

LENDING INDEX PRESENTATION
EXPERT DISCUSSION

THE FUTURE OF STUDENT AND STUDY LOANS IN LATVIA: CHALLENGES AND POSSIBLE SOLUTIONS



Latvijas Tirdzniecības
un rūpniecības
kamera



Latvijas
Studentu
apvienība

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LENDING INDEX

PRIVATE CUSTOMER
SEGMENT

COORDINATOR



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EVENT PROGRAMME

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- Methodology and results of the **Lending Index** in the private customer segment
- Expert discussion:** "The future of the student and study loan system in Latvia: challenges and possible solutions"
- Q&A Session**

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Co-chairman of the Finance Latvia
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LENDING INDEX FOR PRIVATE CUSTOMER SEGMENT

DEVELOPMENT METHODOLOGY OF THE LENDING INDEX



DEVELOPMENT METHODOLOGY OF THE LENDING INDEX FOR PRIVATE CUSTOMER SEGMENT



Commercial banks' ability to provide credit

- Ratio of loans and deposits in the commercial banking sector
- Amount of unrestricted funds in the commercial banking sector
- Volume of assets in the commercial banking sector
- Percentage of late payments by borrowers



Commercial banks' willingness to provide credit

- Stringency of credit conditions
- Commercial banks' willingness to take risk
- Percentage of loans refused by commercial banks
- The shadow economy share in Latvia



Borrowers' willingness to borrow

- Share of the population planning to borrow in the next 6 months
- Actual demand for loans
- EU Economic Sentiment Index



Borrowers' ability to borrow

- Unemployment rate
- Gross domestic product of Latvia
- Average monthly income of Latvia's residents

LENDING INDEX FOR PRIVATE CUSTOMER SEGMENT



The Finance Latvia Association Credit Index is a complex measurement, which characterizes an individual's ability and willingness to borrow, as well as the banking sector's ability and willingness to lend.

THE LEVEL OF BANKS' ABILITY TO CREDIT



Ratio of loans and deposits in the commercial banking sector

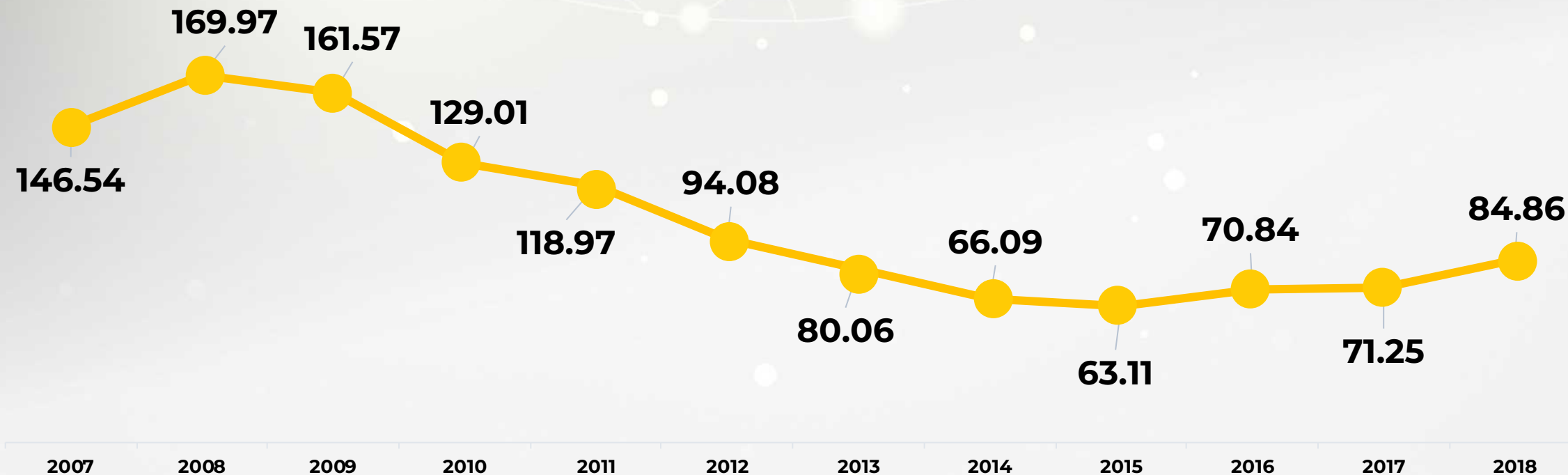
Amount of unrestricted funds in the commercial banking sector

Volume of assets in the commercial banking sector

Percentage of late payments by borrowers

THE LEVEL OF BANKS' ABILITY TO CREDIT REMAINS HIGH

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Source: FKTK data (2018)

THE BANKS' WILLINGNESS TO CREDIT



- Credit terms and conditions for individuals have not changed significantly
- Last year, willingness to risk has remained at the level of previous years
- The share of credit refusals has not changed significantly (due to the shadow economy and negative credit history)

Stringency of credit conditions

Commercial banks' willingness to take risk

Percentage of loans refused by commercial banks

The shadow economy share in Latvia

INDIVIDUALS' WILLINGNESS TO BORROW



- An increase in the number of individuals planning to borrow in the next 6 months ¹ (+2,3%)
- The demand for loans has grown
- The EU Economic Sentiment Index has dropped

The share of the population planning to borrow in the next 6 months

Actual demand for loans

EU Economic Sentiment Index

1. Source: SKDS Population Survey (2019)

ABILITY OF INDIVIDUALS TO BORROW

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- The unemployment rate has decreased by 1.2%
- Annual GDP has increased by 4.8%
- The average income has grown from 927 to 1004 €

National unemployment rate

Gross domestic product of Latvia

Average monthly income of Latvia's residents

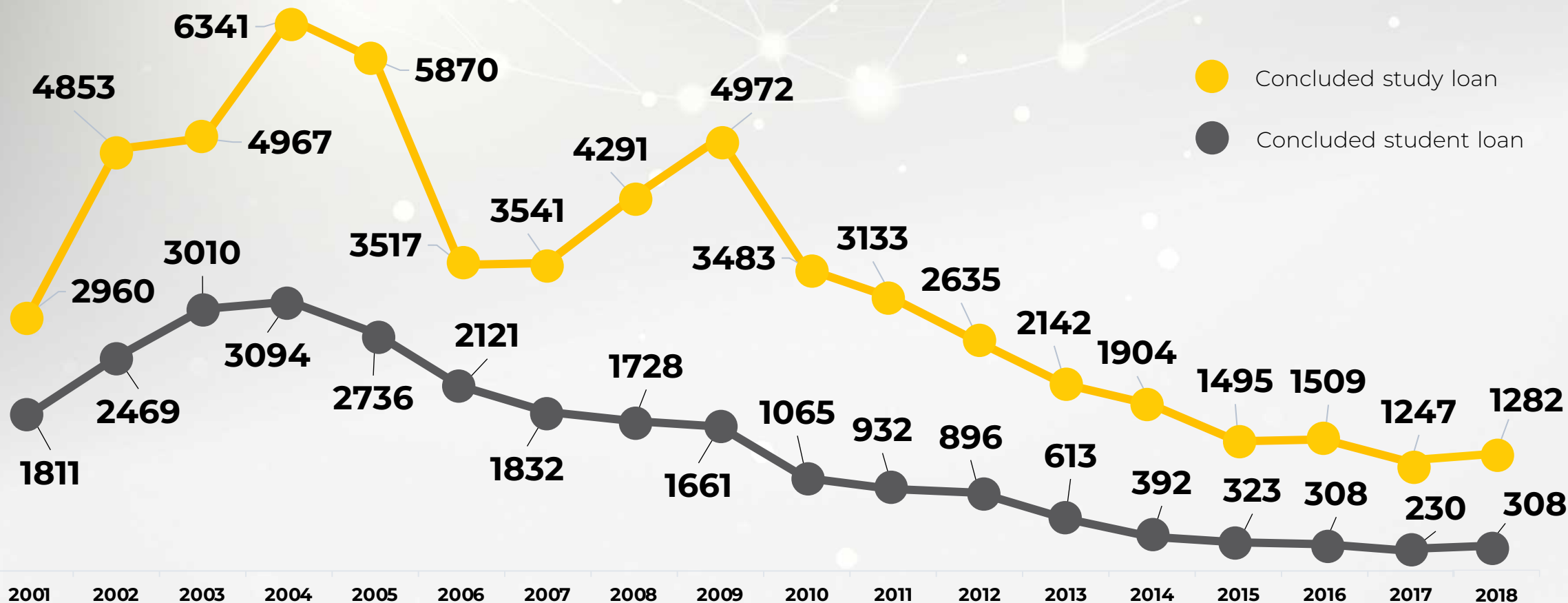
Source: CSB data (2019)

KEY FINDINGS

- The banking sector has seen certain structural changes, which have also, to some extent, affected lending. At the same time, the banks' desire and capacity to lend have both remained high.
 - In 2018, the Lending Index in the private customer segment continued its climb, encouraged by the economic growth (GDP and average income), as well as by relatively low unemployment rates.
 - Although the capacity and willingness of individuals to borrow has increased, the main reasons for credit refusals are still linked to the negative impact of the shadow economy and negative credit history.
 - In general, the potential of the lending environment in the private customer segment is considered positive, but trends in certain areas (eg. state-guaranteed student loans) call for improvement.
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NUMBER OF CREDIT AGREEMENTS CONCLUDED BY CREDIT TYPE (2001-2017)

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Source: Data gathered by Finance Latvia Association (2019)

49.8% of students have considered a study, student, or both types of loans as a possible financial solution for covering tuition-related costs.

Of the given number, **40%** of students did not apply for a loan, as it was no longer needed, the student could not find a guarantor or experienced doubts about their ability to repay a loan.

However, loans were refused to **9.4%** of the students who applied for a study loan and **5.8%** of the students who applied for a student loan.

The most frequent reasons for rejection: students could not provide suitable guarantors, as they were over the age of 64 or had unsettled debts.

DISCUSSION

THE FUTURE OF
STUDENT AND STUDY LOAN SYSTEM IN LATVIA:
CHALLENGES AND POSSIBLE SOLUTIONS

THE FUTURE OF STUDENT AND STUDY LOAN SYSTEM IN LATVIA: CHALLENGES AND POSSIBLE SOLUTIONS



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LENDING INDEX
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THANK YOU FOR YOUR ATTENTION!



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