

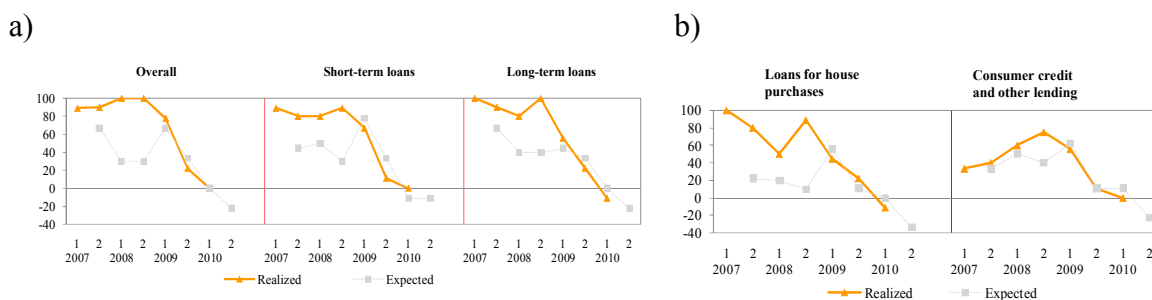
## The results of the July 2010 bank lending survey

In July 2010, the Bank of Latvia conducted the current bank survey round addressing the developments in the banking sector lending trends during the first half of 2010 and banks' expectations as to developments in the second half of 2010. The number of respondents, 9 banks, remains unchanged since the previous round, representing 85% of banks' aggregate loan portfolio to non-financial corporations and households.

### Credit standards, terms and conditions

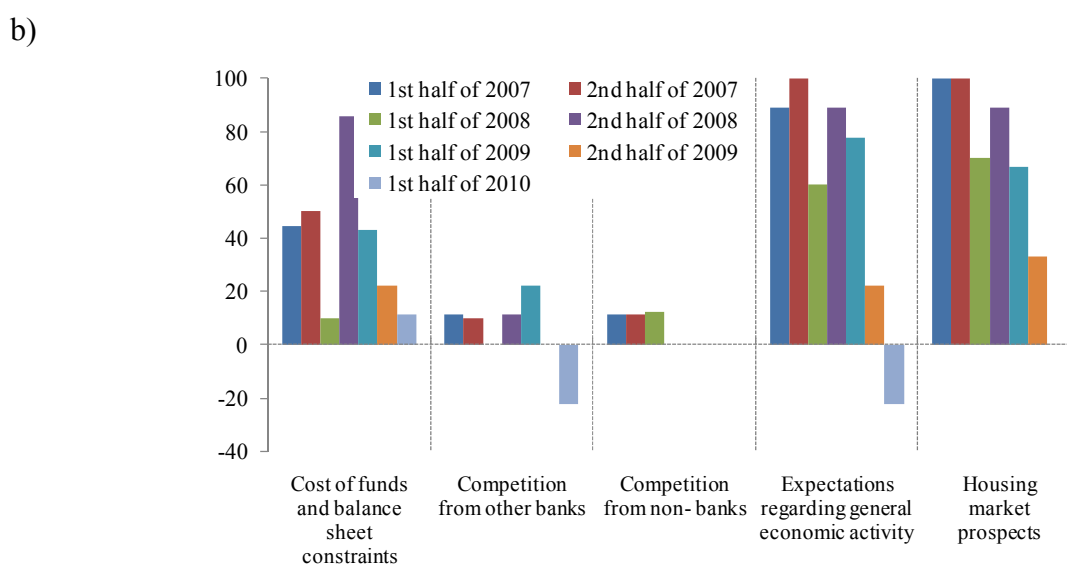
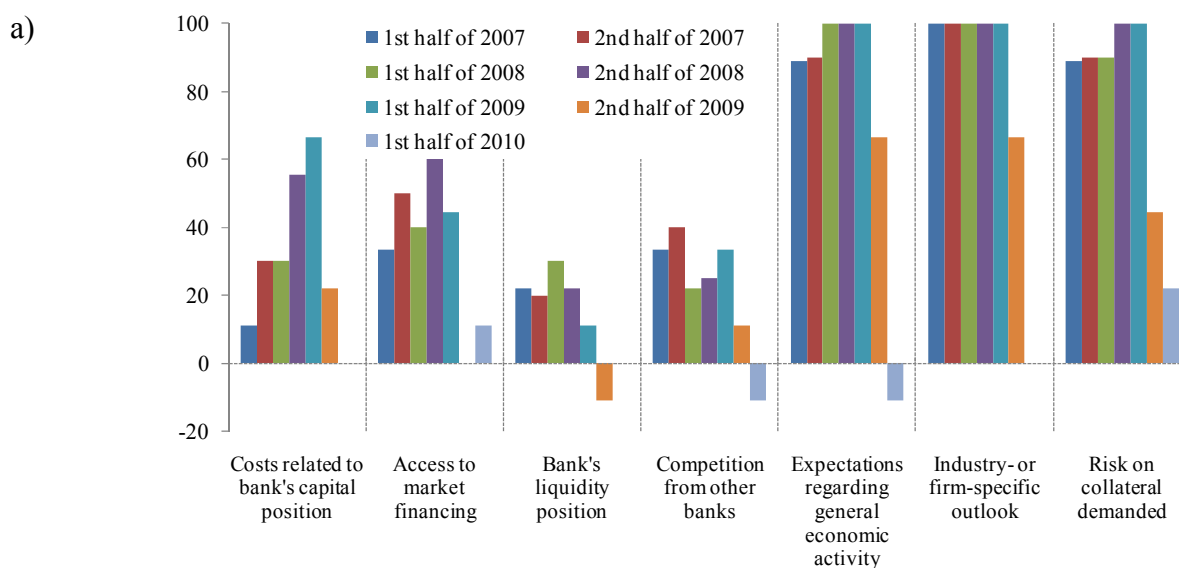
According to the survey results, in the first half of 2010 banks did not tighten credit standards, applied to non-financial corporations and households. Hence, net percentages of banks reporting tightening of credit standards were 0% or even slightly below zero (–11% for long-term loans to non-financial corporations and –11% for loans to households for house purchase) pointing to the emerging easing of credit standards. The increasing number of the banks projecting some easing of credit standards in the second half of 2010 both for long-term loans to non-financial corporations and loans to households for house purchase also suggests reversal of the trend (see Chart 1).

*Chart 1. Changes in credit standards applied to the approval of loans or credit lines to a) non-financial corporations and b) households (net percentages of banks reporting tightening credit standards)*



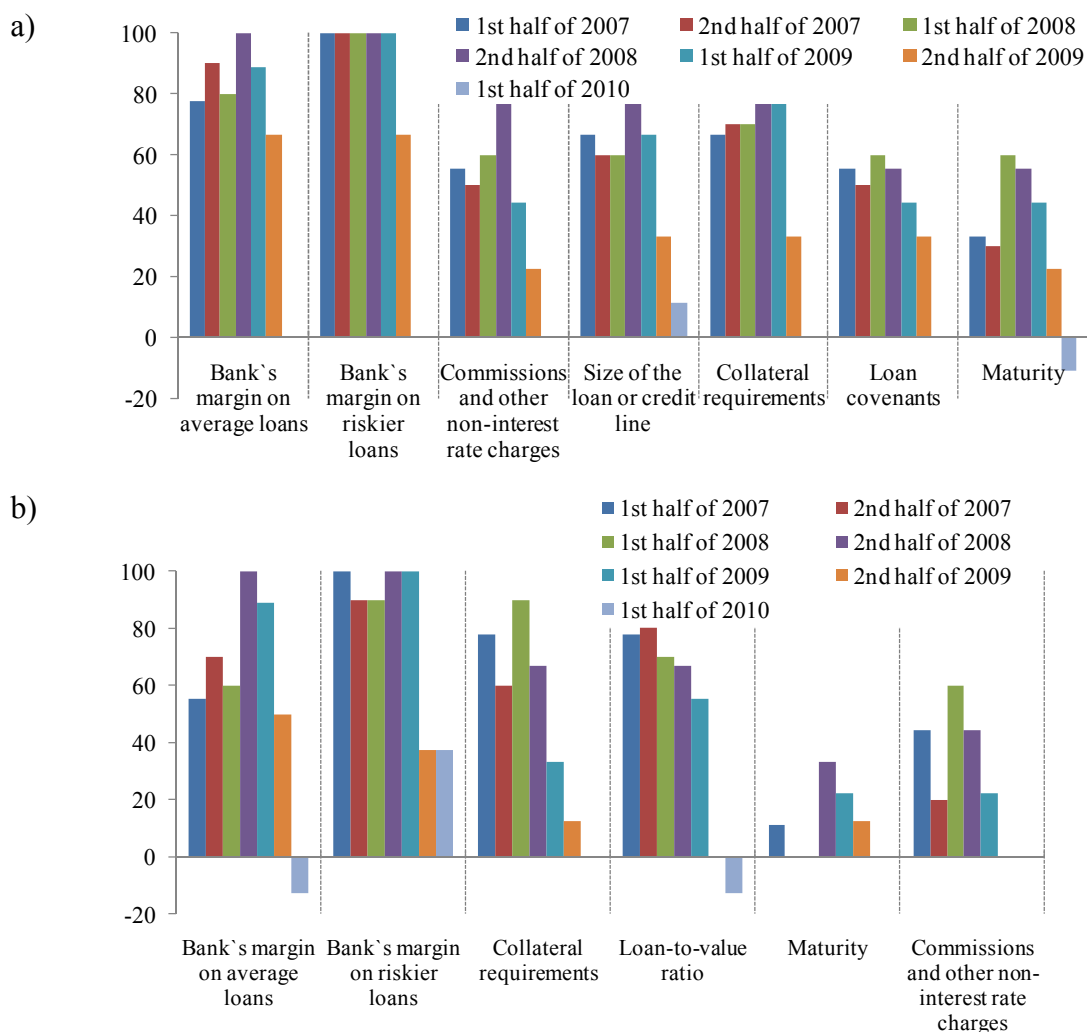
In banks' opinion, the impact of the underlying factors that previously contributed to tightening of credit standards has eased notably. According to the survey results, expectations regarding general economic activity, industry-specific outlook for non-financial corporations and housing market prospects no longer supported tightening of credit standards. Thus, net percentages of banks reporting the impact of the factors mentioned in the survey on tightening of credit standards diminished to 0% or even below zero (see Chart 2). Some banks' assessment pointed to general economic activity and competition from other banks as significant factors already contributing to the easing of credit standards. However, risk on collateral demanded for non-financial corporations and households' creditworthiness were mentioned by several banks as factors still contributing positively to tightening credit standards.

**Chart 2. Factors contributing positively to tightening credit standards for loans or credit lines to a) non-financial corporations and b) households for house purchase (net percentages of banks reporting a contribution of the factors to tightening credit standards)**



Tightening of credit standards observed in the previous survey periods has eased, and net percentages of banks reporting higher margins both on riskier loans and average loans to non-financial corporations fell to 0% (down from 67%). At the same time, net percentages of banks reporting higher margins on average loans to households was even negative, thus pointing to the easing of credit standards practiced by some banks for customers with a positive credit history. However, some banks still continued to set higher margins on riskier loans to households (see Chart 3).

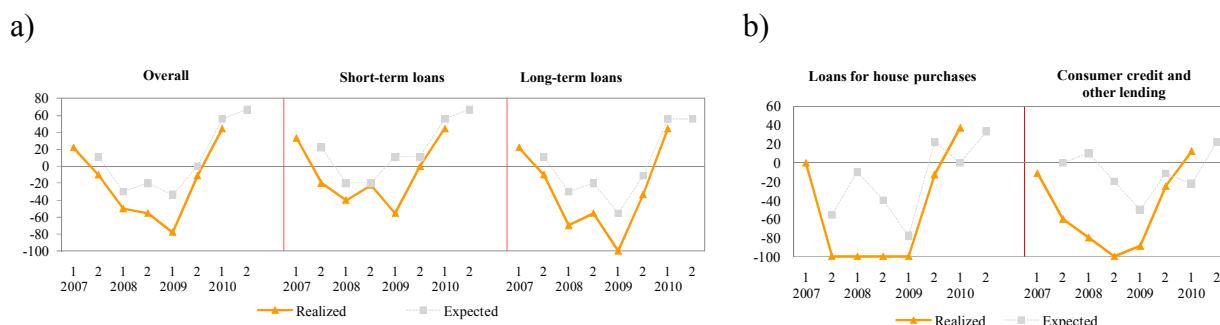
**Chart 3. Terms and conditions** for loans or credit lines to a) non-financial corporations and b) households for house purchase (*net percentages of banks reporting tightening terms and conditions*)



## Loan demand

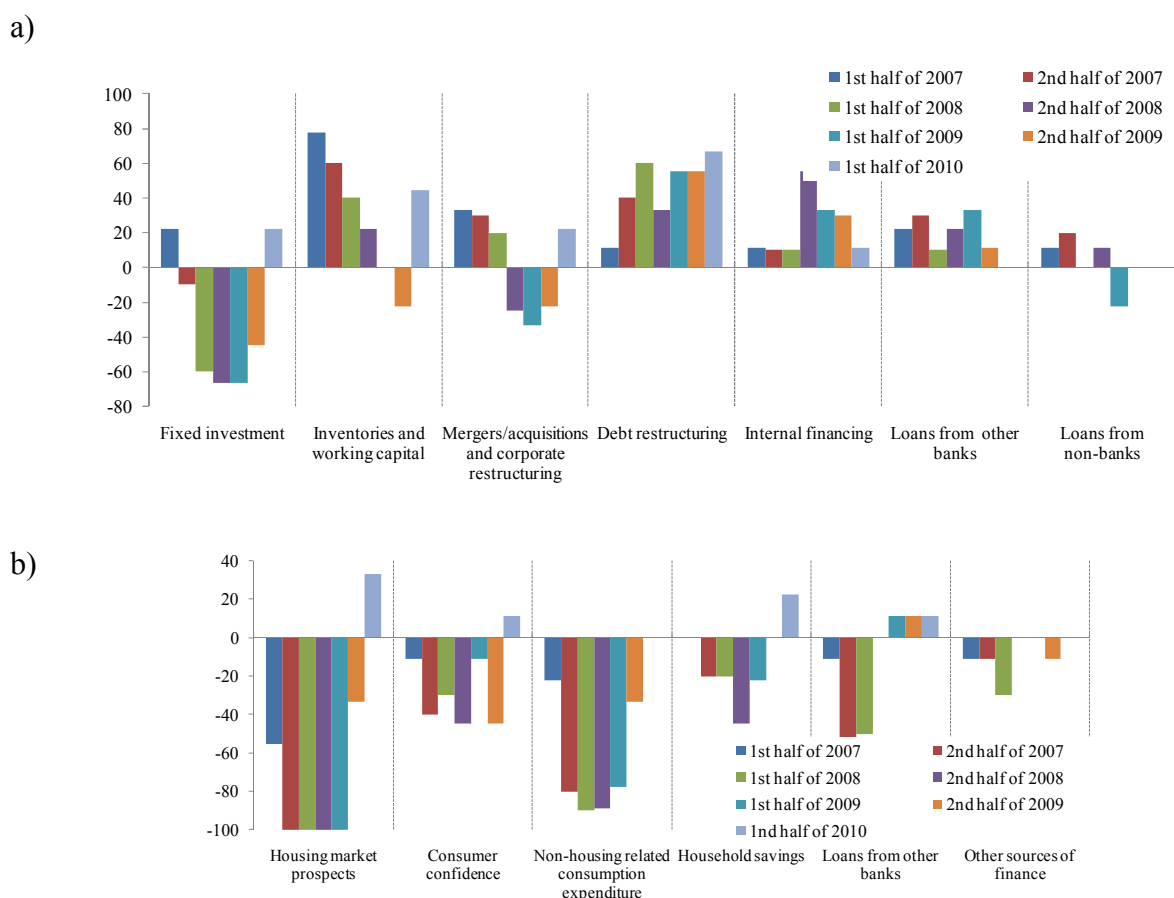
According to the survey results, banks have noticed a recurrent slight increase in loan demand from non-financial corporations and households in the first half of 2010 (after a decline observed in the last three years). A rise in both short-term and long-term loan demand from non-financial corporations was reflected in the net percentages of banks reporting an increase in loan demand (44%; up from -11%). In their assessment, several banks also observed an improvement in the demand from households for house purchase (see Chart 4). The increase in loan demand from non-financial corporations and households in the second half of 2010 projected by the majority of banks suggests the expected economic recovery.

**Chart 4. Changes in demand for loans or credit lines to a) non-financial corporations and b) households (net percentages of banks reporting a positive contribution to demand)**



Although debt restructuring by changing terms and conditions on debt liabilities was mentioned by banks as the main underlying factor contributing to an increase in the demand from non-financial corporations in the first half of 2010, some banks have also mentioned other factors contributing to higher demand (acquisitions and corporate restructuring, supplementing of inventories and working capital and fixed investment). According to survey participants' assessment, better housing market prospects and moderating use of household savings for house purchase were the main contributors to the demand from households (see Chart 5).

**Chart 5. Factors affecting demand for loans or credit lines to a) non-financial corporations and b) households for house purchase (net percentages of banks reporting a positive contribution of the factors to demand)**



## Creditworthiness of borrowers

Most survey participants indicated that the creditworthiness of borrowers stabilized in the major sectors of the economy in the first half of 2010, while in manufacturing it improved. Bank projections of the future development of the major sectors in the second half of 2010 suggest an unchanged financial situation with several banks expecting further improvement in the financial situation of the manufacturing and transportation sectors (see Chart 6).

*Chart 6. Assessment of creditworthiness of borrowers in major sectors and households in the first half of 2010; expectations for the second half of 2010 (percentages of bank responses)*

