



CENTRAL BANK OF CYPRUS

EUROSYSTEM

JANUARY 2023
BANK LENDING SURVEY
Results for Cyprus

Nicosia - Cyprus

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1. Overview

The January 2023 Bank Lending Survey (BLS)¹ records the changes in credit standards and loan demand that occurred in 2022Q4 compared with 2022Q3, as well as the changes that are expected to occur in 2023Q1 compared with 2022Q4. 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 period of tightened credit standards and hence of limited credit supply, as well as of decreased demand continues for all loan categories.

Summary of BLS results - January 2023	Cyprus	
	2022Q4	2023Q1 (expectations)
Credit standards for loans		
Enterprises	Tightening	Tightening
Households		
- Housing loans	Tightening	Tightening
- Consumer credit and other lending	Tightening	Tightening
Demand for loans		
Enterprises	Decrease	Decrease
Households		
- Housing loans	Decrease	Decrease
- Consumer credit and other lending	Decrease	Decrease

Source: CBC

¹ - The January 2023 BLS survey was conducted between the period 12 December 2022 - 10 January 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 and all categories of loans to households tightened in 2022Q4** for a third consecutive quarter. In view of the ongoing high uncertainty, banks' perception of increased risk continues to contribute to the tightening of their credit standards. In addition, banks' reduced risk tolerance also contributed to the net tightening of credit standards on business and housing loans in 2022Q4. Specifically, banks' assessment of increased risk regarding business loans related to the general economic situation and outlook, borrowers' creditworthiness and the required collateral demanded, while the increased risk for loans to households related to the deterioration of the situation and outlook of the economy.

In 2022Q4, the overall terms and conditions for new loans³ or credit lines to enterprises were tightened. The tightening related to banks' margins (the spread over a relevant market reference rate) on riskier loans, collateral requirements as well as other terms and conditions such as loan covenants and maturity limits. According to the Survey, the tightening in the overall loan terms and conditions for business loans reflects banks' increased risk perceptions and reduced risk tolerance. In contrast, competition from banks was indicated as a counterbalancing factor in the tightening of the overall terms and conditions for business loans in 2022Q4. In the same quarter, the **overall terms and conditions for housing loans and, more so, for consumer credit and other lending to households were also tightened.** The net tightening, for all categories of loans to households, related to the widening of banks' margins on both average and riskier loans as well as to other terms and conditions, such as the duration and size of the loan. According to the Survey, this development reflects banks' heightened risk perceptions as well as their reduced risk tolerance and reduced competition for housing loans.

On the demand side, **net loan demand by both enterprises and households in 2022Q4** continued to decline. The net decrease in demand for business loans is mainly attributed to the reduced demand for financing fixed investments and the rising interest rates. On the other hand, prolonged inflationary pressures appear to contribute to an increase in demand for financing inventories and working capital in the quarter under review, albeit to a lesser extent than in the previous quarter, possibly due to the observed decline in energy prices and production costs. Regarding households, the net decrease in demand for housing loans is, according to the Survey, the result of rising interest rates, deteriorating consumer confidence and a less favourable housing market outlook. Similarly, the decline in demand for consumer credit and other lending to households is attributed by banks to a decline in consumer confidence, rising interest rates and lower spending on consumer durables.

According to banks' expectations, it appears that the period of reduced loan supply and loan demand will continue in 2023Q1. Specifically, **in 2023Q1, banks expect tighter credit standards in Cyprus for all loan categories to households and, to a greater extent, for business loans.** At the same time, **net loan demand in Cyprus by both enterprises and households, for all loan categories, is expected to continue decreasing.**

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 The terms and conditions of the (new or refinanced) loan actually approved, as laid down in the agreed loan contract. For a detailed explanation and results, see **Annex**.

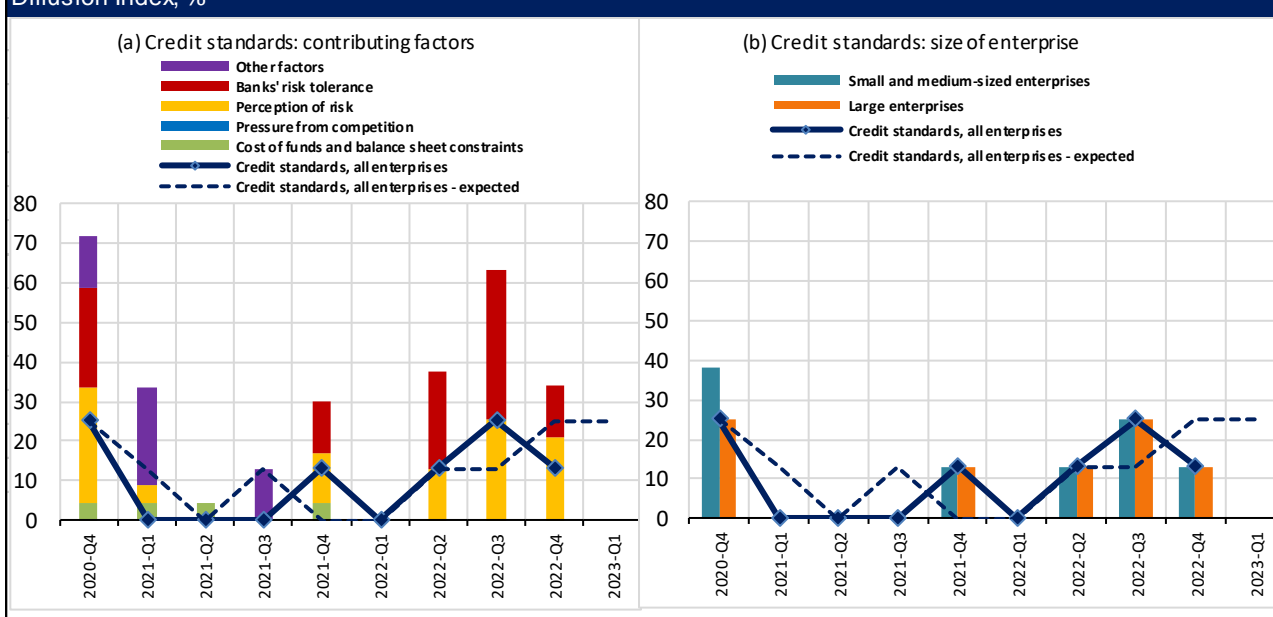
2. Credit standards for loans (loan supply)

2.1. Credit standards for loans or credit lines to enterprises⁴

Credit standards for loans to enterprises in Cyprus tightened during 2022Q4, albeit to a lesser extent than expected in the previous survey round. This is the third consecutive quarter that banks' perceived increased risk and reduced risk tolerance contribute to the tightening of credit standards for business loans (**Chart 1(a)**). Banks continue to be cautious as estimated risks and uncertainty about the economic outlook remain elevated. According to the Survey, banks' perception of increased risk in 2022Q4 related to the general economic situation and outlook, the situation and outlook regarding specific industries or firms, and the collateral demanded. Credit standards tightened for loans to both small and medium-sized enterprises (SMEs) and large enterprises in the quarter under review (**Chart 1(b)**).

Chart 1 Changes in credit standards for loans or credit lines to enterprises:
(a) contributing factors and (b) size of enterprise

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".

"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, currently related to the COVID-19 pandemic.

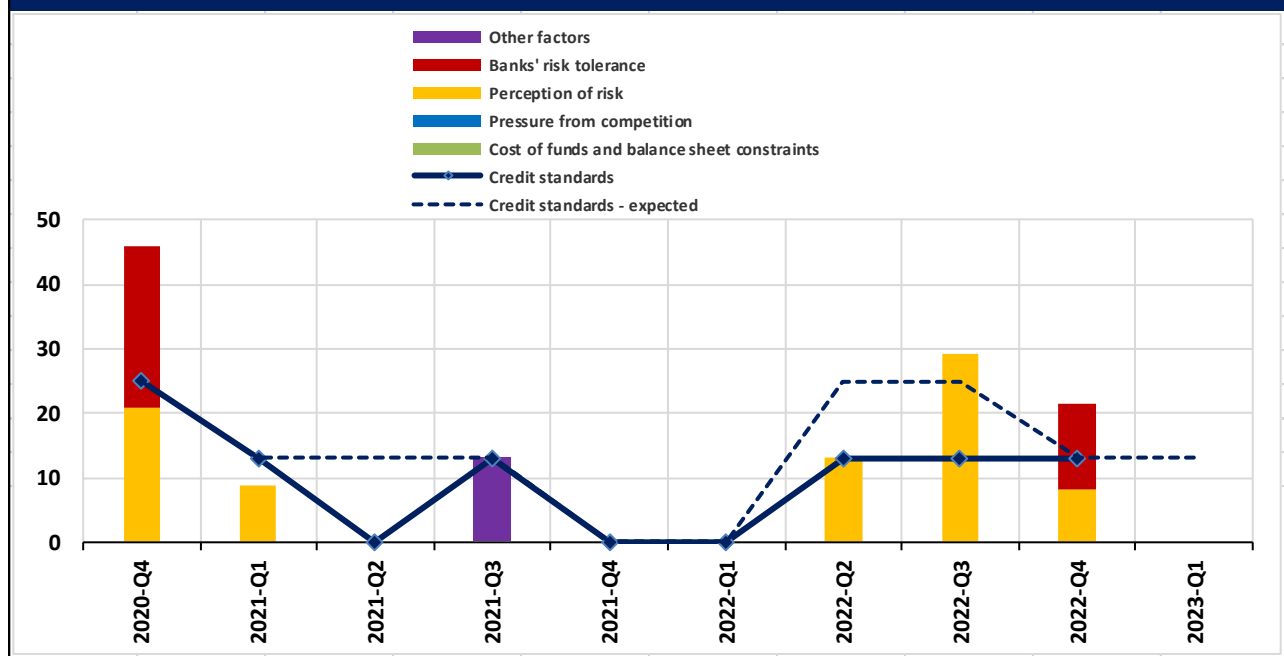
⁴ The term "enterprises" refers to non-financial corporations.

2.2. Credit standards for loans to households for house purchase

In 2022Q4, the tightening of credit standards also continued for loans to households for house purchase, in line with the expectations expressed in the previous quarter's Survey. Heightened risk perceptions, relating to the general economic situation and outlook, and banks' reduced risk tolerance contributed to the adoption of tighter credit standards for housing loans in 2022Q4 (**Chart 2**). It is noted that in 2022Q4, in contrast to the previous two quarters, both housing market prospects and borrower creditworthiness had a neutral impact on credit standards.

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".

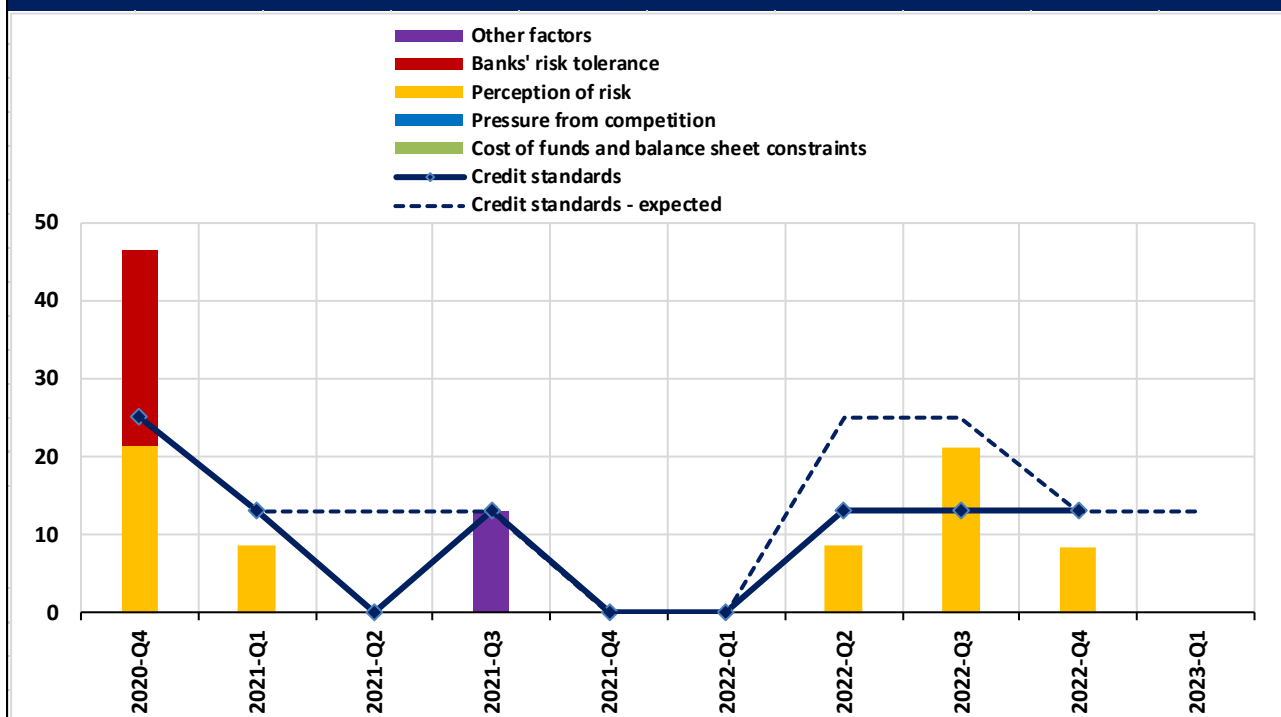
"Other factors" refer to further factors which were mentioned by participating banks as having contributed to changes in credit standards.

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

In 2022Q4, credit standards for consumer credit and other lending to households also tightened for the third consecutive quarter. Similarly to housing loans, this development was in line with banks' expectations as recorded in the previous quarter. Banks' perception of increased risk regarding the general economic situation and outlook was the main driver of the net tightening of credit standards for this loan category (**Chart 3**). The creditworthiness of consumers on the other hand had a neutral contribution on credit standards in the quarter under review.

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

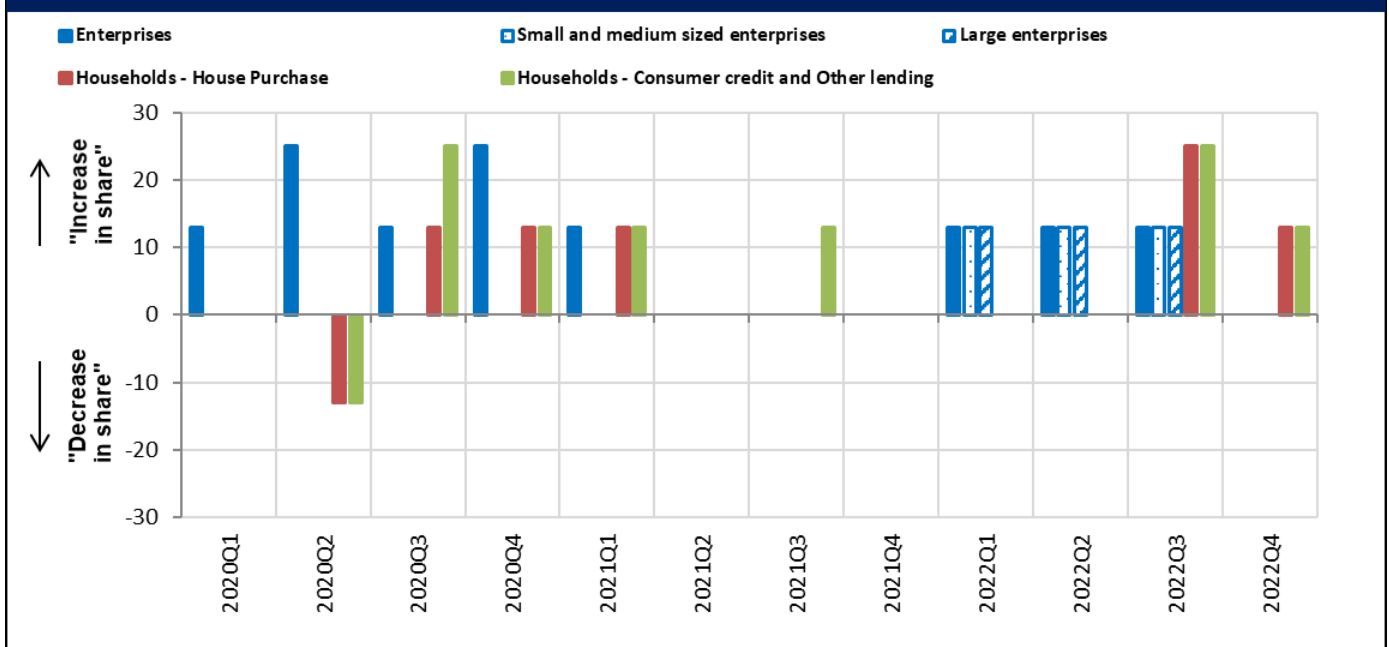
According to banks' expectations for 2023Q1, credit standards in Cyprus are expected to tighten for all loan categories of households and, to a greater extent, for loans to enterprises (**Charts 1-3**).

3. Rejected applications

In 2022Q4, the share of rejected applications (formal and informal) relative to the total volume of loan applications from enterprises remained unchanged. In more detail, the share of rejected applications remained unchanged for both SMEs and large enterprises (**Chart 4**).

In contrast, the share of rejected applications for new loans to households, in all loan categories, increased in 2022Q4 for the second consecutive quarter (**Chart 4**). This development is likely to continue reflecting the adoption of tighter credit standards in response to heightened economic uncertainty, in an effort by banks to safeguard themselves against any future failure by vulnerable borrowers to service their debt.

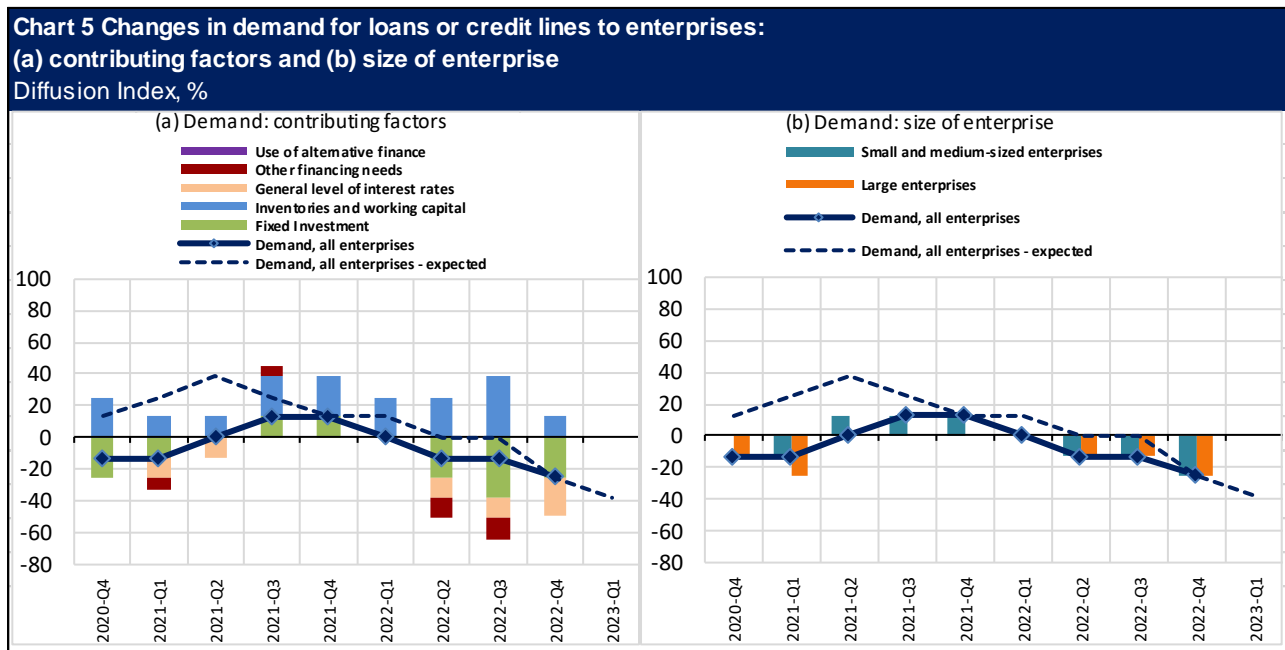
CHART 4 Share of rejected applications (formal and informal) relative to the total volume of loan applications in that lending category
Diffusion index, %



4. Loan demand

4.1. Demand for loans or credit lines to enterprises

In 2022Q4, a further decline in loan demand by enterprises was recorded, in line with expectations expressed in the previous quarter. According to the Survey, the decrease in net demand for business loans in 2022Q4 is attributed to reduced demand for financing fixed investments and the rise in interest rates. On the other hand, amid inflationary pressures, demand for loans for inventories and working capital continued to increase in 2022Q4, albeit to a lesser extent than in the previous quarter, possibly due to the decrease recorded in energy prices as well as production costs (**Chart 5(a)**). Loan demand decreased in net terms for both SMEs and for large enterprises (**Chart 5(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.

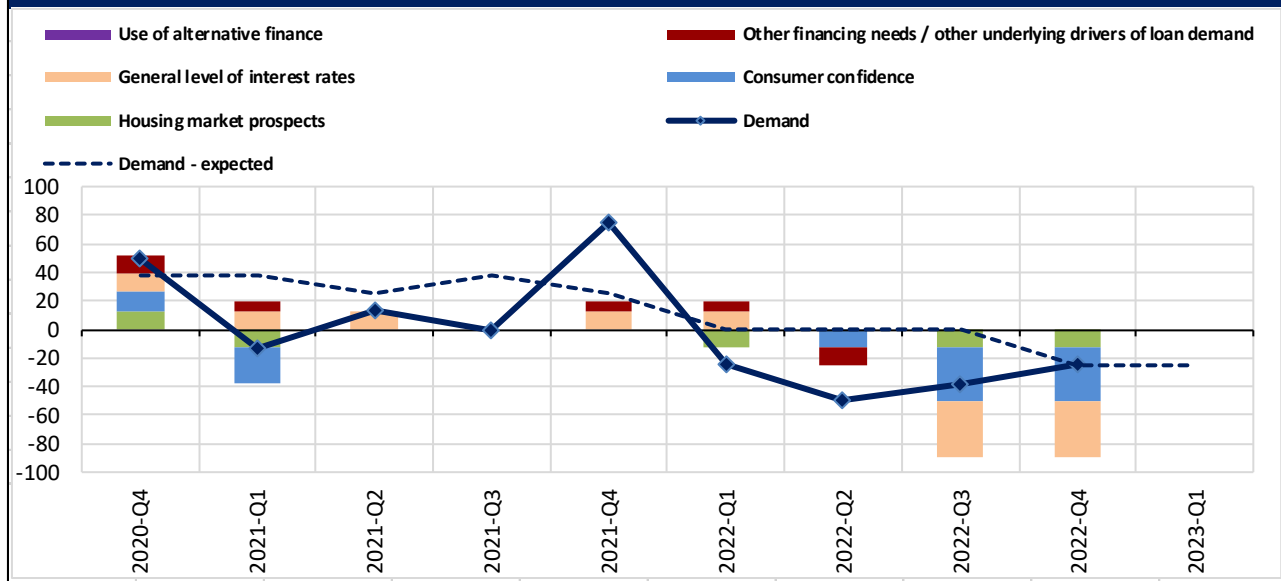
"Other financing needs" as unweighted average of "Mergers/acquisitions and corporate restructuring" and "Debt refinancing/restructuring and renegotiation".

"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".

4.2. Demand for loans to households for house purchase

For a fourth consecutive quarter, a decrease in net demand for housing loans was also recorded in 2022Q4, albeit to a lesser extent. This development was in line with expectations recorded in the previous quarter's Survey. According to the Survey, the decline in demand for housing loans is attributed to rising interest rates, deteriorating consumer confidence and less favourable housing market prospects (**Chart 6**).

Chart 6 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".

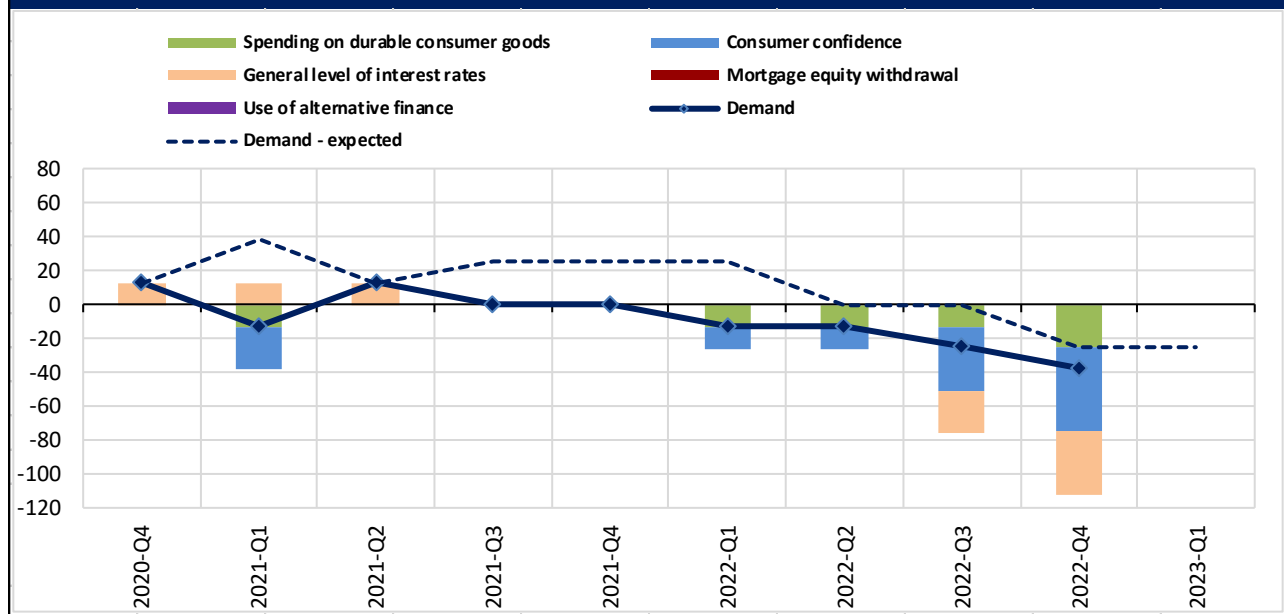
"**Use of alternative finance**" as unweighted average of "Internal financing out of savings/down payment", "Loans from other banks" and "Other sources of external finance".

4.3. Demand for consumer credit and other lending to households

Net demand for consumer credit and other lending by households continued to decline in 2022Q4, to a greater extent relative to expectations and previous quarters' results. According to the Survey, the factors behind the decline in demand for this loan category were a further deterioration in consumer confidence, rising interest rates and a further decline in spending on consumer durables (**Chart 7**). This development continues to reflect the negative impact of inflationary pressures on households' real disposable income.

Chart 7 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".

4.4. Expectations for the next quarter

According to surveyed banks' expectations for 2023Q1, net demand for loans by enterprises and by households for all loan categories is expected to further decrease compared with the previous quarter (**Charts 5-7**).

5. Annex

Terms and conditions on loans

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. They generally consist of the agreed interest rate or spread over the relevant reference rate, the size of the loan, the access conditions and other terms and conditions in the form of non-interest rate charges (e.g. fees), collateral or guarantees which the respective borrower needs to provide (including compensating balances), loan covenants and the agreed loan maturity. Credit terms and conditions depend on the borrower's characteristics and may change in parallel with credit standards or independently of them. For instance, an increase in the bank's funding cost or a deterioration in the general economic outlook can lead to both a tightening in the approval criteria (credit standards) and a tightening of the terms and conditions on those loans that the bank is willing to approve and its customers are willing to accept. Alternatively, the bank may only change its credit terms and conditions (e.g. increasing the required spread to compensate for the additional cost/risk) and leave credit standards unchanged.

BLS, January 2023 - Overall terms and conditions for loans	2022Q4	2023Q1 (expectations)
Enterprises	<i>Tightening</i>	*
Households		
- Housing loans	<i>Tightening</i>	*
- Consumer credit and other lending	<i>Tightening</i>	*

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

Source: CBC

Chart 1 a) Changes in terms and conditions for loans or credit lines to enterprises
Diffusion Index, %

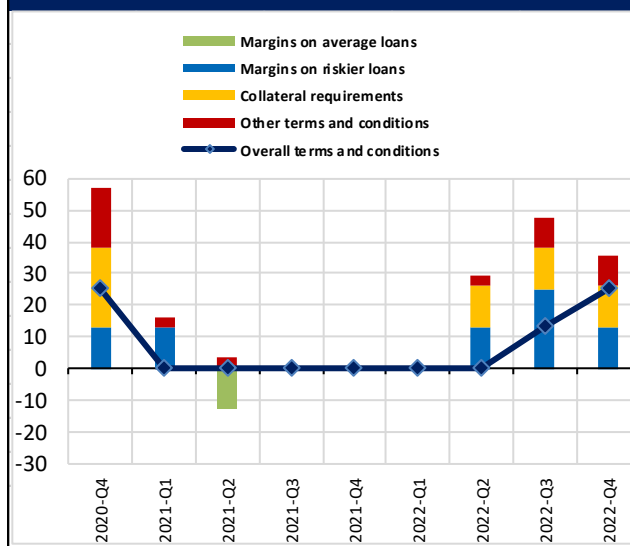
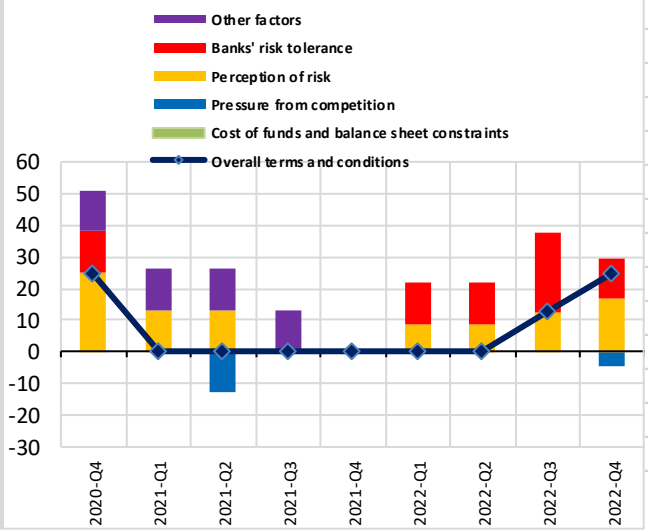


Chart 1 b) Factors contributing to changes in overall terms and conditions for loans or credit lines to enterprises
Diffusion Index, %



Notes:

Concerning the direction of changes in terms and conditions for 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.

1a) **«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".

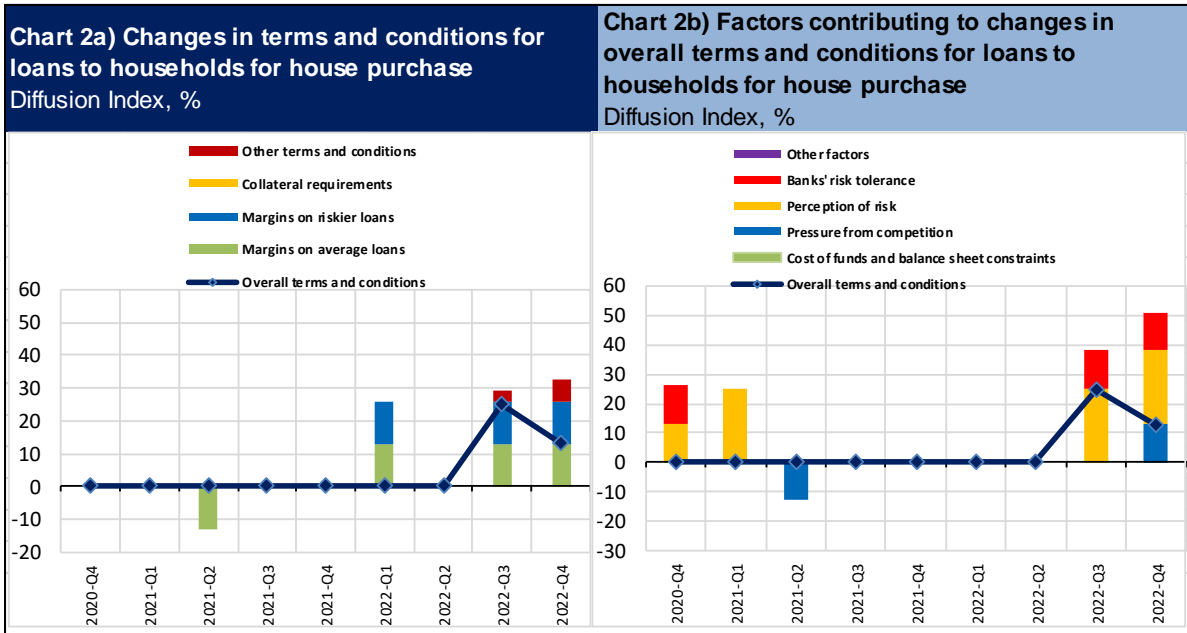
1b) **«Cost of funds and balance sheet constraints»** as unweighted average of "Capital and cost related to capital position", "Access to market financing" and "Liquidity position"⁵.

«Pressure from competition» as unweighted average of "Competition from other banks", "Competition from non-banks" and "Competition from market financing"⁵.

«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"⁵.

«Other factors» refer to further factors which were mentioned by participating banks as having contributed to changes in terms and conditions, currently related to the COVID-19 pandemic.

⁵ Detailed sub-factors were introduced in April 2022.



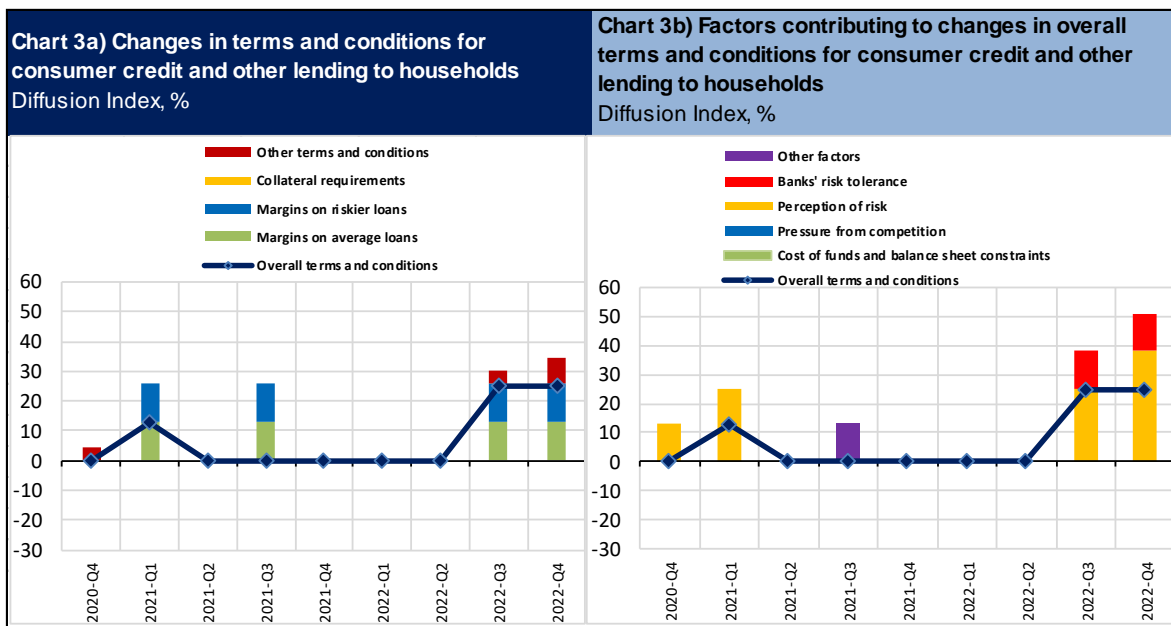
Notes:

Concerning the direction of changes in terms and conditions for 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.

2a) «**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".

2b) "**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.



Notes:

Concerning the direction of changes in terms and conditions for 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.

3a) «**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".

3b) "**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.

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 January 2023 Bank Lending Survey relate to changes in 2022Q4 compared with the previous quarter and to changes expected in 2023Q1 compared with 2022Q4 regarding credit standards 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.