Review of
the Bank Lending Survey

2021/1

TASKS, 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. A review of the survey results is published twice a year.

The survey involved senior officers of bank units responsible for lending. This review is based on the aggregated data derived from a survey of four commercial banks and five foreign bank branches (hereinafter - banks) conducted by the Bank of Lithuania. They were asked to specify the changes in bank lending activities that took place in the fourth quarter of 2020. Some questions were aimed to find out the expectations of bank representatives as to developments in credit standards and loan demand over the next three months. The respondents were asked to evaluate potential changes in their answers to questions about expectations. The survey was conducted in December 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 survey covers the results of four banks holding the largest market share in terms of assets. The euro area bank lending survey is available on the ECB website.

REVIEW OF SURVEY RESULTS

After the tightening of credit standards at the beginning of the pandemic, banks did not change the lending standards significantly in Q4 2020. Only one bank indicated a slight tightening of credit standards for enterprises[1], while another bank, on the contrary, eased the standards for housing loans (see Chart 1). Banks did not plan any significant changes in credit standards for Q1 2021 as well, although two banks intended to tighten them for large enterprises and for long-term loans to enterprises (however, one bank stated that it will ease credit standards for enterprises; see Charts 4 and 8). There were no significant changes in credit terms and conditions for enterprises[2], however, credit terms and conditions for housing loans were eased slightly – two banks reduced the margin for loans due to stronger competitive pressure.

According to some banks, in the period under review the demand for loans to enterprises and housing loans increased slightly, whereas the demand for consumer loans continued to shrink. The demand for loans to enterprises, which contracted during the pandemic, recovered slightly in Q4 2020 (2 banks observed a rise, 1 bank recorded a drop, whereas other banks did not see any changes). The recovery was mainly determined by lower interest rates and higher loan refinancing or restructuring needs (see Chart 3). The demand was also affected by the fixed investment needs, however, the assessment of various banks was different: two banks considered the effect to be positive and two banks considered it as negative. The demand for housing loans was positively affected by the housing market prospects, interest rate level and consumer confidence (see Chart 7). The latter factor negatively affected the demand for consumer loans, which continued to decline, as stated by a half of respondents (3 banks). When assessing the potential demand in the next quarter, banks did not expect significant changes. Although two respondents projected the decline of the demand for loans to households, another respondent expected a further growth of the demand for housing loans (see Charts 5 and 9).

As pandemic-related restrictions remained in place, banks assessed the situation of the hotel and restaurant sector as particularly poor, although the situation of enterprises in other sectors and households was not considered to be bad (see Chart 10). All banks participating in the survey considered the situation of hotels and restaurants to be poor, whereas one-third (3 banks) considered it as very poor. The majority of banks (8 out of 9) also expected a further deterioration of the financial situation in this sector (see Chart 11). The financial situation of households and enterprises engaged in agricultural activities was assessed most favourably, whereas almost a half of respondents (4 out of 9) considered the situation of retail trade and construction enterprises as good. When assessing the development of the financial situation, the majority of banks expected that the situation of enterprises in all sectors, excluding hotels and restaurants, will be stable, however, the prospects of real estate, transport and retail trade enterprises were considered to be slightly worse, while one-third (3 out of 9) of respondents also expected a deterioration of the financial situation of households.

The majority of banks observed a decline in competition for lending to hotels and restaurants as well as to construction enterprises (see Chart 12). Several banks also noted a decline in competition for lending to transport and real estate enterprises (3 and 2, respectively), however, one bank for each of the above sectors observed a rise in competition. Accordingly, the majority of banks curbed their lending to hotels and restaurants, construction, real estate and transport enterprises (see Chart 14). The main reason behind curbed lending continued to be the overall economic downturn caused by the pandemic (see Chart 15). The strongest competition was observed for lending to agricultural (4 out of 8 respondents) and manufacturing (2 out of 8 respondents) companies as well as households (3 out of 9 respondents). The majority of banks

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[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 negotiation on lending terms and conditions and the actual decision on loan approval or rejection.

[2] Credit terms and conditions refer to the conditions under which a bank is willing to lend, such as the size of the loan and collateral, loan maturity, lending margin, the benchmark interest rate index underlying the loan margin and additional fees (loan contract conclusion, administrative and other fees).

also expected a rise in the competition for lending to these segments in the next quarter, whereas weaker competition was expected when granting loans to hotels and restaurants (7 out of 7), construction (4 out of 9) and real estate (3 out of 9) enterprises.

Banks participating in the survey did not expect a fall in residential real estate prices, however, the expectations concerning the development of commercial real estate prices continued to be poorer. Compared to Q1 2020, when a drop in prices over the year was expected by all banks, the forecasts improved significantly and more than a half of banks (5 out of 9) expected a rise in the prices of new build housing, whereas one-third (3 out of 9) of them expected the prices of old build housing to grow as well (see Chart 16). Nevertheless, more than a half of banks (6 out of 9) continued to think that the prices of commercial real estate will fall, however, the expectations were slightly better than in Q3 2020. After the improvement of real estate price forecasts, a smaller number of banks perceived imbalances in the real estate market. Although the assessment of imbalances in the residential real estate market returned to the pre-pandemic level, their assessment in the commercial real estate market continued to be poorer (see Chart 17). The opposite trends in the residential and commercial real estate markets can also be perceived in the opinion of banks that imbalances in the commercial real estate market are mainly linked to the demand side, whereas in the residential real estate market they are linked to the supply side and the price level (see Chart 18).

CREDIT STANDARDS

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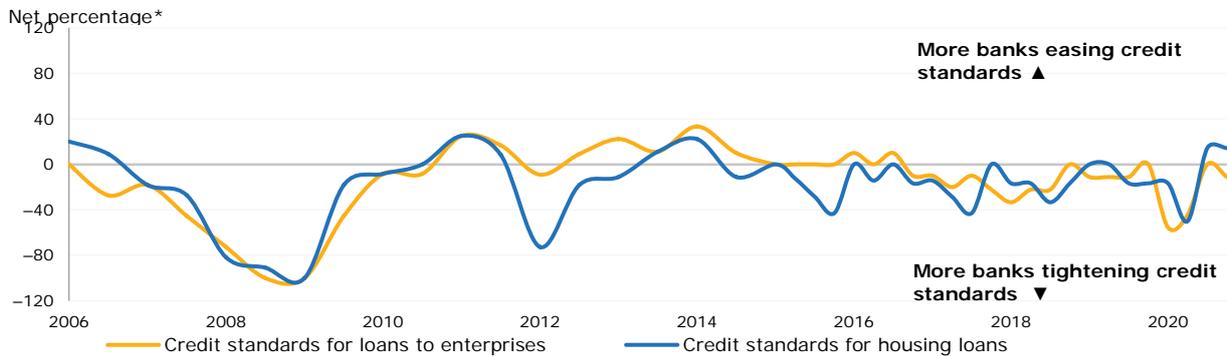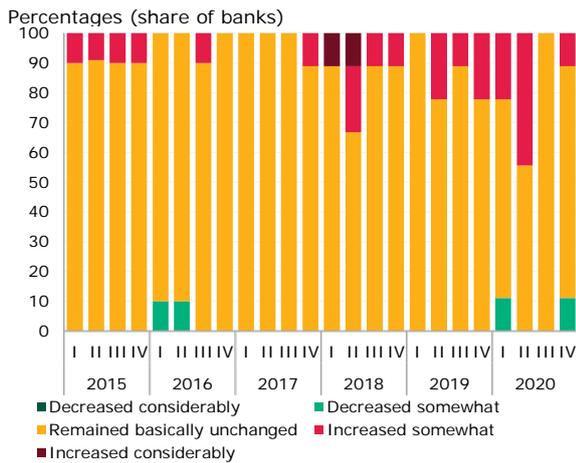

Sources: Bank Lending Survey and Bank of Lithuania calculations.
*The difference between the (percentage) share of banks reporting easing credit standards and the (percentage) share of banks reporting tightening credit standards. A positive net percentage indicates net easing of credit standards and vice versa.
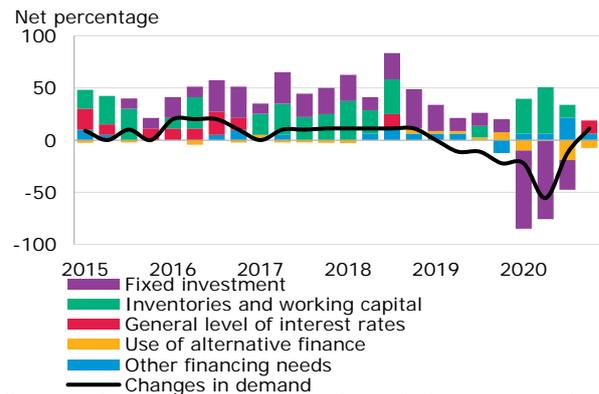
LENDING TO ENTERPRISES

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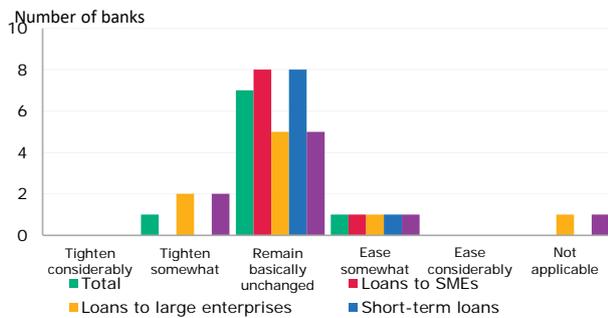

Sources: Bank Lending Survey and Bank of Lithuania calculations.

Chart 3. How has the demand for loans to enterprises changed over the last quarter and what were the contributing factors?
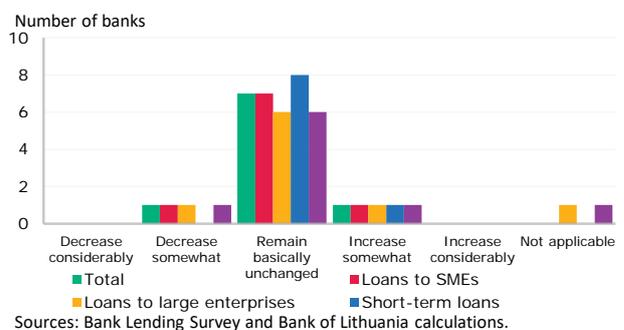

Sources: Bank lending survey and Bank of Lithuania calculations.
Notes: Alternative finance is an arithmetic average of internal financing, loans from other banks, loans fron non-banking institutions as well as bond and share issuance. Other financing needs are an arithmetic average of mergers (acquisitions) and restructuring as well as debt refinancing.

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

Sources: Bank Lending Survey and Bank of Lithuania calculations.

Chart 5. How do you expect the demand for loans and credit lines to enterprises to change over the next quarter (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 quarter?

a) Loans for house purchase

Percentages (share of banks)

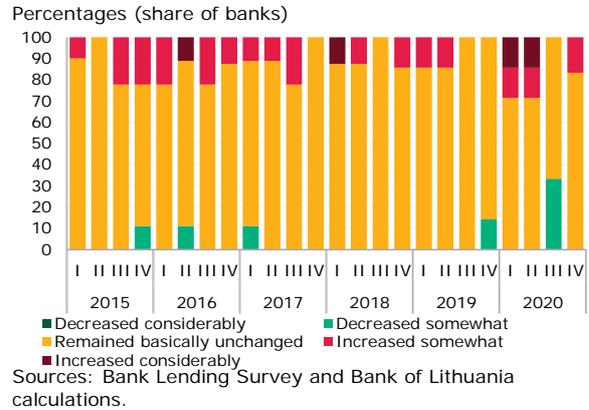Sources: Bank Lending Survey and Bank of Lithuania calculations.

b) Consumer credit and other lending

Percentages (share of banks)

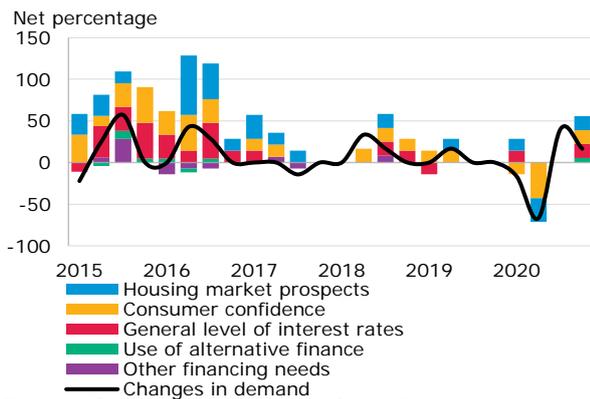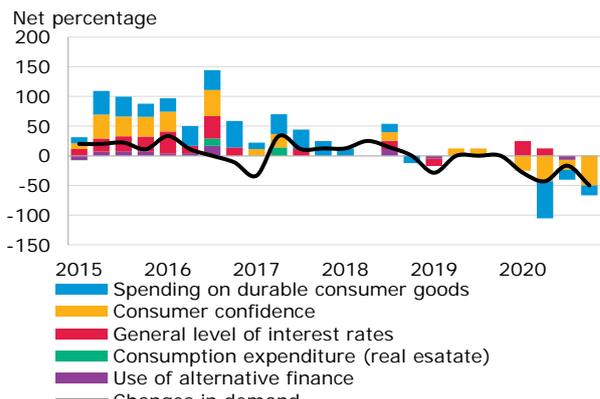Sources: Bank Lending Survey and Bank of Lithuania calculations.
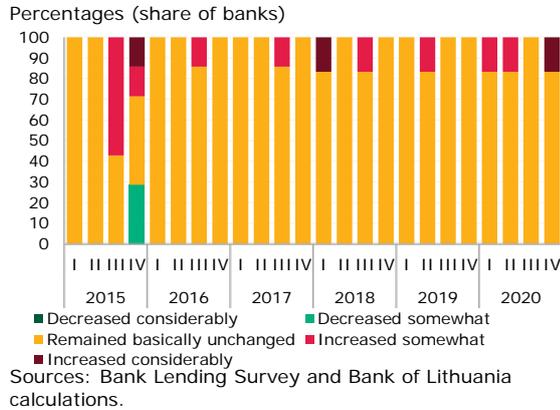
Chart 7. How has the demand for loans to households changed over the last quarter and what were the contributing factors?

a) Loans for house purchase

Net percentage

Sources: Bank lending survey and Bank of Lithuania calculations.
Notes: Alternative finance is an arithmetic average of household savings, loans from other banks and other financing sources. Other financing needs are an arithmetic average of the regulatory and fiscal regime of the housing loan market and debt refinancing.

b) Consumer credit and other lending

Net percentage

Sources: Bank lending survey and Bank of Lithuania calculations.
Notes: Alternative finance is an arithmetic average of household savings, loans from other banks and other financing sources. Consumption expenditure (real estate) means consumption expenditure financed by a loan with mortgaged real estate.

Chart 8. How do you expect credit standards applied to the approval of loans to households to change over the next quarter?
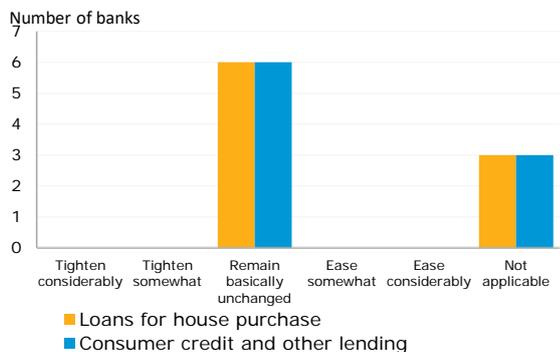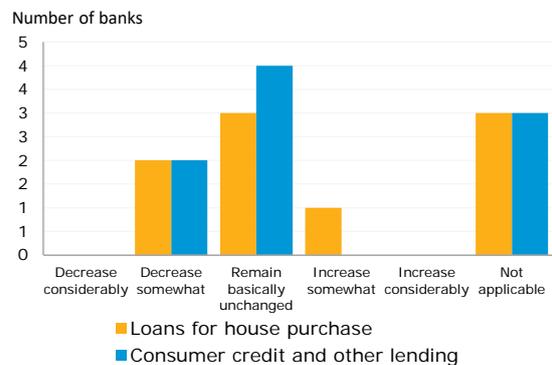
Number of banks

Sources: Bank Lending Survey and Bank of Lithuania calculations.

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

Number of banks

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?
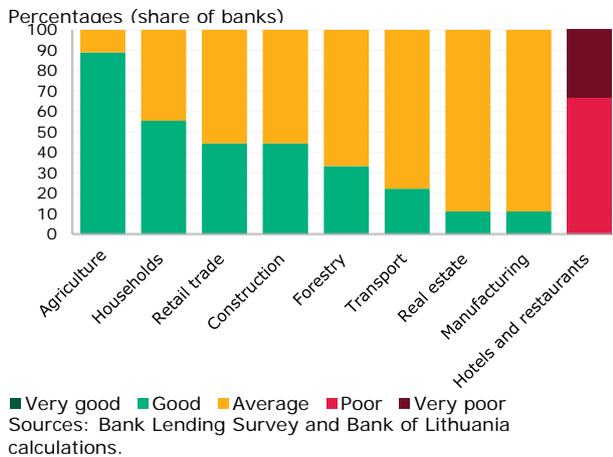
Percentages (share of banks)

■ Very good ■ Good ■ Average ■ Poor ■ Very poor
Sources: Bank Lending Survey and Bank of Lithuania calculations.

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

Percentages (share of banks)

■ Improving ■ Stable ■ Worsening
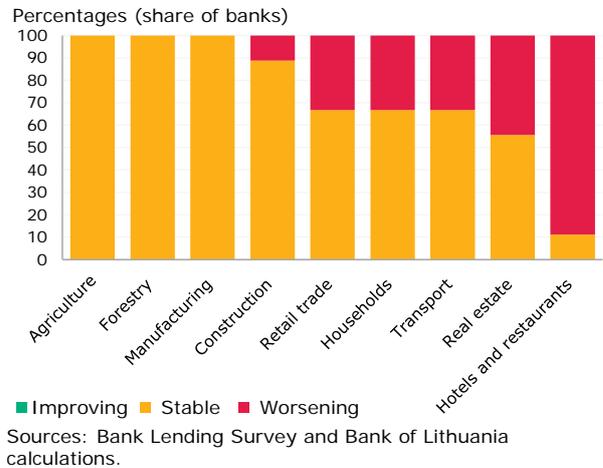Sources: Bank Lending Survey and Bank of Lithuania calculations.

Chart 12. How has bank competition for lending to enterprises (broken down by economic activity) and households changed over the last quarter?

Percentages (share of banks)

■ Increased ■ Remained unchanged ■ Decreased
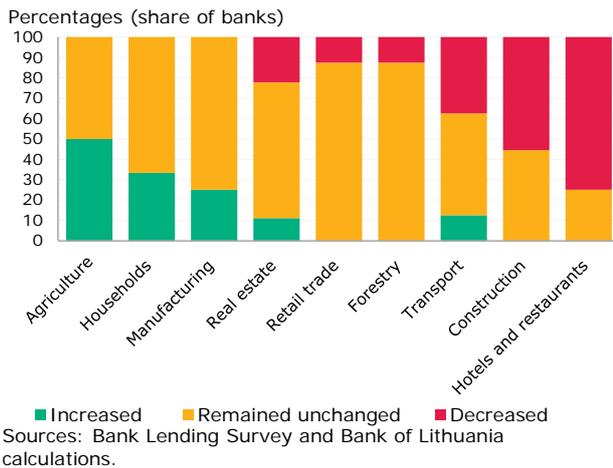Sources: Bank Lending Survey and Bank of Lithuania calculations.

Chart 13. How do you expect bank competition for lending to enterprises (broken down by economic activity) and households to change over the next quarter?
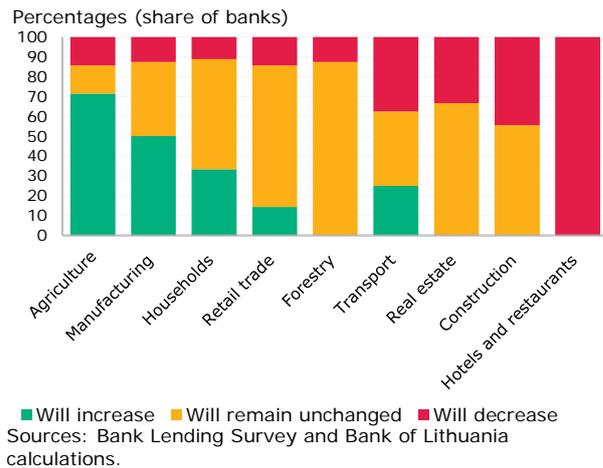
Percentages (share of banks)

■ Will increase ■ Will remain unchanged ■ Will decrease
Sources: Bank Lending Survey and Bank of Lithuania calculations.

Chart 14. Has your bank curbed lending to enterprises engaged in certain economic activities or households over the last quarter?
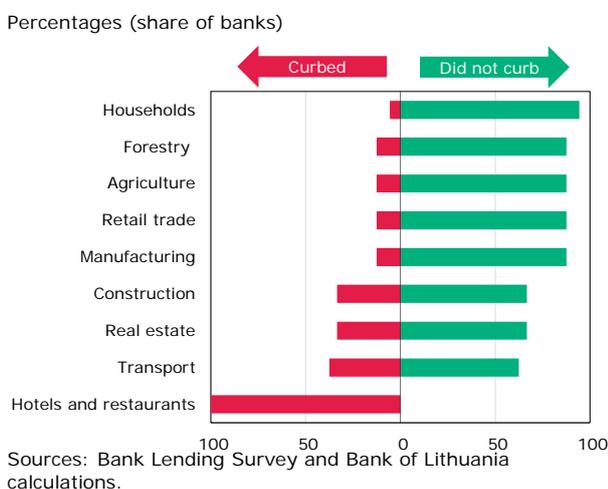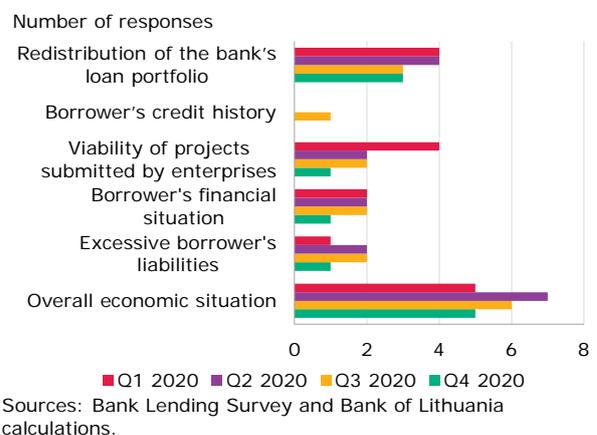
Percentages (share of banks)

Sources: Bank Lending Survey and Bank of Lithuania calculations.

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

Number of responses

■ Q1 2020 ■ Q2 2020 ■ Q3 2020 ■ Q4 2020
Sources: Bank Lending Survey and Bank of Lithuania calculations.

REAL ESTATE MARKET DEVELOPMENTS

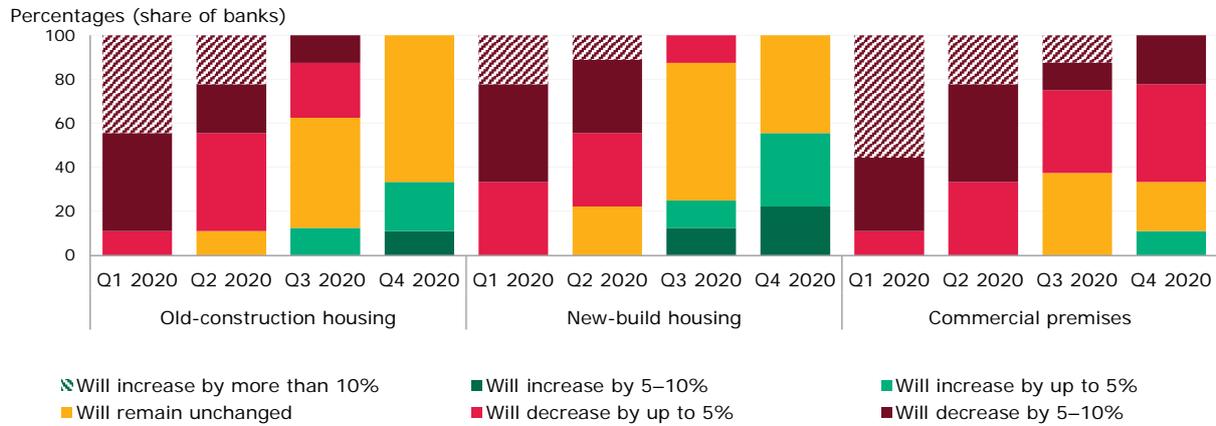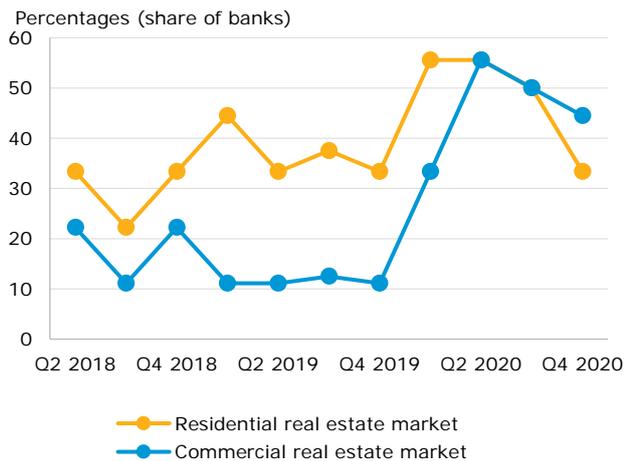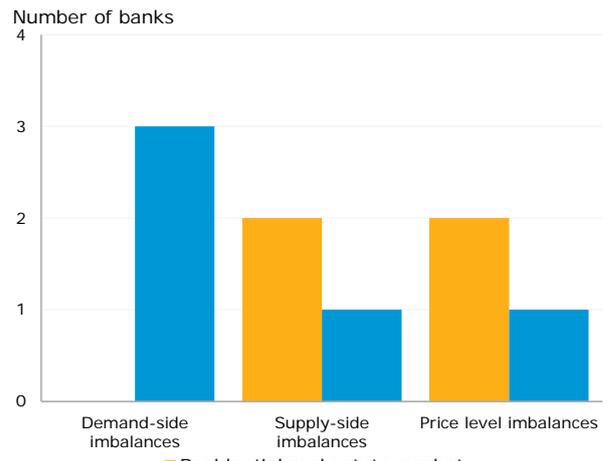Chart 16. How do you expect real estate prices to change over the next year?

Percentages (share of banks)

Will increase by more than 10%   ■ Will increase by 5–10%   ■ Will increase by up to 5%
Will remain unchanged   ■ Will decrease by up to 5%   ■ Will decrease by 5–10%
Will decrease by more than 10%

Sources: Bank Lending Survey and Bank of Lithuania.

Chart 17. 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.
Note: Share of banks which noticed imbalances in the real estate marktet.

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

Number of banks

Sources: Bank Lending Survey and Bank of Lithuania calculations.