

Results of January 2012 Survey of Credit Institutions Lending to Non-Financial Corporations and Households

In January 2012, the Bank of Latvia conducted a regular credit institutions survey on lending and compiled the information about the lending development trends in the second half of 2011 and credit institutions' expectations for the first half of 2012. The survey covered nine credit institutions, representing 86% of the aggregate credit institutions' loan portfolio to resident non-financial corporations and households.

Credit standards, terms and conditions

According to the survey results, the credit institutions' forecasts of July 2011 about a moderate easing of credit standards did not materialise. In the second half of 2011, credit standards of credit institutions remained broadly unchanged: in comparison with the previous half-year, the number of credit institutions reporting slightly easing credit standards contracted notably; moreover, some credit institutions even pointed to slightly tightened credit standards (see Charts 1a and 1b). It is noteworthy that for the first time since January 2010, not a single credit institution reported easing of lending standards with respect to loans to households for house purchase.

Chart 1a

CHANGES IN CREDIT STANDARDS FOR NON-FINANCIAL CORPORATIONS (net percentage of credit institutions reporting tightening of credit standards)

— Actual
— Credit institution forecast



Chart 1b

CHANGES IN CREDIT STANDARDS FOR HOUSEHOLDS (net percentage of credit institutions reporting tightening of credit standards)

— Actual
— Credit institution forecast



Overall, the lending terms and conditions remained unchanged in the second half of 2011. Nevertheless, with uncertainty surrounding the economic outlook for Europe aggravating and the costs of funds on the upswing, some credit institutions increased margins on risky loans to non-financial corporations and also on ordinary and risky loans to households.

Loan demand

Credit institutions indicated that, as there was a need to invest in fixed assets and provide funding for inventories and current assets, the loan demand from non-financial corporations continued to strengthen in the second half of 2011, albeit posting a more moderate growth than in the first half of the year (see Chart 3a). The demand from households for loans for house purchase had also risen, primarily driven by borrowers' stronger confidence in the improvement of their financial position and housing market outlook as well as generally better lending market situation (see Chart 3b). The loan demand from households and non-financial corporations was anticipated to stabilise in the first half of 2012.

Chart 3a

CHANGES IN NON-FINANCIAL CORPORATION DEMAND FOR LOANS OR CREDIT LINES

(net percentage of credit institutions reporting increased demand)

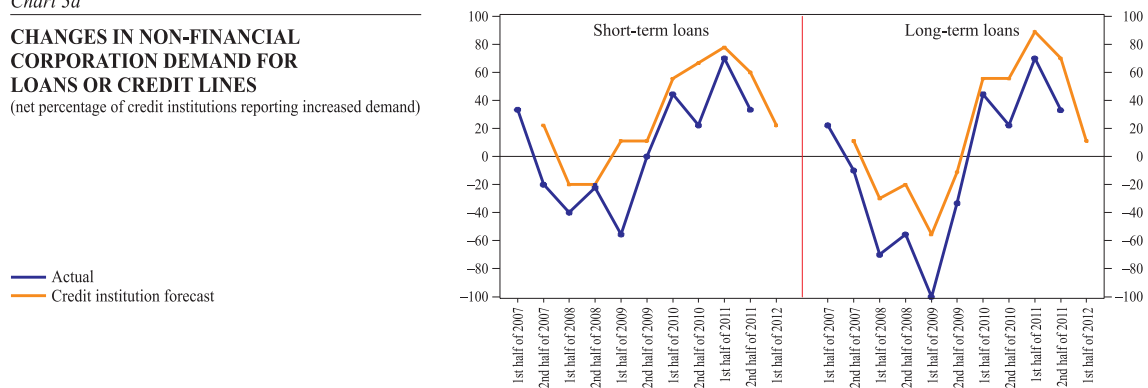
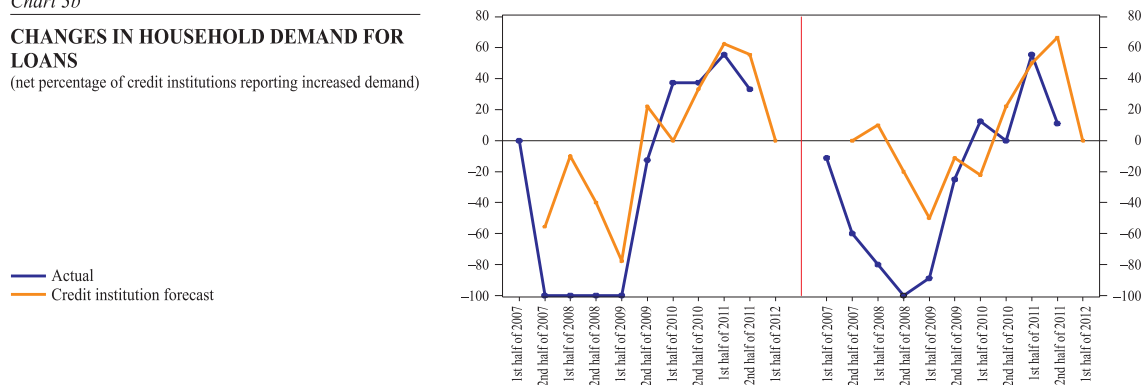


Chart 3b

CHANGES IN HOUSEHOLD DEMAND FOR LOANS

(net percentage of credit institutions reporting increased demand)



Financial position of borrowers

According to the assessment of credit institutions, the financial position of households and non-financial corporations of the leading sectors of Latvian economy improved in the second half of 2011 vis-à-vis the previous periods, yet the outlook for the first half of 2012 remained cautious. Amid concerns about Latvia's economic growth in an unstable external environment, most survey participants expected the financial position of households to remain unchanged (see Chart 4).

Chart 4

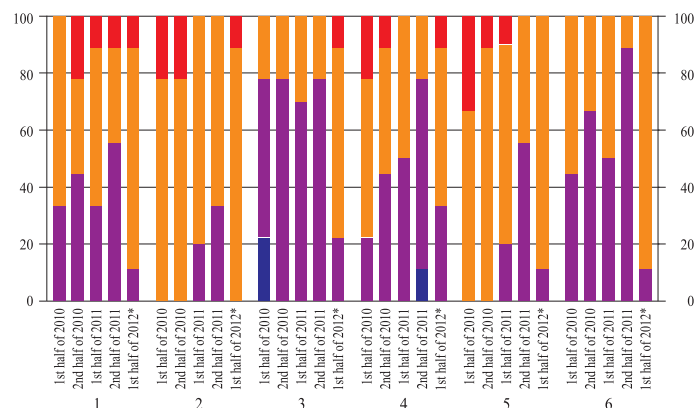
ASSESSMENT OF FINANCIAL POSITION OF HOUSEHOLDS AND COMPANIES IN INDIVIDUAL SECTORS

(percentage of credit institution responses)

- Remained/will remain broadly unchanged
- Improved/will improve somewhat
- Deteriorated/will deteriorate somewhat
- Improved/will improve considerably

- 1 Households
- 2 Real estate
- 3 Manufacturing
- 4 Trade
- 5 Construction
- 6 Transportation

* Forecast.



Loan restructuring

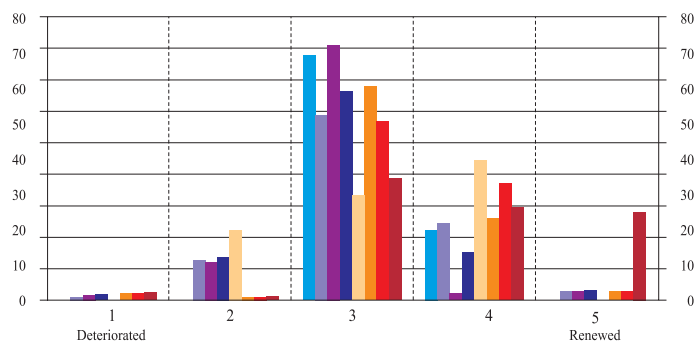
The respondent answers suggest that creditworthiness of households with applied temporary postponement of debt liabilities was assessed as unchanged or slightly improved in most cases (see Chart 5).

Chart 5

CHANGES IN CREDITWORTHINESS OF CUSTOMERS AFTER EXPIRATION OF DEBT LIABILITY POSTPONEMENT TERM DUE TO LOAN RESTRUCTURING

(vis-à-vis period prior to restructuring; percentage of responses)

- Households, 1st half of 2010
- Households, 2nd half of 2010
- Households, 1st half of 2011
- Households, 2nd half of 2011
- Non-financial corporations, 1st half of 2010
- Non-financial corporations, 2nd half of 2010
- Non-financial corporations, 1st half of 2011
- Non-financial corporations, 2nd half of 2011



In comparison with the results of previous surveys, credit institutions were more positive in their assessment of non-financial corporations' creditworthiness after credit restructuring. Some respondents even noted that after the expiration of credit restructuring term creditworthiness of some non-financial corporations had been fully renewed.