



CENTRAL BANK OF CYPRUS

EUROSYSTEM

APRIL 2024
BANK LENDING SURVEY
Results for Cyprus

Nicosia - Cyprus

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1. Overview

The April 2024 Bank Lending Survey (BLS)¹ records, among other things, the changes in credit standards and loan demand that occurred in 2024Q1 compared with 2023Q4 in Cyprus, as well as the changes that are expected to occur in 2024Q2 compared with 2024Q1. 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).

Summary of BLS results - April 2024	Cyprus	
	2024Q1	2024Q2 (expectations)
Supply of loans		
Credit standards for loans		
Enterprises	Tightening	Unchanged
Households		
- Housing loans	Unchanged	Unchanged
- Consumer credit and other lending	Unchanged	Unchanged
Overall terms and conditions for loans		
Enterprises	Tightening	*
Households		
- Housing loans	Unchanged	*
- Consumer credit and other lending	Tightening	*
Demand for loans		
Enterprises	Decrease	Unchanged
Households		
- Housing loans	Decrease	Unchanged
- 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 April 2024 BLS was conducted in the period 29 February - 15 March 2024. The statistical analysis for Cyprus uses the diffusion index. More information on the methodology of the Survey can be found [here](#).
 - In those cases where no line or bar is evident in the charts of this report, the diffusion index is zero for the respective quarter. Either this implies that there was no change compared with the previous quarter or that the answers of the participating banks offset one another.
 - The BLS results for the euro area are available [here](#).

In terms of *loan supply*, **credit standards² for loans to enterprises tightened further in 2024Q1** after three consecutive quarters during which they remained unchanged. Banks' reduced risk tolerance and their perception of increased risk regarding the general economic situation and outlook mainly contributed to the tightening according to the Survey. In contrast, **credit standards for loans to households, both for housing loans as well as for consumer credit and other lending, remained unchanged** in 2024Q1 compared to the previous quarter. All factors affecting credit standards for household loans had a neutral impact in the quarter under review.

In 2024Q1, the overall terms and conditions on new loans or credit lines³ to enterprises tightened further. Specifically, a further widening in the interest margin (i.e. the spread over a relevant market reference rate) applied by banks for new business loans with higher risk was reported. According to the Survey, the tightening of the overall terms and conditions for new business loans is attributed to banks' perception of increased risk. At the same time, increased competition from other banks continued to mitigate the tightening, for the sixth consecutive quarter. **Regarding households, the overall terms and conditions on new housing loans remained, on a net basis, unchanged**, for the fourth consecutive quarter, despite the net increase recorded in banks' interest rates for new housing loans as well as the net widening of banks' margins on new housing loans with higher risk. As for the factors affecting the overall terms and conditions for new housing loans, it is noted that the impact of banks' perception of increased risk and the higher cost of funds and balance sheet constraints was offset by competitive pressures. On the other hand, **the tightening of overall terms and conditions on new consumer credit and other lending to households continued in 2024Q1**, driven by banks' higher risk perceptions. Specifically, an increase in lending rates and a widening of banks' margins on both average and riskier consumer credit and other lending was reported.

On the *loan demand* side, **net demand for loans by enterprises, and to a greater extent by households, for housing loans as well as consumer credit and other lending, decreased further in 2024Q1.** Banks' attribute the net decline in demand for business loans in 2024Q1 to the elevated general level of interest rates. Conversely, increased financing needs for fixed investments, which may reflect the positive growth prospects of the Cypriot economy, as well as debt refinancing/restructuring, contributed positively to loan demand. Regarding households, the net decrease in demand for housing loans is attributed to high interest rates, low consumer confidence, and weakening housing market prospects. Similarly, the decline in demand for consumer credit and other lending is, according to the Survey, attributed to the higher level of interest rates, low consumer confidence, lower spending on durable consumer goods and lower consumption expenditure financed through real-estate guaranteed loans.

According to *banks' expectations* for 2024Q2, **credit standards for loans to both enterprises and households are expected to remain unchanged** compared to the previous quarter. At the same time, **a decrease in net demand for consumer credit and other lending** by households is expected, while **net demand for loans by enterprises and for housing loans by households is expected to remain stable.**

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.

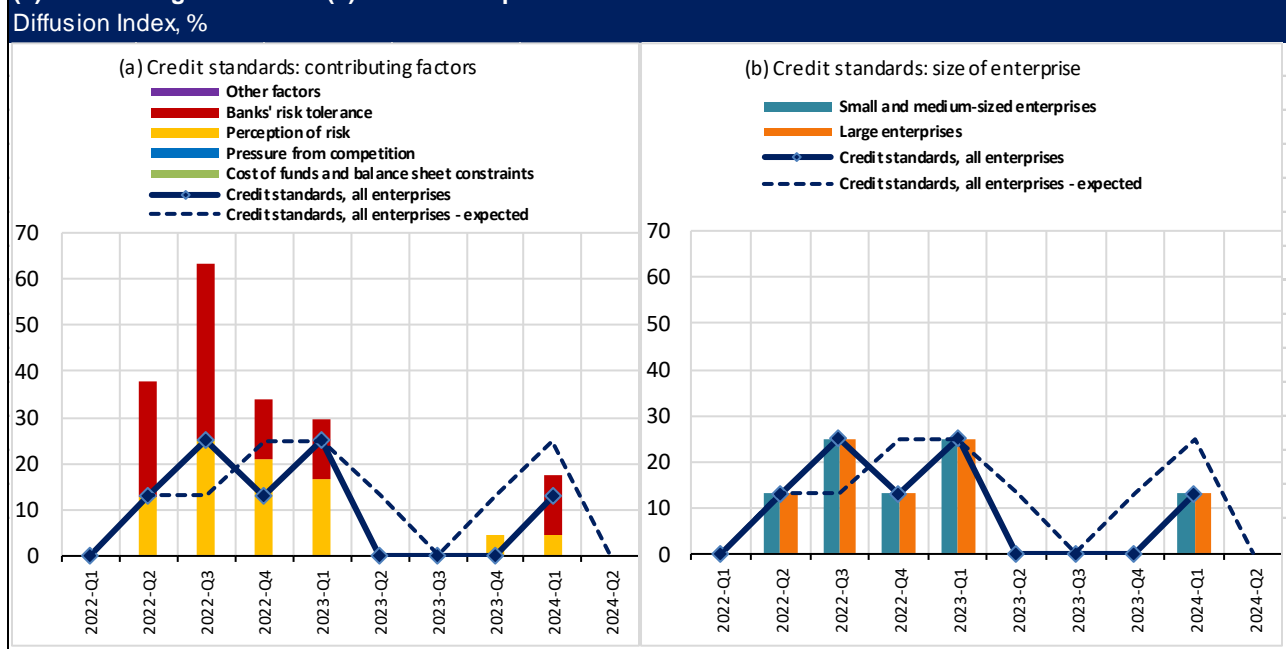
2. Loan Supply

2.1. Credit standards for loans

2.1.1. Credit standards for loans or credit lines to enterprises⁴

Credit standards for loans to enterprises in Cyprus tightened further in 2024Q1, although to a lesser extent than anticipated in the previous quarter's Survey. This tightening occurred after three quarters during which credit standards for business loans had remained unchanged and primarily reflects banks' reduced risk tolerance, as well as their perception of increased risk regarding the general economic situation and outlook (**Chart 1(a)**). Additionally, it is noted that credit standards during the quarter under review tightened for loans to both small and medium-sized enterprises (SMEs) and to large enterprises (**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.

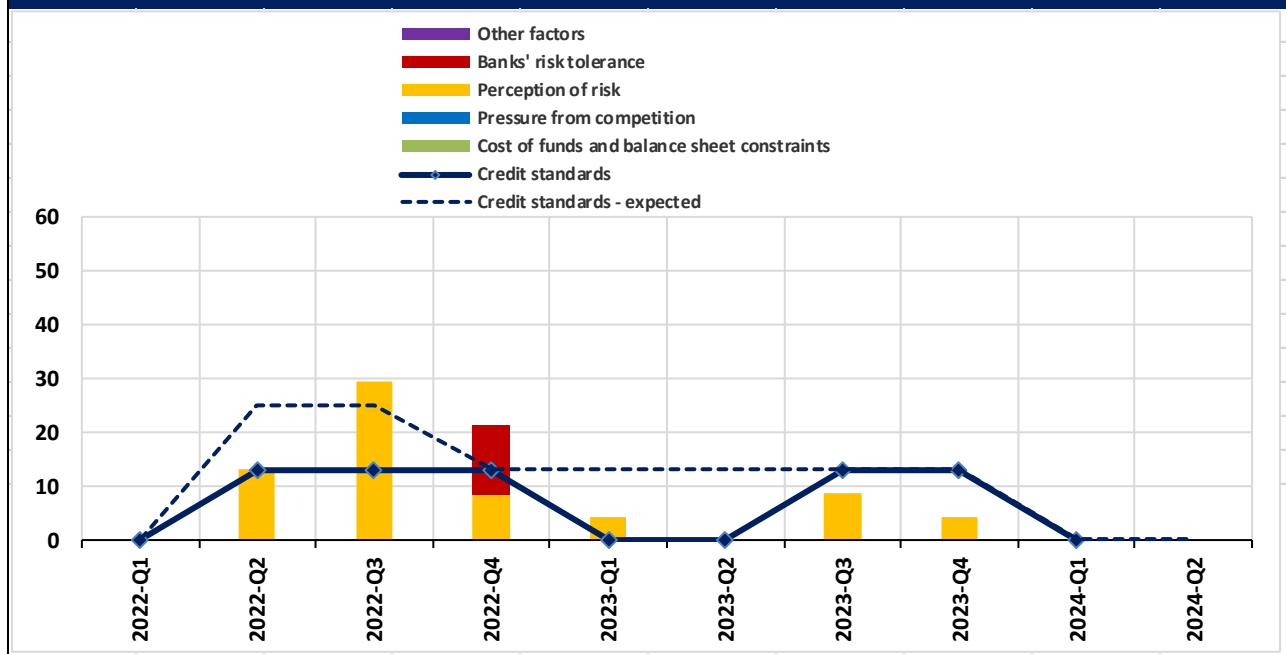
⁴ The term "enterprises" refers to non-financial corporations.

2.1.2. Credit standards for loans to households for house purchase

In 2024Q1, **credit standards for housing loans to households remained unchanged** compared to the previous quarter, a development consistent with banks' expectations recorded in the January 2024 Survey. All factors contributing to changes to credit standards for housing loans had a neutral impact in 2024Q1, in contrast to the previous quarter when banks' perception of risk was heightened (**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".

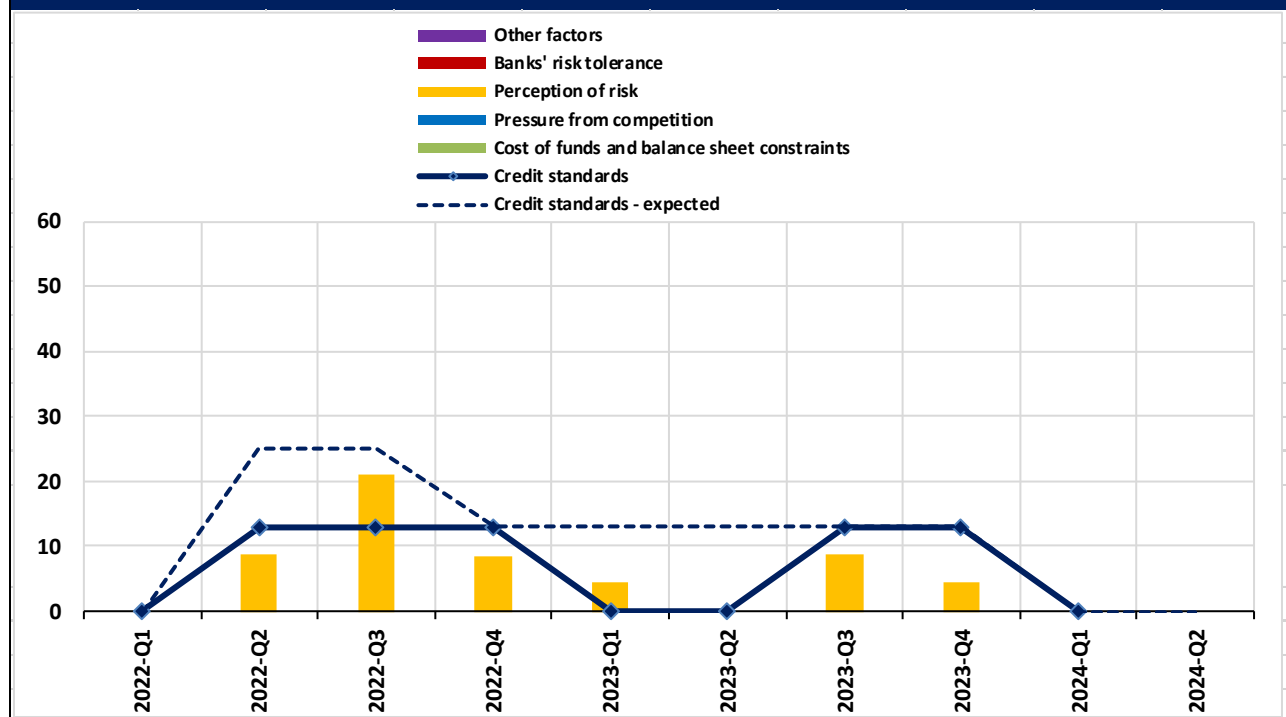
"**Other factors**" refer to further factors which were mentioned by participating banks as having contributed to changes in credit standards.

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

As with housing loans, **credit standards for consumer credit and other lending to households remained unchanged** in 2024Q1, in line with banks' expectations recorded in the previous quarter. All factors affecting the credit standards for this category of loans to households had a neutral impact 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.

2.1.4. Expectations for the next quarter

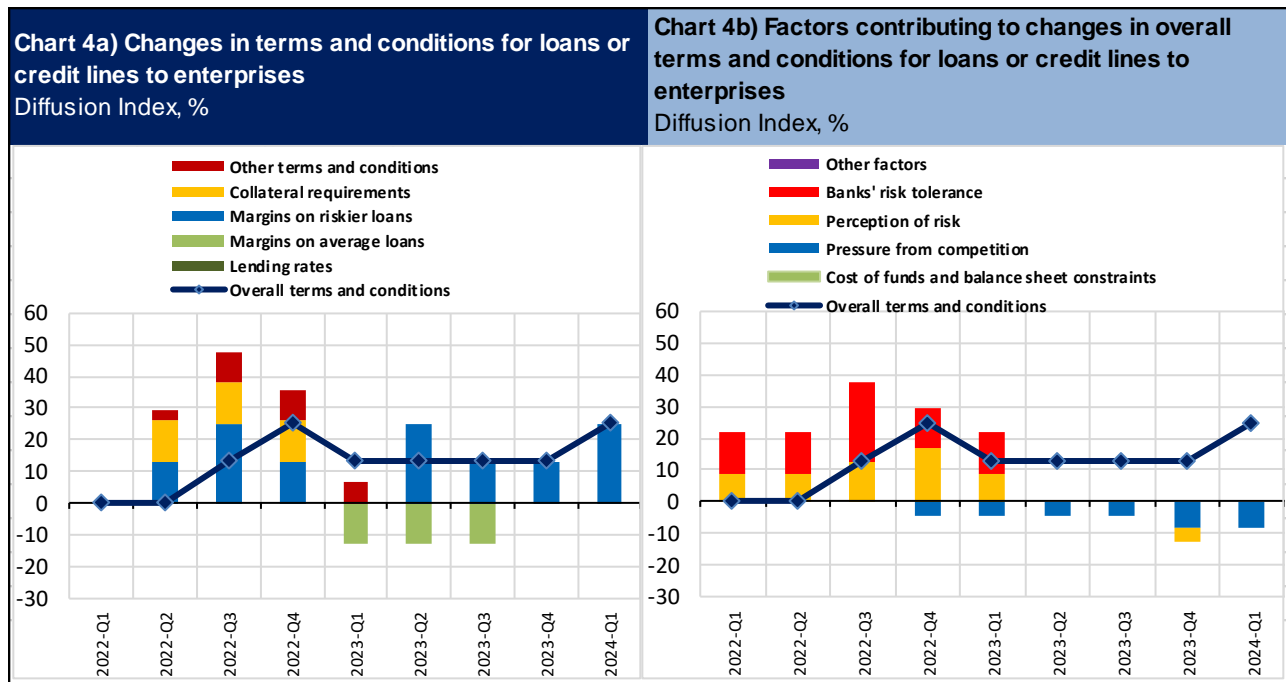
Participating banks expect credit standards for loans to enterprises as well as for all categories of loans to households, to remain unchanged in 2024Q2, compared to the previous quarter (**Charts 1-3**).

2.2. Overall terms and conditions on loans

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

In 2024Q1, the overall terms and conditions on new business loans (i.e., the banks' actual terms and conditions agreed upon in the loan contract) tightened, to a greater extent than in the previous four quarters. Specifically, the tightening mainly concerned the margin, defined as the spread over a relevant market reference rate, applied by banks for loans considered riskier, which continued to widen (Chart 4(a)). As for the rest of the terms and conditions, these remained unchanged in the quarter under review.

Banks' higher risk perceptions remained the main driver of the net tightening in the overall terms and conditions for new business loans. However, due to the heterogeneity and offsetting of banks' responses, the overall impact of this factor in 2024Q1 appears neutral. On the other hand, increased competition from other banks continued to moderate the degree of tightening of the overall terms and conditions for the sixth consecutive quarter (Chart 4(b)).



Notes:

Concerning the direction of changes in terms and conditions on loans or credit lines, a **positive value** indicates a tightening of terms and conditions and a contribution by the factors to this direction, while a **negative value** indicates an easing of terms and conditions and a contribution by the factors to this direction.

4a) **«Margins»** are defined as the spread over a relevant market reference rate (wider spread = tightened, narrower spread = eased).

"Other terms and conditions" as unweighted average of "Non-interest rate charges", "Size of the loan or credit line", "Loan covenants" and "Maturity".

4b) **"Cost of funds and balance sheet constraints"** as unweighted average of "Capital and cost related to capital position", "Access to market financing" and "Liquidity position".

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

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

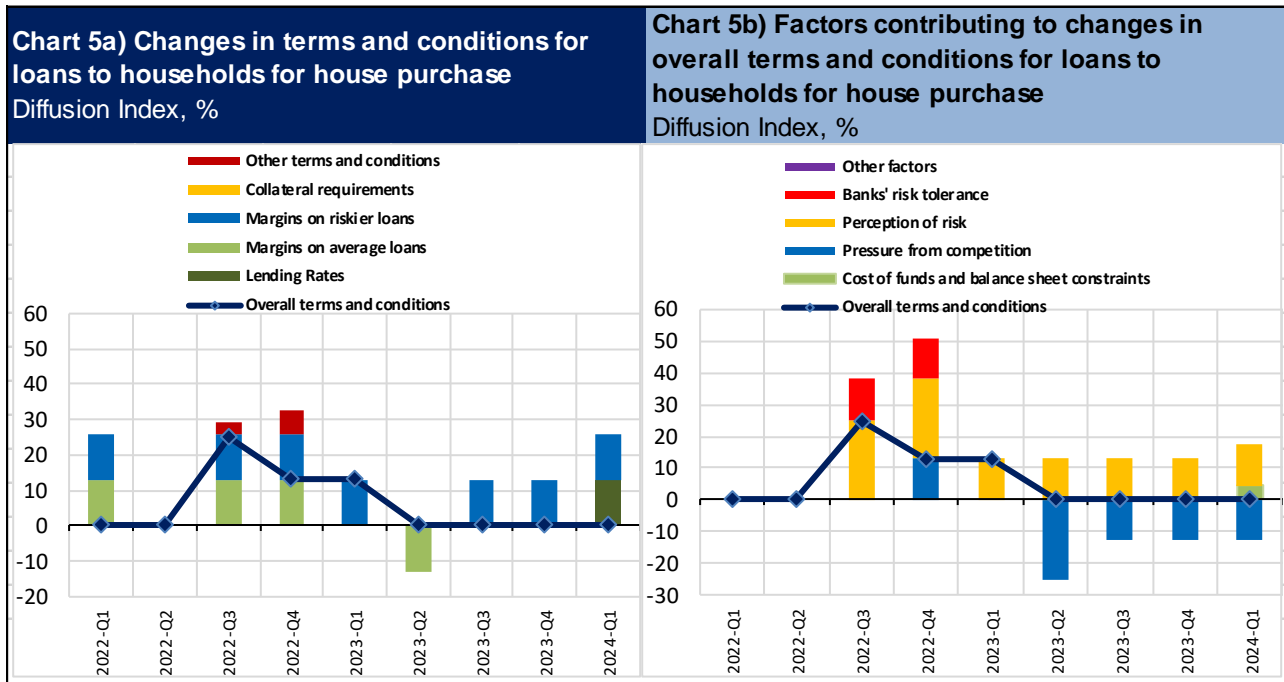
"Other factors" refer to further factors which were mentioned by participating banks as having contributed to changes in terms and conditions.

Detailed sub-factors were introduced in April 2022.

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

The overall terms and conditions on new housing loans in 2024Q1 remained unchanged in net terms, despite a net increase in lending rates as well as a widening of banks' margins on riskier loans (Chart 5(a)). It is noted that, the April 2024 questionnaire asked banks, for the first time, to report on changes in their lending rates under a separate sub-item.

According to the Survey, the impact of banks' perceptions of increased risk as well as their higher cost of funds and balance sheet constraints, was counterbalanced 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).

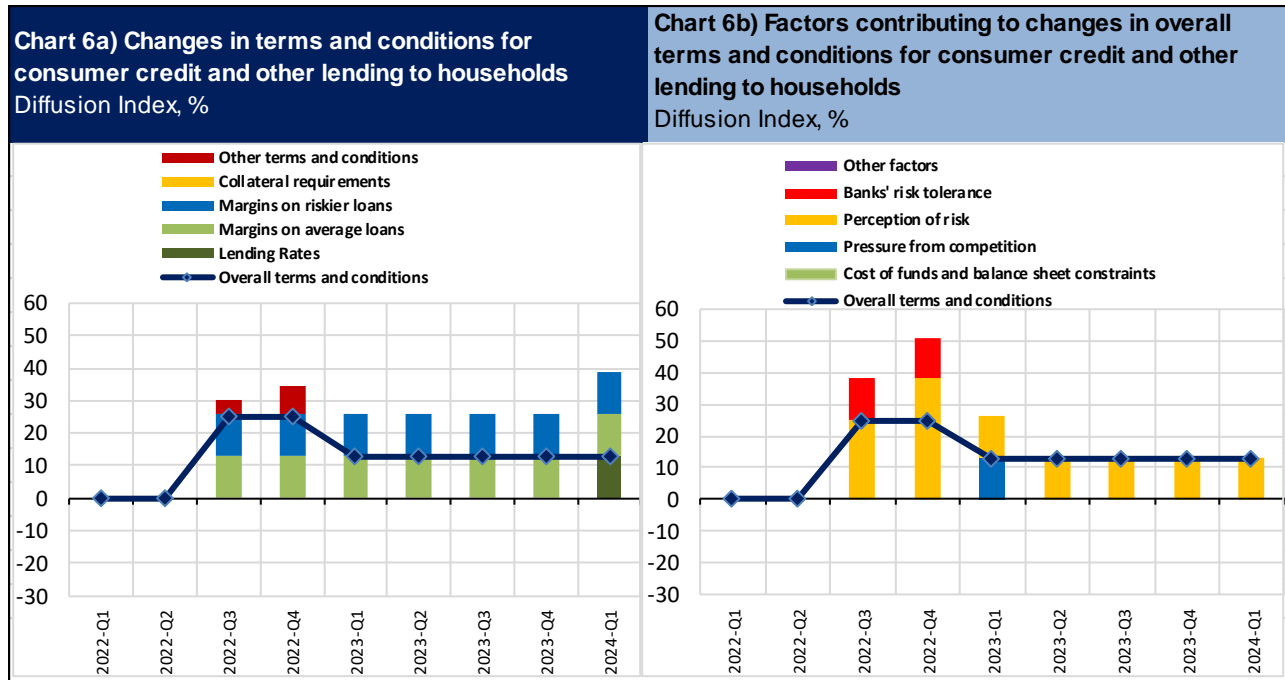
"**Other terms and conditions**" as unweighted average of "Loan-to-value ratio", "Other loan size limits", "Maturity" and "Non-interest rate charges".

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

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

In 2024Q1, **the tightening of the overall terms and conditions on consumer credit and other lending to households continued** for the seventh consecutive quarter. Specifically, an increase in banks' lending rates and a widening of their interest margins on both average and riskier consumer credit and other lending were recorded (**Chart 6(a)**).

According to the Survey, banks' higher risk perceptions continued to contribute to the tightening of the overall terms and conditions for these loans during 2024Q1 (**Chart 6(b)**).



Notes:

Concerning the direction of changes in terms and conditions on loans, a **positive value** indicates a tightening of terms and conditions and a contribution by the factors to this direction, while a **negative value** indicates an easing of terms and conditions and a contribution by the factors to this direction.

6a) **«Margins»** are defined as the spread over a relevant market reference rate (wider spread = tightened, narrower spread = eased).

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

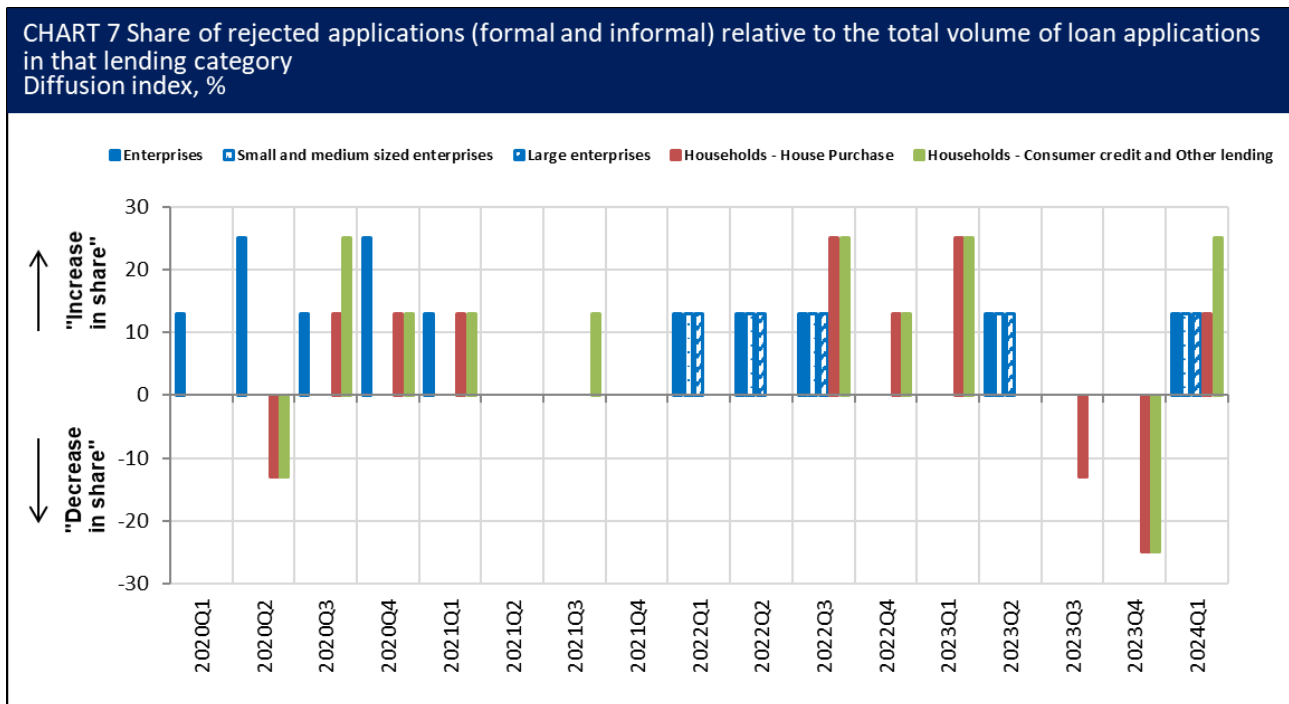
6b) **"Other factors"** refer to further factors which were reported by participating banks as having contributed to changes in the terms and conditions for these loans.

2.3. Rejected applications

The share of rejected applications (both formal and informal) relative to the volume of all loan applications from enterprises increased in 2024Q1, for both SMEs and large enterprises (**Chart 7**). This development aligns with the ongoing tightening of credit standards for loans to enterprises, which makes banks more likely to reject loan applications.

Similarly, in the quarter under review, there was an increase in the share of rejected applications from households, for housing loans and, to a greater extent, for consumer credit and other lending. This reflects the impact of the tightening of credit standards for housing loans as well as for consumer credit and other lending recorded in previous quarters (**Chart 7**).

In an environment characterised by higher living costs and increased interest rates, banks remain particularly vigilant regarding the quality of their loan portfolios, placing significant emphasis on the future debt servicing capacity of both businesses and households.



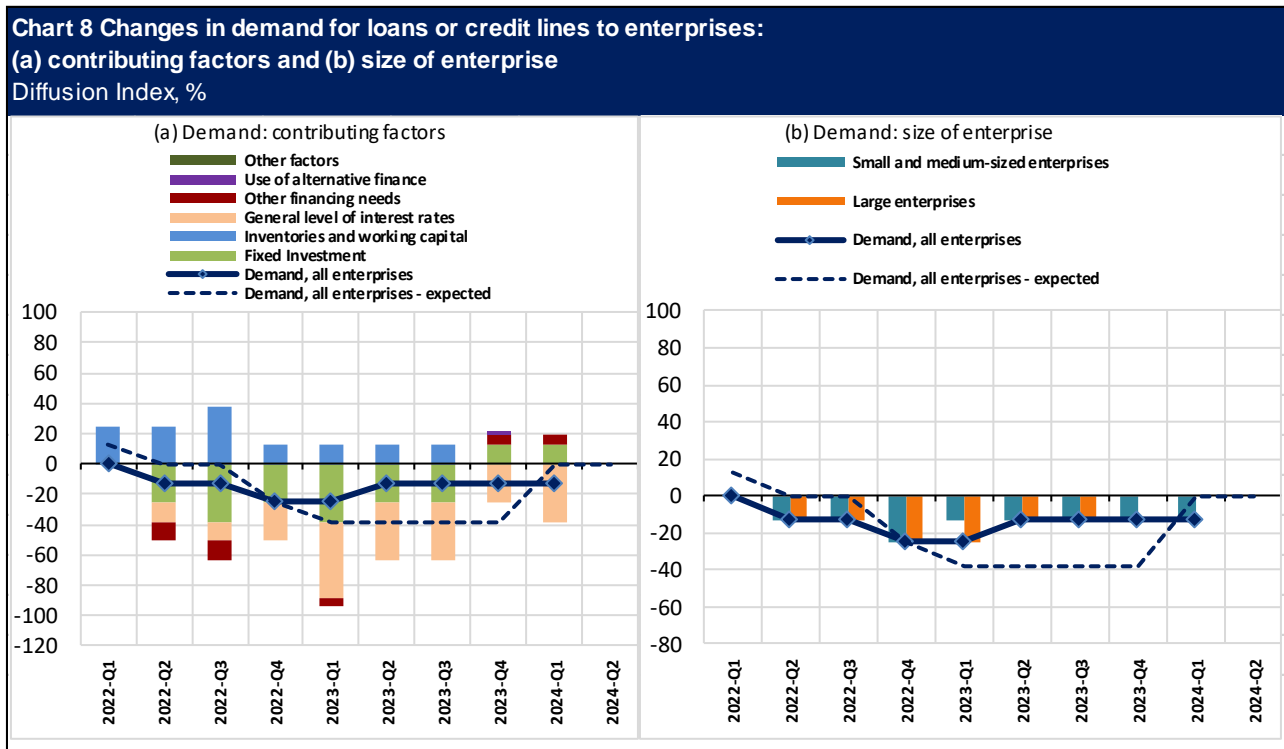
Notes:

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

3. Loan demand

3.1. Demand for loans or credit lines to enterprises

In 2024Q1, **net demand for loans by enterprises continued to decline**, contrary to banks' expectations for unchanged demand expressed in the previous quarter's Survey. As in 2023Q4, the decrease in business loan demand in 2024Q1 is attributed to the elevated general level of interest rates. Conversely, increased financing needs for fixed investments, potentially reflecting positive growth prospects of the Cypriot economy, as well as debt refinancing/restructuring (included in "Other financing needs") positively contributed to loan demand during this quarter (**Chart 8(a)**). According to the Survey, the net decrease in the overall business loan demand in 2024Q1 mainly stemmed from SMEs. In contrast, net demand for loans from large enterprises remained unchanged compared to the previous quarter (**Chart 8(b)**).



Notes:

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

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

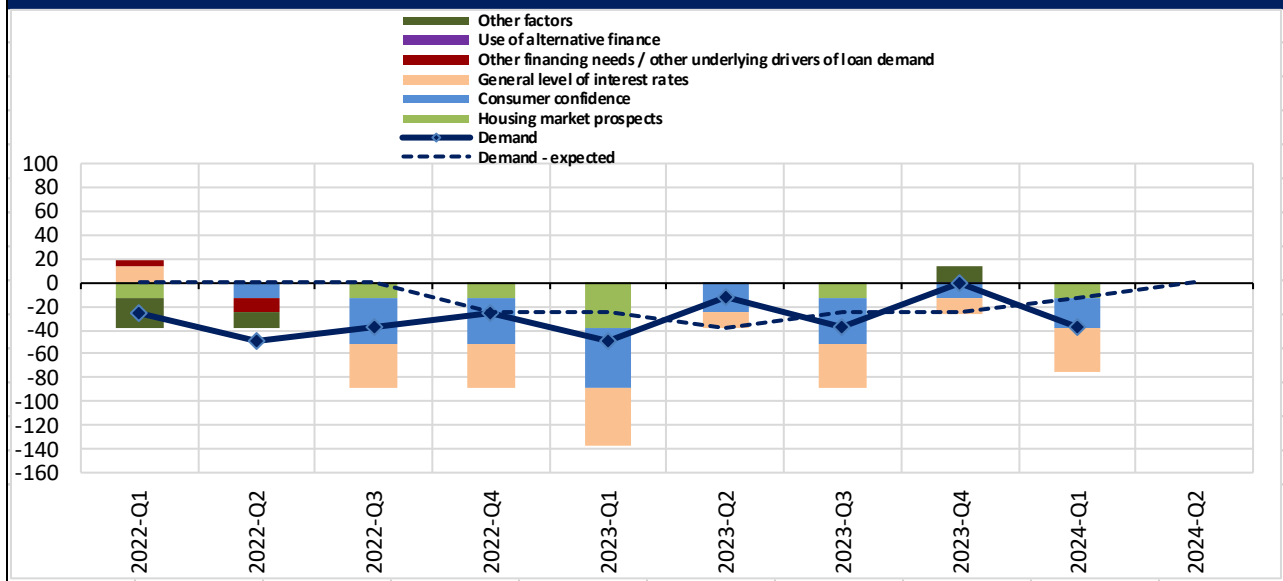
"Use of alternative finance" as unweighted average of "Internal financing", "Loans from other banks", "Loans from non-banks", "Issuance/redemption of debt securities" and "Issuance/redemption of equity".

3.2. Demand for loans to households for house purchase

Net demand for housing loans by households decreased in 2024Q1, to a greater extent compared to banks' expectations recorded in the January 2024 Survey. According to the Survey, this decline in demand is attributed to the elevated general level of interest rates, low consumer confidence, and weakening housing market prospects (**Chart 9**).

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

Diffusion Index, %



Notes:

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

"Other financing needs / other underlying drivers of loan demand" as unweighted average of "Debt refinancing/restructuring and renegotiation" and "Regulatory and fiscal regime of housing markets".

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

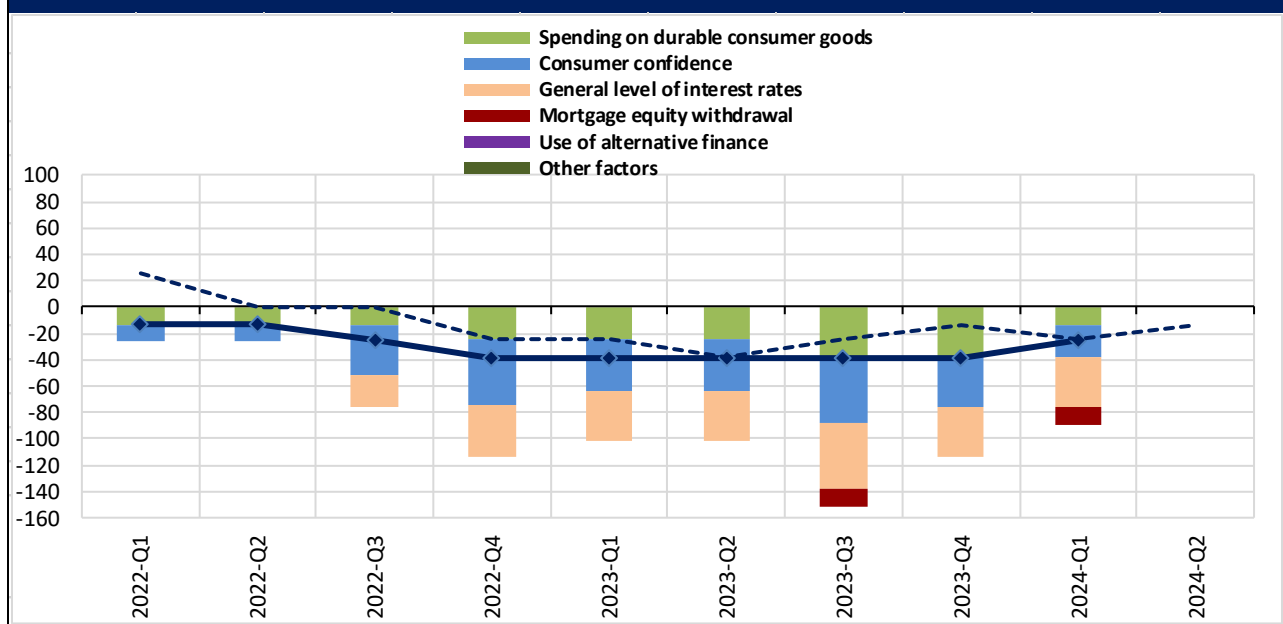
3.3. Demand for consumer credit and other lending to households

In 2024Q1, **net demand for consumer credit and other lending by households continued to decline**, in line with expectations expressed in the previous quarter's Survey. However, the net decrease was lower compared to previous quarters.

According to the Survey, the factors contributing to this decrease in demand included the higher level of interest rates, low consumer confidence, reduced spending on durable consumer goods, and a reduction in consumption expenditure financed through real-estate guaranteed loans ("Mortgage equity withdrawal" (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".

3.4. Expectations for the next quarter

According to participating banks' expectations for 2024Q2, net demand for loans by enterprises is expected to remain unchanged compared to 2024Q1. Net demand for housing loans by households is also expected to remain stable, while the demand for consumer credit and other lending by households is expected to decrease further (Charts 8-10).

4. Notes

The Bank Lending Survey is a qualitative survey for the assessment of credit conditions in the euro area and its main objective is to enhance the understanding of bank lending behavior. The Survey questionnaire is addressed to senior loan officers in a representative sample of euro area banks and covers a broad area of relevant subjects regarding credit to enterprises and households. For example, it includes questions concerning credit standards as applied to the approval of loans, the terms and conditions of new loans, as well as questions concerning the evaluation by banks of factors affecting demand. More information on the methodology of the Survey can be found [here](#).

In order to enhance the information content of the Survey, a revised BLS questionnaire and compilation guide were introduced in April 2015. Since then, the questionnaire continues to be enriched at times, to include all relevant information to aid the monetary policy decision-making process of the Governing Council of the European Central Bank. In this context, specific questions of special interest may be added in order to investigate current economic issues. However, to ensure the anonymity of participating banks, these results are not published in this report.

The results of the April 2024 Bank Lending Survey relate to changes in 2024Q1 compared with the previous quarter and to changes expected in 2024Q2 compared with 2024Q1 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.