Banc Ceannais na hÉireann
Central Bank of Ireland
Eurosystem

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Quarterly Financial Accounts

Irish households are the third most indebted in the European Union

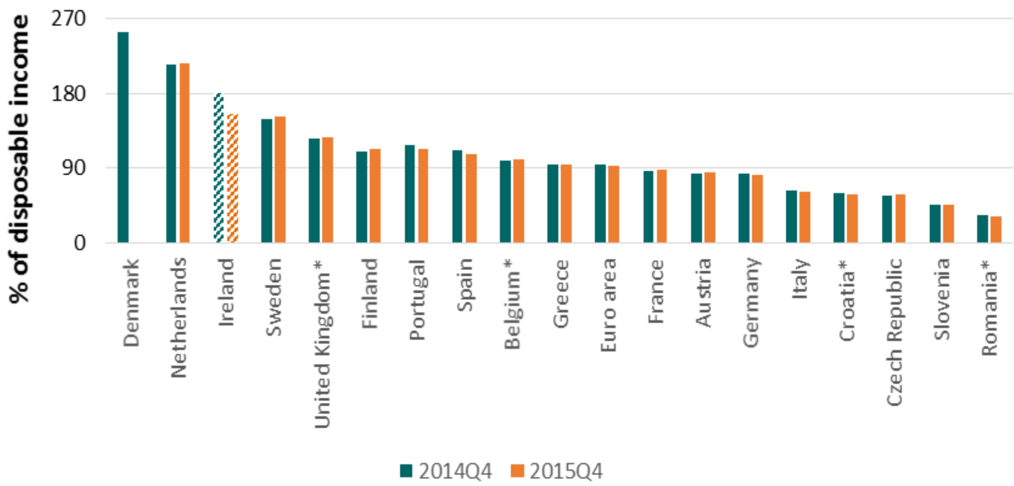
- Despite a significant decline in debt as a proportion of disposable income during 2015, Irish households continued to be the third most indebted in the European Union.

- Household debt as a proportion of disposable income fell during Q4 2015 to 155.1 per cent. This represented a decrease of 4.7 percentage points. This decline reflected both a fall in the household debt over the quarter, as well as, strong growth in annualised disposable income.

- Household net worth increased by 1.4 per cent to €626.1bn, or €135,078 per capita, in Q4 2015. This increase was largely driven by a rise in housing asset values.

- NFC debt as a percentage of GDP increased in Q4 2015, rising 5.3 percentage points to 187.4 per cent. This marked the first increase since Q4 2014.

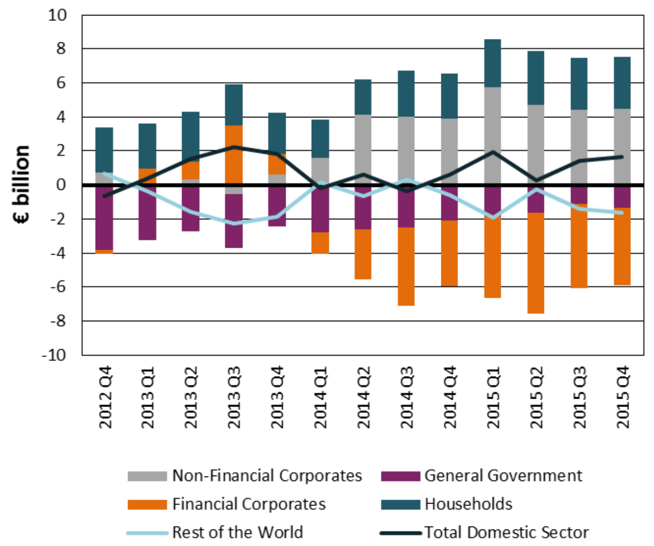
Household Debt at Q4 2014 and Q4 2015, Cross Country Comparison



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

The domestic economy continued to be a net lender to the rest of the world during Q4 2015, as the net borrowing of government and financial corporations was exceeded by deleveraging by households and non-financial corporations (Chart 1.1). Net lending by the domestic economy increased by approximately a quarter of a billion in Q4 2015 compared to the previous quarter. While net lending by non-financial corporations increased slightly, a decrease of almost half a billion in the net borrowing of financial corporations was the main factor in this change.

Chart 1.1 Net Lending/Borrowing of all Sectors

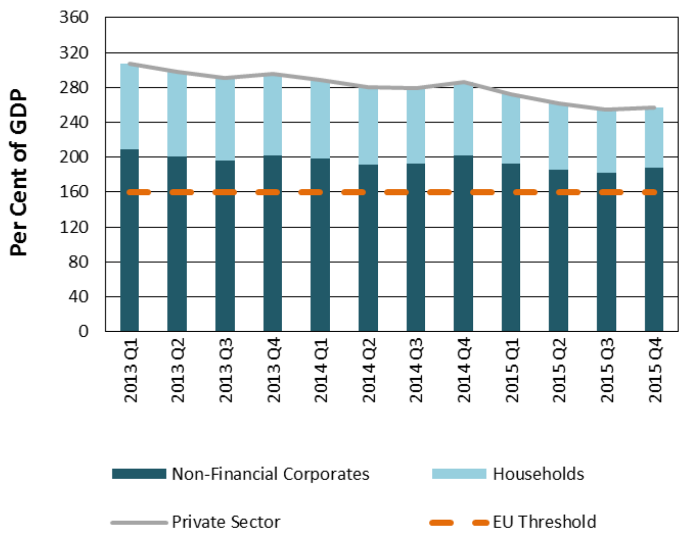


2. Private Sector Debt

Following three consecutive quarters of decline, the ratio of private sector non-consolidated debt to GDP rose in Q4 2015, increasing by 2.1 percentage points to 257.2 per cent of GDP. Annualised GDP grew by €7.2bn but was exceeded by an increase in private sector debt of €22.7bn. The latter was largely due to Multinational Corporation (MNC) activities. The rise in private sector debt was fully attributable to an increase in NFC debt over the quarter. In contrast, household debt continued to decline, falling by €1.6bn in Q4 2015.

Private sector indebtedness forms part of the EU Commission's scoreboard of macroeconomic imbalances. The Commission sets an indicative threshold of 160 per cent of GDP for private sector debt sustainability, substantially lower than Ireland's 257.2 per cent. However, this threshold does not take account of the large MNC sector in Ireland.

Chart 2.1 Private Sector Debt to GDP



[1] A positive value indicates that a sector is a net lender and a negative value indicates that a sector is a net borrower. Overall, the sum of net lending/borrowing of all sectors will sum to zero as, for every lender, there must be a corresponding borrower.

3. Household Sector

Household net worth[2] increased by 1.4 per cent to €626.1bn, or €135,078 per capita, in Q4 2015 (Chart 3.1). This increase was largely driven by a rise in housing asset values (€6.3bn), as well as, a further decline in household liabilities (€1.6bn). Compared to a post-crisis low of €444.0bn in Q2 2012, household net worth has risen by 41 per cent. However, it is still 12.8 per cent lower than its pre-crisis peak of €718bn in Q2 2007.

Household debt continued to decrease during Q4 2015, falling by €1.6bn, or 1.1 per cent, to €149.6bn (Chart 3.2). This represented a household debt per capita of €32,269. Household debt is now at its lowest level since Q1 2006. The decline over the quarter reflected net debt repayments (-€1.1bn) and debt write-downs/write-offs (-€0.6bn), which were slightly offset by positive reclassifications (€0.1bn). Household debt has declined continuously for the last 29 quarters and has fallen by 26.6 per cent since its peak of €203.7bn at Q3 2008.

Indicators of household debt sustainability continued to improve during Q4 2015 (Chart 3.3). Debt as a proportion of disposable income fell over the quarter, from 159.8 per cent to 155.1 per cent, reflecting both the decline in household debt, as well as, strong growth in annualised disposable income. The latter is now at its highest level since Q2 2009. Overall, the ratio of household debt to disposable income has fallen by 60.2 percentage points since its peak of 215.3 per cent in Q2 2011. Debt as a proportion of total assets also decreased, falling from 19.5 per cent to 19.1 per cent over the quarter.

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

Chart 3.1 Household Net Worth

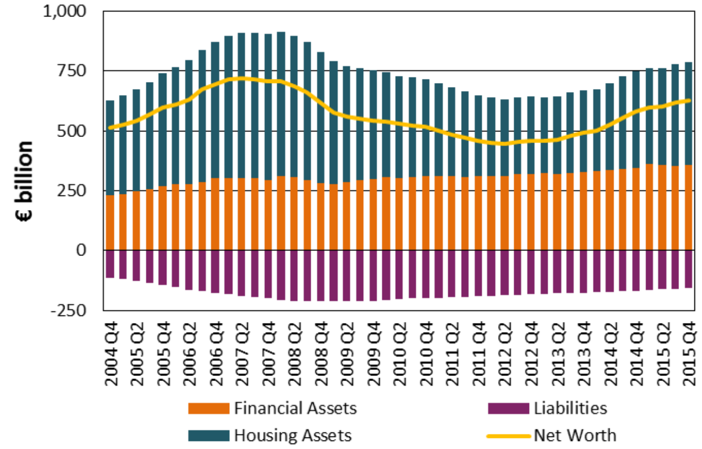


Chart 3.2 Household Debt

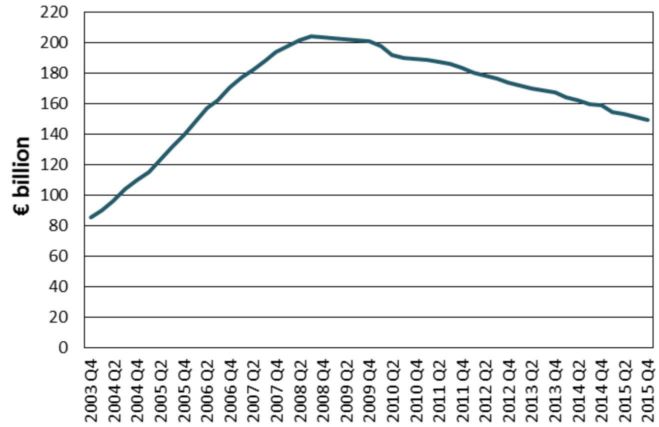
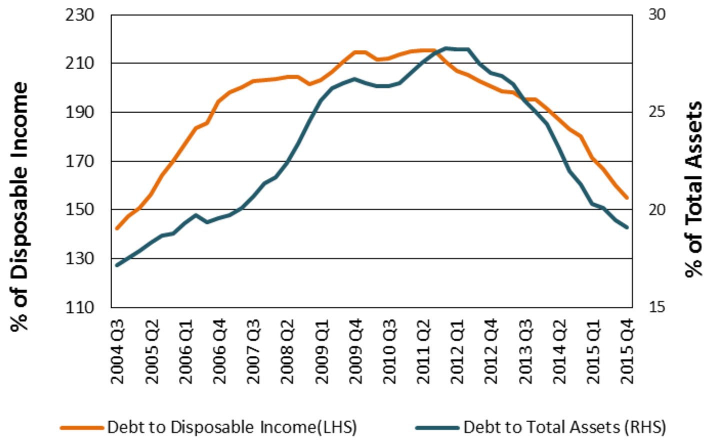
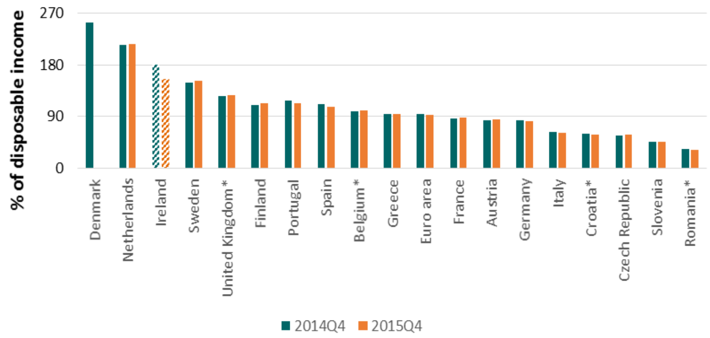


Chart 3.3 Household Debt Indicators



Despite a significant decline in debt as a proportion of disposable income over the year to Q4 2015, Irish households continued to be the third most indebted in the European Union. Chart 3.4 shows that Irish household debt fell by 25.1 percentage points over the year, significantly more than any other country examined. Spanish and Portuguese household debt also fell considerably over the year declining by 6.1 percentage points and 4.6 percentage points, respectively.

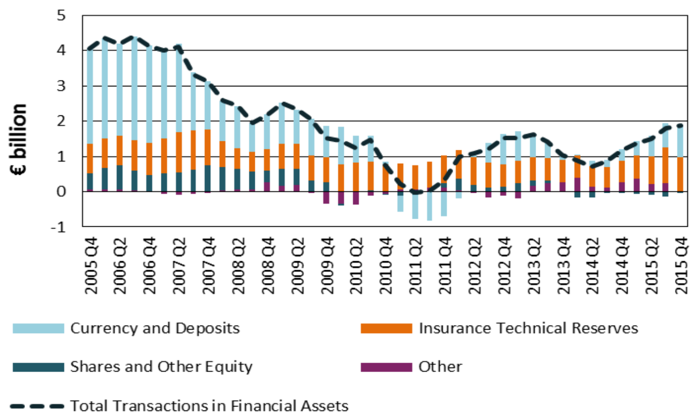
Chart 3.4 Household Debt at Q4 2014 and Q4 2015, Cross Country Comparison



Source: European Central Bank.
Note: For countries with * latest available data is for Q3 2015. For Denmark latest available data is Q4 2014.

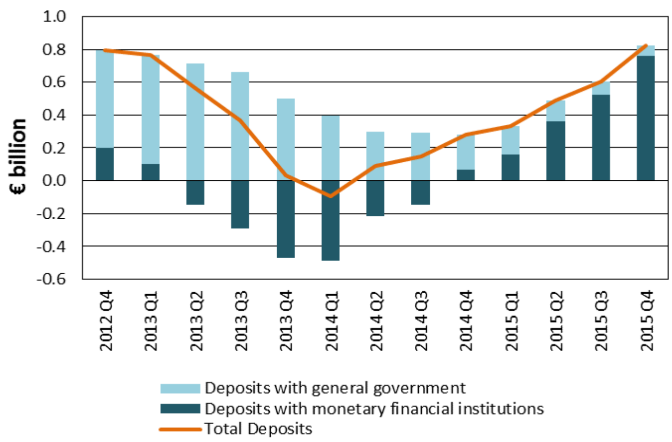
Household investment in financial assets rose further during Q4 2015, reaching €1.9bn. This represented the highest level of investment in financial assets by households since Q3 2009. The increase in financial assets over the quarter largely reflected transactions into deposits. Transactions in these assets has increased every quarter since Q1 2014. Most of households' financial investments over the quarter continued to be in the form of insurance technical reserves, albeit to a lesser extent than in the previous quarter.

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



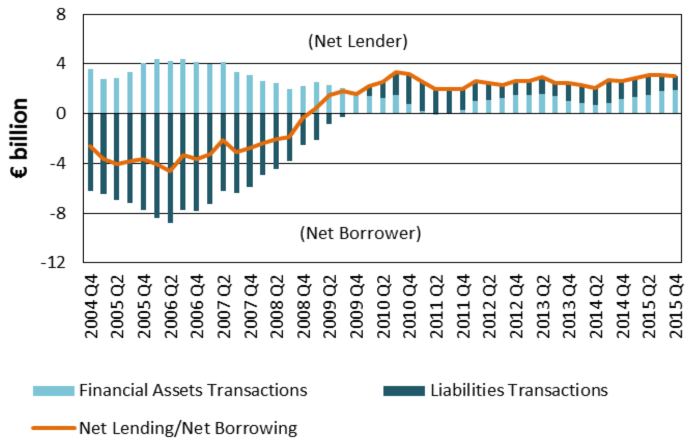
Household investment in deposits continued on an upward trend during Q4 2015, totalling €0.8bn (Chart 3.6). Over the quarter, households continued to increase lodgements with MFIs. Household deposit transactions with MFIs have increased every quarter since Q1 2014. In contrast, households have reduced lodgements with government deposits accounts every quarter since Q2 2013.

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



Household net lending continued to remain largely unchanged during Q4 2015 at €3.1bn. Chart 3.7 shows that the increase in transactions in financial assets over the quarter of €0.1bn was offset by a similar decrease in liabilities transactions.

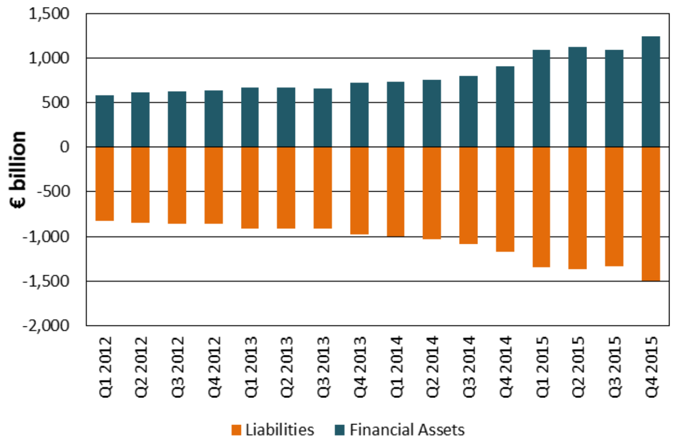
Chart 3.7 Household Net Lending/Borrowing, Four-Quarter Moving Average



4. Non-Financial Corporate Sector

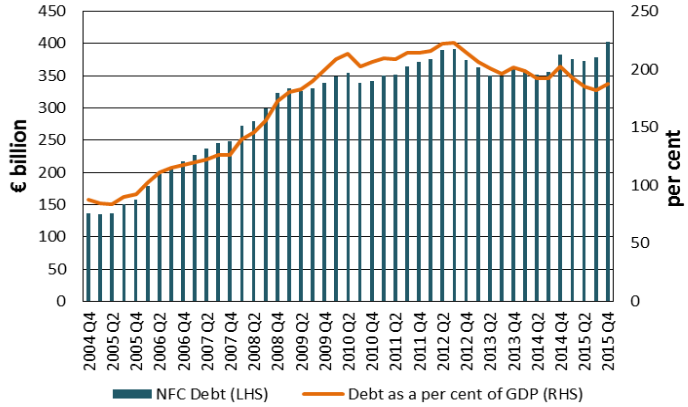
After a contraction in the previous quarter, NFC balance sheets returned to a position of growth in Q4 2015, with financial assets increasing by 14.4 per cent and liabilities increasing by 12.4 per cent (Chart 4.1). The expansion was largely driven, on both the asset and liability side of the balance sheet, by positive movements in the valuation of equities. This reflected the upturn in global stock markets that emerged at the end of 2015. The value of equity assets rose by €79bn and the value of equity liabilities rose by €121.7bn.

Chart 4.1 NFC Assets and liabilities



NFC debt as a percentage of GDP increased in Q4 2015, rising 5.3 percentage points to 187.4 per cent. This marked the first increase of this economic indicator since Q4 2014 (Chart 4.2). This trend reflected a rise in NFC debt of €24.3bn, more than offsetting the effect of a €7.2bn increase in annualised GDP.

Chart 4.2 NFC Debt



The main contributor to the rise in NFC debt was an increase in loans held by domestic OFIs of €21.8bn. During Q4 2015 there was also an increase in loans held by non-residents of €6.7bn. However, when analysing Irish NFC debt trends, it is important to note that Ireland has substantial multinational corporation activities, which have little interaction with the domestic financial system. NFC loans held by domestic MFIs and other NFCs remained in decline, reflecting in part ongoing deleveraging by indigenous Irish firms with respect to these sectors (Chart 4.3).

NFC debt as a proportion of both financial assets and liabilities declined during Q4 2015 (Chart 4.2). Debt as a percentage of financial assets decreased to 32.3 per cent, due to a rise in financial assets of €156.8 bn. Debt relative to total liabilities declined to 26.8 per cent, due to an increase in total liabilities of €165 bn. This represents a fall of 34.4 percentage points and 20.8 percentage points respectively, since their peak levels in Q1 2009.

Chart 4.3 Domestic and Foreign Financing of NFC Loans

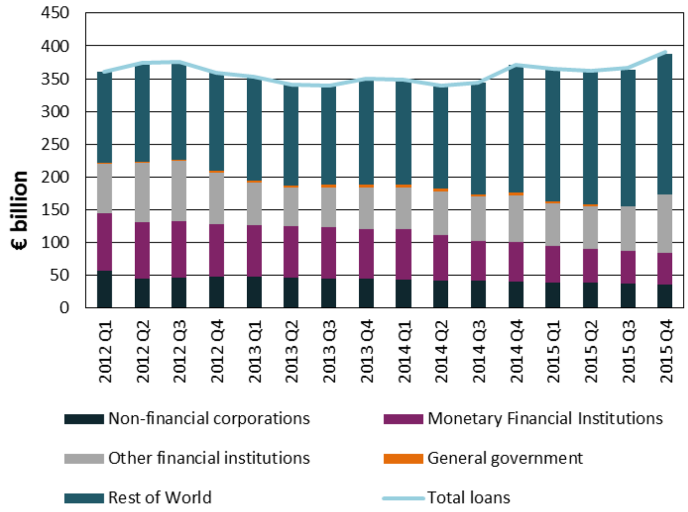
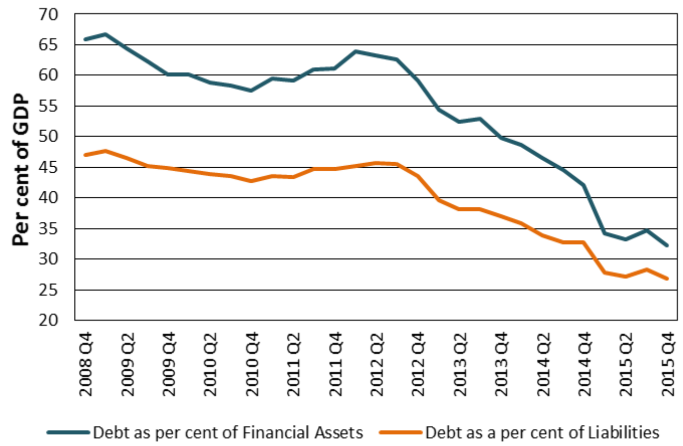


Chart 4.4 NFC Debt Sustainability



4. Further information

The full data series for Ireland, quarterly commentary and notes on compilation are available from the Central Bank website at:
http://www.centralbank.ie/polstats/stats/qfaccounts/Pages/releases.aspx

AFA published by the CSO and QFA published by the Central Bank show differences for the MFI and government sectors. These arise from the classification and revision practices adopted by each institution following the introduction of ESA 2010. These differences are fully explainable and do not draw into question the quality of the respective statistical data. Both institutions are working closely to ensure a consistent approach in future publications.

Euro area statistics are available from the ECB website at:
www.ecb.int

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