



CENTRAL BANK OF CYPRUS

EUROSYSTEM

OCTOBER 2022
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. Rejected applications | 7 |
| 4. Loan demand | 8 |
| 4.1. Demand for loans or credit lines to enterprises | 8 |
| 4.2. Demand for loans to households for house purchase | 9 |
| 4.3. Demand for consumer credit and other lending to households | 10 |
| 4.4. Expectations for the next quarter | 10 |
| 5. ANNEX – Terms and conditions on loans | 11 |
| 6. Notes | 14 |

1. Overview

The October 2022 Bank Lending Survey (BLS)¹ records the changes in credit standards and loan demand that occurred in 2022Q3 compared with 2022Q2, as well as the changes that are expected to occur in 2022Q4 compared with 2022Q3. 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 below, followed by a more detailed analysis in the other sections of the report. It is highlighted that the domestic banking system is currently undergoing a period of tightened credit standards for all loan categories and hence of limited credit supply. This is met, as shown in the table below, with lower demand for loans by both enterprises and households.

| Summary of BLS results - October 2022 | Cyprus | |
|---------------------------------------|------------|--------------------------|
| | 2022Q3 | 2022Q4 (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 October 2022 BLS survey was conducted between the period 16 September - 4 October 2022. 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 on loans to enterprises and households for all loan categories tightened further in 2022Q3** compared with the previous quarter. Banks' perceptions of increased risk in all lending categories, as well as their reduced risk tolerance for business loans contributed to the tightening of credit standards. In particular, banks reported that the perception of higher risk was related to the general economic situation and outlook, borrowers' creditworthiness, the housing market prospects and the requested collateral for business loans. **In 2022Q4, banks expect credit standards in Cyprus to further tighten for all loan categories.** This is possibly due to the expected slowdown in economic activity resulting from the adverse economic impact of geopolitical developments, as well as the negative impact of intensifying inflationary pressures on both household disposable income and business profits. In the context of the heightened economic uncertainty and higher interest rates, banks' tighter lending policy appears to be aimed at safeguarding new lending sustainability.

In 2022Q3, the overall terms and conditions for new loans³ to enterprises were tightened. In particular, 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 were reported to have tightened. According to the Survey, this development reflects banks' increased risk perceptions and reduced risk tolerance. In the quarter under review, the **overall terms and conditions for loans to households (housing loans as well as consumer credit and other lending), were also tightened.** The net tightening was related to banks' margins on both average and riskier loans (wider margins). In addition, the net tightening of other loan size limits was also cited as a factor that contributed to the tightening of the overall terms and conditions. As in the case of enterprises, the main tightening drivers were the higher risk perceptions and reduced risk tolerance by banks.

Regarding the demand for loans, it is noted that **net loan demand by both enterprises and households in 2022Q3 decreased** compared with the previous quarter. The decrease in demand for business loans is mainly attributed to a decrease in demand for financing fixed investment, which appears to be adversely affected by the heightened uncertainty as well as rising interest rates. Other factors that contributed to the net decline in loan demand, according to the Survey, were the general level of interest rates as well as the reduction in other financing needs related to mergers or acquisitions and debt restructuring. On the other hand, there has been an increased demand for financing inventories and working capital, possibly due to higher energy and raw materials prices as well as supply chain disruptions. As regards households, the net decline in demand for housing loans is attributed by banks to the rising interest rates, declining consumer confidence and less favourable housing market prospects. Similarly, according to the Survey, the decrease in demand for consumer credit and other lending is due to lower consumer confidence, higher level of interest rates and the decreased spending on durable consumer goods. The negative impact of inflation on households' real disposable income appears to be postponing their consumption decisions. According to the participating banks, **net demand for loans in Cyprus by both enterprises and households for all loan categories is expected to decrease further in 2022Q4.**

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.

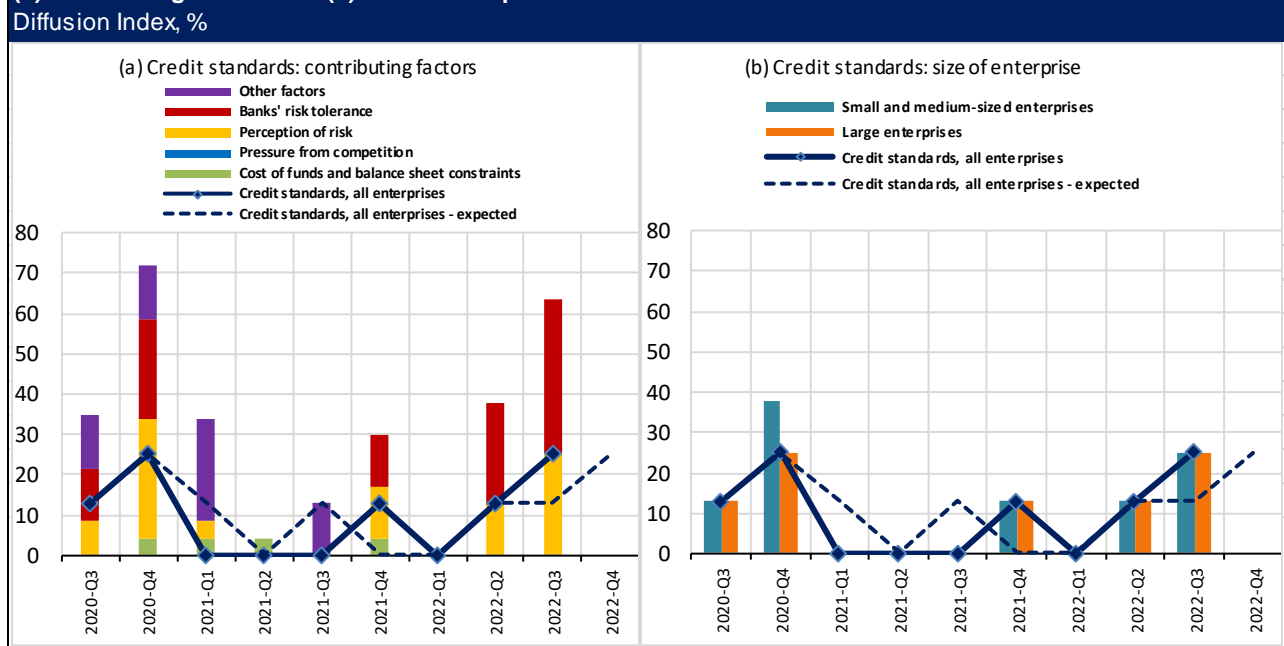
³ The terms and conditions of the (new or refinanced) loan actually approved, as laid down in the agreed loan contract. For a detailed explanation and results, see **Annex**.

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 further during 2022Q3 compared with the previous quarter. The reported tightening was greater than expected based on the July 2022 survey results. Increased uncertainty about the economic impact of the ongoing war in Ukraine makes the correct assessment of credit risk by banks all the more important. In this context and according to the Survey, both banks' assessment of increased risk and their reduced risk tolerance contributed to the tightening of credit loans for business loans in 2022Q3, as was the case in the previous quarter. Specifically, banks' perception of increased risk in 2022Q3 related to the general economic situation and outlook, the situation and outlook regarding specific industries or firms, and the collateral demanded (**Chart 1(a)**). It is noted that 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**



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.

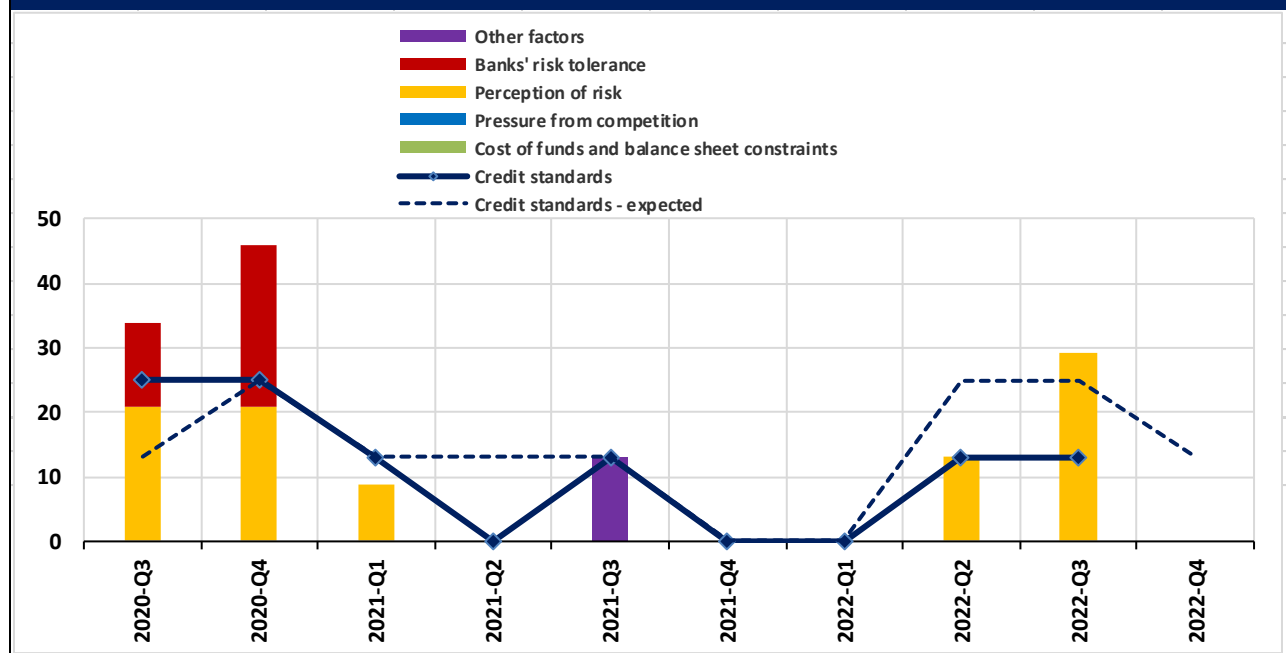
⁴ The term "enterprises" refers to non-financial corporations.

2.2. Credit standards for loans to households for house purchase

Credit standards for loans to households for house purchase also tightened in 2022Q3, albeit to a lesser extent than the expectations of banks expressed in the previous Survey. In the current uncertain environment banks' continued to refer to heightened risk perceptions related to the general economic situation and outlook, the housing market prospects and borrowers' creditworthiness as the main factor contributing to the tightening of credit standards when approving housing loans (**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".

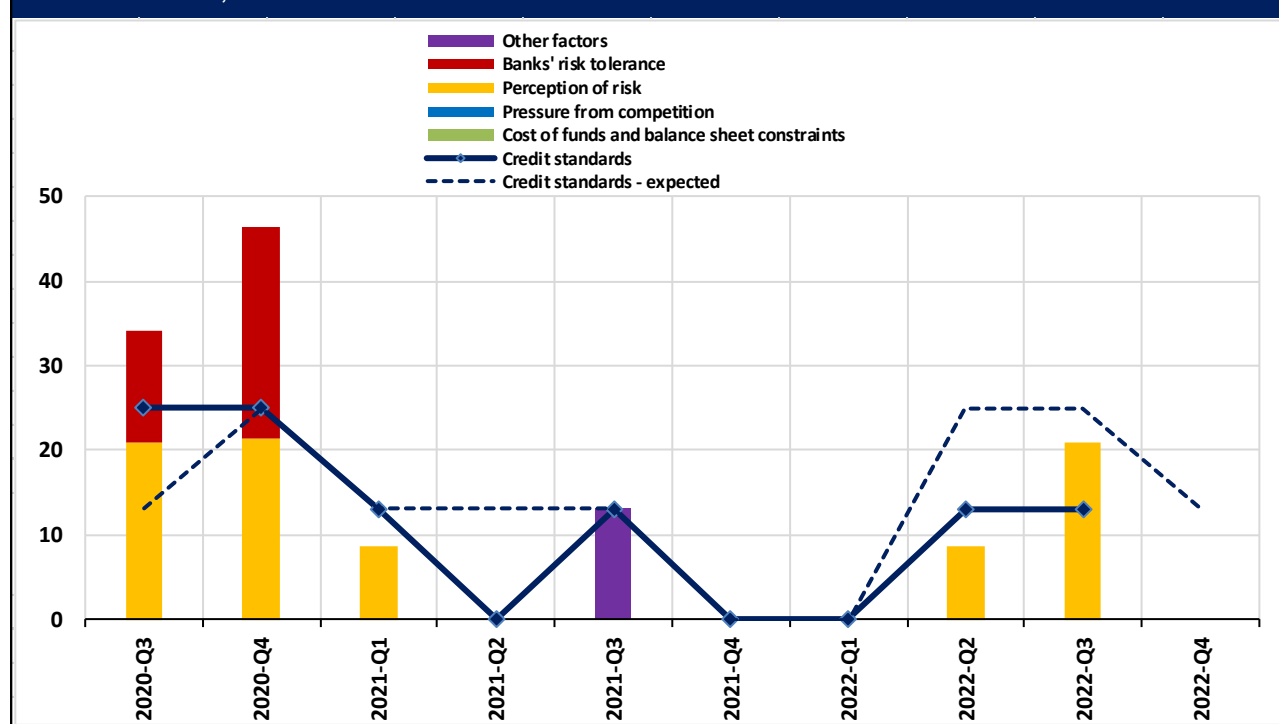
"**Other factors**" refer to further factors which were mentioned by participating banks as having contributed to changes in credit standards.

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

Credit standards for consumer credit and other lending to households also tightened in 2022Q3. As with housing loans, the tightening reported was to a lesser extent than the previous round expectations. Higher risk perceptions related to the general economic situation and outlook and the creditworthiness of borrowers was the factor behind the tightening of credit standards for this category of loans as well (**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

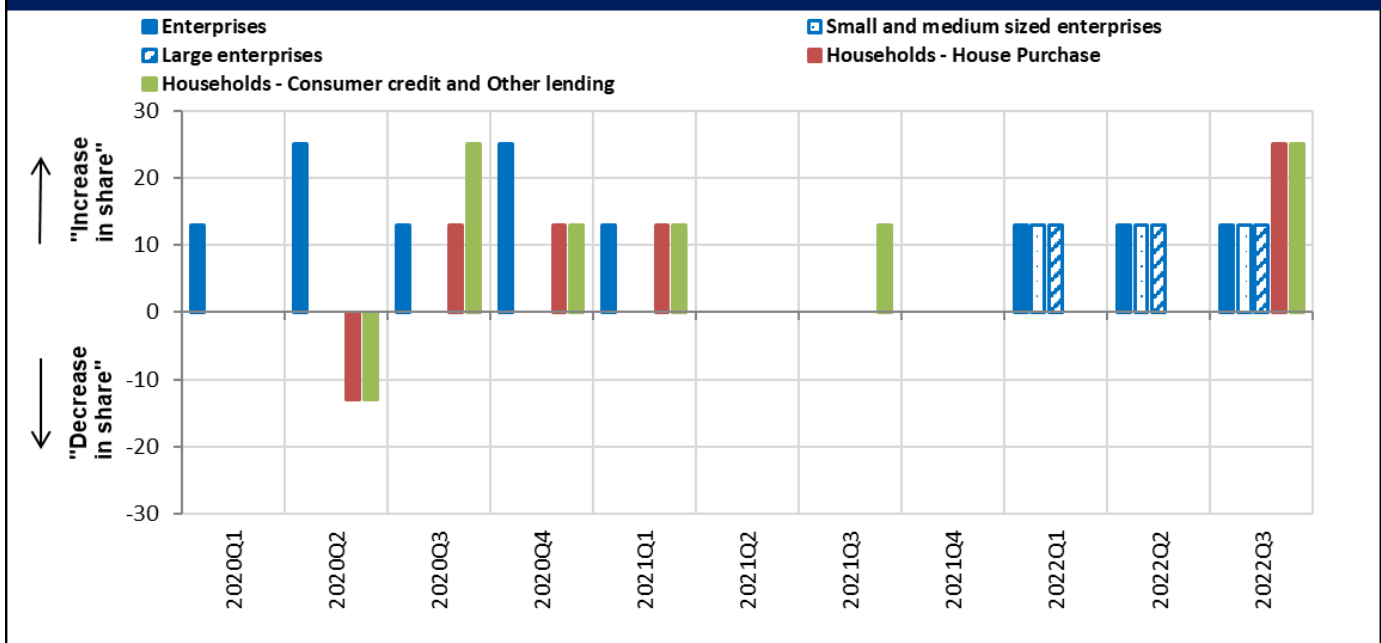
According to banks' expectations for 2022Q4, credit standards in Cyprus are expected to tighten for all loan categories of households and, to a greater extent, for loans to enterprises (**Charts 1-3**).

3. Rejected applications

The share of rejected applications (formal and informal) for loans to enterprises continued to increase in 2022Q3. This development is consistent with the continuous tightening of credit standards for new business loans reported in recent quarters. The net increase in the share of rejected applications was broadly similar for loans to SMEs and for loans to large enterprises (**Chart 4**).

In 2022Q3, for the first time this year, the share of loan rejections also increased for households, across all loan categories (**Chart 4**), reflecting the tightening of credit standards to this sector. This development may be related to the decline in households' disposable income due to rising inflation and rising interest rates and the possible impact on their debt servicing capacity.

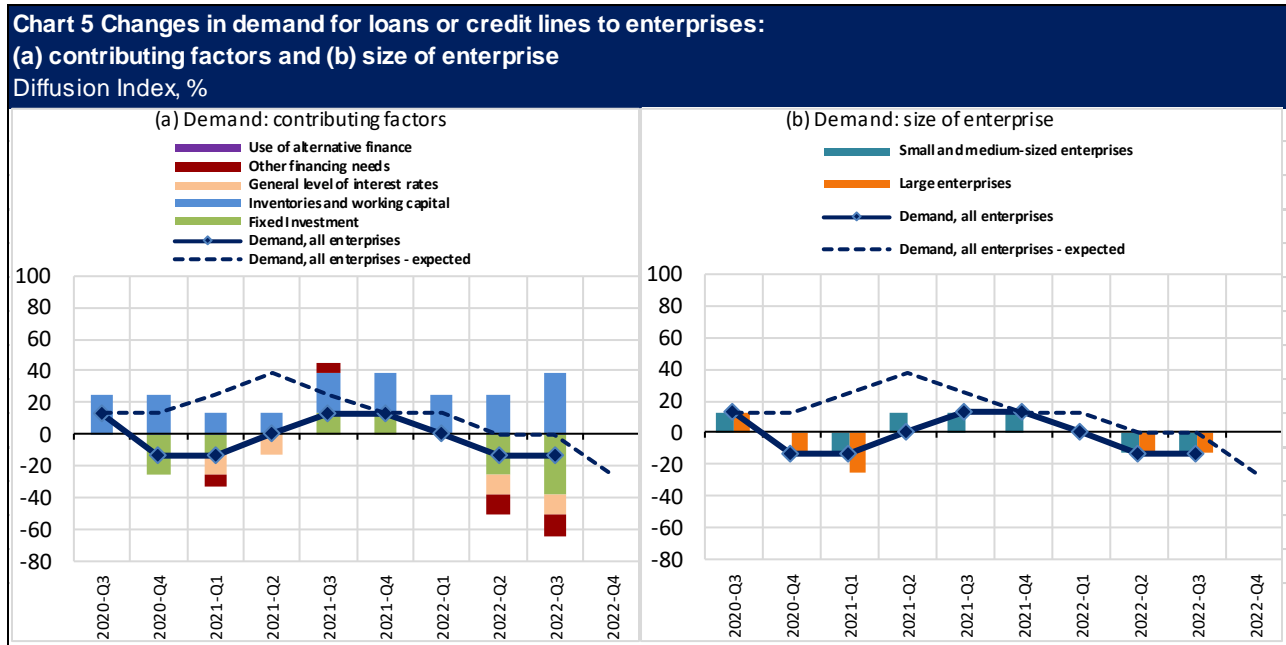
CHART 4 Share of rejected applications (formal and informal) relative to the total volume of loan applications in that lending category
Diffusion index, %



4. Loan demand

4.1. Demand for loans or credit lines to enterprises

In 2022Q3, net demand for loans by enterprises in Cyprus further decreased, contrary to banks' expectations of unchanged demand recorded in the July 2022 survey. Despite the net decrease in enterprises' loan demand, however, demand for loans for inventories and working capital increased, which may reflect increased financing needs due to the rising energy and raw material prices as well as to the ongoing supply chain disruptions. According to the Survey, the net decrease in demand for business loans in 2022Q3 was driven by enterprises' reduced demand for fixed investment financing, the current level of interest rates, the reduced demand for financing mergers/acquisitions and corporate restructuring, as well as debt restructurings (part of "other financing needs" in **Chart 5(a)**). Rising uncertainty over the prospects of the economy and rising interest rates seem to be leading to a postponement of businesses' investment decisions. It is also noted that loan demand decreased in net terms for both SMEs and 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".

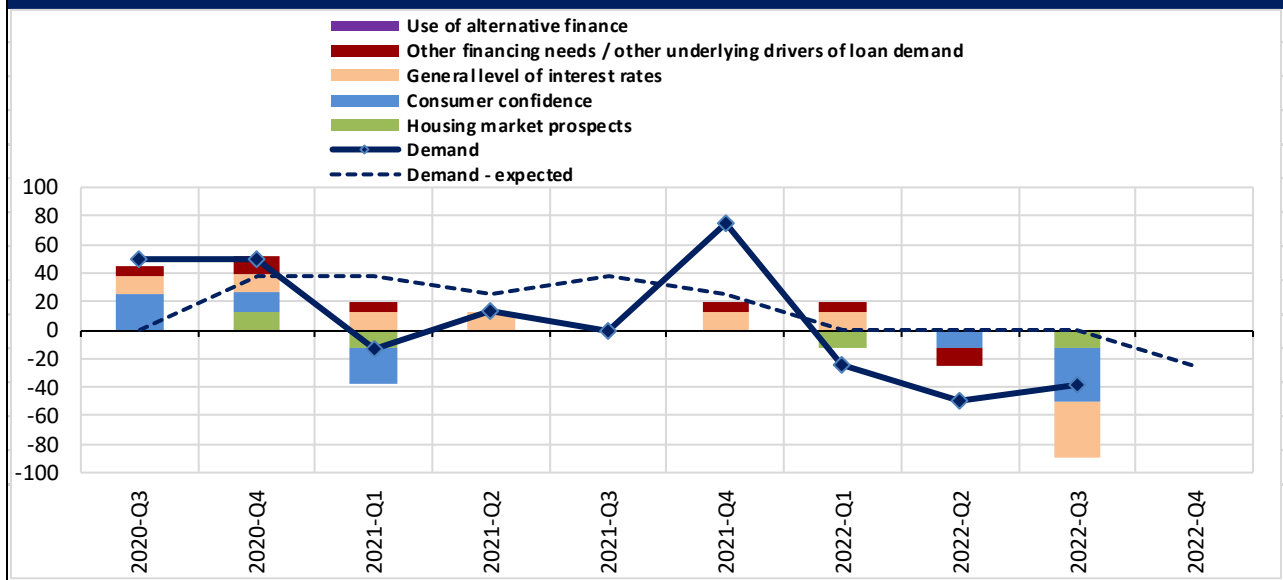
"Use of alternative finance" as unweighted average of "Internal financing", "Loans from other banks", "Loans from non-banks", "Issuance/redemption of debt securities" and "Issuance/redemption of equity".

4.2. Demand for loans to households for house purchase

Net demand for housing loans by households continued to decline in 2022Q3, in contrast to the expectations of unchanged demand expressed in the previous survey round (**Chart 6**). According to the Survey, the decrease is attributed to the rising interest rates, declining 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".

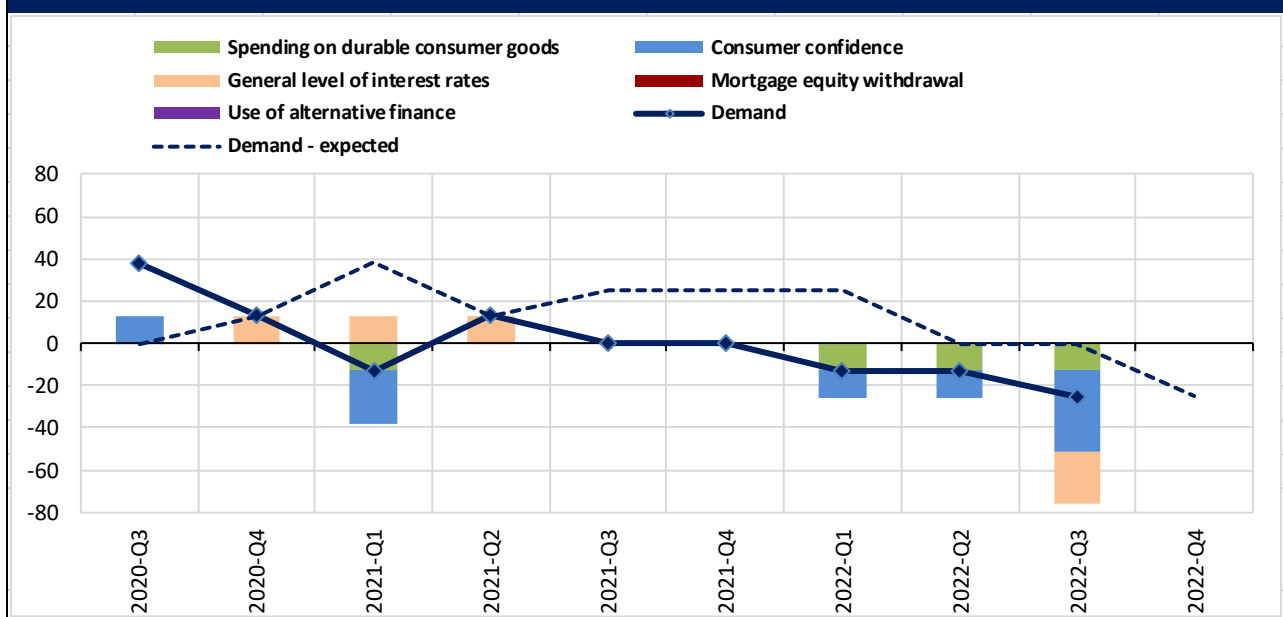
"**Use of alternative finance**" as unweighted average of "Internal financing out of savings/down payment", "Loans from other banks" and "Other sources of external finance".

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 2022Q3, to a greater extent than in the previous two quarters. This development was in contrast to the participating banks' expectations of unchanged demand expressed in the previous Survey round (**Chart 7**). According to the Survey, the factors contributing to the decrease were the further deterioration of consumer confidence, the rising interest rates and lower spending on durable consumer goods. This continues to reflect the impact of ongoing price increases, in particular the negative impact of inflation on households' real disposable income. (**Chart 7**).

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 the Survey, banks' expect net demand for loans by enterprises and by households for all loan categories in 2022Q4 to continue decreasing (**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, October 2022 - Overall terms and conditions for loans | 2022Q3 | 2022Q4 (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 1a) Changes in terms and conditions for loans or credit lines to enterprises
Diffusion Index, %

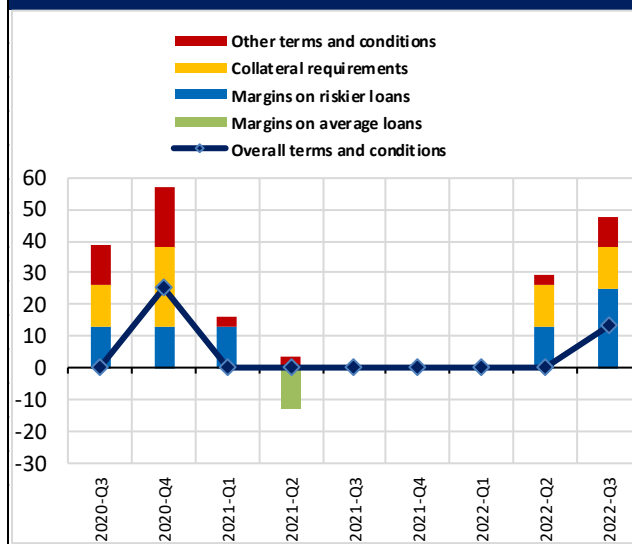
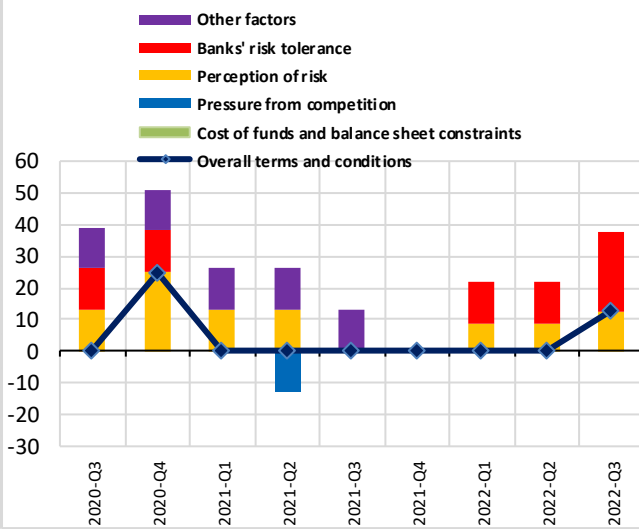


Chart 1b) Factors contributing to changes in overall terms and conditions for loans or credit lines to enterprises
Diffusion Index, %



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".

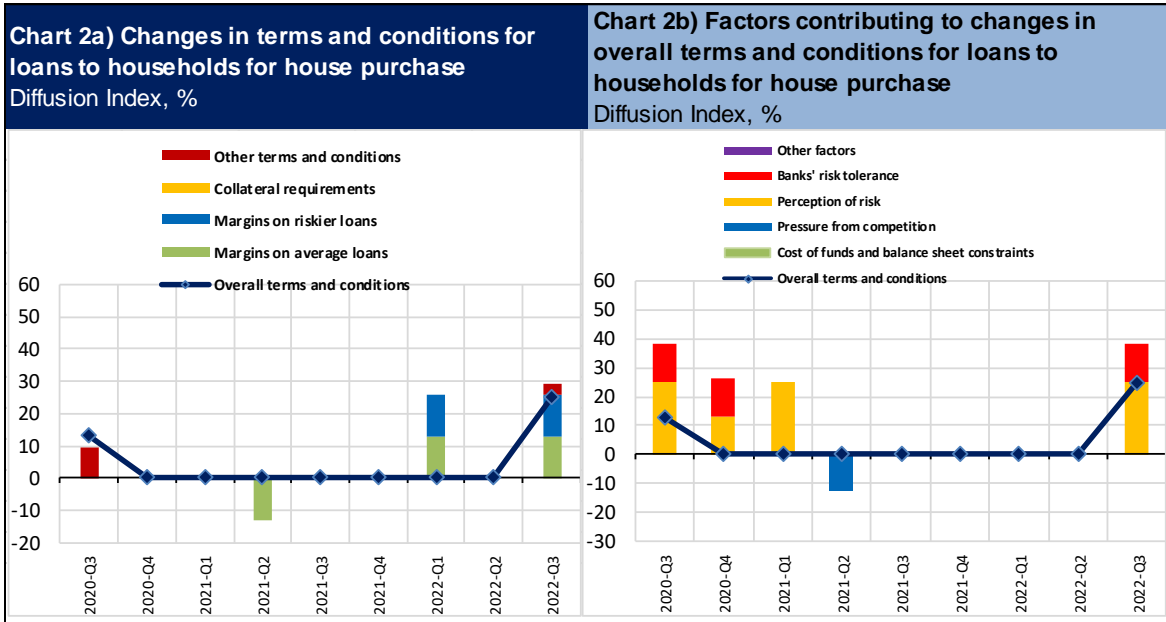
1b) "**Cost of funds and balance sheet constraints**" as unweighted average of "Capital and cost related to capital position", "Access to market financing" and "Liquidity position"⁵.

"**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.



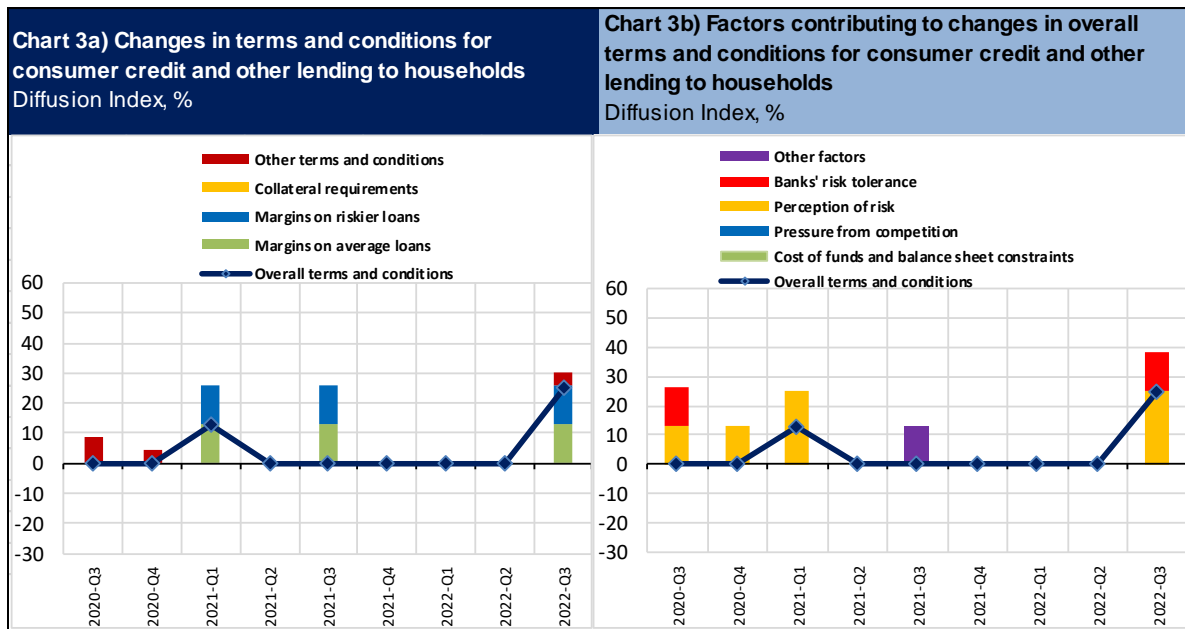
Notes:

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 October 2022 Bank Lending Survey relate to changes in 2022Q3 compared with the previous quarter and to changes expected in 2022Q4 compared with 2022Q3 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.