2 February 2011

Banc Ceannais na hÉireann
Central Bank of Ireland
Eurosystem

Quarterly Financial Accounts for Ireland

Q1 2002 – Q3 2010

Quarterly Financial Accounts released on 2 February 2011 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 corporates, financial corporates and Government, but also on the interactions between these sectors and the rest of the world. Transactions presented in this commentary are all based on four-quarter moving averages, so as to smooth seasonality in the data.

Results summary, Q3 2010

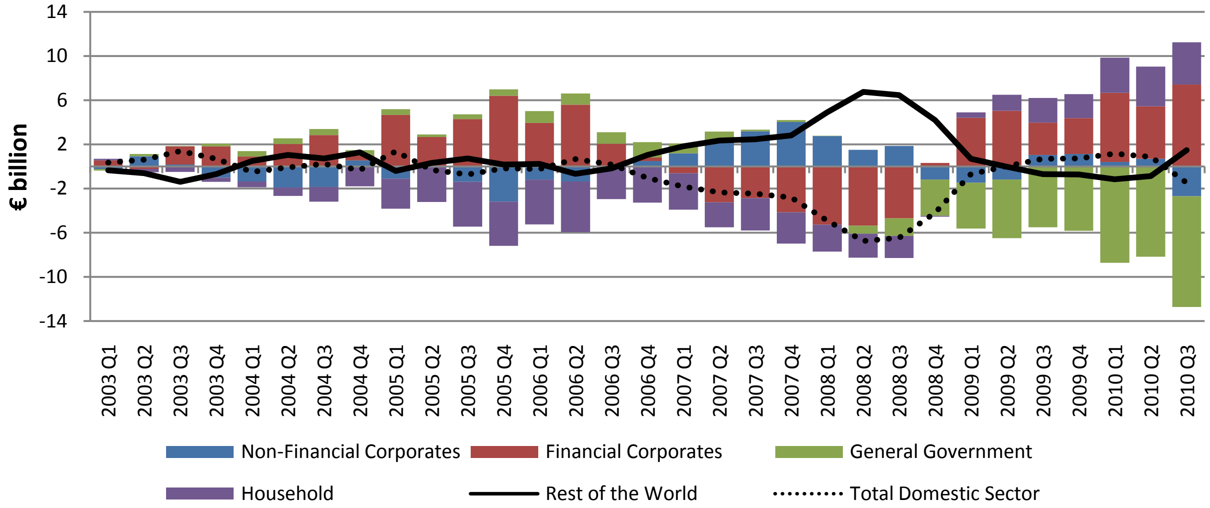
- Overall, the total domestic sector became a net borrower in Q3 2010, as it became further reliant on the rest of the world sector for funding.
- Households continued to deleverage over the quarter to reduce debt levels. This indicates that household saving levels continue to be high in Q3 2010.
- Total Government liabilities continued to increase in Q3 2010, increasing by 10 per cent over the period to reach €151 billion.
- The non-financial corporate sector has shown the first sign of deleveraging in Q3 2010; as a reduction in liabilities transactions and some loan write-offs have contributed to a reduction in their overall balance sheet.

1. Net Lending/Borrowing of All Sectors

The net lending/net borrowing position of all sectors is depicted in Chart 1. While a positive figure indicates that a sector is a net lender, a negative figure indicates that the sector is a net borrower. Overall, the sum of net borrowing/lending of all sectors will sum to zero as, for every lender, there must be a corresponding borrower.

Results show that between Q4 2006 and Q1 2009, the Irish domestic sector, in total, was a net borrower, as an expanding financial corporate sector became increasingly reliant on funding from the rest of the world to finance its activities, and households continued to incur debt. This trend reversed from Q2 2009 onwards. The financial turmoil and recession meant that financial corporates became net lenders, while households began to reduce their high debt levels (this is discussed further in Section 2). In Q3 2010 the total domestic sector became a net borrower once more, as increased funding needs of the general government and non-financial corporate sectors outstripped the higher net lending of households and the financial corporate sector.

Chart 1: Net Lending/Net Borrowing of All Sectors, Four-Quarter Moving Average

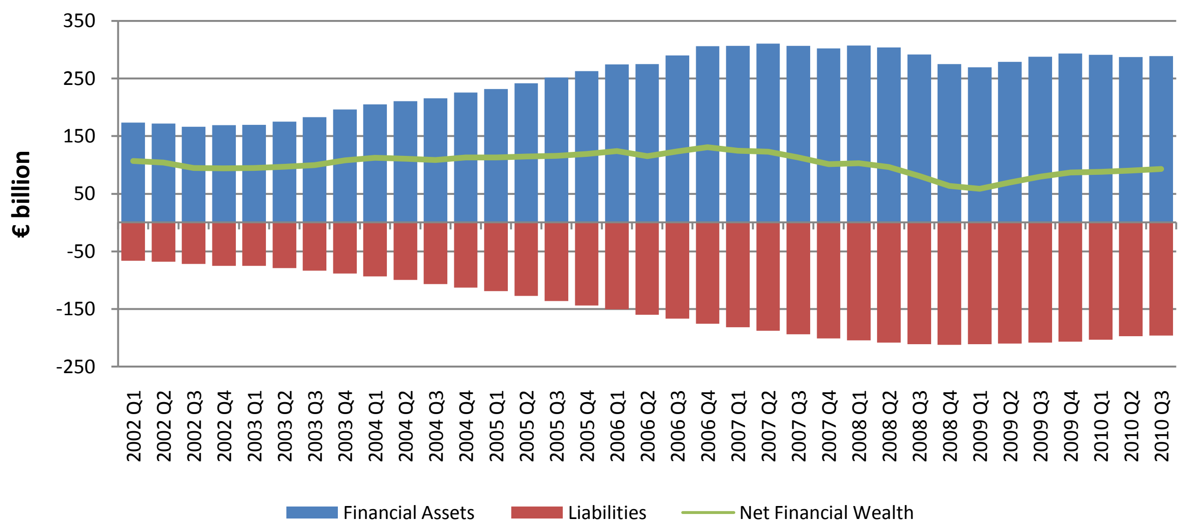


2. Household Sector

Household net financial wealth[1] increased by 3 per cent during Q3 2010 reaching €93 billion or €20,745 per capita. Chart 2 shows that net financial wealth has been on an upward trend since Q1 2009, increasing by 59 per cent over the period. Changes in net financial wealth can by driven by three factors – valuation changes in financial assets and liabilities; the acquisition of financial assets; or the incurrence of liabilities.

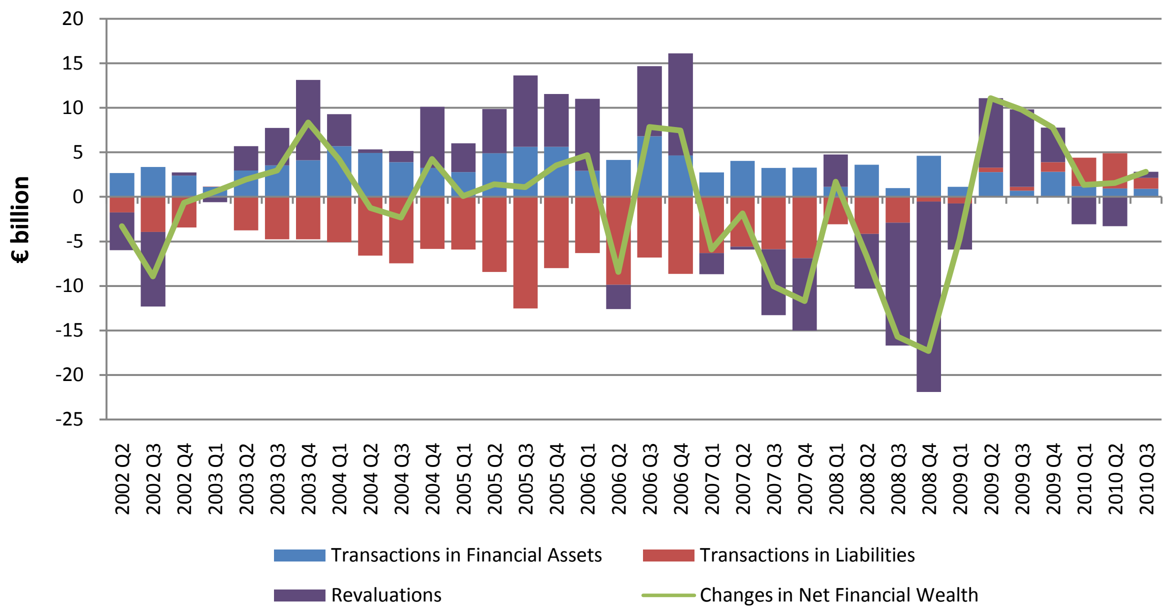
Chart 3 depicts how each of these factors has influenced net financial wealth between Q1 2002 and Q3 2010. Results show that the increase in net financial wealth in Q3 2010 was largely due to a reduction in loan liabilities, as households sought to reduce high debt levels incurred prior to the financial crisis.

Chart 2: Household Net Financial Wealth



[1] Net financial wealth is defined as the difference between financial assets and liabilities. It should be noted that net financial wealth does not include housing and other non-financial assets.

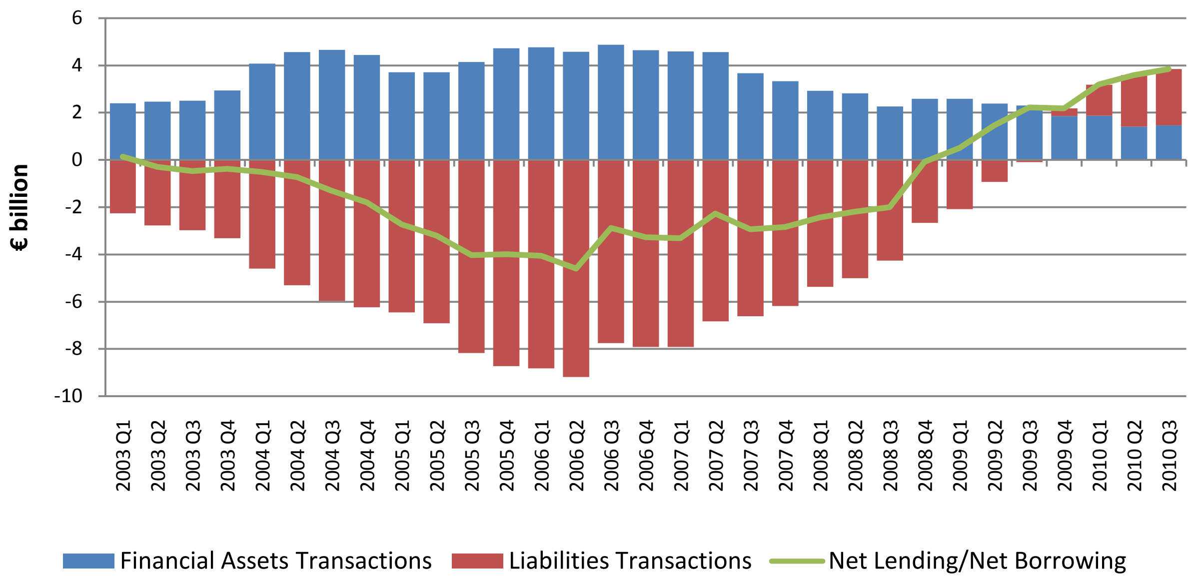
Chart 3: Changes in Household Net Financial Wealth



Households' net lending/borrowing[2] is shown as a four-quarter moving average in Chart 4. Households' net lending increased further in Q3 2010, reaching almost €4 billion, its highest level to date. The chart shows that the increase in net lending has been driven in part by households' investment in financial assets, but also largely by a reduction in household liabilities. Since late 2009, households have been undergoing a period of deleveraging as they have sought to reduce high debt levels. The high household net lending figures indicate that household saving continues to be high in Q3 2010.

[2] Net lending/borrowing is defined as the difference between sector's acquisition of financial assets and their incurrence of liabilities.

Chart 4: Household Net Lending/Borrowing, Four-Quarter Moving Average



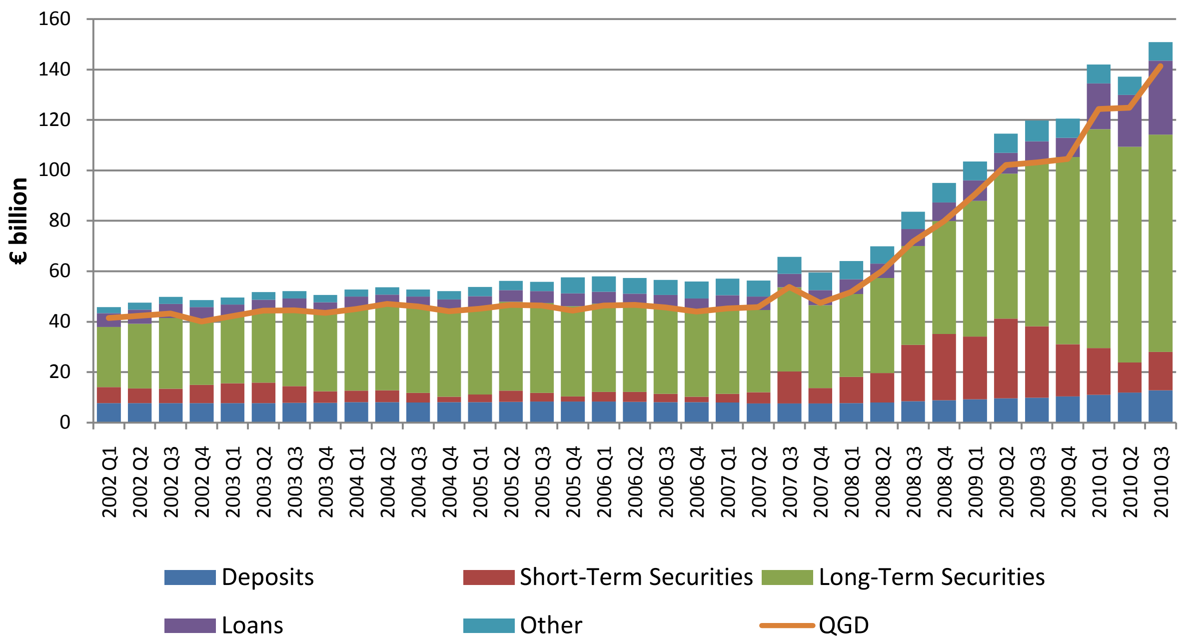
3. Government Sector

The upward trend in total government liabilities continued in Q3 2010, as depicted in Chart 5. Results show that total liabilities grew by 10 per cent over the quarter, reaching €151 billion. The chart also shows that the quarterly government debt (QGD), which is the standard quarterly measure of debt consistent with Excessive Deficit Procedure (EDP) methodology [3], followed a similar upward trend over the quarter. The increase in liabilities were largely driven by two factors – new debt security issuances by government over the period, and an increase in the promissory note issued to Anglo Irish Bank of €8.6 billion. The promissory notes are classified as loans in Quarterly Financial Accounts (QFA) and, by Q3 2010, represented 14 per cent of total government liabilities. Though the promissory notes impact on Government debt as soon as they are issued, they do not require upfront funding and so their actual financing cost is spread out over time. In accordance with Eurostat accounting rules, the Government guarantee of the covered banks is not included in the

[3] 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. Therefore, in line with international government statistical standards, QFA government liabilities tend to be higher than EDP debt.

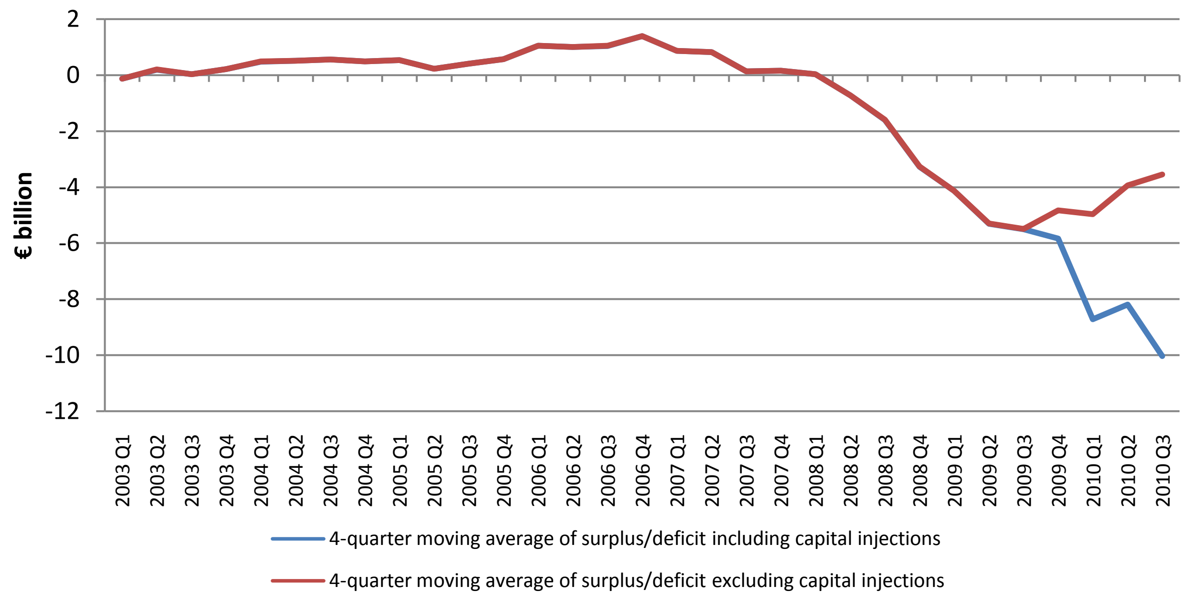
Government sector, unless called in. In addition, the NAMA special-purpose vehicle (SPV) is classified within the Other Financial Intermediaries sector and, therefore, does not impact on Government accounts.

Chart 5: Government Liabilities



The Irish Government deficit includes capital injections into Anglo Irish Bank, Irish Nationwide Building Society, and EBS of €22.9 billion, €2.7 billion and €0.35 billion respectively, between Q4 2009 and Q3 2010. The remaining Government capital injections into the banking sector will be included in the Q4 2010 accounts. Capital injections into Bank of Ireland and AIB are treated as financial transactions (or investments) in Government accounts and therefore do not impact the deficit. The Government surplus/deficit is depicted in Chart 6, based on a four-quarter moving average, to smooth seasonal effects. The chart also shows the impact on the surplus/deficit when including the capital transfers into the Irish banks between Q4 2009 and Q3 2010. Though the four-quarter moving average deficit continued to increase in Q3 2010, results show a decline in the four-quarter deficit excluding capital injections.

Chart 6: The Four-Quarter Moving Average of the Surplus/Deficit



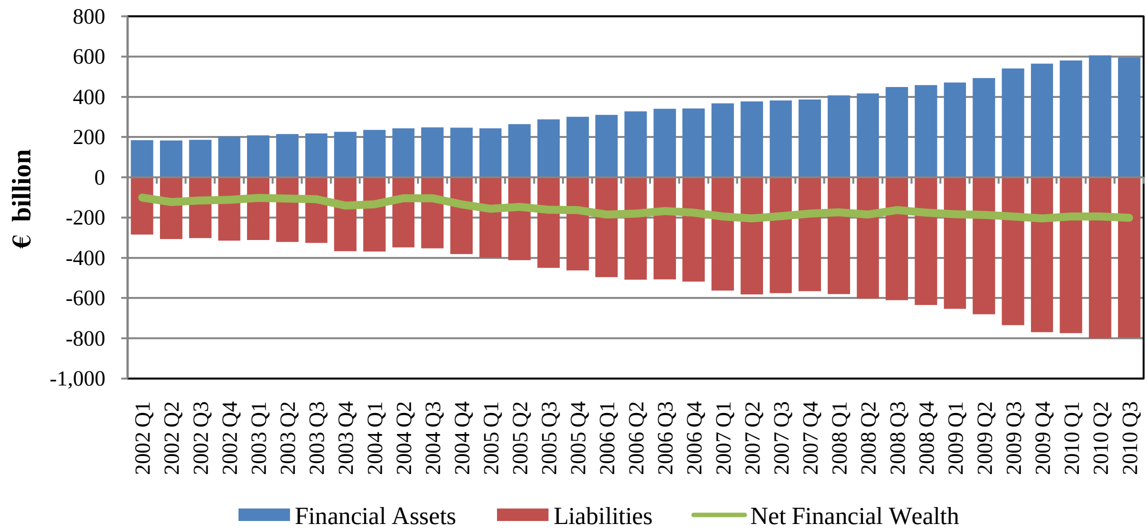
4. Non-Financial Corporate Sector[4]

The substantial growth in the non-financial corporate sector since 2002 is illustrated in Chart 7. However, results show that the stock of financial assets has fallen for the first time since Q1 2005. Total financial assets now stand at €596 billion; a fall of nearly 2 per cent from the previous quarter. Given that exports are performing well in the multinational sector; indications are that much of this decline could be attributable to indigenous companies. Total liabilities have also decreased in the current quarter, as the sector shows signs that it may be undergoing a process of deleveraging, through incurring fewer liabilities and some loan write-offs. The net financial wealth[5] of the non-financial corporate sector was minus €200 billion in Q3 2010; a decrease of 3 per cent since the previous quarter.

[4] This sector comprises public companies, internationally trading companies (including multinationals), domestically trading companies (mainly SMEs), and aircraft leasing companies.

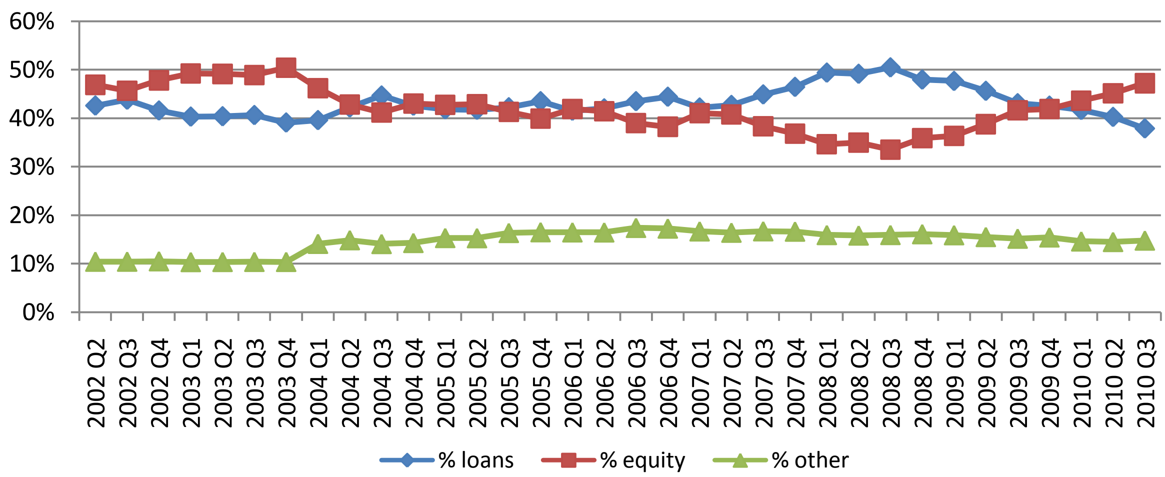
[5] Net financial wealth is defined as the difference between financial assets and liabilities. It should be noted that net financial wealth does not include non-financial assets.

Chart 7: Non-Financial Corporates' Net Financial Wealth



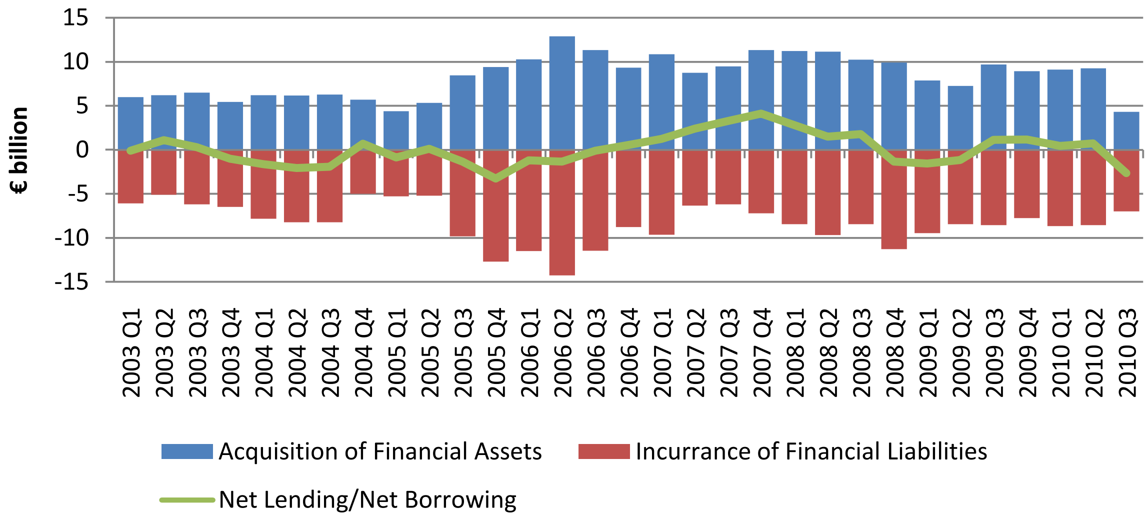
Funding sources for non-financial corporates are reflected in their liability portfolio as shown in Chart 8. The primary sources of funding for the sector are 'loans', 'shares and other equity' and 'other' (primarily trade credits and other accounts receivable). From Q2 2004 onwards, funding through loans tended to be proportionately higher than equity funding. This trend was reversed in Q1 2010, as credit from monetary financial institutions declined. The increasing reliance on equity funding, as opposed to loans, continued in Q3 2010; with a 2 per cent increase in equity funding and a corresponding 2 per cent decrease in funding from loans.

Chart 8: Non-Financial Corporate Funding



The four quarter moving average net lending/borrowing[6] position of the sector is shown in Chart 9. Results for Q3 2010 show that the sector has contracted its balance sheet with both a decline in liability transactions and an even larger decline in financial asset transactions. Investment in financial assets is at its lowest level since Q1 2005; resulting in the sectors' highest net borrowing position in almost five years. It should be noted, however, that quarterly movements in the non-financial corporate sector can be quite volatile and therefore caution should be exercised in interpreting these trends.

Chart 9: Non-Financial Corporate Net Lending/Borrowing, Four-Quarter Moving Average



[6] Net lending/borrowing is defined as the difference between a sectors' acquisition of financial assets and their incurrence of liabilities.

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/frame_main.asp?pg=sta_home.asp&nv=sta_nav.asp.

Euro area statistics are available from the ECB website at:
www.ecb.int.

For queries contact: Central Bank, Statistics Department on (01) 224 6952.