Roinn an Taoisigh
Department of the Taoiseach

Draft National Risk Assessment 2015: Overview of Strategic Risks

Government Buildings
Upper Merrion Street
Dublin 2
Email: nra@taoiseach.gov.ie

Foreword for the Draft National Risk Assessment 2015

When this Government assumed office in 2011, we faced the challenge of correcting the catastrophic mistakes of the recent boom and bust.

Together with the Irish people, we have managed to create new jobs, stabilise the public finances and restore our international reputation. And we will build on these achievements as we spread economic recovery to all parts of Ireland

This Government also has a duty to ensure that there is no going back, that the ill fortunes which Ireland has experienced never re-occur.

This draft National Risk Assessment 2015 is one way to help understand the risks, both financial and non-financial, which Ireland faces and therefore ensure appropriate mitigation measures are introduced.

It builds on a process initiated last year and is candid about some of the profound changes occurring since then. Some of these include the introduction of the ECB's Quantitative Easing programme; Britain's future in Europe; the presence of Islamic State; and changes in the Irish property market.

By being open about these kinds of changes and their implications for Ireland, it is hoped that we can have a mature debate about the challenges we face as a nation and how these should be addressed.

Given the pace at which events happen and the complexities involved, Government cannot pretend to have a monopoly of wisdom. That is why we are inviting people to respond to the draft to help us refine the approach, while we will also be developing the methodology further in light of best international experience.

Efforts to make Ireland more resilient and successful will only succeed if our approach to the future is as inclusive as possible and I encourage everyone to engage with and respond to this process.

Enda Kenny T.D.
Taoiseach

Public Consultation on

Draft National Risk Assessment 2015: Overview of Strategic Risks

Introduction

In September 2013, the Government announced that, as part of its process of Dáil reform, it would publish annually a National Risk Assessment (NRA) for debate in the Dáil alongside a number of other documents.[1]

The objective is to identify strategic risks that may arise due to potential changes in the economic, financial, geo-political and social environments. Importantly, the NRA aims to stimulate and facilitate debate on these broader risks to future national well-being. As such it can be seen as part of the response to failures in the past to identify and address risks beyond a short time horizon. The Department of the Taoiseach's Strategy Statement 2015-17 commits to engaging with 'stakeholders about strategic risks, facing the country' and publishing 'an updated National Risk Assessment each year'.

This exercise is not intended to replicate or displace the detailed work that is already conducted within many Government Departments and Agencies, including through the Office of Emergency Planning (OEP), on risk assessment and mitigation. Rather it aims to provide a high level overview of strategic risks with a system-wide and medium to long-term focus.

In 2014, the Department of the Taoiseach collaborated with other Departments to produce a preliminary analysis of various high-level risks that Ireland might face and this was published as the Draft National Risk Assessment 2014 for public consultation. Following this process, a final version of the NRA was published in the October 2014, listing 24 distinct

[1] These include the Stability Programme Update and National Reform Programme which are presented to the EU Commission in April, the Spring Economic Statement produced by the Department of Finance and a National Progress Report published by the Central Statistics Office.

risks across five different categories: economic, environmental, geo-political, social and technological.[2]

This year a similar process has been undertaken. Following collaborative work between Government Departments, the preliminary findings were presented and discussed at an Open Policy Debate in March hosted by the Department of the Taoiseach. The event was attended by a cross-section of public servants and representatives from civil society, the business community and academics. This draft has incorporated some of the insights arising from the seminar. It is now being published for public consultation in order to stimulate a broader conversation about the risks that Ireland faces and how they can best be addressed.

Any comments and responses to the questions posed on page 31 below, should be sent to nra@taoiseach.gov.ie by 19th June.

Changes since 2014

The National Risk Assessment 2014 was a snapshot of potential risks facing Ireland at a point in time. Seven months have passed since it was published and the national and international contexts have changed since then.

The Irish economy has continued its recovery. The Central Statistics Office has recently estimated that GDP increased by 4.8% for the year 2014. For the third successive year, GNP showed an increased over the previous year, at a rate of 5.2% in 2014 over 2013. The unemployment rate in March 2015 stood at 10%, down from a high of 15.1% in February 2012.

The improving performance of the economy has had a positive effect on the Exchequer figures in 2014. Approximately €41.3bn was collected in taxes, which was €1.24bn ahead of target. Both income tax and VAT receipts were up, reflecting increased levels of employment and consumption. But higher than expected revenue streams also generate

[2] This categorisation is derived from the various iterations of the World Economic Forum's *Global Risk Report* which can be found at *http://www.weforum.org/reports?filter[type]=Risks%20Reports*

new expectations for public spending at a time when ongoing fiscal restraint is still necessary to bring down elevated debt levels.

Another significant domestic issue pertains to housing. When the 2014 National Risk Assessment was published, low levels of housing supply was identified as an issue that could lead to price increases with severe social consequences. The situation since then has partly improved as the rise in house prices moderated in the last quarter of 2014 and the rent increases were smaller than the previous year.[3] But there is still a substantial supply problem and this continues to make home ownership more difficult and also may drive up rents and increase homelessness.

Internationally, there have been significant developments both within and outside the euro-zone. In January 2015, the European Central Bank announced that it would launch, from March 2015, an expanded asset purchase programme with combined monthly purchases amounting to €60bn. Generally known as 'Quantitative Easing' or QE, this programme involves buying assets, typically Government bonds, from banks or other financial institutions such as pension funds. The Federal Reserve of America and the Bank of England embarked on similar programmes in 2008/2009. These programmes have now ended although interest rates continue to be low in both economies.

Geo-politically, there have been important changes such as the election of the Syriza-led government in Greece and the subsequent negotiations on Greece's public finances and its economic reform programme which have yet to be concluded. Other significant issues include the consequences of a possible UK referendum on EU membership, which could have significant repercussions both for Ireland in particular and for the European Union in general. Greater geo-political uncertainty has been introduced by ongoing conflict between Ukrainian government forces and Russian-aligned separatists, despite the ceasefire agreement reached in February 2015. And the rise of Islamic State in the Middle East has added to the high level of volatility in the region, with spill-over effects on migration across the Mediterranean as well as heightening the possibility of terrorist incidents perpetrated by radicalised EU citizens.

[3] Daft.ie (2015) *The Daft.ie Rental Report: An Analysis of Recent Trends in the Rental Market*. 2014 was the first time since 2009 that year-on-year inflation in rents had eased.

There are of course many other trends, some of a more gradual nature, which affect an assessment of risks facing the country.

Reflecting these developments, this preliminary analysis of potential risks for 2015 has suggested some possible additions and changes. These include:

- a new risk relating to the *Impact of Quantitative Easing*
- a stand-alone risk on *Misalignments in the property market*
- a greater focus on the *consequences of a possible UK referendum on EU membership*
- a new risk relating to social *expectations of greater public expenditure.*

The draft list of risks is given below, following which the significance of each risk is briefly elaborated.

Figure 1: Potential Risks for Ireland

Economic Risks

1. Uncertainties about impact of Quantitative Easing

Inflation in the euro area has been below levels consistent with price stability[4] for some time and, in fact, became negative last December and remained negative in January and February. The fall in inflation, combined with the fact that inflationary expectations have begun to drift downwards, pose a risk to price stability.

As a result, and with interest rates effectively at 0%, the European Central Bank, on 9 March, launched an expanded asset purchase programme, also known as Quantitative Easing (QE), to include bonds issued by euro area central governments, agencies and European institutions. Under this expanded programme, the combined monthly purchases of public and private sector debt securities will amount to €60bn. These monthly purchases are intended to be carried out from March 2015 until end-September 2016 and will be conducted until inflation moves onto a path consistent with price stability. QE is intended to stimulate the economy through a number of channels, principally through improved financing conditions for households and firms. In addition, the euro area is Ireland's single largest export destination; therefore, supporting real economic activity and raising inflation in the euro area will underpin the growth of Irish exports. Other benefits of the ECB monetary policy can be felt through the exchange rate channel - the depreciation of the euro will provide a further boost to Irish exports to non euro area countries.

It is hoped that financial institutions will have a greater incentive to lend to the private sector, households and companies by exchanging assets for cash. However, concerns have been expressed in relation to (i) the uncertainties around the impact of QE and its termination (if inflation returns to its target earlier than expected), (ii) the possibility that QE may lead to an increased risk of asset price bubbles, mistaken risk assessment and misdirected investment, and (iii) there is also the risk that with interest-rates close to zero, the ECB's QE programme may not achieve its goal to increase inflation to close to but below 2% and stimulate additional economic growth in the euro area.

[4] This is defined as below but close to 2% on an ongoing basis.

These risks must be considered alongside the impact of pre-existing QE programmes in the US and the UK, which started in 2008/09 and have already had a significant impact on global financial markets and alongside the uncertainties associated with the tapering off of these programmes.

2. Re-emergence of the Euro-area sovereign debt crisis

Since Autumn 2014, financial market sentiment towards Ireland has continued to remain positive (reflecting the progress achieved on fiscal, banking and structural reform) with a continued re-pricing of Irish Sovereign bonds towards a semi-core, lower yield market. However, as recent history has demonstrated, these favourable conditions can rapidly unwind if risks are not actively monitored and mitigants put in place.

Turbulence in the euro area could raise doubts about the long-term durability of Economic and Monetary Union and hence spark a re-assessment of sovereign risk for Ireland and other euro area Member States. The most obvious source of turbulence is the uncertainties caused by ongoing negotiations between the Greek Government and creditor institutions, the outcome of which and the impact on the rest of the Euro-zone remain very uncertain.

Other events which could result in a re-assessment of sovereign risk include risks of low growth or bank losses in the euro area that might necessitate further recapitalisation of the domestic banking sector. Changes in market sentiment towards Ireland could impact investor confidence and, possibly, the credit ratings of the State. Such developments could have an effect on the availability and price of market-based funding.

Access to credit in the financial markets is critical for the continuation of economic growth and recovery in Ireland. Ireland's market access is robust and on highly favourable terms (currently long-term sovereign Irish bond yields are trading below 1%), reflecting Ireland's improved economic outlook and euro area developments.

3. Weak Economic Growth and Public Debt Sustainability

Ireland's economic performance is dependent on external demand given the openness of the economy to trade. At present, risks to global growth are more broadly balanced, though still tilted to the downside. Any turbulence in world events which leads to lower-than-expected growth in trading partners could weaken Irish growth through the trade channel. Upside risks relate to lower oil prices, the depreciation in the euro , the EU Investment Plan and quantitative easing, while downside risks relate to geo-political risks, volatility in financial markets, and risks of stagnation and low inflation in advanced economies.

A negative growth surprise could endanger the attainment of medium-term fiscal targets, both through lower tax revenue and greater pressures on public expenditure.[5]

General Government debt remains very high in Ireland but has started to decline as a percentage of National Income. Gross General Government Debt is estimated to have fallen to 110.8% of GDP in 2014, down from 123.3% of GDP a year before. The Department of Finance estimates that Ireland's gross debt ratio will drop below 100% of GDP in the coming years, but this is still a very elevated level.

The sustainability of future debt is vulnerable to macro-shocks. The European Commission has estimated that a negative shock to nominal GDP growth of 0.5 percentage points would increase the public debt to-GDP ratio to about 114% by 2025 under the no-policy-change assumption. By contrast, the sensitivity of Government debt to a rise in interest rates on new borrowing is estimated to be low, given low future refinancing needs.[6]

4. Loss of Competitiveness

Ireland's national competitiveness refers to the ability of enterprises in Ireland to compete in international markets. It is a broad concept encompassing components of business performance such as productivity, regulation of public utilities, prices, costs and labour supply. As a small regional economy in a single currency zone, Ireland is vulnerable to losses

[5] *Ireland: Staff Report,* IMF Country Report No. 15/77

[6] European Commission (2015) *Country Report Ireland 2015 Including an In-Depth Review on the prevention and correction of macroeconomic imbalances.*

of competitiveness through wage and/or productivity developments that are out of line with those in the euro-area and beyond.

In recent years, Ireland has produced improvement in competiveness.[7] This has been driven by factors including relative improvements in labour costs, reductions in property costs, more extensive use of technology and falling prices across a range of professional and business services. The more recent depreciation of the euro has also supported competitiveness gains.

However recent analysis from the National Competiveness Council (NCC) indicates that Ireland has begun to slip in terms of cost competitiveness and that the absence of continued action on a number of fronts will put progress at risk.8 The NCC has called for further actions in the following areas: (1) minimise costs within domestic control, particularly in relation to the cost of labour, property and energy;9 (2) restoring balance to the public finances; (3) developing Ireland's skills base; (4) establishing a broader enterprise base; (5) increase the supply of credit, particularly to SMEs; (6) rebuilding public trust in the capability of private and public bodies to adhere to the highest standards.10

5. Vulnerabilities in the banking system & Private Debt Sustainability

The Irish banking system is now in a much stronger position with the banks continuing to make significant progress in restoring financial health and benefitting from the recent improvement in the macro-economic environment. Both Allied Irish Banks and Bank of Ireland reported a strong return to profitability in full year 2014 on the back of improving interest margins and reduced levels of impairments. In addition, the loss reported by Permanent TSB (PTSB) for 2014 was significantly lower than in 2013. PTSB has recently announced that it will raise €525m of capital from private investors and the Government has sold 25% of its shares in the bank to satisfy market requirements. Overall, the results of

[7] European Commission (2014) *Macro-Economic Imbalances Ireland 2014*. European Economy Occasional Papers 181. Brussels, sec. 3.4.

[8] National Competitiveness Council (2014) *Ireland's Competiveness Scorecard 2014*. Dublin: Forfas.

[9] The NCC's publication of April 2015, *Costs of Doing Business in Ireland 2015,* adds the issues of transport costs arising mainly from the price of fuel and credit/financial costs arising from higher than average interest rates as challenges that need to be addressed.

[10] National Competitiveness Council (2014) *Ireland's Competiveness Challenge 2014.* Dublin: Forfas

the recent European Central Bank Comprehensive Assessment confirm the progress made by the Irish banking system.

However, the level of non-performing loans remained high at the end of 2014. Ireland's household debt is the second highest in the euro area, below only the Netherlands. Household debt in Ireland hit a peak in 2008 and since then has fallen by about 20% to about €170bn. Any decline in disposable income from poor economic growth could impact debt-servicing capacity. Corporate debt was at its highest in 2012 and since then has declined by just over 10% to €345bn. Small and medium enterprises (SME) have been particularly affected with about a quarter of all SME loans in default.[11] SMEs also face the prospect of higher interest rates than the euro area average, [12] which is indicative of a more general problem faced by banks customers and is exacerbated by the concentrated nature of the Irish banking market.

Each of the banks made progress in 2014 in dealing with non-performing loans. Across the banks, total non-performing loans reduced year-on-year by approximately 20% (€10bn). Unresolved high levels of non-performing loans (domestic and commercial) can reduce banks' ability to lend, prolong borrowers' difficulties and raise concerns about the ability of the State to sell financial institutions in public ownership

A particular area of concern is the increase in the number of long-term mortgage arrears cases as accounts in arrears greater than 720 days have continued to rise, albeit at a slower pace in the last two quarters of 2014. As with all mortgage arrears cases, the banks continue to explore options to facilitate the agreement of a suitable and sustainable solution with their customers to address this issue. Notwithstanding this, the resolution of long-term arrears will be challenging for the banks.

[11] Data source: Central Bank SME Market Report 2014 H2.

[12] European Commission (2014) *Macro-Economic Imbalances Ireland 2014*. European Economy Occasional Papers 181. Brussels, sec. 3.2. The Central Bank has maintained that the 'banks are increasing margins on new loans by maintaining lending rates despite reduced funding costs' (Quarterly Bulletin 02/April 15, p.31).

6. Importance of Multinational corporations to Irish economy and risk of unfavourable international tax changes

Ireland's economy and employment are heavily dependent on a relatively small number of multinational corporations concentrated in a small number of enterprise sectors. In terms of gross income from operating activities or Gross Value Added (GVA), foreign-owned enterprises generated almost €51bn or 58.4% of the €87.1bn in total GVA in 2012.[13] They also dominate the export sales market, accounting for 90% of it in 2012 with a major presence in such areas as chemicals, medical services and I.T. [14]

Whilst this reflects the success of Ireland's enterprise policy in attracting foreign direct investment in these sectors, it also creates a vulnerability to changes in Ireland's attractiveness as a location for these companies. This has potential implications for employment, economic growth and taxation revenue.

The Irish Government has signalled its commitment to the OECD's Base Erosion and Profit Shifting (BEPS) project, which aims to provide countries with domestic and international instruments that will better align rights to tax with economic activity. This objective is aligned with Ireland's corporation tax policy, whose fundamental concern is attracting real economic activity. In October 2014, the Minister for Finance published a *Road Map for Ireland's Tax Competitiveness* which sets out ten actions to reap the benefits from a changing tax landscape.[15] The Road Map acknowledges that the BEPS project will involve challenges, but recognises that it could also offer a number of opportunities for small countries.

[13] Central Statistics Office (2014) Business in Ireland 2012. Dublin: Stationery Office.
[14] Forfas (2014) *Annual Business Survey of Economic Impact 2012*. Dublin
[15] Department of Finance (2014) http://budget.gov.ie/Budgets/2015/Documents/Competing_Changing_World_Tax_Road_Map_final.pdf

Environmental Risks

7. Climate Change & Extreme Weather Events

Warming of the climate system is unequivocal.[16] Mitigation actions are being taken to limit warming. However, many impacts of climate change are 'locked-in' for decades to come and adaptation actions are aimed at managing these climate change risks. It is noteworthy that in the World Economic Forum's Global Risks Report[17] (2015), climate change adaptation and extreme weather events are rated in the top 10 risks to global security.

Ireland's climate is changing. The scale and rate of change is consistent with regional and global trends. These changes are projected to continue and increase over the coming decades. Nationally, climate change will have wide ranging impacts on the environment, society, and the economy and associated sectors, including water resources, agriculture and food security, human health, terrestrial environments, critical infrastructure, biodiversity, and coastal zones.

Apart from the risks posed by climate change itself, there are also potential compliance costs associated with current emission and renewable energy targets to 2020 and the outcome of negotiations on individual EU member state targets for 2030, under the non-Emissions Trading Scheme, due to conclude in 2016. There is also a risk of failure to invest effectively or sufficiently in adaptation measures required to help meet the impact of climate change.

8. Disruption to Energy Supply and Price Shocks

Ireland is completely dependent, economically and socially, on secure energy supplies – particularly on oil for transport and electricity for everyday life. Ireland imports nearly all of its energy needs, as indigenous energy production amounts to only about 14% of the total primary energy supply.[18] Ireland's situation as an island on the periphery of Europe renders

---

[16] Intergovernmental Panel on Climate Change (2013) *Climate Change 2013: The Physical Science Basis.* Available at http://www.climatechange2013.org/report/

[17] http://www3.weforum.org/docs/WEF_Global_Risks_2015_Report.pdf

[18] International Energy Agency (2012) *Energy Policies of IEA Countries: Ireland 2012 Review.* Paris: IEA.

it particularly vulnerable to disruptions to the supply of oil, gas or electricity. Such disruption could arise from natural disaster or geo-political change. Ireland is also vulnerable to sudden price movements in energy prices which could be precipitated by disruptive geo-political shocks or economic trends and would have significant economic, social and competitive impacts.

9. Food Safety

A food scare could arise from contamination of an Irish food product or a significant outbreak of food-borne human illness associated with an Irish food product or the outbreak of a major disease in farmed animals. Apart from the impact on Irish consumers, there would be an immediate short-term impact of food producers being excluded from certain markets as well as the more long-term effect of producers taking a long time to recover consumer confidence and market share. The food sector is of vital importance to the Irish economy. Indicators for the sector show that its gross turnover is €26bn, 8.8% of national employment levels and 12.3% of overall merchandise export values.

10. Misalignments in the residential property market

Ireland's housing market was particularly affected by the economic downturn with prices falling on average by almost a half. Supply was until recently dramatically reduced with housing completions falling from a high of 93,000 in 2006 to just over 8,000 in 2013. This has meant that supply has not kept up with the growth in household formation. The most recent estimate shows that there were 1.65m households in the State, an increase of 187,000 (13%) relative to 2006. This mismatch between housing supply and household formation has resulted in price increases. Nationally, the average price of a house increased by 2% in 2013 and 13% in 2014.[19] In Dublin, house price increases were of a greater scale, rising by 16% in 2013 and 22% in 2014[20]. While asking prices fell marginally in the last

[19] Central Statistics Office (2015) *Residential Property Price Index February 2015*
[20] Goodbody Stockbrokers (2015) *Irish Housing Market: From the Ground Up*. Dublin

quarter of 2014, reports indicate that asking prices have risen by 4.6% across the country in the first quarter of 2015.[21]

On the one hand, increases in residential property prices, like price increases in other markets, should lead to an increased supply. Residential property price increases are also associated with reductions in the level of negative equity. On the other hand, rising house prices pose a number of social and economic challenges. They reduce the affordability of accommodation, negatively affect individuals' mobility and harm national economic competitiveness. Rising prices make home ownership more difficult but they may also drive up rents as well as increase homelessness. An important side effect is that a lack of housing and associated high prices and rental costs could affect Ireland's attractiveness for inward investments and skilled immigrants.

In February 2015, the Central Bank of Ireland introduced proportionate limits for loan to value and loan to income measurements for both primary dwelling houses and buy-to-let mortgages, in order to (i) enhance the resilience of households and banks to economic shocks and (ii) reduce the risk of bank credit and house price spirals from developing in the future.

11. Infrastructural development

Balanced economic growth is partly dependent on the timely provision of infrastructure in the right locations. Levels of investment in public infrastructure declined during the recession. The Government predicts GDP to grow by 4% in 2015 and 3.8% in 2016[22] and the Central Statistics Office expects, based on a range of assumptions on fertility, mortality and migration, population growth between 277,000-734,000.[23] Both dynamics will place additional demands on environmental, transport and energy infrastructure. For example, it has been estimated that 530 of the existing 856 water treatment plants require additional

[21] Daft.ie (2015) *The Daft.ie House Price Report: 2015 Q1.*
[22] Department of Finance (2015) *Ireland's Stability Programme April 2015 Update.*
[23] Central Statistics Office (2014) *Population and Migration Estimates April 2014.* Available at http://www.cso.ie/en/releasesandpublications/er/pme/populationandmigrationestimatesapril2014/#.VACKbvldVmM. The difference between the two population growth figures is explained by differences in assumptions regarding the actual levels of fertility, mortality and migration.

investment. If appropriate investment is not made, there will be negative consequences for indigenous job growth and FDI opportunities and may lead to consequent regional imbalances.

Another risk pertains to the public acceptance of such infrastructural development. Potential projects can undergo rigorous planning and compliance processes yet still fail to gain the support of the communities in which they might be located. It is also important to be cognisant of the prospect of imbalanced development, which does not fully harness the potential for economic renewal across the entire country. This could lead to regional disparities and increased economic/social (and political) tensions.

Geo-Political Risks

12. Changing distribution of global influence and move away from a rules-based system

As a result of globalisation, the geo-political environment in which Ireland finds itself is under constant change. There are significant changes afoot globally where there is likely to be an ongoing significant shift of political and economic power to countries in the East and South. These shifts are challenging the existing international order in which liberal democracies have played the dominant role. They will necessitate deepening engagement with Asian, African and Latin American countries, if Ireland is to protect its interests in promoting trade, tourism and investment.

Open, transparent and effective institutions of global governance are central to Ireland's interests, including in the trade and financial sphere. Any move away from liberal and human-rights based multilateralism, as exemplified by Ireland's participation in United Nations missions, would be counter to Ireland's interests. Ireland will need to develop a coherent approach to the changing nature of global institutions if it is to continue to benefit from the opportunities which this system has offered in the past.

13. Terrorist incidents and armed conflicts

Since 9/11, and indeed more recent terrorist atrocities within EU borders, states have become increasingly conscious of the risk of terrorist attacks and the severe impact they can have. The ongoing upheaval in the Middle East, marked significantly in recent times by the outbreak of persistent internal conflicts in a number of countries, as well as the rise of ISIS, is a reminder that the possibility of further attacks persists. Like other countries, Ireland could be negatively affected by terrorist incidents, depending on the location of such incidents and their wider impact. And it is also the case that terrorist incidents in geographically distant locations may have an effect if they deter tourists travelling to Ireland.

There is also the possibility that a state like Ireland would be used as a location from which attacks could be launched. Such incidents would be likely to cause extreme disruption in the short-term. More damaging might be longer-term reputational damage to Ireland as a safe and secure destination. In addition, the growing, global phenomenon of foreign fighters and any possible security threat that radicalised returnees may pose to this country and beyond, necessitates close attention.

A breakdown in international peace and security arising from inter-state wars, civil wars, or other armed conflicts could have significant repercussions for Ireland and the EU, including disruptions to energy supplies, transport routes or the environment. Weak or failed states which can be at the centre of, or a product of, such conflicts are frequently a breeding ground for international terrorism and organised crime gangs.

In Ireland itself, the Good Friday Agreement has delivered a stable peace process that commands overwhelming cross community support. Nonetheless, certain groups in both communities, with very limited levels of support, remain intent on disrupting the progress which has been achieved. Accordingly, vigilance needs to be maintained and legacy issues arising from conflict in Northern Ireland and current social and economic challenges need to be addressed.

14. Risks to the Stability of the EU

Membership of the European Union (EU) has for over forty years been central to Ireland's economic and social development and has been vital in upholding Ireland's interests and promoting its values. Challenges to the EU's stability are therefore challenges to Ireland. At present, such challenges include renewed uncertainty about the euro area; the corrosive long-term social and economic effects of low growth; and continued public and political dissatisfaction, particularly in some Member States, with the EU's performance, leading in some cases to challenges to its legitimacy. The full bedding-down of new economic governance arrangements will continue to pose challenges and debate about longer-term reform of EMU will continue, potentially raising new questions about the relations between EU and national institutions.

15. Uncertainty over UK's relationship with EU

Following the general election in May, the British Government is likely to make proposals both on how the functioning of the EU could be improved and on how specific UK concerns about EU membership could be addressed, with the possibility of a UK referendum on EU membership. A fundamental change to the role of the UK in the EU, or a period of continuing uncertainty regarding the UK's relationship with the EU, could present significant challenges for the EU as a whole and for Ireland in particular, especially in terms of (i) pursuit of Ireland's objectives as a Member State as the UK is an important ally within the EU on negotiations on issues of mutual concern such as trade and the deepening of the single market;[24] (ii) bilateral relations with the UK, including the significant economic and trading relationship; and (iii) the impact on Northern Ireland issues and North/South relations.

16. Devolution and related political developments in the UK

The issue of further devolution remains a prominent issue on the political agenda in the UK. Whatever the final outcome, vigilance will be required regarding any possible political or economic changes, especially for Northern Ireland. In general, a continuing commitment is required to maintain political progress, protect the institutions of the Good Friday Agreement and advance reconciliation on the ground.

---

[24] The think-tank Open Europe has recently calculated that in a worst case scenario, Ireland could see a permanent loss of 3.1% of GDP in 2030 and in a best-case scenario the loss to GDP would total 1.1%. See *What if...? The consequences, challenges and opportunities facing Britain outside the EU* (2015) and http://openeurope.org.uk/blog/how-would-brexit-impact-ireland/. And the UK is a particularly important destination for exports from indigenous companies, accounting for 43% of exports from Irish firms (see IIEA [2015] *Britain and Europe: The Endgame, An Irish Perspective).*

.

Social Risks

17. Persistence of structural unemployment

Unemployment is one of the most significant symptoms of the depth of Ireland's economic recession. Although it is the youth unemployment rate which has elicited the most commentary – understandably so when it stands at just under 22% - it is important to remember that people aged 25-44 make up half of the overall number of unemployed, at just under 107,400.[25]

Long-term unemployment remains a serious concern, with the risk that cyclical unemployment could become structural in the absence of appropriate targeted labour activation interventions. Long-term unemployment has fallen with the strengthening of the labour market, but at the end of 2014 it still accounted for nearly 58% of total unemployment on a QNHS basis. There is a risk that this group may not share in the employment recovery, and that high levels of long-term unemployment will persist for some time. This could have significant consequences for the individuals concerned, their families and their communities, and for increased levels of social spending. For the same reasons, it is important to encourage higher participation rates among those in receipt of other working age social welfare payments and to address the number of jobless households, which stands at a relatively high level.[26]

While the unemployment figures have improved, skills mismatches have emerged. As the recovery has been strongest in skill-intensive sectors, job opportunities have become available for high-skilled workers who have achieved a tertiary education. For those who have achieved such a level, unemployment was below 7% in Q3 2014 but for those who have left school with a lower secondary education, it stood at 21%. This outcome emphasises the necessity to upgrade the human capital of the largest possible number of people.

[25] Central Statistics Office (2014) Quarterly National Household Survey, Quarter 2 2014. Available at http://www.cso.ie/en/releasesandpublications/er/qnhs/quarterlynationalhouseholdsurveyquarter22014/#.VACI4PldVmM

[26] European Commission (2014) *Macro-Economic Imbalances Ireland 2014*. European Economy Occasional Papers 181. Brussels, p. 59.

18. Human Capital

Future economic performance will critically depend on the quality of human capital. Ireland’s competitive advantage in international markets, as well as the competitiveness of our regions, will increasingly be driven by the availability of world class skills at all levels. The OECD has called skills the new global currency of 21st century economies. As risks emerge to other areas of competitive advantage such as the corporate tax regime, it is important that Ireland’s strong position in terms of the availability of talent is protected.

There are some short term risks associated with the skills gaps which are emerging between labour market requirements and the nature and level of available skills. For example, while there is still a substantial overall level of unemployment there are issues regarding skills shortages and mismatches in labour market areas such as higher level ICT skills. There is also some tightening of the overall labour market as the employment picture improves. If employers are not able to source appropriate skills, this will have a detrimental impact on the quality of employment that people can access and on our ability to sustain economic growth.

There is also a longer term risk that resourcing of the education and training system in light of demographic pressures, and reforms to the system, will not meet the skills requirements of a fast-changing labour market with strong global competition for investment and talent, negatively affecting economic performance and employment growth.

19. Expenditure pressures

The recession and subsequent troika programme necessitated a consolidation of the public finances. As the economy recovers, there may be a public expectation that restraints on social and other government expenditures can be released and efficiency measures reversed in the short-term, notwithstanding the existence of the European Union’s fiscal rules which require that the Government conform to an expenditure benchmark and move towards a balanced budget in structural terms.[27] It has been noted that there may be a tension between these kinds of constraints and expenditure pressures arising from demographic growth, investment needs and public demands both for increased services and cuts in income taxes beyond what may be sustainable over the economic cycle.[28] The Central Bank of Ireland has counselled that it is important that the 'fiscal stance does not exacerbate cyclical pressures'.[29]

20. Changes in Dependency Ratio

Despite net outward migration, Ireland's population has continued to grow. The population increased from 4.24 million people in 2006 to 4.588 million in 2011. A high level of births combined with a falling number of deaths is driving this increase. This highlights the importance of the age dependency ratio, i.e. the ratio of the old and young population to the population of working age. The future age dependency ratio is important because it points to impacts in areas such as education, child income supports, healthcare, long-term care, housing and pension provision.

The Central Statistics Office has provided projections of possible changes in the dependency ration up to 2026 based on a number of different scenarios.[30] About 85% of the difference between high and low assumptions for changes in the population and dependency ratio is explained by potential migration flows. Under all scenarios, births are expected to fall in the period 2016-2026 before then picking up and the number of primary school children will increase up to 2021 and then this cohort will graduate to secondary level between 2021-26 and to third-level after that. Again under all assumptions, the over-65 population will increase considerably in future years. This will give rise to extensive pressures on sustainability of public spending in areas of pensions, long-term care and health.

---

[27] It is the case that Ireland's benchmark may be unusually low given that it is based on a 10-year average of potential GDP growth estimates from 2008-17, i.e. it incorporates the most significant falls in GDP brought about by the recession.

[28] Irish Fiscal Advisory Council (2014) *Fiscal Assessment Report: November 2014.*

[29] Central Bank of Ireland (2015) *Quarterly Bulletin 02.* April 2015.

[30] Central Statistics Office (2014) *Population and Labour Force Projections*. Stationery Office: Dublin.

21. Increases in Chronic diseases

Chronic diseases, such as heart disease and cancer, are the leading cause of death and morbidity in developed countries. The rise in childhood obesity and other trends can be seen as an indicator of future rises in chronic diseases. By 2020, the number of adults with chronic diseases will increase by around 40%, with relatively more of the conditions affecting those in the older age groups.[31] For example, the obesity levels for both men and women aged over 20 years old in Ireland are higher than the Western European average.[32]

It is estimated that 75% of healthcare expenditure relates to chronic diseases. The economic burden is considerable not only for the health system but also in terms of families and society as a result of reduced income, early retirement, an increased reliance on social care and welfare support and diminished productivity and absenteeism. The World Health Organisation in Europe has estimated that the expected 10-15% increase in chronic diseases will reduce a country's GDP by an order of 1% over the next decade.

22. Social Cohesion and Political Stability

It has been noted that Ireland's reaction to successive budgets delivering fiscal consolidation has not been as polarised as in other countries.[33] One explanation is the tradition of social cohesion that exists in the country, while research has shown the strong influence of social transfers in mitigating the impact on poverty levels. However, there is always the risk that such cohesion could be undercut if inequalities increase in Ireland as economic growth resumes, possibly as a result of changing labour market patterns associated with globalisation and industrial change.

---

[31] Department of Health (2013) *Healthy Ireland: A Framework for Improved Health and Well-Being*. Dublin.

[32] Gakidou et al. (2014) 'Global, regional, and national prevalence of overweight and obesity in children and adults during 1980–2013: a systematic analysis for the Global Burden of Disease Study 2013', *The Lancet* 384: 766-81. The Western European average for men is 20.5% and women is 21%; the respective Irish averages are 22.9% and 22.5%.

[33] The Bertelsmann Foundation's study *Social Justice in the EU – A Cross National Comparison* (2014) shows that Ireland's rating for social cohesion and non-discrimination has barely shifted since 2008. Available at http://www.bertelsmann-stiftung.de/cps/rde/xchg/SID-DFD0BB53-D2B980A1/bst_engl/hs.xsl/index.html

Social cohesion and political stability may also be threatened by persistent low levels of public trust and confidence in public institutions within Ireland, which have been impacted by the recent crisis.[34] Trust matters because it provides the glue by which many of the interactions between citizens and state, such as willingness to abide by rules, are successfully maintained. Decreasing levels of trust and increasing fragmentation of the political system may make less feasible the process of producing a stable government capable of sustaining public support and implement decisions in the long-term interest less feasible.

Some of the difficulties of the last few years have arisen through the failure of individuals and organisations to demonstrate that they have the capacity and competence to address and deal with risks successfully. Given this failure, it is not surprising that according to one survey[35] Ireland is now the second-least trusting country of 27 countries surveyed with overall levels of trust in Ireland falling by 2 points to 37% in 2014. Only a quarter of people surveyed said that they trust Government. This lack of trust underlines the need for public institutions to ensure that they possess the necessary capabilities to address whatever risks come under their remit and communicate to the general public their success in doing so.

23. Migration & Integration

Recent years have seen a new wave of emigration from Ireland, with the Central Statistics Office estimating that net outward migration of Irish nationals stands at just under 30,000 per annum.[36] Concerns have been expressed that Ireland is losing some of its most dynamic and skilled members of society when it needs them to help power its recovery, although a higher proportion of immigrants into Ireland possessed a third level degree than of emigrants from Ireland.[37]

[34] See Edelman Trust Barometer: Ireland Results at http://www.edelman.ie/edelman-trust-barometer-2015-2/
[35] Ibid.
[36] Central Statistics Office (2014) *Population and Migration Estimates April 2014.* Available at *http://www.cso.ie/en/releasesandpublications/er/pme/populationandmigrationestimatesapril2014/#.VACKbvldVmM*
[37] ibid

A related, but different, issue concerns the integration of migrants who have come to Ireland. Over a generation, Ireland has changed from an ethnically homogeneous society to a much more multi-ethnic one, a transformation reflected in rural as well as urban communities. Census 2011 disclosed that 12% of the population were born outside the State. This increase in the immigrant population has happened in a very short time-scale and without any of the upheaval which has occurred in other countries with such dramatic movements of the population. Failure to maintain this level of cohesion, especially as second and third generation migrant communities emerge, sometimes in geographically contested areas, represents a significant risk.

Technological Risks

24. Cyber Security

At a national level, there is clear recognition that the internet (broadband) is a key enabling infrastructure for our continued economic growth and prosperity. Being small in size and geographically isolated does not protect Ireland from being a target for cyber-attacks. Traditional motivations for cyber-attacks (financial, ideological or political and state sponsored) remain the same, but the tools utilised to carry out attacks (use of compromised websites, malware, botnets, denial of service) get more sophisticated in line with emerging technology. This is a threat to key national infrastructure such as energy, transport and telecoms systems. A specific risk for the public service is theft or compromising of data collected by the public service which would reduce confidence in public service administration and the use of technology for public services.

25. Major Pandemics

Pandemics are unpredictable but recurring events that can cause severe social, economic, and political stress. History shows us that pandemics can cause death and illness on a significant scale and disrupt normal social and economic activity. International exercises and experience indicate that a pandemic has the potential to significantly disrupt economic and social life with the possibility of energy and food supply shortages. The recent outbreak of Ebola and the transmission of the virus outside of Africa is a reminder that as the world becomes more connected, facilitating the spread of viruses, the risks of a pandemic becomes greater.

26. Nuclear Contamination

The potential contamination of Ireland as a result of fallout from a nuclear accident is a risk, albeit one of low probability. Apart from the obvious risks to public health and well-being, the potential for impact on Ireland's agricultural production, particularly reputational risk, is significant. This could arise in the event of consumer resistance to even miniscule levels of radioactivity in the food chain and Ireland's competitors portraying Ireland's food products as unsafe were contamination to occur.

27. Technological Trends

Given the pace of technological change, it is highly likely that some businesses and products could become obsolete relatively quickly. One recent study[38] examined over 700 different occupations in the United States and estimated that 47% of total US employment was susceptible to computerisation and automation. Jobs in transportation, logistics, as well as office and administrative support, were deemed at 'high risk' of automation but even some occupations within services and sales industry were also highly susceptible.

Given the relatively concentrated nature and structure of the enterprise sector in Ireland, technological change of this sort could pose the risk of an abrupt shock to employment prospects in certain sectors.

28. Anti-microbial resistance (AMR)

The rise in antimicrobial resistance (AMR) is recognised at global and European levels as one of the greatest potential threats to human and animal health, with possible serious consequences for public health, animal welfare and the agriculture and food sectors. The advances achieved as a result of antimicrobial drugs are now seriously jeopardised because of the emergence and spread of resistant strains of microbes against which an increasing number of such drugs are ineffective. AMR already represents a significant human health threat and contributes to increased morbidity, mortality and healthcare costs. If AMR continues to rise, it will become increasingly difficult and expensive to control and treat infections in medical care and more difficult to maintain animal health and welfare.

[38] Frey, C. and Osborne, M. (2013) The Future of Employment. Available at http://www.oxfordmartin.ox.ac.uk/downloads/academic/The_Future_of_Employment.pdf

Developing the National Risk Assessment

It was always intended that the National Risk Assessment would be an iterative process and that the version published in 2014 represented the first step. As well as listing risks, it also drew attention to several important process-related issues. These included refining the process by which risks are identified and anticipated as well as enhancing the capabilities within the public service to deal with these risks.

There are different views as to how a broad range of risks might best be identified. Some believe that the optimum way is to calculate the likelihood and impact of risks on the basis of probabilities; others believe that matters are too uncertain and unpredictable to allow for such methods. The World Economic Forum's *Global Risk Report 2015*, from which the NRA's fivefold categorisation of risks is derived, adopts a qualitative approach by asking nearly 900 leaders from various walks of life to assess the likelihood and impact of a number of global risks and distils their responses into a ranking of risks.[39]

One issue identified in consultations to date is the need to ensure that the capabilities exist within the public service to deal with risks as they arise. In terms of enhancing capabilities, the Civil Service Renewal Plan aims to address this issue.[40] The Renewal Plan includes a range of commitments to build the capability of the Civil Service including actions to strengthen policy-making skills and develop more open approaches to policy-making, including hosting regular open policy debates.

Research is also being undertaken to examine the processes of risk governance in countries similar to Ireland. The purpose of this exercise is to understand how other small countries deal with risks and use this knowledge to improve the quality of Ireland's risk governance mechanisms.

[39] The International Monetary Fund's most recent paper on Ireland (2015), *Ireland: Staff Report,* IMF Country Report No. 15/77, lists five risks and calculates their likelihood and impact based on a 'subjective assessment'.
[40] See http://www.per.gov.ie/civil-service-renewal/

In terms of developing work on mitigation, a steering group, representative of all Government Departments,[41] has been assessing the current state of preparedness and mapping mitigation frameworks and structures against risks identified. This has been a useful exercise but also gives rise to a number of issues.

A clearly defined and designed mitigation framework can be readily identified for some risks. For example, public debt sustainability is subject to EU fiscal rules. Likewise to deal with a risk like food safety, there is a *National Control Plan* in place which specifies the necessary controls and procedures in place, overseen by the two relevant Government Departments.

In responding to events such as food safety or severe weather events, what might broadly be termed 'civil emergencies', and when addressing potential security threats, such as cyber or terrorist threats, Ireland has adopted the 'Lead Department' principle which is overseen by the Office of Emergency Planning (OEP). This means that the Government Department with responsibility for a particular area of public life (transport, energy etc.) takes the lead when an emergency occurs. In 2011, the Government Task Force on Emergency Planning approved the "Guidelines for Coordinating a National-Level Emergency/Crisis Response". This document sets out the various steps involved in coordinating a national-level response for emergencies/crises. It clarifies the responsibilities of the lead Government Departments and the roles and working relationships of all other departments/ agencies, which are required to contribute and undertake their roles in the context of the national emergency/ crisis management effort.[42] Many of the risks listed in this document are also dealt with by the OEP through the risk mitigation frameworks that it oversees.

However, other risks are not as amenable to well-defined mitigation frameworks. For example, issues such as social cohesion, demographic trends and competiveness are comprised of a variety of distinct phenomena and therefore cannot be mitigated by a single

[41] The Central Bank of Ireland, the Revenue Commissioners and the National Treasury Management Agency are also represented on the Steering Group.
[42] See Office of Emergency Planning (2012) *A National Risk Assessment for Ireland.*

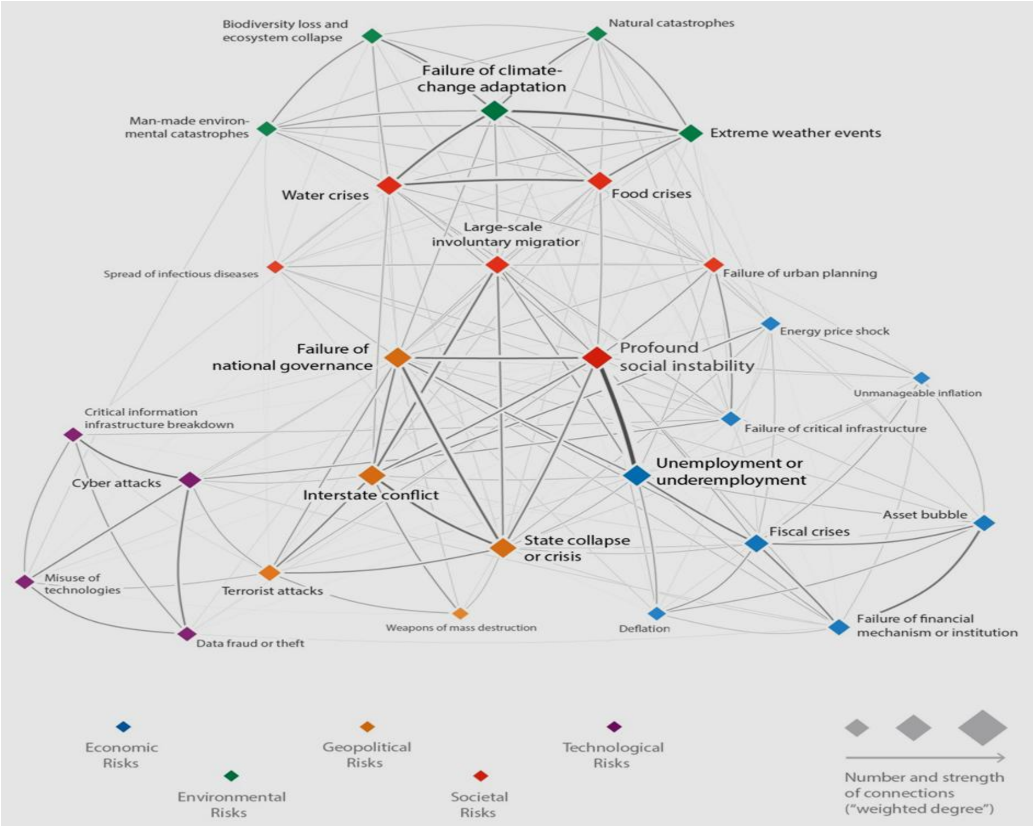
policy or organisation. However, many sectoral policies do exist to mitigate against such risks on a cross-cutting basis.

Other risks, especially those in the geo-political sphere, arise on a more episodic basis and often cannot be predicted far in advance of when they occur. Consequently, they may require more flexible means of mitigation than some other risks as it is open to question how a standard set of procedures can deal with issues of this nature.

One of the points made at the Open Policy Debate, hosted by the Department of the Taoiseach in March 2015, was the importance of general mitigants, responses that could be beneficial in addressing several risks at once. The diagram below from the World Economic Forum's *Global Risk Report 2015* shows how linked various risks are. For example, profound social instability in one region or country can lead to large-scale migration into another area which can exacerbate water shortages. But if a way could be found to diminish the prospect of profound social instability then this could assist in reducing other risks, like damage to the eco-system, as well such as the possibility of water shortages.

Therefore, when we talk about mitigation we should think about mitigation policies that might have numerous benefits in resolving many risks. For example, boosting the educational capabilities of Ireland's citizens would assist not only in dealing with structural employment but would also help in meeting the dangers of a loss of competiveness, weakening social cohesion and the challenges thrown up by technological change.

Figure 2: Global Risks 2015 Interconnections Map[43]



This work on mitigation, and refining further the process of risk assessment and capabilities required, will continue, taking account of the response to consultation on this draft list of risks.

[43] Source: World Economic Forum's *Global Risk Report 2015*

Next Steps

As stated, the purpose of this document is to stimulate a broader conversation about the strategic risks that Ireland faces and how these risks should best be addressed. The public are invited to contribute to this process by making submissions.

Below are a set of questions on pertinent issues that may be of assistance to those who wish to make a submission.

(i) What key trends since the 2014 exercise should inform the approach in 2015? Are these trends reflected in the list of draft risks identified?

(ii) Have the correct risks been identified or are there significant risks that have been overlooked? If certain other risks should be included, why are they considered as warranting inclusion?

(iii) Are there risks in the draft list which are not sufficiently strategic or serious as to warrant inclusion?

(iv) How should the different risks be prioritised? Are there specific risks which warrant a particular response\attention and what should that be?

(v) How can adequacy of prevention\mitigation efforts for different risks be best assessed? Are there risks for which there are very obvious gaps in terms of prevention\mitigation?

(vi) Are there any significant general mitigants, such as improving human capital and public institutions, to which attention should be paid?

Any comments or submissions should be made to nra@taoiseach.gov.ie by 19th June.