

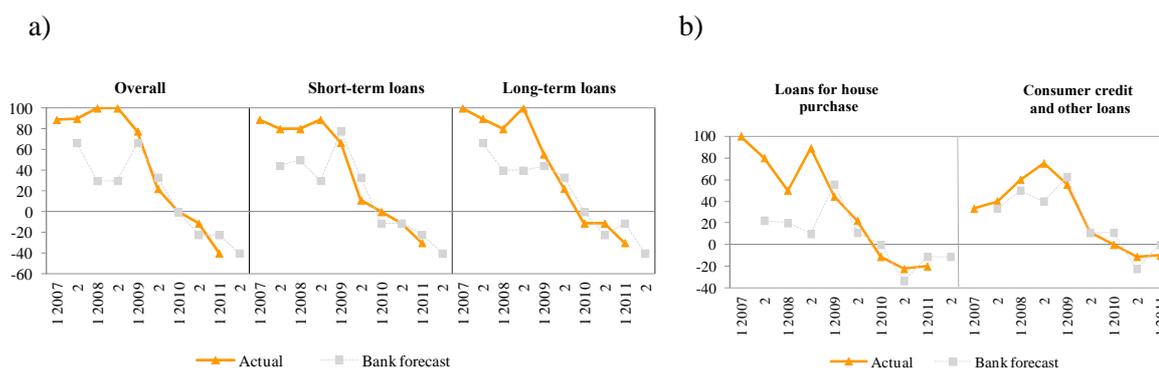
## The results of July 2011 bank survey on lending to non-financial corporations and households

In July 2011, the Bank of Latvia conducted a regular bank survey addressing the development trends of bank lending in the first half of 2011 and bank projections as to the developments in the second half of 2011. The survey covered ten banks, representing 89% of banks' aggregate loan portfolio to resident non-financial corporations and households.

### Credit standards, terms and conditions

According to the survey results, the trend of slightly easing bank lending standards continued in the first half of 2011 (see Charts 1a and 1b); moreover, this trend for non-financial corporations was more pronounced than in the second half of 2010, with the net percentage of banks reporting a slight easing of credit standards amounting to 40%. The banks are planning a moderate easing of lending standards also for the second half of 2011. The banks report easing of standards for loans to export-oriented sectors (e.g. agriculture) and the energy sector (e.g. alternative energy projects).

*Chart 1. Changes in credit standards* applicable to loans or credit lines for a) non-financial corporations and b) households (net percentage of banks reporting tightening of credit standards)

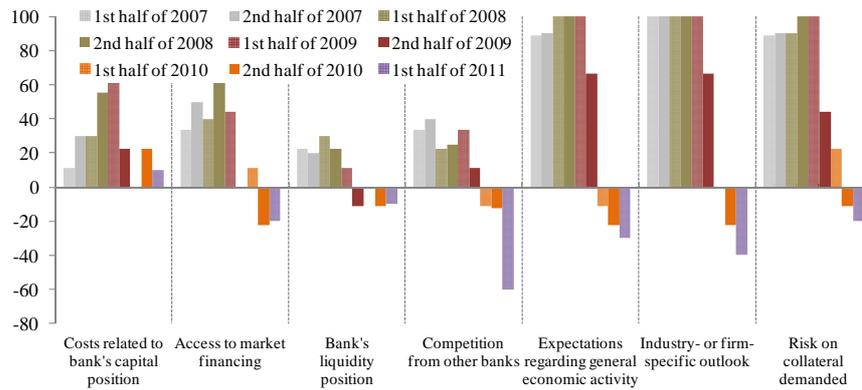


The easing of credit standards for non-financial corporations is underpinned by tighter bank competition (more than a half of surveyed banks emphasised it) and a more favourable outlook for the economy as a whole and its individual sectors. Only one survey participant stated a factor (costs related to bank's capital position) due to which tighter lending standards for non-financial corporations had been introduced (see Chart 2a).

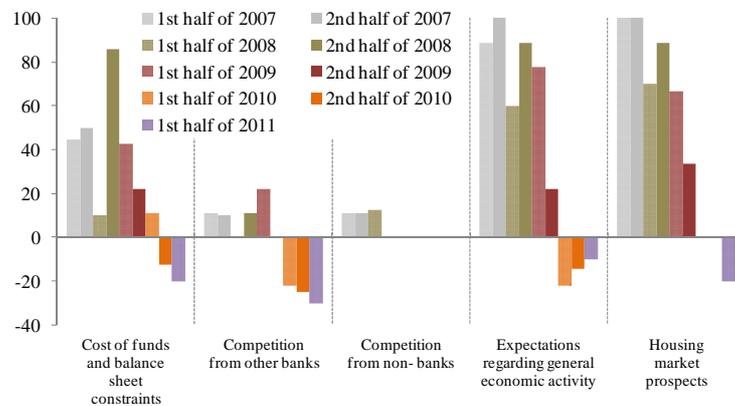
The survey participants report that a tighter bank competition was the key factor triggering a slight easing in lending standards to households for house purchase as well. Following a protracted period of a negative housing market outlook, an improved assessment of the housing market by respondents contributed to a moderate easing in credit standards in the first half of 2011 (see Chart 2b).

**Chart 2. Impact of underlying factors on credit standard tightening** a) non-financial corporations and b) households for house purchase (net percentage of banks reporting impact of underlying factors on credit standard tightening)

a)



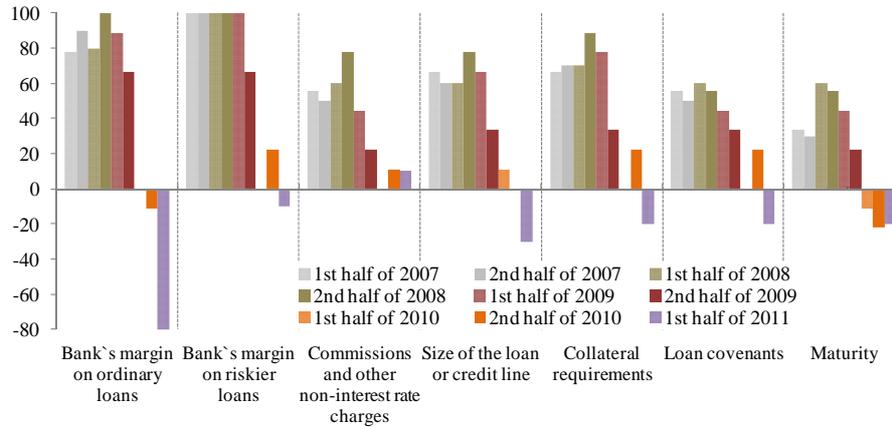
b)



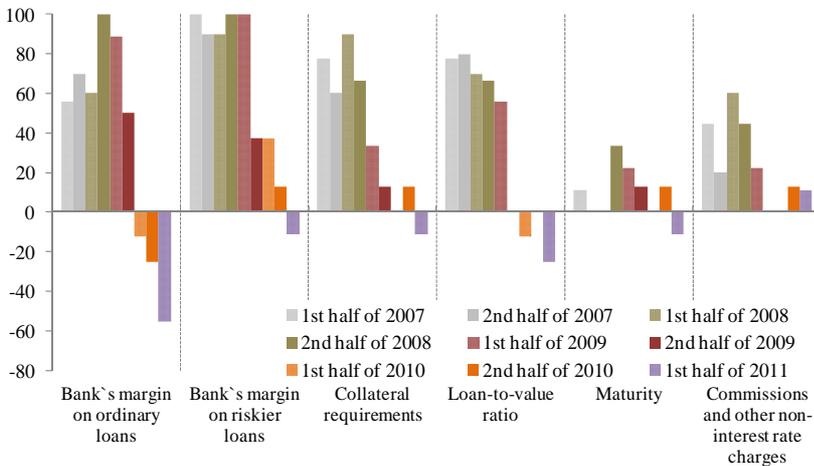
In the first half of 2011, the banks eased terms and conditions on their loans as well. The move primarily translated into a lower interest rate margin on ordinary loans to both non-financial corporations and households. Additionally, non-financial corporations were often offered enlarged maximum loan amounts, while households enjoyed a slightly alleviated loan-to-collateral ratio requirement (see Charts 3a and 3b).

**Chart 3. Terms and conditions** for loans or credit lines to a) non-financial corporations and b) households for house purchase (**net percentage of banks reporting tightening terms and conditions**)

a)



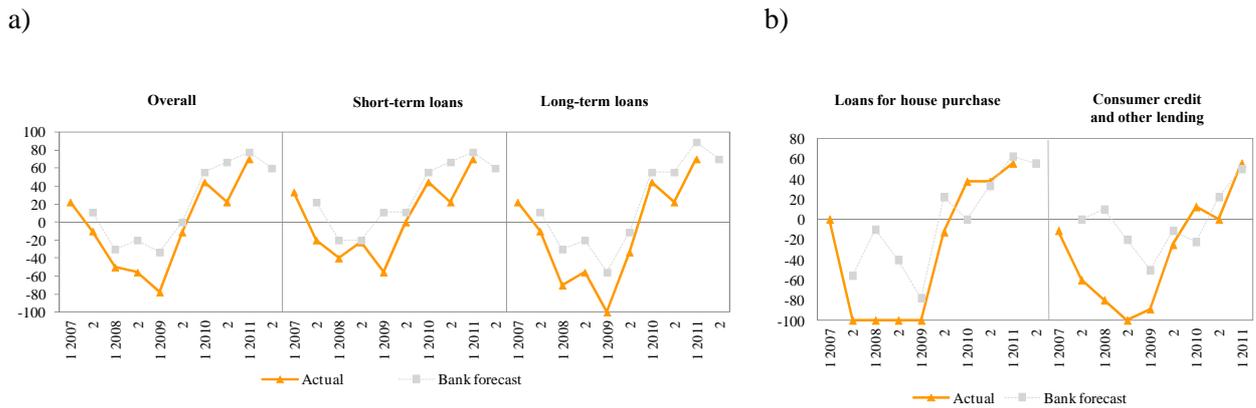
b)



## Demand

The expectations of a rising demand for loans voiced by banks at the previous survey have materialised (see Charts 4a and 4b). A higher non-financial corporations' demand for loans was mainly on account of rising fixed investment as well as inventory and current asset financing needs, while the driver behind the rising household demand for loans was their improved confidence. Bank expectations regarding the demand for loans in the second half of 2011 remained optimistic for both non-financial corporation and household segments, suggesting a positive outlook for further recovery of the economy.

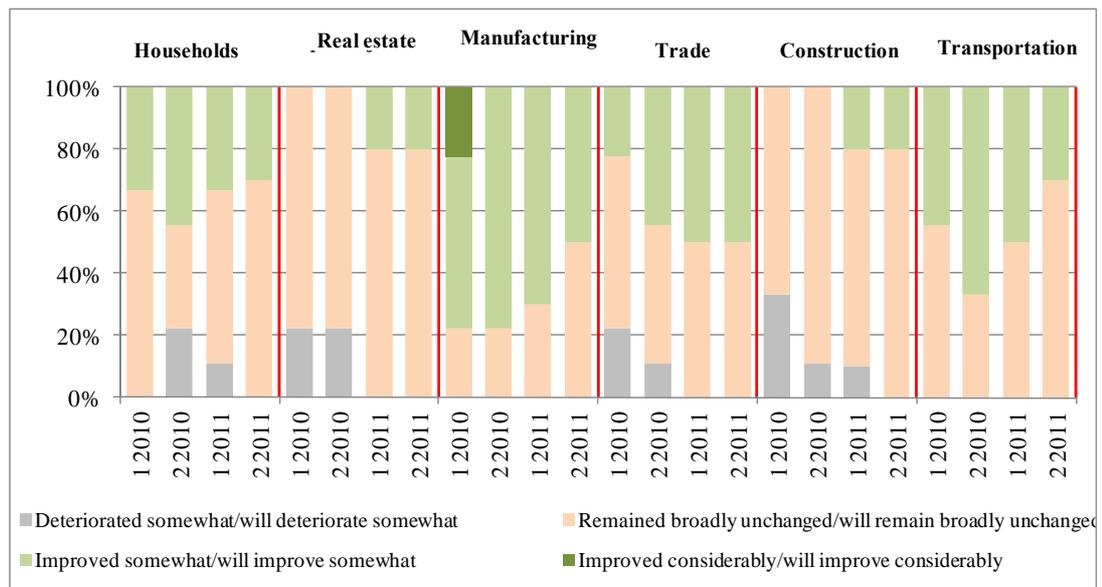
**Chart 4. Changes in the demand for loans or credit lines by a) non-financial corporations and b) households (net percentage of banks reporting increased demand)**



**Creditworthiness of borrowers**

According to the bank assessment, borrowers' creditworthiness remained broadly unchanged in the first half of 2011, yet for some sectors of the economy (manufacturing, trade, transportation and storage) at least a half of respondents faced moderate improvements of the situation. Likewise, the first signs of recovery surfaced also in such most-crisis-hit sectors as real estate and construction (see Chart 5). The financial position of households was assessed by banks as predominantly unchanged or slightly better than in the previous period. The survey participants share a rather optimistic view about the manufacturing and trade outlook for the second half of 2011. The financial position of the other sectors and households is unlikely to change materially, while minor improvements are likely to occur.

**Chart 5. Assessment of financial position of major sector borrowers and households in the first half of 2011 and forecast for the second half of the year (percentage of bank responses)**



## Loan restructuring

Temporary postponement of debt liabilities by banks is the most often applied debt restructuring method. The survey participants state that the creditworthiness of most borrowers with temporarily postponed debt liabilities is assessed as unchanged (see Chart 6). Vis-à-vis the previous period, improvements in creditworthiness were recorded more often for non-financial corporations, while deterioration of the situation was more common for households in the first half of 2011.

*Chart 6. Changes in customers' creditworthiness after expiration of debt liabilities postponement term due to loan restructuring vis-à-vis period prior to restructuring in 1 (solvency deteriorated) to 5 (solvency renewed; percentage of responses) rating scale*

