



CENTRAL BANK OF CYPRUS

EUROSYSTEM

JULY 2023
BANK LENDING SURVEY
Results for Cyprus

Nicosia - Cyprus

CONTENTS

1. Overview	2
2. Credit standards for loans (loan supply)	4
2.1. Credit standards for loans or credit lines to enterprises	4
2.2. Credit standards for loans to households for house purchase	5
2.3. Credit standards for consumer credit and other lending to households	6
2.4. Expectations for the next quarter	6
3. Overall terms and conditions on loans	7
3.1. Overall terms and conditions on loans or credit lines to enterprises	7
3.2. Overall terms and conditions on loans to households for house purchase	8
3.3. Overall terms and conditions on consumer credit and other lending to households	9
4. Rejected applications	10
5. Loan demand	11
5.1. Demand for loans or credit lines to enterprises	11
5.2. Demand for loans to households for house purchase	12
5.3. Demand for consumer credit and other lending to households	13
5.4. Expectations for the next quarter	13
6. Notes	14

1. Overview

The July 2023 Bank Lending Survey (BLS)¹ records the changes in credit standards and loan demand that occurred in 2023Q2 compared with 2023Q1, as well as the changes that are expected to occur in 2023Q3 compared with 2023Q2. 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 summary, in 2023Q2, credit standards for loans to enterprises and households remained unchanged to the tightened levels of the previous quarter. At the same time, according to the Survey, the decline in loan demand continues across all loan categories, partly due to the general level of interest rates and lower consumer confidence.

Summary of BLS results - July 2023	Cyprus	
	2023Q2	2023Q3 (expectations)
Credit standards for loans		
Enterprises	Unchanged	Unchanged
Households		
- Housing loans	Unchanged	Tightening
- Consumer credit and other lending	Unchanged	Tightening
Overall terms and conditions for loans		
Enterprises	Tightening	*
Households		
- Housing loans	Unchanged	*
- 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 July 2023 BLS survey was conducted between the period 19 June - 4 July 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 for all categories of loans to households, remained unchanged in 2023Q2** to the tightened levels of the previous quarter. In 2023Q2 all factors contributing to changes in credit standards, across all loan categories, had a neutral impact. Given the prevailing economic and financial conditions, banks seem to remain particularly cautious and careful when considering new loan approvals to keep the possibility of non-performing loans increasing low. At the same time, they pursue sustainable loan renegotiations when required. This dual approach of banks aims to mitigate risks and uphold the overall quality of their loan portfolios.

In 2023Q2, the overall terms and conditions on new loans or credit lines³ to enterprises tightened mainly due to a widening of banks' margins (the spread over a relevant market reference rate) on riskier loans. Conversely, banks' margins on average loans narrowed, on a net basis, but there were differing stances among banks. As regards the factors impacting the overall terms and conditions on new business loans in 2023Q2, increased competition from other banks was cited as a factor that constrained the tightening while the remaining factors had a net neutral impact as banks' responses offset each other. In the same quarter, the **overall terms and conditions on new housing loans remained unchanged**, on a net basis, despite a net narrowing of banks' margins on average loans, while **overall terms and conditions on consumer credit and other lending to households tightened**. Specifically, the tightening of the overall terms and conditions on consumer credit and other lending to households related to a widening of banks' margins on both average and riskier loans and was affected by banks' heightened risk perceptions.

On the demand side, **net loan demand in 2023Q2 by both enterprises and households for housing loans and, more so, for consumer credit and other lending continued to decline**. According to the Survey, the decrease in the demand for business loans was driven by the higher interest rates and reduced demand for financing fixed investments, albeit to a lesser extent than the previous quarter. Conversely, financing needs for inventories and working capital continued to increase in 2023Q2, possibly due to the ongoing high costs of energy and raw materials/products. As regards households, net demand for housing loans decreased during 2023Q2, but at a lesser extent than in the previous five quarters. Banks attributed the net decrease in the demand for housing loans in 2023Q2 to the higher interest rates and deteriorating consumer confidence. Similarly, the decline in demand for consumer credit and other lending by households is, according to the Survey, also attributed to reduced consumer confidence, the general level of interest rates, but also to the decreased spending on durable consumer goods.

In 2023Q3, banks expect credit standards for business loans to remain unchanged compared to the previous quarter. Respectively, **tighter credit standards across all categories of loans to households** are expected, suggesting that the moderation in new lending may continue. At the same time, according to the Survey, **net loan demand in Cyprus is expected to decline further, both by enterprises and by households**, for all loan categories.

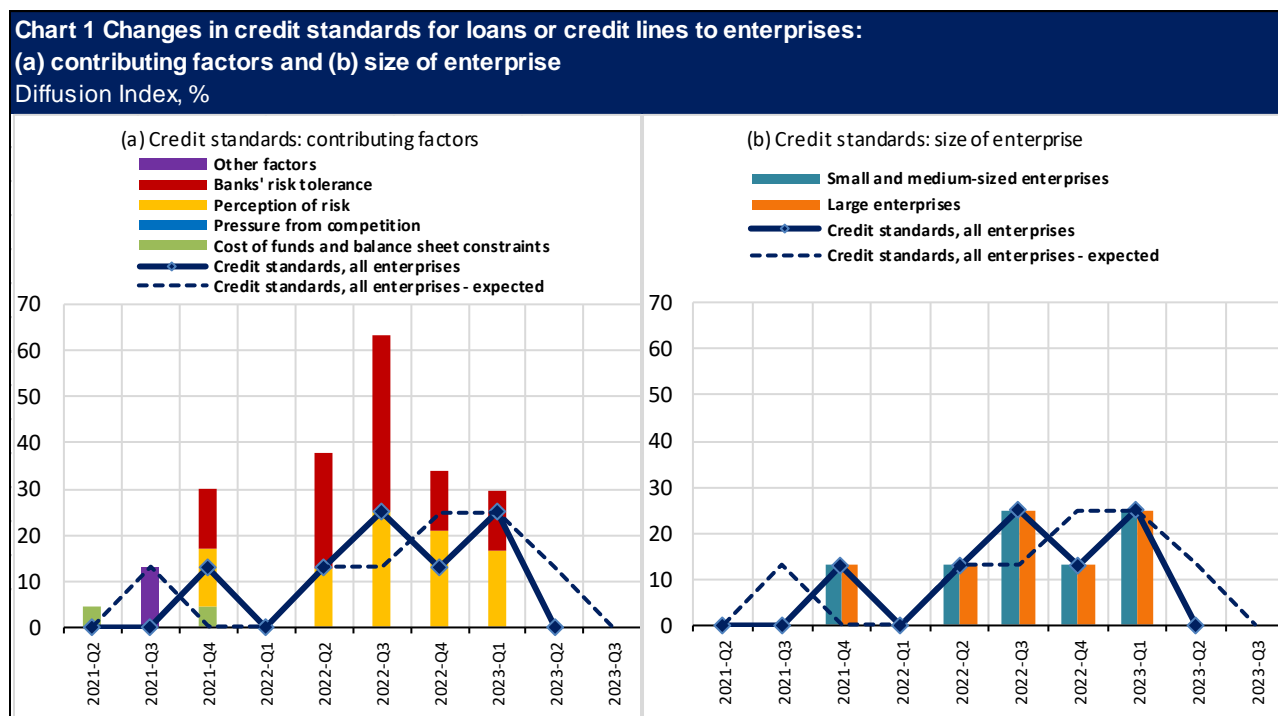
² Credit standards refer to the internal guidelines or loan approval criteria of a bank. Both new loans and loan refinancing, i.e. a prolongation of a loan or a higher loan amount, are considered. Credit standards are established prior to the actual loan negotiation on the terms and conditions and the 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

According to the Survey, credit standards for loans to enterprises in Cyprus remained unchanged in 2023Q2, in contrast to the expectations of further tightening expressed in the previous survey round. Effectively, credit standards for loans to enterprises in 2023Q2 remained unchanged to the tight levels recorded in the previous quarter, following four consecutive quarters of tightening. In 2023Q2 all factors contributing to changes in credit standards for loans to enterprises had a neutral impact (**Chart 1(a)**). In 2023Q2, 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.

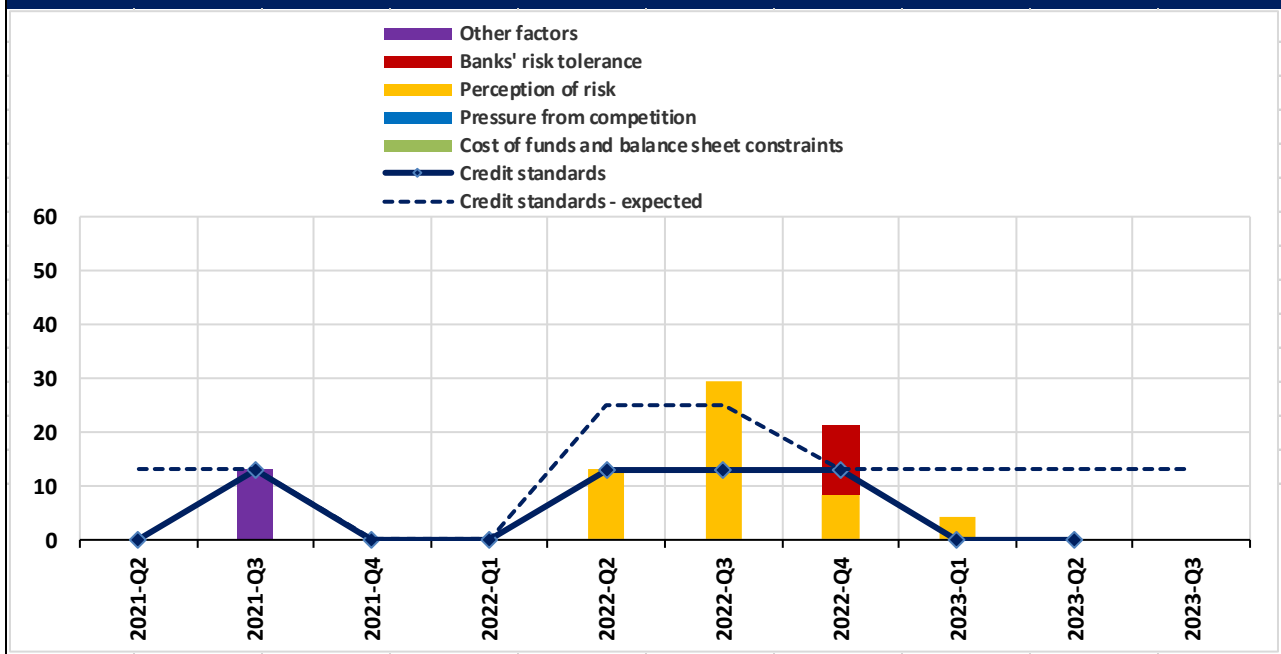
⁴ The term "enterprises" refers to non-financial corporations.

2.2. Credit standards for loans to households for house purchase

Credit standards for housing loans also remained unchanged in 2023Q2, compared with the previous quarter. This development was contrary to banks' expectations for tighter credit standards expressed in the previous survey round. This marks the second consecutive quarter in which credit standards for housing loans remain unchanged following the gradual tightening observed in 2022 (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".

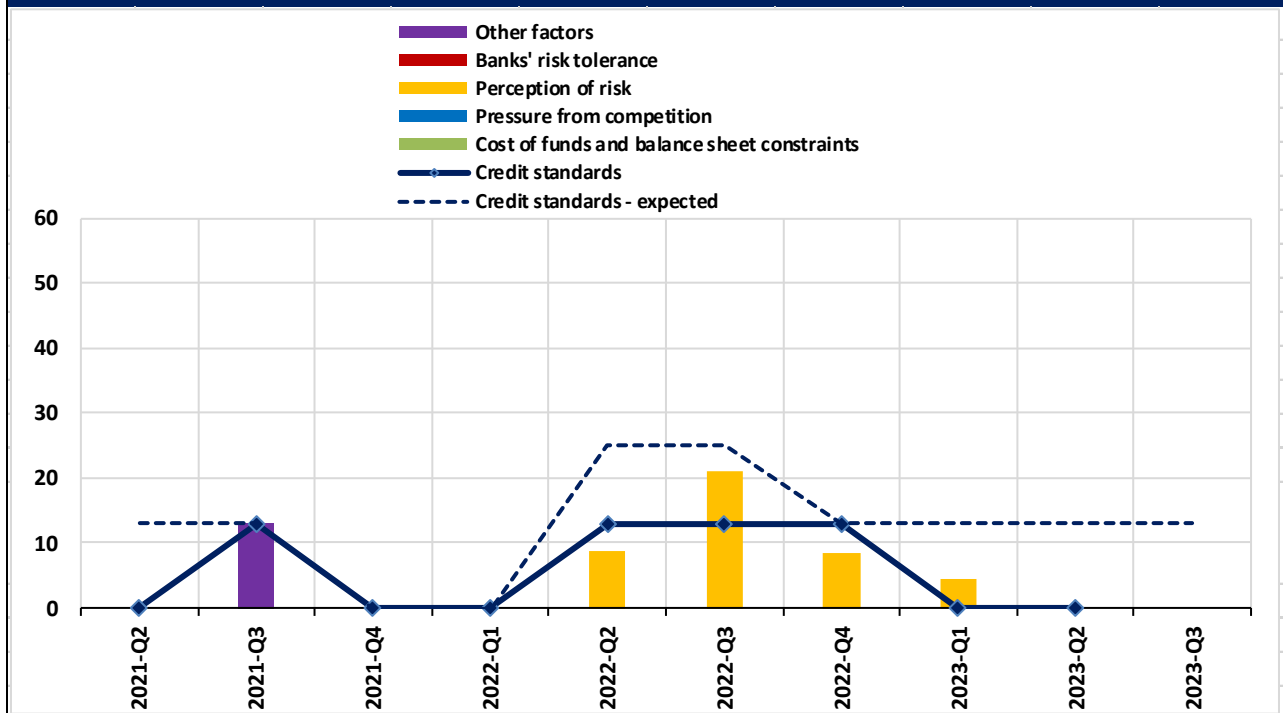
"**Other factors**" refer to further factors which were mentioned by participating banks as having contributed to changes in credit standards.

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

In 2023Q2, credit standards for consumer credit and other lending to households also remained unchanged. In other words, they remained unchanged at the tightened levels reached at the end of 2022. Similarly to housing loans, this development is in contrast to banks' expectations for further tightening recorded a quarter earlier (**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.

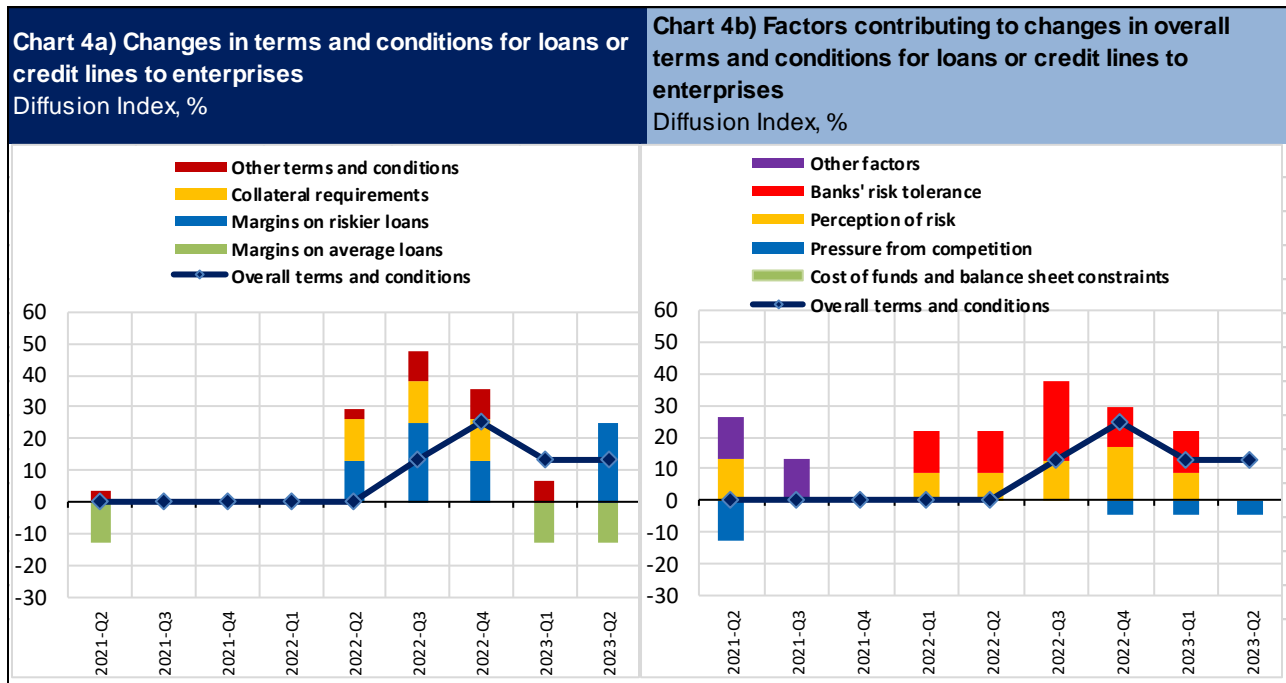
2.4. Expectations for the next quarter

According to banks' expectations for 2023Q3, credit standards for loans to enterprises in Cyprus are anticipated to remain unchanged while for all lending to households they are expected to tighten compared with the previous quarter (**Charts 1-3**).

3. Overall terms and conditions on loans

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

In 2023Q2, the overall terms and conditions on new loans or credit lines to enterprises (i.e. banks' actual terms and conditions agreed in the loan contract) were tightened. The tightening mainly related to a widening of banks' margins (the spread over a relevant market reference rate) on riskier loans (**Chart 4(a)**). Conversely, banks' margins on average loans narrowed on a net basis (**Chart 4(a)**) but there were differing positions among banks. According to the Survey, the perception of risk negatively impacts riskier loans, hence leading to a widening of the banks' margins for these loans. Due to the offsetting effect, however, this factor appears neutral in terms of its contribution to the changes in the overall terms and conditions. On the other hand, increased bank competition continued to counterbalance to some extent the tightening of the 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".

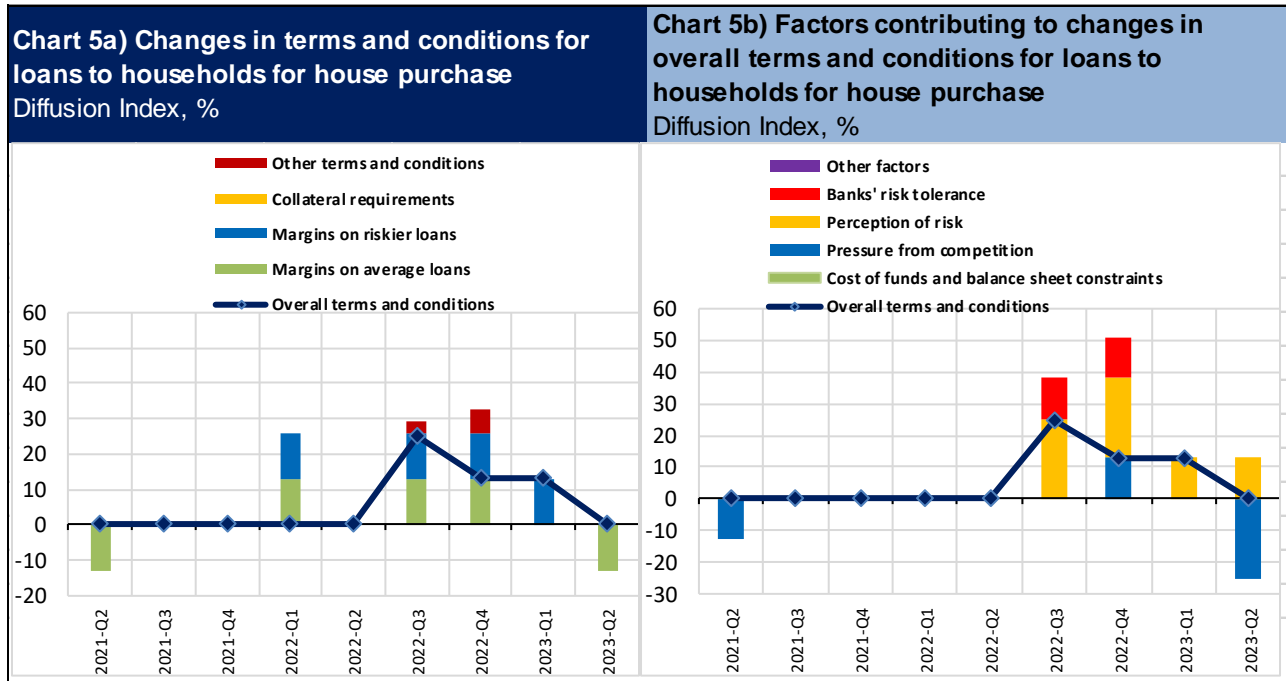
"**Perception of risk**" as unweighted average of "General economic situation and outlook", "Industry or firm-specific situation and outlook/borrower's creditworthiness" and "Risk on collateral demanded".

"**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 2023Q2, the overall terms and conditions on new housing loans remained, on a net basis, unchanged despite a net narrowing of the banks' margins on average loans (**Chart 5(a)**), although banks' responses varied. It is also noted that while the banks' assessment of increased risk points to tighter terms and conditions, this is offset by competitiveness pressures (**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.

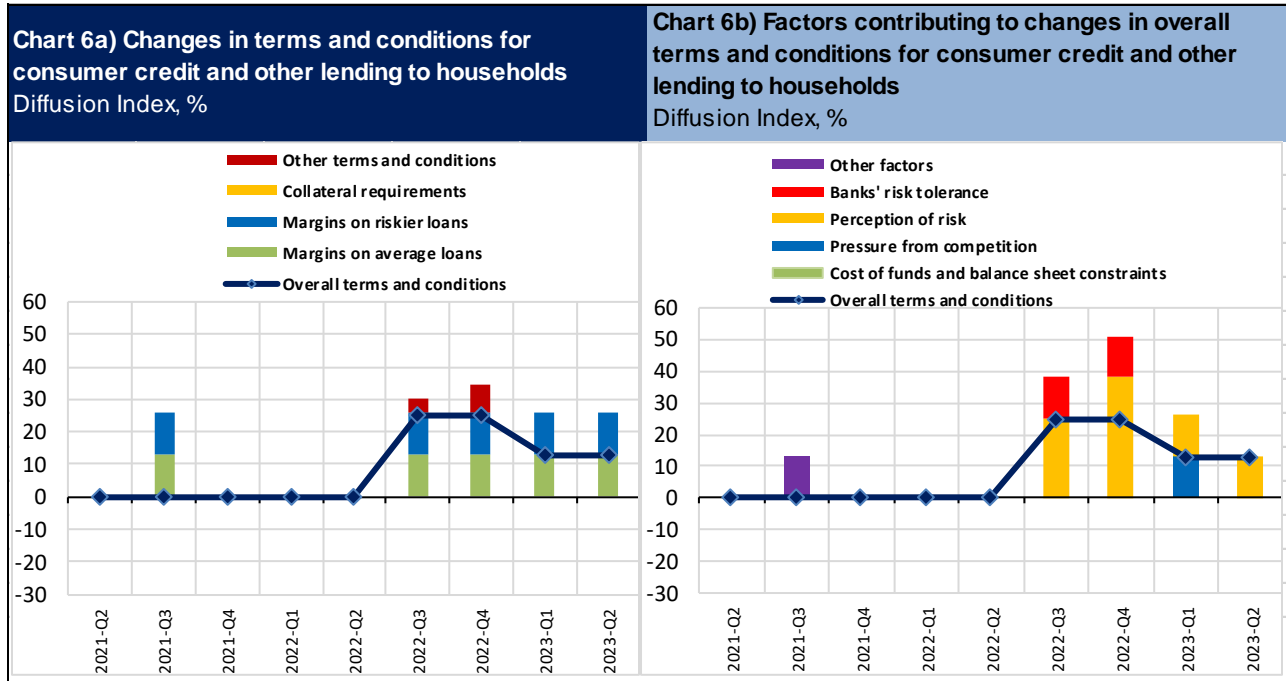
5a) «**Margins**» are defined as the spread over a relevant market reference rate (wider spread = tightened, narrower spread = eased).

"**Other terms and conditions**" as unweighted average of "Loan-to-value ratio", "Other loan size limits", "Maturity" kai "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 on consumer credit and other lending to households tightened further in 2023Q2, to the same extent as in the previous quarter. As in the previous quarter, the tightening is driven, according to the Survey, by 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 consumer credit and other lending to households in 2023Q2, reflects banks' perception of increased credit risk (**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).

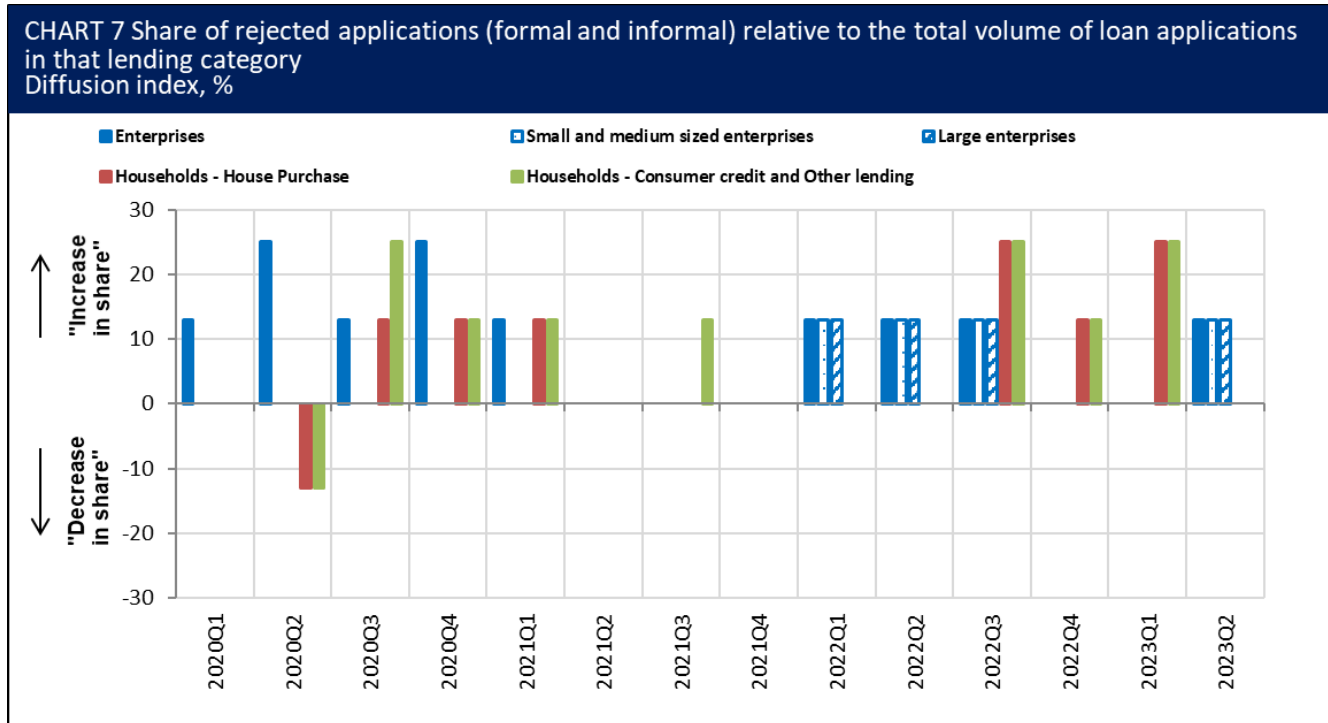
“Other terms and conditions” as unweighted average of “Size of loan”, “Maturity”, and “Non-interest rate charges”.

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 2023Q2, the share of rejected applications (formal and informal) from enterprises increased for both SMEs and large enterprises (**Chart 7**).

On the contrary, in the quarter under review, the share of rejected applications for new loans to households, remained unchanged across all loan categories (**Chart 7**).



Notes:

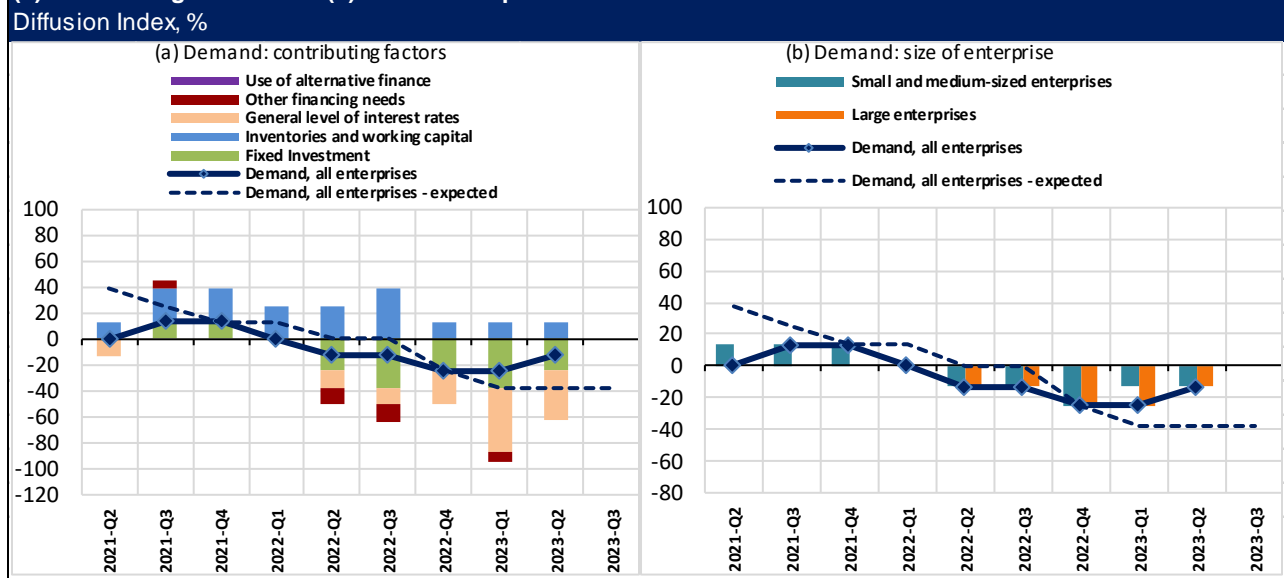
Share of rejected loan applications relative to the volume of all loan applications in that loan category.
The breakdown by firm size was introduced in April 2022.

5. Loan demand

5.1. Demand for loans or credit lines to enterprises

Net demand for loans by enterprises continued to decline in 2023Q2, albeit to a lesser extent relative to the previous two quarters and banks' expectations as recorded in the previous quarter. According to the Survey, the decline in demand for business loans in 2023Q2 reflects the rising interest rate environment and reduced demand for fixed investment financing. At the same time, within the context of the elevated energy and raw materials/products costs that enterprises continue to face, demand for inventories and working capital financing continued to increase in 2023Q2. However, the upward trend in demand for this loan category has moderated over the past three quarters (**Chart 8(a)**). The decline in net loan demand in 2023Q2 is evident from both SMEs and large enterprises (**Chart 8(b)**).

Chart 8 Changes in demand for loans or credit lines to enterprises:
(a) contributing factors and (b) size of enterprise



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".

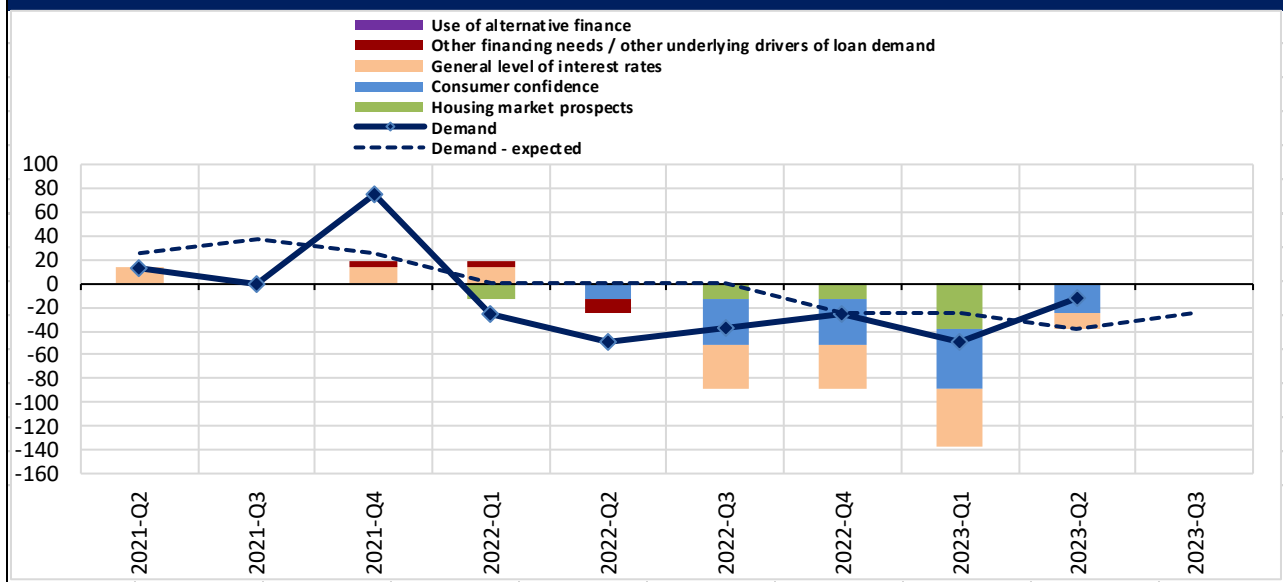
"Use of alternative finance" as unweighted average of "Internal financing", "Loans from other banks", "Loans from non-banks", "Issuance/redemption of debt securities" and "Issuance/redemption of equity".

5.2. Demand for loans to households for house purchase

In 2023Q2, households' net demand for housing loans continued to decline for a sixth consecutive quarter, albeit to a markedly lesser extent. The decrease was also smaller than what the banks had expected a quarter earlier. According to the Survey, the decline in demand for housing loans continues to be attributed to the rising interest rates and to a further deterioration in consumer confidence. Unlike the previous three quarters, however, housing market prospects had a neutral impact on the demand for housing loans in 2023Q2 (**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".

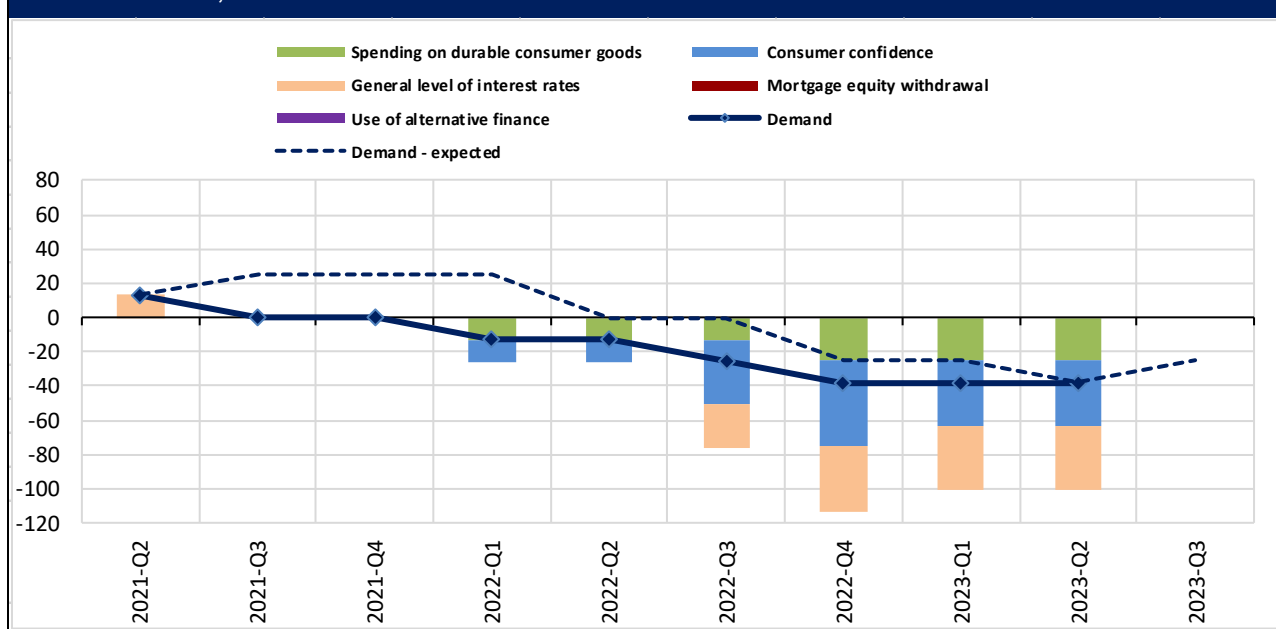
"**Use of alternative finance**" as unweighted average of "Internal financing out of savings/down payment", "Loans from other banks" and "Other sources of external finance".

5.3. Demand for consumer credit and other lending to households

Net demand for consumer credit and other lending by households continued to decrease significantly in 2023Q2, at the same pace as the previous quarter and banks' expectations. According to the Survey, declining consumer confidence, higher interest rates and a further decline in spending on consumer durables were again the main drivers of the decrease in demand for this loan category in 2023Q2 (**Chart 10**). These developments seem to be linked to the negative impact of the persistent inflation, high energy costs, and elevated interest rates on households' real disposable income.

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 2023Q3, the decline in net loan demand is anticipated to continue 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 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 July 2023 Bank Lending Survey relate to changes in 2023Q2 compared with the previous quarter and to changes expected in 2023Q3 compared with 2023Q2 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.