



LIETUVOS BANKAS
EUROSISTEMA

Review of the Bank Lending Survey

2021/3

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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 third 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 October 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](#).

SUMMARY OF SURVEY RESULTS

The survey results show that in the third quarter of 2021, the banks saw a strong growth in the demand for household and corporate credit, consumer lending standards were eased, while the banks continued to expect a strong price growth in the residential real estate (RE) market and saw imbalances building up. All the segments covered in the analysis show an increasing demand for credit, which had contracted significantly at the start of the pandemic. The lending market remains under increased competitive pressure, with some of the banks indicating that they have eased their standards for consumer lending, but their standards for housing and corporate lending have remained unchanged. The banks have a favourable view of the soundness of households and most businesses, but the financial position of hotels and restaurants, which have been most seriously affected by the pandemic, is still rated as being poor. With the banks' expectations for residential RE price growth still at a high level, almost all respondents saw imbalances in the housing market, while the assessment of imbalances in the commercial RE market improved and rebounded to pre-pandemic levels.

REVIEW OF SURVEY RESULTS

In the third quarter of 2021, the banks slightly eased their standards¹ and terms and conditions² for consumer lending, while their standards for housing loans and corporate loans remained unchanged. Two out of seven banks offering consumer loans reported a slight easing of their lending standards for this segment due to improvements in the perception of risk, risk tolerance and increased competitive pressure (see Chart 7b). The terms and conditions for consumer loans have also been easing, with loan margins being reduced, loan sizes increased and maturities extended (see Chart 8b). In turn, the standards for corporate and housing loans remained stable over the quarter (see Charts 1 and 7a). Corporate lending terms and conditions have tightened slightly, with higher collateral requirements and a smaller size of loans or credit lines, although the margins on riskier loans have fallen slightly, i.e. the conditions have eased. For the sixth consecutive quarter, the banks have indicated that they have slightly reduced their housing loan margins, while collateral requirements have also eased somewhat (see Chart 8b). In the fourth quarter of 2021, most banks did not intend to change their lending standards, although a few banks indicated that they would ease their lending standards for households, while one bank planned to tighten them for corporates (see Charts 5 and 11).

The demand for credit from both businesses and households grew during the period under review. Almost a half of the respondents (4 out of 9 banks) indicated that the demand for corporate loans was on the rise (see Chart 4), particularly for SMEs and short-term loans. This increase in demand has been driven by growing fixed investment and inventories as well as working capital needs. The banks also anticipated the demand for corporate loans to grow in the fourth quarter of 2021 (see Chart 6). A half of the respondents also noted an increase in the demand for housing loans, with demand rising for the fifth consecutive quarter; according to the banks, the underlying reasons of the growth remained unchanged and included improved housing market prospects, greater consumer confidence and increased savings, as well as a favourable level of interest rates (see Chart 10a). The growth in the demand for consumer loans was observed for the second consecutive quarter, with three out of seven banks reporting an increase, which they considered to be driven by the spending on durable consumer goods, consumer confidence and the general level of interest rates (see Chart 10b). Several banks expected a growth in the demand for loans to households in the next quarter as well (see Chart 12).

¹ 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.

² 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 and administration of the contract, etc.).

The banks continued to have a positive view of the financial situation of households and most businesses, but the financial position of hotels and restaurants was still considered to be negative.

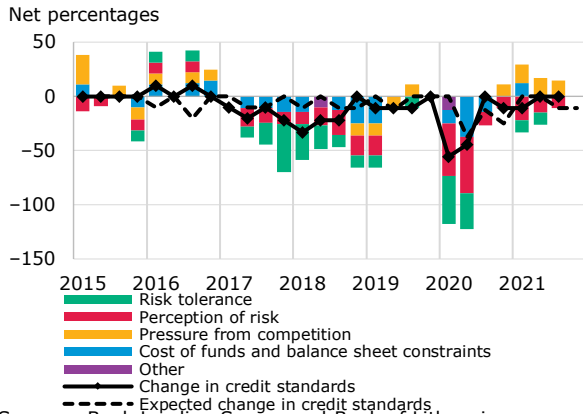
The financial position of trading, RE and agricultural undertakings was assessed most favourably, with more than two-thirds of the banks having a positive view of these segments (see Chart 13). A larger share of the banks had a moderate view of the financial situation of transport and construction undertakings, while the vast majority of the banks continued to have a poor view of the financial situation of undertakings in the hotel and restaurant business. Nevertheless, the assessment of the position of construction undertakings as well as hotels and restaurants improved slightly during the quarter. The development of the financial position of most companies was seen as stable, while some banks expected an improvement in the financial position of households, hotels and restaurants and trading undertakings (see Chart 14). The banks noted an increased competition for lending to households and businesses in most activities, and expected competition to grow also in the next quarter (see Fig. 15 and 16). Most banks did not curb lending to businesses and households, but continued to be more cautious when lending to undertakings in the hotel and restaurant business (see Fig. 17).

With the expectations as to the rise of residential RE prices still very high, almost all respondents saw imbalances in the housing market, while the assessment of imbalances in commercial RE market improved and rebounded to pre-pandemic levels.

Expectations as to the growth of the price for new build housing were unchanged compared to the previous quarter, with all respondents projecting that the prices would rise and a large majority (6 out of 9 banks) expecting an annual price increase of more than 5% (see Figure 19). As in the previous quarter, eight out of nine banks expected a price increase in the segment of old housing, but the number of those seeing that prices would increase by more than 10% decreased by one (1 bank). Expectations as to the growth of the price of commercial RE did not change significantly, with only one bank projecting that the prices would fall in the coming years. For the second consecutive quarter, the share of the banks that noticed imbalances in the residential RE market remained very large, with 8 out of 9 respondents noticing imbalances in the market on both the demand side (6 banks) and the supply side (4 banks), and a majority of them (5 out of 8) stating that prices were too high (see Fig. 20 and 21). In turn, the share of the banks that noticed imbalances in the commercial RE market has fallen back to pre-pandemic levels, with only one bank noting demand-side imbalances in this market.

LENDING TO ENTERPRISES

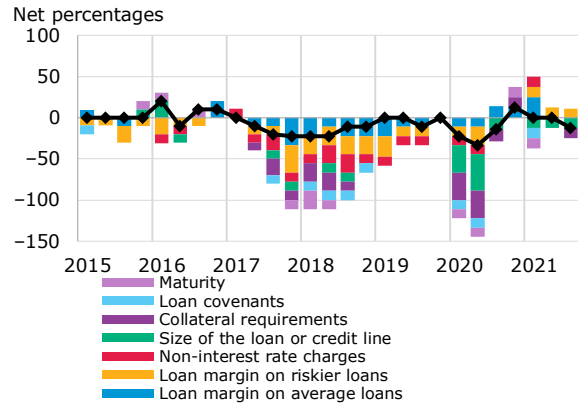
Chart 1. Changes in credit standards for loans and credit lines to enterprises over the quarter, contributing factors and the projected change of standards in the next quarter



Sources: Bank Lending Survey and Bank of Lithuania calculations.

Note: A positive net percentage indicates net easing of credit

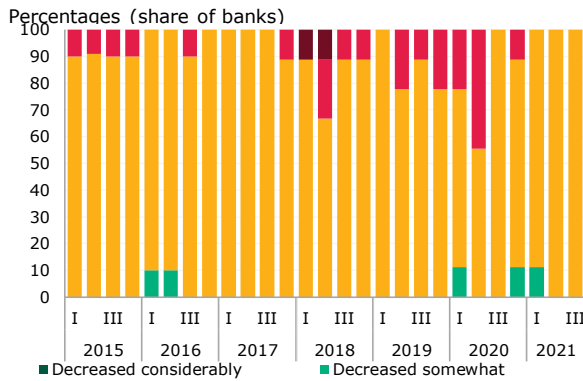
Chart 2. Over the past three months, how have your bank's terms and conditions for new loans or credit lines to enterprises changed?



Sources: Bank Lending Survey and Bank of Lithuania calculations.

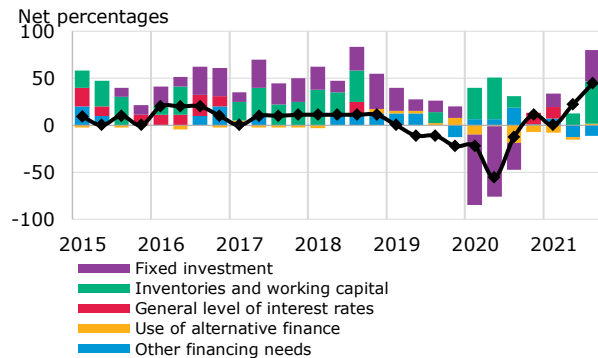
Note: A positive net percentage indicates net easing of credit

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

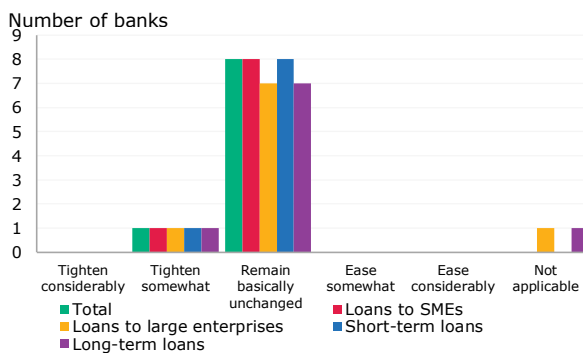
Chart 4. How has the demand for loans to enterprises changed over the last quarter and what were the contributing factors?



Sources: Bank Lending Survey and Bank of Lithuania calculations.

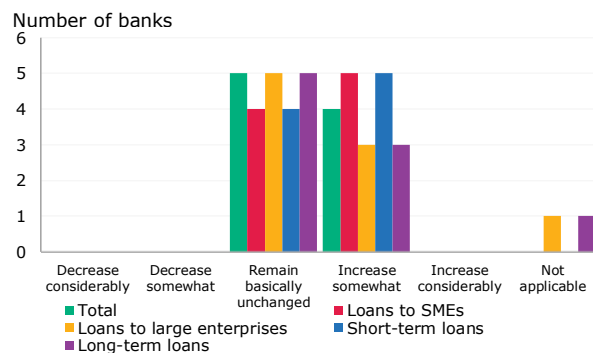
Notes: Alternative finance is an arithmetic average of internal financing, loans from other banks, loans from non-banking institutions as well as bond and share issuance. Other financing needs are an arithmetic average of mergers (acquisitions) and restructuring as well as debt refinancing.

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.

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)?

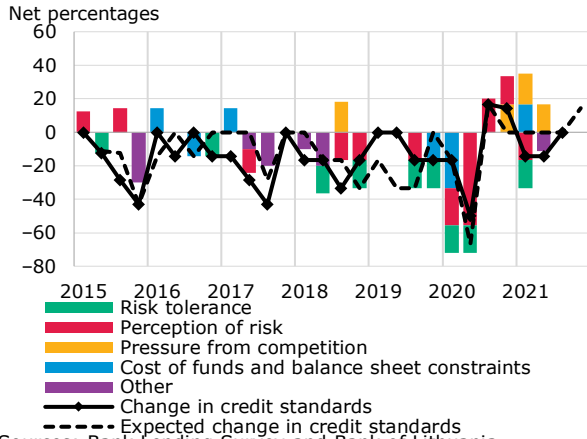


Sources: Bank Lending Survey and Bank of Lithuania

LENDING TO HOUSEHOLDS

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

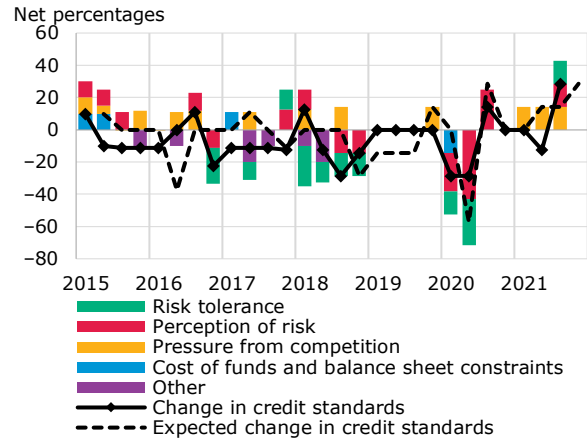
a) Loans for house purchase



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

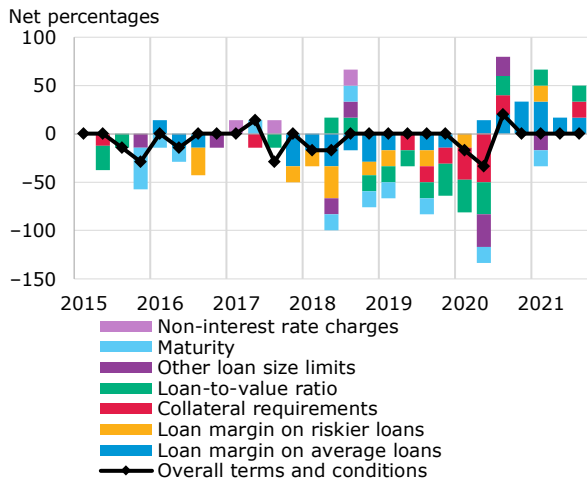


Sources: Bank Lending Survey and Bank of Lithuania calculations.

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 as applied to new loans to households changed?

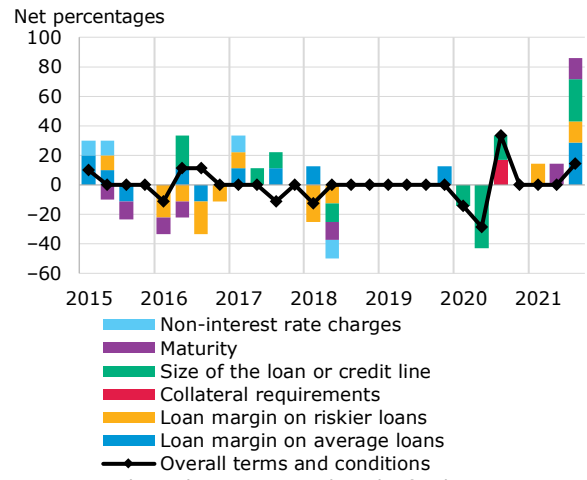
a) Loans for house purchase



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

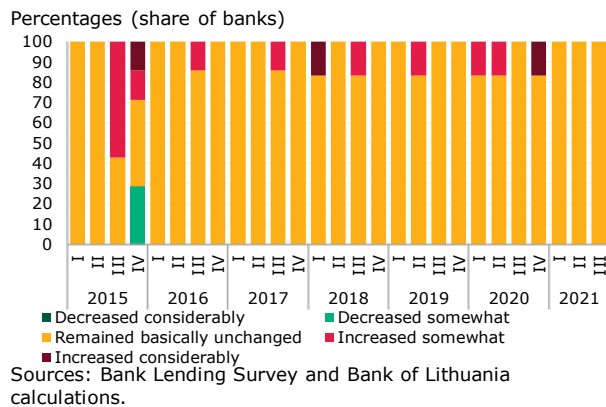


Sources: Bank Lending Survey and Bank of Lithuania calculations.

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

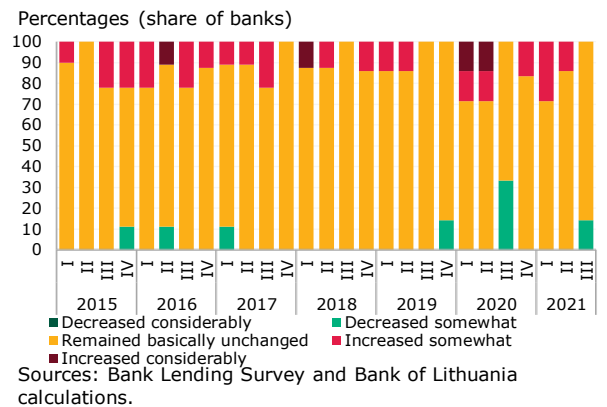
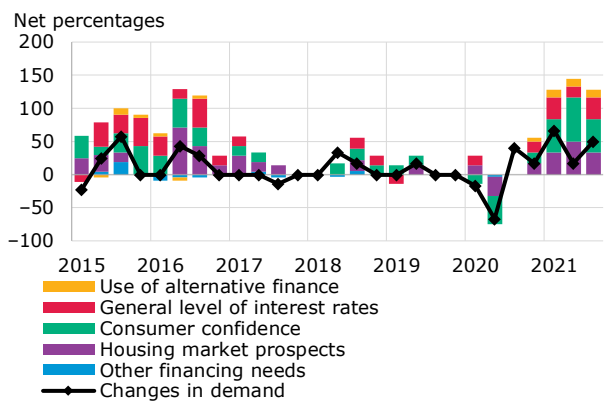
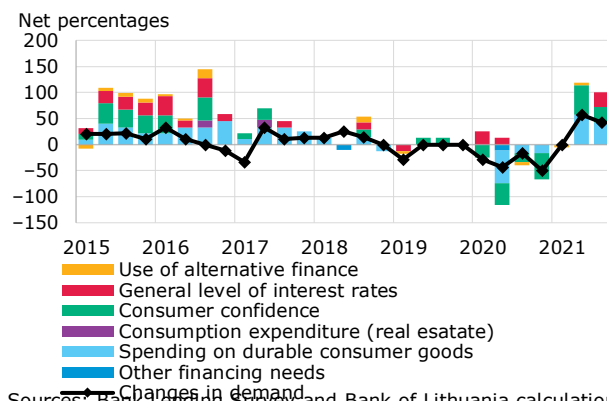


Chart 10. How has the demand for household loans changed at your bank over the last three months (apart from normal seasonal fluctuations)?

a) Loans for house purchase



b) Consumer credit and other lending



Notes: Alternative finance is an arithmetic average of 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. 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?

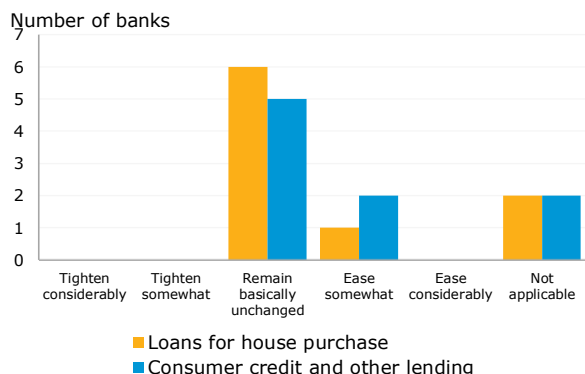
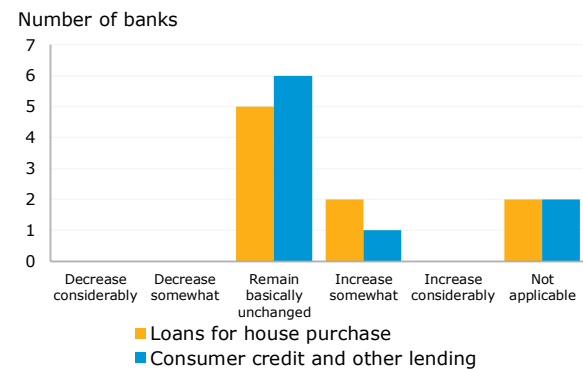


Chart 12. How do you expect the demand for household loans to change over the next three months (apart from normal seasonal fluctuations)?



ASSESSMENT OF BORROWERS' FINANCIAL SITUATION

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

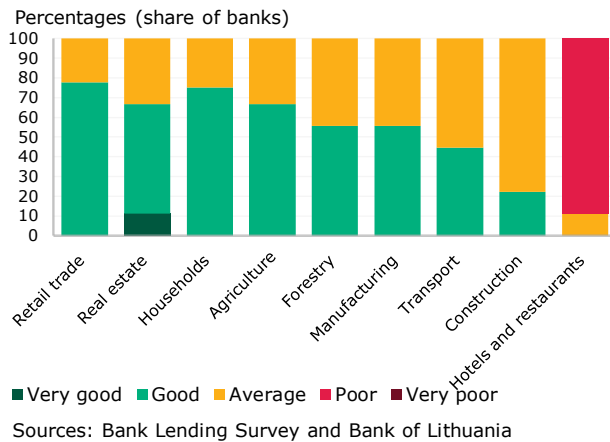


Chart 14. How do you assess the development of the financial situation of enterprises (broken down by economic activity) and households?

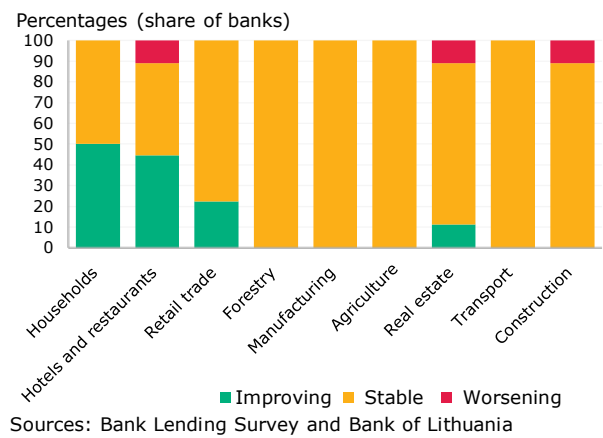


Chart 15. How has the competition among banks for lending to enterprises (broken down by economic activity) and households changed over the last three months?

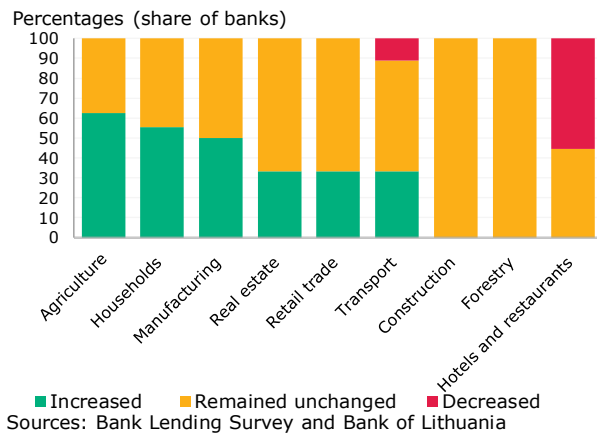


Chart 16. How do you expect the competition among banks for lending to enterprises (broken down by economic activity) and households to change over the next three months?

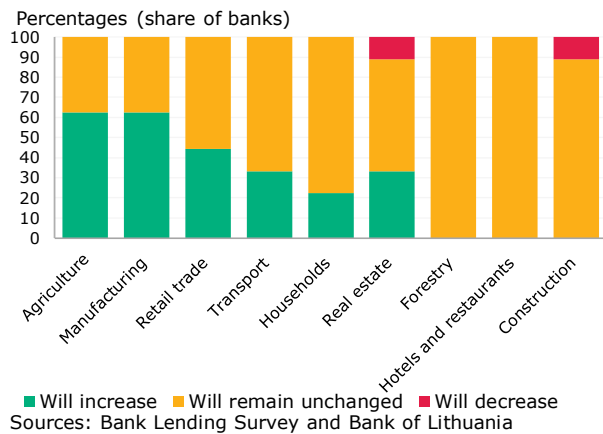


Chart 17. Has your bank curbed lending to enterprises engaged in certain economic activities or households over the last three months?

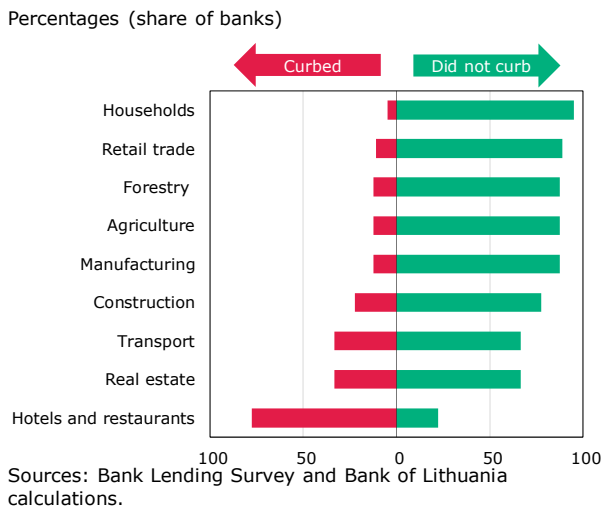
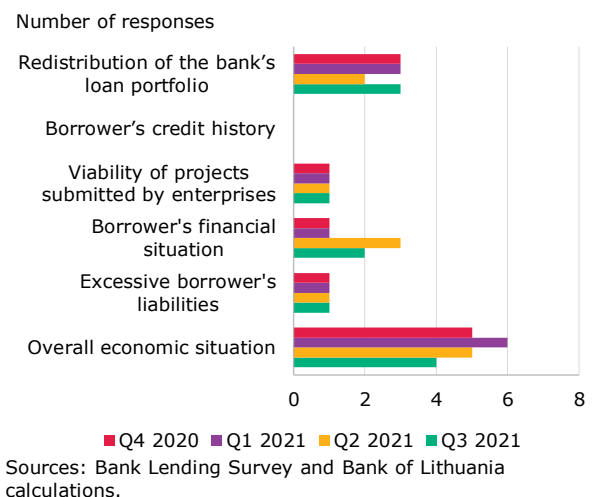
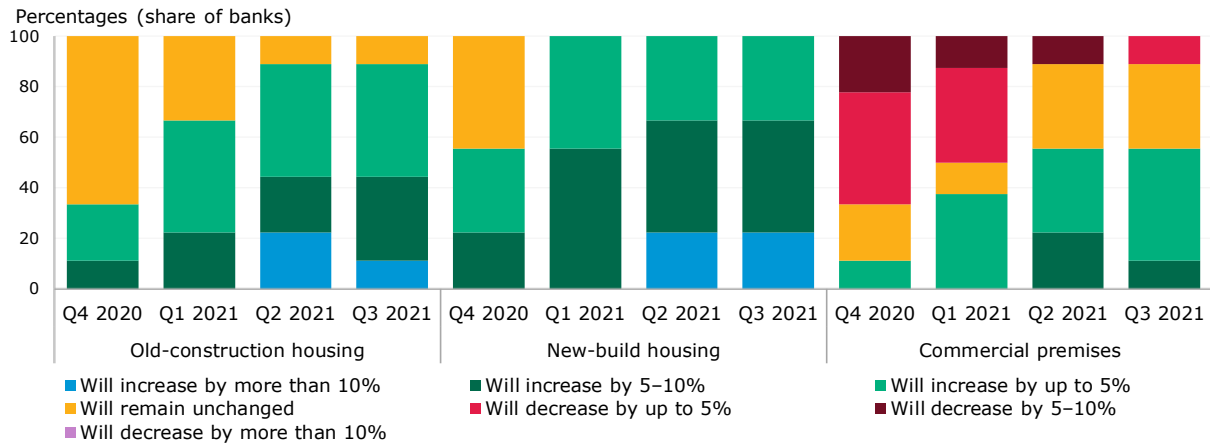


Chart 18. If lending was curbed, what were the reasons?



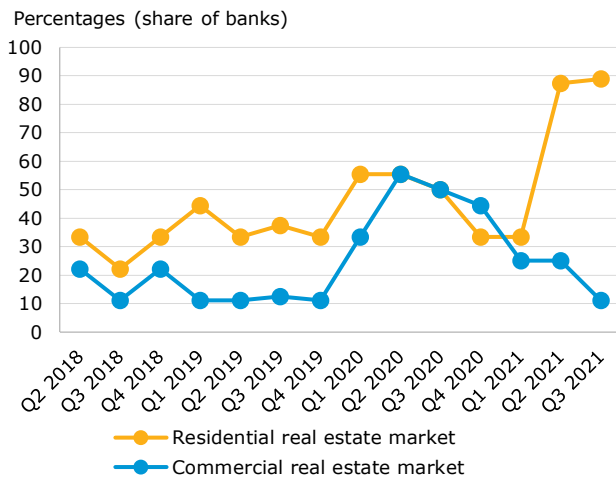
REAL ESTATE MARKET DEVELOPMENTS

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



Sources: Bank Lending Survey and Bank of Lithuania.

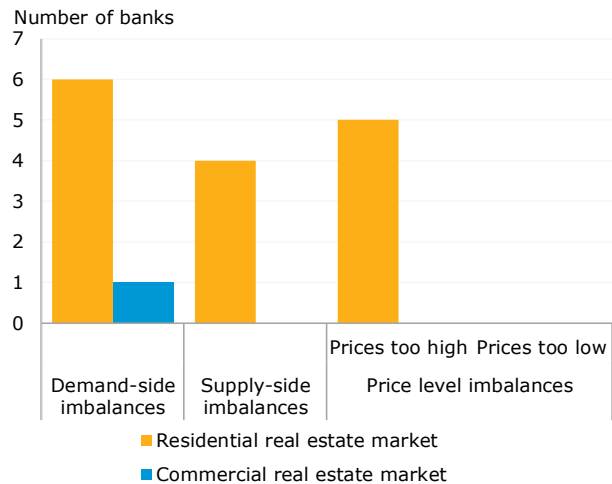
Chart 20. Do you currently notice any imbalances in the real estate market?



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.