



**LIETUVOS BANKAS**  
EUROSISTEMA

# Review of the Bank Lending Survey

2021/2

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## **OBJECTIVES, DESIGN 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 in the second quarter of 2021 and the expectations of bank representatives with regard to credit standards and loan demand over the next three months. The survey was conducted in June 2021.

The review of the findings of the survey is a summary of the respondents' views and does not necessarily reflect the official positions 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](#).

## REVIEW OF SURVEY RESULTS

**While the banks did not make significant changes in their lending standards<sup>1</sup> in the second quarter of 2021, some of them reduced margins on housing loans due to competitive pressures.** Overall, the banks did not change their lending standards for enterprises, but several banks indicated that increased competition had had an easing effect, while negative risk assessment and lower risk tolerance had had a tightening effect on their lending standards (see Chart 1). The terms and conditions<sup>2</sup> of lending to corporates also remained largely unchanged (see Chart 2). One bank tightened its standards for housing loans and one – for consumer loans (see Chart 7). Although overall lending terms and conditions to households have not changed significantly, for the fourth consecutive quarter, several banks have indicated that they have reduced their margins on average housing loans (see Chart 8a), mainly due to increased pressure from the competition. The banks did not anticipate any significant changes in their lending standards in the third quarter of 2021: one bank planned to slightly tighten its corporate lending standards, while another one planned to slightly ease its standards for consumer loans.

**The demand for loans to households, especially consumer loans, has been rising, and expectations as to the growth in the demand for corporate loans have improved.** The demand for consumer loans, which has been shrinking since the start of the pandemic, grew in the second quarter of 2021 at four of the seven banks offering consumer loans (see Chart 10b). The recovery in demand was mainly driven by increased consumer confidence and demand for durable consumer goods. One bank also reported a slight increase in the demand for housing loans (see Chart 10a). It has been on the rise for the fourth consecutive quarter, with the largest increase recorded in the first quarter of 2021, when four out of six banks reported an increase in demand. According to the banks, the growth in the demand for housing loans was mainly driven by consumer confidence and favourable housing market prospects. Two out of nine banks also reported a growing demand for corporate loans, but the demand continued to be negatively affected by the use of alternative finance (see Chart 4). Some banks anticipated that the demand for household and corporate financing would continue to grow in the next quarter, with the most significant increases expected in the demand for short-term loans (5 out of 9 banks) and loans to small and medium-sized enterprises (4 out of 9 banks) (see Charts 6 and 12).

**During the period under review, the banks had a positive view of the financial position of households and most businesses, but continued to have a negative view of the financial situation of hotels and restaurants and a moderate view of the financial situation of transport and construction undertakings.** Although all respondents said that the position of hotels and restaurants was poor, more than a half of them (6 out of 9) believed that its development showed signs of improvement (see Charts 13 and 14). The financial soundness of construction and transport undertakings was rated moderately, while the soundness of undertakings in other economic sectors was rated positively by at least a half of the respondents. The agricultural sector stood out the most, with seven out of nine banks evaluating the soundness of agricultural undertakings positively. Consequently, most banks also noted an increased and continuing competition for lending to undertakings from this sector (see Charts 15 and 16). At least a half of the respondents also said that the competition for lending to manufacturing undertakings and households was increasing. In view of the favourable assessment of enterprises, the vast majority of banks did not curb their lending, with only the hotels and restaurants segment standing out, where 7 out of 9 banks curbed lending (see Chart 17). The deteriorating economic situation continued to be the principal cause for lending restrictions (5 banks), but more banks than in the preceding quarters (3) also curbed their lending because of the borrower's financial situation (see Chart 18). **As banks increasingly expect a surge in real estate**

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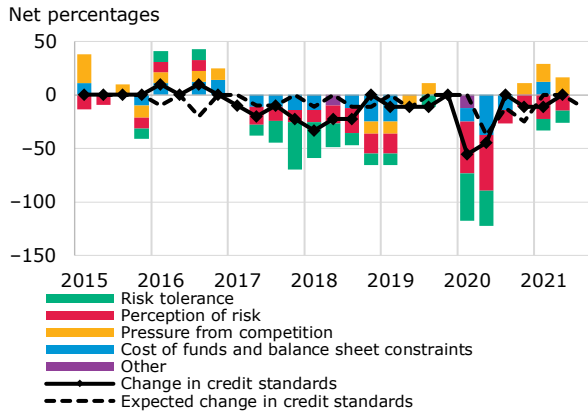
<sup>1</sup> Lending standards are the internal rules of a bank which serve as the basis for granting loans. The standards define the criteria of the borrower acceptable to the bank: income, assets, age, employment. The standards are set before negotiating lending terms with the customers and before deciding whether to grant a loan or reject an application.

<sup>2</sup> Lending terms and conditions refer to the conditions under which a bank agrees to grant a loan: the size of the loan and of the collateral, duration, lending margin, the benchmark interest rate index to which the lending margin is linked, additional fees (for the conclusion, administration of the contract, etc.).

**(RE) prices, the vast majority of the banks surveyed indicated that they observed imbalances in the residential property market.** Expectations as to the growth of residential RE prices over the next year were particularly optimistic: all banks anticipated an increase in the prices of new build housing, while 8 out of 9 banks also anticipated an increase in the prices of old build housing. Two respondents indicated that growth will be very strong and will exceed 10%. The share of the banks that perceived imbalances in the residential real estate market also increased significantly during the quarter, from 33% to 88%. The respondents felt that imbalances existed on both the demand and supply sides, while some said that residential RE prices were too high. Expectations as to the development of commercial RE prices also improved, with a half of the banks expecting the prices to rise and only one bank saying that the prices would fall. Imbalances in this segment were noted by a third of the banks – less than at the height of the pandemic, but more than in the pre-pandemic period.

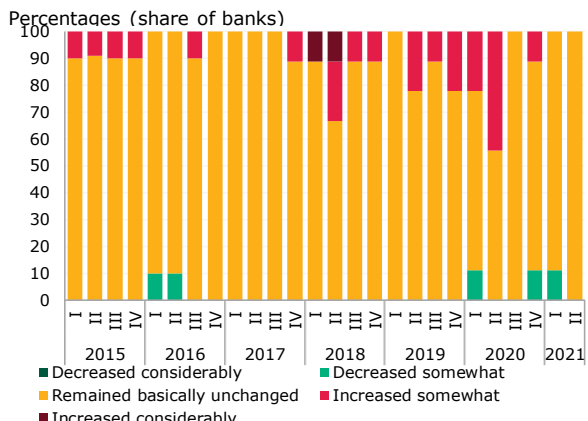
## LENDING TO ENTERPRISES

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



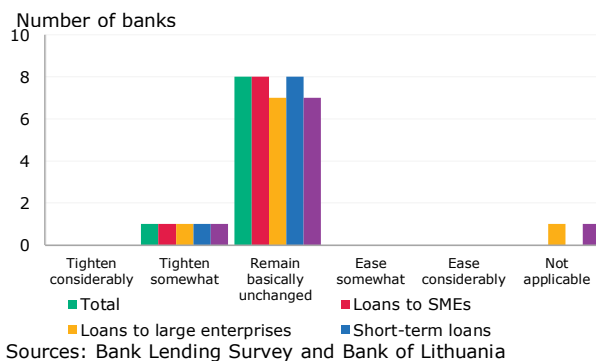
Sources: Bank Lending Survey and Bank of Lithuania calculations.  
Note: A positive net percentage indicates net easing of credit standards and vice versa.

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



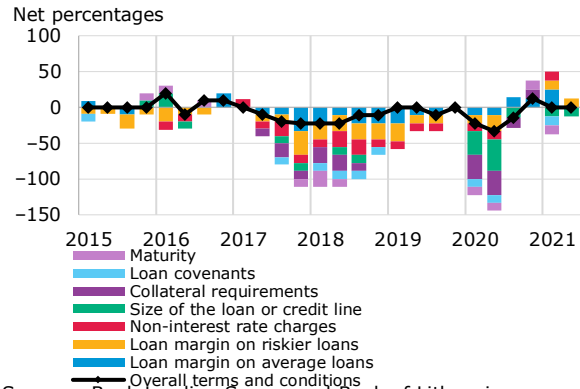
Sources: Bank Lending Survey and Bank of Lithuania

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

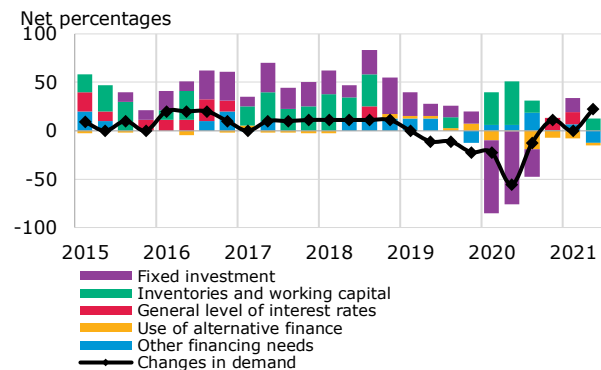
Chart 2. Over the past three months, how have your bank's terms and conditions for new loans or credit lines to enterprises changed?



Sources: Bank Lending Survey and Bank of Lithuania calculations.

Note: A positive net percentage indicates net easing of credit standards and vice versa.

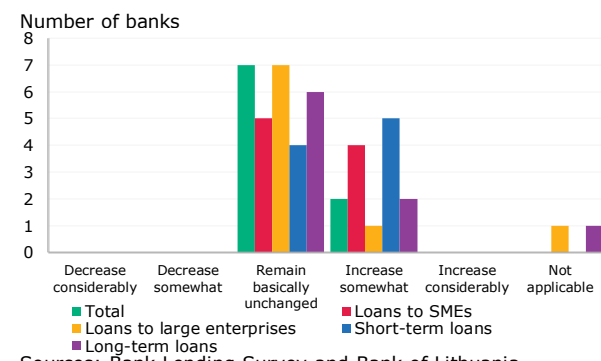
Chart 4. How has the demand for loans to enterprises changed over the last three months and what were the contributing factors?



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 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)?

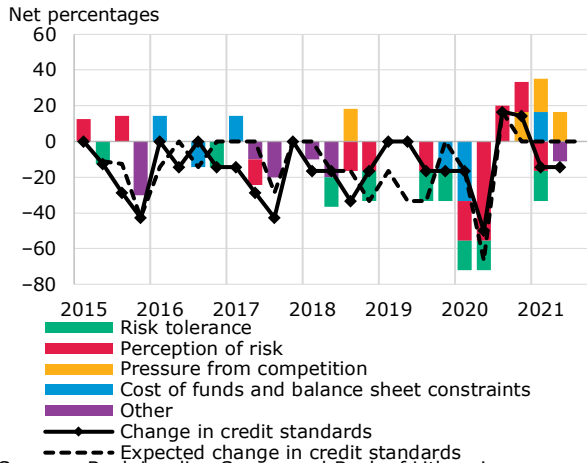


Sources: Bank Lending Survey and Bank of Lithuania

## LENDING TO HOUSEHOLDS

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

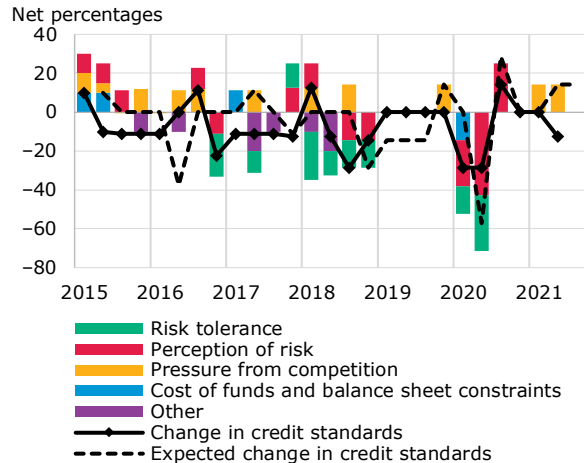
a) Loans for house purchase



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

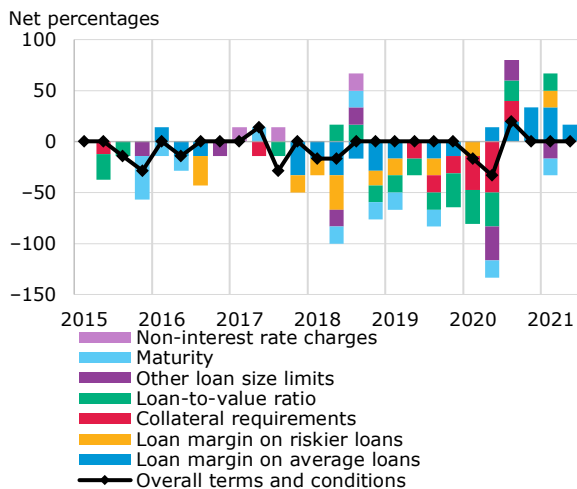


Sources: Bank Lending Survey and Bank of Lithuania calculations.

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 as applied to new loans to households changed?

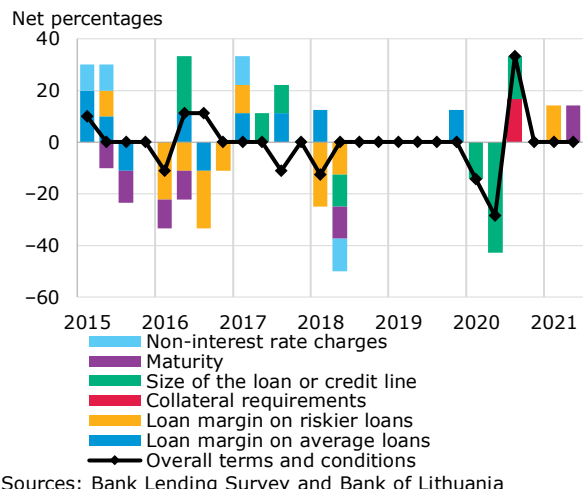
a) Loans for house purchase



Sources: Bank Lending Survey and Bank of Lithuania calculations.

Note: A positive net percentage indicates net easing of credit standards and vice versa.

b) Consumer credit and other lending

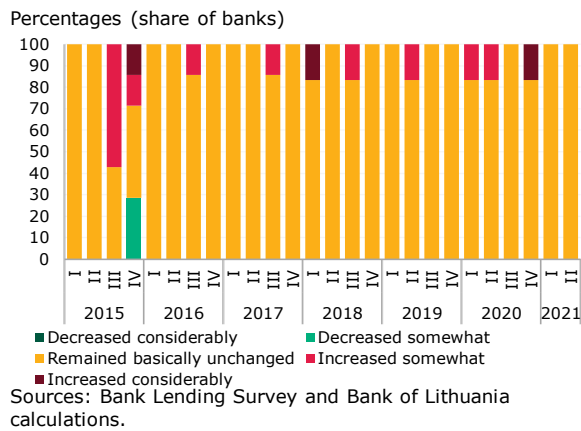


Sources: Bank Lending Survey and Bank of Lithuania calculations.

Note: A positive net percentage indicates net easing of credit standards and vice versa.

Chart 9. 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

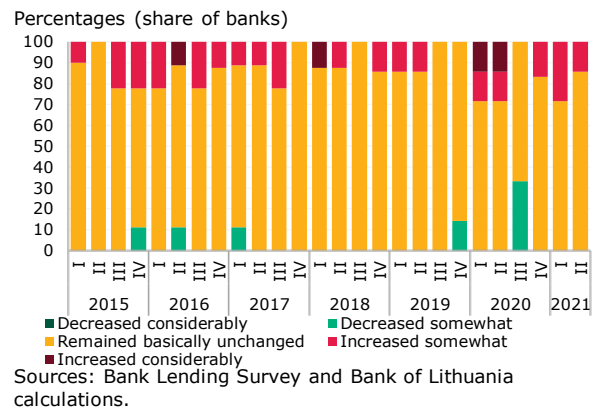
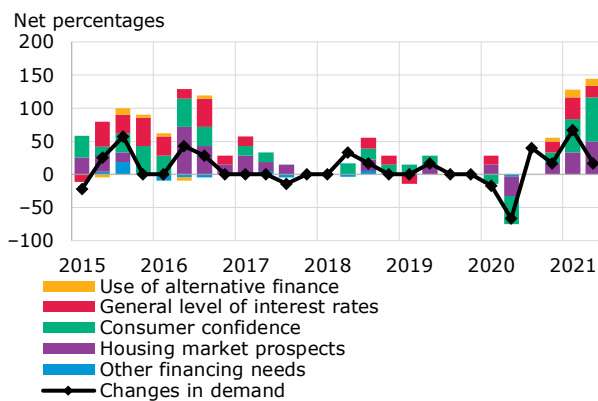
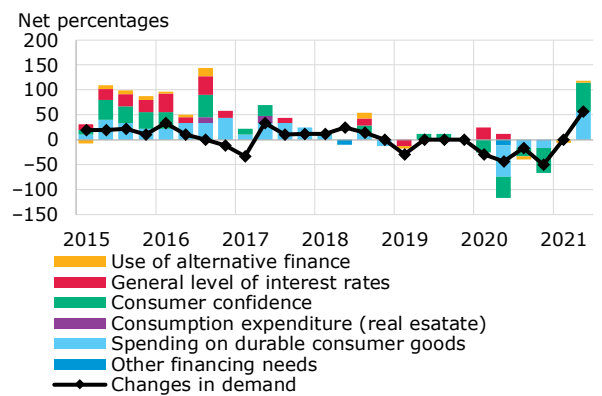


Chart 10. How has the demand for household loans changed at your bank over the last three months (apart from normal seasonal fluctuations)?

a) Loans for house purchase



b) Consumer credit and other lending



Notes: Alternative finance is an arithmetic average of household 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/restructuring and renegotiation and other reasons.

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

Chart 11. How do you expect credit standards as applied to the approval of loans to households to change over the next three months?

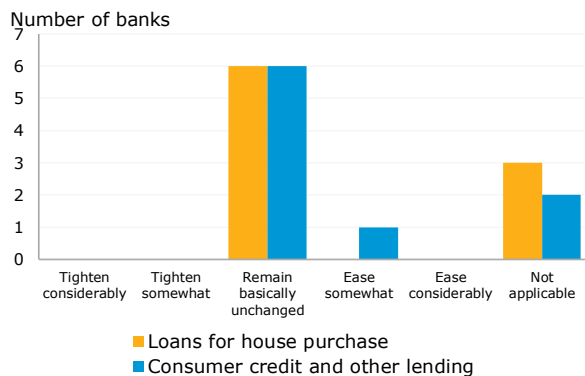
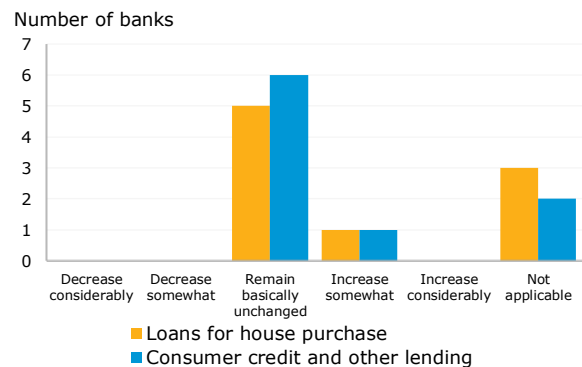


Chart 12. How do you expect the demand for household loans to change over the next three months (apart from normal seasonal fluctuations)?





## ASSESSMENT OF BORROWERS' FINANCIAL SITUATION

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

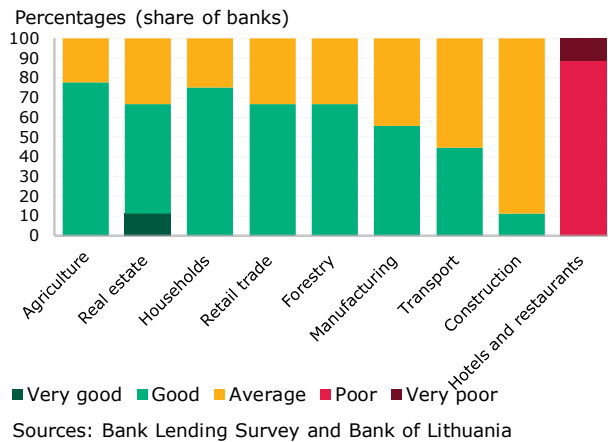


Chart 14. How do you assess the development of the financial situation of enterprises (broken down by economic activity) and households?

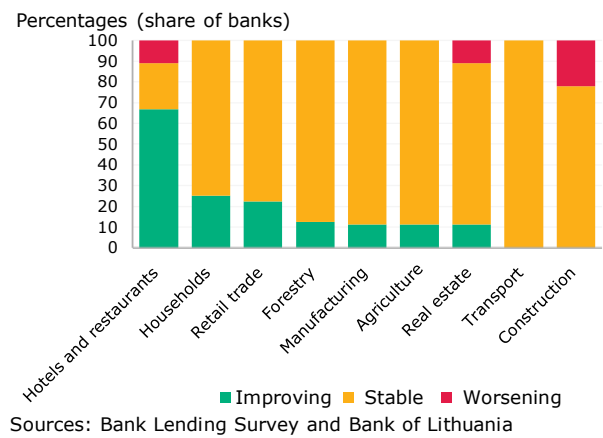


Chart 15. How has the competition among banks for lending to enterprises (broken down by economic activity) and households changed over the last three months?

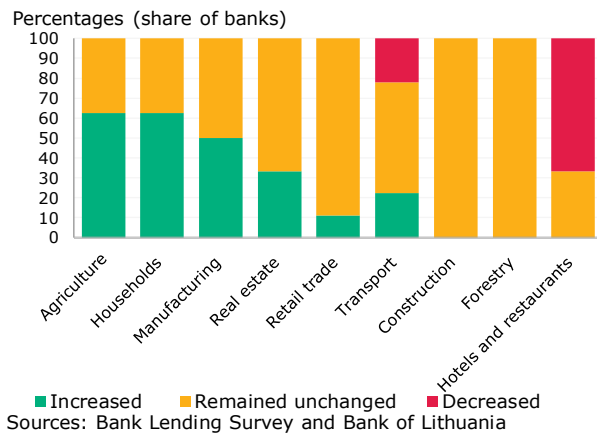


Chart 16. How do you expect the competition among banks for lending to enterprises (broken down by economic activity) and households to change over the next three months?

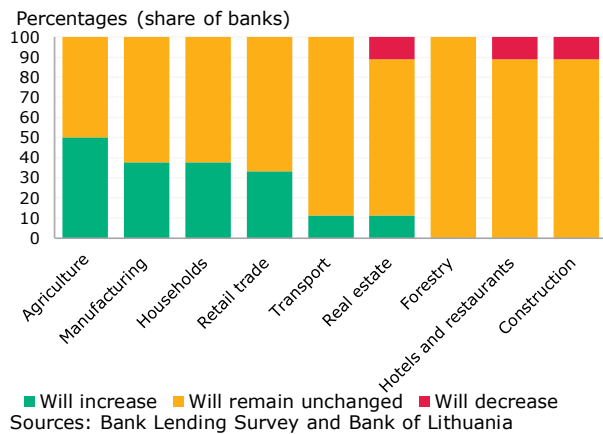


Chart 17. Has your bank curbed lending to enterprises engaged in certain economic activities or households over the last three months?

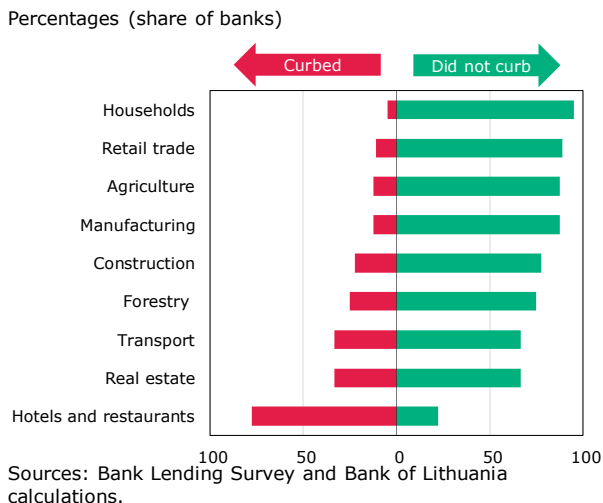
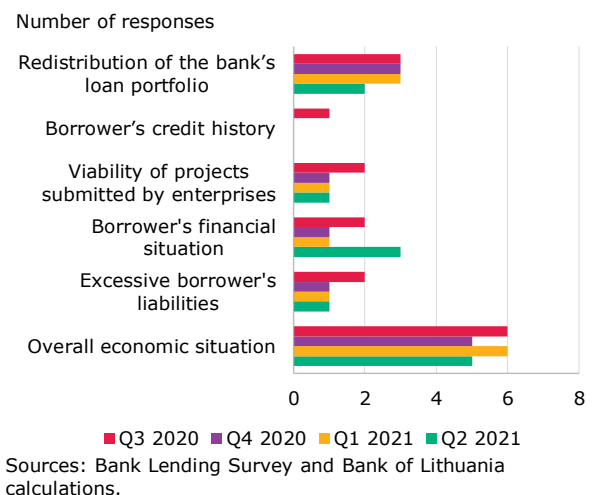
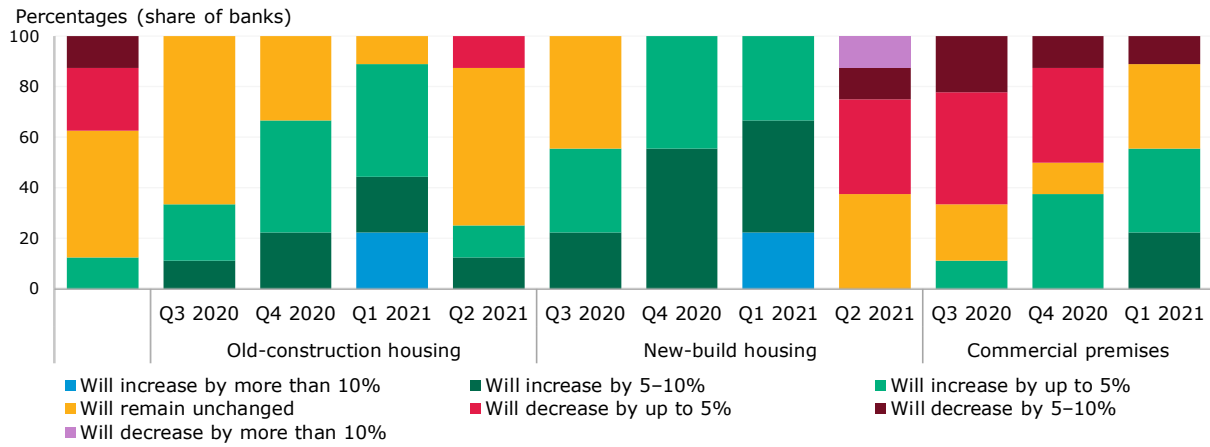


Chart 18. If lending was curbed, what were the reasons?



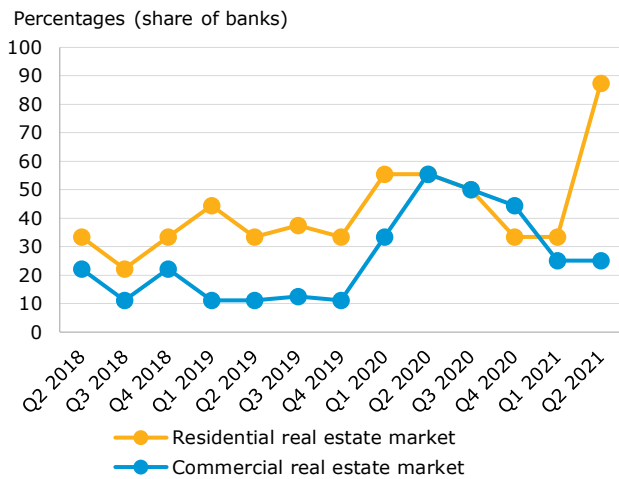
## REAL ESTATE MARKET DEVELOPMENTS

Chart 19. How do you expect real estate prices to change over the next year?



Sources: Bank Lending Survey and Bank of Lithuania.

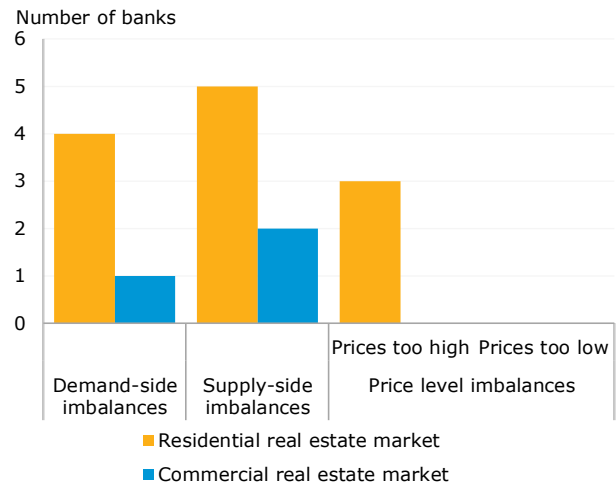
Chart 20. Do you currently notice any imbalances in the real estate market?



Sources: Bank Lending Survey and Bank of Lithuania calculations.

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

Chart 21. 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.