The Irish Economic Update:

Slowdown in growth this year, but economy is continuing to perform well

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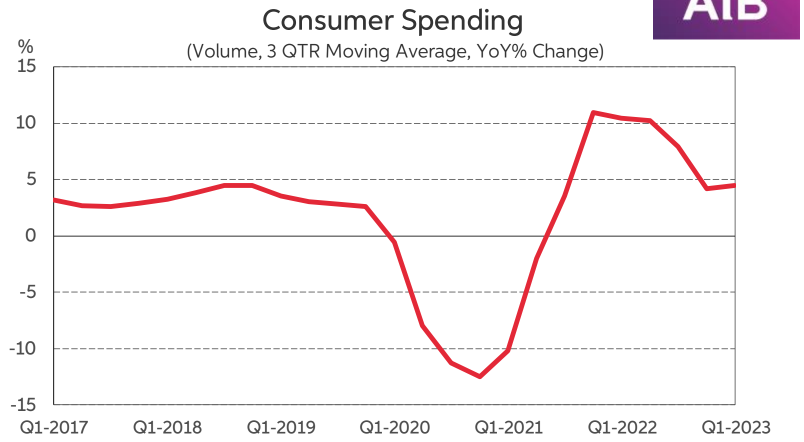
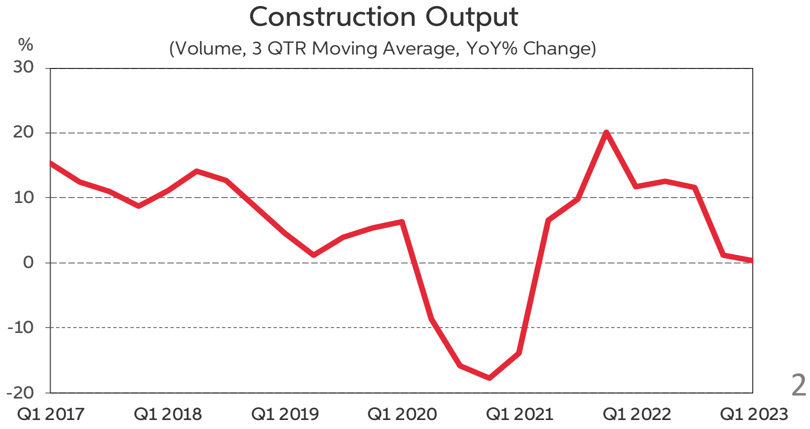
Irish growth slows in Q1’23 after buoyant 2021-22

- GDP increased by 15.1% in 2021 and 9.4% in 2022
- Domestic economy grew by 7.3% in 2021, 9.5% in 2022
- GNI* (volume) up by 13.9% in 2021 and 6.7% in 2022
- Surging inflows of foreign direct investment a key factor in rapid growth of economy in 2021-22
- High levels of fiscal supports for household/businesses also important in strong performance of economy
- GDP fell 2.8% in Q1, reflecting big fall of 13.2% in manufacturing output and associated fall in exports
- Mfg. output of multi-nationals very volatile and big fall in March largely reverses in April/May per CSO data
- Exports fell by 1.5% in Q1. Big decline in pharma exports, while services exports are slowing
- Domestic economy expanded 0.1% in Q1, up 4.5% yoy. Marked decline in government expenditure in Q1
- Consumer spending up 0.1% in Q1, and 5.1% yoy
- Investment in Q1 up 5.1% on Q4 and 10% yoy; includes construction output up 4.3%, and 5.6% yoy



Source: CSO via Refinitiv



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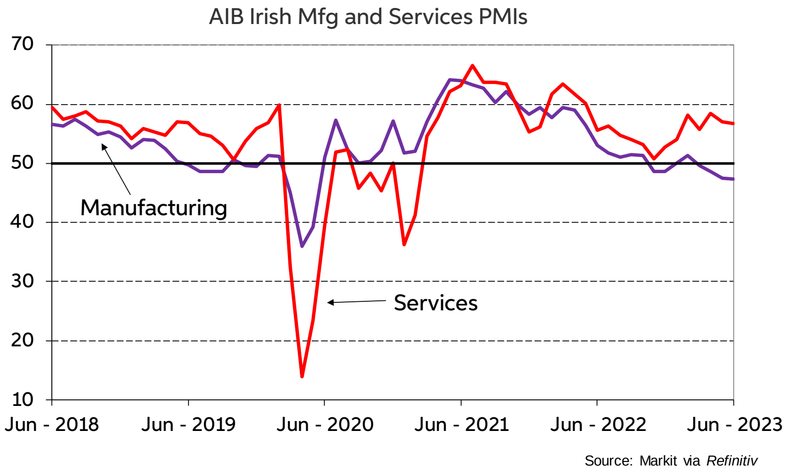
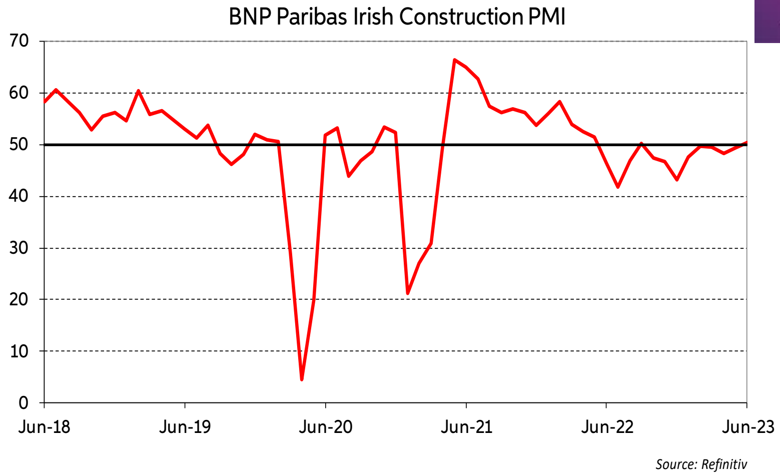
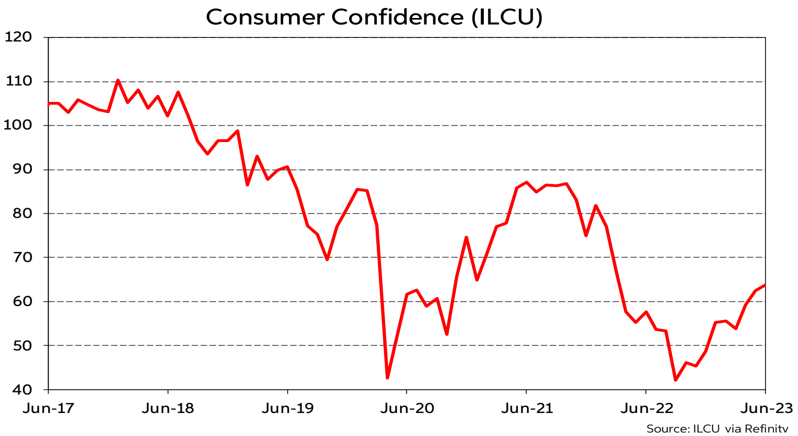
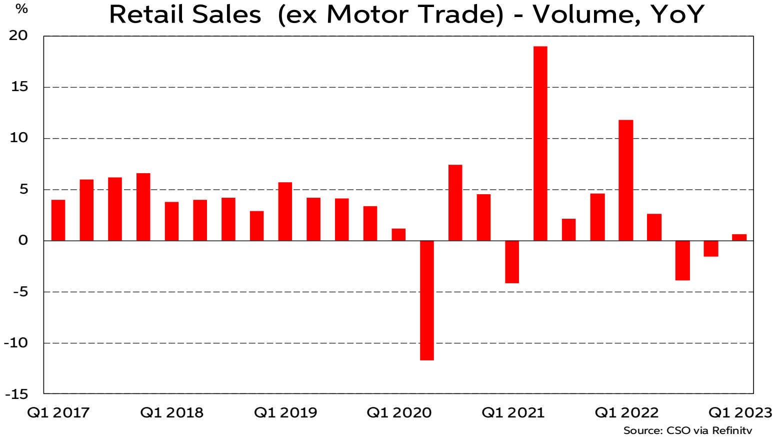
Survey indicators point to slower growth this year





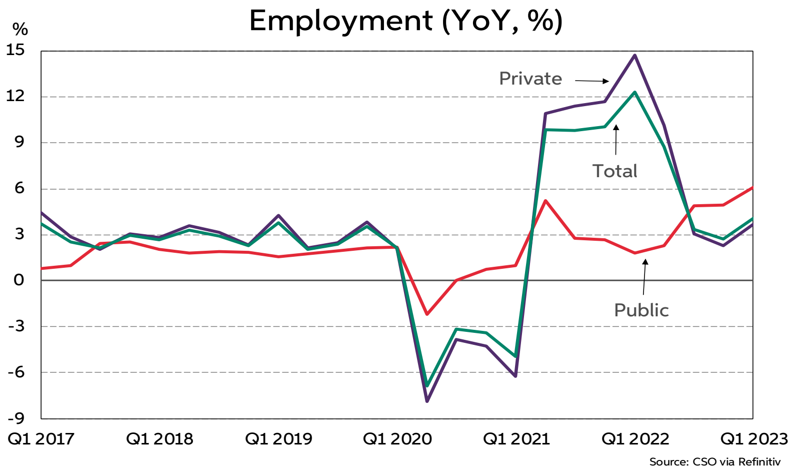


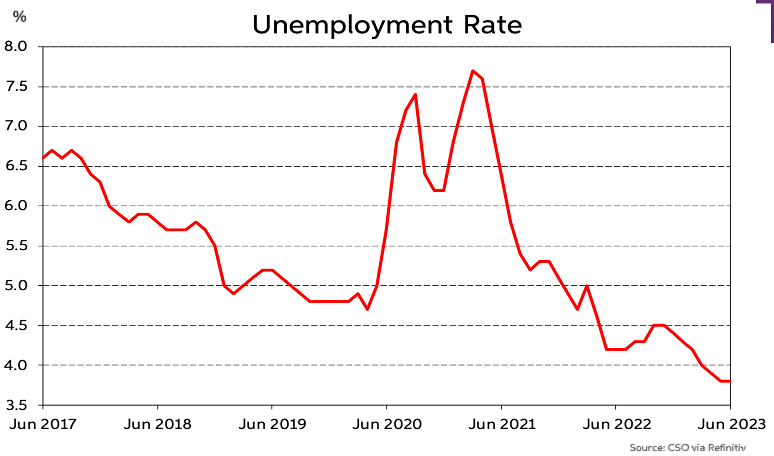


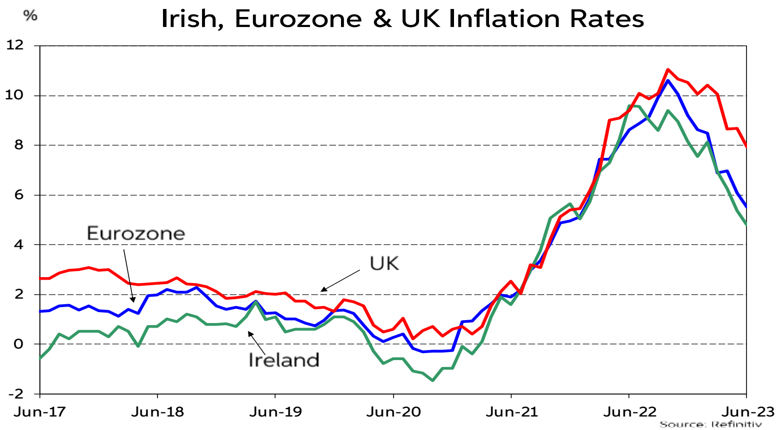
Data on domestic economy have been strong in H1 2023

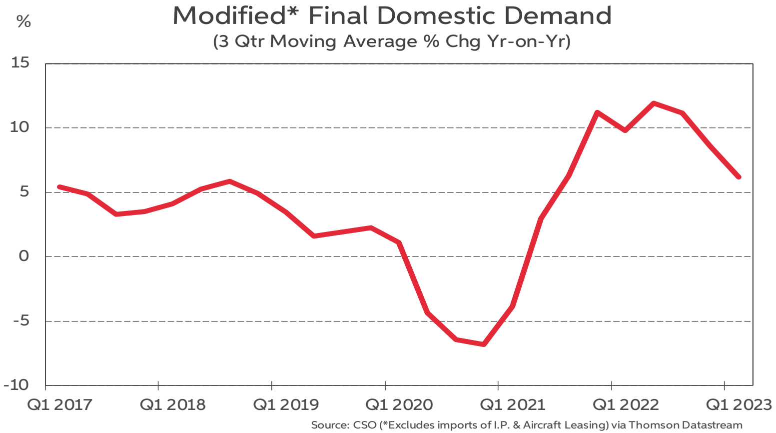
- GDP fell by 2.8% in Q1 on sharp decline in mfg. output and an associated fall in goods exports
- Mfg PMI weak in H1 2023 - at 47.3 in June and 47.5 in May, with orders and output in decline
- Services PMI, though, picks up strongly in 2023; at 56.8 in June and 57.0 in May
- Housing commencements fell back to a low of 26.5k last October, but rise to near 28.5k by June
- Housing completions jumped by 45% to 30k in 2022. Annual run rate rises further to 31k in Q1 2023
- PMI for construction fell sharply in 2022. Averaged 45.8 in Q4. Picks up in H1 2023, at 50.4 in June
- Steady, moderate uptrend in retail sales ex the motor trade in H1 2023.
- New car sales registrations rise by 18% yoy in H1 2023
- Consumer confidence recovers some ground in H1 2023 after sharp fall from spring to autumn 2022
- Tax receipts rose by very robust 21.5% last year. Remain strong this year, up 11% yoy in H1 2023
- Unemployment rate fell below 4.5% in 2022. Declines further to record low of 3.8% in May/June 2023
- Employment rose by 6.8% in 2022. Strong jobs growth of 1.9% in Q1 2023, up 4.1% year-on-year
- Inflation rose sharply in 2022, but HICP rate down to 4.8% by June 2023 - peaked at 9.6% last summer

Unemployment rate falls to historic low, inflation easing



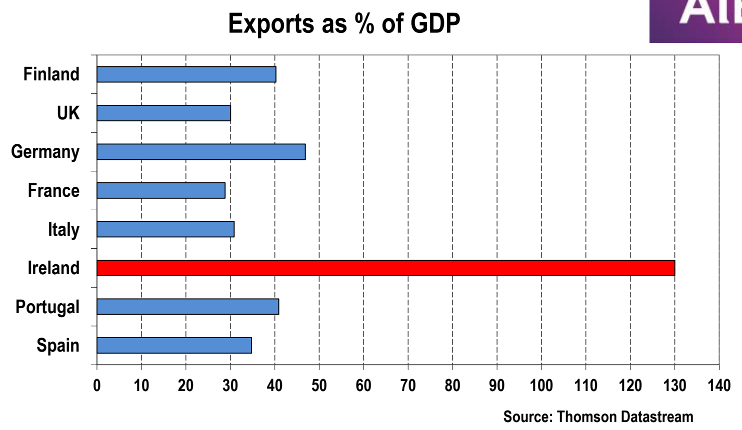


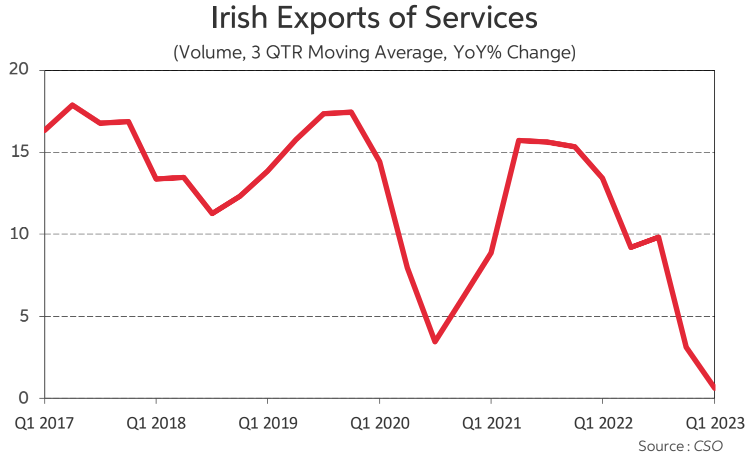




Export growth slows in Q1'23 after very strong 2021-22

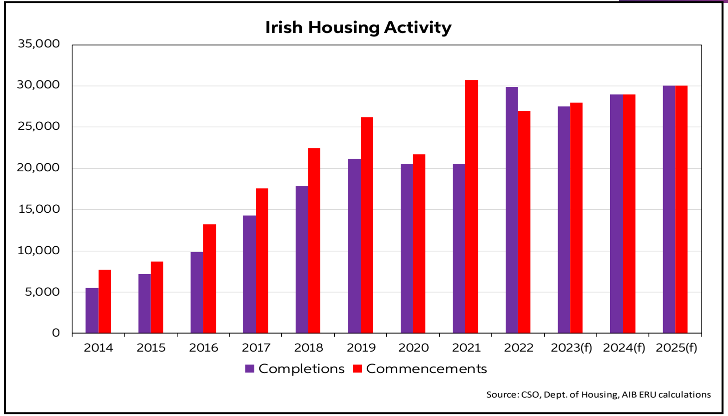
- Ireland is a very open economy – exports, driven by large scale FDI, are a huge part of economy
- IDA reported record FDI in 2021 and again in 2022, with continuing strong inflows in H1 2023
- Pharma, medical care products, ICT, business & financial services main components of FDI
- Irish FDI inflows may be benefitting from Brexit
- Total exports up by 15% in 2021 and 14% in 2022
- Goods exports rose by 18.5% in 2021 and 22.5% in 2022– this overstates actual growth as includes goods manufactured abroad by sub-contractors
- Service exports up by 12% in 2021 and 6% in 2022, a better measure of export performance
- Goods exports fell 4.5% in Q1 2023 on decline in manufacturing output by multi-nationals
- Pharma exports down 18% and electrical machinery fall 34% yoy in value terms during Jan-May 2023
- Service exports slow on weakening global economy, but rose by 2% in Q1 from Q4 2022 level

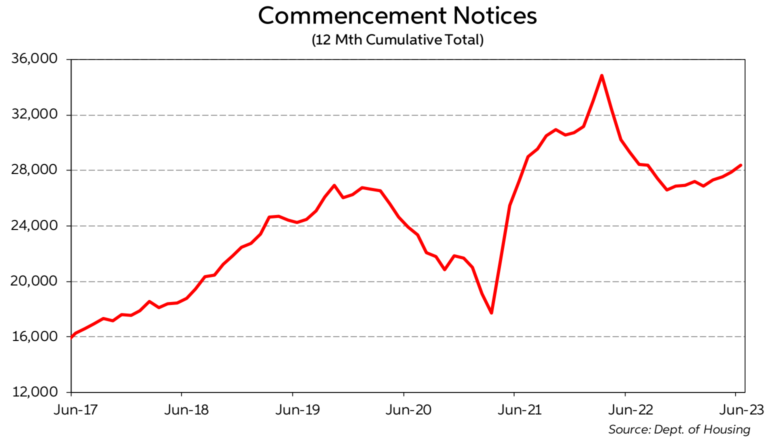




House completions rise to around the 30k level

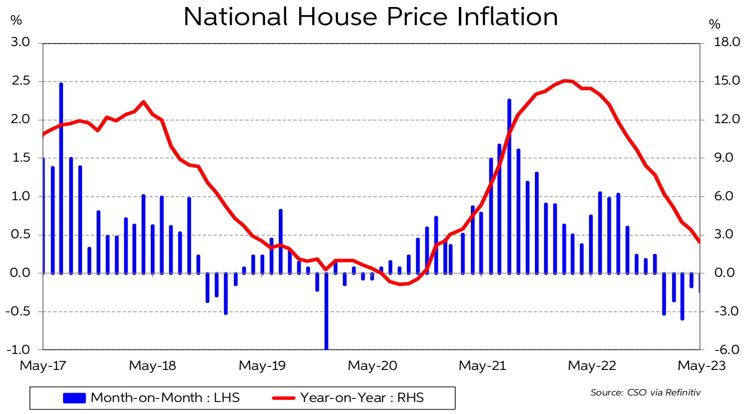
- Completions amounted to 20,500 in 2020 & 2021, just 2.6% down on 2019 level despite lockdowns
- Completions then jumped sharply to 30,000 in 2022, and hit 31,000 in Q1 2023 for previous 12 months
- Estimated annual housing demand put at circa 30k
- Big jump in planning permissions from 2018-2021. Sharp fall in 2022, but rise strongly in Q1 2023
- 12 month commencements fell from peak of 35k to 26.5k last year, but rise back up to 28.5k by June'23
- Completions expected to remain close to 30,000 over the period 2023-2025
- Mortgage drawdowns jumped 34% to €14bn in 2022. Big impact from switching. At €14.4bn in Q1 2023
- Mortgage approvals pick-up this year – rise by 9% yoy in three months to May

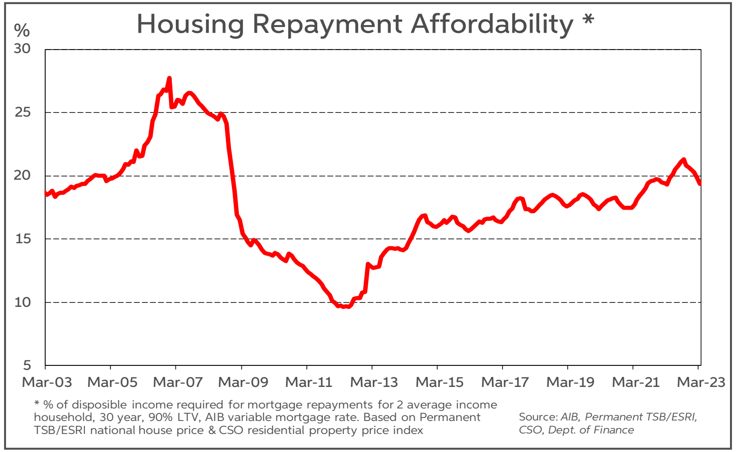




House prices edge lower in H1 2023

- House prices declined sharply, by 55% over 2007-13. 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
- Modest house price falls in first five months of 2023
- Annual rate eased to 2.4% yoy in May, down from peak of 15% in Feb/Mar 2022
- Non-Dublin prices up 4.5% yoy, Dublin prices down 0.2%
- Rising interest rates and slower economic growth suggest house price inflation will continue to decelerate
- Property websites show asking prices 0.5% lower year-on-year in Q2 – broadly stable prices for past year
- Housing affordability deteriorated over 2020-22 as prices rose. Improves recently on higher wages/house price falls
- Rents jumped sharply in 2021/22. Annual rate peaked at 12.9% last July. Fell to 10.6% end 2022 & 7.7% by June'23





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 of circa 10,000 p.a. on housing demand
- Headship rose again in 2016-2022 – long-term trend is upwards - adding to demand, estimated at 5,000 p.a.
- Pent-up demand has also built up in recent years from lack of supply
- Thus, forecast table may be under-estimating the actual real level of housing demand
- Shortfall in new supply being partly met by return of vacant stock to the market. Quite evident in 2011-16 and even more so in 2016-22 when it ran at close to 6,000 units p.a.

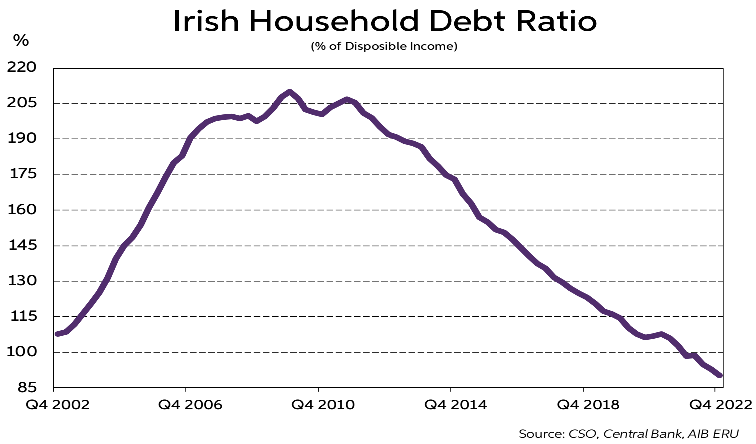
Calendar Year	2020	2021	2022	2023	2024
Household Formation	26,000	29,000	28,000	25,000	24,500
of which					
Indigenous Population Growth	*21,000*	*20,000*	*16,500*	*14,500*	*14,500*
Migration Flows	*5,000*	*9,000*	*11,500**	*10,500**	*10,000**
Headship Change*	*0*	*0*	*0*	*0*	*0*
Second Homes	500	500	500	500	500
Replacement of Obsolete Units	5,000	5,000	5,000	5,000	5,000
Estimated Demand	**31,500**	**34,500**	**33,500**	**30,500**	**30,000**
Completions	**20,500**	**20,500**	**30,000**	**27,500**	**29,000**
Shortfall in Supply	***-11,000***	***-14,000***	***-3,500***	***-3,000***	***-1,000***

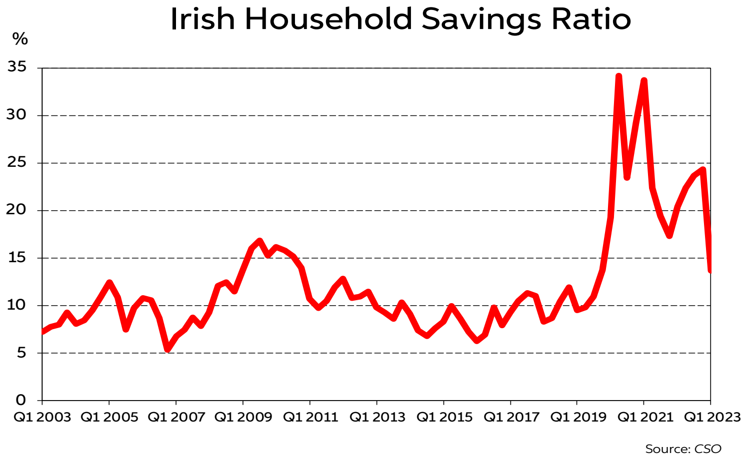
***Headship is % of population that are heads of households. Assumed it remains constant*

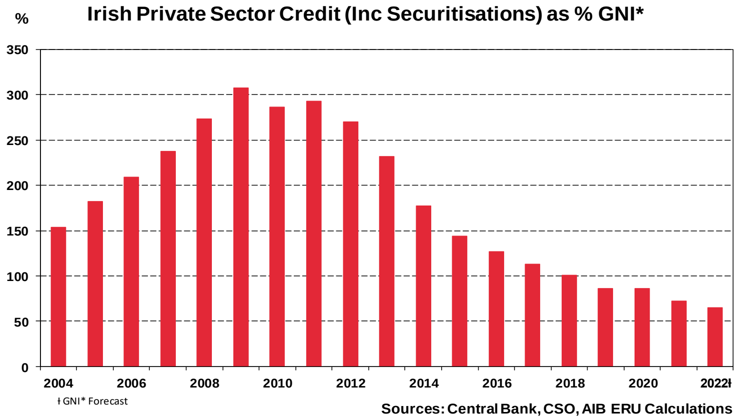
** Does not include Ukrainian refugees*

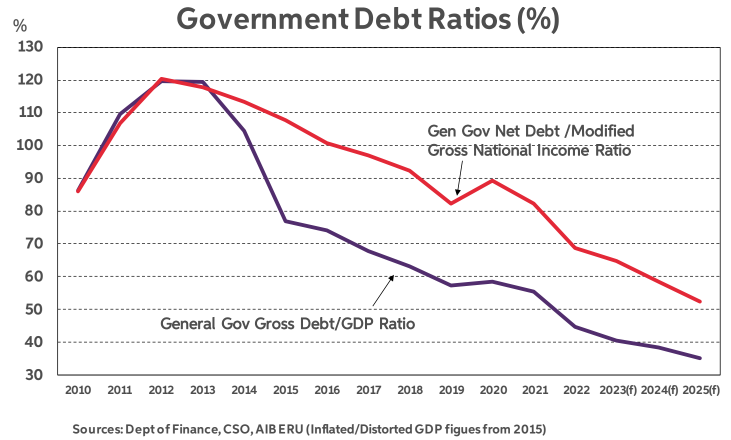
Sources: CSO, DoECLG, AIB ERU.

Household savings surge, Gov. debt ratios fall to low levels



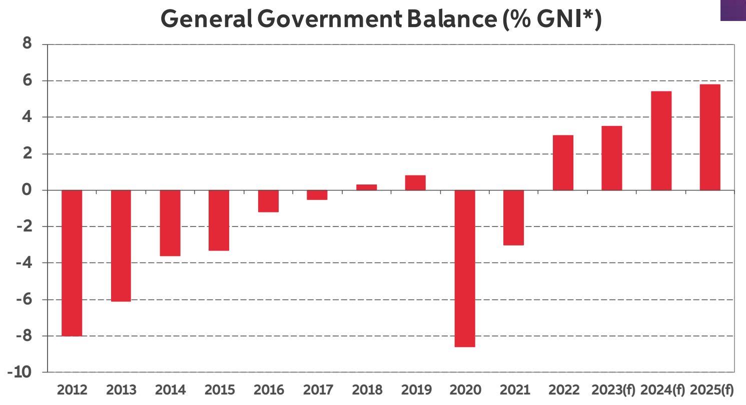




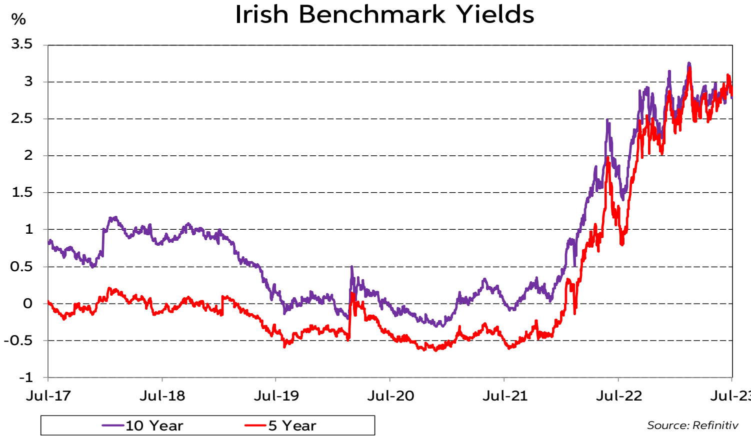


Strong economy leads to large and rising budget surpluses

- 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 €8bn was recorded (3% of GNI*)
- Good Exchequer data in H1’23, with tax receipts up 11% to end June
- Budget surpluses of 3.5% and 5.4% of GNI* now expected in 2023 and 2024, respectively
- Ireland to establish sovereign wealth and capital spending stabilisation funds to house surpluses
- Gov. Debt ratios falling sharply – net Gov. Debt forecast at 65% of GNI*in 2023, 52% by 2025
- Irish bond yields rise sharply as elsewhere
- Budget surpluses, very large cash balances and long-dated debt mean very little funding needed
- Irish sovereign debt ratings; S&P AA, Moody’s Aa3, Fitch AA-. Moody’s, S&P both upgraded in H1’23



Source : CSO & Dept of Finance (GDP pre 2015)



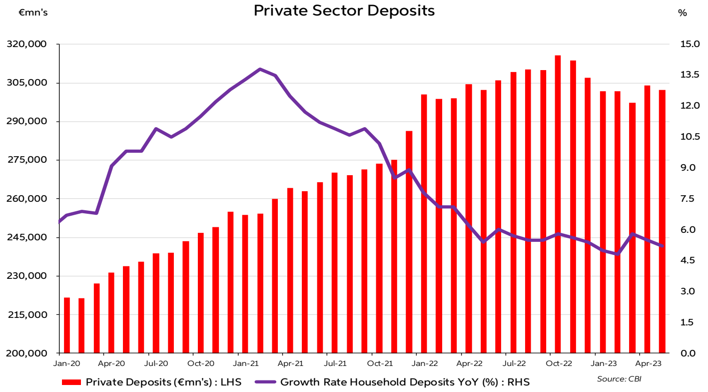
Source: Refinitiv

Good growth likely despite headwinds & capacity issues

- Mounting headwinds and capacity constraints, but solid growth expected by Irish economy in 2023-24
- FDI inflows continuing, boosting investment, exports and employment – good pipeline in 2023
- Fiscal policy to remain supportive of growth – Budget has 5-6% rise in core gov. spending in 2023 and 2024
- Economy has deleveraged; low private sector debt
- A rundown of some of the 44% surge in private sector deposits during 2020-2022, could support spending
- High inflation, rising rates and slowing global growth are significant headwinds, though, for Irish economy
- Capacity constraints emerging also – housing, labour, electricity, water, infrastructure, planning
- GDP fell by 2.8% in Q1 on decline in mfg/goods exports
- Much slower growth on the cards in 2023. Wide range to GDP forecasts given volatility in mfg output data
- Economy, though, expected to register good growth over 2023-25 period, but well below the 2021-22 rates

OECD Global GDP Forecasts (June 2023)

% Vol	2021	2022	2023	2024
World	6.1	3.3	2.7	2.9
US	5.9	2.1	1.6	1.0
Eurozone	5.2	3.5	0.9	1.5
UK	7.6	4.1	0.3	1.0
Japan	2.2	1.0	1.3	1.0
China	8.4	3.0	5.4	5.1



AIB Irish Economic Forecasts

% change in real terms unless stated	2021	2022	2023 (f)	2024 (f)	2025 (f)
GDP	**15.1**	**9.4**	**4.0**	**3.7**	**4.0**
GNP	13.9	3.9	3.5	3.3	3.5
Modified Final Domestic Demand	**7.3**	**9.5**	**3.0**	**2.8**	**3.0**
Personal Consumption	8.4	9.4	3.0	3.0	3.3
Government Spending	6.3	3.5	2.3	2.0	2.0
Fixed Investment**	-40.4	5.1	3.5	3.0	3.0
Exports	15.1	13.9	6.0	5.0	5.0
Imports**	-7.5	15.9	4.5	5.0	4.8
Employment (%)	6.2	6.8	3.0	1.8	1.7
Unemployment Rate (%)	**6.3**	**4.5**	**4.2**	**4.4**	**4.6**
HICP Inflation (%)	**2.4**	**8.1**	**5.3**	**3.0**	**2.4**
Budget Balance (GGB % GNI*)	**-3.0**	**3.0**	**3.5**	**5.4**	**5.8**
Gross General Gov Debt (% GDP)	55.3	44.7	40.5	38.2	35.0
Net General Gov Debt (% GNI*)	82.2	68.7	64.7	58.4	52.3

**2020-22 data very distorted by aircraft leasing and intangibles (IP)

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

Changes to Global Corporate Tax Regime

AIB

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-national dominated sectors in terms of output, employment, investment, exports and tax receipts
- High inflation and rising interest rates headwinds for Irish economy, as elsewhere
- Very reliant on energy imports so could be impacted by disruptions to European gas supplies
- Changes to US corporation (Gilti) tax regime still possible, could negatively impact FDI here
- Supply constraints in new house building activity, with output still at quite 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 constrained – tight lending rules, on-going deleveraging, subdued credit demand