SME & Household Lending
April 2012

An Roinn Airgeadais
Department of Finance

SME Lending

Targets

Government has imposed a combined lending target of €21 billion on each of the two pillar banks for the 3 calendar years 2011 – 2013 :

i. €3 billion in 2011 ; banks achieved their targets in 2011;
ii. €3.5 billion in 2012 ; and
iii. €4 billion in 2013.

Monitoring

1. Banks report monthly to CRO and Department of Finance.
2. CRO produces quarterly review of its activities including an assessment of progress in relation to lending targets.

Policy Initiatives

1. The Department of Finance has commissioned a further independent survey of demand for SME credit from the period October 2011 – March 2012, the results of which will inform future policy decisions in this area.
2. On foot of the previous demand survey, the Minister for Small Business, accompanied by the Secretary General in the Department of Finance, visited seven locations nationwide to hear the views of relevant stakeholders in order to feed into Government policy.
3. The temporary partial credit guarantee scheme and microfinance fund are being progressed by the Department of Jobs, Enterprise and Innovation.

SME Lending – Temporary Partial Credit Guarantee Scheme

- Department of Jobs, Enterprise and Innovation leading;
- Temporary partial credit guarantee scheme, concept similar to schemes in other EU member States, 75% State guarantee to banks against losses on qualifying loans to firms with growth and job creation potential;
- Commercially viable, well performing companies which cannot secure credit facilities due to either of the following two market failures:
  - Insufficient collateral for the additional facilities or,
  - Growth / expansionary SMEs which due to their sectors, markets or business model are perceived higher risk under current credit risk evaluation practices;
- Initially, the scheme will facilitate up to €150m of additional lending per annum to SMEs, in addition to the lending targets set for the pillar banks. The scheme will be demand led, and take-up and performance will be closely monitored;
- For every €150m of additional lending, the Scheme is expected to benefit over 1,800 businesses;
- The cost of the scheme per €150m of lending is €6.38m. However, when the benefits of increased tax receipts and decreased social welfare payments are taken into account, the net gain to the Exchequer is over €25m per €150m of lending.

SME Lending – Microfinance Fund

- Department of Jobs, Enterprise and Innovation are finalising the delivery structures for a State-backed Microfinance Loan Fund to provide loans to the microenterprise sector;

- This Fund is designed to stimulate lending to sustainable microenterprises and is targeted at start-up, newly established, or growing micro enterprises across all industry sectors, employing not more than 10 people;

- It will provide loans of up to €25,000 for commercially viable proposals that do not meet the conventional risk criteria applied by commercial banks;

- The Government recently approved the allocation of €10 million as seed capital for the Fund. It is anticipated that the Fund will supplement this seed capital by leveraging further funding from private sources, including the banks;

- The Department of Jobs, Enterprise and Innovation has had discussions with the European Investment Fund (EIF) to explore the possibilities of access to the Progress Microfinance Facility for the Fund when established.

- Following EIF approval of the guarantee facility, and subject to completion of all administrative and corporate governance requirements, it is anticipated that the Loan Fund will become operational by mid-year.

Households – Continued Private Deleveraging

•Irish households had the second highest decline in net financial wealth from pre-crisis peak to trough in Europe -56%

•Followed by greatest percentage increase from trough to Q3 2011 +86%*.

•This is a result of increased saving and deleveraging by households.

•Lending to households continues to decline – households continue to be net lenders.

•Mostly driven by a decline in loans for house purchase – decrease of €224 million in February, while loans for consumption decreased by €107 million.

•Total loans to households in February declined by €355 million – 4% on a year to year basis.

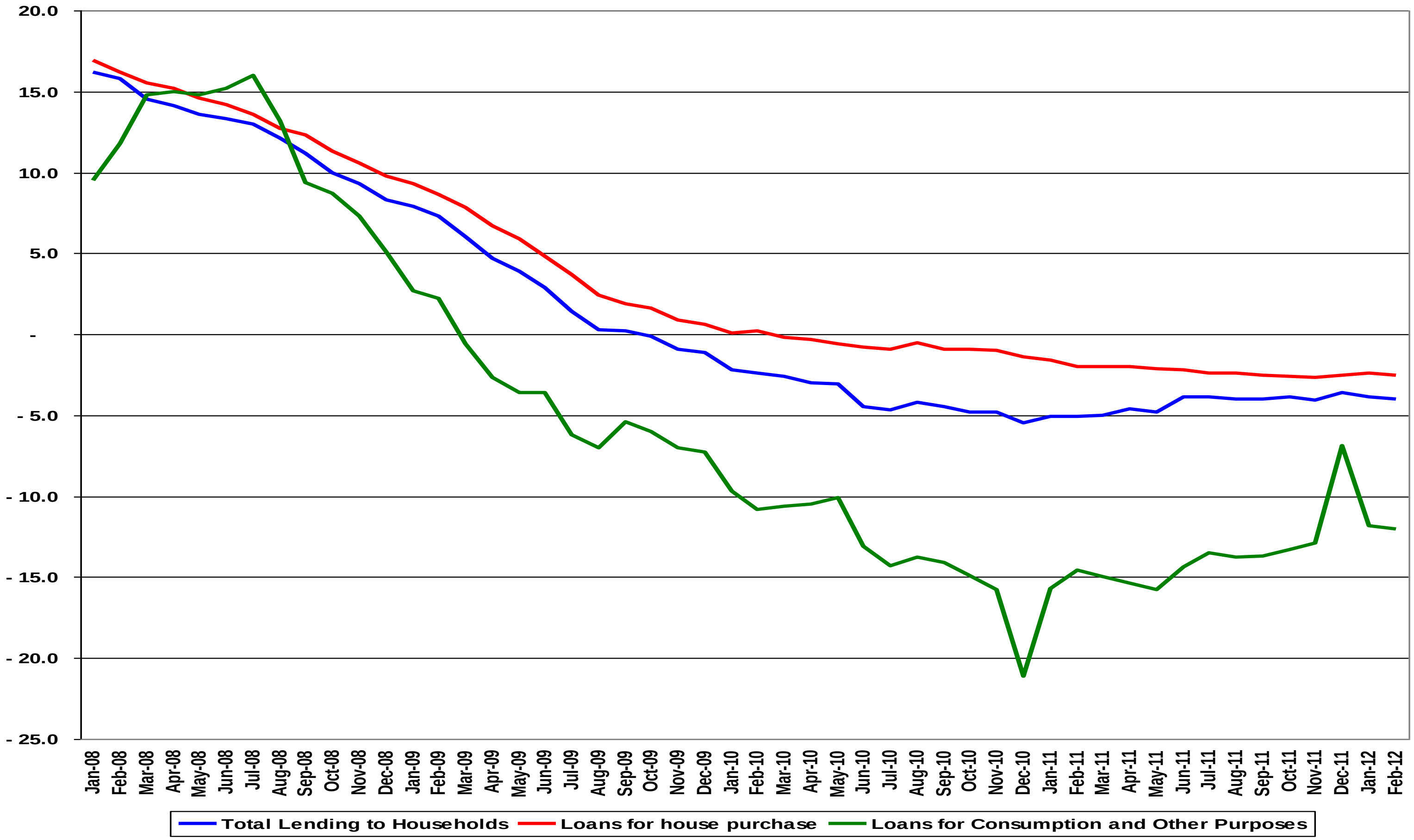
•Total loans to households in January declined by €691 million – 3.9% on a year to year basis.

•Since 2008 Irish households have reduced their liabilities by more than any other European country.

•Despite this progress the level of erosion of disposable income has been greater during this period and household debt to disposable income remains high – this is a restraint on domestic growth

*Source: Central Bank of Ireland – Quarterly Bulletin Q2 2012

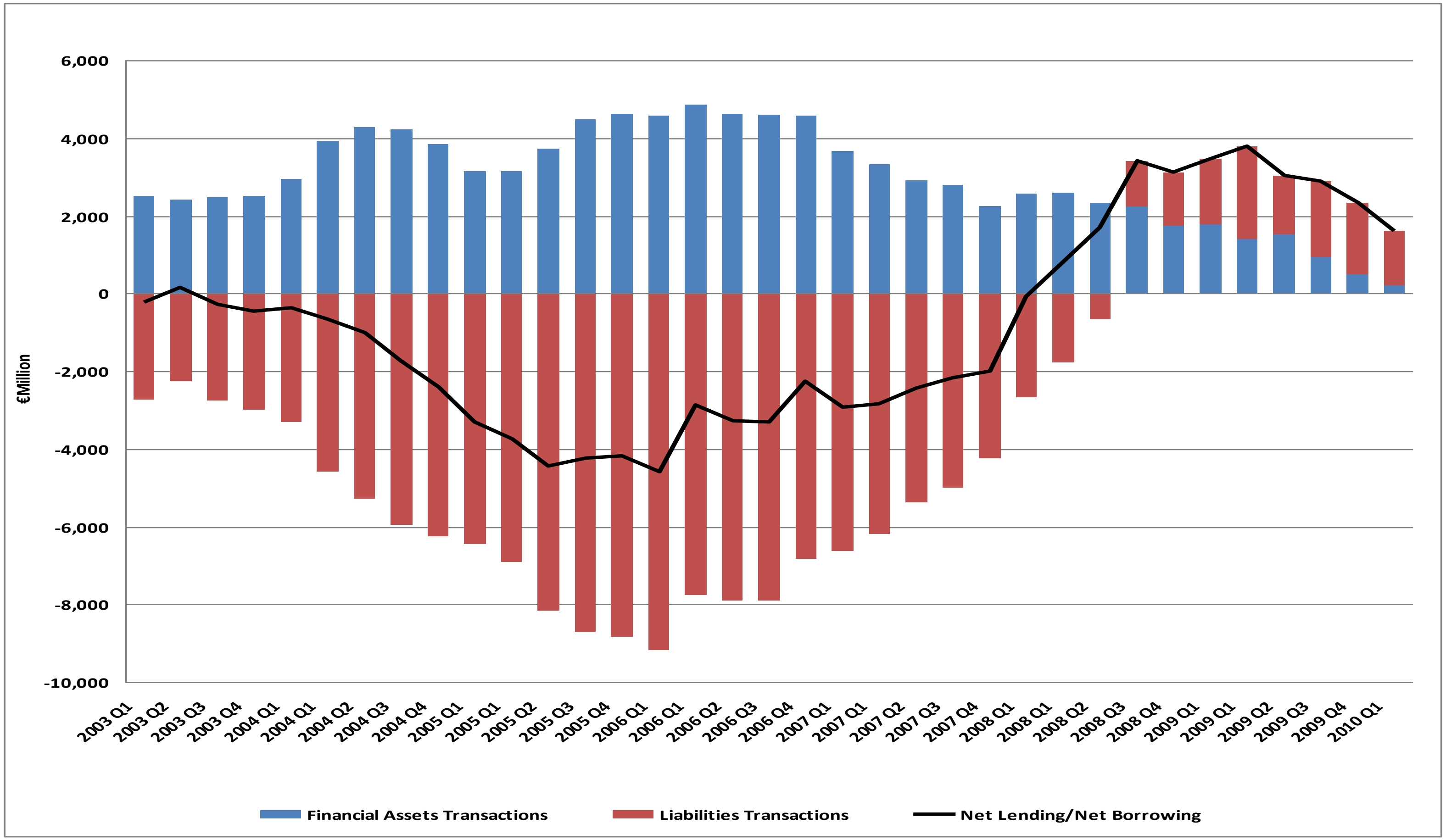
Household Lending to Irish Resident Households - Annual Rate of Change



Lending to households continues to decline

Source: Central Bank of Ireland

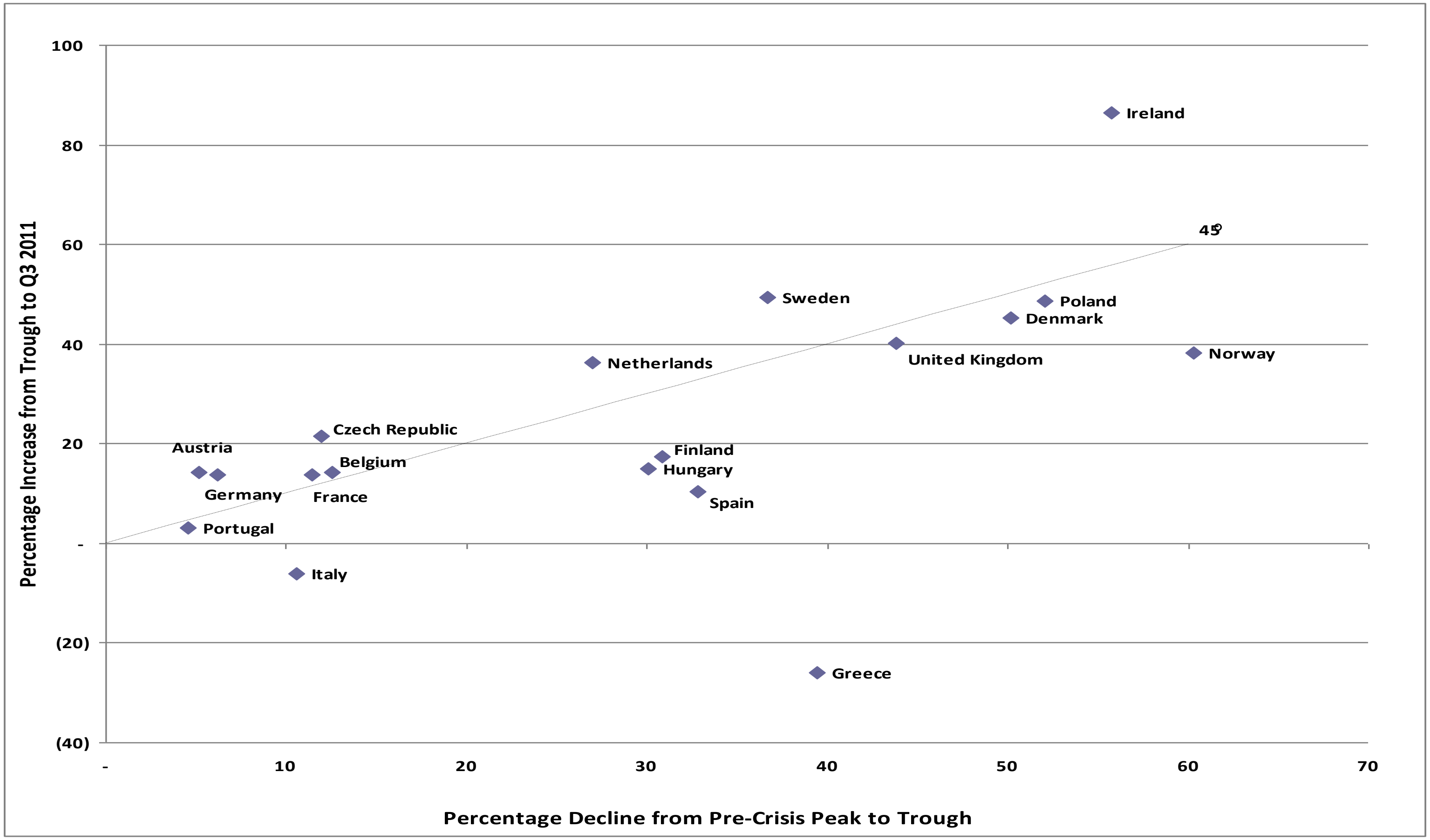
Household Net Lending/Borrowing



Reduction of liabilities means households are now net lenders

Source: Central Bank of Ireland

Households – Change in net financial wealth



86% increase in net wealth since Q2 2007 is the highest in Europe

Source: Central Bank of Ireland