

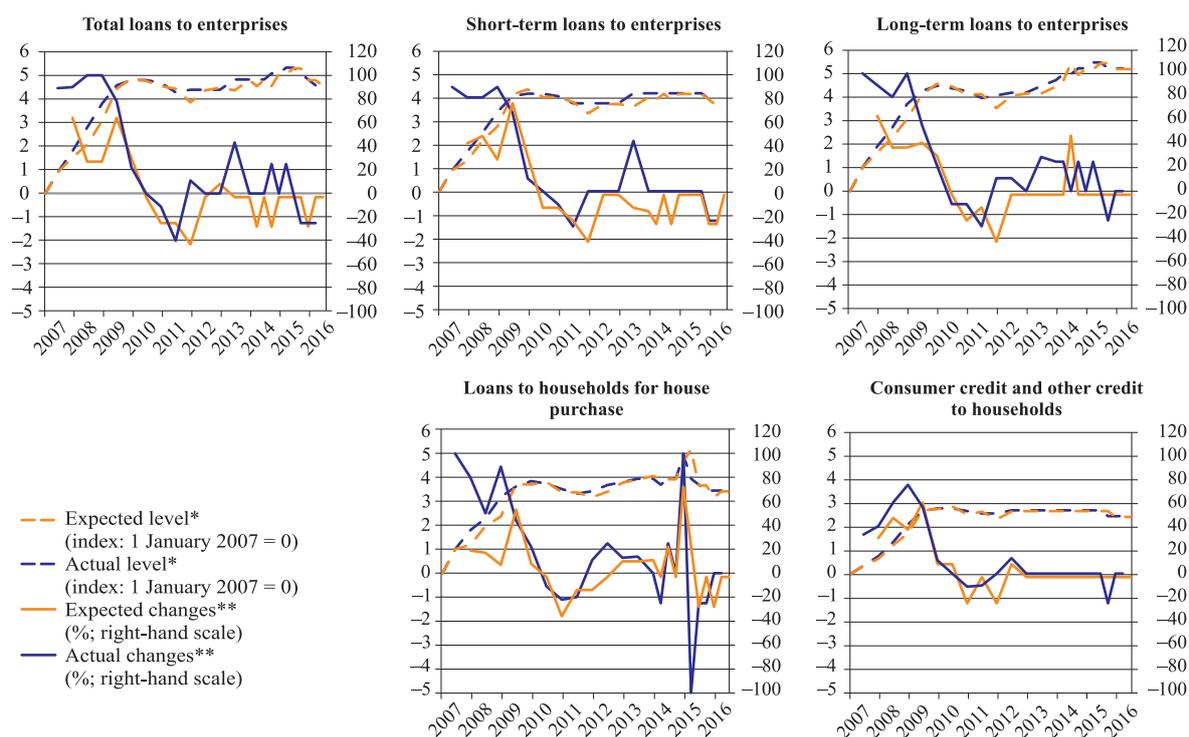
## Euro area bank lending survey of March 2016: main results for Latvia

Latvijas Banka conducted the regular euro area bank lending survey in cooperation with the European Central Bank (ECB) in March 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 March 2016 examined the lending developments during the first quarter of 2016 and bank expectations for the second quarter of 2016.

### Credit standards

In the first quarter of 2016, one Latvian bank slightly eased its credit standards for enterprises for a second consecutive time. Over the past two quarters, Latvian banks eased their credit standards for short-term loans to large enterprises several times. At the same time, credit standards for long-term loans to enterprises and loans to small and medium-sized enterprises remained unchanged. This was in line with the expectations reported by one Latvian bank in the previous quarter regarding an easing of credit standards for short-term loans to enterprises. Two Latvian banks expect an easing of credit standards for loans to small and medium-sized enterprises in the second quarter of 2016. For the second consecutive quarter, none of the surveyed banks has changed the credit standards for household loans. Latvian banks also report no intention of changing credit standards for loans to households for house purchase, consumer credit and other credit to households in the second quarter of 2016 (see Chart 1).

**Chart 1**  
**CREDIT STANDARDS**



\* Cumulative changes in net percentage of banks reporting tightening credit standards.

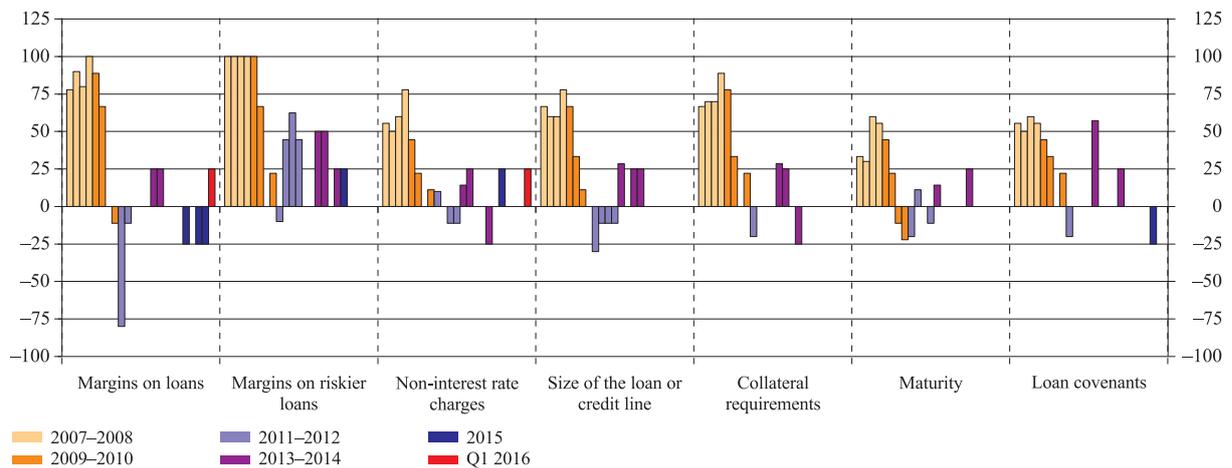
\*\* Net percentage of banks reporting tightening credit standards.

<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.

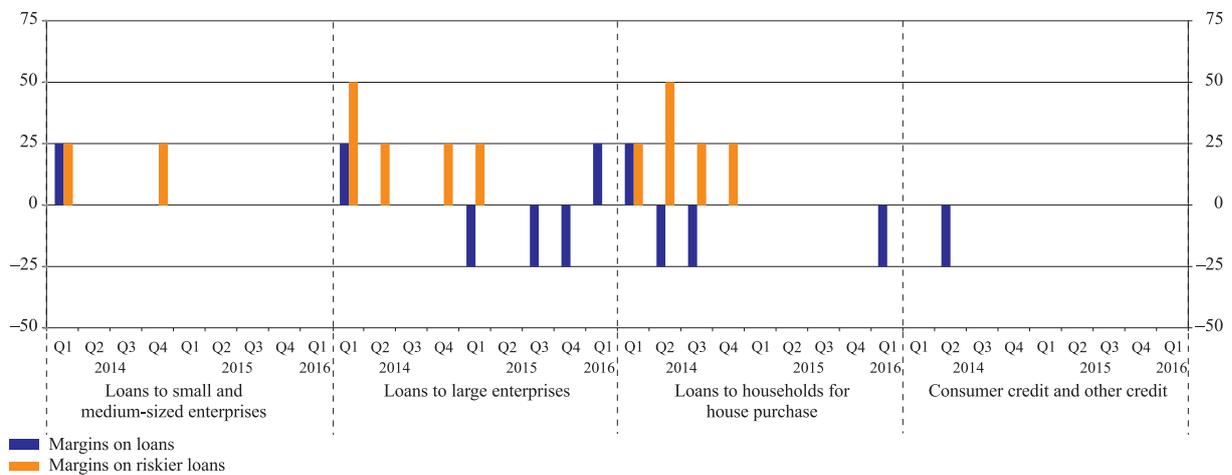
## Credit terms and conditions

With the easing of credit standards in the first quarter of 2016, one bank granted more loans to large enterprises with higher level of risk and higher margins and non-interest rate charges (see Chart 2). The pressure from competition motivated one Latvian bank to reduce the margins on loans to households for house purchase (see Chart 3). Credit terms and conditions for consumer credit and other lending to households remained unchanged in the first quarter of 2016.

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



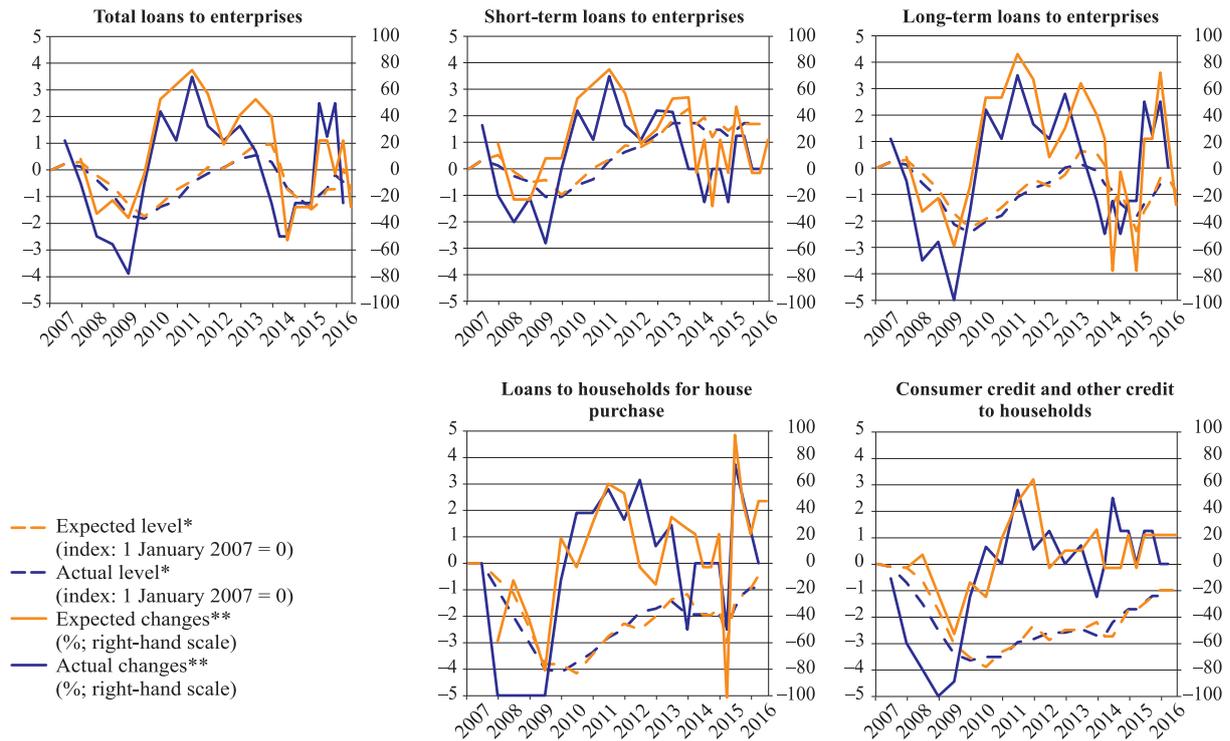
**Chart 3**  
**CHANGES IN MARGINS ON LOANS**  
(net percentage of banks reporting an interest rate increase; %)



## Credit demand

As a result of a mutual competition of banks, loan demand changed in opposite directions across the banks but decreased overall in the first quarter of 2016. Contrary to the previous expectations of an increase in the demand for loans to both small and medium-sized and large enterprises in the first quarter of 2016, the demand for loans to small and medium-sized enterprises actually decreased (in one bank), while that to large enterprises remained unchanged. Banks report different expectations regarding the demand for loans to enterprises in the next quarter. One bank expects a decrease in the demand for long-term loans to large enterprises in the next quarter. Meanwhile, two banks anticipate a rise in the demand for loans to small and medium-sized enterprises, while one of them expects an increase in the demand for short-term loans (see Chart 4).

**Chart 4**  
**LOAN DEMAND**



\* Cumulative changes in net percentage of banks reporting increased demand for loans.

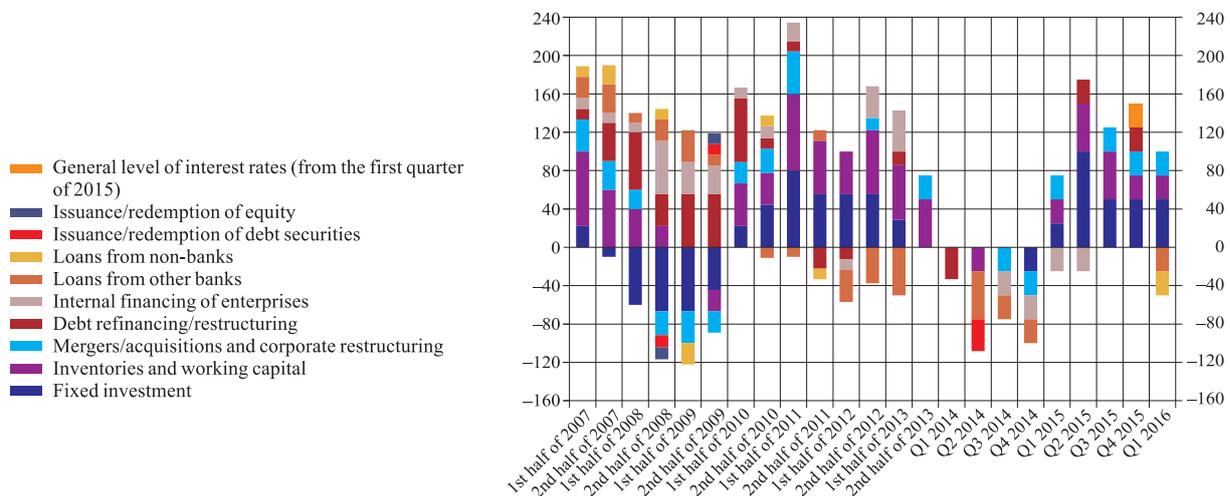
\*\* Net percentage of banks reporting increased demand for loans.

In the first quarter of 2016, demand for loans to households for house purchase, consumer credit and other credit to households remained unchanged, although an increased demand for this type of loans was expected in the previous quarter. Two Latvian banks anticipate a rise in the demand for loans to households for house purchase in the second quarter of 2016, whereas one bank expects that the demand for consumer credit and other credit will grow.

On the one hand, the increase in the demand for loans and credit lines to enterprises in the first quarter of 2016 was stimulated by financing needs of enterprises, but on the other, it was dampened by the use of alternative sources of financing (see Chart 5). The intention of enterprises to increase their fixed investment was mentioned as a factor driving the demand of enterprises twice, whereas the objectives of investing more in inventories and working capital, mergers or acquisitions and debt refinancing

**Chart 5**  
**FACTOR CONTRIBUTIONS TO DEMAND FOR LOANS TO ENTERPRISES**

(net percentage of banks reporting positive factor contributions; %)



were reported once as contributing factors. Latvian banks indicated that the demand for loans to enterprises was dampened by loans from other banks and non-banks (each factor was mentioned once).

### **Ad hoc questions**

While the credit standards of Latvian banks were still tighter in the first quarter of 2016 compared with those in the period from the first quarter of 2003 to the first quarter of 2016, some easing was observed compared with the second quarter of 2010. Compared with the first quarter of 2015, credit standards have eased for all types of credit: overall loans to enterprises, loans to small and medium-sized enterprises, loans to large enterprises, loans to households for house purchase, consumer credit and other credit to households.

Replying to the ad hoc questions about the ECB's expanded asset purchase programme, one Latvian bank has indicated that the ECB's expanded asset purchase programme has contributed somewhat to an improvement in its liquidity over the past six months on account of an increase in corporate and household deposits.

Over the past six months, the ECB's negative deposit facility rate has contributed to a fall in net interest income in all surveyed Latvian banks, and it is expected to contribute to a further decline over the next six months. This monetary policy instrument of the ECB has contributed to a decrease in lending rates in the majority of banks over the past six months, and, according to the forecasts, the rates will continue to shrink over the next six months. This concerns all types of loans mentioned in the survey: loans to enterprises, loans to households for house purchase, consumer credit and other credit to households. One Latvian bank expects that due to the ECB's negative deposit facility rate the amount of loans to enterprises and those to households for house purchase may grow over the next six months.