LIETUVOS BANKAS
EUROSISTEMA

Quarterly assessment of the financial cycle in Lithuania

Q1 2025

Contents

Introduction

The quarterly assessment of the financial cycle in Lithuania is a quarterly publication issued by Lietuvos bankas that assesses the state of the financial cycle in Lithuania and the level of cyclical systemic risk: the sustainability of trends in the credit and RE markets, imbalances in the financial sector and the risk of their build-up or widening. The information provided in this review forms the basis for a regular assessment of the level of rates of the financial stability instruments used, such as the CCyB and the sectoral SyRB for the housing loan portfolio.[1]

Explanation of the key terms used in this publication

Financial cycle. The financial cycle refers to the development cycle of the financial system, comprising four phases: expansion (growth), deceleration, recession and recovery, defined by the overall evolution of the various indicators of the financial system (in particular, those reflecting trends in the credit and RE markets), which are related, for example, to the perception of the value of financial assets and RE, the perceived level of risk, the tightening or relaxation of lending standards and the resulting impact on the supply of credit, and the interplay between these phenomena. The literature generally considers that the financial cycle tends to last longer than the business cycle and can significantly amplify economic booms and deepen recessions. The application of the CCyB is aimed at increasing the resilience of the financial system and, to some extent, reducing its pro-cyclicality and, within the meaning of the financial cycle, at reducing the size of fluctuations in the financial cycle, especially in the recession phase.

Systemic risk. Systemic risk is the risk of disruption to the financial system or part of the financial system, which could have significant adverse effects on the financial system and the economy. Two types of systemic risk are generally distinguished: cyclical and structural risks. Cyclical risk is related to the evolution of the financial cycle: it rises and falls as the financial cycle unfolds and is usually associated with changes in the supply of credit and in the risk assessment of financial system participants. Structural risk arises from the structural features of the financial system, such as the interconnectedness of financial system participants, concentration and the specific nature of business models.

[1] For more information, see Financial stability instruments.

Key messages

The financial cycle index accelerated in Q4 2024, primarily driven by heightened activity in new housing loans. Banks' lending capacity remains robust, and there are currently no signs of systemic imbalances in either the credit or real estate markets. During the same period, credit issued by financial institutions to households and businesses continued to expand at an accelerating pace, with annual growth reaching 11.2%. In contrast, credit growth from other sources[2] moderated slightly over the quarter, declining to 8.5%. rom a longer-term perspective (three-year horizon), it is noteworthy that the average real growth rate of bank lending turned positive only in Q3 2024. Concurrently, the results of the Q4 2024 bank lending survey indicated a significant increase in demand for new housing loans, alongside a slight easing in housing loan issuance conditions. The demand for corporate loans also contributed to credit expansion, particularly due to increased borrowing by small and medium-sized enterprises. The debt levels of both businesses and households remained stable. The bank loan-to-GDP ratio rose slightly to 36.5%, yet it continues to be among the lowest in the euro area. Considering overall economic growth, the pace of credit provision has moved closer to its long-term trend, with no signs of excessive credit expansion. The current account-to-GDP ratio continued to rise, reaching 2.7% in Q3 2024, while the bank loan-to-deposit ratio remained broadly unchanged at 81% at year-end.

Corporate lending remained aligned with the pace of economic growth, accompanied by a gradual recovery in credit demand, particularly in the industrial, commercial, and real estate sectors. While the credit portfolio of euro area companies expanded at an annual rate of 2%, Lithuania's corporate credit portfolio continued to grow at a significantly faster pace, reaching 13.3% in Q4 2024. However, over a longer period (three years), the average real growth of the corporate lending portfolio turned positive only in the most recent quarter. The number of new loans issued remains comparable to that of the previous year and stands approximately 10% below the long-term average. In relation to GDP dynamics, corporate lending remains consistent with the long-term trend, with more active financing extended to small and medium-sized enterprises. Recently, a greater share of credit has been directed toward companies in the real estate, industrial, and commercial sectors, while credit flows to export-oriented transport companies have continued to decline. The share of non-performing corporate loans remained stable and low, standing at 1.4% in Q3 2024, with no sector exceeding the 4% level.

Commercial real estate market activity is gradually recovering from its lowest levels, and with the slowdown in price growth, price imbalances have somewhat diminished. Market activity has increased for the third consecutive quarter; however, in Q4 2024, the number of CRE transactions remained approximately 20% below the level observed a year earlier. As the market has yet to fully recover, the pace of price increases for premises has moderated, with an annual growth rate of 6.8%. Relative valuation estimates indicate that office prices may still be overvalued by up to 18%. Nevertheless, ongoing price adjustments have contributed to a reduction in imbalances in the office segment over the past six months. Office prices may face further downward pressure due to oversupply – illustrated by the increase in the vacancy rate for Class B offices in Vilnius from 10% to 12% over the quarter. On the other hand, banks' expectations for CRE price developments have improved, with no institutions anticipating further price corrections. In line with these improved expectations, the annual growth rate of the credit portfolio for real estate and construction companies continued to accelerate, reaching 15.4%. This may reflect a renewed perception of CRE as an attractive investment, as the risk premium for CRE investment rose slightly over the quarter, standing approximately 1.5 percentage points higher than two years ago. Despite the gradual improvement in investment sentiment, CRE remains relatively less attractive, and new investment activity continues to be subdued.

The annual growth of the household loan portfolio accelerated, and the volume of new housing loans reached historically high levels. The annual growth of the household (HH) loan portfolio accelerated, and the volume of new housing loans reached historically high levels. While the credit portfolio of euro area households continued to expand at a modest annual rate of 1.2%, growth in Lithuania remained strong, reaching 9.7% by the

[2] A broader definition of credit is used, comprising all credit provided to businesses and individuals, regardless of the credit provider.

end of 2024. However, the long-term (three-year) real growth rate of household lending turned positive only in the final quarter. Both the number and value of new housing loans increased further in Q4 2024, exceeding the previous year's levels by more than 50%. In anticipation of the simplified housing loan refinancing rules set to take effect on 1 February 2025, borrowers increasingly negotiated more favourable terms – particularly lower margins – for their existing housing loans. The share of renegotiated housing loans in Q4 2024 accounted for 3% of the housing loan portfolio, three times higher than in the same period of the previous year. Over the course of 2024, housing loan renegotiations totalled EUR 1.13 billion (8.6% of the housing loan portfolio), compared to EUR 440 million (3.6%) in 2023. Consumer credit activity also remained strong: excluding the impact of the Lithuanian branch of TF Bank[3], the annual growth of the consumer loan portfolio stood at 22.8% at the end of Q4 2024, one of the highest rates in the euro area. There are currently no household credit imbalances in Lithuania – although the population's credit-to-GDP ratio has moved closer to its long-term average due to recovering lending activity, it remains below that benchmark. The level of non-performing loans has shown no significant changes, standing at 2.8% in the consumer loan segment and 0.8% in the housing loan segment in Q3 2024.

Housing market activity has been increasing for the third consecutive quarter, and as price growth has remained moderate, price imbalances have slightly diminished. Between January and February 2025, market activity continued to improve, with the primary market recording the highest number of bookings in four years. This recovery is supported by accelerating lending, driven by declining interest rates and improved housing affordability. The number of new housing loans granted has returned to its long-term trend of approximately 2.1 thousand units per month, while the average loan value has reached a historical high of around EUR 110,000. Recent data indicate that the annual rate of housing price growth in January 2025 ranged between 4–6%, showing a slight acceleration over the quarter. The SDA house price index also reflected a faster pace of growth, with annual growth reaching 9.8% in Q4 2024. According to calculations based on Lietuvos bankas' repeat sales house price index, housing prices in Q3 2024 remained overvalued by 3.6%, representing a quarterly decrease of 1.8 percentage points. The alternative estimate based on the SDA housing price index indicated an overvaluation of 8.7%. The reduction in overvaluation was largely attributed to an improved ratio between housing prices and personal income, supported by strong wage growth.

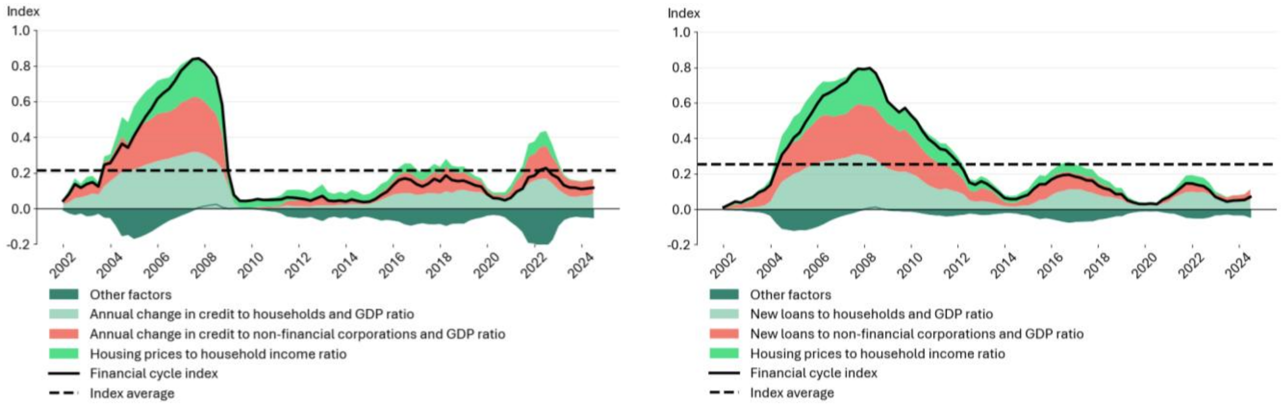
Currently set at 1%, the CCyB rate ensures that credit maintain a capital reserve that can be released in the event of an economic shock or the materialisation of cyclical risks. Although lending to both households and businesses has been accelerating this quarter, the overall level of cyclical systemic risk remains moderate, supporting the objective of maintaining a positive neutral CCyB rate of at least 1%. In response to elevated systemic risk in the housing sector, a 2% sectoral SyRB, effective since 1 July 2022, continues to apply to individual housing loan portfolios exceeding EUR 50 million. This additional buffer requirement enhances the resilience of credit institutions to risks stemming from the housing market.

[3] In October 2024 when TF Bank established a branch in Lithuania, the bank's existing consumer loan portfolio was included in the general consumer credit statistics.

Financial cycle assessment

Accelerating housing lending is gradually pushing financial cycle indices into the growth phase.

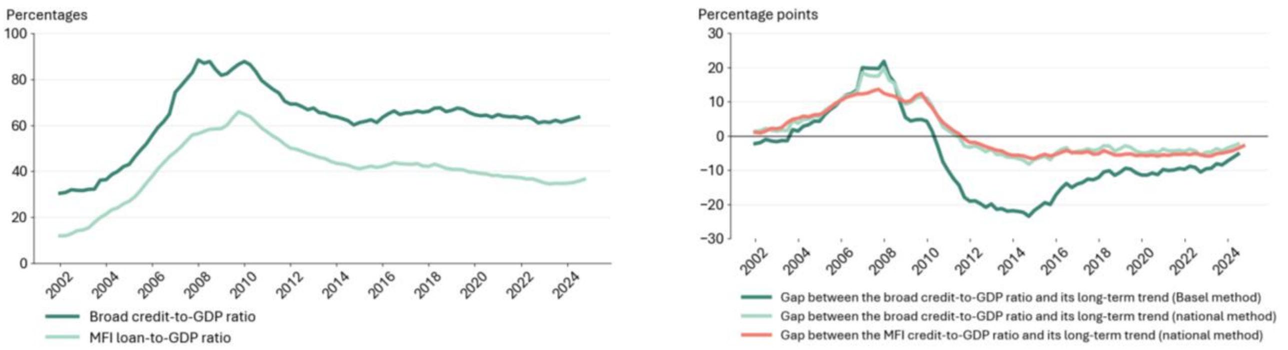
Chart 1. Financial cycle index based on broad credit (left-hand panel) and MFI loans (right-hand panel)



Sources: SDA, Lietuvos bankas and Lietuvos bankas' calculations.
Note: The left-hand panel uses a broader definition comprising all credit provided, regardless of the credit provider (not only MFI). In the right-hand panel, the new loans to households and GDP ratio from Q2 2024 onwards is calculated after removing the impact of loan rollovers.

The credit-to-GDP ratio has edged up, though it remains below its long-term trend.

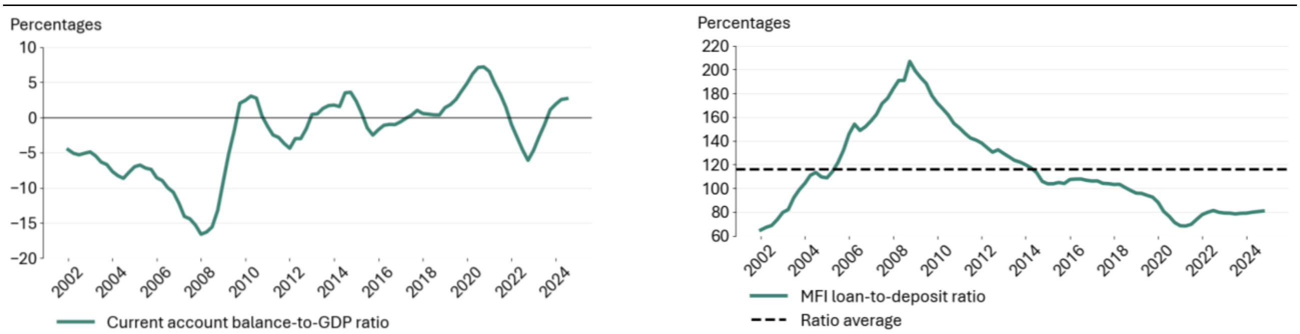
Chart 2. Credit-to-GDP ratios (left-hand panel) and credit imbalances (right-hand panel)



Sources: SDA, Lietuvos bankas and Lietuvos bankas' calculations.
Note: The right-hand panel shows the long-term trend, computed with a one-sided HP filter and smoothing parameter of 400,000; before applying the filter, the ratio is modelled for the next 5-year window using a 4-quarter weighted average.

A rising current account-to-GDP ratio reduces borrowing needs, while the low loan-to-deposit ratio reflects favourable bank liquidity.

Chart 3. Current account-to-GDP ratio (left-hand panel) and MFI loan-to-deposit ratio (right-hand panel)

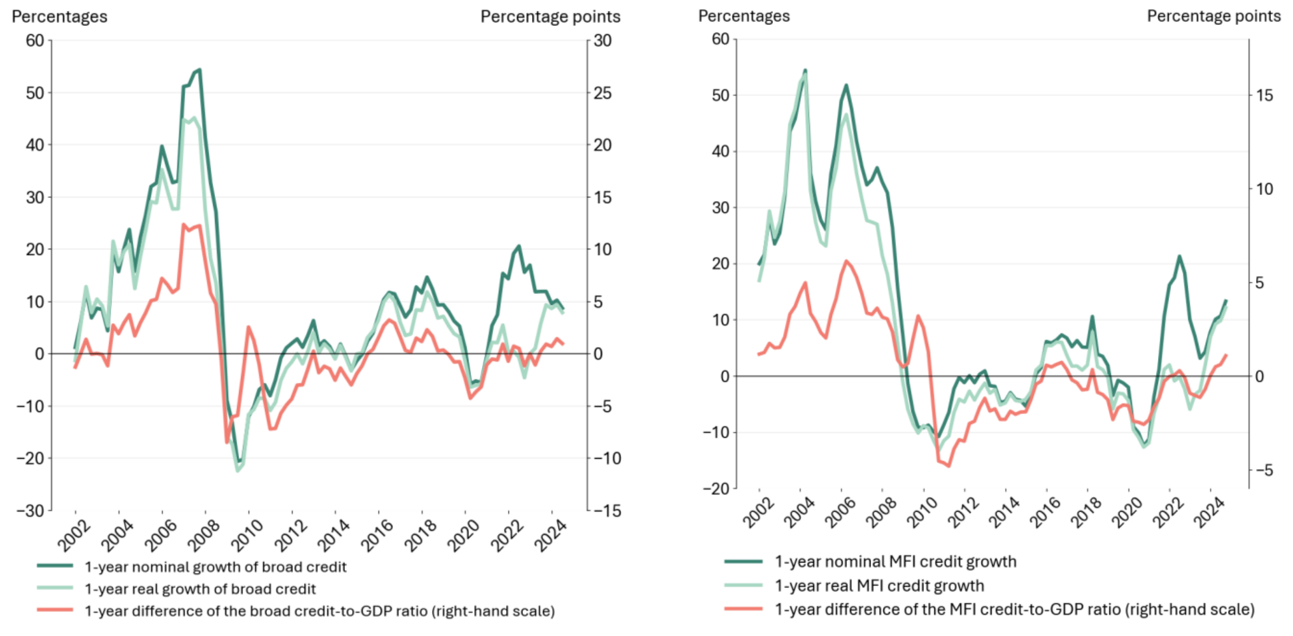


Sources: SDA, Lietuvos bankas and Lietuvos bankas' calculations.
Note: 1-year moving totals of the current account and GDP for left-hand panel were used.

Non-financial corporation sector

Bank lending to businesses continues to grow strongly, driven by long-term corporate liabilities and high-value new loans.

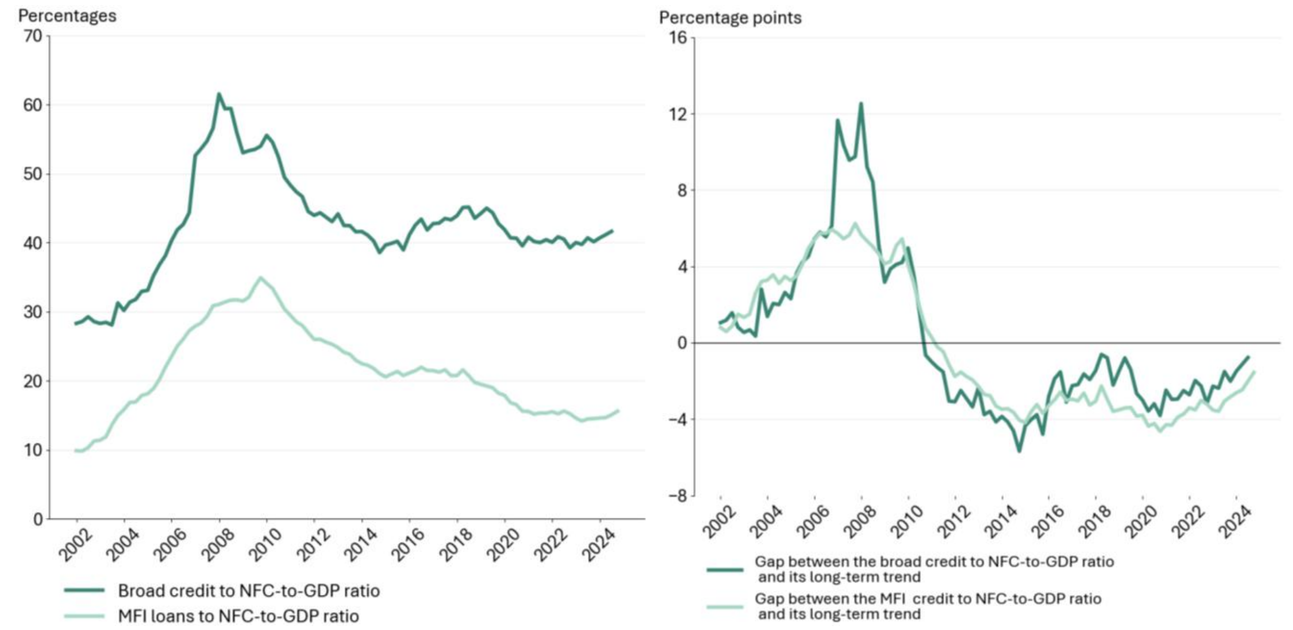
Chart 4. Developments in broad corporate credit (left-hand panel) and borrowing from MFI (right-hand panel)



Sources: SDA, Lietuvos bankas and Lietuvos bankas' calculations.

Business lending is broadly aligned with economic growth. The corporate credit-to-GDP gap has narrowed but remains negative.

Chart 5. Corporate credit-to-GDP ratios (left-hand panel) and corporate credit imbalances (right-hand panel)

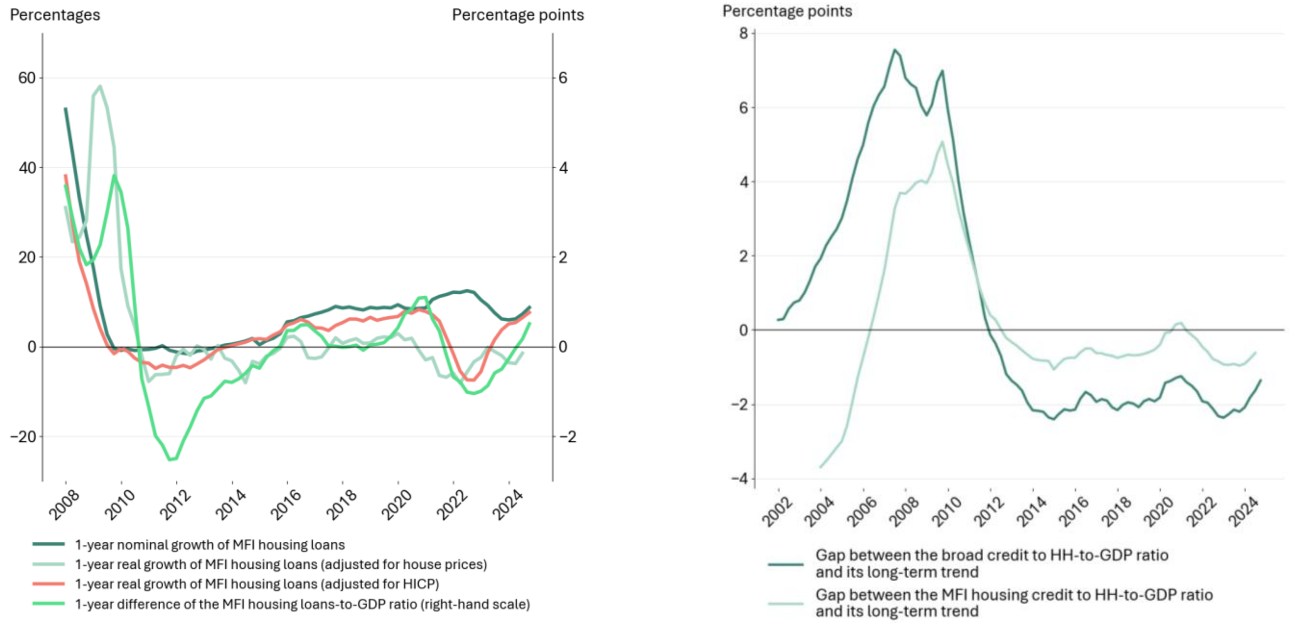


Sources: SDA, Lietuvos bankas and Lietuvos bankas' calculations.
Note: The left-hand panel shows the preliminary data for the last quarter. The right panel shows the long-term trend, computed with a one-sided HP filter and smoothing parameter of 400,000; before applying the filter, the ratio is modelled for the next 5-year window using a 4-quarter weighted average.

Household and housing sector

Real growth in housing loans and new lending volumes continues, yet household credit remains below its long-term trend, indicating no signs of excess borrowing.

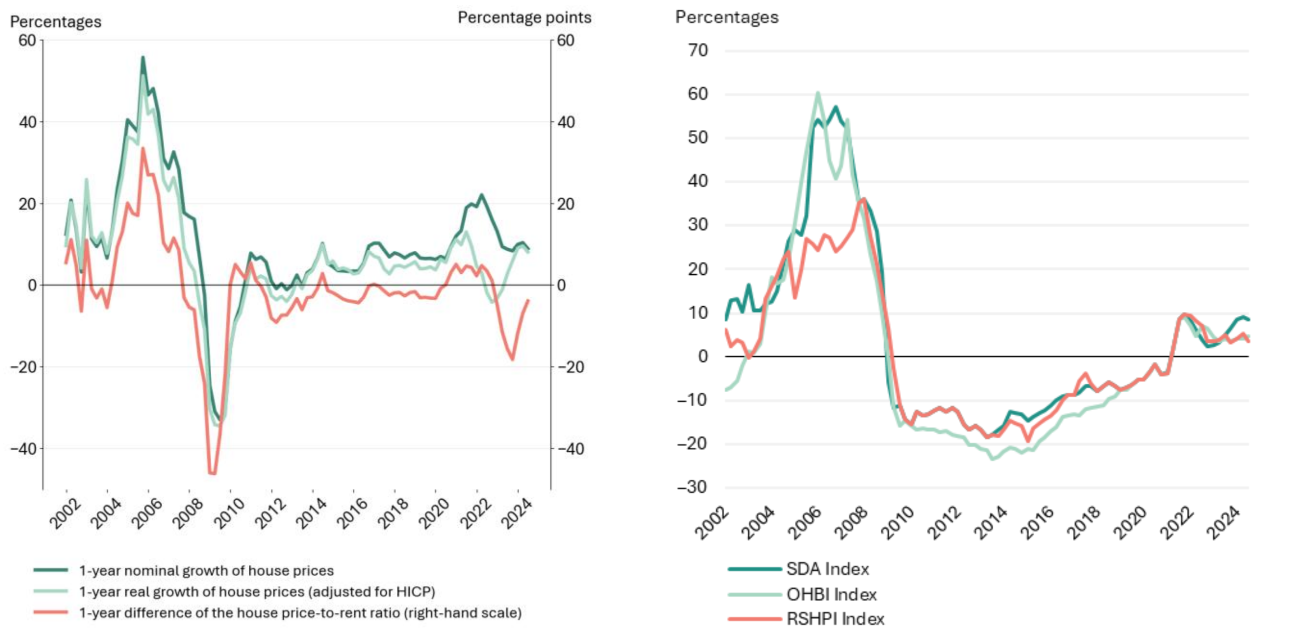
Chart 6. MFI housing credit developments (left-hand panel) and HH credit imbalances (right-hand panel)



Sources: SDA, Lietuvos bankas and Lietuvos bankas' calculations.
Note: The right-hand panel shows the long-term trend, computed with a one-sided HP filter and smoothing parameter of 400,000; before applying the filter, the ratio is modelled for the next 5-year window using a 4-quarter weighted average. Gaps are calculated using the national method.

With house price growth stabilising, income growth has continued to outpace them. Limited price imbalances remain, but the gap from fundamental values is narrowing.

Chart 7. House price developments (left-hand panel) and gap with fundamental values (right-hand panel)



Sources: SDA, *Ober-Haus*, Lietuvos bankas and Lietuvos bankas' calculations.
Note: The right-hand panel shows the median of the price gap with fundamental values using the SDA, OHBI and RSHPI data sources.

Indicator heatmaps and cycle assessment matrix

Corporate lending continues to accelerate, though long-term growth remains moderate. New loans remain stable relative to GDP, with imbalances limited to the CRE segment.

Chart 8. Heatmap of corporate sector growth and imbalance indicators

Contraction / no imbalances	Limited growth / credit in recovery	Moderate growth / emerging imbalances	High growth / limited imbalances	Very high growth / significant imbalances

		2014	2015	2016	2017	2018	2019	2020	2021	2022	2023 I	2023 II	2023 III	2023 IV	2024 I	2024 II	2024 III	2024 IV
Non-financial corporations sector																		
Growth indicators																		
Nominal corporate credit indicators	1-year nominal growth of broad credit										16,9	11,8	11,9	11,9	9,5	10,2	8,6	
	1-year nominal MFI credit growth										10,0	7,0	3,1	4,3	7,8	10,1	10,6	13,3
	1-year difference of NFC debt to equity ratio										2,8	1,0	1,2	1,3	0,8	1,2	0,5	
	1-year difference of the NFC debt service to income (profit) ratio										-0,3	-0,9	2,3	4,3	4,3	5,4	4,2	
Real corporate credit indicators	1-year real growth of broad credit										-0,1	1,0	5,7	9,3	8,6	9,3	7,8	
	1-year real MFI credit growth										-5,9	-3,3	-2,6	1,9	6,9	9,2	9,8	12,1
	3-year real growth of broad credit										-1,2	-0,6	0,4	1,6	2,5	3,1	3,5	
	3-year real MFI credit growth										-5,2	-4,6	-3,9	-2,7	-1,2	0,2	1,3	2,1
	1-year difference of the broad credit-to-GDP ratio										0,0	-1,1	0,2	0,9	0,7	1,4	0,9	
	1-year difference of the NFC debt service to income (profit) ratio										-0,9	-1,0	-1,1	-0,7	0,0	0,5	0,6	1,1
	Pure new loans to GDP										4,0	4,0	4,2	4,4	4,3	4,4	4,6	4,6
	Ratio of new loans (incl. rollovers) to GDP										7,8	8,2	8,3	9,1	9,0	9,4	10,1	9,5
	Credit impulse (loan portfolio)										-4,1	-1,5	-2,2	0,6	1,9	1,2	0,4	
CRE indicators	1-year nominal growth of CRE credit										6,4	7,1	6,8	5,6	9,7	9,5	10,7	15,4
	1-year growth of the number of CRE transactions (2-year moving average)										4,8	-3,4	-9,6	-8,5	-13,3	-13,8	-14,1	-11,3
Imbalance indicators																		
Indicators of corporate credit imbalances	Gap between the broad credit to NFC-to-GDP ratio and its long-term trend (national method)										-2,3	-2,4	-1,5	-2,0	-1,5	-1,1	-0,8	
	Gap between the MFI credit to NFC-to-GDP ratio and its long-term trend (national method)										-3,5	-3,6	-3,0	-2,8	-2,6	-2,5	-2,0	-1,5
	MFI credit-to-GDP ratio										14,6	14,2	14,5	14,5	14,6	14,7	15,1	15,6
	NFC short-term liabilities to short-term assets ratio										39,4	41,3	43,8	39,0	40,3	41,6	42,6	
Indicators of CRE imbalances	Deviation between current and historical CRE yield and government bond spread										-2,4	-1,9	-1,9	-1,6	-1,2	-1,2	-0,8	-0,8
	CRE price misalignment indicator (Vilnius office prime)										6,5	7,7	16,5	25,0	29,9	26,1	17,7	

Note: Values are rounded; stages of some indicators are evaluated based on the percentiles of their values, hence in some instances cells that have the same value may be coloured differently.

Both the household credit portfolio and new housing loans are growing, albeit moderately over the long term. Limited housing price imbalances persist.

Chart 9. Heatmap of HH and housing sector growth and imbalance indicators

Contraction / no imbalances	Limited growth / credit in recovery	Moderate growth / emerging imbalances	High growth / limited imbalances	Very high growth / significant imbalances

		2014	2015	2016	2017	2018	2019	2020	2021	2022	2023 I	2023 II	2023 III	2023 IV	2024 I	2024 II	2024 III	2024 IV
Households / housing sector																		
Growth indicators																		
Nominal household credit indicators	1-year nominal growth of total MFI loans										10,1	8,8	7,3	6,7	6,6	6,9	7,7	9,7
	1-year nominal growth of MFI housing loans										10,4	9,2	7,5	6,1	5,9	6,2	7,2	8,7
Real household credit indicators	1-year real growth of total MFI loans										-5,8	-1,7	1,3	4,2	5,7	6,1	6,9	8,6
	1-year real growth of MFI housing loans										-5,6	-1,4	1,5	3,7	5,0	5,3	6,4	7,6
	3-year real growth of total MFI loans										0,3	-0,3	-0,7	-0,9	-0,9	-0,8	-0,5	0,1
	1-year difference of the MFI housing loans-to-GDP ratio										-1,0	-0,9	-0,6	-0,5	-0,3	0,0	0,2	0,5
	Pure new housing loans to GDP										3,0	2,8	2,6	2,4	2,2	2,3	2,5	2,8
	Housing credit impulse (loan portfolio)										-1,0	-0,7	-1,0	-0,9	-0,1	0,1	0,6	
Nominal house price indicators	1-year nominal growth of house prices										13,1	9,4	8,7	8,3	9,9	10,4	8,9	
Real house price indicators	1-year real growth of house prices (adjusted for HICP)										-3,3	-1,2	2,7	5,8	9,0	9,5	8,0	
	1-year difference of the house price-to-rent ratio										-1,7	3,5	1,8	-2,3	-2,9	-0,5	-0,3	0,2
	1-year difference of the house price-to-income ratio										-4,8	-11,4	-15,6	-18,3	-11,9	-7,0	-3,9	
Imbalance indicators																		
Indicators of household credit imbalances	Gap between the MFI credit to HH-to-GDP ratio and its long-term trend (national method)										-2,4	-2,3	-2,1	-2,2	-2,1	-1,8	-1,6	-1,4
	Gap between the MFI housing loans to HH-to-GDP ratio and its long-term trend (national method)										-0,9	-0,9	-0,9	-1,0	-0,9	-0,8	-0,6	
House price gap with fundamental values	RSHPI Index										3,4	3,7	5,0	3,2	4,3	5,4	3,6	
	OHBI Apartment Price Index										4,4	3,7	4,0	3,6	4,1	4,1	4,6	
	SDA Index										2,7	3,2	5,0	6,5	8,4	9,1	8,7	

Note: Values are rounded; stages of some indicators are evaluated based on the percentiles of their values, hence in some instances cells that have the same value may be coloured differently.

Cyclical risk remains broadly unchanged. Continued growth in new lending supports financial cycle recovery, with no signs of systemic credit market imbalances.

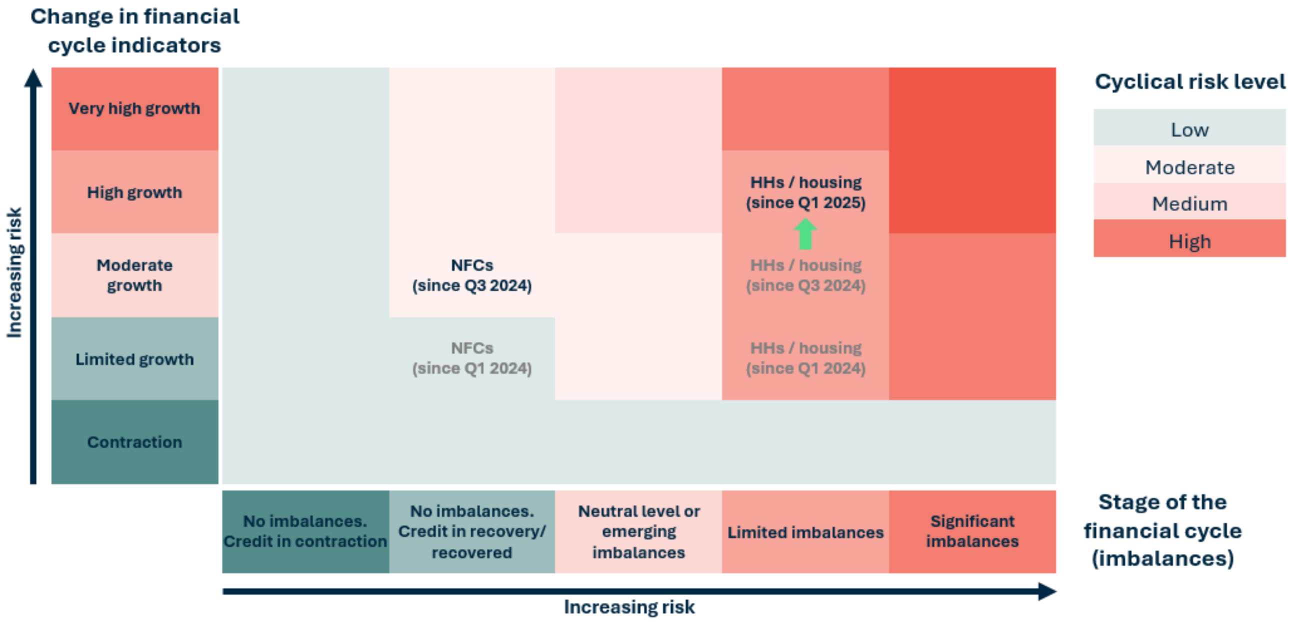
Chart 10. Heatmap of corporate and private sector credit growth, credit imbalance and composite financial cycle indicators

Contraction / no imbalances	Limited growth / credit in recovery	Moderate growth / emerging imbalances	High growth / limited imbalances	Very high growth / significant imbalances

	Indicator	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023 I	2023 II	2023 III	2023 IV	2024 I	2024 II	2024 III	2024 IV
Non-financial private sector																		
Growth indicators																		
Financial cycle composite indicators	Domestic systemic risk indicator (d-SRI)										0,12	0,02	-0,06	-0,20	-0,24	-0,23		
	Financial cycle index (new MFI loans)										0,07	0,05	0,04	0,05	0,05	0,07	0,12	
	Financial cycle index (broad credit)										0,17	0,13	0,12	0,12	0,11	0,11	0,12	
	Bandpass filtered financial cycle indicator										-0,07	-0,06	-0,06	-0,06	-0,05	-0,05		
Nominal credit indicators	1-year nominal growth of broad credit										14,0	10,6	10,0	10,0	8,7	9,1	8,5	
	1-year nominal MFI credit growth										10,1	8,1	5,5	5,7	7,1	8,2	9,0	11,2
	Non-financial private sector credit impulse (loan portfolio)										-3,2	-5,9	-10,5	-8,5	-3,0	0,2	3,5	
	1-year difference of the non-financial private sector debt service to income ratio										-0,1	-0,9	-0,4	-0,4	-0,3	0,4	0,3	
Real credit indicators	1-year real growth of broad credit										-2,5	-0,1	3,9	7,4	7,8	8,2	7,7	
	1-year real MFI credit growth										-5,9	-2,4	-0,4	3,2	6,2	7,4	8,2	10,1
	3-year real growth of broad credit										-0,6	-0,5	0,0	0,7	1,2	1,7	2,1	
	3-year real MFI credit growth										-2,2	-2,3	-2,2	-1,7	-1,0	-0,4	0,2	1,0
	Pure new loans to GDP										8,3	8,1	8,0	8,1	7,9	8,1	8,7	9,1
	Ratio of new loans (incl. rollovers) to GDP										12,7	13,0	12,9	13,6	13,6	14,3	15,6	15,7
	1-year difference of the broad credit-to-GDP ratio										-1,6	-2,4	-0,8	0,3	0,6	1,5	1,4	
	1-year difference of the MFI credit-to-GDP ratio										-2,2	-2,2	-1,9	-1,2	-0,2	0,6	0,9	1,9
	Annual growth difference between private sector debt and GDP (8-year moving average)										6,2	2,3	1,5	1,2	-0,1	0,1	-0,5	
Imbalance indicators																		
	Gap between the broad credit-to-GDP ratio and its long-term trend (national method)										-4,7	-4,7	-3,7	-4,3	-3,5	-3,0	-2,4	
	Gap between the MFI credit-to-GDP ratio and its long-term trend (national method)										-5,9	-5,8	-5,2	-5,0	-4,7	-4,3	-3,6	-2,9
	Bank leverage ratio										6,2	6,0	6,4	6,1	6,4	6,2	6,5	
	Current account balance-to-GDP ratio										-4,6	-2,7	-1,0	1,1	1,9	2,6	2,7	

Note: Values are rounded; stages of some indicators are evaluated based on the percentiles of their values, hence in some instances cells that have the same value may be coloured differently.

Chart 11. Cyclical risk assessment matrix



Note: The decision to apply the 1% CCyB rate was taken in the third quarter of 2022, when the cycle was in the upturn stage.

Abbreviations

CCyB	counter-cyclical capital buffer
CRE	commercial real estate
EA	euro area
GDP	gross domestic product
HCPI	harmonised consumer price index
HH	household
HP	Hodrick-Prescott filter
HPI	house price index
MFI	monetary financial institutions (banks, credit unions)
NFC	non-financial corporation
OHBI	*Ober-Haus* Lithuanian Apartment Price Index
RE	real estate
RSHPI	Lietuvos bankas' repeat sales house price index
SDA	State Data Agency
SyRB	systemic risk buffer

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The quarterly assessment of the financial cycle in Lithuania is a quarterly publication issued by Lietuvos bankas that assesses the state of the financial cycle in Lithuania and the level of cyclical systemic risk. The review was prepared by the Financial Stability Department of Lietuvos bankas.

Unless otherwise indicated, the cut-off date for data used in the publication was 28 February 2025.

Charts include data for the year, quarter or other period indicated.

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