The Economic Context for Budget 2019

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Steady global growth forecast but…

GDP (Vol % Change)	2017	2018(f)	2019(f)	2020(f)
World	3.7	3.7	3.7	3.7
Advanced Economies	2.3	2.4	2.1	1.7
US	2.2	2.9	2.5	1.8
Euro Area	2.4	2.0	1.9	1.7
UK	1.7	1.4	1.5	1.5
Japan	1.7	1.1	0.9	0.3

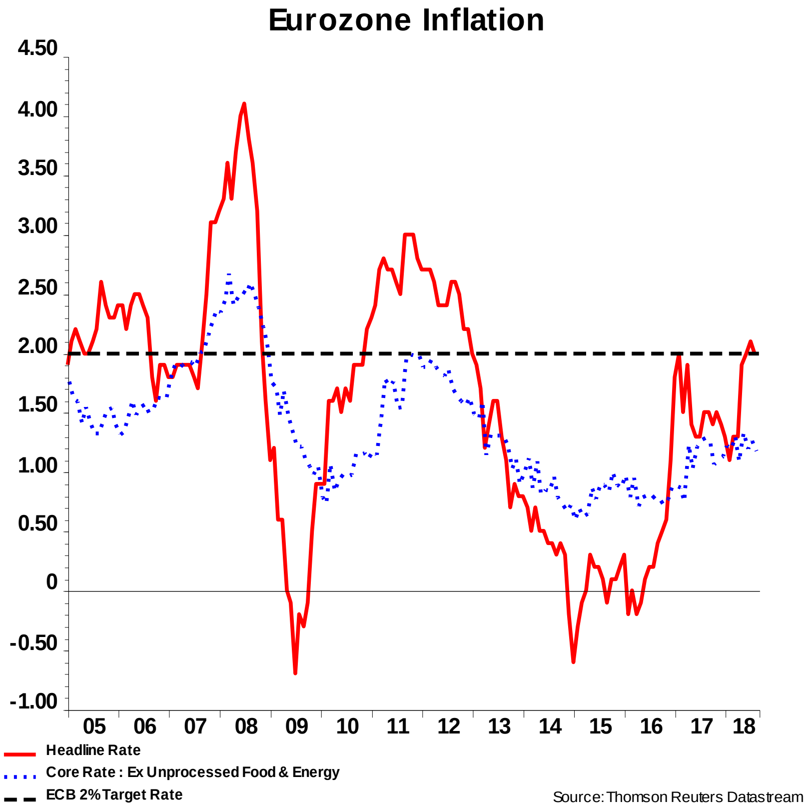
Source: IMF World Economic Outlook October 2018

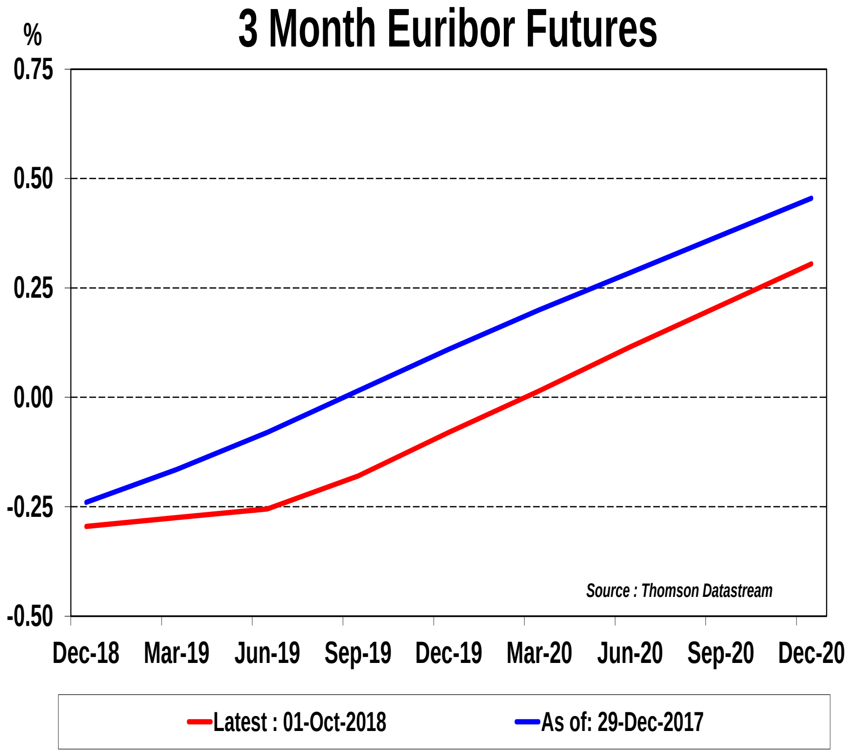
- IMF/OECD forecasting steady growth of 3.7% for world economy in 2019/20
- Loose monetary policies, more expansionary fiscal policies, recovery in commodity prices, rising real incomes all helping to boost activity
- Inflation remains subdued, allowing central banks to keep rates very low
- Downside risks, though, are mounting for world economy – IMF/OECD have lowered their growth forecasts in latest updates

…many challenges clouding economic outlook

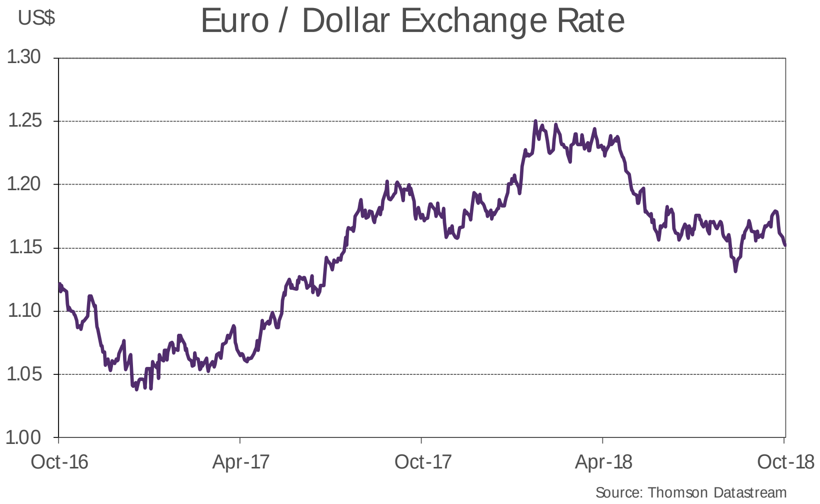
- **Global Trade:** Move away from free trade towards protectionism\tariffs under Trump Presidency
- **US Budget Policy:** Concern that the US is expanding fiscal policy aggressively at a time of full employment and will result in rising budget & balance of payment deficits, possibly higher inflation
- **US Economy:** Should grow strongly in near-term, but then may slow sharply as fiscal stimulus fades and higher interest rates impact activity. Already the second longest US economic expansion
- **Political Uncertainty Across Europe:** Rise in populism, nationalism, anti-immigration, EU scepticism, divisions between older and newer EU member states, Italian budget
- **Brexit:** UK leaving the EU, Single Market and Customs Union in March 2019 but what then?
- **Emerging Economies Wobble:** Rising US dollar/rates & domestic issues expose weaknesses and rattle confidence in some big emerging economies – Argentina, Brazil, Turkey, S Africa, Indonesia
- **Nervous Financial Markets:** Much more volatility in financial markets this year, with increased risk aversion amidst greater uncertainty and concerns about some emerging markets

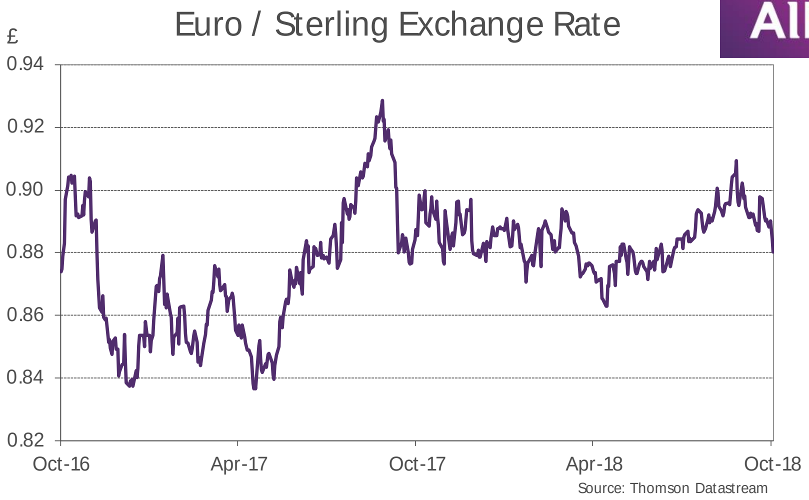
ECB rates expected to remain very low





Dollar regains ground, weak sterling range bound





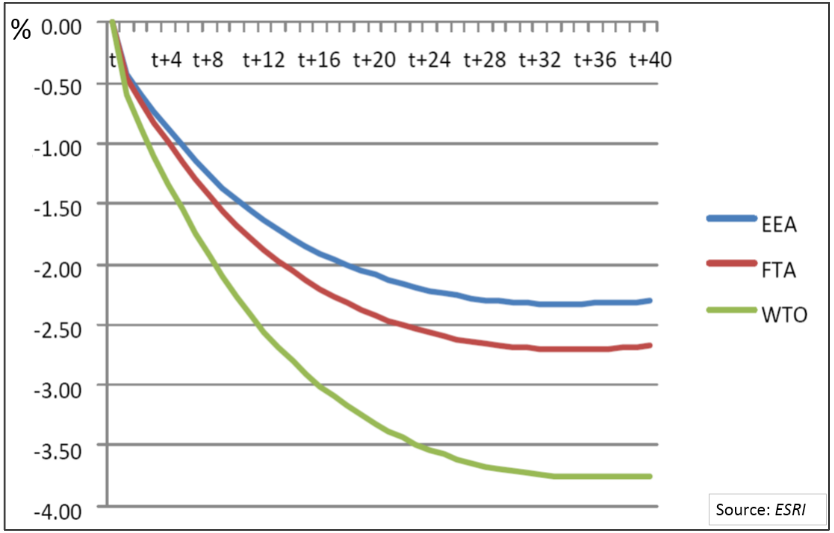
- Rising US rates providing support for dollar after its sell-off in 2017
- Euro fell to a low of $1.13 from $1.25 high earlier in year, currently around $1.15
- Dollar looks well underpinned near-term, but US imbalances a long-term worry
- EUR/GBP largely trades in a narrow 87-90p range since last September
- Brexit the key factor influencing the outlook for sterling – could rally or sell-off aggressively from here

Still much uncertainty about Brexit

- **UK** set to leave EU, Single Market and Customs Union in March 2019
- **Transition period** to end 2020 would be key part of a soft Brexit - avoid disruption after UK leaves while a new free trade deal is being negotiated
- **Withdrawal Agreement** needs be finalised to allow for orderly UK departure. Also need to agree **political declaration** on shape of future EU-UK relations
- **Future trade arrangements** are proving problematic. Deep divisions in UK between those who want clean break with EU and others favouring close alignment with EU
- A hard **RoI/NI border** will prove difficult to avoid without similar EU\UK customs arrangements and continuing regulatory alignment
- Getting Withdrawal Agreement through **UK Parliament** could prove very difficult as Conservative Party badly split over Brexit. Deadlock possible. Government could fall
- Still a lot of **Brexit uncertainty -** second referendum, election, delay to exit, all possible

Brexit expected to lower growth rate of Irish economy

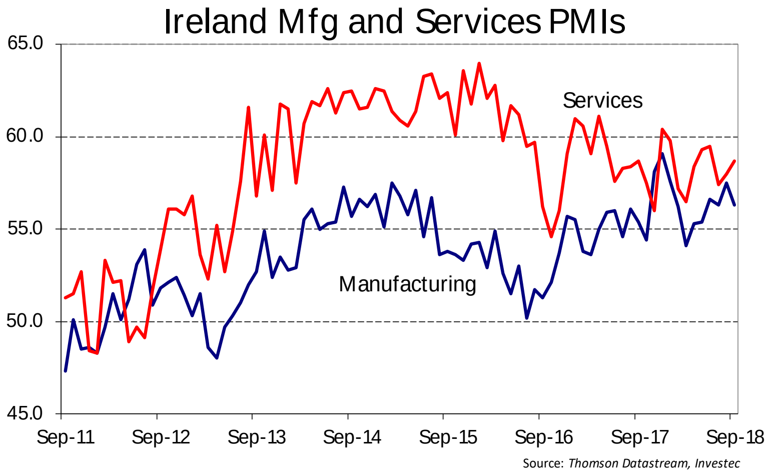
Impact of Brexit on Output *(% deviation from base)*

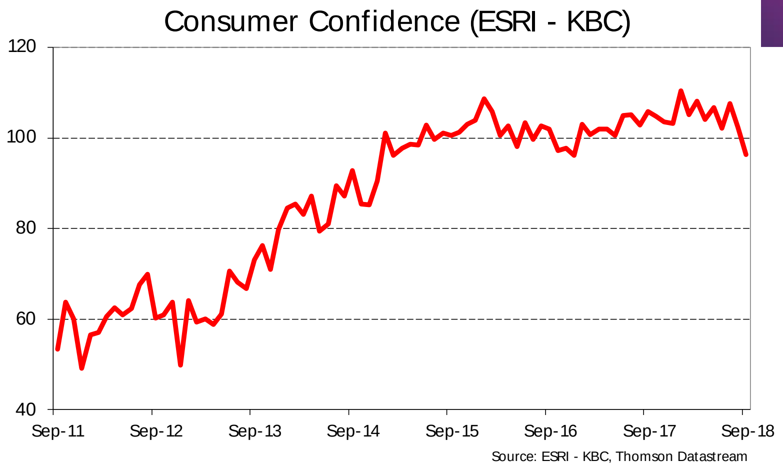


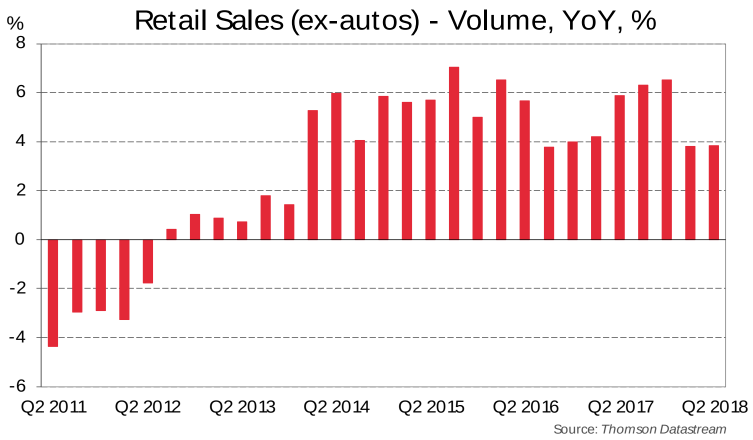
- **ESRI** estimate that Irish output would be reduced over time by 2-2.5% on a soft Brexit
- Sharp fall-off in trade with UK likely on a no-deal, hard Brexit
- Output almost 4.0 % lower over time if there is hard Brexit and a fall back on WTO rules and tariffs
- Employment 2% lower and unemployment rate nearly 2% higher in hard Brexit

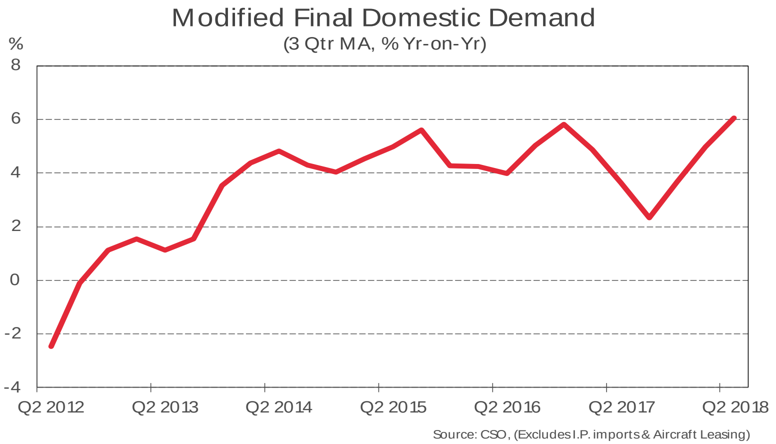
- **Copenhagen Economics** Report considers costs of regulatory divergence for goods and services and of border checks, as well as tariffs in assessing impact of Brexit
- Estimates impact by 2030 is to reduce Irish GDP by 2.8% under a soft Brexit (EEA), 4.3% in a FTA and 7% in a no-deal, hard Brexit WTO scenario

Irish economic indicators remain upbeat in 2018

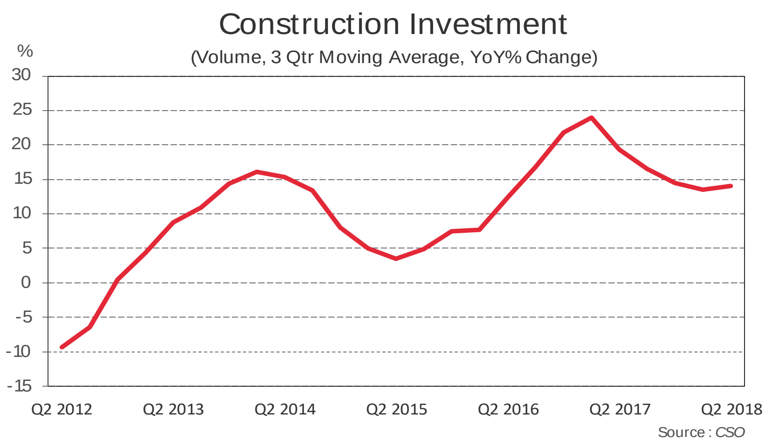


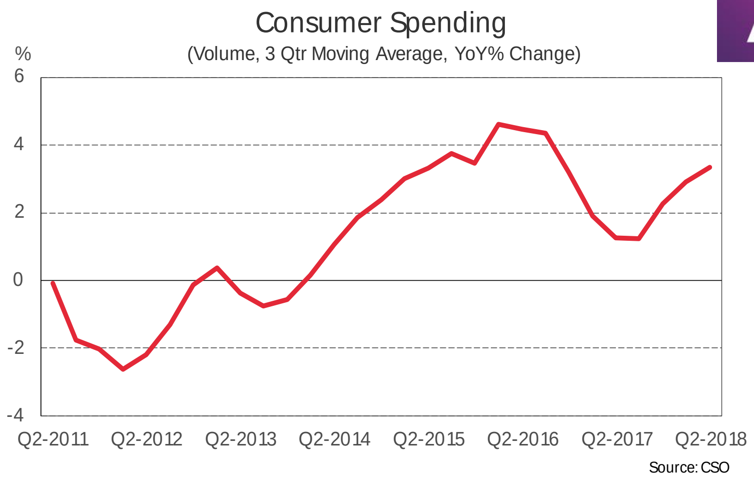


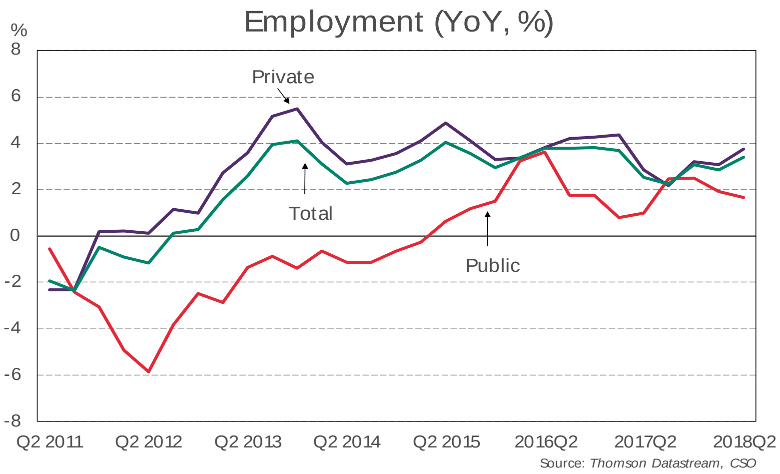


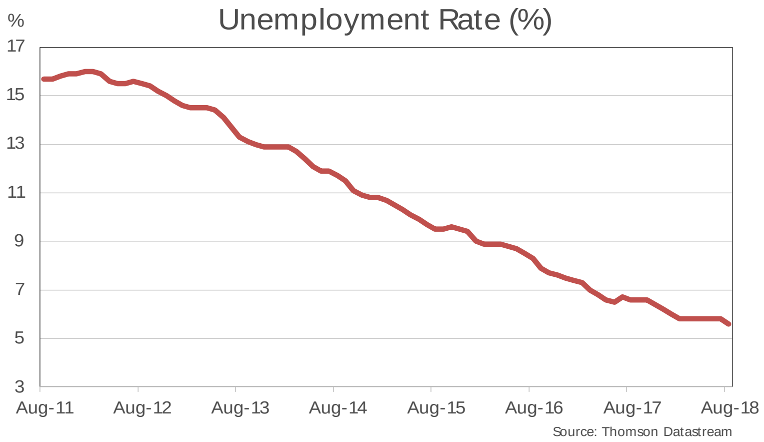


Robust activity; unemployment rate falls to 5.4%



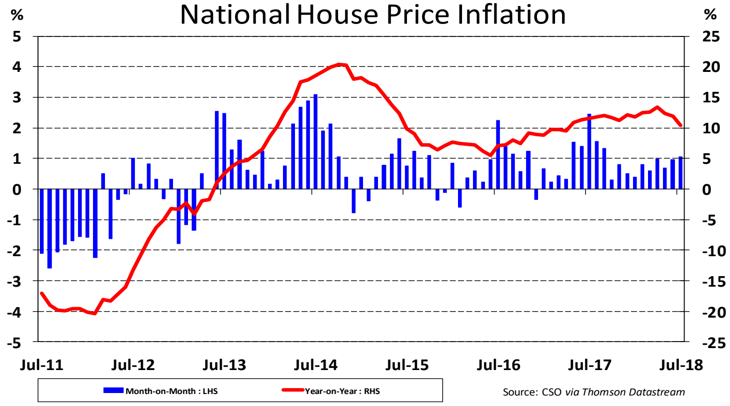






House prices rise strongly on big supply shortfall

- **Prices up 80%** by July 2018 from low in March 2013, but still some 20% below 2007 peak
- House price inflation decelerating: up 10.4% yoy in July 2018, down from 13.3 % in April
- **Dublin price rises decelerates to 7.2% by July** from 12.5% in March. Non-Dublin still up 13.7%
- **Mortgage approvals slow** sharply, though mortgage lending up by 22% yoy in H1'18
- **Housing completions** increased by 45% to 14,500 in 2017. Up 31% yoy in H1 2018
- Forecast at 18,500 in 2018 and 23,000 in 2019
- Could be **2022** before housing output rises to 35,000 units; estimated level of annual demand



A real tax and spend Budget

- Budget **deficit virtually eliminated**, with move to surplus forecast from 2020
- Government chose not to use all the **fiscal space** available for 2019
- **Rainy Day fund** of €500m and €900m buffer margin built into figures
- **Prudent approach wise** – high corporation tax receipts may not be sustained
- Not much improvement in budget deficit – falls from €315m in 2018 to €75m in 2019
- Priority given to **increasing public spending** – rises by over 6% or nearly €4bn in 2019
- Current spending up €2.4bn (+4%); capital spending rises by €1.4bn (+23.5%)
- Underlying tax receipts to rise by 6.6% next year- number of taxes hiked in Budget
- Only €300m in income tax cuts in budget. No indexation of tax credits/bands
- **Squeezed middle-income taxpayers**, still paying 48.5% on earnings over 35k!

Irish growth to remain strong if hard Brexit avoided

- **Strong growth** by Irish economy to continue
- **Construction** picking up from still low output levels, especially house building
- Continuing growth in **public spending**
- Activity supported by **low interest rates**
- **FDI** remains strong - could ease somewhat on pressure from Trump administration
- **Solid global growth** helps exports
- No major **Brexit** impact on economy so far
- Good GDP growth forecast for 2019-2021
- Assumes no-deal, hard Brexit is avoided

AIB Irish Economic Forecasts

% change in real terms unless stated	2018 (f)	2019 (f)	2020 (f)	2021(f)
GDP	**6.5**	**4.0**	**3.5**	**3.2**
GNP	7.0	3.7	3.2	3.0
Personal Consumption	3.5	2.5	2.5	2.2
Government Spending	3.5	3.0	3.0	3.0
Fixed Investment	-3.0	7.0	6.0	5.5
Exports	7.5	4.5	4.3	4.0
Imports	1.5	4.5	4.5	4.3
HICP Inflation (%)	0.9	1.4	1.6	1.8
Unemployment Rate (%)	5.7	5.2	5.0	4.9
Budget Balance (% GDP)	-0.1	0.0	0.2	0.3