



Budget 2025

Economic Briefing

David McNamara
Chief Economist - AIB

Sept 2024

Three themes today



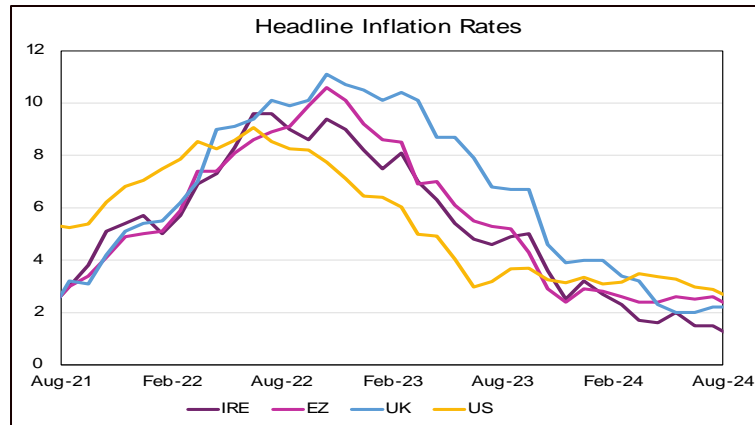
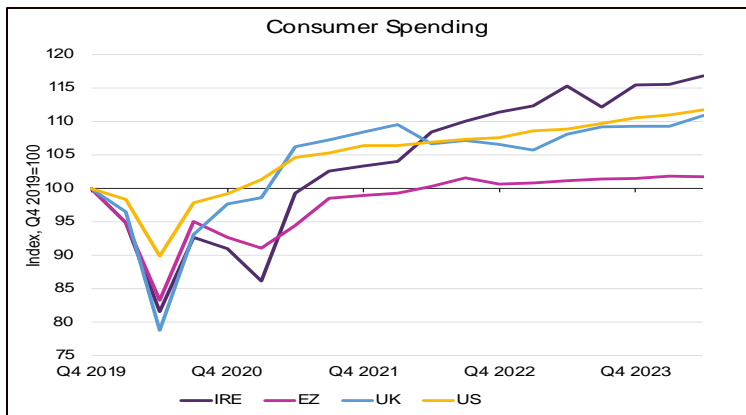
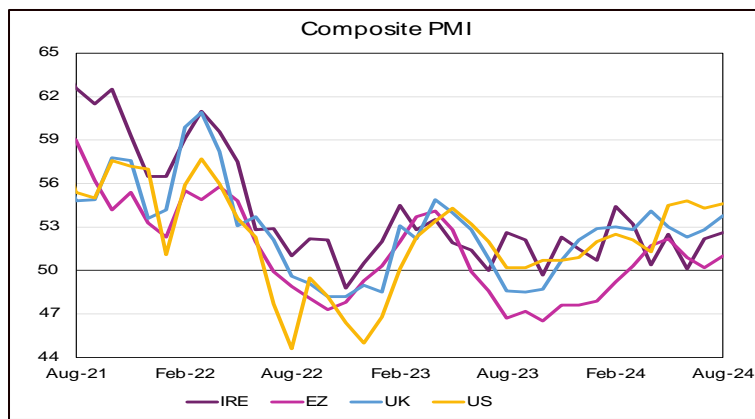
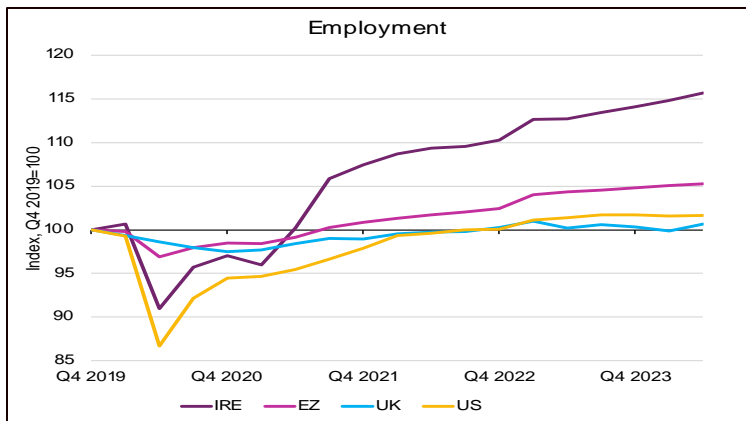
1. Global Context

2. Irish economic outlook

3. Budget 2025

Global Economy - Soft Landing Achieved?

How are the key regions performing?



How 'soft' will the landing be at current interest rate levels?



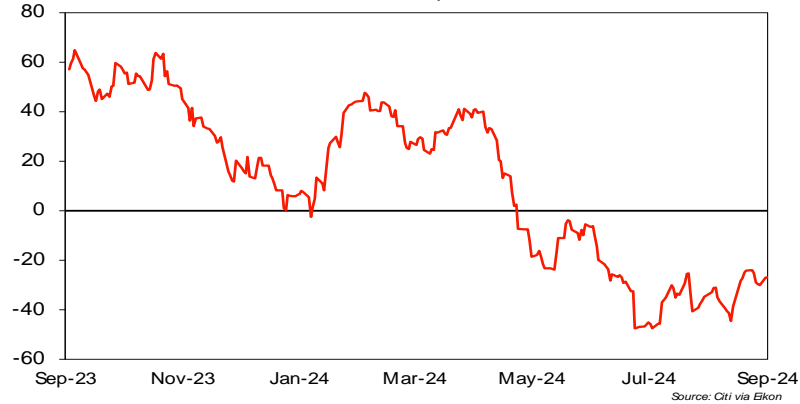
GDP (Vol % Change)	2021	2022	2023	2024 (f)	2025 (f)
World	6.3	3.5	3.2	3.2	3.
US	5.9	1.9	2.5	2.6	1.9
Euro Area	5.3	3.4	0.5	0.9	1.5
UK	7.6	4.3	0.1	0.7	1.5
Japan	2.2	1.0	1.9	0.7	1.0
China	8.4	3.0	5.2	5.0	4.5
Source: IMF World Economic Outlook, July 2024					

- Recession avoided to date in most of the main economies, with inflation now in decline
- Modest growth forecast for 2024-25, as world economy shifts to lower growth path. Risks to downside
- But policy error still possible - central banks could be underestimating impact of hikes
- Ongoing war in Ukraine, conflict in Middle East, faltering recovery in China, geo-economic fragmentation

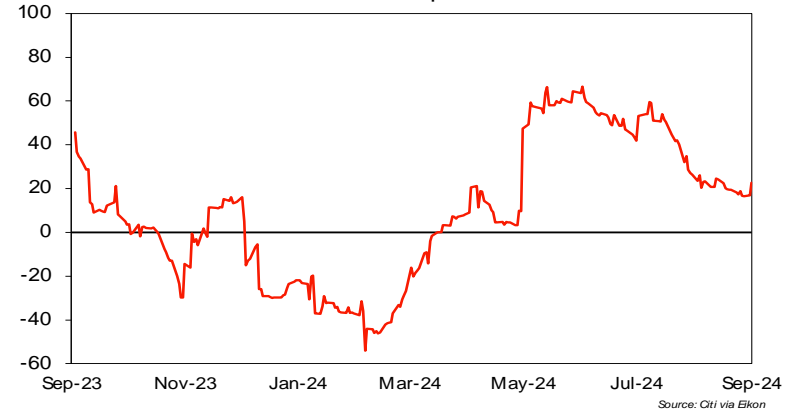
US economy beginning to show signs of weakness



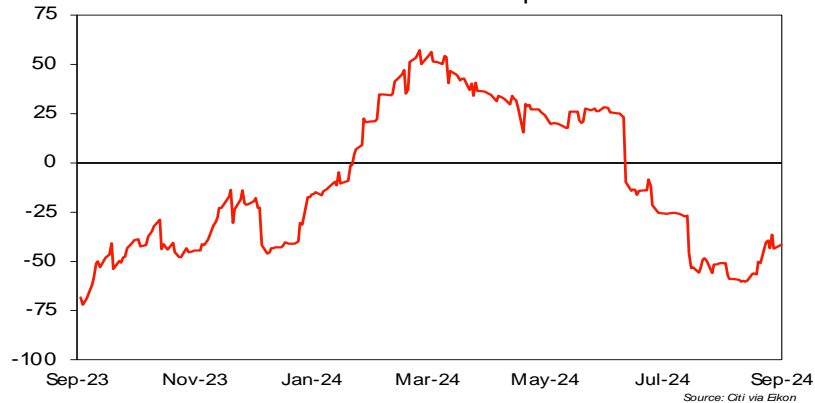
US Economic Surprise Index



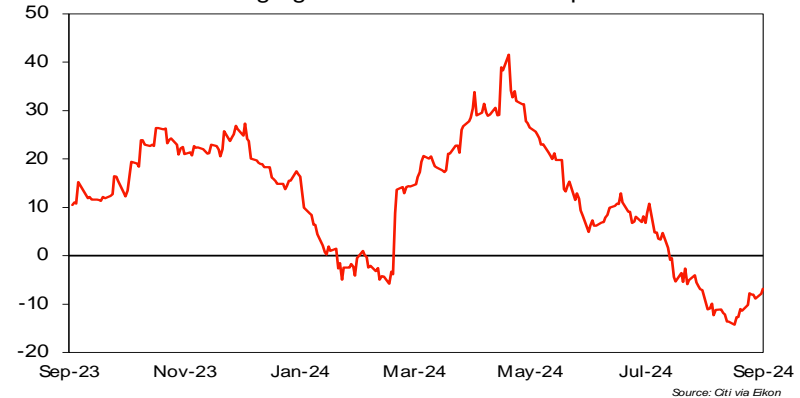
UK Economic Surprise Index



Eurozone Economic Surprise Index



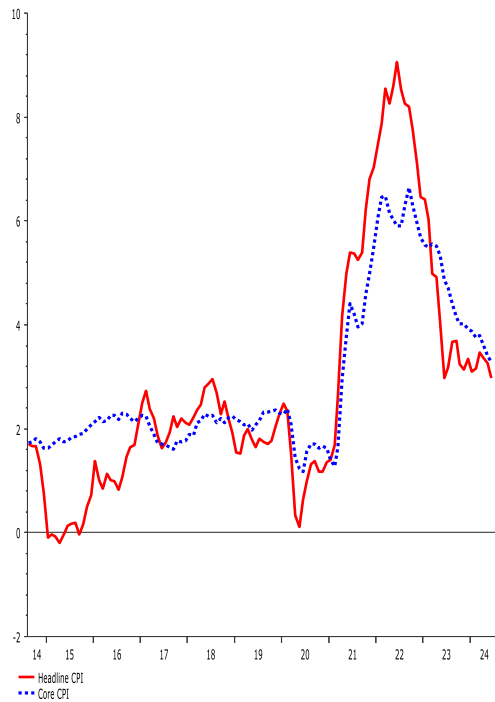
Emerging Markets Economic Surprise Index



Headline inflation falls rapidly, core inflation stickier

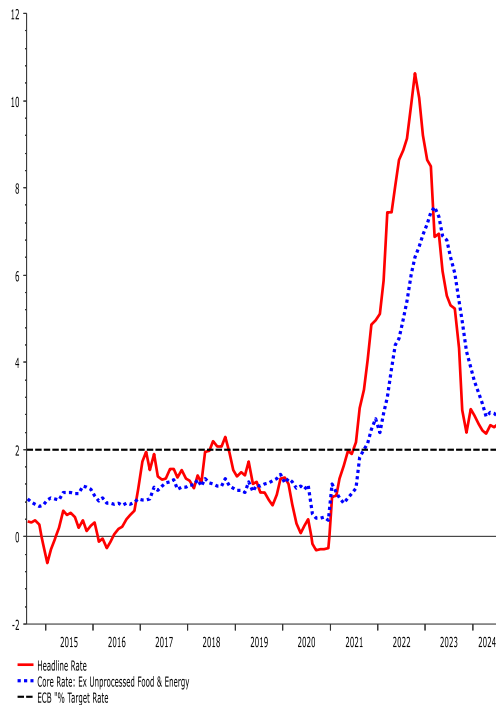


US CPI Inflation



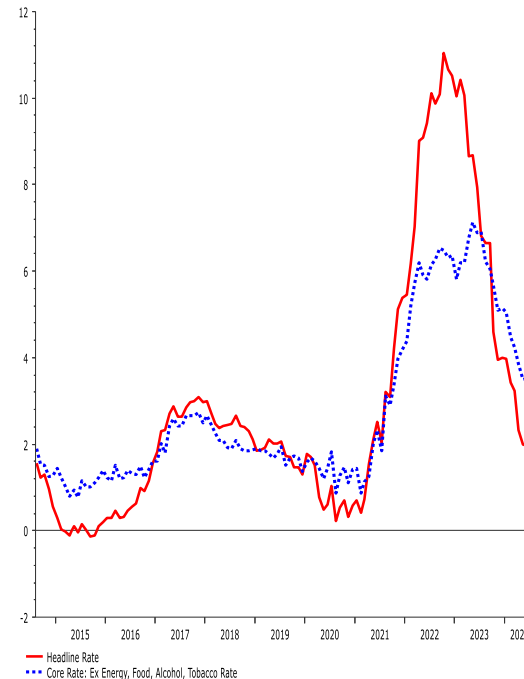
Source: LSEG Datastream

Eurozone Inflation



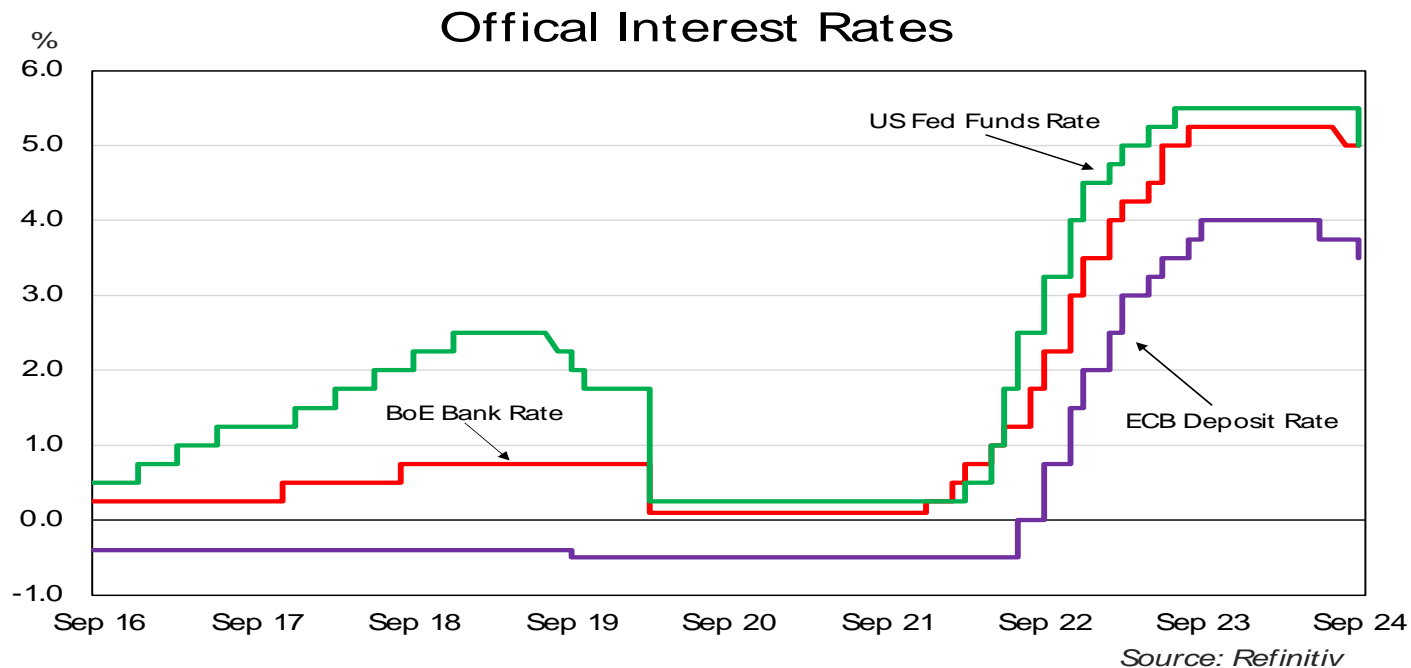
Source: LSEG Datastream

UK CPI Inflation



Source: LSEG Datastream

Central banks begin to cut rates



- Markets now pricing in significant rate cuts from the Fed, ECB and Bank of England, respectively in 2024 and 2025
- Market expectations have softened by 75-100bps across the board since July 2024



Irish Economy in good shape

AIB Irish Economic Forecasts – August 2024

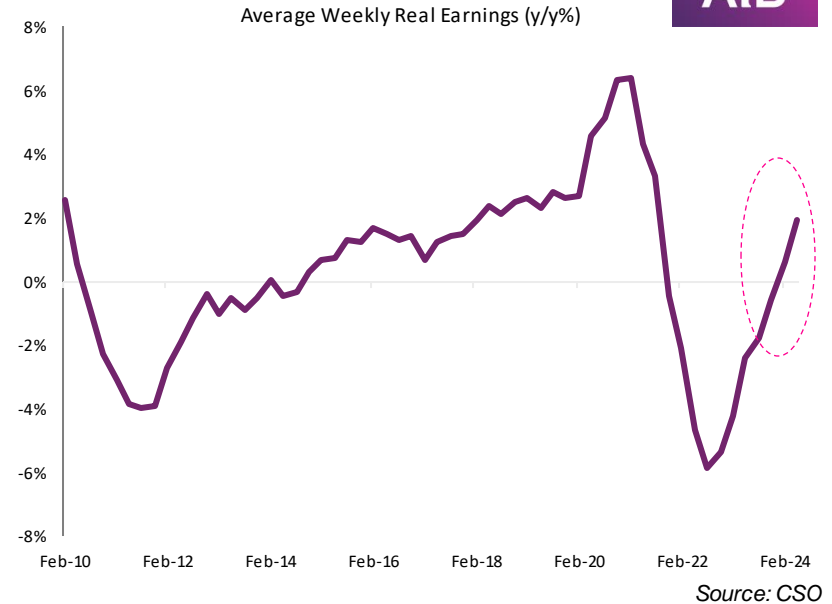
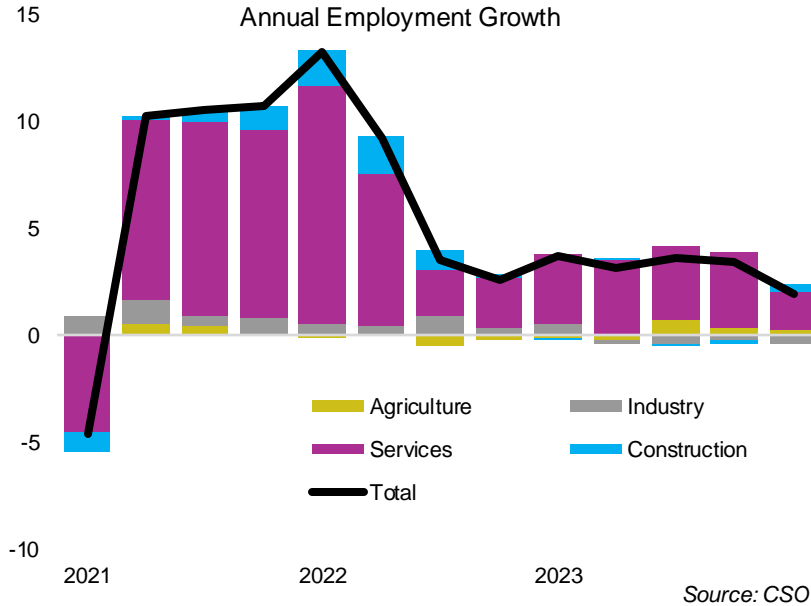


<i>% change in real terms unless stated</i>	2022	2023	2024 (f)	2025 (f)	2026 (f)
GDP	8.6	-5.5	1.7	2.7	2.7
GNP	2.3	5.5	1.3	2.3	2.3
Modified Final Domestic Demand	8.8	2.6	2.5	2.7	2.6
Personal Consumption	10.7	4.8	2.7	3.0	2.9
Government Spending	3.0	4.3	2.0	2.1	1.6
Fixed Investment**	3.7	2.8	1.8	2.1	2.3
Exports	13.5	-5.8	2.8	2.9	3.1
Imports**	16	1.2	2.2	2.3	2.5
Employment (%)	6.8	3.5	1.7	1.5	1.5
Unemployment Rate (%)	4.5	4.3	4.5	4.4	4.4
HICP Inflation (%)	8.1	5.2	1.9	2.0	2.0
Budget Balance (GGB % GNI*)	3.1	2.9	2.8	3.0	2.6
Gross General Gov Debt (% GDP)	44.4	43.7	41.5	39.5	37.8
Net General Gov Debt (% GNI*)	68.9	62.2	58.7	56.5	53.8

**2021-22 data very distorted by aircraft leasing and intangibles (IP)

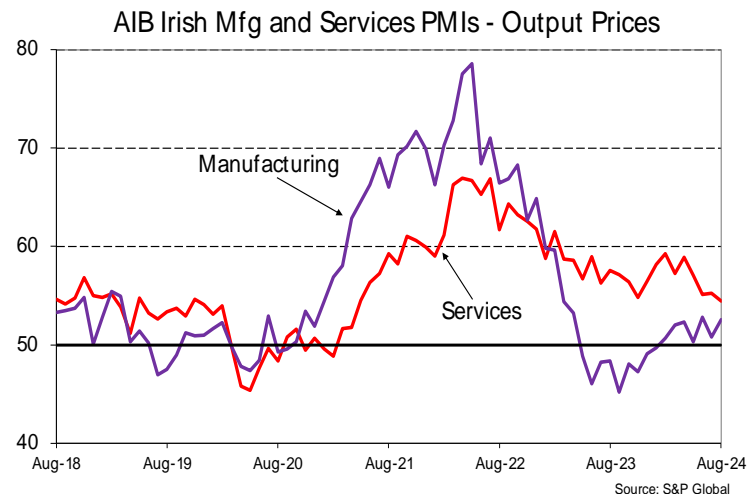
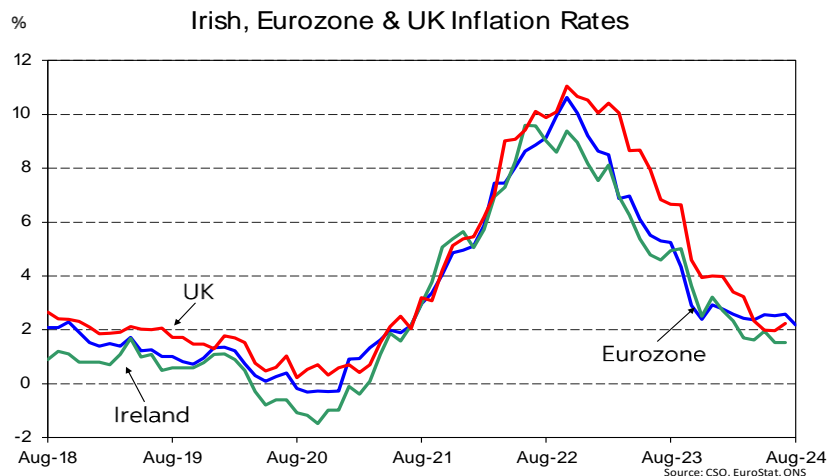
Source: CSO, D/Finance; AIB ERU Forecasts (except public debt)

Labour market growing strongly



- Unemployment rate suggests little slack in the labour market at present
- However, surge in the labour force in 2022 and 2023 is supporting jobs growth
- Nominal wage growth is strong (+5% y/y) in Q2 2024 with wages now rising again in real terms

Inflation falling, but Ireland exposed to upside risks

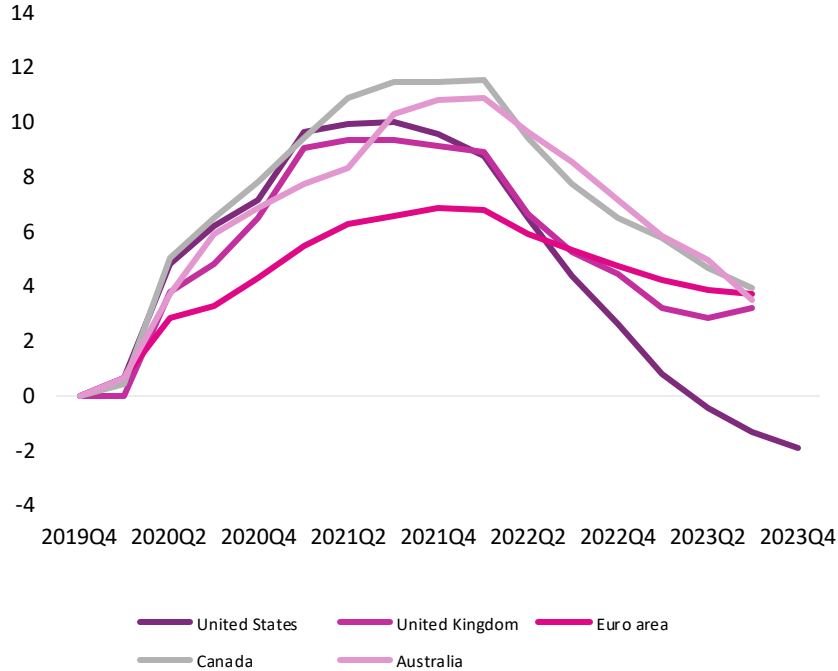


- Inflation is falling rapidly, in line with peer countries
- However, domestic price pressures remain elevated, pushing up core prices

Household savings remain elevated

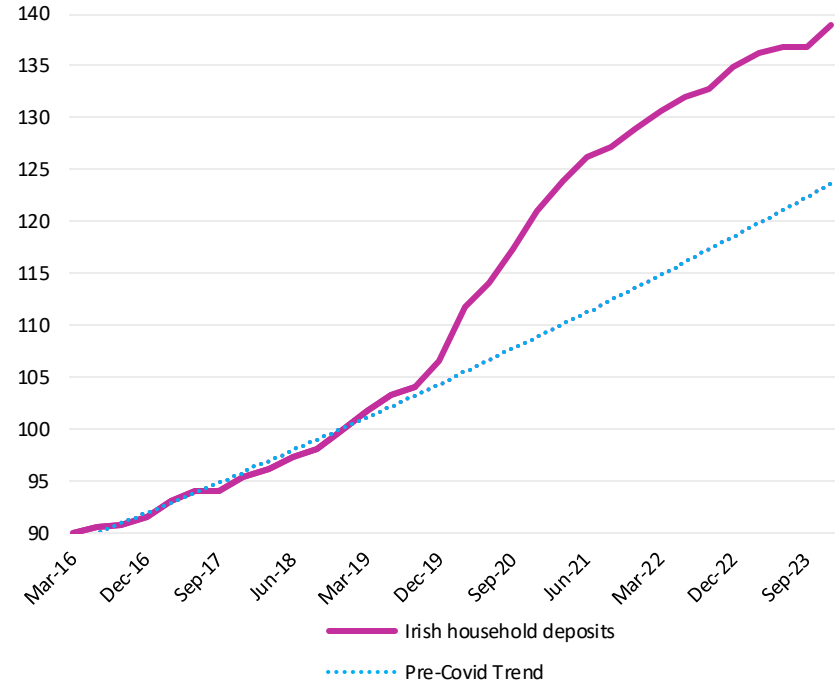


Households savings from the pandemic declining



Source: IMF WEO - April 2024, deviation from predicted pre-Covid saving rates

Household deposits - Quarterly (€bn)



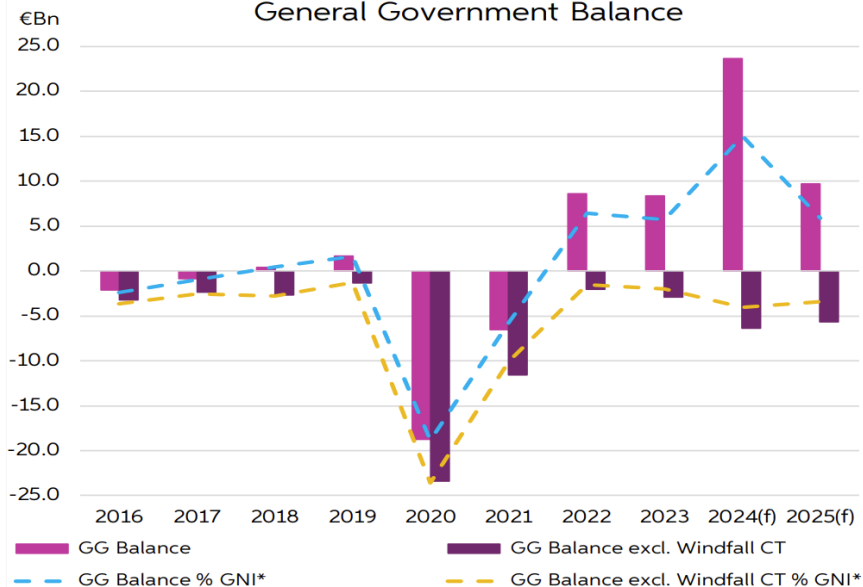
Source: CBI

Budget 2025 – key policies

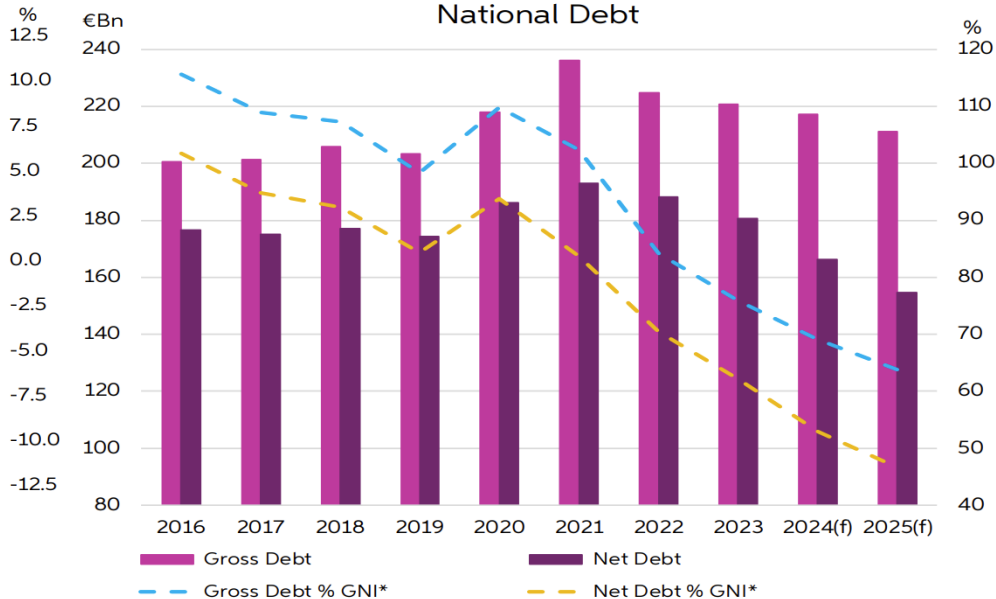
The Government is running a very large budget surplus



General Government Balance



National Debt



Overall Package – Tax & Spend

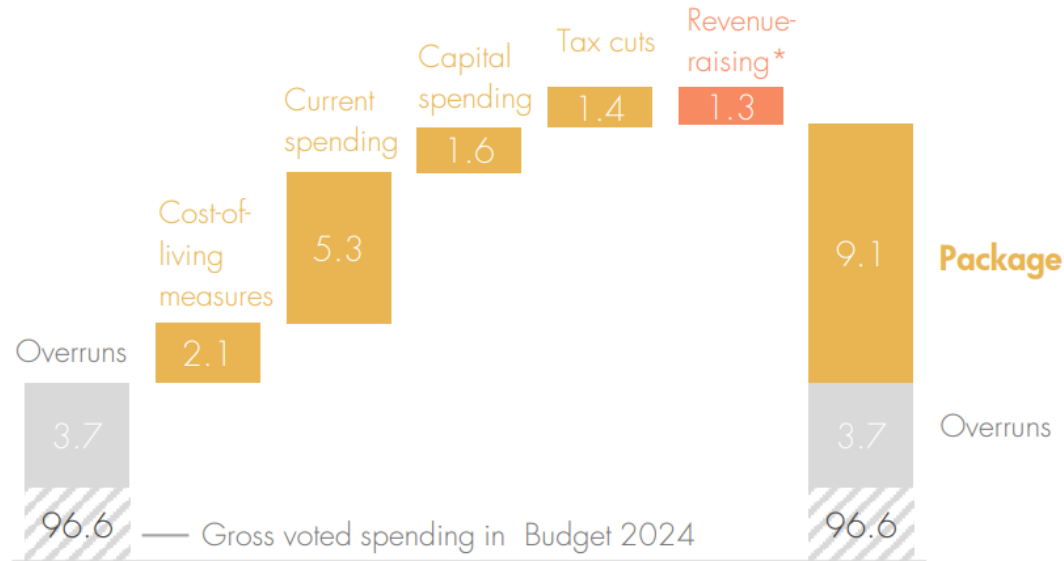


- In total - **€10.5bn** in new measures delivered yesterday
 - Including **€2.2bn** in largely one-off payments in 2024 – welfare, energy credits etc.
 - On top of an **€8.3bn** package guided before the Budget, €6.9bn spending, €1.4bn in tax
 - Within this a **€1.6bn increase** in the Capital budget in 2025 to record high of €15bn
- Apple proceeds drawn down (€14bn), and framework on the use of these funds to be delivered in new year – will also flow into infrastructure
- The Government also announced another €3bn for investment (€1.25 billion for the Land Development Agency, €1 billion for Uisce Éireann and €0.75 billion for EirGrid)

Key Measures – Tax & Spend

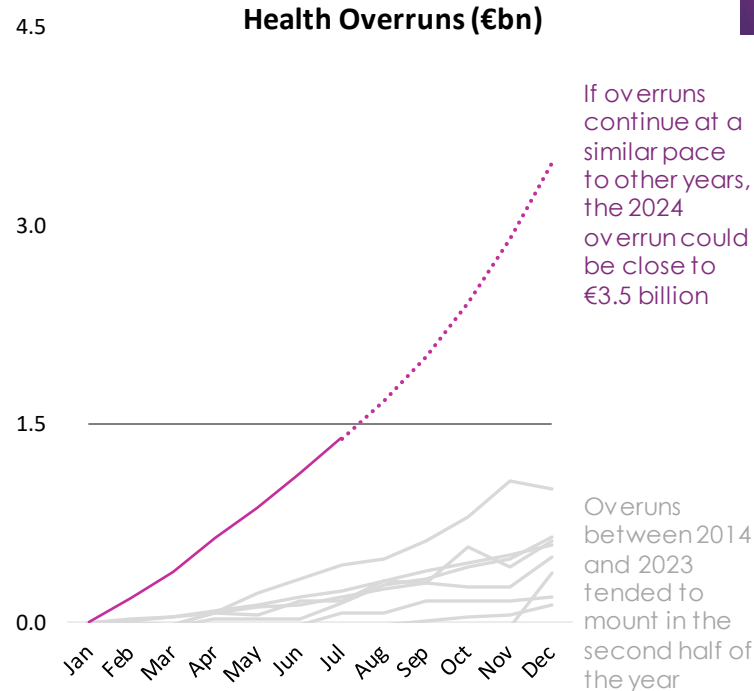
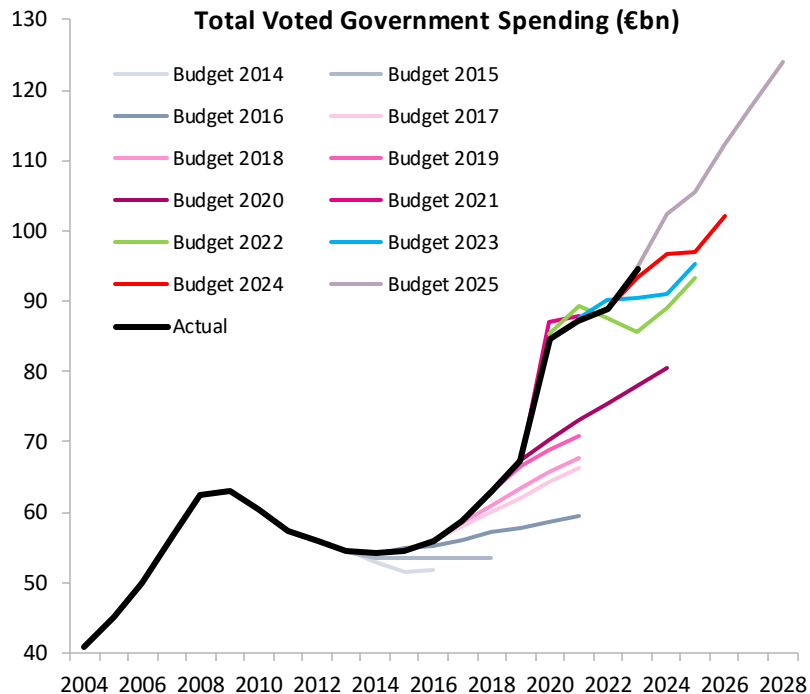


€ billions, net scale of the Budget package

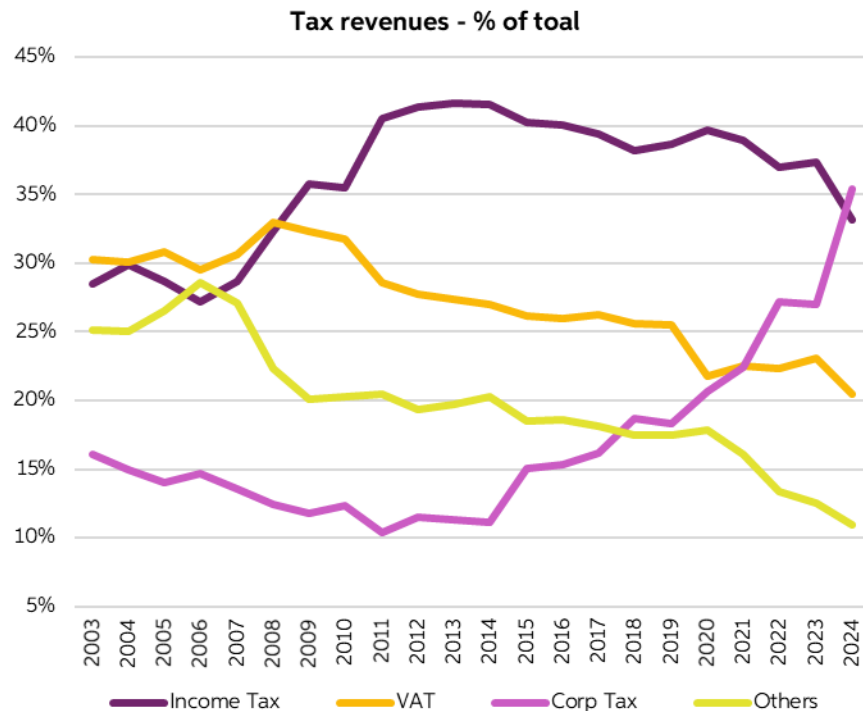
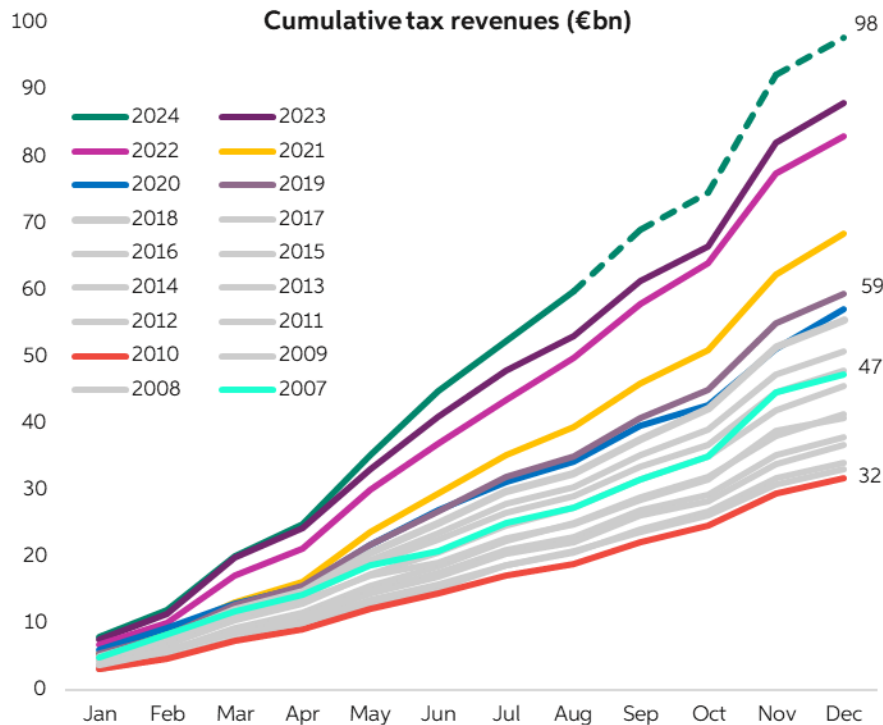


*Revenue-raising measures reflect the amount that would be raised from not indexing tax bands and credits, the carryover impacts from previous years' tax measures, and other tax increases, such as carbon tax increases.

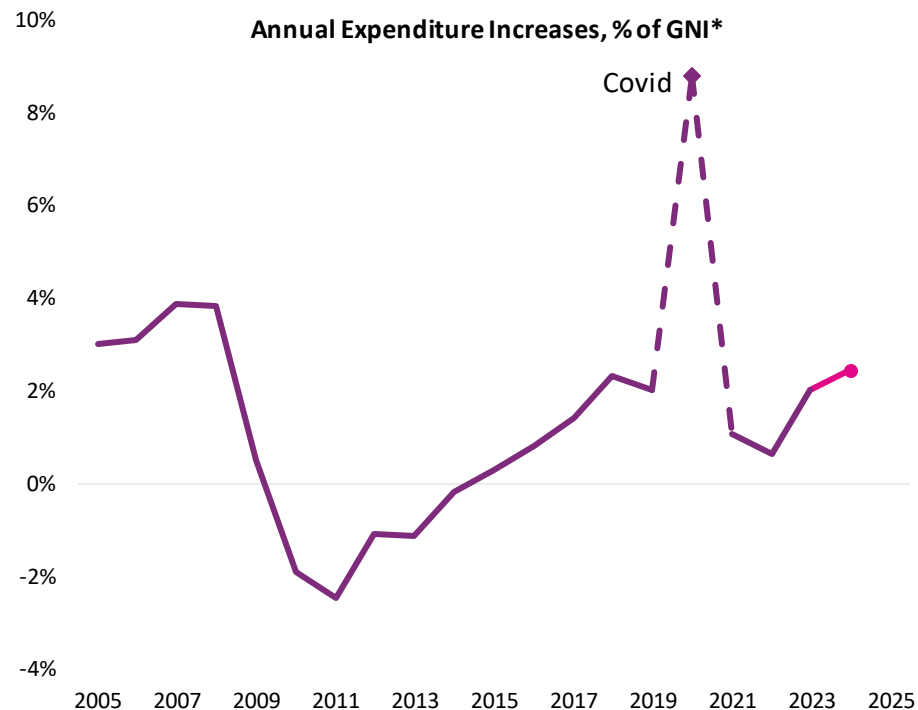
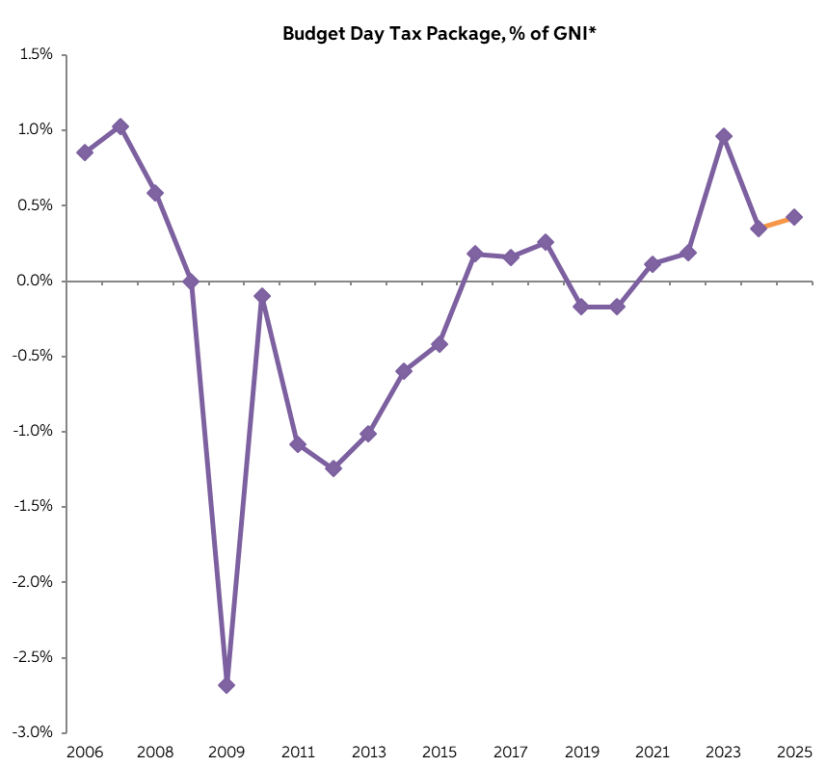
Spending has consistently overshot forecasts..



..But tax revenues have compensated



Budget decisions in a historic context



Conclusions



- Predictions of global recession in 2023 unfounded – but risks still tilted to the downside
- Inflation has peaked, interest rates starting to fall – likely to be gradual at first
- Irish economy is still growing, but at a more moderate pace
- Irish consumers remain very cautious – savings rate at high level
- Budget 2025 contains significant measures across all sectors of economy

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.