



Banc Ceannais na hÉireann
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Box B: QB 3 – September 2024

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Developments in Business Lending in Ireland

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This *Box* provides a brief overview of the current state of lending to businesses in Ireland. New NFC lending volumes were low in the rising interest rate environment of 2022 and 2023, but have stabilised as rates have plateaued. SME lending, which makes up approximately one quarter of total lending to private enterprises in Ireland, mirrors the key developments in overall lending¹.

Lending to Businesses

The twelve-month growth rate in total lending is a significant indicator of the state of credit in the economy (Figure 1). Beginning in 2019, there was negative lending growth as lending declined through Q3 2021 when the negative trend reversed. The growth rate of business lending excluding financial intermediation peaked in mid-2022. Growth rates have since stabilised around zero. This near-zero level has held from Q4 2023 until the most recent data in Q2 2024.

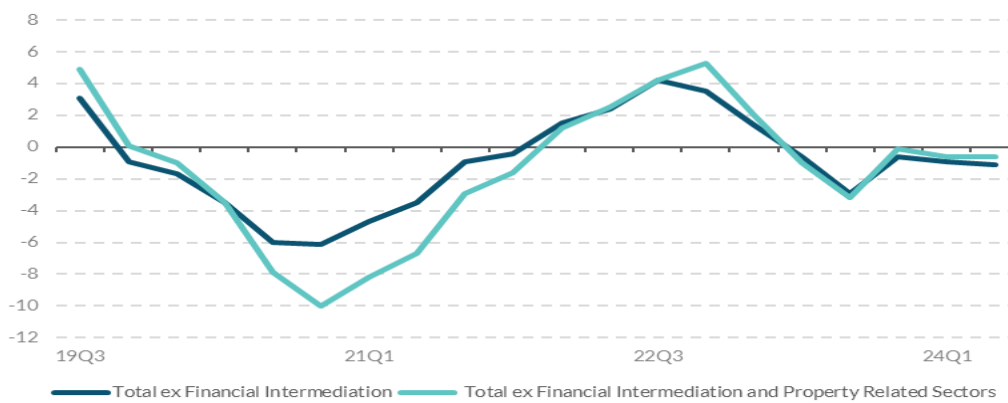
¹ [NFC new lending/deposits](#) and [lending to Irish resident private enterprises \(and SMEs\)](#) are collected under different regulations and differ slightly in methodology. See explanatory notes [here](#) & [here](#) & for more information.



Lending to business still contracting as repayments exceed drawdowns

Figure 1

Annual Growth Rate (%)

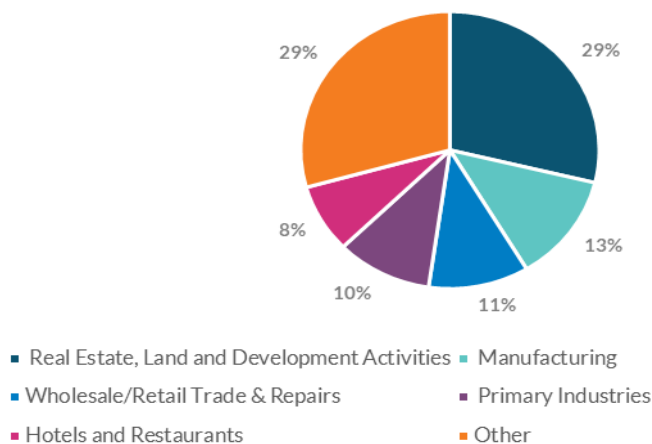


Source: Central Bank of Ireland Money & Banking Statistics

Lending to the financial intermediation² sector is the most significant component of bank lending to Irish resident private enterprises, accounting for 48% of lending as of Q2 2024. However, the exclusion of financial intermediation from the aggregate business lending figures gives a clearer picture of lending to the real economy. Excluding financial intermediation, the sector with the largest balance of outstanding lending is Real Estate, Land and Development Activities (29%, figure 2).

Real Estate remains the largest sector by volume of outstanding lending in Q2 2024

Figure 2



Source: Central Bank of Ireland Money & Banking Statistics

² Define financial intermediation

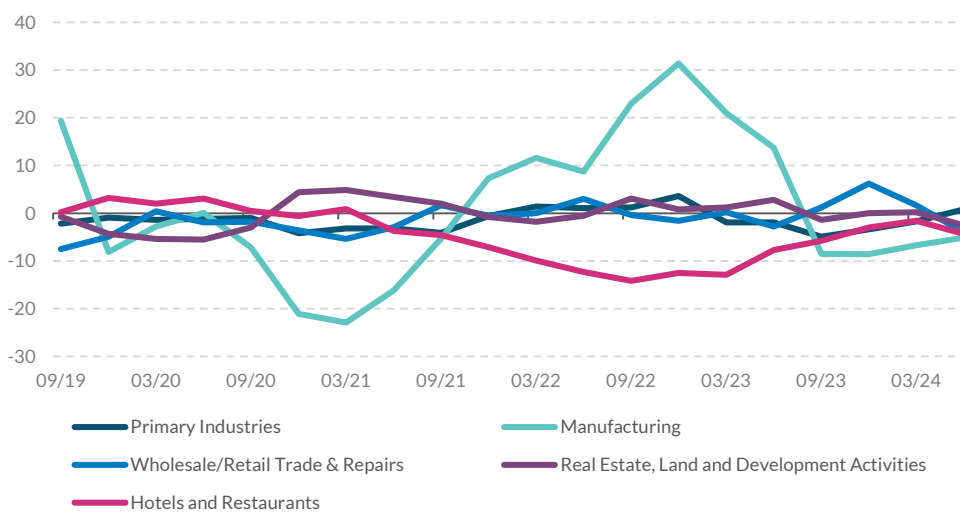


Among the top five sectors by volume of outstanding lending, Primary Industries, Wholesale/Trade & Repairs, and Real Estate, Land & Development have had relatively flat and stable annual lending growth rates over the past five years. The annual growth rate of lending to the manufacturing sector has been the most volatile of the largest sectors. The growth in lending to this sector decreased significantly in 2021 to a low of -22.9 per cent in Q1 2021 and rebounded strongly post-pandemic to a maximum of 31.4 per cent in Q4 2022, but has shrunk back to pre-pandemic levels and is negative as of Q2 2024 (-5.1 per cent). Lending to the Hotels & Restaurants sector also shrunk significantly in 2022, reaching a low of -14.2 per cent annual growth. More recently the pace of contraction has been less severe, at -4.3 per cent annual growth in Q2 2024.

Manufacturing and Hotels & Restaurants have had the most volatile lending annual growth rates over recent years

Figure 3

Annual Growth Rate (%)



Source: Central Bank of Ireland Money & Banking Statistics

The cost of borrowing and the credit environment

Businesses have faced higher costs of financing since the ECB began raising policy rates in 2022. The weighted average interest rate on new lending to non-financial corporations (NFCs) increased from 2.67 per cent in July 2022 to a peak of 6.51 per cent in March 2024, but the rate of increase slowed beginning in May 2023.

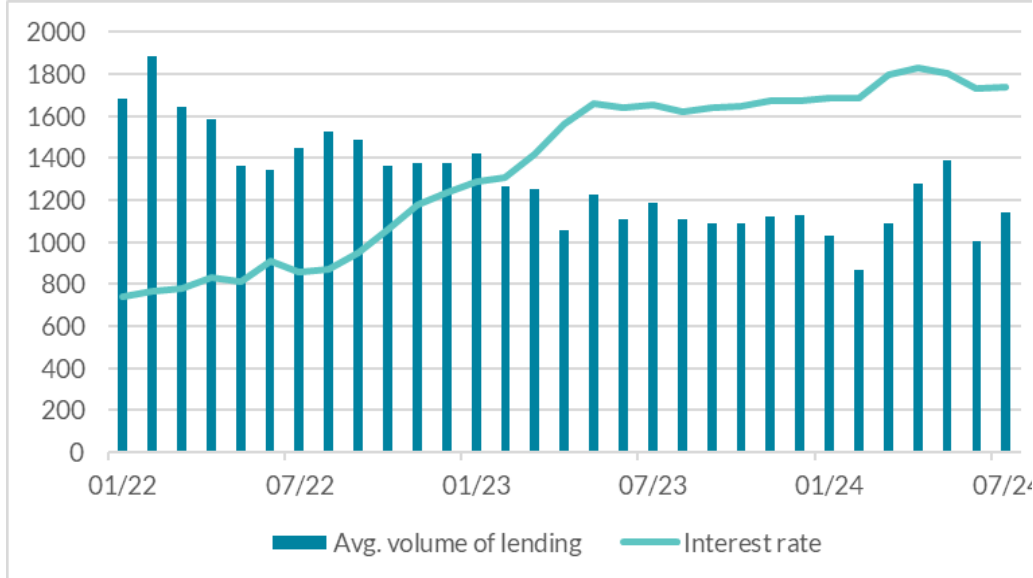


NFC lending volumes decreased in 2023 as interest rates increased

Figure 4

Volume (€ millions)

Interest rate (%)



Source: Central Bank of Ireland Retail Interest Rates Statistics

The decrease in new NFC lending between 2022 and 2023 is consistent with rising interest rates that were seen over the same period. As interest rates on new NFC lending stopped rising, the volume of new lending also stabilised and has begun showing signs of growth recently (Figure 4).

In the 12 months leading up to the first of the most recent policy rate increases (August 2021-July 2022), there was an average of €1.51 billion of new NFC lending per month, while in the 12 months following the first rate increase, new NFC lending averaged €1.26 billion per month. Although policy rates have not increased since September 2023, and have decreased by 25 basis points since then (as of end-June 2024), policy rates and downstream retail interest rates are still elevated relative to pre-2022 levels.

The ECB's Survey on the Access to Finance of Enterprises (SAFE) for Q2 2024 reports similar findings. Not only has the rise in interest rates on new lending to businesses slowed, according to the survey, fewer businesses across the Euro Area reported increases in other costs of financing (e.g. fees & commissions) in Q2 than in Q1. Conversely, banks reported a small tightening of credit standards for loans to businesses across the Euro Area in Q2 2024, according to the ECB's Bank Lending Survey.



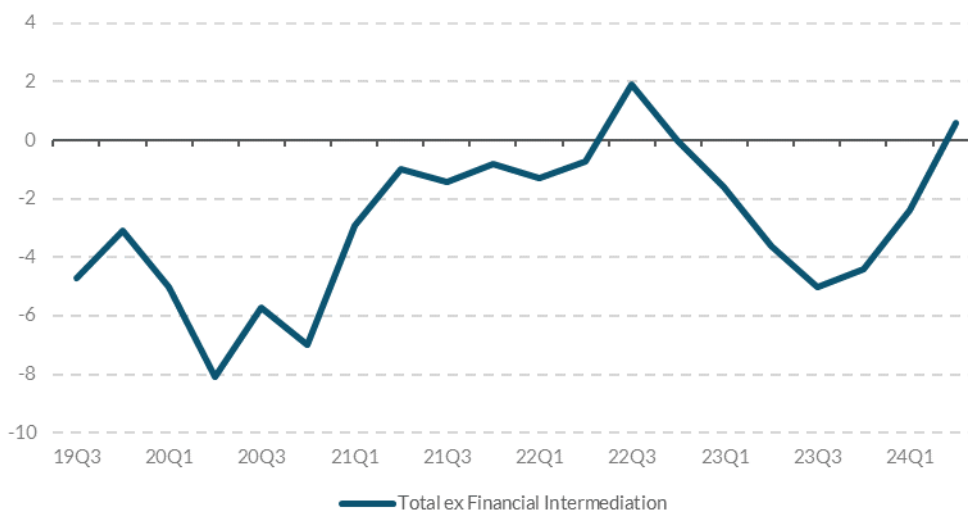
The picture for SMEs

SME lending has long been a consistent and significant proportion of overall outstanding lending to Irish resident enterprises. Over the last 5 years, SME lending as a proportion of total lending to domestic private enterprises has ranged from a peak of 29% in June 2021 to a low of 25% in June 2022 and currently sits at 27% of total lending. Interest rates on new lending to SMEs (excluding financial intermediation) started to rise in Q2 2022, peaked at 5.62 per cent in Q4 2023, and have now decreased to 5.49 per cent at end-Q2 2024. The annual growth rate of SME lending fell beginning in Q3 2022, but began recovering in Q3 2023. As of Q2 2024, the annual growth rate of lending to SMEs was positive for the first time since Q4 2022, at 0.6 per cent (Figure 5)

Growth in SME lending has followed a similar trend as growth in overall lending

Figure 5

Annual Growth Rate (%)



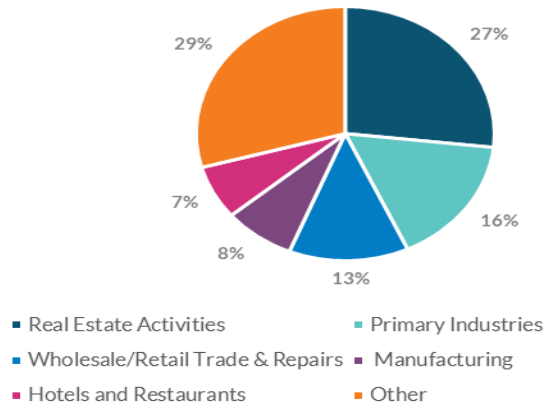
Source: Central Bank of Ireland Money & Banking Statistics

The sectoral makeup of the stock of SME lending is similar to the makeup of overall private sector lending in Ireland. Real estate activities is the largest sectoral component of the stock of SME credit as at Q2 2024 (figure 6).



Real Estate is the sector with the most outstanding SME lending

Figure 6



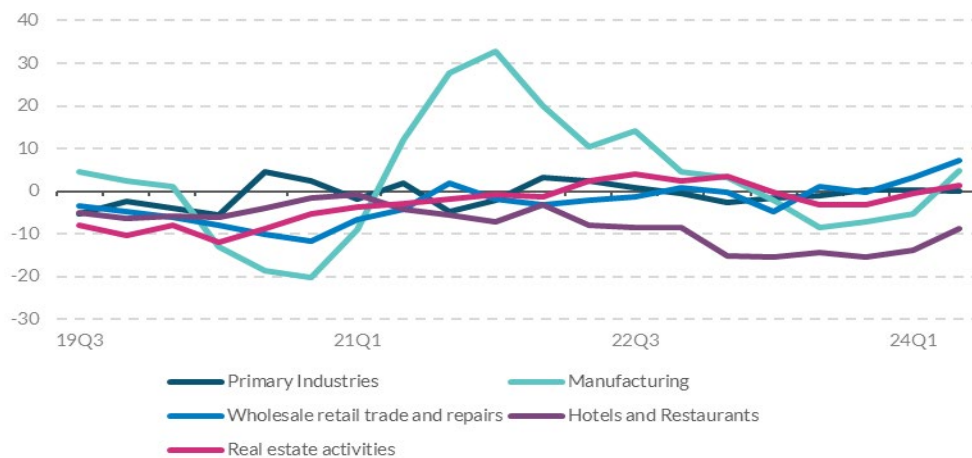
Source: Central Bank of Ireland Money & Banking Statistics

The trend in the sectoral makeup of SME lending is much the same as for overall lending to domestic private enterprises, with volatility in both lending to the Manufacturing and Hotels & Restaurants sectors, but stability in the growth rate of lending to the other large sectors (figure 7).

The sectoral breakdown of SME lending follows a similar trend to the growth in lending inclusive of large enterprises

Figure 7

Annual Growth Rate (%)



Source: Central Bank of Ireland Money & Banking Statistics



Deposits

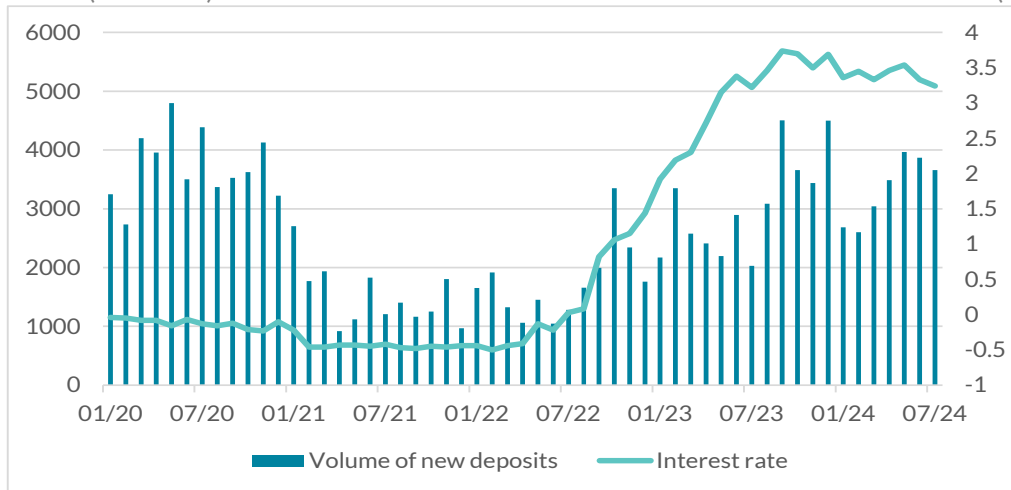
As the volume of lending to NFCs shows signs of recovery and the growth rate of lending stabilises, the volume of new NFC term deposits has also recovered from the low levels seen in 2022 and remains relatively elevated despite a fall in the weighted average interest rate on NFC term deposits from a peak of 3.74 per cent in September 2023 (Figure 8).

The level of new NFC deposits with agreed maturity has rebounded from 2021-2022 lows

Figure 8

Volume (€ millions)

Interest Rate (%)



Source: Central Bank of Ireland Retail Interest Rates Statistics

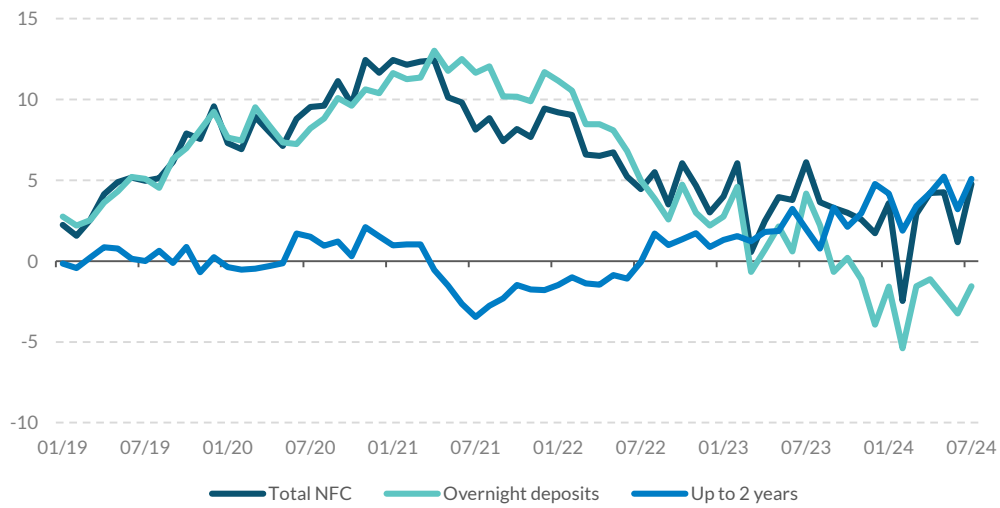
In the five years from July 2019, deposits from the NFC sector saw an inflow of €33 billion and currently stand at €84 billion. Deposits grew significantly during the Covid-19 Pandemic, peaking through Q1 2023. While the total net flow remains positive, except for February 2024, recently there has been a shift in deposit composition. Overnight deposits had the highest net flow of all categories of NFC deposits, but Term Deposits have since overtaken Overnight deposits as Term deposits became more attractive in the rising interest rate environment.



Net flow into term deposits as overnight deposit flows decline

Figure 9

Net flow (€ billions)



Source: Central Bank of Ireland Money & Banking Statistics