

Box 2

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

MFI loans to non-financial corporations (NFCs) have been characterised by net redemptions over the past few quarters. Given the incipient recovery of economic activity in the euro area, the question arises as to whether the banking sector will provide enough funds to firms for the upturn to become self-sustained. This question has a number of dimensions. First, there is a time dimension. Based on historical experience, firms have normally taken recourse to internal sources of funding, as well as to market-based sources of funding, rather than to MFI loans, in the initial phase of the recovery. Thereafter, a lasting recovery remains dependent on support from MFI lending to

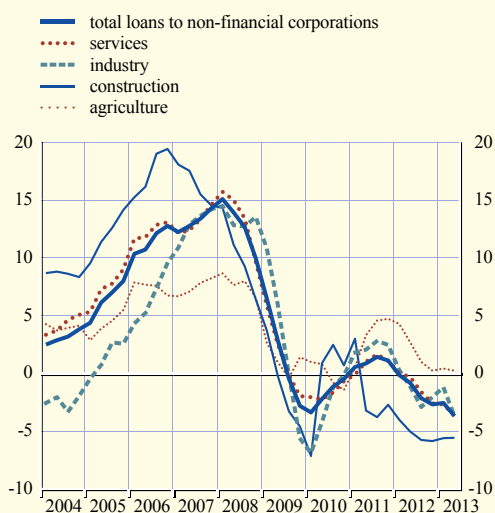
NFCs. This holds particularly true of the euro area with its bank-based financing model. Second, in an environment of deleveraging needs and restructuring, it is not only the overall development of MFI loans to NFCs that matters, but also the loan quality (i.e. loans to productive sectors versus the “evergreening” of loans to currently less productive sectors) and the loan composition by industry that provide valuable insights into the appropriateness of lending to the economy. This box contributes to this discussion by reporting on developments in MFI loans to NFCs, broken down by economic sector (based on the NACE classification). These data are available up to the second quarter of 2013.¹

In the first half of 2013 the annual growth rate of loans to NFCs continued to decline, following a slight recovery in 2010 and 2011. This reflected subdued economic activity, as well as the still high level of firms’ indebtedness, which led to low demand for loans. Moreover, supply constraints still play a role in a number of euro area countries. From a sectoral perspective, the decline in the annual growth rate of total lending to NFCs in 2012 and the first half of 2013 was broadly based across the main sub-sectors, but was particularly marked in the case of construction-related loans (see Chart A).

¹ For details of the latest data release, see the ECB’s website (www.ecb.europa.eu). For previous analysis, see the box entitled “Recent developments in MFI loans to non-financial corporations broken down by economic sector”, *Monthly Bulletin*, ECB, November 2011. Data for the sectoral breakdown of MFI loans to NFCs should be interpreted with caution, as they are based on national data that are not fully harmonised and are partly estimated. Indeed, recent data have been affected by various special factors, including operations linked to the restructuring of the banking sector in a number of countries, which need to be given due consideration.

Chart A Annual growth rate of loans to non-financial corporations, broken down by economic sector

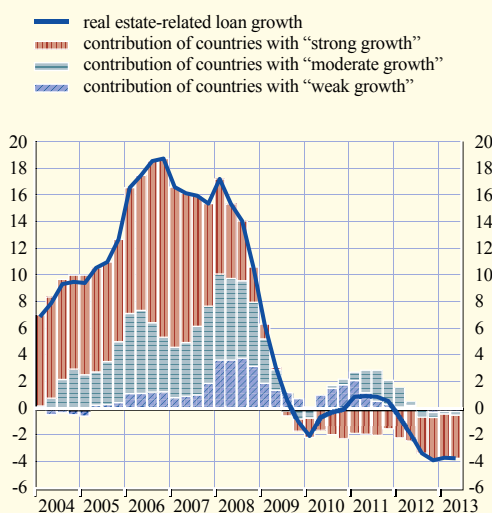
(annual percentage changes)



Source: ECB.

Chart B Real estate-related loans to non-financial corporations and country contributions to growth

(annual percentage changes; percentage points)



Source: ECB.

Notes: “Real estate-related loans” comprise loans to non-financial corporations that engage in construction and real estate services activities (based on data for those countries that have reported the corresponding series since 2003). Countries are considered to exhibit “strong growth” (Ireland, Greece, Spain and Italy), “moderate growth” (Belgium, France, Luxembourg and Finland) or “weak growth” (Germany, the Netherlands, Austria and Portugal) growth on the basis of the average growth rates recorded at the country level in 2006.

Two sectors in which deleveraging is still necessary in various countries are the construction and real estate services sectors. The aggregation that is proposed here groups the two sectors together, labelling their combined bank borrowing as “real estate-related loans”. This aggregation also improves data quality on account of reclassifications.² The resulting aggregate suggests that growth in loans to firms in the construction and real estate services sectors has been a drag on total NFC loans since early 2012 (see Chart B).

Loan developments in the real estate-related sectors have been highly heterogeneous across countries in recent years, largely reflecting differences in the evolution of individual euro area countries’ housing markets, and thus in the need to correct for past excesses. This heterogeneity can be illustrated by grouping euro area countries into three categories, based on the average growth rate of real estate-related loans in the peak year of 2006 (see also Chart B). Looking at recent developments, countries with “strong growth” (Ireland, Greece, Spain and Italy), 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. The slowdown in such lending can also be explained by the declining contributions of countries with “weak growth” (Germany, the Netherlands, Austria and Portugal) and “moderate growth” (Belgium, France, Luxembourg and Finland) as from early 2012, after having driven a slight recovery in 2010 and part of 2011.

Overall, the sectoral perspective suggests that the correction of past excesses in lending to the real estate-related sectors in a number of euro area countries is still ongoing and remains a significant driver of overall NFC loan growth. At the same time, lending to other industrial sectors and services continued to grow at a subdued pace up to the second quarter of 2013. Looking ahead, if historical regularities continue to hold, the projected recovery in economic activity may eventually be reflected in a recovery of NFC loan growth as from 2014, although the strength of credit expansion will depend on the progress made in correcting for past excesses in some sectors in a number of countries.

² 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 service loans is calculated on the basis of data for those euro area countries that provide country-level estimates solely 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 on data for those countries that have reported the corresponding series since 2003.