

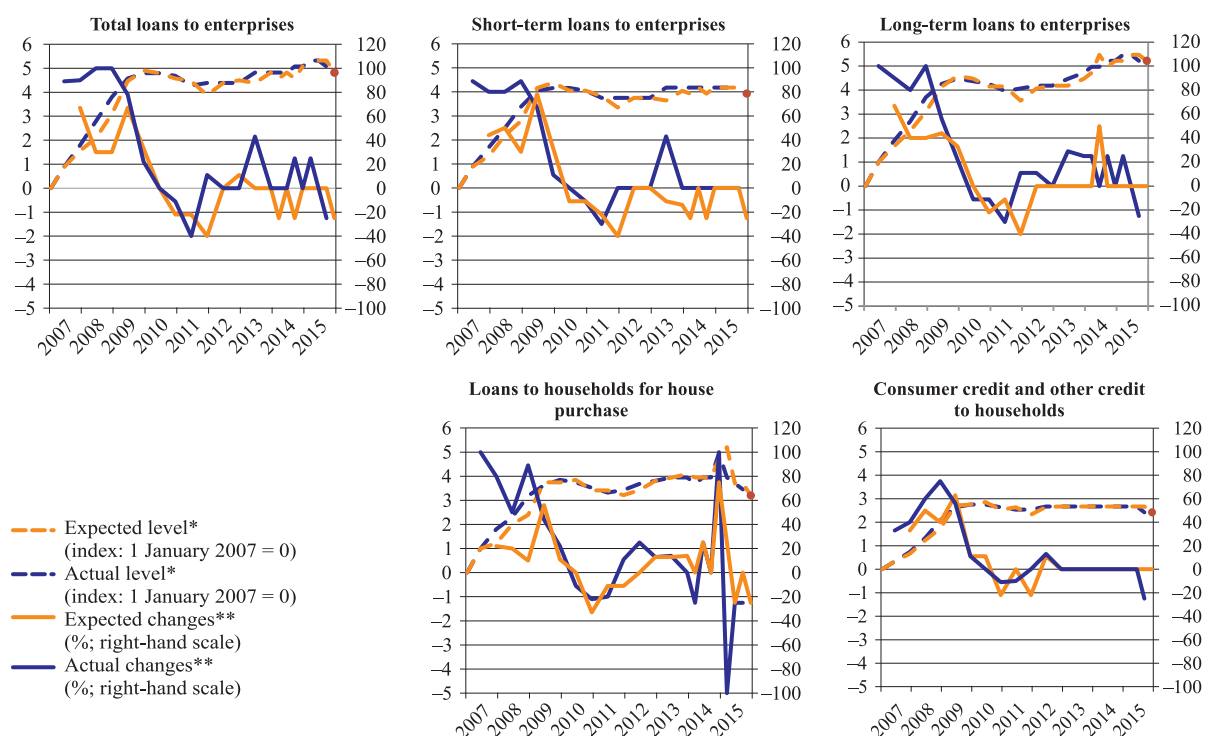
Euro area bank lending survey of September 2015: main results for Latvia

In September 2015, Latvijas Banka in cooperation with the European Central Bank conducted the regular euro area bank lending survey. Four banks of Latvia participated in the survey; the replies are aggregated in the euro area bank lending survey results¹. The survey conducted in September 2015 provides information on the lending development trends during the third quarter of 2015 and bank expectations for the fourth quarter of 2015.

Credit standards and terms and conditions

Three of the four surveyed banks or 75% of the above banks had eased credit standards for loans to enterprises and/or to households in the third quarter of 2015 or planned to ease credit standards in the next quarter (see Chart 1). One bank eased credit standards for long-term loans to large enterprises in the third quarter of 2015 and intended to ease credit standards for short-term loans to large enterprises in the fourth quarter (see Chart 2), given the impact of mutual competition of banks, improving overall situation and future development outlook for some enterprises or sectors of the economy and higher creditworthiness of some enterprises. One bank eased credit standards for loans to households for house purchase in the third quarter due to a cooperation with the "State-guaranteed Mortgage Loan Programme "ALTUM"". Another bank intends to ease credit standards for loans to households for house purchase in the next quarter. One bank eased credit standards for consumer credit and other lending to households in the third quarter since it had increased risk tolerance level.

Chart 1
CREDIT STANDARDS



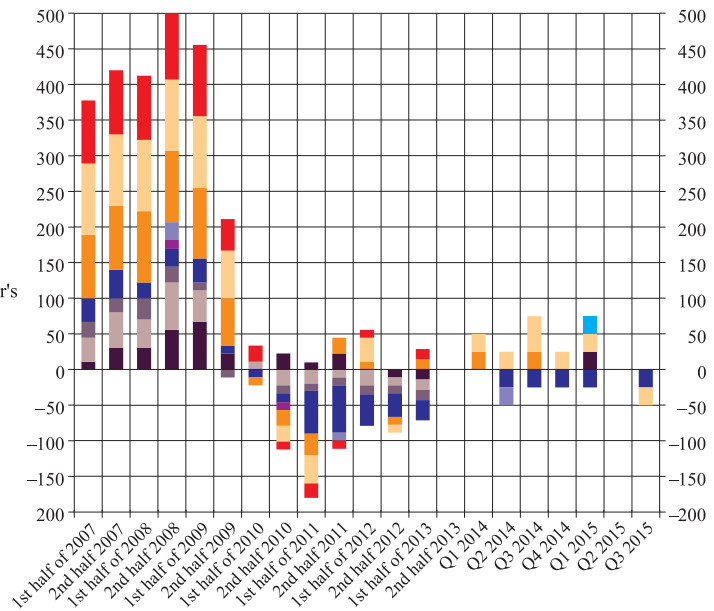
* Net cumulative changes of banks reporting tightening credit standards.

** Net percentage of banks reporting tightening credit standards.

¹ Hereinafter the results of the euro area bank lending survey refer to the period starting with the fourth quarter of 2013. They are not comparable with the previous time series, as up to the first half of 2013 it showed the results of the bank lending survey conducted by Latvijas Banka.

Chart 2
FACTOR CONTRIBUTIONS TO
TIGHTENING CREDIT STANDARDS FOR
LOANS TO ENTERPRISES
(net percentage of banks reporting positive factor contributions; %)

- Bank's risk tolerance level
- Risk related to the collateral demanded
- Industry- or firm-specific situation and outlook/borrower's creditworthiness
- General economic situation and outlook
- Competition from market financing
- Competition from non-banks
- Competition from other banks
- Bank's liquidity position
- Access to market financing
- Costs related to the bank's capital position

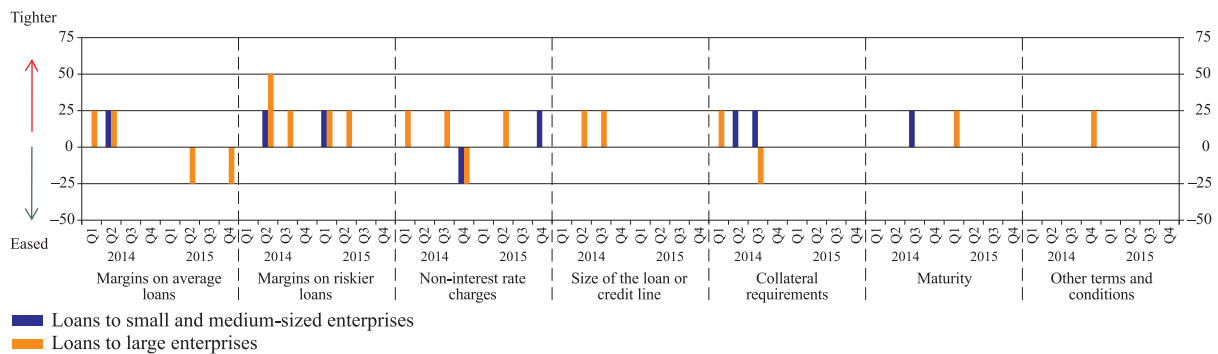


Banks observed that the share of rejected loan applications declined or remained broadly unchanged, once they eased credit standards. For instance, the share of rejected loan applications for loans to enterprises shrank at one bank. Conversely, the share of rejected loan applications for loans to households for house purchase and consumer credit and other lending to households remained broadly unchanged.

Credit standards and terms and conditions

Overall, banks offered more favourable lending terms and conditions to enterprises and households in the third quarter 2015. Margins on loans to large enterprises narrowed (see Chart 3), while other terms and conditions were somewhat eased for lending to households.

Chart 3
CHANGES IN TERMS AND CONDITIONS FOR LOANS TO ENTERPRISES BY SIZE
(net percentage of banks reporting tightening terms and conditions; %)



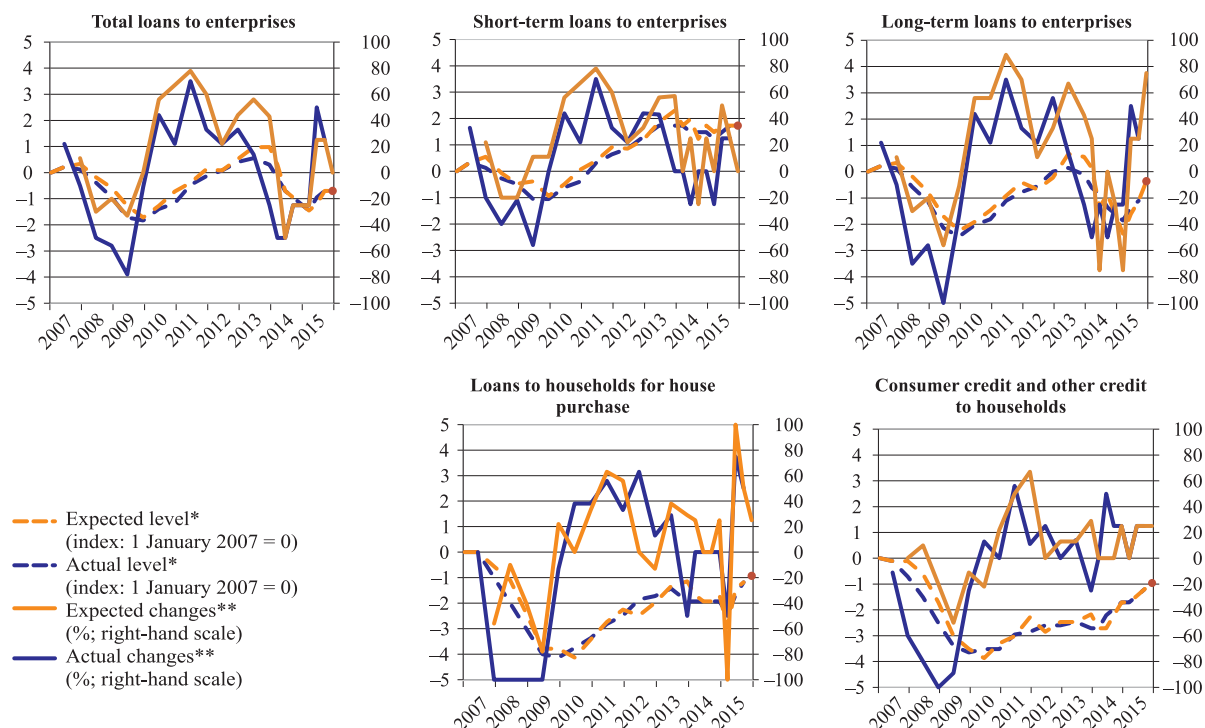
One of the four surveyed banks narrowed margins on loans to large enterprises under the impact of mutual competition of banks, one of the four banks stated that an increasing mutual competition of banks affected margins on loans to large enterprises; however, the above margins remained at the present level. Contrary to the observed trend of easing the credit terms and conditions, one of the four surveyed banks raised non-interest rate charges on loans to small and medium-sized enterprises moderately.

Cooperation with the "State-guaranteed Mortgage Loan Programme "ALTUM"" enabled one bank to ease loan-to-value ratio for loans to households for house purchase. Rising risk tolerance level at one bank contributed to higher amount and longer maturity of consumer credit and other lending to households.

Loan demand

The demand for loans to both enterprises and households increased further for the second consecutive quarter (see Chart 4). Banks that eased credit standards and terms and conditions also evidenced higher demand for loans. Conversely, banks that failed to change credit standards or terms and conditions neither observed nor experienced the changes in demand.

Chart 4
LOAN DEMAND



* Net cumulative changes of banks reporting increased demand for loans.

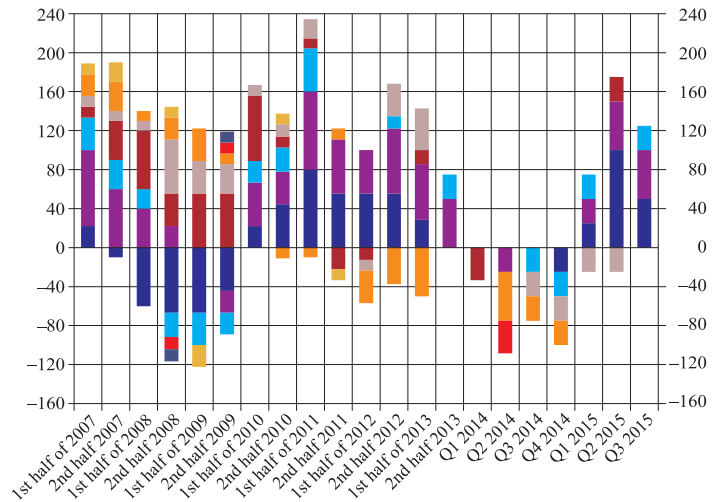
** Net percentage of banks reporting increased demand for loans.

The demand for loans and credit lines to enterprises continued to increase at two of the surveyed banks in the third quarter of 2015: one bank pointed to a growing demand for long-term loans to large enterprises and another bank reported a higher demand for short-term loans to small and medium-sized enterprises. In the third quarter of 2015, the observed increase in demand for loans to enterprises was somewhat smaller quarter-on-quarter.

The demand for loans and credit lines to enterprises was supported at two of the surveyed banks in the third quarter owing to their intention to invest financial resources increasingly in fixed investment, inventories and working capital (see Chart 5). One bank pointed out that enterprises needed more loans to finance mergers/acquisitions and corporate restructuring. The majority of the surveyed banks expect a growing demand for long-term loans to enterprises also in the next quarter: two banks believe that the demand for long-term loans to small and medium-sized enterprises will be on a rise, whereas one bank has not specified the size of enterprises.

Chart 5
FACTOR CONTRIBUTIONS TO THE
DEMAND FOR LOANS TO ENTERPRISES
(net percentage of banks reporting positive factor contributions; %)

■ Issuance/redemption of equity
■ Issuance/redemption of debt securities
■ Loans from non-banks
■ Loans from other banks
■ Internal financing of enterprises
■ Debt refinancing/restructuring
■ Mergers/acquisitions and corporate restructuring
■ Inventories and working capital
■ Fixed investment



Two banks pointed to the observed growth of the demand for loans to households for house purchase, and one bank reported an increasing demand for consumer credit and other lending to households. Banks mentioned their participation in the "State-guaranteed Mortgage Loan Programme "ALTUM"" and the launch of public awareness campaigns as the factors contributing to a higher demand for loans to households for house purchase. As reported by one bank, a growing demand for consumer credit and other lending to households was supported by a strengthening consumer confidence as well as an increase in spending on durable consumer goods, such as cars and furniture. One bank expects a higher demand for loans to households for house purchase and one bank – for consumer credit and other lending.