

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

In September 2021, 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 2021 and bank expectations for the fourth quarter of 2021. 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.

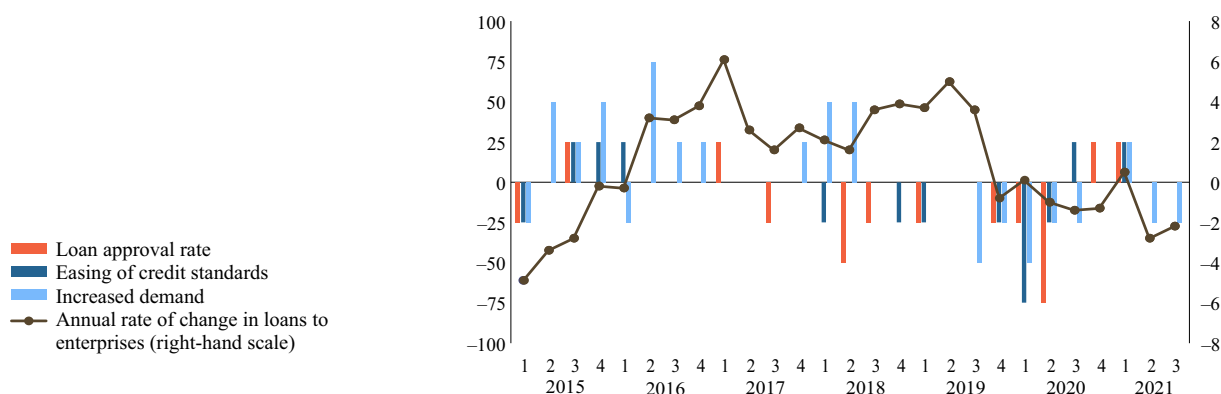
### Loans to enterprises

Lending to enterprises remained weak in the third quarter, mainly on account of contracting demand (see Chart 1). The stringency of credit standards for loans to enterprises in Latvia remained unchanged in the third quarter. However, due to the reduced risk related to loan collateral, one bank eased credit standards for loans to small and medium-sized enterprises in the third quarter, and another bank planned to do so in the next quarter. The share of rejected applications in this lending segment remained unchanged in the reporting period.

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.

As a result of mutual competition, most of the surveyed Latvian banks (three) eased one of the terms and conditions in the third quarter (see Chart 2). However, one bank experienced significant effects of the above competition on changes in general terms and conditions. It was the intense interbank competition during the period considered that determined lowering of margins on average loans most often (in three cases) and less frequently (in one case) – a reduction of margins on riskier transactions. One surveyed Latvian bank lowered non-interest rate charges on loans to enterprises in the third quarter. At the same time, contrary to the observed trend in easing terms and conditions, another Latvian bank reduced the volume of loans or credit lines available to enterprises. During the period considered, changes in terms and conditions for loans to small and medium-sized enterprises were the same as those for loans to large enterprises.

Overall, demand for loans to enterprises decreased slightly in one of the four surveyed Latvian banks in the third quarter of 2021, since demand for short-term loans to large enterprises decreased (see Chart 3). Demand for loans to small and medium-sized enterprises developed differently across Latvian banks. It increased somewhat in one bank, as the need for long-term investment for transactions involving mergers, purchase of capital shares or shares and corporate restructuring followed an upward path, but it decreased in another bank. However, one surveyed Latvian bank expected that the fourth quarter would see an overall rise in demand for loans. Moreover, an increase in demand for loans to small and medium-sized enterprises was expected more often (in two cases) than for loans to large enterprises (in one case).

Chart 2

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

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

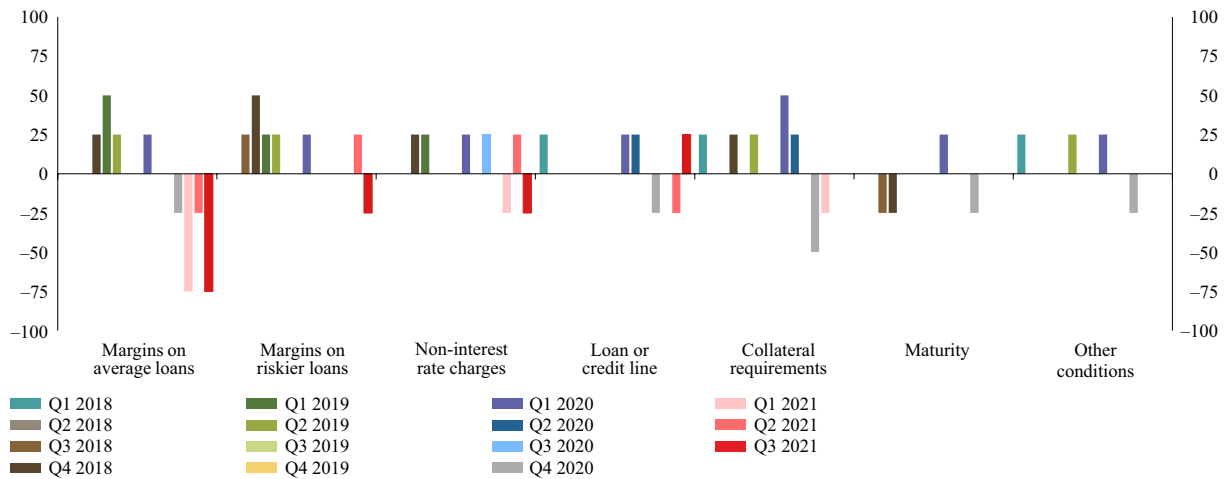
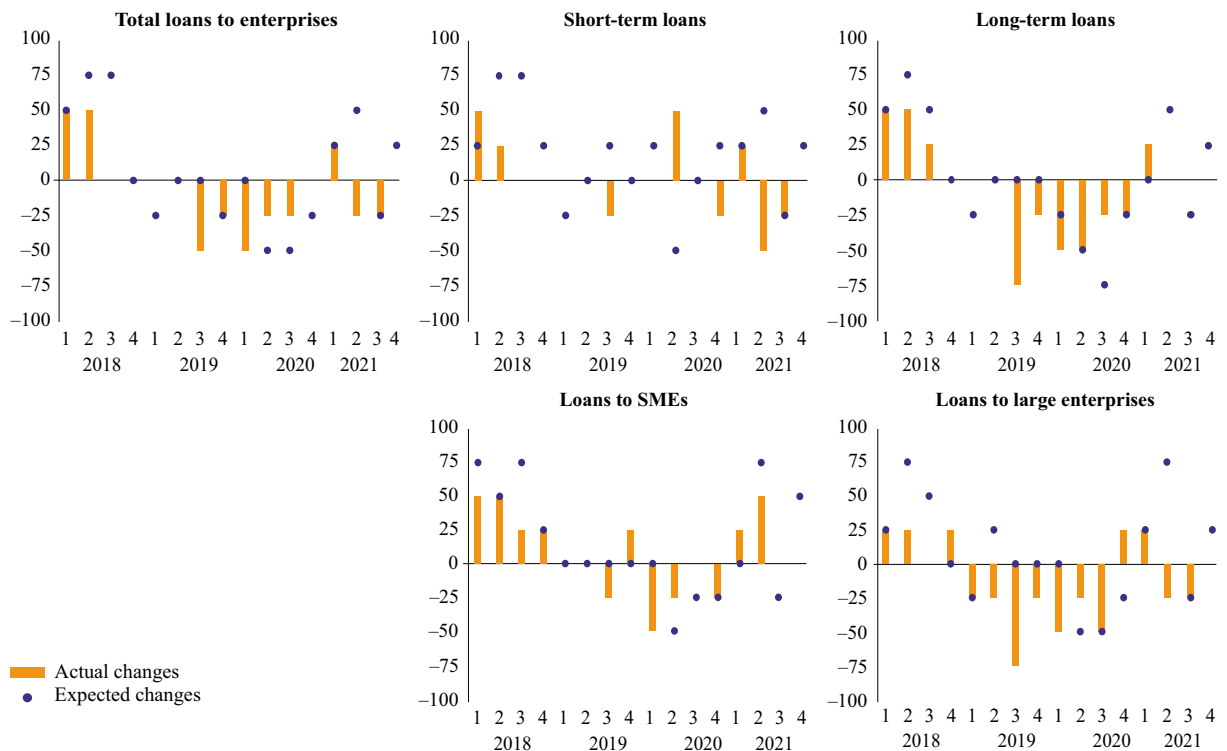


Chart 3

**CHANGES IN DEMAND FOR LOANS TO ENTERPRISES**

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

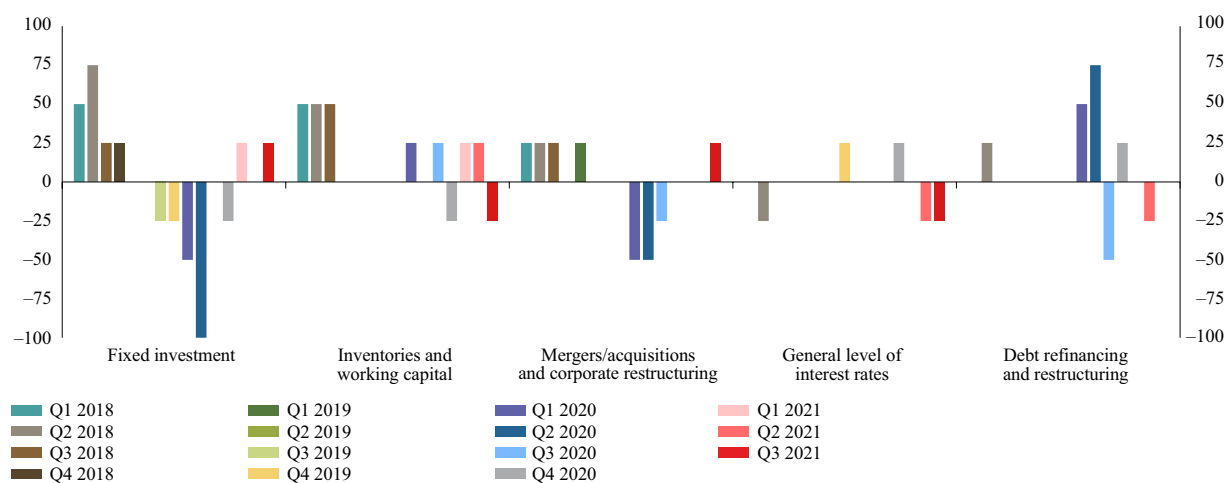


The decline in demand was explained by almost all surveyed Latvian banks (three out of four) by the availability of other alternative sources of financing, and overall one bank, in net terms, explained it by the need for corporate funding (see Chart 4). When describing the role of alternative sources of financing, three quarters of the surveyed Latvian banks mentioned that the issuance of debt securities was a factor limiting demand from enterprises, half of the above banks indicated that it was equity issuance and loans by other banks that limited firm's demand, and one quarter of the banks reported that the limiting factors were the availability of internal sources of financing and the support provided by AS Atīstības finanšu institūcija Altum to certain groups of enterprises. Meanwhile, when describing the impact of the need for financing, one bank mentioned a reduced need for inventories and working capital as well as a high general level of interest rates as factors limiting demand.

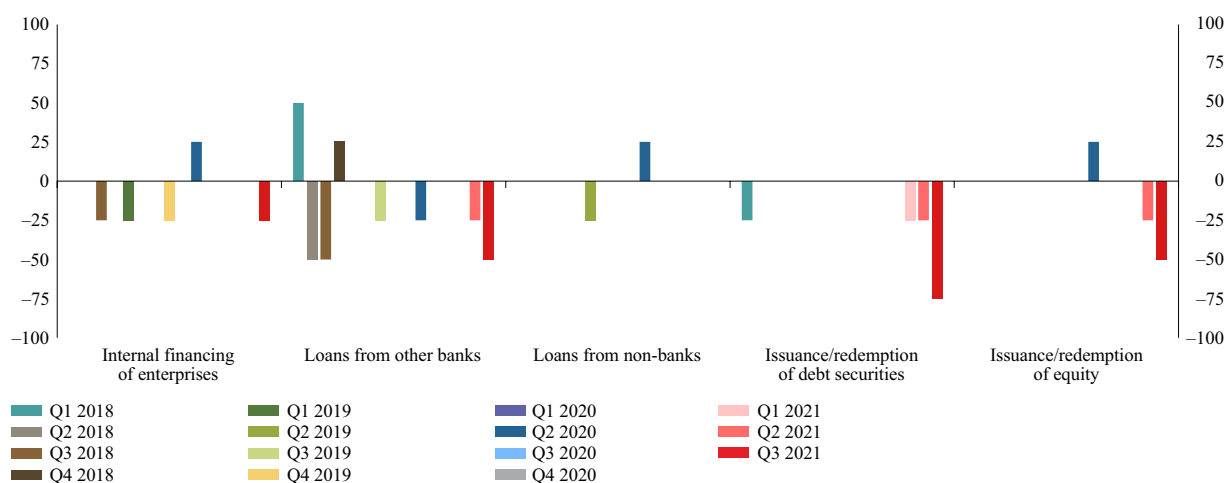
Chart 4

### 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 the 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 further, with several banks easing credit standards, lending conditions improving and demand expanding. Good development prospects are also expected to persist in this lending segment in the following quarter.

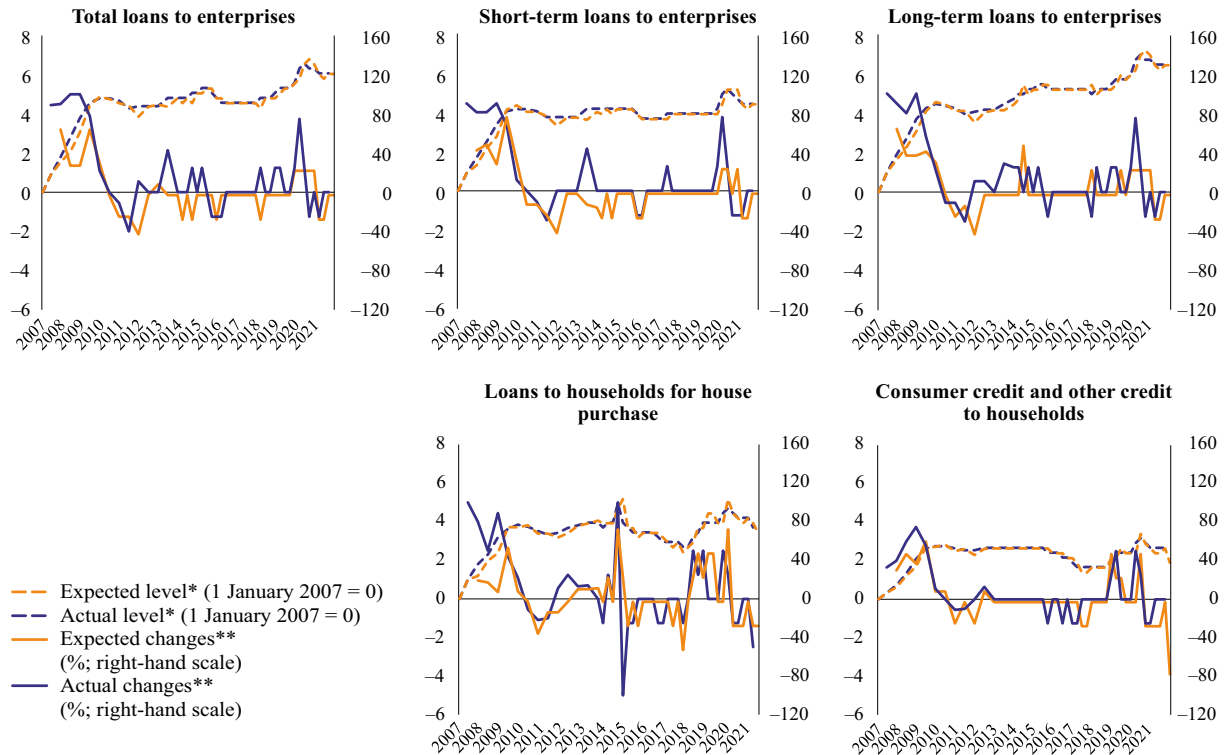
Over and above expectations, two of the surveyed Latvian banks somewhat eased credit standards for loans to households for house purchase (see Chart 5). Housing market development prospects, improved borrowers' creditworthiness and interbank competition were mentioned by the surveyed Latvian banks once as factors contributing to easing credit standards. One bank intends to ease credit standards for loans to households for house purchase 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 third quarter of 2021.

One surveyed Latvian bank somewhat eased its general terms and conditions for loans to households for house purchase in the third quarter. However, considerably more banks (three) eased a particular term or condition owing to mutual competition: they reduced margins on average loans, eased the collateral requirements and increased the ratio of the maximum amount of a loan vis-à-vis the collateral (see Chart 6).

Chart 5

### QUARTERLY AND CUMULATIVE CHANGES IN CREDIT STANDARDS

(net percentage of banks reporting tightening of credit standards; %; and cumulative changes in net number; index)



\* Net cumulative changes of banks reporting tightening credit standards.

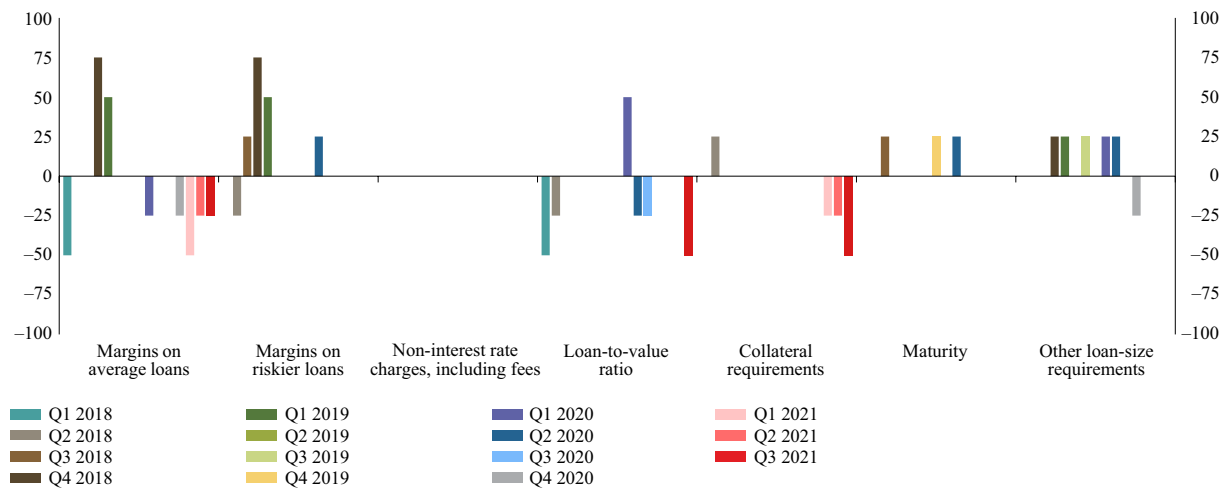
\*\* Net percentage of banks reporting tightening credit standards.

Sources: bank lending survey and Latvijas Banka's calculations.

Chart 6

### CHANGES IN TERMS AND CONDITIONS FOR LOANS FOR HOUSE PURCHASE

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

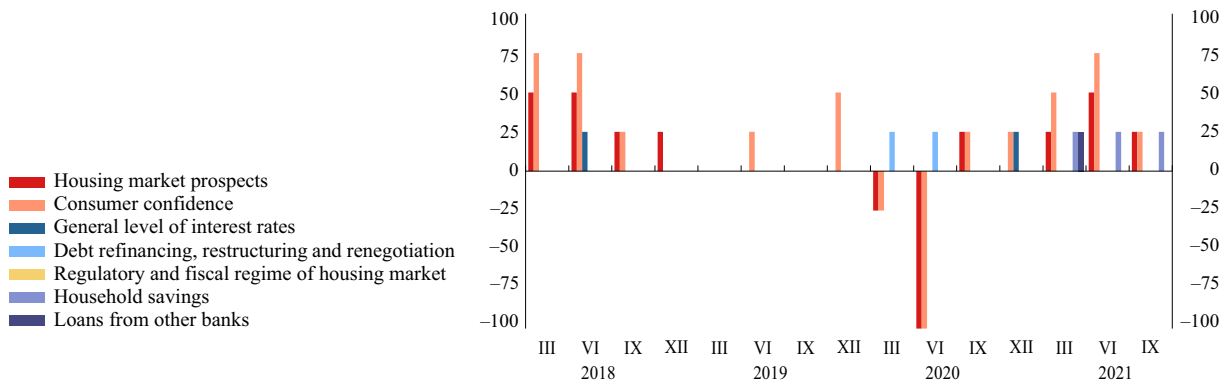


Demand for loans to households for house purchase increased slightly in one of the surveyed Latvian banks in the third quarter of 2021. This stems from better housing market prospects, stronger consumer confidence and an increased availability of household savings (see Chart 7). One Latvian bank expects that demand for loans to households for house purchase will somewhat edge up during the following quarter.

Chart 7

### CONTRIBUTION OF VARIOUS FACTORS TO DEMAND FOR LOANS TO HOUSEHOLDS FOR HOUSE PURCHASE

(net percentage of banks reporting positive factor; %)



### Consumer credit and other lending to households

More favourable terms and conditions contributed to consumer credit and other lending to households. However, credit standards and demand remained unchanged in this lending segment during the reporting period.

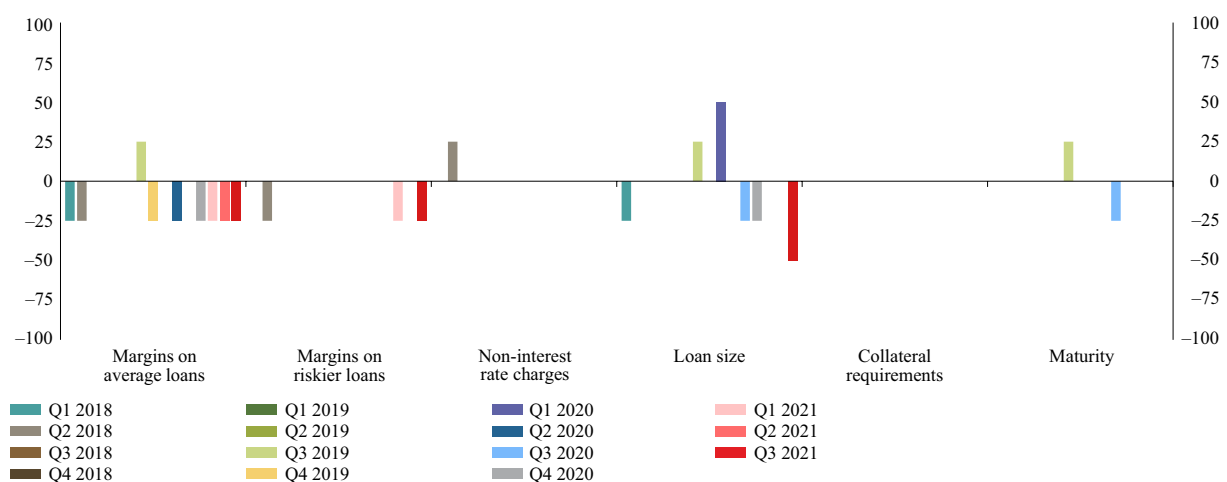
As projected by the bank lending survey of the previous quarter, Latvian banks did not change credit standards for consumer credit and other lending to households in the third quarter of 2021. However, three of the four surveyed Latvian banks intend to somewhat ease credit standards in this lending segment in the following quarter. The share of rejected applications for consumer credit and other lending to households also remained unchanged in the third quarter.

Half of the surveyed Latvian banks (two banks) slightly eased terms and conditions for consumer credit and other lending to households in the third quarter of 2021. The two banks increased the maximum amount of loans for consumer credit and other lending to households; moreover, one of them also reduced margins on both average and riskier loans (see Chart 8). Interbank competition contributed to the easing of terms and conditions in both banks; in addition, this process was facilitated by improvements in risk perceptions in one bank and risk tolerance in another one.

Chart 8

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

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



According to expectations, demand for consumer credit and other lending to households remained unchanged in the third quarter of 2021. One surveyed Latvian bank projects a slight rise in demand for consumer credit and other lending to households in the following quarter.

**Ad hoc questions**

The euro area bank lending survey of September 2021 included several ad hoc questions, inter alia, regarding the impact of various ECB non-standard monetary policy instruments on banks' financial situation and lending.

The negative refinancing rate set by the ECB affects operation of almost all Latvian banks. Three of the four surveyed Latvian banks acknowledged that the negative refinancing rate reduced their profitability in the second and third quarters of 2021 and will reduce it in the fourth quarter of 2021 and the first quarter of 2022 due to a decline in net interest income. During this period, the negative deposit facility rate contributes to cutting firms' deposit rates in two banks and in one of them – also to the contraction of firms' deposits. One bank takes the view that the negative refinancing rate has also a similar effect on household deposits: it contributes to a reduction in interest rates and commissions as well as diminishes the amount of deposits with banks. The two-tier excess reserve system reduced a fall in net interest income and profitability in two banks over the past six months and will do so in one bank over the next six months. The above system hindered a faster decline in interest rates on deposits received from both households and enterprises in one of the banks in the second and third quarters of 2021.