Household investment in deposits at highest level in nine years

- Household investment in deposits was €1bn in Q2 2017, its highest level since mid-2008.
- Household debt sustainability improved further during Q2 2017. Debt as a proportion of disposable income declined to 141.6 per cent, its lowest level since Q3 2004. This represented a decrease of 3.7 percentage points over the quarter.
- Household net worth is just 4.6 per cent lower than its peak of €719.6bn in Q2 2007. During Q2 2017, net worth rose by €16.9bn to reach €686.3bn.
- NFC debt as a percentage of GDP fell during Q2 2017, decreasing from 231.3 per cent to 215.4 per cent. This was due to an increase in annualised GDP of 1.9 per cent and a decrease in NFC debt of 5.1 per cent.
1. **Net Lending/Borrowing of All Sectors**¹

The domestic economy continued to be a net borrower in Q2 2017, with the level of net borrowing rising to €4.7bn (Chart 1.1). This was primarily attributable to non-financial corporations borrowing more heavily, with an increase in the issuance of unlisted shares and trade credits and advances held by entities in the rest of the world. This was offset slightly by government borrowing falling by €0.1bn, and an increase in net lending of households and financial corporations of €0.3bn and €0.7bn respectively.

2. **Private Sector Debt**

Private sector debt as a proportion of GDP fell by 17.2 percentage points over the quarter to stand at 265.3 per cent (Chart 2.1). This was its lowest level since the beginning of the financial crisis. This fall in private sector debt was the result of reductions in the debt owed by both households (€0.9bn) and NFCs (€32.9bn), with an increase in annualised GDP also contributing. The latter increased by €5.3bn, or 1.9 per cent over the period. On a year-on-year basis, private sector debt as a proportion of GDP has fallen by 51.6 percentage points. It should be noted that private sector debt in Ireland is significantly influenced by large multinational corporations (MNCs) and that 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 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 265.3 per cent. However, this threshold does not take account of the large MNC sector in Ireland.

---

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. **Households**

Household net worth\(^2\) rose by €16.9bn or 2.5 per cent during Q2 2017. This reflected a substantial increase in housing assets (€16.1bn) and a decrease of liabilities (€1.5bn) over the quarter. The increase in net worth was partially offset by a decline in financial assets of €0.7bn. This decrease was due to a decline in the value of household’s insurance technical reserves\(^3\). By the end of Q2, net worth stood at €686.3bn, the equivalent of €143,206 per capita (Chart 3.1).

Household net worth has risen by 59.6 per cent since its lowest level of €430bn at Q2 2012, largely due to increasing house asset values. By Q2 2017, net worth was just 4.6 per cent lower than its peak of €719.6bn at Q2 2007.

Household debt fell by €0.9bn to €141.7bn during Q2 2017 (Chart 3.2). This represented debt of €29,576 per capita. Household debt is now at its lowest level since late 2005. Overall, household debt is over 30 per cent lower than its peak of €204.2bn in Q3 2008.

Household debt sustainability continued to improve during Q2 2017 (Chart 3.3). Debt as a proportion of disposable income declined by 3.7 percentage points to 141.6 per cent, its lowest level since Q3 2004. The fall in Q2 2017 reflected both the reduction in debt, as well as, growth in annualised disposable income of 1.9 per cent. The latter is now at its highest level since early 2009. Household debt as a proportion of total assets fell to 16.9 per cent. This was its lowest level since Q3 2004 and represented a decrease of 0.4 percentage points 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).

\(^3\) ‘Insurance technical reserves’ include life assurance policies and pension funds.
Irish household debt as a proportion of disposable income fell by 12.5 percentage points over the year, the largest decline amongst European Union (EU) countries. Despite this, Irish households remain the fourth most indebted in the European Union (Chart 3.4). Irish debt to disposable income fell by 50.1 percentage points between Q2 2013 and Q2 2017. In comparison, the euro area observed a 3.3 percentage point reduction across the same period. Swedish household debt to disposable income increased by the most over the past four years, rising by 15.2 percentage points. The gap between the two most highly indebted EU countries, Denmark and the Netherlands, reduced to 7.6 percentage points, as the former’s disposable income continues to expand and debt declined moderately.

Household investment in financial assets rose to €2.2bn during Q2 2017. This represented the highest level of investment in financial assets by households since Q4 2015. Compared to the previous quarter, investment in financial assets increased by €235m (Chart 3.5). This trend mostly reflected increased investment in currency and deposits of €177m. Household investment in other financial assets remained relatively unchanged over the quarter.

Household investments in deposits rose to €1bn during Q2 2017. This represented an increase of €155m compared to the previous quarter. Investment in deposits is now at its highest level since mid-2008. Most of the transactions in deposits over the quarter were with MFIs (€0.9bn). Meanwhile, household’s deposits transactions with Government declined for the second consecutive quarter.
Household net lending increased further during Q2 2017 reaching €2.9bn. This represented the second consecutive quarterly increase in net lending. The increase in net lending of €0.3bn over the quarter was due to increased investment in financial assets (+€0.2bn) and, to a lesser extent, continued debt reduction by household (-€0.1bn).

3. Non-Financial Corporation Sector

NFC debt as a percentage of GDP fell during Q2 2017, decreasing from 231.3 per cent to 215.4 per cent (Chart 4.1). This was due to an increase in annualised GDP of 1.9 per cent and a decrease in NFC debt of 5.1 per cent. NFC debt to GDP has fallen by 114.5 percentage points since its peak of 330 per cent in Q1 2015. This decline largely reflected the substantial increases in GDP particularly during 2015, as well as, further debt reduction (€83.7bn). Annualised GDP has increased by 34.7 per cent since Q1 2015.

NFC debt decreased by €32.9bn in Q2 2017 (Chart 4.2). This largely reflected a reduction in debt with Irish resident sectors (€14.7bn) and with non-residents (€11.9bn). The latter was due in part to a reclassification. The reduction in debt with non-residents was largely due exchange rate movements over the quarter.

Irish NFC debt remains high when viewed in an international context. The debt-to-GDP ratio of Ireland’s NFCs was 111.3 percentage points above the euro area average of 104.2 per cent in Q2 2017 (Chart 4.3). Ireland now ranks as the second most indebted amongst EU countries. Luxembourg and Cyprus, both of which have very large MNCs relative to the size of 4

---

4 NFC debt is defined as non-consolidated debt securities and loans.
their economies, were the most indebted and second most indebted countries, with NFC debt-to-GDP ratios of 346 per cent and 222.9 percent respectively. The chart also highlights how volatile Irish NFC debt has been in recent years compared to other EU countries.

In recent years, Irish NFC debt has increased and decreased by amounts far larger than other EU countries due to MNC activities.

5. **Government Sector**

Government debt rose during Q2 2017 by €2.4bn to €232.3bn (Chart 5.1). This was primarily due to a €3bn increase in government issued debt securities, which was offset by a €0.7bn reduction in government loan liabilities. Chart 5.1 also shows that Quarterly Government Debt, which is based on the Excessive Deficit Procedure (EDP) measure of debt, increased by €3.0bn in Q2 2017.

The net financial wealth of government increased by €2.5bn over the quarter, as government assets increased faster than liabilities (Chart 5.2). Government assets increased by €4.3bn, due to a €6.9bn increase in deposits held by government. Government holdings of equity shares fell by €2.8bn during the quarter, a reduction of 7.1 per cent compared to the previous quarter. This was primarily due to the sale of part of the government’s equity stake in Allied Irish Banks, plc.

Chart 5.3 shows a cross-country comparison of government net financial wealth as a percentage of GDP within the European Union. Ireland is ranked 18th out of the 27 EU countries for which data is available. Net government financial wealth as a per cent of GDP amounted to -52.0 per cent for Ireland, compared to a euro area of average of -68.1 per cent. Finland ranked

---

5 Government debt in the Quarterly Financial Accounts differs from the EDP measure of debt as it is calculated on a non-consolidated basis, and uses market rather than nominal values.

6 Data unavailable for Greece.
first, with a positive net financial wealth of 57.3 per cent of GDP, while Italy is ranked last with a negative net financial wealth of -127.6 per cent of GDP. It is important to note that this chart does not include data on non-financial assets held by government due to lack of comparable data.

6. 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.