Banc Ceannais na hÉireann
Central Bank of Ireland
Eurosystem

# Statistical Release

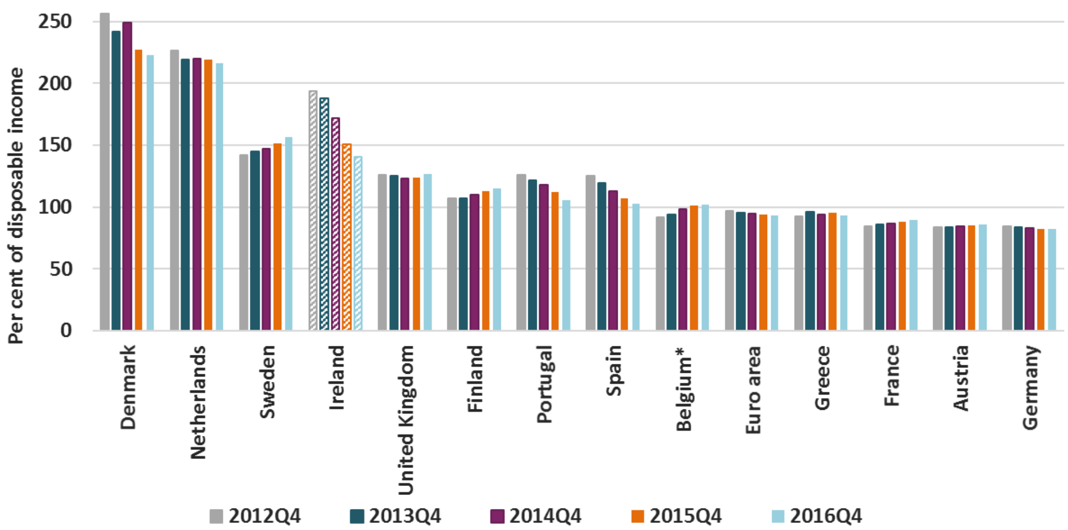
**10 May 2017**

# Quarterly Financial Accounts

## Irish households reduced debt as a proportion of income more than any country in European Union over the past 4 years

- Irish household debt as a proportion of disposable income has fallen more than any other EU country in recent years. Despite this, Irish households remain the fourth most indebted in the European Union. Between Q4 2012 and Q4 2016, Irish household debt has fallen from 193.9 per cent of disposable income to 140.9. This reflects a decline of 52.9 percentage points. In contrast, euro area household debt has fallen by just 3.3 percentage points over the same period.
- Indicators of household debt sustainability improved further during Q4 2016. Debt as a proportion of disposable income fell by 3.6 percentage points to 140.9 per cent. The fall in Q4 2016 reflected both the reduction in debt, as well as, growth in annualised disposable income of 1.4 per cent. The latter is now at its highest level to-date.
- Household net worth rose by €7.2bn during Q4 2016, to stand at €653.7bn, or €137,286 per capita. This represented an increase of 1.1 per cent over the period.
- Government net financial wealth increased slightly from -€159.3bn to -€157.8bn in Q4 2016. This was primarily driven by a reduction in total government financial liabilities of €4.7bn, which offset a fall in government financial assets of €3.2bn

**Cross Country comparison of Most Highly Indebted EU Countries, 2012-2016**



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

The domestic economy was a net borrower in Q4 2016 for the first time since Q4 2015, with net borrowing amounting to €0.2bn. This was primarily attributed to a reduced rate of investment in financial assets by non-financial corporations (NFCs). As a result, NFCs become a net borrower for the first time since Q4 2014. Financial corporations continued to reduce its position as a net borrower to €1.3bn. This is the lowest level since Q1 2014. Households continue to remain as net lenders, albeit at reduced levels, as saving outstriped borrowing.

## 2. Private Sector Debt

Private sector debt as a proportion of GDP increased by 7.6 percentage points over the quarter to stand at 293.9 per cent. The increase in private sector debt is predominantly due to an increase in the stock of NFC loans of €21.9bn. Household debt decreased over the period, albeit to a much lesser extent. The increase in debt was partly offset by the continued increased in GDP over the period, as annualised GDP increased by a further 1.1 per cent. On a year-on-year basis, private sector debt as a proportion of GDP has fallen by 28.7 percentage points. It should be noted that private sector debt in Ireland is significantly influenced by large multinational corporations (MNCs) and that restructuring by these entities has resulted in extremely large movements in Irish private sector debt, particularly 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 293.9 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

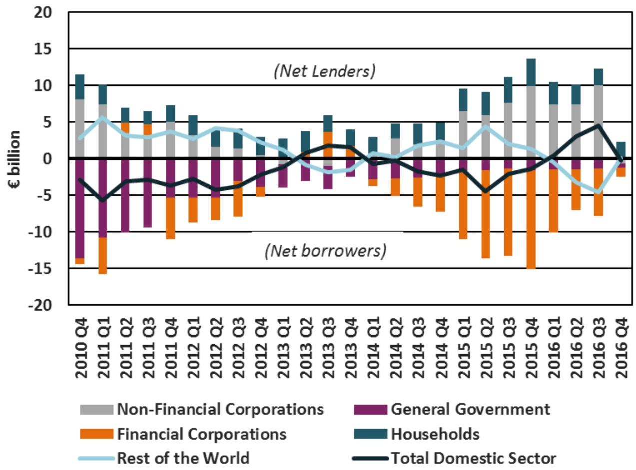
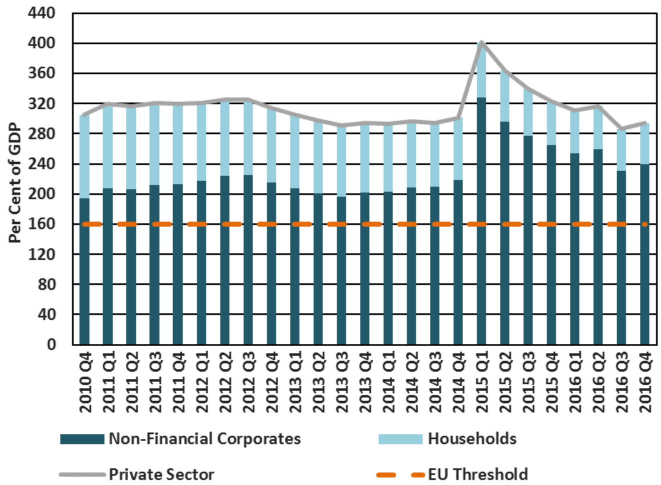



**Chart 2.1** Private Sector Debt to GDP




[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. Households

Household net worth[2] rose by €7.2bn during Q4 2016, to stand at €653.7bn or €137,286 per capita (Chart 3.1). This represented an increase of 1.1 per cent over the period. The increase in net worth largely reflected increases in housing assets (€4.2bn) and financial assets (€1.5bn). A decline in liabilities of €1.5bn over the quarter also contributed towards the increase.

Household net worth has risen by 51 per cent since its post-boom trough of €432.9bn in Q2 2012, largely due to increasing housing asset values. Despite this, net worth remains 9 per cent lower than at its peak of €718.5bn in Q2 2007.

Household debt continued to fall during Q4 2016, declining by €1.5bn to €143.8bn or €30,199 per capita (Chart 3.2). This was the largest decline since Q3 2015. The decrease in debt reflected both negative net transactions (€0.7bn), as well as, revaluations and other changes (€0.8bn).

Indicators of household debt sustainability improved during Q4 2016 (Chart 3.3). Debt as a proportion of disposable income fell by 3.6 percentage points to 140.9 per cent. The fall in Q4 2016 reflected both the reduction in debt, as well as, growth in annualised disposable income of 1.4 per cent. The latter is now at its highest level to-date. Debt as a proportion of total assets continued to decrease over the quarter, falling from 18.1 per cent to 17.8 per cent.

**Chart 3.1** Household Net Worth

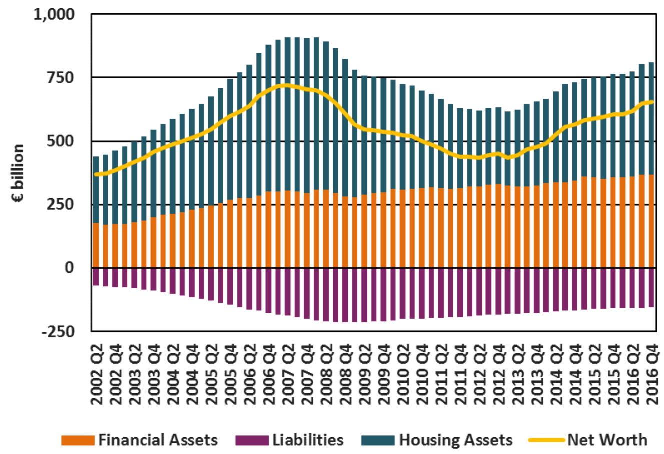



**Chart 3.2** Household Debt

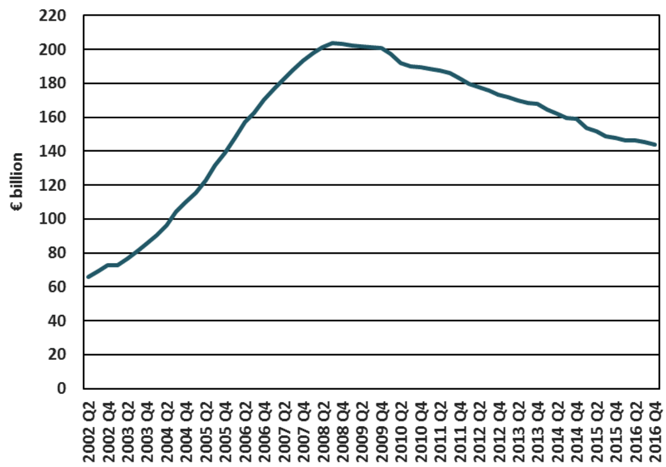
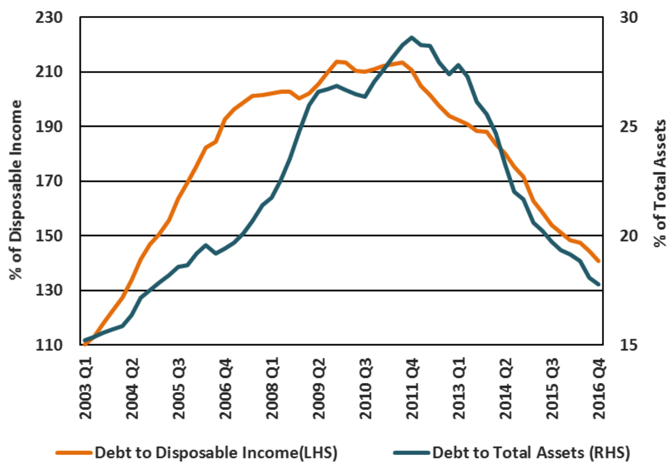



**Chart 3.3** Household Debt Indicators



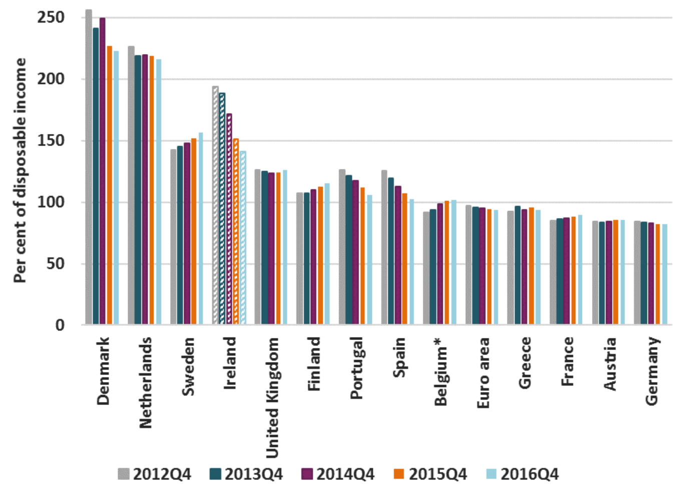

[2] Household net worth is calculated as the sum of household housing and financial assets minus their liabilities. The Central Bank of Ireland estimate of housing assets is based on the size and value of housing stock. Data on the value of housing is obtained from the CSO's 'Residential Property Price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

Irish household debt as a proportion of disposable income has fallen more than any other EU country in recent years. Despite this, Irish households remain the fourth most indebted in the European Union (Chart 3.4). The ratio of debt to disposable income was 140.9 per cent in Q4 2016, a decline of 10.2 percentage points since Q4 2015, and in excess of the 0.5 percentage point reduction for the euro area as a whole. Since end-2012, Irish household debt has fallen by 52.9 percentage points. In contrast, euro area household debt has fallen by just 3.3 percentage points over the same period. Danish households decreased debt by the second-most since end-2012, reducing debt by 33.4 percentage points to stand at 222.9 percent of disposable income.

Household investment in financial assets rose to €1.7bn in Q4 2016, an increase of €0.5bn over the quarter (Chart 3.5). Household investment in currency and deposits fell €0.1bn to €0.8bn, but remain the largest category of household investment. This decline was more than offset by an increase in transactions in shares and other equity, and insurance technical reserves.

Household investments in deposits fell slightly during Q4 2016 when compared to the previous quarter, decreasing to €0.7bn (Chart 3.6). Households mostly decreased their level of investment with MFIs (€134m) and to a lesser extent Government (€5m) over the period. Households continued to lodge the majority of their deposits with MFIs.

**Chart 3.4** Cross Country comparison of Most Highly Indebted EU Countries, 2012-2016




*Latest data Q3 2016

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

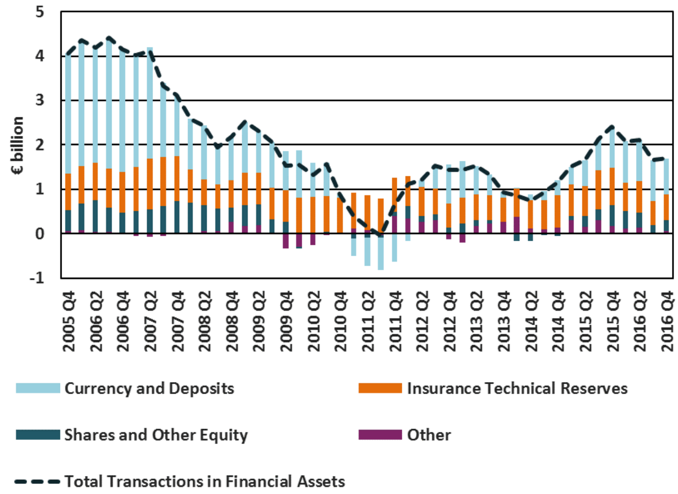
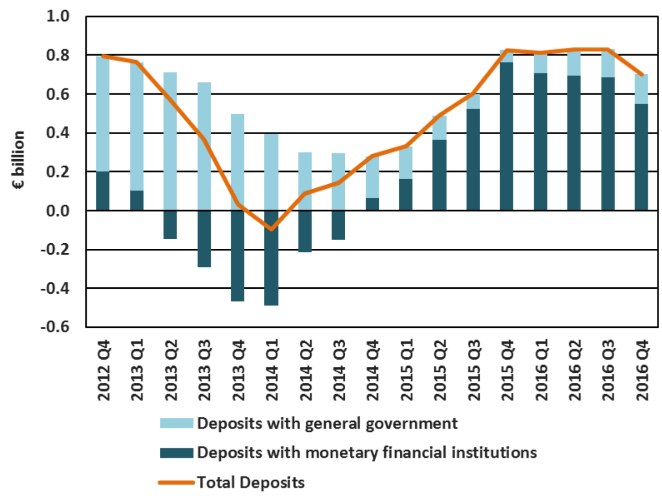
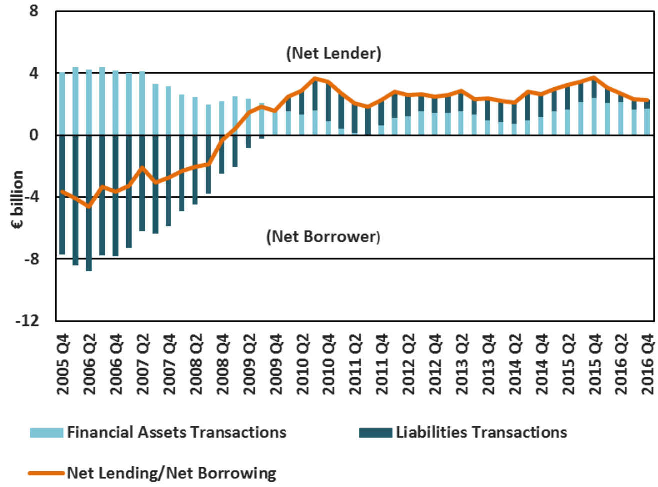



**Chart 3.6** Household Deposit Transactions with MFIs and Government, Four-Quarter Moving Average



Households continued to be a net lender in Q4 2016, investing in financial assets and paying down financial liabilities (Chart 3.7). Net lending remained mostly unchanged over the quarter, declining by just €60m. Financial asset transactions increased by €40m which was more than offset by a fall in liabilities transactions of €100m. Investment in financial assets, rather than deleveraging, continues to be the driver for net lending.

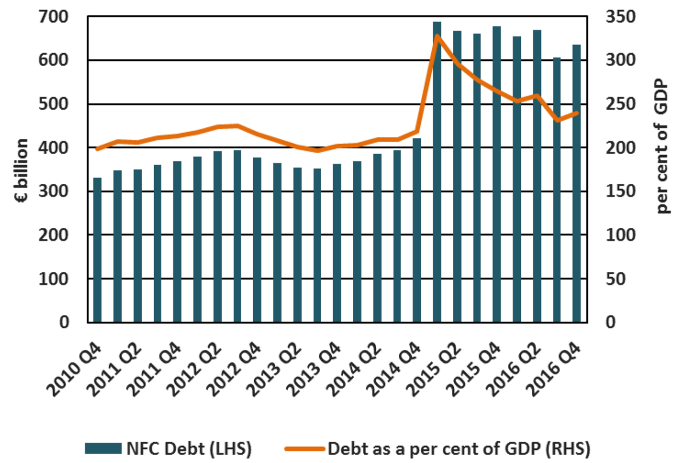
**Chart 3.7** Household Net Lending/Borrowing, Four-Quarter Moving Average




## 4. Non-Financial Corporation Sector

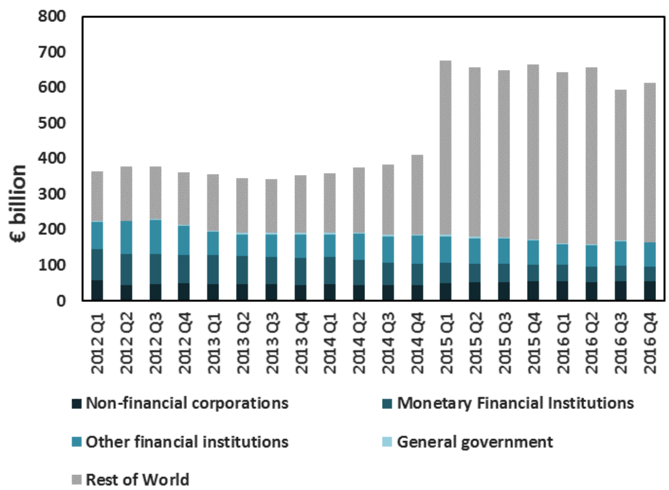
NFC debt as a percentage of GDP increased during Q4 2016, rising from 231 per cent to 239.7 per cent (Chart 4.1). While annualised GDP increased by 1.1 per cent, this was outstripped by an increase in the stock of NFC debt of 4.9 per cent. Relative to its peak of 327.8 per cent in Q1 2015, NFC debt as percentage of GDP has decreased substantially. When analysing Irish NFC debt trends, it is important to note that Ireland has substantial multinational corporation (MNC) activities, which can cause volatility in debt from quarter to quarter.

**Chart 4.1** NFC Debt



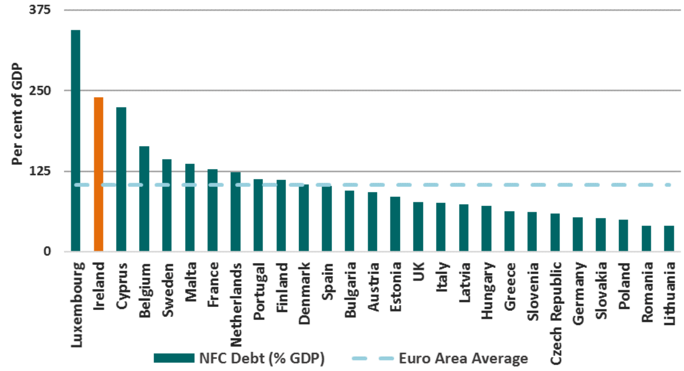

NFC debt increased by €29.5bn over the quarter. This was driven primarily by exchange rate movements which increased the value of loans owed by Irish resident NFCs to foreign counterparts by €27bn in Q4 2016. In contrast, NFCs loan liabilities financed domestically decreased by €2.3bn, reflecting continued deleveraging with regards to Irish MFIs (Chart 4.2).

**Chart 4.2** Financing of NFC Loans



The indebtedness of Irish NFCs remains high in an international context. Ireland's NFC debt-to-GDP ratio was 239.7 per cent in Q4 2016 compared to the euro area average of 104.2 per cent (Chart 4.3). Ireland was ranked second amongst EU countries, while Luxembourg and Cyprus, both of which also have very large MNCs relative to the size of their economies, were the most indebted and third most indebted, respectively.

**Chart 4.3** Cross-Country Comparison of NFC Debt as a Percentage of GDP




## 5. Government Sector

Government debt fell by €4.8bn, or 2 per cent, to €230.3bn in Q4 2016 (Chart 5.1). The decrease in debt was mainly a result of net redemptions of debt securities (€2.8bn) and a decrease in the value of outstanding debt securities (€2.5bn). The chart also shows that the standard Excessive Deficit Procedure[3] (EDP) measure of debt decreased by €1.8bn in Q4 2016.

Government net financial wealth increased slightly from -€159.3bn to -€157.8bn in Q4 2016. This was primarily driven by a reduction in total government financial liabilities of €4.7bn, which offset a fall in government financial assets of €3.2bn (Chart 5.2). A decrease in holdings of deposits was the main driver of the fall in government assets during Q4 2016.

**Chart 5.1** Government Debt

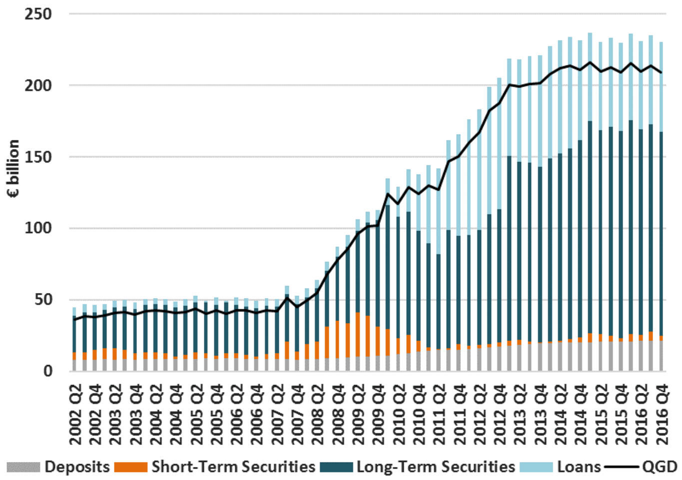
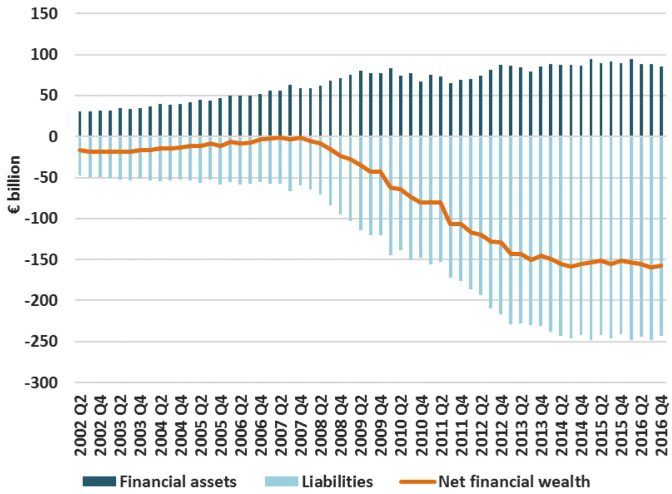



**Chart 5.2** Government Net Financial Wealth




[3] 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:
https://www.centralbank.ie/statistics/data-and-analysis/financial-accounts

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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