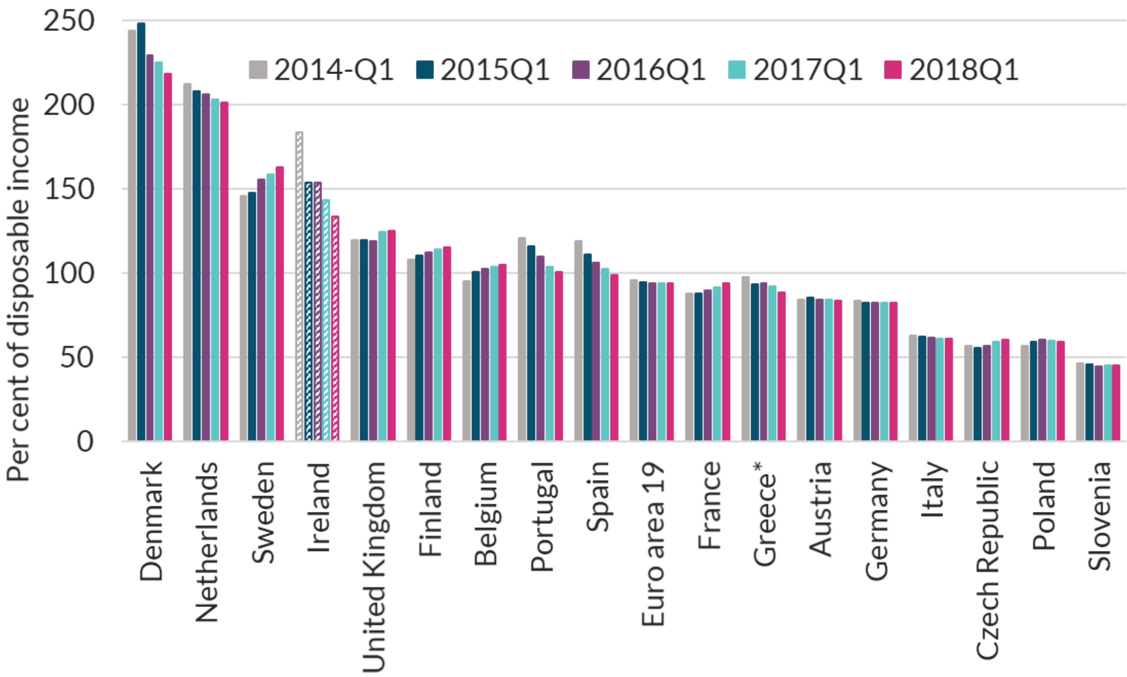
Quarterly Financial Accounts

Irish household debt continues to fall more than any other country in the EU

- Irish household debt as a proportion of disposable income fell by 9.7 percentage points over the year to Q1 2018, the largest decline amongst EU countries.
- Household debt as a proportion of disposable income has fallen by 79.2 percentage points since its peak in Q3 2011.
- Household net worth increased by 0.9 per cent to reach €732bn in Q1 2018. Household net worth per capita now stands at €150,768.
- NFC debt as a percentage of GDP continued to fall during Q1 2018. NFC debt fell by €24.8bn, largely due to a decrease in NFC loan liabilities. NFC debt-to-GDP has decreased by 131.7 percentage points since its peak of 326.5 per cent in Q1 2015.

Household Debt to Disposable Income

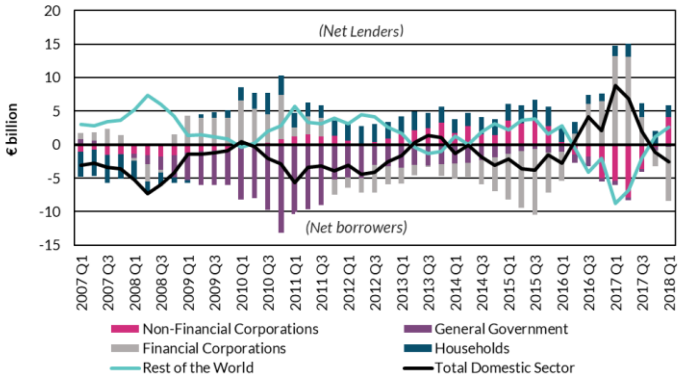


*Latest data from Q4 2017

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

Irish residents were net borrowers in Q1 2018, with net financial inflows amounting to €2.6bn over the quarter, compared to net borrowing of €1.2bn in Q4 2017 (Chart 1.1). Net borrowing by domestic sectors primarily reflected net borrowing by financial corporations of €8.1bn, an increase of €5.7bn compared to the previous quarter. Households and non-financial corporations (NFCs) were both net lenders in Q1 2018, with net lending of €1.8bn and €4.1bn respectively. Net borrowing by government decreased slightly from €0.4bn in Q4 2017 to €0.3bn in Q1 2018, and is now at its lowest rate since Q4 2007.

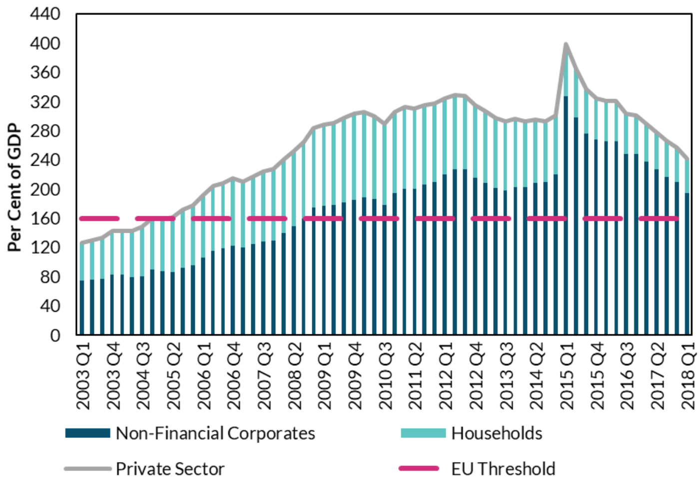
Chart 1.1 Net Lending/Borrowing of All Sectors



2. Private Sector Debt

Private sector debt as a proportion of GDP fell by 15.9 percentage points to stand at 241 per cent in Q1 2018 (Chart 2.1). Private sector debt as a proportion of GDP is now at its lowest level in a decade. Debt as a per cent of GDP declined for both NFCs and households, falling by 14.5 and 1.4 percentage points respectively. It should be noted that private sector debt in Ireland is significantly influenced by the presence of 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.

Chart 2.1 Private Sector Debt-to-GDP



Private sector indebtedness forms part of the European Union (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 241 per cent. However, this threshold does not take account of the large MNC sector in Ireland.

[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. These figures are calculated as a four-quarter moving average.

3. Households

Household net worth[2] increased by 0.9 per cent, or €6.7bn, in Q1 2018. This exceeded its previous peak of €725.6bn in the last quarter, to stand at its highest level to date. The increase in Q1 2018 was due to a €9.6bn increase in the value of households' housing assets. The increase in net worth was partially offset by a decline in financial assets and a rise in liabilities, of €2.2bn and €0.8bn respectively. The decline in assets was due to decreases in the value of households' holdings of insurance technical reserves and equities, which was partially offset by increased investment in deposits. Net worth stood at €732.3bn at the end of Q1 2018, the equivalent of €150,768 per capita (Chart 3.1).

Household net worth has risen by 70.2 per cent since its lowest level of €430.3bn in Q2 2012.

Household debt remained largely unchanged during Q1 2018, increasing marginally by just €7.5m (Chart 3.2). At end-Q1 2018, debt stood at €140.2bn, or €28,869 per capita. Since its peak of €204.2bn in Q3 2008, household debt has decreased by 31.3 per cent, or €64bn.

Despite household debt remaining largely unchanged during Q1 2018, measures of household debt sustainability continued to improve over the quarter (Chart 3.3). Debt as a proportion of disposable income fell by 1.4 percentage points during Q1 2018, to 133.3 per cent, due to an increase of 1.1 per cent in annualised disposable income. Debt as a proportion of disposable income was its lowest level since Q1 2004. Household debt as a proportion of total assets declined by 0.1 percentage points, falling to 15.9 per cent. This was due to an increase of 0.9 per cent in households' assets over Q1 2018.

Chart 3.1 Household Net Worth

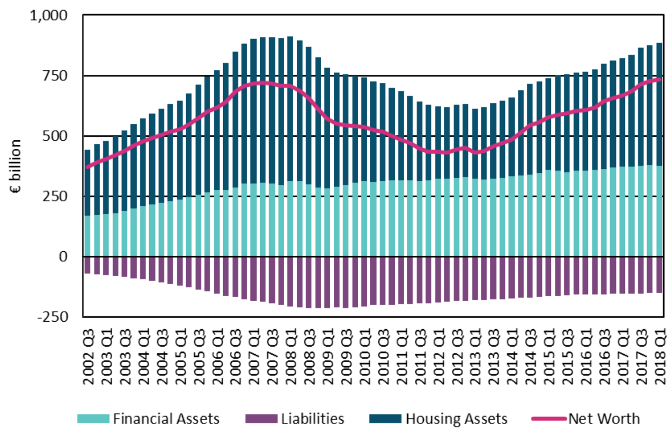


Chart 3.2 Household Debt

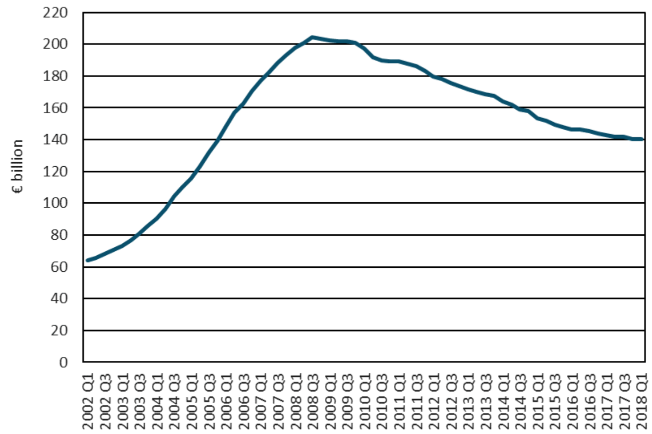
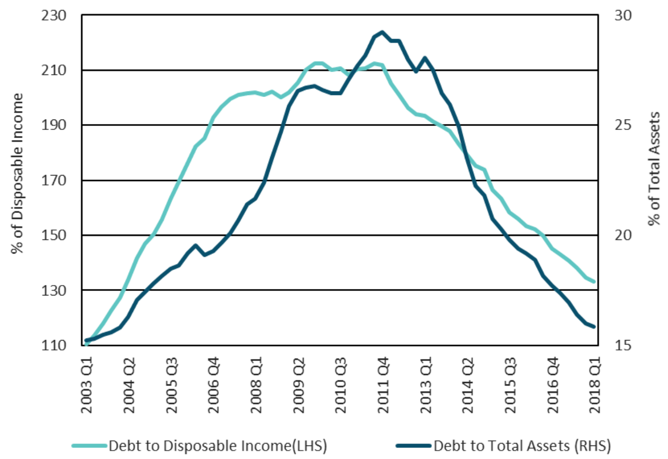


Chart 3.3 Household Debt Indicators



[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).

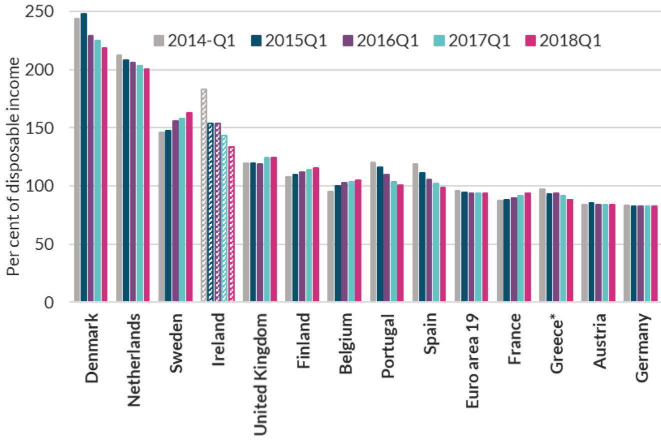
Irish household debt as a proportion of disposable income fell by 9.7 percentage points over the year to Q1 2018, the largest decline amongst the EU countries for which data is available. Household debt in Denmark, the most indebted country, fell by 6.6 percentage points. This was the second highest decline in debt over the year amongst EU countries. Irish households continue to be the fourth most indebted in the EU (Chart 3.4). Irish debt to disposable income fell by 49.8 percentage points between Q1 2014 and Q1 2018. In comparison, the ratio for the euro area declined by 1.8 percentage points during the same period. Swedish household debt to disposable income experienced the largest increase over the past four years, rising by 16.8 percentage points.

Household investment in financial assets declined during Q1 2018, falling to €1.6bn (Chart 3.5). This represented a fall of €170m compared to the previous quarter. This trend mostly reflected a decrease in investment in insurance technical reserves[3] and other financial assets, of €44m and €175m respectively. The decrease was partly offset by an increase in investment in currency and deposits of €68m.

New investment in deposits increased by €58m during the quarter, rising to just under €1bn (Chart 3.6). While investment in government deposit accounts decreased by €29m, investment in deposit accounts with Monetary Financial Institutions (MFIs) increased by €88m.

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

Chart 3.4 Cross-Country Comparison of Most Highly Indebted EU Countries, 2014Q1-2018Q1



*** Latest data Q4 2017**

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

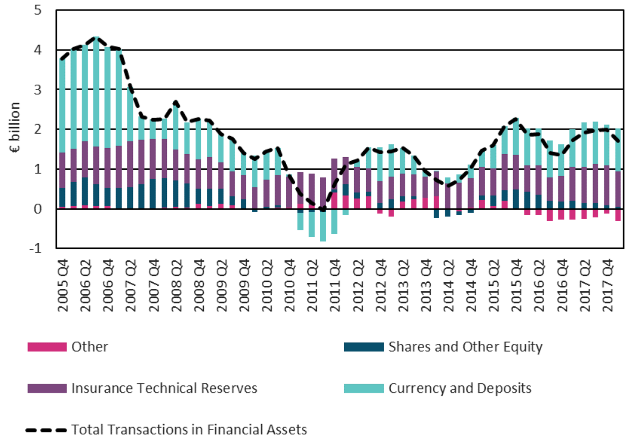
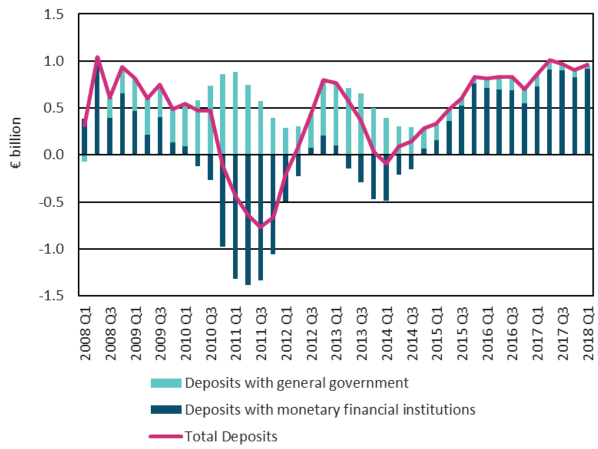


Chart 3.6 Household Deposit Transactions with MFIs and Government, Four-Quarter Moving Average



Households' saving behaviour can be analysed by combining data from the Quarterly Financial Accounts and the CSO's non-financial accounts. At €2.6bn, household saving is currently at its highest level since Q4 2010, reflecting both high rates of financial asset accumulation (€1.6bn) and investment in gross fixed capital formation (€1.5bn)[4]. The rate of debt reduction has slowed compared to early periods, with household liabilities transactions falling from €2.1bn in Q4 2010 to €0.2bn in Q1 2018 (Chart 3.7).

4. Non-Financial Corporations

NFC debt[5] as a percentage of GDP fell for the fifth consecutive quarter, decreasing by 14.5 percentage points to 194.7 per cent in Q1 2018 (Chart 4.1). NFC debt fell by €24.8bn over the quarter, with the majority of this decline due to a decrease in NFC long term loan liabilities. NFC debt-to-GDP has decreased by 131.7 percentage points since its peak of 326.5 per cent in Q1 2015. This decline reflects both higher annualised GDP, which has risen by 42.1 per cent since Q1 2015, and debt reduction of €106.4bn, or 15.3 per cent.

The decrease in NFC debt during Q1 2018 was almost entirely due to a reduction in stock of loans from non-residents, which fell by €22.4bn (Chart 4.2). Loans from non-resident sectors have declined for the last 5 quarters and are now €106bn below the peak of €511bn in Q2 2016.

Chart 3.7 Household Saving Decomposed by Use, Four-Quarter Moving Average

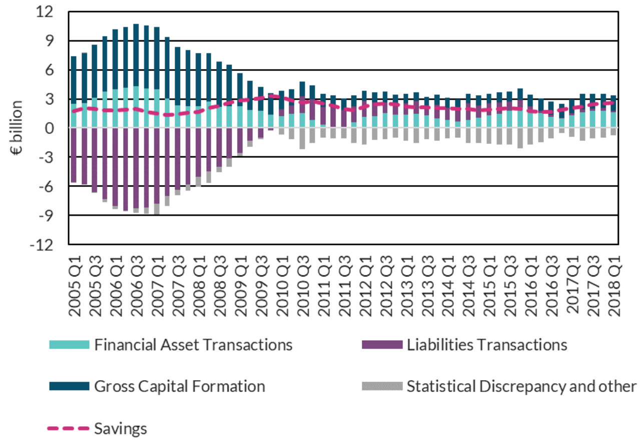


Chart 4.1 NFC Debt

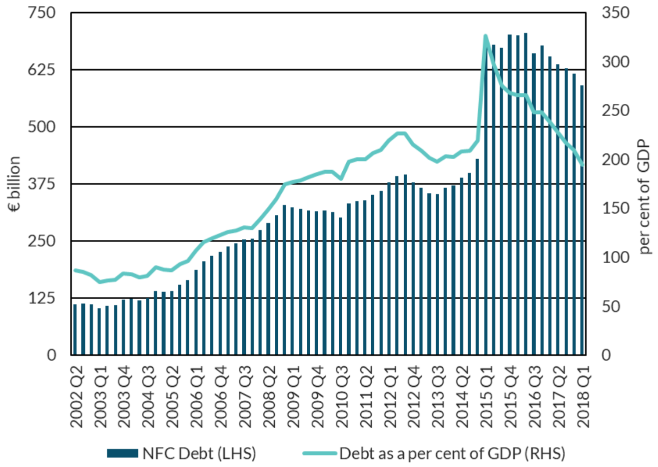
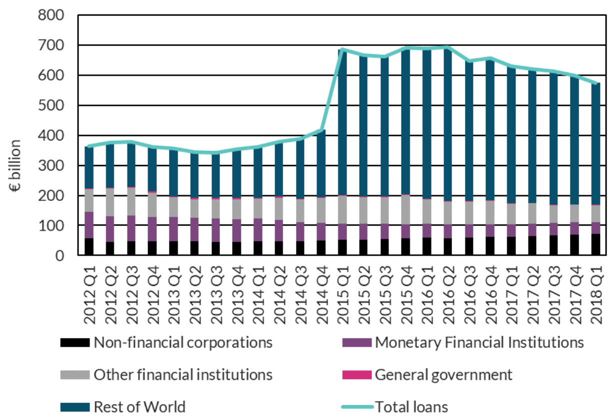


Chart 4.2 Financing of NFC Loans

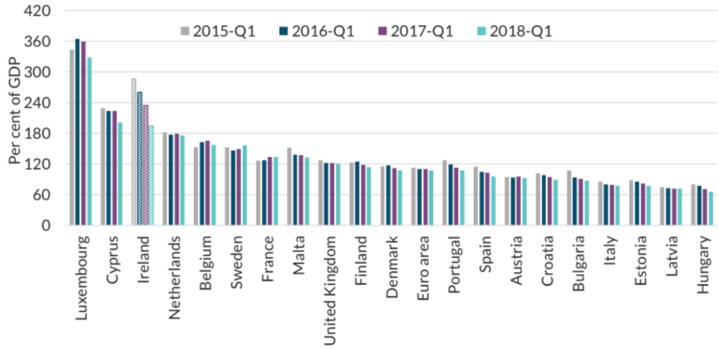


[4] Gross capital formation consists of acquisitions of fixed assets less disposals. It includes acquisitions of dwellings.

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

Irish NFC debt remains high when compared to other European countries (Chart 4.3). The debt-to-GDP ratio of Irish-resident NFCs was slightly less than double that of the euro area. Ireland continues to be 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 Q1 2018, the Irish NFC debt-to-GDP fell by 39.7 percentage points, which was the largest decrease amongst all EU countries.

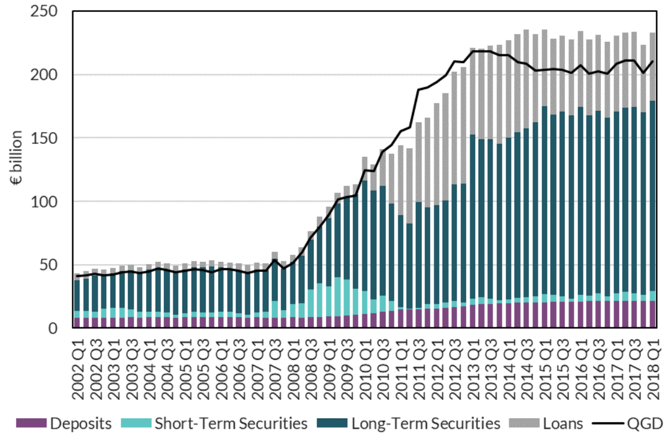
Chart 4.3 Cross-Country Comparison of NFC Debt-to-GDP



5. Government

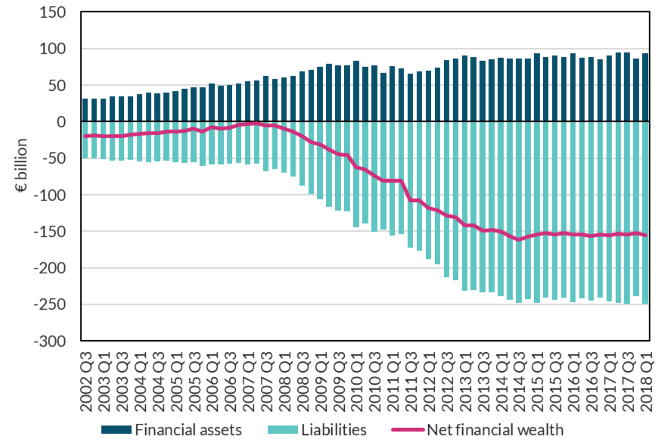
Government debt rose by €9.7bn over the quarter (Chart 5.1). This increase was partly due to the issuance of €6.6bn of government debt securities during the quarter. Government debt stood at €233.2bn in Q1 2018, compared to a peak of €235.6bn in Q3 2014. Chart 5.1 also shows that Quarterly Government Debt[6], which is based on the Excessive Deficit Procedure[5] (EDP) measure of debt, increased by €8.9bn in Q1 2018.

Chart 5.1 Government Debt



Government net financial wealth fell by €3.2bn during Q1 2018 (Chart 5.2). This was due to an increase in financial liabilities during the quarter (€10.2bn), which outstripped the increase in financial assets (€7.1bn). The increase in government financial assets was due to an increase in deposit holdings of €7.7bn. At the end of the quarter net financial wealth stood at -€155.4bn.

Chart 5.2 Government Net Financial Wealth



[6] Government debt in the Quarterly Financial Accounts differs from the EDP measure of debt as it is calculated on a non-consolidated basis, and uses market rather than nominal values.

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.