



**CENTRAL BANK OF CYPRUS**

EUROSYSTEM

**JANUARY 2024**  
**BANK LENDING SURVEY**  
**Results for Cyprus**

Nicosia - Cyprus

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## 1. Overview

The January 2024 Bank Lending Survey (BLS)<sup>1</sup> records, among other things, the changes in credit standards and loan demand that occurred in 2023Q4 compared with 2023Q3, as well as the changes that are expected to occur in 2024Q1 compared with 2023Q4. 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).

In 2023Q4, credit standards for loans to enterprises remained unchanged, while they tightened across both categories of loans to households. A decrease was recorded in net demand for loans by enterprises, as well as for consumer credit and other lending by households, a trend that has persisted since 2022. According to the participating banks, the reduced demand for these loans is attributed to higher lending rates, lower consumer confidence and reduced spending on durable consumer goods. For the first time since 2022Q1, net demand for housing loans did not decline but remained stable.

Summary of BLS results - January 2024	Cyprus	
	2023Q4	2024Q1 (expectations)
<b>Supply of loans</b>		
<b>Credit standards for loans</b>		
<b>Enterprises</b>	Unchanged	Tightening
<b>Households</b>		
- Housing loans	Tightening	Unchanged
- Consumer credit and other lending	Tightening	Unchanged
<b>Overall terms and conditions for loans</b>		
<b>Enterprises</b>	Tightening	*
<b>Households</b>		
- Housing loans	Unchanged	*
- Consumer credit and other lending	Tightening	*
<b>Demand for loans</b>		
<b>Enterprises</b>	Decrease	Unchanged
<b>Households</b>		
- Housing loans	Unchanged	Decrease
- Consumer credit and other lending	Decrease	Decrease

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

Source: CBC

<sup>1</sup> - The January 2024 BLS was conducted in the period 8 December 2023 - 2 January 2024. 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](#).

In terms of *loan supply*, **credit standards<sup>2</sup> for loans to enterprises remained unchanged in 2023Q4** for the third consecutive quarter, despite the reported increased risk perceptions related to the general economic situation and outlook. Conversely, **credit standards for housing loans, as well as for consumer credit, and other lending to households continued to tighten in 2023Q4**, due to banks' perceptions of increased credit risk, although to a lesser extent than the previous quarter. According to the Survey, banks' higher risk perceptions regarding loans to households in 2023Q4 related to the general economic situation and economic outlook. It is noted that the factor concerning the borrowers' creditworthiness did not impact credit standards for loans to households in this quarter, in contrast to the previous quarter where this factor had contributed to their tightening.

**In 2023Q4, further tightening was recorded in the overall terms and conditions on new loans or credit lines<sup>3</sup> to enterprises.** Specifically, a further widening of banks' margins (i.e. the spread over a relevant market reference rate) for new business loans with higher risk was recorded, on an aggregate level. According to the Survey, higher risk perceptions continue to contribute to the tightening of the overall terms and conditions on new business loans. At the same time, increased competition from other banks continued to moderate the tightening of the overall terms and conditions for new business loans, in the reviewed quarter. Regarding households, the **overall terms and conditions on new housing loans remained, unchanged**, despite a net widening of banks' margins on new housing loans with higher risk. Conversely, the **overall terms and conditions on new consumer credit and other lending to households tightened**, for the sixth consecutive quarter, primarily due to banks' perceptions of increased credit risk. Specifically, a widening of banks' margins on both average and riskier new consumer credit and other lending to households was reported.

On the *loan demand* side, **net demand for loans by enterprises, and to a greater extent, for consumer credit and other lending by households, decreased further in 2023Q4.** In contrast, **net demand for housing loans remained unchanged** after a continuous decline since 2022Q1. According to the Survey, the decline in the net demand for business loans in 2023Q4 is attributed to the general level of interest rates, albeit it was partly offset by an increase recorded in the net demand for fixed investment financing and debt refinancing/restructuring. It is noted that this is the first quarter since 2021Q4 that net demand for loans for fixed investment has increased, possibly due to the ongoing, albeit slowing, growth in domestic private consumption, which is projected to continue. At the same time, it is the first quarter since 2019Q3 that net demand for financing inventories and working capital did not increase but remained unchanged, possibly reflecting the impact of the increase observed in private consumption and consequently in corporate profitability. Similarly, banks attribute the decline in net demand for consumer credit and other lending by households to higher interest rates, deterioration in consumer confidence and lower spending on consumer durables.

According to banks' **expectations for 2024Q1, credit standards for loans to enterprises are expected to tighten**, compared with 2023Q4, while for **all categories of loans to households, they are expected to remain unchanged.** At the same time, **net demand for business loans is expected to remain stable**, while a decrease is anticipated in the net demand for housing loans as well as for consumer credit and other lending by households.

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<sup>2</sup> 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.

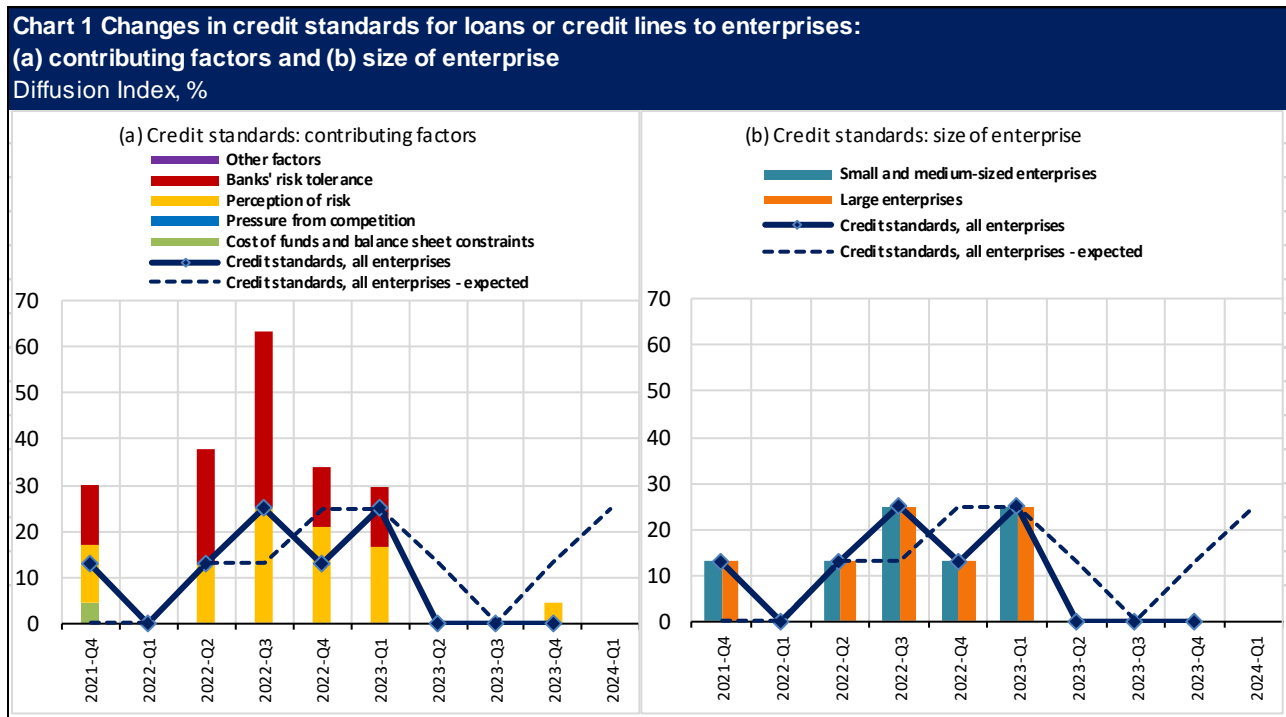
<sup>3</sup> Credit terms and conditions refer to the conditions of a loan that a bank is willing to grant, i.e. to the terms and conditions of the (new or refinanced) loan actually approved, as laid down in the loan contract agreed between the bank (the lender) and the borrower. Credit terms and conditions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

## 2. Loan Supply

### 2.1. Credit standards for loans

#### 2.1.1. Credit standards for loans or credit lines to enterprises<sup>4</sup>

According to the Survey, credit standards for loans to enterprises in Cyprus in 2023Q4, remained unchanged for the third consecutive quarter, despite reports of increased risk perceptions regarding the general economic situation and outlook. This development was in contrast to the expectations for further tightening that had been expressed in the October 2023 Survey (**Chart 1(a)**). Additionally, it is noted that in 2023Q4, credit standards remained unchanged for loans to both small and medium-sized enterprises (SMEs) and large enterprises (**Chart 1(b)**).



**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.

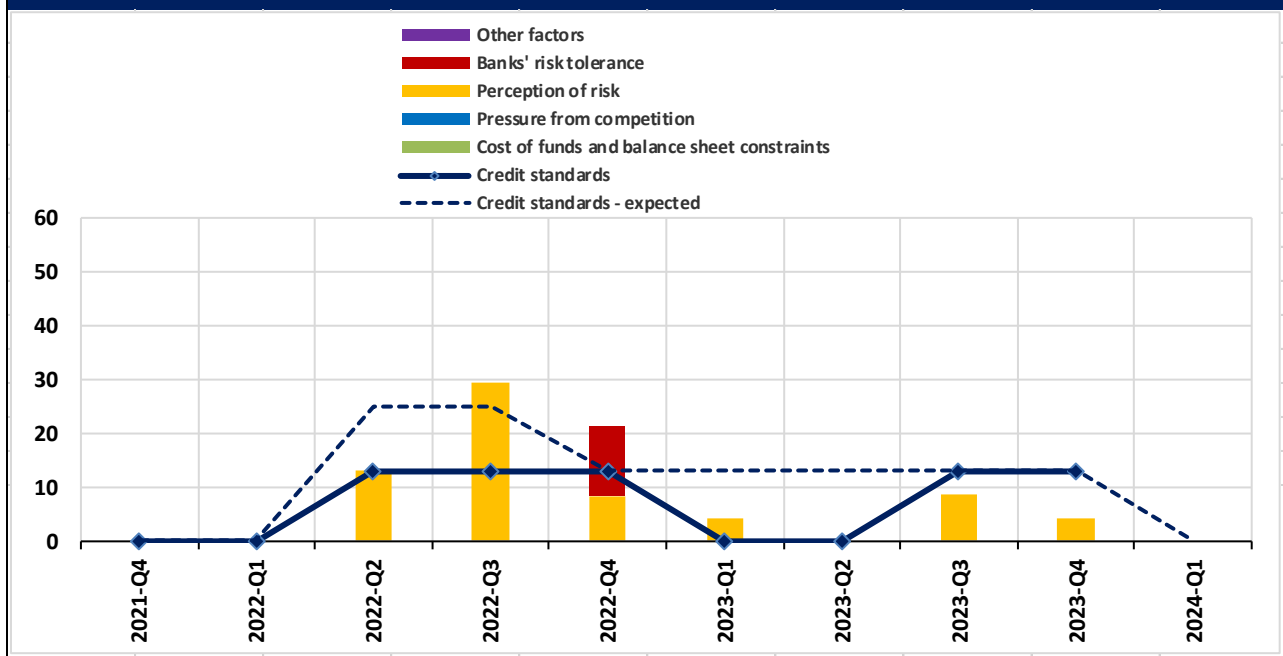
<sup>4</sup> The term "enterprises" refers to non-financial corporations.

### 2.1.2. Credit standards for loans to households for house purchase

The tightening of credit standards for housing loans continued in 2023Q4, a development in line with banks' expectations as expressed in the previous quarter's Survey. According to the Survey, banks' higher risk perceptions regarding the general economic situation and outlook continued to contribute to the tightening of credit standards for housing loans in 2023Q4, although to a lesser extent compared to the previous quarter (**Chart 2**). This is due to the fact that, unlike the previous quarter, the perception of risk in relation to borrowers' creditworthiness had a neutral impact on the credit standards for housing loans in the quarter under review.

**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".

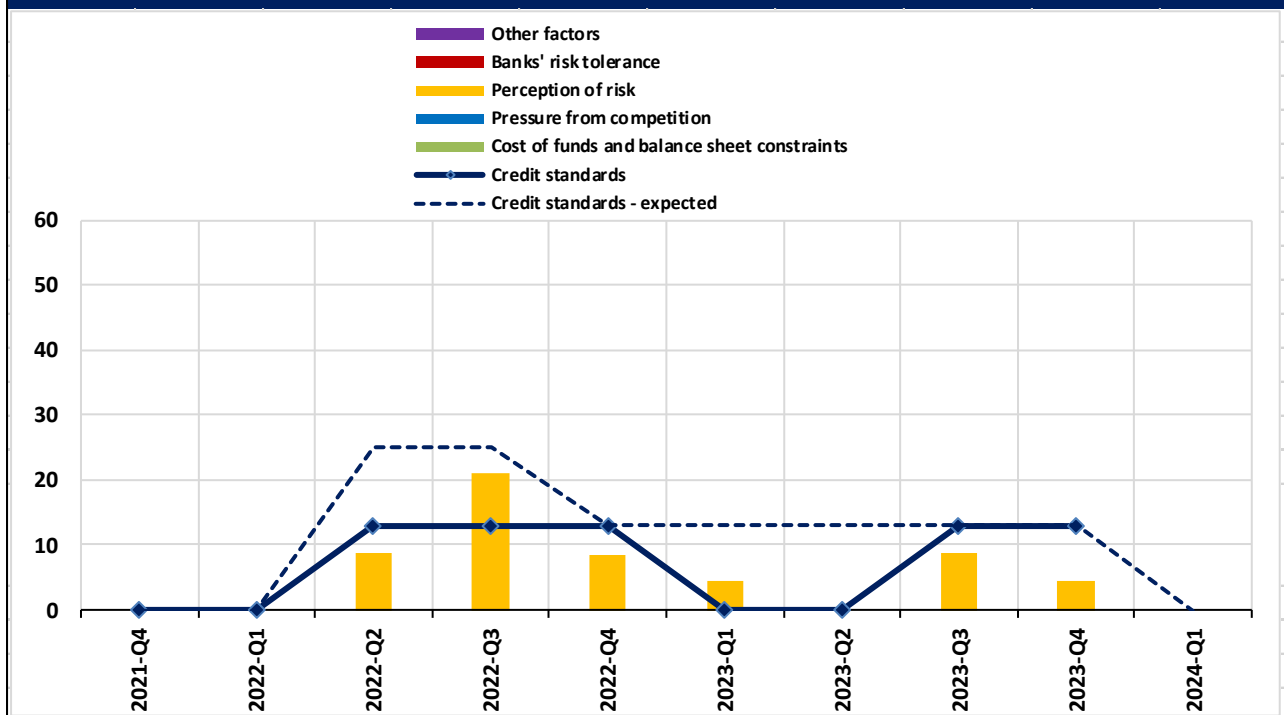
"**Other factors**" refer to further factors which were mentioned by participating banks as having contributed to changes in credit standards.

### 2.1.3. Credit standards for consumer credit and other lending to households

As with housing loans, credit standards for consumer credit and other lending to households also tightened in 2023Q4, in line with banks' expectations recorded in the previous quarter. According to the Survey, the tightening in this category of loans to households also reflects banks' perception of increased risk regarding the general economic situation and outlook, although to a lesser extent compared to the previous quarter. The consumers' creditworthiness had a neutral impact in the quarter under review (**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.

### 2.1.4. Expectations for the next quarter

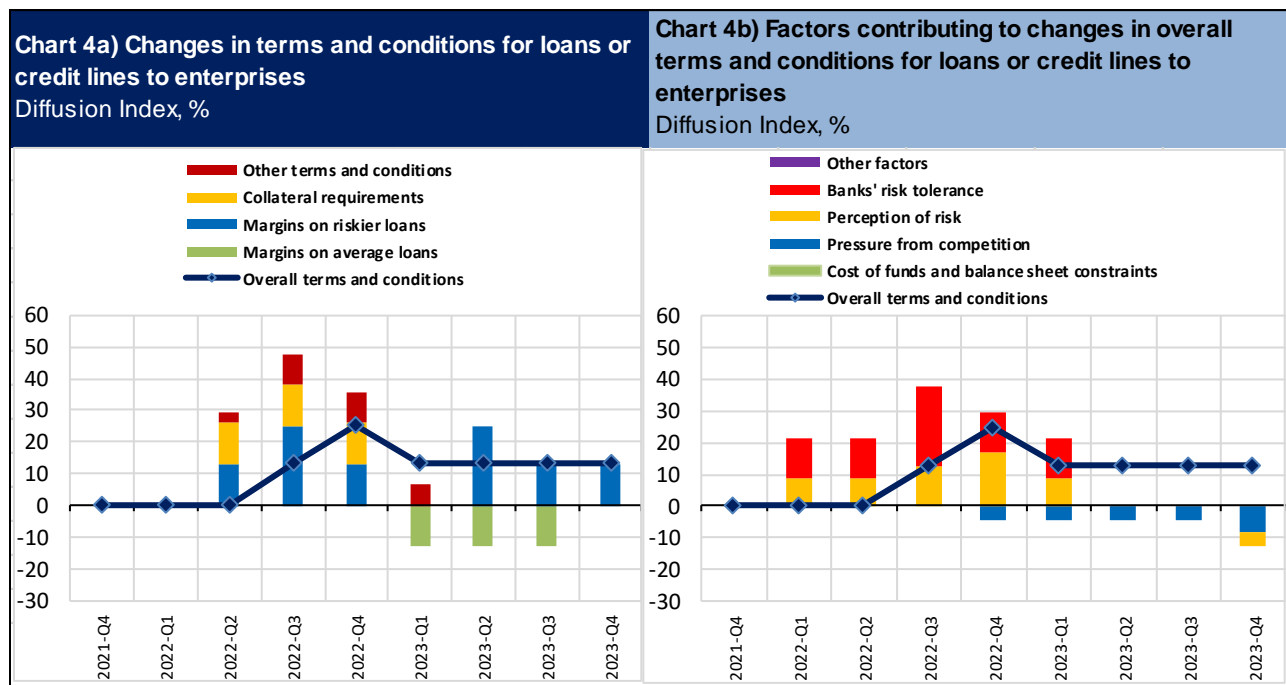
According to banks' expectations for 2024Q1, credit standards for loans to enterprises are expected to tighten compared to the previous quarter, while for all categories of loans to households, they are expected to remain unchanged (**Charts 1-3**).

## 2.2. Overall terms and conditions on loans

### 2.2.1. Overall terms and conditions on loans or credit lines to enterprises

The tightening of the overall terms and conditions on new business loans, defined as banks' actual terms and conditions agreed in the loan contract, continued in 2023Q4. Specifically, banks' margins (i.e. the spread over a relevant market reference rate) for loans deemed riskier continued to widen while margins for average loans remained unchanged, on an aggregate level, due to the offsetting effect of heterogeneous bank responses (**Chart 4(a)**). As for the rest of the terms and conditions, they remained unchanged during the quarter under review.

Regarding the factors contributing to the tightening of the overall terms and conditions on new business loans, banks' perceptions of increased credit risk continued to be the main driver. However, due to the heterogeneity and offsetting of the banks' responses, this factor, at the aggregate level, appears to have the opposite effect in 2023Q4. As for competitive pressures, competition from other banks continued to restrain the tightening of the overall terms and conditions for the fifth consecutive quarter (**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" and "Competition from market financing".

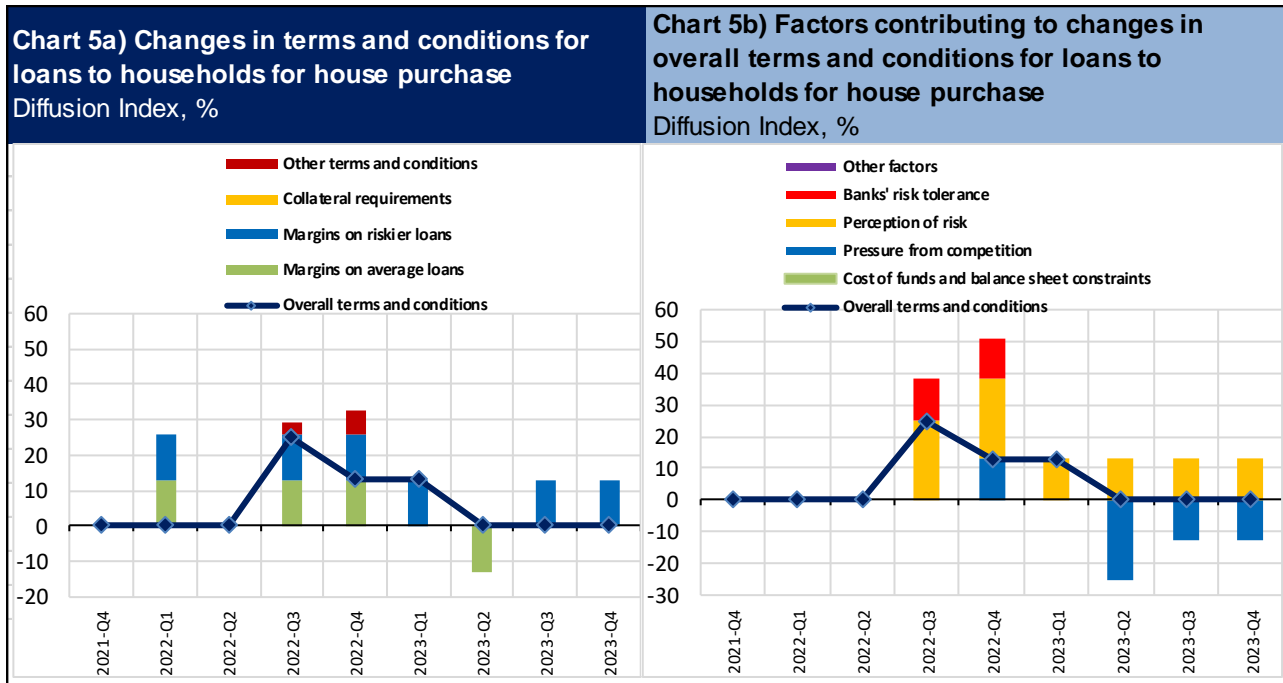
**"Perception of risk"** as unweighted average of "General economic situation and outlook", "Industry or firm-specific situation and outlook/borrower's creditworthiness" and "Risk on collateral demanded".

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

Detailed sub-factors were introduced in April 2022.

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

On a net basis, the overall terms and conditions on new housing loans remained unchanged in 2023Q4, despite a net widening of banks' margins on riskier loans (**Chart 5(a)**). Regarding the factors contributing to changes in the overall terms and conditions on new housing loans, the impact of banks' perceptions of increased risk was again offset by competitive pressures during this quarter (**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.

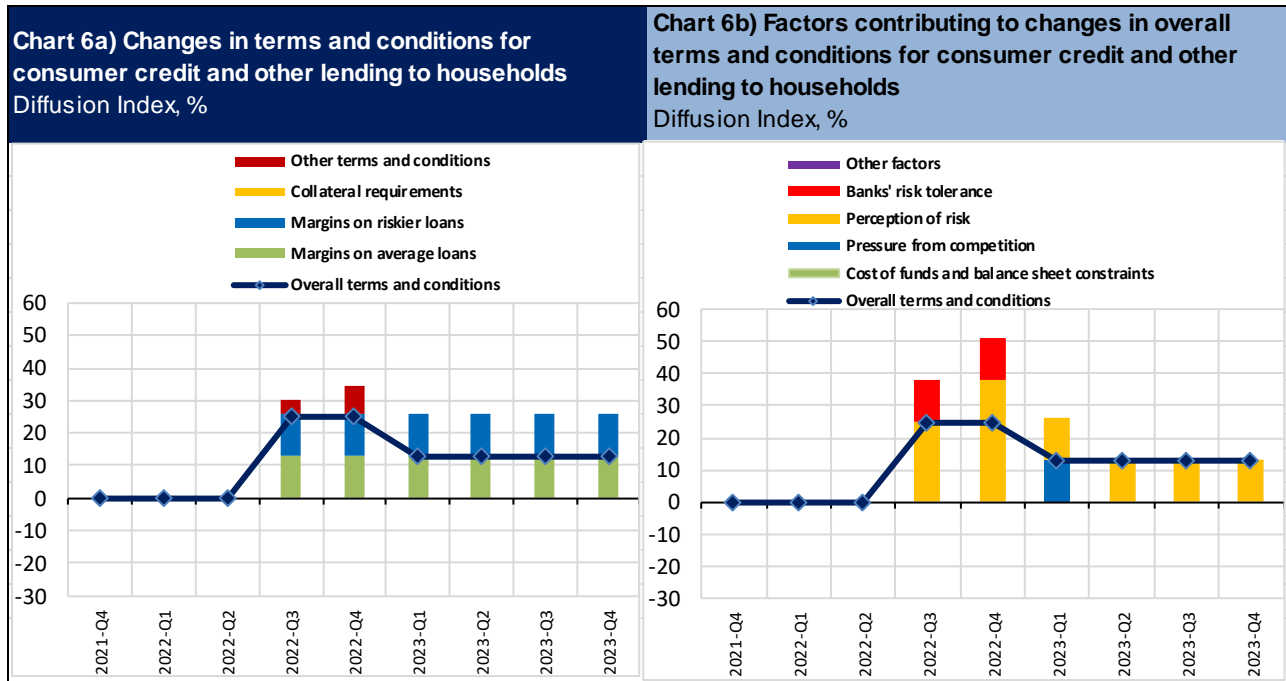
5a) «**Margins**» are defined as the spread over a relevant market reference rate (wider spread = tightened, narrower spread = eased).

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

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

In 2023Q4, the overall terms and conditions on consumer credit and other lending to households tightened for the sixth consecutive quarter. Again, the tightening concerned banks' margins on both average and riskier loans which continued to widen (**Chart 6(a)**). According to the Survey, banks' perceptions of increased risk continues to contribute to the tightening of the overall terms and conditions of these loans(**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).

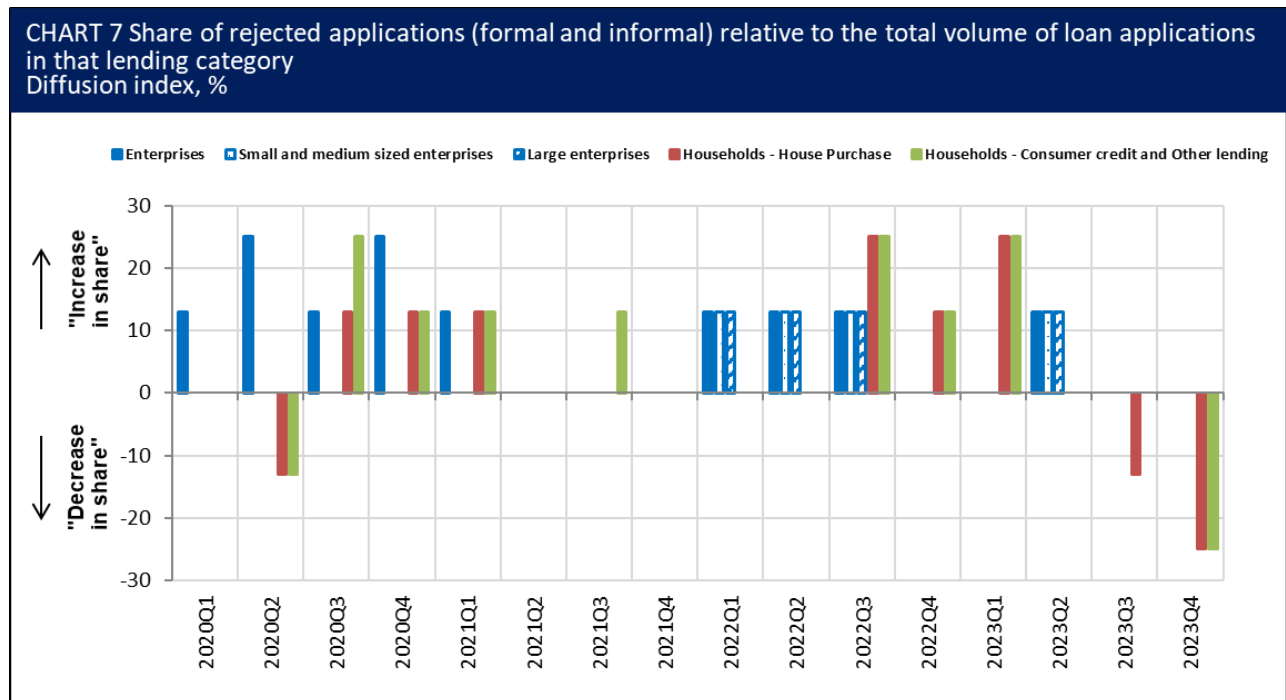
«**Other terms and conditions**» as unweighted average of "Size of loan", "Maturity", and "Non-interest rate charges".

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.

### 2.3. Rejected applications

In 2023Q4, the share of rejected applications (both formal and informal) relative to the volume of all loan applications from enterprises remained unchanged, as in the previous quarter, for both SMEs and large enterprises (**Chart 7**). This development appears to align with the unchanged credit standards for loans to enterprises over the past three quarters.

In contrast, the share of rejected applications from households decreased across all loan categories in the quarter under review, despite the continued net tightening of credit standards for housing loans as well as for consumer credit and other lending (**Chart 7**).



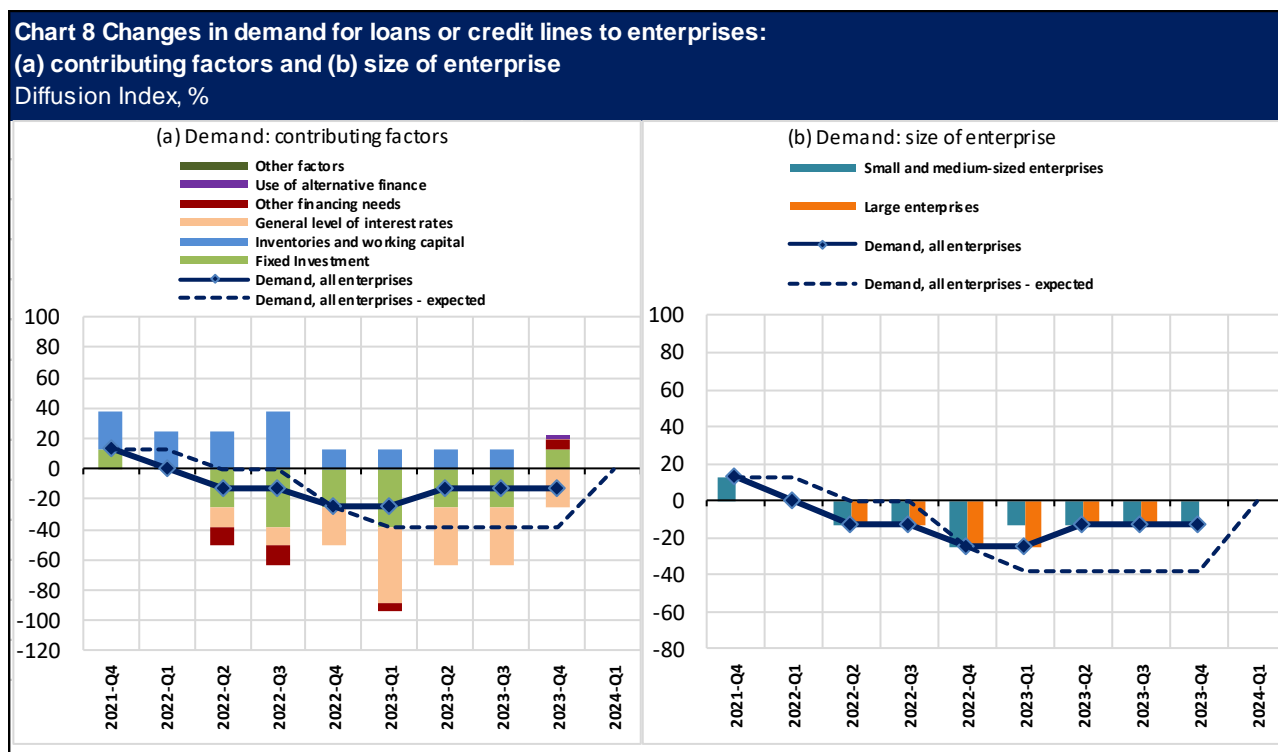
**Notes:**

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.

### 3. Loan demand

#### 3.1. Demand for loans or credit lines to enterprises

In 2023Q4, net demand for loans by enterprises continued to decline, albeit to a lesser extent than anticipated according to the previous quarter's Survey. According to the Survey, the decrease in demand for business loans in 2023Q4 is attributed to the high general level of interest rates. Conversely, the reported increase in net demand for financing fixed investments, which potentially reflects the expected continuation of growth in domestic private consumption, and the increased needs for debt refinancing/restructuring (included in "Other financing needs") partially offset the overall decrease. It is also noted that it is the first quarter since 2019Q3 in which demand for financing inventories and working capital does not have an increasing effect on the demand for business loans, which may reflect the increase observed in private consumption and, consequently, in corporate profitability (**Chart 8(a)**). The net decrease in overall demand in 2023Q4 seems to stem from the decline in loan demand from SMEs. As for large enterprises, their net loan demand remained unchanged (**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".

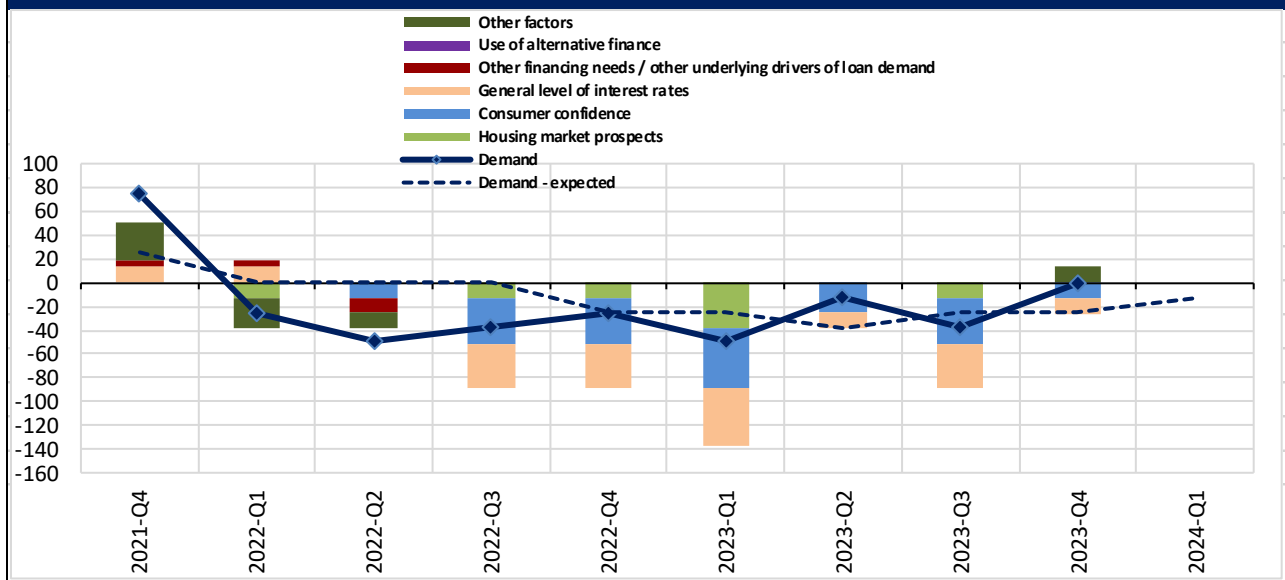
"**Use of alternative finance**" as unweighted average of "Internal financing", "Loans from other banks", "Loans from non-banks", "Issuance/redemption of debt securities" and "Issuance/redemption of equity".

### 3.2. Demand for loans to households for house purchase

Net demand for housing loans by households remained unchanged in 2023Q4, contrary to the expectations expressed by the participating banks in the previous Survey, which anticipated a further decline in demand. This is the first quarter since the beginning of 2022 in which the demand for housing loans did not decrease but instead remained stable. This outcome is attributed to the offsetting effect of the underlying factors. Specifically, the decrease in demand attributed to high interest rates and lower consumer confidence was offset by an observed increase in demand resulting from competitive interest rates offered to increase the market share in housing loans ("Other factors"). It is noted that in 2023Q4, unlike the previous quarter, housing market prospects had a neutral impact on the demand for housing loans (**Chart 9**).

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

Diffusion Index, %



**Notes:**

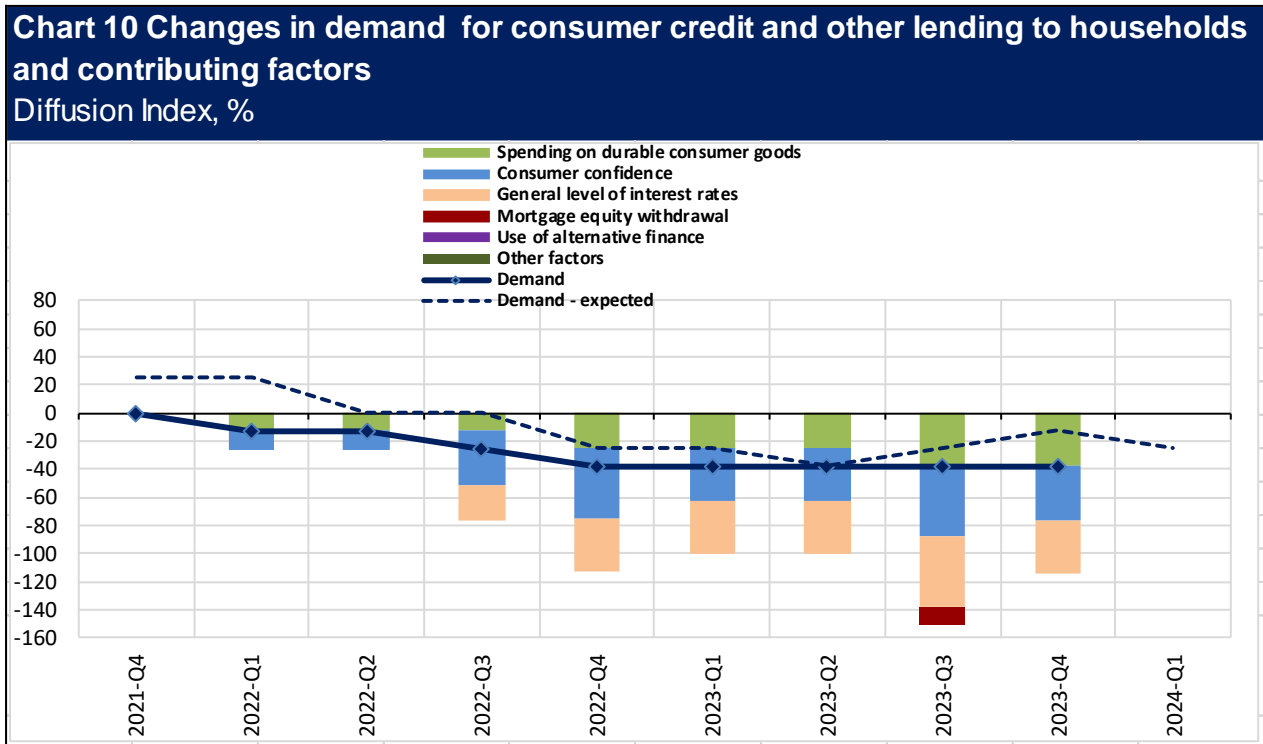
Concerning the direction of changes in loan demand, a **positive value** indicates an increase in demand and a contribution by the factors to this direction, while a **negative value** indicates a decrease in demand and a contribution by the factors to this direction.

"**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".

### 3.3. Demand for consumer credit and other lending to households

In 2023Q4, net demand for consumer credit and other lending by households continued to decline, to a greater extent than expected in the previous quarter. The Survey indicates that the deterioration of consumer confidence, the higher level of interest rates and the further reduction in spending on consumer durables continue to contribute to the decline in demand for this category of loans (**Chart 10**).



**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".

### 3.4. Expectations for the next quarter

According to surveyed banks' expectations for 2024Q1, net demand for loans by enterprises is expected to remain unchanged. On the other hand, a decrease is expected in the net demand for housing loans as well as for consumer credit and other lending by households (**Charts 8-10**).

## 4. 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 as applied to the approval of loans, the terms and conditions of new 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 January 2024 Bank Lending Survey relate to changes in 2023Q4 compared with the previous quarter and to changes expected in 2024Q1 compared with 2023Q4 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.