



LIETUVOS BANKAS
EUROSISTEMA

Review of the Bank Lending Survey

2020/2

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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 2020 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 June 2020.

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

According to the surveyed banks, during the peak of the COVID-19 pandemic – the second quarter of 2020 – credit standards¹ for loans to enterprises and households have tightened (see Chart 1).

Overall credit standards for loans to enterprises were tightened by four banks, i.e. by one less than in the first quarter of 2020, while credit standards applicable to loans for house purchase were tightened by half of the surveyed – the number of such respondents increased by two banks quarter-on-quarter. In the third quarter of 2020, none of the banks reported intentions to change their household credit standards, and only one bank intended to tighten its credit standards for loans to enterprises (see Charts 4 and 8). During the reporting period, one third of the surveyed (three banks) also indicated having tightened their overall credit terms and conditions² for loans to enterprises. In most cases, they reduced the size of loans or credit lines, tightened collateral requirements and increased loan margins (although one bank indicated having lowered it). Two of the surveyed banks also tightened their overall credit terms and conditions applicable to loans for house purchase by tightening collateral requirements and imposing other restrictions. However, none of them increased loan margins, while one bank indicated having reduced it.

Four out of nine banks reported that the share of rejected applications for corporate loans had slightly increased (see Chart 2). One of the banks pointed out to an increase in the share of rejected applications for loans for house purchase, while two banks indicated an increase in the share of rejected applications for consumer credit (one of them noted that this share had grown significantly) (see Chart 6).

More than half of the surveyed banks noticed a decrease in loan demand during the period under review (see Chart 3). The share of those reporting that demand for corporate loans has dropped grew in the first quarter of 2020 and increased even further in the second quarter of the year (as indicated by six out of nine banks). Similar trends can be observed in the segment of household loans – four banks stated having noticed a decline in their demand (see Chart 7). Looking ahead, the respondents expressed different opinions regarding demand for corporate loans, although most of them agreed that demand for long-term loans would continue to fall (see Chart 5). The majority of the surveyed believe that demand for household loans is set to rise (see Chart 9).

Although the economic situation deteriorated both on national and international levels, the financial state of most enterprises was not yet assessed as very poor, except for companies providing hotel and restaurant services, as the assessment of their financial health was significantly less positive (see Chart 10). Companies engaged in activities least affected by the pandemic, namely agriculture, forestry and manufacturing, were assessed most positively, while in general the financial state of most companies was assessed as good or average. When assessing the financial state of enterprises, the segment of hotels and restaurants was particularly distinguished – the majority of the surveyed indicated that such companies were in a poor or very poor situation (three and four banks respectively). However, expectations regarding the state of the corporate sector deteriorated. Companies engaged in transport, hotel and restaurant, construction, real estate and manufacturing activities received the most negative assessment, with more than half of the respondents pointing to the worsening situation in such companies (see Chart 11). The financial health of households was assessed as average by most banks, while three banks believe that their situation is set to deteriorate.

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.

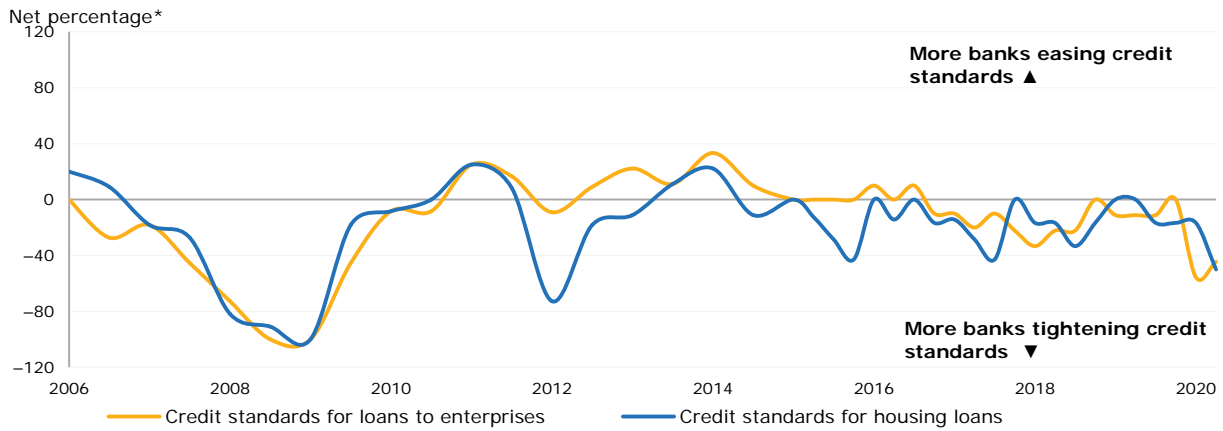
² Credit terms and conditions refer to the conditions of a loan that a bank is willing to grant, such as the size of the loan and collateral, loan maturity, the loan margin, the benchmark interest rate index underlying the loan margin, additional fees (i.e. a fee for the conclusion of the loan contract,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

More than half of the respondents reported having noticed weakening competition in lending to enterprises engaged in transport, construction, hotel and restaurant as well as real estate activities (see Chart 12). Most of them believe that there will be less competition in lending to such enterprises in the third quarter of 2020 as well. However, half of the surveyed (four banks) project an increase in competition in lending to companies engaged in agricultural and manufacturing activities (see Chart 13). A similar situation is observed when it comes to lending to these sectors, as all banks curbed lending to enterprises providing hotel and restaurant services, more than half – to those engaged in real estate and transport activities, while a third – to construction companies (see Chart 14). The main reason behind curbed lending is the overall economic downturn caused by COVID-19 (see Chart 15).

With the onset of the pandemic, expectations regarding real estate price increases declined significantly, while the number of those reporting imbalances in the commercial real estate market increased (see Charts 16 and 17). Over the upcoming year, the sharpest drop in prices is expected to be observed in the commercial real estate market. All of the respondents agree that prices will fall and the majority of them expect a contraction of up to 10%. With regard to the residential real estate market, expectations are lower in the old-construction housing segment, yet in case of both old-construction and new-build housing, more than half of the surveyed banks (five) believe that prices will either remain unchanged or fall by up to 5%. Five banks also reported noticing imbalances in the real estate market. In the commercial real estate segment, this share, compared to the fourth quarter of 2019, grew by 40 percentage points (see Chart 17). Demand imbalances are more often observed in the commercial real estate market, while price level imbalances are more common in the residential real estate market (see Chart 18).

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?

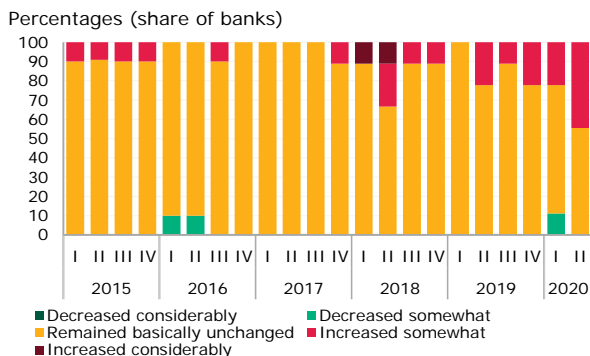


Sources: Bank Lending Survey and Bank of Lithuania calculations.

*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.

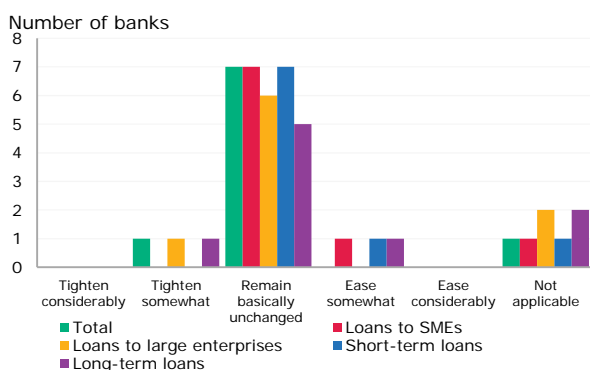
LENDING TO ENTERPRISES

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



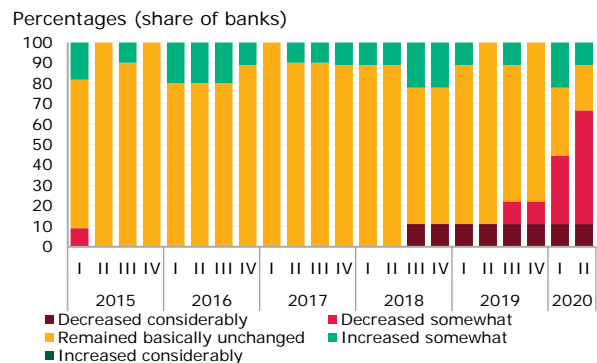
Sources: Bank Lending Survey and Bank of Lithuania calculations.

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



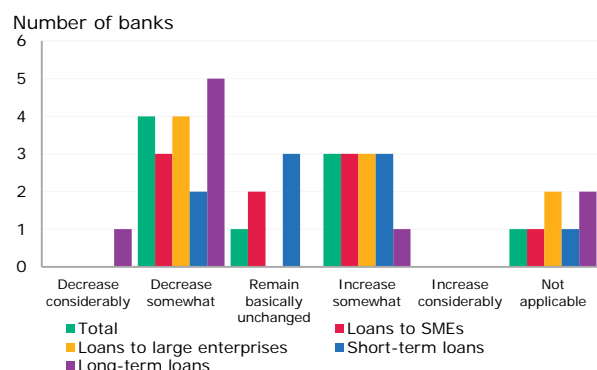
Sources: Bank Lending Survey and Bank of Lithuania calculations.

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)?

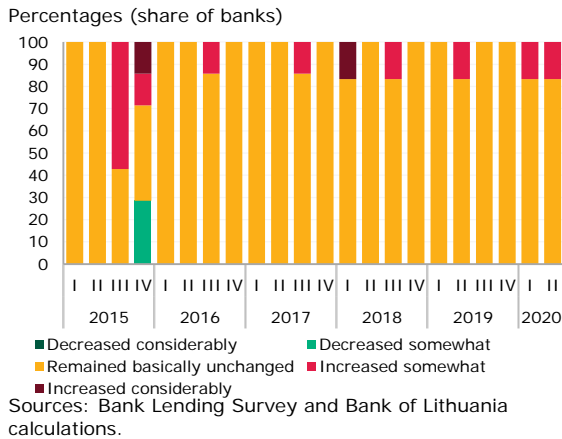


Sources: Bank Lending Survey and Bank of Lithuania calculations.

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

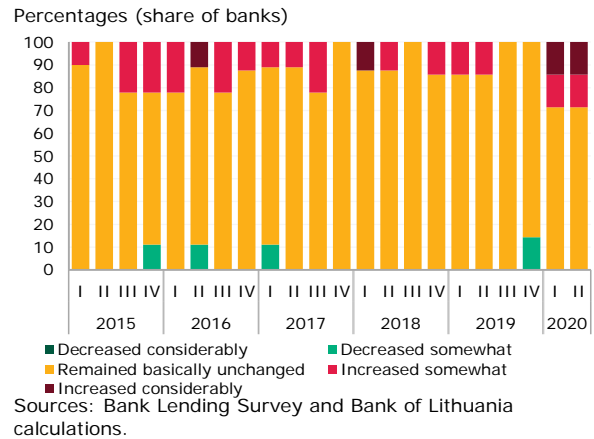
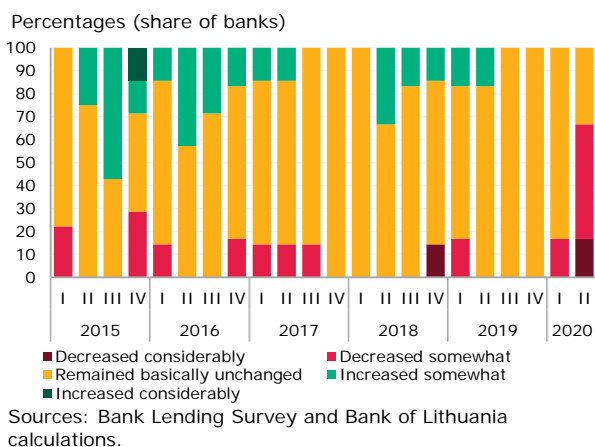


Chart 7. How has the demand for household loans changed at your bank over the last three months (apart from normal seasonal fluctuations)?

a) Loans for house purchase



b) Consumer credit and other lending

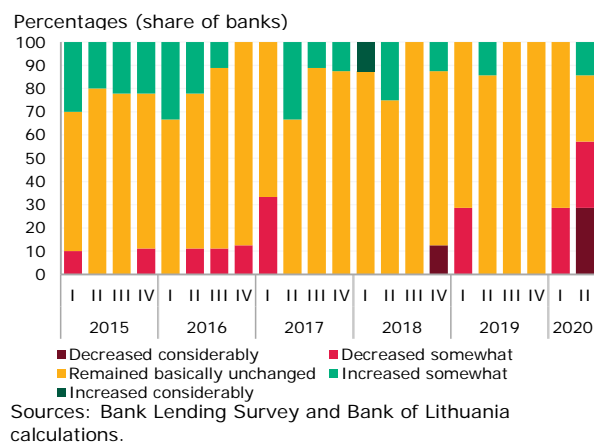


Chart 8. How do you expect credit standards as applied to the approval of loans to households to change over the next three months?

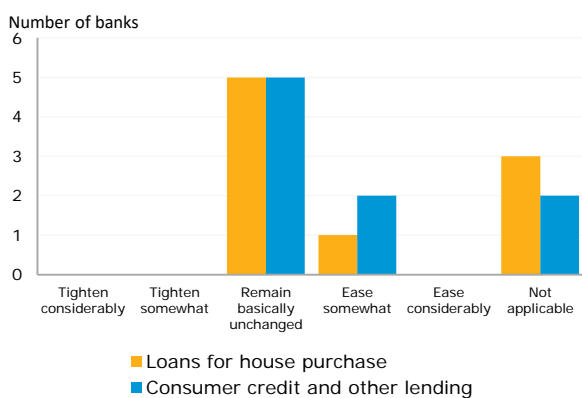
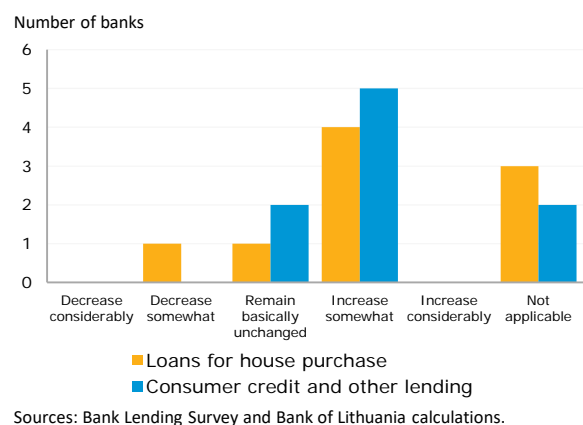


Chart 9. How do you expect the demand for household loans to change over the next three months (apart from normal seasonal fluctuations)?



ASSESSMENT OF BORROWERS' FINANCIAL SITUATION

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

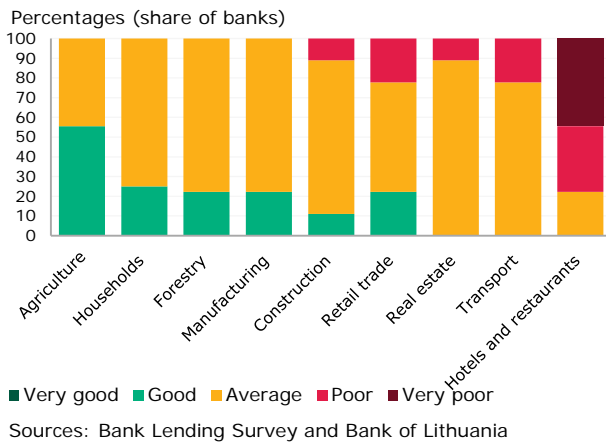


Chart 11. How do you assess the development of the financial situation of enterprises (broken down by economic activity) and households?

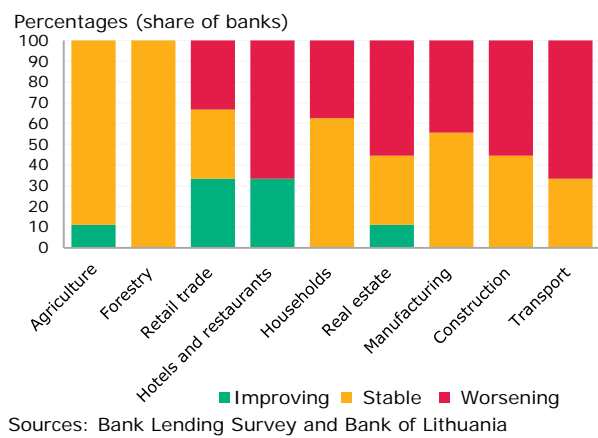


Chart 12. How has competition among banks in lending to enterprises (broken down by economic activity) and households changed over the last three months?

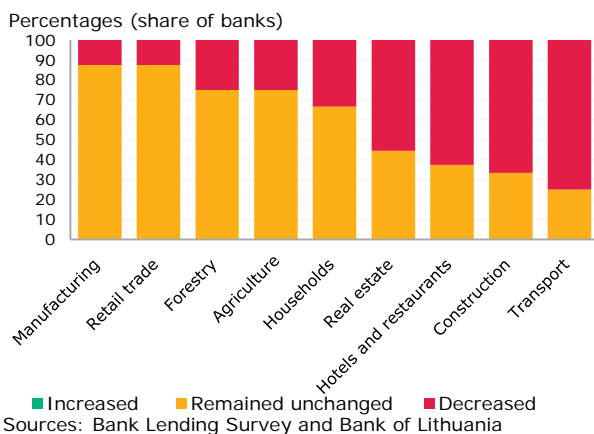


Chart 13. How do you expect competition among banks in lending to enterprises (broken down by economic activity) and households to change over the next three months?

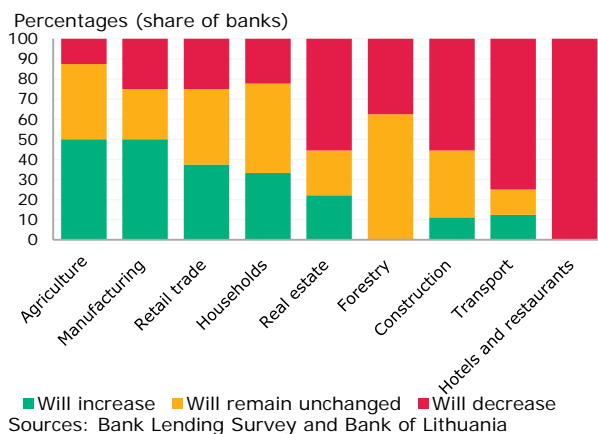


Chart 14. Has your bank curbed lending to enterprises engaged in certain economic activities or households over the last three months?

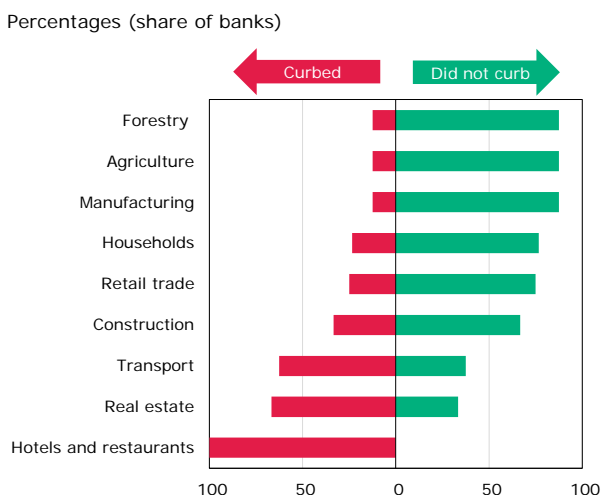
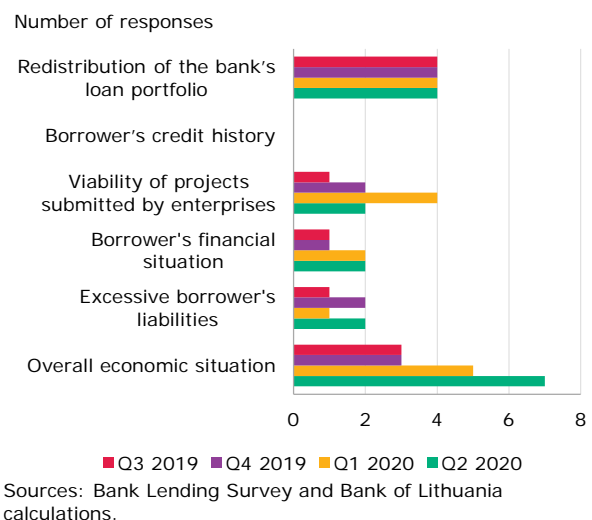
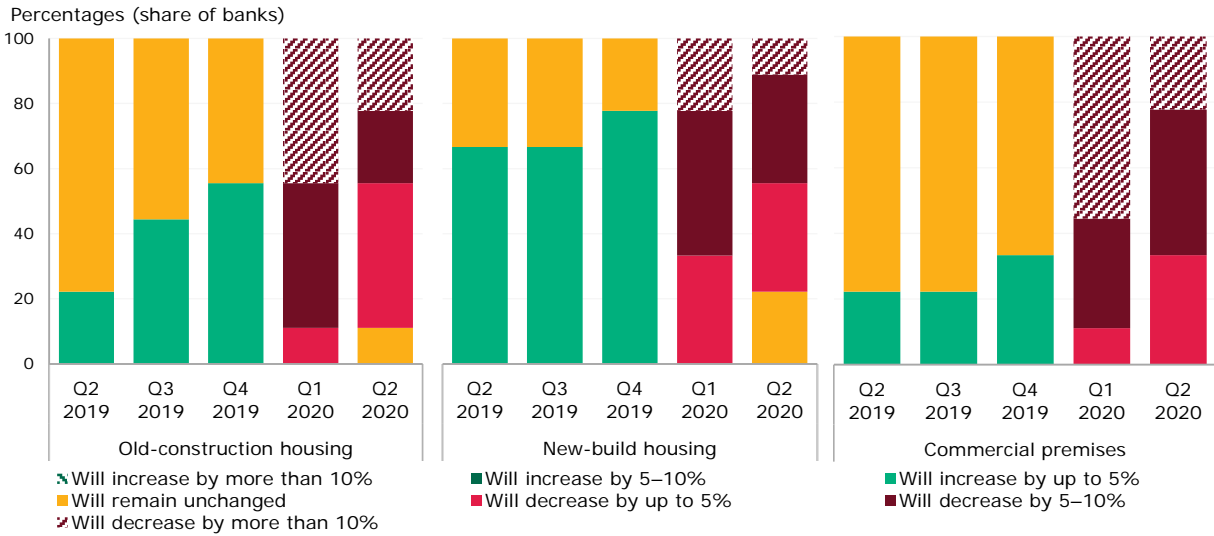


Chart 15. If lending was curbed, what were the reasons?



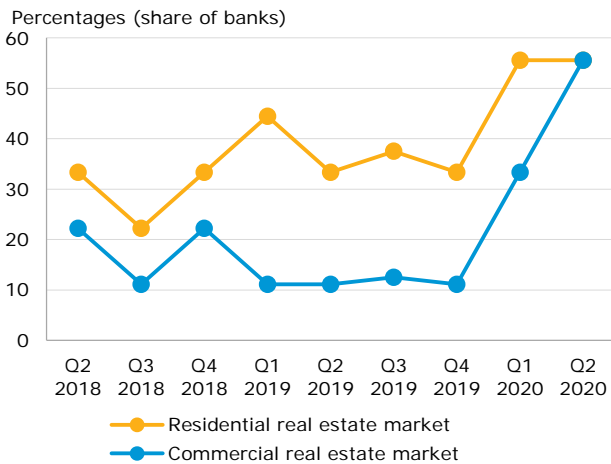
REAL ESTATE MARKET DEVELOPMENTS

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



Sources: Bank Lending Survey and Bank of Lithuania calculations.

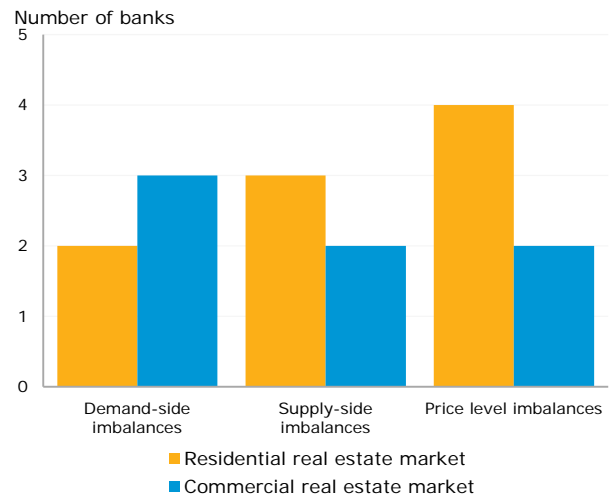
Chart 17. Do you currently notice any imbalances in the real estate market?



Sources: Bank Lending Survey and Bank of Lithuania calculations.

Note: Share of banks noticing imbalances in the real estate market.

Chart 18. If you currently notice any imbalances in the real estate market, are they attributable to the demand side or the supply side?



Sources: Bank Lending Survey and Bank of Lithuania calculations.