



Trends in Business Credit and Deposits: Q4 2017

Gross new lending to non-financial, non-property related SMEs totalled €1.1 billion in Q4 2017; this was the highest quarterly new lending amount since data collection began in 2010.

- **On an annual basis, new lending to core SMEs** was €3.7 billion, representing a 14 per cent increase on the same period in 2016. Drawdowns for wholesale/retail trade & repairs, and agricultural purposes dominated in Q4, with a total of €466 million in gross new lending advanced in these two sectors.
- **Property-related lending** constituted 39 per cent of outstanding credit to SMEs, and 28 per cent of total new drawdowns in Q4. There remain significant differences in interest rates charged to property-related lending, with lower rates agreed on new SME lending for real-estate, compared to construction lending.
- **Large enterprise non-financial, non-property related lending** increased on annual basis. The 1.9 per cent annual increase marked the 13th consecutive period of positive annual growth. In contrast, net lending to core SMEs continues to decline on an annual basis, despite positive net lending in Q4 2017.
- **Deposits from Irish resident non-financial private-sector enterprises** increased by €4.9 billion in 2017. The sectors contributing most to this increase were business and administration, and other community, social and personal services.

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

SME Credit and Interest Rate developments

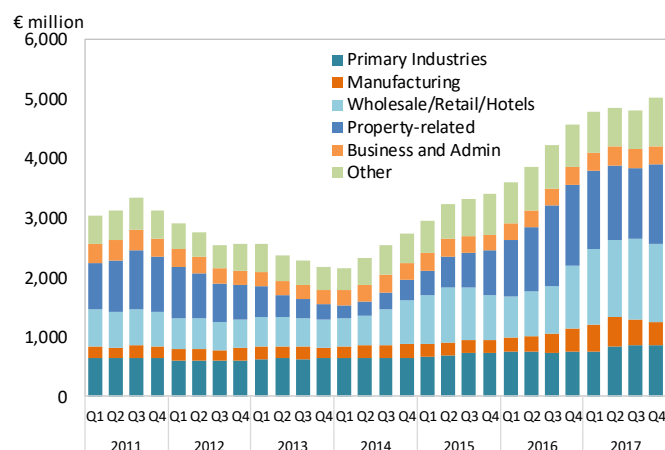
- **Outstanding bank credit to Irish SMEs** declined for the 25th consecutive quarter in Q4 2017. SME credit declined by 0.3 per cent over the quarter, to stand at €26.4 billion.¹ This represented an annual decrease of 4.3 per cent.
- **The outstanding stock of SME credit** includes €10.4 billion relating to property (real estate and construction) and €15.8 billion of non-financial, non-property, or ‘core’, credit.
- **Property-related lending to SMEs** currently represents 39 per cent of Irish banks’ outstanding SME loan book. Property-related SME loans declined by €445 million in the quarter, as repayments continue to outstrip new drawdowns.
- **Gross new lending to property related SMEs** was €1.35 billion over the past twelve months; slightly higher than the previous year (Chart 1). This masks a divergence between real estate lending which recorded a decrease of €22 million and new lending for construction which increased by €25 million. In Q4, drawdowns totalled €432 million, or 28 per cent of total SME gross drawdowns.
- **Repayments of lending by the non-financial SME sector** in 2017 (Chart 2) are lower than in previous years, while new loan drawdowns are higher than in recent years.
- **Lending to core SMEs** increased over the quarter by a series high of €358 million (Chart 3). However, on an annual basis €240 million more was repaid than drawn down, representing a fall of 1.5 per cent. The wholesale retail trade and repairs sector was the main driver of this

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

Credit to all enterprises (non-financial, non-property)				
	2015	2016	2017	2017 Q4
Credit to SMEs				
Average net quarterly flow (€m)	-482	-210	-60	358
Annual growth rate (%)	-8.1	-6.8	-3.6	-1.5
Credit to large enterprises				
Average net quarterly flow (€m)	321	420	54	128
Annual growth rate (%)	13.3	15.1	8.0	1.9

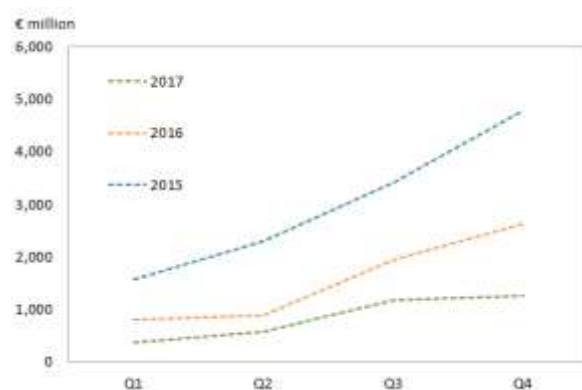
Source: Business Credit and Deposits [Table A.14](#) & [Table A.14.1](#)

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 net 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.

¹ See Note 1 for the definition of SMEs.

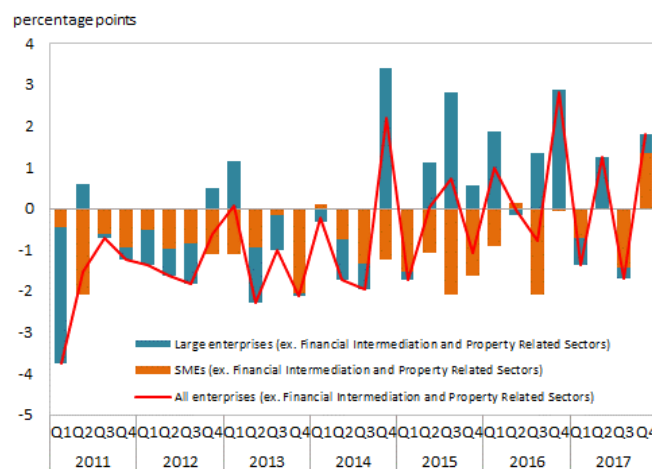
decline, falling by €286 million over the period.

- **Gross new lending to core SMEs** was €1.1 billion during Q4 2017, the highest value reported since the series began in 2010.² Overall, new drawdowns totalled €3.7 billion over the past twelve months, reflecting a 14 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 42 per cent of all new core SME drawdowns in the quarter, namely the primary industries, and wholesale/retail sectors (Chart 1).
- **Seven non-financial economic sectors registered increases in net SME lending** during Q4 (drawdowns exceeded repayments); however this was offset by continuing net repayments in property related lending and the manufacturing sector (Chart 4). Overall, non-financial SME credit declined by €86 million in Q4.

Interest rates on loans to SMEs

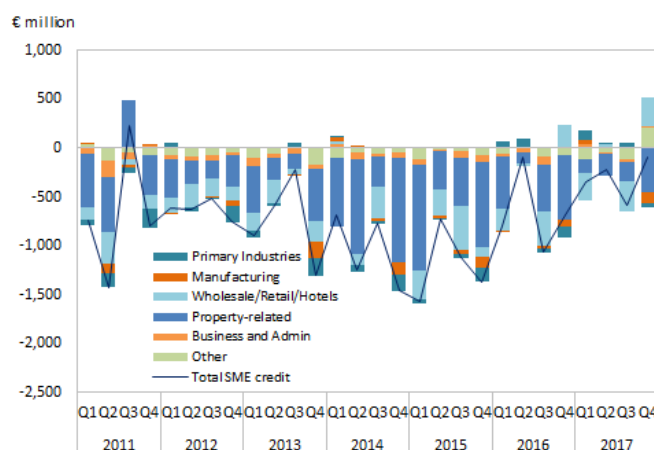
- **The weighted average interest rate on new non-financial SME loan drawdowns** was 4.1 per cent in Q4 2017 (Chart 5). This represents a decline of 16 basis points over the year. Rates on new lending remain higher than the rates applied to the outstanding stock of non-financial SME loans, which was 3.26 per cent at end-Q4 2017.

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



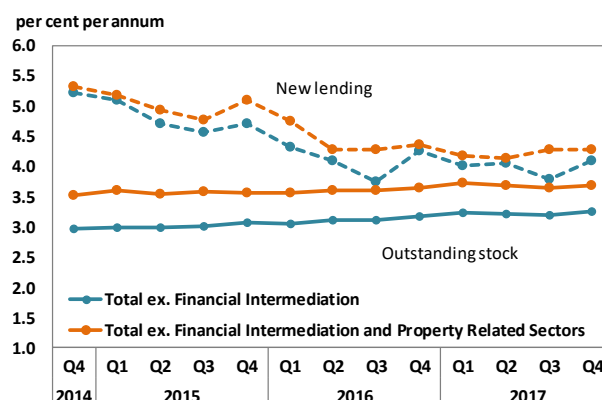
Source: Business Credit and Deposits [Table A.14](#) & [Table A.14.1](#)

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

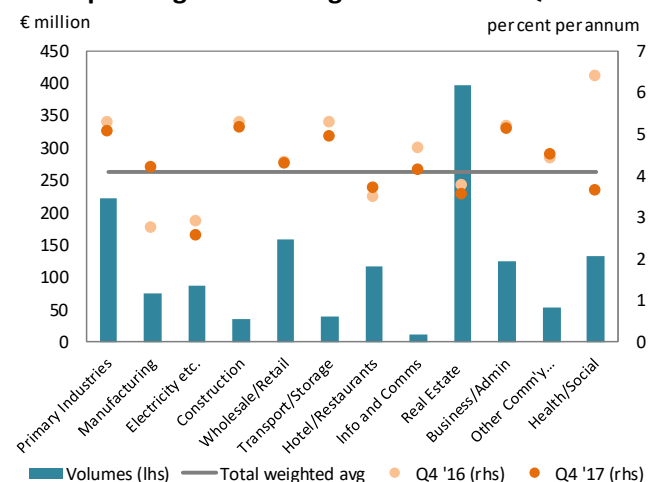


Source: Business Credit and Deposits [Table A.14.1](#)

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

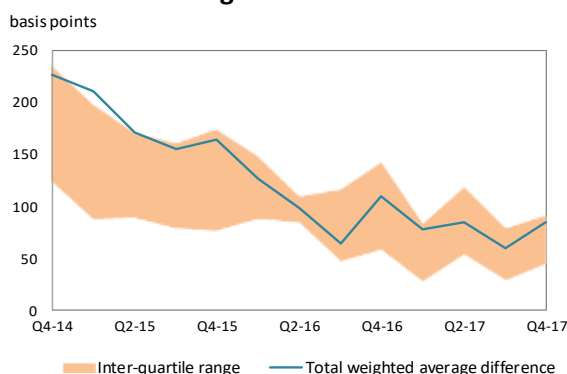
- **New lending rates** declined in most economic sectors over the past four quarters (Chart 6). Of note is the annual interest rate decline to SMEs engaged in the human health and social work sector (276 basis points). Construction SMEs experienced a decrease of 11 basis points over the same period, but still attract the highest interest rate on new drawdowns of any sector.
- Over the quarter, higher than average rates were also charged on new drawdowns by SMEs engaged in the wholesale/retail activities and agriculture sectors. Rates on new drawdowns to construction SMEs, at 5.14 per cent, remained significantly higher than rates to the real-estate sector, at 3.54 per cent (Chart 6). The 160 basis point difference between the two sectors has fallen from a high of 236 basis points in the previous quarter.
- **The margin between rates charged** on new (non-financial SME) drawdowns and existing loans increased in Q4 2017 to 84 basis points (Chart 7). This is a 25 basis point decrease compared to the previous year’s margin. Only the electricity, gas, steam and air conditioning supply sector recorded lower rates on new drawdowns compared to existing stock of loans during the quarter.

Chart 6: SME new lending interest rates and corresponding new lending drawdowns – Q4 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](#)

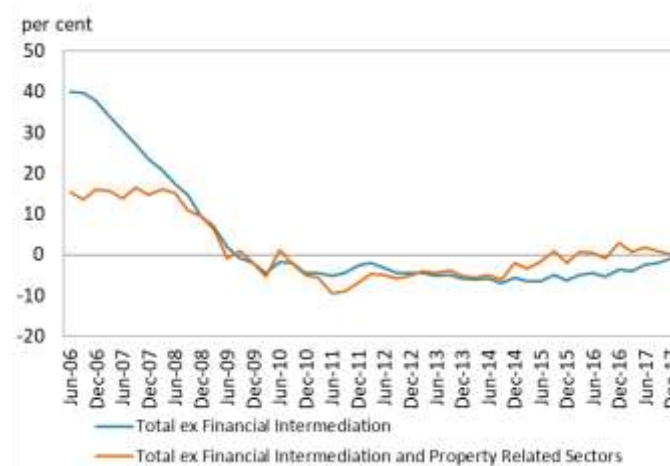
Table A.14.1 Credit Advanced to Irish Resident Small and Medium Sized Enterprises

	Outstanding amounts - € million		Transactions - € million		Annual Growth rates per cent		Gross New Lending € million	
	Sep-17	Dec-17	Sep-17	Dec-17	Sep-17	Dec-17	Sep-17	Dec-17
1. Primary Industries	3,559	3,504	-48	-50	1.1	3.1	169	221
2. Manufacturing	1,341	1,241	10	-117	-0.5	-4.8	65	76
3. Electricity, Gas, Steam and Air Conditioning Supply	225	310	-11	85	7.7	40.0	6	87
4. Water Supply, Sewerage, Waste Management and Remediation...	32	34	0	0	91.8	140.0	0	0
5. Construction	559	523	5	-31	-4.9	-7.2	25	35
6. Wholesale/Retail Trade & Repairs	3,600	3,832	-317	250	-7	-6.8	169	245
7. Transportation and Storage	485	507	-11	-8	-9.6	-5.8	50	40
8. Hotels and Restaurants	2,537	2,569	10	46	-2.1	1.6	63	117
9. Information and Communication	167	167	-11	0	-10.3	-9.2	5	11
10. Financial Intermediation (Excl. Monetary Financial Institutions)	169	177	22	9	40.8	32.9	36	23
11. Real Estate Activities	10,507	9,877	-196	-413	-9.7	-8.7	365	397
12. Business and Administrative Services	1,225	1,243	-41	25	-0.2	1.0	64	124
13. Other Community, Social and Personal Services	1,203	1,183	13	-21	-6.5	-4.6	58	53
14. Education	178	203	-13	25	-21.6	-6.6	12	6
15. Human Health and Social Work	918	1,030	-74	123	-13.3	-3.4	37	133
16. Total	26,703	26,400	-566	-78	-6.1	-4.3	1,126	1,569
16.1 Total ex. Financial Intermediation	26,534	26,222	-588	-86	-6.3	-4.5	1,090	1,546
16.2 Total ex. Financial Intermediation and Property Related Sectors	15,469	15,823	-397	358	-3.8	-1.5	700	1,114

Private-Sector Enterprise Credit developments

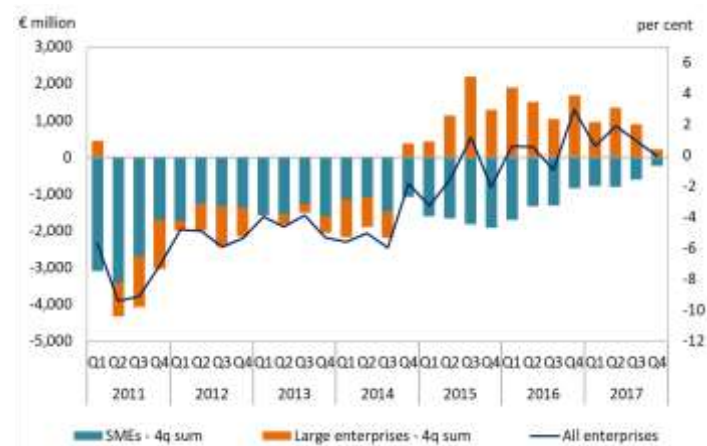
- **The total outstanding amount of credit to all Irish resident private-sector enterprises** was €90.3 billion at end-Q4. Excluding financial intermediation³, which accounts for 53 per cent of total credit, outstanding stock was €42.8 billion.
- **Credit to non-financial businesses** declined by 1 per cent over 2017 (Chart 8), as private-sector enterprises repaid €424 million more than was drawn down in new loans. The real estate sector drove the overall decline with repayments exceeding new lending by €438 million over the year.
- **Credit advanced to core Irish private-sector enterprises** declined by 0.1 per cent in annual terms (Chart 8), to stand at €27.7 billion at end-Q4 2017. Repayments exceeded drawdowns by €22 million over the year. The divergence in lending trends between SMEs and large enterprises has lessened in recent quarters (Chart 9).
- **Lending to large enterprises engaged in core activities** recorded an annual increase of 1.9 per cent in 2017, and a quarterly increase of 1.1 per cent in Q4. Large enterprises in the wholesale and business and administration sectors were the main driver of the annual net increase in 2017, recording lending increases of €155 million and €128 million respectively over the year.
- In quarterly terms, seven large core sectors registered net increases, with overall drawdowns exceeding repayments by €128 million in the quarter.

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

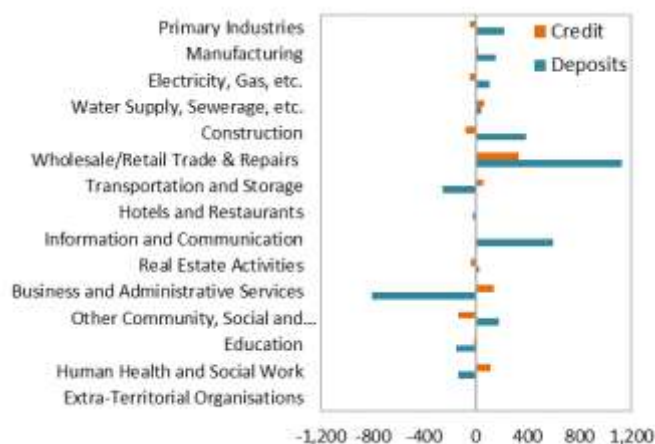
- **Deposits from all Irish private-sector enterprises** increased by €5.6 billion over the year, with the outstanding deposit book now standing at €93.2 billion. This reflects an annual growth rate of 6.3 per cent.
- The financial intermediation sector (excluding monetary financial institutions) recorded net inflows of €652 million in annual terms. This was primarily driven by strong inflows in Q3 2017.
- **Excluding financial intermediation, deposits from private-sector enterprises** increased by 9.6 per cent year-on-year, to stand at €55.9 billion. All sector groupings apart from manufacturing recorded positive annual growth (Chart 10). On a quarterly basis, deposits from all non-financial sectors increased by 2.6 per cent, or €1.4 billion.
- **Deposits from nine of the fifteen non-financial sectors increased in Q4 2017** (Chart 11). Enterprises engaged in the wholesale/retail trade and repairs sector recorded the largest net inflows over the quarter. Businesses engaged in the business and administration sector recorded the largest net declines in the quarter, with outflows of €806 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 – Q4 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.