

31 January 2013



Banc Ceannais na hÉireann  
Central Bank of Ireland  
Eurosystem

## *Quarterly Financial Accounts for Ireland*

### *Q3 2012*

Quarterly Financial Accounts, released on 31 January 2013<sup>1</sup>, present a complete and consistent set of quarterly data for all resident institutional sectors in Ireland. They provide comprehensive information not only on the economic activities of households, non-financial corporations, financial corporations and Government, but also on the interactions between these sectors and the rest of the world. Transactions presented in this commentary are based on four-quarter moving averages, so as to smooth seasonality within the data.

#### **Results summary, Q3 2012**

- Household net worth<sup>1</sup> increased by €11bn or 2.5 per cent during Q3 2012, reaching €456.9bn or €99,646 per capita. This marked the first rise in household net worth since Q1 2008
- Household debt to disposable income, an indicator of debt sustainability, declined further during Q3 2012, to stand at 203.8 per cent; its lowest level since Q4 2008.
- Total Government liabilities increased substantially during Q3 2012 reaching €212bn, their highest level to date.
- Non-financial corporation debt decreased to 202 per cent of GDP. This represented a decline in debt of €2bn, or 0.6 per cent, compared with the previous quarter.

<sup>1</sup> The publication includes results for Q3 2012 for the first time. It also incorporates some revisions to time series to include the latest available raw data vintages.

## 1. Net Lending/Borrowing of All Sectors

The net lending/borrowing position of all sectors is depicted in Chart 1.1. While a positive value indicates that a sector is a net lender, 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.

The domestic sector was a net lender during Q3 2012, for the first time since Q2 2010. This reversal in trend was largely due to lower net borrowing by General Government. Households and Non-financial corporations continued to be net lenders during Q3 2012, albeit at slightly lower levels than in Q2 2012. The net lending/borrowing trends of households, Government and non-financial corporations are described in detail in sections 3, 4 and 5 respectively.

## 2. Private Sector Debt

Private sector non-consolidated debt<sup>2</sup> declined during Q3 2012, falling to 310.1 per cent of GDP, as depicted in chart 2.1. This represented a reduction in private sector debt over the quarter of 5.2 per cent of GDP and marked the largest decline in debt since Q3 2010. The decline in debt occurred as both Non-financial corporations (NFC) and households reduced debt over the quarter by 3.1 per cent of GDP and 2 per cent of GDP, respectively.

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, substantially lower than Ireland's 309.1 per cent. However, this ratio does not take account of the size of the MNC sector in Ireland relative to GDP.

Chart 1.1 Net Lending/Borrowing of all Sectors

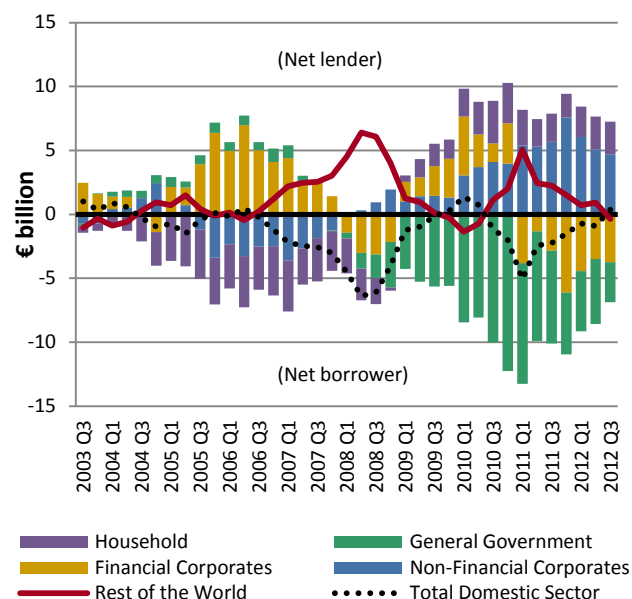
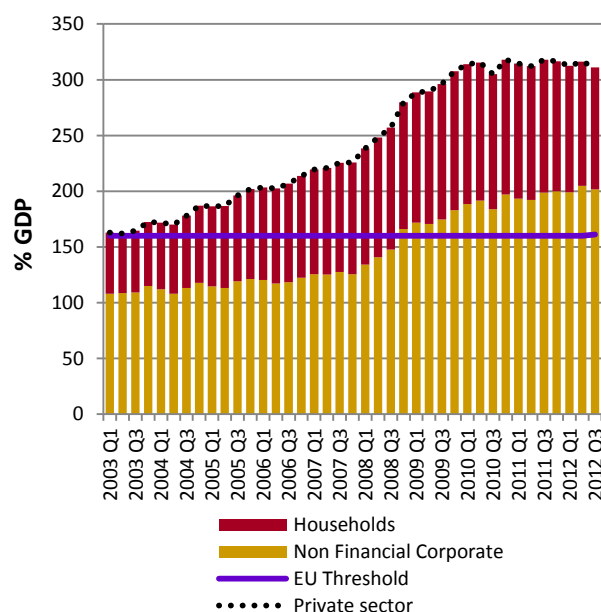


Chart 2.1 Private Sector Debt to GDP



<sup>2</sup> Debt is comprised of debt securities and loans

### 3. Household Sector

Household net worth<sup>3</sup> increased by €11bn or 2.5 per cent during Q3 2012, reaching €456.9bn or €99,646 per capita. This marked the first rise in household net worth since Q1 2008 (Chart 3.1) and reflected increases in housing assets (€4.7bn), financial assets (€4.4bn), as well as to a lesser extent, a decrease in liabilities (€1.8bn). The rise in housing assets was due to an increase in their value; the first increase in housing asset values since Q4 2007. The rise in financial assets largely reflected an increase in the value of insurance technical reserves and, to a lesser extent, increased investment in financial assets.

Overall, household net worth at Q3 2012 was 36.3 per cent lower than its peak at Q2 2007. The decrease in net worth has largely reflected declining housing asset values and lower transactions in housing.

Household debt<sup>4</sup> declined further during Q3 2012, falling by €1.7bn or 0.9 per cent (Chart 3.2). At Q3 2012, debt stood at €176.9bn or €38,570 per capita. Overall, debt has decreased by 13.2 per cent, or €26.9bn, since its peak of €203.8 billion at Q4 2008. Household debt to disposable income, an indicator of debt sustainability, declined further during Q3 2012, to stand at 203.8 per cent. This marked the fourth consecutive decline in this indicator from its peak of 218.4 at Q3 2011. At Q3 2012, this indicator was at its lowest level since Q4 2008. The decrease in this indicator during Q3 2012 was due to the continued decline in household debt and the further increase in household disposable income. The latter has been on an upward trend since Q4 2011, when measured as a 4-sum moving average.

Chart 3.1 Household Net Worth

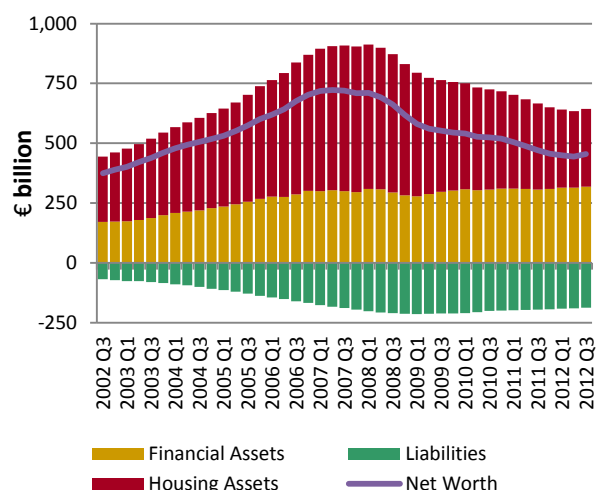
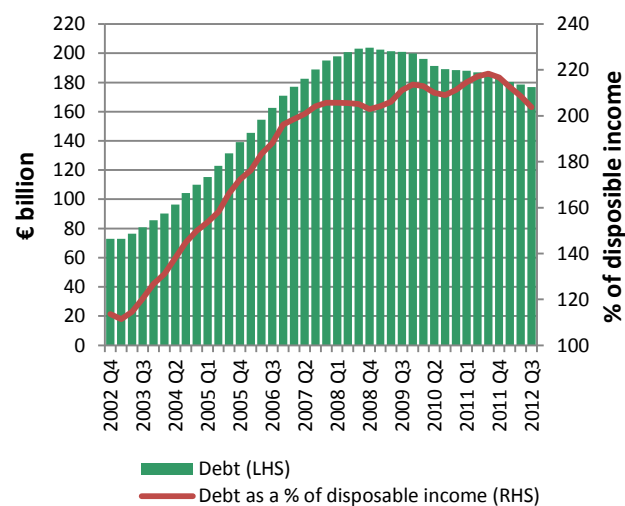


Chart 3.2 Household Debt



<sup>3</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).

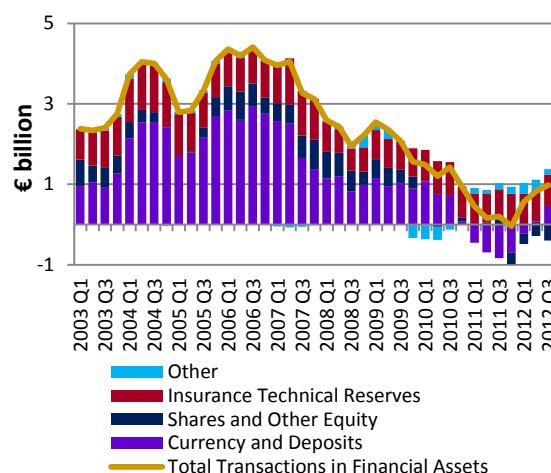
<sup>4</sup> Household debt is defined as total loans.

Household investment in financial assets continued on an upward trend during Q3 2012 (Chart 3.3). This marked the third consecutive increase in investment in financial assets. The increase was largely attributable to a further recovery in household transactions in ‘currency and deposits’. Household investment in ‘insurance technical reserves’<sup>5</sup> remained largely unchanged over the quarter, while investment in ‘shares and other equity’ decreased further.

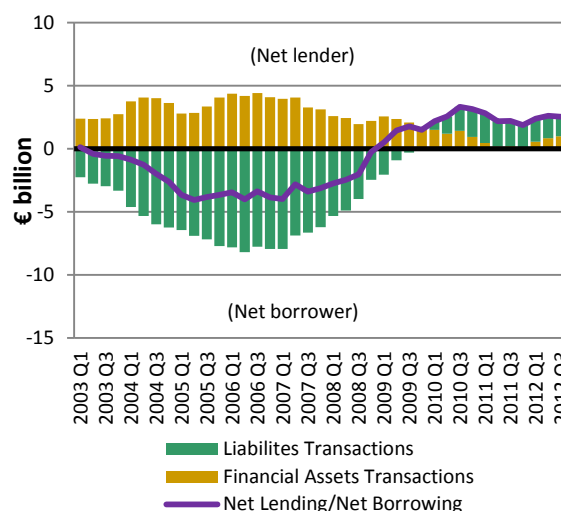
Household net lending remained largely unchanged during Q3 2012 (Chart 3.4). The increase in investment in financial assets over the quarter was largely offset by slightly lower repayments of liabilities. Households have been net lenders since Q1 2009, as they continue reducing debt incurred in the years preceding the financial crisis.

Combining household saving and gross capital formation<sup>6</sup> data from the CSO’s non-financial accounts (i.e. the real side of the economy) with households’ transactions data from Quarterly Financial Accounts allows for a decomposition of how households use their savings<sup>7</sup> (Chart 3.5). Household saving increased slightly from €2.8bn in Q2 2012 to €3bn in Q3. Household savings have been relatively high since mid-2008. During Q3 2012, households used their savings to reduce liabilities (€1.6bn), to invest in financial assets (€1bn), and contribute to gross capital formation (€1.1bn).

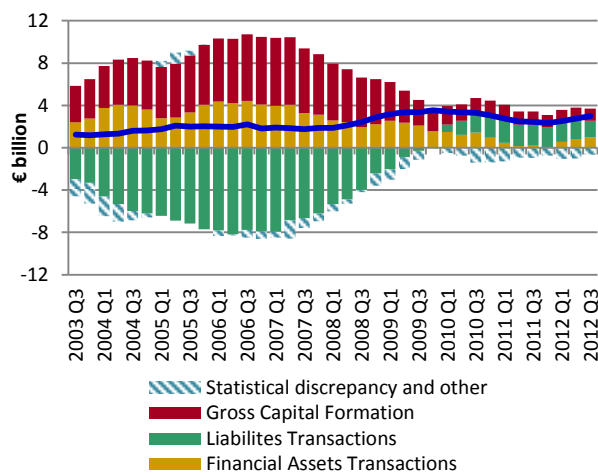
**Chart 3.3** Transactions in Financial Assets, Four-Quarter Moving Average



**Chart 3.4** Household Net Lending/Borrowing, Four-Quarter Moving Average



**Chart 3.5** Household Saving Decomposed by Use, Four-Quarter Moving Average



<sup>5</sup> ‘Insurance technical reserves’ include life assurance policies and pension funds.

<sup>6</sup> Gross capital formation consists of acquisitions of fixed assets less disposals. It includes acquisitions of dwelling.

<sup>7</sup> The derivation of savings from a non-financial accounts perspective and a financial accounts perspective is elaborated upon further in Cussen, O’Leary, Smith (2012), ‘The Impact of the Financial Crisis on Households: a Cross Country Comparison’, Central Bank of Ireland, Quarterly Bulletin No. 2.

#### 4. Government Sector

Government liabilities increased substantially during Q3 2012 reaching €212bn, their highest level to date. This represented an increase in liabilities of €19.3bn or 10 per cent compared to the previous quarter (Chart 4.1). Quarterly Government Debt (QGD), which is the standard quarterly measure of debt consistent with Excessive Deficit Procedure (EDP) methodology<sup>8</sup>, increased by €11.2bn over the quarter.

The increase in Government liabilities during Q3 reflected both a further incurrence of liabilities by the State (€10.3bn), as well as, an increase in the value of Government securities (€8.7bn). Lower bond yields during Q3 2012 resulted in the increase in the market value of Government securities. The increase in liabilities incurred by the State reflected debt security issuances amounting to €4.9bn and a further instalment of the EU/IMF programme amounting to €3.8bn.

Net financial wealth, the difference between financial assets and liabilities, declined further over the quarter reaching minus €134bn (Chart 4.2). The decline reflected the substantial increase in liabilities of €19.3bn, which was only partially offset by an increase in financial assets of €9.7bn.

The Government surplus/deficit, as a four-quarter moving average, is depicted in Chart 4.3. During Q3 2012, the deficit decreased from €5.1bn to €3.1bn. When capital transfers are excluded, the deficit decreased from €3.4bn to €3.1bn. Since 2009, the State has injected €63bn into the banking sector, of which €42.4bn has been treated as a deficit-increasing capital transfer. The remainder was treated as financial transactions (or investments) in Government accounts and therefore do not impact the deficit.

<sup>8</sup> Government liabilities in QFA differ from the EDP measure of debt as they are calculated on a non-consolidated basis, and employ different coverage and valuation criteria.

Chart 4.1 Government Liabilities

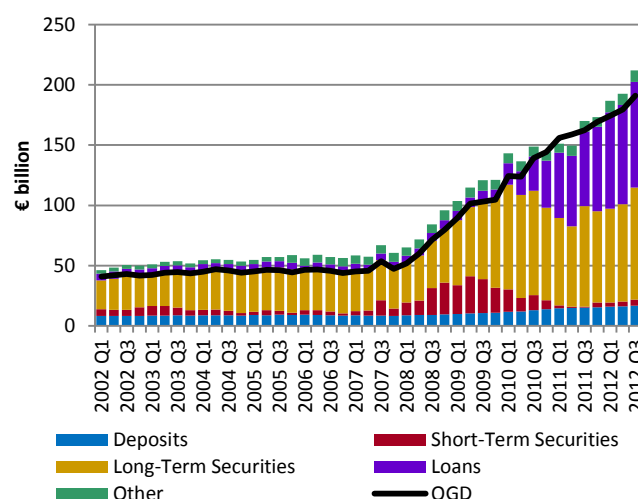


Chart 4.2 Net Financial Wealth

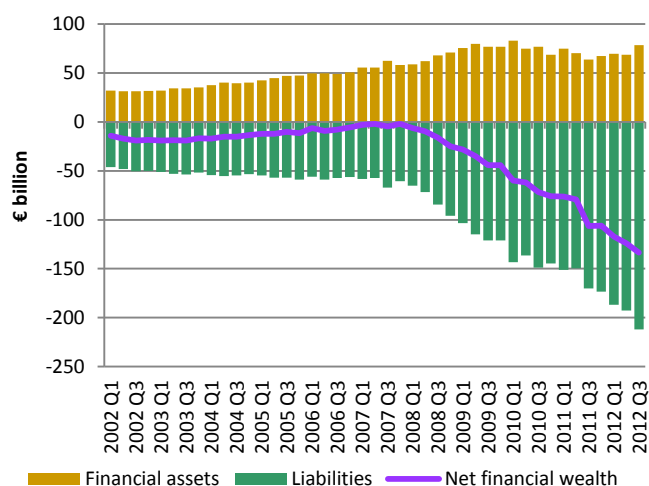
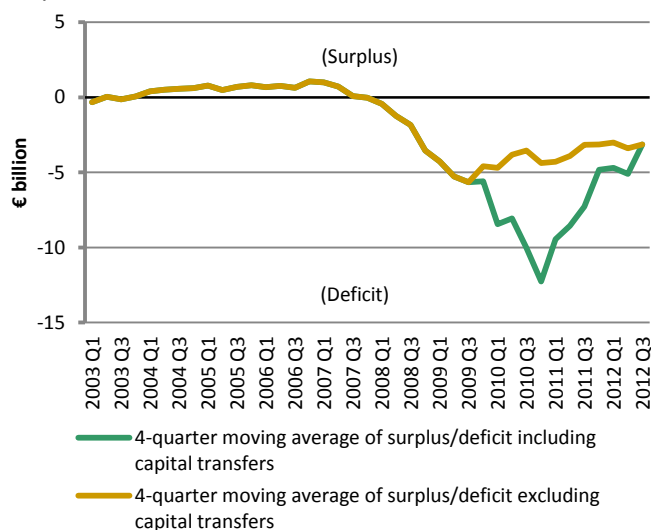


Chart 4.3 The Four-Quarter Moving Average of the Surplus/Deficit



## 5. Non-Financial Corporation Sector

Non-financial corporation (NFC) debt<sup>9</sup> decreased during Q3 2012 to reach €329bn, or 202 per cent of GDP (Chart 5.1). This represented a decline in debt of €2bn, or 0.6 per cent, compared with the previous quarter; marking the first reduction since Q2 2011. The rise in NFC debt in recent years largely reflects the activities of multi-national corporations (MNCs) operating in Ireland<sup>10</sup>.

Chart 5.2 compares NFC debt as a percentage of GDP for Ireland and 23 other European countries. The chart reveals that Ireland had the second highest indebtedness ratio, while Luxembourg had the highest at 288 per cent of GDP.

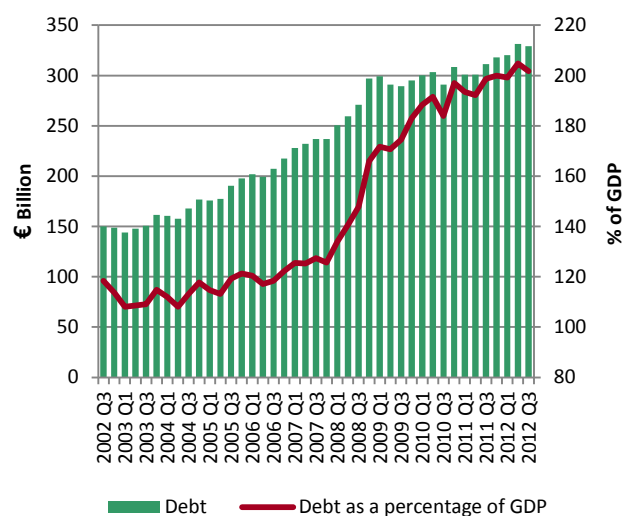
The ability of Irish NFCs to manage their debt can be assessed by comparing debt to overall balance sheet size. Chart 5.3 presents two approaches to analysing NFC debt: NFC debt as a percentage of financial assets and NFC debt as a percentage of total liabilities. The chart shows that NFC debt as a percentage of financial assets declined by 1.3 per cent over the quarter. NFC debt as a percentage of financial assets was 50 per cent in Q3 2012, which implies that debt levels are half the size of NFC financial assets.

NFC debt as a percentage of total liabilities declined during Q3 2012 by 0.8 per cent, to 40 per cent. The reduction in the ratio indicates a reduced reliance by NFCs on funding from loans and debt securities, compared with funding from equity and other accounts payable.

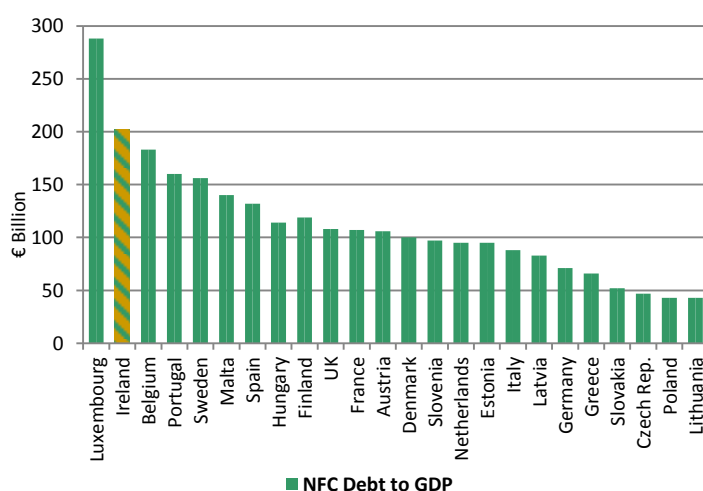
<sup>9</sup> NFC debt is defined as the sum of its 'securities other than shares' and 'loans' liabilities. Debt is non-consolidated, meaning that inter-company debt is included.

<sup>10</sup> The impact of MNCs on NFC debt is analysed in detail in: Cussen M., and O' Leary B. 'Why are Irish Non-Financial Corporates so Indebted?', Central Bank of Ireland Quarterly Bulletin, Q1 2013

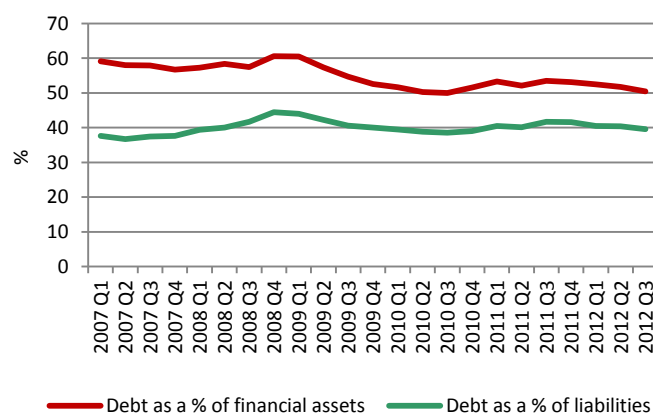
**Chart 5.1** NFC Debt as a Percentage of GDP



**Chart 5.2** Cross Country Comparison of NFC Debt as a Percentage of GDP

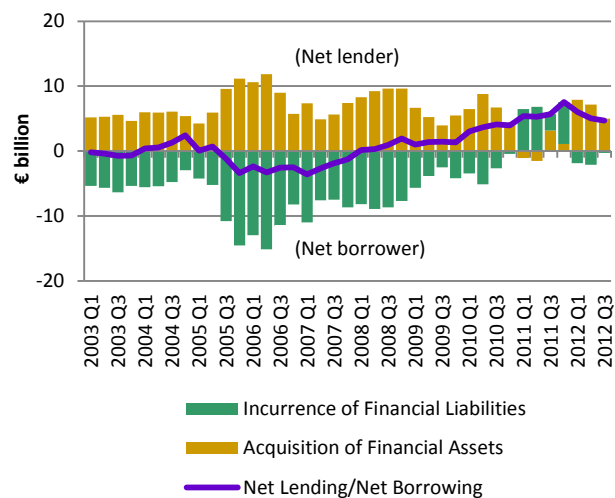


**Chart 5.3** NFC Debt Sustainability Ratios



NFCs were net lenders during Q3 2012, as they have been since Q1 2008 (Chart 5.4). NFC net lending amounted to €4.7bn over the quarter, the lowest level since Q4 2010. This was primarily driven by investment in financial assets of €5bn.

**Chart 5.4:** NFC Net Lending/Borrowing on a Four-Quarter Moving Average Basis



**Box 1: Methodological Change to Loans Data**

Loans data in the Quarterly Financial Accounts release up to May 2012 were measured on a net basis (total loans less provisions for bad debts). As at the 30 July 2012 release, this approach was changed to a gross basis, meaning that provisions for bad debts are not subtracted from total loans. This change in methodology has been applied to the entire financial accounts time series so that there is no break in the series.

The result of the change in methodology is an upward revision in the loan assets on the balance sheet of monetary financial institutions and other financial intermediaries. The corresponding loan liabilities on the balance sheet of households and NFC have also increased. The change in methodology has a substantial impact on NFC debt, where significant provisions for bad debts had been made since late 2008. Transactions data is unaffected by the change.

The change in methodology will make the financial accounts data more comparable with other data sets. At November 2010, the Central Bank's Money and Banking statistics also moved from a net basis to a gross basis. In addition, most countries report Quarterly Financial Accounts data on a gross basis, so the change in methodology further facilitates cross country comparison work.

**6. 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>

Euro area statistics are available from the ECB website at:

[www.ecb.int](http://www.ecb.int).

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