

## Euro area bank lending survey of December 2016: main results for Latvia

Latvijas Banka conducted a euro area bank lending survey in cooperation with the European Central Bank in December 2016, covering the lending developments during the fourth quarter of 2016 and bank expectations for the first quarter of 2017. Four Latvian banks participated in the survey; their replies are included in the euro area bank lending survey results.

### Demand for loans

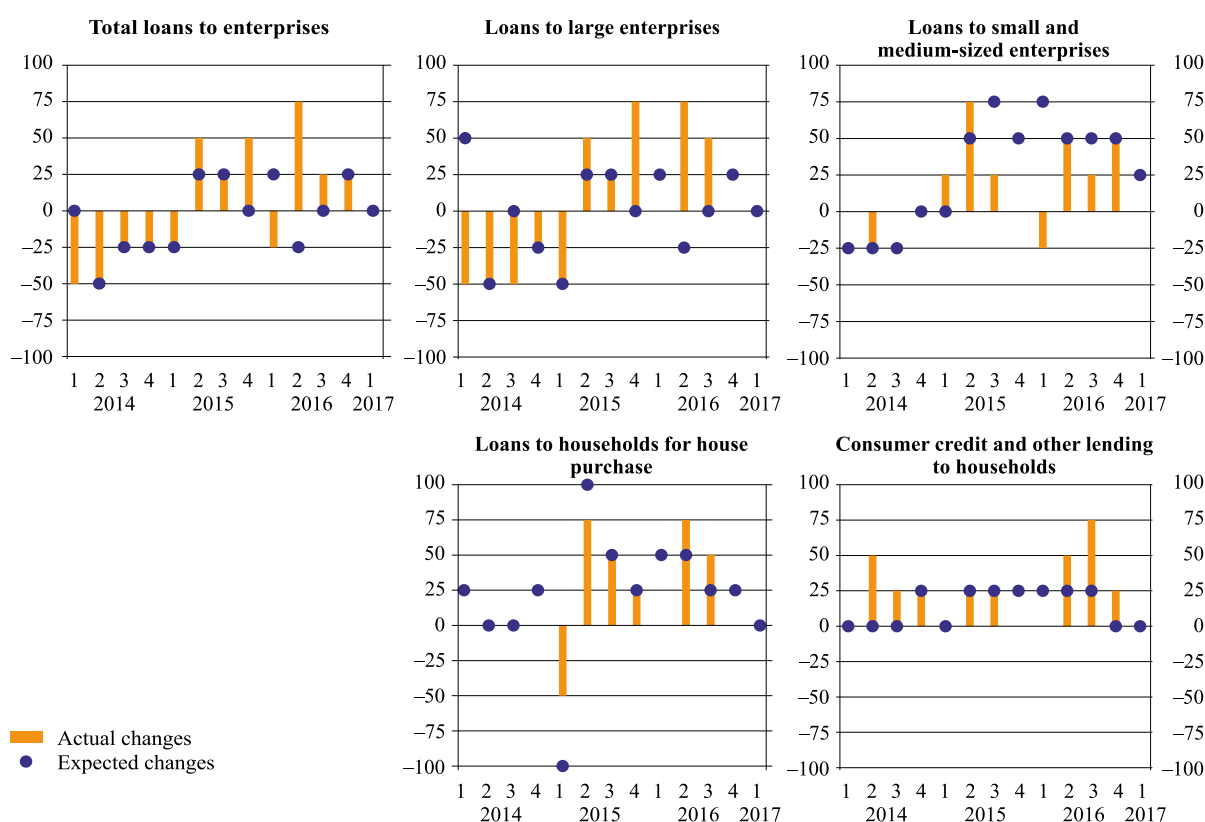
Demand for loans to households and to enterprises increased further in the fourth quarter of 2016 in Latvia. Overall demand for loans to enterprises grew on account of a rise in the demand for loans to small and medium-sized enterprises, as reported by two banks. One bank remarked that the demand for short-term loans to enterprises had increased. Observations as to the demand for long-term loans and loans to large enterprises differed. One bank noticed a small increase in the demand for loans to small and medium-sized enterprises and reported that this was explained by the fixed investment made by those enterprises. Another bank, however, had observed a minor decrease in the demand for loans to large enterprises and believed that this was a result of shrinking fixed investment and resorting to internal financing and loans from other banks. One bank expects that the demand for loans to small and medium-sized enterprises will grow slightly in the first quarter of 2017, whereas another bank forecasts that the demand for long-term loans to enterprises will be a little higher.

Household demand for consumer credit and other lending grew slightly in the fourth quarter of 2016. One bank reported an increase in household demand for consumer credit and other lending, supported by household spending on durable consumer goods (cars, furniture, etc.). Latvian banks do not expect a rise in household demand for loans in the first quarter of 2017 (see Chart 1).

**Chart 1**

#### CHANGE IN LOAN DEMAND

(net percentage of banks reporting an increase in demand for loans; %)



### Credit terms and conditions

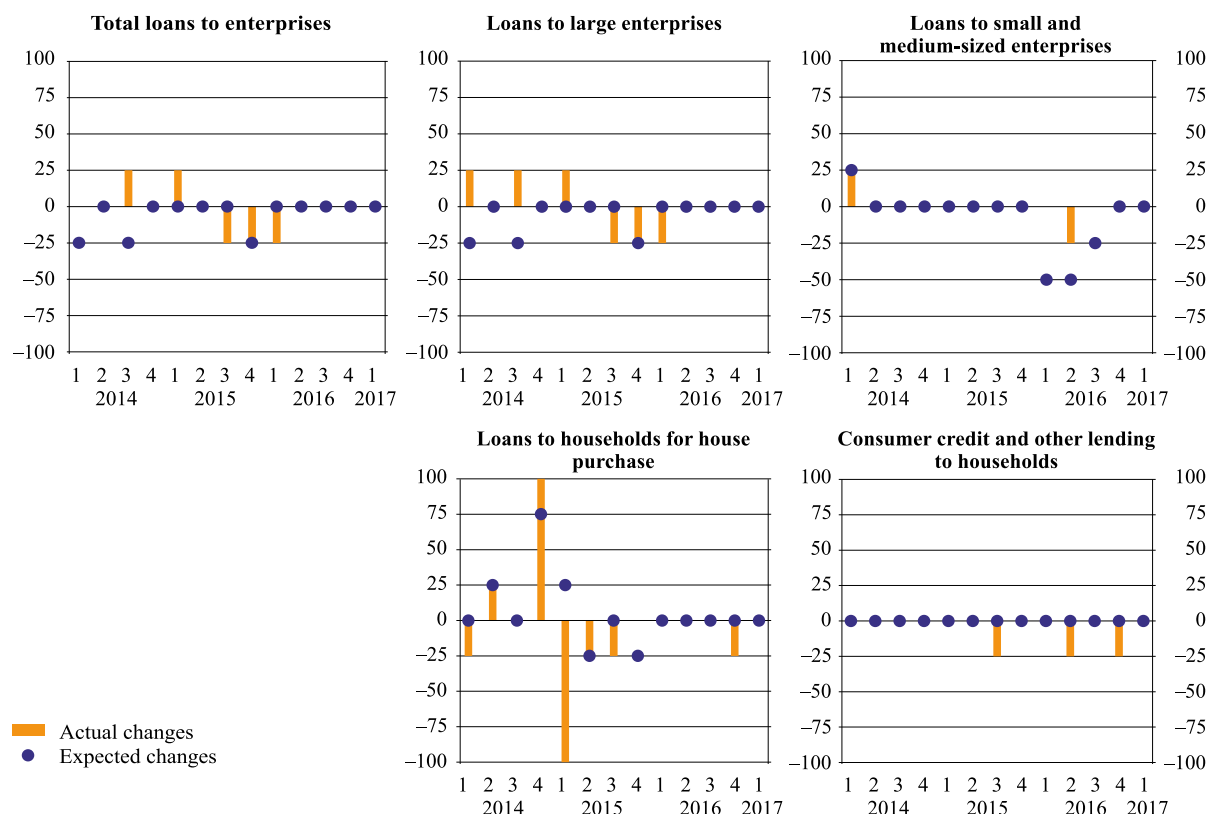
Latvian banks eased their credit standards applied to household loans in the fourth quarter of 2016. One bank reported that it had slightly eased its credit standards applied to household loans for house purchase, whereas another bank had done the same for consumer credit and other lending to households. The main reason behind the easing of credit standards for household loans for house purchase was pressure from competition. The same reason was also behind the easing of credit

standards for consumer credit and other lending to households. The easing of credit standards in this lending segment was also supported by growing competition from non-banks and the raising of the risk tolerance limits. Latvian banks have made no changes in the credit standards for loans to enterprises in the fourth quarter of 2016 and have no intention of doing so in the first quarter of 2017 (see Chart 2).

**Chart 2**

**CHANGE IN CREDIT STANDARDS**

(net percentage of banks reporting tightening credit standards; %)



None of the banks changed the terms and conditions for loans to households for house purchase as well as consumer credit and other lending to households. One bank reported that pressure from competition contributed to easing of the terms and conditions applied to loans to households for house purchase. Another bank, on the contrary, suggested that amendments introduced in the regulatory acts governing this particular lending segment supported tightening of the credit terms and conditions in the fourth quarter of 2016. As regards new consumer credit and other lending to households, one bank reported that pressure from competition and changes in the risk tolerance limits in the fourth quarter of 2016 had led to easing of the credit terms and conditions and lowering of margins on average loans.

**Ad hoc questions**

The euro area bank lending survey contained additional questions about the targeted longer-term refinancing operations (hereinafter referred to as the "TLTROs"). None of the Latvian banks participated in the last TLTRO. Two banks were still unsure about their intentions to participate in the following TLTROs, whereas two banks had already decided not to participate. The main reason why Latvian banks are tempted to participate in the TLTROs is the attractive terms enabling them to improve their profitability. The main reasons keeping the Latvian banks from participation in the TLTROs are the restrictions on eligible collateral and the fact that they already have sufficient financing and liquidity. Latvian banks have used the liquidity obtained through the TLTROs for substituting the resources drawn from other Eurosystem's liquidity providing operations (mainly, TLTRO I) and interbank loans. The liquidity position of one bank has slightly improved in association with the participation in previous TLTRO auctions.