

Review of the Bank Lending Survey

Q4 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 six commercial banks¹ and four branches² 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 survey was conducted in December 2022–January 2023.

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

¹ Swedbank, AB, AB SEB bankas, AB Šiaulių bankas, Revolut Bank, UAB, UAB Medicinos bankas, PayRay Bank, UAB.

² Luminor Bank AS Lithuanian branch, OP Corporate Bank plc Lithuania Branch, Akciju sabiedrība Citadele banka Lithuanian branch, BIGBANK AS branch.

SUMMARY OF THE SURVEY RESULTS

The survey results show that in the fourth quarter of 2022, some banks continued to indicate that they were tightening lending standards and planned to do so in the future, and there were also banks indicating that demand for new loans was falling. For the hotel and restaurant sector, which was hardest hit by the pandemic, banks continued to limit their lending mainly due to a weaker assessment of the sector's health, and the share of rejected loan applications increased slightly in all loan segments. The outlook for the financial situation continued to be more gloomy, with households being the worst performers. In the context of rising key interest rates, some banks saw a possible increase in credit risk for all loan portfolios and an increase in loan restructurings, especially in the corporate segment. Expectations for residential and commercial real estate (RE) price growth have become slightly weaker, with the majority of banks surveyed expecting residential prices to decline and commercial prices to remain stable or decline. Moreover, in the residential segment, as in the previous quarter, all saw imbalances, but this time it was less often supply imbalances and more often price overvaluation.

REVIEW OF THE SURVEY RESULTS

In the fourth quarter of 2022, banks continued to tighten lending standards³, with a slight tightening of loan conditions⁴ in the non-financial corporate sector. The prevailing uncertainty and the weaker economic outlook have contributed most to banks' more cautious risk assessment and tolerance, which has led to tighter lending standards for businesses and households (see Charts 1 and 7). The intention to tighten lending standards in the previous quarter was broadly in line with the actual tightening of standards. The share of banks indicating a tightening of standards for consumer loans remained one of the highest since the start of the survey, while the share for housing and corporate loans was one of the highest since the start of the pandemic. Intentions to continue tightening lending standards for non-financial corporations and for home purchases declined slightly in Q4 2022, although they remained elevated for consumption, but a larger share of banks still indicated that standards for lending to businesses and households would remain broadly unchanged (see Charts 5 and 11). On the other hand, overall conditions for loans to households remained broadly unchanged over the quarter, although in the case of businesses, a third of the banks surveyed said that conditions were tightening (see Charts 2 and 8). Higher lending margins and collateral requirements were the main contributors.

Demand for new loans declined in all loan segments, mainly due to deteriorating expectations, rising borrowing costs and lower investment. In the fourth quarter of 2022, a decline in demand for corporate loans was identified by a third of the surveyed banks, mainly driven by a decrease in demand for investment finance and a rise in the general level of interest rates (see Chart 4). A decline in household demand for housing loans was cited by slightly less than half of the banks, and a quarter for consumer loans (see Chart 10). These developments were driven by rising interest rates, worsening consumer expectations and a weaker outlook for the housing market. Over the next quarter, banks continue to expect demand for new loans to decline, with the most significant drops expected in demand for housing, small and medium-sized business loans and longer-term corporate loans (see Charts 6 and 12).

The assessment of the financial health of firms in the hotels and restaurants sector has become even slightly weaker, while the development of the financial situation of the household sector has received the most negative evaluation. In the fourth quarter of 2022, the assessment of the financial situation of hotels and restaurants is worse, while the assessment of construction companies has remained unchanged but is still one of the weakest (see Chart 13). The financial situation of manufacturing firms is also rated among the worst, although the assessment has improved slightly compared to the previous quarter.

³ Internal rules or criteria that banks use to decide whether to grant a loan. The lending standards include the required characteristics of the loan and the borrower for a loan application to be approved.

⁴ Loan terms and conditions under which the bank is willing to grant a loan, i.e. interest rate, loan amount, loan term, etc.

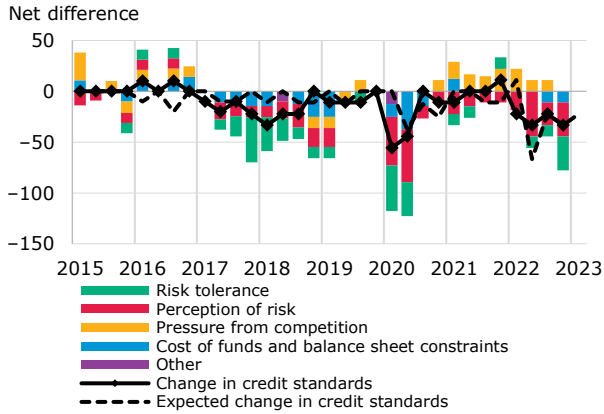
Forestry, agriculture and trade were the most favourably rated industries, with the majority of respondents saying that their financial situation was good. On the other hand, the outlook for the overall financial situation remains gloomy. With inflation still high and loan interest rates rising rapidly, the assessment of the financial situation of households deteriorated the most during the quarter, with only one fifth saying that their financial situation was stable, while the rest of the banks said it was deteriorating (see Chart 14). In addition, more than half of the respondents indicated a deteriorating outlook for the financial health of RE, construction and trading companies. Compared to the previous quarter, the transport, manufacturing and hotels and restaurants sectors were much more favourably viewed, with a higher proportion of banks rating the outlook for their financial situation as stable. As in the previous quarter, the most favourable assessment was that of agriculture and forestry companies, with an increase in the number of respondents indicating that competition for lending to these companies would increase (see Chart 16). On the other hand, there was an increase in the number of banks indicating that their competition for lending will decrease in the near future (banks are likely to restrict their financing more) for RE, construction, transport and hotels and restaurants. Some banks also indicated that a reduction in competition for lending to part of the economy – construction, RE, transport and hotels and restaurants – was also felt in the last quarter (see Chart 15).

The general economic situation continued to be largely responsible for the restriction of lending to hotel and restaurant businesses, while further increases in key interest rates could, in the banks' view, lead to higher credit risk and more loan restructurings. Lending was still mainly restricted to the most affected hotel and restaurant businesses since the beginning of the pandemic (see Chart 17). Lending to construction and RE companies is also more likely to be restricted, with the share of banks saying so increasing slightly during the quarter. The general economic situation remained the main reason for the curbing (see Chart 18). In addition, the rejection rate continued to increase slightly in all loan segments, although in the case of businesses, one respondent stated that the rejection rate had decreased (see Charts 3 and 9). In a slowing economy, the rapidly rising cost of borrowing may contribute to an increase in the burden of existing financial liabilities. Slightly less than a third of the banks surveyed assessed that rising key interest rates could lead to an increase in higher credit risk loans for housing, consumer and other loans, and half of them did so for their corporate loan portfolio (see Chart 19). Higher non-performing consumer and other (non-housing) loans and higher loan restructurings in the corporate loan portfolio were also more frequently cited as a consequence of rising interest rates. On the other hand, around one third of the banks surveyed did not report a significant impact on loan portfolios due to rising key interest rates.

Banks' expectations for RE prices have become even worse, with most expecting residential RE prices to fall and commercial RE prices to stay the same or fall, and, as before, all of them pointing to imbalances in the residential RE market. Expectations for residential RE price growth in the coming years became weaker over the quarter, with just over half of the banks expecting a decline of up to 5% in prices of old-buildings, and a fifth saying that prices could decline by up to 10% (see Chart 20). Similar trends are expected in the new-build segment, with only a third expecting prices to remain unchanged and the other half expecting them to fall by up to 5% or 10%. On the other hand, all the banks surveyed said that they saw imbalances in the housing market, mainly due to over-pricing, while almost half as many banks reported supply imbalances compared to the previous quarter (see Charts 21 and 22). Expectations for commercial RE prices have also become less optimistic, with the majority of respondents saying that prices will remain stable over the next year, but just under half expecting commercial RE prices to fall by up to 5% or 10%. As in the previous quarter, no imbalances in this market were perceived by the majority of respondents, but a few indicated that they saw imbalances in supply and excessive prices.

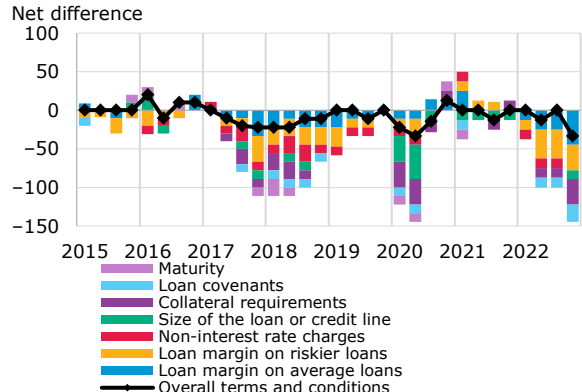
LENDING TO ENTERPRISES

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



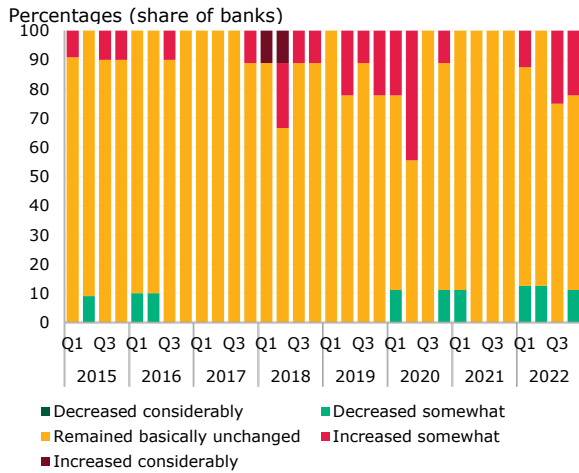
Sources: Bank Lending Survey and Bank of Lithuania calculations.
Note: A positive net percentage indicates net easing of credit standards and vice versa.

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



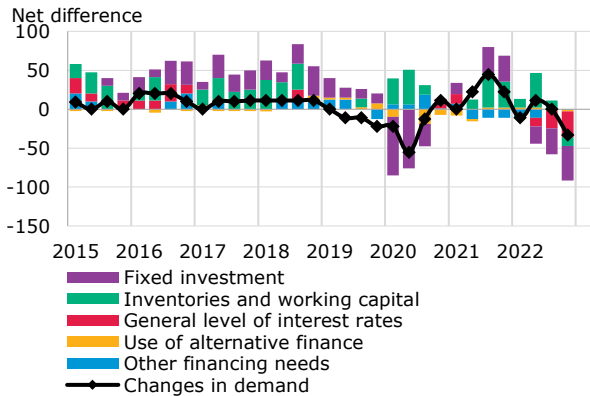
Sources: Bank Lending Survey and Bank of Lithuania calculations.
Note: A positive net percentage indicates net easing of credit standards and vice versa.

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



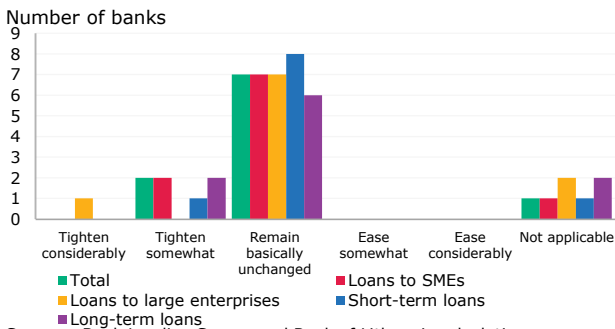
Sources: Bank Lending Survey and Bank of Lithuania calculations.

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



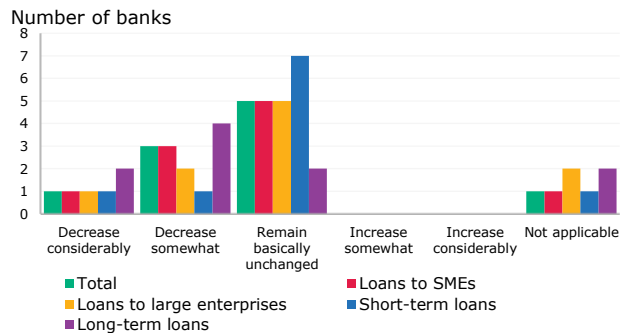
Sources: Bank lending survey and Bank of Lithuania calculations.
Notes: Alternative finance is an arithmetic average of internal financing, loans from other banks, loans from non-banking institutions as well as bond and share issuance. Other financing needs are an arithmetic average of mergers (acquisitions)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

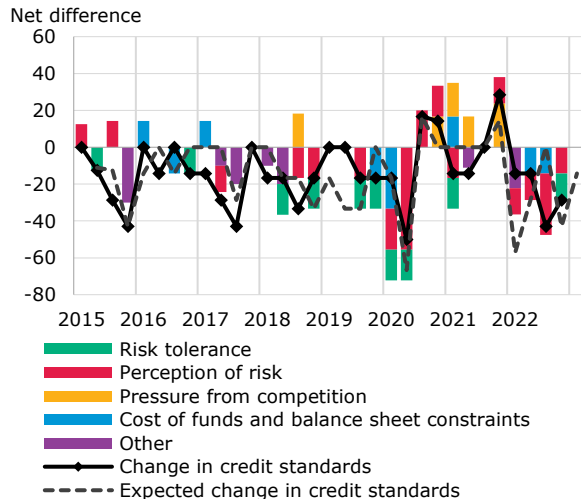


Sources: Bank Lending Survey and Bank of Lithuania calculations.
Note: "Not applicable" means that the bank does not provide loans in this segment.

LENDING TO HOUSEHOLDS

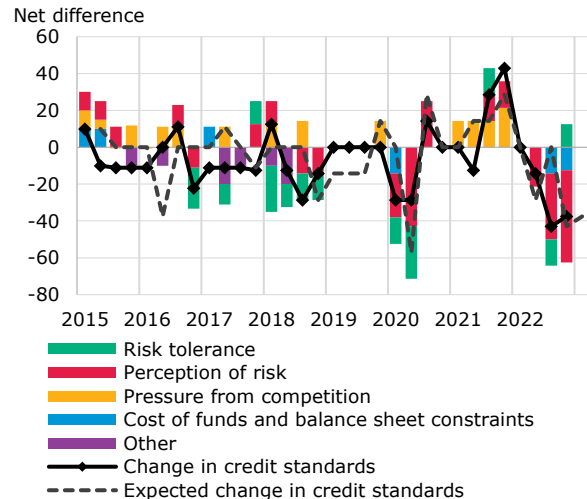
Chart 7. Changes in bank credit standards for loans and credit lines to households over the quarter, contributing factors and the projected change of standards in the next quarter

(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.

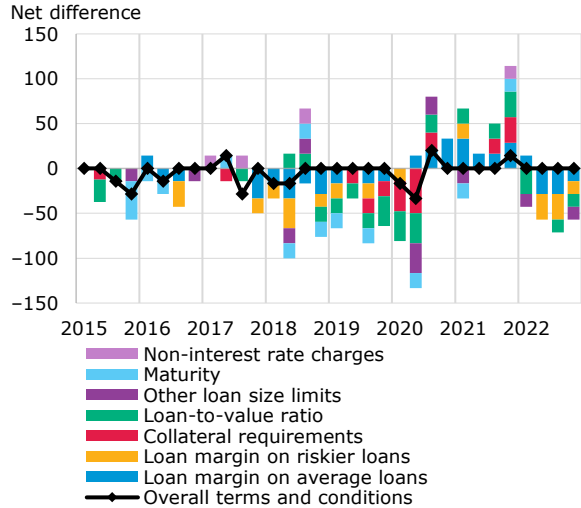
(b) Consumer credit and other lending



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

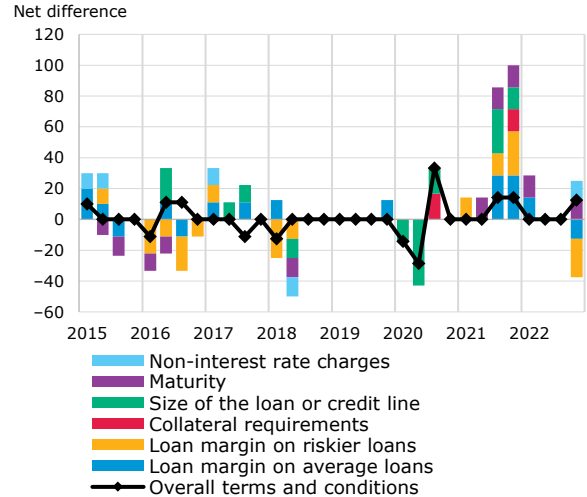
Chart 8 Over the past three months, how have your bank's terms and conditions for new loans or credit lines to households changed?

(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.

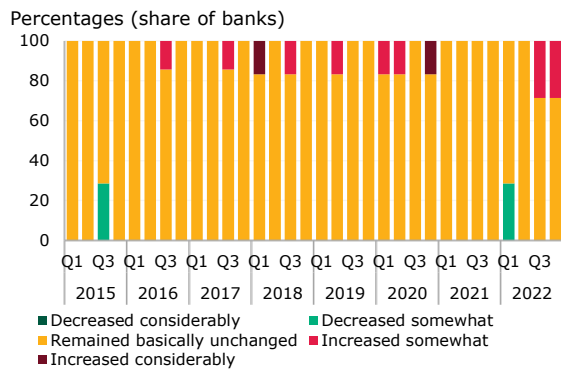
(b) Consumer credit and other lending



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

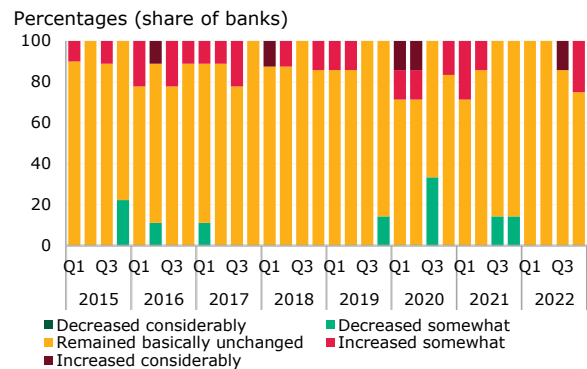
Chart 9. How has the share of rejected household loan applications changed over the last three months?

(a) Loans for house purchase



Sources: Bank Lending Survey and Bank of Lithuania calculations.

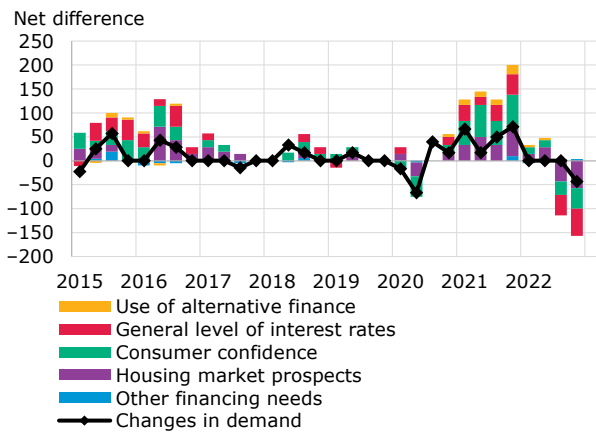
(b) Consumer credit and other lending



Sources: Bank Lending Survey and Bank of Lithuania calculations.

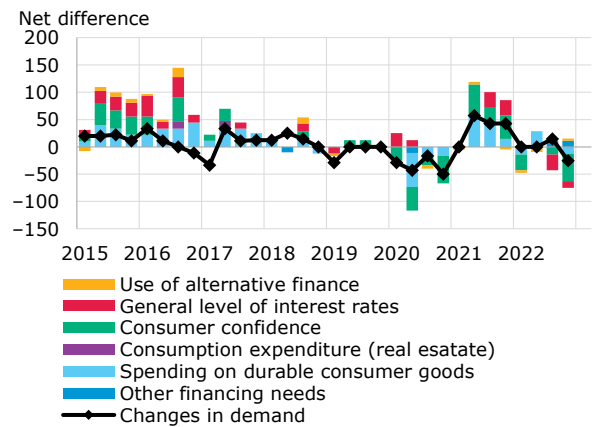
Chart 10. How has the demand for household loans changed over the last quarter and what were the contributing factors?

(a) Loans for house purchase



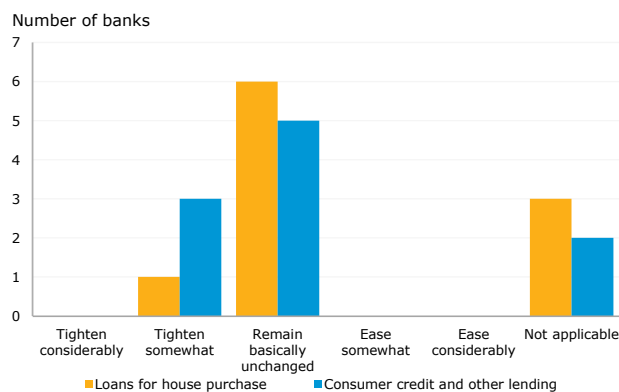
Sources: Bank lending survey and Bank of Lithuania calculations.
Notes: Alternative finance is an arithmetic average of savings, loans from other banks and other sources of external financing. Other financing needs are an arithmetic average of regulatory and fiscal regime of housing markets, debt refinancing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

(b) Consumer credit and other lending



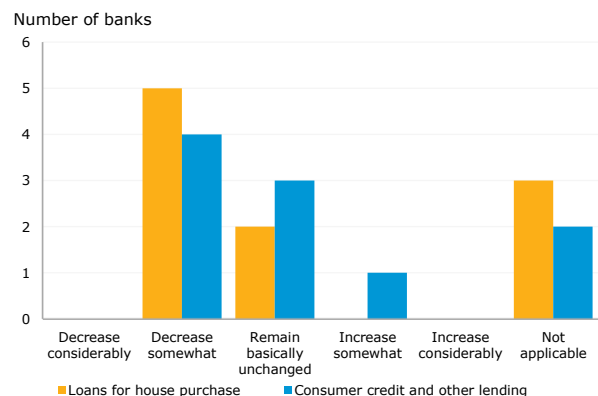
Sources: Bank Lending Survey and Bank of Lithuania calculations.
Notes: Alternative finance is an arithmetic average of household savings, loans from other banks and other sources of external financing. Consumption expenditure (RE) means consumption expenditure financed by a loan with mortgaged real 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?



Sources: Bank Lending Survey and Bank of Lithuania calculations.
Note: "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)?



Sources: Bank Lending Survey and Bank of Lithuania calculations.
Note: "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?

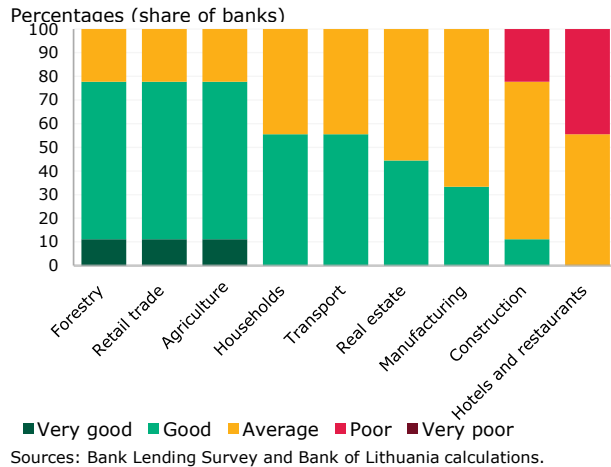


Chart 14. How do you assess the development of the financial situation of enterprises (broken down by economic activity) and households?

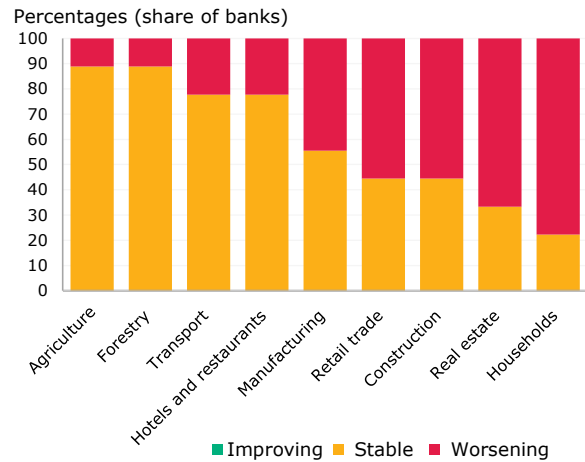


Chart 15. How has the competition among banks for lending to enterprises (broken down by economic activity) and households changed over the last three months?

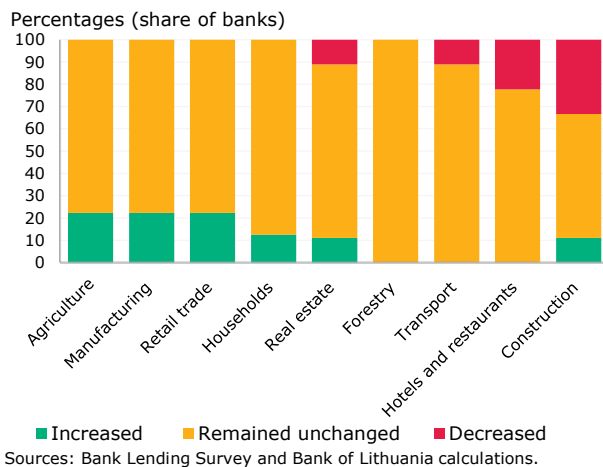


Chart 16. How do you expect the competition among banks for lending to enterprises (broken down by economic activity) and households to change over the next three months?

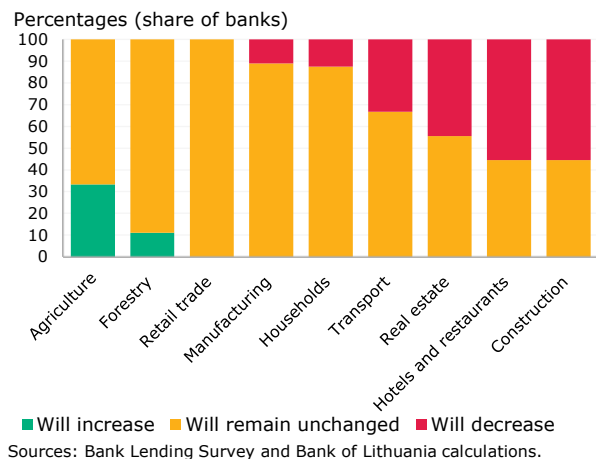


Chart 17. Has your bank curbed lending to enterprises engaged in certain economic activities or households over the last three months?

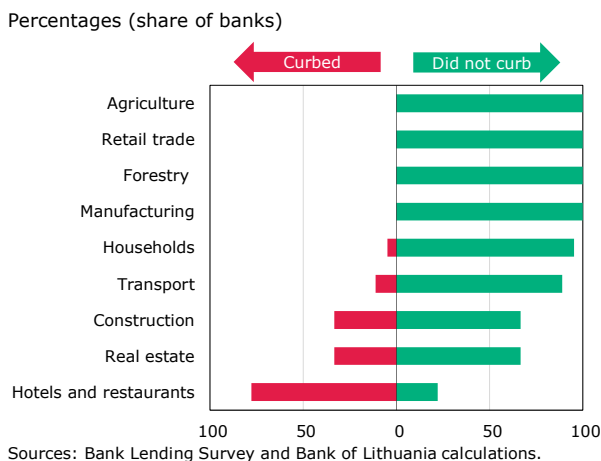


Chart 18. If lending was curbed, what were the reasons?

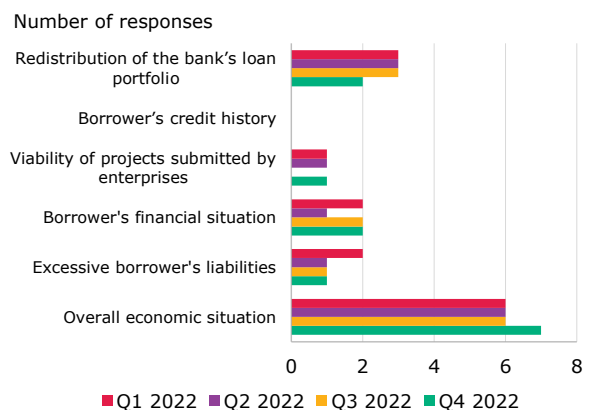
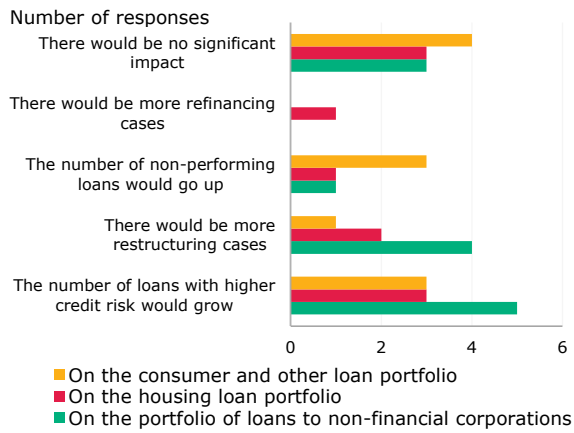


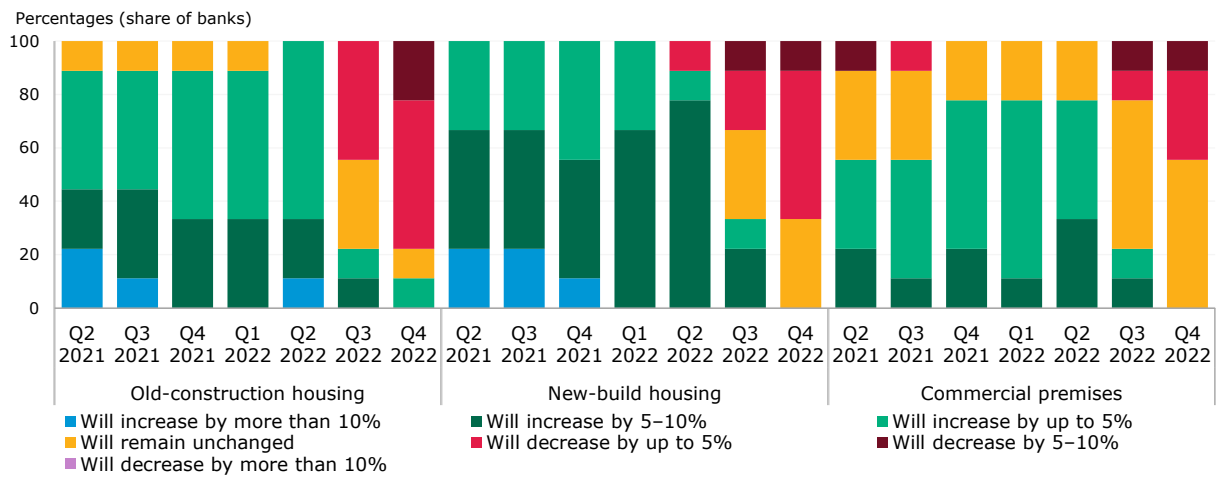
Chart 19. What impact could rising key interest rates have on your bank's loan portfolios?



Sources: Bank Lending Survey and Bank of Lithuania

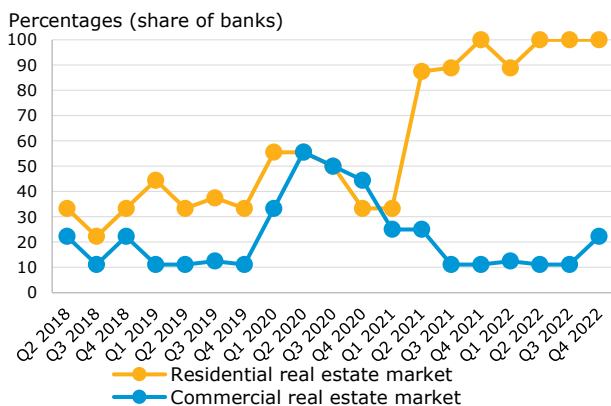
REAL ESTATE MARKET DEVELOPMENTS

Chart 20. How do you expect real estate prices to change over the next year?



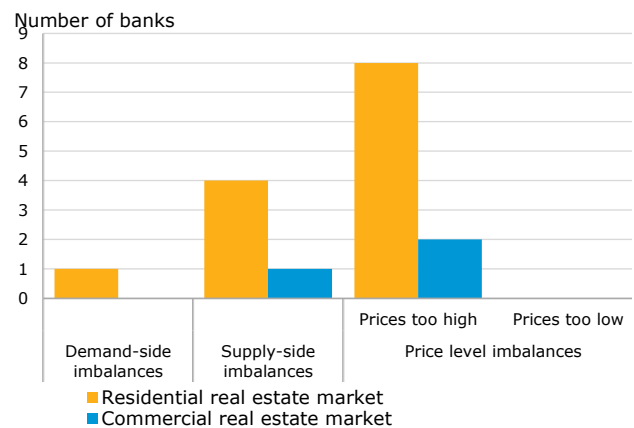
Sources: Bank Lending Survey and Bank of Lithuania.

Chart 21. 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 22. 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.