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

In October 2014, Latvijas Banka in cooperation with the European Central Bank conducted the regular euro area bank lending survey. Four credit institutions of Latvia participated in the survey; the replies are aggregated in the euro area bank lending survey results[1]. The survey conducted in October 2014 relates to the lending development trends during the third quarter of 2014 and bank expectations for the fourth quarter of 2014.

Credit standards and terms and conditions

According to the replies provided by Latvian credit institutions, credit standards for loans to non-financial corporations remained broadly unchanged in the third quarter of 2014 (see Charts 1 and 2). One credit institution slightly tightened the standards for long-term loans to the large non-financial corporations (see Chart 1).

Chart 1
CHANGES IN CREDIT STANDARDS FOR NON-FINANCIAL CORPORATIONS
(net percentage of credit institutions reporting tightening credit standards; %)

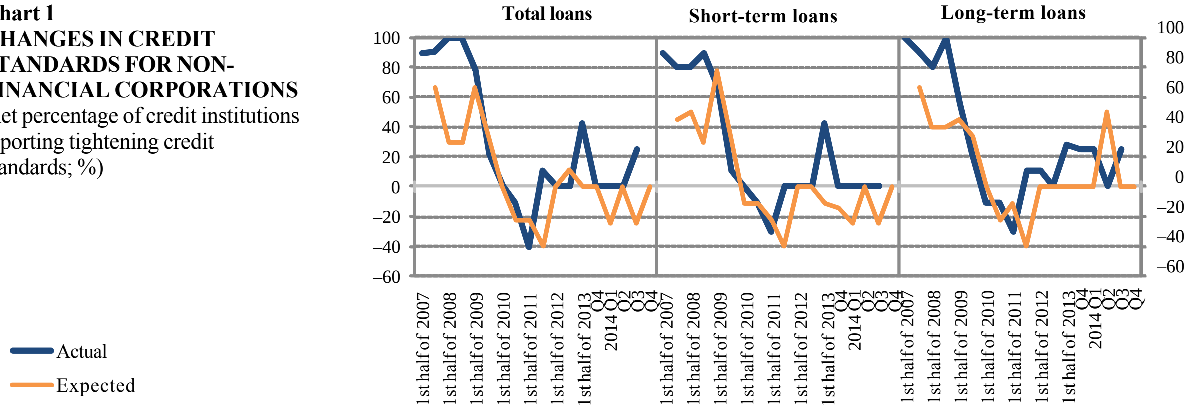
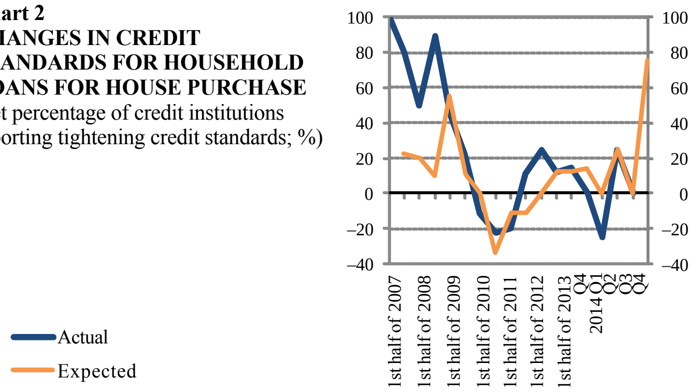


Chart 2
CHANGES IN CREDIT STANDARDS FOR HOUSEHOLD LOANS FOR HOUSE PURCHASE
(net percentage of credit institutions reporting tightening credit standards; %)



Credit institutions indicated several factors that had a marginal impact on credit standards in the third quarter of 2014 (see Charts 3 and 4). Tightening of credit standards for loans to non-financial corporations was mainly facilitated by weakening prospects for selected sectors of the economy or non-financial corporations. One credit institution pointed out that tightening of credit standards for loans to the large non-financial corporations was also somewhat supported by weaker expectations regarding general economic activity. By contrast, higher competition among credit institutions was mentioned once as a factor contributing to easing of standards for loans to the large non-financial corporations.

[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 3
FACTOR CONTRIBUTIONS TO TIGHTENING CREDIT STANDARDS FOR LOANS TO NON-FINANCIAL CORPORATIONS
(net percentage od credit institutions reporting positive factor contributions; %)

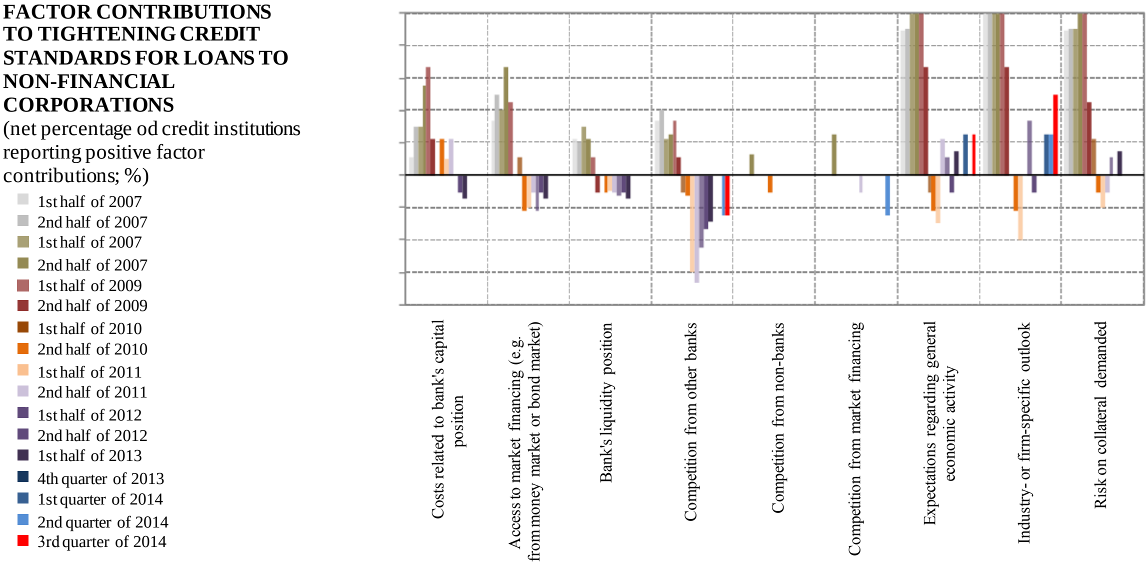
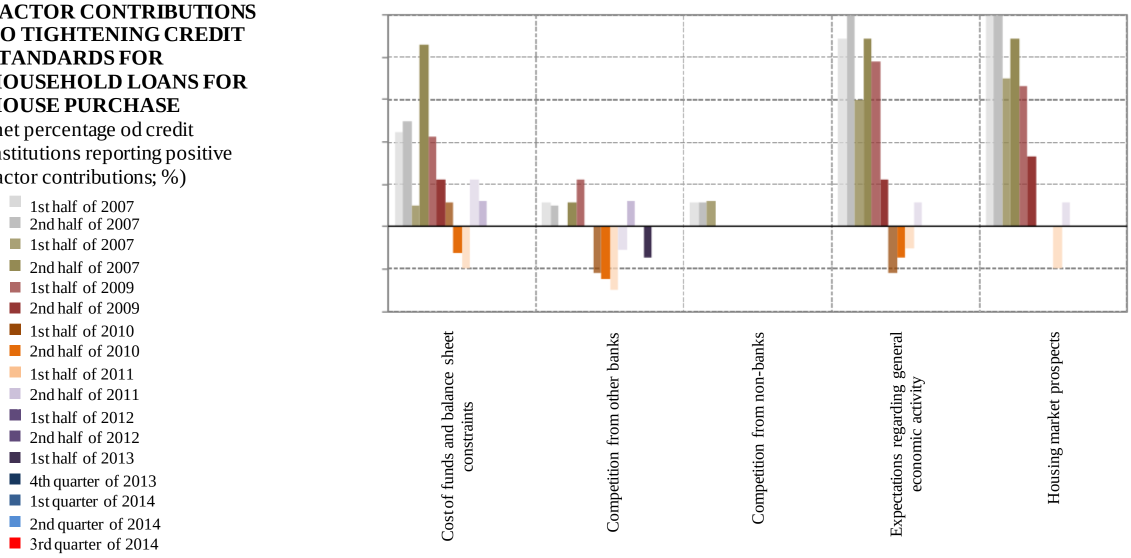


Chart 4
FACTOR CONTRIBUTIONS TO TIGHTENING CREDIT STANDARDS FOR HOUSEHOLD LOANS FOR HOUSE PURCHASE
(net percentage od credit institutions reporting positive factor contributions; %)



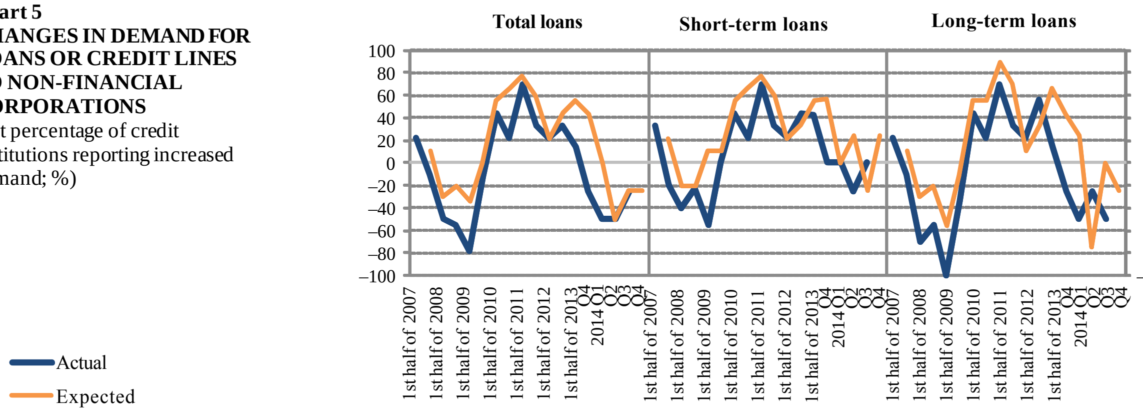
In the third quarter of 2014, the terms and conditions for granting loans, as set by credit institutions, changed only for certain categories, however, in different directions. One credit institution slightly reduced non-interest rate charges on loans to non-financial corporations, while another one considerably tightened the loan covenants. Credit institutions slightly narrowed margins on average loans to households for house purchase but raised margins on riskier loans. Credit terms and conditions and terms of consumer credit and other lending to households remained unchanged in the third quarter.

Overall, credit institutions have no plans of changing credit standards for loans to non-financial corporations or consumer credit and other lending to households in the fourth quarter of 2014. Two credit institutions indicated that credit standards applied to loans granted to households for house purchase might be considerably tightened; one credit institution pointed out that they will be somewhat tightened.

Loan demand

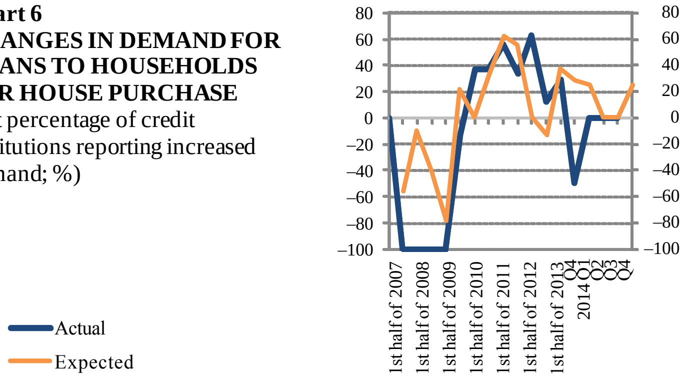
Credit institutions continued to report a fall in the demand for loans to non-financial corporations (see Chart 5). Two credit institutions indicated that the demand for long-term loans to the large non-financial corporations decreased in the third quarter of 2014. One credit institution reported that loan demand of non-financial institutions in the specific credit institution was slightly hindered by the use of alternative sources of finance, i.e. internal funds of non-financial corporations and lending by other credit institutions. A reduced need for financing mergers and restructuring of non-financial corporations limited somewhat the demand for loans to non-financial corporations. Difference in credit institutions' assessment of the impact of fixed investment on the demand of loans to non-financial corporations still persisted. A credit institution reported that deterioration of business performance of individual sectors (transportation by road) increased the demand for loans. According to the surveyed credit institutions, the demand for short-term loans to non-financial corporations might go up in the fourth quarter of 2014, but the demand for long-term loans to the large non-financial corporations could shrink.

Chart 5
CHANGES IN DEMAND FOR LOANS OR CREDIT LINES TO NON-FINANCIAL CORPORATIONS
(net percentage of credit institutions reporting increased demand; %)



In the third quarter of 2014, the demand for loans to households for house purchase remained broadly unchanged (see Chart 6): it increased somewhat in one credit institution, while slightly decreased in another one. The credit institution whose demand for household loans picked up pointed out that the increase in demand was supported by the housing market development prospects and higher consumer confidence. The demand for consumer credits and other lending to households driven by an increased need for durable consumer goods and advanced consumer confidence augmented somewhat in one credit institution.

Chart 6
CHANGES IN DEMAND FOR LOANS TO HOUSEHOLDS FOR HOUSE PURCHASE
(net percentage of credit institutions reporting increased demand; %)



The credit institutions' views of the demand for loans to households for house purchase differ. Half of the credit institutions believe that the household demand for loans for house purchase will more or less weaken. However, one credit institution foresees that the amendments to the Insolvency Law might enhance a temporary rise of household demand for loans for house purchase. The majority of credit institutions forecast that household demand for consumer credit and other lending will remain unchanged but one believes that it will slightly increase.

Credit institutions reported that lending trends in the third quarter of 2014 were affected by the instability in Ukraine and the sanctions introduced by Russia which caused caution with regard to long-term investment and loans as well as had a negative impact on several Latvian non-financial corporations and selected economic sectors. The adoption and promulgation of the amendments to the Insolvency Law affected the terms and conditions of and demand for loans to households for house purchase.

In response to the supplementary question concerning targeted longer-term refinancing operations, one credit institution pointed out that it was planning to participate in the tender of December 2014 as it considered the terms and conditions of the operation very beneficial. The credit institution believed that participation in targeted longer-term refinancing operations would help it improve profitability. The majority of credit institutions had not decided yet whether they would participate in the tenders of targeted longer-term refinancing operations to be held in 2015 and 2016 as they had no limitations on funding.