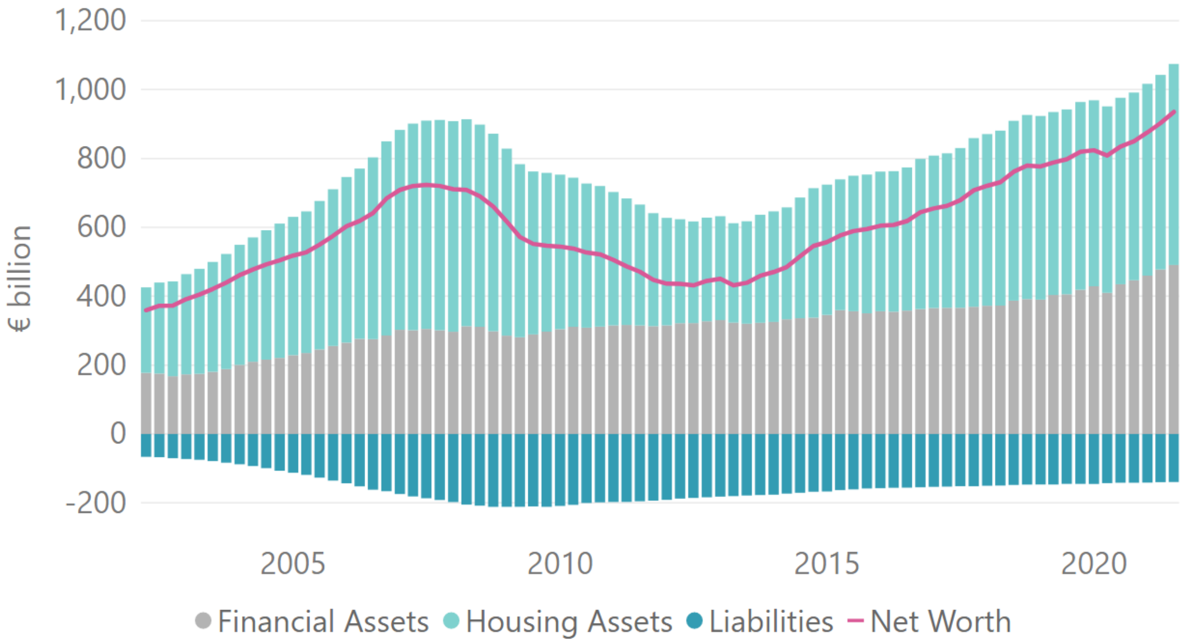
Quarterly Financial Accounts

Household savings remain high despite small decline in Q2 2021

- Gross household savings declined by €0.9bn in Q2 2021, but remain elevated compared to pre-pandemic levels.
- Increasing deposits and housing assets has led to household net worth reaching a high of €935bn in Q2 2021. It should be noted that this may not reflect the underlying experiences of all households, or the distribution of wealth.
- Government debt hit an all-time high of €259bn in Q2 2021.

Chart 1: Household Net Worth



Household net worth rose by 3.6 per cent, or €32bn (Chart 1), to a series high of €935bn in Q2 2021. This equates to €186,589 per capita. The rise in household net worth was driven by a combination of growth in financial assets (€13bn) and housing assets (€19bn). For financial assets, growth was primarily due to increases in currency and deposits and a rise in the value of insurance and pension schemes.

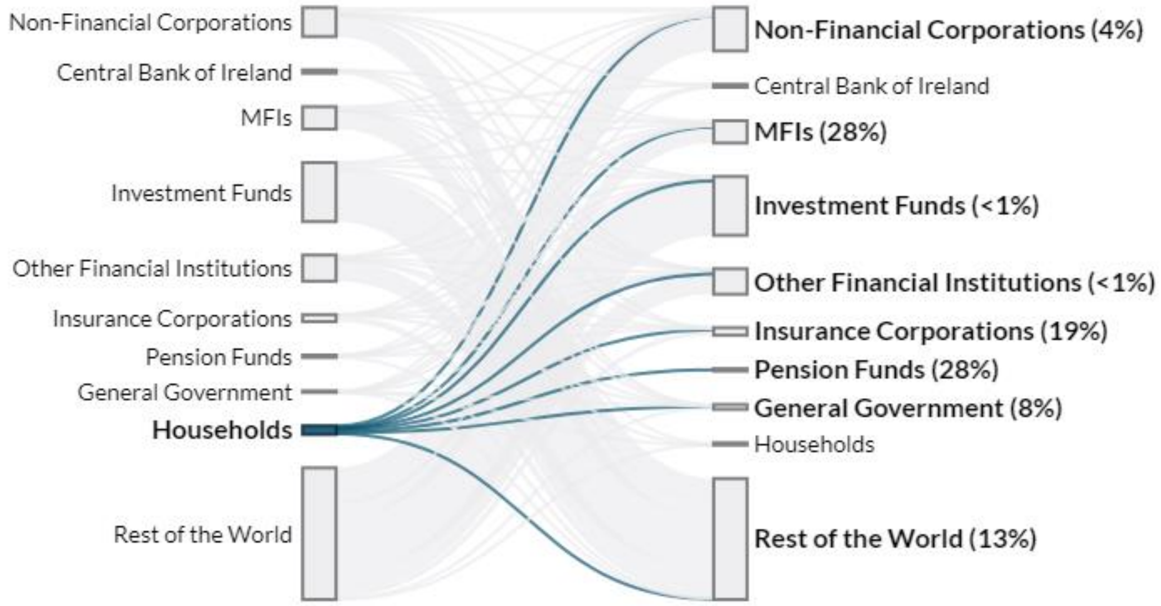
It is worth noting that the rise in aggregate household wealth does not capture the wealth distribution effects across the sector, and the underlying experiences of individual households may vary. In particular, the COVID-19 pandemic is likely to have had varying effects on the wealth of different household groups.

Looking in more detail at the financial assets of households, chart 2 shows the stock of financial assets held vis-à-vis relevant counterpart sectors.[1] At the end of Q2 2021, households' financial

[1] It is a visual representation of the Central Bank of Ireland Whom-to-Whom tables, available here.

assets were mainly liabilities of financial intermediaries such as monetary financial institutions (MFIs) (28% of households' financial assets), pension funds (28%), insurance corporations (19%), rest of the world (RoW) (13%), general government (8%), investment funds (<1%), and other financial institutions (<1%).[2]

Chart 2: Households' Financial Assets* by Counterpart Sector



Note: *Only includes select financial assets for which counterparty sector information is available (i.e. deposits, debt securities, loans, listed shares, investment fund shares, as well as insurance, pension and standardised guarantee schemes). The size of each node on the LHS is relative to the size of the sector (for the select financial assets), while the size of the node on the RHS represents the total corresponding counterpart sector breakdown.

Irish households' exposure to RoW (i.e. to non-residents companies) is primarily through their holdings of currency and deposits. Equally, households' financial asset exposures to the general government include deposits held with An Post and state savings schemes. Finally, direct holdings of financial assets issued by non-financial corporations (NFCs) (4%) are mainly in the form of listed shares and debt securities, and represent a much lower proportion of households' financial assets.

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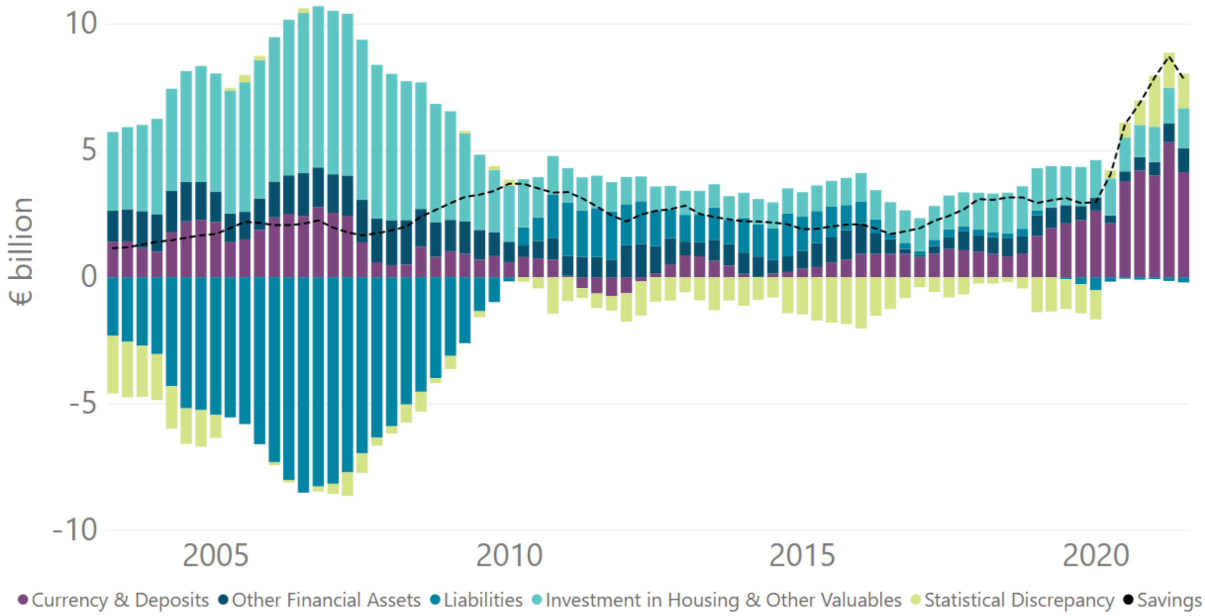
[2] All values have been rounded to the nearest 1% to ease presentation. Investment funds' and other financial institutions' values round to 0% but are presented in the chart for completeness.

Chart 3: Household Savings[3]



Gross household savings declined by €0.9bn in Q2 2021, to stand at €7.8bn for the quarter (Chart 3). However, it is worth noting this is still high when compared to pre-pandemic levels. The decline in savings reflects increased consumer spending in Q2 2021, following the lifting of some COVID-19 public health restrictions between April and June this year.[4] The increase in financial assets of €5.1bn in Q2 2021, was primarily driven by investment in currency and deposits of €4.1bn. Additionally, investment in housing and other valuables[5] has remained steady at €1.6bn.

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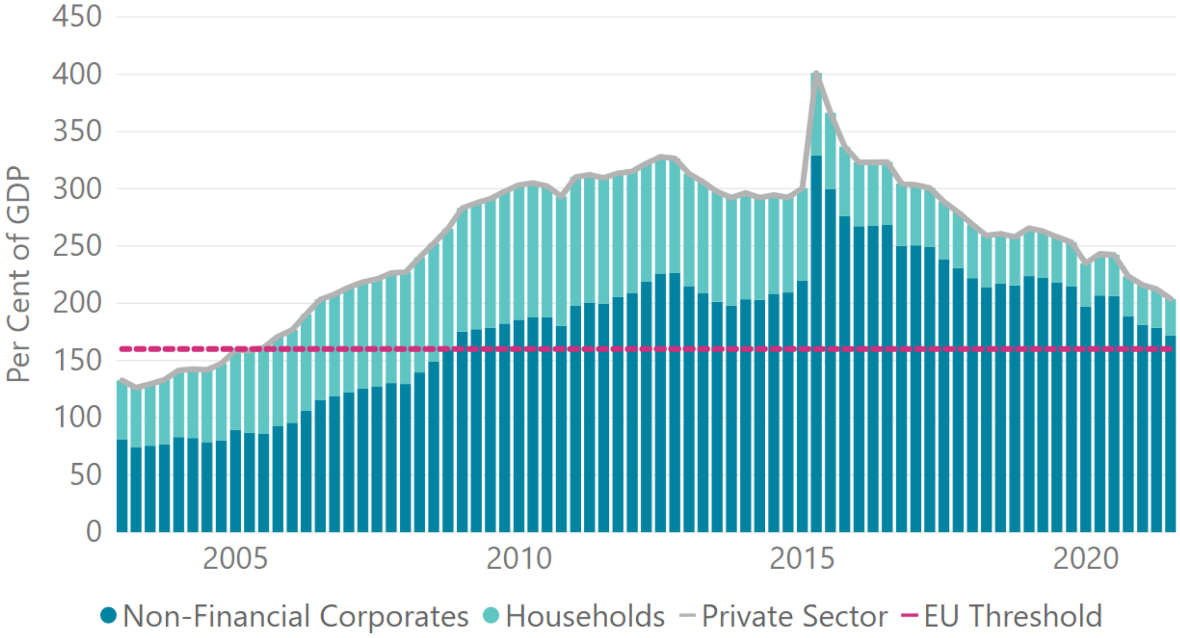
[3] This chart presents data smoothed over four quarters. The statistical discrepancy presented in this chart is a result of differences arising from comparing National Accounts ('Investment in Housing and Other Valuables' and 'Savings') and Financial Accounts concepts.

[4] See Central Statistics Office (CSO) release *"Institutional Sector Accounts Non-Financial Accounts - Quarter 2 2021"* for further details.

[5] This represents Gross Capital Formation of households.

Chart 4: Private Sector Debt-to-GDP

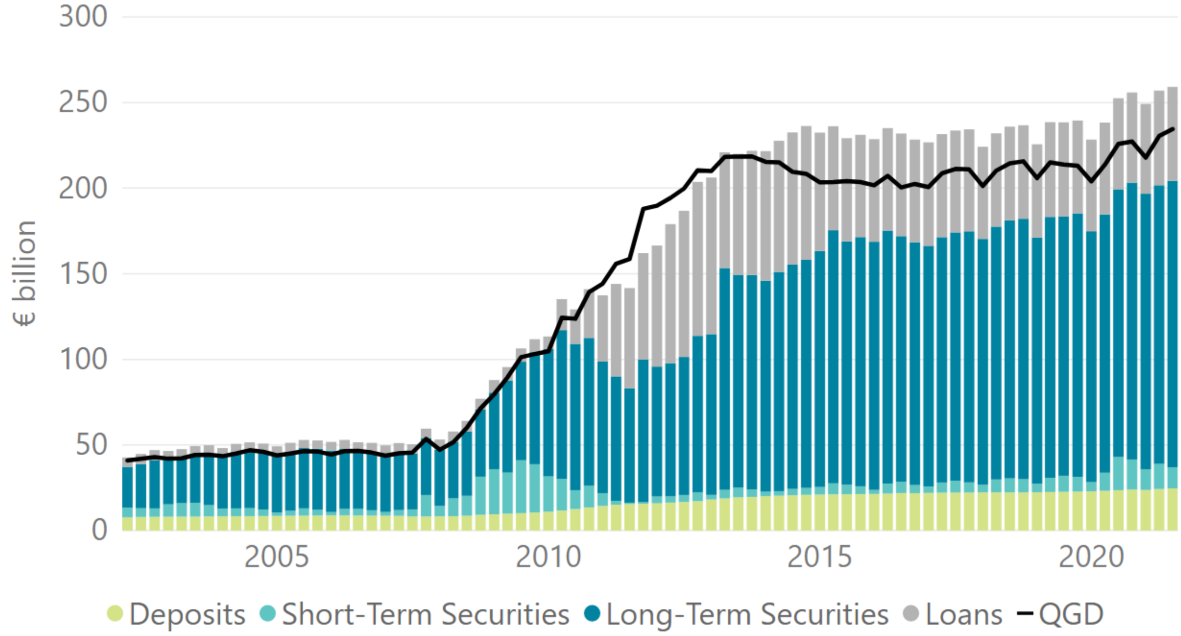


Private sector debt as a proportion of GDP declined by 8.4 percentage points to stand at 204 per cent in Q2 2021 (Chart 4). However, private sector debt remained stable, as an increase in NFC debt of €1bn was offset by a corresponding €1bn decrease in household debt.

Consequently, the decrease in private sector debt as a proportion of GDP is due to strong growth in annualised GDP. This amounted to €15.8bn over the quarter. Private sector debt in Ireland is significantly influenced by the presence of large multinational corporations (MNCs) 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

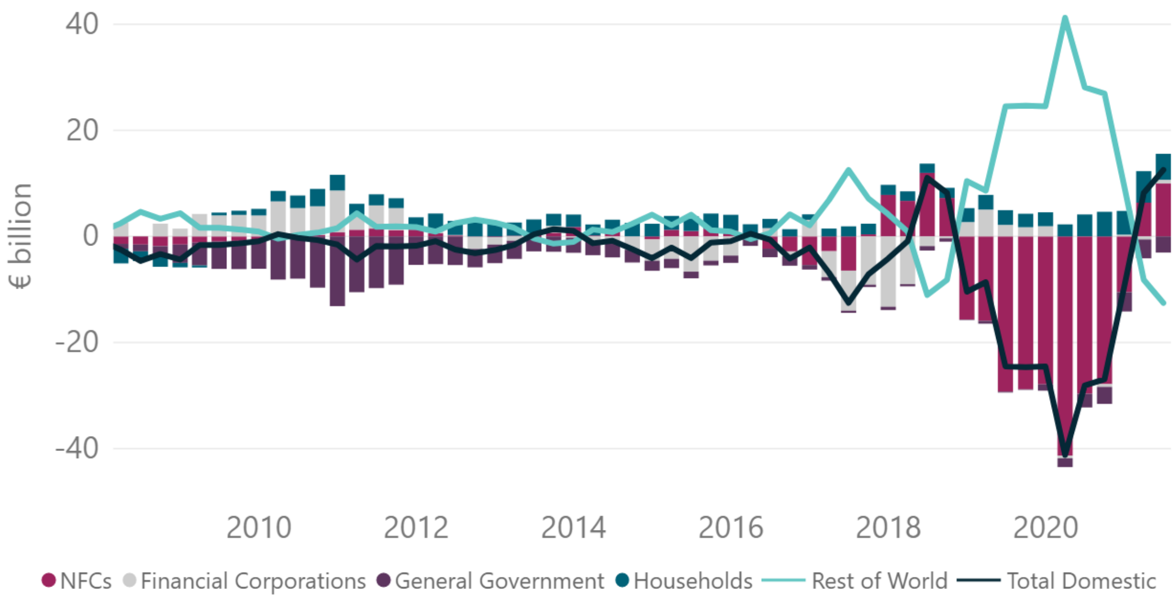


In response to the Covid-19 pandemic, the government introduced measures to increase the capacity of the health sector and provide supports to businesses and households. These measures were established in March 2020 and have remained in place up to and including Q2 2021.

Government debt increased by €2.2bn during Q2 2021 to stand at €259bn, a series high (Chart 5). This increase was driven by growth in long term debt securities and deposit liabilities, of €4.6bn and €368m over the quarter. Government financial assets increased by €1.7bn to stand at €109bn, driven primarily by a rise in deposits of €2.9bn. Government net financial worth[6] increased by €1bn. Chart 7 also shows that Quarterly Government Debt (QGD), which is based on the Excessive Deficit Procedure (EDP) measure of debt, increased by €4.1bn in Q2 2021 to stand at a series high of €235bn.

[6] Government net worth shows 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 Q2 2021, for the second consecutive quarter. Net lending stood at €12.5bn, an increase of €4.4bn compared to the previous quarter (Chart 6). This increase was driven by growth in NFC lending of €3.6bn over the quarter. The other sectors in the domestic economy have remained relatively stable in Q2 2021. The government sector continued to be a net borrower, decreasing by €0.5bn to stand at a €3bn. Households' net lending position decreased by €1bn to stand at €4.9bn. Irish households have been net lenders since 2009.

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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