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An overview of the consumer credit market in Ireland

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Abstract

This *Note* examines the non-mortgage consumer credit market in Ireland, which represents just over one-tenth of all household credit in Ireland. Consumer credit has trended upwards since 2016, within a context of overall deleveraging in the household sector. Consumer credit is characterised by smaller amounts, more diverse purposes and a broader range of lenders than the mortgage market. While banks continue to have a large share of outstanding consumer credit, credit unions, collectively, are the main lender for personal loan products. A large, stable share of lending also originates from other non-bank financial intermediaries. Consumer debt servicing costs have not increased significantly since the ECB started to raise interest rates in July 2022. Additionally, the pass through of interest rate increases to new consumer loan rates has been more muted in Ireland than elsewhere in the euro area. Furthermore, overall non-performing consumer loans at banks and credit unions remain near recent historical lows despite a slight increase observed in new early arrears cases.

1 Introduction

This Note looks at the non-mortgage consumer credit market in Ireland, which represents just over one-tenth of all household credit in Ireland. The non-mortgage consumer credit market (henceforth – "consumer credit market") consists of the provision of credit by domestic retail banks, credit unions, non-banks and other specialist lenders (e.g. car finance providers or high cost credit providers). A broader set of providers offer consumer credit loans than mortgage loans.[2] Consumer credit agreements are generally small; the mean consumer loan borrower has an outstanding balance of around €7,500 as at December 2023 (**Table 2**). However, the consumer credit market may be associated with greater risk of default than mortgage markets, because the credit is unsecured and distributed across a wider range of borrowers.[3]

The demand for and the supply of consumer credit is largely driven by the same macro-financial developments that influence mortgage lending. These include the performance of the domestic and

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[1] Macro-Financial Division, Central Bank of Ireland. All views expressed in this Note are those of the authors alone and do not necessarily represent the views of the Central Bank of Ireland.

[2] See Central Bank of Ireland Financial Stability Review 2022:II, Box D. Furthermore, in a survey of consumers conducted in 2022 for the Retail Banking Review, personal loans received the most positive responses for level of choice in financial services.

[3] This was the case during the Irish Financial Crisis where the proportion of losses on consumer loan portfolio of the domestic banks were estimated to be higher than losses on other portfolios during the Prudential Capital Assessment Review (PCAR) 2011 stress test (21 per cent of nominal portfolio loan balances for consumer loan portfolio versus 7 per cent for residential mortgages). Source - The Financial Measures Programme Report – March 2011 – Table 1

global economies, consumer confidence, income levels, and the interest rate environment. This *Note* assesses consumer credit in the wake of higher interest rates and monetary tightening by the European Central Bank (ECB) in response to rising inflation, beginning in July 2022. We present, for the first time, statistics on the overall consumer credit market (for loan amounts greater than €500) using Central Credit Register data from all resident lenders. In particular, we provide a factual overview of the consumer credit market in Ireland beyond the banking sector, which is an essential step for future monitoring of this sector in case potential emerging financial stability risks were to be identified.

The *Note* is structured as follows. Section 2 describes the consumer credit market in Ireland in the context of the broader household credit. Section 3 explains data sources. Section 4 provides detailed information on consumer credit based on the Central Credit Register and other data sources. Section 5 concludes.

2 Consumer credit and aggregate household credit in Ireland

Consumer credit is a small share of total household credit in Ireland. **Table 1** shows that, among all resident banks and credit unions, 12 per cent of household credit is for consumer purposes, 83 per cent is mortgages, and a further 5 per cent is other types of credit (e.g. sole trader business credit). Across all providers on the Central Credit Register, the share of household credit issued for consumer purposes is also 12 per cent.

While directly comparable European data is not readably available, we can use data provided by the European Banking Authority (EBA) on a select sample of banks to get a comparison across Euro Area countries. In doing so, we find that, relative to Euro Area peers, Irish banks, on aggregate, have a smaller share of consumer loans to total loans - at just under 7 per cent compared to a Euro Area average of approximately 12 per cent (Figure 1).

Table 1: Outstanding household credit by broad category, December 2023

	Resident credit institutions	All lenders
Outstanding credit	€101 billion	€144 billion
Of which:		
Mortgages	83%	77%
Consumer credit	12%	12%
Business / other	5%	10%

Source: Central Bank of Ireland: Money and Banking Statistics (resident credit institutions) and Central Credit Register (all lenders).
Note: "Resident credit institutions" comprise banks and credit unions. "All lenders" comprise all regulated financial service providers and other credit providers on the Central Credit Register (e.g. local authorities).

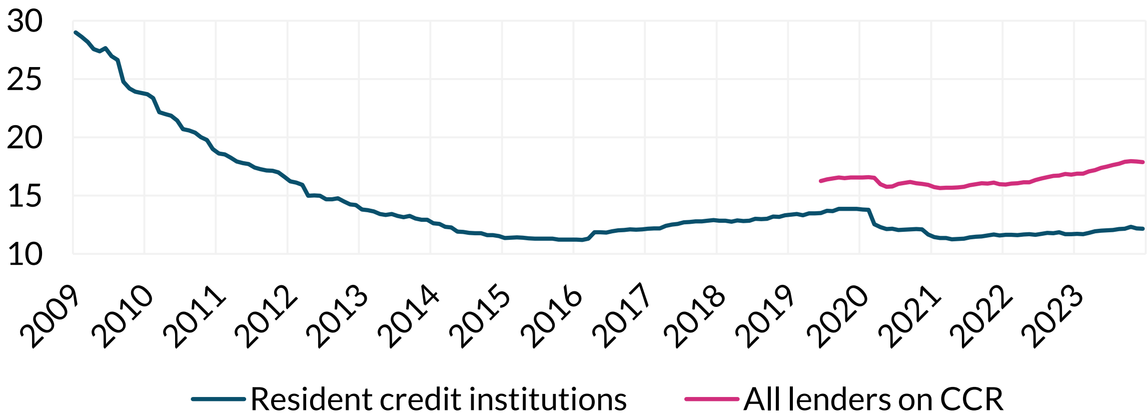
Figure 1: Share of Consumer loans to total loans for banks in Euro Area countries – June 2023

Source: Central Bank of Ireland calculations using EBA Transparency Exercise data for June 2023. Country shares represent the sum of "Consumer loans" exposure values as a percentage of total lending exposures values of all banks in that particular country. Only banks where the exposure value of lending to households and firms is greater than 8 per cent are included in sample. This criteria is to limit sample to retail focussed banks only. For Ireland, only two banks (AIB and BOI) meet this criteria. Retail exposures that are not mortgages or SME are chosen to represent consumer credit.

The aggregate indebtedness of the Irish household sector peaked prior to the financial crisis of 2008. Outstanding household credit in 2023 was approximately one-third below the peak in euro value terms, and even lower in *per capita* terms.[4]

Consumer credit amounts have been increasing since 2016 (**Figure 2**). A growing share of consumer credit is from non-bank financial intermediaries, and the inclusion of non-bank credit in the Central Credit Register emphasises that growth in overall consumer credit has continued even at times when consumer credit from banks was falling.

Figure 2: Outstanding consumer credit owed by Irish households, in billions of euro, by lender



Source: Central Bank of Ireland: *Money and Banking Statistics* (resident credit institutions) and Central Credit Register (all lenders).
Notes: Series covers period to December 2023. The CCR time series begins only in June 2019. Series excludes mortgage, business and investment credit.

3 Data

We use the Central Bank of Ireland Central Credit Register to identify credit owed by individuals in Ireland to resident financial service providers. The data describe contracts, outstanding balances and interest rates in each month from June 2019 to December 2023. The Register contains credit agreements with financed amounts and/or credit limits of €500 or more and where the lender is a firm. Consumer credit agreements are not covered by the Register or by this *Note* if the amount is for less than €500 or if the ultimate lender is an individual. This particularly affects market segments such as credit cards with low credit limits, "buy now, pay later" (BNPL) agreements, and crowdfunding. Data on the Register are subject to monthly updates and occasional revisions.

For statistics specific to resident credit institutions (i.e. banks and credit unions), we use Central Bank of Ireland *Money and Banking Statistics* to identify credit owed by Irish resident households. Some credit agreements may be accounted for in different ways across the two data sources, due to details of the statistical classifications, such as differences in product categorisation and interest rate conventions. For data on non-performing consumer credit from banks, we use financial information provided by banks via their FINancial REPorting (FINREP) requirements.

All statistics in this *Note* are reported on a euro value basis unless otherwise stated, including any arrears and overdue amounts.

[4] See, for example, Central Bank of Ireland *Money and Banking Statistics* and *Quarterly Financial Accounts*.

3.1 Summary Statistics on the Consumer Credit Market

There are three main categories of consumer credit recorded on the Register (**Table 2**). €10.8 billion is personal loans. €4.8 billion is personal asset finance, of which approximately one-third is personal contract plan (PCP) finance for motor vehicles, the remainder covering other types of hire purchase contracts, primarily for vehicles. Finally, households owe €2.2 billion on credit cards, overdrafts, and other credit agreements with no pre-agreed end date, such as catalogue credit.

Table 2: Characteristics of consumer credit by credit type, December 2023

Characteristic	Personal loans	Asset finance	Cards and overdrafts
Number of credit agreements	1.46 million	0.34 million	2.05 million
Outstanding balances	€10.8 billion	€4.8 billion	€2.2 billion
Average outstanding balance	€7,420	€14,197	€1,077

Source: Central Bank of Ireland Central Credit Register.

Outstanding consumer credit is divided in roughly equal shares among three types of financial service providers: credit unions, the main retail banks, and other providers (mainly non-bank financial intermediaries and smaller banks) – **Table 3**. Credit unions, collectively, are the leading providers of personal loans. Most asset finance credit is extended by non-bank financial intermediaries and a small number of specialist banks. Cards and overdrafts are mostly provided by retail banks.

Table 3: Outstanding consumer credit in millions of euro, by credit type and financial service provider type, December 2023

Provider	All products	Personal loans	Asset finance	Cards and overdrafts
All providers	17,867	10,828	4,827	2,212
Of which:				
Credit unions	6,276	6,275	-	-
Main retail banks	6,162	3,216	1,352	1,593
Other providers	5,429	1,337	3,474	617

Source: Central Bank of Ireland Central Credit Register.
Note: Less than €2 million of consumer credit at credit unions is for asset finance, cards and overdrafts. “Other providers” include non-bank financial intermediaries, banks other than the main Irish retail banks, and other lenders and credit servicing firms.

Consumer credit maturities are relatively short, so most outstanding credit agreements were originated in recent years. As at December 2023, 89 per cent of personal loans and asset finance agreements were originated in 2018 or later (**Table 4**). However, eight per cent were originated prior to 2012. In the loan and asset finance market, almost all of this long-dated credit is overdue beyond the planned maturity date, or extended beyond its original term with the agreement of the lender. Credit cards and overdrafts have no pre-agreed end date and tend to remain open for a long time; many credit cards in active use were originated during the 1990s.

Table 4: Outstanding consumer credit in millions of euro, by start date of credit agreement, December 2023

Start date	Loans and asset finance	Cards and overdrafts
Pre-2003	81	627
2003-12	1,232	700
2013-17	410	220
2018 and later	13,933	666

Source: Central Bank of Ireland Central Credit Register.

The most common purposes for consumer credit are expenditure on cars and home improvements. Car finance includes almost all PCP and HP contracts for motor vehicles, plus a large share of personal loans.[5] At four major consumer lenders, one-third of consumer credit drawn down between 2020 and 2023 was to finance motor vehicles, and a further one-third was for home improvements.[6]

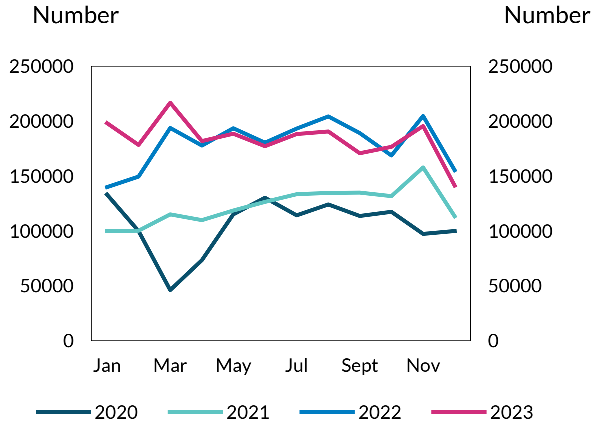
4 Trends in Overall Credit and Consumer Credit in Ireland

Despite a rapid rise in ECB interest rates since July 2022, aggregate annual credit growth from credit institutions to households has remained steady (at 2.0 per cent) as at December 2023. Consumer credit experienced strong growth of 8.2 per cent y-o-y, compared to a smaller increase in loans for house purchases (1.8 per cent y-o-y).[7] However, Irish banks reported that they tightened credit standards significantly for both mortgages and consumer loans in Q4 2023.[8] Further, on a forward-looking basis, in the same survey, banks reported that they expected to tighten credit standards on mortgages somewhat in Q1 2024, but did not expect to change standards for consumer loans. Aggregate demand for consumer loans and mortgages decreased slightly in Q4 2023, and banks expect demand for both types of loans to be unchanged in Q1 2024.

Looking at the demand for personal loans, we find that enquiries for new credit followed a broadly similar pattern in 2023 as it did in 2022 (**Figure 3**). In terms of where customers were applying for personal loans, over the months in 2023, on average, 51% of enquiries for personal loans were made to banks; 27% to Credit Unions and 22% to non-bank entities - **Figure 4**.

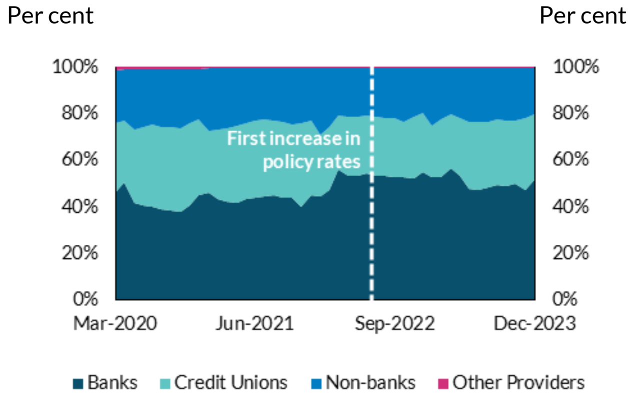
[5] At the end of 2019, car finance accounted for €945 million of personal loans owed to banks (Central Bank of Ireland *Money and Banking Statistics*, Table A.19). Further amounts were owed to credit unions and non-bank lenders; statistics are not available for these lenders, or for more recent periods.
[6] Banking & Payments Federation Ireland *Personal Loans Report, 2023 Q2*.
[7] Central Bank of Ireland Money and Banking statistics (Table A.1 and Table A.6). Data refer to year-on-year of change of credit indices.
[8] Bank Lending Survey, January 2024 Survey Results, Central Bank of Ireland

Figure 3: Monthly number of enquiries for personal loans per year.



Source: Central Bank of Ireland.
Notes: Credit enquiries by month and by year of enquiry.

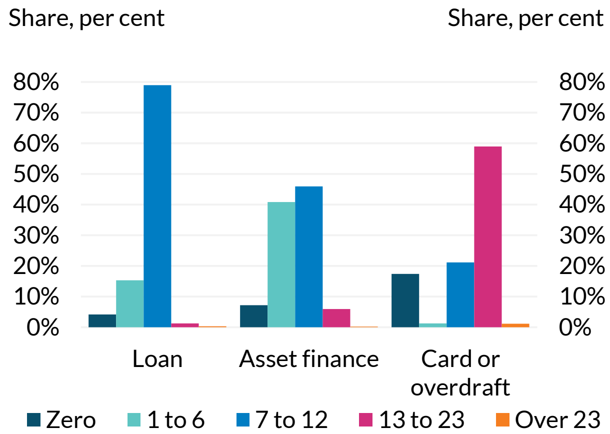
Figure 4: Credit Enquiries by entity type: Bank; Credit Union; Non-Bank & Other



Source: Central Bank of Ireland.
Notes: Credit enquiries by broad lending type: banks; credit unions and non-banks. The "Other Providers" category is the residual category. The dashed line represents the start of ECB rate increases in July 2022.

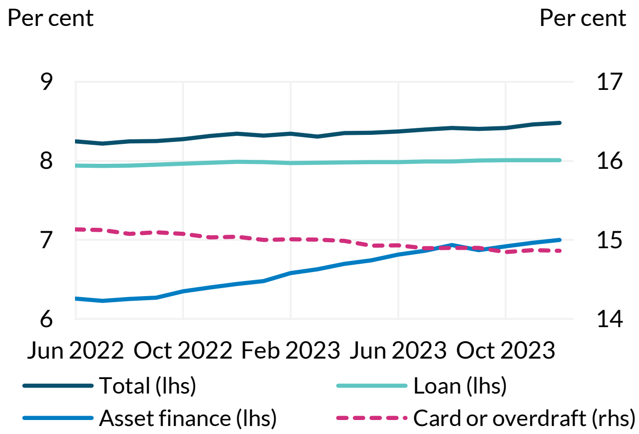
Interest rates on consumer credit in Ireland cover a much wider range than mortgage interest rates. Personal loans and asset finance typically have interest rates of between 1 and 12 per cent, while most card and overdraft facilities have interest rates of between 13 and 23 per cent (**Figure 5**). There are also products with zero interest rates, which usually signify that a borrower has fallen into arrears and additional interest is not currently being charged. At the higher end, a small share of credit is at "high cost credit providers", which are permitted to lend at rates above 23 per cent.[9] The amount of credit that households owe to high cost credit providers at rates above 23 per cent is small in scale compared to the mainstream consumer credit market.

Figure 5: Interest rate distributions (per cent) by consumer credit type, December 2023



Source: Central Bank of Ireland Central Credit Register.

Figure 6: Average interest rates on outstanding consumer credit by credit type



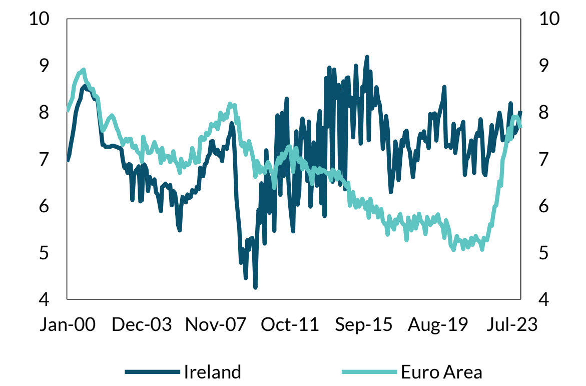
Source: Central Bank of Ireland Central Credit Register.
Notes: Balance-weighted averages between June 2022 and December 2023. To ensure comparability of similar products across time, the series include only credit agreements with interest rates above zero and below 23 per cent.

[9] The Consumer Credit (Amendment) Act 2022 restricts rates charged by high cost credit providers.

The cost of servicing consumer credit has not changed significantly for households since the ECB started raising interest rates in 2022 (**Figure 6**). While key ECB interest rates increased by 4.5 per cent over the 18 months ending in December 2023, average interest rates on outstanding consumer credit increased by only 23 basis points (i.e. 0.23 per cent).

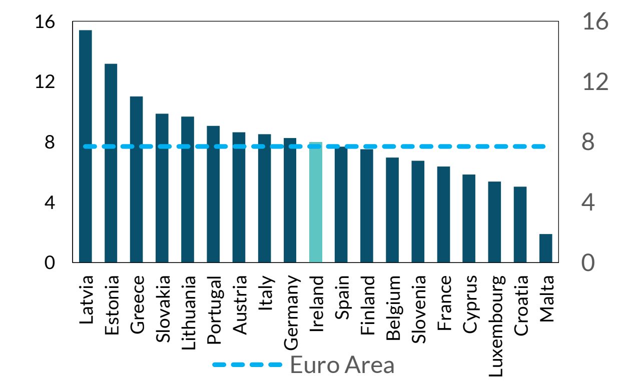
The interest rate on new consumer loans in Ireland increased by 81 basis points (to 7.98 per cent at December 2023) since the ECB started to raise interest rates in July 2022. This increase was significantly below the average increase of 192 basis points across the euro area over the same period. New consumer loan rates in Ireland are now similar to the euro area average which was 7.7 per cent at December 2023 – (**Figure 7**). At the end of 2023, the highest interest rates on new consumer loans were being charged in Latvia (15.4 per cent) while the interest rates on new consumer loans in Ireland were similar to rates charged in Germany and Spain (**Figure 8**).

Figure 7: Average Interest Rate on Consumer Loans: Ireland vs. euro area



Source: Central Bank of Ireland and ECB Data Portal.
Notes: New business - Loans for consumption excluding revolving loans and overdrafts, convenience and extended credit card debt.

Figure 8: Weighted average interest rates on new Consumer loans across the euro area, - Dec. 2023

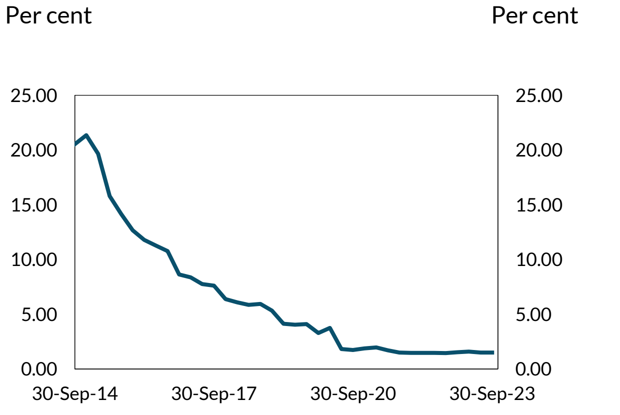


Source: Central Bank of Ireland and ECB Data Portal.
Notes: New business - Loans for consumption excluding revolving loans and overdrafts, convenience and extended credit card debt.

The share of bank consumer credit loan balances that are non-performing remains low, at 2 per cent in September 2023 (**Figure 9**). This is despite the additional burden placed on household finances caused by recent inflation, the slowdown in domestic and global economic activity in 2023 (QB 4, 2023) and higher interest rates on other household debts. This is likely explained by strong domestic economic growth in recent years coupled with a strong labour market and healthy household balance sheets.[10] Credit card utilisation measures the percentage of a credit cards' available limit that is used in any given month and, if this increases materially, it could be an indicator of borrower distress. In the past year, up to October 2023, credit card utilisation has increased somewhat, but not significantly, although, it is back to pre-Covid levels. (**Figure 10**).

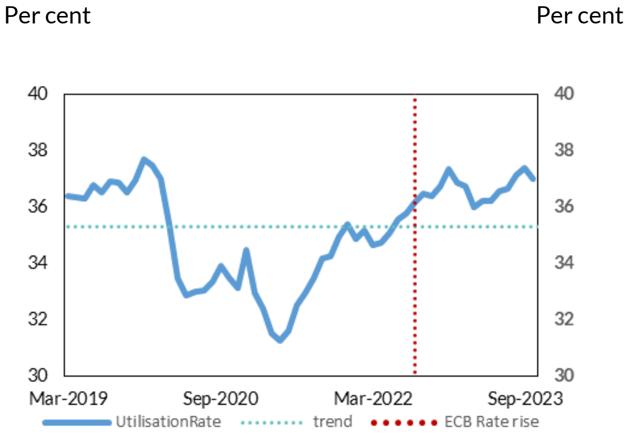
[10] Robust income and house price growth in recent years and more prudent lending standards since the GFC mean that households are in a better position to absorb adverse shocks than they were in the past (see FSR 2023:I).

Figure 9: Non-performing Consumer Credit at Banks is at historic lows



Source: Central Bank of Ireland
Notes: FINREP - F18.00 of which credit for consumption (EUR 000's) for the three retail banks AIB, BOI and PTSB.

Figure 10: Credit Card Utilisation Rates 2019-2023



Source: Central Bank of Ireland.
Notes: Central Credit Register data. Our sample includes personal credit cards only. We only include credit cards where balances are greater than the 30 and credit limits are greater than or equal to €500 (i.e. 'active cards').

Similarly, consumer credit loan arrears are also declining at credit unions. The share of loans with average arrears greater than nine weeks fell from 5.6 per cent in September 2018 to 2.7 per cent in September 2023, albeit there has been an increase in reported early stage arrears in recent months.[11] While the rate of consumer credit arrears has not risen to date, there are pockets of vulnerability among household borrowers and signs that early arrears cases are rising among mortgage borrowers (Shaikh et al. 2023). In addition, some 12 per cent of mortgage borrowers missed a payment on either their utility bills or other personal debts in the last 12 months (Singh & Yao, 2023).

Finally, considering the other debts of consumer credit borrowers, almost half of consumer credit is owed by individuals with outstanding mortgages. The amount of consumer credit among households with mortgages is seven per cent of their mortgage amount. However, this total includes older households who have paid down large shares of their mortgages. Focusing on borrowers entering the mortgage market for the first time, the average amount of consumer credit is just over three per cent of the financed amount of the mortgage. The majority of new mortgage borrowers have no other credit agreements.

5 Conclusion

High interest rates, inflation above the ECB's two per cent target, and moderating growth in many parts of the world may lead to the emergence of new risks to financial stability. Faced with this uncertainty, it is important for policy makers to regularly review all lending sectors to identify at an early stage any emerging pockets of vulnerabilities.

This Note looks at the consumer lending market in Ireland, which is relatively small when compared to other lending sectors, such as the mortgage market. Using Central Credit Register data, we estimate that total outstanding consumer lending was approximately €18 billion in December 2023, which comprises 12 per cent of total lending to households. Outstanding consumer credit is

[11] Financial Conditions of Credit Unions - (2024-forthcoming)

divided in roughly equal shares among three types of financial service providers: credit unions, the main retail banks, and other providers (mainly non-bank financial intermediaries and smaller banks). There are three main categories of consumer credit - €10.8 billion is personal loans; €4.8 billion is personal asset finance; and households owe €2.2 billion on credit cards and overdrafts. The cost of servicing consumer credit has not changed significantly for households since the beginning of monetary policy tightening in July 2022 and the interest rate on new consumer loans in Ireland stood at 7.98 per cent in the year to December 2023. While non-performing consumer credit remains low in a historical context and credit card utilisation has not materially increased since the ECB started raising interest rates, these are two metrics that will be monitored closely for any future signs of emerging vulnerabilities in this lending sector.

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