



**LIETUVOS BANKAS**  
EUROSISTEMA

# **Review of the Bank Lending Survey**

2020/1

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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 fourth quarter of 2019 in respect of bank lending activities. 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 in December 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.

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 the 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

**In the fourth quarter of 2019, banks operating in Lithuania kept their credit standards<sup>1</sup> for loans to enterprises and households unchanged, and only one bank somewhat tightened its standards applicable to loans for house purchase (see Chart 1).** None of the banks reported intentions to change their credit standards for loans to enterprises over the next three months (see Chart 4). However, one of the surveyed banks indicated planning to tighten its household credit standards, while another bank, on the contrary, intended to somewhat ease its consumer credit and other lending standards (see Chart 8). Moreover, none of the banks changed their overall credit terms and conditions<sup>2</sup>; however, some of them slightly tightened the terms and conditions applicable to loans for house purchase: two respondents indicated having tightened their loan-to-value ratios as well as somewhat increased the loan margins and collateral requirements.

**Two out of nine banks indicated that the share of rejected applications for corporate loans had slightly increased during the fourth quarter of 2019 (see Chart 2).** The share of rejected household loan applications remained unchanged, while one of the banks indicated that the share of rejected applications for consumer credit or other lending had somewhat contracted (see Chart 6).

**According to two banks, demand for corporate loans in the fourth quarter of 2019 somewhat declined (see Chart 3).** Two respondents pointed out that the demand for corporate loans had decreased (one of them indicated that it had decreased considerably). A decline was observed in all corporate loan segments. One of the respondents believed that demand was mainly affected by mergers (acquisitions) and corporate restructuring as well as the use of internal financing. It should be noted that although other banks did not notice any changes in demand, two of them observed that it was somewhat positively affected by a decline in the use of alternative financing (loans from non-banks and other banks) as well as the growing fixed investment needs. While assessing potential demand developments over the next three months, only one bank expected a decline in the demand for corporate loans (see Chart 5). The surveyed banks did not see any changes in the demand for household loans and did not expect any over the next three months as well (see Charts 7 and 9).

**The financial health of Lithuanian companies was assessed as stable, yet expectations regarding the situation of construction and transport enterprises weakened (see Charts 10 and 11).** In the fourth quarter of 2019, the assessment of the financial health of construction enterprises worsened, with a third of the surveyed banks reporting that the financial stance of such enterprises has been weakening, although there were no such claims in the previous quarter. The assessment of the financial health of transport companies remained unchanged, although the majority of banks (five out of nine) still consider their current situation as deteriorating, while lending to such enterprises was also restricted by most of the surveyed banks (five out of eight, see Chart 14). The majority of respondents assessed the financial stance of households as good or very good, while its development – as stable.

**During the reporting period, the largest decrease in competition was observed in lending to transport, real estate (both by four out of nine banks) and construction enterprises (by five out of nine banks, see Chart 12).** Regarding developments in the next three months, weaker competition in lending to companies engaged in these economic activities was also expected most frequently, while in case of construction enterprises, the share of banks expecting less competition in lending was even higher (six out of nine banks, see Chart 13). Although competition in household lending remained stable, one of the banks

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<sup>1</sup> 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.

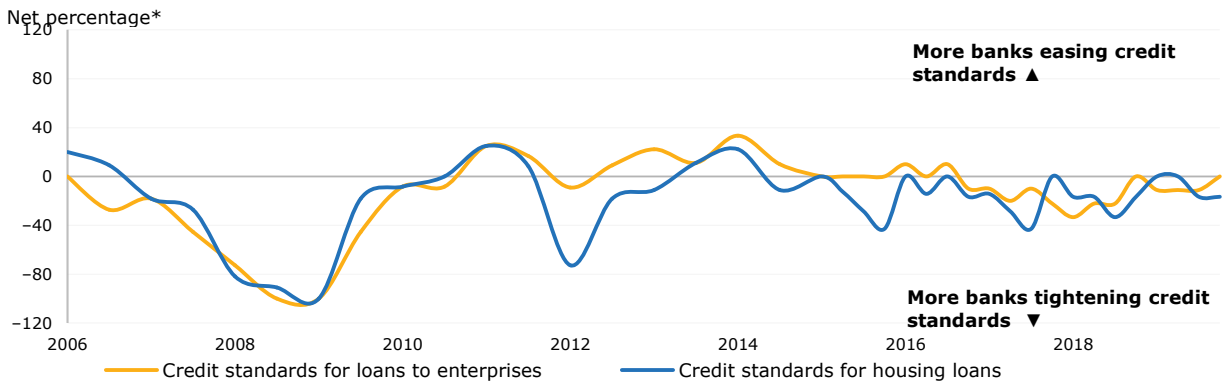
<sup>2</sup> Credit terms and conditions refer to the conditions of a loan that a bank is willing to grant, such as the size of the loan and collateral, loan maturity, the loan margin, the benchmark interest rate index underlying the loan margin, additional fees (i.e. a fee for the conclusion of the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

claimed that it was increasing, while two respondents expected it to further strengthen in the next three months.

**Banks' expectations of real estate price increases over the next year strengthened, and one-third of respondents indicated noticing price level imbalances in the housing market.** Seven banks projected that on an annual basis prices of new-build housing, five – of old-construction housing, three – of commercial real estate will increase by up to 5% (see Chart 16). In all three segments the number of such respondents increased by one compared to the previous quarter, while the most significant year-on-year change in expectations was observed in the assessment of old-construction housing prices – in the first quarter of 2019, only one bank expected prices of old-construction housing to rise (see Chart 17). Despite the improving sentiment, the majority of banks do not observe any imbalances in the real estate market: three out of nine banks reported noticing imbalances in the residential real estate market, while one of them also noticed imbalances in the commercial real estate market (see Chart 18). All three banks which noticed the imbalances agreed that the residential real estate market showed price level imbalances. One of them believed that there were imbalances both on the supply and demand sides (see Chart 19).

## CREDIT STANDARDS

Chart 1. How have your bank's credit standards as applied to the approval of loans or credit lines changed over the last three months?

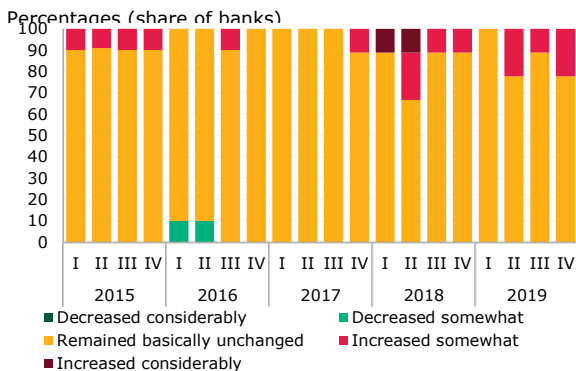


Sources: Bank Lending Survey and Bank of Lithuania calculations.

\*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.

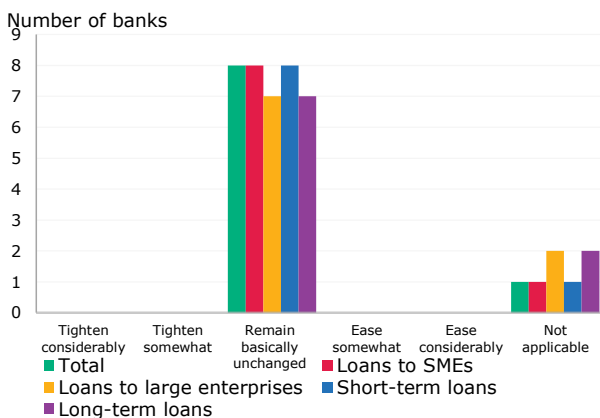
## LENDING TO ENTERPRISES

Chart 2. How has the share of rejected corporate loan applications changed over the last three months?



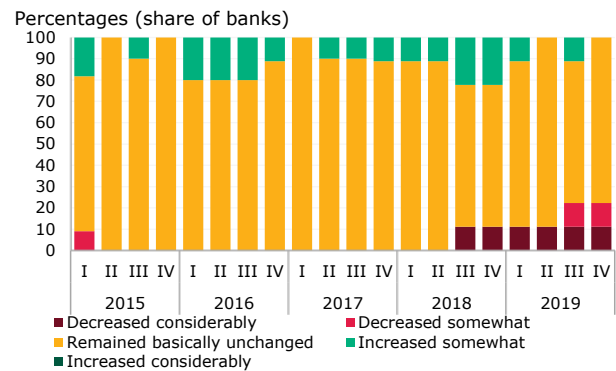
Sources: Bank Lending Survey and Bank of Lithuania calculations.

Chart 4. How do you expect your bank's credit standards applied to enterprises to change over the next three months?



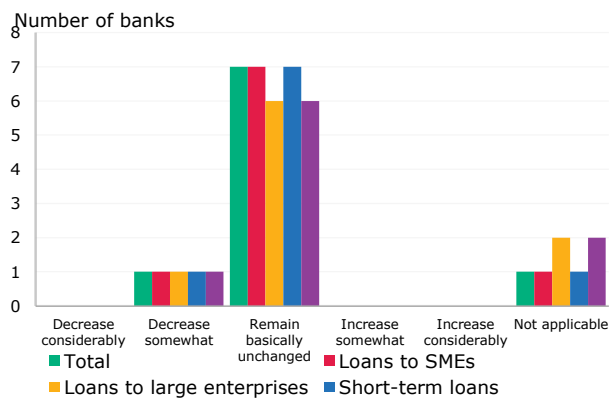
Sources: Bank Lending Survey and Bank of Lithuania

Chart 3. How has the demand for loans or credit lines to enterprises changed at your bank over the last three months?



Sources: Bank Lending Survey and Bank of Lithuania calculations.

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

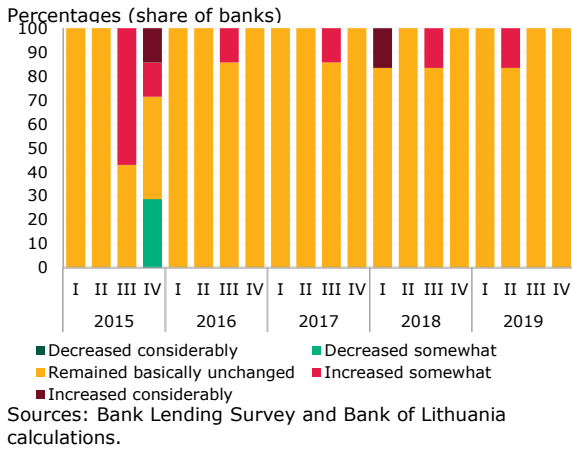


Sources: Bank Lending Survey and Bank of Lithuania

## LENDING TO HOUSEHOLDS

Chart 6. How has the share of rejected household loan applications changed over the last three months?

a) Loans for house purchase



b) Consumer credit and other lending

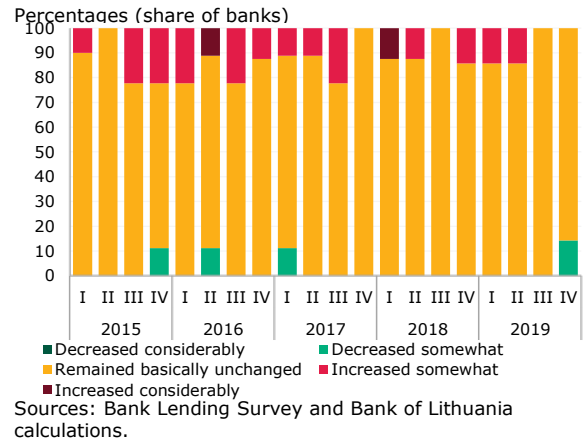
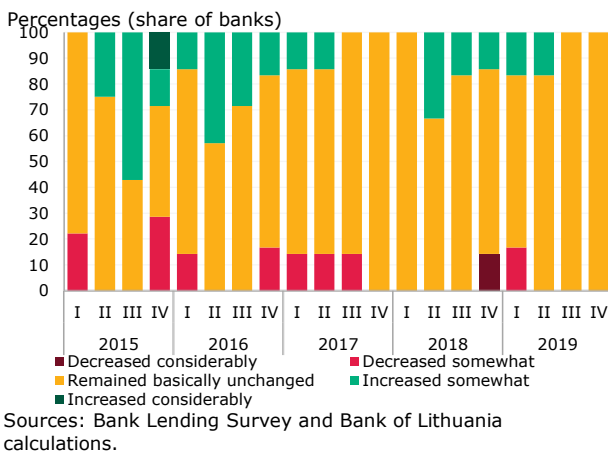


Chart 7. How has the demand for household loans changed at your bank over the last three months? (apart from normal seasonal fluctuations)?

a) Loans for house purchase



b) Consumer credit and other lending

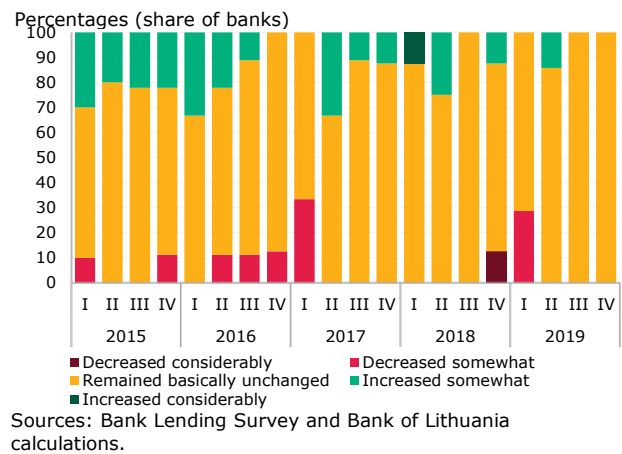


Chart 8. How do you expect credit standards as applied to the approval of loans to households to change over the next three months?

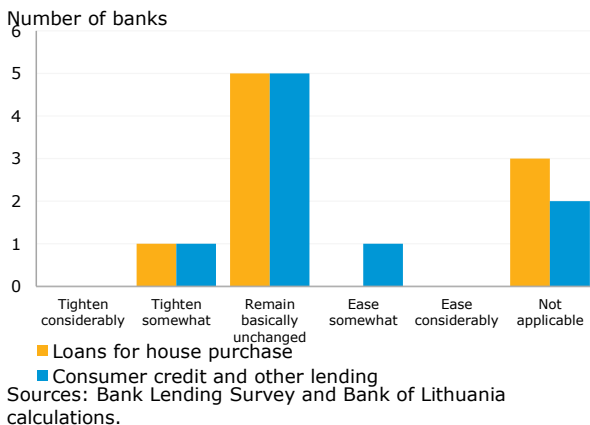
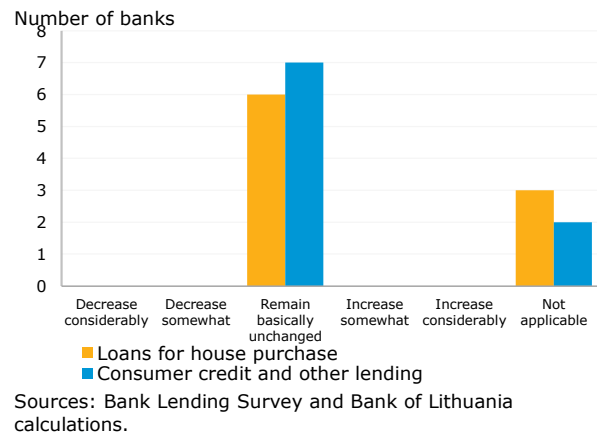


Chart 9. How do you expect the demand for household loans to change over the next three months (apart from normal seasonal fluctuations)?



## ASSESSMENT OF BORROWERS' FINANCIAL SITUATION

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

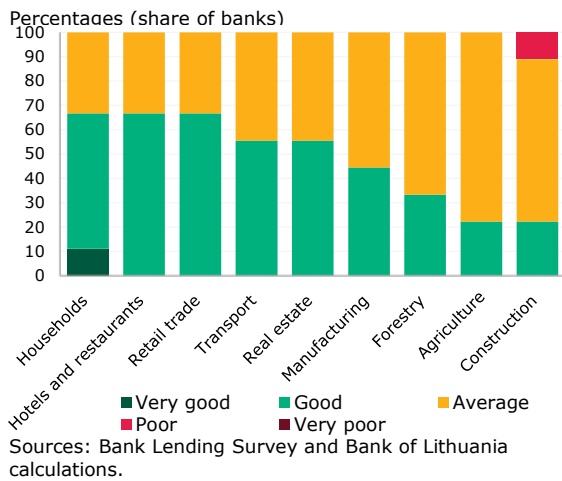


Chart 11. How do you assess the development of the financial situation of enterprises (broken down by economic activity) and households?

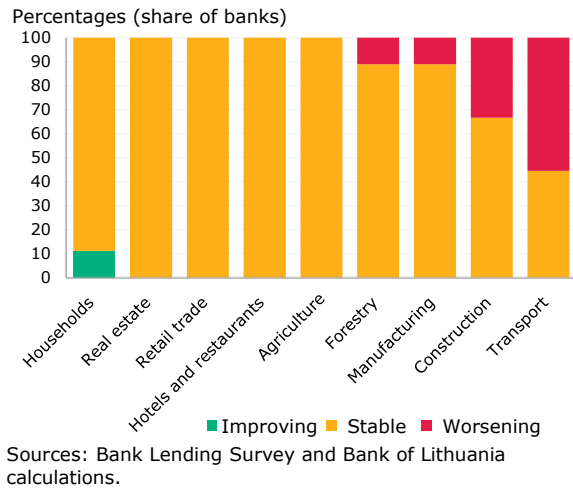


Chart 12. How has competition among banks in lending to enterprises (broken down by economic activity) and households changed over the last three months?

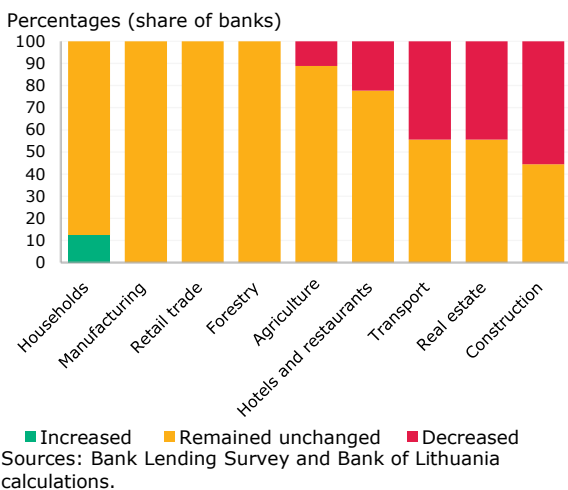


Chart 13. How do you expect competition among banks in lending to enterprises (broken down by economic activity) and households to change over the next three months?

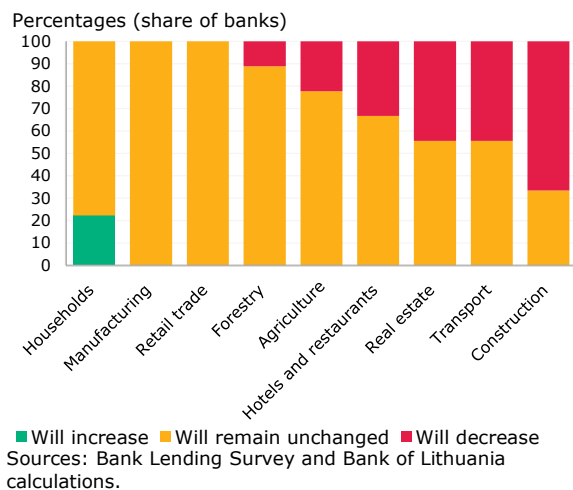


Chart 14. Has your bank curbed lending to enterprises engaged in certain economic activities or households over the last three months?

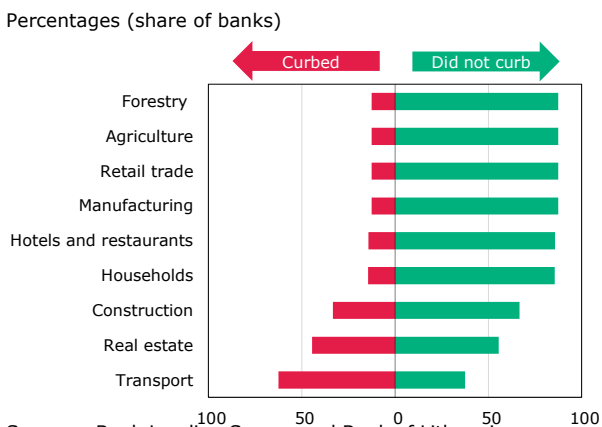
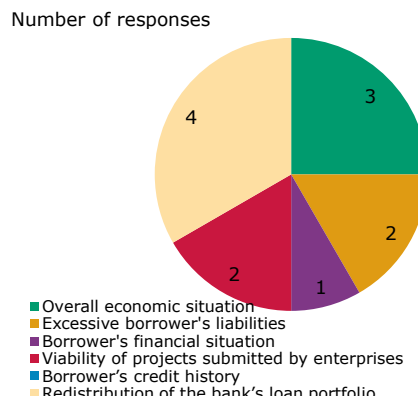


Chart 15. If lending was curbed, what were the reasons?

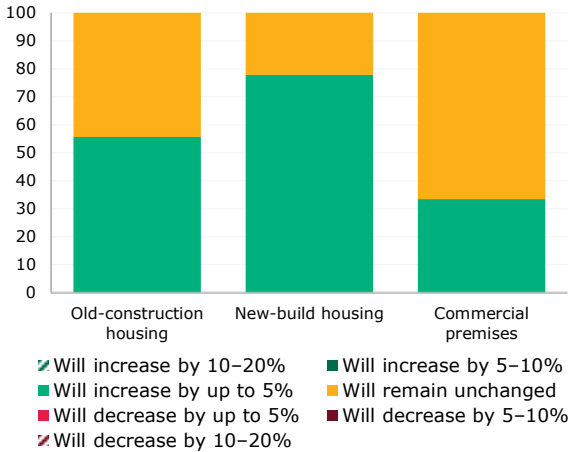




## REAL ESTATE MARKET DEVELOPMENTS

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

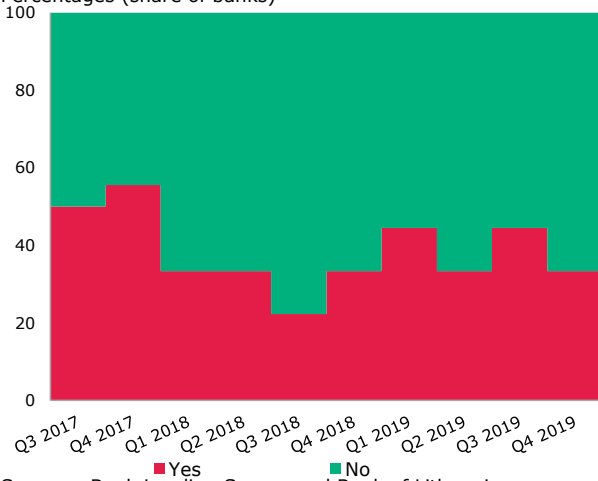
Percentages (share of banks)



Sources: Bank Lending Survey and Bank of Lithuania calculations.

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

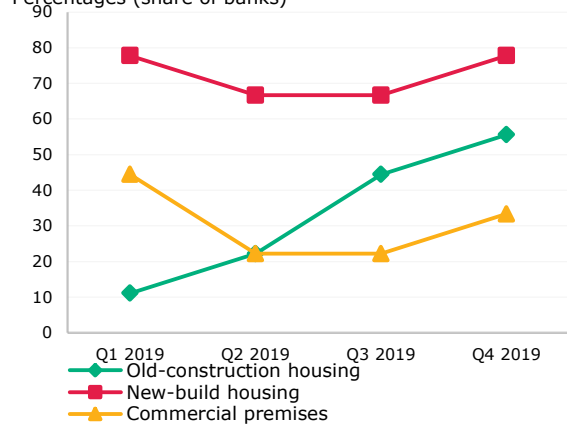
Percentages (share of banks)



Sources: Bank Lending Survey and Bank of Lithuania calculations.

Chart 17. Share of banks anticipating an increase in house prices within the next year

Percentages (share of banks)



Sources: Bank Lending Survey and Bank of Lithuania

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

Number of responses



Sources: Bank Lending Survey and Bank of Lithuania calculations.