

Trends in Business Credit and Deposits: Q2 2016

Gross new lending to SMEs was €275 million higher in Q2 2016 compared to Q2 2015, driven in large part by new lending to the property investment and development sector.

- **Gross new lending to non-financial, non-property related SMEs** was €858 million in Q2 2016, €143 million more than in the same quarter in 2015. Draw-downs for agricultural purposes and for the wholesale/retail trade sector were also significant.
- **Property-related** lending constituted 43.8 per cent of outstanding credit to SMEs in Q2 2016. The sector accounted for 26 per cent of gross new non-financial draw-downs in the second quarter. There are, 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 Q2 2016, with large businesses continuing to be net borrowers and SMEs repaying more than was drawn down.
- **Deposit flows from all non-financial private-sector enterprises** increased by €489 million in Q2 2016. After the large outflow in the first quarter, there was a large inflow by the wholesale/retail sector.

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 nineteenth consecutive quarter in Q2 2016.** The outstanding stock of SME credit declined by 1.2 per cent over Q2 2016 to stand at €32 billion.¹ This represented an annual decrease of 10.2 per cent.
- The outstanding stock of SME credit includes €14 billion relating to property (real-estate and construction); a revised €174 million of financial intermediation² credit; and €17.8 billion of non-financial, non-property, or ‘core’, credit.
- **Property-related lending to SMEs** represents the largest share of outstanding SME credit. However, in annual terms, property-related SME loans declined by 9.8 per cent in the second quarter of 2016, with SMEs engaged in this sector repaying €2.2 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 €1.1 billion drawn down over the past 12 months (Chart 1). In Q2 2016, €295 million was drawn down, representing 25.6 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 SMEs remain high (Chart 2), albeit H1 data was lower than 2015. Property-related SMEs continued to account for a large share of repayments in Q2 ‘16.

¹ See Note 1 for the definition of SMEs.

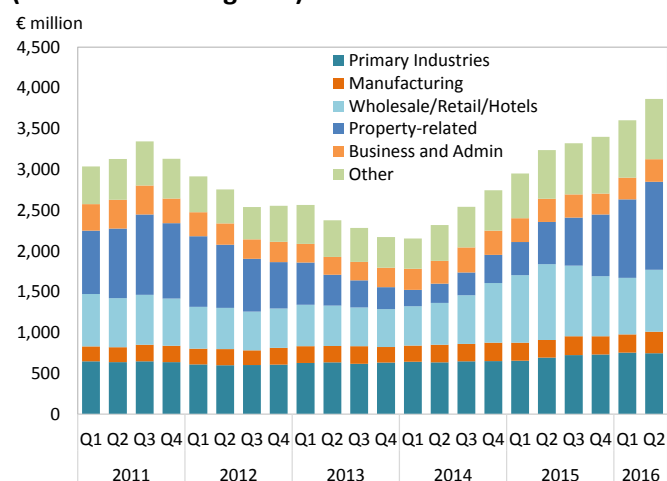
² See Note 2.

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

Credit to all enterprises (non-financial, non-property)					
	2013	2014	2015	2016 Q1	2016 Q2
Credit to SMEs					
Average net quarterly flow (€m)	-403	-271	-482	-278	-310
Annual growth rate (%)	-5.7	-4.9	-8.1	-8.6	-8.7
Credit to large enterprises					
Average net quarterly flow (€m)	-113	66	272	357	357
Annual growth rate (%)	-1.8	-4.2	11.4	15.1	15.9

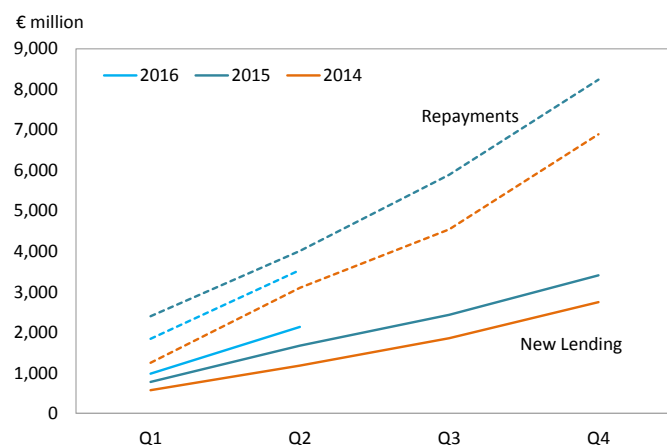
Source: Business Credit and Deposits [Table A.14](#) & [Table A.14.1](#)

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 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.

- **Lending to core SMEs** contracted by 8.7 per cent year-on-year in Q2, as repayments exceeded new drawdowns by €310 million. 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 the last four quarters (Chart 3 Table 1).
- **Gross new lending drawdowns by core SMEs continues to increase**, despite large net repayments.³ New drawdowns totaled €2.8 billion over the past 12 months; 2.5 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 real estate activities sector was the largest recipient of new SME lending over Q2 2016, drawing down €255 million (Chart 1); this marked the highest drawdown since the series began in 2010.
- **Five SME sectors registered underlying increases in net lending** (drawdowns exceeded repayments). Transportation and storage, Wholesale/Retail trade and repairs and Construction recorded a combined net increase of €105 million (Chart 4).

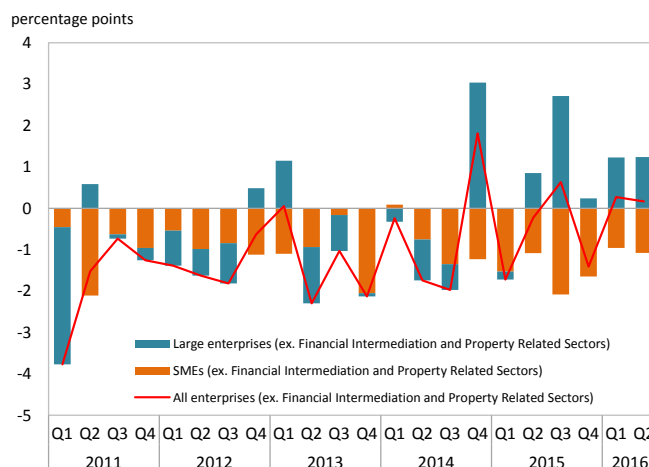
Interest rates on loans to SMEs

- **The weighted average interest rate on new non-financial SME loan draw-downs** during the second quarter of 2016 was 4.1 per cent (Chart 5). This represents a 61 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 3.12 per cent at end-Q2.⁴

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

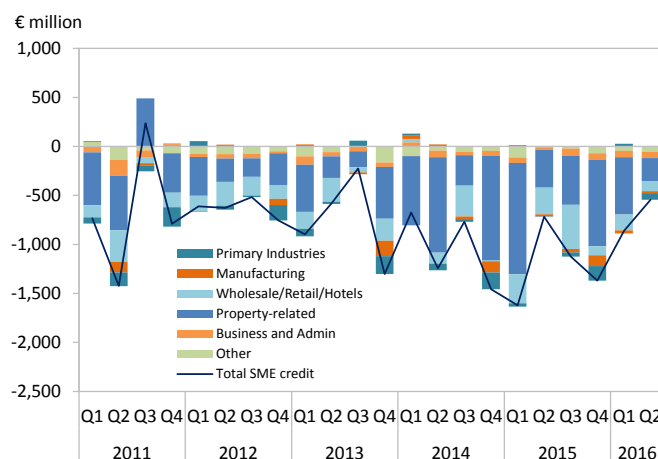
⁴ Outstanding loans include renegotiations of existing loans, which are excluded from new draw-downs.

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



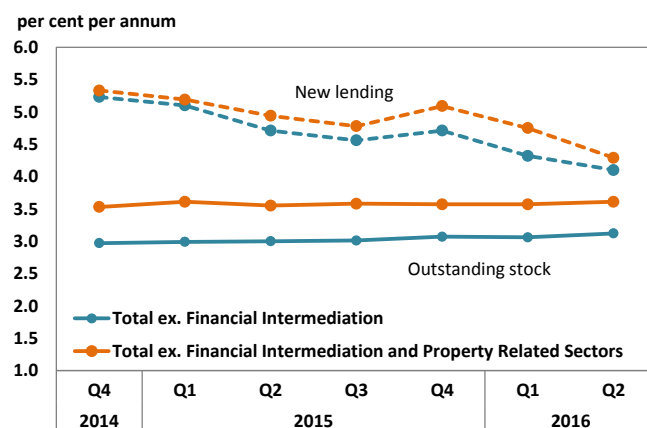
Source: Business Credit and Deposits [Table A.14](#) & [Table A.14.1](#)

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



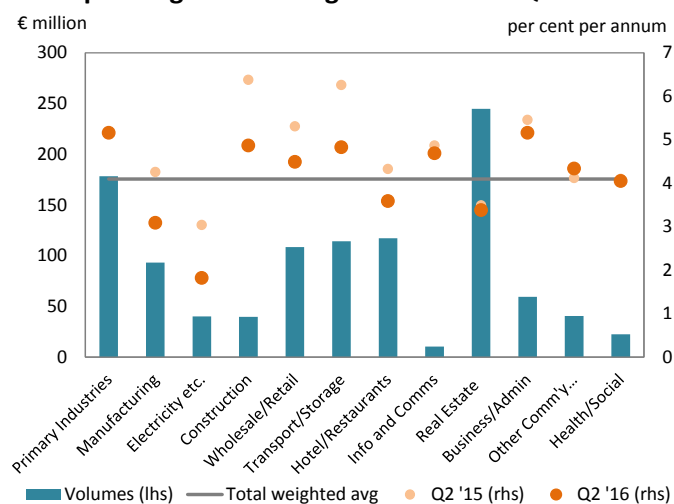
Source: Business Credit and Deposits [Table A.14.1](#)

Chart 5: Interest rates on new and outstanding SME loans



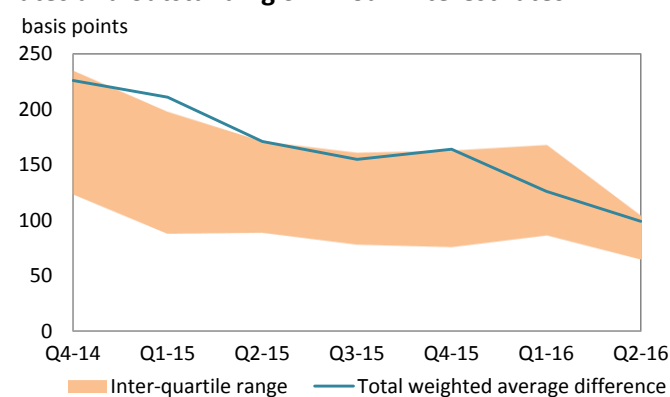
Source: Business Credit and Deposits [Table A.14.1](#)

- **New lending rates have declined for SMEs in most economic sectors since Q2 2015** (Chart 6). The most notable were interest rate declines to SMEs engaged in Construction (151 basis points) and Electricity, Gas and Steam (122 basis points). Primary Industries and Construction SMEs continue to attract 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 Business and Administration purposes were also notably higher than average. Rates on new draw-downs to construction SMEs, at 4.87 per cent, remained significantly higher than rates to the real-estate sector, at 3.4 per cent (Chart 6).
- **The margin between total rates charged on new** (non-financial) draw-downs and existing loans continued to decline in Q2, albeit remaining elevated at 100 basis points (Chart 7). Electricity, manufacturing and water supply SMEs are the only sectors 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 – Q2 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](#)

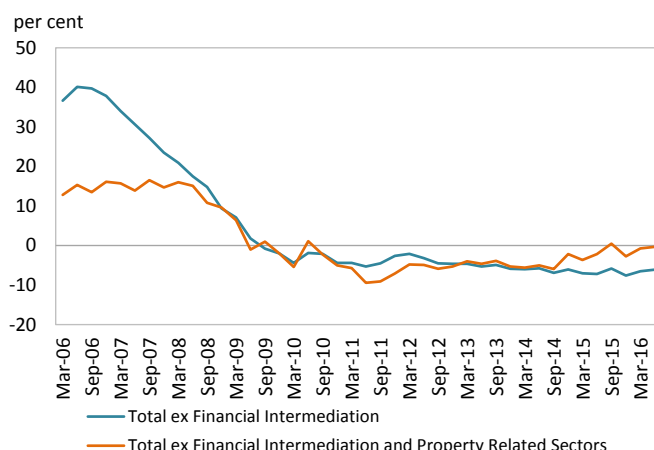
Table A.14.1 Credit Advanced to Irish Resident Small and Medium Sized Enterprises

	Series Code	Outstanding amounts		Transactions € million		Annual Growth rates per cent.		Gross New Lending - € million	
		Mar-16	Jun-16	Mar-16	Jun-16	Mar-16	Jun-16	Mar-16	Jun-16
1. Primary Industries	1,168	3,628	3,675	28	-69	-4.5	-6.2	200	178
2. Manufacturing	1,172	1,565	1,510	-32	-20	-11.2	-11.3	49	94
3. Electricity, Gas, Steam and Air Conditioning Supply	1,181	235	237	11	2	8.9	4.8	17	40
4. Water Supply, Sewerage, Waste Management and Remediation Activities	1,182	19	19	1	0	-7.1	-2.8	0	1
5. Construction	1,183	738	785	-1	45	-5.4	0.3	30	40
6. Wholesale/Retail Trade & Repairs	1,187	4,377	4,435	-116	28	-10.8	-6.8	134	177
7. Transportation and Storage	1,192	619	663	20	32	-4.2	-0.3	48	114
8. Hotels and Restaurants	1,196	2,871	2,815	-46	-130	-11.9	-14.1	54	117
9. Information and Communication	1,201	152	155	-10	3	-0.9	-6.6	4	12
10. Financial Intermediation (Excl. Monetary Financial Institutions)	1,235	164	174	-25	12	-3.7	5.4	7	20
11. Real Estate Activities	1,208	13,612	13,218	-582	-280	-12.3	-12.6	292	255
12. Business and Administrative Services	1,211	1,562	1,536	-67	-63	-12.9	-15.2	64	60
13. Other Community, Social and Personal Services	1,218	1,453	1,403	-20	-63	-2.1	-6.6	65	41
14. Education	1,222	249	238	-6	-13	-13.7	-10.0	1	1
15. Human Health and Social Work	1,223	1,117	1,103	-41	-17	-5.2	-5.5	21	23
16. Total	1,225	32,360	31,967	-886	-533	-10.2	-10.2	986	1,173
16.1 Total ex. Financial Intermediation	1,236	32,196	31,792	-861	-545	-10.2	-10.2	979	1,153
16.2 Total ex. Financial Intermediation and Property Related Sectors	1,237	17,846	17,790	-278	-310	-8.6	-8.7	657	858

Private-Sector Enterprise Credit developments

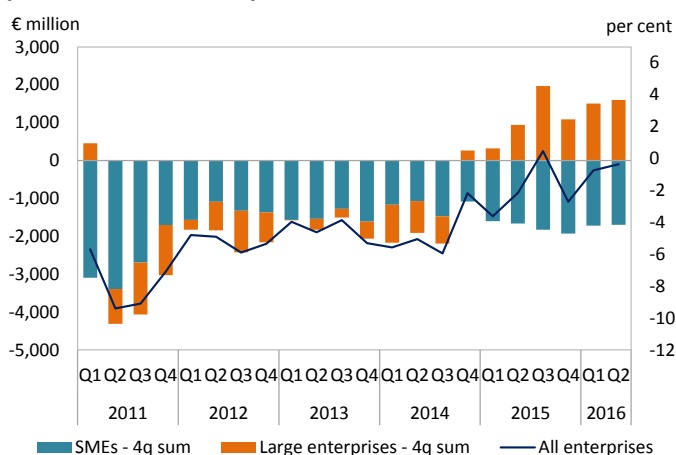
- **The total amount of credit outstanding to all Irish private-sector enterprises** on the balance sheet of resident credit institutions was €105.9 billion at the end of Q2 2016. Excluding financial intermediation⁵, which accounts for 55 per cent of total credit, outstanding stock was €47.3 billion at the end of Q2. SMEs account for 67 per cent of non-financial credit.
- **Non-financial credit declined** by 6.1 per cent in the 12 months to end-Q2 2016 (Chart 8), as private-sector enterprises repaid €3.25 billion more than was drawdown 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 0.3 per cent in annual terms to stand at €28.4 billion at the end of Q2 (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 Water Supply sector, and to a lesser extent, the construction sector.
- In quarterly terms, drawdowns to large core enterprises exceeded repayments by €357 million in Q2 2016, with nine sectors registering net increases. Large enterprises engaged in Water Supply registered the largest quarterly increase of €201 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



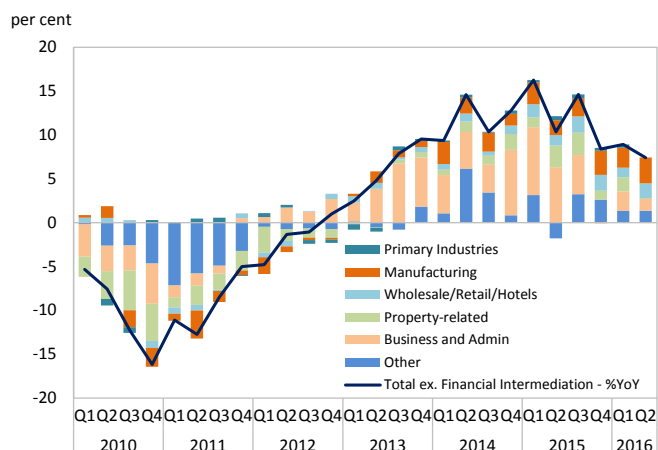
Source: Business Credit and Deposits [Table A.14](#) & [Table A.14.1](#)
Note: Net flows are shown as a four-quarter sum.

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

Private-Sector Enterprise Deposit developments

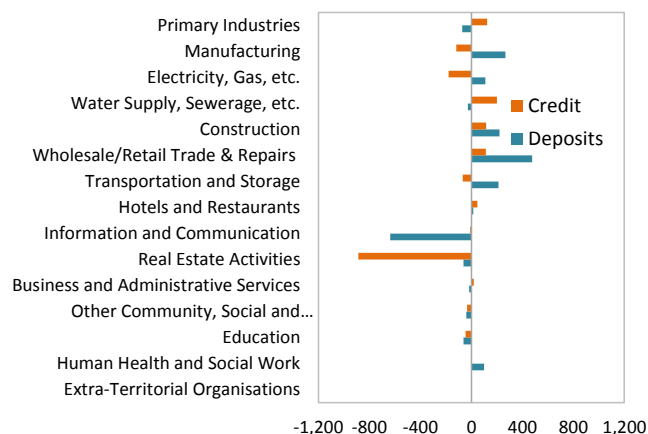
- **Deposits from all Irish private-sector enterprises** increased by €219 million in the 12 months to Q2 2016 to stand at €86.6 billion. This reflects year-on-year growth of 0.3 per cent.
- The financial intermediation sector (excluding monetary financial institutions) recorded net outflows of €3.2 billion in annual terms with strong outflows in Q1 and Q2.
- **Excluding financial intermediation, deposits from private-sector enterprises** increased by 7.4 per cent in the 12 months to end-Q2, to stand at €49.5 billion. Half of the annual increase can be attributed to the manufacturing sector (Chart 10). On a quarterly basis, deposits from all non-financial sectors increased by 1 per cent.
- **Deposits from seven of the fifteen non-financial sectors increased in Q2 2016** (Chart 11), with Wholesale/Retail Trade and Repairs recording the largest increase in net deposit flows of €478 million. The Information and Communication sector recorded the largest outflow.
- Four economic sectors recorded falls in both credit and deposits during Q2 2016 (Chart 11). Large net credit and deposit inflows related to manufacturing businesses and to a lesser extent business and administrative services were notable in Q2.

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 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:

There have been significant revisions to the financial intermediation series due to methodological issues with a number of credit institutions. SME data includes some enterprises in the financial intermediation sector, due to their balance sheet size.

Note 3:

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 4:

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](#).

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