Credit Card Debt in Ireland: Recent Trends

*By John Kelly and Aisling Reilly**

ABSTRACT

The rapid build-up of debt by Irish households over the past decade has attracted attention to all aspects of personal borrowing. While most of the increase in personal debt has come from residential mortgages, the ease with which debt can be run up on credit cards makes trends in credit card borrowing of particular interest. The Statistics Department introduced a new and expanded monthly return for credit card issuers in early 2004; data from this return are now available and are analysed in this article. Trends in total personal borrowing and consumer credit relative to personal disposable income are also presented, to provide a broader context for the discussion of credit card debt. While credit card debt now accounts for a higher proportion of consumer credit than it did a decade ago, this has taken place in the context of greater use of cards for convenience credit. Measures of competition and profitability in the Irish credit card market show that competition has increased since a previous study in 1999 and that margins on credit card business have narrowed as a result. While market penetration here is above the euro-area average, international comparisons reveal that it is well below that of countries like Finland, the UK and the US.

1. Introduction

Lending to the personal sector in Ireland has been growing substantially faster than personal disposable income in recent years. By end-September 2004, the amount of personal debt outstanding was close to €85 billion and had risen to well above 100 per cent of estimated disposable income in 2004. The rapid build-up of debt by Irish households over the past decade has attracted attention to all aspects of personal borrowing. While most of the increase in debt has come from residential mortgages, borrowing for consumption has also risen steadily. Although credit card debt is a relatively small proportion of consumer debt, the ease with which debt can be run up on credit cards, together with its unsecured nature, makes trends in credit card borrowing of particular interest.

A previous article on the Irish credit card market was published by the Bank in 2001 (O'Neill and Reilly, 2001). Since that time, credit card usage has expanded significantly and a number of new card providers have entered the market. In order to obtain more comprehensive information on developments in the credit card market, the Bank's Statistics Department began to collect an expanded range of data from credit card issuers in early 2004. These data are published for the first time in Table C14 of the Statistical Appendix to this Bulletin. The main changes are the extension of the table to include information on new spending

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and payments received each month, as well as a breakdown of these flows, card numbers and outstanding indebtedness between **personal** and **business** cards. The new series begin in January 2002 and efforts to improve data quality have resulted in some revisions to previously published data.

Increasing affluence and a growing trend towards electronic forms of payment have contributed to growth in credit card usage. These developments are reviewed briefly at the outset, while trends in total personal borrowing and consumer credit relative to personal disposable income are presented in the following section in order to provide a broader context for the discussion of credit card debt. The main emphasis is on an evaluation and explanation of developments in Irish credit card debt, as revealed in the expanded Table C14. In addition, competition and profitability in the Irish credit card market are measured and the findings are compared with similar calculations in the 2001 article. Finally, features of the Irish credit card market, such as the number of cards per thousand inhabitants and the number and average value of transactions, are compared with those of other countries, both within and outside the EU.

2. Credit Card Usage

Credit cards originally came into existence as a convenient means for high-income individuals to settle retail transactions without the necessity of carrying cash. Over time, their usage has expanded significantly against a background of growing affluence and technological developments leading to an increased emphasis on electronic forms of payment. Card markets in individual countries, however, have developed in different ways. In most European countries, credit cards act as delayed debit cards and are linked to either an overnight deposit account or a loan account. In the UK, France and Ireland, by contrast, credit cards are not usually linked to a particular deposit or loan account but provide a source of revolving credit, with a minimum amount being required to be paid each month.

In Ireland, credit cards perform three main functions: they act as substitutes for cash in the provision of ‘convenience’ credit (i.e., when outstanding balances are paid off in full at the end of each billing period); they allow holders to withdraw cash at ATMs; and they provide a source of revolving credit. Interestingly, the possibility of using credit cards as a source of revolving credit is now becoming available in other European countries. In Finland, for instance, earlier Visa cards were used exclusively as delayed debit cards but since 2001 customers have been able to opt for a Visa card with a credit function (Jyrkönen and Paunonen, 2003).

While growing affluence and increased consumption would of themselves be expected to lead to an increase in credit card usage, a move away from paper-based and towards electronic retail payment methods has hastened the process. The move towards electronic payments has been encouraged and reinforced by developments in the credit card infrastructure and an expansion in the range of retail outlets willing to accept card payments. Banks have also used pricing policy to encourage the use of electronic forms of payment. The result has been a marked expansion in credit card usage. A recent survey in the UK, for instance, found that credit cards were the most commonly cited type of unsecured debt, with some 26 per cent of households owing money on credit cards. This percentage had increased from 22 per cent in a survey conducted in 2000 and from 19 per cent in 1995 (May, Tudela and Young, 2004).

Economic and Monetary Union (EMU) and the introduction of the euro has also contributed to credit card usage, by leading to a reduction in the costs of cross-border electronic payments in euro. According to an EU Regulation, passed in 2001, charges for making payments or cash withdrawals by online debit or credit cards cannot be higher in other euro-area countries than they are in the customer's home country.[1] Article 3 of the Regulation states that ''with effect from 1 July 2002, charges levied by an institution in respect of cross-border electronic payment transactions in euro up to EUR12,500 shall be the same as the charges levied by the same institution in respect of corresponding payments in euro transacted within the Member State in which the establishment of that institution executing the cross-border electronic payment transaction is located''. From 1 January 2006, the €12,500 ceiling will increase to €50,000.

3. Growth of Credit Card Debt

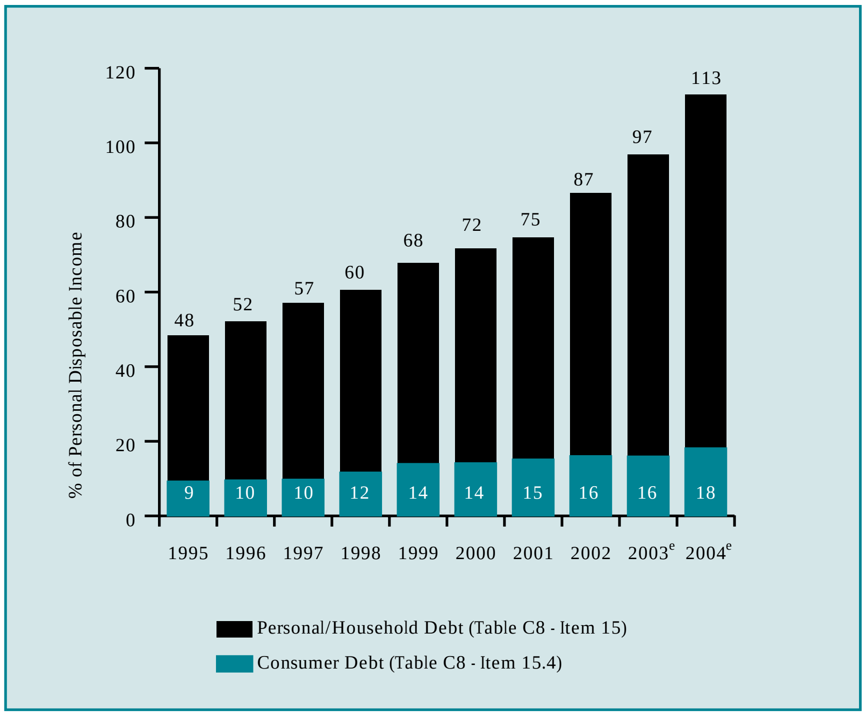
Private-sector credit (PSC), i.e., lending to households, non-financial corporations and non-bank financial institutions, has grown strongly in the past decade. Lending to households has been the main driving force behind the acceleration in PSC and household indebtedness is now at historically high levels. In 2002, lending to households accounted for over 80 per cent of the annual increase in PSC. Although this share declined somewhat in 2004, in the twelve months to September last the personal sector still accounted for 62.3 per cent or almost two-thirds of the total increase in PSC. Strong demand for residential mortgages accounted for most of the increase but there has also been steady growth in debt for consumption purposes. The result is that Irish households are now highly indebted compared with most of our European neighbours. At end-September 2004, an examination of household debt (i.e., personal debt) as a

1 Regulation (EC) No 2560/2001 of the European Parliament and of the Council of 19 December 2001 on cross-border payments in euro.

proportion of GDP ranked Ireland fourth amongst euro-area countries, with only the Netherlands, Portugal and Germany having a higher ratio. If GNP were used as the benchmark, Ireland's ranking would jump to second place.

Outstanding household debt amounted to €85 billion at end-September 2004, marking almost a six-fold increase since 1995. Personal disposable income has expanded at a considerably slower rate over the same time period (see Kelly, 2004, p.138). The consequences are illustrated in Chart 1, which shows that household indebtedness exceeded disposable income for the first time in 2004. The ratio of household debt to disposable income has increased in every year, bringing it up from 48 per cent in 1995 to some 113 per cent of estimated 2004 disposable income in September 2004. Although Ireland's debt/income ratio is still well below that of the UK, which was recently estimated to have reached 140 per cent (May, Tudela and Young, 2004), it has increased rapidly in recent years. This rapid accumulation of debt has increased the vulnerability of Irish households to fluctuations in income, especially those arising from job losses or higher interest rates, and may raise questions about borrowers' ability to repay should economic circumstances change.

Chart 1: Personal and Consumer Debt Ratios to Disposable Income

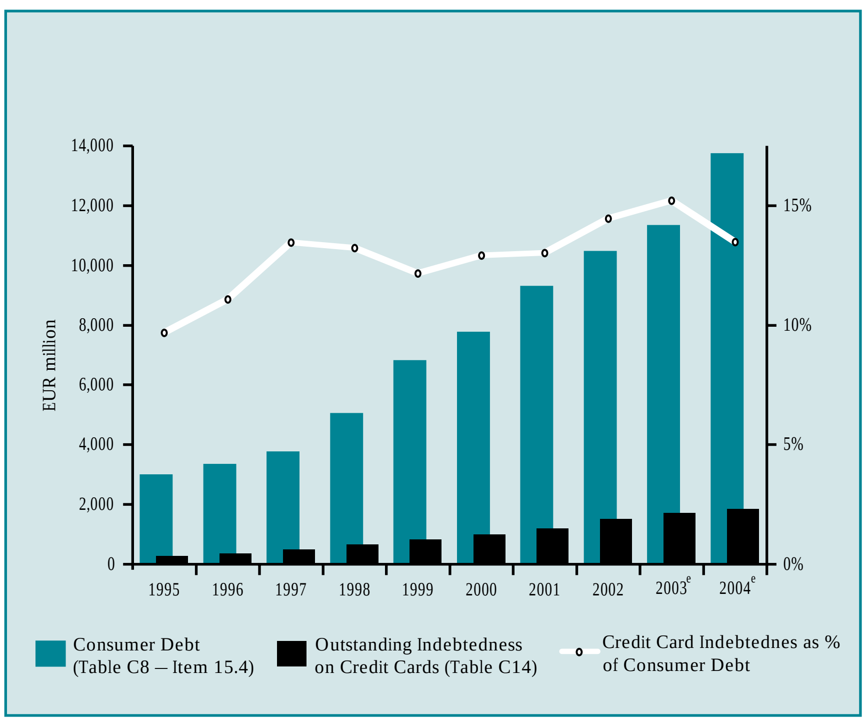


Around 80 per cent of lending to households is for housing purposes; 2 per cent is accounted for by lending for investment purposes while the remainder is classified as consumer credit, i.e., lending to households for personal use in the consumption of goods and services. From Chart 1, it can be seen that the ratio of consumer credit to disposable income has also grown at a

steady pace in the past ten years from 9 per cent in 1995 to an estimated 18 per cent at end-September 2004.

Over this period, the proportion of consumer credit accounted for by credit card debt has grown from just under 10 per cent in 1995 to about 15 per cent in 2003 before falling back to 13.5 per cent in 2004[2], partly as a result of strong growth in other consumer debt (Chart 2). This increased popularity of credit cards is to be expected against the background of Ireland's increased affluence and the trend towards electronic payments. The increase in credit card debt has, nevertheless, raised concerns about the impact on the financial health of households, given the ready availability of high credit limits, small minimum repayment requirements and high interest-rate charges. These concerns, however, should not be over-emphasised. At end-November 2004, the outstanding indebtedness on personal credit cards amounted to €1.8 billion, but this total included debt that will be paid off in full at the end of the interest-free period (convenience credit) as well as debt that will be revolved. Any rise in measured personal debt levels arising from households' increased convenience use of credit cards as a medium of exchange would not imply greater financial vulnerability for this sector.

Chart 2: Consumer Debt and Credit Card Debt



It is possible to calculate a measure of the convenience use of credit cards from the Bank's internal data, as card issuers have provided details of the interest-bearing portion of outstanding indebtedness. The difference between this and total debt provides a proxy for convenience use. The data show that the non-interest bearing balance as a percentage of outstanding debt

2 Data for 2004 refer to end-September.

on all credit cards averaged about 30 per cent in the period 2002 to 2004. This measure may overstate the use of convenience credit to a small extent, since balance transfers from one card issuer to another at an introductory interest rate of zero per cent are also included in the non-interest bearing balance.[3]

While data are not available for earlier years, it is reasonable to assume that the convenience use of credit cards has grown considerably in the past decade for a number of reasons. First, credit cards are a more secure form of payment than carrying large sums of cash. Second, their usage has increased as part of the general trend towards electronic payments. Third, the growing popularity of internet shopping and telephone bookings for the cinema, theatre etc., has boosted the convenience use of credit cards for daily transactions. The Irish Bankers' Federation (IBF) estimates that the number of credit card transactions has more than doubled in recent years from 37 million transactions in 1995 to 86 million in 2003. As a result, total credit card debt may be rising faster than interest-bearing balances and caution should be exercised when interpreting trends in outstanding debt over a number of years because of the increased and important role of convenience use.

Table 1: Credit Card Debt as a Proportion of Personal Debt and Disposable Income

€ million	Credit Card Debt	% of Personal Debt	% of Disposable Income
1995	290	1.9	0.9
1996	370	2.0	1.1
1997	504	2.3	1.3
1998	666	2.6	1.5
1999	829	2.5	1.7
2000	1,001	2.6	1.8
2001	1,210	2.7	2.0
2002	1,512	2.7	2.3
2003	1,723	2.5	2.4[e]
2004	1,850	2.2	2.5[e]

Note: Data for 2004 refer to end-September.
Source: CBFSAI.

Trends in credit card debt as a proportion of total personal debt and disposable income in Table 1 show that while it has declined as a proportion of personal debt in 2003 and 2004, it has continued to rise relative to disposable income. Studies in the UK have found that growth in credit card borrowing there has accounted for a large part of the increase in unsecured debt relative to disposable income and that there is a strong positive relationship between credit card arrears and household income gearing (Whitley, Windram and Cox, 2004). Data on the distribution of credit card debt by income levels in Ireland are not available, but its growth relative to disposable income here is modest compared with developments in the UK and partly reflects the increased use of convenience credit.

3 A portion of the non-interest bearing balance is also accounted for by new borrowing still covered by the interest-free period which will be revolved in the future.

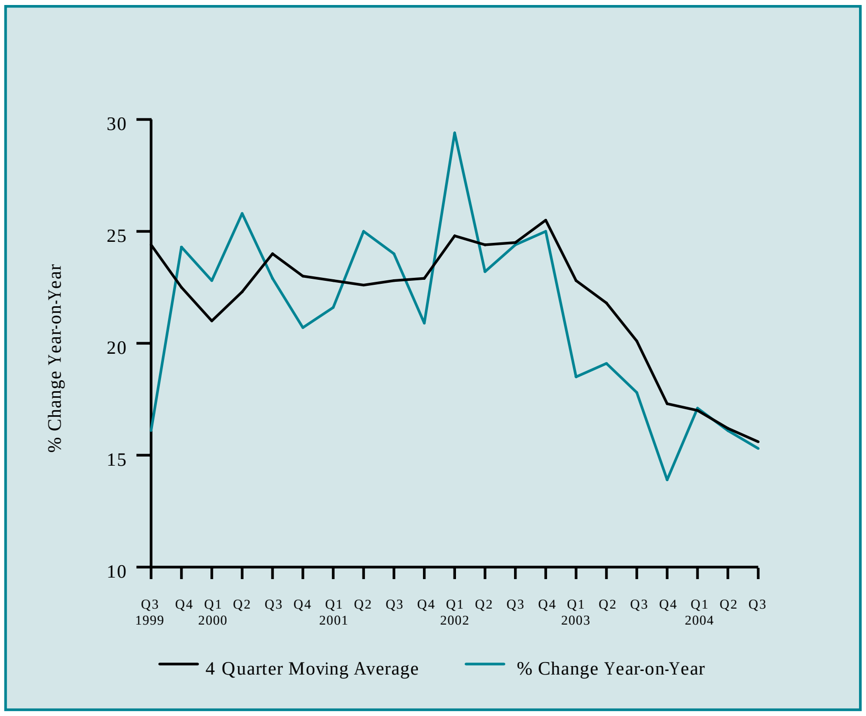
4. New Credit Card Statistics

Following discussions with credit institutions and the IBF, a new and expanded monthly credit card return was introduced in 2004. Data from this return, together with series back to January 2002, are published for the first time in Table C14 of the Statistical Appendix to this Bulletin.[4] In publishing the historic data, efforts have been made to improve the accuracy of previously published data. The data in Table C14 relate only to credit cards issued by Irish resident credit institutions to Irish residents.

Outstanding Indebtedness

Most interest relates to trends in the amount of debt outstanding on credit cards. The outstanding indebtedness series in the new table is consistent with the previous series going back to January 1998 and any revisions involved are small.[5] Perhaps the most important point to note with respect to outstanding indebtedness is that this figure is the aggregate of balances on customers' accounts at the end of each month and therefore includes convenience credit, which will be paid off in full in the following month, as well as extended revolving credit.

Chart 3: Growth in Credit Card Debt, 1999-2004



Growth rates for credit card debt over the five years from Q3, 1999 to Q3, 2004 are shown in Chart 3. Annual growth rates were quite volatile from quarter to quarter over this period. A four-quarter moving average, however, reveals a clearer trend. The growth in credit card debt was relatively stable in the 22-25

4 In future, Table C14 will be included in the Bank's **Monthly Statistics**, starting with the January 2005 issue which will be published on 28 February.

5 The largest revision is a rise of €26 million in June 2002.

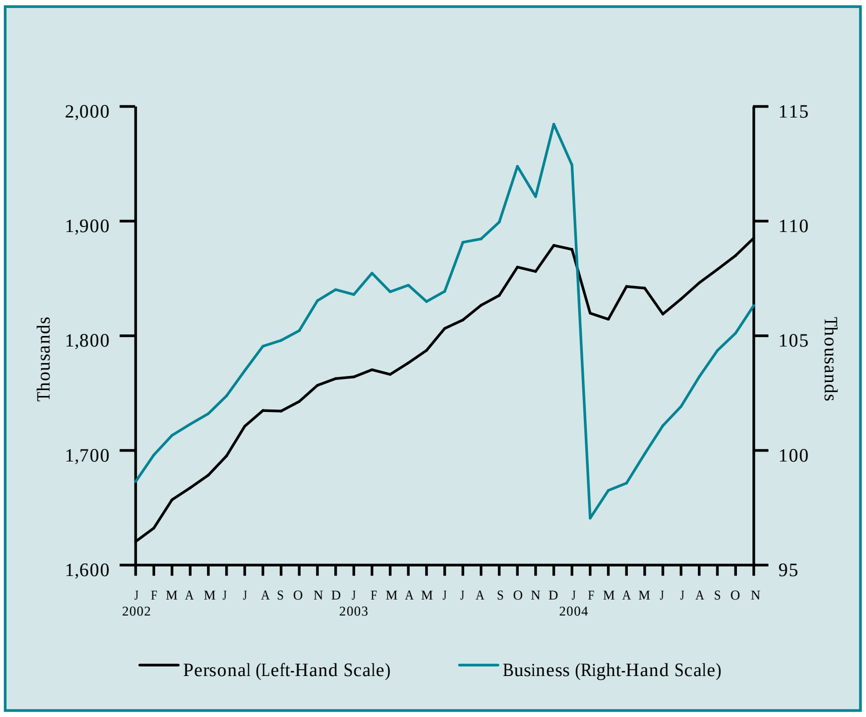
per cent range until the end of 2002. Thereafter growth rates slowed noticeably, to close to 15 per cent in Q3, 2004. There is, therefore, no sense of an explosion of credit card debt in Ireland.

A breakdown of outstanding indebtedness between personal and business credit cards is only available from May 2004. This shows that business cards account for a small portion of total indebtedness – between 3.8 and 4.6 per cent in the months for which data are available.

Credit Cards In Issue

While the number of credit cards in issue was published previously, efforts to improve data accuracy have resulted in significant revisions. The new series shows a considerable reduction in card numbers, with the difference from the former series increasing from some 476,000 cards in January 2002 to about 700,000 cards in January 2004. The revision stems mainly from the fact that some cancelled cards had previously been included in the total. Data prior to January 2002 also overstate the number of cards in issue and this should be borne in mind when examining longer time series.

Chart 4: Number of Credit Cards in Issue

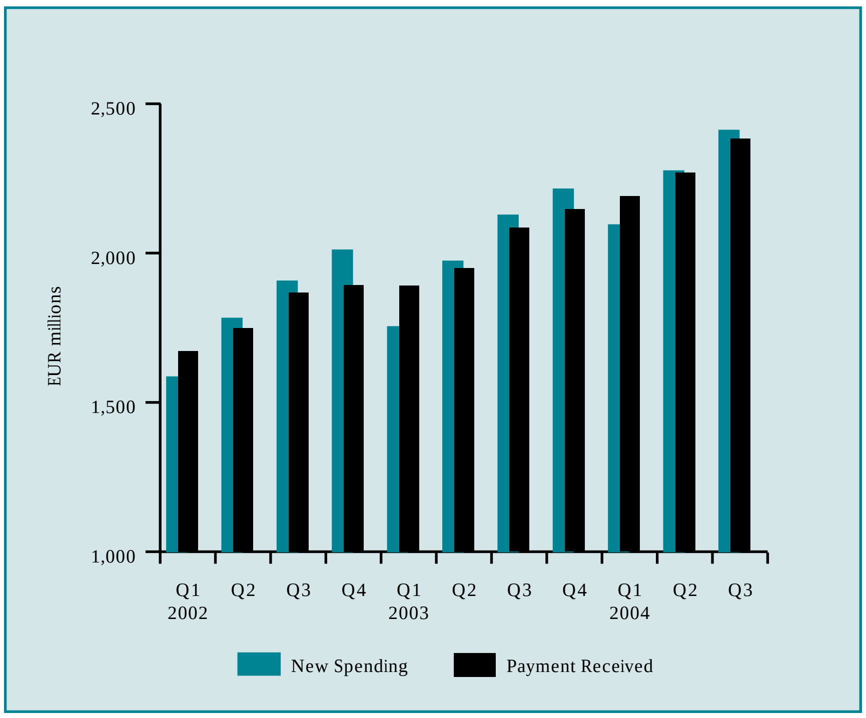


Card numbers are now broken down between personal and business cards and trends in each of these from January 2002 to November 2004 are shown in Chart 4. Since the number of personal cards in issue is much greater than that of business cards, separate axes are used to show trends. Following steady growth over the previous two years, there was a noticeable

decline in both series in February and March 2004. This decline most likely relates to customers wishing to avoid payment of the €40 stamp duty in future years on cards which are used infrequently or to avoid double payment while changing card provider.[6] The proportionately larger drop in business cards suggests greater cost-consciousness in the rationalisation of accounts and the cancellation of inactive or little used cards.

In this context, it should be recalled that the credit card series relates to the number of credit **cards** in issue and not to the number of credit card **accounts**. The Government stamp duty, on the other hand, applies to accounts not cards. Industry sources have confirmed that some rationalisation of account-holding took place as a result of the increase in stamp duty from €19 to €40 from April 2003. For instance, couples or families may now operate a number of cards from a single account rather than a number of separate accounts, while individuals holding both Visa and MasterCard accounts have tended to cancel one.

Chart 5: New Spending and Payments on Credit Cards



New Spending and Payments Received

The series showing new spending in each month and payments received during the month are introduced for the first time in this Quarterly Bulletin. While the series are probably of most interest to credit institutions for market-share analysis, they reveal an interesting pattern in the accumulation of credit card debt and its subsequent repayment. As the data depicted in Chart 5 show, most net debt is accumulated in the third and fourth quarters,

6 In his 2005 Budget, the Minister for Finance announced that the 2005 Finance Bill will provide a stamp duty exemption from the double charge arising from the switching of financial cards, such as credit cards.

especially the latter, while net repayments are made in the first quarter of each year. Indeed, the monthly data reveal that January is the month in which the largest net repayments occur. This probably reflects convenience credit card users paying-off large pre-Christmas expenditures.

On a technical issue, it might be expected that new spending less payments received would equate to the change in indebtedness. This is not precisely the case, since the spend figure does not include Government stamp duty, charges for various services, such as cash advances and currency conversion, insurance fees and interest.

Interest Rates

The interest-rate series in Table C14 is a simple average of the advertised APR charged by credit institutions on standard credit cards; it does not include rates on Gold Cards, special offers or introductory rates on balance transfers.[7] More comprehensive details on interest rates charged by individual institutions are provided in the November 2004 issue of the Credit Card Cost Survey, published by the Financial Regulator.[8]

Interest rates on credit cards are high relative to rates charged on other forms of lending but, from the lending institutions' point of view, they only apply to that portion of indebtedness which is rolled forward from month to month. Credit institutions, however, must also provide credit to fund payments made to retail outlets and service providers before convenience credit balances are cleared. Hence, the interest income, or **effective** rate of interest, earned on credit card business can be significantly less than the APR.

One means of estimating the level of this effective rate would be to weight the interest rates on convenience and extended credit by their respective shares in total indebtedness. Thus, the effective interest rate (í) might be calculated as

$$\alpha\,(0) + (1-\alpha)\ \text{APR} = \acute{\imath}$$

where α is the share of total credit card debt accounted for by convenience credit, which attracts a zero interest rate.

Internal Central Bank data suggest that, on average, non-interest bearing credit amounts to about 30 per cent of outstanding debt on all credit cards. This is consistent with the IBF's estimate that about half of all cardholders clear their account each month (IBF, 2004), as it would be reasonable to assume that balances on those accounts which are not cleared would, on average, be

7 The interest-rate series published previously related to the 'typical' APR charged by card providers on credit cards.

8 The Credit Card Cost Survey, Issue 1 (April 2004) and Issue 2 (November 2004) by the Financial Regulator are available on www.itsyourmoney.ie.

higher. On this basis, an estimate of the effective interest rate might be:

$$0.3(0) + 0.7(17.29) = 12.1\%$$

This result is very close to the industry average for interest income as a percentage of average debt outstanding during 2003 (see Section 5). Since credit card lending is one of the riskiest forms of credit, on a risk-adjusted basis this rate of return is not out of line with rates on other forms of unsecured lending, such as overdrafts. In fact it is well below the average rate of 13.17 per cent charged on personal overdrafts in November 2004 (Table B2.2, Statistical Appendix).

Even if credit card issuers do not receive excessive returns on the overall amount of credit card debt outstanding, the fact remains that customers who use their cards as a source of revolving credit incur high interest costs. The beneficiaries are the users of convenience credit, who pay neither interest nor charges to the card issuers for standard credit cards. In most other European countries credit institutions charge an annual fee for the use of credit cards while, for those cards with a revolving credit facility, the interest rates charged on outstanding balances are, in general, lower. A survey of typical annual fees and interest rates in European countries, conducted in 2001, found that Ireland was unique in having no fees on standard credit cards but had the second highest typical APR, behind Portugal (Retail Banking Research, 2002).

5. Competition and Profitability

There are two commonly used measures of competition in a market. The first, the four-firm concentration ratio (CR-4), measures competition by adding the market shares of the four largest firms. This technique showed a ratio of 90.8 for the Irish market in 2003, which implies that the remaining smaller competitors in the market had a combined market share of only 9.2 per cent. The second measure of competition, the Herfindahl-Hirschmann Index (HHI), is based on the relative size of all the firms in a market. The HHI is calculated by squaring the market share of each participant in a market and then summing the resulting numbers. If a market contains a large number of firms of relatively equal size, the index will be quite low. Increases in the index occur as the number of competitors in a market decreases and/or the disparity in size between the firms increases. The HHI ranges from close to zero in the case of perfect competition where a firm has no market power to 10,000 points where a pure monopoly exists. A market is generally classified as unconcentrated when the HHI is less than 1,000 points, moderately concentrated when the HHI is between 1,000 and 1,800 points and highly concentrated when the HHI is above 1,800 points (Ausubel, 1991).

Table 2: Concentration in the Irish Credit Card Market

Year	CR-4	HHI
1999	90.6	2,945
2000	90.6	2,735
2001	91.7	2,744
2002	90.3	2,584
2003	90.8	2,516

Note: Data for 1999 and 2000 differ from that published by O'Neill and Reilly (2001) because end-year, rather than annual average data for outstanding indebtedness have been used in these calculations. In addition, data for One Direct and EBS were not available at the time of the previous publication.
Source: CBFSAI.

It is clear from Table 2 that, while the credit card market is highly concentrated, competition has increased in recent years with the entry of new card providers into the market. Although the aggregated market share of the four biggest card issuers has remained largely unchanged in the last five years, the HHI has fallen from 2,945 points in 1999 to 2,516 points in 2003 reflecting a reduction in the difference between the market shares of the biggest firms and an increase in the number of competitors.[9] There are a number of credit card providers operating in the Irish market which are not affiliated to Irish financial institutions (e.g., Barclays and Tesco Personal Finance) and are therefore not included in the Bank's data. The inclusion of data on these card providers would result in some further reduction in the level of the HHI.

O'Neill and Reilly (2001) pointed out that one factor which facilitated the operation of uncompetitive conditions in the credit card market was poor consumer information. While differences in interest charges, fees and introductory offers exist between card providers, there may be a lack of knowledge among customers regarding such issues. The bi-annual publication of a 'Credit Card Cost Survey' by the Financial Regulator, which commenced in April 2004, should reduce search costs and promote greater awareness of differences in credit card costs across providers.

It is worth considering what impact the increased competition in the credit card market has had on the profitability of the industry. The interest rates charged on credit cards have attracted much attention in the past because of their high level and general unresponsiveness to reductions in official rates.[10] A survey was recently undertaken by the Statistics Department to examine the factors affecting profits in the credit card market, including the interest-rate spread, other income and operating costs. Table 3 shows average data on profitability for the principal credit card

9 The HHI was calculated using data for AIB, Bank of Ireland, EBS, MBNA, NIB, Permanent TSB and Ulster Bank. Data for One Direct are included from 2000 while data for American Express are included from 2002. ACC Bank was included in 1999 and 2000.

10 See O'Neill and Reilly (2001) for a summary of the reasons behind this interest-rate behaviour.

issuers engaged in the Irish market in 2003 and provides a comparison with a previous study based on data for 1999.

Table 3: Credit Card Profitability — Industry Average

€000	1999		2003	
	Amount	%[a]	Amount	%[a]
1. Interest income	14,316	12.6	35,645	11.9
2. Cost of funds	3,422	3.0	9,111	3.0
3. Interest margin	10,894	9.6	26,534	8.9
4. Other income	12,430	10.9	23,633	7.9
5. Total income	23,324	20.5	50,167	16.7
6. Loan losses	1,644	1.4	5,384	1.8
7. Fraud	633	0.6	1,632	0.5
8. Operating costs	10,228	9.0	21,458	7.2
9. Total costs	12,505	11.0	28,474	9.5
10. Net margin (5-9)	10,820	9.5	21,693	7.2

a Figures are expressed as a percentage of average debt outstanding.
Source: CBFSAI.

The data for 2003 show that interest income as a percentage of average debt outstanding, ranged from 10.1 per cent to 13.5 per cent, with an industry average of 11.9 per cent.[11] The average cost of funds was 3 per cent of debt outstanding, leading to an average interest margin of 8.9 per cent. Other income amounted to 7.9 per cent of debt outstanding. Operating costs varied considerably across institutions but amounted to an industry average of 7.2 per cent of outstanding debt. Card issuers also incurred costs of 2.3 percentage points, equivalent to about one-fifth of interest income, arising from loan losses and fraud. Subtracting total costs from total income gives an average net margin on credit card business of 7.2 per cent of debt outstanding in 2003.

A similar profitability study was contained in O'Neill and Reilly (2001) based on industry data for 1999. A comparison of the income and cost structures shows a considerable reduction in the net margin from 9.5 per cent of average debt outstanding in 1999 to 7.2 per cent in 2003, as outlined above. A striking feature in the two sets of data is the sharp fall in other income as a per cent of average debt outstanding between 1999 and 2003. Merchant service charges (i.e., the fees paid by a retailer to a merchant acquirer) are a considerable source of other income for those card issuers who also act as merchant acquirers. The decline in the other income share in 2003 is partly explained by a restructuring of the acquiring business in the market as a whole. Other income also includes revenue earned from fees (such as cash advance fees, late payment fees, non-euro purchase fees, etc.) and annual fees on Gold Cards. Operating costs (e.g., staff costs, network fees, marketing costs) impose a considerable cost burden on card issuers and represent a sizeable barrier to entry for new competitors. Technological

11 All references in the following paragraphs to 'debt outstanding' are based on average debt outstanding for the main credit card issuers in 2003.

advances however, have resulted in increased usage of credit cards, enabling card providers to enjoy economies of scale. This is borne out in the data where operating costs as a percentage of debt outstanding fell from 9 per cent in 1999 to 7.2 per cent in 2003. Overall, it appears that the entry of new competitors has impacted on profit levels in the credit card market.

The roll-out of chip and PIN credit cards, which commenced in late 2004, is expected to combat fraud and increase card usage as a result of greater security. While the implementation of the new technology is very expensive for card issuers, these costs should be partly offset by an expected reduction in retail card fraud of between 50 and 80 per cent (The Banker, January 2005).

6. International Comparisons

Credit card markets in Europe have developed in different ways. They are characterised by varying levels of maturity, cardholding and, above all, card usage. Market penetration by credit card issuers in Ireland has increased in recent years and is now above the euro-area average.

Table 4: An International Comparison of Credit Card Usage

2002	No. of credit cards per 1,000 inhabitants	No. of transactions per inhabitant	Average value per transaction (€)
Belgium	294	5.5	106.3
Germany	391	7.5	77.9
Greece[a]	499	4.1	64.1
Spain	517	9.9	59.7
Ireland	**456**	**20.5**	**87.5**
Italy	375	6.2	95.0
Luxembourg	738	31.2	84.6
Netherlands[a]	316	2.8	115.8
Austria[a]	259	4.6	117.1
Portugal	371	25.1	38.1
Finland[a]	906	24.4	50.8
Euro Area[b]	**411**	**8.3**	**81.2**
Denmark	101	2.6	122.2
Sweden[a]	472	7.8	103.8
UK	1,066	31.8	102.4
Canada	1,653	47.5	62.3
Japan[a]	1,919	18.4	80.3
Switzerland	454	11.1	114.8
US	4,361	62.0	85.9

Notes: ***a*** Includes cards with a delayed debit function.
b Weighted average excluding countries for which data are not available.
Source: ECB Blue Book Addendum, April 2004; BIS Red Book Statistical Update, October 2004.

Data published in the ECB's Blue Book[12] show that the number of credit cards per 1,000 inhabitants here was 456 in 2002, compared with a euro-area average of 411. This represents a substantial increase in the card-holding population over the past decade or so. In 1990, Ireland had only 176 credit cards per 1,000 inhabitants; this figure rose to 304 in 1999 and climbed to 453 in 2001. Finnish residents hold the highest number of credit cards in the euro area with 906 cards per 1,000 inhabitants in 2002, while the UK has the highest market penetration in the EU with 1,066 cards per 1,000 inhabitants. The number of credit

12 Payment and Securities Settlements Systems in the European Union (Blue Book), European Central Bank, April 2004.

card transactions per inhabitant increased from 12.5 in 1999 to 20.5 in 2002, ranking Ireland fourth out of the euro-area countries in terms of its usage of credit cards. The ECB data show that only Luxembourg (31.2), Portugal (25.1) and Finland (24.4) have a greater usage of credit cards as a payment instrument. In addition, the value per transaction has also increased here over the same time period, rising from €69[13] to €87.50.

7. Conclusions

Debt outstanding on credit cards has increased substantially in recent years as a result of both an increase in the number of cards in issue and the amount outstanding per card. This is in line with a general trend of increased market penetration in Europe and a move towards electronic retail payment methods. While credit card debt now accounts for a higher proportion of consumer credit and disposable income than it did a decade ago, this is not necessarily a matter of concern. There are indications that the proportion of convenience credit in the total may also have increased, so that longer-term revolving credit may have grown more slowly than the total.

New data providing a breakdown between business and personal cards are now available, as are series for new spending and payments received. Credit card debt is usually included as part of personal-sector credit and the figures for outstanding indebtedness on business cards confirm that this involves only a mild exaggeration, with only some 4 per cent of the total attributable to business cards. The spending and payments received series reveal a cyclical pattern in the build-up of debt, with most net debt being accumulated in the third and fourth quarters and net repayments being made in the first quarter of the year.

The level of interest rates charged on uncleared credit card balances has frequently been the subject of critical comment. When account is taken of payments made by credit card providers which earn no interest, the average return on credit card lending is close to 12 per cent. This is not out of line with interest rates on unsecured credit in similar risk categories and, indeed, is below the average interest rate on personal overdrafts. The main beneficiaries of the high interest rates are convenience users of credit cards, who clear their balances in full each month but pay nothing to credit institutions for the period of interest-free credit which they receive.

Measures of competition show that while the Irish credit card market is highly concentrated, competition has increased in recent years. This has been reflected in some squeezing of the net margin on credit card business, which fell by over two percentage points between 1999 and 2003. This fall occurred

13 This number was reported as €87 in Table 1 in O'Neill and Reilly (2001) but has since been revised in the ECB's Blue Book (April 2004).

despite increased efficiency, leading to a reduction in the proportion of the gross interest margin going to fund operating and other costs.

Finally, although market penetration by credit card issuers plateaued in 2001-2002 and Ireland is now above the euro-area average, international comparisons suggest that considerable scope for growth remains. Finland has twice as many cards as Ireland per 1,000 inhabitants, while the UK has almost two and a half times as many and the US has just under ten times our amount. The pace at which the Irish credit card market grows will depend on a number of factors; these include economic growth, improvements in technology, the extent to which credit institutions use pricing policy to encourage electronic payment methods and changes in the stamp duty regime.

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