

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

In January 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 2020 and bank expectations for the first quarter of 2021. Four Latvian banks whose total market share in lending to non-financial corporations and households is large 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.

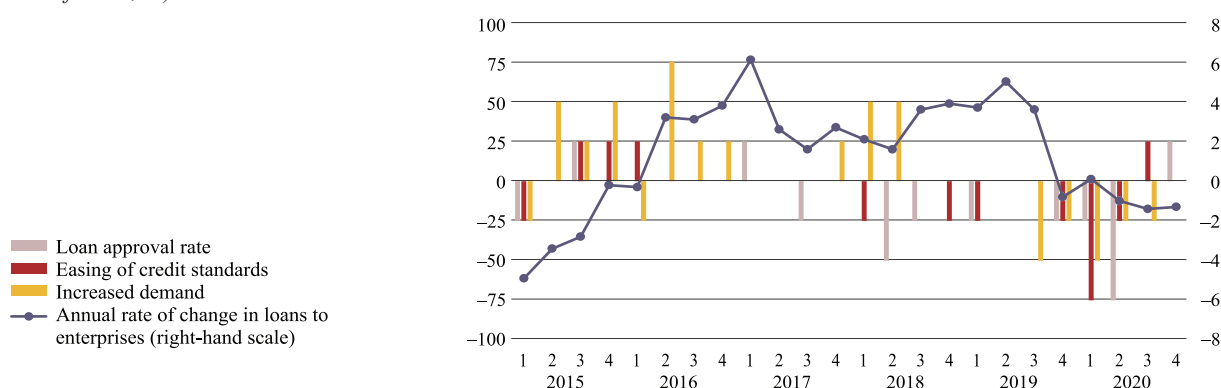
### Loans to enterprises

Lending to enterprises bottomed out in the fourth quarter of 2020, with credit standards and demand for loans to enterprises remaining broadly unchanged (see Chart 1). Meanwhile, the situation was more favourable in the segment of lending to large enterprises where banks eased their credit standards and demand rebounded. The terms and conditions for loans to enterprises became more attractive.

Chart 1

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

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

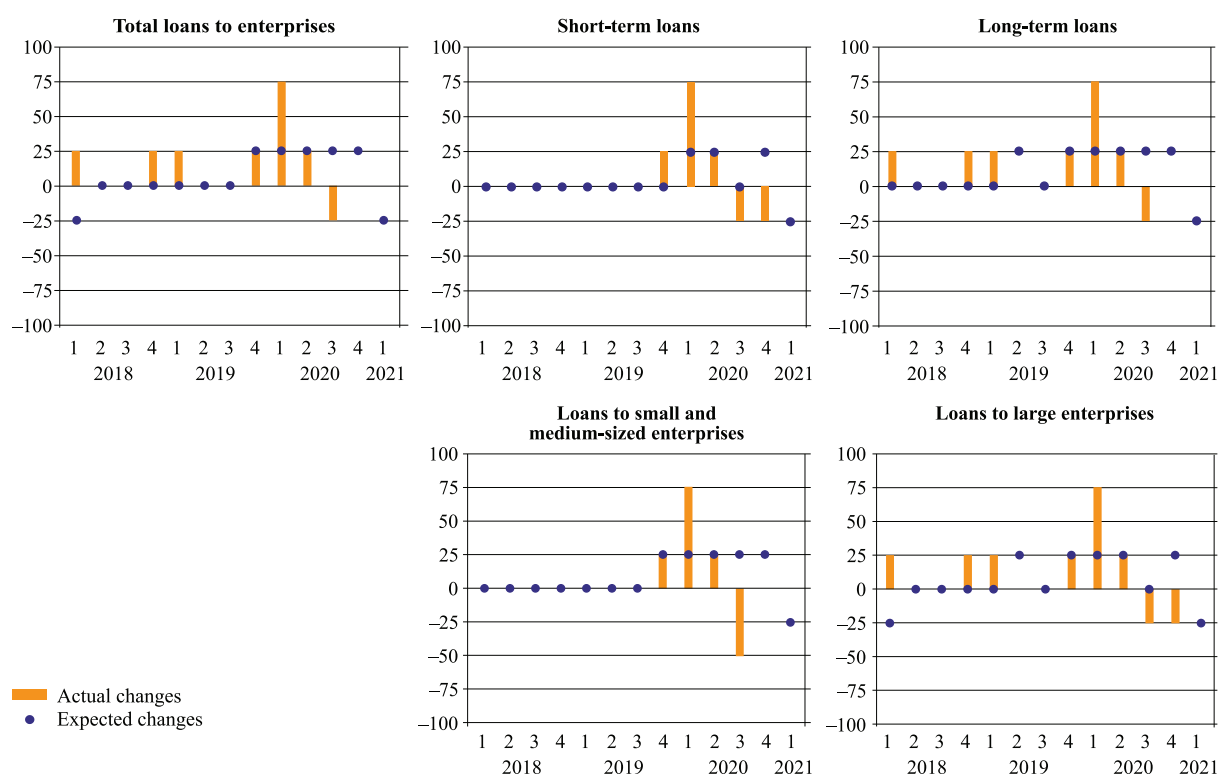


Sources: bank lending survey and the ECB's Statistical Data Warehouse.

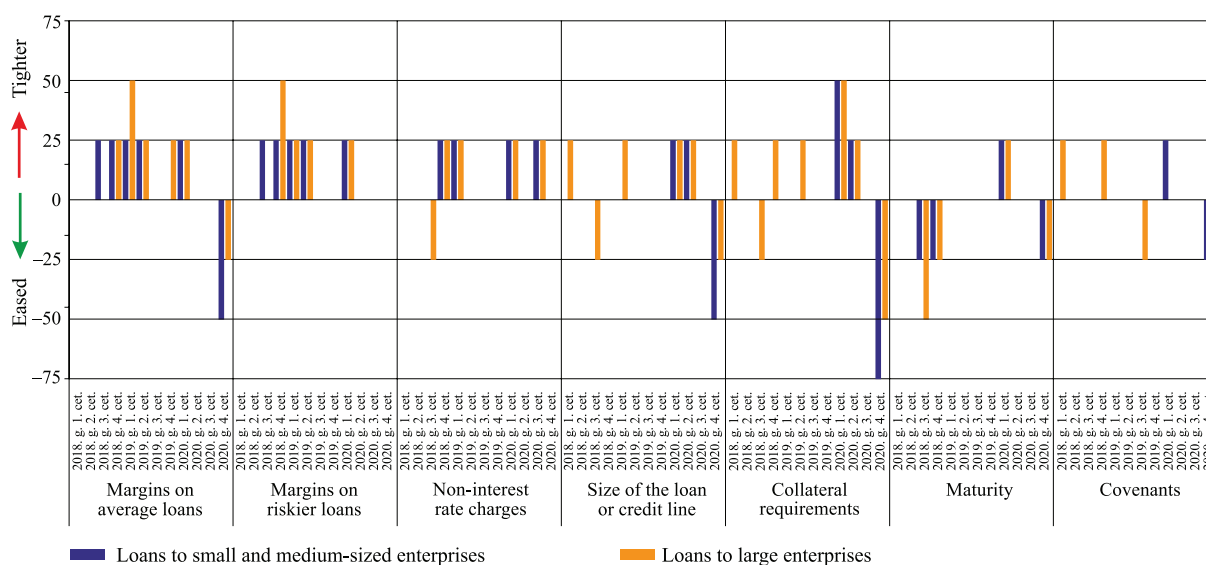
Credit standards for loans to enterprises were kept unchanged by the surveyed Latvian banks in the fourth quarter. However, one bank slightly eased its credit standards for short-term loans to large enterprises (see Chart 2) and intended to continue easing its credit standards also in the next quarter. Easing of credit standards in this segment was facilitated by higher risk tolerance of banks, competition from other banks, better-than-expected general economic and industry-specific situation and outlook. One bank also reported a decline in the share of rejected applications for loans to enterprises over the reporting period.

In the fourth quarter, three of the four surveyed Latvian banks somewhat eased individual terms and conditions for loans to enterprises overall or in a particular subsector. Two banks eased the terms and conditions for loans to large enterprises and three banks eased them for small and medium-sized enterprises. As regards loans to enterprises, in the fourth quarter three of the surveyed banks eased the collateral requirements, two banks reduced the margins on loans and increased the loan size, and one bank extended the permissible loan maturity and eased the loan covenants (see Chart 3). The surveyed Latvian banks explained the easing of the terms and conditions for loans to enterprises as follows: two banks mentioned growing competition, one bank pointed to a decrease in the cost of funds and balance sheet constraints and improved risk perception.

**Chart 2**  
**CHANGES IN CREDIT STANDARDS FOR LOANS TO ENTERPRISES**  
*(net percentage of banks reporting tightening credit standards; %)*



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



In the assessment of Latvian banks, net demand for loans to enterprises overall remained unchanged in the fourth quarter (see Chart 4). This, however, masked some differences in opinions across the survey participants: one bank pointed to higher demand, while another suggested a decline in demand. Demand for loans to large enterprises increased (in one case), whereas demand for loans to small and medium-sized enterprises contracted (in two cases demand contracted, but in one case it grew). Demand for short-term and long-term loans changed similarly, recording a net decline of 25%. The surveyed Latvian banks expect an overall rise in demand for loans to enterprises in the next quarter, driven by higher demand for short-term loans and loans to large enterprises (net 25%).

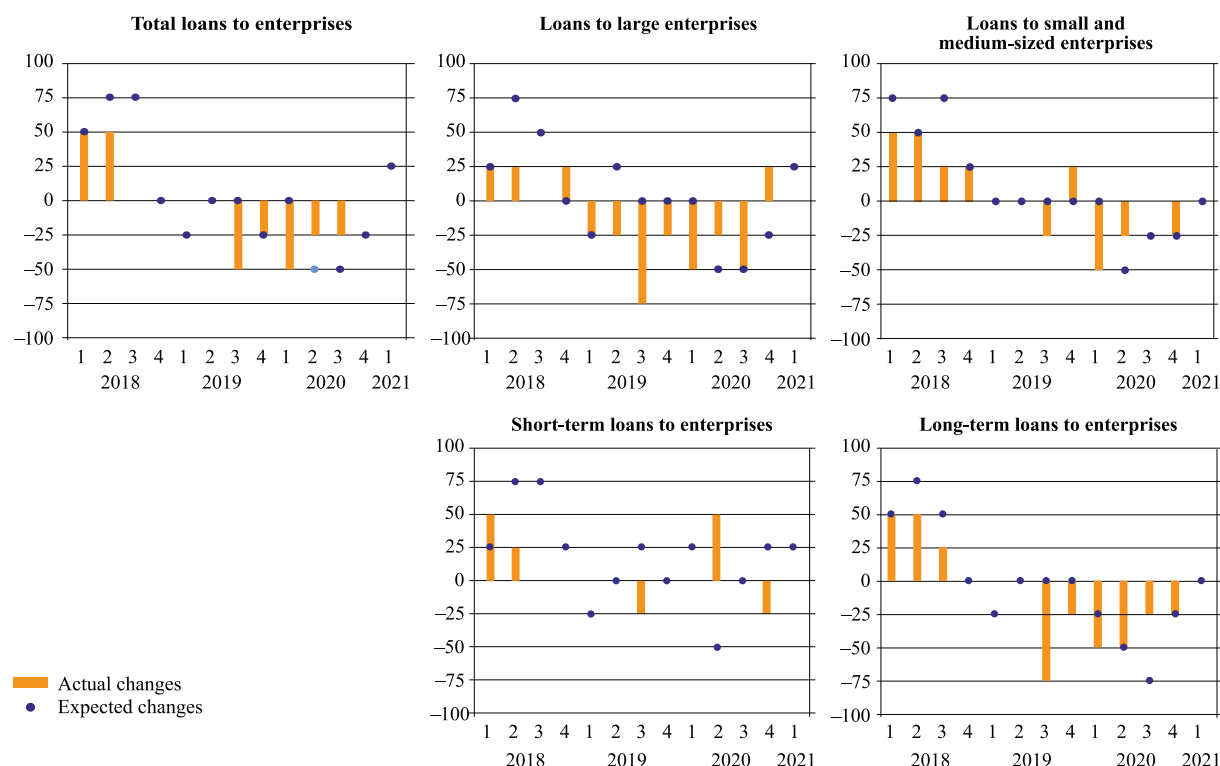
Banks explained the drop in demand for loans to enterprises in the fourth quarter by highlighting several factors (see Chart 5): a reduced need for long-term loans (one bank in net terms), a decreased need for

inventories and working capital (one bank) un lower availability of the government support programmes implemented via AS Attīstības finanšu institūcija Altum (one bank). Meanwhile, the rise in demand for loans to enterprises over the reporting period was explained by debt refinancing, restructuring or renegotiation (one bank) as well as by low interest rates (one bank).

**Chart 4**

**CHANGES IN DEMAND FOR LOANS TO ENTERPRISES**

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



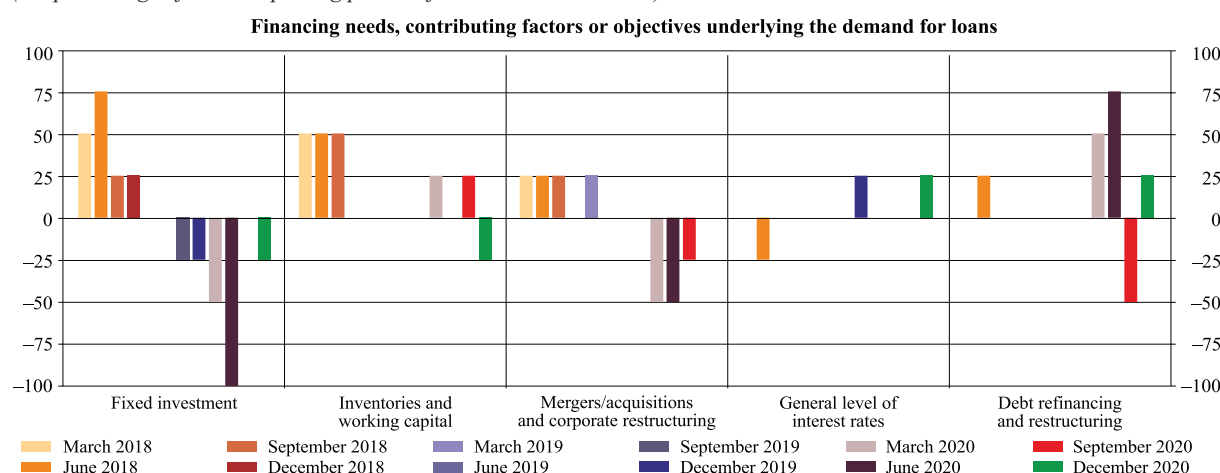
\* Cumulative changes in net percentage of banks reporting tightening credit standards.

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

**Chart 5**

**VARIOUS FACTORS CONTRIBUTING TO CHANGES IN DEMAND FOR LOANS TO ENTERPRISES**

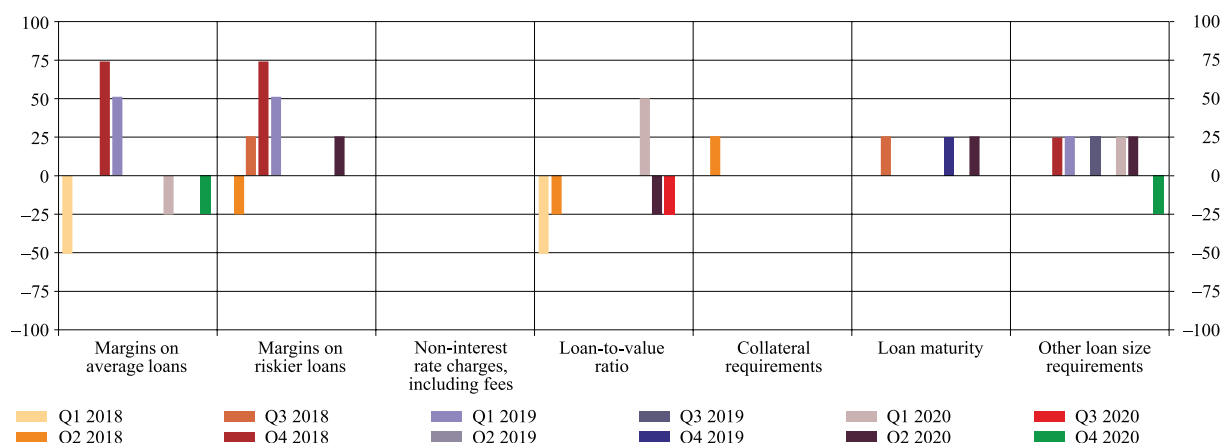
(net percentage of banks reporting positive factor contributions; %)



**Loans to households for house purchase**

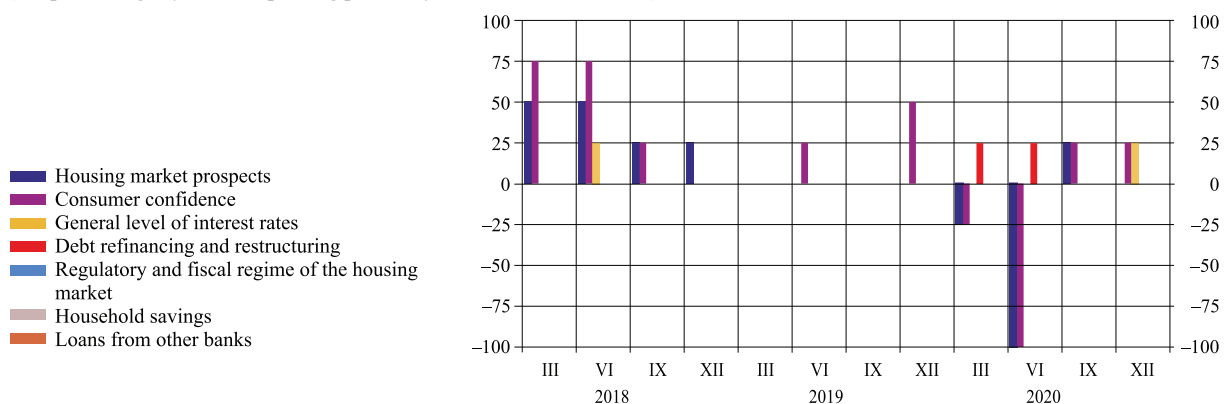
As expected, in the fourth quarter of 2020 credit standards as well as terms and conditions for loans to households for house purchase (see Chart 6) were eased by one of the surveyed Latvian banks on account of the positive impact of the cost of funds and balance sheet constraints. The bank eased its terms and conditions for margins on standard loans and loan size limits. One Latvian bank intends to continue easing its credit standards for this lending segment also in the next quarter.

Chart 6

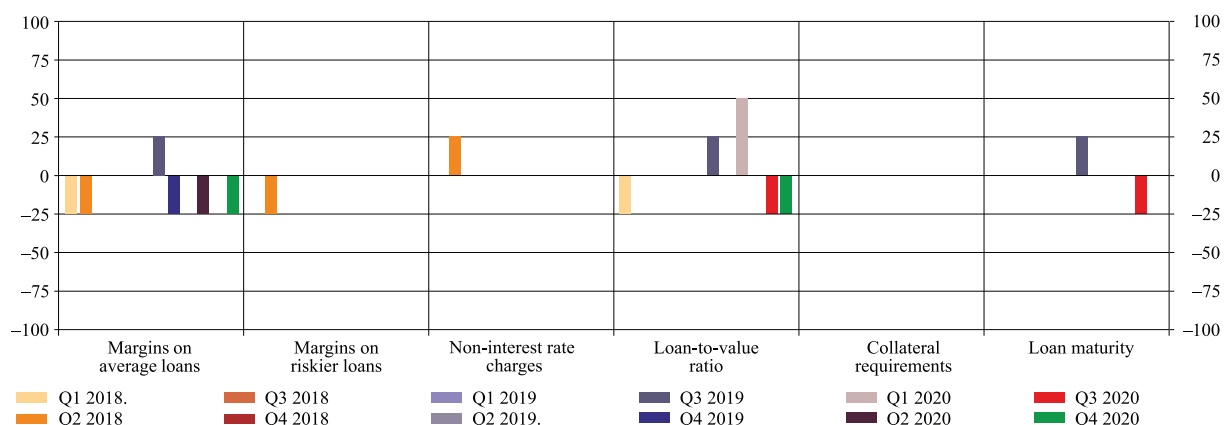
**CHANGES IN TERMS AND CONDITIONS FOR LOANS FOR HOUSE PURCHASE***(net percentage of banks reporting tightening their terms and conditions; %)*

In the fourth quarter of 2020, the surveyed Latvian banks (two banks) observed a slight increase in demand for loans to households for house purchase: one bank explained these changes by an improvement in consumer confidence, while another bank highlighted the low interest rates as a possible reason (see Chart 7). Demand was expected to rise, albeit to a lesser extent, as it was suggested by only one bank in the previous quarter. However, one Latvian bank expected a decline in demand for loans to households for house purchase already in the first quarter of 2021. The share of rejected applications for loans to households for house purchase remained unchanged in all surveyed Latvian banks in the fourth quarter.

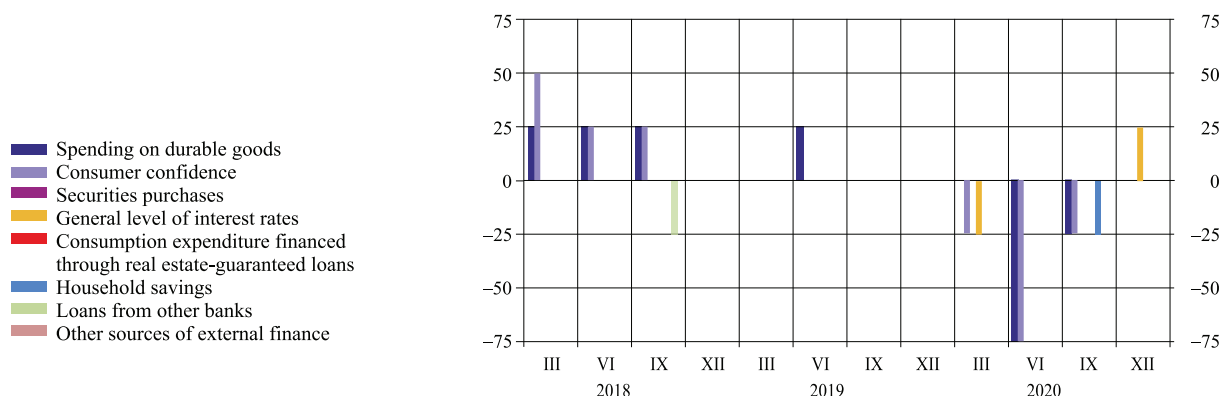
Chart 7

**VARIOUS FACTORS CONTRIBUTING TO DEMAND FOR LOANS TO HOUSEHOLDS FOR HOUSE PURCHASE***(net percentage of banks reporting positive factor contributions; %)***Consumer credit and other lending to households**

As it was the case for loans to households for house purchase, the surveyed Latvian banks also continued easing their credit standards as well as their terms and conditions for consumer credit and other lending to households. One bank pointed out that it eased its credit standards as well as its terms and conditions for the above lending segment in the fourth quarter of 2020 on account of favourable developments in the cost of funds and balance sheet constraints. Terms and conditions were eased by reducing margins on average loans and by increasing the loan size (see Chart 8). One of the surveyed Latvian banks indicated that it intends to slightly ease its credit standards for consumer credit and other lending to households in the first quarter of 2021.

**Chart 8****CHANGES IN CREDIT TERMS AND CONDITIONS FOR CONSUMER LOANS AND OTHER LENDING TO HOUSEHOLDS***(net percentage of banks reporting tightening their terms and conditions; %)*

One Latvian bank reported a positive development, i.e. higher demand for consumer credit and other lending to households in the fourth quarter facilitated by the low level of interest rates (see Chart 9). However, no further rise in demand for consumer credit and other lending to households is expected in the first quarter of 2021. The share of the applications rejected by the surveyed Latvian banks in this particular lending segment remained unchanged over the reporting period.

**Chart 9****VARIOUS FACTORS CONTRIBUTING TO DEMAND FOR CONSUMER CREDIT AND OTHER LENDING TO HOUSEHOLDS***(net percentage of banks reporting positive factor contributions; %)***Ad hoc questions**

In the euro area bank lending survey of January 2021, the banks were asked several ad hoc questions regarding the access to the financial market, the impact of the regulatory and supervisory requirements, credit standards, terms and conditions and demand by sector as well as regarding the government support to the enterprises affected by the Covid-19 pandemic crisis in the form of guarantees and loans.

During the Covid-19 pandemic, households and enterprises have tended to make much more savings than before: due to restrictions, they have accumulated forced savings and precautionary reserves. Therefore, when describing the financial market situation, half of the surveyed Latvian banks (two out of four banks) noted that attracting short-term deposits from households and enterprises was easier in the fourth quarter of 2020 and in the first quarter of 2021. Meanwhile, according two Latvian banks, the new regulatory and supervisory requirements facilitated an overall rise in assets and retained earnings in 2020 and will facilitate a further rise in 2021.

During the Covid-19 pandemic, lending policies of Latvian banks differed for loans to enterprises granted with public guarantees and those granted without such guarantees. In 2020, all surveyed Latvian banks more or less eased their credit standards for loans to enterprises granted with public guarantees during one or several consecutive quarters, and one bank intends to continue easing its credit standards also in

the first half of 2021. Meanwhile, in the first half of 2020 half of the banks (two out of four) tightened their credit standards for loans to enterprises granted without public guarantees, and in the second half of 2020 only one of them renewed the previous level of its credit standards.

During the pandemic, Latvian enterprises could receive loans granted with public guarantees at more favourable terms and conditions compared to loans granted without such guarantees. Despite the Covid-19 crisis, terms and conditions for loans granted with public guarantees remained broadly unchanged in 2020, and one of the surveyed banks noted that in the first half of 2020 it had even eased its terms and conditions for loans to enterprises granted with public guarantees. Meanwhile, terms and conditions for loans granted without public guarantees were tightened by two banks in the first half of 2020, with one of those banks easing them again in the second half of 2020.

Latvian banks became more favourable towards industrial as well as wholesale and retail trade enterprises. Two Latvian banks eased their credit standards and terms and conditions for such enterprises in the second half of 2020, and one bank intends to continue easing them in the first half of 2021. Enterprises in the commercial real estate sector have found themselves in a more unfavourable situation as terms and conditions for these enterprises remained broadly unchanged in the second half of 2020 (one bank tightened them, another bank eased them). One bank intended to tighten them somewhat in the first half of 2021.

Demand for loans granted with public guarantees developed in a wave-like pattern depending on the spread of the Covid-19 and the introduced restrictions as well as the support offered by AS Attīstības finanšu institūcija Altum and the ability of enterprises to claim it. According to three out of four surveyed Latvian banks, in the first half of 2020 demand for loans granted with public guarantees increased mainly due to liquidity needs (mentioned as a reason three times), minimum liquidity requirements (mentioned two times), long-term investment (mentioned two times), substitution of the existing loans (mentioned one time). At the same time, demand for loans to enterprises granted without public guarantees declined (in two banks).

In the assessment of Latvian banks, in the second half of 2020 demand for loans to enterprises granted with public guarantees decreased (in one bank in net terms), while demand for loans granted without public guarantees grew (in one bank in net terms). Looking by sector, Latvian banks observed a steeper rise in demand in the services, wholesale and retail trade sectors (two banks) and in the commercial real estate sector (one bank) in the second half of 2020.

As regards demand in the first half of 2021, the opinions of Latvian banks were divided: one bank, in net terms, noted that demand for loans to small and medium-sized enterprises granted with public guarantees may grow to improve liquidity, while another bank thought that demand may rise for loans to large enterprises granted without such guarantees.