



AZƏRBAYCAN RESPUBLİKASININ
MƏRKƏZİ BANKI

CREDIT CONDITIONS SURVEY RESULTS

Q3

2023

FINANCIAL STABILITY DEPARTMENT

ACRONYMS

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

SMEs – Small and Medium Enterprises

MSMEs – Micro, Small and Medium Enterprises

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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*
- *Dynamics of changes in loan demand*

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 Q3 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

According to the results of the Q3 2023 survey, the easing of credit standards for business loans slowed down compared to the previous quarter. Both loans to microenterprises and loans to SMEs experienced a slowdown in the easing of credit standards. Responding banks indicated that they expect the easing to continue at a slower pace in the next quarter.

In the current quarter, demand for business loans declined slightly compared to the previous quarter, but remained in positive territory. Demand for business loans was mainly for loans to MSMEs. Although banks indicated that they expect demand for loans to large enterprises to be low in the next quarter compared to the current quarter, they believe that loan demand from microenterprises and SMEs will increase in the next quarter.

According to the survey results, credit standards for mortgage loans were unchanged, but demand declined. Credit standards for mortgage loans remained unchanged for loans issued at the expense of MCGF, as in the case of internal mortgage loans, while demand for loans from MSGF declined in the last quarter. Banks expect easing of mortgage credit standards to grow, but no significant change in loan demand.

According to the survey results, the easing of credit standards for all consumer loans decreased compared to the previous quarter, while the easing of credit standards for credit cards increased. Demand for consumer loans in the sector remains high. In the current quarter of 2023, the demand for credit cards and salary loans increased, while the demand for household loans decreased. Banks forecast an increase in demand for consumer loans in the background of an increase in demand for credit cards in the next quarter.

Analysis of loans across sectors

Business loans

Banks reported a decrease in the easing of credit standards for business loans in Q3 2023. It was observed for all three types of business entities. Thus, the easing of credit standards for loans to SMEs and microenterprises decreased, while the easing of credit standards for loans to large enterprises tightened. Based on banks' expectations for Q4 2023, credit standards for all business loans will further soften, while credit standards for loans to large enterprises will tighten.

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

Diffusion Index: positive = softening, negative = tightening)

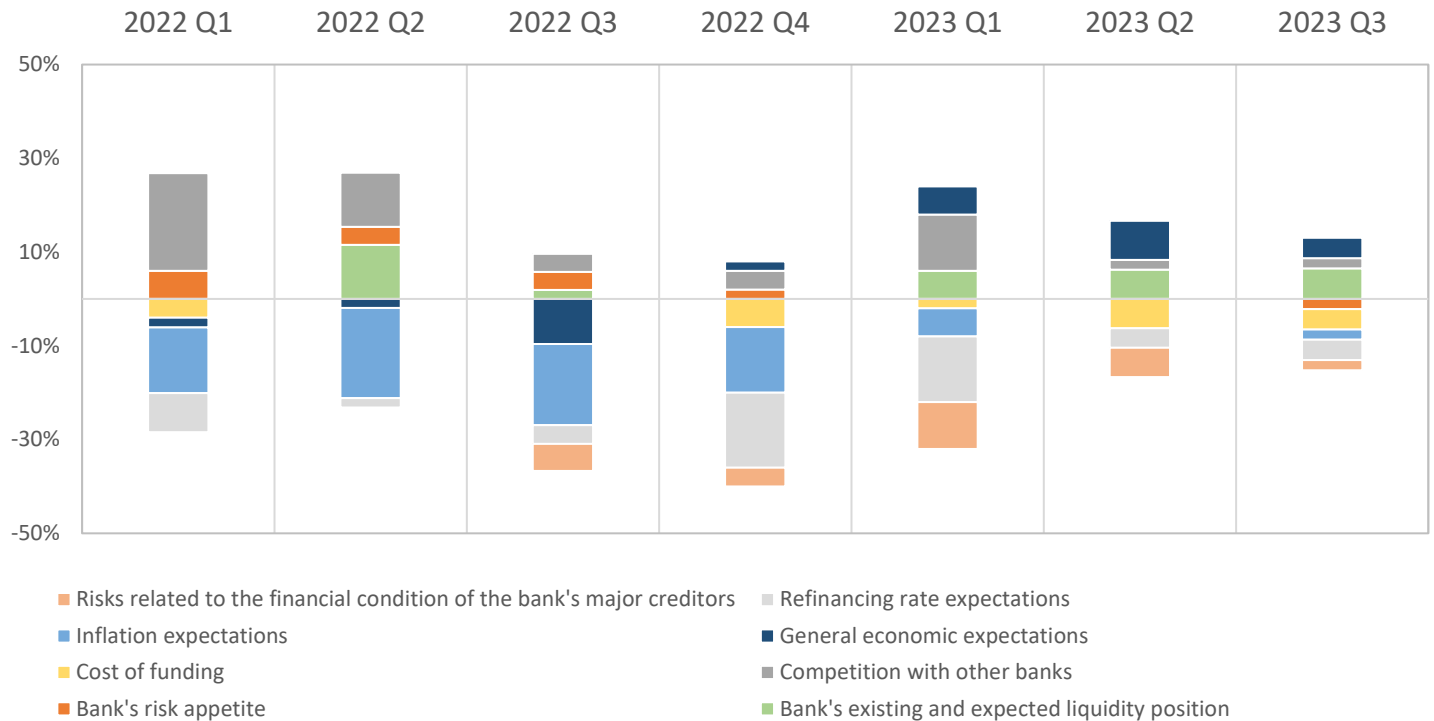


According to the survey results, demand for business loans declined compared to the second quarter, but remained in positive territory. Compared to loans to large enterprises, demand for loans from

MSMEs was higher. Banks expect a decline in demand for business loans from large enterprises and an increase in demand for loans from MSMEs in the fourth quarter.

Chart 2. Factors affecting credit standards for business loans

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



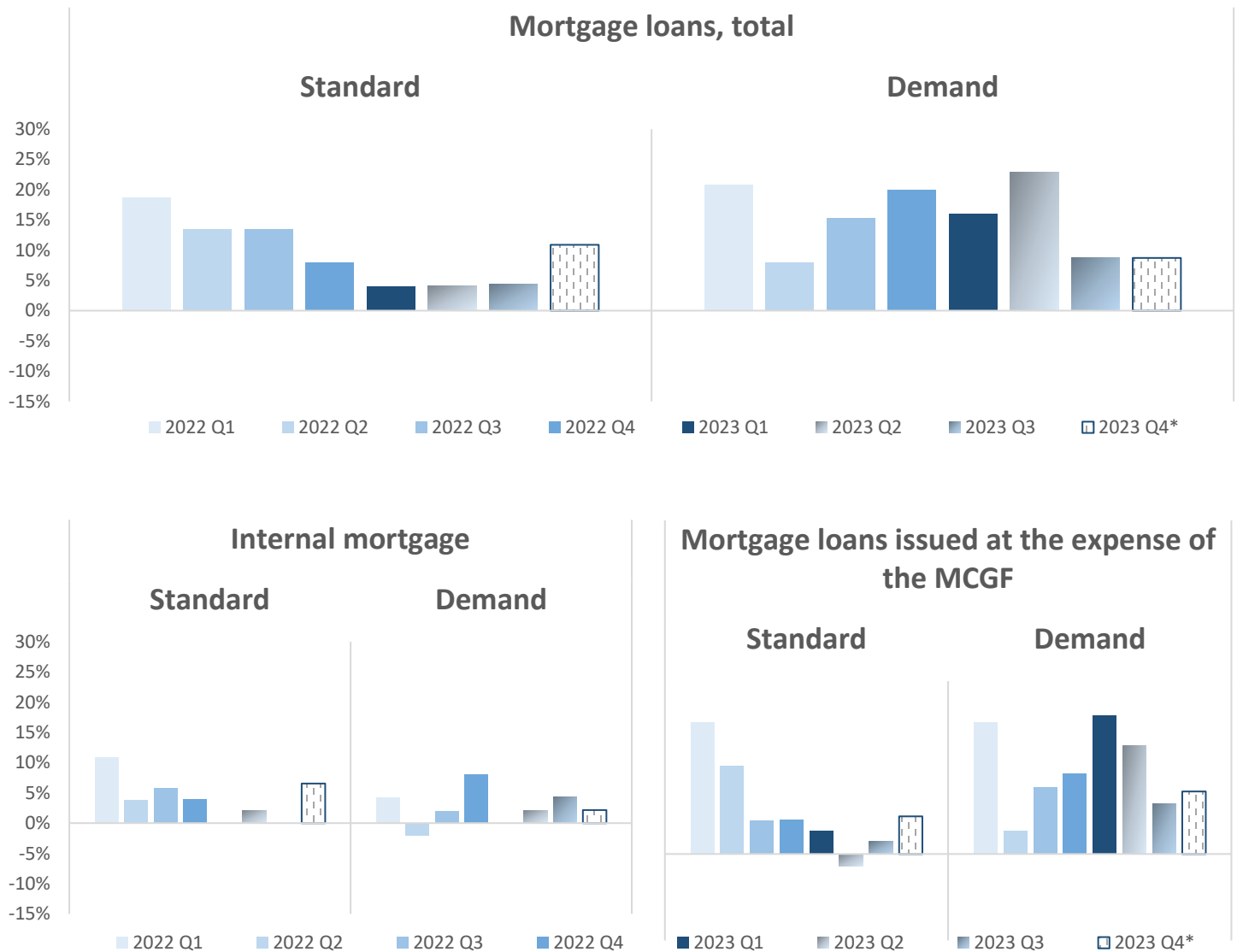
Over the past three quarters, there has been a downward trend in the impact of factors that have a softening or tightening effect on credit standards. In the last quarter, banks' current and expected liquidity position was the most softening factor for business loan standards. The softening effect of bank competition diminished, while general economic expectations continued to be a softening factor. In Q3 2023, cost of funding and expectations for the refinancing rate were the main factors behind the tightening of credit standards for business loans. Other factors that led to a tightening of credit standards included banks' risk appetite, inflation expectations and risks related to the financial condition of banks' major creditors. Moreover, it is noteworthy that over the past seven quarters, the impact of inflation and refinancing rate expectations, the key drivers of the tightening of credit standards for business loans, has diminished.

Mortgage loans

According to the results of the Credit Conditions Survey Q3 2023, there was no change in credit standards for mortgage loans issued both internally and at the expense of the MCGF. Banks predict that there will be softening of credit standards for mortgage loans issued both internally and from MCGF in the next quarter.

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

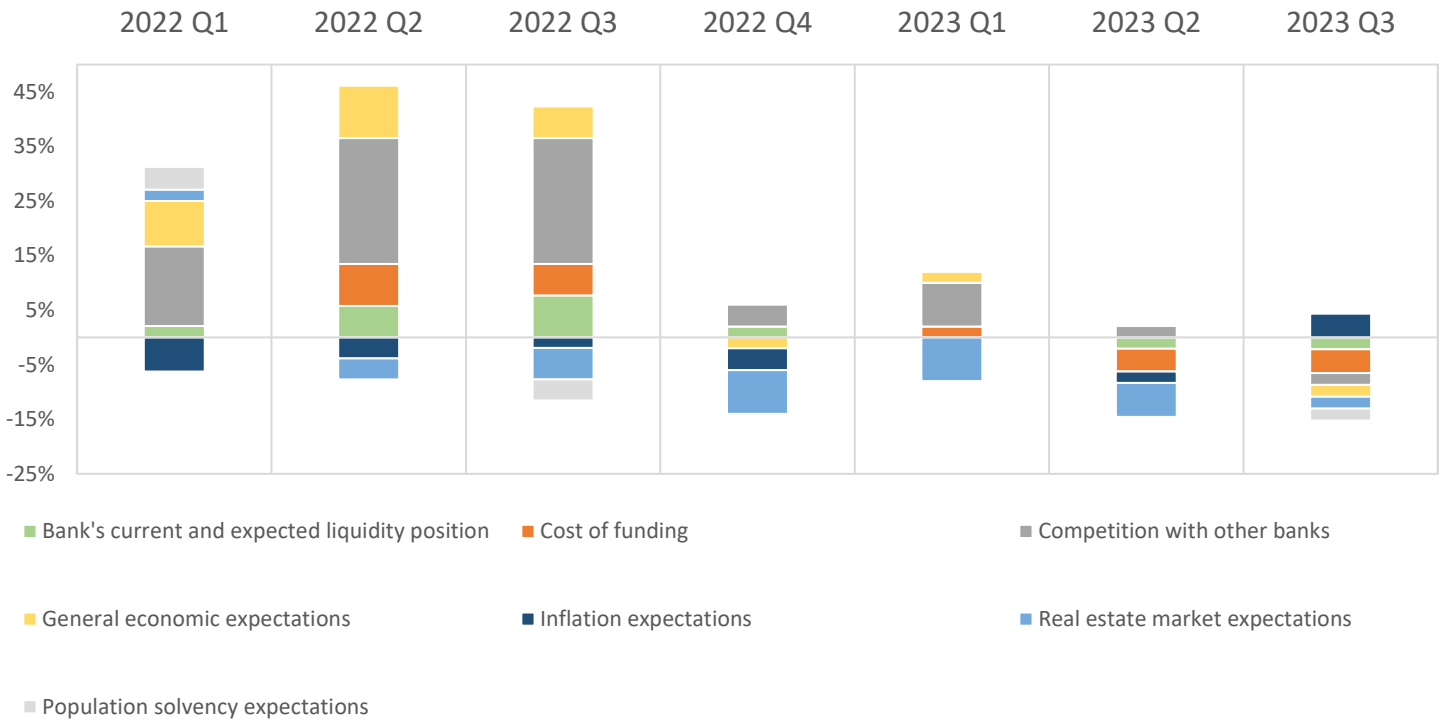
(Diffusion Index: positive = softening, negative = tightening)



In Q3 2023, loan demand for mortgage loans decreased. There was no significant change in loan demand for internal bank mortgage loans, while loan demand for MCGF loans was down. Banks expect demand for MCGF mortgages to increase in the next quarter compared to the current quarter, while the demand for total mortgages is expected to remain unchanged.

Chart 4. Factors affecting credit standards for mortgage loans

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



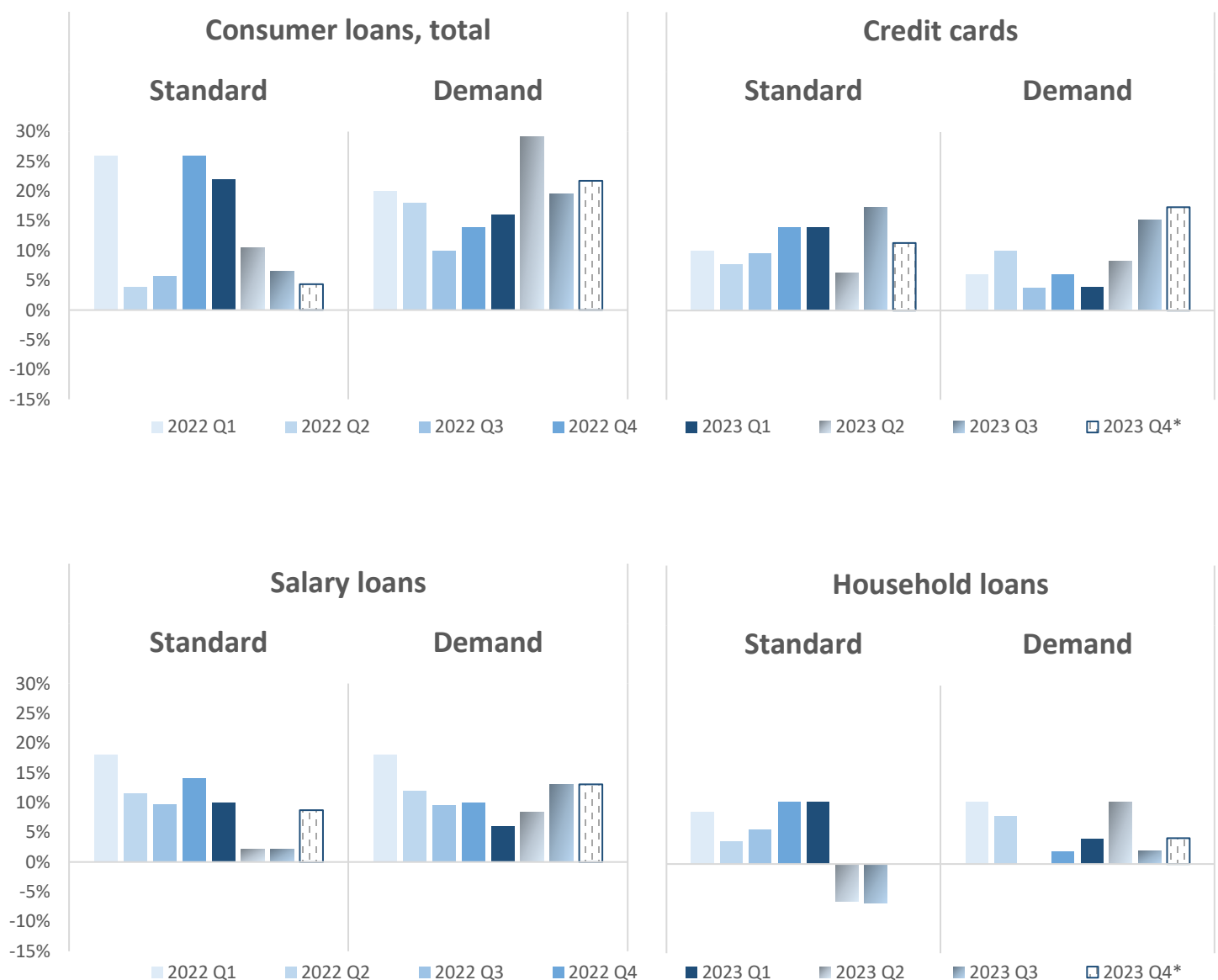
As with business loans, the impact of factors easing and tightening mortgage credit standards has diminished in recent quarters. Inflation expectations were a factor softening mortgage credit standards last quarter. Among the tightening factors, the most influential factor was the cost of financing, which was also the main tightening factor for business credit standards. In addition, the softening effects of factors, mainly general economic expectations and competition from other banks, which have tended to ease mortgage credit conditions over the past seven quarters, have diminished.

Consumer loans

According to the results of the survey, there was a decrease in the softening of credit standards for all types of consumer loans in the third quarter of 2023 compared with the previous quarter. While there was no change in credit standards for salary loans, there was an increase in the easing of credit standards for credit cards and a tightening of credit standards for household loans. Although banks do not expect any significant change in consumer credit standards in the final quarter of this year, they expect the softening of credit standards for credit cards decrease and credit standards for salary loans to soften.

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

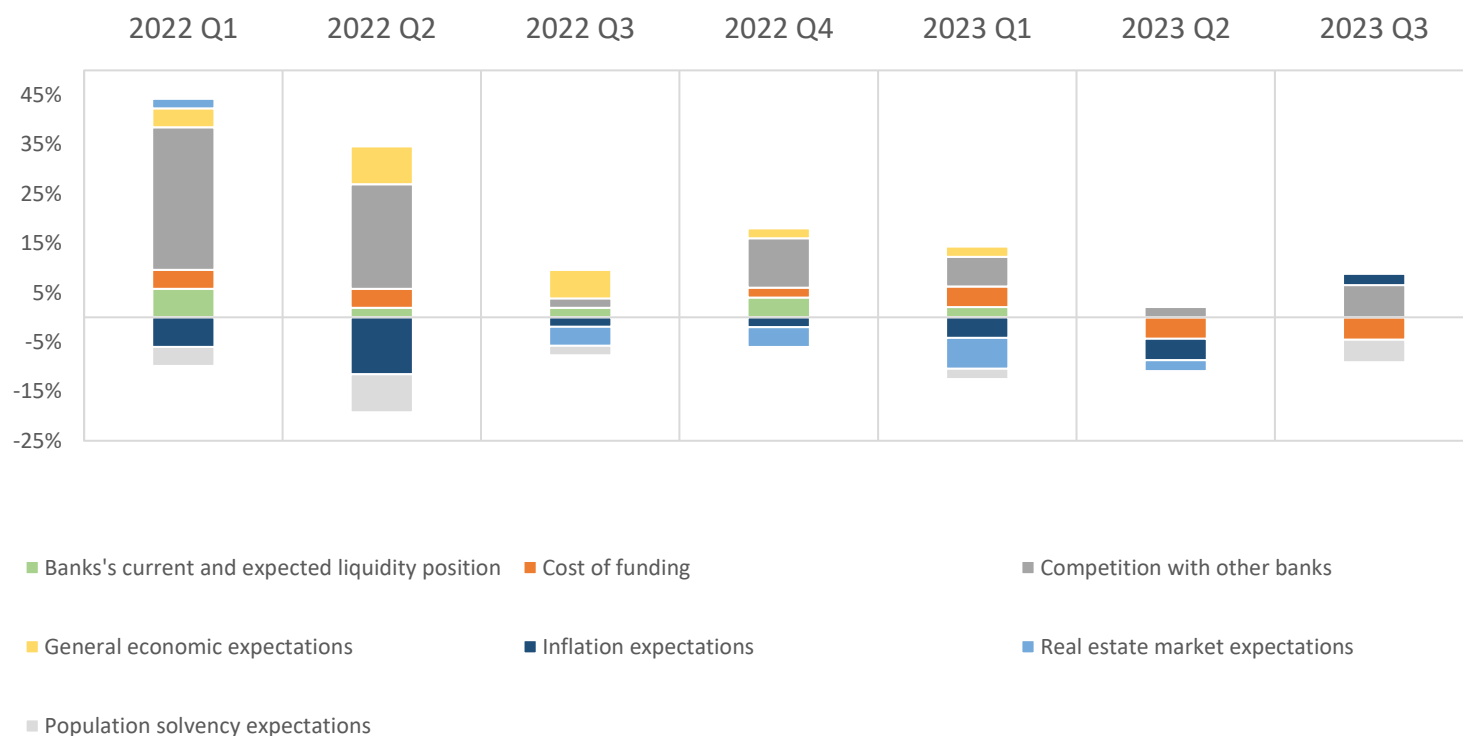
(Diffusion Index: positive = softening, negative = tightening)



Banks reported that the population’s demand for consumer loans remained high, although it declined from the previous quarter. Demand for loans to purchase household equipment declined, but demand for credit cards and salary loans increased. Banks expect the population’s demand for consumer loans to increase in Q4, 2023. They forecast no change in the demand for salary loans and an increase in the demand for credit cards and loans for purchasing household equipment.

Chart 6. Factors affecting credit conditions for consumer loans

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



According to the results of the survey, the impact of factors easing and tightening credit conditions for consumer loans has diminished in recent quarters, as has been the case for other types of loans. In the last quarter, consumer credit standards were affected by four factors, two of which had an easing effect, while the other two had a tightening effect. In the third quarter, competition from other banks and inflation expectations acted as softening factors, while the population’s solvency expectations and the cost of financing acted as tightening factors.

Chart 7. Diffusion index of population indebtedness

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

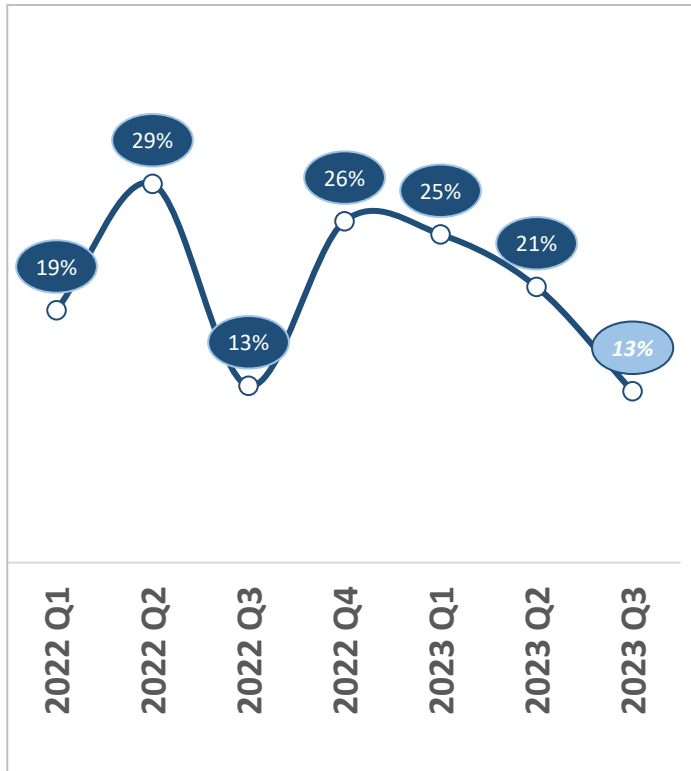
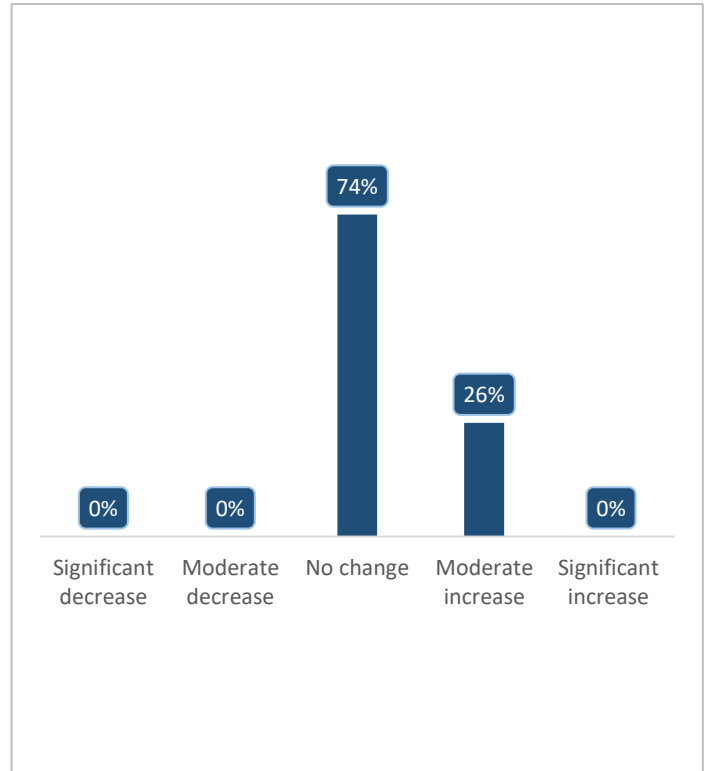


Chart 8. Changes in population indebtedness



According to the results of the survey, there was no serious increase in the level of indebtedness of the population in Q3 2023. 74% of the responding banks said that the indebtedness level of the population remained unchanged, while 26% reported a moderate increase in the population indebtedness. Although the diffusion index on the level of indebtedness of the population has tended to decline over the past four quarters, the index remains in positive territory.