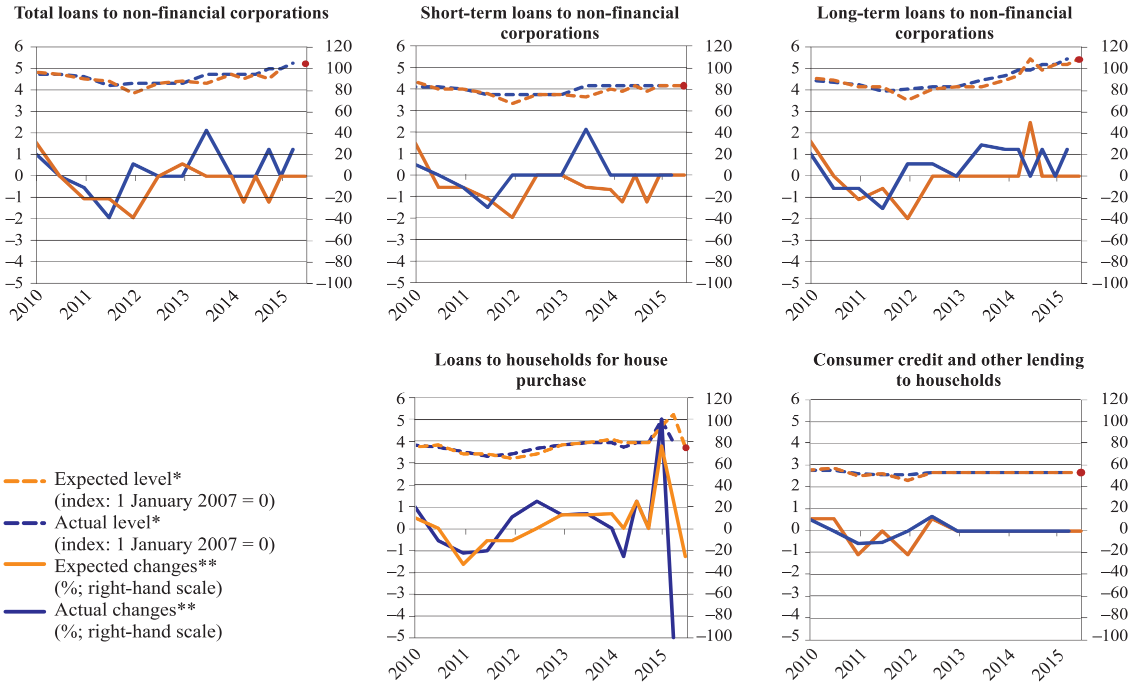
Euro area bank lending survey of March 2015: main results for Latvia

In March 2015, 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 in the euro area bank lending survey results[1]. The survey conducted in March 2015 relates to the lending development trends during the first quarter of 2015 and bank expectations for the second quarter of 2015.

Credit standards and terms and conditions

According to the replies by Latvian credit institutions, in the first quarter of 2015 one credit institution slightly tightened the credit standards for long-term loans to large non-financial corporations, whereas the credit standards for loans to small and medium-sized non-financial corporations as well as for short-term loans to non-financial corporations remained unchanged (see Chart 1). All Latvian credit institutions indicated that they have no plans of changing the credit standards for loans to non-financial corporations in the second quarter.

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 first quarter of 2015, some opposite factors continued to affect changes in credit standards for loans to non-financial corporations (see Chart 2). One credit institution tightened its credit standards for loans to large non-financial corporations, on the basis of both internal considerations (hedging and costs related to the capital position) and performance and outlook of individual industries and non-financial corporations. The tightening of credit standards for loans to large non-financial corporations moderated slightly due to growing competition among credit institutions. Although Latvian credit institutions did not tighten their credit standards for loans to small non-financial corporations in the first quarter of 2015, they mentioned the performance and outlook of individual industries or non-financial corporations as contributing factor for tightening of credit standards.

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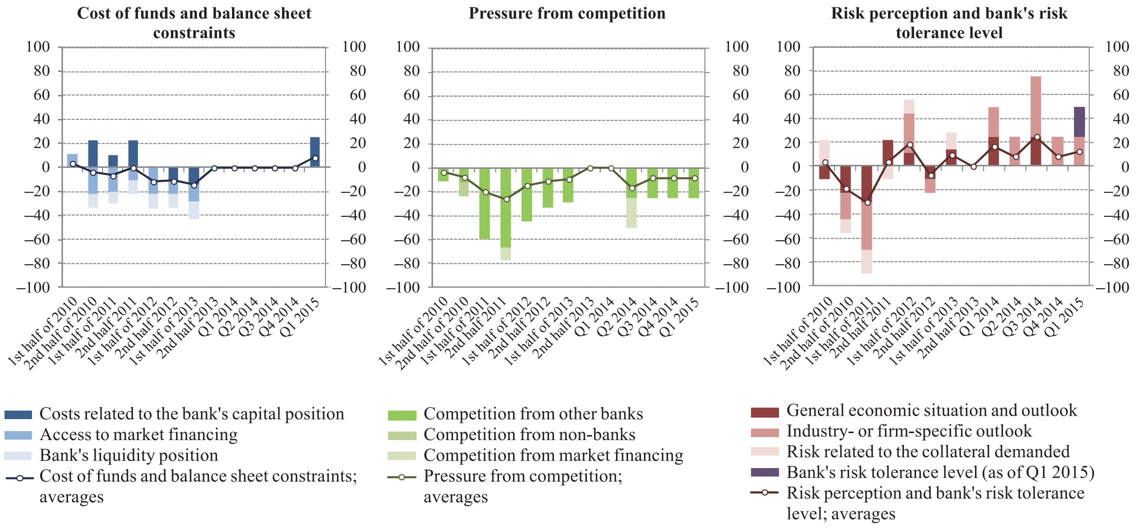
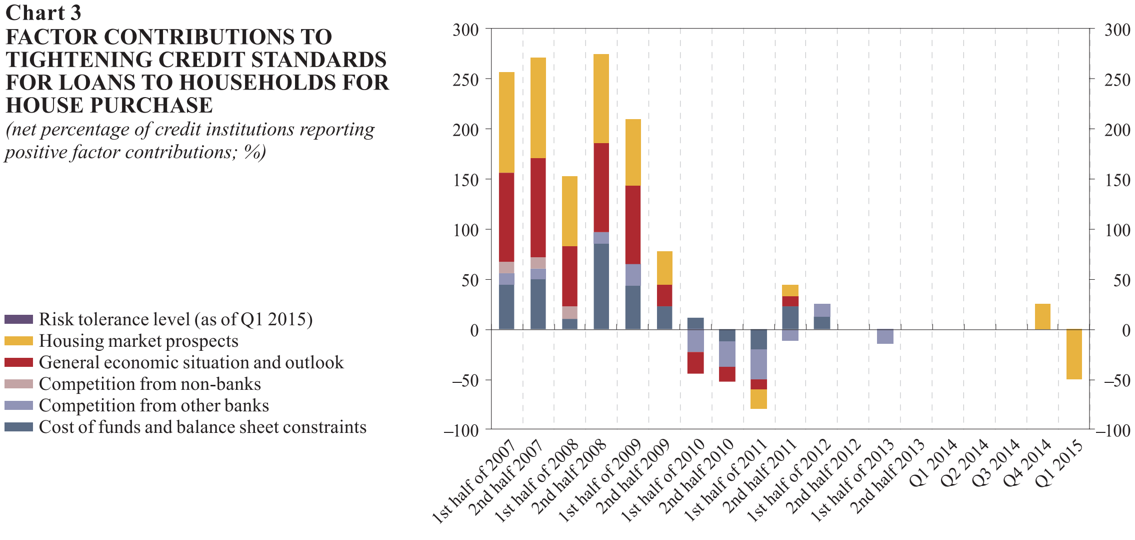
[1] Hereinafter the results of the euro area bank lending survey refer to the period starting with the fourth quarter of 2013. They are not comparable with the previous time series, as up to the first half of 2013 it showed the results of the credit institution lending survey conducted by Latvijas Banka.

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



All the surveyed credit institutions eased their credit standards for loans to households for house purchase in the first quarter of 2015 (two of the surveyed credit institutions eased their credit standards only slightly, whereas the other two eased them significantly). Following their one-off tightening in the fourth quarter of 2014, credit standards were eased again, mostly on account of the amendments to the Insolvency Law, adopted on 19 February 2015, which are more favourable to credit institutions. In addition, two of the surveyed credit institutions indicated that changes in housing market prospects, including the projected housing price developments, is also one of the factors that may support easing of credit standards for loans to households for house purchase. One credit institution is planning to further ease the credit standards for loans to households for house purchase somewhat in the second 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; %)



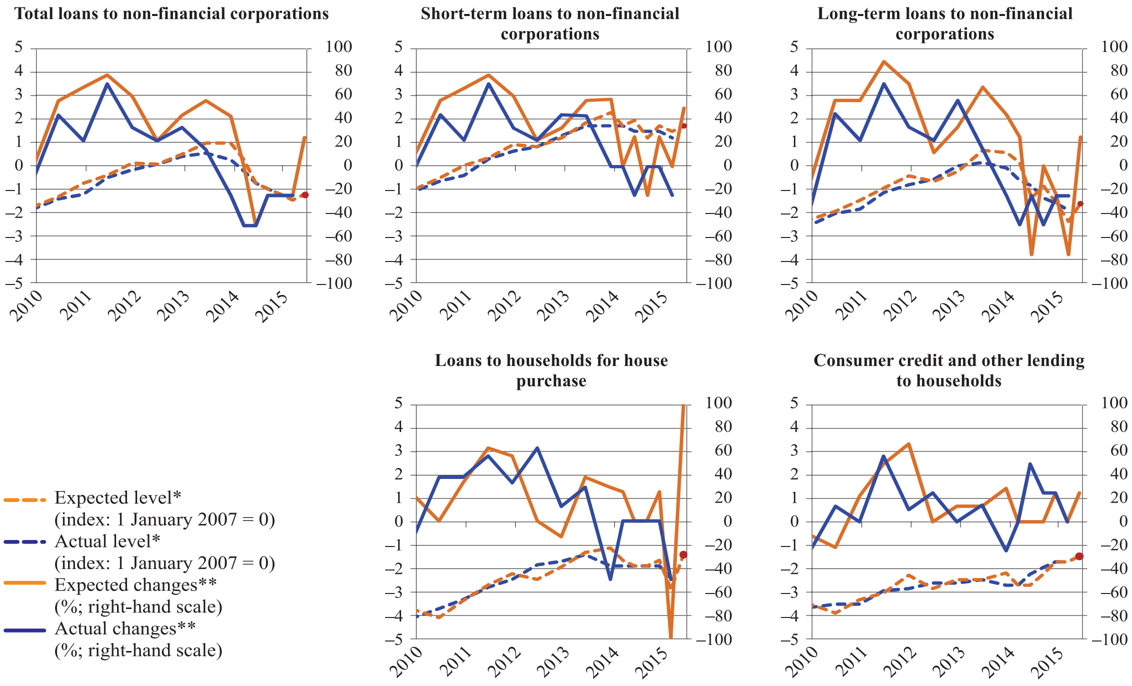
Credit institutions eased the general terms and conditions for loans to households for house purchase, as well as the requirements for the loan-to-value ratio. In the first quarter of 2015, collateral requirements for loans to non-financial corporations remained broadly unchanged (the collateral requirements were eased by one credit institution and tightened by another one). Easing of the credit terms and conditions applied by credit institutions to new loans to households for house purchase took place on account of the above legislative amendments as well as the changes in the credit institutions' risk perception. In the first quarter of 2015, no credit institution changed the margins on loans to households for house purchase.

Credit standards for consumer credit and other lending to households remained unchanged in the first quarter of 2015 (see Chart 1). One credit institution applied slightly stricter conditions as regards the amount of new consumer credit and other lending to households. Credit institutions have no plans of changing credit standards for consumer credit and other lending to households in the second quarter.

Compared to the level of credit standards between the first quarter of 2003 and the first quarter of 2015, credit standards of all credit institutions were tighter in the first quarter of 2015 both for loans to households and those to non-financial corporations, making no distinction between small and medium-sized non-financial corporations and large non-financial corporations. Overall, in the above period, credit standards for loans to households grew significantly tighter than those for loans to non-financial corporations, whereas credit standards for small and medium-sized non-financial corporations and large non-financial corporations tightened to an equivalent extent, except for one credit institution whose credit standards for loans to large non-financial corporations remained unchanged. Compared to the level of credit standards between the first quarter of 2010 and the first quarter of 2015, credit standards for loans to non-financial corporations remained broadly unchanged in the first quarter of 2015. Credits standards became slightly tighter in respect of small and medium-sized non-financial corporations, whereas those for large non-financial corporations eased somewhat. Overall, compared to the same period, credit standards for loans to households both for house purchase and for consumer credit or other lending tightened somewhat.

Loan demand

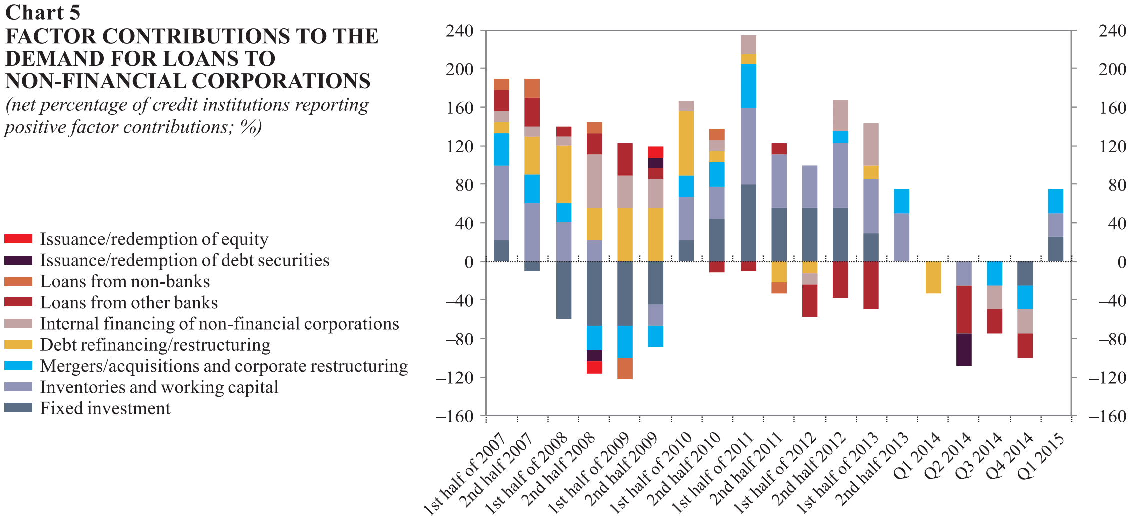
Chart 4
LOAN DEMAND



* 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 to non-financial corporations declined somewhat in the first quarter of 2015, mainly on account of a weakened demand for loans to large non-financial corporations. One credit institution reported a slight decrease in the overall demand for loans and credit lines to non-financial corporations, while two credit institutions reported a fall in the demand for loans to large non-financial corporations. By contrast, one credit institution pointed out that the demand for loans to small and medium-sized non-financial corporations increased somewhat.

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



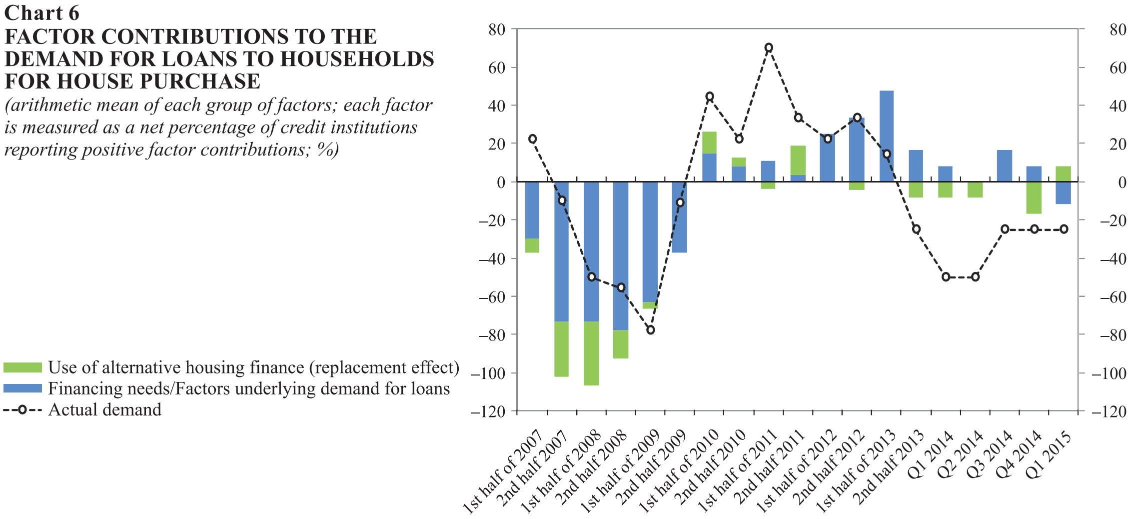
In the first quarter of 2015, the demand for loans and credit lines granted by credit institutions to non-financial corporations went down on account of non-financial corporations using alternative sources of finance (see Chart 5). One credit institution indicated that the demand for loans and credit lines to non-financial corporations shrank due to the fact that non-financial corporations were more inclined to use their internal financing for investments. At the same time, credit institutions identified several factors related to the non-financial corporations' need for financing positively contributing to the demand of non-financial corporations: need for investment in inventories and working capital, as well as mergers, acquisitions and restructuring of non-financial corporations. There was a difference in credit institutions' assessment as regards the contribution of non-financial corporations' fixed investment on the demand for loans and credit lines to non-financial corporations. One credit institution indicated that this factor facilitated the demand for loans and credit lines to non-financial corporations, while another one believed it had a slightly negative effect on the demand. As regards potential changes in demand in the second quarter, Latvian credit institutions are optimistic: one credit institution expects a rise in demand for long-term loans to the large non-financial corporations, while two credit institutions expect a stronger demand for short-term loans to the small and medium-sized non-financial corporations.

In line with the credit institutions' expectations of the fourth quarter of 2014, the demand for loans to households for house purchase shrank in the first quarter of 2015 (see Chart 4). Two credit institutions indicated a significant fall in the demand for loans to households for house purchase; at the same time, one credit institution reported only a slight decrease, while another one – a slight increase. Credit institutions agree that in the second quarter the demand for loans to households for house purchase might go up somewhat.

According to credit institutions, the fall in the demand for loans to households for house purchase could be explained by the tightening of credit terms and conditions, higher own contribution requirements, housing market regulatory framework as well as housing market prospects. As the amendments to the Insolvency Law, favourable to the credit institutions, were adopted on 19 February 2015 and took effect on 1 March 2015, the regulatory changes might not affect the demand of households in the first quarter of 2015, but they could become relevant in the second quarter (see Chart 6).

In the first quarter of 2015, the household demand for consumer credit and other lending remained unchanged (see Chart 4); however, one Latvian credit institution suggested a slight increase in demand in the second quarter.

Chart 6
FACTOR CONTRIBUTIONS TO THE DEMAND FOR LOANS TO HOUSEHOLDS FOR HOUSE PURCHASE
(arithmetic mean of each group of factors; each factor is measured as a net percentage of credit institutions reporting positive factor contributions; %)



According to credit institutions, in the first quarter of 2015 lending trends were affected not only by the amendments to the Insolvency Law, but also by the exchange rate fluctuations. As income and spending of some credit institution customers are in different currencies, there is an increased credit risk for customers gaining income in a currency with a depreciating exchange rate vis-à-vis the currency of the loan.