Banc Ceannais na hÉireann
Central Bank of Ireland
Eurosystem

Statistical Release

Quarterly Financial Accounts – Q4 2018

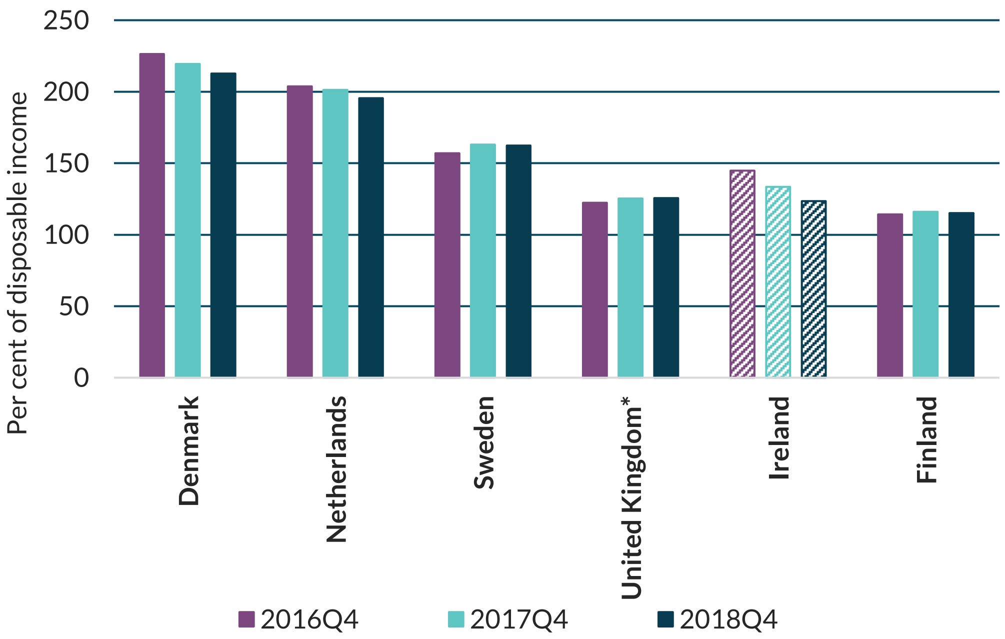
14 June 2019

Quarterly Financial Accounts

Household debt is at its lowest level since Q3 2005

- Since its peak in Q3 2008, household debt has decreased by 32.3 per cent, or €65.5bn to stand at its lowest level since Q3 2005.
- Household debt as a proportion of disposable income fell to 123.5 per cent in Q4 2018, a 2.1 percentage point decrease compared to the previous quarter.
- While household net worth[1] decreased marginally by 1 per cent in Q4 2018, it remains above its 2007 peak.
- A discussion on longer-term trends in household wealth are also published today as part of a new publication series 'Behind the Data'.

Cross Country Comparison of Highly Indebted EU Countries



* latest data Q2 2018

[1] Household net worth is calculated as the sum of household housing assets 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).

1. Households

Household net worth decreased by 1 per cent, or €7.9bn, in Q4 2018. This was the first quarterly decrease in net worth since Q1 2013 (Chart 1.1). The value of financial assets fell by €8bn as developments in international financial markets led to a decrease in the value of both households' equity holdings, as well as their indirect holdings via their insurance and pension wealth. The value of households' housing assets also decreased, falling by €1.2bn, which reflects the decline in house prices over the quarter. At end-Q4, net worth per capita stood at €156,629, or roughly €440,000 per household.

Household debt continued to decrease during Q4 2018, falling by €74m (Chart 1.2). At end-Q4 2018, debt stood at €137.5bn, or €28,301 per capita. Household debt is at its lowest level since Q3 2005. Since its peak of €202.9bn in Q3 2008, household debt has decreased by 32.3 per cent, or €65.5bn.

Household debt as a proportion of disposable income fell by 2.1 percentage points, to stand at 123.5 per cent (Chart 1.3). The decline over the quarter is driven by an increase of 1.8 per cent in annualised disposable income, as well as the decrease in debt. Household debt as a proportion of total assets increased by 0.1 percentage points, rising to 15.1 per cent. This was driven primarily by the decreased value of financial and housing assets, and was the first increase in the ratio of debt to assets since Q1 2013.

Chart 1.1 Household Net Worth

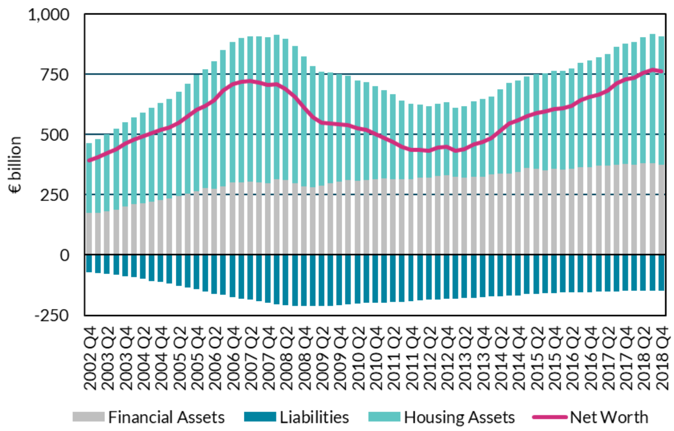


Chart 1.2 Household Debt

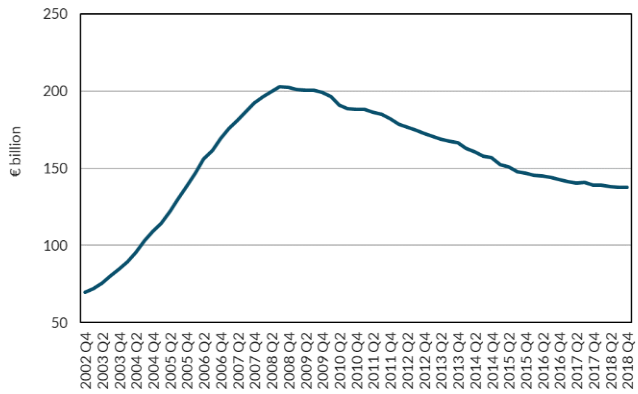
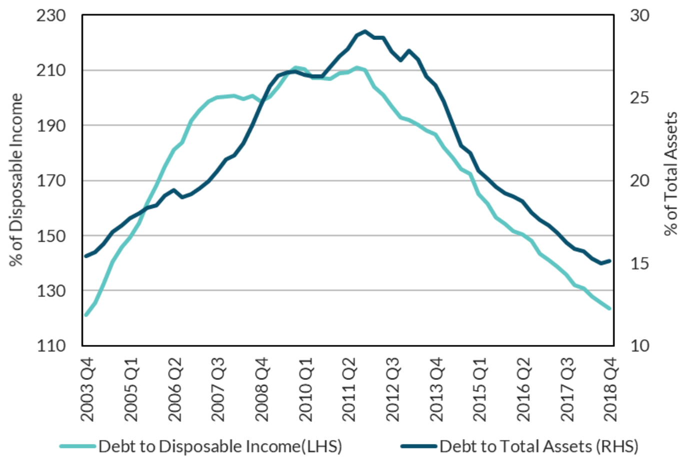


Chart 1.3 Household Debt Indicators

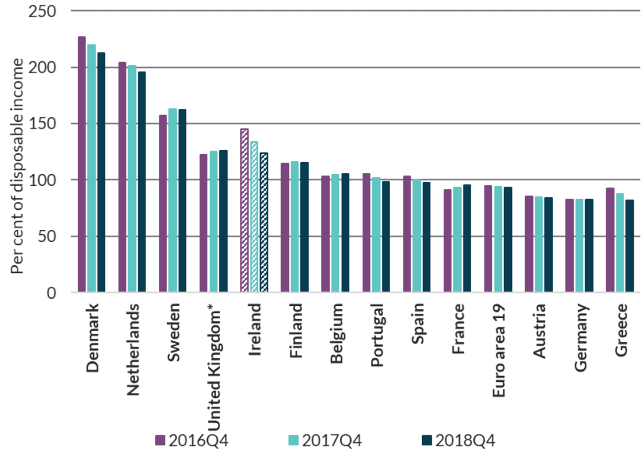


In Q4 2018, Irish households moved from fourth to fifth most indebted in the EU, with Irish debt as a proportion of disposable income 2.1 percentage points below the United Kingdom, albeit the latest data available for the United Kingdom references Q2 2018. The ratio of Irish household debt to disposable income decreased by 10 percentage points over the year to Q4 2018, the largest decline amongst the most highly indebted EU countries (Chart 1.4). In comparison, the ratio for the euro area declined by 0.5 percentage points during the same period. Denmark, Greece and the Netherlands experienced the largest declines in household debt after Ireland, falling by 6.8, 6, and 5.8 percentage points respectively over the year to Q4 2018.

Household investment in financial assets increased during Q4 2018, rising to €1.9bn (Chart 1.5). This represented a rise of €406m compared to the previous quarter. An increase in investment in shares and other equity of €256m and currency and deposits of €137m accounted for the majority of this increase. This reverses a trend since Q4 2017 of households reducing their holdings in shares and other equity.

Investment in deposits increased by €186m over the quarter, rising to €1.1bn (Chart 1.6). This was primarily due to an increase in investment in deposit accounts with Monetary Financial Institutions (MFIs). Investment in government deposit accounts continued to decrease, falling to €13m.

Chart 1.4 Cross-Country Comparison of Most Highly Indebted EU Countries, 2016Q4-2018Q4



*** Latest data Q2 2018**

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

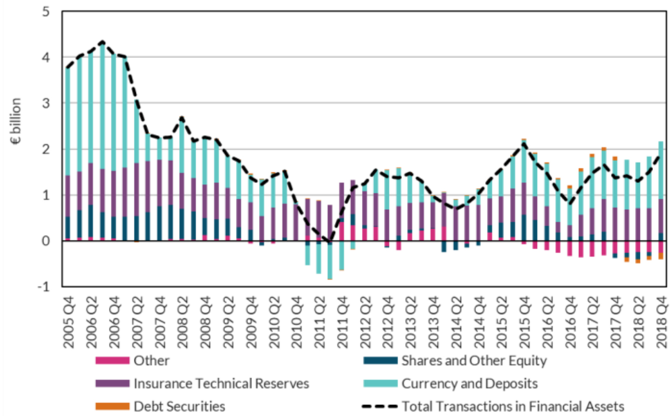
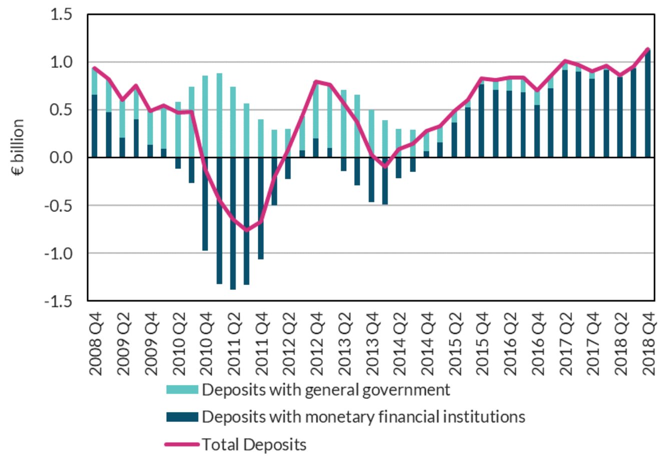


Chart 1.6 Household Deposit Transactions with MFIs and Government, Four-Quarter Moving Average



Households' saving behaviour can be analysed by combining data from the Quarterly Financial Accounts and the CSO's non-financial accounts. Household saving rose by €139m over the quarter to stand at €3.2bn (Chart 1.7). Of this, financial asset transactions accounted for €1.8bn, and investment in gross capital formation[2] accounted for €2bn.

2. Private Sector and NFC Debt

Private sector debt as a proportion of GDP fell by 1.1 percentage points to stand at 237.7 per cent in Q4 2018, its lowest level since Q4 2007 (Chart 2.1). The decrease reflected increasing GDP, as well as decreases in both household debt and non-financial corporations (NFC) debt. 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 debt[3] as a percentage of GDP remained unchanged at 195 per cent during Q4 2018 (Chart 2.2). The rise in GDP was offset by an increase of €5.9bn in NFC debt.

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

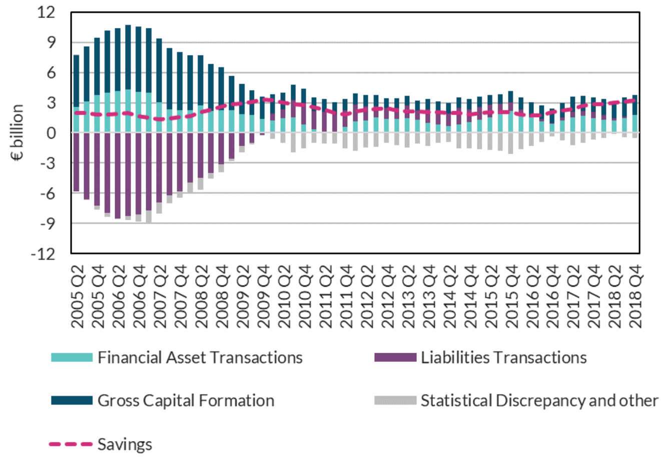


Chart 2.1 Private Sector Debt-to-GDP

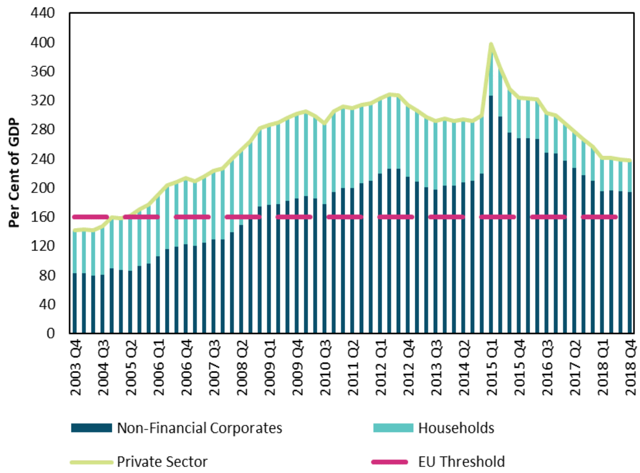
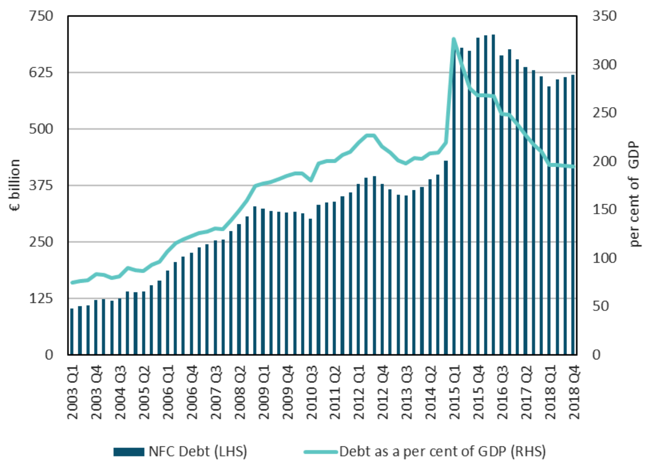


Chart 2.2 NFC Debt-to-GDP



[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 decreased by €11.3bn during Q4 2018 (Chart 3.1) to stand at €225bn. This decrease was largely due to debt security redemptions of €11.1bn during the quarter. Chart 3.1 also shows that Quarterly Government Debt[4] (QGD), which is based on the Excessive Deficit Procedure (EDP) measure of debt, also decreased by €10bn to €206.2bn.

Government net financial wealth increased by €1.2bn during Q4 2018 (Chart 3.2). This was due to a decrease in financial liabilities of €10.5bn, which outstripped a decrease in financial assets of €9.3bn. The decrease in government financial assets was largely due to a decline in deposits. At the end of the quarter, net financial wealth stood at -€157.3bn.

Chart 3.3 shows a cross-country comparison of government net financial wealth as a percentage of GDP within the European Union[5]. Ireland is ranked 19th out of the 28 EU countries. Irish net government financial wealth amounted to -47.6 per cent of GDP. The average for the euro area was -64.1 per cent.

Chart 3.1 Government Debt

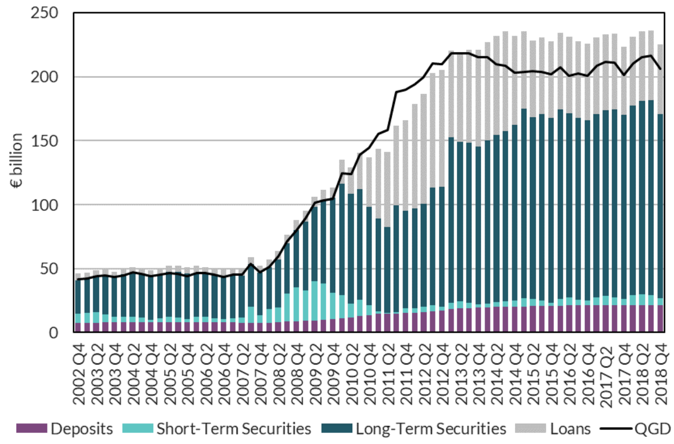


Chart 3.2 Government Net Financial Wealth

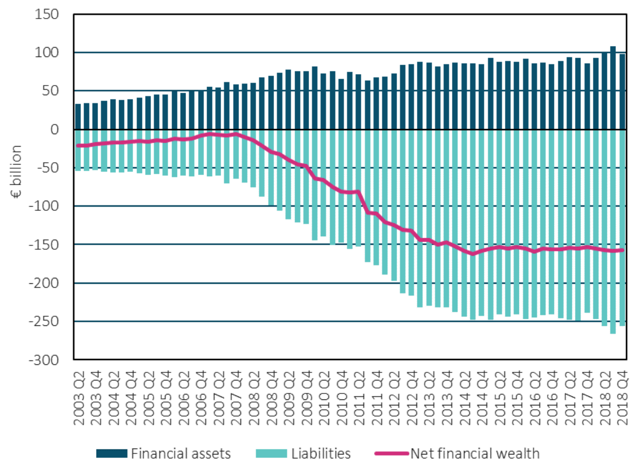
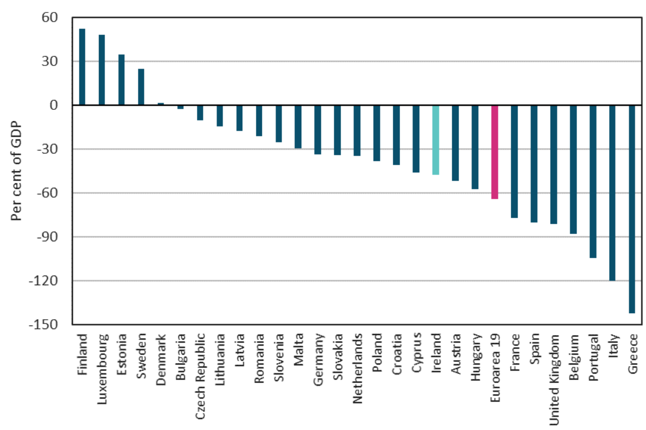


Chart 3.3 Cross Country Comparison of Government Net Financial Wealth



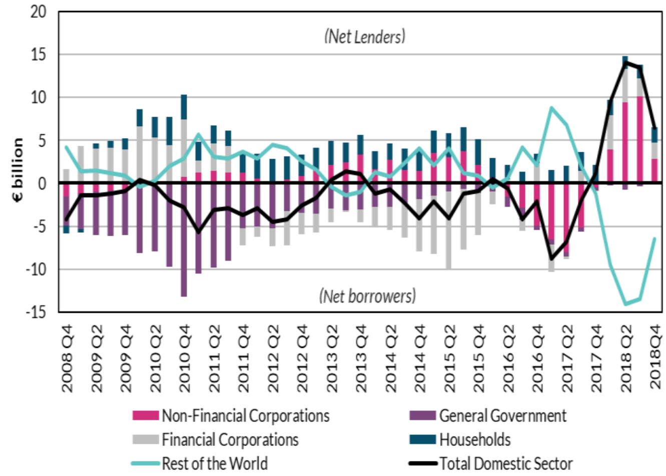
[4] Government debt in the Quarterly Financial Accounts differs from the EDP measure of debt as it is calculated on a non-consolidated basis, and uses market rather than nominal values.

[5] Data for Greece is unavailable.

4. Net Lending/Borrowing of All Sectors[6]

The domestic economy continued to be a net lender in Q4 2018, with net lending totalling €6.4bn compared to €13.4bn in the previous quarter (Chart 4.1). This fall was driven primarily by a reduction in lending by NFCs of €7.3bn over the quarter; Financial Corporations and NFCs experienced inflows of €1.9bn and €2.8bn, respectively. Net lending by households increased during the quarter by €0.1bn to €1.7bn. The government sector remains marginally a net borrower, with government borrowing at its lowest level since Q4 2007.

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.