S4. Macro-fiscal risks

This section outlines the major risks envisaged for the Government's official economic and budgetary forecasts. The risks shown are primarily those noted in *SPU 2021*, but with additional risks identified by the Council.

Macro Risks Matrix

Likelihoods and impacts are as assessed by the Council

Likelihood	Impact	
High	High	**Less scarring effects**: there is a high likelihood of less scarring than the SPU assumption of 5 per cent over the medium term, as discussed in Section 1.3.
Medium	High	Larger spending rebound: as discussed in Box A, the likelihood of a high-impact spending rebound over the short-term is significant.
Medium	High	**Lower FDI** due to international tax reform: a slowdown or partial reversal of foreign direct investment in Ireland over the medium term could occur due to international corporation tax reform; given the importance of FDI for the Irish economy, this could have significantly negative implications for high-skill job creation in Ireland.
Medium	High	**Brexit** 'after-effects': although a free-trade agreement has been reached rather than a disorderly Brexit as feared in recent years, it is possible that the assumed impact of Brexit on the Irish economy will prove more severe than assumed.
Medium	Medium	**Stronger output from MNCs**: the main benefits to the Irish economy of MNCs include wages paid to employees, corporation taxes paid to the Exchequer, and spillover employment to domestic firms; however, the relevance of stronger output from MNCs to the Irish economy — which resulted in GDP growth in 2020 alongside a contraction in underlying domestic demand — should not be overstated.
Medium	Low	**Inflation** shock: higher inflation could slow the recovery somewhat, although it is also possible that higher inflation would prove temporary; furthermore, the substantial savings of Irish households accumulated over the past year (as discussed in Box A) could mean a limited impact of higher inflation on consumer spending, given many consumers are likely to be willing to pay higher prices for goods and services that have been unavailable for extended periods of time.
Low	High	**Financial sector** amplification: spillovers to the financial sector due to an increase in non-performing business loans could cause a negative feedback loop between the financial sector and the real economy; however, the likelihood of this could be remote given Ireland's very high modified current account surplus going into (and seemingly maintained despite) the pandemic.
Low	High	**De-globalisation**: the pandemic could result in more permanent shifts away from trade and globalisation, exacerbating previous trade tensions and trends, with adverse implications for a small, open economy such as Ireland.
Low	High	**Premature policy withdrawal**: it appears to be a low likelihood that policy supports will be withdrawn prematurely, however if this were to occur, the impact on households and firms would be very significant.
Low	High	**Larger-than-expected scarring**: as discussed in Section 1, there are a number of reasons to expect that scarring will be lower than assumed in *SPU 2021*, nonetheless in the event of greater scarring than expected for the Irish economy, this would be a high impact given the permanently lower path for output it would imply.
Not quantified	High	**Vaccine-resistant variants**: the impact of further restrictions due to the pandemic would be very high, although it is significant that the economy has performed relatively well in Q1 2021 compared to Q2 2020 when the worst effects of the first lockdown were in place — helped of course by the pandemic policy supports put in place by the Government.
Not quantified	Medium	**Delayed vaccine rollout**: despite some delay in vaccine rollouts as noted in Section 1.2, the economy has nonetheless commenced re-opening in May 2021, sooner than expected in *SPU 2021*; as above, the capacity of the economy to navigate the latest lockdown suggests the impact of a delayed vaccine rollout would not necessarily be high at a macroeconomic level.

Sources: Department of Finance (*SPU 2021*); and Fiscal Council assessments.

Fiscal Risks Matrix

Likelihoods and impacts are as assessed by the Council

Likelihood	Impact	
High	High	**Pandemic related costs**. The extension of support programmes this year and into next is highly likely. The costs to spending and revenue of possible further waves would be large but likelihood is not assessed.
High	High	**Health overruns**. Beyond the immediate pressures of the pandemic, spending pressures in the health area remain a significant risk. Sláintecare reforms could also add significant costs. This risk is added by the Council.
High	Medium	**Corporation tax**. Adverse impacts of a changing international environment could be substantial (Box E). However, *SPU 2021* forecasts already incorporate a significant impact. As a result, a medium impact may be more appropriate over the forecast horizon considered. There is high uncertainty about the outcomes in this area.
High	Medium	**Other spending pressures/overruns**. Some obvious spending pressures have not been budgeted for 2021 and beyond such as the Christmas bonus and the full Stand-Still costs of maintaining core public supports. This risk is added by the Council.
High	Medium	**Climate change and renewable energy targets**. *SPU 2021* says "While Ireland's 2030 climate change and renewable energy targets are to be determined, they are likely to be ambitious and failure to comply would have financial costs". The Council assesses this risk to be medium impact.
Medium	Medium	**Population ageing**. There is a risk that the costs of ageing could be larger than allowed for under *SPU 2021* forecasts. Stand-Still costs in the coming years are significant, partially due to population ageing.
Medium	Medium	**Contingent liabilities**. Significant loans and guarantees to support sectors during the pandemic. Losses could arise if firms are unable to repay. The Council assesses this risk to be medium likelihood.
Medium	Low	**EU Budget contributions**. Stronger than assumed national income growth (relative to other EU countries) could lead to larger EU budget contributions. The Council assesses this risk to be low impact.
Low	Medium	**Litigation risk**. Any unexpected litigation against the state could lead to additional expenditure. The Council assesses this risk to be low likelihood?
Low	Low	**Borrowing costs**. Borrowing conditions have been favourable in recent times. Were conditions to reverse, that would have implications for Irish borrowing costs, particularly given the high debt levels. However, given the low gross financing needs in the coming years, the Council assesses this risk to be low impact.
Low	Low	**Dividend payments**. Lower-than-expected dividend returns from the States shareholdings in financial institutions and semi state bodies. The Council assesses this to be low impact.

Sources: Department of Finance (*SPU 2021*); and Fiscal Council assessments.