



CENTRAL BANK
OF THE REPUBLIC OF AZERBAIJAN

CREDIT CONDITIONS AND FUNDING SOURCES SURVEY RESULTS

Q I
2025

FINANCIAL STABILITY DEPARTMENT

ABBREVIATIONS

MCGF - Mortgage and Credit Guarantee Fund of the Republic of Azerbaijan

SME – Small and Medium Enterprises

MSME – Micro, Small and Medium Enterprises

LE – Legal entities

Ind. - Individuals

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Introduction

The purpose of this survey is to monitor and analyze banks' lending activities and funding sources, identify and assess threats to financial stability at an early stage, determine the appropriate prudential policy, and inform the financial sector participants about relevant trends. This survey includes the assessment of supply and demand factors with respect to business, consumer and mortgage loans, as well as the analysis of the structure of banks' funding sources and the cost of funding. The points covered in the survey are as follows:

- Dynamics of changes in credit standards (policies),*
- Factors affecting the dynamics of credit standards,*
- Dynamics of changes in loan demand,*
- Structure of sources of funding,*
- Cost of funding and factors affecting it.*

The survey contains qualitative questions and does not require quantitative scoring. The method of balance statistics is used to convert the results of the survey into quantitative data. The diffusion index indicator is used to measure the overall trend based on survey results. The index ranges from negative 100% to positive 100%. A positive 100% indicates that 100% of respondents observe a significant easing or an increase in the trend, while a negative 100% indicates that 100% of respondents observe a significant tightening or decrease. An index value of 0% indicates that the trend has not changed from the previous quarter. Banks' responses are weighted by each bank's share of the loan portfolio to calculate the index. Survey respondents are senior bank loan officers or board members responsible for the relevant area.

The survey has been conducted on a quarterly basis since the first quarter of 2022. The expectations presented in the report do not reflect the expectations of the Central Bank of the Republic of Azerbaijan, but only the assessments of the survey respondents (banks) on the current and future trends of lending, the structure of the sources of funding, and the cost of funding.

Summary of survey results

The survey results from the first quarter of 2025 showed no changes in the standards or demand for total business loans, including those to micro and large businesses. Banks think that standards for all business loans will stay the same in the next three months, and that demand will go up.

According to the survey results, there were no changes in the standards for internal mortgage loans or MCGF-granted mortgage loans. Respondents reported an increase in demand for mortgage loans in Q1 2025. However, banks do not expect changes in credit standards or demand for mortgage loans in the next quarter.

Based on the survey results from banks, the trend of tightening standards for all consumer loans, including credit cards, continued in Q1 2025. However, banks reported no change in demand for consumer loans during that period. Survey respondents believe that standards for consumer loans will continue to tighten in the next quarter, though demand is not expected to change significantly.

Respondents reported an increase in time deposits from legal entities and individuals as a source of funding. Banks expect an increase in the volume of time and demand deposits from both segments in the next quarter. According to the results of the survey, against the background of increased competition among banks in attracting funding sources, an increase in funding costs was observed for both demand and time deposits of legal entities and individuals.

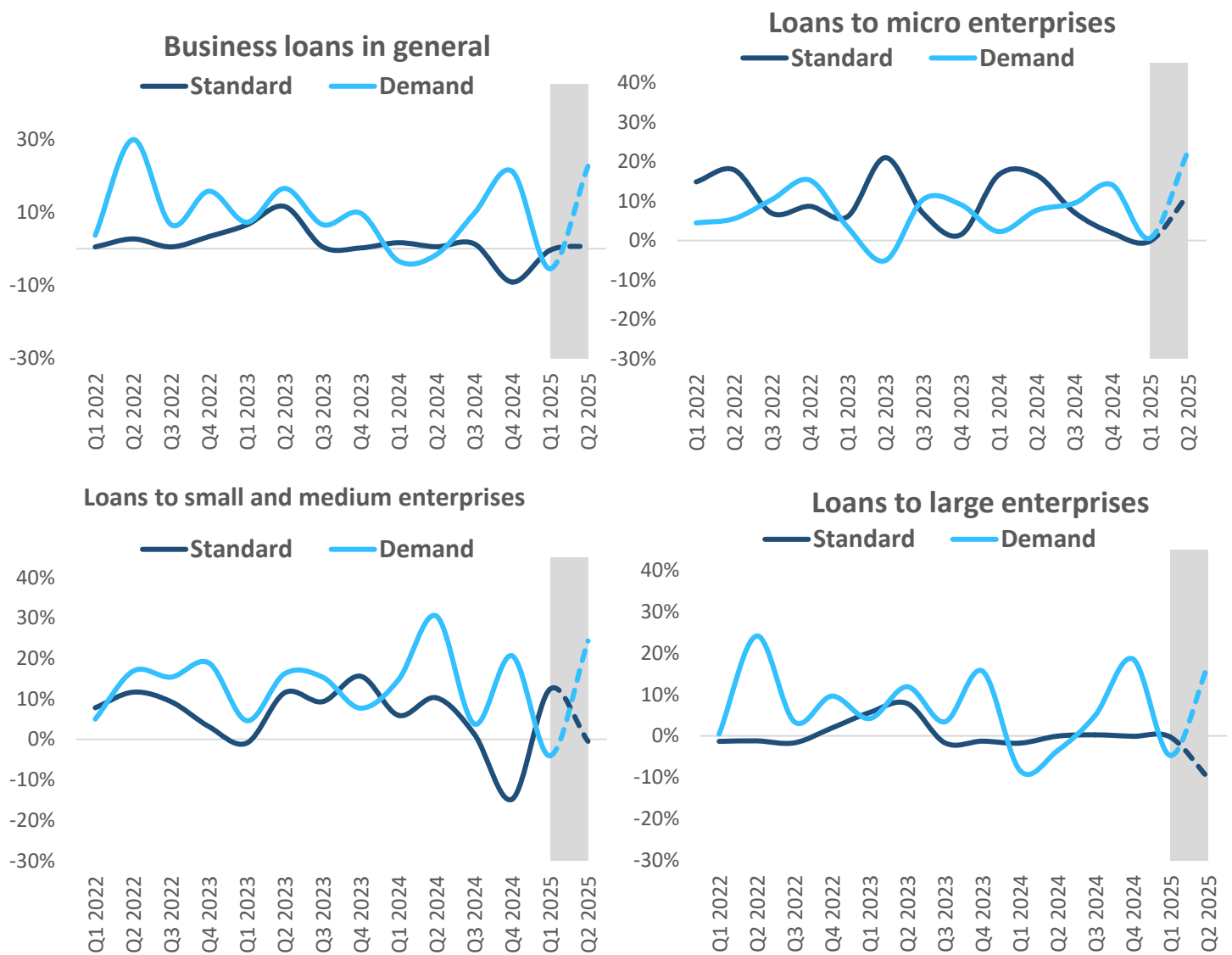
Analysis of loans across sectors

Business loans

According to Q1 2025 survey results, despite the absence of changes in credit standards for loans to micro and large businesses, credit standards for loans to SMEs have softened. Banks do not expect any changes in credit standards for business loans, including those to SMEs, in the next quarter, however, they do expect credit standards for micro enterprises to soften. Banks indicated that changes in credit standards for business loans were primarily driven by increases in margins on higher-risk loans and covenants, as well as by increases in the cost of credit.

Chart 1. Dynamics of changes in standards and demand for business loans

(Diffusion Index: positive = softening or increase, negative = tightening or decrease)

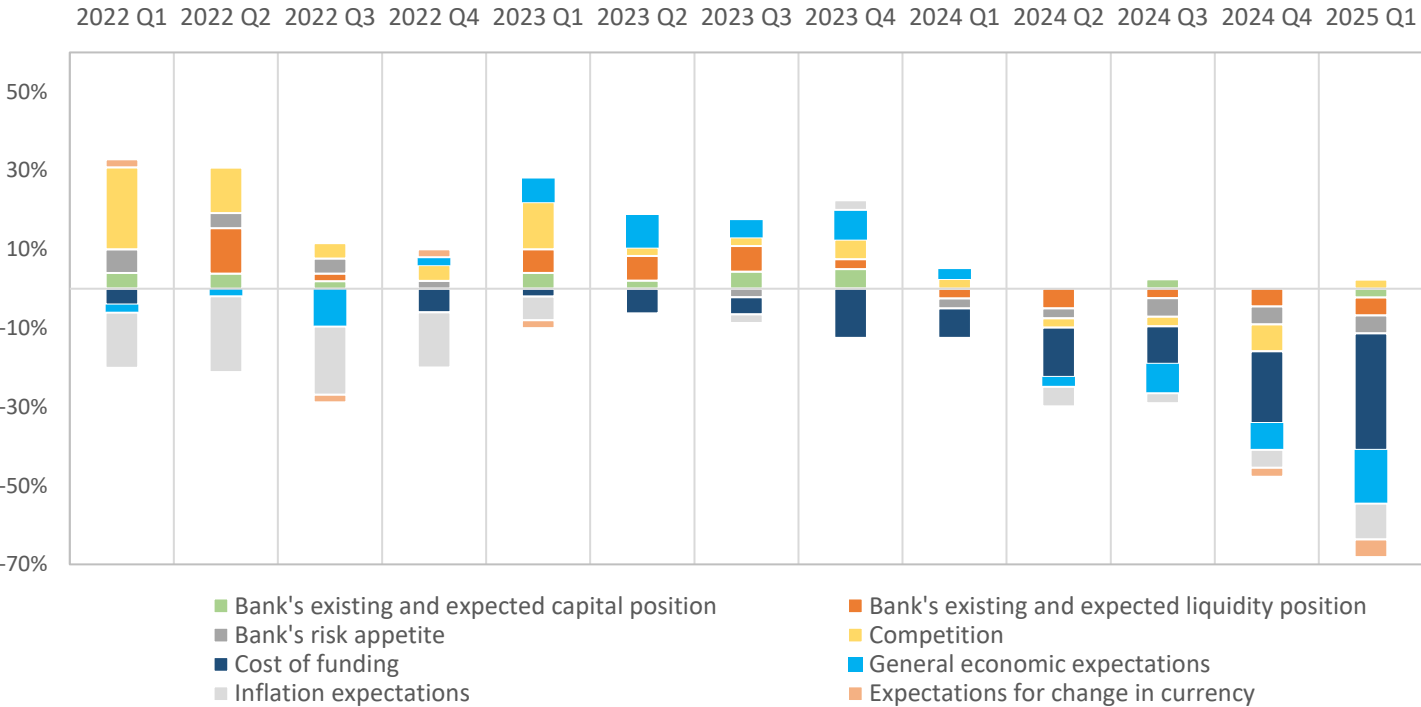


According to the banks that participated in the survey, there was no change in demand for business loans in Q1 2025. Based on the information received from the respondents, no significant change was recorded in the demand for business loans in the first quarter of the current year due to the large number of non-working days. Banks expect an increase in demand for all business loans, including those for MSMEs, in the next quarter.

Per the survey results, while general economic expectations and the cost of funding were evaluated as factors exerting a tightening effect on standards for business loans in the initial quarter of 2025, no observable tightening of standards was reported by banks.

Chart 2. Factors affecting credit standards for business loans

(Diffusion Index: positive = softening, negative = tightening)



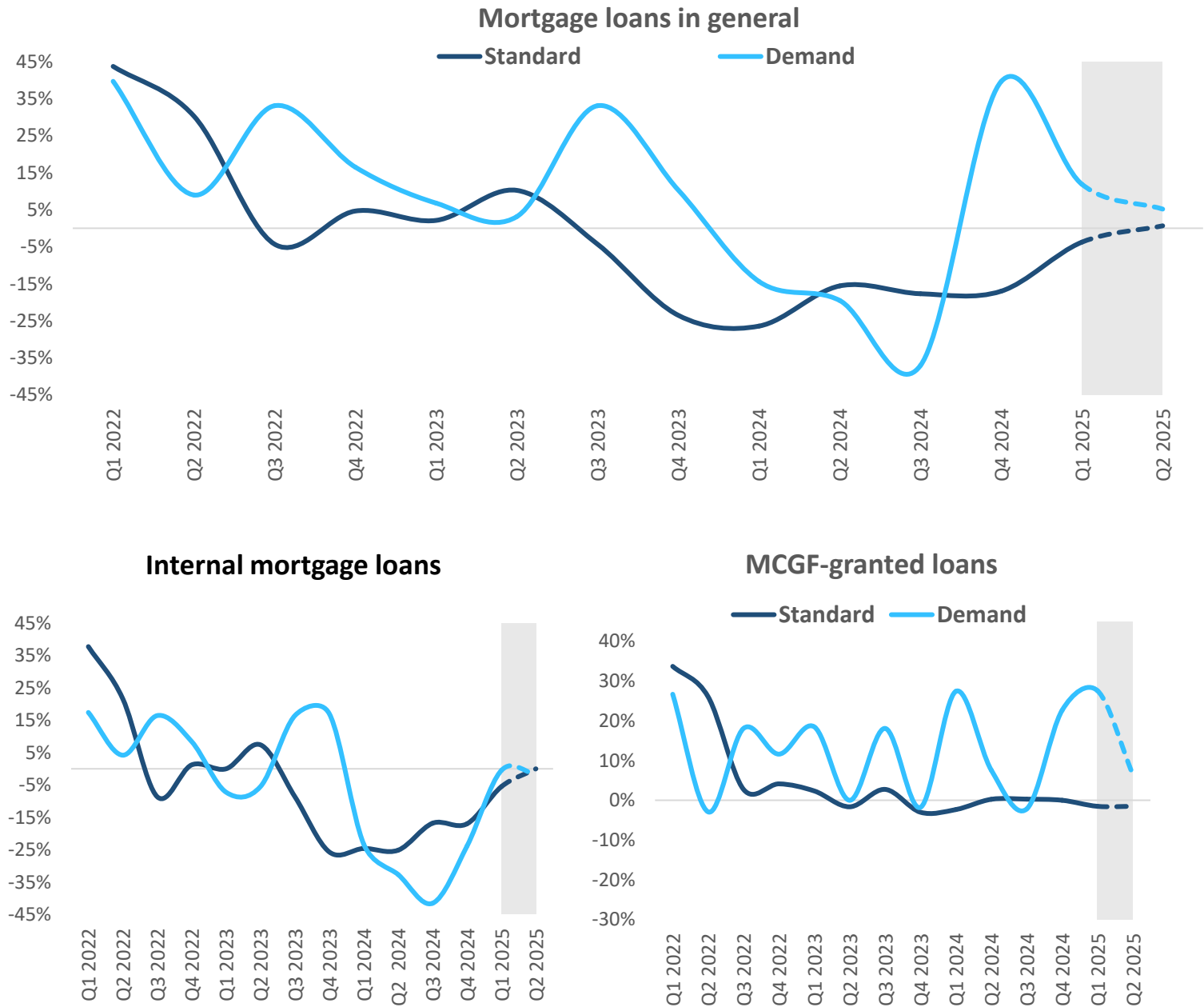
Overall, the results of the survey point to a continuation of the growth rate of banks' business loan portfolios in the next quarter.

Mortgage loans

According to Q1 2025 survey results, there were no significant changes in standards for internal mortgage loans or MCGF-granted loans. In the next quarter, banks do not expect any changes in credit standards for both MCGF-granted and internal mortgage loans.

Chart 3. Changes in credit standards and in demand for mortgage loans

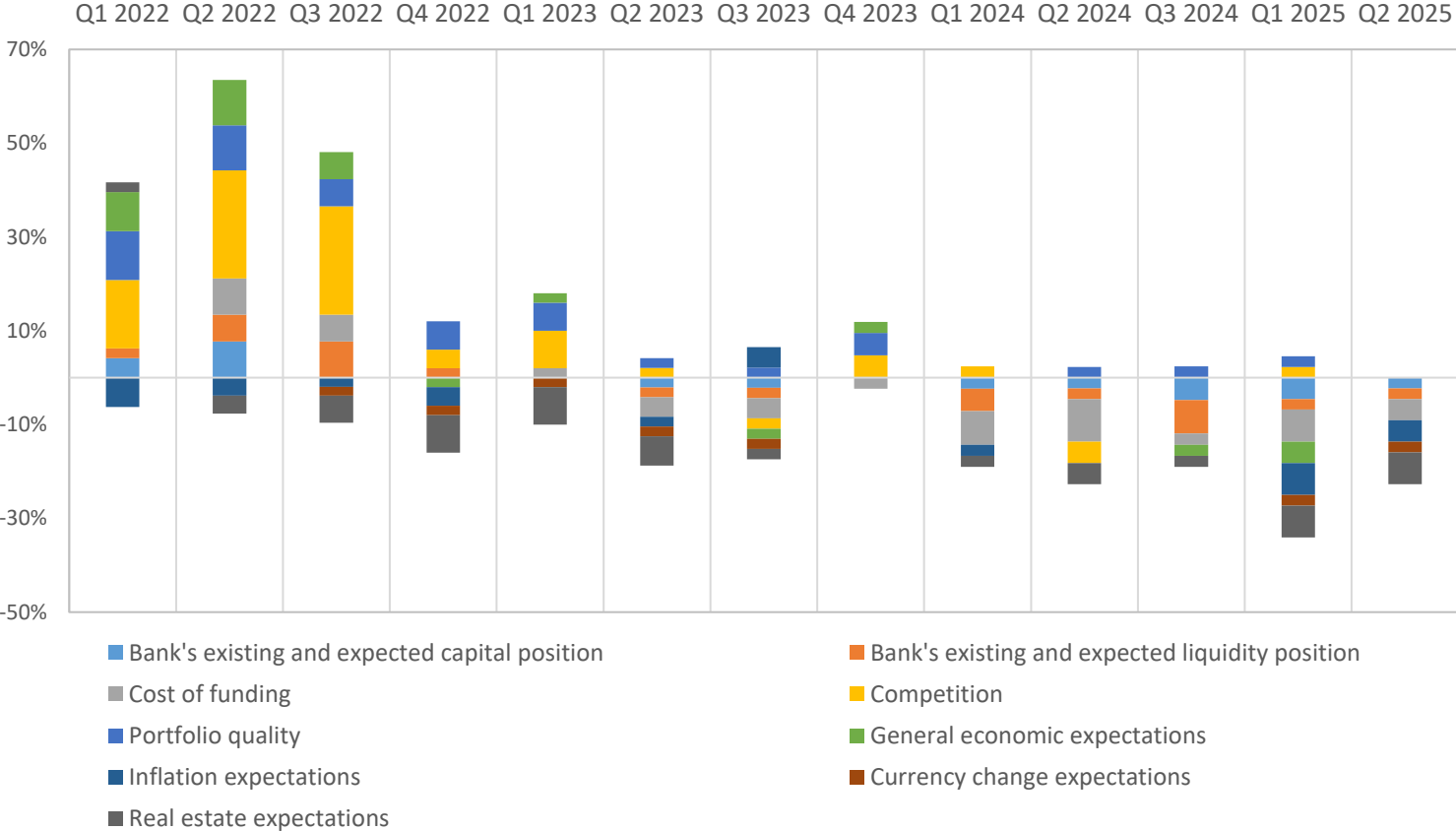
(Diffusion Index: positive = softening or increase, negative = tightening or decrease)



According to survey results from banks, the demand for all mortgage loans continued to grow in the first quarter of 2025. Respondents reported an increase in demand for mortgage loans issued by the MCGF. The main factor influencing this increase is the MCGF's allocation of limits at the beginning of the year for the issuance of mortgage loans, including preferential loans, to authorized banks, which allows them to continue the mortgage lending process. Banks believe that the growth trend in demand for MCGF-granted mortgage loans will continue in the next quarter and that demand for internal mortgage loans will remain unchanged.

Chart 4. Factors affecting credit standards for mortgage loans

(Diffusion Index: positive = softening, negative = tightening)



According to bank responses to the survey, banks' funding costs, inflation and real estate expectations were factors that tightened mortgage credit standards.

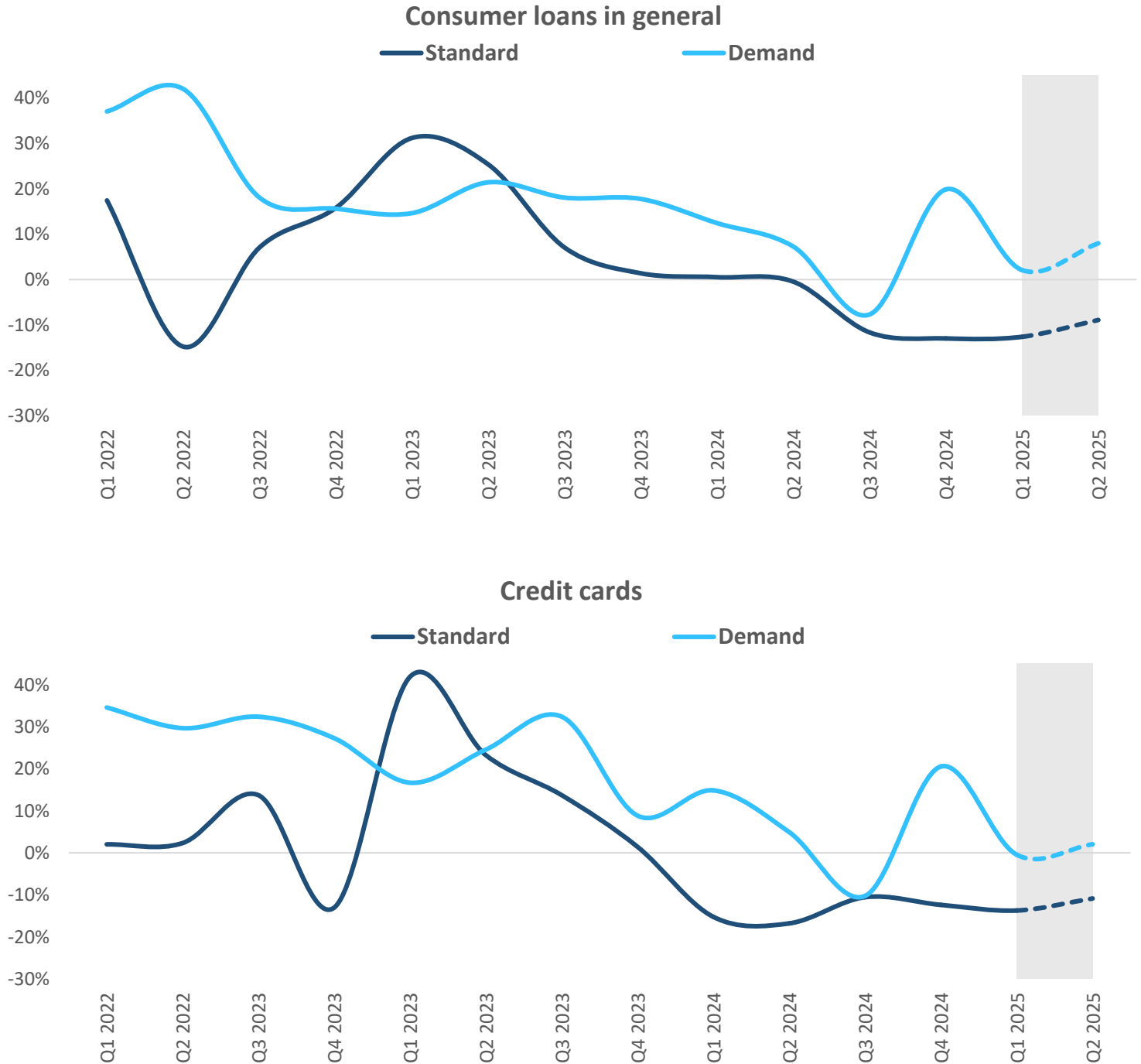
Overall, based on the survey results, the growth rate of banks' mortgage portfolios is expected to continue in the next quarter.

Consumer loans

According to the survey results, the tightening of credit standards for total consumer loans, including credit cards, continued in the first quarter of 2025. This tightening was primarily in the form of increased credit costs and commissions. Respondents predict that standards for total consumer loans, including credit cards, will continue to tighten in the next quarter.

Chart 5. Change in credit standards and demand for consumer loans

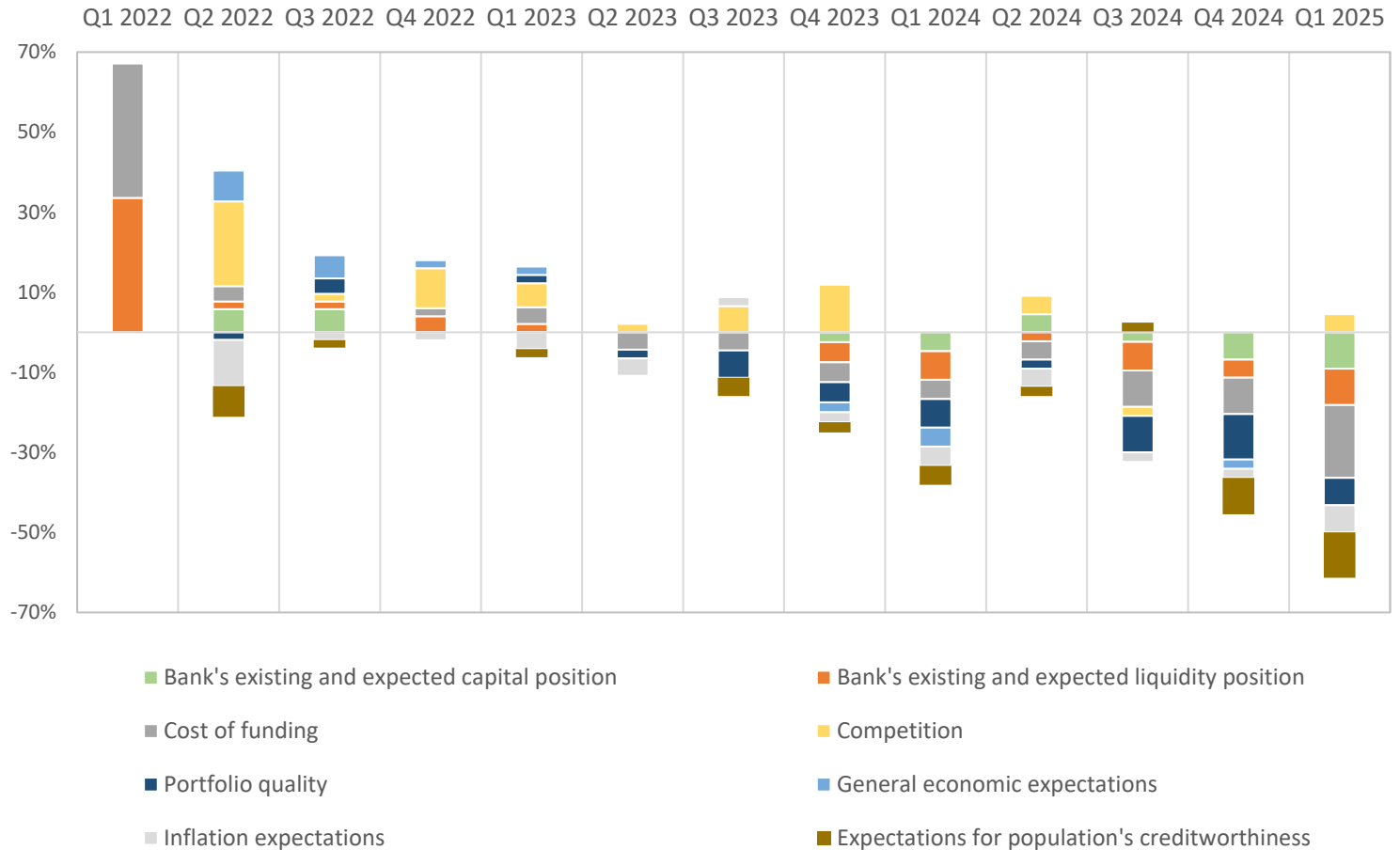
(Diffusion Index: positive = softening or increase, negative = tightening or decrease)



According to the survey results, demand for total consumer loans, including credit cards, remained unchanged. However, banks predict an increase in demand for total consumer loans in the next quarter, though demand for credit cards will remain unchanged.

Chart 6. Factors affecting credit standards for consumer loans

((Diffusion Index: positive = softening, negative = tightening))



According to the survey results, the cost of funding, capital position and expectations about population's creditworthiness have had a tightening effect on credit standards.

Thus, based on the survey results, the growth dynamics of banks' consumer portfolios are expected to continue in the next quarter.

Chart 7. Population debt diffusion index

(Diffusion Index: positive = increase, negative = decrease)

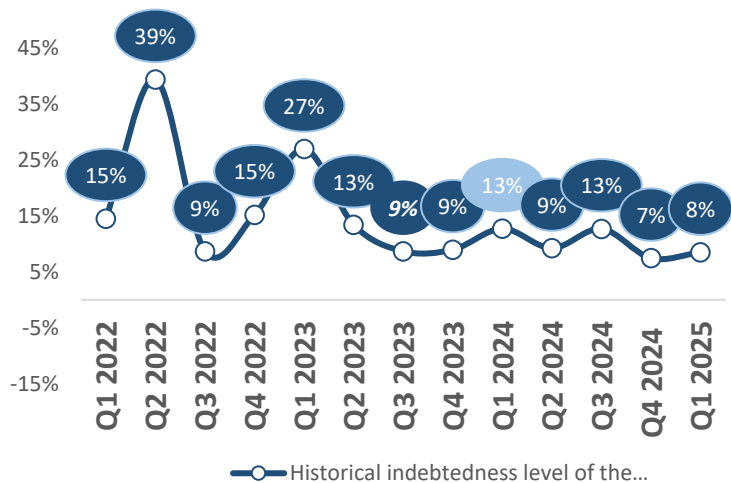
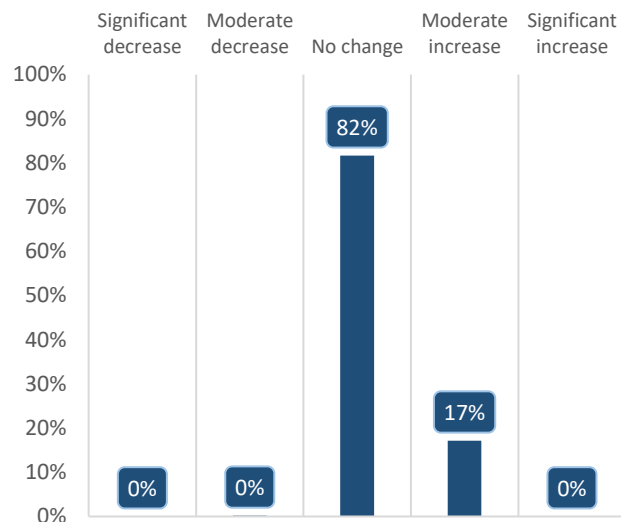


Chart 8. Changes in population debt levels: past quarter



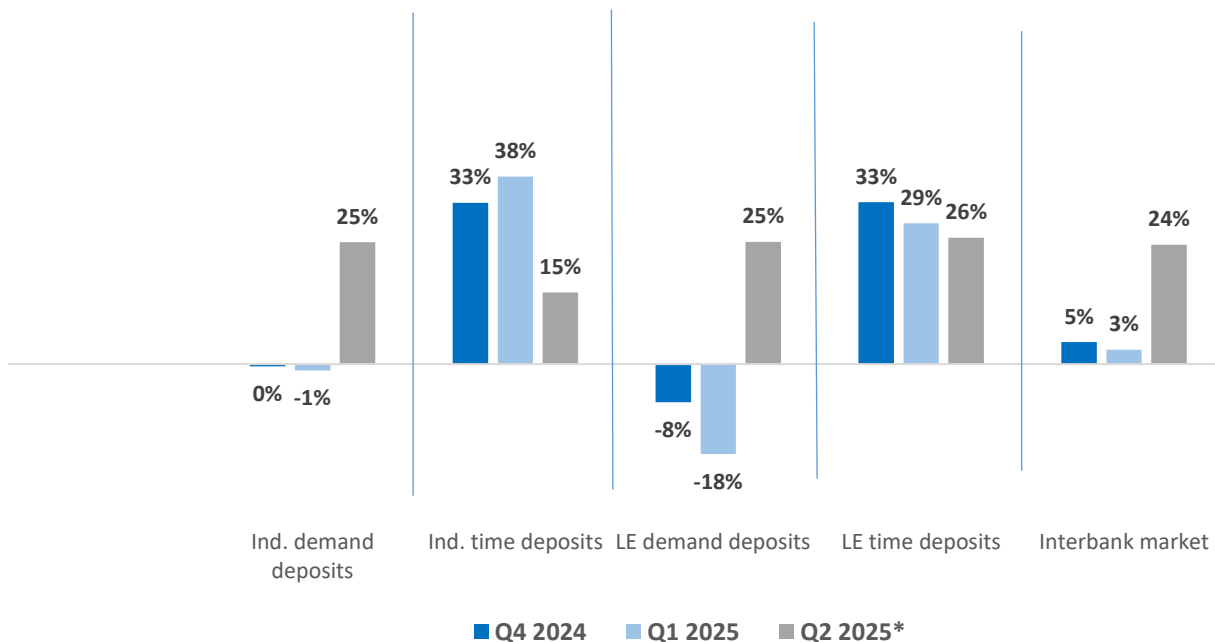
According to the results of the survey on credit conditions for the first quarter of the current year, 85% of the responding banks reported no change in the level of borrowing by the population, and 15% reported a moderate increase. Consequently, the diffusion index for the first quarter of 2025 was 8%. This indicates that the dynamics of growth in the level of population indebtedness continues.

Funding

According to the responses of the banks participating in the survey, in Q1 2025, there was an increase in bank funding at the expense of time deposits of ind. and LE. A slight decrease was observed in the volume of demand deposits of LE, while there were no changes in demand deposits of individuals. Respondents predict an increase in time and demand deposits of LE and individuals, including financing through the interbank market, in the next quarter. The survey results indicate that banks' market share and funding structure targets were the primary factors contributing to the rise in deposit volume.

Chart 9. Structure of sources of funding

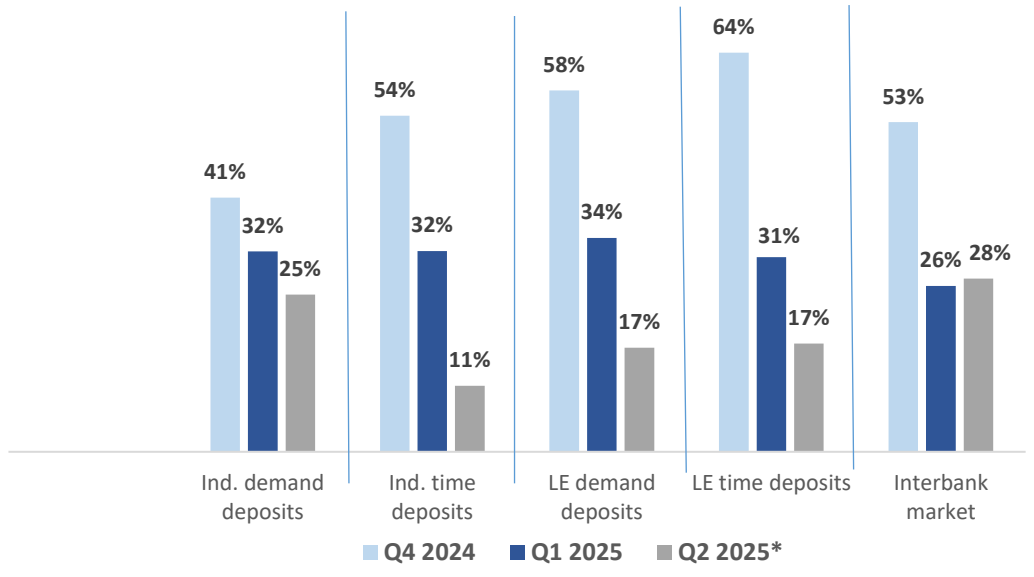
(Diffusion Index: positive = increase, negative = decrease)



According to the banks that participated in the survey, there was an increase in the cost of funding on time and demand deposits of LE and ind., as well as on the interbank market, in Q1 2025, against the backdrop of rising deposit interest rates. Banks expect this trend to continue at a slower pace in the next quarter.

Chart 10. Cost of funding

(Diffusion Index: positive = increase, negative = decrease)



According to respondents, the main factors influencing the increase in funding costs were interest rates, banks' liquidity position, competition and regulatory changes.

Chart 11. Factors affecting the cost of funding

(Diffusion Index: positive = increase, negative = decrease)

