

BANK LENDING SURVEY

OCTOBER 2006

OVERVIEW OF THE RESULTS

This report presents the results of the central bank of Lithuania lending survey that was conducted in October 2006. The cut-off date for the receipt of data from the banks participating in this survey was 13 October 2006.

Overall, credit standards changed for all categories of loans over the last six months. The results show that standards applied to loans for enterprises tightened considerably, except loans for small and medium-sized enterprises. At the same time, banks tightened credit standards to households for housing loans. Only credit standards for consumer and other lending eased somewhat. Banks reported an increase in net demand for all categories of loans over the last period. However, the responding banks expect a decrease in net demand for all categories of loans in the next six months.

General notes

The bank lending survey is addressed to senior loan officers, and its main purpose is to enhance the understanding of the bank lending behavior in Lithuania. The sample group of banks participating in the survey comprises 9 banks and 2 foreign bank branches. The survey results are not weighted according to the differences in the banks' market share. All 11 banks and bank branches participated in the October 2006 survey, yielding an overall response rate of 100%.

The net percentage is defined as the difference between the share of banks reporting that credit standards have been tightened, and those reporting that they have been eased. A positive net percentage indicates that a larger proportion of banks have tightened credit standards. Similarly, the term "net demand" refers to the difference between the share of banks reporting an increase in loan demand and those reporting a decline. Thus, a positive net demand means that a larger share of banks has reported an increase in loan demand and vice versa.

1. LOANS OR CREDIT LINES TO ENTERPRISES

Credit standards. As for October 2006, a bigger share of bank-respondents (73%) reported broadly unchanged credit standards for loans and credit lines to enterprises over the last six months (see Chart 5). However, the rest of the banks, comprising 45% of the market share, reported that credit standards have been tightened. Differently from the April 2006 survey, credit standards have eased somewhat only to small and medium-sized enterprises (-18%), while they have considerably tightened to large enterprises and to long-term loans.

Cost related to bank capital and bank's ability to access market financing, competitive pressures and risk perception moved towards a net easing (see Chart 6). Only risk on the collateral demanded weighed a net tightened on credit standards (9%).

Regarding the terms and conditions of credit (see Chart 7), the development in credit standards was implemented via non-interest charges (-9%), size of the loan or credit line (-18%), and maturity of the loans (-36%). However,

participating banks also reported that an increase in margins on riskier loans (27%), loan covenants (18%) and collateral requirements (9%) weighed towards a net tightening of credit standards.

Loan demand. All banks reported that demand for loans or credit lines to enterprises did not decrease. 64 percent of respondents stated that overall loan demand from enterprises increased somewhat or increased considerably. Differently from the April 2006 survey, net demand for loans from large corporations and for long-term loans slowed down markedly (27% in October 2006, compared with 50% in April, and 55% in October 2006, compared with 90% in April 2006, respectively) (see Chart 8). In the same way, net demand for short-term loans increased (from 20% in April 2006 to 45% in October 2006).

According to the respondent banks, loan demand was supported by increased financing needs related to fixed investment activity (64%) and to inventories and working capital (45%). Similarly, mergers and acquisitions and corporate restructuring, and debt restructuring continued to support the rise in net demand (see Chart 9). Banks stated that the use of alternative financing obtained via loans from other banks and issuance of equity contributed to moderating loan demand.

Expectations. Looking ahead, banks expect credit standards applied to approval of loans or credit lines to enterprises to remain unchanged for the next six months. Banks expect a slight easing of credit standards applied to loans to small and medium-sized enterprises. In addition, banks expect low overall loan demand from enterprises, especially from large ones.

2. LOANS TO HOUSEHOLDS FOR HOUSE PURCHASE

Credit standards. In October 2006, banks reported a slight net easing of credit standards for households for house purchase (see Chart 10). (-9% in July, comparing with -20% in April).

Overall, almost all factors mentioned in the survey questionnaire had a stimulating impact on the development of credit standards in this round (see Chart 11). Banks reported that housing market prospects was the only factor responsible for net tightening (9%), while the competition of other banks remains major factor moderating the credit burden to households for house purchase (-45%).

Similar to developments in corporate sector, the net easing of credit standards for loans for house purchase was mainly implemented via non-interest rate charges (-9%) and maturity of loans (-27%). At the same time, margins on riskier loans and collateral requirements were the main factors that contributed to the tightening of credit standards (see Chart 12). Also, margins on average loans were tightened on a net basis for the first time since the launch of the survey (to 9% in October, compared with -50% in April). In connection with this, only 18 percent of respondents reported an easing on margins on average loans (60% in April 2006).

Loan demand. Net demand for housing loans was reported as positive, but at a much lower level than in the previous survey (55%, compared with 70% in April). Positive housing market prospects and increased consumer confidence continued to support demand. The increase in alternative financing and non-housing-related consumption expenditure also influenced the developments of housing loans (see Chart 15).

Expectations. For the next half-year, all the respondent banks stated that they expected no easing on credit standards for loans for households for house purchase. 18 percent of banks expect that credit standards will tighten in the near future. Additionally, a smaller share of respondents expects an increase in net demand (27% in October 2006, compared with 70% in April 2006).

3. CONSUMER CREDIT AND OTHER LENDING FOR HOUSEHOLDS

Credit standards. Credit standards applied to the approval of consumer credit and other lending to households continued to be eased on a net basis (-36% in October, compared with -20% in April) (see Chart 10).

Banks cited pressure from other banks competition (-73%) and more favorable expectations regarding the general economic activity (-64%) as the main reasons for the net easing of credit standards (see Chart 13). In line with the corporate sector and the house purchase segment of the credit market, this policy was mainly implemented via non-interest rate charges. Moreover, margins on average loans mainly contributed to a net easing, although to a lesser extent than in the previous period (-27%, compared with -70% in April). Differently from the results reported in April, credit standards were tightened via an increase in margin on riskier loans (9% in October 2006, compared with -10% in April 2006).

Loan demand. The net demand for consumer credit and other lending for households remained high (73%). The main factors driving this increase were a continuing rise in spending on durable consumer goods (73%) and a positive contribution made by consumer confidence (73%). Only 9 percent of banks-respondents reported that the purchase of securities had had a positive impact on credit demand (see Chart 15). Additionally, parent banks followed a continuity policy offering not too high interest rates.

Expectations. The participating banks reported that they expected no change of credit standards for consumer credit and other lending to households. Also, a smaller share of banks reported to expect an increase in the net demand for these loans (55%).

4. AD-HOC QUESTIONS

Lending from abroad

This part of report presents the results of 6 banks that had financing from parent institutions at the end of September 2006.

During the last period lending from parent institutions (banks mainly) has increased considerably (43% per year at the end of September 2006). An increasing gap between loans and deposits was the main reason for the rise of financing from parent banks. Similarly, changing saving habits and increasing pressure driven by competition of non-banks (for example, investment funds) are reported as the other important reasons of lending from parent institutions. Lending from parent banks is indicated as a steady and reliable source of financing because of favorable conditions and terms for approving loans.

The respondent banks reported different reasons concerning short-term loans from parent institutions. Lower cost and future confidence concerning the continuity of lending from parent institutions were the main reasons favoring short-term financing. In general, the banks stated that administration of short-term financing deals was easier and simpler.

A larger share of banks reported that they have large influence in setting loans maturity and volume. However, parent banks make last decision concerning loans interest rates.

Table 1 *Bank's influence determining the main financing condition from parent bank, percentages*

	A	B	C	D
Maturity	67	33	0	0
Interest rate	17	33	50	0
Volume of loan	67	33	0	0

Note: A-considerable influence, B – lesser than considerable influence, C – small influence, D – parent bank is the only decision maker.

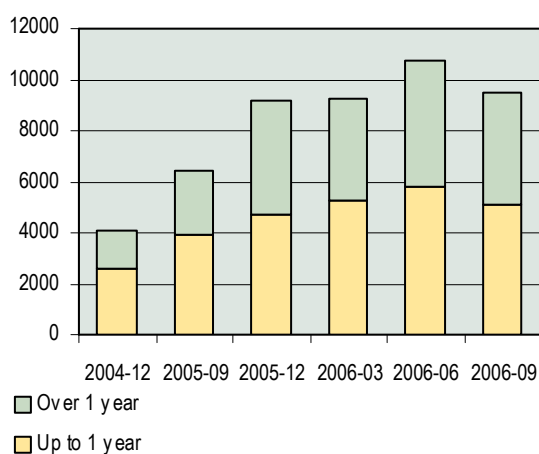
Considering positive credit prospects in the near future, the respondent banks expect 25-50 percent annual increase in lending from parent banks.

Table 2 *Expected annual lending from parent institutions, percentages*

Increase more than 50 %	17
Increase 25 – 50 %	67
Increase no more than 25%	0
Decrease	17

The respondent banks reported that in case of liquidity crisis the parent institution might provide liquidity support regardless formal agreements. As well, all banks indicated that if parent bank faced some liquidity problems, it would not suspend lending for subsidiary bank and would reactivate expired credit if necessary. However, there are no formal arrangements confirming these agreements between parent banks and subsidiary banks.

Chart 1. Bank lending from parent institutions (million of litas)



Source: Bank of Lithuania.

Quality of the loan portfolio

The respondent banks reported no changes concerning the share of overdue loans. The share of overdue loans increases in absolute terms only because of an absolute increase in the total loan portfolio. An increasing individual consumption uncoordinated with the personal income flows might be an important reason influencing an increase in the share of overdue loans. However, the respondent banks expect no changes in the proportion of overdue loans.

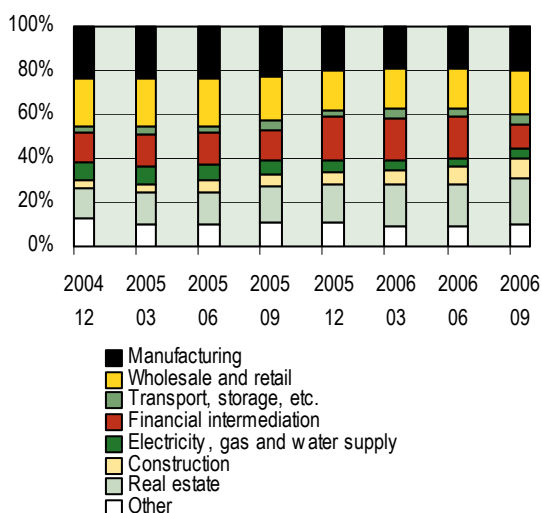
Loans structure

In September 2006, according to Bank of Lithuania data, the major share of the bank loans to economic activities consisted of loans to manufacturing industry (13%), real estate, renting and other business activities (14%) and wholesale and retail trade (13%), while the share of financial intermediation decreased (7% in September 2006, compared with 13% in June 2006).

The respondent banks expect no changes in the structure of the loan portfolio. They expect an increasing share of loans to the real estate sector. The banks' loans limits for each economic activity are the main reasons why the responding banks do not expect big changes in the structure of the loan portfolio. The respondents expect an increase in the share of loans for small and medium-sized enterprises, hotels, trade and agriculture.

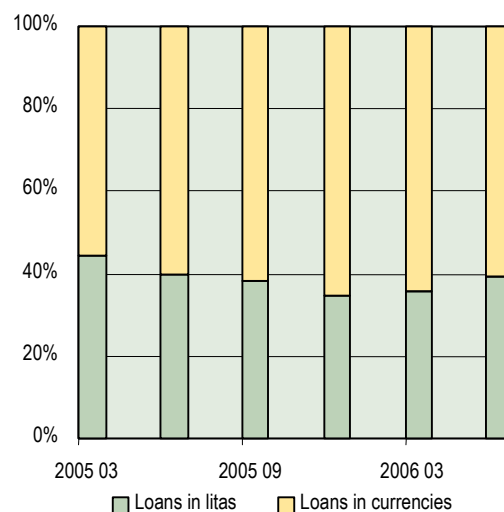
The share of litas has been increasing (40% in September 2006). The respondent banks indicated a tendency that individuals were inclined to borrow in the currency, which was the main currency of their income. The share of euro has been decreasing mainly because of a decreasing gap between VILIBOR and EURIBOR interest rates. As well, according to the responding banks, individuals are not confident about the exchange rate of the litas against the euro.

Chart 2. Loan portfolio by economic activity



Source: Bank of Lithuania calculations.

Chart 3. Currency composition of loans.

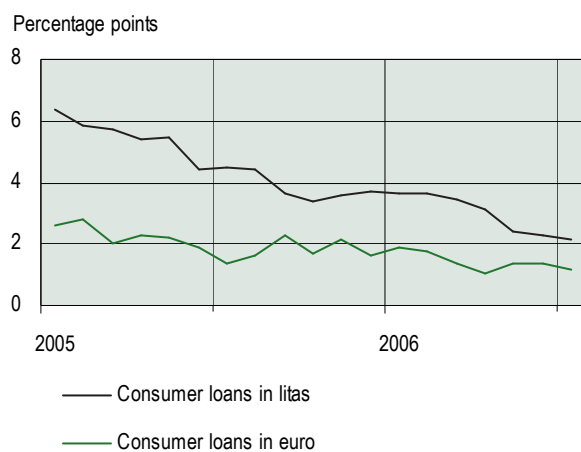


Source: Bank of Lithuania.

The respondent banks reported that the share of consumer loans secured by real estate comprised from 12 to 38 percent.

Pressure driven by competition of other banks was indicated as the main reason influencing decreasing margins on consumer credit. Similarly, lower interest rates were suggested for loyal consumers whose risks are well known for banks.

Chart 4. Margins on consumer credit



Sources: European Central Bank, Bank of Lithuania and Bank of Lithuania calculations.

5. RESULTS FOR THE INDIVIDUAL QUESTIONS

LOANS OR CREDIT LINES TO ENTERPRISES

- Over the past six months, how have your bank's credit standards as applied to the approval of loans or credit lines to enterprises changed?

	Overall	Loans to small and medium-sized enterprises	Loans to large enterprises	Short-term loans	Long-term loans
Tightened considerably	0	0	0	0	0
Tightened somewhat	27	18	45	18	27
Remained basically unchanged	73	45	55	82	73
Eased somewhat	0	36	0	0	0
Eased considerably	0	0	0	0	0
Total	100	100	100	100	100
Net percentage	27	-18	45	18	27
Number of banks responding	11	11	11	11	11

Note: The net percentage is defined as the difference between the sum of the percentages for "tightened considerably" and "tightened somewhat", and the sum of the percentages for "eased somewhat" and "eased considerably".

Chart 5. Credit standards applied to the approval of loans or credit lines to enterprises

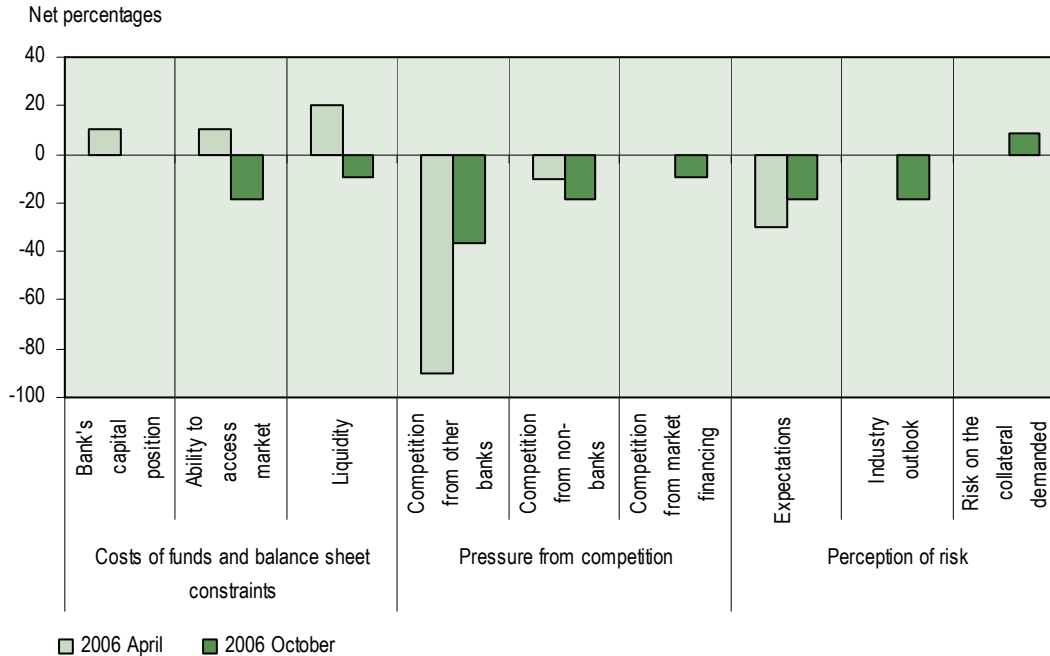


2. Over the last period, how the following factors affected your bank's credit standards as applied to the approval of loans or credit lines to enterprises?

	--	-	0	+	++	NA	NetP
a) Costs of funds and balance sheet constraints							
Costs related to your bank's capital position	0	9	73	9	0	9	0
Your bank's ability to access market financing	0	0	55	18	0	27	-18
Your bank's liquidity position	0	0	64	9	0	27	-9
b) Pressure from competition							
Competition from other banks	0	9	36	45	0	9	-36
Competition from non-banks	0	0	55	18	0	27	-18
Competition from market financing	0	0	73	9	0	18	-9
c) Perception of risk							
Expectations regarding general economic activity	0	0	64	18	0	9	-18
Industry or firm-specific outlook	0	18	36	36	0	9	-18
Risk on the collateral demanded	0	27	45	18	0	9	9

Note: The "Net percentage" column is defined as the difference between the sum of "-" (contributed considerably to tightening) and "--" (contributed somewhat to tightening), and the sum of "+" (contributed somewhat to easing) and "++" (contributed considerably to easing), "0" means "contributed to basically unchanged credit standards", NA – not applicable.

Chart 6. Factors affecting credit standards applied to the approval of loans or credit lines to enterprises

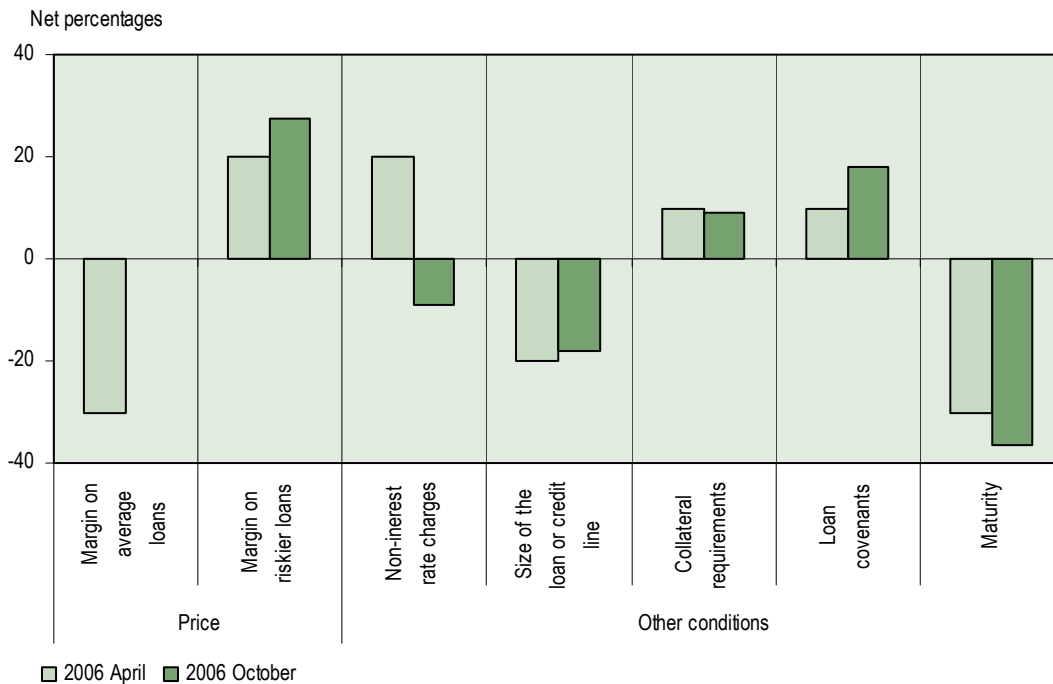


3. Over the past six months, how have your bank's conditions and terms for approving loans or credit lines to enterprises changed?

	--	-	0	+	++	NA	NetP
a) Price							
Your bank's margin on average loans	0	27	45	27	0	0	0
Your bank's margin on riskier loans	9	27	45	9	0	9	27
b) Other conditions and terms							
Non-interest rate charges	0	9	73	18	0	0	-9
Size of the loan or credit line	0	0	82	18	0	0	-18
Collateral requirements	0	18	73	9	0	0	9
Loan covenants	0	18	82	0	0	0	18
Maturity	0	0	64	36	0	0	-36

Note: The "Net percentage" column is defined as the difference between the sum of "--" (tightened considerably) and "-" (tightened somewhat), and the sum of "+" (eased somewhat) and "++" (eased considerably). "0" means "remained basically unchanged".

Chart 7. Conditions and terms for approving loans or credit lines to enterprises

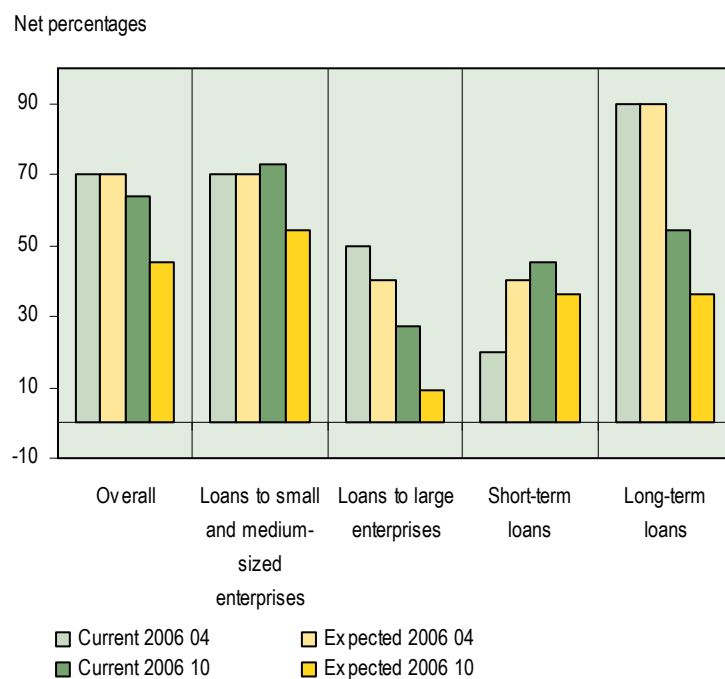


4. Over the past period, how has the demand for loans and credit lines to enterprises changed at your bank, apart from normal seasonal fluctuations?

	Overall	Loans to small and medium-sized enterprises	Loans to large enterprises	Short-term loans	Long-term loans
Decreased considerably	0	0	0	0	0
Decreased somewhat	0	0	0	0	0
Remained basically unchanged	36	27	73	55	45
Increased somewhat	55	64	18	36	36
Increased considerably	9	9	9	9	18
Total	100	100	100	100	100
Net percentage	64	73	27	45	55
Number of banks responding	11	11	11	11	11

Note: The net percentage is defined as the difference between the sum of the percentages for "increased considerably" and "increased somewhat", and the sum of the percentages for "decreased somewhat" and "decreased considerably".

Chart 8. Demand for loans and credit lines to enterprises

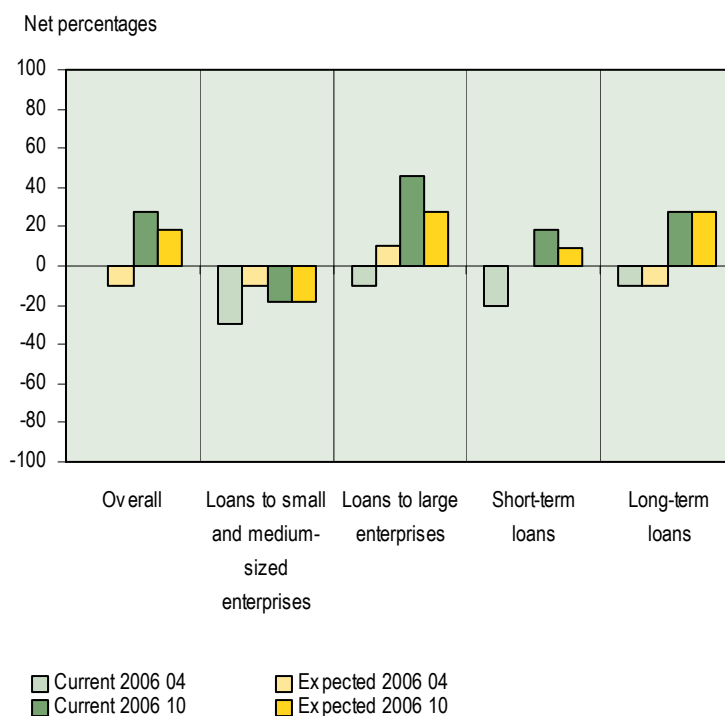


5. Over the past three months, how have the following factors affected the demand for loans or credit lines to enterprises?

	--	-	0	+	++	NA	NetP
a) Financing needs							
Fixed investment	0	0	27	55	9	9	64
Inventories and working capital	0	0	45	45	0	9	45
Mergers/acquisitions and corporate restructuring	0	0	64	27	0	9	27
Debt restructuring	0	0	64	9	0	18	9
b) Use of alternative finance							
Internal financing	0	9	73	0	9	9	0
Loans from other banks	0	18	64	9	0	9	-9
Loans from non-banks	0	0	64	9	9	18	18
Issuance of debt securities	0	9	73	9	0	9	0
Issuance of equity	0	9	64	0	0	27	-9

Note: The "Net percentage" column is defined as the difference between the sum of "++" (contributed considerably to higher demand) and "+" (contributed somewhat to higher demand), and the sum of "-" (contributed somewhat to lower demand) and "--" (contributed considerably to lower demand). "0" means "contributed to basically unchanged demand".

Chart 9. Factors affecting demand for loans and credit lines to enterprises



6. Please indicate how your bank's credit standards as applied to the approval of loans or credit lines to enterprises will change over the next three months.

	Overall	Loans to small and medium-sized enterprises	Loans to large enterprises	Short-term loans	Long-term loans
Tightened considerably	0	0	0	0	0
Tightened somewhat	27	9	27	18	27
Remained basically unchanged	64	64	73	73	73
Eased somewhat	9	27	0	9	0
Eased considerably	0	0	0	0	0
Total	100	100	100	100	100
Net percentage	18	-18	27	9	27
Number of banks responding	11	11	11	11	11

Note: The net percentage is defined as the difference between the sum of the percentages for "tightened considerably" and "tightened somewhat" and the sum of percentages for "eased somewhat" and "eased considerably".

7. Please indicate how you expect demand for loans or credit lines to enterprises to change at your bank over the next three months (apart from normal seasonal fluctuations).

	Overall	Loans to small and medium-sized enterprises	Loans to large enterprises	Short-term loans	Long-term loans
Decreased considerably	0	0	0	0	0
Decreased somewhat	9	0	9	9	18
Remained basically unchanged	36	45	73	45	27
Increased somewhat	55	36	18	45	55
Increased considerably	0	18	0	0	0
Total	100	100	100	100	100
Net percentage	45	55	9	36	36
Number of banks responding	11	11	11	11	11

Note: The net percentage is defined as the difference between the sum of the percentages for "increase considerably" and "increase somewhat" and the sum of percentages for "decrease somewhat" and "decrease considerably".

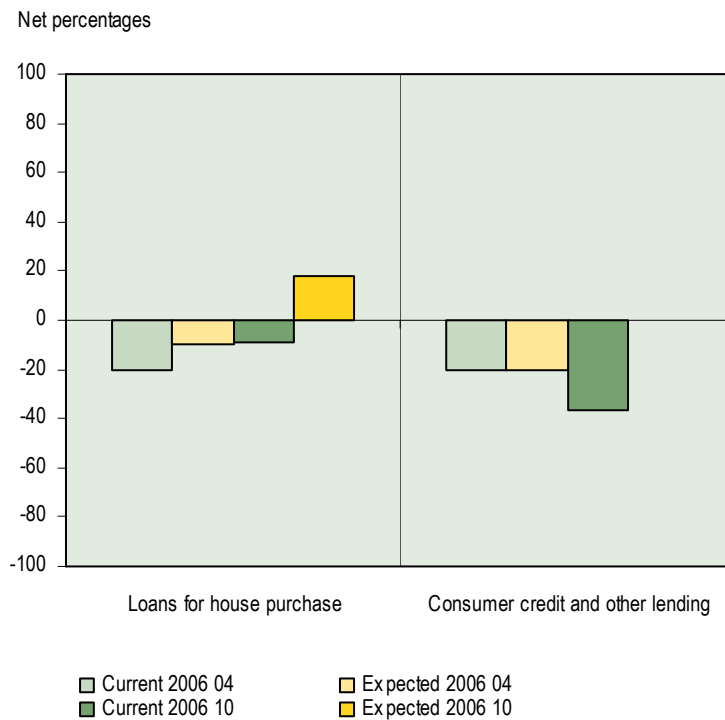
LOANS TO HOSEHOLDS

8. Over the past six months, how have your bank's credit standards as applied to the approval of loans to households changed?

	Loans for house purchase	Consumer credit and other lending
Tightened considerably	0	0
Tightened somewhat	9	18
Remained basically unchanged	73	27
Eased somewhat	18	55
Eased considerably	0	0
Total	100	100
Net percentage	-9	-36
Number of banks responding	11	11

Note: The net percentage is defined as the difference between the sum of the percentages for "tightened considerably" and "tightened somewhat" and the sum of percentages for "eased somewhat" and "eased considerably".

Chart 10. Credit standards applied to the approval of loans to households

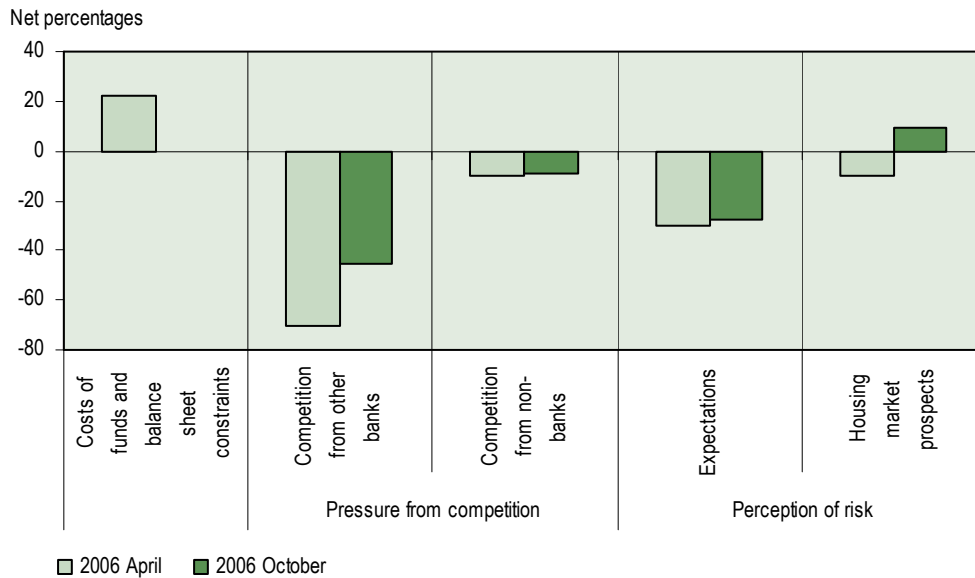


9. Over the past period, how have the following factors affected your bank's credit standards as applied to the approval of loans to households for house purchase?

	--	-	0	+	++	NA	NetP
a) Cost of funds and balance sheet constraints	0	0	82	0	0	18	0
b) Pressure from competition							
Competition from other banks	0	0	45	27	18	9	-45
Competition from non banks	0	0	64	9	0	27	-9
c) Perception of risk							
Expectations regarding general economic activity	0	9	45	36	0	9	-27
Housing market prospects	0	18	64	9	0	9	9

Note: The "Net percentage" column is defined as the difference between the sum of "-" (contributed considerably to tightening) and "--" (contributed somewhat to tightening), and the sum of "+" (contributed somewhat to easing) and "++" (contributed considerably to easing), "0" means "contributed to basically unchanged credit standards", NA – not applicable.

Chart 11. Factors affecting credit standards applied to the approval of loans to households for house purchase

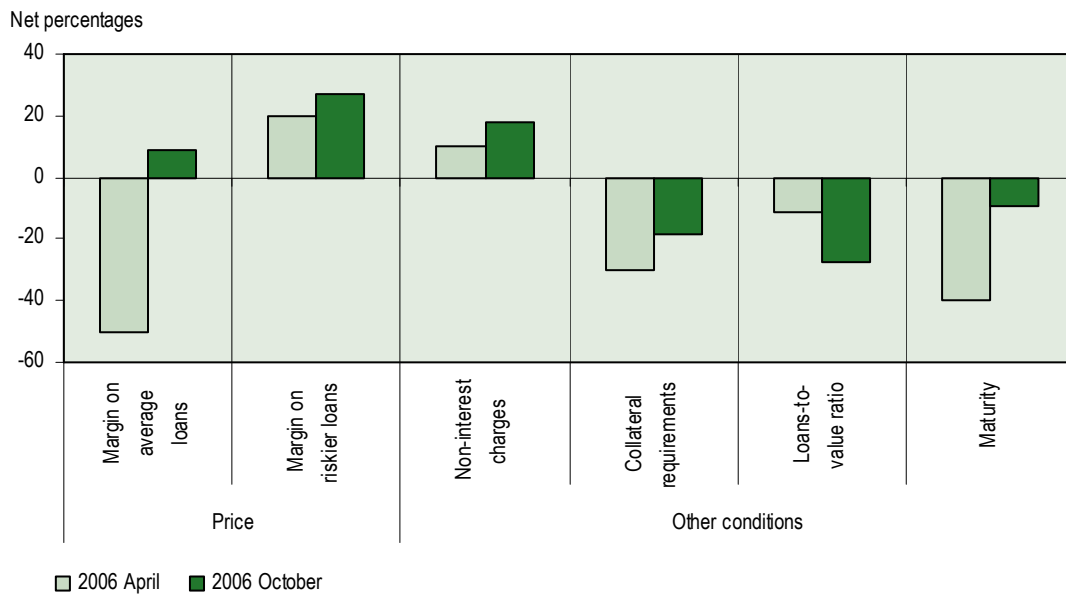


10. Over the pas six months, how have your bank's conditions and terms for approving loans to households for house purchase changed?

	--	-	0	+	++	NA	NetP
a) Price							
Your bank's margin on average loans	0	27	55	18	0	0	9
Your bank's margin on riskier loans	0	36	45	9	0	9	27
b) Other conditions							
Collateral requirements	0	18	73	0	0	0	18
Loans-to-value ratio	0	9	64	27	0	0	-18
Maturity	0	9	55	36	0	0	-27
Non-interest charges	0	9	73	18	0	0	-9

Note: The "Net percentage" column is defined as the difference between the sum of "--" (tightened considerably) and "-" (tightened somewhat), and the sum of "+" (eased somewhat) and "++" (eased considerably). "0" means "remained basically unchanged".

Chart 12. Conditions and terms for approving loans to households for house purchase

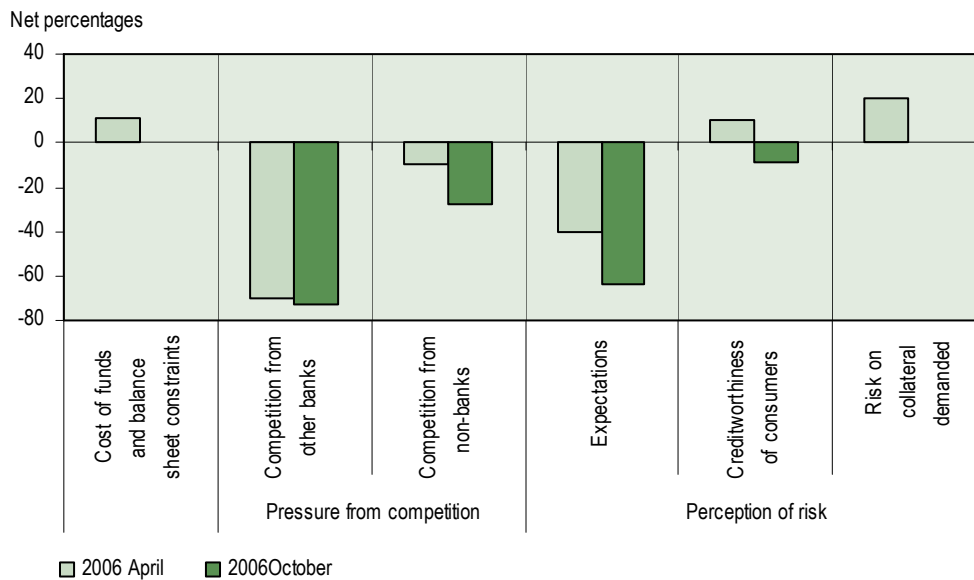


11. Over the past period, how have the following factors affected your bank's credit standards as applied to the approval of consumer credit and other lending to households?

	--	-	0	+	++	NA	NetP
a) Cost of funds and balance sheet constraints	0	0	82	0	0	18	0
b) Pressure from competition							
Competition from other banks	0	0	18	64	9	9	-73
Competition from non-banks	0	0	55	27	0	18	-27
c) Perception of risk							
Expectations regarding general economic activity	0	0	27	64	0	9	-64
Creditworthiness of consumers	0	18	45	27	0	9	-9
Risk on the collateral demanded	0	9	64	9	0	18	0

Note: The "Net percentage" column is defined as the difference between the sum of "--" (contributed considerably to tightening) and "-" (contributed somewhat to tightening), and the sum of "+" (contributed somewhat to easing) and "++" (contributed considerably to easing), "0" means "contributed to basically unchanged credit standards", NA – not applicable.

Chart 13. Factors affecting credit standards to the approval of consumer credit and other lending to households

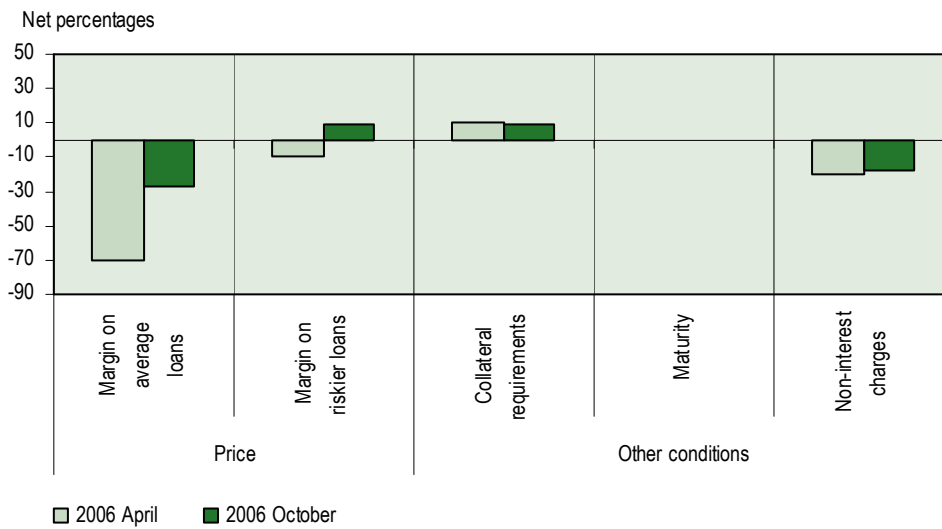


12. Over the past six months, how have your bank's conditions and terms for approving consumer credit and other lending to households changed?

	--	-	0	+	++	NA	NetP
a) Price							
Your bank's margin on average loans	0	9	55	36	0	0	-27
Your bank's margin on riskier loans	0	27	45	18	0	9	9
b) Other conditions							
Collateral requirements	0	18	73	9	0	0	9
Maturity	0	18	64	18	0	0	0
Non-interest charges	0	9	64	27	0	0	-18

Note: The "Net percentage" column is defined as the difference between the sum of "--" (tightened considerably) and "-" (tightened somewhat), and the sum of "+" (eased somewhat) and "++" (eased considerably). "0" means "remained basically unchanged".

Chart 14. Conditions and terms for approving consumer credit and other loans to households

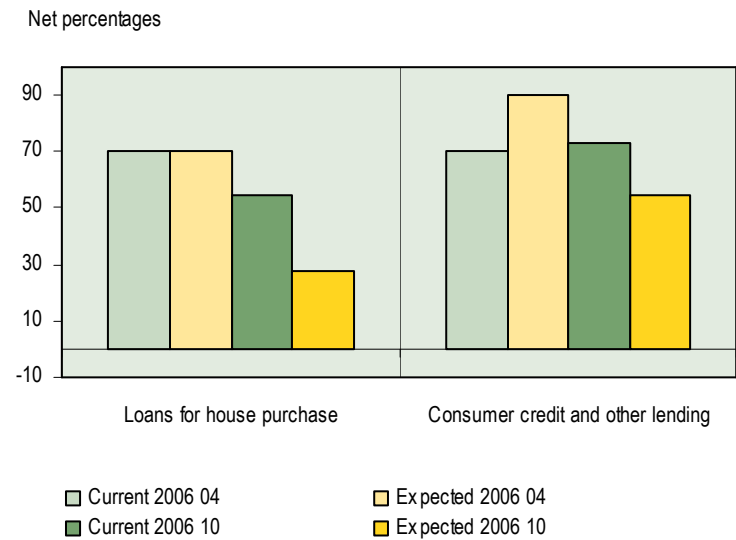


13. Over the past period, how has the demand for loans to households changed at your bank, apart from normal seasonal fluctuations?

	Loans for house purchase	Consumer credit and other lending
Decreased considerably	0	0
Decreased somewhat	0	0
Remained basically unchanged	45	27
Increased somewhat	45	64
Increased considerably	9	9
Total	100	100
Net percentage	55	73
Number of banks responding	11	11

Note: The net percentage is defined as the difference between the sum of the percentages for "increase considerably" and "increased somewhat" and the sum of percentages for "decreased somewhat" and "decreased considerably".

Chart 15. Demand for loans to households

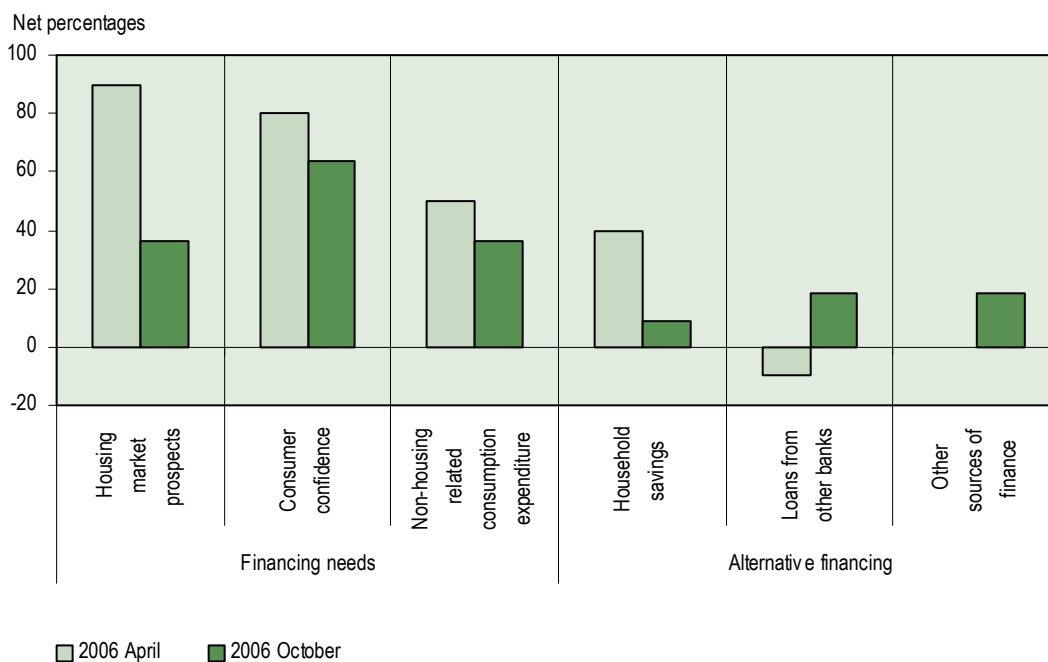


14. Over the past period, how have the following factors affected the demand for loans to households for house purchase?

	--	-	0	+	++	Na	NetP
a) Financing needs							
Housing market prospects	0	9	36	36	9	9	36
Consumer confidence	0	0	27	64	0	9	64
Non-housing related consumption expenditure	0	0	45	36	0	18	36
b) Use of alternative finance							
Household savings	0	0	73	9	0	18	9
Loans from other banks	0	9	55	27	0	9	18
Other sources of finance	0	0	64	18	0	18	18

Note: The "Net percentage" column is defined as the difference between the sum of "++" (contributed considerably to higher demand) and "+" (contributed somewhat to higher demand), and the sum of "-" (contributed somewhat to lower demand) and "--" (contributed considerably to lower demand). "0" means "contributed to basically unchanged demand".

Chart 16. Factors affecting demand for loans to households for house purchase

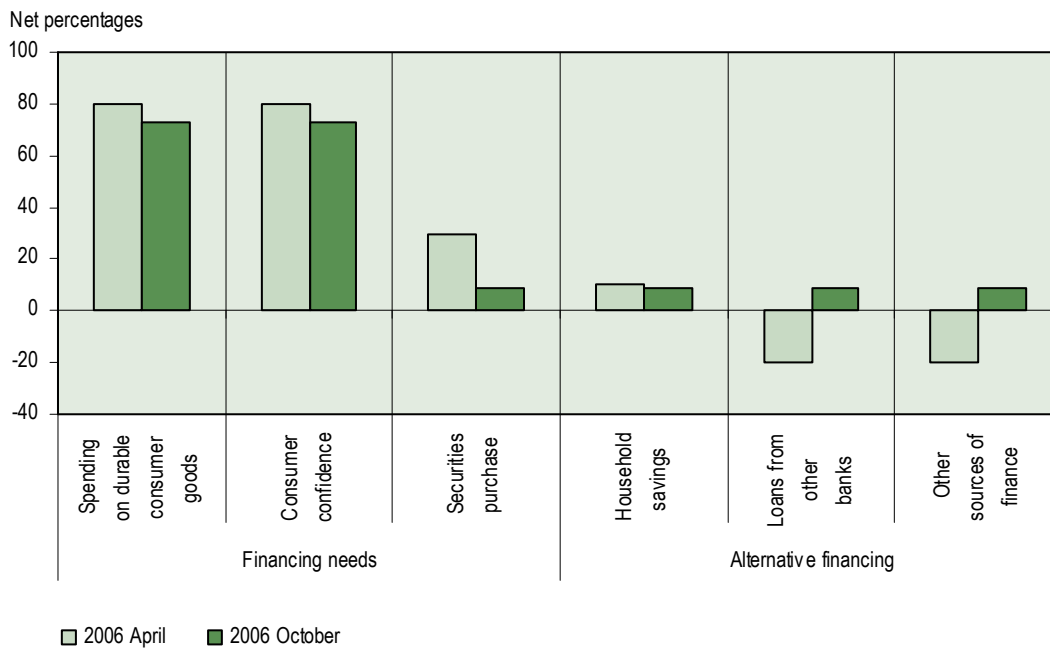


15. Over the past period, how have the following factors affected the demand for consumer credit and other lending to households?

	--	-	0	+	++	NA	NetP
a) Financing needs							
Spending on durable consumer goods	0	0	18	64	9	9	73
Consumer confidence	0	0	18	73	0	9	73
Securities purchase	0	0	82	9	0	9	9
b) Use of alternative finance							
Household savings	0	0	73	9	0	18	9
Loans from other banks	0	18	45	27	0	9	9
Other sources of finance	0	0	73	9	0	18	9

Note: The "Net percentage" column is defined as the difference between the sum of "++" (contributed considerably to higher demand) and "+" (contributed somewhat to higher demand), and the sum of "-" (contributed somewhat to lower demand) and "--" (contributed considerably to lower demand). "0" means "contributed to basically unchanged demand".

Chart 17. Factors affecting demand for consumer credit and other lending to households



16. Please indicate how you expect your bank's credit standards as applied to the approval of loans to households to change over the next three months.

	Loans for house purchase	Consumer credit and other lending
Tighten considerably	0	0
Tighten somewhat	18	18
Remained basically unchanged	82	64
Ease somewhat	0	18
Ease considerably	0	0
Total	100	100
Net percentage	18	0
Number of banks responding	11	11

Note: The net percentage is defined as the difference between the sum of the percentages for "tighten considerably" and "tighten somewhat" and the sum of percentages for "ease somewhat" and "ease considerably".

17. Please indicate how you expect demand for loans to households to change at your bank.

	Loans for house purchase	Consumer credit and other lending
Decreased considerably	0	0
Decreased somewhat	9	0
Remained basically unchanged	55	45
Increased somewhat	27	36
Increased considerably	9	18
Total	100	100
Net percentage	27	55
Number of banks responding	11	11

Note: The net percentage is defined as the difference between the sum of the percentages for "increased considerably" and "increased somewhat" and the sum of percentages for "decreased somewhat" and "decreased considerably".

Bank lending survey was prepared by the members of the Financial Stability Division of the Economics Department of the Bank of Lithuania:

Mindaugas Leika
 Tel. +370 5 268 0138
 Fax +370 5 212 4423
 Rūta Medaiskytė
 Tel. +370 5 268 0145
 Fax +370 5 212 4423