



CENTRAL BANK
OF THE REPUBLIC OF AZERBAIJAN

CREDIT CONDITIONS SURVEY

2023

Q1



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. The respondents of the credit conditions survey are banks' senior loan officers or the members of the Management Board responsible for the relevant area. 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 Q1 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 for the first quarter of 2023, the credit policy of banks continued to soften. However, compared to previous quarters, both business and consumer portfolios saw a slowdown in the easing trend. In the last quarter, banks reduced credit easing for short-term business loans in national currency and further tightened credit conditions for loans in foreign currency. Banks believe that the slowdown in the easing trend of credit standards for business and consumer portfolios will continue in the second quarter of 2023. In the first quarter of this year, there was a slowing trend of growth in demand for business and consumer loans. On the contrary, there was an increase in demand for the mortgage portfolio provided at the expense of the MCGF. According to the survey, banks expect an increase in demand for business and consumer loans, as well as mortgage loans in the second quarter of 2023.

Business loans

Credit policy: Compared to previous quarters, there was a slowdown in the easing of banks' business credit policies. The slowdown was observed in loans to micro enterprises, SMEs, as well as large enterprises. The slowdown on business loans to large businesses was more noticeable.

Loan demand: In Q1 2023, there was a slowdown in growth of demand for business loans. The slowdown was mainly on short-term loans in national currency. Demand for business loans in foreign currency slightly decreased.

Expectations for Q2 2023: Banks predict increase in demand for business loans. Also, banks expect tightening of credit conditions for loans to large businesses and softening on micro and SME loans.

Mortgage loans

Credit policy: In Q1 2023, there was a slowdown in the easing pace of credit standards for mortgage loans provided at the expense of MCGF and banks' internal resources.

Loan demand: In Q1 2023, demand for mortgage loans issued at the expense of MCGF significantly increased, while the demand for mortgage loans provided by banks' internal resources remained unchanged.

Expectations for Q2 2023: Banks expect high demand for mortgage loans issued from both MCGF funds and banks' own resources in Q2 2023, as well as easing of credit policy.

Consumer loans

Credit policy: In the first quarter of the current year, the easing of consumer loans approval standards slowed down. The slowdown was mainly on salary-based loans and credit cards.

Loan demand: In Q1 2023, demand for consumer loans increased.

Expectations for Q2 2023: Banks reported expectations of softening in consumer credit standards and increased demand for consumer loans in Q2 2023.

*Chart 1. Changes in credit standards for Q1 2023**

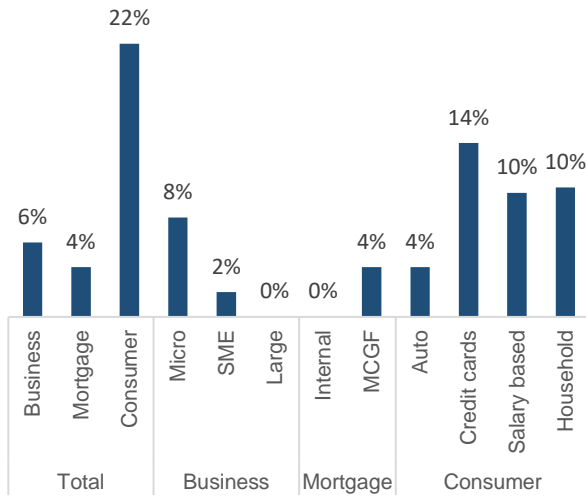


Chart 2. Expectations on credit standards for Q2 2023

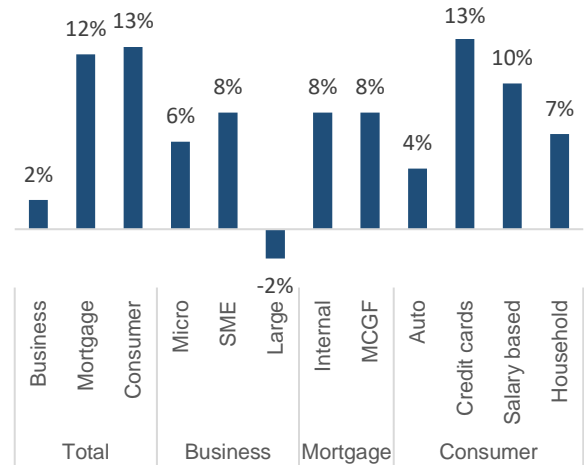


Chart 3. Changes in loan demand for Q1 2023

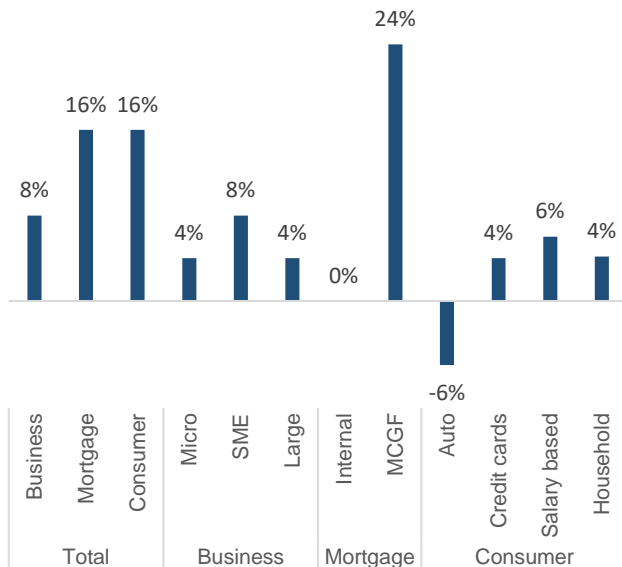
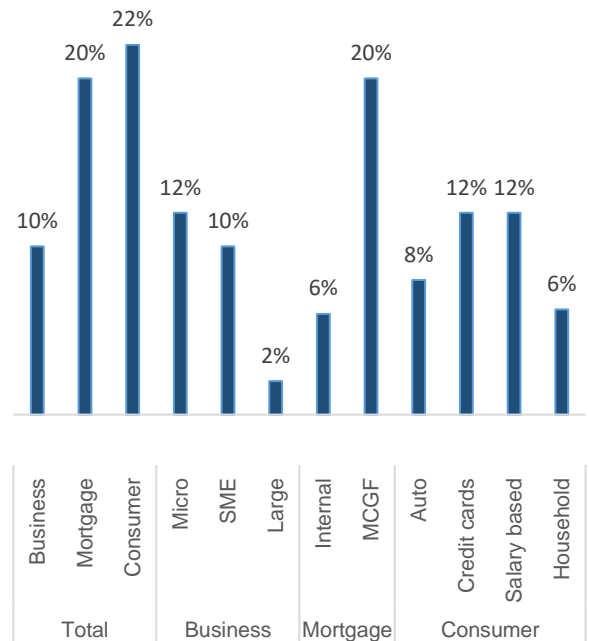


Chart 4. Expectations on loan demand for Q2 2023



*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.

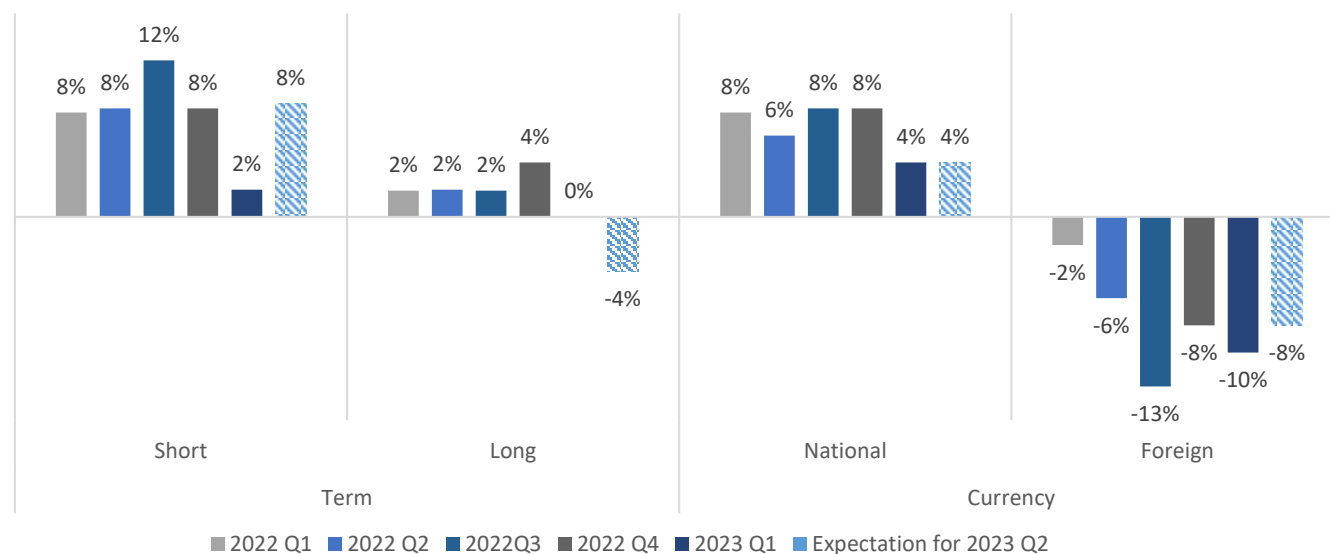
Analysis of loans across sectors

Business loans

Credit policy on business loans. Although credit standards for business loans issued by banks continued to soften in the first quarter of this year, compared with previous quarters, the softening trend showed signs of slowing. Credit standards for business loans in foreign currency continued to tighten. Based on banks' expectations for the second quarter of 2023, it is predicted that the standards for short-term and national currency business loans in the sector will be softened, while long-term and foreign currency loans will be tightened.

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

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



In Q1 2023, the quality of borrowers' collaterals and collateral realization, the cost of financing, as well as risk factors regarding the financial condition of large creditors had a tightening impact on credit standards for business loans. Although bank competition and general economic factors softened the credit standards, the refinancing rate and inflation exerted a tightening effect. The main factors tightening credit standards for business loans were the margin applied to high-risk loans and the restrictive criteria.

Chart 6. Factors affecting credit standards for business loans

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

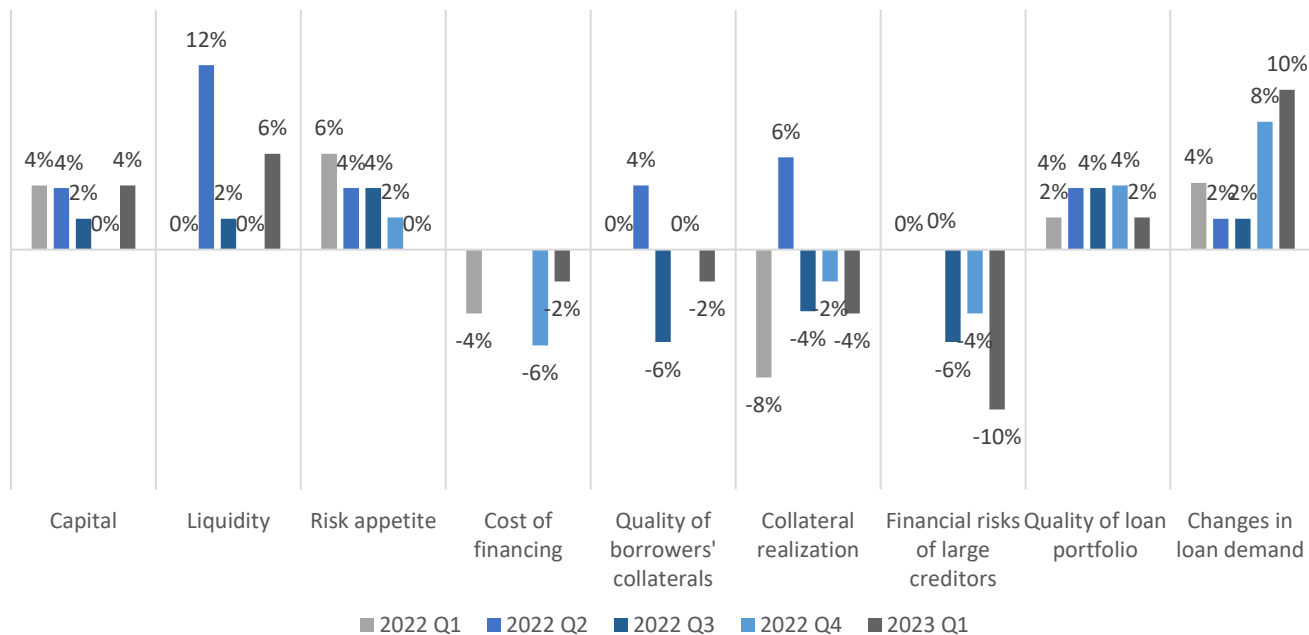


Chart 7. Factors affecting credit standards for business loans

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

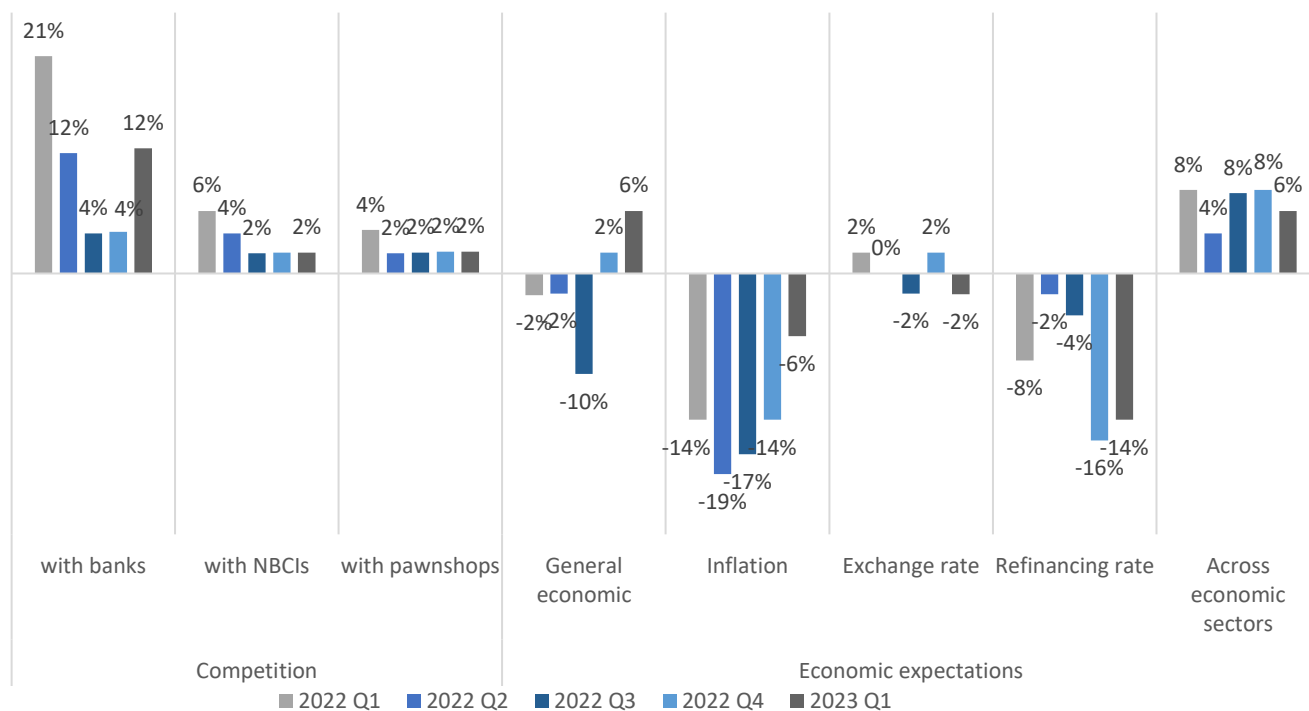
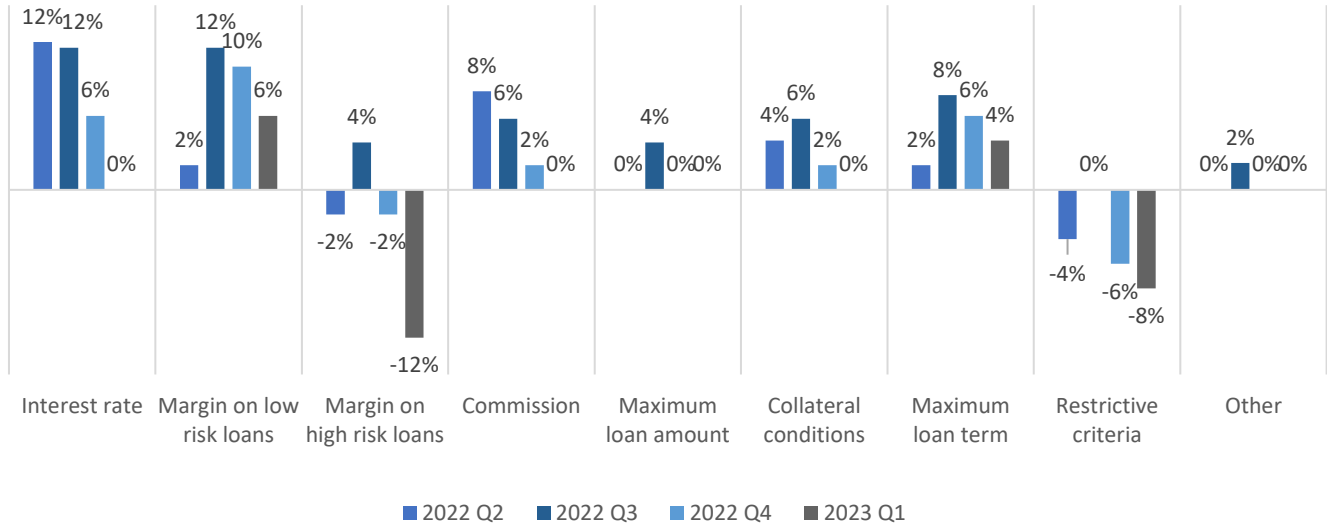


Chart 8. Changes in terms and conditions for business loans

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



The easing of credit standards for loans to SMEs mostly slowed down in Q1 2023. In the first quarter of this year, general economic expectations and bank competition had a softening impact on credit standards for loans to SMEs, while collateral quality and collateral realization, as well as inflation and refinancing rate expectations exerted a tightening effect. According to the survey results, banks tightened most components of credit standards for business loans to SMEs or slowed down the pace of easing.

Chart 9. Factors affecting credit standards for loans to SMEs

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

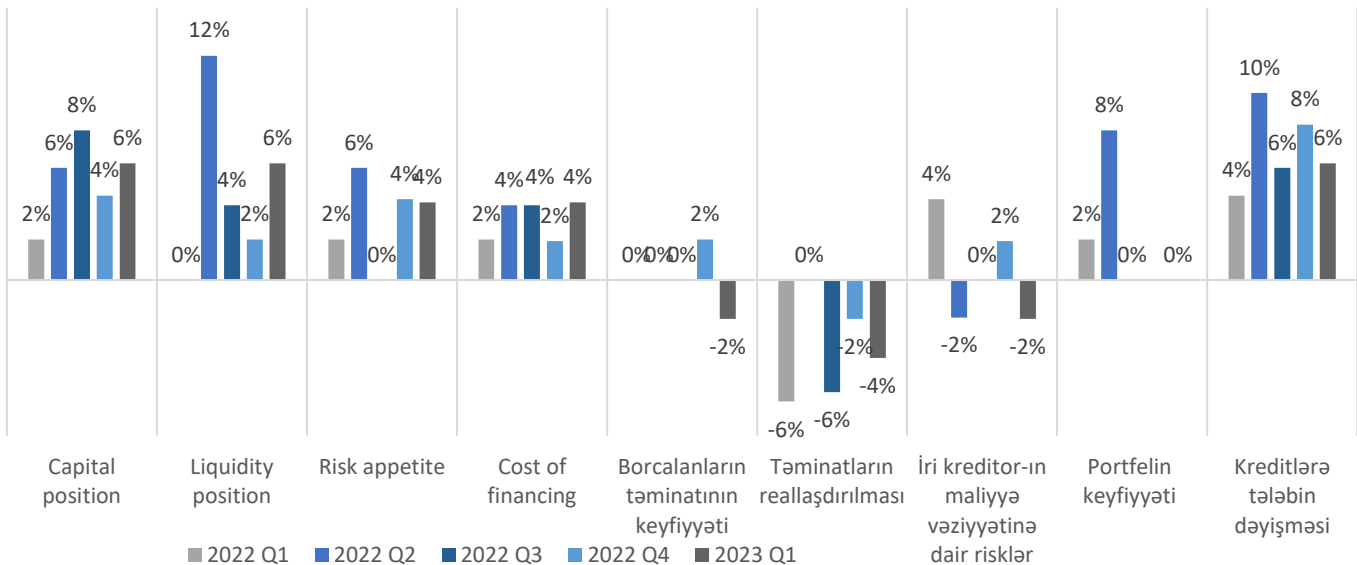


Chart 10. Factors affecting credit standards for loans to SMEs

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

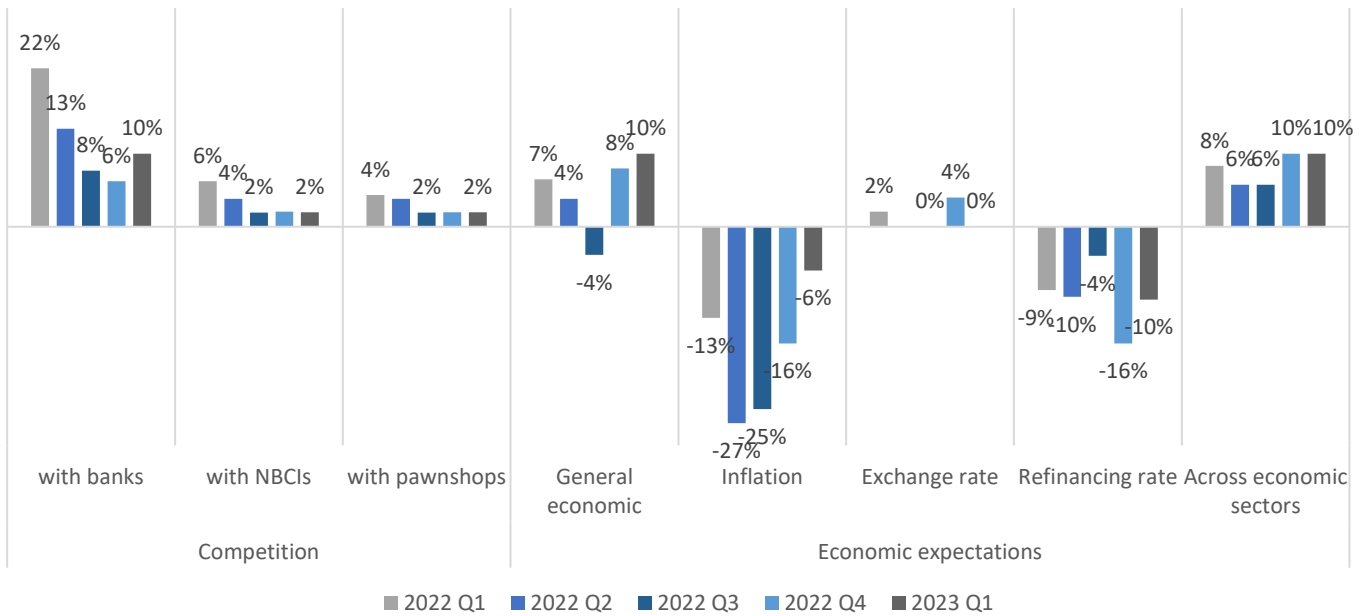
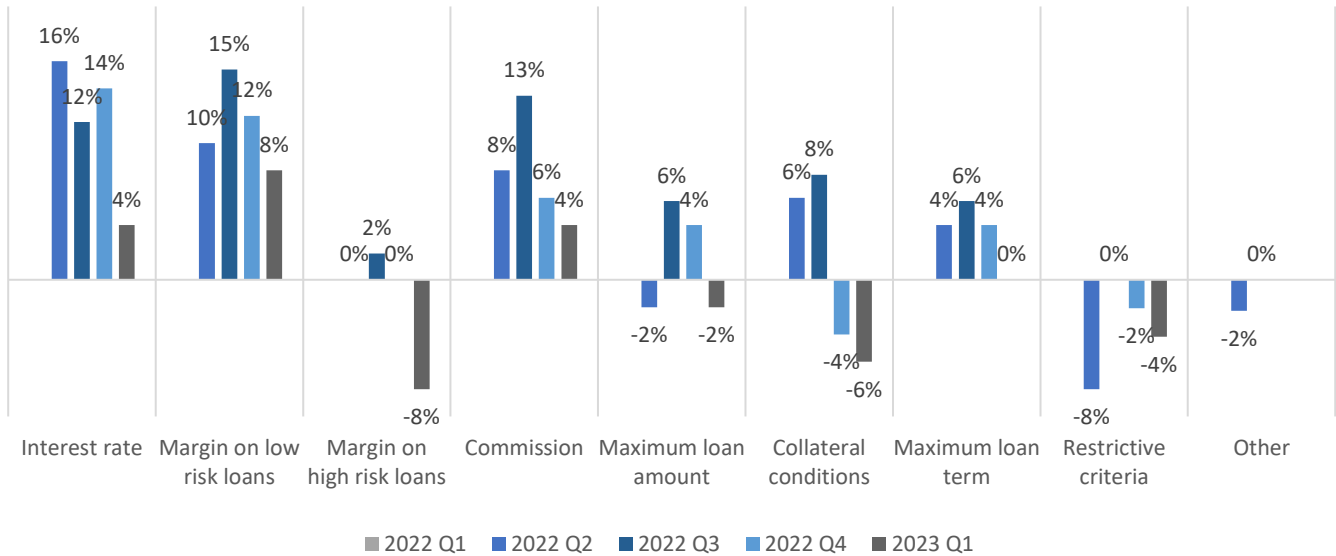


Chart 11. Changes in terms and conditions for loans to SMEs

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



Business loan demand

According to the survey, the growth rate of demand for business loans slowed significantly in Q1 2023. The demand for business loans in foreign currency decreased. In their expectations for business loans in Q2 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 slowing down the growth of demand for business loans, including loans to SMEs, were interest rates and a decrease in the softening effect on investment and working capital needs.

The trend of growth in the indebtedness level of business entities continued. Growth was mainly observed on micro, small and medium entities.

Chart 12. Changes in demand for business loans

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

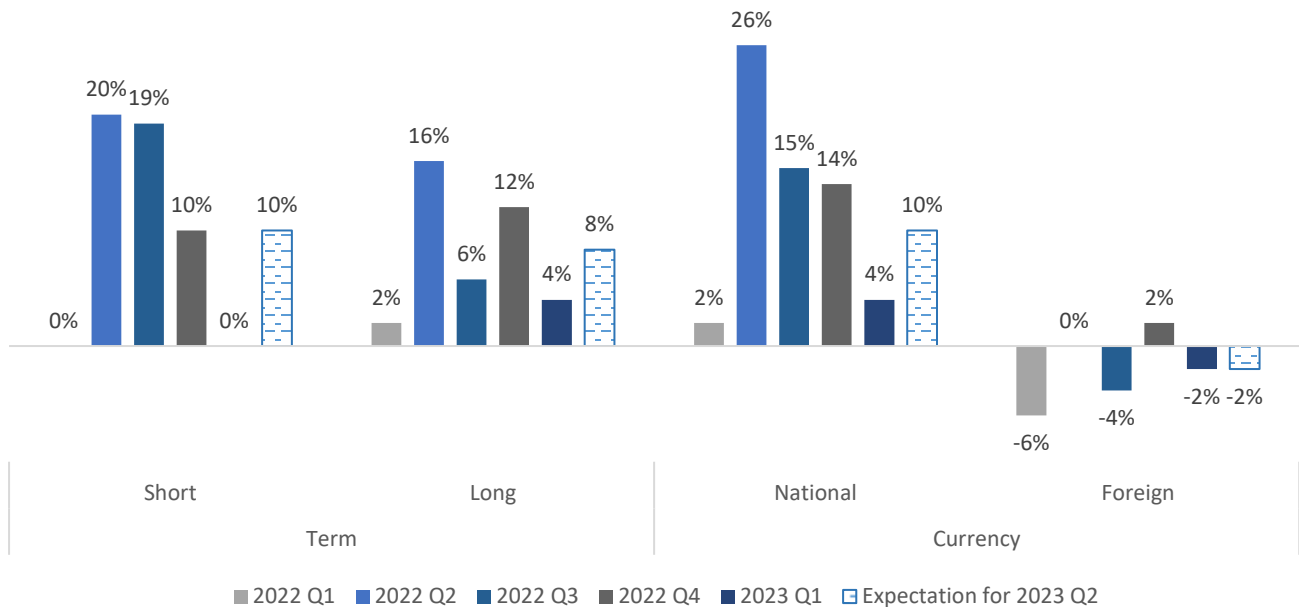


Chart 13. Factors affecting demand for business loans

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

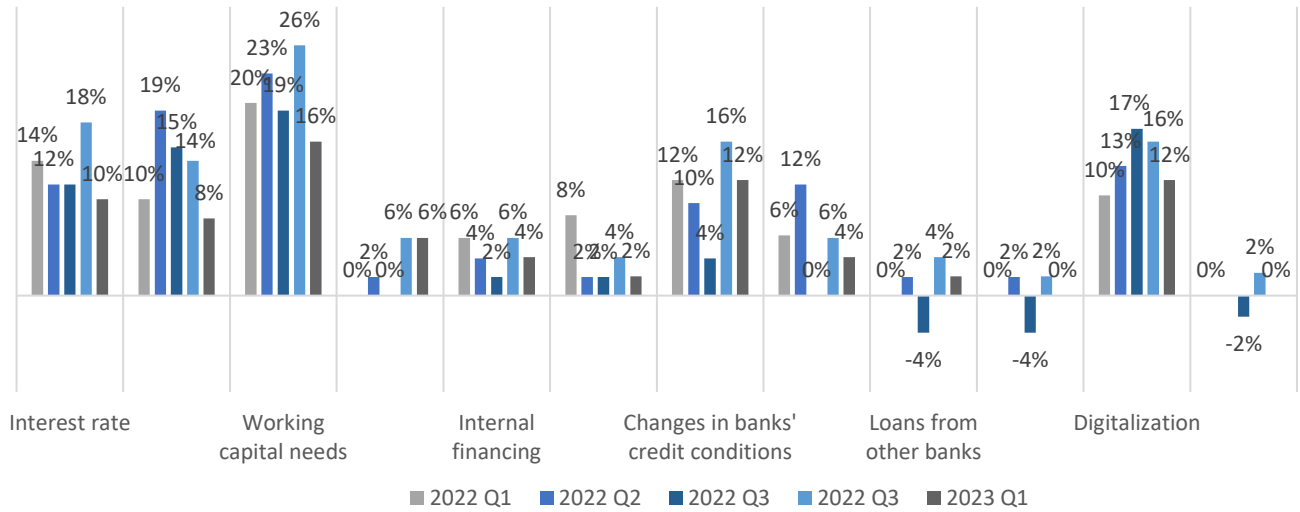


Chart 14. Factors affecting demand for loans to SMEs

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

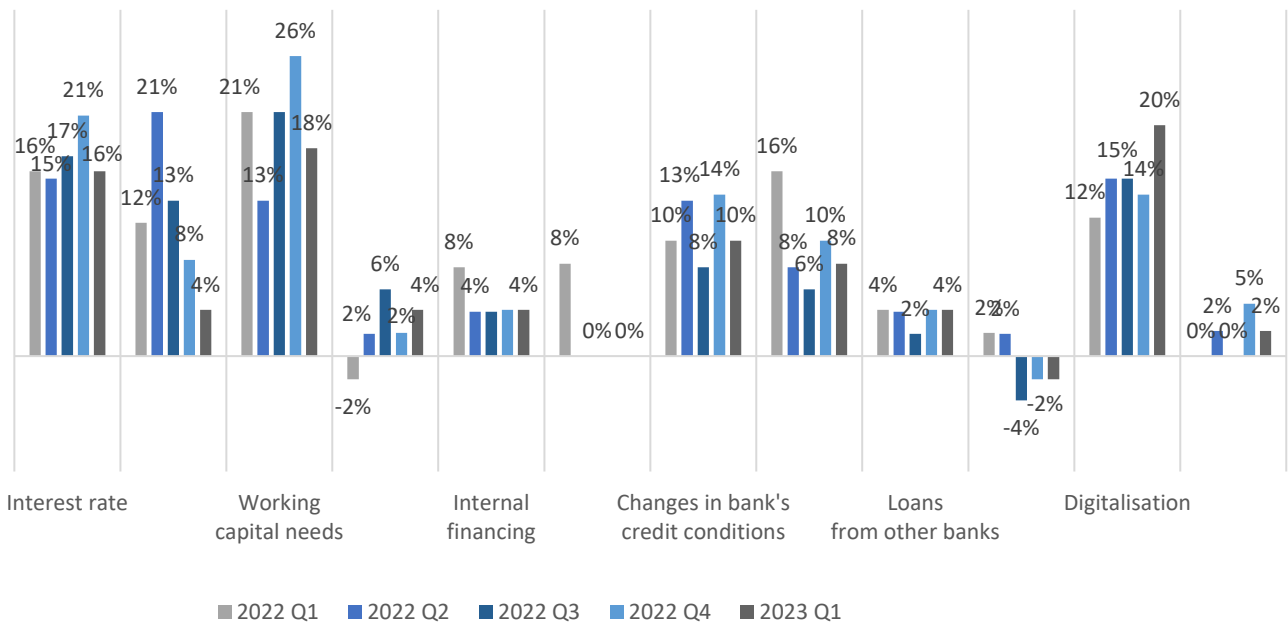
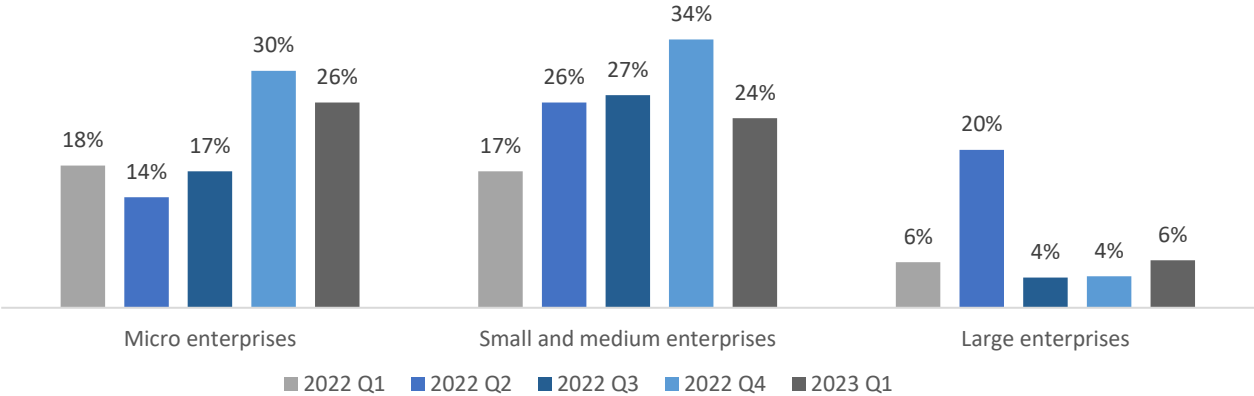


Chart 15. Changes in indebtedness level of business entities

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



Mortgage and consumer loans

Credit policy on mortgage and consumer loans. According to the survey results, there was a tendency of slowing down the softening of credit standards for consumer and mortgage portfolios. Bank competition and portfolio quality softened credit standards for mortgage loans, while real estate market expectations and collateral risk had a tightening impact. For consumer loans, the main tightening factors were inflation, real estate market expectations and solvency of the population. The softening impact of the bank competition decreased.

Chart 16. Factors affecting credit standards for mortgage loans

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

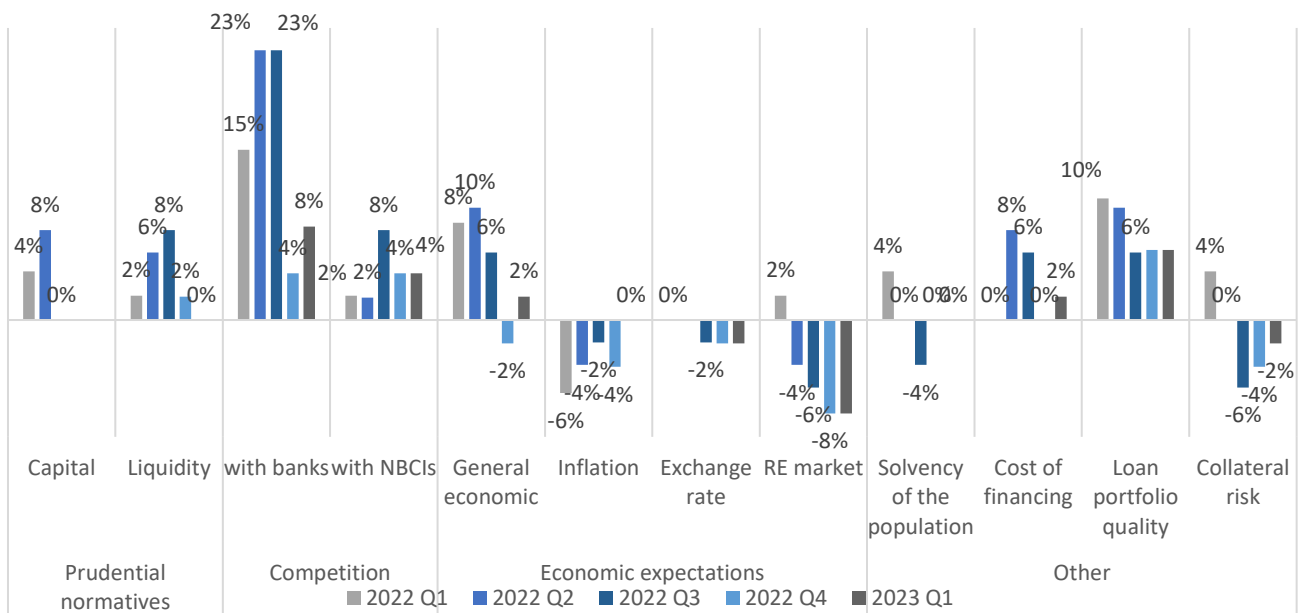


Chart 17. Factors affecting credit standards for consumer loans

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

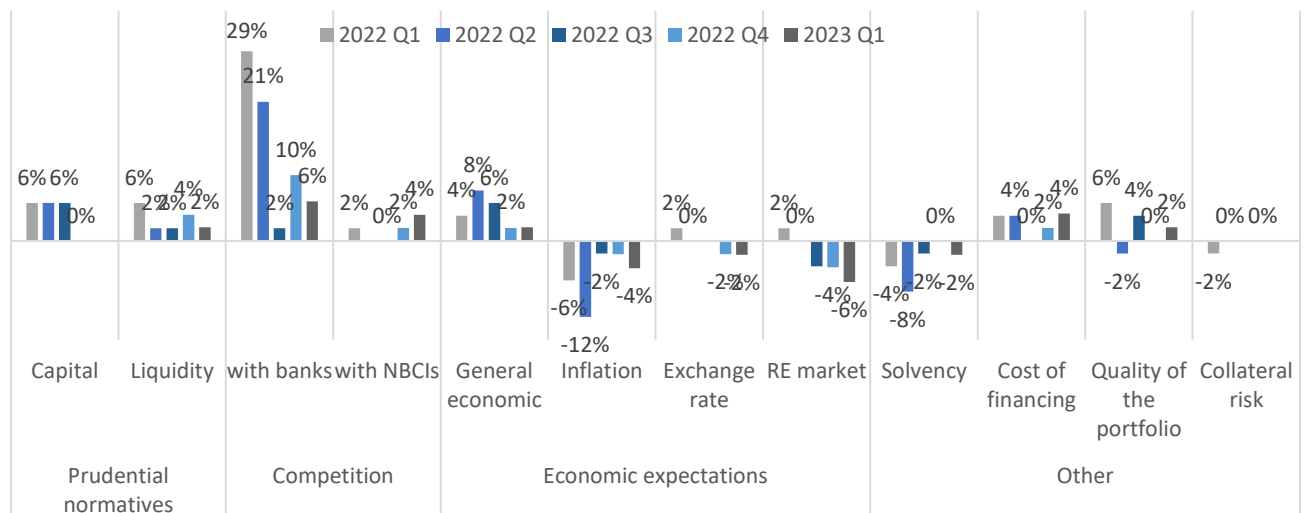


Chart 18. Changes in terms and conditions of mortgage loans

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

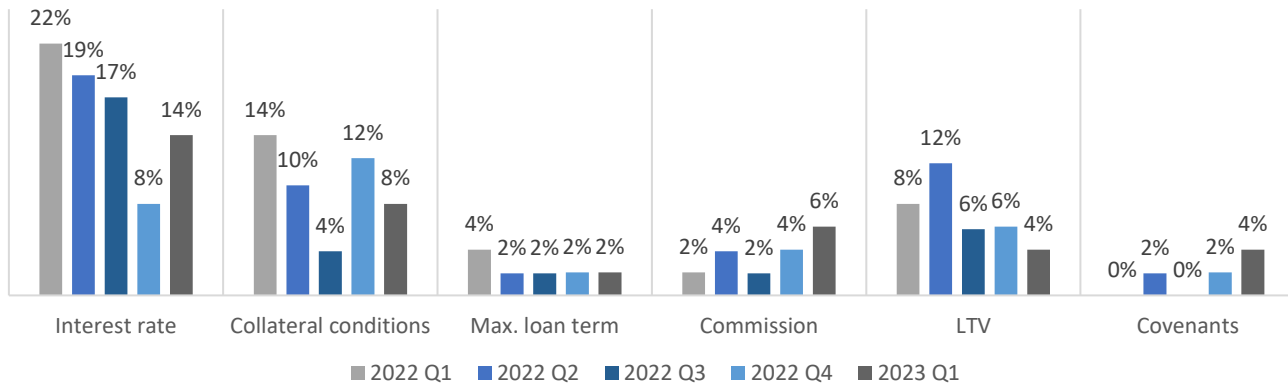
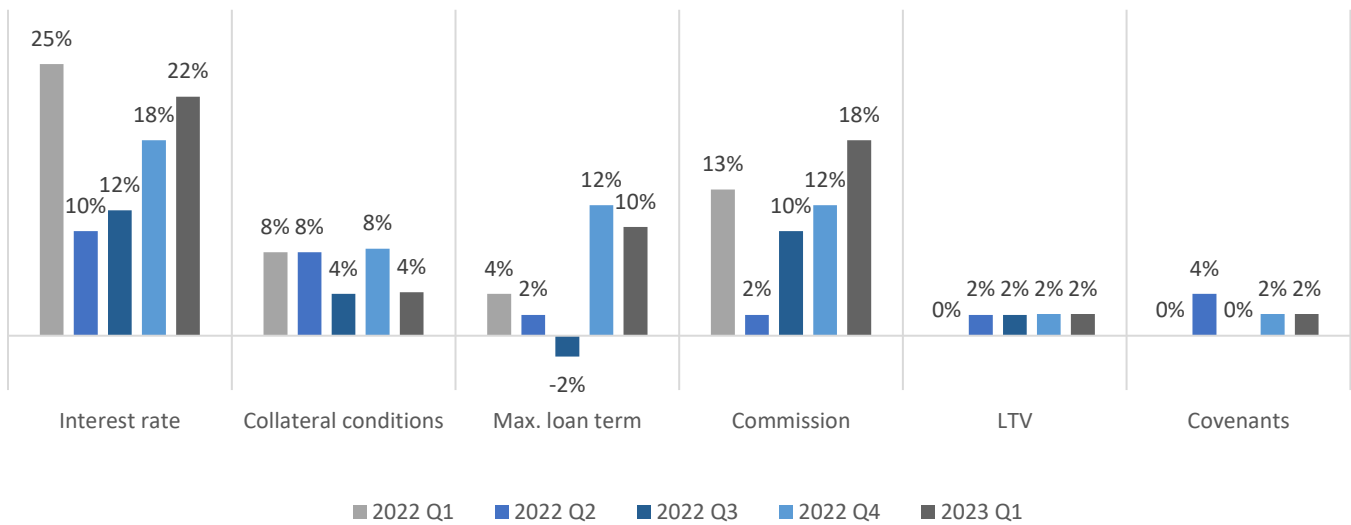


Chart 19. Changes in terms and conditions of consumer loans

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



Mortgage and consumer loan demand. Demand for consumer and mortgage loans increased in Q1 2023. The main drivers of demand growth were real estate market expectations, interest rates, and digitalization.

Based on the assesment of the level of indebtedness of population by banks in the first quarter of this year, the indebtedness level of population increased. Thus, 42% of the sector's banks reported that the indebtedness level remained unchanged, while 54% reported a moderate increase in the indebtedness level and 4% reported a moderate decrease.

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

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

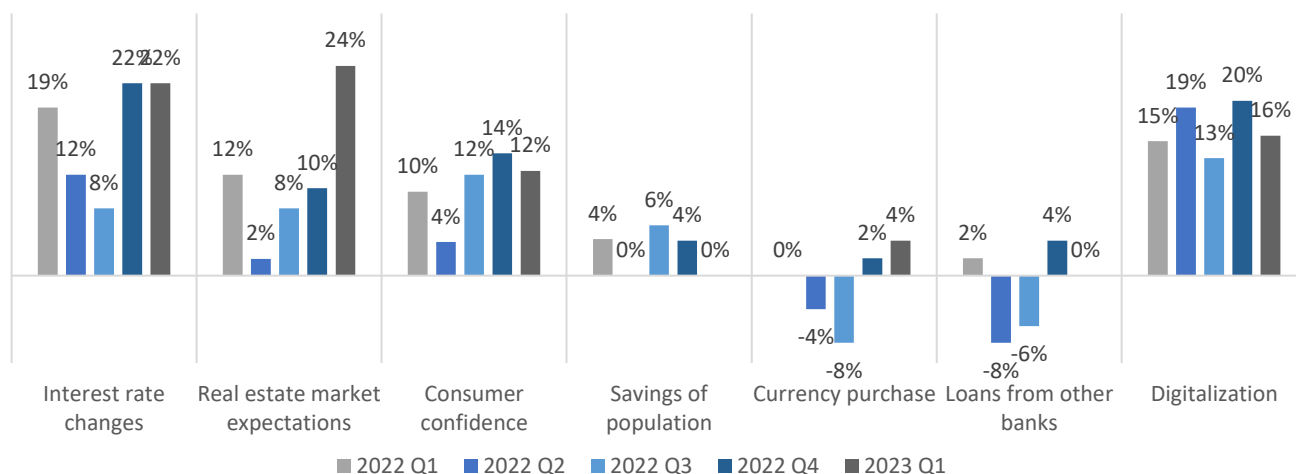
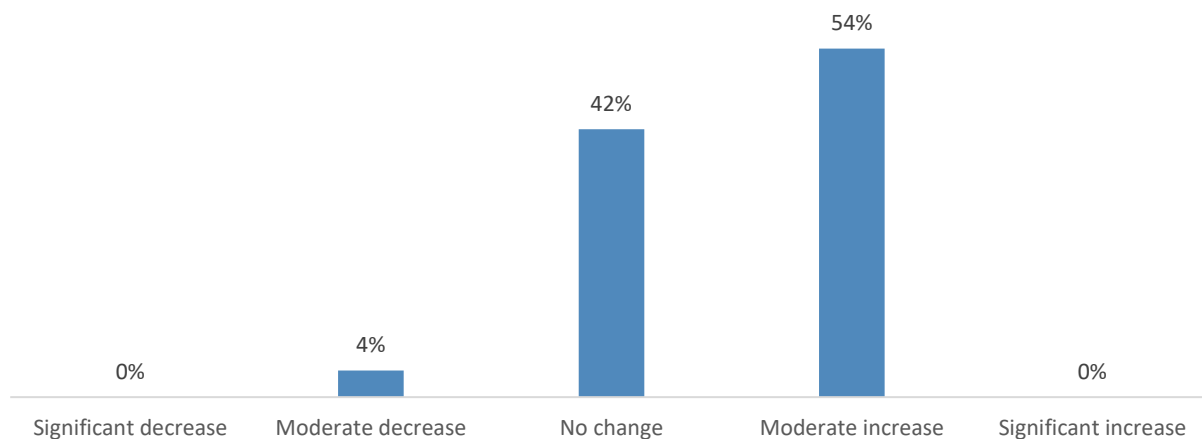


Chart 21. Changes in the indebtedness level of population in Q1 2023

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



Risk profile

According to the results of the survey, banks reported an increase in interest rates and liquidity risks and a decrease in other risks in the first quarter of 2023.

In Q1 2023, a decrease in credit risk was observed in agriculture, industry, transport, as well as non-production and service sectors, while an increase in credit risk occurred in trade, construction, information and communication sectors.

However, according to the banks' responses, the dynamics of decrease of total credit risks for business entities has slowed down. The slowdown is more noticeable on micro businesses.

Chart 22. Changes in banks' risks

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

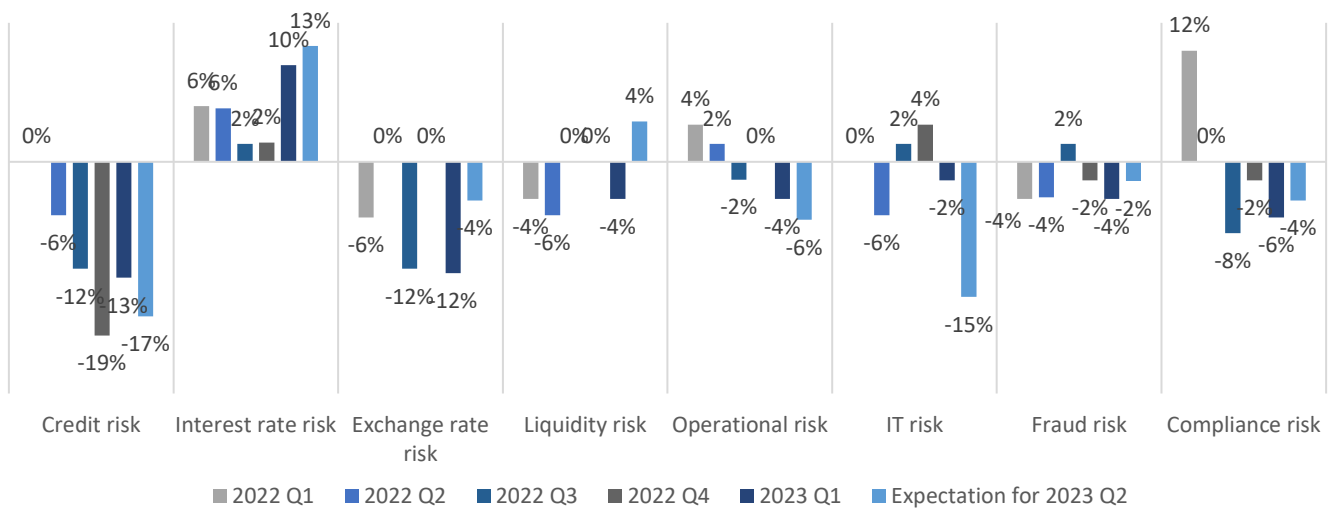


Chart 23. Credit risk changes across sectors

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

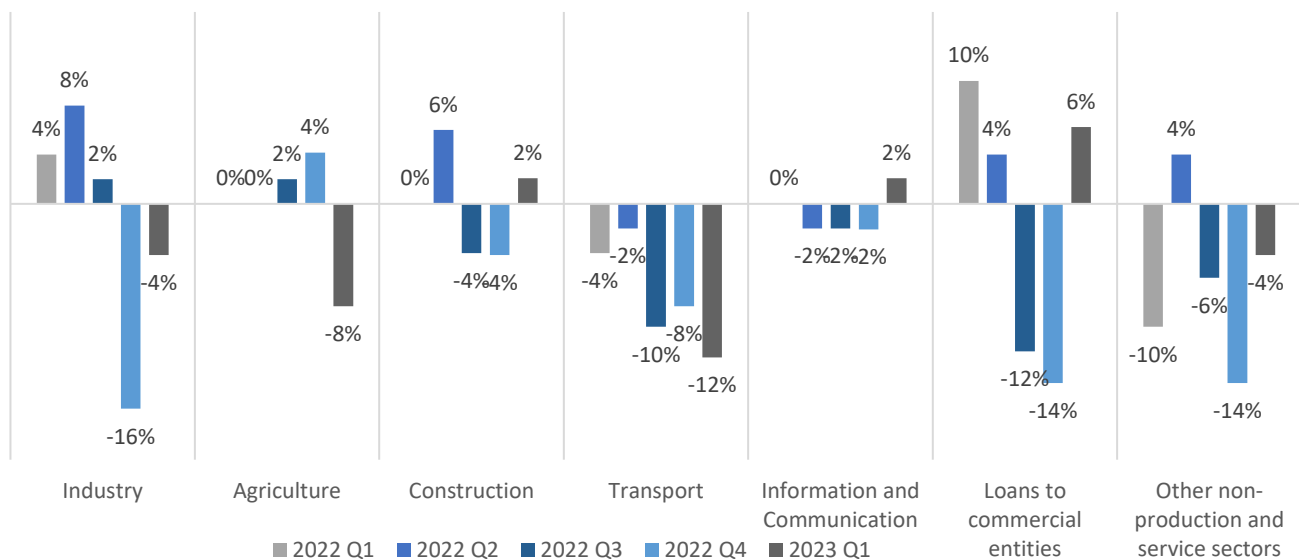


Chart 24. Credit risk changes across business entities

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

