**Opening Remarks**

**By Joe McNeill, Head of Statistics Division, Central Bank of Ireland.**

**Joint Committee on Finance, Public Expenditure and Reform**

**8 February 2012**

Thank you Chairman and members of the Committee for inviting me to discuss the statistics compiled by the Central Bank on personal non-mortgage debt in Ireland. I am accompanied today by colleagues from the Statistics Division of the Bank: Mary Cussen, Senior Economist covering the area of Financial Accounts, and Martin O’Brien, Economist covering Money and Banking Statistics. I will begin by outlining the framework for the compilation of statistics in the area of personal non-mortgage debt by the Central Bank. I will then discuss recent trends in these data, which are presented in the charts, that I believe have been circulated to members. In closing, I will discuss some forthcoming developments in the data on personal non-mortgage debt statistics.

Most of the statistics currently published by the Bank derive from statutory obligations to provide data necessary for monetary policy decision-making at the ECB. These data are compiled in accordance with the international standards, which provide the framework for national accounts and other financial statistics. Understanding the rationale for collecting the data is important for interpreting the information for domestic policy purposes. In this regard, the following factors need to be considered:

* **What institutions are covered** – money and banking statistics published by the Bank are collected from credit institutions (banks, building societies and credit unions) who conduct business in the Republic of Ireland. These statistics are used to analyse dynamics in Irish credit and deposit markets and cover only household positions vis-à-vis resident credit institutions. In contrast, quarterly financial accounts published by the Bank, include the balance sheet and transactions of the household sector in aggregate and not just their liabilities vis-à-vis resident credit institutions (e.g. this would include tax liabilities, estimates of trade or store credit, etc).
* **The definitions of households in the national accounts framework** – the household sector for statistical purposes covers private households, sole traders and non-profit institutions serving households, with only some data specifically referring to personal debt, or more correctly, credit advanced to private households.
* **The aggregate nature of the data** – the statistics published by the Central Bank refer to the entire resident banking system and the entire household sector. In terms of personal debt dynamics, it says nothing about the distributional aspect of this debt across the population – an important aspect when considering policy responses to areas of concern.

I understand that the Committee has asked me to address personal non-mortgage debt today, but before turning to that issue, it is useful to set it in the context of total household debt in recent years. In the years leading up to the financial crisis, Irish households’ liabilities increased substantially (Chart 1). By Q4 2006, Irish households’ leverage ratio, measured by liabilities as a percentage of disposable income, was over double that of the euro area average. The bulk of the growth in liabilities was due to increased levels of mortgage debt – this has led to mortgage debt comprising over 70 per cent of total household debt in Q3 2011. However, in aggregate, the assets of households increased much more than their liabilities, predominantly due to valuation increases in housing assets. This led to an increase in households’ net worth up to end-2006, with a subsequent decline which was again primarily driven by property valuation effects (Chart 2). This reduction in net worth has been accompanied over the past two years by de-leveraging of the household balance sheet, with debt repayments outstripping draw-downs of new debt (Chart 3). Acknowledging these aggregate developments is important for the analysis of household behaviour and for informing policy decisions.

As outlined earlier, the money and banking data published by the Central Bank on non-mortgage personal debt refers only to personal or household debt vis-à-vis resident credit institutions. This non-mortgage debt can be split between consumer credit and other credit. Consumer credit (covering standard lending for the consumption of goods or services), accounts for around 10 per cent of total household debt (€17.3 bn. at end-2011) after averaging close to 12 per cent in the two years leading up to the financial crisis. There was in most cases, double-digit growth in consumer credit up to Q3 2008, far outstripping consumer credit growth in the euro area as a whole over the period (Chart 4). Since late 2008, consumer credit has been contracting, albeit at a slower pace throughout 2011. Most consumer credit is unsecured, with around 10 per cent collateralised by real estate – this would mainly represent mortgage equity withdrawals that were used for consumption purposes rather than for home improvement or investment purposes.

Consumer credit includes the use of credit cards, a product where we have some specific data (Chart 5). The amount of personal credit card debt outstanding peaked at end-2008 at just under €3 billion, or approximately €1,350 for each card in issuance. Since then, repayments have outstripped new spending and by end-2011 credit card debt outstanding had fallen to €2.6 billion. Part of this fall reflects the exit from the Irish market by some credit card providers as well as repayment dynamics. Given there are fewer personal credit cards in circulation, average debt per card has not fallen significantly and currently stands at approximately €1,330. The information available would, therefore, suggest that many new transactions on credit cards are being repaid, but that there is a portion of historic debt that is not being reduced significantly.

Other household credit – i.e. lending for non-housing and non-consumption related activity also grew quite substantially over the years up to 2007 (Chart 6). This category of lending, which would include items such as education loans, or loans for non-property investment purposes, was the first to react to the wider financial crisis, but accounted for the smallest share of household debt. In looking at this category it is important to recognise (as we outlined earlier) the definition of the household sector in financial statistics. The other household credit category includes, for instance, lending to sole traders, partnerships and other non-incorporated businesses, which needs to be distinguished from credit advanced to private households.

Apart from the volume of personal debt, it is also worth examining, where possible, the cost of servicing this debt. Interest rates on lending to households for non-mortgage related credit are typically higher than mortgage interest rates as they are mostly unsecured and have shorter terms to maturity. The link between policy rates, such as the ECB main refinancing rate, and interest rates on non-mortgage related household lending is also less defined than that of mortgage rates (Chart 7). Interest rates charged on short-term non-mortgage household loans with a maturity up to one year, including amounts drawn down on credit cards and overdraft facilities as well as other loans, have typically been in high single digits and above comparable rates for the euro area as a whole. This has been particularly true since mid-2010, when rates on this type of lending in Ireland increased more sharply than for the euro area reaching around 9.3 per cent by end-2011. It must be noted, however, that interest rates on this type of lending remain close to pre-crisis levels, despite the recent increases. Meanwhile interest rates on longer-term non-mortgage lending in Ireland have remained relatively stable in recent years and were around 5.5 per cent at end-2011.

Quarterly Financial Accounts (QFA) data includes all Irish household debt, including debt not held with Irish credit institutions (Chart 8). These data reveal that at end Q3-2011, Irish households had €27 billion of liabilities not held with Irish credit institutions or in the form of securitised mortgages. The largest component of this €27 billion is held with non-residents. It should be noted that household debt held with non-residents increased substantially in Q4 2010, when Bank of Scotland (Ireland) exited the Irish market. At the time Bank of Scotland (Ireland) left the Irish market, Irish households had around €10 billion in debt with them, primarily household mortgages. QFA data also include mortgages with sub-prime lenders and debt held with general government, largely reflecting taxes payable and affordable housing loans. QFA data also include accrued interest payable on borrowings from non-financial corporations, which are not part of the money and banking data.

Significant work is underway in the Central Bank on developing new data sources for analysing issues relevant to personal debt dynamics. These data sources stem from the Central Bank requirements to conduct stress testing of the Irish-owned banks under the Financial Measures Programme (FMP) report. This exercise involved the collection of detailed loan-by-loan information for the banks covered in the FMP report published at end-March 2011. Members will recall the presentation given to the Committee on 26 October last on work related to mortgage lending using this data. To date, this loan-by-loan analysis by colleagues in the Bank has focussed on mortgage lending and SME lending – non-mortgage lending to households has not been analysed in depth yet. A similar data collection exercise is under way for the forthcoming 2012 stress testing exercise, when analysis undertaken in 2011 will be built upon.

Alongside this data collection from the participating banks, the Central Bank will conduct a household income survey in the coming months. This survey will aim to collect more accurate detail on the income and financial position of a representative sample of households. This survey data will complement the kind of analysis done on the aggregate household position and the loan-by-loan data discussed previously, by allowing more direct matching of issues like employment status with individual household’s financing conditions, thus enabling the tailoring of policy recommendations in areas of concern. It is envisaged that data collection will be undertaken around April 2012, with first results and analysis of the data later in the year. Separately, a detailed survey on household income and wealth is being considered for 2013 as part of a euro-area wide initiative. This is designed to provide comprehensive information on household income, consumption and wealth.

In the medium term a more significant project is the establishment of a centralised credit register (CCR), which would see the kind of micro-level data collected from the Irish-owned banks for the stress testing exercises being expanded across all credit providers in the State. The main purpose of the CCR is to ensure that consumers, credit institutions and the Central Bank have sufficient information to ensure that risks are appropriately managed. Members can appreciate the significant amount of work that is involved in such a project, ranging from establishing a data protection and legislative framework through to the conceptual issues around database definitions and design as well as installing supporting IT infrastructure in all the relevant institutions. It is envisaged that the CCR will become operational in late 2013.

I am now happy to respond to any questions from Committee members.