

The results of the January 2011 bank lending survey on lending to non-financial corporations and households

In January 2011, the Bank of Latvia conducted a regular bank survey round addressing the development trends in the banking sector lending during the second half of 2010 and banks' expectations as to the developments in the first half of 2011. The survey covered nine banks, representing over 84% of banks' aggregate loan portfolio to resident non-financial corporations and households.

Credit standards, terms and conditions

According to the survey results, in 2010 banks' credit standards remained broadly unchanged (see Charts 1a and 1b), and banks have no plans of tightening their credit standards in the first half of 2011. The number of banks reporting slightly easing credit standards with regard to loans to households increased, yet the forecast for the first half of 2011 is more cautious (the number of such banks has decreased). Some banks report about the easing credit standards with respect to loans for export-oriented corporations.

Chart 1a

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

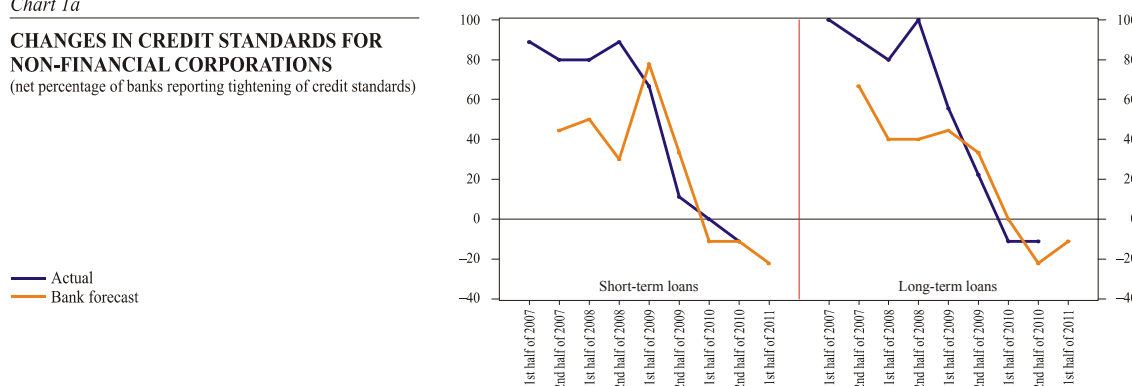
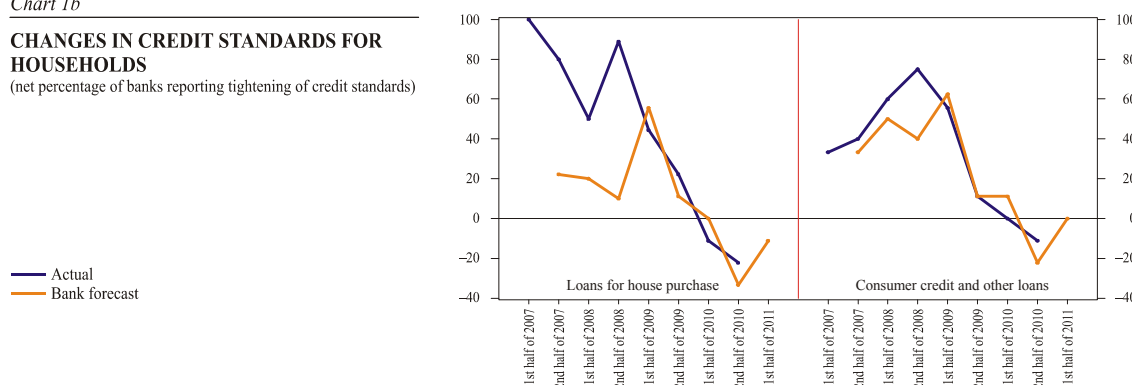


Chart 1b

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

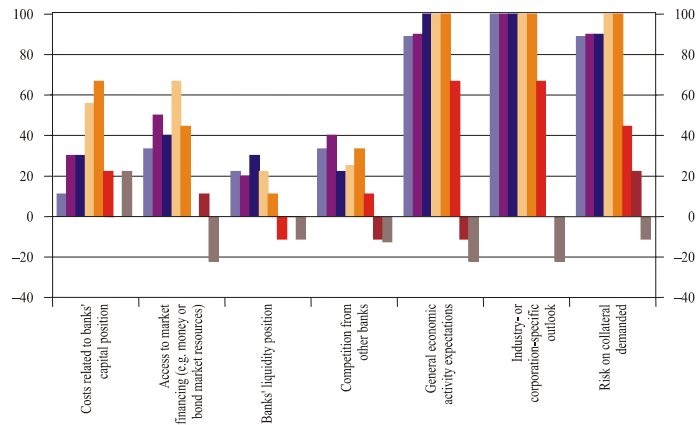


The number of banks reporting the impact of underlying factors for credit standard tightening for non-financial corporations has diminished, while the number of banks reporting industry-specific outlook and collateral-related risk as factors contributing to the easing of credit standards has increased (see Chart 2).

Chart 2

IMPACT OF UNDERLYING FACTORS ON TIGHTENING OF CREDIT STANDARDS FOR NON-FINANCIAL CORPORATIONS
(net percentage of banks reporting positive contribution of factors)

- 1st half of 2007
- 2nd half of 2007
- 1st half of 2008
- 2nd half of 2008
- 1st half of 2009
- 2nd half of 2009
- 1st half of 2010
- 2nd half of 2010



The opinion of survey participants with regard to easing standards for households is less optimistic (with regard to consumer credit and other lending in particular). Nevertheless, a number of factors like competition from banks and expectations regarding general economic activity could contribute to the easing of credit standards (see Charts 3a and 3b). Risk on collateral demanded by banks is the only factor that could contribute positively to tightening credit standards for household consumption loans and other lending.

Chart 3a

IMPACT OF UNDERLYING FACTORS ON TIGHTENING OF CREDIT STANDARDS FOR HOUSEHOLDS
(net percentage of banks reporting positive contribution of factors with regard to loans for house purchase)

- 1st half of 2007
- 2nd half of 2007
- 1st half of 2008
- 2nd half of 2008
- 1st half of 2009
- 2nd half of 2009
- 1st half of 2010
- 2nd half of 2010

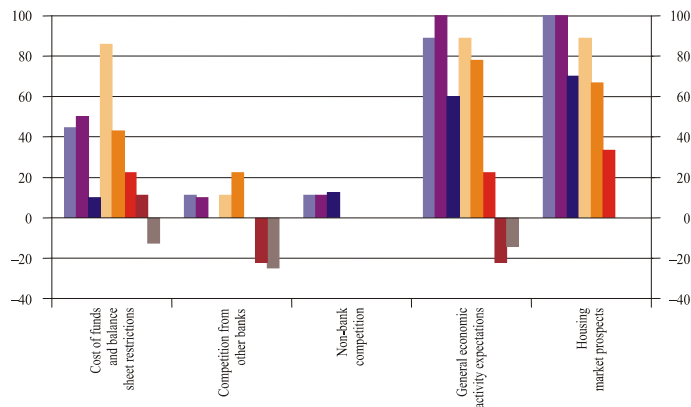
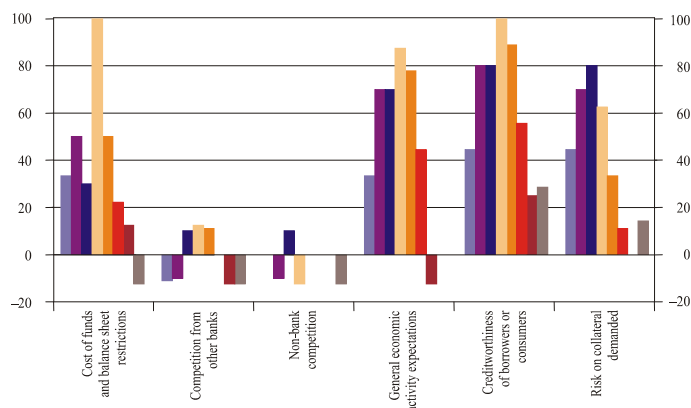


Chart 3b

IMPACT OF UNDERLYING FACTORS ON TIGHTENING OF CREDIT STANDARDS FOR HOUSEHOLDS
(net percentage of banks reporting positive contribution of factors with regard to consumer credit and other loans)

- 1st half of 2007
- 2nd half of 2007
- 1st half of 2008
- 2nd half of 2008
- 1st half of 2009
- 2nd half of 2009
- 1st half of 2010
- 2nd half of 2010



With banks easing the credit standards, the terms and conditions for receiving a loan are also slightly improving. The margins set by banks on ordinary loans to households and non-financial corporations decrease, while non-financial corporations can enjoy more favourable loan maturity terms.

Loan demand

Banks have indicated that in 2010 the demand for loans from non-financial corporations increased primarily due to the growing need for fixed investment. Although in the second half of 2010 the demand fell behind that of the first half of 2010, banks forecast an increase in loan demand in the first half of 2011 (see Chart 4a). The demand from households for loans for house purchase has also risen, primarily driven by borrowers' confidence in the improvement of their financial position (see Chart 4b). A rise in loan demand from households is also projected, suggesting that banks anticipate a more solid economic recovery in 2011.

Chart 4a

CHANGES IN NON-FINANCIAL CORPORATION DEMAND FOR LOANS OR CREDIT LINES
(net percentage of banks reporting increased demand)

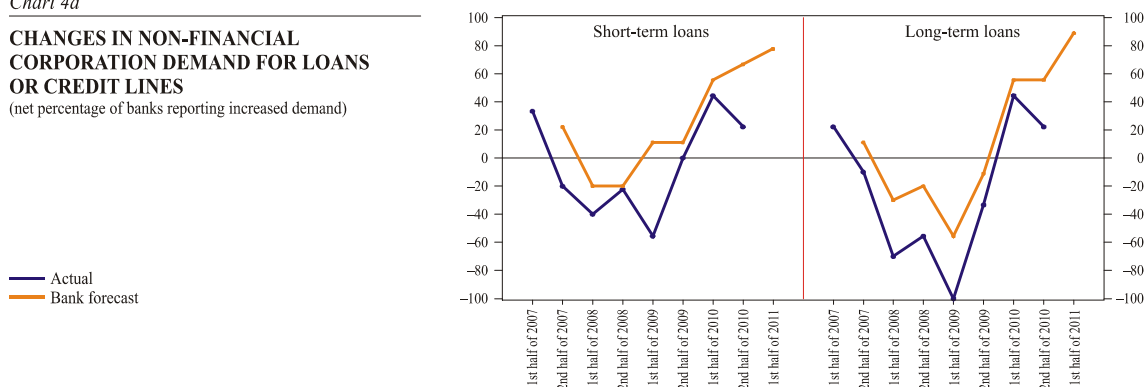
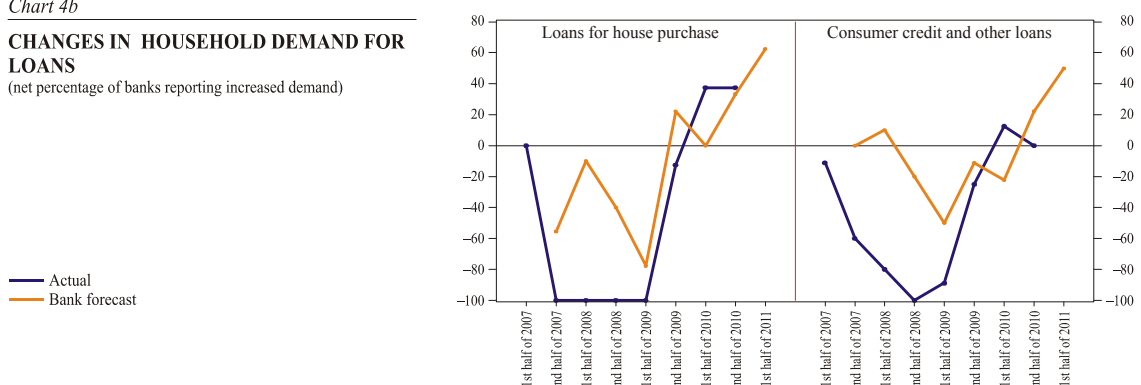


Chart 4b

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



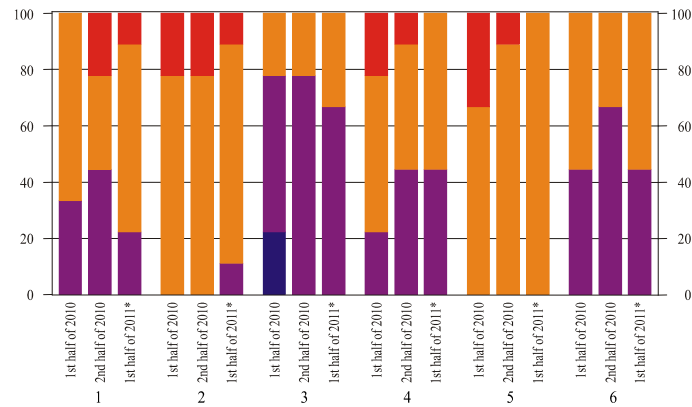
Creditworthiness of borrowers

According to the bank assessment, the creditworthiness of non-financial corporations remained broadly unchanged in 2010 overall, with the situation to be sustained also in the first half of 2011. For some sectors of the economy (e.g. manufacturing, transportation and storage, and trade; see Chart 5), however, improvements in the situation are expected. The financial position of households improved in the second half of 2010 vis-à-vis the previous periods, yet the outlook for the first half of 2011 remains cautious, and most survey participants consider that the financial position of households will remain unchanged.

Chart 5

BREAKDOWN OF REPLIES REGARDING ASSESSMENT OF CHANGES IN FINANCIAL POSITION OF HOUSEHOLDS AND COMPANIES 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.



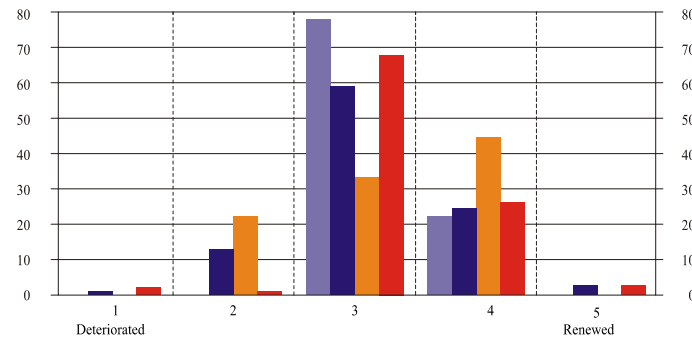
Loan restructuring

The responses of survey participants suggest that the creditworthiness of households with applied temporary postponement of debt liabilities is assessed in most cases as unchanged or slightly improved (see Chart 6). According to the assessment of some banks, however, the situation of households deteriorated in the second half of 2010.

Chart 6

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 in the first half of 2010
- Households in the second half of 2010
- Non-financial corporations in the first half of 2010
- Non-financial corporations in the second half of 2010



The bank assessment of the restructured debt of non-financial corporations has become more uniform, suggesting that the creditworthiness of non-financial corporations is not going to change notably after the expiration of debt liabilities postponement term applied during the loan restructuring process.