



Banc Ceannais na hÉireann  
Central Bank of Ireland

Eurosystem

Box F:

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## Credit Developments in the Irish Economy

By Statistics Division

Deleveraging continues to slow, as on aggregate households are increasing their holdings of assets in deposit accounts rather than paying off liabilities. This increased investment of wealth by households is primarily manifesting itself through bank deposits, rather than with state savings accounts, a trend contrary to behaviour seen during the financial crisis. A similar trend exists for non-financial corporation (NFC) deposits, resulting in household and NFC bank deposits both now standing at all-time series highs.

The types of bank deposit accounts being favoured is also changing, with overnight accounts increasingly being chosen as the destination for deposits, instead of those with withdrawal restrictions or agreed maturities. Increased deposits could indicate a growing preference for liquid buffers. Also, against the backdrop of low interest rates, the move into overnight accounts is understandable given the lack of incentive to lock into longer-term account types. The observed deposit trends could also suggest households and NFCs are lacking options for generating positive returns on their holdings of wealth.

Net lending for house purchase remains subdued, but continues to move from a negative towards a balanced position, even when loans securitised and serviced by banks are considered. Consumer lending meanwhile continues to expand, with the 12-month rolling net lending figure now higher than it has been in almost two years. NFC lending has also seen growth, though this seems to be focused among larger enterprises as weakness in SME lending has become visible in recent quarters.

### Lending and deposits

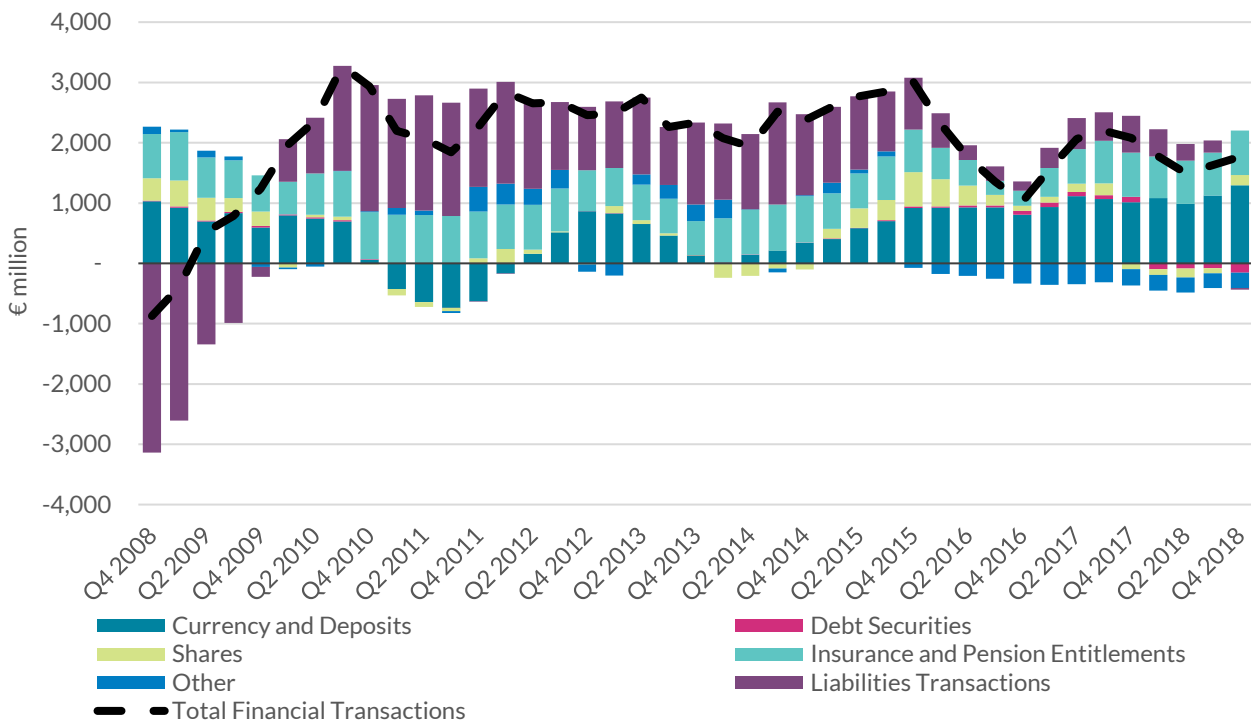
Active deleveraging by households has been a consistent feature of the Irish economy for the last nine years, but the latest data suggest that this process is ending (Figure 1). The Quarterly Financial Accounts<sup>1</sup> gives the most comprehensive overview of credit to the household sector, and shows that

<sup>1</sup> <https://www.centralbank.ie/statistics/data-and-analysis/financial-accounts>



the incurrence of liabilities by households in Q4 2018 exceeded repayments for the first time since Q4 2009<sup>2</sup>.

Figure 1: Household Transactions in Financial Assets



Source: Central Bank of Ireland

The reduction in deleveraging can also be seen in the bank lending data. Bank lending to households for house purchase, including their securitised and serviced mortgages, has been in constant decline in recent years, though this is reducing. For instance, net lending fell by €4.3 billion four years ago, but the decrease in the last 12 months was just €815 million. Increased house purchase lending would be likely to support consumption spending in the economy via the associated increase in the purchase of consumer durables, as discussed previously in this chapter. Consumption is also already being supported directly by increasing amounts of household consumption lending by banks. The €680 million net lending for consumption over the previous 12 months is the most seen in a 12-month period since 2017.

Active deleveraging has reduced the stock of household liabilities by an accumulated €36.6 billion since 2009, and has contributed to the decline in the ratio of household debt to disposable income from a high of 211 per cent in Q4 2009 to 123.5 per cent in Q4 2018. However, the rate at which households have been reducing their liabilities has been in decline since 2015. To an extent,

<sup>2</sup> Transactions are measured on the basis of a four-quarter moving average.

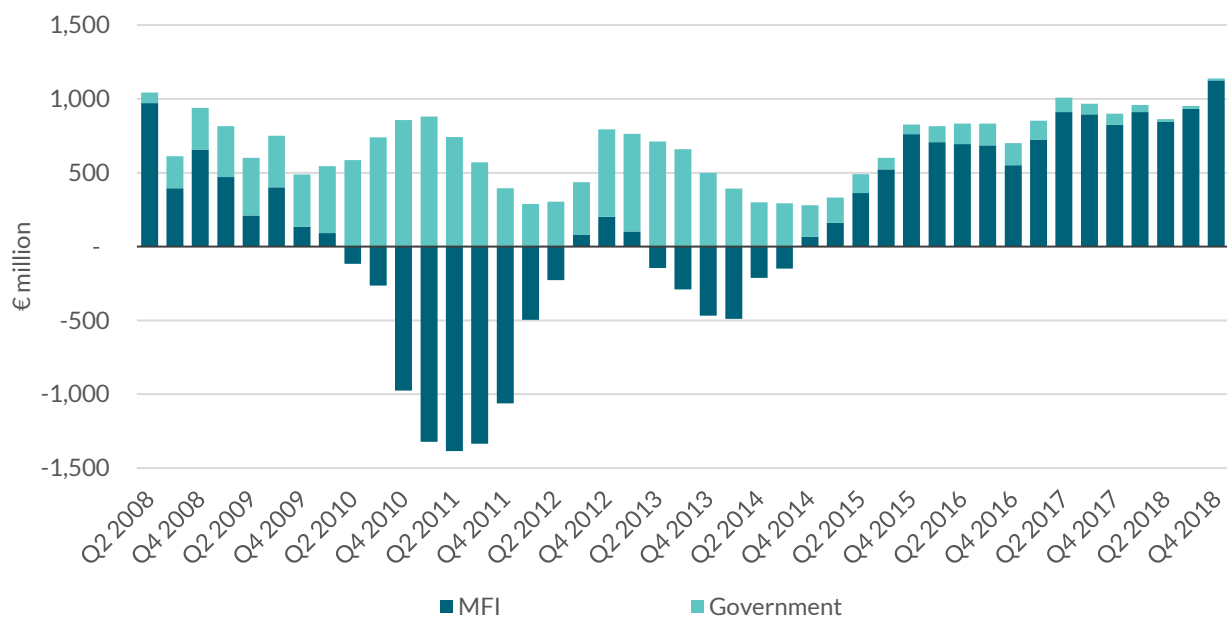


deleveraging has been replaced by increased investment in financial assets, particularly the accumulation of deposits. Since the beginning of 2015, households have added €14.8 billion in net deposit holdings.

The increase in deposit holdings has coincided with improving household sentiment towards saving, as recorded by the survey-based Bank of Ireland/ESRI Savings Index, particularly from 2017 onwards<sup>3</sup>. This reflects both improved perceptions of the savings environment and respondents' own attitude towards savings.

It is also noteworthy that the destination of household deposits has changed markedly in the past five years. Whereas in the period between 2010 and 2014 a strong movement could be seen away from MFI deposits, and into state savings accounts, the recent large increase in deposits has been almost exclusively focused in bank deposit accounts (Figure 2).

**Figure 2: Households Deposit Transactions with MFIs and Government**



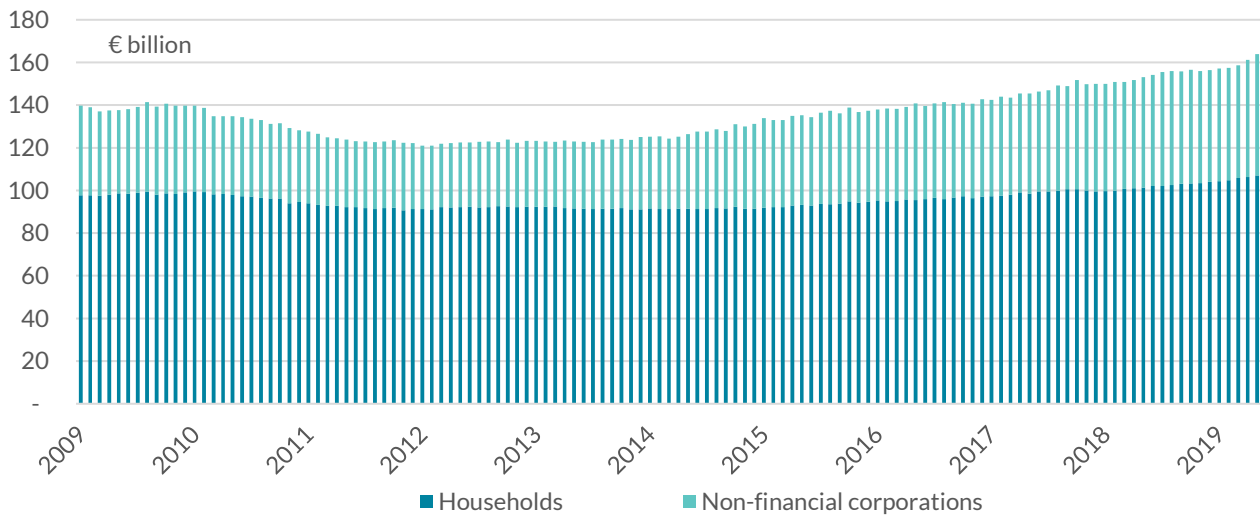
Source: Central Bank of Ireland

As well as the aforementioned investment by households, there has also been significant deposit inflows coming from Irish NFCs. Indeed, NFC bank deposit holdings have grown by over €17 billion since the beginning of 2016, with no sign of this growth abating in recent periods. Outstanding levels of household and NFC bank deposits are now at all-time recorded highs (Figure 3).

<sup>3</sup> Source: The Bank of Ireland/ESRI Savings and Investment Index, April 2019



Figure 3: Outstanding Stock of Irish Household and NFC Bank Deposits



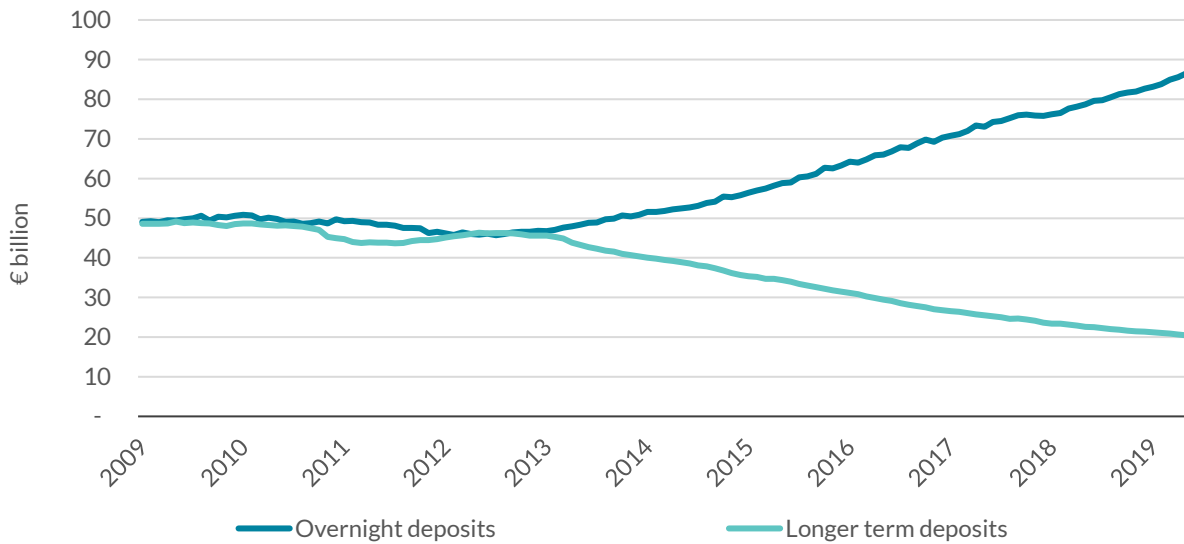
Source: Central Bank of Ireland

This comes at a time when bank lending to NFCs is beginning to strengthen, perhaps indicating that NFCs are not being required to turn to their deposits for working capital or investment funding. Despite the growth seen in NFC lending to Irish residents, SME lending has shown signs of weakness at the start of 2019. Net lending, though still negative, had been moving closer to zero in recent years, though this trend began to reverse in Q4 2018 and Q1 2019. Increases in gross new lending had been responsible for the strengthening of net lending, but this showed a decline in these last two quarters versus the previous year. This is the first two consecutive quarters of year on year decline since the beginning of 2014.

As well as there being a significant increase in bank deposit holdings, the composition of these deposits has also changed significantly. Whereas previously Irish households and NFCs tended to hold term and overnight deposits in roughly equal measure, the recent large increase in deposits has been entirely driven by movements into overnight deposits (Figures 4 & 5). In fact, as overall deposits have increased significantly, holdings of term deposits or deposits with restrictions or delays in accessing funds have actually fallen. The increase in funds moving into overnight deposits has more than compensated for this decline however.

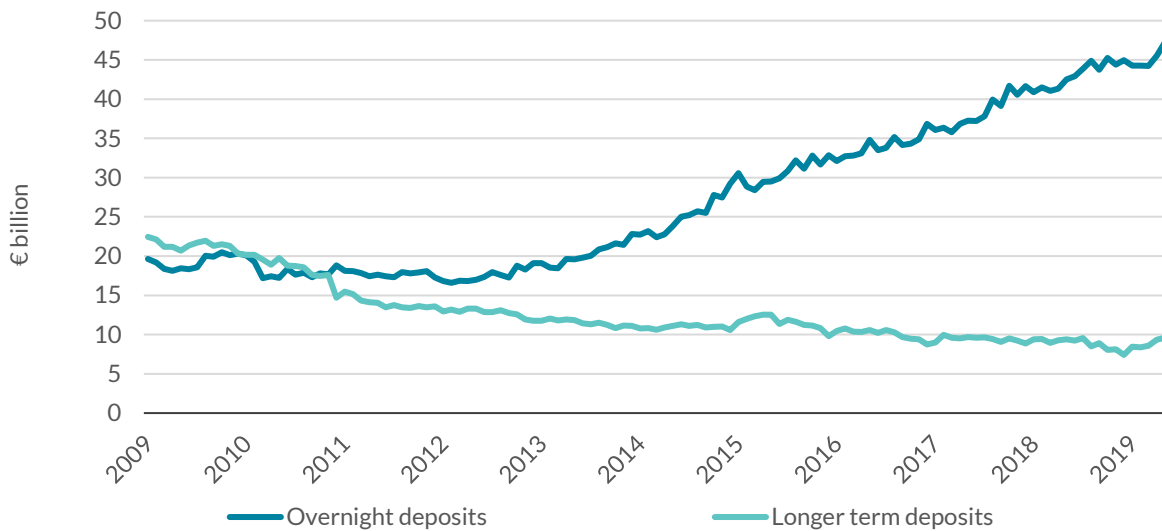


Figure 4: Irish Resident Household Deposits



Source: Central Bank of Ireland

Figure 5: Irish Resident NFC Deposits

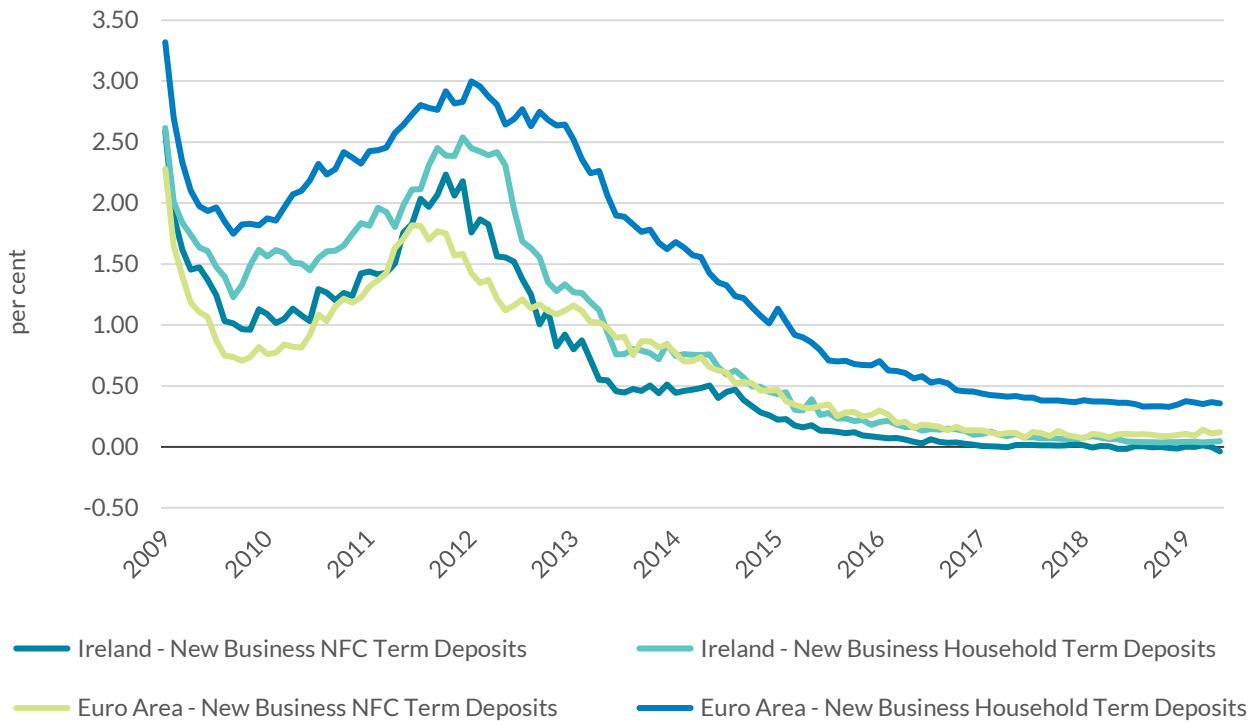


Source: Central Bank of Ireland

This could be interpreted as a preference being expressed for liquidity over earning a marginal return on holdings, or as an increased desire for precautionary savings. This is reasonable behaviour given the fact that returns on household and NFC term deposits have fallen to almost zero, with rates in Ireland for both business and household term deposits falling below euro area averages (Figure 6).



Figure 6: Interest Rates on Household & NFC Term Deposits



Source: Central Bank of Ireland