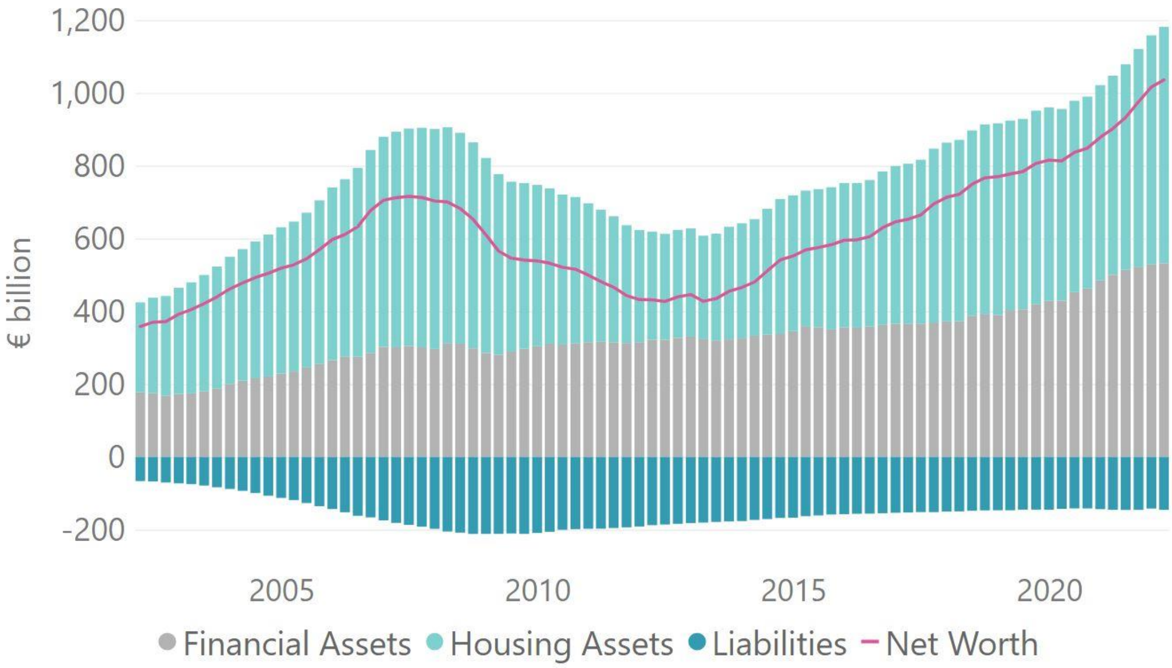
Quarterly Financial Accounts

Continued appreciation of housing assets drives increase in household net wealth to record high in Q1 2022

- Household net wealth increased by €19.6bn in Q1 2022, to reach a record high of just over €1trn. However, this growth may not reflect the underlying experiences of all households, or the distribution of wealth.
- Household housing assets also reached a series high of €649bn in Q1 2022, above its previous peak of €630bn last quarter.
- Positive revaluations in housing assets represent the dominant driver of increases in net wealth in recent quarters, with increases in the year to Q1 2022 representing the highest annual revaluations on record (€95bn).
- However, increasing deposits and upward revaluations of other financial assets, collectively totalling €32bn year-on-year, have also been important sources of growth in net wealth.

Chart 1: Household Net Wealth

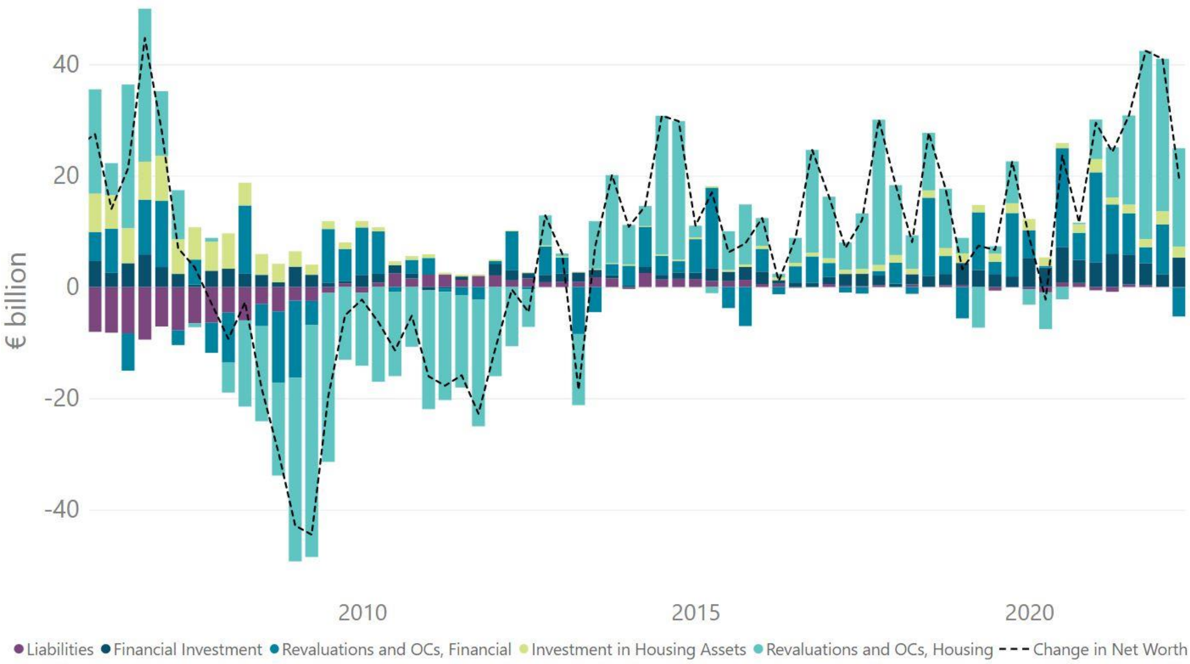


Household net wealth rose by €19.6bn to a reach just over €1trn in Q1 2022 (Chart 1). However, it should be noted that this rise in aggregate household wealth does not capture the wealth distribution effects across the sector, and the underlying experiences of individual households may vary. In particular, the COVID-19 pandemic is likely to have had varying effects on the wealth of different household groups. Forthcoming research will investigate the evolution in the distribution of net wealth in recent years.

The rise in net wealth in Q1 2022 was driven by a combination of growth in financial assets (€3.5bn) and housing assets (€19.6bn), which was slightly offset by increases in financial liabilities (€3.5bn), leading to a lower increase than in the previous quarter (Chart 2). For financial assets, this was primarily due to a rise in the value of currency and deposits (€2.4bn), mainly relating to an increase in deposits held with credit institutions of approximately €2bn over the quarter, as also shown in the Money and Banking Statistics.[1] However, the primary driver of growth in household net wealth was the aforementioned increase in housing assets by €19.6bn over the quarter. This rise resulted in household housing assets reaching another series high of €649bn in Q1 2022, above its previous peak of €630bn in Q4 2021.

Increases in housing assets over the quarter primarily resulted from continued appreciation in the value of housing assets (€17.7bn), with investment in new housing representing a smaller share of the increase (€2bn) (Chart 2). As a consequence, this means that revaluations accounted for €95bn of the €102bn increase in housing wealth since Q1 2021, the largest annual upward revaluations on record.

Chart 2: Breakdown of Household Net Wealth, Q-on-Q changes[2]



While revaluations in housing have been a main source of growth in net wealth in recent quarters, upward revaluations in household's financial assets and investment in financial assets have also been an important contributor to rising net wealth.

Since Q1 2021, household financial assets have grown by €32bn to an all-time high of €532bn at Q1 2022. New investment in financial assets accounted for €17bn of this growth, due to increases in deposits along with new investment in listed and unlisted shares, insurance and pension products. The remaining growth reflected positive revaluations in existing holdings of financial assets. By contrast, household liabilities had a relatively smaller impact on net wealth in recent quarters, growing by €0.1bn between Q1 2021 and Q1 2022.

Gross household savings declined for the second consecutive quarter in Q1 2022, falling by €0.9bn to stand at €7.2bn for the quarter (Chart 3). However, this is still high when compared to

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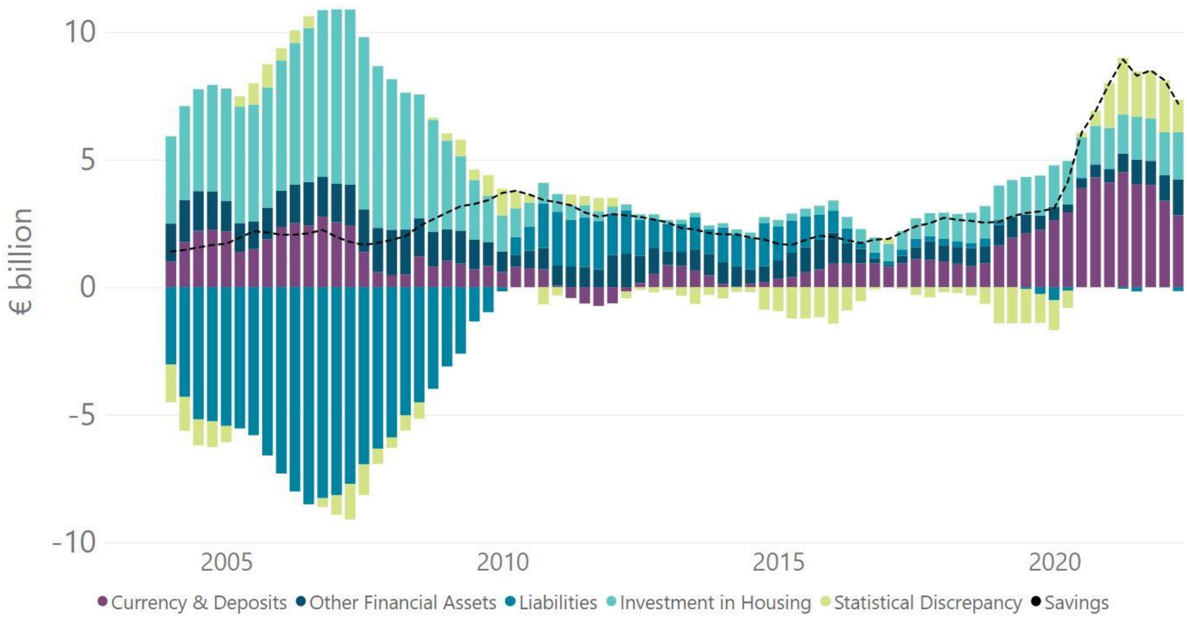
[1] See Central Bank of Ireland *Money and Banking Statistics – March 2022* for further information.

[2] 'OCs' refers to 'Other Changes'.

pre-pandemic levels. The decline in savings was driven partly by a decline in the total disposable income of households over the quarter and an increase in consumer spending. The latter due to inflation rather than households consuming more goods and services, with final consumption after adjusting for inflation decreasing over the quarter.[3]

Chart 3: Household Savings[4]



The increase in financial assets of €4.2bn in Q1 2022 is mainly related to investment in currency and deposits of €2.8bn. Additionally, investment in new housing remained steady at €2bn.

Private sector debt as a proportion of GDP marginally declined by 1 percentage point to stand at 197 per cent in Q1 2022 (Chart 4). However, in terms of value, there was a large increase in private sector debt, to stand at €861bn in Q1 2022. This increase was driven by a rise in non-financial corporations (NFC) debt by €25bn over the quarter.

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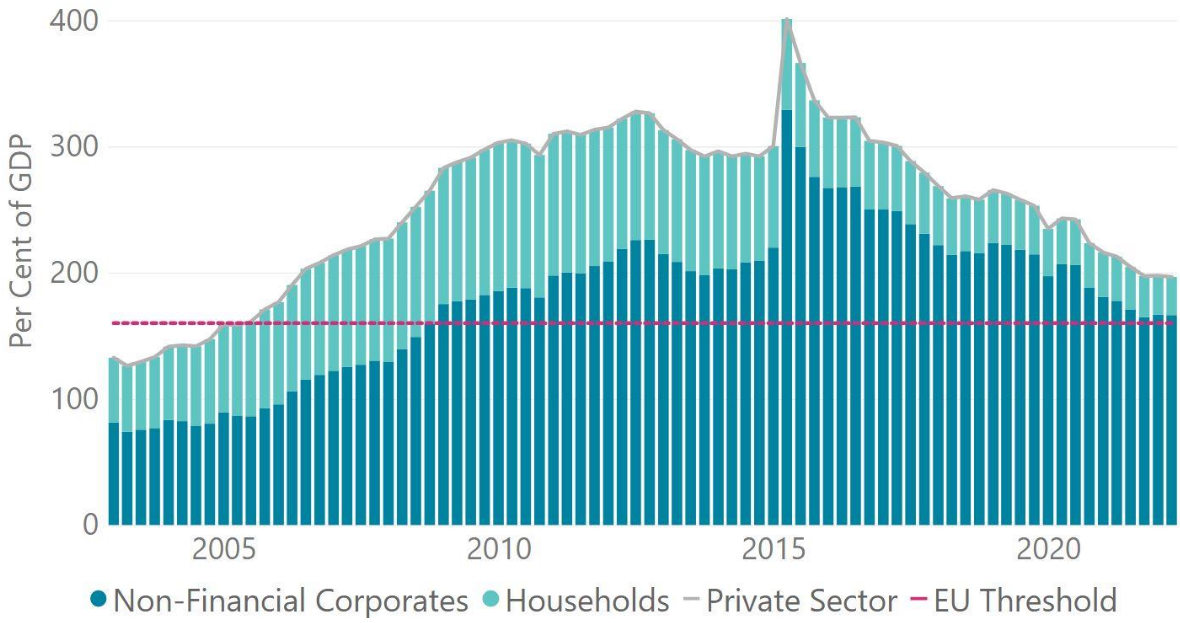
[3] See Central Statistics Office (CSO) release *"Institutional Sector Accounts Non-Financial Accounts - Quarter 1 2022"* for further details.

[4] This chart presents data smoothed over four quarters and so differs to actual quarterly movements described in Charts 1 and 2. The statistical discrepancy presented in this chart is a result of differences between the CSO's estimate of 'Savings' and savings as estimated through Financial Accounts concepts. Note that the methodology for estimating 'Investment in Housing' has been revised. This is now calculated by the Central Bank (based new house price and completions data) rather than CSO estimates of Gross Capital Formation (GCF). Consequently, the revised series for 'Investment in Housing' excludes investment in other non-financial assets.

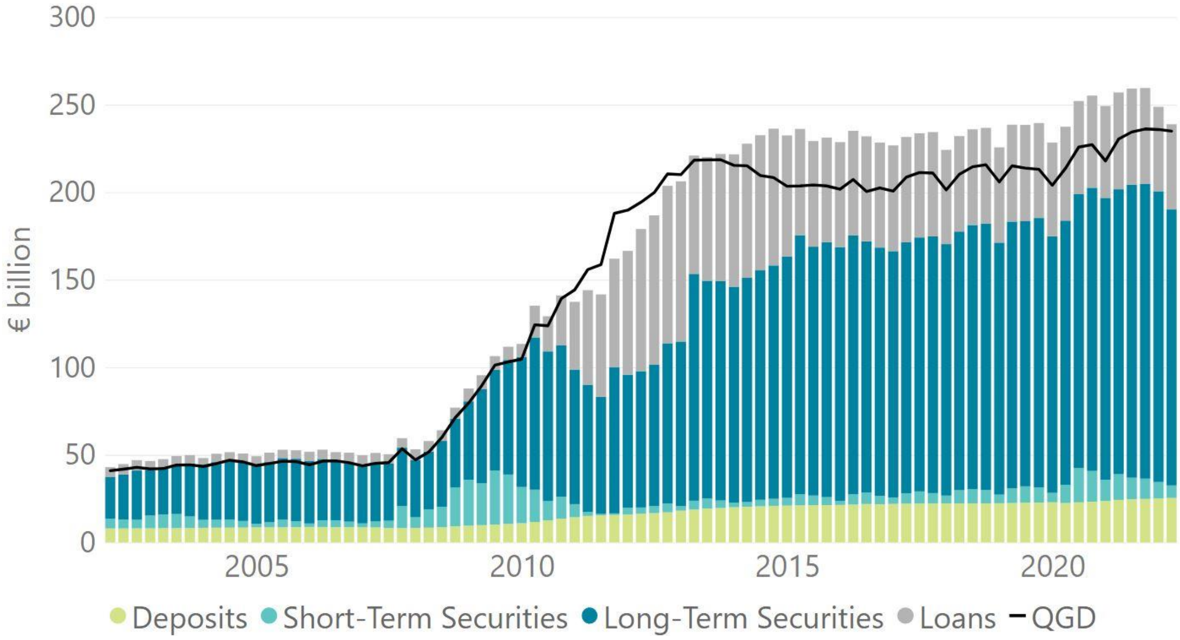
Chart 4: Private Sector Debt-to-GDP



Consequently, the relatively minor reduction in private sector debt as a proportion of GDP is due to continued strong growth in annualised GDP. This grew by €16bn over the quarter. Private sector debt in Ireland is significantly influenced by the presence of large multinational enterprises (MNEs) and restructuring by these entities has resulted in extremely large movements in Irish private sector debt, particularly from 2014 onwards.

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

Chart 5: Government Debt

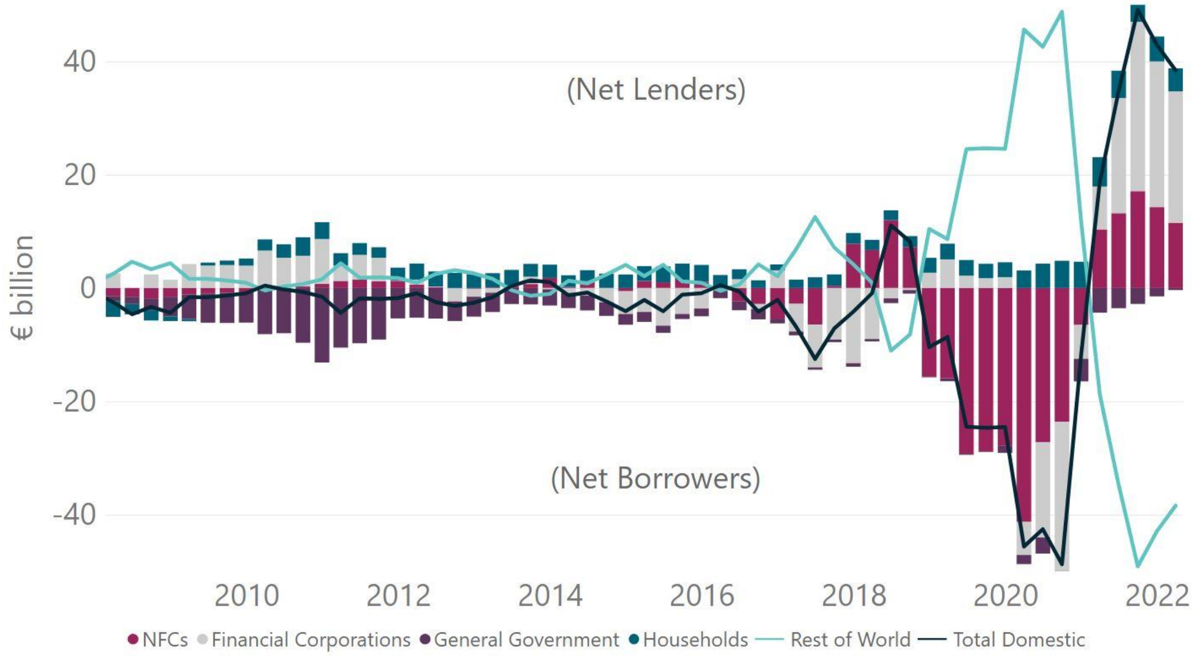


Government Debt declined by €10bn in Q1 2022 to stand at €239bn (Chart 5). This fall was driven by a reduction in long-term debt securities of €8.4bn and declines in short-term debt securities of €2.3bn.

Government financial assets declined by €0.7bn to stand at €109bn. However, the larger decline in financial liabilities resulted in an overall improvement in the negative Government net financial wealth position from –€168bn in Q4 2021 to –€159bn in Q1 2022.[5] Chart 5 also shows that Quarterly Government Debt (QGD), which is based on the Excessive Deficit Procedure (EDP) measure of debt, declined by €1bn to €235bn.

[5] Government net wealth refers to the stock of total government assets minus total government liabilities.

Chart 6: Net Lending/Borrowing



The domestic economy continued to be a net lender in Q1 2022, for the fifth consecutive quarter. Net lending stood at €38bn, a decrease of €4.5bn compared to the previous quarter (Chart 6). This drop was driven by a combination of movements across sectors.

The NFC sector continued to be a net lender, despite a decline of €2.8bn to €11.5bn in Q1 2022. Financial corporations, presently the largest net lender sector, declined by €2.5bn to stand at €23bn. Households' net lending position declined €0.3bn to €4.1bn. Irish households have been net lenders since 2009. By contrast, the government sector continued to be a net borrower, increasing by €1.1bn to stand at a -€0.4bn.

Further information

The full data series for Ireland, quarterly commentary and notes on compilation are available from the Central Bank website at:
https://www.centralbank.ie/statistics/data-and-analysis/financial-accounts

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

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