

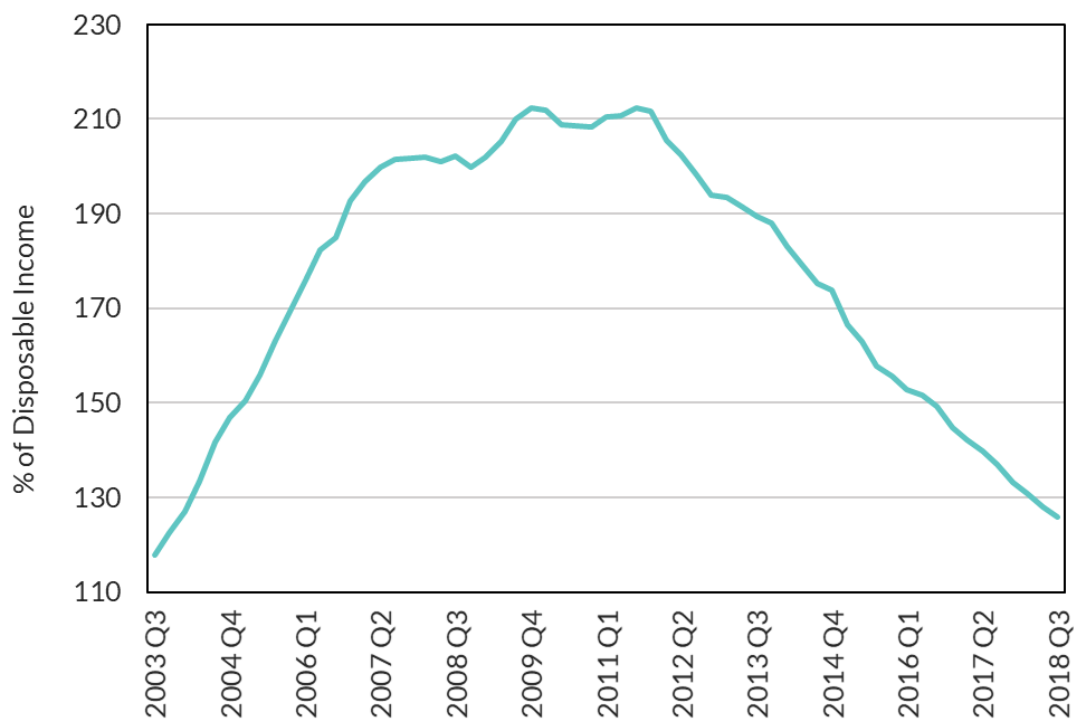


Quarterly Financial Accounts

Household debt sustainability continues to improve in Q3 2018

- ❖ Household debt as a proportion of disposable income fell to 125.8 per cent in Q3 2018, a 2.1 percentage point decrease compared to the previous quarter.
- ❖ Household debt as a proportion of disposable income has fallen by 86.6 percentage points since its peak in Q3 2011, and is now at its lowest point since Q4 2003.
- ❖ Compared to other EU countries, Irish households still remain relatively highly indebted, ranking fourth in terms of debt to disposable income.
- ❖ Household net worth increased by 1.6 per cent to €769bn, largely due to the rising value of households' housing assets, which increased by €12.5bn.

Household Debt to Disposable Income



1. Households

Household net worth¹ increased by 1.6 per cent, or €11.8bn, in Q3 2018. This continuing upward trend saw net worth reach €769bn (Chart 1.1). The increase over the quarter was due to the rising value of households' housing assets, which increased by €12.5bn. Financial assets and liabilities remained largely unchanged. At end-Q3, net worth per capita stood at €158,293. Household net worth has risen by 78.7 per cent since its lowest level of €430.3bn in Q2 2012. This is mainly due to increases in the value of housing assets, which have increased by 81.3 percent over the same period. In comparison, financial assets increased by 18.6 percent over this time frame.

Household debt decreased in Q3 2018, falling by €518m (Chart 1.2). At end-Q3 2018, debt stood at €137.5bn, or €28,316 per capita. Household debt is at its lowest level since Q3 2005. Since its peak of €204.2bn in Q3 2008, household debt has decreased by 32.7 per cent, or €66.7bn.

The decrease in household debt was reflected in measures of household debt sustainability, which continued to improve over the quarter (Chart 1.3). Debt as a proportion of disposable income fell by 2.1 percentage points, to 125.8 per cent. The decline over the quarter reflected an increase of 1.4 per cent in annualised disposable income, as well as the decrease in debt. Household debt as a proportion of total assets declined by 0.3 percentage points, falling to 15 per cent. This was driven primarily by the increase in the value of housing assets.

Chart 1.1 Household Net Worth

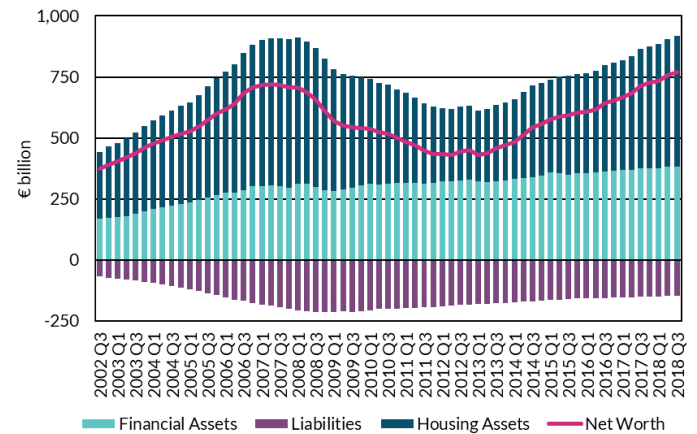


Chart 1.2 Household Debt

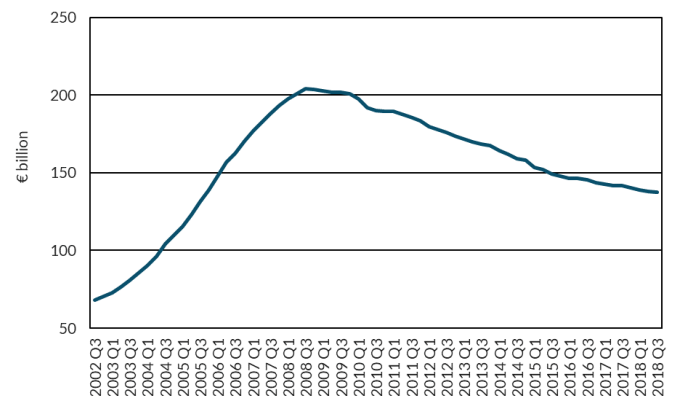
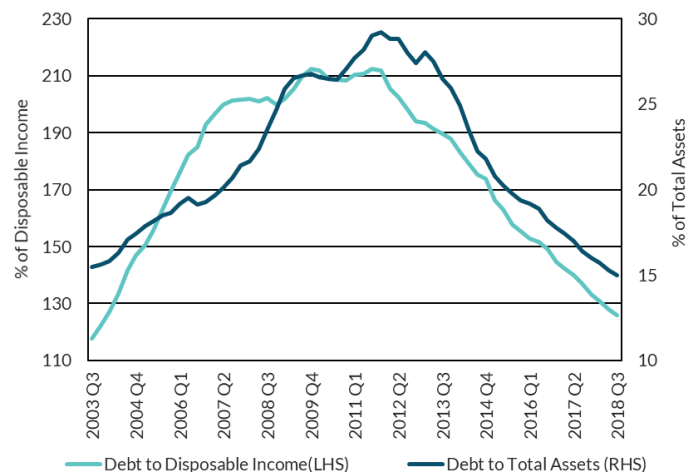


Chart 1.3 Household Debt Indicators

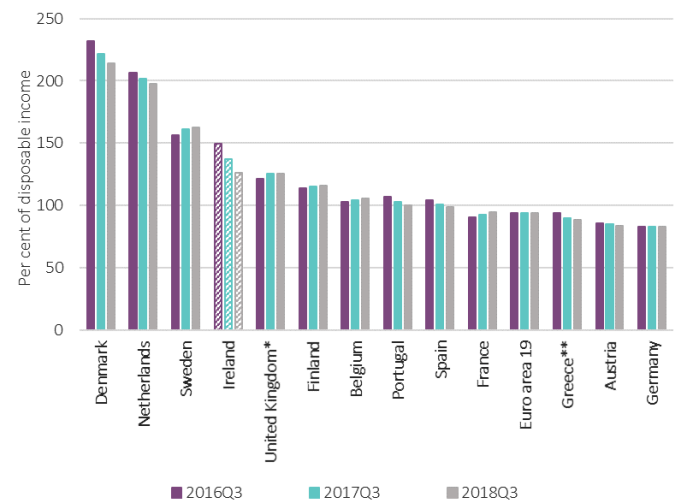


¹ Household net worth is calculated as the sum of household housing and financial assets minus their liabilities. The Central Bank of Ireland estimate of housing assets is based on the size and value

of housing stock. Data on the value of housing is obtained from the CSO's 'Residential Property Price Index' (RPPI).

Irish household debt as a proportion of disposable income fell by 11.1 percentage points over the year to Q3 2018, which was the largest decline amongst the most highly indebted EU countries. Household debt in Denmark, the most indebted country, fell by 7.5 percentage points over the same period. Irish households continued to be the fourth most indebted in the EU (Chart 1.4). Irish debt to disposable income fell by 23.4 percentage points between Q3 2016 and Q3 2018. In comparison, the ratio for the euro area declined by 0.1 percentage points during the same period. Swedish household debt to disposable income experienced the largest increase over the past two years, rising by 6.1 percentage points.

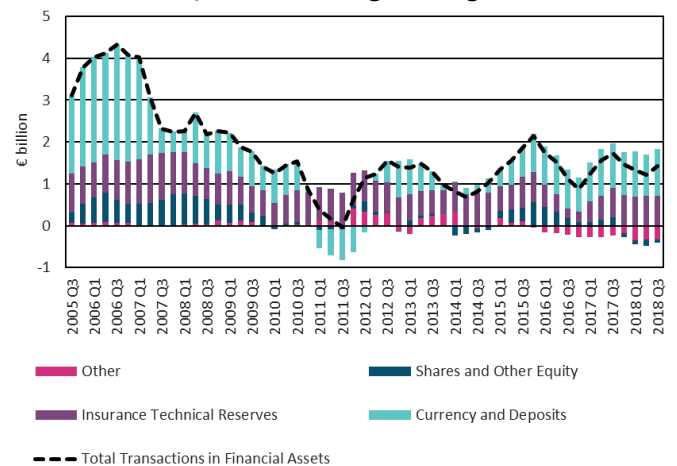
Chart 1.4 Cross-Country Comparison of Most Highly Indebted EU Countries, 2016Q3-2018Q3



* Latest data Q2 2018, ** Latest data Q4 2017

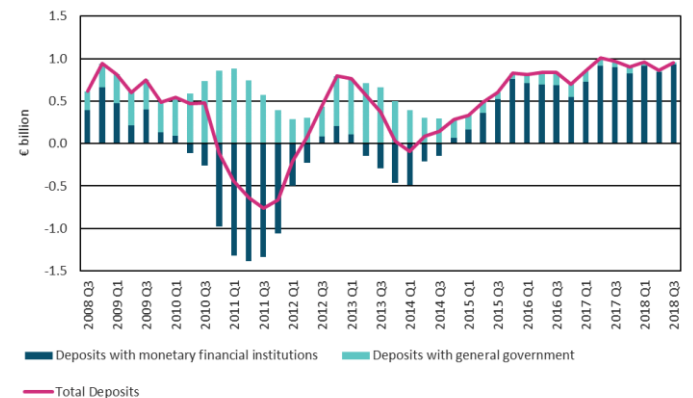
Household investment in financial assets increased during Q3 2018, rising to €1.4bn (Chart 1.5). This represented a rise of €207m compared to the previous quarter. This trend mostly reflected an increase in investment in currency and deposits of €136m. Households sold €424m in shares and other equity in the year to Q3 2018.

Chart 1.5 Household Transactions in Financial Assets, Four-Quarter Moving Average



Investment in deposits increased by €89m during the quarter, rising to €953m (Chart 1.6). This was entirely due to an increase in investment in deposit accounts with Monetary Financial Institutions (MFIs). Investment in government deposit accounts decreased slightly to €20m, its lowest level in over a decade.

Chart 1.6 Household Deposit Transactions with MFIs and Government, Four-Quarter Moving Average



Households' saving behaviour can be analysed by combining data from the Quarterly Financial Accounts and the CSO's non-financial accounts. Household saving was mostly unchanged over the quarter at €3.1bn (Chart 1.7). Of this, financial asset transactions accounted for €1.4bn, liability transactions accounted for €0.2bn and investment in gross capital formation² accounted for €1.8bn.

2. Private Sector and NFC Debt

Private sector debt as a proportion of GDP fell by 1.7 percentage points to stand at 239 per cent in Q3 2018, its lowest level since Q4 2007 (Chart 2.1). The decrease in Q3 2018 was due to rising GDP, which was partially offset by increased non-financial corporations (NFC) debt. Household debt remained unchanged from the previous quarter. 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.

NFC debt³ as a percentage of GDP decreased to 195 per cent during Q3 2018 (Chart 2.2). This was due to a rise in GDP, which was partially offset by an increase of €3.8bn in NFC debt.

Chart 1.7 Household Saving Decomposed by Use, Four-Quarter Moving Average

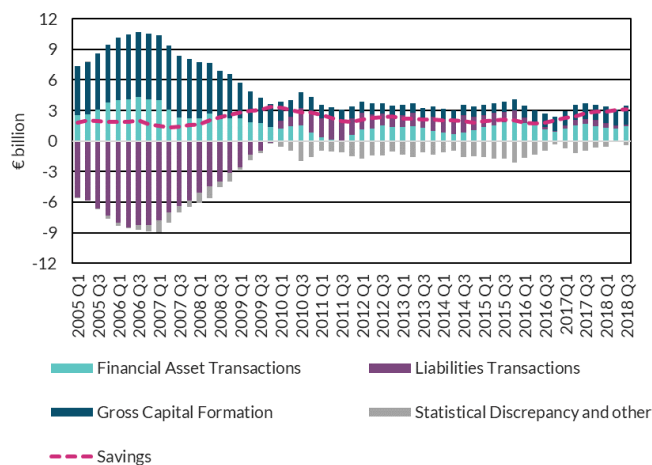


Chart 2.1 Private Sector Debt-to-GDP

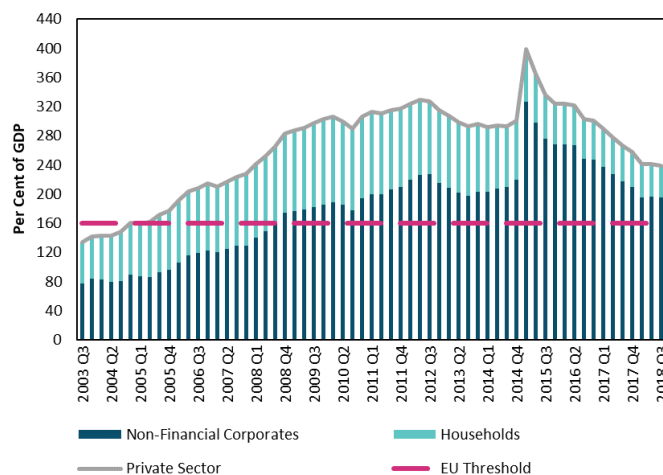
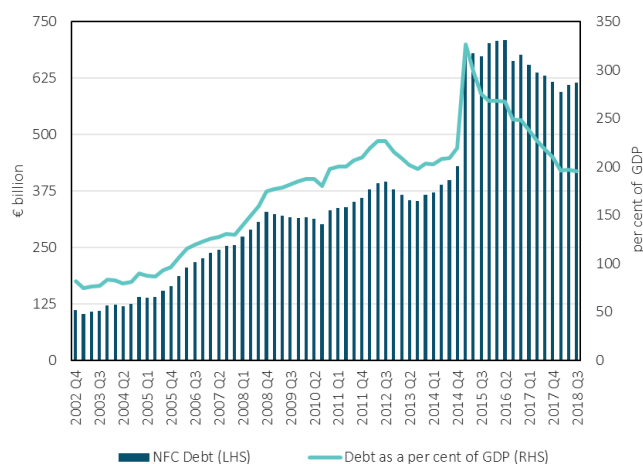


Chart 2.2 NFC Debt-to-GDP



² Gross capital formation consists of acquisitions of fixed assets less disposals. It includes acquisitions of dwellings.

³ NFC debt is defined as non-consolidated debt securities and loans.

3. Government

Government debt rose by €1.0bn during Q3 2018 (Chart 3.1). This increase was partly due to the issuance of €0.4bn of government debt securities during the quarter. Government debt stood at €236.3bn in Q3 2018, exceeding the previous peak of €235.6bn in Q3 2014. Chart 3.1 also shows that Quarterly Government Debt⁴ (QGD), which is based on the Excessive Deficit Procedure (EDP) measure of debt, also increased by €1.0bn in Q3 2018 to €215.9bn, its highest level since Q3 2013.

Government net financial wealth fell by €1.4bn during Q3 2018 (Chart 3.2). This was due to an increase in financial liabilities during the quarter of €9.6bn, which outstripped the increase in financial assets of €8.2bn. The increase in both government financial assets and liabilities was largely due to flows of other accounts receivable/payable. At the end of the quarter net financial wealth stood at -€158.5bn.

Chart 3.3 shows a cross-country comparison of government net financial wealth as a percentage of GDP within the European Union⁵. Ireland is ranked 19th out of the 27 EU countries for which data is available. Irish net government financial wealth amounted to -48.6 per cent of GDP. The average for the euro area was -63.8 per cent.

Chart 3.1 Government Debt

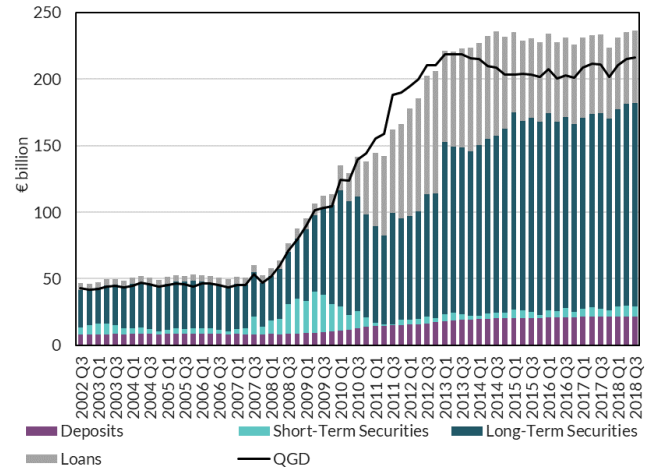


Chart 3.2 Government Net Financial Wealth

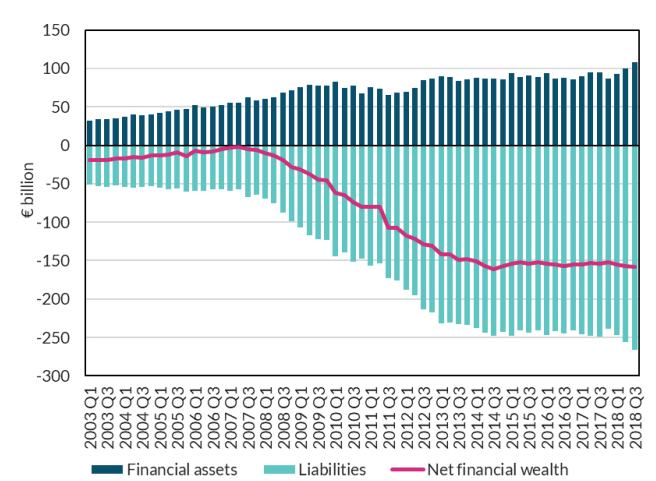
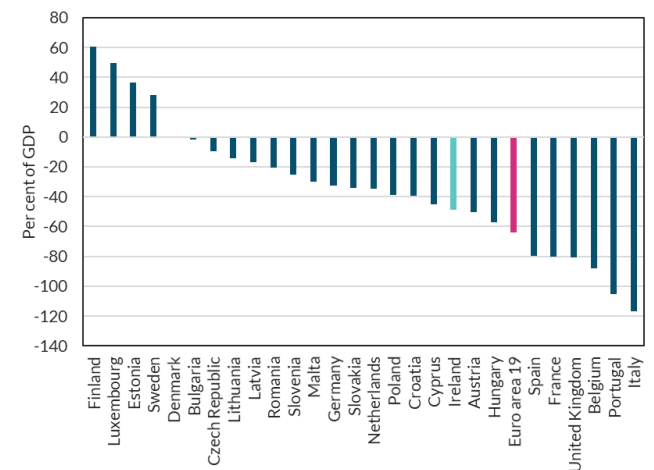


Chart 3.3 Cross Country Comparison of Government Net Financial Wealth



⁴ Government debt in the Quarterly Financial Accounts differs from the EDP measure of debt as it is calculated on a non-

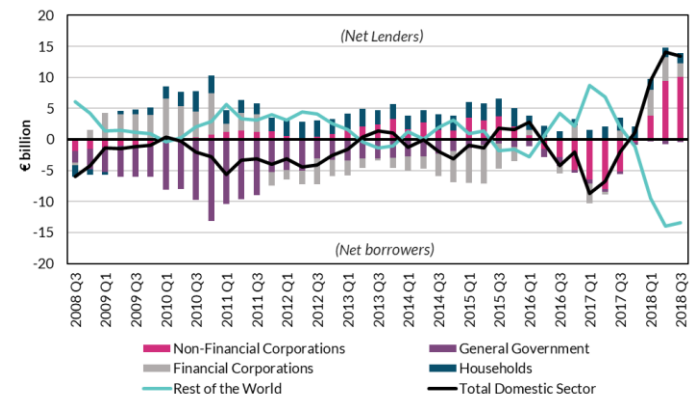
consolidated basis, and uses market rather than nominal values.

⁵ Data for Greece is unavailable.

4. Net Lending/Borrowing of All Sectors⁶

The domestic economy continued to be a net lender in Q3 2018, with net lending totalling €13.4bn compared to €14bn in the previous quarter (Chart 4.1). Financial corporations and NFC experienced inflows of €2.1bn and €10.1bn, respectively. Net lending by households increased during the quarter by €0.1bn to €1.6bn. Net borrowing by government decreased from €0.8bn in Q2 2018 to €0.4bn in Q3 2018.

Chart 4.1 Net Lending/Borrowing of All Sectors



⁶ 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. These figures are calculated as a four-quarter moving average.

5. 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.