



LIETUVOS BANKAS
EUROSISTEMA

Review of the Bank Lending Survey

2019/1

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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 gathering information on various aspects related to bank lending activities, such as the applied credit standards, credit terms and conditions for households and enterprises, contributions to their development, credit demand, and bank expectations regarding future credit developments. An overview of the survey results is published twice a year.

The survey involved senior loan officers who were asked to specify changes that took place in the second quarter of 2019 in respect of the credit terms and conditions as well as credit standards applied by their banks to households and non-financial corporations, developments in credit demand, the driving factors behind such developments, etc. Some questions were aimed to find out the expectations of bank representatives as to the changes in credit standards and demand over the next three months. The respondents were asked to evaluate potential changes in their answers to questions about expectations. The review was based on aggregated data derived from a survey of four commercial banks and five foreign bank branches (hereinafter collectively referred to as "banks") conducted by the Bank of Lithuania between June and July 2019.

The Review of the Bank Lending Survey provides a summarised opinion of the respondents, which does not necessarily reflect the official position and perceptions of individual banks, including the Bank of Lithuania and its staff. To summarise the opinions and calculate the proportions of banks that had chosen a particular answer, the responses of all banks were given the same weight, irrespective of their market share.

The measure of net percentage used in the review means the difference between the percentage share of banks reporting easing of credit standards (or, for instance, an increase in demand) and the percentage share of banks reporting tightening of credit standards (or, for instance, a decrease in demand). A positive net percentage indicates that a larger proportion of banks has eased credit standards, whereas a negative net percentage means that a larger proportion of banks has tightened them. The same applies to the notion of net percentage used to measure changes in demand: a positive net percentage implies an increase in demand, whereas a negative net percentage shows its decrease.

As of 2015, the results of the survey of commercial banks and foreign bank branches operating in Lithuania are incorporated into 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 not match, given that, in line with existing practice, the ECB provides the survey results on four banks holding the largest market share by assets. The euro area bank lending survey is available on the [ECB website](#).

OVERVIEW OF SURVEY RESULTS

Banks operating in Lithuania kept their credit standards¹ broadly unchanged in the second quarter of 2019 (see Chart 1). A considerable tightening in credit standards for loans to enterprises was reported by only one out of nine banks and none of the banks reported intentions to change their credit standards over the next quarter (see Chart 4). The general credit terms and conditions² as applied by banks to enterprises were also left unchanged. However, one bank somewhat tightened loan margins as well as non-interest rate charges. The trends observed in lending to households were broadly similar: banks left their credit standards unchanged in the second quarter of 2019, yet two banks expect to tighten their credit standards applied to loans for house purchase in the third quarter and one of these two also intends to tighten the respective standards used for consumer credit (see Chart 8). Changes in credit terms and conditions were minor, with just one bank reporting a slight tightening of collateral requirements and of the loan-to-value ratio applied to loans for house purchase.

More banks reported an increase in the share of rejected loan applications in the second quarter of 2019 compared to the first quarter. Two banks indicated a slight increase in the share of rejected corporate loan applications (see Chart 2) and one bank noted an increase in the share of rejected applications for consumer credit and loans for house purchase (see Chart 6).

According to the surveyed banks, credit demand remained broadly unchanged in the second quarter of 2019 and was expected to be stable in the third quarter (see Charts 3, 5, 7 and 9). One of the respondents indicated a decrease in demand for loans in the corporate sector, whereas others reported no observed changes (see Chart 3). One bank, however, noted that corporate financing needs (for fixed investment and debt restructuring) and the decrease in loans from non-bank lenders had a slight positive effect on credit demand. As regards the demand for loans to households, one bank indicated a slight increase in demand for loans for house purchase, another – a slight increase in demand for consumer credit. However, one bank reported a slight decrease in demand for consumer credit (see Chart 7). One of the surveyed banks listed the housing market prospects and consumer confidence as factors having a positive effect on household credit demand.

Five out of eight economic sectors were assessed to have a good or very good financial position by at least half of the banks surveyed, while the dynamics in the financial position of all sectors were viewed as stable by the vast majority of banks (see Chart 10). Enterprises in the forestry, construction and agricultural sectors were rated as having the worst financial position. Moreover, one bank expected deterioration in the financial situation of agricultural sector enterprises, another – in the financial situation of manufacturing sector enterprises, three more banks – in the financial situation of transport sector enterprises (see Chart 11). Even though banks did not curb lending to the majority of sectors during the reporting period, four out of nine banks surveyed reported restricting lending to real estate enterprises. Moreover, three banks noted that they curbed lending to enterprises engaged in construction and transport activities (see Chart 14). The main reasons for restricting access to lending, as indicated by respondents, were the desire to redistribute the banks' loan portfolio and the overall economic situation (see Chart 15). Six out of nine banks also emphasised a decrease in competition among banks for lending to real estate and construction enterprises in the period under review, and four of them expected competition in lending to these enterprises to continue on its downward trend in the third quarter of 2019 (see Charts 12 and 13). Banks had a positive view of household financial situation (five out of seven banks) and two banks expected it to improve further. Only one bank reported restricting lending to households.

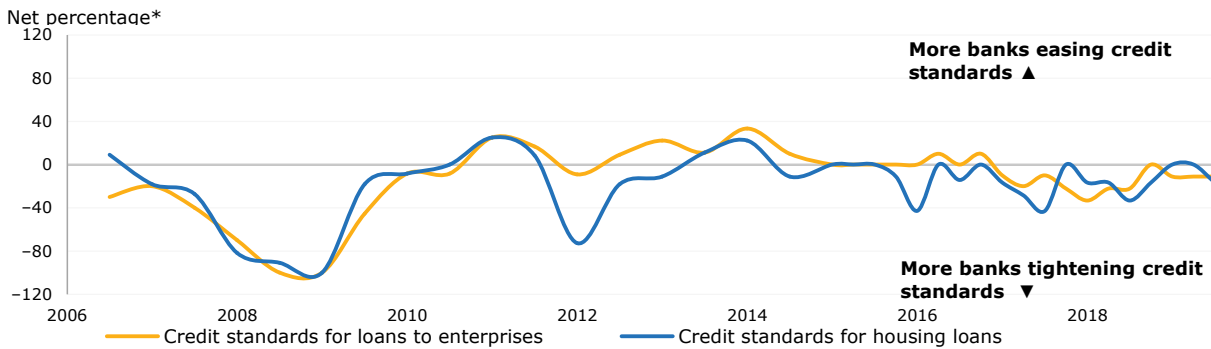
¹ Credit standards are the internal guidelines of a bank, which serve as the basis for loan approval. They define borrower characteristics, such as the income situation, asset holdings, age and/or employment status, that are acceptable to the bank. The standards are established prior to the actual loan negotiation on the terms and conditions and the actual loan approval or rejection decision.

² Credit terms and conditions refer to the conditions of a loan that a bank is willing to grant, such as the size of the loan and collateral, loan maturity, the spread over the relevant reference rate, the benchmark interest rate index underlying the loan margin, additional fees (i.e. a fee for the conclusion of the loan contract, administrative and other fees).

Banks continue to expect to see moderate growth in prices for new-build housing; a third of them notice price level imbalances in the housing market. Six banks forecast an up to 5% increase in prices for new-build housing over the next twelve months, two banks expect an increase of such magnitude in prices for old-construction housing and two more banks – for commercial real estate (see Chart 16). Even though the majority of banks do not observe imbalances in the real estate market (see Chart 18), three out of nine banks reported imbalances in the residential real estate market, one of them also noticed imbalances in the commercial real estate market. All three banks agreed that the real estate market showed price level imbalances. Two of them attributed such imbalances to the supply side, one – both to the supply and demand side (see Chart 19).

CREDIT STANDARDS

Chart 1. Over the past three months, how have your bank's credit standards as applied to the approval of loans or credit lines changed?

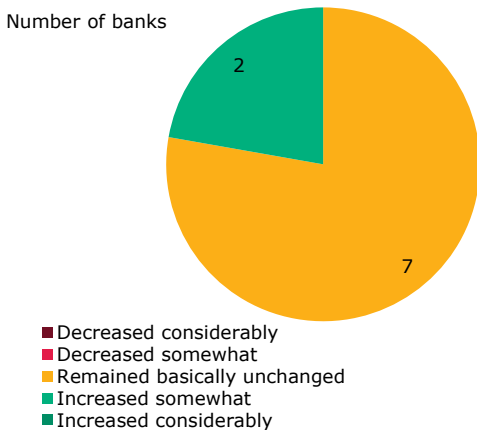


Sources: Bank Lending Survey and Bank of Lithuania calculations.

*The difference between the (percentage) share of banks reporting easing credit standards and the (percentage) share of banks reporting tightening credit standards. A positive net percentage indicates net easing of credit standards and vice versa.

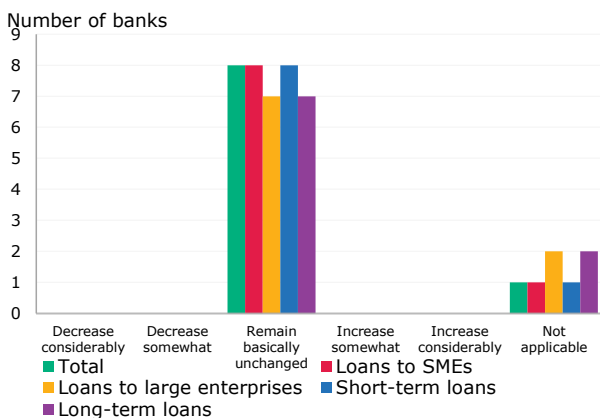
LENDING TO ENTERPRISES

Chart 2. Over the past three months, has the share of enterprise loan applications that were completely rejected by your bank increased, remained unchanged or decreased?



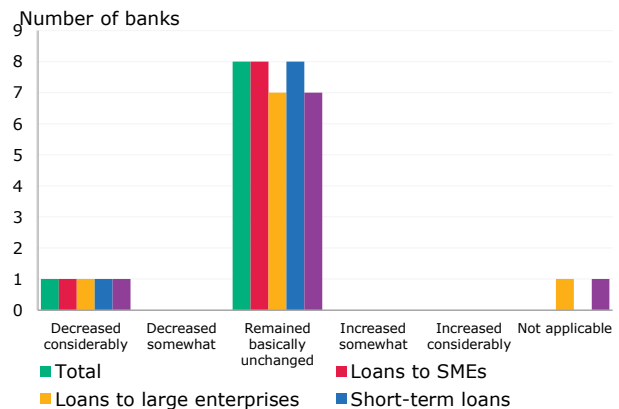
Sources: Bank Lending Survey and Bank of Lithuania calculations.

Chart 4. How do you expect your bank's credit standards as applied to the approval of loans or credit lines to enterprises to change over the next three months?



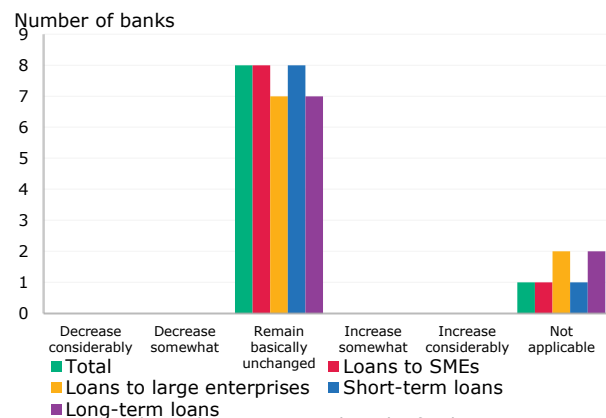
Sources: Bank Lending Survey and Bank of Lithuania calculations.

Chart 3. Over the past three months, how has the demand for loans or credit lines to enterprises changed at your bank?



Sources: Bank Lending Survey and Bank of Lithuania calculations.

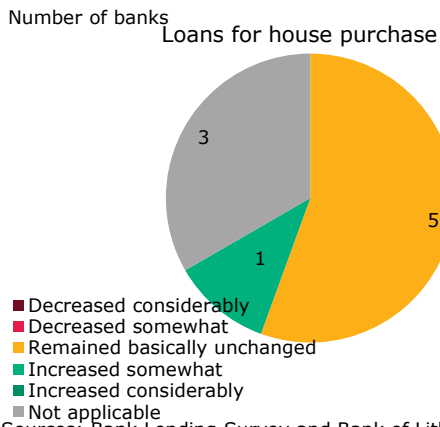
Chart 5. How do you expect demand for loans or credit lines to enterprises to change at your bank over the next three months (apart from normal seasonal fluctuations)?



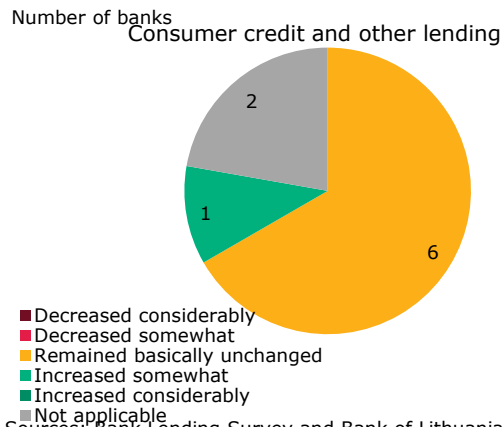
Sources: Bank Lending Survey and Bank of Lithuania calculations.

LENDING TO HOUSEHOLDS

Chart 6. Over the past three months, has the share of household loan applications that were completely rejected by your bank increased, remained unchanged or decreased?

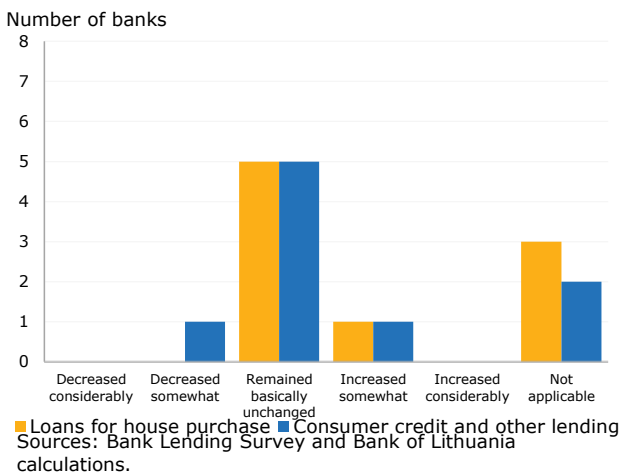


Sources: Bank Lending Survey and Bank of Lithuania calculations.



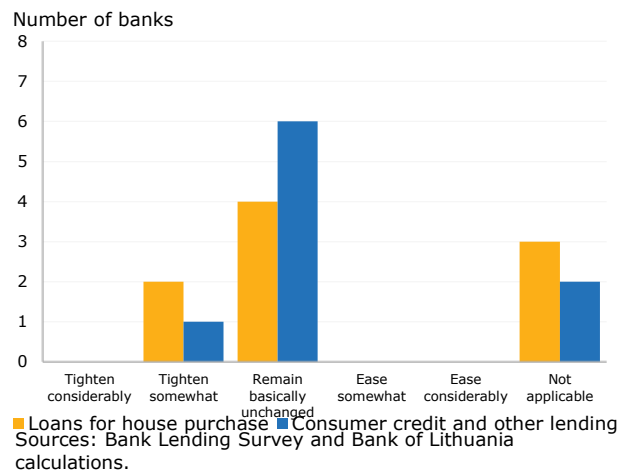
Sources: Bank Lending Survey and Bank of Lithuania calculations.

Chart 7. Over the past three months (apart from normal seasonal fluctuations), how has the demand for loans to households changed at your bank?



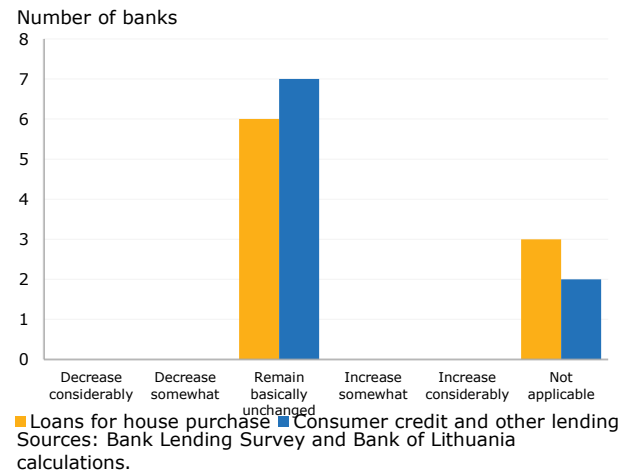
Sources: Bank Lending Survey and Bank of Lithuania calculations.

Chart 8. How do you expect your bank's credit standards as applied to the approval of loans to households to change over the next three months?



Sources: Bank Lending Survey and Bank of Lithuania calculations.

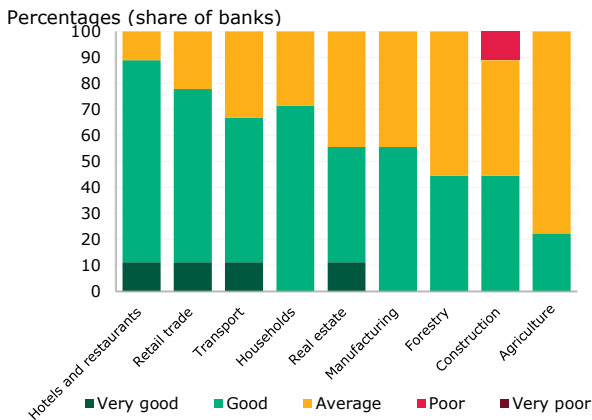
Chart 9. How do you expect demand for loans to households to change at your bank over the next three months (apart from normal seasonal fluctuations)?



Sources: Bank Lending Survey and Bank of Lithuania calculations.

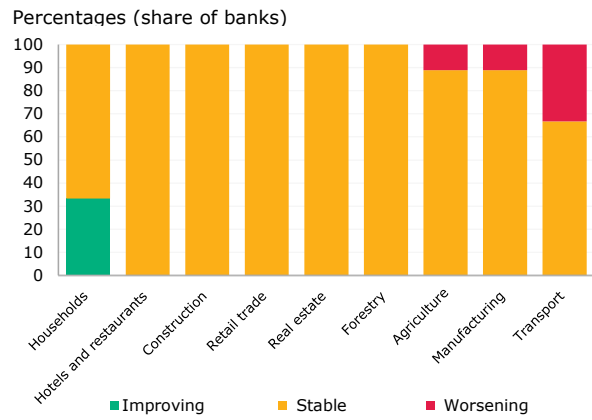
ASSESSMENT OF BORROWERS' FINANCIAL SITUATION

Chart 10. How do you assess the financial situation of enterprises (broken down by economic activity) and households?



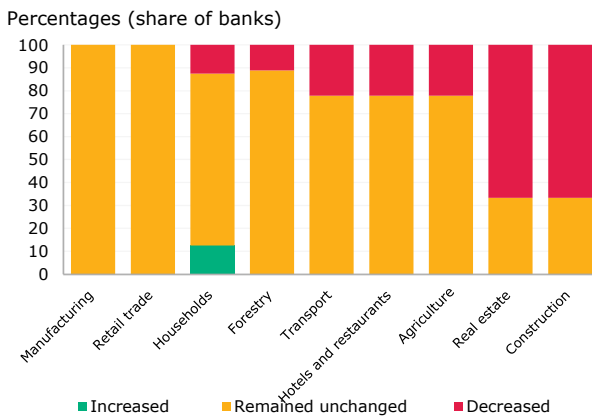
Sources: Bank Lending Survey and Bank of Lithuania calculations.

Chart 11. How do you assess the dynamics of the financial situation of enterprises (broken down by economic activity) and households?



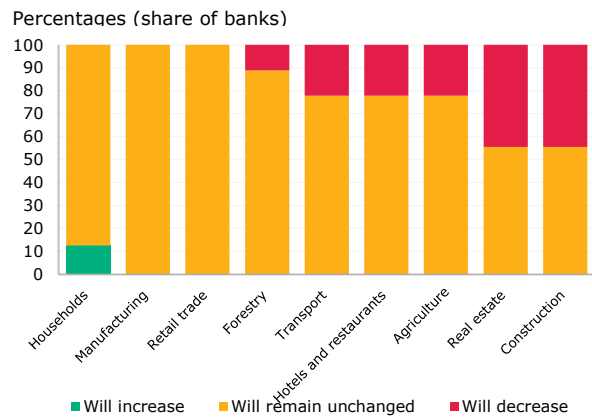
Sources: Bank Lending Survey and Bank of Lithuania calculations.

Chart 12. Over the past three months, how has competition among banks for lending to enterprises (broken down by economic activity) and households changed?



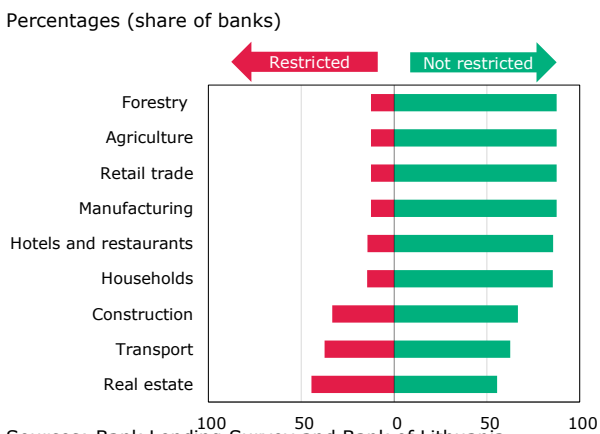
Sources: Bank Lending Survey and Bank of Lithuania calculations.

Chart 13. How do you expect competition among banks for lending to enterprises (broken down by economic activity) and households to change over the next three months?



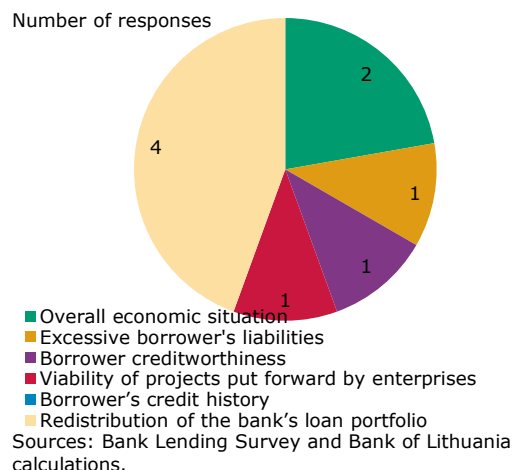
Sources: Bank Lending Survey and Bank of Lithuania calculations.

Chart 14. Over the past three months, has your bank curbed lending to enterprises within a certain economic activity or households?



Sources: Bank Lending Survey and Bank of Lithuania calculations.

Chart 15. If lending was curbed, what were the reasons?



Sources: Bank Lending Survey and Bank of Lithuania calculations.

REAL ESTATE MARKET DEVELOPMENTS

Chart 16. How do you expect real estate prices to change over the next twelve months?

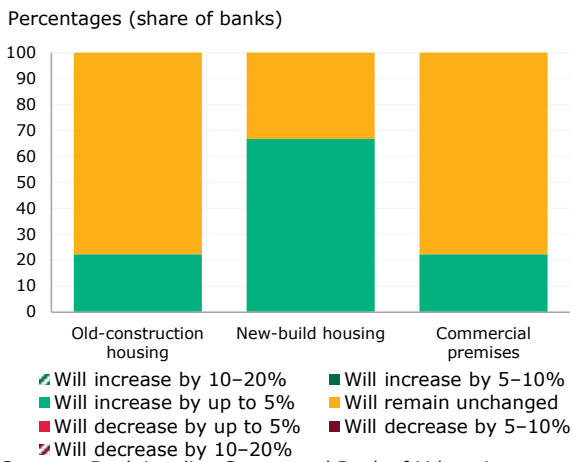


Chart 18. Do you currently notice any imbalances in the real estate market?

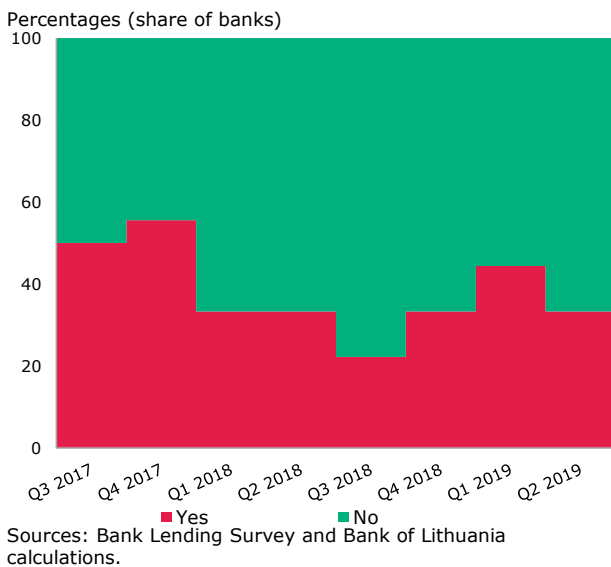


Chart 17. How do you expect prices for new-build housing to change over the next twelve months?

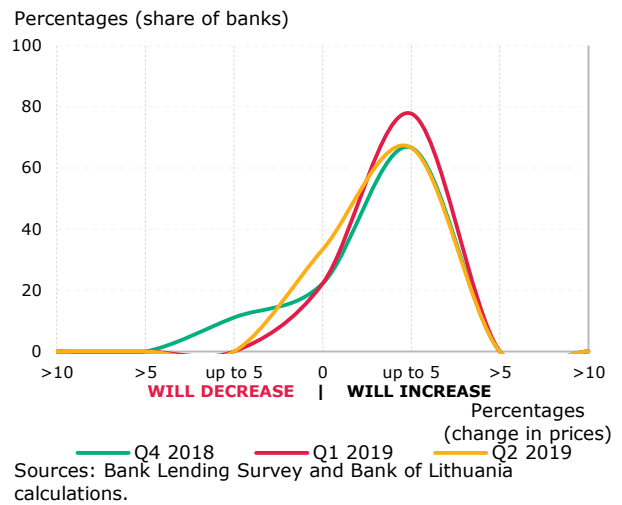


Chart 19. If you currently notice any imbalances in the real estate market, are these attributable to the demand side or the supply side?

