Box 1

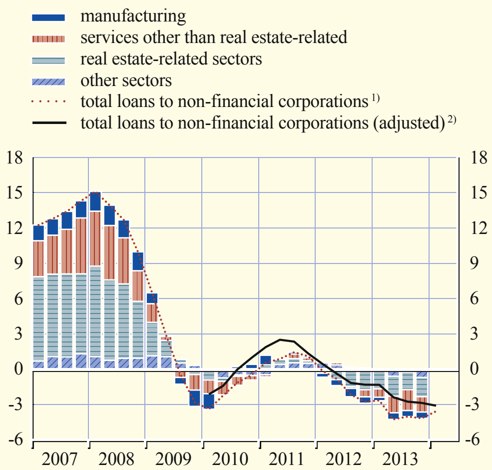
RECENT DEVELOPMENTS IN MFI LOANS TO NON-FINANCIAL CORPORATIONS, BROKEN DOWN BY ECONOMIC SECTOR

The annual rate of change in MFI loans to non-financial corporations (NFCs) has been negative since early 2012, largely reflecting the deleveraging needs of both the financial and the non-financial sectors. Recent months saw a stabilisation of the pace of contraction, but no clear signs of a turning point can be detected as yet.[1] Against this background, the box provides an update on sectoral developments in MFI loans to NFCs, broken down by economic sector (based on the NACE classification), in order to assess the contributions of the most important sectors to the dynamics of total NFC loans.[2] These sectoral data are available up to the fourth quarter of 2013.[3]

In the second half of 2013, the annual rate of change in total outstanding MFI loans to NFCs remained stable at slightly below -4%. The data, however, are not adjusted for reclassifications, valuation changes or sales and securitisation, factors that need to be taken into account to gauge the actual flow of financing received by euro area companies.

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

(annual percentage changes)

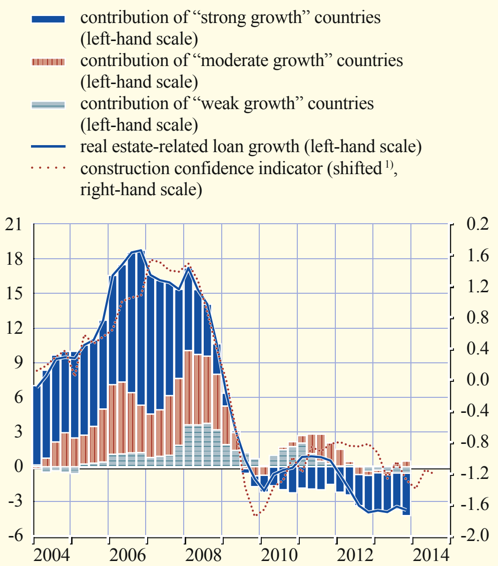


Source: ECB.
Notes: Latest observation: first quarter of 2014 for aggregated data and fourth quarter of 2013 for sectoral data. Sectoral data adjusted for the impact of the transfer of assets to SAREB carried out by Spanish MFIs in the fourth quarter of 2012 and the first quarter of 2013.
1) Growth rates derived from outstanding amounts, adjusted solely for asset transfers to SAREB.
2) Growth rates derived from monthly transactions, adjusted for sales and securitisations.

1 See main text of Section 2.1 of this Monthly Bulletin.
2 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 2013.
3 For details of the latest data release, see the ECB's website (www.ecb.europa.eu). 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. For instance, data in recent years 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 B Real estate-related loans to non-financial corporations and country contributions to growth

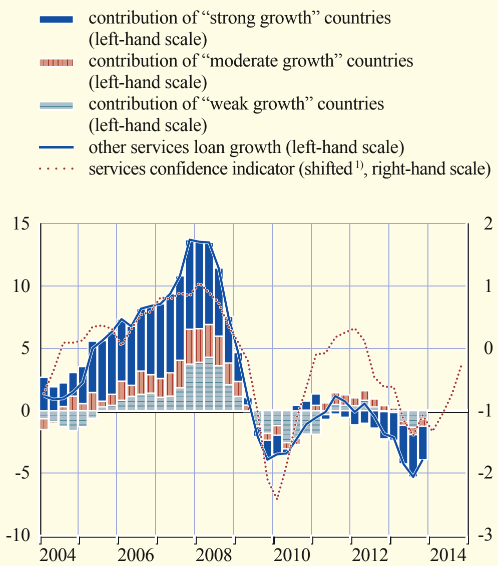
(annual percentage changes; percentage points)



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" (Italy, Spain, Ireland and Greece), "moderate growth" (France, Belgium, Finland and Luxembourg) or "weak growth" (Germany, the Netherlands, Austria and Portugal) on the basis of growth rates recorded at the country level in 2006. Adjusted for the impact of the transfer of assets to SAREB carried out by Spanish MFIs in the fourth quarter of 2012 and the first quarter of 2013.
1) Construction confidence indicator shifted ahead by two quarters according to maximum correlation.

Chart C Loans to non-financial corporations in services sectors other than real estate services and country contributions to growth

(annual percentage changes; percentage points)



Source: ECB.
Notes: Loans to services excluding real estate-related services. Sectoral data adjusted for the impact of the transfer of assets to SAREB carried out by Spanish MFIs in the fourth quarter of 2012 and the first quarter of 2013. For the classification of countries, see the notes to Chart B.
1) Services confidence indicator shifted ahead by three quarters according to maximum correlation.

When adjusted for those factors, the aggregate series continues to show a decline in the annual rate of change also in the first quarter of 2014 (see Chart A). However, such adjustments are not available at the sectoral level.

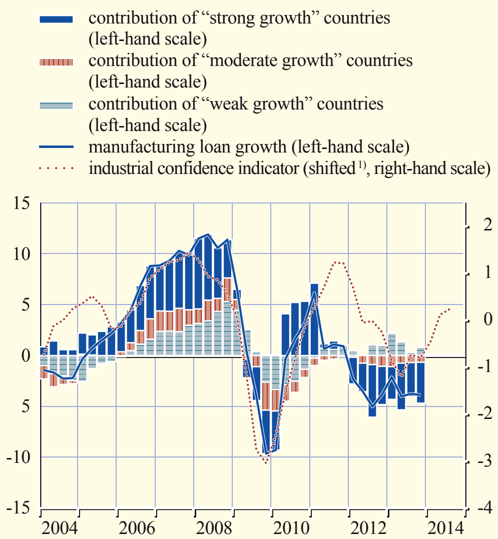
The negative rate for total (unadjusted) NFC loans outstanding in the second half of 2013 is explained mainly by developments in real estate-related loans (i.e. the aggregate of the construction and real estate services sectors) and in loans to the services sector (excluding real estate services). The negative contribution of loans to companies operating in the manufacturing and other sectors remained contained. Overall, the contributions of all of these sectors remained broadly stable in the last two quarters of 2013.

While no strong divergence can be detected in recent loan growth developments across sectors, significant heterogeneity is still visible across countries. This heterogeneity can be illustrated by grouping euro area countries into three categories, based on the average growth rate of lending to the real estate-related sectors (which had experienced the most marked expansion of loans to companies before the crisis) in the peak year of 2006. Countries with "strong growth", which drove most of the credit boom prior to 2007, as well as the subsequent decline, are still responsible for most of the contraction of lending in all main sectors (see Charts B, C and D). Nevertheless, the slowdown in such lending can also be explained by the subdued contributions across all sectors of countries with both "weak growth" and "moderate growth", with the possible exception of slightly positive contributions to loans in the manufacturing sectors of countries classified as having "weak growth".

Overall, from a medium-term perspective, the weakness in MFI loan growth to NFCs observed up to the fourth quarter of 2013 was broadly based across sectors, but stemmed mainly from developments in specific countries that had registered very high loan growth rates prior to the crisis in the real estate-related sectors ("strong growth" countries).

Chart D Loans to non-financial corporations in the manufacturing sector and country contributions to growth

(annual percentage changes; percentage points)



Source: ECB.
Note: For the classification of countries, see the notes to Chart B.
1) Industrial confidence indicator shifted ahead by two quarters according to maximum correlation.

Looking ahead, simple correlations suggest a relationship between confidence indicators and loan dynamics (see Charts B, C and D). In this respect, confidence indicators for sectoral activity would point to different loan dynamics across the most important sectors going forward. More precisely, should the statistical relationships observed in recent years continue to hold, the construction confidence indicator does not point to an imminent recovery of real estate-related lending, while the corresponding confidence indicators for the manufacturing and the other services sectors suggest that 2014 could see a decrease in the pace of contraction in lending in these two sectors. However, the crisis period may have affected the reliability of the leading properties of confidence indicators with respect to loan dynamics, implying significant uncertainty as regards the outlook for credit.