

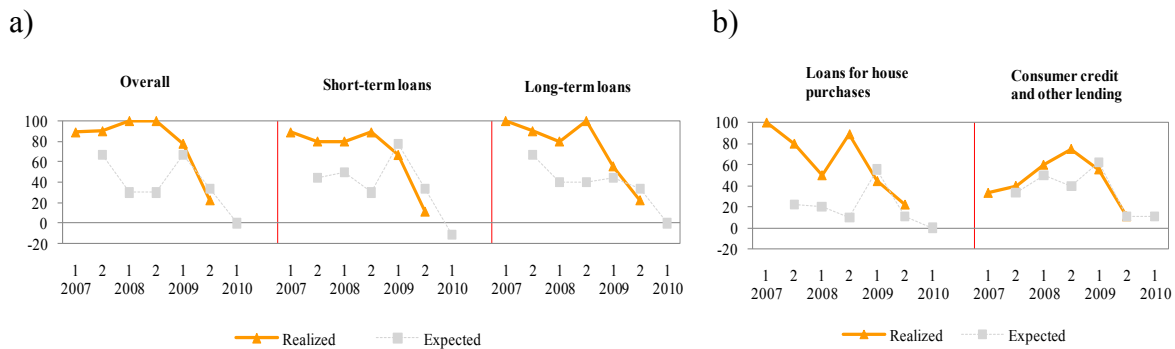
The results of the January 2010 bank lending survey

In January 2010, the Bank of Latvia conducted the current bank survey round addressing the developments in the banking sector lending trends during the second half of 2009 and banks' expectations as to developments in the first half of 2010. The number of respondents, 9 banks, remains unchanged since the previous round, representing over 85% of banks' aggregate loan portfolio to non-financial corporations and households.

Credit standards, terms and conditions

According to the survey results, in the second half of 2009 the marathon of tightening credit standards, applied to non-financial corporations and households, was coming to its end. Most banks have reported that credit standards for non-financial corporations and households have remained broadly unchanged. Net percentages of banks reporting tightening of credit standards were 22% (down from 78%) with regard to non-financial corporations and 22% (down from 44%) with regard to loans to households for house purchase (see Chart 1). Some banks mentioned further tightening of credit standards with respect to loans for real estate, construction and trade sectors. Banks have no plans of tightening their credit standards in the first half of 2010.

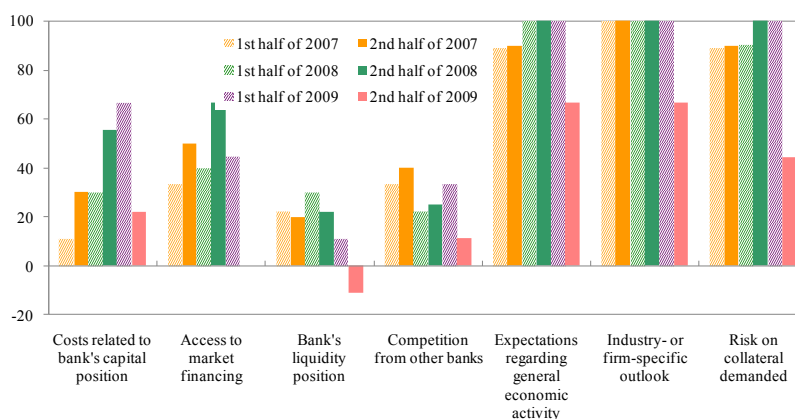
Chart 1. **Changes in credit standards** applied to the approval of loans or credit lines to a) non-financial corporations and b) households (**net percentages of banks reporting tightening credit standards**)



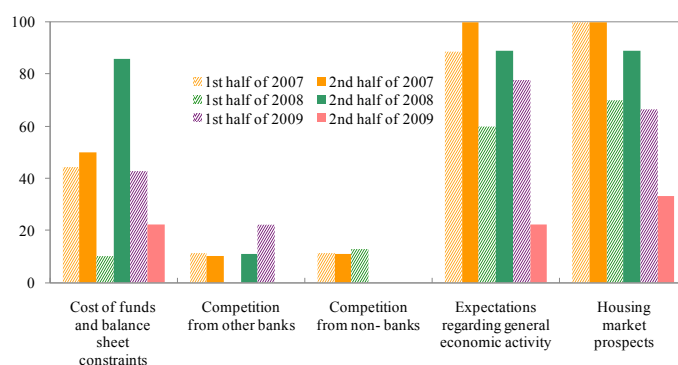
The bank survey results suggest that the impact of the underlying factors for credit standard tightening reported in the previous survey rounds has eased. Expectations regarding general economic activity, industry-specific outlook for non-financial corporations and collateral-related risk are factors contributing to a decline in net tightening of credit standards for non-financial corporations. Better assessment of bank liquidity was a factor easing the credit standards applied to non-financial corporations. Fewer banks mentioned expectations regarding general economic activity and housing market prospects as factors contributing to tightening credit standards also for households (see Chart 2).

Chart 2. Factors contributing positively to tightening credit standards for loans or credit lines to a) non-financial corporations and b) households for house purchase (**net percentages of banks reporting a contribution of the factors to tightening credit standards**)

a)



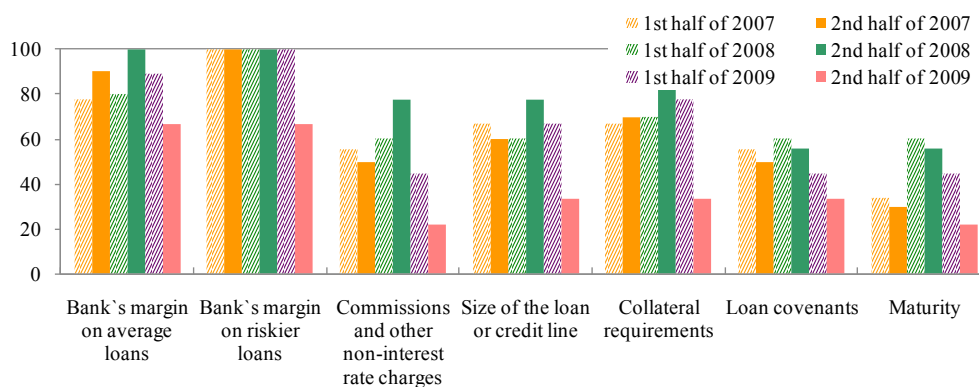
b)

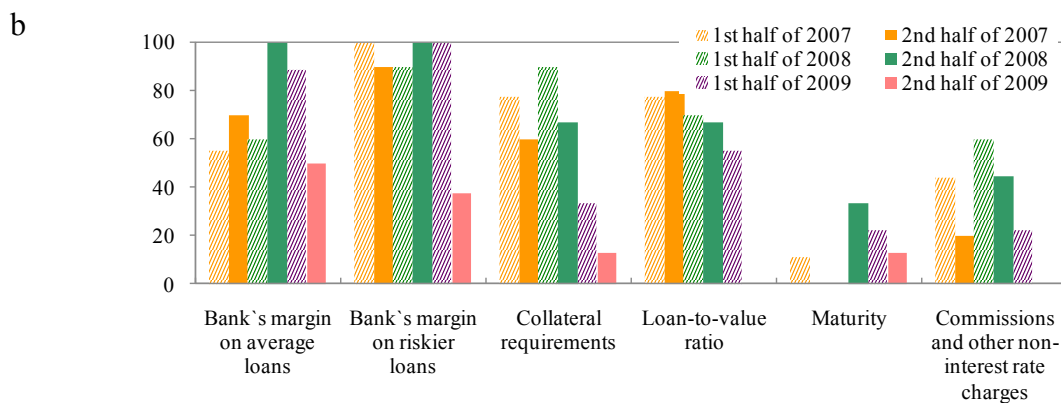


Although no tightening of bank credit standards is observed, the tightening of terms and conditions on bank loans reflect loss on banks' operations and the growing credit risk. As to lending terms and conditions, banks continued to charge slightly higher margins on riskier loans as well as on average loans. For example, 67% of banks reported tightening of terms and conditions with respect to margins on loans to non-financial corporations (see Chart 3).

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

a)

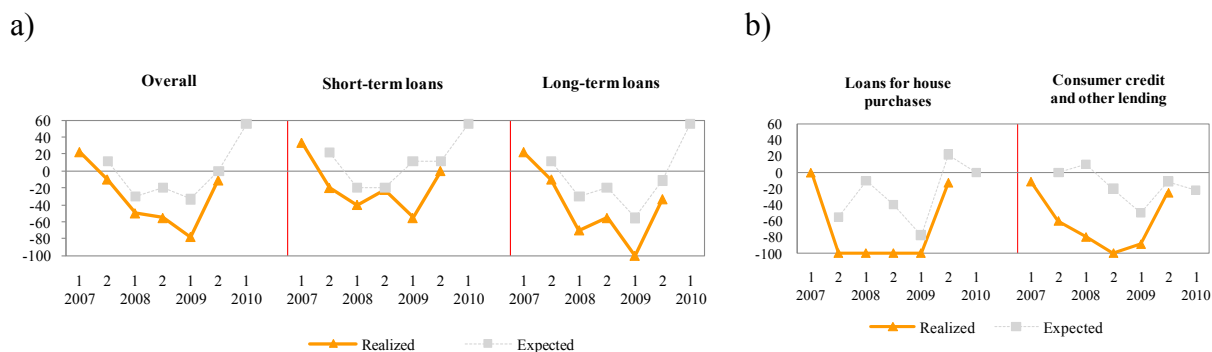




Loan demand

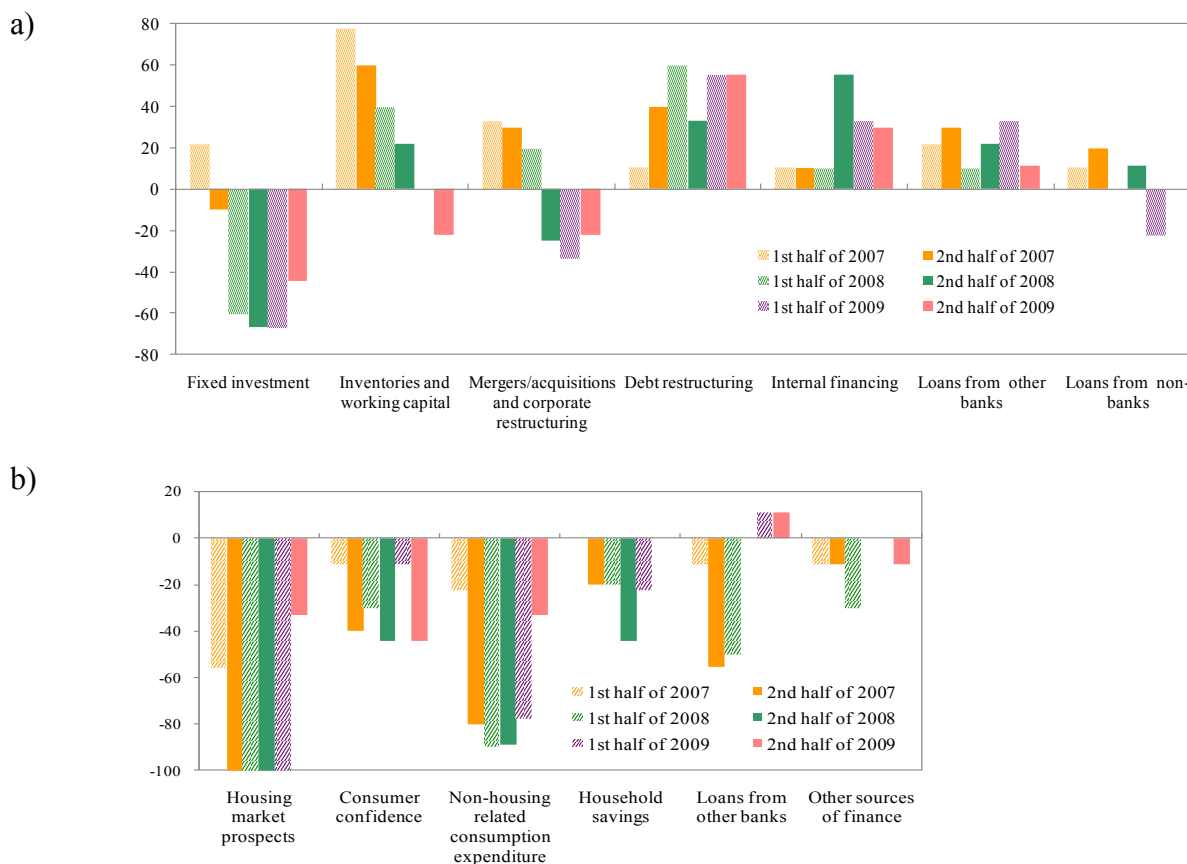
In the second half of 2009, most banks have assessed the loan demand from non-financial corporations and households to be broadly unchanged (a decline in the demand was observed in the previous survey rounds). The net percentage of banks reporting an increase in loan demand grew considerably, with the demand from non-financial corporations reaching -11% (up from -78%); an even more pronounced improvement in the assessment was observed in the demand from households for house purchase (see Chart 4). Along with the gradual recovery of the economy, several banks expect the demand from non-financial corporations for loans to increase somewhat in the first half of 2010.

Chart 4. Changes in demand for loans or credit lines to a) non-financial corporations and b) households (**net percentages of banks reporting a positive contribution to demand**)



The decline in demand abated as a result of debt restructuring, contracting internal financing of non-financial corporations and less negative housing market prospects as seen by households (see Chart 5).

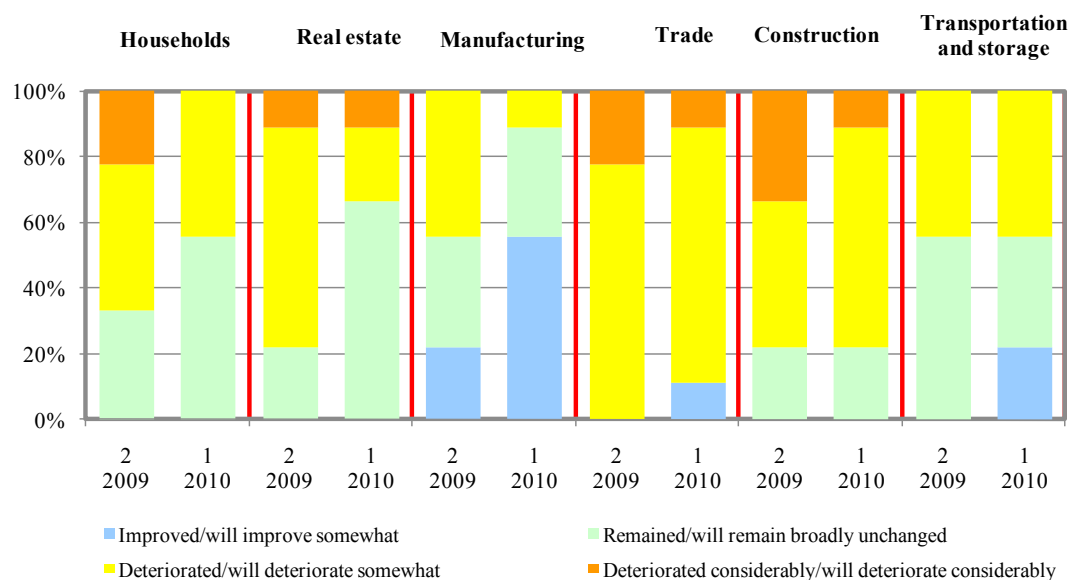
Chart 5. Factors affecting demand for loans or credit lines to a) non-financial corporations and b) households for house purchase (net percentages of banks reporting a positive contribution of the factors to demand)



Creditworthiness of borrowers

Most banks reported a slight deterioration in the creditworthiness of borrowers in the major sectors of the economy in the second half of 2009 except for transportation and storage where it has been reported as unchanged. In comparison with the previous survey round banks have reported a more diverse assessment of the expected creditworthiness of the major sectors of the economy. Nevertheless, most banks expected improvement in the financial situation of the manufacturing sector and deterioration in trade and construction in the next six months (see Chart 6).

Chart 6. Assessment of creditworthiness of borrowers in major sectors and households in the second half of 2009; expectations for the first half of 2010 (percentages of bank responses)



Access to wholesale funding

Several banks (44%) admitted that access to the conventional longer-term (over 1 week) money market funds was hampered; they expect access to the conventional money market funds to remain impaired also in the next half of the year. As to the impact of the hampered access to the conventional money market funds on the amount of lending, most banks (60%) reported that it did not and will not affect the amount of lending; however, it did affect or considerably affected loan margins.