

Trends in Business Credit and Deposits: Q4 2015

Gross new draw-downs by non-financial SMEs totalled €3.4 billion during 2015; 24 per cent higher than 2014, as SME interest rates continued to reduce. However, net SME credit developments continue to register both annual and quarterly declines due to large debt repayments.

- **Gross new lending to non-financial, non-property related SMEs** increased in 2015. There was a 10 per cent increase over 2014 with SMEs engaged in the primary industries drawing down the largest share. Q4 2015 marked the highest drawdown for this sector since the series began in 2010, although it continues to attract higher than average interest rates.
- **Property-related** lending to SMEs no longer constitutes the largest share of outstanding credit to SMEs, mainly due to loan sales and large repayments. The sector, however, accounted for 30 per cent of gross new non-financial draw-downs over Q4 2015, and continues to secure an increasing proportion of new advances. There is, 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.
- The diverging credit trend between SMEs and larger enterprises continues with large businesses drawing down more in new loans than was repaid during 2015.
- **Deposits from all non-financial Irish resident private-sector enterprises** recorded a marginal net increase of €311 million in Q4, perhaps reflective of seasonal developments. Deposits from non-financial enterprises have increased consistently since early-2013, and grew by 8.4 per cent over 2015.

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

SME Credit and Interest Rate developments

- Bank credit to Irish SMEs declined for the fourteenth consecutive quarter in Q4 2015.** The outstanding stock of SME credit decreased by 3 per cent over Q4 to stand at €43.5 billion.¹ This represented an annual decrease of 10.7 per cent over 2015.
- The outstanding stock of SME credit includes €9.6 billion of financial intermediation² credit, €15.7 billion relating to property (real-estate and construction) and €18.3 billion of non-financial, non-property, or ‘core’, credit.
- Property-related lending to SMEs** no longer constitutes the largest share of outstanding credit to SMEs, mainly due to loan sales and large repayments during Q4. Over 2015 as a whole, property-related SME loans declined by 12.6 per cent, with SMEs engaged in this sector repaying €3 billion more than was drawn down in new loans.
- Gross new lending to property-related SMEs has been increasing** since the beginning of 2015, with €758 million drawn down over the year (Chart 1). In the final quarter of 2015, this amounted to €296 million and represented 30 per cent of new non-financial SME lending. Real-estate SME lending typically attracts lower than average interest rates, with the reverse applying to construction.
- Repayments by the SME sector remain significant (Chart 2) with property-related SMEs accounting for 45 per cent of non-financial SME repayments in 2015. €3.8 billion in property-related debt was repaid over the year.
- Credit to core SMEs** contracted by 9.4 per cent over 2015 as €2 billion more was repaid than drawn down. This was mainly driven by hotels, restaurants and the

¹ See Note 1 for the definition of SMEs.

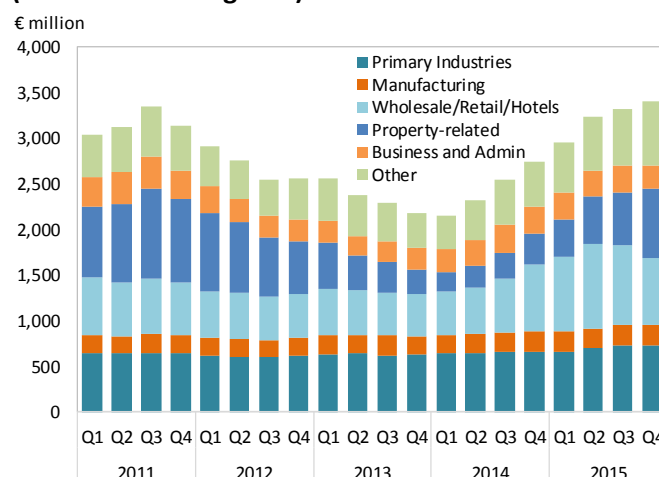
² SME data includes some enterprises in the financial intermediation sector, due to their balance sheet size.

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

	2012	2013	2014	2015 Q4
Credit to SMEs				
Average net quarterly flow (€m)	-342	-403	-271	-461
Annual growth rate (%)	-5.2	-5.7	-4.9	-9.4
Credit to large enterprises				
Average net quarterly flow (€m)	-198	-113	75	125
Annual growth rate (%)	-5.5	-1.8	-4.2	11.6

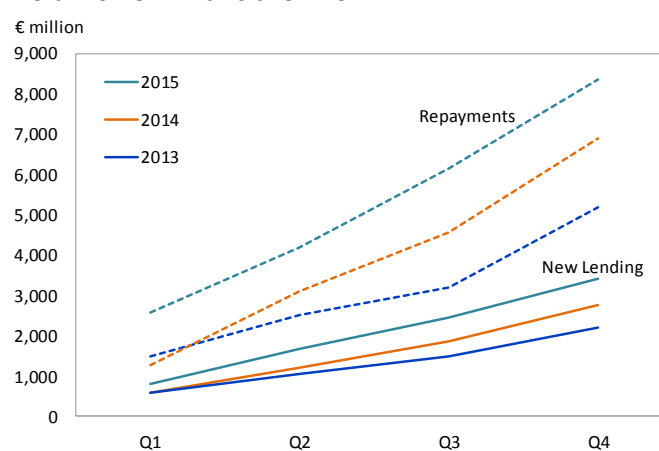
Source: Business Credit and Deposits [Table A.14](#) & [Table A.14.1](#)

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.

wholesale/retail sector. Credit to core SMEs has declined markedly, while larger enterprises have been net borrowers in four of the last five quarters (Chart 3).

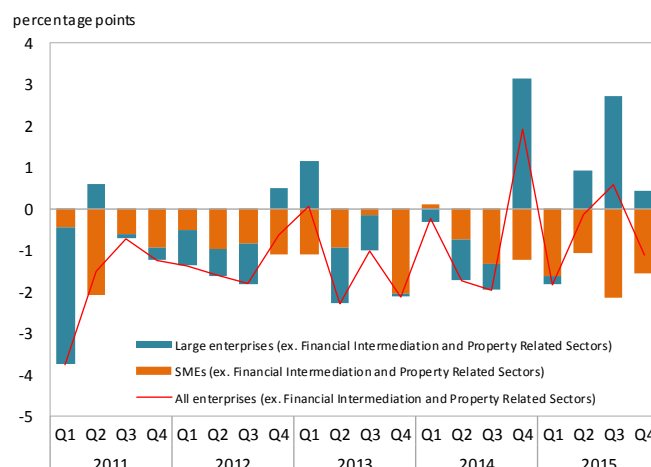
- **New lending drawdowns by core SMEs continues to gradually increase**, despite large negative net flows.³ New drawdowns totalled €2.6 billion during 2015; 10.2 per cent higher than 2014. Many core SME sectors have seen a rise in new lending as a proportion of outstanding stock, implying a rebalancing of banks' balance sheets.
- The primary industries sector was the largest recipient of new SME lending over 2015, drawing down €734 million (Chart 1). Q4 marked the highest drawdown since the series began in 2010. Repayments by these SMEs also increased in Q4, consistent with previous years' trend.
- The wholesale/retail trade and repairs sector drew down €536 million over the year; this sector's share of new lending and repayments has noticeably declined over the year however.
- **Most SME sectors registered underlying declines in net lending** (repayments exceeded drawdowns). Only the wholesale/retail trade and repairs and other community services sectors recording minor increases (Chart 4).

Interest rates on loans to SMEs

- **The total weighted average interest rate on new non-financial SME loan draw-downs** during Q4 2015 was 4.52 per cent (Chart 5). This represents a 58 basis point decline over the year. The existing stock of Irish SME loans carry a lower weighted average interest rate; recorded at 3.16 per cent at end-Q4. Outstanding loans include renegotiations of existing loans, which are excluded from new draw-downs.

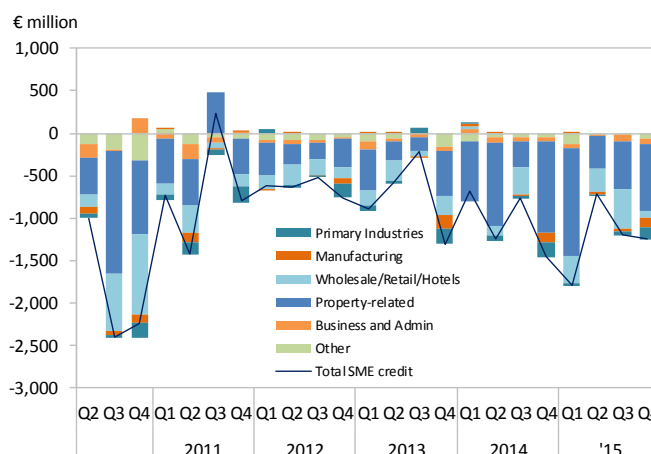
³ See Note 2 for the definition of gross new lending.

Chart 3: Chart 4: Quarterly rate of change in credit to enterprises; by SME and large enterprise contribution



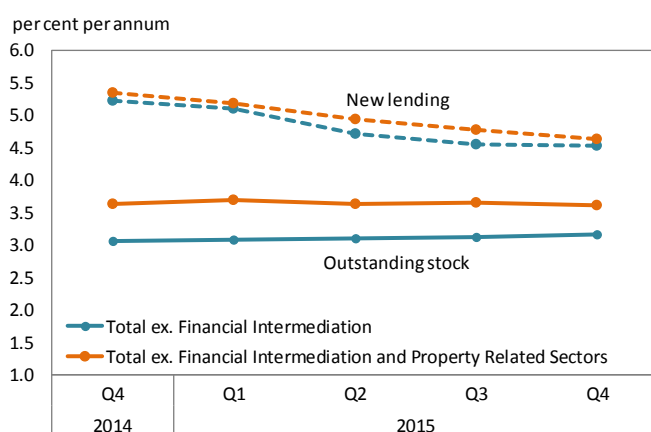
Source: Business Credit and Deposits [Table A.14](#) & [Table A.14.1](#)

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



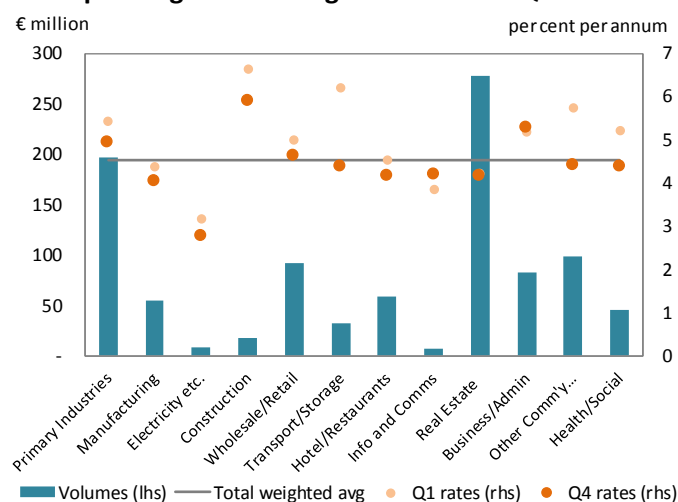
Source: Business Credit and Deposits [Table A.14.1](#)

Chart 5: Interest rates on new and outstanding SME loans



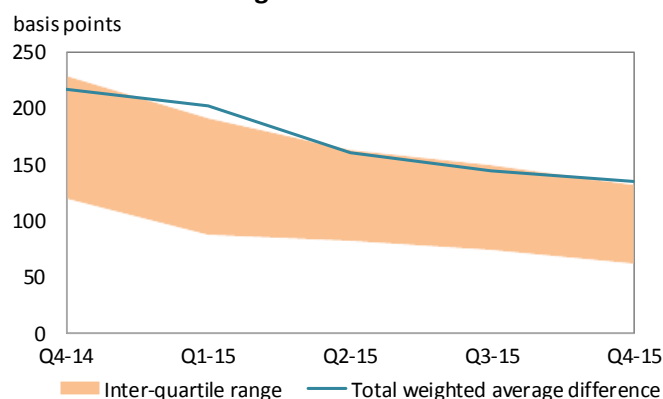
Source: Business Credit and Deposits [Table A.14.1](#)

- New lending rates declined for SMEs in most economic sectors** over 2015 (Chart 6). Of note were interest rate declines to SMEs engaged in transport and storage (183 basis points) and other community services (133 basis points). Construction SMEs experienced an average weighted decline of 74 basis points over 2015, albeit continue to attract the highest interest rates on new drawdowns.
- In quarterly terms, higher than average rates were charged on new draw-downs by SMEs engaged in the business and administration activities and agriculture. These sectors typically secure large shares of new lending. Rates on new draw-downs to construction SMEs, at 5.89 per cent, remained notably higher than rates to the real-estate sector, at 4.17 per cent (Chart 6).
- The margin between rates charged** on new (non-financial) draw-downs and existing loans narrowed slightly in Q4, albeit remain elevated at 136 basis points (Chart 7). Electricity and supply services SMEs were the only sector to record lower rates on new draw-downs compared to existing loans.

Chart 6: SME new lending interest rates and corresponding new lending drawdowns – Q4 2015


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](#)

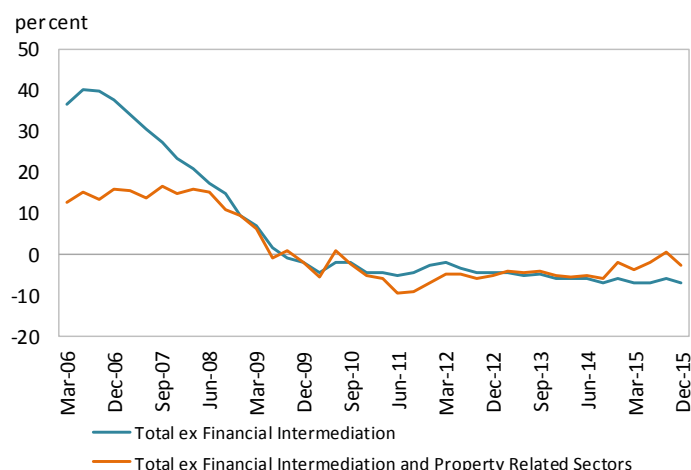
Table A.14.1 Credit Advanced to Irish Resident Small and Medium Sized Enterprises

	Outstanding amounts - € million		Transactions - € million		Annual Growth rates per cent.		Gross New Lending € million	
	Sep-15	Dec-15	Sep-15	Dec-15	Sep-15	Dec-15	Sep-15	Dec-15
1. Primary Industries	3,708	3,566	-42	-145	-6.5	-6.0	175	197
2. Manufacturing	1,723	1,600	-39	-108	-8.2	-8.8	63	56
3. Electricity, Gas, Steam and Air Conditioning Supply	240	229	9	-11	4.3	-12.3	10	8
4. Water Supply, Sewerage, Waste Management and Remediation..	18	18	-1	0	-20.4	-18.4
5. Construction	851	778	-8	-35	-4.7	-8.0	32	18
6. Wholesale/Retail Trade & Repairs	4,488	4,506	-293	46	-9.0	-8.5	90	92
7. Transportation and Storage	643	615	-10	-42	-5.3	-6.0	41	32
8. Hotels and Restaurants	3,209	3,027	-172	-123	-14.5	-17.1	38	59
9. Information and Communication	173	166	4	-8	6.0	2.0	17	6
10. Financial Intermediation (Excl. Monetary Financial Institutions)	9,684	9,555	-236	-166	-13.7	-8.6	4	36
11. Real Estate Activities	18,114	14,922	-546	-751	-12.9	-12.8	134	278
12. Business and Administrative Services	1,690	1,624	-77	-63	-10.5	-11.7	68	83
13. Other Community, Social and Personal Services	1,459	1,474	-21	5	-6.4	-4.4	47	98
14. Education	257	252	-4	-3	-14.7	-13.5	4	2
15. Human Health and Social Work	1,170	1,190	0	-8	-1.2	-3.6	40	45
16. Total	47,426	43,522	-1,436	-1,413	-11.4	-10.7	764	1,011
16.1 Total ex. Financial Intermediation	37,742	33,967	-1,200	-1,247	-10.9	-11.2	760	975
16.2 Total ex. Financial Intermediation and Property Related Sectors	18,777	18,267	-645	-461	-8.8	-9.4	593	679

Private-Sector Enterprise Credit developments

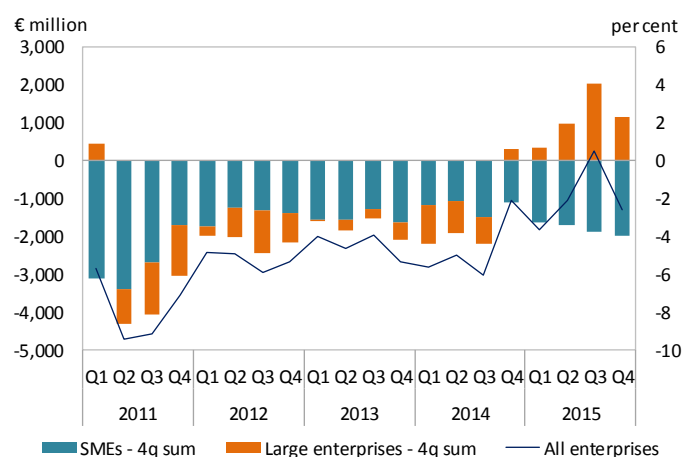
- **The total amount of credit outstanding to all Irish private-sector enterprises** on the balance sheet of resident credit institutions was €110 billion at the end of 2015. Excluding financial intermediation⁴, which accounts for 54 per cent of total credit, outstanding stock was €50 billion at the end of 2015. SMEs account for 68 per cent of non-financial credit.
- **Non-financial credit declined** by 7.1 per cent over 2015 (Chart 8), as private-sector enterprises repaid €4.3 billion more than was drawn down in new loans. The decline was driven by property-related credit, with SMEs accounting for most of the decline.
- **Credit advanced to core Irish private-sector enterprises** declined by 2.6 in annual terms to stand at €29.1 billion at the end of 2015 (Chart 8). However, there are contrasting underlying developments between larger enterprises and SMEs.
- **Larger core enterprises** have been net borrowers in four of the past five quarters and drew down €1.2 billion more in new loans than was repaid over 2015 (Chart 9). Developments were mainly driven by large enterprises engaged in the water supply/waste, primary industries and the manufacturing sector.
- In quarterly terms, drawdowns to large core enterprises exceeded repayments by €125 million in Q4, with five sectors registering net increases. Large enterprises engaged in wholesale/retail trade & repairs registered the largest quarterly increase of €314 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](#)

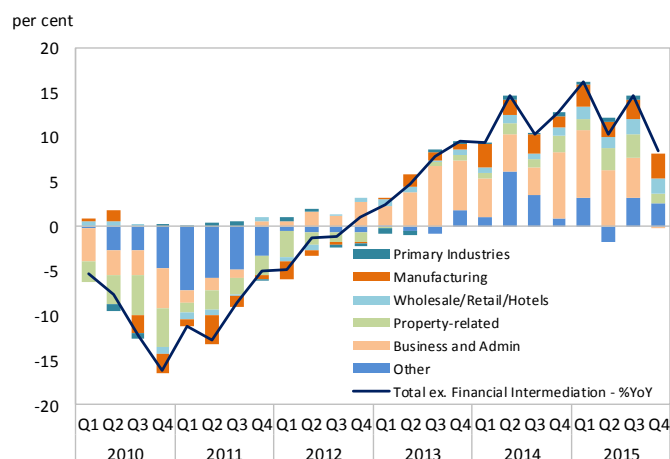
Note: Net flows are shown as a four-quarter sum.

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

Private-Sector Enterprise Deposit developments

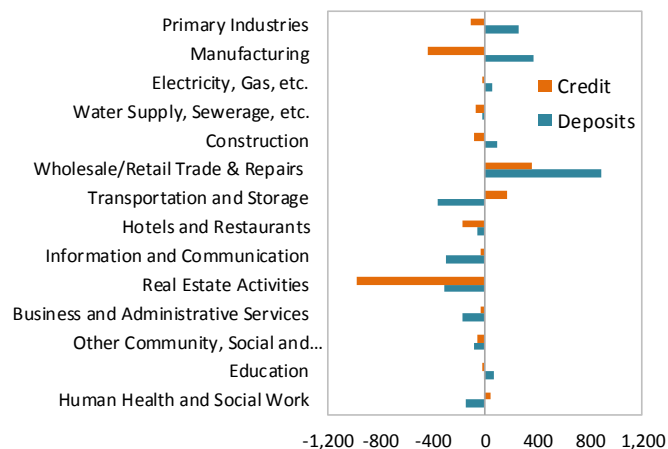
- **Deposits from all Irish private-sector enterprises** increased by €6.2 billion over 2015 to stand at €86.4 billion. This reflects year-on-year growth of 7.7 per cent.
- The financial intermediation sector (excluding monetary financial institutions) was responsible for €2.4 billion of the net increase in annual deposits. The large transaction between affiliated entities in Q4 2014 has dropped out of the annual figures.
- **Excluding financial intermediation, deposits from private-sector enterprises** increased by 8.4 per cent over 2015, to stand at €48.2 billion. One third of the annual growth can be attributed to the manufacturing sector (Chart 10). On a quarterly basis, deposits from all non-financial sectors increased 0.6 per cent.
- **Deposits from six of the fifteen non-financial sectors increased in Q4 2015** (Chart 11), with wholesale/retail trade and repairs enterprises recording the largest increase in net deposit flows of €895 million. This sector also recorded a large net increase in credit, both reflective of seasonal trends at the end of the year.
- Six economic sectors recorded falls in both credit and deposits during Q4 (Chart 11). Real estate, in particular, recorded large net repayments along with large net deposit outflows. The developments in Q4 may reflect seasonal factors associated with end-year.

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 - Q4 2015



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.