

Trends in Business Credit and Deposits: Q1 2016

Gross new lending to SMEs was €200 million higher in Q1 2016 when compared to Q1 2015, as draw-downs, particularly for property investment and development, continued to increase.

- **Gross new lending to non-financial, non-property related SMEs**, at €657 million in Q1 2016, was almost identical to the same quarter in 2015. Draw-downs for agricultural purposes continue to dominate, despite consistently attracting higher than average interest rates.
- **Property-related** lending to SMEs no longer constitutes the largest share of outstanding credit to SMEs. However, the sector accounted for a third of gross new non-financial draw-downs during Q1 2016. 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 trends between SMEs and larger enterprises continued in Q1 2016, with large businesses continuing to be net borrowers and SMEs, net repayers.
- **Deposits flows from all non-financial private-sector enterprises** increased by €839 million in early-2016, following consistent increases since early-2013. In contrast to overall trends, there was a large deposit outflow by the wholesale/retail sector, which also recorded large net repayments over the quarter.

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

SME Credit and Interest Rate developments

- Bank credit to all Irish SMEs declined for the fifteenth consecutive quarter in Q1 2016.** The outstanding stock of SME credit declined by 2.6 per cent over Q1 2016 to stand at €41.5 billion.¹ This represented an annual decrease of 10 per cent.
- The outstanding stock of SME credit includes €9.3 billion of financial intermediation² credit, €14.4 billion relating to property (real-estate and construction) and €17.8 billion of non-financial, non-property, or ‘core’, credit.
- Property-related lending to SMEs** no longer constitutes the largest share of outstanding SME credit, mainly due to loan sales and large repayments over 2015. In annual terms, property-related SME loans declined by 12 per cent in the first quarter of 2016, with SMEs engaged in this sector repaying €2.4 billion more than was drawn down in new loans.
- Despite declines in outstanding credit to property-related SMEs, gross new lending has been increasing** since early-2015, with €962 million drawn down over the past 12 months (Chart 1). In Q1 2016, €322 million was drawn down, representing 33 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’s remain high (Chart 2), albeit Q1 data was lower than the previous year. Property-related SMEs continued to account for a large share of repayments in Q1 ‘16.
- Lending to core SMEs** contracted by 8.6 per cent, year-

¹ See Note 1 for the definition of SMEs.

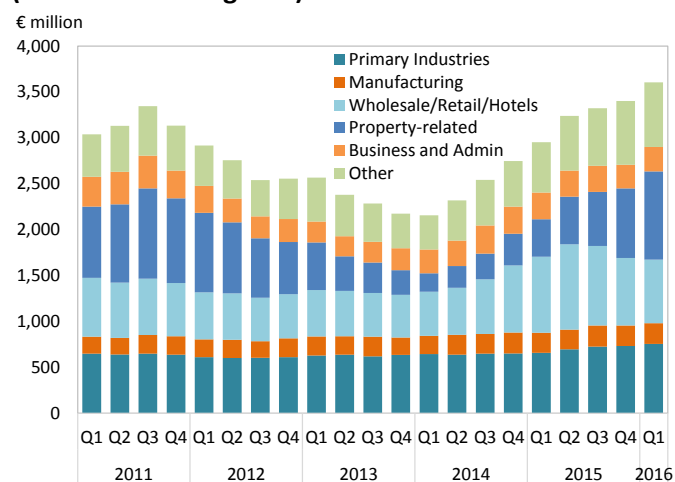
² SME data includes some enterprises in the financial intermediation sector, due to their balance sheet size.

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

	2013	2014	2015	2016 Q1
Credit to SMEs				
Average net quarterly flow (€m)	-403	-271	-482	-278
Annual growth rate (%)	-5.7	-4.9	-8.1	-8.6
Credit to large enterprises				
Average net quarterly flow (€m)	-113	66	272	407
Annual growth rate (%)	-1.8	-4.2	11.4	15.6

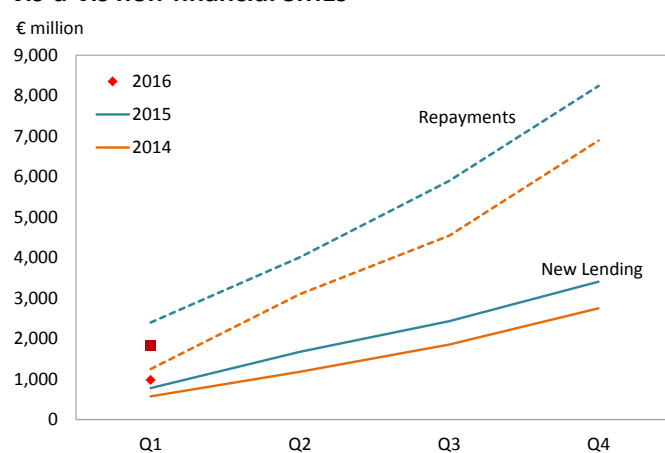
Source: Business Credit and Deposits [Table A.14](#) & [Table A.14.1](#)

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.

on-year in Q1, as €1.7 billion more was repaid than was drawn down. This was mainly driven by wholesale and retail SMEs. Credit to core SMEs has declined markedly in contrast to larger enterprises, which have been net borrowers in five of the last six quarters (Chart 3).

- **New lending drawdowns by core SMEs continues to gradually increase**, despite large net repayments.³ New drawdowns totalled €2.6 billion over the past 12 months; 3.9 per cent higher than the previous period. 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 Q1 2016, drawing down €200 million (Chart 1); this marked the highest drawdown since the series began in 2010. Repayment volumes by these SMEs declined in Q1, resulting in more new loans being drawn down than were repaid.
- **Four SME sectors registered underlying increases in net lending** (drawdowns exceeded repayments). Primary industries and transportation and storage recorded a combined net increase of €48 million (Chart 4).

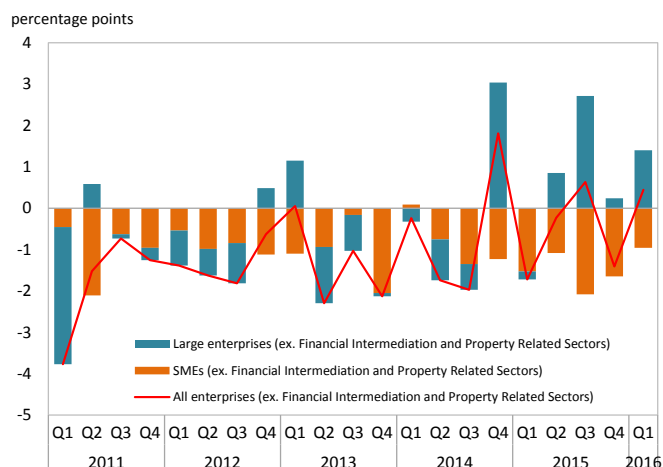
Interest rates on loans to SMEs

- **The weighted average interest rate on new non-financial SME loan draw-downs** during the first quarter of 2016, was 4.44 per cent (Chart 5). This represents a 27 basis point decline over the year. Rates on new lending are nonetheless higher than those applying to the existing stock of Irish SME loans, which averaged 3.06 per cent at end-Q1.⁴

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

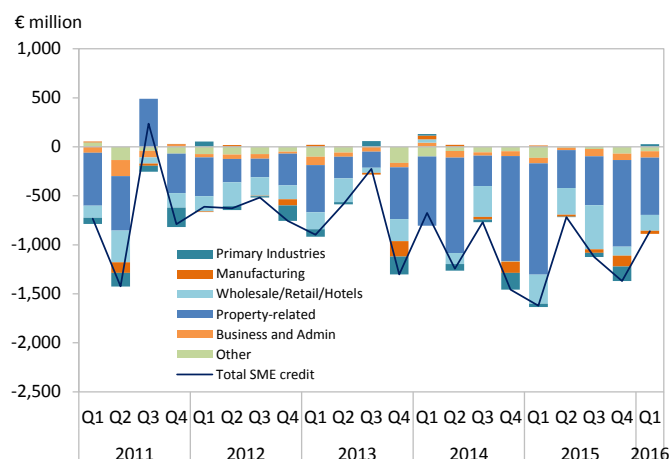
⁴ Outstanding loans include renegotiations of existing loans, which are excluded from new draw-downs.

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



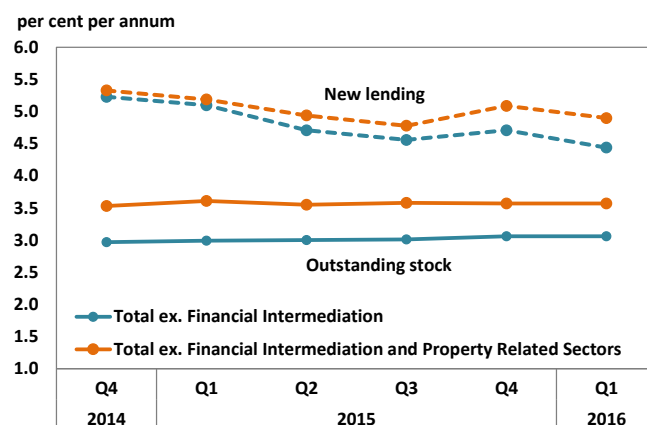
Source: Business Credit and Deposits [Table A.14](#) & [Table A.14.1](#)

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



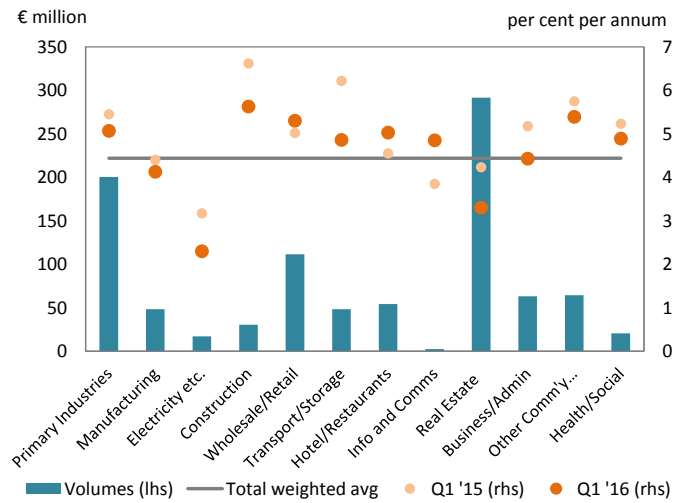
Source: Business Credit and Deposits [Table A.14.1](#)

Chart 5: Interest rates on new and outstanding SME loans



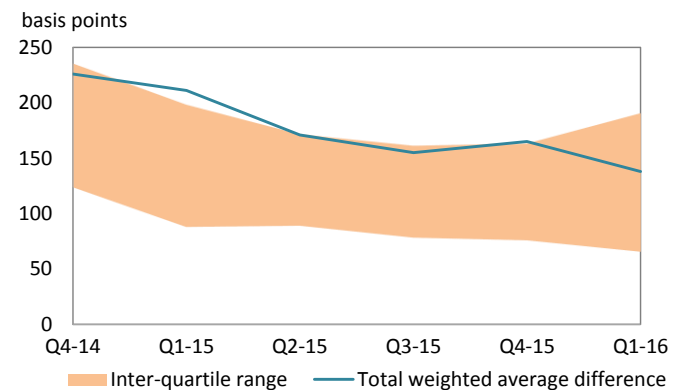
Source: Business Credit and Deposits [Table A.14.1](#)

- New lending rates have declined for SMEs in most economic sectors since Q1 2015** (Chart 6). The most notable were interest rate declines to SMEs engaged in transport and storage (136 basis points) and real-estate (93 basis points). Construction SMEs experienced a weighted average decline of 100 basis points since Q1 2015, although they continue to attract one of the highest interest rates on new drawdowns.
- Higher than average rates apply to new draw-downs by SMEs engaged in the agriculture and wholesale/retail; sectors that typically secure the largest shares of new lending. Rates on lending for community and social purposes were also notably higher than average. Rates on new draw-downs to construction SMEs, at 5.63 per cent, remained significantly higher than rates to the real-estate sector, at 3.30 per cent (Chart 6).
- The margin between total rates charged on new** (non-financial) draw-downs and existing loans continued to decline in Q1, albeit remaining elevated at 138 basis points (Chart 7). Electricity and supply service SMEs remain the only sector to record lower rates on new draw-downs compared to the existing stock of loans.

Chart 6: SME new lending interest rates and corresponding new lending drawdowns – Q1 2016


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](#)

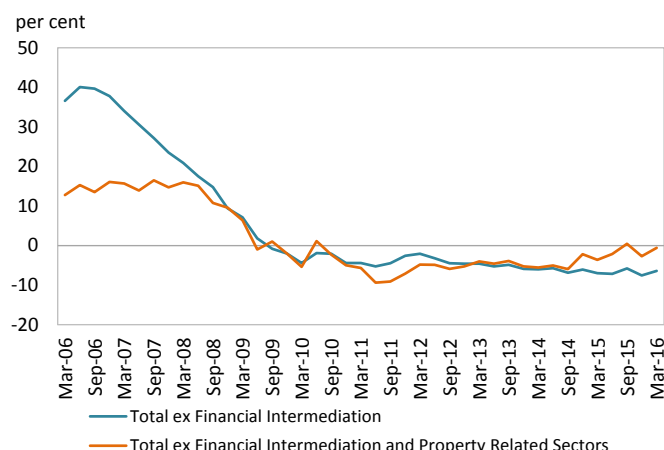
Table A.14.1 Credit Advanced to Irish Resident Small and Medium Sized Enterprises

	Outstanding amounts - € million		Transactions - € million		Annual Growth rates per cent.		Gross New Lending € million	
	Dec-15	Mar-16	Dec-15	Mar-16	Dec-15	Mar-16	Dec-15	Mar-16
1. Primary Industries	3,562	3,628	-148	28	-6.1	-4.5	197	200
2. Manufacturing	1,596	1,565	-112	-32	-8.7	-11.2	56	49
3. Electricity, Gas, Steam and Air Conditioning Supply	229	235	-11	11	-12.3	8.9	8	17
4. Water Supply, Sewerage, Waste Management and Remediation..	18	19	0	1	-18.4	-7.1	1	0
5. Construction	775	738	-39	-1	-8.1	-5.4	18	30
6. Wholesale/Retail Trade & Repairs	4,492	4,377	38	-116	-8.6	-10.8	92	134
7. Transportation and Storage	604	619	-44	20	-4.7	-4.2	32	48
8. Hotels and Restaurants	2,984	2,871	-129	-46	-16.6	-11.9	59	54
9. Information and Communication	166	152	-8	-10	2.0	-0.9	6	4
10. Financial Intermediation (Excl. Monetary Financial Institutions)	9,555	9,314	-166	-264	-8.6	-9.0	36	7
11. Real Estate Activities	14,613	13,612	-845	-582	-12.6	-12.3	278	292
12. Business and Administrative Services	1,623	1,562	-65	-67	-11.7	-12.9	83	64
13. Other Community, Social and Personal Services	1,473	1,453	5	-20	-4.4	-2.1	98	65
14. Education	252	249	-3	-6	-13.5	-13.7	2	1
15. Human Health and Social Work	1,190	1,117	-8	-41	-3.6	-5.2	45	21
16. Total	43,131	41,511	-1,535	-1,125	-10.5	-10.0	1,011	986
16.1 Total ex. Financial Intermediation	33,576	32,196	-1,370	-861	-11.0	-10.2	975	979
16.2 Total ex. Financial Intermediation and Property Related Sectors	18,188	17,846	-486	-278	-9.3	-8.6	679	657

Private-Sector Enterprise Credit developments

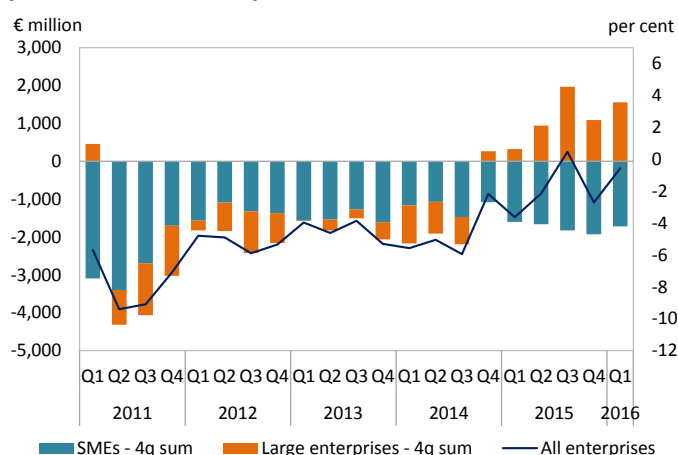
- **The total amount of credit outstanding to all Irish private-sector enterprises** on the balance sheet of resident credit institutions was €106.7 billion at the end of Q1 2016. Excluding financial intermediation⁵, which accounts for 55 per cent of total credit, outstanding stock was €48.5 billion at the end of Q1. SMEs account for 66 per cent of non-financial credit.
- **Non-financial credit declined** by 6.4 per cent in the 12 months to end-Q1 2016 (Chart 8), as private-sector enterprises repaid €3.6 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 0.6 in annual terms to stand at €28.9 billion at the end of Q1 (Chart 8). However, there are contrasting underlying developments between larger enterprises and SMEs.
- **Larger core enterprises** have been net borrowers during the past year and have drawn down €1.6 billion more in new loans than was repaid (Chart 9). Developments were mainly driven by large enterprises engaged in the manufacturing sector, and business and administration sector, to a lesser extent.
- In quarterly terms, drawdowns to large core enterprises exceeded repayments by €407 million in Q1 2016, with eight sectors registering net increases. Large enterprises engaged in manufacturing registered the largest quarterly increase of €575 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](#)

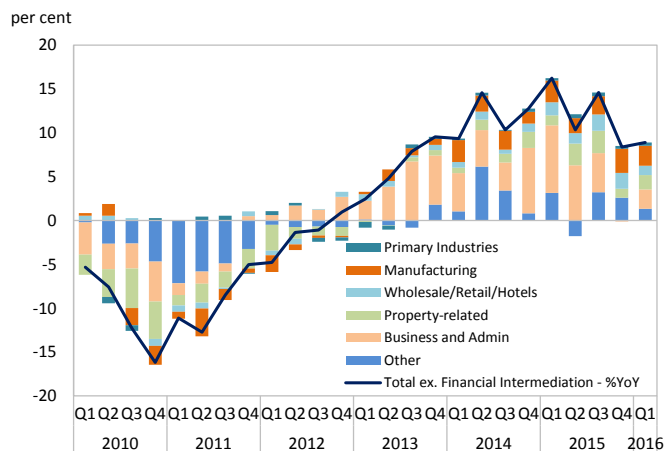
Note: Net flows are shown as a four-quarter sum.

⁵ This would include holdings of debt securities issued by the NAMA Master SPV and other financial vehicle corporations.

Private-Sector Enterprise Deposit developments

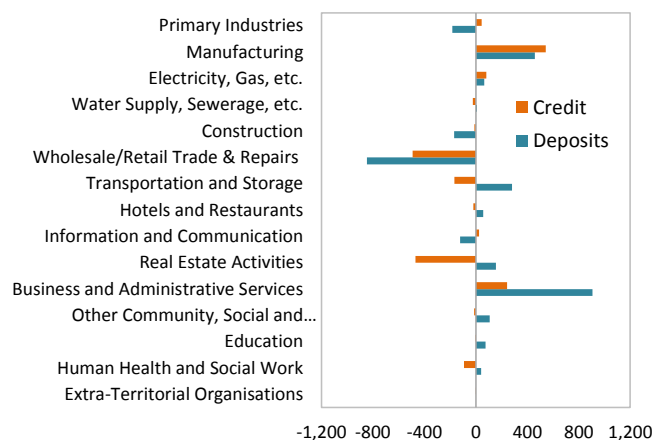
- **Deposits from all Irish private-sector enterprises** increased by €3.1 billion in the 12 months to Q1 2016 to stand at €85.6 billion. This reflects year-on-year growth of 3.8 per cent.
- The financial intermediation sector (excluding monetary financial institutions) recorded net outflows of €913 million in annual terms with strong outflows in Q1.
- **Excluding financial intermediation, deposits from private-sector enterprises** increased by 8.9 per cent in the 12 months to end-Q1, to stand at €49 billion. Half of the annual increase can be attributed to the manufacturing and business and administration sector (Chart 10). On a quarterly basis, deposits from all non-financial sectors increased 1.7 per cent.
- **Deposits from ten of the fifteen non-financial sectors increased in Q1 2016** (Chart 11), with business and administration enterprises recording the largest increase in net deposit flows of €906 million. This sector also recorded a positive net increase in credit. The wholesale/retail sector recorded the largest outflow.
- Only two economic sectors recorded falls in both credit and deposits during Q1 2016 (Chart 11). The wholesale/retail sector, in particular, recorded large net repayments along with large net deposit outflows. Also of note was the both large net credit and deposit inflows related to manufacturing businesses in Q1.

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 2016



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](#).

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