



**LIETUVOS BANKAS**  
EUROSISTEMA

# **Review of the Survey of Risks to Lithuania's Financial System**

2019/1



## **AIMS, METHODS AND PRINCIPLES OF THE SURVEY**

In order to assess the views of Lithuania's financial institutions towards potential challenges to the sustainable development of the financial system, the Bank of Lithuania conducts the Survey of Risks to Lithuania's Financial System. The survey is conducted on a biannual basis (in May and November). Banks, insurance undertakings, leasing companies, credit unions, investment management companies and other financial institutions assess the sources of major risks to Lithuania's financial system, the probability of their materialisation and potential impact on the domestic financial system over the upcoming 6 months.

The survey sample included 39 respondents (8 banks and foreign bank branches operating in Lithuania, 8 insurance undertakings, 8 credit unions and 15 other financial institutions, i.e. leasing companies, financial brokerage firms, management companies). The survey questions were presented to the executives of the financial institutions surveyed. All responses were given the same weight, regardless of the market share retained by the respondent. Respondents were able to choose which questions to answer.

## REVIEW OF THE SURVEY RESULTS

**Cyberattacks and imbalances in the real estate (RE) market were believed to be the major risks to Lithuania's financial system in the first half of 2019 (see Table 1).** The probability of their materialisation was also deemed the highest. According to respondents, unsustainable developments in RE prices or imbalances in the RE market would potentially have the strongest adverse effect. Survey participants also assume that the importance of a snapback in risk premia in global financial markets – a risk that 6 months prior was considered to be posing the greatest threat – diminished (see Table 2). Compared to the previous survey, two risks – namely weakening European sovereign debt sustainability and geopolitical tensions – saw the largest fall in importance.

**In the period under review, the importance of cyber risk was mostly highlighted by banks (see Chart 1).** Four financial institutions claimed having been hit by cyberattacks over the past 6 months, yet none of them incurred any losses (see Chart 2). Overall, all groups of financial institutions<sup>1</sup> considered cyberattacks as one of the three most important risks to Lithuania's financial system. In addition to the already-mentioned risks, insurance undertakings also emphasised the risk of potential deterioration in corporate financial health (risk XI in Table 1), credit unions – deterioration in household financial health (risk IX in Table 1), while other financial institutions gave the most prominence to threats posed by imbalances in Scandinavian countries (risk V in Table 1). Compared to the last survey, the three main internal risks<sup>2</sup> faced by respondents remained unchanged, deterioration in corporate financial health being the most important (see Chart 3).

**According to respondents, possibilities of mitigating the potential impact of most of the risks to Lithuania's financial system are higher than average (see Table 1).** The surveyed were most apprehensive about the possibilities of mitigating the impact of risks related to cyber security and the domestic market, i.e. robust credit growth, unforeseen developments in the RE market and the financial standing of households, corporates and financial institutions. Respondents were most positive in terms of possibilities of reducing the effects of external risks.

**According to the majority of the surveyed, the probability of an event that would have a strong adverse impact on Lithuania's financial system has remained unchanged (see Chart 4).** Compared to the last survey, there were slightly less of those stating that the probability of such an event has increased (25.6%, compared to 43.5%). For the second consecutive half-year none of the surveyed financial institutions believed that the likelihood of a high impact event reduced. When asked what could have the strongest negative effect on Lithuania's financial system in the upcoming 6 months, respondents listed geopolitical tensions (e.g. Brexit, trade wars, the US-Iran conflict), short-sighted political statements in Lithuania, a snapback in risk premia, adverse price fluctuations, cyberattacks and risks related to potential money laundering scandals.

**Corporate risk appetite diminished in the first half of 2019 (see Chart 5).** Only one financial institution stated that its risk appetite is rather high than low. The share of the surveyed claiming that their risk appetite is low (or rather low than high) increased. Besides banks, which consider their risk level to be somewhat higher, the vast majority of institutions consider that their risk appetite is lower compared to other Lithuanian financial institutions (see Chart 6). The majority of financial institutions (77%) indicated that their risk appetite should remain unchanged over the upcoming 6 months. Slightly more than half of respondents (54%; during the last survey – 75%) believe that the risk appetite of other institutions will also remain at current levels, while 31% state that the risk appetite of other institutions will diminish.

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<sup>1</sup> Banks, insurance undertakings, credit unions and other financial institutions.

<sup>2</sup> Financial institutions were asked to identify the key risk that impacts their activities, not Lithuania's financial system.

## KEY CHARTS AND TABLES

Table 1. Assessment of risks to Lithuania's financial system (first half of 2019; total surveyed)

Risk	Importance	Probability	Potential impact	Possibilities of mitigating
I. Cyberattacks	2.9	2.9	2.9	2.9
II. Unsustainable RE price developments or imbalances in the RE market	2.9	2.7	3.1	3.1
III. Snapback in risk premia in global financial markets	2.7	2.6	2.8	2.2
IV. Deceleration in Lithuania's exports due to an economic slowdown in main trading partners	2.6	2.4	2.8	2.3
V. Imbalances in Scandinavian countries and potential contagion effects on Lithuania's financial system	2.6	2.3	3.0	2.3
VI. Deterioration in corporate financial health	2.5	2.2	2.9	2.7
VII. Problems in the European banking sector and potential contagion effects on Lithuania's financial system	2.5	2.2	2.7	2.1
VIII. Unsustainable credit dynamics or imbalances in the credit market	2.4	2.2	2.7	3.1
IX. Deterioration in household financial health	2.4	2.1	2.8	2.8
X. Weakening European sovereign debt sustainability and potential contagion effects on Lithuania's financial system	2.3	2.1	2.6	2.1
XI. Drop in profitability of Lithuania's financial institutions amid a prolonged period of low interest rates	2.3	2.2	2.4	2.6
XII. Geopolitical tensions and implications for Lithuania's financial system	2.2	2.2	2.3	2.1

Notes: Risks were ranked according to importance. Risk importance is calculated as a geometric mean of estimates for its probability and potential impact. Importance, probability and potential impact: 1 – low; 2 – lower than medium; 3 – medium; 4 – higher than medium; 5 – high. Possibilities of mitigating risk: 1 – high; 2 – higher than medium; 3 – medium; 4 – lower than medium; 5 – low. Risks were classified according to importance. The level of risk importance, probability, potential impact and possibilities of mitigation is marked in the following way:

Low Medium High

Source: Bank of Lithuania.

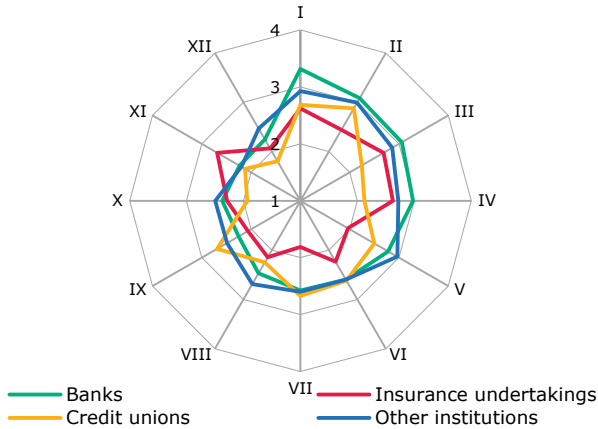
Table 2. Importance dynamics of risks to the financial system (first half of 2019; total surveyed)

Risk	2016		2017		2018		2019
	I	II	I	II	I	II	I
I. Cyberattacks	2.8	2.6	3.0	3.1	3.1	2.8	2.9
II. Unsustainable RE price developments or imbalances in the RE market	2.5	2.7	2.8	2.9	2.7	2.7	2.9
III. Snapback in risk premia in global financial markets	2.6	2.8	2.8	2.7	2.7	3.0	2.7
IV. Deceleration in Lithuania's exports due to an economic slowdown in main trading partners	2.7	2.6	2.3	2.5	2.5	2.5	2.6
V. Imbalances in Scandinavian countries and potential contagion effects on Lithuania's financial system	2.4	2.7	2.5	2.8	2.7	2.5	2.6
VI. Deterioration in corporate financial health	2.3	2.6	2.2	2.6	2.4	2.3	2.5
VII. Problems in the European banking sector and potential contagion effects on Lithuania's financial system		2.5	2.4	2.3	2.2	2.4	2.5
VIII. Unsustainable credit dynamics or imbalances in the credit market	2.2	2.2	2.1	2.3	2.3	2.4	2.4
IX. Deterioration in household financial health	2.2	2.4	2.2	2.3	2.3	2.2	2.4
X. Weakening European sovereign debt sustainability and potential contagion effects on Lithuania's financial system	2.5	2.6	2.4	2.3	2.3	2.7	2.3
XI. Drop in profitability of Lithuania's financial institutions amid a prolonged period of low interest rates	3.4	2.8	2.6	2.5	2.3	2.1	2.3
XII. Geopolitical tensions and implications for Lithuania's financial system	3.1	2.7	2.3	2.5	2.3	2.6	2.2

Notes: Risk importance is calculated as a geometric mean of estimates for its probability and potential impact. Specifics on risks and their level of importance are provided in Table 1. "I" means first half-year, "II" – second half-year.

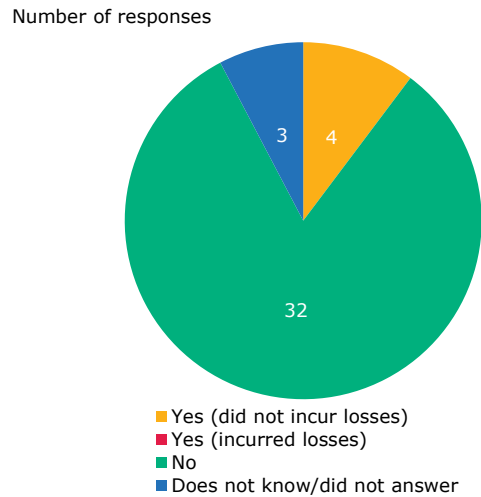
Source: Bank of Lithuania.

**Chart 1. Importance of risks to Lithuania's financial system by financial institution sector**



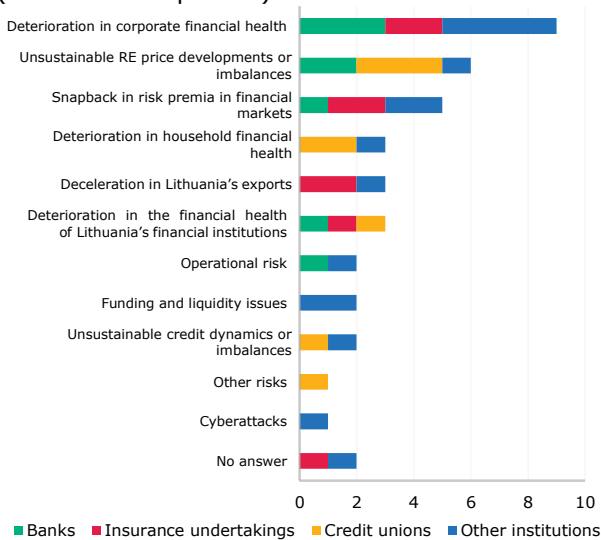
Source: Bank of Lithuania.  
 Note: Risks are enumerated in line with the risk sources in Table 1; risk importance is calculated as a geometric mean of estimates for its probability and potential impact.

**Chart 2. Financial institutions that encountered cyberattacks**



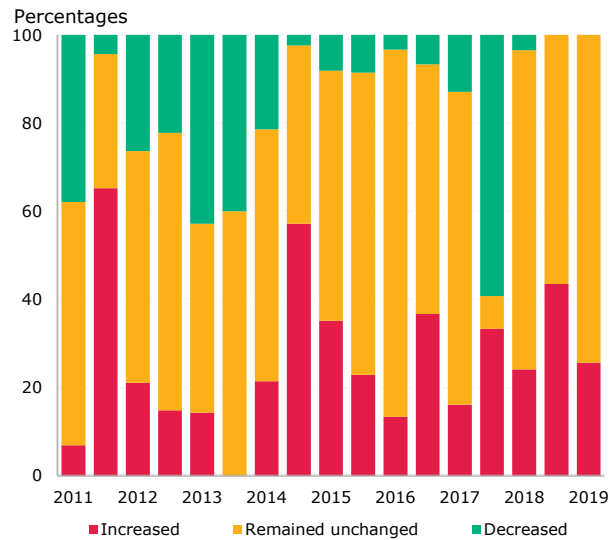
Source: Bank of Lithuania.

**Chart 3. Key risk to the activities of the surveyed institutions by financial sector (number of responses)**



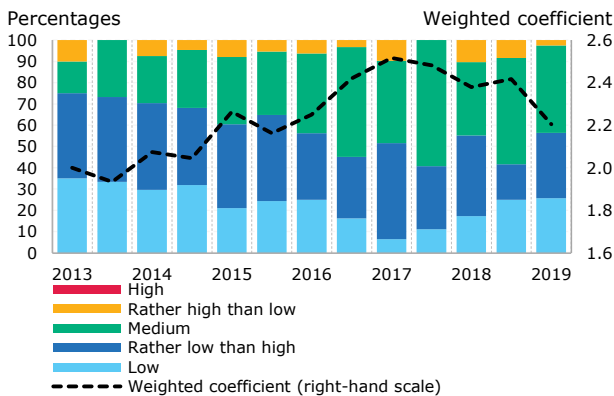
Source: Bank of Lithuania.

**Chart 4. Change in the probability of a high-impact event in Lithuania's financial system over the past 6 months**



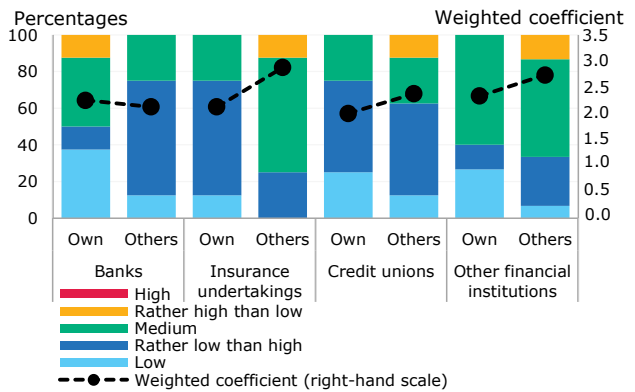
Source: Bank of Lithuania.

**Chart 5. Level of own risk appetite (during the survey)**



Source: Bank of Lithuania.  
 Note: The weighted coefficient is calculated by giving numerical values to risk appetite levels from 1 to 5 (where 1 is low and 5 – high risk appetite) and adding weights to them against the share of each selected answer.

**Chart 6. Level of own and other financial institutions' risk appetite (during the survey)**



Source: Bank of Lithuania.  
 Note: The weighted coefficient is calculated by giving numerical values to risk appetite levels from 1 to 5 (where 1 is low and 5 – high risk appetite) and adding weights to them against the share of each selected answer.