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Notes

1. The permission of the Government has been obtained for the use in this Bulletin of certain material compiled by the Central Statistics Office and Government Departments. The Bulletin also contains material which has been made available by the courtesy of licensed banks and other financial institutions.

2. Unless otherwise stated, statistics refer to the State, i.e., Ireland exclusive of Northern Ireland.

3. In some cases, owing to the rounding of figures, components do not add to the totals shown.

4. The method of seasonal adjustment used in the Bank is that of the US Bureau of the Census X-11 variant.

5. Annual rates of change are annual extrapolations of specific period-to-period percentage changes.

6. The following symbols are used:

e estimated	n.a. not available
p provisional	. . no figure to be expected
r revised	– nil or negligible
q quarter	f forecast

7. As far as possible, data available at mid-September 2011 are included in the Statistical Appendix (Section 3).

8. Updates of selected Tables from the Statistical Appendix, concerning monetary and financial market developments, are provided in *Money and Banking Statistics*. Data on euro exchange rates are available on our website at www.centralbank.ie and by telephone at 353 1 2246380.

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Forecast Summary Table

	2008	2009	2010	2011[f]	2012[f]
Real Economic Activity					
(% change)					
Personal consumer expenditure	-1.1	-6.9	-0.8	-2.6	-0.8
Public consumption	0.5	-4.5	-3.8	-3.8	-3.6
Gross fixed capital formation	-10.2	-28.7	-24.9	-9.2	-0.5
of which: Building and construction	-8.3	-31.1	-30.3	-19.0	-4.7
Machinery and equipment	-10.8	-19.7	-14.5	5.0	4.0
Exports of goods and services	-1.1	-4.2	6.3	5.3	5.2
Imports of goods and services	-3.0	-9.3	2.7	2.7	3.2
Gross Domestic Product (GDP)	-3.0	-7.0	-0.4	1.0	1.8
Gross National Product (GNP)	-2.8	-9.8	0.3	-0.4	0.7
External Trade and Payments					
Balance-of-Payments Current Account (€ million)	-10,167	-4,697	764	460	3,135
Current Account (% of GNP)	-6.6	-3.6	0.6	0.4	2.5
Prices, Costs and Competitiveness					
(% change)					
Harmonised Index of Consumer Prices (HICP)	3.1	-1.7	-1.6	1.2	0.7
of which: Goods	2.9	-4.2	-2.4	1.5	0.7
Services	3.4	1.2	-0.7	0.9	0.7
HICP excluding energy	2.6	-1.0	-2.7	0.0	0.2
Consumer Price Index (CPI)	4.1	-4.5	-1.0	2.2	0.9
Nominal Harmonised Competitiveness Indicator (Nominal HCI)[a]	4.5	1.0	-4.2	1.0	n.a.
Compensation per non-agricultural employee	5.6	-1.4	-3.2	-0.4	0.2
Labour Market					
(% change year-on-year)					
Total employment	-1.1	-8.1	-4.2	-1.7	0.1
Labour force	0.8	-2.4	-2.2	-1.0	-0.1
Unemployment rate (ILO)	6.3	11.8	13.6	14.2	14.0
Technical Assumptions[b]					
(Annual average)					
EUR/USD exchange rate	1.47	1.39	1.33	1.42	1.43
EUR/GBP exchange rate	0.80	0.89	0.86	0.87	0.88
Oil price ($ per barrel)	97.7	61.9	79.6	111.80	110.39
Interbank market – Euribor[c] (3-month fixed)	4.63	1.22	0.81	1.35	1.10

a Based upon the annual change in the average nominal HCI for the first eight months of 2011.

b The technical assumption made is that exchange rates remain unchanged at their average levels in late-August and early-September. Oil prices and interest rates are assumed to move in line with the futures market.

c Euribor is the rate at which euro interbank term deposits are offered by one prime bank to another, within the euro area. Daily data from 30 December 1998 are available from www.euribor.org.

Comment

The external environment continues to be characterised by turbulent conditions on financial markets and signs of slower growth in many of the country's main trading partners. As a result, GDP growth may slow in the latter part of the year but the strong data for the first half point to a likely increase of about 1 per cent for the year as a whole, with GNP expected to decline by about 0.4 per cent. Next year, the expansion in GDP is projected to be 1.8 per cent, while GNP will likely grow by 0.7 per cent. The latter figures represent more modest rates of expansion than previously anticipated.

Expectations of somewhat slower growth might normally be expected to prompt a deterioration in perceptions of a country's financial position. Recent months have, however, seen a general reduction in yields on Irish Government bonds. While these are not directly relevant to the cost of borrowing, at present, given the country's access to funds under the EU-IMF Programme, they can be seen as a sign of increased confidence in the country's financial situation. This development probably reflected a number of factors. First, the economy continues to show increasing signs of stabilisation and the public finances remain on track relative to the overall planned fiscal adjustment. Second, there are indications that bank recapitalisation costs may not draw as much as previously expected on Exchequer funds, given private sector investment in Bank of Ireland and some successful sales of bank assets. Third, there was a significant reduction in financing costs under the EU-IMF Programme agreed at the summit of EU Heads of State and Government on 21st July 2011 and since clarified and expanded in an announcement from the EU Commission on 14th September.

These developments have to be put in context, however, as yields on Irish Government bonds, though they have fallen, remain at levels that are inconsistent with a return to market funding. Further very significant progress has to be made in convincing market participants of the country's creditworthiness in order for the State to return to independent access to sovereign funding markets. This and a broader underlying improvement in the economy's performance can only be achieved by continuing to resolutely address the main policy challenges.

As regards the banking sector, there is an ambitious programme of restructuring and deleveraging to be got through in order to put in place a banking system that will serve the needs of the domestic economy over the medium term. While this process is underway, it is essential that the banking system provides adequate funds to creditworthy borrowers and works through the significant volume of lending that is, or will become, distressed over the coming years. While there are significant challenges involved for the management and staff of the financial institutions and government agencies involved, government policies also have a role to play in managing the situation. In this regard, an advisory group will report shortly to the Minister for Finance in relation to some of the issues concerning mortgage holders who are having difficulty making their repayments.

As regards the public finances, developments for the year to date indicate that the adjustment remains on track. The precise outturn for this year, along with the indications for growth at Budget time, will dictate the extent of the fiscal adjustment required to reach the deficit-to-GDP ratio target of 8.6 per cent. It is difficult to say at this stage whether this will be the €3.6 billion adjustment currently projected under the EU-IMF Programme, or whether a larger adjustment will be needed to achieve this target.

In addition to this minimum required adjustment, however, a separate question arises as to whether it would not make sense to aim to exceed the deficit ratio target by bringing forward some of the adjustments planned for future years. This would not represent an increase in the scale of the overall adjustment but rather an increase in its speed. A number of arguments can be made in favour of this proposition. First, there is a good case for building a buffer into next year's plans for the public finances. There is always uncertainty over the likely growth rate of the economy and, further, of the precise outturn for the public finances associated with any given growth path. Aiming to exceed the target will incorporate a degree of resilience into the public finances to cater for the possibility of negative shocks to the economy. Second, when considered on its own, the negative impact on growth from advancing some of the adjustments may, in itself, no longer be that significant. The likelihood is that precautionary savings in the economy are high partly because households are uncertain about the effects of the fiscal adjustment on their own financial position. The publication by the Government of details of the overall fiscal adjustment will be helpful in this regard. It is also possible that bringing forward some of these changes may have less impact on consumption than one might expect, precisely because households are already factoring them into their expectations when making savings and consumption decisions. This argument should not be taken too far, however, and it would not be advisable, for example, to frontload the adjustment in a dramatic manner. Third, there may be some decline in the overall burden of the adjustment if it is achieved more rapidly. Such an approach will lower interest costs because it will mechanically lower government debt more rapidly than would otherwise be the case but it may also reduce the interest rate that the country will have to pay when it does return to independent borrowing.

Reinforcing the improvements in the economy's competitiveness position is another key component to increasing its resilience to shocks and boosting its growth potential. There are some positive signs in this regard. Despite high-profile job losses in some sectors, which impact severely on those directly affected, the country seems to be continuing to attract significant inward direct investment. Some of the more indigenous sectors are also contributing to the improved export performance, not just agricultural and food sectors but also services exports, including tourism. The adjustments in competitiveness, however, though welcome, need to be further reinforced. One way of achieving this is through greater efficiency resulting from increased competition in a range of sectors, not just utilities but also private sectors services, as outlined in the reports of the Competition Authority and the OECD. It also means pressing ahead with planned public sector reforms to deliver the maximum possible level of public services from the reduced resources available for expenditure, thus adding to the overall efficiency and productivity of the economy. Many of the changes required involve difficult adjustments but they will not only increase the underlying resilience of the economy, but act as a powerful signal that the economy is capable of adapting to changed circumstances and, as a result, has the capacity to work itself out of its current challenging situation. An increase in such confidence, provided that it is solidly based on tangible progress, would, in itself, be beneficial to the recovery process.

The Domestic Economy

Overview

- *For 2011 as a whole, GDP is projected to expand by about 1 per cent with the prospect of a modest pick-up to about 1.8 per cent in 2012. GNP, however, is projected to contract this year by about 0.4 per cent before returning to growth of about 0.7 per cent in 2012. This represents an upward revision of about one quarter of a percentage point to the projection in 2011 and a similar downward revision to the outlook for 2012. This is mainly accounted for by somewhat stronger stock building in 2011 and less favourable prospects for external demand from the second half of 2011 onwards. Domestic demand, although continuing to contract, is developing broadly in line with previous expectations although some modest revisions to projections have been made in this respect.*
- *Following a strong outturn in the first quarter, export growth, although remaining positive, was less buoyant in the second quarter and the outlook is for a further moderation in the second half of the year. This more muted outlook is expected to be sustained through much of next year. Nevertheless, exports should continue to contribute positively to overall GDP growth both this year and in 2012, offsetting a continued, albeit moderating, decline in domestic demand.*
- *The contraction in domestic demand reflects weakness across most components of expenditure. Consumer demand remains very weak, weighed down by declining disposable incomes and a high level of precautionary savings. A pick-up in consumer demand in the second quarter of this year owed much to the temporary impact of the car scrappage scheme and, in the absence of this stimulus, consumption is likely to weaken in the second half of this year and fall back further during next year. The decline in housing activity continues to drive the contraction in construction investment, although non-housing construction and public infrastructure investment also remain weak. House completions are unlikely to exceed 10,000 units this year and some stabilisation in housing output is projected for next year. Finally, the ongoing consolidation in the public finances points to further declines in construction expenditure over the forecast horizon.*
- *Neither the composition nor the rate of expansion in output are supportive of employment growth and, as a consequence, weak labour market conditions are likely to persist this year and for much of 2012, with a return to employment growth unlikely to emerge before the middle of next year. The unemployment rate is projected to decline slightly from an average of 14.2 per cent in 2011 to 14 percent in 2012. This is almost entirely due to the downward trend in the labour supply, reflecting both declining participation and net outward migration.*
- *Domestically driven inflationary pressures remain weak. However, the pass-through of higher international commodity prices and some market specific effects for insurance will mean the annual HICP inflation rate for this year, projected at 1.2 per cent, will be positive for the first time since 2008. CPI inflation is likely to be significantly higher at 2.2 per cent for 2011, reflecting the impact of mortgage interest rate increases.*
- *Annual inflation for next year will be impacted by a carryover from the hikes in utility charges and by further increases in carbon taxes early in the year. With employment growth not projected until the latter half of next year and a further fiscal consolidation weighing on disposable incomes, domestic inflationary pressures are likely to remain subdued well into next year. Accordingly, the annual HICP inflation rate is projected to average about 0.7 per cent while the annual CPI inflation rate is expected to be slightly higher at 0.9 per cent.*

- *Exchange rate movements impacted on competitiveness over the past year, with the depreciation in sterling against the euro applying pressure particularly on indigenous exporters. However, the labour cost competitiveness position of the Irish economy continues to improve driven by relatively weak wage developments and strong productivity growth, even allowing for significant compositional effects. A continued improvement in broad cost competitiveness will enhance the resilience of the exporting sectors in the face of a more challenging external environment. Still, as highlighted in a recent National Competitiveness Council report, the cost base remains relatively high and further measures to boost productivity growth are necessary.*

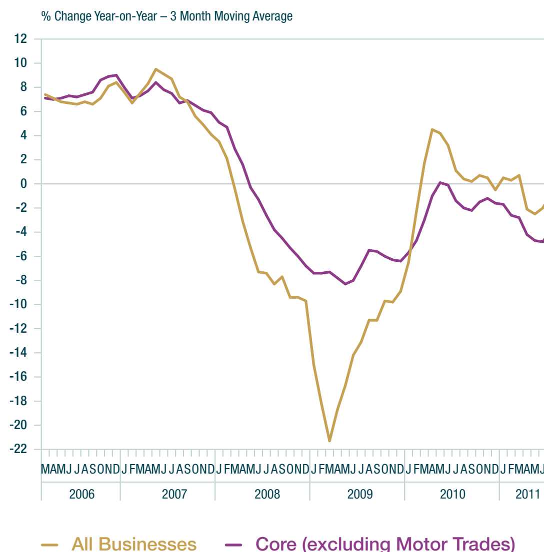
Demand

Consumer Spending

Consumers have been forced to adjust their spending due to the squeeze in real disposable incomes and, at the same time, have been striving to strengthen their financial position through higher savings, in reaction to sharp falls in wealth and uncertainty surrounding the labour market outlook. As a result, the personal savings rate has roughly trebled in recent years, which has weighed heavily on discretionary spending and on consumer demand generally. The quarterly national accounts indicate that personal consumption continued to decline during the first quarter of this year, falling by 1.9 per cent on a seasonally adjusted basis, but increased by 0.3 per cent in the second quarter of this year. This reflected a temporary boost from strong car sales in the months leading up to the expiry of the car scrappage scheme at end-June. Stripping out the motor trades component, core retail sales have been broadly flat in recent months, with consumer sentiment holding up reasonably well in the face of adverse external developments and interest rate rises. It is likely that core retail sales have been helped by a pick-up in tourism related sales, as reflected in, for example, strong bar sales. Expenditure by non-residents, however, appears as tourism services exports rather than personal consumption in the national accounting framework.

Although the international backdrop has become more challenging, highly indebted consumers may find some relief as the market expectations of imminent ECB interest rate rises are pushed back into the latter half of next year. However, oil prices remain elevated, electricity and gas price increases are expected to increase sharply during the autumn and there remains uncertainty as to how forthcoming Budgets will impact on household disposable incomes. These factors combined will continue to weigh on purchasing power and on consumer sentiment. Accordingly, real personal consumption is likely to fall by about 2.6 per cent on average this year. A further decline of 0.8 per cent is expected for next year, with real disposable incomes continuing to fall due to further fiscal consolidation measures. Despite some stabilisation of employment during the year, the personal savings rate is likely to ease back only modestly as consumers prioritise repaying personal loans and mortgage debt.

Chart 1: Index of Volume of Retail Sales



Source: CSO.

Table 1: Expenditure on Gross National Product 2010, 2011f and 2012f

	2010	Percentage change in		2011f	Percentage change in		2012f
	EUR millions	volume	price	EUR millions	volume	price	EUR millions
Personal Consumption Expenditure	82592	-2.6	1.0	81235	-0.8	0.6	81056
Public Consumption	26222	-3.8	0.0	25222	-3.6	-0.1	24298
Gross Domestic Fixed Capital Formation	18074	-9.2	-2.2	16052	-0.5	-0.7	15871
Building and Construction	10672	-19.0	-4.5	8257	-4.7	-1.5	7748
Machinery and Equipment	7402	5.0	0.3	7795	4.0	0.2	8123
Value of Physical Changes in Stocks	-852			550			600
Statistical Discrepancy	184			184			184
Gross Domestic Expenditure	126220	-2.7	0.4	123243	-1.3	0.3	122009
Exports of Goods & Services	157673	5.3	1.1	167947	5.2	0.8	178086
Final Demand	283893	1.8	0.8	291190	2.4	0.6	300095
Imports of Goods & Services	-127901	2.7	3.1	-135491	3.2	0.8	-141008
Gross Domestic Product	155992	1.0	-1.1	155699	1.8	0.4	159087
Net Factor Income from Rest of the World	-27786			-30117			-32219
Gross National Product	128206	-0.4	-1.7	125582	0.7	0.3	126868

Investment

As has been the case for the last 16 quarters, the building and construction slowdown continued to weigh on investment expenditure in the second quarter of 2011, according to the latest Quarterly National Accounts. Overall investment was down 11.8 per cent in the first half of 2011 and 14.3 per cent for the second quarter, year-on-year. The Building and Construction Index points to a fall of 23.7 per cent in construction activity for the first half of 2011 and 23.4 per cent for the second quarter, year-on-year. Within this, investment in residential housing fell by 23 per cent in the first half, while investment in non-residential construction fell by 7.6 per cent. The largest fall, however, came in civil engineering, down 39.8 per cent year-on-year in the first half, reflecting consolidation in Government capital expenditure this year. Meanwhile, a somewhat more positive performance from the export sector resulted in an increase in machinery and equipment, excluding the volatile aeroplane component, expenditure of 3.5 per cent for the first half of 2011 compared to the same period in 2010.

On the housing side, completions look set to number 10,000 units this year, down almost 90 per cent from the peak in 2006. Forward-looking indicators and statistical models of the sector suggest that residential completions are likely to remain around this level in 2012, with single-build houses accounting for the largest share. There is some upside risk, however, related to a number of unfinished developments within NAMA's portfolio, which may receive funding for completion, adding to completions. Housing demand is likely to remain weak both this year and next as uncertain income and employment conditions, tight credit and expectations of continued falls in house prices affect the market, which continues to be characterised by considerable oversupply in many areas.

Non-residential construction is also set to impact negatively on domestic demand this year and next. Activity within all commercial property sectors remains static, with significant overhangs in the retail, industrial and office markets persisting. The main drag of activity in the non-residential sector is likely to be

civil engineering, as consolidation in capital expenditures continues in accordance with fiscal commitments. This is corroborated by the Ulster Bank Construction Purchasing Managers Index for August this year, which suggests that the civil engineering sector continued to record the sharpest declines. Overall, building and construction is forecast to fall by approximately 19 per cent this year and 4.7 per cent in 2012.

Machinery and equipment investment is forecast to grow by approximately 5 per cent and 4 per cent in 2011 and 2012, respectively. This year's figure may be buoyed by a base effect of weak second-half growth last year. This may be somewhat offset by a slightly weaker export recovery than previously anticipated. While more positive data on foreign direct investment flows present some upward risk to this forecast, there is the usual uncertainty related to the strong volatility of the heavily weighted aircraft purchases component. Overall investment is forecast to contract by approximately 9.2 per cent this year and by 0.5 per cent in 2012.

Box A: The Contribution of Investment to GDP *By Mary Ryan*[1]

The 2008-2010 period has been marked by a dramatic decline in Irish economic performance driven by collapsing domestic demand with investment being particularly hard hit. While other EU member states also suffered a downturn, this was primarily driven by contracting external demand and was of a much smaller scale. Ireland, in contrast, stands out relative to the EU average (see **Chart 1**). Although a relatively small component of GDP, investment has a large effect on Irish GDP driven by the property bubble that enveloped the economy and the associated expansion in construction activity. This box examines the composition of investment over the past fifteen years and how it has contributed to GDP growth.

Chart 1: Investment growth rates euro area and Ireland, 1996-2010

Source: CSO and Eurostat.

1 Economic Analysis and Research Division.

Box A: The Contribution of Investment to GDP *By Mary Ryan*[1]

The relative importance of investment in influencing GDP has grown over the past decade (see **Chart 2**[2]). During the 1990s, the principal determinant of GDP was the export sector: exceptionally strong export performance pushed GDP growth to historically high levels[3]. Domestic demand conditions were solid but overshadowed by the strength of the export sector. From 2000 onwards, the balance of external and domestic demand shifted. With a decline in competitiveness, the export sector plateaued, while the expansion in investment seen since the mid 1990s continued, driven by the sustained rise in property values and associated construction boom. The increasing importance of the latter pushed up the proportion of investment in nominal GDP from a long-term average of about 20 per cent to 27 per cent of GDP in 2006. The recent collapse in property prices and its impact on the construction sector has brought investment back to a historic low of around 11 per cent in 2010. It is clear that the collapse in investment demand since 2008 has been the most significant drag on the Irish economy, with the contraction in investment accounting for a reduction in GDP of about 7 per cent in 2009 and 4 per cent in 2010.

Chart 2: Contributions of exports, imports and domestic demand to GDP growth, 1996-2010

Source: CSO and author's calculations.

2 The contribution of each GDP component, excluding stocks, to real GDP growth is depicted in **Chart 2**. Each calculated contribution takes into account growth rates, the weight of each component in GDP and also the effects of relative prices on calculated weights. The contribution of each yk component of GDP (y) is given by:

$$\frac{y_t^k}{y_t} \times \left\{ \left(\%\Delta y_{t+1}^k\right) \times \frac{p_{t+1}^k}{p_{t+1}} + \frac{p_{t+1}^k}{p_{t+1}} - \frac{p_t^k}{p_t} \right\}$$

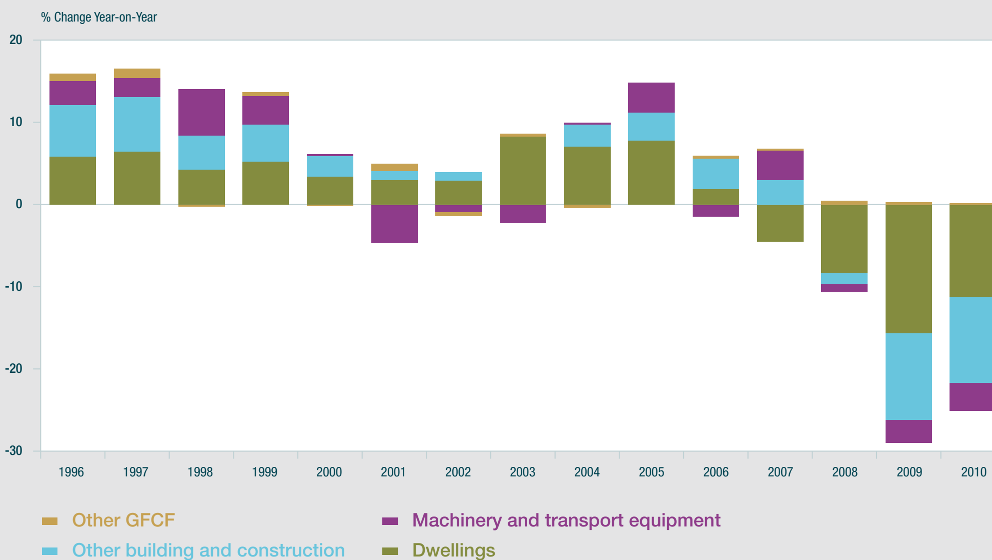
3 For an analysis of Irish growth up to 2000, see Honohan and Walsh, "Catching Up with the Leaders: The Irish Hare", Brookings Papers on Economic Activity 1:2002.

Box A: The Contribution of Investment to GDP *By Mary Ryan*[1]

Chart 3 identifies the components of investment growth from 1996 to 2010. It is very clear that the more recent investment boom of the past decade was heavily concentrated in the housing sector, with the bulk of investment growth during 2003-2005 coming from investment in dwellings. This reflects both the increase in real building activity and also the increasing price of investment in dwellings relative to the overall investment deflator. The strength of dwellings investment was reinforced by strong investment in other forms of building and construction, which added further to the strong investment outturns during 2004-2006. Even in 2007, when investment in dwellings finally plateaued, other forms of construction were still adding significantly to investment.

In contrast to the strength of the construction sector, the contribution from other forms of investment, which principally comprises machinery and transport equipment, declined from 2000 onwards. Prior to that, machinery and transport equipment categories contributed solidly to investment growth during the Celtic Tiger era, buoyed in part by strong export demand. More recently, it is clear that the collapse in building activity in general and the housing sector in particular account almost entirely for the investment contraction, although (non-agricultural) machinery investment experienced a severe contraction in 2009, adding some 3 percentage points to the contraction.

Chart 3: Contributions of housing, other building and construction and all other investment to total investment growth – 1996-2010



Source: CSO and author's calculations.

The collapse in investment in recent years is exerting a considerable drag on GDP growth. In 2008 and 2010, the contraction in GDP was almost entirely attributable to investment declines. The housing contraction translates into a significant direct negative effect on GDP growth – in the region of about 1.7 percentage points in 2010. With just over 5,000 housing units completed by end-June 2011, and low levels of commencement notices served, it is likely that housing investment will reduce GDP growth by about a further percentage point approximately for 2011. Looking ahead, however, with private construction activity at such a low level, both in absolute terms and by reference to historic norms, the scope for further declines is limited, as is the capacity of the sector to act as a significant drag on output growth overall.

Stock Changes

A significant moderation in the rate of decline in stocks in 2010 was reflected in a positive contribution to GDP growth of 0.9 per cent. Stocks are projected to contribute about 0.9 per cent to GDP growth in 2011. Stock changes are expected to have a neutral impact on growth in 2012.

Government Consumption

Preliminary Quarterly National Accounts data show a year-on-year decline in the volume of Government Consumption of 3.3 per cent in the second quarter of 2011 following a decline of 3.9 per cent in the first quarter of the year. Annual National Accounts data show a decline in the volume of Government consumption of 3.8 per cent last year. On the basis of expenditure plans set out in the Budget and in the National Recovery Programme, the volume of Government consumption is projected to decline by 3.8 per cent this year and by 3.6 per cent in 2012.

External Demand and the Balance of Payments

Merchandise Trade

Following a buoyant first quarter, the performance of merchandise exports moderated somewhat in the second quarter, with an increase of 4.2 per cent in volume terms. Much of the growth in merchandise exports came from the broad chemicals sector despite some loss of momentum year-on-year in the second quarter, reflecting the fact that this sector now accounts for around 60 per cent of overall merchandise exports. A notable feature of developments at a sectoral level over this period was the impressive performance of the indigenous food and beverage sector, with an increase in value terms of 17.1 per cent year-on-year in the second quarter. Given recent price developments, this suggests a somewhat weaker increase in volume terms.

Higher frequency indicators are consistent with some further moderation in merchandise export activity during the third quarter of 2011. The new export orders index of the NCB Manufacturing Purchasing Managers' Index (PMI) registered a falloff in July before recovering somewhat in August to reach a level of 53.5. Furthermore, the Dutch Centraal Plan Bureau measure of world trade for June suggests that trade momentum[4], which has been on a downward trend since January, turned negative in June. Such signs of weakness in the third quarter have been compounded by recent downward revisions to the GDP outlook of a number of Ireland's main trading partners. The external demand assumptions, based upon weighted import volumes, have been revised downwards as a result. Amid the moderation in external demand, some loss of momentum in merchandise export activity is expected in 2011 and 2012. Nevertheless, it is envisaged that, as was the case amid the 2009 collapse in global trade flows, the sectoral composition of external demand will shift in favour of goods which Ireland specialises in, most notably, pharmaceuticals. Furthermore, merchandise export activity seems set to be supported by ongoing competitiveness gains. Reflecting such a combination of developments, merchandise export growth is projected to slow somewhat, with an increase in volume terms of around 4.2 per cent and 4.0 per cent in 2011 and 2012, respectively.

4 Momentum is the change in the three month average up to the current month relative to the average of the preceding three month period.

Box B: Irish Macroeconomic Response to Changes in Export Demand
By Colin Bermingham and Thomas Conefrey[5]

The decline in domestic output in Ireland in recent years has been amongst the most severe experienced by OECD countries. Throughout the crisis, exports of goods and services have shown remarkable resilience and this has helped to counterbalance the contraction in domestic activity. As the domestic sectors of the economy are expected to remain weak in the medium term, prospects for growth continue to depend on Ireland's export performance. However, recent international macroeconomic data have not been encouraging, with the growth prospects of our main export markets, particularly the US and the euro area, weakening over the last quarter. In this box, we examine the effect on the Irish economy of unexpected changes in the economic conditions of our main trading partners.

In particular, we focus on the impact of changes in the GDP growth rate of our main trading partners on domestic exports, GDP, wages and unemployment. The method of analysis is a statistical model known as a Vector Auto Regression. Each variable in the model depends on its own past behaviour and the past behaviour of the other variables included in the model. Variables are allowed to interact freely with each other with little theoretical restrictions imposed on their behaviour. Moreover, the VAR model does not contain the level of detail of a more structural model of the economy such as the ESRI's Hermes model. However, the choice of variables used here is influenced by the Hermes model and the results are cross referenced with the latter to assess their plausibility.

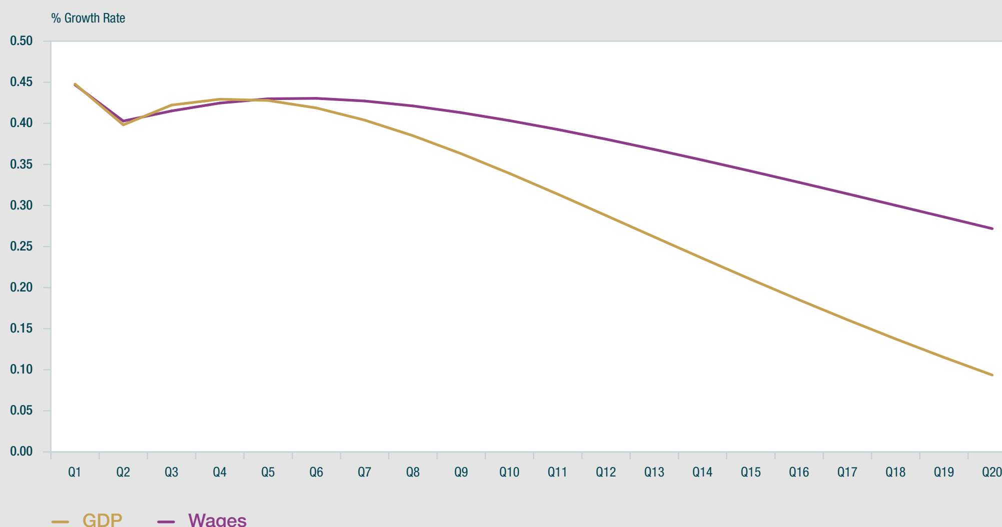
The first model examines how changes in the growth rate of US GDP affects Irish GDP, exports, wages and unemployment. In the model, there is a positive shock to US GDP growth, and this keeps US GDP growth higher for a number of periods. The growth of US GDP is used as proxy for US demand for Irish exports. In other versions of the model, we substitute UK and euro area GDP in place of US GDP and then use the same model to assess sensitivity to those trading partners. Irish exports and GDP are included in the model to capture the effects of external demand shocks on the broad Irish economy while wages and the unemployment rate capture the impact on the labour market.

The model suggests that a temporary increase in US GDP growth leads to a direct increase in Irish exports and GDP growth. This response is shown in Chart A with the increase in Irish GDP growth dissipating slowly over time. The increase in the demand for exports also leads to a reduction in the unemployment rate as more people gain employment. This expansion in the economy pushes up the wage rate, which is also shown in the chart. As the wage rate increases, this negatively affects Ireland's competitiveness and reduces demand for Irish exports. While most of the increase in Irish GDP comes directly from exports, there is also an increase in investment and private consumption but these effects are not captured directly by the model. These responses are consistent with those found in the large scale Hermes model.

5 Economic Analysis and Research Division and Financial Stability Division.

Box B: Irish Macroeconomic Response to Changes in Export Demand
By Colin Bermingham and Thomas Conefrey[5]

Chart 1: Irish Responses to US Shock



Source: Central Bank of Ireland calculations.

The results in Table A report the Irish response to changes in economic conditions in the US, the UK and the euro area. They show the change in the growth rates of Irish variables for a one per cent increase in the GDP growth rate of the specified trading partner. The first column of numbers shows the response of the domestic variables to a 1% increase in US GDP growth. Irish GDP growth increases by 1.3% following the increase in US GDP growth. There is a reduction in the unemployment rate amounting to over 5%. To clarify, this means that the unemployment rate will be 95% of its previous value so that if unemployment was 12.0% before the shock, it would be 11.4% after the shock. This represents a 5% reduction in the level of the unemployment rate. The model also suggests that wages would increase by 1.4%.

Table A: Response of Irish Variables to Changes in GDP Growth in Various Trading Partners

Elasticity	United States	United Kingdom	Euro Area
Irish GDP	1.3	0.8	2.5
Exports	1.6	1.1	2.3
Unemployment Rate	-5.3	-3.6	-8.7
Wages	1.4	0.9	1.0

If we compare results across our main trading partners, the domestic economy growth rate response is greatest to a change in euro area GDP growth at 2.5% while the UK response is lowest at 0.8%. The size of the GDP responses to the external shock in each region corresponds quite closely with the amount Ireland exports to each of these areas. For example, we export more goods and services to the euro area than the US or UK and so Irish GDP is most sensitive to changes in the growth rate of the euro area. The spectrum of results across Ireland's main trading partners demonstrates the sensitivity of the Irish economy to developments in these countries.

Box B: Irish Macroeconomic Response to Changes in Export Demand
By Colin Bermingham and Thomas Conefrey[5]

The impact on Irish unemployment is broadly in line with the initial GDP response. For example, the US shock increases Irish GDP by 1.3% and this has the effect of reducing the unemployment rate to 95% of its previous value. The change in euro area GDP has a bigger impact on Irish GDP and so its impact on unemployment is also bigger. The impact on Irish unemployment from the UK GDP shock is slightly larger than one would expect from the initial GDP response and this appears to be consistent with the fact that the Irish industries affiliated with the UK tend to be quite labour intensive.

These results show that the performance of the Irish economy is quite sensitive to changes in the growth rates of our main trading partners. This has the potential to spur on growth in Ireland, given that domestic demand is still quite weak. However, with the greater uncertainty facing the world economy, there is also the possibility that GDP growth here could suffer disproportionately. While Irish export performance can be relatively resilient in a sharp downturn due to favourable product effects, as was the case in 2009, the weight of exports in Irish GDP is comparatively large reflecting the very open nature of the economy. Continued wage restraint and measures to boost productivity are also helpful, as cost competitiveness is the second key factor contributing to export performance in the model.

Footnote: This note is based on a forthcoming research technical paper by Colin Bermingham and Thomas Conefrey entitled "The Irish Macroeconomic Response to an External Shock with an Application to Stress Testing".

Table 2: Merchandise Trade (Adjusted) 2010, 2011[f] and 2012[f]

	2010	Percentage change in		2011[f]	Percentage change in		2012[f]
	EUR millions	volume	price	EUR millions	volume	Price	EUR millions
Merchandise Exports	82944	4.2	-0.5	85961	4.0	0.5	89858
Merchandise Imports	46448	1.0	7.0	-50187	1.8	0.5	-51329
Merchandise Trade Balance (Adjusted)	36496			35774			38529
%GNP	28.5			28.5			30.4

The backdrop of weak domestic demand and moderating export-induced demand appear to have weighed upon merchandise import flows in the year to the second quarter of 2011, with a year-on-year decline in volume terms of 0.7 per cent. While domestic demand is projected to continue to place downward pressure on merchandise imports throughout the projection period, the prospect of some loss of momentum in export-related demand for imports also seems set to weigh upon merchandise import flows. As a result, the estimate for merchandise import growth for 2011 and 2012 has been revised downwards, with an estimated increase in volume terms of around 1 per cent and 1.8 per cent, respectively.

Chart 2: Volume of Exports

Source: CSO Quarterly National Accounts.

Services, Factor Incomes and International Transfers

Services export activity remained muted in the second quarter of 2011, with a 5.6 per cent year-on-year increase in volume terms. The sectoral profile of services export growth over this period was broadly in line with that of recent quarters, with activity heavily concentrated in the computer services sector, Ireland's largest and fastest growing services export sector. In aggregate, this sector alone accounted for 6.5 percentage points of the 7.3 per cent increase in the value of services exports during the year to the second quarter of 2011. Survey indicators suggest that the pace of services export growth may have decelerated in the third quarter. The NCB Purchasing Managers' Index for Services points to a pronounced slowing in new export orders during the third quarter – the index fell below the expansion-contraction threshold of 50 in July before recovering to 50.4 in August. Similar to merchandise exports, the outlook for services exports has been revised downwards in line with external demand. Nevertheless, the deterioration in the outlook for services exports seems set to be contained by the ongoing improvement in the competitiveness of Irish exporters. It is worth noting that the latest inflows of foreign direct investment and reports from the IDA indicate a healthy pipeline of projects particularly in relation to the services sector that may prove supportive of services export activity in the future.

Services imports increased by 0.5 per cent in volume terms during the year to the second quarter of 2011. At a sectoral level, the slowdown in services import flows over this period was driven by the weakened performance of the business services sector and the royalties and licenses sector, Ireland's largest services importing sectors, with increases of 1.7 per cent and 0.1 per cent in value terms, respectively. Some weakening in services import flows is expected in both 2011 and 2012.

Despite the downward revision to the outlook for exports of goods and services, the trade surplus is set to improve further during 2011 and 2012 as the growth in exports is expected to outpace that of imports. Net factor income outflows are estimated to have risen in the year to the second quarter of 2011, with an increase of 6.3 per cent. Further growth in net factor income outflows is expected to occur during the second half of 2011, resulting in a rise of around 8.5 per cent for the year as a whole. An increase in net factor outflows of 7.1 per cent is projected in 2012. The international transfers component of the current account remained negative on a net basis during the second quarter of 2011 and the negative contribution arising from this component is projected to continue into the second half of 2011 and further into 2012. Reflecting the projected trends of the various components of the current account, an improvement is likely over the next two years. A current account surplus in the region of 0.4 per cent of GNP is projected for this year, rising to a surplus of about 2.5 per cent of GNP in 2012.

Table 3: Balance of Payments 2010, 2011[f] and 2012[f]

Current Account Items	2010	2011[f]	2012[f]
Merchandise Trade Balance	36496	35774	38529
Services	-7094	-4297	-2475
Net Factor Income from Rest of the World	-27416	-29747	-31849
Current International Transfers	-1222	-1270	-1070
Balance on Current Account	764	460	3135
(% of GNP)	0.6	0.4	2.5

Supply

Industry and Services Output

Following a solid expansion in 2010, the manufacturing sector has slowed to a modest rate of growth of 0.8 per cent in annual terms over the first seven months of 2011. This compares to an increase of 5.2 per cent in the same period of 2010 and to growth of 8.1 per cent on a full-year basis. The slowdown was concentrated in the modern sector which has experienced a marked deceleration from growth rates experienced last year. The expansion in the traditional sector over the first seven months of the year, by contrast, is relatively unchanged from last year's rate of expansion.

Output in the modern sector expanded marginally, rising by 0.4 per cent in the year-to-July on an annual basis, which compares to growth of 7.3 per cent in the same period of 2010. This slowdown reflects a marked loss of pace in the growth of the key chemicals and pharmaceuticals sector where output has weakened to just 1.9 per cent over the same period. When contrasted with growth levels of 22.5 per cent and 17.5 per cent in the same periods of 2009 and 2010, respectively, the sector's outturn for the year-to-date appears muted. If the large and volatile chemicals and pharmaceuticals sector is excluded in order to illustrate the performance of the remaining components of manufacturing, volumes are seen to have contracted more recently. Following a solid performance over the year-to-May, output has now declined by 0.8 per cent in the first seven months relative to the same period of 2010. In particular, the long evident contraction in the computers, electronic and optical products subsector has accelerated more recently after a relatively strong showing in the first quarter of this year. The sector therefore continues to drag on the overall modern sector, albeit noticeably less so than in recent years.

Having initially indicated signs of renewed buoyancy earlier in the year, the traditional sector has also stalled in more recent months. As a result, output growth in the sector currently does not look significantly different than that experienced at the same time last year. In the year-to-July, the traditional sector expanded by 0.4 per cent on an annual basis. Despite more positive growth in the opening two quarters of the year, much of the recent deceleration has been due to a weaker than expected outturn in the food and beverage sector, which had indicated solid growth of close to 3 per cent for the first quarter, when compared to the first quarter of 2010. This performance has since weakened to the extent that the sector has posted a slight annual decline of 0.4 per cent for the year-to-date.

The latest Quarterly National Accounts data, which are not directly comparable to the industrial output volume figures in Table 4, reveal a more positive image of industrial performance in the year to the second quarter of 2011 than the monthly industry and manufacturing output data. The industrial sector (excluding building and construction) expanded by a robust 10 per cent in volume terms during the second quarter of 2011 year-on-year following growth of 5.3 per cent in the first quarter. The National Accounts measure of manufacturing activities is based on the older classification for industry and still includes some services activities, including publishing/software activities, whereas the

Table 4: Industry and Manufacturing Output, Annual Percentage Change

	Modern	Other	Manufacturing	Total Industry
2000	19.1	9.7	14.6	14.3
2001	16.3	5.5	11.4	11.0
2002	13.0	2.6	8.5	8.2
2003	7.0	4.0	5.6	5.7
2004	0.3	2.5	1.1	1.2
2005	5.2	2.3	4.1	4.0
2006	4.1	1.6	3.3	3.1
2007	6.9	3.0	5.6	5.2
2008	-0.8	-4.1	-2.6	-2.5
2009	2.2	-14.1	-4.1	-3.8
2010	10.5	2.4	8.1	7.5
2011[f]	2.8	0.5	2.0	1.6
2012[f]	3.0	0.3	2.6	1.7
Average 2000-2010	7.6	0.0	5.1	4.9

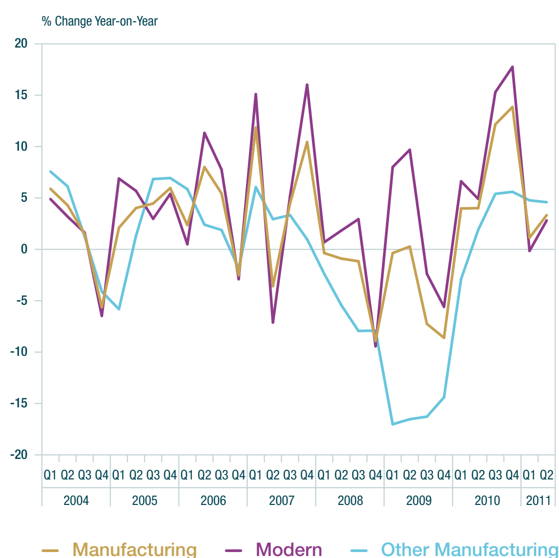
Note: Industrial production indices are compiled by the CSO and reflect output volumes excluding the effect of price changes. They are seasonally unadjusted. Wholesale Price Indices (WPIs) are used as deflators to strip out the price impact on output volumes. In March 2011, the CSO revised 2010 monthly indices to incorporate revised returns in respect of a number of subsectors and updated estimates of seasonal factors resulting in an improvement in 2010 outturn.

monthly industry figures use the more current classification. The higher levels of activity recorded for industry in the Quarterly National Accounts are to a large extent explained by increases in these services activities.

Developments since the previous Bulletin have seen some early prospects of growth in the traditional sector fail to materialise and a continued moderation in the growth of the broad pharmaceutical and chemical sectors. As such, the outlook for industrial production appears to have deteriorated somewhat, resulting in some slight, broad-based downward revisions for this year. This is more consistent with trends in qualitative data provided by the NCB Manufacturing PMI index to end-August, which point to a weakening in overall new orders since the second quarter of this year, although indications of some resilience in external demand remain.

Turning to the services sector, the recent slowdown in the new export orders component of the NCB Services PMI index, in evidence since last May, appears to have eased, suggesting that external demand remains reasonably insulated from emerging moderation in the global recovery. The domestic market, by contrast, has weakened since the end of the first quarter amid fragile confidence. Overall, however, the index continues to indicate modest expansion in the sector for this year. On a National Accounts basis, output in Other Services contracted modestly in the second quarter by 0.7 per cent year-on-year.

Chart 3: Volume of Industrial Production



Source: CSO.

Table 5: Summary of Agricultural Output and Income 2010, 2011[f], 2012[f]

	2010	% change in			2011[f]	% change in			2012[f]
	€ million	Val.	Vol.	Price	€ million	Val.	Vol.	Price	€ million
Goods Output at Producer Prices[a]	5,309	11.3	1.4	9.8	5,909	0.1	0.8	-0.7	5,915
Intermediate Consumption	4,098	8.6	0.2	8.4	4,450	-2.3	0.1	-2.4	4,348
Net Subsidies plus Services Output less Expenses	1,684	0.4			1,691	-1.8			1,660
Operating Surplus	2,010	12.6			2,263	3.2			2,335

a Including the value of stock changes.

Agricultural Output

Recently published price data from the CSO show that output prices were up 15 per cent year-on-year in the first six months of 2011. The main drivers underlying the increase were rises in cattle and milk prices of 17.6 per cent and 16.5 per cent respectively. Together, these items comprised over 57 per cent of the total value of agricultural output produced last year. Input prices continue to track output price developments closely, however, with overall costs estimated to have risen by 12.7 per cent over the same period, when compared to the previous year. This was driven by a number of factors, in particular rising energy, fertiliser and feed prices. Overall, terms of trade movements remain favourable for farmers, with an implied annual improvement of just over 2 per cent experienced during the first half of the year. The latest Quarterly National Accounts data point to a moderation in the volume of growth experienced by the broader Agriculture, Forestry and Fishing sector. The volume of output was up 5.6 per cent in the first half of the year, compared with the same period of 2010.

Turning to the outlook for the sector, recent gains in agricultural output prices are likely to prevail for the remainder of 2011 and into early 2012, with input prices also likely to continue their upward trend. Although Ireland is well positioned to avail of growing opportunities in export markets, world production looks set to rise in response to elevated prices, thus limiting the potential for long-term sustained growth in commodity prices at recent rates. In terms of volume, agricultural output is expected to increase in 2011, expanding at an improved rate from last year. These factors suggest that farming incomes, as measured by operating surplus, will continue their upward trajectory, with a projected rise of 12.6 per cent expected for 2011. Aside from the significant volatility relating to commodity price developments, a number of other downside risks to this forecast remain, including the possibility of a severe winter again impacting negatively on farming incomes, the relatively reduced risk of further oil price rises, and the potential for adverse exchange rate movements.

The Labour Market

According to the Quarterly National Household Survey, the deceleration in the rate of decline in employment continued in the second quarter of 2011, with a fall of 0.2 per cent, when adjusted for seasonal factors. Such an outturn is a noticeable improvement relative to recent quarters, representing the smallest such decline since the first quarter of 2008. In unadjusted terms, the number of persons employed fell by 2 per cent annually in the second quarter and as a result total employment has now returned to a level broadly comparable with that of 2003. As regards developments at a sectoral level, the decline in employment was quite broadly based, with employment in seven of the fourteen economic sectors declining in year-on-year terms.

The contraction in labour demand continued to have a clear dampening effect upon labour supply, with a year-on-year decline of 1.2 per cent. The labour force has now fallen by more than 5 percentage points between its peak in the first quarter of 2008 and the second quarter of 2011. The falloff in labour force participation remained an important factor underpinning the contraction in labour supply during the year to the second quarter of 2011, accounting for over 40 per cent of the overall decline in the size of the labour force. The downward adjustment in labour supply over this period, however, predominantly reflected migratory flows. As highlighted in previous Quarterly Bulletins, developments in migration flows are subject to considerable uncertainty due, amongst other reasons, to data constraints. The recently released *Population and Migration Estimates*, an annual publication providing estimates of the population together with emigration and immigration, showed that there was a net migration outflow totalling to 34,100 persons in the year-ending April 2011 comprising 23,100 Irish nationals and 11,000 non-Irish nationals.

The 1.2 per cent fall in the labour force during the year to the second quarter somewhat eased labour market pressures by limiting the rise in the unemployment rate, as illustrated by the 0.7 percentage point rise in the unemployment rate to 14.3 per cent. The seasonally adjusted unemployment rate increased to 14.2 per cent in the second quarter of 2011. Reflecting the scale of the unemployment increase since the recession began, a dramatic deterioration in terms of the duration of unemployment has been evident. Between the second quarter of 2009 and the second quarter of 2011, the long-term unemployment rate has risen by 5.1 percentage points to reach 7.7 per cent. Moreover, the incidence of long-term unemployment has more than doubled over the same period to around 55 per cent.

High frequency indicators are consistent with further labour market weakness in the third quarter of 2011. The number of persons on the Live Register, in seasonally adjusted terms, rose by 1,600 persons per month in both July and August. This represents a sizable deterioration relative to the first and second quarters of 2011 – an average monthly decline of 1,500 persons was recorded in the first quarter while an average increase of 1,400 was recorded in the second quarter. In view also of the expected composition of output in 2011, most notably the projected further contraction in labour-intensive domestic demand, a further fall in employment is in prospect, with a decline in the region of 1.7 per cent expected for the year as a whole. In addition, public sector redundancies and early retirements seem set to place further downward pressure on employment levels during the second half of 2011 and also in 2012. The beginning of an employment turnaround is not expected until mid-2012 at the earliest and accordingly, a modest recovery in employment is projected next year, with a marginal average annual increase of around 0.1 per cent. Despite the less favourable prospects for external demand, the outlook for employment has been revised down only marginally due to the less labour intensive nature of export oriented activity.

In view of the continuing weakness of labour demand, some further decline in the labour force is in prospect for 2011, with an average annual decline of around 1 per cent expected. As regards the composition of this decline, the downward movement in the size of the labour force is expected to increasingly reflect the response of migratory flows. The negative contribution to the labour force arising from declining labour force participation is nevertheless expected to persist in the short term. Reflecting the projected gradual improvement in employment, the labour force seems set to be broadly unchanged in 2012. Taking account of the outlook for employment and the labour force in 2011, the unemployment rate is expected to rise in annual average terms to around 14.2 per cent. A modest decline in the unemployment rate is expected in 2012, with an average rate of around 14 per cent. It is however, noteworthy, that this fall in the unemployment rate reflects both a return to modest employment growth and a marginal falloff in the size of the labour force.

Table 6: Employment and Unemployment 2010, 2011[f] and 2012[f]

	2010	2011[f]	2012[f]
Agriculture	85	86	86
Industry (including construction)	360	339	336
Services	1,403	1,391	1,394
Total Employment	1,848	1,816	1,817
Unemployment	291	301	297
Labour Force	2,140	2,117	2,114
Unemployment Rate (%)	13.6	14.2	14.0

Note: Figures may not sum due to rounding.

Pay

Wage pressures eased further during the second quarter of 2011, as evidenced by the 0.9 per cent year-on-year decline in average weekly earnings; this compares with a fall of 0.8 per cent annually in the first quarter of 2011. A decomposition of the second quarter decline in whole economy average weekly earnings reveals that it solely related to a reduction in hours worked – average weekly hours worked dropped by 0.9 per cent while average hourly earnings were unchanged. This suggests that firms continued to target the most flexible element of pay, namely hours worked, in an attempt to reduce labour costs. Downward adjustments in average weekly earnings took effect across both the public and private sector in the year to the second quarter, albeit of varying magnitude – a somewhat more pronounced decline of 1.2 per cent was recorded in the private sector in comparison to a 0.8 per cent reduction in the public sector. The composition of the decline in average weekly earnings also differed somewhat across the private and public sector over this period. The fall in private sector average weekly earnings was relatively evenly split between hourly earnings and hours worked, with declines of approximately 0.5 per cent and 0.6 per cent, respectively. In contrast, within the public sector a sharp reduction in hours worked of 1.3 per cent offset the 0.6 per cent rise in hourly earnings.

Considerable variation in terms of the magnitude and direction of the change in average weekly earnings was evident at a sectoral level, with the year-on-year change ranging from an increase of 3 per cent in the education sector to a decline of 8.1 per cent in the arts, entertainment and recreation sector. A decomposition of average hourly earnings and weekly hours worked at a sectoral level reveals that the cuts in hours worked were more broadly based than hourly earnings, with ten of the thirteen sectors recording year-on-year declines.

As highlighted in recent Quarterly Bulletins, the wage outlook for 2011 seems set to differ somewhat across the public and private sector. Private sector wages are expected to remain under downward pressure during the second half of 2011 as the backdrop of spare capacity in the labour market is set to weigh. It is assumed that there will be no further public sector wage cuts throughout the projection period in line with the pay policy element of the ‘Public Service Agreement’. Reflecting such a combination of developments, compensation per non-agricultural employee is projected to decline by around 0.4 per cent in 2011. Looking ahead to 2012, private sector wage increases, albeit modest, are expected to return amid stabilising labour market conditions. In view of this and given the assumption of no further public sector pay cuts, it is envisaged that compensation per non-agricultural employee will return to growth, albeit modest, increasing by around 0.2 per cent. When the outlook for wages is combined with that for non-agricultural employees, it suggests that the non-agricultural pay bill will decline by 2.2 per cent in 2011 followed by a modest rise of 0.2 per cent in 2012.

Table 7: Inflation Measures – Annual Averages, Per Cent

Measure	HICP	HICP excluding Energy	Services[a]	Goods[a]	CPI
2008	3.1	2.6	3.4	2.9	4.1
2009	-1.7	-1.0	1.2	-4.1	-4.5
2010	-1.6	-2.7	-0.7	-2.4	-1.0
2011[f]	1.2	0.0	0.9	1.5	2.2
2012[f]	0.7	0.2	0.7	0.7	0.9

a Goods and services inflation refer to the HICP goods and services components.

Inflation

The annual rate of HICP inflation in August 2011 was 1 per cent. The energy component was the dominant factor, contributing over one percentage point to the headline inflation rate, a consequence of the surge in international oil prices during the final quarter of 2010 and the first quarter of this year. Notwithstanding the indirect pass-through of higher oil, food and other international commodity prices and sector-specific developments such as higher premia for medical insurance, the fall in core inflation, as measured by the HICP excluding energy, was down annually by 0.2 per cent in August. Indeed, domestically driven inflationary pressures have continued to be markedly weak, with downward price trends most evident for items of a more discretionary nature in the non-energy industrial goods and core services components.

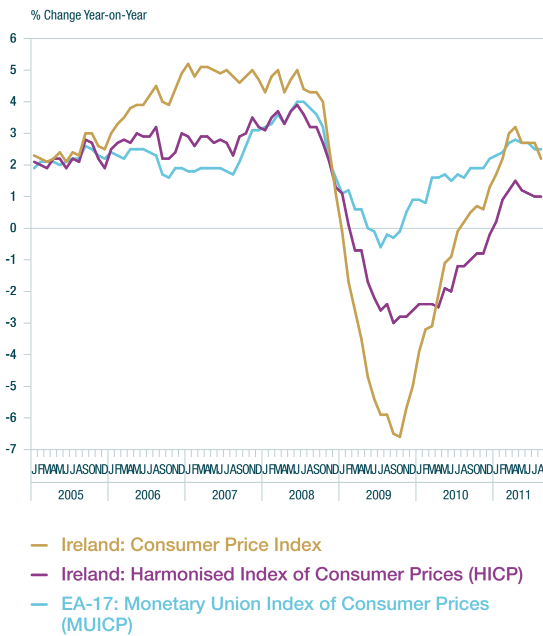
The VAT reduction for mainly tourism related items took effect in July this year. It is empirically challenging to assess the extent of the pass-through of this VAT reduction, particularly in the context of a possible strong pick-up in tourism demand and the usual seasonal influences. It is likely that, as profit margins were compressed significantly in the downturn, some firms may have attempted to partially rebuild their margins. In any event, even with a full pass-through, the impact on overall HICP inflation would be modest in view of the targeted nature of the measure. Core services inflation more generally remain subdued, recording an annual rate of decline of 0.2 per cent in August this year.

The changes in the annual HICP inflation rate in the coming months will mainly reflect electricity and gas price hikes and base effects arising from earlier sharp movements in international oil prices. Thereafter, the pass-through of commodity price increases will have largely run its course. However, annual inflation for next year will continue to be impacted by the energy component as there will be a strong carryover from the hikes in utility charges of this autumn and there are likely to be further increases in carbon taxes in January. With employment growth not projected until the latter half of next year and a further fiscal consolidation weighing on disposable incomes, domestic inflationary pressures are likely to remain subdued well into next year. As has been the case recently, the path of headline inflation will depend to a large extent on developments in external price pressures. Given that there is considerable uncertainty surrounding the external demand environment, the outlook for headline inflation is also characterised by high levels of uncertainty.

Despite ECB policy interest rate increases of 25 basis points in April and July, the mortgage interest component of the consumer price index (CPI) recorded moderate increases over recent months. The increase in average mortgage costs is likely to have been understated as the current methodology used by the CSO only captures changes in standard variable mortgages rates and not trackers rates. In fact, due to strong negative base effects associated with mortgage rate rises of last year, the annual rate of CPI inflation eased significantly from 3.2 per cent in April this year to 2.2 per cent in August. The Bank uses a purely technical assumption for interest rates that is based on market expectations

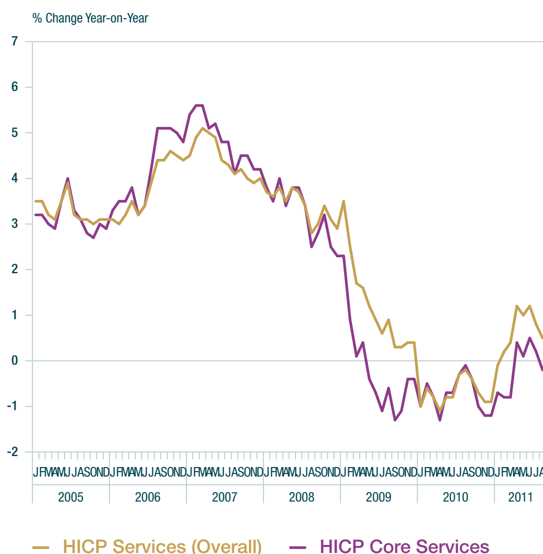
for the path of ECB policy rates. As market expectations of ECB policy rates increases have been pushed back into the latter half of next year, there is a downward revision to the projection for annual CPI inflation to 0.9 per cent for next year.

Chart 4: Consumer Prices



Source: CSO.

Chart 5: Services Sector Inflation



Note: Core Market Services equals HICP services excluding telecommunications, alcohol and administered services.

Source: CSO.

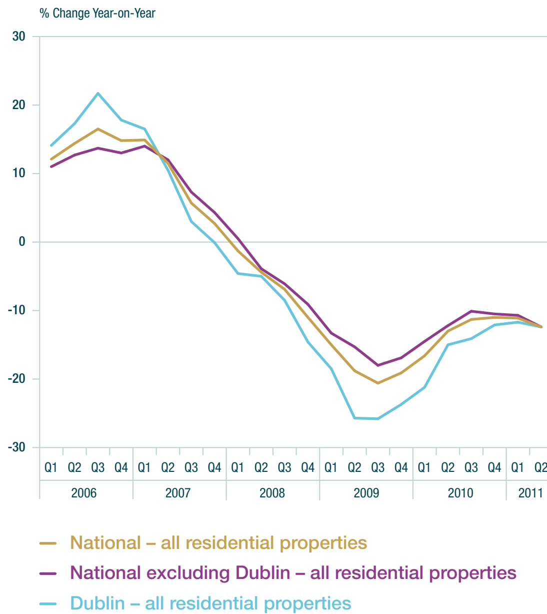
Property Prices

The CSO Residential Property Price Index indicates that the monthly decline in house prices moderated somewhat to 0.8 per cent in July this year. Despite recent mortgage interest rate rises and further falls in disposable incomes, affordability has continued to improve due to the decline in house prices, particularly in the Dublin area. According to the EBS DKM Affordability index, the proportion of net income required to fund a mortgage by a first-time buyer couple was estimated to be about 13 per cent in June this year, down from a peak of over 26 per cent at end-2006. However, mortgage credit conditions continue to be tight. Also, consumer sentiment remains low against a backdrop of heightened uncertainty for the labour market outlook so first time buyers are less inclined to enter the housing market. Meanwhile, private rents are largely flat, with rents up just 0.2 per cent in July year-on-year according to the CSO private rental index. This stabilisation in rents is corroborated by data from Daft.ie. Rents are likely to remain constrained by persistently strong supply levels and on the demand side by the challenging labour market for younger population cohorts, declines in disposable incomes and net outward migration.

Turning to the commercial property sector, capital values fell by 5.3 per cent in the second quarter of this year, the largest quarterly fall since the third quarter of 2009. Data from the Society of Chartered Surveyors/Investment Property Databank indicate the fall in capital values in the second quarter was broadly similar across the retail, office and industrial sectors. These findings are corroborated by data from the Jones Lang LaSalle index (JLL), which indicates that the capital value of commercial property fell by 5.7 per cent in the second quarter of this year. Meanwhile, the JLL rental index indicates that the fall of rental values recently accelerated, with rents across the commercial property sector falling by 4.6 per cent in the second quarter of this year, quarter-on-quarter. Overall, commercial rents are now down over 46 per cent since the peak of the second quarter of 2008, with the sharpest decline in the industrial sector of 54.2 per cent during that period. The weakness in

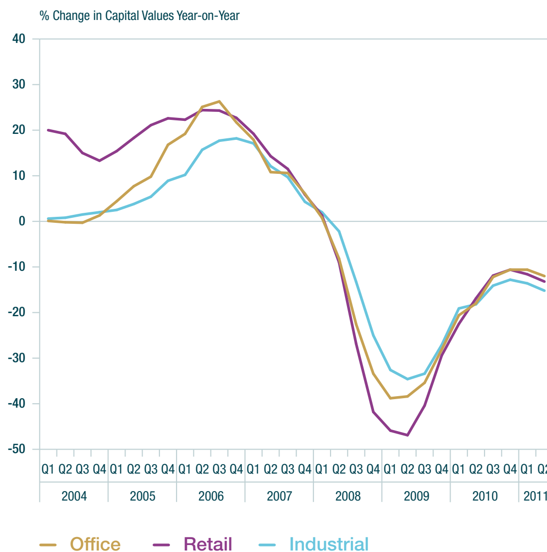
the commercial property sector may intensify when allowances are made for the proposed legislation on upward only rents reviews. As against that, increased flexibility in commercial rent contracts would help to further enhance the competitiveness of the Irish economy.

Chart 6: National House Price Indices



Source: CSO.

Chart 7: SCS/IPD Irish Commercial Property Index

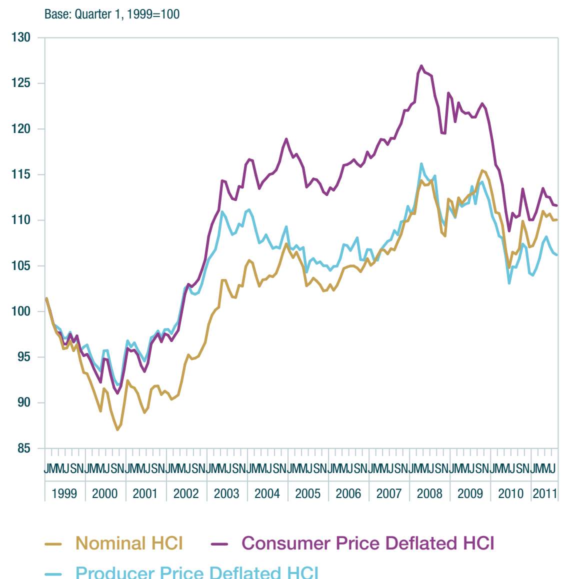


Source: SCS/IPD.

Competitiveness

The overall competitiveness of the Irish economy continued to improve in the third quarter of 2011 but at a more moderate pace than previously experienced. While the improvement is to be welcomed, it should be noted that the higher productivity growth may be partly due to cyclical and compositional factors, as alluded to in previous Bulletins. Following an appreciation of the euro against both the dollar and sterling in the second quarter, there was a slight weakening in the euro exchange rate in the third quarter of the year, which will be of some help to domestic exporters, albeit marginally. Overall, the latest competitiveness developments continue to remain reasonably favourable, which should continue to provide a boost to exporters for the remainder of the year, despite slightly less favourable growth in our trading partners. A continued improvement in cost competitiveness along with broader competitiveness issues will enhance the resilience of the exporting sectors in the face of a more challenging external environment.

Chart 8: Harmonised Competitiveness Indicators

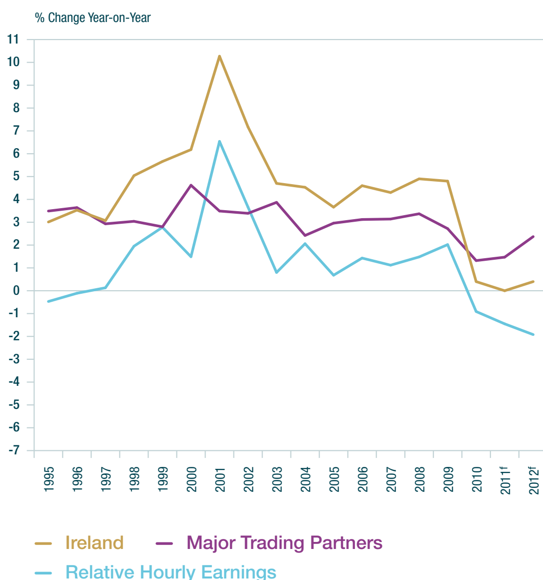


Source: Central Bank of Ireland and ECB.

Exchange Rate Developments

Following significant appreciations in the second quarter, the euro exchange rate depreciated in value against the dollar and, to a lesser extent, sterling in the third quarter of 2011 – by 1.7 per cent and 0.5 per cent quarter-on-quarter, as investor confidence mounts over euro debt concerns. The year-on-year comparisons for the third quarter, however, are not so favourable for the Irish exporting sectors with significant depreciations throughout 2010 followed by appreciations in the second and third quarters of 2011. The euro/dollar rate was still 9.6 per cent higher in quarter three 2011 compared with the same period last year, and the euro/sterling rate was 5.4 per cent higher. The latter will have had a disproportionate effect on indigenous Irish exporters, whose principal export market is the UK. These earlier exchange rate developments are reflected in the most recent trends in the nominal Harmonised Competitiveness Indicator (HCI), which is a trade weighted exchange rate. The nominal HCI was up by 4.1 per cent year-on-year in the three months to end-July, while the consumer price deflated HCI was up only 1.8 per cent, the lower increase reflecting slightly weaker inflation in Ireland than in our main trading partners.

Chart 9: Hourly Earnings in Manufacturing (in Local Currency)



Source: Central Bank of Ireland calculations.

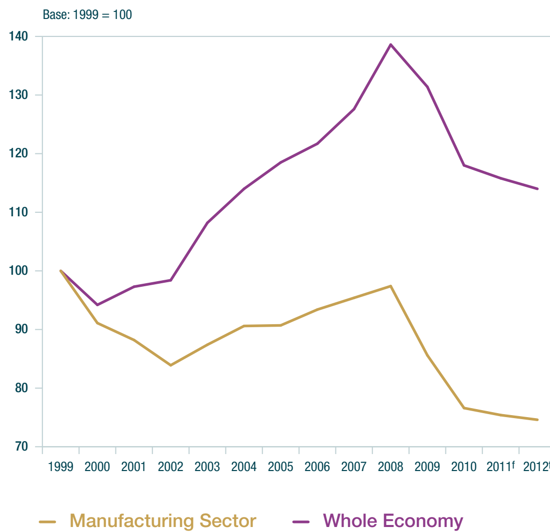
Productivity and Cost Competitiveness

Revised National Accounts data for 2010 confirm that significant productivity gains were made throughout the course of the year, primarily in the modern manufacturing sectors. Productivity growth on a GDP basis increased by 3.9 per cent, while growth on a GNP basis increased by 4.7 per cent (this figure was buttressed by lower net factor income outflow). This likely reflected two factors: firstly, strong growth in the high-value added, mostly foreign-owned, manufacturing sectors and, secondly, a sharp fall in activity in the lower productivity sectors such as construction and services. These compositional and cyclical effects are set to continue this year, albeit to a lesser extent. In light of the overall slightly less optimistic economic and labour market outlook set out above, average annual productivity growth of 2.8 per cent is projected for 2011, before slowing to 1.7 per cent in 2012.

In light of the projected, but more modest, increase in productivity, and a marginal decline in compensation per employee, unit labour costs relative to our main trading partners are forecast to decline over the projection period. This, however, comes with the usual caveat about the effects of structural changes on competitiveness indicators[6]. The improvement in relative unit labour costs is set to come increasingly from the productivity side rather than the compensation side, as most firms have already completed their rounds of wage reductions. The outlook for unit labour costs in Ireland remains favourable relative to the Euro Area (Chart X), with unit labour costs projected to increase by 1 per cent per annum on average in 2011 and 2012 according to the latest European Commission estimates. This compares to a 3 per cent projected annual decline in Irish unit labour costs in 2011, followed by a decline of 1.5 per cent in 2012.

6 For a more detailed discussion on this issue, see Box A: Compositional Effects in Recent Trends in Irish Unit Labour Costs, Quarterly Bulletin 2011 1.

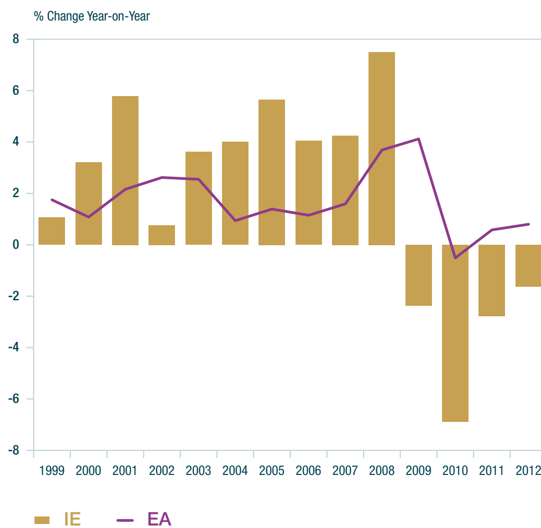
Chart 10: Irish Unit Wage Costs Relative to Main Trading Partners (in Common Currency)



Note: The series in the chart are influenced by compositional effects. For a more detailed discussion, see Box A: Compositional Effects in Recent Trends in Irish Unit Labour Costs, Quarterly Bulletin 2011 1.

Source: Central Bank of Ireland, European Central Bank and AMECO.

Chart 11: Comparative Unit Labour Costs



Source: Central Bank of Ireland calculations and Eurostat.

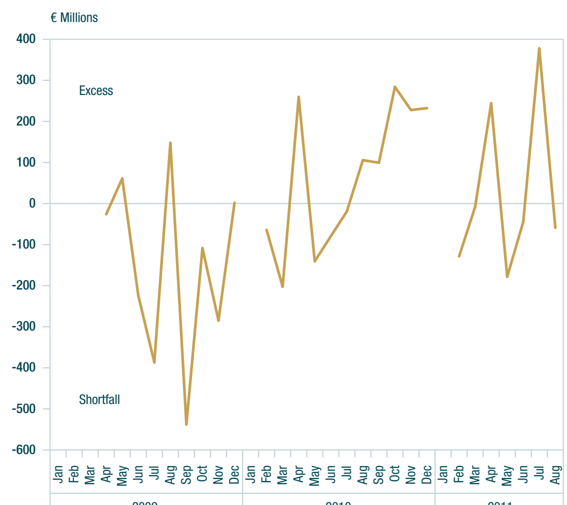
In terms of the other competitiveness indicators, the new Services Producer Price Index points to some stabilisation in prices in Ireland, with prices up marginally by 0.1 per cent in the second quarter, year-on-year. The recent Forfás National Competitive Council's Competitiveness Scorecard points out that Ireland's costs still remain high by European standards. High public debt, falling investment and shortages of credit were sighted as negatives, along with the continued perception that Ireland remains a costly place to do business. Some concern was also expressed that a deterioration in education attainments, particularly in the areas of science and mathematics, could affect our stock of human capital which has been a vital asset in attracting FDI in the past.

The Public Finances

Exchequer Returns Data

Exchequer returns to end-August indicate that full-year fiscal targets remain on track. The Exchequer deficit to end-August, at €20.4bn, was up considerably on the 2010 position owing to a sharp increase in non-voted capital expenditure relating to the banking sector. Exchequer banking-related payments to date in 2011 total €10.7bn (€3.1bn relating to the March 2011 promissory note payment and €7.6bn in one-off payments made in July in light of Prudential Capital Assessment Review (PCAR) banking recapitalisation injections) but are offset by €600m in guarantee fee receipts. Excluding net banking payments, and the €230m in receipts from the sale of State shareholdings in Bank of Ireland by the National Pension Reserve Fund (NPRF), the Exchequer deficit fell by €1.5bn or 13 per cent year-on-year.

Chart 12: Monthly Exchequer Tax Outturns Relative to Profile



Note: Discontinuity in series due to a lack of data. Typically, profiles for coming year are published with end-February Exchequer outturns.

Source: Central Bank of Ireland calculations and Department of Finance profiles.

Table 8: Exchequer Returns to end-August 2011

	2010 Outturn €m	2010 End-August €m	2011 End-August €m	End-August % Annual Change
Current Expenditure				
– Voted[a]	40,517	26,411	27,251	3.2
– Non-Voted[b]	6,504	3,989	3,684	-7.7
Total	**47,021**	**30,400**	**30,935**	**1.8**
Current Revenue				
– Tax revenue	31,753	18,926	20,502	8.3
– Non-tax revenue[c]	2,689	977	1,608	64.7
Total	**34,441**	**19,903**	**22,110**	**11.1**
Current Budget Balance	**-12,580**	**-10,498**	**-8,824**	
Capital Budget Balance	**-6,165**	**-1,587**	**-11,607**	
Exchequer Balance	**-18,745**	**-12,085**	**-20,432**	
General Government Balance (% of GDP)[d]	**-32.0**			
Underlying General Government Balance (% of GDP)	**-11.7**			
Source and Application of Funds				
Total Borrowing/Repayments	-12,618	-14,195	-17,638	
Total increase in Exchequer Deposits	-6,127	2,110	-2,793	
Exchequer Balance	**-18,745**	**-12,085**	**-20,432**	

a Government current expenditure voted on by the Dáil in the areas of Social Welfare, Health, etc.

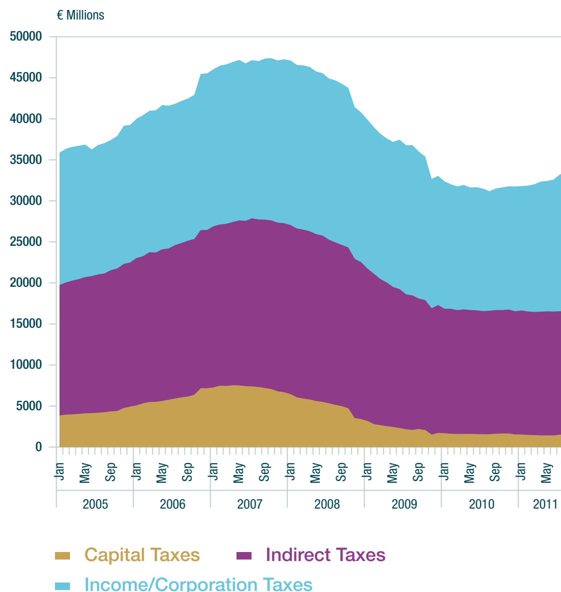
b Debt servicing, judicial salaries and pensions and EU Budget contribution.

c Central Bank surplus income, National Lottery surplus, interest and dividends.

d Based on March 2011 EDP outturn for 2010 and June 2011 published NIE outturn for 2010.

Tax receipts, at €20.5bn, were up 8.3 per cent year-on-year and are 1 per cent ahead of profile for the year-to-August, driven primarily by strong receipts from income tax, stamp duties and corporation taxes. For August alone, the tax take was 3.1 per cent behind profile, with this weakness spread across most tax heads with the exception of capital acquisitions tax and stamp duties. Stamp duties were boosted by the initial receipt of the pension fund levy contributions which are collected under the stamp duty tax heading. The new pension fund levy set out in the May *Jobs Initiative* was not built in to the pre-existing full year tax profiles. Over July and August combined stamp duty has registered €133m ahead of target due to the collection of €140m in receipts from the levy on pension funds. The anticipated full-year yield from the pension fund levy is €470m with the remainder expected to be collected in September. Net of pension fund contributions, stamp duties are down 3.2 per cent relative to target. Income tax registered 1.6 per cent ahead of target, mainly as a result of the earlier than anticipated DIRT payments received in both April and July recorded under the income tax heading. Although corporation tax for the year-to-August was 4 per cent ahead of target, for August alone, receipts were down some 18 per cent reflecting the "lumpy" nature of corporation tax receipts which has been evident throughout the year. VAT has underperformed relative to target in each month since June, with a shortfall likely to continue (all things being equal) in coming months, as the VAT reduction on certain tourist sector activities announced in the May *Jobs Initiative* (expected to reduce VAT receipts by €120m in 2011) will be reflected in the Exchequer Returns data from the end of September.

Chart 13: Annualised Exchequer Tax Revenues



Note: Capital Taxes include Stamp Duties, Capital Gains Tax and Capital Acquisitions Tax. Indirect Taxes include VAT, Customs and Excise Duties as well as a minor balancing item for remaining unallocated tax receipts. Income taxes include the reclassification of health levy receipts to form part of the USC in 2011.

Source: Central Bank of Ireland calculations.

On the spending side, total net voted expenditure was up 0.8 per cent year-on-year. However, since net voted current expenditure is driven up as a result of the USC[7] reclassification, direct annual comparisons are somewhat distortionary. Excluding the USC effect, net voted expenditure was down 2.7 per cent year-on-year. Exchequer debt servicing costs to end-August stood at €2.6bn, down €327m year-on-year. However, this comparison fails to capture the impact of the 2010 sinking fund contribution (as yet not replicated in 2011) and the Capital Services Redemption Account (CSRA) payments made at the end of 2010 used to offset Exchequer exposure of cash related debt interest in 2011. Abstracting from these two features, debt servicing costs were up some €800m year-on-year.

Near Term Outlook

The government are in the process of completing a *Comprehensive Review of Expenditure* (CRE) in order to identify scope for more efficient focus in public spending allocation. The results will input to the design of forthcoming binding multi-annual expenditure ceilings (end-December structural benchmark). A *Pre-Budget Outlook* (PBO), which will include a medium-term consolidation plan setting out overall consolidation amounts and the revenue-expenditure mix over 2012-2015, as outlined in the *Memorandum of Economic and Financial Policies* (MEFP) is to be published by end-October. Budget 2012, scheduled for early December, will announce both revenue and expenditure measures underpinning the medium-term consolidation effort, and will establish medium-term expenditure ceilings consistent with that effort.

EU-IMF Programme Compliance to Date

The Programme partners have deemed the Irish government compliant with the terms of the third quarterly review under the EU-IMF Programme. The September staff reports from both the IMF and the European Commission reflect an assessment of fiscal performance to end-July. End-June fiscal performance criteria relating to the cumulative primary exchequer balance and central government net debt ceilings were observed with a margin, as was the requirement of non-accumulation of new external payment arrears.

Since the publication of the last Bulletin, a number of further structural benchmarks have been adhered to including the establishment and appointment of an Irish Fiscal Advisory Council (IFAC). The completion of required recapitalisation of Allied Irish Bank, Bank of Ireland, Irish Life & Permanent and EBS Building Society, as indicated by the March 2011 PCAR results, was observed by end-July. State exposure relating to PCAR banking recapitalisation payments currently stands at just over €17.5bn, of which €10bn was funded through the NPRF and the remainder through Exchequer cash balances. Further details on Programme funding drawdown to date are outlined in the accompanying box on overall Programme compliance.

7 Approximately €2bn in health levy receipts formerly classified as a departmental receipt by the Department of Health & Children from 2011 onward are now reclassified as part of the Universal Social Charge (USC) receipts which are now classified under the income tax sub heading.

Forthcoming EU-IMF Programme Targets

Regarding upcoming fiscal structural benchmarks, the introduction of a medium-term expenditure framework with binding multi-annual expenditure ceilings (consistent with fiscal consolidation targets) will be set out on Budget day. The legal framework governing the IFAC (enshrining independence of the latter) must be submitted to the Dáil as part of the broader *Fiscal Reasonability Bill* by end-December.

On the basis of Exchequer trends to date, the achievement of both the end-September central government net debt target of €98.6bn and the Primary Exchequer Balance (PEB) ceiling of €14.2bn look on target. Consistent with the external partners' agreed monitoring approach, the end-August PEB, adjusted for both cash-related debt interest payments and banking recapitalisation payments of €7.6bn, stood at €10.3bn. The cumulative end-September PEB ceiling set is €14.2bn. This is the unadjusted target, formulated on the basis of a gross revenue estimate of €28.6bn. Should gross revenue over (or under) perform, the PEB ceiling will be adjusted accordingly.

Implications of EU Rate Reduction Agreements

On July 21st the European Council reached agreement on the provision of a second assistance programme for Greece totalling €109bn. The European Financial Stability Facility (EFSF) portion of the loan is subject to lengthened maturities ranging from a minimum of 15 years up to 30 years, and will be provided at lending rates close to but not below EFSF cost of funding. The statement issued stated 'EFSF lending rates and maturities agreed upon for Greece would also be applied to Portugal and Ireland'. Since this political agreement in principle, there have been a number of operational issues requiring resolution, including the balance of achievable maturity structures alongside practicable costs of funding, the margin which must legally apply to future funding and whether rate reductions will apply retrospectively to EFSF loans already drawn down. As a result, the precise benefit of the rate reduction contained in the July 21st Heads of State agreement for Ireland remains uncertain. Precise annual savings cannot be quantified however until full agreement has been reached involving whether the reduction will be applied retrospectively to loans already drawn, specific maturity profiles and a cost of funding have been agreed with the EU Commission.

Given the subsequent European Commission agreement reached on September 14th (subject to formal Council approval by all 27 Member States), the 292.5 basis point margin formerly applying to Irish European Financial Stabilisation Mechanism (EFSM) loans will now be reduced to zero. This rate reduction will apply both to the €11.4bn in EFSM funds already drawn down and all forthcoming EFSM loans (including the forthcoming €5.5bn tranche). There will be no retrospective extension agreements applied on loans to date, but forthcoming loans will secure a longer maturity up to a maximum of 30 years, such that the average maturity over the full EFSM loan portion will increase from 7.5 years up to 12.5 years. Until a cost of funding has been formalised, it remains unclear as to the exact savings that will be made on the EFSF portion as a result of the July 21st agreement, and whether this saving will apply retrospectively. On the basis that an illustrative 247bp saving is made on future EFSF loans and UK bilateral loans,[8] taken in conjunction with the 292.5bp margin reduction across all EFSM lending, this would imply full year annual savings of up to €1.1bn by 2013/14, with annual savings peaking in 2016 as the €530m pre-paid margin on the existing €4.2bn EFSF loan is rebated. Thereafter, annual savings taper off as original shorter-dated existing loans fall due and are rolled at presumably higher rates.

8 Danish and Swedish bilateral loan agreements (covering €400m and €600m in loans, respectively) have not been finalised. It is unclear at this stage whether concessional EFSF rates will be offered on these amounts.

An Timpeallacht Gheilleagrach

Leanann an timpeallacht gheilleagrach de bheith faoi thionchar ag coinníollacha suaite sna margaí airgeadais agus ag forás níos moille i gcomhpháirtithe trádála na tíre. Dá bhrí sin, féadfaidh go maolóidh fás OTI sa dara leath den bhliain ach cuirtear in iúl leis na sonraí láidre ón gcéad leath gur dócha go mbeidh méadú 1 faoin gcéad i gceist don bhliain iomlán, agus tuartar go laghdóidh an OTN go feadh 0.4 faoin gcéad. Meastar go mbeidh leathnú 1.8 faoin gcéad ar OTI an bhliain seo chugainn fad gur dóigh go dtiocfaidh fás 0.7 faoin gcéad ar OTN. Leis na figiúirí deireannacha sin, léirítear rátaí forleathnaithe atá níos neamhthoirtéisí ná mar a rabhthas ag súil leo roimhe seo.

Go hiondúil, bheifí ag ceapadh go rachadh an dearcadh maidir le staid airgeadais tíre in olcas de thoradh ionchas d'fhás níos moille. Le míonna beaga anuas, áfach, chonacthas laghdú ginearálta ar thorthaí ar bhannaí Rialtas na hÉireann. Cé nach mbaineann sé seo go díreach leis an gcostas iasachtaíochta, faoi láthair, ó tharla go bhfuil rochtain ag an tír ar chistí faoi Chlár AE/CAI, féadfar breathnú air mar léiriú ar mhéadú muiníne i dtaca le staid airgeadais na tíre. Is dócha go léirítear tosca áirithe leis an bhforbairt seo. Ar an gcéad dul síos, feictear comharthaí breise cobhsaíochta sa gheilleagar agus leanann an t-airgeadas poiblí de bheith ag druidim sa treo ceart maidir leis an gcoigeartú foriomlán fioscach atá beartaithe. Ar an dara dul síos, tá comharthaí ann nach mbeifear ag tarraingt ar chistí an Státchiste go feadh an méid a rabhthas ag súil leis roimhe seo maidir le costais athchaipitliú na mbanc i bhfianaise infheistíocht ón earnáil phríobháideach i mBanc na hÉireann agus i bhfianaise díolachán rathúil roinnt sócmhainní de chuid na mbanc. Ar an tríú dul síos, bhí laghdú suntasach ar na costais maoiniúcháin faoi Chlár AE/CAI arna chomhaontú ag cruinniú mullaigh de na Ceannairí Stáit agus Rialtais an 21 Iúil 2011 agus arna shoiléiriú agus arna leathnú i bhfógra ón gCoimisiún Eorpach an 14 Meán Fómhair.

Ní mór na forbairtí seo a chur i gcomhthéacs, áfach, toisc go bhfuil na torthaí ar bhannaí Rialtas na hÉireann fós ag leibhéil atá ar neamhréir le filleadh ar mhaoiniú margaidh. Ní mór dul chun cinn suntasach breise a dhéanamh d'fhonn acmhainneacht creidmheasa na tíre a chur ina luí ar rannpháirtithe margaidh chun go bhféadfaidh an Stát filleadh ar rochtain neamhspleách ar mhargaí maoiniúcháin cheannasaigh. Ní fhéadfar é seo nó feabhas leathan bunúsach a bhaint amach ach amháin trí aghaidh a thabhairt go diongbháilte ar na príomh-dhúshláin beartais.

Maidir leis an earnáil baincéireachta, tá clár uaillmhianach athstruchtúrúcháin agus díghiarála le tabhairt chun críche d'fhonn córas baincéireachta a chur ar bun lena bhfreastalófar ar riachtanais na hearnála intíre sa mheántearma. Cé go bhfuil an próiseas seo faoi shiúl, tá sé ríthábhachtach go gcuirfidh an córas baincéireachta cistí leordhóthanacha ar fáil d'iasachtaithe a bhfuil acmhainneacht creidmheasa acu agus go ndéileálfaidh sé le méid suntasach na hiasachtaíochta anásta atá ann nó a thiocfaidh chun bheith ann sna blianta atá le teacht. Cé go bhfuil dúshláin shuntasacha i gceist do lucht bainistíochta agus d'fhoireann na n-institiúidí airgeadais agus na ngníomhaireachtaí rialtais lena mbaineann, tá ról ag beartais rialtais maidir leis an staid a bhainistiú freisin. Ina leith sin, tuairisceoidh grúpa comhairleach don Aire Airgeadais go luath maidir le roinnt de na saincheisteanna a bhaineann le sealbhóirí morgáiste a bhfuil deacrachtaí acu a gcuid aisíocaíochtaí a dhéanamh.

Maidir leis an airgeadas poiblí, tugtar le fios leis na forbairtí a tharla go dtí seo i mbliana go bhfuil an coigeartú ar an gconair cheart. Maidir le méid an choigeartaithe fhioscaigh is gá chun cóimheas easnaimh-OTI de 8.6 faoin gcéad a bhaint amach, beidh sé faoi réir tháirgeacht na bliana seo agus faoi réir na dtáscairí fáis tráth an Bhuiséid. Is doiligh a rá ag an bpointe seo cibé acu a bheidh ag teastáil chun an sprioc seo a bhaint amach – coigeartú €3.6 billiún atá réamh-mheasta faoi láthair faoi Chlár AE/CAI nó coigeartú is mó ná sin.

Mar aon leis an gcoigeartú íosta seo is gá, tá ceist eile ann i dtaobh ar cheart dul thar an sprioc maidir leis an gcóimheas easnaimh trí na coigeartuithe atá beartaithe do na blianta amach anseo a thabhairt ar aghaidh. Ní hionann é seo agus méadú ar scála an choigeartaithe fhoriomláin ach díreach méadú ar luas an choigeartaithe sin. Tá roinnt argóintí ar son an mholta seo. Ar an gcéad dul síos, tá cúis mhaith le maolán a áireamh sna bearta airgeadais phoiblí don bhliain seo chugainn. Bíonn éiginnteacht i gcónaí ar chonair fáis ar bith maidir le ráta ionchasach fáis an gheilleagair agus, thairis sin, maidir le táirgeacht bheacht don airgeadas poiblí. Má fhéachtar le dul thar an sprioc, cuirfear le cumas an airgeadais phoiblí déileáil le turraingí ionchasacha diúltacha don gheilleagar. Ar an dara dul síos, d’fhéadfadh nach suntasach ann féin a bheadh an tionchar diúltach ar fhás a d’eascródh as roinnt de na coigeartuithe. Is dócha go bhfuil an coigilteas réamhchúramach sa gheilleagar ard toisc go bhfuil éiginnteacht i measc na dteaghlach maidir le hiarmhairtí an choigeartaithe fhioscaigh ar a staid airgeadais féin. Ina leith sin, ba mhór an cúnamh foilsiú shonraí an choigeartaithe fhioscaigh fhoriomláin ag an Rialtas. Tá seans ann freisin gur lú ná mar a cheapfá an iarmhairt ar thomhaltas a bheadh ann dá dtabharfaí ar aghaidh roinnt de na hathruithe seo toisc gur cuireadh san áireamh cheana féin iad ag teaghlaigh le linn dóibh cinntí a ghlacadh maidir le coigilteas agus tomhaltas. Níor cheart dul rófhada leis an argóint seo, áfach, agus ní bheadh sé inmholta, mar shampla, ró-thúsualú a dhéanamh ar an gcoigeartú. Ar an tríú dul síos, d’fhéadfadh go laghdófaí ualach foriomlán an choigeartaithe dá mbainfí an coigeartú sin amach ar bhealach níos tapa. Leis an gcur chuige seo, ísleofar costais úis toisc go n-ísleofar go meicniúil an fiachas rialtais ar bhealach níos tapa ná mar a bheadh i gceist murach sin agus laghdófar an ráta úis a bheidh le híoc ag an tír nuair a fhillfidh sí ar iasachtú neamhspleách.

Tá sé ríthábhachtach freisin go neartófar na feabhsúcháin i staid iomaíochais an gheilleagair chun go méadófar a chumas déileáil le turraingí agus chun go dtreiseofar a chumas fáis. Tá roinnt comharthaí dearfacha ina leith sin. Is dealraitheach go bhfuil ag éirí leis an tír infheistíocht shuntasach isteach a mhealladh d’ainneoin na gcaillteanas ardphróifíle poist in earnálacha áirithe a mbíonn móriarmhairtí acu ar na daoine a ndéantar difear dóibh. Tá roinnt de na hearnálacha dúchasacha ag cur le feidhmiú feabhsaithe onnmhairí, ní hamháin na hearnálacha talmhaíochta agus bia ach onnmhairiú seirbhísí chomh maith, lena n-áirítear turasóireacht. Cé go bhfáiltítear roimh na coigeartuithe san iomaíochas, is gá iad a threisiú tuilleadh. Féadfar é seo a dhéanamh trí bhíthin na héifeachtúlachta feabhsaithe a éiríonn as iomaíochas breise i raon earnálacha, ní hamháin fóntas ach seirbhísí na n-earnálacha príobháideacha chomh maith, mar a leagtar amach i dtuarascálacha an Údaráis Iomaíochta agus ECFE. Ní mór athchóirithe na hearnála poiblí a bhrú ar aghaidh d’fhonn uasleibhéal féideartha seirbhísí poiblí a sholáthar ó na hacmhainní laghdaithe atá ar fáil maidir le caiteachas, rud a chuirfidh le héifeachtúlacht agus le táirgiúlacht fhoriomlán an gheilleagair. Beidh coigeartuithe deacra i gceist le go leor de na hathruithe seo, ar athruithe iad a chuirfidh le stóinseacht bhunúsach an gheilleagair agus a léireoidh go soiléir gur féidir leis an ngeilleagar dul in oiriúint do thosca athraithe agus, ar an gcaoi sin, go bhfuil an cumas aige teacht as an staid reatha dhúshlánach. Rachadh an méadú muiníne sin, ann féin, chun tairbhe don phróiseas téarnaimh, fad a bheidh sé bunaithe go dlúth ar dhul chun cinn suntasach.

Financing Developments in the Irish Economy

Overview

While tensions increased in international financial markets during the summer of 2011, financing conditions in the Irish economy remained broadly unchanged, reflecting both the insulating effect of the EU/IMF Programme and improvements in market sentiment towards Ireland. Despite a slower than expected international recovery and investor concerns in the euro area sovereign debt market spreading beyond the EU/IMF Programme countries, yields in secondary markets on Irish sovereign debt declined noticeably. This followed positive sentiment arising from continued compliance with the Programme, positive developments in terms of bank recapitalisation costs and reductions in interest rates on part of Ireland's Programme funding agreed by EU leaders as part of a wider revamp of the European Financial Stability Facility (EFSF).

The restructuring and recapitalisation of the domestically-owned credit institutions has continued in recent months. All the institutions covered in the Financial Measures Programme at end-March 2011 met their end-July capital requirements as set by the Central Bank of Ireland, mostly through the injection of Government funds. As a result, the Government now has a majority share in Allied Irish Bank/Educational Building Society and Irish Life & Permanent. Many of the banks concerned have also bolstered their capital positions in recent months through liability management exercises and, in the case of Bank of Ireland, a successful private equity issuance allowing for continued majority private ownership of that institution.

The balance sheet of credit institutions resident in Ireland, including those covered under the Government guarantee scheme, continued to decline in recent months. However, with continued deleveraging and some reduction in the pace of deposit outflows in recent months, reliance on total central bank funding has generally decreased following its peak in the first quarter of 2011.

Credit advanced to domestic non-financial corporations (NFCs) and households continues to contract on an annual basis, although there have been increases in NFC lending by credit institutions in most recent months. The upward pressure on interest rates for loans reflecting market expectations of increases in the ECB main policy rate, coupled with increases in margins for domestic banks, eased at the beginning of the third quarter. Irish resident NFCs continued to source an increasing share of their external financing through alternatives to bank loans, specifically through increased use of market-based funding. Meanwhile households continued to deleverage their balance sheet in early 2011, although at a slower pace than in the second half of 2010.

Developments in the financial position of Irish resident non-bank financial institutions over Q2 2011 saw continued strong growth in Irish investment funds. This was offset somewhat by negative valuation effects, particularly in funds that are long in equity assets. Safe-haven flows into bonds of highly-rated sovereigns in recent months, at the expense of equities, reflected continued volatility in equity markets.

Monetary Financial Institutions

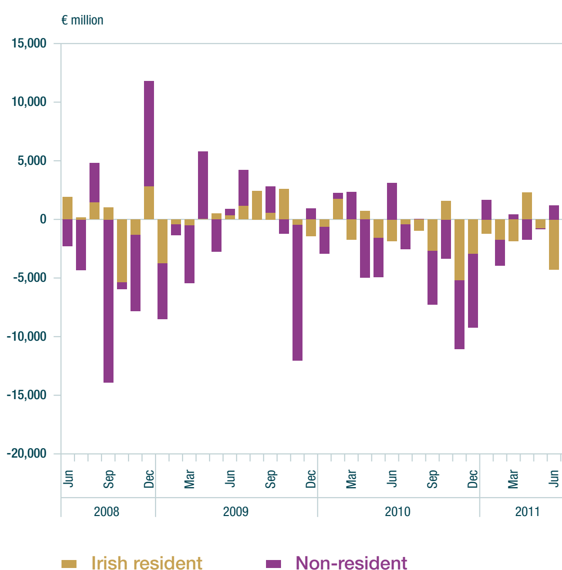
Credit Institutions' Funding

Although the Irish-owned credit institutions continue to experience difficulties in sourcing market-based funding, recent months have seen a further reduction in their recourse to Eurosystem refinancing operations. This development comes as the covered institutions continue deleveraging their balance sheets, and as the latest programme of recapitalisation was completed. The results of the second Prudential Capital Assessment Review (PCAR) in March 2011 showed that a combined €24 billion of capital increases were required for four of the Irish-owned banks. While the majority of this latest recapitalisation programme was publicly funded, the recent sale of €1.1 billion of the State's shares in Bank of Ireland to private investors, together with a successful rights issue by Bank of Ireland, has significantly reduced the Government's stake, and the amount of capital that the State was required to inject in the bank.

Redemptions of debt securities issued by Irish resident credit institutions continued in recent months, with €5.7 billion being redeemed during the three months ending June 2011. In the first six months of the year, there was a significant net issuance of short-term debt, amounting to €13.9 billion. This largely reflects the issue of €17.8 billion of own-use bank bonds, retained by the banks for use as collateral for Eurosystem monetary policy operations. Long-term market-based debt financing for the banking sector has continued to decline, albeit at a slower pace.

Deposits held in Irish resident credit institutions by the Irish private sector fell by an average annual rate of 9.7 per cent for the three months ending July 2011.[1] The three-month average net flow of private-sector deposits was minus €2 billion, although this figure reflects some significant intra-group movements in deposits between credit institutions and affiliated other financial intermediaries (OFIs) and insurance corporations and pension funds (ICPFs). Excluding the impact of these intra-group movements, the monthly net flow of deposits averaged minus €1.1 billion in the three months ending July 2011. This reflected underlying three-month average net flows of minus €376 million in household deposits and minus €227 million in deposits from NFCs. Deposits from the OFI/ICPF sector fell by approximately €490 million, based on the average for the three months ending July, excluding the intra-group transactions.

Chart 1: Monthly Net Flows of Private-Sector Deposits in All Irish Resident Credit Institutions



Source: Money and Banking Statistics, Central Bank of Ireland.

Overnight deposits fell by an average annual rate of 1.7 per cent for the three months ending July. During these three months there was an average monthly net decline of €1.4 billion in overnight deposits. This decline was dominated by developments in the OFI sector and again reflects significant inter-affiliate transactions. Overnight deposits from households recorded an average monthly net flow of minus €306 million in the three months ending in July, while NFC overnight deposits fell by an average of €103 million. Over the same period, private-sector term deposits with agreed maturity up to two years declined at an annual rate of 19.2 per cent, while the three-month average net flow was minus €370 million. This reflected underlying three-month average net flows of minus €210 million and minus €185 million in the OFI and ICPF

1 The flows and growth rates for deposits and loans are fully adjusted to exclude the impact of non-transaction related effects, such as changes in the reporting population and valuation changes due to fluctuations in exchange rates.

depositor sectors, respectively. NFC deposits with agreed maturity up to two years also fell, by €89 million, based on the average for the three months ending July. Household deposits in this category recorded an average monthly net increase of €113 million for the same period.

Non-resident private-sector deposits fell by an annual rate of 21.6 per cent, based on the average for the three months ending July 2011. The equivalent rate of change in private-sector deposits from other euro area residents was minus 10.6 per cent during this period, while deposits from the non-euro area private sector fell by 27.6 per cent. Non-resident private-sector deposit flows have not been as large so far in 2011 as they were towards the end of 2010, and have been positive for four out of the first seven months of the year (Chart 1).

On an annual basis Irish resident M1 and M2 continues to fall. The pace of decline has increased in recent months, although this predominantly reflects the developments in overnight deposits outlined above. In the first half of 2010, the quarterly rates of decline in Irish resident M1 and M2 eased significantly, although this trend reversed somewhat in July. Currency in circulation increased at an annual rate of 4.5 per cent, based on the average for the three months ending July. As a result of this, and the developments in short-term deposits, Irish resident M1 fell by an average annual rate of 1.8 per cent in the three months ending July, while M2 fell by 10.1 per cent. The Irish contribution to euro area M3 fell at an annual rate of 11.9 per cent, based on the average for the three months ending July 2011. In contrast, during this three-month period, euro area M3 grew at an average annual rate of 2.1 per cent.

The Eurosystem continues to offer refinancing operations at a fixed rate tender with full allotment. The main refinancing operations rate rose to 1.5 per cent in July 2011. Irish resident credit institutions have continued to reduce their borrowings from the Eurosystem relating to monetary policy operations in recent months. Total borrowings from Irish resident credit institutions, which include IFSC entities, peaked at €138.2 billion in November 2010 and have since fallen to €97.6 billion at end-July 2011. Of this €40.6 billion reduction, €26.9 billion was due to a decline in borrowings from the Eurosystem by domestic market credit institutions[2] over the period, bringing Eurosystem borrowing by these institutions to €70.4 billion at end-July.

Although the Irish-owned banks are not currently reliant on the interbank markets as their main source of funding, it is worth noting that the cost of borrowing in these markets increased steadily throughout the first half of 2011, reflecting expectations of increases in the ECB main refinancing rate. At end-July, the one-month, three-month and twelve-month EURIBOR were 65, 60 and 67 basis points higher, respectively, than their end-2010 levels. Meanwhile, retail interest rates on deposits in Ireland have largely increased throughout the first seven months of 2011. The weighted average interest rate on outstanding household deposits with agreed maturity up to two years was 2.89 per cent at end-July 2011, compared to 2.80 per cent at end-December 2010. The equivalent rate for NFC deposits was 2.82 per cent at end-July 2011, compared to 2.26 per cent at end-December 2010.

Aggregate Credit Developments

Credit advanced to the Government by Irish resident credit institutions has increased over the course of the last twelve months, both through loans to Government and through holdings of Government securities by resident credit institutions. The outstanding amount of loans to Government was €29.4 billion at end-July 2011, compared to €14.6 billion a year earlier. This largely reflects the increase in promissory notes issued to the banking sector in December 2010, as these are treated as loans in the Government accounts. Since December 2010, the value of the promissory notes has declined marginally. Holdings of securities issued by the Government stood at €10.5 billion at end-July 2011, compared to €8.6 billion in July 2010.

2 Domestic market credit institutions are those with a significant retail presence in the State, including both Irish and foreign-owned institutions. This category excludes the activities of more internationally focused credit institutions such as those in the IFSC. A list of domestic market credit institutions is available at http://www.centralbank.ie/polstats/stats/cmab/Documents/Credit%20Institutions%20resident%20in%20the%20Republic%20of%20Ireland.pdf.

Credit advanced to the Irish private sector grew at an annual rate of 3.4 per cent, based on the average for the three months ending July 2011. This has been predominantly driven by growth in holdings of private-sector debt securities throughout the course of the year, which in turn relates to the process of transferring loans to NAMA in return for bonds. The amount of outstanding loans to the private sector on the balance sheet of Irish resident credit institutions continues to decline. The annual rate of change in these loans was minus 4.8 per cent, based on the average for the three months ending July 2011.

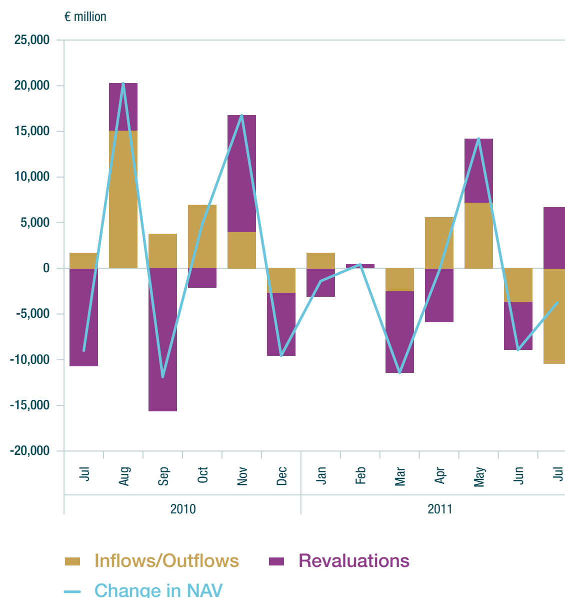
Credit advanced to non-residents has fallen sharply in recent months. Total lending to all non-resident sectors by Irish resident credit institutions declined at an annual rate of 13.9 per cent, based on the average for the three months ending in July. The average net monthly flow during this three-month period was minus €4.3 billion. Lending to the non-resident private sector fell by an average annual rate of 15.4 per cent in the three months ending July. The net monthly flow of private-sector loans actually increased by €191 million, based on the average for these three months, however this reflects some significant transactions between credit institutions and their affiliated private-sector entities during June.

As part of their efforts to reduce the size of their balance sheets, the Irish-owned banks have been making significant reductions in their international activities. This is better illustrated by the consolidated banking statistics which detail the foreign claims of the Irish-owned banks. Foreign claims include all lending to non-Irish residents and, unlike the *Money and Banking Statistics*, the consolidated statistics provide details of lending by overseas affiliates of Irish-owned banks, as well as the claims of the Irish resident offices of these banking groups, and so the impact of intra-group transactions is netted out. The most recent statistics on foreign claims relate to March 2011 and show that the total foreign claims of the Irish-owned banks declined by 19.6 per cent in the year ending March 2011. Over the same period, claims on the foreign private sector fell by 14.3 per cent.

Money Market Funds

There were outflows from money market funds (MMFs) resident in Ireland in June and July, after sizeable inflows in May. The bulk of the outflow occurred in July, and while it was mostly in shares held by non-euro area residents, there were sizeable outflows from MMFs shares held by Irish residents also. Some of the outflows were offset by positive revaluations in July, leaving the total net asset value (NAV) of MMF shares/units in issue in Ireland at €346 billion in July, down from €359 billion in May. The NAV of MMFs has fluctuated considerably over the past twelve months. Chart 2 shows that negative revaluations have combined with positive inflows to keep the NAV of MMFs fluctuating. In the euro area, the value of MMF shares/units in issue has been falling substantially, and the value of shares in issue reached their lowest level since end-2006 in July 2011. Ireland accounted for one-third of all euro area MMF shares in issue in July 2011. The continued withdrawals from MMFs shares/units in the euro area have resulted in the selling of MFI securities to fund these withdrawals. The proportion of MMF shares held by euro area residents has now risen to 60 per cent, as the outflows were proportionately greater for non-euro area residents.

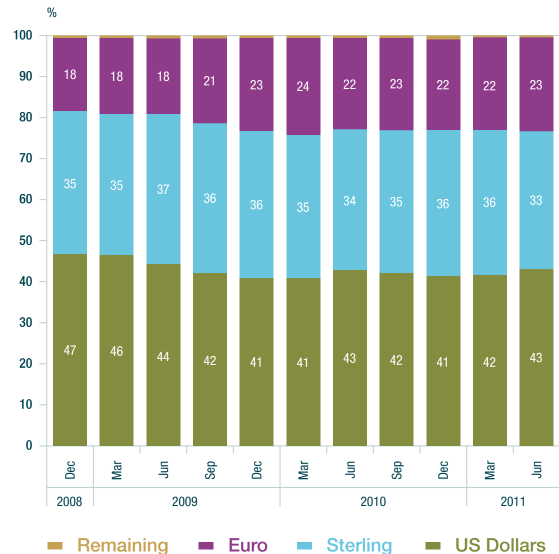
Chart 2: Monthly Changes in MMF Net Asset Value



Source: Central Bank of Ireland.

MMFs primarily invest in money market instruments and bank deposits, or pursue a rate of return that approaches the interest rates of money market instruments. Irish resident MMFs invest mostly in debt securities or bonds issued by residents outside the euro area, with a short maturity of up to one year. During the financial turmoil, particularly in 2007 and 2008, deposits increased as a proportion of Irish resident MMFs' balance sheets. This most likely reflected a desire by the funds to remove some of their assets from riskier categories. During the second half of 2009 deposits' share of assets under management (AUM) began to revert to pre-crisis levels. However the proportions were revised in April and May 2011 following large reclassifications from securities other than shares into deposits with monetary financial institutions (MFIs). This was the result of repurchase agreements being incorrectly classified as securities other than shares. These revisions show that in May 2011, 70 per cent of MMFs' AUM were invested in securities other than shares, with just under 30 per cent in deposits. During June, there was a large decline in MMFs' holdings of securities other than shares; this was probably to finance redemptions of shares. However, in July MMFs increased their holdings of securities other than shares again, mostly purchasing debt securities issued by non-euro area MFIs. Chart 3 shows the currency composition of MMFs' securities other than shares, and deposits with MFIs, which account for nearly 100 per cent of AUM. As can be seen from the chart, the largest currency is the US dollar, followed by sterling and the euro. However, the proportion of assets held in US dollars has declined over the period under analysis, with assets held in euro increasing.

Chart 3: Assets Held by Money Market Funds by Currency



Source: Central Bank of Ireland.

Government

Debt and Deficit Developments

The Central Bank publishes the liabilities and financial surplus/deficit of the government sector presented in this section as part of the Quarterly Financial Accounts (QFA) series[3]. The Government's gross liabilities, as shown in Chart 4 below, increased in overall terms by 4 per cent from €150 billion in Q4 2010 to €156 billion in Q1 2011. The increase in liabilities was largely driven by a 38 per cent increase in loans, to €55 billion. Largely accounting for this is the fact that during Q1 2011 the State received approximately €17.6 billion in funding as part of the first instalment of capital from the EU/IMF Programme.

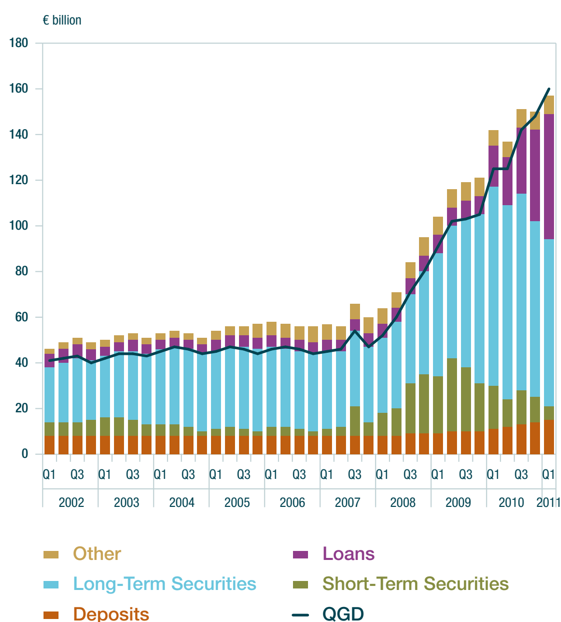
On the other hand the State has issued fewer securities to fund its activities since Q1 2010, as market conditions deteriorated and the NTMA eventually suspended auctions in the autumn of 2010. As a consequence, there has been a 67.4 per cent reduction in the stock of short-term securities over the year, and an equivalent 16.3 per cent reduction in the

3 The Quarterly Financial Accounts (QFA) are available on the Central Bank's website at http://www.centralbank.ie/polstats/stats/qfaccounts/Pages/releases.aspx.

stock of long-term securities. Despite these reductions, the combination of both short- and long-term securities still accounted for 50 per cent of the Government liabilities at end-Q1 2011.

Chart 4 also shows quarterly government debt (QGD), which is the standard quarterly measure of debt consistent with Excessive Deficit Procedure (EDP) methodology[4]. QGD grew by 8 per cent over Q1 2011 to €160 billion, which follows the upward trend of previous quarters.

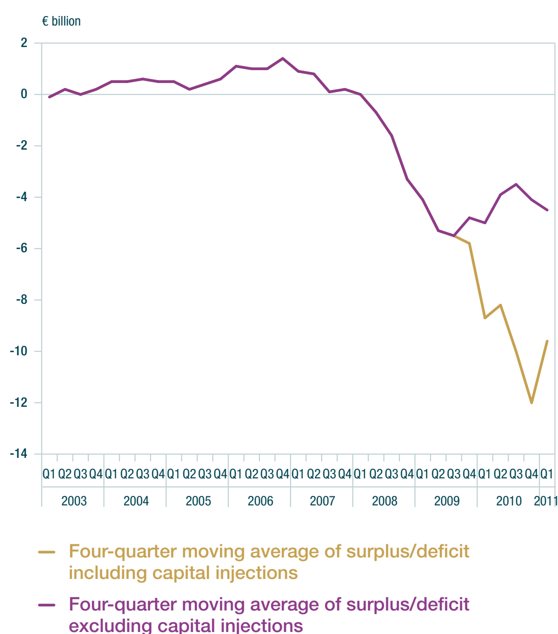
Chart 4: Government Liabilities



Sources: Quarterly Financial Accounts for Ireland, Central Bank of Ireland, and Quarterly Government Debt, Eurostat.

The Government surplus/deficit, based on a four-quarter moving average to smooth seasonal effects, is depicted in Chart 5. There were no capital transfers to the banking system in Q1 2011. The Government injected capital transfers to the Irish banking system every quarter from Q4 2009 to Q4 2010, as seen in Chart 5. The deficit includes capital transfers to Anglo Irish Bank, Irish Nationwide Building Society and EBS totalling €35.58 billion up to Q4 2010. The €10.7 billion capital injections into Bank of Ireland and Allied Irish Bank are treated as financial transactions (or investments) in government accounts and therefore have no impact on the deficit. Chart 5 shows the development of the government deficit, both including and excluding capital injections. Excluding the capital injections, the deficit increased over the period from minus €4.1 billion in Q4 2010 to minus €4.5 billion in Q1 2011. Though there were no capital injections during Q1 2011, the State did provide capital to the banking sector in the second half of 2011. The impact of these latest injections on the deficit within the Government accounting framework is unclear at this stage.

Chart 5: The Four-Quarter Moving Average of the Government Surplus/Deficit



Source: Quarterly Financial Accounts for Ireland, Central Bank of Ireland.

Sovereign Debt Market

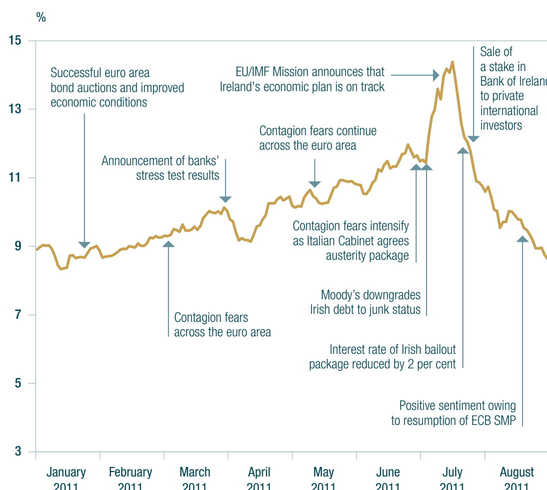
The tensions in euro area sovereign debt markets remained strong in recent months. Developments in bond markets have been negatively affected by the weaker outlook for the global economic recovery. This apparent slowing in the positive economic momentum, alongside these tensions in the euro area sovereign debt markets, prompted a rise in risk aversion, and an increase in demand for highly rated and liquid government bonds.

4 Government liabilities in Quarterly Financial Accounts (QFA) differ from the EDP measure of debt, as they are calculated on a non-consolidated basis, and employ different coverage and valuation criteria. Therefore, in line with international government statistical standards, QFA government liabilities are generally higher than EDP debt.

In early-June, the announcement of new fiscal austerity measures for Greece contributed to a temporary narrowing of the sovereign bond yield spreads relative to German Bunds for a number of euro area countries, including Greece and Ireland. However, renewed uncertainty around the potential voluntary restructuring of the Greek sovereign debt and further fears of the debt crisis spreading beyond Greece, Ireland and Portugal, led to spreads widening noticeably as June progressed.

Investor concerns continued to impact on bond yield spreads throughout late-June and into July. These upward trends were a function of ongoing uncertainty regarding the form of any further support for Greece in addition to a series of sovereign bond ratings downgrades, including the decision of Moody's ratings agency to downgrade Irish sovereign debt, see Chart 6. At an emergency summit in late July, euro area leaders announced further programme support for Greece and revisions to the terms of Ireland's bailout package. These revised terms include a reduction in the interest rate on Ireland's future loans of circa 2 per cent, alongside the introduction of greater flexibility on Ireland's loan maturities in the future.

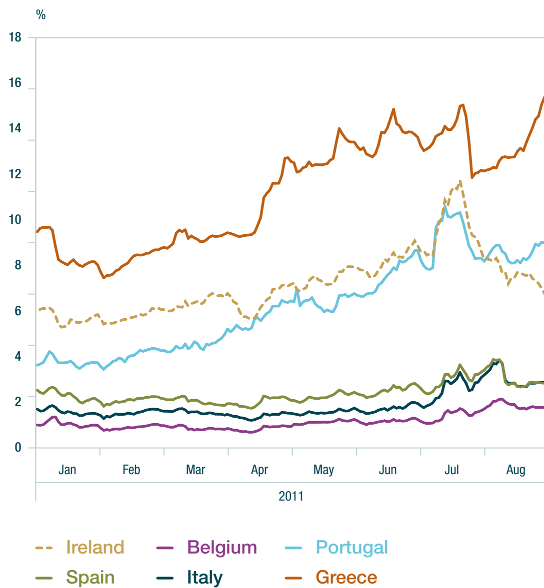
Chart 6: Irish Government Ten-Year Bond Yields



Source: Thomson Reuters Datastream.

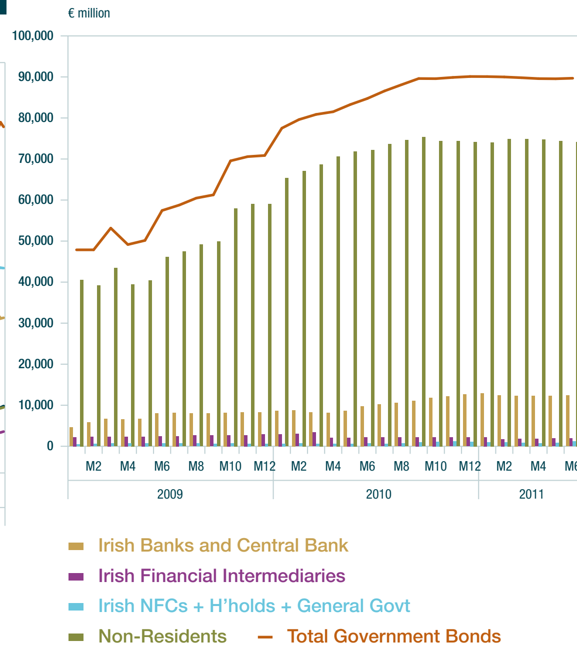
In the aftermath of the announcement of an agreement at the European summit in late July, euro area sovereign spreads declined albeit some of these declines were to prove short-lived and were subsequently reversed. In the case of Italy and Spain, bond yields did fall sharply in early-August owing to the ECB's decision to purchase Italian and Spanish debt under the Securities Markets Programme (SMP) although by late-August bond yields for Italy and Spain, in particular, were still higher than the levels observed in late-June. Positive investor sentiment has been reflected in a steep fall in the ten-year bond yields on Irish government debt with these yields declining by more than five hundred basis points, from just over 14 per cent, in mid-July, see Chart 6. This positive momentum was sustained by the announcement of the reduction of Ireland's interest rate in late-July and the announcement of the SMP purchases in August. Indeed, there was evidence of Ireland decoupling from the other peripheral member states in the EU/IMF Programme in July and August. In the five-week period since the European summit in late-July, Ireland's sovereign bond yield spread relative to German Bunds fell by approximately 30 per cent. By contrast, the yield spread for Greece and Portugal rose by 17 per cent and 2 per cent, respectively. Market sentiment improved further by end-August, as the German Cabinet signed off on the proposed legislation to implement changes to the EFSF. Consequently, Irish ten-year bond yields fell to 8.6 per cent by end-August, the first time they have been at this level since early-2011.

Chart 7: Selected Euro Area Ten-Year Sovereign Bond Spreads over German Bunds



Source: Thomson Reuters Datastream.

Chart 8: Holders of Irish Government Bonds



Source: Securities Holding Statistics, Central Bank of Ireland.

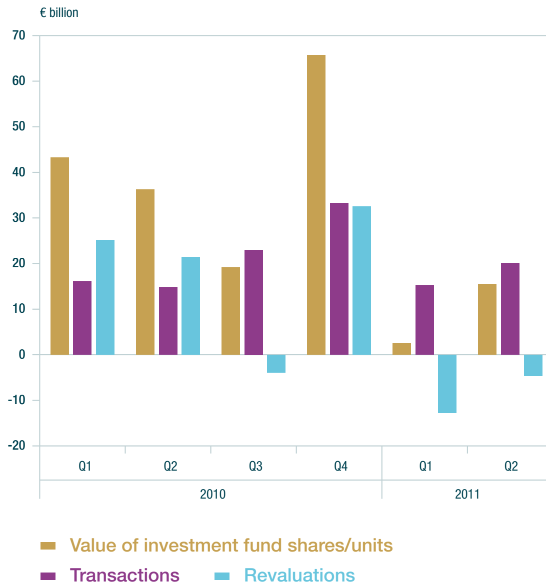
The outstanding value of existing Irish Government long-term bonds in issue remained at €89.7 billion at end-June 2011. The holders of long-term Government bonds continued to be predominantly non-resident, where 82.7 per cent of Government bonds in issue were held by foreign investors. Resident holders predominantly comprise banks (14 per cent) whilst financial intermediaries hold a further 2.1 per cent. In the case of the latter, this represents a reduction in their holding since January 2011 of 3 per cent.

Institutional Investors: Investment Funds, Insurance Corporations & Pension Funds

Investment Funds

Irish resident investment funds continued to receive strong net transaction inflows in the second quarter of 2011 despite two consecutive quarters of negative revaluations amid significant volatility in financial markets. The overall value of the Irish fund industry, measured by total shares/units in issue, increased by €15.5 billion, or 2.5 per cent, to €623.4 billion by the end of the second quarter. Net transaction inflows amounted to €20.1 billion, within which newly launched funds in the quarter accounted for €5.7 billion. Negative revaluations subtracted €4.6 billion from the overall value of funds in the second quarter, driven by valuation losses in the assets of equity funds, as was the case for the funds industry throughout the euro area. The pace of growth in the Irish funds industry slowed significantly in the first half of this year, with the quarterly average increase in the value of shares/units in issue declining to €9 billion, from €41.1 billion in 2010. This slowdown was almost entirely driven by revaluation effects, and the underlying trend of strong growth in net transaction inflows remains largely intact, with average net transaction inflows of €17.6 billion in the first half of this year, compared to €21.8 billion in 2010. These transaction inflows have been largely into funds owned by non-euro area entities, which account for 61.2 per cent of the Irish funds industry, measured by total shares/units in issue.

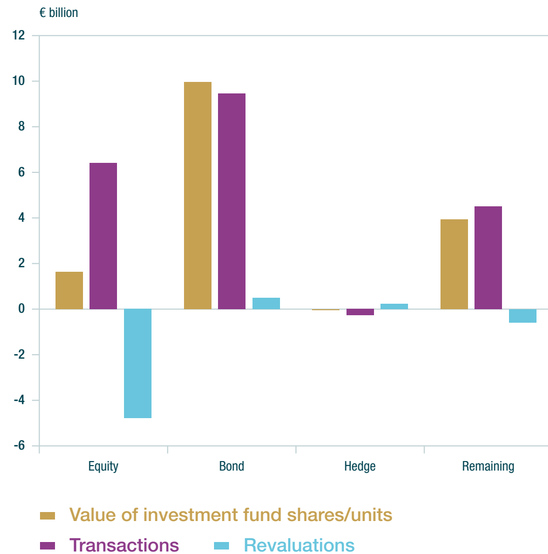
Chart 9: Change in Shares in Issue for Irish Resident Investment Funds



Source: Investment Funds, Central Bank of Ireland.

Looking at the various fund types, net transaction inflows remained strong during Q2 in most cases with the exception of hedge funds while negative revaluations were dominated by equity funds, reflecting significant losses. Bond funds experienced the largest increase in the value of shares/units in issue, of €10 billion, driven by a substantial net transaction inflow, resuming a trend evident throughout last year and following some dissipation in the first quarter. Revaluations were mixed as safe haven flows into German, UK and US government bonds were offset by the falling value of bonds of euro area peripheral countries. Equity funds were negatively revalued by €4.9 billion with global equity markets in decline and highly volatile for much of the second quarter. Despite cumulative revaluation losses of over €10 billion in the first half of the year, net transaction inflows amounted to €6.4 billion in Q2 2011. Hedge funds were little changed in the second quarter, with losses on some equity and bond holdings offset by a relative ability to take short positions. Remaining funds, which include mixed, real estate and other funds, received net transaction inflows of €4.5 billion, of which €2.8 billion flowed into the shares/units of other investment funds and money market funds.

Chart 10: Change in Value of Shares/Units by Investment Fund Category, Q2 2011



Source: Investment Funds, Central Bank of Ireland.

Insurance Corporations & Pension Funds

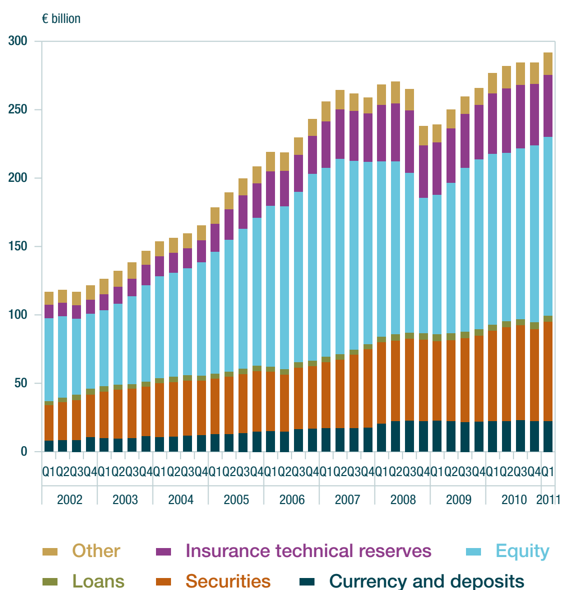
Irish resident insurance corporations & pension funds (ICPFs) have significant links and interconnectedness with both the domestic economy and the rest of the world. The sector accounted for just over 8.5 per cent of the total financial assets of the Irish financial sector at end-Q1 2011. The Irish resident insurance sector has increasing links with the rest of the world through the expansion of the resident reinsurance industry and the rise in the number of general insurers locating their pan-European headquarters in Ireland.

Within the domestic economy, the ICPF sector has an active role as its liabilities represent an important store of household financial wealth. The household sector now has greater exposure to the performance of the industry, reflecting the move towards unit-linked insurance policies and defined contribution pension schemes, which apportion risk directly to the policyholder.

The asset portfolio of the ICPF sector appreciated in value by 131.5 per cent over the period Q1 2002 to Q2 2008. This strong upward trend continued again from 2009, after a sharp contraction in 2008, as equities, securities and insurance technical reserves

recorded strong increases (Chart 11). From Q4 2010 to Q1 2011 ICPF assets recorded a 2.5 per cent increase to reach €292 billion, the highest level recorded in the series. This increase over the quarter was driven by a 1.3 per cent increase in equity holdings, which is the largest component in ICPFs' portfolio accounting for over 40 per cent of assets. There was a 7.6 per cent rise in securities which also contributed towards the increase in the asset portfolio. Securities accounted for almost a quarter of the ICPFs' portfolio.

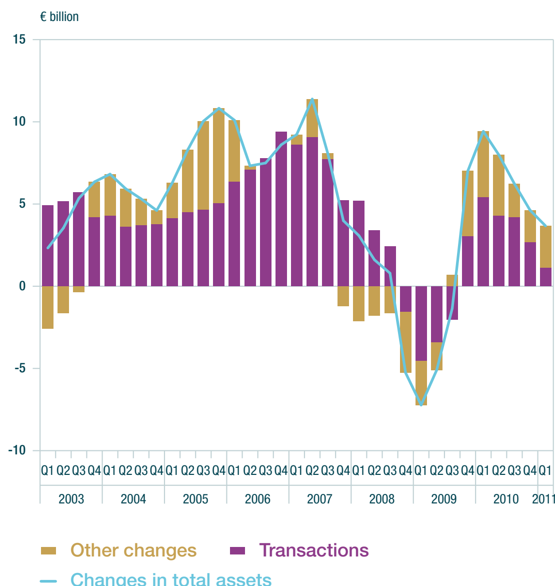
Chart 11: ICPFs – Assets Portfolio



Source: Quarterly Financial Accounts for Ireland, Central Bank of Ireland.

The changes in the balance sheet position of the ICPF sector are driven by financial transactions (acquisition and disposal of financial assets) and other changes, as shown in Chart 12. The impact of the financial crisis is evident by disinvestment and the fall in the value of portfolio holdings between Q4 2008 and Q3 2009. Since the last quarter of 2009, the sector has begun to expand with almost equal contributions from asset transactions and other changes. From Q1 2010 the sector has continued to expand but at a decreasing rate in each quarter. In Q1 2011, the composition of the expansion changed from previous quarters with almost 70 per cent coming from valuation effects and other changes such as changes in the number of insurance companies operating in Ireland.

Chart 12: ICPFs – Contribution of Transactions in Assets and Valuation Changes to Changes in Total Assets, Four-Quarter Moving Average



Source: Quarterly Financial Accounts for Ireland, Central Bank of Ireland.

Box 1: Recent Developments in Market-Based Financing *by Dermot Coates and Mary Everett*[5]

Debt and equity securities issues are often used as a source of funding by governments, financial and non-financial corporations, and constitute an alternative to traditional bank loans for the money holding sectors. Securities are the largest class of financial instruments in the euro area. Excluding quoted shares, debt securities issued by euro area residents amounted to €16.2 trillion by June 2011, representing a growth rate of 4 per cent since June 2010. A further €4.7 trillion of quoted shares issued by euro area residents (predominantly issued by non-financial corporations) were outstanding by mid-2011.

5 The authors are an Economist and a Senior Economist, respectively, in the Statistics Division of the Central Bank.

Box 1: Recent Developments in Market-Based Financing *by Dermot Coates and Mary Everett*[5]

The compilation of accurate statistics on the outstanding amount of securities helps to indicate the depth of the capital markets. A detailed understanding of securities issuance activity highlights the relative importance of public and private sector demand on these markets and helps to account for movements in market interest rates, particularly in the case of medium- to long-term maturities. The Central Bank of Ireland publishes statistics on market-based financing activities of financial and non-financial firms incorporated in Ireland on a monthly basis. This Box looks at a dataset of these securities issues statistics for the period December 2009[6] to end-June 2011.

The latest available data, relating to June 2011, indicate that the outstanding amount of debt securities issued by Irish financial and non-financial firms, and the Government, stood at €1.03 trillion; approximately 6 per cent of the total debt securities outstanding throughout the entire euro area. A significant proportion of this total (or €812.6 billion) is attributable to firms in the other financial intermediaries sector that are resident in Ireland (and primarily based in the IFSC). The balance comprises both short-term and long-term debt securities issued by the Irish Government (€90.2 billion), monetary financial institutions (€123.3 billion) and non-financial corporates (€2.7 billion). These outstanding Irish debt securities at mid-2011 represented a reduction of just over 2 per cent [Box Chart 1(a)] when compared with the equivalent figure for December 2009 (€1.06 trillion). By contrast, over the same period, the outstanding amount of debt securities for the euro area as a whole rose by 6 per cent.

In terms of the volumes of issuances [see Box Chart 1(b)], it is interesting to note the performance of the various sectors of issuers: monetary financial institutions (MFIs), other financial intermediaries (OFIs), Government, non-financial corporates (NFCs) and insurance corporations & pension funds (ICPFs). Over the course of the first three quarters of 2010, there was a steady increase in the issuance of debt securities by the Irish Government. By September 2010, there had been a cumulative net issuance of €17.3 billion of these securities over the first nine months of that year. Owing to the cancellation of bond auctions by the NTMA in September 2010, the only activity for the Government sector has been net redemptions of €1.5 billion of debt securities in October 2010; this was then followed by net redemptions in each month throughout Q4 2010 and Q1 and Q2 2011.

In the case of MFIs, this sector has recorded a high degree of volatility since December 2009 [see Box Chart 1(b)]. A very large amount of securities matured in September 2010, just before the end of the original Government guarantee [Credit Institutions (Financial Support) Scheme 2008][7], which were not rolled over resulting in net redemptions of more than €27 billion in September 2010 – including €4.3 billion in short-term securities and €22.9 billion in long-term securities. Net redemptions for this sector continued during Q4 2010 until a net issuance of some €15 billion in January 2011, comprising short-term debt. This reflected the issuance of own-use bank bonds, retained by the banks for use as collateral for Eurosystem monetary policy operations.

NFCs have traditionally been more reliant on market-based funding than other firms but access to funding for this sector began to contract in late-2010 with a net redemption of €561 million in December 2010, followed by a series of net redemptions in Q1 and Q2 2011, reflecting tensions in the broader markets. The OFI sector[8] has also experienced a high degree of volatility with a number of spikes evident, including a net issuance of €27.6 billion in November 2010 and a net redemption of €19.7 billion in February 2011.

6 The series were first published with reference to end-December 2009.

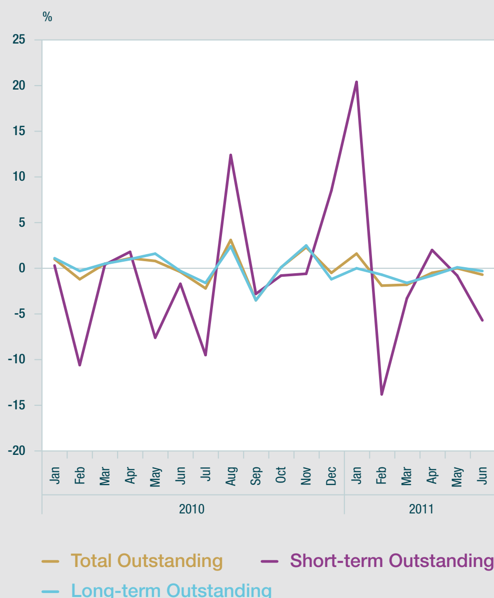
7 The Credit Institutions (Eligible Liabilities Guarantee) Scheme was introduced in 2009 and was subsequently extended until 31 December 2011.

8 The OFI sector includes entities involved in securitisation, asset finance companies and treasuries. The National Asset Management Agency is also included in this sector.

Box 1: Recent Developments in Market-Based Financing *by Dermot Coates and Mary Everett*[5]

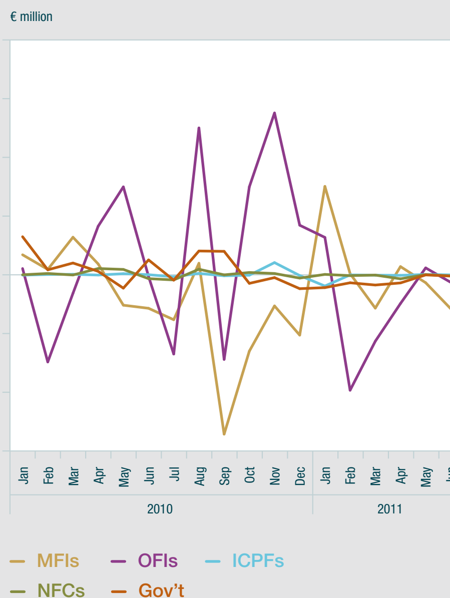
Box Chart 1: Developments in Debt Securities (All Sectors)

Box Chart 1(a): Composition of Amounts Outstanding (m-on-m % change)



Source: Securities Issues Statistics, Central Bank of Ireland.

Box Chart 1(b): Total Transactions in Debt Securities



Source: Securities Issues Statistics, Central Bank of Ireland.

Since December 2009, outstanding short-term debt securities have fallen by almost 16 per cent (or €15 billion). The month-on-month trends have been highly volatile over the same period reflecting ongoing macroeconomic uncertainty and an associated reduction in the appetite for holdings of short-term debt by investors. By contrast, the amount of outstanding long-term debt securities remained relatively stable over the same period. The underlying composition of these long-term debt securities outstanding has, however, undergone a significant change. Floating rate securities accounted for 71.2 per cent of all outstanding long-term debt securities in December 2009, but this had fallen to 62 per cent by end-June 2011. In contrast, fixed rate and zero coupon securities accounted for 31 per cent and 7 per cent, respectively, of all outstanding long-term debt securities by mid-2011, compared to 26 per cent and 3 per cent 18 months previously, albeit there has been a high degree of volatility. These changes were driven by a cumulative net issuance of €47.3 billion in long-term fixed rate securities over this period, alongside a cumulative net redemption of €93.9 billion in long-term floating rate securities.

The OFI sector accounted for almost €813 billion of the cumulative Irish debt securities outstanding by mid-2011 (or 79 per cent of the total). This is relatively large when compared to other member states with important financial centres; this sector accounted for €264 billion and €791 billion in outstanding debt securities in the case of Luxembourg and the Netherlands, respectively. The trend away from floating rate securities was particularly acute in the case of outstanding long-term debt securities for the OFI sector [see Box Chart 2(b)] where there has been a notable move from floating to fixed rate securities. This sector accounted for more than 95 per cent (or €45.2 billion) of the aforementioned net issuance of long-term fixed rate securities from December 2009 to June 2011, and these securities now account for more than 21 per cent of the stock of outstanding long-term debt securities in this sector compared to less than 16 per cent in late-2009. This reflects the interest-sensitive nature of these securities and the upward trend in interest rates in recent times.

Box 1: Recent Developments in Market-Based Financing *by Dermot Coates and Mary Everett*[5]

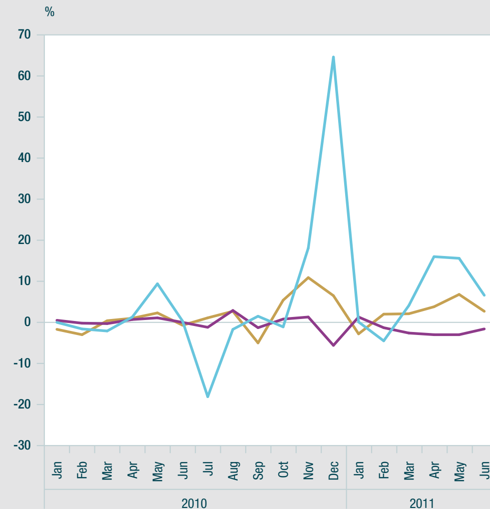
Box Chart 2: Structure of Long-Term Debt Securities

Box Chart 2(a): All Sectors – Composition of Amounts Outstanding (m-on-m % change)

Fixed Rate — Floating Rate — Zero Coupon

Source: Securities Issues Statistics, Central Bank of Ireland.

Box Chart 2(b): OFI Sector – Composition of Amounts Outstanding (m-on-m % change)



Fixed Rate — Floating Rate — Zero Coupon

Source: Securities Issues Statistics, Central Bank of Ireland.

The latest available data also indicates that the cumulative outstanding amount of equity securities issued by Irish financial and non-financial firms (excluding fund shares/units), stood at €197.6 billion [see Box Chart 3(a)], mainly comprising equities quoted on stock exchanges (€197.1 billion), by mid-2011. These outstanding quoted equity securities in mid-2011 represented an increase of approximately €39.6 billion (25.1 per cent) when compared with the equivalent figure for December 2009 (€157.5 billion). Net issuances accounted for €6.4 billion of this increase whilst the balance consists of changes in market valuation and the impact of companies, in particular large holding and insurance companies, relocating their headquarters to Ireland. Over the same period, the outstanding equity securities for the euro area rose by 8 per cent.

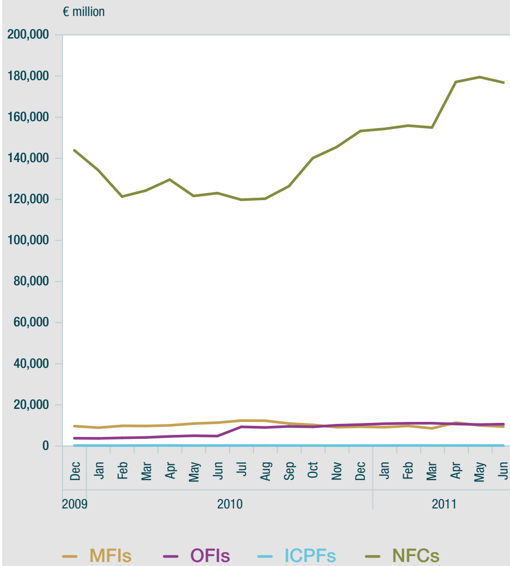
Indeed, the value of the outstanding amount of quoted equity securities has proven volatile over the past 18 months. In the case of the MFI sector, the announcement of the banks' stress test results in April 2011 saw a sharp rise in the value of the outstanding amount of equity securities for the sector – from €8.6 billion in March 2011 to €11.4 billion – on foot of a positive initial market reaction to the test results. However, this proved to be short-lived and the amount outstanding for the sector fell to €9.4 billion for the MFI sector by the following June. The NFC sector accounted for more than 80 per cent of the increase in the value of total outstanding quoted equity securities between end-2009 and mid-2011. The outstanding amount of quoted equity securities issued by the NFC sector rose from July 2010 by almost 50 per cent (from €119.8 billion to €179.5 billion) by May 2011. This, however, is likely to overstate the size of the equity issued as this sector includes all NFCs incorporated, regardless of where they are listed, and due to the impact of new companies locating in Ireland. For instance, over the same 18-month period up to June 2011, the Irish Stock Exchange rose by 4 per cent[9].

9 Refers to index value and based upon the 'ISEQ Overall' benchmark index data.

Box 1: Recent Developments in Market-Based Financing *by Dermot Coates and Mary Everett*[5]

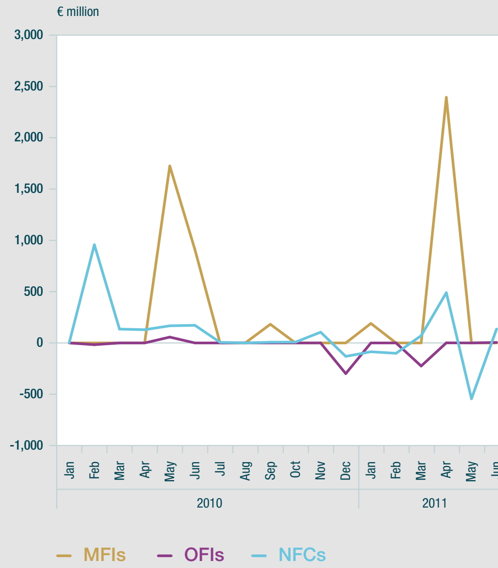
Box Chart 3: Developments in Quoted Equity Securities (€m)

Box Chart 3(a): Amounts Outstanding by Sector



Source: Securities Issues Statistics, Central Bank of Ireland.

Box Chart 3(b): Transactions by Sector

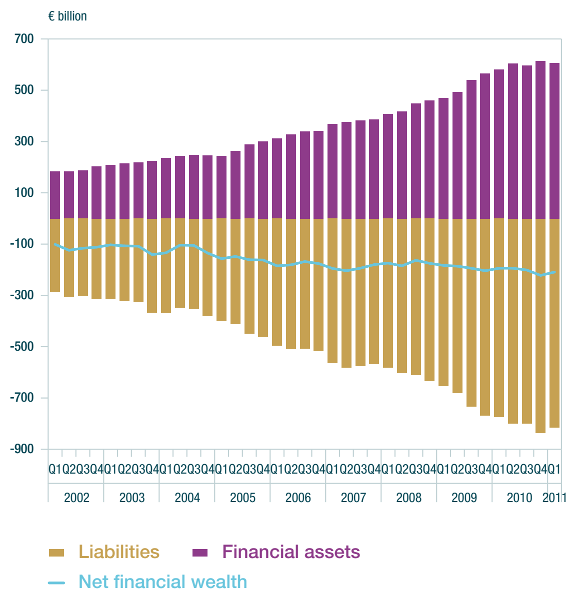


Source: Securities Issues Statistics, Central Bank of Ireland.

Non-Financial Corporations

The substantial growth in the non-financial corporation (NFC) sector's financial balance sheet since 2002 can be seen in Chart 13. During Q1 2011 however, the sector experienced a contraction in financial assets of 1.2 per cent compared to the previous quarter, falling to €607 billion. Total liabilities also decreased over the quarter, recording a fall of 2.4 per cent or €20.2 billion. The majority of this reduction is accounted for by a fall in the sector's long-term loan liabilities. Overall, the net financial wealth[10] of NFCs increased to minus €208.5 billion in Q1 2011, compared to minus €222.5 billion in the previous quarter. The improvement in net financial wealth occurred as the decrease in the sector's liabilities was larger than the fall in its financial assets.

Chart 13: Non-Financial Corporations' Net Financial Wealth

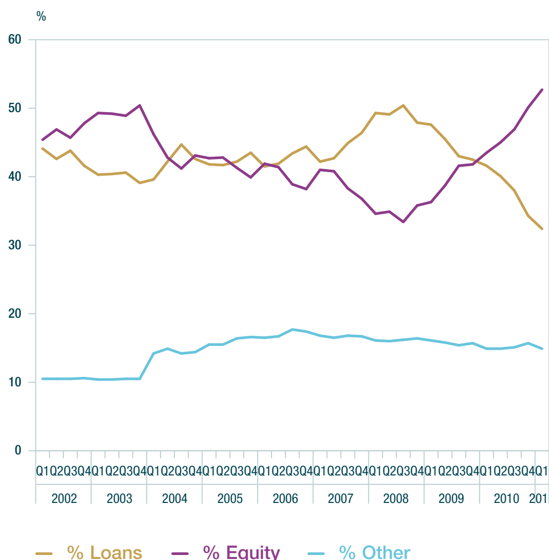


Source: Quarterly Financial Accounts for Ireland, Central Bank of Ireland.

10 Net financial wealth is defined as the difference between financial assets and liabilities. It should be noted that net financial wealth does not include non-financial assets such as buildings and machinery.

Funding sources for the NFC sector are reflected in their liability portfolio as shown in Chart 14. The primary funding instruments of the NFC sector are: loans, shares and other accounts payable (primarily trade credits and other accounts payable[11]). The relative contribution of each of these instruments as sources of funding to the sector is depicted in Chart 14. From Q3 2004 onwards, funding through loans tended to be proportionately higher than equity funding. This trend was reversed however in Q1 2010, as credit from monetary financial institutions declined. The increased reliance on equity funding relative to loans continued in Q1 2011, with a 2.8 per cent increase in equity funding and a 7.8 per cent decrease in loans. The increase in equity funding was the result of an increase in the valuation of the equity issued by the NFC sector and other changes. Non-financial corporations now source 53 per cent of their funding through equity and 32 per cent from loans which is almost an exact reversal in proportions of funding from each source compared with Q3 2008.

Chart 14: Non-Financial Corporations' Funding



Source: Quarterly Financial Accounts for Ireland, Central Bank of Ireland.

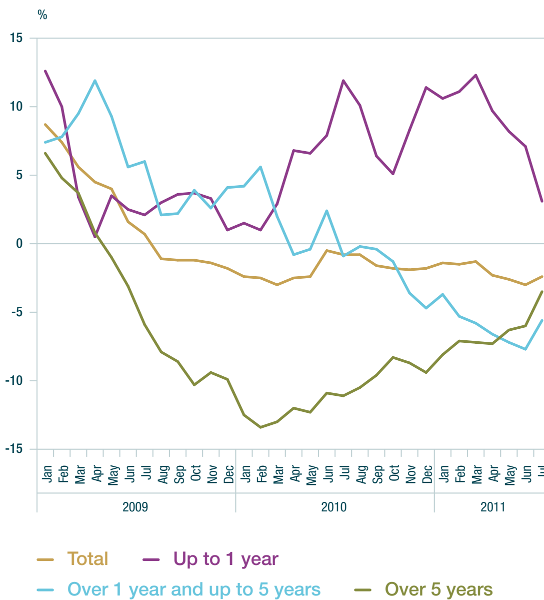
Credit Advanced to the NFC Sector by Irish Resident Credit Institutions

Credit advanced to the resident NFC sector by Irish resident credit institutions (including loans to NFCs and credit institutions' holdings of securities issued by NFCs) declined at an annual rate of 2.9 per cent based on the average for the three months ending July 2011. However, the monthly net flow of credit to the NFC sector averaged €117 million during this three-month period. Credit to NFCs increased in both June and July, on a monthly basis, the first such growth since June 2010.

Loans to NFCs declined at an annual rate of 2.7 per cent, based on the average for the three months ending July 2011. Loan finance is the main source of funding for indigenous industry, primarily SMEs. The annual rate of change in longer-term loans with an original maturity of over five years averaged minus 5.3 per cent in the three months ending July 2011. The pace of contraction in longer-term loans has eased considerably in recent months, with an annual rate of decline of 3.5 per cent recorded in July, compared to an annual decline of 11.1 per cent in July 2010. However, the pace of contraction in NFC lending between one and five years original maturity has accelerated in recent months, reaching an average annual rate of minus 6.8 per cent in the three months ending July. Short-term loans to NFCs with an original maturity of up to one year continue to grow, albeit at a slower pace of 6.1 per cent, based on the average annual growth for the three months ending July.

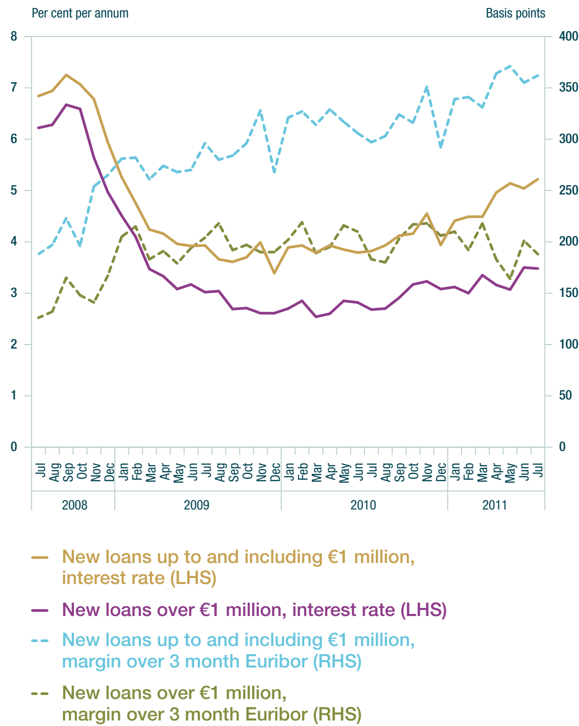
11 Other accounts payable consists of all claims which stem from the early or late payment for financial transactions in goods and services; distributive transactions or secondary trade in goods and services; and distributive transactions or secondary trade in financial assets. It also includes a small statistical discrepancy.

Chart 15: Loans to Irish Resident NFCs, Annual Change



Source: Money and Banking Statistics, Central Bank of Ireland.

Chart 16: Interest Rate on New NFC Loans



Source: Retail Interest Rate Statistics, Central Bank of Ireland.

Interest rates on both new and outstanding loans to NFCs, agreed by Irish resident credit institutions, have largely increased in recent months. In the case of new business loans up to €1 million, with floating rates and up to one year initial rate fixation, the weighted average interest rate increased by 121 basis points between end-December 2010 and end-July 2011. The equivalent increase in rates for new business loans over €1 million was 32 basis points. Interest rates on outstanding loans to NFCs have also increased over the first seven months of the year, by an average of 50 basis points across all maturity categories.

Multinational NFC Developments

Recourse by resident multinational NFCs, both foreign and Irish-owned, to market-based funding as an alternative to bank funding was flat during Q2 2011. In Q2 2011, net debt redemptions were €831 million; this compares with net issuances of €1.3 billion during Q2 2010. Listed equity, namely shares, had an outstanding value of €197.1 billion by mid-2011, and increased substantially (12.7 per cent) when compared with end-Q1 (€174.8 billion). Over the same period, the value of multinational NFCs' equities rose by 14.1 per cent. However, these gains were not wholly maintained throughout Q2 2011, perhaps reflecting the conflux of continuing fears of contagion across the eurozone and ongoing weak consumer sentiment. The value of listed equity fell by just over 1 per cent over the course of Q2 2011 with the total amount of equity outstanding reduced from €199.4 billion in April to €197.1 billion by June; the value of multinational NFCs' equities also fell over this period, albeit at a slower rate.

While the trend of foreign equity investment by Irish-owned multinational NFCs continued during Q2 2011, it was largely offset by disinvestment abroad where €2.4 billion was disinvested abroad over the quarter. Meanwhile, foreign-owned multinational NFCs continued to reinvest in their Irish operations, with inflows amounting to €5.9 billion during the second quarter of 2011. These inflows comprised reinvested earnings of €6.8 billion and equity investment of €1.9 billion.

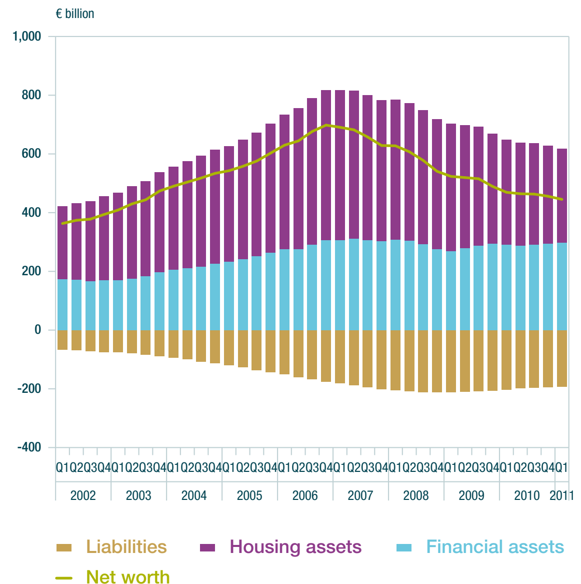
Direct investment income earned abroad by Irish-owned multinational NFCs increased by €674 million to €3.9 billion during Q2 2011 compared with Q1 2011. A significant portion of direct investment income earned is attributable to multinational NFCs who have established their headquarters in Ireland and the remaining income is related to foreign earnings of Irish-owned multinational NFCs. Direct investment income paid abroad to foreign direct investors, increased by €641 million from Q1 2011 to nearly €11 billion during Q2 2011. This reflects the type of investment by foreign-owned multinational NFCs in Ireland, particularly in the pharmaceutical and high technology sectors, where high rates of return are generated. Internal Central Bank estimates indicate these rates of return to be around 5.6 per cent. In contrast, the equivalent rate of return on direct investment abroad by Irish multinational NFCs, primarily in more traditional industries, is much more modest at around 1.2 per cent.

Households

Household net worth has fallen by 33.8 per cent from its peak value of €641.2 billion in Q4 2006. Chart 17 illustrates this and shows that based on preliminary estimates for the first quarter of 2011, household net worth (the difference between total assets[12] and liabilities) fell by approximately 2 per cent to €424.5 billion from €433.6 billion in Q4 2010. This amounts to €92,657 per head of population in Q1 2011. The reduction in household net worth during Q1 2011 is largely driven by a reduction in housing asset values of 4 per cent. The fall in net worth was mitigated to some extent by an increase in the value of financial assets over the period and a reduction in households' liabilities. Financial assets increased in value by 1.5 per cent over the quarter, aided from some recovery in the value of insurance technical reserves and quoted shares that were lost during the financial crisis. Household liabilities were reduced as households continued to deleverage by repaying their existing loans.

Overall, household liabilities have fallen by close to 5 per cent over the last year, since Q1 2010.

Chart 17: Household Assets, Liabilities and Net Worth

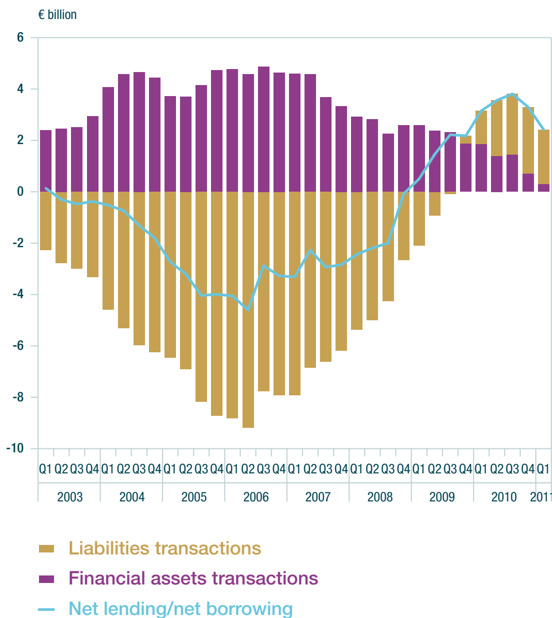


Source: Quarterly Financial Accounts for Ireland, Central Bank of Ireland and internal CBI estimates.

Irish households have been net lenders since 2008 as depicted in Chart 18. This trend partly reflects households' continued investment in financial assets, but, more substantially, a reduction in households' liabilities. During Q1 2011 households continued to be net lenders; albeit at a lower level than in previous quarters. Reduced net lending by households may indicate lower saving levels than in previous quarters. The results show that the lower net lending by households in Q1 reflects a reduction in investment in financial assets compared to previous quarters, particularly in deposits. However, households continued to further reduce their liabilities during Q1, and this trend was primarily responsible for the net lending position over the period.

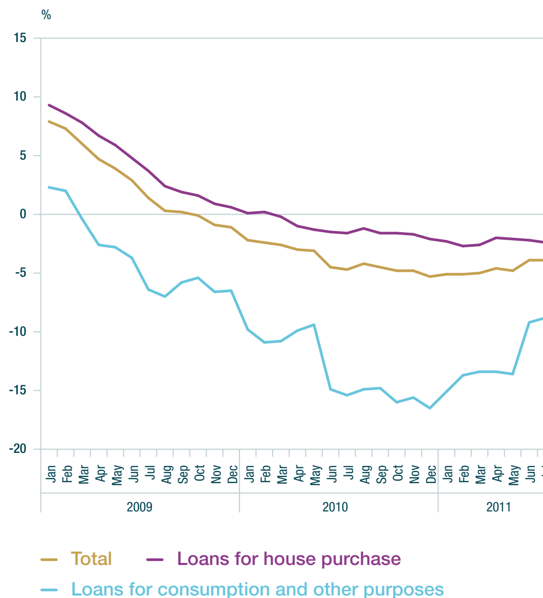
12 Total assets comprise financial and non-financial assets. Housing assets are used as a proxy for all non-financial assets. The Central Bank estimate of housing assets is based on the size and value of the housing stock.

Chart 18: Household Net Lending/Net Borrowing, Four-Quarter Moving Average



Source: Quarterly Financial Accounts for Ireland, Central Bank of Ireland.

Chart 19: Loans to Irish Households, Annual Change



Source: Money and Banking Statistics, Central Bank of Ireland.

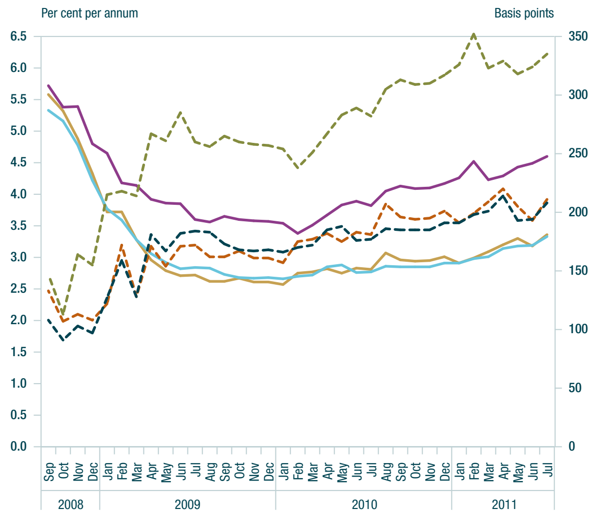
Lending to Households by Irish Resident Credit Institutions

Loans to Irish households advanced by Irish resident credit institutions continued to decline in recent months, although the pace of contraction has eased. The annual rate of change was minus 4.2 per cent, based on the three months ending July 2011. The monthly net flow of loans to households averaged minus €451 million in these three months.

Loans for house purchase account for the majority of lending to households in Ireland, and have been declining on a monthly basis for 17 consecutive months. The monthly net flow of loans for house purchase averaged minus €241 million in the three months ending July, while the annual rate of change averaged minus 2.2 per cent. Meanwhile, lending for consumption purposes has continued to fall sharply, registering an annual rate of decline of 14.5 per cent, based on the average for the three months ending July. Loans for other purposes fell by an annual average rate of 5.7 per cent over the same period.

The household sector continues to face increasing borrowing costs. Interest rates on new mortgages with floating rates and up to one year initial rate fixation have risen fairly steadily throughout the first seven months of 2011, from a weighted average of 2.91 per cent in January to 3.36 per cent in July. Interest rates on new mortgages fixed for more than one year increased by 34 basis points over the same period, to a weighted average rate of 4.6 per cent. The average rates of interest on outstanding mortgages have also increased significantly in recent months. For existing mortgages with an original maturity of over five years, the weighted average interest rate has risen by 43 basis points since the end of 2010 to 3.3 per cent in July 2011.

Chart 20: Mortgage Interest Rates to Households



— New floating rate mortgages, interest rate (LHS)
— New mortgages, fixed for over one year, interest rate (LHS)
— Outstanding mortgages, interest rate (LHS)
-- New mortgages, fixed for over one year, margin over ECB MRO (RHS)
-- New floating rate mortgages, margin over ECB MRO (RHS)
-- Outstanding mortgages, margin over ECB MRO (RHS)

Source: Retail Interest Rate Statistics, Central Bank of Ireland.

Interest rates on consumer loans also continue to increase. The weighted average interest rate on new consumer loans with floating rates or up to one year initial rate fixation has increased by 160 basis points between December 2010 and July 2011, with the volumes of new loan agreements in this category being significantly lower than for the same period in previous years. Rates on outstanding consumer and other loans have also risen, although to a lesser extent than mortgage interest rates. The weighted average rate of interest on outstanding consumer loans with an original maturity of over five years increased by 24 basis points between December 2010 and July 2011, which is significantly lower than the rise in new business rates due to the relatively small volume of new lending for consumption purposes.

Developments in the International and Euro Area Economy

Overview

The outlook for the global economic environment has deteriorated in recent months, with analysts and international authorities reducing their growth forecasts for major economies following disappointing economic data releases and amid heightened uncertainty. In particular, this reflected the intensification of the euro area sovereign debt crisis with increased contagion into the sovereign bond markets of some larger euro area countries and the debate in the US over the government debt ceiling and the subsequent downgrade. These factors contributed to a further deterioration in financial market sentiment, with developments largely characterised by a sell-off in risky assets as investors seek safe-haven assets. Looking ahead, strong growth in emerging and developing economies, in addition to accommodative monetary policies, should support the global recovery. However, the expansion is expected to remain uneven, and is subject to particularly high uncertainty. The structural problems facing the crisis-hit advanced economies have proven more intractable than expected, while the handover from public to private demand is taking longer. Other downside risks include possible supply shocks in commodity markets and a disorderly unwinding of global imbalances. Annual inflation rates have stabilised in advanced economies in recent months, while inflationary pressures continue to be more pronounced in emerging economies.

Global economic activity has weakened over the past number of months, and downside risks are increasing. Tensions have returned to global financial markets with risk aversion among investors increasing sharply. The latest economic data indicates that trade and production dynamics were weak at the end of the second quarter, while more recent survey data signal a further deterioration in the underlying global economic environment during the third quarter. As has been evident over the past number of quarters, regional differences with respect to the cyclical position persist, with advanced economies lagging behind the more vigorous activity seen in emerging economies. In the US, it has become evident that the downturn was deeper and the recovery shallower than had been previously estimated (See Box 1). Moreover, the latest economic data have been disappointing and GDP growth is expected to pick up only very modestly towards the end of the year. Meanwhile, the recovery in Japan is proceeding with supply-side disruptions gradually easing. In the euro area, economic activity eased as was expected in the second quarter following strong growth in the first quarter. Looking ahead, the euro area is now likely to grow only very moderately in the second half of the year, and with this outlook subject to particularly high uncertainty and intensified downside risks.

Overall, prospects for the global economy have deteriorated somewhat, with the expansion expected to be weak and uneven. The latest global growth forecasts in the IMF World Economic Outlook for September have been revised down since June, by 0.3 percentage points for 2011 and by 0.5 percentage points for 2012, to 4.0 per cent growth for both years. Real GDP in the major advanced economies is expected to expand at a fairly modest pace of 1.6 per cent in 2011 and 1.9 per cent in 2012, with the sharpest downward revisions to real GDP evident in the US, reflecting revisions

Table 1: Changes in Real GDP in Selected Economies

	Percentage Change		
	2010	**2011f**	**2012f**
Global	5.1	4.0	4.0
Advanced Economies	3.1	1.6	1.9
United States	3.0	1.5	1.8
Japan	4.0	-0.5	2.3
Euro Area	1.8	1.6	1.1
United Kingdom	1.4	1.1	1.6
Emerging/Developing Economies	7.3	6.4	6.1
China	10.3	9.5	9.0

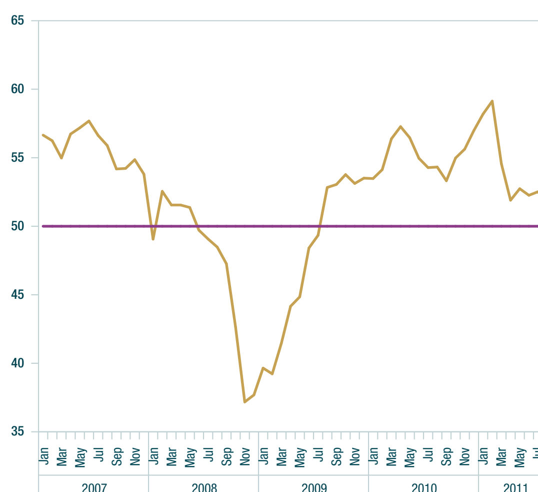
f Forecast.
Source: IMF World Economic Outlook, September 2011.

to growth at the start of the year, and also on the back of some recent weaker than expected data. Economic activity in the emerging and developing economies has generally evolved broadly as expected, with growth moderating gradually this year and next.

Uncertainty regarding the global growth outlook remains elevated, with risks intensifying to the downside. US activity, which is already softening, is at risk from political uncertainty in relation to fiscal consolidation, a deteriorating labour market and a weak housing market, while the sovereign debt crisis in the euro area has escalated in recent months, notwithstanding the measures agreed at the July 21 EU Summit. Furthermore, political unrest in some parts of the world constitutes an upside risk to commodity prices, while the possibility of a disorderly unwinding of global imbalances remains an ongoing concern. At the same time, some expansionary forces may return in the near term, including a gradual pick-up of activity in Japan, and solid demand growth in key emerging market economies.

Headline inflation has generally stabilised in advanced economies over the past number of months, due in part to more stable commodity prices, while price pressures continue to be more pronounced in emerging economies. This reflects rising capacity constraints in a number of emerging economies as well as a higher weight of commodity prices in these countries' consumption baskets. Going forward, less buoyant global economic activity and the correction in a number of commodity prices may result in some easing in the rate of inflation.

Chart 1: Global PMI Output Index



Source: Markit Economics.

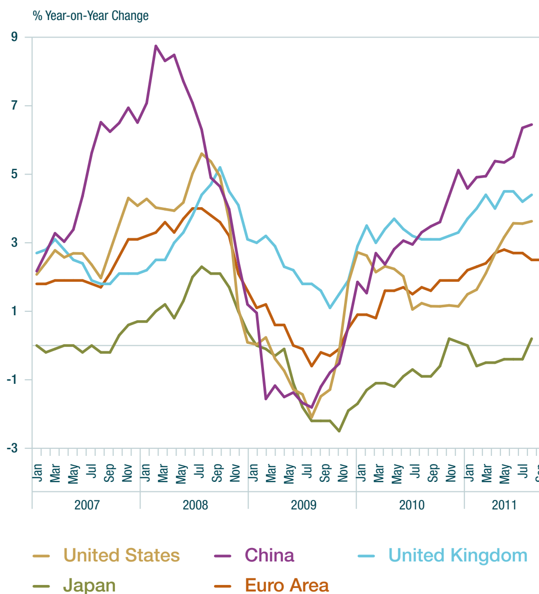
Note: For PMI indicators, above 50 represents expansion, below 50 represents contraction.

Table 2: Contribution of expenditure components to quarter-on-quarter variation in real GDP

	2010		2011	
	Q3	Q4	Q1	Q2
Private Consumption	0.1	0.2	0.1	-0.1
Government Consumption	0.0	0.0	0.1	0.0
Fixed Investment	0.0	0.0	0.3	0.0
Inventories	0.1	0.1	0.0	0.1
Exports	0.7	0.6	0.8	0.4
Imports	-0.5	-0.5	-0.6	-0.2
GDP	**0.4**	**0.3**	**0.8**	**0.2**

Source: Eurostat.

Chart 2: Inflation in the Major Economies



Source: Reuters EcoWin.

Section 1: Euro Area

Economic Growth – Recent Developments

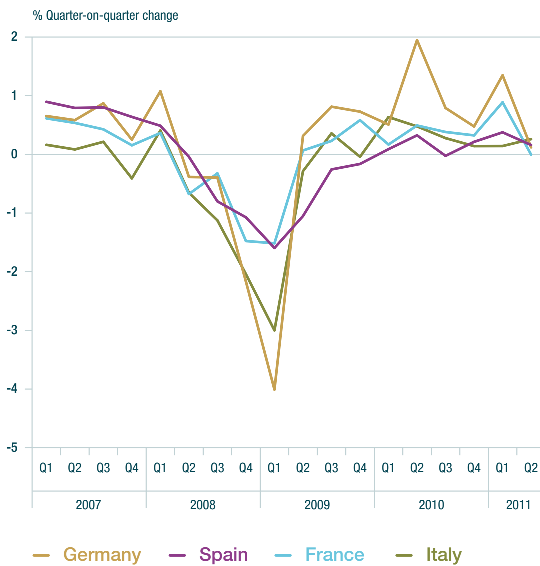
In the second quarter of this year, euro area real GDP increased by 0.2 per cent quarter-on-quarter, following a 0.8 per cent expansion in the first three months of the year. The sharp slowdown was driven mainly by the deceleration in activity in Germany, France and the Netherlands, following very strong growth earlier in the year. As Table 2 outlines, the moderate expansion over the second quarter was mainly driven by inventories and net exports, while domestic demand subtracted from real GDP as consumers and government cut back on spending. Meanwhile, investment failed to contribute to the expenditure component, as temporary factors related to weather, which supported construction activity at the start of the year, receded.

Looking ahead, a number of developments appear to be dampening the underlying momentum in the euro area, including a moderation in the pace of global growth, related declines in equity prices and business and consumer confidence, and unfavourable effects resulting from ongoing tensions in a number of euro area sovereign debt markets. As a consequence, real GDP growth is expected to increase moderately in the second half of the year. The expansion in domestic demand is expected to remain at a weak pace as austerity measures in many countries restrict consumer and government spending, while, against the backdrop of the current global economic soft patch, export growth may also be modest.

With respect to labour market developments, the unemployment rate has stabilised at 10.0 per cent since April, falling from a peak of 10.2 at the end of last year, while employment expectations point to some deceleration in employment growth in recent months. Unemployment rates vary significantly across the euro area. In July, Austria recorded the lowest unemployment rate at 3.7 per cent while Spain recorded the highest rate at 21.2 per cent. The unemployment rate is expected to remain stable at a high level over the remainder of 2011, and to decline only very slowly during 2012 and 2013, and is likely to remain above 9 per cent over this period.[1]

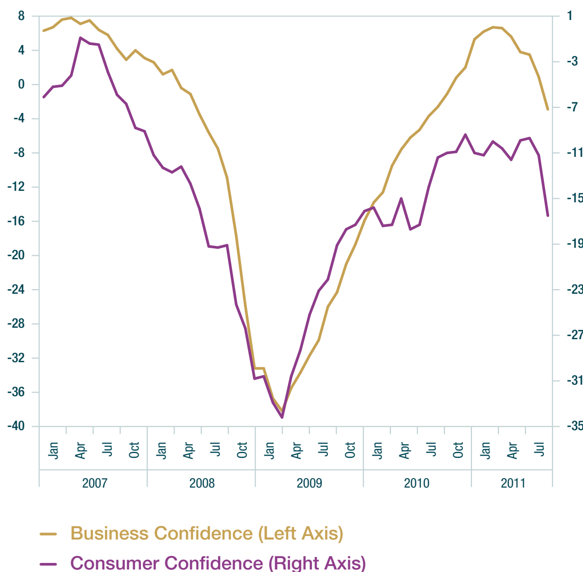
1 ECB Survey of Professional Forecasters Q3 2011.

Chart 3: Euro Area GDP Growth



Source: Reuters EcoWin.

Chart 4: Euro Area Confidence Indicators



Source: Reuters EcoWin.

Economic Growth – Outlook

Growth in the euro area is expected to continue at a gradual and uneven pace. The latest ECB staff projections have revised downwards the outlook for the euro area and now anticipate real GDP to expand by between 1.4 and 1.8 per cent in 2011, followed by growth of between 0.4 and 2.2 per cent in 2012. These projections are broadly in line with the latest IMF GDP projections for the euro area of 1.6 per cent in 2011 and 1.1 per cent in 2012, contained in their September World Economic Outlook. While there is high uncertainty in the short term, euro area activity should continue to benefit from ongoing growth in the global economy as well as from the accommodative monetary policy stance and the various measures taken to support the functioning of the financial sector.

Looking at the core economies, growth rates for 2012 were revised down significantly by the IMF, as the ongoing sovereign debt crisis has dented confidence in the euro area. The German economy is expected to remain the driver of growth in the euro area, with the IMF forecasting an expansion of 2.7 per cent in 2011 and 1.3 per cent in 2012. The slowdown in activity in 2012 is expected to be broad based, with investment in particular set to slow considerably. French GDP growth is expected to be relatively modest in 2011 following the abrupt slowdown in output in the second quarter, with the IMF forecasting growth of 1.7 per cent in 2011 and 1.4 per cent in 2012. Regarding Italy, the recovery is expected to remain weak, with the IMF projecting growth of 0.6 per cent in 2011 and 0.3 per cent in 2012, as a wave of fiscal austerity holds domestic consumption back. The recovery in the Spanish economy is also expected to remain muted after the housing and credit booms, with the IMF projecting growth of 0.8 per cent in 2011, before picking up to 1.1 per cent in 2012.

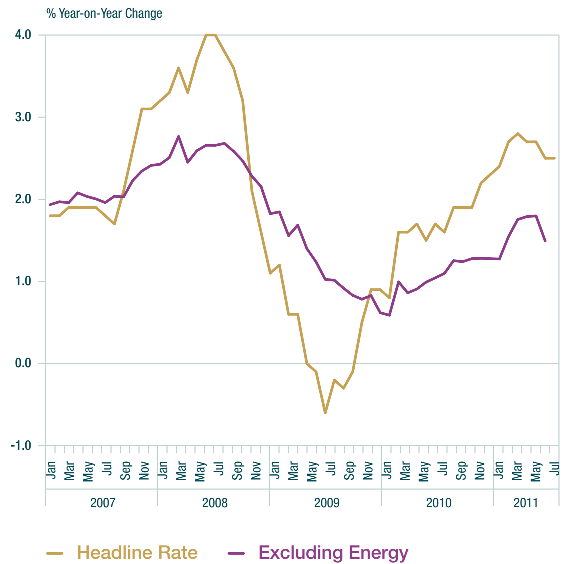
Overall, risks to the economic outlook for the euro area are on the downside, in an environment of particularly high uncertainty. Downside risks mainly relate to the ongoing tensions in segments of the financial markets in the euro area and at the global level, as well as the potential for these pressures to spill over into the euro area real economy. They also relate to further increases in energy prices, protectionist pressures and the possibility of a disorderly correction of global imbalances.

Inflation – Recent Developments

Euro area headline HICP inflation increased by 2.5 per cent year-on-year in August, according to preliminary estimates from Eurostat, unchanged from July but down from this year's April high of 2.8 per cent. Looking at the July breakdown, the primary driver of the decline in inflation to 2.5 per cent from 2.7 per cent in June was the non-energy industrial goods component, which is strongly affected this year by changes in the statistical treatment of seasonal items during the months of sales. In particular, clothing and footwear fell from 1.0 per cent in June to -2.9 per cent in July. Another component that declined significantly was unprocessed food, which fell to 1.3 per cent year-on-year in July from 2.0 per cent the previous month, led by a decline in the prices of fruit and vegetables.

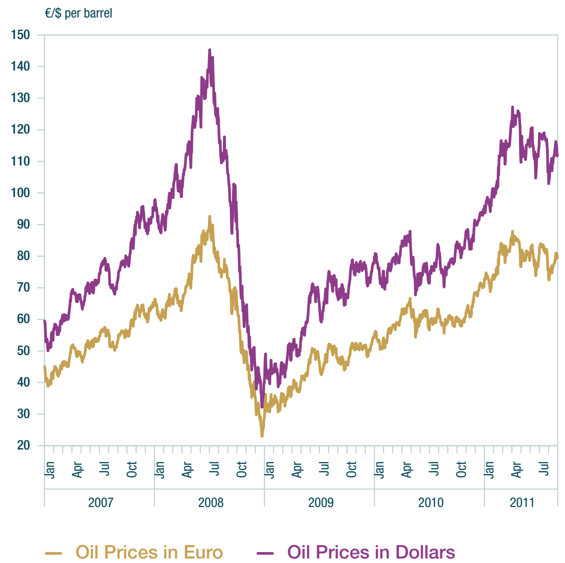
Producer prices excluding construction and energy were broadly unchanged in July from the previous month, increasing by 4.1 per cent year-on-year. Producer prices had fallen the previous two months, driven by declines in intermediate goods, which are at the earlier stage of the production chain. Price survey measures, while still indicating increases, point to a sharp easing in price pressures in the supply chain, stemming from lower commodity prices. The August PMI input price index for the manufacturing sector came in at 54.6, down from 58.2 in July and a peak of 85.3 in February. Meanwhile, moderate wage increases were experienced in the first quarter. The only labour cost data available for the second quarter is the ECB indicator of negotiated wages, which increased marginally to 1.9 per cent year-on-year from 1.7 per cent in the first quarter.

Chart 5: Euro Area Inflation



Source: Reuters EcoWin.

Chart 6: Oil Prices – Brent Crude



Source: Reuters EcoWin.

Oil and other Commodity Prices

The price of Brent crude oil has been trending downwards since peaking in April this year. The oil markets have remained volatile, with three sharp downward movements in the last three months followed by periods of gradual recovery. Oil market fundamentals remain tight, while inventories and spare capacity have generally declined. However, supply from Libya should increase gradually over the coming months but may not return to pre-crisis levels for some time. Any greater-than-expected slowdown in global growth and consequent reduction in oil demand is the key downside risk to oil prices. Brent crude oil prices closed at $112 per barrel at the time of writing (6 September), around 12 per cent below the peak reached in April but still 18 per cent above the price at the end of 2010.

Food prices also remain elevated, with the United Nations FAO Index in August only 7 points short of its February high of 238. The price for cereals and meats increased on average in August while the price of dairy, sugar and oils and fats declined. Adverse weather conditions, a primary driver of price rises in the last year, is the main upside risk to food prices. Meanwhile, the prices of base metals fell in August, while inventories generally increased, led by copper, aluminium and nickel, reflecting the slowdown in global growth and weaker outlook.

Inflation – Outlook

Inflation is expected to stay above 2 per cent for the rest of 2011 and gradually moderate thereafter, as the impact of past higher food and energy prices dissipates. According to the September 2011 ECB staff macroeconomic projections, annual HICP inflation is projected to be in a range of between 2.5 per cent and 2.7 per cent for 2011 and between 1.2 per cent and 2.2 per cent for 2012. The risks to the medium term outlook for inflation are seen to be broadly balanced.

Section 2 – External Environment

United States

There was a deceleration in US growth in the first half of 2011. Real GDP expanded by just 1.0 per cent in annualised terms (0.25 per cent quarter-on-quarter) in the second quarter, and was primarily driven by fixed investment. While supply disruptions associated with the Japanese earthquake played a role in the continued deceleration in private consumption (which contributed only minimally to growth), underlying consumer demand remains very weak as confidence has being undermined by the debt ceiling debate, financial market volatility, the still elevated level of gasoline prices and the overall economic uncertainty, following a stream of weak economic data.

Looking back at the first three months of the year, real GDP was weaker than expected, at 0.4 per cent in annualised terms, compared to the initial estimate of 1.9 per cent. The sharp downward revision was driven by a significant drop in the contribution of private inventories, which is volatile, and an upward revision to imports. More information on these revisions is contained in Box 1.

Looking at more recent developments, while temporary factors are expected to dissipate, such as high oil prices and the supply disruptions following the Japanese earthquake, some economic indicators are pointing towards a more broad-based weakness in the economy, which may extend into the second half of the year. The continued economic uncertainty, household deleveraging, and struggling employment and housing markets make it unlikely that the driver of growth in 2010, personal consumption, will make a significant contribution to GDP in the near term. On the other hand, the recent rebound in automobile sales and manufacturing following the Japanese earthquake may support the economy in the second half of the year.

So far, the latest indicators in the third quarter have been disappointing. While hard indicators such as industrial production and personal consumption expenditure are showing some evidence of the rebound in the automobile

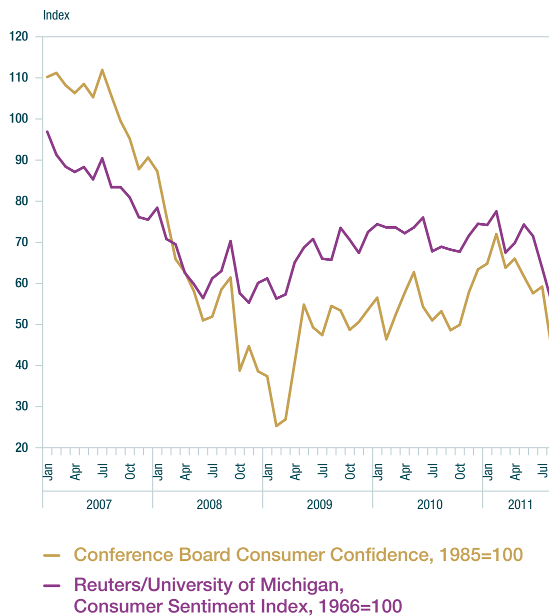
Table 3: US Contributions to GDP Growth

	2010 Q4	2011 Q1	2011 Q2
Consumption	2.5	1.5	0.3
Government	-0.6	-1.2	-0.2
Fixed Investment	0.9	0.2	1.0
Inventories	-1.8	0.3	-0.2
Exports	1.0	1.0	0.4
Imports	0.4	-1.4	-0.3
GDP	**2.3**	**0.4**	**1.0**

Source: BEA.

industry in July, which could provide some support to growth in the third quarter, the latest consumer and business sentiment indicators continued to deteriorate in August. The Reuters/University of Michigan's Consumer Sentiment Index fell to 55.7 in August, a level last seen in November 2008. Moreover, the labour and housing markets remain weak, with no new jobs added to non-farm payrolls in August, which is the weakest reading since September 2010, while the latest housing indicators show no end in sight to the overhang of excess supply and declining prices.

Chart 7: US Consumer Confidence



— Conference Board Consumer Confidence, 1985=100
— Reuters/University of Michigan, Consumer Sentiment Index, 1966=100

Source: Reuters EcoWin.

In line with the recent revisions to US real GDP and disappointing economic data, the IMF have significantly revised down their growth forecasts for the US in the September World Economic Outlook by 1.0 percentage point to 1.5 per cent for 2011, and by 0.9 percentage points to 1.8 per cent for 2012.

The Federal Reserve's Federal Open Market Committee anticipate that economic conditions are likely to warrant exceptionally low levels for the federal funds rate through mid-2013 and the maintenance of their existing policy of reinvesting principal payments from their security holdings. The increase in inflation during 2011 has been largely attributed to temporary factors such as high oil prices, with the Fed expecting inflation to soon subside.

Box 1: Recent US GDP Growth Revisions *By Brenda McGovern*[2]

The revisions to US GDP growth released by the US Bureau of Economic Analysis on the 29th July 2011 illustrate a weaker US economy than previously thought. This Box examines the causes of these revisions and the changing composition of US GDP that has become more apparent, with particular focus on the timing and magnitude of the decline in personal consumption expenditures.

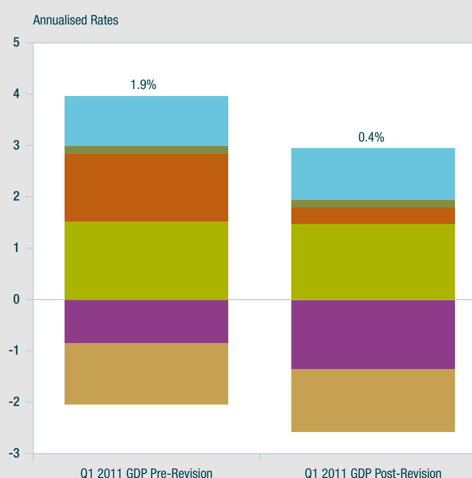
The recent revisions arise from an annual exercise undertaken by the US Bureau of Economic Analysis in order to incorporate the most complete and reliable source data[3] so as to provide a more detailed picture of the economy and to make improvements to the methods used for preparing the estimates. US data have been routinely subject to revisions in the past. Since the US has one of the shortest lead times for publishing GDP, their leading early estimates can be based on incomplete data and assumptions which will inevitably be subject to some revisions. However, as demonstrated in Chart A, the most recent revisions were significant even by US standards[4].

Chart A: US GDP Revisions

— Previously Published — Revised

Source: Bureau of Economic Analysis (BEA).

Chart B: Q1 2011 GDP Contributions: Pre-Revision and Post-Revision



- Government Consumption Expenditures
- Imports
- Exports
- Fixed Investment
- Change in Private Inventories
- Personal consumption Expenditures

Source: Bureau of Economic Analysis (BEA).

The main change in the data was the substantial downward revision to GDP growth in the first quarter of 2011. As can be seen from Chart B, the sharp downward revision to first quarter growth was largely driven by a significant drop in the contribution of private inventories investment, which is volatile, and an upward correction to imports.

The revisions also highlight that the recession was worse than previously thought: the US economy shrank 5.1 per cent during 2008 and the first half of 2009, compared with earlier estimates of 4.1 per cent. Downward revisions to the personal consumption expenditures component and the fixed investment component drove the revisions in GDP over this period.

2 Monetary Policy and International Relations Division.

3 Including Annual Census Bureau surveys, Bureau of Labour Statistics data, Internal Revenue Service data, federal government budget data and international transactions accounts.

4 For the 13 quarters from the fourth quarter of 2007 to the first quarter of 2011, the average GDP revision was 0.9 percentage points (annualised basis). This compares with a mean revision of UK GDP of 0.32 percentage points (annualised basis) over the period 1993 and June 2011 (August 2011 Bank of England Inflation Report).

Box 1: Recent US GDP Growth Revisions *By Brenda McGovern*[2]

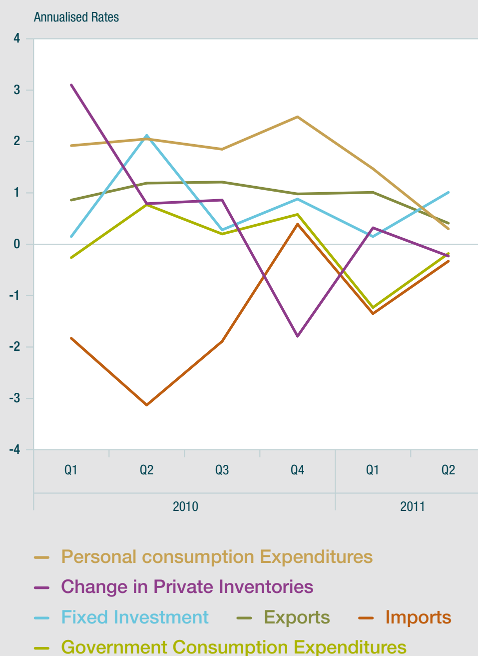
Furthermore, these revisions also illustrate that US GDP growth during the recovery was not 5.0 per cent as estimated in the fourth quarter of 2009, with peak growth now estimated at 3.9 per cent in the first quarter of 2010. However, on the positive side, 2010 GDP quarterly growth was revised upwards by 0.2 percentage points for the first quarter and 2.1 percentage points for the second quarter. These revisions were driven by upward revisions in private inventory investment and personal consumption expenditures.

Table A: US GDP Revisions – Annualised Rates

					2010				2011
	2007	2008	2009	2010	Q1	Q2	Q3	Q4	Q1
GDP	1.9	-0.3	-3.5	3.0	3.9	3.8	2.5	2.3	0.4
Previously published	1.9	0.0	-2.6	2.9	3.7	1.7	2.6	3.1	1.9
Revision	=	-0.3	-0.9	+0.1	+0.2	+2.1	-0.1	-0.8	-1.5

The changing composition of US real GDP in the last few quarters has become more apparent in these latest revisions. As is evident in Chart C, the contribution of personal consumption expenditures to GDP has greatly diminished from being the main driver of GDP during 2010 to become a minor contributor of just 0.3 percentage points in the second quarter of 2011. While the supply disruptions to the motor industry following the Japanese earthquake has played a role in the substantial drop in personal consumption expenditures, consumer sentiment indicators, which are discussed in the US section of this chapter highlight an underlying weakness in consumer demand.

Chart C: The Recent Changing Composition of US growth



Source: Bureau of Economic Analysis (BEA).

Regarding the other components of GDP growth, as can be seen from Chart C, exports declined somewhat in the second quarter of 2011 while fixed investment and government consumption expenditures recovered from their weaknesses in the first quarter, although they are still below their 2010 heights. The volatile component private inventories investment continued to make a diminishing contribution to GDP during the second quarter of 2011, which may be associated with negative business expectations, while imports have fallen mainly due to the Japanese earthquake supply disruptions.

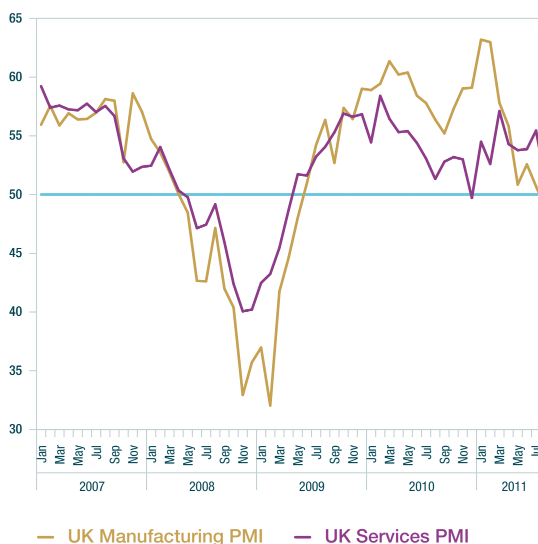
United Kingdom

The UK recovery has yet to gain traction. Following net trade led real GDP growth of 0.5 per cent in the first quarter of 2011, real GDP growth was weaker in the second quarter, expanding by just 0.2 per cent. Economic activity was supported by the services sector, which contributed 0.4 per cent, while the production sector subtracted 0.2 per cent. Unlike the previous two quarters, construction did not act as a drag on GDP. While a number of temporary factors held back growth in the first half of the year, the latest economic indicators, including most importantly the services PMI indicator, are pointing towards a more broad-based weakness in the economy which may extend into the second half of the year.

Looking at the second half of the year, it is expected that the recent weakening in the labour market will put additional strain on consumer demand, which is already acting as a drag on the economy. In addition, the current economic slowdown in the EU and the US, which are the UK's main trading partners, could further delay the rebalancing of the economy towards external demand. Furthermore, the support provided by business investment during 2010, has been mainly absent so far in 2011, as the current economic uncertainty is holding back investment and the availability of credit remains constrained. Reflecting this, the latest growth forecasts contained in the IMF September World Economic Outlook have been revised down by 0.4 percentage points this year to stand at 1.1 per cent and by 0.7 percentage points in 2012, to 1.6 per cent.

Annual CPI inflation remained at an elevated level of 4.4 per cent in July due to higher energy prices, the January VAT increases and higher import prices as a result of the sterling depreciation. Core inflation and CPI excluding indirect taxes (such as VAT) both remain high at 3.1 per cent and 2.9 per cent respectively. The Bank of England expects inflation to rise further, probably peaking above 5 per cent in the next few months due to increases in utility prices, before easing through 2012 and into 2013 as the impact of these temporary factors moderates together with the existence of spare capacity. At present, market expectations are that the Bank of England will not raise interest rates in the near term.

Chart 8: PMI Indicators for the UK



Source: Markit Economics.

Note: For PMI indicators, above 50 represents expansion, below 50 represents contraction.

Emerging EU Member States

The seven emerging non-euro area EU member states are enjoying a steady export-led economic recovery, buoyed by a gradual strengthening of domestic demand. The pace of growth is uneven across countries, however, with fiscal consolidation and elevated inflation weighing on activity in Hungary and Romania. Risks to growth concentrate around a potential escalation of the sovereign debt crisis, given strong financial and economic ties to the euro area. Inflation has crept upwards this year, driven by higher food and energy prices and higher indirect taxes and administered prices. Meanwhile, measures of core inflation have also been gradually increasing in many economies.

Japan

The rate of decline in the Japanese economy eased in the second quarter of 2011 to a 2.1 per cent contraction year-on-year, as supply-side constraints from the March earthquake and tsunami eased. The Japanese economy is beginning to show signs of a recovery, with recent monthly economic data pointing to a rebound in economic activity as industrial production and exports recover and supply chains begin to normalise. Furthermore, at its Monetary Policy meeting in August, the Bank of Japan decided to enhance monetary easing by increasing the total size of the Asset Purchase Program by about 10 trillion yen to 50 trillion yen.

The latest economic data indicate that the pace of recovery is gaining momentum with recent hard data showing that industrial production increased by 3.9 per cent month-on-month in June, following growth of 6.2 per cent in May. Exports, catalysed by the recovery in manufacturing production, have begun to recover with real exports of goods rising by 8.6 per cent in June, after increasing by 4.5 per cent in May. Furthermore, consumption continued to strengthen in June, driven by a rise in retail sales and household spending. Nevertheless, the Japanese economic recovery is exposed to a number of domestic and international downside risks including electrical supply shortages, political instability, a further slowdown in the global economy and adverse exchange rate fluctuations. In response to the continued appreciation of the yen, the Japanese authorities announced the establishment of a $100 billion facility to encourage capital outflows in August 2011. The IMF, in the latest World Economic Outlook, has projected real GDP growth to rise from -0.5 per cent this year to 2.3 per cent in 2012.

With respect to price developments, Japan's CPI headline rate increased to 0.2 per cent year-on-year in July 2011, turning positive for the first time since November 2010, while the year-on-year rate of decline in consumer prices excluding fresh food continued to slow, and is currently around 0 per cent. The Bank of Japan decided to leave its target for the uncollateralised overnight call rate unchanged at 0.0 per cent to 0.1 per cent at its meeting on the 7th September 2011.

Emerging Asia

Economic activity in emerging Asia remained strong in the second quarter of 2011, albeit easing somewhat, with the latest monthly data indicating that growth in the region is being supported by strong domestic demand and export growth. Monetary policy measures continue to be implemented in the region in order to stem rising inflation which is being driven by high food and commodity prices and increasingly domestic demand pressures. The IMF has forecast real GDP growth for the region as a whole of 8.2 per cent for 2011 and 8.0 per cent in 2012.

In China, real GDP increased by 9.5 per cent year-on-year in the second quarter of 2011, slightly down from 9.7 per cent growth recorded in the first quarter of 2011. The latest economic data point to robust growth despite ongoing tightening of monetary policy with investment and consumption remaining the major drivers of growth. Furthermore, net exports has turned positive in the second quarter of 2011, against the backdrop of strong export growth and decelerating imports. Inflation in China remains elevated as a result of rising food prices with annual headline CPI inflation at 6.5 per cent in July, slightly up from 6.4 per cent in June. Furthermore, the Chinese authorities continued to tighten monetary policy in late August by expanding the base used to calculate banks' required reserves in a move aimed at curbing off-balance sheet lending. Based on IMF forecasts, growth is expected to remain at 9.5 per cent in 2011 and fall to 9.0 per cent in 2012.

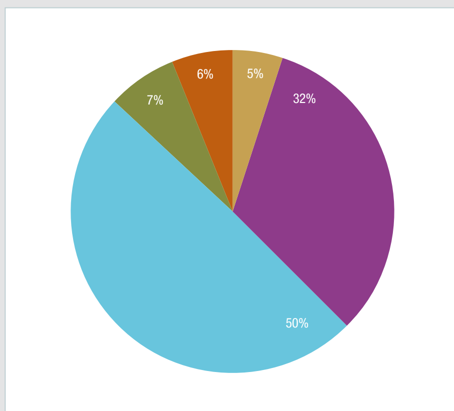
Real GDP in India expanded by 8.5 per cent year-on-year in the second quarter of 2011, while in terms of price developments, India's wholesale price index remained elevated at 9.8 per cent in August. The Reserve Bank of India continued to tackle the persistent inflationary pressures, hiking its main policy rate to 8.25 per cent in mid-September 2011. The IMF has forecast real GDP growth of 7.8 per cent for 2011 and 7.5 per cent for 2012.

Box 2: An Analysis of the Composition of Irish Trade with China
By Jenny Osborne-Kinch and Neill Killeen[5]

As outlined in the first box of this series[6] on Irish trade with China[7], merchandise trade with China dominates total Irish merchandise trade with the BRIC (Brazil, Russia, India, and China) countries, accounting for approximately 80 per cent of the overall. Furthermore, Irish merchandise exports with China have increased steadily over the past decade, amounting to around 3 per cent of total exports in 2010, while imports from China account for 6 per cent of total Irish imports. In this Box, we extend our analysis by focussing on the main export and imports categories with regard to merchandise trade[8]. With China increasingly becoming the leading engine in the global economy, this Box identifies the major export sectors at present. Furthermore, in an examination of Irish imports from China, we aim to identify which imports are driven by Irish domestic demand and which may be part of a wider supply chain process.

Irish merchandise exports to China have increased impressively over the past decade, increasing by over 200 per cent, and amounted to almost 2.5 billion euro in 2010. Focussing on the breakdown of Irish merchandise exports, it is noteworthy that two standard international trade classifications (SITC) dominate, namely SITC 7 *Machinery and Transport Equipment* and *SITC 5 Chemicals and Related Products*. Meanwhile, SITC 0 *Food and Live Animals* contributed 5 per cent to total Irish exports to China in 2010 while SITC 8 *Miscellaneous Manufactured Goods* (Professional, scientific and controlling apparatus) contributed 7 per cent (Chart A).

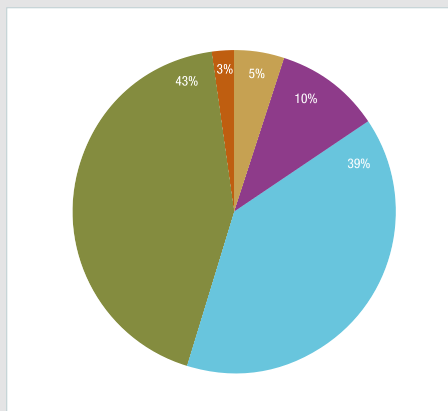
Chart A: Irish Exports to China & Hong Kong in 2010



- SITC 0 Food and live animals
- SITC 5 Chemicals and related products
- SITC 7 Machinery & transport equipment
- SITC 8 Miscellaneous manufactured articles
- Other

Source: Central Statistics Office (CSO).

Chart B: Irish Imports from China & Hong Kong in 2010



- SITC 5 Chemicals and related products
- SITC 6 Manufactured goods
- SITC 7 Machinery & transport equipment
- SITC 8 Miscellaneous manufactured articles
- Other

Source: Central Statistics Office (CSO).

5 Monetary Policy and International Relations Division.

6 Refer to 'Box 2: A Study of Irish Trade with China', Developments in the International and Euro Area Economy Chapter, Quarterly Bulletin. No.3 2011.

7 For the purposes of this Box, and to ensure consistency with our earlier study in Quarterly Bulletin No. 3 2011, we include China, Hong Kong and Macao as one block unless otherwise stated. Irish trade data is taken from the Central Statistics Office (CSO).

8 Services trade is excluded from this analysis since the data series is unavailable prior to 2003. Also, due to confidentiality reasons, it is difficult to identify precisely the main service export categories.

Box 2: An Analysis of the Composition of Irish Trade with China
By Jenny Osborne-Kinch and Neill Killeen[5]

Given that SITC 5 *Chemicals and Related Products* and SITC 7 *Machinery and Transport Equipment* account for over 80 per cent of Irish merchandise exports to China, it is worth considering these categories in greater detail. Within SITC 5 *Chemicals*, SITC 51 organic chemicals (used as compounds and basic ingredients for pharmaceuticals and plastics goods) and SITC 54 (medicinal and pharmaceuticals products) dominate, contributing 67 per cent and 30 per cent respectively to the overall chemicals figure. For SITC 7 *Machinery and Transport Equipment*, it is significant that SITC 75 (office machines and data-processing machines) and SITC 77 (electrical machinery, apparatus and appliances) contribute 30 per cent and 56 per cent respectively to the overall SITC 7 total in 2010. Drawing on this data, we conclude that Ireland's merchandise exports are becoming increasingly concentrated within two SITC categories, *Chemicals* and *Machinery and Transport Equipment* which contributed between them over 2 billion euro to the Irish economy in 2010, up from 600 million euro in 2000.

Meanwhile, Irish merchandise imports have also grown quite significantly over the past decade, increasing by nearly 80 per cent to stand at 2.75 billion euro in value terms in 2010. Examining the data in more detail, three sectors can be identified as performing strongly. These include SITC 8 *Miscellaneous Manufacturing*, SITC 7 *Machinery and Transport Equipment*, and SITC 6 *Manufactured Goods*, which in sum account for approximately 90 per cent of total imports from China in 2010 (see Chart B).

The *Miscellaneous Manufacturing* classification (SITC 8) accounts for nearly half of total imports and has increased by nearly 200 per cent in value terms in the last decade. More specifically, SITC 84 (clothing), SITC 85 (footwear) and SITC 89 (miscellaneous manufacturing i.e. plastic articles, toys, games, sporting goods and musical instruments) account for nearly the entire sector. Of the other large import area – *Machinery and Transport Equipment* – SITC 75, SITC 76 and SITC 77 (office machinery, telecommunications and electrical machinery respectively) dominate, although imports from this sector have eased over the past number of years, which is likely to have been related to the economic downturn. Finally, imports of *Manufactured Goods*, which includes rubber, cork and wood, metals and non-metals, have also increased sharply in value terms over the last decade, notwithstanding some fall in the past two years.

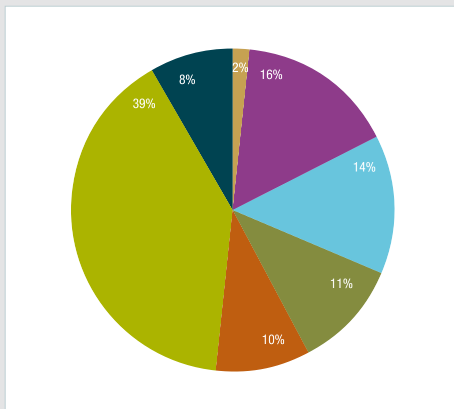
As evident from above, Ireland both imports and exports significant amounts every year within SITC category 7 *Machinery and Transport Equipment*. While a thorough examination of possible supply chain processes between Ireland and China is beyond the scope of this Box, there is some tentative evidence of firms' importing parts and accessories suitable for final IT related goods such as office machines, which constitutes one of our main export categories.

Owing to limited data availability for Chinese imports from Ireland, a full breakdown and detailed analysis of potential export opportunities for Ireland is not possible. Nevertheless, drawing on world trade data[9], information on the categories of products that China imports globally is available and one can draw some broad inferences for potential export opportunities for Ireland. In 2010, China's imports composed of 39.4 per cent of machinery and transport equipment (Chart C). Other major commodity groups which are evident from the chart include crude materials and mineral fuels etc, accounting for 16 per cent and 13.5 per cent of exports respectively.

9 Comtrade (United Nations Commodity Trade Statistics Database).

Box 2: An Analysis of the Composition of Irish Trade with China
By Jenny Osborne-Kinch and Neill Killeen[5]

Chart C: Global Chinese Imports broken down by sectors – 2010 share



- SITC 0+1 Food and live animals, beverages and tobacco
- SITC 2+4 Crude materials, inedible, except fuels, animal and vegetable oils, fat and waxes
- SITC 3 Mineral fuels, lubricants and related materials
- SITC 5 Chemicals and related products
- SITC 6 Manufactured goods class by material
- SITC 7 Machinery and transport equipment
- SITC 8 Miscellaneous manufactured articles

Source: Comtrade (United Nations Commodity Trade Statistics) Database.

Note: This data does not include Hong Kong SAR, as data for this region is not available for 2010.

Those sectors that grew the most over the past four years include SITC (2+4), increasing by 26 per cent, while SITC (0+1) and SITC 3, both increased by 21 per cent. Of these sectors, Food and Live Animals (SITC 0) appears to be one sector where potential exists for Ireland to increase exports to China, drawing on Ireland's strong reputation in the supply of food and dairy products and the increasing Chinese demand for dairy ingredients, infant formula, beverages and seafood. Furthermore, the supply of dairy and other food products is one of the main sectors being highlighted by Enterprise Ireland, where opportunities lie for Irish companies to increase exports to China[10].

10 Enterprise Ireland (2008), *"Winning Business in China, Exporters Handbook"*.

Section 3: Financial Markets

Financial Sector Developments

Financial market developments during the third quarter of 2011 remained dominated by concerns over the outlook for the global economy and ongoing stress in euro area sovereign bond markets. A debate in the US over the government debt ceiling and a subsequent credit rating downgrade of the US by ratings agency Standard & Poor's added to the negative sentiment, while economic data releases led analysts to further reduce their short-term GDP growth expectations for the major economies. Developments during the period were characterised by a further sell-off in risky assets as investors bought safe-haven investments such as gold, AAA-rated sovereign bonds and the Swiss franc.

Equity Markets

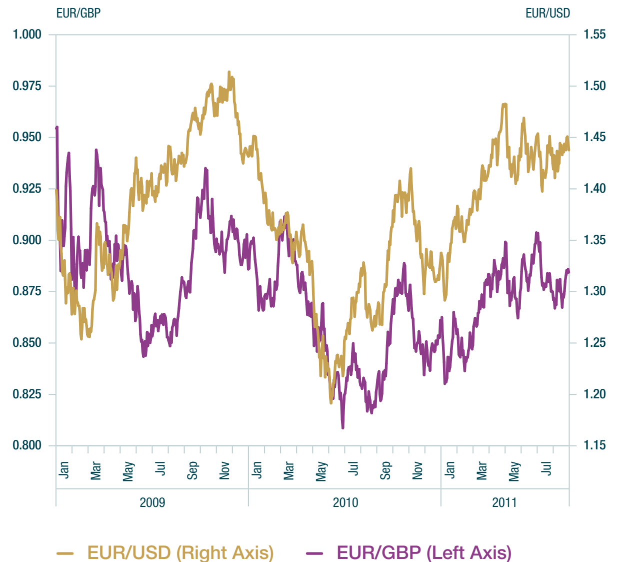
Chart 9: International Share Price Indices (end-December 2006 = 100)

Source: Reuters EcoWin.

Equity indices fell sharply during the third quarter of 2011, reflecting a general sell-off in risky assets due to heightened concerns over global growth prospects and ongoing stress in euro area sovereign bond markets. At the same time, measures of stock market volatility rose sharply, indicating elevated risk aversion on the part of equity investors. While sentiment improved somewhat following the European Summit announcements of 21 July, this rebound proved quite short lived. The debate over the US government debt ceiling and the subsequent credit rating downgrade of the US also negatively impacted on sentiment in equity markets. A commitment from the US Federal Reserve to keep official interest rates at exceptionally low levels until at least mid-2013 provided only a temporary boost to sentiment, although equity markets were supported by expectations that they and other central banks would introduce further monetary policy easing.

Foreign Exchange Developments

Chart 10: Euro Exchange Rates

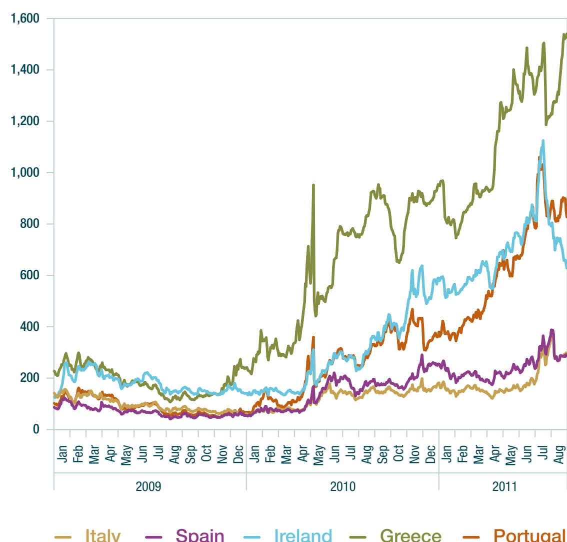


Source: Reuters EcoWin.

Developments in foreign exchange markets during the third quarter of 2011 were characterised by flight-to-safety flows, with perceived safe-haven currencies such as the Swiss franc and the Japanese yen appreciating strongly. The euro remained largely range bound against sterling and the US dollar early in the period, despite the further intensification of the euro area debt crisis. This was partly due to a growing expectation that both the US Federal Reserve and the Bank of England would further ease monetary policy in response to a weakening of the economic outlook. The US dollar also came under pressure due to the debate over the government debt ceiling and the subsequent credit rating downgrade by Standard & Poor's. The euro experienced a more broad-based depreciation in September. In response to the sharp appreciation of the Swiss franc, the Swiss National Bank on 6 September announced its intention to intervene in currency markets in order to ensure a minimum exchange rate with the euro. This announcement prompted a depreciation of the Swiss franc. The Japanese authorities also intervened in currency markets during this period in an effort to stem the appreciation of the yen.

Sovereign Debt Markets

Chart 11: Selected Euro Area 10-Year Sovereign Bond Yield Spreads over Germany (bps)

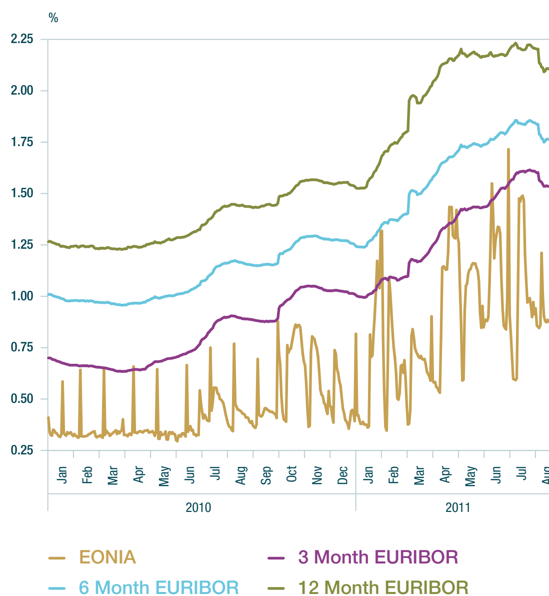


Source: Thomson Reuters Datastream.

Yields on AAA-rated sovereign debt continued to decline during the third quarter of 2011, as investors sought safe-havens amid a further intensification of financial market tensions. US Treasury yields fell to multi-year lows despite a credit rating downgrade for the US from ratings agency Standard & Poor's. In the euro area, sovereign yield spreads over Germany rose quite sharply for a number of countries, in particular Spain and Italy. Significant reforms to the functioning of the European Financial Stability Fund (EFSF) were announced on 21 July, following a European Summit, leading to a tightening of spreads. While these announcements only led to a temporary decline in yield spreads in Italy and Spain, the reactivation by the ECB of its Securities Markets Programme (SMP) in early August led to larger declines in spreads and a fall in bond market volatility. At the same time, a number of euro area countries announced fresh fiscal austerity measures, contributing to the fall in yield levels. Yields subsequently rose somewhat, however, amid investor perceptions of slippage in fiscal austerity plans and renewed concerns over the ability of the Greek government to agree a new EU/IMF financial programme. During this period, Irish sovereign bonds generally outperformed while the Irish sovereign yield curve flattened, as discussed in the "Financial Developments in the Irish Economy" chapter of this Bulletin.

Money Markets

Chart 12: Selected Euro Area Money Market Interest Rates



Source: Reuters EcoWin.

Unsecured euro area money market rates increased at the start of July, reflecting a 25 basis point increase in key ECB interest rates that took effect on 13 July. Rates subsequently fell in early August, however, following an announcement from the Governing Council of the ECB that it would extend its fixed-rate full allotment policy until at least the end of the last maintenance period of 2011. In response to renewed tensions in some euro area financial markets, the Governing Council also announced that the ECB would conduct a liquidity-providing supplementary Long-Term Refinancing Operation (LTRO) with a maturity of approximately six months. The ECB later announced that it would conduct three US dollar liquidity-providing operations with a maturity of approximately three months.

Update on EU-IMF Programme of Financial Support for Ireland

1. Overview

Ireland's European Union-International Monetary Fund (EU-IMF) Programme has been assessed twice since the Programme was agreed at the end of 2010[1]. Assessment of implementation of Programme structural benchmarks commenced with an interim review in February, followed by a combined first and second review in April, and a third review undertaken in July[2]. The purpose of the reviews is to evaluate Ireland's performance against the targets and conditions agreed with the external partners[3] in the areas of fiscal consolidation, financial sector and structural reforms.

The European Commission, ECB and the IMF all declare that Ireland's implementation of the Programme is on track. They have noted during the third review, that Ireland has had strong policy implementation, with all agreed structural benchmarks and quantitative performance criteria under the Programme met, and in some cases, exceeded[4]. During the third review in July, as in previous reviews, new structural benchmarks and commitments were also agreed; and these are detailed in the updated MoU (Memorandum of Understanding on specific economic policy conditionality) and MEFP (Memorandum of Economic and Financial Policies)[5]. The release of EU, IMF and bilateral loan tranches is conditional on Ireland delivering on its commitments and meeting quantitative targets and structural benchmarks set out in the MoU and MEFP.

The Central Bank has fulfilled all its undertakings under the financial sector reforms since the Programme was agreed, the ultimate aim of which is to provide a strong and competitive banking and financial system which services fully the needs of Irish households and businesses. This is being achieved through the recapitalisation, restructuring and deleveraging of the domestically owned banks; reforming the credit union sector; enhancing the existing institutional and regulatory framework and strengthening the transparency and quality of banks' balance sheets. The Central Bank is on track to deliver on its financial sector quarter 3 commitments, as well as working towards meeting quarter 4 targets.

1 Please see Central Bank of Ireland Quarterly Bulletin Q1, 2011, pages 63-64 for more information on the Programme's financing components.

2 Dates of Reviews: 1st and 2nd Review: 5-15 April 2011; 3rd Review: 6-14 July 2011.

3 The external partners comprise the ECB, the EU Commission, the IMF and Ireland's bilateral partners.

4 For example, two of the structural benchmarks under financial sector policies were completed ahead of deadlines: the legal merger of AIB and EBS was completed on 1 July (deadline end-September 2011); and the merger of Anglo Irish Bank with Irish Nationwide Building Society was completed on 1 July (deadline end-December 2011). Anglo Irish Bank and INBS were merged to form the Irish Bank Resolution Company – IBRC. Fiscal performance criteria to end-June were also met by a comfortable margin.

5 http://www.finance.gov.ie/documents/publications/other/2011/EU%20imf/EUimfJul2011.pdf

2. Compliance with Financial Sector Benchmarks

Ireland has made progress in financial sector reforms in relation to the following:

- The Prudential Capital Assessment Review (PCAR) was completed in March 2011, which assessed the capital adequacy of all credit institutions over the period 2011-2013 under a base and stressed macro-economic scenario.
- Reviews of the loan portfolios of all credit unions were completed by end-April 2011 **(Structural benchmark – end-April 2011)**.
- The plan to recapitalise Irish Life and Permanent (ILP) was finalised ahead of schedule **(Structural benchmark – end-May 2011)**, and the subsidiary of Irish Life has been offered for sale, ahead of the October 2011 deadline.
- Irish owned banks were recapitalised in line with PCAR-specified requirements by the end of July[6]. **(Structural benchmark – end-July 2011)**.
- New legislation increasing supervisory powers of the Central Bank *(The Central Bank (Supervision and Enforcement) Bill 2011)* was submitted to the Oireachtas on 28 July **(Structural benchmark – end-July 2011)**.
- The banks' deleveraging process is proceeding, with the Central Bank having responsibility for monitoring and reporting on the banks' progress. The Central Bank has defined, and is monitoring interim targets for key liquidity indicators.
- The Irish authorities have submitted bank restructuring plans to the European Commission.
- The Commission on Credit Unions has been established by the Government to review the future of the credit union movement and make recommendations in relation to the most effective regulatory structure for credit unions. The Commission is required to provide an interim report to the Minister for Finance by 30 September 2011 that will make initial recommendations required to strengthen the regulatory framework of credit unions. A final report is to be provided to the Minister by 31 March 2012.

Under the terms of the MoU, the Central Bank is also responsible for the provision of certain data and financial sector indicators provided to the external partners on a regular basis (e.g. end-month/quarter).

3. Future Financial Sector Benchmarks

New structural benchmarks relevant to the Central Bank are to:

- *"Publish a memorandum of understanding governing the relationship between the Department of Finance and the Central Bank in relation to Banking sector oversight"* (end-October 2011 – ensuring clarity of responsibility between the Department of Finance and the Central Bank).
- *"Issue guidance to banks for the recognition of accounting losses incurred in their loan book"* (end-December 2011 – will ensure consistency with IFRS standards).

4. Compliance with Fiscal and Structural Benchmarks

Following successful compliance with the end-March 2011 fiscal targets laid out under the EU-IMF Programme, the revised end-June 2011 quantitative fiscal performance criteria relating to the Exchequer primary balance, and the central government net debt[7] were met with a margin.

A €10.8 billion Exchequer deficit, which included cash related debt interest payments of €2.4 billion for the year to end-June 2011, placed the Exchequer primary deficit at €8.4 billion at end-June 2011.

6 Net of the liability management exercises (LMEs) conducted to date and remaining LMEs in Bank of Ireland (to be completed by end-2011) and the disposal of ILP's insurance arm.

7 National debt excluding National Pension Reserve Fund (NPRF) and cash-based liquid assets.

For the purposes of MoU fiscal criteria, the external partners estimate an underlying gross revenue position[8] in conjunction with the formal performance criteria target. If gross revenues exceed (fall short of) these anticipated levels, the primary balance target is tightened (loosened) by a corresponding amount. Gross revenues to end-June 2011 exceeded expectations, and correspondingly the Exchequer primary balance target was tightened to -€10.1 billion to act as a de facto expenditure ceiling. Target tightening aside, the -€8.4 billion primary exchequer balance outturn exceeded the revised target.

The end-June 2011 net debt position of €91.7 billion reflecting the stock of national debt (€104.6 billion at end-June) less National Pension Reserve Fund liquid assets and Exchequer cash balances (€12.9 billion), indicates that the end-June 2011 net debt target of €94.6 billion was also met.

The structural benchmark requirement to establish a Fiscal Advisory Council by end-June 2011 was also met. The Council, together with its broad mandate and purpose was established by end-June 2011, and its membership was announced by the Minister for Finance on 7 July 2011. The supporting legislation to establish the Council formally in law is being brought forward in the context of the Fiscal Responsibility Bill to be published by end year. The Bill will also support overall reform of the budgetary framework, with this structural benchmark expected to be met by end-December 2011.

Key structural reforms since the May staff report include the announcement and implementation of the *Jobs Initiative*[9], (to be budget-neutral over 2011-2014), and introduction of legislation which increased the qualification age for the Social welfare pensions.

5. Future Fiscal Targets and Structural Benchmarks

Revised fiscal performance criteria were set out in the September Memorandum of Economic and Financial Policies (MEFP) requiring that the end-September 2011 cumulative Exchequer primary deficit not breach €14.2 billion, whilst the stock of central government net debt must not exceed an indicative target of €98.6 billion. The stipulation regarding the non-accumulation of external payment arrears by central government also remains.

In line with MoU requirements, the government will introduce a medium-term expenditure framework with binding multi-annual expenditure ceilings with broad coverage and consistent with fiscal consolidation targets. These ceilings are to be published on Budget day in early December 2011. Following the conclusion of the Comprehensive Review of Expenditure (CRE), the government will present a Pre-Budget Outlook to the Dáil by end-October 2011, setting out a medium term consolidation plan for 2012-2015 outlining the overall composition of revenue and expenditure adjustments for each year, consistent with (European) Council Recommendations in the context of the excessive deficit procedure. Current Council Recommendation requires a general government deficit of no more than 8.6 per cent in 2012.

The MoU requires that by end-December 2011, a legal framework enshrining the independence of the newly created Fiscal Advisory Council be presented to the Dáil as part of the wider Fiscal Responsibility Bill.

8 Exchequer tax receipts plus gross PRSI revenues.

9 The May 2011 Jobs Initiative included the introduction of a new temporary second reduced rate of VAT aimed primarily at the tourism sector and a halving in the lower rate employer PRSI until 2013. These were funded predominantly through the imposition of a four year levy on funded pension schemes and personal pension plans.

Table 1: Total EU-IMF Programme Financial Disbursements to Ireland to date

Source	Loan amount	Disbursement amount	Draw down date	Maturity from date of receipt
European Financial Stability Mechanism (EFSM)	€5.00 billion	€4.97 billion	12-Jan-11	4 years 11 months
	€3.40 billion	€3.39 billion	24-Mar-11	7 years
	€3.00 billion	€2.99 billion	31-May-11	10 years
Total EFSM	**€11.40 billion**	**€11.35 billion**		6.87 years
European Financial Stability Fund (EFSF)	**€4.20 billion**[1]	**€3.59 billion**	01-Feb-11	5 years 6 months
IMF	€5.84 billion	€5.84 billion	18-Jan-11	7½ years average life
	€1.58 billion	€1.58 billion	18-May-11	7½ years average life
	€1.48 billion	€1.48 billion	7-Sept-11	7½ years average life
Total IMF	**€8.9 billion**	**€8.9 billion**		
Overall Total	**€24.5 billion**[2]	**€23.84 billion**[3]		

Source: Department of Finance.

1. This is the loan amount. The net loan, the amount made available to the Exchequer, from the EFSF is €3.592 billion after credit enhancement measures.
2. Taking account of €600 million in credit enhancement measures in the EFSF funding and below-par issuance by the EFSM and EFSF, the total cash received amount is €23.84 billion.
3. This is the overall Net Loan Amount.

6. EU-IMF Loan Disbursements to date

To date, Ireland's nominal borrowings have amounted to €24.5 billion, or 36 percent of the planned borrowings, under the EU-IMF Financial Programme, as shown in Table 1. Drawings comprise of €11.4 billion from the European Financial Stabilisation Mechanism (EFSM), €4.2 billion from the European Financial Stability Facility (EFSF) and €8.9 billion from the International Monetary Fund (IMF). At the time of writing there have been no drawings from the bilateral loan agreements with the UK, Sweden and Denmark, although receipt of the first UK dispersal is expected shortly. The IMF planned disbursement schedule for the Programme is attached in Table 2[10].

The euro area Heads of State/Government Summit agreed on 21 July 2011 to reduce the cost of the EFSF facility to a level similar to that for the EU Balance of Payments facility – i.e. that it should be close to funding cost, allowing for some element to cover the EFSF's costs. In addition, further amendments to the EFSF mean the credit enhancement measures it uses to ensure its AAA rating (such as cash buffers and pre-paid margin) will no longer be required. These changes will substantially reduce the cost of the EFSF funds, when they are approved by all euro area Member States. The UK also agreed to reduce the margin it will charge on its bilateral loan, although the precise figure has yet to be finalised. This month, the EU Commission has presented a proposal to eliminate the margin of 2.925 per cent on the whole EFSM facility (including funds already drawn down). This is subject to approval by the EU's ECOFIN Council.

10 As published in the IMF Staff Report on Ireland's Third Review *"Ireland: Third Review Under the Extended Arrangement – Staff Report"* (IMF Country Report No. 11/276) http://www.imf.org/external/pubs/ft/scr/2011/cr11276.pdf

Table 2: IMF Planned Disbursements

Review	Availability	SDRs	Percent of Quota
EFF Approval	December 2010	5,012,425,200	399
First and Second Reviews	May 2011	1,410,000,000	112
Third Review	August 2011	1,319,000,000	105
Fourth Review	December 2011	3,309,000,000	263
Fifth Review	March 2012	1,920,000,000	153
Sixth Review	June 2012	1,191,000,000	95
Seventh Review	September 2012	1,191,000,000	95
Eighth Review	December 2012	1,191,000,000	95
Ninth Review	March 2013	831,000,000	66
Tenth Review	June 2013	831,000,000	66
Eleventh Review	September 2013	681,000,000	54
Twelfth Review	November 2013	579,374,800	46
Total		**19,465,800,000**	**1,548**

Source: IMF Staff Report – *"Ireland: Third Review under the Extended Arrangement"*.

Signed Articles

The articles in this section are in the series of signed articles on monetary and general economic topics introduced in the autumn 1969 issue of the Bank's Bulletin. Any views expressed in these articles are not necessarily those held by the Bank and are the personal responsibility of the author.

Treatment of Special Bank Interventions in Irish Government Statistics

Mary Cussen and Mick Lucey[1]

Abstract

The financial crisis has led Governments to intervene in a number of ways to support and stabilise the banking system. The recording of these interventions can be quite complex in statistical terms, as Government accounting rules set down for the purposes of the Stability and Growth Pact need to be applied consistently and transparently across EU Member States. Our paper firstly focuses on Government interventions in the case of Ireland. Since 2008 the Irish Government has had to intervene significantly in the banking sector and this has had a substantial impact on Irish debt and deficit. In addition, the sovereign debt crisis has increased analysts' requirements for detailed information on the impact of these interventions in the banking sector on Government debt and deficit and has increased the need for higher frequency government statistics. Our paper examines the extent to which current Government statistical reporting meets these requirements.

1 The authors are a Senior Economist in the Central Bank of Ireland and a Senior Statistician in the Central Statistics Office. The views expressed are solely the views of the authors and do not necessarily reflect the view of the Central Bank of Ireland or of the Central Statistics Office. The authors would like to acknowledge the helpful comments of Aidan Punch, Joe McNeill, Ciaran Judge and Rod O'Mahony. This paper is an updated version of a paper that was presented at the ISI 2011 Congress in Dublin on 23rd August 2011.

1 Introduction

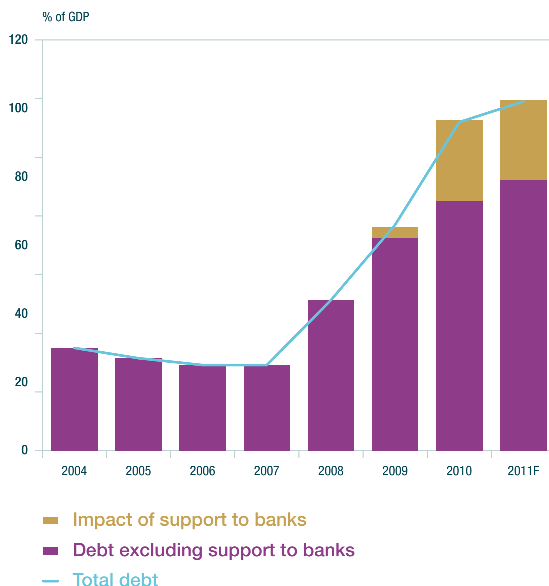
The financial crisis has led many governments to intervene to support and stabilise their banking systems. These support measures have been made in a variety of ways and their recording in statistical terms can be difficult. This creates problems, especially for the Government accounts compiled by Member States of the euro area and the wider EU. These accounts are used to assess if countries comply with the terms of the Stability and Growth Pact, so the accounting rules used need to be transparent and unambiguous and must be applied consistently by all reporting countries.

Since September 2008, the Irish Government has intervened to support the banking sector in a myriad of ways. These interventions, coupled with the economic recession which began in Q2 2008, led Ireland to record in 2010 the highest ever reported deficit in the European Union. Section 2 of the paper outlines the impact of these interventions on Irish debt and deficit and presents an overview of the banking support measures introduced by the Government. Section 3 shows the impact of recapitalisations on the levels of General Government deficit and debt. Section 4 describes how some other interventions were treated in Government accounts and discusses an important outstanding accounting issue relating to the classification of publicly-owned ‘bad banks’. The sovereign debt crisis has increased analysts’ requirements for detailed information on the impact of these interventions in the banking sector on Government debt and deficit and has also increased the need for higher frequency Government statistical information. Section 5 of the paper examines the extent to which current Government statistical reporting meets these requirements.

2 The Reaction of the Irish Government to the Financial Crisis

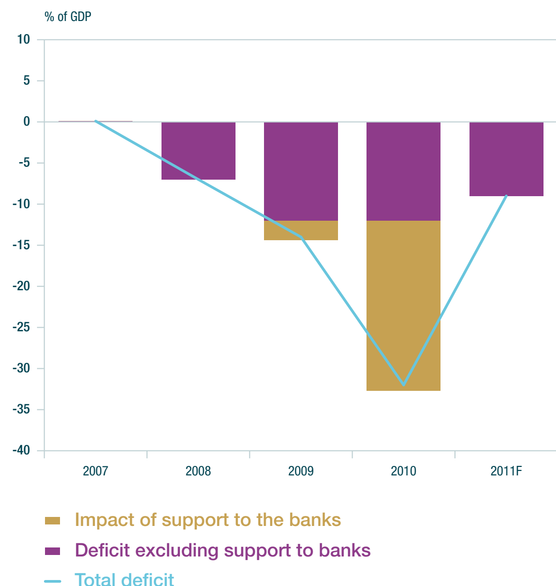
The deterioration of Irish Government finances as a result of the financial crisis and economic recession is evident from Charts 1 and 2. Ireland’s gross debt is forecasted to rise to 102 per cent of GDP[2] in 2011, assuming there are no further debt-increasing capital injections

Chart 1: Irish Government Debt



Sources: EDP and internal calculations.

Chart 2: Irish Government Surplus/Deficit



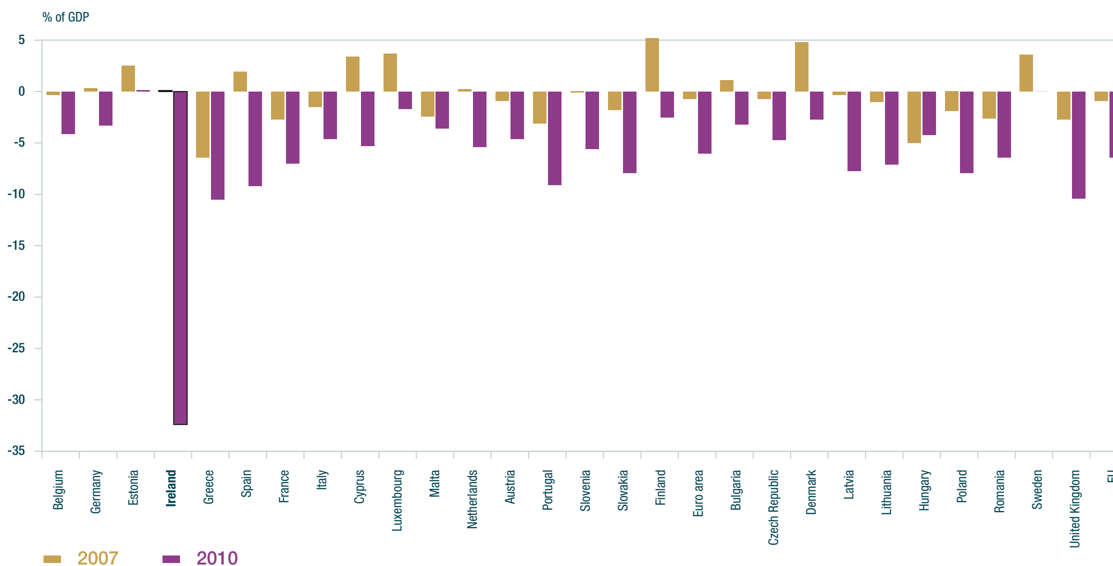
Sources: EDP and internal calculations.

2 The 2011 forecast of Debt to GDP is based on the latest Excessive Deficit Procedure (EDP) tables of March 2011. The Department of Finance will compile an updated set of EDP tables for September 2011. EDP defines debt as gross debt, as opposed to net debt.

Chart 3: Government Debt as a Percentage of GDP for EU Member States

Source: Eurostat.

Chart 4: Government Surplus/Deficit as a Percentage of GDP for EU Member States



Source: Eurostat.

during the year. This marks a substantial increase from the pre-crisis, pre-recession debt levels of 25 per cent of GDP in 2007. Government support to the banking sector increased debt by 2.4 per cent of GDP and 20 per cent of GDP during 2009 and 2010 respectively, as shown in Chart 1. These sharp increases in debt were driven by very substantial fiscal deficits from 2008 onwards. In 2010, the Irish deficit reached 32 per cent of GDP, of which 20 per cent of GDP was due to State support to the banking sector.

The financial crisis and general economic downturn have had an adverse effect on the Government finances for nearly all European Union (EU) countries. The debt and deficit of all EU countries for the pre-crisis year 2007, and also 2010 are presented in Charts 3 and 4 respectively. The charts show that most countries have experienced an increase in debt and deficit levels since 2007. The figures highlight however, the severity of the crisis on Irish Government finances in contrast to other EU countries. In 2007, 19 EU countries had

Table 1: Timeline of Irish Government interventions in the banking sector

Date	Event	Amount	% of GDP[4]
2008	Guarantee of the banking sector	€352 bn guaranteed	191.7
2009	Nationalisation of Anglo Irish Bank	nil	nil
2009	Capital injections into BoI (Acquisition of preference shares for cash)	€3.5 bn	2.2
2009	Capital injections into AIB (Acquisition of preference shares for cash)	€3.5 bn	2.2
2009	Capital injections into Anglo (Acquisition of equity for cash)	€4 bn	2.5
2010	NAMA established	€28.7 bn guaranteed	18.6
2010	Capital injections into Anglo (Injection of promissory note)	€25.3 bn	16.4
2010	Nationalisation of EBS and INBS	nil	nil
2010	Capital injections into EBS (Acquisition of equity)	€0.875 bn	0.6
2010	Capital injections into INBS (Injection of promissory note)	€5.4 bn	3.5
2010	Restructuring of Anglo and INBS	nil	nil
2010	Capital injections into AIB (Acquisition of equity for cash)	€3.7 bn	2.4
2011	Capital injections to meet PCAR stress test results[5]	€17.6 bn	11.2

Source: Internal calculations.

higher debt levels than Ireland, and Ireland's surplus of 0.1 per cent of GDP was the eleventh highest in the EU. By 2010 however, Ireland had the fourth highest debt-to-GDP ratio in the EU and had a deficit of 32 per cent of GDP, the highest ever recorded in the EU.

The measures taken by the Irish Government to stabilise the banking sector are set out in Table 1. The first intervention measure taken by the Government was to guarantee all of the liabilities of the Irish banks on 30 September 2008, in order to alleviate liquidity pressures experienced by the banks as a result of the international financial crisis. "The initial expectation of officials at the time of the guarantee was that none of the institutions involved was insolvent, and that their problems stemmed mainly from a freezing of short-term liquidity in the wake of the bankruptcy of Lehman Brothers" (Honohan *et al*., 2010). However, it subsequently became clear that the banking sector suffered from other vulnerabilities. Property-related lending as a share of banks' assets had grown from less than 40 per cent before 2002 to over 60 per cent by 2006 (Honohan, 2009). As the recession deepened and property prices continued to rapidly decline, it became evident that the over-exposure of the banking sector to property-related lending was a serious problem. In addition, it had been found that poor lending practices had prevailed during the years preceding the crisis in some banks[3]. Consequently, the Government had to intervene to further support the banking sector between 2009 and 2011. These interventions included the nationalisation of three banks, capital injections into five banks, the establishment of the National Asset Management Agency (NAMA) and the restructuring of Anglo Irish Bank (Anglo) and Irish Nationwide Building Society (INBS). The statistical treatment of the capital injections and the other measures in Government finance statistics are analysed in detail in Sections 3 and 4, respectively.

3 The factors contributing towards the Irish banking crisis have been examined in detail in Honohan *et al.* (2010), Regling and Watson (2010) and Nyberg (2011).

4 The % of GDP calculations are calculated by reference to the GDP of each year. These are: €179.99bn for 2008, €160.60bn for 2009 and €155.99 bn for 2010.

5 The Prudential Capital Assessment Review (PCAR) assessed how much additional capital the banks would require under adverse scenarios. PCAR is discussed further in Section 3.

3 The Impact of Recapitalisations on Debt and Deficit

Since 2009, the Irish authorities have provided the banking sector with capital injections amounting to €64 billion, equivalent to 41 per cent of Irish GDP. These have taken a number of different forms including: preference shares, ordinary shares and promissory notes. This section discusses the treatment of these capital injections in the Irish Government finances.

Recapitalisations have a debt-increasing impact if they result in additional borrowing. They have a deficit-increasing impact if the capital injections are considered capital transfers because they cannot yield a sufficient rate of return in line with EU State Aid rules or if the price paid for the shares exceeds the market price. In 2009, the State provided two Irish banks, Allied Irish Bank and Bank of Ireland, with capital injections of €3.5 billion each. The injections took the form of 8 per cent preference shares. As the shares offered a guaranteed rate of return in line with EU State Aid rules, they had no deficit impact. The State funded €5.8 billion of the capital injection through the National Pension Reserve Fund (NPRF)[6]. Consequently, the debt impact of the recapitalisations was €1.2 billion. During 2009, the State also provided Anglo with capital of €4 billion. As the Government had to borrow to fund this recapitalisation, it had a debt increasing impact of €4 billion. Initially, the capital injection was treated in the accounts as a financial transaction. It was subsequently discovered that Anglo would not be able to repay the capital injection and the amount was reclassified in the 2009 accounts as a deficit-increasing capital transfer.

Capital injections into the Irish banks in 2010 totalled €35.275 billion, 23 per cent of Irish GDP. The largest capital injections were provided to Anglo and INBS. Since 2009, these banks have reported massive loan write-downs and operating losses. Both banks had primarily engaged in property-related lending in the years preceding the crisis and it has since been discovered that these banks had inadequate risk procedures (see Nyberg, 2011). During 2010, capital injections to Anglo and INBS totalled €25.3 billion and €5.4 billion, respectively. Given the scale of losses reported by these banks, the capital injections will be unrecoverable by the State and consequently were treated as deficit-increasing capital transfers in the accounts. The capital injections were funded by promissory notes issued by the State to Anglo and INBS in lieu of cash. These notes will be redeemed over a period of several years with the State committed to making annual repayments of at least 10 per cent of their initial capital value. This phasing of payments means the State does not require upfront funding for the capital injection. However, the promissory notes do impact the debt from the date they were issued. In effect, the transactions can be viewed as if the capital injections were made in cash which was then lent back to the Government in return for the promissory notes. The capital injections to Anglo and INBS, therefore, added 19 per cent to both the debt and deficit for 2010.

A feature of the promissory notes issued to Anglo and INBS is that the contracts provided for an initial grace period of two years during which no interest will be charged on the notes. A higher rate of interest was chargeable for the remainder of the period so that the cumulative amount of interest paid over the period of the promissory notes remained at an average rate sufficient to allow them to be recorded on the institutions' balance sheets at face value, notwithstanding the zero rate of interest charged in the initial two years.

In the ESA based national accounts, interest is usually recorded on a strict accruals basis, but the Manual on Government Deficit and Debt (MGDD) provides an exception for the recording of interest during such grace periods. This means that the General Government Deficit (GGDeficit) and General Government Debt (GGDebt) for Ireland for the years 2011 and 2012 will not be affected by interest on these notes. In subsequent years the full amounts of interest chargeable will be recorded on an accruals basis and both the deficit and debt will be worsened by these amounts.

6 The National Pension Reserve Fund is a State fund established to meet the cost of Ireland's social welfare and public service pensions from 2025 onwards.

Table 2: The impact of capital injections on debt and deficit, 2009 – 2010

	2009			2010			Total to date		
	Capital Injections	Impact on Debt	Impact on Deficit	Capital Injections	Impact on Debt	Impact on Deficit	Capital Injections	Impact on Debt	Impact on Deficit
Total (€bn)	11	5.2	4	35.275	31.575	30.850	46.275	36.775	34.850
Total % GDP	6.9	5.3	2.5	22.9	20.5	20.0	29.8	25.8	22.5

It appears that this provision in the MGDD was primarily intended for the recording of interest holidays on concessionary loans provided by Governments and the text in the manual is currently being updated to confine the application of the rule in future.

Capital injections amounting to €875 million were also provided during 2010 to EBS, a relatively small Irish building society. These increased the deficit by the full amount, while debt increased by €250 million, as they were partly financed from existing resources. In December 2010, AIB received a further capital injection of €3.7 billion, which was fully funded by the NPRF and therefore did not impact the Irish debt. Furthermore, it was treated in the accounts as an investment and therefore does not directly impact the deficit. The total capital injections provided by the State to the banking sector since 2009, are summarised above in Table 2. The table shows that since 2009, capital injections have increased the Irish debt and deficit by 25.8 per cent of GDP and 22.5 per cent of GDP, respectively.

In order to fully ascertain what future capital requirements the Irish banks may need, the Central Bank performed in-depth stress tests in late 2010/early 2011. The tests were extremely detailed and assessed what the maximum amount of capital required by the banks could be under very adverse economic conditions. As a result of the tests, the Central Bank required banks to increase their capital levels. The results showed that the banks could require €24 billion. Bank of Ireland's capital requirements were met in part by private sector investment in the bank. During July 2011, the State provided €17.6 billion to the banks to meet the remainder of capital requirements outlined in the stress tests. A significant proportion of the financing provided by the State was met using funds from the NPRF. The impact of the capital injections on Government debt will depend on the amount of new financing which was required. The impact on the deficit will depend on whether the State will ever receive a return on the injections.

4 The impact of other measures on debt and deficit

4.1 Guarantee schemes

As shown earlier in Table 1, the initial banking support measure provided by the Irish Government was the introduction of a guarantee scheme covering the liabilities of credit institutions which were not already covered under the standard retail deposit guarantee scheme operated by the Central Bank of Ireland. The new scheme called the Credit Institutions Financial Support Scheme (CIFS) was introduced on 30 September 2008, for a period of two years. It was a blanket type guarantee scheme and covered the existing deposits, senior debt, covered bonds and dated subordinated debt liabilities of six Irish credit institutions. Liabilities covered by the scheme initially amounted to €352 billion, which was equivalent to almost three times the value of Irish GDP. A further, more limited guarantee scheme, the Eligible Liabilities Guarantee (ELG) Scheme, was introduced in December 2009. This covered new deposits and eligible debt securities up to a maximum maturity of five years which were issued after the banks joined the new scheme.

The CIFS scheme expired in September 2010. The need for the ELG scheme is reviewed every six months and most recently it has been extended to the end of 2011. It operates alongside the standard Deposit Guarantee Scheme run by the Central Bank of Ireland,

Table 3: Contingent liabilities related to the financial crisis outstanding at end-March 2011

Member State	Value (€ billion)	% of GDP
Ireland	193	125
Greece	58	25
United Kingdom	417	25
Cyprus	3	17
Belgium	56	16
Denmark	26	11
Austria	22	8
Netherlands	40	7
Slovenia	2	6
Sweden	20	6
Spain	60	6
France	91	5
Luxembourg	1	3
Portugal	5	3
Germany	71	3
Euro area (EA17)	602	7
EU27	1,065	9

Source: Eurostat.

which covers 100 per cent of retail deposits with all credit institutions authorised in Ireland (including credit unions) up to a maximum of €100,000 per qualifying depositor per institution. This latter scheme has no end-date.

All the above schemes relate to Government guarantees on the liabilities of the banking sector. The Irish Government has generally not provided guarantees on bank assets. However, as part of the Emergency Liquidity Assistance (ELA) facility provided by the Central Bank of Ireland, the Government has provided guarantees to the Central Bank for certain bank assets provided as collateral by the banking sector.

Guarantees in National Accounts are treated as contingent liabilities and are not recorded on balance sheets unless they are absolutely certain to be called upon. In Ireland's case all the repayment obligations under the above schemes have been met in full, so none of the guarantees given to the banks have been activated to date. This means the guarantee schemes have had no direct impact on the levels of Irish gross Government debt. The banks covered by the CIFS and ELG schemes pay guarantee fees, which in the National Accounts are treated as service incomes and improve the GGDeficit. However, these fees are intended to compensate the Government for the additional borrowing costs it incurred as a consequence of the extensive guarantees provided to the banks. To the extent that the guarantee fees simply compensate the Government for the extra interest margin it pays on its borrowings, the net impact on the GGDeficit was envisaged to be neutral.

While guarantees are contingent liabilities and are not recorded in the Government accounts, information on the levels of guarantees outstanding is important for assessing the sustainability of the public finances. As part of its twice yearly Excessive Deficit Procedure (EDP) reporting requirements, Eurostat asks Member States to quantify the amount of guarantees outstanding in respect of the financial crisis. These data are published on the Eurostat website and the most recent data are summarised in the table above.

4.2 National Asset Management Agency (NAMA)

In early 2009, the Irish Government decided to introduce measures to address concerns about asset quality in the Irish banking system. The principal uncertainties related to the quality of the land and development loans held by the

credit institutions. In a supplementary budget in April 2009, the Government announced the establishment of the National Asset Management Agency (NAMA). The Agency was to acquire loan assets from the banks and to manage and dispose of these assets over an extended period of up to ten years. The prices paid would be based on assessed long-term market values and the purchases would be funded by NAMA issuing debt securities, 95 per cent of which were guaranteed by the Irish Government.

When formally establishing NAMA, the Irish authorities were cognisant of the accounting guidelines issued by Eurostat on 15 April 2009, on the statistical recording of public interventions to support financial institutions and financial markets during the financial crisis. These guidelines, which were clarified in a further release in September 2009, contained a section dealing with the classification of new entities established during the financial crisis to support the stability of the banking system. This issue had arisen specifically in the case of the French financial corporation, Société de Financement de l'Économie Française (SFEF). This company had been established in October 2008 to provide liquidity funding to French banks. SFEF was majority owned by the banks but the bonds it issued to raise funds were guaranteed by the French Government. As a consequence of its guarantee, the French State maintained an overall right of veto on the operations of SFEF. The Eurostat guidelines concluded that, under very restrictive conditions, this type of company could be classified outside of Government, on the basis of its majority private ownership, even though its liabilities were guaranteed by Government which also exercised ultimate control through its veto right.

NAMA, which is classified within General Government, was formally established in December 2009 and used a SFEF-type structure to acquire the problematic loan assets from the banks. It established a special purpose company called National Asset Management Agency Investment Limited (NAMAIL), 51 per cent owned by private investors and 49 per cent owned by NAMA, to acquire the assets. In order to facilitate risk-sharing with the banking sector, only 95 per cent of the securities provided by NAMAIL in payment for the assets acquired from the banks were guaranteed by the State. The remaining 5 per cent was subordinated debt repayable only if NAMAIL made a profit. As a condition of the State guarantee, NAMA maintained a veto over all activities of NAMAIL that affected the interests of NAMA or of the Irish State.

After an in-depth examination of the structures, the Central Statistics Office, with Eurostat's agreement, accepted that, based on the published guidelines, the special purpose company NAMAIL could be classified in the Financial Corporations Sector (S.12), outside of General Government. In general, defeasance vehicles created by Government to deal with impaired assets should be classified in the General Government Sector (S.13) so in this case the classification of NAMAIL in the Financial Corporations Sector (S.12) was on the basis of a set of very restrictive conditions. These were that the company was majority privately owned, was of a temporary duration, was created solely to deal with the financial crisis and was not expected to incur losses. This final condition was especially important insofar as the asset values booked in the typical defeasance vehicle in other countries have often overstated recoverable values so that on disposal, the assets have generated significant losses. In the case of NAMAIL, the loan assets were being acquired at already written-down prices and additional safeguards were put in place so that in the event of the company incurring future losses, these would be paid for by the banks.

In line with its mandate, NAMAIL imposed very significant haircuts or discounts on the loan portfolios it acquired from the banks. By the end of 2010, NAMAIL had acquired loan assets of a nominal value of over €71 billion from five[7] participating institutions – Allied Irish Bank (AIB), Bank of Ireland (BoI), Anglo Irish Bank (Anglo), Irish Nationwide Building Society (INBS) and Educational Building Society (EBS).

7 Irish Life and Permanent (IL&P) was not included in the NAMA asset acquisition scheme.

Table 4: Details of loans acquired by NAMAIL up to end-December 2010

	AIB	BoI	Anglo	INBS	EBS	Total
Amount paid by NAMAIL (€ bn)	8.4	5.4	12.9	3.0	0.3	30.2
Discount on loans (%)	54%	42%	62%	64%	60%	58%
Implied nominal value of loans (€ bn)	18	9	34	9	1	71

Source: NAMA report & internal calculations.

These loans included both performing and non-performing loans of the banks' debtors that had significant exposure to the property sector. The amounts paid for individual loans ranged from 0 to 100 per cent of the book value. By end-2010, NAMAIL had in total paid €30.2 billion for loans with a nominal value of €71.4 billion. This represented an average discount of 58 per cent. As shown in the following table, the aggregate haircut or discount applied to the individual banks ranged from 42 per cent to 64 per cent.

By end-March 2011, the nominal value of loans acquired had increased to €72.3 billion for which a consideration of €30.5 billion had been paid. The imposition of such severe haircuts meant that losses on the problematic assets of the banks were immediately crystallised. This in turn created significant capital shortfalls in the banks. The result, as described earlier, was that the Irish Government was then obliged to inject large amounts of capital into the banks in order for them to continue to meet their capital reserve requirements.

Classification of NAMAIL outside of the General Government Sector helped avoid the possibility that Irish GGDeficit levels could be artificially distorted as a result of loan foreclosures. Under the European System of Accounts (ESA), which is the legally binding manual upon which Government accounts are based, the acquisition or disposal of a non-financial asset will have an impact on the Government deficit. Also in the accounts, the foreclosure of collateralised loans are treated as two separate transactions, namely (1) the redemption of the original loan and (2) the acquisition of the underlying collateral (SNA93[8]. Para 12.40).

Most of the problematic loan assets held by NAMAIL are secured on physical assets, such as land and property. In the event of a default by a debtor, NAMAIL forecloses on the loans and acquires ownership of the assets provided as collateral. To give a simple example[9], if NAMAIL was included in the Government sector and foreclosed on a loan with a nominal value of €500 million, for which collateral worth €400 million had been provided, the statistical treatment in Government accounts would be as follows. Prior to foreclosure, NAMAIL's loan asset of €500 million would be written down in its balance sheet to €400 million, the value of the underlying collateral, using a revaluation account which has no impact on the Government deficit. The loan foreclosure would then be treated as two transactions namely (1) the imputed repayment of the €400 million loan, which has no impact on the deficit, followed by (2) the acquisition of the €400 million worth of non-financial assets used as collateral which, as mentioned above, will impact on the deficit. The net effect in this case is that the deficit is therefore worsened by €400 million. When NAMAIL sells the non-financial assets at a later date, it acquires cash of €400 million, improving the deficit once more. If these transactions took place in different years there would have been an artificial timing impact, with the GGDeficit worsening in the year the assets were acquired and improving in the year the assets were sold. The scale of loan foreclosures is so large that such timing differences could have significantly distorted Ireland's GGDeficit levels if NAMAIL had been classified within the Government sector.

8 System of National Accounts 1993.
9 See Annex for accounting example.

An added complication is that the GGDeficit would only have been affected if the land and property used as collateral were located in Ireland. In the ESA based national accounts, the ownership of land and property assets located in other countries is treated as an investment in a notional non-resident unit and is therefore considered to be a financial asset. This means that if on the foreclosure of a loan, the land and property acquired by NAMAIL is located overseas, its acquisition is treated in the national accounts as a financial transaction and would therefore not impact on the GGDeficit even if the agency was included in Government.

This potential for artificial distortions of the GGDeficit was avoided by having NAMAIL classified outside of the General Government sector. While this was not the criterion used for classification, it provides some support for the view that the extraordinary nature of the financial crisis and its potential for distorting underlying trends in the Government finance statistics justifies the temporary adaptation of some of the ESA95 national accounting rules in order to provide more stable statistics for EDP purposes.

4.3 Public ownership of banks

By the end of July 2011, the Irish State had provided €64 billion of capital to the six Irish banks[10]. These large capital injections mean that most of these banks are now owned by the State. In January 2009, Anglo was the first bank to pass into public ownership. This was followed in the middle of 2010 by EBS and INBS, and at the end of 2010 by AIB. At the start of 2011 the Government announced plans for the orderly winding down of both Anglo and INBS. Their deposit books have since been sold and their other activities combined into a single company which will be renamed the Irish Bank Resolution Corporation (IBRC). This entity will manage and dispose of the remaining assets over an extended period of up to ten years. This bank cannot enter into new business but has maintained a number of liened deposits and can issue loans related to its existing business customers.

The results of the stress tests for the other four domestic banks were published on 31 March 2011. These indicated that in total these banks could require up to €24 billion extra capital to satisfy the enhanced capital levels set by the Financial Regulator. Bank of Ireland raised part of their capital requirement with an investment from the private sector. In July 2011, the State provided €17.6 billion to the banking sector to meet the remainder of their capital requirements.

Since the stress tests were completed, AIB and EBS have been merged. This merged entity, along with BoI and IL&P, continue to operate as active banks. These three companies are classified as Financial Corporations and are excluded from the General Government sector.

On the other hand, classification of IBRC has proved somewhat more problematic. The Manual on Government Deficit and Debt (MGDD) states that publicly-owned financial defeasance companies that are newly established to manage impaired assets should be included in the General Government sector if the Government is at risk for losses that might be incurred on the assets in the future. During the financial crisis, existing public banks have been restructured in different ways and, in some cases, what now remains appears to have more of the features of a defeasance vehicle than an active credit institution.

In an effort to ensure a harmonised treatment of these entities by EU Member States, Eurostat issued guidelines in March 2011 for classifying publicly-owned banks. The basic principle to be applied was that when publicly-owned banks which managed impaired assets were restructured and were no longer actively performing as banks, they should be treated as defeasance structures and reclassified to the General Government sector. These guidelines were applied for the first time in the EDP reports at the end of March 2011. In practice, the guidelines were interpreted by Eurostat to mean that entities that were on the list of Monetary Financial Institutions (MFIs) maintained by the European Central

10 These were AIB, BoI, IL&P, EBS, Anglo and INBS.

Bank should continue to be treated as credit institutions and remain classified outside of General Government. This is in line with the accounting rules specified in Paragraphs 2.41 and 2.49 of the European System of Accounts (ESA95).

However, this interpretation of the guidelines meant that entities that were in many respects very similar were classified differently in the Government accounts at end-March 2011. In Ireland's case, Anglo had retained its banking licence and continued to be included on the MFI list, so it remained classified in the Financial Corporation sector (S.12). However, in the UK, Northern Rock had been split into a good bank and a bad bank, and the latter no longer had a banking licence and was reclassified into the General Government sector (S.13). To ensure transparency, Eurostat, when publishing the results of the March 2011 EDP reports, included a paper[11] which described the classification of those publicly-owned banks in Member States that were considered borderline cases.

The classification of a bank inside or outside of General Government can have a very significant impact on the levels of GGDebt which are measured in the EDP reports. The definition of debt used for EDP purposes is gross debt. If a 'bad bank' is reclassified into the General Government sector, its loan liabilities become part of the GGDebt and even though it may hold assets of a comparable value, these cannot be netted from the GGDebt reported in the EDP tables.

The classification criterion based on the MFI list is specifically established in the ESA95 and cannot be ignored. In addition, one consequence of having a full banking licence is the requirement to maintain an adequate amount of capital reserves. The capital injected by the Irish Government is sufficient to ensure that the requisite levels of reserves are held, and this is deemed sufficient to absorb any future losses. Notwithstanding this, there continues to be official discussions on the best way of dealing in practice with borderline cases. However, as an overall principle, the ESA favours a recording of transactions based on the economic reality rather than on legal form, so in some respects the holding of a banking licence and inclusion on the MFI list may not be an appropriate classification criterion.

5 The Financial Crisis and User Government Data Requirements

As described in the previous sections, the interventions carried out by Governments in the banking sector as a result of the financial crisis have led to enormous challenges for statisticians in terms of statistical recording. The financial turmoil and sovereign debt crisis however, mean that statisticians also face challenges in terms of users' requirements. Users of Government statistics require transparent information on the treatment in Government accounts of interventions in the banking sector, as well as Government's off-balance sheet exposures. Moreover, the financial turmoil and sovereign crisis mean that users need more timely debt and deficit statistics. This section explores how current Government statistics meet these challenges.

Since October 2009, Member States are required to provide Eurostat with a supplementary table on the treatment in the statistics of Government interventions resulting from the financial crisis from 2007 onwards. These tables are publicly available on Eurostat's website and inform users of the impact of the financial crisis on debt and deficit, as well as off-balance sheet Government guarantees. Eurostat further increased the transparency of the impact of the crisis on Government finance statistics by publishing a note on the supplementary tables in April 2011, including details of the classification of publicly-owned financial institutions. The supplementary tables provide a transparent guide to the treatment of government interventions in the accounts. There are two caveats to the tables however,

11 http://epp.eurostat.ec.europa.eu/portal/page/portal/government_finance_statistics/documents/Background%20note_fin%20crisis_Apr%202011_final.pdf.

in terms of timeliness and frequency. The tables are updated by countries bi-annually as part of the EDP reporting at t+3 months and t+9 months. This means that the tables are not always up-to-date with the latest impact of Government interventions on the statistics.

In the current economic environment, users require timely statistical information on Government finances. Currently, Member States are obliged to compile all government finance statistics at t+90 days. Under the forthcoming amendment of the EU Commission regulations governing this transmission however, there is scope for Member States to reduce the number of days at which they must provide Government statistics. While timelier data is of course desirable from the end-user's point of view, the potential impact this may have on quality must also be considered. Furthermore, there is a clear need for consistent treatment of relatively similar support measures across countries. The existing Eurostat proposals for re-routing assets and liabilities of bad banks through Government may enhance consistency, though major challenges remain for statisticians with regard to the issue of the valuation of impaired or illiquid assets.

6 Conclusion

Over the past three years, Government finances across the EU have undergone rapid change. All countries have seen their debt and deficit increase from 2007 levels. In addition, 20 of the 27 Member States have intervened to support the banking sector. It is clear however, that the impact of the financial crisis has not been homogenous across countries. In Ireland, fiscal imbalances resulting from the recession and the overexposure of Irish banks to the property market has meant that the support measures taken have been far more wide ranging and costlier than in other Member States. These have included guaranteeing the Irish banking sector, nationalising and restructuring distressed banks, creating an entity to manage impaired assets, and providing capital injections which so far total nearly 30 per cent of GDP. Our paper analyses the treatment of these measures in Government accounts. It shows that these interventions have increased debt by 5.3 per cent of GDP and 20.5 per cent of GDP for 2009 and 2010, respectively. In addition, the deficit was worsened by 2.5 per cent of GDP in 2009 and 20 per cent of GDP in 2010. The paper also highlights the ongoing issues at EU level to develop a framework to record all the diverse Government support measures for the financial sector, within a harmonised framework.

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ANNEX: Example of the recording of a loan foreclosure

After debtor default, NAMAIL forecloses on a loan of nominal value of €500 million which is backed by collateral in the form of property assets valued at €400 million. NAMAIL sells the property assets the following year also for €400 million.

Year 1							
NAMAIL				**Debtor**			
Opening Balance Sheet							
Assets		*Liabilities*		*Assets*		*Liabilities*	
AF.4 Loans	500					AF.4 Loans	500
Balance sheet adjustment prior to foreclosure							
Revaluation Account							
Assets		*Liabilities*		*Assets*		*Liabilities*	
AF.4 Loans	-100					AF.4 Loans	-100
Adjusted Balance Sheet							
Assets		*Liabilities*		*Assets*		*Liabilities*	
AF.4 Loans	400					AF.4 Loans	400
Recording of foreclosure							
Capital Account							
Uses		*Resources*		*Uses*		*Resources*	
P.51 Cap Formation	400					P.51 Cap Form	400
B.9 Net lending(+)/ borrowing(-)	-400			B.9 Net lending(+)/ borrowing(-)	+400		
Finance Account							
Uses		*Resources*		*Uses*		*Resources*	
F.4 Loans	-400					F.4 Loans	-400
		B.9 Net lending(+)/ borrowing(-)	-400			B.9 Net lending(+)/ borrowing(-)	+400
Closing Balance Sheet							
Assets		*Liabilities*		*Assets*		*Liabilities*	
AN.11 Fixed assets	400						

Year 2							
NAMAIL				**Debtor**			
Opening Balance Sheet							
Assets		*Liabilities*		*Assets*		*Liabilities*	
AN.11 Fixed assets	400						
Capital Account							
Uses		*Resources*		*Uses*		*Resources*	
		P.51 Cap Formation	400				
B.9 Net lending(+)/ borrowing(-)	+400						
Finance Account							
Uses		*Resources*		*Uses*		*Resources*	
F.2 Cash	+400						
		B.9 Net lending(+)/ borrowing(-)	+400				
Closing Balance Sheet							
Assets		*Liabilities*		*Assets*		*Liabilities*	

The codes used in the above accounting example are described in the European System of Accounts (ESA95) Manual. B.9 Net lending(+)/borrowing(-) of the General Government sector corresponds to the General Government Deficit/Surplus. In the above example, if NAMAIL was included in the General Government sector, the GGDeficit would be worsened by €400 million in year 1 and improved by the same amount in year 2.

Trends in the Irish Credit and Deposits Markets: A New Presentation

Martin O'Brien and Jean Goggin*

Abstract

This paper introduces the new *Trends in Business Credit and Deposits* and *Trends in Personal Credit and Deposits* statistical series first published by the Central Bank of Ireland in June 2011. An overview of the key concepts and the benefits of the new presentation are given, as well as exploring developments in the data itself from 2003 to the present. New features, such as comprehensive flows analysis, data on lending to small and medium sized enterprises, and further disaggregation of mortgage market activity, are discussed in detail.

* The authors are Economists in the Bank's Statistics Division. The views expressed are solely the views of the authors and are not necessarily those held by the Central Bank of Ireland or the European System of Central Banks. The authors would like to acknowledge the helpful comments of Aisling Menton, Joe McNeill and Maurice McGuire.

Section 1: Introduction

Tracking the interaction between the banking system and the rest of the economy is an important aspect of economic analysis. A particular area of interest is the levels of bank finance being accessed by the non-financial sectors of the economy, both businesses and private households, as well as the levels of financial assets, in the form of deposits, being placed by these non-financial sectors in the resident banking system. The Central Bank of Ireland has for many years provided statistics that allow for such analysis to be undertaken[1]. In June 2011, two comprehensive new data series were published in this area, *Trends in Business Credit and Deposits* and *Trends in Personal Credit and Deposits* (the *Trends* series). The purpose of this paper is to introduce these new series, explaining the benefits of the new presentation from both a methodological and analytical perspective.

The new series adopts a number of the methodological improvements introduced by the Central Bank in 2010 for the *Money and Banking Statistics* (McElligott and O'Brien, 2011). These include more meaningful measures for the underlying flow of bank credit and deposits, and resulting rates of change in these instruments over time, which allow for more accurate comparison with other economic indicators.

A full overview of the coverage, concepts, and benefits of the new series are first discussed in the paper, before turning to developments in the data itself over the period covered, from 2003 to the present. In this latter context, the paper outlines how these data provide a significantly more accurate reflection of the scale of credit growth in the period from 2003 to 2009, and the subsequent decline. Particular attention is paid to developments in credit extended to the property-related sectors of the economy, given the relative share of these sectors in total outstanding credit and in the overall economy during the period covered. Furthermore, the paper discusses in detail some of the new items covered for more recent quarters, such as lending to small and medium sized enterprises (SMEs) and more detailed analysis of the mortgage market by instrument type (tracker mortgages, standard variable rate mortgages, etc.).

Section 2: Coverage and Key Definitions Underpinning the *Trends* Series[2]

The *Trends* series aim to give a comprehensive overview of developments in the bank credit and deposits market in Ireland, broken down by the industry of the banks' counterparties in these markets, i.e. the industry of the resident banking system's customers. In moving to the publication of these series, a number of benefits and improvements have been achieved in terms of:

- Accessibility and comparability (data available for download in a workable format).
- Accuracy and market coverage (introduction of flows/transactions and incorporating credit unions in the data).
- Meeting specific data gaps (SME lending and greater mortgage market detail).

The data in the *Trends* series are consistent with that published on a monthly basis in *Money and Banking Statistics*. The data are compiled from a suite of information submitted to the Central Bank by all resident credit institutions, i.e. all banks, building societies and credit unions with a physical presence in the Republic of Ireland, irrespective of whether they are licensed by the Central Bank of Ireland or another EEA supervisory authority.

The key difference between *Money and Banking Statistics* and the *Trends* series is the definitions underpinning the sectoral breakdown of positions. *Money and Banking Statistics* use the institutional sector definition, which is based on the classifications provided in the European System of Accounts, 1995 (ESA 95).

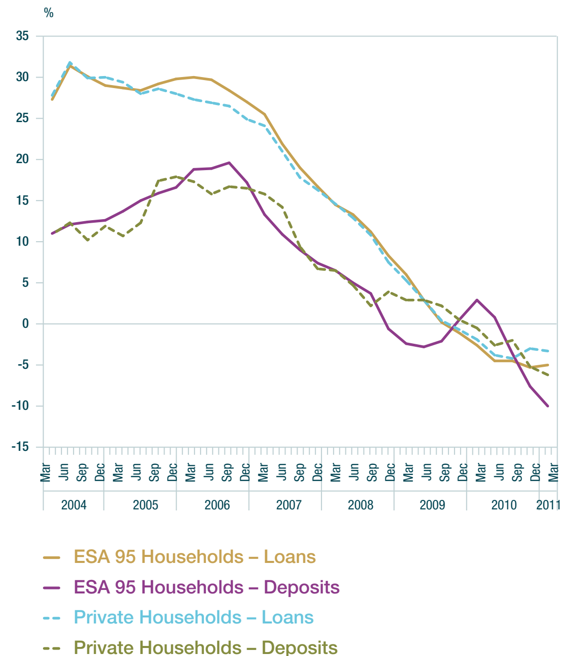
1 For example, former Table C8 (All Credit Institutions: Sectoral Distribution of Advances) and Table C9 (Credit Institutions: Sectoral Distribution of Advances and Deposits) of the Statistical Appendix in the Central Bank Quarterly Bulletin.

2 The data and detailed explanatory notes for the *Trends* series are available at http://www.centralbank.ie/polstats/stats/cmab/Pages/HouseholdCredit.aspx and http://www.centralbank.ie/polstats/stats/cmab/Pages/BusinessCredit.aspx. (Central Bank 2011b, 2011c).

Classifying counterparties on this basis depends upon the legal characteristics of the counterparty, i.e. what the counterparty *is* (non-financial corporation, insurance corporation, household, etc.). In contrast, the counterparty breakdown provided in the *Trends* series is derived from the functional NACE Rev.2[3] classification of economic activity, i.e. what the counterparty *does* (e.g. agriculture, manufacturing, construction, business services, etc.).

This difference is particularly important when considering developments in the ESA 95 Household sector used in *Money and Banking Statistics* and the Private Households sector used in the *Trends* series. The Household sector in ESA 95 consists of not just private individuals/families engaging with the banking system in their personal capacity, but also captures non-profit institutions serving households and small-scale non-incorporated producers of goods or services (e.g. sole traders). Chart 1 shows the development of the credit and deposits series for the two classifications over time. The *Trends* series separately isolates interaction by households with the banking system for personal purposes from the business-type activity included under the ESA 95 Household definition (e.g. borrowings of a sole trader for business purposes). The latter activity is classified according to the type of industrial activity undertaken (e.g. construction). These data constitute the *Trends in Business Credit and Deposits* series, showing credit and deposit developments for all enterprises, irrespective of their legal form. The data are presented by NACE Rev.2 category, which is comparable with a number of other economic statistics published for Ireland[4], thus allowing for their use in the policy spheres that deal with those aspects of the economy. The data are also broken down by size of enterprise, to facilitate monitoring of developments in SME lending by NACE Rev.2 category. This is further discussed in Section 4.

Chart 1: ESA 95 Households versus Private Households, Annual Rates of Change



Sources: *Table A.1 – Money and Banking Statistics* and *Table A.18 – Private Households Credit and Deposits*, Central Bank of Ireland.

By disaggregating the ESA 95 Household sector to deal specifically with Private Households in the quarterly *Trends* series it is possible to look in detail at the lending and deposits market for personal customers in Ireland. This is warranted as the incentives and conditions faced by Private Households in bank credit and deposits markets may differ somewhat from business customers. This is particularly the case with regards to products related to lending for house purchase. In this regard, *Trends in Personal Credit and Deposits* presents more detail on the developments in mortgage lending to Private Households by type of mortgage (principal dwelling, buy-to-let, second/holiday home) and, importantly, by the effective interest rate category applying to outstanding mortgages (tracker, standard variable, fixed over various periods), which are discussed in more detail in Section 5.

3 NACE Rev.2 is the official statistical classification of economic activities in the European Community, which is maintained by Eurostat. Details are available at http://epp.eurostat.ec.europa.eu/cache/ITY_OFFPUB/KS-RA-07-015/EN/KS-RA-07-015-EN.PDF.

4 For example: the National Employment Survey, Quarterly National Household Survey, Earnings and Labour Costs, Census of Industrial Production, Annual Services Inquiry, Industrial Production and Turnover, Capital Assets in Industry, all published by the Central Statistics Office.

Section 3: Conceptual and Methodological Benefits of the *Trends* Series

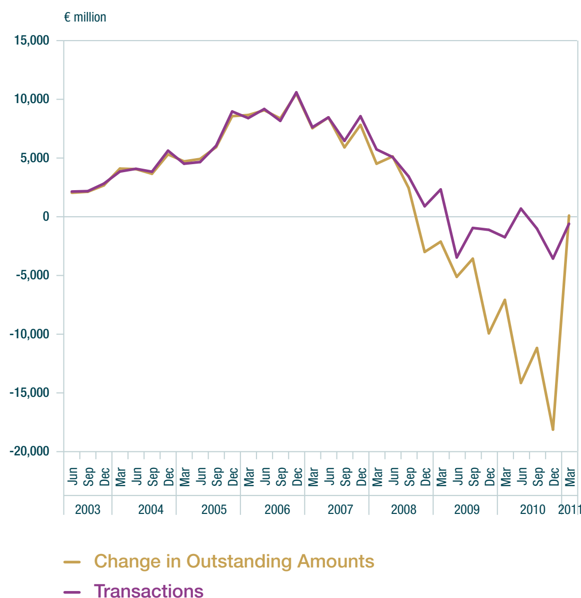
Apart from the coverage and definitional issues discussed above, the *Trends* series have been introduced to address a number of conceptual and methodological issues that restricted the use and meaningful interpretation of previously available data. These issues are similar to those addressed by the introduction of *Money and Banking Statistics* in 2010, and relate to the impact of non-transaction or underlying business related factors on the reported stock of credit and deposits from one period to another.

To understand credit and deposits market conditions within an economy, it is necessary to separate period-on-period changes in the on-balance sheet outstanding amounts as reported by credit institutions between those changes arising from underlying business transactions and those due to other factors. In particular, on-balance sheet items, for example credit (loans and securities held) and deposits, can change from quarter to quarter due to a number of factors:

- New lending/repayments (true transaction, or underlying business related events).
- Revaluation changes (write-downs/write-offs and changes in the carrying value of securities, where those securities are subject to fair-value reporting).
- Reclassifications (correcting for previous errors in the classification of loans/deposits) and changes in the reporting population.
- Securitisation and other loan transfers [e.g. transfers to the National Asset Management Agency (NAMA)].
- Exchange rate movements, which change the book value of non-euro denominated credit or deposits when reported in euro.

Developments in credit and deposits markets are best understood by examining underlying transactions (the derivation of which are described in Box 1), rather than comparing changes in outstanding amounts over time. This is especially true when examining developments in the past three to four years, when non-transaction effects are particularly significant. The difficulties in interpretation are highlighted in Chart 2, which compares the quarterly flow of credit advanced to private-sector enterprises (excluding the financial intermediation sector), after adjusting for non-transactions effects, with the quarterly change in on-balance sheet credit outstanding.

Chart 2: Credit to Irish Non-Financial Private-Sector Enterprises, Quarterly Change in Outstanding Amounts and Quarterly Transactions (Underlying Change)



Source: *Table A.14 – Trends in Business Credit and Deposits*, Central Bank of Ireland.

Without the adjustments to the change in outstanding amounts, any inference from the data would have been misleading, in particular since Q3 2007. The difference between the two series can be explained by the non-transaction related effects listed above – the inclusion or exclusion of which leads to significantly different rates of change being analysed. For example, at end-Q4 2010, credit advanced to non-financial private-sector enterprises had declined by an underlying 5 per cent year-on-year, compared with a decline in on-balance sheet outstanding amounts of 33.5 per cent over the same period. Much of the difference between changes in the outstanding amounts of credit to private-sector enterprises and the underlying flows were due to the recognition of impairments and the transfer of loans to NAMA during 2009 and 2010.

BOX 1: Transactions and Growth Rates in the *Trends* Series

The presentation of data in *Trends in Business Credit and Deposits* and *Trends in Personal Credit and Deposits* is, for the most part, consistent with that in *Money and Banking Statistics*. To calculate transactions, or flows (F_t), the following formula is used:

$$F_t = (0A_t - 0A_{t-1}) - RV_t - RC_t - FX_t - NF_t$$

Where OA refers to the outstanding amount on-balance sheet of the item in question; RV are any revaluation effects due to, for example, loan write-downs or changes in the market value of securities held; RC are any reclassification reported due to, for example, the correction of long-term reporting errors; FX are changes in the euro outstanding amounts of non-euro denominated items due to movement in exchange rates; and NF is the net flow of securitised or otherwise transferred loans to a non-credit institution.

To calculate annual rates of change, the following formula is used, which calculates the cumulative change resulting from quarterly transactions or flows.

$$\Delta\% = \left[\prod_{i=0}^{3} \left(1 + F_{t-i}^{Q} \big/ 0A_{t-1-i} \right) - 1 \right] \text{x } 100$$

Alternatively, a notional index of outstanding amounts can be constructed by setting a base period and indexing changes from that time with each quarterly underlying percentage change.

$$F_t^Q \big/ 0A_{t-1}$$

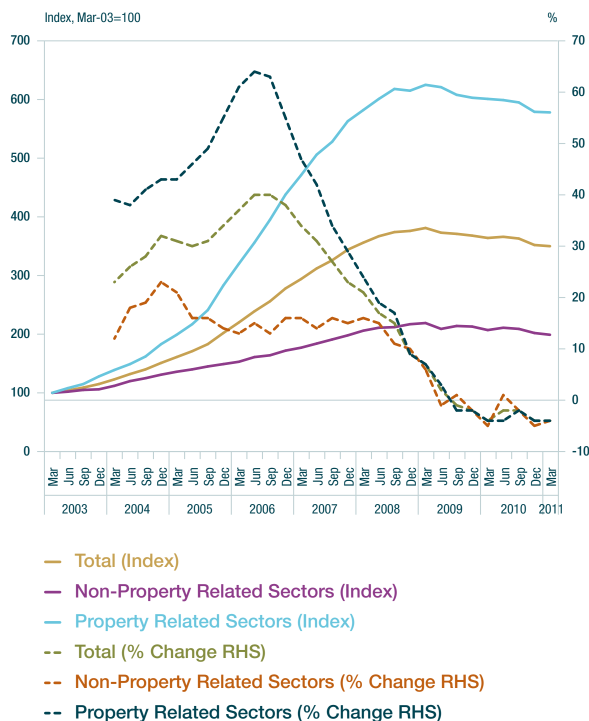
In essence changes over a four-quarter period in the notional index of outstanding amounts will be the same as those calculated using the first growth rate formula above. This notional index is applied to outstanding amounts for various categories of credit advanced to, and deposits received from private-sector enterprises in Ireland, as discussed in Section 4.

Excluding the non-transaction changes is, therefore, essential to interpreting the underlying flows of credit to the real economy. Similarly, underlying trends in deposits can be distorted by reclassifications or exchange-rate movements. The presentation of data in the *Trends* series allows for accurate flows analysis. The tables published present underlying transactions, as well as annual rates of change in the credit and deposits series based on these transactions. The methodology and formulae used to compile the growth rates are discussed in Box 1.

Section 4: Trends in Business Credit

In this section we discuss the developments in credit advanced to, and deposits received from Irish private-sector enterprises, as published in *Trends in Business Credit and Deposits*. Our analysis will focus on the relative importance of developments for the non-financial sectors of the economy (i.e. excluding financial intermediation), as this allows for more definitive analysis on the impact of bank finance on the real economy. In addition to this, retained securitisations and the holdings of NAMA bonds, which are reflected in the growth of credit advanced to the financial intermediation sector, reflect to a greater extent issues related to bank funding, as opposed to financing being made available to the real economy. Even within the non-financial sectors of the economy the experience will be heterogeneous, given the diverse financing and liquidity structures across the various goods and services industries (ECB, 2010).

Chart 3: Credit Advanced to Non-Financial Private-Sector Enterprises, Notional Index and Annual Rates of Change



Source: *Table A.14 – Trends in Business Credit and Deposits*, Central Bank of Ireland.

4.1 Credit advanced to Irish non-financial private-sector enterprises

Credit advanced to non-financial private-sector enterprises peaked in Q1 2009 (Chart 3), following successive years of growth dominated by lending to the property-related sectors of Construction, and Real Estate and Development. In the six years from Q1 2003 to Q1 2009, credit to the property-related sectors grew by 525 per cent, with annual growth exceeding 60 per cent in mid-2006. At the point in which the credit cycle peaked, lending to construction and real estate accounted for 65 per cent of all credit outstanding to non-financial private-sector enterprises. Total employment in the economy peaked earlier, in Q3 2007, according to figures from the Quarterly National Household Survey, published by the Central Statistics Office (CSO). At that time employment in the construction and real estate sectors accounted for 13 per cent of total employment. According to annual figures from the National Accounts, also published by the CSO, gross value added from the building and construction sector accounted for 9.3 per cent of total gross value added in 2007, the year in which total output in the economy peaked.[5]

Since the peak in credit, the outstanding amount of credit to the property-related sectors on the balance sheet of the resident credit institutions had declined by 47 per cent to end-Q1 2011. As discussed in Section 3 however, this does not reflect underlying business activity as it includes the impact of loan transfers to NAMA. Using the appropriate underlying business transactions it can be seen that credit to these sectors had declined by 7.5 per cent from Q1 2009 to Q1 2011. In contrast, employment in these sectors declined by 38.6 per cent over the same period. Most of the loans that were advanced to these sectors by Irish-owned banks have been transferred to NAMA, with the final transfers taking place in early 2011. The remaining credit to the Irish property-related sectors on the balance sheet of credit institutions in Ireland, post-NAMA transfers, is shown in Chart 4. The total of €58.6 billion is dominated by real estate development, which is evenly distributed between residential, commercial and mixed developments.

5 The statistics on credit and employment are both based on the NACE Rev.2 classification of economic activity and so the figures quoted above from these series refer to identical sectors (construction and real estate). The value added figures from the National Accounts are not based on the same classification system and therefore a direct comparison cannot be made. Value added data from the building and construction sector are used to illustrate the developments in construction-related output at this time.

Table 1: Credit Advanced to Non-Financial, Non-Property Related Private-Sector Enterprises

	Outstanding amount Q1 2011 (€bn)	Peak of credit cycle	Share at peak (%)	Growth Q1 2003 to peak (%)	Change from peak to Q1 2011 (%)
Total	41.7	Mar-09	100	119	-9
Agriculture	4.5	Sep-10	10	90	-3
Manufacturing	5.1	Jun-08	15	89	-25
Wholesale/Retail Trade and Repairs	9.5	Mar-09	24	181	-9
Transportation and Storage	1.6	Dec-08	5	113	-7
Hotels and Restaurants	8.1	Mar-10	21	142	-3
Business and Administrative Services	5.1	Dec-10	13	97	-7
Other Community, Social and Personal Services	2.3	Jun-08	5	166	-57
Sectors not listed	5.5	Mar-09	12	134	-7

Source: *Table A.14 – Trends in Business Credit and Deposits*, Central Bank of Ireland.

Chart 4: Outstanding Amount of Credit Advanced to the Irish Property-related Sectors, Q1 2011 (Total €58.6 bn)

Source: *Table A.14 – Trends in Business Credit and Deposits*, Central Bank of Ireland.

In comparison to developments in credit advanced to the property-related sectors, credit flows to non-property, non-financial private-sector enterprises were significantly smaller over the period Q1 2003, to their peak in Q1 2009. Despite this, growth in credit to these sectors was still substantial, and rose by almost 120 per cent from Q1 2003 to the Q1 2009 peak (Table 1). Over the two years since that peak, credit advanced to these sectors has declined by 9 per cent. Underlying this aggregate figure are some quite diverse experiences across different sectors. The most prominent non-financial, non-property related sectors are wholesale/retail trade, and hotels and restaurants. Both these sectors had also witnessed substantial increases in credit from Q1 2003 up to their respective peaks (181 per cent and 142 per cent) and have been substantially affected by the collapse in domestic demand in most recent years. However, credit advanced to wholesale/retail trade enterprises peaked a full year before that to hotels and restaurants, and since that peak has declined by 9 per cent, in comparison to a 3 per cent decline from peak for hotels and restaurants. It is interesting to note that despite the relatively larger contraction in credit advanced to the wholesale/retail trade sector, employment in that sector has declined to a much smaller extent than that in hotels and restaurants (7.8 per cent versus 16.8 per cent from their respective credit peaks to Q1 2011).

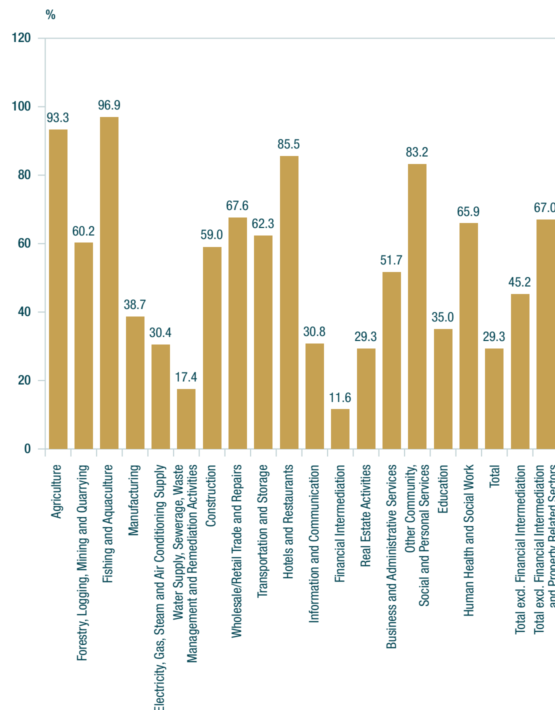
The earliest credit cycle peak recorded was for the manufacturing sector at Q2 2008, and since that point, credit advanced to the manufacturing sector has declined by 25 per cent. Manufacturing experienced one of the lowest rates of increase in credit over the period 2003 to mid-2008, and since that point has seen its share in overall credit advanced to the non-financial and non-property related sectors decline to approximately 12 per cent. From mid-2008 to Q1 2011 however, the volume of industrial

production in manufacturing has increased by approximately 5 per cent, and manufacturing's share in non-financial, non-property related employment has remained relatively stable around 18.5 per cent. The divergence between bank credit flows and the overall output of the manufacturing sector reflects, among other things, the diverse funding sources for the Irish resident manufacturing sector, which would not necessarily rely only on the banking system in Ireland for funding. This would be particularly the case for multi-national enterprises in the sector which are significant in terms of foreign direct investment and which have wider access to international financial markets. Indigenous firms, of all sectors, are more likely to be reliant on the resident banking system for financing requirements. This is particularly the case for SMEs.

4.2 Credit advanced to Irish SMEs

SMEs are an important source of employment and, given that they are more likely to be indigenous firms, are significant in terms of generating income that is retained domestically. Since Q1 2010, the Central Bank has collected and published data on the levels of activity in the bank credit market for Irish SMEs. The definition of an SME in *Trends* is the standard EU definition – an enterprise which employs fewer than 250 persons; and whose annual turnover does not exceed €50 million or whose annual balance sheet does not exceed €43 million. This is also the definition used in the Code of Conduct for Business Lending to SMEs and by the Credit Review Office. The importance of SMEs in terms of total credit provided by sector is shown in Chart 5. Unsurprisingly, in traditional sectors such as agriculture and hotels/restaurants, the vast majority of credit advanced to these sectors is to SMEs. This contrasts with sectors such as manufacturing, and information and communication, which would typically have larger and potentially foreign-owned multinational enterprises. Focussing on the non-financial and non-property related sectors, 67 per cent of total credit advanced is to SMEs.

Chart 5: SME Share in Total Credit Advanced to Irish Private-Sector Enterprises, Four-quarter Average



Sources: *Table A.14, Table A.14.1 – Trends in Business Credit and Deposits*, Central Bank of Ireland.

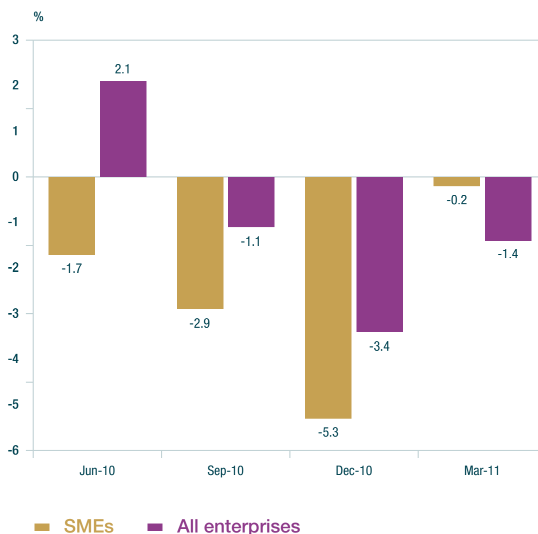
The outstanding amount of loans advanced to Irish SMEs by resident credit institutions was €58.2 billion at end-March 2011. This included lending to certain financial vehicle corporations in the financial intermediation sector, as their balance sheet size brings them into the SME category. Excluding the financial intermediation sector, loans outstanding to SMEs totalled €46.2 billion at end-March, a decline of €864 million during the quarter (1.8 per cent) and €6.9 billion over the year ending March 2011 (12.2 per cent).[6] The annual decline in credit outstanding to non-financial SMEs over the year ending March 2011 has been much more pronounced than that to all enterprises in aggregate (3.9 per cent). The greater contraction in credit to SMEs is not unusual, as these enterprises would have been more reliant on bank financing in advance of the banking crisis, and would have also been significantly more exposed to the collapse in domestic demand during the recession. The contraction in

6 The impact of the exit of Bank of Scotland (Ireland) from the market at end-2010 is adjusted for in the flows and growth rates presented in *Business Credit and Deposits*.

credit reflects both demand and supply-side developments, as lenders apply tighter credit standards. From a policy perspective, it is essential that viable demand for credit from SMEs is not constrained by supply-side problems and this is among the objectives in the restructuring of the domestically-controlled banking system.

It has been highlighted that a significant number of SME customers are exposed to the wider problems in the Irish real estate sector through other investments outside of their core activities (Central Bank, 2011a). This may in part explain the 9.7 per cent decline in credit advanced to SMEs in non-property related sectors over the year ending Q1 2011. For three of the four quarters from Q2 2010 to Q1 2011, SME credit contracted to a greater extent than credit to all enterprises in the non-property, non-financial sectors. This was not the case, however, in Q1 2011 (Chart 6).

Chart 6: Quarter-on-Quarter Rates of Change in Credit Advanced to Irish Private-Sector Enterprises and SMEs (excl. Financial Intermediation and Property-Related Sectors)



Sources: *Table A.14, Table A.14.1 – Trends in Business Credit and Deposits*, Central Bank of Ireland.

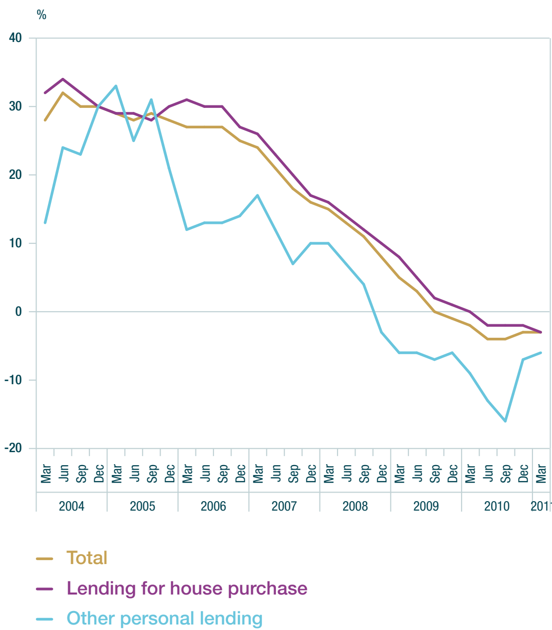
The manner in which the data on SMEs is compiled allows the Central Bank to calculate a measure for gross new lending (i.e. draw-downs of new facilities, excluding restructuring or renegotiations of existing facilities)[7] to SME counterparties. Over the year ending Q1 2011, gross new lending to non-financial SMEs totalled €3 billion, with €777 million of that being issued to SMEs in the property-related sectors of construction and real estate. New lending to non-property, non-financial SMEs of €2.3 billion during the year was concentrated in agriculture (24 per cent), wholesale/retail trade (20 per cent) and business and administrative services (14 per cent). Gross new lending to non-property, non-financial related SMEs over the year to Q1 2011 was equivalent to just under 7 per cent of the outstanding amount of credit to these SMEs at end-Q1 2010. Combining the gross new lending detail with the net flow, or transactions in SME lending over the year, it is possible to construct estimates of the repayment activity on SME loans over the period. Doing this for the non-financial, non-property SME sectors shows that loan repayments were approximately €5.6 billion over the period, which is equivalent to 16 per cent of end-Q1 2010 stock.

Section 5: Trends in Private Household Credit

By separating private households from the ESA 95 Household sector, the *Trends* series is better placed to track developments in lending to personal customers in Ireland. The distinction between the two categorisations has become especially important in recent quarters (see Chart 1), as lending to non-incorporated businesses, which are in the ESA 95 Household sector, has contracted at a faster pace than lending to Private Households. This is consistent with the trends seen in lending to SMEs discussed in Section 3, as some of these SMEs would be included in the ESA 95 Household sector.

7 New sanctions or agreements relating to restructuring may be higher than the amounts of new facilities drawn-down by customers in a given period. Gross new lending would include however, funds drawn-down following a restructuring or renegotiation of an existing facility that were not included in credit advanced at the end of the previous quarter. The Credit Review Office has reported that loan sanctions to SMEs, including restructuring of existing business, was €8 billion in the year ending March for the credit institutions under its remit (Allied Irish Bank and Bank of Ireland).

Chart 7: Annual Rates of Change in Lending to Irish Private Households



Source: *Table A.18 – Private Households Credit and Deposits*, Central Bank of Ireland.

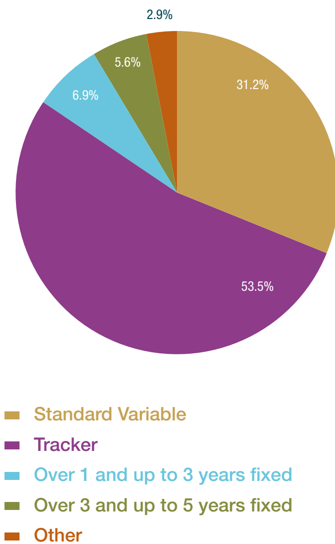
Looking at developments in lending to private households over time, it is clear that the aggregate movements are dominated by lending for house purchase, which is unsurprising as this has for many years accounted for over 80 per cent of household lending. Other personal lending, which would include consumer credit, loans for investment or education purposes, etc., tends to be much more volatile given the smaller absolute amounts in question and the shorter maturity of this kind of lending. The net flow of other personal lending has been negative for 11 of the 12 quarters ending in Q1 2011, and has been contracting on an annual basis since end-2008. While the pace of contraction in other personal lending has eased in recent quarters, it is still likely, given the wider deleveraging by the household sector and the expectations for further declines in personal consumption, that this form of lending will continue to decrease for some time to come.

Turning to mortgage market developments, *Trends in Personal Credit and Deposits*, gives more detailed breakdowns of the mortgage market by type of mortgage (principal dwelling, buy-to-let, second/holiday home) and, importantly, by the effective interest rate category applying to outstanding mortgages (tracker, standard variable, fixed over various periods). The rapid pace of growth in lending for house purchase during Ireland's property boom has been well documented, and the importance of buy-to-let and second/holiday home mortgages in this growth has been noted (Kelly and Menton, 2007). However, previously published data did not allow for easy measurement of the underlying flows of mortgages by mortgage type, particularly in accounting for the impact of securitisation. As well as this, previously available information did not make it possible to distinguish between the outstanding level of mortgages issued by credit institutions that were on a tracker rate (i.e. explicitly linked to the ECB main refinancing operations rate) from other floating rate products. These dis-aggregations are now available and allow for analysis of the mortgage market across the product type and effective interest rate distribution.

In aggregate, loans for house purchase have been declining consistently since Q1 2010, with the annual rate of change being minus 2.6 per cent at end-Q1 2011, bringing the outstanding amount of loans for house purchase on-balance sheet at that point in time to €98.9 billion. The outstanding amount of securitised mortgages was €35.1 billion at end-March 2011. Floating rate mortgages, which include standard variable rate, tracker rate, and mortgages with a fixed rate up to one year[8], accounted for 86 per cent of the outstanding amount of loans for house purchase on-balance sheet at end-March 2011. Tracker mortgages by themselves accounted for 53.5 per cent of outstanding loans for house purchase to Irish residents on the credit institutions' balance sheet. The share of fixed rate mortgages in the outstanding amount of loans for house purchase rose during Q1 2011, as there was a net increase of just over €1 billion in fixed rate mortgages during the quarter, whereas floating rate mortgages declined by almost €1.7 billion.

8 Loans with interest rates fixed for a period up to 1 year are included with floating rate loans in line with international practice.

Chart 8: Distribution of Loans for House Purchase On-Balance Sheet – end-Q1 2011[9]



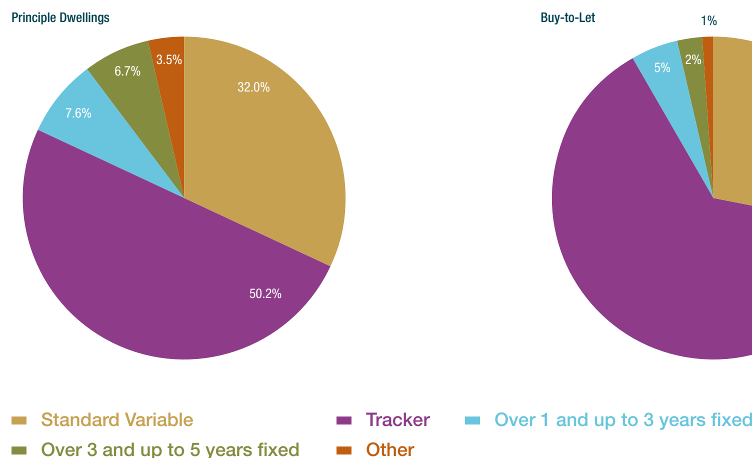
Standard Variable
Tracker
Over 1 and up to 3 years fixed
Over 3 and up to 5 years fixed
Other

Source: *Table A.18 – Private Households Credit and Deposits*, Central Bank of Ireland.

Loans for principal dwellings accounted for 74 per cent of on-balance sheet loans for house purchase at end-Q1 2011. This share has been increasing since end-2009 as activity in the buy-to-let mortgage market contracted. The amount of loans for principal dwellings declined over Q1 2011 by €54 million, as a net flow of minus €977 million of floating rate loans (1.6 per cent) was only partially offset by a rise of €923 million in fixed rate loans (8.5 per cent). Floating rate mortgages accounted for 83.9 per cent of the outstanding amount of loans for principal dwelling house purchase at end-March 2011 (32 per cent standard variable, 50.2 per cent trackers, 1.6 per cent up to 1 year fixed). The outstanding amount of on-balance sheet loans for buy-to-let residential properties was €24.6 billion at end-March 2011, accounting for 24.9 per cent of all loans for house purchase. There was a decline of €559 million in these loans during Q1 2011 (2.2 per cent). Floating rate mortgages accounted for 92 per cent of the outstanding amount of loans for buy-to-let residential properties at end-March (28.1 per cent standard variable, 63.7 per cent trackers, 0.2 per cent up to 1 year fixed).

Using the mortgage market detail provided in *Trends* and the information on retail interest rate developments published by the Central Bank (Table B.1.2), it is possible to estimate the annual servicing costs facing Irish private households for mortgages issued to them by Irish resident credit institutions. Doing these calculations for end-March 2011 shows an annual servicing cost of approximately €4 billion.

Chart 9: Distribution of Principal Dwelling and Buy-to-Let Mortgages – end-Q1 2011

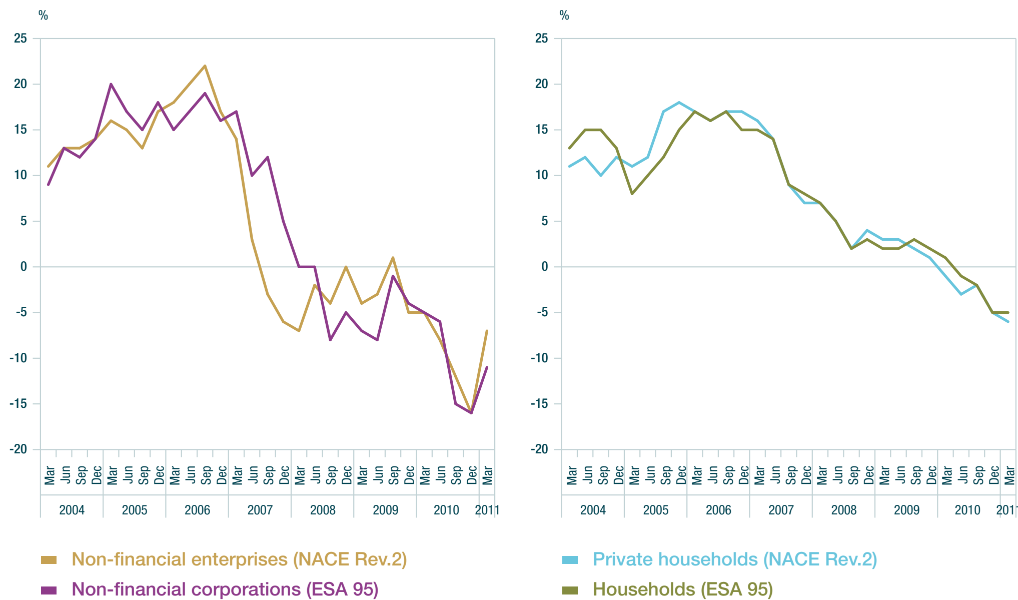


Standard Variable
Tracker
Over 1 and up to 3 years fixed
Over 3 and up to 5 years fixed
Other

Source: *Table A.18.1 – Private Households Credit and Deposits*, Central Bank of Ireland.

9 The distribution of securitised mortgages by interest rate-type is similar to that of mortgages that remain on credit institutions' balance sheets as loans.

Chart 10: Annual Rates of Change in Irish Private-Sector Deposits



Sources: *Table A.1, Table A.16* and *Table A.18*, Central Bank of Ireland.

Section 6: Deposits from Non-Financial Private-Sector Enterprises and Private Households

As well as the detail on credit, developments in deposits from enterprises can give indirect insights into the trading conditions being faced by non-financial businesses, as well as structural issues in the banking system itself. A similar argument can be made for examining trends in private household deposits, although analysing these separately is important as the incentives facing, and behaviour of, private households can be quite different from businesses – for example the greater need to use long-term savings products.

Looking at the developments evident in the *Trends* series, and comparing them with those published in *Money and Banking Statistics* highlights this point, particularly in terms of developments for all enterprises versus developments for the sub-set of enterprises that are corporations (Chart 10). The rate of change in deposits from Irish non-financial private-sector enterprises slowed and turned negative much earlier than that of deposits from non-financial corporations. This suggests that smaller, non-incorporated enterprises were beginning to run down their deposits to a much greater extent than corporations through 2007 and into 2008. This was particularly the case for enterprises in the property-related sectors, whose deposits contracted by 11 per cent in the year ending March 2008. Non-incorporated depositors appeared to be less reactive to wider deposit outflows from the banking system during mid-2008 when compared with non-financial corporation depositors. Since 2009 however, the rates of change in deposits from both non-financial enterprises and the sub-set of enterprises that are corporations have moved at similar trajectories.

In terms of analysing the ESA 95 Household sector deposits and the Private Household deposits series, it can be seen that the two have moved in tandem for most of the time period covered in the *Trends* series. The only time in which they were significantly different was during 2005 and 2006, and this may relate to higher rates of deposits being placed in SSIA deposit accounts during that period by Private Households. The rate of change in deposits from both private households and the ESA 95 Household sector slowed gradually from mid-2006 to end-2009, and have been on a contractionary trajectory since early 2010.

Section 7: Conclusion

Trends in Business Credit and Deposits and *Trends in Personal Credit and Deposits* provide comprehensive and consistent data in a user-friendly format. The methodology for compiling transactions and growth rates results in a more meaningful analysis of the interaction between the resident banking system and the domestic real economy. The new data series offers significant new information for policy purposes.

For enterprises, and particularly for SMEs, it shows credit developments by industry-type and facilitates linking these data with other variables, such as employment and output, at industry level. The availability of both deposits and credit data by industry-type, as well as information on gross new lending for SMEs, highlights which industries have greater access to credit and which are more dependent on existing and alternative resources to finance their activities. It also allows better estimation of overall credit requirements for the economy, based on which industries are generating growth.

The more detailed mortgage data by instrument type facilitates greater analysis of, for example, the impact of changes in interest rates on the different product types on the overall cost of servicing residential mortgages in Ireland. Having comprehensive detail on the share of tracker mortgages in the market is particularly informative in this regard.

As the Irish economy enters a recovery phase through 2011 and 2012, the *Trends* series will provide a useful source of information on how interaction with the banking system by the domestic real economy sectors is supporting this recovery.

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Section A

Money and Banking

Table A.1: Summary Irish Private Sector Credit and Deposits

	Credit Advanced to Irish Private sector						
	Households				Non-financial corporations		
		Loans for house purchase	Consumer credit	Other loans		Loans	Securities
	1	2	3	4	5	6	7
Outstanding amounts – € million							
2010							
July	139,200	107,385	20,705	11,110	113,830	112,934	897
August	139,078	107,411	20,604	11,063	109,969	109,057	912
September	139,096	107,813	20,400	10,883	107,754	106,861	894
October	138,165	107,524	20,028	10,613	104,100	103,355	745
November	137,593	107,127	19,767	10,699	94,706	93,955	751
December	130,318	99,578	19,950	10,790	92,562	92,431	131
2011							
January	129,370	99,289	18,609	11,473	92,652	92,524	129
February	131,001	99,080	18,531	13,390	91,096	90,965	131
March	130,520	98,851	18,272	13,397	90,035	89,912	124
April	129,920	98,627	17,921	13,373	89,045	88,923	122
May	129,510	98,371	17,783	13,356	89,069	88,946	123
June	129,352	98,335	17,700	13,317	89,133	88,959	174
July	128,692	98,020	17,417	13,256	89,480	89,301	179
Transactions – € million							
2010							
July	-703	-149	-568	15	-549	-549	-1
August	-278	-197	-84	3	-496	-496	–
September	-279	-86	-158	-35	-404	-404	–
October	-767	-192	-386	-189	-460	-317	-143
November	-193	-212	-271	291	-190	-184	-6
December	-494	-179	-321	6	-723	-636	-87
2011							
January	-674	-284	-384	-5	-12	-26	14
February	-298	-212	-78	-8	-107	-104	-2
March	-385	-147	-206	-32	-11	-4	-7
April	-571	-214	-341	-15	-707	-708	1
May	-449	-262	-156	-31	-93	-87	-6
June	-196	-127	-69	–	275	343	-68
July	-709	-334	-292	-83	169	158	10
Growth rates – per cent							
2010							
July	-4.7	-1.6	-14.3	-22.1	-1.1	-0.8	-34.7
August	-4.2	-1.2	-13.8	-21.9	-1.1	-0.8	-35.4
September	-4.5	-1.6	-14.1	-20.6	-2.0	-1.6	-42.8
October	-4.8	-1.6	-14.9	-23.1	-2.3	-1.8	-50.9
November	-4.8	-1.7	-15.8	-20.5	-2.4	-1.9	-48.9
December	-5.3	-2.1	-17.0	-21.0	-2.2	-1.8	-39.3
2011							
January	-5.1	-2.3	-15.6	-20.9	-1.7	-1.4	-30.1
February	-5.1	-2.7	-14.5	-18.7	-1.8	-1.5	-27.3
March	-5.0	-2.6	-14.9	-16.2	-1.5	-1.3	-27.1
April	-4.6	-2.0	-15.3	-16.6	-2.5	-2.3	-23.9
May	-4.8	-2.1	-15.7	-16.6	-2.8	-2.6	-27.4
June	-3.9	-2.2	-14.3	0.2	-3.3	-3.0	-67.2
July	-3.9	-2.4	-13.4	-0.6	-2.7	-2.4	-65.3

Table A.1 – *continued*

Insurance corporations and pension funds/Other financial intermediaries			Irish Private Sector Deposits: Total				
	Loans	Securities		Households	Non-financial corporations	Insurance corporations and pension funds/ Other financial intermediaries	
8	9	10	11	12	13	14	
							Outstanding amounts – € million
							2010
96,354	39,879	56,475	179,345	97,184	36,383	45,778	July
98,084	40,367	57,717	178,696	96,470	36,469	45,757	August
96,164	38,653	57,512	175,259	96,221	34,937	44,101	September
98,273	38,381	59,891	176,695	96,242	35,255	45,198	October
105,625	40,331	65,294	172,161	93,951	35,277	42,933	November
111,718	38,559	73,160	168,299	94,620	33,537	40,141	December
							2011
110,668	37,707	72,961	166,912	93,957	33,578	39,377	January
110,197	37,914	72,284	165,163	93,259	33,213	38,691	February
110,140	37,047	73,093	162,983	92,803	32,151	38,029	March
105,735	34,916	70,819	164,937	92,813	31,580	40,544	April
113,345	43,212	70,133	172,495	92,133	31,655	48,707	May
113,805	43,845	69,961	168,153	92,215	30,906	45,033	April
112,818	43,198	69,620	167,378	91,795	31,073	44,510	July
							Transactions – € million
							2010
1,663	-317	1,980	-443	-16	-547	121	July
1,682	39	1,642	-948	-743	-17	-187	August
-624	-446	-178	-2,661	-180	-1,246	-1,235	September
2,403	16	2,387	1,578	34	372	1,172	October
6,205	907	5,298	-5,205	-2,353	-221	-2,631	November
5,651	-1,718	7,369	-2,971	572	-680	-2,864	December
							2011
-855	-607	-249	-1,202	-472	-79	-652	January
-439	-4	-434	-1,750	-734	-319	-697	February
-471	-363	-109	-1,833	-424	-929	-480	March
-2,167	-1,600	-566	2,283	37	-292	2,538	April
-838	-186	-652	-752	-709	-36	-8	May
785	-398	1,183	-4,289	27	-741	-3,575	April
-1,276	-1,025	-251	-1,008	-445	95	-657	July
							Growth rates – per cent
							2010
12.7	-10.3	37.8	-0.1	-1.8	-9.2	12.1	July
8.7	-9.4	25.7	-1.9	-3.0	-13.1	11.3	August
9.8	-8.8	27.3	-3.6	-1.9	-14.8	2.8	September
13.3	-8.2	33.4	-4.1	-2.4	-15.4	2.5	October
21.3	-5.0	45.8	-6.7	-4.5	-14.9	-4.3	November
27.4	-9.9	62.6	-7.6	-4.7	-16.1	-6.5	December
							2011
27.3	-10.5	62.7	-8.0	-5.5	-15.3	-7.1	January
24.5	-9.5	54.5	-9.8	-6.1	-14.3	-14.2	February
25.3	-7.8	53.8	-10.0	-5.4	-10.6	-19.0	March
18.1	-10.8	40.8	-9.1	-5.6	-10.3	-15.2	April
13.2	-10.6	30.7	-8.7	-5.7	-10.9	-13.1	May
13.8	-11.5	32.6	-10.0	-5.1	-13.0	-17.3	April
10.6	-12.9	27.5	-10.4	-5.6	-11.4	-18.7	July

Table A.2: Financial Statement of the Central Bank of Ireland

Assets

		Gold and Receivables	Lending to euro area credit institutions relating to monetary policy operations in euro						
				Main refinancing operations	Longer-term refinancing operations	Fine-tuning reverse operations	Structural reverse operations	Marginal lending facility	Credits related to margin calls
Outstanding amounts – € million									
2010									
27 August	130,410	195	95,061	31,400	62,671	–	–	990	–
24 September	161,368	195	119,106	55,235	62,671	–	–	1,200	–
29 October	185,815	185	130,039	61,510	68,529	–	–	–	–
26 November	202,401	185	136,436	62,135	73,764	–	–	537	–
31 December	204,453	204	132,010	63,655	56,025	12,330	–	–	–
2011									
28 January	198,522	204	126,010	56,110	69,900	–	–	–	–
25 February	208,431	204	116,924	33,445	66,390	–	–	17,089	–
25 March	202,725	204	114,495	26,935	84,170	–	–	3,390	–
29 April	181,656	194	106,130	23,730	82,400	–	–	–	–
27 May	177,445	194	102,345	26,490	75,805	–	–	50	–
24 June	180,067	194	103,000	30,620	72,180	–	–	200	–
29 July	175,999	202	97,593	27,455	70,138	–	–	–	–
26 August	175,931	202	97,878	24,490	73,388	–	–	–	–

Liabilities

		Banknotes in circulation	Liabilities to euro area credit institutions relating to monetary policy operations in euro						Other liabilities to euro area credit institutions in euro
				Current accounts (covering the minimum reserve system)	Deposit facility	Fixed-term deposits	Deposits related to margin calls	Fine-tuning reverse operations	
Outstanding amounts – € million									
2010									
27 August	130,410	12,028	12,116	9,991	1,442	683	–	–	–
24 September	161,368	11,952	12,534	7,346	3,467	1,721	–	–	–
29 October	185,815	11,932	14,627	11,475	652	2,500	–	–	–
26 November	202,401	12,206	8,196	6,086	110	2,000	–	–	–
31 December	204,453	12,293	11,414	8,264	3,150	–	–	–	–
2011									
28 January	198,522	11,589	9,577	8,577	–	1,000	–	–	–
25 February	208,431	12,038	8,787	7,517	20	1,250	–	–	–
25 March	202,725	11,999	7,541	6,241	100	1,200	–	–	–
29 April	181,656	12,186	8,329	5,722	600	2,000	7	–	–
27 May	177,445	12,012	6,201	4,837	164	1,200	–	–	–
24 June	180,067	12,226	8,249	8,140	109	–	–	–	–
29 July	175,999	12,497	7,889	5,456	1,233	1,200	–	–	–
26 August	175,931	12,428	8,834	6,665	169	2,000	–	–	–

Table A.2 – *continued*

Assets

Other claims on euro area credit institutions in euro	Claims on euro area residents in foreign currency	Claims on non-euro area residents in euro	Claims on non-euro area residents in foreign currency	Securities of other euro area residents in euro	General Government debt in euro	Other assets
473	181	1,388	1,558	17,176	–	14,378
313	148	1,142	1,555	17,714	–	21,195
721	135	1,118	1,399	17,612	–	34,606
463	107	1,334	1,429	17,773	–	44,674
514	142	883	1,382	18,224	–	51,094
501	113	1,022	1,412	18,138	–	51,122
195	142	1,341	1,380	18,177	–	70,068
348	205	1,169	1,353	18,161	–	66,790
598	185	861	1,274	18,268	–	54,146
483	200	1,076	1,264	18,184	–	53,699
343	181	1,157	1,285	18,241	–	55,666
529	189	1,163	1,277	18,079	–	56,967
181	153	1,201	1,308	19,059	–	55,949

Liabilities

Debt certificates issued	Liabilities to other euro area residents in euro	Liabilities to non-euro area residents in euro	Liabilities to euro area residents in foreign currency	Liabilities to non-euro area residents in foreign currency	Counterpart of Special Drawing Rights allocated by the IMF	Revaluation Accounts	Capital and reserves	Other liabilities
–	26,714	27	–	–	934	264	1,531	76,796
–	25,919	15	–	–	934	264	1,531	108,219
–	23,716	12	–	–	884	225	1,531	132,888
–	26,438	15	–	–	884	225	1,531	152,906
–	15,890	10	–	–	897	229	1,531	162,189
–	23,983	22	–	–	897	229	1,531	150,694
–	25,639	22	–	–	897	229	1,697	159,122
–	23,070	22	–	–	897	229	1,720	157,247
–	8,359	22	–	–	865	201	1,723	149,971
–	7,915	20	–	–	865	201	1,723	148,508
–	10,328	26	–	–	865	201	1,723	146,449
–	9,339	26	–	–	858	201	1,723	143,466
–	11,279	19	–	–	858	201	1,723	140,589

Table A.4: Credit Institutions – Aggregate Balance Sheet

Total Assets

		Loans to Irish residents				Holdings of securities issued by Irish residents			
			Monetary financial institutions	General government	Private Sector		Monetary financial institutions	General government	Private Sector
	15	16	17	18	19	20	21	22	23
Outstanding amounts – € million									
2010									
July	1,317,279	479,501	172,924	14,565	292,013	93,884	27,936	8,576	57,372
August	1,342,229	486,046	174,175	23,369	288,503	97,687	29,604	9,454	58,629
September	1,311,672	488,736	181,029	23,098	284,609	97,089	27,879	10,804	58,405
October	1,240,482	472,623	169,882	22,840	279,901	92,991	21,276	11,079	60,637
November	1,228,246	457,104	162,604	22,620	271,879	94,354	16,990	11,318	66,046
December	1,168,008	467,544	174,629	31,607	261,308	101,700	16,602	11,808	73,290
2011									
January	1,121,751	449,254	158,130	31,523	259,601	101,330	16,167	12,074	73,089
February	1,114,576	453,806	162,308	31,618	259,880	101,518	18,073	11,031	72,415
March	1,084,828	436,343	150,110	28,754	257,479	100,373	16,159	10,996	73,217
April	1,052,086	418,065	135,507	28,799	253,759	97,840	16,708	10,191	70,941
May	1,038,964	401,513	110,950	28,896	261,667	97,105	16,653	10,195	70,257
June	1,023,188	403,616	113,097	28,364	262,155	96,826	16,392	10,299	70,135
July	1,029,006	405,683	115,043	29,449	261,192	96,545	16,285	10,462	69,799

Total Liabilities

		Deposits from Irish residents				Debt securities issued		
			Monetary financial institutions	General government	Private Sector	Irish resident	Euro area	Rest of the world
	32	33	34	35	11	36	37	38
Outstanding amounts – € million								
2010								
July	1,317,279	350,249	167,786	3,118	179,345	53,925	26,469	92,857
August	1,342,229	351,679	169,916	3,068	178,696	54,028	26,358	94,829
September	1,311,672	355,063	176,672	3,132	175,259	47,202	23,525	77,353
October	1,240,482	343,001	163,092	3,214	176,695	39,602	22,982	72,487
November	1,228,246	332,129	156,630	3,338	172,161	35,334	22,862	71,579
December	1,168,008	346,605	174,895	3,410	168,299	33,885	22,418	63,510
2011								
January	1,121,751	325,832	155,971	2,949	166,912	33,627	21,799	62,007
February	1,114,576	328,298	159,993	3,142	165,163	34,477	21,470	60,006
March	1,084,828	319,475	147,589	8,902	162,983	32,451	20,866	56,958
April	1,052,086	319,505	132,878	21,690	164,937	32,026	20,465	56,583
May	1,038,964	300,727	106,640	21,592	172,495	32,070	22,445	55,853
June	1,023,188	300,675	110,985	21,538	168,153	31,742	21,501	52,278
July	1,029,006	281,577	111,909	2,290	167,378	32,177	21,288	50,454

Table A.4 – *continued*

Loans to non-residents		Holdings of securities issued by non-residents		Central bank balances		Remaining assets		
Euro area	Rest of the world	Euro area	Rest of the world	Resident	Non-resident	Resident	Non-resident	
24	107	131	145	28	29	30	31	
								Outstanding amounts – € million
								2010
88,174	269,019	136,698	162,980	17,392	2	34,384	35,295	July
93,471	283,596	137,478	166,672	9,986	2	26,947	40,393	August
98,773	263,195	133,156	158,121	11,560	102	24,067	36,924	September
153,757	235,598	104,396	108,923	15,800	2	23,323	33,119	October
125,849	249,412	119,316	103,181	11,740	2	34,328	33,011	November
114,793	229,328	85,927	99,489	12,319	–	27,537	29,421	December
								2011
111,402	214,568	82,876	96,455	9,396	–	28,323	28,197	January
108,564	209,430	80,491	94,935	9,161	–	28,666	28,055	February
114,425	197,484	78,573	89,303	10,272	–	31,035	27,047	March
115,521	188,947	76,756	85,841	9,241	–	32,814	27,086	April
109,820	193,037	77,897	88,184	9,168	–	34,686	27,583	May
109,000	186,843	74,375	83,229	7,287	–	36,158	25,879	May
106,389	190,430	73,415	83,917	8,784	–	36,098	27,770	May

Deposits from non-residents		Capital & reserves		Borrowing from the Eurosystem relating to monetary policy operations	Remaining liabilities		
Euro area	Rest of the world	Resident	Non-resident		Resident	Non-resident	
39	40	41	42	43	45	46	
							Outstanding amounts – € million
							2010
226,149	306,975	60,643	29,864	89,454	36,783	43,911	July
228,358	313,361	59,054	29,826	95,062	36,692	52,982	August
215,333	292,055	57,868	29,526	121,138	47,912	44,697	September
179,938	272,475	57,129	29,302	130,039	51,513	42,013	October
178,122	247,289	63,022	27,106	138,199	69,690	42,915	November
151,799	195,287	84,793	26,304	132,010	72,924	38,474	December
							2011
153,336	180,885	79,838	25,684	126,010	77,297	35,436	January
147,882	171,235	82,568	25,210	116,137	93,207	34,086	February
145,118	166,102	79,980	23,936	111,120	97,328	31,495	March
135,611	163,391	81,306	23,843	106,130	80,674	32,552	April
133,141	167,116	84,149	23,639	102,335	83,727	33,762	May
131,593	159,409	88,413	22,192	100,363	84,045	30,977	May
133,577	162,150	109,466	21,479	97,593	85,395	33,851	May

Table A.4.1: Credit Institutions (Domestic Group) – Aggregate Balance Sheet

Total Assets

		Loans to Irish residents				Holdings of securities issued by Irish residents			
			Monetary financial institutions	General government	Private Sector		Monetary financial institutions	General government	Private Sector
	15	16	17	18	19	20	21	22	23
Outstanding amounts – € million									
2010									
July	784,683	418,280	128,814	13,769	275,697	76,226	14,750	8,461	53,015
August	781,731	419,651	125,251	22,573	271,827	80,112	16,483	9,328	54,301
September	767,398	421,159	130,541	22,302	268,316	79,830	15,016	10,680	54,134
October	761,852	413,758	127,516	22,279	263,964	83,557	15,244	10,955	57,358
November	766,635	404,352	126,956	22,209	255,187	89,214	15,240	11,198	62,775
December	742,475	398,567	123,071	31,299	244,197	96,783	15,028	11,687	70,069
2011									
January	720,794	393,209	118,972	31,217	243,020	96,522	14,637	11,953	69,931
February	726,155	401,469	126,706	31,312	243,451	96,798	16,682	10,898	69,218
March	704,132	386,313	116,413	28,448	241,452	95,885	14,946	10,866	70,072
April	691,338	379,877	113,132	28,493	238,252	93,355	15,466	10,062	67,827
May	662,566	356,349	90,595	28,590	237,164	92,616	15,403	10,067	67,146
June	653,898	357,646	91,750	28,060	237,836	92,654	15,177	10,184	67,292
July	657,813	360,035	93,532	29,147	237,356	92,395	15,079	10,335	66,981

Total Liabilities

		Deposits from Irish residents				Debt securities issued		
			Monetary financial institutions	General government	Private Sector	Irish Resident	Euro Area	Rest of the world
	32	33	34	35	11	36	37	38
Outstanding amounts – € million								
2010								
July	784,683	304,471	131,367	3,112	169,991	42,464	13,408	42,263
August	781,731	301,650	129,318	3,067	169,265	42,650	13,474	40,934
September	767,398	303,922	134,712	3,131	166,080	35,751	11,013	23,977
October	761,852	303,395	133,503	3,212	166,681	34,827	10,353	23,406
November	766,635	297,035	133,266	3,337	160,432	34,554	10,771	22,348
December	742,475	292,065	131,543	3,408	157,114	33,423	10,208	20,647
2011								
January	720,794	283,298	124,745	2,922	155,632	33,174	10,000	19,812
February	726,155	289,553	132,840	3,128	153,584	34,028	9,896	18,969
March	704,132	282,471	122,012	8,902	151,557	32,012	9,753	17,844
April	691,338	292,953	117,687	21,683	153,582	31,602	9,710	17,602
May	662,566	268,771	94,368	21,585	152,818	31,639	9,863	17,258
June	653,898	268,590	99,833	21,533	147,223	31,310	8,904	16,980
July	657,813	248,569	100,146	2,283	146,140	31,741	8,919	16,755

Table A.4.1 – *continued*

Loans to non-residents		Holdings of securities issued by non-residents		Central bank balances		Remaining assets		
Euro area	Rest of the world	Euro area	Rest of the world	Resident	Non-resident	Resident	Non-resident	
24	107	131	145	28	29	30	31	
								Outstanding amounts – € million
								2010
10,335	157,269	21,709	48,159	11,922	2	30,554	10,226	July
10,677	159,438	21,860	48,191	7,582	2	23,482	10,737	August
9,816	150,200	21,069	45,856	9,524	2	19,775	10,167	September
10,251	145,727	19,676	46,444	12,491	2	20,161	9,785	October
10,698	154,354	19,094	38,994	9,738	2	30,598	9,591	November
9,267	141,963	17,601	37,612	8,293	–	23,878	8,512	December
								2011
9,425	128,791	15,700	37,105	6,814	–	25,105	8,123	January
9,109	124,536	16,090	37,053	7,436	–	25,278	8,386	February
9,459	117,211	15,085	35,022	8,434	–	27,888	8,836	March
11,445	113,244	13,370	34,161	7,720	–	29,527	8,639	April
8,716	113,717	12,950	34,238	7,513	–	28,042	8,426	May
8,757	108,515	11,321	32,434	5,512	–	29,268	7,791	June
9,130	108,223	11,964	32,417	6,047	–	29,812	7,789	July

Deposits from non-residents		Capital & reserves		Borrowing from the Eurosystem relating to monetary policy operations	Remaining liabilities		
Euro area	Rest of the world	Resident	Non-resident		Resident	Non-resident	
39	40	41	42	43	45	46	
							Outstanding amounts – € million
							2010
29,799	194,251	40,290	10,991	58,319	32,620	15,808	July
29,644	193,129	38,255	10,938	60,419	32,356	18,281	August
24,374	178,470	37,847	11,186	82,988	43,392	14,478	September
22,428	170,614	37,150	10,882	85,654	48,021	15,123	October
17,618	155,013	41,917	8,655	97,319	65,877	15,529	November
16,216	121,065	63,522	7,842	94,550	69,485	13,452	December
							2011
17,143	108,965	59,043	7,004	96,050	74,106	12,200	January
17,118	99,119	61,707	6,772	88,697	89,739	10,557	February
16,428	93,821	59,415	6,044	82,775	94,034	9,534	March
15,104	91,952	61,171	5,992	77,790	77,523	9,940	April
14,151	91,105	62,523	5,615	74,445	77,074	10,123	May
13,584	85,095	66,921	4,294	71,950	77,657	8,613	June
13,277	86,819	89,769	3,640	70,390	79,252	8,682	July

Table A.14: Credit Advanced to Irish Resident Private-Sector Enterprises

	Outstanding amounts – € million				
	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11
1. Primary Industries	5,249	5,539	5,486	5,343	5,316
1.1 Agriculture	4,326	4,631	4,595	4,503	4,465
1.1.1 Growing of crops, market gardening, horticulture	..	..	..	483	491
1.1.2 Farming of animals	..	..	..	2,896	2,872
1.1.3 Other agricultural activities	..	..	..	1,124	1,102
1.2 Forestry, logging, mining and quarrying	605	598	575	488	506
1.3 Fishing and aquaculture	318	310	316	352	345
2. Manufacturing	6,296	6,198	5,718	5,268	5,130
2.1 Manufacture of food, beverages and tobacco products	..	..	..	2,440	2,153
2.2 Wood, pulp, paper, paper products, printing and reproduction of recorded media	..	..	..	635	637
2.3 Chemicals, rubber/plastic products, other non-metallic mineral products	..	..	..	707	746
2.4 Pharmaceutical products and preparations, medical and dental instruments and supplies	..	..	..	81	109
2.5 Fabricated metal products, except machinery and equipment	..	..	..	76	127
2.6 Computer, electronic and optical products	..	..	..	79	91
2.7 Production, installation and repair of commercial machinery/equipment, not including computers	..	..	..	415	423
2.8 Other manufacturing	..	..	..	835	845
3. Electricity, Gas, Steam and Air Conditioning Supply	748	777	622	982	1,046
4. Water Supply, Sewerage, Waste Management and Remediation Activities	120	122	107	128	129
5. Construction	5,010	4,719	4,248	3,289	3,383
5.1 Construction of buildings carried out on contract	..	..	..	1,634	1,550
5.2 Civil engineering activities carried out on contract	..	..	..	571	717
5.3 Other construction activities	..	..	..	1,084	1,116
6. Wholesale/Retail Trade & Repairs	11,891	11,747	11,493	9,720	9,506
6.1 Sale, maintenance/repair of motor vehicles, retail sale of fuel	1,950	1,911	1,794	1,692	1,646
6.2 Wholesale trade and commission trade (except vehicles)	2,552	2,482	2,383	1,745	1,646
6.3 Retail trade (except vehicles), repair of personal/ household goods	6,157	6,059	6,022	5,305	5,267
6.4 Other wholesale/retail	1,231	1,294	1,294	978	946
7. Transportation and Storage	2,423	2,544	2,270	1,568	1,639
7.1 Land, water and air transport	..	..	..	957	994
7.2 Postal, courier, warehousing and support activities for transportation	..	..	..	306	310
7.3 Other transportation and storage	..	..	..	304	336
8. Hotels and Restaurants	10,578	9,970	9,418	7,949	8,107
8.1 Hotels	6,172	5,683	5,190	4,218	4,434
8.2 Restaurants	745	711	693	619	618
8.3 Bars	3,131	3,035	2,993	2,746	2,689
8.4 Other accommodation and catering	530	541	542	367	366
9. Information and Communication	647	651	621	636	638
9.1 Publishing of printed material	..	..	..	210	182
9.2 Audio-visual production and publishing, programming and broadcasting activities	..	..	..	46	51
9.3 Telecommunications and information service activities	..	..	..	266	262
9.4 Software publishing, computer programming, consultancy and related activities	..	..	..	113	142
9.5 Other information and communication	..	..	..	1	1

* For metadata and explanatory notes see: http://www.centralbank.ie/polstats/stats/cmab/Documents/Business_Credit_and_Deposits_Explanatory Notes_Jun11.pdf.

** For commentary on most recent developments see: http://www.centralbank.ie/polstats/stats/cmab/Pages/releases.aspx.

Table A.14 – *continued*

Transactions – € million					Annual Growth rates – per cent.				
Mar-10	Jun-10	Sep-10	Dec-10	Mar-11	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11
-209	440	82	-104	-7	-9.5	0.6	1.9	3.9	7.8
-190	426	76	-99	-17	-7.8	1.9	3.8	4.8	8.8
..	..	..	..	9	..	..	..	..	..
..	..	..	..	-5	..	..	..	..	..
..	..	..	..	-21	..	..	..	..	..
-13	14	-8	-9	18	-20.0	-3.2	-7.3	-2.7	3.0
-5	1	14	4	-7	-8.2	-7.9	-4.7	4.6	4.1
-415	111	-348	-103	-83	-13.8	-4.7	-9.5	-11.4	-7.2
..	..	..	..	-235	..	..	..	..	..
..	..	..	..	3	..	..	..	..	..
..	..	..	..	38	..	..	..	..	..
..	..	..	..	28	..	..	..	..	..
..	..	..	..	51	..	..	..	..	..
..	..	..	..	13	..	..	..	..	..
..	..	..	..	8	..	..	..	..	..
..	..	..	..	11	..	..	..	..	..
-300	53	-140	403	64	-30.8	-9.7	-33.3	3.9	54.1
-36	6	-13	1	1	-20.5	-15.5	-29.7	-26.9	-4.6
-392	-170	-146	-1,905	133	-27.6	-25.4	-24.3	-51.9	-46.3
..	..	..	..	-48	..	..	..	..	..
..	..	..	..	147	..	..	..	..	..
..	..	..	..	34	..	..	..	..	..
-307	258	91	-492	-186	-6.3	0.4	1.2	-3.9	-3.3
-7	38	-65	42	-38	-5.1	2.9	-0.4	0.4	-1.5
-190	21	-21	-129	-96	-16.3	-6.7	-8.2	-11.8	-10.6
-149	80	128	-171	-21	-4.0	-0.2	1.4	-1.8	0.1
39	119	47	-234	-31	4.9	16.2	25.6	-3.9	-9.9
-69	211	-210	-71	140	-6.1	3.3	-6.0	-6.0	5.2
..	..	..	..	87	..	..	..	..	..
..	..	..	..	10	..	..	..	..	..
..	..	..	..	45	..	..	..	..	..
123	-144	-195	-242	234	3.6	2.2	-1.2	-4.7	-3.0
124	-153	-255	-247	240	3.8	1.3	-5.2	-9.5	-6.2
23	-13	4	11	1	3.3	2.9	3.7	3.5	0.5
17	-3	43	55	-8	2.3	2.6	4.3	3.7	2.9
-40	26	13	-60	-1	10.6	9.8	6.3	-11.0	-4.7
-135	20	-9	140	-3	-30.1	-27.0	-20.9	3.5	24.0
..	..	..	..	-28	..	..	..	..	..
..	..	..	..	-2	..	..	..	..	..
..	..	..	..	-3	..	..	..	..	..
..	..	..	..	29	..	..	..	..	..
..	..	..	..	0	..	..	..	..	..

Table A.14 – *continued*

	Outstanding amounts – € million				
	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11
10. Financial Intermediation (Excl. Monetary Financial Institutions)	83,857	93,238	93,318	109,179	107,865
10.1 Financial leasing	..	..	..	1,485	1,674
10.2 Non-bank credit grantors, excluding credit unions	..	..	..	12,851	10,912
10.3 Investment funds, excluding financial vehicle corporations and money market funds	..	..	..	419	828
10.4 Financial vehicle corporations (FVCs)	..	..	..	57,924	43,096
10.5 Life insurance	..	..	..	4,480	4,494
10.6 Pension funding	..	..	..	84	74
10.7 Non-life insurance	..	..	..	274	150
10.8 Security broker/fund management	..	..	..	4,565	4,255
10.9 Other financial intermediation/unallocated	..	..	..	27,096	42,382
11. Real Estate, Land and Development Activities	89,078	76,535	67,999	55,361	55,265
11.1 Property investment/development of residential real estate	..	..	..	19,130	16,254
11.2 Property investment/development of commercial real estate	..	..	..	15,456	17,266
11.3 Property investment/development of mixed real estate	..	..	..	16,422	17,348
11.4 Investment in unzoned land	..	..	..	1,010	998
11.5 Other real estate activities	..	..	..	3,344	3,399
12. Business and Administrative Services	5,728	4,868	4,736	5,522	5,134
12.1 Legal, accounting and management consultant activities	..	..	..	1,591	1,319
12.2 Architectural and engineering activities, technical testing and analysis	..	..	..	162	153
12.3 Scientific research and development	..	..	..	29	29
12.4 Rental and leasing activities, services to buildings and landscape activities	..	..	..	149	136
12.5 Employment, office administration and business support activities	..	..	..	227	285
12.6 Other business and administrative services	..	..	..	3,365	3,212
13. Other Community, Social and Personal Services	2,621	2,522	2,416	1,665	2,289
13.1 Recreational, cultural and sporting activities	..	..	..	896	942
13.2 Membership organisations (business, employers, professional, trade unions, religious, political)	..	..	..	219	317
13.3 Other service activities	..	..	..	550	1,030
14. Education	815	864	785	725	674
15. Human Health and Social Work	2,463	2,461	2,423	2,049	2,062
15.1 Hospitals and medical practice activities	..	..	..	1,380	1,370
15.2 Residential care activities	..	..	..	401	314
15.3 Other health and social work	..	..	..	269	379
16. Extra-Territorial Organisations and Bodies	..	..	..	11	1
17. Total	227,524	222,755	211,660	209,395	208,184
17.1 Total ex Financial Intermediation	143,667	129,517	118,342	100,216	100,319
17.2 Total ex Financial Intermediation and Property Related Sectors	49,579	48,263	46,095	41,566	41,671

* For metadata and explanatory notes see: http://www.centralbank.ie/polstats/stats/cmab/Documents/Business_Credit_and_Deposits_ Explanatory Notes_Jun11.pdf.

** For commentary on most recent developments see: http://www.centralbank.ie/polstats/stats/cmab/Pages/releases.aspx.

Table A.14 – *continued*

Transactions – € million					Annual Growth rates – per cent.				
Mar-10	Jun-10	Sep-10	Dec-10	Mar-11	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11
2,894	7,037	2,365	14,552	-2,265	1.6	10.0	9.5	33.0	25.8
..	..	..	..	188	..	..	..	..	..
..	..	..	..	-1,939	..	..	..	..	..
..	..	..	..	409	..	..	..	..	..
..	..	..	..	-16,155	..	..	..	..	..
..	..	..	..	16	..	..	..	..	..
..	..	..	..	-10	..	..	..	..	..
..	..	..	..	-104	..	..	..	..	..
..	..	..	..	-329	..	..	..	..	..
..	..	..	..	15,660	..	..	..	..	..
45	-186	-319	-109	-166	-1.9	-1.8	-0.4	-0.7	-1.1
..	..	..	..	-426	..	..	..	..	..
..	..	..	..	-54	..	..	..	..	..
..	..	..	..	244	..	..	..	..	..
..	..	..	..	17	..	..	..	..	..
..	..	..	..	53	..	..	..	..	..
161	-23	252	331	-382	-1.0	13.0	1.6	15.2	4.3
..	..	..	..	-268	..	..	..	..	..
..	..	..	..	-9	..	..	..	..	..
..	..	..	..	0	..	..	..	..	..
..	..	..	..	-9	..	..	..	..	..
..	..	..	..	58	..	..	..	..	..
..	..	..	..	-156	..	..	..	..	..
-80	-27	-36	-1,053	-307	-2.9	-3.5	-3.9	-46.6	-55.1
..	..	..	..	-346	..	..	..	..	..
..	..	..	..	30	..	..	..	..	..
..	..	..	..	9	..	..	..	..	..
-16	67	-55	-171	-49	17.7	15.4	1.5	-22.2	-26.1
-114	76	34	-179	24	-2.3	5.1	3.4	-7.3	-2.1
..	..	..	..	-5	..	..	..	..	..
..	..	..	..	-82	..	..	..	..	..
..	..	..	..	111	..	..	..	..	..
..	..	..	..	-10	..	..	..	..	..
1,150	7,729	1,353	10,992	-2,862	-2.3	2.4	2.3	10.0	7.9
-1,744	692	-1,012	-3,560	-597	-4.4	-1.9	-2.1	-4.4	-3.9
-1,397	1,048	-547	-1,546	-564	-5.4	1.1	-2.3	-5.0	-3.8

Table A.16: Deposits from Irish Resident Private-Sector Enterprises

	Outstanding amounts – € million				
	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11
1. Primary Industries	2,706	2,580	2,555	3,030	2,753
2. Manufacturing	5,049	5,622	4,751	4,704	4,585
3. Electricity, Gas, Steam and Air Conditioning Supply	935	807	681	765	566
4. Water Supply, Sewerage, Waste Management and Remediation Activities	202	220	244	45	58
5. Construction	2,830	2,637	2,464	2,282	1,903
6. Wholesale/Retail Trade & Repairs	4,247	4,477	4,150	4,435	4,124
7. Transportation and Storage	3,177	3,181	3,108	2,842	2,294
8. Hotels and Restaurants	620	658	738	665	634
9. Information and Communication	1,352	1,392	1,381	1,062	1,035
10. Financial Intermediation (Excl. Monetary Financial Institutions)	50,758	47,727	45,312	40,395	38,305
11. Real Estate, Land and Development Activities	6,127	6,226	6,000	6,227	4,756
12. Business and Administrative Services	6,047	5,848	5,737	5,041	7,195
13. Other Community, Social and Personal Services	4,715	4,641	4,709	4,473	4,348
14. Education	1,795	1,708	1,763	1,840	1,929
15. Human Health and Social Work	2,271	2,162	1,839	1,174	1,248
16. Extra-Territorial Organisations and Bodies	9	0	0	0	2
17. Total	92,840	89,886	85,432	78,980	75,735

* For metadata and explanatory notes see: http://www.centralbank.ie/polstats/stats/cmab/Documents/Business_Credit_and_Deposits_Explanatory Notes_Jun11.pdf.

** For commentary on most recent developments see: http://www.centralbank.ie/polstats/stats/cmab/Pages/releases.aspx.

Table A.16 – *continued*

Transactions – € million					Growth rates – per cent.				
Mar-10	Jun-10	Sep-10	Dec-10	Mar-11	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11
-167	-190	-6	491	-277	0.0	-11.6	-10.3	4.1	0.5
-721	536	-812	2	-119	2.1	11.6	-15.7	-17.2	-7.7
95	-140	-118	92	-199	21.4	-29.7	-24.9	-8.2	-39.0
-15	18	24	-190	13	-3.4	-3.4	11.5	-75.1	-65.5
-266	-228	-157	-165	-377	2.2	-6.1	-17.6	-26.3	-32.6
-352	185	-292	169	-311	7.3	6.5	2.5	-6.3	-5.6
-20	-59	-37	-202	-548	-1.3	-6.1	-7.8	-9.9	-26.8
-37	26	86	-149	-31	-6.5	-4.3	4.2	-11.3	-10.4
-294	39	1	-204	-74	-15.3	-14.8	-14.1	-27.9	-18.4
3,821	452	-1,698	-4,247	-2,099	16.8	20.1	3.1	-4.6	-16.4
-1,293	20	-184	305	281	-15.0	-16.9	-20.5	-15.5	6.9
-1,107	-243	-63	-696	2,154	-20.9	-18.3	-18.6	-29.5	19.1
30	-150	91	-236	-125	1.3	-3.9	-0.7	-5.6	-8.9
125	-109	64	99	89	-0.5	-1.0	5.4	10.6	7.9
-8	-129	-313	-607	74	-0.8	-7.6	-22.7	-46.2	-42.6
-1	-9	0	0	2	-24.5	-100.0	..	..	..
-210	19	-3,414	-5,538	-1,547	5.8	6.1	-4.4	-10.2	-11.8

Table A.18: Credit Advanced to and Deposits from Irish Private Households

	Total Lending									
		Lending for house purchase								
			Floating rate				Fixed rate			
				Standard variable	Tracker	Up to 1 year fixed		Over 1 and up to 3 years	Over 3 and up to 5 years	Over 5 years
Outstanding amounts – € million										
2009										
December	135,720	110,210	95,137	..	..	..	15,073	6,906	5,715	2,452
2010										
March	133,020	109,434	93,832	..	..	..	15,603	6,899	5,677	3,026
June	129,513	107,676	92,160	..	..	..	15,516	7,621	6,318	1,578
September	128,256	107,813	92,451	..	..	..	15,362	7,338	6,546	1,478
December	122,185	99,578	86,715	32,073	53,320	1,322	12,863	6,163	5,169	1,531
2011										
March	119,592	98,851	84,974	30,843	52,880	1,251	13,877	6,774	5,513	1,590
Transactions – € million										
2009										
December	-630	15	..	..	..	..	..	..	..	..
2010										
March	-1,405	-115	..	..	..	..	..	..	..	..
June	-2,287	-1,172	..	..	..	..	..	..	..	..
September	-1,384	-432	..	..	..	..	..	..	..	..
December	1,080	-583	..	..	..	..	..	..	..	..
2011										
March	-1,641	-643	-1,664	-1,223	-401	-40	1,021	614	347	60
Growth rates – per cent.										
2009										
December	-0.7	0.6	..	..	..	..	..	..	..	..
2010										
March	-1.9	-0.2	..	..	..	..	..	..	..	..
June	-3.8	-1.5	..	..	..	..	..	..	..	..
September	-4.2	-1.6	..	..	..	..	..	..	..	..
December	-3.0	-2.1	..	..	..	..	..	..	..	..
2011										
March	-3.3	-2.6	..	..	..	..	..	..	..	..

* For metadata and explanatory notes see: http://www.centralbank.ie/polstats/stats/cmab/Documents/Private_Households_Credit_and_Deposits_Explanatory Notes_Jun11.pdf.

** For commentary on most recent developments see: http://www.centralbank.ie/polstats/stats/cmab/Pages/releases.aspx.

Table A.18 – *continued*

Total Lending			Total Deposits	
Other personal	Finance for investment	Finance for other purposes		
				Outstanding amounts – € million
				2009
25,510	2,211	23,299	94,109	December
				2010
23,585	2,064	21,521	93,411	March
21,837	1,927	19,910	92,722	June
20,443	1,709	18,734	91,371	September
22,607	2,864	19,743	89,217	December
				2011
20,741	2,854	17,887	87,455	March
				Transactions – € million
				2009
-645	-267	-378	1,103	December
				2010
-1,290	-81	-1,209	-865	March
-1,115	3	-1,118	-891	June
-952	-125	-827	-1,229	September
1,663	95	1,568	-1,959	December
				2011
-998	-77	-921	-1,696	March
				Growth rates – per cent.
				2009
-6.1	-40.2	0.7	0.5	December
				2010
-8.9	-35.2	-5.0	-0.5	March
-12.9	-10.1	-13.1	-2.6	June
-15.6	-18.4	-15.2	-2.0	September
-6.5	-4.8	-6.6	-5.2	December
				2011
-5.8	-3.8	-6.1	-6.2	March

Table A.19.1: All Credit Institutions: International Business: Analysis by Currency and Sector

	31 March 2011	30 June 2011
Assets		
1. Analysis by currency		
Irish residents in non-euro	39,241	36,111
US Dollar	18,380	16,841
Sterling	16,834	16,563
Other	4,028	2,707
Non-residents in non-euro	238,406	231,318
US Dollar	92,329	89,755
Sterling	116,801	113,808
Other	29,277	27,755
Non-residents in euro	233,125	214,478
2. Analysis by sector		
Irish residents in non-euro		
Monetary financial institutions	9,244	8,198
Non-monetary financial institutions	29,997	27,913
Non-residents in non-euro		
Monetary financial institutions	121,093	114,211
Non-monetary financial institutions	117,313	117,107
Non-residents in euro		
Monetary financial institutions	123,655	109,422
Non-monetary financial institutions	109,470	105,056
3. Total international business	**510,772**	**481,906**

Table A.19.1 – *continued*

	31 March 2011	30 June 2011
Liabilities		
1. Analysis by currency		
Irish residents in non-euro	25,931	24,744
US Dollar	12,933	11,172
Sterling	8,972	10,460
Other	4,027	3,111
Non-residents in non-euro	170,840	161,784
US Dollar	72,322	66,872
Sterling	73,740	71,277
Other	24,778	23,636
Non-residents in euro	218,689	202,998
2. Analysis by sector		
Irish residents in non-euro		
Monetary financial institutions	11,050	10,663
Non-monetary financial institutions	14,881	14,081
Non-residents in non-euro		
Monetary financial institutions	115,600	107,161
Non-monetary financial institutions	55,241	54,623
Non-residents in euro		
Monetary financial institutions	165,629	154,393
Non-monetary financial institutions	53,059	48,605
3. Total international business	**415,460**	**389,526**

Table A.19.2: All Credit Institutions: International Business: Analysis by Geographic Area

	Liabilities			Assets			
	Euro	Non-euro	Total	Euro	Non-euro	Total	Net external liabilities[a]
	30 June 2011						
1. EU Countries	**189,575**	**157,255**	**346,829**	**203,452**	**194,749**	**398,201**	**-40,004**
MU Countries	**119,685**	**58,154**	**177,839**	**162,241**	**56,129**	**218,371**	**-29,164**
Austria	139	56	195	1,893	183	2,076	-1,881
Belgium	33,885	11,783	45,668	4,726	1,552	6,278	39,389
Luxembourg	536	635	1,171	3,746	1,193	4,939	-3,768
Finland	23	72	95	860	225	1,085	-989
France	22,459	3,758	26,217	18,668	5,168	23,836	2,381
Germany	40,467	4,765	45,232	48,452	1,993	50,445	-5,213
Greece	5	16	20	959	219	1,178	-1,158
Ireland	–	24,744	24,744	–	36,111	36,111	–
Italy	11,793	572	12,365	44,429	4,608	49,036	-36,672
Netherlands	7,037	11,509	18,546	12,849	1,966	14,815	3,731
Portugal	49	3	52	1,866	6	1,872	-1,820
Spain	2,675	129	2,803	22,227	2,524	24,751	-21,948
Other MU[b]	618	114	732	1,567	381	1,948	-1,216
Other EU	**69,890**	**99,100**	**168,990**	**41,210**	**138,620**	**179,830**	**-10,840**
Denmark	3,905	326	4,230	2,211	1,259	3,470	761
Sweden	74	382	456	614	1,453	2,067	-1,611
United Kingdom	65,871	98,324	164,196	35,792	132,759	168,551	-4,356
Other EU	39	68	108	2,593	3,149	5,742	-5,635
2. Other Europe	**1,812**	**5,122**	**6,934**	**1,779**	**8,622**	**10,401**	**-3,467**
Switzerland	1,689	4,823	6,511	420	5,159	5,580	932
Other Europe	123	299	423	1,359	3,463	4,821	-4,399
3. Other Industrial Countries	**8,698**	**13,261**	**21,959**	**6,540**	**52,089**	**58,629**	**-36,670**
Australia, New Zealand, South Africa	84	374	458	833	3,390	4,224	-3,766
Canada	84	1,361	1,446	553	4,017	4,571	-3,125
Japan	184	42	226	261	3,057	3,318	-3,091
United States	8,346	11,483	19,829	4,892	41,625	46,517	-26,688
4. Offshore Centres	**2,517**	**9,075**	**11,591**	**435**	**5,817**	**6,251**	**5,340**
5. Other	**397**	**1,816**	**2,212**	**2,273**	**6,152**	**8,425**	**-6,212**
Grand Total	**202,998**	**186,528**	**389,526**	**214,478**	**267,429**	**481,906**	**-81,013**

a Net external liabilities are based on the selected assets and liabilities which are included in this table. A plus sign denotes net external liabilities; a minus sign net external assets.

b Positions vis-a-vis Slovenia, Cyprus, Malta, Slovakia and Estonia are not statistically significant.

Table A.19.2 – *continued*

Liabilities			Assets			
Euro	Non-euro	Total	Euro	Non-euro	Total	Net external liabilities[a]
31 March 2011						
203,712	**158,363**	**362,074**	**217,783**	**199,579**	**417,362**	**-41,979**
131,039	**60,878**	**191,916**	**172,433**	**58,822**	**231,256**	**-26,030**
248	47	295	2,093	354	2,448	-2,152
39,667	12,648	52,316	5,514	1,089	6,603	45,712
1,317	656	1,973	3,028	930	3,958	-1,985
31	73	104	661	178	839	-735
21,304	3,751	25,055	21,827	2,898	24,724	330
43,141	4,774	47,915	47,879	1,799	49,678	-1,763
4	16	20	1,507	543	2,050	-2,030
–	25,931	25,931	–	39,241	39,241	–
14,693	564	15,257	48,456	6,003	54,460	-39,203
6,388	12,147	18,536	11,587	2,684	14,271	4,264
40	32	72	2,108	218	2,326	-2,254
3,185	55	3,240	26,216	2,651	28,867	-25,627
1,021	183	1,204	1,556	235	1,791	-587
72,673	**97,485**	**170,158**	**45,349**	**140,757**	**186,106**	**-15,949**
6,099	276	6,375	4,289	1,299	5,589	786
54	402	456	885	1,851	2,735	-2,279
66,480	96,738	163,218	37,516	133,622	171,138	-7,920
40	69	109	2,659	3,985	6,645	-6,536
1,690	**4,415**	**6,105**	**1,879**	**9,062**	**10,941**	**-4,836**
1,520	4,004	5,524	553	5,589	6,141	-617
170	410	581	1,326	3,474	4,800	-4,219
10,010	**18,775**	**28,785**	**11,640**	**58,097**	**69,737**	**-40,951**
84	369	454	1,286	2,480	3,766	-3,312
200	7,847	8,047	851	3,799	4,650	3,397
219	41	260	845	1,952	2,797	-2,537
9,507	10,518	20,025	8,658	49,866	58,525	-38,499
2,818	**13,134**	**15,952**	**628**	**6,070**	**6,698**	**9,254**
458	**2,086**	**2,544**	**1,196**	**4,839**	**6,035**	**-3,491**
218,689	**196,772**	**415,460**	**233,125**	**277,647**	**510,772**	**-82,002**

Table A.20.1: Money Market Funds – Monthly Aggregate Balance Sheet

Assets

	Total	Deposits and loan claims	Securities other than shares				Money market fund shares/ units	Other assets including shares and other equities
			Issued by Irish residents	Issued by other euro area residents	Issued by non-euro area residents			
					MFIs	Other		
Outstanding Amounts – € million								
2010								
July	339,239	47,933	3,427	80,667	166,806	38,744	1,063	599
August	360,555	47,877	3,750	91,772	175,067	40,659	917	512
September	347,053	42,779	3,901	89,365	166,696	42,921	719	672
October	352,556	40,174	3,683	93,091	173,873	40,324	723	687
November	368,829	43,847	3,276	97,255	182,488	40,464	733	766
December	359,015	47,749	3,410	92,513	173,938	40,262	730	415
2011								
January	359,684	41,792	2,899	91,286	182,268	39,951	732	755
February	360,229	46,597	2,618	93,242	178,843	37,765	762	400
March	347,723	44,060	2,431	91,830	167,104	40,570	786	941
April	350,458	69,140	2,374	84,552	156,938	36,082	892	480
May	362,704	107,508	1,894	73,536	141,897	36,505	960	406
June	351,495	107,705	1,777	65,432	136,281	38,301	833	1,163
July	347,572	99,122	1,431	65,933	141,394	37,647	866	1,189

Liabilities

	Total	Money market fund shares/units issued			Other Liabilities
		Issued to Irish residents	Issued to other euro area residents	Issued to non-euro area residents	
Outstanding amounts – € million					
2010					
July	339,239	10,302	53,250	273,121	2,566
August	360,555	10,889	54,994	291,168	3,504
September	347,053	11,053	54,187	279,638	2,175
October	352,556	10,428	48,965	290,662	2,501
November	368,829	12,031	55,578	298,950	2,269
December	359,015	12,229	52,963	292,270	1,554
2011					
January	359,684	13,147	53,849	289,516	3,172
February	360,229	15,248	54,137	287,154	3,690
March	347,723	15,186	55,213	274,606	2,718
April	350,458	15,719	57,225	271,813	5,701
May	362,704	15,564	55,696	287,914	3,530
June	351,493	17,798	55,881	276,592	1,222
July	347,572	16,375	55,722	273,856	1,619

Table A.20.2: Money Market Funds – Currency Breakdown of Assets

	Assets								
	Total	Loans				Securities other than shares			
						Issued by Irish residents			
		Euro	Sterling	USD	Other	Euro	Sterling	USD	Other
Outstanding Amounts – € million									
2009									
June	316,808	5,834	10,602	13,009	557	1,323	2,663	683	1
September	308,528	4,607	8,394	14,903	460	1,005	2,412	899	
December	308,551	6,608	8,193	12,983	316	1,232	2,439	852	
2010									
March	322,280	7,825	6,385	20,786	306	1,458	1,980	987	3
June	345,479	8,795	9,923	17,999	373	2,199	1,945	669	20
September	345,662	11,789	9,808	20,853	330	1,861	1,239	798	3
December	357,873	10,774	12,080	24,566	330	1,007	1,674	652	78
2011									
March	345,996	11,651	11,482	20,573	355	1,384	489	486	72
June	349,497	29,559	25,250	52,615	280	914	432	356	75

	Securities other than shares							
	Issued by other euro area residents				Issued by non-euro area residents			
	Euro	Sterling	USD	Other	Euro	Sterling	USD	Other
2009								
June	37,560	19,420	13,963	222	13,311	83,370	112,771	1,519
September	43,812	17,536	12,903	308	14,170	84,170	101,383	1,569
December	46,923	18,901	12,388	552	15,119	80,807	100,113	1,124
2010								
March	50,509	19,647	12,775	562	16,166	84,072	97,543	1,275
June	48,317	21,015	14,463	437	17,682	85,703	114,646	1,293
September	49,810	23,858	15,248	449	14,772	85,043	108,590	1,212
December	51,219	24,083	16,142	1,068	15,587	90,212	106,412	1,989
2011								
March	50,068	22,544	18,792	427	14,603	88,462	103,847	761
June	32,289	17,514	15,271	358	17,331	73,866	82,427	959

Section B

Interest Rates

Table B.1.1: Retail Interest Rates – Deposits, Outstanding Amounts

	Households				Non-financial corporations		
	Overnight	Redeemable at notice	With agreed maturity		Overnight	With agreed maturity	
			Up to 2 years	Over 2 years		Up to 2 years	Over 2 years
Rates (per cent per annum)							
2010							
July	0.64	2.25	2.88	1.67	0.29	2.01	0.77
August	0.61	2.15	2.86	1.81	0.20	2.01	0.85
September	0.63	2.17	2.82	1.83	0.18	2.05	0.86
October	0.62	2.18	2.82	1.85	0.20	2.14	0.93
November	0.59	2.17	2.80	1.77	0.19	2.12	2.80
December	0.62	2.17	2.80	1.75	0.19	2.26	2.61
2011							
January	0.63	2.17	2.79	1.72	0.21	2.30	2.51
February	0.63	2.17	2.77	1.79	0.21	2.29	1.38
March	0.64	2.18	2.74	1.80	0.22	2.31	1.37
April	0.70	2.29	2.76	1.82	0.23	2.47	1.19
May	0.68	2.29	2.80	2.06	0.24	2.61	1.30
June	0.65	2.30	2.84	2.01	0.26	2.72	1.22
July	0.66	2.41	2.89	2.03	0.25	2.82	1.25
Volumes (€ million)							
2010							
July	36,430	17,303	29,216	3,211	16,184	19,414	2,673
August	35,860	17,212	29,289	3,124	16,237	19,453	2,677
September	36,051	16,901	29,203	3,072	15,798	18,330	2,677
October	36,424	16,600	29,061	3,065	16,375	17,126	2,689
November	35,935	15,856	27,914	3,028	15,970	16,802	1,756
December	36,986	15,166	27,849	3,310	17,076	14,087	543
2011							
January	36,509	14,974	27,848	3,310	16,450	14,260	529
February	36,554	14,708	27,384	3,343	16,118	14,209	511
March	36,349	14,324	27,511	3,382	16,003	14,544	533
April	36,333	14,159	27,764	3,408	15,932	13,459	513
May	35,754	13,795	27,954	3,402	15,887	13,442	545
June	35,786	13,365	28,156	3,565	15,928	13,154	552
July	35,650	13,221	28,081	3,613	15,789	13,233	555

Notes: The interest rate and volume data refer to euro-denominated deposits and loans vis-à-vis households and non-financial corporations resident in Ireland and other Monetary Union Member States. Rates reported are weighted averages for each instrument category.

Data are representative of resident offices of banks and building societies. Credit union data are not included in the interest rates tables.

Table B.1.2: Retail Interest Rates – Loans, Outstanding Amounts

	Households						
	Overdrafts	Loans for house purchases with original maturity			Consumer loans and other loans with original maturity		
		Up to 1 year	Over 1 and up to 5 years	Over 5 years	Up to 1 year	Over 1 and up to 5 years	Over 5 years
Rates (per cent per annum)							
2010							
July	12.52	3.01	2.79	2.77	8.13	5.77	4.06
August	12.08	3.09	2.88	2.85	8.10	5.81	4.12
September	12.72	3.10	2.89	2.85	8.41	5.84	4.19
October	12.83	3.20	2.92	2.85	8.85	5.91	4.23
November	12.83	3.27	2.94	2.85	9.04	5.48	4.11
December	13.10	3.28	3.11	2.90	9.06	5.44	4.18
2011							
January	13.24	3.30	3.11	2.90	9.20	6.00	4.31
February	13.12	3.26	2.98	2.98	9.08	5.93	4.09
March	13.13	3.32	3.06	3.01	9.12	5.93	4.11
April	13.29	3.47	3.22	3.14	9.38	6.02	4.27
May	13.08	3.54	3.27	3.18	9.33	6.03	4.31
June	12.79	3.50	3.35	3.19	9.20	6.16	4.29
July	13.28	3.78	3.52	3.33	9.24	6.21	4.42
Volumes (€ million)							
2010							
July	4,062	853	1,594	104,427	7,281	8,215	10,638
August	3,989	846	1,553	104,495	7,276	8,085	10,624
September	3,968	807	1,521	104,995	6,784	8,288	10,565
October	3,828	772	1,462	104,808	6,751	8,056	10,412
November	3,809	772	1,432	104,432	6,860	7,707	10,465
December	3,841	776	998	97,403	7,449	7,865	9,461
2011							
January	3,756	771	980	97,139	7,217	7,778	9,451
February	3,789	686	923	97,067	7,299	8,521	10,459
March	3,663	683	920	96,866	7,036	8,508	10,537
April	3,685	623	907	96,723	6,965	8,359	10,621
May	3,676	586	894	96,506	6,864	8,291	10,560
June	3,629	632	829	96,475	6,817	8,260	10,551
July	3,604	533	807	96,266	6,731	8,188	10,507

Notes: The interest rate and volume data refer to euro-denominated deposits and loans vis-à-vis households and non-financial corporations resident in Ireland and other Monetary Union Member States. Rates reported are weighted averages for each instrument category.

Data are representative of resident offices of banks and building societies. Credit union data are not included in the interest rates tables.

Table B.1.2 – *Continued*

Non-financial corporations

Overdrafts	Loans with original maturity			
	Up to 1 year	Over 1 and up to 5 years	Over 5 years	
				Rates (per cent per annum)
				2010
5.63	3.21	3.03	2.90	July
5.54	3.22	3.13	2.94	August
5.42	3.25	3.19	2.96	September
5.62	3.34	3.28	3.08	October
5.01	3.32	3.30	3.13	November
5.34	3.47	3.31	3.20	December
				2011
5.16	3.52	3.33	3.20	January
5.31	3.60	3.36	3.27	February
4.91	3.64	3.34	3.29	March
5.06	3.73	3.54	3.44	April
5.14	3.77	3.55	3.47	May
5.35	3.85	3.60	3.57	June
5.36	3.99	3.84	3.67	July
				Volumes (€ million)
				2010
10,587	30,249	36,165	49,760	July
11,337	28,595	34,967	48,968	August
10,638	27,889	34,793	48,456	September
10,583	26,953	32,576	44,655	October
10,687	23,129	28,259	43,342	November
9,912	22,783	27,369	43,036	December
				2011
9,880	22,571	27,882	42,768	January
9,928	23,563	26,740	41,337	February
9,780	23,061	26,642	40,957	March
9,623	22,990	26,170	40,885	April
9,482	23,128	26,053	40,619	May
9,462	23,815	25,757	40,609	June
9,243	23,695	25,519	40,618	July

Table B.2.1: Retail Interest Rates and Volumes – Loans and Deposits, New Business

	Loans						
	Households						
	For house purchases			For consumption purposes			For other purposes
	Floating rate and up to 1 year fixation	Over 1 year fixation	APRC	Floating rate and up to 1 year fixation	Over 1 year fixation	APRC	
Rates (per cent per annum)							
2010							
July	2.81	3.82	3.08	6.14	10.50	7.23	3.53
August	3.07	4.05	3.36	5.79	10.67	6.73	3.98
September	2.96	4.13	3.28	5.10	10.58	5.89	4.35
October	2.94	4.09	3.19	6.00	9.77	6.77	4.78
November	2.95	4.10	3.24	6.06	10.46	6.84	4.79
December	3.01	4.17	3.28	4.76	10.04	5.23	3.87
2011							
January	2.91	4.26	3.24	5.79	10.63	6.71	4.50
February	2.99	4.52	3.72	7.26	9.92	8.16	5.09
March	3.09	4.23	3.46	6.02	10.09	7.23	5.08
April	3.20	4.29	3.47	5.23	9.90	6.38	4.61
May	3.30	4.43	3.50	7.23	10.55	8.19	5.93
June	3.18	4.49	3.38	5.05	10.79	6.69	5.12
July	3.36	4.60	3.53	6.36	10.81	7.99	5.13
Volumes (€ million)							
2010							
July	1,353	490	..	153	55	..	79
August	1,477	555	..	183	45	..	100
September	1,534	505	..	265	46	..	619
October	1,175	330	..	168	43	..	49
November	1,178	389	..	180	38	..	132
December	1,090	329	..	248	25	..	87
2011							
January	1,047	322	..	182	44	..	54
February	1,009	898	..	143	62	..	53
March	1,190	568	..	134	60	..	49
April	1,092	331	..	156	51	..	77
May	1,086	211	..	104	42	..	38
June	1,086	180	..	155	62	..	48
July	1,103	169	..	104	60	..	46

Notes: The interest rate and volume data refer to euro-denominated deposits and loans vis-à-vis households and non-financial corporations resident in Ireland and other Monetary Union Member States. Rates reported are weighted averages for each instrument category.

Data are representative of resident offices of banks and building societies. Credit union data are not included in the interest rates tables.

Table B.2.1 – *Continued*

Loans: Non-financial corporations – Loans up to €1 million – Floating rate and up to 1 year fixation	Loans: Non-financial corporations – Loans up to €1 million – Over 1 year fixation	Loans: Non-financial corporations – Loans over €1 million – Floating rate and up to 1 year fixation	Loans: Non-financial corporations – Loans over €1 million – Over 1 year fixation	Deposits: Households – With agreed maturity	Deposits: Non-financial corporations – With agreed maturity	
						Rates (per cent per annum)
						2010
3.73	4.44	2.69	2.56	1.55	1.27	July
3.82	4.67	2.69	2.93	1.60	1.25	August
4.05	4.69	2.90	3.07	1.61	1.20	September
4.05	4.93	3.24	2.69	1.65	1.26	October
4.49	5.14	3.20	3.46	1.75	1.25	November
3.87	4.71	3.12	2.79	1.84	1.40	December
						2011
4.24	5.41	3.24	2.83	1.81	1.42	January
4.32	5.38	3.09	2.63	1.97	1.41	February
4.27	5.86	3.51	2.30	1.93	1.41	March
4.74	6.17	3.22	2.27	1.81	1.52	April
4.75	6.90	2.96	4.29	1.98	1.72	May
4.86	6.24	3.49	4.47	2.11	1.82	June
5.08	6.10	3.44	4.68	2.12	2.07	July
						Volumes (€ million)
						2010
510	75	2,776	326	9,953	7,858	July
445	68	3,879	152	10,052	6,665	August
535	65	1,874	197	11,477	8,817	September
404	56	1,181	161	9,299	8,037	October
491	58	2,162	204	9,144	7,539	November
529	47	1,561	203	9,932	6,695	December
						2011
303	50	627	264	10,088	6,575	January
328	63	803	189	10,129	6,565	February
404	64	1,119	169	12,333	6,717	March
250	45	626	45	7,873	5,170	April
247	54	841	77	7,862	5,143	May
329	50	988	9	8,052	5,465	June
265	43	883	27	7,145	5,270	July

Table B.3: Official and Selected Interest Rates

	Eurosystem Official Interest Rates			Interbank Market				Clearing Banks' Prime Rates
Per cent per annum	Marginal lending facility	Deposit facility	Main refinancing operations	Eonia (overnight)	1 month Euribor	3 month Euribor	12 month Euribor	Ireland
End-month								
2010								
July	1.75	0.25	1.00	0.42	0.65	0.90	1.42	0.85 - 2.20
August	1.75	0.25	1.00	0.39	0.62	0.89	1.41	1.00 - 2.20
September	1.75	0.25	1.00	0.88	0.63	0.89	1.43	1.03 - 2.20
October	1.75	0.25	1.00	0.72	0.85	1.05	1.54	1.10 - 2.30
November	1.75	0.25	1.00	0.54	0.81	1.03	1.53	1.10 - 2.30
December	1.75	0.25	1.00	0.82	0.78	1.01	1.51	1.15 - 2.30
2011								
January	1.75	0.25	1.00	1.31	0.90	1.07	1.64	1.15 - 2.40
February	1.75	0.25	1.00	0.69	0.87	1.09	1.77	1.15 - 2.40
March	1.75	0.25	1.00	0.90	0.97	1.24	2.00	1.20 - 2.50
April	2.00	0.50	1.25	1.42	1.24	1.39	2.13	1.25 - 2.70
May	2.00	0.50	1.25	0.95	1.23	1.43	2.14	1.35 - 2.80
June	2.00	0.50	1.25	1.72	1.33	1.55	2.16	1.45 - 2.80
July	2.25	0.75	1.50	0.97	1.43	1.61	2.18	1.60 - 2.90

Note: Euribor is the rate at which euro interbank term deposits are offered by one prime bank to another, within the euro area. Daily data from 30 December 1998 are available from www.euribor.org.

Section C

Other Financial Data

Table C.1: Investment Funds – Aggregate Balance Sheet

Total Assets

		Deposits and loan claims			Securities other than shares		
		Domestic Total	OMUMs' Total	ROW Total	Domestic Total	OMUMs' Total	ROW Total
Outstanding amounts – € million							
2010							
March	510,571	4,448	2,484	12,604	5,918	33,115	120,299
June	553,748	4,836	2,760	18,363	5,619	34,120	144,596
September	577,972	4,649	1,733	18,011	5,721	36,471	157,039
December	645,556	4,178	1,771	19,464	5,871	37,934	190,426
2011							
March	649,414	4,506	2,041	19,858	5,286	39,446	178,724
June	670,762	4,220	2,075	21,275	5,022	40,433	192,748
Transactions – € million							
2010							
March	25,062	-197	-41	-1,068	1,579	-2,806	6,528
June	19,678	377	389	4,224	-513	654	11,017
September	29,006	-131	-968	1,068	144	1,913	16,768
December	35,137	-435	17	1,290	260	938	29,153
2011							
March	18,479	414	273	1,146	-497	1,869	-5,796
June	25,363	-439	42	646	-215	955	13,171

Total Liabilities

		Investment fund shares/units							
		Domestic MFIs	Domestic Non-MFI's	Domestic Total	OMUMs MFI	OMUMs' Non-MFI's	OMUMs' Total	ROW Total	Total
Outstanding amounts – € million									
2010									
March	510,571	7,132	26,961	34,093	33,933	128,271	162,204	288,097	484,395
June	553,748	9,637	36,430	46,067	34,536	130,552	165,088	309,438	520,593
September	577,972	9,122	34,482	43,603	36,418	137,666	174,084	322,055	539,743
December	645,556	10,367	39,188	49,555	41,103	155,375	196,478	359,435	605,468
2011									
March	649,414	9,595	36,270	45,865	41,783	157,944	199,726	362,331	607,923
June	670,762	18,222	27,242	45,464	78,845	117,875	196,720	381,223	623,407
Transactions – € million									
2010									
March	25,062	598	2,262	2,860	-89	-338	-427	13,605	16,038
June	19,678	1,798	6,798	8,596	-315	-1,192	-1,507	7,687	14,776
September	29,006	-605	-2,288	-2,894	2,012	7,604	9,615	16,295	23,017
December	35,137	495	1,871	2,365	2,767	10,459	13,226	17,673	33,264
2011									
March	18,479	-665	-2,512	-3,177	1,447	5,469	6,916	11,444	15,184
June	25,363	8,746	-8,850	-104	37,658	-39,178	-1,520	21,737	20,133

Note: Within Liabilities, changes to investment fund shares/units can be larger than normal in Q2 due to updating according to the Fund Annual Survey of Liabilities.

* A reclassification from Non-Financial assets to Other Assets resulted in large transaction figures in Q4 2010.

Table C.1 – *continued*

Shares and other equity			Investment fund shares/units (incl. MMF shares)			Non-financial assets			Other assets
Domestic Total	OMUMs' Total	ROW Total	Domestic Total	OMUMs' Total	ROW Total	Domestic Total	OMUMs' Total	ROW Total	Total
10,390	35,532	186,836	29,445	4,950	20,395	16,242	524	14,934	12,455
11,109	30,508	192,061	31,628	5,005	23,218	17,286	510	17,185	14,944
9,627	34,523	198,468	31,457	5,472	20,963	17,621	843	13,936	21,439
12,175	38,097	230,145	33,092	6,909	21,556	11*	0*	135*	43793*
14,174	44,708	226,522	32,901	7,322	24,864	10	0	134	48,917
12,243	45,187	230,348	33,417	8,115	25,919	11	0	63	49,684
850	1,927	3,031	2,211	123	-865	7,011	271	6,451	59
431	-4,190	4,699	693	46	1,226	-1,422	-42	184	1,904
-1,082	1,846	2,812	2,567	437	-918	1,719	307	-2,153	4,677
2,787	2,331	8,215	-165	1,245	-805	-8299*	-526*	1475*	22470*
2,228	5,814	2,220	112	511	3,561	0	0	15	6,608
-2,144	264	8,677	1,985	1,050	889	0	0	-71	551

Loans and deposits received	Other liabilities
Total	Total
4,082	22,095
5,440	27,715
4,206	34,023
3,899	36,190
4,792	36,700
5,419	41,936
1,615	7,408
1,040	3,861
-993	6,982
-365	2,238
1,038	2,258
566	4,684

Table C.2.1: Securities Issues Statistics: Debt Securities

€ Million	Debt securities: All currencies					
	Short-term securities					
	Total	MFIs	OFIs	IC&PF	NFCs	Govt
Outstanding amounts						
2009						
December	95,737	46,496	36,504	0	0	12,737
2010						
January	96,031	46,771	36,708	0	0	12,552
February	85,841	47,448	27,097	0	0	11,296
March	86,209	47,975	26,183	0	0	12,051
April	87,766	46,971	28,816	0	0	11,979
May	81,067	41,251	31,898	0	0	7,918
June	79,680	38,201	32,506	0	0	8,973
July	72,122	35,251	30,230	0	0	6,641
August	81,035	36,883	34,992	0	0	9,160
September	78,742	32,609	34,470	0	0	11,663
October	78,130	29,094	38,804	0	0	10,232
November	77,637	26,792	41,395	0	0	9,450
December	84,265	18,382	59,014	0	0	6,869
2011						
January	101,456	35,235	61,512	0	0	4,709
February	87,498	35,254	48,800	0	0	3,444
March	84,592	34,574	48,125	0	0	1,893
April	86,280	37,242	48,310	0	0	728
May	85,582	36,377	48,489	0	0	716
June	80,721	32,255	48,014	0	0	452
July	78,465	30,837	47,153	0	0	475
Transactions						
2009						
December						
2010						
January	294	275	204	0	0	-185
February	-10,201	665	-9,610	0	0	-1,256
March	369	528	-914	0	0	755
April	1,556	-1,004	2,632	0	0	-72
May	-6,698	-5,720	3,083	0	0	-4,061
June	-1,387	-3,050	608	0	0	1,055
July	-7,558	-2,950	-2,276	0	0	-2,332
August	8,913	1,633	4,762	0	0	2,518
September	-2,294	-4,275	-522	0	0	2,503
October	-612	-3,515	4,334	0	0	-1,431
November	-494	-2,302	2,591	0	0	-783
December	6,628	-8,410	17,619	0	0	-2,581
2011						
January	17,191	16,854	2,497	0	0	-2,160
February	-13,958	19	-12,712	0	0	-1,265
March	-2,907	-681	-675	0	0	-1,551
April	1,690	2,668	186	0	0	-1,164
May	-699	-865	178	0	0	-12
June	-4,860	-4,122	-474	0	0	-264
July	-2,256	-1,418	-861	0	0	23

Table C.2.1 – *continued*

Debt securities: All currencies

Long-term securities					
Total	MFIs	OFIs	IC&PF	NFCs	Govt
959,791	132,681	751,528	2,302	1,997	71,283
970,413	135,817	752,390	2,245	2,006	77,955
967,816	136,067	747,158	2,299	2,233	80,059
972,758	141,941	744,918	2,385	2,201	81,313
982,949	144,801	750,554	2,346	3,273	81,975
998,287	145,348	762,450	2,537	4,189	83,763
995,602	142,696	761,563	2,557	3,537	85,249
979,890	138,000	750,344	2,214	2,665	86,667
1,003,201	138,332	770,593	2,457	3,615	88,204
967,772	115,471	756,705	2,294	3,605	89,697
969,222	105,978	767,344	2,229	4,001	89,670
993,806	102,983	792,312	4,310	4,227	89,974
982,305	101,120	783,140	4,186	3,665	90,194
982,523	99,327	787,011	2,277	3,734	90,174
975,512	99,508	780,066	2,261	3,596	90,081
959,572	94,511	769,423	2,197	3,549	89,892
952,240	93,242	764,350	2,108	2,867	89,673
952850	92,760	765,351	2,167	2,906	89,666
950,197	91,083	764,532	2,152	2,719	89,711
952,973	90,892	767,310	2,182	2,816	89,773
10,623	3,136	863	-57	9	6,672
-2,595	251	-5,232	55	227	2,104
4,942	5,874	-2,240	86	-32	1,254
10,190	2,860	5,636	-39	1,071	662
15,340	547	11,896	191	917	1,789
-2,684	-2,652	-887	21	-652	1,486
-15,715	-4,697	-11,219	-344	-872	1,417
23,312	332	20,249	243	950	1,538
-35,428	-22,861	-13,888	-163	-9	1,493
1,449	-9,493	10,639	-66	396	-27
24,583	-2,995	24,967	2,081	225	305
-11,500	-1,863	-9,172	-124	-561	220
218	-1,792	3,872	-1,909	68	-21
-7,010	181	-6,945	-17	-137	-92
-15,940	-4,997	-10,643	-64	-47	-189
-7,334	-1,269	-5,074	-89	-683	-219
611	-482	1,001	59	40	-7
-2,654	-1,677	-819	-15	-188	45
2,775	-192	2,778	30	97	62

Table C.2.1 – *continued*

€ Million	Debt securities: Euro denominated					
	Short-term securities					
	Total	MFIs	OFIs	IC&PF	NFCs	Govt
Outstanding amounts						
2009						
December	62,915	24,071	29,574	0	0	9,270
2010						
January	62,826	23,782	29,774	0	0	9,270
February	52,015	24,285	20,133	0	0	7,597
March	54,167	25,420	20,224	0	0	8,523
April	57,512	26,122	22,756	0	0	8,634
May	56,046	24,950	25,751	0	0	5,345
June	55,074	21,605	26,786	0	0	6,683
July	50,169	20,151	24,884	0	0	5,134
August	58,285	20,963	29,746	0	0	7,576
September	58,868	19,436	29,284	0	0	10,148
October	59,038	16,417	33,494	0	0	9,127
November	60,702	16,157	36,354	0	0	8,191
December	70,967	11,198	53,607	0	0	6,162
2011						
January	87,985	27,434	56,289	0	0	4,262
February	75,807	28,332	44,366	0	0	3,109
March	72,493	27,445	43,485	0	0	1,563
April	74,443	30,315	43,623	0	0	505
May	74,484	30,263	43,926	0	0	295
June	71,890	28,183	43,412	0	0	295
July	70,393	27,384	42,869	0	0	140
Transactions						
2009						
December						
2010						
January	-89	-289	200	0	0	0
February	-10,822	491	-9,640	0	0	-1,673
March	2,151	1,135	90	0	0	926
April	3,344	702	2,532	0	0	110
May	-1,465	-1,171	2,995	0	0	-3,289
June	-973	-3,346	1,035	0	0	1,338
July	-4,903	-1,453	-1,901	0	0	-1,549
August	8,115	812	4,861	0	0	2,442
September	583	-1,527	-462	0	0	2,572
October	-612	-3,515	4,334	0	0	-1,431
November	1,664	-261	2,860	0	0	-935
December	10,265	-4,959	17,253	0	0	-2,029
2011						
January	17,019	16,236	2,683	0	0	-1,900
February	-12,179	898	-11,923	0	0	-1,154
March	-3,313	-886	-881	0	0	-1,546
April	1,949	2,869	138	0	0	-1,058
May	40	-52	302	0	0	-210
June	-2,593	-2,079	-514	0	0	0
July	-1,497	-799	-543	0	0	-155

Table C.2.1 – *continued*

Debt securities: Euro denominated

Long-term securities

Total	MFIs	OFIs	IC&PF	NFCs	Govt
718,359	98,355	547,409	120	1,617	70,858
727,609	100,469	548,008	0	1,617	77,515
723,770	100,292	542,013	0	1,857	79,608
730,971	105,637	542,714	0	1,757	80,863
734,414	109,444	540,552	0	2,899	81,519
734,169	108,778	539,264	0	2,859	83,268
728,284	106,381	534,964	0	2,192	84,747
733,211	104,508	540,025	0	2,100	86,578
751,680	106,360	554,891	0	2,318	88,111
730,361	88,980	549,454	0	2,318	89,609
724,716	80,992	551,825	0	2,318	89,581
729,823	76,902	560,461	160	2,418	89,882
723,491	76,548	554,695	160	1,986	90,102
714,446	75,906	546,369	0	2,086	90,085
709,418	76,973	540,492	0	1,960	89,993
701,465	73,083	536,615	0	1,960	89,807
706,745	72,596	543,203	0	1,356	89,590
703,412	72,055	540,420	0	1,356	89,581
701,756	71,341	539,533	0	1,256	89,626
698,103	71,065	536,098	0	1,256	89,684
9,249	2,113	599	-120	0	6,657
-3,840	-177	-5,995	0	239	2,093
7,201	5,345	701	0	-100	1,255
3,443	3,807	-2,162	0	1,143	655
-246	-666	-1,289	0	-40	1,749
-5,884	-2,396	-4,299	0	-668	1,479
4,928	-1,873	5,061	0	-91	1,831
18,468	1,852	14,866	0	217	1,533
-21,318	-17,380	-5,437	0	0	1,499
1,449	-9,493	10,639	-66	396	-27
5,108	-4,090	8,636	160	100	302
-6,332	-354	-5,766	0	-432	220
-9,046	-642	-8,326	-160	100	-18
-5,027	1,068	-5,877	0	-126	-92
-7,954	-3,890	-3,878	0	0	-186
5,280	-488	6,588	0	-603	-217
-3,333	-541	-2,783	0	0	-9
-1,656	-714	-887	0	-100	45
-3,652	-276	-3,434	0	0	58

Table C.2.2: Securities Issues Statistics: Equities

€ Million	Equity Securities					
	Quoted securities					
	Total	MFIs	OFIs	IC&PF	NFCs	Govt
Outstanding amounts						
2009						
December	157,540	9,683	3,775	230	143,852	..
2010						
January	146,989	8,904	3,692	201	134,192	..
February	135,316	9,813	3,948	201	121,354	..
March	138,426	9,738	4,151	243	124,294	..
April	144,545	10,023	4,662	260	129,600	..
May	137,754	10,906	4,987	212	121,649	..
June	139,423	11,345	4,819	222	123,037	..
July	141,699	12,358	9,301	226	119,814	..
August	141,843	12,304	9,010	230	120,299	..
September	147,066	10,915	9,529	215	126,407	..
October	159,862	10,269	9,317	204	140,072	..
November	164,832	9,112	10,081	193	145,446	..
December	173,264	9,389	10,409	206	153,260	..
2011						
January	174,457	9,125	10,832	220	154,280	..
February	176,923	9,760	11,047	253	155,863	..
March	174,843	8,567	11,088	241	154,947	..
April	199,432	11,370	10,704	241	177,117	..
May	200,158	10,020	10,410	243	179,485	..
June	197,099	9,410	10,636	238	176,815	..
July	192,088	10,895	10,420	229	170,544	..
Transactions						
2009						
December						
2010						
January	2	0	0	0	2	..
February	940	0	-17	0	957	..
March	135	0	0	0	135	..
April	129	0	0	0	129	..
May	1,949	1,725	57	0	167	..
June	1,082	910	0	0	172	..
July	6	0	0	0	6	..
August	0	0	0	0	0	..
September	189	182	0	0	7	..
October	8	0	0	0	8	..
November	105	0	0	0	105	..
December	-430	0	-299	0	-131	..
2011						
January	104	190	0	0	-86	..
February	-101	0	0	0	-101	..
March	-154	0	-225	0	71	..
April	2,885	2,394	1	0	490	..
May	-544	0	0	0	-544	..
June	141	0	5	0	136	..
July	2,104	2,024	0	0	80	..

Table C.2.2 – *continued*

Equity Securities

Unquoted securities

Total	MFIs	OFIs	IC&PF	NFCs	Govt
477	0	14	0	463	..
477	0	14	0	463	..
463	0	14	0	449	..
463	0	14	0	449	..
463	0	14	0	449	..
463	0	14	0	449	..
463	0	14	0	449	..
463	0	14	0	449	..
490	0	14	0	476	..
490	0	14	0	476	..
490	0	14	0	476	..
490	0	14	0	476	..
490	0	14	0	476	..
509	0	14	0	495	..
515	0	14	0	501	..
508	0	14	0	494	..
507	0	14	0	493	..
506	0	14	0	492	..
501	0	14	0	487	..
501	0	14	0	487	..
0	0	0	0	0	..
0	0	0	0	0	..
0	0	0	0	0	..
0	0	0	0	0	..
0	0	0	0	0	..
0	0	0	0	0	..
0	0	0	0	0	..
0	0	0	0	0	..
0	0	0	0	0	..
0	0	0	0	0	..
0	0	0	0	0	..
0	0	0	0	0	..
9	0	0	0	9	..
0	0	0	0	0	..
0	0	0	0	0	..
0	0	0	0	0	..
0	0	0	0	0	..
0	0	0	0	0	..
0	0	0	0	0	..

Section D

Quarterly Financial Accounts

Table D.1: Financial Balance Sheet By Sector, Q1 2011

€ million	Total Assets	Total Liabilities	Net Financial Wealth	Total Assets Transactions	Total Liabilities Transactions	Net Financial Borrowing/ Lending
Non-financial corporations	**606,971**	**815,514**	**-208,543**	**-17,096**	**-11,154**	**-5,942**
Financial corporations	**3,425,057**	**3,495,635**	**-70,578**	**-48,040**	**-52,859**	**4,819**
Monetary financial institutions	1,595,509	1,623,845	-28,336	-83,827	-74,829	-8,998
Other financial intermediaries and financial auxiliaries	1,537,852	1,574,436	-36,583	35,995	22,075	13,920
Insurance corporations and pension funds	291,695	297,354	-5,659	-207	-105	-103
General government	**78,016**	**156,419**	**-78,403**	**6,449**	**11,956**	**-5,508**
Households and non-profit institutions serving households	**298,136**	**193,212**	**104,923**	**-529**	**-1,306**	**777**
Rest of the world	**3,053,078**	**2,799,638**	**253,441**	**6,849**	**994**	**5,855**

Table D.1.1: Financial Balance Sheet By Sector, Q1 2011

Total Assets

€ million		Gold & SDRs	Currency & Deposits			Securities other than shares			
				Currency & Transferrable Deposits	Other Deposits		Short-term securities	Long-term securities	Financial Derivatives
Non-financial corporations	**606,971**	**0**	**34,461**	**19,949**	**14,512**	**3,752**	**458**	**2,643**	**651**
Financial corporations	**3,425,057**	**841**	**653,477**	**72,378**	**581,099**	**1,123,226**	**326,272**	**748,186**	**48,767**
Monetary financial institutions	1,595,509	841	569,983	46,748	523,236	601,964	281,558	288,990	31,416
Other financial intermediaries and financial auxiliaries	1,537,852	0	61,155	23,083	38,072	448,605	39,868	392,949	15,788
Insurance corporations and pension funds	291,695	0	22,339	2,547	19,792	72,657	4,846	66,247	1,563
General government	**78,016**	**0**	**32,525**	**0**	**32,525**	**8,824**	**49**	**8,201**	**575**
Households and non-profit institutions serving households	**298,136**	**0**	**122,776**	**57,708**	**65,068**	**455**	**0**	**175**	**280**
Rest of the world	**3,053,078**	**0**	**486,112**	**57,921**	**428,191**	**612,505**	**27,375**	**552,008**	**33,122**

Total Liabilities

€ million			Currency & Deposits			Securities other than shares			
				Currency & Transferrable Deposits	Other Deposits		Short-term securities	Long-term securities	Financial Derivatives
Non-financial corporations	**815,514**	**0**	**0**	**0**	**0**	**3,985**	**0**	**3,549**	**436**
Financial corporations	**3,495,635**	**0**	**1,011,900**	**136,850**	**875,050**	**672,133**	**54,472**	**571,515**	**46,146**
Monetary financial institutions	1,623,845	0	1,011,900	136,850	875,050	156,919	20,913	101,997	34,009
Other financial intermediaries and financial auxiliaries	1,574,436	0	0	0	0	513,017	33,559	467,321	12,137
Insurance corporations and pension funds	297,354	0	0	0	0	2,197	0	2,197	0
General government	**156,419**	**0**	**14,618**	**678**	**13,940**	**78,769**	**6,031**	**72,687**	**52**
Households and non-profit institutions serving households	**193,212**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Rest of the world	**2,799,638**	**0**	**302,832**	**70,427**	**232,405**	**993,876**	**293,652**	**663,463**	**36,761**

n.a. not available.

Table D.1.1 – *continued*

Total Assets

Loans	Short-term loans	Long-term loans	Shares and other equity	Quoted shares	Unquoted shares and other equity	Mutual fund shares	Insurance technical reserves	Net equity of households in life insurance reserves	Net equity of households in pension fund reserves	Prepayment of insurance premiums and reserves for outstanding claims	Other accounts receivable/payable	€ million
179,108	**64,010**	**115,098**	**278,997**	**12,300**	**263,356**	**3,341**	**3,511**	**0**	**0**	**3,511**	**107,143**	**Non-financial corporations**
959,009	**177,168**	**781,842**	**589,195**	**415,071**	**40,435**	**133,690**	**45,117**	**0**	**0**	**45,117**	**54,191**	**Financial corporations**
396,984	62,578	334,406	18,578	11,029	6,763	786	0	0	0	0	7,159	Monetary financial institutions
557,787	112,939	444,847	439,671	340,458	33,672	65,542	0	0	0	0	30,634	Other financial intermediaries and financial auxiliaries
4,238	1,650	2,588	130,946	63,584	0	67,362	45,117	0	0	45,117	16,398	Insurance corporations and pension funds
8,472	**0**	**8,472**	**19,164**	**5,352**	**11,554**	**2,257**	**0**	**0**	**0**	**0**	**9,031**	**General government**
0	**0**	**0**	**46,261**	**8,647**	**37,614**	**0**	**125,895**	**50,135**	**73,203**	**2,558**	**2,747**	**Households and non-profit institutions serving households**
421,728	**187,324**	**234,403**	**1,348,379**	**88,981**	**353,484**	**905,914**	**120,134**	**80,378**	**0**	**39,756**	**64,221**	**Rest of the world**

Total Liabilities

Loans	Short-term loans	Long-term loans	Shares and other equity	Quoted shares	Unquoted shares and other equity	Mutual fund shares	Insurance technical reserves	Net equity of households in life insurance reserves	Net equity of households in pension fund reserves	Prepayment of insurance premiums and reserves for outstanding claims	Other accounts receivable/payable	€ million
263,960	**73,172**	**190,788**	**429,937**	**n.a.**	**n.a.**	**0**	**0**	**0**	**0**	**0**	**117,632**	**Non-financial corporations**
356,183	**213,277**	**142,906**	**1,146,311**	**12,896**	**182,304**	**951,110**	**253,872**	**130,513**	**73,203**	**50,157**	**55,236**	**Financial corporations**
0	0	0	436,581	1,567	89,223	345,791	0	0	0	0	18,445	Monetary financial institutions
350,723	212,061	138,662	683,923	11,088	67,516	605,319	0	0	0	0	26,772	Other financial intermediaries and financial auxiliaries
5,460	1,216	4,244	25,806	241	25,565	0	253,872	130,513	73,203	50,157	10,019	Insurance corporations and pension funds
54,679	**528**	**54,151**	**1,625**	**0**	**1,625**	**0**	**0**	**0**	**0**	**0**	**6,727**	**General government**
184,912	**8,758**	**176,154**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**8,300**	**Households and non-profit institutions serving households**
708,583	**132,768**	**575,815**	**704,124**	**362,508**	**247,524**	**94,091**	**40,785**	**0**	**0**	**40,785**	**49,438**	**Rest of the world**

n.a. not available.

Table D.1.2: Financial Transactions By Sector, Q1 2011

Total Assets Transactions

€ million		Gold & SDRs	Currency & Deposits			Securities other than shares			
				Currency & Transferrable Deposits	Other Deposits		Short-term securities	Long-term securities	Financial Derivatives
Non-financial corporations	**-17,096**	**0**	**-7,519**	**-741**	**-6,778**	**104**	**44**	**1**	**59**
Financial corporations	**-48,040**	**0**	**-49,786**	**-2,253**	**-47,533**	**-7,110**	**1,699**	**-9,906**	**1,096**
Monetary financial institutions	-83,827	0	-51,964	-2,823	-49,141	-13,558	288	-11,642	-2,204
Other financial intermediaries and financial auxiliaries	35,995	0	1,950	640	1,311	4,963	518	1,119	3,326
Insurance corporations and pension funds	-207	0	228	-70	298	1,485	893	617	-26
General government	**6,449**	**0**	**10,537**	**0**	**10,537**	**-1,478**	**0**	**-1,413**	**-65**
Households and non-profit institutions serving households	**-529**	**0**	**-1,208**	**-881**	**-326**	**-1**	**0**	**-1**	**0**
Rest of the world	**6,849**	**0**	**-43,773**	**-6,486**	**-37,287**	**-15,010**	**-4,883**	**-11,473**	**1,346**

Total Liabilities Transactions

€ million		Gold & SDRs	Currency & Deposits			Securities other than shares			
				Currency & Transferrable Deposits	Other Deposits		Short-term securities	Long-term securities	Financial Derivatives
Non-financial corporations	**-11,154**	**0**	**0**	**0**	**0**	**-31**	**2**	**-47**	**14**
Financial corporations	**-52,859**	**0**	**-74,241**	**-9,437**	**-64,804**	**-7,224**	**-419**	**-8,154**	**1,349**
Monetary financial institutions	-74,829	0	-74,241	-9,437	-64,804	-4,154	0	-4,154	0
Other financial intermediaries and financial auxiliaries	22,075	0	0	0	0	-3,070	-419	-3,999	1,349
Insurance corporations and pension funds	-105	0	0	0	0	0	0	0	0
General government	**11,956**	**0**	**1,113**	**5**	**1,108**	**-5,603**	**-5,019**	**-603**	**20**
Households and non-profit institutions serving households	**-1,306**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Rest of the world	**994**	**0**	**-18,620**	**-930**	**-17,691**	**-10,638**	**2,296**	**-13,988**	**1,054**

n.a. not available.

Table D.1.2 – *continued*

Total Assets Transactions

Loans			Shares and other equity				Insurance technical reserves				Other accounts receivable/ payable	€ million
	Short-term loans	Long-term loans		Quoted shares	Unquoted shares and other equity	Mutual fund shares		Net equity of households in life insurance reserves	Net equity of households in pension fund reserves	Prepayment of insurance premiums and reserves for outstanding claims		
-8,625	**1,732**	**-10,358**	**1,051**	**37**	**1,014**	**0**	**-11**	**0**	**0**	-11	**-2,095**	**Non-financial corporations**
-6,540	**886**	**-7,426**	**7,951**	**6,457**	**746**	**748**	**-744**	**0**	**0**	-744	**8,189**	**Financial corporations**
-20,499	-410	-20,090	-195	-153	0	-42	0	0	0	0	2,390	Monetary financial institutions
14,219	1,385	12,834	9,442	7,546	746	1,150	0	0	0	0	5,420	Other financial intermediaries and financial auxiliaries
-259	-89	-170	-1,296	-936	0	-360	-744	0	0	-744	380	Insurance corporations and pension funds
253	**0**	**253**	**-3,791**	**-3,141**	**0**	**-649**	**0**	**0**	**0**	0	**928**	**General government**
0	**0**	**0**	**-132**	**-28**	**-104**	**0**	**875**	**520**	**124**	232	**-64**	**Households and non-profit institutions serving households**
36,225	**29,385**	**6,840**	**20,921**	**104**	**6,039**	**14,778**	**-580**	**-424**	**0**	-155	**9,065**	**Rest of the world**

Total Liabilities Transactions

Loans			Shares and other equity				Insurance technical reserves				Other accounts receivable/ payable	€ million
	Short-term loans	Long-term loans		Quoted shares	Unquoted shares and other equity	Mutual fund shares		Net equity of households in life insurance reserves	Net equity of households in pension fund reserves	Prepayment of insurance premiums and reserves for outstanding claims		
-5,613	**135**	**-5,749**	**-4,052**	**n.a.**	**n.a.**	**0**	**0**	**0**	**0**	0	**-1,458**	**Non-financial corporations**
16,682	**30,475**	**-13,793**	**19,073**	**-225**	**4,332**	**14,965**	**209**	**95**	**124**	-10	**-7,357**	**Financial corporations**
0	0	0	-304	0	414	-718	0	0	0	0	3,871	Monetary financial institutions
16,593	30,298	-13,705	19,474	-225	4,015	15,683	0	0	0	0	-10,922	Other financial intermediaries and financial auxiliaries
89	177	-88	-97	0	-97	0	209	95	124	-10	-305	Insurance corporations and pension funds
15,136	**-268**	**15,404**	**3**	**0**	**3**	**0**	**0**	**0**	**0**	0	**1,307**	**General government**
-1,095	**-459**	**-636**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	0	**-211**	**Households and non-profit institutions serving households**
-3,796	**2,121**	**-5,917**	**10,977**	**3,584**	**7,483**	**-90**	**-669**	**0**	**0**	-669	**23,741**	**Rest of the world**

n.a. not available.

Section E

Public Finances and Competitiveness Indicators

Table E.1: Government Debt[a]

€ million	2010		2011	
End-quarter	30 Sep.	31 Dec.	31 Mar.	30 Jun.
Government Debt				
Amount outstanding (gross)				
Euro-denominated debt				
Government stock	89,609	90,102	89,807	89,626
Exchequer Bills/Notes, Central Treasury Notes	6,333	6,133	1,655	487
Saving Certificates/Stamps, National Solidarity Bonds	3,952	4,300	4,551	4662
Prize Bonds	1,272	1,330	1,392	1,409
Savings Bonds	3,885	4,240	4,540	4,657
National Instalment Savings	473	468	468	468
Ways and means	2,130	1,526	1,944	1,583
Borrowings from Central Bank, etc.	–	–	–	–
Local loans funds	5	5	5	5
Short-term paper	3,481	298	234	318
FX contracts	1,332	545	1,479	156
EIB loans	–	–	–	–
Public bond issues	–	–	–	–
Private placements	602	602	602	602
IMF[b]	–	–	2,091	2,658
EFSM	–	–	8,400	11,400
EFSF	–	–	3,617	3,660
Medium-term notes	–	–	–	–
Swaps	66	66	2,388	4,482
Total euro-denominated debt	**113,141**	**109,614**	**123,173**	**126,172**
Non-euro-denominated debt				
EIB loans	–	–	–	–
Public bond issues	–	–	–	–
Private placements	–	–	–	–
Medium-term notes	88	92	85	86
IMF[b]	–	–	3,499	4448
EFSM	–	–	–	–
EFSF	–	–	–	–
Swaps	-88	-92	-2,357	-4,417
Short-term paper	1,258	529	292	145
FX contracts	-1,264	-534	-1,432	-147
Total non-euro-denominated debt	**-6**	**-4**	**87**	**116**
Gross debt	**113,135**	**109,610**	**123,260**	**126,288**
Residual Maturity Profile				
Amounts due to mature in:				
– ≤ 1 year	7,895	14,121	9,846	8,057
– Over 1 year but ≤ 5 years	37,933	43,251	53,603	54,270
– Over 5 years but ≤ 10 years	38,656	43,352	50,925	55,076
– Over 10 years	28,651	8,886	8,886	8,886
Total	**113,135**	**109,610**	**123,260**	**126,288**

a The term Government debt refers to central government debt. An advance release calendar for central government debt is shown on the IMF Special Data Dissemination Standards (SDDS) Bulletin Board.

b The IMF liability is denominated in SDRs. The underlying currency weighting in the SDR basket is Euro: 37.4 per cent, Non-euro: 62.6 per cent.

Source: NTMA.

Table E.2: Irish Government Long-Term Bonds – Nominal Holdings

€ million	2010		2011	
End-quarter	30 Sep.	31 Dec.	31 Mar.	30 Jun.
1. Resident[a]	14,263	15,991	14,916	15,525
– MFIs and Central Bank	11,019	12,697	12,345	12,404
– General government	741	842	539	949
– Financial intermediaries	2,216	2,169	1,781	1,912
i) Financial auxiliaries	310	315	315	309
ii) Insurance corporations and pension funds	1,843	1,774	1,335	1,331
iii) Other financial intermediaries	63	80	132	272
– Non-financial corporations	38	31	32	31
– Households	249	252	219	228
2. Rest of world	75,346	74,111	74,891	74,160
Total	**89,609**	**90,102**	**89,807**	**89,685**
3. Amounts due to mature in:				
– Less than 3 years	16,002	16,409	16,215	16,044
– 3 or more years but less than 5 years	11,864	11,889	11,793	11,801
– 5 or more years but less than 10 years	45,751	53,520	53,497	53,532
– 10 or more years but less than 15 years	15,992	8,284	8,302	8,308
– 15 or more years	0	0	0	0
Total	**89,609**	**90,102**	**89,807**	**89,685**

a Above conform to ESA95 standard. Financial auxiliaries include, for example, insurance and security brokers and investment advisors, etc. Other financial intermediaries include mutual funds, financial leasing, etc.

Table E.3: Harmonised Competitiveness Indicators for Ireland (HCIs)

1999 Q1 = 100	Nominal HCI (Monthly average)	Real HCI (Deflated by consumer prices)	Real HCI (Deflated by producer prices)
2005			
January	106.56	117.74	106.97
February	105.91	116.89	106.82
March	106.51	117.24	107.23
April	105.67	116.59	106.78
May	104.88	115.77	107.02
June	102.82	113.64	104.32
July	103.12	114.00	105.52
August	103.66	114.53	105.81
September	103.34	114.44	105.28
October	102.93	113.98	105.45
November	102.26	113.10	105.01
December	102.34	112.80	105.02
2006			
January	102.95	113.57	104.51
February	102.33	113.30	104.94
March	102.85	113.84	104.97
April	103.70	114.73	105.83
May	104.71	116.02	107.33
June	104.88	116.10	107.23
July	104.99	116.30	106.69
August	104.99	116.64	107.37
September	104.77	116.18	108.08
October	104.36	115.89	105.68
November	104.99	116.33	105.64
December	105.80	117.48	106.79
2007			
January	105.06	116.84	106.77
February	105.37	117.20	105.66
March	106.10	118.14	105.63
April	106.76	118.86	106.76
May	106.73	118.80	107.23
June	106.31	118.30	107.69
July	106.89	119.00	107.88
August	106.75	118.96	108.87
September	107.65	119.88	108.41
October	108.46	120.61	109.82
November	109.84	122.03	109.94
December	109.94	122.04	111.53
2008			
January	110.76	122.67	110.67
February	110.72	122.95	111.60
March	113.19	126.08	113.57
April	114.35	126.92	116.19
May	113.85	126.20	114.98
June	113.89	126.05	114.45
July	114.36	125.82	114.20
August	112.50	123.64	114.86
September	111.30	122.38	111.56
October	108.69	119.59	110.10
November	108.28	119.53	109.44
December	112.32	123.94	111.54
2009			
January	112.02	123.32	111.01
February	110.45	120.80	110.31
March	112.46	122.87	111.96
April	111.84	121.98	111.52
May	112.31	121.70	111.77
June	112.74	121.77	111.90
July	112.89	121.29	113.70
August	113.18	121.31	111.81
September	114.45	122.12	113.91
October	115.44	122.78	114.19
November	115.25	122.23	113.13
December	114.40	120.74	112.19
2010			
January	112.80	118.68	110.44
February	110.87	116.08	109.60
March	110.75	115.48	108.28
April	109.46	113.87	108.04
May	106.66	110.99	106.04
June	104.82	108.83	103.10
July	106.51	110.78	104.91
August	106.30	110.32	104.84
September	106.91	110.53	105.82
October	109.90	113.43	107.39
November	108.70	111.69	106.98
December	107.08	110.05	104.22
2011			
January	107.21	110.05	103.97
February	108.08	110.90	104.72
March	109.50	112.20	105.84
April	110.99	113.49	107.53
May	110.41	112.60	108.19
June	110.69	112.50	107.16
July	110.01	111.70	106.45
August	110.05	111.62	106.21

Notes:

1. See article entitled “Measuring Ireland’s Price and Labour Cost Competitiveness” in the Bank’s Quarterly Bulletin No. 1 of 2010.
2. A rise in an indicator implies a disimprovement in competitiveness, while a fall in an indicator implies an improvement.
3. These indicators are available from January 1995 in excel format on the Bank’s website.
4. Real HCIs may be subject to revisions to reflect latest available price data.

Table E.3: Harmonised Competitiveness Indicators for Ireland (HCIs) – *continued*

1999 Q1=100	Real HCI (Deflated by GDP)	Real HCI (Deflated by whole economy Unit Labour Costs)
1995		
Q1	91.95	104.23
Q2	91.19	103.43
Q3	91.55	103.82
Q4	91.66	103.19
1996		
Q1	91.94	103.41
Q2	92.62	104.32
Q3	94.14	104.93
Q4	96.47	106.03
1997		
Q1	97.92	106.26
Q2	96.73	103.01
Q3	95.99	106.33
Q4	99.80	105.56
1998		
Q1	95.44	98.89
Q2	98.44	100.53
Q3	100.14	101.15
Q4	101.94	105.95
1999		
Q1	100.00	100.00
Q2	97.13	100.33
Q3	99.39	97.09
Q4	98.73	95.63
2000		
Q1	97.20	94.62
Q2	95.70	92.10
Q3	95.92	92.15
Q4	95.00	91.29
2001		
Q1	99.85	94.57
Q2	99.19	94.22
Q3	101.55	96.67
Q4	101.91	96.94
2002		
Q1	103.14	94.31
Q2	103.12	96.36
Q3	107.21	97.40
Q4	109.24	98.65
2003		
Q1	113.01	103.90
Q2	115.94	106.71
Q3	115.85	107.61
Q4	117.16	106.88
2004		
Q1	118.49	110.80
Q2	117.27	110.97
Q3	117.34	112.49
Q4	119.40	113.90
2005		
Q1	120.52	116.26
Q2	119.77	115.05
Q3	117.95	117.52
Q4	117.27	116.79
2006		
Q1	119.31	117.37
Q2	119.73	119.90
Q3	122.41	119.45
Q4	120.60	121.57
2007		
Q1	121.81	118.29
Q2	123.28	123.89
Q3	119.98	129.34
Q4	122.22	129.82
2008		
Q1	122.14	134.89
Q2	123.45	139.42
Q3	121.32	135.51
Q4	118.23	134.82
2009		
Q1	116.35	132.71
Q2	116.87	128.67
Q3	115.78	127.41
Q4	115.02	127.86
2010		
Q1	111.63	119.96
Q2	108.83	115.63
Q3	106.54	113.09
Q4	103.06	115.20
2011		
Q1	106.06	112.89

Table E.4: Indices of Relative Wage Costs in Manufacturing Industry

	Average Hourly Earnings[a]		Unit Wage Costs[a]	
1999=100	Ireland	Major Trading Partners	Ireland[c]	Major Trading Partners
Year				
1990	69	71	166	90
1991	73	75	171	94
1992	76	79	163	97
1993	81	83	164	99
1994	82	86	155	98
1995	84	88	136	99
1996	87	92	135	100
1997	90	94	124	100
1998	95	97	110	101
1999	100	100	100	100
2000	106	105	97	99
2001	117	108	95	101
2002	125	112	88	101
2003	131	116	85	100
2004	137	119	85	98
2005	142	123	84	97
2006	149	126	85	97
2007	155	130	85	96
2008	163	135	86	101
2009	171	138	81	110
2010	171	140	72	104
2011[f]	171	142	69	104
2012[f]	172	146	69	105

	Relative Hourly Earnings[b]		Relative Unit Wage Costs[b]	
1999=100	National Currencies	Common Currency (€)	National Currencies	Common Currency (€)
Year				
1990	97	110	185	209
1991	97	107	181	201
1992	96	109	169	192
1993	98	103	165	174
1994	96	101	157	166
1995	95	101	137	146
1996	95	104	135	147
1997	95	104	124	136
1998	97	101	109	113
1999	100	100	100	100
2000	101	95	98	91
2001	108	102	94	88
2002	112	108	87	84
2003	113	117	85	87
2004	115	121	86	91
2005	116	122	86	91
2006	118	125	88	93
2007	119	130	88	95
2008	121	138	85	97
2009	123	142	74	86
2010	122	136	69	77
2011[f]	120	136	67	75
2012[f]	118	134	66	75

a In national currencies.

b A rise in the index implies a disimprovement in competitiveness, while a fall in the index implies an improvement.

c Changes in domestic unit wage costs should be interpreted with caution because of the strong influence of the chemicals sector in recent years.

Sources: Ireland – Central Statistics Office and Central Bank estimates.

Major trading partners comprise the United Kingdom, the United States, Germany, France, Italy, Belgium, the Netherlands, Spain and Singapore. Data on these were derived from the OECD and other sources.

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