

## Euro area bank lending survey of October 2017: main results for Latvia

Latvijas Banka conducted a euro area bank lending survey in cooperation with the European Central Bank (ECB) in October 2017, covering the lending developments during the third quarter of 2017 and bank expectations for the fourth quarter of 2017. Several Latvian banks<sup>1</sup>, whose total market share in lending to non-financial corporations and households is large enough to describe lending development in Latvia as a whole, participated in the survey. Replies by the surveyed banks are included in the euro area bank lending survey results.

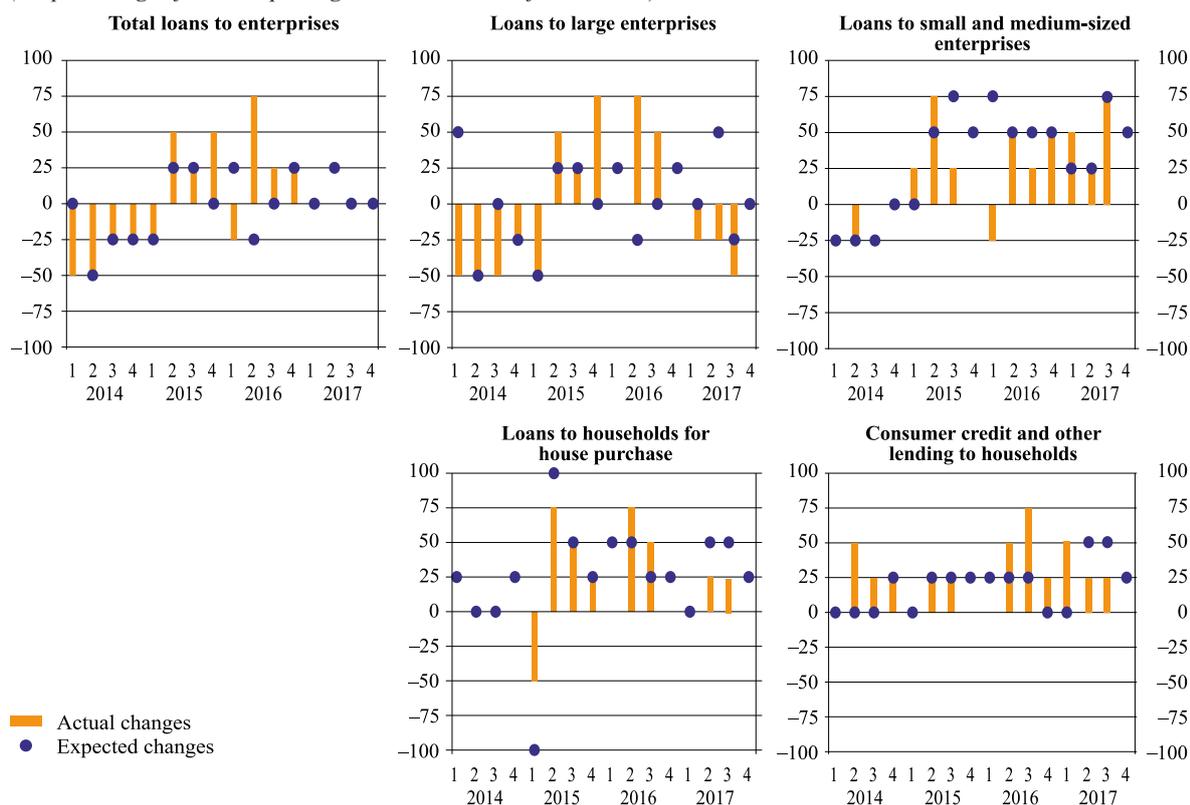
### Demand for loans

Overall, the demand for loans to enterprises remained broadly unchanged in Latvian banks in the third quarter. Although the demand for loans to small and medium-sized enterprises somewhat increased in most of Latvian banks, the demand for loans to large enterprises decreased slightly in two of them. One bank indicated that the demand for long-term loans to enterprises posted a slight rise (see Chart 1). The observed uptrend in the demand for loans to small and medium-sized enterprises is explained by the necessity of enterprises to invest in fixed assets as well as by mergers, acquisitions and corporate restructuring. Meanwhile, the use of internal financing or loans from other banks slightly facilitated a contraction in demand for loans to large enterprises. The necessity of enterprises to increase their inventories and working capital contributed somewhat to a higher demand for loans to small and medium-sized enterprises, but supported a slightly smaller in demand for loans to large enterprises (see Chart 2).

Chart 1

#### CHANGES IN LOAN DEMAND

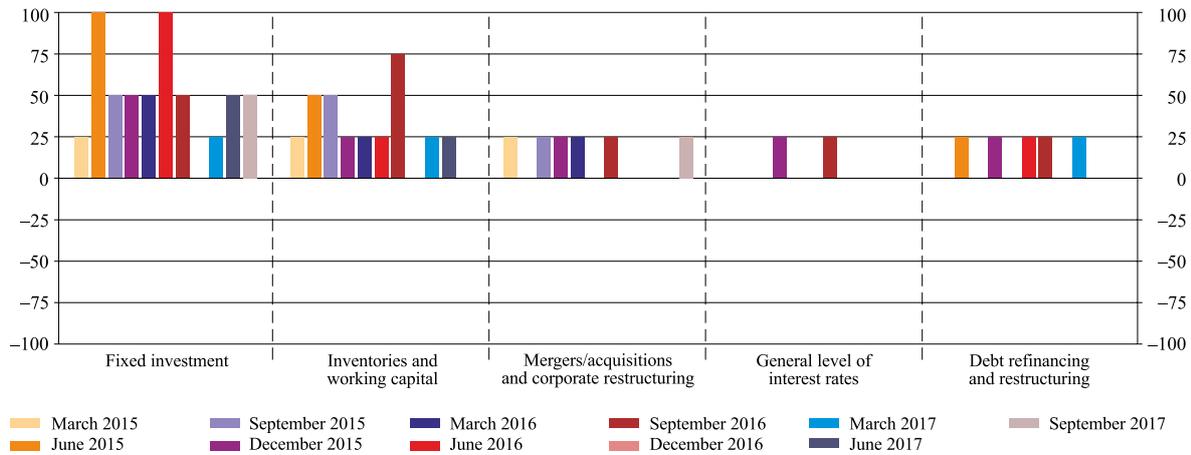
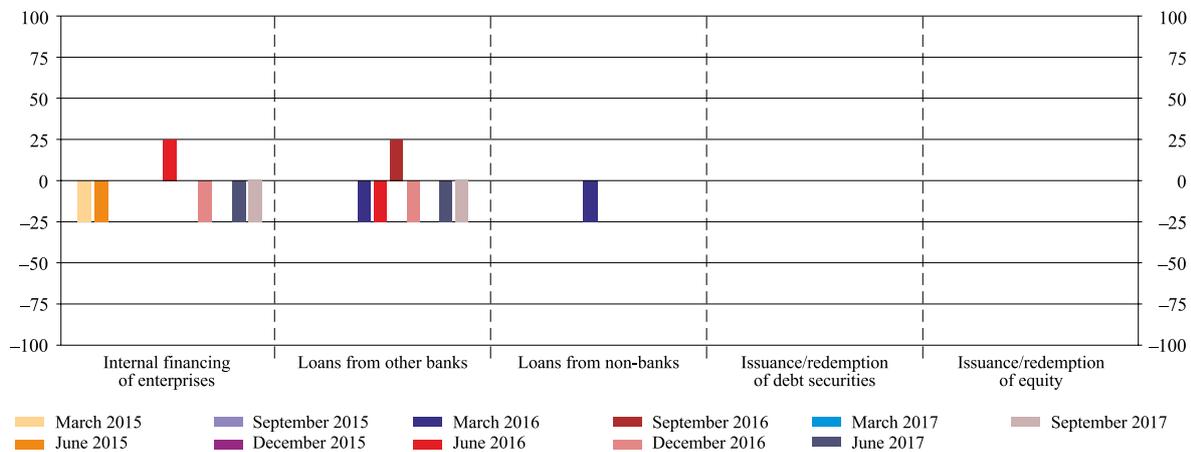
(net percentage of banks reporting increased demand for loans; %)



Although Latvian banks expect the demand for loans to enterprises to remain broadly unchanged in the fourth quarter of 2017, two banks point out that they anticipate the demand for loans to small and medium-sized enterprises to rise somewhat. Banks vary in their views with regard to the loan maturity small and medium-sized enterprises will prefer. One Latvian bank believes that the demand for short-term loans to small and medium-sized enterprises will pick up in the fourth quarter of 2017, but another one is of the opinion that it is the demand for long-term loans that will increase in the above period (see Chart 1).

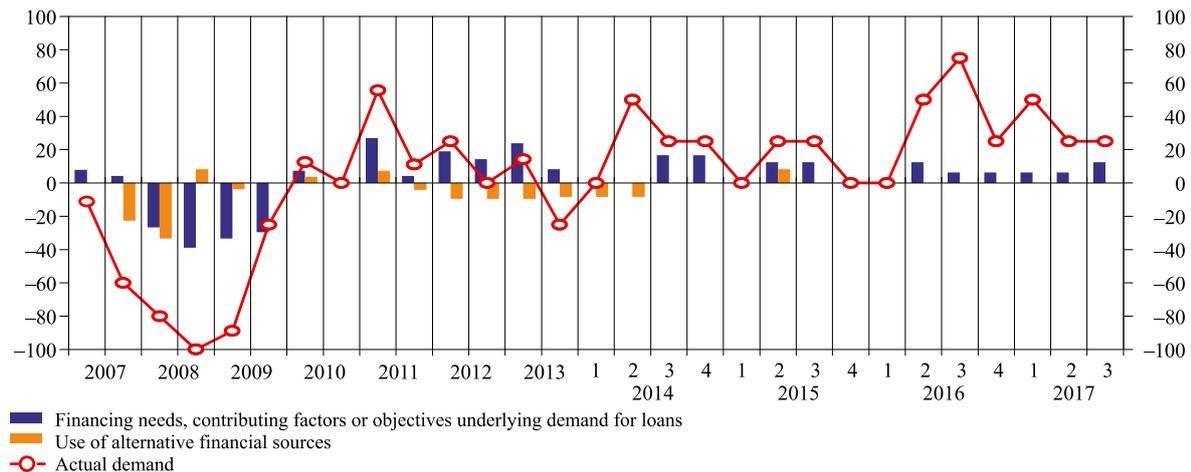
<sup>1</sup> Three Latvian banks submitted questionnaires in relation to lending developments during the third quarter of 2017 and their expectations for the fourth quarter of 2017. However, for reasons of comparability, it was assumed in this report that the fourth bank provided neutral answers to all questions.

Chart 2

**EXPLANATORY FACTORS RELATED 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 financial sources**

In the third quarter of 2017, the household sector saw a continued upward trend in demand. One Latvian bank reported an increase in household demand for loans for house purchase, consumer credit and other lending to households (see Chart 3). Stronger consumer confidence somewhat facilitated expansion of demand in both categories of loans to households. In addition, housing market growth enhanced household demand for loans for house purchase, while it was household willingness to purchase durable consumer goods, such as cars and furniture, that facilitated the demand for consumer credit and other lending to households. One of the surveyed Latvian banks expects a slight increase in household demand for loans for house purchase, consumer credit and other lending to households.

Chart 3

**EXPLANATORY FACTORS RELATED TO DEMAND FOR CONSUMER CREDIT AND OTHER LENDING TO HOUSEHOLDS***(net percentage of banks reporting positive factor contributions; %)*

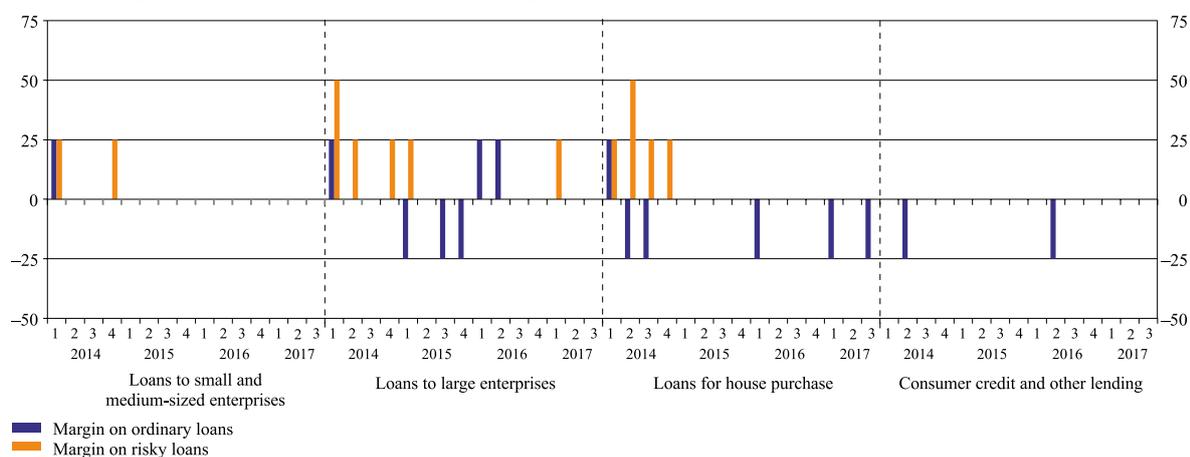
## Credit standards

Due to the competition from other banks, one bank slightly reduced the margin (the spread between the lending rate and the relevant market reference rate) on ordinary loans to households for house purchase (see Chart 4). Credit terms and conditions for new consumer credit and other lending to households as well as for loans to enterprises remained unchanged in the third quarter of 2017.

**Chart 4**

### CHANGES IN MARGIN ON LOANS OF DIFFERENT CATEGORIES

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



Latvian banks kept their credit standards for loans to enterprises unchanged in the third quarter of 2017 as various factors affected the credit standards in different ways. On the one hand, the industry and enterprise-specific situation and outlook or borrower's creditworthiness contributed to the introduction of slightly eased respective credit standards. On the other hand, the introduction of somewhat tighter standards was facilitated by the requirements of legislative acts aimed at the prevention of money laundering; these requirements oblige banks to gain better knowledge of their customers. Credit standards for households were also kept unchanged in the third quarter of 2017. One of the surveyed Latvian banks intends to apply slightly stricter credit standards for long-term loans to enterprises in the fourth quarter of 2017. Meanwhile, none of the banks intends to change credit standards for loans to households for house purchase as well as consumer credit and other lending to households.

Although credit standards for loans to enterprises remained unchanged in the third quarter, the share of completely rejected applications for loans to enterprises augmented slightly in one of the surveyed Latvian banks. One bank also reported a slight increase in the share of completely rejected applications for consumer credit and other lending to households.

## Ad hoc questions

The euro area bank lending survey included a question on the impact of the ECB's negative deposit facility rate. Two of the surveyed Latvian banks indicated that the negative deposit facility rate somewhat diminished their net interest income. Half of the banks, whose net interest income was adversely affected by the negative deposit facility rate, reduced their interest rates on loans across all loan categories, i.e. loans to enterprises, loans to households for house purchase, consumer credit and other lending to households. At the same time, none of the Latvian banks indicated that changes in margins or in non-interest rate charges in any of the loan categories were facilitated by a negative deposit facility rate.