

## Euro area bank lending survey of June 2017: main results for Latvia

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

### Demand for loans

Demand for loans to households continued to expand in the second quarter of 2017. One Latvian bank reported an increase in household demand for loans for house purchase, consumer credit and other lending to households. Household demand for loans for house purchase was facilitated by improved consumer confidence and housing market prospects (see Chart 1), while household demand for consumer credit and other lending to households was driven by the households' spending for purchase of durable consumer goods (cars, furniture, etc.). According to the expectations of two Latvian banks, the household demand for loans for house purchase, as well as consumer credit and other lending to households will continue to rise slightly also in the third quarter of 2017 (see Chart 2).

Chart 1

#### FACTORS CONTRIBUTING TO HOUSEHOLD DEMAND FOR LOANS FOR HOUSE PURCHASE

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

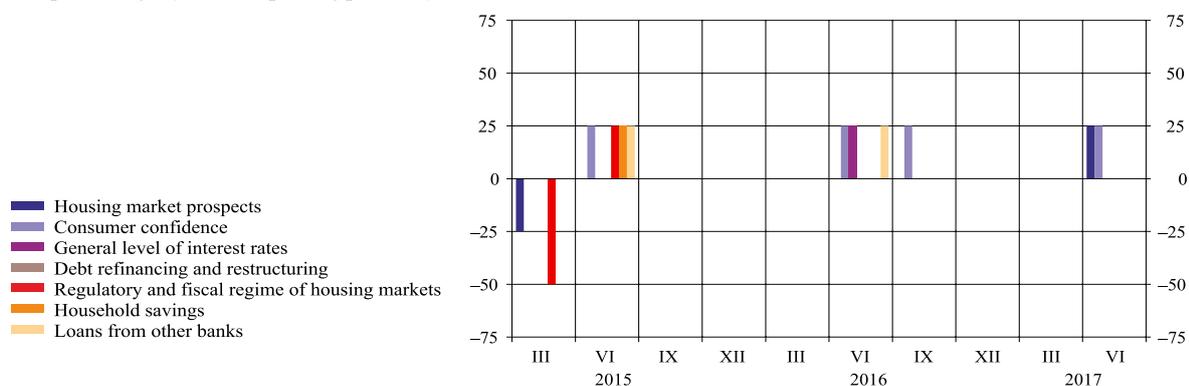
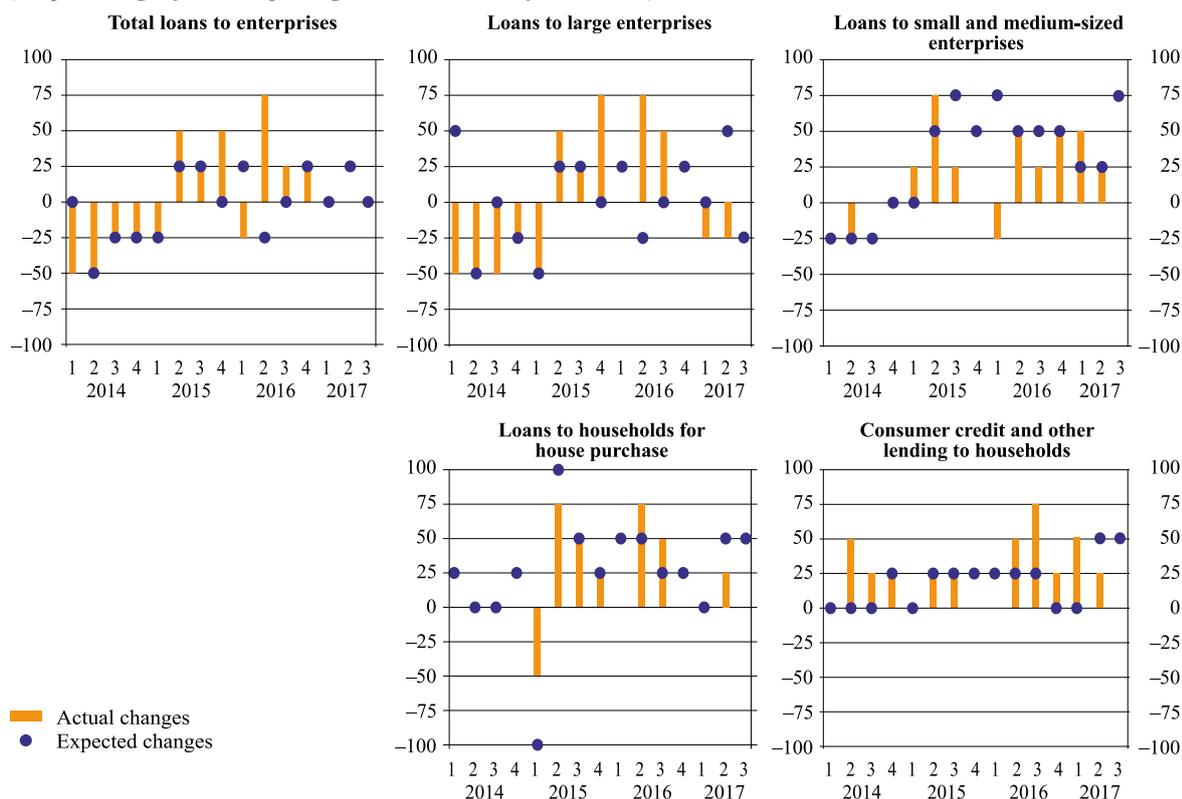


Chart 2

#### CHANGES IN LOAN DEMAND

(net percentage of banks reporting increased demand for loans; %)



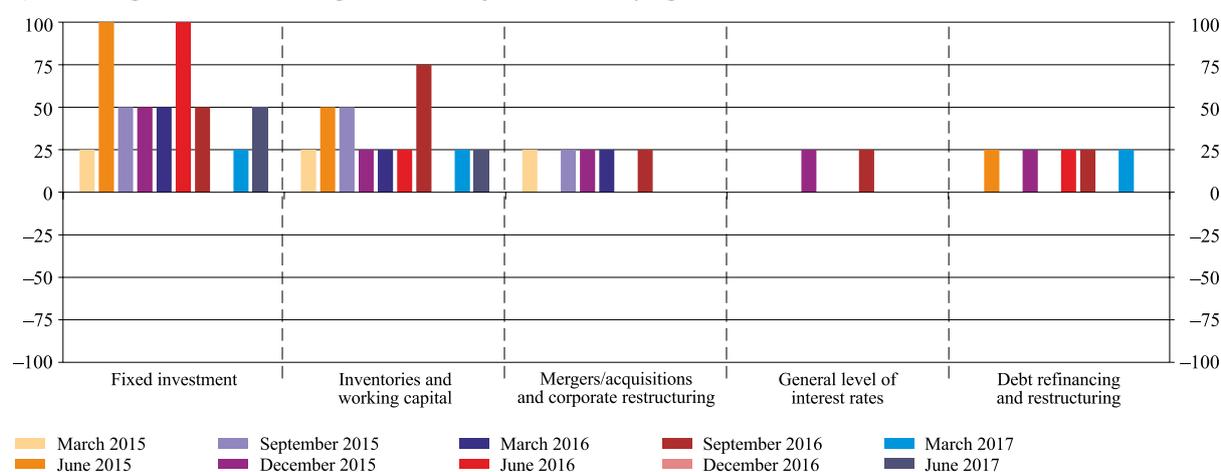
Contrary to expectations, demand for loans to enterprises remained broadly unchanged in the second quarter of 2017: one Latvian bank reported an increase in demand for loans to small and medium-sized enterprises, while another bank indicated a decline in demand for loans to large enterprises. The bank reporting a rise in demand for loans to enterprises indicated that enterprises needed additional funding for fixed investment, inventories and working capital. Meanwhile, the bank reporting a decrease in demand for loans to enterprises admitted that this was slightly facilitated by enterprises using their internal financing, as well as significantly affected by the enterprises' interest in loans granted by other banks (see Chart 3). With the increase in demand for loans to small and medium-sized enterprises offsetting the decline in demand for loans to large enterprises, Latvian banks expect broadly unchanged demand for loans to enterprises in the third quarter of 2017. According to banks, demand for short- and long-term loans to small and medium-sized enterprises will be equal in the third quarter of 2017.

**Chart 3**

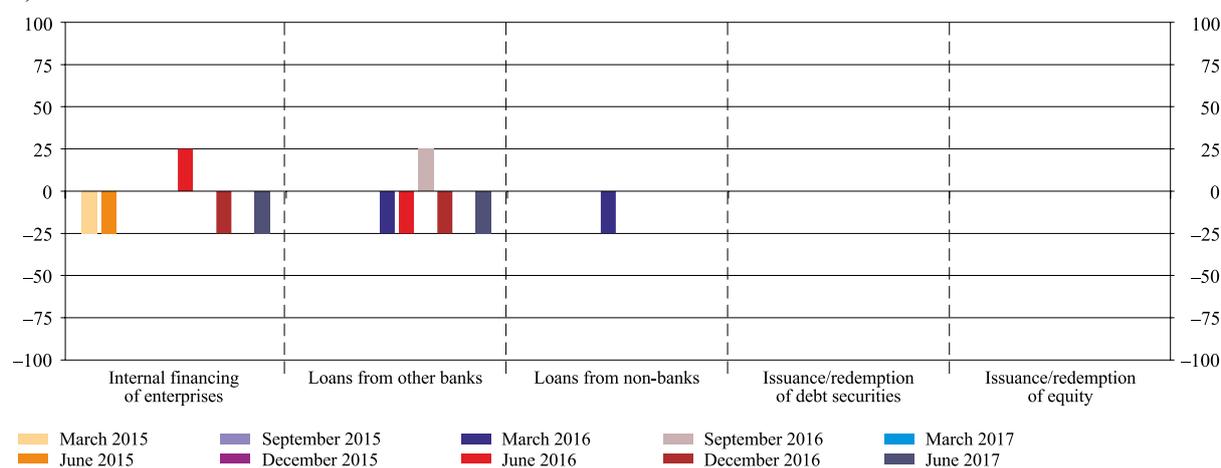
**FACTORS CONTRIBUTING TO DEMAND FOR LOANS TO ENTERPRISES**

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

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



**b) Use of alternative finance**



**Credit terms and conditions**

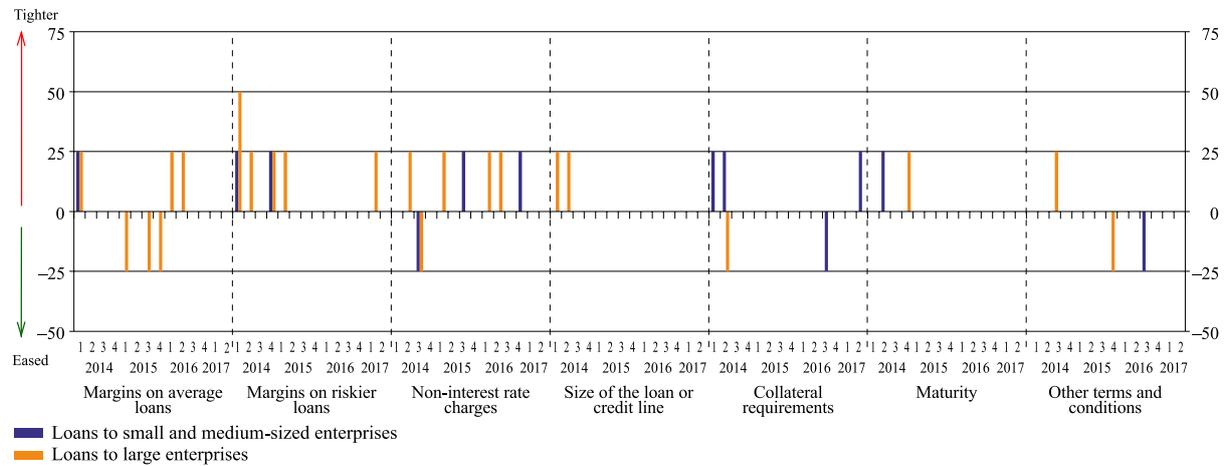
One Latvian bank indicated that its credit standards and collateral requirements for loans to small and medium-sized enterprises were tightened slightly in the second quarter of 2017 due to an increase in its risk tolerance and higher assessment of the collateral-related risk (see Chart 4). However, the share of completely rejected applications for loans to enterprises remained unchanged in all Latvian banks in the second quarter. Latvian banks reported no intention of changing the current credit standards for loans to enterprises in the third quarter of 2017.

Latvian banks did not change credit standards for loans to households for house purchase, consumer credit and other lending to households in the second quarter of 2017. One bank reported an increase in the share of completely rejected applications for consumer credit and other lending to households. In the

third quarter of 2017, one bank intends to slightly ease its credit standards for loans to households for house purchase, consumer credit and other lending to households.

#### Chart 4

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



#### Ad hoc questions

The euro area bank lending survey contained ad hoc questions about the impact of regulatory or supervisory action, as well as the targeted longer-term refinancing operations (hereinafter referred to as the "TLTROs"). Over the past six months, one Latvian bank slightly tightened its credit standards for loans to households for house purchase due to the new regulatory or supervisory requirements. None of the Latvian banks participated in the last TLTRO. Three banks explained that they had sufficient liquidity or had no limitations on funding, whereas one bank pointed to its collateral constraints. One bank used the funds obtained through the previous TLTROs for substituting the resources drawn from other Eurosystem's liquidity providing operations and, to a lesser extent, from interbank loans. The bank indicated that the previous TLTROs somewhat improved its liquidity position.