Results of July 2013 Survey on Credit Institution Lending to Non-financial Corporations and Households

In July 2013, the Bank of Latvia conducted a regular credit institution survey on lending and compiled information about the lending development trends in the first half of 2013 and credit institutions' expectations for the second half of 2013. The survey covered seven credit institutions representing 89% of the aggregate credit institutions' loan portfolio to resident non-financial corporations and households at the end of the first half of 2013.

Credit standards and terms and conditions

According to the survey results, **the credit standards for non-financial corporations**, particularly for short-term loans, **became tighter in the first half of 2013** (see Chart 1.a). The trend of setting tighter credit standards observed at the close of 2011 and beginning of 2012 re-emerged at some credit institutions in 2013; moreover, for the second half-year in the run, none of the credit institutions applied credit standard easing in practice.

The credit standards for households, in turn, have remained unchanged overall (with only one single credit institution reporting some credit standard tightening for loans to households for house purchase; see Chart 1.b).

In the second half of 2013, **credit institutions overall have no plans for substantial changes in credit standards**, yet some individual credit institutions project slight adjustments or alterations to previously set standards.

Chart 1a

CHANGES IN CREDIT STANDARDS FOR NON-FINANCIAL CORPORATIONS

(net percentage of credit institutions reporting tightening of credit standards)

Actual
Credit institution expectations

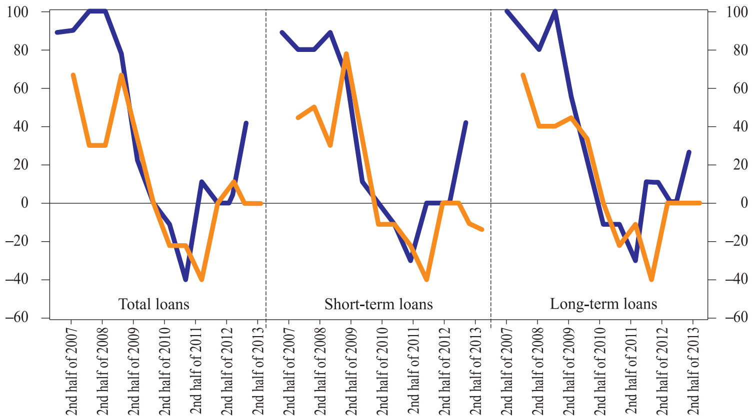
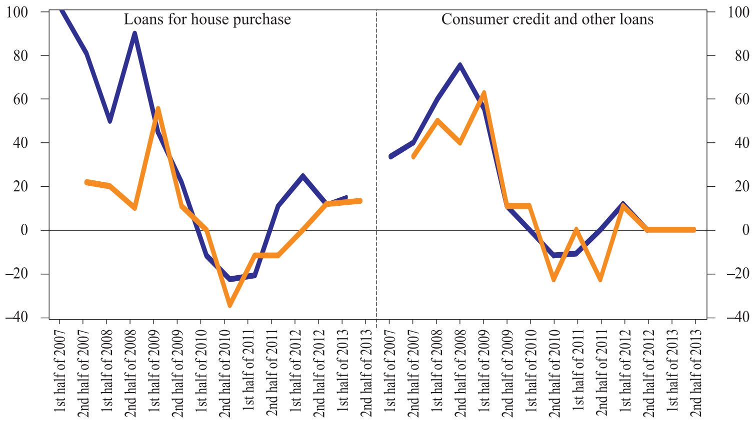


Chart 1b

CHANGES IN CREDIT STANDARDS FOR HOUSEHOLDS

(net percentage of credit institutions reporting tightening of credit standards)

Actual
Credit institution expectations



Credit institution responses lead to a conclusion that there are several **factors**, including financial position of credit institutions, access to market financing and competition among credit institutions, that continue to contribute to favourable credit standards applied to non-financial corporations (see Chart 2.a). The assessment by credit institutions of the impact that individual sector and non-financial corporation outlook might exert on credit standards for non-financial corporations has been controversial; nevertheless, it may be concluded overall that the setting of tighter credit standards for non-financial corporations in the first half of 2013 was primarily driven by such factors as slightly more pessimistic expectations of the general economic activity and the outlook for some economic sectors and non-financial corporations. As to the loans to households for house purchase and consumer credit and other lending, no factor has overall notably impacted their credit standard changes in the first half of 2013 (see Chart 2.b).

In the first half of 2013, several credit institutions set tighter loan terms and conditions for non-financial corporations by introducing specific terms and conditions in loan contracts and setting tighter terms on the size of loans and collateral. Meanwhile, loan approval terms for households remained broadly unchanged overall, with only some credit institutions reporting somewhat narrowing margins on consumer credit and other lending to households.

Chart 2a

FACTORS CONTRIBUTING TO TIGHTENING OF CREDIT STANDARDS FOR LOANS AND CREDIT LINES TO NON-FINANCIAL CORPORATIONS

(net percentage of credit institutions reporting positive factor contributions)

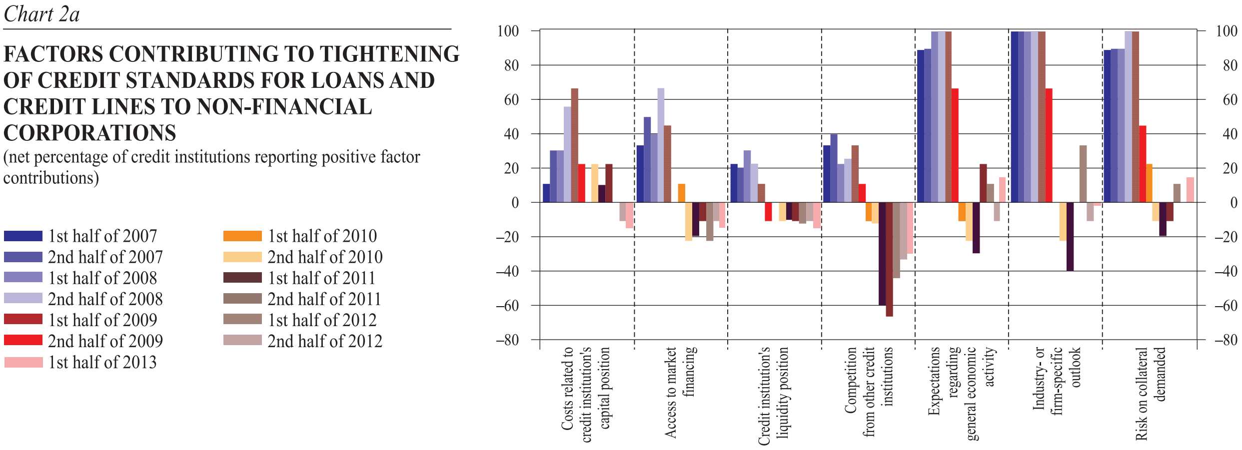
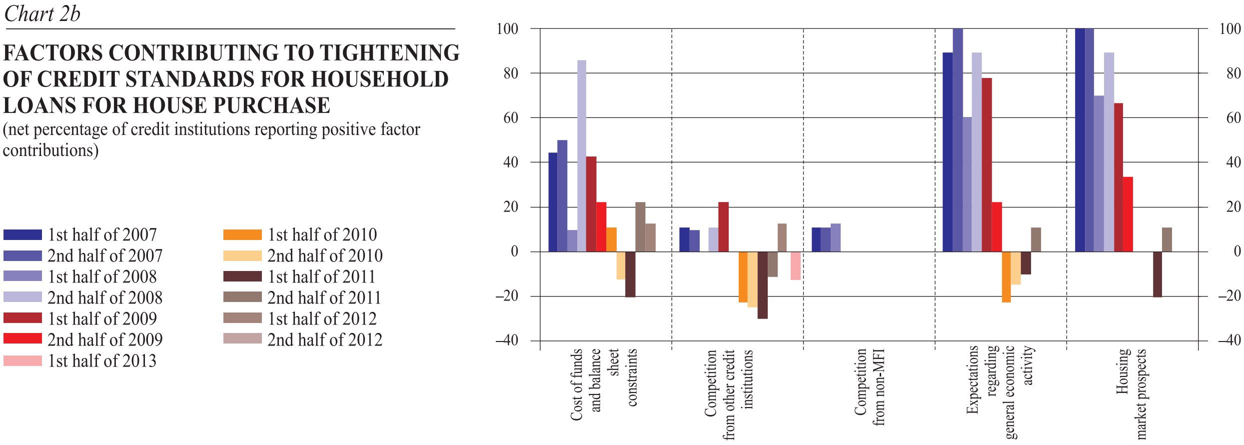


Chart 2b

FACTORS CONTRIBUTING TO TIGHTENING OF CREDIT STANDARDS FOR HOUSEHOLD LOANS FOR HOUSE PURCHASE

(net percentage of credit institutions reporting positive factor contributions)



Loan demand

According to the aggregated survey results, **the upward trend observed since 2010 in loan demand was continuing** (see Chart 3). In the first half of 2013, the loan demand from non-financial corporations accelerated at a slower pace, whereas the growth in loan demand from households was slightly stronger vis-á-vis the previous half-year.

Chart 3a

CHANGES IN DEMAND FOR LOANS AND CREDIT LINES TO NON-FINANCIAL CORPORATIONS
(net percentage of credit institutions reporting increased demand)

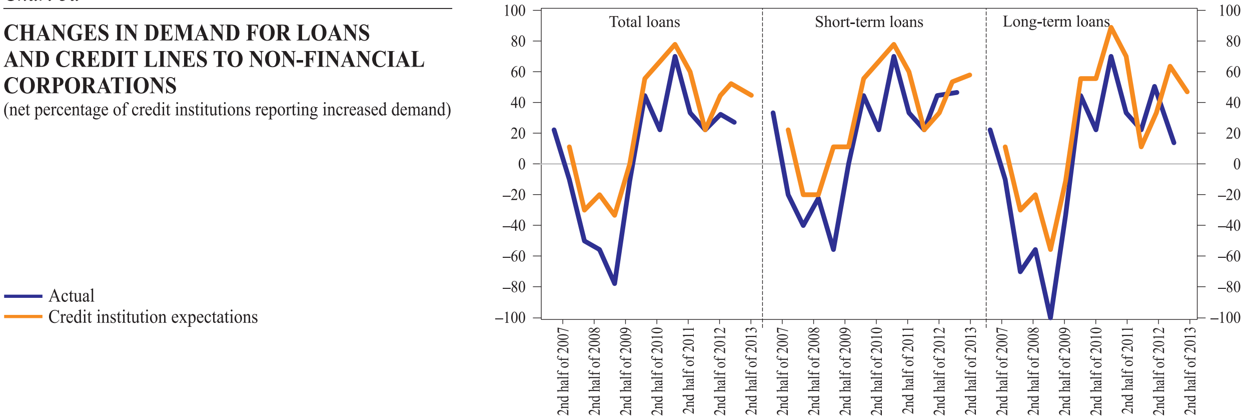
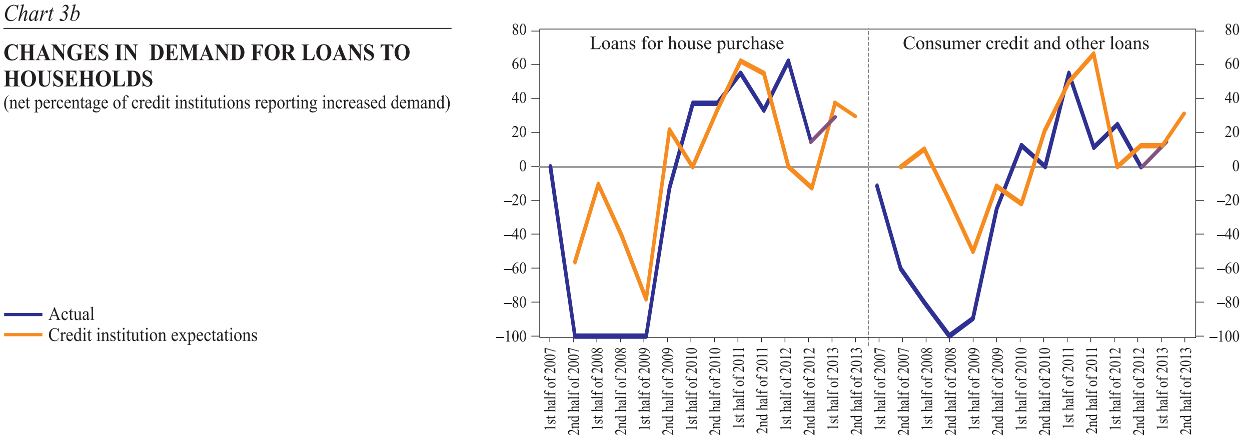


Chart 3b

CHANGES IN DEMAND FOR LOANS TO HOUSEHOLDS
(net percentage of credit institutions reporting increased demand)



Credit institutions listed fixed asset investments and inventories and current asset financing among the traditional factors contributing to loan demand from non-financial corporations; in addition, weaker opportunities for the use of internal sources of financing also spurred the loan demand. Several credit institutions reported that the demand for their loans was contained by lending activities of other credit institutions. As to the growth of household credit demand, stronger confidence of borrowers in improving their financial situation and more optimistic housing market prospects figured (as previously) as the major demand-driving factors. The recourse to other sources of financing slightly hindered the growth in the demand for consumer credit and other lending.

In the second half of 2013, **credit institutions expect an increase in loan demand from both households and non-financial corporations.**

Financial position of borrowers

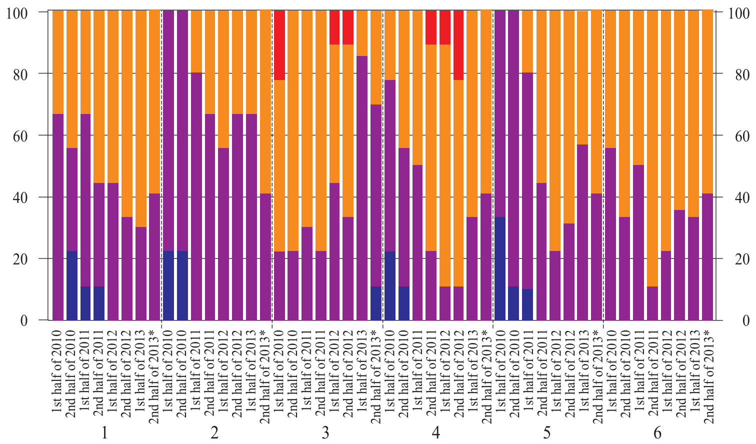
According to the credit institutions' assessment, **the financial position of borrowers continued to improve in the household sector and almost all major economic sectors** in the first half of 2013 (see Chart 4). Manufacturing, wherein the financial position of operating non-financial corporations was referred to as unchanged by most credit institutions (in contrast to optimistic stances voiced half a year before) was the only exception. Credit institutions expect the financial positions of households and major economic sectors (excluding manufacturing) to improve also in the second half of 2013. Even though the expectations for non-financial corporations operating in manufacturing are mixed, credit institutions generally expect that their financial position will remain unchanged.

Chart 4

CREDIT INSTITUTIONS' ASSESSMENT OF CHANGES IN FINANCIAL POSITION OF HOUSEHOLDS AND NON-FINANCIAL CORPORATIONS IN INDIVIDUAL SECTORS
(%)

Broadly unchanged/will not change
Improved/will improve
Deteriorated/will deteriorate
Improved considerably/will improve

1 Households
2 Real estate
3 Manufacturing
4 Trade
5 Construction
6 Transportation
* Credit institutions expectations.



Loan restructuring

Credit institutions give **an ever more positive assessment to creditworthiness of non-financial corporations after the expiration of applied temporary postponement of debt liabilities due to loan restructuring**, with more than a half of all the respondents pointing to the improvement of creditworthiness. In the last two years, credit institutions reported the creditworthiness of households with applied postponement of debt liabilities mainly as unchanged, while the respondent replies for the first half of 2013 generally testify to **improved creditworthiness of households after applied temporary postponement of debt liabilities due to loan restructuring**.

Chart 5

CHANGES IN CUSTOMERS' CREDITWORTHINESS AFTER EXPIRATION OF DEBT LIABILITIES' POSTPONEMENT TERM DUE TO LOAN RESTRUCTURING
(vis-à-vis period prior to restructuring; percentage of responses)

Households	Non-financial corporations
1st half of 2010	1st half of 2010
2nd half of 2010	2nd half of 2010
1st half of 2011	1st half of 2011
2nd half of 2011	2nd half of 2011
1st half of 2012	1st half of 2012
2nd half of 2012	2nd half of 2012
1st half of 2013	1st half of 2012