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EUROSISTEMA

Review of the Bank Lending Survey

2018/2

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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 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 between July and September 2018 in respect of the credit terms and conditions as well as credit standards applied by their banks to households and non-financial corporations, developments in credit demand, the driving factors behind such developments, etc. Some questions were aimed to find out the expectations of bank representatives as to the changes in credit standards and demand until the end of 2019. 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 five commercial banks and four foreign bank branches (hereinafter collectively referred to as "banks") conducted by the Bank of Lithuania between September and October 2018.

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.

The measure of net percentage used in the review means the difference between the percentage share of banks reporting easing of credit standards (or, for instance, an increase in demand) and the percentage share of banks reporting tightening of credit standards (or, for instance, a decrease in demand). A positive net percentage indicates that a larger proportion of banks has eased credit standards, whereas a negative net percentage means that a larger proportion of banks has tightened them. The same applies to the notion of net percentage used to measure changes in demand: a positive net percentage implies an increase in demand, whereas a negative net percentage shows its decrease.

In the tables, the mean is defined as a weighted average calculated using the following weights given to five possible response options: 1 for "tightened considerably (the demand decreased considerably)"; 2 for "tightened somewhat (the demand decreased somewhat)"; 3 for "remained basically unchanged"; 4 for "eased somewhat (the demand increased somewhat)"; 5 for "eased considerably (the demand increased considerably)". The mean below 3 implies that most of the banks have tightened their credit terms and conditions, while the mean above 3 indicates easing. The same applies to the value of the mean used to measure changes in demand: the mean below 3 shows a decrease in demand, while the mean above 3 implies that the demand has increased.

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 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

Banks operating in Lithuania somewhat tightened their credit standards[1] for loans to enterprises and households in the third quarter of 2018 (see Chart 1). Two of the surveyed banks reported tightening of credit standards for loans to households, another two – tightening of credit standards for loans to enterprises, and none of those surveyed reported easing their standards. As regards different segments of corporate loans, the largest number of banks (two) reported tightening of credit standards applied to small and medium-sized enterprises (SMEs). In terms of corporate loan maturity, tightening was mainly applied to the credit standards for short-term loans (indicated by two banks). Tightening of credit standards for loans to enterprises was mainly driven by reasons related to banks' capital position as well as changes in their risk perceptions: expectations regarding the general economic situation, industry- or firm-specific outlook and/or risk on collateral. Tightening of credit standards for loans to households was mainly underpinned by banks' expectations about the economic situation. In the near-term perspective, the majority of banks planned to keep their credit standards for loans to enterprises and households unchanged.

Demand for loans granted by banks to enterprises and households somewhat increased in the third quarter of 2018. Banks expected the demand for household credit to continue growing marginally in the near future. The survey showed that there were more banks that reported an increase in demand for their loans to enterprises and households than those reporting a decline in such demand. As regards the demand for corporate loans, two banks noted a slight increase in demand over the third quarter of 2018 and one bank reported a considerable decline in demand for loans to enterprises. In terms of loans to households, one bank reported stronger demand for consumer credit, another one – higher demand for loans for house purchase, and none of the banks noticed a decrease in demand for such credit. The main factors driving the observed growth in demand for corporate loans included corporate investment and the working capital requirement. Demand for loans for house purchase and consumer credit was fuelled by a combination of several factors, such as consumer confidence, the general level of interest rates, housing market prospects, and the need to purchase durable goods (e.g. cars). The surveyed banks did not anticipate any significant changes in loan demand in the near future: none of the banks reported expecting major changes in demand for corporate loans, whereas one bank had expectations for growth in demand for housing loans, another bank had the same expectations for consumer credit.

More banks expected house prices to increase over the next twelve months; the most significant changes were observed in expectations related to the old-construction housing segment (see Chart 2). Four banks reported expecting prices for old-construction housing in Lithuania to rise by up to 5% over the next twelve months, another four expected those prices to remain unchanged and one bank had expectations for a price fall of up to 5%. Bank expectations regarding prices of new-build housing were broadly similar, with four of the banks predicting an up to 5% rise in prices for new-build housing and the remaining five respondents expecting that new-build housing prices will remain unchanged over the next twelve months. Comparison with the previous survey revealed a noticeable increase in the number of banks expecting growth in real estate prices, given that the survey carried out three months ago showed just one bank anticipating growth in prices for old-construction housing over the next twelve months and just two banks expecting the prices for new-build housing to increase by up to 5%.

More banks curbed lending for transport and real estate enterprises in the third quarter of 2018 (see Chart 3). Looking at individual economic activities, the largest number of respondents curbed lending to transport and real estate enterprises at the end of the third quarter of 2018. Four out of nine banks that provided credit to enterprises in these two sectors reported restricting lending to them. In the previous

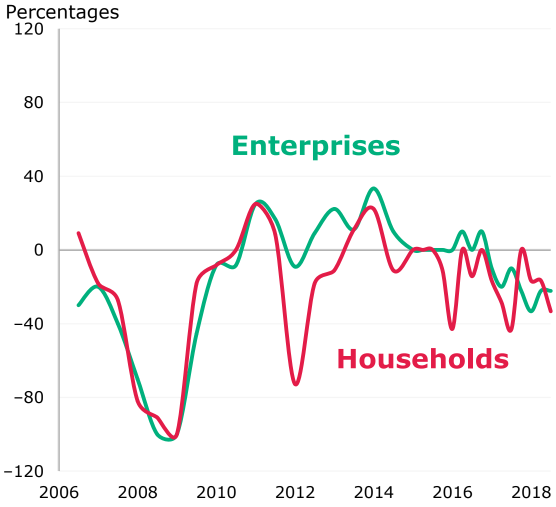
[1] Credit standards are the internal guidelines of a bank, which serve as the basis for loan approval. They define borrower characteristics, such as the income situation, asset holdings, age and/or employment status, that are acceptable to the bank. The standards are established prior to the actual loan negotiation on the terms and conditions and the actual loan approval or rejection decision.

survey, fewer banks reported curbing lending to transport and real estate enterprises (three and two banks respectively). Bank lending to enterprises engaged in other types of economic activity was broadly unrestricted.

MAIN CHARTS

According to banks, credit standards for loans or credit lines to enterprises and households grew tighter over the quarter

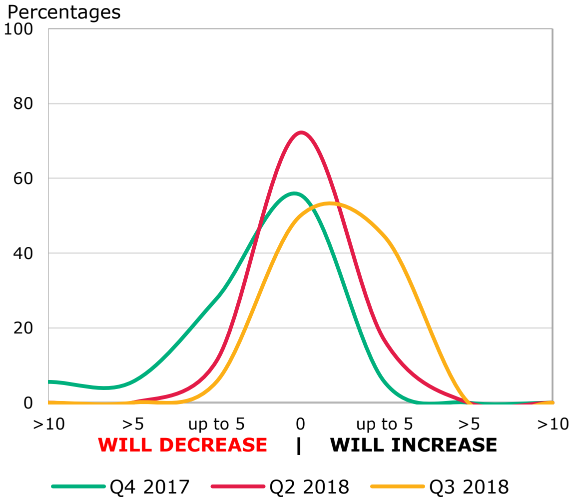
Chart 1. Developments in credit standards for loans or credit lines to the private sector



Source: Bank of Lithuania.

Even though the majority of banks continue to expect that house prices will remain unchanged, lately the number of those anticipating a pick-up has been rising

Chart 2. Share of respondents



Source: Bank of Lithuania.

Most banks curbed lending for transport and real estate enterprises

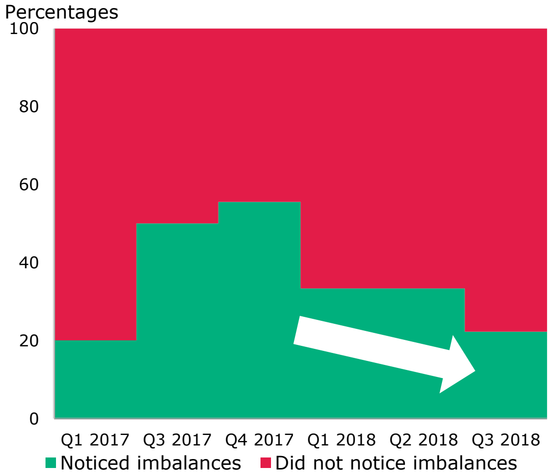
Chart 3. Share of respondents

Percentages

Source: Bank of Lithuania.

Lately the number of banks noticing imbalances in the housing market has been declining

Chart 4. Share of respondents



Source: Bank of Lithuania.