



Economy in good shape, but some major challenges lie ahead

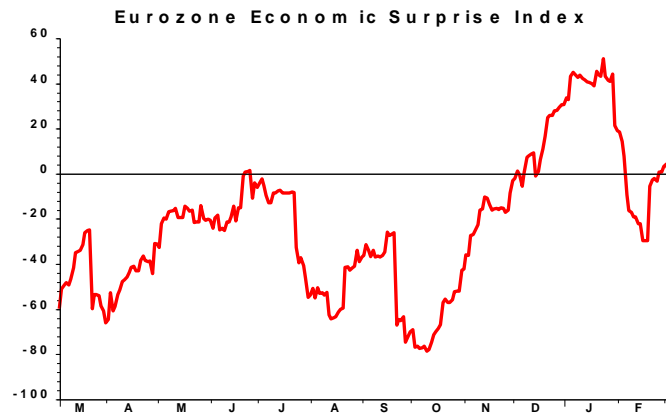
March 2020

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AIB

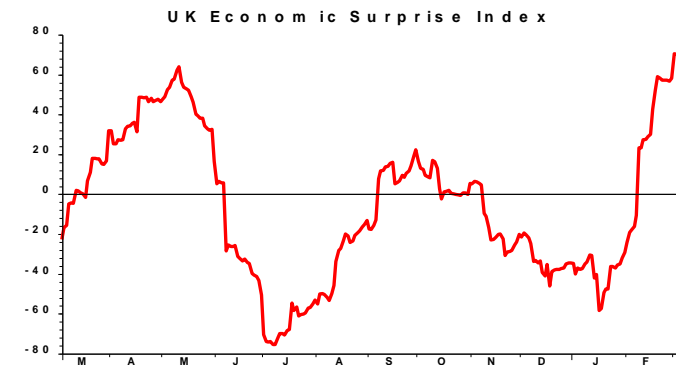
Global economy had started to regain momentum



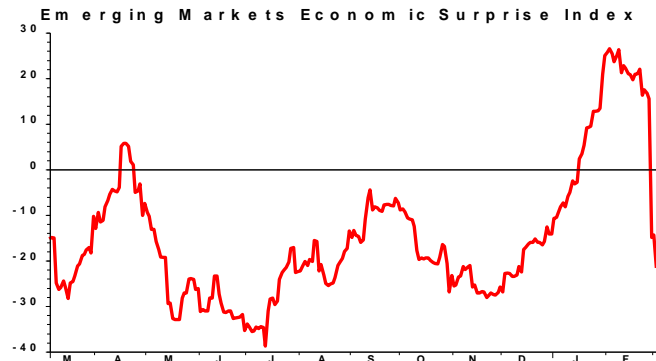
Source: Thomson Reuters Datastream



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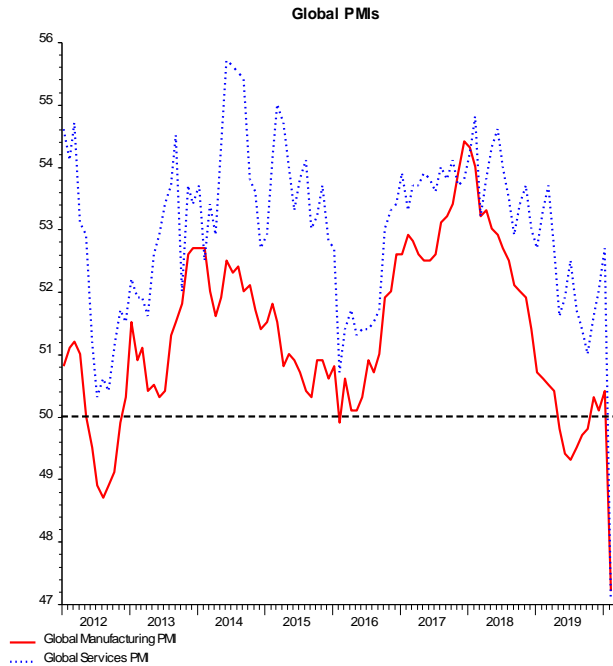


Source: Thomson Reuters Datastream

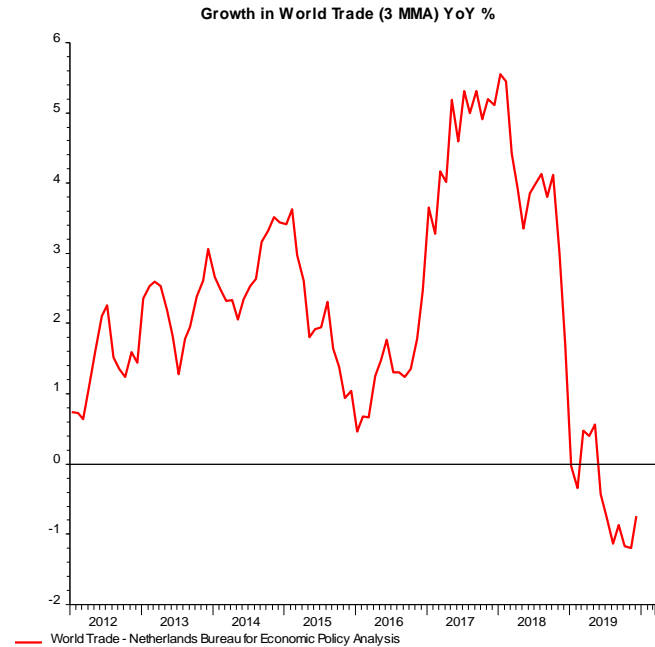


Source: Thomson Reuters Datastream

But Coronavirus sniffs out signs of recovery



Source: Thomson Reuters Datastream



Source: Thomson Reuters Datastream

2020 global growth forecasts cut sharply on COVID-19

GDP (Vol % Change)	2018	2019	2020(f)	2021(f)
World	3.6	2.9	2.4	3.3
US	2.9	2.3	1.9	2.1
Euro Area	1.9	1.2	0.8	1.2
UK	1.3	1.3	0.8	0.8
Japan	0.3	1.0	0.2	0.7
China	6.6	6.1	4.9	6.4

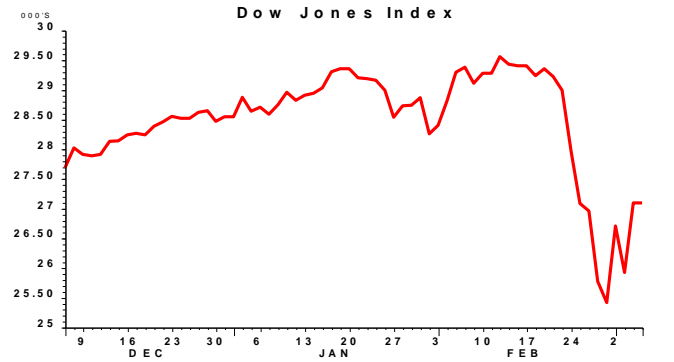
Source: OECD Interim Economic Outlook, March 2020

- Coronavirus outbreak sees OECD lower 2020 global growth forecast by 0.5% to 2.4%
- Global growth could drop to 1.5% if longer lasting, more intensive coronavirus outbreak
- Central banks start to cut rates; fiscal stimulus may also be required
- OECD growth forecast for 2021 raised in base case as activity expected to rebound

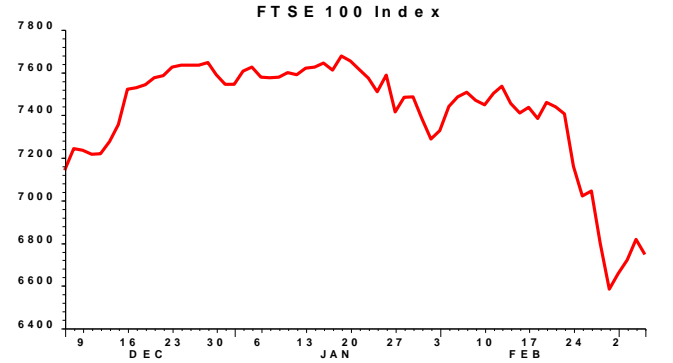
Stock markets take big hit on coronavirus concerns



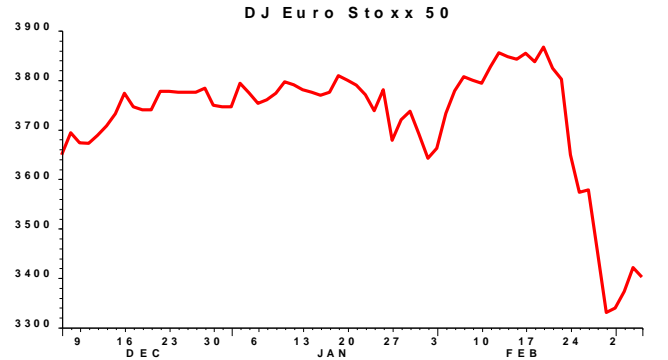
3 Month History



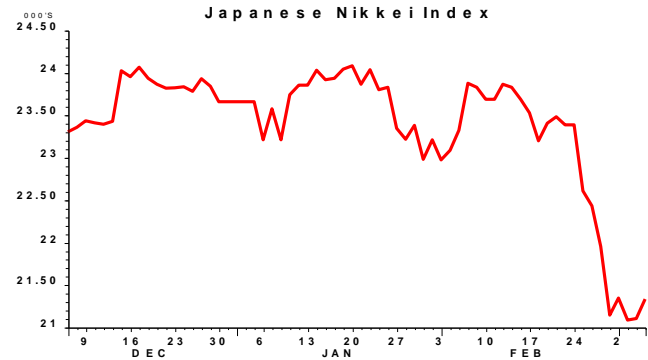
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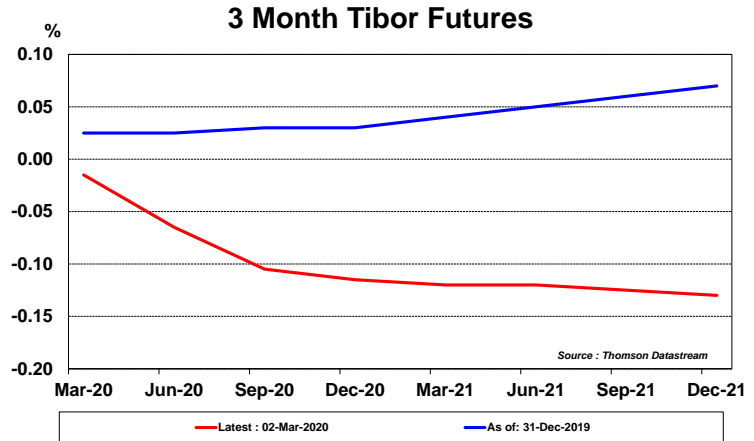
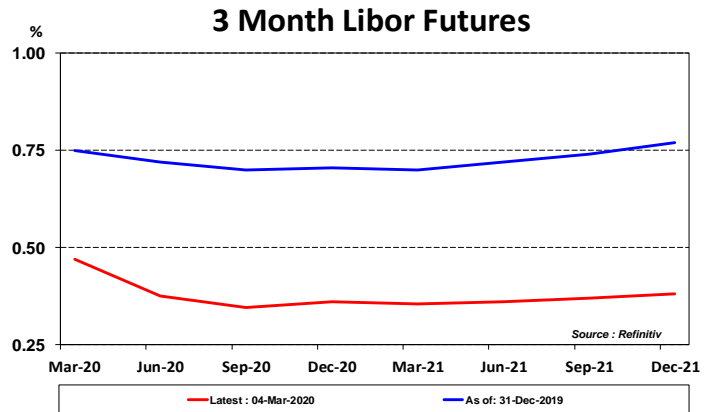
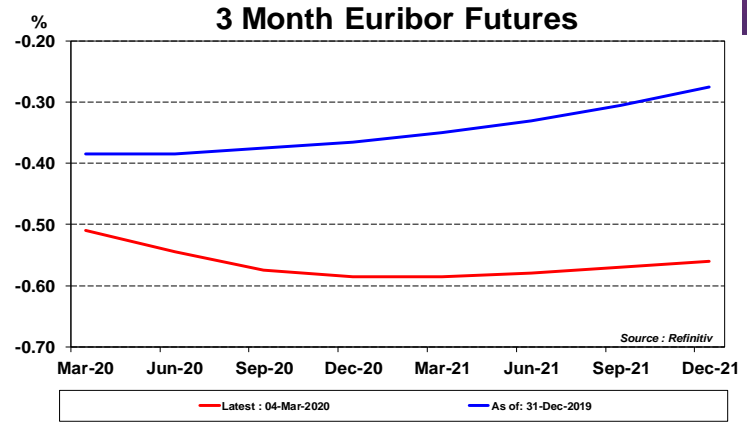
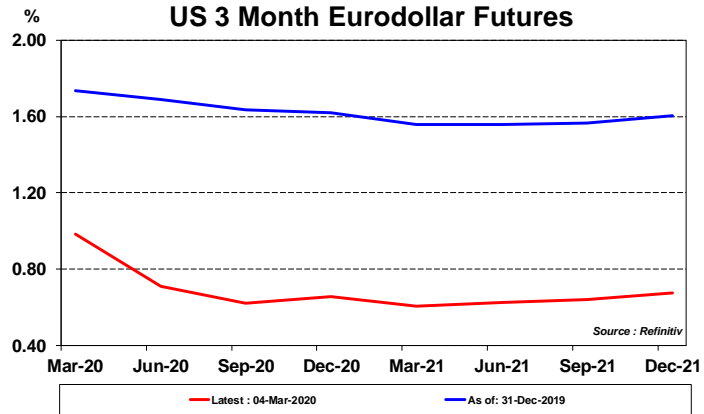
Source: Thomson Reuters Datastream

Coronavirus to hit activity in a number of ways

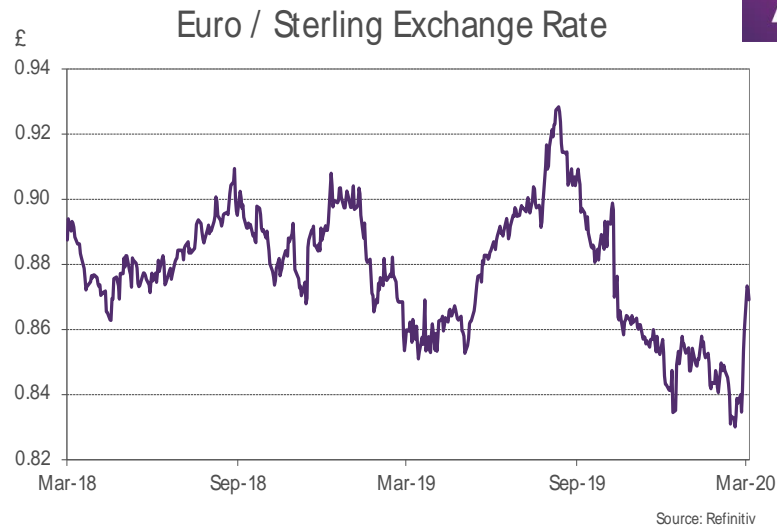
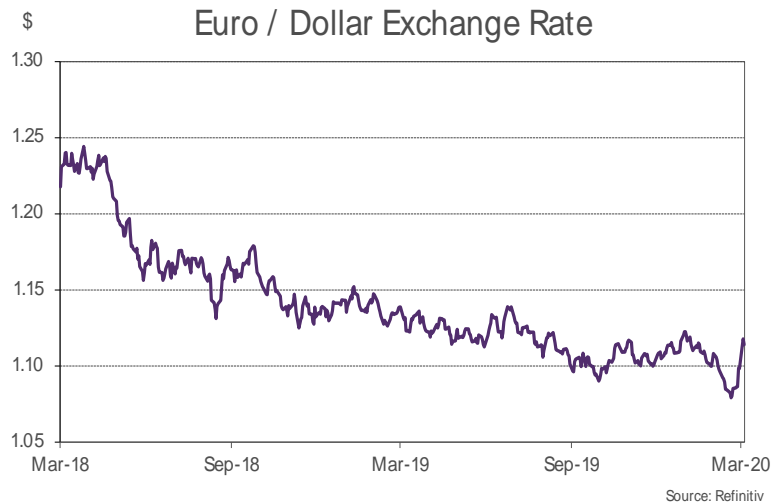


- **Tourism and travel** to take the biggest hit as restrictions imposed and people reluctant to go out/travel – tourism accounts for 5% of GDP and 7% of employment in OECD
- Falling and volatile stock markets and **tightening of financial conditions**
- **Uncertainty** and reduced cash flow sees business investment decisions postponed
- Hit to household incomes from **reduced hours and lay-offs**
- Consumer spending impacted as large **shopping centres/malls avoided**
- **Disruptions to supply chains** especially from China
- Available indicators show big decline in activity during February in China
- A **short outbreak** that lasts a few months and is contained will have modest impact
- Activity would rebound in H2 2020 in this scenario
- A **longer lasting, more extensive outbreak** could see major economies enter recession in 2020
- It will be next year before growth rebounds in these circumstances

Central banks start to cut interest rates



Dollar sheds gains, while sterling loses some ground

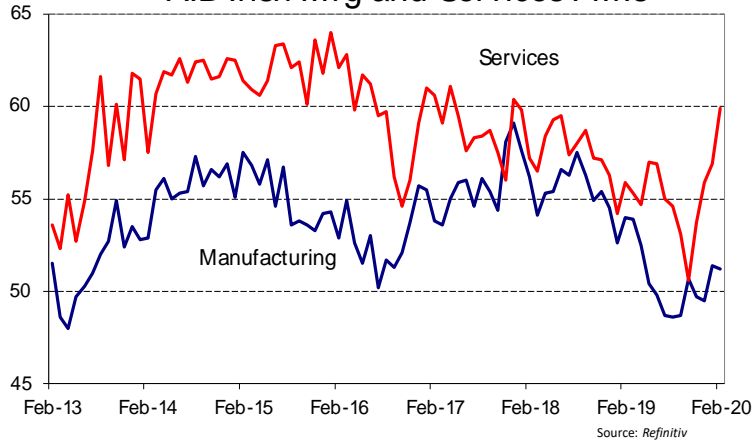


- Prospect of large US rate cuts sees dollar give up gains made in early 2020
- US currency back into the 2019 trading range of \$1.09-1.15 against the euro
- Sterling loses ground recently on concerns about EU-UK trade talks as both sides adopt tough positions
- EU/UK trade talks likely to remain key influence on sterling over the course of 2020
- EUR/GBP could revisit 90p if talks break down and go above 90p if UK opts for WTO rules

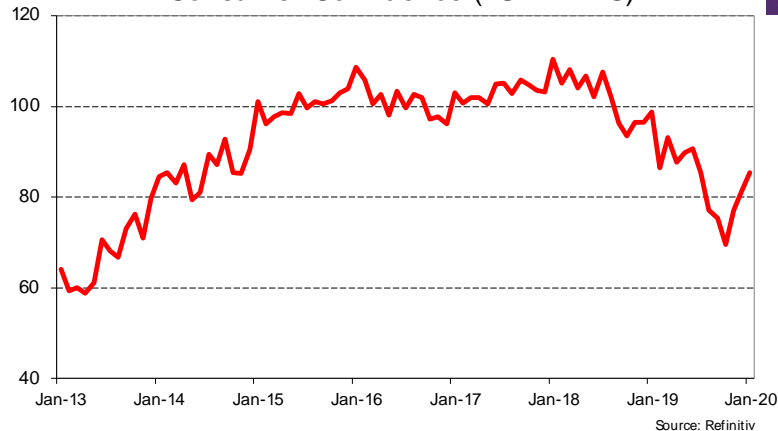
Irish economy picks up momentum at start of 2020



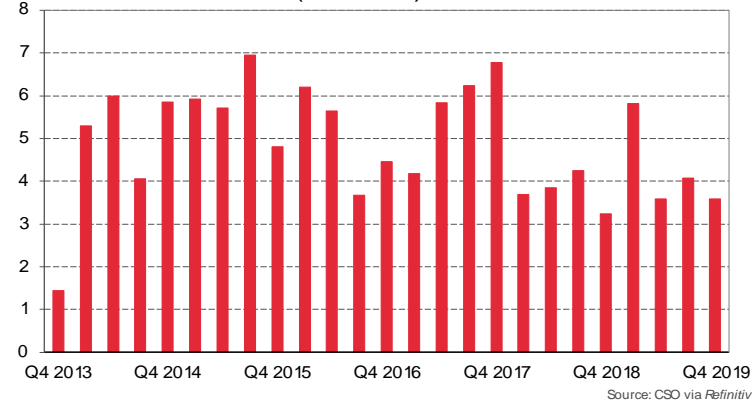
AIB Irish Mfg and Services PMIs



Consumer Confidence (ESRI - KBC)

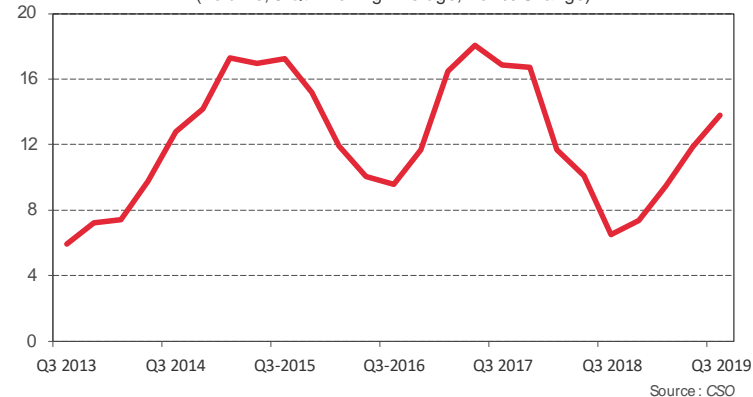


Retail Sales (ex-autos) - Volume, YoY, %



Irish Exports of Services

(Volume, 3 Qtr Moving Average, YoY% Change)



Economy in strong shape, but challenges ahead



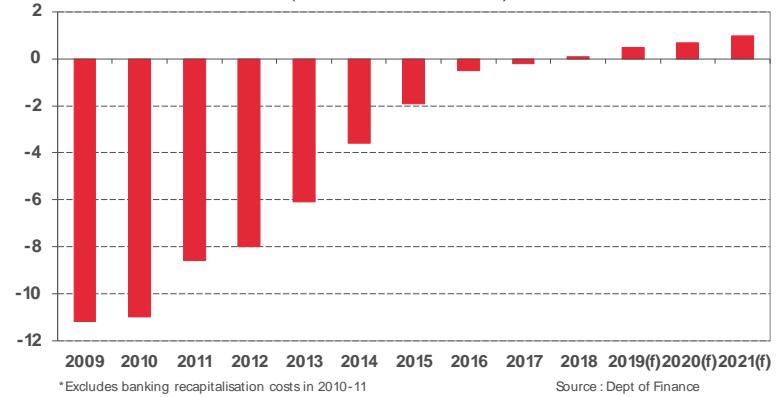
Irish Household Debt Ratio

(% of Disposable Income)

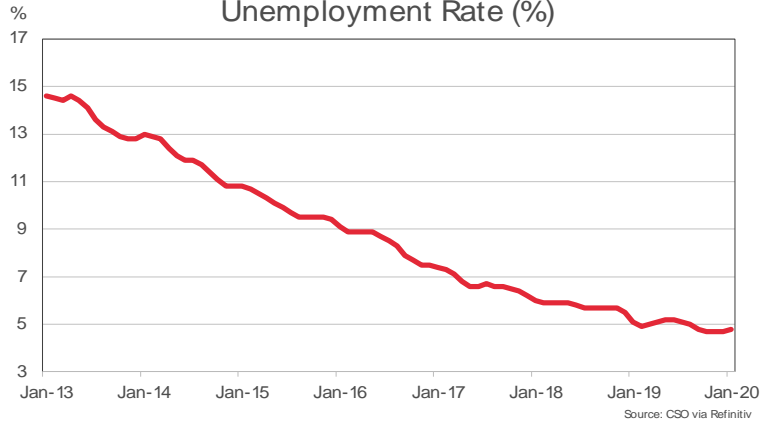


General Government Balance* (% GDP)

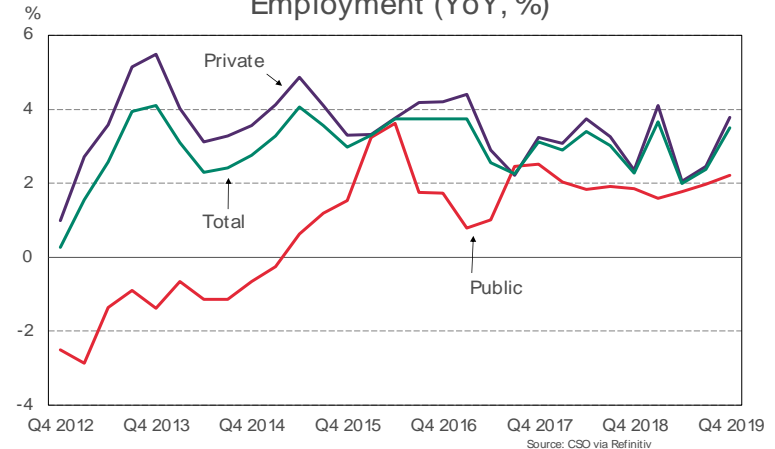
(Based on a Soft Brexit)



Unemployment Rate (%)



Employment (YoY, %)



Brexit: Difficult trade talks in store in 2020



- EU and UK agreed on revised Brexit deal at last October's Heads of State Summit
- **NI to remain within Single Market for goods and have dual EU-UK customs system**
- UK left the EU on Jan 31st 2020 in orderly exit. Transition period to last until end 2020
- **UK government rules out extending transition period** beyond this date
- Thus, EU-UK talks on future trade relationship will need to be completed by end 2020
- **Negotiations likely to prove difficult and fractious.** Challenge to be done by end 2020
- **EU insisting on level playing field,** with considerable regulatory alignment
- **UK government puts focus on 'taking back control'** and non-alignment with EU
- Much uncertainty about outcome of talks, which will determine final shape of Brexit
- UK could opt for no deal rather than have close alignment with EU rules under a FTA
- However, **some type of FTA seems likely** as it's the best outcome for both the UK and EU

Key points about any EU-UK Free Trade Agreement



- Any FTA will be much inferior to the EU Single Market, involve extra large admin costs
- Significant non-tariff barriers will come into play in a FTA– new customs procedures, compliance with onerous rules of origin requirements, more regulations etc
- Documentary evidence needed for customs clearance, proof all product made in country, compliance with regulatory standards/rules – non-tariff barriers are big costs
- Trade in agri-food products may require export health certs and could be subject to veterinary border inspections – both exports and imports
- While FTA should allow for continuing tariff-free and quota-free trade in most goods, such agreements generally do not extend to services or, indeed, fishing rights
- EU-Canadian FTA left some tariffs & quotas in place, but included some services
- A big issue is financial services – EU likely to be very wary of giving UK permanent equivalence/passporting rights. Any other equivalence regime can be altered or terminated
- No right of redress for companies via courts under FTA, unlike in the EU Single Market

Exporters and Importers will be impacted by FTA



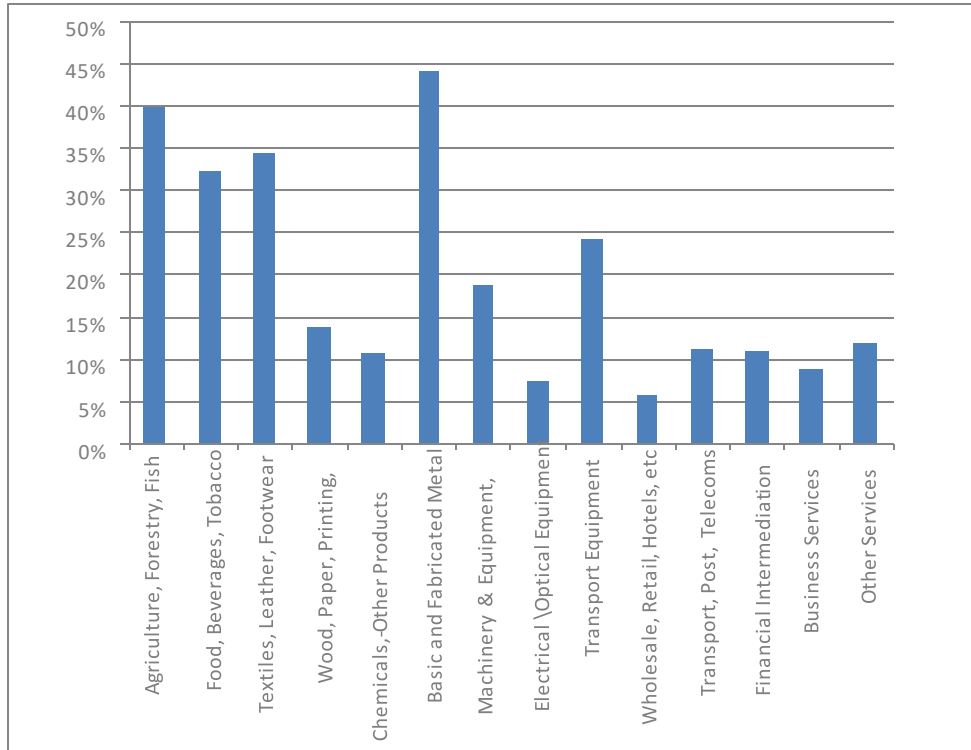
- UK outside EU Customs Union after transition period ends, so both exports and imports will need paperwork, even if tariff free trade is agreed under FTA with no Customs Duties
- Need to get **Customs Registration Numbers** in both Ireland (EORI) and the UK from Revenue
- **Customs Declaration forms** to accompany all goods – may need a **Customs Clearance Agent**
- **Deferred Payment Bank Account** may be required by Revenue to cover any Duties/VAT
- Trade in some agri-food products likely to require **additional veterinary checks and certs**
- Compliance with onerous **rules of origin** may be required for some goods
- The UK suppliers and customers of businesses will also need to have new paperwork in place
- **Land bridge route** via Great Britain to mainland Europe will also be impacted
- Need **transit documentation** and possibly sealed containers, with delays likely at ports
- Additional **working capital** may be needed if cash flow impacted by trade frictions

Food sector vulnerable as most dependent on UK market



- Food and Beverages account for 25% of Irish exports to UK
- Around 40% of Irish food exports go to the UK – key market for beef and cheese
- Main EU tariffs relate to food products, keeping prices high. UK may do new trade deals to cut tariffs on food imports
- Other sectors very dependent on UK market include machinery and transport, metal products, textiles
- Even with FTA, there will be new admin trading costs for those exporting & importing with UK –customs clearance docs, rules of origin etc

Share of Exports by Industry Destined for the UK (ESRI)



FTA expected to lower growth rate of Irish economy



- **Multiple hits to the Irish economy if there is a no EU-UK Trade deal** at end of transition period: further sharp fall in sterling, likely recession in UK, disruption to trade/supply lines, tariffs, new administration and regulatory costs etc
 - Sharp fall-off in trade with UK likely if there is no trade deal, with the **shock front loaded** - around half of the impact on trade would take place in the first two years, per ESRI
 - Central Bank estimate GDP would be 5% lower if the UK moves to WTO rules at end of transition period. ESRI also put impact of no-deal hard Brexit at circa 5%
 - Economy would be impacted over time by **UK move to FTA** as this would result in new significant non-tariff barriers, imposing costs and making trade more difficult with UK
 - **Central Bank** estimate Irish **GDP would be 3.5% lower in long term under a FTA**
- **Copenhagen Economics** have examined various Brexit scenarios
 - Estimate impact by 2030 is to **reduce Irish GDP** by 2.8% under a EEA scenario, **by 4.3% in a standard FTA, but 3.5% in enhanced FTA** with closer regulatory alignment
 - CE estimate GDP would be 7% lower in a WTO (no trade deal) scenario



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.