

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

Latvijas Banka conducted a euro area bank lending survey in cooperation with the European Central Bank (ECB) in October 2019, covering the lending developments during the third quarter of 2019 and bank expectations for the fourth 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.

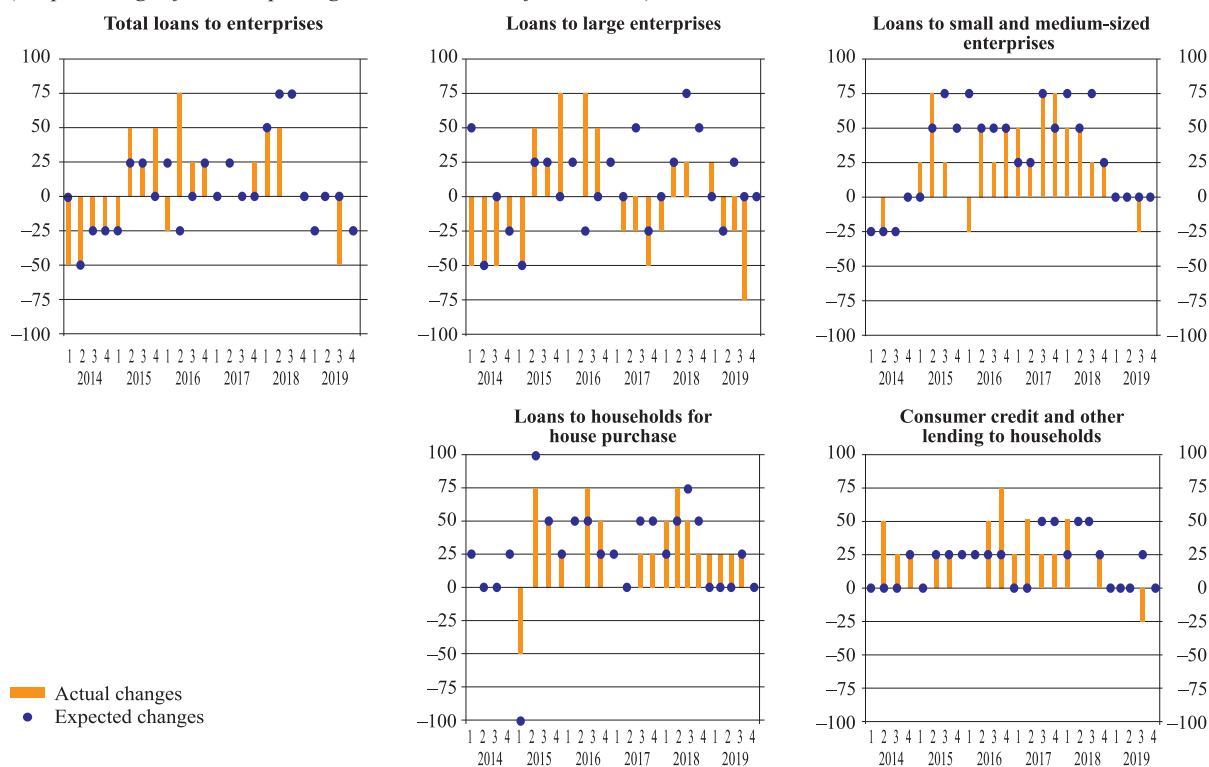
### Loans to enterprises

Demand for loans to enterprises contracted in the third quarter of 2019: two of the four surveyed Latvian banks reported a slight decline. The decrease was stronger in demand for loans to large enterprises as compared to that in loans to small and medium-sized enterprises. Looking by maturity, demand for long-term loans contracted more than that for short-term loans. A decline in demand for long-term loans to large enterprises was reported by three banks, whereas in the case of short-term loans to small and medium-sized enterprises it was mentioned only by one bank (see Chart 1).

Chart 1

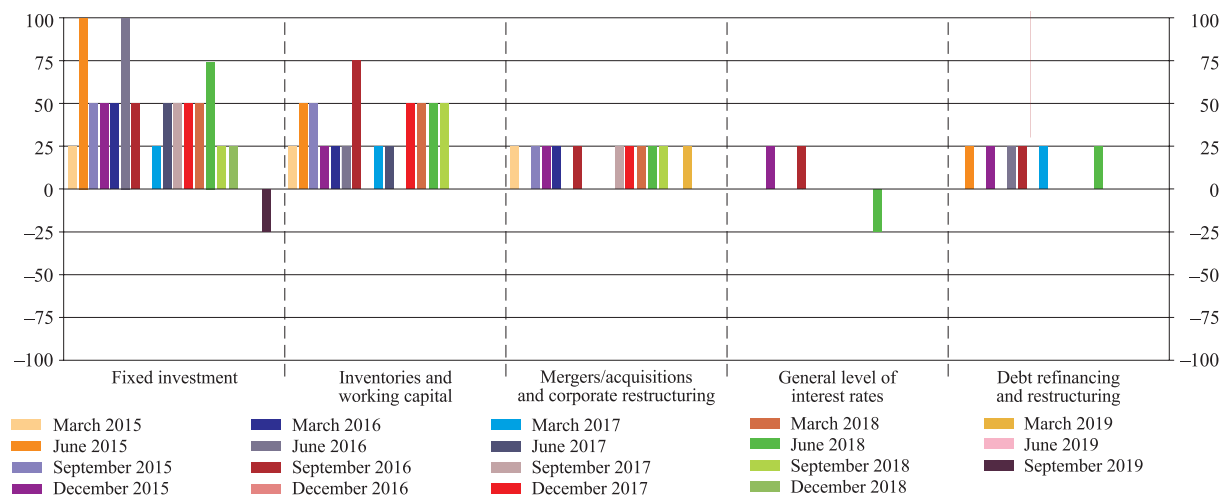
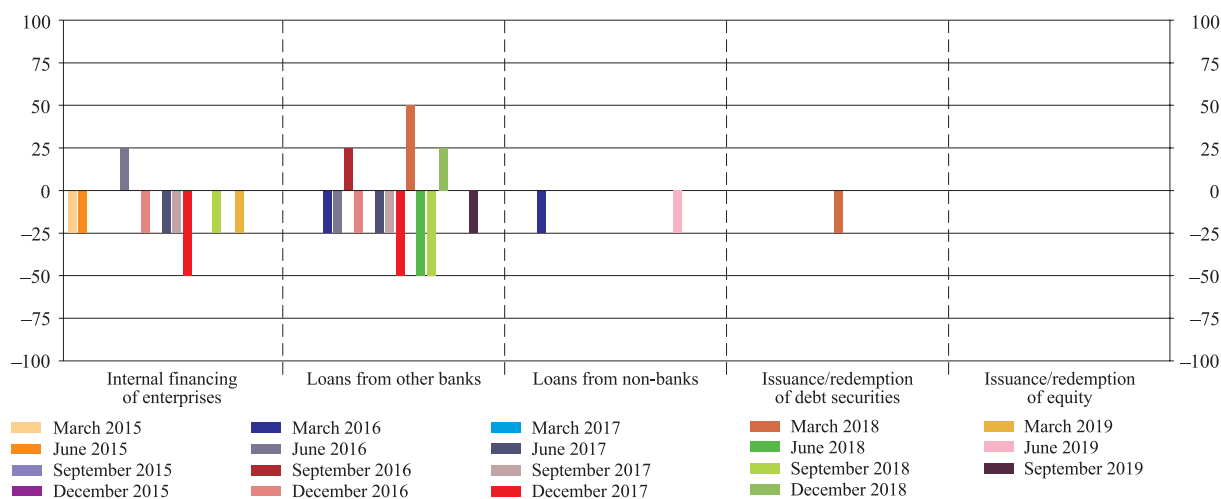
#### CHANGES IN LOAN DEMAND

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



Weakening economic outlook, lower need for long-term loans and loans from other banks were the factors underlying the decrease in the overall loan demand. Each factor was pointed out by one of the surveyed banks (see Chart 2). The contraction in loan demand observed in the third quarter of 2019 is most likely a temporary phenomenon: only one out of the four surveyed banks expects that demand for loans to enterprises will somewhat decrease in the fourth quarter.

Chart 2

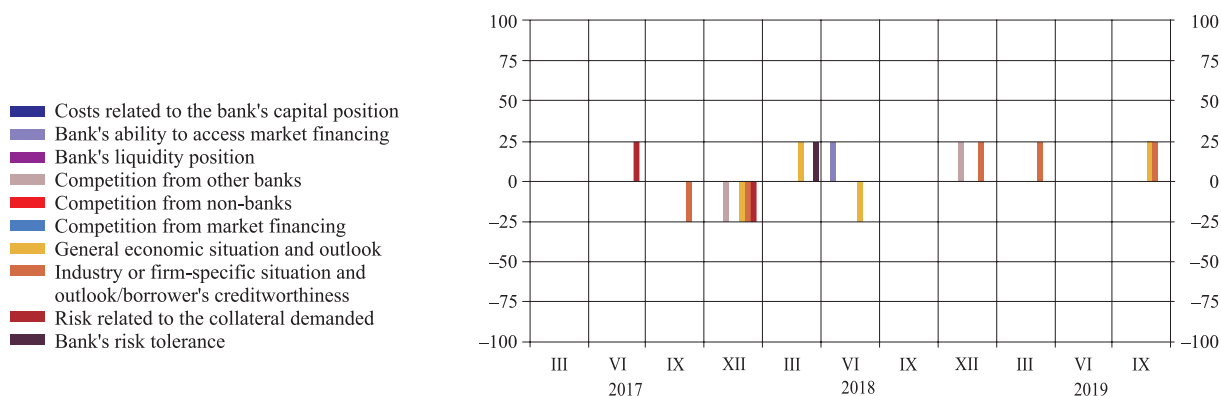
**IMPACT OF VARIOUS FACTORS ON DEMAND FOR LOANS TO ENTERPRISES***(net percentage of banks reporting positive factor contributions; %)***a) Financing needs, contributing factors or objectives underlying the demand for loans****b) Use of alternative sources of finance**

Neither credit standards nor terms and conditions for loans to enterprises were changed by Latvian banks in the third quarter. The rejection rate for loan applications in this lending segment also remained at the previous level. At the same time, one bank pointed out that weaker general economic situation and outlook, deteriorated industry or firm-specific situation and lower borrowers' creditworthiness could force it somewhat tighten the credit standards for long-term loans to both large as well as small and medium-sized enterprises (see Chart 3).

Chart 3

### FACTORS CONTRIBUTING TO THE NET TIGHTENING OF CREDIT STANDARDS FOR LOANS TO ENTERPRISES

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



### Loans to households for house purchase

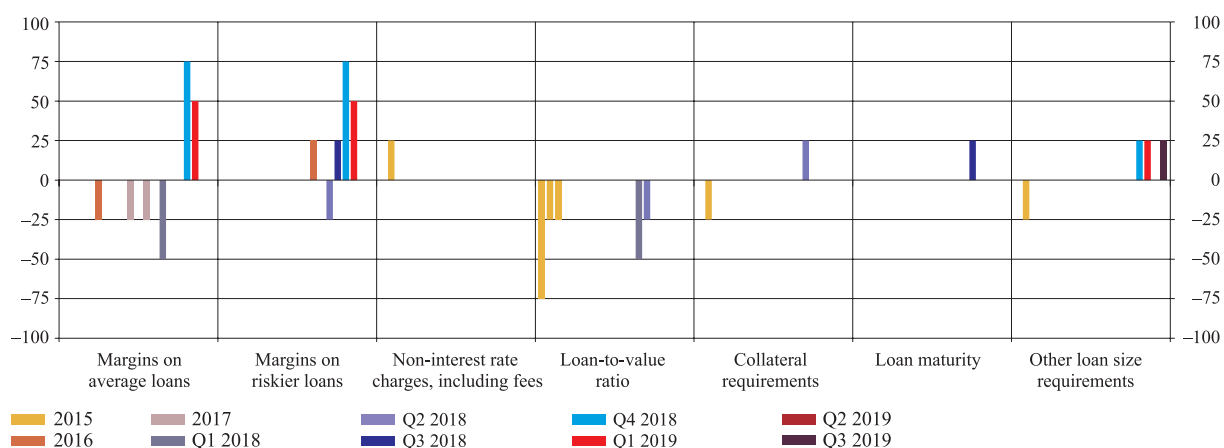
Demand for loans to households for house purchase grew in the third quarter of 2019. One of the four surveyed banks reported an increased demand for loans to households for house purchase in the third quarter of 2019, with the share of such loans increasing. All respondents expect unchanged loan demand in the fourth quarter of 2019.

Credit standards and the rejection rate for loan applications in the category of loans to households for house purchase remained unchanged in the reporting period. Latvian banks had no intention to change credit standards for loans to households for house purchase in the fourth quarter either. One bank reported a slight tightening of the loan size limits in the third quarter (see Chart 4).

Chart 4

### CHANGES IN CREDIT TERMS AND CONDITIONS FOR LOANS TO HOUSEHOLDS FOR HOUSE PURCHASE

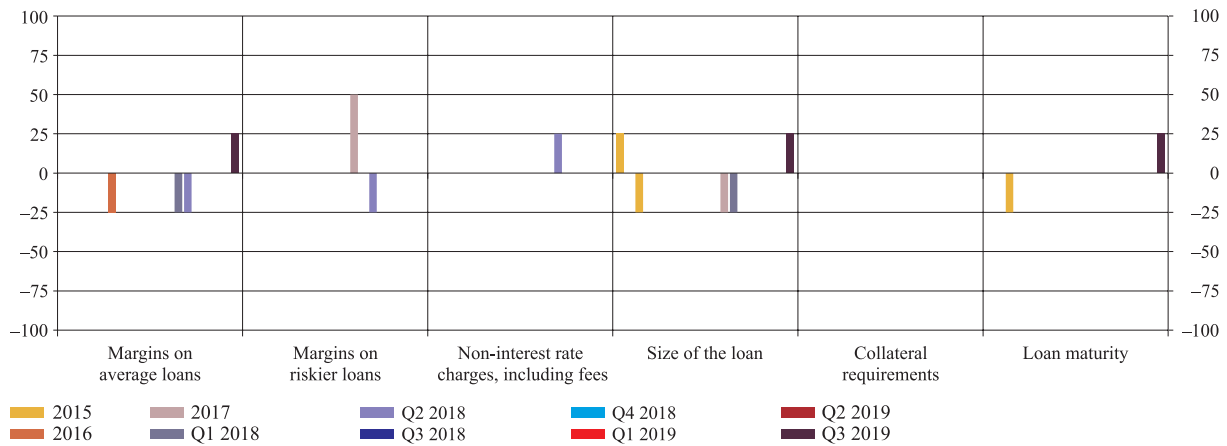
(net percentage of banks reporting tightening credit terms and conditions; %)



### Consumer credit and other lending to households

In the third quarter of 2019, demand for consumer credit and other lending to households decreased in one of the four surveyed Latvian banks due to tightened legislative requirements. As concerns the fourth quarter, none of the four surveyed banks expects any changes in the demand in the particular lending segment.

Credit standards for consumer credit and other lending to households remained unchanged in the third quarter. One of the four surveyed Latvian banks somewhat raised the margin on average consumer credit and other lending to households, stating that the reason for this decision was the impact of the introduced amendments to legislation. The same bank also slightly cut the loan size limits and maturity within the respective lending segment (see Chart 5). The rejection rate of loan applications also increased in that bank.

**Chart 5****CHANGES IN CREDIT TERMS AND CONDITIONS FOR CONSUMER LOANS AND OTHER LENDING TO HOUSEHOLDS***(net percentage of banks reporting tightening credit terms and conditions; %)***Ad hoc questions**

Euro area bank lending survey of October 2019 included several ad hoc questions regarding the banks' access to retail and wholesale funding, the impact of the negative deposit facility rate and other aspects of lending.

With regard to the access to retail and wholesale funding, one of the surveyed Latvian banks expects that its access to medium-term and longer-term debt securities market will somewhat improve in the fourth quarter. As to the negative deposit facility rate, one of the respondents pointed out that its net interest income slightly decreased under the impact of the negative deposit facility rate in the second and third quarters of 2019, whereas two banks expect that this will happen in the fourth quarter of 2019 and first quarter of 2020. One bank expects that the negative deposit facility rate set by the ECB will have a downward effect on the interest rates on loans to households for house purchase over the next six months.