



# Box B: QB 3 – September 2023

This Box content is extracted from the Quarterly Bulletin – Q3 2023

## Credit and deposits: An update on Irish household and business activity

By the Statistics Division

### Lending to NFCs

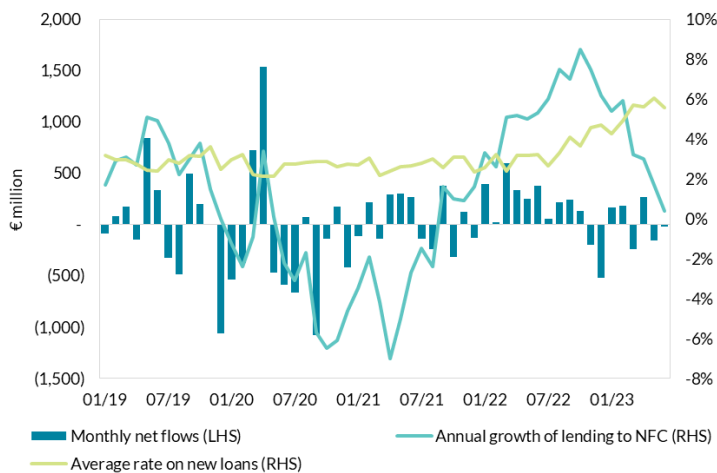
Outstanding bank loans to NFCs stood at €31.1 billion in June, which represents a 0.4 per cent increase compared to June 2022. Annual growth in NFC Outstanding loans has been easing since October 2022, with the current pace of growth at its lowest level since August 2021, when outstanding loans to NFCs fell for the last time (Figure 1).

New lending during Q2 2023 dropped to €3.3 billion, compared to €3.7 billion at the end of the previous quarter and €4 billion in Q2 2022. Total new lending in Q2 2023 declined by 17.5 per cent year-on-year.

In terms of the breakdown of new loans, approximately 79 per cent of new lending in Q2 2023 were loans of more than €1 million, which tend to be linked to larger companies.

### Annual growth of NFC lending at quarter-end approaches 0 per cent

Figure 1: Net lending flows to Non-Financial Corporations



Source: Central Bank of Ireland



The weighted average interest rate on new loans stood at 5.6 per cent in June 2023, a 235 basis points cumulative increase since June 2022 (Figure 2). Similarly, the average rate on outstanding amounts shows a 245 basis points cumulative increase, standing at 5.2 per cent at the end of June 2023 compared to 2.8 per cent in the previous year.

These developments are consistent with the latest results of the Bank Lending Survey, published in July 2023, in which banks reported a tightening of credit standards for firms in Q2 2023, while noting a slightly higher demand for credit. Banks expect additional tightening of credit standards in the upcoming quarter.

### Average rate on outstanding NFC loans increases despite slight fall of rate on new loans

Figure 2: Cumulative increases in policy and NFC lending rates since June 2022



Source: Central Bank of Ireland and European Central Bank

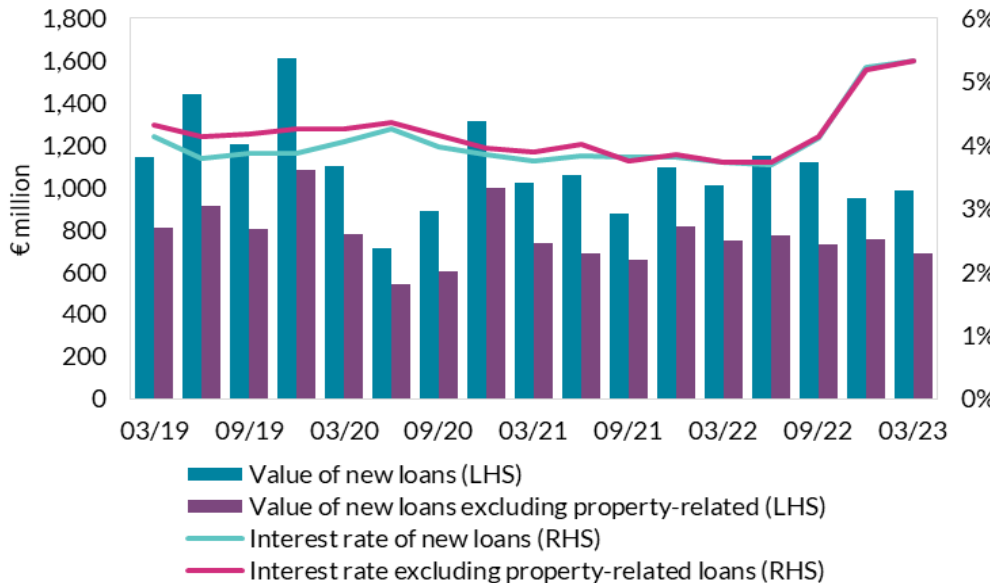
### Lending to SMEs

New lending to SMEs slightly increased in Q1 2023 to €985 million after a significant reduction in the previous quarter. However, it remains 2.7 per cent lower than in Q1 2022 (Figure 3). The average rate on new loans to SMEs has been rising since the start of the monetary policy tightening, but at a significantly slower pace in Q1 2023.



## Average rate increases at a slower pace while new lending drops annually

Figure 3: New lending to SMEs and interest rates



Source: Central Bank of Ireland

### Lending to households

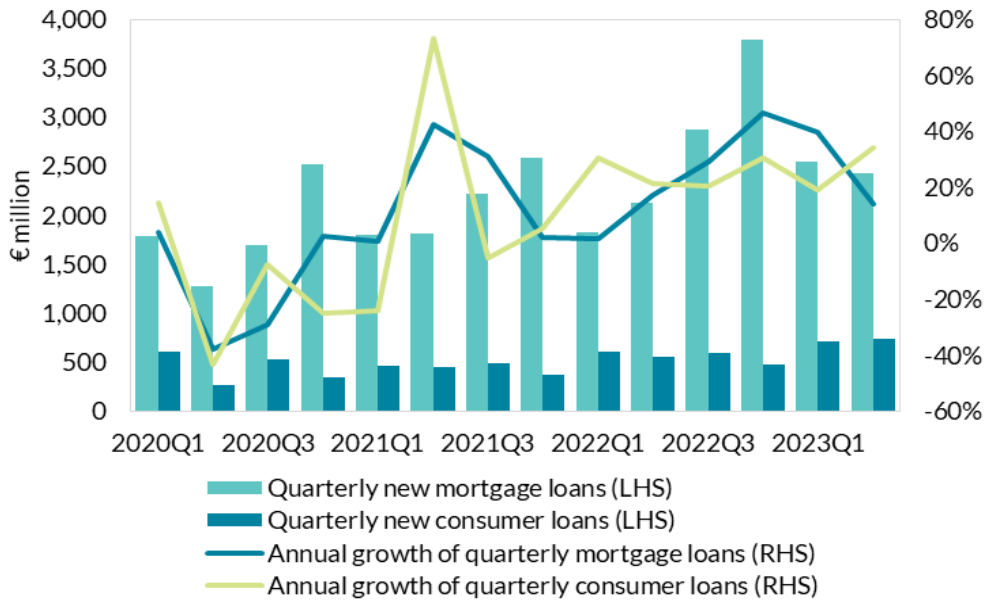
Outstanding loans to households changed very little year-on-year in Q2 2023, reflecting growth in new consumer lending being offset by a slowdown in mortgage lending, particularly refinancing activity. The value of new mortgages lending in Q2 2023 (€2,429 million), was 14.8 per cent higher than new mortgages in Q2 2022. However, the annual growth has further slowed compared to Q4 2022 and Q1 2023, when new mortgages increased annually by 46.7 per cent and 39.5 per cent, respectively, also reflecting the strong rise in activity post-pandemic.

Banks did not report tightening of credit standards for mortgages in Q2 2023. This is expected to change in Q3, which could lead to a further slowdown of lending activity for house purchase.



## Slowdown of annual growth of new lending for house purchase and reduction with respect to the previous quarter

Figure 4: New lending to households by purpose



Source: Central Bank of Ireland

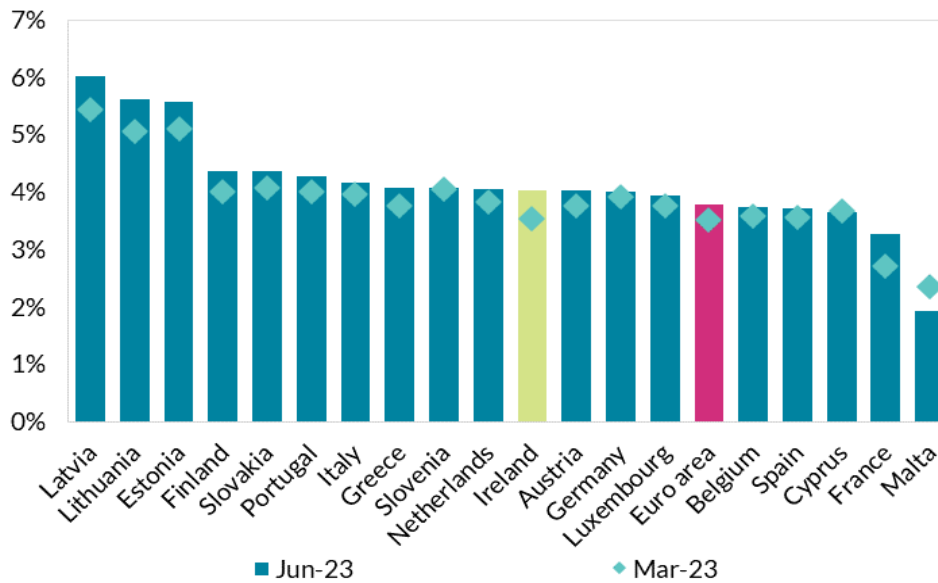
Average interest rates for new mortgage lending increased more slowly across euro area Member States in Q2 2023 than in the previous quarter (Figure 5). Malta and Cyprus were the only jurisdictions in which the average rates decreased, by 43 and 4 basis points, respectively.

Together with France, Ireland is one of the Member States in which the pace of rate increases accelerated in Q2 2023. As a result, Ireland stands close to the median in Q2 2023, while it was among the five euro area countries with the lowest average rates at the end of Q1 2023.



Ireland, among the countries with the highest relative growth during the quarter, is now in the median

Figure 5: Cross-country mortgage rates on new lending



Source: Central Bank of Ireland and European Central Bank

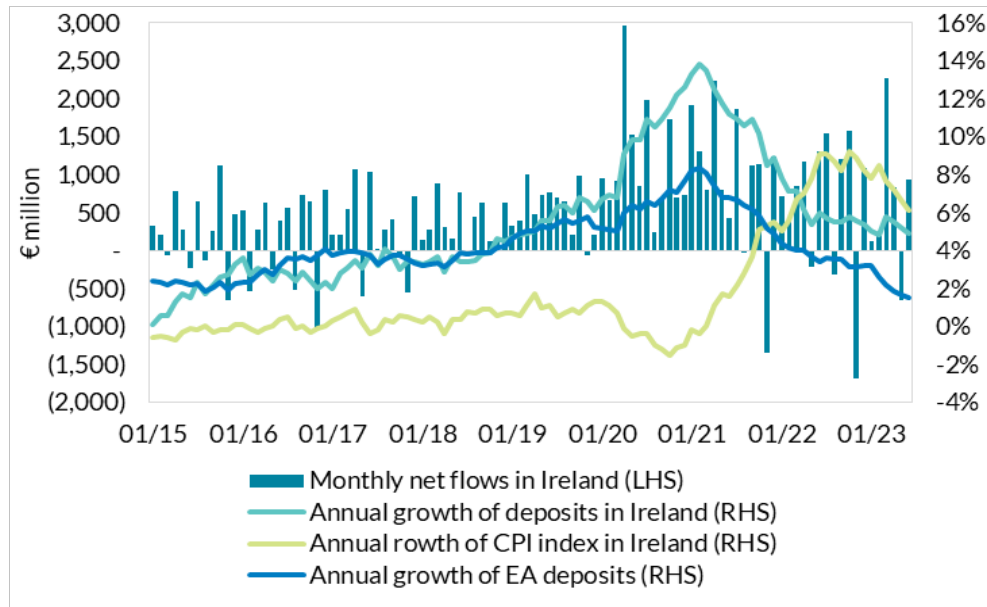
## Deposits

Banking data show that annual growth in Irish household deposits has gradually slowed since its peak rate of increase of 13.8 per cent in February 2021. Yet, household deposits grew significantly in March 2023, with net inflows of €2.2 billion. Combined with positive revaluations for the existing stock of financial instruments and marginal levels of new borrowing, this growth in household deposits contributed to an increase in households' net wealth of €4.6bn in the first quarter of 2023. In May 2023, Irish households deposits experienced net outflows of €652 million. While the annual growth in deposits stood at 4.9 per cent at the end of June 2023, with inflation running somewhat higher there was a reduction of deposits in real terms. Euro area household deposits follow a similar trend, and as observed since the start of the pandemic, their growth rate remains below that of Irish deposits, at 1.5 per cent at the end of Q2 2023, 3.4 percentage points below the Irish rate (Figure 6).



## Slowdown of Irish household deposit growth, but still above Euro area average

Figure 6: Monthly net household deposit flows and growth rates



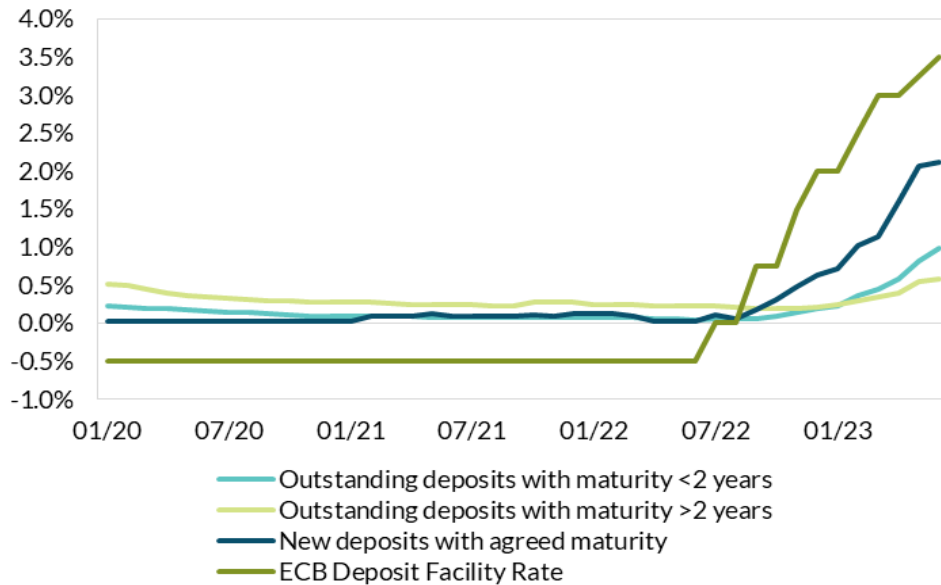
Source: Central Bank of Ireland, Central Statistics Office and European Central Bank

Deposit interest rates for households have shown an overall muted reaction to monetary policy tightening so far. While outstanding deposits steadily increase at a very slow pace, new deposits are benefitting most, with rates on term deposits more reactive to rising official rates since February 2023. Despite this, deposits with an agreed maturity represent a very small share of total value, both for new and outstanding deposits. Compared to overnight deposits, deposits with an agreed maturity only accounted for 6.3 per cent of total household deposits in June 2023. This explains the slow transmission of new rates to the average rate on outstanding deposits.



## Remuneration of new and existing household deposits reacting to increased ECB Policy rate

Figure 7a: Rates on new and outstanding household deposits



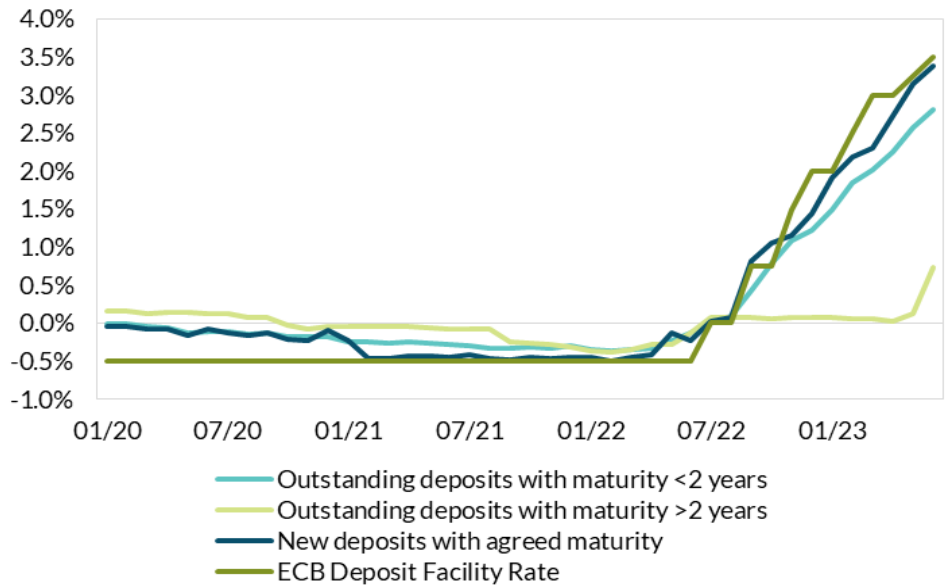
Source: Central Bank of Ireland, European Central Bank

NFC deposit interest rates have responded more to monetary policy than household deposit rates. The rate on outstanding deposits with a maturity below 2 years has consistently increased, matching rates on new deposits with an agreed maturity. Rates on outstanding deposits with a maturity above 2 years have been more muted, increasing from 0.13 per cent in May 2023 to 0.73 per cent in June 2023, following a year of limited reaction to monetary policy tightening.



Remuneration of new and existing NFC deposits show a stronger reaction to increased ECB Policy rate

Figure 7b: Rates on new and outstanding NFC deposits



Source: Central Bank of Ireland, European Central Bank