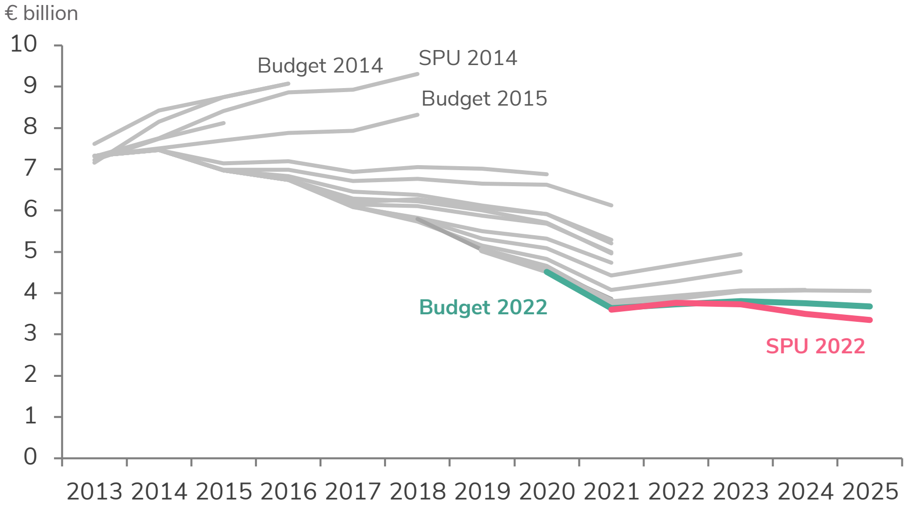
still be higher than they otherwise would have been had we not seen this rise in interest rates.

Interest costs set to fall despite rising interest rates

Ireland's interest costs have been falling for years (Figure 2.17). In 2014, cash payments for interest were €7.5 billion. By 2021, interest payments were €4 billion lower at €3.5 billion. Over 2014-2021 the cumulative saving in interest payments, relative to an annual payment of €7.5 billion, is €13.5 billion. The forecasts for interest payments have continued to be revised down, with interest payments in 2025 now expected to be €330 million lower than at Budget time.

Figure 2.17: Interest payments continue to be revised down



Sources: Department of Finance. Get the data.

Notes: Figures show National debt cash interest.

Box F: Recent increases in cash balances

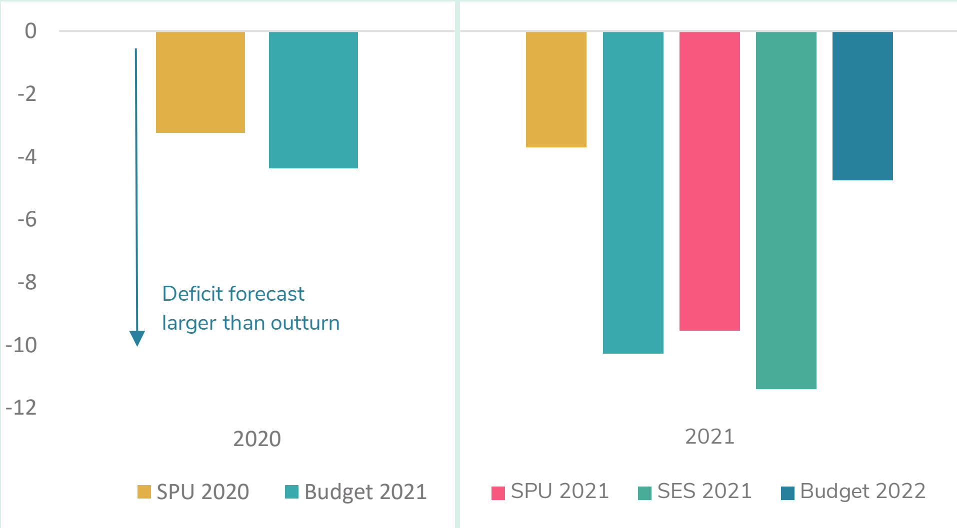
At end-March 2022, the exchequer had €29 billion cash on-hand, equivalent to 13 per cent of 2021 GNI*. This is partly due to the NTMA's strategy of prefunding future bond redemptions but also due to the Department overestimating past borrowing requirements. The larger-than-expected cash balances can be helpful in an environment of greater uncertainty and rising interest costs. However, these benefits should be weighed against the costs of maintaining these balances too.

Figure F1 shows the forecast errors for the exchequer deficit for 2020 and 2021. For 2020, the *Budget 2021* forecast was less accurate than the *SPU 2020* forecast. Despite just three months remaining in the year, the forecast error was €4.4 billion. For 2021, the *SES 2021* forecast performed the worst. Despite only having 6 months of data to forecast, the error was over €11 billion. The forecast error in *Budget 2022*, was €4.75 billion.

There has been enormous uncertainty around the forecasts over the past two years, meaning some forecast error is understandable. While the overperformance of revenue has played a significant role, the failure to revise down expenditure forecasts, both current and capital, in a timely fashion to reflect most recent data has contributed to these forecasts being inaccurate. As highlighted in Section 2.2, this failure has continued into 2022, with expenditure levels forecast to be the same as in *Budget 2022*, despite the level of "core" expenditure being €1.8 billion lower in 2021. This could lead to further forecast errors for this year's borrowing requirement.

Figure F1: Forecast for Exchequer borrowing requirement much larger than transpired

€ billion, forecast – outturn



Sources: Department of Finance; and Fiscal Council workings. Get the data.
Notes: The figure shows the forecast for the exchequer balance minus the actual outturn for the exchequer balance.

The implication of these forecast errors is that the NTMA ultimately ends up borrowing more than it would otherwise have, had the forecast been more accurate. Borrowing more than necessary ultimately comes with a cost. In particular, it leads to higher interest payments than would otherwise be the case.

The NTMA typically provides guidance on bond issuance to investors based on the government forecasts for the exchequer balance, taking into account the need for liquidity in the sovereign bond market and the current maturity profile of outstanding debt, amongst other factors. For instance, the NTMA gave bond issuance guidance for 2022 in the range of €10-14 billion based on the exchequer borrowing requirement forecast for 2022 in *Budget 2022*, of €7.7 billion. *SPU 2022* has now revised this exchequer borrowing requirement to €1.1 billion in 2022.

The flipside of borrowing more than necessary is that the Government ends up with more cash on hand. The downward revision to the exchequer borrowing requirement in the SPU resulted in the NTMA cancelling a planned bond auction in June, so that it now only plans to issue debt at the lower end of its range and does not further increase its cash balances. Despite that, there will now be more cash on hand at the end of 2022, than was planned at budget time. As highlighted above, there remains the further possibility that the borrowing requirement for 2022 turns out to be lower still than *SPU 2022* forecasts suggest.

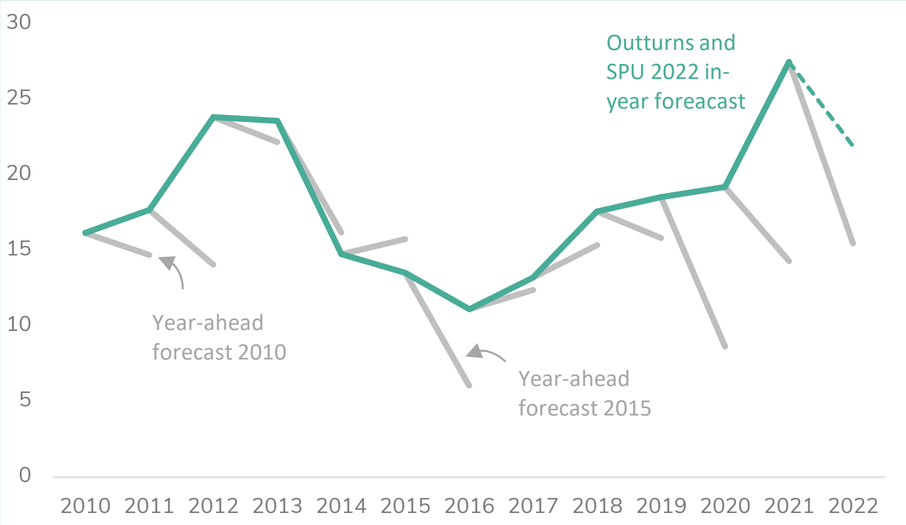
As shown in Figure F2, this additional borrowing has contributed to a run up in cash assets. The result of which is there is an almost 20 percentage point difference in the gross debt-to-GNI* ratio, which was 105.6 per cent, and the net debt ratio, which was 86.2 per cent.

There can be good reason for maintaining large cash balances during periods of uncertainty. It can also be beneficial in the face of rising interest costs. Of course, this must be weighed against the costs associated in obtaining this cash.

In the absence of large bond redemptions, unwinding large cash balances can take time. As Figure F2 shows, cash balances have been forecast to fall for some time. At end-March 2022, cash on hand was €29 billion. This compares to €31.5 billion of fixed rate bonds maturing between end-March 2022 and end 2025. With the exchequer forecast to return to surplus next year, the surpluses and the cash on hand more than cover these redemptions. However, for operational reasons, the NTMA typically needs to issue several billion euros worth of new debt each year to maintain liquidity in the market, maintain relationships with primary dealers and ensure that there is an appropriate spread of bond maturities to price the yield curve. Ireland looks set to maintain an elevated level of cash balances over the medium-term.

Figure F2: Cash balances have been higher than forecast for some time

€ billion, exchequer cash balances



Sources: CSO; NTMA, and Fiscal Council workings. Get the data.

Notes: Figures show the budget forecasts of exchequer cash balance for the following year (grey lines), relative to the outturn for cash balances (green line).