



CENTRAL BANK  
OF THE REPUBLIC OF AZERBAIJAN

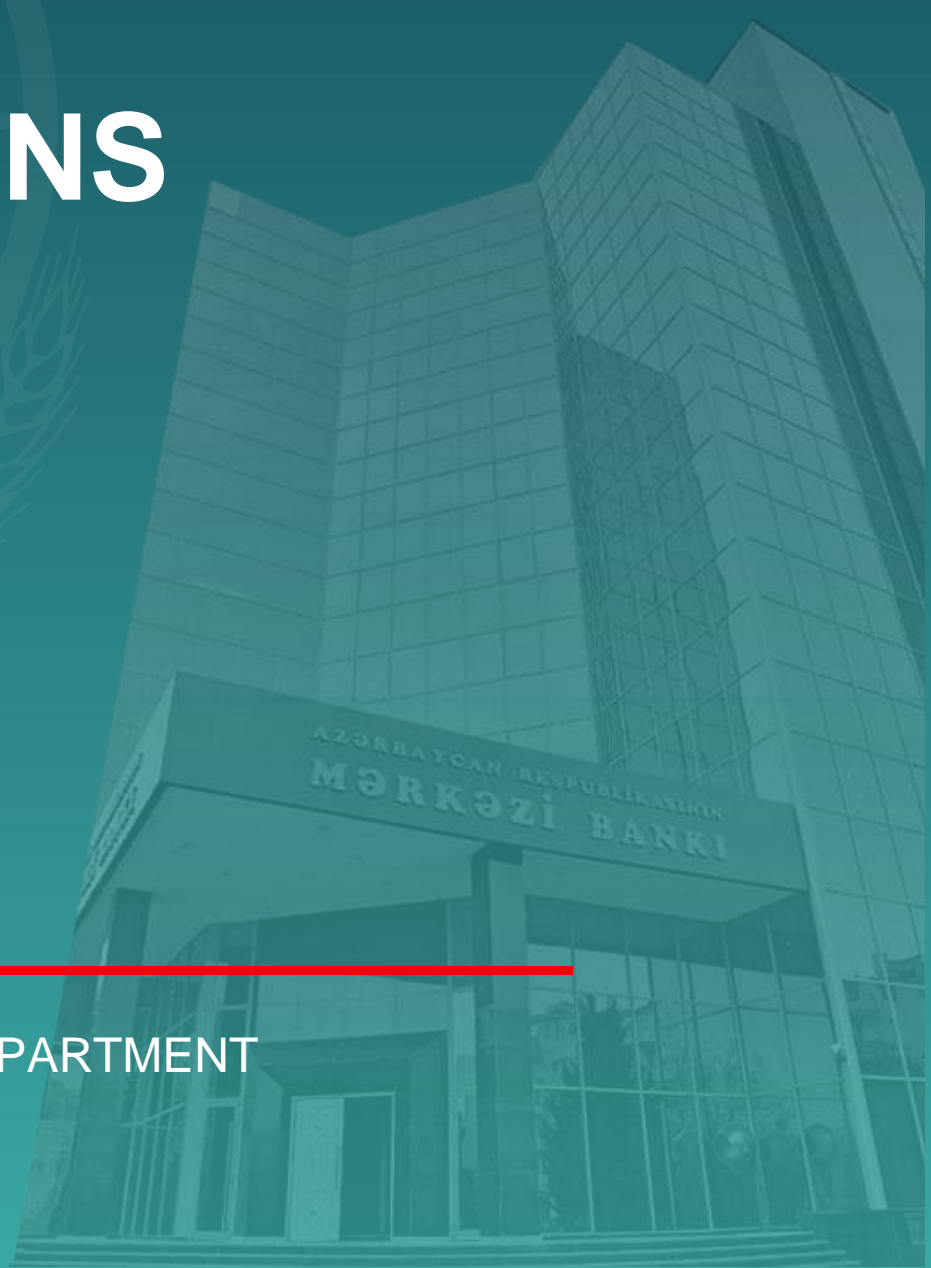
# CREDIT CONDITIONS SURVEY RESULTS

Q2

2024

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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

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## Introduction

*The objective of this survey is to monitor and analyze banks' lending activities, 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 identification and assessment of banks' risks:*

- Dynamics of changes in credit standards (policy),*
- Factors affecting the dynamics of credit standards,*
- Dynamics of changes in loan demand.*

*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 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. This report presents the results of the Q2 2024 survey. The expectations contained in this report do not reflect the expectations of the Central Bank of the Republic of Azerbaijan, but only the views of the respondents (banks) on the current and future credit trends.*

## Summary of survey results

According to the results of the Q2 2024 survey, although there was no change in credit standards and loan demand for overall business loans, the easing of standards for MSMEs and the increase in demand for MSME loans were noticeable. The surveyed banks expect a further easing of credit standards for MSMEs and an increase in demand in the next quarter.

Credit standards for mortgage loans tightened as in the previous quarter. The tightening of credit standards for mortgage loans was evident for internal loans. Banks reported a decline in demand for mortgage loans amid rising interest rates. The decline in demand was mainly for internal mortgage loans. Banks expect the trend of tightening credit standards for mortgage loans and declining loan demand to continue in the next quarter. According to the survey results, the tightening of credit standards and the decline in loan demand will be driven by internal mortgage loans.

Credit standards for consumer loans were unchanged in the second quarter of 2024, according to the survey results. Demand for consumer loans was on the rise. Respondents expect consumer credit standards and consumer loan demand to remain unchanged in the next quarter.

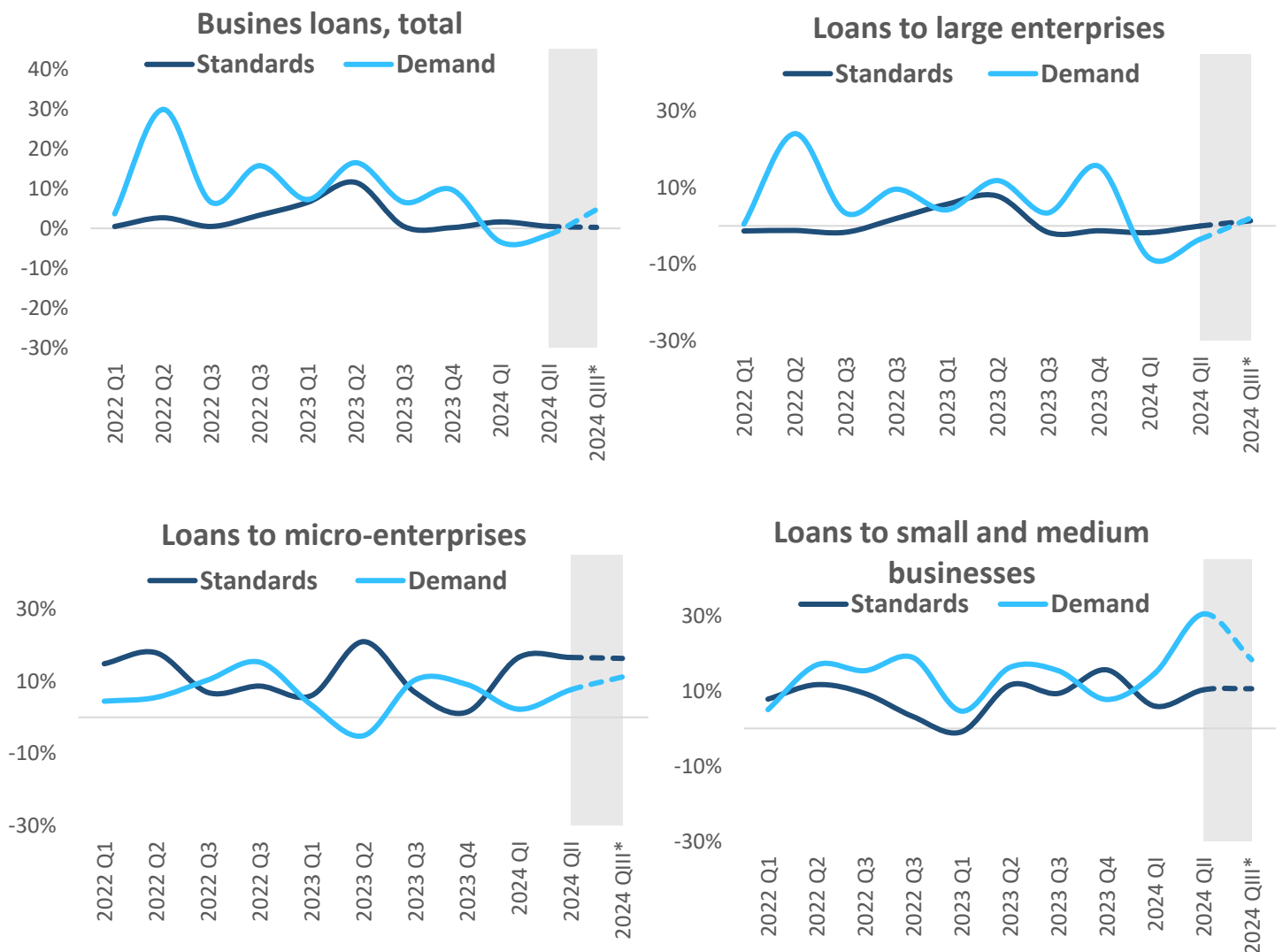
# Analysis of loans across sectors

## Business loans

In Q2 2024, there was no easing of standards for lending to MSMEs, while standards for lending to large enterprises remained unchanged. According to the survey, banks expect credit standards for MSMEs to ease further in the next quarter, while credit standards for large enterprises are expected to remain unchanged.

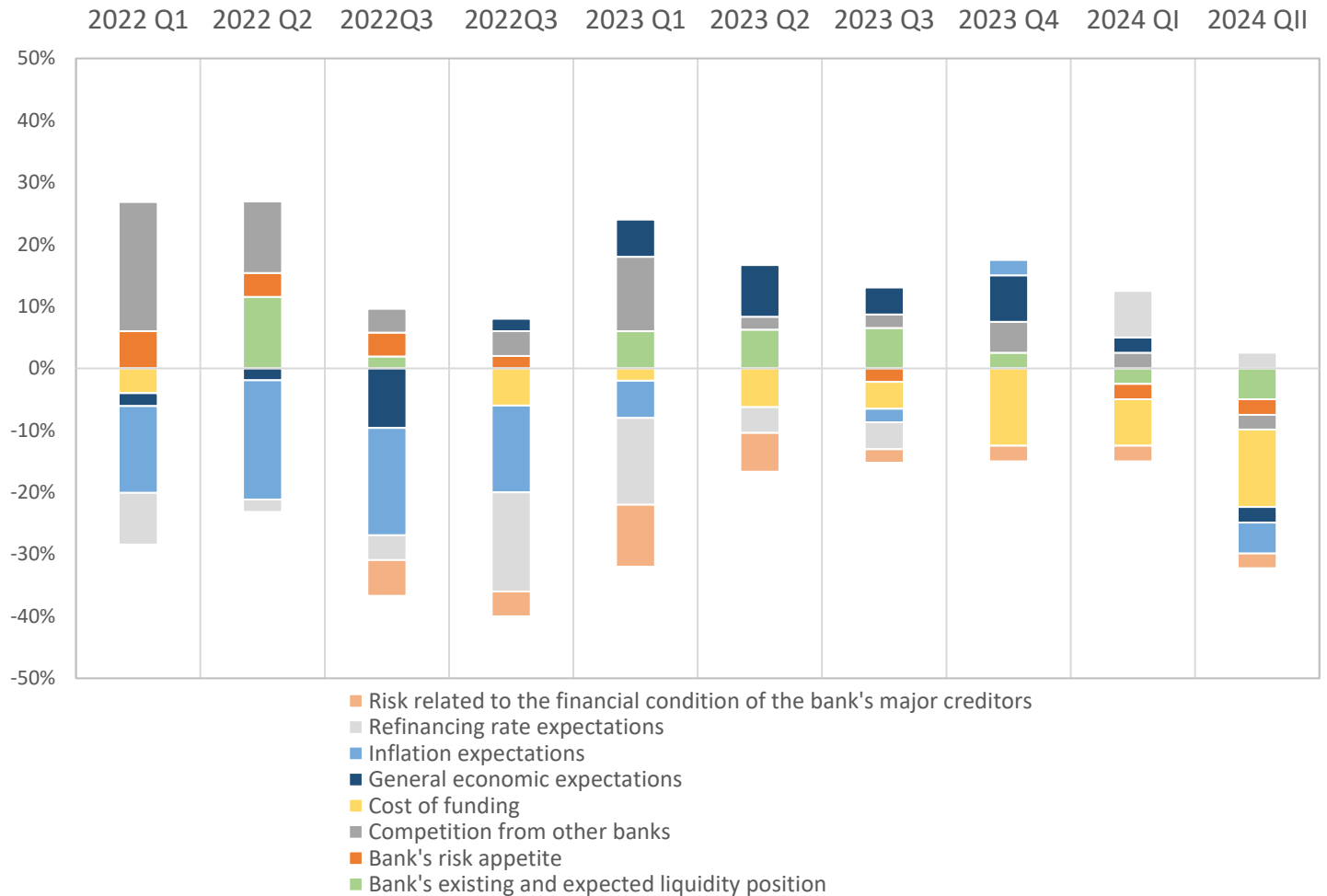
Chart 1. Changes in credit standards and demand for business loans

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



According to the results, the surveyed banks reported increased demand for loans to MSMEs in the second quarter of 2024. Banks expect demand for business loans, especially for loans to MSMEs, to increase in Q3 2024.

*Chart 2. Factors affecting credit standards for business loans*



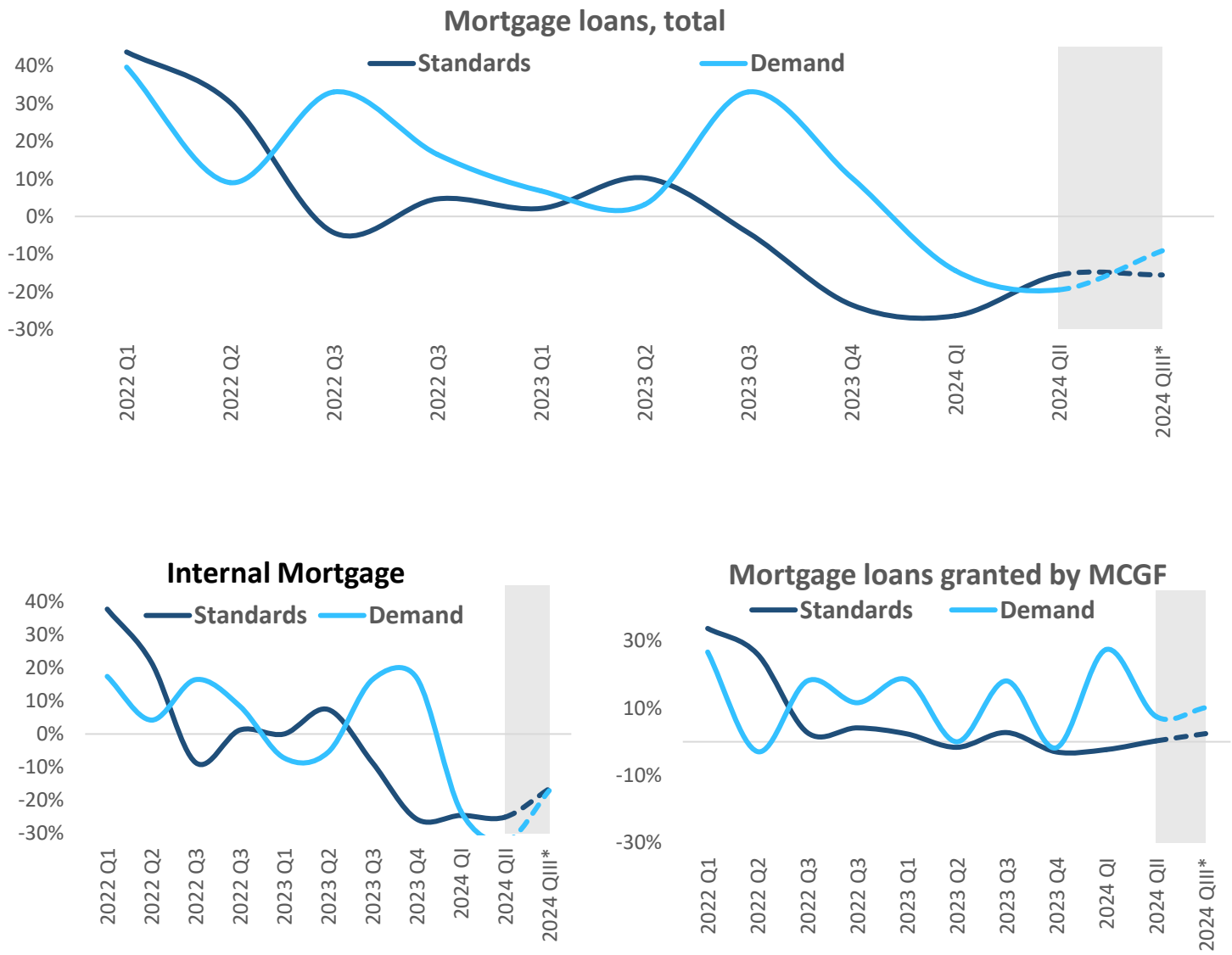
In the second quarter of 2024, banks' funding costs, current and expected liquidity positions, and general economic and inflation expectations were the main drivers of tighter business credit standards, while refinancing rate expectations tended to ease business credit standards.

# Mortgage loans

According to the results of the Credit Conditions Survey Q2 2024, there was a tightening of credit standards for mortgage loans. The tightening of credit standards was evident for mortgage loans originated internally. Credit standards for MCGF-backed loans remained unchanged. Banks expect credit standards for internal mortgage loans to tighten further in the next quarter.

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

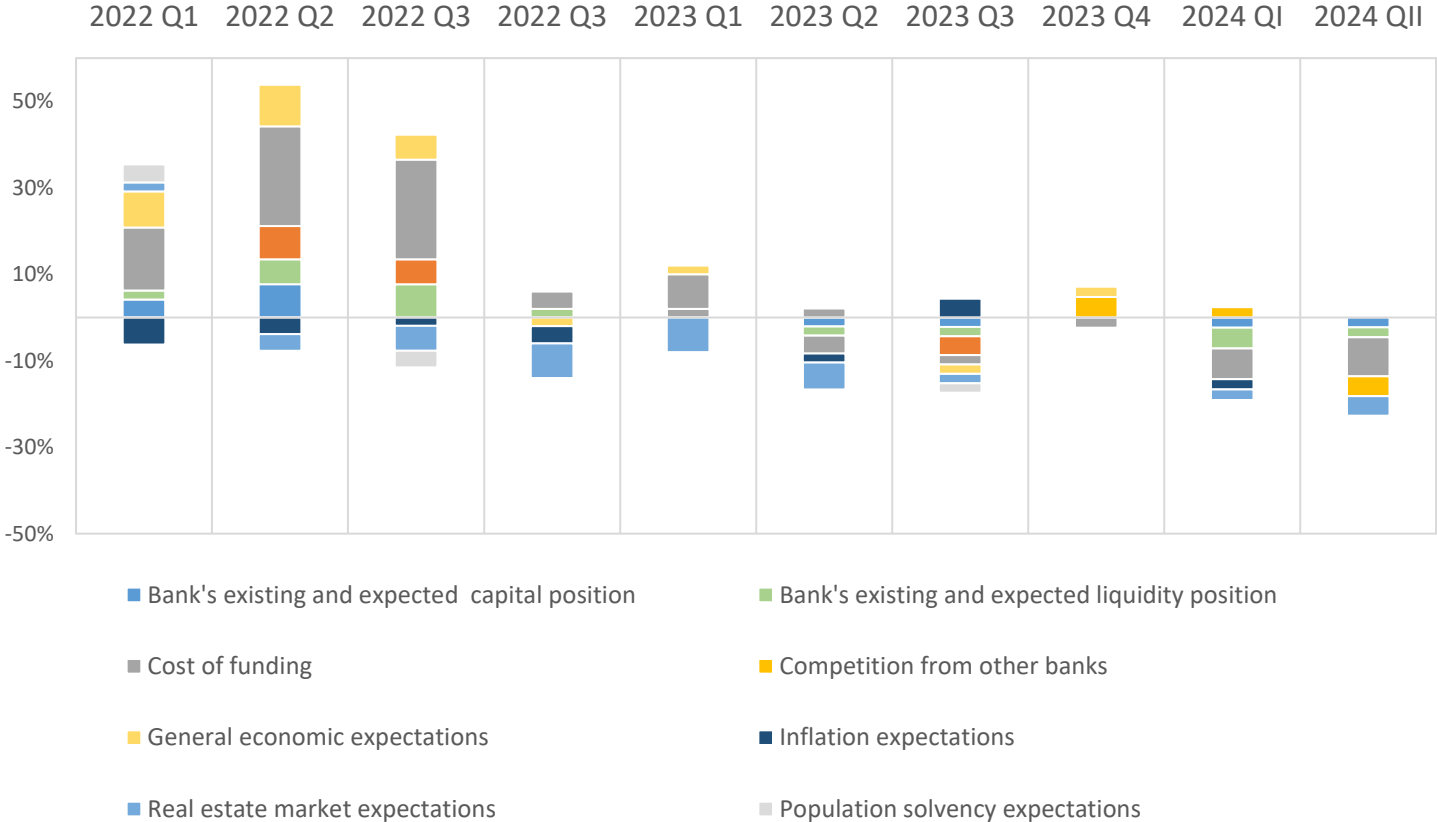
(Diffusion Index: positive = softening, negative = tightening)



Demand for mortgage loans was on the decline in Q2 2024. The main reason for the decline in demand was internal mortgage loans, according to respondents. Compared to the previous quarter, demand for mortgage loans originated by banks with MCGF funds also declined. Banks expect demand for mortgages, especially internally originated loans, to decline in the next quarter 2024.

Chart 4. Factors affecting credit standards for mortgage loans

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



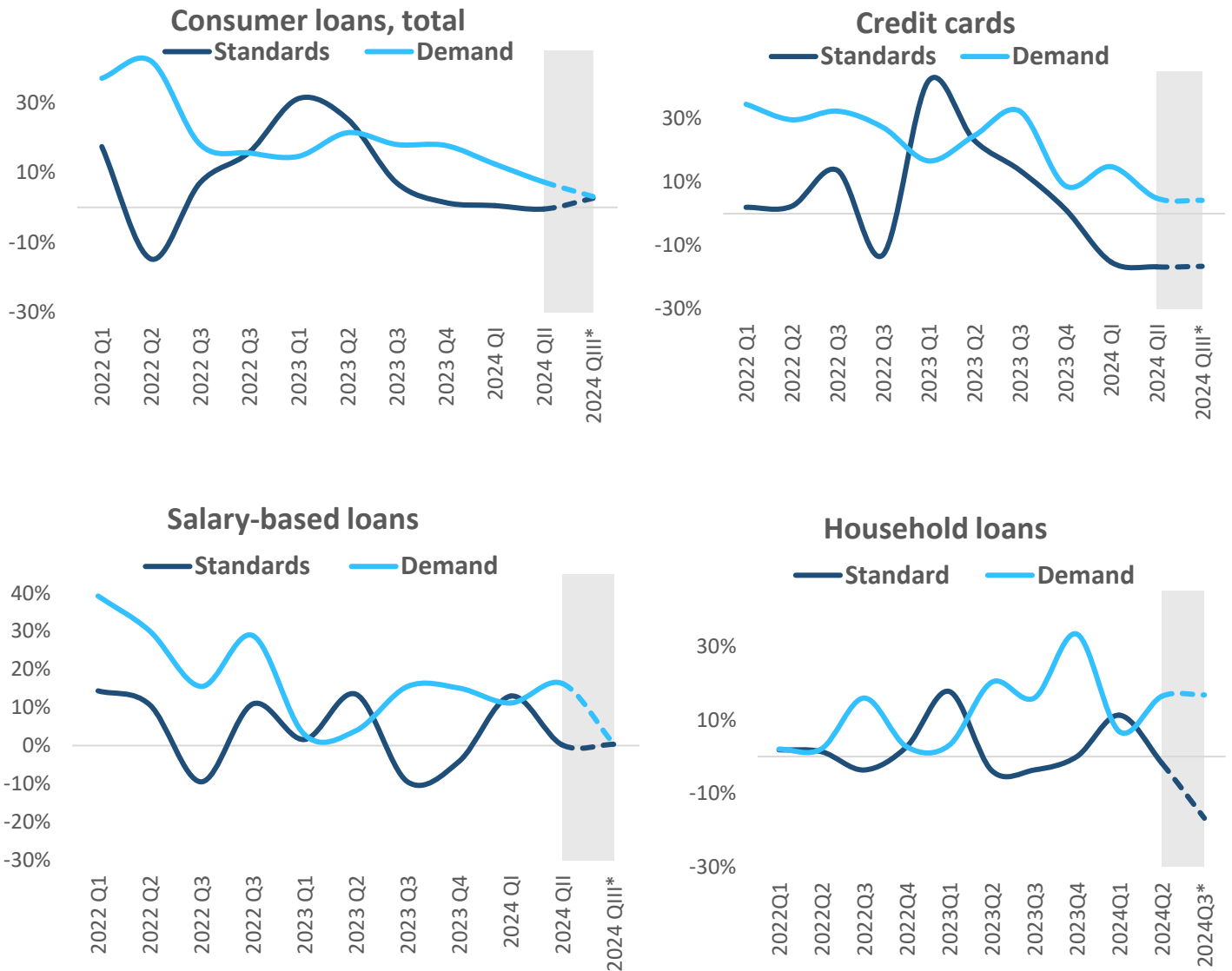
Banks reported that tighter mortgage lending standards were driven by factors including banks' funding costs, competition from other banks, the real estate market, and bank capital and liquidity positions.

# Consumer loans

According to the results of the survey, credit standards for total consumer loans remained unchanged in the second quarter of 2024, while credit standards for credit cards tightened. Banks reported that there was no change in credit standards for salary-based loans compared to the previous quarter. Banks forecast that consumer credit standards for salary-based loans will remain unchanged in Q3 2024, while credit standards for credit cards will tighten.

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

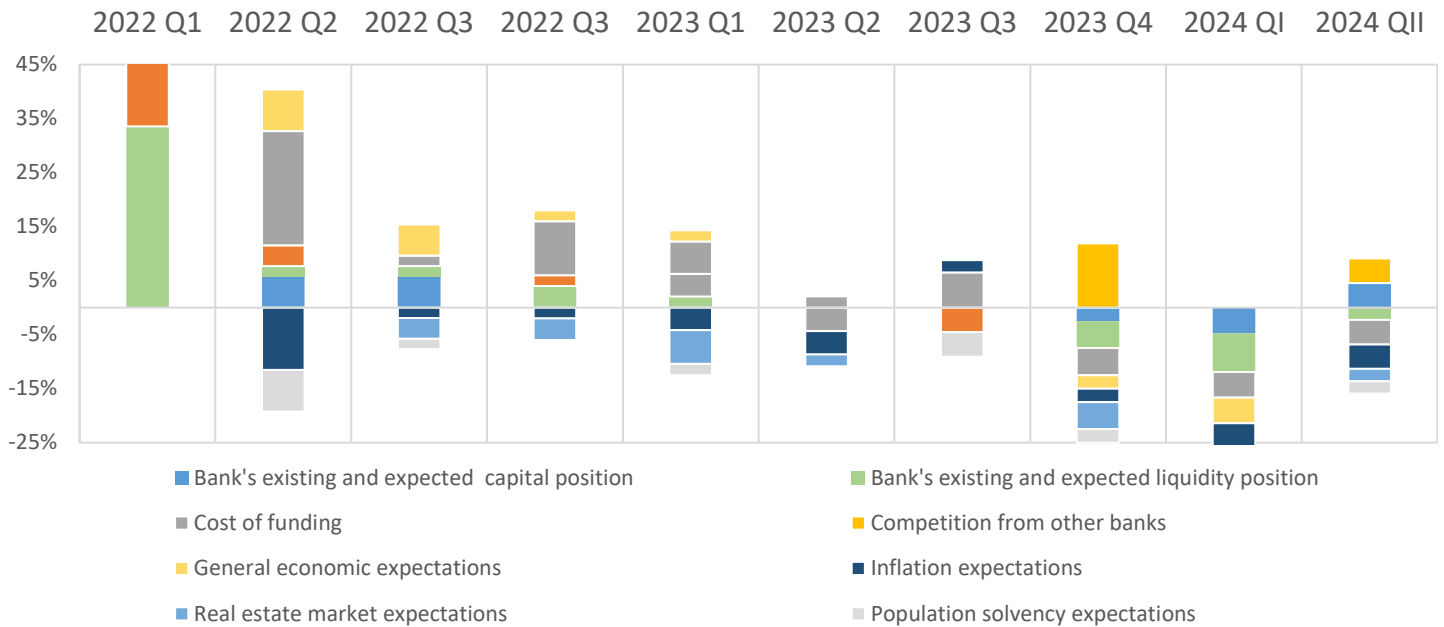
(Diffusion Index: positive = softening, negative = tightening)



According to the survey results, the demand for total consumer loans increased. This increase was mainly due to salary-based loans and loans for the purchase of household equipment, according to the respondents. Respondent banks expect no change in demand for all consumer loans in Q3 2024.

**Chart 6. Factors affecting credit standards for consumer loans**

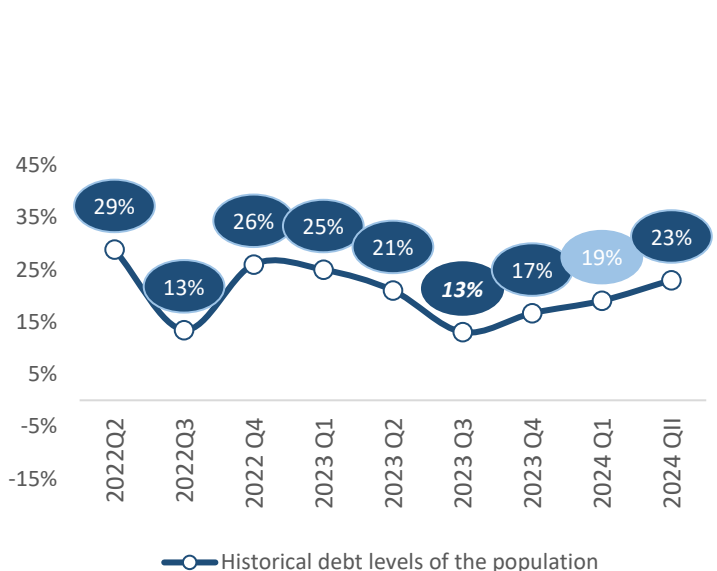
(Diffusion Index: positive = softening, negative = tightening)



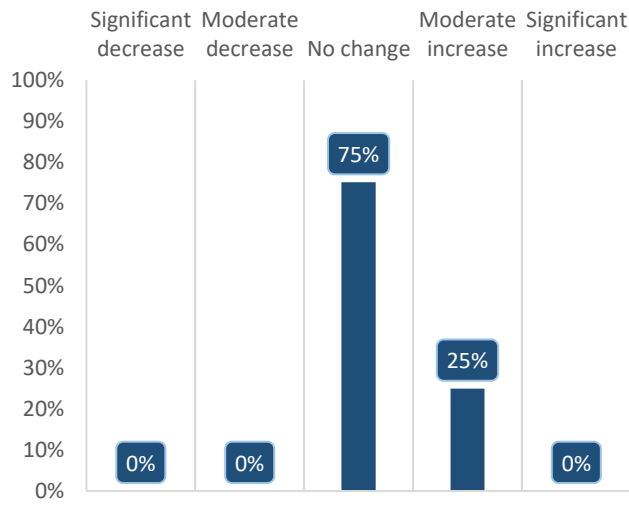
According to the results of the survey, inflationary expectations and the cost of funding have had a tightening effect on credit standards. Banks' current and expected liquidity positions were less of a tightening factor compared with the previous quarter. Compared with the first quarter, banks' current and expected capital positions also had an easing effect on credit standards for residential mortgages. Respondents indicated that competition from other banks also had an easing effect on credit standards.

**Chart 7. Population debt diffusion index**

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



**Chart 8. Changes in population debt levels: past quarter**



According to the results of the survey, 75% of the responding banks reported no change in the level of indebtedness of the population, while 25% reported a moderate increase. The long-run diffusion index of the indebtedness of the population increased by 4 p.p. to 23% in the second quarter of 2024.