LIETUVOS BANKAS
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# REVIEW

## OF THE BANK LENDING SURVEY

2017

2

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The Review was prepared by the Economics and Financial Stability Service of the Bank of Lithuania.

## AIMS, METHODS AND PRINCIPLES OF THE SURVEY

The survey of commercial banks and foreign bank branches operating in Lithuania is aimed at obtaining information on various aspects related to bank lending: credit standards, lending terms and conditions for households and enterprises[1], contributions to their development, credit demand, bank expectations for future credit dynamics, etc. The Review of the Bank Lending Survey is published twice a year.

In carrying out the survey, bank senior loan officers were asked to specify changes that occurred from June to August 2017 in their banks' credit standards and terms and conditions set for households and non-financial corporations, developments in credit demand, factors that most influenced these developments, etc. The present review was prepared using generalised data from a survey of six commercial banks and four foreign bank branches (hereinafter 'banks'). The survey was conducted in September 2017.

The Review of the Bank Lending Survey presents a summarised opinion of the respondents, which does not necessarily reflect the official position and perceptions of banks, including the Bank of Lithuania or its employees. In summarising the opinions and calculating the proportion of banks that have chosen a particular answer, the responses of banks were given the same weight, regardless of their market share.

In the review, the net percentage is defined as the difference between the percentage of banks responding 'tightening of credit standards' (increasing demand) and the percentage of banks responding 'easing of credit standards' (lowering demand). A positive net percentage indicates that a larger share of banks have tightened their credit standards, a negative (–) – that they have eased them. Likewise, the net percentage is assessed by calculating changes in demand and other indicators: a positive net percentage refers to an increase in demand, a negative percentage – to its decline.

The annex to this survey with data tables in Excel format is available on the Bank of Lithuania website. In the tables, the mean is defined as a weighted average, attributing to the responses the following values: 1 for 'tightened considerably (a decline in demand)'; 2 for 'tightened somewhat (a decline in demand)'; 3 for 'remained basically unchanged'; 4 for 'eased somewhat (an increase in demand)'; 5 for 'eased considerably (an increase in demand)'. When the value of the mean is lower than 3, it indicates that most banks have tightened their credit standards; when the value of the mean is higher than 3, it indicates that banks have eased their credit standards. Likewise, the value of the mean is assessed by calculating changes in demand and other indicators: if the value is lower than 3, it indicates a decline in demand, if it is higher than 3 – an increase in demand.

As of 2015, the results of the survey of commercial banks and foreign bank branches operating in Lithuania have been included in 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 differ, since, according to existing practice, the ECB presents the survey results on four banks that hold the largest market share by assets held. The euro area bank lending survey is available on the ECB website.

[1] In this context, enterprises are non-financial corporations.

## REVIEW OF THE SURVEY RESULTS

**The surveyed banks noticed signs of deterioration in the financial health of enterprises engaged in construction and real estate (RE) activities (see Chart 1).** Half of the surveyed banks indicated that last quarter they curbed lending to RE development companies. When asked about the development of the financial situation in the RE development sector, three banks viewed it as deteriorating. In addition, two banks reported that crediting of this sector in the previous quarter scaled down competition, whereas three banks expected competition to continue on its downward path in the next quarter as well. Similar trends were observed in the construction sector. Only half of the surveyed banks saw the sector as financial viable, while two banks indicated that the financial situation in this sector is worsening. Two banks anticipated a narrowing of bank competition in this sector over the next quarter.

**Half of the surveyed banks indicated noticing some imbalances in the domestic housing market.[2]** One out of ten banks reported that there are imbalances in the commercial RE market as well. When asked about their expectations regarding housing price dynamics in Lithuania over the upcoming year, the majority of the banks (five) stated that they anticipate prices to remain unchanged (see Chart 2). In terms of the old-construction housing segment, three banks anticipated a rise in prices (up to 5%), whereas two – a drop. Four banks expected an increase in new-construction housing prices (up to 5 or 10%), while one bank – a decrease in prices. With regard to commercial RE prices, banks were somewhat more optimistic even though the majority of them (six) did not anticipate any price developments and four banks believed that over the year prices will increase by up to 5 per cent.

**The most pronounced changes in credit standards are related to the tightening of crediting for house purchase (see Chart 3).** Although the credit standards of the majority of the banks remained unchanged, one bank reported that it tightened credit standards for corporate loans, one – for consumer loans, three – for housing loans. However, one bank indicated that the share of rejected housing loans, compared to all loan applications, increased. Two banks stated that the share of rejected consumer loans expanded. No changes were observed in the corporate loan segment.

**According to banks, over the quarter demand for lending remained unchanged.** Many banks stated that corporate lending demand remained unchanged; one bank saw a rise in demand for corporate loans. When assessing enterprises by size, the majority of banks did not observe any changes in demand: one bank claimed that demand for loans to SMEs dropped, another bank noticed a rise in demand for loans to large enterprises. No significant changes were seen in demand for loans to households: one bank reported a fall in demand for housing loans, one – an increase in demand for consumer loans. According to banks, enterprises borrowed mostly for capital investment and working capital, while households – due to low interest rate levels as well as for purchasing durable goods (e.g. cars, furniture, etc.) (see Chart 4).

**Banks anticipate further growth in the loan portfolio.** With bank crediting continuing on a rather rapid growth path, the majority of banks expected an annual increase in the loan portfolio at the end of 2017 and its further acceleration in 2018. For example, four banks reported that the annual increase in the loan portfolio will reach up to 5 per cent, another four – up to 10 per cent, one – up to 15 per cent. Banks anticipate even more rapid portfolio growth in 2018: three banks indicated that the portfolio will expand by up to 10 per cent, another three – by up to 15 per cent, one – by more than 15 per cent. Slightly more banks expected to see more rapid growth of corporate credit levels and more moderate growth of housing loan levels (see Chart 5).

**Cyber risks often render direct losses for banks.** Three out of ten banks reported that in the last 12 months they have incurred losses related to cyber attacks, some of which amounted to EUR 200 thousand. That being said, in the near future banks plan to increase expenditure to strengthen information system infrastructure resilience – these plans were shared by nine out of ten banks.

[2] The questionnaire does not provide a definition for the term 'imbalances', hence banks assessed this indicator based on their expert evaluation.

**The share of loans granted together with EU assistance was small.** Three banks could not indicate the exact share of such loans, six banks claimed it reached up to 10 per cent of total loans, one bank – up to 30 per cent.

## KEY CHARTS

**Chart 1. Banks noticed signs of deterioration in the financial health of enterprises engaged in construction and real estate activities**

Share of respondents


**Chart 2. Majority of banks anticipate that housing prices will remain unchanged**

Share of respondents

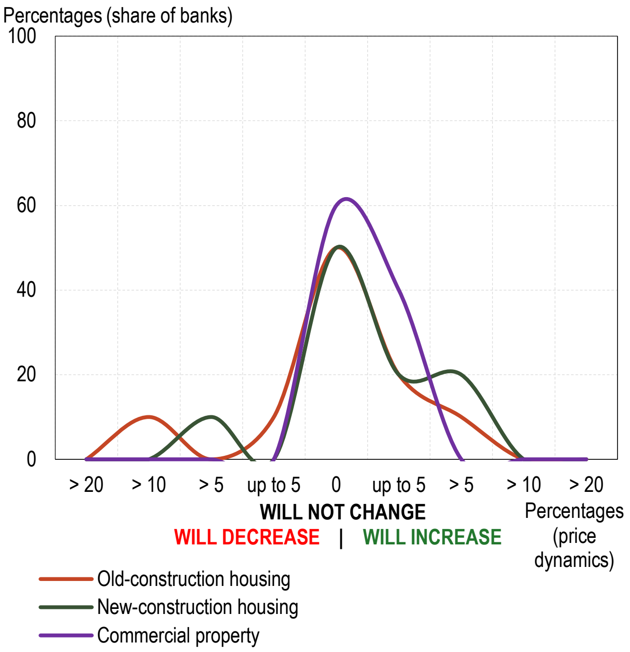


**Chart 3. Over the quarter credit standards as applied to housing loans tightened**

Developments in credit standards for loans to the private sector

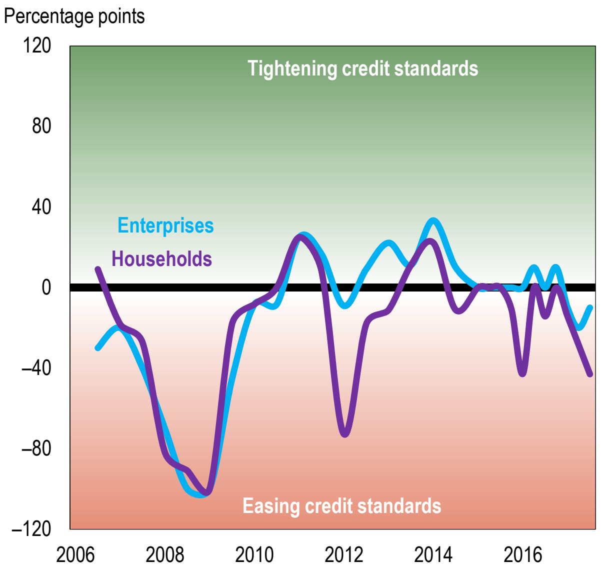

**Chart 4. Banks distinguished several main sources of credit demand**

Share of respondents

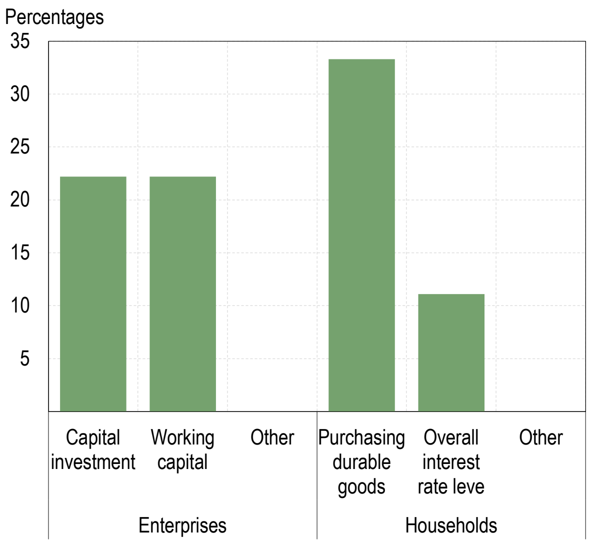


**Chart 5. Banks expect that in 2018 lending in the corporate segment will accelerate**

Share of respondents