



AZƏRBAYCAN RESPUBLİKASININ
MƏRKƏZİ BANKI

CREDIT CONDITIONS SURVEY

2023

Q2



ACRONYMS

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

NBCI – Non-Bank Credit Institution

IT – Information Technologies

SMEs – Small and Medium Enterprises

LTV – Loan to value ratio

MSMEs – Micro, Small and Medium Enterprises

NPL – Non-performing loans

SL - Salary

RE – Real estate

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Introduction

The purpose of this survey is to monitor and analyze the credit activities of banks, identify and assess threats to financial stability early on, determine the appropriate prudential policy, and inform the financial sector participants about relevant trends. This survey encompasses assessment of supply and demand factors with respect to business, consumer and mortgage loans, as well as identification and assessment of banks' risks:

- *Dynamics of changes in credit standards (policy).*
- *Factors affecting the dynamics of credit standards.*
- *Changes in credit terms and conditions.*
- *Dynamics of changes in loan demand.*
- *Factors affecting the dynamics of loan demand.*
- *Changes in risk dynamics.*

The survey contains qualitative questions and does not require quantitative assessment. The balance statistics method is used to convert survey results into quantitative data. The index varies from negative 100% to positive 100%. A positive 100% indicates that 100% of respondents observe a significant softening or an increase in the trend, while a negative 100% indicates that 100% of respondents observe a significant tightening or decline. When the index is 0%, this means that the trend has not changed from the previous quarter. When calculating the index, respondents' answers are equally weighted regardless of the bank's size. The survey respondents are banks' senior loan officers or the members of the Management Board responsible for the relevant area.

This quarterly survey has been conducted since the first quarter of 2022. This report presents the results of the Q2 2023 survey. The expectations included in this report do not reflect the expectations of the Central Bank of the Republic of Azerbaijan, but only the respondents' (banks') views on current and future credit trends.

Overview of results

According to the results of the survey on credit activity in the second quarter of 2023, the credit policy of banks continued to soften. The softening of credit standards was most pronounced for business and consumer loans. The easing of standards for business loans was more pronounced for loans to micro enterprises, and the easing of standards for consumer loans was mainly for credit cards. The easing of standards for consumer loans continued in the last quarter, but at a slower pace than in the previous quarter. Banks tightened standards for household loans. According to the results of the survey, the demand for loans increased in the second quarter of 2023. The growth was observed in business and consumer loans and in mortgage loans. Banks expect the demand for loans to increase for all 3 portfolios in the next quarter.

Business loans

Credit policy: There has been a softening of banks' credit policies. The softening was mainly in loans to micro enterprises. The softening is not noticeable for loans to SMEs and large enterprises.

Loan demand: Demand for business loans increased in the second quarter of the current year. The increase was evident in loans to micro and SME subjects. There was no noticeable change in demand for loans to large enterprises.

Expectations for Q3 2023: Banks do not expect any significant change in credit policy for business loans. However, the demand for business loans is expected to increase in the third quarter of 2023.

Mortgage loans

Credit policy: There was no significant change in the credit policy for mortgage loans provided at the expense of the MCGF and the banks' internal resources in Q2 2023.

Loan demand: Demand for mortgage loans increased in the second quarter. The main driver of this growth was mortgage lending at the expense of the MCGF.

Expectations for Q3 2023: Banks expect an increase in demand for mortgage loans granted at the expense of the MCGF, but no significant change in credit policy in Q3 2023.

Consumer loans

Credit policy: In the second quarter of this year, the easing of credit standards for consumer loans slowed. The slowdown was mainly in salary-based loans and credit cards compared with the previous quarter. According to the survey results, there was a tightening of approval standards for household loans.

Loan demand: In Q2 2023, demand for consumer loans increased. The increase was mainly in household loans.

Expectations for Q3 2023: Banks reported that they expect the easing of consumer credit standards and the increase in demand for consumer loans to slow in the third quarter of 2023. According to the survey results, banks believe that both the easing of credit standards and the increase in demand will be for credit cards.

Chart 1. Changes in credit standards for Q2 2023*

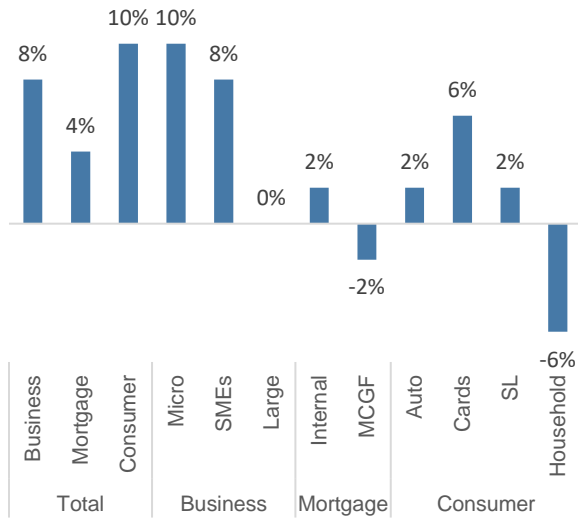


Chart 2. Expectations on credit standards for Q3 2023

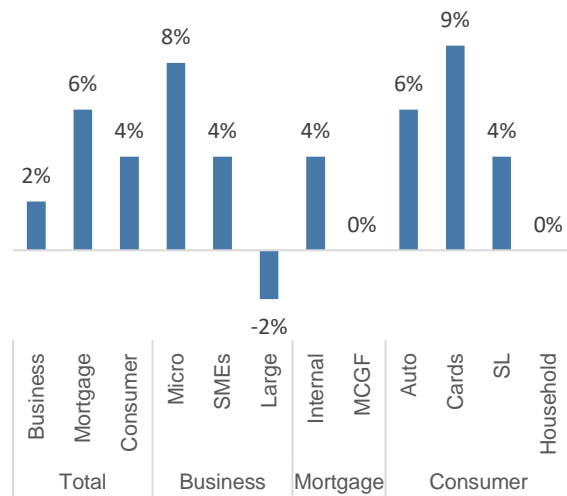


Chart 3. Changes in loan demand for Q2 2023

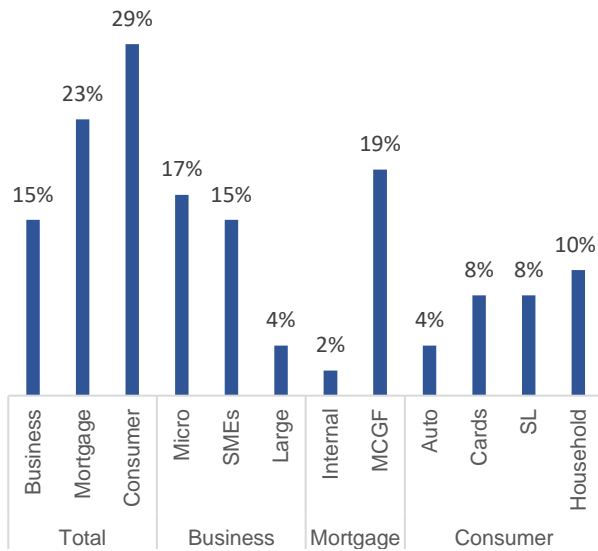
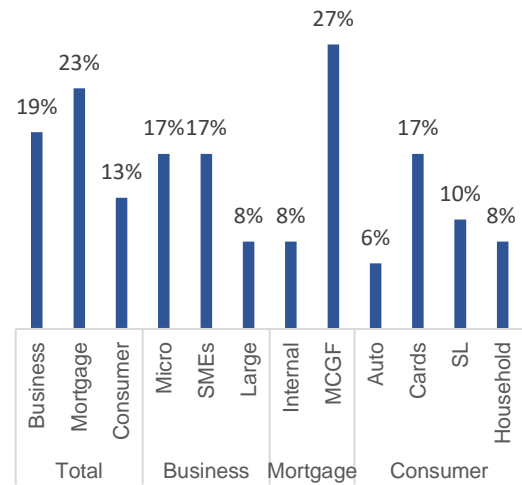


Chart 4. Expectations on loan demand for Q3 2023



*A Diffusion Index varies between [-100,+100]. A positive 100% index means that 100% of respondents reported a significant relaxation of credit standards, while negative 100% means that 100% of respondents reported a significant tightening.

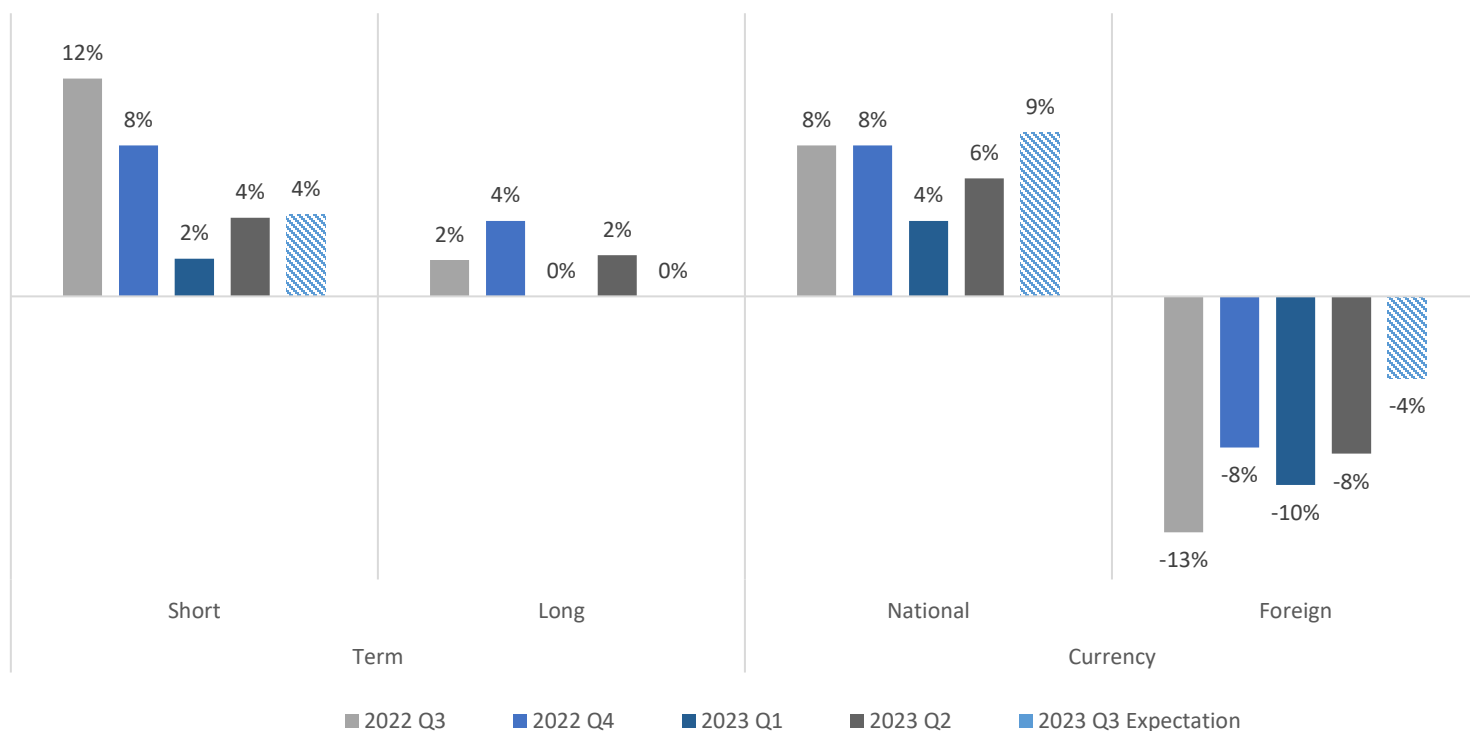
Analysis of loans across sectors

Business loans

Credit policy on business loans. In Q2 2023, there was a softening of credit standards for business loans issued by banks. Credit standards for foreign currency business loans continued to tighten. Based on banks' expectations for Q3 2023, credit standards for short-term and national currency business loans in the sector are expected to soften, while foreign currency loans are expected to tighten.

Chart 5. Changes in term and currency standards for business loans

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



In Q2 2023, banks' liquidity, portfolio quality, increased loan demand, general economic factors, as well as the pace of growth of economic sectors had a softening effect on credit standards for business loans. The cost of financing, risk factors related to the financial condition of major creditors, and the refinancing rate acted as the main tightening factors. There was a softening of the margin applied to high-risk loans and the maximum loan amount, and a tightening of the restrictive criteria.

Chart 6. Factors affecting credit standards for business loans

Diffusion Index: positive = softening, negative = tightening)

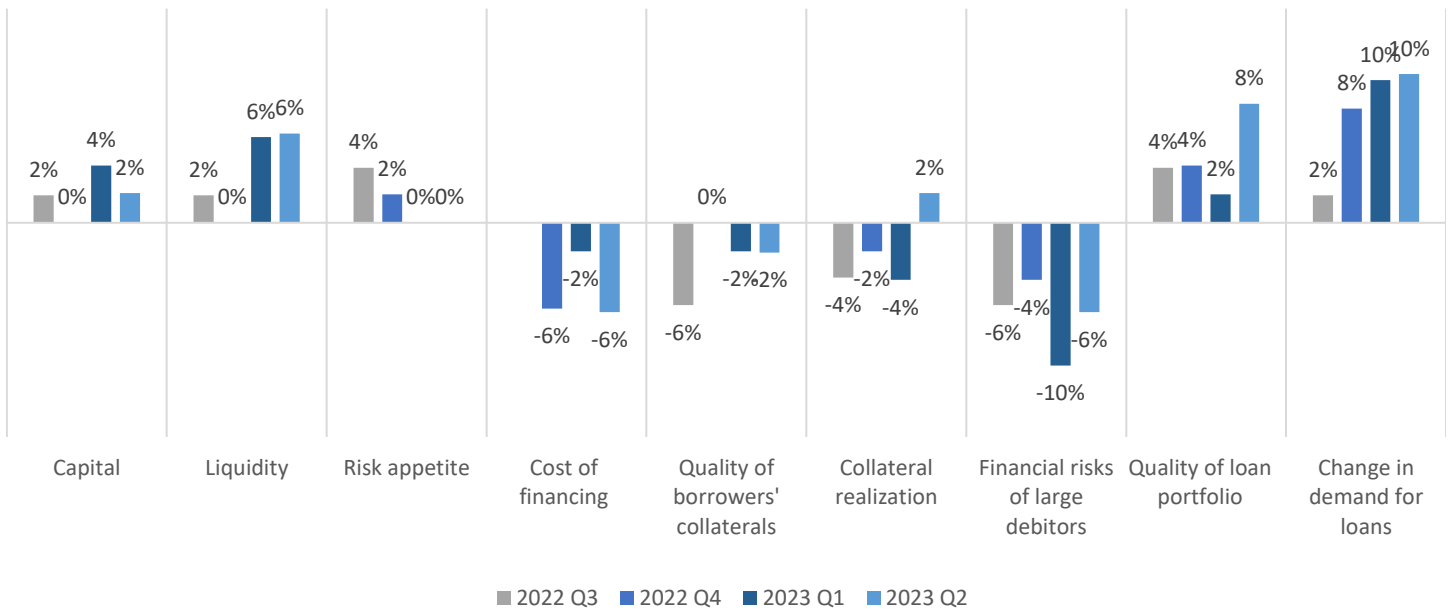


Chart 7. Factors affecting credit standards for business loans

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

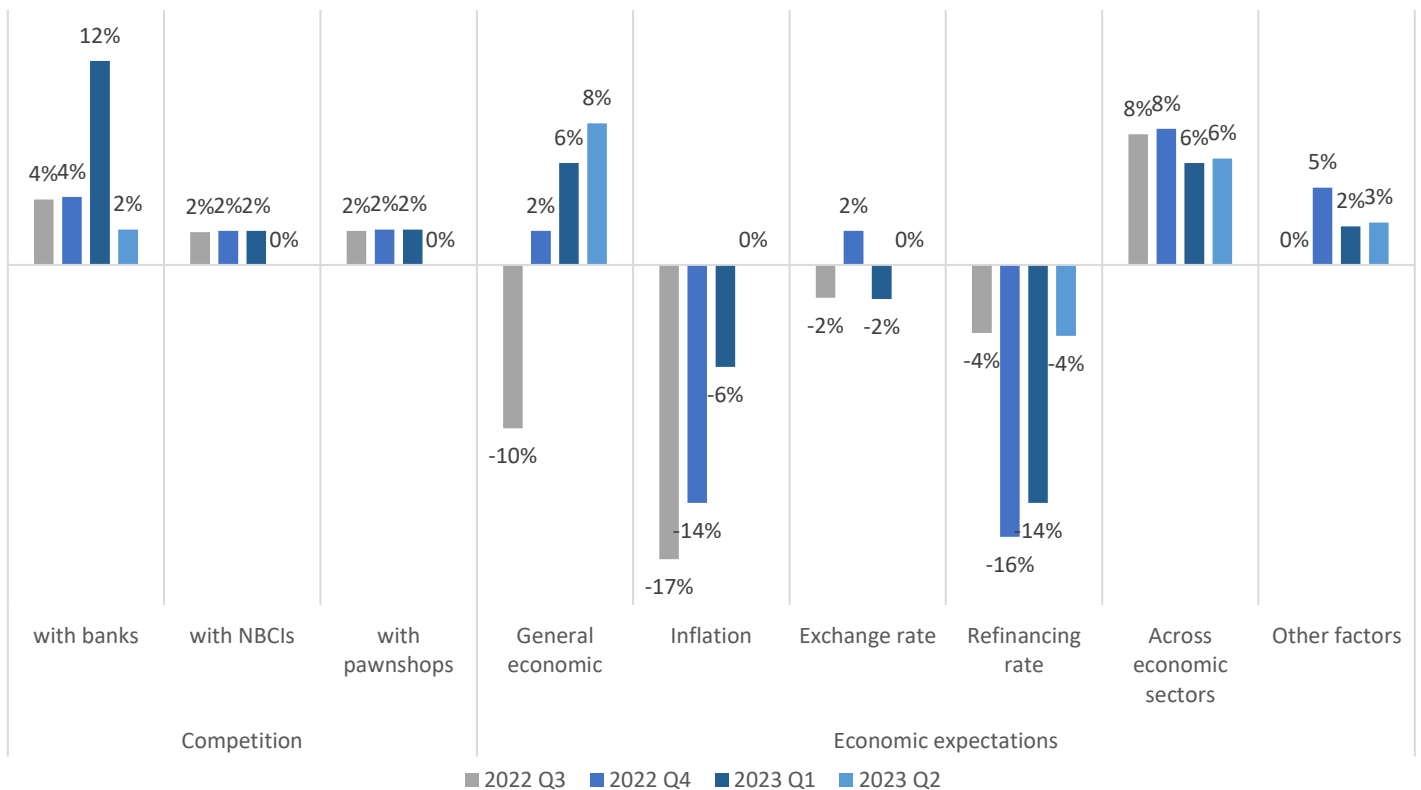
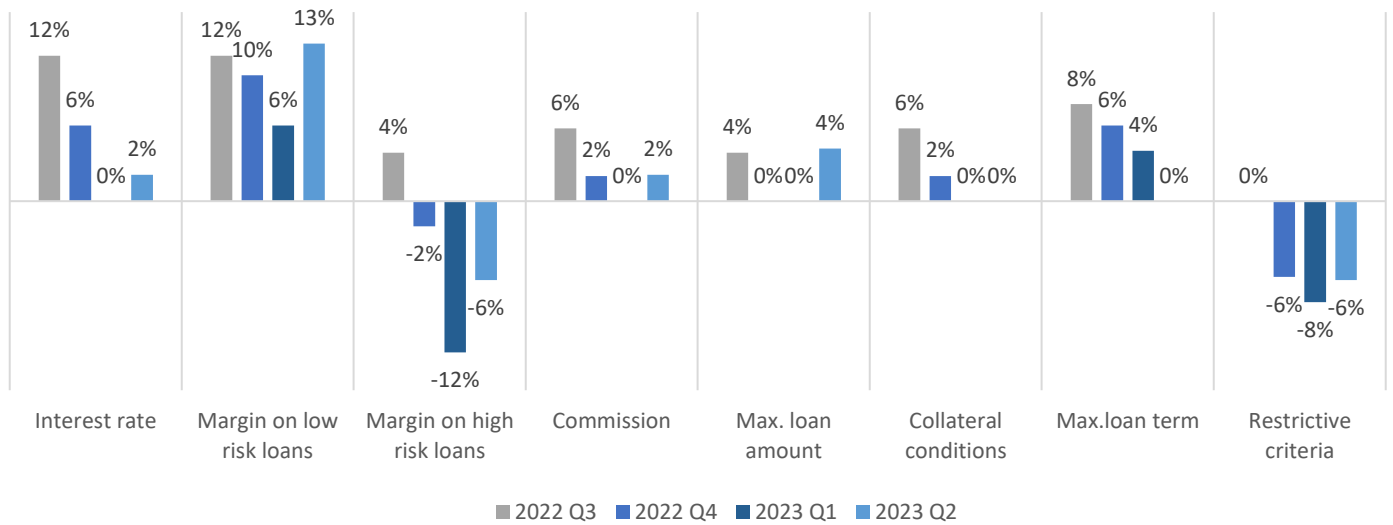


Chart 8. Changes in terms and conditions for business loans

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



There was no change in credit standards for loans to SMEs in Q2 2023. In the second quarter of this year, general economic expectations, competition among banks, growth across economic sectors, and an increase in loan demand had a softening effect on credit standards for loans to SMEs, while collateral quality, risk factors related to the financial condition of major creditors, and the refinancing rate had a tightening effect. In terms of credit conditions for granting SME loans, banks eased the interest rate, the margin and commission applied to low-risk loans, while tightening the margin and restrictive criteria for high-risk loans.

Chart 9. Factors affecting credit standards for loans to SMEs

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

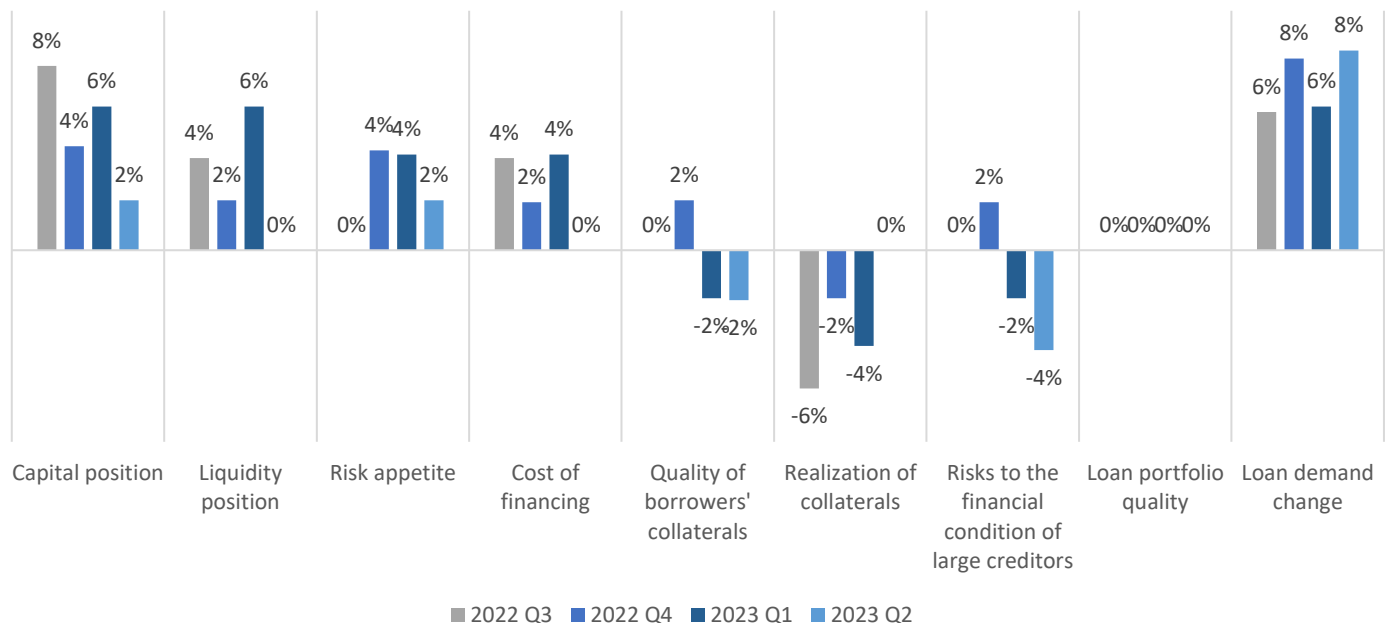


Chart 10. Factors affecting credit standards for loans to SMEs

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

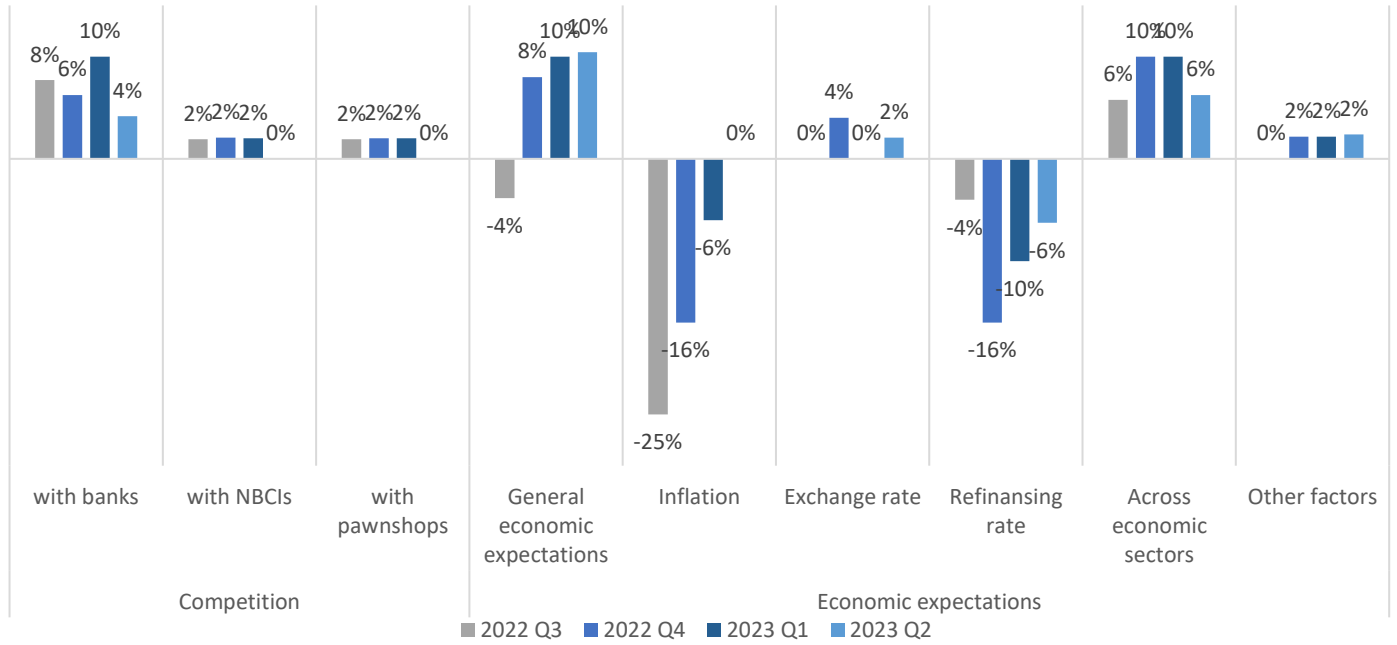
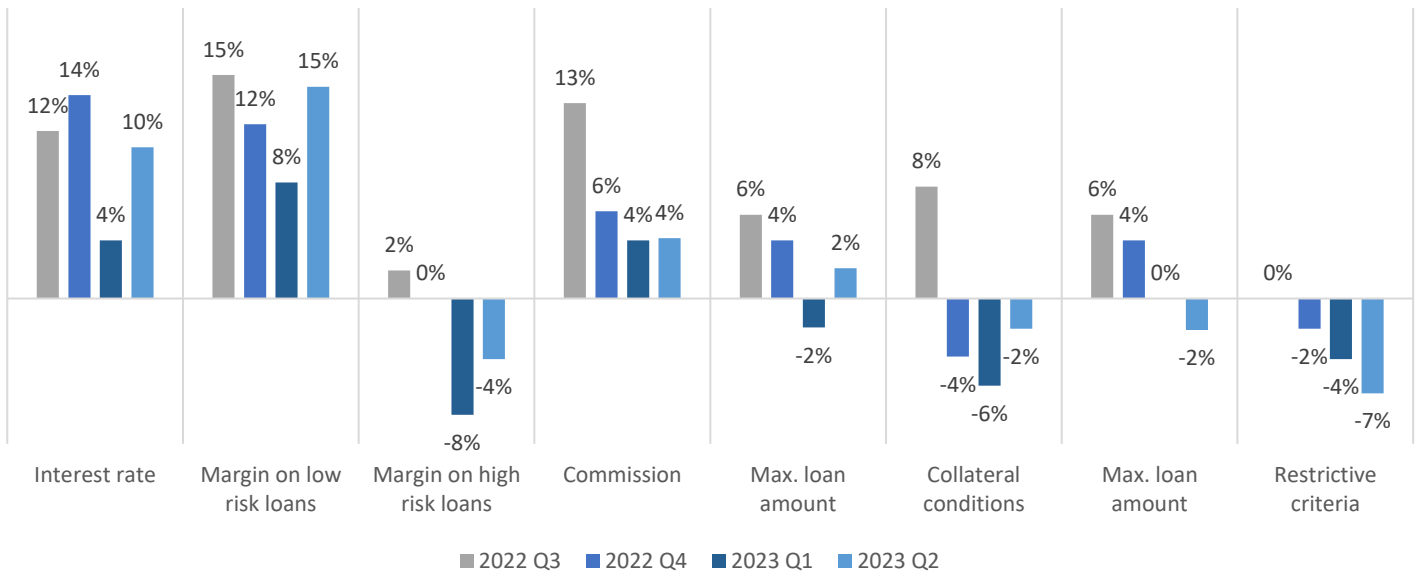


Chart 11. Changes in credit conditions for loans to SMEs

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



Business loan demand

According to the survey, the demand for business loans increased in Q2 2023. In their expectations for business loans in Q3 2023, banks forecast an increase in demand for loans in national currency, as well as short-term and long-term loans, while the demand for loans in foreign currency will not change. The main factors influencing the growth of demand for business loans, including loans to SMEs, were investment and working capital needs, changes in banks' credit conditions and digitalization. The trend of growth in the indebtedness level of business entities continued. The growth was mainly observed in micro, small and medium enterprises.

Chart 12. Changes in demand for business loans

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

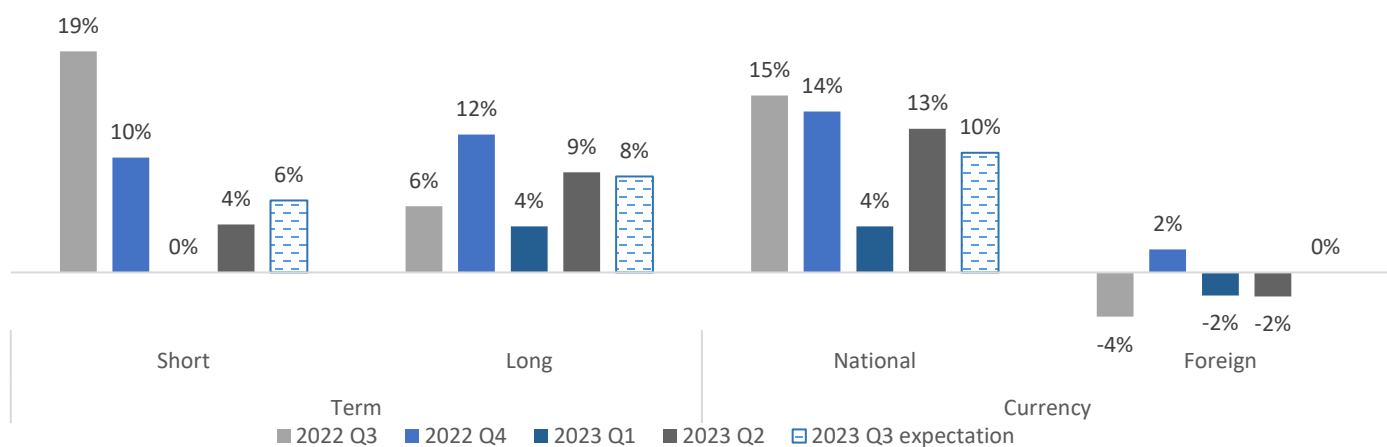


Chart 13. Factors affecting demand for business loans

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

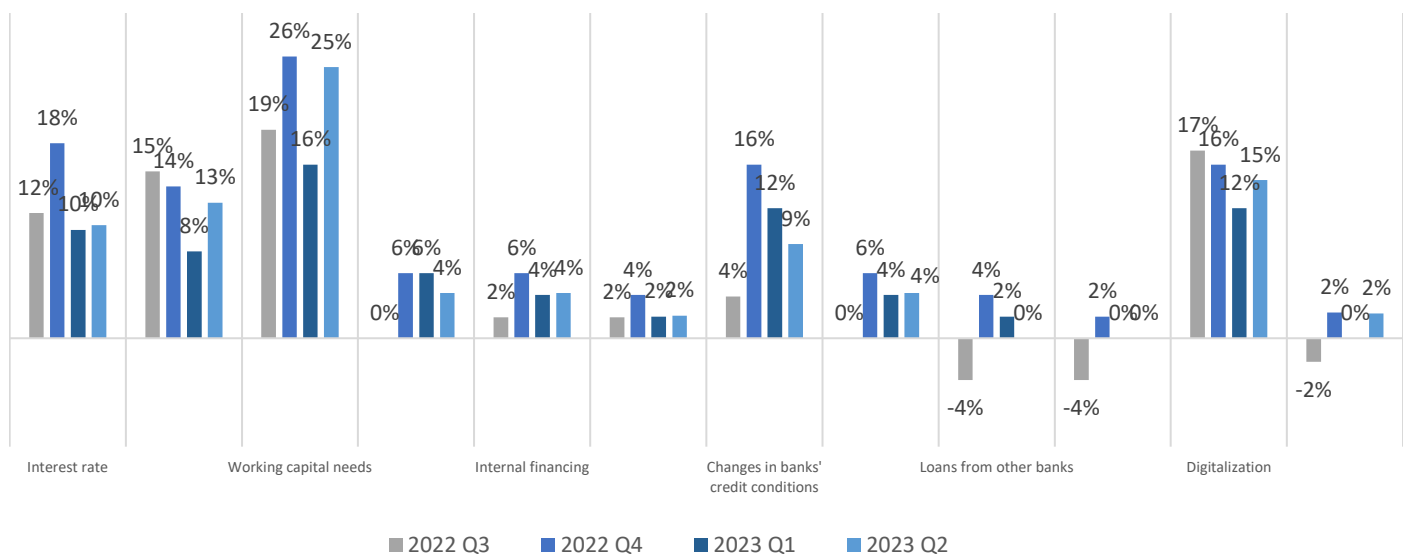


Chart 14. Factors affecting demand for loans to SMEs

Diffusion Index: positive = softening, negative = tightening)

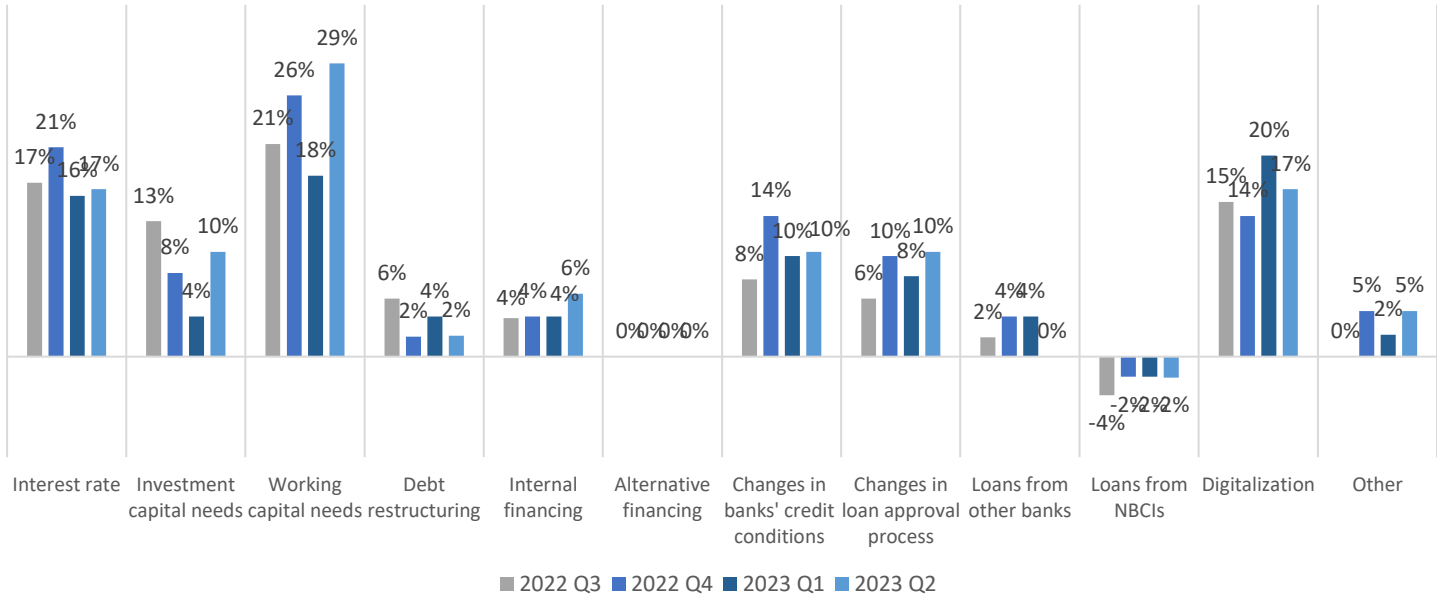
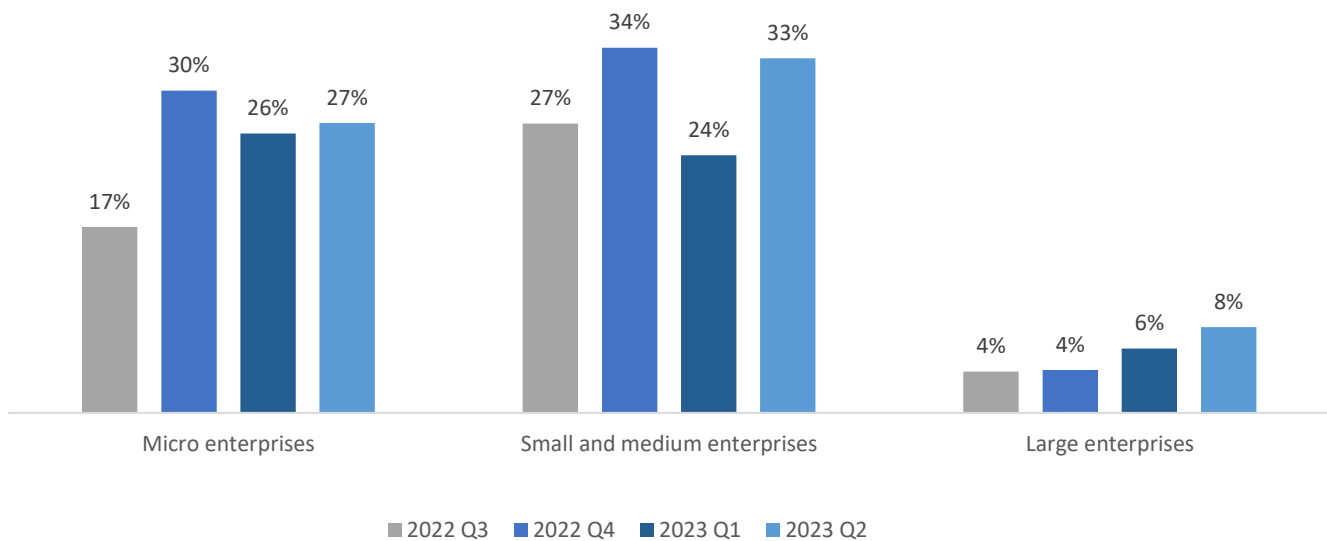


Chart 15. Changes in indebtedness level of business entities



Mortgage and consumer loans

Credit policy on mortgage and consumer loans. According to the survey results, although there was a trend of softening of credit standards for consumer and mortgage portfolios in the second quarter, the pace of softening slowed down compared with the previous quarter. Compared to previous quarters, a decrease in the pace of softening or tightening was observed. According to the survey results, credit standards on consumer and mortgage loans continued to ease in the second quarter, but at a slower pace than in the previous quarter. Thus, compared with previous quarters, the pace of easing in most components slowed or tightening was observed.

Chart 16. Factors affecting credit standards for mortgage loans

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

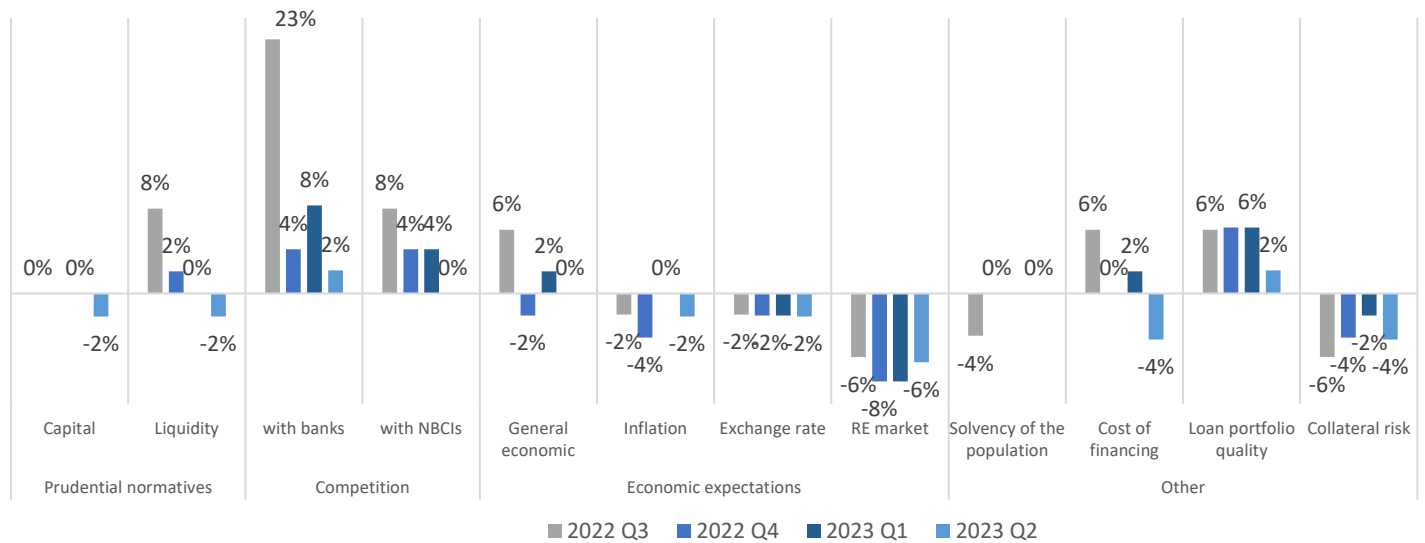


Chart 17. Factors affecting credit standards for consumer loans

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

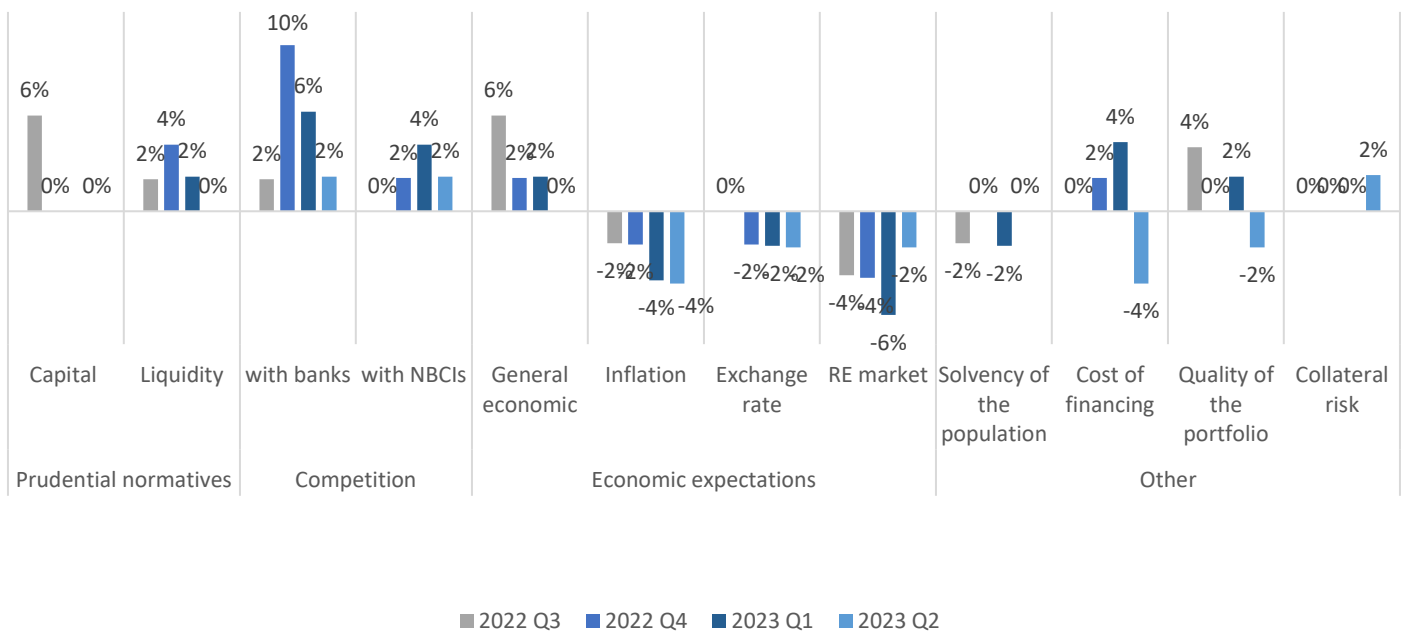


Chart 18. Changes in credit conditions of mortgage loans

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

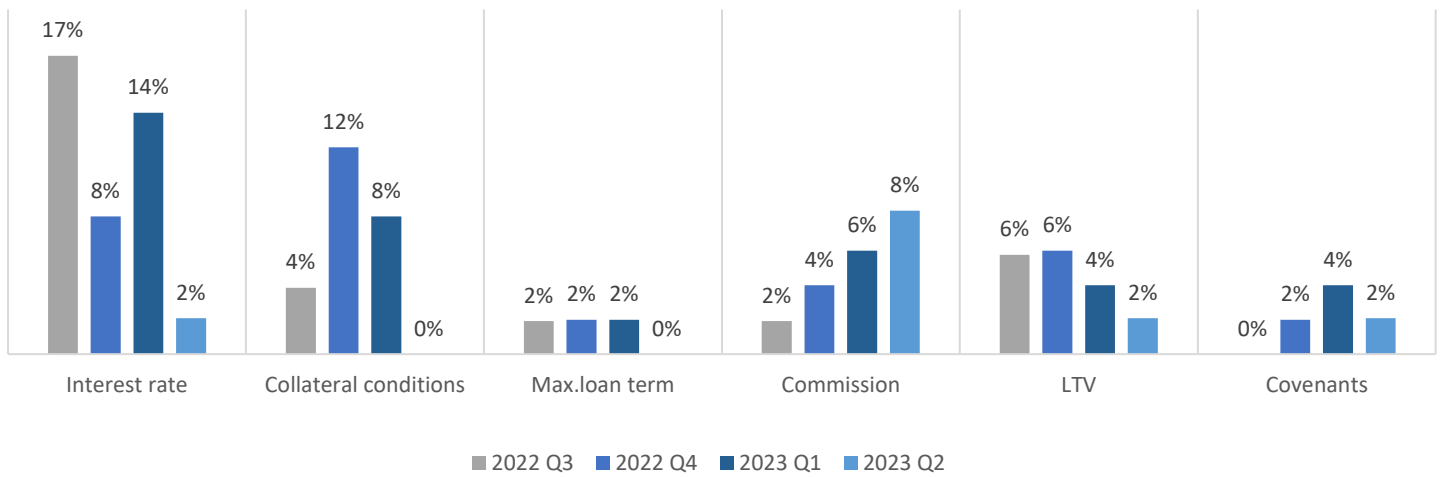
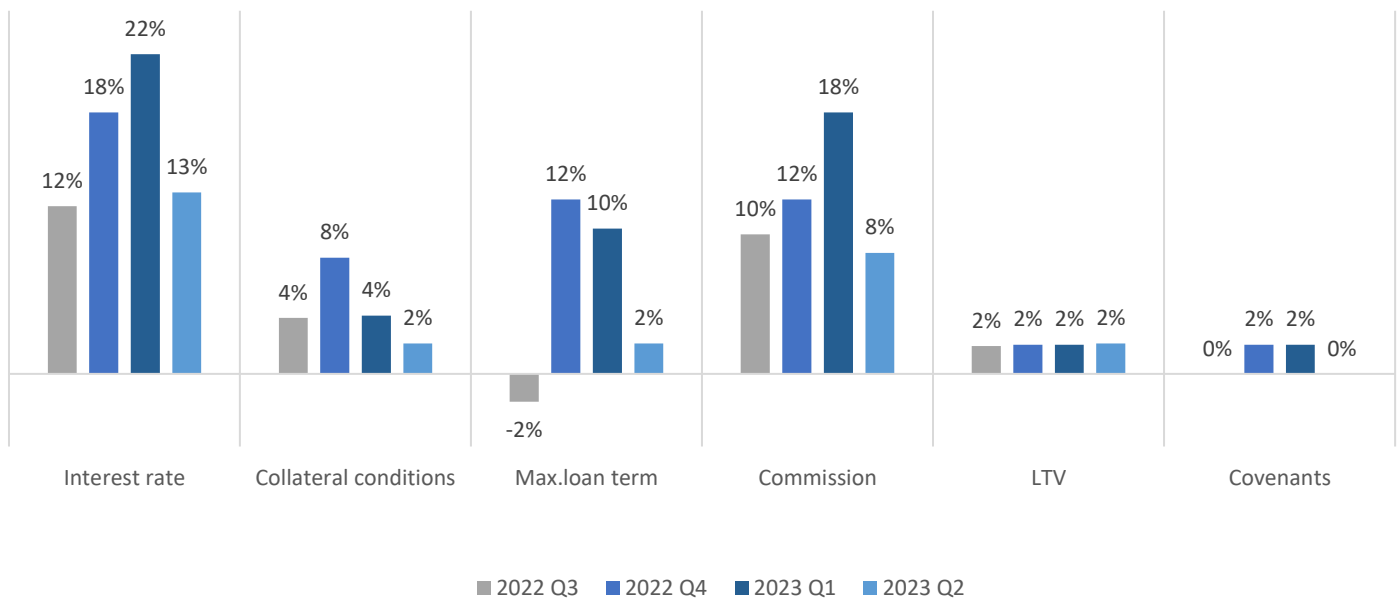


Chart 19. Changes in credit conditions of consumer loans

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



Mortgage and consumer loan demand. Demand for consumer and mortgage loans increased in Q2 2023. The main drivers of demand growth were consumer confidence, interest rate changes, real estate market expectations and digitalization. According to the survey results, 58% of the sector's banks reported that the indebtedness level of the population remained unchanged, while 42% reported a moderate increase in the indebtedness level.

Chart 20. Factors affecting changes in demand for mortgage and consumer loans

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

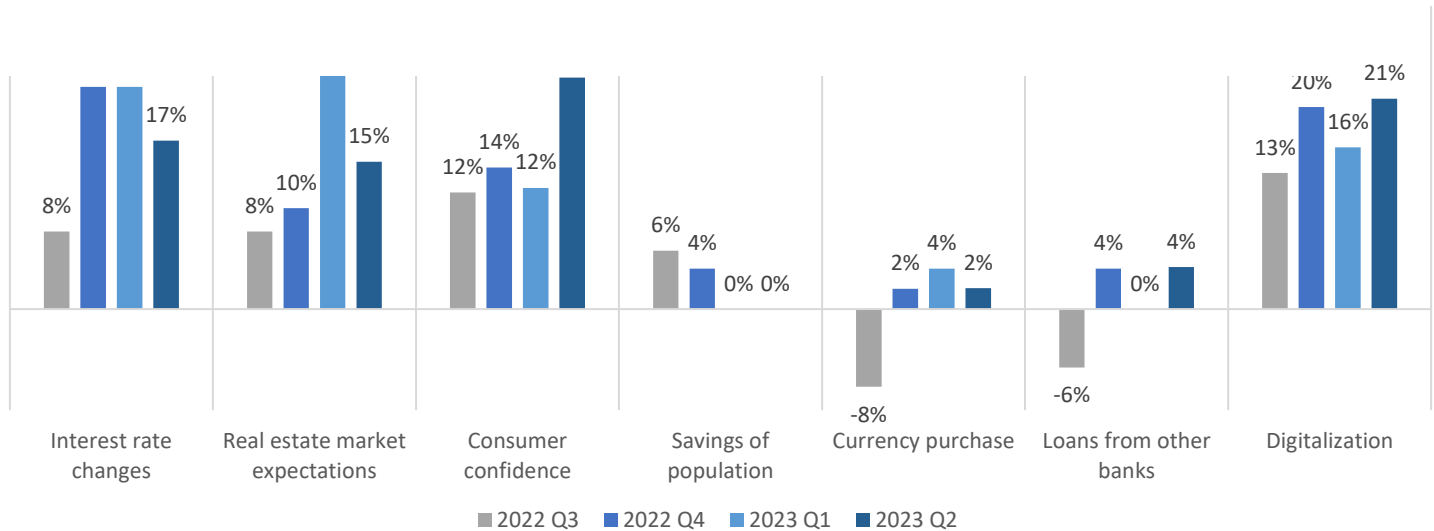
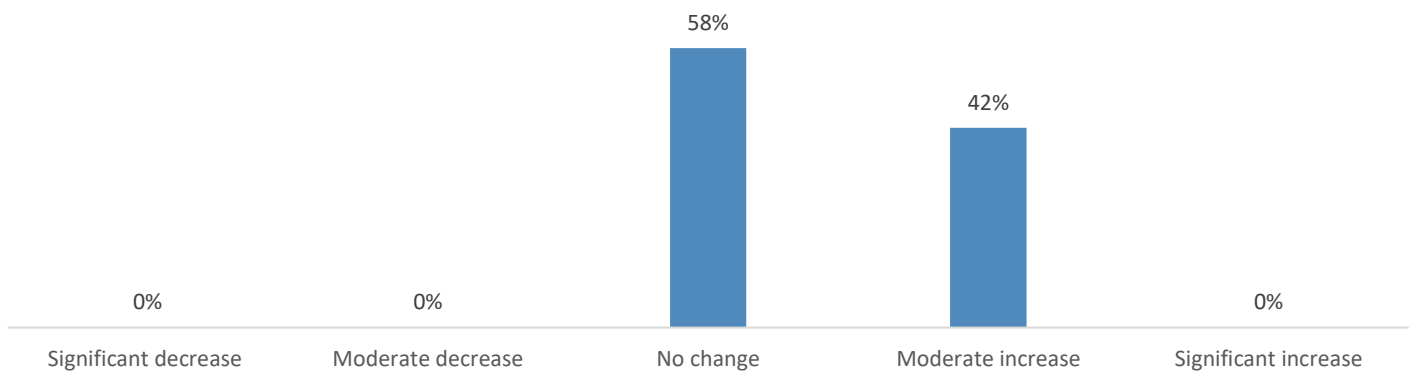


Chart 21. Changes in population indebtedness



Risk profile

According to the results of the survey, banks reported a decrease in credit and IT risks and an increase in interest rate, liquidity and compliance risks in the second quarter of 2023. Credit risk decrease was driven by loans granted to industry, transport, communication, trade and other non-production and service sectors.

At the same time, according to the banks' answers, the dynamics of the decrease of the total credit risks for enterprises, except for micro-enterprises, has slowed down. The decrease is more pronounced for SMEs.

Chart 22. Changes in banks' risks

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

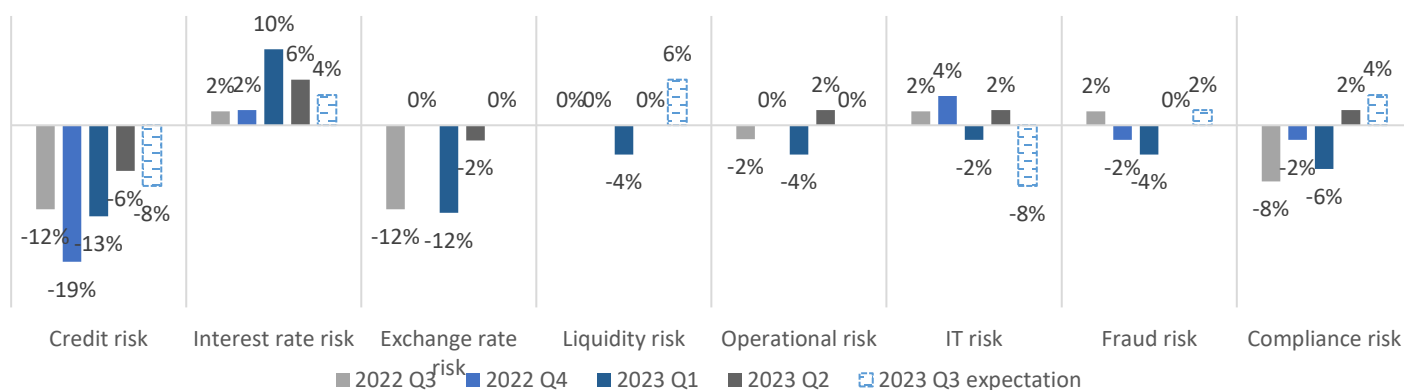


Chart 23. Credit risk changes across sectors

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

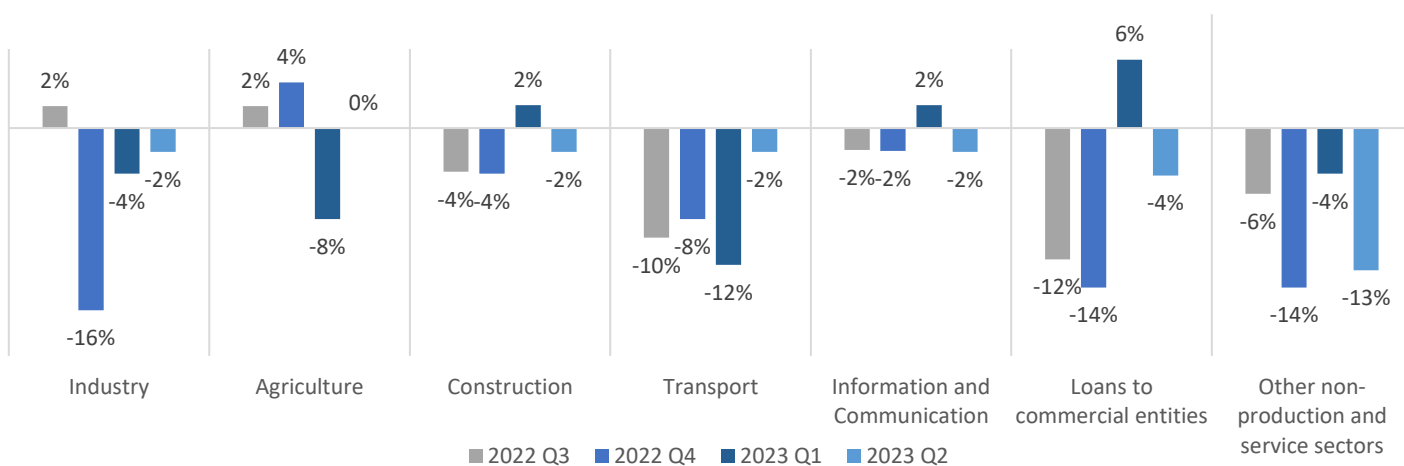


Chart 24. Credit risk changes across business entities

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

