



CENTRAL BANK OF CYPRUS

EUROSYSTEM

APRIL 2023
BANK LENDING SURVEY
Results for Cyprus

Nicosia - Cyprus

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1. Overview

The April 2023 Bank Lending Survey (BLS)¹ records the changes in credit standards and loan demand that occurred in 2023Q1 compared with 2022Q4, as well as the changes that are expected to occur in 2023Q2 compared with 2023Q1. It should be emphasised that the results of the Survey reflect the perceptions and expectations of the participating banks and do not, in any way, reflect the views or expectations of the Central Bank of Cyprus (CBC) (see Notes). A summary of the results is presented in the table and text below, followed by a more detailed analysis in the other sections of the report.

In brief, the tightening of credit standards for business loans continues, while credit standards for loans to households in 2023Q1 remained unchanged at the tightened levels of the previous quarter. At the same time, the decline in loan demand persists across all loan categories, which is partly influenced by the prevailing high lending rates. On the loan supply side, banks are facing heightened uncertainty surrounding macroeconomic conditions. This uncertainty, coupled with the recent increases in lending rates and the negative impact on households' real disposable income and businesses' operating costs, has resulted in banks being particularly vigilant in their lending practices so as to safeguard borrowers' repayment capacity and ensure the overall quality of their loan portfolio.

Summary of BLS results - April 2023	Cyprus	
	2023Q1	2023Q2 (expectations)
Credit standards for loans		
Enterprises	Tightening	Tightening
Households		
- Housing loans	Unchanged	Tightening
- Consumer credit and other lending	Unchanged	Tightening
Overall terms and conditions on loans		
Enterprises	Tightening	*
Households		
- Housing loans	Tightening	*
- Consumer credit and other lending	Tightening	*
Demand for loans		
Enterprises	Decrease	Decrease
Households		
- Housing loans	Decrease	Decrease
- Consumer credit and other lending	Decrease	Decrease

* The survey does not include questions on expected changes in loan terms and conditions.

Source: CBC

¹ - The April 2023 BLS survey was conducted between the period 22 March - 6 April 2023. The statistical analysis for Cyprus uses the diffusion index. More information on the methodology of the survey can be found [here](#).
 - In those cases where no line or bar is evident in the charts of this report, the diffusion index is zero for the respective quarter. Either this implies that there was no change compared with the previous quarter or that the answers of the participating banks offset one another.
 - The BLS results for the euro area are available [here](#).

According to the Survey, **credit standards² for loans to enterprises tightened in 2023Q1** for a fourth consecutive quarter. Banks' perception of increased credit risk related to the general economic and industry or firm specific situation and outlook as well as their reduced risk tolerance continued contributing to the tightening of their credit standards for business loans. In 2023Q1, **credit standards for all categories of loans to households remained unchanged** at the tightened levels reached in the previous quarter, while risk perceptions regarding the general economic situation and outlook is elevated.

In 2023Q1, the overall terms and conditions for new loans or credit lines³ to enterprises tightened. Tighter loan covenants and maturity limits on new business loans were reported. Banks' margins (the spread over a relevant market reference rate) on average loans narrowed, on a net basis, but there were differing views across banks. Similarly to credit standards, the tightening of the overall terms and conditions for business loans reflects banks' perception of increased risk and their reduced risk tolerance while increased competition from other banks contained the overall tightening. In the same quarter, the **overall terms and conditions for housing loans, consumer credit and other lending to households were also tightened.** As regards housing loans, banks' margins on riskier loans (the spread over a relevant market reference rate) widened mainly due to increased risk perceptions, while the impact of the remaining terms and conditions was neutral. The tightening of the overall terms and conditions for consumer credit and other lending to households related to the widening of banks' margins on both average and riskier loans due to banks' heightened risk perceptions as well as less pressure from competition.

On the demand side, **net loan demand in 2023Q1 by both enterprises and households for consumer credit and other lending and, more so, for housing loans continued to decline.** According to the Survey, higher interest rates and reduced demand for financing fixed investments, mergers/acquisitions and corporate restructurings contributed to the decline in net demand for business loans. Conversely, financing needs for inventories and working capital continued to increase, possibly due to businesses' high production and operating costs. As regards households, banks attributed the net decrease in demand for housing loans in 2023Q1 to higher interest rates, deteriorating consumer confidence and a less favourable housing market outlook. According to the Survey, the decline in demand for consumer credit and other lending by households is also driven by higher interest rates and deteriorating consumer confidence. The decrease in demand was further exacerbated by a decline in spending on durable consumer goods.

In 2023Q2, banks expect credit standards in Cyprus to tighten and net loan demand to further decline, both for loans to enterprises and for all loan categories to households.

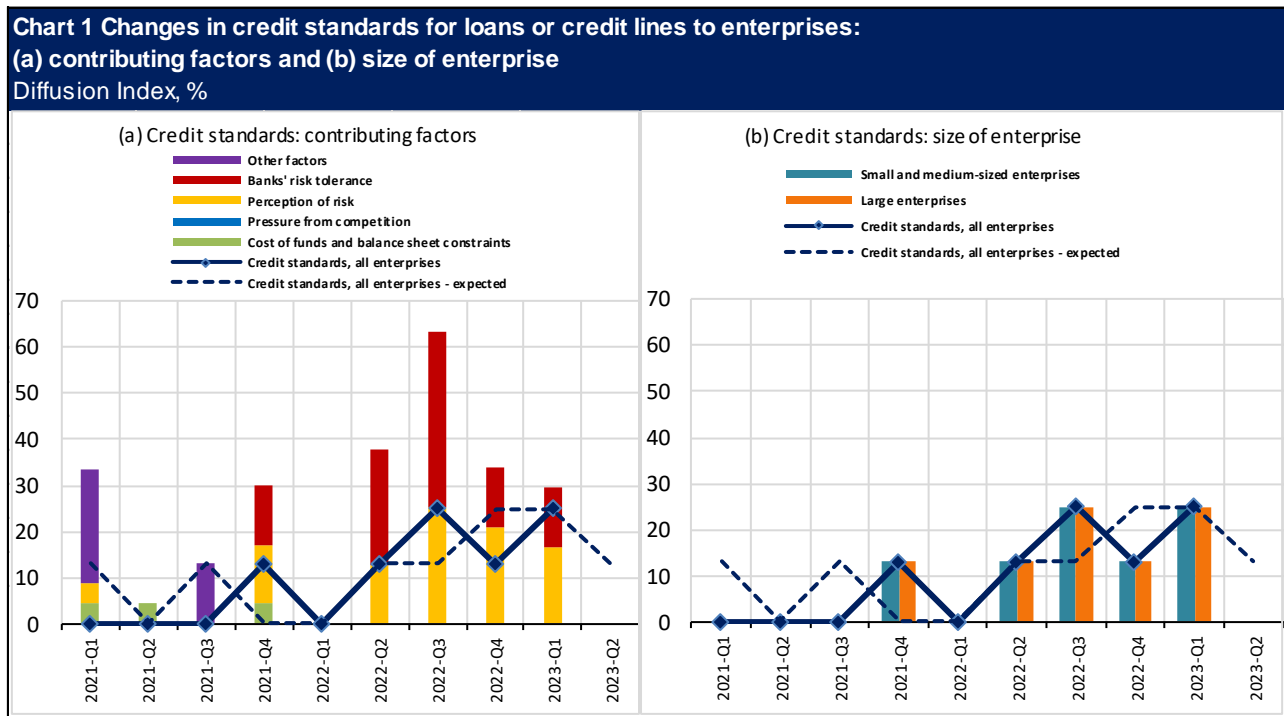
² Credit standards refer to the internal guidelines or loan approval criteria of a bank. Both new loans and loan refinancing, i.e. a prolongation of a loan or a higher loan amount, are considered. Credit standards are established prior to the actual loan negotiation on the terms and conditions and the actual loan approval/rejection decision. They define the types of loan a bank considers desirable and undesirable, the designated sectoral or geographic priorities, the collateral deemed acceptable or unacceptable, etc. Credit standards specify the required borrower characteristics under which a loan can be obtained.

³ Credit terms and conditions refer to the conditions of a loan that a bank is willing to grant, i.e. to the terms and conditions of the (new or refinanced) loan actually approved, as laid down in the loan contract agreed between the bank (the lender) and the borrower. Credit terms and conditions depend on the borrower's characteristics and may change in parallel with credit standards or independently of them.

2. Credit standards for loans (loan supply)

2.1. Credit standards for loans or credit lines to enterprises⁴

The tightening of credit standards for loans to enterprises in Cyprus continued during 2023Q1, in line with the expectations expressed in the previous quarter's Survey. Banks' perception of increased risk and reduced risk tolerance continued to contribute to the tightening of credit standards for business loans for the fourth consecutive quarter (**Chart 1(a)**). According to the Survey, banks' perception of increased risk in granting business loans in 2023Q1 related to the general economic situation and outlook, as well as the situation and outlook regarding specific industries or firms (borrower's creditworthiness). Credit standards tightened for loans to both small and medium-sized enterprises (SMEs) and large enterprises in the quarter under review (**Chart 1(b)**). In the current environment of uncertainty and higher costs, banks in Cyprus are even more cautious when granting new business loans to ensure their sustainability.



Notes:

Concerning the direction of changes in the credit standards, a **positive value** indicates a tightening of credit standards and a contribution by the factors to this direction, while a **negative value** indicates an easing of credit standards and a contribution by the factors to this direction.

"Cost of funds and balance sheet constraints" as unweighted average of banks' "Capital and cost related to capital position", "Access to market financing" and "Liquidity position".

"Pressure from competition" as unweighted average of "Competition from other banks", "Competition from non-banks" and "Competition from market financing".

"Perception of risk" as unweighted average of "General economic situation and outlook", "Industry or firm-specific situation and outlook/borrower's creditworthiness" and "Risk on collateral demanded".

"Other factors" refer to further factors which were mentioned by participating banks as having contributed to changes in credit standards.

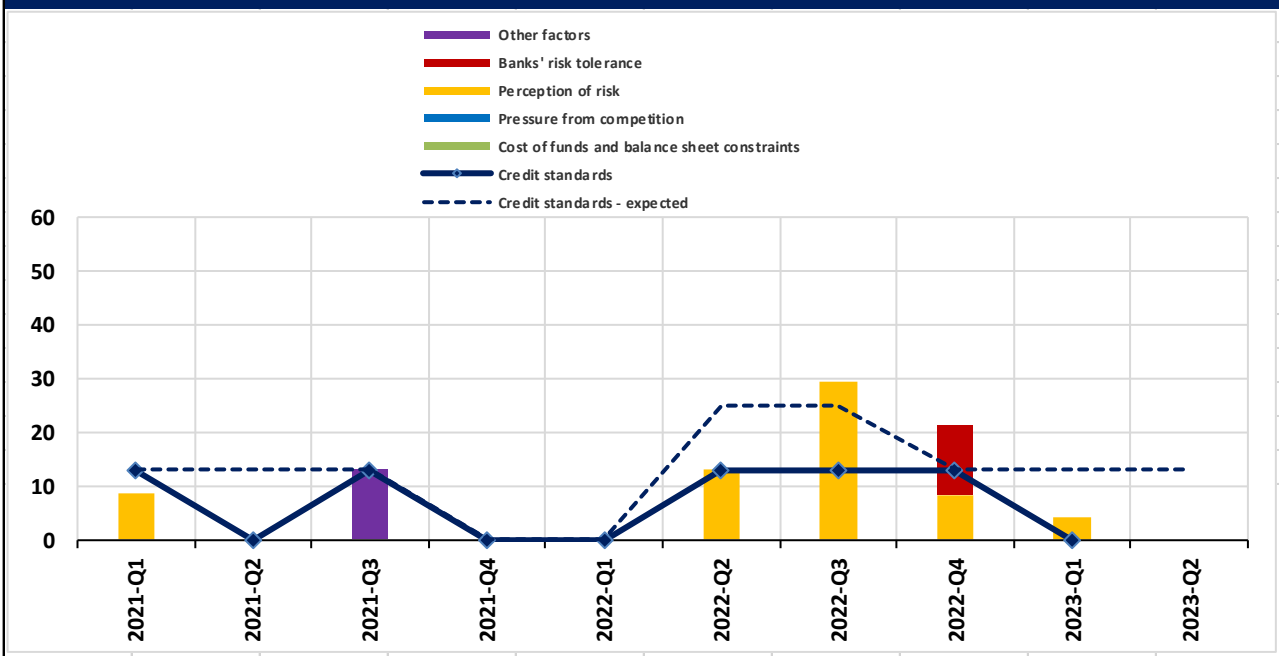
⁴ The term "enterprises" refers to non-financial corporations.

2.2. Credit standards for loans to households for house purchase

Credit standards for housing loans remained unchanged in 2023Q1, despite references to increased risk perceptions in relation to the general economic situation and outlook. Effectively, credit standards for housing loans remained at the tightened levels reached in the previous quarter. This development was in contrast to expectations for further tightening expressed in the January 2023 Survey (**Chart 2**).

Chart 2 Changes in credit standards for loans to households for house purchase and contributing factors

Diffusion Index, %



Notes:

Concerning the direction of changes in the credit standards, a **positive value** indicates a tightening of credit standards and a contribution by the factors to this direction, while a **negative value** indicates an easing of credit standards and a contribution by the factors to this direction.

"**Cost of funds and balance sheet constraints**" as unweighted average of banks' "Capital and cost related to capital position", "Access to market financing" and "Liquidity position" (detailed sub-factors were introduced in April 2022).

"**Pressure from competition**" as unweighted average of "Competition from other banks" and "Competition from non-banks".

"**Perception of risk**" as unweighted average of "General economic situation and outlook", "Housing market prospects, including expected house price developments" and "Borrower's creditworthiness".

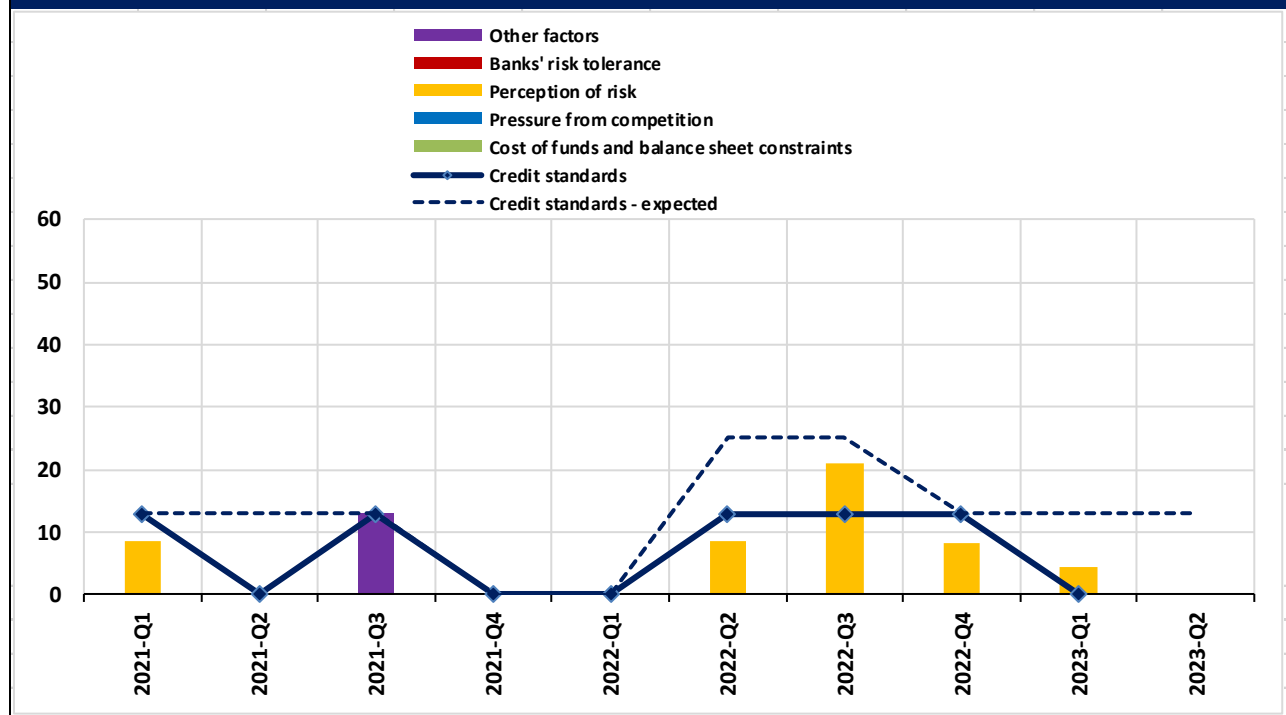
"**Other factors**" refer to further factors which were mentioned by participating banks as having contributed to changes in credit standards.

2.3. Credit standards for consumer credit and other lending to households

In 2023Q1, credit standards for consumer credit and other lending to households also remained unchanged at the tightened levels of the previous quarter. Similarly to housing loans, this development is in contrast to references for higher risk perceptions regarding the general economic situation and outlook and contrary to banks' expectations for further tightening, recorded in the previous survey round (**Chart 3**).

Chart 3 Changes in credit standards for consumer credit and other lending to households and contributing factors

Diffusion Index, %



Notes:

Concerning the direction of changes in the credit standards, a **positive value** indicates a tightening of credit standards and a contribution by the factors to this direction, while a **negative value** indicates an easing of credit standards and a contribution by the factors to this direction.

"**Cost of funds and balance sheet constraints**" as unweighted average of banks' "Capital and cost related to capital position", "Access to market financing" and "Liquidity position" (detailed sub-factors were introduced in April 2022).

"**Pressure from competition**" as unweighted average of "Competition from other banks" and "Competition from non-banks".

"**Perception of risk**" as unweighted average of "General economic situation and outlook", "Creditworthiness of consumers" and "Risk on the collateral demanded".

"**Other factors**" refer to further factors which were mentioned by participating banks as having contributed to changes in credit standards.

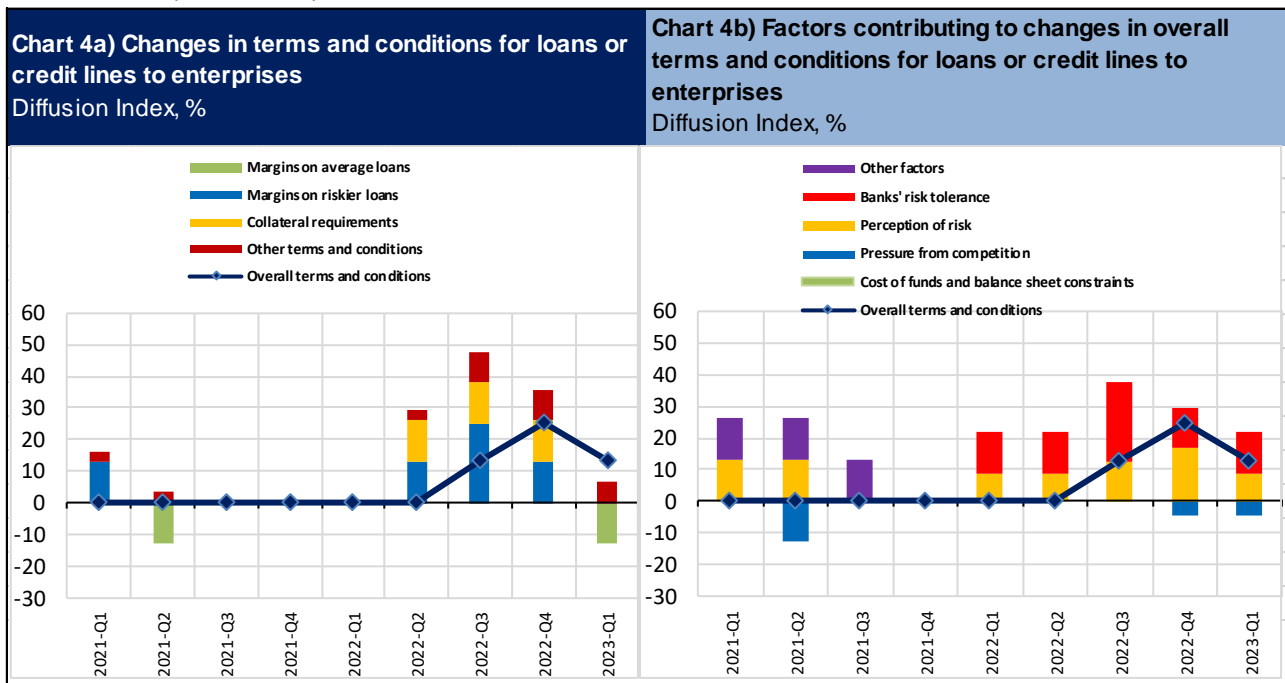
2.4. Expectations for the next quarter

In 2023Q2, banks' expect credit standards in Cyprus to tighten for loans to enterprises as well as for all lending to households (**Charts 1-3**).

3. Overall terms and conditions on loans

3.1. Overall terms and conditions on loans or credit to enterprises

In 2023Q1, the overall terms and conditions for new loans or credit lines to enterprises were tightened, albeit to a lesser extent than the previous quarter. A tightening of loan covenants and maturity limits of new business loans was reported. While banks' margins on average loans (the spread over a relevant market reference rate) narrowed on net terms (**Chart 4(a)**), mainly due to pressure from competition, a heterogeneity across banks' responses was observed. According to the participating banks, the tightening in the overall loan terms and conditions for business loans reflects their increased risk perceptions related to the economic outlook and the industry or firm-specific situation as well as reduced risk tolerance. On the other hand, increased bank competition counterbalanced to some extent the tightening of overall terms and conditions (**Chart 4(b)**).



Notes:

Concerning the direction of changes in terms and conditions on loans or credit lines, a **positive value** indicates a tightening of terms and conditions and a contribution by the factors to this direction, while a **negative value** indicates an easing of terms and conditions and a contribution by the factors to this direction.

4a) «**Margins**» are defined as the spread over a relevant market reference rate (wider spread = tightened, narrower spread = eased).

«**Other terms and conditions**» as unweighted average of "Non-interest rate charges", "Size of the loan or credit line", "Loan covenants" and "Maturity".

4b) «**Cost of funds and balance sheet constraints**» as unweighted average of "Capital and cost related to capital position", "Access to market financing" and "Liquidity position".

«**Pressure from competition**» as unweighted average of "Competition from other banks", "Competition from non-banks" kai "Competition from market financing".

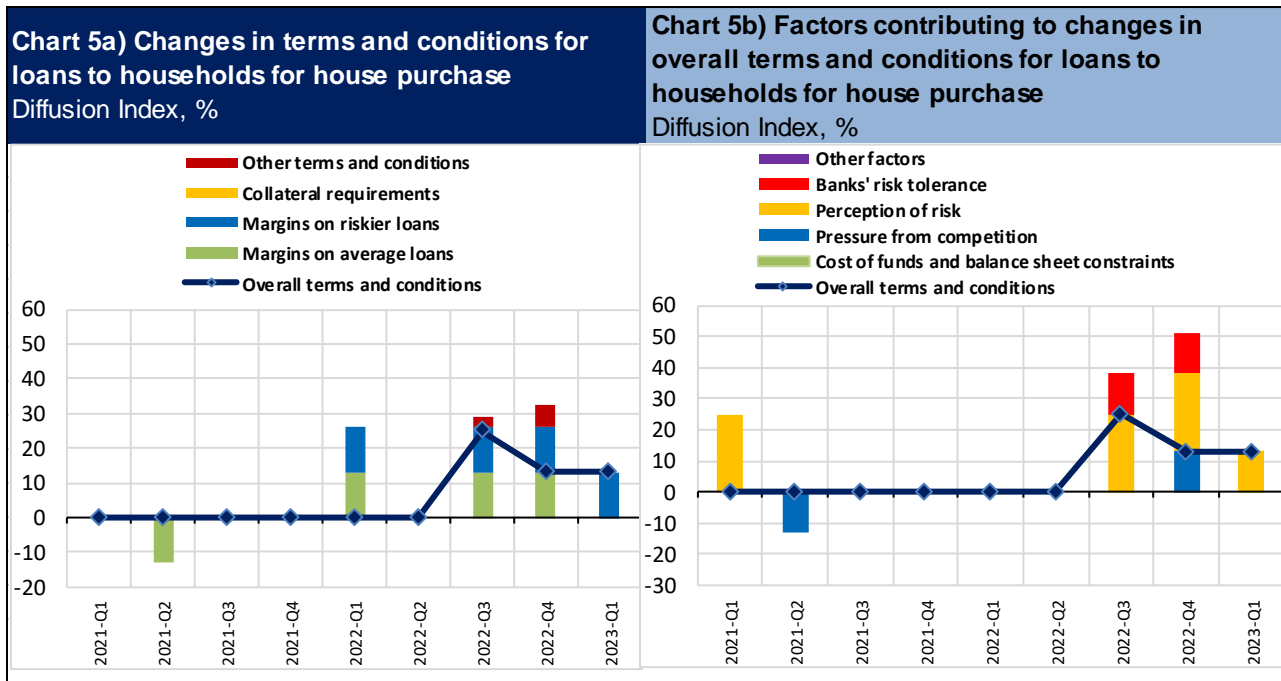
«**Perception of risk**» as unweighted average of "General economic situation and outlook", "Industry or firm-specific situation and outlook/borrower's creditworthiness" and "Risk on collateral demanded".

«**Other factors**» refer to further factors which were mentioned by participating banks as having contributed to changes in terms and conditions.

Detailed sub-factors were introduced in April 2022.

3.2. Overall terms and conditions on loans to households for house purchase

In 2023Q1, the overall terms and conditions for new housing loans were also tightened. Specifically, banks' margins on riskier loans (the spread over a relevant market reference rate) widened, while the other terms and conditions remained basically neutral (**Chart 5(a)**). According to the Survey, the tightening of the overall terms and conditions for housing loans reflects banks' heightened risk perceptions (**Chart 5(b)**).



Notes:

Concerning the direction of changes in terms and conditions on loans, a **positive value** indicates a tightening of terms and conditions and a contribution by the factors to this direction, while a **negative value** indicates an easing of terms and conditions and a contribution by the factors to this direction.

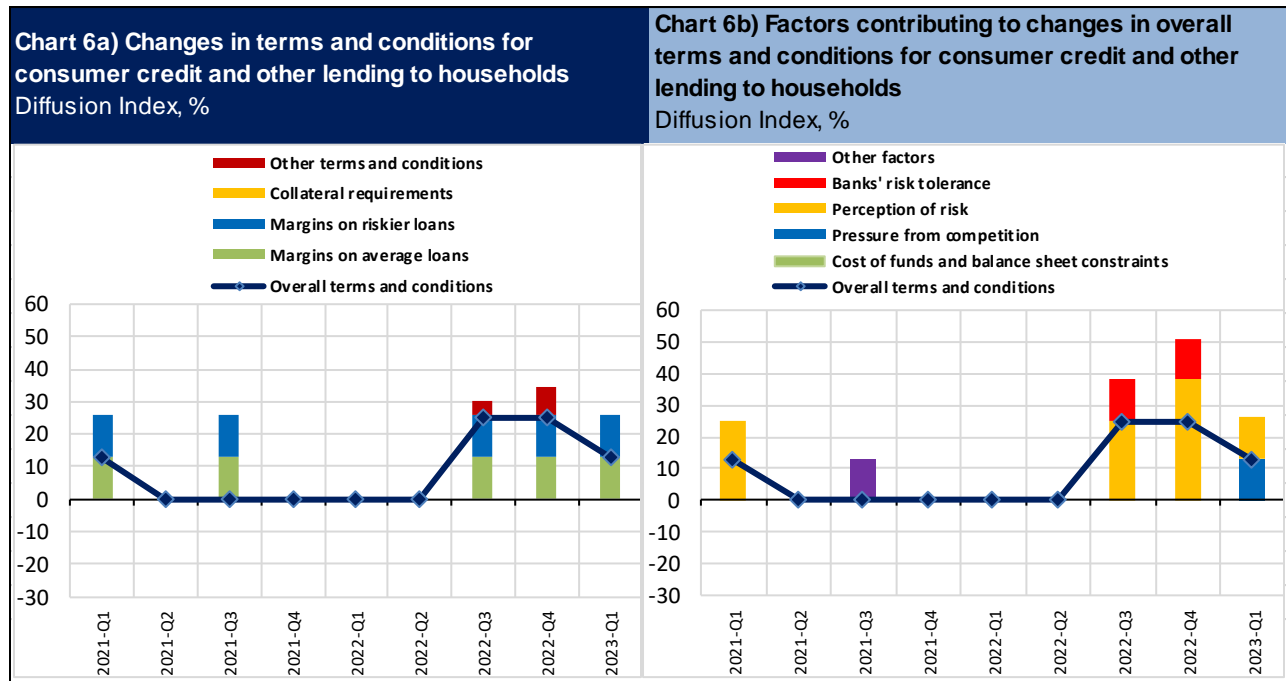
5a) «**Margins**» are defined as the spread over a relevant market reference rate (wider spread = tightened, narrower spread = eased).

"**Other terms and conditions**" as unweighted average of "Loan-to-value ratio", "Other loan size limits", "Maturity" και "Non-interest rate charges".

5b) "**Other factors**" refer to further factors which were reported by participating banks as having contributed to changes in the terms and conditions for these loans.

3.3. Overall terms and conditions on consumer credit and other lending to households

The overall terms and conditions for consumer credit and other lending to households also tightened in 2023Q1, albeit to a lesser extent than in the previous quarter. According to the Survey, the tightening was on account of a widening on banks' margins on both average and riskier loans (**Chart 6(a)**). The Survey results indicated that the tightening of the overall terms and conditions on these loans, reflects banks' perception of increased risk as well as reduced pressure from competition (**Chart 6(b)**).



Notes:

Concerning the direction of changes in terms and conditions on loans, a **positive value** indicates a tightening of terms and conditions and a contribution by the factors to this direction, while a **negative value** indicates an easing of terms and conditions and a contribution by the factors to this direction.

6a) **«Margins»** are defined as the spread over a relevant market reference rate (wider spread = tightened, narrower spread = eased).

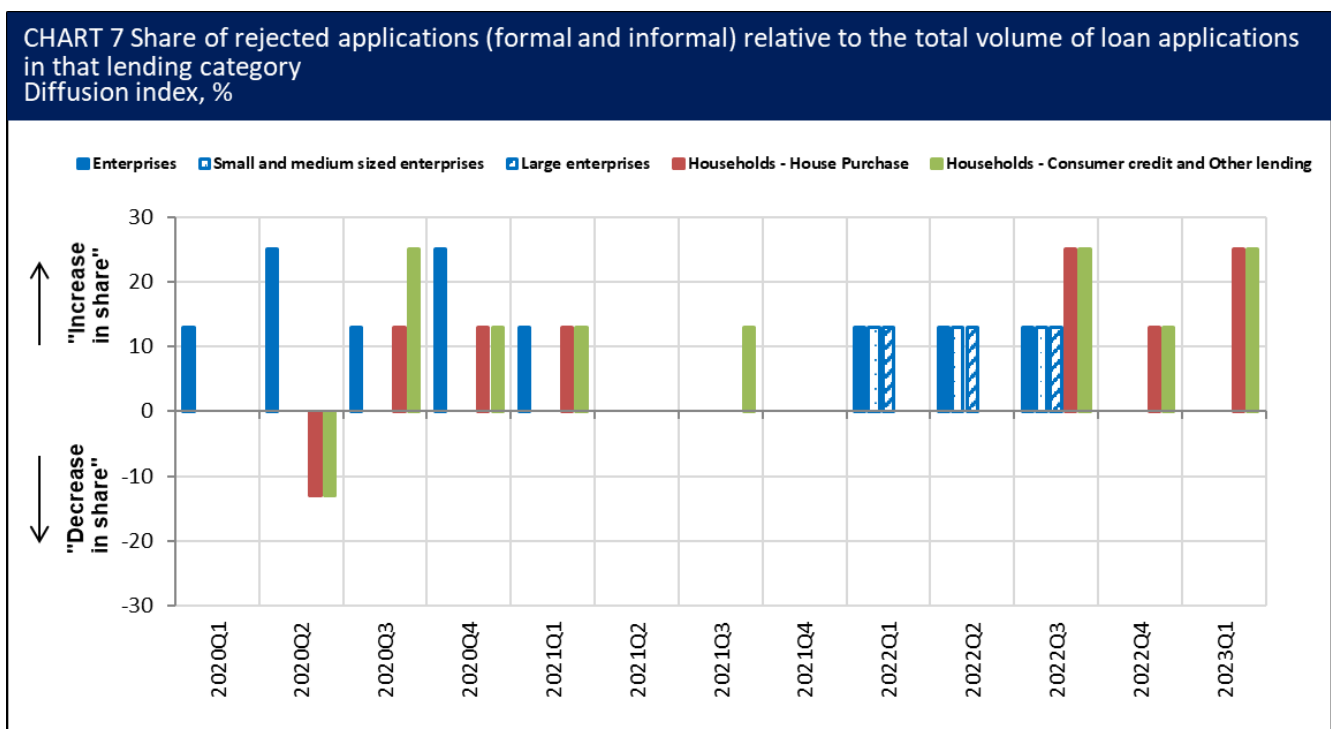
"Other terms and conditions" as unweighted average of "Size of loan", "Maturity", and "Non-interest rate charges".

6b) **"Other factors"** refer to further factors which were reported by participating banks as having contributed to changes in the terms and conditions for these loans.

4. Rejected applications

In 2023Q1, the share of rejected applications (formal and informal) relative to the total volume of loan applications from enterprises remained unchanged, despite the further tightening of credit standards for business loans. The share of rejected applications remained unchanged for both SMEs and large enterprises (**Chart 7**).

In contrast, the share of rejected applications for new loans to households, in all loan categories, continued to increase in 2023Q1 for the third consecutive quarter (**Chart 7**). This development is consistent with the adoption of tighter credit standards for loans to households in previous quarters, despite households' reduced loan demand. In general, tighter credit standards increase the probability of banks rejecting loan applications.



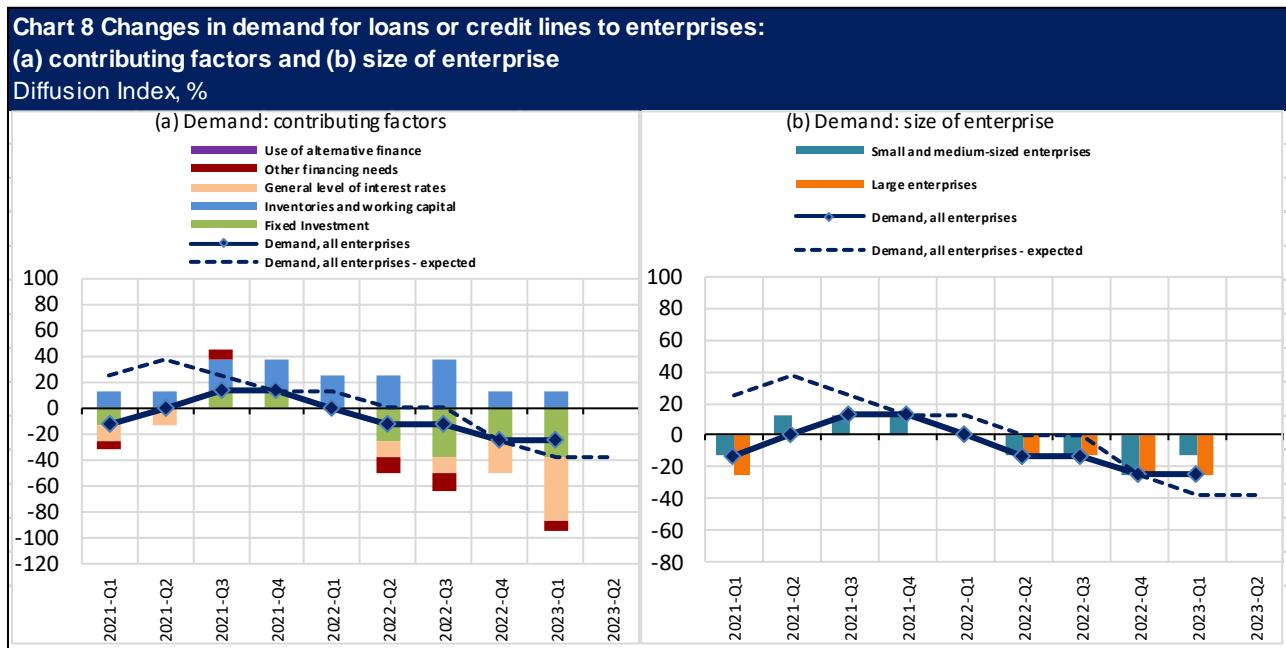
Notes:

Share of rejected loan applications relative to the volume of all loan applications in that loan category. The breakdown by firm size was introduced in April 2022.

5. Loan demand

5.1. Demand for loans or credit lines to enterprises

The decline in net demand for loans by enterprises continued in 2023Q1, but to a smaller extent than expected by banks in the previous quarter. According to the Survey, the decline in demand for business loans continues to be attributed mainly to the rising trend in interest rates and the reduced demand for financing fixed investments. Reduced financing needs for mergers/acquisitions and corporate restructurings (part of 'Other financing needs') also contributed to the decrease in demand for business loans in 2023Q1. It is noted that, despite the continued decline in net demand for business loans, demand for inventories and working capital financing continued to increase in 2023Q1 (**Chart 8(a)**). The further increase in demand for this loan type may be partly linked to enterprises' higher operating costs due to the still high, albeit decelerated, inflation rate. In terms of enterprise size, net loan demand in 2023Q1 decreased for both SMEs and large enterprises, but to a greater extent for the latter (**Chart 8(b)**).



Notes:

Concerning the direction of changes in loan demand, a **positive value** indicates an increase in demand and a contribution by the factors to this direction, while a **negative value** indicates a decrease in demand and a contribution by the factors to this direction.

"**Other financing needs**" as unweighted average of "Mergers/acquisitions and corporate restructuring" and "Debt refinancing/restructuring and renegotiation".

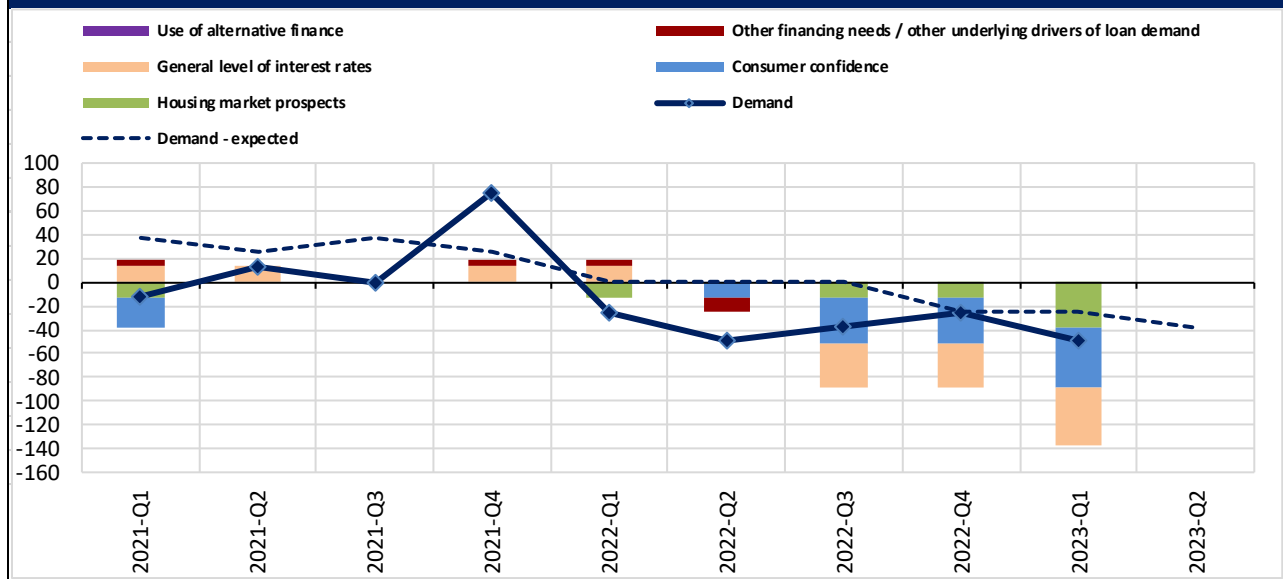
"**Use of alternative finance**" as unweighted average of "Internal financing", "Loans from other banks", "Loans from non-banks", "Issuance/redemption of debt securities" and "Issuance/redemption of equity".

5.2. Demand for loans to households for house purchase

Households' net demand for housing loans continued to decline in 2023Q1, to a greater extent than in the previous quarter and more so compared with banks' expectations recorded in the previous quarter's Survey. The decrease in demand for housing loans continues to be attributed to the rising interest rates, a further deterioration in consumer confidence and less favourable housing market prospects (**Chart 9**).

Chart 9 Changes in demand for loans to households for house purchase and contributing factors

Diffusion Index, %



Notes:

Concerning the direction of changes in loan demand, a **positive value** indicates an increase in demand and a contribution by the factors to this direction, while a **negative value** indicates a decrease in demand and a contribution by the factors to this direction.

"**Other financing needs / other underlying drivers of loan demand**" as unweighted average of "Debt refinancing/restructuring and renegotiation" and "Regulatory and fiscal regime of housing markets".

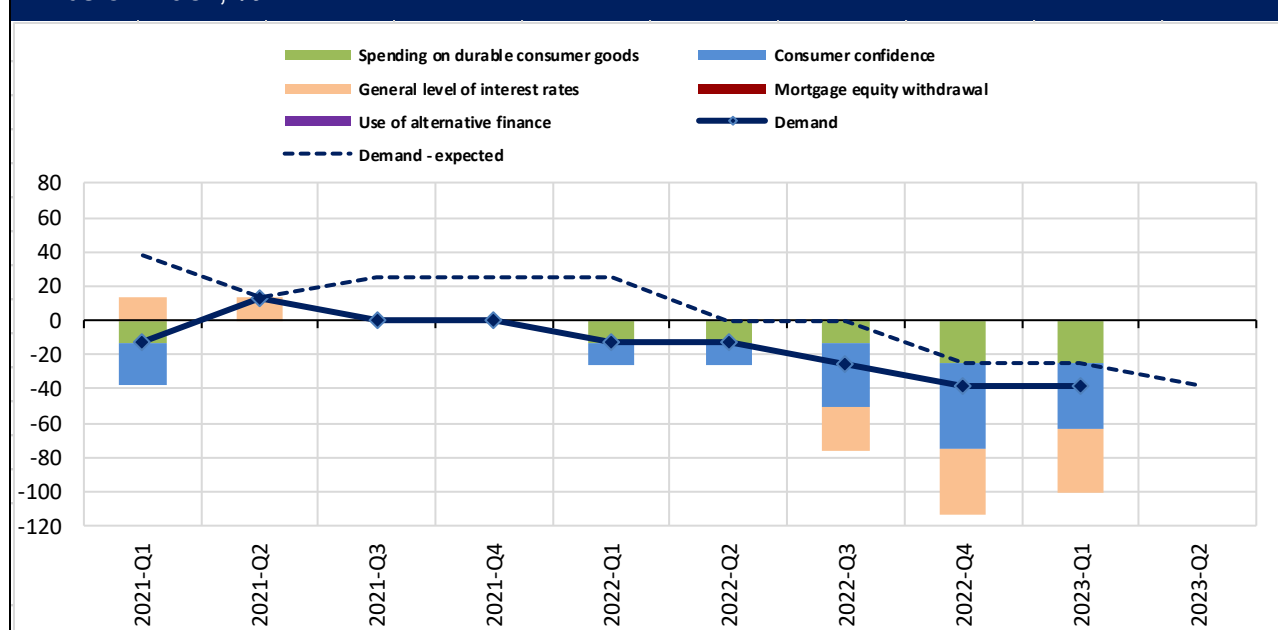
"**Use of alternative finance**" as unweighted average of "Internal financing out of savings/down payment", "Loans from other banks" and "Other sources of external finance".

5.3. Demand for consumer credit and other lending to households

Net demand for consumer credit and other lending by households continued to decrease in 2023Q1, for the fifth consecutive quarter and to a greater extent than previously expected. According to the Survey, declining consumer confidence, higher interest rates and a further decline in spending on consumer durables were the main drivers of the decrease in demand for this loan category (**Chart 10**). This development continues to reflect households' lower real disposable income due to high inflation and elevated interest rates.

Chart 10 Changes in demand for consumer credit and other lending to households and contributing factors

Diffusion Index, %



Notes:

Concerning the direction of changes in loan demand, a **positive value** indicates an increase in demand and a contribution by the factors to this direction, while a **negative value** indicates a decrease in demand and a contribution by the factors to this direction.

"**Use of alternative finance**" as unweighted average of "Internal finance out of savings", "Loans from other banks" and "Other sources of external finance".

"**Mortgage equity withdrawal**" denotes "Consumption expenditure financed through real-estate guaranteed loans".

5.4. Expectations for the next quarter

According to surveyed banks' expectations for 2023Q2, the decline in net loan demand is anticipated to persist for both enterprises and households across all loan categories (**Charts 8-10**).

6. Notes:

The Bank Lending Survey is a qualitative survey for the assessment of credit conditions in the euro area and its main objective is to enhance the understanding of bank lending behavior. The survey questionnaire is addressed to senior loan officers in a representative sample of euro area banks and covers a broad area of relevant subjects regarding credit to enterprises and households. For example, it includes questions concerning credit standards, credit terms and conditions as applied to the approval of loans as well as questions concerning the evaluation by banks of factors affecting demand. More information on the methodology of the survey can be found [here](#).

In order to enhance the information content of the survey, a revised BLS questionnaire and compilation guide were introduced in April 2015. Since then, the questionnaire continues to be enriched at times, to include all relevant information to aid the monetary policy decision-making process of the Governing Council of the European Central Bank. In this context, specific questions of special interest may be added in order to investigate current economic issues. However, to ensure the anonymity of participating banks, these results are not published in this report.

The results of the April 2023 Bank Lending Survey relate to changes in 2023Q1 compared with the previous quarter and to changes expected in 2023Q2 compared with 2023Q1 regarding credit standards, terms and conditions, and demand for loans to/by enterprises and households. The results of the survey for Cyprus are not weighted by the market share of each participating bank, thus the answers of all participants are given the same weight. The survey covers around 85% of the total market for outstanding loans in Cyprus granted to euro area enterprises and households. The diffusion index is used in the analysis. It should be noted that a diffusion index value equal to zero may imply that either there was no change compared with the previous quarter or that the answers of the participating banks offset one another.

The results of the survey relate to answers provided by the participating banks and represent their own assessment of the domestic financing market. The results do not in any way reflect the perceptions, expectations or evaluations of the Central Bank of Cyprus.