

## Euro area bank lending survey of July 2019: main results for Latvia

Latvijas Banka conducted a euro area bank lending survey in cooperation with the European Central Bank in July 2019, covering the lending developments during the second quarter of 2019 and expectations for the third quarter of 2019. Four Latvian banks whose total market share in lending to non-financial corporations and households is large enough to represent lending development in Latvia as a whole participated in the survey. Their replies have been incorporated in the euro area bank lending survey results.

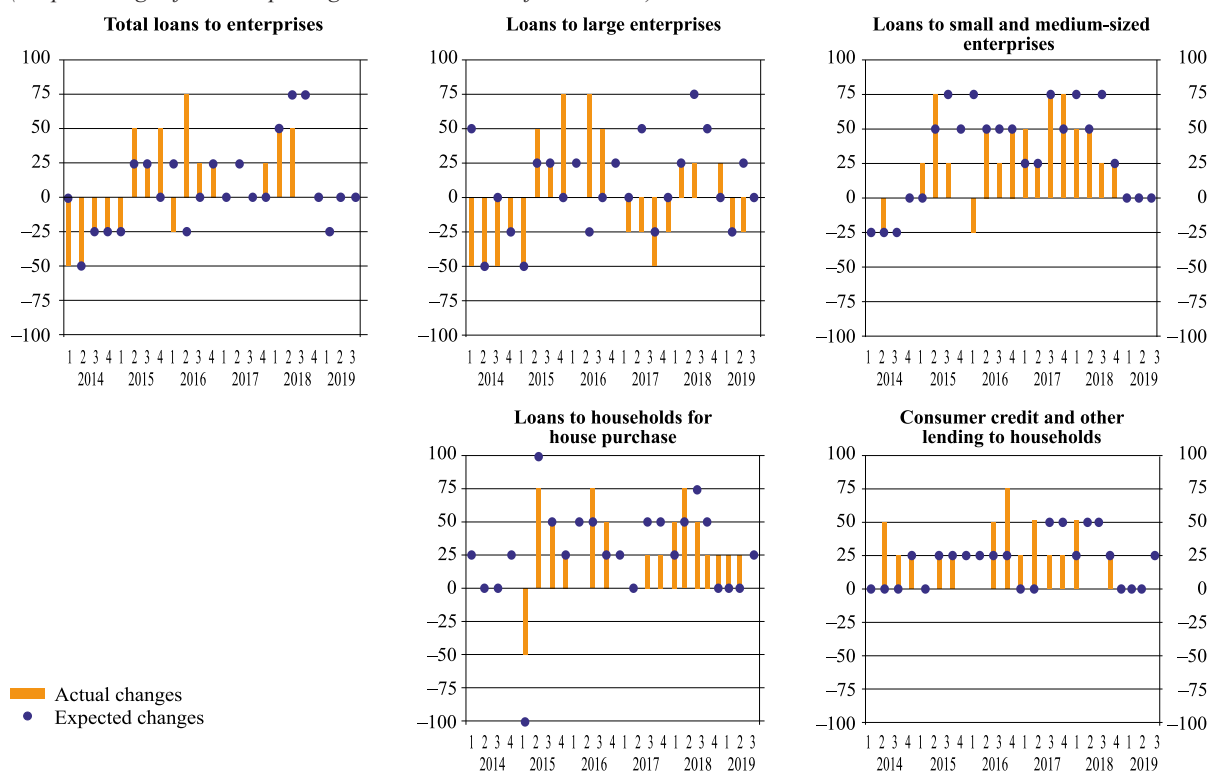
### Loans to enterprises

In the second quarter of 2019, the demand for loans to large enterprises (net in one bank) in Latvia decreased marginally; however, the changes were not pronounced enough to significantly affect the total demand for loans to enterprises. The competition from the non-banks somewhat reduced the demand for bank loans to enterprises. One of the four surveyed Latvian banks reported that the demand for loans to enterprises declined somewhat in the second quarter of 2019 due to the competition from the non-banks (see Chart 1). However, one of the surveyed Latvian banks expects an increase in demand for short-term loans in the next quarter.

Chart 1

#### CHANGES IN LOAN DEMAND

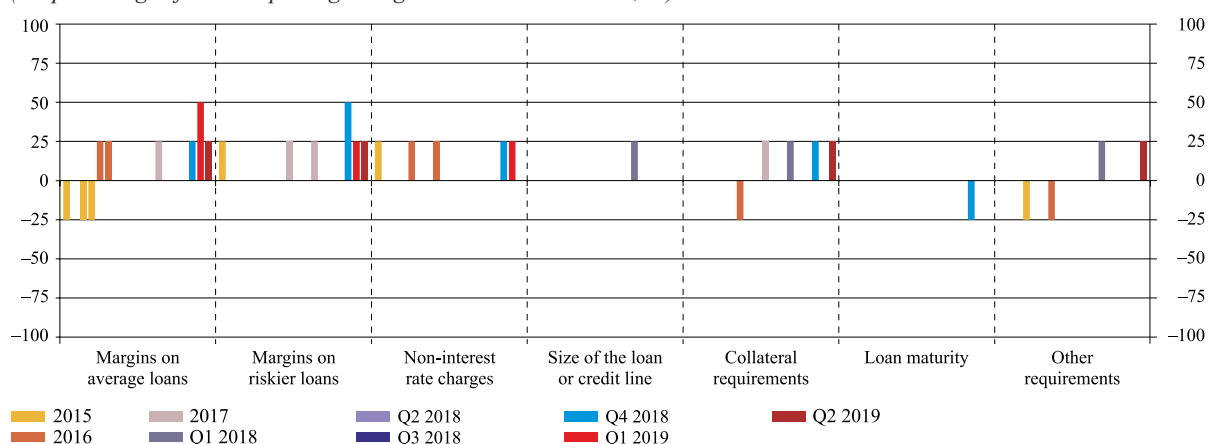
(net percentage of banks reporting increased demand for loans; %)



Although Latvian banks compete for (long-term) loans to large enterprises, the competition has an impact only on changes in the market shares of individual banks and not on lending as a whole. Two of the four surveyed Latvian banks reported that the mutual competition of banks is one of several factors or even the only factor characterising changes in demand for loans to enterprises in the second quarter of 2019. However, the impact of competition on the demand for long-term loans to large enterprises was small and opposite in both banks.

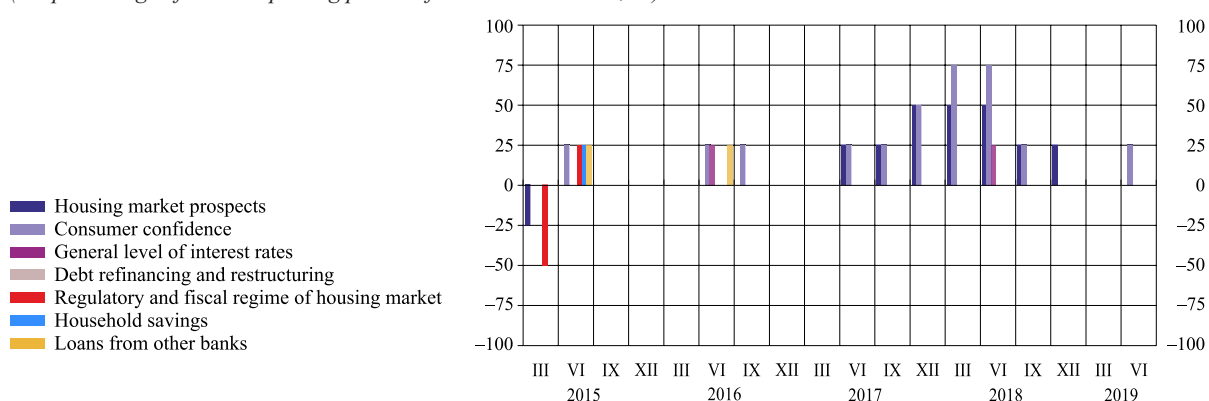
Latvian banks chose not to change their credit standards for loans to enterprises in the second quarter of 2019. However, they tightened somewhat several credit terms and conditions (see Chart 2). The strongest banks (one Latvian bank) tightened slightly the collateral requirements and reinforced other contract terms for loans to large enterprises due to weaker competition pressure. Meanwhile, another bank that faced balance sheet constraints and higher cost of funds widened its margins on all loans to enterprises – both on average and riskier loans to both small and medium-sized enterprises and the large ones. The margins on riskier loans to enterprises were widened not only due to the balance sheet constraints and higher cost of funds, but also on account of changes in the bank's risk assessment.

Chart 2

**CHANGES IN TERMS AND CONDITIONS FOR LOANS TO ENTERPRISES***(net percentage of banks reporting changes terms and conditions; %)***Loans to households for house purchase**

With consumer confidence improving, the demand for loans to households for house purchase expanded, and banks expect it to rise also in the future. One of the four surveyed Latvian banks pointed out that, with consumer confidence increasing, the demand for loans to households for house purchase picked up slightly in the second quarter of 2019 (see Chart 3). One of the surveyed banks expected a rise in the respective demand also in the third quarter of 2019.

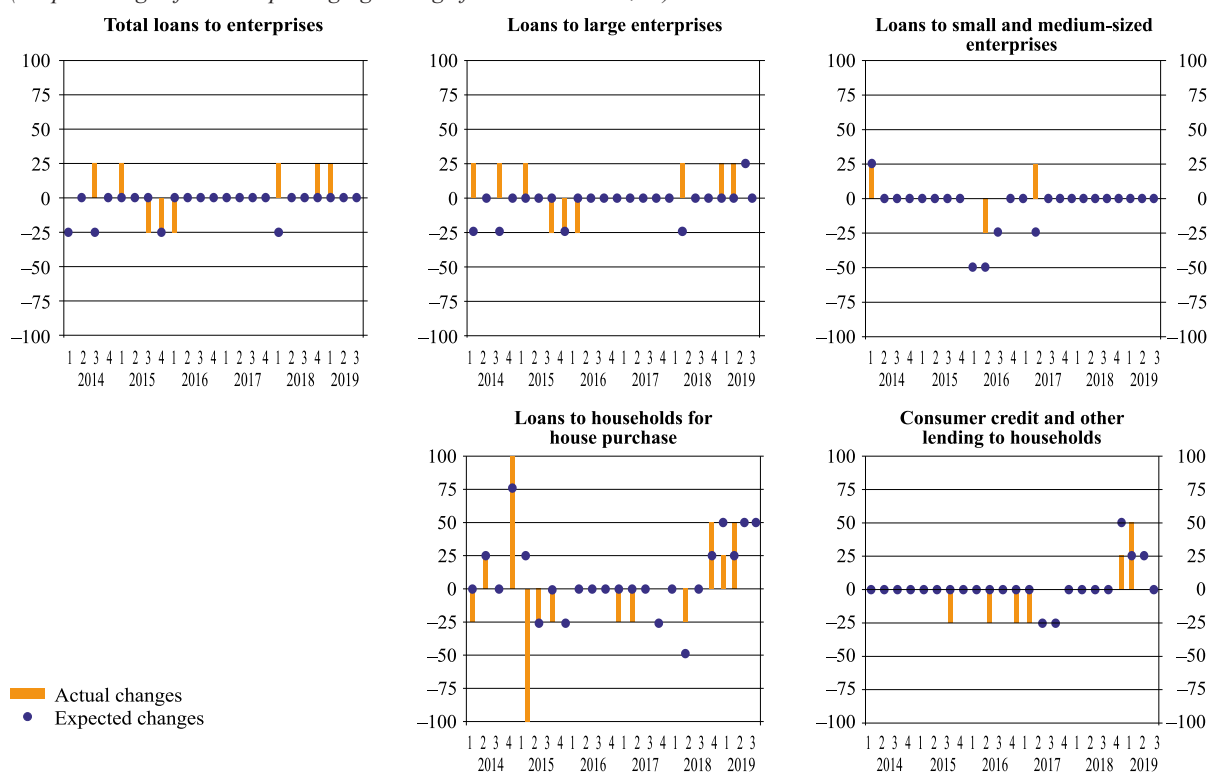
Chart 3

**FACTORS CHARACTERISING HOUSEHOLD DEMAND FOR LOANS FOR HOUSE PURCHASE***(net percentage of banks reporting positive factor contributions; %)*

Latvian banks kept their credit standards for loans to households for house purchase unchanged during the reporting period. However, two surveyed banks will intend to change them in the third quarter of 2019 (see Chart 4) if the general economic situation and the development prospects of the real estate market continue to worsen. These factors already affect the banks' considerations for the tightening of their credit standards. However, higher competition pressure from other banks hinders them from taking decisions on the application of tighter credit standards. One of the four surveyed Latvian banks reported that in the second quarter of 2019, the tightening of credit standards for loans to households for house purchase was supported by the general economic situation and outlook as well as the development prospects of the real estate market, whereas the easing of credit standards – by the competition from other banks.

Latvian banks also kept their credit terms and conditions for loans to households for house purchase unchanged in the second quarter of 2019 as concerns about the impact of the competition pressure from other banks offset the considerations for the cost of funds and balance sheet constraints. One surveyed Latvian bank stressed the insignificant effect of the above factors on taking decisions about credit terms and conditions for loans to households for house purchase.

Chart 4

**CHANGES IN CREDIT STANDARDS***(net percentage of banks reporting tightening of credit standards; %)***Consumer credit and other lending to households**

One Latvian bank believes that the demand for consumer credit and other lending could increase in the third quarter of 2019. The household demand for such lending was facilitated by the demand for durable goods like cars and furniture already in the second quarter.

**Ad hoc questions**

In the framework of the euro area bank lending survey of October 2018 on lending development trends, banks were asked several ad hoc questions concerning the impact of the new regulatory or supervisory requirements and non-performing loans on lending.

The new regulatory or supervisory requirements triggered a minor decline in riskier loans in two of the surveyed Latvian banks in the first half of 2019. One of them offset the decrease in riskier loans by a rise in average loans by increasing the total loan portfolio. In addition, one bank plans capital increases in the second half of 2019 by means of retained earnings to comply with the new regulatory or supervisory requirements.

The new regulatory or supervisory requirements had an impact on loans to households for house purchase in the first half of 2019 and is likely to affect them in the second half of 2019 in two of the surveyed Latvian banks: one bank tightened and will tighten credit standards, while the other one widened and will widen its margins.

The widening of the margins was supported by non-performing loans in the first half of 2019 and will be supported by them in the second half of 2019 in two of the surveyed banks: in one bank for loans to households for house purchase, while in the other one for loans to enterprises. One surveyed Latvian bank attributed the limiting effect of non-performing loans to the costs related to the bank's capital position and the costs attributable to the clean-up of the bank's balance sheet, the pressure of the regulatory or supervisory requirements and a lower bank's risk tolerance level.