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REVIEW

OF THE BANK LENDING SURVEY

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The Review was prepared by the Economics and Financial Stability Service of the Bank of Lithuania.

AIMS, METHODS AND PRINCIPLES OF THE SURVEY

The survey of commercial banks and foreign bank branches operating in Lithuania is aimed at obtaining information on various aspects related to bank lending: credit standards applied, lending terms and conditions for households and enterprises[1], contributions to their development, credit demand, bank expectations for future credit developments, etc. The Review of the Bank Lending Survey is published twice a year.

In carrying out the Survey, bank senior loan officers were asked to specify changes that occurred from January to March 2017 in their banks' credit standards and terms and conditions set for households and non-financial corporations, developments in credit demand, factors that influenced these developments the most, etc. The present Review was prepared using generalised data from a survey of six commercial banks and four foreign bank branches (hereinafter 'banks'). The Survey was conducted in March 2017.

The Review of the Bank Lending Survey presents a summarised opinion of the respondents, which does not necessarily reflect the official position and perceptions of banks, including the Bank of Lithuania or its employees. In summarising the opinions and calculating the proportion of banks that have chosen a particular answer, the responses of banks were given the same weight, regardless of their market share.

In the Review, the net percentage is defined as the difference between the percentage of banks responding 'tightening of credit standards' (increasing demand) and the percentage of banks responding 'easing of credit standards' (lowering demand). A positive net percentage indicates that a larger share of banks have tightened their credit standards, a negative (–) – that they have eased them. Likewise, the net percentage is assessed by calculating changes in demand and other indicators: a positive net percentage refers to an increase in demand, a negative percentage – to its decline.

The annex to this Survey, including data tables in Excel format, is available on the Bank of Lithuania website. In the tables, the mean is defined as a weighted average, attributing to the responses the following values: 1 for 'tightened considerably (a decline in demand)'; 2 for 'tightened somewhat (a decline in demand)'; 3 for 'remained basically unchanged'; 4 for 'eased somewhat (an increase in demand)'; 5 for 'eased considerably (an increase in demand)'. When the value of the mean is lower than 3, it indicates that most banks have tightened their credit standards; when the value of the mean is higher than 3, it indicates that most banks have eased their credit standards. Likewise, the value of the mean is assessed by calculating changes in demand and other indicators: the value, if lower than 3, indicates a decline in demand; if it is higher than 3 – an increase in demand.

As of 2015, the results of the survey of banks operating in Lithuania are included in the results of the euro area bank lending survey published by the European Central Bank (ECB). The results of the present Review and the survey published by the ECB may differ, since, according to existing practice, the ECB presents the survey results on four banks that hold the largest market share by assets held. The euro area bank lending survey is available on the ECB website.

[1] In this context, enterprises are non-financial corporations.

REVIEW OF THE SURVEY RESULTS

Overall credit standards and terms and conditions for enterprises and households remained basically unchanged in Q1 2017 (see Chart 1). Two out of ten banks reported having somewhat tightened their credit standards[2] for loans to small enterprises (the remaining eight banks indicated leaving their credit standards unchanged). Credit standards for loans to larger enterprises and households were tightened to a lesser degree: lending standards for these segments were tightened only by one bank respectively, other respondents stated leaving them unchanged. In Q1 2017, overall terms and conditions[3] remained unchanged for both enterprises and households. The surveyed banks believe that in the upcoming quarter credit standards on loans to enterprises should somewhat tighten, on loans for house purchases – remain unchanged, on consumer loans – slightly ease.

According to banks, household demand for consumer credit followed a moderate downward trend in Q1 2017, while that for housing and business loans remained unchanged. The main drivers of the current housing loan demand were the outlook for housing market developments (including prices), the overall low level of interest rates and high consumer confidence. Demand for loans to enterprises was mainly influenced by a greater need for inventories and working capital. According to the surveyed, the upcoming quarter should see an increase in demand for consumer credit and corporate loans, while that for loans for house purchase should somewhat diminish.

At the end of Q1 2017, a significant share of bank loans to enterprises and households[4] had the EURIBOR floor[5] (see Chart 2). The respondents indicated that the bulk of such loans was in the enterprise segment, where, on average, 55 per cent of the loan stock were set an interest rate floor. In terms of the housing loan segment, an interest rate floor was set for approximately a third of the loan stock (31%). With regard to the portfolio of loans granted to enterprises and households, the loan stock with an interest rate floor accounted for, on average, 48 per cent of the total portfolio.

Majority of the surveyed banks believed that in the next 12 months new-construction apartment prices will increase by up to 5 per cent (see Chart 3). Nine out of ten banks expected a rise in new-construction apartment prices in the next 12 months: seven respondents indicated expecting a moderate (up to 5%) rise in prices, another two banks foresaw more robust (5–10%) price growth. In terms of old-construction apartment prices, the surveyed provided much more moderate assessments: seven out of ten banks believed that in the upcoming 12 months their prices will remain unchanged, another three respondents indicated an up-to-5 per cent price rise.

According to the majority of the banks, currently there are no imbalances in Lithuanian housing and commercial RE markets. Eight out of ten banks indicated that currently there are no imbalances in the housing market, yet one respondent saw some signs of their formation in the commercial RE market.

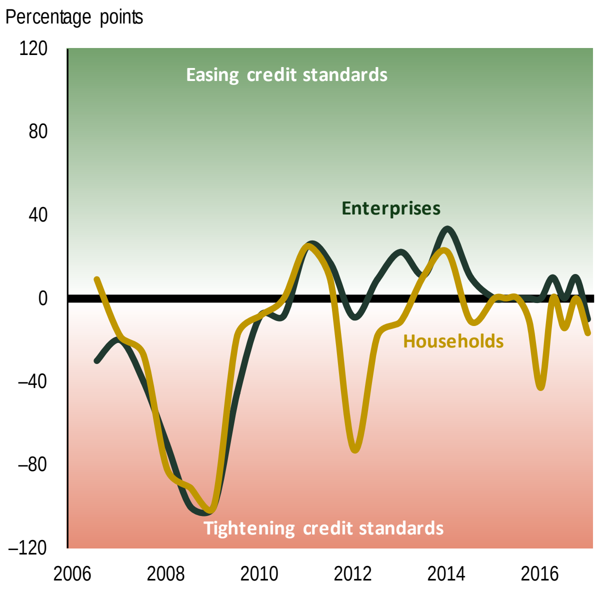
Compared to 2010, current standards for housing and consumer loans are noticeably tighter, lending to enterprises also tightened, although to a lesser degree. During the survey, respondents were asked to compare current credit standards for loans to enterprises and households with those prevalent in 2003 and 2010. According to the respondents, current standards as applied to both enterprises and households are tighter than in 2003; however, when comparing to 2010, nearly half of banks reported that credit standards for enterprises have remained basically unchanged, while in terms of lending to households, seven out of ten banks indicated that credit standards have tightened. The same questions were also presented to other euro area banks. Results show that since 2010 credit standards have been tightening in the euro area as well, yet somewhat to a lesser degree than in Lithuania (especially in terms of loans to households) (see Chart 4).

[2] Credit standards are internal guidelines of the bank, based on which loans are granted. They define the borrower criteria acceptable for the bank: income, assets held, age and employment. Standards are established prior to the actual loan negotiation with customers on the terms and conditions and the actual loan approval/rejection decision.
[3] Credit terms and conditions refer to the conditions of a loan that a bank is willing to grant: the amount of a loan and collateral, time limit, lending margin, comparable interest rate index which is associated with the lending margin and additional taxes (conclusion of a contract, administration, etc.).
[4] Consumer loans and loans for house purchase.
[5] Costs of loans provided by banks operating in Lithuania are usually comprised of a borrower margin and a variable interest rate (e.g. EURIBOR). Having become negative, the latter also reduces the borrower margin, hence new loan agreements are often subject to a condition, whereby the EURIBOR rate, once negative, is equated to 0 per cent.

KEY CHARTS

Chart 1. Over the quarter, credit standards for loans to the private sector remained basically unchanged

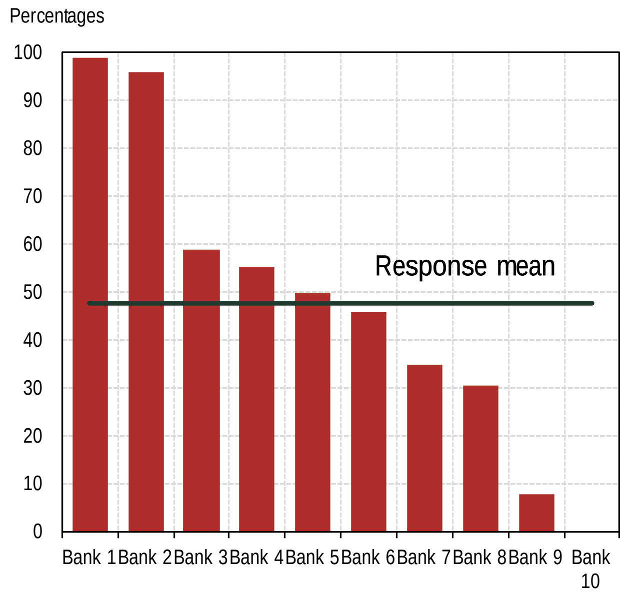
Developments in credit standards for loans to the private sector



Source: Bank of Lithuania.

Chart 2. Significant share of bank loans have a set interest rate floor

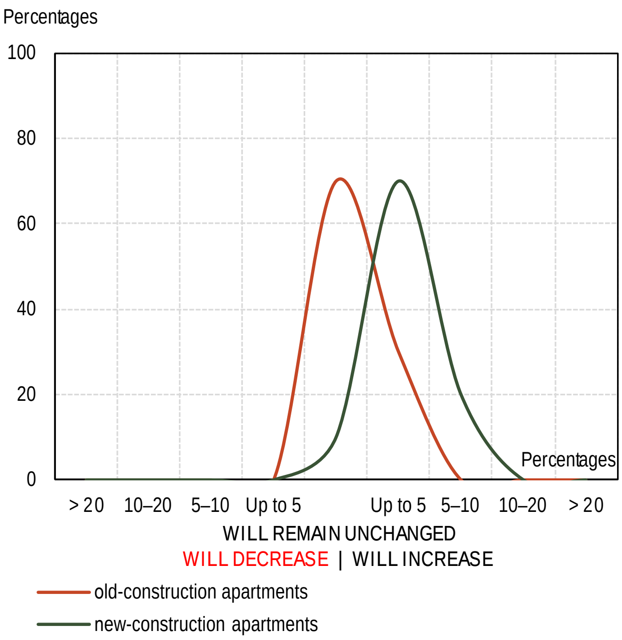
Ratio of loans with an interest rate floor to total loans



Source: Bank of Lithuania.

Chart 3. Majority of the respondents expect an up-to-5 per cent rise in new-construction apartment prices

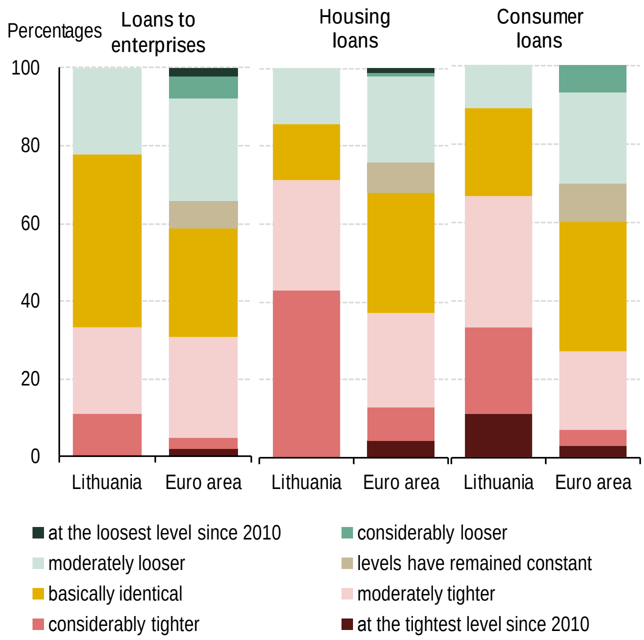
Projections for housing price dynamics



Source: Bank of Lithuania.

Chart 4. Since 2010 credit standards in Lithuania have been tightening more than in the euro area

Comparison of current credit standards and those applied in 2010 in Lithuania and the euro area



Source: Bank of Lithuania.