

Results of January 2013 Survey of Credit Institution Lending to Non-Financial Corporations and Households

In January 2013, the Bank of Latvia conducted a regular credit institution survey on lending and compiled information about the lending development trends in the second half of 2012 and credit institutions' expectations for the first half of 2013. The survey covered nine credit institutions representing 92% of the aggregate credit institutions' loan portfolio to resident non-financial corporations and households at the end of 2012.

Credit standards and terms and conditions

According to the survey results, the credit standards of credit institutions remained broadly unchanged in the second half of 2012. Only one credit institution reported tightening standards for loans to households (see Chart 1). In general, it may be presumed that the strong heterogeneity of credit institutions' lending policies observed in the first half of 2012 did not continue into the second half of the year. Overall, credit institutions do not project any substantial lending standard change in the first half of 2013, and only one credit institution reports potentially tighter lending standards for 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)

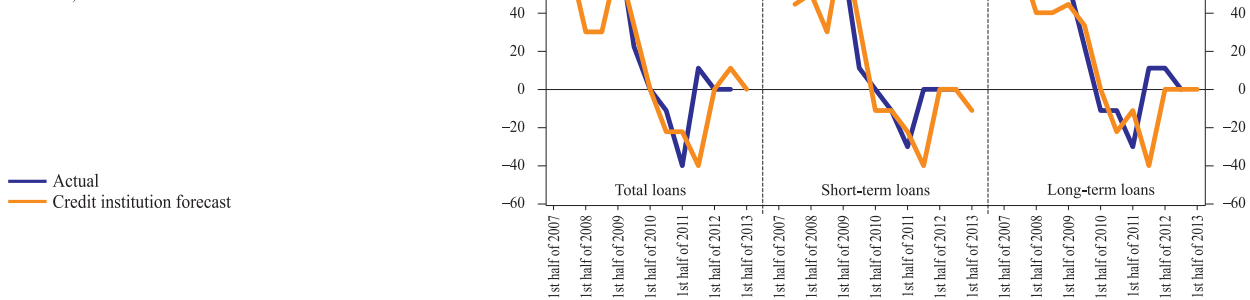
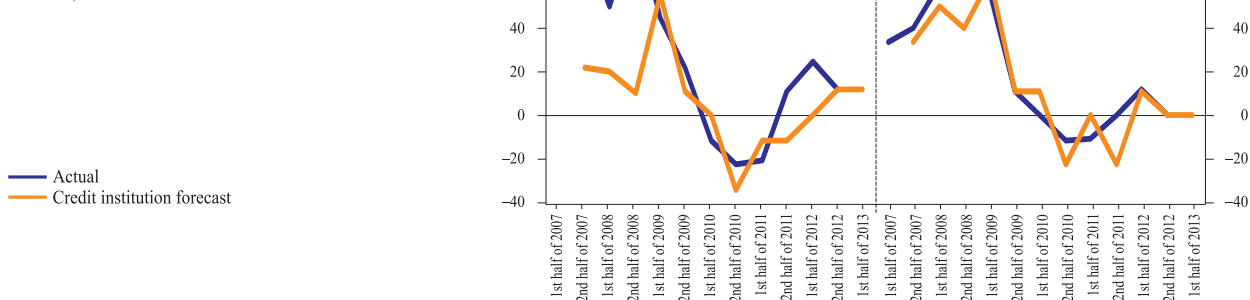


Chart 1b

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



As previously, the standards of loans to non-financial corporations were favourably affected primarily by competition among credit institutions; meanwhile, some credit institutions reported a relatively favourable market situation as well as a more optimistic perspective of overall economic activity and industry development as positive contributors (see Chart 2a). At the same time, credit institutions voiced contradicting assessments regarding the contribution from other credit institutions' competition and the impact of housing market perspective to setting the standards for loans to households for house purchase. In the second half of 2012 overall, none of the factors has essentially affected the changes in household lending standards for house purchase (see Chart 2b), consumer credit and other loans.

In the second half of 2012, credit institutions continued to set tighter lending terms primarily for households. A number of credit institutions increased the margin on risky loans to non-financial corporations and also on ordinary and risky loans to households. With respect to loans to households for house purchase, tighter standards were also set for loan to value ratio and loan maturity.

Chart 2a

FACTORS CONTRIBUTING TO TIGHTENING CREDIT STANDARDS FOR NON-FINANCIAL CORPORATIONS

(net percentage of credit institutions reporting positive factor contributions)

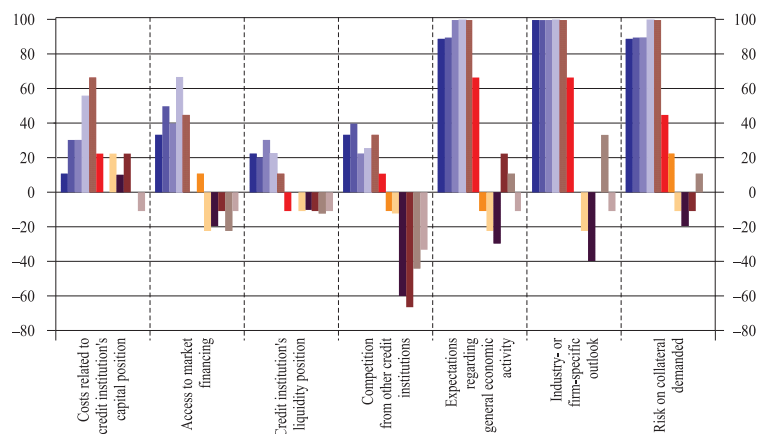
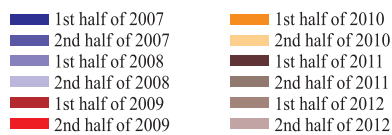
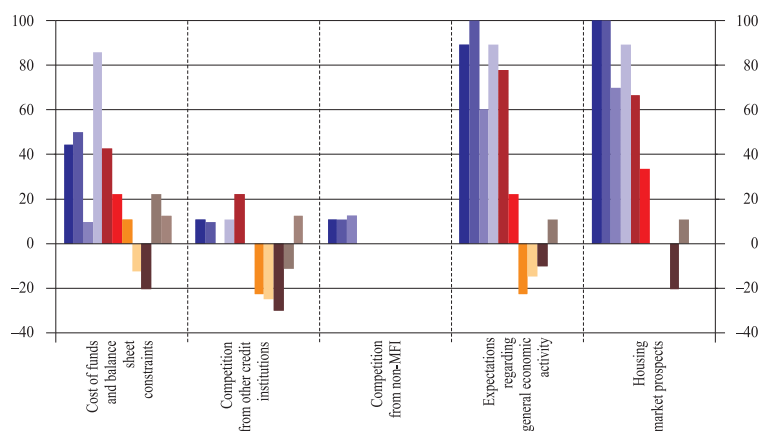
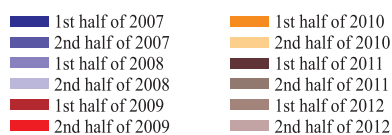


Chart 2b

FACTORS CONTRIBUTING TO TIGHTENING CREDIT STANDARDS FOR HOUSEHOLDS

(net percentage of credit institutions reporting positive factor contributions)



Loan demand

Credit institutions indicate that, as there was a need for regular fixed asset investment and inventory and current asset financing, the demand from non-financial corporations for loans

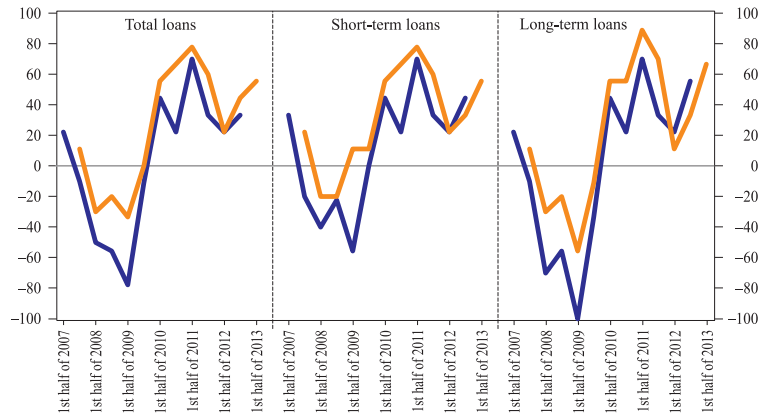
increased in the second half of 2012 (see Chart 3a); in addition, weaker opportunities for the use of internal sources of financing emerged as a new factor.

Chart 3a

CHANGES IN NON-FINANCIAL CORPORATIONS' DEMAND FOR LOANS OR CREDIT LINES
(net percentage of credit institutions reporting increased demand)

(net percentage of credit institutions reporting increased demand)

— Actual
— Credit institution forecast



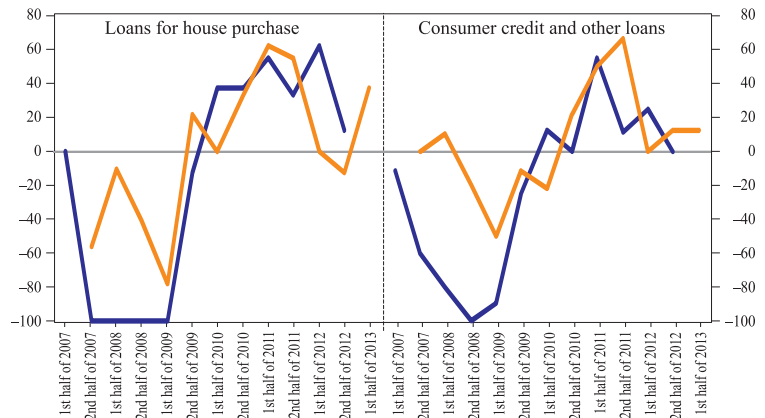
Even though the household loan demand remained broadly unchanged, some credit institutions noted that the demand for loans for house purchase had slightly risen (see Chart 3b). It was mainly underpinned by borrowers' stronger confidence in improving financial position and a more optimistic housing market perspective.

Chart 3b

CHANGES IN HOUSEHOLD DEMAND FOR LOANS
(net percentage of credit institutions reporting increased demand)

(net percentage of credit institutions reporting increased demand)

— Actual
— Credit institution forecast



Credit institutions are expecting a substantial boost (from non-financial corporations' side in particular) in the demand for loans in the first half of 2013.

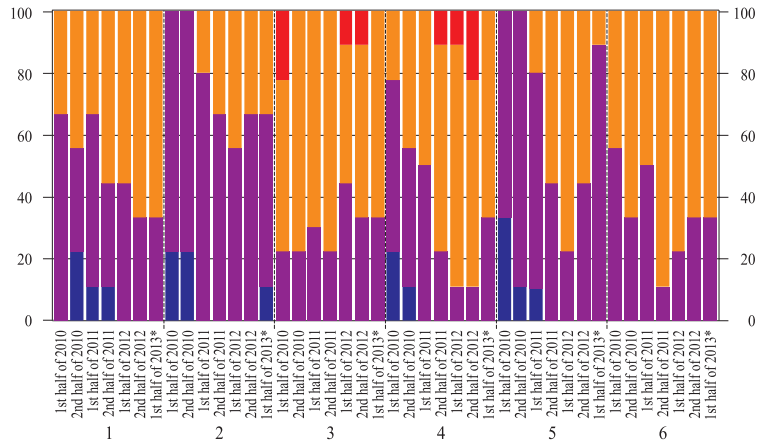
Financial position of borrowers

According to the assessment of credit institutions, the financial position of borrowers continued to improve in all major branches of the economy and also the household sector in the second half of 2012. The assessment was particularly positive for trade and manufacturing. It is noteworthy that credit institutions are very optimistic about the financial position of households and non-financial corporations of major sectors of the economy (except construction) to improve further in the first half of 2013.

Chart 4

CREDIT INSTITUTIONS' ASSESSMENT OF CHANGES IN FINANCIAL POSITION OF HOUSEHOLDS AND NON-FINANCIAL CORPORATIONS IN INDIVIDUAL SECTORS (%)

- Broadly unchanged/will not change
 - Improved/will improve somewhat
 - Deteriorated/will deteriorate somewhat
 - Improved considerably/will improve considerably
- 1 Households
 - 2 Real estate
 - 3 Manufacturing
 - 4 Trade
 - 5 Construction
 - 6 Transportation
- * Forecast.



Loan restructuring

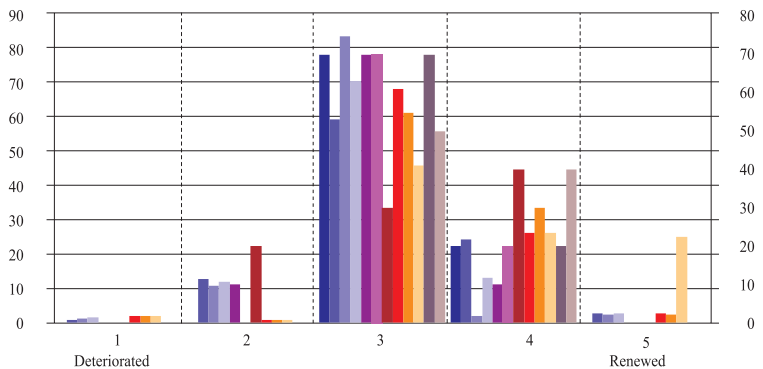
The answers of the respondents suggest that the creditworthiness of households after applied temporary postponement of debt liabilities is mainly assessed as unchanged or slightly improved. Likewise, credit institutions assess the creditworthiness of non-financial corporations after the applied postponement of debt liabilities more positively, with half of the respondents pointing to the improvement of their creditworthiness.

The lending survey results show that the unfavourable external macrofinancial situation did not have an adverse effect on the availability of Latvian credit institutions' resources and on the financial position in 2012. In the context of high resilience of the Latvian economy to external instability, it enabled credit institutions to positively assess the economic growth and borrowers' financial status in the near perspective so that the introduction of tighter lending standards was not planned in 2013 either.

Chart 5

CHANGES IN CUSTOMERS' CREDITWORTHINESS AFTER EXPIRATION OF DEBT LIABILITIES' POSTPONEMENT TERM DUE TO LOAN RESTRUCTURING
(vis-à-vis period prior to restructuring; percentage of responses)

- Households**
 - 1st half of 2010
 - 2nd half of 2010
 - 1st half of 2011
 - 2nd half of 2011
 - 1st half of 2012
 - 2nd half of 2012
- Non-financial corporations**
 - 1st half of 2010
 - 2nd half of 2010
 - 1st half of 2011
 - 2nd half of 2011
 - 1st half of 2012
 - 2nd half of 2012



With the economy on a progressive growth track and the financial situation of non-financial corporations gradually improving, credit institution loans are likely to become accessible to a wider range of enterprises. While household vulnerability remains high, new loans to households will apparently remain at a low level.