Irish households become the fourth most indebted in the European Union

- Irish households fell from being the third most indebted in the European Union to the fourth most indebted during Q1 2016. This was largely due to the continued reduction in Irish household debt, as well as, further increases in Irish disposable income.

- Household debt as a proportion of disposable income now stands at 149.4 per cent. This is its lowest level since end-2004.

- Household net worth increased by 0.3 per cent to reach €628.7bn, or €132,141 per capita. The increase in net worth was largely driven by a rise in housing asset values (€1.7bn), as well as a further decline in household liabilities (€0.9bn).

- NFC debt to GDP declined by 9.8 percentage point over the quarter, falling to €257.3bn. Irish NFC debt has been extremely volatile in recent quarters due to the impact of domiciled MNCs on debt and GDP.
1. **Net Lending/Borrowing of All Sectors**

The domestic economy continued to be a net lender to the rest of the world during Q1 2016, 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 substantially over the year to Q1 2016, reflecting increased net lending from non-financial corporations (NFCs) as well as reduced net borrowing by financial corporations. Net lending by domestic sectors amounted to €4.5 billion in Q1 2016.

2. **Private Sector Debt**

These latest private sector debt as a percentage of GDP figures incorporate recent CSO revisions to the National Accounts and International Investment Position. The revisions incorporate substantial developments for multinational corporations (MNCs), including redomiciling of some corporations and corporate restructuring. These activities contributed to significant increases in GDP and NFC debt from 2014 onwards. Private sector debt as a percentage of GDP peaked in Q1 2015 at 400.7 per cent, and has since declined substantially to 315.2 per cent in Q1 2016. This decline has been driven primarily by growth in annualised GDP over the period, but is also reflective of falling private sector debt, which has contracted by 3.7 per cent since Q1 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 315.2 per cent. However, this threshold does not take account of the large MNC sector in Ireland.

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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 increased by 0.3 per cent, or €2.1bn, to €628.7bn in Q1 2016 (Chart 3.1). Household net worth per capita now stands at €132,141. The increase in net worth was largely driven by a rise in housing asset values (€1.7bn), as well as a further decline in household liabilities (€0.9bn). This was partially offset by a decline in households’ holdings of financial assets (€0.5bn). Compared to a post-crisis low of €454.1bn in Q2 2012, household net worth has risen by 38.5 per cent. However, it is still 12.4 per cent lower than its pre-crisis peak of €718bn in Q2 2007.

Household debt continued to decrease during Q1 2016, falling by €1.1bn, or 0.7 per cent, to €148.5bn (Chart 3.2). This represented a household debt per capita of €31,216. Household debt is at its lowest level since Q1 2006. The decline over the quarter reflected net debt repayments (-€0.3bn), debt write-downs/write-offs (-€0.3bn) and negative reclassifications (-€0.5bn). Household debt has declined continuously for the last 30 quarters and has fallen by 27.1 per cent since its peak of €203.7bn in Q3 2008.

Indicators of household debt sustainability continued to improve during Q1 2016 (Chart 3.3). Debt as a proportion of disposable income fell over the quarter, from 152.7 per cent to 149.4 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 Q1 2009. Overall, the ratio of household debt to disposable income has fallen by 65.9 percentage points since its peak of 215.3 per cent in Q2 2011. Debt as a proportion of total assets also decreased, falling from 19.1 per cent to 18.9 per cent over the quarter.

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).

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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).
Following the notable decline in debt as a proportion of disposable income between Q1 2015 and Q1 2016, Irish households have fallen by one place to rank as the fourth most indebted in the European Union. Irish household debt now sits at 149.4 per cent of disposable income, a 13.3 percentage point improvement since Q1 2015. Over the year Danish household debt fell significantly more than any other country examined, declining by 23.2 percentage points. In contrast to this, Swedish households saw a 4 percentage point increase over the same period as they climbed to become the third most indebted in the European Union, with a household debt level of 153.5 per cent of disposable income.

Household investment in financial assets decreased during Q1 2016, falling to €1.7bn. The reduction in financial assets over the quarter largely reflected a fall in transactions of insurance technical reserves. This marked the second consecutive quarter in which transactions in these assets have decreased. The majority of households’ financial investments over the quarter were in the form of currency & deposits, while shares & other equity experienced positive transactions for the first time since Q4 2013.

Household investment in deposits was marginally lower during Q1 2016, standing at €0.8bn (Chart 3.6). Over the quarter, households decreased lodgements with MFIs. This marked the first time since Q4 2013 that household deposit transactions with MFIs had declined. In contrast, households increased lodgements with government deposit accounts for the first time since Q1 2013.
Household net lending fell to a level of €2.4bn during Q1 2016. Chart 3.7 shows that the decrease in financial assets transactions (€0.2bn) was accompanied by a larger decline in liabilities transactions (€0.4bn). Over recent quarters net lending has become increasingly driven by higher investment in financial assets, as opposed to deleveraging.

4. **Non-Financial Corporation Sector**

Irish NFCs are significantly impacted by the activities of large MNCs. These latest NFC results incorporate the recent annual revisions to the CSO’s International Investment Position (IIP). The revisions include large MNCs which redomiciled to Ireland or moved significant parts of their balance sheets to Ireland during 2014 and 2015. These entities also contributed towards some of the very substantial increase in Irish GDP for 2015.

During Q3 2014 and Q1 2015, MNC activities resulted in substantial increases in NFC debt (Chart 4.1). At Q1 2015, NFC debt was at its highest level to date at €687bn. By Q1 2016, Irish NFC debt had fallen by €25.3bn to €661.5bn. The decline in debt over the past year largely reflected exchange rate movements. Debt as a percentage of GDP fell from 327.5 per cent in Q1 2015 to 257.3 per cent in Q1 2016. This reflected both falling NFC debt, as well as, substantial GDP growth during 2015.

Focusing on the most recent quarter, NFC debt fell by €21.6bn during Q1 2016. The decline reflected valuation changes over the quarter (€21bn) due mostly to exchange rate movements. This was partially offset by net repayments of debt (€0.5bn). Debt as a percentage of GDP fell by just under 10 per percentage points over the quarter. This reflected both the decline and further increase in annualised GDP.
Irish NFC debt was the second highest in the EU at Q1 2016 (Chart 4.2). Luxembourg, which also has a lot of large MNCs relative to the size of its economy, had the highest debt at 349 per cent of GDP. The chart also highlights how volatile Irish NFC debt to GDP has been in recent years compared to other euro area countries.

Chart 4.3 shows that 74.1 per cent of NFC debt was held by non-residents at Q1 2016. This represents a 35.8 percentage point increase compared to Q1 2012. During Q1 2015 alone, debt held by non-residents increased by €267.1bn, largely due MNC activities. The substantial increase in debt held by non-residents reflects this corporate activity and explains why exchange rate movements have had a significant impact on NFC debt in some quarters. In contrast, debt held by Irish residents has been on a downward trend in recent years. Debt held by residents stood at €168.1bn at Q1 2016, a decrease of 24.8 per cent from Q1 2012. This partly reflected NFC deleveraging with Irish MFIs3.

Since Q1 2012, NFC assets and liabilities have increased by 117.6 per cent and 111.9 per cent, respectively (Chart 4.4). Again, this largely reflected MNC activities. Net financial assets (financial assets minus liabilities) became even more negative since Q1 2015. This is because some MNCs had large non-financial assets or relocated substantial non-financial assets to Ireland.

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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.