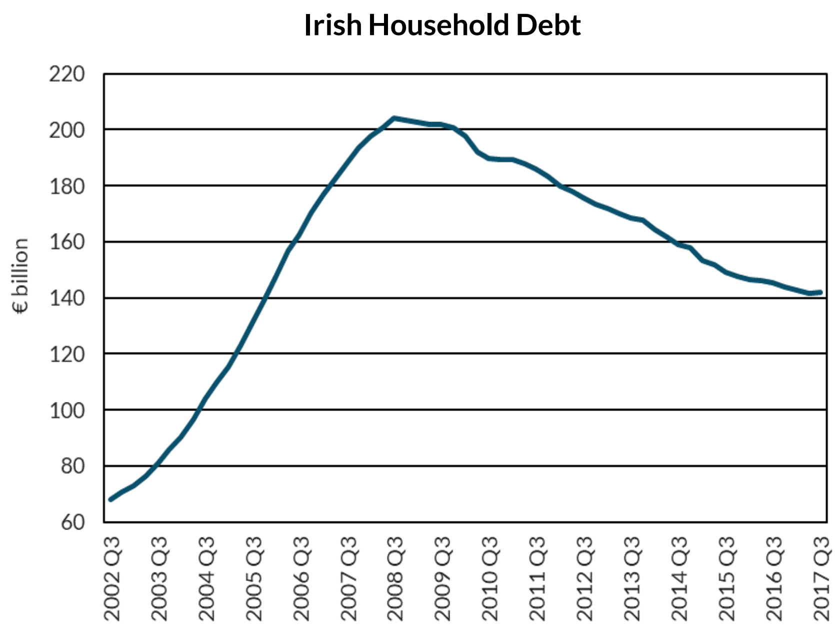
Quarterly Financial Accounts

Household debt reduction pauses during Q3 2017

- Household debt remained largely unchanged during Q3 2017, increasing marginally by €76m. This marked the second only increase in debt since end-2008. At end-Q3 2017, debt stood at €141.8bn, or €29,592 per capita.
- Household net worth increased by 4 per cent in Q3 2017. This largely reflected increases in housing assets. By end-Q3 2017, net worth stood at €712.4bn, the equivalent of €148,655 per capita. Net worth was just 1 per cent lower than its peak at Q2 2007 by end-Q3.
- Despite household debt remaining largely unchanged during Q3 2017, measures of debt sustainability continued to improve over the quarter. Debt as a proportion of disposable income fell by 1.7 percentage points to 140.2 per cent, reflecting increased annualised disposable income over the quarter.
- NFC debt as a percentage of GDP continued to fall during Q3 2017. NFC debt rose by €5.5bn, largely due to an increase in NFC loan liabilities. This was outpaced, however, by growth of annualised GDP in Q3 2017 leading to a fall in the NFC debt-to-GDP ratio from 214.8 per cent to 211.4 per cent.



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

The domestic economy continued to be a net borrower in Q3 2017, albeit to a lesser extent than in the previous quarter. Net borrowing totalled €2.1bn over the quarter, compared to €4.7bn in Q2 2017 (Chart 1.1). This reduction in net borrowing was primarily attributable to a decline in non-financial corporation (NFC) net borrowing of €4.9bn. This was slightly offset by a decrease in net lending by financial corporations of €2.2bn.

2. Private Sector Debt

Private sector debt as a proportion of GDP fell by 4.6 percentage points over the quarter to stand at 260 per cent (Chart 2.1). This was its lowest level since mid-2008. The fall in private sector debt was due to an increase in annualised GDP of €7.2bn, or 2.5 per cent. The decline was partially offset by an increase in the debt of both households (€76m) and NFCs (€5.5bn). On a year-on-year basis, private sector debt as a proportion of GDP has fallen by 40.1 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 260 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

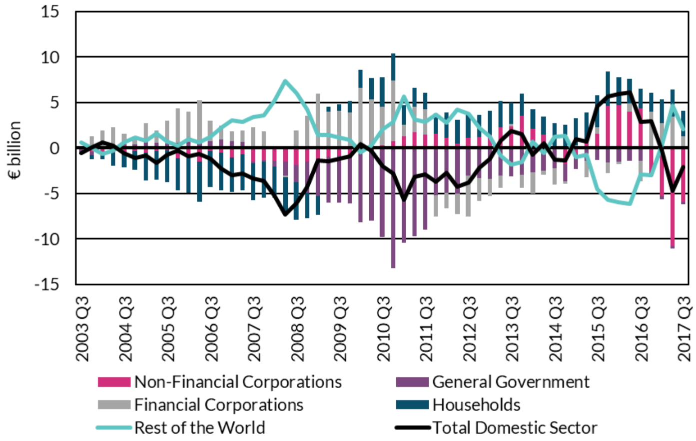
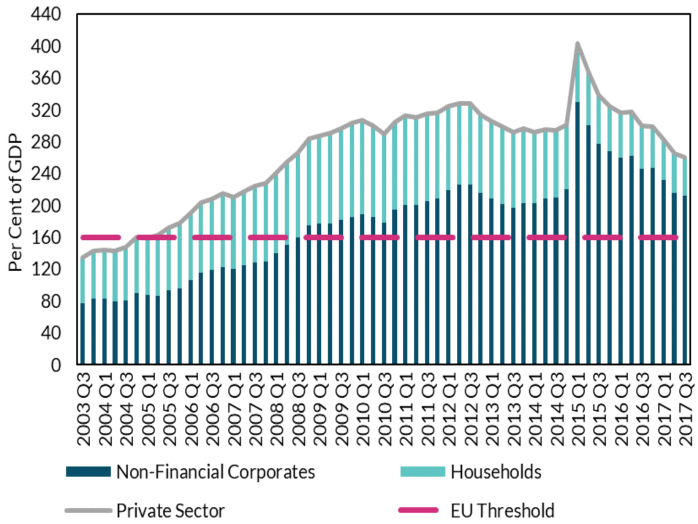


Chart 2.1 Private Sector Debt to GDP



[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 debt remained largely unchanged during Q3 2017, increasing marginally by just €76m (Chart 3.1). This marked only the second increase in debt since end-2008. At end Q3 2017, debt stood at €141.8bn, or €29,592 per capita. Household debt has decreased by over 30 per cent since its peak of €204.2bn in Q3 2008.

Household net worth[2] increased by 4 per cent or €27.1bn in Q3 2017. This largely reflected increases in housing assets (+€25.6bn). A further increase in financial assets (+€1.5bn) also contributed towards the increase in net worth, while liabilities (-€44m) remained largely unchanged. By the end of Q3, net worth stood at €712.4bn, the equivalent of €148,655 per capita (Chart 3.2).

Household net worth has risen by 65.7 per cent since its lowest level of €430bn at Q2 2012, largely due to increasing house asset values. By Q3 2017, net worth was just 1 per cent lower than its peak of €719.6bn at Q2 2007.

Despite household debt remaining largely unchanged during Q3 2017, measures of debt sustainability continued to improve over the quarter (Chart 3.3). Debt as a proportion of disposable income fell by 1.7 percentage points to 140.2 per cent. This reflected an increase in annualised disposable income of 1.3 per cent over the quarter. Household debt as a proportion of total assets fell to 16.4 per cent, a decline of 0.5 percentage points. The decrease reflected an increase in total assets over the quarter of 3.2 per cent.

Chart 3.1 Household debt

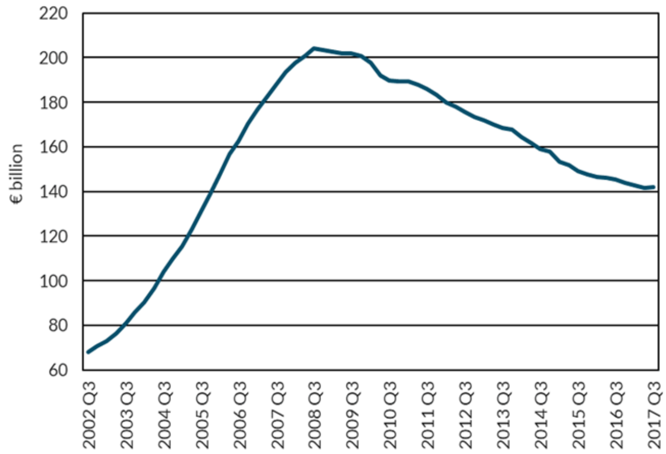


Chart 3.2 Household Net Worth

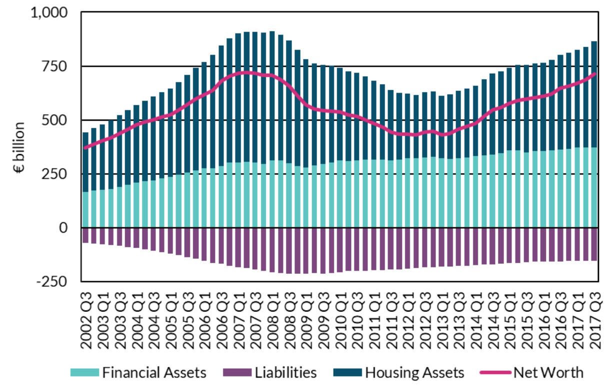
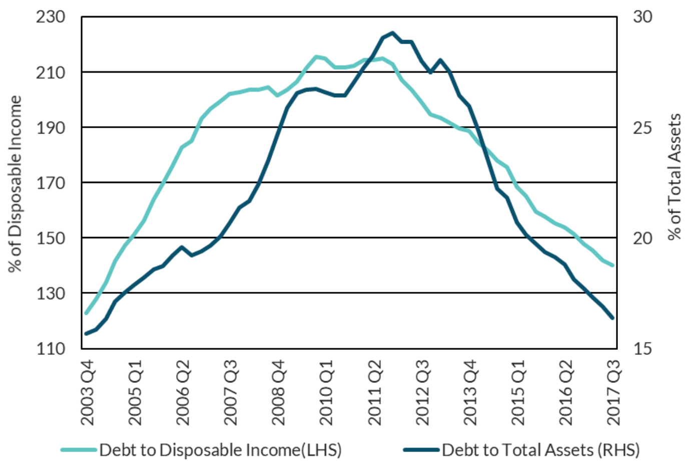


Chart 3.3 Household Debt Indicators



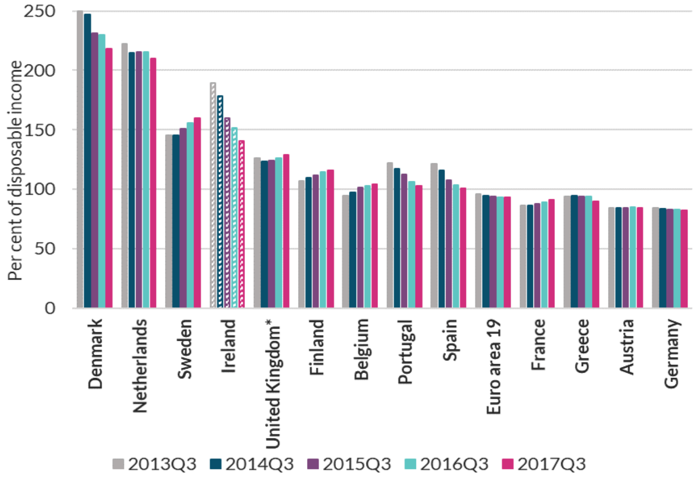
[2] Household net worth is calculated as the sum of household housing and financial assets minus their liabilities. The Central Bank of Ireland estimate of housing assets is based on the size and value of housing stock. Data on the value of housing is obtained from the CSO's 'Residential Property Price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

Irish household debt as a proportion of disposable income fell by 11.3 percentage points over the year to Q3 2017, the largest decline amongst the mostly highly indebted European Union (EU) countries. Denmark, the most indebted country, fell by almost as much, with a decline of 11.2 percentage points. Irish households continue to be the fourth most indebted in the European Union (Chart 3.4). Irish debt-to-disposable income fell by 49.4 percentage points between Q3 2013 and Q3 2017. In comparison, euro area ratio declined by 3 percentage points across the same period. Swedish household debt-to-disposable income increased by the most over the past four years, rising by 15 percentage points.

Household investment in financial assets continued to rise during Q3 2017. Compared to the previous quarter, investment in financial assets increased by €50m (Chart 3.5). This trend mostly reflected increased investment in insurance technical reserves[3] (€65m) and other financial assets (€26m). The increase was partly offset by a decline in currency and deposits (€48m).

Household investments in deposits fell to just below €1bn during Q3 2017. This represented a decrease of €41m compared to the previous quarter. The decline largely reflected a decrease of €26m in deposit transactions with Government. Investment in deposits continued to stay just below its mid-2008 peak. Most of the transactions in deposits over the quarter were with MFIs (€0.9bn). Household deposits transactions with Government declined for the second consecutive quarter.

Chart 3.4 Cross Country comparison of Most Highly Indebted EU Countries, 2013Q1-2017Q2



*Latest data Q1 2017

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

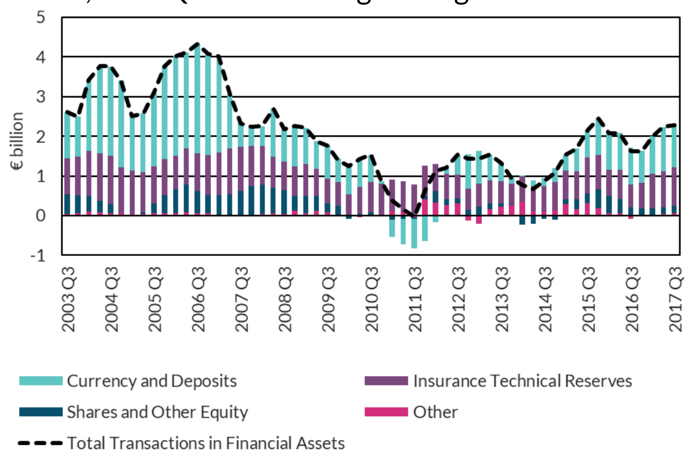
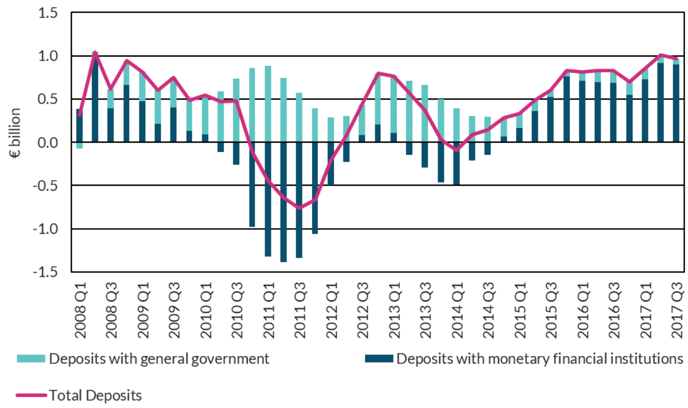


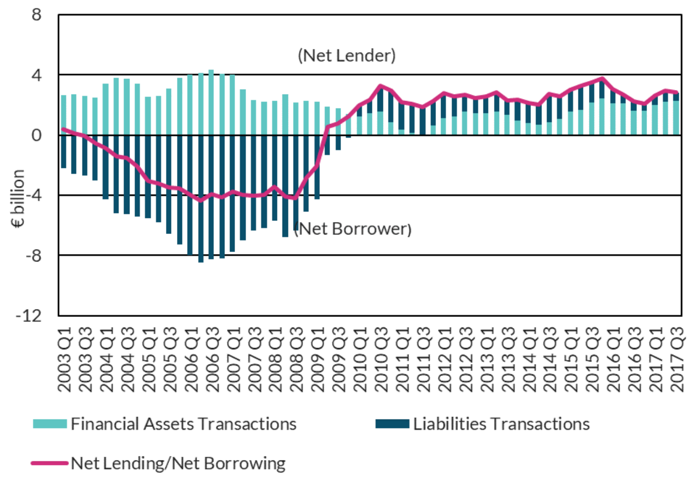
Chart 3.6 Household Deposit Transactions with MFIs and Government, Four Quarter Moving Average



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

Household net lending declined by €0.1bn during Q3 2017, falling to €2.8bn. Investment in financial assets continued to increase, rising by €50m over the quarter. In contrast, household debt reduction slowed by a greater amount (€156m), outpacing investment and resulting in a decrease in net lending.

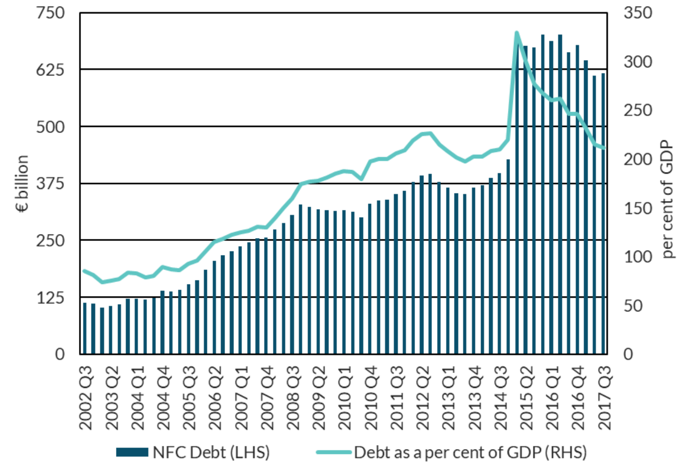
Chart 3.7 Household Net Lending/Borrowing, Four-Quarter Moving Average



4. Non-Financial Corporation Sector

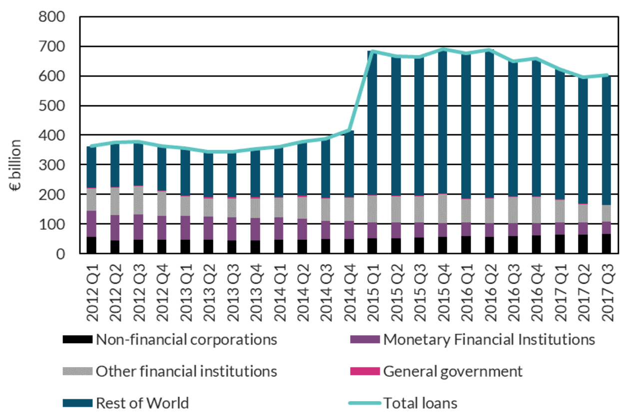
NFC debt[4] as a percentage of GDP continued to fall during Q3 2017. NFC debt rose by €5.5bn over the quarter, largely due to an increase in NFC loan liabilities. This was outpaced, however, by growth in annualised GDP during Q3 2017 leading to a fall in the NFC debt-to-GDP ratio, from 214.8 per cent to 211.4 per cent (Chart 4.1). NFC debt-to-GDP has decreased by 118.5 percentage points since its peak of 329.9 per cent in Q1 2015. This decline reflects both higher annualised GDP, which has risen by 38.5 per cent since Q1 2015, and a reduction in debt of €78.2bn.

Chart 4.1 NFC Debt



The increase in NFC debt during Q3 2017 was largely due to an increase in stock of loans from non-residents, which rose by €9.9bn (Chart 4.2). The reduction of NFCs' debt with Irish resident lenders continued in Q3 2017, with loans from the resident sectors falling by €3.6bn.

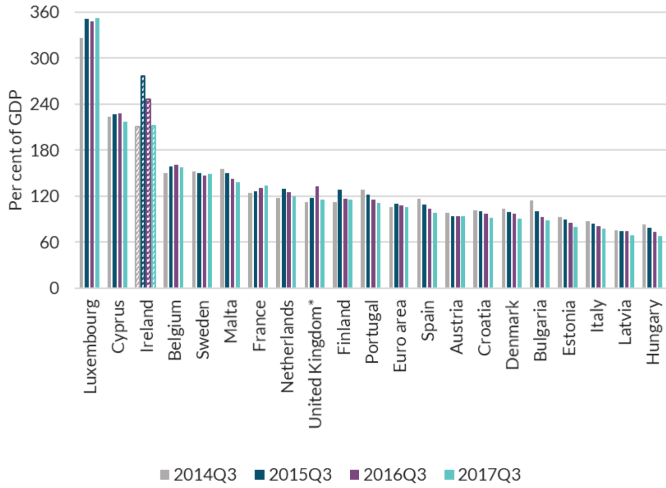
Chart 4.2 Financing of NFC Loans



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

Irish NFC debt remained high when compared to other European countries (Chart 4.3). The debt-to-GDP ratio of Irish-resident NFCs was double that of the euro area. Ireland is ranked third amongst EU countries, with only Luxembourg and Cyprus having more highly indebted NFC sectors. Both countries also have very large MNC sectors relative to the size of their economies. In the year to Q3 2017, the Irish NFC debt-to-GDP fell by 34.7 percentage points, which was the largest decrease amongst all EU countries.

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



5. Government Sector

The net financial wealth of government increased by €3bn over the quarter, as government assets increased at a faster rate than government liabilities (Chart 5.1). Government assets rose by €3.6bn, primarily due to an increase in the value of equity assets held by government. Government financial liabilities increased by €0.6bn during the quarter.

Chart 5.1 Government Net Financial Wealth

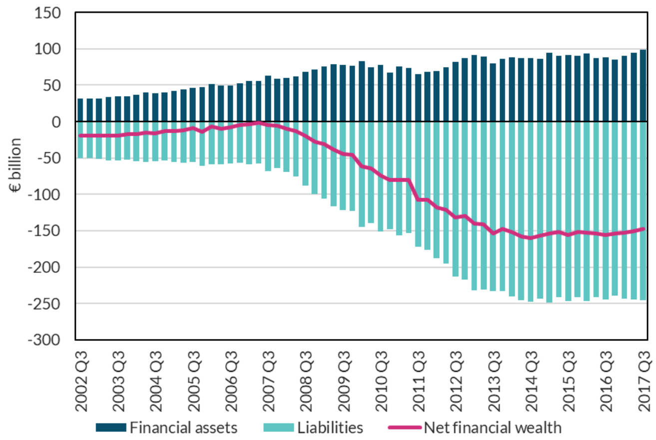
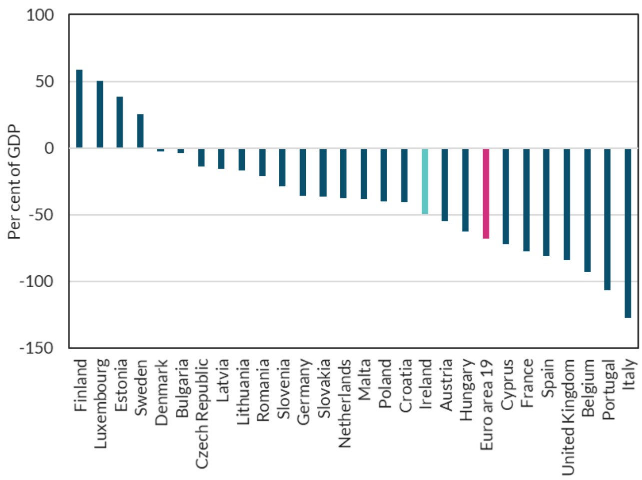


Chart 5.2 shows a cross-country comparison of government net-financial wealth as a percentage of GDP within the EU5. Ireland is ranked 18th out of the 27 EU countries for which data is available. Net government financial wealth as a percentage of GDP amounted to -49.5 per cent for Ireland, compared to the euro area average of -68.1 per cent. Finland was ranked first amongst EU countries, with a positive net financial wealth of 58.8 per cent of GDP.

Chart 5.2 Cross-country Comparison of Government Net Financial Wealth



[5] Data is not available 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

For queries contact: Central Bank, Press Office on (01) 224 6299.