

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

In July 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 results¹. The survey conducted in July 2014 relates to the lending development trends during the second quarter of 2014 and bank expectations for the third 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 second quarter of 2014 (see Chart 1). One credit institution slightly tightened the standards for household loans for house purchase (see Chart 2).

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

— Actual — Expected

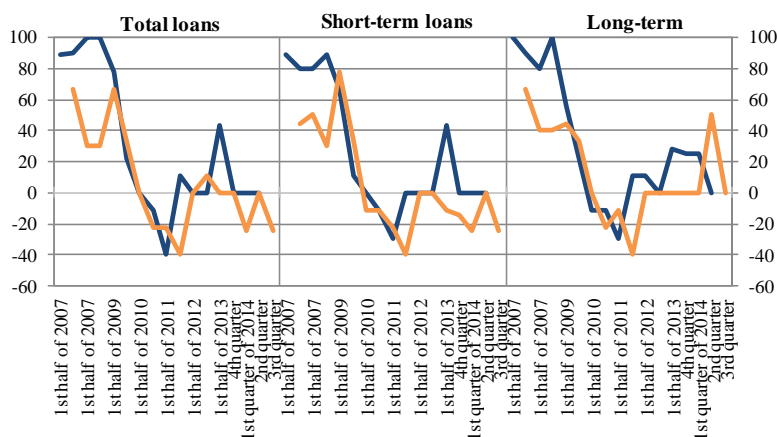
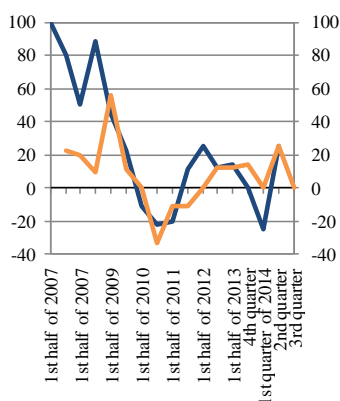


Chart 2
CHANGES IN CREDIT STANDARDS FOR HOUSEHOLD LOANS FOR HOUSE PURCHASE
(net percentage of credit institutions reporting tightening credit standards; %)

— Actual — Expected



Credit institutions did not indicate any factors that notably affected credit standards in the second quarter of 2014 (see Charts 3 and 4). Easing of credit standards for non-financial corporations was somewhat facilitated by stronger competition from other credit institutions and competition in the capital market, whereas the outlook for some economic sectors and non-financial corporations slightly supported tightening of credit standards.

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 of credit institutions reporting positive factor contributions; %)

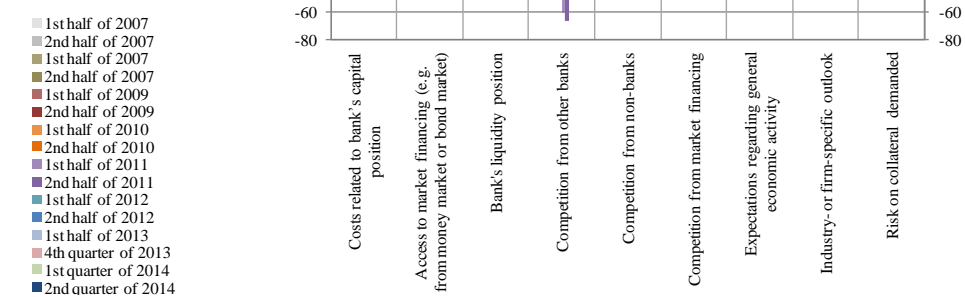
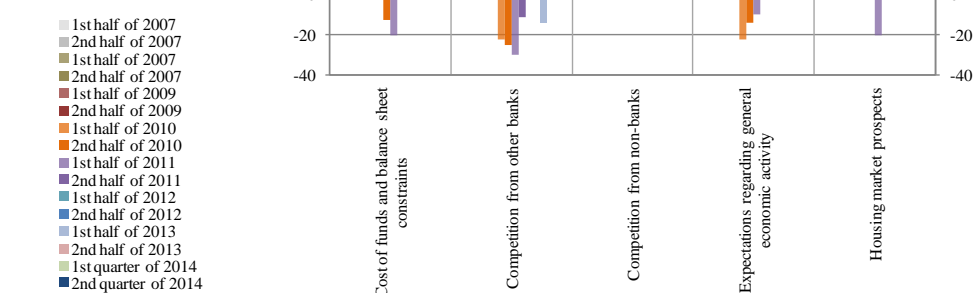


Chart 4
FACTOR CONTRIBUTIONS TO TIGHTENING CREDIT STANDARDS FOR HOUSEHOLD LOANS FOR HOUSE PURCHASE
 (net percentage of credit institutions reporting positive factor contributions; %)



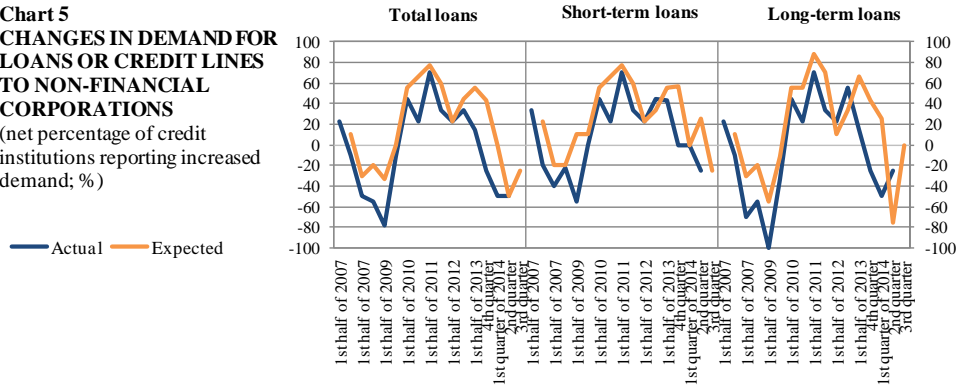
In the second quarter of 2014, generally no tightening of the terms and conditions for granting loans, as set by the credit institutions, was observed. Although credit institutions continued tightening of some credit terms and conditions (mostly increasing the margins on risky loans to non-financial corporations and to households for house purchase), at the same time some easing of selected credit terms and conditions was observed (reduction of margins on average loans to households for house purchase and easing of collateral requirements for non-financial corporations).

Overall, credit institutions have no plans of changing credit standards in the third quarter of 2014. One credit institution pointed out that some easing of credit standards for loans to non-financial corporations might take place.

Loan demand

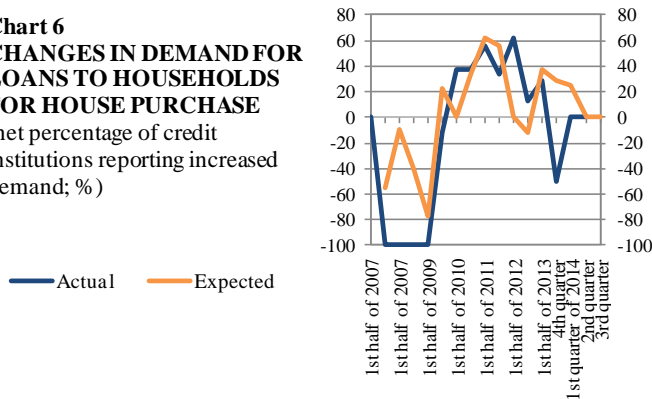
Credit institutions continued to report a fall in the demand for loans to non-financial corporations (see Chart 5). Half of the surveyed credit institutions pointed out that lending by other credit institutions limited the demand for loans to non-financial corporations in the particular credit institution. Moderation in demand also slightly resulted from a decrease in the need to finance the working capital, as well as an issue of debt securities that could substitute credit institution loans. Difference in credit institutions' assessment of the impact of fixed investment on the demand of loans to non-financial corporations still persisted. Two credit institutions reported that the end of the EU structural fund programming period in 2013 had a significant effect on the trends of lending to non-financial corporations. At the beginning of the regular programming period the demand for loans to non-financial corporations could be lower, whereas a notable rise in the above demand can be expected in the medium term.

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



In the second quarter of 2014, the demand for loans to households for house purchase remained broadly unchanged (see Chart 6) and no essential factors affecting demand were observed either. Although credit institutions reported a slight increase in the demand for consumer credit and other credit, no particular factor that could have driven it was mentioned.

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



In the third quarter of 2014, credit institutions anticipate a further minor decline in the demand for loans to non-financial corporations. It is noteworthy that a decrease in the demand for long-term loans is no longer to be expected. In credit institutions' view, demand for loans to households will also remain unchanged.