EXECUTIVE BOARD MEETING

SM/17/150
Correction 1

June 22, 2017

To: Members of the Executive Board

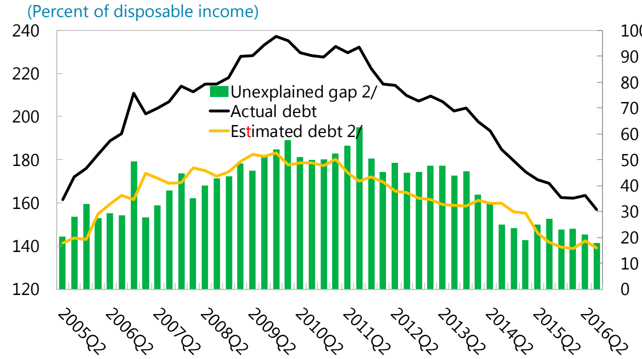
From: The Secretary

Subject: **Ireland—Selected Issues**

Board Action:	The attached correction to SM/17/150 (6/8/17) has been provided by the staff:
Typographical Errors	**Page 33 (text chart)**
Questions:	Ms. Shannon, ICD (ext. 35664) Mr. Klein, EUR (ext. 36706) Mr. Giustiniani, EUR (ext. 37012) Mr. Podpiera, EUR (ext. 36753)

captured by the time dummies. From 2010 onwards, the estimated model explains more than half of the actual deleveraging. The moderation of the estimated debt ratio is largely driven by the decline in unemployment, which points to improved economic conditions and a lower level of distress (especially after 2013), as well as a decline in the share of homeownership and young, lower access to credit, and moderation of house prices (mainly up to 2014). At 2016Q3, estimated debt was just below 140 percent of disposable income, but since the actual debt ratio declined more rapidly, the unexplained gap narrowed to about 15 percentage points of disposable income from nearly 55 percentage points in late 2009. All else equal, continued reduction in the unexplained gap would be consistent with further deleveraging in the near term.

Ireland's Household Debt: Actual and Estimated 1/
(Percent of disposable income)



Source: IMF staff calculations.
1/ Household debt includes loans and other account payable, seasonally adjusted.
2/ Based on specification 6 in Table 2.

D. Key Takeaways

16. Ireland has experienced a significant reduction in household debt in recent years. Following a significant accumulation of debt in the pre-crisis period, Irish households have endured a prolonged period of adjustment. This paper provides a short overview of the deleveraging dynamics and household indebtedness using both aggregated and more granular data, and explores some of the factors that may have supported the adjustment process. The analysis suggests that:

- Household debt declined sharply in recent years, but remained above the euro area average and levels seen in Ireland prior to the property boom. Moreover, a significant share of households, particularly young and high income households, remain heavily indebted with negative equity.
- The composition of household debt holders changed significantly over time. While the banking system still holds the lion's share of household loans, the share of household loans held by nonbanks registered a twofold increase compared to the early 2000s and stabilized at just below 40 percent of total household loans in recent years. This increase largely reflects securitization of loans by MFIs, sale of distressed assets by MFIs to non-MFIs, and also new lending by non-MFIs.
- Household debt-to-disposable income was found to be higher in countries with a high proportion of young, high home ownership rates, better access to credit, high unemployment (relative to the long-term average), and a high house price-to-income ratio. A lower public debt-to-GDP ratio and real interest rate on mortgages also contribute to higher household debt.