

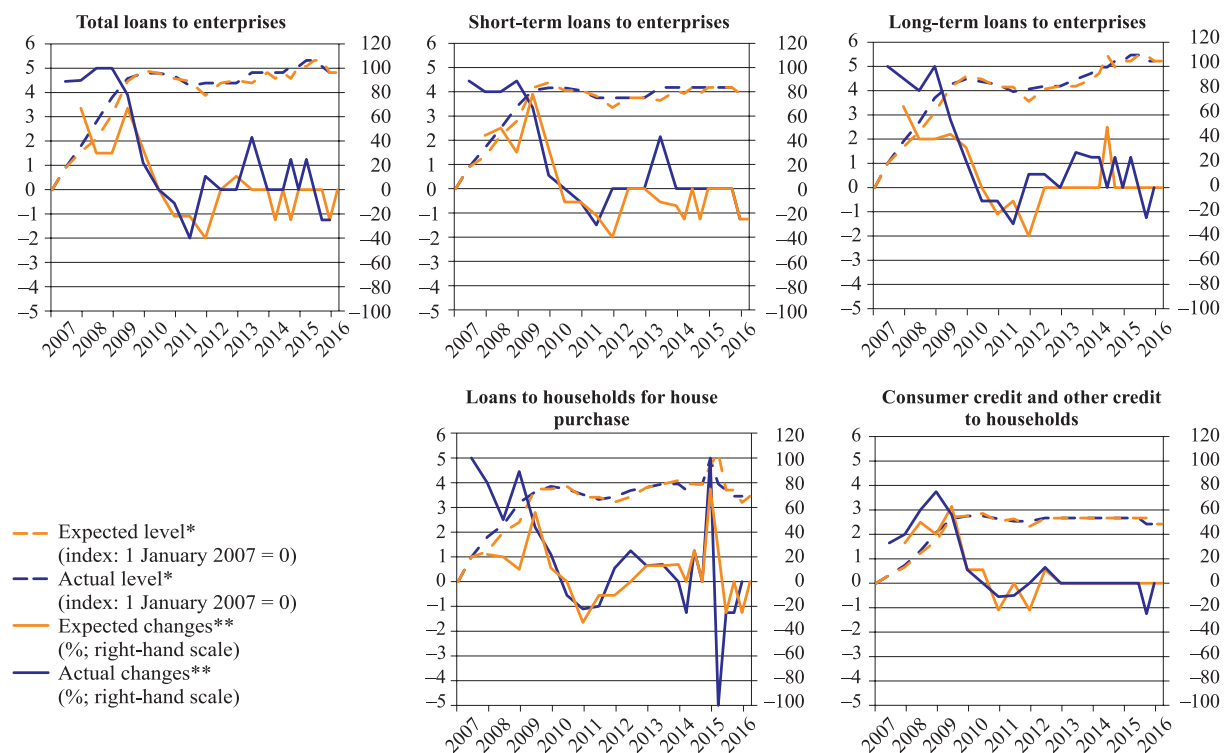
Euro area bank lending survey of December 2015: main results for Latvia

Latvijas Banka conducted the regular euro area bank lending survey in cooperation with the European Central Bank in December 2015. Four Latvian banks participated in the survey; their replies were aggregated in the euro area bank lending survey results¹. The survey conducted in December 2015 examined the lending developments during the fourth quarter of 2015 and bank expectations for the first quarter of 2016.

Credit standards

As concerns lending to enterprises, the pressure from competition among Latvian banks continued grow in the fourth quarter of 2015. At the same time, the activity in household lending was low. One bank reports easing of overall credit standards for loans to enterprises, including short-term loans to large enterprises in the fourth quarter of 2015. Two banks intend to ease credit standards for small and medium-sized enterprises in the first quarter of 2016: one bank is planning to ease the standards for short-term loans, whereas the other intends to cover all maturities. Nevertheless, none of the surveyed banks has changed the credit standards for household loans in the fourth quarter of 2015 and reports no intention of changing them in the first quarter of 2016 (see Chart 1).

Chart 1
CREDIT STANDARDS



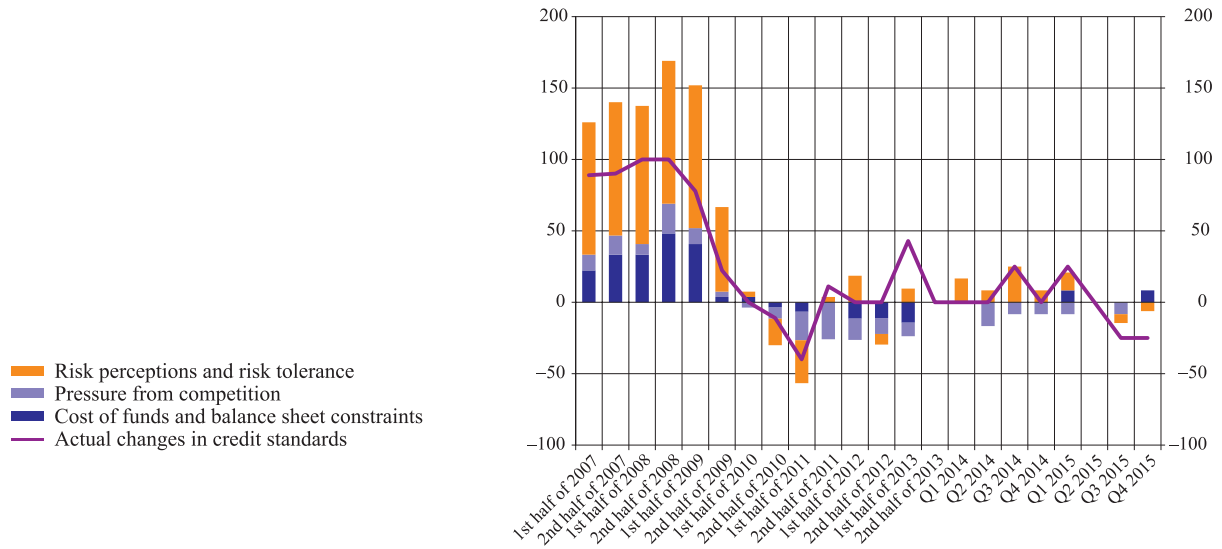
* Cumulative changes in net percentage of banks reporting tightening credit standards.

** Net percentage of banks reporting tightening credit standards.

Looking at the contributions of various factors to the tightening or easing of credit standards, it can be concluded that the improvement in the general economic situation and outlook contributed slightly to the easing of the overall credit standards applied to loans to enterprises, including loans to large enterprises. These factors contributed to the easing of credit standards applied to average loans to enterprises, whereas costs related to the bank's capital position supported the tightening of credit standards for riskier loans to enterprises (see Chart 2). The rejection rate for loan applications remained unchanged in all lending segments.

¹ Hereinafter the results of the euro area bank lending survey refer to the period starting with the fourth quarter of 2013. They are not comparable with the previous time series, as up to the first half of 2013 it showed the results of the bank lending survey conducted by Latvijas Banka.

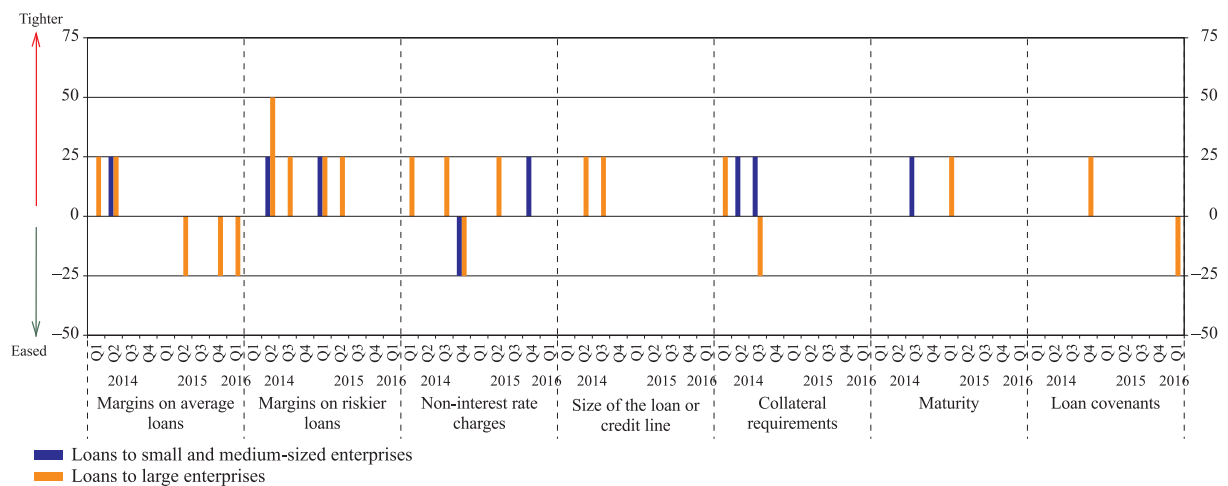
Chart 2
FACTOR CONTRIBUTIONS TO TIGHTENING CREDIT STANDARDS FOR LOANS TO ENTERPRISES
(net percentage of banks reporting positive factor contributions; %)



Credit terms and conditions

The banks' behaviour with regard to credit terms and conditions was similar to that concerning credit standards: several credit terms and conditions were eased for loans to enterprises, whereas those applied to household loans remained unchanged (see Chart 3). The pressure from competition motivated one bank to ease the covenant conditions slightly and reduce the margins (the spread over a relevant market reference rate) on loans to large enterprises. Although the Latvian banks eased the credit terms and conditions for average loans to enterprises, cost of funds and balance sheet constraints contributed to some tightening of credit terms and conditions applied to riskier loans.

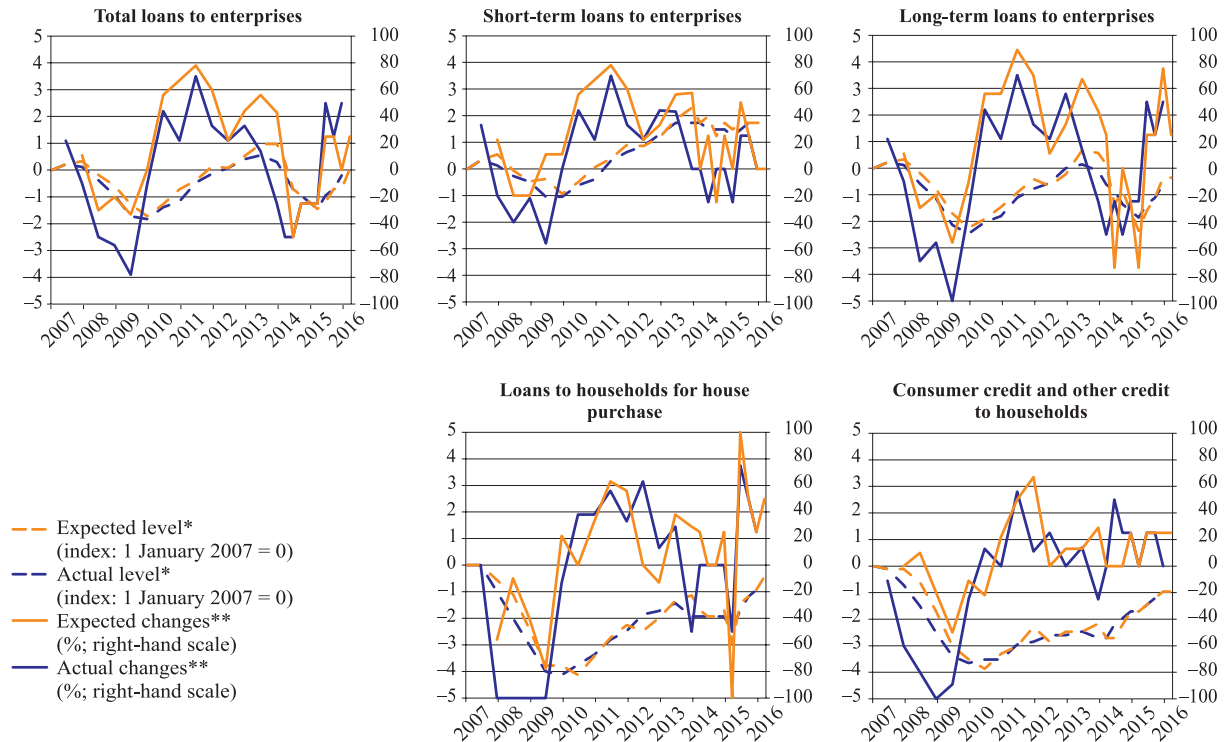
Chart 3
CHANGES IN TERMS AND CONDITIONS FOR LOANS TO ENTERPRISES DEPENDING ON SIZE
(net percentage of banks reporting tightening of terms and conditions; %)



Loan demand

Loan demand recovered gradually. Demand for loans to enterprises continued on an upward trend for the third consecutive quarter in the fourth quarter of 2015: two banks reported an increase in the demand for long-term loans to large enterprises, whereas one bank observed an increase in the demand for loans to large enterprises across all maturities. One bank reported higher demand for household loans for house purchase in the period covered by the survey. Household demand for consumer credit and other credit remained unchanged (see Chart 4). Demand for loans increased both in the banks that eased their credit standards and credit terms and conditions in the fourth quarter of 2015 as well as in the banks reporting no changes.

Chart 4
LOAN DEMAND

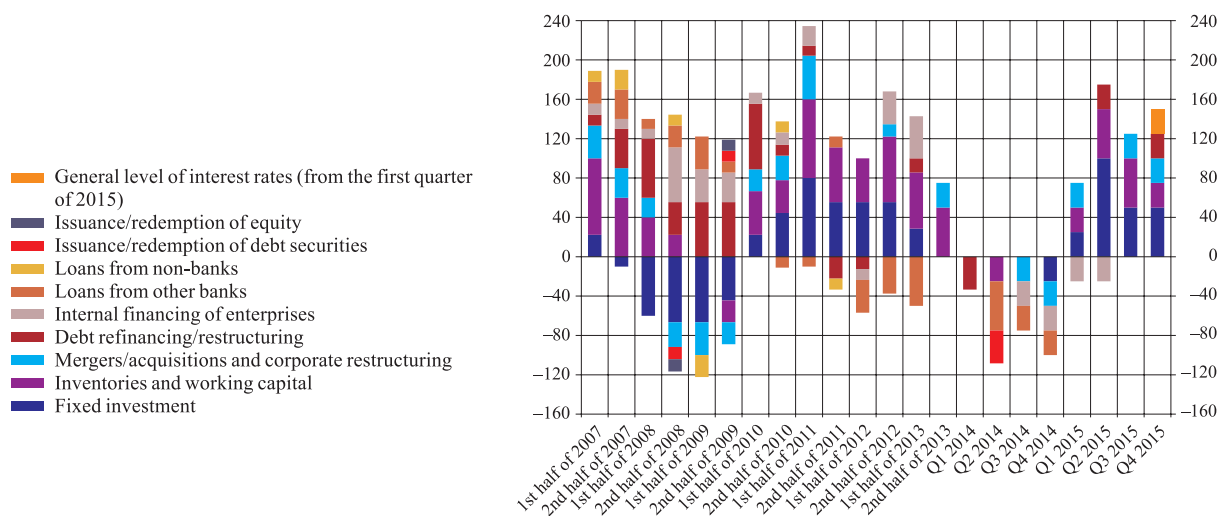


* Cumulative changes in net percentage of banks reporting increased demand for loans.

** Net percentage of banks reporting increased demand for loans.

The rise in demand for loans or credit lines observed in the fourth quarter of 2015 was supported by various factors. The intention of enterprises to increase their fixed investment was mentioned as a factor driving the demand of enterprises twice, whereas the objectives of investing more in inventories and working capital, mergers/acquisitions and corporate restructuring, low general level of interest rates as well as debt refinancing/restructuring and renegotiation were reported once as contributing factors (see Chart 5).

Chart 5
FACTOR CONTRIBUTIONS TO DEMAND FOR LOANS TO ENTERPRISES
(net percentage of banks reporting positive factor contributions; %)



Latvian banks expect a rise in demand for loans to enterprises and household loans in the first quarter of 2016. The demand of large enterprises for loans has grown in the fourth quarter of 2015 and most of the surveyed banks expect an increase in the demand for loans from small and medium-sized enterprises in the next quarter. One bank expects that the rise in the demand for loans to small and medium-sized enterprises will be accompanied by an increased demand for loans to large enterprises and the overall

demand for loans to enterprises. Nevertheless, looking by maturity, the demand for long-term loans to enterprises is likely to be higher. Two banks anticipate a rise in the demand for household loans for house purchase in the first quarter of 2016, whereas one bank expects that the demand for consumer credit and other credit will grow.

Ad hoc questions

Replying to the ad hoc questions about the impact of the regulatory or supervisory actions related to the CRR/CRD IV package and other specific capital, leverage or liquidity requirements, one of the surveyed Latvian banks reports that it has increased its liquid assets within the last six months, whereas another bank expects a rise in its risk-weighted assets in the next six months. The latter will raise the amount of average loans, whereas the amount of riskier loans is likely to remain unchanged.

All surveyed banks admit that they do not intend to participate in the last three auctions of targeted longer-term refinancing operations (hereinafter "TLTROs"; sixth auction at the end of 2015 and seventh and eighth auctions in 2016) as they have sufficient funding and liquidity. In one case, concerns over an insufficient demand for loans are mentioned. The banks that have participated in the past TLTROs report that they will use the obtained funds for substituting interbank lending and granting loans to enterprises. The past TLTROs have improved the financial situation of those banks, particularly their market financing conditions and ability to improve profitability.