

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

In September 2016, Latvijas Banka, in cooperation with the European Central Bank (ECB), conducted the euro area bank lending survey on the lending developments during the third quarter of 2016 and bank expectations for the fourth quarter of 2016. Four Latvian banks participated in the survey; their replies were included in the euro area bank lending survey results¹.

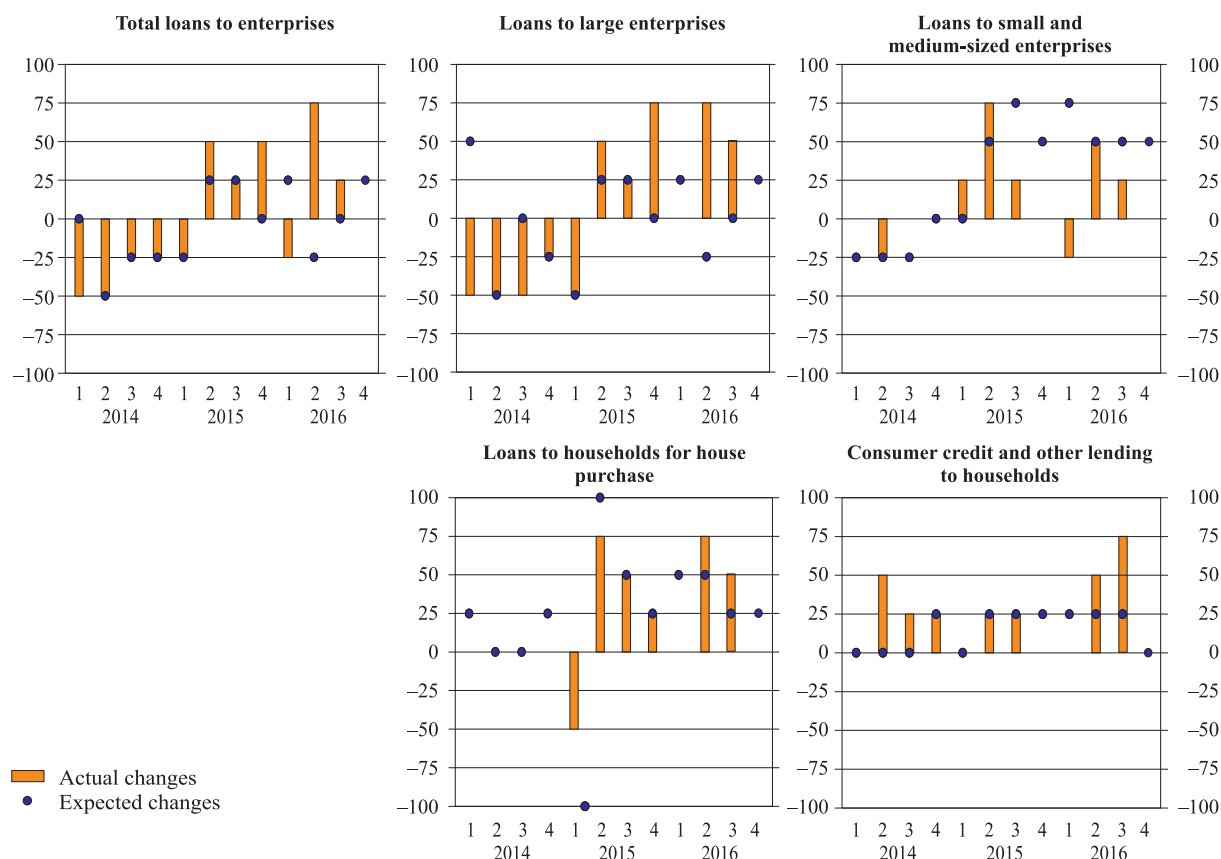
Demand for loans

In Latvia, demand for loans to enterprises and those to households increased further in the third quarter of 2016. The steepest growth was recorded for the demand for short-term loans to enterprises and loans to large enterprises. Three of the surveyed Latvian banks reported an increase in the demand for short-term loans to enterprises in the third quarter of 2016: two banks saw a rising demand for loans to large enterprises, while one bank reported higher demand for loans to small and medium-sized enterprises. At the same time, one bank pointed out that the demand for long-term loans to enterprises declined somewhat in the third quarter of 2016. As regards the changes in the demand for loans to households, two of the surveyed banks reported higher demand for loans to households for house purchase, while three banks reported an increase in the demand for consumer credit and other lending to households (see Chart 1).

Chart 1

CHANGE IN LOAN DEMAND

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



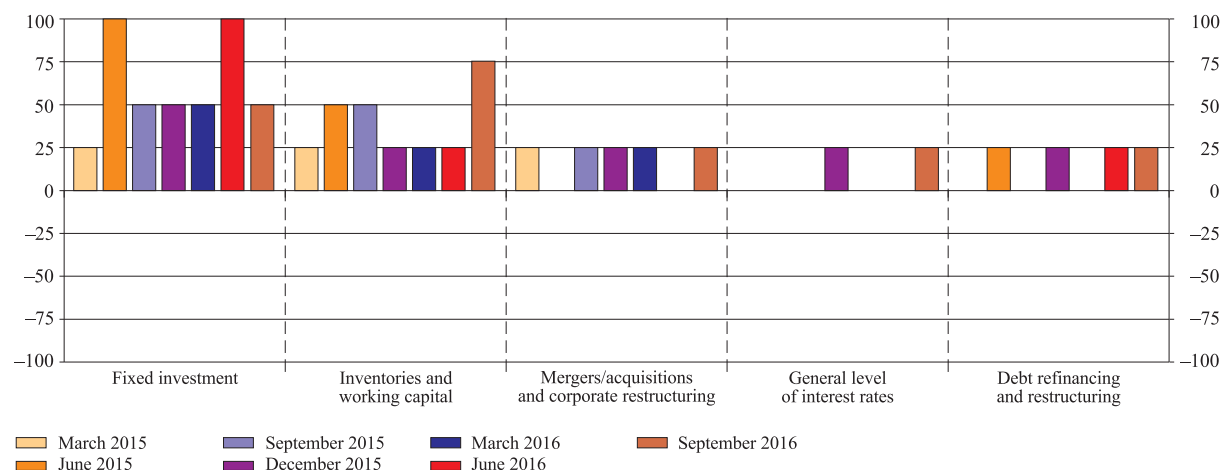
Regarding the moderate growth in the demand for loans to enterprises in the third quarter of 2016, Latvian banks mostly pointed out that enterprises needed additional funding for inventories and working capital (three banks) or for fixed investment (two banks). Less frequently, the banks noted that enterprises needed additional funding for mergers/acquisitions and corporate restructuring, debt refinancing and restructuring or renegotiation (each factor was mentioned once). One bank indicated that the demand for loans to enterprises was also slightly facilitated by the low general level of interest

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.

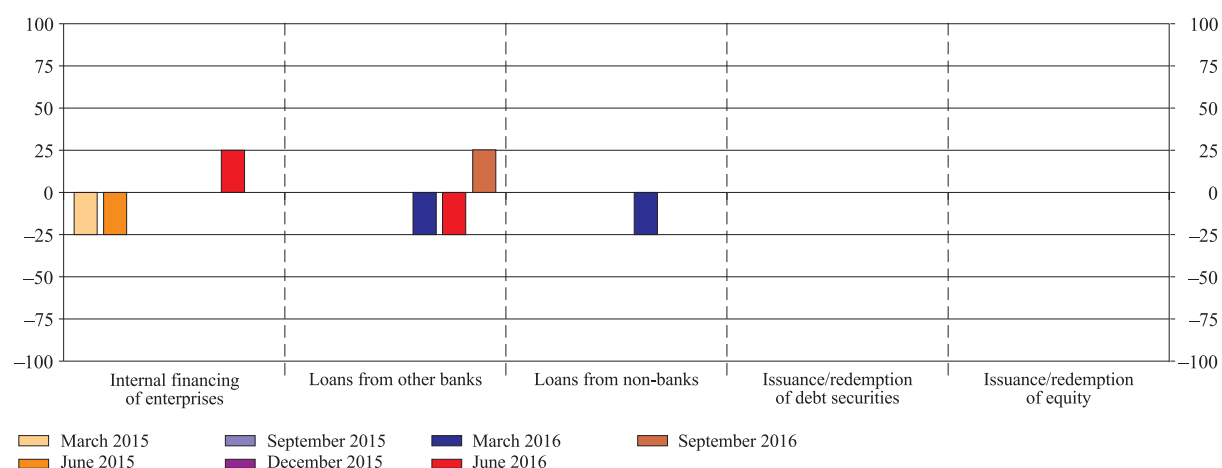
rates in the third quarter of 2016. Another bank reported moderate growth in the demand for short-term loans to enterprises due to a declining use of loans to enterprises granted by other banks (see Chart 2).

Chart 2
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

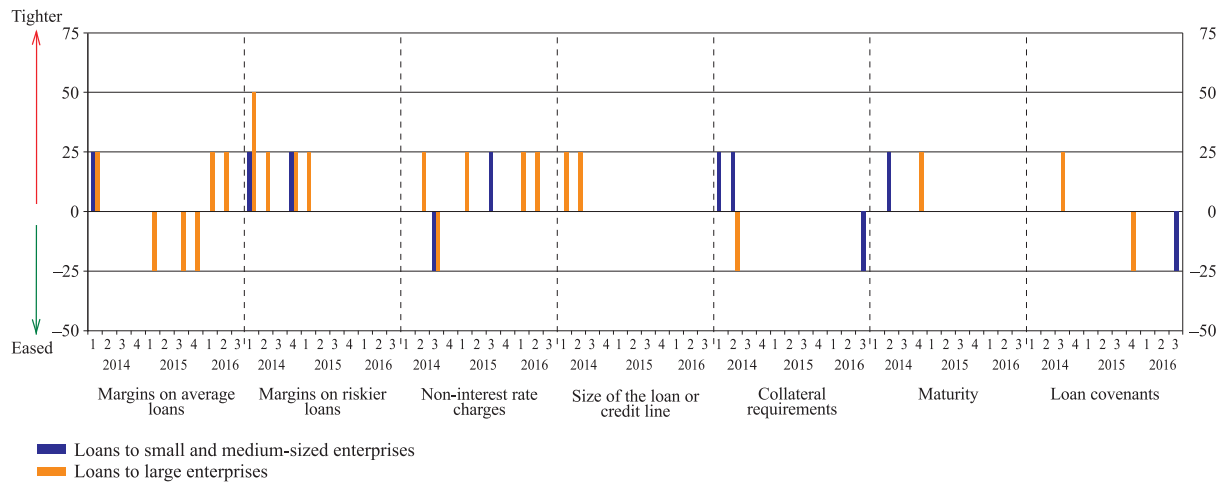


Two banks associate growth in the demand for loans to households for house purchase to a higher consumer confidence. Meanwhile, the rising demand for consumer credit and other lending to households could be due to the household need for additional funding for spending on durable consumer goods, such as cars and furniture.

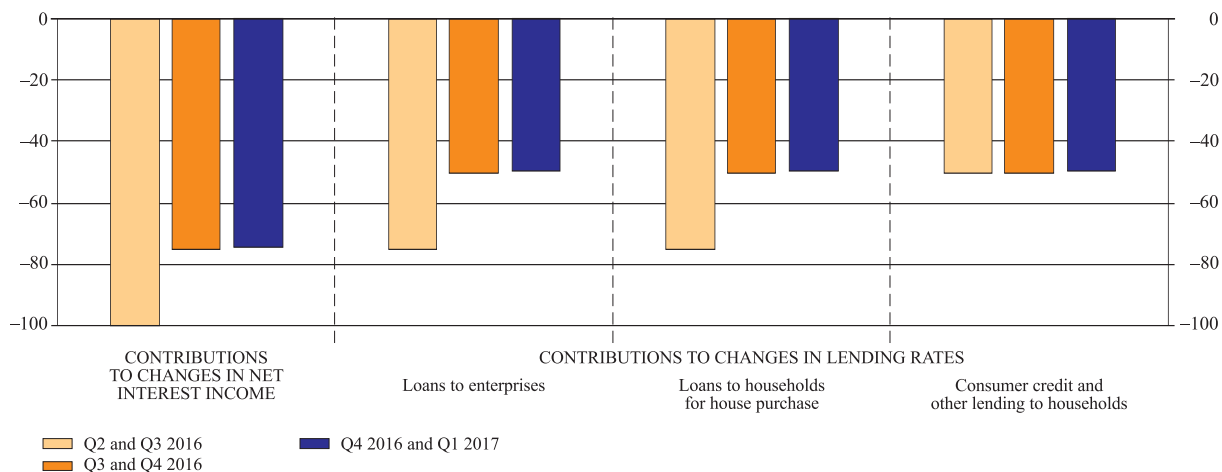
The surveyed Latvian banks expect marginal growth in the demand for loans also in the next quarter. Two banks anticipate a rise in the demand for long-term loans to small and medium-sized enterprises, while one bank expects a higher demand for long-term loans to large enterprises. One bank anticipates a moderate growth in the demand for loans to households for house purchase in the fourth quarter of 2016. Meanwhile, none of the banks foresees an increase in the demand for consumer credit and other lending to households in the fourth quarter of 2016 (see Chart 1).

Credit terms and conditions

In the third quarter of 2016, Latvian banks slightly eased their credit standards for loans to small and medium-sized enterprises. One of the surveyed banks admitted that it had granted loans to small and medium-sized enterprises with slightly lower collateral requirements and under eased special lending conditions over the reporting period (see Chart 3). Competition continues to affect Latvian banks' decisions on terms and conditions for loans to enterprises. Another bank indicated that the pressure from competition slightly facilitated the lowering of margins on average loans in the third quarter of 2016.

Chart 3**CHANGES IN TERMS AND CONDITIONS FOR LOANS TO ENTERPRISES DEPENDING ON SIZE***(net percentage of banks reporting tightening of terms and conditions; %)*

In the third quarter of 2016, Latvian banks did not change their credit standards for any types of loans mentioned in the survey: loans to enterprises, loans to households for house purchase as well as consumer credit and other lending to households. The banks report no intention of changing these standards in the fourth quarter of 2016 either. The share of completely rejected applications for the above types of loans also remained unchanged over the reporting period.

Other lending aspects**Chart 4****ECB'S NEGATIVE DEPOSIT FACILITY RATE CONTRIBUTIONS***(net percentage of banks reporting contributions to a decline; %)*

The euro area bank lending survey included a question on the ECB's negative deposit facility rate contributions. Due to the ECB's negative deposit facility rate, most of the surveyed Latvian banks reported a decline in their net interest income in the second and third quarters of 2016 (two banks reported only a slight decrease, while one bank pointed to a significant decline). Two of the surveyed Latvian banks implied that the ECB's negative deposit facility rate contributed to a contraction in the lending rates on loans to enterprises and those to households for house purchase as well as on consumer credit and other lending to households (see Chart 4). However, the estimated extent to which the ECB's negative deposit facility rate affects lending rates varies. One Latvian bank reports a significant fall in the lending rates on loans to enterprises and those to households for house purchase, while another bank suggested only a slight decline. According to both banks, the above instrument had only a moderate downward impact on the interest rates on consumer credit and other lending to households. Latvian banks expect that the ECB's negative deposit facility rate contribution will continue to remain unchanged over the next six months, i.e. in the fourth quarter of 2016 and the first quarter of 2017.