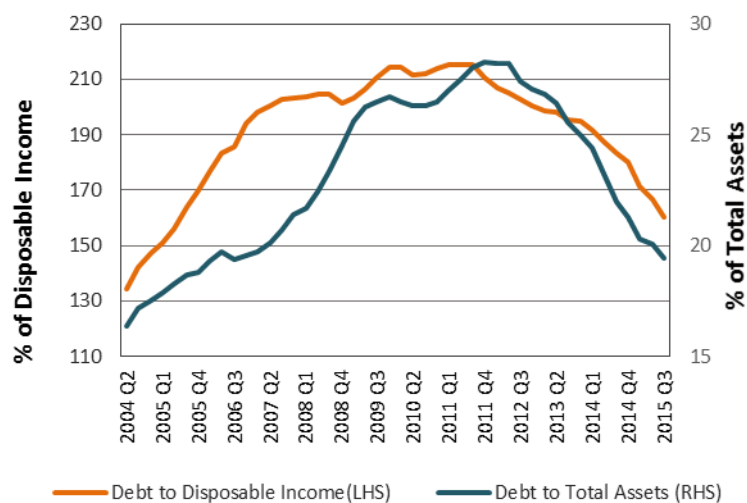


### Quarterly Financial Accounts

#### Household Debt Continues To Fall

- ❖ Household debt continued to decrease during Q3 2015, falling to €151.2bn or €32,614 per capita. This represented a decline of €2.1bn, or 1.3 per cent. While households on aggregate continued to repay debt over the quarter, repayments were at their lowest level since Q1 2010.
- ❖ Debt as a proportion of disposable income also fell to 160.4 per cent, signifying a 6.5 percentage point decrease.
- ❖ Household net worth rose to reach €617.6bn, or €133,225 per capita, during Q3 2015. This represented an increase of 2.9 per cent over the quarter.
- ❖ Over the past year, Danish and Irish households have seen the biggest improvement in their debt to disposable income ratio in the European Union (EU).
- ❖ While NFC debt as a percentage of GDP continued to fall in Q3 2015, the pace of decline was more moderate than in the preceding quarters of 2015.

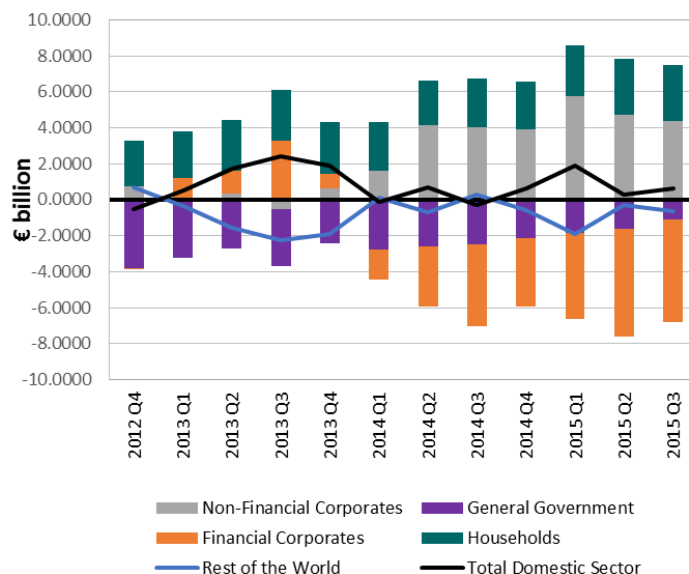
Household Debt Indicators



## 1. Net Lending/Borrowing of All Sectors<sup>1</sup>

The domestic economy continued to be a net lender during Q3 2015, as deleveraging by households and non-financial corporations continued to outstrip the net borrowing of government and financial corporations (Chart 1.1). Net lending by the domestic economy was almost half a billion higher in Q3 2015 compared to the previous quarter. This largely reflected a reduction in net borrowing by general government and financial corporations, with net borrowing by government declining for the sixth consecutive quarter.

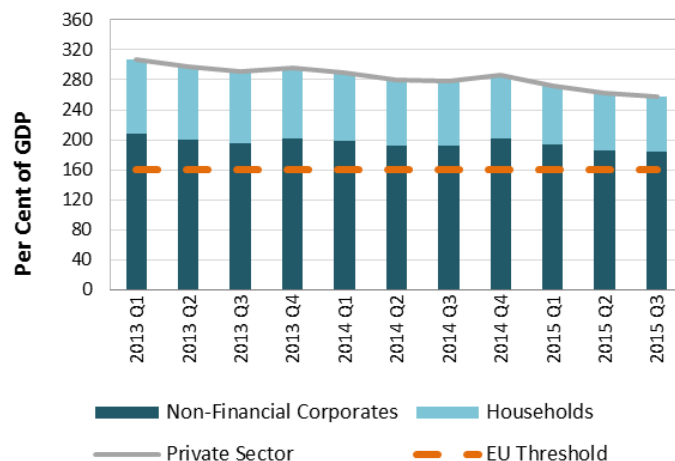
Chart 1.1 Net Lending/Borrowing of all Sectors



## 2. Private Sector Debt

The ratio of private sector non-consolidated debt to GDP declined for the third consecutive quarter in Q3 2015, falling by 5.2 percentage points to 257.6 per cent of GDP as annualised GDP growth of €5bn outpaced an increase in private sector debt of €2.6bn (Chart 2.1). NFC debt rose by €4.7bn during Q3 2015, which more than offset the reduction in household debt of €2.1bn, resulting in the increase of private sector debt in nominal terms.

Chart 2.1 Private Sector Debt to GDP



Private sector indebtedness forms part of the EU Commission's scoreboard of macroeconomic imbalances. The Commission sets an indicative threshold of 160 per cent of GDP for private sector debt sustainability, substantially lower than Ireland's 257.6 per cent. However, this threshold does not take account of the large Multinational Corporation (MNC) sector in Ireland.

<sup>1</sup> 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.

### 3. Household Sector

Household net worth<sup>2</sup> rose to €617.6bn or €133,225 per capita during Q3 2015 (Chart 3.1). This represented an increase of 2.9 per cent over the quarter. This rise largely reflected a rise in housing asset values (€18.2bn), as well as, a further decline in household liabilities (€2.7bn). The increase in net worth was partly offset by a fall in financial assets (-€3.4bn) due to a decline in the value of equity and insurance technical reserves<sup>3</sup>. This marked the second successive fall in financial assets and the first time since Q3 2011 that financial assets have declined for consecutive quarters. Overall net worth has risen by 39.1 per cent since its lowest level of €444bn in Q2 2012.

Household debt continued to decrease during Q3 2015, falling to €151.2bn or €32,614 per capita (Chart 3.2). This represented a decline of €2.1bn or 1.3 per cent. Household debt now sits at its lowest level since Q1 2006. The decline reflected net debt repayments (-€0.4bn), debt write-downs/write-offs (-€0.7bn) and reclassifications (-€0.9bn). While households on aggregate continued to repay debt over the quarter, repayments were at their lowest level since Q1 2010. Overall household debt has fallen by 25.8 per cent since its peak of €203.7bn at Q3 2008.

Household debt sustainability continued to improve during Q3 2015 (Chart 3.3). Debt as a proportion of total assets decreased, falling to 19.4 per cent. This has fallen successively each quarter since Q2 2012. Debt as a proportion of disposable income also fell to 160.4 per cent, signifying a 6.5 percentage point decrease. The decrease in the indicators represented a decline in levels of debt, as well as a rise in total assets and disposable income.

<sup>2</sup> 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).

<sup>3</sup> Insurance technical reserves' include life assurance policies and pension funds.

Chart 3.1 Household Net Worth

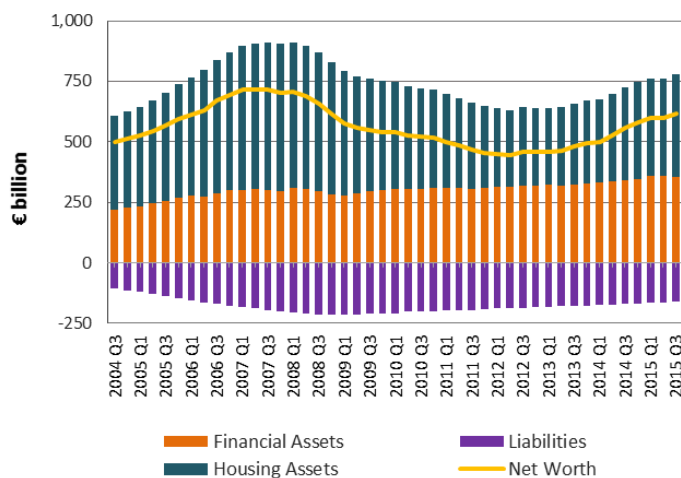


Chart 3.2 Household Debt

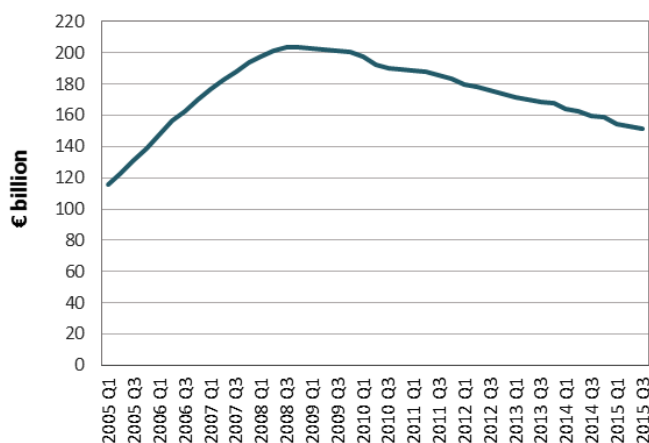
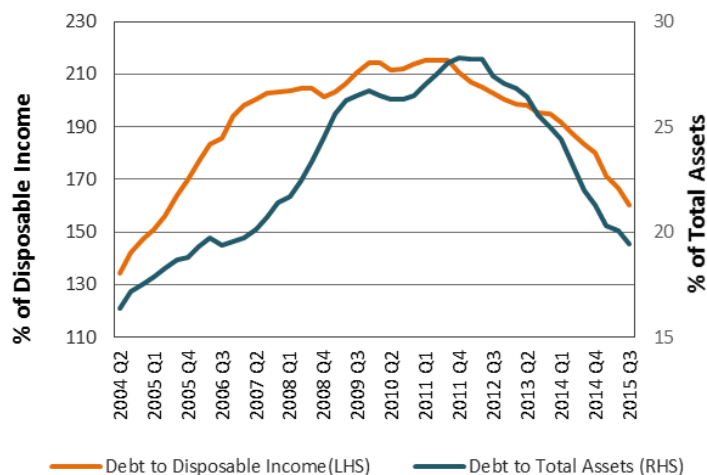


Chart 3.3 Household Debt Indicators

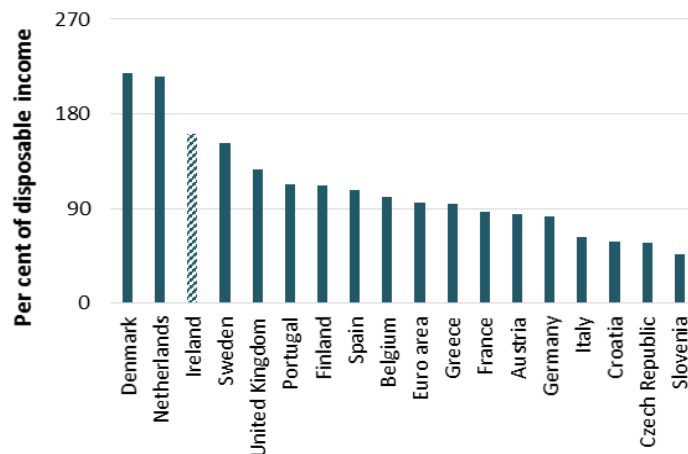


Over the past year, Danish and Irish households have reduced debt as a proportion of disposable income by 31.1 and 23.8 percentage points, respectively. These represented the largest reductions in household debt in EU. Despite this however, Danish and Irish households continued to be amongst the most indebted households in the EU (Chart 3.4).

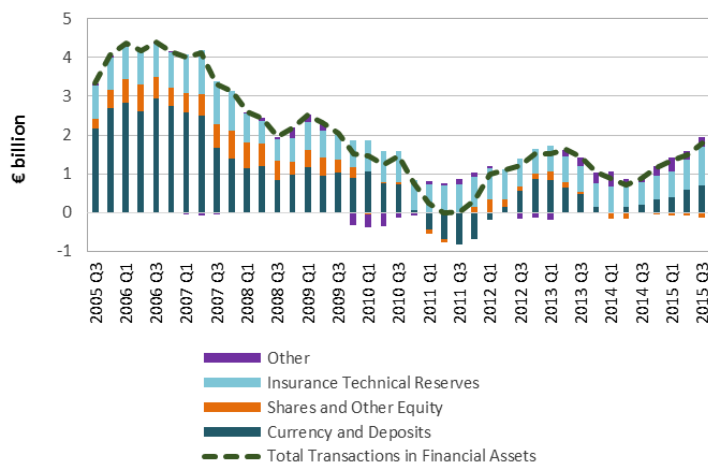
Household investment in financial assets continued to increase during Q3 2015, reaching €1.8bn. Transactions in financial assets are now at their highest level since late 2009, further signifying the recovery in the economy. The increase in investment largely reflected transactions in insurance technical reserves (€1bn) and currency and deposits (€0.7bn). Households continued to reduce their investments in shares and other equity (-€0.1bn).

Household investment in deposits continued on an upward trend during Q3 2015, totalling €0.6bn (Chart 3.6). Over the quarter, households continued to further increase lodgements with MFIs. Household deposit transactions with MFIs have increased every quarter since Q1 2014. In contrast, households have reduced lodgements with government deposits accounts every quarter since Q2 2013.

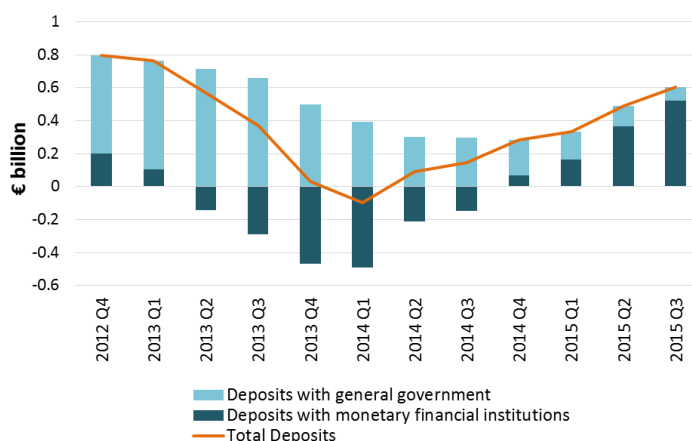
**Chart 3.4** Household Debt at Q3 2015, Cross Country Comparison



**Chart 3.5** Household Transactions in Financial Assets, Four Quarter Moving Average

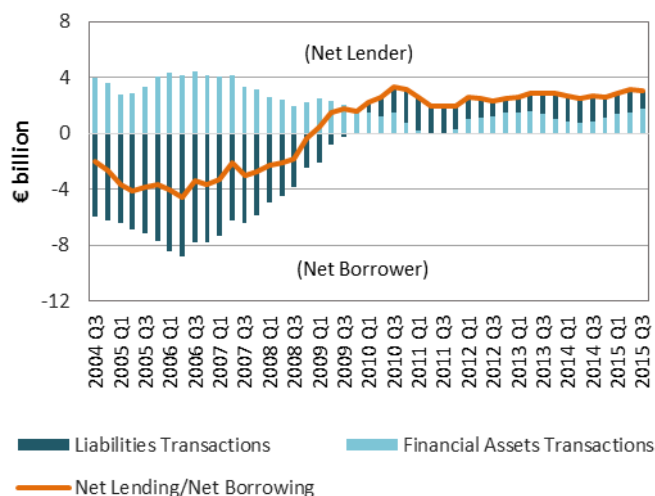


**Chart 3.6** Household Deposit Transactions with MFIs and Government, Four-Quarter Moving Average



Household net lending remained largely unchanged during Q3 2015 at €3.1bn. Chart 3.7 shows that the increase in transactions in financial assets over the quarter of €0.3bn was almost fully offset by a decrease in liabilities transactions.

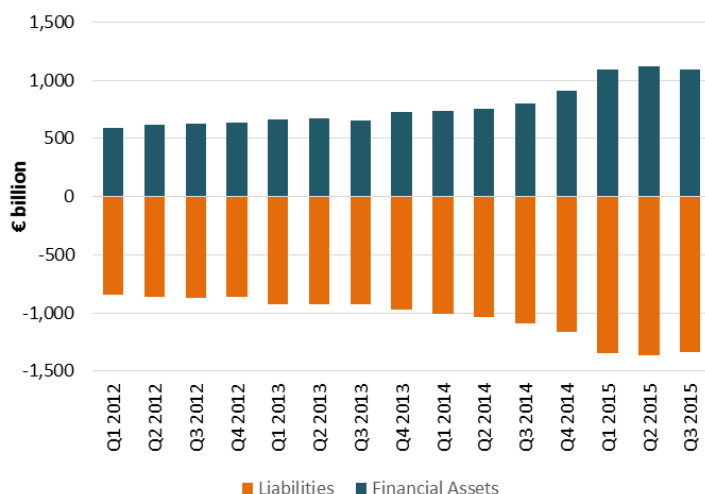
**Chart 3.7** Household Net Lending/Borrowing, Four-Quarter Moving Average



#### 4. Non-Financial Corporate Sector

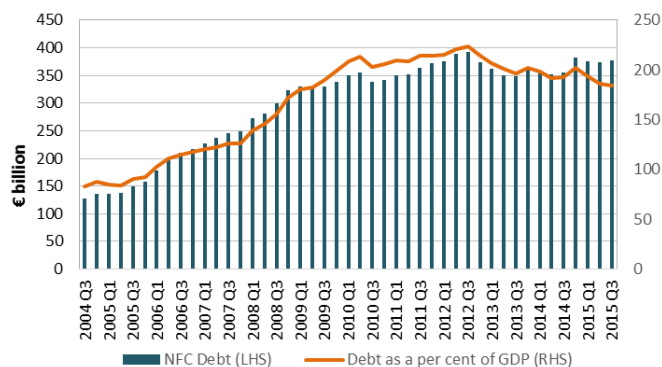
Following a period of strong expansion, NFCs balance sheets contracted somewhat in Q3 2015, with financial assets falling by 2.6 per cent and financial liabilities decreasing by 3.1 per cent (see Chart 4.1). On both sides of the balance sheet, the contraction was driven by negative movements in the valuation of equities reflecting the unsettled global economic conditions that emerged during the second half of 2015. The value of equity assets fell by €55bn and the value of equity liabilities fell by €53bn.

**Chart 4.1** NFC Assets and liabilities



While NFC debt as a percentage of GDP continued to decline in Q3 2015 – falling 2 percentage points to 184 per cent – the pace of decline was more moderate than in the preceding quarters of 2015 (Chart 4.2). This was in part due to a slower pace of annualised GDP growth, but more so due to an increase in NFC debt liabilities in nominal terms, which rose by €4.7bn, or 1.3 per cent, in Q3 2015.

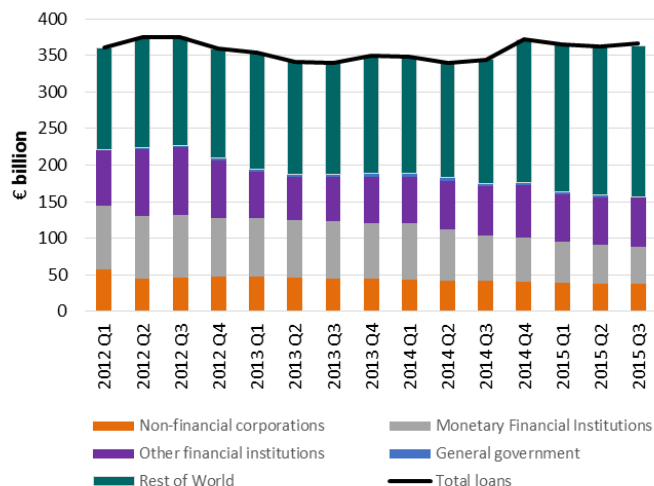
**Chart 4.2** NFC Debt



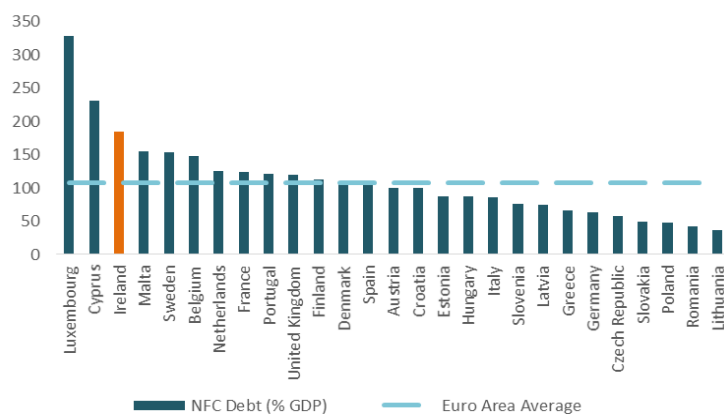
The largest contributor to the rise in NFC debt was an increase in loans held by non-residents (€4.1bn). When analysing Irish NFC debt trends, it is important to note that Ireland has substantial MNC activities, which have little interaction with the domestic financial system. In contrast, NFC loans held by the domestic sectors continued to decline, representing ongoing deleveraging by indigenous firms (Chart 4.3). Loans from domestic sources fell by €0.5 bn, or 0.3 per cent, over the quarter.

Though NFC debt as a percentage of GDP is currently at its lowest level since Q2 2009, it remains high in an international context. Ireland ranks third highest among European countries in terms of NFC debt to GDP, behind Luxembourg (328 per cent) and Cyprus (231 per cent), both countries that also have relatively large MNC sectors.

**Chart 4.3** Domestic and Foreign Financing of NFC Loans



**Chart 4.4** Cross-Country Comparison of NFC Debt as a Percentage of GDP



#### **4. 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](http://www.ecb.int)

For queries contact: Central Bank, Press Office on (01) 224 6299.