



Budget 2022 Webinar:

Economic Backdrop & Fiscal Impact

13th October 2021

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AIB

World economy rebounds strongly as vaccines rolled out



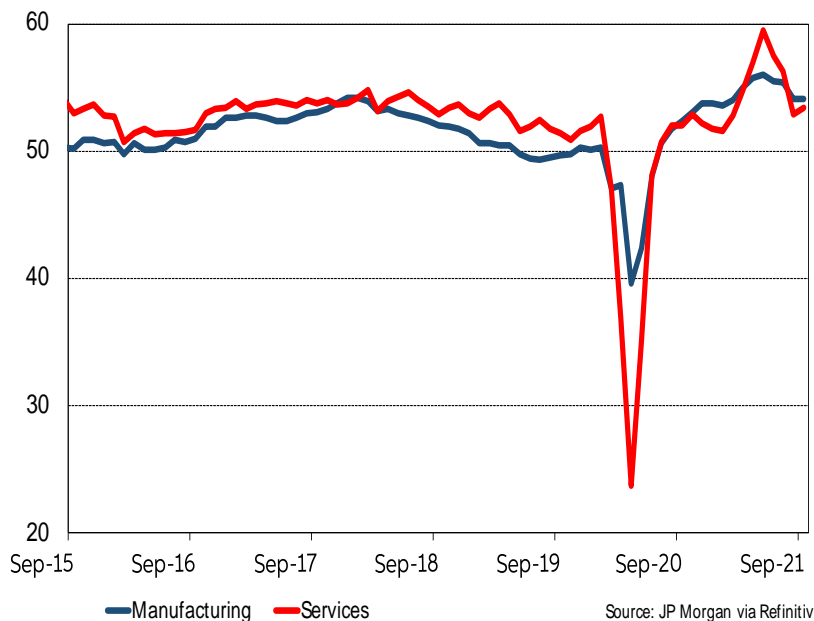
GDP (Vol % Change)	2019	2020	2021(f)	2022(f)
World	2.8	-3.1	5.9	4.9
US	2.2	-3.4	6.0	5.2
Euro Area	1.3	-6.3	5.0	4.3
UK	1.4	-9.8	6.8	5.0
Japan	0.0	-4.6	2.4	3.2
Source: IMF World Economic Outlook, October 2021				

- **Forecasts for 2021 revised up** as firms better able to cope with lockdowns earlier in year and vaccine roll out sees stronger than expected recovery from Q2, with more fiscal supports also
- **Strong recovery expected to continue in 2022** with policy remaining supportive and private savings surge starts to be run down – **Covid & supply bottlenecks/labour shortages are risks**
- **Growth to slow markedly in 2023-24** as demand surge eases and policy turns less supportive
- **Sharp rise in inflation this year** expected to prove temporary as bottlenecks ease and supply and demand move more into balance. **CPI rates forecast to fall back during 2022-23**

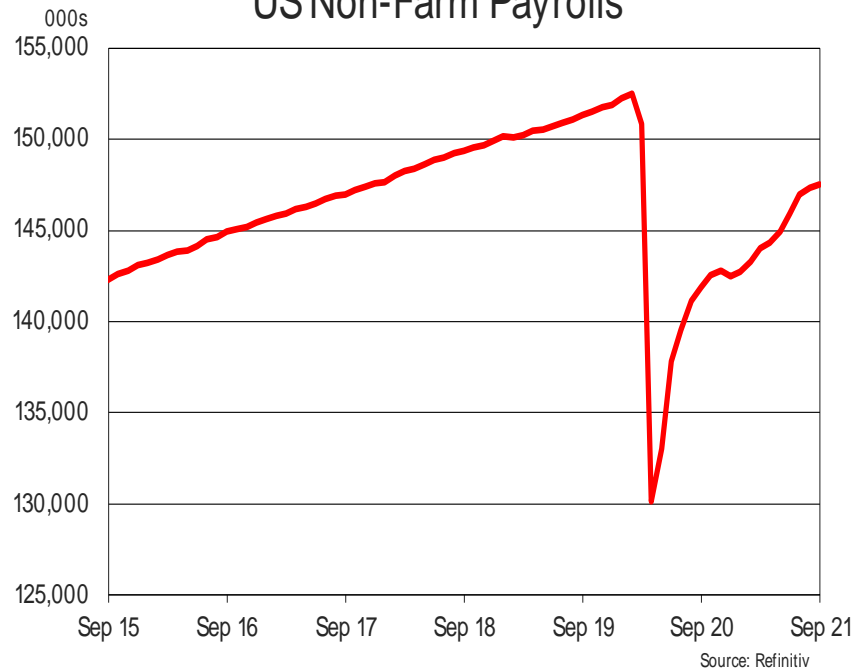
Global PMIs rebound strongly , labour markets improving



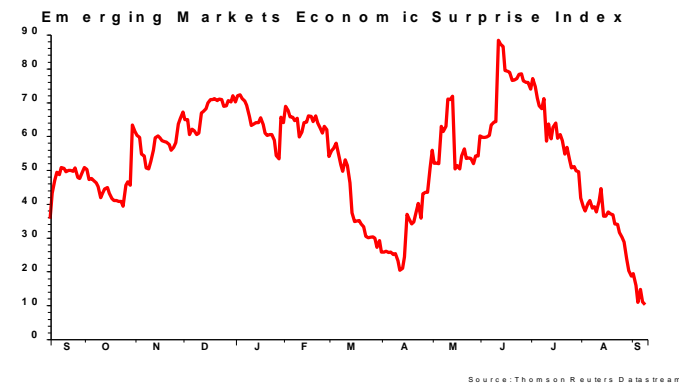
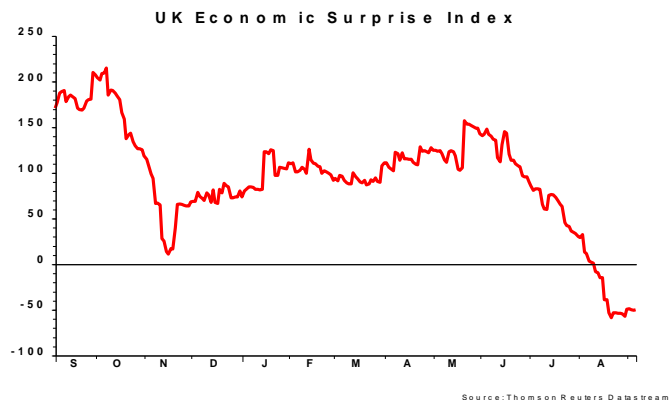
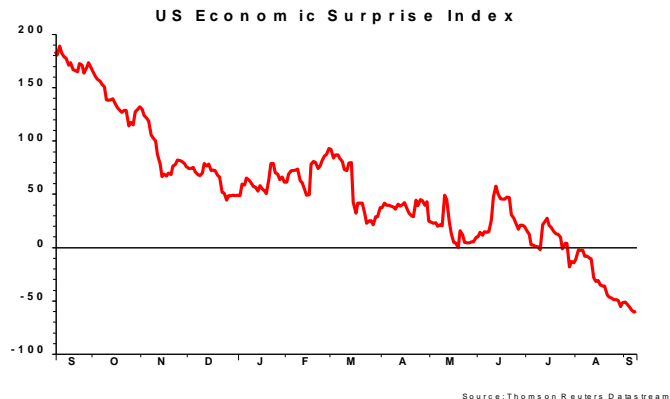
Global PMIs



US Non-Farm Payrolls



More recent data surprise to downside as Covid cases rise, bottlenecks hamper recovery and labour shortages emerge



Oil prices surge to multi-year highs



Last 12 months

Brent Oil Price \$



Source: Refinitiv Datastream

Last 12 months

West Texas Oil \$

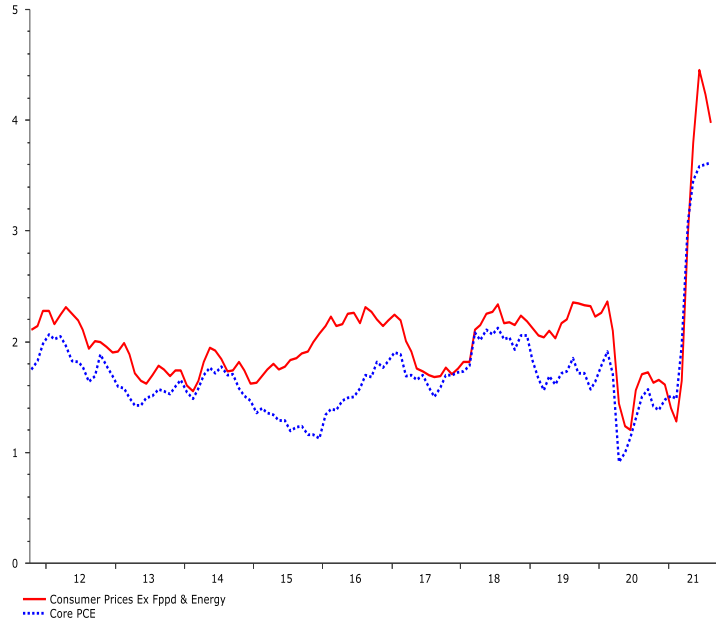


Source: Refinitiv Datastream

CPI inflation picks up sharply everywhere

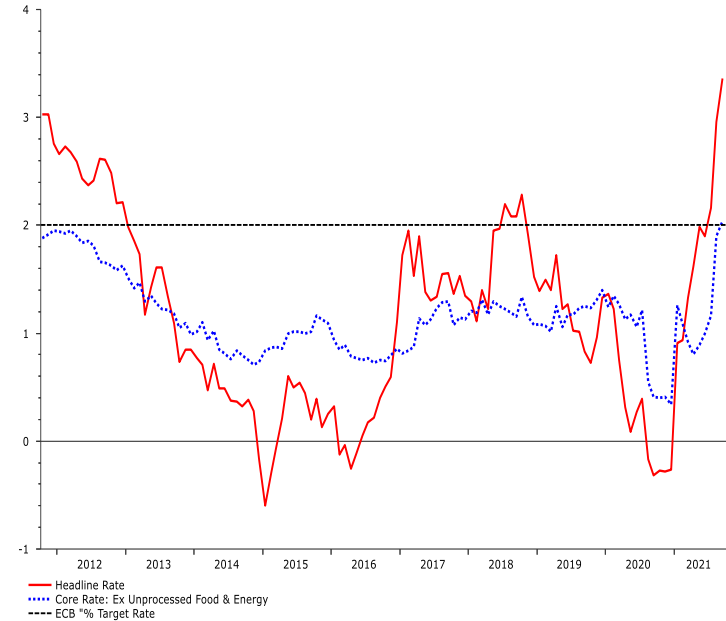


US Core Inflation Indicators



Source: Refinitiv Datastream

Eurozone Inflation

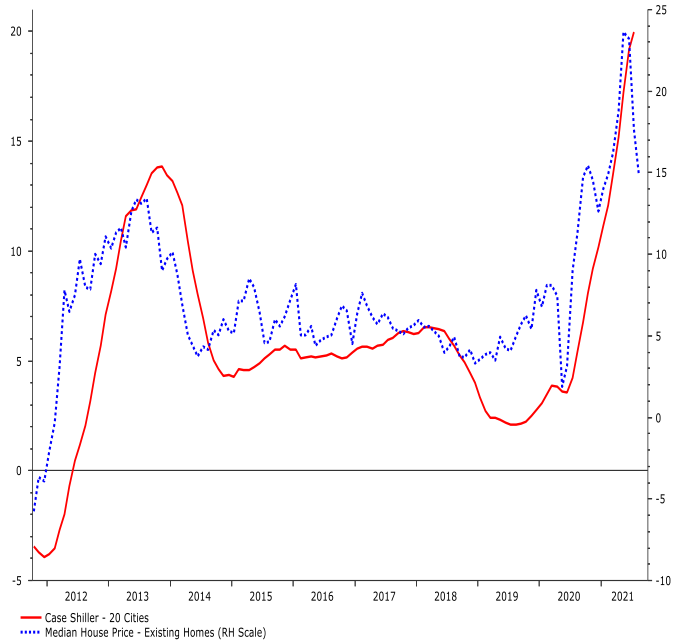


Source: Refinitiv Datastream

House prices rising sharply in many countries



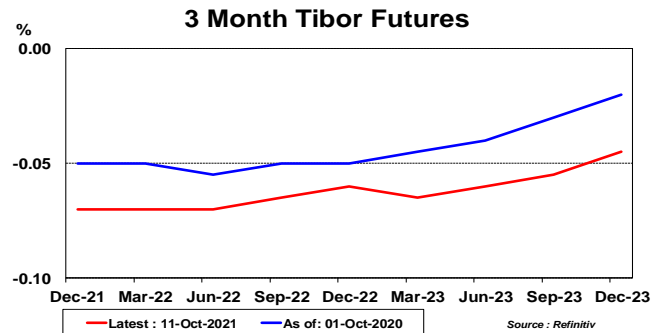
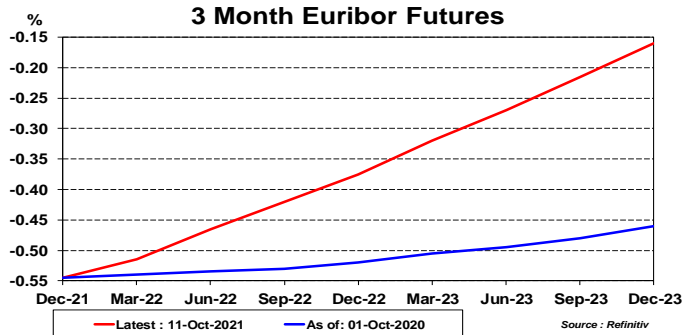
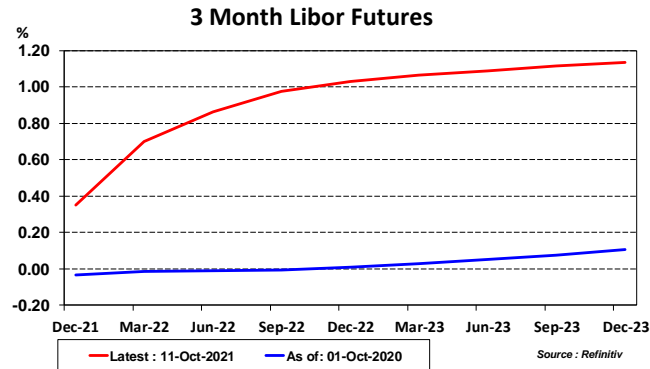
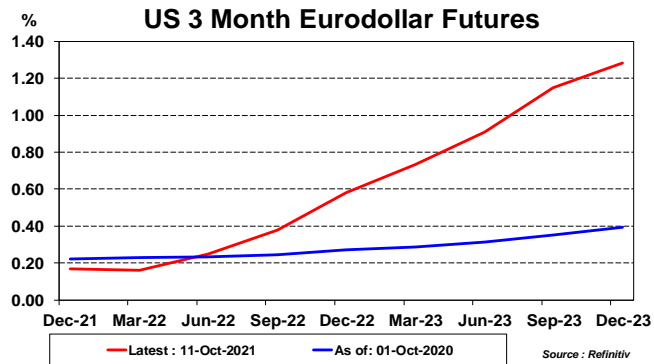
US House Prices: YoY % Change



UK House Price Inflation



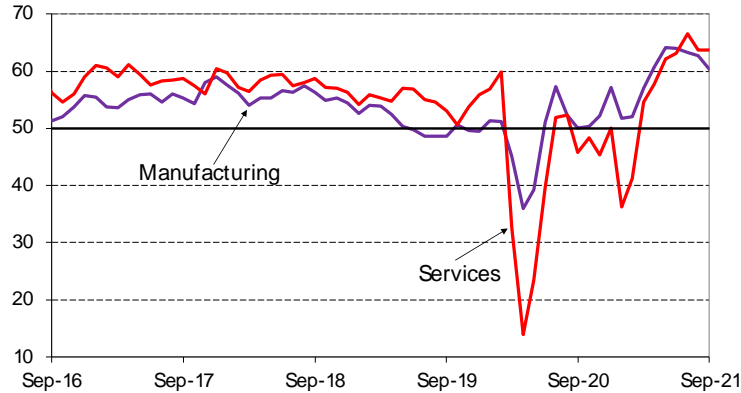
Markets now expect UK rates to start rising in early 2022. Fed hikes seen from late 2022 & ECB hike by start of 2023



Irish indicators pick up strongly as economy reopens

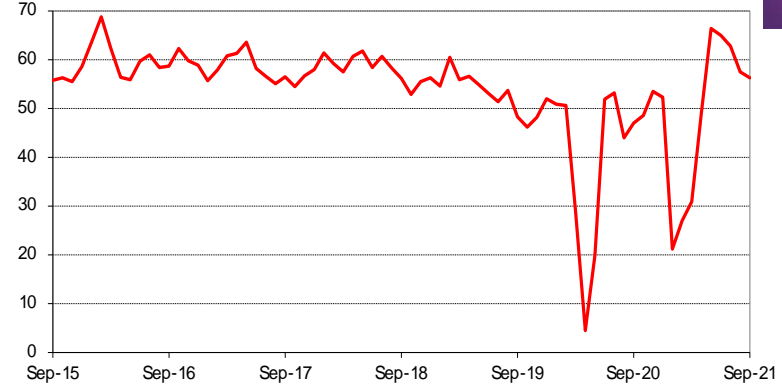


AIB Irish Mfg and Services PMIs



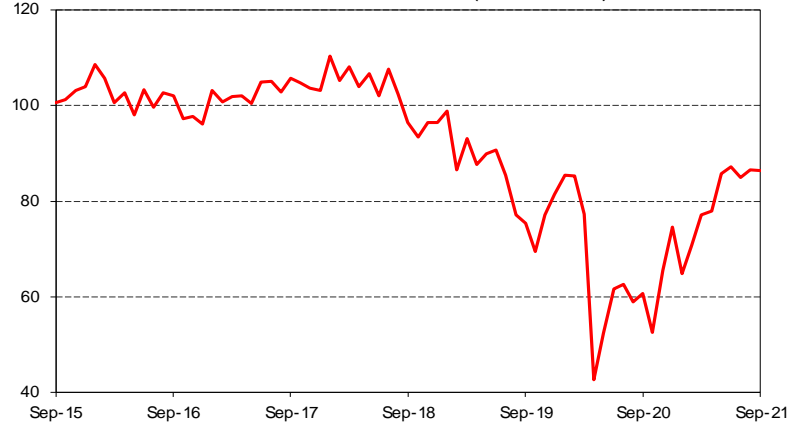
Source: Markit via Refinitiv

Ulster Bank Construction PMI



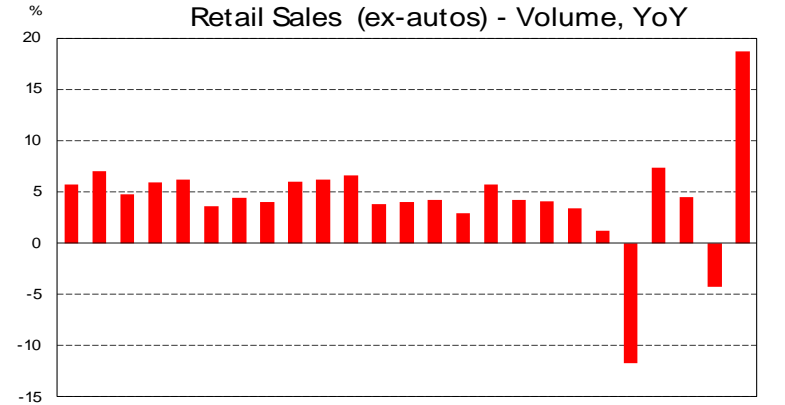
Source: Refinitiv

Consumer Confidence (ESRI - KBC)



Source: ESRI via Refinitiv

Retail Sales (ex-autos) - Volume, YoY



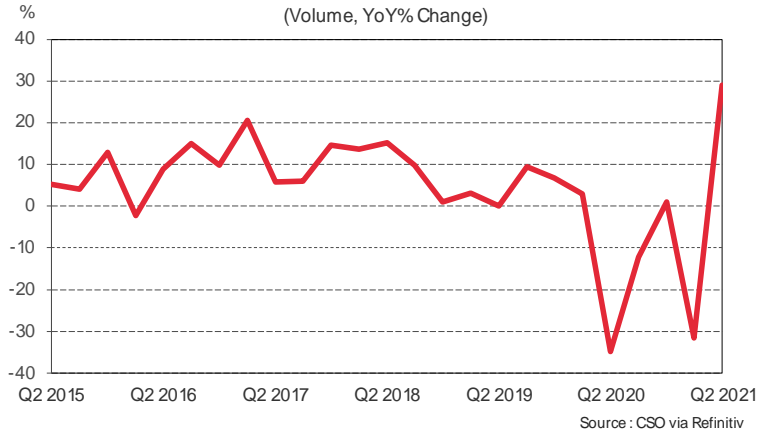
Source: CSO via Refinitiv

Unemployment declining rapidly, inflation on the rise



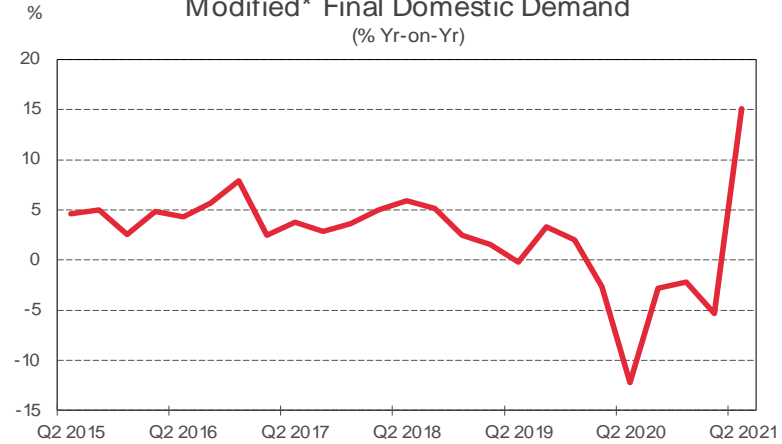
Construction Output

(Volume, YoY% Change)

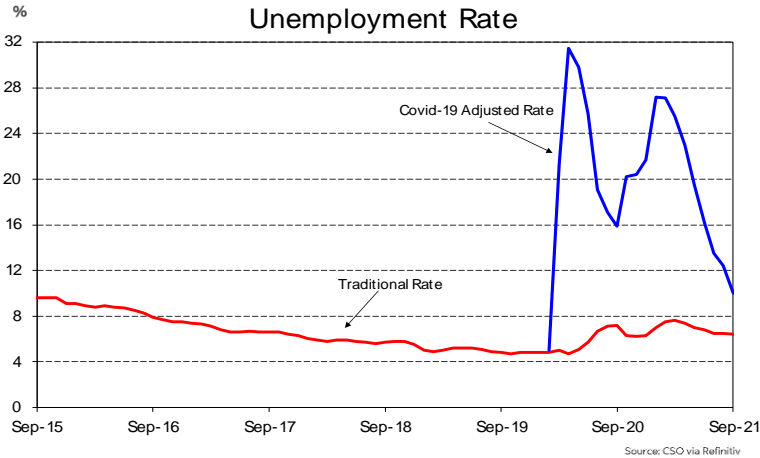


Modified* Final Domestic Demand

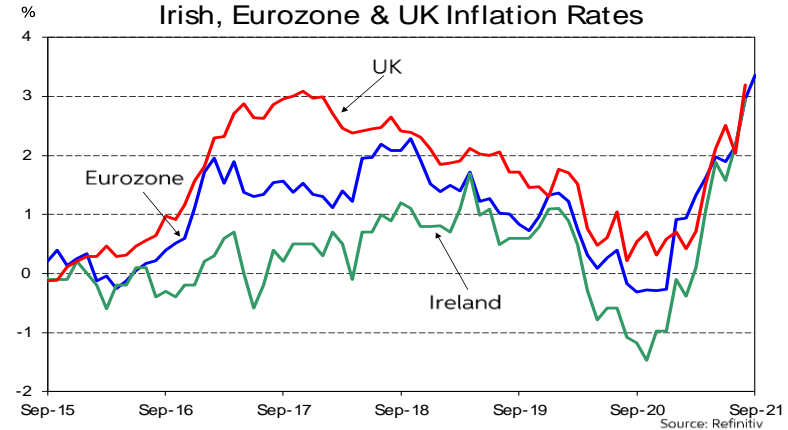
(% Yr-on-Yr)



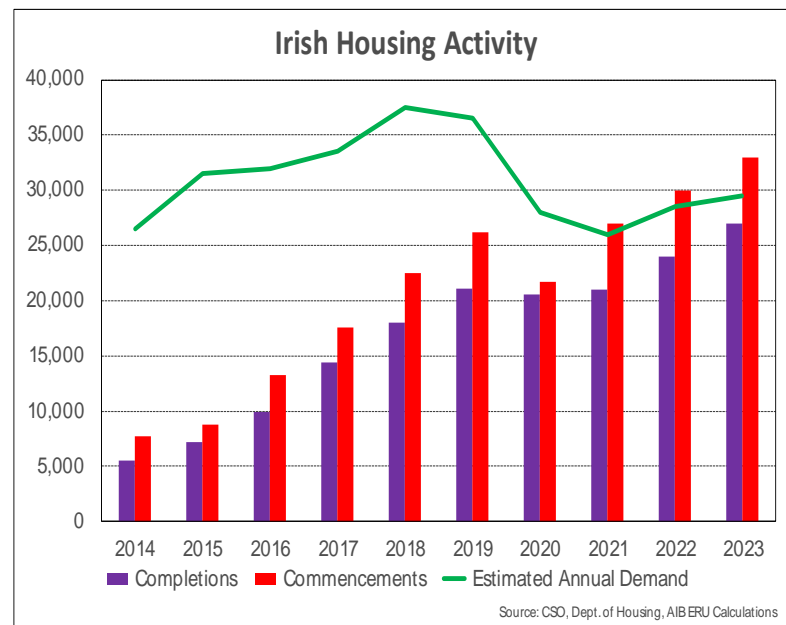
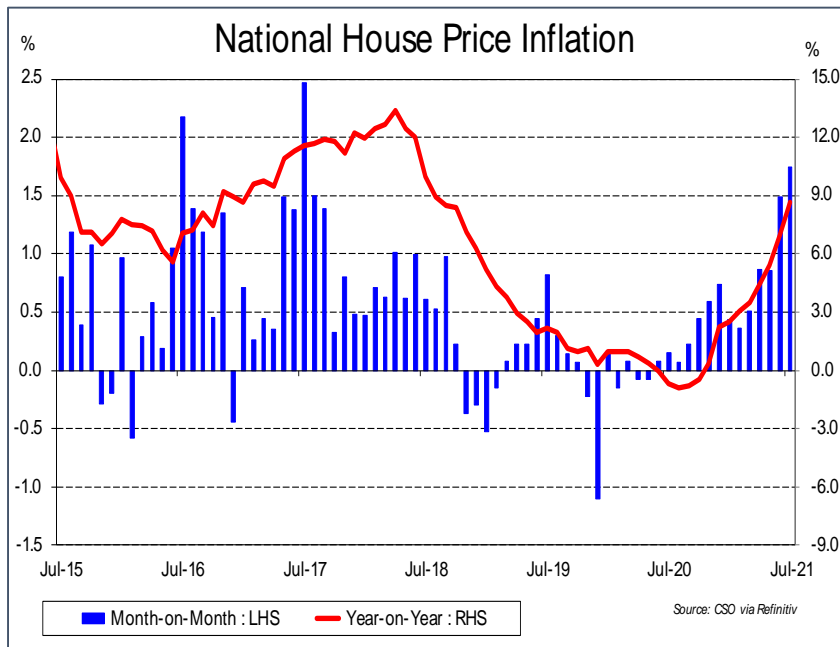
Unemployment Rate



Irish, Eurozone & UK Inflation Rates



House prices pick up strongly, completions hold up



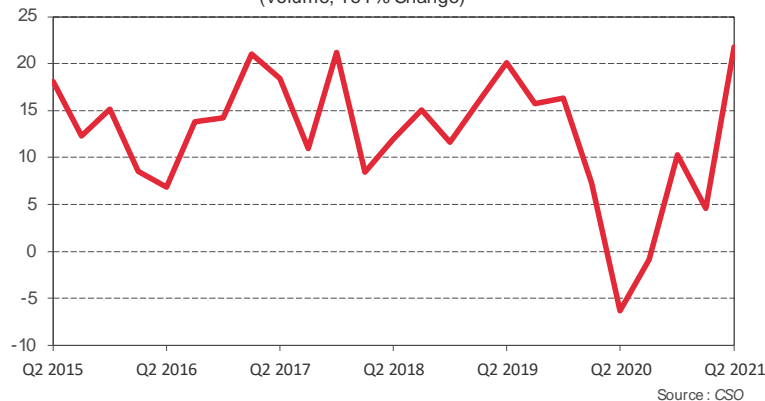
Elements in place for Irish economy to grow strongly



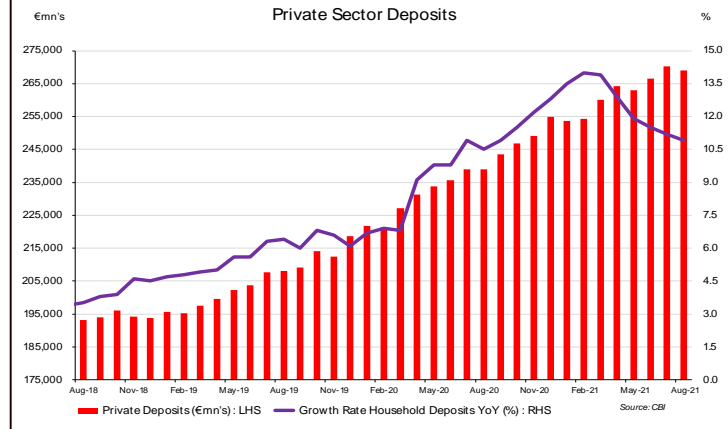
- Key ingredients in place for a strong rebound by Irish economy from 2021 onwards
- Rollout of **vaccines** allows economies to reopen here and elsewhere – very high Irish vaccination rates
- **World economy rebounding** strongly, which augurs well for export orientated countries like Ireland
- **House building** to pick up in coming years from still low output levels – big focus of government policy
- **Fiscal policy** to remain supportive of growth -DoF forecasts provide for increased core spending
- Activity aided by continuing **very low interest rates**
- Economy has **deleveraged**; low private sector debt
- **Large build-up in private savings** in 2020-H1'21 will help fuel strong growth in domestic spending
- Strong growth forecast for 2021-23, with domestic economy rebounding sharply

Irish Exports of Services

(Volume, YoY% Change)



Private Sector Deposits



Budget 2022 supportive of economy, deficit falling sharply

- **Enormous Covid-19 fiscal supports** totalling over €40bn or nearly 20% of GNI* put in place in 2020-21
- **Fiscal policy now starting to normalise** as Covid-19 supports begin to be wound down
- Government **recalibrated its fiscal framework** in the summer to allow for higher spending in coming years
- Meantime, **budget deficit much lower than expected in 2021** at €13bn versus €20bn forecast
- Tax receipts rebound strongly this year – rise by 15.5% or €9bn to €66.1bn. At €59.3bn pre-Covid in 2019
- Budget deficit now in sharp decline, forecast to fall to €8.25bn in 2022
- Broad range of **spending increases in budget** – EWSS extended at lower rates to April 2022
- **Growth of 5.5% in core (i.e non-Covid) government spending** provided for next year
- This includes a provision for an 11% increase in Exchequer financed **capital spending**
- Growth of 5% in core Government spending in subsequent years
- **Small budget deficit of just €1bn projected for 2023**, with large current surplus of €10bn
- Low interest rate environment allows government to **raise long-term debt at a very low cost**

But Risks to Economic Recovery Remain



- **Covid-19** proves could more persistent than expected, with the speed of vaccine production and deployment not proving fast enough to stop transmission and emergence of new vaccine-resistant strains
- Some containment measures may thus need to be re-imposed, holding back pace of economic recovery
- Unclear what the **long term scarring effects** are on global growth and labour markets of the Covid-19 pandemic. Large government supports could be masking major issues, which only emerge in 2022-23.
- Disruptions to global **supply chains and labour shortages** may continue in 2022-23, holding back growth
- **Rise in inflation** this year could prove persistent amid ongoing bottlenecks in supply and labour market shortages that leads to further price rises and rapid wage growth
- Central banks may be forced to **raise interest rates** aggressively to tackle an inflation problem of too much money chasing too few goods, triggering an economic downturn
- **Stretched valuations in financial markets and housing** globally could correct sharply, with risk aversion rising as investor fears grow that markets have become way overbought. Spills over into economies
- **China** has been a major driver of global growth in past four decades, but signs emerging of some financial and economic imbalances that could weigh on activity there

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 First Trust Bank. 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 First Trust Bank 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.