

Review of the Bank Lending Survey

Q3 2022

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OBJECTIVES, METHODS AND PRINCIPLES OF THE SURVEY

The survey of commercial banks and branches of foreign banks operating in Lithuania seeks to obtain information on the lending activities of banks: the lending standards applied, the conditions of loans to households and businesses, the factors of their change, the demand for loans, the banks' expectations of further credit development, etc.

The respondents to the survey are senior employees of lending departments at the banks. The data used for this review were aggregated from a survey by the Bank of Lithuania of four commercial banks and five branches of foreign banks (hereinafter – the banks). They were asked to comment on the changes in the lending activity of the banks over the quarter and the expectations of bank representatives with regard to credit standards and loan demand over the next three months. The survey was conducted in September 2022.

The review of the survey results is a summary of the respondents' views and does not necessarily reflect the official position and assessments of the banks, including the Bank of Lithuania or its officials. In summarising the views and calculating the share of the banks that chose a particular answer, the answers of the banks are treated equally, regardless of their market share.

The net percentage indicator presented in the charts is defined as the difference between the percentage of the banks responding that lending standards or conditions are being eased and the percentage of the banks responding that lending standards or conditions are being tightened. In assessing the demand, the net percentage means the difference between the share of the banks responding that demand would increase and the share of the banks responding that demand would decrease.

Since 2015, the results of the survey of commercial banks and branches of foreign banks operating in Lithuania are also included in the results of the survey of the euro area banks published by the European Central Bank (ECB). The results presented in this survey and those presented in the survey published by the ECB may differ as, in line with current practice, the ECB presents aggregated survey results for the four banks with the largest market share in terms of assets, rather than for all the banks participating in the survey. A review of the Euro area bank survey is available on the [ECB website](#).

SUMMARY OF THE SURVEY RESULTS

The survey results show that in the third quarter of 2022, banks had a poorer view of the manufacturing sector, which is more vulnerable in the current economic environment, as well as of hotels and restaurants, while the forestry, trade, agriculture and household sectors were most positively rated. Expectations for the development of the financial situation in most sectors deteriorated, while the economic outlook for the hotels and restaurants, household, construction and manufacturing sectors was the worst. The banks' lending to hotels and restaurants which had been affected worst by the pandemic continued to be curbed most, and there was a general trend of an increase in the loan rejection rate. The number of banks that have tightened their lending standards and plan to do so in the future has increased. In the context of rising base interest rates, some banks saw a possible increase in credit risk for their overall loan portfolios. Expectations for residential and commercial real estate (RE) price growth have changed, with the majority of banks surveyed expecting RE prices to remain stable or decline, while in the residential segment, as in the previous quarter, all banks saw supply imbalances.

REVIEW OF THE SURVEY RESULTS

In the third quarter of 2022, banks continued to tighten lending standards,¹ although the credit conditions² remained broadly unchanged. The change in the banks' perception of risk as a result of weakening economic outlook continued to be the main contributor to tighter standards of lending to businesses and households (see Charts 1 and 7a, b). Also, more banks tightened lending standards to households than had planned to do so in Q2 2022: the share of banks indicating that they had tightened lending standards for consumer loans was the highest since the start of the survey, and for housing loans the share was close to the level observed at the start of the pandemic. Intentions to continue tightening lending standards in the future increased in Q3 2022: compared to the previous quarter, there was an increase in the number of banks indicating that they will tighten lending standards to businesses and households in the future, although a larger share of banks still indicated that lending standards to businesses and households will remain broadly unchanged (see Charts 5 and 11). On the other hand, overall credit conditions remained broadly unchanged over the quarter, although for both corporate and housing loans a few banks indicated a marginal tightening due to higher loan margins (see Charts 2 and 8a, b).

Demand for new loans has remained stable, but has been negatively affected by deteriorating expectations and rising borrowing costs. Demand for loans to corporates remained unchanged in the third quarter of 2022, with working capital needs remaining elevated, but demand is negatively affected by the reduced need for investment financing and the rise in the general level of interest rates (see Chart 4). Household demand for housing loans also remained stable, while demand for consumer loans increased slightly, but is becoming increasingly affected by rising interest rates and worsening expectations of households (see Chart 10). In addition, a growing number of banks indicate that demand for loans from both corporates and households is expected to decline in the near term, with the most significant declines in demand for housing and longer-term corporate loans (see Charts 6 and 12).

The assessment of the financial health of firms in manufacturing and hotels and restaurants has turned slightly weaker, with worse financial developments expected in most sectors. In the third quarter of 2022, possibly due to a higher vulnerability to energy price shocks, the financial situation of manufacturing firms was seen as one of the worst (see Chart 13). The assessment of the financial situation of hotels and restaurants is also weaker than in the previous quarter, while the assessment of construction companies has remained unchanged, but is still one of the weakest. Other sectors have improved, with forestry, trade, agriculture and households being the most favourably rated, with more than half of the banks

¹ Internal rules or criteria that banks use to decide whether to grant a loan. The lending standards specify the required characteristics of the loan and the borrower for a loan application to be approved.

² Credit terms and conditions under which the bank is willing to grant a loan, i.e. interest rate, loan amount, loan term, etc.

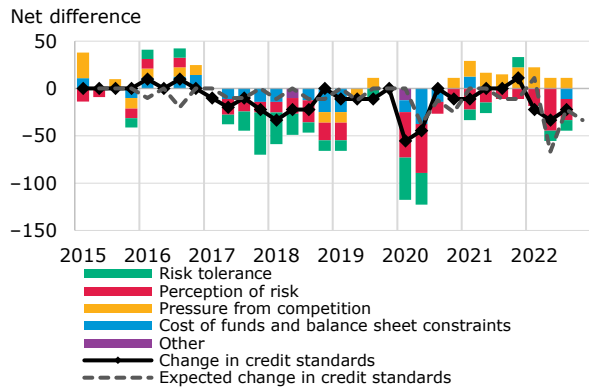
surveyed rating their financial situation as good. On the other hand, the assessment of the future outlook for the financial development of most economic activities has become weaker, with more than half of the respondents indicating a worsening outlook for the financial development of most sectors, with the lowest scores for the hotels and restaurants, construction, manufacturing and households sectors (see Chart 14). Agricultural and forestry undertakings are the most favoured, with all respondents reporting a stable outlook for their financial development (see Chart 14). There has also been an increase in the number of economic activities where at least one bank indicated that competition for lending is expected to decrease in the near future (banks are more likely to restrict funding), and for some activities the share of banks saying so has increased, with a decrease in competition most expected in lending to construction, hotels and restaurants and real estate (see Chart 16). Some banks also indicated that the decrease in competition for lending to some economic sectors was already felt in the previous quarter as well (see Chart 15).

The general economic situation continues to be largely responsible for the restriction of lending to hotel and restaurant activities, while rising base interest rates could, in the banks' view, lead to higher credit risk and more loan restructurings. Lending continued to be mainly restricted to the most affected hotel and restaurant businesses since the beginning of the pandemic (see Chart 17). Lending to construction, real estate and transport companies is also more likely to be restricted, although the share of banks stating this decreased slightly during the quarter. The general economic situation remained the main reason for the curbing (see Chart 18). In addition, the rejection rate increased slightly in all loan segments (see Charts 3 and 9). As the outlook for economic development deteriorated, the rapidly rising cost of borrowing may further contribute to the growth of the burden of existing financial liabilities. A third of the banks surveyed assessed that the rise in base interest rates could lead to an increase in the number of higher credit risk loans in the housing, consumer and other household loan portfolios, while just under half said so for the corporate loan portfolio (see Chart 19). Several respondents indicated that there could be an increase in loan restructurings across all loan segments, while one respondent suggested that there could be an increase in non-performing household loans. On the other hand, a larger share of the surveyed banks did not foresee a significant impact on loan portfolios due to rising base interest rates.

Banks' expectations of RE prices have changed, with most expecting prices to stay the same or fall, but, as in the previous quarter, all point to supply imbalances in the residential RE market. Expectations for residential RE price growth in the coming year changed significantly over the quarter, with just under half of banks expecting a decline of up to 5% in prices of old-construction housing, and a third indicating that prices will remain stable (see Chart 20). Similar trends are expected in the new-construction housing segment, with one-third expecting prices to stay the same, and another one-third expecting them to fall by up to 5% or 10%. On the other hand, with housing price growth remaining rapid, the surveyed banks stated that they saw supply-side imbalances in the housing market (see Charts 21 and 22). A higher proportion of respondents also reported seeing overvalued prices, while a third reported demand-side imbalances. Expectations for commercial property prices have also changed, with the majority of respondents indicating that prices will remain stable over the next year, while there are also some respondents who expect commercial property prices to fall by up to 5% or 10%. As in the previous quarter, the majority of respondents did not see any imbalances in this market.

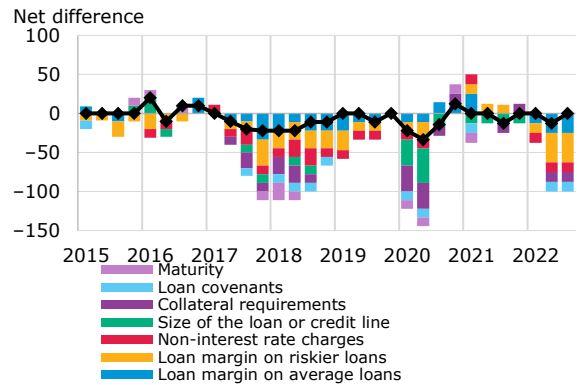
LENDING TO ENTERPRISES

Chart 1. Changes in credit standards for loans and credit lines to enterprises over the quarter, contributing factors and the projected change of standards in the next quarter



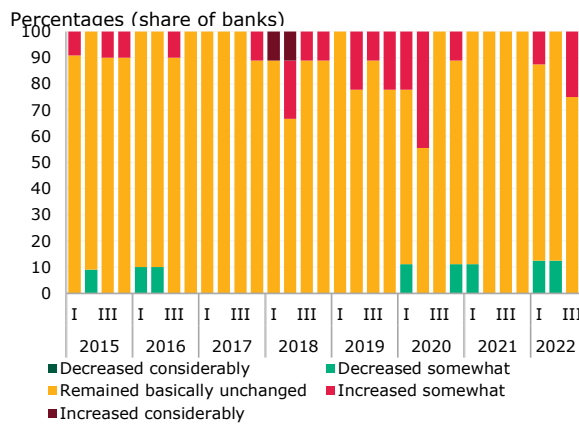
Sources: Bank Lending Survey and Bank of Lithuania calculations.
Note: A positive net percentage indicates net easing of credit standards and vice versa.

Chart 2. Over the past three months, how have your bank's terms and conditions for new loans or credit lines to enterprises changed?



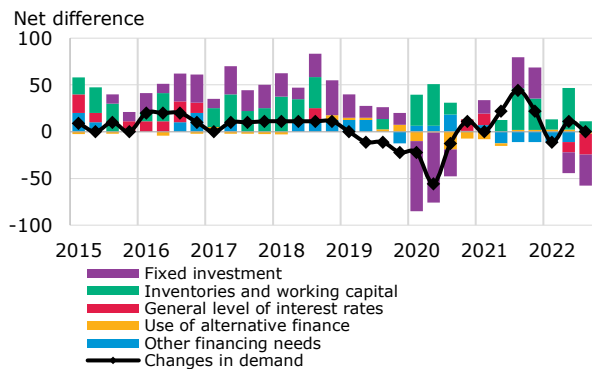
Sources: Bank Lending Survey and Bank of Lithuania calculations.
Note: A positive net percentage indicates net easing of credit standards and vice versa.

Chart 3. How has the share of rejected corporate loan applications changed over the last three months?



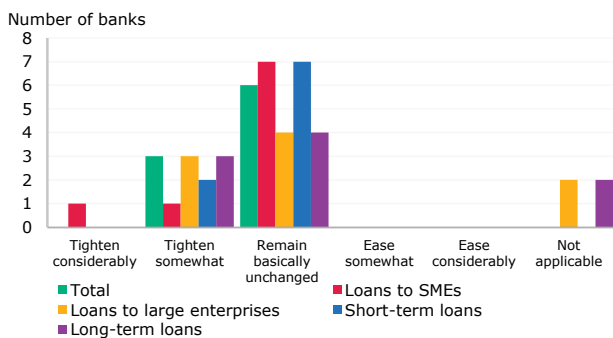
Sources: Bank Lending Survey and Bank of Lithuania calculations.

Chart 4. How has the demand for loans to enterprises changed over the last quarter and what were the contributing factors?



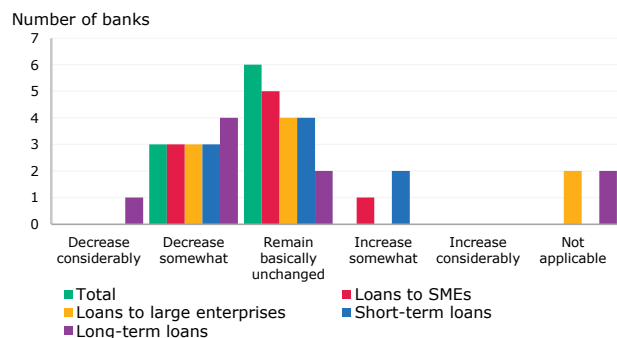
Sources: Bank lending survey and Bank of Lithuania calculations.
Notes: Alternative finance is an arithmetic average of internal financing, loans from other banks, loans from non-banking institutions as well as bond and share issuance. Other financing needs are an arithmetic average of mergers (acquisitions)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

Chart 5. 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.
Note: "Not applicable" means that the bank does not provide loans in this segment.

Chart 6. 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)?

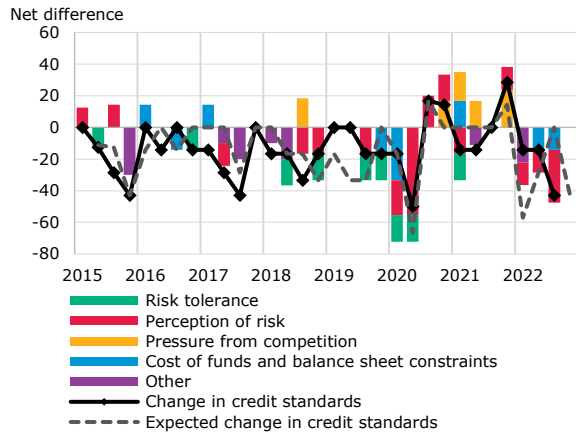


Sources: Bank Lending Survey and Bank of Lithuania calculations.
Note: "Not applicable" means that the bank does not provide loans in this segment.

LENDING TO HOUSEHOLDS

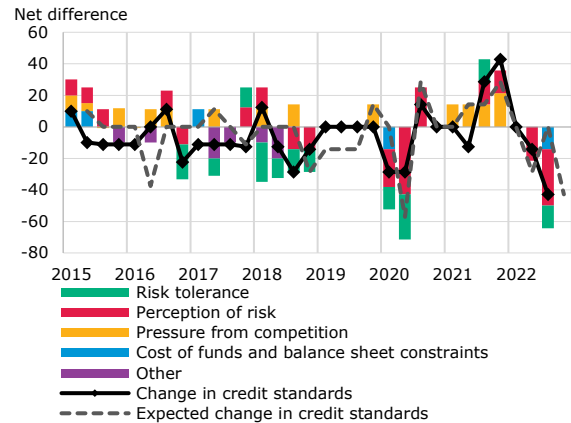
Chart 7. Changes in bank credit standards for loans and credit lines to households over the quarter, contributing factors and the projected change of standards in the next quarter

a) Loans for house purchase



Sources: Bank Lending Survey and Bank of Lithuania calculations.
Note: A positive net percentage indicates net easing of credit standards and vice versa.

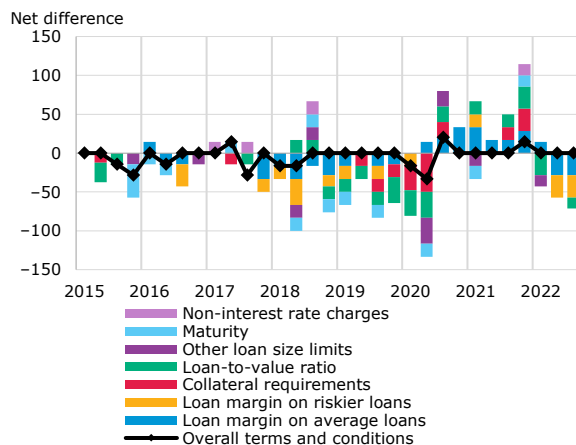
b) Consumer credit and other lending



Sources: Bank Lending Survey and Bank of Lithuania calculations.
Note: A positive net percentage indicates net easing of credit standards and vice versa.

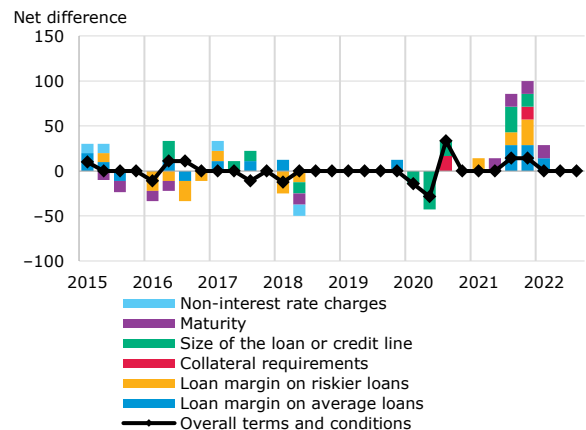
Chart 8 Over the past three months, how have your bank's terms and conditions for new loans or credit lines to households changed?

a) Loans for house purchase



Sources: Bank Lending Survey and Bank of Lithuania calculations.
Note: A positive net percentage indicates net easing of credit standards and

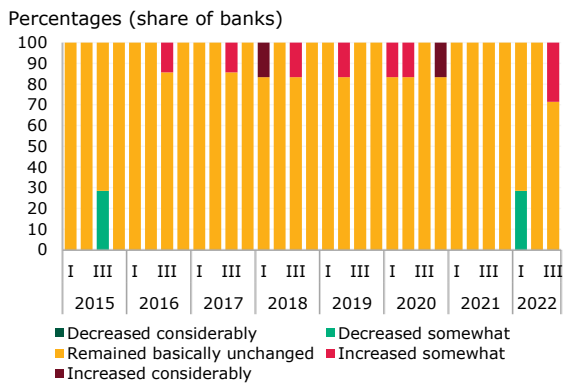
b) Consumer credit and other lending



Sources: Bank Lending Survey and Bank of Lithuania calculations.
Note: A positive net percentage indicates net easing of credit standards and vice versa.

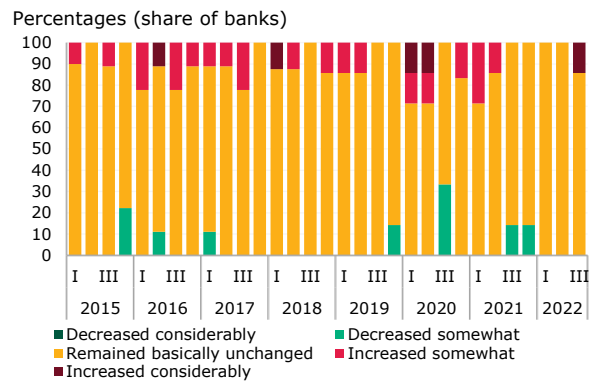
Chart 9. How has the share of rejected household loan applications changed over the last three months?

a) Loans for house purchase



Sources: Bank Lending Survey and Bank of Lithuania calculations.

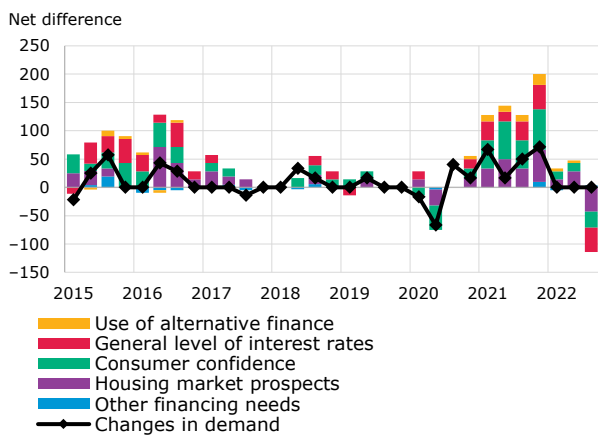
b) Consumer credit and other lending



Sources: Bank Lending Survey and Bank of Lithuania calculations.

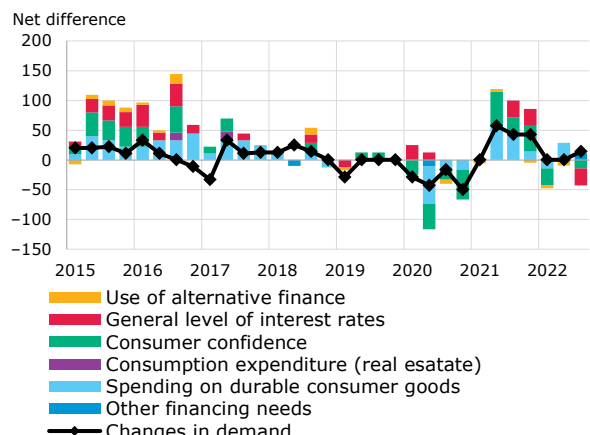
Chart 10. How has the demand for household loans changed over the last quarter and what were the contributing factors?

a) Loans for house purchase



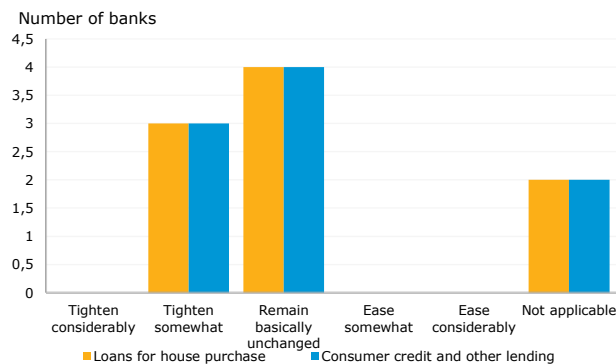
Sources: Bank lending survey and Bank of Lithuania calculations.
Notes: Alternative finance is an arithmetic average of savings, loans from other banks and other sources of external financing. Other financing needs are an arithmetic average of regulatory and fiscal regime of housing markets, debt refinancing and other reasons. A positive net percentage indicates an increase in demand and vice versa.

b) Consumer credit and other lending



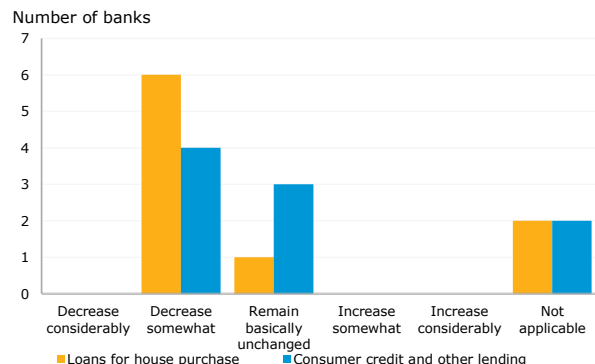
Sources: Bank Lending Survey and Bank of Lithuania calculations.
Notes: Alternative finance is an arithmetic average of household savings, loans from other banks and other sources of external financing. Consumption expenditure (RE) means consumption expenditure financed by a loan with mortgaged real estate (RE). A positive net percentage indicates an increase in demand and vice versa.

Chart 11. How do you expect 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.
Note: "Not applicable" means that the bank does not provide loans in this segment.

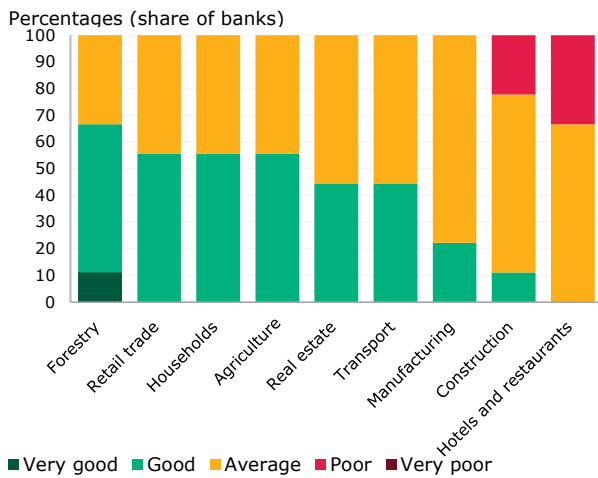
Chart 12. How do you expect the demand for household loans to change over the next three months (apart from normal seasonal fluctuations)?



Sources: Bank Lending Survey and Bank of Lithuania calculations.
Note: "Not applicable" means that the bank does not provide loans in this segment.

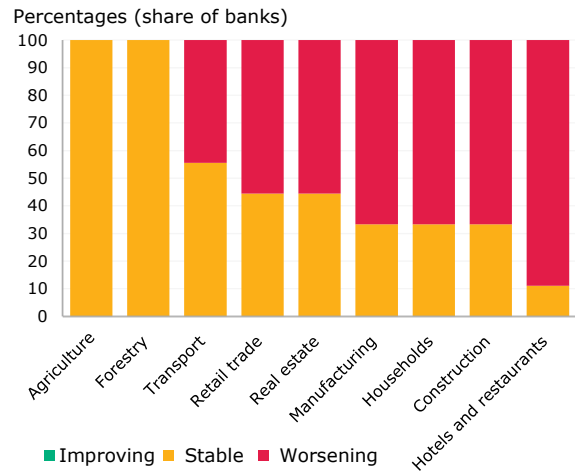
ASSESSMENT OF BORROWERS' FINANCIAL SITUATION

Chart 13. How do you assess the financial situation of enterprises (broken down by economic activity) and households?



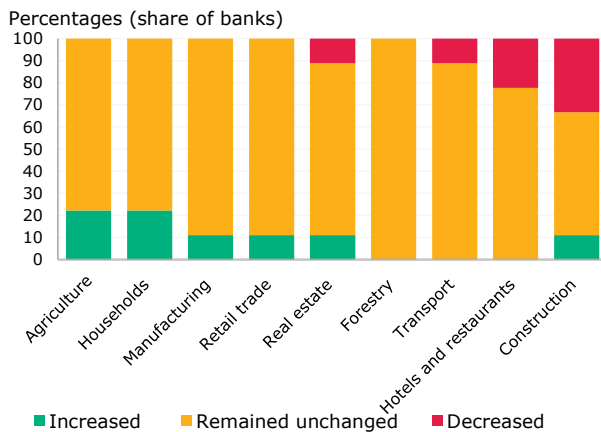
Sources: Bank Lending Survey and Bank of Lithuania calculations.

Chart 14. How do you assess the development of the financial situation of enterprises (broken down by economic activity) and households?



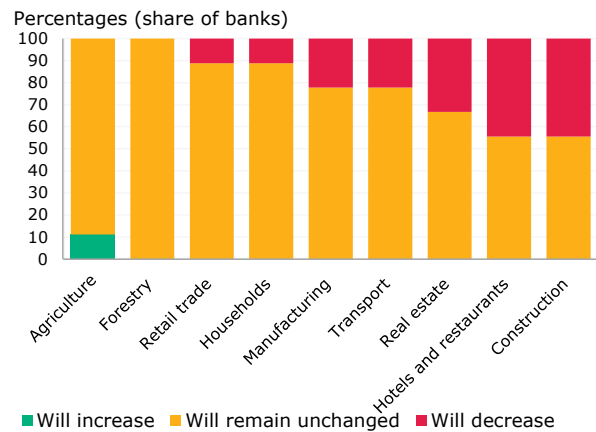
Sources: Bank Lending Survey and Bank of Lithuania calculations.

Chart 15. How has the competition among banks for lending to enterprises (broken down by economic activity) and households changed over the last three months?



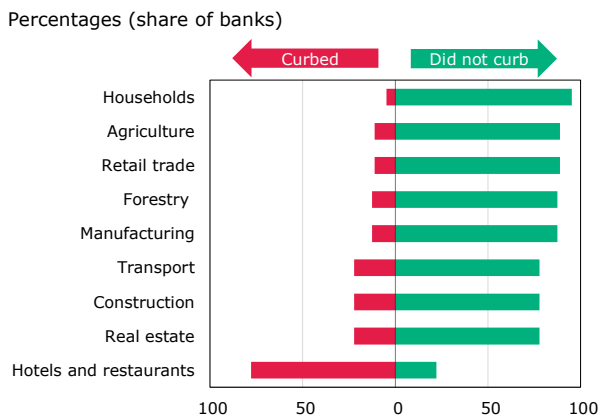
Sources: Bank Lending Survey and Bank of Lithuania calculations.

Chart 16. How do you expect the competition among banks for lending to enterprises (broken down by economic activity) and households to change over the next three months?



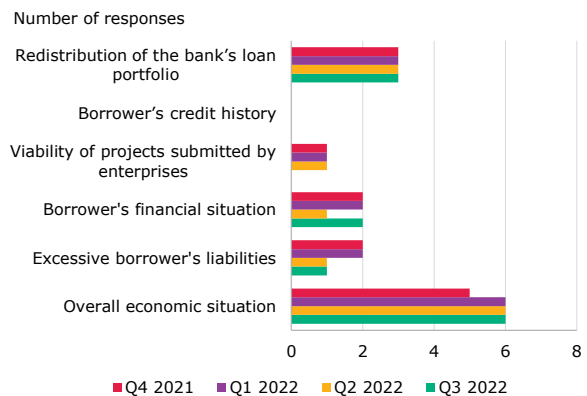
Sources: Bank Lending Survey and Bank of Lithuania calculations.

Chart 17. Has your bank curbed lending to enterprises engaged in certain economic activities or households over the last three months?



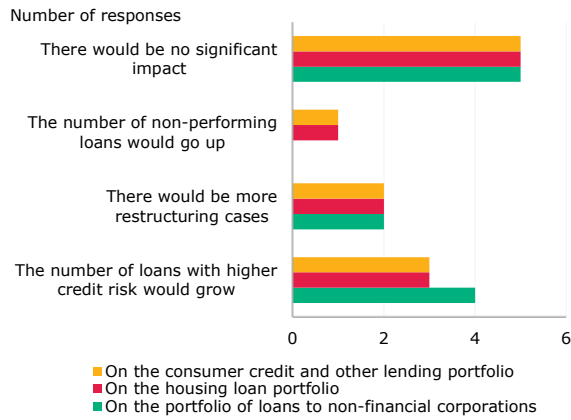
Sources: Bank Lending Survey and Bank of Lithuania calculations.

Chart 18. If lending was curbed, what were the reasons?



Sources: Bank Lending Survey and Bank of Lithuania calculations.

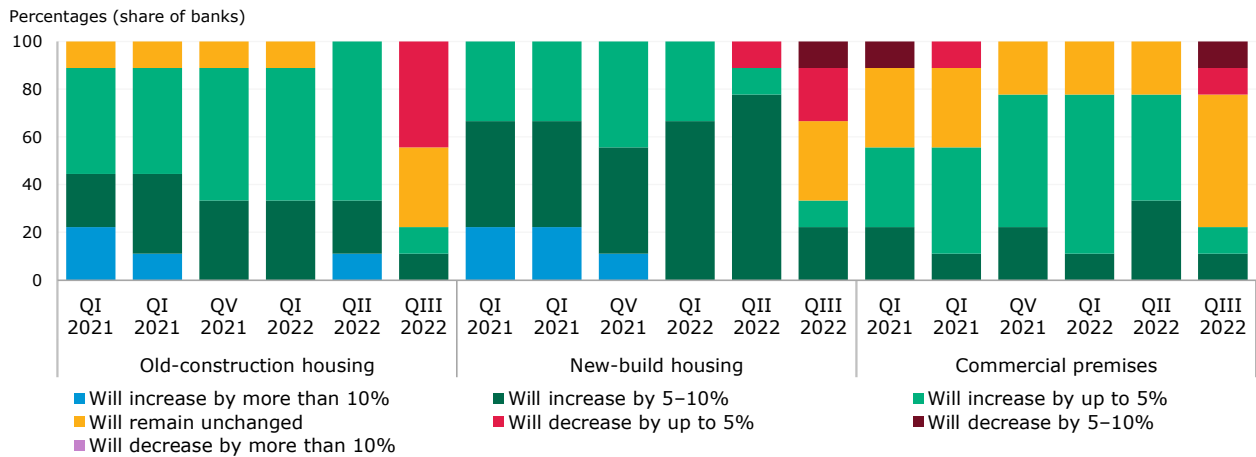
Chart 19. What impact would you see on your bank's loan portfolios as a result of the increase in base interest rates by ECB?



Sources: Bank Lending Survey and Bank of Lithuania.

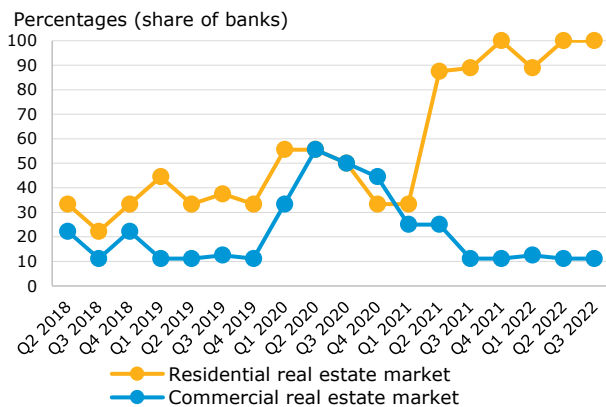
REAL ESTATE MARKET DEVELOPMENTS

Chart 20. How do you expect real estate prices to change over the next year?



Sources: Bank Lending Survey and Bank of Lithuania.

Chart 21. Do you currently notice any imbalances in the real estate market?



Sources: Bank Lending Survey and Bank of Lithuania calculations.
Note: Share of banks which noticed imbalances in the real estate market.

Chart 22. 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.