

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 8% by spring 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 stellar data in early 2016



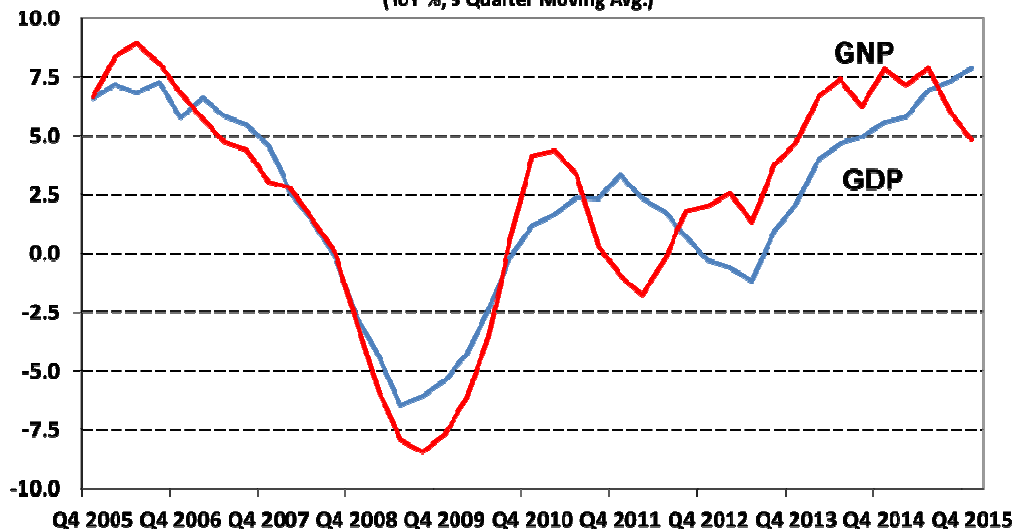
- GDP growth of 7.8% and GNP growth of 5.7% in 2015
- BoP surplus of 4.4% of GDP in 2015, up from 3.6% in 2014
- Strong export growth continues in Q1 2016 after rise of 13.8% in 2015
- Further strong increase in manufacturing output in Q1 2016 – up 4.4% for rise of 8.4% yoy
- Continuing good manufacturing PMI data in early 2016 – averages 53.7 in Jan-April
- Very robust services PMI data in early 2016 – averages 62.2 in Jan-April, near ten year highs
- Construction PMI surges in Q1 2016, averaging 65. Housing component very strong
- Consumer confidence remained very high in opening four months of 2016
- Core retail sales (ex motor trade) up by 5.7% yoy in Jan-April after 6.1% rise in 2015
- Car sales rose by 26% yoy to end April after 30% jump in both 2014 and 2015
- Employment up for 14 consecutive quarters. Rose by 0.8% in Q1 2016 for gain of 2.4% yoy
- Live Register continues to fall. Jobless rate down to 7.9% by April 2016 – peaked at 15.1%
- Continuing strong growth in tax receipts in 2016 – up 9% yoy to end April
- Government budget deficit expected to fall to around 1% of GDP this year

Many indicators show very robust growth



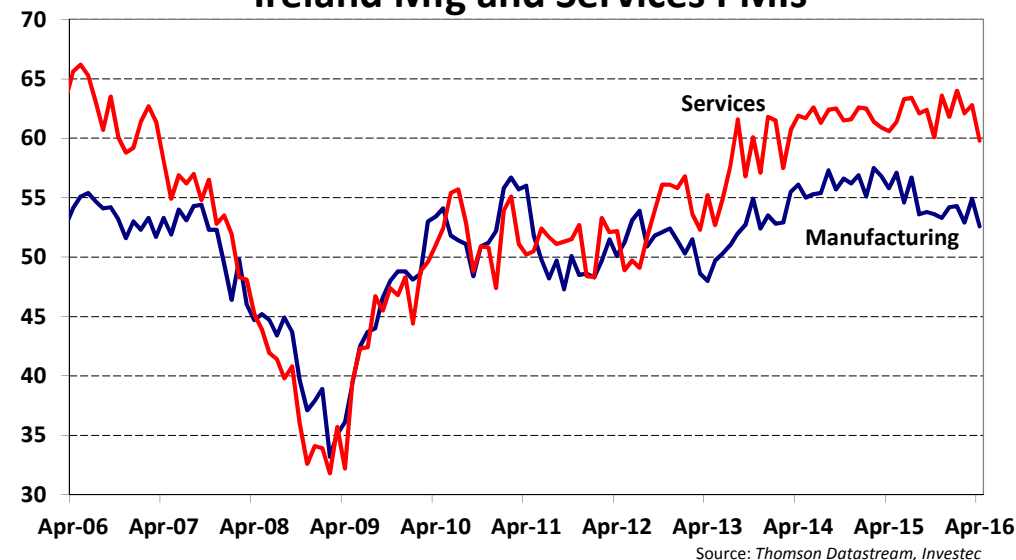
Irish Growth Rates

(YoY %, 3 Quarter Moving Avg.)



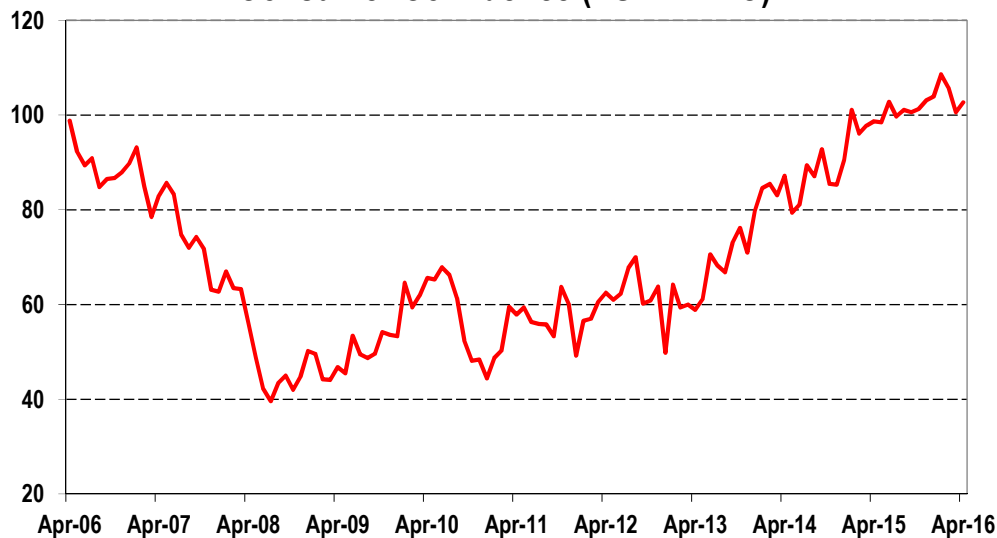
Source: CSO

Ireland Mfg and Services PMIs



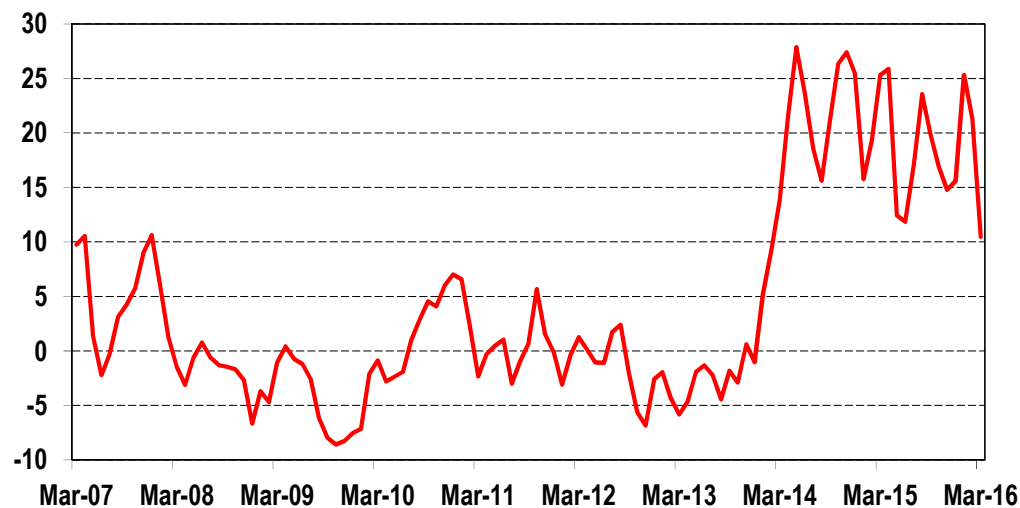
Source: Thomson Datastream, Investec

Consumer Confidence (ESRI - KBC)



Source: ESRI - KBC, Thomson Datastream

Industrial Production (3 Mth Moving Average Vol Y/Y %)



Source: Thomson Datastream

Strong jobs growth & falling unemployment

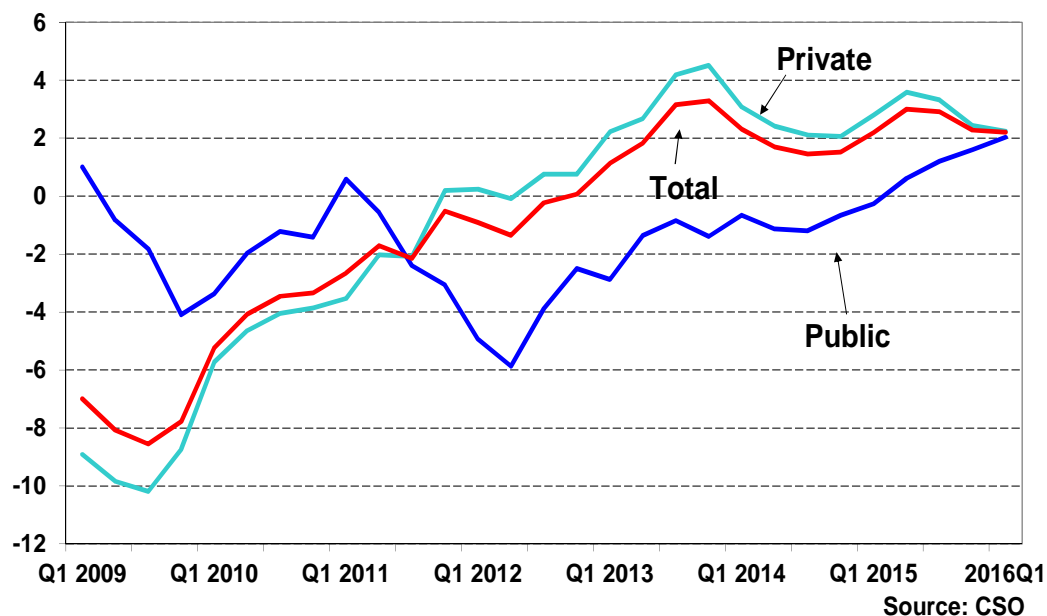


Year Average	2013	2014	2015	2016(f)	2017(f)	2018(f)
Unemployment Rate %	13.1	11.3	9.5	7.8	6.7	6.0
Labour Force Growth %	0.4	-0.3	0.5	0.5	1.0	1.4
Employment Growth %	2.4*	1.7	2.6	2.2	2.2	2.1
Net Emigration : Year to April ('000)	33.1	21.4	11.6	5.0	0.0	-5.0

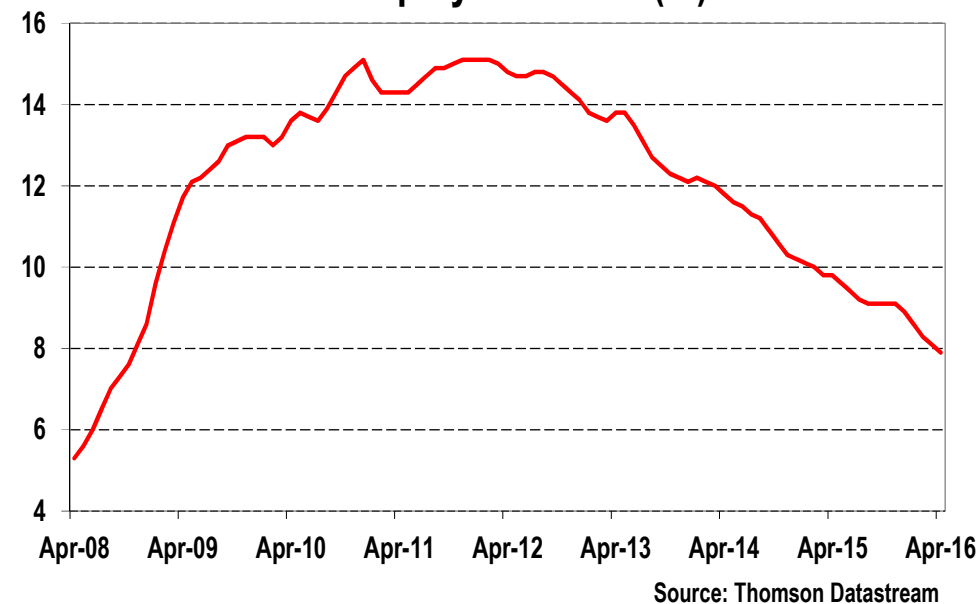
* *Employment ex Agriculture +1.3% in 2013*

Source: CSO and AIB ERU forecasts

Employment (% Chg YoY)



Unemployment Rate (%)

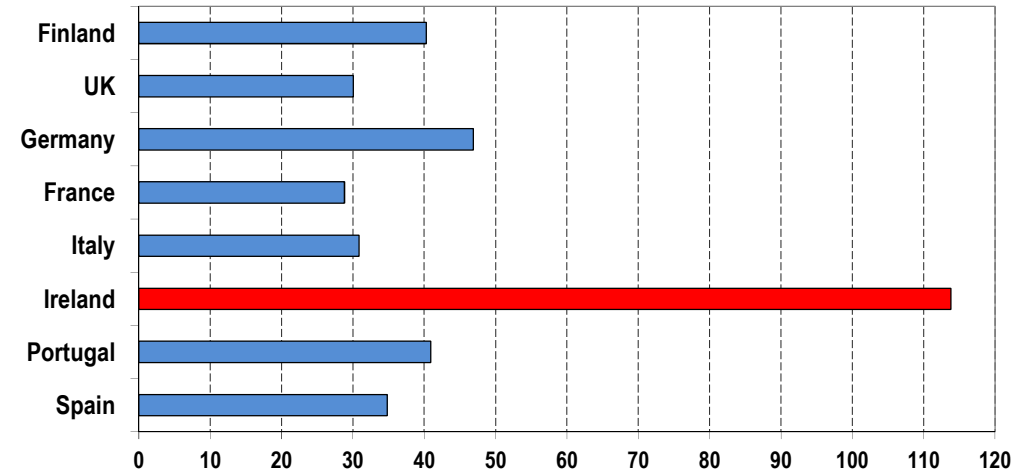


Impressive performance by exports



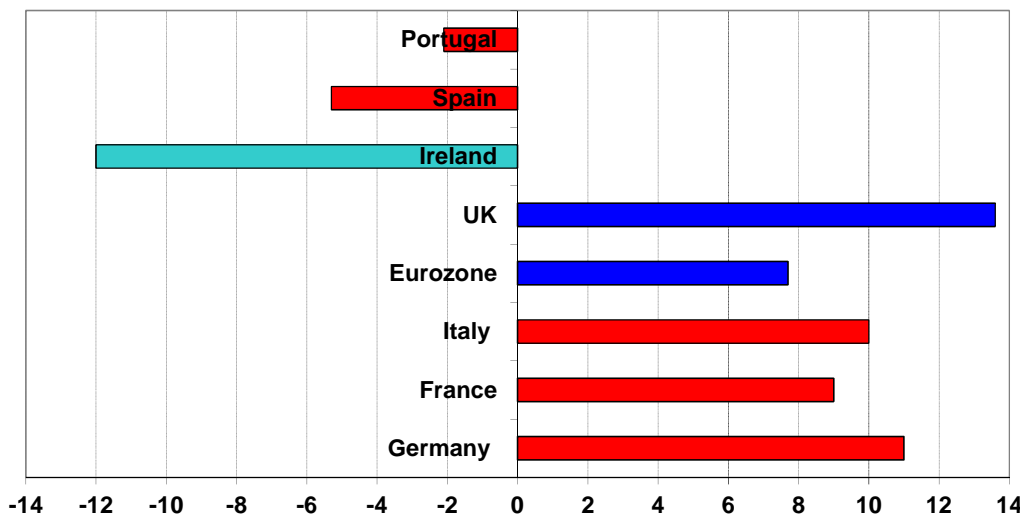
- Ireland a very open economy – exports, driven by huge FDI, equated 121.5% of GDP in 2015
- Major gains in Irish competitiveness since 2009
- Exports rise strongly helped by large FDI inflows and recovery in global economy
- Euro weakness gives additional boost to exports. Up by some 21% in value (14%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

Exports as % of GDP 2014



Source: Thomson Datastream

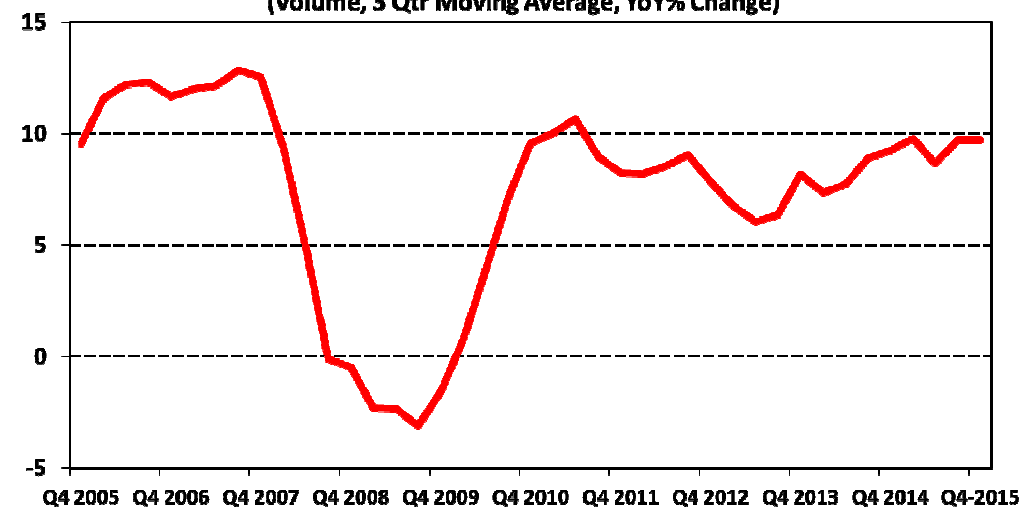
Unit Labour Costs 2009-2013 (% Change)



Source: EU Commission

Irish Exports of Services

(Volume, 3 Qtr Moving Average, YoY% Change)



Source: CSO

Impact of FDI on economy (Source IDA)

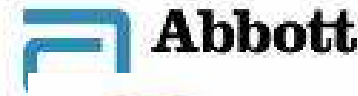


KEY FDI IMPACTS ON THE IRISH ECONOMY

- 1,200 multinational companies
- €125bn Exports (70% of Irish exports)
- 175,000 Jobs in FDI, 290,000 in total
- 70% of Corporation Tax
- €13.5bn Spending on services/materials
- €8.5bn 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



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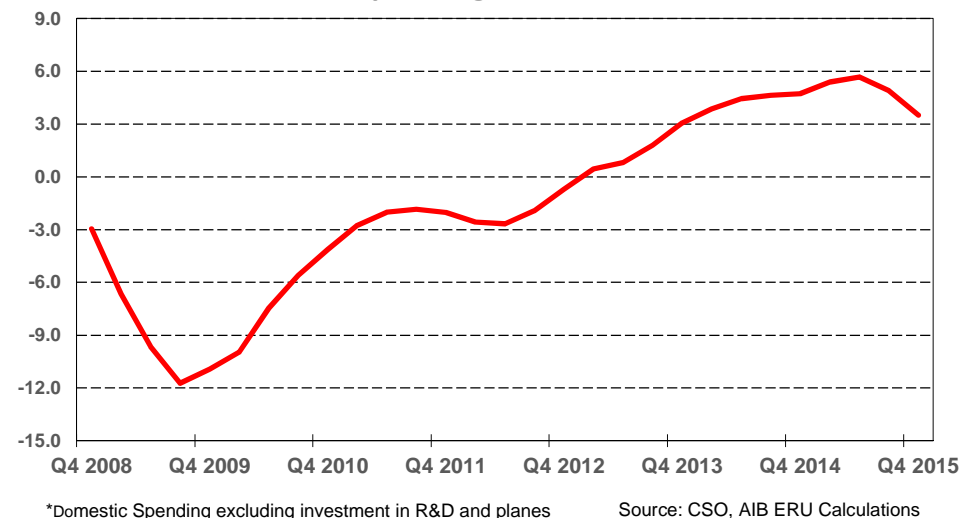


Strong rebound by domestic economy

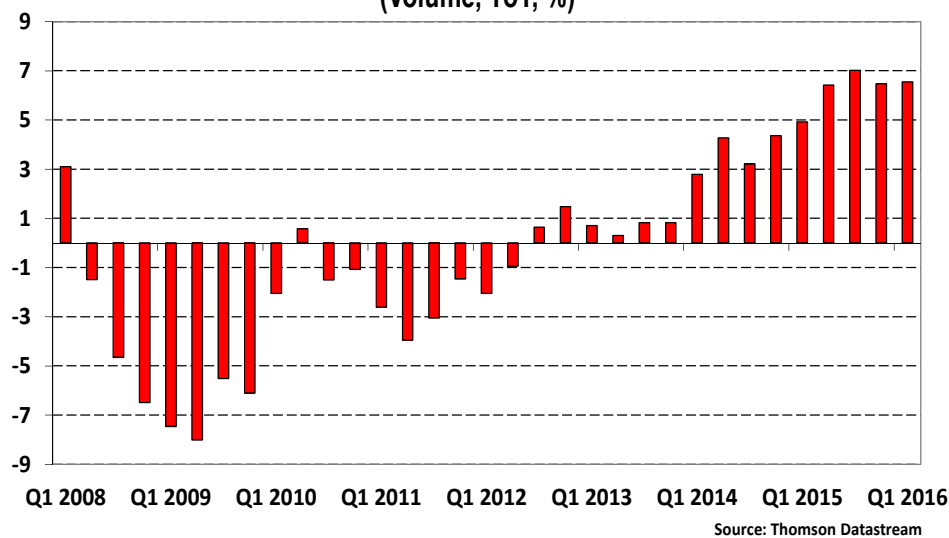


- Domestic economy contracted by 20% from 2008-12
- Collapse in construction was big drag on GDP - fell from 13.5% of GDP in 2005-07 to 5.3% by 2012
- Construction has seen modest pick up since then – output rose by 8-10% in each of last three years
- Business investment (ex planes/R&D) up by 23% in 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 5.7% yoy in Jan-April 2016 after rise of 6.1% in 2015
- New car sales rose by 30% in both 2014 & 2015 and by a further 26% yoy in Jan-April 2016

Core Domestic Spending* (3 Qtr MA, % Yr-on-Yr)



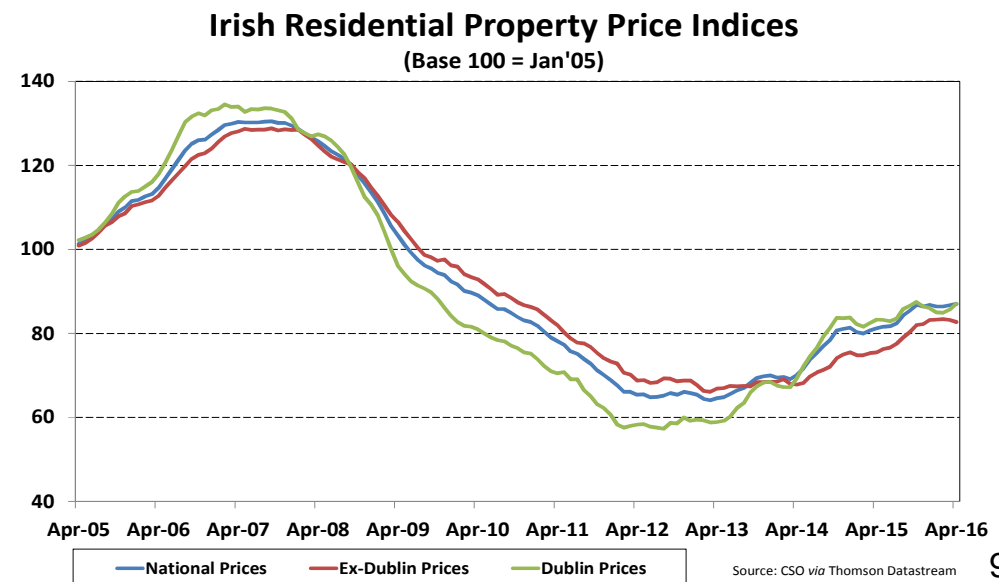
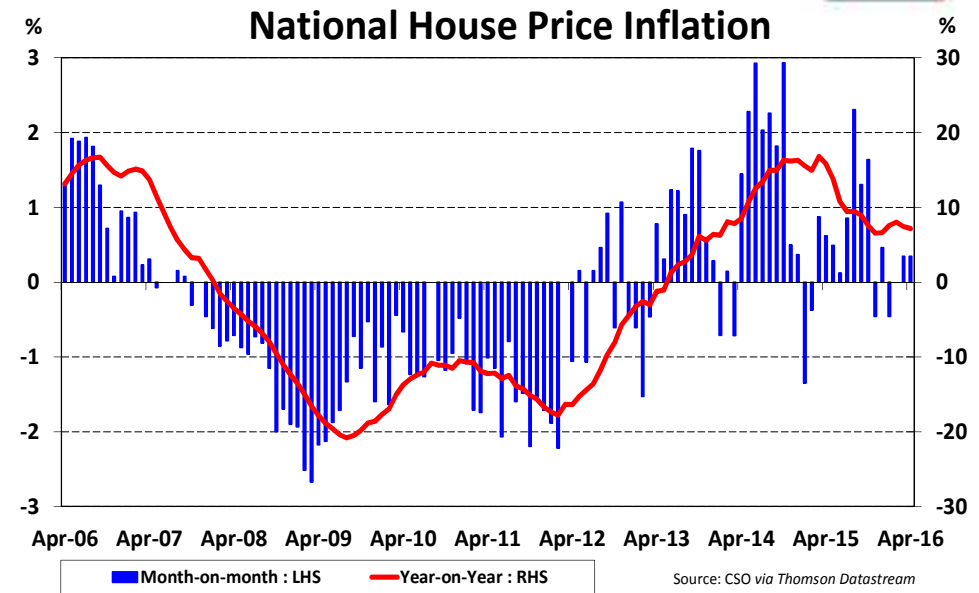
Irish Retail Sales (ex autos)
(Volume, YoY, %)



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 36% in April 2016 from low in early 2013 as housing shortage emerges
- By April 2016, Dublin prices up by 52% and non-Dublin prices up by 25% from their troughs
- House prices, though, including in Dublin, are still around 35% below peak level hit in 2007
- New Central Bank mortgage rules cool Dublin house price inflation – falls from 25% to 4.5% yoy
- Nationally, prices up 7% yoy in April 2016, with higher rises outside Dublin – up 9.5% yoy
- Rents have rebounded – up over 40% from lows and now 5.5% above previous peak reached in 2008

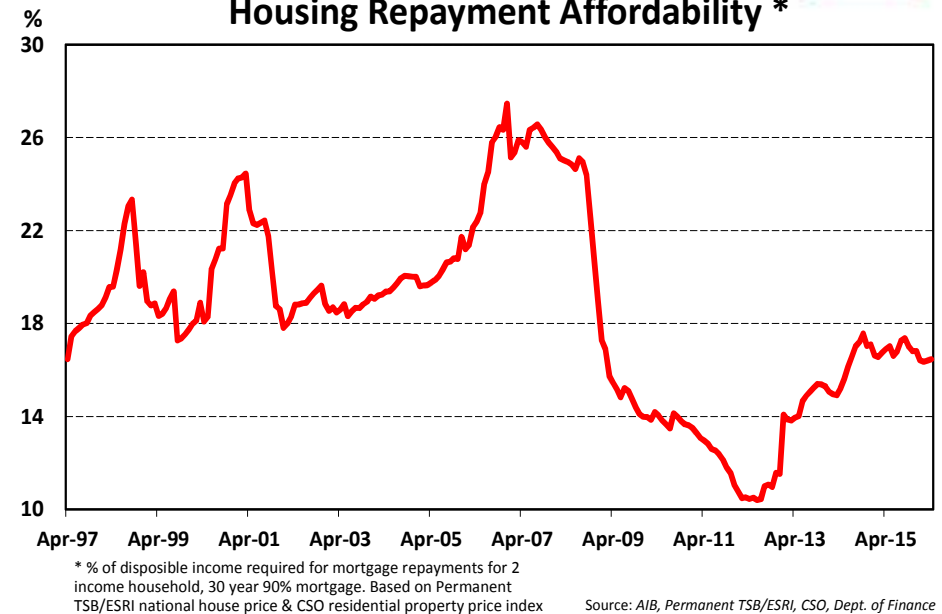


House building rising slowly from very depressed levels

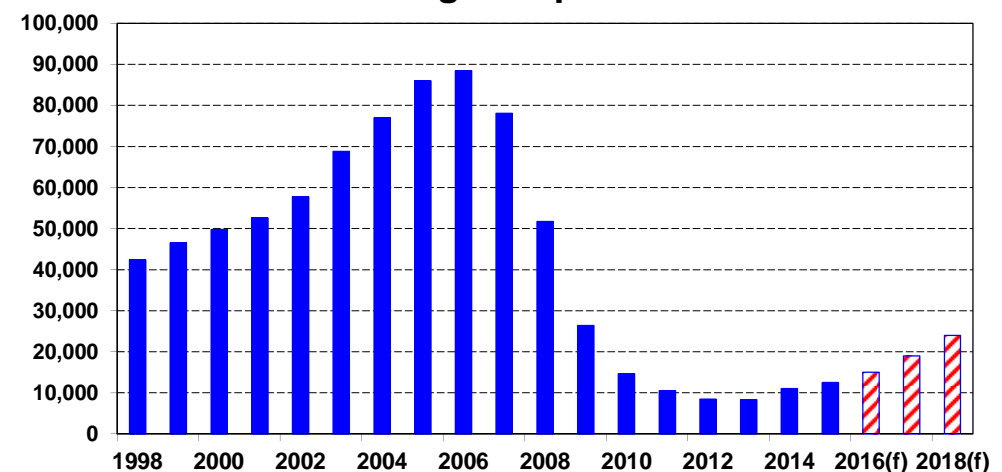


- Housing completions at 12,700 in 2015, up from 11,000 in 2014 and 8,300 in 2013
- House building still at very low levels. Way below previous peak of near 90,000 completions
- Annual demand estimated at over 25,000 new units
- Trend in new housing registrations/commencements points to continuing slow 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, early 2016 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 Q1 2016
- However, likely to be 2018 at the earliest before housing output rises to around 25,000 units

Housing Repayment Affordability *



Housing Completions



Source: CSO; DoEHLG and AIB ERU

AIB Model of Estimated Potential Housing Demand

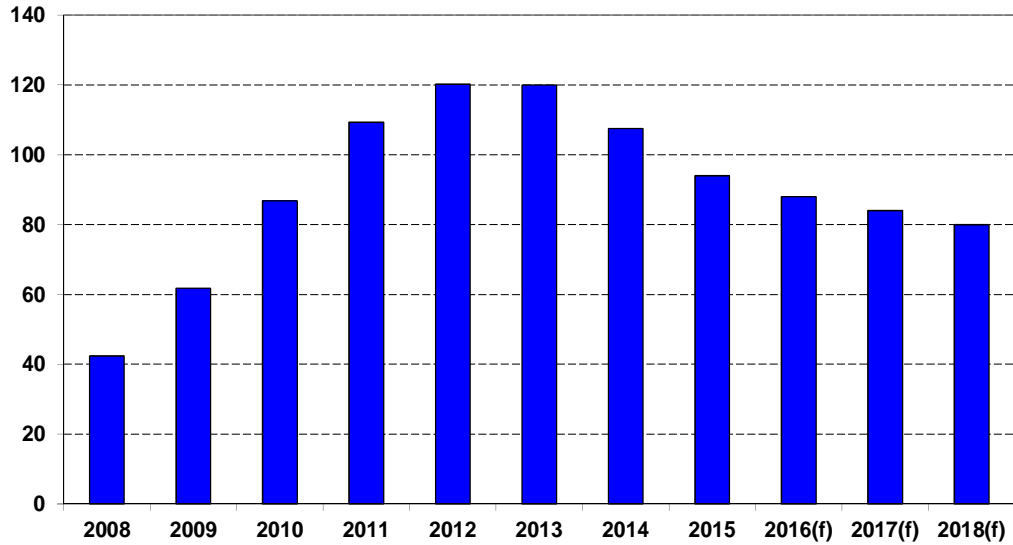


Calendar Year	2012	2013	2014	2015	2016	2017	2018
Household Formation	14,000	15,000	16,500	19,500	21,500	22,000	23,000
<i>of which</i>							
<i>Indigenous Population Growth</i>	20,000	17,500	17,000	17,500	17,000	16,000	15,500
<i>Migration Flows</i>	-9,000	-5,500	-3,500	-1,500	1,000	2,500	3,500
<i>Increased Headship</i>	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

Gov debt ratio falling, private sector deleveraging

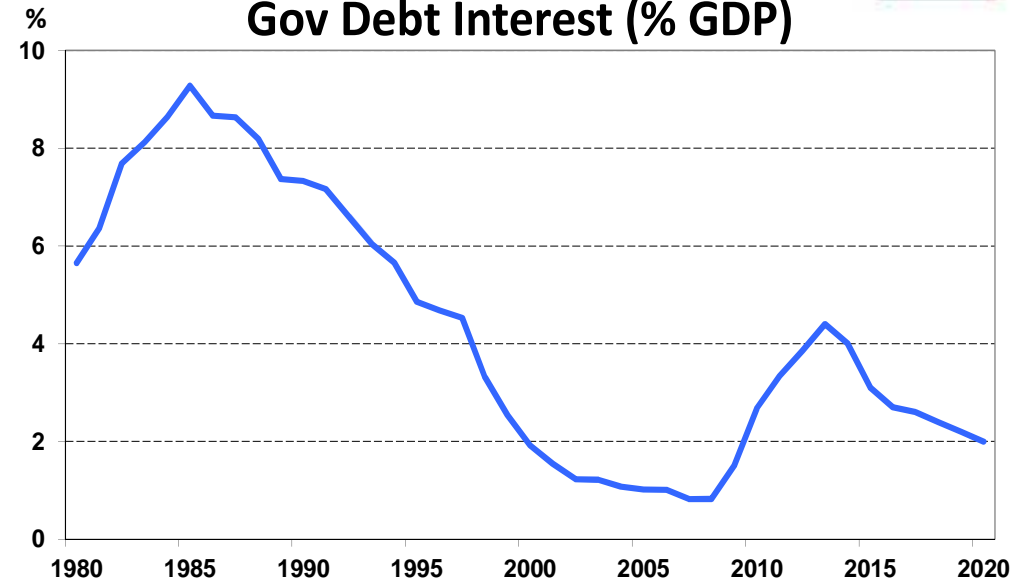


Gross Gen Gov Debt (% GDP)



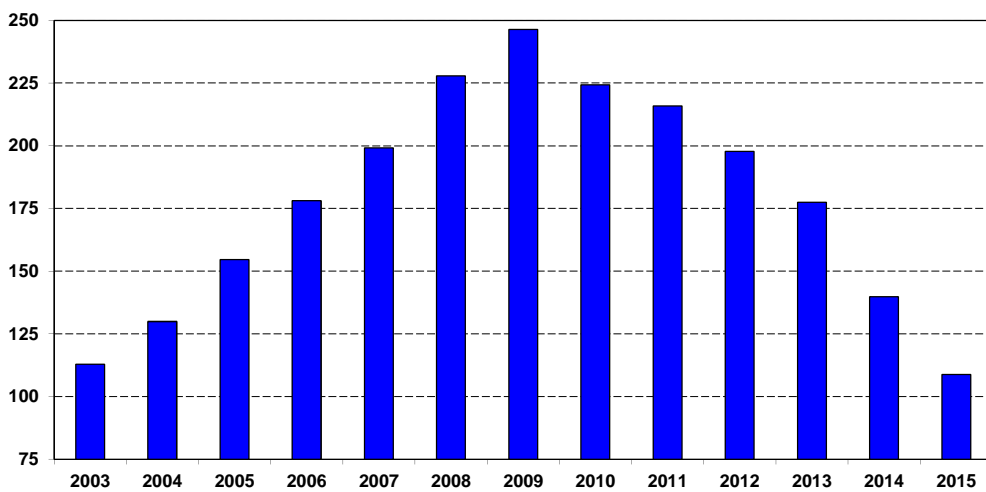
Source: Dept of Finance

Gov Debt Interest (% GDP)



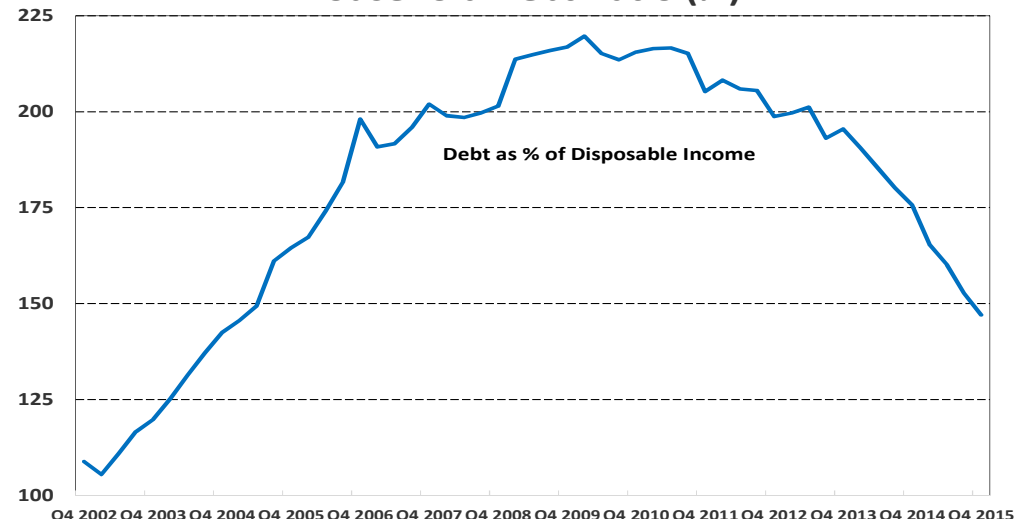
Source: NTMA; Dept of Finance

Irish Private Sector Credit (Inc Securitisations) as % GDP



Sources: Central Bank, CSO, AIB ERU Calculations

Household Debt Ratio (%)



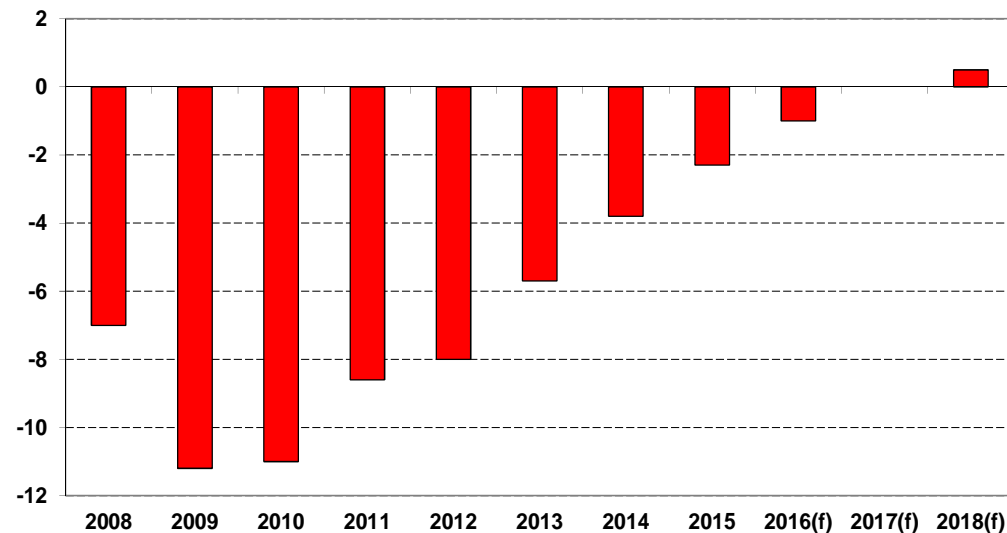
Source: Central Bank of Ireland & CSO Data; AIB ERU Calculations

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 falls sharply in recent years
- Deficit of around 1% of GDP likely in 2016
- Balanced budget possible in 2017
- Primary budget (i.e. excluding debt interest) surplus of 1.5% of GDP likely in 2016
- Debt interest costs low - below 3% of GDP
- Gross Gov Debt/GDP ratio falling sharply. Down from 120% in 2013 to 94% 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+, Fitch at A, Moody's A3

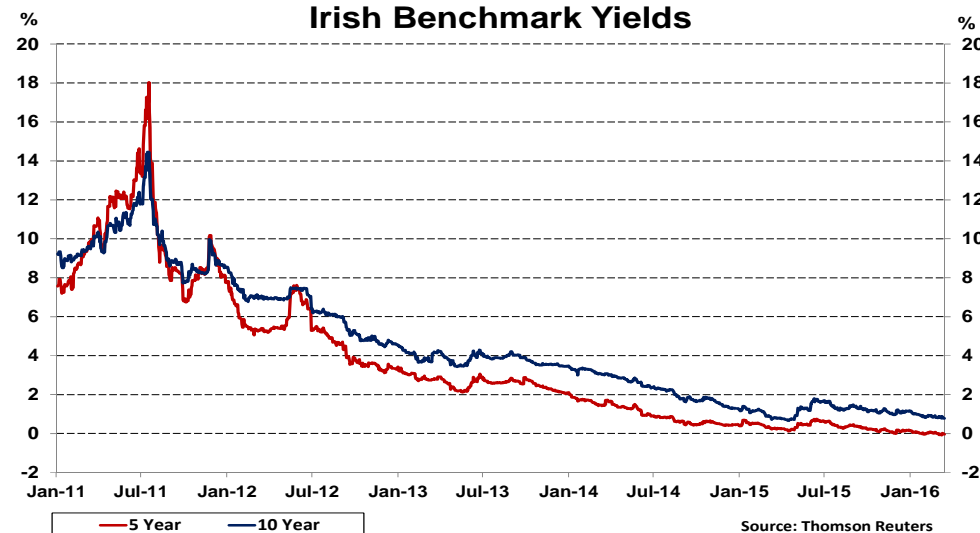
General Government Balance* (% GDP)



*Excludes banking recapitalisation costs in 2009-11

Sources : Dept of Finance/AIB ERU

Irish Benchmark Yields

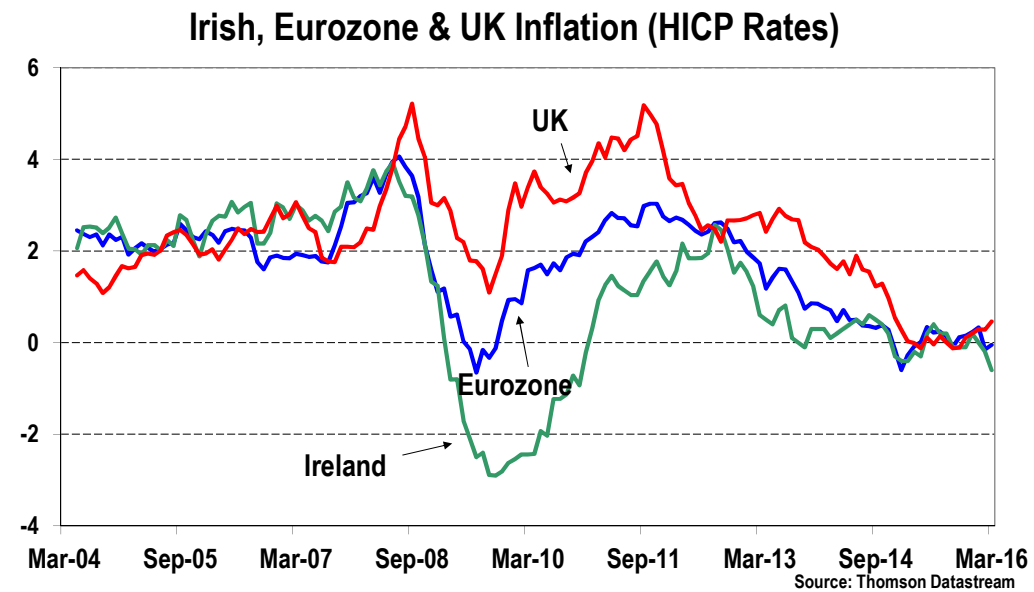
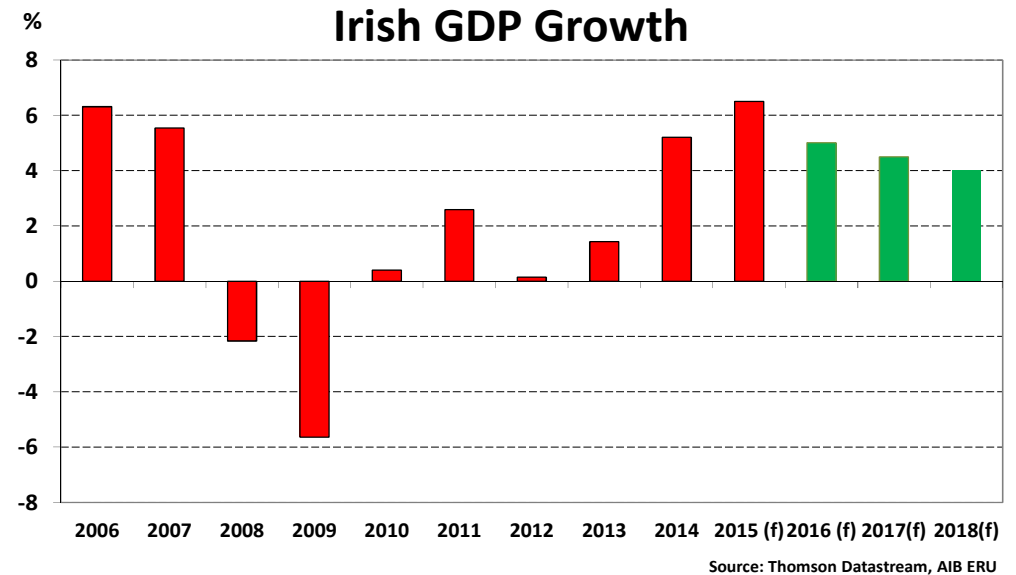


Source: Thomson Reuters

Economy has capacity to continue growing strongly



- The contraction on the domestic side of economy is well over and it is now recovering strongly
- Wage growth and very low inflation 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



AIB Irish Economic Forecasts



<i>% change in real terms unless stated</i>	2013	2014	2015	2016 (f)	2017 (f)	2018 (f)
GDP	1.4	5.2	7.8	5.0	4.5	4.0
GNP	4.6	6.9	5.7	4.5	4.0	3.5
Personal Consumption	-0.3	2.0	3.5	3.5	3.0	3.0
Government Spending	1.4	4.6	-0.8	1.0	2.0	2.0
Fixed Investment	-6.6	14.3	28.2	10.0	7.5	7.0
Core Domestic Spending	2.3	4.7	4.3	4.0	4.0	4.0
Exports	2.5	12.1	13.8	10.0	8.0	6.0
Imports	0.0	14.7	16.4	10.0	8.0	6.0
HICP Inflation (%)	0.5	0.3	0.0	0.1	1.2	1.7
Unemployment Rate (%)	13.1	11.3	9.5	7.8	6.7	6.0
Budget Balance (% GDP)	-5.7	-3.8	-2.3	-1.0	0.0	0.5
Gross General Gov Debt (% GDP)	120	107.5	94	88	84	80
BoP Current A/C (as % GDP)	3.1	3.6	4.4	4.5	4.0	3.5

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 nearly 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 has already weakened 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 high
- Continuing credit contraction – fewer banks, tighter credit conditions, on-going deleveraging

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 First Trust Bank. 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 First Trust Bank 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.