

Latvia

Bank lending held back by lack of credit demand

Latvia is well covered by bank branch networks of both foreign (mainly Scandinavian) and domestic banks (Chart 1). Foreign bank subsidiaries are tightly integrated into the parent organisation with two-thirds reporting that their parent bank sets annual credit growth targets and requires the use of a centralised treasury desk to raise foreign currency funding. Foreign banks are perceived by all banks as strong competitors in all market segments.

The lending environment and the constraints faced by banks have changed sharply in Latvia following the financial crisis (Chart 2). Insufficient credit demand, which includes a perceived lack of creditworthy customers, is now cited as the main reason why bank lending is sluggish. Insufficient bank funding was also mentioned more often in 2011 than in 2007 but this supply side constraint is less tight than the lack of demand. The inability of loan officers to assess risk has also become less of an issue as all banks have put greater emphasis on this part of the loan process.

Following the financial crisis and in the context of an uncertain regulatory environment, Latvian banks are building up additional capital buffers. Conversely, Latvia no longer has the largest share of banks agreeing or strongly agreeing that direct instructions from the regulator beyond applicable laws present a significant burden.

With regards to creditor rights, Latvian banks are relatively positive about the ability of the legal system to efficiently create security rights over movable and immovable assets but the efficient enforcement of these rights in the courts leaves much to be desired (Chart 3). Not one bank in the survey described the Latvian court system as quick and efficient. While banks in general would agree or strongly agree with the statement that the courts are fair and impartial, Latvia is the only country in the region to show a positive, though marginal, increase in the share of banks who agree that it is common for banks to bribe court officials (Chart 4).

Chart 1 Bank localities by ownership

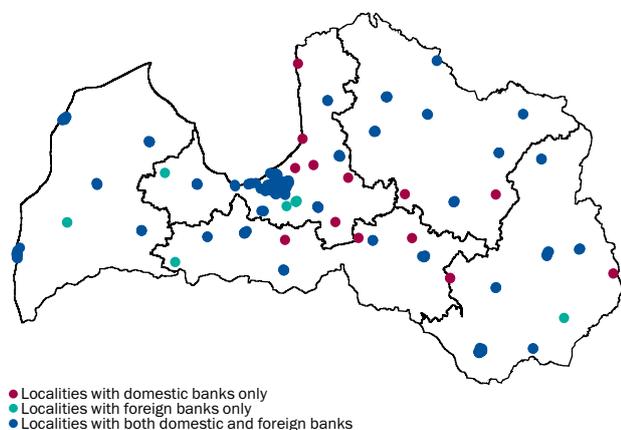


Chart 3 Laws related to mortgages

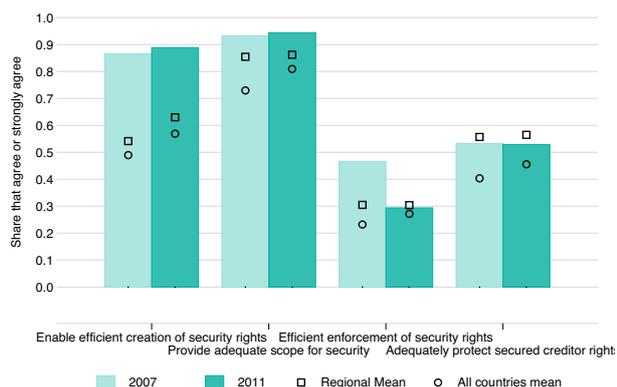
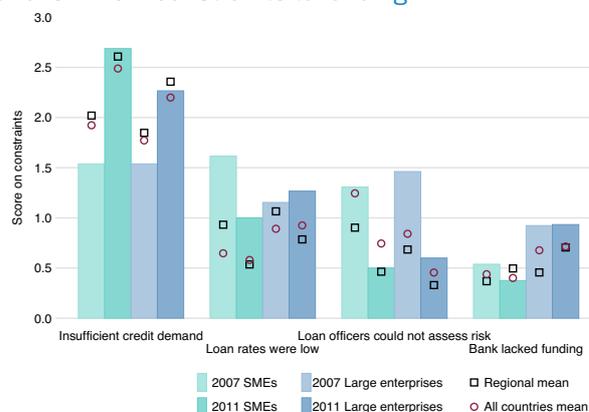
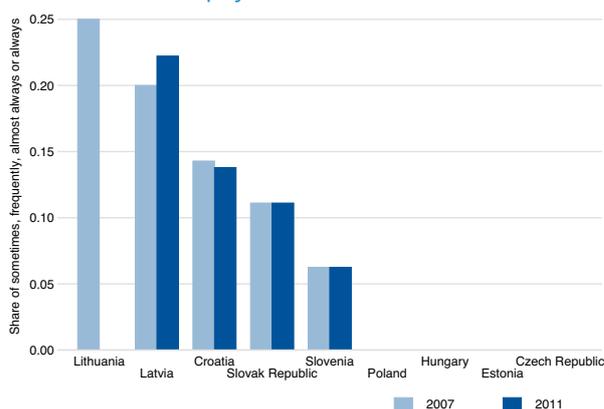


Chart 2 Main constraints to lending*



*The constraint score runs from 0 to 3 with 0 signifying no constraint and 3 signifying the main constraint.

Chart 4 Unofficial payments to court officials**



**Based on the share of banks that think the statement "In 2011 it is common for banks to have to pay some irregular payments/gifts to court officials" is sometimes, frequently, almost always or always true.