

Trends in Business Credit and Deposits: Q1 2017

Gross new lending to Irish SMEs totalled €1.2 billion in Q1 2017, albeit repayments continue to exceed new loan drawdowns.

- **Gross new** lending to non-financial, non-property related SMEs was €902 million in Q1 2017, an increase of €245 million in comparison to the same quarter in 2016. Drawdowns for wholesale/retail trade & repairs and agricultural purposes dominated in Q1, despite consistently attracting higher than average interest rates.
- **Property-related** lending constituted 42 per cent of outstanding credit to SMEs, and 24 per cent of new drawdowns in Q1. There remain significant differences in interest rates charged to property-related lending, where lower than average rates apply to new SME lending for real-estate, with the reverse being true for construction.
- The recent diverging lending trends between core SMEs and large enterprises was not evident on a quarterly basis in Q1 2017, with both large enterprises and SMEs registering quarterly declines. In annual terms, however, new loans to large businesses exceeded repayments, in contrast to SMEs, who recorded net repayments.
- **Deposit flows from Irish resident non-financial private-sector enterprises** increased by €2.6 billion between Q1 2016 and Q1 2017. SMEs engaged in transportation and storage, and business and administration accounted for half of the increase in deposit flows.

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

SME Credit and Interest Rate developments

- **Bank credit to Irish SMEs declined for the 22nd consecutive quarter in Q1 2017.** SME credit declined by 0.9 per cent over the quarter to stand at €27.9 billion.¹ This represented an annual decrease of 8.9 per cent.
- The outstanding stock of SME credit includes €11.8 billion relating to property (real estate and construction) and €16 billion of non-financial, non-property, or ‘core’, credit.
- **Property-related lending to SMEs** currently represents just over 42 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 11 per cent between Q1 2016 and Q1 2017, with SMEs engaged in this sector repaying €2.9 billion more than was drawn down in new loans.
- **Despite overall declines in property-related SME stock, gross new lending** reached €1.3 billion over the past twelve months; €353 million higher than the previous period (Chart 1). In Q1 2017, drawdowns totaled €290 million, or 24 per cent of total gross drawdowns. Real-estate SME lending typically attracts lower than average interest rates, with the reverse applying to construction.
- Repayments of bank-related lending by the SME sector remains elevated (Chart 2), although Q1 2017 data was lower than previous years. Property-related SMEs accounted for almost a third of repayments in Q1, with €440 million repaid in property-related debt.
- **Lending to core SMEs** contracted by 7.4 per cent over the past twelve months, as €1.3 billion more was repaid than drawn down. The hotels, and wholesale/retail trade

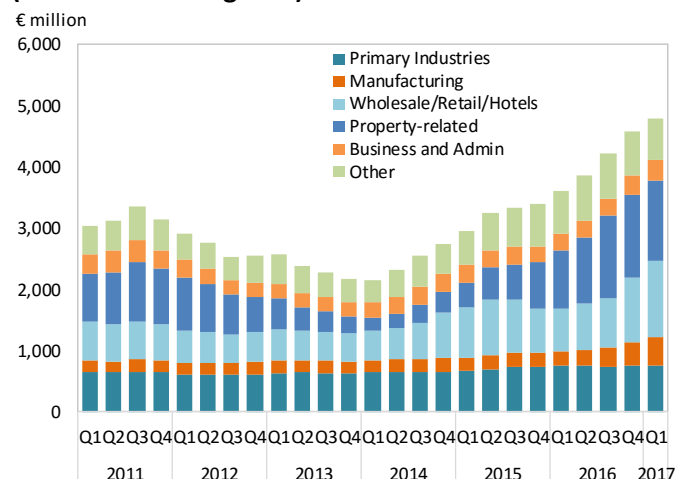
¹ See Note 1 for the definition of SMEs.

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 Q1
Credit to SMEs				
Average net quarterly flow (€m)	-271	-482	-369	-129
Annual growth rate (%)	-4.9	-8.1	-8.8	-7.4
Credit to large enterprises				
Average net quarterly flow (€m)	82	321	475	-258
Annual growth rate (%)	-4.1	12.9	16.2	12.5

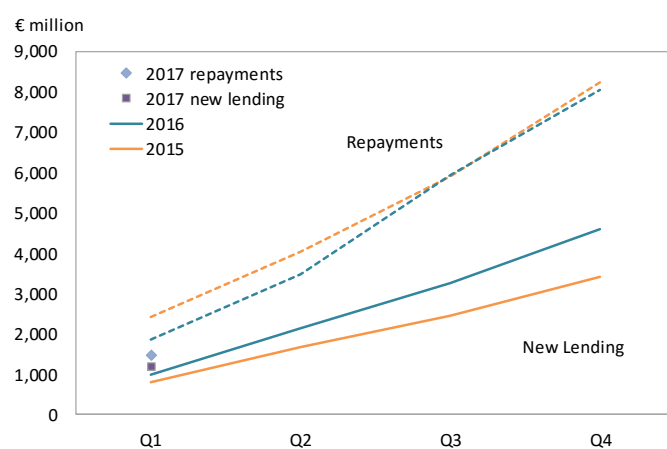
Source: Business Credit and Deposits [Table A.14](#) & [Table A.14.1](#)

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.

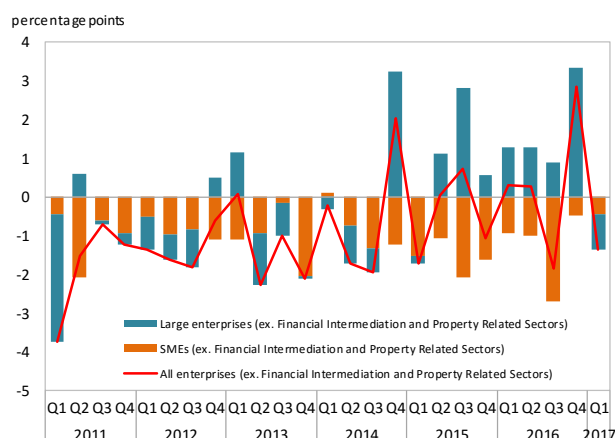
sector, which repaid a combined €656 million more than was drawn down, mainly drove developments over the year. Credit to core SMEs remains consistently negative, in contrast to large enterprises (Chart 3).

- **Gross new lending to core SMEs** was €902 million over Q1 2017, representing a decrease on the previous quarter, albeit €245 million higher than Q1 2016.² New drawdowns totalled €3.5 billion over the past twelve months, reflecting a 31.5 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.
- The wholesale/retail trade and repairs, and primary industries sectors were the largest recipients of core SME credit over the first quarter of 2017, drawing down a combined €508 million (Chart 1). This marked the highest drawdown for both sectors since 2010.
- **Four SME sectors registered increases in net lending** during Q1 (drawdowns exceeded repayments); primary industries recorded a positive net flow of €93 million, while business and administration, construction, and manufacturing registered a combined positive net flow of €114 million, (Chart 4). Overall, SME credit declined €280 million in Q1; the smallest decline since Q3 2013.

Interest rates on loans to SMEs

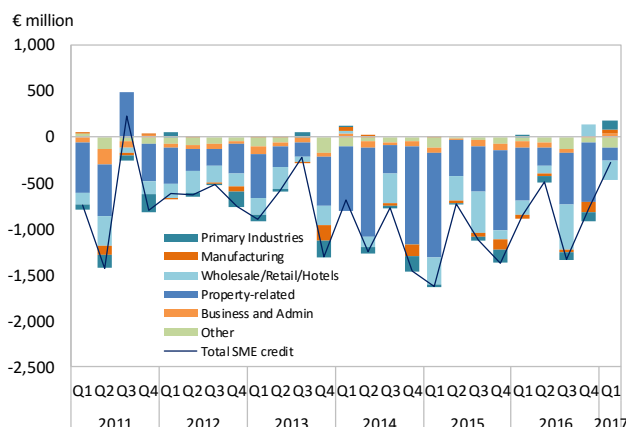
- **The weighted average interest rate on new non-financial SME loan drawdowns** during the first quarter of 2017 was 4.01 per cent (Chart 5). This represents a decline of 32 basis points over the year. Rates on new lending are higher than the rates applied to the existing stock of Irish non-financial SME loans, which was recorded at 3.23 per cent at end-Q1 2017. Rates on

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



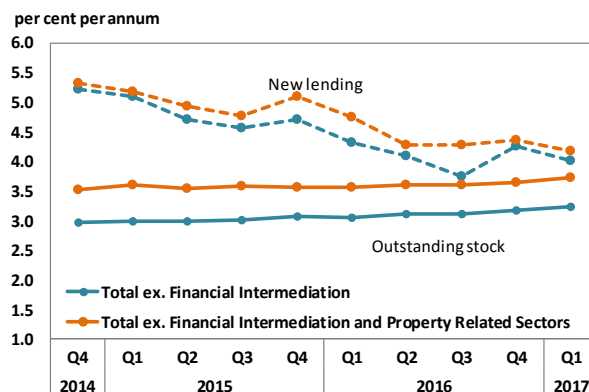
Source: Business Credit and Deposits [Table A.14](#) & [Table A.14.1](#)

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



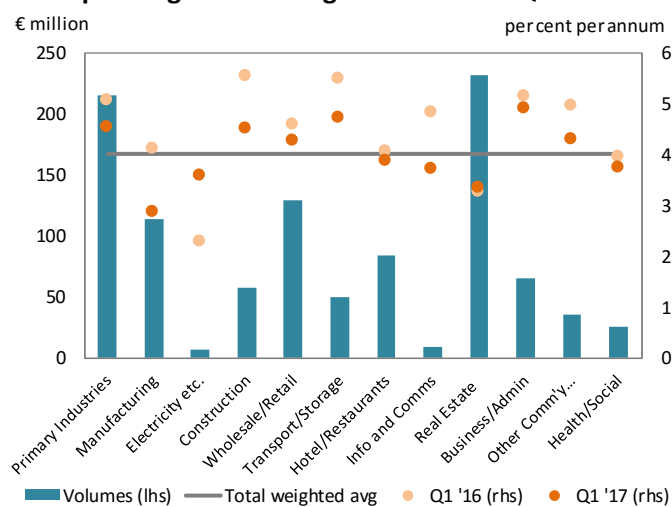
Source: Business Credit and Deposits [Table A.14.1](#)

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

outstanding loans include renegotiations of existing loans. These are excluded from rates on new drawdowns.

- **New lending rates have declined for SMEs in most economic sectors** over the previous four quarters (Chart 6). Of note were interest rate declines to SMEs engaged in manufacturing (124 basis points) and primary industries (51 basis points). Construction SMEs experienced an average weighted decline of 104 basis points over the same period, albeit 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 4.53 per cent, remained significantly higher than rates to the real-estate sector, at 3.37 per cent (Chart 6).
- **The margin between rates charged** on new (non-financial) drawdowns and existing loans decreased in Q1 2017 to 78 basis points (Chart 7). Manufacturing related SME lending continued to record lower rates on new drawdowns compared to the existing stock of manufacturing loans.

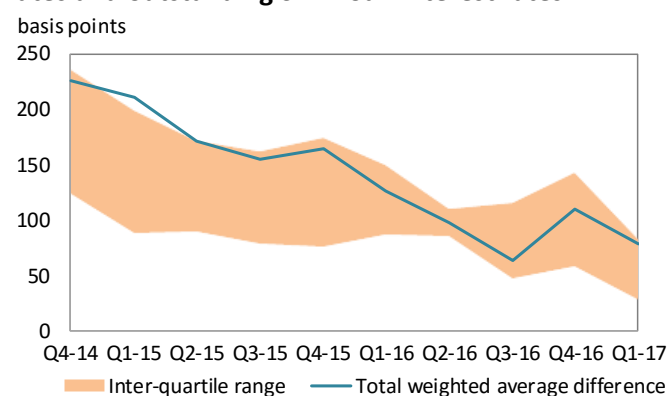
Chart 6: SME new lending interest rates and corresponding new lending drawdowns – Q1 2017



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](#)

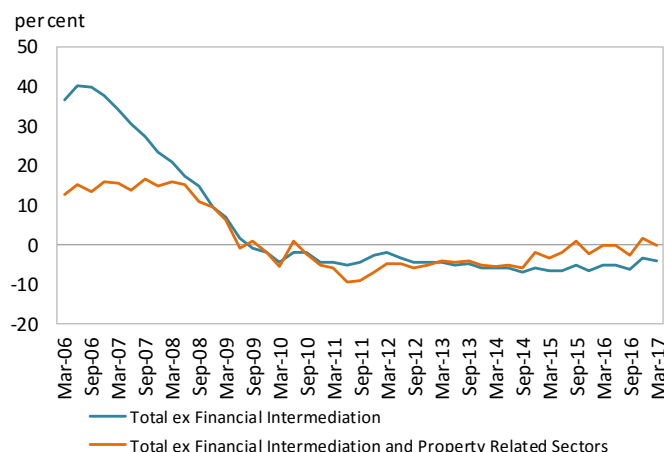
Table A.14.1 Credit Advanced to Irish Resident Small and Medium Sized Enterprises

	Outstanding amounts - € million		Transactions - € million		Annual Growth rates - per cent.		Gross New Lending € million	
	Dec-16	Mar-17	Dec-16	Mar-17	Dec-16	Mar-17	Dec-16	Mar-17
1. Primary Industries	3,406	3,499	-101	93	-5.8	-4.0	209	216
2. Manufacturing	1,304	1,340	-115	39	-12.4	-8.0	132	114
3. Electricity, Gas, Steam and Air Conditioning Supply	222	218	-30	-3	-1.0	-6.9	13	7
4. Water Supply, Sewerage, Waste Management and Remediation..	13	12	-4	-1	-20.2	-30.3	0	0
5. Construction	587	611	-26	29	0.0	5.1	28	58
6. Wholesale/Retail Trade & Repairs	4,048	3,827	176	-191	-7.1	-9.1	269	292
7. Transportation and Storage	509	498	-32	-13	-1.1	-6.7	28	49
8. Hotels and Restaurants	2,584	2,580	-52	-8	-10.1	-9.0	143	84
9. Information and Communication	183	181	51	-3	20.1	25.8	8	11
10. Financial Intermediation (Excl. Monetary Financial Institutions)	133	154	14	21	-24.7	1.0	11	19
11. Real Estate Activities	11,299	11,157	-615	-179	-13.9	-11.8	252	232
12. Business and Administrative Services	1,296	1,326	12	46	-10.1	-2.9	133	66
13. Other Community, Social and Personal Services	1,260	1,232	-50	-12	-15.1	-14.8	65	36
14. Education	233	208	-10	-25	-15.9	-22.9	11	2
15. Human Health and Social Work	1,085	1,034	19	-52	-2.5	-3.9	37	25
16. Total	28,162	27,878	-763	-258	-10.4	-8.9	1,338	1,212
16.1 Total ex. Financial Intermediation	28,030	27,724	-777	-280	-10.4	-8.9	1,327	1,192
16.2 Total ex. Financial Intermediation and Property Related Sectors	16,143	15,956	-136	-129	-8.1	-7.4	1,047	902

Private-Sector Enterprise Credit developments

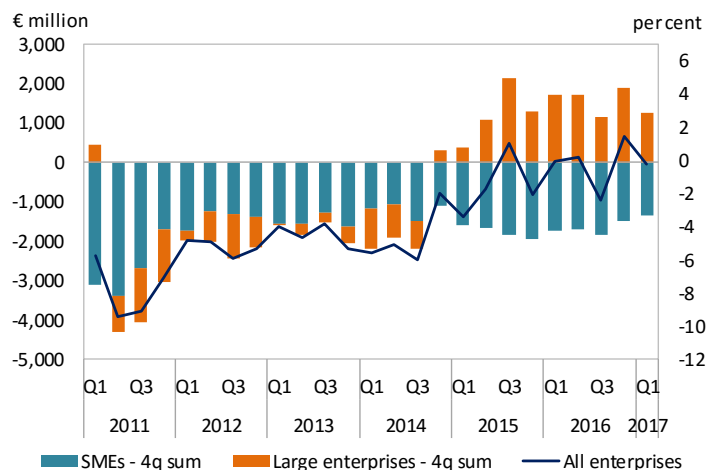
- **The total outstanding amount of credit to all Irish resident private-sector enterprises** was €95.6 billion at end-Q1. Excluding financial intermediation³, which accounts for 54 per cent of total credit, outstanding stock was €43.6 billion at end-Q1. SMEs account for 64 per cent of non-financial credit.
- **Non-financial credit** declined by 4.1 per cent over the twelve months to end-Q1 2017 (Chart 8), as private-sector enterprises repaid €1.9 billion more than was drawn down in new loans. Large manufacturing enterprises and wholesale/retail trade SMEs drove the overall decline.
- **Credit advanced to core Irish private-sector enterprises** decreased marginally, by 0.2 per cent in annual terms (Chart 8), to stand at €27.6 billion at end-Q1 2017. Repayments exceeded drawdowns by €56 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 12.5 per cent in Q1, despite a decrease of 2.2 per cent over the quarter. Large enterprises in the transportation and storage, primary industries and hotels and restaurants sectors accounted for almost two-thirds of the net annual increase in Q1 2017.
- In quarterly terms, six large core sectors registered net increases; however, repayments to large core enterprises exceeded drawdowns. Large enterprises engaged in manufacturing registered the largest quarterly decline of €197 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



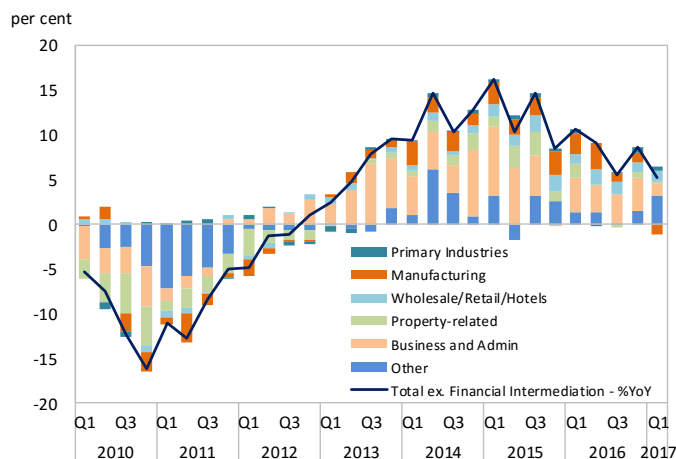
Source: Business Credit and Deposits [Table A.14](#) & [Table A.14.1](#)
Note: Net flows are shown as a four-quarter sum.

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

Private-Sector Enterprise Deposit developments

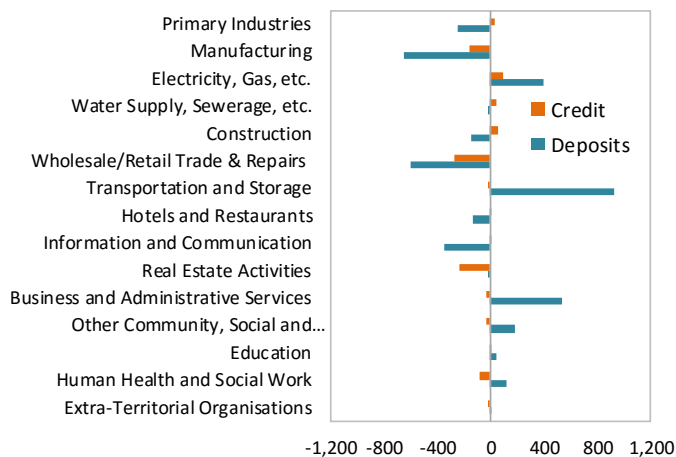
- **Deposits from all Irish private-sector enterprises** increased by €557 million over the previous twelve months, with the outstanding deposit book now standing at €88 billion. This reflects an annual growth rate of 0.6 per cent.
- The financial intermediation sector (excluding monetary financial institutions) recorded net outflows of €2 billion in annual terms. This was primarily driven by strong outflows in Q2 2016 and Q1 2017.
- **Excluding financial intermediation, deposits from private-sector enterprises** increased by 5.2 per cent year-on-year, to stand at €51.8 billion. Over 28 per cent of the annual growth can be attributed to the transportation and storage sector (Chart 10). On a quarterly basis, deposits from all non-financial sectors increased by 0.1 per cent, or €58 million.
- **Deposits from seven of the fifteen non-financial sectors increased in Q1 2017** (Chart 11). Enterprises' engaged in the transportation and storage sectors recorded the largest net inflows over the quarter, in contrast to the previous quarter. Businesses engaged in the manufacturing sector recorded large net declines, again in contrast to developments in Q4 2016.

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 – Q1 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](#).

Keywords: Business credit, Private-Sector Enterprises, Irish Financial Statistics, SME Credit, Loans to SMEs, Large enterprise, SME interest rates.