

Euro area bank lending survey of March 2017: main results for Latvia

Latvijas Banka conducted a euro area bank lending survey in cooperation with the European Central Bank (ECB) in March 2017, covering the lending developments during the first quarter of 2017 and bank expectations for the second quarter of 2017. Four Latvian banks participated in the survey; their replies were included in the euro area bank lending survey results.

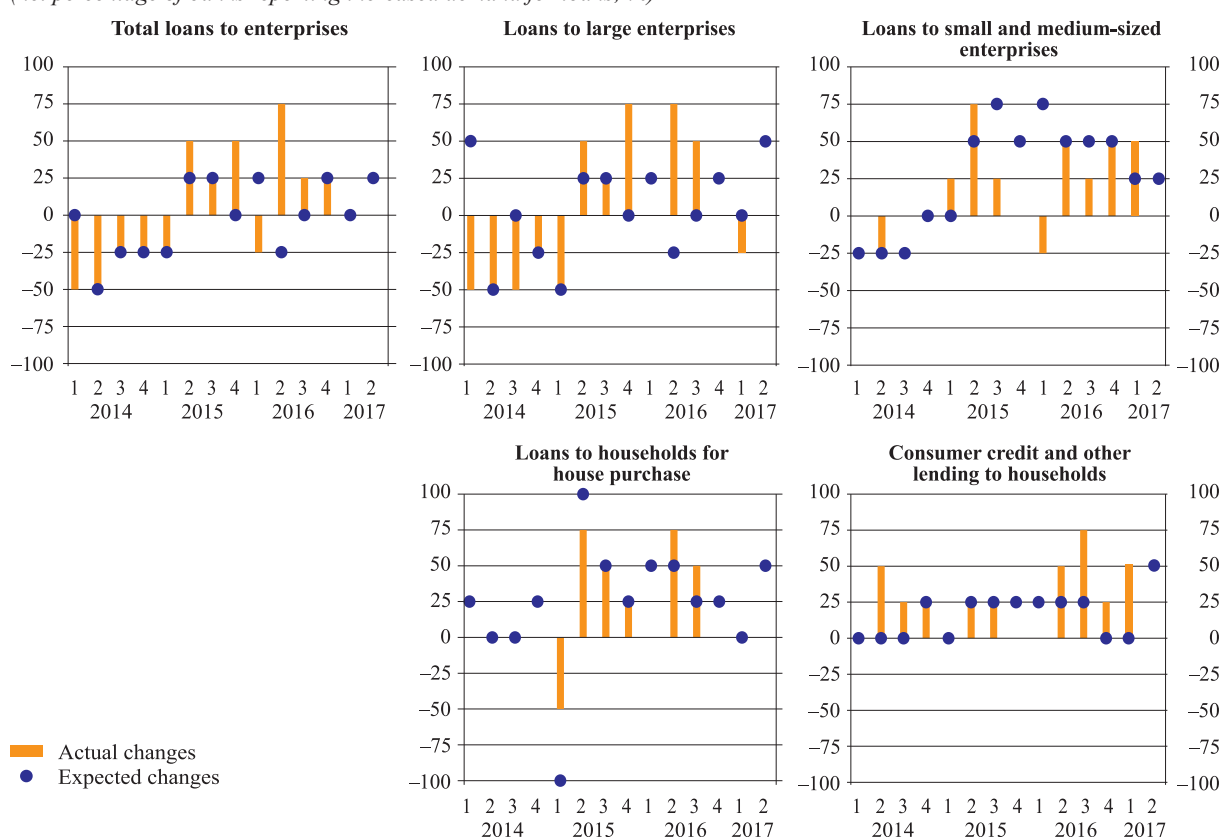
Demand for loans

The household sector saw a continued increase in the demand for consumer credit and other lending in the first quarter of 2017. Two banks indicated that the demand for consumer credit and other lending to households augmented owing to their spending on durable consumer goods (cars, furniture, etc.). Two banks expect a slight rise in household demand for loans for house purchase and consumer credit and other lending in the second quarter of 2017 (see Chart 1).

Chart 1

CHANGES IN LOAN DEMAND

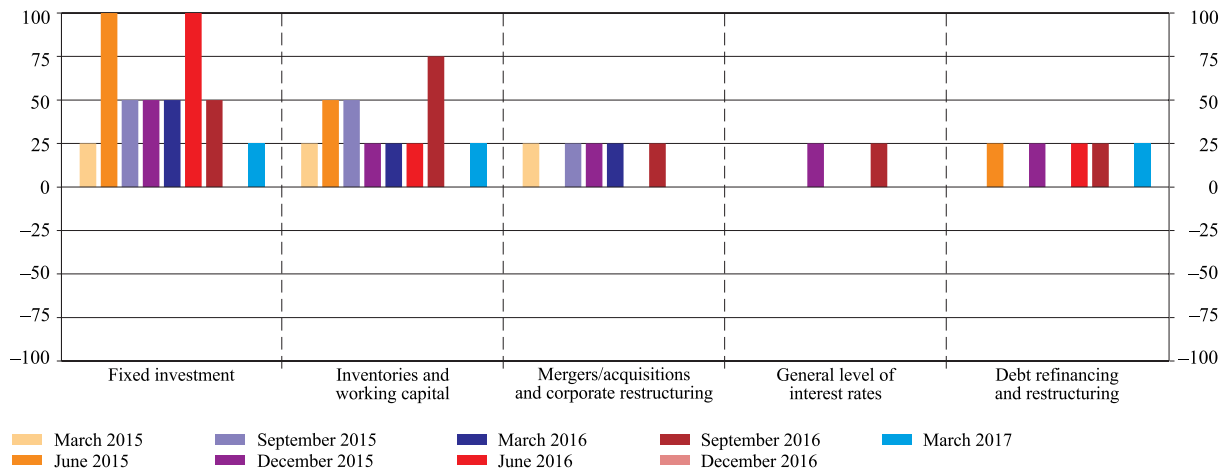
(net percentage of banks reporting increased demand for loans; %)



Overall, the demand for loans to enterprises remained unchanged in Latvia's credit market in the first quarter of 2017. Two banks noted that the demand for loans to small and medium-sized enterprises went up in the first quarter of 2017, but one bank reported that the demand for loans to large enterprises had declined. Enterprises changed their choice of loan maturity. One bank indicated that the demand for short-term loans to enterprises grew in the first quarter of 2017, while their demand for long-term loans followed a downward trend. Latvian banks anticipate an increase in the demand for loans to enterprises, large enterprises in particular, in the fourth quarter of 2017.

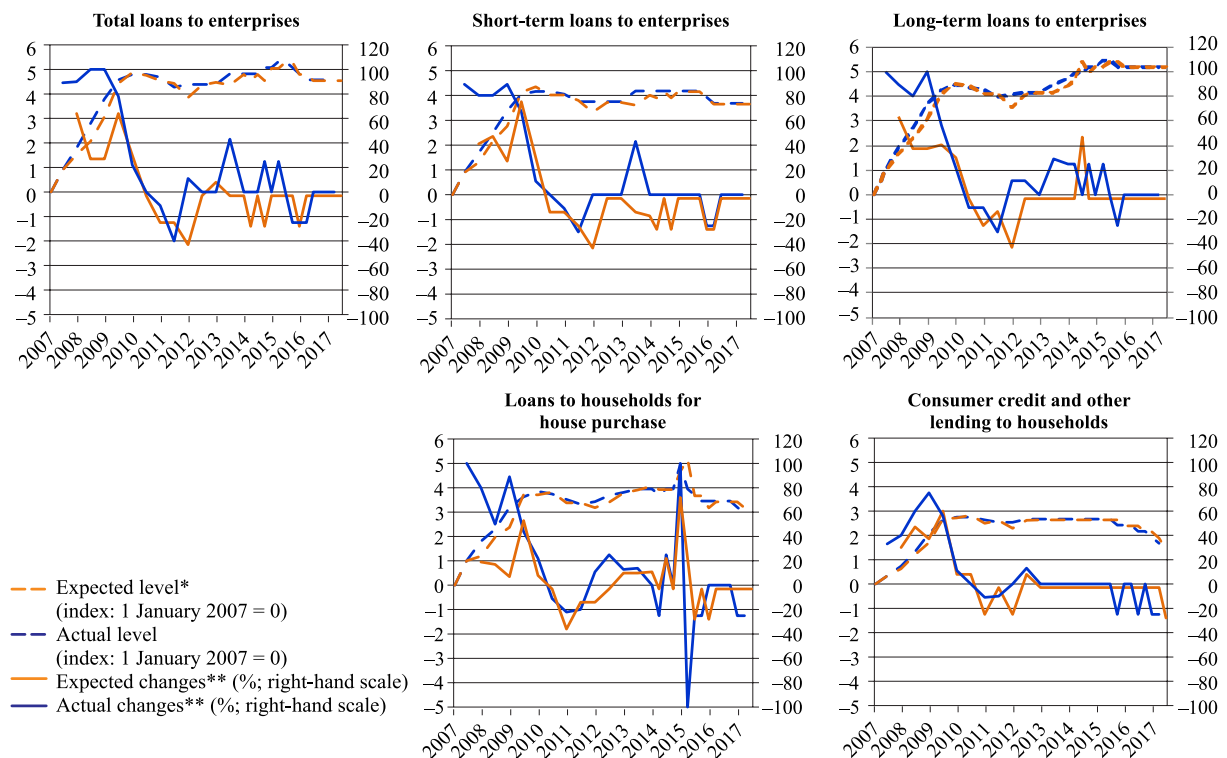
Different factors facilitated the demand for each type of loan granted to enterprises. The demand for loans to small and medium-sized enterprises was driven by the necessity of enterprises to invest in fixed assets. Meanwhile, the demand for short-term loans was boosted by the need to supplement inventories and working capital as well as by debt refinancing, restructuring and an agreement on new conditions (see Chart 2).

Chart 2

EXPLANATORY FACTORS RELATED TO THE DEMAND FOR LOANS TO ENTERPRISES*(net percentage of banks reporting positive factor contributions; %)***Credit terms and conditions**

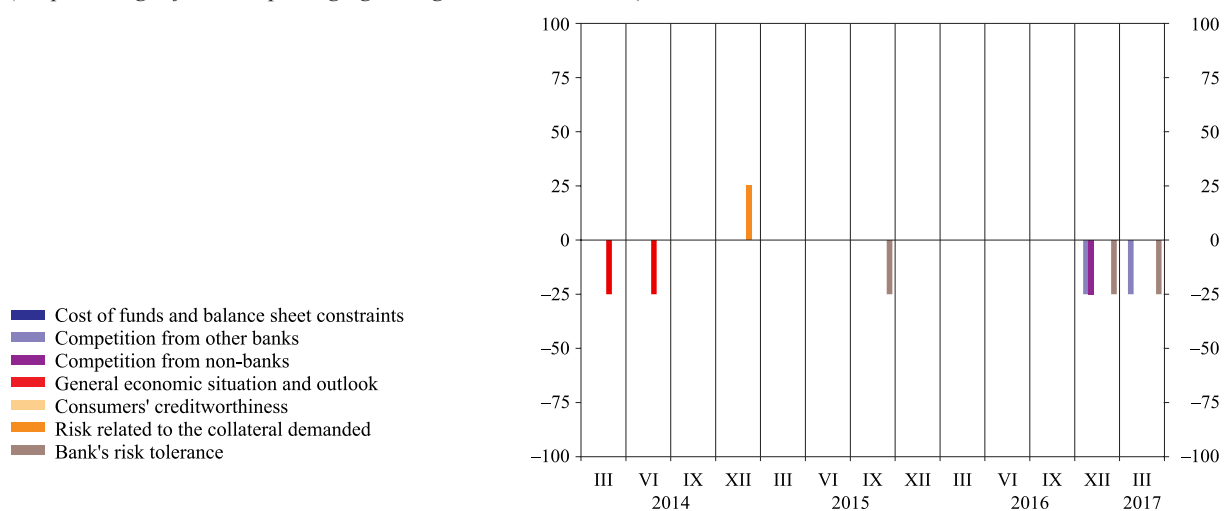
The segment of lending to households sees a slow and slight easing of credit standards. In the first quarter of 2017, one bank eased somewhat its credit standards for loans to households for house purchase as well as for consumer credit and other lending to households. One bank intends to implement a slight easing of credit standards for consumer credit and other lending to households also in the second quarter of 2017 (see Chart 3). The easing of credit standards for consumer credit and other lending to households was explained by stronger competition and a rise in the risk tolerance limits (see Chart 4). Under the impact of the above factors, one bank slightly eased credit terms and conditions for consumer credit and other lending to households in the first quarter of 2017. Meanwhile, the pressure from competition motivated one bank to reduce somewhat the margin on loans to households for house purchase in the first quarter of 2017.

Chart 3

CHANGES IN CREDIT STANDARDS*(net percentage of banks reporting tightening credit standards; %)*

* Cumulative changes in net percentage of banks reporting tightening credit standards.

** Net percentage of banks reporting tightening credit standards.

Chart 4**FACTOR CONTRIBUTIONS TO TIGHTENING CREDIT STANDARDS FOR CONSUMER CREDIT***(net percentage of banks reporting tightening credit standards; %)*

Although Latvian banks kept credit standards for loans to enterprises unchanged in the first quarter of 2017, one bank reported a decrease in the share of completely rejected applications for loans to enterprises. One bank intends to ease slightly credit standards for loans to small and medium-sized enterprises in the second quarter of 2017. The majority of Latvian banks kept credit terms and conditions for loans to enterprises unchanged or tightened them somewhat in the first quarter of 2017. One bank increased moderately the spread over the money market reference interest rate on risky loans to enterprises in the first quarter of 2017. Meanwhile, another bank tightened terms and conditions for loans to enterprises in relation to prevention of money laundering and financing of terrorism.

Ad hoc questions

Within the framework of the conducted euro area bank lending survey, banks answered questions concerning credit standards in comparison with the period from the first quarter of 2003 until now and from the second quarter of 2010 to date, the impact of the ECB's expanded asset purchase programme (the expanded APP) and a negative deposit facility rate.

In the first quarter of 2017, credit standards in all surveyed banks were tighter or somewhat tighter than the midpoint of the range during the period since the first quarter of 2003, but they were eased or slightly eased compared to the midpoint of the range during the period since the second quarter of 2010. According to banks, the ECB's expanded APP has had no significant effect on their financial indicators and lending. By contrast, due to a negative deposit facility rate net income of two banks declined as did interest rates on loans to enterprises and households for house purchase in the second half of 2016. One bank encountered a decrease in the interest rate on consumer credit and other lending to households, while another one kept it unchanged by increasing the margin. The downward trend of interest rates on loans caused by a negative deposit facility rate in one bank contributed to an uptrend in new loans to households for house purchase in the second half of 2016.