



Box B: QB 4 – December 2023

This Box content is extracted from the Quarterly Bulletin – Q4 2023

Developments in Irish Deposit and Lending Activity

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This Box provides an overview of recent developments in credit and deposit activity in Ireland, as well as a more detailed examination of the responsiveness of retail deposit rates and business volumes to the increase in euro area monetary policy rates since June 2022.

Table 1: Changes in Interest Rates, June 2022 - October 2023

	Rate June 2022	Cumulative change (bps)	Rate October 2023 (%)	Cumulative change since Q3 Quarterly Bulletin (bps) ¹	Change in Volume of New Business (%) ²
Deposit Facility ³	-0.5	450	4.0	50	-
Deposits					
Household overnight	0.02	10	0.12	8	-
Household new term	0.02	257	2.59	47	749.37
NFC overnight	-0.11	22	0.11	4	-
NFC new term	-0.22	392	3.7	32	250.0
Lending					
New Mortgage	2.68	159	4.27	23	1.93
New Consumer	7.72	-8	7.64	-55	20.12
New NFC	3.22	262	5.84	34	-29.15

Source: Central Bank of Ireland

¹ Q3 Quarterly Bulletin used equivalent data from June 2023

² Volume of new business in October 2023 compared to June 2022

³ Cumulative change in other monetary policy rates same as for Deposit Facility



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Summary

The unprecedented rise of 450 basis points in monetary policy rates has had a varying impact on retail lending and deposit rates and business volumes (Table 1). The average interest rate on household overnight deposits has been particularly slow to respond, increasing by only 10 basis points since June 2022. In contrast, the weighted average interest rate on new household term deposits rose by 257 basis points, and the volume of new business has rebounded significantly in recent months.

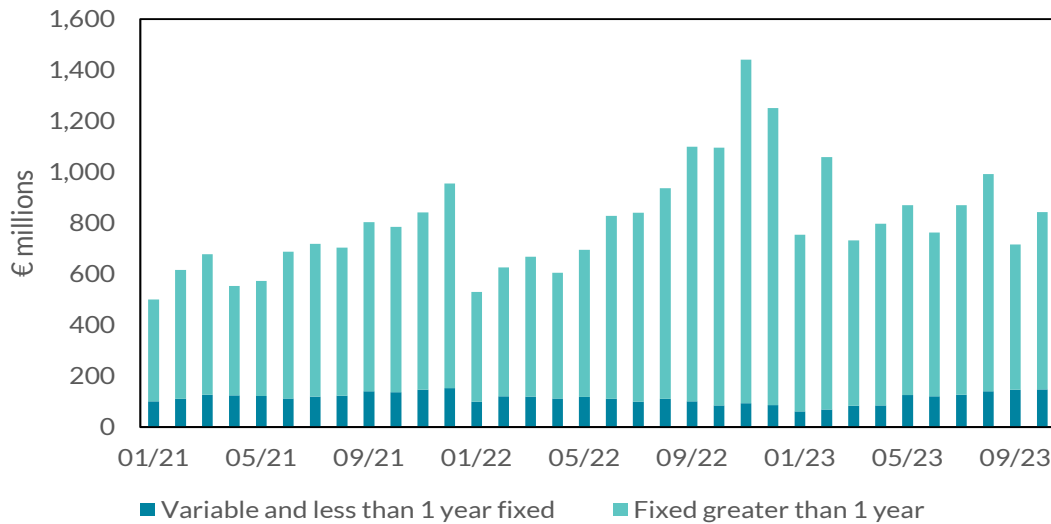
Interest rates on new mortgage lending agreements by banks (excluding renegotiations)⁴ have continued increasing, rising to 4.27 per cent at end-October, a 159 basis point increase since June 2022, just before the ECB began raising policy rates, and a 158 basis point increase in 2023 alone. The effect of rising mortgage interest rates differs by borrower, largely determined by the type of mortgage product they hold ([Byrne, McCann, & Gaffney, 2023](#)). In addition, borrowers on tracker mortgages, especially those with previous repayment challenges, have been those most likely to enter early arrears since the current cycle of monetary tightening began ([Shaikh, Kilgarriff, & Gaffney, 2023](#)). The volume of new mortgage agreements (excluding renegotiations) has remained resilient despite higher interest rates. The volume of outstanding mortgage lending was mostly unchanged over the previous year, while the volume of new mortgage agreements in October, at €843 million, was in line with what has been typical over the past 2-3 years (Figure 1).

⁴ Unless specified otherwise, new mortgage lending refers to [bank lending agreements excluding renegotiations](#)



New mortgage lending still strong despite rising interest rates

Figure 1: Volume of new mortgage agreements excluding renegotiations



Source: Central Bank of Ireland

Shortly after the ECB began raising policy rates last year, the average interest rate on new lending to NFCs began increasing quickly, but since March 2023, the rate has begun to plateau, peaking in May of this year at 6.05 per cent, before falling back to 5.84 per cent by October. This is in contrast to new mortgage lending, for which the average interest rate increase began later, and persists into the most recent data. NFC lending activity has slowed, with the annual growth rate negative for four consecutive months as of October. The volume of new NFC lending has been declining slowly since May, but rebounded slightly in October. New SME lending (excluding financial intermediation and property related sectors) in Q3 2023 was €696 million, 3.7 per cent higher than in Q2 2023, but down 5.2 per cent from Q3 2022.

Deposits

Since June 2022, the weighted average interest rate on household overnight deposits has increased by only 10 basis points, to 0.12 per cent, over half of which occurred between August and October 2023. The stability of interest rates on overnight deposits, even during a monetary policy tightening cycle, is not always typical. In contrast, over the first 16 months of the tightening cycle beginning in November 2005, the weighted average interest rate on household overnight deposits rose by 64 basis points in response to changes in the ECB policy rate of 175 basis points over that period (Figure 2).



Interest rates on outstanding deposits have responded more weakly to changes in ECB policy rates over this tightening cycle

Figure 2: Overnight deposits

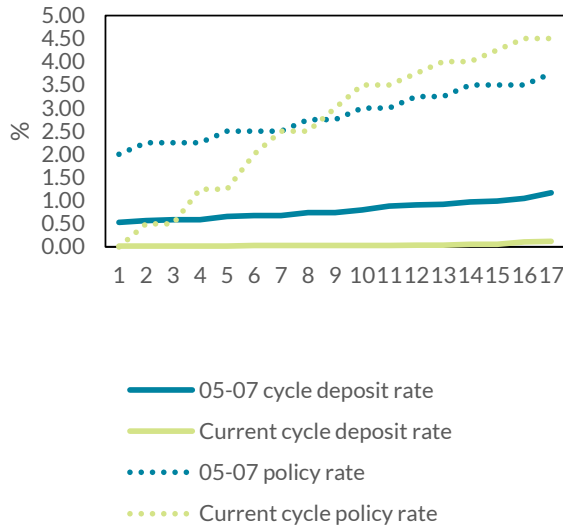
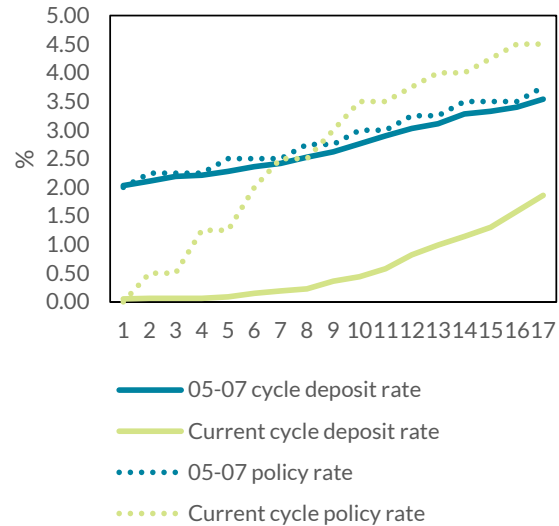


Figure 3: Outstanding deposits with maturity up to 2 years



Source: Central Bank of Ireland

Note: Note: horizontal axis shows months since tightening cycle began, month zero is November 2005 and June 2022; policy rate is Main Refinancing Operations⁵

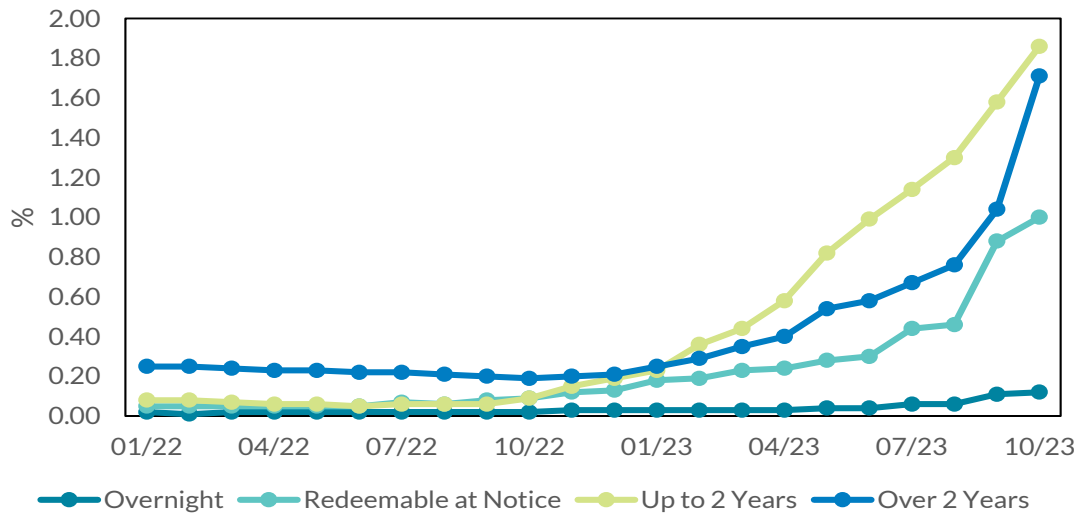
However, interest rates on deposits with agreed maturity, both for NFCs and households, have responded much more strongly to ECB rate increases. The strongest response from outstanding household deposits has been from those with agreed maturity of up to two years (Figure 3). The weighted average interest rate on these deposits has increased from 0.05 per cent to 1.86 percent since June of last year (Figure 4), while the weighted average interest rate on new household deposits with agreed maturity rose to 2.59 per cent in October.

⁵ For further discussion of pass-through, see [Byrne & Foster, 2023](#)



Interest rates on outstanding household term deposits have increased more than on overnight deposits in Ireland

Figure 4: Weighted average interest rates on outstanding household deposits



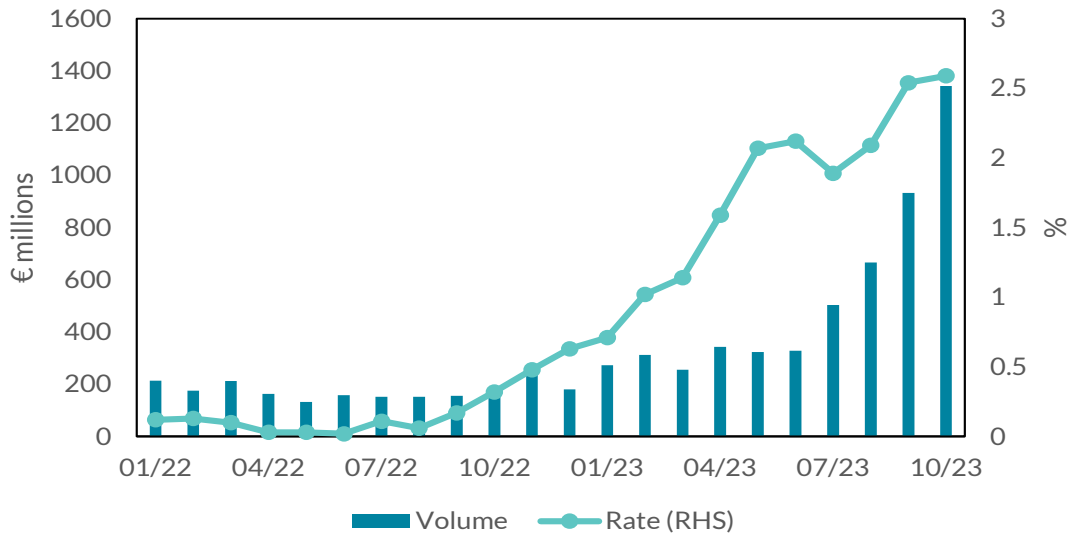
Source: Central Bank of Ireland

There is now evidence that households have begun to move deposits from overnight to term deposits in order to avail of higher interest rates. In October, new deposits with agreed maturity were at the highest level since January 2021, at €1.34 billion (Figure 5).



Interest rates on new household term deposits responded quickly to increases in the ECB's policy rates

Figure 5: Volume and weighted average interest rate on new household term deposits



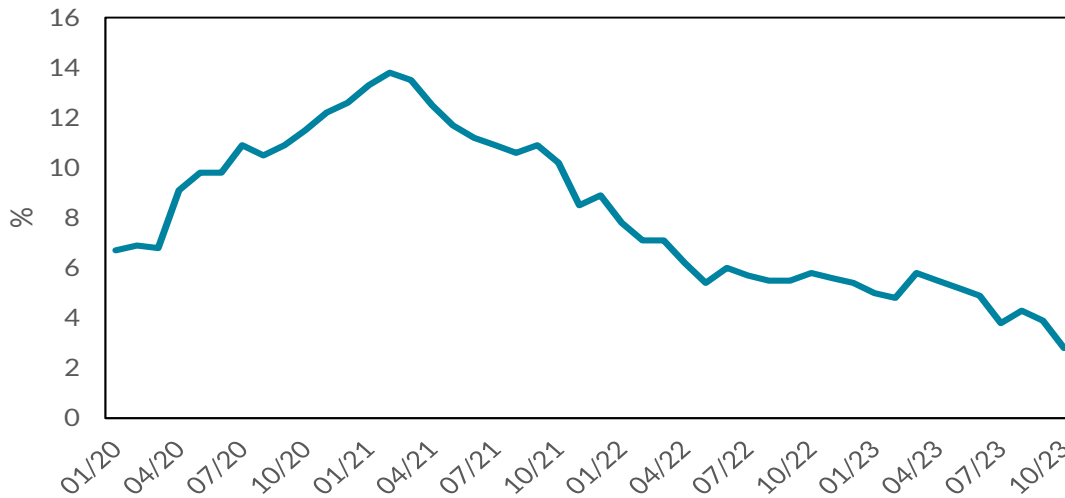
Source: Central Bank of Ireland

Additionally, there were net withdrawals of €993 million from household overnight deposits from August to October, while there were €1.06 billion of net inflows to total household deposits over the same period. During the pandemic, household deposits were elevated, primarily driven by higher income households ([Lydon & McIndoe-Calder, 2021](#)), but the annual growth rate of household deposits is now falling toward the pre-pandemic level (Figure 6).



The annual growth rate of household deposits has been falling since the pandemic

Figure 6: Annual growth rate of total household deposits



Source: Central Bank of Ireland

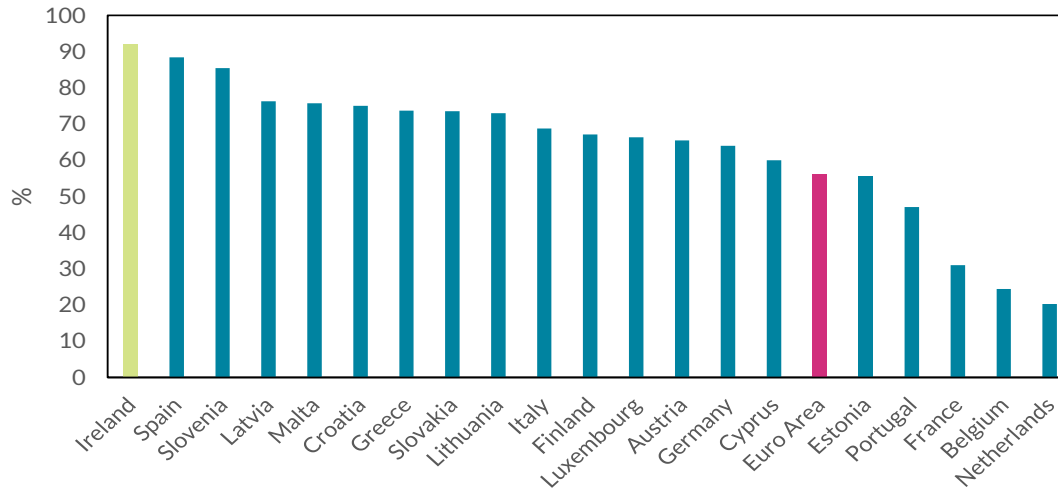
As of end-October, 92 per cent of all household deposits were overnight deposits. This was not the case during the pre-financial crisis hiking cycle. At the same point during that cycle (March 2007), only 48.3 per cent of household deposits were overnight, suggesting the potential for a weaker transmission of policy rates to the real economy overall. According to data from the ECB, the proportion of the volume of household overnight deposits to total household deposits was higher in Ireland than in any other euro area country in October (Figure 7).⁶

⁶ Figure 5 uses a different but similar data collection than is used when referencing Irish deposit interest rates



Irish household deposits are held proportionally more in overnight accounts relative to euro area peers

Figure 7: Volume of overnight household deposits as a percent of total household deposits, October 2023



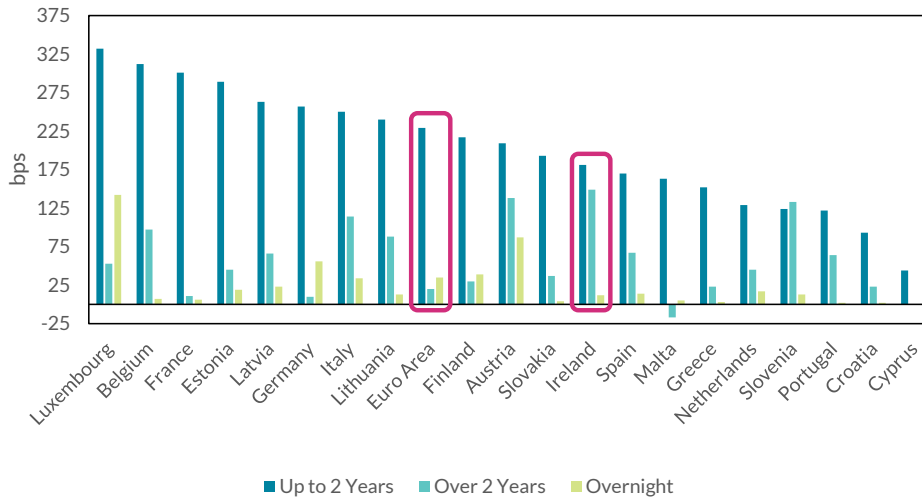
Source: ECB

It is typical in the euro area for weighted average interest rates on outstanding deposits with agreed maturity to have increased more over the length of the current hiking cycle than the weighted average rate on overnight deposits. As shown in Figure 8, the cumulative increase in the weighted average interest rate on both term and overnight deposits has been relatively small in Ireland.



Cumulative change in interest rates largest for household deposits with maturity up to 2 years across euro area

Figure 8: Cumulative changes in weighted average interest rates on outstanding household deposits, June 2022 – October 2023



Source: Central Bank of Ireland

On household overnight deposits, the euro area weighted average interest rate at end-October was 0.35 per cent, nearly three times that of Ireland. At the beginning of the current tightening cycle, all euro area countries had near-zero weighted average interest rates on household overnight deposits, and most rates remain very low. The higher euro area average is driven primarily by a few outlier countries that have seen larger increases in these interest rates than has been typical.