



**CENTRAL BANK**  
OF THE REPUBLIC OF AZERBAIJAN

# **CREDIT CONDITIONS AND FUNDING SOURCES SURVEY RESULTS**

**Q4**  
2024

**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

**LE** – Legal entities

**Ind.** - Individuals

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## Introduction

*The purpose of this survey is to monitor and analyze banks' lending activities and funding sources, 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 analysis of the structure of banks' funding sources and the cost of funding. The points covered in the survey are as follows:*

- *Dynamics of changes in credit standards (policies),*
- *Factors affecting the dynamics of credit standards,*
- *Dynamics of changes in loan demand,*
- *Structure of sources of funding,*
- *Cost of funding and factors affecting it.*

*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 diffusion index indicator is used to measure the overall trend based on survey results. 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. In the current reporting period, the survey has been qualitatively updated and the sources of banks' funding have also been included in the survey. The expectations presented in the report do not reflect the expectations of the Central Bank of the Republic of Azerbaijan, but only the assessments of the survey respondents (banks) on the current and future trends of lending, the structure of the sources of funding, and the cost of funding.*

## Summary of survey results

According to the Q4 2024 survey results, despite the tightening of standards for total business loans, including loans to small and medium-sized enterprises, increase in demand has been observed. Banks believe that there will be no change in standards and demand for total business loans in the coming quarter.

Based on the survey's findings, mortgage credit standards tightened further as in the previous quarter. The tightening of mortgage credit standards was mainly observed for internal mortgage loans. Contrary to the previous quarter, banks reported a rise in mortgage loan demand. Banks expect mortgage credit standards to remain unchanged next quarter, but loan demand to increase.

According to the survey results, demand for all consumer loans, including credit cards, increased in Q4 2024 despite tighter standards. Respondents do not expect standards and demand for consumer loans to change in the next quarter.

Banks reported an increase in time deposits of legal entities and individuals in the structure of funding sources. Banks expect the same trend to continue in the next quarter. According to the results of the survey, against the background of increased competition among banks in attracting funding sources, an increase in funding costs was observed for both demand and time deposits of legal entities and individuals.

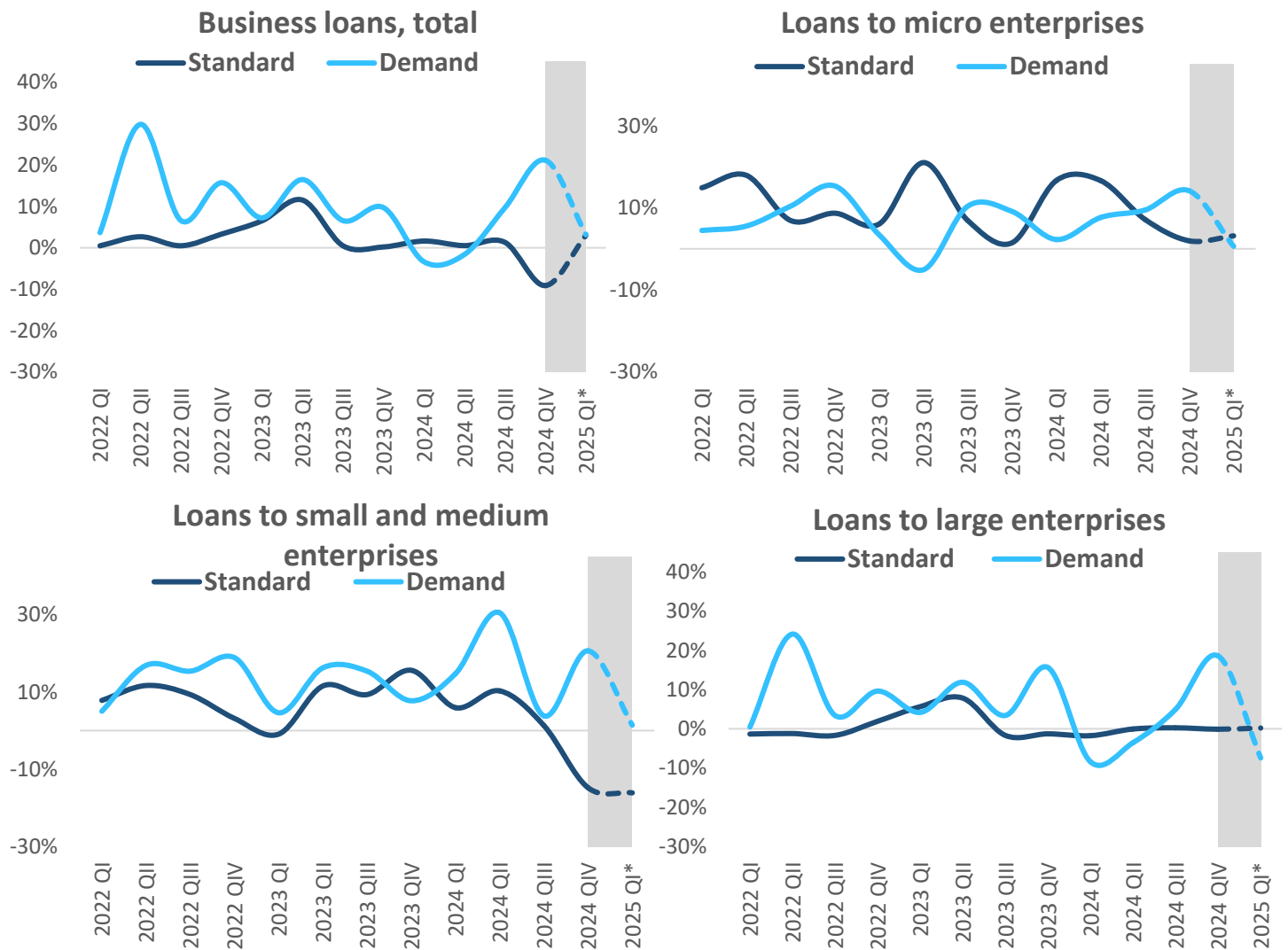
# Analysis of loans across sectors

## Business loans

According to the survey results for the fourth quarter of 2024, despite the absence of changes in credit standards for loans to micro and large businesses, credit standards for SMEs have tightened. Banks expect no change in credit standards for total business loans, including loans to micro and large enterprises, in the next quarter, while tightening of standards for SMEs will continue. Banks indicated that changes in credit standards to businesses were primarily driven by increases in margins on higher-risk loans and in the cost of credit.

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

(Diffusion Index: positive = softening or increase, negative = tightening or decrease)

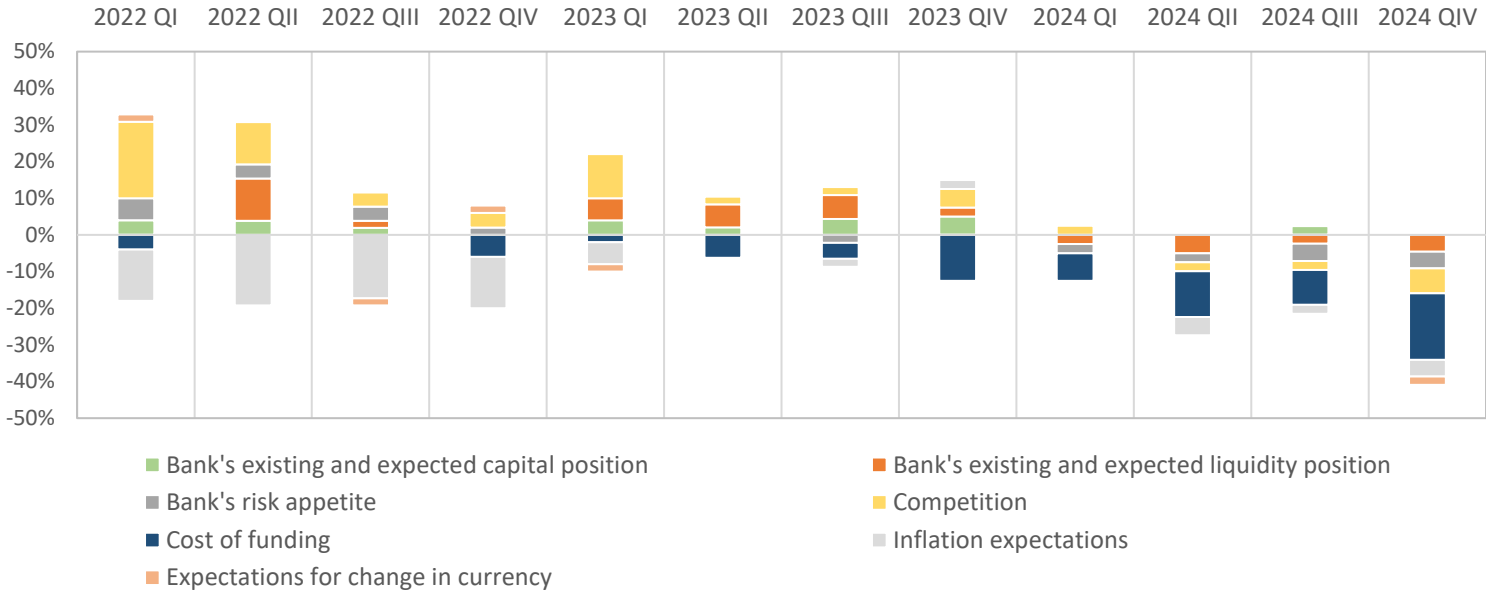


According to the responses of the banks participating in the survey, an increase in demand for loans to MSMEs and large enterprises was observed in the fourth quarter of 2024. Respondents cited working capital needs of businesses as the factor that increased demand. According to banks, the main reason for the increased working capital needs is borrowers' expanding businesses. Banks do not expect demand for loans to businesses, including MSMEs, to change in the coming quarter.

Banks' risk appetite and the cost of funding were the factors behind the tightening of business credit standards in the fourth quarter of 2024.

Chart 2. Factors affecting credit standards for business loans

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



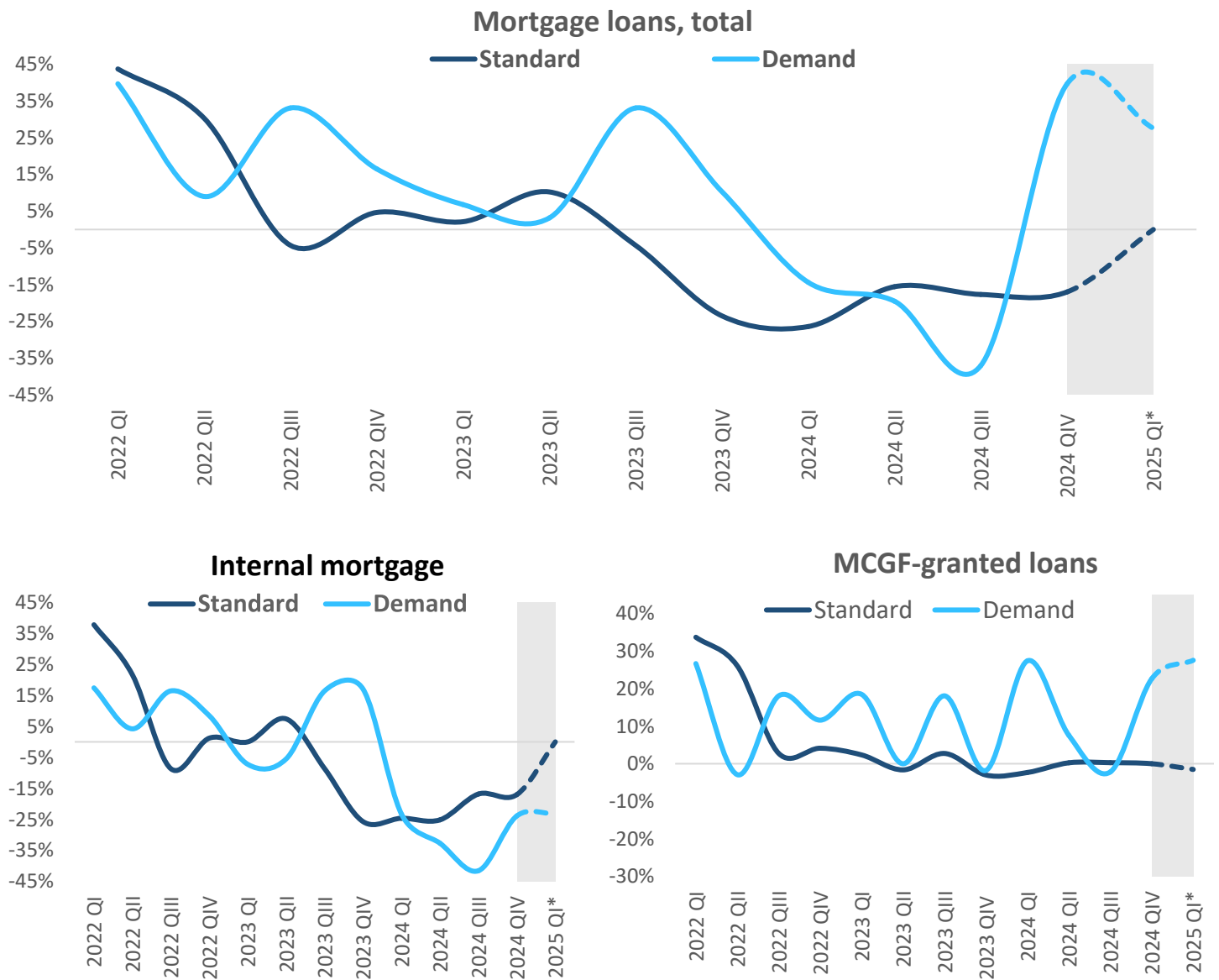
Overall, the results of the survey point to a continuation of the growth rate of banks' business loan portfolios in the next quarter.

## Mortgage loans

According to the survey results for Q4 2024, the tightening of standards for mortgage loans continued. The tightening was on mortgage loans issued at the expense of banks' internal resources. The tightening of standards for internal mortgage loans mainly took the form of an increase in the cost of credit. No changes were observed in the standards for MCGF-granted loans. In the next quarter, banks do not expect any changes in credit standards for both MCGF-granted and internal mortgage loans.

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

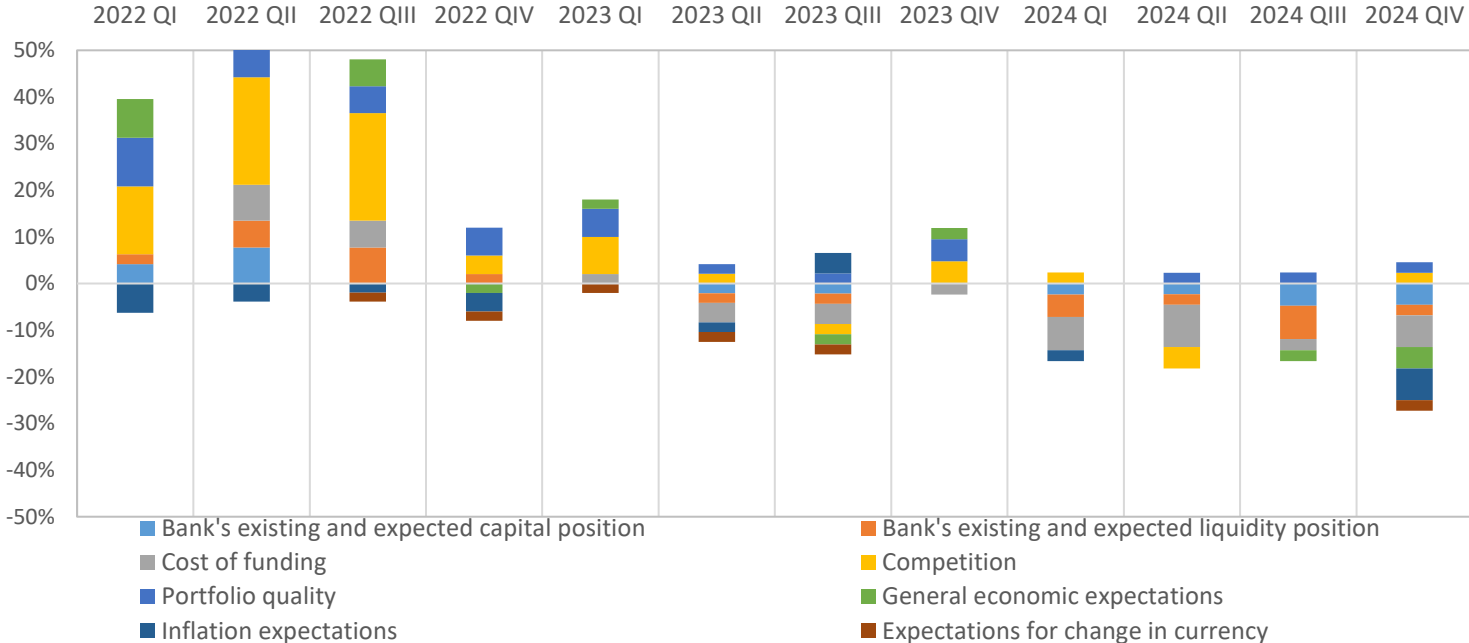
(Diffusion Index: positive = softening or increase, negative = tightening or decrease)



Unlike the previous quarter, the demand for total mortgage loans increased in the fourth quarter of 2024. According to the respondents, the increase in demand was observed for MCGF-granted mortgage loans. As a factor influencing the increase in demand, banks cited the mass sale of houses within the projects of State Housing Construction Agency in the region in Q4 2024. Banks believe that the growing trend in demand for MCGF-granted loans will continue in the next quarter, while there will be a declining demand for internal mortgage loans.

Chart 4. Factors affecting credit standards for mortgage loans

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



According to bank responses to the survey, banks' capital positions and funding costs were factors that had a tightening effect on mortgage credit standards.

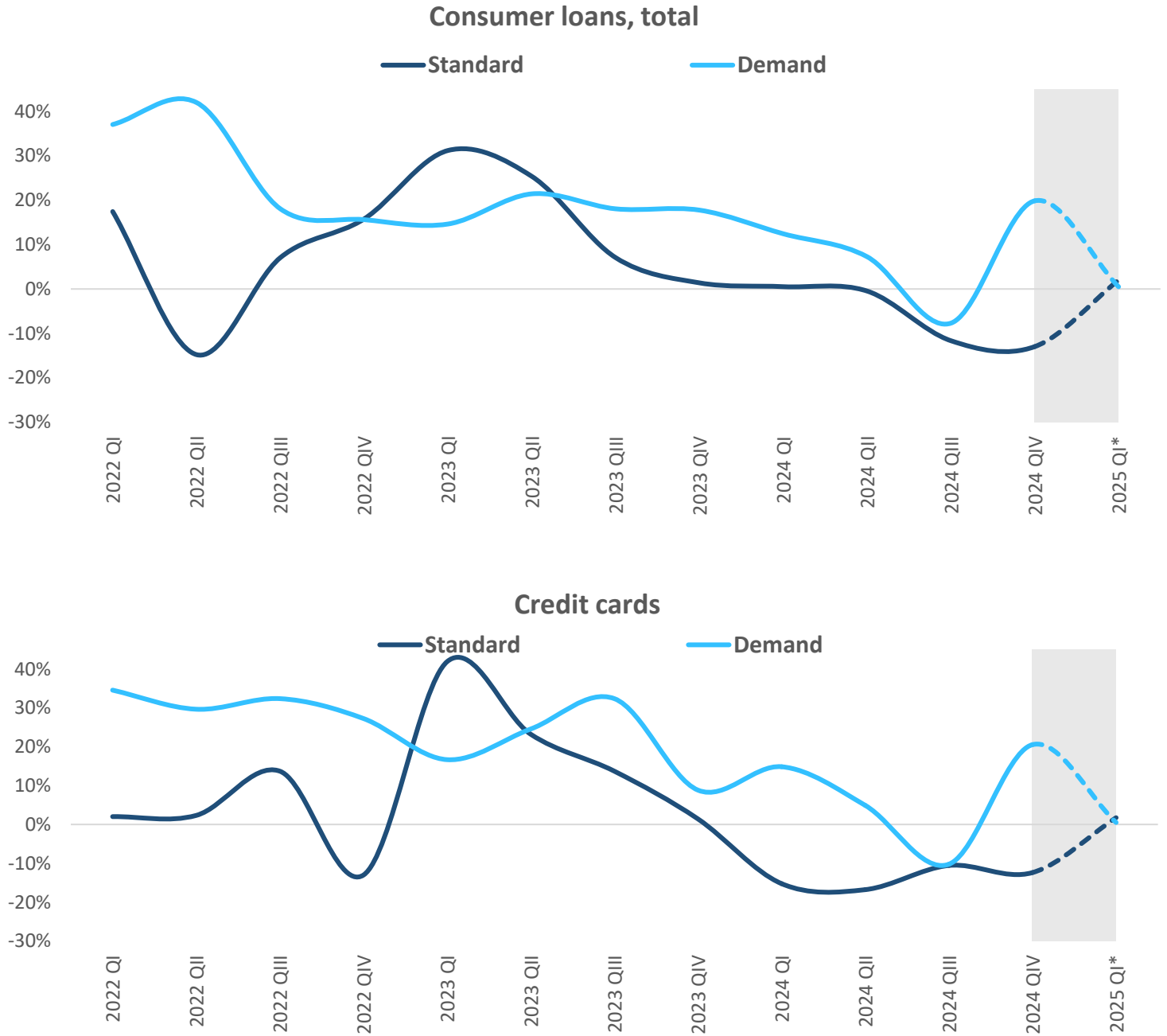
Overall, based on the survey results, banks' mortgage portfolios are expected to continue growing in the coming quarter.

## Consumer loans

According to the survey results, tightening of credit standards continued in the fourth quarter for total consumer loans, including credit cards. The tightening of consumer credit standards was primarily in the form of an increase in the cost of credit. Respondents do not expect any changes in credit standards for total consumer loans, including credit cards, in the next quarter.

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

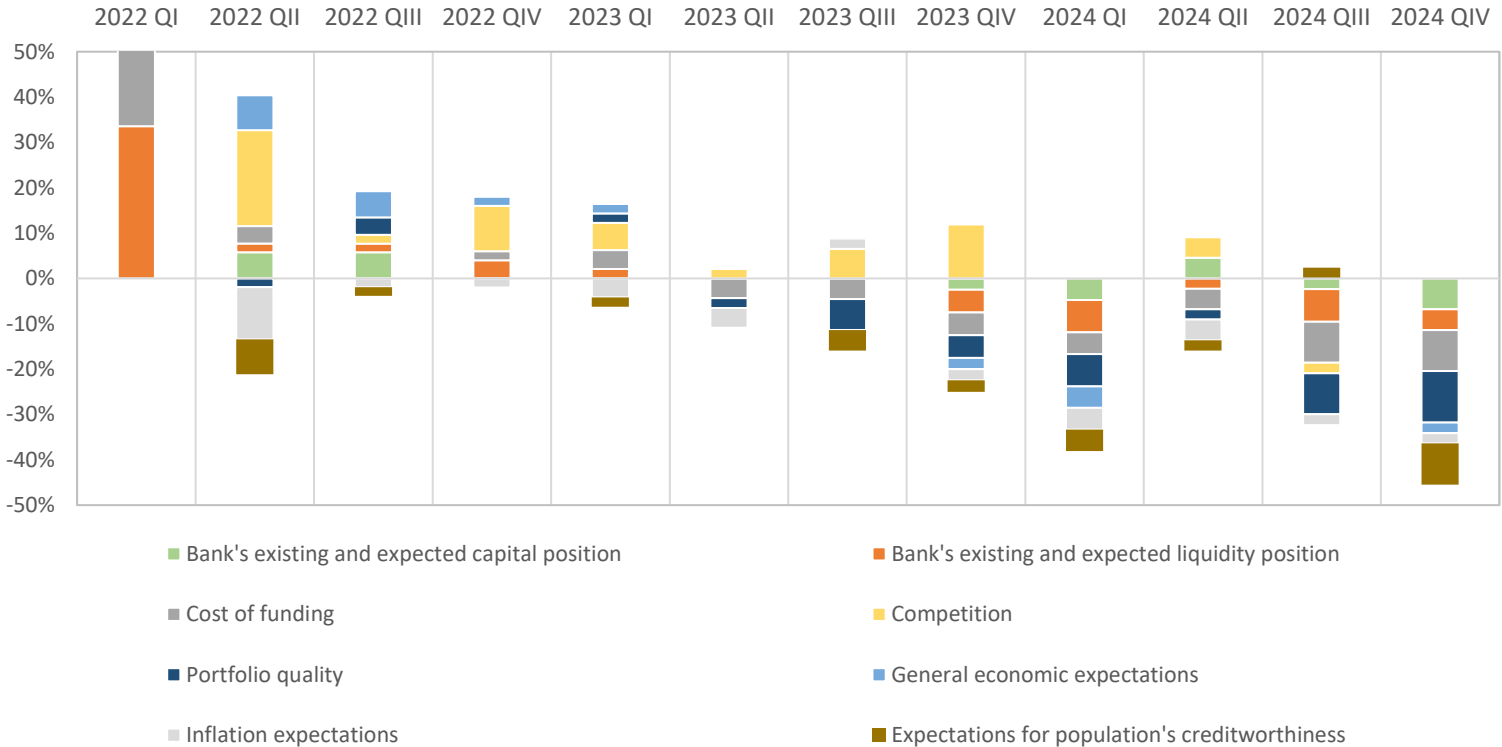
(Diffusion Index: positive = softening or increase, negative = tightening or decrease)



According to the survey results, there has been an increase in demand for total consumer loans, including credit cards. According to the survey respondents, the main factor affecting the increase in demand was digitalization. Banks do not expect the demand for consumer loans, including credit cards, to change in the coming quarter.

Chart 6. Factors affecting credit standards for consumer loans

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



According to the survey results, expectations about the quality of the consumer loan portfolio, capital adequacy, the cost of funding, and expectations about population’s creditworthiness have had a tightening effect on credit standards.

Overall, based on the survey results, the growth dynamics of banks' consumer portfolios are expected to continue in the next quarter.

Chart 7. Population debt diffusion index

Diffusion Index: positive = increase, negative = decrease)

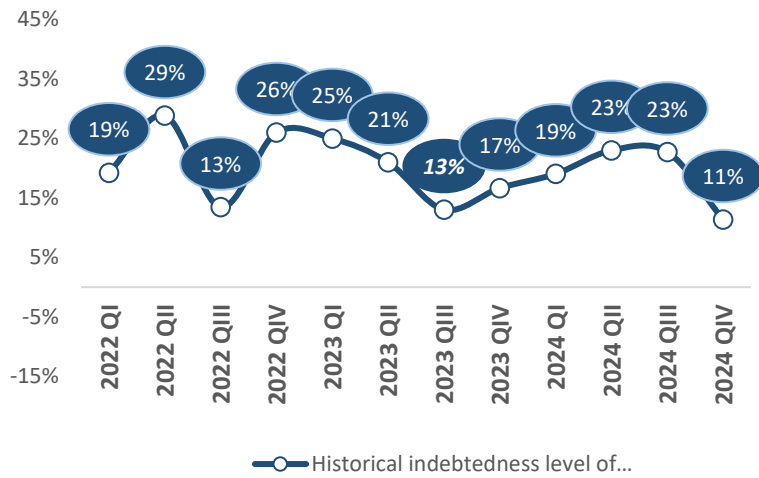
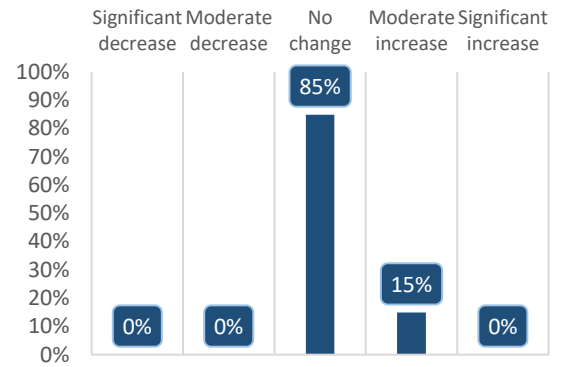


Chart 8. Changes in population debt levels: past quarter



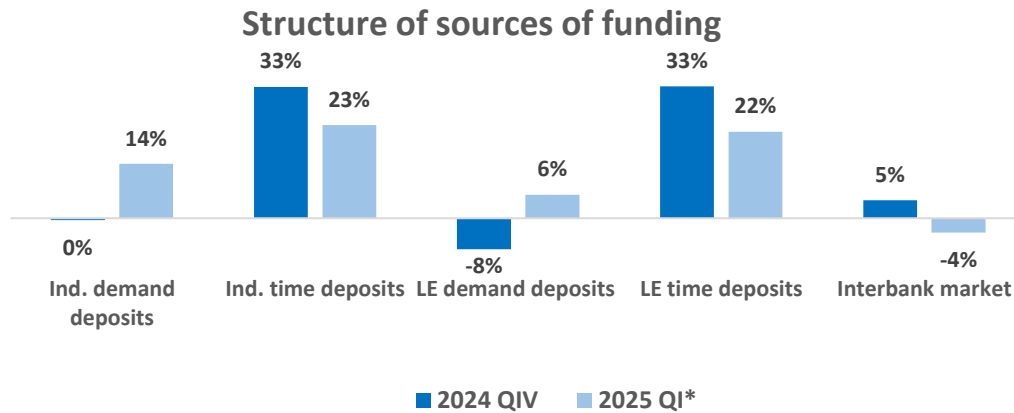
According to the results of the survey on credit conditions for the fourth quarter of the current year, 85% of the responding banks reported no change in the level of borrowing by the population, and 15% reported a moderate increase. Consequently, the diffusion index for the fourth quarter of 2024 was 11%. This indicates that the dynamics of growth in the level of population indebtedness continues.

## Funding

According to the responses of the banks participating in the survey, in the fourth quarter of 2024 there was an increase in bank funding at the expense of time deposits of individuals and legal entities against the background of growth of interest rates on deposits. A slight decrease was observed in the volume of time deposits of legal entities, while there were no changes in demand deposits of individuals. Respondents expect an increase in time and demand deposit funding of individuals and legal entities in the next quarter.

*Chart 9. Structure of sources of funding*

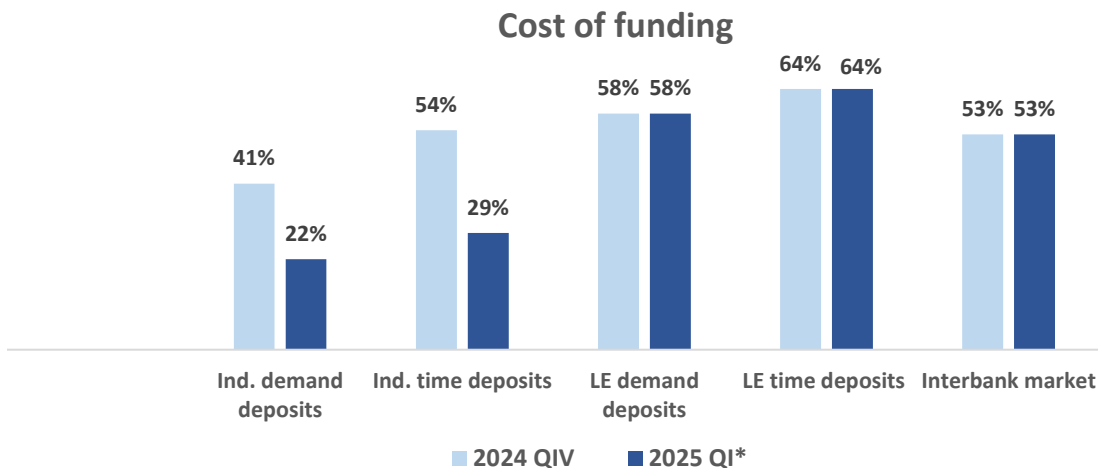
*(Diffusion Index: positive = increase, negative = decrease)*



According to the results of the Survey on Credit Conditions and Funding Sources, the cost of funding of time and demand deposits of individuals and legal entities, as well as the cost of funding in the interbank market increased in the fourth quarter of 2024. Banks expect the same trend to continue in the next quarter.

*Chart 10. Cost of funding*

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



According to respondents, the main factors influencing the increase in funding costs were interest rates, banks' liquidity position, competition and regulatory changes.

Chart 11. Factors affecting the cost of funding

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

