

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

In June 2021, Latvijas Banka, in cooperation with the European Central Bank (ECB), conducted the euro area bank lending survey on the lending developments during the second quarter of 2021 and bank expectations for the third 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.

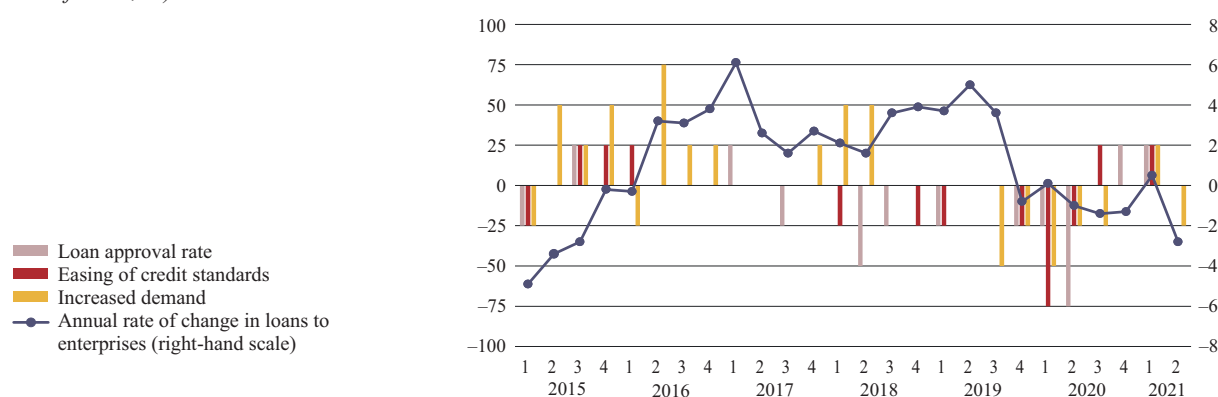
### Loans to enterprises

In the second quarter of 2021, the willingness of Latvian banks to grant loans to enterprises decreased, since lending could not affect the calculation of TLTRO III interest rate for the special grace period anymore. The sluggish easing of credit standards and the fall in demand for loans to enterprises contributed to the slower pace of growth in the particular year (see Chart 1).

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; %)



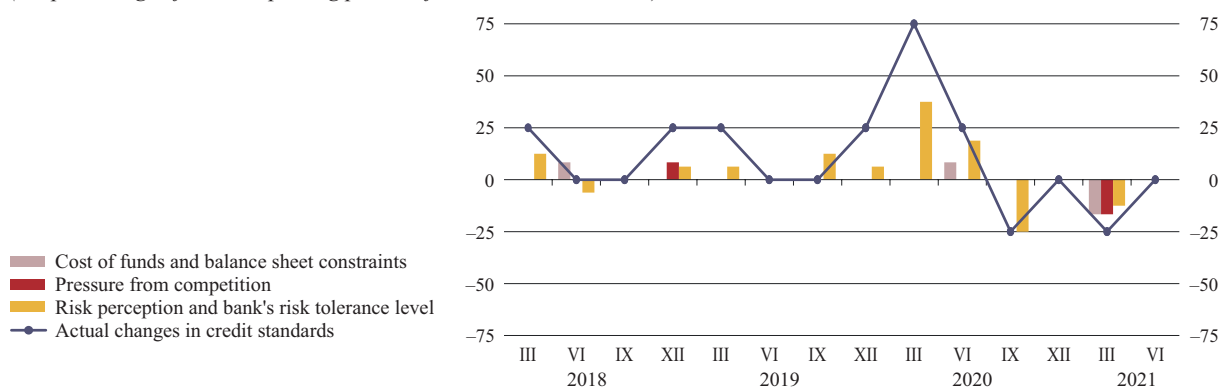
Sources: bank lending survey and the ECB's Statistical Data Warehouse.

The surveyed banks kept the credit standards for loans to enterprises unchanged in the second quarter of 2021 (see Chart 2) in contrast to the easing projected in the previous survey. However, one bank intends to ease credit standards for loans to small and medium-sized enterprises (SMEs) in the third quarter.

Chart 2

#### CONTRIBUTION OF VARIOUS FACTORS TO TIGHTENING CREDIT STANDARDS FOR LOANS TO ENTERPRISES

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



Source: bank lending survey.

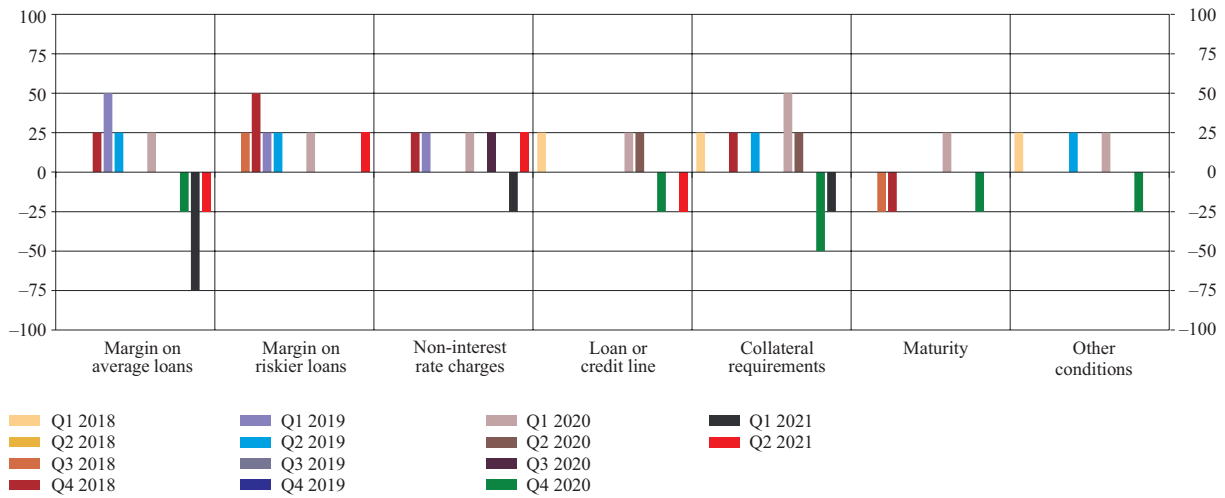
With the competition among banks tightening, one of the four surveyed Latvian banks somewhat eased the general terms and conditions for loans to enterprises in the second quarter. However, changes in certain terms and conditions introduced in the respective lending segment and period were frequent and varied among banks: in net terms, one of the surveyed Latvian banks reduced the margin on average

loans and enlarged the amount of available loans, while another bank raised the margin on riskier loans and increased non-interest rate charges (see Chart 3).

**Chart 3**

**CHANGES IN TERMS AND CONDITIONS FOR LOANS TO ENTERPRISES**

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



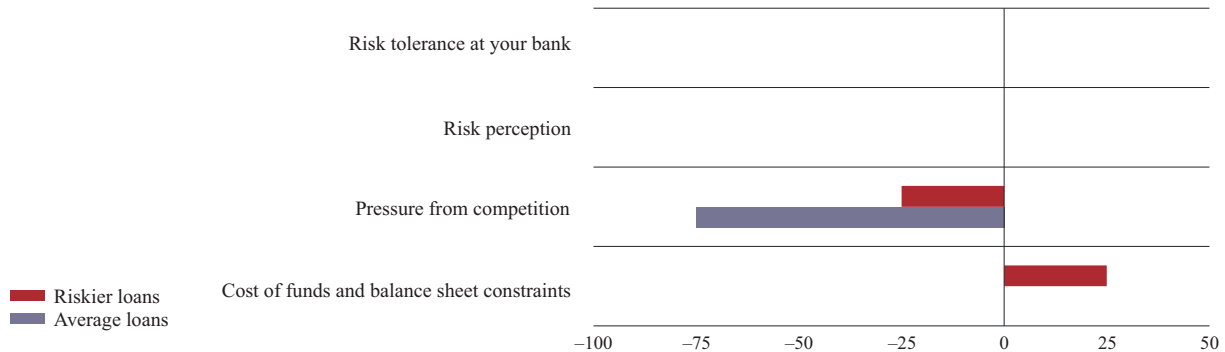
Source: bank lending survey.

An increase in competition among banks in the second quarter revealed a positive impact on interest rate spreads in three of the surveyed Latvian banks. The rise in interest rate spreads on riskier loans to enterprises was driven by banks' cost of funds and balance sheet constraints (see Chart 4).

**Chart 4**

**CONTRIBUTION OF VARIOUS FACTORS TO INTEREST RATE SPREADS ON AVERAGE AND RISKIER LOANS TO ENTERPRISES**

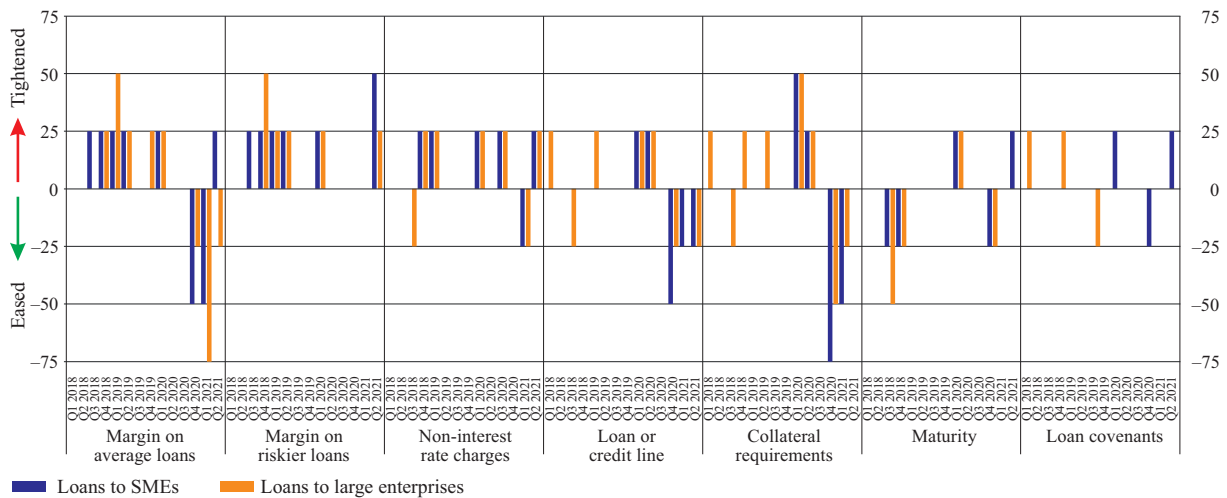
(net percentage of banks reporting the factor effect on tightening their terms and conditions; %)



Source: bank lending survey.

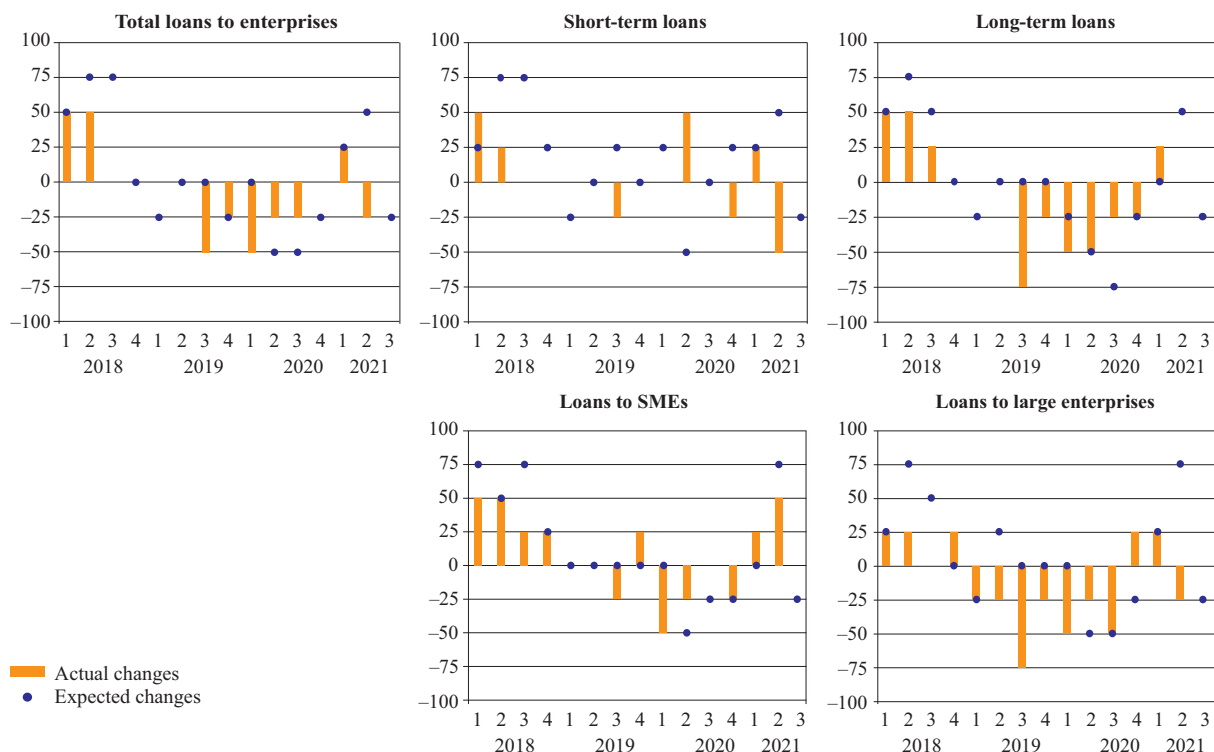
In the second quarter, Latvian banks gave more favourable treatment to large enterprises than to SMEs. One of the surveyed four Latvian banks (in net terms) reduced the margin on average loans to large enterprises during the reporting period, but another one (in net terms) increased the margin on loans to SMEs. Over the same period, one bank raised its margin on riskier loans to large enterprises, but two banks – to SMEs. In the second quarter, all surveyed Latvian banks reported unchanged maturity and other terms and conditions of contracts for loans to large enterprises, but one bank slightly tightened them for loans to SMEs. A similar direction of changes in non-interest charges and the available amount of loans was reported for SMEs and large enterprises.

Chart 5

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

Overall, demand for loans to enterprises somewhat edged down in one of the four surveyed Latvian banks in the second quarter of 2021 and is expected to decrease further in the third quarter. Demand broken down by enterprise size posted an opposite development: demand for loans to SMEs increased as expected in two surveyed Latvian banks, while a fall in demand for loans to large enterprises came as a negative surprise to one bank. Looking by maturity, demand for short-term loans to enterprises declined in two surveyed Latvian banks despite an increase projected in the previous quarter (see Chart 6).

Chart 6

**CHANGES IN DEMAND FOR LOANS TO ENTERPRISES***(net percentage of banks reporting increased demand for loans; %)*

The surveyed Latvian banks explained the rise in demand for loans to SMEs in the second quarter of 2021 by pointing out the need for additional funding for inventories and working capital (two banks) or for long-term investment (one bank). At the same time, when explaining the contraction of demand for short-term loans and loans to large enterprises, the following reasons were provided once: a reduced need for long-term investment, a high general level of interest rates, enterprises' interest in loans offered by other banks, the issuance of debt securities or equity issuance, as well as activity of AS Attīstības finanšu institūcija Altum. One surveyed Latvian bank, where demand for loans to enterprises remained unchanged, pointed to a lower need for funds required for transactions involving mergers, purchase of

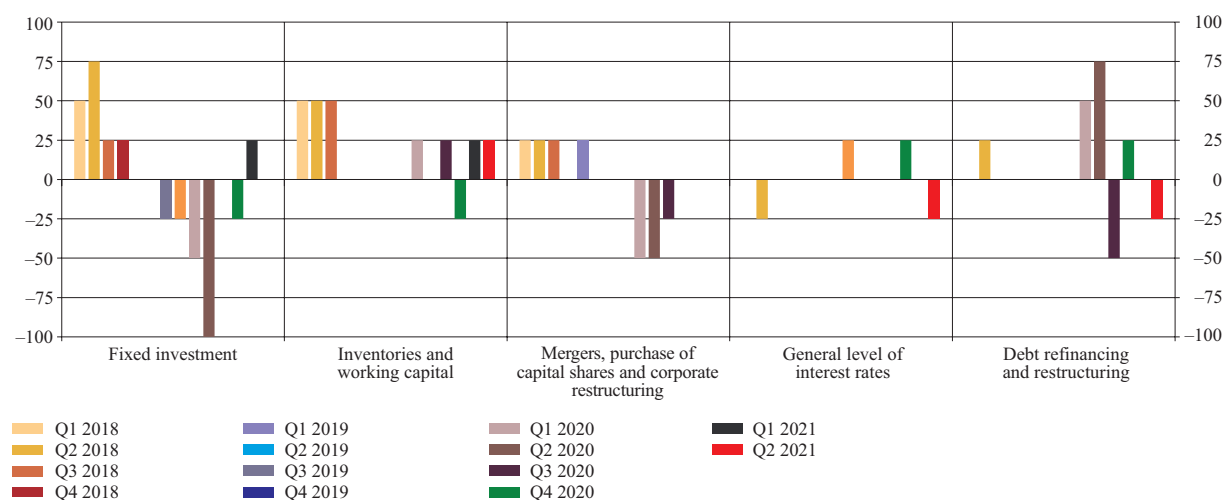
capital shares or shares and corporate restructuring, as well as less need for debt refinancing and the negative effects arising from loan restructuring (Chart 7).

**Chart 7**

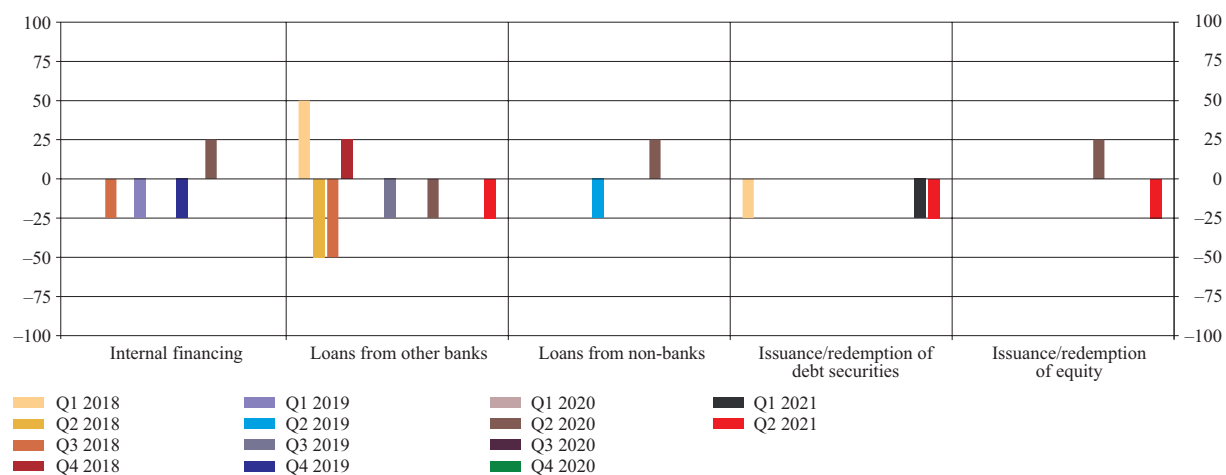
**VARIOUS FACTORS CONTRIBUTING TO CHANGES IN DEMAND FOR LOANS TO ENTERPRISES**

(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**

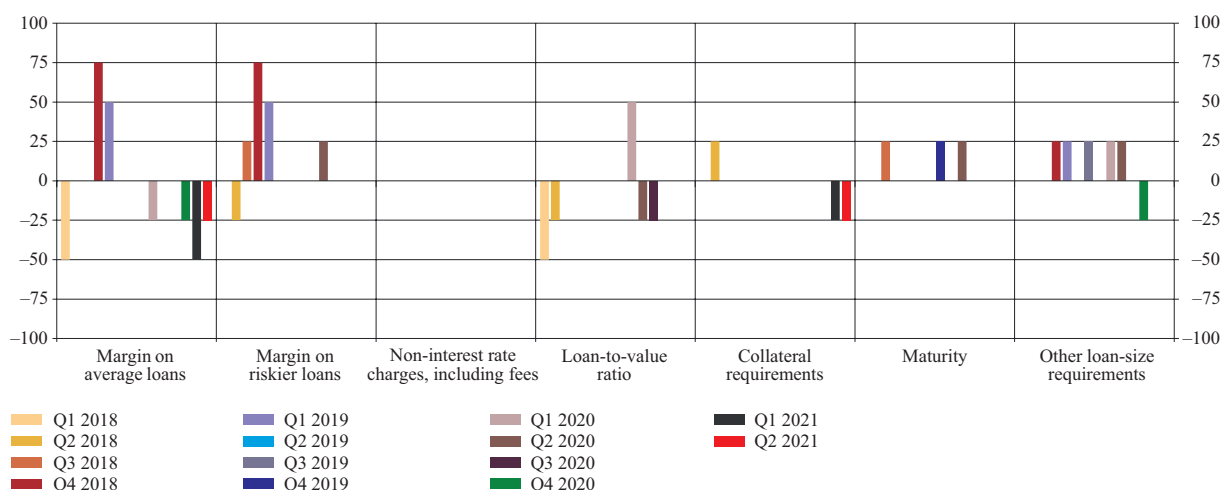


**Loans to households for house purchase**

With household demand taking an upward trend and financing conditions improving, household lending in the house purchase segment developed robustly. However, the next quarter might see lending in this segment remaining unchanged due to the strong demand.

As expected, all surveyed Latvian banks left their credit standards for loans to households for house purchase unchanged in the second quarter. However, one bank intends to ease them in the next quarter. The share of rejected applications for loans to households for house purchase remained unchanged in all surveyed Latvian banks in the second quarter.

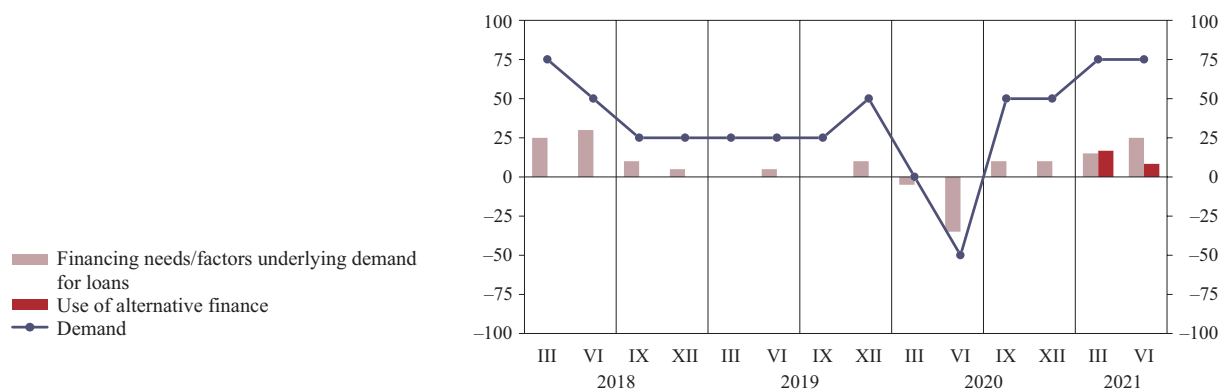
Although none of the surveyed Latvian banks changed the general level of terms and conditions for loans to households for house purchase, several banks eased a particular term or condition, i.e. owing to fierce interbank competition, one bank reduced its margin on average loans but another one eased the collateral requirements (see Chart 8).

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

Latvian banks sent a strong signal about an uptrend in demand for loans to households for house purchase in the second quarter of 2021: three of the four surveyed banks pointed out that demand for the above loans mounted in the second quarter (see Chart 9). The three banks justify the rise in demand by an increase in household confidence: two banks – by prospects of the real estate market, including the expected price developments, but one – by an increase in household internal source of funds (higher savings for the first instalment). Two Latvian banks expect demand for loans to households for house purchase remain unchanged in the next quarter, but two surveyed banks took a mutually opposite view on the possible development of demand in the third quarter.

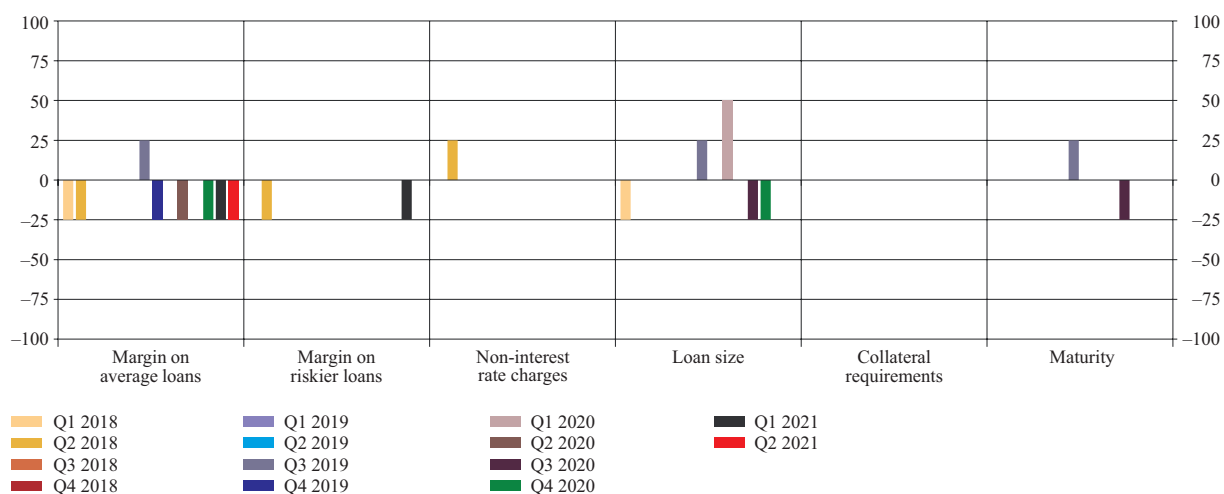
**Chart 9****VARIOUS FACTORS CONTRIBUTING TO DEMAND FOR LOANS TO HOUSEHOLDS FOR HOUSE PURCHASE**

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

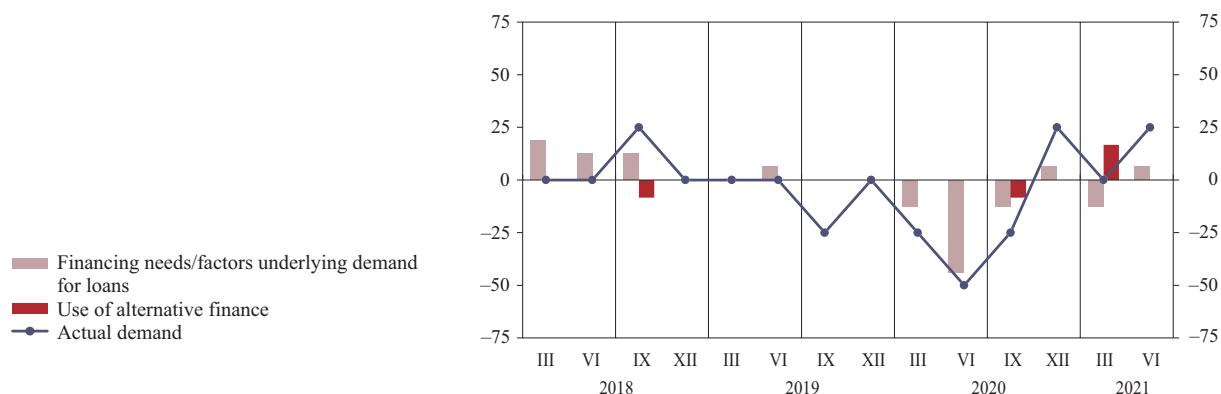
**Consumer credit and other lending to households**

Development of consumer credit and other lending to households was weaker than that of housing loans, with demand growing in fewer surveyed Latvian banks.

As in the first quarter, the surveyed Latvian banks left credit standards for consumer credit and other lending to households unchanged. Thus, the expectations of further easing of standards expressed in the previous survey were not met. The surveyed banks also do not intend to change standards in the above lending segment in the following quarter. However, one on the four surveyed Latvian banks reported slightly more favourable attitude towards consumer credit: it reduced margins on consumer credit and other lending to households during the reporting period (see Chart 10) owing to lower financial costs and improved balance sheet constraints.

**Chart 10****CHANGES IN CREDIT TERMS AND CONDITIONS FOR CONSUMER LOANS AND OTHER LENDING TO HOUSEHOLDS***(net percentage of banks reporting tightening their terms and conditions; %)*

In the second quarter of 2021, demand for consumer credit and other loans to households grew slightly in one of the four surveyed Latvian banks. This was on account of a lower general level of interest rates (see Chart 11). The share of rejected applications in this lending segment also remained unchanged in the second quarter of 2021. The surveyed Latvian banks expect demand for consumer credit and other lending to households to remain at the existing level in the next quarter.

**Chart 11****VARIOUS FACTORS CONTRIBUTING TO DEMAND FOR CONSUMER CREDIT AND OTHER LENDING TO HOUSEHOLDS***(arithmetic mean of each group of factors, each factor is measured as a net percentage of credit institutions reporting positive factor contributions; %)***Ad hoc questions**

The euro area bank lending survey of July 2021 included several ad hoc questions regarding the availability of financing, 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 Covid-19 related guarantees provided by the government.

In the second quarter of 2021, the availability of financial resources improved in most of the surveyed Latvian banks. Two Latvian banks pointed out that during the period considered access to household and corporate short-term deposits and interbank very short-term and short-term financial resources improved; one bank, in net terms, also pointed to an increased access to the above financial resources in the long-term household and corporate deposit market and in the medium-term and long-term debt securities market. One surveyed Latvian bank expects that the next quarter will also see access to finance improving further in all these financial resources markets where it already increased in the second quarter, except household and corporate long-term deposits.

The ratio of non-performing loans did not affect the lending policy of the surveyed Latvian banks over the past six months and is unlikely to affect it in the next six months.

In the first half of 2021, the surveyed Latvian banks observed the rise in demand for loans to enterprises as a whole in the first quarter and in the segment of SMEs also in the second quarter. Over the past six months, demand for loans to enterprises in the real estate sector – both in the housing space and commercial space segments – picked up (in two cases). Less frequently (in one case) the surveyed enterprises mentioned that demand in the construction sector edged up, but it fell in the services sector (except financial services and real estate activities) over the above period. However, the surveyed Latvian banks expect that more sectors will experience positive changes in the second half of 2021. Three surveyed Latvian banks point out that they expect demand in the real estate sector to rise: three banks – in the housing space sector and two – in the commercial space segment. One bank expects an increase in demand in the construction sector, one – in the industrial sector, one – in the wholesale and retail trade sector, but one expects a fall in demand in the services sector. In the coming six months, one surveyed Latvian bank intends to ease terms and conditions for loans to manufacturing companies and one – credit standards for loans to enterprises active in the commercial space segment of the real estate sector.

Demand for such loans to enterprises, which have government guarantees associated with the suppression of consequences of the spread of Covid-19 infection, declined somewhat in the first half of 2021 and will continue a downward path in one surveyed Latvian bank in the second half of the year. From a bank perspective, the year 2021 will see demand for loans necessary for a liquidity safety cushion decrease the most, demand for loans for liquidity needs and refinancing of the existing loans – moderately and demand for loans for long-term investment – the least. By contrast, demand for loans to enterprises granted without government guarantees might edge up in the second half of 2021 (in one surveyed bank). As regards credit standards and terms and conditions, one surveyed Latvian bank acknowledged that it tightened them in the first half of 2021 and another one – that it intends to tighten them in the second half of the year for loans to enterprises granted without government guarantees.