



LIETUVOS BANKAS
EUROSISTEMA

Review of the Bank Lending Survey

Q4 2021–Q1 2022

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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 over the quarter and the expectations of bank representatives with regard to credit standards and loan demand over the next three months. The Q4 2021 survey was conducted in December 2021 and the Q1 2022 survey was conducted in March 2022.

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 first quarter of 2022, after Russia started its war against Ukraine, the banks' expectations for developments in the health of businesses were revised downwards, also, that lower credit demand and tighter lending standards were expected in the coming quarter, but the banks did not make significant changes to the existing standards.

Increased competition continued to contribute to falling household loan margins. While the outlook for corporate developments was deteriorating, the existing financial situation was viewed favourably, however, the banks were still curbing lending to hotels and restaurants which had been affected worst by the pandemic. Expectations as to the growth of the prices for housing remained positive, but most banks saw supply-side imbalances in the market.

REVIEW OF SURVEY RESULTS

In the first quarter of 2022, in the wake of Russia's war against Ukraine, the banks tightened their lending standards to some extent, but the competition that had increased in 2021 continued to contribute to falling household loan margins. The change in the banks' perception of risk as a result of Russia's war against Ukraine led to a slight tightening of standards for both lending to enterprises and loans for house purchase (see Charts 1 and 7a). It should be noted that the [increase](#) by the Bank of Lithuania in the minimum down payment requirement for the second and subsequent housing loans also contributed to the tightening of lending standards, but fewer banks tightened their lending standards than planned in the fourth quarter of 2021. Consumer lending standards remained basically unchanged (see Chart 7b). The impact of the war is best reflected in the banks' expectations: more than half of the banks intended to tighten standards for corporate lending, and almost one third of them for consumer and housing lending (see Charts 5 and 11). Although the standards tightened somewhat, corporate lending terms and conditions remained basically stable, and some banks reduced further their margins on loans to households due to the increased competition (see Charts 2 and 8).

At the end of 2021, the demand for loans was growing rapidly, but as uncertainty increased due to Russia's war against Ukraine, demand stopped growing and demand expectations were revised downwards. In the fourth quarter of 2021, demand for loans to enterprises picked up as the need for corporate working capital and investment increased (see Chart 4). In particular, demand for housing loans increased significantly, with 70% of the banks providing housing loans recording an increase in the demand and 40% of the banks recording an increase in demand for consumer loans (see Chart 10). The demand for loans was mainly driven by falling interest rates and rising consumer confidence, and in the case of housing loans, by the assessment of the housing market prospects. However, with the outbreak of the war, the demand for loans to households stopped growing, while the demand for loans to businesses fell slightly. Also, expectations as to the demand for credit were adjusted significantly, with most banks expecting a decline in demand for both household and corporate loans (especially for large corporates and long-term loans) in the second quarter of 2022 (see Charts 6 and 12).

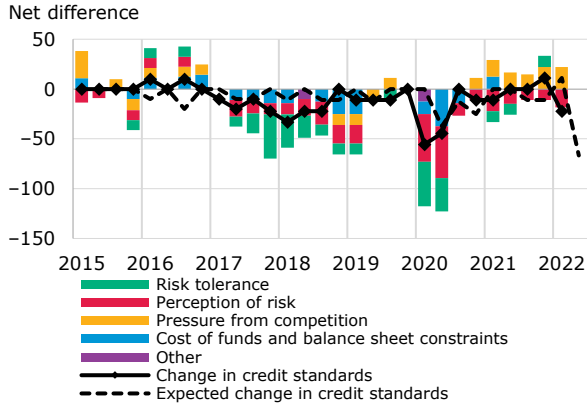
The banks still maintained a favourable view of the financial situation of businesses and households, but the assessment of developments in the financial situation deteriorated. In the first quarter of 2021, the situation of enterprises across all activities was viewed favourably, with trading and manufacturing undertakings being assessed most favourably (see Chart 13). Also, for the first time since the start of the pandemic, less than half of the banks indicated that hotels and restaurants were in poor condition. However, for most economic activities, some banks assessed the situation as deteriorating (see Chart 14). The outlook for construction and RE companies was the weakest, with expectations of less competition in the lending to companies engaged in such activities (see Chart 16), while almost half of the respondents had a negative outlook for manufacturing and transport sectors. Construction, manufacturing and transport activities are the most vulnerable to the effects of Russia's war against Ukraine, according to the [assessment](#) of the Bank of Lithuania. Although, in the opinion of the respondents, the outlook for some companies deteriorated,

competition for lending to businesses and households increased slightly in the first quarter of 2022 (see Chart 15). Banks continued to be most restrictive in lending to hotels and restaurants, with an increase in the curbing of lending to the RE, construction and transport sectors (see Chart 17). Most common reason for the banks to curb lending was the general economic situation (see Chart 18).

The banks continued to expect RE prices to rise rapidly and saw supply imbalances in the residential RE market. Over the past four quarters, the banks' expectations as to the growth in residential RE prices over the next year have remained significantly unchanged, with all banks expecting the prices of new-build housing to go up, the majority of them – by more than 5%, and 8 out of 9 respondents believing that the prices of old-build housing would rise (most banks expected growth of up to 5%, see Chart 19). However, the expectations became slightly weaker than in mid-2021, as there are no more those who think that prices would rise by more than 10% in the coming 12 months. The outlook for commercial RE prices was also positive as from the fourth quarter of 2021, there was not a single bank that expected a price decline and a majority of them projected annual growth of up to 5%. With the expectations for housing prices continuing to be high, the share of banks seeing imbalances in this market remained elevated, with 8 out of 9 respondents believing so (see Chart 20). It should be noted that in mid-2021, most banks saw demand-side imbalances in the housing market, but supply-side imbalances became more pronounced since the fourth quarter of 2021 (see Chart 21).

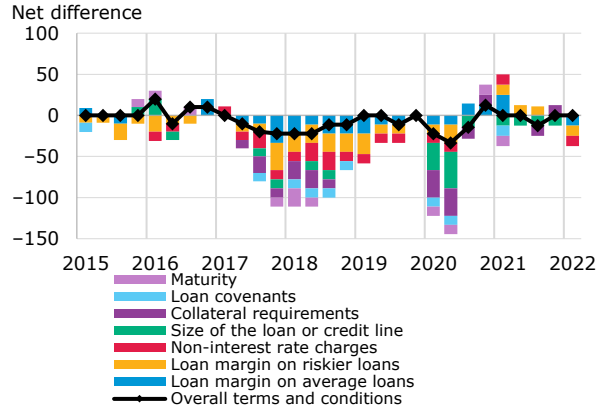
LENDING TO ENTERPRISES

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



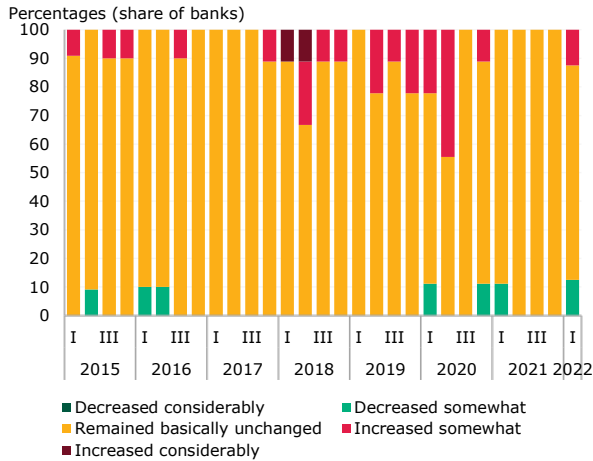
Sources: Bank Lending Survey and Bank of Lithuania calculations.
Note: A positive net percentage indicates net easing of credit standards and vice versa.

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



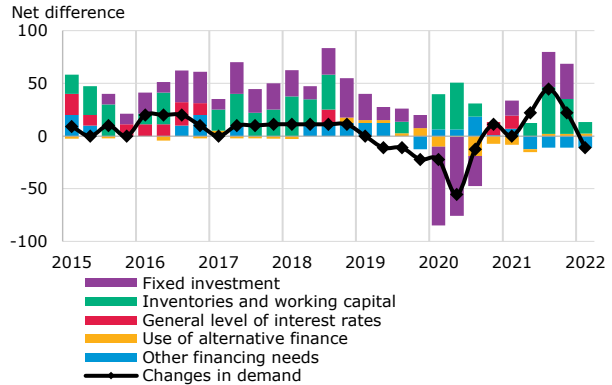
Sources: Bank Lending Survey and Bank of Lithuania calculations.
Note: A positive net percentage indicates net easing of credit standards and vice versa.

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



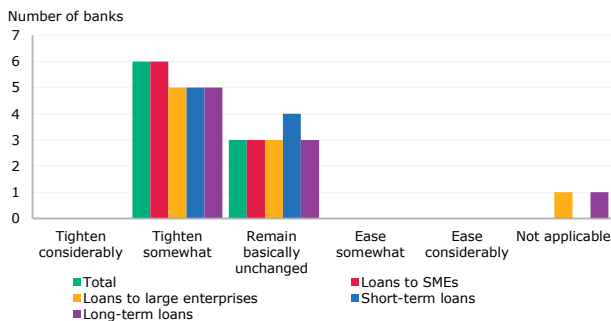
Sources: Bank Lending Survey and Bank of Lithuania calculations.

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



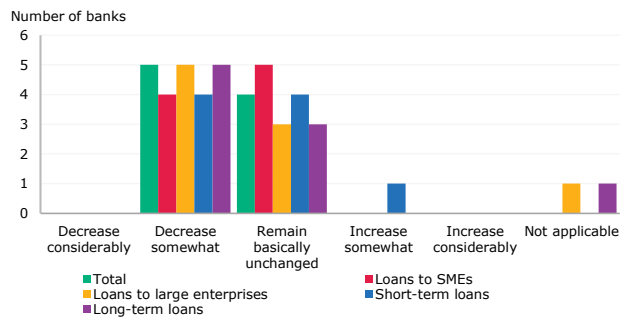
Sources: Bank lending survey and Bank of Lithuania calculations.
Notes: Alternative finance is an arithmetic average of internal financing, loans from other banks, loans from non-banking institutions as well as bond and share issuance. Other financing needs are an arithmetic average of mergers (acquisitions) 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: Based on the assessment of the survey conducted in March 2022. "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)?

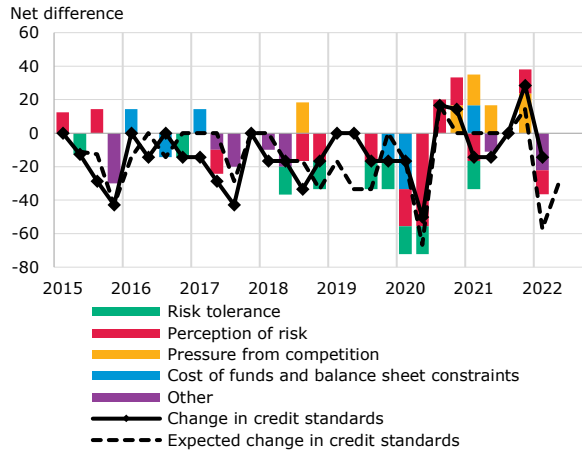


Sources: Bank Lending Survey and Bank of Lithuania calculations.
Note: Based on the assessment of the survey conducted in March 2022. "Not applicable" means that the bank does not provide loans in this segment.

LENDING TO HOUSEHOLDS

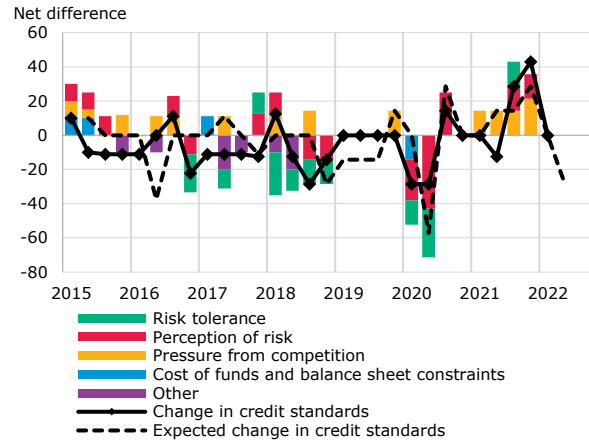
Chart 7. Changes in bank credit standards for loans and credit lines to households over the quarter, contributing factors and the projected change of standards in the next quarter

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.

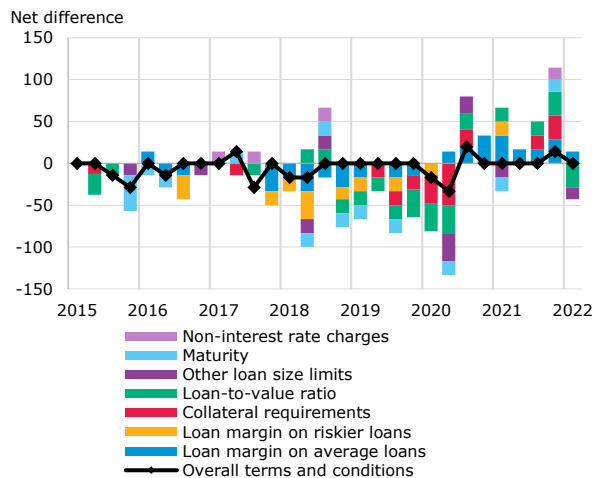
b) Consumer credit and other lending



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

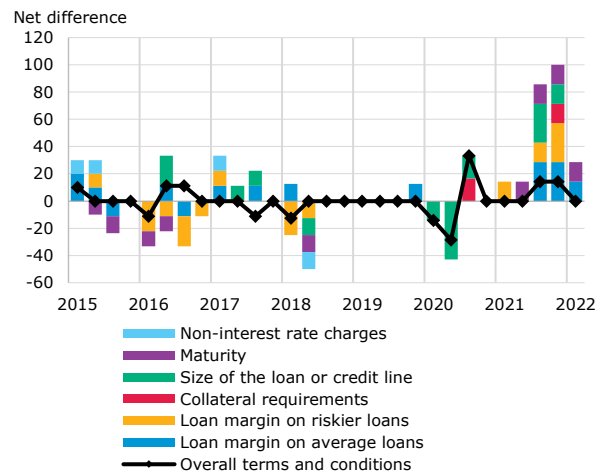
Chart 8. Over the past three months, how have your bank's terms and conditions as applied to new loans to households changed?

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.

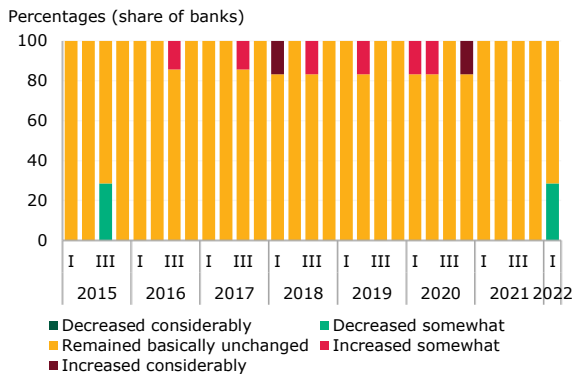
b) Consumer credit and other lending



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

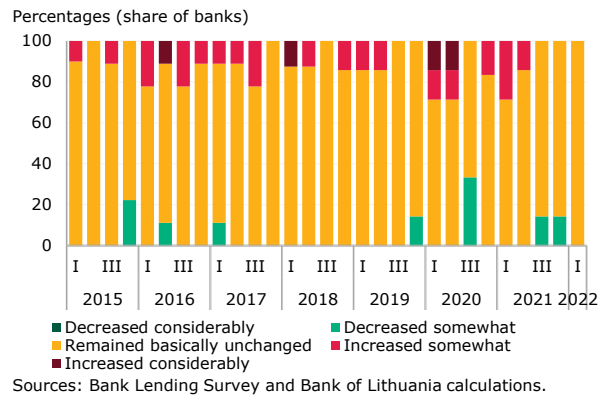
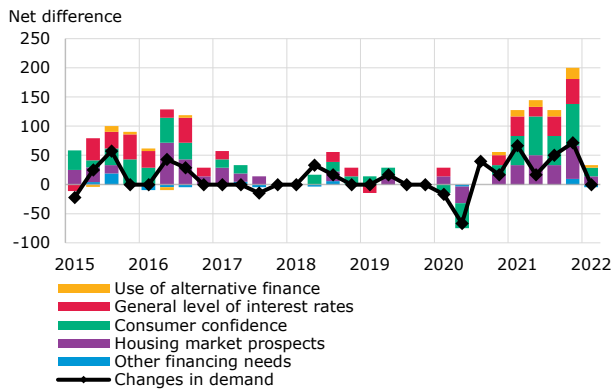


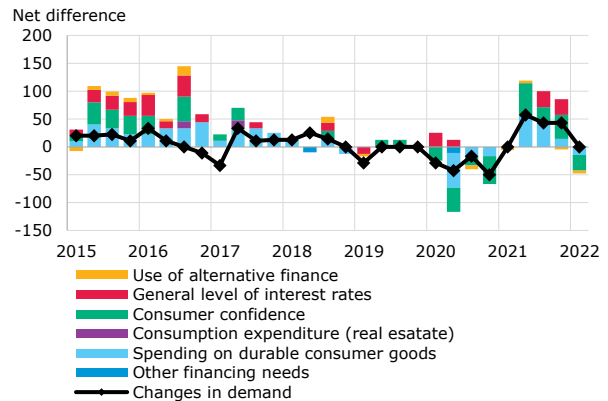
Chart 10. How has the demand for household loans changed over the last quarter and what were the contributing factors?

a) Loans for house purchase



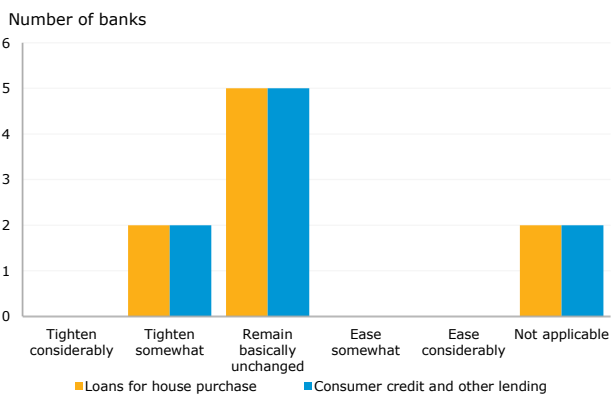
Notes: Alternative finance is an arithmetic average of savings, loans from other banks and other sources of external financing. Other financing needs are an arithmetic average of regulatory and fiscal regime of housing markets, debt refinancing and other reasons. A positive net percentage indicates an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

b) Consumer credit and other lending



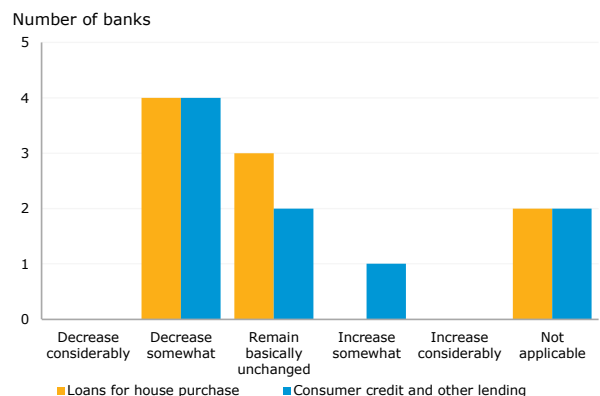
Notes: Alternative finance is an arithmetic average of household savings, loans from other banks and other sources of external financing. Consumption expenditure (RE) means consumption expenditure financed by a loan with mortgaged real estate (RE). A positive net percentage indicates an increase in demand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



Note: Based on the assessment of the survey conducted in March 2022. "Not applicable" means that the bank does not provide loans in this segment.

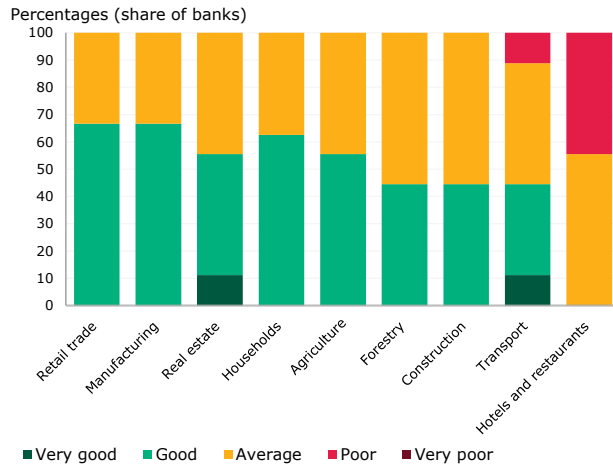
Chart 12. How do you expect the demand for household loans to change over the next three months (apart from normal seasonal fluctuations)?



Note: Based on the assessment of the survey conducted in March 2022. "Not applicable" means that the bank does not provide loans in this segment.

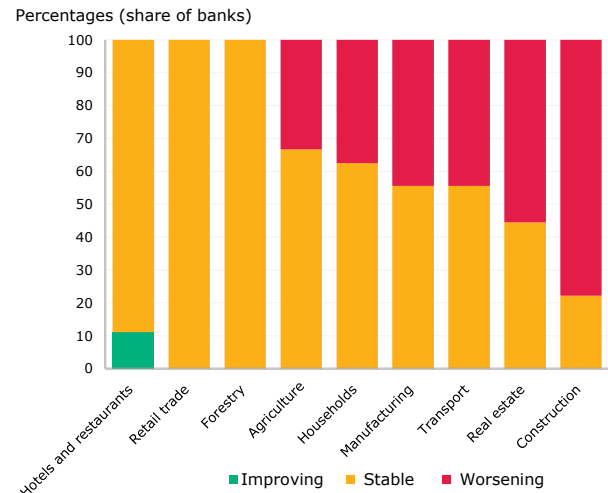
ASSESSMENT OF BORROWERS' FINANCIAL SITUATION

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



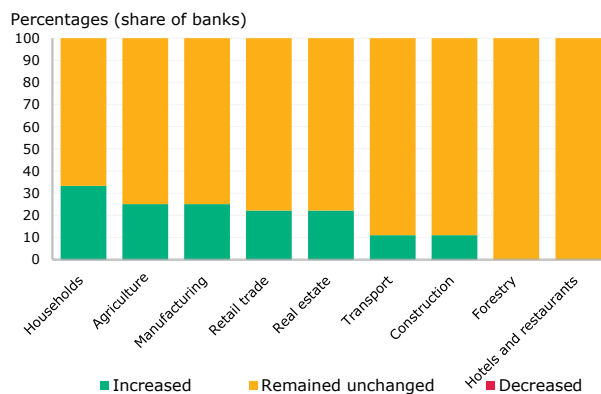
Sources: Bank Lending Survey and Bank of Lithuania calculations.
Note: Based on the assessment of the survey conducted in March 2022.

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



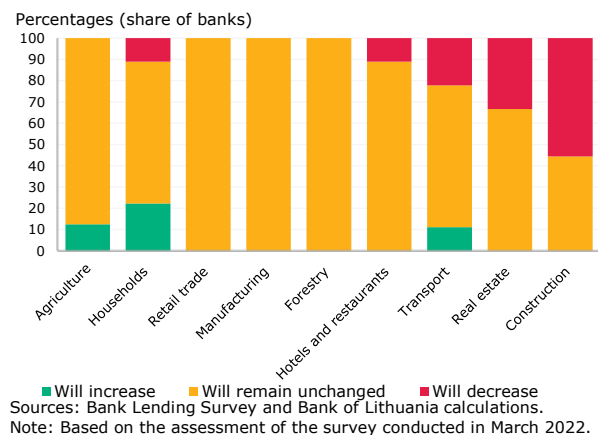
Sources: Bank Lending Survey and Bank of Lithuania calculations.
Note: Based on the assessment of the survey conducted in March 2022.

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?



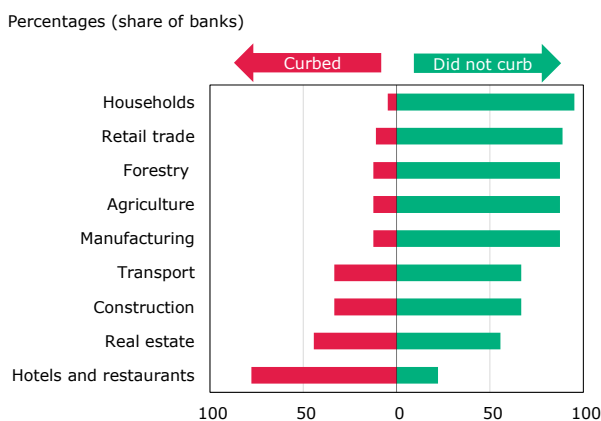
Sources: Bank Lending Survey and Bank of Lithuania calculations.
Note: Based on the assessment of the survey conducted in March 2022.

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?



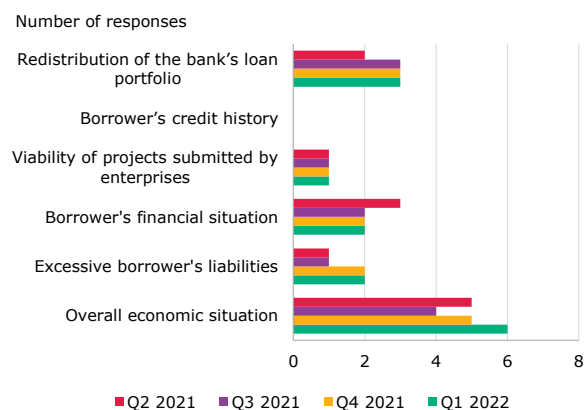
Sources: Bank Lending Survey and Bank of Lithuania calculations.
Note: Based on the assessment of the survey conducted in March 2022.

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.
Note: Based on the assessment of the survey conducted in March 2022.

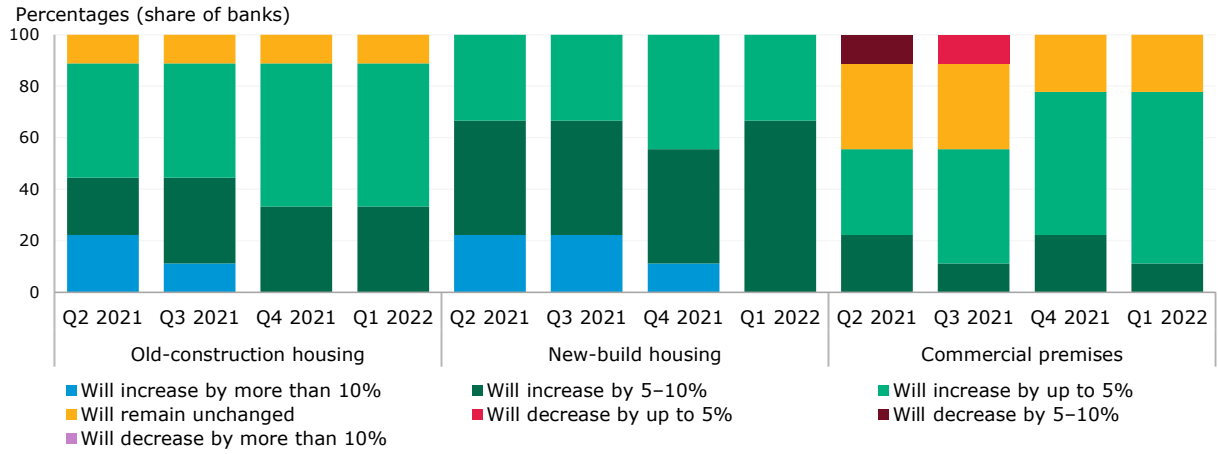
Chart 18. If lending was curbed, what were the reasons?



Sources: Bank Lending Survey and Bank of Lithuania calculations.

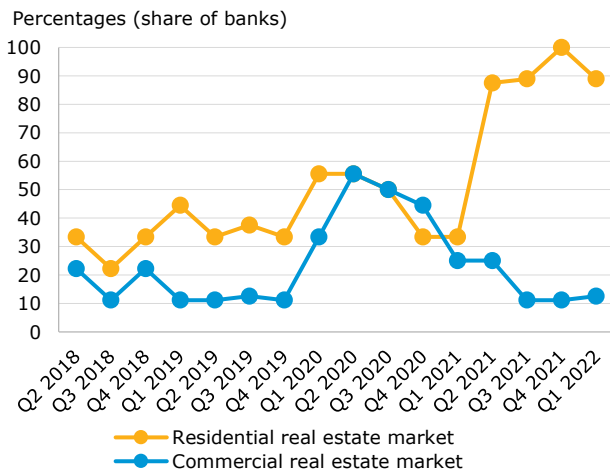
REAL ESTATE MARKET DEVELOPMENTS

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



Sources: Bank Lending Survey and Bank of Lithuania.

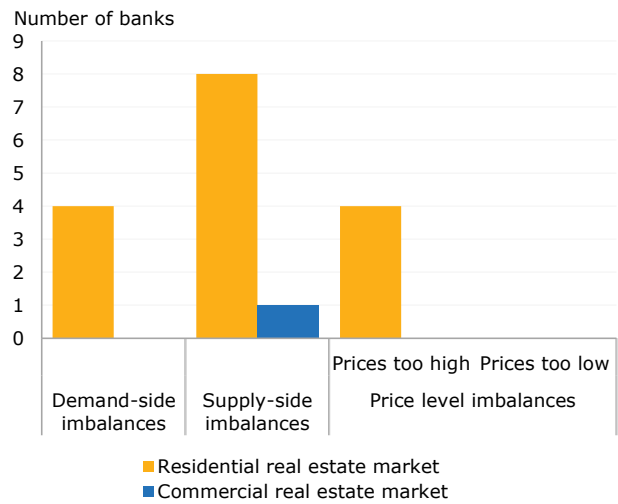
Chart 20. Do you currently notice any imbalances in the real estate market?



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?



Source: Bank Lending Survey and Bank of Lithuania calculations. Note: Based on the assessment of the survey conducted in March 2022.