



CENTRAL BANK
OF THE REPUBLIC OF AZERBAIJAN

CREDIT CONDITIONS SURVEY RESULTS

Q1

2024

FINANCIAL STABILITY DEPARTMENT



ABBREVIATIONS

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

MSME – Micro, Small and Medium Enterprises

SME – 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 Q1 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 Q1 2024 survey, although there was no change in credit standards for total business loans, the softening of standards for microenterprises was noticeable. Responding banks indicated that they expect the softening of credit standards for MSMEs to continue in the next quarter. Demand for business loans declined in first quarter of 2024. Banks expect the demand for business loans in the sector to increase in the next quarter of 2024.

Credit standards for mortgage loans tightened as in the previous quarter. The tightening of credit standards for mortgage loans was evident for both internal loans and loans issued at the expense of MCGF. Banks reported a decline in demand for mortgage loans. The decline in demand was mainly for internal mortgage loans. Banks expect mortgage credit standards to ease and demand for mortgage loans to increase in the next quarter.

According to the survey results, credit standards for total consumer loans remained unchanged in the first quarter of 2024. The pace of growth in demand for consumer loans in the sector has slowed. However, it remains high. Respondents expect standards for consumer loans to ease further and demand to continue to grow in the next quarter.

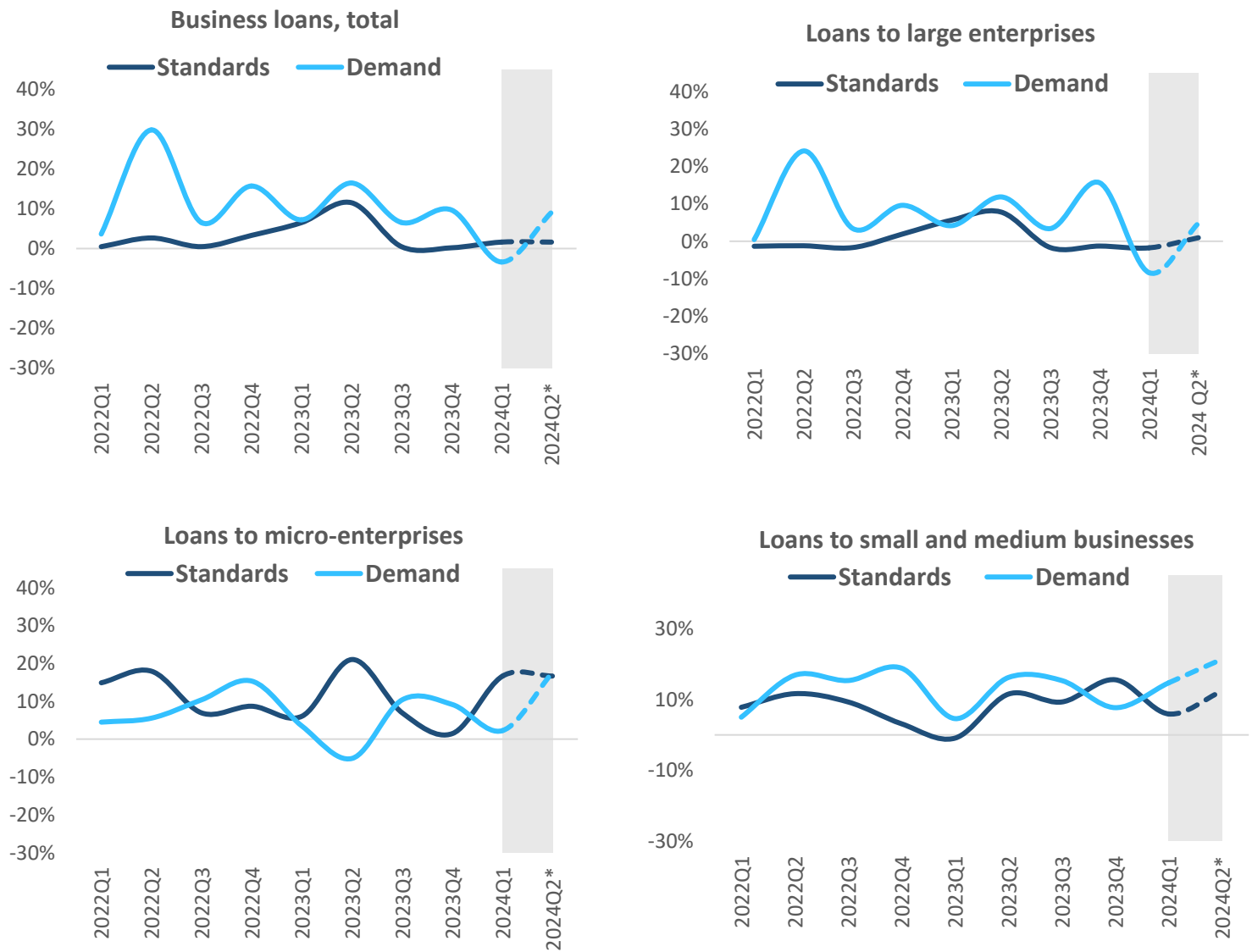
Analysis of loans across sectors

Business loans

In the first quarter of 2024, banks eased the standards of granting loans to microenterprises. Compared with the previous quarter, the rate of easing standards for loans to small and medium-sized enterprises decreased, while standards for loans to large enterprises remained unchanged. According to the survey, banks expect a further slowdown in the easing of standards for loans to MSMEs in the next quarter, while the standards for loans to large enterprises are expected to remain unchanged.

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

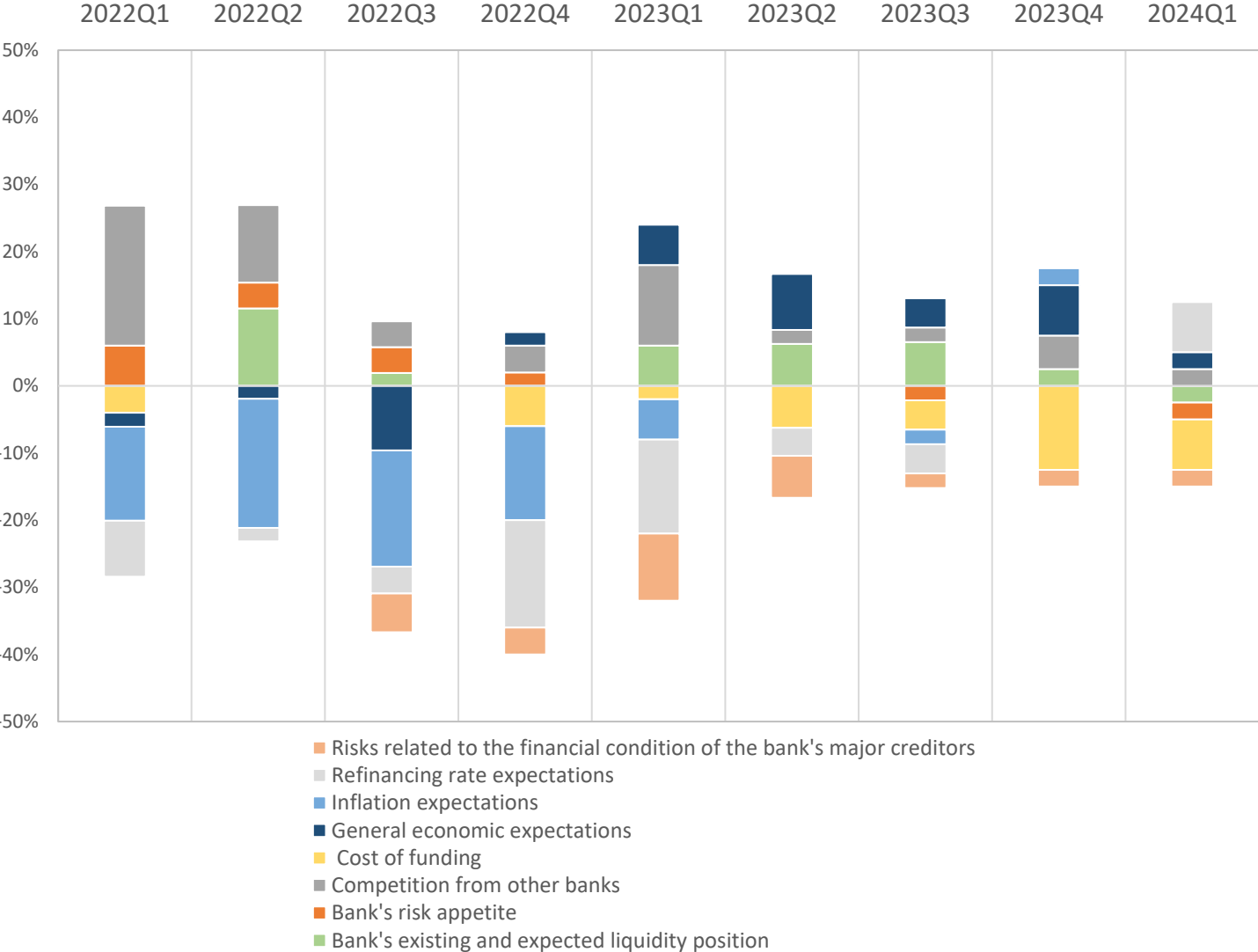
(Diffusion Index: positive = softening, negative = tightening)



*Banks' expectations for the second quarter of 2024.

According to the results, the surveyed banks reported decreased demand for loans to micro and large enterprises and increased demand for loans to small and medium-sized enterprises compared to the previous quarter. Banks expect demand for business loans to increase in Q2 2024.

Chart 2. Factors affecting credit standards for business loans



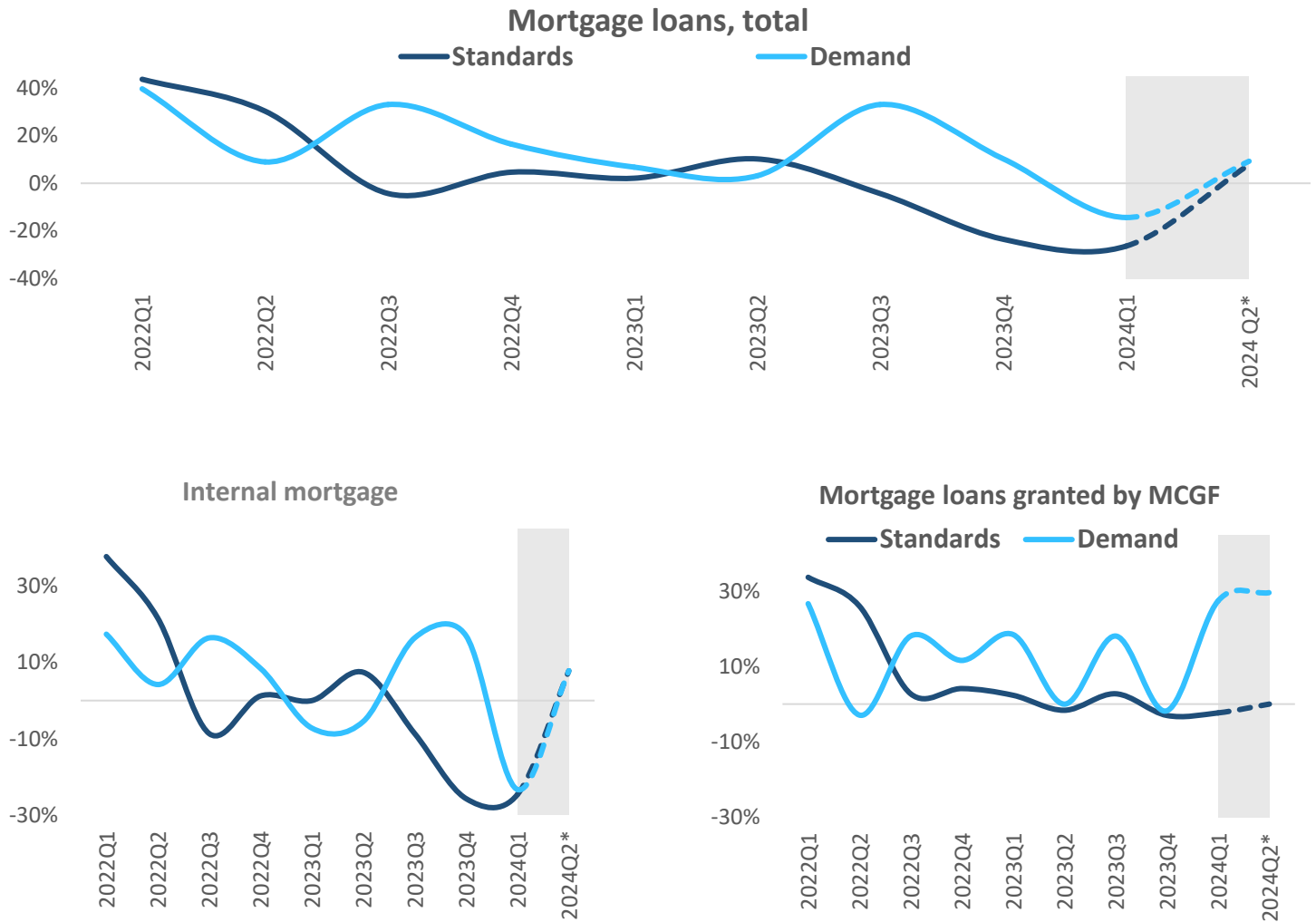
In the first quarter of 2024, the cost of funding, liquidity position, risk appetite and risks associated with the financial condition of banks' major creditors were the main factors behind the tightening of credit standards for business loans. Competition from other banks, general economic expectations, and refinancing rate expectations were the factors that tended to ease credit standards for business loans.

Mortgage loans

According to the results of the Credit Conditions Survey Q1 2024, the tightening of credit standards for mortgage loans originated internally and by the MCGF continued. Banks expect credit standards for internally originated mortgage loans to ease and standards for MCGF-backed loans to remain unchanged in the coming quarter.

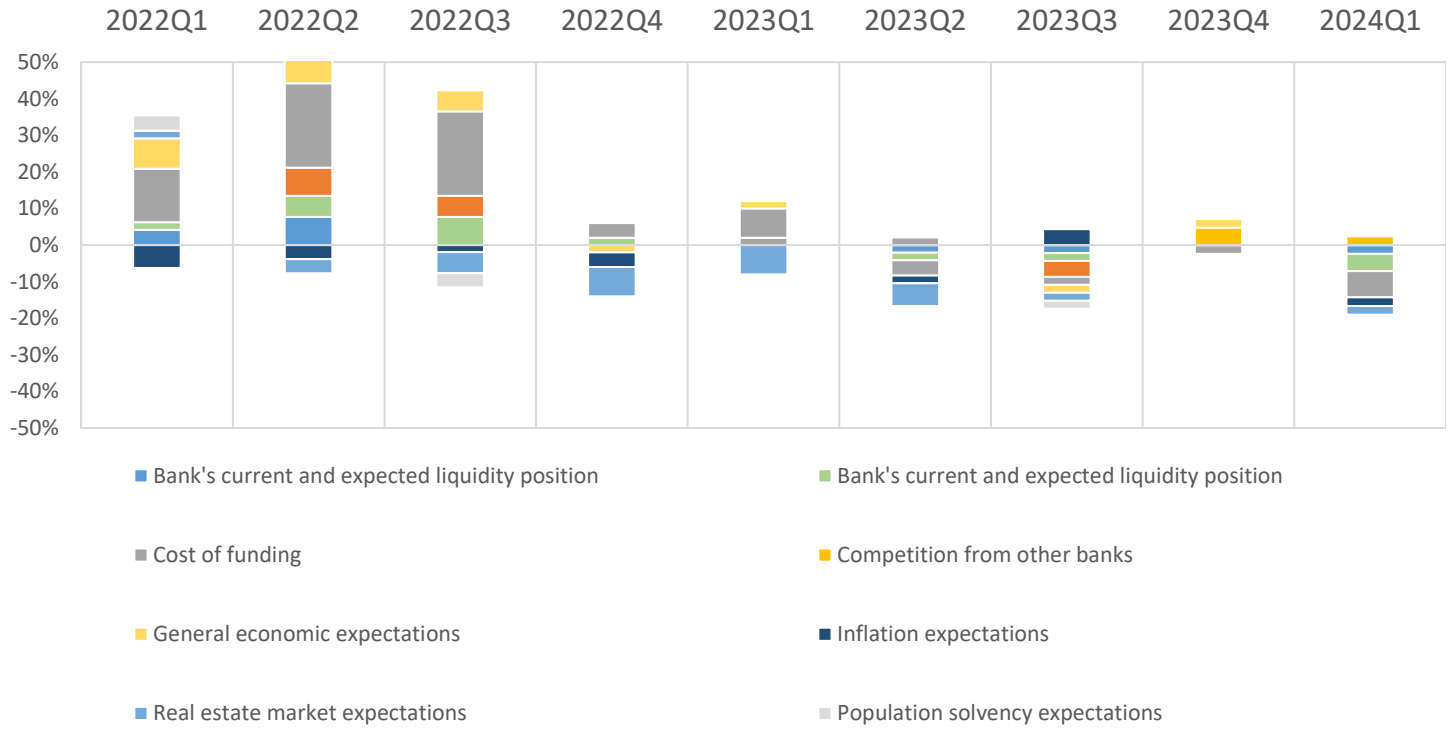
Chart 3. Changes in credit standards and in demand for mortgage loans

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



Demand for all housing loans decreased in Q1 2024. Thus, while demand for mortgage loans originated by banks with MCGF funds increased, there was a decrease in demand for internal mortgage loans. Banks expect demand for mortgage loans, especially for loans originated with MCGF funds, to increase in the second quarter of 2024 amid the allocation of mortgage loan limits to authorized banks, including concessional mortgage loans, in order to continue the MCGF mortgage lending process in 2024.

Chart 4. Factors affecting credit standards for mortgage loans
 (Diffusion Index: positive = softening, negative = tightening)



As with business loans, the tightening of mortgage lending standards was driven by banks' liquidity position and cost of funding factors. Competition from other banks was reported to have contributed to the easing of mortgage lending standards. In general, respondents noted that the impact of bank specific factors had increased over the past quarter. However, the impact of macroeconomic indicators was low.

Consumer loans

According to the results of the survey, credit standards for consumer loans remained unchanged in the first quarter of 2024, while credit standards for salary-based loans and household loans eased. There was a notable tightening in credit standards for credit cards compared to the previous quarter. Banks expect consumer credit standards to soften in Q2 2024, with the exception of credit cards.

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

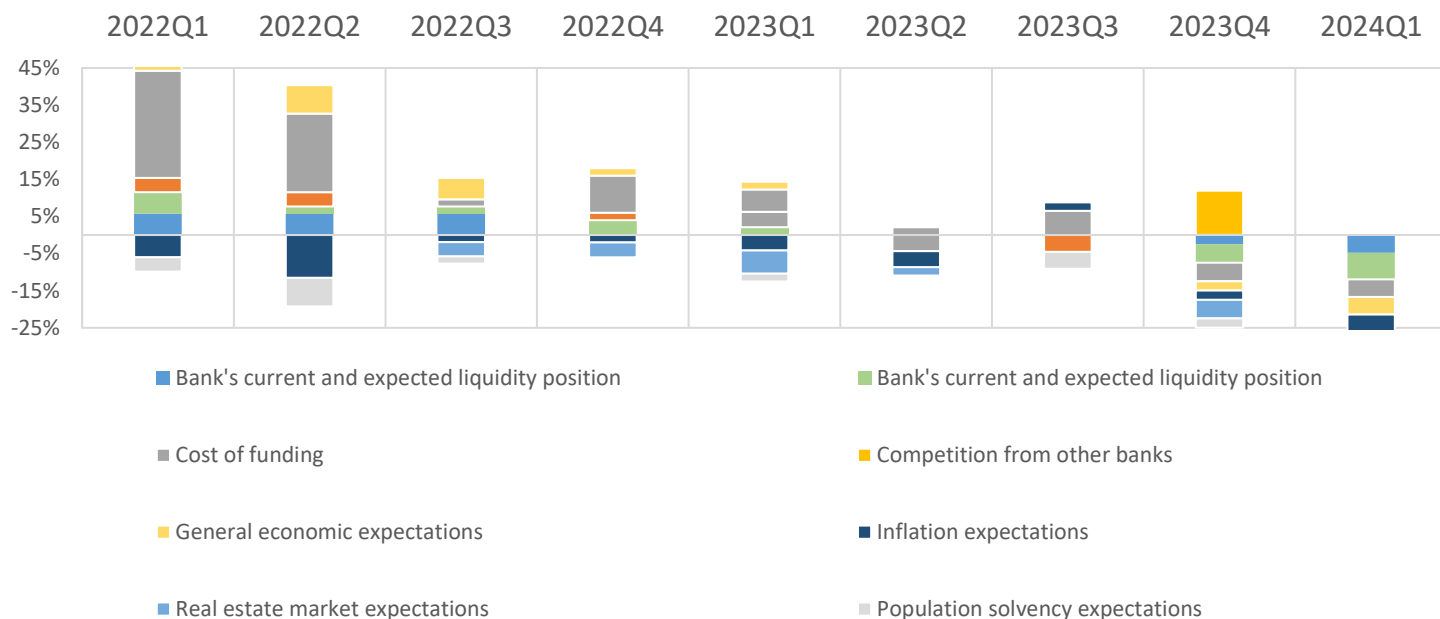
(Diffusion Index: positive = softening, negative = tightening)



According to the survey results, the demand for consumer loans increased. However, the growth pace slowed down compared to the previous quarter. The increase in demand was observed in all categories of consumer loans. The surveyed banks expect demand for consumer loans to continue growing in Q2 2024.

Chart 6. Factors affecting credit standards for consumer loans

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



According to the survey results, as with mortgage loans, bank liquidity and capital positions, as well as the cost of funding have had a tightening effect on credit standards. Macroeconomic expectations have also had a tightening effect on credit standards. Current and expected liquidity positions have tightened credit standards the most.

Chart 7. Population debt diffusion index

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

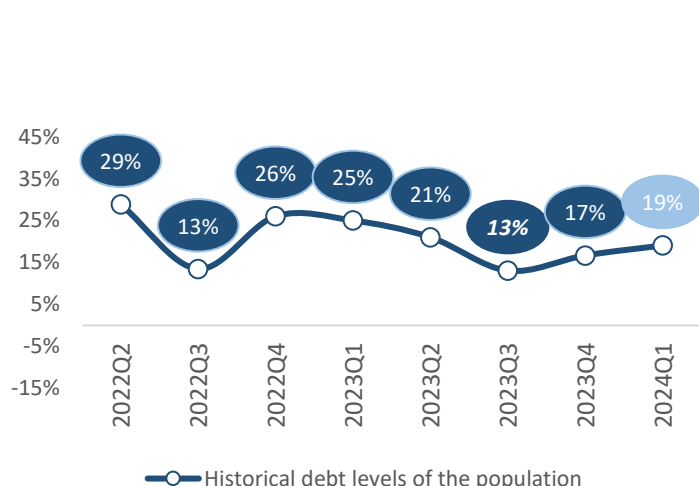
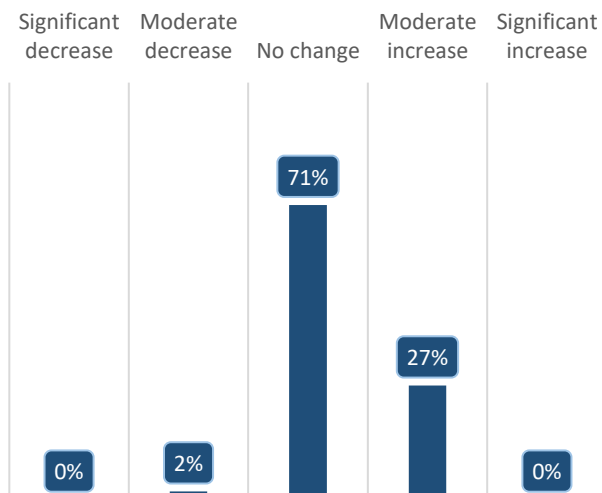


Chart 8. Changes in population debt levels: past quarter



According to the results of the survey, there was no serious increase in the debt levels of the population in Q1 2024: 71% of the responding banks reported no change in the level of indebtedness of the population, while 27% reported a moderate increase. The long-run diffusion index of the indebtedness of the population increased by 2 p.p. to 19% in the first quarter of 2024.