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Central Bank of Ireland
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Household and Business Financing Developments in the Irish Economy

By Statistics Division

Introduction

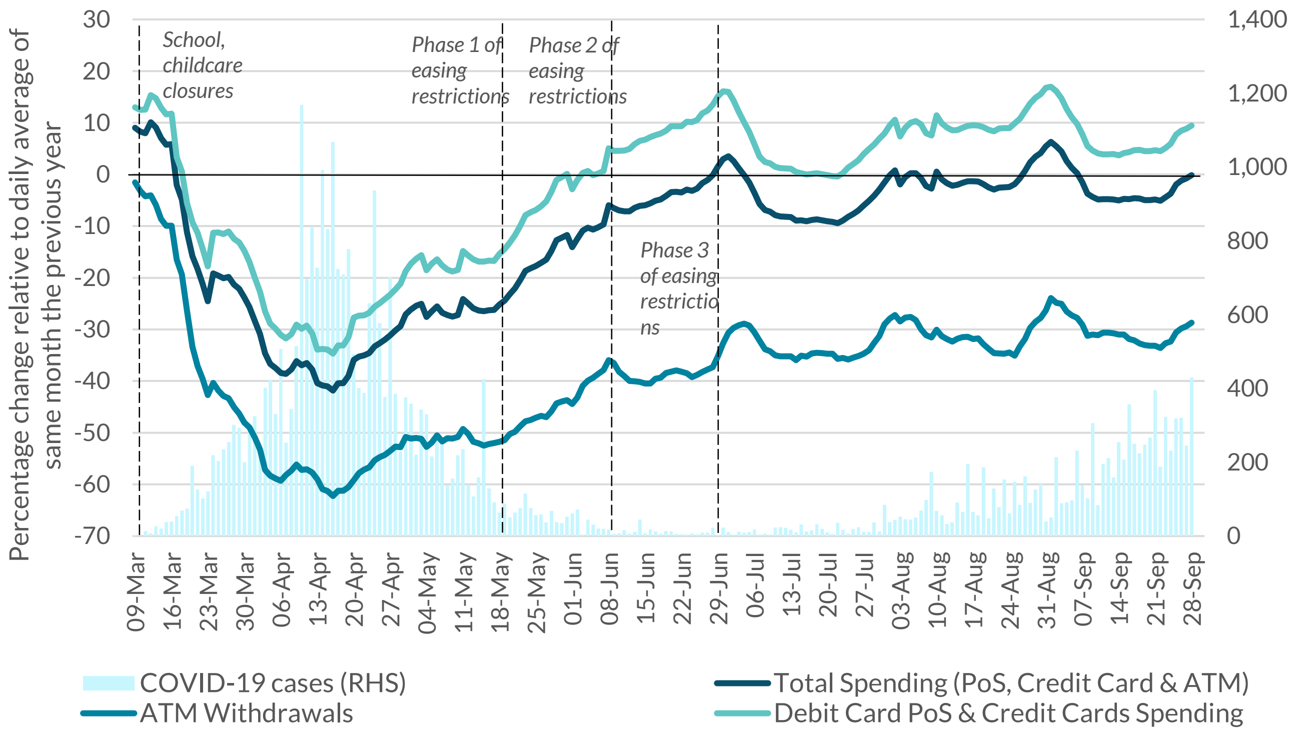
The COVID-19 pandemic caused a sudden decline in economic conditions in Ireland. To help assess the unprecedented nature of the pandemic, the Central Bank has developed new high frequency indicators such as daily payments data. As more of the traditional measures of economic activity become available for the pandemic period, they will complement the new high frequency indicators in understanding the impact of the initial lockdown.

This box aims to describe the key trends observed in households, firms and banks across both high frequency and traditional data. Recent months have seen firms' and households' deposits continue to rise, while household card spending, which has recovered strongly, remains vulnerable to the evolving nature of the pandemic. Government support and payment breaks have helped limit the vulnerability of households facing temporary reductions in earnings and eased pressure on firms during the pandemic. It remains unclear if the initial signs of a recovery will persist, with overall economic conditions tied to the spread of the virus.

Households

Household spending was severely impacted by the COVID-19 pandemic and its associated restrictions. The decline in spending was particularly stark prior to the initial easing of restrictions. It has recovered significantly since, with the most recent trends indicating that total spending is close to the daily average level for the equivalent month last year (Figure 1).

Figure 1: Daily Payments Data

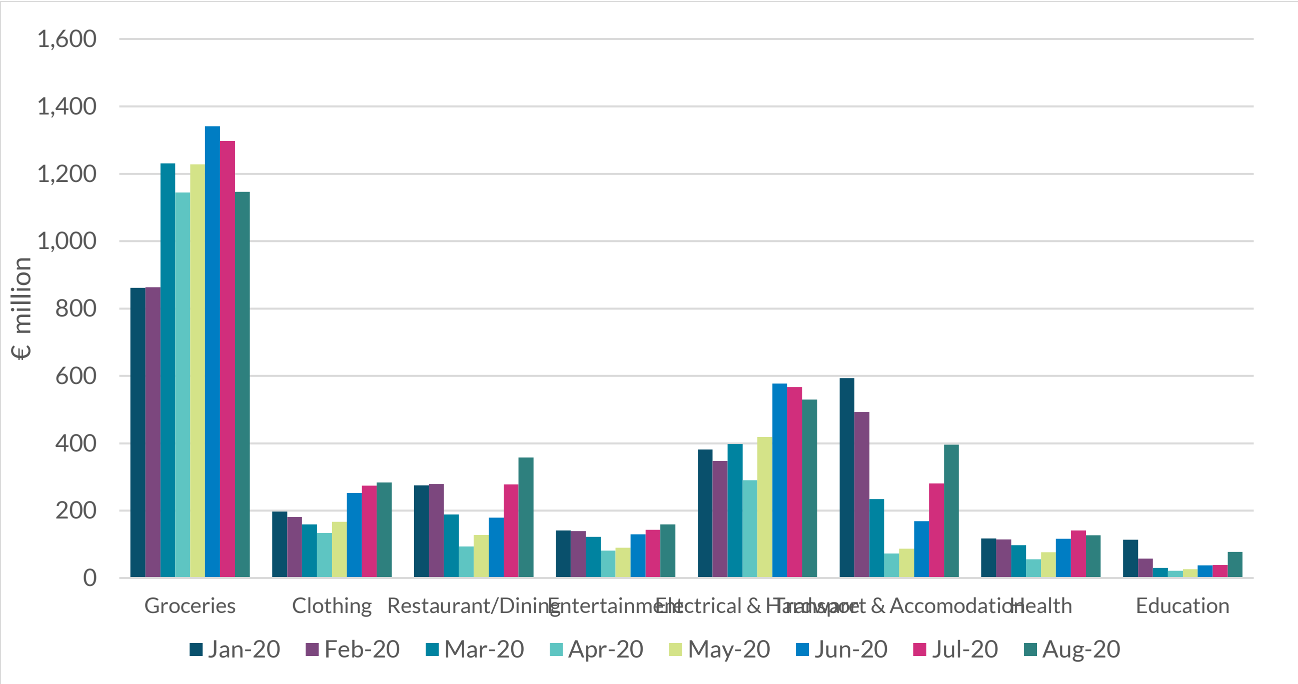


Source: Central Bank of Ireland Notes: Card data are calculated as 7-day moving average

Looking back over the summer months, July saw daily total spending, which includes ATM withdrawals, fall below the July 2019 daily average. However, this reflects an increase in spending between June and July last year rather than a sizable decrease in spending between months this year. Daily total spending in August was quite stable relative to the equivalent average in 2019, albeit with a pickup in spending over the final weekend of the month. More recently, in September, total card spending has declined relative to the September 2019 daily average, perhaps reflecting the increasing COVID-19 case numbers in September, which could weigh on consumer confidence. Throughout this period, ATM withdrawals remained well below the daily average for the equivalent period last year,

perhaps reflecting public perceptions around the risk of using physical cash during the pandemic. The data suggests that card spending has remained relatively stable since Dublin and Donegal moved to Level 3 of the living with COVID-19 plan. However, these additional restrictions, as well as the potential for other localised restrictions related to the virus, could affect consumer confidence even outside the area subject to restrictions and highlight that controlling the spread of the virus is likely to be more relevant for the path of spending than traditional seasonal patterns.

Figure 2: PoS Card Expenditure by Sector[1]



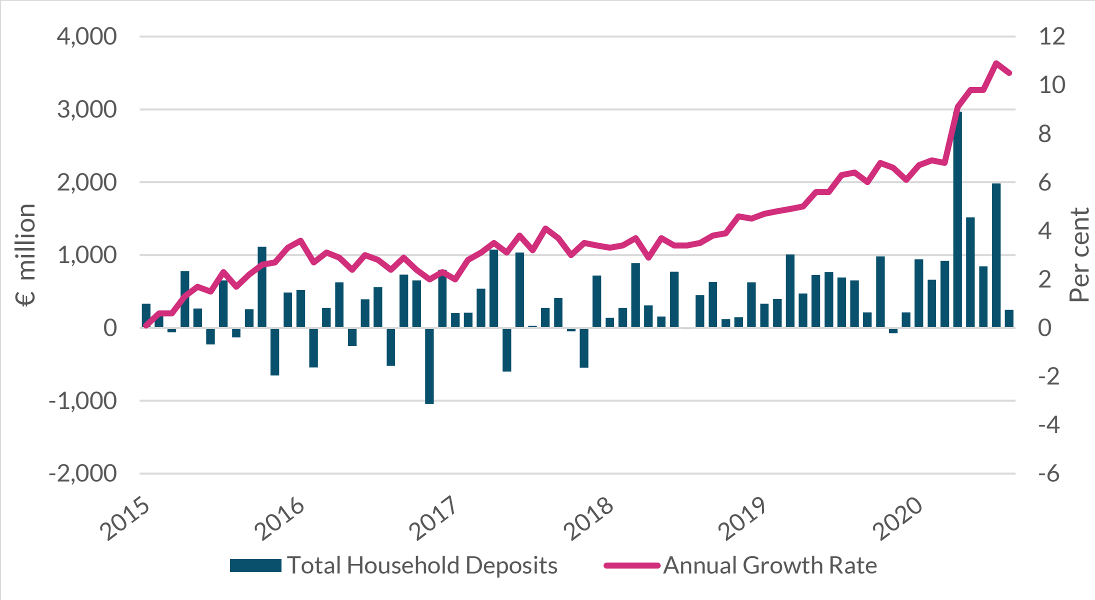
Source: Central Bank of Ireland

In order to examine sectoral effects, we focus on the card component of spending and see that the impact of the pandemic on spending patterns varied widely, with sectors where the containment measures limited the opportunity for spending having experienced substantial declines during the initial lockdown. For instance, there was a drop off on spending in areas such as restaurants and transport & accommodation while spending on groceries saw a notable spike during the initial pandemic period. As restrictions eased, spending on restaurants and transport & accommodation has

[1] Note: not all sub-sectors are shown and some have been combined for illustrative purposes. For more detail see https://www.centralbank.ie/statistics/data-and-analysis/credit-and-banking-statistics/credit-and-debit-card-statistics

picked up, with strong monthly growth. Meanwhile, grocery spending has remained at an elevated level, despite falling on a monthly basis in both July and August. This pattern is reflected in CSO retail sales data[2] , where spending in areas subject to restrictions such as bars or department stores remains low on a year-on-year basis, but has started to pick up as restrictions lifted. This ongoing change in spending patterns relative to pre-pandemic norms is unsurprising given the degree to which the virus continues to affect day-to-day life.

Figure 3: Household Deposits Net Flows and Annual Rate of Change

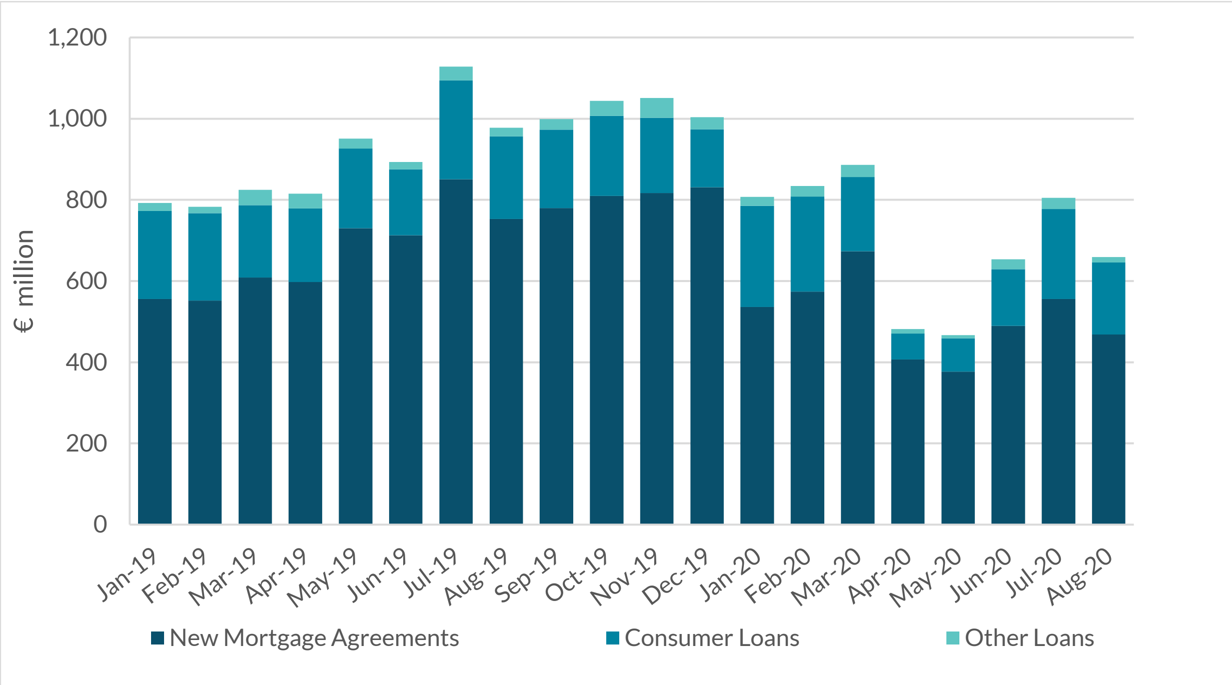


Source: Central Bank of Ireland

Household deposits have seen a notable increase since the start of the pandemic, with net inflows of over €7.5 billion since April (Figure 3). This increase in deposits reflects restrictions on household spending over the last number of months, which resulted in reduced consumption choices for households, even where there was not a loss of income. The lower net inflows of deposits in August, when restrictions were reduced at the national level, supports this. There may also have been an increase in precautionary saving since the onset of the pandemic, as households looked to mitigate potential income shocks, increased job insecurity or health concerns.

[2] Retail Sales data available at: https://www.cso.ie/en/statistics/services/retailsalesindex/

Figure 4: Volume of Loans to Irish Households by Purpose of Loan



Source: Central Bank of Ireland

Loans to households remain well below volumes seen in the equivalent period last year, with declines across each loan category. The Bank Lending Survey suggests there was also an increase in rejected loan applications in 2020 Q2, with credit standards and term conditions tightening at the fastest rate since 2008[3]. However, new mortgage agreements had seen two consecutive monthly gains prior to declining in August, albeit with new lending still down by 38 per cent from a year-on-year perspective. New consumer lending agreements also declined in August on a monthly basis and remain circa 12 per cent lower annually.

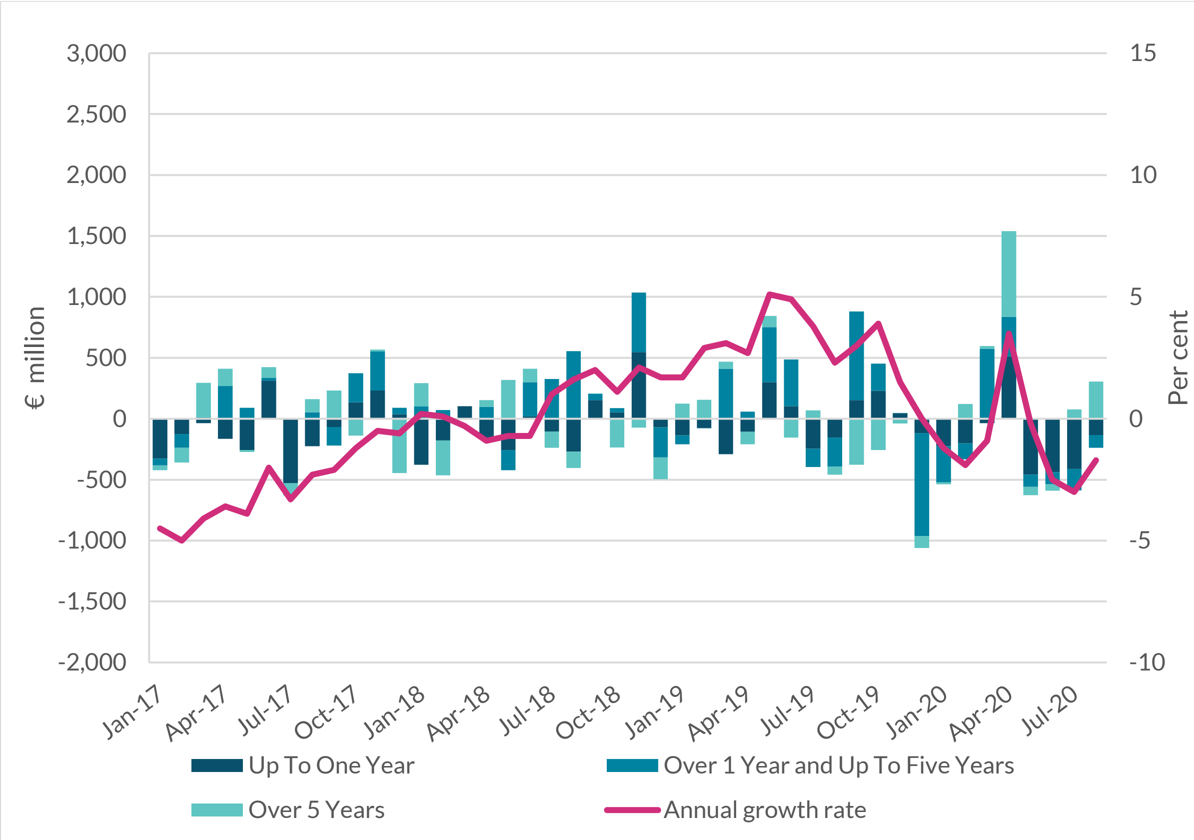
Payment breaks continue to help relieve pressure on households, with roughly 6 per cent of outstanding loans for Irish households under active payment breaks as of early September. This ratio of loans with active payment breaks has almost halved since the end of June[4]. Payment breaks were initially granted on a three-month basis, with the option to extend for a further three months. Based

[3] For more information see: https://www.centralbank.ie/statistics/data-and-analysis/credit-and-banking-statistics/bank-lending-survey
[4] For more on payment breaks see: https://www.centralbank.ie/statistics/statistical-publications/behind-the-data/covid-19-payment-breaks-who-continues-to-avail-of-them and https://www.centralbank.ie/docs/default-source/publications/financial-stability-notes/no-6-which-firms-took-covid-19-payment-breaks-(duignan-and-mcgeever).pdf?sfvrsn=6

on the current schemes in place, borrowers will begin to come to the end of the maximum agreed duration of payment breaks, from end-September 2020.

Business

Figure 5: Net Flow of Loans to NFCs by Maturity



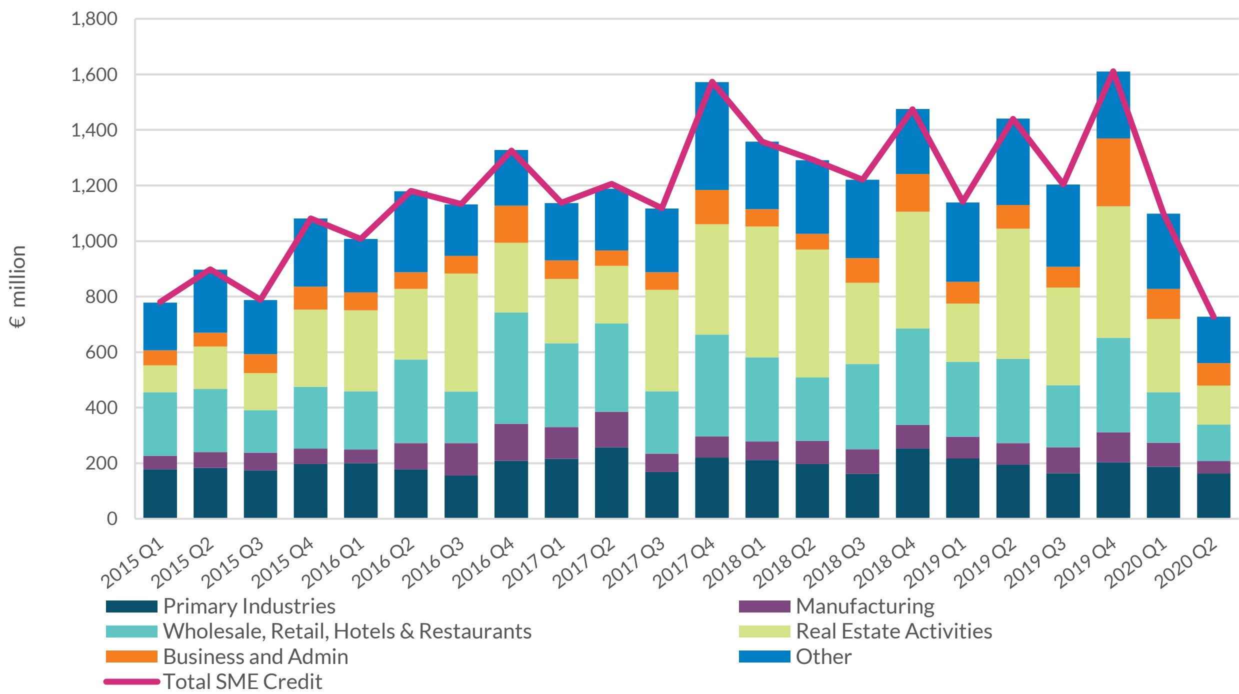
Source: Central Bank of Ireland

Banks reported a modest fall in demand for loans from enterprises in the July Bank Lending Survey, driven mainly by large enterprises, as firms attempted to deal with the fallout from the pandemic. Figure 5 above shows an initial spike in lending to NFCs at the onset of the pandemic, followed by three months of repayments exceeding gross new lending, and a modest increase in net lending in August, despite the prevalence of NFC loans being subject to payment breaks over this time. Payment breaks for NFCs stood at 14.5 per cent of total NFC loans in early September, down from 17.2 per cent at the end of June. Overall, the annual growth rate of NFC lending has turned negative, with annual declines recorded in each of the last four months.

The volume of new loans to NFCs stabilised in July, after two preceding months of sharp annual declines but was down 21.5 per cent annually in August, driven by the decline in loans over €1 million.

Small loans (up to €250k), which typically include SMEs, were down 26 per cent in August on a year-on-year basis, while new NFC loans over €250k and up to €1 million were 26 per cent higher annually. This breakdown by loan size highlights a potential divergence based on firm size.

Figure 6: Gross New Lending to SMEs

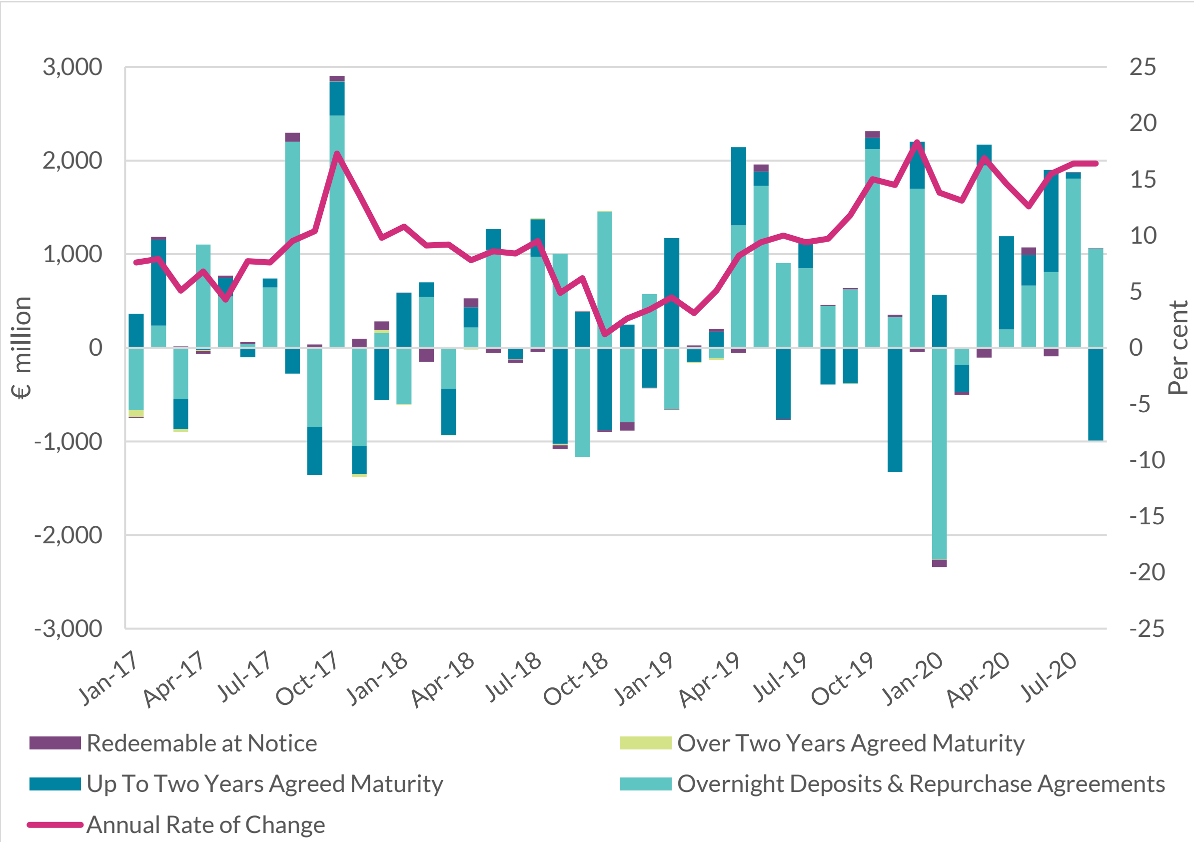


Source: Central Bank of Ireland

Gross new lending to SMEs continued to decline in the second quarter (Figure 6), falling 50 per cent relative to the same period in 2019, reaching its lowest level since 2014. At the sector level, lending to real estate activities, manufacturing and wholesale, retail, hotels & restaurants was particularly impacted.

SME borrowers were significantly more likely than larger firms to utilise payment breaks available since the onset of the pandemic. This will supress SME loan repayments over the period of the payment breaks. As of early September, the payment break ratio on SME loans was around 18 per cent, down from 23 per cent at the end of June, equivalent to a fall of around €1.9 billion in value.

Figure 7: NFC Deposits Net Flows by Category



Source: Central Bank of Ireland

The general trend of growth in NFC deposits since 2019 has continued into the pandemic period, with a net inflow of around €6 billion since April, mainly from overnight deposits (Figure 7). Payment breaks may have partially facilitated this increase in deposits at an aggregate level by reducing the debt burden faced by firms. However, this does not appear to be the main driver of participation in the payment break scheme, as the highest rate of payment breaks are amongst borrowers in sectors most impacted by the pandemic and thus in need of liquidity relief.

Summary

The economic shock from the initial restrictions related to the COVID-19 pandemic led to a notable change in behaviour from households and firms. Household spending fell sharply and then gradually increased as restrictions were lifted, although the pattern of spending continues to diverge from pre-pandemic norms. The potential for further (localised) restrictions and ongoing economic uncertainty could affect the path of spending going forward. This curtailment in household spending has coincided with increasing household deposits, which have grown substantially since the start of the pandemic.

There has also been a decline in new lending to households, which remains well below the equivalent period in 2019 despite more recent monthly gains.

As with households, there has been a pattern of increasing deposits and declining loan demand amongst firms. The volume of new loans to NFCs has started to stabilise, but applications remain low. SME data shows that gross new lending fell to its lowest level since 2014, with the impact of the pandemic varying across sectors. This pattern was unsurprising given the nature of restrictions following the onset of the pandemic. Importantly, both households and firms, particularly SMEs, have benefited from payment breaks on loans, limiting their vulnerabilities to reductions in earnings and consumer spending respectively.

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