

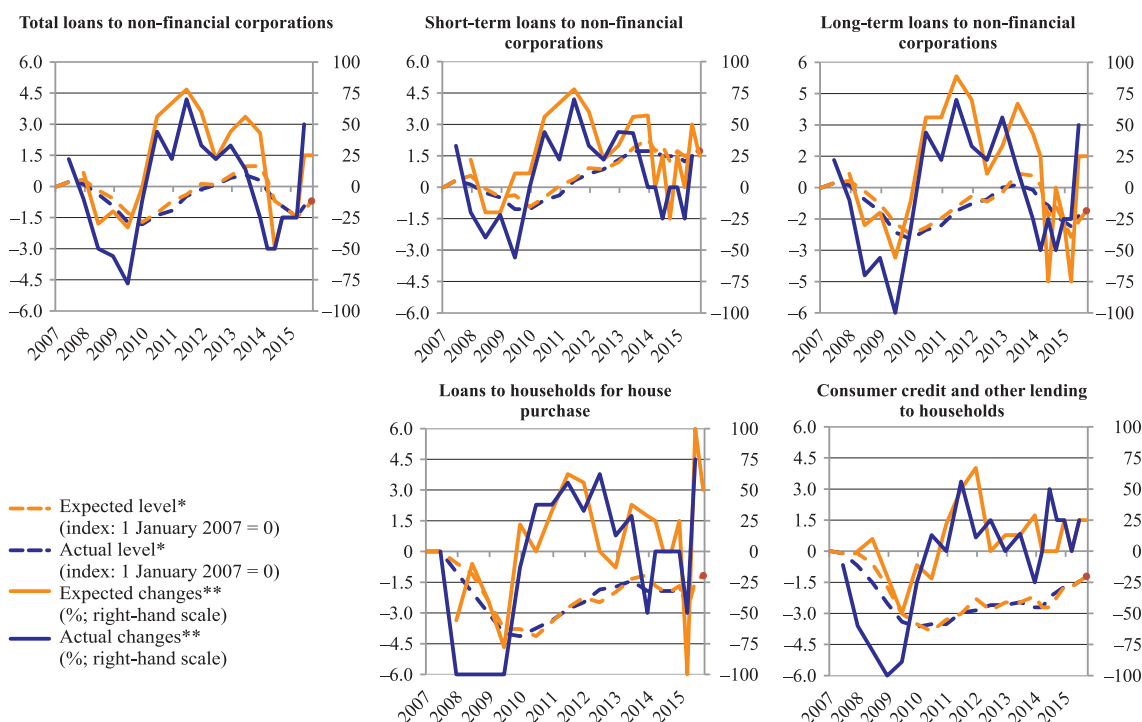
## Euro area bank lending survey of June 2015: main results for Latvia

In June 2015, Latvijas Banka in cooperation with the European Central Bank conducted the regular euro area bank lending survey. Four credit institutions of Latvia participated in the survey; the replies are aggregated in the euro area bank lending survey results<sup>1</sup>. The survey conducted in June 2015 contains information on the lending development trends during the second quarter of 2015 and bank expectations for the third quarter of 2015.

### Loan demand

Two Latvian credit institutions indicated that the overall demand for loans and credit lines to non-financial corporations increased in the second quarter of 2015 (see Chart 1). The demand for loans and credit lines to small and medium-sized non-financial corporations grew more than that for loans and credit lines to large non-financial corporations. Two Latvian credit institutions informed that the demand for loans and credit lines to large non-financial corporations had augmented, while three credit institutions notified that the demand for loans and credit lines to small and medium-sized non-financial corporations had picked up. Two Latvian credit institutions reported that the demand for long-term loans to non-financial corporations had grown, but one credit institution informed that the demand for short-term loans had increased.

**Chart 1**  
**LOAN DEMAND**



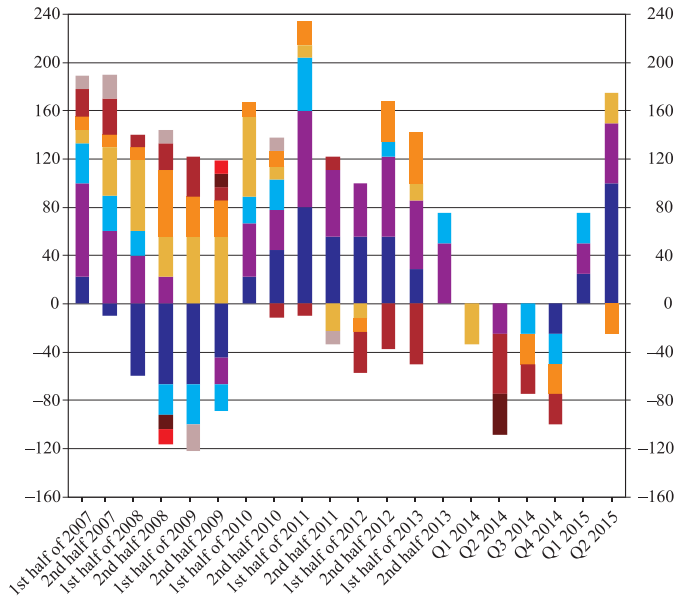
\* Net cumulative changes of credit institutions reporting increased demand for loans.

\*\* Net percentage of credit institutions reporting increased demand for loans.

<sup>1</sup> 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 THE DEMAND FOR LOANS TO NON-FINANCIAL CORPORATIONS**  
*(net percentage of credit institutions reporting positive factor contributions; %)*

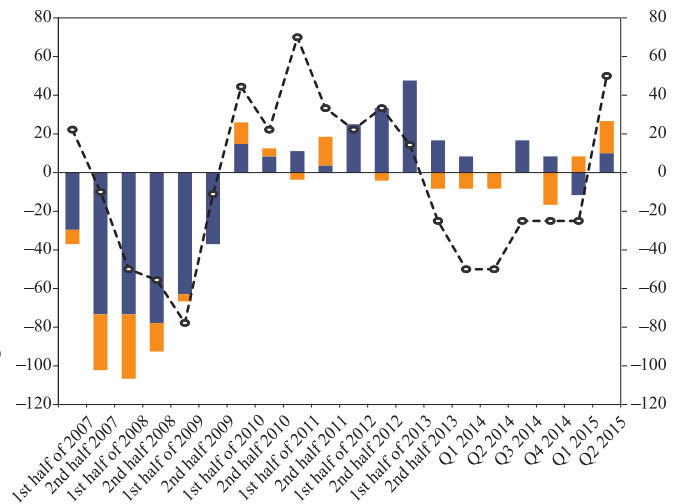
- Issuance/redemption of equity
- Issuance/redemption of debt securities
- Loans from non-banks
- Loans from other banks
- Internal financing of non-financial corporations
- Debt refinancing/restructuring
- Mergers/acquisitions and corporate restructuring
- Inventories and working capital
- Fixed investment



In the second quarter of 2015, the demand for loans and credit lines to non-financial corporations was mainly facilitated by higher financing needs (see Chart 2). All Latvian credit institutions acknowledged that non-financial corporations' demand for loans and credit lines had augmented along with their wish to invest in fixed assets. According to two credit institutions, the need to invest in inventories and working capital had a positive impact on non-financial corporations' demand. One credit institution attributed the demand for loans and credit lines to non-financial corporations to refinancing or restructuring of debt and an agreement on new conditions. As in previous quarters, the use of alternative sources of financing reduced non-financial corporations' demand for loans and credit lines in the second quarter of 2015; however, the effect of this factor was not decisive. One Latvian credit institution indicated that non-financial corporations' demand for loans and credit lines in the second quarter of 2015 was reduced by employment of internal funds. Latvian credit institutions projected further increase in the demand for loans and credit lines to non-financial corporations in the third quarter of 2015. One credit institution envisaged that non-financial corporations' overall demand for loans and credit lines would go up and that demand for each loan category would also rise (for loans to small and medium-sized non-financial corporations, loans to large non-financial corporations, short-term loans to non-financial corporations and long-term loans to non-financial corporations). Two credit institutions pointed out that the demand for loans to small and medium-sized non-financial corporations would increase in the next quarter.

**Chart 3**  
**FACTOR CONTRIBUTIONS TO THE DEMAND FOR LOANS TO HOUSEHOLDS FOR HOUSE PURCHASE**  
*(arithmetic mean of each group of factors; each factor is measured as a net percentage of credit institutions reporting positive factor contributions; %)*

- Use of alternative housing finance (replacement effect)
- Financing needs/Factors underlying demand for loans
- o-- Actual demand

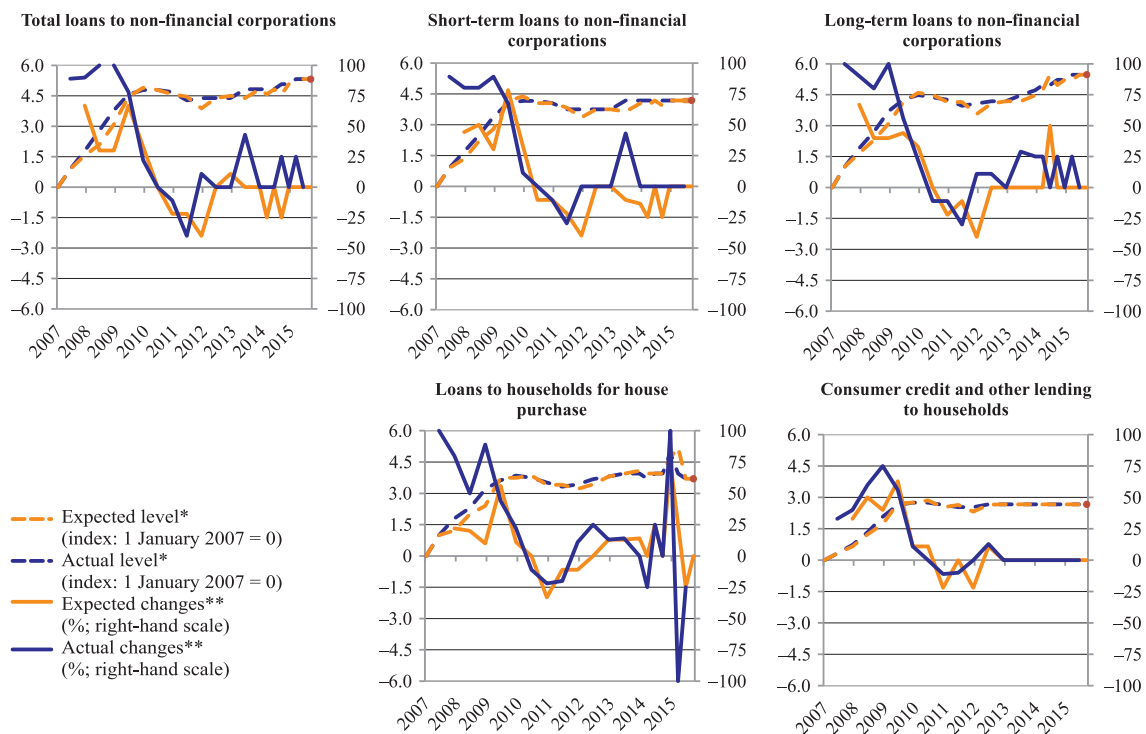


According to information provided by three Latvian credit institutions, the demand for loans to households for house purchase slightly picked up in the second quarter of 2015 (see Chart 1). One credit institution mentioned the state support programme for house purchase for families with children recently introduced in Latvia as a factor that has a significant positive impact on the demand for loans to households for house purchase. Under this programme, households may make a smaller first down payment when borrowing funds for house purchase. More favourable regulatory and fiscal regime of the housing market somewhat facilitated the demand for loans to households for house purchase as it was expected. In the previous quarter, credit institutions eased credit standards for loans to households for house purchase as a result of the amendments to the Insolvency Law (see Chart 3). These amendments are favourable to credit institutions and they took effect on 1 March 2015. An increase in consumer confidence, reduced first down payment and loans granted by other credit institutions also slightly contributed to the demand for loans to households for house purchase. Two credit institutions foresee that the demand for loans to households for house purchase might go up somewhat in the third quarter of 2015.

One Latvian credit institution pointed out that household demand for consumer credit and other lending had augmented in the second quarter of 2015 (see Chart 1). Household demand for consumer credit and other lending was supported by their wish to purchase durable consumer goods (cars, furniture), by higher consumer confidence as well as loans granted by other credit institutions. One credit institution informed that household demand for consumer credits and other lending might slightly increase in the third quarter of 2015.

### Credit standards and terms and conditions

**Chart 4**  
**CREDIT STANDARDS**



\* Net cumulative changes of credit institutions reporting tightening credit standards.

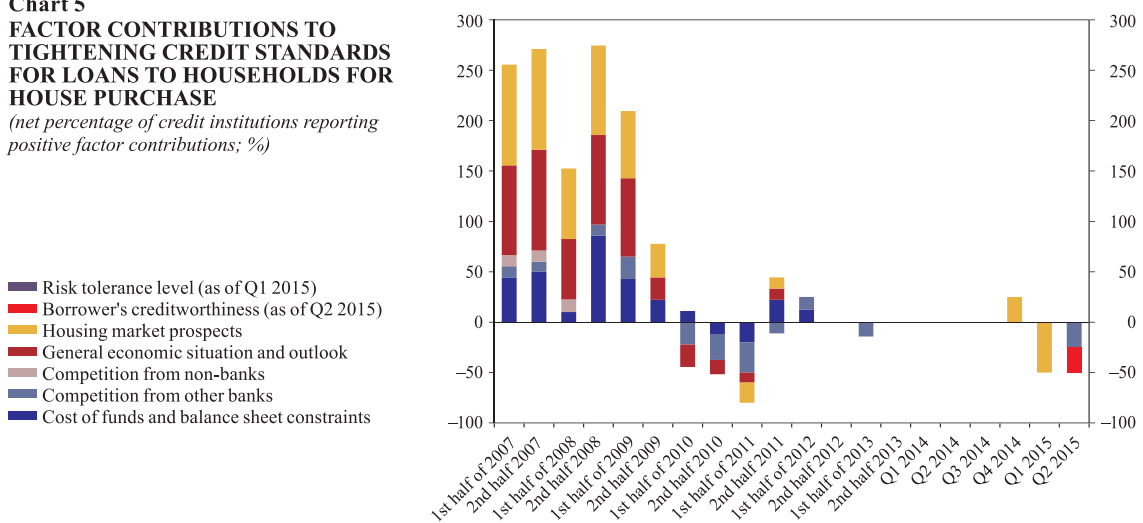
\*\* Net percentage of credit institutions reporting tightening credit standards.

Latvian credit institutions did not change credit standards for loans to non-financial corporations as well as their terms and conditions in the second quarter of 2015 (see Chart 4). The share of rejected loan applications submitted by non-financial corporations remained unchanged in all

credit institutions. One credit institution indicated that the situation and prospects of individual economic sectors or non-financial corporations as well as creditworthiness of borrowers contributed to the application of slightly tighter credit standards for loans to small and medium-sized non-financial corporations; however, the impact of this factor was not sufficient to significantly change the overall situation in the credit institution. No Latvian credit institution envisages changes in credit standards for loans to non-financial corporations in the next quarter.

In the second quarter of 2015, one credit institution eased credit standards for loans to households for house purchase as it had foreseen in the previous quarter. The share of its rejected loan applications submitted by households to receive loans for house purchase also shrank in the second quarter of 2015. The above credit institution explained that growing competition of other credit institutions and improved borrowers' creditworthiness contributed to an easing of credit standards (see Chart 5). Latvian credit institutions do not intend to change credit standards for loans to households for house purchase in the next quarter (see Chart 4).

**Chart 5**  
**FACTOR CONTRIBUTIONS TO TIGHTENING CREDIT STANDARDS FOR LOANS TO HOUSEHOLDS FOR HOUSE PURCHASE**  
(net percentage of credit institutions reporting positive factor contributions; %)



The credit institution that had eased credit standards for loans to households for house purchase in the second quarter of 2015, also eased terms and conditions for the respective loans. Due to competition, this credit institution reduced collateral requirements, the loan-to-value ratio and other loan size limits in relation to loans to households for house purchase. In the second quarter of 2015, no credit institution changed the margins on loans to households for house purchase; however, one credit institution pointed out that the mutual competition of credit institutions affects it. Meanwhile, one Latvian credit institution informed that it had increased non-interest rate charges on loans to households for house purchase.

As in previous quarters, credit standards for consumer credit and other lending to households remained unchanged in the second quarter of 2015 (see Chart 4). No Latvian credit institution changed the terms and conditions of these credit standards either. Credit institutions have no plans of changing credit standards for consumer credit and other lending to households in the third quarter of 2015.

### Other lending aspects

Credit institutions indicated that the negative value of EURIBOR had an effect on lending trends in the second quarter of 2015. Under the new conditions of the money market, credit institutions include a provision in the new loan agreements or in amendments to the current loan agreements providing that the spread over the money market index shall not be below zero.

Over the past six months, one credit institution slightly decreased its capital, while another one intends to somewhat cut down the amount of risk weighted loans in the next six months,

including the amount of medium-risk and riskier loans with regard to the new regulatory capital requirements as well as other specific regulatory or supervisory measures related to capital, leverage or liquidity requirements. No Latvian credit institution changed its credit standards or lending margins in the course of the preceding six months and does not plan to change them over the next six months in relation to these requirements.

Latvian credit institutions did not participate in the third targeted longer-term refinancing operation (TLTRO) conducted by the Eurosystem, and they also do not intend to take part in the next TLTROs, since two credit institutions have no funding limits, one credit institution points to insufficient demand for loans, while one credit institution has no powers to make such decisions. The credit institution that participated in the first two TLTROs conducted by the Eurosystem informed that it had used the received financial resources for the purposes of replacing other interbank loans and for lending to non-financial corporations. The financial resources received within the framework of TLTROs have improved the financing conditions and profitability of the above credit institution or will improve them in the future.