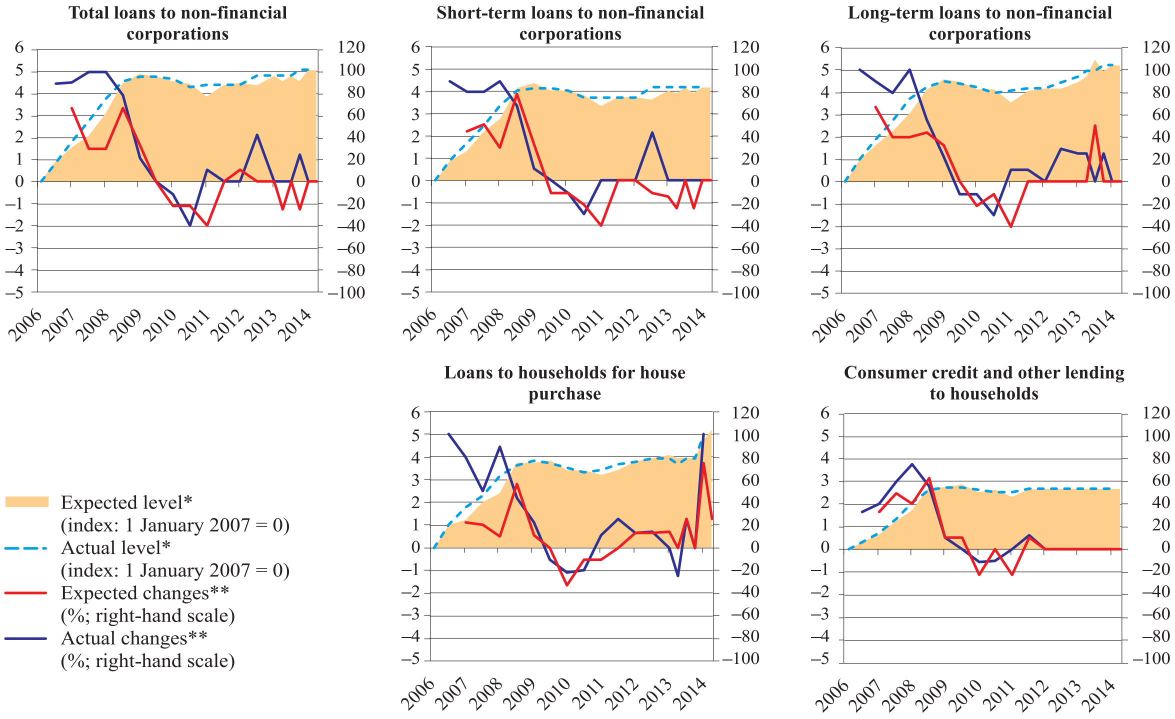
Euro area bank lending survey of December 2014: main results for Latvia

In December 2014, Latvijas Banka in cooperation with the European Central Bank conducted the regular euro area bank lending survey. Four credit institutions of Latvia (also referred to as banks) participated in the survey; the replies are aggregated and included in the euro area bank lending survey results[1]. The survey conducted in December 2014 relates to the lending development trends during the fourth quarter of 2014 and bank expectations for the first quarter of 2015.

Credit standards and terms and conditions

According to the replies by Latvian credit institutions, in the fourth quarter of 2014 credit standards remained unchanged both for loans to non-financial corporations on the whole and loans to certain groups of non-financial corporations. Credit standards remained unchanged and tight both for loans to small and medium-sized enterprises (compared to large enterprises) and short-term loans (compared to long-term loans). Latvian credit institutions have no plans of changing credit standards for loans to non-financial corporations in the first quarter of 2015 either (see Chart 1).

Chart 1
CREDIT STANDARDS

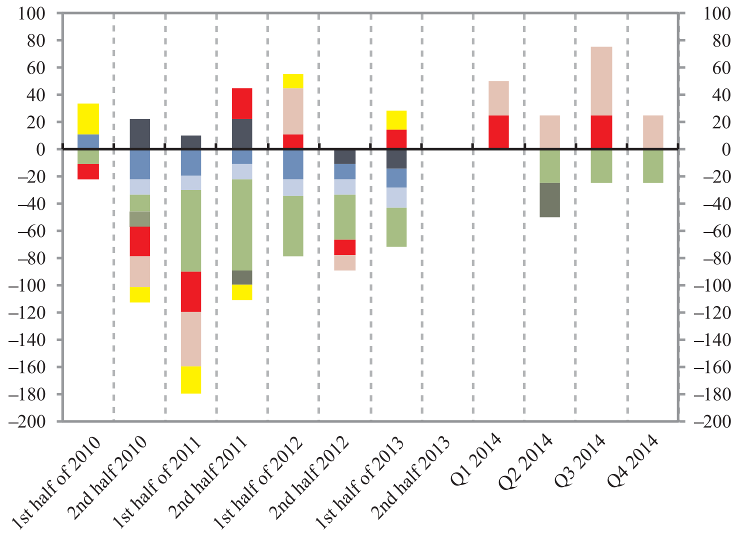


* Net cumulative changes of credit institutions reporting tightening credit standards.
** Net percentage of credit institutions reporting tightening credit standards.

In the fourth quarter of 2014, some opposite factors contributed to changes in credit standards for loans to non-financial corporations (see Chart 2). On the one hand, competition from other credit institutions supported slight easing of credit standards for large non-financial corporations. On the other hand, the weakening industry- or firm-specific outlook slightly facilitated tightening of credit standards for non-financial corporations of all sizes.

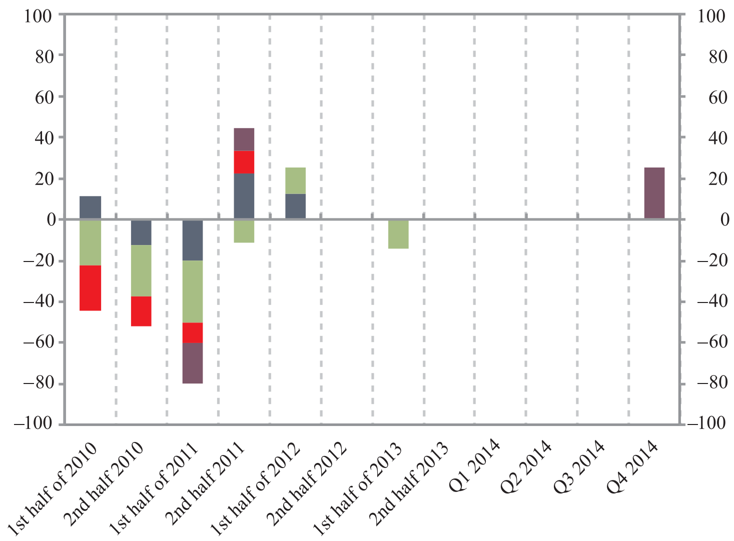
[1] Hereinafter the results of the euro area bank lending survey refer to the period starting with the fourth quarter of 2013. They are not comparable with the previous time series, as up to the first half of 2013 it showed the results of the credit institution lending survey conducted by Latvijas Banka.

Chart 2
FACTOR CONTRIBUTIONS TO TIGHTENING CREDIT STANDARDS FOR LOANS TO NON-FINANCIAL INSTITUTIONS
(net percentage of credit institutions reporting positive factor contributions; %)



In the fourth quarter of 2014, all credit institutions applied much tighter credit standards for loans to households for house purchase, mainly on account of the amendments to the Insolvency Law. One credit institution indicated housing market prospects as an additional consideration for considerable tightening of credit standards for loans to households for house purchase. The majority of credit institutions reported on their intention to tighten credit standards for loans to households for house purchase already in the previous quarter. One credit institution is planning to tighten credit standards for loans to households for house purchase somewhat in the following quarter (see Charts 1 and 3).

Chart 3
FACTOR CONTRIBUTIONS TO TIGHTENING CREDIT STANDARDS FOR LOANS TO HOUSEHOLDS FOR HOUSE PURCHASE
(net percentage of credit institutions reporting positive factor contributions; %)



Credit institutions introduced essential changes in other terms and conditions for loans to households for house purchase. All credit institutions substantially increased the loan-to-value ratio. Three of the four credit institutions tightened their collateral requirements (two credit institutions tightened them considerably, while the third one – only slightly), and one credit institution reduced the maturity of loans to households for house purchase somewhat.

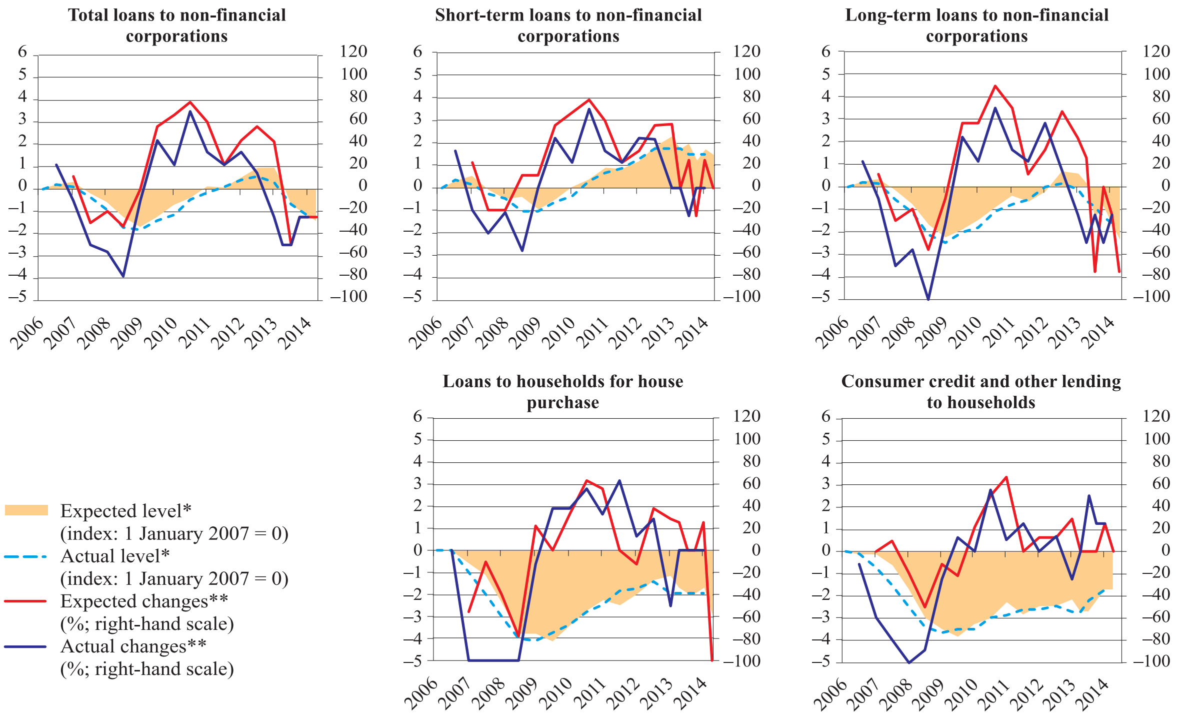
The amendments to the Insolvency Law had a minimum effect on the margin on loans to households for house purchase: one credit institution indicated that it slightly raised the margin on riskier loans to households for house purchase. Tightening of requirements somewhat as regards the location of the real estate was mentioned as an additional factor describing terms and conditions for loans to households for house purchase in the fourth quarter of 2014.

Credit standards for consumer credit and other lending to households as well as credit terms and conditions remained unchanged in the fourth quarter of 2014 (see Chart 1). According to one credit institution, significant tightening of credit standards for consumer credit and other lending to households was driven by the risk related to the collateral demanded and the amendments to the Insolvency Law. Credit institutions have no plans of changing credit standards for consumer credit and other lending to households in the first quarter of 2015.

Loan demand

Credit institutions assessed the demand of loans and credit lines to non-financial corporations differently, pointing to growing competition among credit institutions in the market and differences in the outlook of non-financial corporations of different industries. Two credit institutions reported that the demand for long-term loans to large non-financial corporations decreased somewhat in the fourth quarter of 2014, while one credit institution reported a slight increase (see Chart 4).

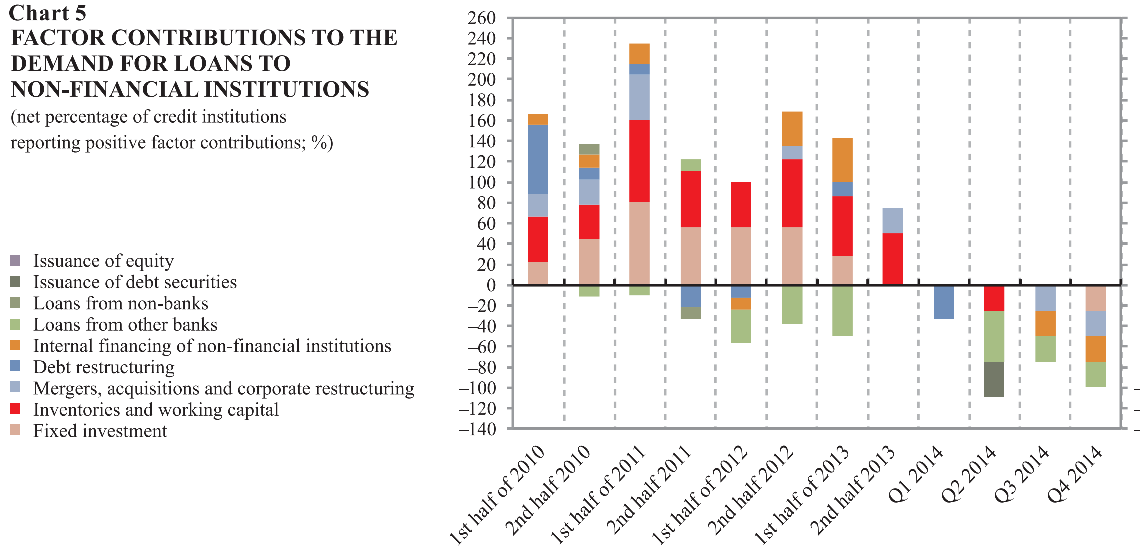
Chart 4
LOAN DEMAND



* Net cumulative changes of credit institutions reporting increased demand for loans.
** Net percentage of credit institutions reporting increased demand for loans.

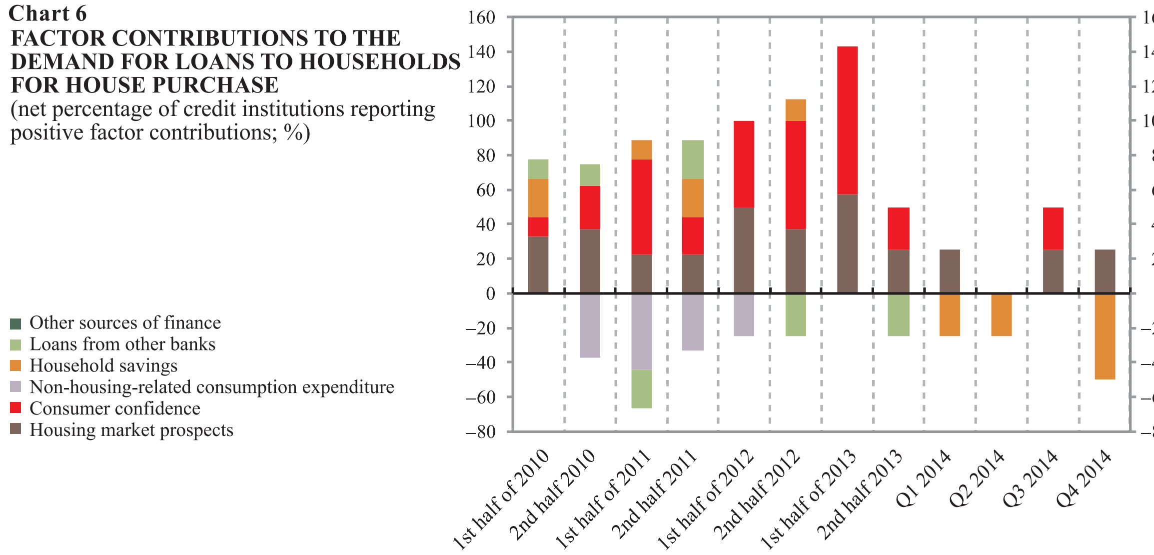
The demand for loans and credit lines granted by credit institutions to non-financial corporations weakened somewhat, both on account of a decreased need for financing and the use of alternative sources of finance (see Chart 5). With the need for fixed investment decreasing, the need for financing of non-financial corporations and loans granted by credit institutions also went down (two credit institutions indicated a slight decline in the demand for loans to non-financial corporations due to fixed investment, while one credit institution reported an increase). As in the case of non-financial corporations, the need for financing also contracted in respect of mergers, acquisitions and restructuring of non-financial corporations. One respondent suggested that non-financial corporations used their internal financing as an alternative to loans granted by credit institutions, while another one pointed to loans granted by other credit institutions. The majority of credit institutions expect a significant decline in the demand for long-term loans to non-financial corporations also in the first quarter of 2015.

Chart 5
FACTOR CONTRIBUTIONS TO THE DEMAND FOR LOANS TO NON-FINANCIAL INSTITUTIONS
(net percentage of credit institutions reporting positive factor contributions; %)



All credit institutions expect a significant fall in the demand for loans to households for house purchase in the first quarter of 2015 (see Chart 4). The credit institutions' assessment of the demand for loans to households for house purchase in the fourth quarter of 2014 was similar to that reported in the previous lending survey as regards potential changes in demand in the following quarter: two credit institutions suggested a significant decline in demand, whereas the other two expected a temporary rise (one of them suggested only a slight increase, while the other one expected it to be considerable).

Chart 6
FACTOR CONTRIBUTIONS TO THE DEMAND FOR LOANS TO HOUSEHOLDS FOR HOUSE PURCHASE
(net percentage of credit institutions reporting positive factor contributions; %)



Credit institutions indicating a weak demand for loans to households for house purchase in the fourth quarter of 2014 suggested this was due to insufficient household savings for the first down payment on credit. Some credit institutions reported a temporary (until the amendments took effect) and considerable increase in the demand for loans for house purchase from the households in a hurry to purchase real estate on less tight credit terms and conditions, owing to the amendments to the Insolvency Law and tightening of credit standards stipulated therein. However, other credit institutions did not witness a temporary rise in the household demand for the above loans and reported a considerable decline in the demand for loans which was observed already in the fourth quarter of 2014 and was caused by the amendments to the Insolvency Law. In addition, one credit institution indicated that the increase in the demand for loans to households for house purchase was facilitated somewhat by the housing market prospects (see Chart 6).

Household demand for consumer credit and other lending, supported by a strengthened consumer confidence, picked up slightly in the fourth quarter of 2014. According to one credit institution, the household demand for consumer credit and other lending rose somewhat on account of an increased need for durable consumption goods. Two credit institutions expect the household demand for consumer credit and other lending to remain unchanged in the first quarter of 2015; at the same time, one credit institution suggests a slight increase, while another one – a slight decrease (see Chart 4).

According to credit institutions, also in the fourth quarter of 2014 lending trends were affected by the instability in Ukraine and Russia, triggering caution in respect of long-term investment and loans. The depreciation of the Russian ruble had an adverse effect on Latvian non-financial corporations exporting a significant share of their goods or services to Russia.

According to all credit institutions, the financial market developments did not affect credit institutions' access to sources of financing in the fourth quarter of 2014. As regards the new prudential supervision measures and those regulating the functioning of credit institutions, over the past six months no credit institution has introduced changes to credit standards or the margin on loans, and no credit institution intends to introduce such changes.

As regards the survey's additional question on the targeted longer-term refinancing operations (TLTRO), the majority of credit institutions indicated that they had not yet decided on participating in the TLTRO tenders in 2015 and 2016, while one credit institution reported that it would not participate. Credit institutions that had used or intended to use the opportunity to participate in the TLTRO tenders believed this could help to improve their profitability by replacing market financing with cheaper financing from the European Central Bank. The majority of credit institutions that had not used and did not intend to use the opportunity to participate in the TLTRO tenders based their decisions on the fact that they did not have financial constraints. One credit institution pointed to existing concerns about an insufficient demand for loans.