The Irish Economic Update

Strong Growth Continues in 2017

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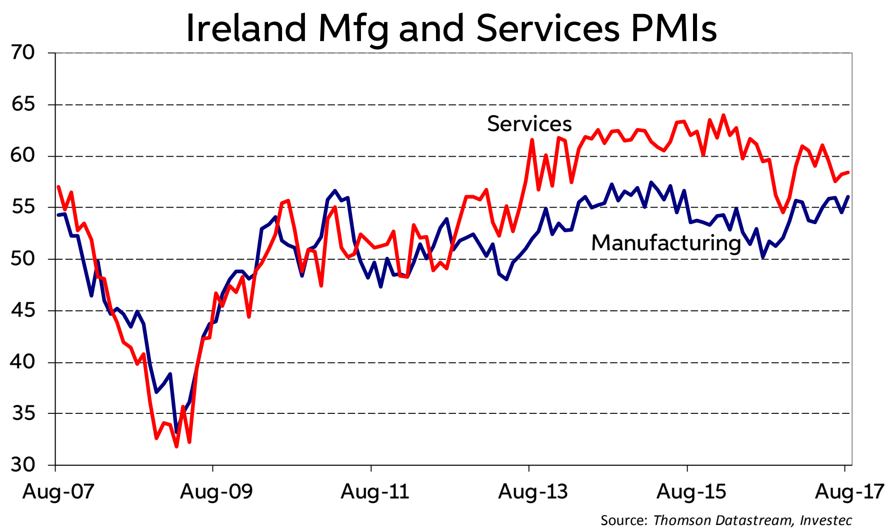
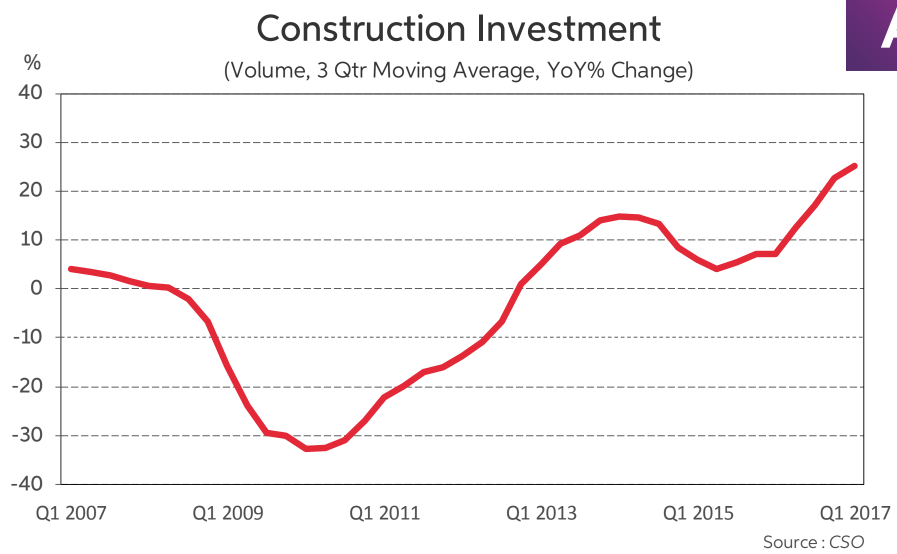
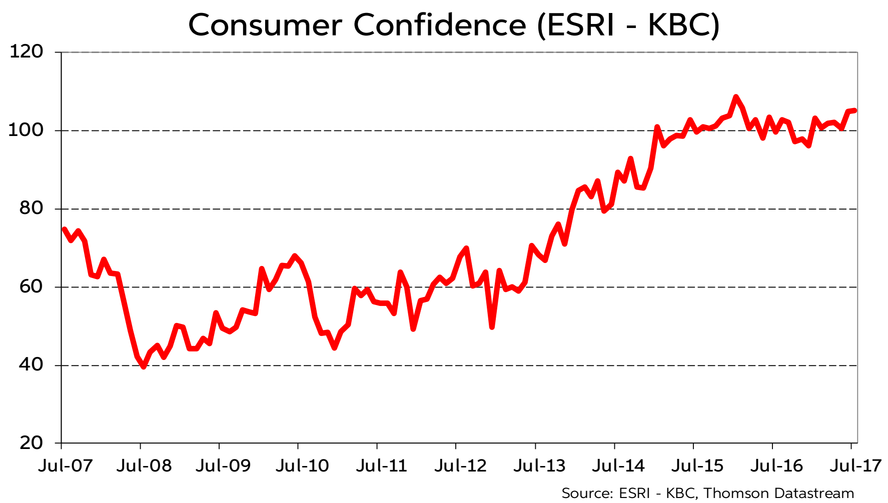
Strong recovery by Irish economy since 2013

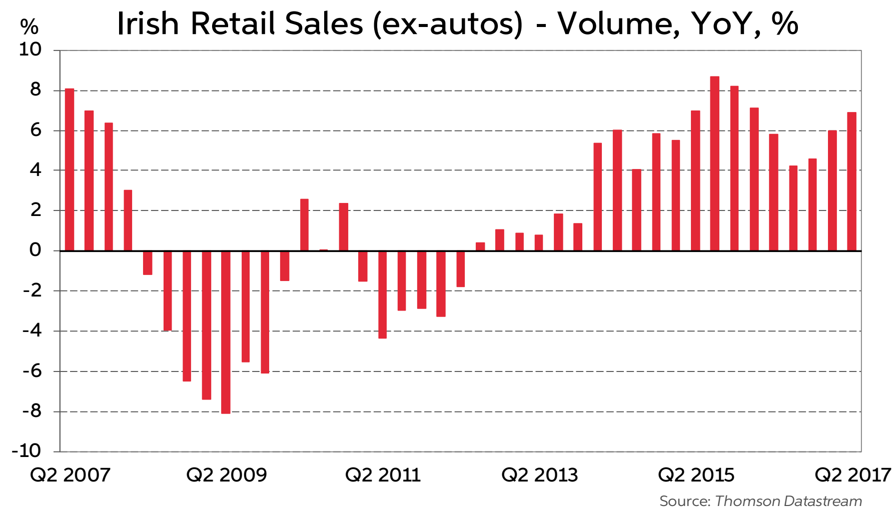
- Irish economy boomed from 1993 to 2007 with GDP up by over 250% – Celtic Tiger
- Very severe recession in Ireland in 2008-2009. GDP fell by 8.5% and GNP down 11%
- Collapse in construction activity and banking system, severe fiscal tightening, high unemployment. Ireland entered a 3 year EU/IMF assistance 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 long period of very strong growth, unlike in other countries
- Ireland tackled its problems aggressively in the public finances, banking sector and property market. Imbalances in economy unwound – housing, debt levels, competitiveness, BoP
- Ireland focused on generating growth via its large export base as the route to recovery
- Economy rebounded strongly in 2013-16 period. Strong uptrend continues in 2017
- Domestic economy has recovered strongly, led by rebound in investment and retail spending
- Strong jobs growth. Unemployment rate fell from 15.2% in 2012 to 6.3% by August 2017
- Budget deficit has declined at a quicker than expected pace. At just 0.5% of GDP in 2016

Indicators remain upbeat despite concerns over Brexit









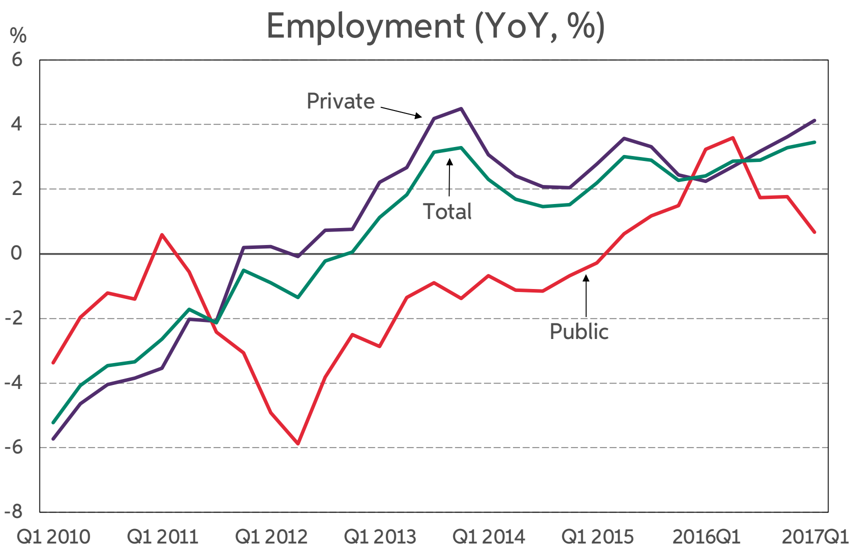
Strong growth continues in 2017

- Robust GDP growth of 5.1% in 2016. GDP grew by 6.1% yoy in Q1 2017
- Mfg PMI at 56.1 in August, a two-year high
- Services PMI remains very strong in 2017. At 58.3 in July and 58.4 in August
- Construction PMI averages 59 for Jan-July 2017 as sector grows strongly
- Consumer confidence at very strong levels – close to 15 year high over summer months
- Retail sales (ex-motor trade) rose by 1.8% in Q1 and 1.9% in Q2. Up 7% yoy in 3 months to July
- Total car regs (new + used imports) up 3% yoy in Jan-July 2017 – surged in 2014-16 period
- Housing completions up 25% yoy to May 2017, after 18% increase in 2016
- Mortgage lending rising strongly – mortgage drawdowns up 33% yoy in H1 2017
- Strong job growth continuing – employment rose by 3.5% year-on-year in Q1 2017
- Live Register continues its sharp decline in 2017. Jobless rate down to 6.3% by August 2017
- Budget deficit on target to end August as it continues to decline. Tax receipts up 5% year-to-date

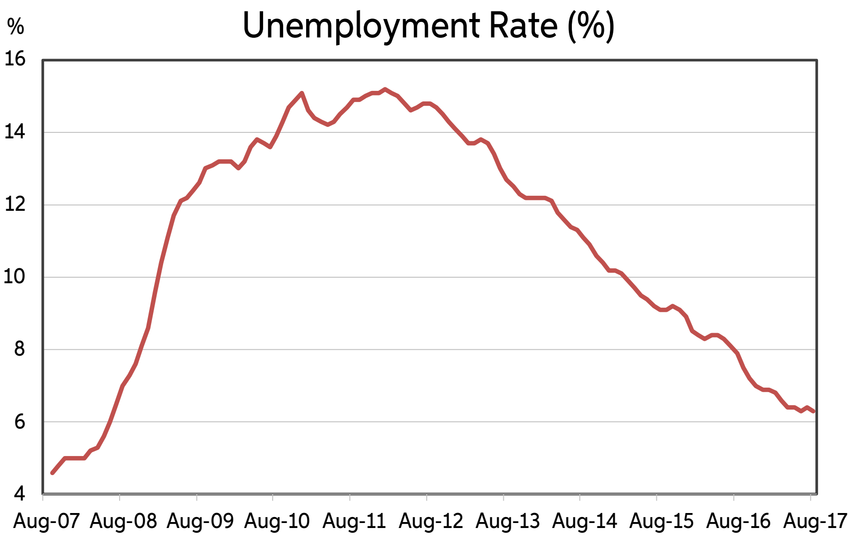
Robust jobs growth; unemployment falls sharply

Year Average	2014	2015	2016	2017(f)	2018(f)	2019(f)
Unemployment Rate %	11.3	9.5	7.9	6.3	5.3	4.8
Labour Force Growth %	-0.3	0.5	1.2	1.3	1.5	1.6
Employment Growth %	1.7	2.6	2.9	3.1	2.5	2.2
Net Migration : Year to April ('000)*	-5.0	5.0	10.0	15.0	20.0	25.0

Source: CSO and AIB ERU forecasts *AIB estimates for migration. CSO will publish updated annual migration figures later this year based on Census 2016



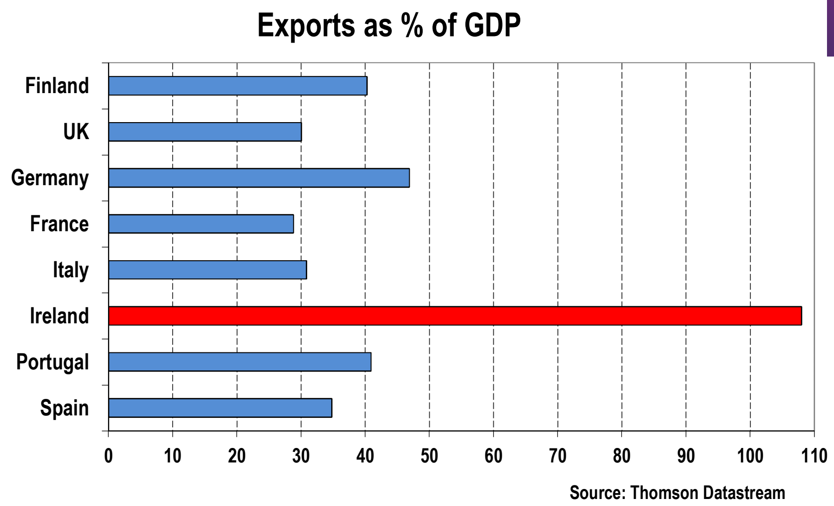
Source: *Thomson Datastream, CSO*

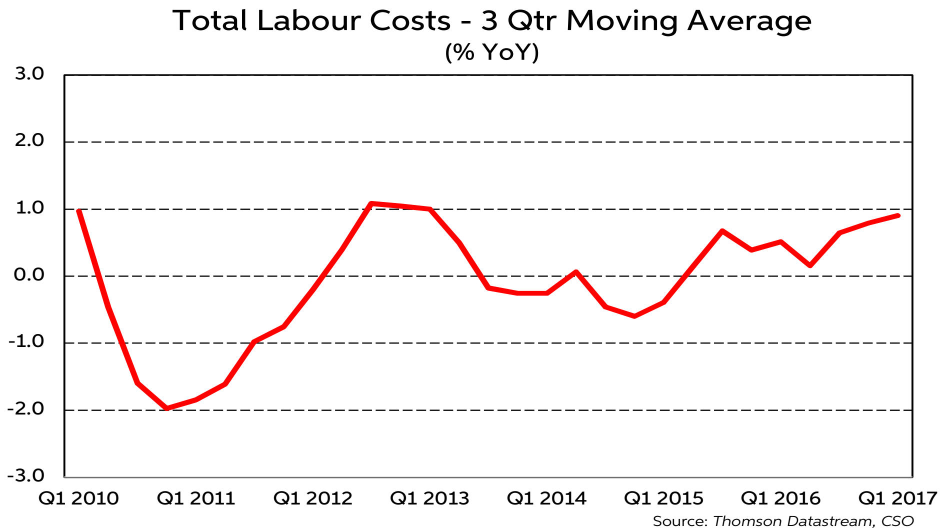


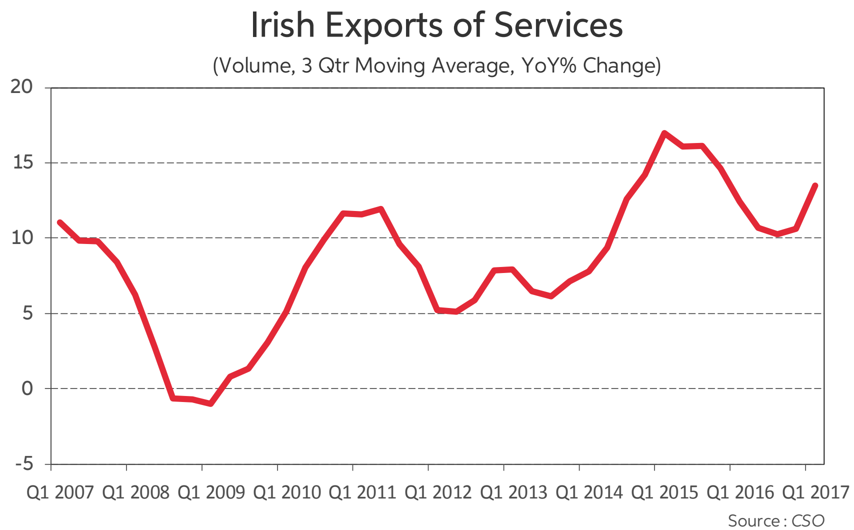
Source: Thomson Datastream

Large Irish export base performs well

- Ireland a very open economy – exports, driven by huge FDI, equate to well over 100% of GDP
- Major gains in Irish competitiveness since 2009, with weakening of euro also helpful
- Exports have risen strongly, helped by large FDI inflows and recovery in global economy
- Sterling's sharp fall a challenge for exports to UK but total service exports up 15% yoy in Q1 2017







FDI and the Irish economy

WHAT ATTRACTS FDI TO IRELAND?

- Access to European markets
- Low corporate tax rate of 12.5%
- English speaking country
- Well educated, flexible workforce
- Common law legal system
- Stable political framework
- Long history of successful FDI
- Access to decision makers

KEY FDI IMPACTS ON THE IRISH ECONOMY

- 1,200 multinational companies
- €150bn Exports (64% of Irish exports)
- 200,000 Jobs in FDI, 340,000 in total
- 70% of Corporation Tax
- €8.7bn Spending on Irish services/materials
- €10bn 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 firms

ANY US TAX CHANGES SHOULD NOT HIT FDI

- US firms have well established operations here
- Need highly skilled, multi-lingual workforce
- Firms do not move Ireland to avoid US tax
- Ireland is base to service their European markets
- Easier to operate in local rather than US time zone
- Risk of protectionism means need bases abroad
- No certainty about future US tax policy
- Republicans have dropped border tax plan

Many top global companies have big operations in Ireland

AIB

ebay

facebook

Abbott

Pfizer

Boston Scientific

gsk GlaxoSmithKline

BNY MELLON

Google

citi

ZURICH

EMC² where information lives

DELL

IBM

intel

ANALOG DEVICES

SAP

NOVARTIS

Microsoft

SIEMENS

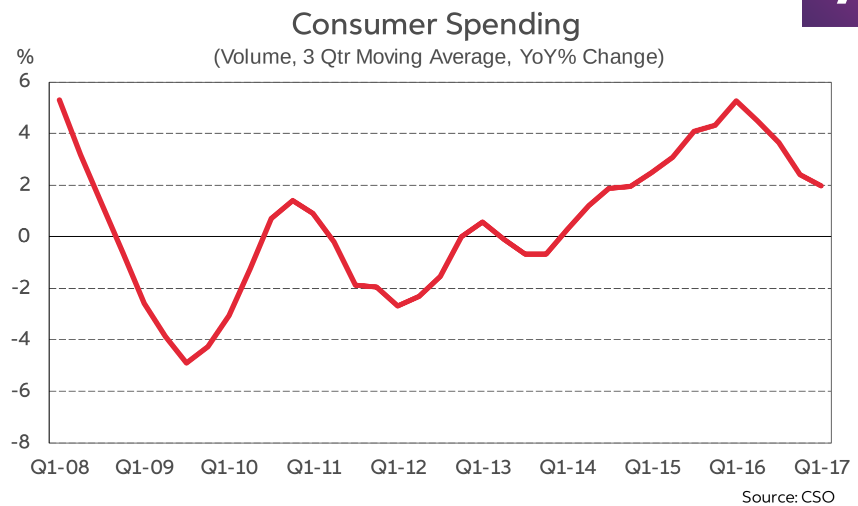
accenture

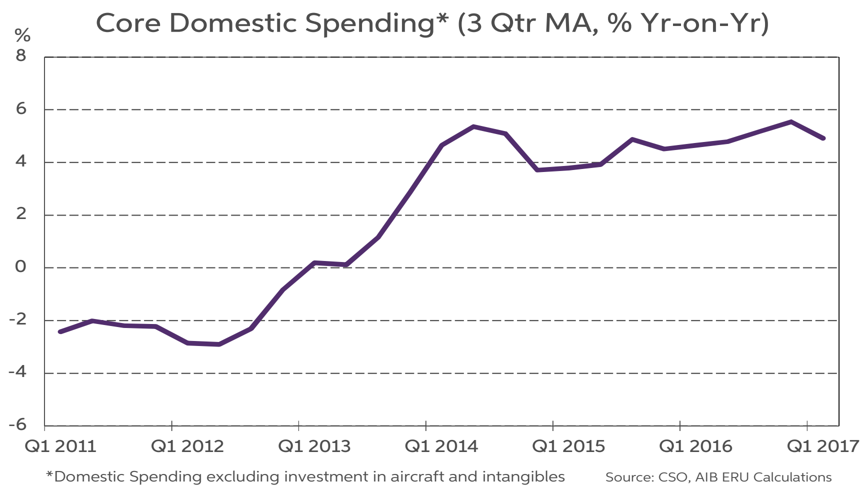
Johnson & Johnson

STATE STREET

Strong recovery by domestic economy in place since 2013

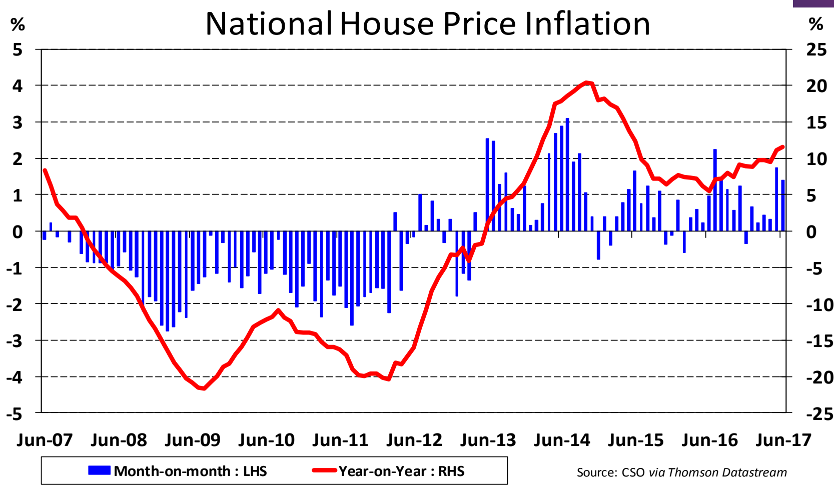
- Domestic economy contracted by 20% in period from 2008-2012 with particularly big fall in construction
- Construction has seen good recovery since 2013, with output up 15% in 2016 and over 20% yoy in Q1 2017
- Core business investment (ex aircraft leasing) surges, averaging growth rate of 22% over 2012-2016 period
- Consumer spending grew by 2.0% in 2014, 4.2% in 2015 and 3.3% in 2016. Rose by 1.2% in Q1 2017
- Core domestic spending (ex aircraft/intangibles) averaged growth of 4.8% in 2014-2016
- Core retail sales rose strongly in 2014-16 period. Trend continuing – up 6.5% yoy in H1 2017
- Total car regs (new + used imports) continue uptrend, rising by 3% in H1 2017 after surging in 2014-16

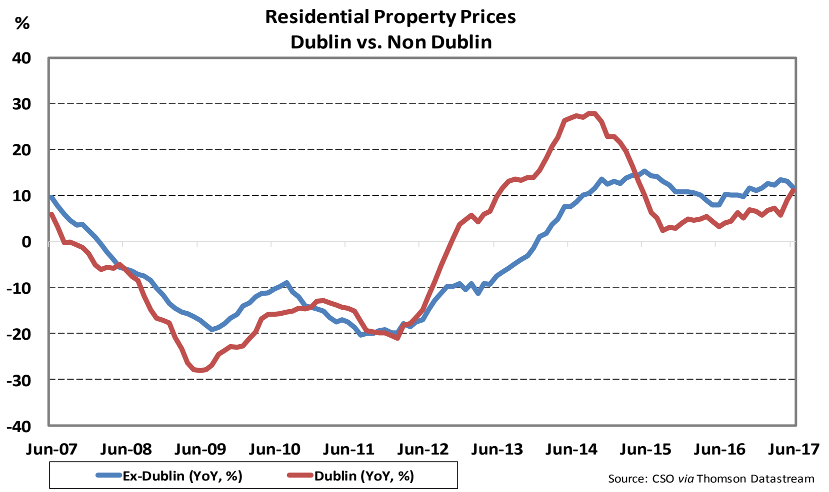




House prices rebound as big housing shortage emerges

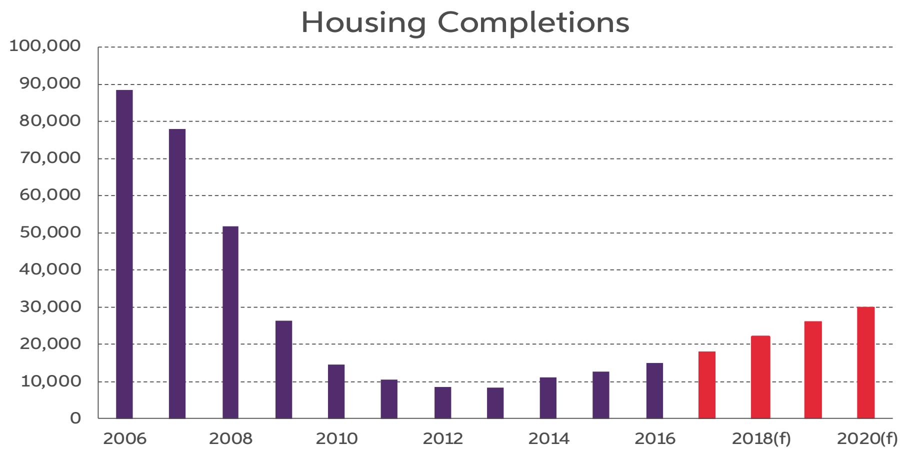
- House prices declined by a very sharp 55% between their peak in late 2007 and early 2013
- House prices then rebounded as big housing shortage emerged after 90% fall in house building
- Supply overhang eliminated with little stock for sale
- Prices up 60% by June 2017 from low in early 2013
- Dublin prices up by 77.5% from trough, while non-Dublin prices have risen by 51.5%
- House prices, though, including in Dublin, are still some 28% below peak levels hit in 2007
- Central Bank mortgage rules cooled Dublin house price inflation in 2015 – fell from 25% to below 3%
- House price inflation has picked up again. Prices up 11.6% yoy nationally in June 2017. Dublin up 11.1%, with non-Dublin prices rising 11.8% yoy
- Rents have also rebounded strongly – now 15 % above previous peak reached in 2008



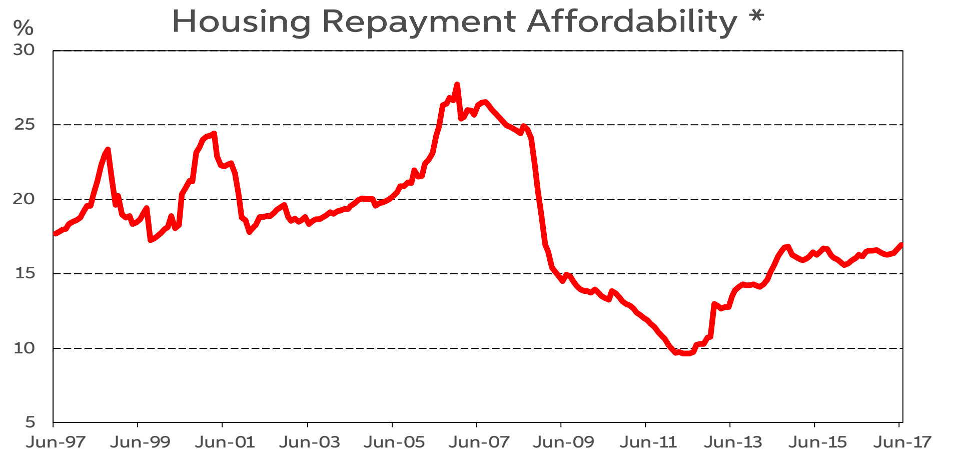


House building rising only slowly from very low levels

- Housing completions at 12,700 in 2015, up from 11,000 in 2014 and 8,300 in 2013
- Completions rose by 18% to 15,000 in 2016 and up by 25% yoy to May 2017.
- Completions should reach 18,500 in 2017 but annual demand estimated at circa 30,000 units
- Measures being put in place to boost new house building. More Local Authority and NAMA building
- Central bank lending rules relaxed while tax rebate introduced in budget to help fund deposits for FTB
- Mortgage lending picks up again after slowing on new CB rules in 2015 - rose by 33% yoy in H1 2017
- Housing affordability helped by low mortgage rates
- However, could be 2020 before housing output rises to 30,000 units – estimated annual demand



Source: Dept of Housing, AIB ERU



* % 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 property price index

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

AIB Model of Estimated Housing Demand

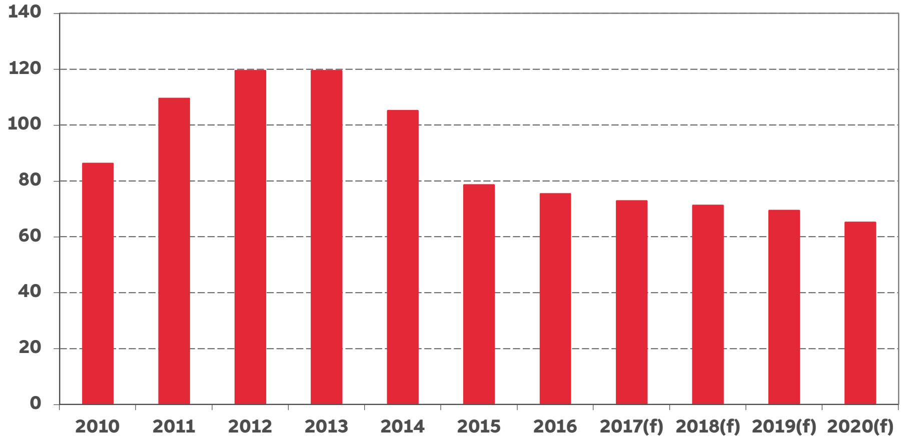
- Rising headship rates added circa 8,000 per year to housing demand in 2002-2011 period
- Shortage of housing, high rents, tighter lending rules saw average household size rise in 2011-16. Thus, headship fell – was a drag on demand of circa 10,000 p.a.
- Assume no change in headship in 2016-2020 – note long-term trend is upwards, adding to demand
- Pent-up demand also builds 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 or demand being reduced by fall in headship rate. Both factors very evident in 2011-16 period

Calendar Year	2016	2017	2018	2019	2020
Household Formation	24,000	24,000	24,500	25,500	26,000
of which					
Indigenous Population Growth	*19,500*	*18,000*	*17,000*	*16,500*	*15,500*
Migration Flows	*4,500*	*6,000*	*7,500*	*9,000*	*10,500*
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	**29,500**	**29,500**	**30,000**	**31,000**	**31,500**
Completions	**15,000**	**18,500**	**22,000**	**26,000**	**30,000**
Shortfall in Supply	***-14,500***	***-11,000***	***-8,000***	***-5,000***	***-1,500***

*Headship is % of population that are heads of households. Sources: CSO, DoECLG, AIB ERU

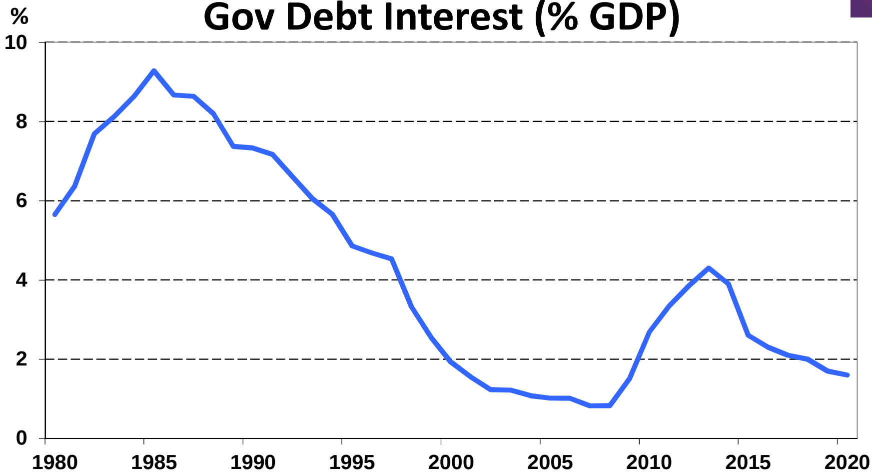
Govt debt ratio falls, private sector deleverages

Gross Gen Gov Debt (% GDP)



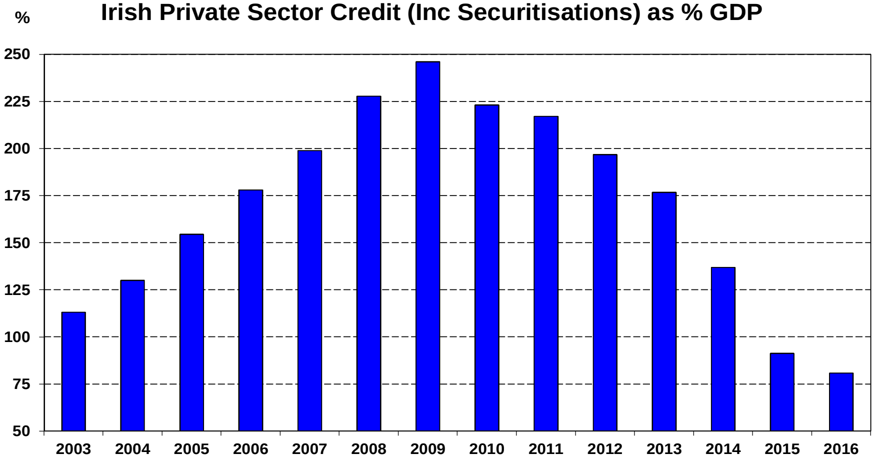
Source: Dept of Finance. (Note Inflated/Distorted GDP figues from 2015)

Gov Debt Interest (% GDP)



Source: NTMA; Dept of Finance

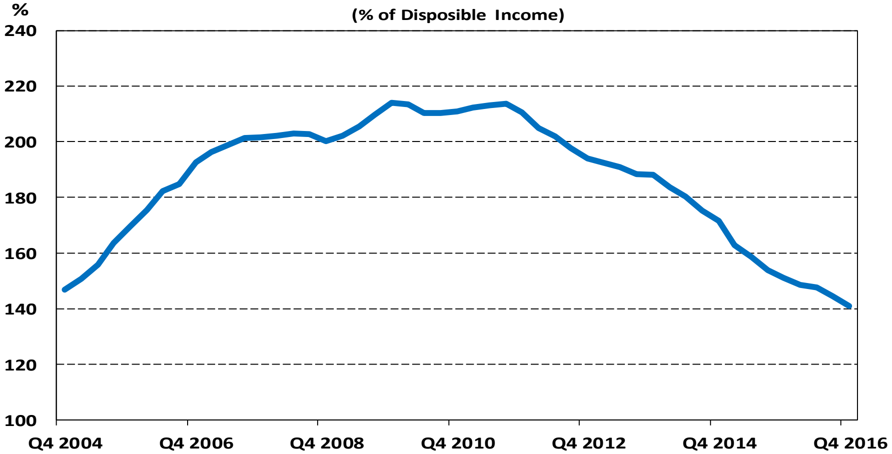
Irish Private Sector Credit (Inc Securitisations) as % GDP



Sources: Central Bank, CSO, AIB ERU Calculations (Note Inflated/Distorted GDP figs in 2015/16)

Irish Household Debt

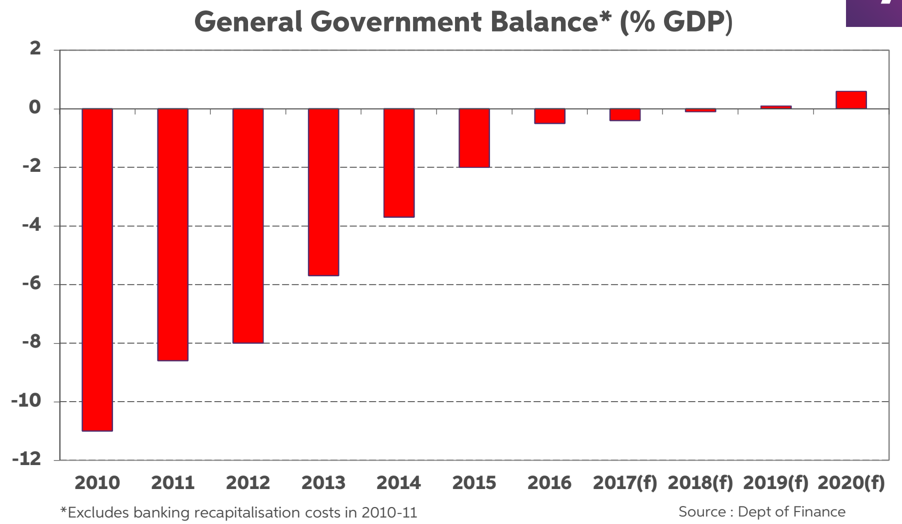
(% of Disposible Income)

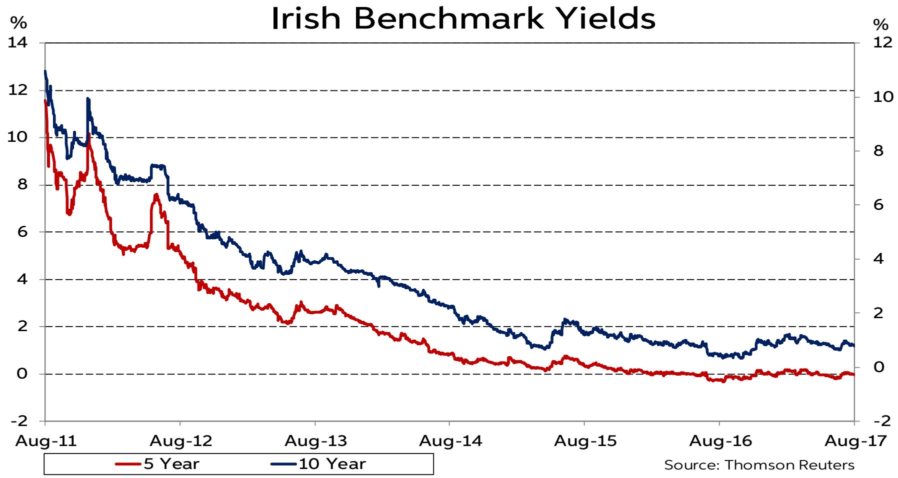


Source: CSO, Central Bank, AIB ERU

Budget deficit falls sharply – now close to balance

- Some €30bn (18% of GDP) of fiscal tightening implemented in 2008-2014 period
- Budget deficit falls sharply to very low levels - down to 0.6% of GDP in 2016
- Public finances very close to target in 2017 – taxes and spending near to schedule at end August, with deficit continuing to decline
- Budget deficit forecast at 0.1% of GDP for 2018
- Primary budget (i.e. excluding debt interest) surplus of 1.8% of GDP in 2016
- Debt interest costs low – at 2% of GDP in 2017
- Gross Gov Debt/GDP ratio has fallen sharply
- Irish bonds yields have fallen to very low levels
- Sovereign debt ratings upgraded; S&P have Ireland at A+, Fitch at A, Moody's A3





Brexit is a major challenge for Ireland

- Brexit has serious implications given close economic/trade links with UK
- Trade with UK equates **to 35% of Irish GDP**. Thus, it is a key trading partner
- UK takes some **40% of Irish indigenous firms exports**, so very important trading partner
- Expected negative impact of Brexit on UK economy will have **knock-on effect** on Irish exports to there
- Agri, tourism, energy, retailing, financial services, the sectors likely to be most impacted by Brexit

- Sterling has fallen sharply on Brexit concerns, which hits **exports to UK**
- Impacts Irish firms **competing with UK exports** to Ireland and elsewhere
- Many Irish exporters are small firms with no Treasury function so don't hedge currency exposure
- **Cross border trade** picks up as shoppers head North following sterling's big fall. Also big rise in on-line sales going to the UK
- **Sterling weakness** also has a significant impact on cross-border businesses like hotels, restaurants

- **Higher trading costs** from more administration, differing rules and regulations, compliance costs, possible customs duties/tariffs when UK leaves EU
- Brexit could impact considerable **cross-country investment** between UK and Ireland.
- **Border** with Northern Ireland will become an external EU land border, with possible Customs checks etc
- Ireland will **lose key ally** within EU when UK leaves as share similar views on taxation, regulation, state involvement in economy etc.

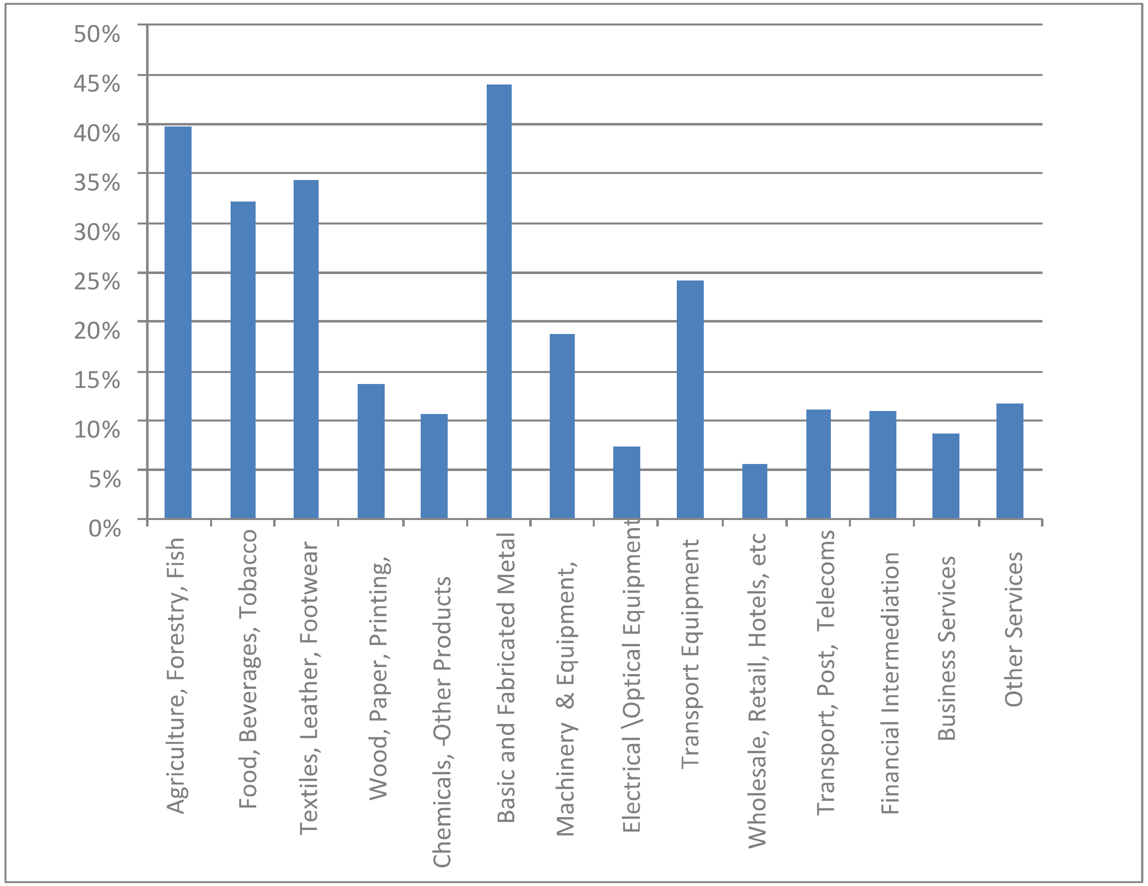
Customs arrangements key issue around Brexit

- UK to leave EU, Single Market and Customs Union – does not want common external tariffs
- Ireland and UK want to preserve their common travel area but need EU agreement on this
- Exit deal will need to contain transition arrangements to avoid disruption to trade until EU/UK free trade deal is done. UK suggests a UK-EU Customs Unions during transition period
- UK wants to conclude full free trade deal with EU within 2-3 years of its 2019 departure
- Worst outcome is if UK has to fall back on WTO rules post Brexit. These require a common set of tariff rates to be applied to all countries where no free trade deals exits
- This would be bad news for Irish/UK trade as could see imposition of tariffs/customs duties and increased costs from non-tariff barriers like rules of origin, production standards, licenses
- Unclear what the arrangements on customs would be after the transition period. UK suggests 'a new customs partnership' or else 'highly streamlined customs arrangements' as part of FTA
- Brexit will impact the border with Northern Ireland. All sides want to avoid a hard border but this will require some type of barrier free customs arrangements, which will prove difficult
- Main upside for Ireland is that Brexit makes it more attractive for FDI to locate here than in UK
- Period of uncertainty could last until 2021 when UK hopes to conclude free trade deal with EU

Agri-sector would be severely impacted by hard Brexit

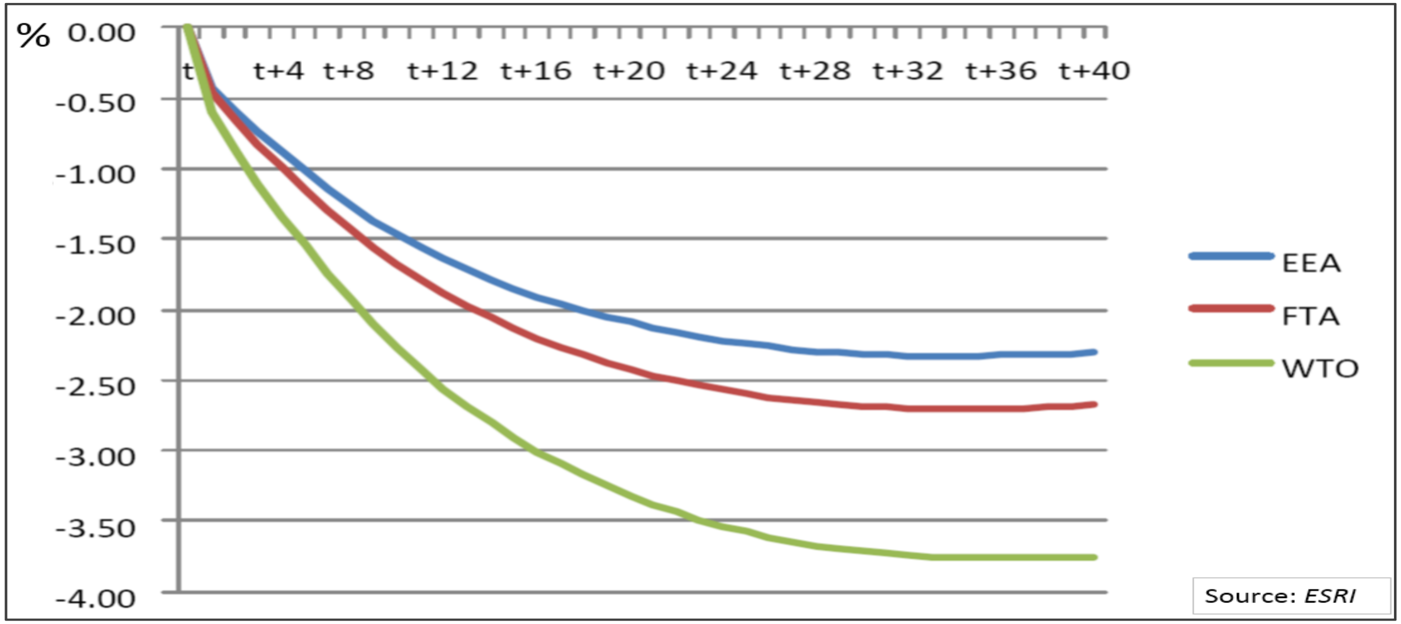
- Main EU tariffs relate to food products, keeping prices up. UK may not maintain these post-Brexit
- Food and Beverages account for 25% of total Irish exports to UK
- Around 40% of Irish food exports go to the UK
- Other sectors very dependent on UK market include machinery and transport, metal products, textiles
- Some 40% of indigenous Irish exports go to UK compared to 10% for foreign owned companies

Share of Exports by Industry Destined for the UK (ESRI)



Brexit expected to lower growth rate of Irish economy

Impact of Brexit on Output *(% deviation from base)*



- ESRI estimate that Irish output would be reduced by 2-2.5% on a soft Brexit
- Sharp fall-off in trade with UK likely on a hard Brexit
- Output almost 4.0 % lower over time if there is hard Brexit and a fall back on WTO rules
- Employment 2% lower and unemployment rate nearly 2% higher in hard Brexit

Irish Government’s Priorities in Brexit Talks

Border

- Avoid a hard border on the island of Ireland
- Cater for Good Friday Agreement and allow Northern Ireland to automatically join EU if it ever opts for United Ireland
- Irish citizens in Northern Ireland to retain EU citizens rights post Brexit
- Retain the Common Travel Area between Ireland and the UK
- UK and EU to agree on reciprocal protection of citizens rights for those residing in each others territory

Trade

- Orderly withdrawal of UK from the EU that avoids a hard Brexit or cliff-edge
- Agree transitional arrangements to bridge the gap between UK’s exit from EU and a future EU-UK free trade agreement (FTA)
- Future FTA needs top be broad and ambitious
- Integrity of single market needs to be protected in FTA
- FTA to promote regulatory conformity and avoid regulatory dumping
- Disputes resolution mechanism needs to be part of a FTA

Exit Negotiations Timeline?

The Withdrawal Terms
(June-December 2017)

Some key issues

- Disentangling past ties/commitments
- Budget discussions on the Exit Bill the UK faces
- Citizen Rights -4m EU/UK migrants, preserving their rights, how to enforce it
- Ireland/NI, type of border, Irish citizens in NI, provision to allow NI re-join EU if United Ireland

Future Relationship
(January – June 2018)

Some key issues

- Scope of discussions on future relations – trade, security etc
- Sketch aims for post-Brexit FTA
- Different to normal trade deal as no trade barriers at present
- Level playing field- prevent “Regulatory Dumping” e.g. workers rights, subsidy rules
- Extent of market access to be maintained
- Disputes resolution mechanism

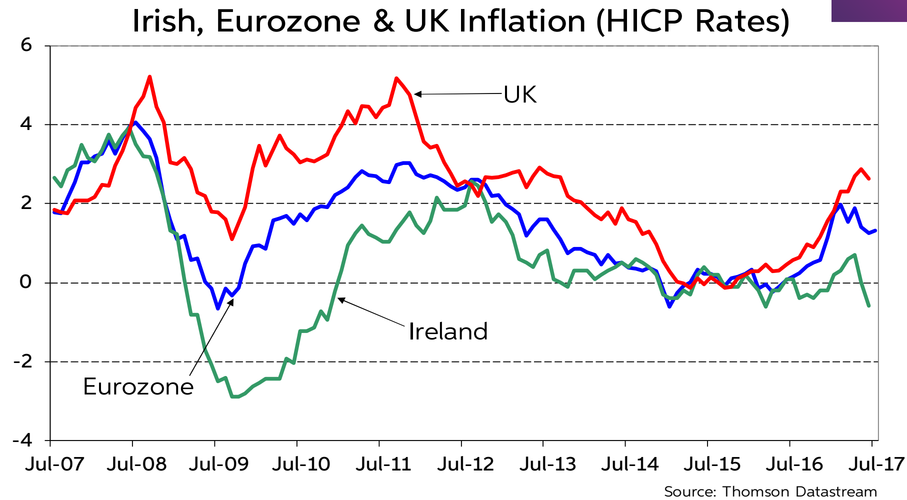
Transition Arrangements
(July-November 2018)

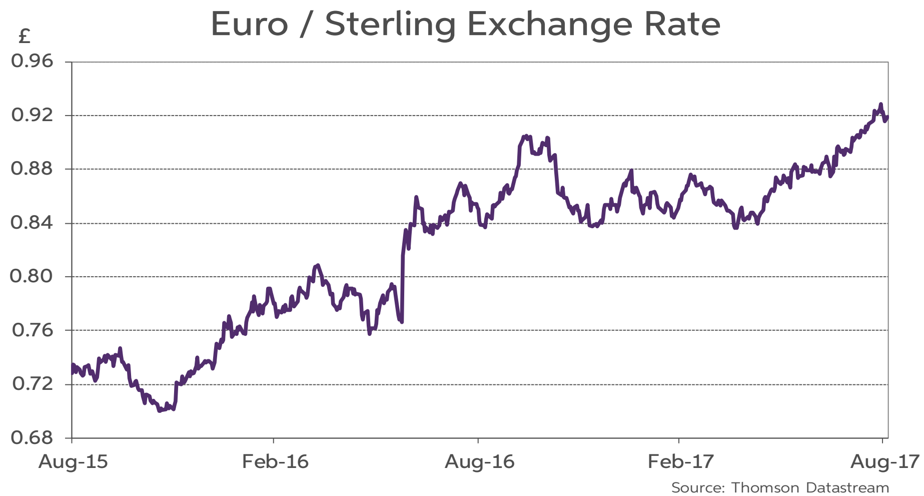
Some key issues

- Role of European Court of Justice in this period
- Benefitting from market access requires adhering to EU Rules
- Customs arrangements
- Free movement of labour and immigration controls
- Cost to UK for access to EU markets/use of EU agencies
- Likely period of time transition arrangement will last

Solid Irish growth to continue ahead of Brexit

- Strong rebound by Irish economy is continuing
- Construction picking up from still low output levels
- Budgetary policy turns mildly expansionary
- Activity supported by low interest rate environment
- FDI strong despite concerns on corporate tax
- Irish inflation has turned negative again, and is well below that of the Eurozone and especially the UK
- Global economy, including the Eurozone, is picking up momentum, helping exports
- However, Brexit is a major challenge for economy
- Sharp fall in sterling impacts exports to UK, tourism from UK, Irish firms competing with UK exports
- Irish GDP grew by a strong 5.1% in 2016
- Irish GDP growth generally forecast at 4.0-4.5% for 2017 and circa 3.5% in 2018
- Not many signs yet, though, that economy is slowing, with GDP up 6% yoy in Q1 2017





AIB Irish Economic Forecasts

% change in real terms unless stated	2014	2015	2016	2017 (f)	2018 (f)	2019 (f)
GDP	**8.3**	**25.6**	**5.1**	**4.0**	**3.5**	**3.0**
GNP	9.0	16.3	9.6	3.5	3.0	2.5
Personal Consumption	2.0	4.2	3.3	3.0	2.5	2.2
Government Spending	4.8	1.8	5.3	1.5	1.5	1.5
Fixed Investment	18.1	27.9	61.2	6.0	5.0	4.5
Core Fixed Investment*	13.5	10.8	13.6	6.0	5.0	5.0
Core Domestic Spending*	4.3	4.8	5.4	3.9	3.3	3.0
Exports	14.4	38.4	4.6	4.5	4.2	4.0
Imports	14.9	26.0	16.4	4.0	3.8	3.7
HICP Inflation (%)	0.3	0.0	-0.2	0.2	1.0	1.5
Unemployment Rate (%)	11.3	9.5	7.9	6.3	5.3	4.8
Budget Balance (% GDP)	-3.7	-2.0	-0.6	-0.4	-0.1	0.1
Gross General Gov Debt (% GDP)	105.3	78.7	75.4	73.0	71.0	69.0

*Excludes investment in aircraft and intangibles

Source: CSO, AIB ERU Forecasts

Risks to the Irish economic recovery

- Main risks to Irish recovery no longer internal but external, in particular Brexit
- Brexit major issue for Ireland given its strong trading links with UK and sharp fall by sterling
- Possibility of reduced FDI from US if Trump administration slashes corporate taxes. Any moves towards increased protectionism could undermine fragile global recovery
- Questions around corporation tax regime (eg Apple ruling) could impact FDI but seems unlikely
- Supply constraints in new house building activity, which is recovering at a slow pace with output still at very low levels
- Competitiveness issues - high Dublin house prices, high rents, high personal taxes
- Continuing credit contraction – fewer banks, tighter credit conditions, on-going deleveraging