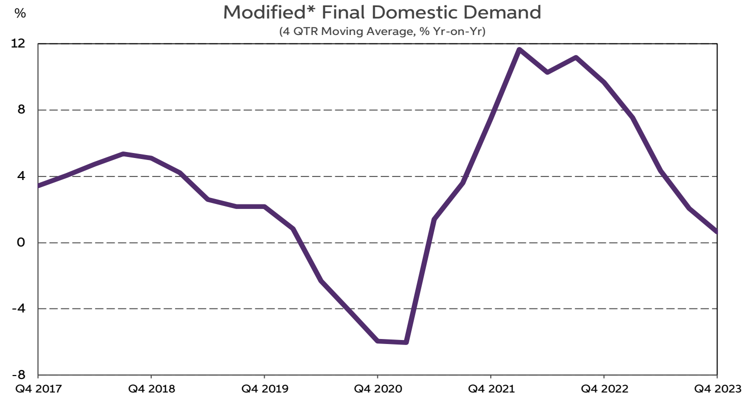
The Irish Economic Update:

Economy entering 2024 in good shape despite sharp slowdown in growth

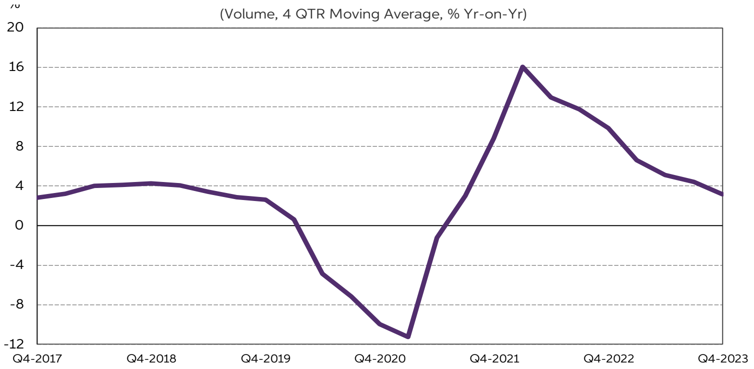
April 2024

Irish economy slowed in 2023, but domestic economy robust

- GDP increased by 9% in 2022, and fell 3.2% in 2023
- Surge in FDI, big jump in pharma & ICT output, key factors in rapid growth in 2021-22
- Normalisation of Pharma accounts for 2023 GDP fall
- Domestic indicators point to robust underlying growth in 2023
- Modified Domestic Demand: +0.5%
- Consumer Spending: +3.1%
- Domestic sectors +3.8%, foreign FDI output -6.4%
- Employment continuing to grow strong, up 3.4% y/y in Q4 2023, helped by surge in labour force growth
- Inflation slowing sharply, HICP measure down to 2.2% in February 2024



Source: CSO (*Investment excludes imports of I.P. & Aircraft Leasing)

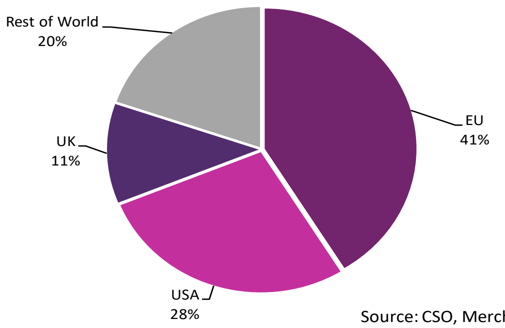


Source: CSO

Exports weaken sharply in 2023 after very strong 2021-22

- Ireland is a very open economy – exports, driven by large scale FDI, are a huge part of economy
- IDA reported record FDI in 2021 and again in 2022, with continuing strong inflows in 2023
- Pharma, medical care products, ICT, business & financial services main components of FDI
- Irish FDI inflows may also be benefitting from Brexit
- Total exports up by 15% in 2021 and 14% in 2022 - big jump in good exports of Pharma and ICT
- 2023 sees global demand normalise post-COVID for Pharma/ICT after exponential growth in 2021-22
- Sharp weakening of exports in 2023, down by 5%
- Goods exports fell 12.3%, due to decline in manufacturing output in Pharma/ICT
- Pharma exports down 5.4% and electrical machinery fall 39% y/y in value terms during 2023
- Service exports though, rose by 3.1% in 2023

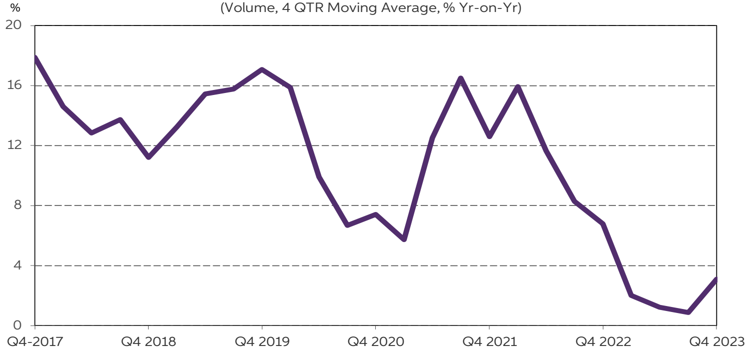
Export Destinations 2023



Source: CSO, Merchandise Trade

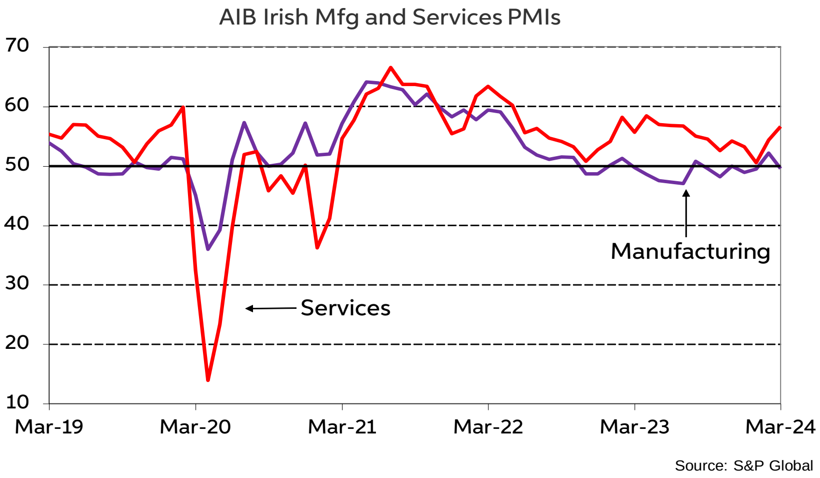
Irish Exports of Services

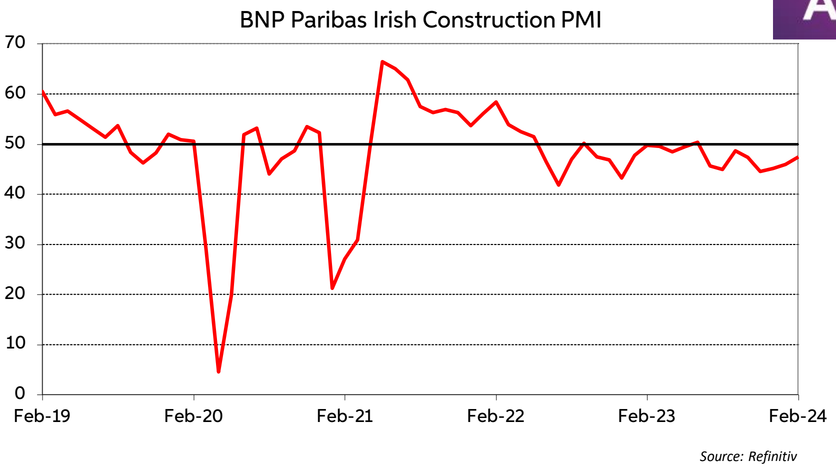
(Volume, 4 QTR Moving Average, % Yr-on-Yr)

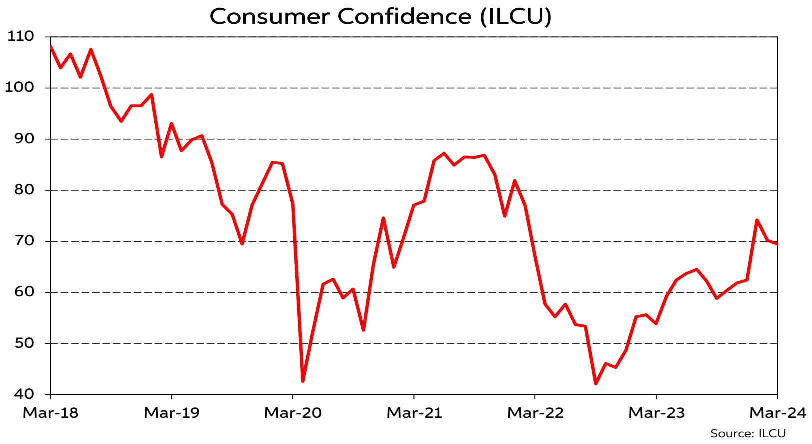


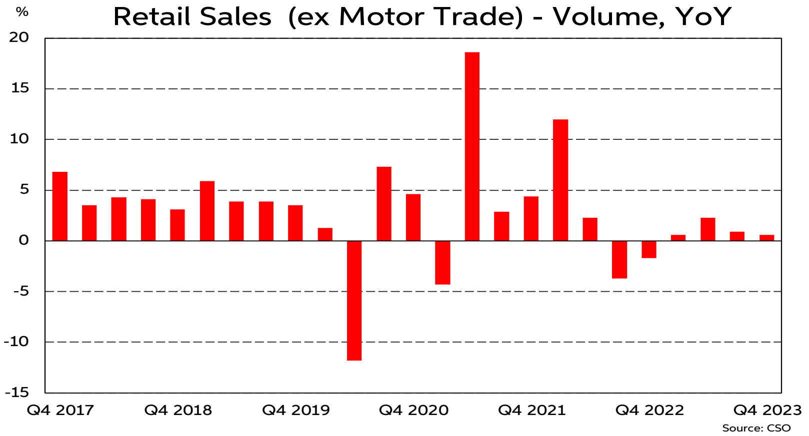
Source : CSO

Survey indicators consistent with continued growth in 2024





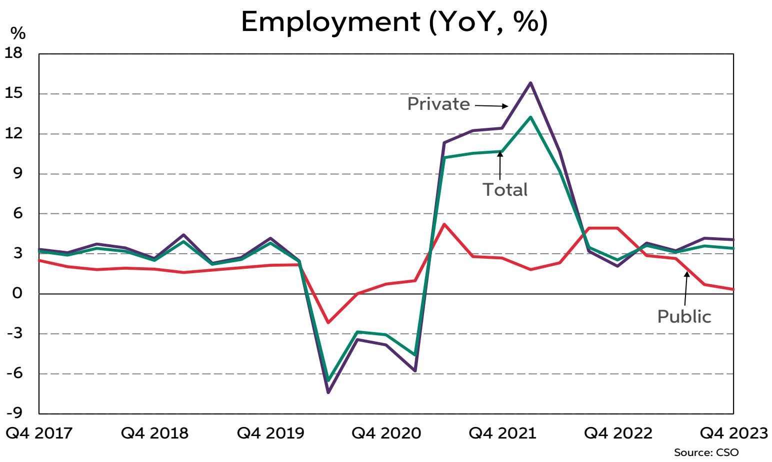


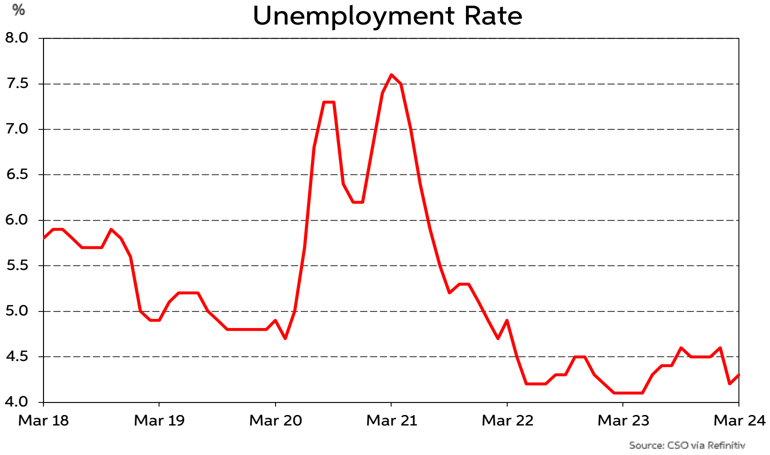


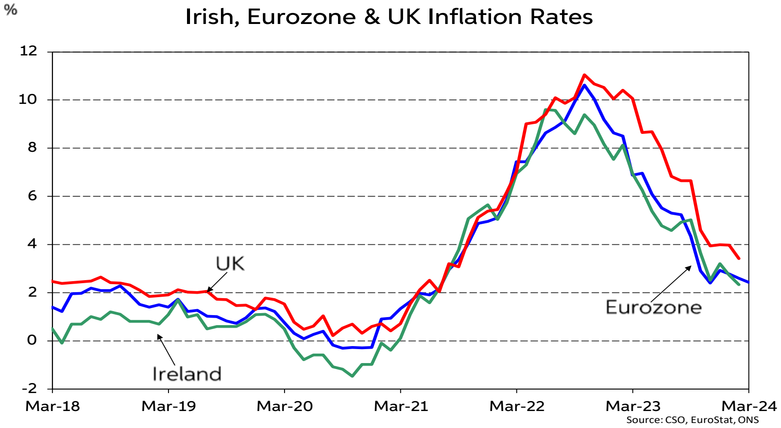
Early 2024 data point to continued solid economic growth

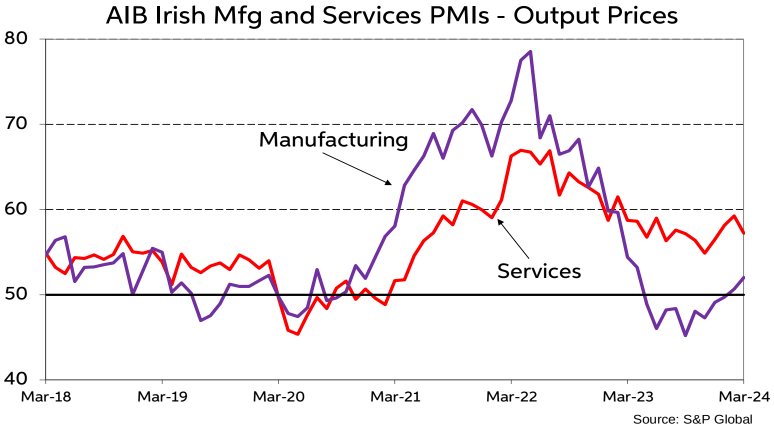
- Having registered a 22-month high of 52.2 in February, the manufacturing PMI declined to 49.6 in March
- Services PMI higher rose to 56.6 in March, fastest rise in ten months
- PMI for construction remained subdued at 47.4 in February. CRE drives declines
- Subdued core retail sales (excluding motor trade) - volumes up 0.4 y/y in February
- New car sales registrations rise by strong 18.3% YTD in February 2024
- Consumer confidence recovering some ground through 2023 and early 2024 after sharp fall in 2022
- Tax receipts rose by 1.8% YTD in Q1 2024, driven by personal income and sales taxes
- Unemployment rate at 4.3% in March - close to historic lows
- Inflation falling sharply, flash HICP measure down to 1.7% in March, but PMI surveys pointing to re-emerging price pressure due to Red Sea disruptions and tight labour market
- New Housing Commencements rise very strongly in early 2024, up 72% YTD in February

Unemployment rate falls to very low level, inflation easing



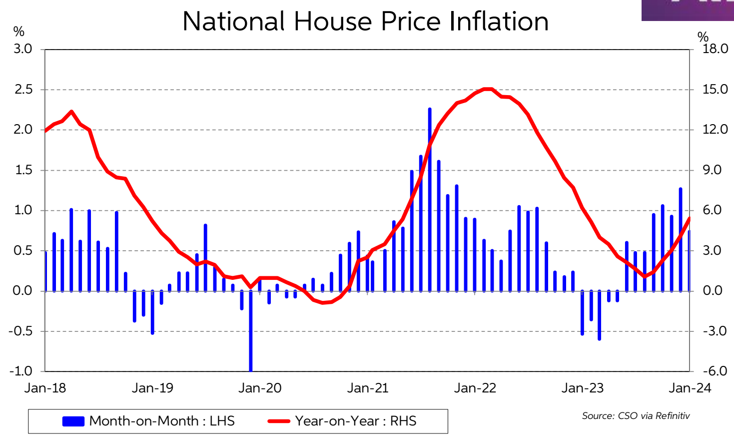


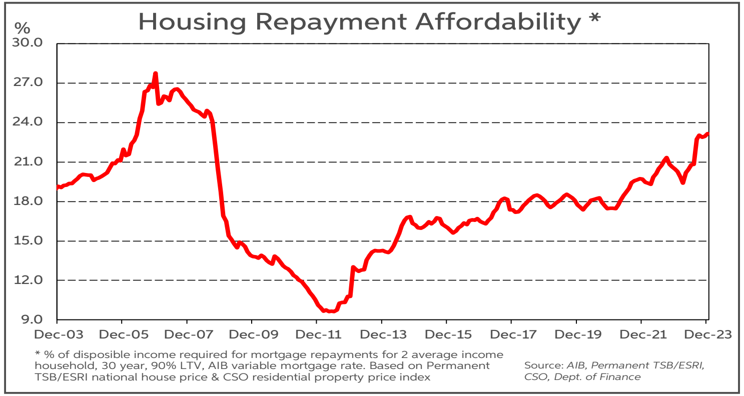




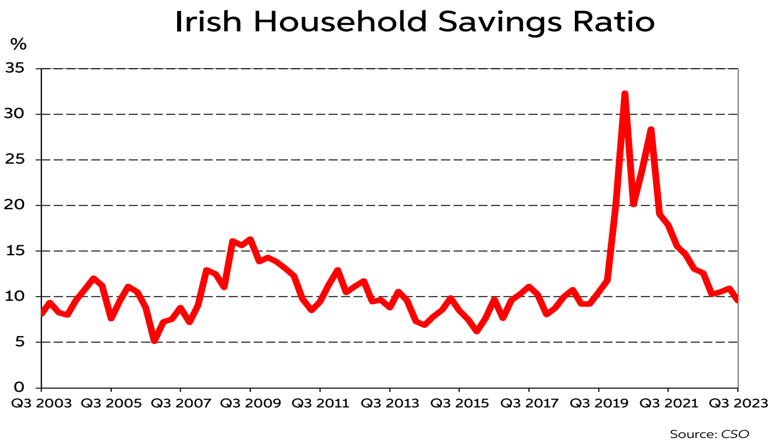
Marked deceleration in house price inflation

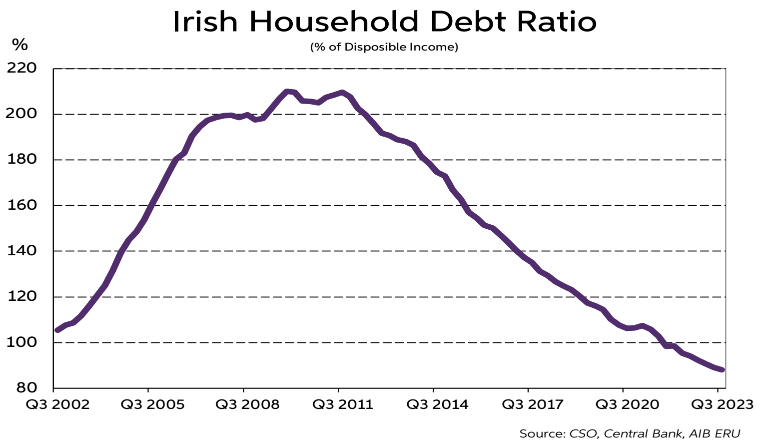
- House prices declined sharply, by 55% from 2007-2013. Prices have fully recovered - back above 2007 peak level
- Low supply, remote working, strong public/institutional demand, enhanced help-to-buy scheme, high personal savings, pent-up demand all supportive of house prices
- House price fell in first five months of 2023, before rising over the next seven months
- Overall, house prices rose by 3.1% in 2023, compared to a 12.4% increase in 2022
- Non-Dublin prices up 5.1%, Dublin prices up 0.6%
- Property websites consistent with official data that house prices starting to pick up again
- Housing affordability has deteriorated since end 2020 on higher house prices and increases in mortgage rates
- Rents jumped sharply over 2021-23. Annual rate peaked at 12.9% in July 2022. Slowed to 6.0% by December 2023

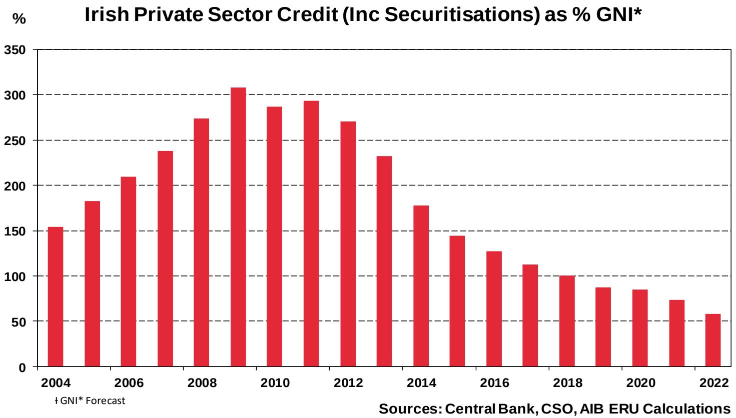


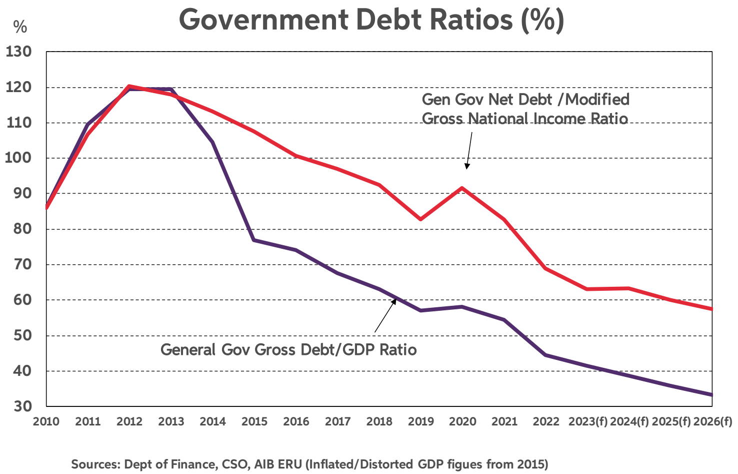


Public & private sector balance sheets in robust shape



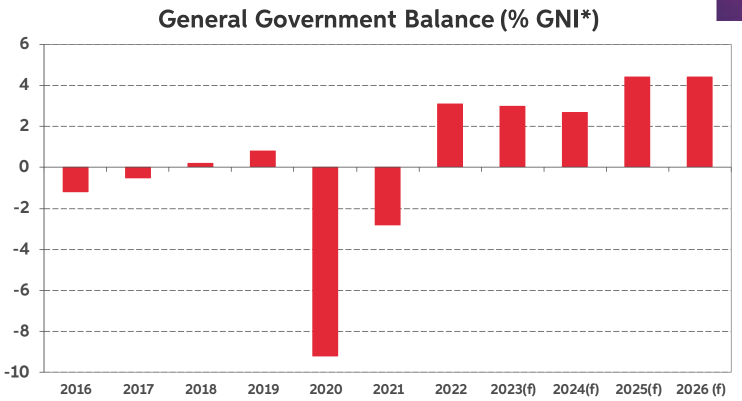


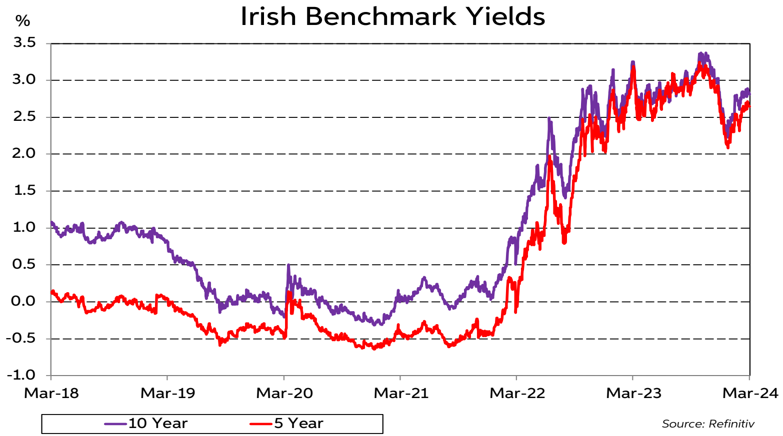




Strong economy leads to large budget surpluses

- Budget deficits in 2020 and 2021 owing to COVID
- Tax revenues rose very strongly across the board in 2021-22; up 21.5% in 2022 and 20% in 2021
- Budget target was a deficit of €8bn for 2022, but a surplus of €8.5bn was recorded (3% of GNI*)
- Solid Exchequer data in 2023, with tax receipts up 6%. Corporation tax receipts up 5%
- Another large budget surplus expected in 2024 of €8.4bn, rising to over €14bn in 2025 and 2026
- Ireland establishing sovereign wealth and capital spending stabilisation funds to house surpluses
- Gov. Debt ratios falling sharply – net Gov. Debt forecast at 63% of GNI*in 2023, 60% by 2025
- Budget surpluses, very large cash balances and long-dated debt mean very little funding needed
- Meanwhile, Ireland continues to run a very large balance of payments surplus
- Irish sovereign debt ratings; S&P AA, Moody's Aa3, Fitch AA-. Upgrades from Moody's, S&P this year



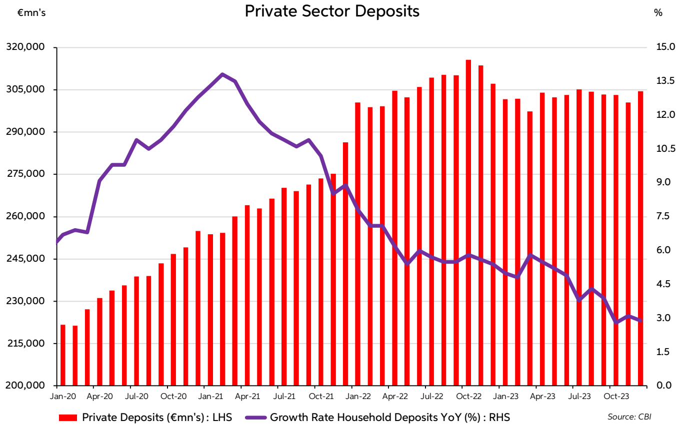


Source: Refinitiv

Economy moves to slower growth path, but in good shape

- Continuing global headwinds and capacity constraints, but Irish economy is underpinned by positive factors
- FDI inflows continuing, boosting investment, exports and employment
- Fiscal policy to remain supportive of growth – Budget allows for 5-6% rise in core gov. spending in 2024-2025
- Economy has deleveraged; low private sector debt
- A rundown of some of the 40% surge in private sector deposits during 2020-2023, could support spending
- Inflation, higher interest rates, slow global growth are significant headwinds, though, for Irish economy
- Capacity constraints emerge also – housing, labour, electricity, water, infrastructure, planning
- Sharp slowdown in growth in 2023 driven by FDI
- Strong fundamentals suggest economy should continue to perform well in period ahead

IMF Global GDP Forecasts (Jan. 2024)				
% Vol	2022	2023	2024	2025
World	3.5	3.1	3.1	3.2
US	1.9	2.5	2.1	1.7
Eurozone	3.4	0.5	0.9	1.7
UK	4.3	0.5	0.6	1.6
Japan	1.0	1.9	0.9	0.8
China	3.0	5.2	4.6	4.1



AIB Irish Economic Forecasts

% change in real terms unless stated	2021	2022	2023 (e)	2024 (f)	2025 (f)
GDP	**15.1**	**9.4**	**-3.2**	**3.7**	**4.0**
GNP	13.9	3.9	4.4	3.3	3.5
Modified Final Domestic Demand	**7.3**	**9.5**	**0.5**	**2.8**	**3.0**
Personal Consumption	8.4	9.4	3.1	3.5	3.3
Government Spending	6.3	3.5	1.7	1.5	2.0
Fixed Investment**	-40.4	5.1	2.9	3.0	3.0
Exports	15.1	13.9	-4.8	5.0	5.0
Imports**	-7.5	15.9	0.4	4.3	4.8
Employment (%)	6.2	6.8	3.5	1.8	1.7
Unemployment Rate (%)	**6.3**	**4.5**	**4.3**	**5.1**	**5.3**
HICP Inflation (%)	**2.4**	**8.1**	**5.3**	**3.0**	**2.4**
Budget Balance (GGB % GNI*)	**-3.0**	**3.1**	**3.0**	**2.7**	**4.0**
Gross General Gov Debt (% GDP)	55.3	44.4	41.4	38.6	35.8
Net General Gov Debt (% GNI*)	82.7	68.9	63.0	63.3	60.1

**2021-22 data very distorted by aircraft leasing and intangibles (IP)

Source: CSO, D/Finance; AIB ERU Forecasts (except public debt)

Changes to Global Corporate Tax Regime

Importance of FDI:

- Some 1,800 multinational companies are based in Ireland, accounting for over 300,000 jobs in direct employment
- Corporation tax receipts of €22.6bn in 2022 or 27% of total tax revenue – well over 80% comes from MNCs

Changes to Corporate Tax Regime:

- Ireland's 12.5% corporate tax rate in place for last two decades and a key cornerstone in attracting FDI
- Ireland signs up to OECD proposal of minimum global corporate tax rate of 15% for very large companies
- Larger multinationals, mainly digital, to pay some taxes on profits in countries where sales made. Details to be agreed
- DoF has allowed for a €2bn hit to Irish corporation tax receipts from changes to global tax system
- Ireland retaining its 12.5% rate – will be 2.5% top-up for larger companies. Takes effect from 1 Jan 2024 in line with EU
- Close watch still needs to be kept for any changes in US Corporate tax rate on companies overseas earnings (Gilti rate)
- Doubts also remain about whether all countries will ratify the new Global Corporate tax deal, most notably the US

Ireland Remains Attractive FDI Location :

- Ireland's main competitor for FDI has been UK, but it is now out of EU, Single Market & Customs Union
- Ireland has many other attractions –English speaking, well educated mobile workforce, common law legal system
- Key industries have large presence in Ireland, with its strong pro-enterprise culture, leading R&D and innovation
- Irish corpo. tax rates still comparatively low by European standards. UK rate raised from 19% to 25% in 2023
- Strong inflows of FDI continue despite the changes to global corporate tax rules. Brexit may be helping inflows

Risks to the Irish economy

- Very open Irish economy vulnerable to weaker global outlook, including FDI inflows
- Concentration risk from heavy reliance of economy on a small number of multi-nationals in terms of investment, output, employment, exports and tax receipts
- Higher interest rates headwinds for Irish economy
- Very reliant on energy imports so could be impacted by disruptions to European gas supplies
- Changes to US corporation tax regime still possible, could negatively impact FDI
- Supply constraints in new house building activity, with output still at relatively low levels
- Other capacity constraints emerging – labour, electricity, water, infrastructure, planning laws
- Competitiveness issues - high house prices, high rents, high personal taxes, high wages & prices
- Credit growth subdued; tight lending rules, low housing supply, weak loan demand, high savings

Tax revenues as % of total