

Euro area bank lending survey of December 2021: main results for Latvia

- Credit standards for loans to enterprises remained unchanged; however, margins were reduced due to the pressure of mutual competition.
- A rise in demand for short-term loans to small and medium-sized enterprises is mainly attributed to the need for inventories and working capital.
- Credit standards for loans to households as well as several terms and conditions for loans were eased in the segments of both housing loans and consumer credit.
- Demand for loans to households for house purchase remained broadly unchanged, while that for consumer credit and other lending to households increased.

In December 2021, Latvijas Banka in cooperation with the European Central Bank (ECB) conducted the euro area bank lending survey on the lending developments during the fourth quarter of 2021 and bank expectations for the first quarter of 2022. Four Latvian banks whose total market share in lending to non-financial corporations and households is high enough to represent the lending development in Latvia participated in the survey. Their replies have been incorporated in the euro area bank lending survey results.

Loans to enterprises

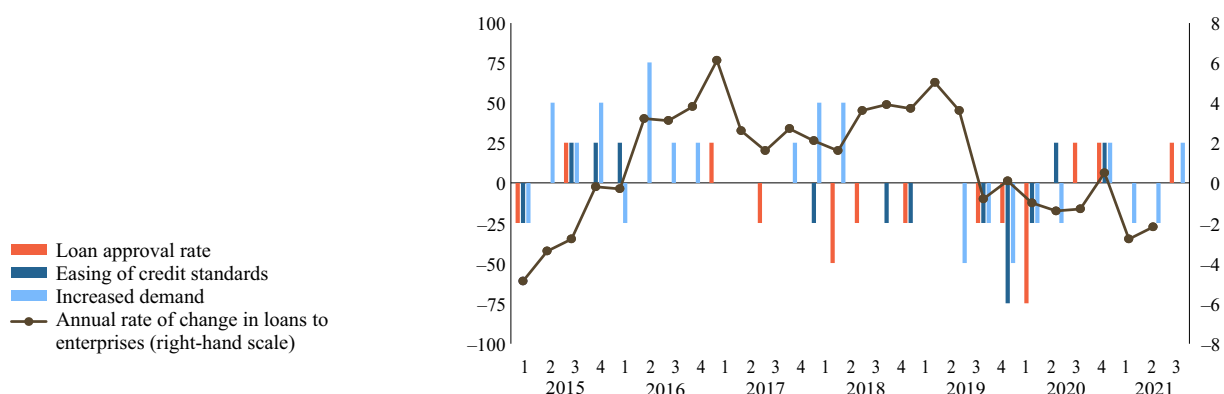
The growth rate of lending to enterprises remained sluggish in the fourth quarter of 2021, since banks did not ease their credit standards and demand rebounded only for short-term loans to small and medium-sized enterprises.

The surveyed Latvian banks did not change their credit standards for loans to enterprises in the fourth quarter of 2021. However, the share of rejected applications for loans slightly decreased in one bank (see Chart 1). One bank intends to ease its credit standards for loans to enterprises, except for short-term loans, in the first quarter of 2022.

Chart 1

CHANGES IN LOAN APPROVAL RATE, CREDIT STANDARDS AND DEMAND AND ANNUAL GROWTH RATE OF LOANS TO ENTERPRISES

(net percentage of banks reporting an increased loan approval rate, the application of eased credit standards and higher demand; annual growth rate of loans; %)



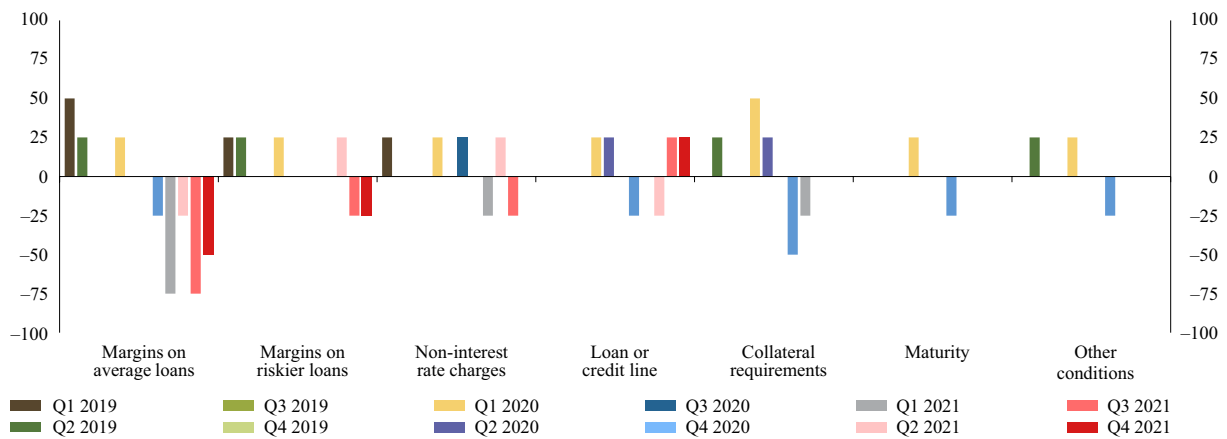
Sources: bank lending survey and the ECB's Statistical Data Warehouse.

In the fourth quarter of 2021, the surveyed Latvian banks reduced margins on average loans to enterprises more often (in two cases) due to the mutual competition, i.e. two banks reduced margins on average loans to large enterprises, but one – to small and medium-sized enterprises. One of the banks also reduced margins on riskier loans to enterprises (see Chart 2). Margin reductions in the respective period and lending segment determined the easing of general terms and conditions (in one bank). Contrary to the observed trend of easing terms and conditions, one surveyed Latvian bank reported in the fourth quarter of 2021 that it had reduced the amount of loans to enterprises.

Chart 2

CHANGES IN TERMS AND CONDITIONS FOR LOANS TO ENTERPRISES

(net percentage of banks reporting tightening their terms and conditions; %)



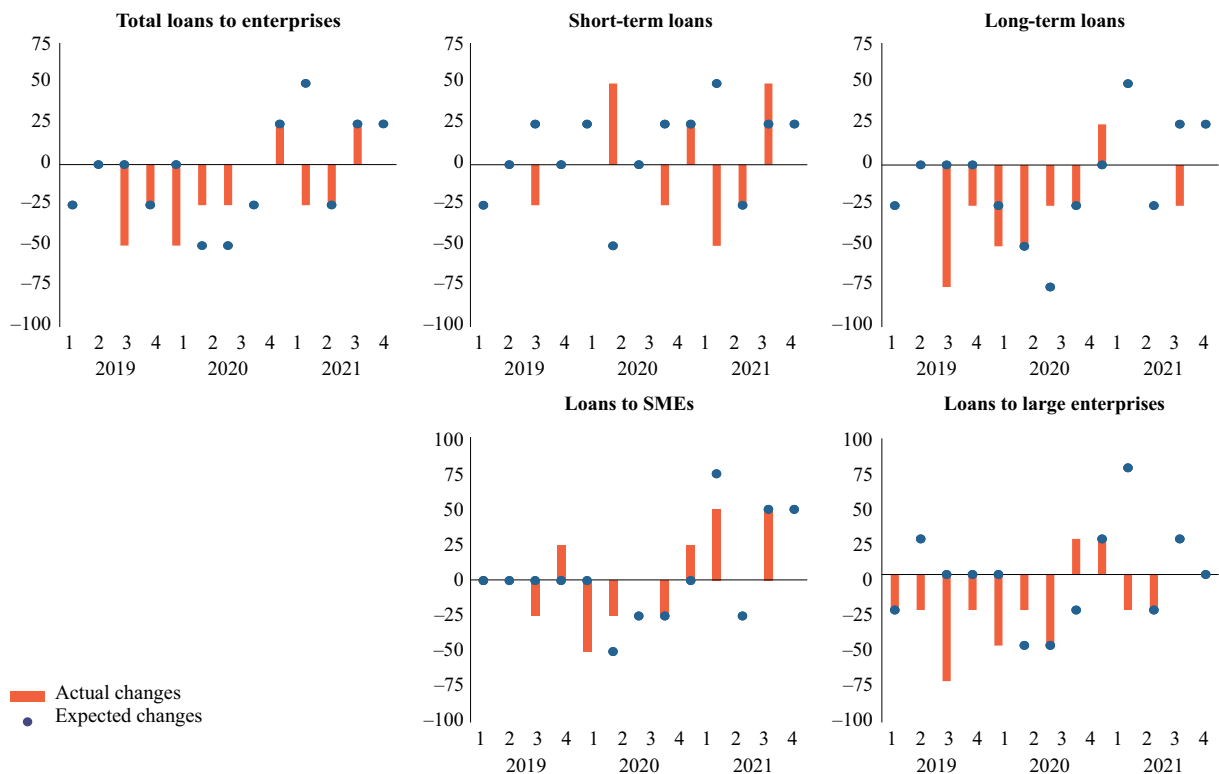
Source: bank lending survey.

Overall, demand for loans to enterprises increased somewhat in one of the four surveyed Latvian banks in the fourth quarter of 2021 but in smaller segments of lending to enterprises – in three banks. Demand for loans to small and medium-sized enterprises grew in two surveyed Latvian banks in the respective period. Demand for short-term loans to enterprises also increased in two banks, but at the same time demand for long-term loans dropped in one of them. Half of the surveyed Latvian banks (two banks) expect a rise in demand for loans to small and medium-sized enterprises in the next quarter (see Chart 3).

Chart 3

CHANGES IN DEMAND FOR LOANS TO ENTERPRISES

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

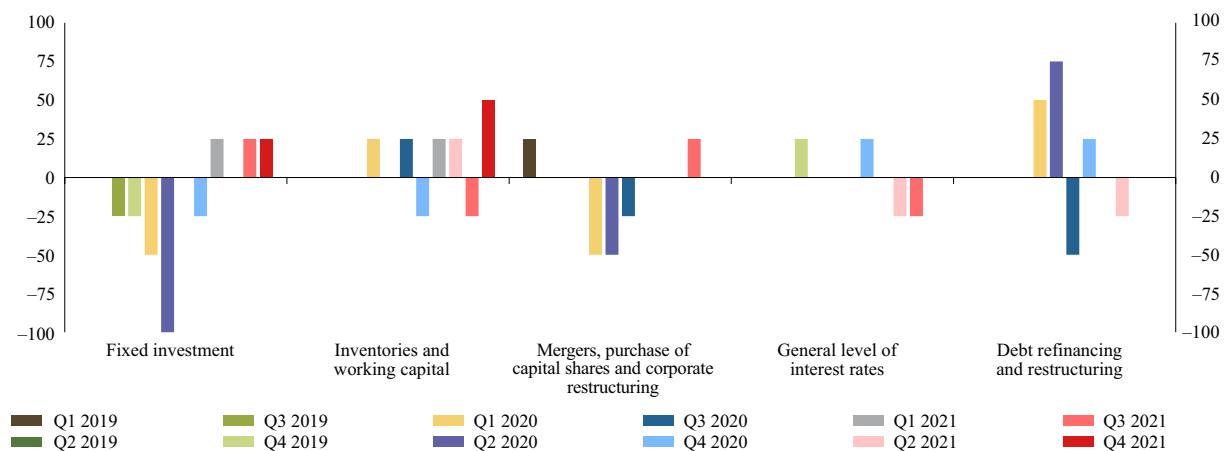
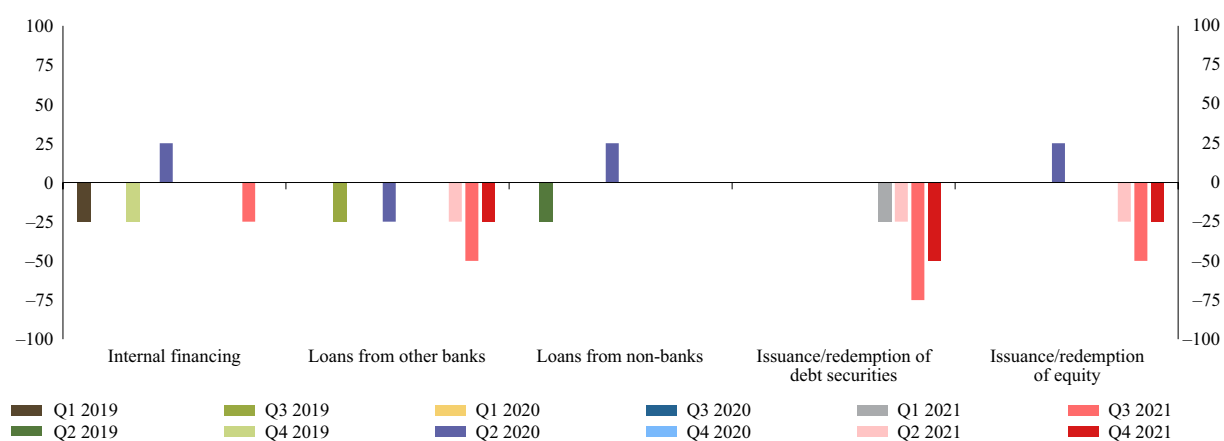


Growth in demand for loans to enterprises in the fourth quarter of 2021 was mainly driven by an increased need for inventories and working capital (in two cases). In addition, one bank explained that an uptrend in demand for loans to small and medium-sized enterprises was related to the need for long-term investment. At the same time, several factors had an adverse effect on demand in the respective lending segment. The surveyed Latvian banks indicated most often (twice) that the reason for demand contraction was the issuance of corporate debt bonds and less frequently (once) – the issuance of shares as well as competition from other banks and AS Attīstības finanšu institūcija Altum (see Chart 4).

Chart 4

VARIOUS FACTORS CONTRIBUTING TO CHANGES IN 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 sources of finance****Loans to households for house purchase**

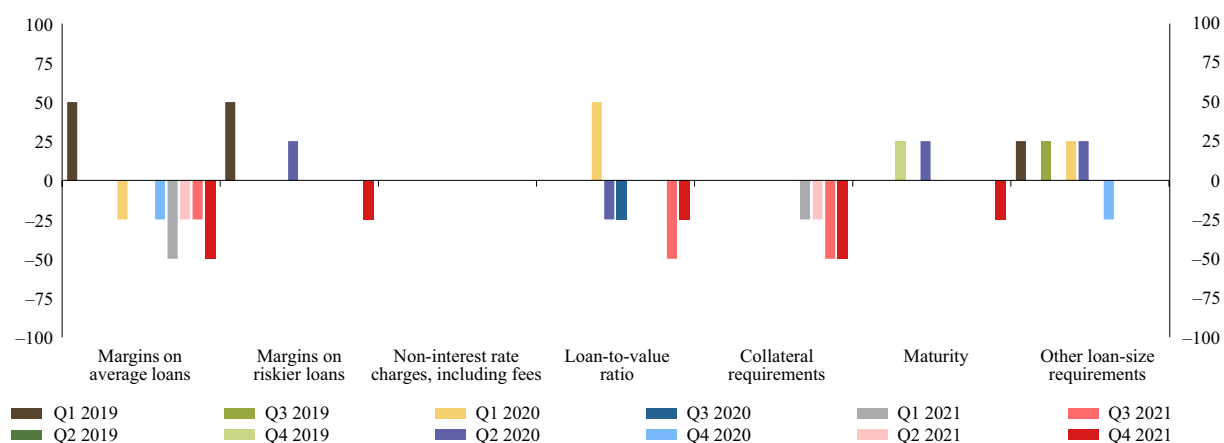
Lending to households in the segment of housing loans developed robustly, with financing conditions improving in several banks as a result of mutual competition. Moreover, rebound in demand will contribute to lending in this segment during the next quarter.

Competition from banks and non-banks made one of the four surveyed Latvian banks ease lending standards for loans to households for house purchase in the fourth quarter of 2021.

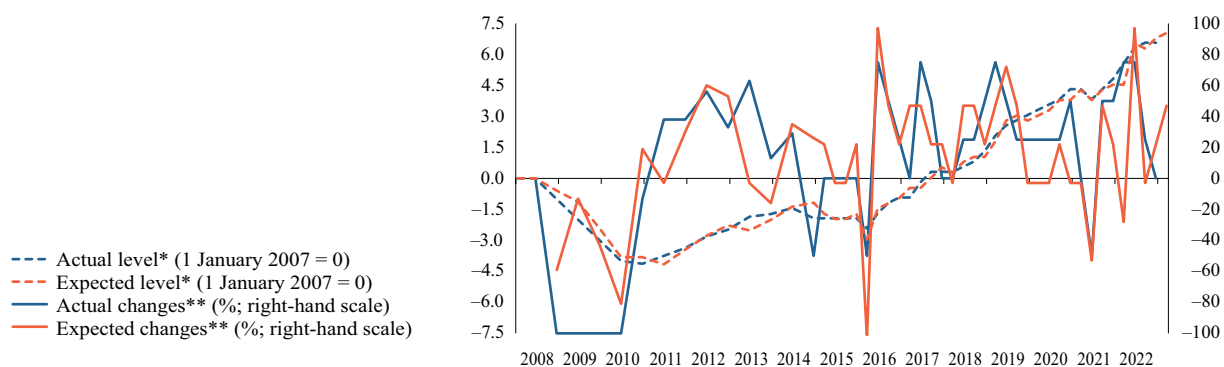
However, another bank intends to tighten them already in the following quarter. The share of rejected applications for loans to households for house purchase remained unchanged in all surveyed Latvian banks in the fourth quarter of 2021.

In the lending segment considered, mutual competition made three surveyed Latvian banks ease one or several terms or conditions in the fourth quarter of 2021: most frequently (twice) the collateral requirements were eased and margins on average loans were reduced, but less frequently (once) margins on riskier loans were reduced, maturity was extended and the loan-to-collateral ratio was increased (see Chart 5).

Demand for loans to households for house purchase remained broadly unchanged in the fourth quarter of 2021: it contracted in one surveyed Latvian bank but grew in another one. The low level of interest rates as well as the housing market development prospects and the expected price rise had a positive effect on demand in the respective lending segment. Meanwhile, the impact assessment of consumer confidence presents a contrasting picture. However, two of the four surveyed Latvian banks foresee that demand for loans to households for house purchase will follow an upward path in the first quarter of 2022 (see Chart 6).

Chart 5**CHANGES IN CREDIT TERMS AND CONDITIONS FOR LOANS TO HOUSEHOLDS FOR HOUSE PURCHASE**
(net percentage of banks reporting tightening their terms and conditions; %)**Chart 6****CHANGES IN DEMAND FOR LOANS TO HOUSEHOLDS FOR HOUSE PURCHASE**

(net percentage of banks reporting increased demand for loans; %; and cumulative changes in net number; index)



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

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

Consumer credit and other lending to households

Development of consumer credit and other lending to households was weaker than that of housing loans. However, the easing of credit standards, more favourable terms and conditions as well as demand growth give reason for hope that the year 2022 will see more vigorous lending development.

Half of the surveyed Latvian banks eased credit standards for consumer credit and other lending to households in the fourth quarter of 2021. The easing of the respective standards was explained by interbank competition in two cases and also by non-bank competition in one case. Moreover, the share of rejected applications in the lending segment considered fell in one bank during the period concerned. However, one of the surveyed Latvian banks intends to tighten somewhat credit standards for consumer credit and other lending to households in the following quarter.

As a result of mutual competition, two banks also eased terms and conditions for consumer credit and other lending to households in the fourth quarter of 2021 (see Chart 7). The two banks reduced margins on average and riskier loans (in two cases) and eased collateral requirements (in one case).

Demand for consumer credit and other lending to households increased slightly in two of the four surveyed Latvian banks in the fourth quarter of 2021 (see Chart 8), and the same number of banks foresee its growth in the first quarter of 2022. The major reasons for an increase in demand for consumer credit and other lending to households mentioned once by Latvian banks were spending on durable goods (cars, furniture, etc.), stronger consumer confidence and the low level of interest rates.

Chart 7

CHANGES IN CREDIT TERMS AND CONDITIONS FOR CONSUMER CREDIT AND OTHER LENDING TO HOUSEHOLDS

(net percentage of banks reporting tightening their terms and conditions; %)

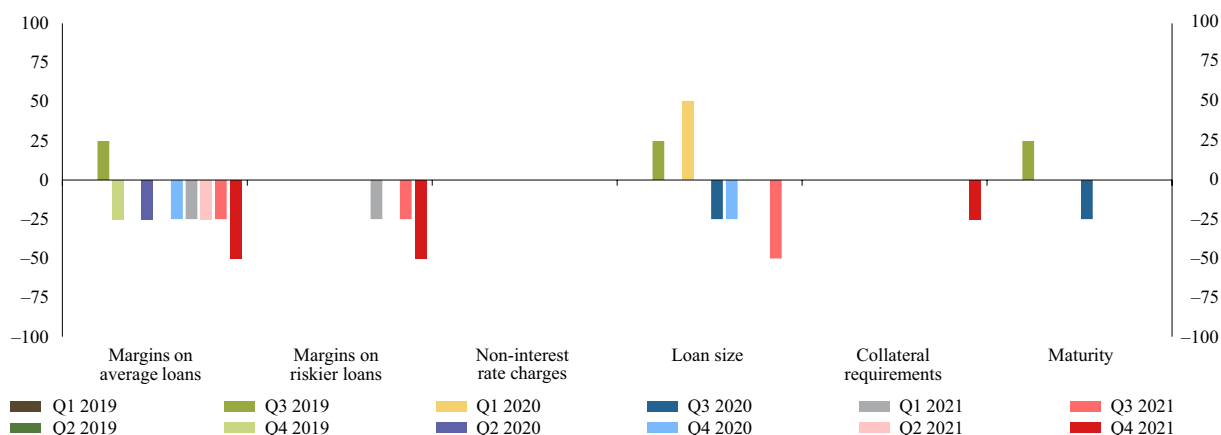
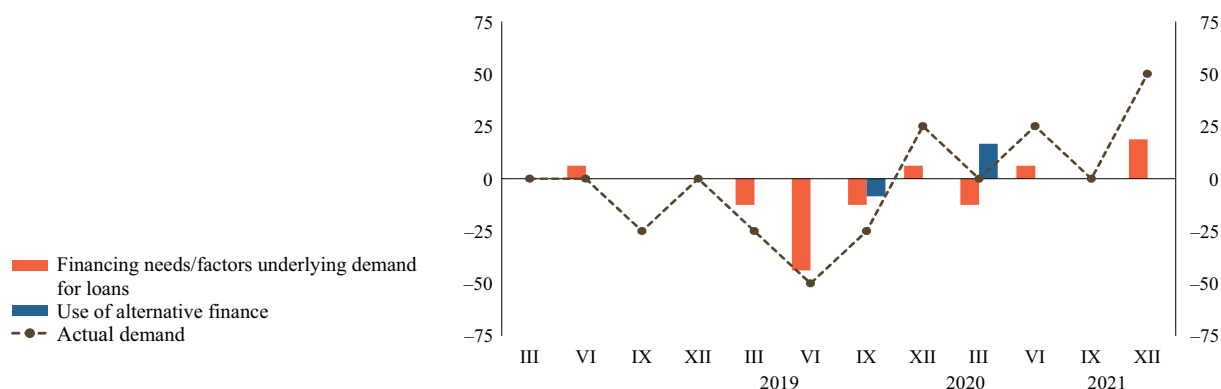


Chart 8

VARIOUS FACTORS CONTRIBUTING TO DEMAND FOR CONSUMER CREDIT AND OTHER LENDING TO HOUSEHOLDS

(arithmetic mean in each group of factors; each factor is measured as a net percentage of banks reporting positive factor contributions; %)



Ad hoc questions

The euro area bank lending survey of December 2021 included several ad hoc questions to banks regarding the availability of financing, the impact of new laws and regulations or supervisory measures, the effect of the share of banks' non-performing loans on the lending policy, changes in credit standards, terms and conditions as well as in demand for loans to enterprises by sector and by government guarantees related to the Covid-19 pandemic.

Access to financial resources available in a segment of the financial resources market improved in two of the surveyed Latvian banks in the fourth quarter of 2021: in the segment of very short-term unsecured money market instruments or in the segment of short-term time deposits.

The effect of new laws and regulations or supervisory measures on lending in 2021–2022 appears to be minimal. The ratio of non-performing loans affected the lending policy of only one of the surveyed Latvian banks over the past six months and will affect it over the next six months.

According to Latvian banks, the first half of 2022 will see demand for loans to enterprises grow mainly in the sectors of real estate and industry. Three of the four surveyed Latvian banks indicated that demand expanded in the second half of 2021 and will continue on an upward path in the real estate sector in the first half of 2022. Two banks foresee that the first half of 2022 will witness an increase in demand for loans in the industry sector as well. Demand for loans to enterprises active in the residential and commercial segments of the real estate sector mounted with equal frequency (in three banks) in the second half of 2022. By contrast, demand might more likely increase in the residential real estate sector (in three banks) and less likely – in the commercial segment in the first half of 2022. During the same period, half of the

surveyed banks intend to ease terms and conditions for loans to enterprises in one of the following sectors or subsectors: industry, the residential or commercial real estate field.

In the second half of 2021, the sector of lending to enterprises experienced the gap between demand for loans to enterprises (backed by government guarantees related to the Covid-19 pandemic) and loans without such guarantees widen. One surveyed bank pointed out that demand for loans backed by the above government guarantees declined in the respective period irrespective of the enterprise size. Meanwhile, another bank reported that demand for loans to small and medium-sized enterprises without such guarantees followed an upward path.