



Trends in Business Credit and Deposits: Q3 2017

Gross new lending to Irish SMEs declined in Q3 2017. However, there are diverging trends between SMEs and larger enterprises, with the latter showing much stronger growth.

- **Gross new lending** to non-financial, non-property related SMEs totalled €2.5 billion over the first three quarters of 2017, representing a 14.5 per cent increase on the same period in 2016. However, there was a €36 million decline in gross new lending to core SMEs on an annual basis. Drawdowns for wholesale/retail trade & repairs, and agricultural purposes dominated in Q3, with a total of €271 million in gross new lending advanced in these two sectors.
- **Property-related lending** constituted 41 per cent of outstanding credit to SMEs, and 37 per cent of total new drawdowns in Q3. 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 8.2 per cent annual increase marked the 12th consecutive period of positive annual growth. However, the series recorded a marginal quarter-on-quarter decline of 0.6 per cent.
- **Deposits from Irish resident non-financial private-sector enterprises** increased by €5.3 billion in the year to end-September 2017. The sectors contributing most to this increase were real estate activities, and business and administration.

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

SME Credit and Interest Rate developments

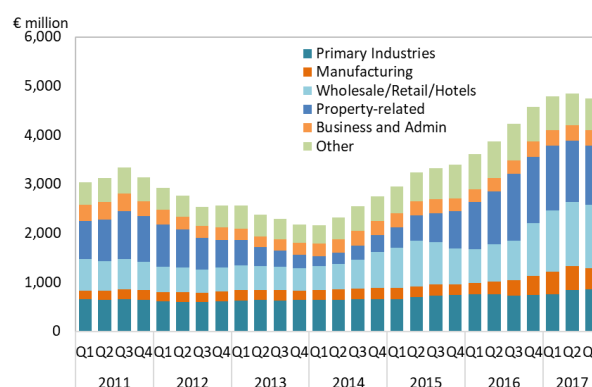
- **Bank credit to Irish SMEs** declined for the 24th consecutive quarter in Q3 2017. SME credit declined by 2.1 per cent over the quarter to stand at €26.7 billion.¹ This represented an annual decrease of 6.1 per cent.
- **The outstanding stock of SME credit** includes €11.1 billion relating to property (real estate and construction) and €15.5 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. Property-related SME loans declined by €191 million in the quarter, as repayments continue to outstrip new drawdowns. This is the 24th consecutive quarterly decline in this figure, with the last increase occurring in Q3 2011.
- **Gross new lending to property related SMEs** was €1.2 billion over the past twelve months; €165 million lower than the previous year (Chart 1). This masks a divergence between real estate lending which recorded a decrease of €193 million and new lending for construction which increased by €28 million. In Q3, drawdowns totalled €390 million, or 37 per cent of total SME gross drawdowns.
- Repayments of lending by the non-financial SME sector to date in 2017 (Chart 2) are lower than in previous years, while new loan drawdowns are slightly higher than in recent years.
- **The stock of credit to core SMEs** contracted by 3.8 per cent over the past year, as €616 million more was repaid than drawn down. The human health and social work, and

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 Q3
Credit to SMEs				
Average net quarterly flow (€m)	-271	-482	-210	-397
Annual growth rate (%)	-4.9	-8.1	-6.8	-3.8
Credit to large enterprises				
Average net quarterly flow (€m)	82	321	420	-71
Annual growth rate (%)	-4.1	12.9	15.1	8.2

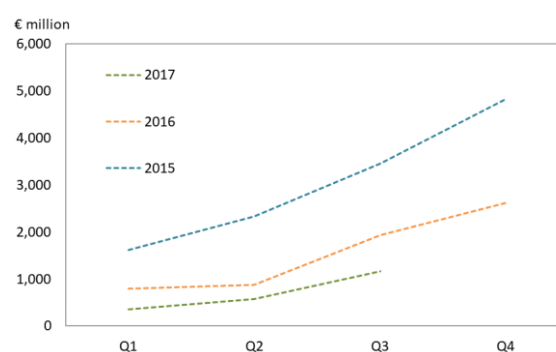
Source: Business Credit and Deposits [Table A.14](#) & [Table A.14.1](#)

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.

wholesale retail trade and repairs sectors were the main drivers of this decline over the year. Credit to core SMEs remains consistently in decline, in contrast to large enterprises, which have seen many quarters of growth in recent years (Chart 3).

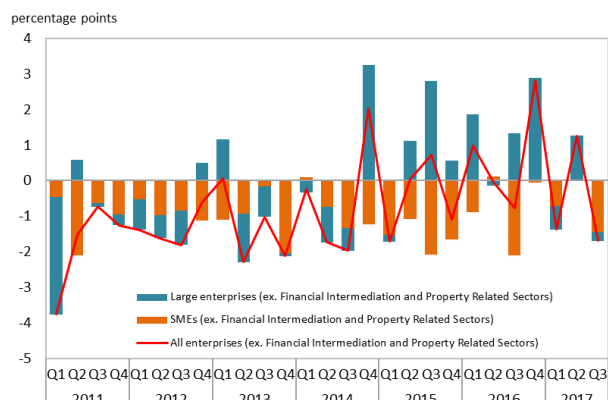
- **Gross new lending to core SMEs** was €632 million during Q3 2017, representing a decrease on the previous quarter of €334 million, possibly reflecting seasonal factors.² New drawdowns totalled €3.5 billion over the past twelve months, reflecting a 23.9 per cent year-on-year increase. Many core SME 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 43 per cent of all new core SME drawdowns in the quarter: primary industries, and wholesale/retail (Chart 1).
- **Six non-financial economic sectors registered increases in net SME lending** during Q3 (drawdowns exceeded repayments); however this was offset by continuing net repayments in wholesale retail trade and repairs, and on property related lending (Chart 4). Overall, non-financial SME credit declined by €588 million in Q3.

Interest rates on loans to SMEs

- **The weighted average interest rate on new non-financial SME loan drawdowns** was 3.79 per cent in Q3 2017 (Chart 5). This represents an increase of 4 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-Q3 2017.

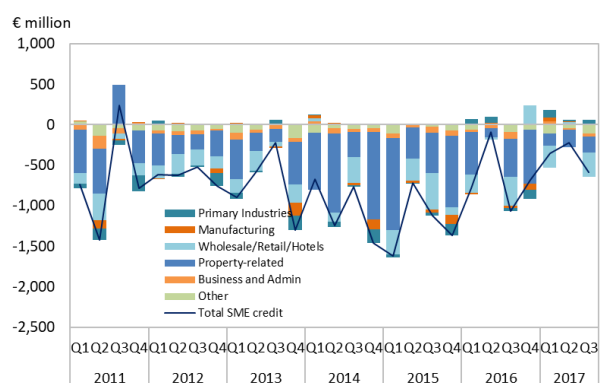
² See Note 2 for the definition of gross new lending.

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



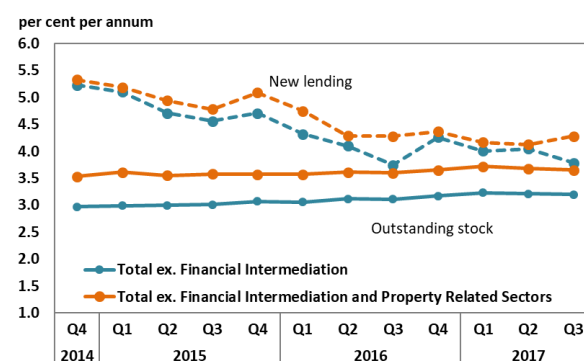
Source: Business Credit and Deposits [Table A.14](#) & [Table A.14.1](#)

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



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

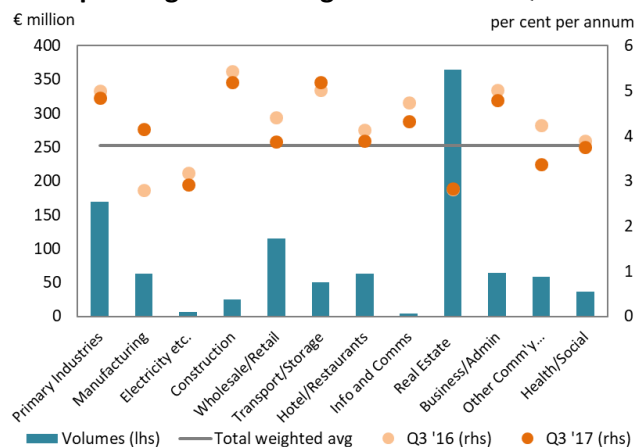
Chart 5: Interest rates on new and outstanding SME loans



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

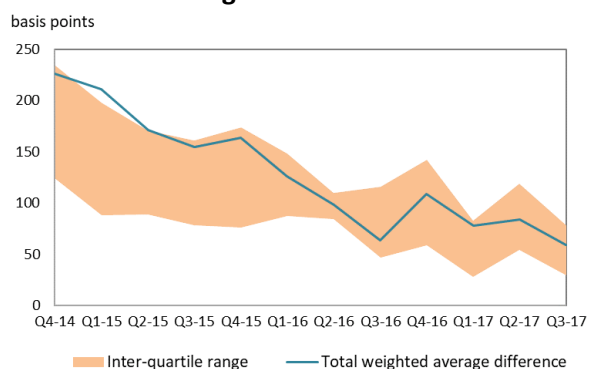
- **New lending rates** declined in most economic sectors over the past four quarters (Chart 6). Of note was the annual interest rate decline to SMEs engaged in the wholesale/retail sector (54 basis points). Construction SMEs experienced a decrease of 25 basis points over the same period, but continued 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. Rates on new drawdowns to construction SMEs, at 5.19 per cent, remained significantly higher than rates to the real-estate sector, at 2.83 per cent (Chart 6). The 236 basis point difference between the two sectors is the highest since Q3 2016.
- **The margin between rates charged** on new (non-financial SME) drawdowns and existing loans fell in Q3 2017 to 59 basis points (Chart 7). Education, other community, and electricity related SME lending recorded lower rates on new drawdowns compared to the existing stock of loans in these sectors over the quarter.

Chart 6: SME new lending interest rates and corresponding new lending drawdowns – Q3 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](#)

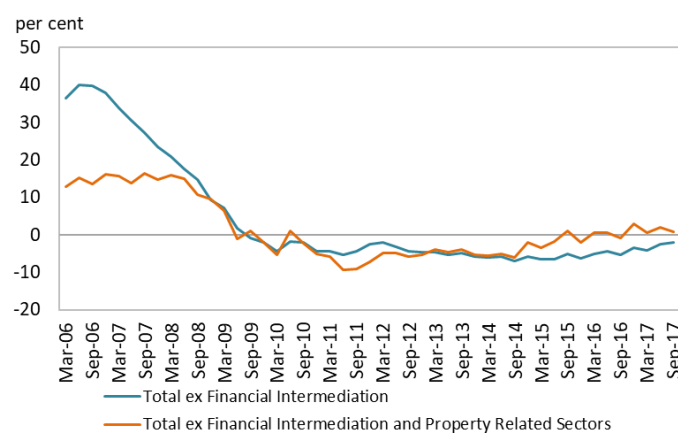
Table A.14.1 Credit Advanced to Irish Resident Small and Medium Sized Enterprises

	Outstanding amounts - € million		Transactions - € million		Annual Growth rates - per cent.		Gross New Lending € million	
	Jun-17	Sep-17	Jun-17	Sep-17	Jun-17	Sep-17	Jun-17	Sep-17
1. Primary Industries	3,510	3,559	15	48	-1.1	1.1	257	169
2. Manufacturing	1,331	1,341	8	10	-3.5	-0.5	128	65
3. Electricity, Gas, Steam and Air Conditioning Supply	236	225	17	-11	-0.2	7.7	20	6
4. Water Supply, Sewerage, Waste Management and Remediation..	32	32	20	0	80.7	91.8
5. Construction	560	559	-43	5	-7.4	-4.9	30	25
6. Wholesale/Retail Trade & Repairs	3,922	3,600	44	-317	-5.9	-7.0	222	102
7. Transportation and Storage	497	485	2	-11	-9.9	-9.6	94	50
8. Hotels and Restaurants	2,554	2,537	-8	10	-4.1	-2.1	119	63
9. Information and Communication	178	167	-3	-11	-13	-10.3	6	5
10. Financial Intermediation (Excl. Monetary Financial Institutions)	145	169	-9	22	-13.3	40.8	26	36
11. Real Estate Activities	10,854	10,507	-180	-196	-11.2	-9.7	208	365
12. Business and Administrative Services	1,290	1,225	-18	-41	-2.5	-0.2	55	64
13. Other Community, Social and Personal Services	1,191	1,203	-38	13	-9.7	-6.5	33	58
14. Education	205	178	-4	-13	-16.4	-21.6	2	12
15. Human Health and Social Work	999	918	-34	-74	-6.2	-13.3	11	37
16. Total	27,504	26,703	-231	-566	-7.5	-6.1	1230	1,058
16.1 Total ex. Financial Intermediation	27,359	26,534	-222	-588	-7.4	-6.3	1203	1,022
16.2 Total ex. Financial Intermediation and Property Related Sectors	15,945	15,469	1	-397	-4.7	-3.8	966	632

Private-Sector Enterprise Credit developments

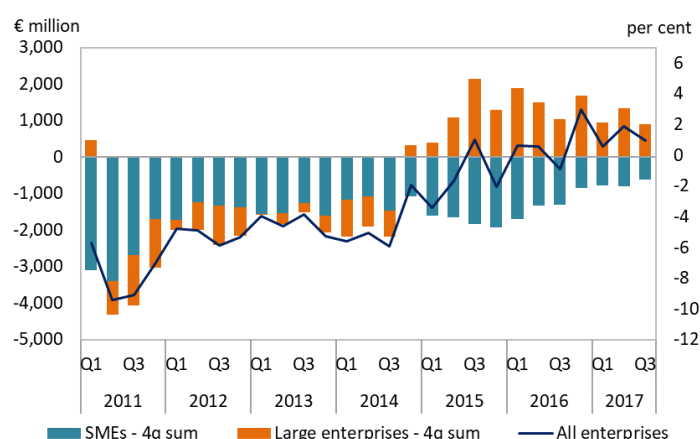
- **The total outstanding amount of credit to all Irish resident private-sector enterprises** was €90 billion at end-Q3. Excluding financial intermediation³, which accounts for 53 per cent of total credit, outstanding stock was €42.5 billion. SMEs account for 63 per cent of non-financial credit.
- **Credit to non-financial businesses** declined by 2.1 per cent over the twelve months to end-Q3 2017 (Chart 8), as private-sector enterprises repaid €944 million 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 0.9 per cent in annual terms (Chart 8), to stand at €26.9 billion at end-Q3 2017. Drawdowns exceeded repayments by €278 million over the year, however, there are contrasting developments between large enterprises and SMEs (Chart 9).
- **Lending to large enterprises engaged in core activities** recorded an annual increase of 8.2 per cent in Q3, and a decrease of 0.6 per cent over the quarter. Large enterprises in the manufacturing sector were the main driver of the net decrease in Q3 2017, recording a lending decrease of €216 million in the quarter.
- In quarterly terms, seven large core sectors registered net increases, however repayments exceeded drawdowns by €71 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](#)

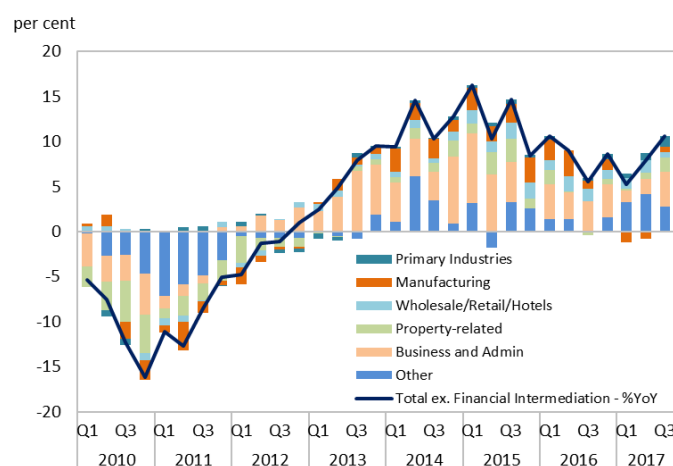
Note: Net flows are shown as a four-quarter sum.

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

Private-Sector Enterprise Deposit developments

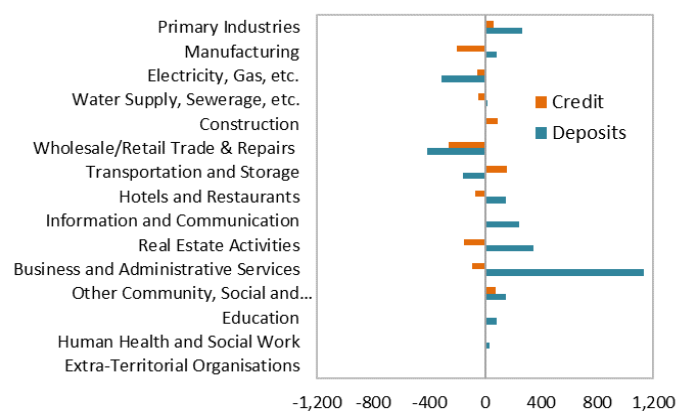
- **Deposits from all Irish private-sector enterprises** increased by €5.9 billion over the year, with the outstanding deposit book now standing at €92.3 billion. This reflects an annual growth rate of 6.8 per cent.
- The financial intermediation sector (excluding monetary financial institutions) recorded net inflows of €663 million in annual terms. This was primarily driven by strong inflows in Q3 2017.
- **Excluding financial intermediation, deposits from private-sector enterprises** increased by 10.6 per cent year-on-year, to stand at €54.8 billion. 36 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 per cent, or €1.6 billion.
- **Deposits from eleven of the fifteen non-financial sectors increased in Q3 2017** (Chart 11). Enterprises engaged in business and administration recorded the largest net inflows over the quarter. Businesses engaged in the wholesale/retail trade and repairs sector recorded the largest net declines in the quarter, with outflows of €412 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 – Q3 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.