Banc Ceannais na hÉireann
Central Bank of Ireland
Eurosystem

Statistical Release

10 November 2016

Quarterly Financial Accounts

Debt Reduction by Households Slows

- Household debt remained largely unchanged during Q2 2016, falling by less than €0.2bn. This was by far the lowest quarterly fall in household debt since Q4 2008 – the period when households first began to deleverage.

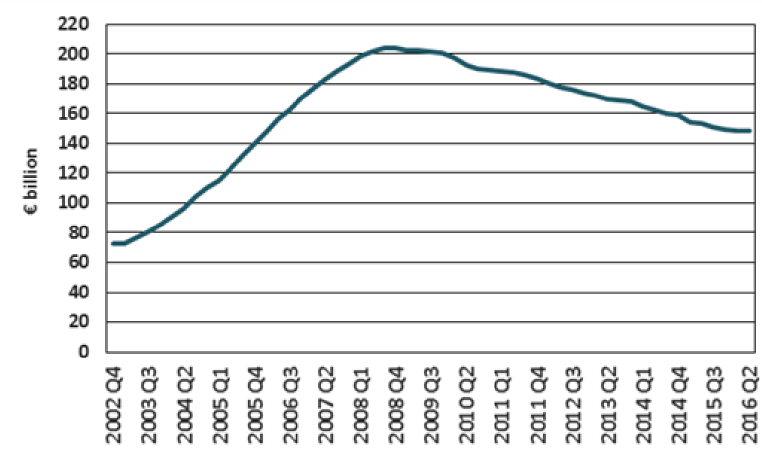
- Irish households remain the fourth most indebted in the European Union.

- Household debt as a proportion of disposable income now stands at 150.4 per cent. The decline in this ratio over the quarter partly reflected an increase in annualised disposable income of 0.5 per cent.

- Government net financial wealth decreased by €3bn over the quarter, as Government assets fell by more than Government liabilities.

- NFC debt to GDP increased by €16.8bn during Q2 2016. This increase reflected both positive net transactions (€7.5bn) and positive valuation changes over the quarter (€9.5bn), primarily due to exchange rate movements.

Household Debt



1. Net Lending/Borrowing of All Sectors[1]

The domestic economy continued to be a net lender to the rest of the world during Q2 2016, as the deleveraging by households and non-financial corporations (NFCs) exceeded the net borrowing of government and financial corporations (Chart 1.1). Net lending by the domestic economy increased substantially over the year ending Q2 2016. While NFC lending fell in the latter two quarters of the period, this was more than offset by reduced net borrowing by financial corporations. Net lending by domestic sectors amounted to €6.5 billion in Q2 2016.

2. Private Sector Debt

Private sector debt rose slightly during Q2 2016 to 321.6 per cent, an increase of 6.1 percentage points over the quarter. This rise has been driven by an increase in NFC debt over the period, which was partly offset by an increase in annualised GDP during Q2. It should be noted that private sector debt in Ireland is significantly influenced by large multinational corporations (MNCs) and that restructuring by these entities resulted in large increases from 2014 onwards.

Private sector indebtedness forms part of the EU Commission's scoreboard of macroeconomic imbalances. The Commission sets an indicative threshold of 160 per cent of GDP for private sector debt sustainability, substantially lower than Ireland's 321.6 per cent. However, this threshold does not take account of the large MNC sector in Ireland.

Chart 1.1 Net Lending/Borrowing of all Sectors

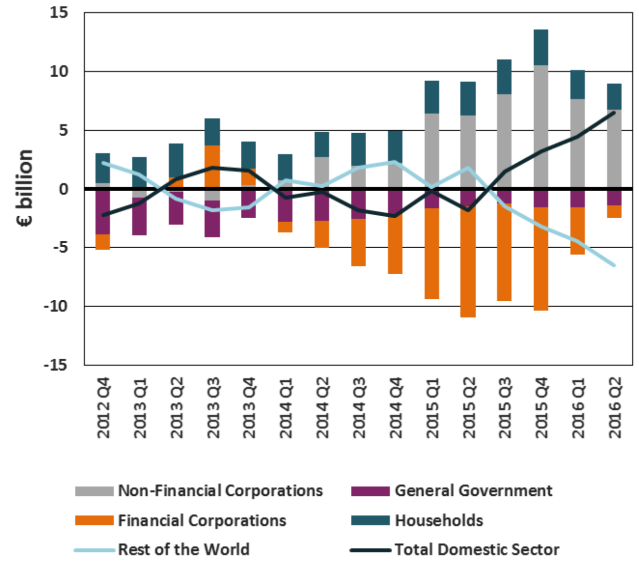
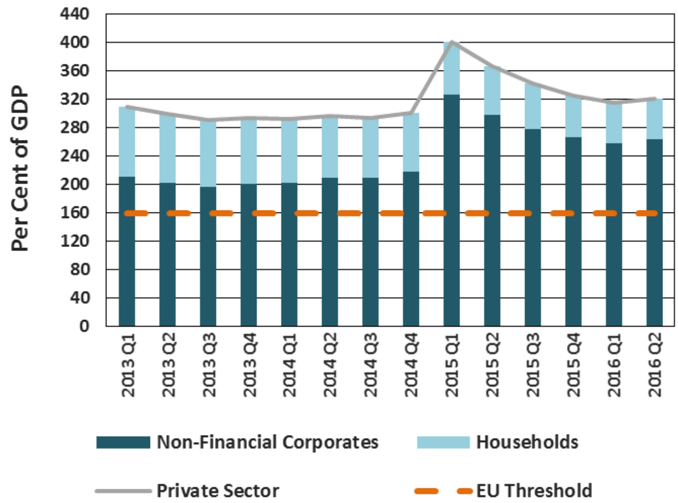


Chart 2.1 Private Sector Debt to GDP



[1] A positive value indicates that a sector is a net lender and a negative value indicates that a sector is a net borrower. Overall, the sum of net lending/borrowing of all sectors will sum to zero as, for every lender, there must be a corresponding borrower.

3. Household Sector

Household net worth[2] increased by 0.9 per cent over the quarter to reach €633.9bn in Q2 2016 (Chart 3.1). Household net worth per capita now stands at €135,622. The increase in net worth was mostly driven by a rise in financial assets (€3.3bn) and housing assets (€1.9bn). The former rose largely due to increases in the value of insurance technical reserves[3] (€3.6bn), as well as, increased holdings of currency and deposits (€1bn) by households. Household liabilities remained largely unchanged during the quarter falling by just €0.5bn.

Compared to a post-crisis low of €454.1bn in Q2 2012, household net worth has risen by 39.6 per cent. However, it is still 11.7 per cent lower than its pre-crisis peak of €718bn in Q2 2007.

Overall household debt remained largely unchanged during Q2 2016 at €148.4bn (Chart 3.2). This represented a decline of less than €0.2bn. This was by far the lowest quarterly fall in household debt since Q4 2008 – the period when households first began to reduce debt. Households reduced debt with monetary financial institutions (MFIs) (€175m), other financial intermediaries (€73m) and non-residents (€56m) over the quarter. This was partly offset by relatively small increase in household debt with the State.

Though debt remained largely unchanged, indicators of household debt sustainability continued to improve during Q2 2016 (Chart 3.3). Debt as a proportion of disposable income fell over the quarter, from 151.3 per cent to 150.4 per cent. This largely reflected an increase in annualised disposable income of 0.5 per cent. The ratio of household debt to disposable

Chart 3.1 Household Net Worth

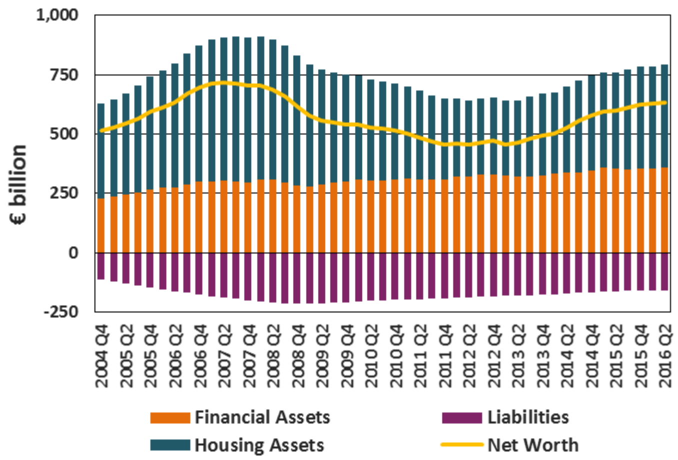


Chart 3.2 Household Debt

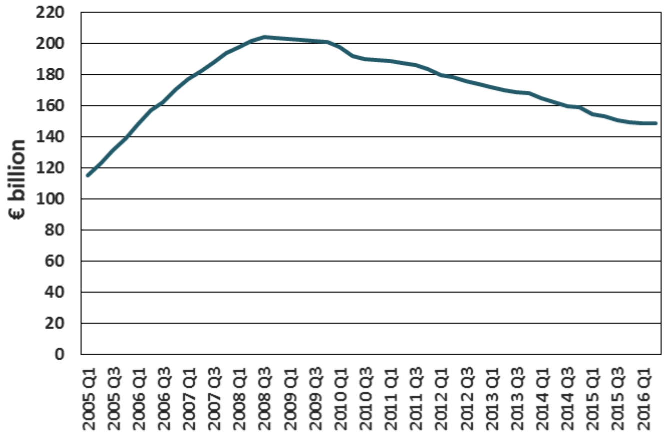
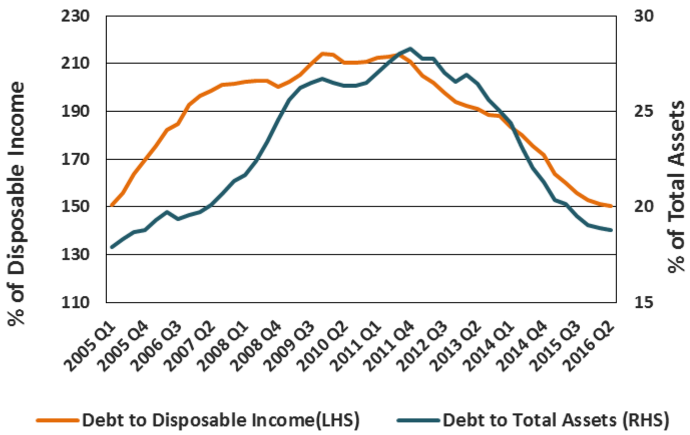


Chart 3.3 Household Debt Indicators



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[2] Household net worth is calculated as the sum of household housing and financial assets minus their liabilities. The Central Bank of Ireland estimate of housing assets is based on the size and value of housing stock. Data on the value of housing is obtained from the CSO's 'Residential Property Price Index' (RPPI).

[3] Insurance technical reserves' include life assurance policies and pension funds.

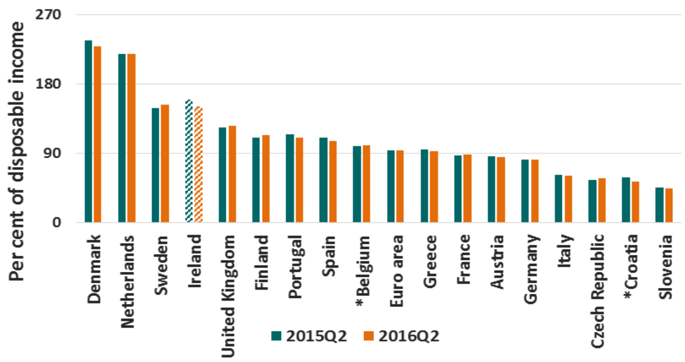
income has fallen by 65.9 percentage points since its peak of 215.3 per cent in Q2 2011. Debt as a proportion of total assets also decreased marginally, falling from 18.9 per cent to 18.8 per cent over the quarter.

Following the significant decline in debt as a proportion of disposable income between Q1 2015 and Q1 2016, Irish household debt as a proportion of disposable income fell by 9.3 percentage points over the year to Q2 2016. This follows on from Q1 2016, when the year-on-year was 12.4 percentage points. Irish households remain the fourth most indebted in the European Union, in terms of the ratio of debt to disposable income, despite recording the largest fall in this indicator over Q2 2016. In contrast to Ireland, households in a number of European countries saw their household debt to disposable income ratio increase over the second quarter. Swedish households experienced the most significant rise (4.3 percentage points) as they upheld their position as the third most indebted country in the European Union, with household debt levels amounting to 153.4 per cent of disposable income.

Household investment in financial assets rose during Q2 2016, reaching €1.9bn. The increase in financial assets over the quarter largely reflected transactions into shares & other equity and insurance technical reserves. However, the majority of households' financial investments continue to be in the form of currency & deposits. During Q2 2016, households invested €1bn in these assets.

Household investment in deposits remained largely unchanged during Q2 2016, standing at €0.8bn (Chart 3.6). Households continued to lodge most of their deposits over the quarter with MFIs (€0.7bn). Lodgements with Government represented €0.1bn, a slight increase compared to the previous quarter.

Chart 3.4 Household Debt at Q2 2015 and Q2 2016, Cross Country Comparison



Source: European Central Bank.
Note: For countries with * latest available data is for Q1 2016

Chart 3.5 Household Transactions in Financial Assets, Four Quarter Moving Average

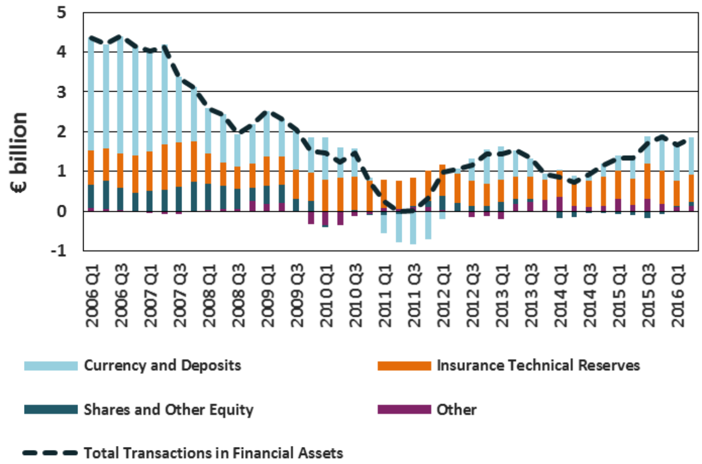
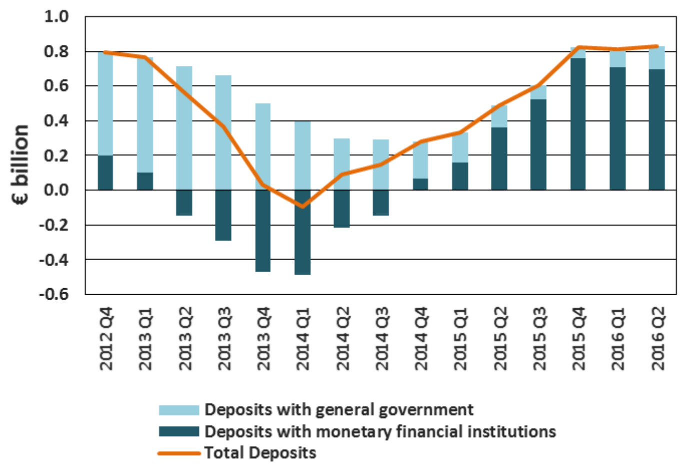
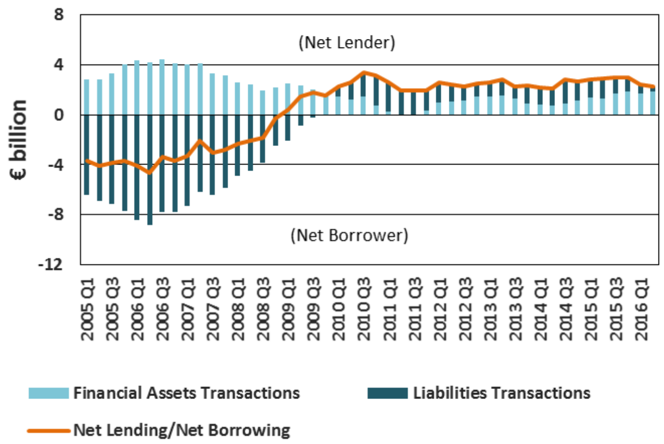


Chart 3.6 Household Deposit Transactions with MFIs and Government, Four-Quarter Moving Average



Household net lending fell to a level of €2.2bn during Q2 2016. Chart 3.7 shows that the increase in financial assets transactions (€0.2bn) was offset by a larger decline in liabilities transactions (€0.4bn). Net lending continues to be associated with higher levels of investment in financial assets, rather than deleveraging.

Chart 3.7 Household Net Lending/Borrowing, Four-Quarter Moving Average



4. Non-Financial Corporation Sector

During Q3 2014 and Q1 2015, MNC activities resulted in substantial increases in NFC debt (Chart 4.1). The Irish NFC sector is significantly impacted by the activities of large resident MNCs[4]. NFC debt reached its highest level to date in Q1 2015, rising to €686.9bn.

Focusing on the most recent quarter, NFC debt increased by €16.8bn during Q2 2016. This increase reflected both positive net transactions (€7.5bn) and positive valuation changes over the quarter (€9.5bn) primarily due to exchange rate movements. Debt as a percentage of GDP rose by 6 percentage points to 264 per cent, as the growth of NFC debt outpaced the growth of GDP.

Irish NFC debt as a percentage of GDP was the second highest in the EU at Q2 2016 (Chart 4.2). Luxembourg, which also has a large MNC sector relative to the size of its economy, had the highest debt at 363 per cent of GDP.

Chart 4.1 NFC Debt

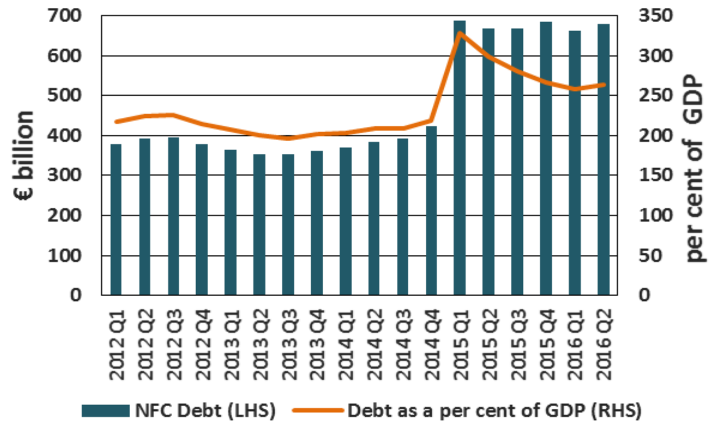
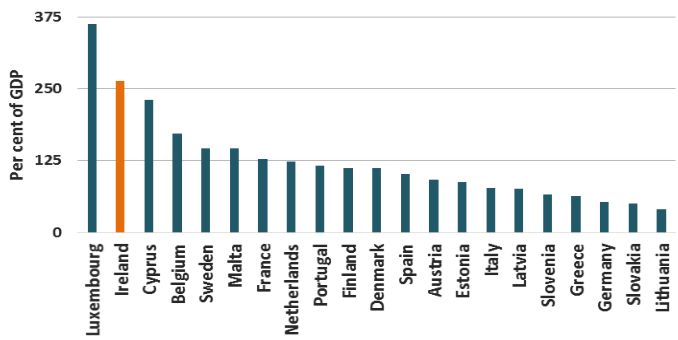


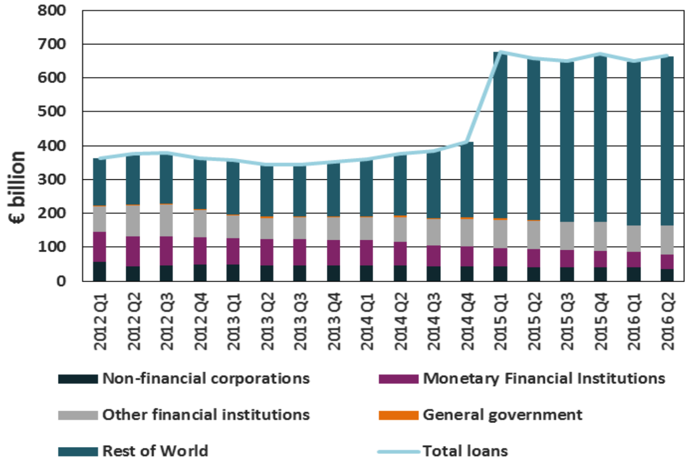
Chart 4.2 Cross-Country Comparison of NFC Debt as a Percentage of GDP



[4] These latest NFC results incorporate the recent annual revisions to the CSO's [International Investment Position (IIP)](). The revisions include large MNCs which redomiciled to Ireland or moved significant parts of their balance sheets to Ireland during 2014 and 2015. These entities also contributed towards some of the very substantial increase in [Irish GDP for 2015]().

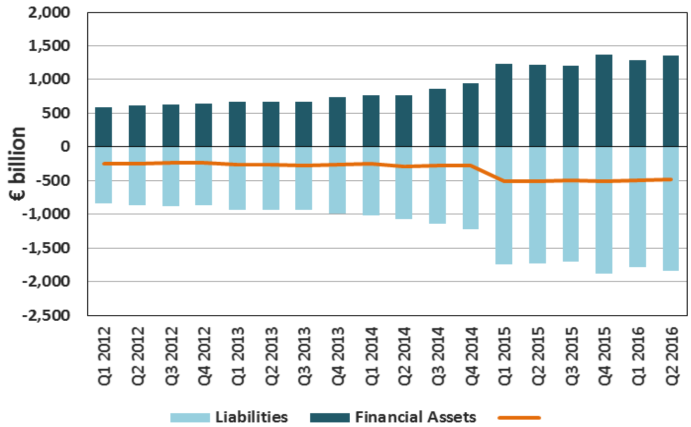
Chart 4.3 shows that 75.1 per cent of NFC debt was held by non-residents at end-Q2 2016. This represents a 36.7 percentage point increase compared to Q1 2012. The substantial increase in debt held by non-residents is reflective of the activities of multinational corporations and explains why exchange rate movements have had a significant impact on NFC debt in some quarters. In contrast, debt held by Irish residents has been on a downward trend in recent years. Debt held by residents stood at €166.2bn in Q2 2016, a decrease of 25.6 per cent from Q1 2012. This partly reflected NFC deleveraging with Irish MFIs[5].

Chart 4.3 Financing of NFC Loans



Since Q1 2012, NFC assets and liabilities have increased by 128.1 per cent and 117.3 per cent, respectively (Chart 4.4). Again, this trend is largely as a result of MNC activities. NFC net financial wealth (financial assets minus liabilities) became less negative during Q2 2016, rising from -€499bn to -€482bn, as the increase in financial assets outpaced the increase in liabilities. NFC financial assets increased by €62bn to €1.35tr in Q2 2016, while liabilities increased by €45bn to €1.83tr.

Chart 4.4 NFC Assets and liabilities



[5] See latest money and banking release: http://www.centralbank.ie/polstats/stats/cmab/Documents/2016m09_ie_monthly_statistics.pdf

5. Government Sector

Government debt fell by €5.1bn, or 2.1 per cent, to €231.2bn in Q2 2016 (Chart 5.1). The chart also shows that the standard Excessive Deficit Procedure[6] (EDP) measure of debt fell by €6.5bn in Q2 2016. The decrease in debt was primarily as a result of a €5.6bn decline in long term debt securities issued by government, as debt redemptions exceeded issuance during the quarter.

Government net financial wealth decreased from -€153bn to -€156bn during the quarter, as the decline of government liabilities was exceeded by the decline of government financial assets (Chart 5.2). A €6.5bn reduction in the holdings of deposits by government was the main driver of the fall in government assets during Q2 2016.

Chart 5.1 Government Sector Liabilities

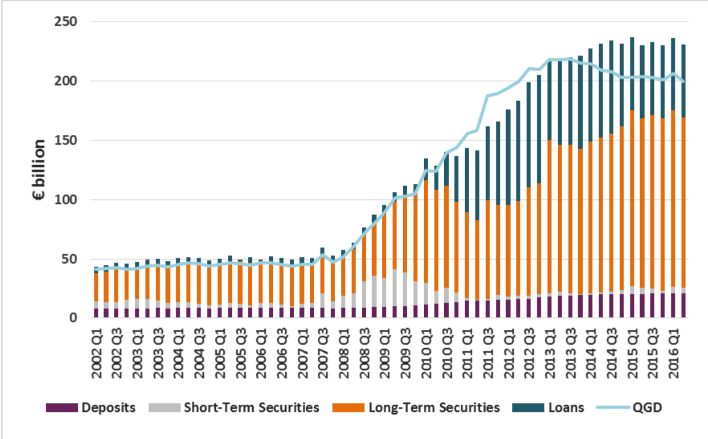
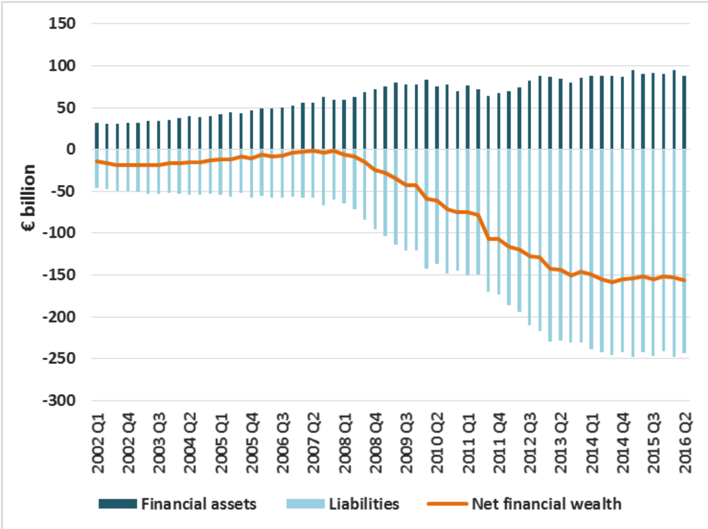


Chart 5.2 Government Sector Net Financial Wealth



[6] Government debt in QFA differs from the EDP measure of debt as it is calculated on a non-consolidated basis, and employs different valuation criteria.

6. Further information

The full data series for Ireland, quarterly commentary and notes on compilation are available from the Central Bank website at:
http://www.centralbank.ie/polstats/stats/qfaccounts/Pages/releases.aspx

AFA published by the CSO and QFA published by the Central Bank show differences for the MFI and government sectors. These arise from the classification and revision practices adopted by each institution following the introduction of ESA 2010. These differences are fully explainable and do not draw into question the quality of the respective statistical data. Both institutions are working closely to ensure a consistent approach in future publications.

Euro area statistics are available from the ECB website at:
www.ecb.int

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