Banc Ceannais na hÉireann
Central Bank of Ireland
Eurosystem

Statistical Release

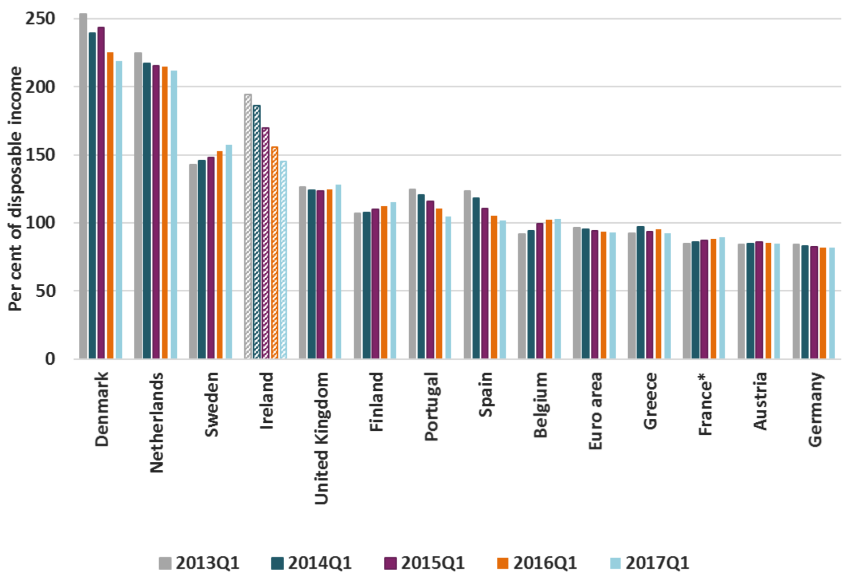
11 September 2017

Quarterly Financial Accounts

Irish household debt continues to decrease more than any other EU country, falling to 145 per cent of disposable income

- Irish household debt as a proportion of disposable income fell by 10.2 percentage points over the year, the largest decline amongst European Union (EU) countries.
- Household debt sustainability improved further during Q1 2017. Debt as a proportion of disposable income declined to 145.2 per cent, its lowest level since Q3 2004. This represented a decrease of 2.8 percentage points over the quarter.
- At end Q1, net worth stood at €670.3bn, the equivalent of €142,914 per capita. Household net worth rose by €12.1bn during Q1 2017. This reflected increases in housing assets (€6bn), financial assets (€5.5bn) and to a lesser extent decreasing liabilities (€0.5bn) over the quarter. By Q1 2017, net worth was just 6.7 per cent lower than its peak of €718.5bn at Q2 2007.
- NFC debt as a percentage of GDP fell during Q1 2017, decreasing from 246.6 per cent to 230.4 per cent. This was due to an increase in annualised GDP by 1.7 per cent and a decrease in NFC debt by 5 per cent.

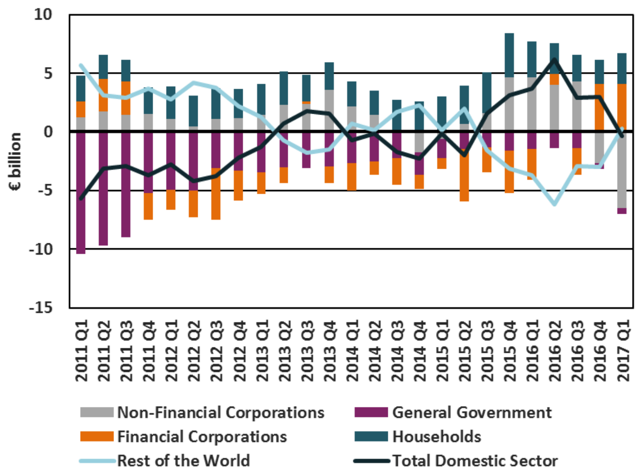
Cross Country comparison of Most Highly Indebted EU Countries, Q1 2013-Q1 2017



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

The domestic economy was a net borrower in Q1 2017 for the first time since Q2 2015, with net borrowing amounting to €0.3bn. This was primarily attributed to a substantial increase in non-financial corporations' (NFCs) issuance of unlisted shares held by entities in the rest of the world. It was partially offset by household net lending, which increased from €2.1bn to €2.6bn. This reflected increased investment in financial assets by households and a reduction in borrowing. Net borrowing by government remained unchanged at €0.5bn.

Chart 1.1 Net Lending/Borrowing of all Sectors

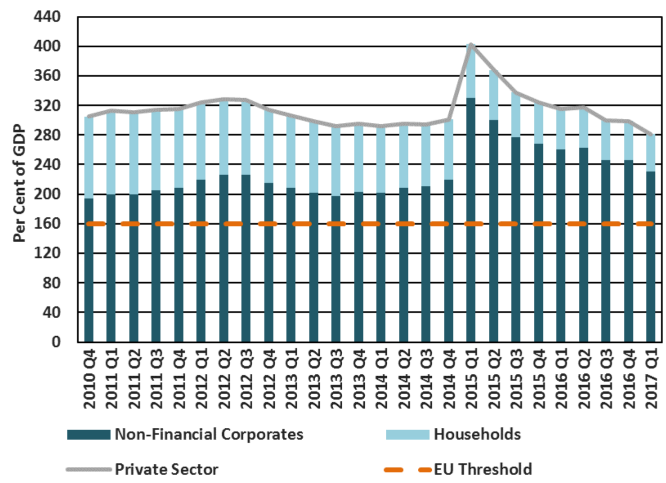


2. Private Sector Debt

Private sector debt as a proportion of GDP fell by 17.4 percentage points over the quarter to 281.3 per cent. This was its lowest level since the beginning of the financial crisis. The fall in private sector debt reflected reductions in the stock of debt owed by both NFCs and households, as well as an increase in annualised GDP. NFC debt decreased by €34bn, while household debt fell by €1.1bn in Q1 2017. Annualised GDP increased by €4.6bn, or 1.7 per cent over the period. On a year-on-year basis, private sector debt as a proportion of GDP has fallen by 34.2 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 281.3 per cent. However, this threshold does not take account of the large MNC sector in Ireland.

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 €12.1bn during Q1 2017. This reflected increases in housing assets (€6bn), financial assets (€5.5bn) and to a lesser extent decreasing liabilities (€0.5bn) over the quarter. By end-Q1, net worth stood at €670.3bn, the equivalent of €142,914 per capita (Chart 3.1).

Overall, household net worth has risen by 55.9 per cent since its lowest level of €430bn at Q2 2012. By Q1 2017, net worth was just 6.7 per cent lower than its peak of €718.5bn at Q2 2007.

Household debt fell to €142.7bn or €30,421 per capita by end Q1 2017 (Chart 3.2). This represented a decline of 0.8 per cent over the quarter. Overall, household debt is 30 per cent lower than its peak of €203.7bn in Q3 2008.

Household debt sustainability improved further during Q1 2017 (Chart 3.3). Debt as a proportion of disposable income declined to 145.2 per cent, its lowest level since Q3 2004. This represented a decrease of 2.8 percentage points over the quarter. The fall in Q1 2017 reflected both the reduction in debt, as well as, growth in annualised disposable income of 1.1 per cent. The latter is now at its highest level since early 2009. Household debt as a proportion of total assets fell to 17.3 per cent. This was its lowest level since Q3 2004 and represented a decrease of 0.4 percentage point over the quarter.

Chart 3.1 Household Net Worth

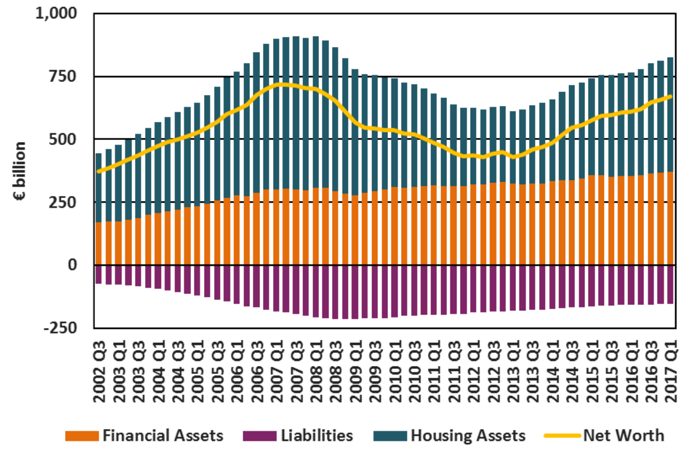


Chart 3.2 Household Debt

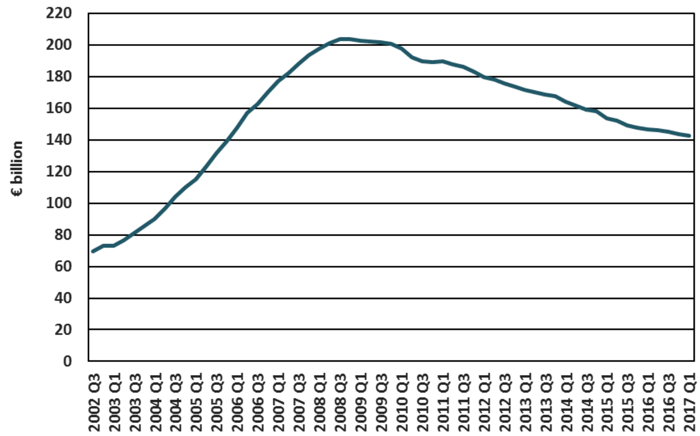
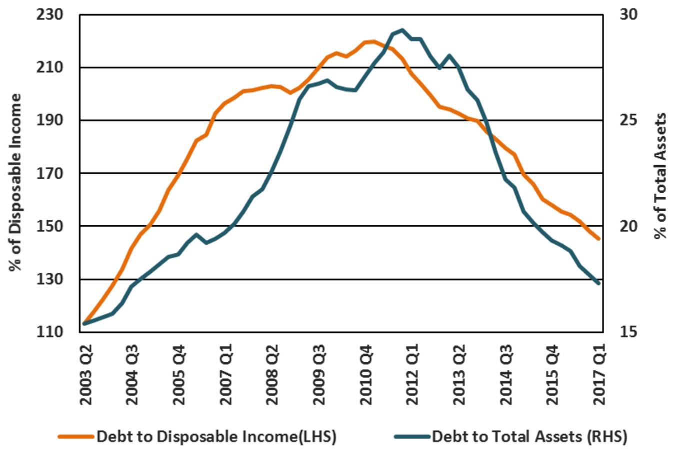


Chart 3.3 Household Debt Indicators



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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).

Irish household debt as a proportion of disposable income fell by 10.2 percentage points over the year, the largest decline amongst European Union (EU) countries. Despite this, Irish households remain the fourth most indebted in the European Union (Chart 3.4). Irish debt to disposable income fell by 49.2 percentage points between Q1 2003 and Q1 2017. In comparison, the euro area observed a 3.3 percentage point reduction across the same period. Swedish household debt to disposable income increased by the most over the past four years, rising by 14.3 percentage points. By end-Q1 2017 debt to disposable income stood at 157.1 per cent. The gap between the two most highly indebted EU countries, Denmark and the Netherlands, reduced to 7.1 percentage points, as the former's disposable income continues to expand and debt declined moderately.

Household investment in financial assets rose to €2bn in Q1 2017, an increase of €0.4bn over the quarter (Chart 3.5). This trend mostly reflected increased transactions in insurance technical reserves[3] (€229m) and currency and deposits (€135m). Households continued to invest mostly in currency and deposits (€935m) and insurance technical reserves (€870m) over the quarter.

Household investments in deposits rebounded by €174m over the quarter (Chart 3.6). Households continued to lodge the majority of their deposits with MFIs (€725m). Deposits transactions with general government totalled €128m over the quarter.

Chart 3.4 Cross Country comparison of Most Highly Indebted EU Countries, 2013Q1-2017Q1

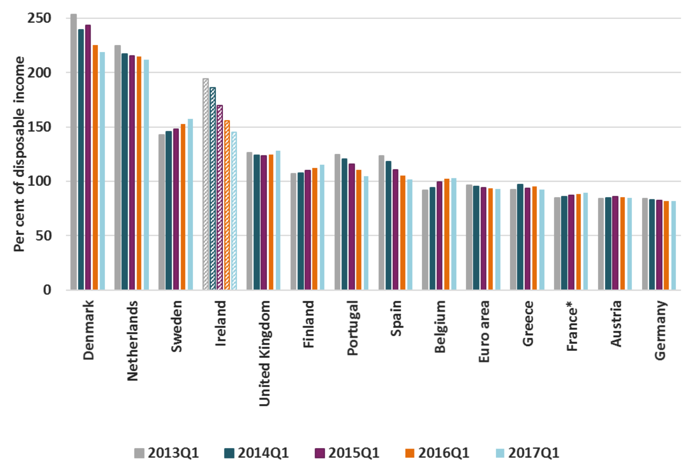


Chart 3.5 Household Transactions in Financial Assets, Four Quarter Moving Average

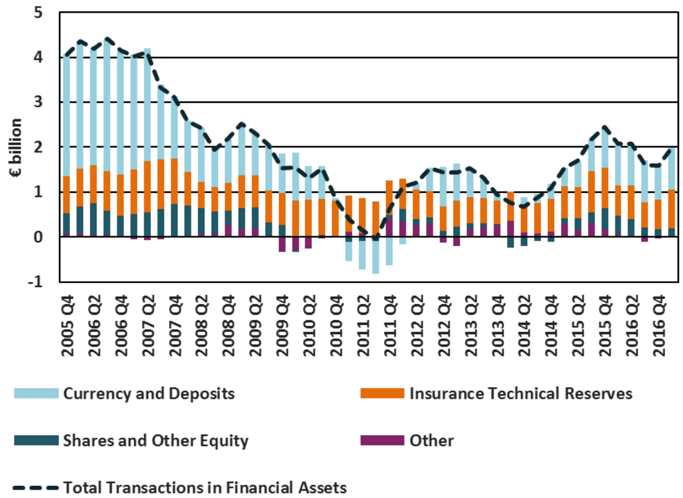
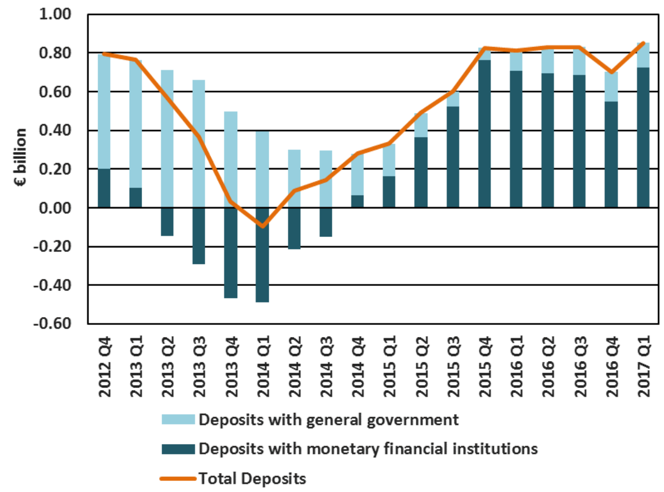


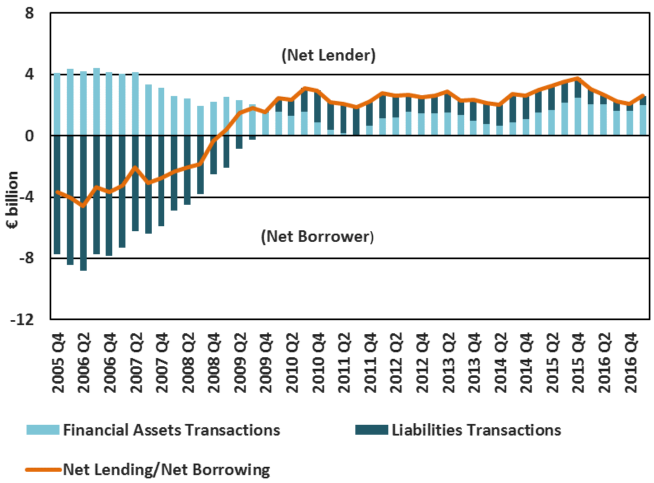
Chart 3.6 Household Deposit Transactions with MFIs and Government, Four Quarter Moving Average



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

Households continued to be a net lender in Q1 2017, investing in financial assets and paying down financial liabilities (Chart 3.7). Net lending increased over the quarter by €0.50bn reversing the decline observed since Q4 2015. Financial asset transactions of €2bn greatly outweighed liabilities transactions of €0.6bn. Therefore, investment in financial assets, rather than deleveraging, continues to drive net lending.

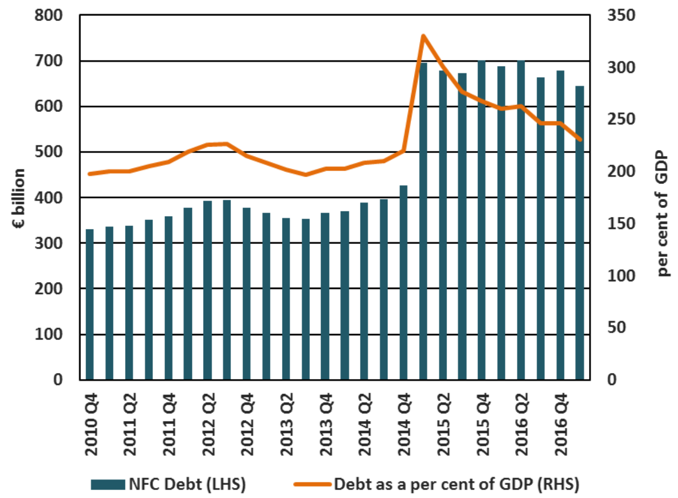
Chart 3.7 Household Net Lending/Borrowing, Four Quarter Moving Average



4. Non-Financial Corporation Sector

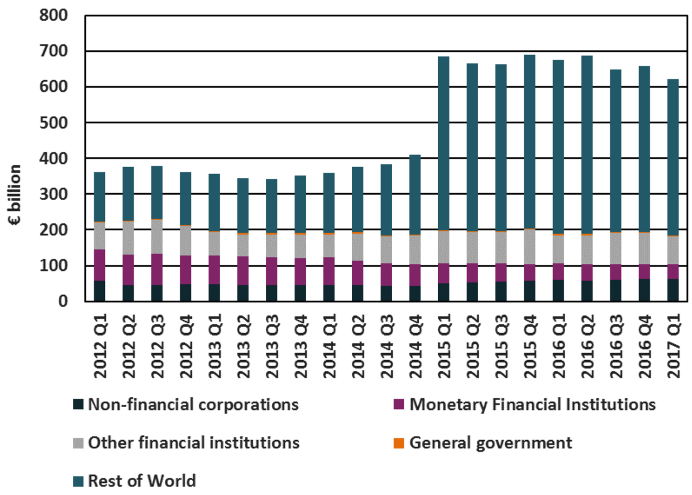
NFC debt[4] as a percentage of GDP fell during Q1 2017, decreasing from 246.6 per cent to 230.4 per cent (Chart 4.1). This was due to an increase in annualised GDP by 1.7 per cent and a decrease in NFC debt by 5 per cent. NFC debt to GDP has fallen by 100 percentage points since its peak of 330 per cent in Q1 2015. This decline largely reflected the substantial increases in GDP during 2015.

Chart 4.1 NFC Debt



NFC debt decreased by €34bn in Q1 2017. This largely reflected a reduction in the value of loans owed by Irish resident NFCs to foreign counterparts (€25.7bn). NFCs reduced debt with Irish resident sectors by €11.6bn. Most of this reduction was with other financial intermediaries (Chart 4.2).

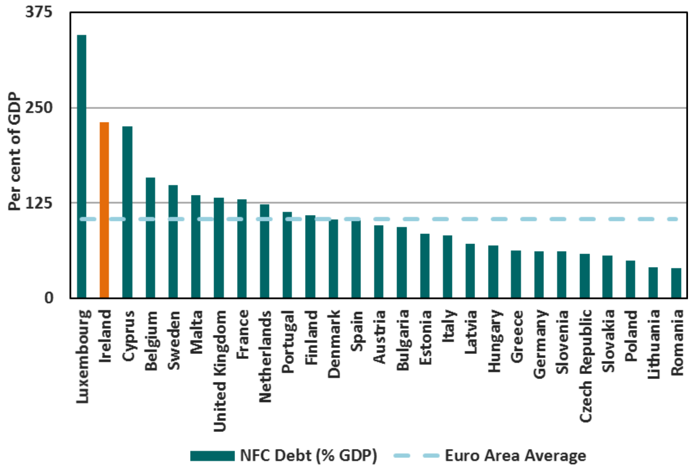
Chart 4.2 Financing of NFC Loans



[4] NFC debt is defined as non-consolidated debt securities and loans.

Irish NFC debt remains high when viewed in an international context. The debt-to-GDP ratio of Ireland's NFCs was 126.2 percentage points above the euro area average of 104.2 per cent in Q1 2017. This ranks Ireland as the second most indebted amongst EU countries. 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, with NFC debt-to-GDP ratios of 345.3 per cent and 225.5 percent respectively.

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



5. Government Sector

Government debt rose by €5.1bn, or 2.2 per cent, to €235.4bn in Q1 2017 (Chart 5.1). This increase was driven by a net issuance of debt securities of €6.9bn, while the value of outstanding debt securities fell by €2.2bn. The chart also shows that Quarterly Government Debt, which is based on the Excessive Deficit Procedure[5] (EDP) measure of debt, increased by €7.6bn in Q1 2017.

Government net financial wealth decreased slightly from -€157.8bn to -€158.0bn in Q1 2017, as the increase in government debt was largely offset by an increase of €4.7bn in the stock of financial assets held by government (Chart 5.2). The rise in government asset holdings was driven mainly by increased investment in deposits by government of €7.1bn.

Chart 5.1 Government Debt

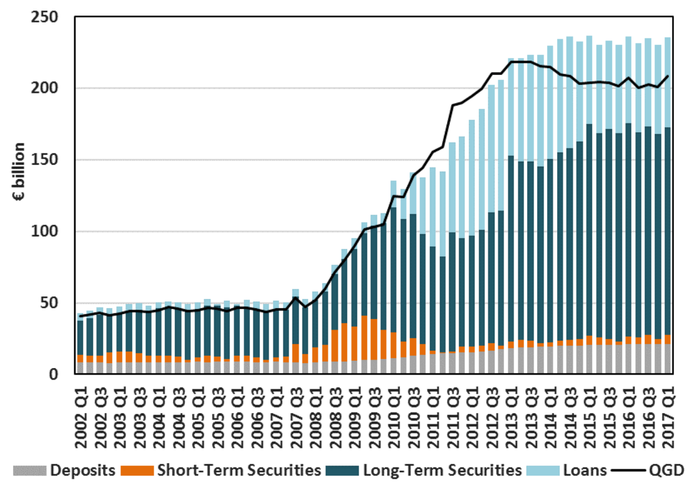
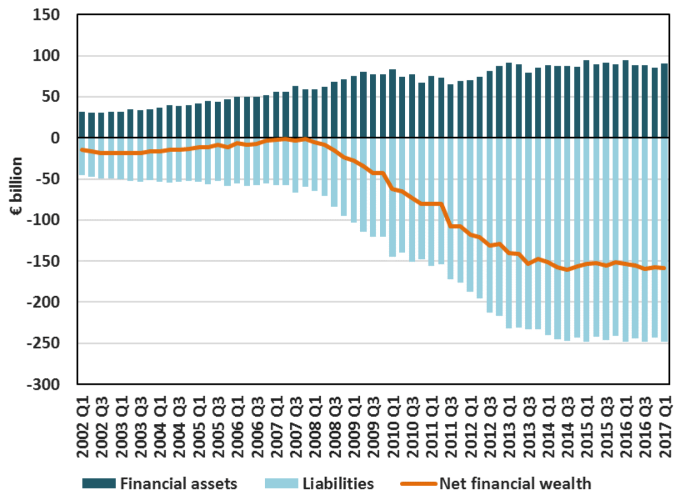


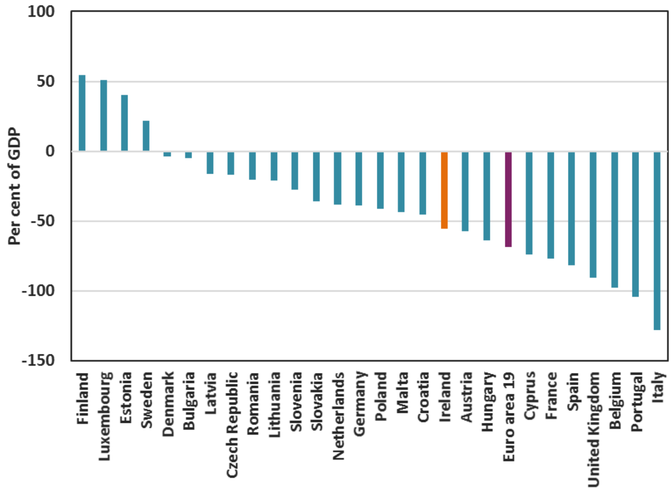
Chart 5.2 Government Net Financial Wealth



[5] 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.

Chart 5.3 shows a cross-country comparison of government net financial wealth as a percentage of GDP within the European Union[6]. Ireland is ranked 18th out the 27 EU countries for which data is available. For Ireland, net government financial wealth as percent of GDP amounted to -55.8 per cent, compared to a euro area average of -68.8 per cent. Finland is ranked first, with a positive net financial wealth of 54.5 per cent, while Italy is ranked last with negative net financial wealth of -128.8 per cent. This chart excludes data on non-financial assets held by government due to lack of comparable data.

Chart 5.3 Cross Country Comparison of Government Net Financial Wealth



[6] Data unavailable for Greece

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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