

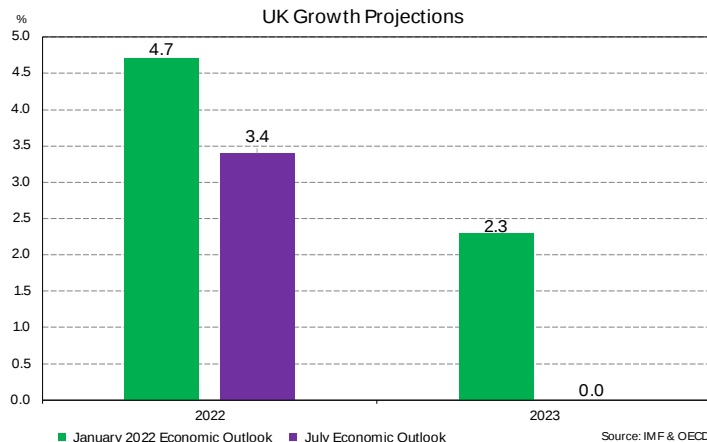
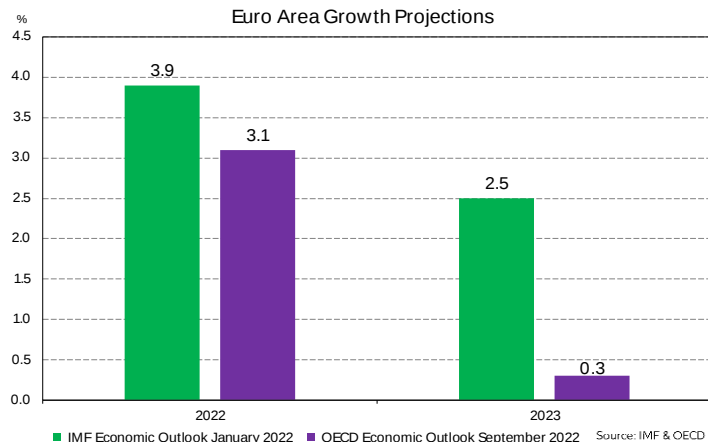
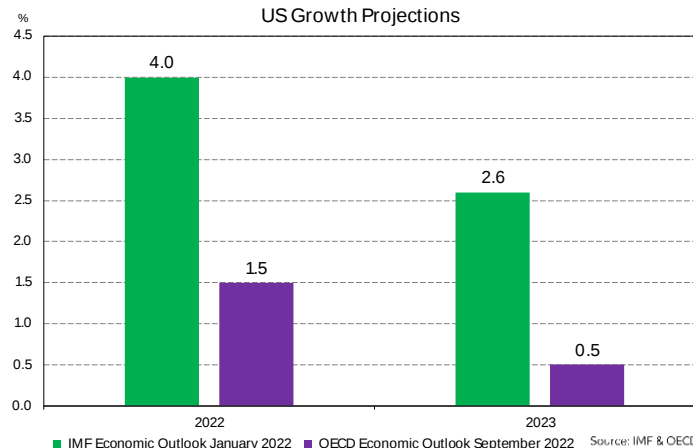
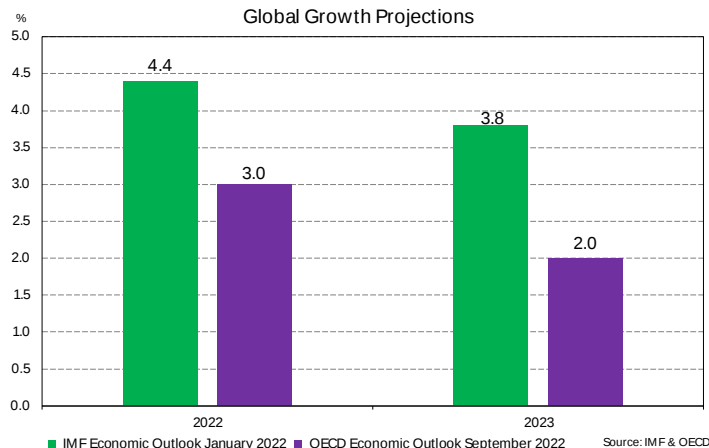


The Challenging Economic Backdrop to Budget 2023

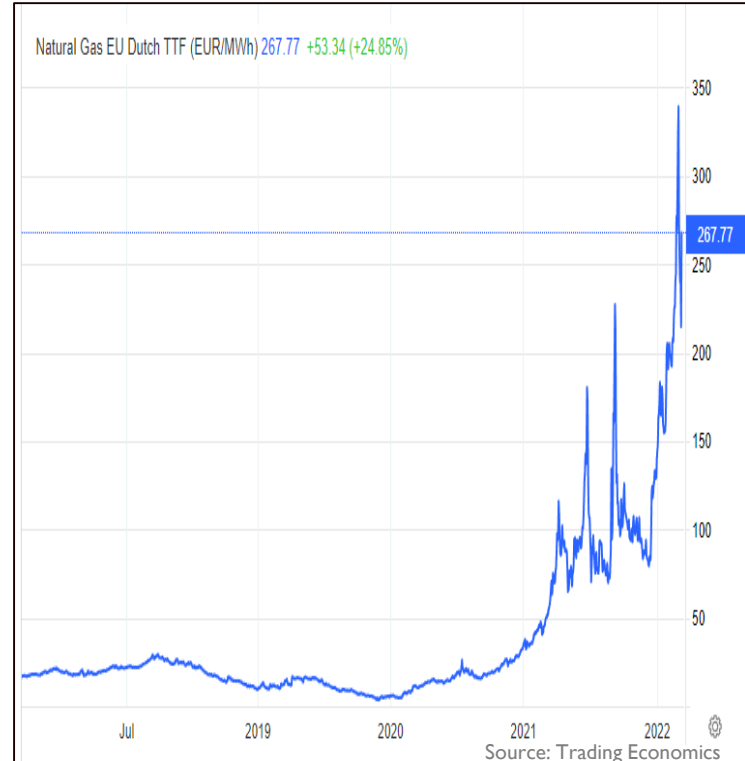
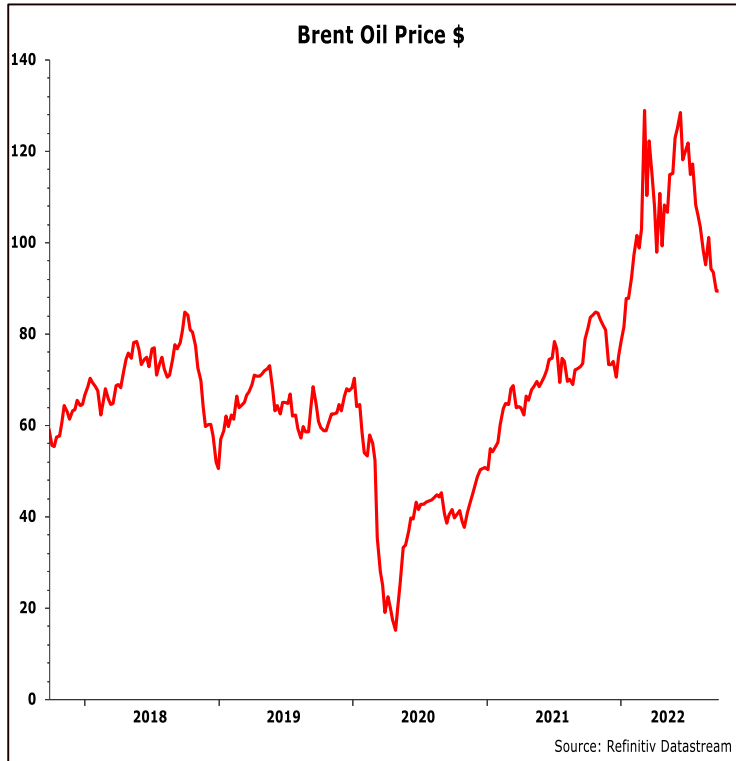
28th September 2022

Oliver Mangan
Chief Economist
AIB

Global growth forecasts slashed for 2022-23



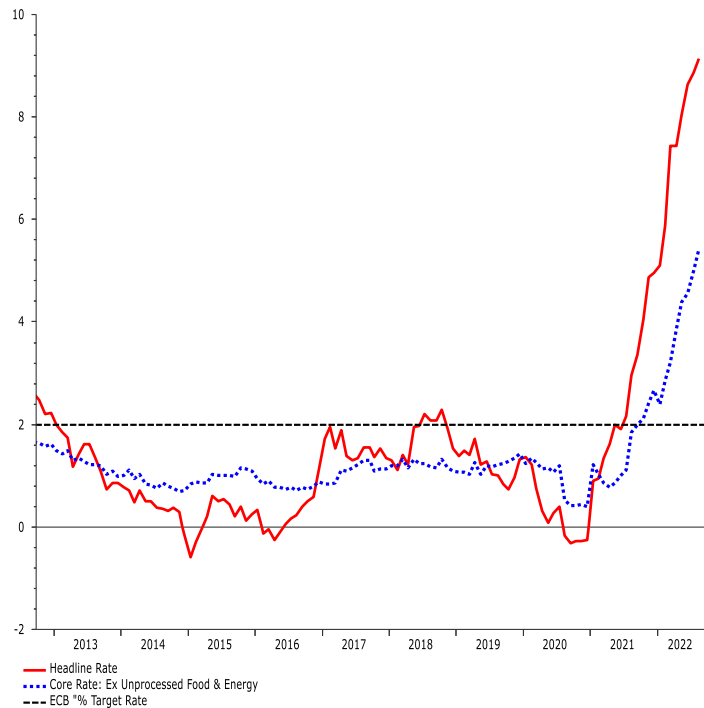
Oil prices surged to over \$100 per barrel, but Gas prices experience far greater increase



CPI inflation picked up sharply everywhere during past year

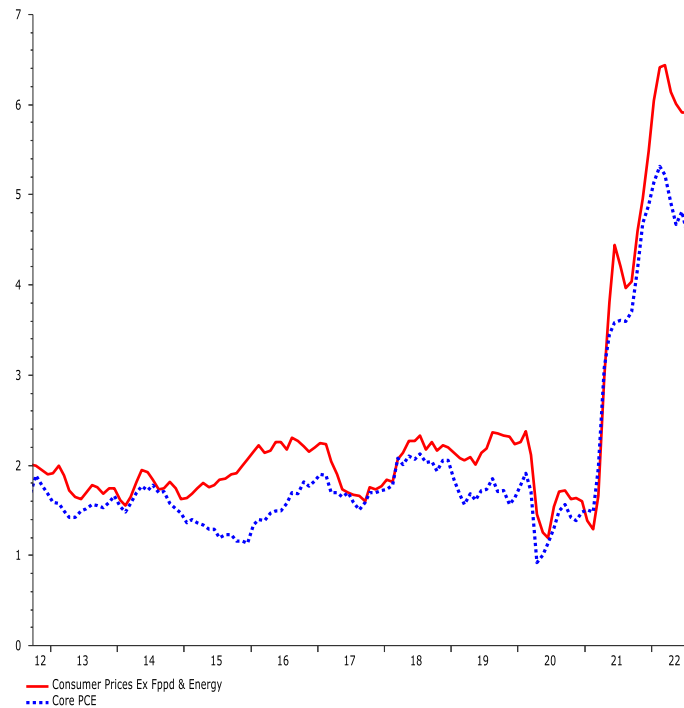


Eurozone Inflation



Source: Refinitiv Datastream

US Core Inflation Indicators

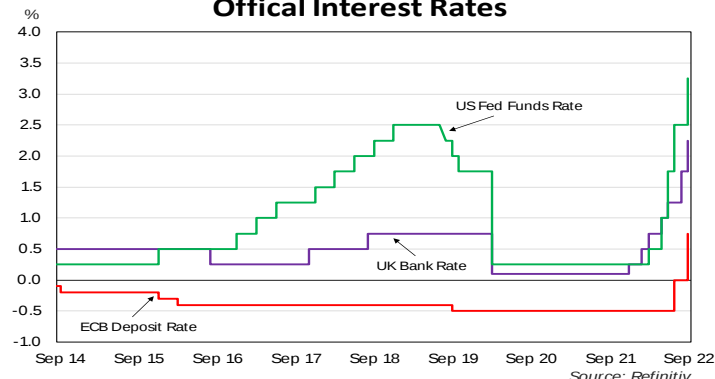


Source: Refinitiv Datastream

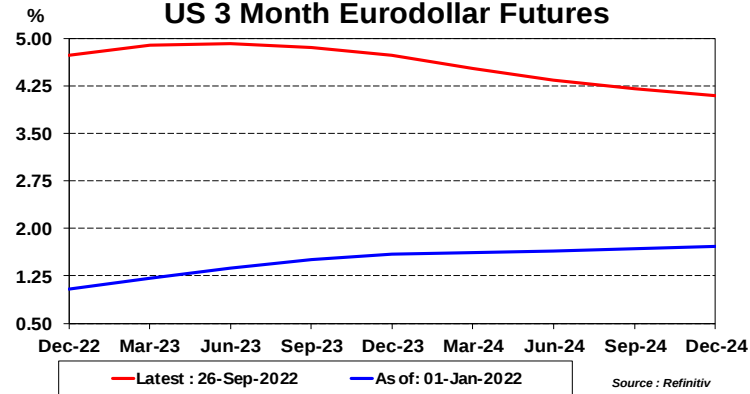
Multiple, large, rapid rate hikes from central banks in 2022-23



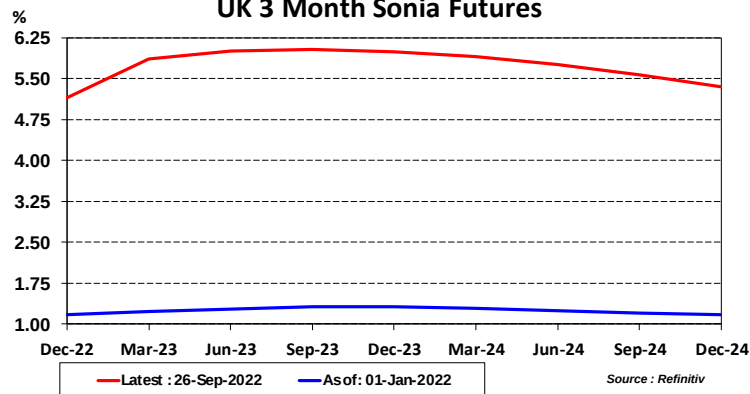
Official Interest Rates



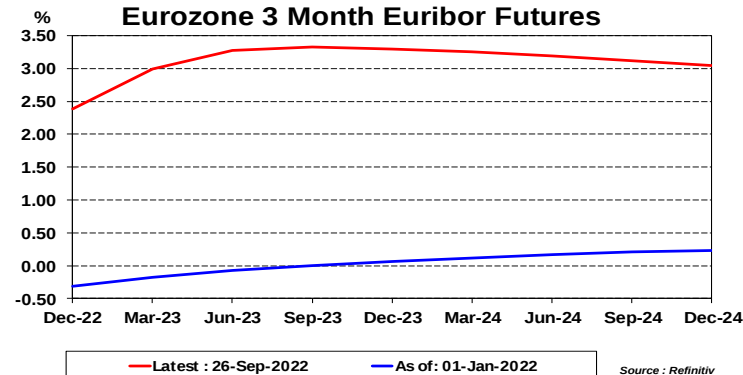
US 3 Month Eurodollar Futures



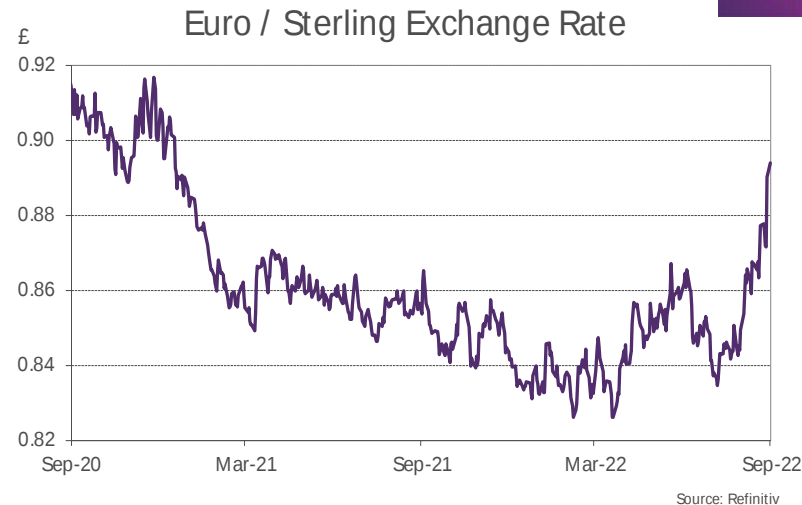
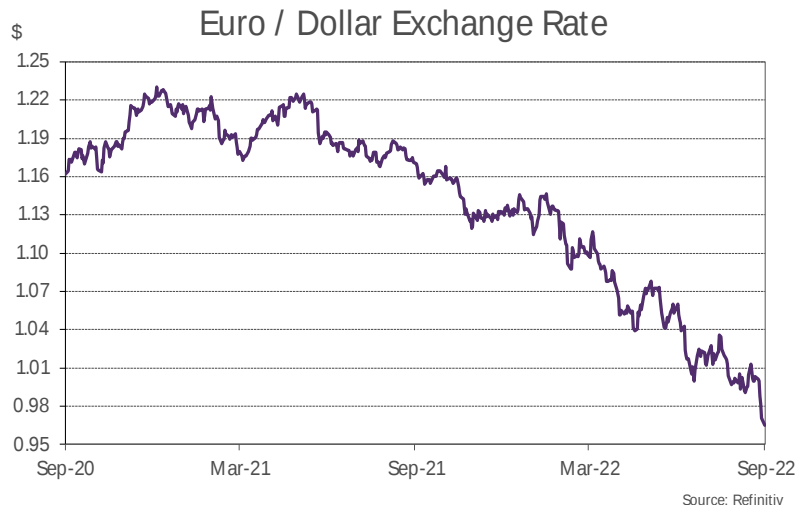
UK 3 Month Sonia Futures



Eurozone 3 Month Euribor Futures



Dollar at 20-year highs on big Fed hikes, STG under pressure

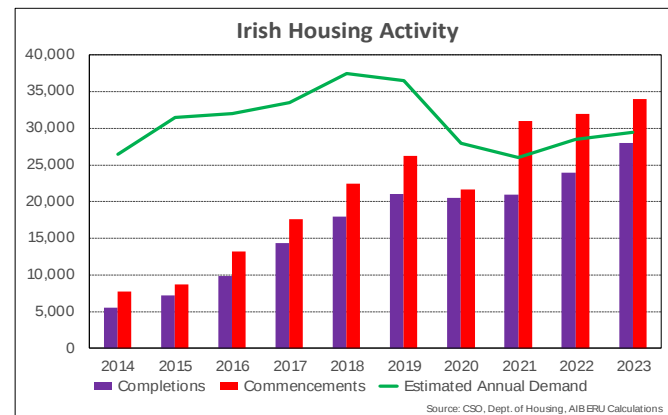


- **Dollar the strongest currency** as US sees the biggest rate hikes, has highest bond yields, safe haven demand
- **Euro under pressure** as rates rise elsewhere, with ECB slow out of blocks on tightening
- **War in Ukraine**, energy supply concerns adds to downward pressure on euro – moves below parity versus the dollar recently
- **Sterling falls to 40 year lows v dollar**, weakens v euro on concerns about prospects for UK economy/finances

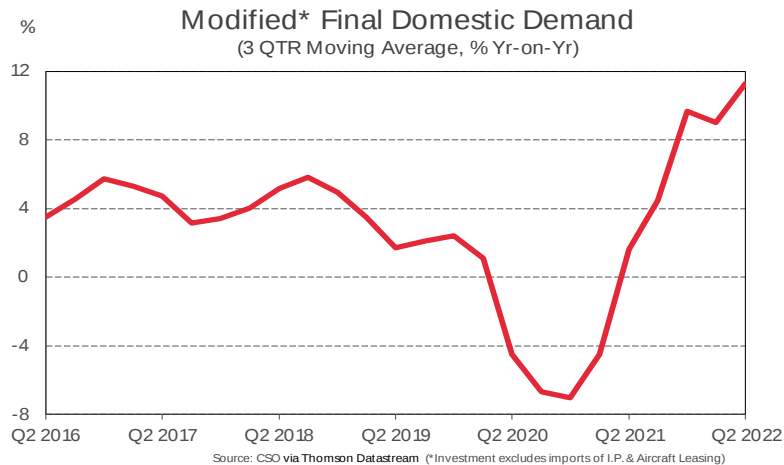
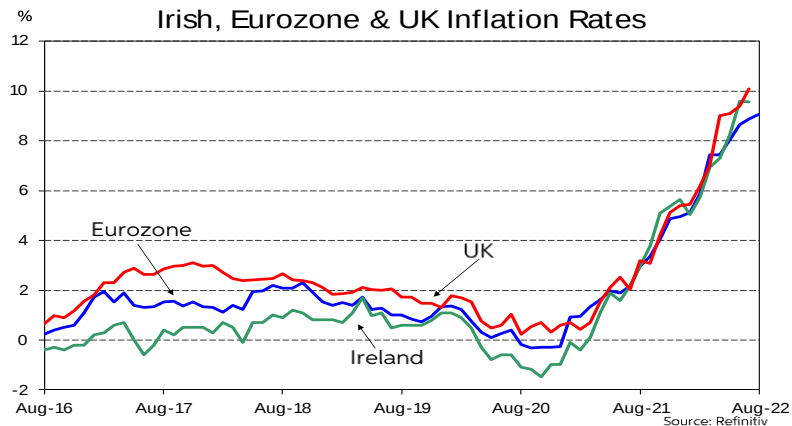
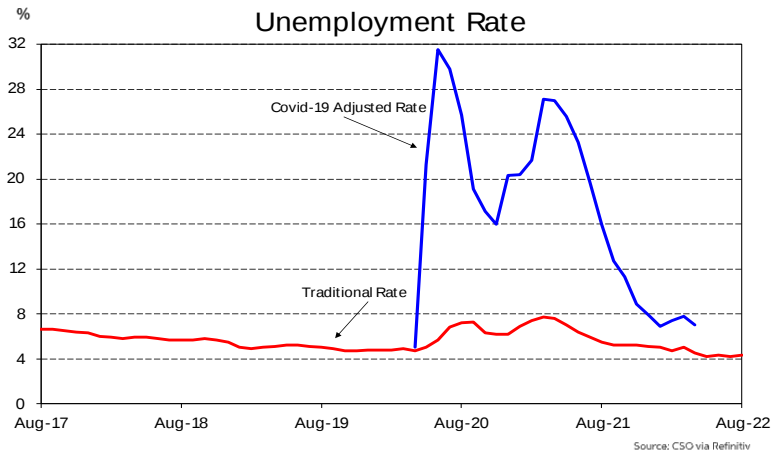
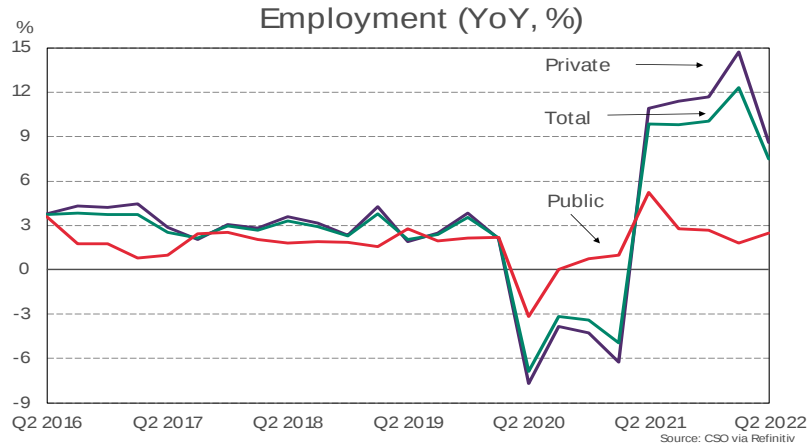
Buoyant Irish economic performance in 2021-2022



- In contrast to elsewhere, **growth forecasts for Ireland upgraded** in 2022 to circa 8%
- **Very large COVID fiscal supports** for households & businesses laid the ground for very strong rebound
- **Big jump in FDI into Ireland** with record inflows in 2021 & H1 2022 and a strong pipeline
- Very strong growth in business investment and exports in 2021 and H1 2022
- **House building** starting to pick up from low levels
- Buoyant tax receipts rose by 20% in 2021 and up 23% year-to-date with strength across all categories
- 2022 Budget deficit target of €8bn turns into €xxbn surplus
- A 10% increase in **labour force** and 11% rise in employment since 2019
- Large scale net **inward migration** recently, with big jump in labour force participation rates
- Jobless rate falls sharply to 20 year low of 4.2%
- **Capacity constraints emerging** from unexpected robust growth – labour, housing, electricity grid, water, etc.



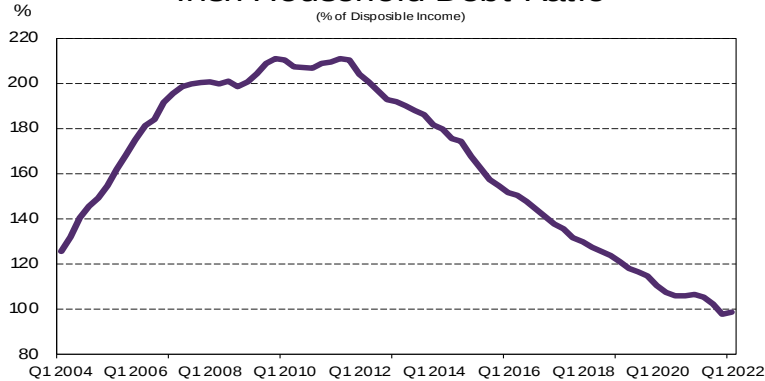
Unemployment at 20-year low, but steep rise in inflation



Very strong Irish financial fundamentals

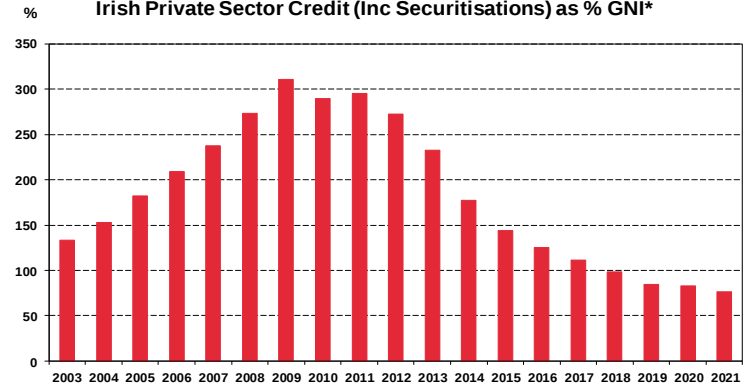


Irish Household Debt Ratio



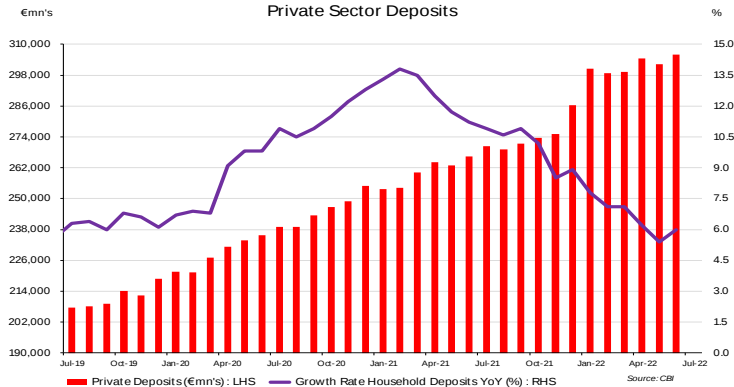
Source: CSO, Central Bank, AIB ERU

Irish Private Sector Credit (Inc Securitisations) as % GNI*



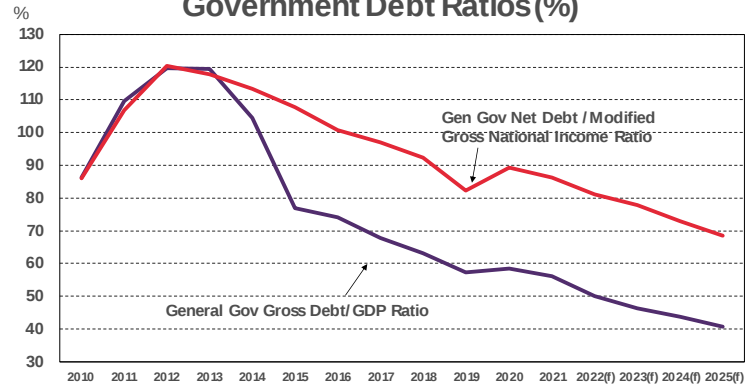
Sources: Central Bank, CSO, AIB ERU Calculations

Private Sector Deposits



Source: CIB

Government Debt Ratios(%)

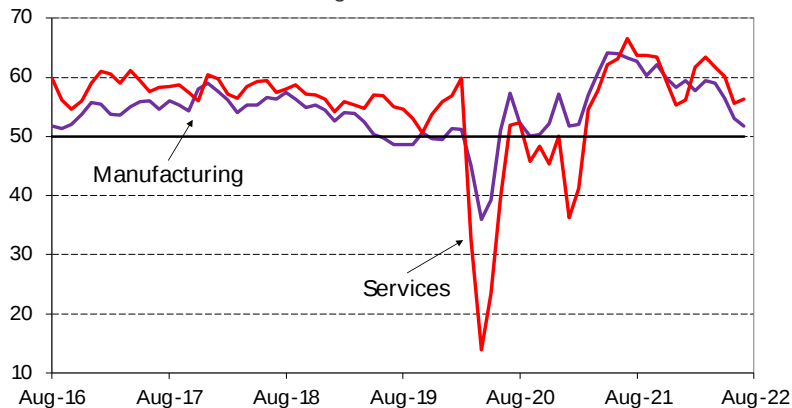


Sources: Dept of Finance, CSO, AIBERU (Inflated/ Distorted GDP figures from 2015)

However, clear signs that Irish growth is starting to slow

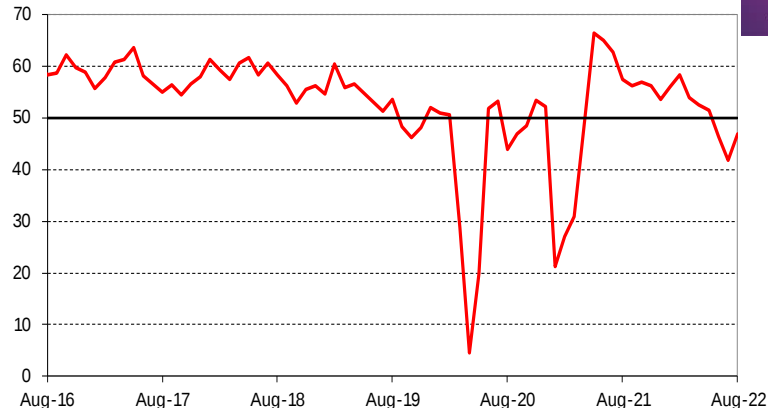


AIB Irish Mfg and Services PMIs



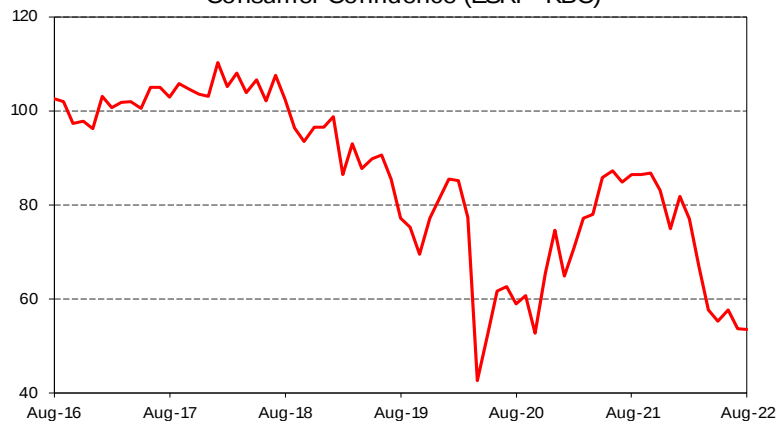
Source: Markit via Refinitiv

Ireland Construction PMI



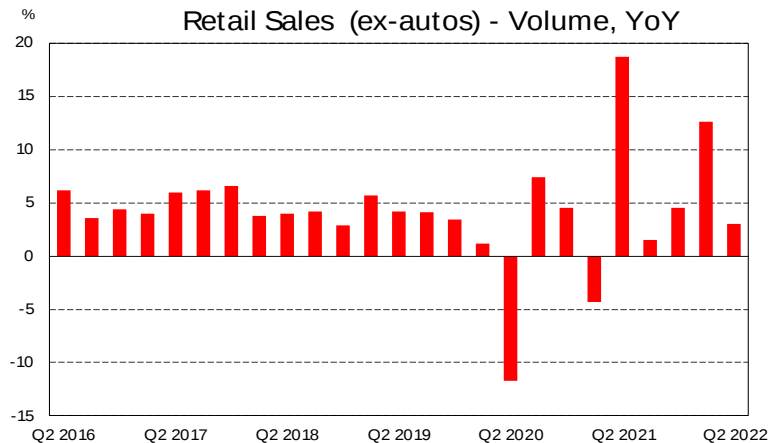
Source: Refinitiv

Consumer Confidence (ESRI - KBC)



Source: ESRI via Refinitiv

Retail Sales (ex-autos) - Volume, YoY



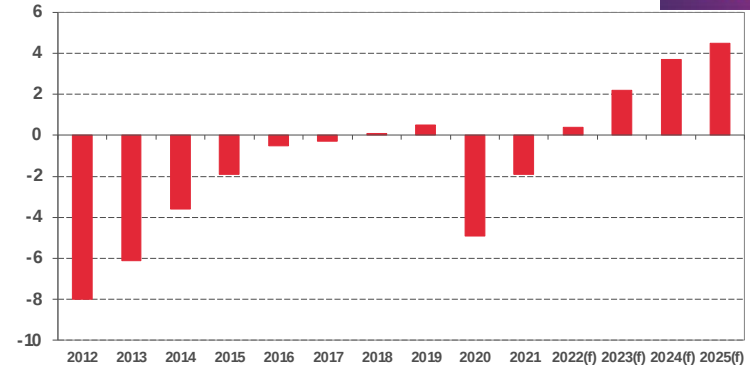
Source: CSO via Refinitiv

Budget 2023 in Focus – cost of living main theme



- Emergence of **unexpected fiscal surplus** in 2022 gave the government more room for manoeuvre in Budget.
- Tax take rises to €81.5bn in 2022 from €57.2bn in 2020
- **Providing €4bn in supports from 2022 surplus** for households & businesses most impacted by the cost of living crisis
- Important that the budget **should not add to inflationary pressures** with Central Bank and Irish Fiscal Counting advising relief measures should be targeted and temporary
- Government says keeping funds in reserve via significant budget surplus in 2023 as more supports may be needed
- Fiscal policy **remains supportive of economic activity** with increased core government spending and income tax cuts
- Government **still targeting a budget surplus of €6.25bn** (2.3% of GNI*) in 2023 and continuing large surpluses thereafter
- DoF estimates that up to €10bn of corporation tax receipts in 2022 may be **'windfall'** so budget surpluses appropriate
- Exchequer has large cash balances as had **pre-funded** in recent years at low long term interest rates

General Government Balance (% GDP/ GNI*)



Source : Dept of Finance

DEPT OF FINANCE ECONOMIC FORECASTS

(%)	2021	2022(f)	2023(f)	2024(f)
GDP	13.6	10.0	4.7	3.3
GNP	14.7	8.9	4.2	2.8
Mod Dom Demand	5.8	7.7	1.2	3.3
Private Cons	4.6	5.5	1.8	4.6
Gov Expd.	6.5	2.9	-1.5	-1.1
Mod. Fixed Inv.	8.2	17.7	2.2	3.8
Exports	14.1	12.5	5.5	3.9
Mod. Imports	9.7	12.5	3.9	4.1
HICP	2.5	8.5	7.1	2.4
Employment	11.0	18.3	1.2	1.6
Unemploy. Rate	15.9	5.2	5.1	5.0

Source: Dept. of Finance, September 2022

Solid Irish economic growth still expected despite headwinds

- **Slower global growth** amid high inflation/hit to real incomes, heightened uncertainty
- **Aggressive tightening of monetary policy** now well underway
- **Inflation to remain elevated** but should start to ease from late 2022 onwards
- **War in Ukraine** will remain key source of risk/uncertainty as unlikely to be a quick resolution
- Solid growth expected from Irish economy in 2023-24, but at a slower pace owing to mounting headwinds (slower global growth, high inflation, rising interest rates, capacity constraints)
 - **Strong pipeline of FDI inflows** augurs well for continuing good export growth
 - **House building** to pick up further from still low output levels – big focus of government policy
 - **Fiscal policy** will remain supportive of growth -DoF forecasts provide for xx% rise in gov spending
 - Economy has **deleveraged**; low private sector debt
 - A rundown of some of the 35% **surge in private savings in 2020-2021** could support domestic spending
- **Irish GDP growth forecast by DoF** at 10% in 2022 and 4.7% in 2023. Inflation to average 8.5% this year, and still high at 7.1% in 2023, before falling to 2.4% in 2024
- **Risks to forecasts** skewed to downside for growth and upside for inflation

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 Allied Irish Bank Northern Ireland (NI). 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 Allied Irish Bank (NI) 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.