

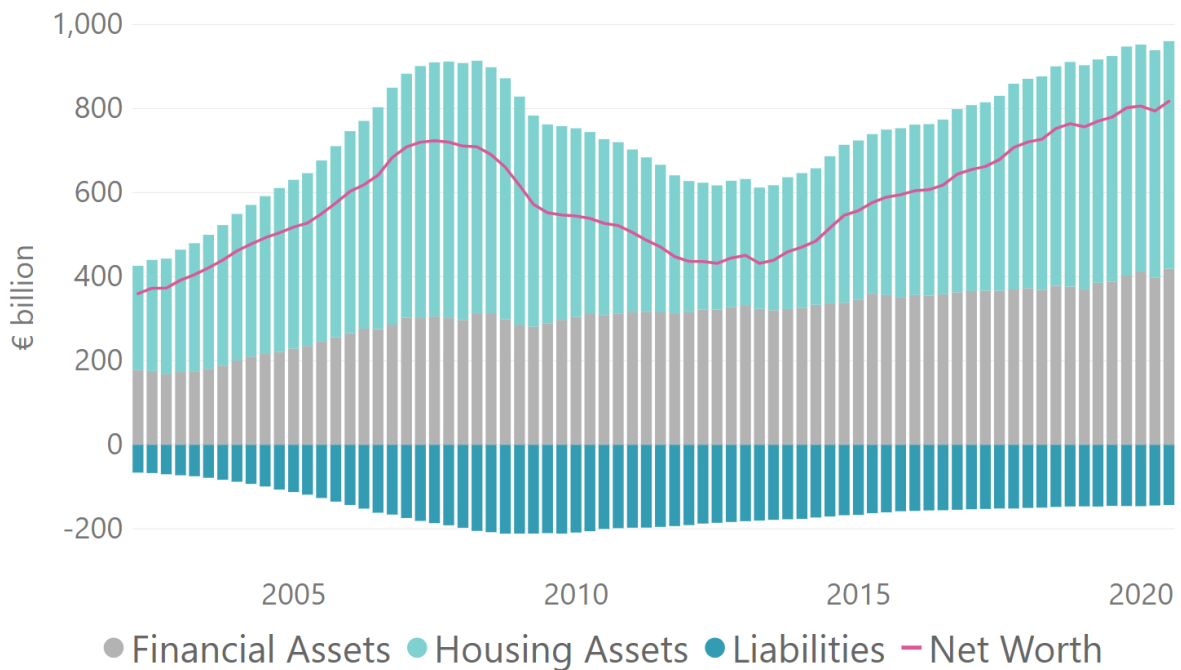


Quarterly Financial Accounts

Impact of COVID-19 seen in household net worth and government debt in Q2 2020

- ❖ A large rise in deposits and fall in debt has led to series high in household net worth, at €817bn in Q2 2020.
- ❖ Private sector debt as a proportion of GDP continued its downward trend, falling by 3 percentage points to stand at 236 per cent.
- ❖ Government debt increased by €14.3bn to stand at €252bn in Q2, the highest level in the series.

Chart 1: Household Net Worth

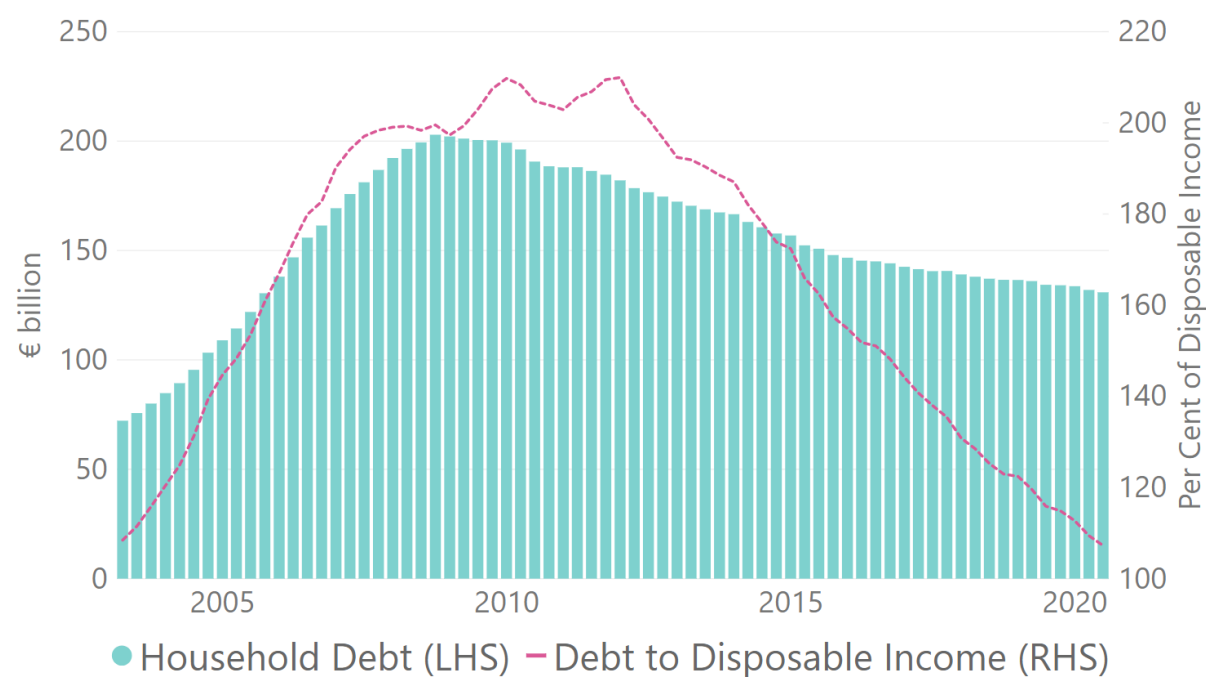


In aggregate, households in Ireland have seen a rise in net worth in Q2 2020. It should be noted that such measures may not reflect underlying experiences of individual households or describe the distribution of wealth.

Household net worth rose in Q2 2020 by 2.9 per cent, or €23bn (Chart 1), to a series high of €817bn, following a decline the previous quarter. This equates to €166,051 per capita. Financial assets rose by €21.6bn, primarily due to increasing investment in deposits and a rise in the value of insurance and pension schemes. Housing assets remained relatively stable over the quarter at €542bn. Household liabilities fell over the quarter, by €1.4bn to stand at €143bn.

National Accounts measures provide extra context to these figures¹. Households have seen high unemployment, 5.2% in June 2020, and therefore a fall in pay (-€2.1bn) over this quarter. However, at the same time households have also seen a €4.4bn rise in Social Transfers (PUP) and Subsidies (TWSS) alongside a fall in Consumption (-€5.8bn). These counteracting movements lessen the impact of unemployment and the fall in pay experienced by household net worth in aggregate.

Chart 2: Household Debt

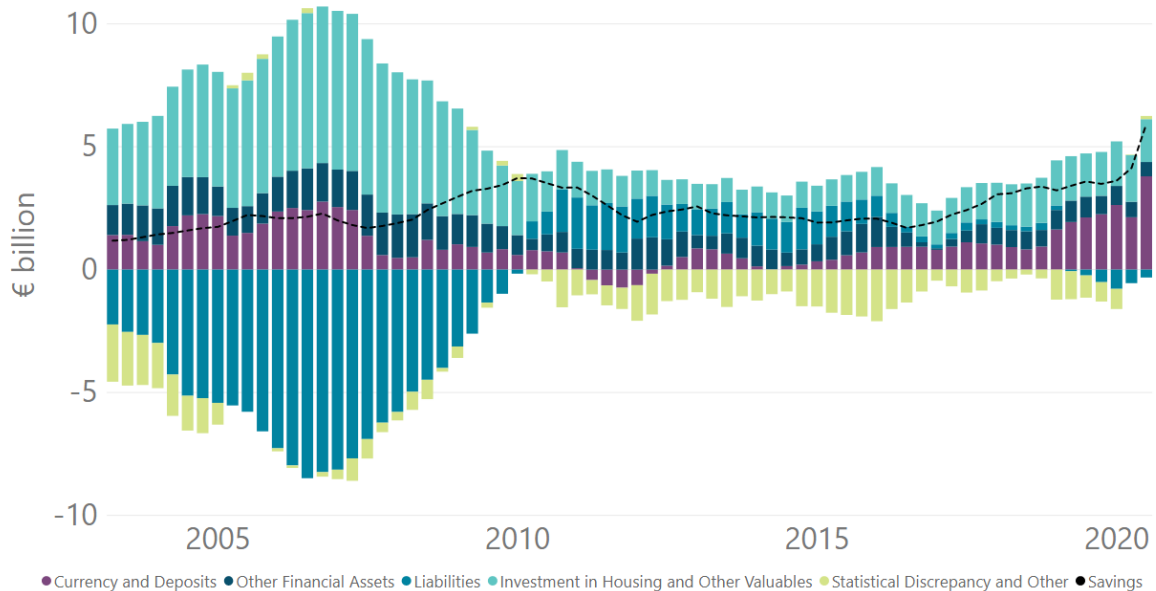


Household debt fell by €1.1bn over the quarter, continuing the downward trend in the series, to stand at €131bn in Q2 2020 (Chart 2). This equates to €26,295 per capita. Household debt has decreased by 36%, or €72bn, since its peak of €202bn in Q3 2008.

¹ <https://www.cso.ie/en/releasesandpublications/er/isanf/institutionalsectoraccountsnon-financialquarter2020/infographic/>

Household debt as a proportion of disposable income fell by 2 percentage points, to stand at 107 per cent. The decline over the quarter was driven by an increase in household disposable income over the quarter, in addition to the decrease in debt.

Chart 3: Household Savings



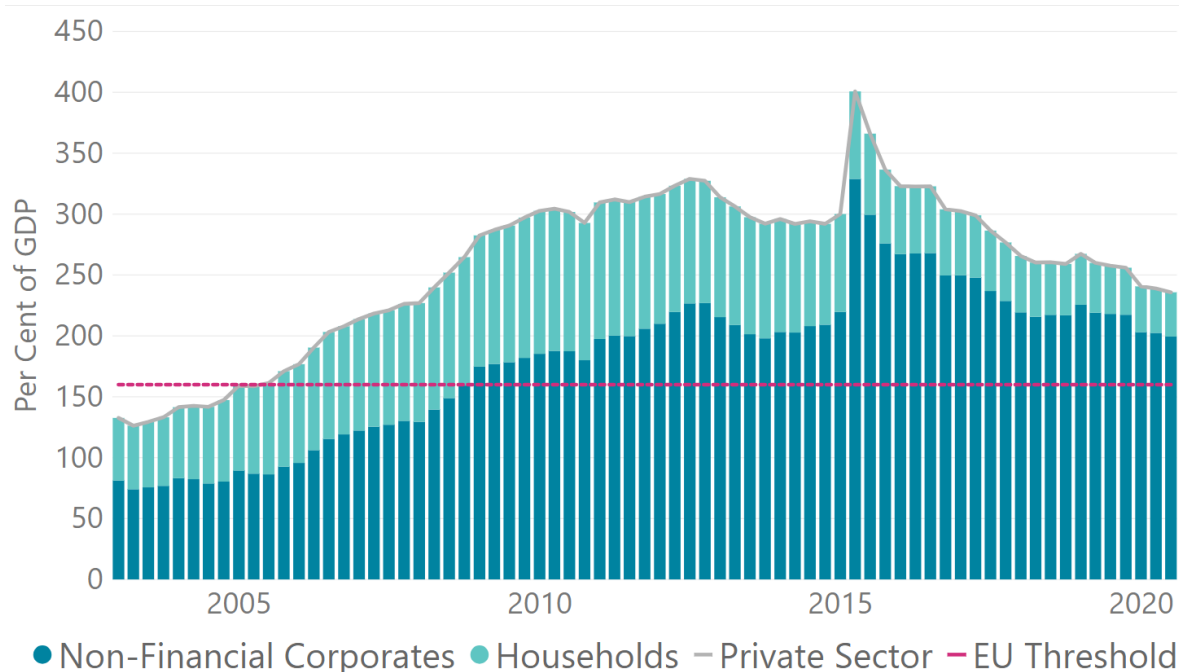
Gross household saving increased by in €1.8bn Q2 2020, to stand at €5.9bn. This correlates to an increase in investment in financial assets of €1.6bn. This increase was driven by investment in currency and deposits of €1.7bn over the quarter. Investment in housing and other valuables² has fallen slightly this quarter to stand at €1bn, but remains a positive contributor to the growth in investment by households. Overall, household savings have increased during Q2 2020, as the effects of Covid-19 limited the spending opportunities for the sector.

The statistical discrepancy presented in this chart is a result of differences arising from comparing National Accounts³ and Financial Accounts concepts.

² This represents Gross Capital Formation of households.

³ 'Investment in Housing and Other Valuables' and 'Savings'.

Chart 4: Private Sector Debt-to-GDP



Private sector debt as a proportion of GDP decreased by 3 percentage points to stand at 236 per cent in Q2 2020 (Chart 4). Private sector debt fell by €16.2bn over this period, with households accounting for €1bn of this fall. This fall was offset by a decrease in GDP in Q2 2020. Initial estimates indicate that GDP⁴ in volume terms decreased by 9.6 per cent for the Q2 2020 due to the impact of Covid-19.

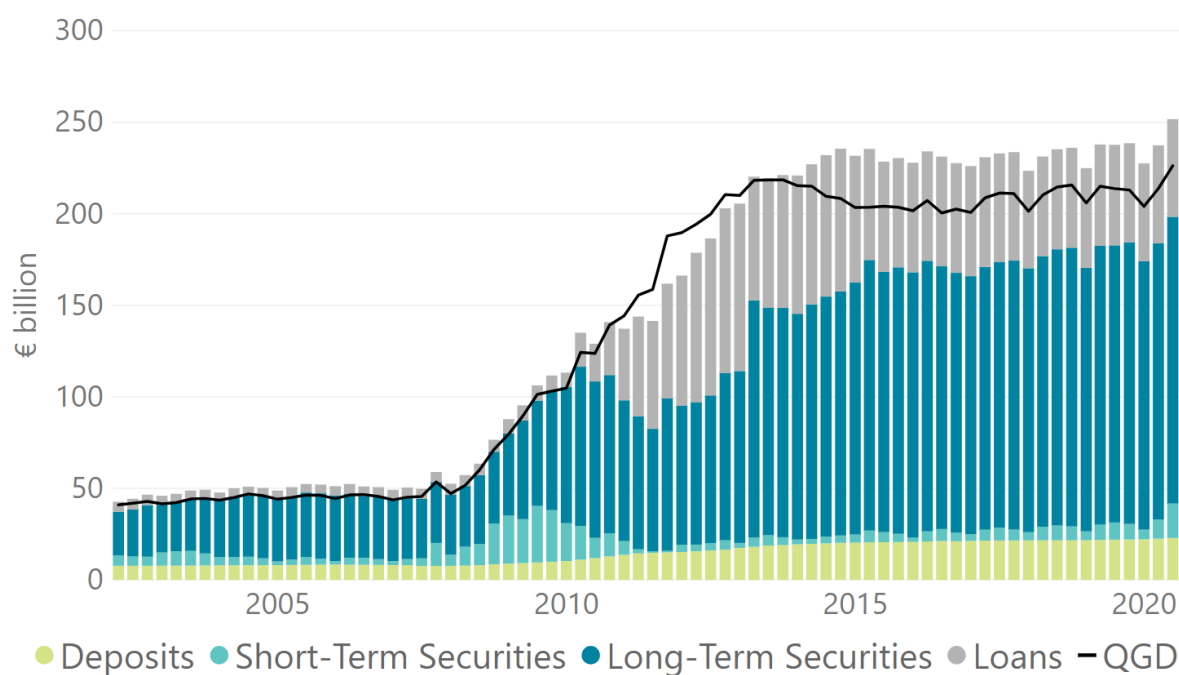
This large fall in private sector debt is due to both a large reduction in borrowing from NFCs and price volatility. There was a decline in new loans to NFCs since the onset of the pandemic, and a number of lenders agreed payment breaks to the NFC sector during Q2 2020.

It should be noted that private sector debt in Ireland is significantly influenced by the presence of 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 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.

⁴ <https://www.cso.ie/en/releasesandpublications/er/na/quarterlynationalaccountsquarter22020/>

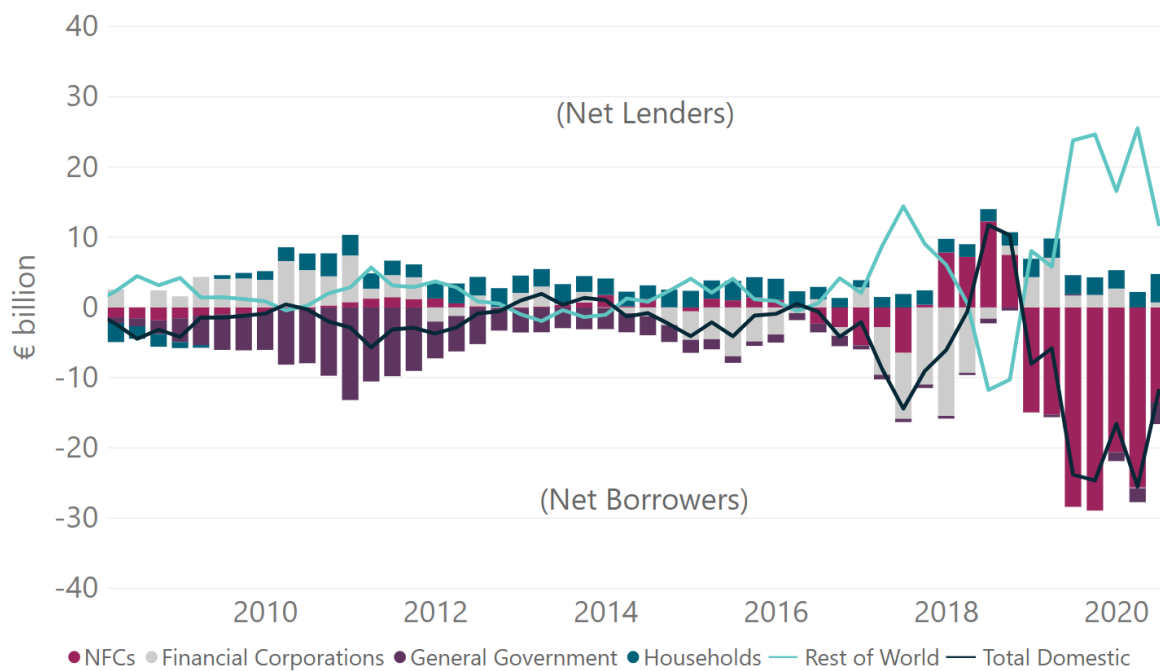
Chart 5: Government Debt



In response to the Covid-19 pandemic, the Government introduced measures to increase the capacity of the health sector and provide supports to businesses and households. These measures were put in place in March and have remained for the duration of Q2 2020.

With increased levels of borrowing required to support the fiscal impact and response to Covid-19, Government debt increased by €14.3bn during Q2 2020, to stand at €252bn (Chart 5), the highest in the series. This was due to an increase in debt securities of €14.1bn during the quarter. Loans fell by €225m and deposits increased by €388m over the quarter. Government net financial worth remained steady this quarter, with a rise of €632m in Q2 2020. This was due to an increase in financial assets of €11.5bn, offsetting the rise in government debt and other financial liabilities. Chart 5 also shows that Quarterly Government Debt (QGD), which is based on the Excessive Deficit Procedure (EDP) measure of debt, increasing by €12.4bn in Q2 2020 to stand at €226bn.

Chart 6: Net Lending/Borrowing



The domestic economy was a net borrower in Q2 2020, with net borrowing totalling €11.8bn, a fall of €13.7bn compared to the previous quarter (Chart 6). This decrease in borrowing was primarily driven by NFCs, as their net borrowing position decreased from €25.7bn last quarter to €13.5bn in Q2 2020. The other contributing sectors show more moderate changes this quarter. The government sector was a net borrower this quarter, with government borrowing of €3.1bn, an increase of €1.1bn on the previous quarter. Households' net lending position increased by €1.8bn to stand at €4.1bn. Irish households have been net lenders since Q2 2009.

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

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