

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

Latvijas Banka conducted the regular euro area bank lending survey in cooperation with the European Central Bank (ECB) in June 2016. Four Latvian banks participated in the survey; their replies were aggregated in the euro area bank lending survey results<sup>1</sup>. The survey conducted in June 2016 contains information on the lending developments during the second quarter of 2016 and bank expectations for the third quarter of 2016.

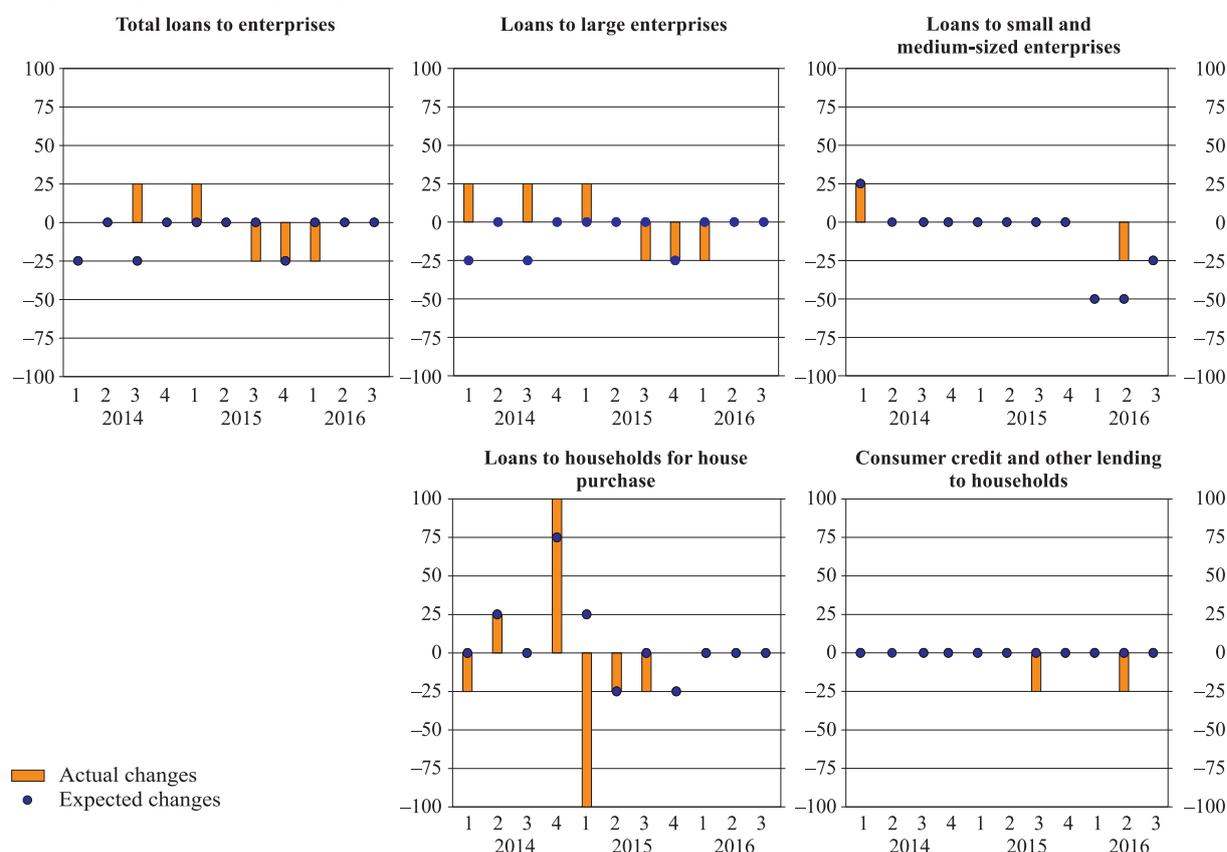
### Credit standards

Latvian banks did not change their credit standards for overall loans to enterprises in the second quarter of 2016 and report no intention of changing them in the third quarter of 2016 either. Over the reporting period, the share of enterprise loan applications completely rejected by the banks also remained unchanged. At the same time, one of the four surveyed Latvian banks slightly eased its credit standards for loans to small and medium-sized enterprises, while another bank intends to do so in the third quarter of 2016 (see Chart 1).

**Chart 1**

#### CHANGE IN CREDIT STANDARDS

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



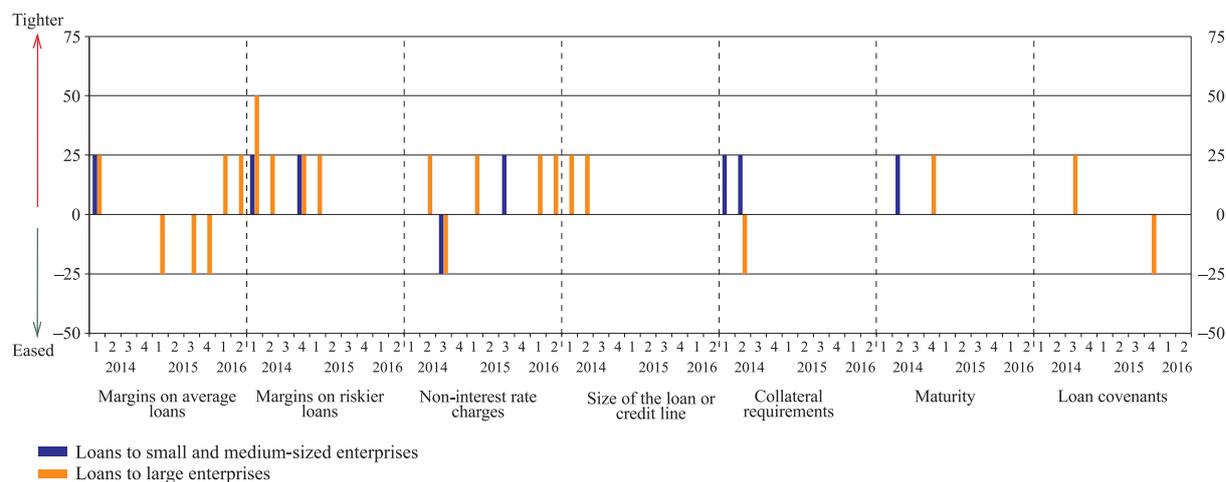
None of the Latvian banks changed the credit standards for loans to households for house purchase in the second quarter of 2016. At the same time, the share of household loan applications for house purchase rejected by the banks remained unchanged. Credit standards for consumer credit and other lending to households were eased by one bank. However, in the respective lending segment the share of household loan applications completely rejected remained unchanged. None of the surveyed Latvian banks intend to change their credit standards for loans to households for house purchase or consumer credit and other lending to households in the third quarter of 2016 (see Chart 1).

<sup>1</sup> 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.

## Credit terms and conditions

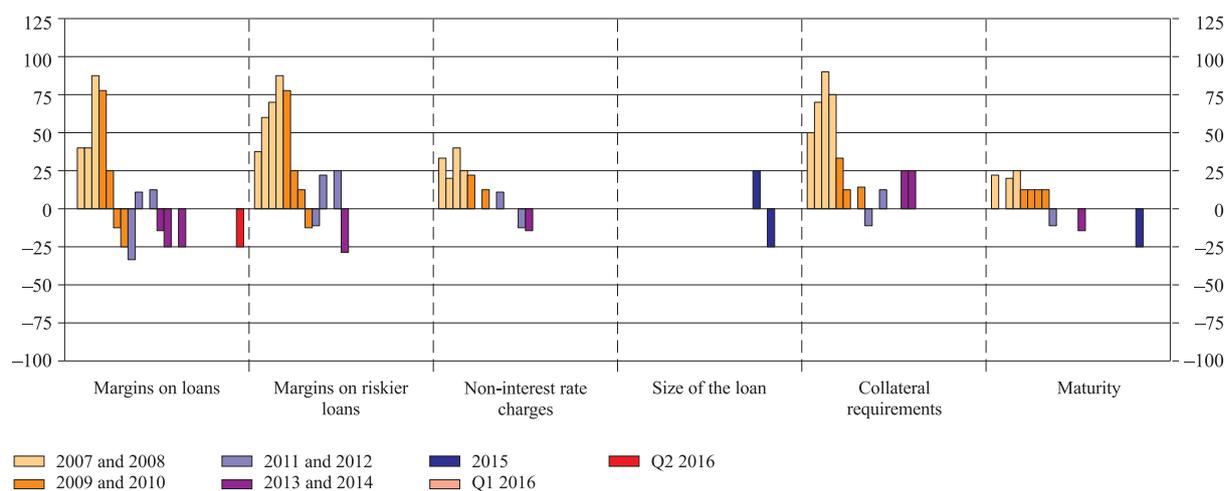
Competition among banks remained subdued in the business sector. One of the banks that lowered the spread over the money market reference interest rate on overall average loans to enterprises, large enterprises in particular, a few quarters ago, started to raise it gradually in the first two quarters of 2016. One of the banks slightly raised its non-interest rate charges for loans to large enterprises (see Chart 2).

**Chart 2**  
**CHANGES IN TERMS AND CONDITIONS FOR LOANS TO ENTERPRISES DEPENDING ON SIZE**  
(net percentage of banks reporting tightening of terms and conditions; %)



None of the Latvian banks changed the terms and conditions for loans to households for house purchase in the second quarter of 2016. Meanwhile, half of the surveyed Latvian banks slightly eased their credit terms and conditions for consumer credit and other lending to households: one of the banks eased its general credit terms and conditions and the other one lowered the spread over the money market reference interest rate on average loans.

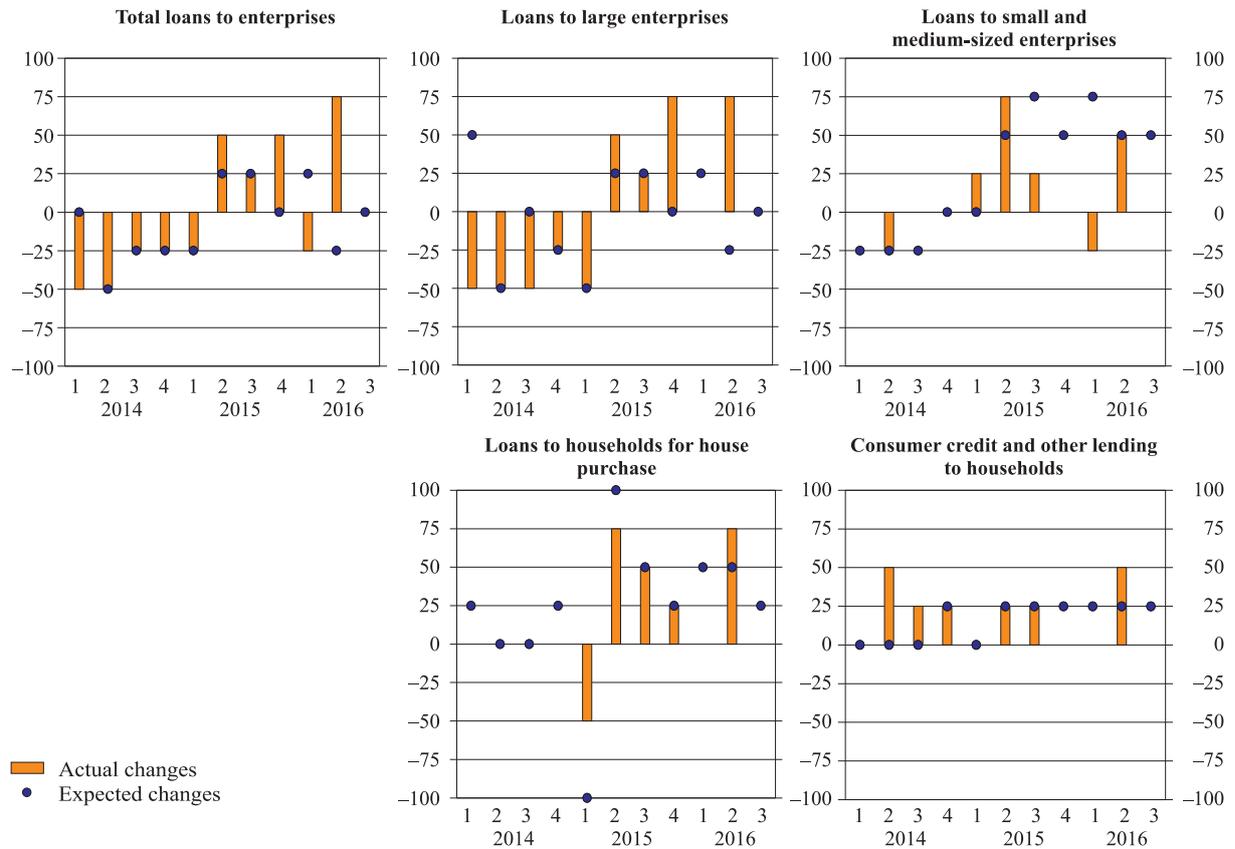
**Chart 3**  
**CHANGES IN TERMS AND CONDITIONS FOR CONSUMER CREDIT AND OTHER LENDING**  
(net percentage of banks reporting tightening of terms and conditions; %)



## Demand for loans

Three of the four surveyed Latvian banks reported a slight increase in demand for overall loans to enterprises in the second quarter of 2016. Half of the banks suggested an increase in the demand for loans to small and medium-sized enterprises, while the other half reported a rise in that for loans to large enterprises (see Chart 4). Three Latvian banks indicated growth in the demand for long-term loans to enterprises.

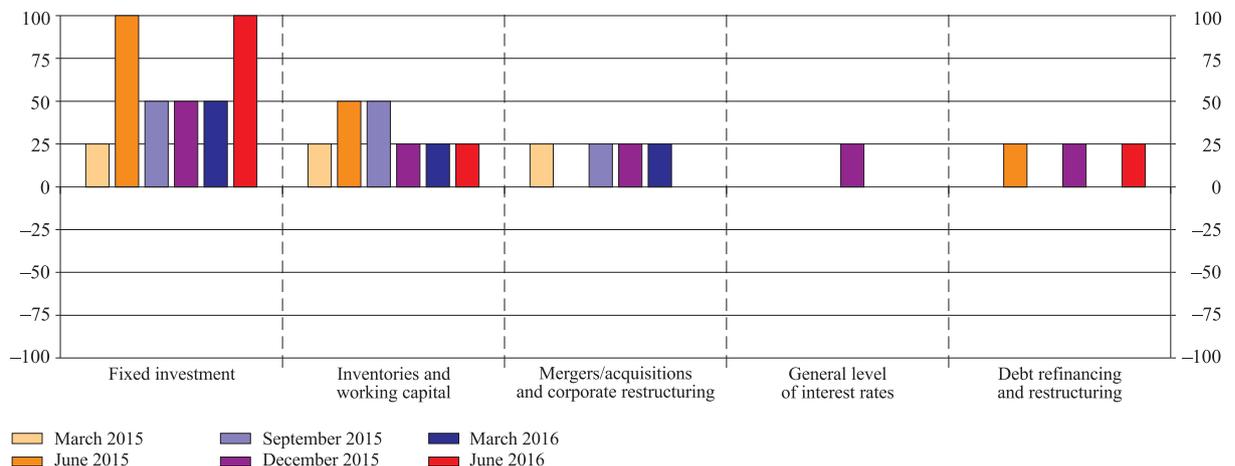
**Chart 4**  
**CHANGE IN LOAN DEMAND**  
*(net percentage of banks reporting an increase in demand for loans; %)*



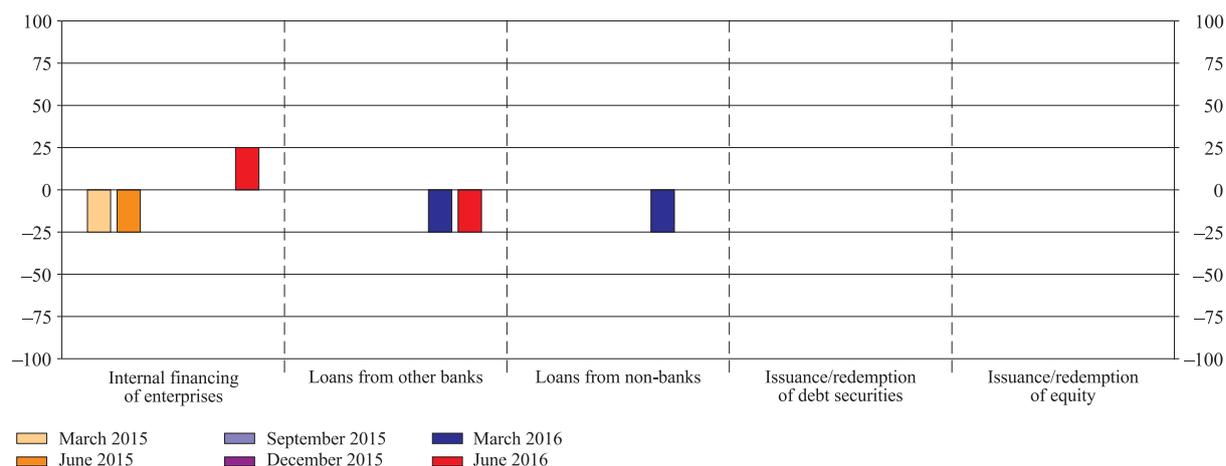
All surveyed Latvian banks pointed out that enterprises needed additional funding for fixed investment. Additional funding for inventories and working capital, as well as for debt refinancing and restructuring (each of the two funding purposes was mentioned once) was needed comparatively less often. One Latvian bank suggested that demand for loans had grown, since enterprises less often used their internal financing. One of the banks reported decreased demand for loans to enterprises as a result of the competition among Latvian banks (see Chart 5). Two of the surveyed Latvian banks expect a rise in demand for loans to small and medium-sized enterprises in the third quarter of 2016. Both banks expect a slight increase in the demand for short-term loans, and one of them also expects a rise in the demand for long-term loans.

**Chart 5**  
**FACTORS UNDERLYING DEMAND FOR LOANS TO ENTERPRISES**  
*(net percentage of banks reporting positive factor contributions; %)*

**a) Financing needs, contributing factors or objectives underlying demand for loans**



### b) Use of alternative finance



Three of the four Latvian banks observed slight growth in the demand for loans to households for house purchase, and two banks reported a moderate increase in the demand for consumer credit and other lending to households in the second quarter of 2016 (see Chart 4). Stronger consumer confidence, low interest rates and the subdued activity of other banks in the respective lending segment slightly facilitated the demand for loans to households for house purchase. The demand for loans to households for house purchase is seasonal and usually more pronounced during spring and summer months. One of the four surveyed Latvian banks indicated that stronger consumer confidence also slightly contributed to demand for consumer credit and other lending to households. One bank also observed a slight increase in the household need for additional funding for spending on durable consumer goods, such as cars, furniture, etc. One Latvian bank also expects a slight rise in the demand for loans to households for house purchase and consumer credit and other lending to households in the third quarter of 2016.

### Other lending aspects

The lending survey contained several ad hoc questions to banks, including a question on targeted longer-term refinancing operations (hereinafter referred to as the "TLTRO"). One of the four surveyed Latvian banks participated in the last TLTRO conducted in June. Two of them have not yet decided on participation in the next TLTROs, while the other two report no intention to participate. Latvian banks that participated in the last TLTRO or those that have not yet decided on participation in the next TLTROs, base their choice on attractive TLTRO conditions that may have a positive effect on their profitability. The main reason for Latvian banks not participating in the last TLTRO was their ample liquidity conditions and sufficient funding availability. Their participation in the next operations may be restricted due to insufficient eligible collateral. Funds obtained by one bank that participated in the previous TLTROs slightly contributed to substituting interbank lending and substantially contributed to substituting the use of other liquidity operations of the Eurosystem and granting loans to non-financial corporations. The ability of the respective Latvian banks to improve their profitability was somewhat facilitated by the previous TLTROs. The future TLTROs will also most likely have a slightly positive effect on the banks' profitability and their market financing conditions. Latvian banks expect that the funds obtained in the future TLTROs could also provide support for granting loans to non-financial corporations.