

Trends in Business Credit and Deposits: Q2 2017

Gross new lending to Irish SMEs was €1.2 billion in Q2 2017. Repayments continue to exceed new loan drawdowns resulting in outstanding credit declining by 7.5 per cent over the year.

- **Gross new** lending to non-financial, non-property related SMEs was €966 million in Q2 2017, an increase of €108 million in comparison to the same quarter in 2016. Annually, these new drawdowns totalled €3.6 billion, representing a 28.6 per cent year-on-year increase. Drawdowns for wholesale/retail trade & repairs, and agricultural purposes dominated in Q2, despite attracting higher than average interest rates.
- **Property-related** lending constituted 41 per cent of outstanding credit to SMEs, and 19 per cent of new drawdowns in Q2. In Q1, property-related lending constituted 24 per cent of new SME lending. There remain significant differences in interest rates charged to property-related lending, with lower rates agreed on new SME lending for real-estate, and higher rates for construction lending.
- **Large enterprise non-financial, non-property related** lending increased on both a quarterly and an annual basis. The 12.7 per cent annual increase marked the 11th consecutive period of positive annual growth. The quarter-on-quarter increase was 3 per cent.
- **Deposits from Irish resident non-financial private-sector enterprises** increased by €3.9 billion in the year to end-June 2017. The sectors that contributed most to this increase were real estate activities, transportation and storage, and other community, social and personal services.

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

SME Credit and Interest Rate developments

- **Bank credit to Irish SMEs declined for the 23rd consecutive quarter in Q2 2017.** SME credit declined by 0.8 per cent over the quarter to stand at €27.5 billion.¹ This represented an annual decrease of 7.5 per cent.
- The outstanding stock of SME credit includes €11.4 billion relating to property (real estate and construction) and €15.9 billion of non-financial, non-property, or ‘core’, credit.
- **Property-related lending to SMEs** currently represents 41 per cent of Irish banks’ outstanding SME loan book. Loans sales and deleveraging in recent years have facilitated a reduction in stock. Property-related SME loans declined by €223 million in the quarter, as repayments continue to outstrip new drawdowns. This is the 23rd consecutive quarterly decline in this figure, with the last increase occurring in Q3 2011.
- **Gross new lending to property related SMEs** reached €1.3 billion over the past twelve months; €179 million higher than the previous year (Chart 1). In Q2, drawdowns totalled €238 million, or 19 per cent of total SME gross drawdowns.
- Repayments of lending by the SME sector in 2017 (Chart 2) are at similar levels to the same period in 2016, but new loan drawdowns are slightly ahead of the 2016 volumes.
- **The stock of loans to core SMEs** contracted by 4.7 per cent over the past year, as €812 million more was repaid than drawn down. The hotels, and other community sectors were the main drivers of this decline over the

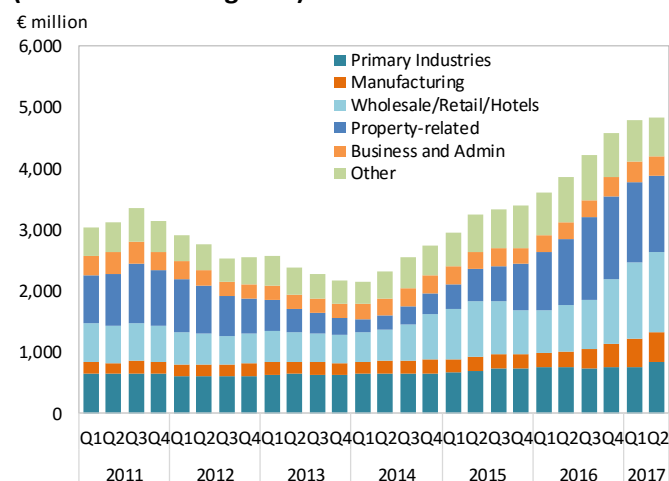
¹ See Note 1 for the definition of SMEs.

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

Credit to all enterprises (non-financial, non-property)				
	2014	2015	2016	2017 Q2
Credit to SMEs				
Average net quarterly flow (€m)	-271	-482	-210	1
Annual growth rate (%)	-4.9	-8.1	-6.8	-4.7
Credit to large enterprises				
Average net quarterly flow (€m)	82	321	420	345
Annual growth rate (%)	-4.1	12.9	15.1	12.7

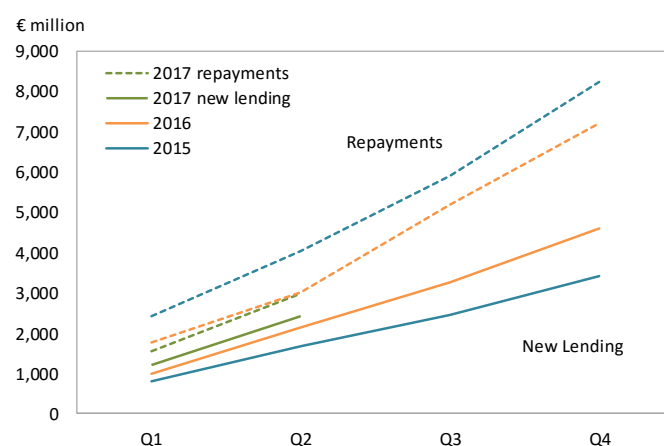
Source: Business Credit and Deposits [Table A.14](#) & [Table A.14.1](#)

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.

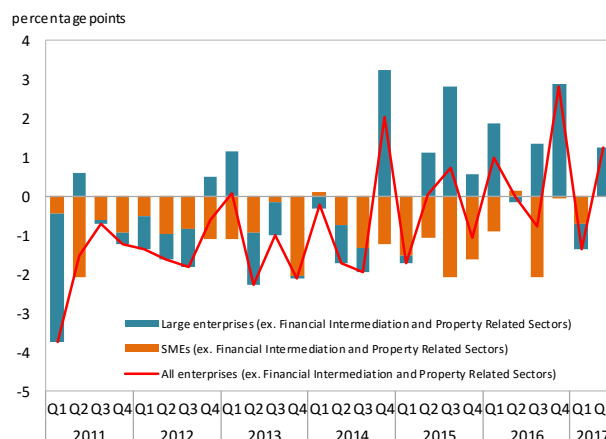
year. Credit to core SMEs remains consistently subdued, in contrast to large enterprises, which have seen many quarters of growth in recent years (Chart 3).

- **Gross new lending to core SMEs** was €966 million during Q2 2017, representing an increase on the previous quarter of €64 million.² New drawdowns totalled €3.6 billion over the past twelve months, reflecting a 28.6 per cent year-on-year increase. Many core SME sectors have seen a rise in new lending as a proportion of outstanding stock, implying a rebalancing of banks' balance sheets.
- Two economic sectors alone accounted for almost half of all new core SME drawdowns in the quarter: primary industries, and wholesale/retail trade and repairs (Chart 1). This marked the highest drawdown for primary industries since the series began in 2010.
- **Six economic sectors registered increases in net SME lending** during Q2 (drawdowns exceeded repayments); but this was overshadowed by continuing new repayments on Property related lending (Chart 4). Overall, SME credit declined €231 million in Q2.

Interest rates on loans to SMEs

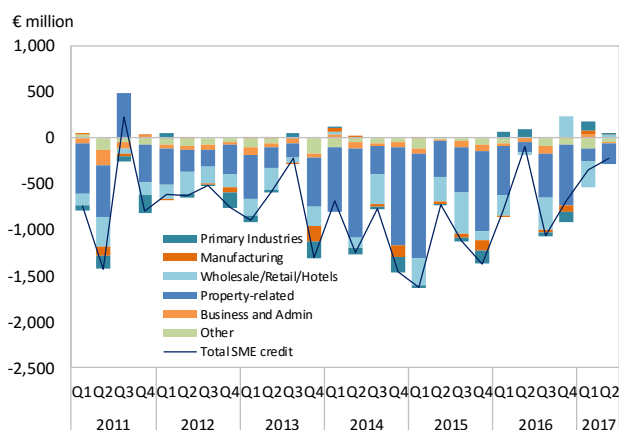
- **The weighted average interest rate on new non-financial SME loan drawdowns** was 4.05 per cent in Q2 2017 (Chart 5). This represents a fall of 5 basis points over the year. Rates on new lending are higher than the rates applied to the existing stock of non-financial SME loans, which was 3.20 per cent at end-Q2 2017.

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



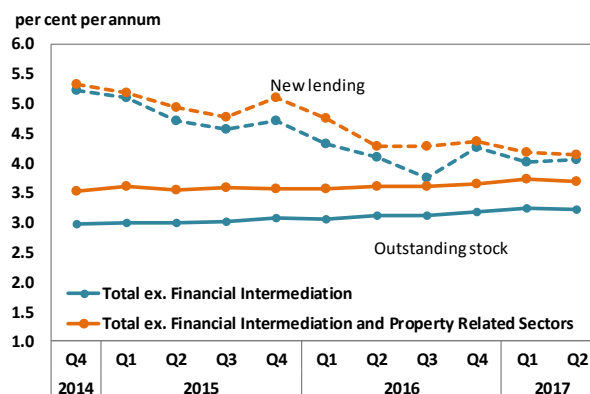
Source: Business Credit and Deposits [Table A.14](#) & [Table A.14.1](#)

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



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

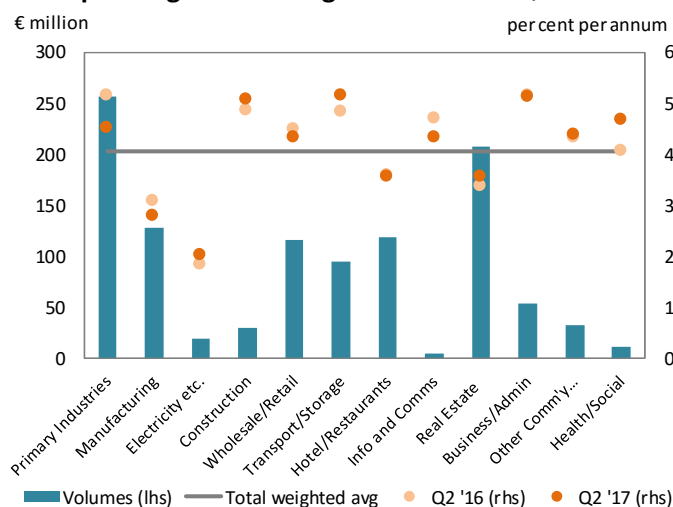
Chart 5: Interest rates on new and outstanding SME loans



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

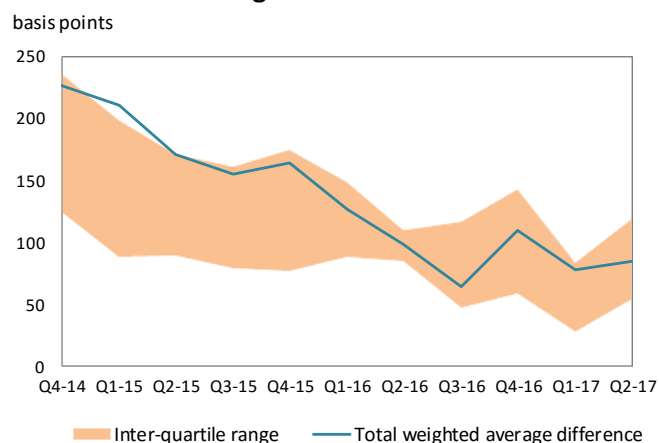
² See Note 2 for the definition of gross new lending.

- New lending rates declined in six of the twelve shown economic sectors** over the past four quarters (Chart 6). Of note were interest rate declines to SMEs engaged in primary industries (64 basis points) and manufacturing (29 basis points). Construction SMEs experienced an average weighted increase of 19 basis points over the same period, and continued to attract one of the highest interest rates on new drawdowns.
- In quarterly terms, higher than average rates were charged on new drawdowns by SMEs engaged in the wholesale/retail activities and agriculture. These sectors typically secure large shares of new lending. Rates on new drawdowns to construction SMEs, at 5.06 per cent, remained significantly higher than rates to the real-estate sector, at 3.55 per cent (Chart 6).
- The margin between rates charged on new (non-financial SME) drawdowns and existing loans increased slightly in Q2 2017 to 85 basis points** (Chart 7). Manufacturing, and electricity, gas, steam and air conditioning supply related SME lending recorded lower rates on new drawdowns compared to the existing stock of loans in these sectors over the quarter. These were the only two sectors to do so.

Chart 6: SME new lending interest rates and corresponding new lending drawdowns – Q2 2017


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

Note: See Note 3 on drawdowns 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](#)

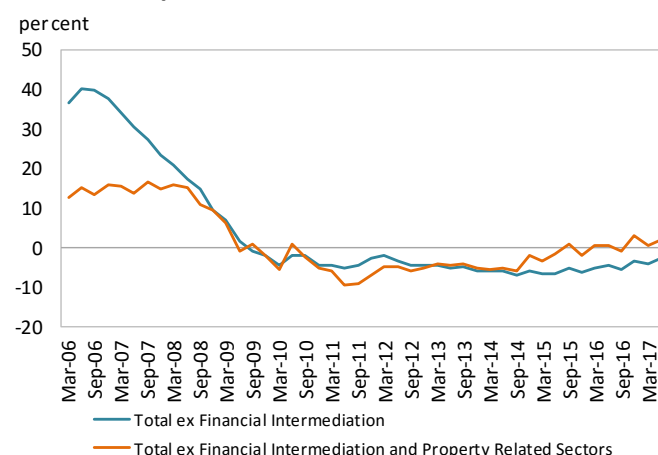
Table A.14.1 Credit Advanced to Irish Resident Small and Medium Sized Enterprises

	Outstanding amounts - € million		Transactions - € million		Annual Growth rates - per cent.		Gross New Lending € million	
	Mar-17	Jun-17	Mar-17	Jun-17	Mar-17	Jun-17	Mar-17	Jun-17
1. Primary Industries	3,499	3,510	93	15	0.6	-1.1	216	257
2. Manufacturing	1,340	1,331	39	8	-2.8	-3.5	114	128
3. Electricity, Gas, Steam and Air Conditioning Supply	218	236	-3	17	-4.6	-0.2	7	20
4. Water Supply, Sewerage, Waste Management and Remediation..	12	32	-1	20	-30.3	80.7	0	20
5. Construction	611	560	29	-43	6.9	-7.4	58	30
6. Wholesale/Retail Trade & Repairs	3,933	3,922	-263	44	-6.2	-5.9	292	222
7. Transportation and Storage	498	497	-13	2	-3.7	-9.9	49	94
8. Hotels and Restaurants	2,580	2,554	-8	-8	-5.8	-4.1	84	119
9. Information and Communication	181	178	-3	-3	-8.5	-13.0	11	6
10. Financial Intermediation (Excl. Monetary Financial Institutions)	154	145	21	-9	-2.0	-13.3	19	26
11. Real Estate Activities	11,157	10,854	-179	-180	-10.9	-11.2	232	208
12. Business and Administrative Services	1,326	1,290	46	-18	-3.3	-2.5	66	55
13. Other Community, Social and Personal Services	1,232	1,191	-12	-38	-9.8	-9.7	36	33
14. Education	208	205	-25	-4	-18.1	-16.4	2	2
15. Human Health and Social Work	1,034	999	-52	-34	-3.2	-6.2	25	11
16. Total	27,983	27,504	-330	-231	-6.9	-7.5	1212	1,230
16.1 Total ex. Financial Intermediation	27,829	27,359	-351	-222	-7.0	-7.4	1192	1,203
16.2 Total ex. Financial Intermediation and Property Related Sectors	16,061	15,945	-201	1	-4.5	-4.7	902	966

Private-Sector Enterprise Credit developments

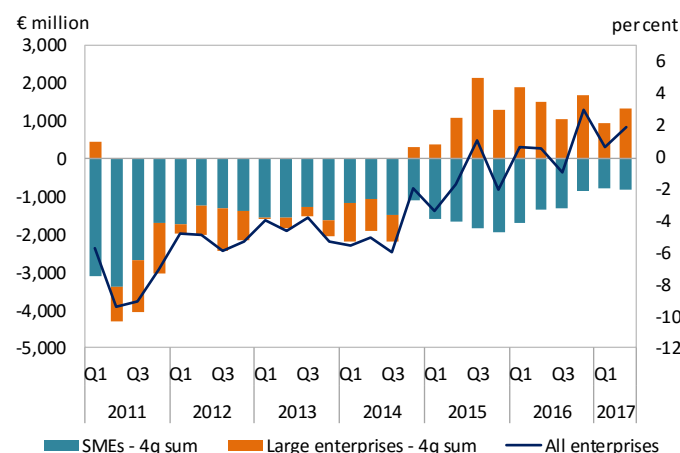
- **The total outstanding amount of credit to all Irish resident private-sector enterprises** was €91.8 billion at end-Q2. Excluding financial intermediation³, which accounts for 53 per cent of total credit, outstanding stock was €43.4 billion at end-Q2. SMEs account for 63 per cent of non-financial credit.
- **Credit to non-financial businesses** declined by 2.5 per cent over the twelve months to end-Q2 2017 (Chart 8), as private-sector enterprises repaid €1.2 billion more than was drawn down in new loans. The construction and real estate sectors drove the overall decline.
- **Credit advanced to core Irish private-sector enterprises** increased, by 1.9 per cent in annual terms (Chart 8), to stand at €27.6 billion at end-Q2 2017. Drawdowns exceeded repayments by €528 million over the year, however, there are contrasting developments between larger enterprises and SMEs (Chart 9).
- **Lending to large enterprises engaged in core activities** recorded an annual increase of 12.7 per cent in Q2, and an increase of 3 per cent over the quarter. Large enterprises in the manufacturing sector were the main driver of the net increase in Q2 2017, recording a lending increase of €284 million in the quarter.
- In quarterly terms, eight large core sectors registered net increases, resulting in drawdowns to large core enterprises exceeding repayments by €345 million in Q2.

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](#)

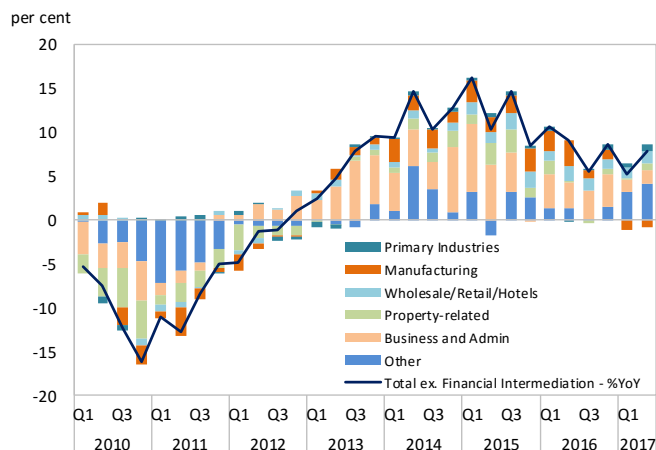
Note: Net flows are shown as a four-quarter sum.

³ This would include holdings of debt securities issued by the NAMA Master SPV and other financial vehicle corporations.

Private-Sector Enterprise Deposit developments

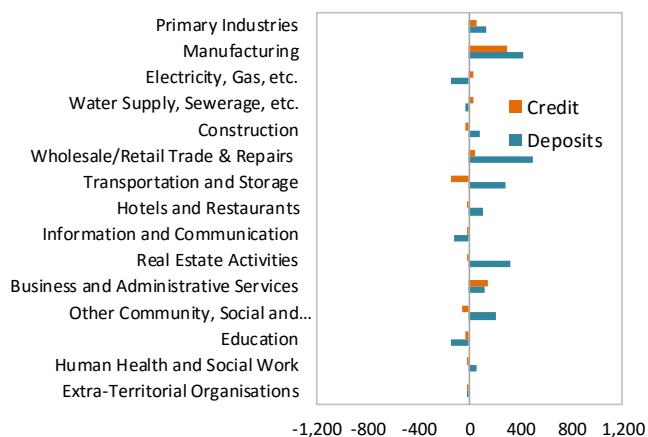
- **Deposits from all Irish private-sector enterprises** increased by €2.9 billion over the year, with the outstanding deposit book now standing at €89.1 billion. This reflects an annual growth rate of 3.4 per cent.
- The financial intermediation sector (excluding monetary financial institutions) recorded net outflows of €930 million in annual terms. This was driven by strong outflows in Q4 2016 and Q1 2017.
- **Excluding financial intermediation, deposits from private-sector enterprises** increased by 7.8 per cent year-on-year, to stand at €53.2 billion. 21 per cent of the annual growth can be attributed to business and administrative services (Chart 10). On a quarterly basis, deposits from all non-financial sectors increased by 3.5 per cent, or €1.8 billion.
- **Deposits from ten of the fifteen non-financial sectors increased in Q2 2017** (Chart 11). Enterprises engaged in wholesale/retail trade & repairs recorded the largest net inflows over the quarter, in contrast to the previous quarter when the sector saw a large outflow. Businesses engaged in the education sector recorded the largest net declines in the quarter, with outflows of €144 million.

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 – Q2 2017



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 Notes](#).

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