

## Euro area bank lending survey of January 2018: main results for Latvia

Latvijas Banka conducted a euro area bank lending survey in cooperation with the European Central Bank in January 2018, covering the lending developments during the fourth quarter of 2017 and bank expectations for the first quarter of 2018. 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.

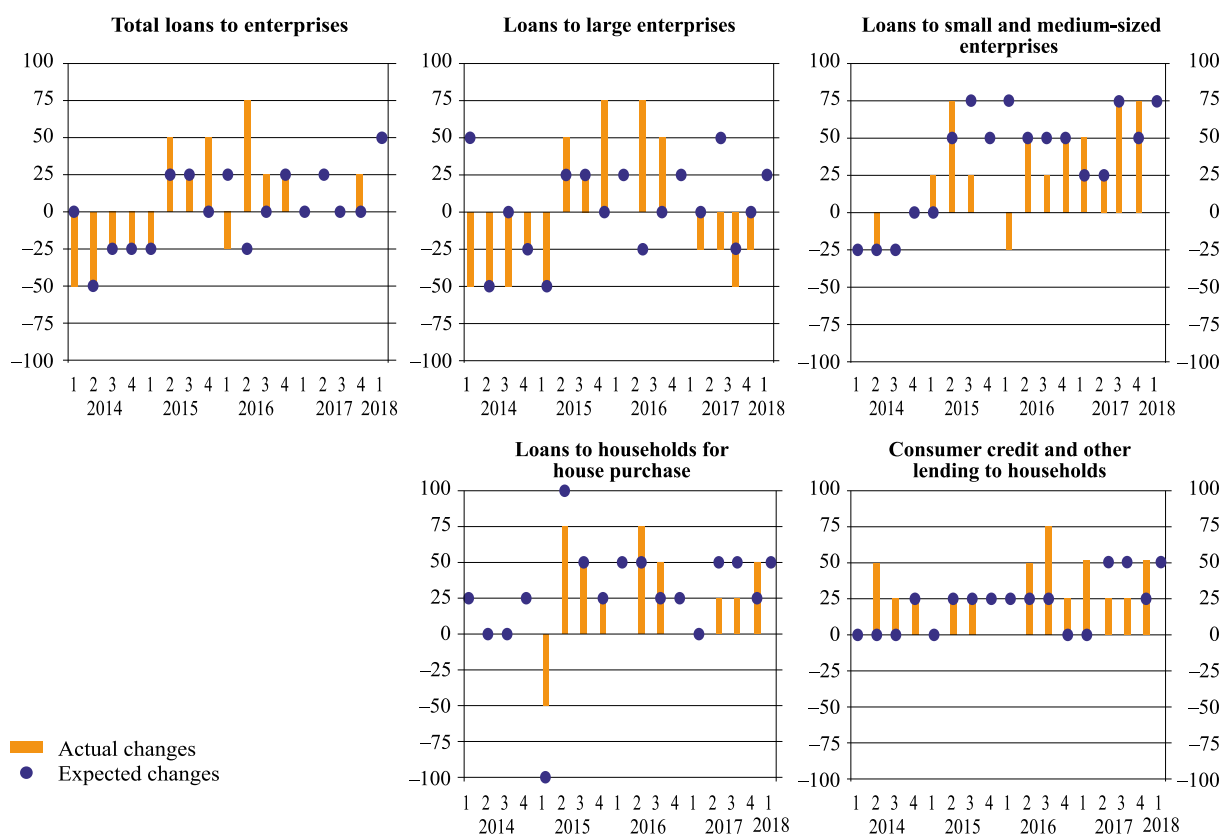
### Demand for loans

Same as in the previous quarter, overall demand for loans to enterprises in Latvian banks remained broadly unchanged in the fourth quarter of 2017 (see Chart 1). One Latvian bank reported a minor increase of the overall demand for loans to enterprises in the reporting period. Nevertheless, the demand for loans to the less significant lending segment of small and medium-sized enterprises grew notably: a minor rise in this sector of lending in the fourth quarter of 2017 was reported by three Latvian banks. Two of them admitted an increase in the demand for short-term loans, whereas one of them reported a rise in the demand for long-term loans. One bank saw a small decrease in the demand for loans to large enterprises.

Chart 1

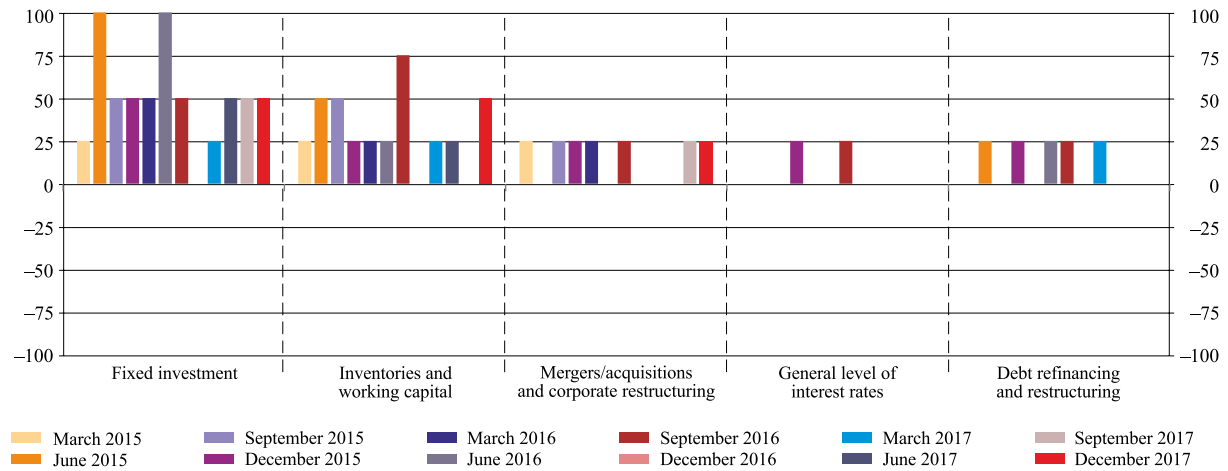
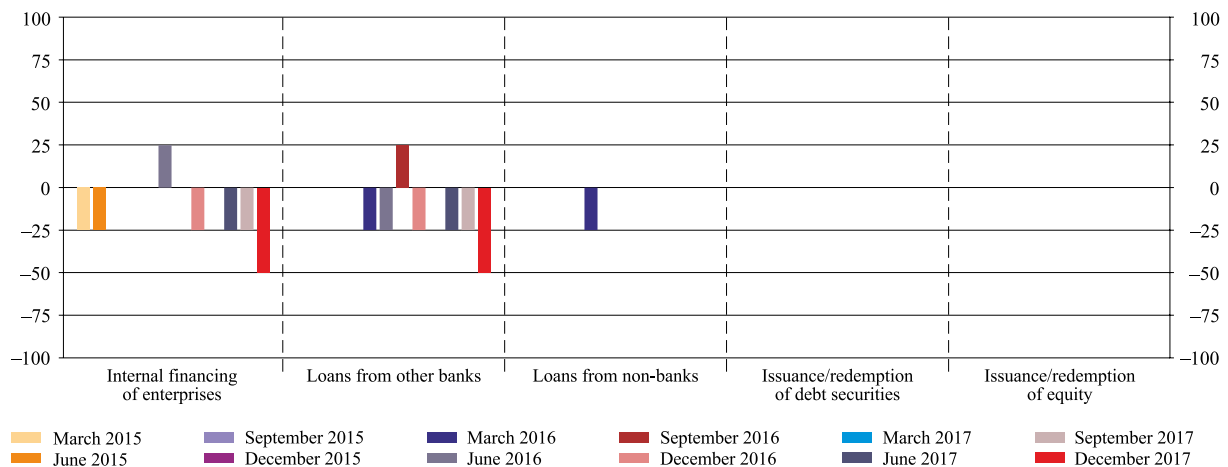
#### CHANGES IN LOAN DEMAND

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



Two Latvian banks explained the increase in the demand for loans to small and medium-sized enterprises observed in the fourth quarter of 2017 by the need to increase fixed investment and boost inventories and working capital, whereas one bank thought that the reason was mergers, acquisitions and corporate restructuring. The fact that the demand for loans to large enterprises shrank was explained by the fact that enterprises resorted to their internal financing as well as loans from other banks (see Chart 2).

Chart 2

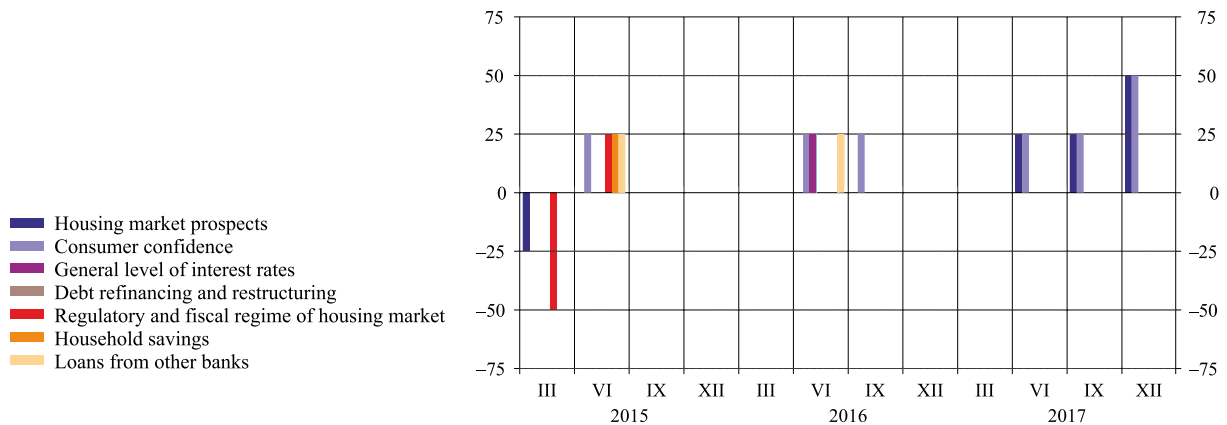
**FACTORS CONTRIBUTING TO DEMAND FOR LOANS TO ENTERPRISES***(net percentage of banks reporting positive factor contributions; %)***a) Financing needs, contributing factors or objectives underlying demand for loans****b) Use of alternative finance**

Two Latvian banks expect that the overall demand for loans to enterprises will grow somewhat in the first quarter of 2018. In most cases, banks expect an increase in the demand for loans to small and medium-sized enterprises (three banks) and, less often, an expansion of the demand for loans to large enterprises (one bank). One bank expects a small increase in the demand for short-term loans to enterprises in the first quarter of 2018, while two banks think that this will happen to the demand for long-term loans.

Two banks reported an increase in household demand for loans for house purchase, consumer credit and other lending to households in the fourth quarter of 2017. A higher household demand for loans for house purchase, consumer credit and other lending to households in both banks was supported by an improvement in consumer confidence (see Chart 3). Moreover, both banks also reported housing market prospects as a factor contributing to the demand for loans for house purchase, whereas a higher demand for consumer credit and other lending to households in one of the banks was determined by an increase in households' spending on durable goods (cars, furniture).

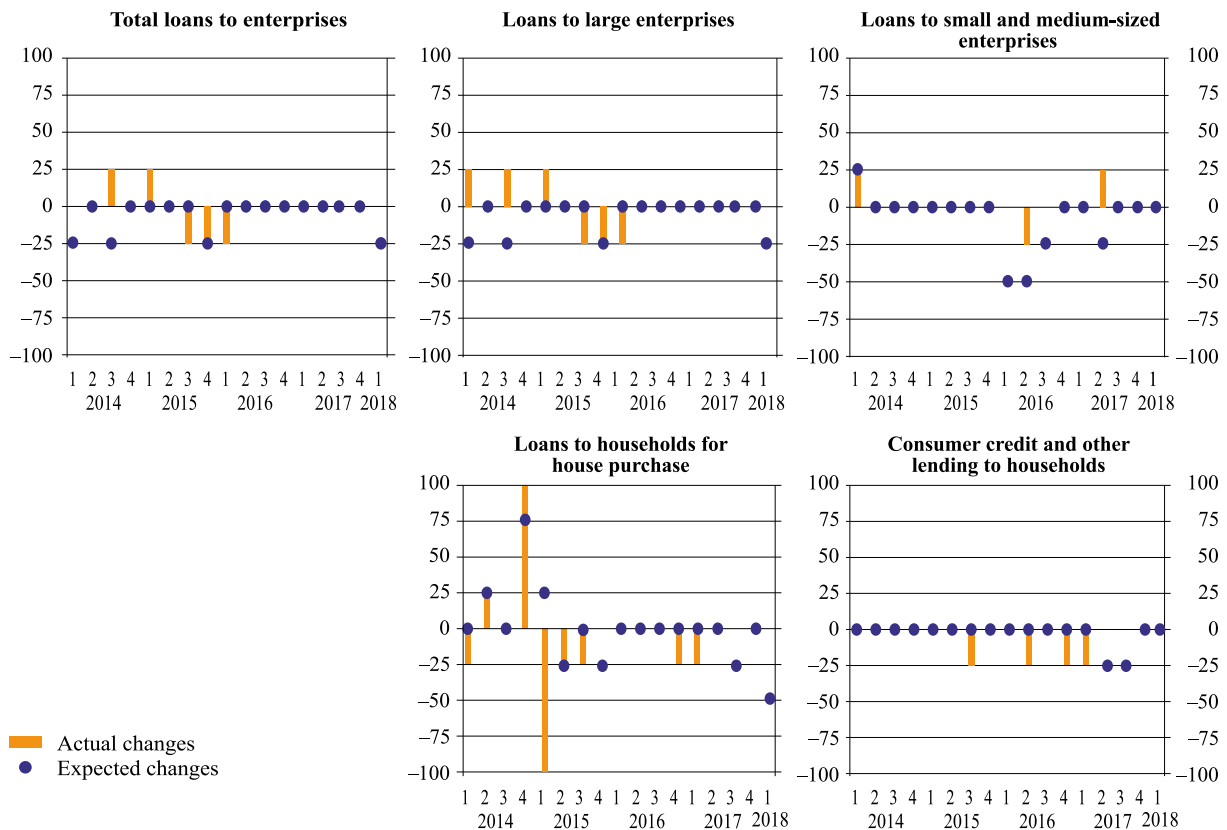
Two banks expect a further minor increase in household demand for loans for house purchase as well as consumer credit and other lending to households also in the first quarter of 2018.

Chart 3

**FACTORS CONTRIBUTING TO HOUSEHOLD DEMAND FOR LOANS FOR HOUSE PURCHASE***(net percentage of banks reporting positive factor contributions; %)***Credit standards**

Credit standards on loans to enterprises overall (see Chart 4) and the share of completely rejected loan applications remained broadly unchanged in the fourth quarter of 2017. One bank reported a slight easing of the credit standards on long-term loans to enterprises in the fourth quarter of 2017. This was driven by competition from other banks and risk perceptions (general economic situation and outlook, industry or firm-specific situation and outlook, creditworthiness of consumers and risk on collateral demanded). One bank could slightly ease the credit standards on loans to enterprises, including those on long-term loans to large enterprises, in the coming quarter.

Chart 4

**CHANGES IN CREDIT STANDARDS***(net percentage of banks reporting tightening credit standards; %)*

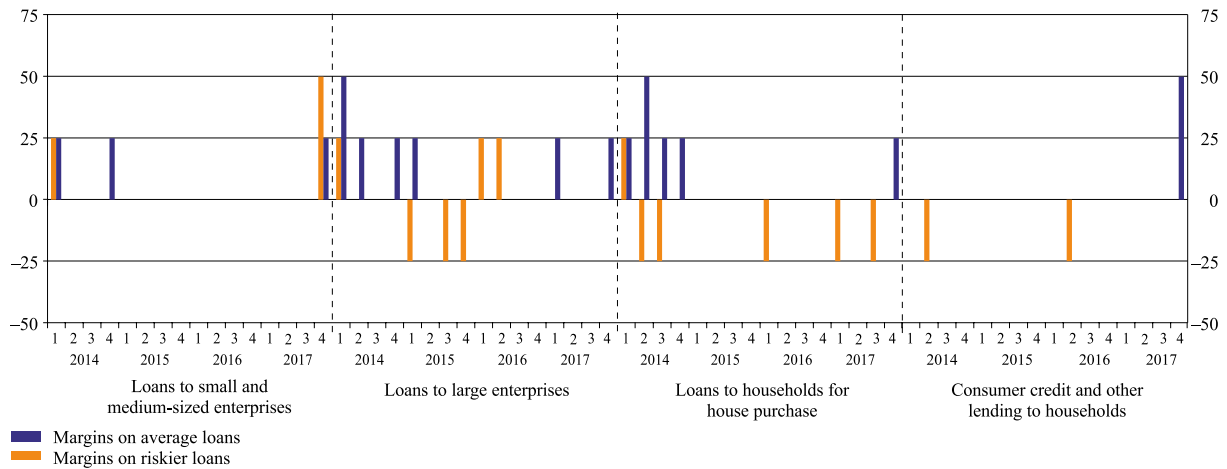
One bank reported a minor widening of margins on average loans to enterprises in net terms, whereas two banks widened their margins on average loans to small and medium-sized enterprises (see Chart 5). One bank increased the margins on riskier loans to enterprises. The widening of the margins on average and riskier loans to enterprises was supported by higher costs of funds and balance sheet constraints. One

bank eased the maturity conditions for average loans to large enterprises due to competitive pressure from other banks.

**Chart 5**

**CHANGES IN MARGINS ON LOANS OF DIFFERENT CATEGORIES**

*(net percentage of banks reporting an increase in margins; %)*



Credit standards applied by Latvian banks to the approval of loans to households remained basically unchanged in the fourth quarter of 2017; nevertheless, some banks highlighted several factors contributing to some easing of the credit standards. In the case of loans to households for house purchase, such factors were the general economic situation and outlook as well as competition from other banks. The easing of the credit standards applied to consumer credit and other lending to households was supported by the pressure from competition from other banks and from non-banks. In some cases, certain tightening of the credit standards on loans to households was also reported. One bank admitted that the tightening of credit standards on loans to households was supported by higher cost of funds and balance sheet constraints. Another bank reported a minor increase in the share of completely rejected applications for consumer credit and other lending to households.

The credit standards on loans to households in Latvia had remained unchanged for a longer period of time. Two banks expect an easing of the credit standards applied to approval of loans to households for house purchase in the first quarter of 2018.

Credit terms and conditions applied to average loans to households remained unchanged in the fourth quarter of 2017. Considering the increase in the cost of funds and balance sheet constraints, one bank slightly widened the margins on riskier loans to households (see Chart 5). One bank started to grant a slightly longer maturity consumer credit and other lending to households because of the competition from other banks.