excluding investment in R&D and planes

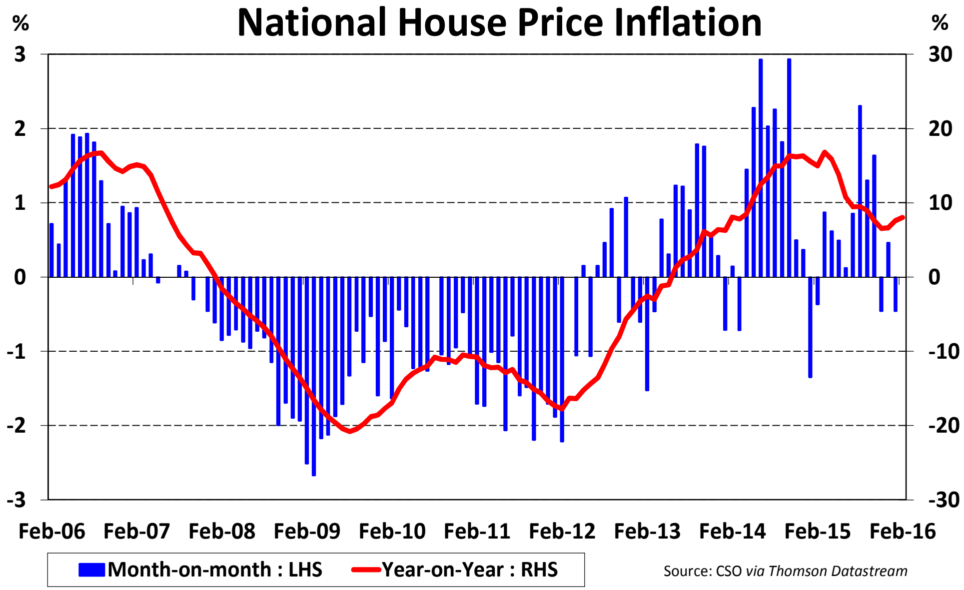
Source: CSO, AIB ERU Calculations

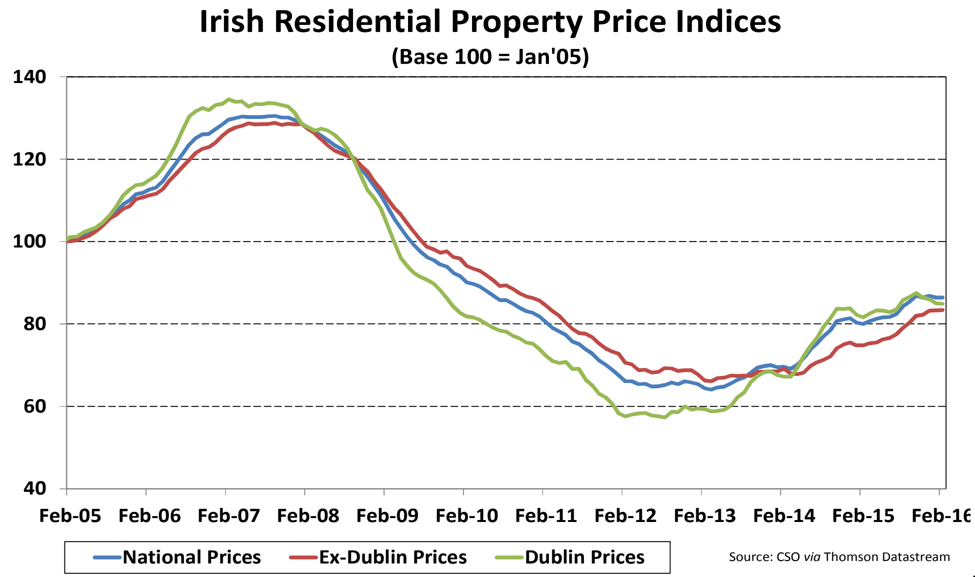


Source: Thomson Datastream

House prices rise as shortages emerge in market

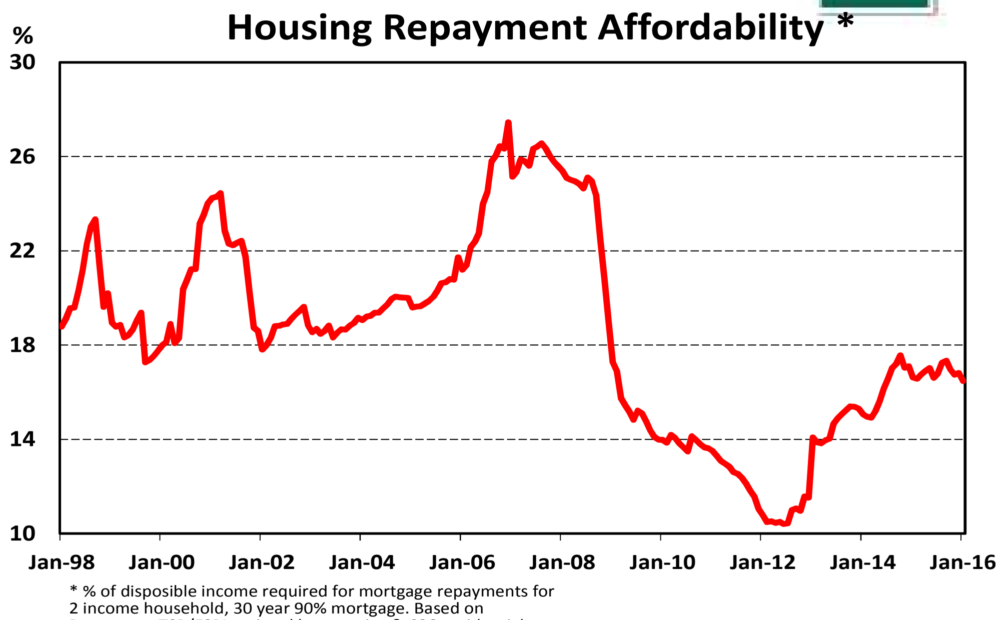
- Housing output fell by 90% but now past the bottom of cycle
- Bulk of the new housing stock overhang eliminated
- House prices declined sharply – fell by over 50% between their peak in late 2007 and early 2013
- House prices have recovered: up 35% in early 2016 from low in early 2013 as housing shortage emerges
- By early 2016, Dublin prices up by 48% and non-Dublin prices up by 26% from their troughs
- House prices, though, including in Dublin, are still some 34% below peak level hit in 2007
- New Central Bank mortgage rules cool Dublin house price inflation – falls from 25% to 4% yoy in past year
- Nationally, prices up 8% yoy in Feb 2016, with higher rises outside Dublin – up over 11.5% yoy
- Rents have rebounded – up over 40% from lows and now 4.3% above previous peak reached in 2008





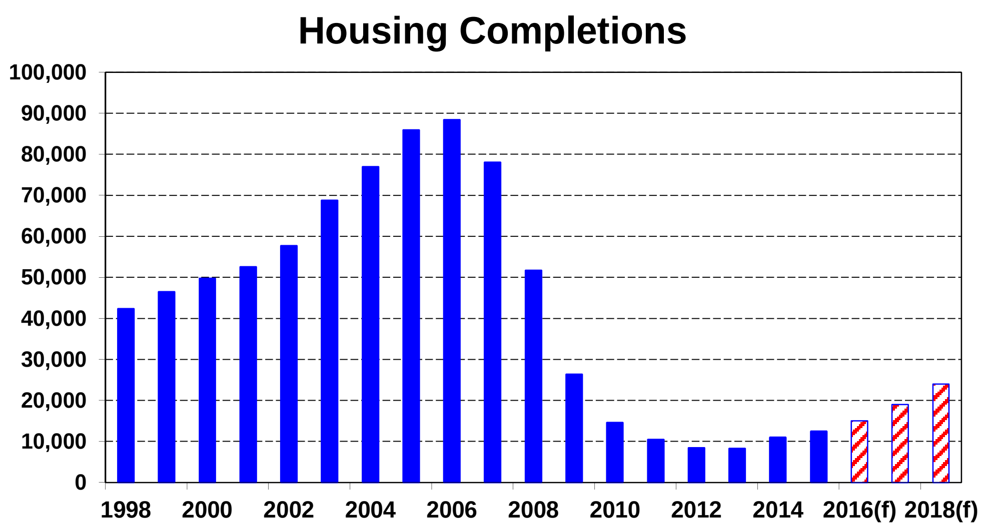
House building rising slowly from very depressed levels

- Housing completions at 12,700 in 2015, up from 11,000 in 2014 and 8,300 in 2013
- House building still at very low levels. Way below previous peak of near 90,000 completions
- Annual demand estimated at over 25,000 new units
- Trend in new housing registrations/commencements points to continuing slow recovery in house building
- Housing affordability not as issue - still below levels pertaining before boom started in 1998
- Growth in mortgage lending slows sharply during 2015 on new tighter CB lending rules
- Number of measures put in place to help boost new house building. NAMA will have role to play
- Rise in house prices should help building activity
- Strong rise in housing PMI in early 2016
- However, likely to be 2018 at the earliest before housing output rises to around 25,000 units



* % of disposible income required for mortgage repayments for 2 income household, 30 year 90% mortgage. Based on Permanent TSB/ESRI national house price & CSO residential

Source: *AIB, Permanent TSB/ESRI, CSO, Dept. of*



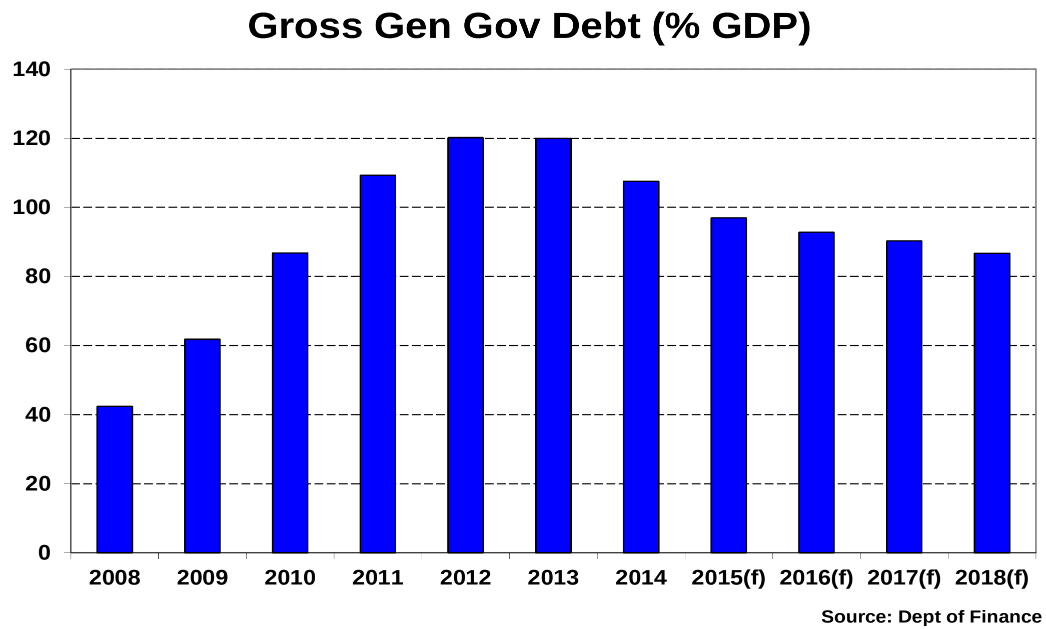
Source: CSO; DoEHLG and AIB ERU

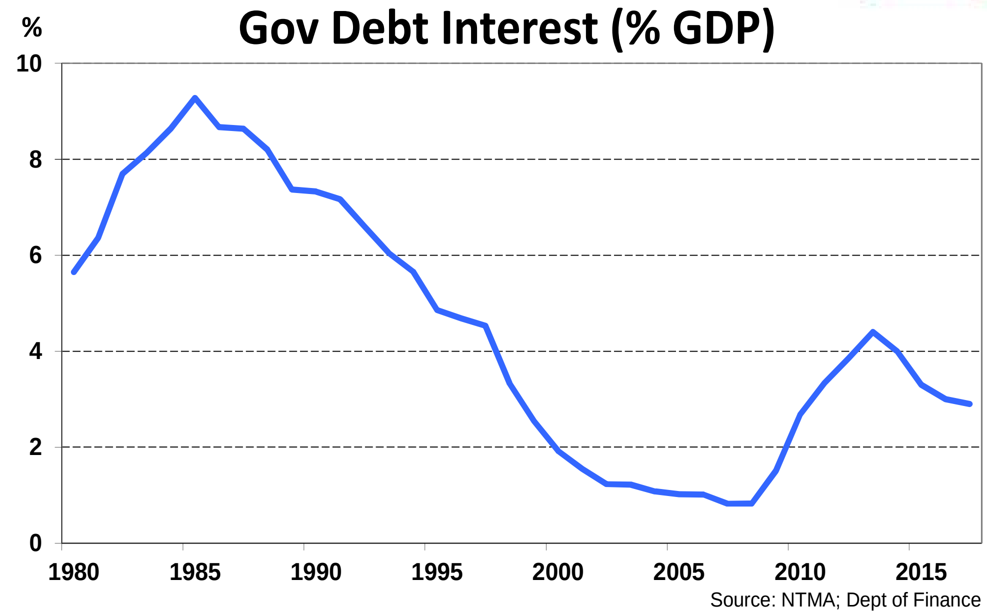
AIB Model of Estimated Potential Housing Demand

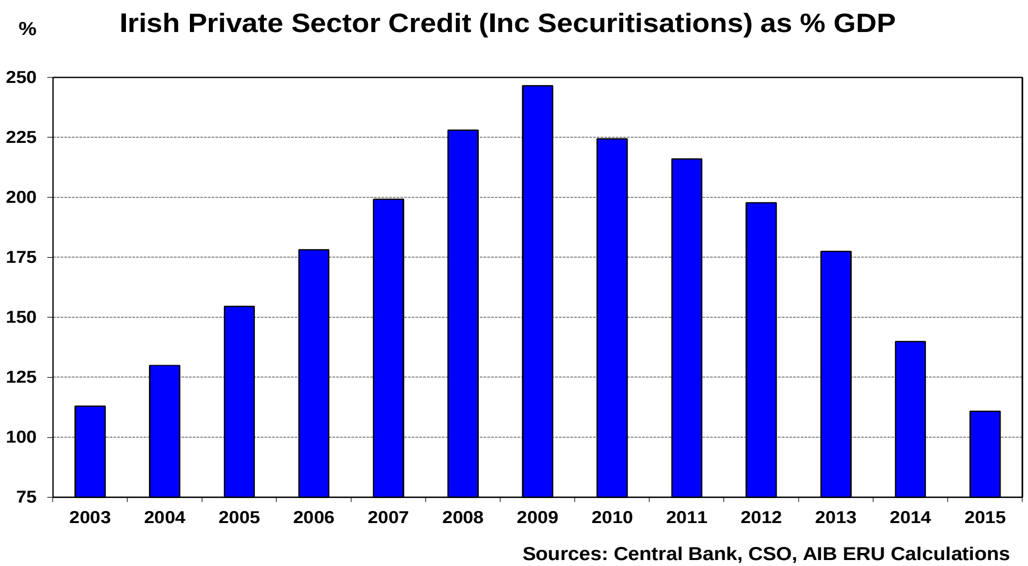
Calendar Year	2012	2013	2014	2015	2016	2017	2018
Household Formation	14,000	15,000	16,500	19,500	21,500	22,000	23,000
of which							
Indigenous Population Growth	*20,000*	*17,500*	*17,000*	*17,500*	*17,000*	*16,000*	*15,500*
Migration Flows	*-9,000*	*-5,500*	*-3,500*	*-1,500*	*1,000*	*2,500*	*3,500*
Increased Headship	*3,000*	*3,000*	*3,000*	*3,500*	*3,500*	*3,500*	*4,000*
Second Homes	1,000	1,000	1,000	1,000	1,000	1,500	1,500
Replacement of Obsolete Units	4,000	4,000	4,500	4,500	4,500	5,000	5,500
Total POTENTIAL Demand	19,000	20,000	22,000	25,000	27,000	28,500	30,000
Completions	8,500	8,300	11,000	12,700	15,000	19,000	24,000
POTENTIAL Impact on Vacant Stock	*-10,500*	*-11,700*	*-11,000*	*-12,300*	*-12,000*	*-9,500*	*-6,000*

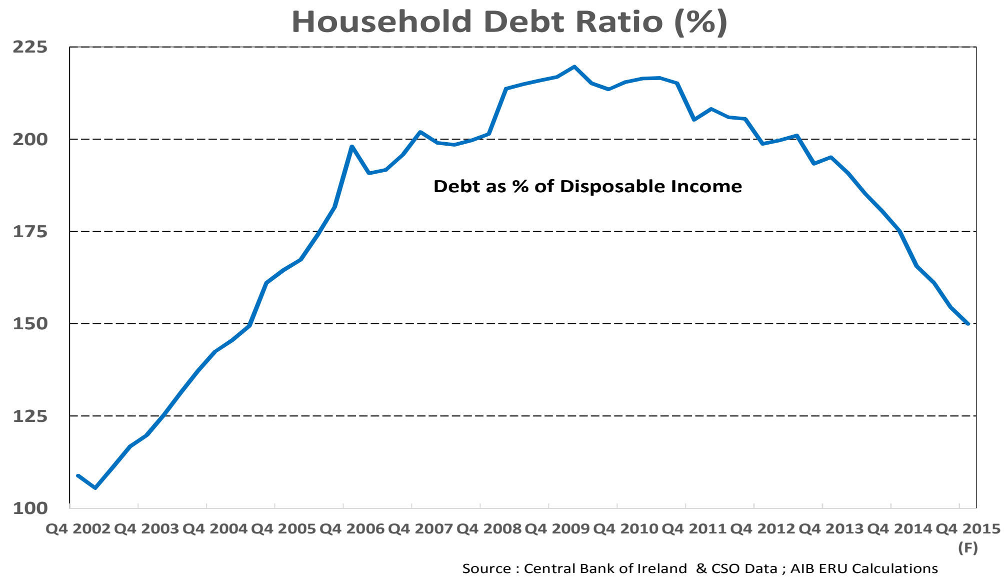
Sources: CSO, DoECLG, AIB ERU

Gov debt ratio falling, private sector deleveraging



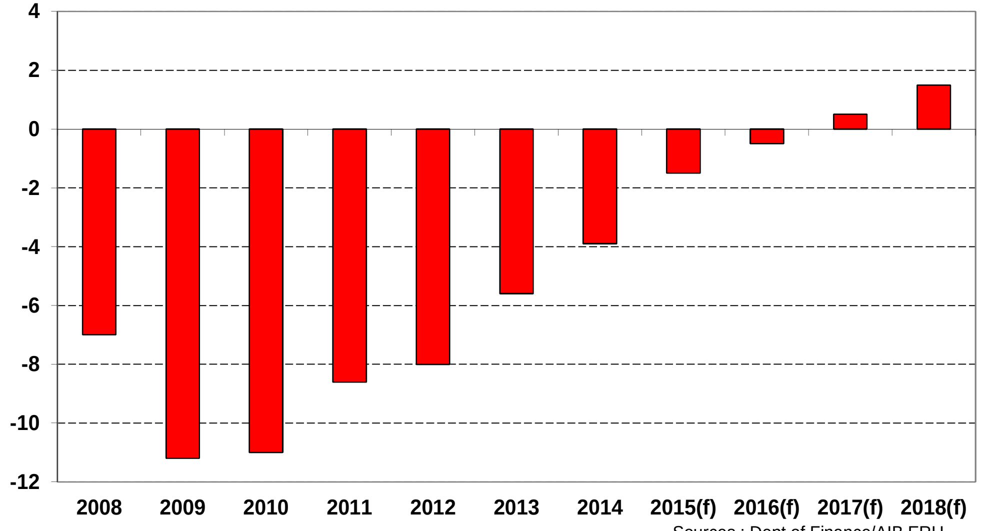






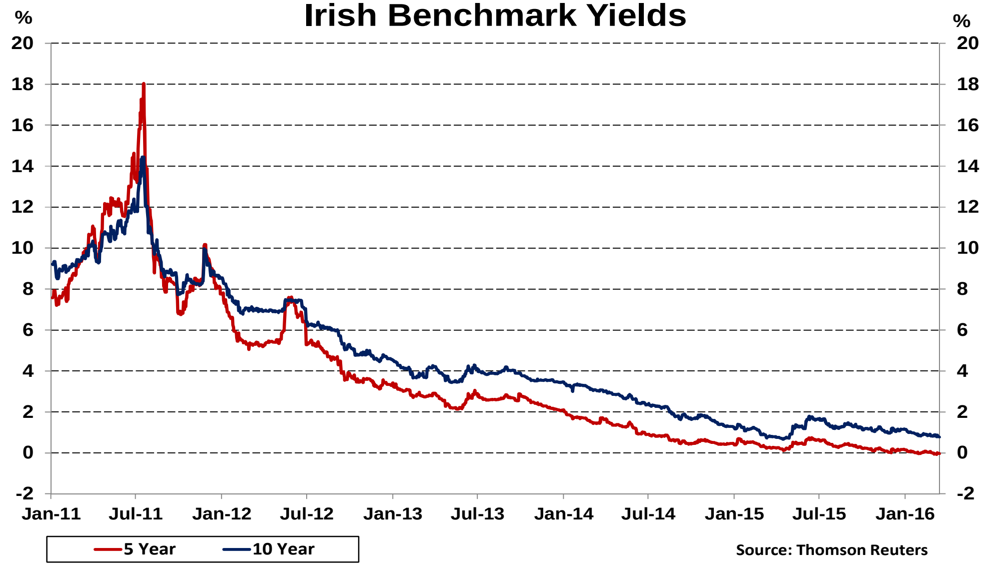
Budget deficit falls to very low level

- Some €30bn (18% of GDP) of fiscal tightening implemented in 2008-2014 period
- Budgetary policy turns mildly expansionary in 2015 and 2016
- Budget deficit of 1.5% of GDP in 2015
- Deficit of around 0.5% likely in 2016 with strong growth in tax receipts in Jan/Feb
- Budget surplus on the cards for 2017
- Primary budget (i.e. excluding debt interest) already back in surplus at 1.5% of GDP
- Debt interest costs low at some 3% of GDP
- Gross Gov Debt/GDP ratio falling sharply. Down from 120% in 2013 to 95% in 2015
- Irish bonds yields have fallen sharply, with five year yields at 0%, ten year below 1%
- Sovereign debt ratings upgraded; S&P have Ireland at A+, with Fitch at A



*Excludes banking recapitalisation costs in 2009-11

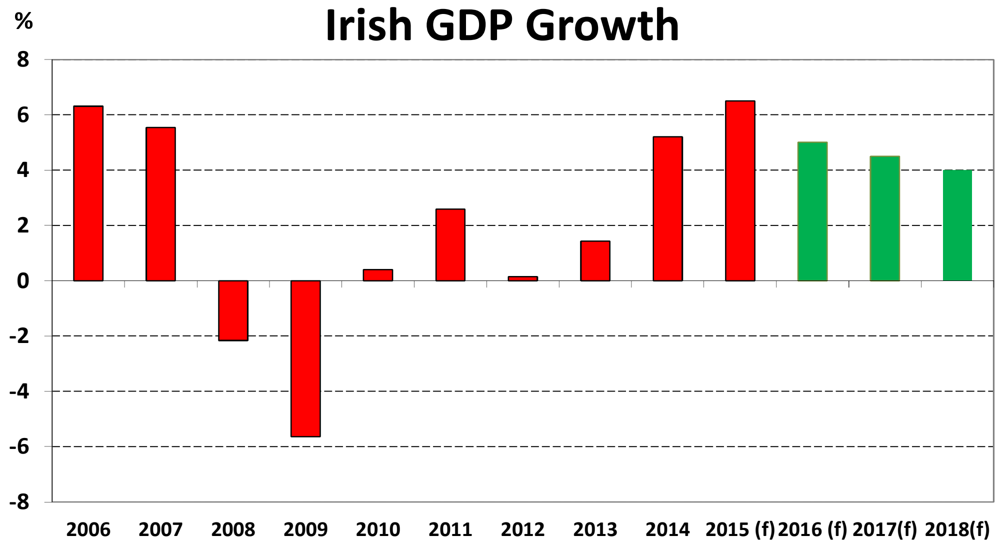
Sources : Dept of Finance/AIB ERU



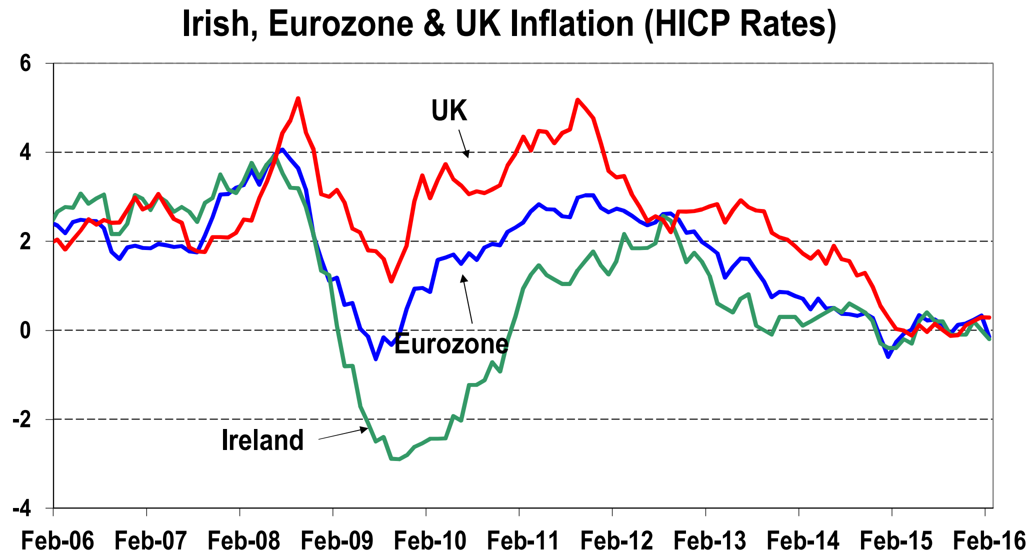
Source: Thomson Reuters

Economy can continue to grow strongly

- The contraction on the domestic side of economy is well over and it is now recovering strongly
- Wage growth and very low inflation, owing to collapse in oil prices, boosting real spending power
- Labour market on steadily improving path
- Construction should recover from its current, still very depressed, activity levels
- Fiscal tightening over, with budgetary policy now mildly expansionary
- Ireland benefitting from weakness of euro and improvement in European growth in past two years
- Activity supported by low interest rate environment
- Large, diversified export base performing very well but needs continuation of growth in main markets
- Irish lead indicators point to continuing strong growth
- GDP growth 5% forecast for 2016
- Ireland can grow by 4+% in next few years
- But risks remain – these are now largely external



Source: Thomson Datastream, AIB ERU



Source: Thomson Datastream

AIB Irish Economic Forecasts

% change in real terms unless stated	2012	2013	2014	2015	2016 (f)	2017 (f)
GDP	**0.2**	**1.4**	**5.2**	**7.8**	**5.0**	**4.5**
GNP	1.6	4.6	6.9	5.7	4.5	4.0
Personal Consumption	-0.8	-0.3	2.0	3.5	3.5	3.0
Government Spending	-2.2	1.4	4.6	-0.8	1.0	2.0
Fixed Investment	8.6	-6.6	14.3	28.2	10.0	7.5
Core Domestic Spending	**-1.4**	**2.3**	**4.7**	**4.3**	**4.0**	**4.0**
Exports	2.1	2.5	12.1	13.8	10.0	8.0
Imports	2.9	0.0	14.7	16.4	10.0	8.0
HICP Inflation (%)	1.9	0.5	0.3	0.0	0.1	1.2
Unemployment Rate (%)	14.7	13.1	11.3	9.5	8.3	7.5
Budget Balance (% GDP)	-8.1	-5.7	-4.1	-1.5	-0.5	0.5
BoP Current A\C (as % GDP)	-1.5	3.1	3.6	4.4	4.0	3.5

Source: CSO, AIB ERU Forecasts

Brexit would pose big risks for UK economy

- Referendum on Brexit in UK on June 23rd. Opinion polls point to a close result.
- Very close links between the UK and rest of EU, which takes 44% of UK exports
- Over 50% of UK imports come from EU, about half of which are intermediates used in further production so vital for the economy
- UK runs a large trade deficit with EU but only 10% of EU exports go to UK
- UK is the biggest recipient of FDI in the EU. Around half comes from EU, 30% from US
- Strong migrant inflows into UK labour market from rest of EU help to address skills shortages and a positive in terms of the aging UK population
- London is the centre of the financial services industry in Europe. Brexit could make it harder to service European markets, especially trading in euros and Eurozone wholesale banking
- Not surprising, then, most models show significant negative impact on UK economy of Brexit
- Some models looking at trade effects suggest GDP would fall by 2-3%. Other models which allow for lower migration, impact on productivity, FDI, etc suggest GDP could fall by 5-10%
- Key issue is trade. EU is a single market. UK is likely to have to adhere to all EU rules and regulations and pay EU budget contribution to get full access to EU markets
- Uncertainty surrounding Brexit would also be negative for economy. Expected to take at least two years to negotiate EU exit terms. UK would not have a veto over the terms

Brexit would be a major headache for Ireland

- Brexit would have serious implications for Ireland given close economic/trade links with UK
- Trade with UK equates to 35% of Irish GDP. Thus, a key trading partner
- Hence, negative Brexit impact on UK growth would have knock-on effects for activity here
- Impact on Ireland would be largely determined by the trade arrangements put in place between EU and UK post Brexit. Ideally, UK would remain part of EEA, like Norway
- Higher trading costs from more admin, differing trade rules, possible customs posts/duties, firms could no longer treat UK & RoI as one market
- Could impact the considerable cross-country investment between UK and Ireland
- Agri sector, energy, retailing, financial sector likely to be most impacted by Brexit
- UK is a very important market for Irish food exports in particular
- Border with Northern Ireland would become an external EU land border
- Could there be restrictions on freedom of movement, passport controls, customs posts, and an impact on North/South relations?
- Watch for impact on currency also. Sterling already weakening on Brexit concerns
- Ireland would lose a key ally within the EU if UK leaves
- Main upside is that Brexit would make Ireland more attractive for FDI vis-à-vis the UK

Risks to the Irish economic recovery

- Main risks to Irish recovery no longer internal but external, mainly relating to global growth
- Recovery in the global economy still quite fragile, with on-going risks and headwinds especially from weakening emerging economies. Ireland vulnerable to any shocks that would hit exports
- Risk of Brexit. Would certainly be an issue for Ireland given its strong trading links with UK
- Supply constraints in the construction sector, especially new house building, which is recovering at a very slow pace and remains at depressed levels
- Very low level of public capital spending putting pressure on infrastructure
- Competitiveness issues - high house prices, high rents, high personal taxes
- High indebtedness of households. Major deleveraging has already taken place. Difficult to estimate its duration but it has further to run as debt ratios still very high
- Continuing credit contraction – fewer banks, tighter credit conditions, on-going deleveraging