

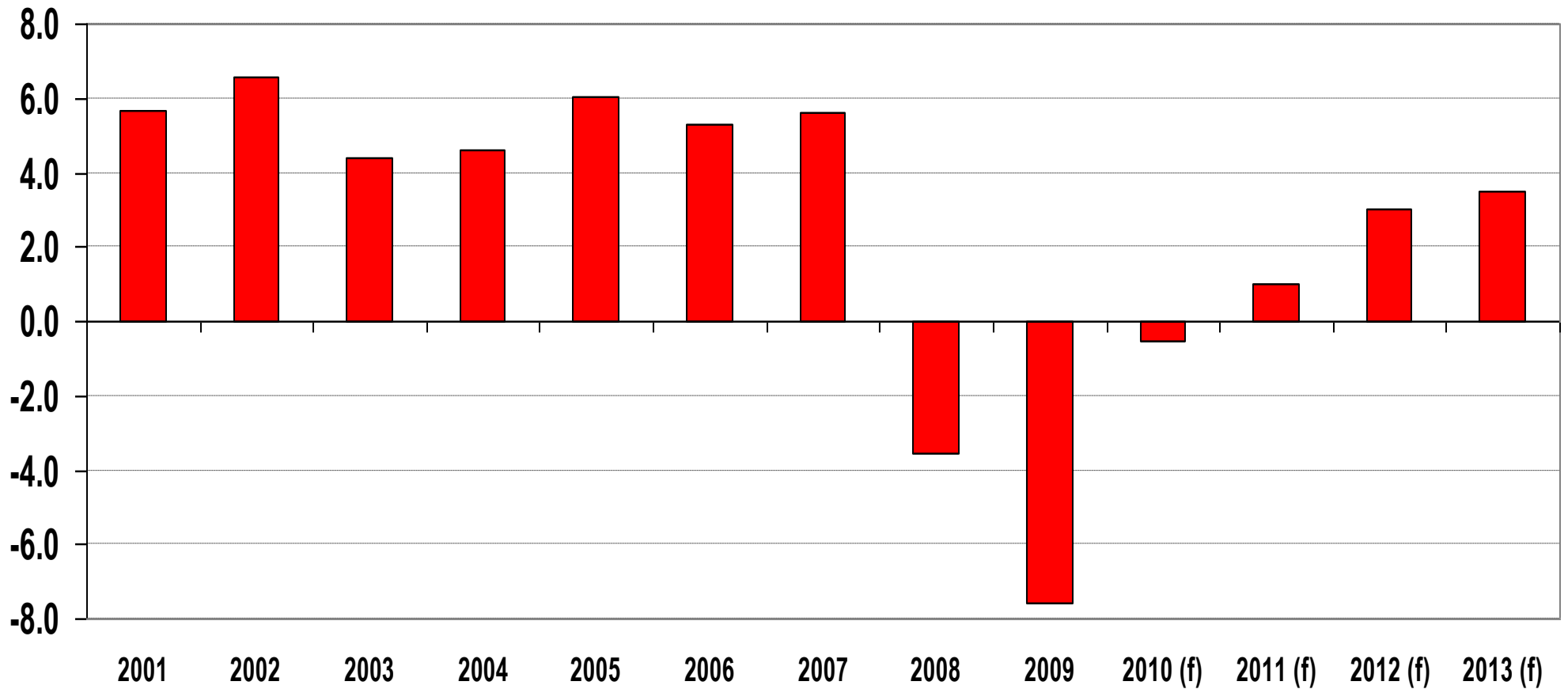
Global & Irish Economic Outlook

17 February 2011

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Chief Economist
AIB Global Treasury

- Restore order to public finances
- Boost jobs and skills
- Support existing and find new sources of economic growth
- Stabilise the banking system
- Restore public trust and confidence
- Risks and uncertainties in world economy

Irish GDP (Yr-on-Yr % Change)



Source: Thomson Datastream, AIB ERU

Wide range of views on Irish GDP prospects

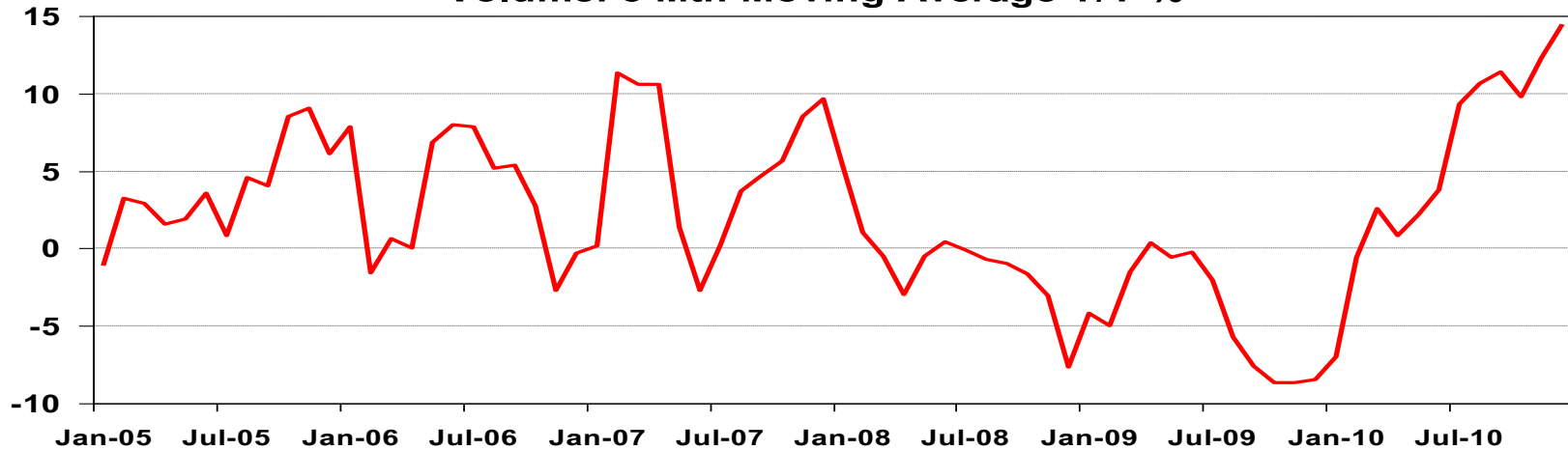
<i>% change in real terms</i>	2010	2011	2012	2013	2014	2015
National Recovery Plan	0.3	1.7	3.2	3.0	2.8	NA
European Commission	-0.2	0.9	1.9	2.5	3.0	3.0
IMF	-0.2	0.9	1.9	2.4	3.0	3.4
AIB	-0.5	1.0	3.0	3.5	4.0	4.5

Wide variation on outlook for domestic demand

<i>% change in real terms</i>	2010	2011	2012	2013	2014	2015
National Recovery Plan	-3.8	-0.8	1.1	1.5	1.6	NA
European Commission	-4.3	-3.4	-0.7	0.4	1.4	1.5
IMF	-4.1	-2.2	0.5	1.2	1.9	2.9
AIB	-5.1	-3.3	0.8	2.1	2.3	3.3

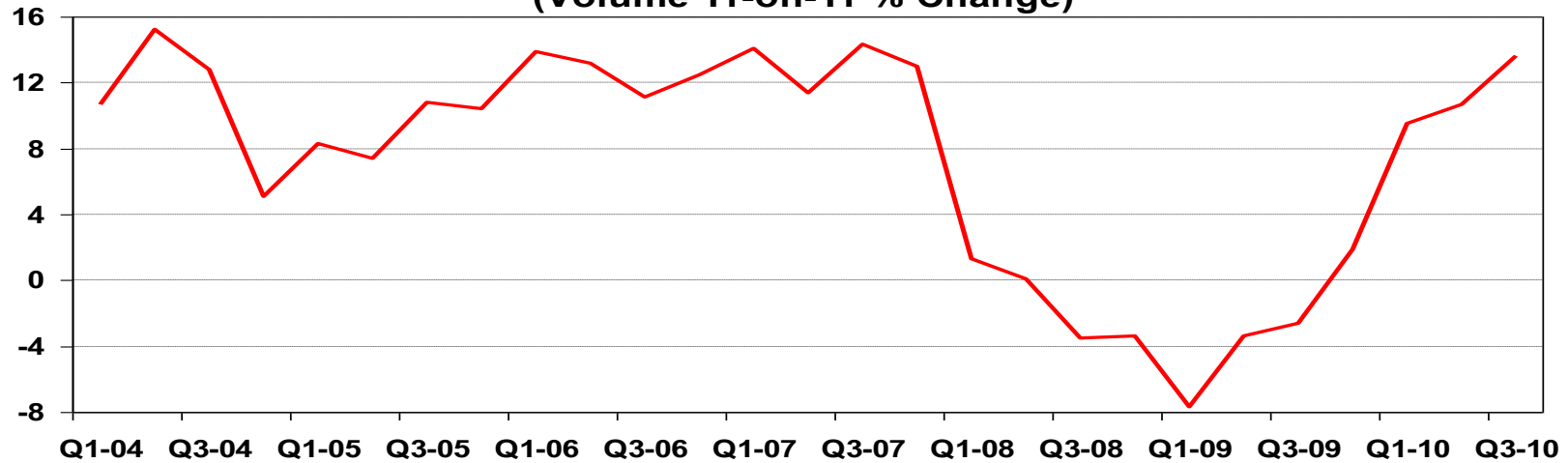
Ireland exporting its way out of recession

Irish Industrial Production
Volume: 3 Mth Moving Average Y/Y %



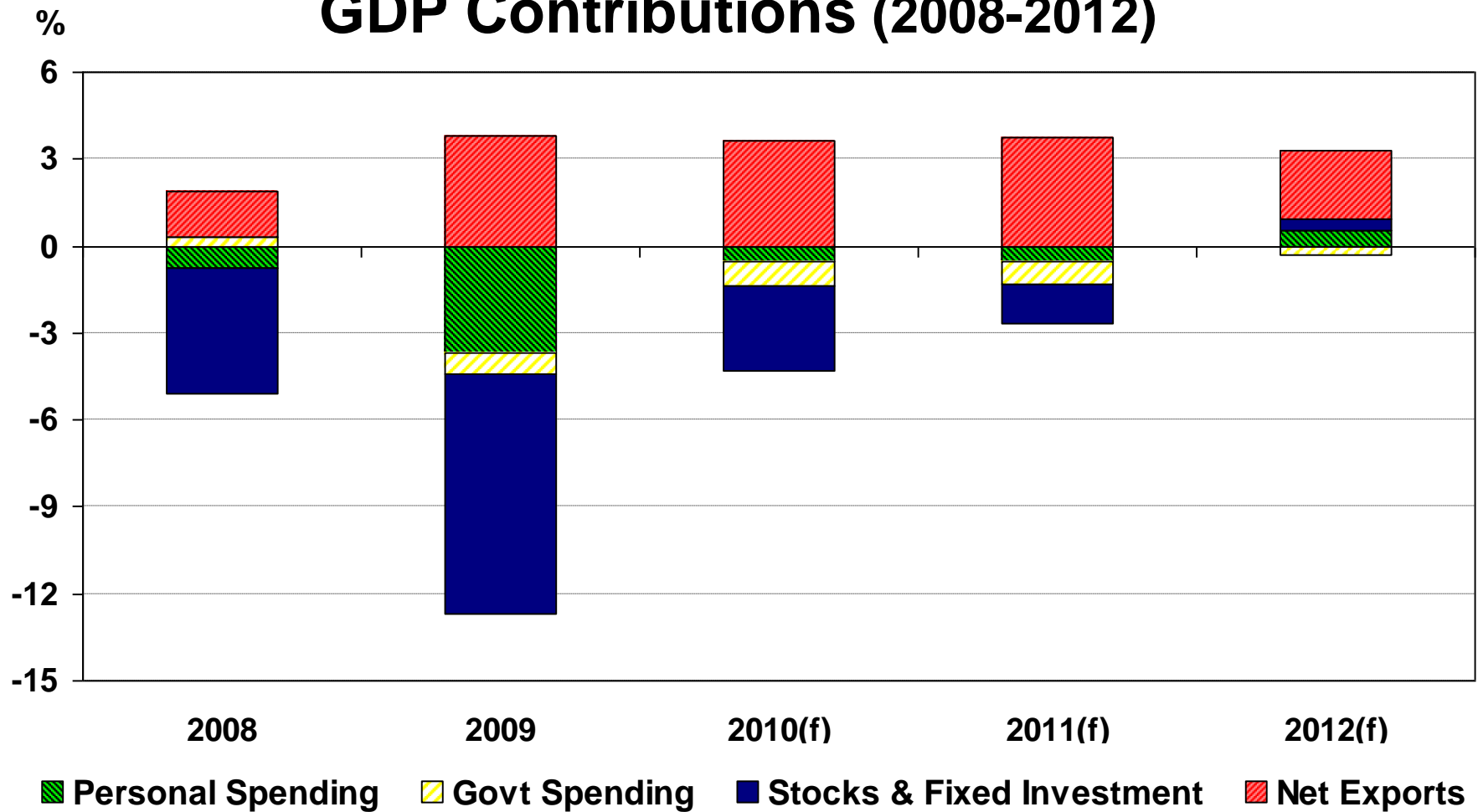
Source: Thomson Datastream

Irish Exports of Services
(Volume Yr-on-Yr % Change)



Source : CSO

GDP Contributions (2008-2012)



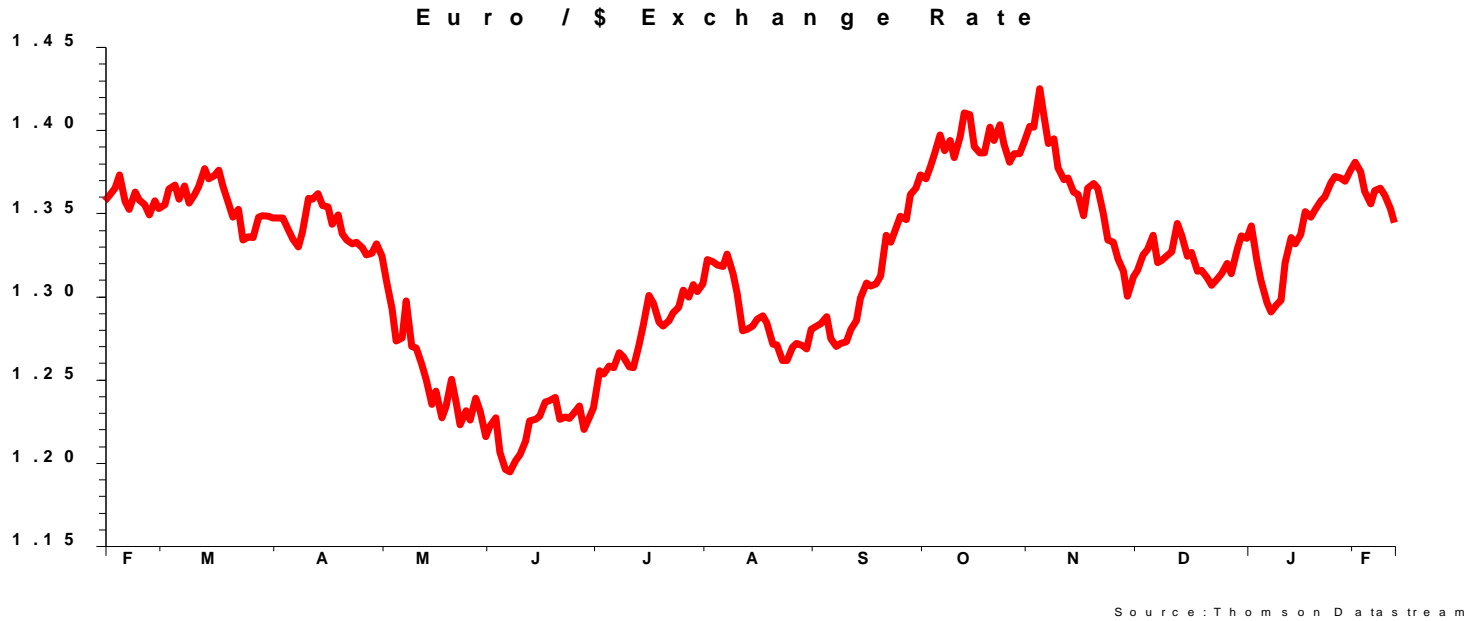
Source: CSO and AIB ERU forecasts

Advanced economies stuck in slow lane

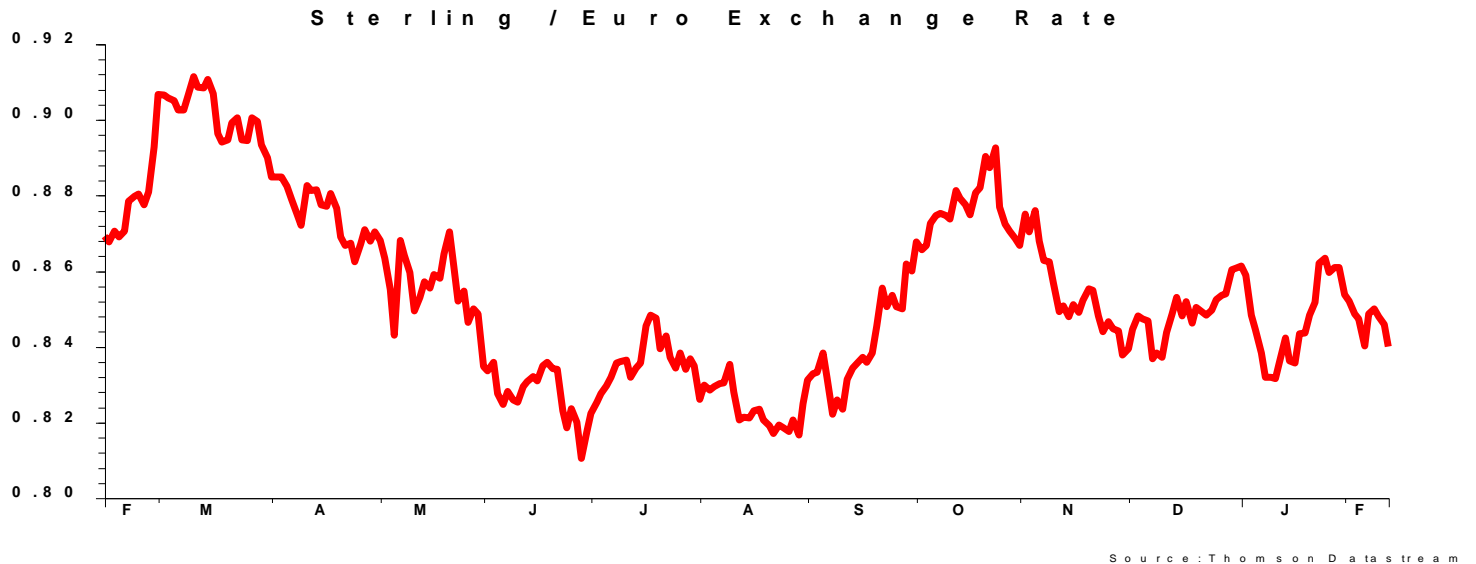
<i>% change volume</i>	2009	2010	2011	2012
Global	-0.6	5.0	4.4	4.5
Advanced Economies	-3.4	3.0	2.5	2.5
US	-2.6	2.8	3.0	2.7
UK	-4.9	1.7	2.0	2.3
Eurozone	-4.1	1.8	1.5	1.7
Emerging Economies	2.6	7.1	6.5	6.5
World Trade	-10.7	12.0	7.1	6.8

Euro in narrow range against key currencies

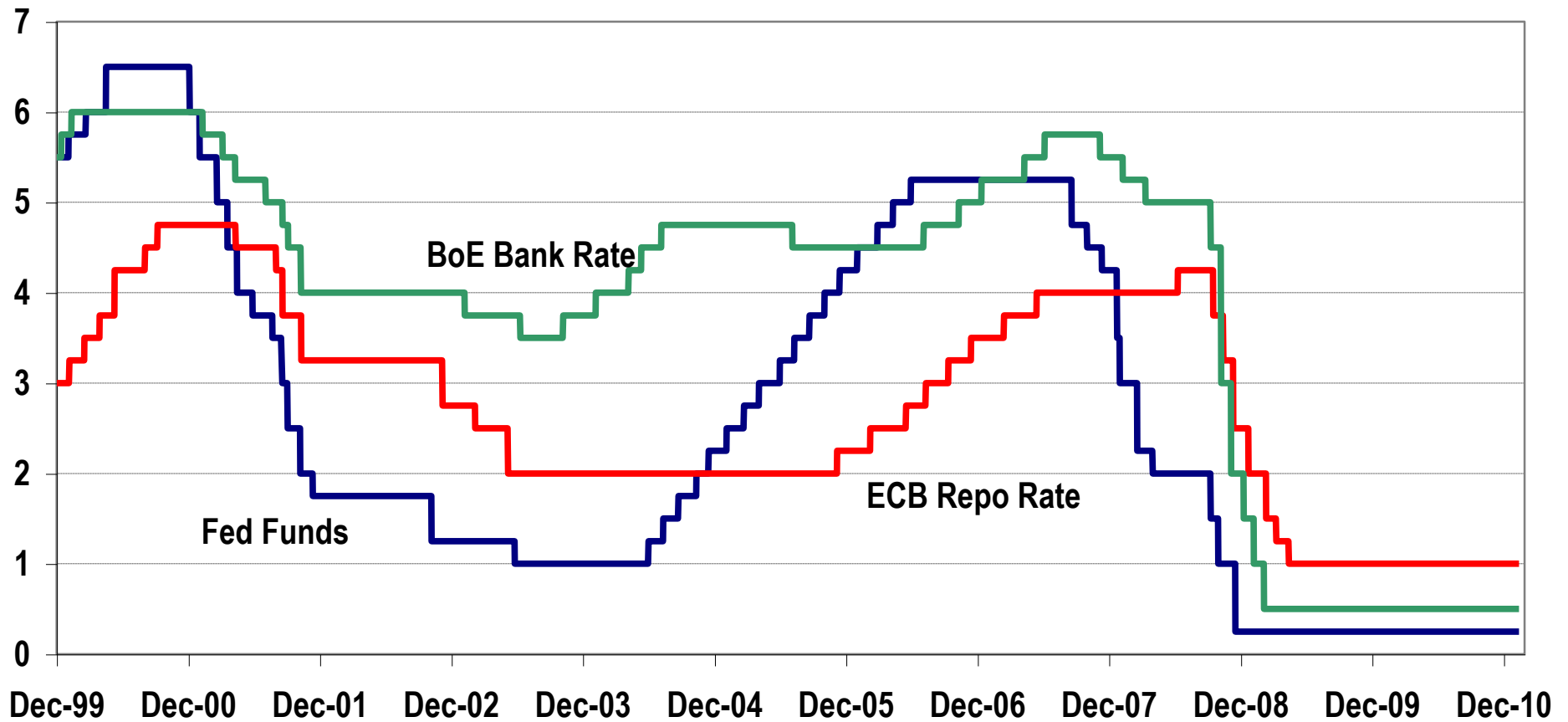
**Euro / \$
Exchange Rate**



**Sterling / Euro
Exchange Rate**



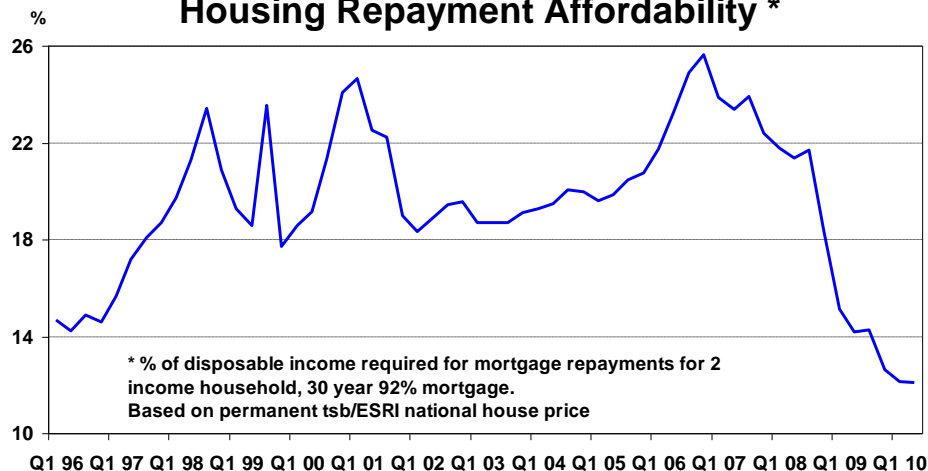
Official Interest Rates in the US, UK and Eurozone (%)



Source: Thomson Datastream

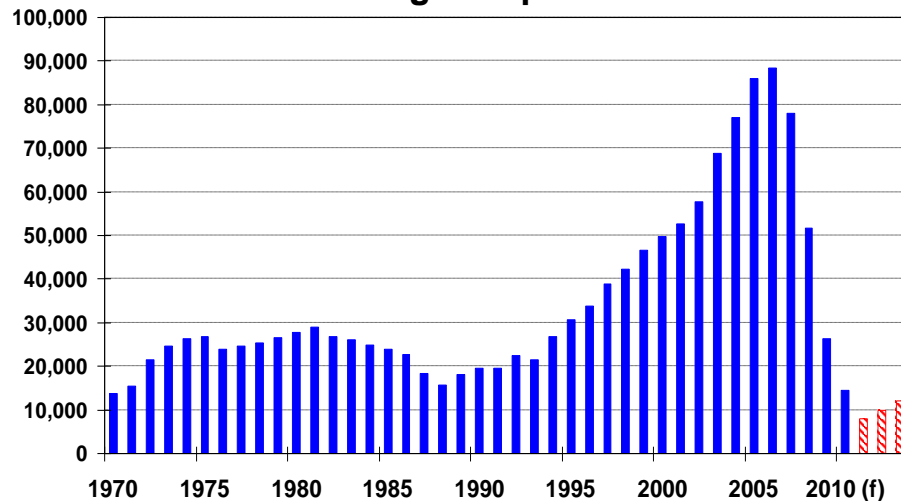
Domestic spending still contracting, albeit at slower pace

Housing Repayment Affordability *



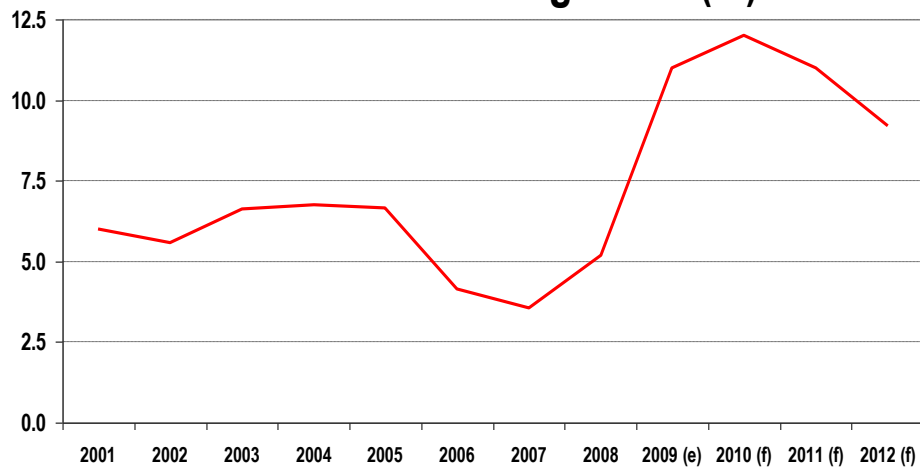
Sources: AIB, permanent tsb/ESRI, CSO, Dept of Finance, AIB ERU Calcululations

Housing Completions



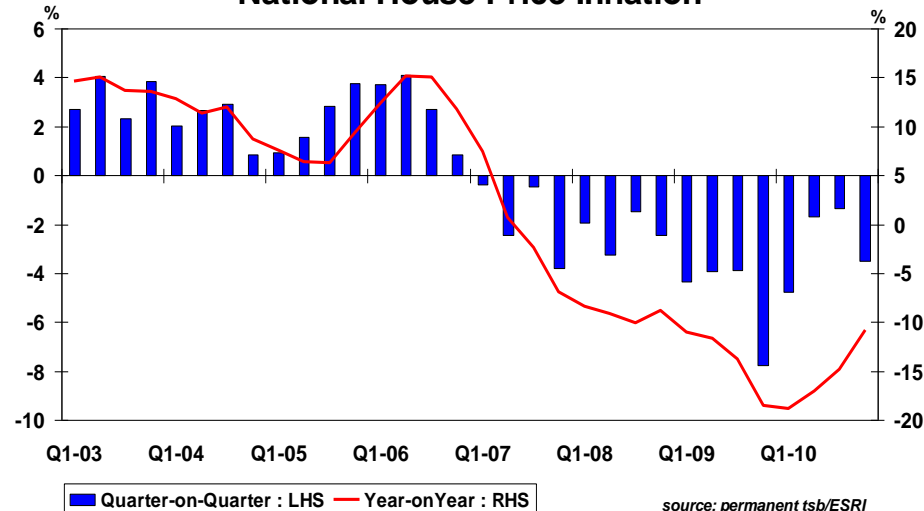
Source: CSO; DoEHLG and AIB ERU forecasts

Irish Personal Savings Rate (%)



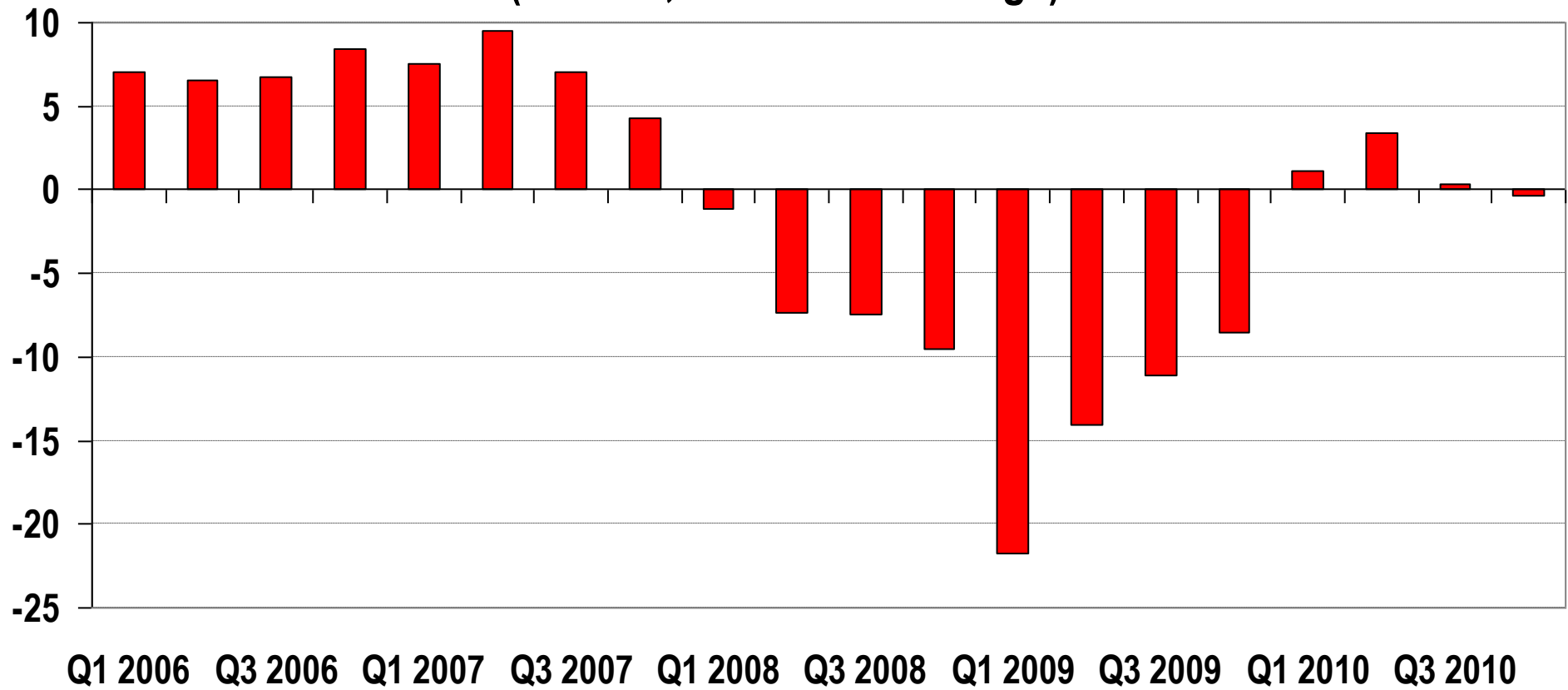
Source: CSO, AIB ERU

National House Price Inflation



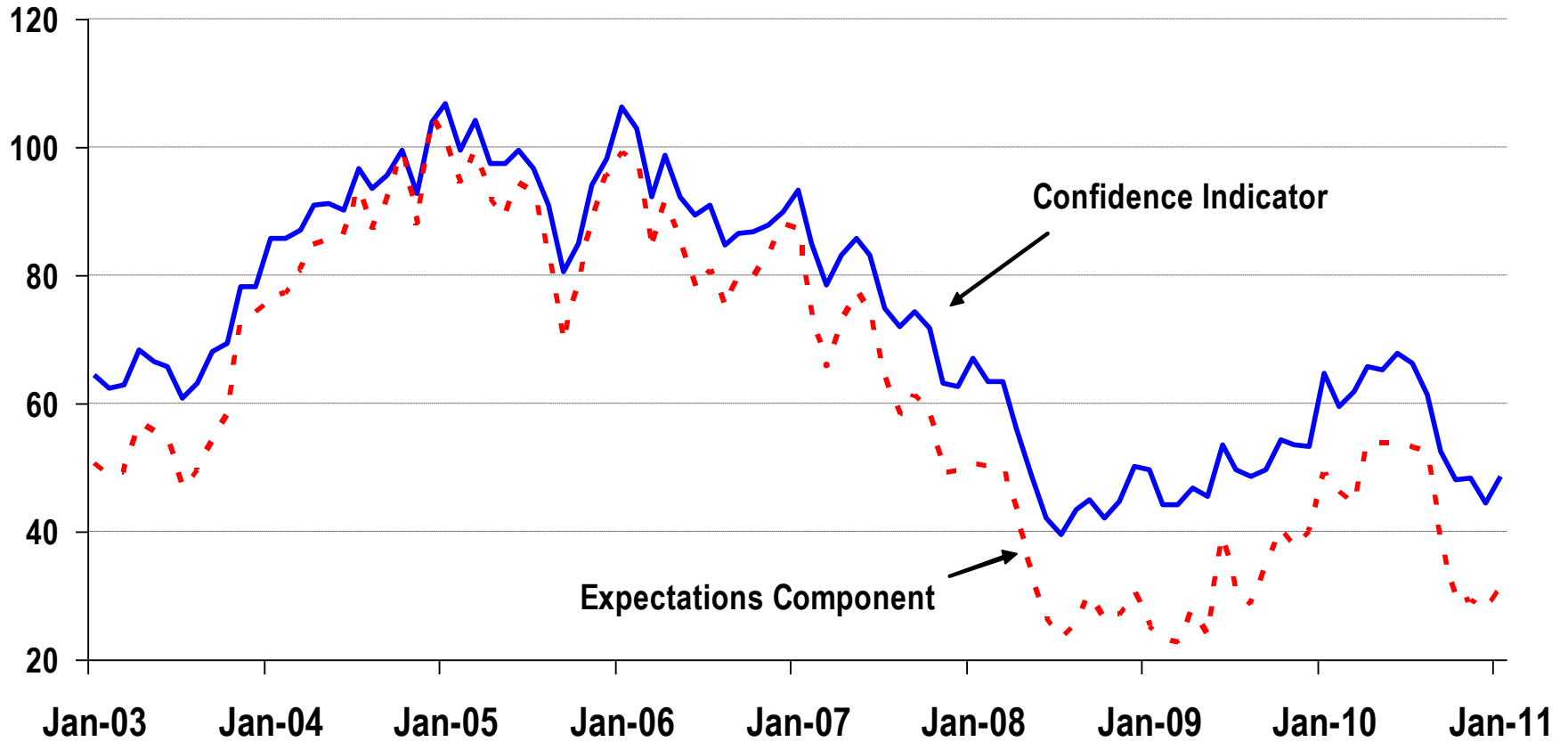
source: permanent tsb/ESRI

Irish Retail Sales (Volume, Yr-on-Yr % Change)



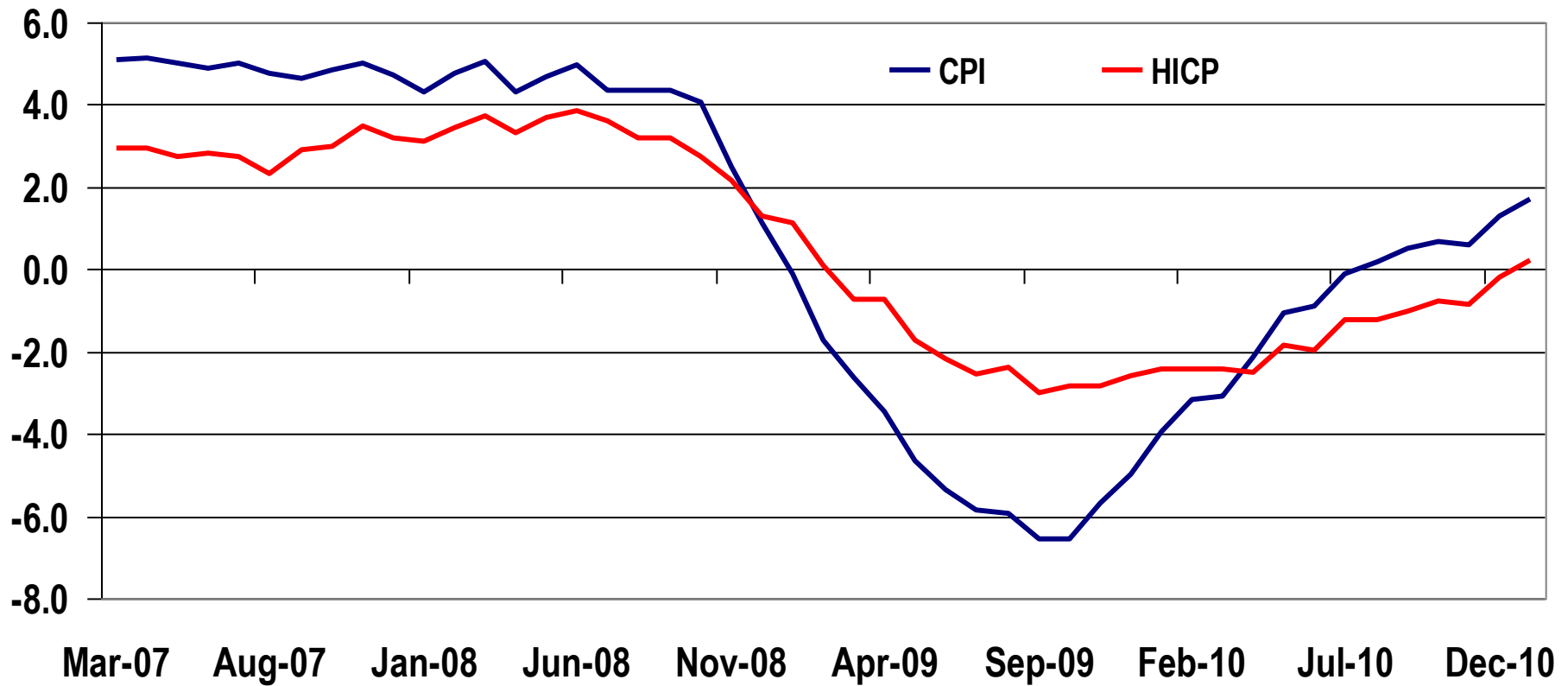
Source: Thomson Datastream

Consumer Confidence (ESRI - KBC)



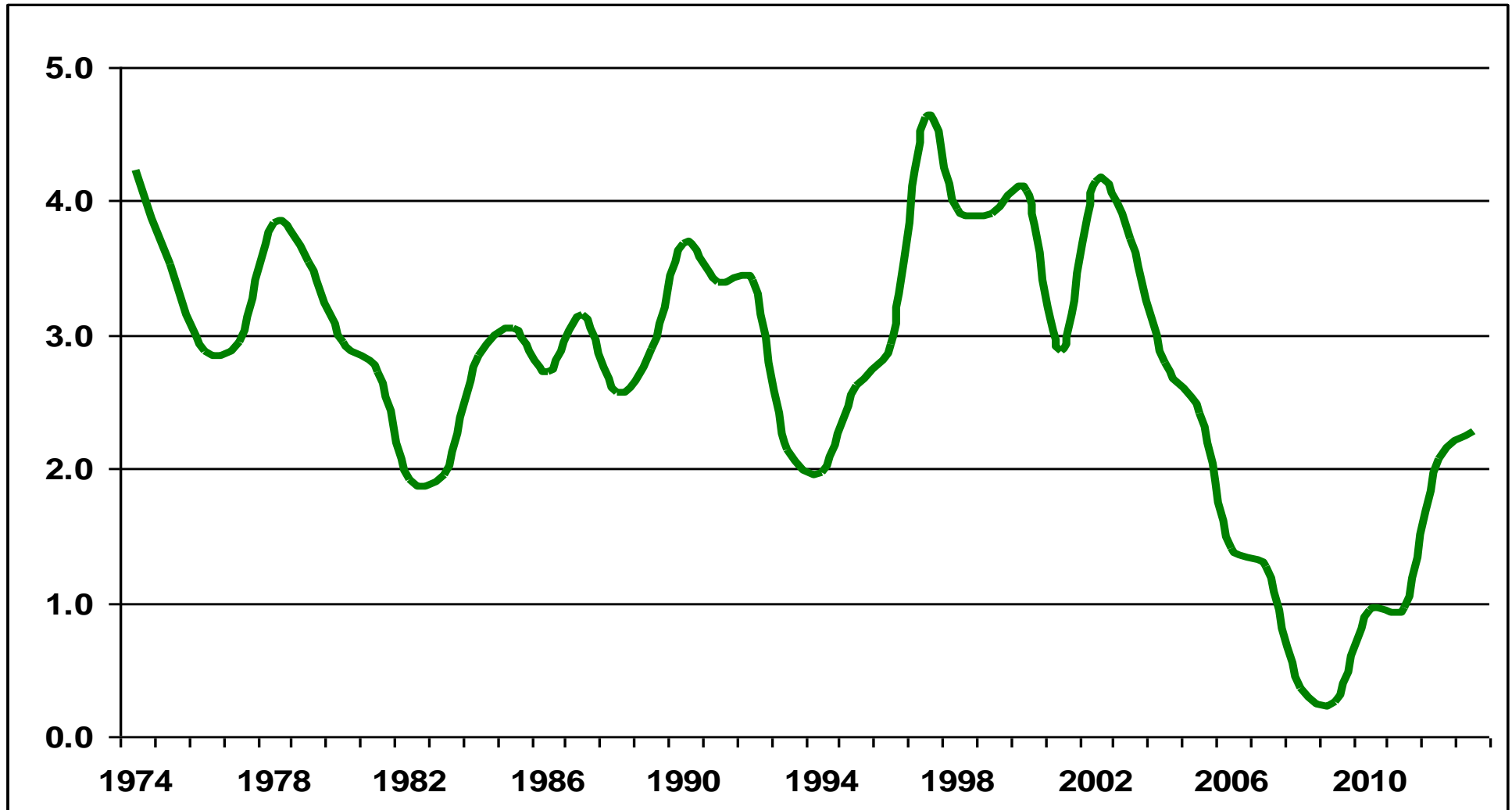
Source: ESRI - IIB, Thomson Datastream

Irish Inflation (Annual CPI and HICP Measures)



Source: Thomson Datastream

Irish Whole Economy Productivity Growth (4 year moving average %)

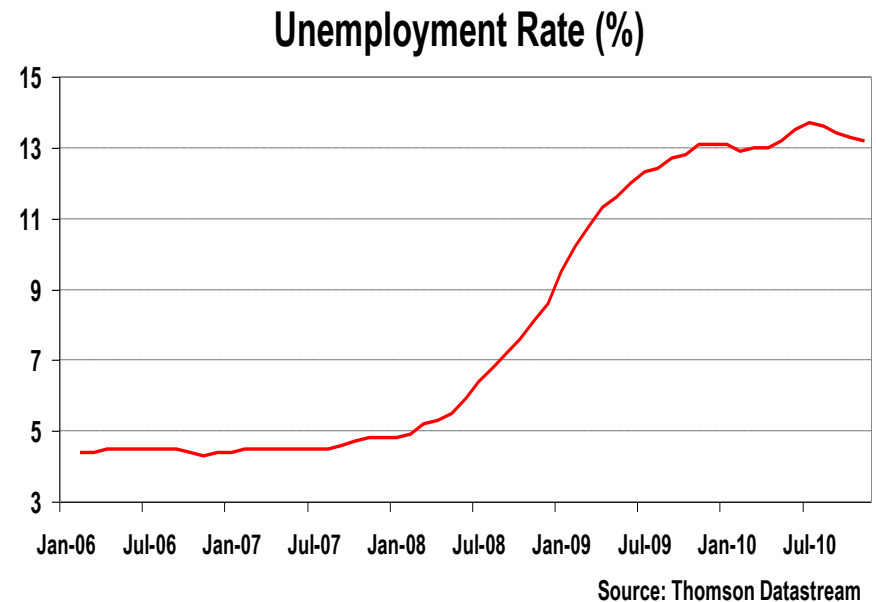


Source: CSO, AIB ERU Calculations

	2008	2009	2010	2011	2012	2013
Unemployment Rate % (average)	6.3	11.8	13.3	13.2	12.8	12.0
Labour Force Growth %	0.8	-2.4	-2.5	-1.6	0.0	0.5
Employment Growth %	-1.1	-8.2	-4.1	-1.5	0.5	1.5
Net Immigration : Year to April ('000)	39.0	-7.8	-34.5	-50.0	-35.0	-20.0

Source: CSO and AIB ERU forecasts

- Easing in the pace of job losses in 2010 as downturn in construction well advanced
- Rise in unemployment levels out as redundancies ease and emigration rises – Live Register fell in three of the last four months of 2010
- Unemployment rate expected to average around 13.25% in 2010 and 2011 before falling to 12% by 2013



Banking recapitalisation costs add to fiscal deficits

% of GDP	2008	2009	2010(f)	2011(f)	2012(f)	2013(f)	2014(f)
General Gov Deficit	7.3	14.4	31.9*	9.4	7.3	5.8	2.8
Gross General Gov Debt	44.3	65.5	94.2	98.6	102.0	102.5	100.0
Actual National Debt**	28.0	47.0	60.0	70.0	76.5	79.5	78.5

*To comply with Eurostat rules, the Gen Gov deficit and debt figures in 2010 include the cost of capital injections into banks via promissory notes (some 20% of GDP) even though these funds are to be put in over the next 15 years and not in 2010. Thus, the underlying Gen Gov deficit in 2010 is 11.6% of GDP.

** The actual National Debt provides for bank promissory notes, not in 2010, but as funded each year by Exchequer (€3.1bn from 2011 onwards) and also nets off cash balances (€16 billion). It stood at €93.5 billion at end 2010 (60% of GDP).

Source: Dept of Finance, NTMA and AIB ERU

AIB Irish Economic Forecasts (2010-2013)

<i>% change in real terms unless stated</i>	2008	2009	2010 (f)	2011(f)	2012(f)	2013 (f)
GDP	-3.5	-7.6	-0.5	1.0	3.0	3.5
GNP	-3.5	-10.7	-2.8	-0.5	2.0	2.5
Personal Consumption	-1.5	-7.0	-1.0	-1.0	1.0	2.0
Government Spending	2.2	-4.4	-5.0	-5.0	-2.0	-2.0
Fixed Investment	-14.3	-31.0	-26.8	-11.0	3.0	7.0
Contribution of stocks to GDP growth (%)	-0.8	-1.4	1.5	0.0	0.1	0.1
Domestic Demand	-5.1	-13.9	-5.1	-3.3	0.8	2.1
Exports	-0.8	-4.1	8.7	6.5	5.5	5.5
Imports	-2.9	-9.7	5.4	3.0	4.0	4.5
HICP (%)	3.1	-1.7	-1.6	1.4	1.5	1.5
Personal Savings ratio (%)	5.2	11.0	12.0	11.0	9.7	8.0
Construction Investment as % GDP	16.0	11.4	7.7	5.9	5.7	5.9
Current Account as % GNP	-6.6	-3.7	-1.3	0.6	0.3	0.0

- Narrow based recovery underway
- Global economy supportive
- Some improvement in Irish cost and price competitiveness
- Exports of goods and services could surprise on upside
- Construction sector well below trend but limited scope for recovery
- Consumer sector hampered by uncertainty over jobs, fiscal policy
- Employment to recover by 2012 but unemployment to remain high
- Credible fiscal path and sort out banks essential if pressure to lift on sovereign
- Economic news flow should improve – help to rebuild confidence

Ireland strongly positioned in international recovery

- Very open economy will continue to benefit from globalisation and FDI
- Large, modern, diversified, export base that will benefit from global recovery
- Ireland remains committed to its low corporate tax regime
- Competitiveness expected to improve further, building on the considerable progress already made from large price and wage falls

Internal structural factors remain positive for cyclical recovery

- Young, flexible population
- Housing output will need to rise from extremely low 2011 levels
- Public infrastructure still at active stage of development
- Scope for rebound in depressed consumer spending and business investment
- High personal savings rate (estimated at 12% in 2010)



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 only 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 publication is not to be reproduced in whole or in part without prior permission. Allied Irish Banks p.l.c. is regulated by the Central Bank of Ireland.

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