

Trends in Business Credit and Deposits: Q3 2016

Gross new lending to SMEs was €359 million higher in Q3 2016 compared with Q3 2015, driven in large part by new lending to the property investment and development sector.

- **Gross new lending** to non-financial, non-property related SMEs was €671 million in Q3 2016, €78 million more than in the same quarter in 2015. During the third quarter, repayments outstripped new loans by €784 million.
- **Property-related** lending constituted 44per cent of outstanding credit to SMEs in Q3 2016. The sector accounted for 40per cent of gross new non-financial draw-downs in the third quarter. There are, however, significant differences in interest rates charged to property-related lending. Lower than average rates apply to new SME lending for real-estate, but the reverse is true for construction.
- **Deposit flows from all non-financial private-sector enterprises** increased by €242 million in Q3 2016. After robust inflows in the first half of the year, there was a large outflow in the manufacturing sector.

For further detail, see the [Business Credit and Deposits](#) tables.

SME Credit and Interest Rate developments

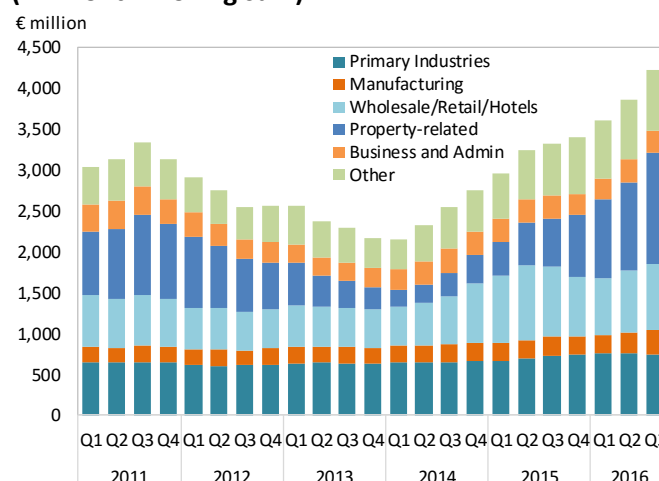
- **Bank credit to all Irish SMEs declined for the twentieth consecutive quarter in Q3 2016.** SME credit declined by 4.5 per cent over Q3 2016 to stand at €30.9 billion.¹ This represented an annual decrease of 11.7 per cent.
- The outstanding stock of SME credit includes €13.5 billion relating to property (real-estate and construction), €17.3 billion of non-financial, non-property credit, and €129 million of financial intermediation credit.
- **Property-related lending to SMEs** represents the largest share of outstanding SME credit. However, in annual terms, property-related SME loans declined by 13.6 per cent in the third quarter of 2016, with SMEs engaged in this sector repaying €2.3 billion more than was drawn down in new loans.
- **Despite declines in outstanding credit to property-related SMEs, gross new lending has been increasing since early-2015,** with €1.4 billion drawn down over the past 12 months (Chart 1). In Q3 2016, €450 million was drawn down, representing 40 per cent of new non-financial SME lending. Real-estate SME lending typically attracts lower than average interest rates, while construction typically attracts higher.
- Repayments by SMEs were high (Chart 2) in the third quarter, and surpassed the same period in 2015.

Table 1: Credit advanced to SMEs and large enterprises (non-financial, non-property)

Credit to all enterprises (non-financial, non-property)						
	2013	2014	2015	2016 Q1	2016 Q2	2016 Q3
Credit to SMEs						
Average net quarterly flow (€m)	-403	-271	-482	-278	-310	-784
Annual growth rate (%)	-5.7	-4.9	-8.1	-8.6	-8.7	-9.9
Credit to large enterprises						
Average net quarterly flow (€m)	-113	66	272	357	357	253
Annual growth rate (%)	-1.8	-4.2	11.4	15.1	15.9	9.9

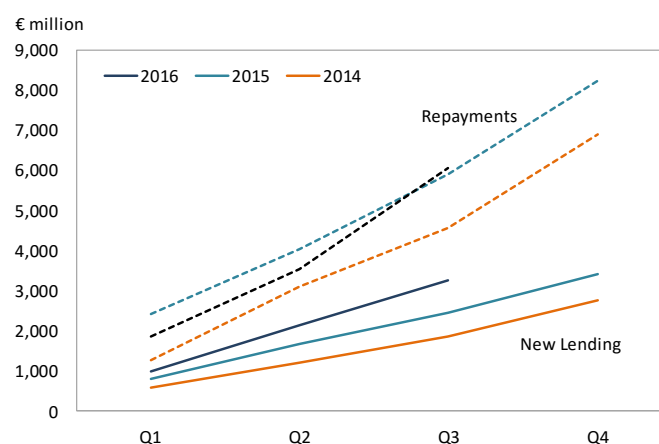
Source: Business Credit and Deposits [Table A.14](#) & [Table A.14.1](#)

Chart 1: Gross new lending to non-financial SMEs (12-month moving sum)



Source: Business Credit and Deposits [Table A.14.1](#)

Chart 2: Cumulative gross new lending and repayments vis-à-vis non-financial SMEs



Source: Business Credit and Deposits [Table A.14.1](#)

Note: Repayments (dashed lines) are a derived proxy series.

¹ See Note 1 for the definition of SMEs.

- **Lending to core SMEs** contracted by 9.9 per cent year-on-year in Q3, as repayments exceeded new drawdowns by €784 million. As in the second quarter, this was mainly driven by wholesale and retail SMEs.
- Lending to core SMEs has declined markedly in contrast to larger enterprises, which have been net borrowers in the last five quarters (Chart 3 Table 1).
- **Gross new lending drawdowns by core SMEs continues to increase**, despite large net repayments.² New drawdowns totalled €2.9 billion over the past 12 months 4.8 per cent higher than the previous period.
- The real estate activities sector was again the largest recipient of new SME lending during Q3 2016, drawing down €425 million (Chart 1); this marked the highest drawdown since the series began in 2010.
- **Two SME sectors registered increases in net lending** (drawdowns exceeded repayments). Electricity, Gas & Steam, Air Conditioning Supply and Human Health and Social Work recorded a combined net increase of €23 million (Chart 4).

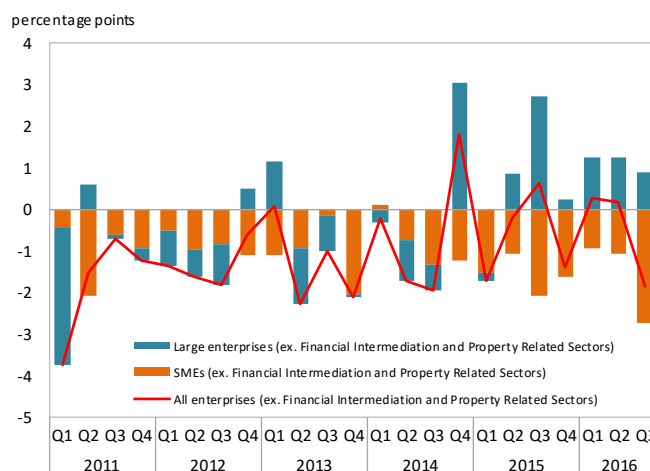
Interest rates on loans to SMEs

- **The weighted average interest rate on new non-financial SME loan draw-downs** during the third quarter of 2016 was 3.75 per cent (Chart 5). This represents an 81 basis point decline over the year. Rates on new lending are, nonetheless, higher than those applying to the existing stock of Irish SME loans, which averaged 3.12 per cent at end-Q3.³

² See Note 2 for the definition of gross new lending.

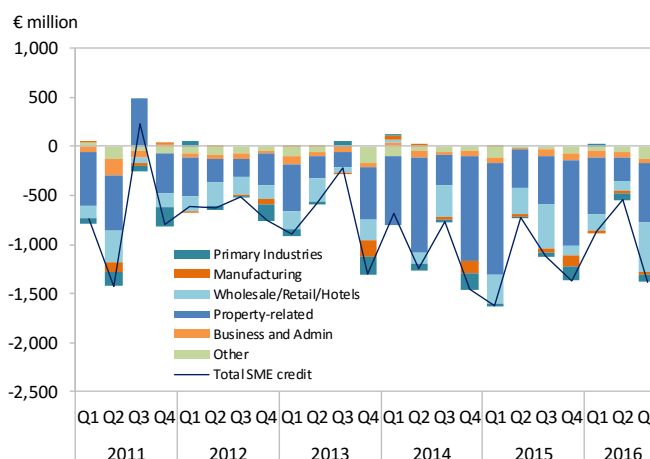
³ Outstanding loans include renegotiations of existing loans, which are excluded from new draw-downs.

Chart 3: Quarterly rate of change in credit to enterprises; by SME and large enterprise contribution



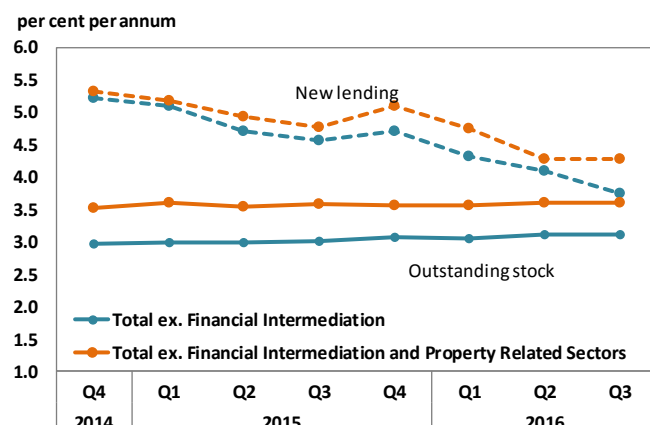
Source: Business Credit and Deposits [Table A.14](#) & [Table A.14.1](#)

Chart 4: Net lending/repayment position of non-financial SMEs



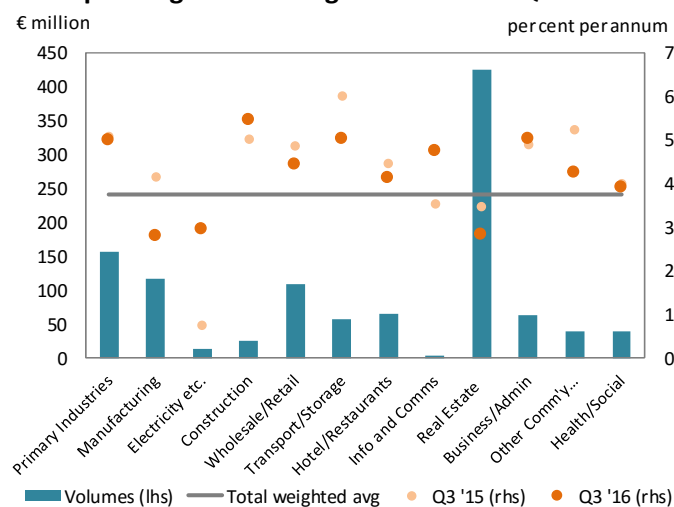
Source: Business Credit and Deposits [Table A.14.1](#)

Chart 5: Interest rates on new and outstanding SME loans



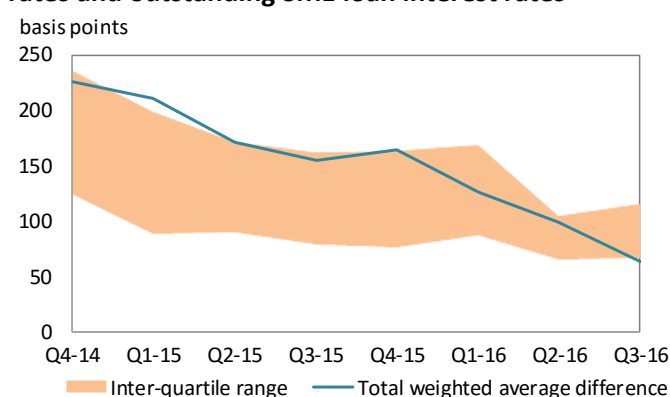
Source: Business Credit and Deposits [Table A.14.1](#)

- **New lending rates have declined for SMEs in most economic sectors since Q3 2015** (Chart 6). The most notable were interest rate declines to SMEs engaged in Manufacturing (134 basis points) and Education (123 basis points). Primary Industries and Construction SMEs continue to attract the highest interest rates on new drawdowns.
- **Higher than average rates apply to new draw-downs by SMEs engaged in the agriculture and wholesale/retail sectors** that typically secure the largest shares of new lending. Rates on lending for Business and Administration purposes were also notably higher than average. Rates on new draw-downs to construction SMEs, at 5.44 per cent, remained significantly higher than rates to the Real-estate sector, at 2.82 per cent (Chart 6).
- The margin between rates charged on new (non-financial) draw-downs compared with existing loans continued to decline in Q3, albeit remaining elevated at 63 basis points (Chart 7). Electricity and manufacturing are the only sectors to record lower rates on new draw-downs compared to the existing stock of loans.

Chart 6: SME new lending interest rates and corresponding new lending drawdowns – Q3 2016


Source: Business Credit and Deposits [Table A.14.1](#)

Note: See Note 3 on draw-downs as reported with rates.

Chart 7: Differential between SME new lending interest rates and outstanding SME loan interest rates


Source: Business Credit and Deposits [Table A.14.1](#)

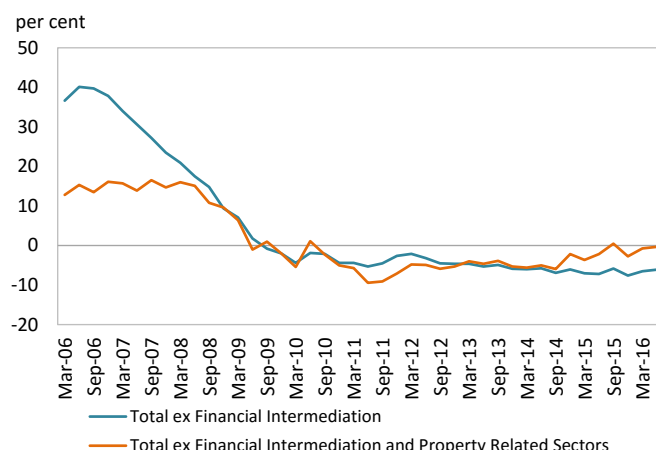
Table A.14.1 Credit Advanced to Irish Resident Small and Medium Sized Enterprises

	Outstanding amounts - € million		Transactions - € million		Annual Growth rates - per cent.		Gross New Lending € million	
	Jun-16	Sep-16	Jun-16	Sep-16	Jun-16	Sep-16	Jun-16	Sep-16
1. Primary Industries	3,675	3,690	-69	-75	-6.2	-7.0	178	156
2. Manufacturing	1,510	1,512	-20	-31	-11.3	-11.3	94	117
3. Electricity, Gas, Steam and Air Conditioning Supply	237	252	2	15	4.8	7.4	40	14
4. Water Supply, Sewerage, Waste Management and Remediation..	19	18	0	-1	-2.8	-1.4	1	1
5. Construction	785	757	45	-18	0.3	-1.2	40	25
6. Wholesale/Retail Trade & Repairs	4,435	4,073	28	-408	-6.8	-10.2	177	108
7. Transportation and Storage	663	640	32	-28	-0.3	-3.0	114	57
8. Hotels and Restaurants	2,815	2,753	-130	-94	-14.1	-12.8	117	64
9. Information and Communication	155	140	3	-17	-6.6	-18.4	12	3
10. Financial Intermediation (Excl. Monetary Financial Institutions)	174	129	12	-47	5.4	-17.6	20	2
11. Real Estate Activities	13,218	12,711	-280	-580	-12.6	-14.3	255	425
12. Business and Administrative Services	1,536	1,501	-63	-48	-15.2	-14.3	60	63
13. Other Community, Social and Personal Services	1,403	1,361	-63	-93	-6.6	-11.6	41	39
14. Education	238	236	-13	-11	-10.0	-13.1	1	10
15. Human Health and Social Work	1,103	1,115	-17	8	-5.5	-4.9	23	38
16. Total	31,967	30,889	-533	-1,429	-10.2	-11.7	1,173	1,123
16.1 Total ex. Financial Intermediation	31,792	30,760	-545	-1,382	-10.2	-11.7	1,153	1,121
16.2 Total ex. Financial Intermediation and Property Related Sectors	17,790	17,292	-310	-784	-8.7	-9.9	858	671

Private-Sector Enterprise Credit developments

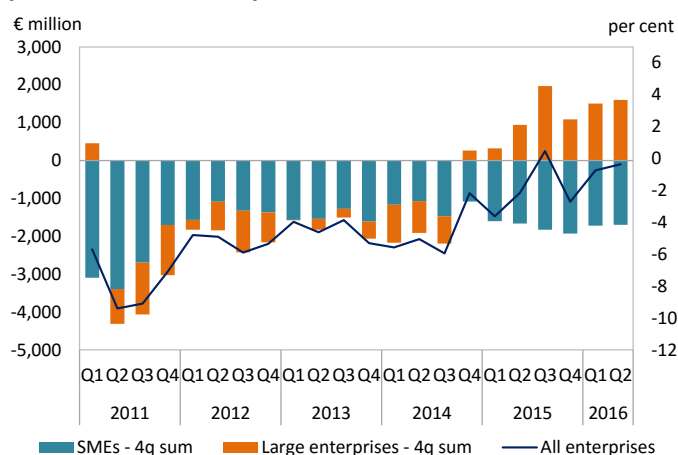
- **The total amount of credit outstanding to all Irish private-sector enterprises** on the balance sheet of resident credit institutions was €102.6 billion at the end of Q3 2016. Excluding financial intermediation⁴, which accounts for 55 per cent of total credit, outstanding stock was €46.1 billion at the end of Q3. SMEs account for 67 per cent of non-financial credit.
- **Non-financial credit declined** by 7.1 per cent in the 12 months to end-September 2016 (Chart 8), as private-sector enterprises repaid €3.7 billion more than was drawn down in new loans. The decline was driven by wholesale/retail credit and real estate credit, with SMEs accounting for most of the decline.
- **Credit advanced to core Irish private-sector enterprises** declined by 2.8 per cent in annual terms to stand at €27.8 billion at the end of Q3 (Chart 8). However, there are contrasting underlying developments between larger enterprises and SMEs.
- **Larger core enterprises** have been net borrowers during the past year and have drawn down €1 billion more in new loans than was repaid (Chart 9).
- In quarterly terms, drawdowns to large core enterprises exceeded repayments by €252 million in Q3 2016, with eight sectors registering net increases. Large enterprises engaged in Real Estate registered the largest quarterly increase of €404 million.

Chart 8: Annual rates of change in credit to Irish private-sector enterprises



Source: Business Credit and Deposits [Table A.14](#)

Chart 9: Annual rates of change in credit to core Irish private-sector enterprises, and net flows



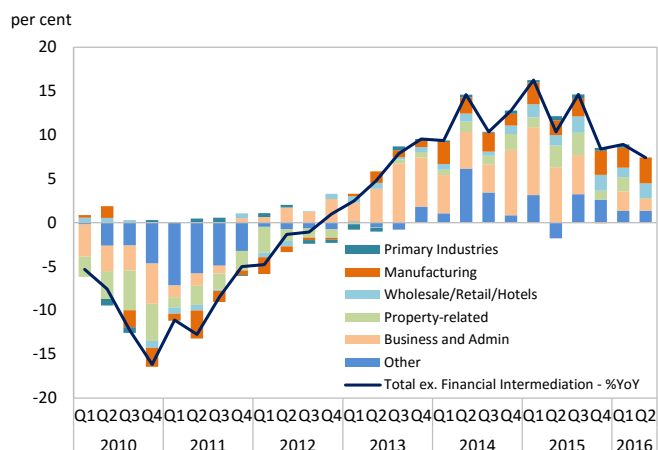
Source: Business Credit and Deposits [Table A.14](#) & [Table A.14.1](#)
Note: Net flows are shown as a four-quarter sum.

⁴ This would include holdings of debt securities issued by the NAMA Master SPV and other financial vehicle corporations.

Private-Sector Enterprise Deposit developments

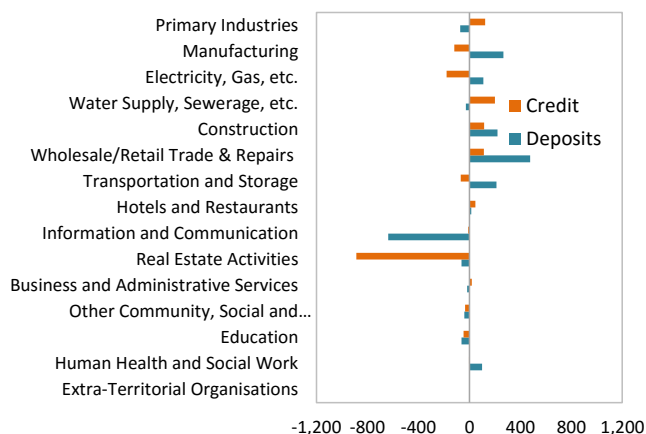
- **Deposits from all Irish private-sector enterprises** increased by €163 million in the 12 months to September 2016 to stand at €87.2 billion. This reflects year-on-year growth of 0.2 per cent.
- The financial intermediation sector (excluding monetary financial institutions) recorded net outflows of €2.5 billion in annual terms with strong outflows in Q1 and Q2.
- **Excluding financial intermediation, deposits from private-sector enterprises** increased by 5.5 per cent in the 12 months to end-Q3, to stand at €49.7 billion. Half of the annual increase can be attributed to the Manufacturing sector (Chart 10). On a quarterly basis, deposits from all non-financial sectors increased by 0.5 per cent.
- **Deposits from eleven of the fifteen non-financial sectors increased in Q3 2016** (Chart 11), with information and communication recording the largest increase in net deposit flows of €399 million. The Manufacturing sector recorded the largest outflow.

Chart 10: Annual rate of change in deposits and contributions from Irish private-sector enterprises



Source: Business Credit and Deposits [Table A.16](#)

Chart 11: Quarterly net flow in deposits and credit vis-à-vis Irish non-financial private-sector enterprises – Q2 2016



Source: Business Credit and Deposits [Table A.14](#) & [Table A.16](#)

Note 1:

SMEs are defined as enterprises with fewer than 250 employees and whose annual turnover does not exceed €50 million and/or whose annual balance sheet does not exceed €43 million. This is the standard EU definition of an SME.

Note 2:

Gross new lending excludes restructures or renegotiations which do not increase the size of outstanding loans. It does include new funds drawn-down following a restructure or renegotiation of an existing facility that were not included in credit advanced at the end of the previous quarter.

Note 3:

The reporting population for interest rate statistics are those credit institutions with a significant level of lending or deposit business with households or non-financial corporations. All other SME statistics are collected from the full population of resident credit institutions. Although the interest rate data are collected from a sample of institutions and the coverage of the SME market is very high, gross new lending volumes underpinning the interest rates and volumes data will not match exactly. The reporting population is monitored under Regulation ECB/2014/30.

For further detail please see the [Business Credit and Deposits](#) webpage for:

- An extensive set of [Business Credit and Deposits tables](#) and previous [releases](#);
- [Business Credit and Deposits Explanatory Note](#).

Keywords: Business credit, Private-Sector Enterprises, Irish Financial Statistics, SME Credit, Loans to SMEs, Large enterprise, SME interest rates.