

SECTORAL DEVELOPMENTS IN PRIVATE-SECTOR CREDIT

JUNE 2009

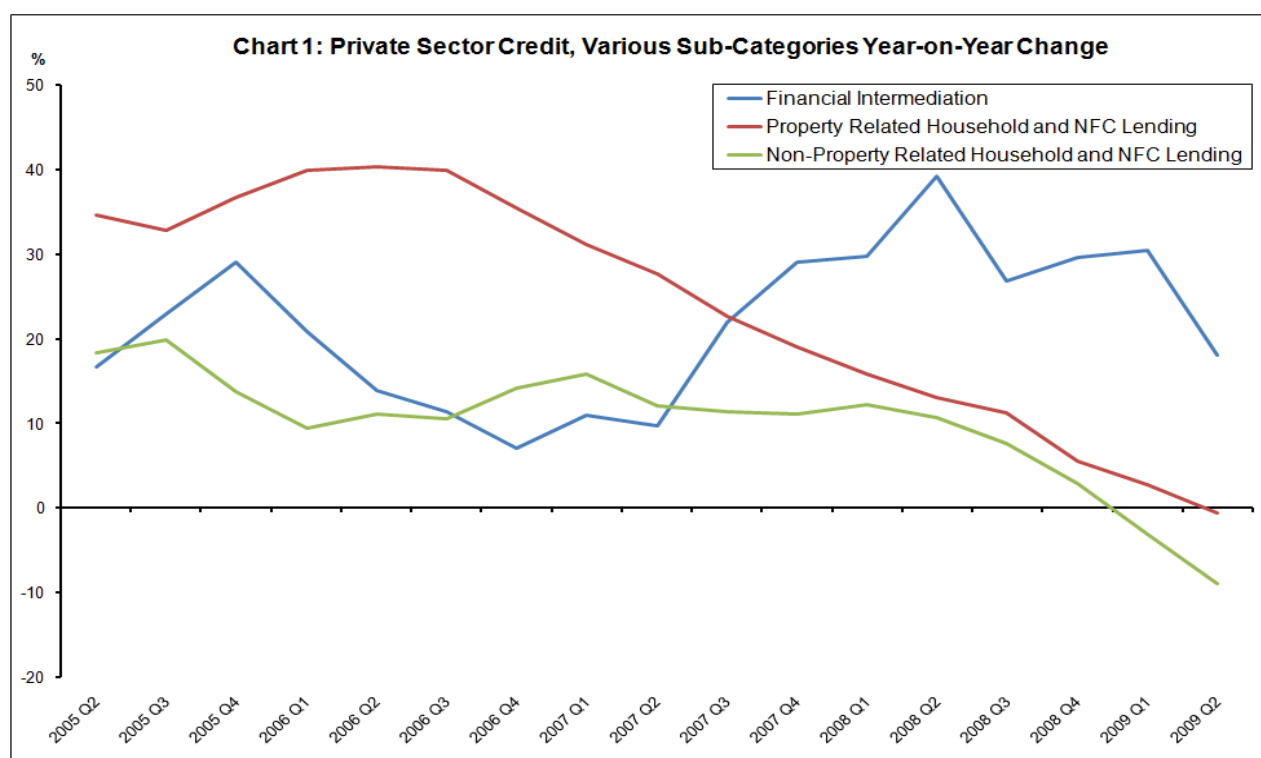
Summary

- Private-sector credit (PSC) outstanding in Q2 2009 was marginally lower than that recorded in Q2 2008. This is mainly due to write-downs of existing credit arrangements and increased provisions for bad and doubtful debts, while the underlying stock of credit to the private sector was relatively unchanged on an annual basis. PSC fell by €4.7 billion during Q2 2009, or 1.2 per cent, with credit to almost all economic sectors declining over the quarter. This broad based decline indicates a continuation of the slowdown in underlying credit growth witnessed since the autumn of 2008.
- Increases in lending to the financial intermediation sector continued to be significant, rising by 18.1 per cent in the year to the end of Q2 2009. However, this largely reflects a technical issue relating to the purchase of mortgage-backed securities by special-purpose vehicles (SPVs) created and financed by credit institutions. This improves the liquidity profile of credit institutions, but in many cases the net effect on total PSC is zero.
- Lending to the non-property, non-financial corporate (NFC) sectors fell during Q2 2009 by €3.3 billion, or 6.2 per cent, which continues a deteriorating trend evident since Q3 2008. Credit outstanding to these sectors declined by 7.7 per cent in the year to the end of Q2 2009. These developments in part reflect negative valuation effects from increasing bad debt provisions by the credit institutions.
- Lending to property related NFC sectors was broadly static during Q2 2009 compared to Q1, at €108.4 billion. On an annual basis, credit to the construction and real estate sectors fell by 3.7 per cent in the year to the end of the second quarter. Write-downs and rising bad debt provisions are likely to have been significant factors in the year-on-year fall in credit to these combined sectors.
- Lending to the personal sector, inclusive of securitised mortgages, declined by €563 million during Q2 2009. Underlying this was a fall of €368 million in non-mortgage credit, while lending for mortgages decreased by €194 million. In the year to the end of Q2 2009, personal sector credit was broadly unchanged, as falls in non-mortgage lending have been largely offset by the increase in residential mortgages outstanding over the year.

Overview

The annual rate of change in private-sector credit (PSC) turned negative in Q2 2009. This is mainly due to write-downs of existing credit arrangements and increased provisions for bad and doubtful debts. The underlying stock of credit to the private sector was relatively unchanged, as loan repayments in aggregate roughly matched new lending over the year. Fourteen out of fifteen economic sectors experienced lower annual rates of change in credit outstanding during the second quarter of 2009 than in the same quarter in 2008. While property related lending was relatively unchanged on an annual basis in Q2 2009, combined lending to the non-property related business sectors and for non-mortgage personal lending was 8.9 per cent lower in Q2 2009 compared with Q2 2008.

On a quarterly basis, PSC contracted during the second quarter of 2009 compared to the first quarter of the year, as the slowdown in underlying credit growth witnessed since autumn 2008 continued. A reduction in the underlying stock of credit during Q2 was more pronounced than negative valuation effects due to write-downs, increasing bad debt provisions and exchange rate movements. Survey evidence from the main credit providers suggests both reduced demand for credit and continued tightening of credit standards by lenders are impacting on credit developments.¹



¹ See the Irish Responses to the Euro Area Bank Lending Survey, July 2009, available at <http://www.centralbank.ie/data/EAFiles/Comment%20on%20results%20-%20July%202009.pdf>.

Table 1: Sectoral Developments in Private-Sector Credit^a

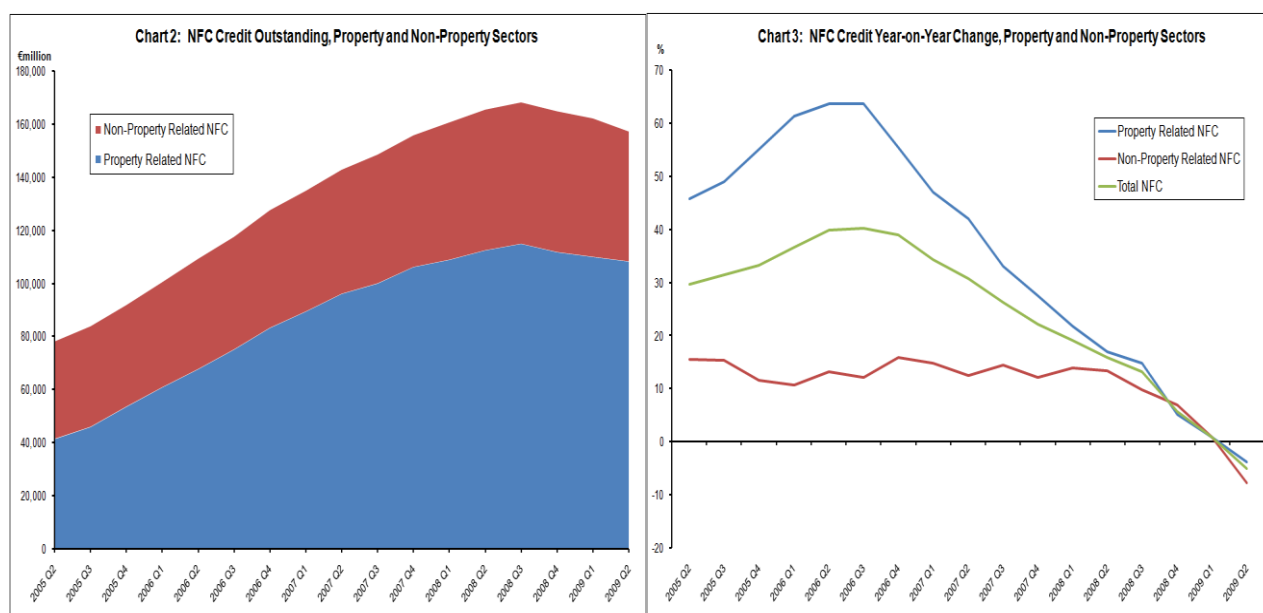
	Total Stock at End -Jun 2009		Change in Credit ^a			
			Q-on-Q		Y-on-Y	
	€ million	% share	€ million	% change	€ million	% change
Agriculture & Forestry	5,341	1.3	-116	-2.1	120	2.3
Fishing	381	0.1	-4	-1.2	-19	-4.7
Mining & Quarrying	441	0.1	-134	-23.3	-220	-33.3
Manufacturing	7,821	1.9	-750	-8.8	-1,359	-14.8
Electricity, Gas & Water Supply	1,015	0.2	-236	-18.8	-126	-11.0
Construction	19,002	4.5	-2,283	-10.7	-5,686	-23.0
Wholesale/Retail Trade & Repairs	13,236	3.1	-817	-5.8	-519	-3.8
Hotels & Restaurants	11,295	2.7	-141	-1.2	-950	-7.8
Transport, Storage & Communications	3,283	0.8	-65	-1.9	-41	-1.2
Financial Intermediation	86,752	20.6	591	0.7	13,287	18.1
- Lending to Non-MFI IFSC Companies	30,471	7.2	-1,143	-3.6	-3,189	-9.5
Real Estate & Business Activities	95,563	22.7	-424	-0.4	523	0.5
- Real Estate Activities	89,401	21.2	571	0.6	1,493	1.7
Education	823	0.2	69	9.2	132	19.0
Health & Social Work	2,638	0.6	-149	-5.4	118	4.7
Other Community, Social & Personal Services	2,926	0.7	-41	-1.4	-279	-8.7
Personal	170,724	40.5	-563	-0.3	-141	-0.1
- Residential Mortgages	148,138	35.2	-194	-0.1	2,797	1.9
- Principal Dwelling Houses	113,002	26.8	-157	-0.1	3,202	2.9
- Buy-to-Lets	33,856	8.0	-4	0.0	-183	-0.5
- Holiday Homes/Second Houses	1,279	0.3	-34	-2.6	-223	-14.8
- Other Housing Finance	718	0.2	-181	-20.2	-435	-37.8
- Other	21,869	5.2	-187	-0.8	-2,502	-10.3
Total	421,238	100	-5,064	-1.2	4,837	1.2
Total PSC (Table A2.2, Monthly Statistics)	387,707		-4,743	-1.2	-5,230	-1.3

Source: CBFSAI. Data are based on NACE Rev.1 industrial codes. For earlier data see Table C8 of the CBFSAI *Quarterly Bulletins*.

^a The Total figure in Table 1 includes securitised residential mortgages which have been added back into lending to the Personal sector to give a more accurate figure for personal borrowing. Some of the mortgage-backed securities created with these loans have been purchased by Irish credit institutions and would also be included under Financial Intermediation above. As such there is an element of double-counting in the Total figure. The official level of PSC outstanding (inclusive of accrued interest) is reported in Table A2.2 of the CBFSAI *Monthly Statistics* and is shown in the last row of Table 1 above, along with the unadjusted quarterly and annual changes in PSC. The adjusted growth rates for total PSC (which account for exchange-rate valuation effects and lending to non-bank IFSC companies), mortgage and non-mortgage credit are available from Table A2.2 of the CBFSAI *Monthly Statistics*.

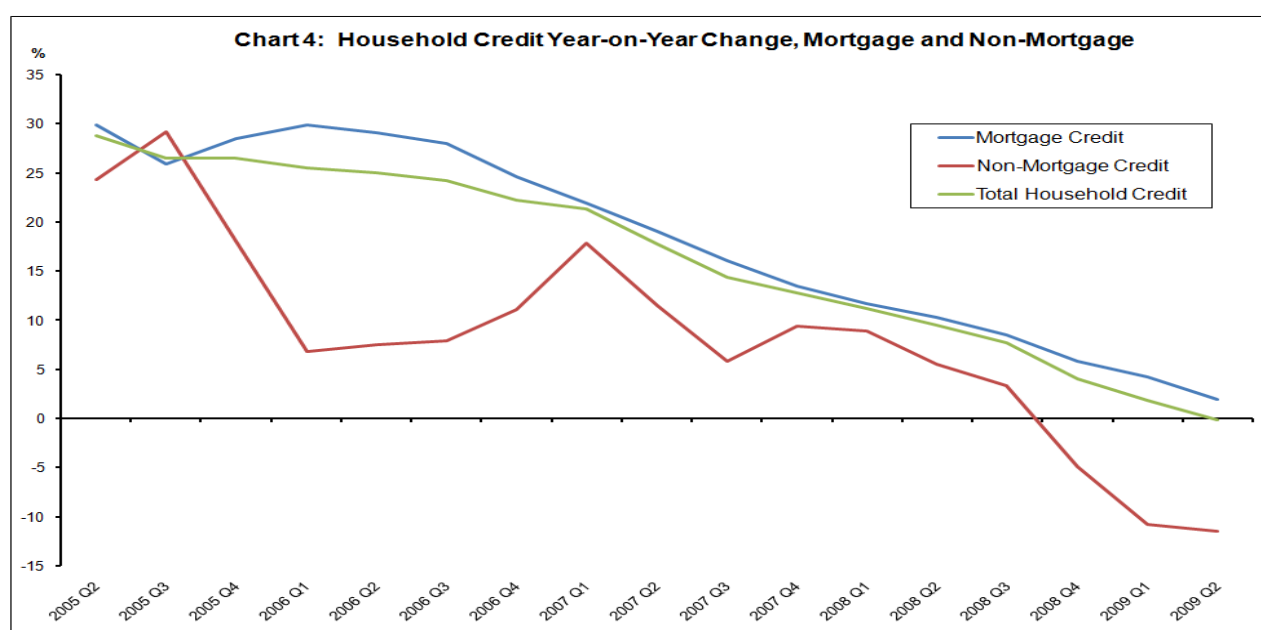
Sectoral Lending – June 2009

- There are two major components of PSC – loans and holdings of securities. The share of holdings of securities in total PSC has increased from just under 5 per cent in Q2 2008 to almost 9 per cent in Q2 2009. This type of credit mainly relates to funding provided to the financial intermediation sector, which would include lending to non-bank credit providers, life insurance and pension funds, and special-purpose vehicles (SPVs). The financing by credit institutions of SPVs that acquire residential or commercial mortgage-backed securities is one of the factors behind the high growth rate of credit to financial intermediation companies. In many cases the credit institutions themselves were the originators of the loans underlying these securities and this exercise improves the liquidity profile of their balance sheets, while the net effect on total outstanding credit (PSC) is zero. In addition, a significant part of lending to the financial intermediation sector is not associated with the domestic economy; this would include, for example, lending to non-bank IFSC companies.
- Lending to the non-property NFC sectors² declined over the quarter by €3.3 billion, or 6.2 per cent, with the largest falls in absolute terms being recorded by the manufacturing and wholesale/retail trade sectors. The proportion of credit outstanding accounted for by non-property related NFC sectors was lower, at 11.6 per cent, compared with 12.3 per cent in Q1 2009 and 12.7 per cent in Q2 2008. The annual rate of change in credit to these sectors fell to minus 7.7 per cent in Q2 2009. Credit extended to non-property related NFCs has, on a quarterly basis, declined for three successive quarters, with the pace of decline increasing significantly during Q2 2009.



² The non-property NFC sectors are defined as business sectors excluding construction, real estate activities and the financial intermediation sector. Social and personal sectors are also excluded in this categorisation.

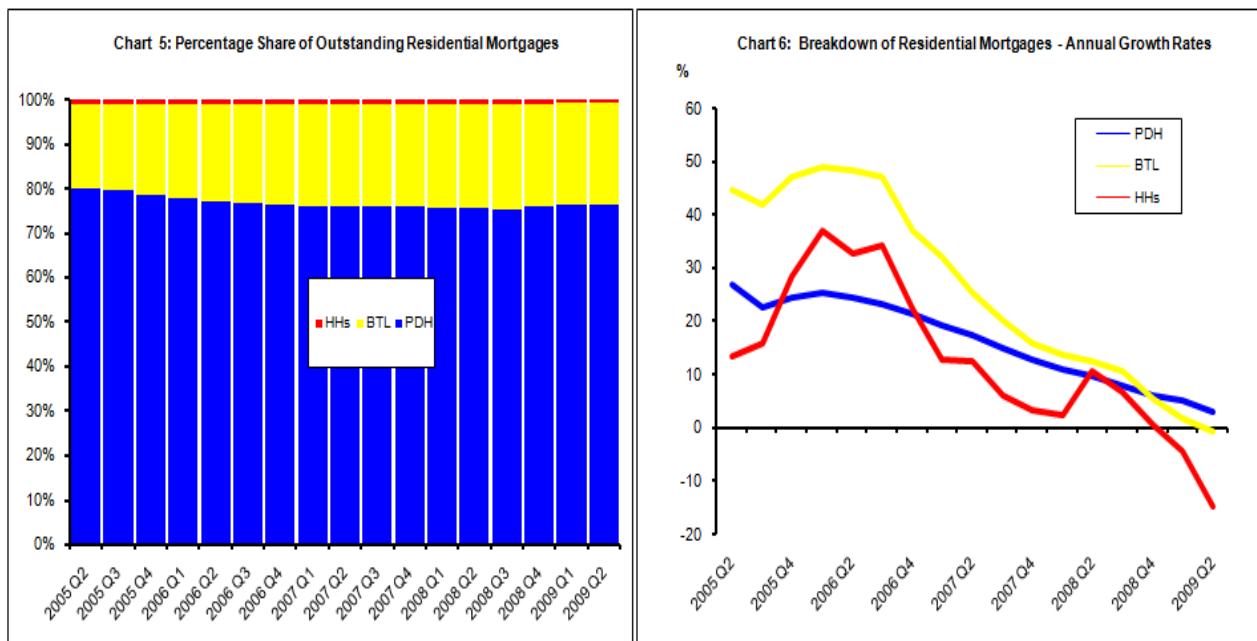
- The annual rate of change in lending to the property related NFC sectors (construction and real estate activities combined) turned negative in Q2 2009, to minus 3.7 per cent. This compares with an annual increase of 17.1 per cent in the same period of 2008. However, credit advanced to these sectors was relatively static in the second quarter of 2009 compared with the first quarter.
- Total property related lending³ fell on a quarterly basis by €1.9 billion in the second quarter of 2009. This compares with a fall of €1.4 billion in Q1 2009, and an increase of €6.5 billion in Q2 2008. Property related lending accounted for 61 per cent of total outstanding PSC in Q2 2009; the proportion in the corresponding quarter of 2008 amounted to 62 per cent of total lending.
- Lending to the personal or household sector is dominated by residential mortgages. Non-mortgage related personal sector credit has declined consistently for five quarters. However, the pace of contraction in this form of credit eased in Q2 2009 compared with the previous quarter, falling by €368 million during the quarter. Over the year to the end of Q2 2009 this category of lending declined by 11.5 per cent, compared with an annual increase of 5.5 per cent in the same period in 2008. The significant reduction in consumer credit witnessed in early 2009 eased somewhat during the latter part of the second quarter. This is consistent with the less severe pace of contraction in retail sales during Q2 2009 compared to Q1 2009, as reported by the Central Statistics Office.



³ Property-related lending in the context of Table 1 is defined as lending to real estate activities, construction and residential mortgages (including securitised mortgages). While it is acknowledged that a significant, but unquantified portion of lending to the construction sector is not property related (for example, construction work on infrastructural projects), it is usual to include this sector in property-related lending.

Analysis of Residential Mortgages⁴

Total residential mortgages outstanding decreased by €194 million over the second quarter of 2009. The combined decline in mortgages for buy-to-let (BTL) properties and holiday homes (HHs), of €38 million, accompanied a fall of €157 million in mortgages for principal dwelling houses (PDHs).⁵ This was the first quarterly decline in outstanding residential mortgage credit on record. The annual rate of increase in residential mortgage lending declined to 1.9 per cent in Q2 2009. The annual rate of change in PDH lending remained positive at 2.9 per cent, compared with year-on-year growth of 5 per cent in Q1 2009 and 9.5 per cent in Q2 2008. Meanwhile, BTL and HH mortgages were a combined 1.1 per cent lower in Q2 2009 compared with Q2 2008. The significant slowdown in mortgage growth comes as repayments have begun to exceed new business in more recent months. The value of new mortgage business⁶ in Q2 2009, as reported by the Irish Banking Federation/PricewaterhouseCoopers Mortgage Market Profile, was approximately 30 per cent of that recorded in Q2 2008. While this can in part be explained by lower house prices over the period, the drop of over 60 per cent in the volume of new mortgage draw-downs is a significant factor. The volume of new residential investment mortgages is down almost 80 per cent in the year to the end of Q2 2009. It is therefore unsurprising to see the value of outstanding BTL mortgages falling on an annual basis.



⁴ A historical breakdown, from December 2003, of outstanding residential mortgages (unadjusted for securitisations) into the three sub-sectors is available on the Bank's website, www.centralbank.ie.

⁵ Where possible, securitised residential mortgages are added back into the relevant sub-category. When no breakdown is available, they are added back into the principal-dwelling house (PDH) category, although this may slightly overstate the proportion of outstanding residential mortgages that are classified as PDHs.

⁶ Excluding top-up and re-mortgaging activity.