



CENTRAL BANK OF CYPRUS

EUROSYSTEM

OCTOBER 2023
BANK LENDING SURVEY
Results for Cyprus

Nicosia - Cyprus

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1. Overview

The October 2023 Bank Lending Survey (BLS)¹ records the changes in credit standards and loan demand that occurred in 2023Q3 compared with 2023Q2, as well as the changes that are expected to occur in 2023Q4 compared with 2023Q3. 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 summary, in 2023Q3, credit standards for loans to enterprises remained unchanged at the tightened levels of the previous quarter, while they further tightened for all loan categories to households. At the same time, the Survey indicates a continued decline in demand for loans from both enterprises and households. Surveyed banks partly attribute the decrease in demand in 2023Q3 to the higher general level of interest rates, reduced demand for financing fixed investments and the decline in consumer confidence.

Summary of BLS results - October 2023	Cyprus	
	2023Q3	2023Q4 (expectations)
Credit standards for loans		
Enterprises	Unchanged	Tightening
Households		
- Housing loans	Tightening	Tightening
- Consumer credit and other lending	Tightening	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 October 2023 BLS was conducted between the period 15 September - 2 October 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](#).

On the loan supply side, **credit standards² for loans to enterprises**, as indicated by the Survey, **remained unchanged in 2023Q3** for a second consecutive quarter. Similar to the previous quarter, all factors contributing to changes in credit standards for business loans, had a neutral impact. At the same time, **credit standards for housing loans as well as consumer credit and other lending to households tightened** due to banks' perceptions of increased credit risk. In particular, banks' higher risk perceptions regarding loans to households related to the general economic situation and outlook as well as the creditworthiness of borrowers. Given the current uncertain economic environment, banks seem to continue implementing prudent lending policies and exercising particular caution when evaluating borrowers.

In 2023Q3, further tightening was recorded **in the overall terms and conditions on new loans or credit lines³ to enterprises**, which related to a widening of banks' margins (the spread over a relevant market reference rate) on riskier new business loans. Conversely, banks' margins on average new business loans narrowed, on a net basis. Increased competition from other banks continued to contain the tightening in the quarter under review while the remaining factors had a net neutral impact. As for households, the **overall terms and conditions on new housing loans remained unchanged**, on a net basis, even though a net widening of banks' margins on new housing loans with higher risk was recorded. On the other hand, the **overall terms and conditions on new consumer credit and other lending to households tightened**, driven by banks' higher risk perceptions. Specifically, a widening of banks' margins on both average and riskier new consumer credit and other lending to households was reported.

On the demand side, **net demand for loans by enterprises in Cyprus decreased further in 2023Q3. A further net decline in loan demand by households, across all loan categories** and to a greater extent compared to enterprises, was also recorded. According to the Survey, the decrease in the net demand for business loans in 2023Q3 continues to reflect the negative impact of the higher lending rates, due to the restrictive monetary policy in the euro area, and reduced demand for financing fixed investments. Enterprises appear to persist with postponing long-term investment plans, with their loan demand centring more on meeting elevated financing needs for inventories and working capital in response to increased operational costs. As regards households, the net decrease in demand for housing loans in 2023Q3 is, according to the Survey, attributed to the higher general level of interest rates, lower consumer confidence and, to a lesser extent, to less favourable estimated housing market prospects. Likewise, banks attribute the decline in demand for consumer credit and other lending to higher interest rates, a decline in consumer confidence, reduced spending on durable consumer goods, and, for the first time, a decrease in consumption expenditure financed through real estate-guaranteed loans (mortgage equity withdrawal).

In 2023Q4, banks expect tighter credit standards and a further decline in loan demand in Cyprus, both for loans to enterprises and for all loan categories to households.

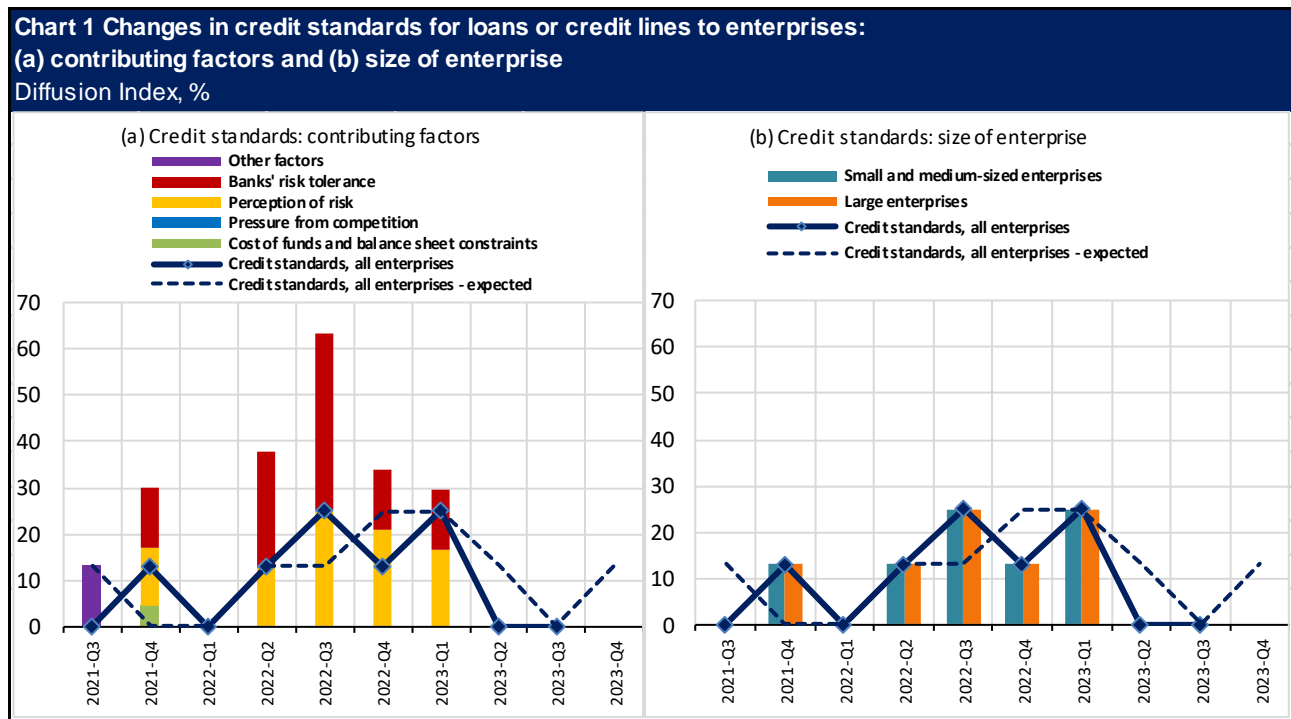
² Credit standards refer to the internal guidelines or loan approval criteria of a bank. Both new loans and loan refinancing, i.e. a prolongation of a loan or a higher loan amount, are considered. Credit standards are established prior to the actual loan negotiation on the terms and conditions and the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

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

2. Credit standards for loans (loan supply)

2.1. Credit standards for loans or credit lines to enterprises⁴

In 2023Q3, credit standards for loans to enterprises in Cyprus remained unchanged, consistent with banks' expectations as expressed in the previous Survey round. This marks the second consecutive quarter in which credit standards for business loans remained unchanged at the tighter levels reached in 2023Q1. Similar to the previous quarter, all factors contributing to changes in credit standards for loans to enterprises had a neutral impact in 2023Q3 (**Chart 1(a)**). It is noted that, in the quarter under review, 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.

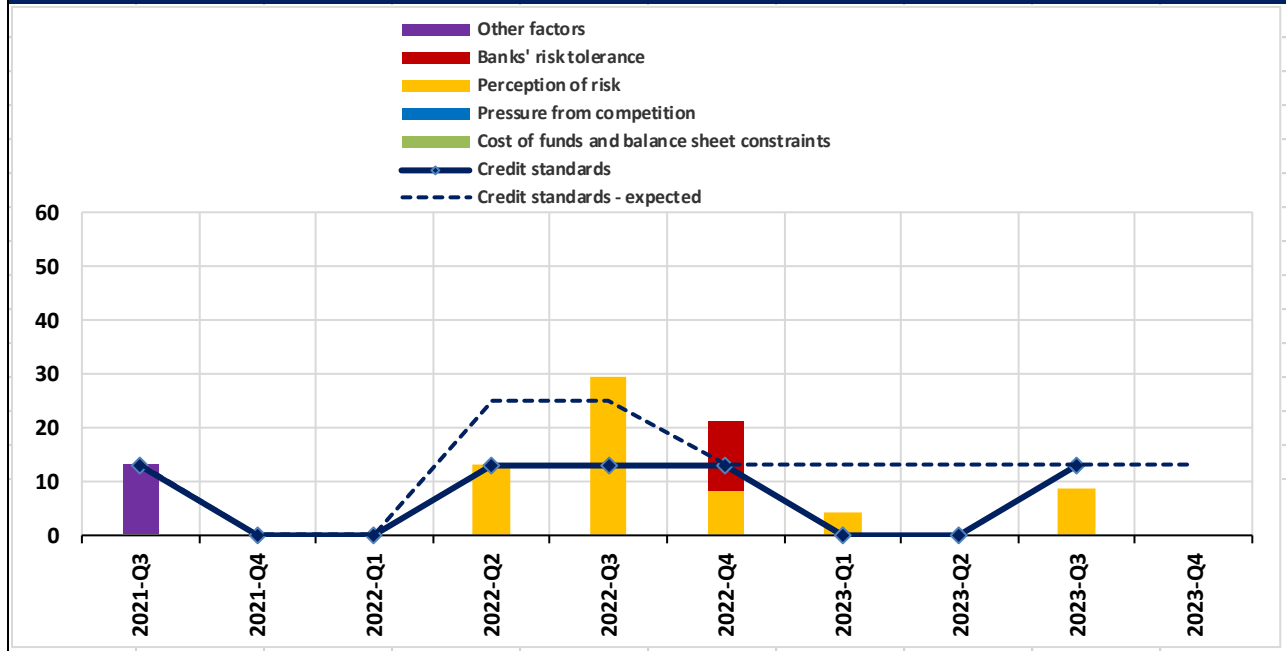
⁴ The term "enterprises" refers to non-financial corporations.

2.2. Credit standards for loans to households for house purchase

Credit standards for housing loans tightened in 2023Q3, after two consecutive quarters in which they had remained unchanged, aligning with the expectations expressed in the previous Survey round. According to the Survey, the tightening reflects banks' perceptions of increased risk in relation to the general economic situation and outlook, as well as the creditworthiness of borrowers (**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".

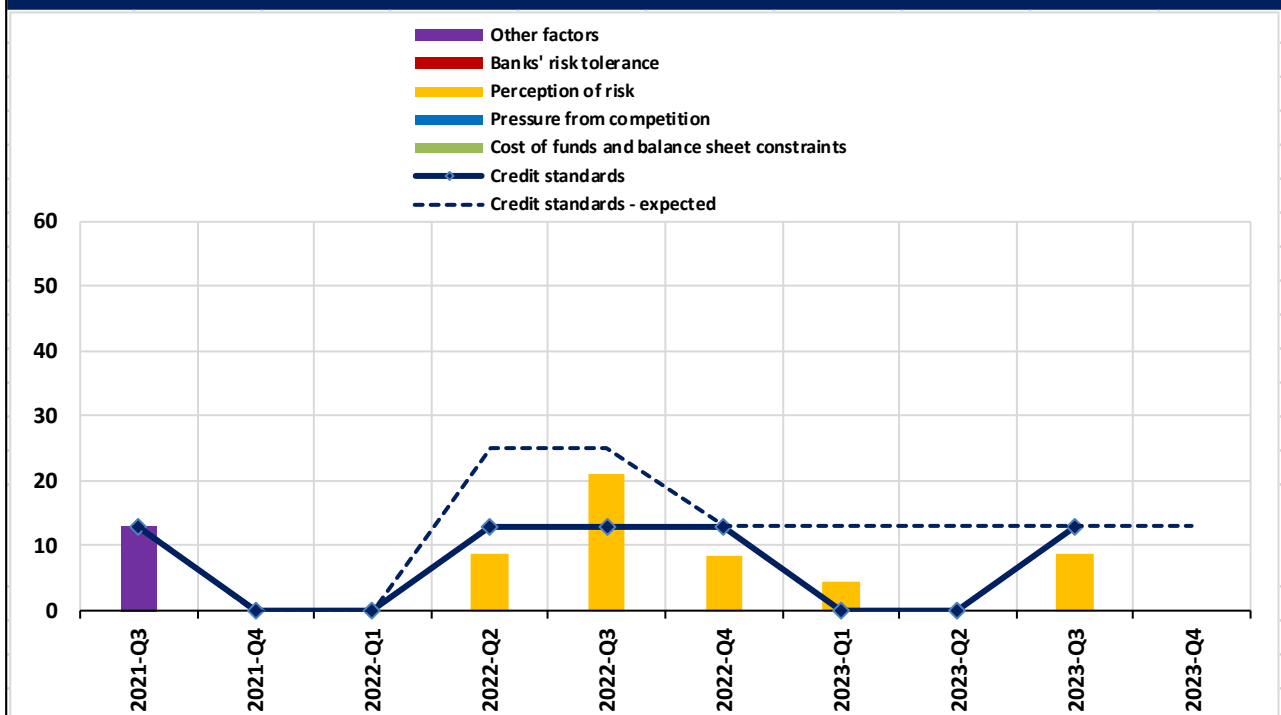
"**Other factors**" refer to further factors which were mentioned by participating banks as having contributed to changes in credit standards.

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

In 2023Q3, credit standards for consumer credit and other lending to households also tightened, in line with banks' expectations as recorded in the preceding quarter. Similar to housing loans, the adoption of tighter credit standards applied to the approval of consumer credit and other lending to households stemmed from banks' perceptions of elevated risk associated with the general economic situation and outlook, as well as with borrowers' creditworthiness (**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

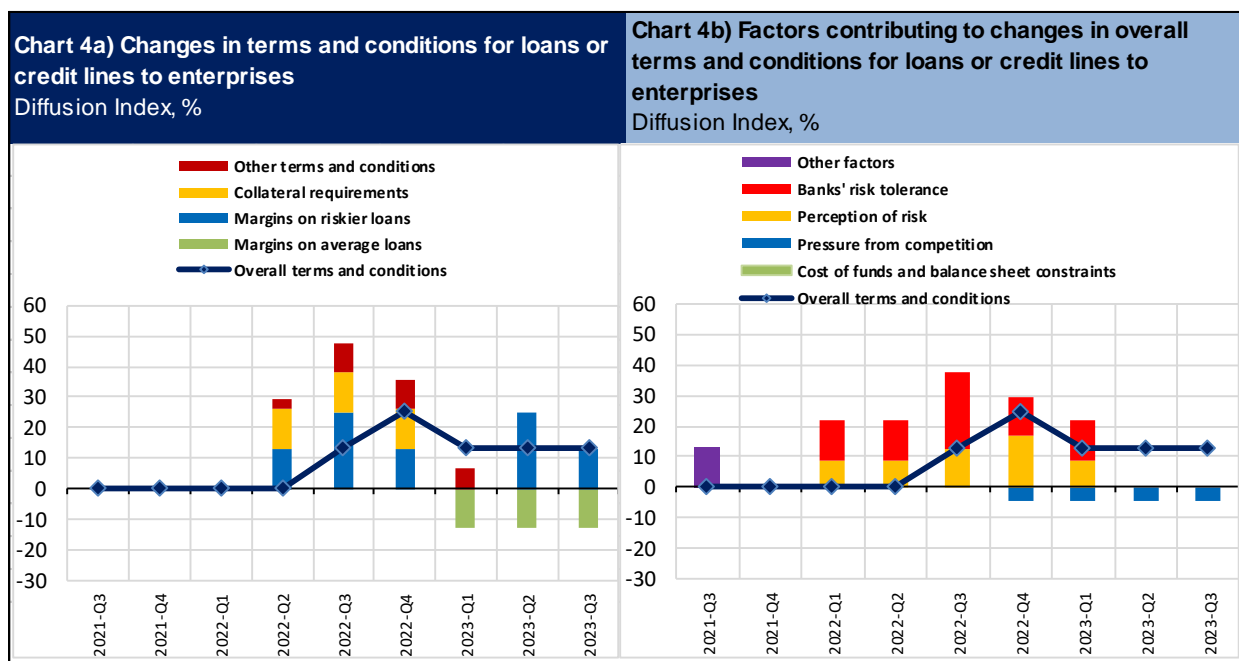
According to banks' expectations for 2023Q4, credit standards in Cyprus are anticipated to tighten for loans to enterprises as well as for all lending to households, compared with the previous quarter (**Charts 1-3**).

3. Overall terms and conditions on loans

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

According to the Survey, 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 2023Q3, as banks' margins (the spread over a relevant market reference rate) for riskier loans widened (**Chart 4(a)**). In contrast, on a net basis, margins for average loans continued to decrease (**Chart 4(a)**). It is worth noting, however, that this quarter's findings continued to reveal variations in responses among banks.

Regarding the contributing factors, banks' perceptions of increased credit risk appear to have led to the tightening of terms and conditions. However, due to the heterogeneity and offsetting observed in banks' responses, the aggregated impact of this factor on changes in the overall terms and conditions is neutral. At the same time, increased competition from other banking institutions has continued, for the fourth consecutive quarter, to contain the degree of 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" and "Competition from market financing".

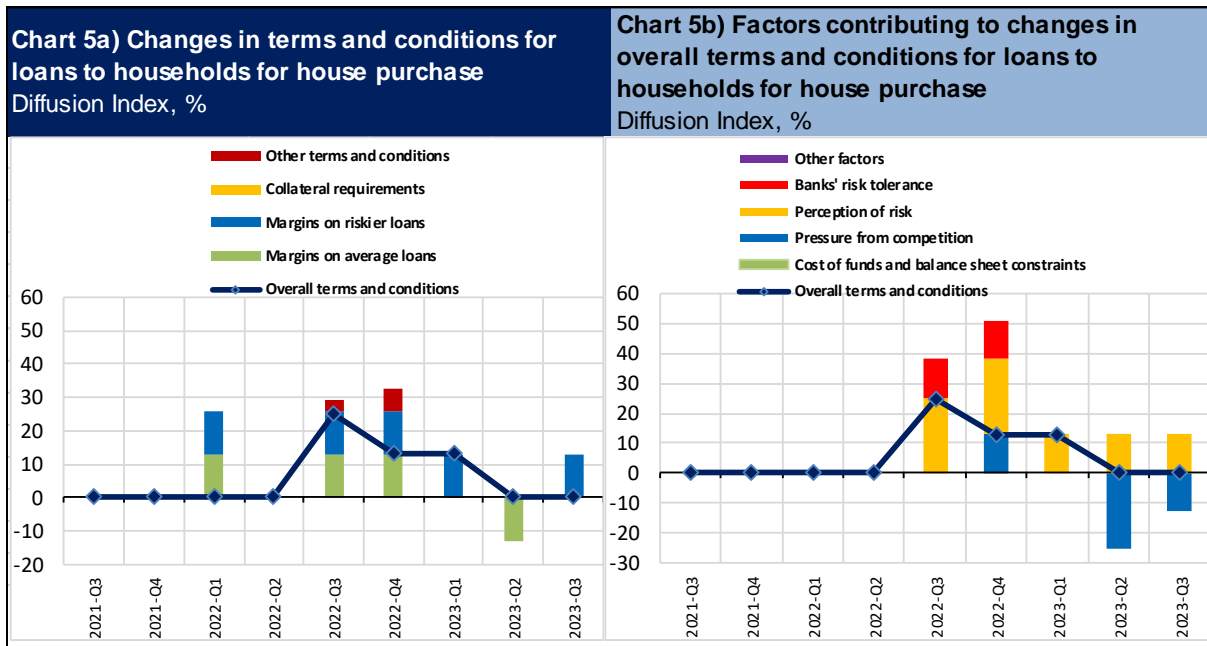
"**Perception of risk**" as unweighted average of "General economic situation and outlook", "Industry or firm-specific situation and outlook/borrower's creditworthiness" and "Risk on collateral demanded".

"**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.

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

In 2023Q3, the overall terms and conditions on new housing loans remained unchanged, on a net basis, despite a net widening of the banks' margins on riskier loans (**Chart 5(a)**). Regarding the factors influencing the overall terms and conditions on new housing loans in 2023Q3, the impact of banks' perceptions of increased risk was offset by competitive 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.

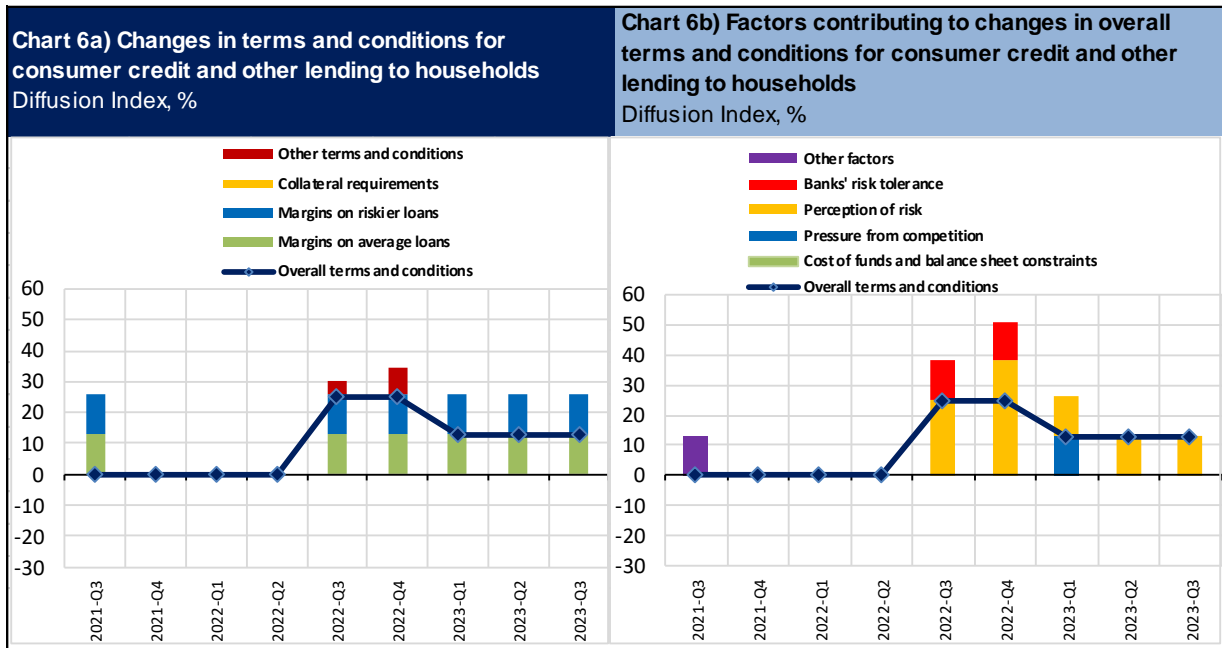
5a) «**Margins**» are defined as the spread over a relevant market reference rate (wider spread = tightened, narrower spread = eased).

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

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

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

In 2023Q3, the overall terms and conditions on consumer credit and other lending to households tightened further for the fifth consecutive quarter. Specifically, banks' margins on both average and riskier loans continued to widen (Chart 6(a)). According to the Survey, the tightening of the overall terms and conditions on new consumer credit and other lending to households in 2023Q3, reflects banks' perceptions of increased 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).

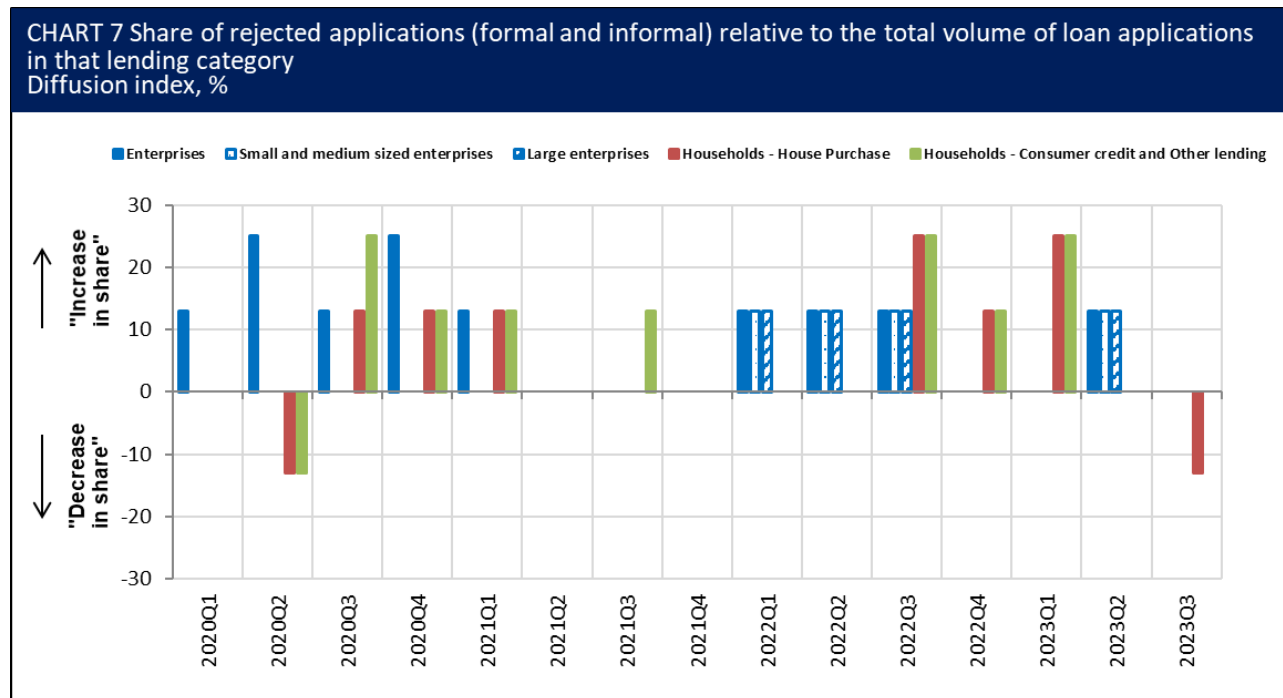
«**Other terms and conditions**» as unweighted average of "Size of loan", "Maturity", and "Non-interest rate charges".

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 2023Q3, the share of rejected applications (formal and informal) relative to the volume of all loan applications from enterprises remained unchanged compared to the previous quarter, for both SMEs and large enterprises (**Chart 7**). This development is in line with the unchanged credit standards for loans to enterprises over the last two quarters.

In contrast, the share of rejected applications for new housing loans to households decreased in the quarter under review, despite the continuous tightening of credit standards for these loans since 2020Q2. At the same time, the share of rejected applications for new consumer credit and other loans to households during 2023Q3 remained unchanged (**Chart 7**).



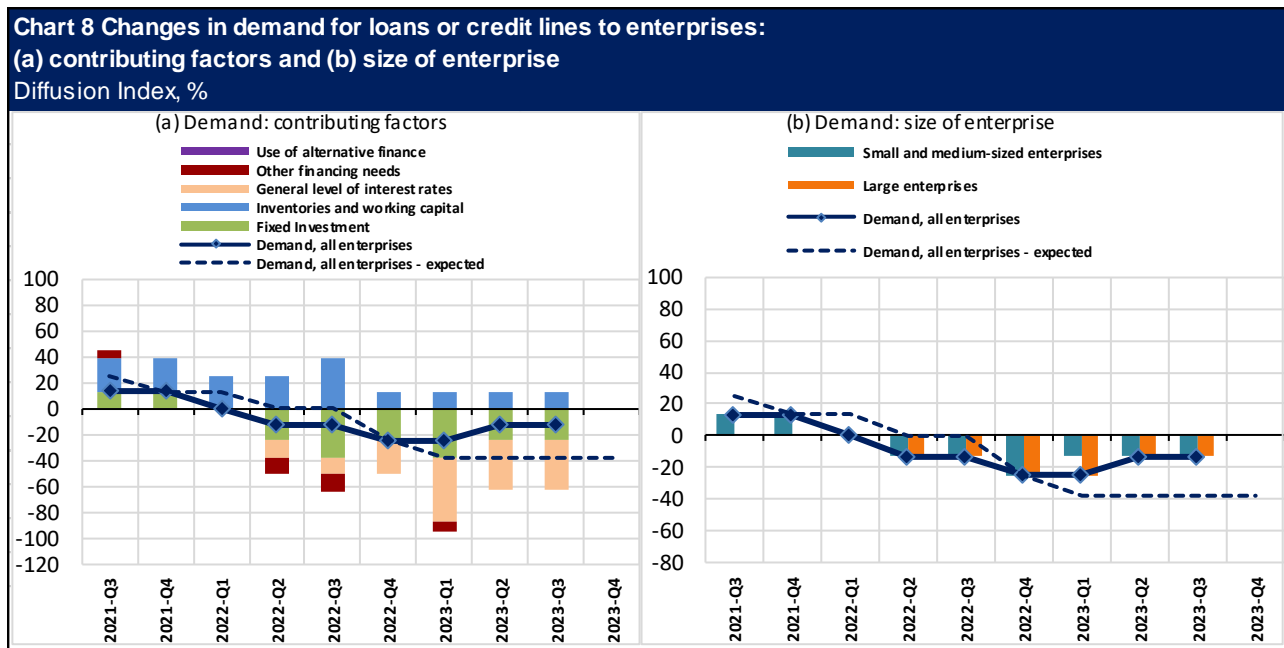
Notes:

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 2023Q3, although to a lesser extent than banks' expectations recorded in the previous quarter's Survey. According to the Survey, the decline in demand for business loans in 2023Q3 continues to reflect the general level of interest rates and reduced demand for financing fixed investment. With the uncertainty characterising the current economic environment and outlook, businesses appear to continue postponing their investment plans. Meanwhile, the demand for financing inventories and working capital continued to increase in 2023Q3 albeit at the same reduced pace of the past three quarters (**Chart 8(a)**). The decline in net loan demand in 2023Q3 is evident across both SMEs and large enterprises (**Chart 8(b)**).



Notes:

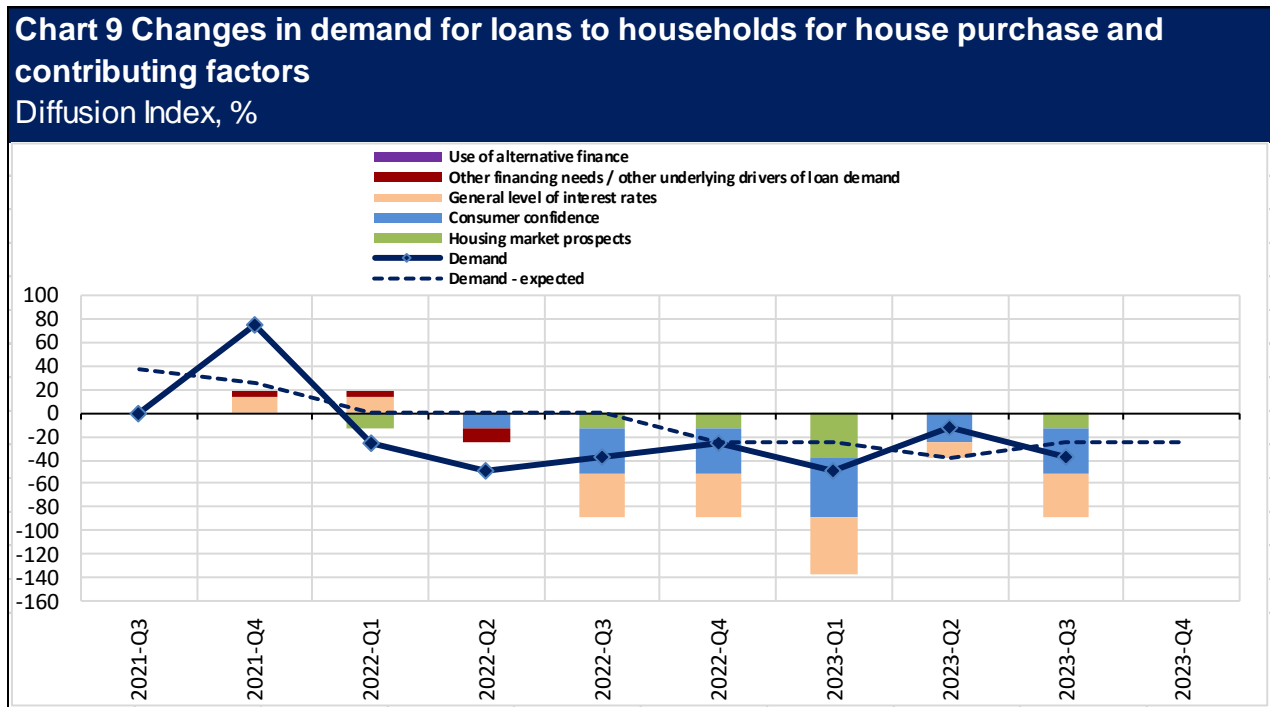
Concerning the direction of changes in loan demand, a **positive value** indicates an increase in demand and a contribution by the factors to this direction, while a **negative value** indicates a decrease in demand and a contribution by the factors to this direction.

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

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

5.2. Demand for loans to households for house purchase

In 2023Q3, households' net demand for housing loans further declined, to a greater extent than the previous quarter and banks' expectations. This decline follows the downward trend in loan demand observed since the beginning of 2022. According to the Survey, the decrease in demand for housing loans in 2023Q3 is attributed to high interest rates, low consumer confidence, and weakening housing market prospects (**Chart 9**).



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".

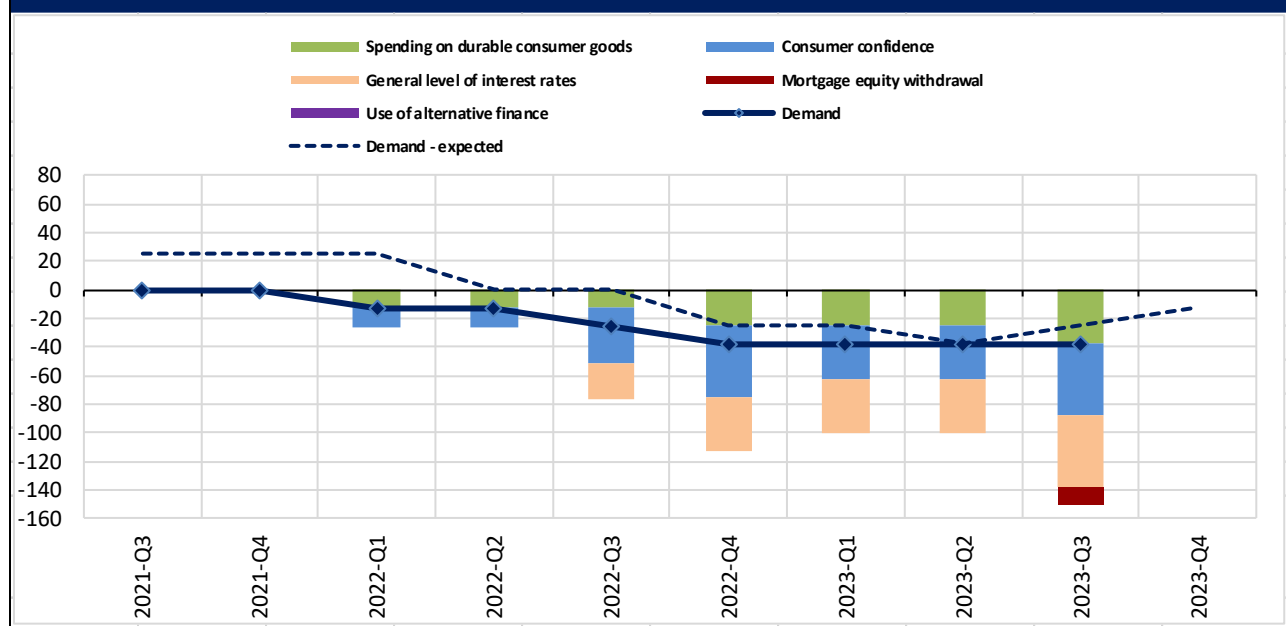
"Use of alternative finance" as unweighted average of "Internal financing out of savings/down payment", "Loans from other banks" and "Other sources of external finance".

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 2023Q3, surpassing expectations. According to the Survey, the factors contributing to the reduction in demand for this category of loans were once again lower consumer confidence, the general level of interest rates and a further decline in spending on consumer durables. Additionally, for the first time, the decrease in consumption expenditure financed through real estate-guaranteed loans (mortgage equity withdrawal) also had a negative impact on the demand for consumer credit and other lending by households (**Chart 10**).

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 2023Q4, a further net decrease in demand for loans is expected by both enterprises and households across all loan categories. Specifically, the decrease in enterprises' net demand is expected to be more significant compared to what was recorded in 2023Q3. Conversely, the net decrease in households' loan demand is expected to be more contained 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 October 2023 Bank Lending Survey relate to changes in 2023Q3 compared with the previous quarter and to changes expected in 2023Q4 compared with 2023Q3 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.