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# Background slides - access to credit and dealing with debt

Civil Society Roundtable – 6 December 2023

# Questions for roundtable members

- What types of credit are the members of the public you represent currently accessing?
- What are the biggest issues they face in relation to credit?
- To what extent are the members of the public you represent faced with debt problems?
- What trends are you seeing in relation to debt?



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# Background information and data



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# Credit and debt in a changing economic environment

- The provision of credit is one of the most important tasks of the financial services system. It stimulates economic activity, supports wealth creation for the whole of society, and allows households and people to buy things that would be impossible otherwise – including, critically, buying a house.
- The credit market in Ireland is evolving and changing with new providers and sectors emerging and consolidation in the traditional retail banking sector. Digitisation is changing how people access credit and how credit decisions are made.
- In the changing economic environment we are acutely aware of the challenges and pressures people are facing with credit because of the rising cost of living.
- Recognising the impact on consumers, we issued [expectations of firms](#), reaffirming actions highlighted in the Outlook Report and issues that require particular attention to address potential risks to consumers.

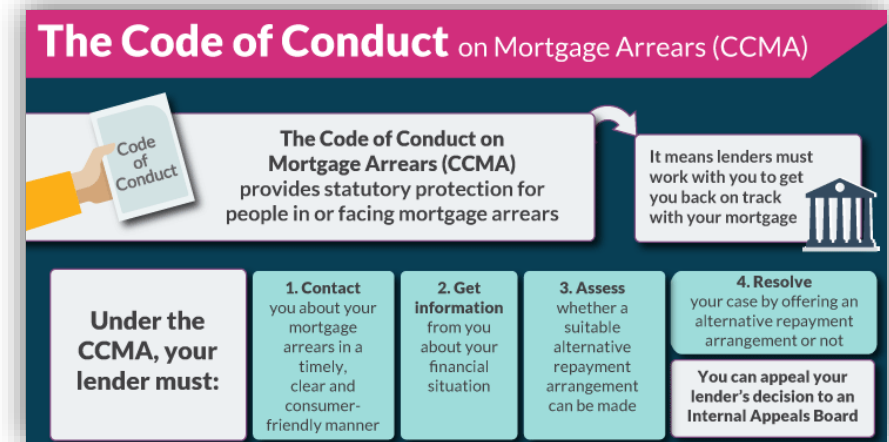


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# Consumer framework continues to support consumers

- Over the last decade a strong framework of supports for consumers has been established – provided through the Mortgage Measures, Consumer Protection Code, the Code of Conduct on Mortgage Arrears, the Code of Conduct on Lending to SMEs and a range of additional regulatory requirements.
- Framework strengthened by supervisory interventions to ensure that lenders put the correct resources and processes in place to deal with financial difficulties and the insolvency regime overseen by the Insolvency Service of Ireland.
- Review of the Consumer Protection Code continuing to ensure it is fit for purpose and continues to protect consumers of financial products today and in the future.



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# A changing economic environment

- Financial stability risks have increased with downside risks more evident in the Irish economy.
  
- What are we seeing?
  - Tighter financial conditions increasingly affecting global real economic activity
  - Higher interest rates may expose financial fragilities
  - Labour market strong but risks to domestic economy more visible
  
- Households & firms are broadly weathering the cost-of-living & debt-service shocks, but pockets of vulnerabilities are becoming more evident.
  
- Macroprudential policy measures (mortgage rules, capital buffers, new measures for funds) are maintaining/promoting overall resilience.

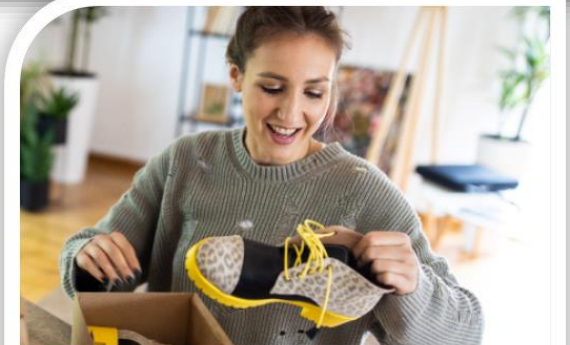


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# Supporting consumers in this changing environment

- Our work includes a focus on supporting mortgage borrowers who may face difficulty and supervising new mandates including emerging forms of credit.
- On mortgages, we are scrutinising the conduct of firms to support borrowers with increased interest rates who could switch provider and to ensure borrowers facing financial difficulties are supported with alternative repayment arrangements.
- We have seen tangible outcomes emerge from individual firms and collectively.
- Short-term credit has become increasingly popular with consumers in recent years
  - New consumer credit legislation introduced in May 2022 for hire purchase, BNPL and consumer hire.
- Our research has found that one in four people are likely to consider using it to pay.
- 36% of BNPL users see it as a payment method as opposed to a credit product
- 25-44 most likely to use BNPL - many see it as a useful credit alternative even if don't fully understand T&Cs
- [Consumer campaign to inform](#) people of the risks of short term credit.



Consumers

#### Using Short Term Credit

Know what to look out for before using "buy now, pay later" short-term credit



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# Credit and Debt in Ireland – supporting data



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# Household Mortgage and Consumer Debt – current breakdown

- Based on June 2023 Mortgage Statistics, there is **€99.8bn** of Primary Dwelling Home Mortgage Debt outstanding.
- Based on Sept 2023 Central Credit Register data (loans > €500), which captures a wide range of credit providers:
  - **€10.8bn** of household personal loans
  - **€4.9bn** is personal finance like car leasing and PCPs and
  - **€2.1bn** of overdrafts and credit card balances

Chart 1: Household Debt by category (EUR billion – Sept 2023\*)



\*Mortgage data is based on June 2023



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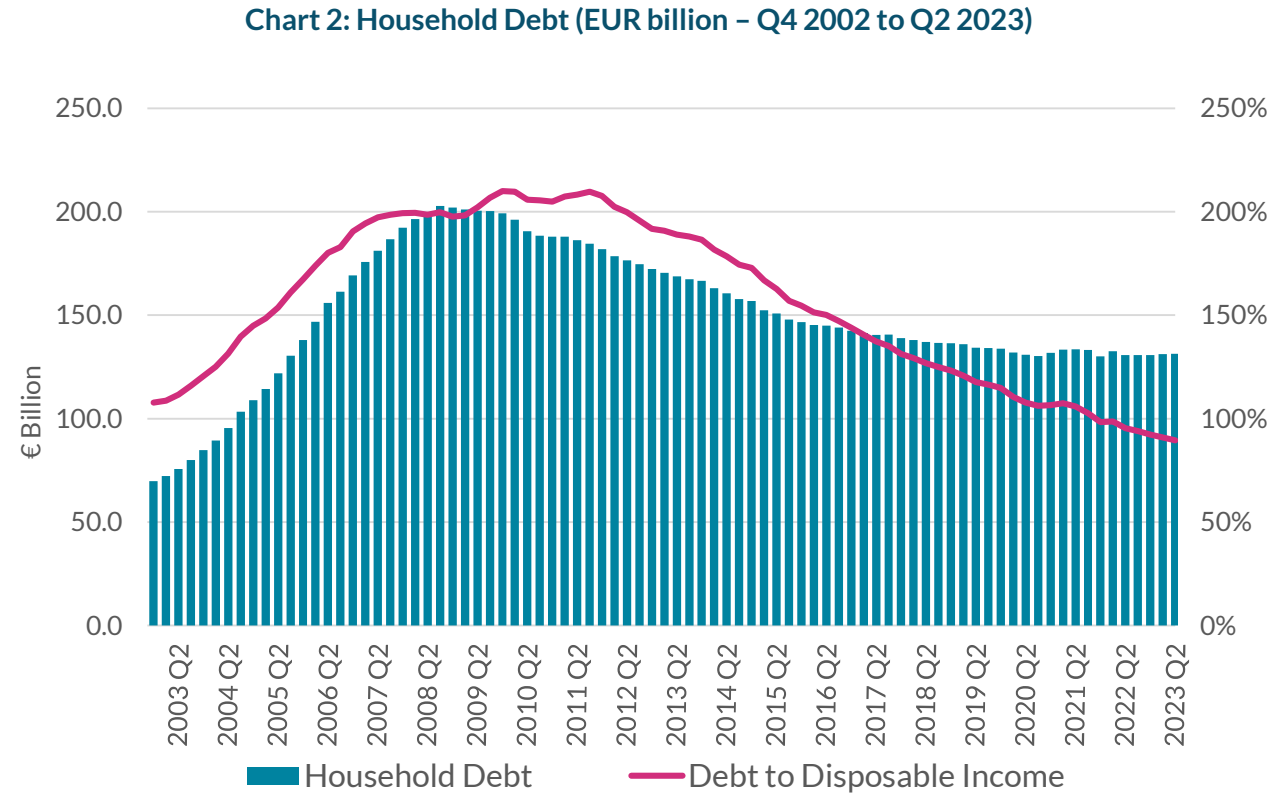
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# Household Debt – historical trend – all forms of household debt

■ Based on Q2 2023 Quarterly Financial

Accounts data, we observe:

- Household debt in Ireland has fallen from €200.5bn in Q2 2009 to €131.4bn in Q2 2023
- The downward trend in absolute debt levels has leveled off since roughly mid-2018
- Debt to disposable income continues to trend lower, falling from a peak of 210% in 2009 to 89% as of Q2 2023



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# Trends in Mortgage Debt

- In a survey of households conducted by the Central Bank of Ireland, approximately 20 per cent of indebted households report missing a debt and/or utility payment in this period ([Singh and Yao \(2023\)](#)).
- Early arrears are rising among tracker mortgages. The trend is particularly strong for borrowers with a history of repayment difficulties ([Shaikh, Kilgariff and Gaffney \(2023\)](#)).

**Chart 3: Borrowers with higher debt service burdens have been more likely to miss debt or utility payments**

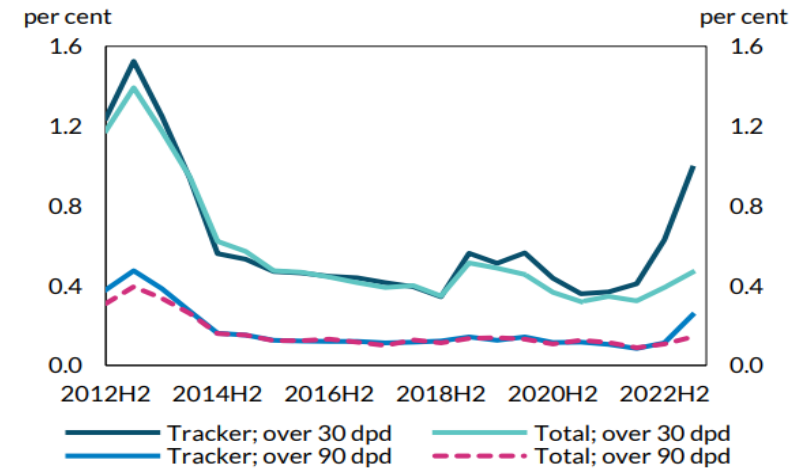
Share of borrowers by debt service to income ratio (LHS) and missed payment status (RHS)



Source: Central Bank of Ireland Expectations Survey.

Notes: The share of Irish household borrowers by debt service to income (DSTI) cohort (LHS) and the rate of missed payments on debt and/or utility payments in the period October 2022 and September 2023 (RHS).

**Chart 4: Early arrears flows are rising among tracker mortgages, but remain low across all mortgage types**



Source: Central Bank of Ireland.

Notes: The share of domestic bank Irish primary dwelling house mortgage loans moving from zero days past due to 31-180 days past due and zero days past due to 91-180 days past due in the following six months, by interest rate type. Last observation: 2023H1



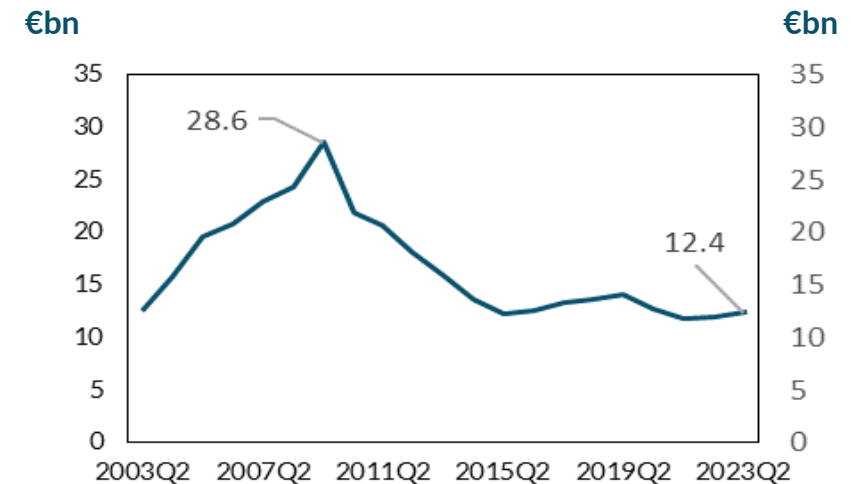
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# Trends in Consumer Credit

- Average consumer debt balances are up 9% since 2019:
  - ❑ Larger sizes of personal loans and car finance
  - ❑ Fewer credit cards or overdrafts
  
- The growth rate of loans in consumer credit at Sep 2023 was, on a year-on-year basis:
  - ❑ Consumer Credit < 1 year: 9.3%
  - ❑ Consumer Credit between 1 and 5 years: 9.4%
  - ❑ Consumer credit > 5 years: -3.3%

Chart 5: Other personal lending to Irish households 2003-2023 Q2



Source: Table A.18 Credit Advanced to and Deposits from Irish Private Households. Central bank of Ireland credit and banking statistics.



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# Non-banks (incl. credit unions) continue to play an important role in personal loans)

- In Oct 2023, there was roughly an equal number of enquiries for personal loans submitted to non-banking entities as banks.
- The largest lending sectors are credit unions (35%) and the main retail banks (34%) - Credit unions have grown lending strongly since 2021.
- Car finance specialists (17%)
- Other non-banks, fintech, credit card providers (13%)
  - Growth of app-based and fintech lenders (e.g. Avant Money, Revolut)
  - Growing digitalisation of access to finance
- <0.5% for high cost credit providers (HCCP – formerly licenced moneylenders)
  - Largest lender exited in 2021
  - Interest rate ceiling in 2022
  - Credit unions are competing for HCCP customers (“It Makes Sense” loan)



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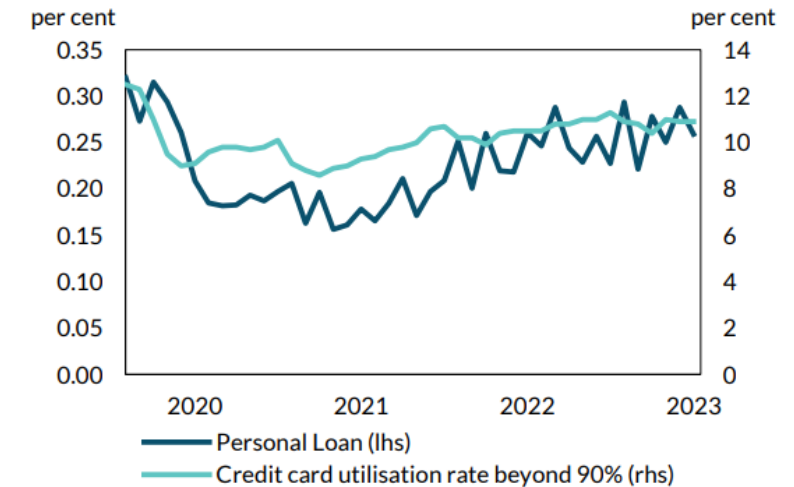
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# Non-performing consumer credit is at historic lows

- Non-performing Consumer Credit at banks is low in a historical context at < 5% as at Sept 2023 (down from 5.7%, Sept 2021 and > 20% in Sept 2014).
- However, arrears on personal loans are rising from a low base, reaching pre-pandemic levels.
- The share of personal loans entering arrears has risen from 0.17 per cent per month in early 2021 to approximately 0.27 per cent per month in early 2023. This is a return to the average new arrears flow rate immediately prior to the pandemic.
- The share of credit card with utilisation rates above 90% has also ticked back up to its pre-pandemic level of approximately one-in-ten.

**Chart 4: Arrears on personal loans are rising from a low base**

Monthly share of early arrears in personal loans and share of credit card utilisation beyond 90 per cent



Source: Central Bank of Ireland; Central Credit Register.

Notes: Loan arrears are calculated using domestic bank data. Credit card utilisation is the ratio of outstanding balance to credit limit, adjusting for the impact of annual stamp duty charges. The teal line reports the share of borrowers with utilization above 90 per cent.



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