

## Euro area bank lending survey of January 2020: main results for Latvia

Latvijas Banka conducted a euro area bank lending survey in cooperation with the European Central Bank in January 2020, covering the lending developments during the fourth quarter of 2019 and expectations for the first quarter of 2020. 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.

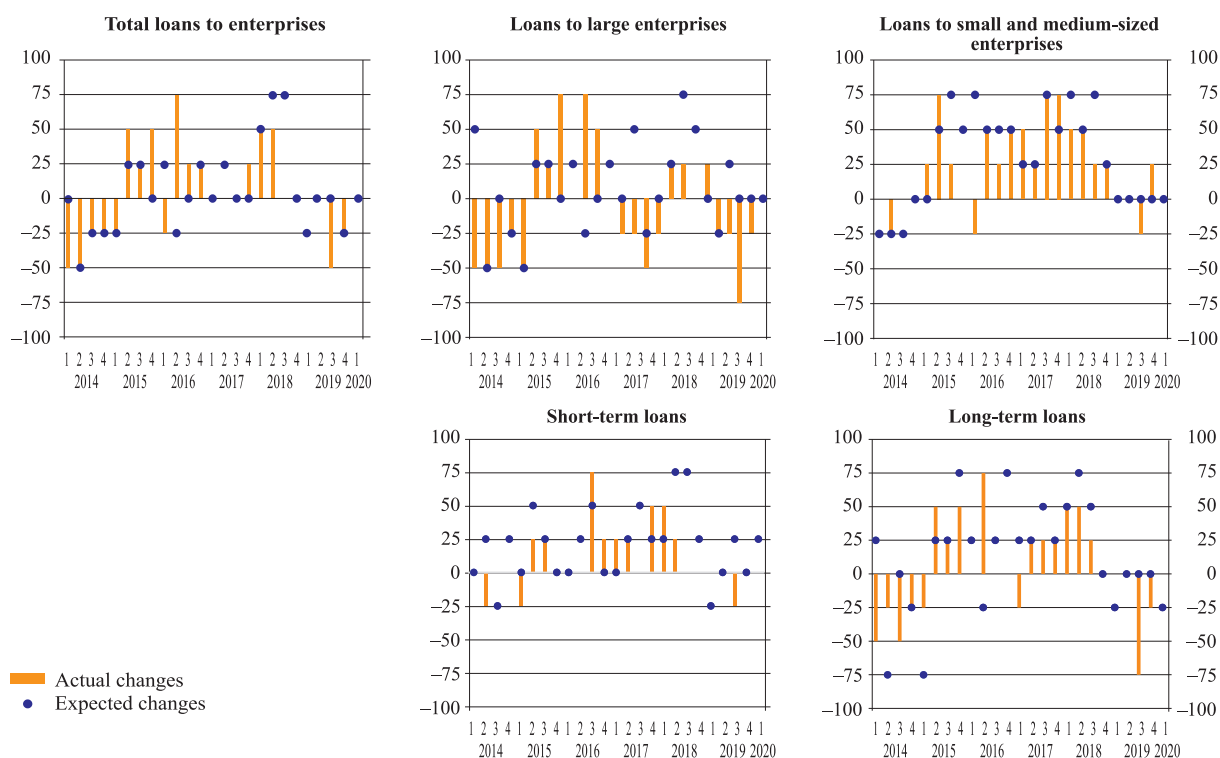
### Loans to enterprises

Demand for loans to enterprises continued to contract in the fourth quarter of 2019, albeit at a slower rate than before. Only one of the four surveyed Latvian banks reported a decline in overall loan demand in the fourth quarter of 2019 (see Chart 1). Lower overall demand for loans to enterprises largely resulted from a decrease in demand for long-term loans to large enterprises. A small contraction pointed out by two of the surveyed Latvian banks combined with an increase reported by one of the banks resulted in a net decrease of demand. At the same time, a higher demand for loans to small and medium-sized enterprises was mentioned by one bank.

Chart 1

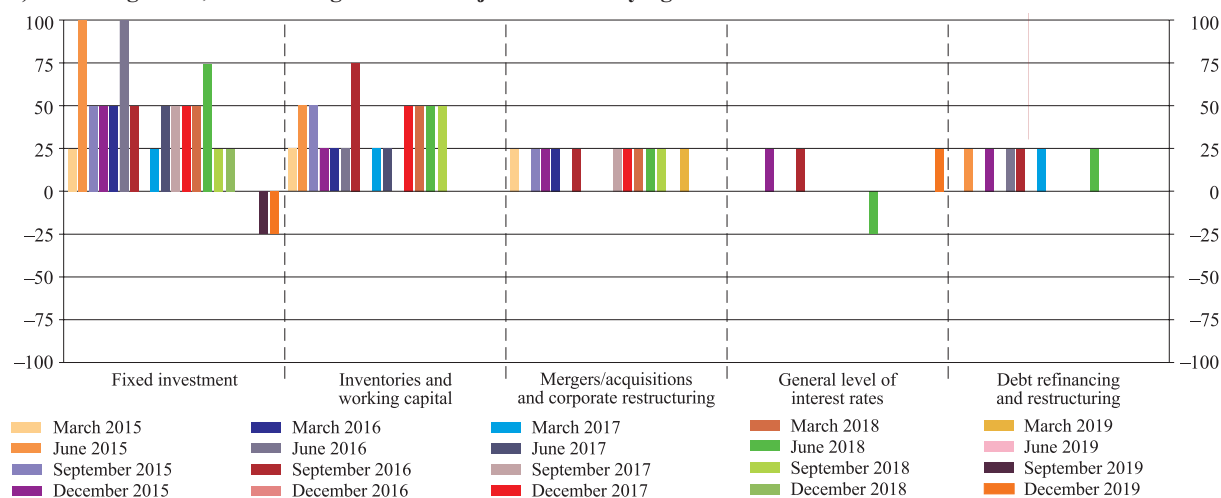
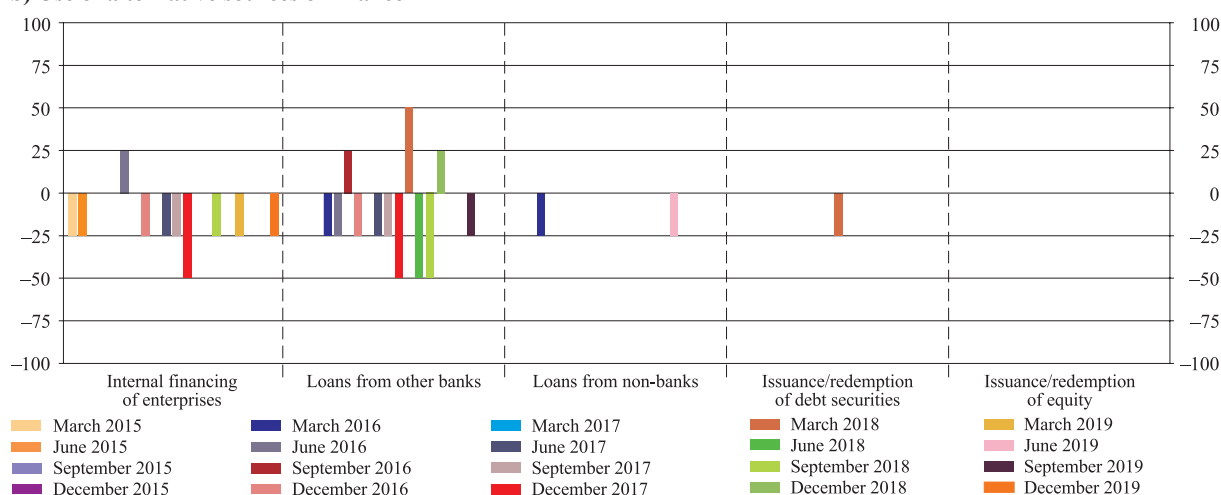
#### CHANGES IN LOAN DEMAND

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



Lower need for long-term investment and better access to internal sources of financing for enterprises were the factors supporting a decrease in demand for loans to large enterprises. Low general level of interest rates was mentioned as the underlying factor for a higher demand for loans to large enterprises in one bank. At the same time, marketing measures implemented by one of the surveyed Latvian banks supported an increase in demand for loans to small and medium-sized enterprises (see Chart 2).

The surveyed Latvian banks expect that the overall demand for loans to enterprises will remain broadly unchanged in the next quarter. Demand for short-term loans to large enterprises is likely to grow in the next quarter and that for long-term loans to large enterprises can be expected to decline, as one of the Latvian banks reported that it expects an increase for short-term loans to large enterprises in the first quarter 2020, whereas another bank anticipates a decline in demand for long-term-loans to large enterprises (see Chart 1).

**Chart 2****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**

In addition to a lower demand for loans to enterprises, rejection rate for loan applications also increased in the reporting period. The rejection rate for loan applications increased slightly in one of the surveyed Latvian banks.

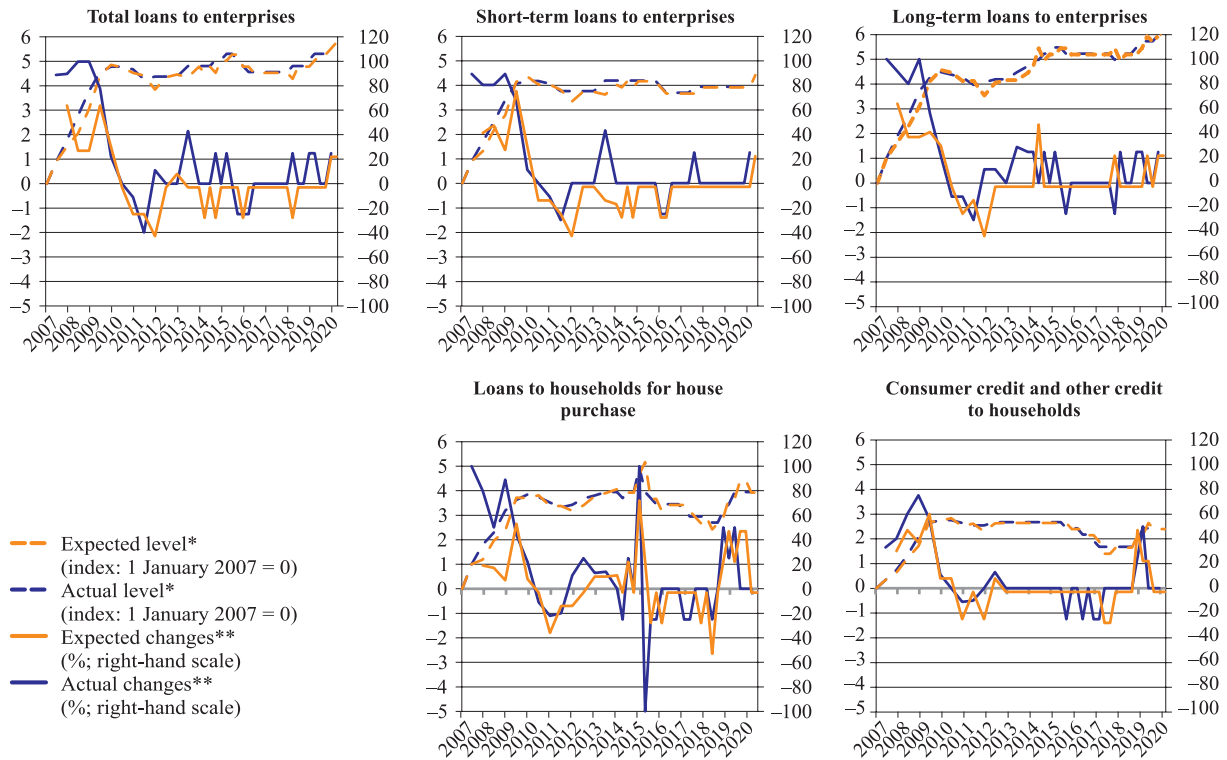
As expected, one of the four surveyed Latvian banks tightened its credit standards for loans to enterprises in the fourth quarter of 2019, including those for loans to small and medium-sized enterprises, large enterprises, short-term loans and long-term loans. The credit standards were tightened in the light of weakening industry or firm-specific situation and outlook, borrowers' creditworthiness and stronger impact from regulatory requirements in the field of the prevention of money laundering. One of the surveyed Latvian banks expects to somewhat tighten its credit standards for loans to enterprises in general, including in each of the above-mentioned sectors, in the next quarter (see Chart 3).

Half of the surveyed Latvian banks tightened their credit terms and conditions for loans to enterprises in the fourth quarter of 2019. One of the banks raised the margin on average loans to large enterprises, considering the general situation in the market (see Chart 4). At the same time, another Latvian bank somewhat tightened the credit terms and conditions for overall loans to enterprises (including both loans to small and medium-sized enterprises and loans to large enterprises) in relation to customer due diligence and prevention of money laundering.

Chart 3

## CHANGES IN CREDIT STANDARDS

(net percentage of banks reporting tightening credit standards; %)



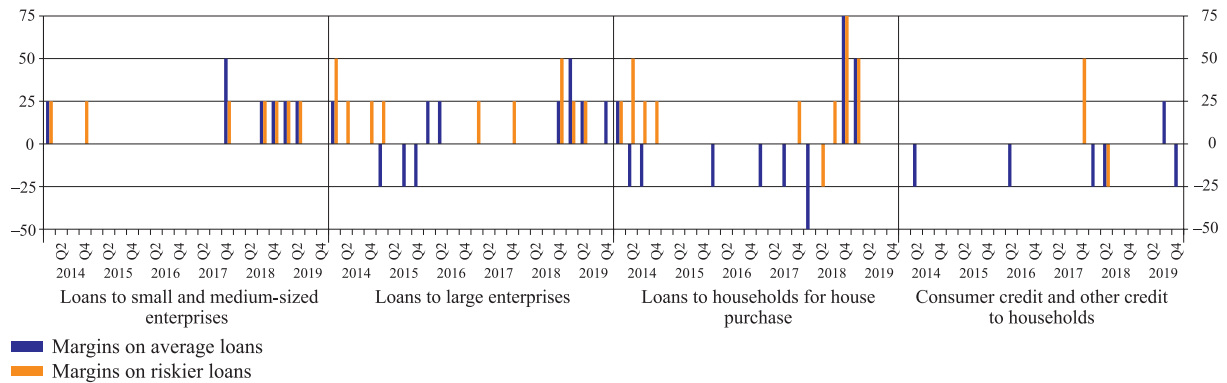
\* Net cumulative changes of banks reporting tightening credit standards.

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

Chart 4

## CHANGES IN MARGINS ON LOANS OF DIFFERENT CATEGORIES

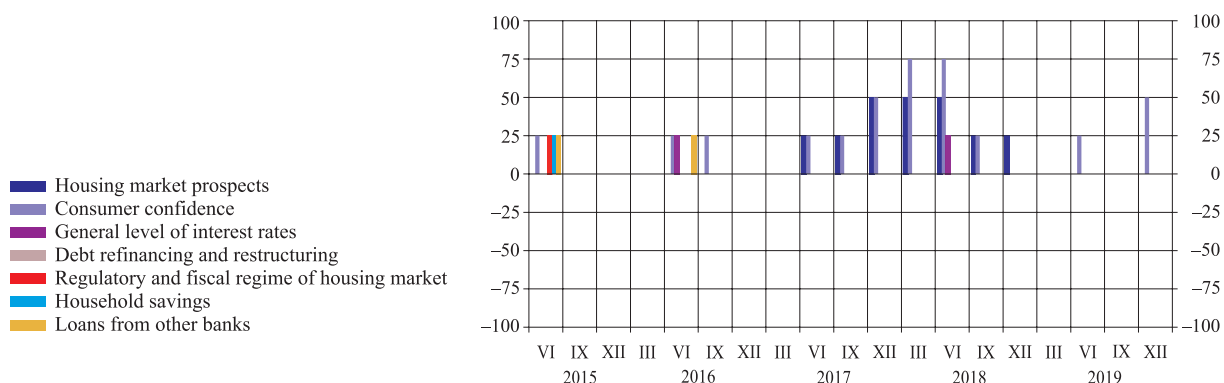
(net percentage of banks reporting increased margins; %)



## Loans to households for house purchase

Although in the previous quarter none of the surveyed Latvian banks expected changes in demand for loans to households for house purchase, the fourth quarter of 2019 saw a further increase in the demand within this segment. Two of the four surveyed Latvian banks reported a minor pick up in the demand for loans to households for house purchase in the circumstances of improved consumer confidence (see Chart 5). All that being said, the surveyed Latvian banks remain confident that there will be no changes in the demand for loans to households for house purchase in the next quarter, i.e. in the first quarter of 2020.

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 have no intention to change their credit standards for loans to households for house purchase in the next quarter either. At the same time, one bank slightly shortened loan maturity in the respective sector in the fourth quarter of 2019.

**Chart 5****FACTORS CONTRIBUTING TO CHANGES IN DEMAND FOR LOANS TO HOUSEHOLDS FOR HOUSE PURCHASE***(net percentage of banks reporting positive factor contributions; %)***Consumer credit and other lending to households**

All surveyed Latvian banks reported that demand for consumer credit and other lending to households has remained unchanged in the fourth quarter of 2019 and is expected to remain unchanged in the first quarter of 2020 as well.

None of the surveyed Latvian banks changed its credit standards for consumer credit and other lending to households in the first quarter of 2019 (see Chart 3) and the rejection rate for loan applications also did not increase. One of the four surveyed Latvian Banks slightly reduced the margins on average consumer credit and other lending to households because of tighter competition in the reporting period (see Chart 4).

**Ad hoc questions**

Euro area bank lending survey of January 2020 included several ad hoc questions regarding the banks' access to retail and wholesale funding, the impact of new regulatory or supervisory requirements and the ratio of non-performing loans.

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 first quarter of 2020.

When characterising the impact on the new regulatory or supervisory requirements concerning capital, leverage, liquidity or provisioning on the financial indicators and lending policy of banks, one of the surveyed Latvian banks admitted that it had slightly reduced its risk-weighted assets, compressing its risky loans, in response to the new regulatory or supervisory requirements in the second half of 2019 and the first half of 2020. Two other respondent Latvian banks reported tightening of credit standards in individual sectors as a result of the new regulatory or supervisory requirements in the second half of 2019 or an intention to do so in the first half of 2020. For example, one bank reported that, in response to the above requirements, credit standards on loans to small and medium-sized enterprises, loans to large enterprises, consumer credit and other lending to households were tightened in the second half of 2019. Another bank revealed its intention to tighten the credit standards for loans to households for house purchase, consumer credit and other lending to households in the first half of 2020 as a result of the above requirements.

One of the surveyed Latvian banks pointed out that the ratio of non-performing loans also has an effect on its lending policy. This bank tightened its credit standards as well as credit terms and conditions for loans to enterprises following a review of its ratio of non-performing loans in the second half of 2019 and intends to continue with further tightening also in the first half of 2020.