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REVIEW

OF THE BANK LENDING SURVEY

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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 activities: credit standards applied, lending terms and conditions for households and enterprises, 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 any changes that occurred between October and December 2017 in their banks' credit standards and terms and conditions set for households and non-financial enterprises[1], developments in credit demand, the factors that most influenced these developments, etc. Some questions were aimed at finding out the bank representatives' expectations about the development of credit standards and demand until the end of 2019. The respondents were asked to evaluate possible changes in answering questions about their expectations. The review was prepared using generalised data from a survey of six commercial banks and four foreign bank branches (hereafter 'banks'). The survey was carried out between December 2017 and January 2018.

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 interpreted in calculating changes in demand: a positive net percentage refers to an increase in demand, a negative percentage – to its decline.

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 banks have eased their credit standards. Likewise, the value of the mean is assessed by calculating the changes in demand: the value, if lower than 3, indicates a decrease in demand; if it is higher than 3 – an increase in demand.

As of 2015, the results of the survey of commercial banks and foreign bank branches 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 have the largest market share by holdings of assets. The euro area bank lending survey is available on the ECB website.

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

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

REVIEW OF THE MAIN SURVEY RESULTS

Over the fourth quarter of 2017, the number of banks that curbed lending to real estate (RE) development companies increased, while competition in the crediting of this sector, too, will slightly decrease in the near future (see Chart 1). Two thirds of the respondents indicated that they had curbed lending to companies engaged in RE development activities. During the previous survey, half of the respondents curbed lending. The aim to redistribute the loan portfolio, the general economic situation, and the viability of the plan submitted by a company were identified as the main causes for cutting lending by five, three and two banks respectively. Four banks reported that competition among banks for loans to RE development sector companies is likely to decrease further. Five respondents expected the level of competition to remain unchanged.

Most of the respondents expect that housing prices will remain unchanged over the next 12 months; however, the number of those who expect them to fall has increased significantly compared to the previous period (see Chart 2). Five out of nine surveyed banks believe that prices for both new and old-construction housing will remain unchanged over the next 12 months. Nevertheless, one-third of the surveyed banks indicated that old-construction housing prices would drop by up to 5%, whilst one bank anticipated a more marked reduction in old-construction housing prices of 10–20%. The outlook for new-construction housing selling prices of all banks was similar: two banks expected price declines of up to 5%, one indicated that prices would go down by 5-10% and one anticipated an increase of up to 5% over the next 12 months. Compared to the results of previous surveys, many more banks expect a fall in housing prices. For example, during the survey of the third quarter of 2017, more banks expected new and old-construction housing prices to increase (four and three banks respectively), whilst one and two banks respectively expected a decline..

During the fourth quarter of 2017, banks operating in Lithuania slightly tightened their credit standards[2] and terms and conditions[3] for enterprises (see Chart 3). Credit standards for both small and medium-sized enterprises (SMEs) and larger enterprises tightened similarly; two respondents reported having tightened them somewhat for SMEs and for larger enterprises respectively. Two banks reported having also slightly tightened their general credit standards for enterprises, while three banks indicated having increased somewhat loan interest margins for enterprises. The main reason for tightening credit standards and terms and conditions for enterprises was a decline in risk tolerance. The respondents also reported that they left credit standards and terms and conditions for housing and consumer loans basically unchanged over the fourth quarter of 2017, while two banks slightly increased their margins on housing loans. In assessing the immediate prospects for credit standards, the surveyed banks indicated not planning to change them significantly.

More than half of the surveyed banks reported currently noticing some domestic housing market imbalances in relation to the demand or price level (see Charts 4 and 5). Five out of nine surveyed banks claimed they were noticing some housing market imbalances. When asked to specify what the imbalances are related to (housing demand, supply or price level) most respondents (three banks) reported that the housing market imbalances are related to the housing supply. Two more banks indicated that they are related to the housing price level. Not a single bank saw any housing demand related imbalances. Most banks did not see any commercial real estate market imbalances: out of nine banks, only one saw supply related imbalances.

The demand for corporate and household loans remained broadly unchanged over the fourth quarter of 2017, banks do not expect any changes in the loan demand in the near future either. Most banks indicated that neither corporate nor household demand for housing and consumer loans has changed over the quarter. The main contributions that spurred the present demand for corporate loans were capital investment and working capital requirement. The de-

[2] Credit standards are internal regulations of a bank it follows in granting loans. They define the borrower's criteria acceptable to the bank: income, assets held, age, and employment. Standards are established prior to negotiating borrowing terms and conditions with customers and prior to taking a decision on granting a loan or rejecting the application.
[3] Credit terms and conditions are conditions under which the bank agrees to borrow: the amount of loan and collateral, maturity, margin on the loan, benchmark interest rate index associated with the lending margin, additional charges (conclusion, administration of the contract, etc.).

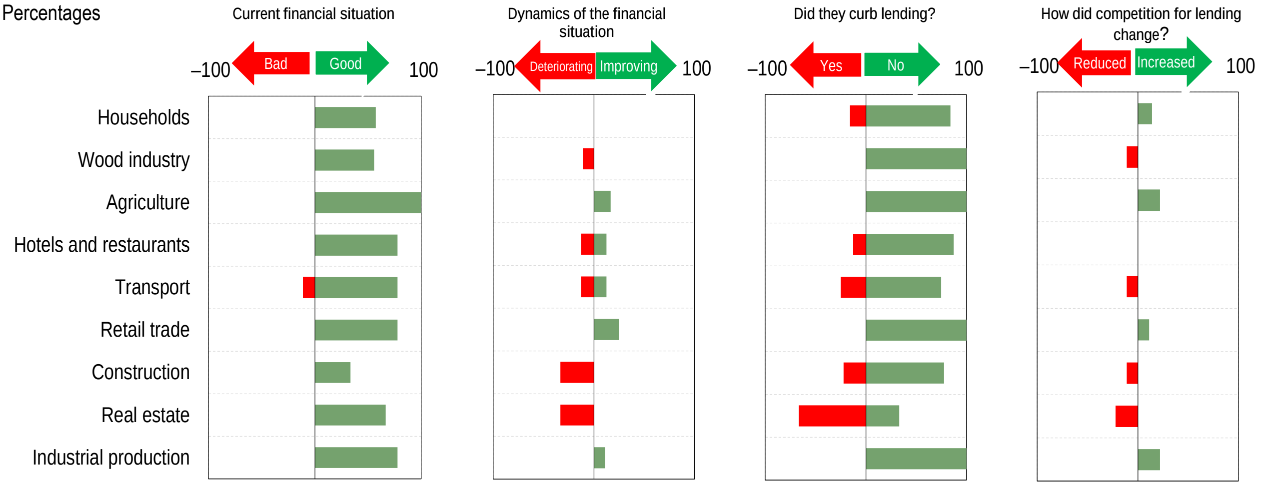
mand for consumer loans was stimulated by the need to purchase durable goods (e.g. vehicles). All respondents reported expecting no changes in the demand for corporate loans or household loans in the near future.

KEY CHARTS

Chart 1. Most banks curbed lending to enterprises engaged in real estate development activities

Share of respondents

Percentages

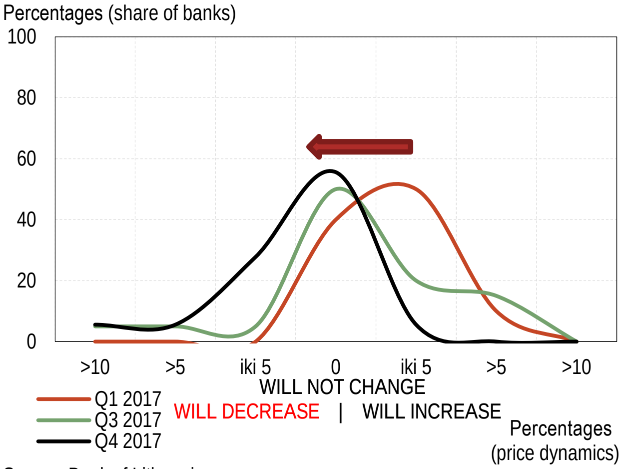


Source: Bank of Lithuania.

Chart 2. Most banks expect that housing prices will not hange, but the number of those who believe they will go down increased

Share of respondents

Percentages (share of banks)

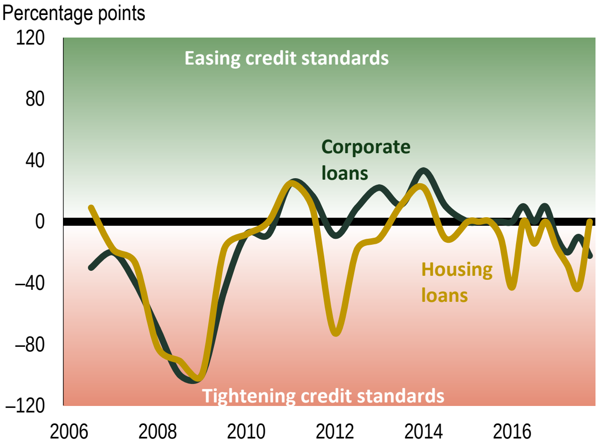


Source: Bank of Lithuania.

Chart 3. According to banks, credit standards for enterprises tightened, those for housing loans – remained unchanged over the quarter

Dynamics of credit standards for loans to the private sector

Percentage points

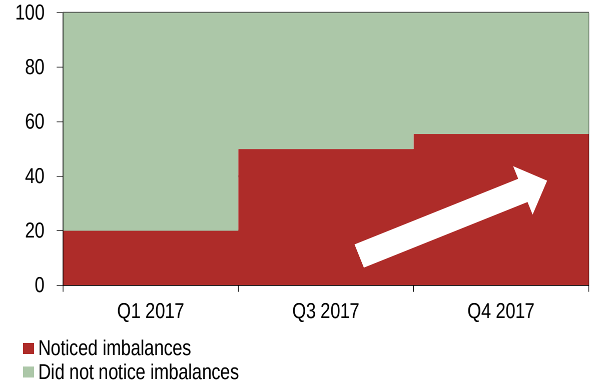


Source: Bank of Lithuania.

Chart 4. Increasingly more banks notice housing market imbalances

Share of respondents

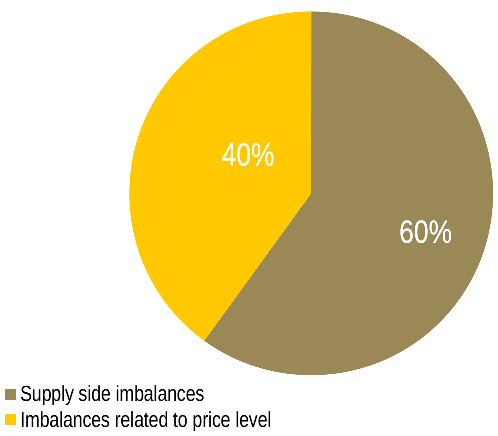
Percentages



Source: Bank of Lithuania.

Chart 5. Banks that noticed housing market imbalances related them to the supply and price levels

Share of respondents



Source: Bank of Lithuania.