

Economic Note

19 September 2019

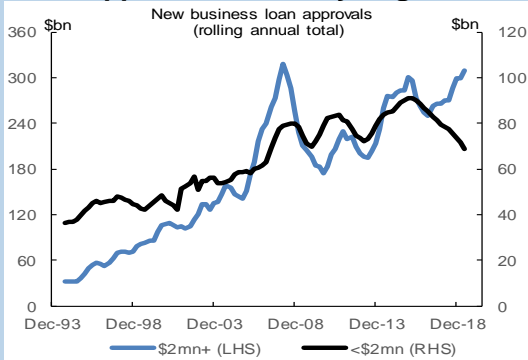
Strongest loan approvals in 11 years.

New Business loan approvals (\$bn)

	FY17/18	FY18/19	change	
			\$bn	%
<100k	11.2	9.7	-1.5	-13.4
100k - <500k	24.7	21.9	-2.8	-11.5
500k - <\$2mn	41.5	37.3	-4.2	-10.1
Total <\$2mn	77.4	68.8	-8.5	-11.0
\$2mn+	270.2	309.2	39.1	14.5
Total	347.5	378.1	30.5	8.8

Source: RBA, ABA, September 2019.

Lift in approvals driven by larger loans



Source: RBA, ABA, September 2019.

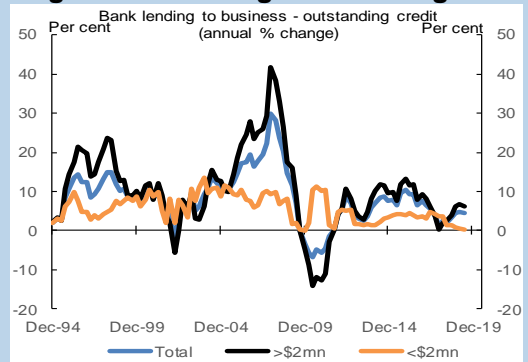
Solid growth in total business credit

Business Credit Outstanding (\$bn)

	as at		change	
	Jun-18	Jun-19	\$bn	%
<100k	33.0	33.0	-0.1	-0.2
100k - <500k	100.0	99.0	-0.9	-0.9
500k - <\$2mn	152.4	154.2	1.9	1.2
Total <\$2mn	285.4	286.2	0.8	0.3
\$2mn+	682.7	725.3	42.6	6.2
Total	968.1	1011.5	43.4	4.5

Source: RBA, ABA, September 2019.

Larger loans driving total credit growth



Source: RBA, ABA, September 2019.

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Australian Banking Association

Bank lending to business, June Qtr 2019

Key outcomes

- The value of outstanding bank loans to businesses rose 0.3% in the June quarter 2019, to a new record high of \$1.01 trillion.
- New loan approvals reached an 11-year high in FY18/19, with the value of new approvals from banks rising to \$378.1bn.
- The average interest rate on outstanding business loans fell by 0.3% to 3.85% in the June quarter 2019. Business borrowing rates are 0.35% lower than in June 2018.
- Growth in total business credit was driven by lending to the agricultural sector, where credit rose to a new record high.

Summary

The RBA's quarterly update on bank lending to business provides a detailed overview of trends in lending. The data for the June quarter reveals:

- a record level of bank lending to businesses;
- record low business borrowing rates; and
- the second strongest year of new loan approvals on record.

Whilst growth in lending to households has moderated, bank lending to businesses remains strong. Banks extended an additional \$43bn of lending into the economy over the year to June 2019. The value of bank lending to business rose 4.3% over the year to reach \$1.01 trillion (51% of GDP).

The value of new loan approvals rose to its second highest annual total on record, with \$378.1bn of new loans approved in FY18/19. This was just shy of the previous record high of \$383.6bn in FY07/08.

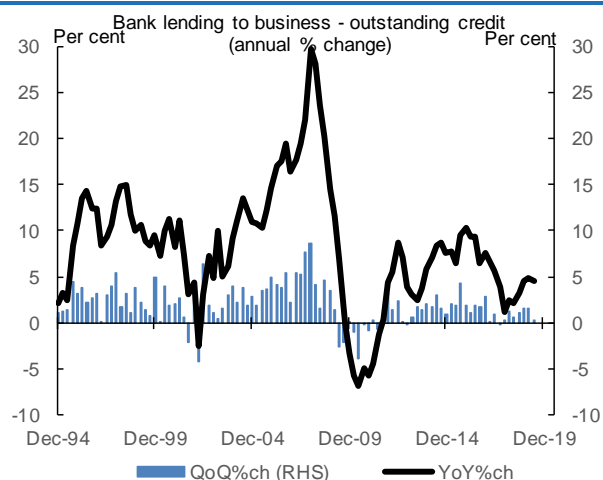
Whilst the outcomes are a positive result for the economy, there remains a disparity between approvals and credit growth for larger (>\$2mn) business loans relative to SME lending (loans <\$2mn). The value of new SME loan (<\$2mn) approvals declined over FY18/19, and the stock of outstanding SME loans was broadly unchanged, though there were declines in the value of credit outstanding in the smallest categories.

Several weeks ago we released a [report investigating SME lending in Australia](#). Utilising survey data from ABA member banks our research found that the decline in SME loan approvals reflected a decline in applications, with the approval rate for small business loans unchanged over the past 5 years.

Total Bank lending to business

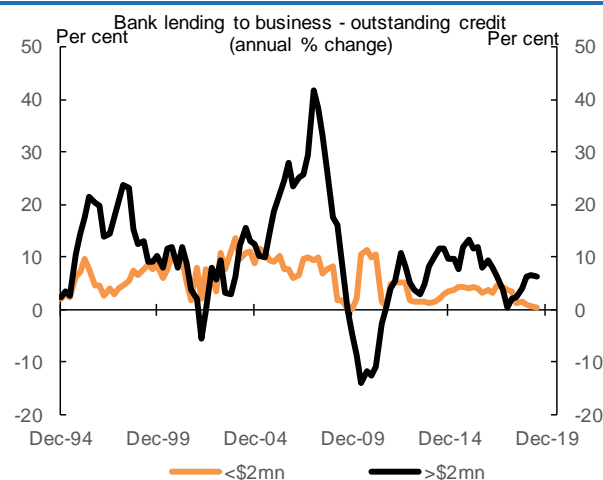
- The level of lending by banks to businesses reached a new record high of \$1.01 trillion in the June quarter 2019. Banks extended an additional \$43.4bn of credit over the year, growing the stock of lending to businesses by 4.5% (see Figure 1).
- However growth in bank lending was not uniform, the flow of additional credit was dominated by larger loans. Lending to larger businesses (>\$2mn) rose by 6.2%, or \$42.6bn, over the year to June 2019. Growth in loans >\$2bn accounted for 98% of the growth in total bank lending to businesses.
- For loans <\$2mn (generally classed as SME loans) the value of lending rose just 0.3%, or \$0.8bn, over the year to June 2019 (see Figure 2 below). As highlighted in the table on page 1, there was an increase in the value of lending for loans >\$500k up to \$2mn, with a decline in the smaller categories of business loans.

Figure 1: Bank lending to business



Source: RBA, ABA, September 2019.

Figure 2: Business credit by loan size

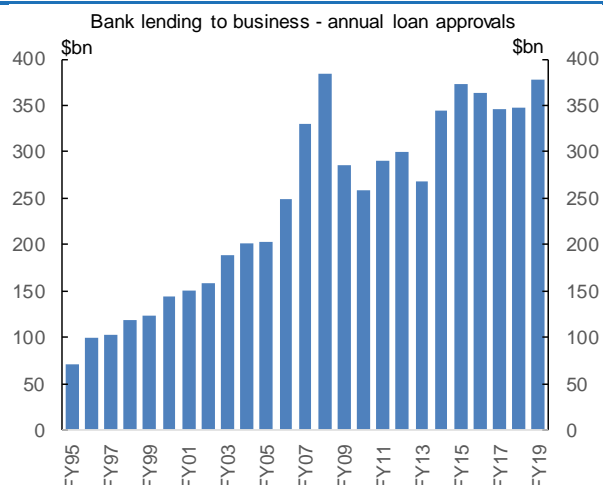


Source: RBA, ABA, September 2019.

New lending commitments from banks to Businesses

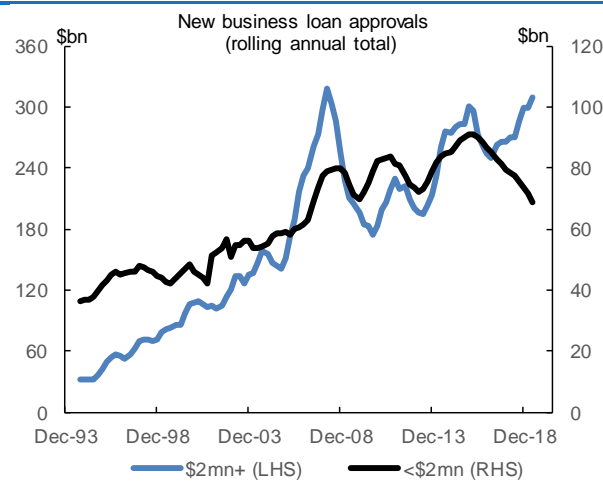
- The flow of new business loan approvals suggests that solid growth in business lending is likely to continue. Banks approved \$378bn of new business loans in FY19, this 8.8% higher than the prior year’s approvals, and the highest since FY08 (see Figure 3 below).
- Similar to the stock of credit overall, growth in new loan approvals reflected a strong rise in the value of large (>\$2mn) business loan approvals. Over the year to June 2019 the value of large (>\$2mn) loan approvals rose 14.5%, or \$39.1bn, to \$309.2bn (see Figure 4 below)

Figure 3: Loan approvals at 11-year high



Source: RBA, ABA, September 2019.

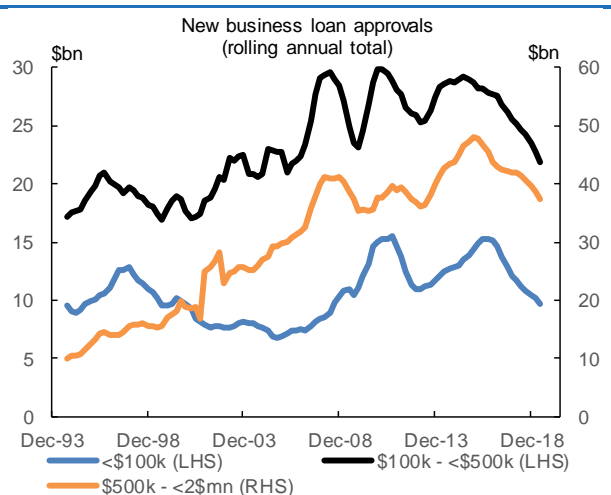
Figure 4: Larger loans driving approvals lift



Source: RBA, ABA, September 2019.

- There was a decline in the value of new SME (<\$2mn) loan approvals over the year to June 2019. The value of new business loans approved by banks <\$2mn was \$8.5bn, or 11.0% lower than the year to June 2018 (see Figure 6 below).
- Whilst the total value of new business loan approvals in FY19 was the highest in 11 years, the value of new loan approvals in the smallest categories of business lending declined to 11-year (<\$100k loans) and 13-year (\$100-\$500k) lows (see Figure 5 below).
- Our [recent report on SME lending in Australia](#) found that the approval rate for SME loans (<\$2mn) remained steady at 94%. ABA member banks reported that the decline in approvals reflected a decline in loan applications.
- The ABA’s Small Business Finance website – www.financingyoursmallbusiness.com.au – has been launched to assist small businesses apply for finance from their bank.

Figure 5: Weaker small business approvals



Source: RBA, ABA, September 2019.

Figure 6: Loan approvals by size

New Business loan approvals (\$bn)

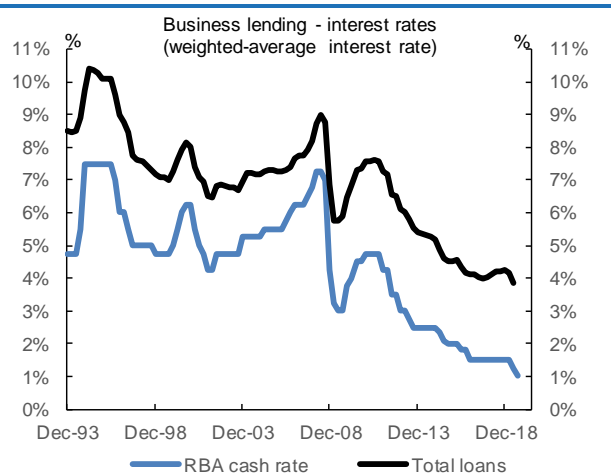
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Business borrowing costs have declined

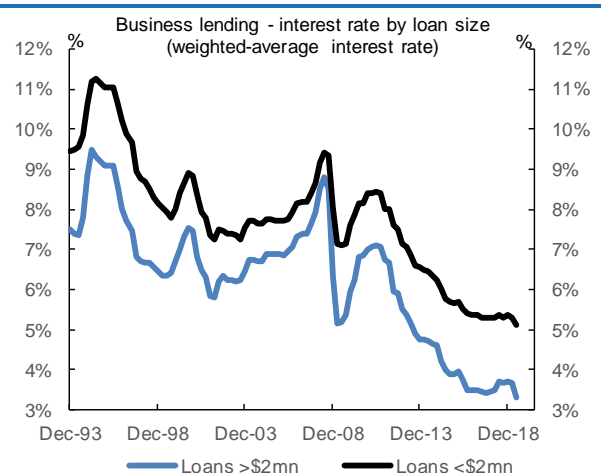
- Businesses are enjoying the lowest borrowing costs on record. Over the June quarter, the average interest rate on outstanding business loans fell to 3.85%, a decline of 0.3% over the quarter (see Figure 7 below).
- Rates have declined for both small and large business loans. There was a slightly larger decline in borrowing rates for larger business loans (>\$2mn) in the June quarter which reflects the greater exposure of larger borrowers to movements in wholesale money markets. Rates for larger businesses had risen in the second half of 2018, reflecting expectations of tighter monetary policy which have now reversed (see Figure 8 below).

Figure 7: Business borrowing rate



Source: RBA, ABA, September 2019.

Figure 8: Borrowing rate by size

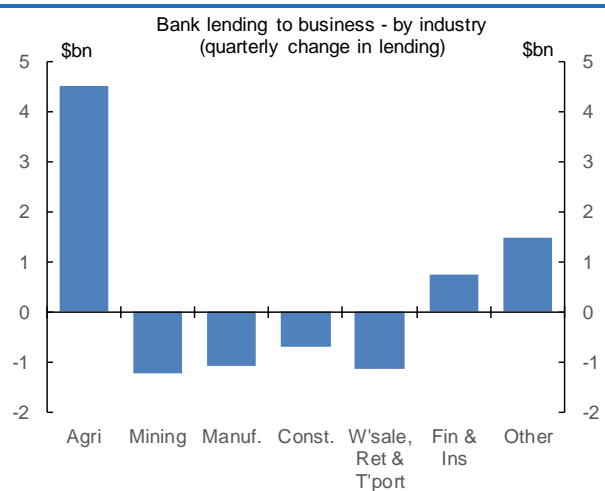


Source: RBA, ABA, September 2019.

Bank lending by industry

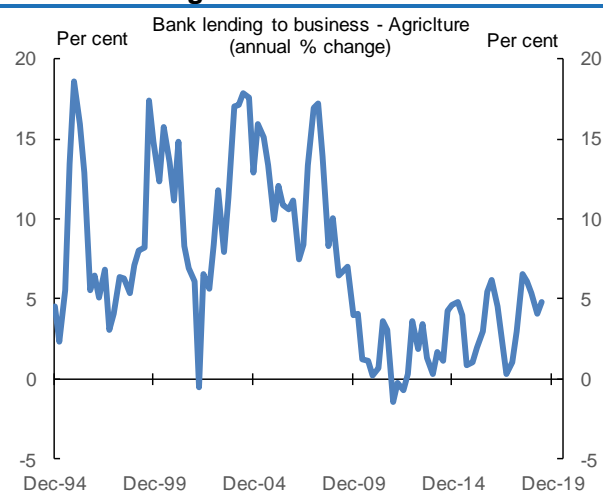
- Lending to the agricultural sector was the major driver of growth in the June quarter. The value of loans outstanding to the agricultural sector rose by \$4.5bn, offsetting a decline in lending across other sectors (see Figure 9 below).
 - Lending by banks to agriculture, fishing and forestry sector reached a record high of \$76.5bn in the June quarter 2019, rising by 4.8% over the year (see Figure 10 below).
 - Signs of a recovery in mining investment are yet to be evidenced in the business credit data. Over the year to June 2019 the value of bank lending to mining rose by \$12mn. Business credit growth was driven by non-mining sectors, with strong growth in the Finance & Insurance sectors and other industries.

Figure 9: Credit growth by industry



Source: RBA, ABA, September 2019.

Figure 10: Agriculture, fishing and forestry sector credit growth



Source: RBA, ABA, September 2019.