

Box 1

RECENT DEVELOPMENTS IN MFI LOANS TO NON-FINANCIAL CORPORATIONS BROKEN DOWN BY ECONOMIC SECTOR

Developments in MFI loans to the private sector – particularly loans to non-financial corporations (NFCs) – are assessed on a regular basis as part of the ECB’s economic and monetary analyses. The recent economic and financial crisis and the subsequent recovery in economic activity have coincided with strong fluctuations in the growth rate of loans to NFCs, in part reflecting shifts between bank and market funding. Driven mainly by a strong contraction in loan demand, the annual growth rate of MFI loans to NFCs fell from more than 15% in early 2008 to around -3% at the beginning of 2010. Since the first quarter of 2011 the annual growth rate of lending to NFCs has been back in positive territory. Following the recent data release (based on the NACE

classification) on MFI loans to NFCs broken down by economic sector up to the second quarter of 2011, this box looks in more detail at the sectoral breakdown of total loans to NFCs as loan growth recovers.¹

Confirmation of a recovery in loan growth in the second quarter of 2011

While breaks in data series can be found for some specific sub-sectors, at a higher level of aggregation the distribution of loans across sectors has been relatively stable since the collection of data began in 2003 (with services accounting for almost 70% of all loans, industry almost 20% and construction almost 10%). That being said, data on the sectoral breakdown of MFI loans to NFCs should be interpreted with caution.²

In the first half of 2011 the annual growth rate of loans to NFCs recovered and returned to positive levels, reflecting favourable economic developments in the NFC sector. More specifically, data for large and medium-sized listed companies indicated slight improvements in profitability. Driven by robust external trade, the annual growth rate of firms' net sales also continued to rise in the first two quarters of the year, although less strongly than in previous quarters. Moreover, the first half of 2011 saw dynamic developments in fixed investment growth and inventory changes, pointing to an increased need for external financing. At the same time, the recovery in loan growth remained modest, as companies remained highly indebted by historical standards, which is likely to encourage firms to limit their demand for new loans.

Developments across sectors and countries

The recovery in the annual growth rate of total loans to NFCs in the first half of 2011 was broadly based across the main sectors, with the exception of the substantial decline observed in the annual growth rate of loans for construction activities in the second quarter of 2011 (see Chart A). That being said, the positive developments seen for services concealed a great deal of heterogeneity across sub-sectors. For example, the annual growth rate of loans for transport, storage and communication activities declined in the first half of 2011, becoming negative in the second quarter of the year. By contrast, growth in loans for real estate, rental and business activities recovered strongly, becoming the main driver of total growth in loans to NFCs by the second quarter of 2011. Meanwhile, the annual growth of loans to industry (which includes manufacturing, electricity, the supply of gas and water, mining and quarrying) also recovered significantly during the first half of 2011.

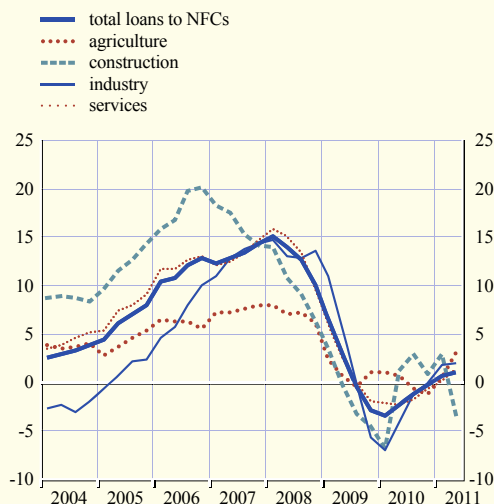
Given the impact of reclassifications, which have affected the sectoral breakdown of loans in certain countries, the assessment of developments in loan growth might be enhanced by aggregating some specific sectors. For example, it could be argued that, given the link between construction and real estate services and the fact that these two sectors have been the subject of reclassification in certain countries, it might be more appropriate to combine these two sectors

1 For details of the latest data release, see the press release of 17 October 2011 (www.ecb.europa.eu/stats/html/index.en.html). For previous analysis, see the box entitled "The roles of various industries in recent developments in MFI loans to non-financial corporations", *Monthly Bulletin*, ECB, November 2010.

2 The sectoral breakdown available for MFI loans to NFCs is, unlike aggregated ECB statistics on MFI loans, based on data at the national level (e.g. from credit registers or surveys) that are not fully harmonised and are partly estimated. Furthermore, the introduction of the revised NACE classification (NACE Rev. 2) has led to a number of changes in the sectoral breakdown of total loans to NFCs, which has also had an impact on the growth rates of loans to individual sectors in 2010 and 2011.

Chart A Loans to NFCs broken down by economic sector

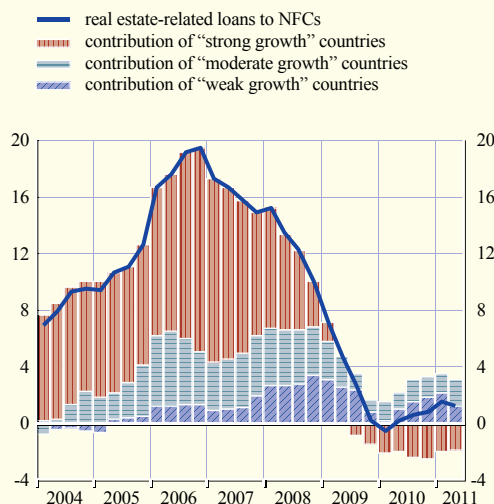
(annual percentage changes)



Source: ECB.

Chart B Real estate-related loans to NFCs and cross-country heterogeneity

(annual percentage changes; percentage points)



Source: ECB.

Notes: "Real estate-related loans" comprise loans to NFCs engaged in construction and real estate activities (based on data for those countries which report the relevant series from 2003 onwards). Countries are considered to exhibit "strong" (Italy, Spain, Ireland and Greece), "moderate" (France, Belgium, Finland and Luxembourg) or "weak" (Germany, the Netherlands, Austria and Portugal) growth on the basis of growth rates recorded in 2006 at the national level.

for the purposes of analysing loan developments.³ The resulting aggregate suggests that growth in such loans weakened only slightly in the second quarter of 2011, following a modest recovery between mid-2010 and the first quarter of 2011 (see Chart B).

Signs of cross-country heterogeneity can be found in loan developments for most sectors. However, they tend to be more marked for the real estate sector, given the differences in the evolution of euro area countries' housing markets. This heterogeneity can be illustrated by grouping euro area countries together in three categories on the basis of the average growth rate of real estate-related loans in the peak year of 2006. The "strong growth" countries, which drove most of the credit boom prior to 2007, as well as the subsequent decline, are still contributing negatively to real estate-related loan growth. By contrast, the modest recovery currently under way has been driven by the "weak growth" countries, while the contribution of "moderate growth" countries has remained resilient.

Overall, the first half of 2011 saw a modest recovery in the growth of loans to NFCs, which was broadly based across the main sectors (albeit with some specific exceptions). At the same time, there are persistent signs of cross-country heterogeneity, particularly as regards real estate-related loans.

³ Since data for real estate services are, in most cases, reported only in combination with other activities (such as rental and business activities), an estimate of real estate loans is calculated using data for those euro area countries that provide separate country-level estimates for real estate activities. This is then used to estimate loans for real estate activities at the euro area level. Moreover, the euro area aggregate is based solely on data for those countries which report the relevant series from 2003 onwards.