



Banc Ceannais na hÉireann
Central Bank of Ireland

Eurosystem



Box B:

QB 2 – June 2023

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Spending, credit, and deposit activity of Irish households and businesses

By the Statistics Division

This Box provides an overview of the latest developments in Irish non-financial corporation (NFC) and household credit, spending and saving activity. Lending conditions have tightened recently in response to higher ECB policy rates, though the extent of tightening differs across types of bank lending. Interest rates have risen noticeably on lending to NFCs and household mortgages, while interest rates on consumer lending have risen more gradually. Correspondingly, the impact of these rate increases on the volume of lending also varies based on the type of lending. NFC and mortgage lending growth has slowed, while consumer lending continues to grow strongly, driven in part by higher consumer prices. Card spending has also continued to grow, but high inflation suggests more subdued growth in real spending activity. Growth of households' savings has moderated from the pandemic peak, but remains above the average for the pre-pandemic period. Interest rates on deposits have increased, but the rise is muted when compared to loans.

Lending to NFCs

The weighted average interest rate on new NFC bank lending in April 2023 was 5.60 per cent, a cumulative increase of 293 basis points from when the upward trend in interest rates began after July 2022. The weighted average interest rate on outstanding bank loans to NFCs began to increase shortly thereafter in September 2022, having now risen to 4.89 per cent, an increase of 210 basis points over the same period (Figure 1).

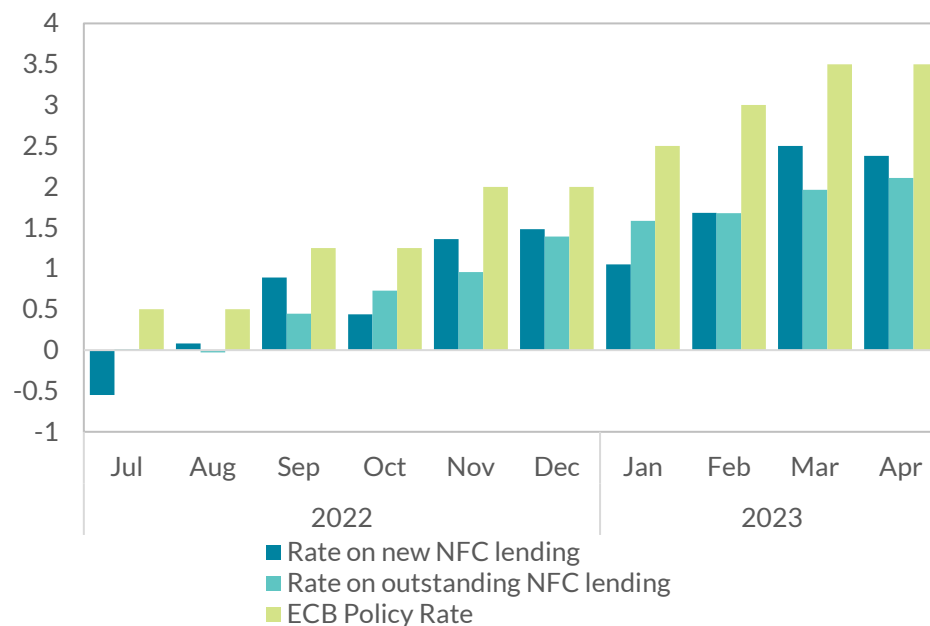


Since September 2021, NFC lending has grown strongly, driven particularly by shorter-term lending to large enterprises in the manufacturing and property sectors (see [Dempsey and Saupe](#)). However, the growth of new NFC lending has begun to slow following the raising of interest rates. New lending advanced to businesses in Q1 2023 was €3.8 billion, its lowest level since Q4 2020. New lending in April was 35.9 per cent lower than in the same month of 2022. The outstanding amount of lending to Irish resident NFCs stood at €31.4 billion at end-April 2023, with a growth rate of 3.0 per cent, down from 5.2 per cent at the end of April 2022.

Data from the Bank Lending Survey shows a tightening of credit conditions for lending to businesses in both Q4 2022 and Q1 2023. This primarily reflected banks' heightened perceptions of risk, both due to the general economic outlook and industry or firm-specific risks, particularly with regards to lending to larger enterprises.

Interest rates on NFC lending have risen sharply.

Figure 1: Interest rates on new and existing lending to NFCs, cumulative monthly change June 2022.



Source: Central Bank of Ireland

Looking at the demand for business credit, data from the Central Credit Register on credit enquiries show a decline in the early part of 2023 (see [Sherman and Woods](#)). Enquiries for longer-term finance have fallen, potentially reflecting reduced investment activity or capacity building in the current uncertain environment, while enquiries for shorter-term and revolving facilities have risen.



Household Mortgage Lending

The weighted average interest rate on new mortgage lending reached 3.63 per cent in April 2023, the highest level since December 2015. The increase of 56 basis points in March is the largest single month increase since the series began. The weighted average interest rate on outstanding mortgages began increasing in August 2022, shortly after the ECB began increasing rates, while interest rates on new mortgages only began increasing in December 2022 (Figure 2).

The most direct transmission of policy rate changes to outstanding mortgages is attributable to tracker mortgages. Pass-through of interest rates differs by type of mortgage, and so affects different categories of borrowers to varying degrees (see [Byrne et al](#)). While interest rates on new fixed and floating rate mortgages did not experience increases until Q4 2022, tracker mortgage rates began increasing in Q3 2022 alongside ECB rates.

Mortgage interest rates have increased as ECB policy rates have risen.

Figure 2: Interest rates on new and existing lending to households for house purchases cumulative monthly change since June 2022.



Source: Central Bank of Ireland

The immediate pass through of interest rates to remaining tracker mortgages and the shifting composition of new mortgage lending in favour of fixed rate mortgages, particularly those with durations of fixation of greater than three years, influences the responsiveness of the interest rates on outstanding mortgage lending relative to new mortgage lending. As of March 2023, the banks'

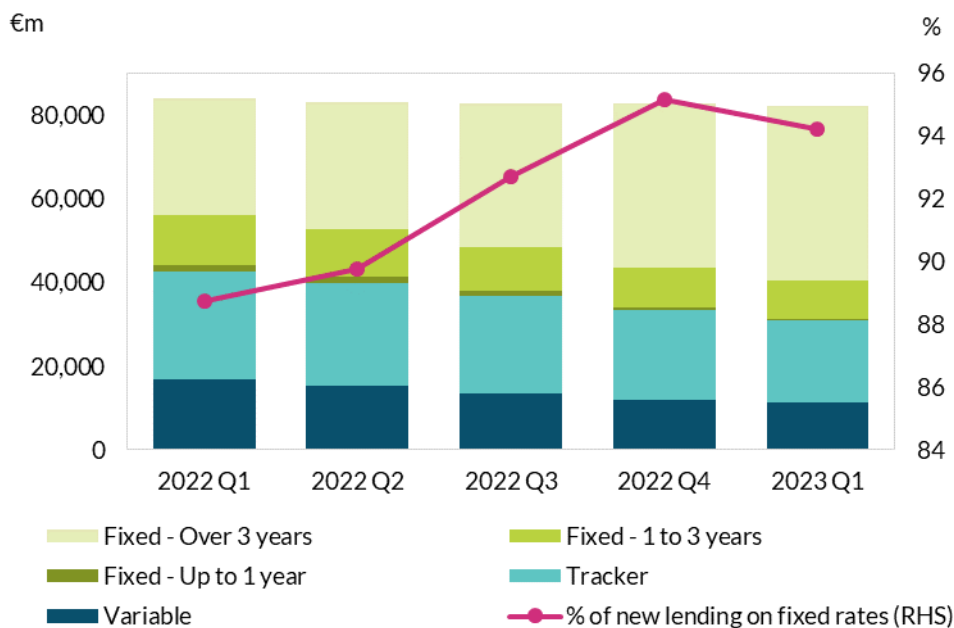


mortgage lending book was comprised of 24 per cent tracker mortgage lending, 62 per cent fixed rate lending, and 14 per cent other floating rate lending. However, of new mortgage lending in March 2023, 94 per cent had a fixed interest rate (Figure 3).

The weighted average interest rate on new Irish mortgages are close to the euro area average, as illustrated in Figure 4. However, while all euro area countries saw average mortgage rates rise in the first part of 2023, borrowers in Ireland experienced the second largest increase over the year to date, behind only Latvia. This is a reversal from what was seen prior to March 2023, when pass-through of ECB policy rates to new mortgages had been comparatively slow in Ireland.

Borrowers are increasingly opting for fixed mortgage rates.

Figure 3: Breakdown of bank lending to households for house purchase by interest rate type.

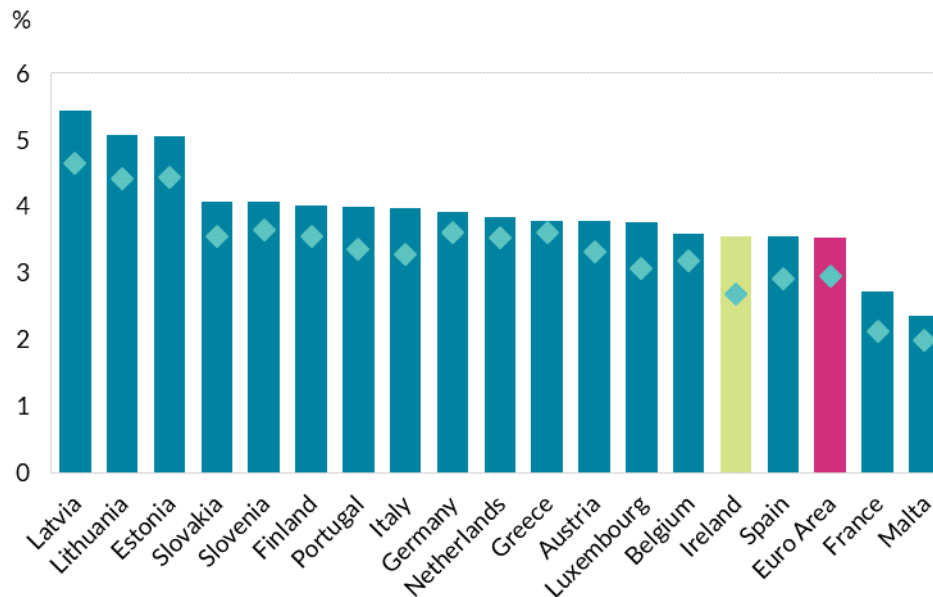


Source: Central Bank of Ireland



Mortgage rates in Ireland grew the fastest in Q1 2023, but remain amongst the lowest compared to other euro area countries.

Figure 4: Mortgage rates cross-country comparison.



Source: Central Bank of Ireland

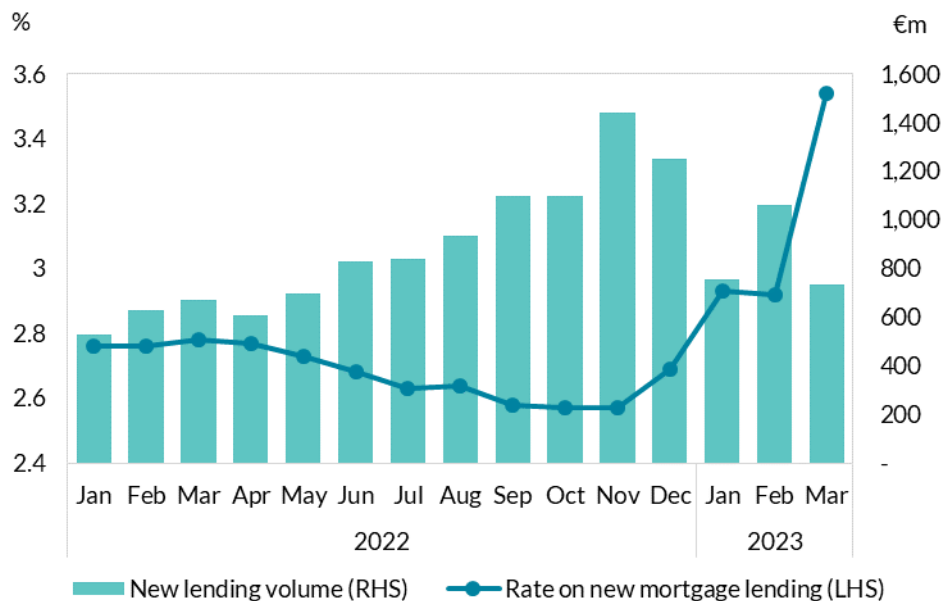
Note: Diamond represents equivalent interest in December 2022

Although the volume of new mortgage lending in Ireland has remained robust, there are indications of a slight cooling in growth as interest rates on new mortgages begin to rise. In Q1 2023, new lending for house purchases (excluding renegotiations) was €2.5 billion, 39.5 per cent higher than the level seen in Q1 2022. However, this was somewhat lower than the 46.7 per cent growth seen in Q4 2022.



Growth has slowed as interest rates on new lending have increased

Figure 5: New mortgage lending, volume and weighted average interest rate.



Source: Central Bank of Ireland

The relative slowdown in the growth of mortgage lending can also be seen from the Banking and Payments Federation of Ireland (BPFI) data on drawdowns of new lending. In Q1 2023, drawdowns increased 14 per cent year-on-year in terms of the value, the lowest rate of growth since Q4 2021. Throughout 2022, new drawdowns were significantly boosted by re-mortgaging and switching activity, which has tempered somewhat in Q1 2023. Looking ahead at the pipeline of future mortgage lending, BPFI data on the number of new mortgage approvals show an annual decrease of 4.1 per cent in the first quarter of the year.

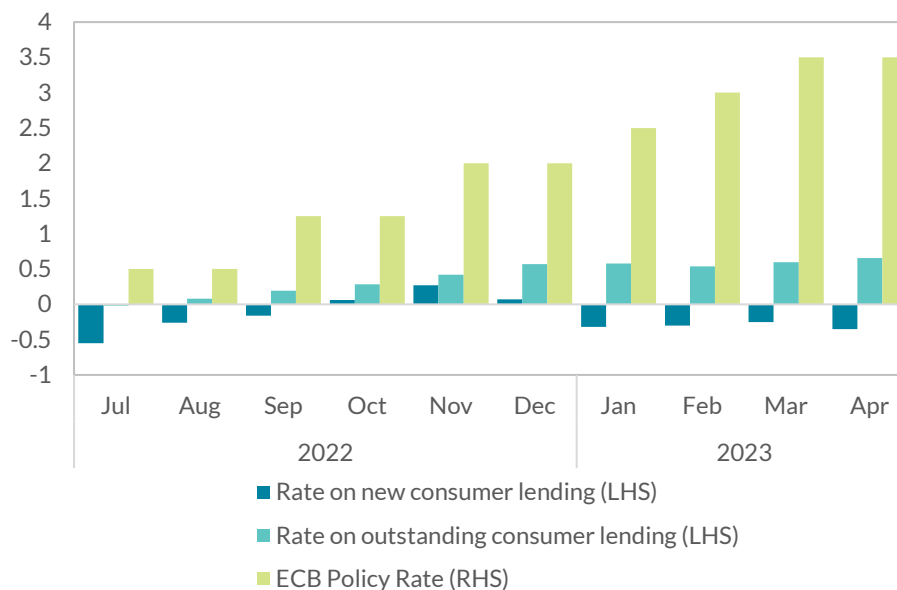
Household Consumer Lending

The weighted average interest rate on new household lending for consumer purposes reached 7.37 per cent at the end of April 2023, a 20 basis point increase relative to July 2022. The weighted average rate on outstanding consumer lending rose 67 basis points over the same period to 6.97 per cent. Unlike mortgage lending or lending to businesses, interest rates on consumer lending have exhibited a more gradual series of increases.



Interest rates on consumer lending have not increased as fast as for other types of lending.

Figure 6: Interest rates on new and existing lending to households for consumer purposes – cumulative monthly change since June 2022.



Source: Central Bank of Ireland

Interest rates on new consumer lending are now lower than when the ECB began increasing rates in July, having increased only marginally over Q4 2022, and the volume of new consumer lending has not shown clear signs of decline. In April, new consumer lending was up 38 per cent year-on-year, totalling €253 million.

Spending

Credit and debit card spending has continued to grow in the early part of 2023. Total card spending, including ATM withdrawals, was €8.5 billion in March 2023, up 9 per cent on the same period last year, despite consumer sentiment being lower than last March. Much of this growth in spending is reflective of rising prices; annual consumer price inflation in March was 7.7 per cent, meaning real spending increases are less robust than implied by the strong growth in nominal spending.

While all areas of spending recorded year-on-year growth, the pace of increase has not been uniform across sectors. Spending on services such as transport, accommodation, and utilities is up 14.4 per cent, spending on social activities is up 7.6 per cent, while card spending on retail is up by just 4.8 per cent.



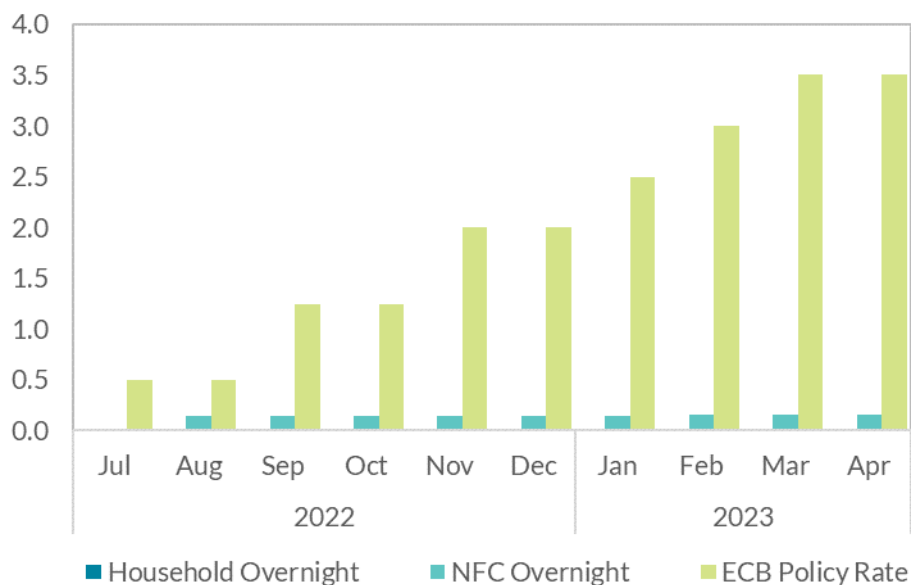
Saving

Household savings continued to grow during the early months of 2023, with annual growth reaching 5.5 per cent at end-April. While the pace of accumulation has moderated since the height of the pandemic, which saw growth rates peaking at 13.8 percent in February 2021, deposits are still being amassed at a rate exceeding pre-pandemic averages even as higher post-pandemic inflation reduces the real value of savings. The outstanding stock of household deposits stood at €151.7 billion at the end of April 2023.

Deposit interest rates have increased, albeit at a slower and more muted pace than for loans. The average outstanding interest rate on households' overnight deposits, which make up 94 per cent of total household deposits, has risen by just 1 basis point since July 2022, up from 0.02 per cent to 0.03 per cent. The average interest rate on new household term deposits rose to 1.59 per cent in April 2023, up from 0.11 per cent in July. For businesses, the overnight rate increased from -0.09 per cent to 0.05 per cent over the same period (Figure 7).

Interest rates on overnight deposit savings remain low.

Figure 7: Interest rates on overnight deposits for households and NFCs, cumulative change since June 2022.



Source: Central Bank of Ireland