Latvia

The banks surveyed in Latvia account for 67 per cent of the country's total banking assets, with foreign banks accounting for almost two-thirds of this share (Chart 1). Approximately two-thirds of the institutions surveyed expect their branch network to decline over the next five years, just below the average for central Europe and the Baltic States (CEB) (Chart 2).[1]

Although climate change risk is an explicit part of risk management for more than 80 per cent of Latvian banks, only half of those surveyed have explicit climate change-related policies and targets in place (Chart 3). In addition, the share of Latvian banks having specific environmental policies and targets is among the lowest in the CEB economies. When lending to small and medium-sized enterprises (SMEs), all Latvian banks undertake corporate governance impact assessments, while half conduct climate change-related impact assessments. In general, the share of Latvian banks undertaking corporate governance, social and climate change-related impact assessments is at or above the level seen in other CEB banking sectors, on average.

In CEB, Latvia has one of the highest shares of banks providing loans specifically to improve the energy efficiency of SMEs and/or corporate clients. Some 83 per cent of banks offer such loans, compared with 66 per cent and 75 per cent of banks, on average, in the CEB and EBRD regions, respectively (Chart 4).

When it comes to the use of digital technologies, 75 per cent Latvian banks view corporate lending as a business line offering opportunity from fintech (Chart 5). This view is shared by more than 60 per cent of banks across the EBRD regions, on average. Around half of Latvian banks also see opportunity for fintech in SME lending. Conversely, in payment services, some 50 per cent of Latvian banks see a threat from fintech, some 13 percentage points and 22 percentage points higher than the CEB and EBRD averages, respectively.

Chart 1 Branch presence of surveyed banks

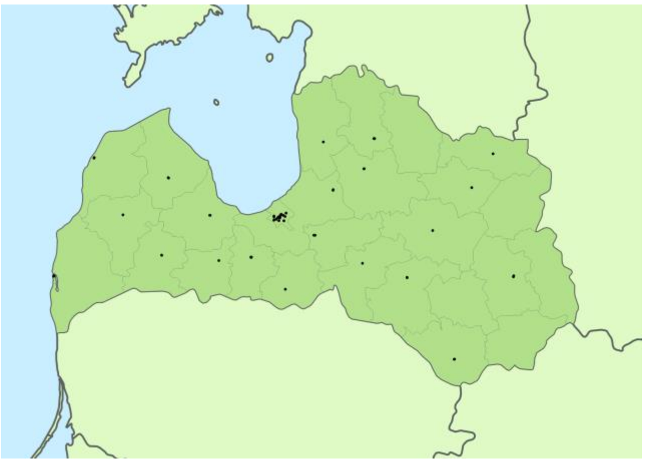


Chart 2 Branch network expectations, next five years

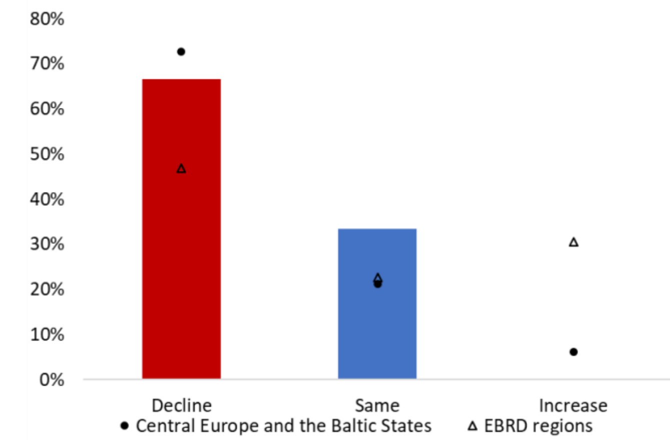


Chart 3 ESG policies and targets

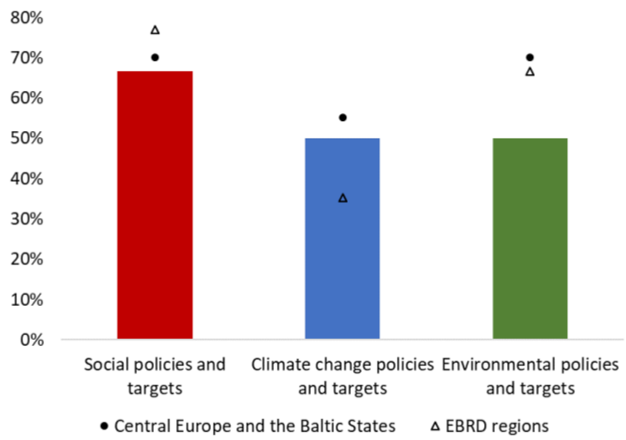
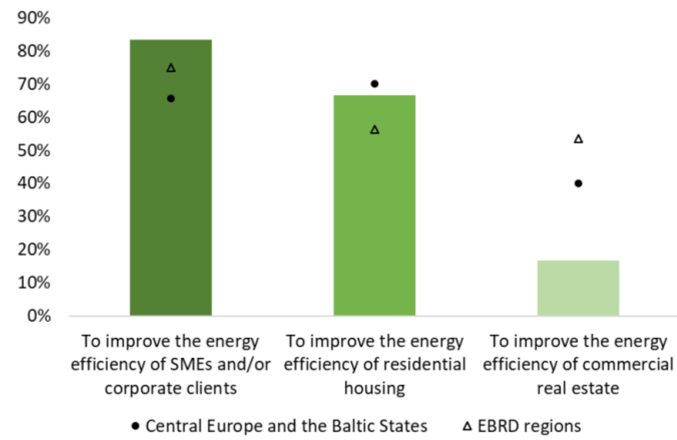


Chart 4 Prevalence of loans to improve clients' energy-efficiency



[1] Bars in Charts 2, 3, 4, and 8 correspond to the percentage share of banks in Latvia.

When it comes to the use of digital technologies, Latvian banks are generally below or on par with the averages of the CEB and EBRD economies, other than on the use of robo-advisors (Chart 6). On the use of distributed ledger technology, such as blockchain in smart contracts, none of the Latvian banks surveyed reported activities underway with a view to trialling or adopting it. In contrast, at least 40 per cent of all banks across the EBRD regions say the use of this technology is at least under discussion.

Although Latvian banks are not at the forefront of digital technology adoption, more than two-thirds accept online loan applications from SMEs, 18 percentage points higher than the EBRD average. In addition, some Latvian banks say they face strong competition from internet banks in SME lending, as well as from non-bank online lenders and non-bank finance companies (Chart 7). All banks surveyed in Latvia report being concerned about information technology (IT) security and regulatory uncertainty in the fintech space, above the share reported across the EBRD regions.

Sixty per cent of Latvian banks view a lack of creditworthy customers as the main constraint on lending to innovative research and development-intensive industries such as IT, chemicals and pharmaceuticals (Chart 8). This is 16 percentage points and 28 percentage points higher than the CEB and EBRD averages, respectively. A lack of sufficient collateral and loan officers' inability to obtain the right amount and type of information to evaluate credit risks are the other two main constraints mentioned by Latvian banks when lending to innovative industries, in particular.

Chart 5 How fintech will affect banks' business lines

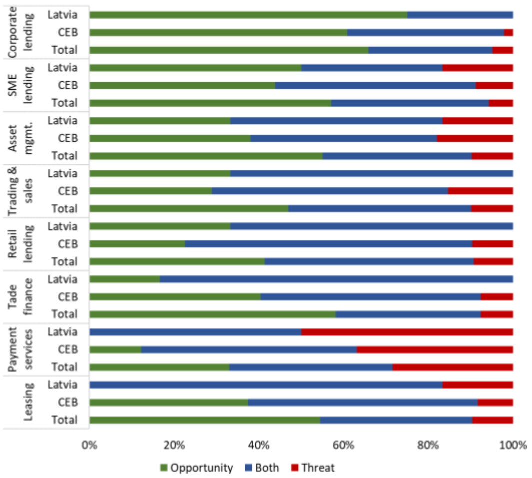
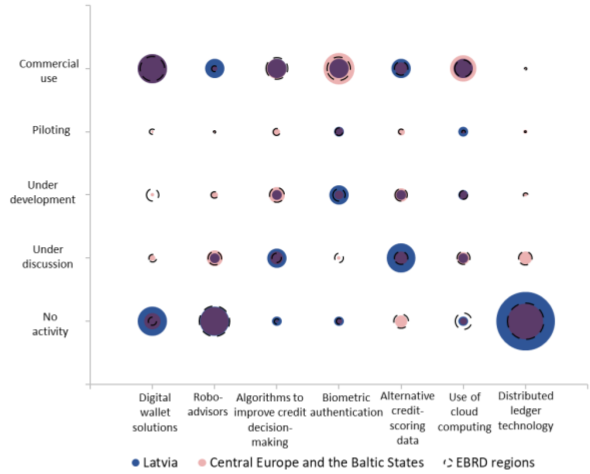


Chart 6 Digital technology development and use



Note: For each digital technology, the size of the bubble is proportional to the share of banks that report using the technology at that level of advancement.

Chart 7 Banks face strong competition from non-bank alternatives

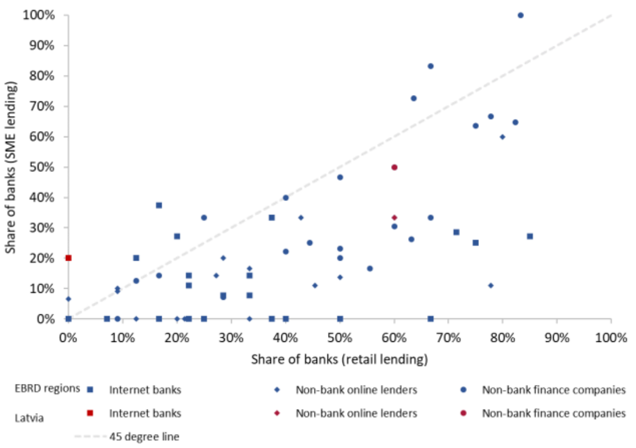


Chart 8 Constraints on lending to innovative industries