

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

With Latvia joining the Economic and Monetary Union on 1 January 2014, Latvijas Banka stopped conducting its own bank lending survey and, henceforth, will cooperate with the ECB<sup>1</sup> in conducting the euro area bank lending survey by carrying out a survey of four Latvian credit institutions every quarter. Starting with April 2014, the replies by the credit institutions included in Latvia's representative sample are aggregated in the euro area bank lending survey results. The main objective of the survey is to enhance the Eurosystem's knowledge of the role of credit in the monetary transmission mechanism and hence also information to help assess monetary and economic developments as an input into monetary policy decisions. The survey conducted in April 2014 relates to the lending development trends during the first quarter of 2014 and credit institutions' expectations for the second quarter of 2014.

### Credit standards and terms and conditions

According to the survey results, credit standards remained broadly unchanged in the first quarter of 2014 (see Charts 1 and 2). Some credit institutions tightened their credit standards for some types of credit to enterprises, while one credit institution eased credit standards for loans to households for house purchase.

Chart 1

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

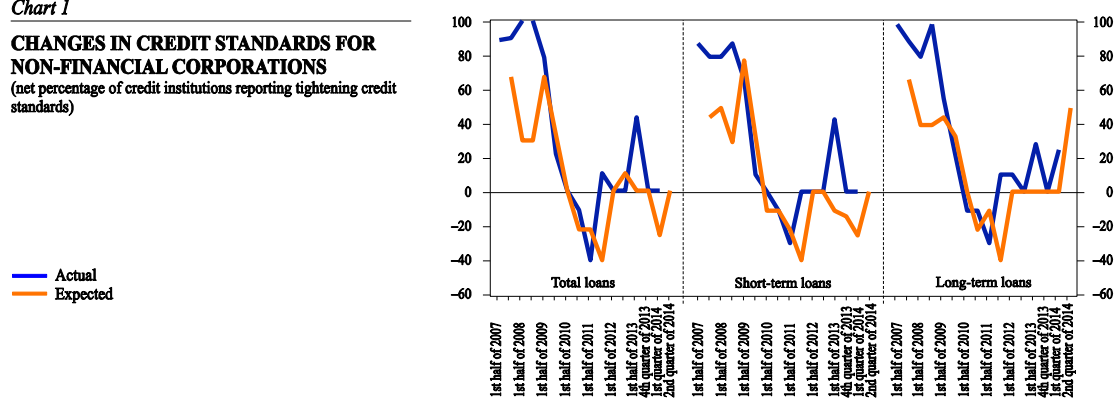
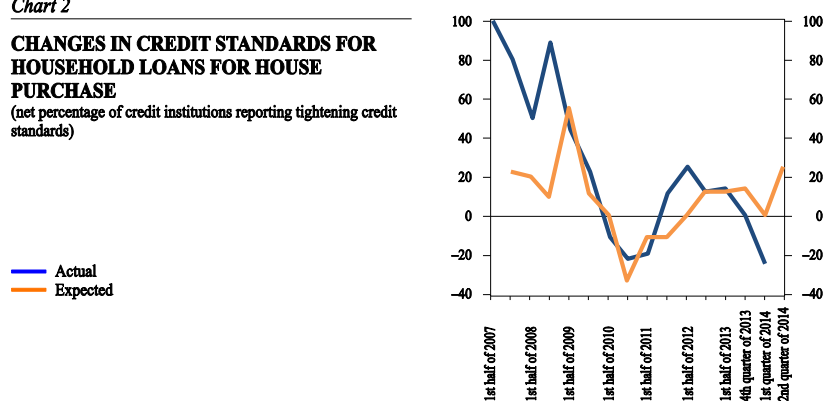


Chart 2

**CHANGES IN CREDIT STANDARDS FOR HOUSEHOLD LOANS FOR HOUSE PURCHASE**  
(net percentage of credit institutions reporting tightening credit standards)



<sup>1</sup> Here and hereinafter, the results of the euro area bank lending survey refer to the period starting with the fourth quarter 2013. They are not comparable with the previous time series, as until the first half of 2013 it showed the results of bank lending survey conducted by Latvijas Banka.

Credit institutions noted that overall no factors notably affected the credit standards (see Charts 3 and 4). In the first quarter of 2014, due to the prospects for the economy as a whole as well as individual sectors and enterprises, the standards for some credit types tightened. Some credit institutions referred to the eventual impact of the conflict between Russia and Ukraine on the economic development and lending to enterprises in Latvia.

Chart 3

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

- 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
- 1st half of 2011
- 2nd half of 2011
- 1st half of 2012
- 2nd half of 2012
- 1st half of 2013
- 4th quarter of 2013
- 1st quarter of 2014

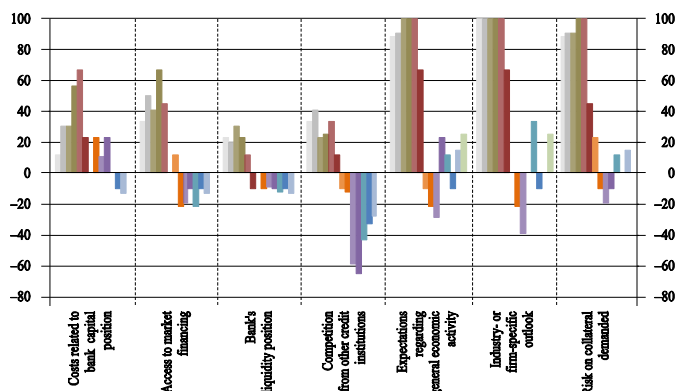
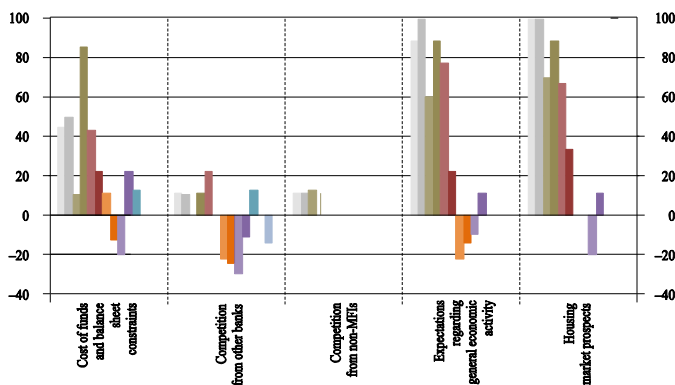


Chart 4

**FACTOR CONTRIBUTIONS TO TIGHTENING CREDIT STANDARDS FOR HOUSEHOLD LOANS FOR HOUSE PURCHASE**  
(net percentage of credit institutions reporting positive factor contributions)

- 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
- 1st half of 2011
- 2nd half of 2011
- 1st half of 2012
- 2nd half of 2012
- 1st half of 2013
- 4th quarter of 2013
- 1st quarter of 2014



Credit institutions kept on tightening somewhat the terms and conditions on loans and credit lines to enterprises, with some banks widening their margins on ordinary and/or risky loans as well as setting tighter collateral requirements and restricting the size of granted loans. The terms and conditions on loans to households for house purchase have not changed substantially. Only one bank introduced a change to its margin on loans.

In the second quarter of 2014, credit institutions overall do not expect any changes to credit standards for non-financial corporations and households. This notwithstanding, credit institutions are considering the tightening of terms and conditions on long-term loans to enterprises, and one credit institution is planning to do it on loans to households for house purchase.

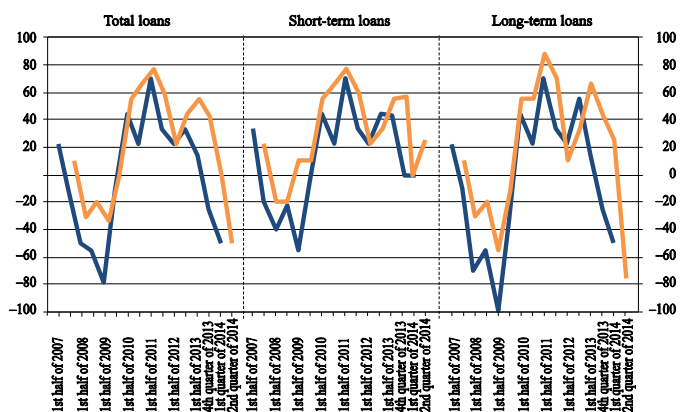
**Loan demand**

The respondents reported a somewhat moderate decline in the demand for some types of loans to enterprises (see Chart 5). It should be noted that credit institutions produced distinctive assessments of the effects of fixed investment on the demand for loans to enterprises. Even though the overall effect of this factor was neutral in the first quarter of 2014, it was the only one to explain the bank-reported downturn in demand. Despite previously acting as quite a strong driver, inventories and working capital did not boost the demand for credit institution loans at the beginning of the current year.

Chart 5

**CHANGES IN DEMAND FOR LOANS OR CREDIT LINES TO NON-FINANCIAL CORPORATIONS**  
(net percentage of credit institutions reporting positive factor contributions)

— Actual  
— Expected

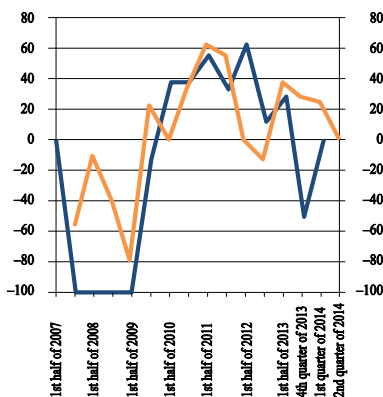


In the first quarter of 2014, the demand for loans to households for house purchase generally stabilised (see Chart 6). Meanwhile, the assessment of the demand differed among credit institutions. It was primarily on account of the distinctive confidence assessments of bank customers. The housing market perspective continued to contribute positively to the demand for loans for house purchase. At the same time, household savings and loans from other banks figure among the factors constraining the demand.

Chart 6

**CHANGES IN DEMAND FOR LOANS TO HOUSEHOLDS FOR HOUSE PURCHASE**  
(net percentage of credit institutions reporting increased demand)

— Actual  
— Expected



Credit institutions anticipate a declining demand for loans, except for short-term ones, from non-financial corporations. Meanwhile, credit institutions' expectations of changes in the demand for loans to households for house purchase in the second quarter of 2014 also differ, and the overall demand from households is likely to remain unchanged from the first quarter level.