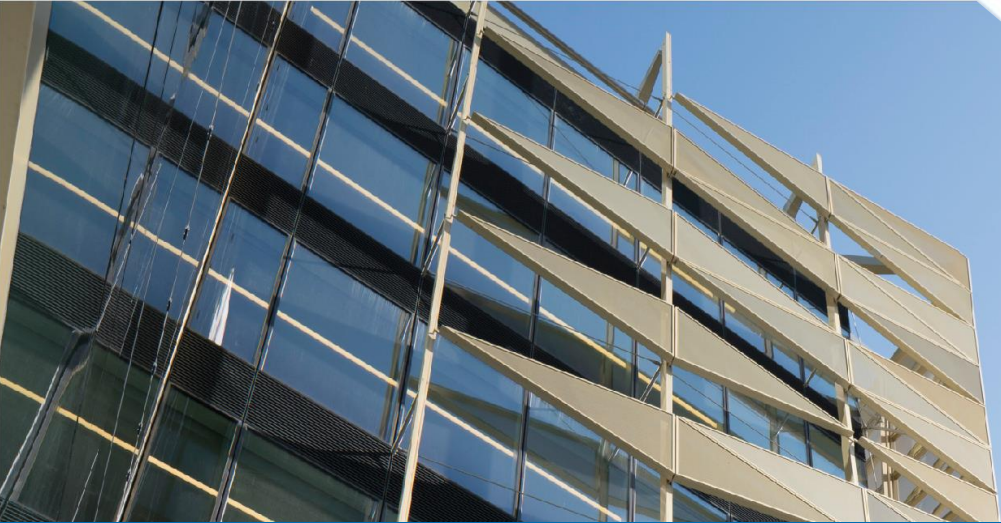




Banc Ceannais na hÉireann  
Central Bank of Ireland

Eurosystem



# Saving to Invest?

## Financial intermediation in Ireland since the GFC

Laura Boyd, Niall McGeever, Fergal McCann, Tara McIndoe-Calder\*  
Central bank of Ireland

\*Disclaimer\* Views are our own and do not necessarily represent those of the Central Bank of Ireland or the Eurosystem

# Setting the scene

Financial intermediation: “mechanism for channeling savings of households into investments of firms” (Ceccetti, 2005)

A primer: financial intermediation

- Maturity and liquidity transformation?
- Banks
  - Roughly 1/3 of the financial assets of households held as currency and deposits
  - Key source of investment financing for (small) businesses
  - Provide important deposit and credit line facilities
- Non-banks (beyond the maturity transformation lens)
  - A range of interconnections now exist
  - Banks and loan officers no longer only/main channel for transforming household wealth into firm investment opportunities
- Facilitating this structural shift
  - Golden age of asset management (low  $i$  + quantitative easing >> changes in yield seeking behavior)
  - Innovations in financial technology
- Globalisation
- NBFIs: risks and benefits



Banc Ceannais na hÉireann  
Central Bank of Ireland

Eurosystem

# Small Open Economies & Financial Intermediation

What about the size of the pie:

- 2002-2024:
  - IE HH financial assets ↑ >3 times (CPI ↑ ½)
  - Households financial assets in EA vs US: ↑ 2.5 vs 3.5 times

Determinants of the stock of global wealth are deep, structural and long-running. Most prominent explanations fall into three broad themes:

- Demographics – aging and MPC
- Inequality – MPC out of income and wealth
- Economic growth – distribution of economic growth and global savings

Follows that rising inequality is directly related to rising wealth stocks

- Income is more unequally distributed than wealth >> stylized fact in IE and EA more generally

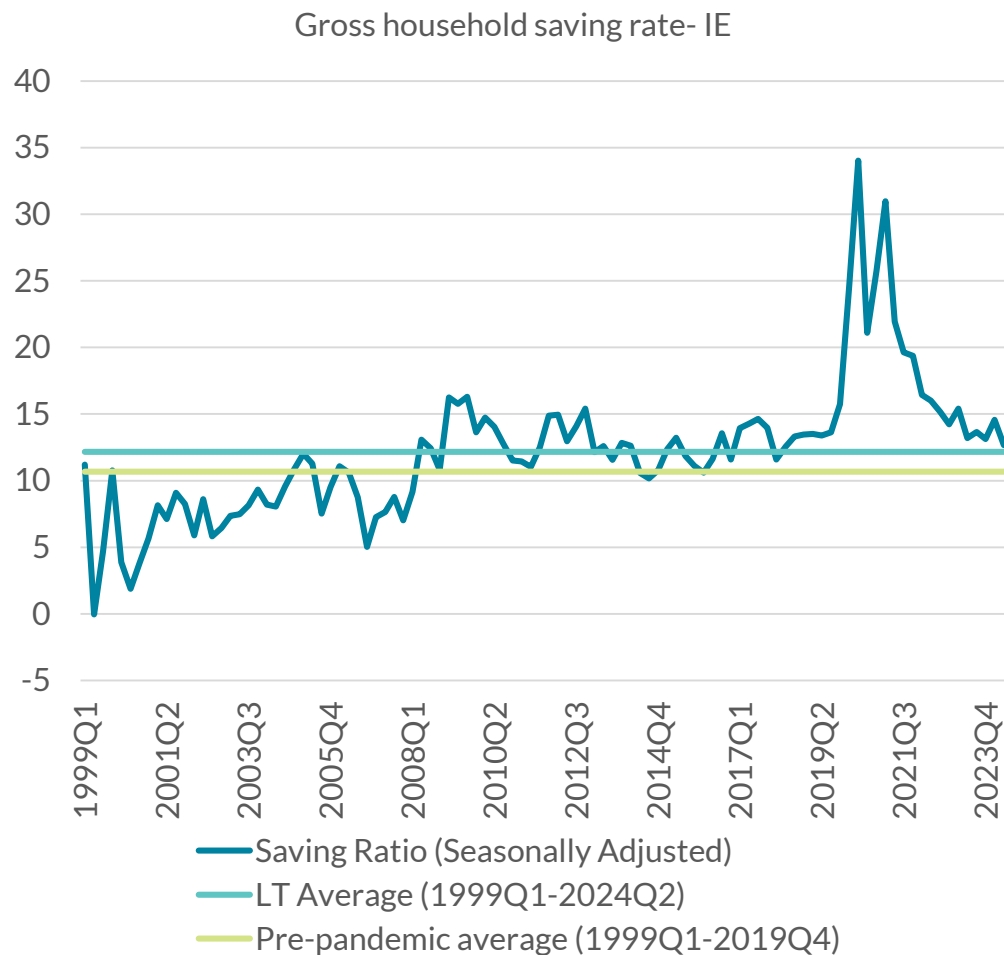
Today

- Savings behaviour and allocation of household wealth across assets [*supply*]
- Sources of finance used for investment (by non-financial firms owned by residents) [*demand*]
- Mechanisms that connect these in the special case of a small and highly globalized economy [*Ireland*]



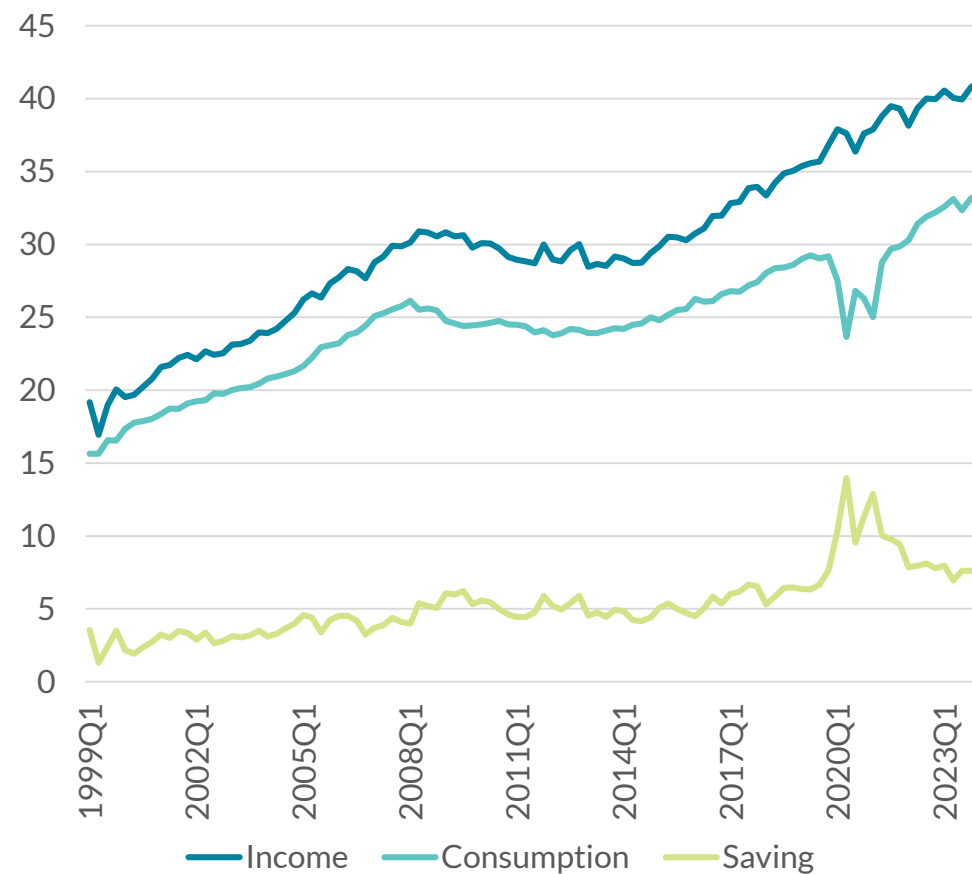
# Households Savings (Supply)

HHs are saving more – in aggregate – today than before the pandemic



Source: CSO Institutional Sector Accounts.

Consumption back to pre-pandemic trend, saving flows remain high (income is a little above trend, widening the gap between Y and C)



Source: CSO, Institutional Sector Accounts.

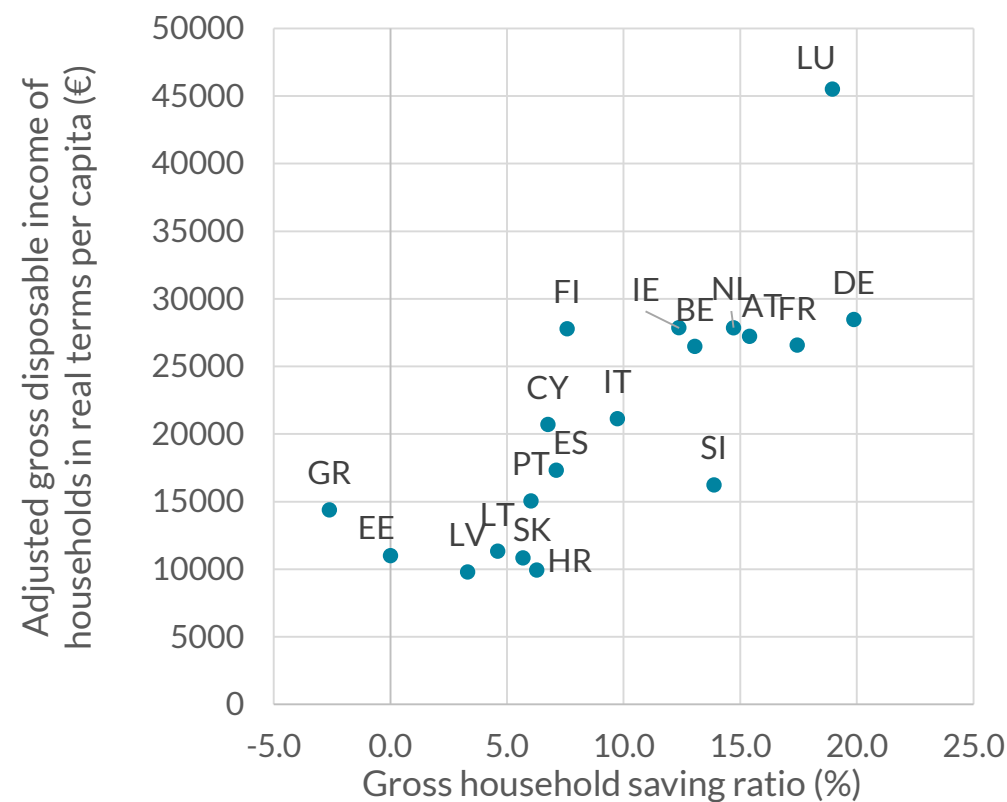


Banc Ceannais na hÉireann  
Central Bank of Ireland

Eurosystem

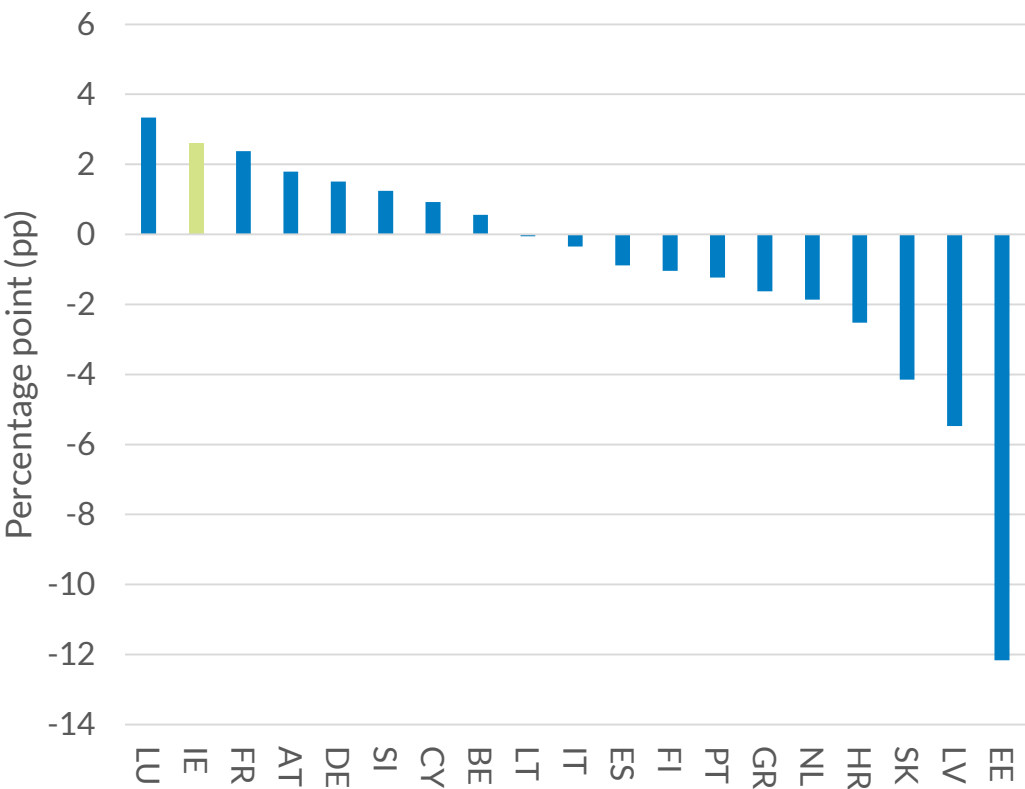
# Rising incomes & cross country context

Savings rates are higher where incomes are higher



Source: Eurostat.  
Note: Latest figures available for all countries are for 2022

Savings rate has increased notably in Ireland since the pandemic



Source: Eurostat.



# Household level savings – depends on income, has widened over time

Income Quintile	Has financial assets (%)	Average value of financial assets (€)	Median value of financial assets (€)	Median saving rate (%)
Q1	92.8	16,462	3,700	-15.5
Q2	93.7	29,913	6,106	19.8
Q3	99.3	53,921	11,709	36.6
Q4	99.9	50,135	17,481	50.4
Q5	100.0	163,694	40,000	64.9
All	97.1	62,780	12,250	36.8

Source: HFCS.

Note: Unconditional saving stock values. Financial assets include cash, publically traded shares, bonds, managed accounts, mutual funds, voluntary pensions, whole life insurance.

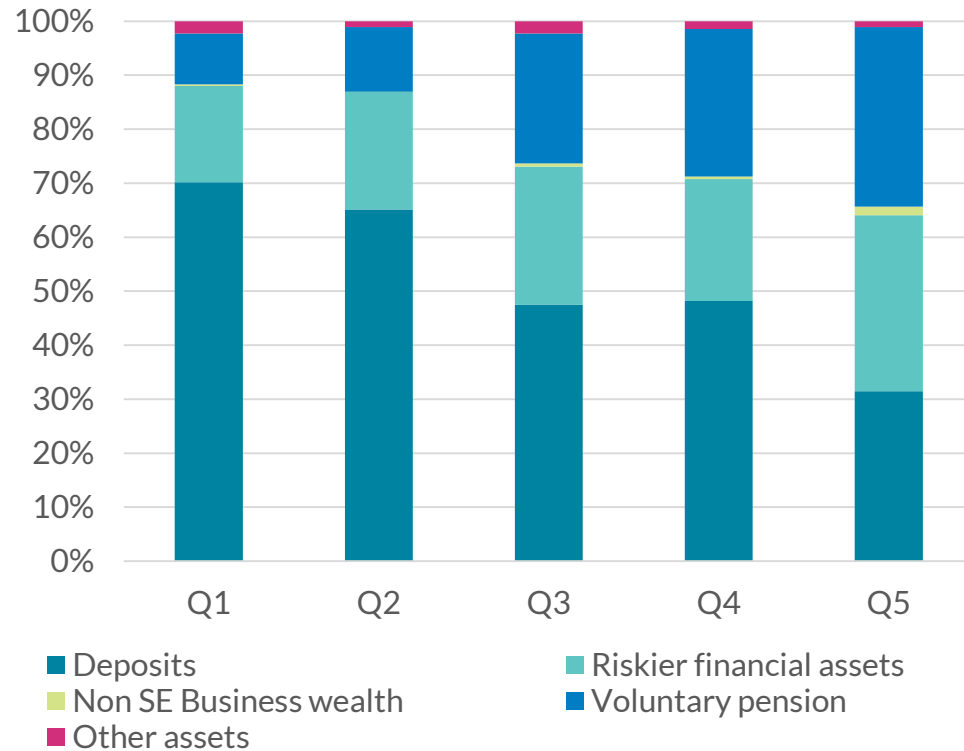


Banc Ceannais na hÉireann  
Central Bank of Ireland

Eurosystem

# Savings (& wealth) are concentrated at higher incomes

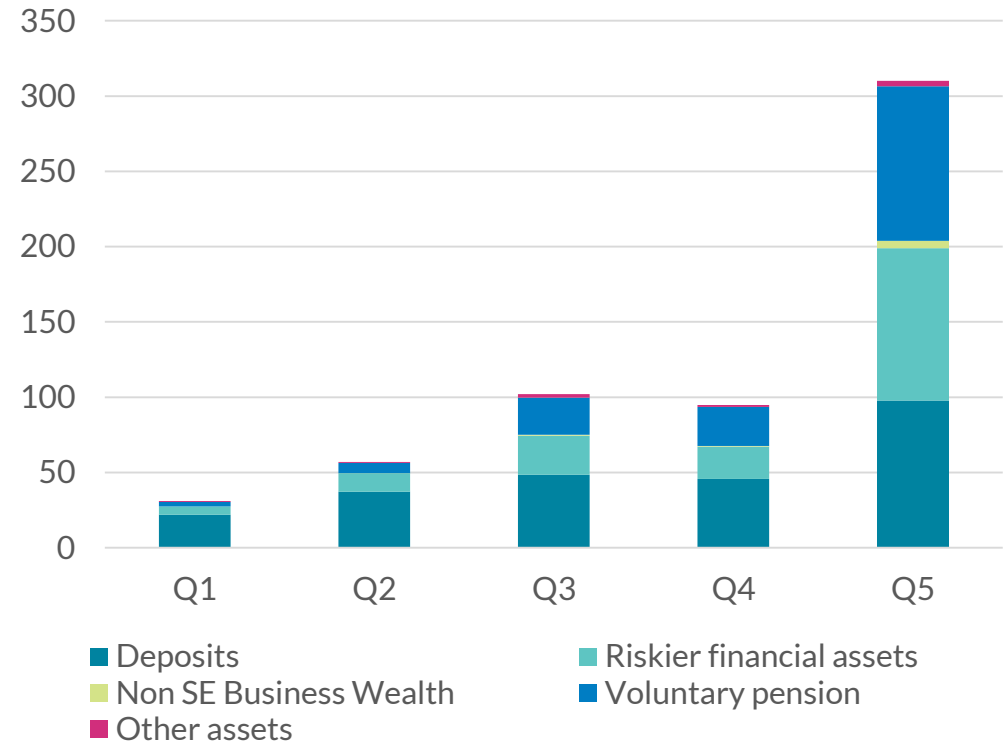
Riskier financial assets & voluntary pensions as a share of financial assets increases along the income distribution



Source: HFCS (2020)

Note: Riskier financial assets include publically traded shares, bonds, managed accounts, mutual funds.

Almost all risky assets, by value, are held by top 20% households



Source: HFCS (2020)

Note: Riskier financial assets include publically traded shares, bonds, managed accounts, mutual funds.



Banc Ceannais na hÉireann  
Central Bank of Ireland

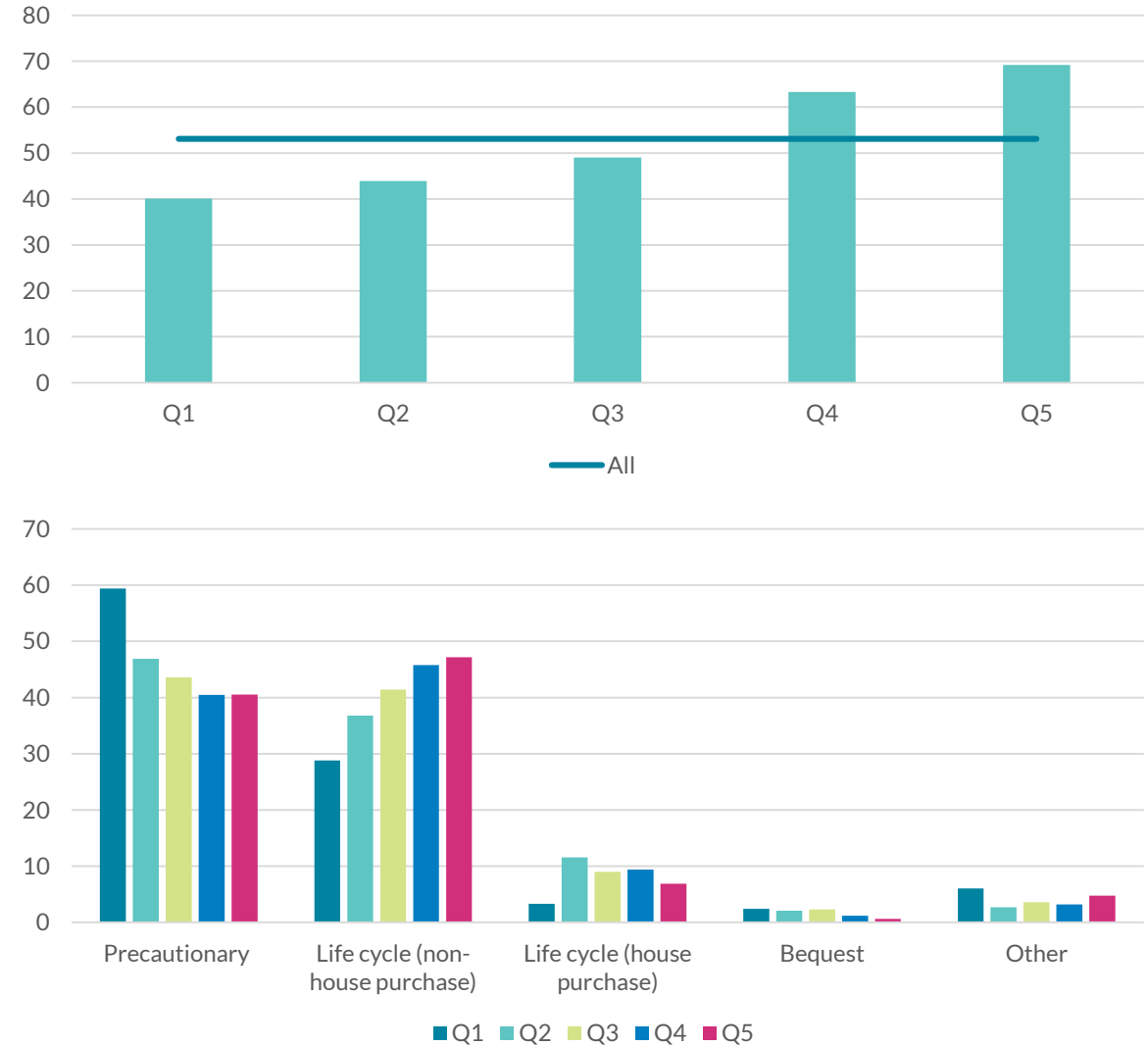
Eurosystem

# Precautionary motives: key driver of self-reported savings behaviour

- Ability to save ranges from 40%-69% depending on income level
- It might be expected that households have a variety of motives for saving (HFCS provides insights)

## 3 broad savings motives: precautionary, life-cycle and bequest

- For HHs with positive ability to save; savings motives differ with income
  - Precautionary motives are high and decline only slowly in income
  - Life cycle motive:
    - Rising in income
    - Saving to buy a house highest in the middle of the income distribution
  - Bequest motives reported relatively rarely and falling in income
  - “Other” including financial or business investment motives are low for Q1-Q3, although these are reported more often than Bequest motives for Q4 and Q5
- These motives correlate with portfolio choices
  - Lower income HHs show higher risk aversion
- Changes to the pension landscape (DB-DC) >> greater responsibilities on individuals to proactively manage retirement savings



Source: HFCS.

Note: Other includes Financial investment, Business investment and Exploit state subsidies and unspecified motives. Together Financial and Business investment motives account for between 16 and 60 per cent of total Other motives, increasing in income.



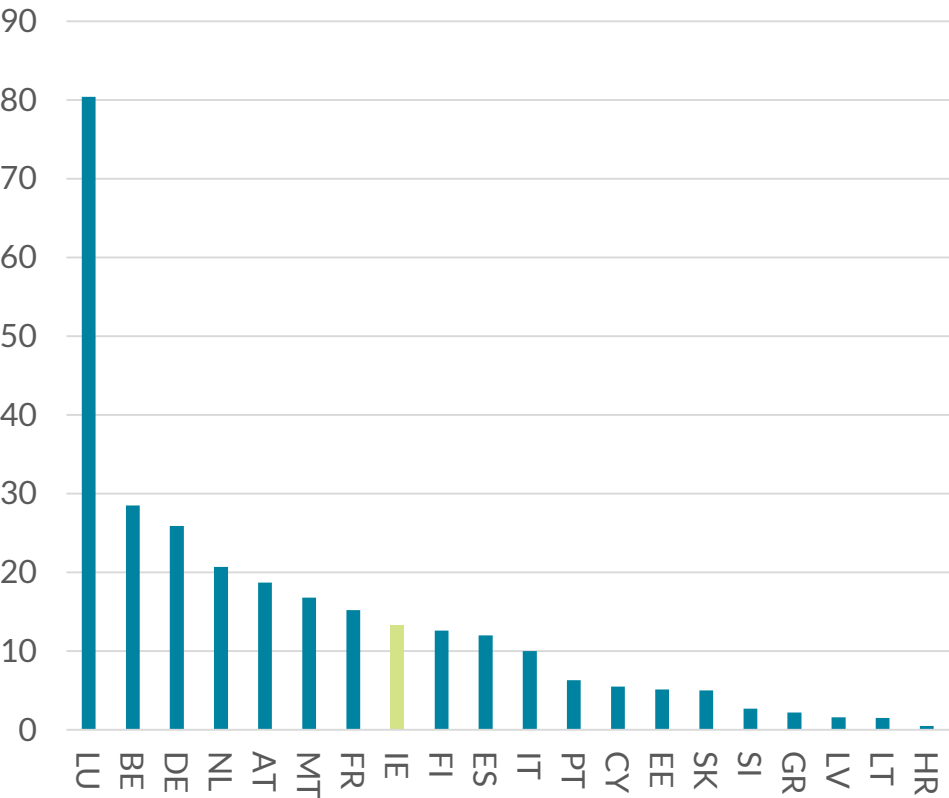
Banc Ceannais na hÉireann  
Central Bank of Ireland

Eurosystem



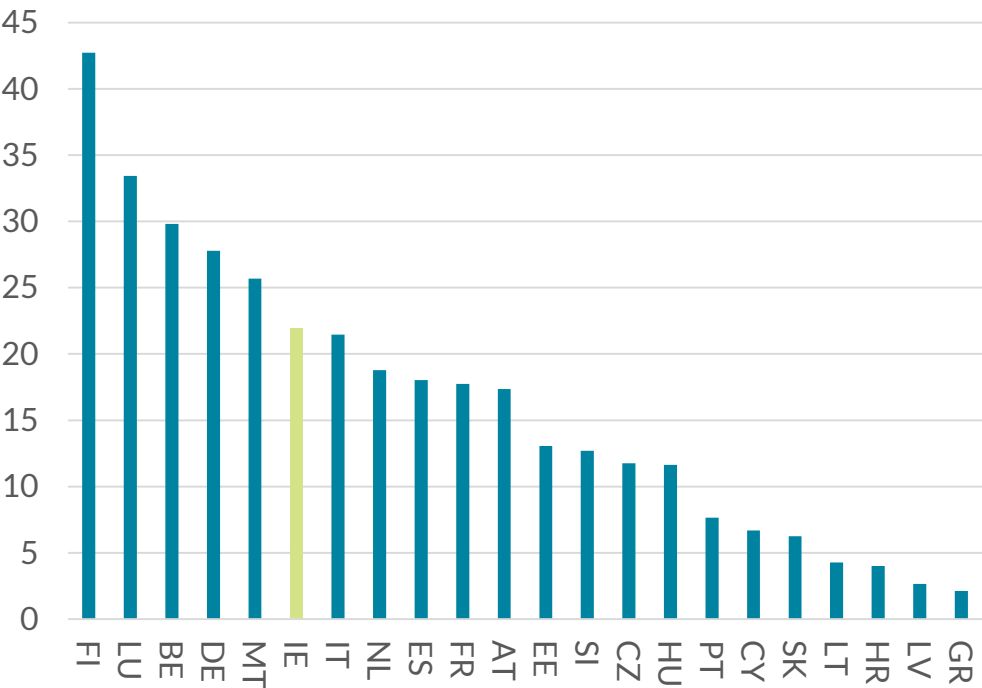
# Ireland: not an outlier in conservative HH savings behaviour

Value of financial assets held by the median HH in IE is similar to the EA median



Source: HFCS (2020).

Participation in riskier financial assets is generally low across the euro area

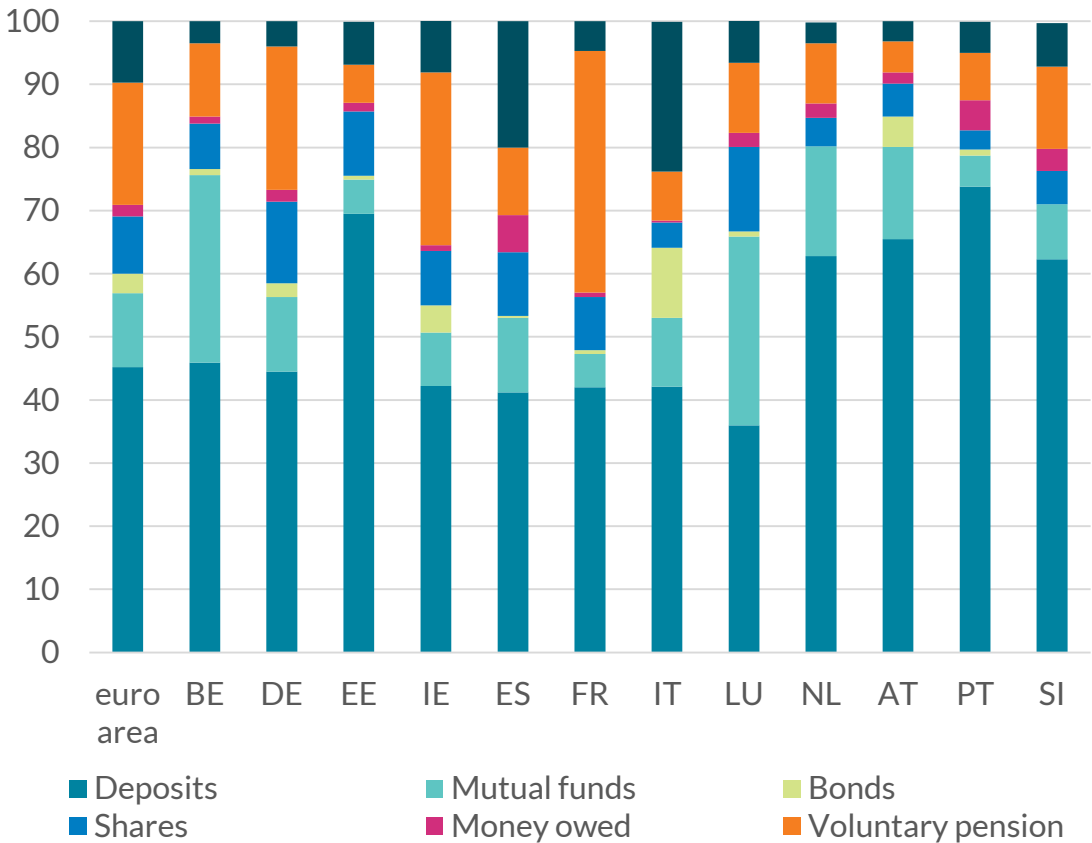


Source: HFCS (2020).

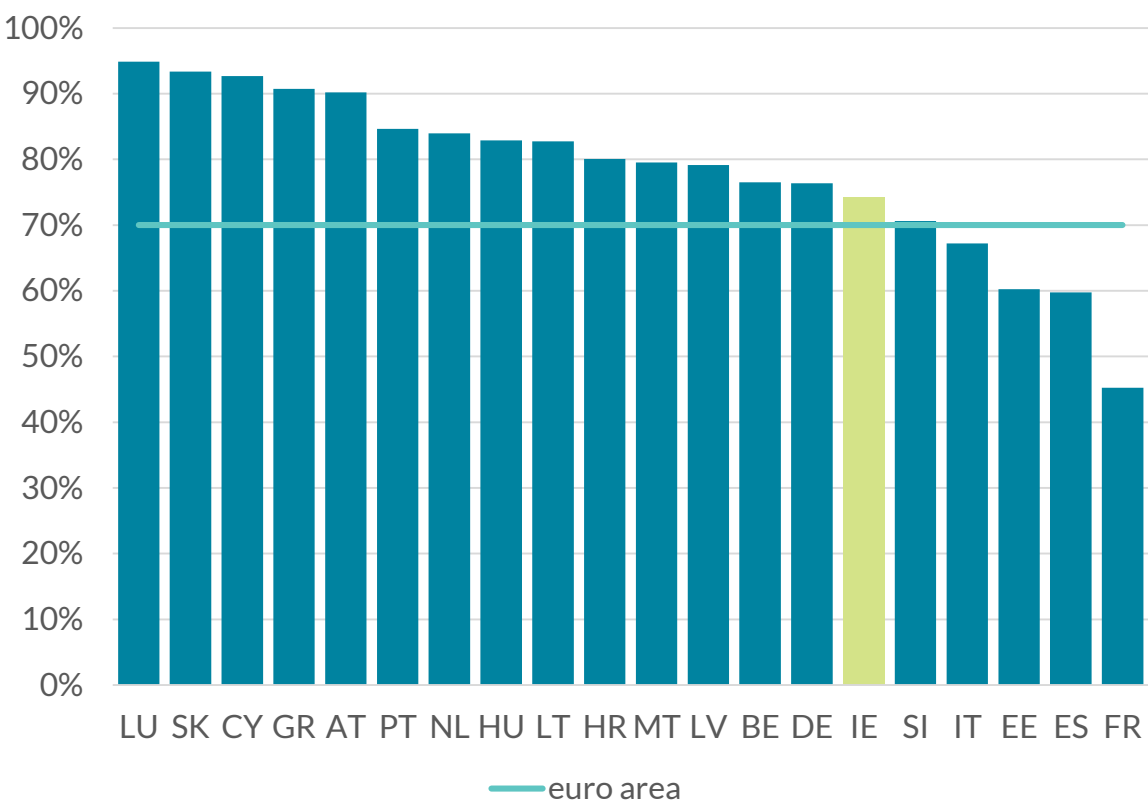


# Ireland: not an outlier including portfolio choice & reason for saving

Share of financial asset types in total financial assets



Share of HHs saving to prepare for old age or unexpected events



Source: HFCS (2020).

Source: HFCS (2020).



Banc Ceannais na hÉireann  
Central Bank of Ireland

Eurosystem

# Households: Suppliers of Funds to Financial System

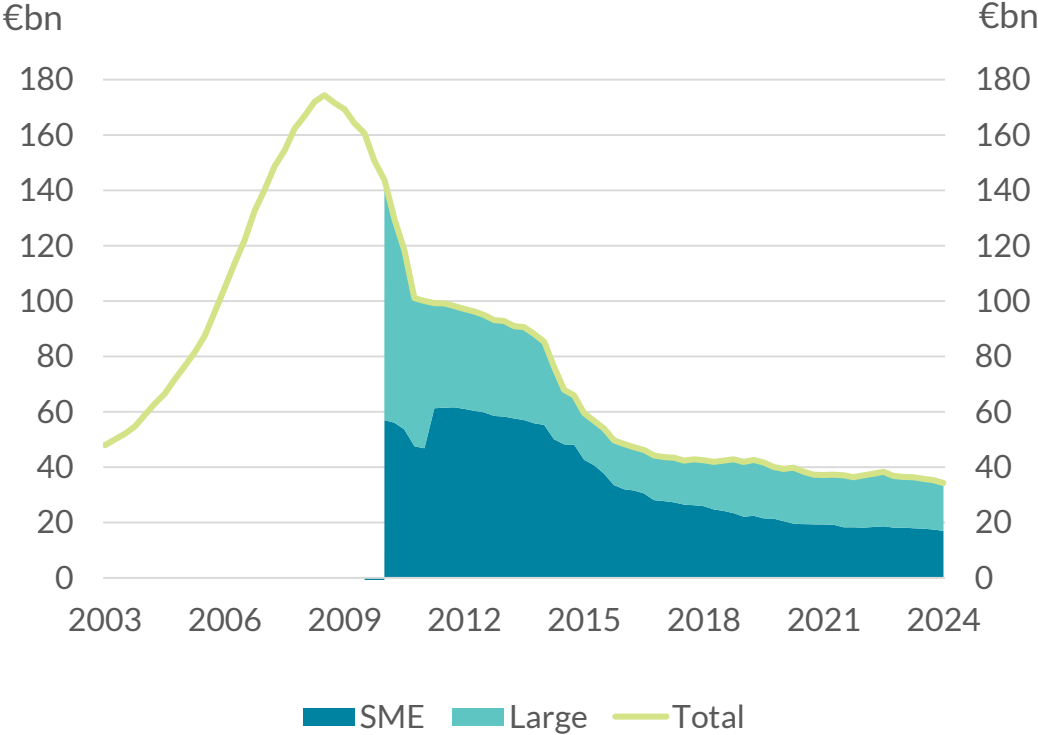
## Key Findings

- Large shares of household wealth continue to be tied up in housing
- Very few households invest directly in financial assets, with most non-housing wealth in bank deposits
- Irish households increased their savings rate sharply during the COVID-19 pandemic, and this rate has not reverted to pre-pandemic levels as of mid-2024
- Those at the bottom of the income distribution dissave, with the savings rate increasing in income
  - Those at the top of the income distribution hold a wider variety of financial assets than lower income households
  - Higher income households also have a higher appetite for holding riskier financial assets relative to other households
  - Together this means that savings stocks flowing into financial assets are very concentrated in the top of the household income distribution
- Whilst just half of households are able to save, these households report precautionary motives as a key rationale for their savings
- Households *may* be storing savings in bank deposits due to their ongoing unmet demand for house purchase
  - housing supply not keeping pace with demographic developments (Bank [research](#))
  - share of HHs reporting saving to buy rising slightly between 2018 & 2020 (HFCS)

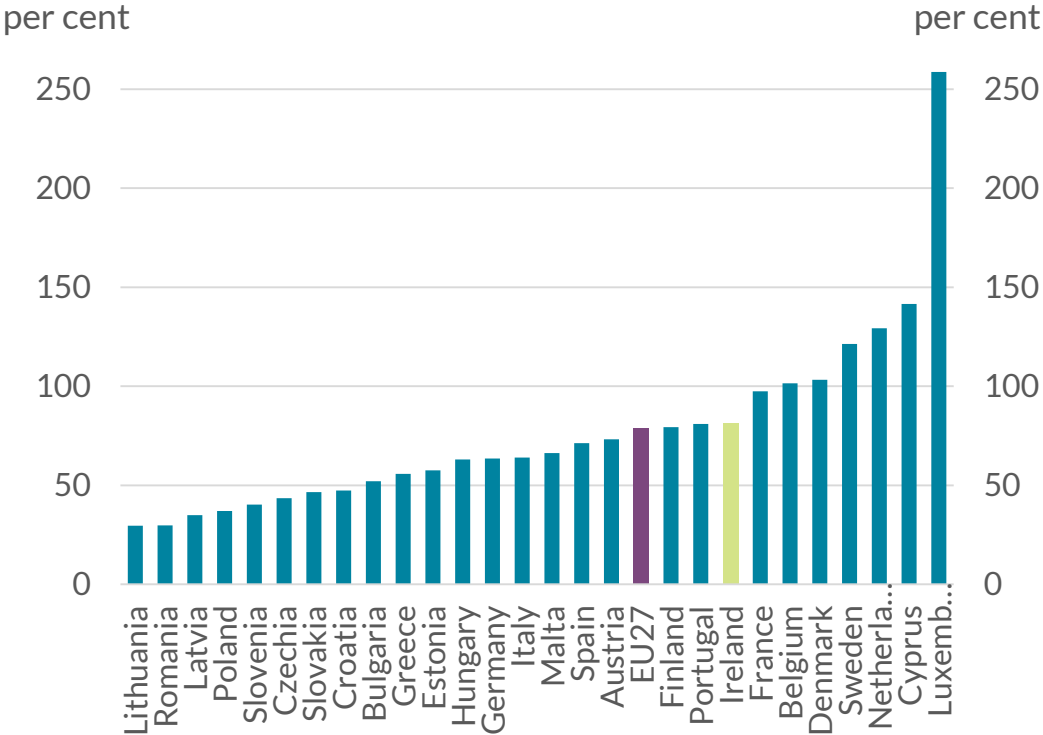


# Intermediating saving stocks: financing of business investment

Loan liabilities of Irish NFCs to Irish banks have fallen substantially since the GFC



Aggregate NFC indebtedness in Ireland now similar to EU27 average



Source: Central Bank of Ireland, CSO Institutional Sector Accounts, Eurostat.

Source: Central Bank of Ireland, CSO Institutional Sector Accounts, Eurostat.

Note: Domestic non-redomiciled NFC debt-to-GNI\* ratio for Ireland and NFC debt-to-GDP ratio for other EU27 countries in 2022.

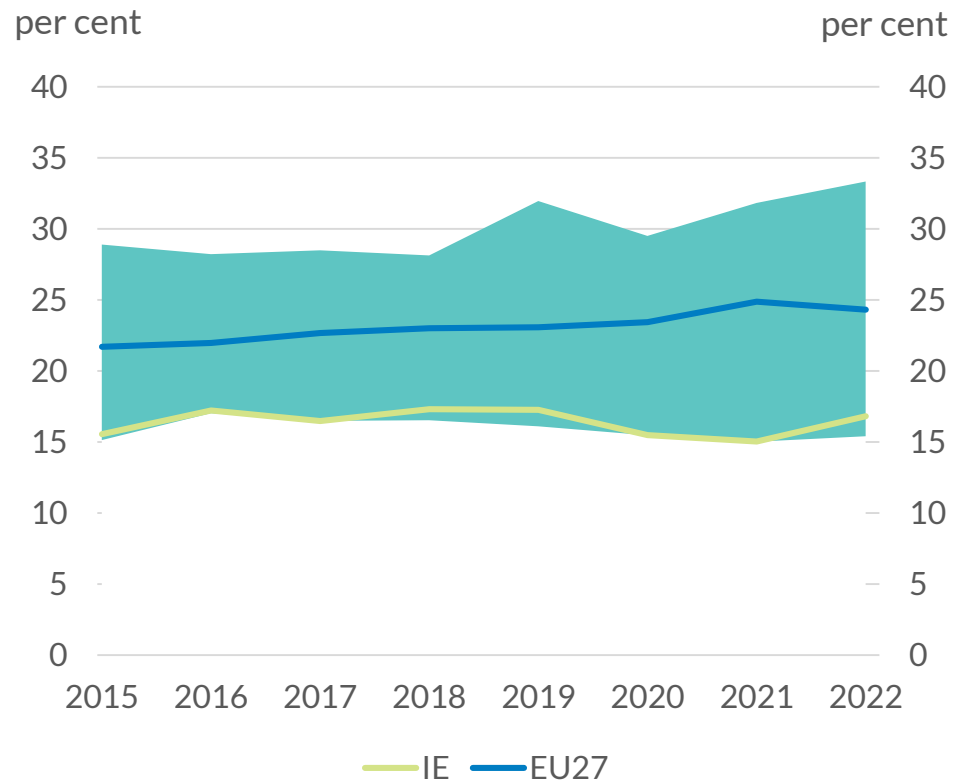


Banc Ceannais na hÉireann  
Central Bank of Ireland

Eurosystem

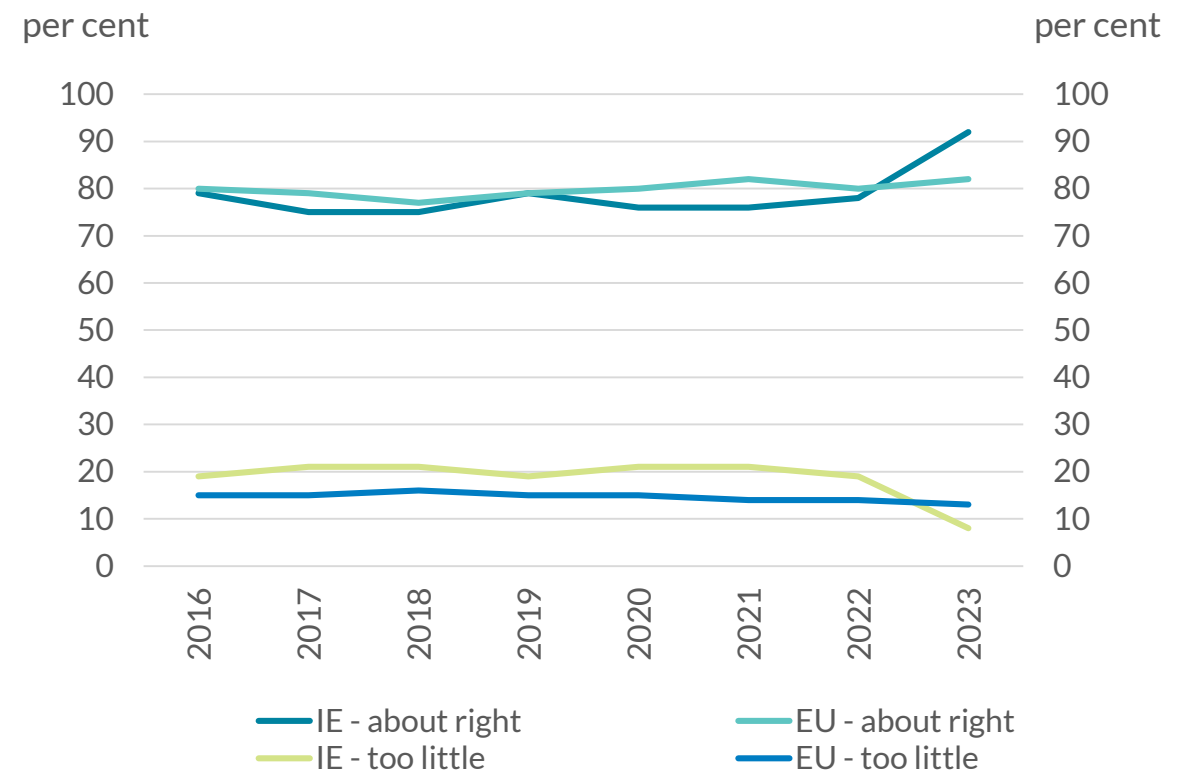
# Investment by domestic firms: does growth depend heavily on borrowing?

Domestic Irish NFCs have lower investment rates than NFCs in other EU27 countries



Source: CSO, European Investment Bank Survey, Eurostat.

Though small and medium NFCs in Ireland are generally satisfied with their investment levels



Source: CSO, European Investment Bank Survey, Eurostat.

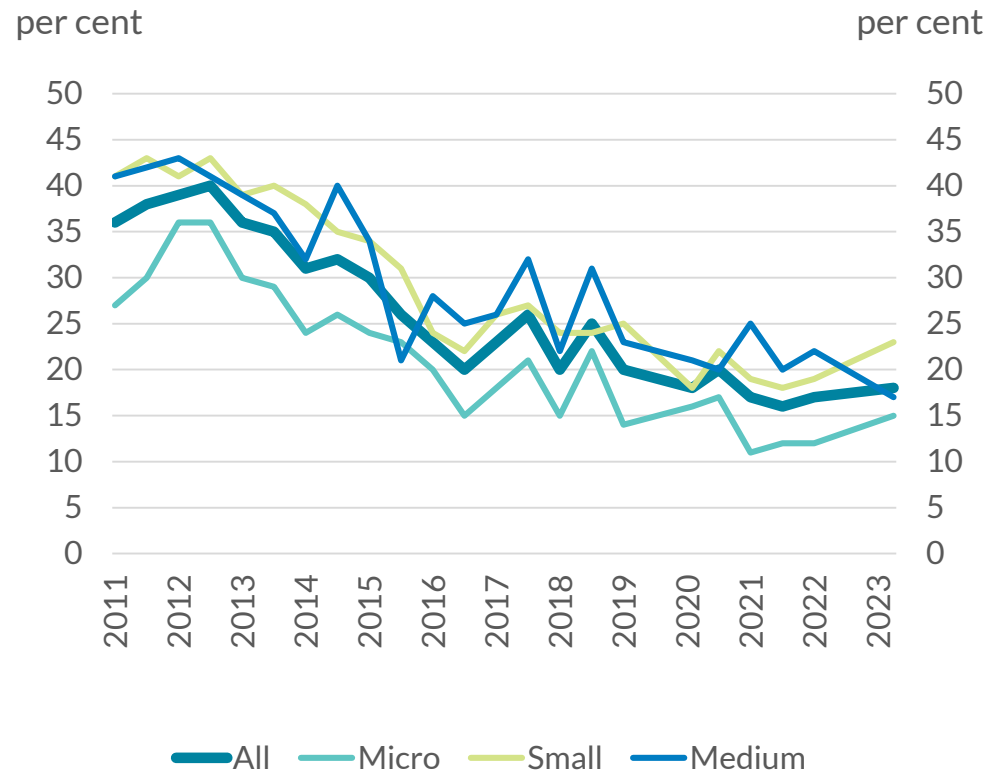


Banc Ceannais na hÉireann  
Central Bank of Ireland

Eurosystem

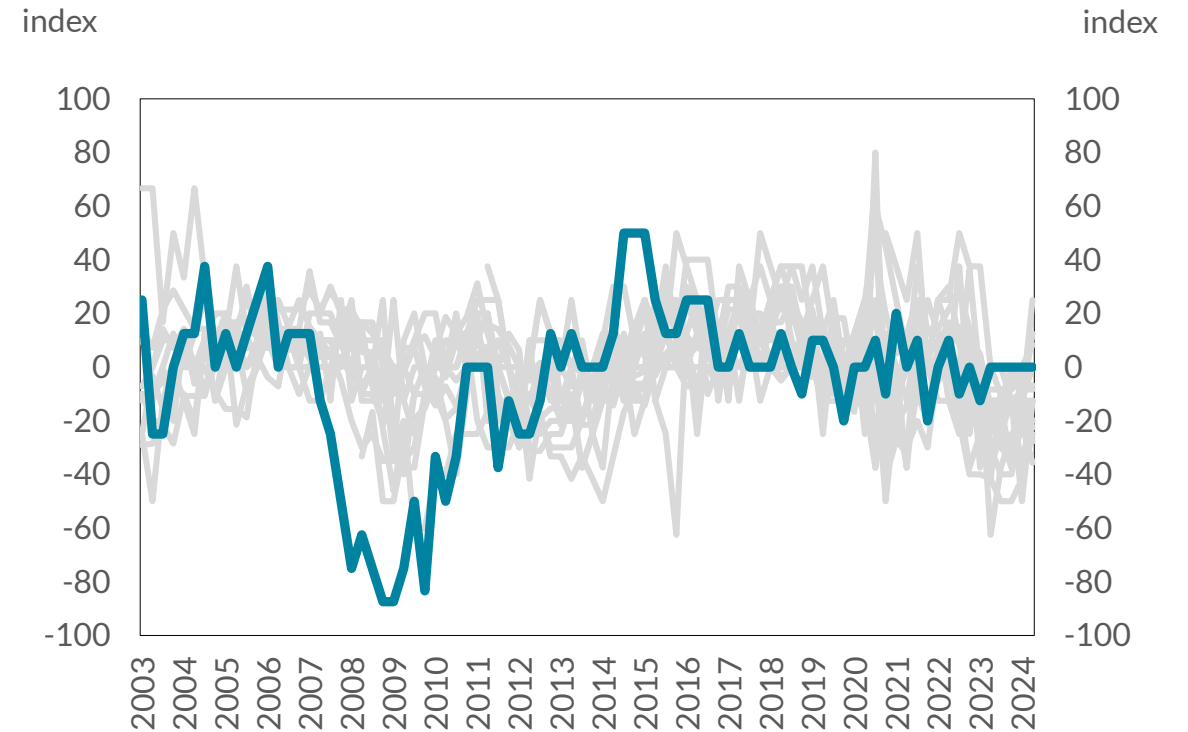
# Credit demand: muted

Credit demand among SMEs is lower than in the crisis years



Source: Department of Finance SME Credit Survey

Irish banks report broadly stable SME credit demand since 2016



Source: ECB Bank Lending Survey.

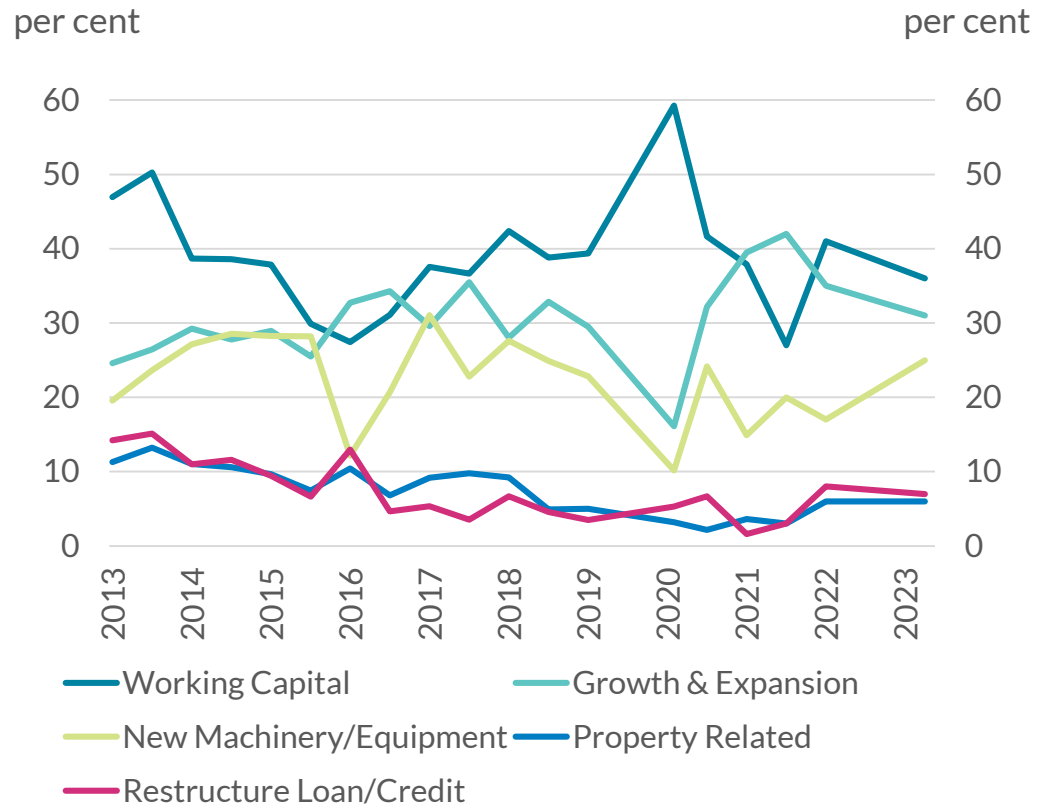


Banc Ceannais na hÉireann  
Central Bank of Ireland

Eurosystem

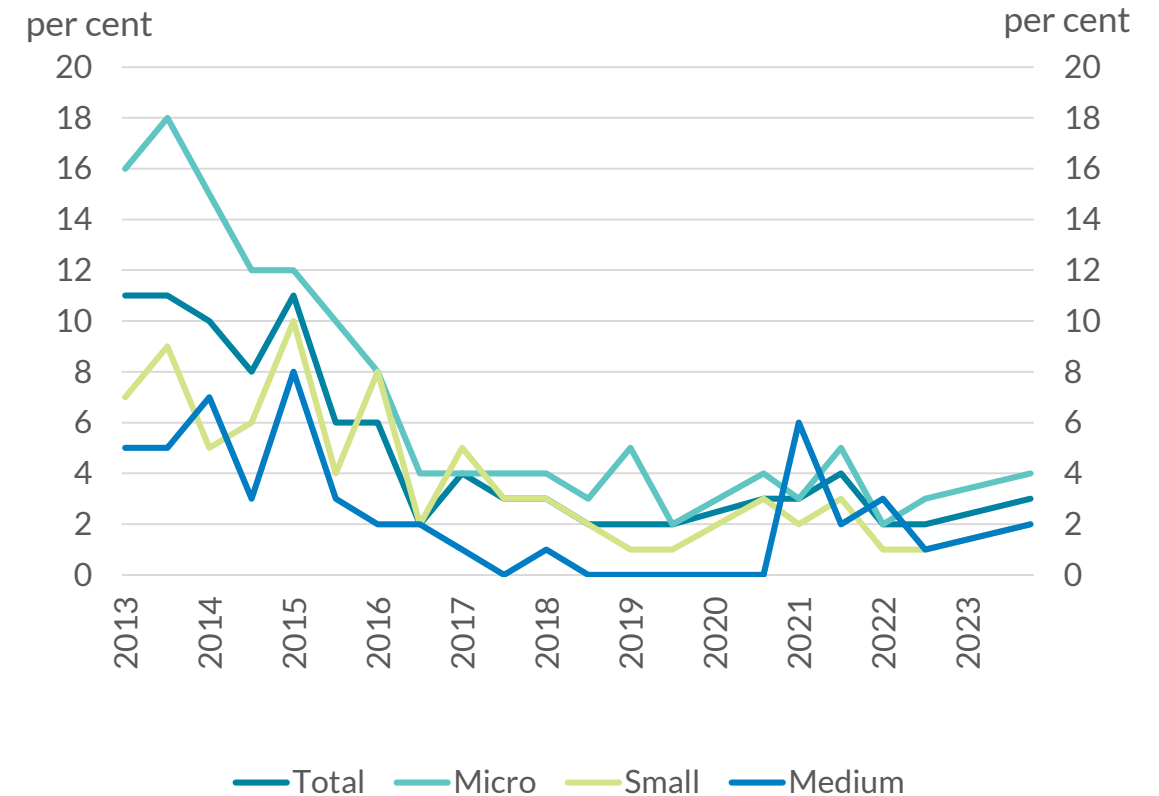
# Muted Credit Demand: limited role for credit constraints

Majority of SME credit applications are investment-orientated



Source: Department of Finance SME Credit Survey

Borrower discouragement measures fell sharply during GFC recovery and remain low



Source: Department of Finance SME Credit Survey

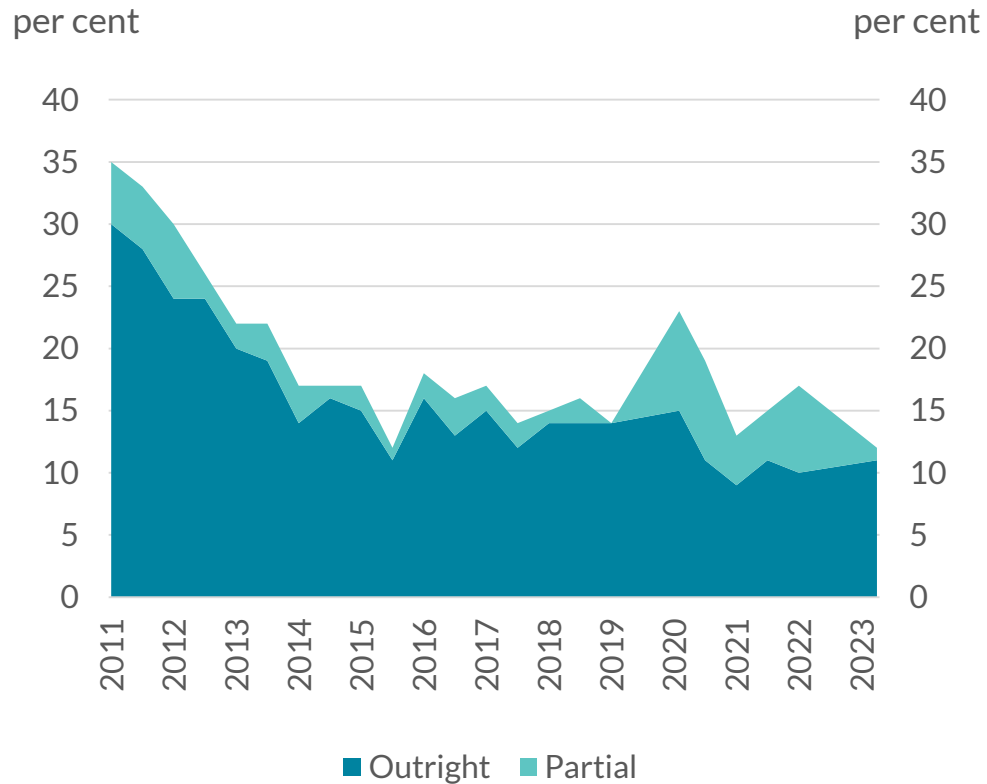


Banc Ceannais na hÉireann  
Central Bank of Ireland

Eurosystem

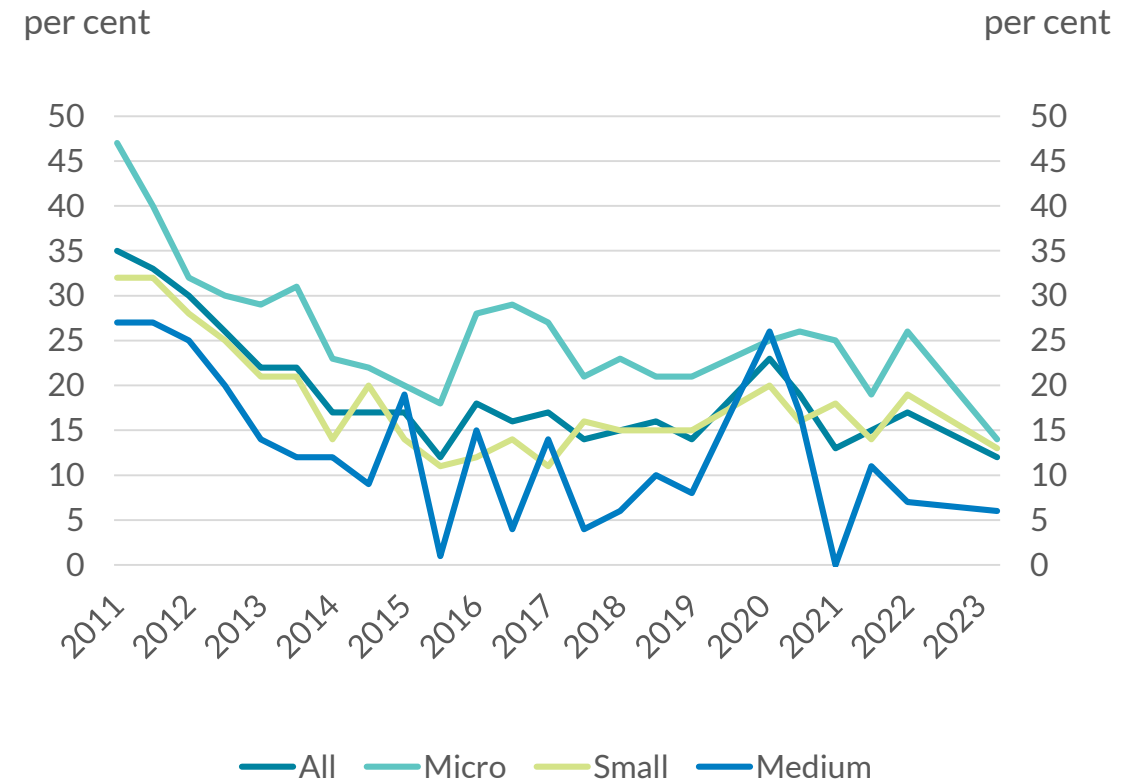
# Credit Supply: remains stable

Rejection rates on SME loan applications fell substantially in the years to 2015



Source: Department of Finance SME Credit Survey

Loan rejection rates are structurally higher for micro enterprises



Source: : ECB Bank Lending Survey.



Banc Ceannais na hÉireann  
Central Bank of Ireland

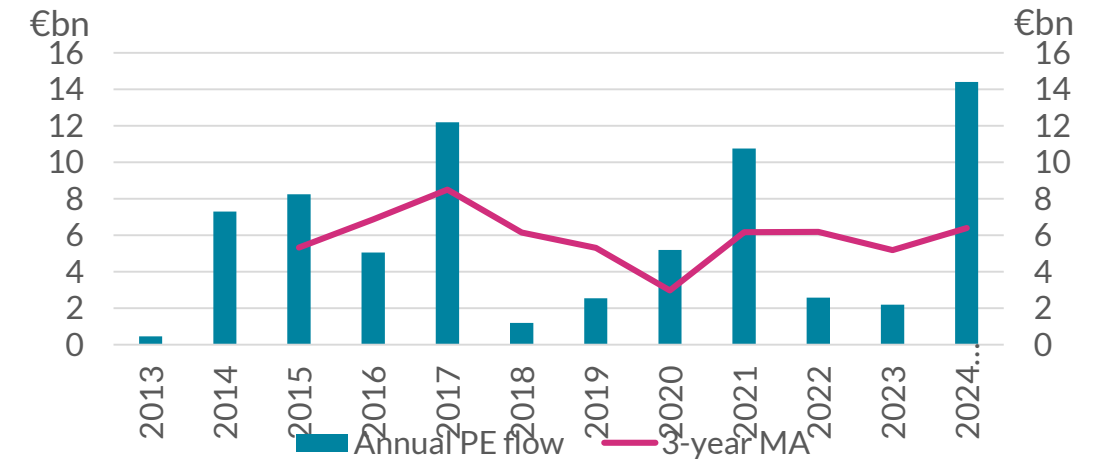
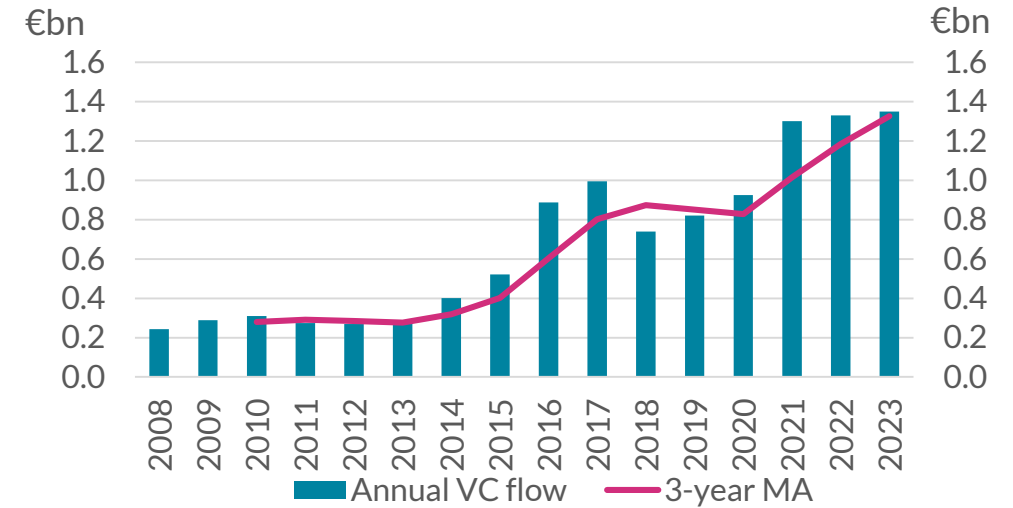
Eurosystem



# A role for non-banks

- Non-banks have played a role in financing the business credit market for many decades
- Recent establishment of the CCR allows for a more systematic analysis of non-Bank lending
- Non-banks engage in specialised lending in particular:
  - Sectors, e.g. Real Estate for example,
  - Lending segments e.g. asset finance.
- Literature indicates that non-banks play an important role in supporting firms' access to finance:
  - (Internationally) Non-bank borrowers display weaker financial characteristics
  - (Bank research) Including in IE where firms borrowing from non-banks are younger, less liquid and more leveraged than bank borrowing firms
- Further: VC and PE have seen a growing role in financing Irish firms

Equity finance for growth firms appears plentiful – VC (top) & PE (bottom)



Source: Irish Venture Capital Association, William Fry.



Banc Ceannais na hÉireann  
Central Bank of Ireland

Eurosystem

# Firms: Demanding the use of these Funds for productive means

## Key Findings

- Corporate and SME debt in Ireland has fallen substantially over a decade
- Banks allocate only a small portion of their total assets to domestic business lending, but in a European context, corporate leverage appears similar to peers
- Local firms' credit demand appears structurally weak, yet firms appear satisfied with their capacity to invest, and do not cite finance as an important barrier to expansion
- Venture capital, while concentrated in specific innovative sectors, has grown strongly over the past decade in Ireland, while non-bank sources of loan finance have also expanded in availability
- At a macroeconomic level, investment of domestic firms appears low, but this may reflect long-running compositional issues in the Irish economy, with productivity growth driven by the MNE sector.



# Policy Issues - Households

- Large share of wealth held as low-yielding overnight deposits, despite availability of frictionless switching to higher-yielding deposits >> sub-optimal?
  - Financial literacy?
  - Or – based on evidence available - a combination of:
    - Precautionary motives
    - Skewed distribution of joint income-wealth distribution implies many households may not have large amounts of these savings (we have some work on this considering the recent cost-of-living crisis)
    - Unmet housing demand may be resulting in many households with savings on deposit ready for securing a home purchase (more research needed!)
    - Engagement in digitized financial products by younger savers (reducing likelihood of binding financial literacy challenges)
- Role for non-banks?
  - Retail investment products have low participation outside of Q5 households
    - Unattractive to bottom 80% due to fees, tax treatment, non-pecuniary costs?
      - Consider ISA-type products for Ireland with tax-free interest income and capital gains ?
      - Demographic shifts may substitute for policy action here too
- Weak allocation of HH capital into schemes that channel funds directly to businesses – complexity and tax rate reasons?
  - Simplification may incentivize HHs to rebalance their portfolios & increase direct equity financing for firms
  - Less clear that improving access to domestic firms would/should result
    - Due to reasons including diversification & likely unintended consequences of ring-fencing for HH returns
- Institutional factors: the pension system
  - Strong social safety nets reduce incentive AND need for HHs to maximize returns on savings prior to retirement



# Policy Issues – Meeting business needs

- Ireland is modern, digitized, open, within an advanced currency union with strong ties to the large global financial centers in the UK and US
  - Nimble adaptation to global availability of a wide range of financial services: competitor digital banks, fintechs, NBFIs
- High growth Irish firms (including local entrepreneurs) have access to global investment capital markets
- NBFIs, channeling international capital into local investment opportunities have expanded supply of credit
  - Accounting for 1/3 SME lending
  - Providing alternatives to domestic banks for the borrowing needs of many businesses
- Policy level
  - Enterprise Ireland and other state bodies provide ample financing support
  - In terms of the macro picture, evidence suggests the system of financial intermediation in Ireland meets the credit demand needs of the economy appropriately
- Greater benefit might accrue to businesses via provision of more readily available equity financing, from domestic investors provided through
  - Enhanced direct investment schemes
  - Expansion of platforms allowing aggregation of retail investments into local businesses
  - More attractive tax treatment of direct private financing
- Simplification of investment platforms channeling greater volumes of long-term savings >> long-term investment needs may result in especially strong benefits to longer-term national well-being



# Thank-you

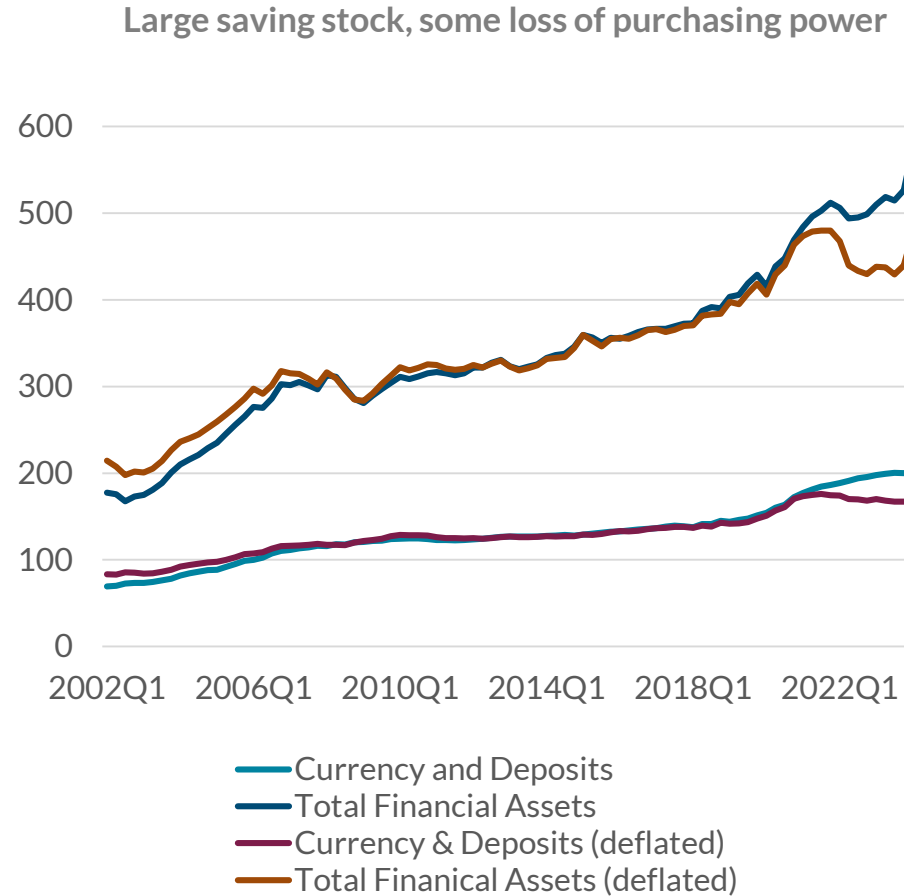
[tara.mcindoe@centralbank.ie](mailto:tara.mcindoe@centralbank.ie)  
[fergal.mccann@centralbank.ie](mailto:fergal.mccann@centralbank.ie)  
[laura.boyd@centralbank.ie](mailto:laura.boyd@centralbank.ie)  
[niall.mcgeever@centralbank.ie](mailto:niall.mcgeever@centralbank.ie)



Banc Ceannais na hÉireann  
Central Bank of Ireland

Eurosystem

# Higher savings flows >> higher stocks of savings



Source: Central Bank Quarterly Financial Accounts; Household and NPISH sector.



Banc Ceannais na hÉireann  
Central Bank of Ireland

Eurosystem