S3. 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 *Budget 2022*, but with additional risks identified by the Council.

Macro Risks Matrix

Likelihoods and impacts are as assessed by the Council

Likelihood	Impact	
Medium	High	**Less scarring effects**: the Council has previously noted that official estimates of scarring over the medium term were too high, and *Budget 2022* has scaled these back. While risks are broadly balanced, potentially permanent productivity gains over the medium term due to the pandemic could result in further upside to official forecasts.
Medium	High	**Larger consumer spending rebound**: 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': it is possible that renewed frictions between the EU and the UK will harm growth prospects, and/or the assumed impact of Brexit on the Irish economy will prove more severe than assumed.
Medium	Medium	**Higher investment**: the potential for a greater response in terms of housing supply, or due to successful delivery of the National Development Plan, could provide a boost to economic activity in excess of official estimates; see Conroy, Casey, and Jordan-Doak (2021).
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.
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	**Stagflation**: if aggregate demand remains greater than aggregate supply for a sustained period, it is possible that higher inflation will prove more prolonged, with potential implications for slower economic growth. However, in light of how rapid the economic recovery has been — for example, the nearly complete return to pre-pandemic trend levels of consumer spending as indicated by HICP-deflated monthly spending on debit/credit cards plus ATM withdrawals — the use of "stagnation" is so far not applicable to the recent performance of the Irish economy.
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.
Not quantified	High	**Vaccine-resistant variants**: the impact of further restrictions due to the pandemic would be very high.

Sources: Department of Finance (*Budget 2022*); and Fiscal Council assessments.

Fiscal Risks Matrix

Likelihoods and impacts are as assessed by the Council

Likelihood	Impact	
Not Quantified	High	**Pandemic related costs**. The reintroduction of public health restrictions would significant economic and fiscal implications. More generally, if some temporary schemes were to be extended rather than ended/tapered, that would lead to higher expenditure. *Budget 2022* does not specify a likelihood.
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: policy change**. Adverse impacts of a changing international environment could be substantial. However, *Budget 2022* forecasts already incorporate a significant impact (€2 billion). Budget 2022 forecasts do not incorporate any additional revenue from introducing a higher rate of CT (15 per cent) on firms with a global turnover in excess of €750 million. 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.
Low	Medium	**Corporation tax: concentration risk:** As has been previously documented**,** corporation tax revenue is concentrated amongst a small number of payers. Firm specific factors (or factors that impact on a number of these firms) could have a significant impact on corporation tax receipts.
High	Medium	**Other spending pressures/overruns**. Some obvious spending pressures have not been budgeted for. The Christmas Bonus has not been budgeted for beyond this year (2021 cost was €313 million). More generally, spending growth outlined in *Budget 2022* is only just above that required to maintain existing service levels. This risk is added by the Council.
High	Medium	**Climate change and renewable energy targets**. *Budget 2022* says "climate policy and the corresponding actions needed to reduce emissions by 50 per cent by 2030 and transition to net-zero by 2050 will have macroeconomic and fiscal implications". The Council assesses this risk to be medium impact.
High	Medium	**Population ageing**. There is a risk that the costs of ageing could be larger than allowed for under *Budget 2022* forecasts. Stand-Still costs in the coming years are significant, partially due to population ageing.
Medium	Medium	**Cost overruns in capital projects.** Large capital projects in Ireland have a history of significant cost overruns. Given the large increase in capital spending forecast in *Budget 2022*, there is a risk that capital projects exceed their projected cost. This risk is added by the Council.
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	Medium	**Litigation or one-off measures**. Any unexpected litigation against the state could lead to additional expenditure. Redress schemes, while inherently one-off in nature could have significant costs (Mica homes redress and mother and baby homes survivors scheme).
Medium	Low	**EU Budget contributions**. Stronger than assumed national income growth (relative to other EU countries) could lead to larger EU budget contributions.
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 (*Budget 2022*); and Fiscal Council assessments.