

CREDIT CONDITIONS SURVEY RESULTS

Q4

2023

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 purpose 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 encompasses 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 balance statistics method is used to convert the survey results 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. Responses are weighted equally in the calculation of the index, regardless of bank 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 Q4 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 views of the respondents (banks) on the current and future credit trends.

Overview

According to the results of the Q4 2023 survey, the easing of credit standards for business loans slowed down further compared to the previous quarter. The slowdown in the easing of credit standards was mainly observed for loans to microenterprises. Responding banks indicated that they expect the easing to continue at a slower pace in the next quarter.

Demand for business loans increased during the quarter. The increase in demand for business loans was mainly for loans to MSMEs. Banks expect the pace of growth in demand for business loans to be low in the next quarter.

According to the survey results, credit standards for mortgage loans tightened, and demand for mortgage loans decreased. The tightening of credit standards for mortgage loans was evident for both internal loans and loans issued at the expense of MCGF. The decrease in demand was mainly due to loans issued at the expense of MCGF. Banks expect credit standards for mortgage loans to ease and loan demand for mortgage loans to increase in the next quarter.

According to the survey results, there was an easing of credit standards for all consumer loans. The pace of growth in demand for consumer loans in the sector has slowed. However, it remains high. In the last quarter of 2023, the easing of credit standards for consumer loans was mainly for salary loans. In the next quarter, banks forecast a slowdown in the easing of credit standards for consumer loans and an increase in demand.

Analysis of loans across sectors

Business loans

The fourth quarter showed a slowdown in the easing of standards for bank loans to businesses. The slowdown in the easing of standards was mainly observed for loans to microenterprises. Credit standards for loans to large enterprises remained unchanged. According to the survey, in general, banks expect a further slowdown in the easing of standards for business loans in the next quarter, while standards for loans to large enterprises will tighten.

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

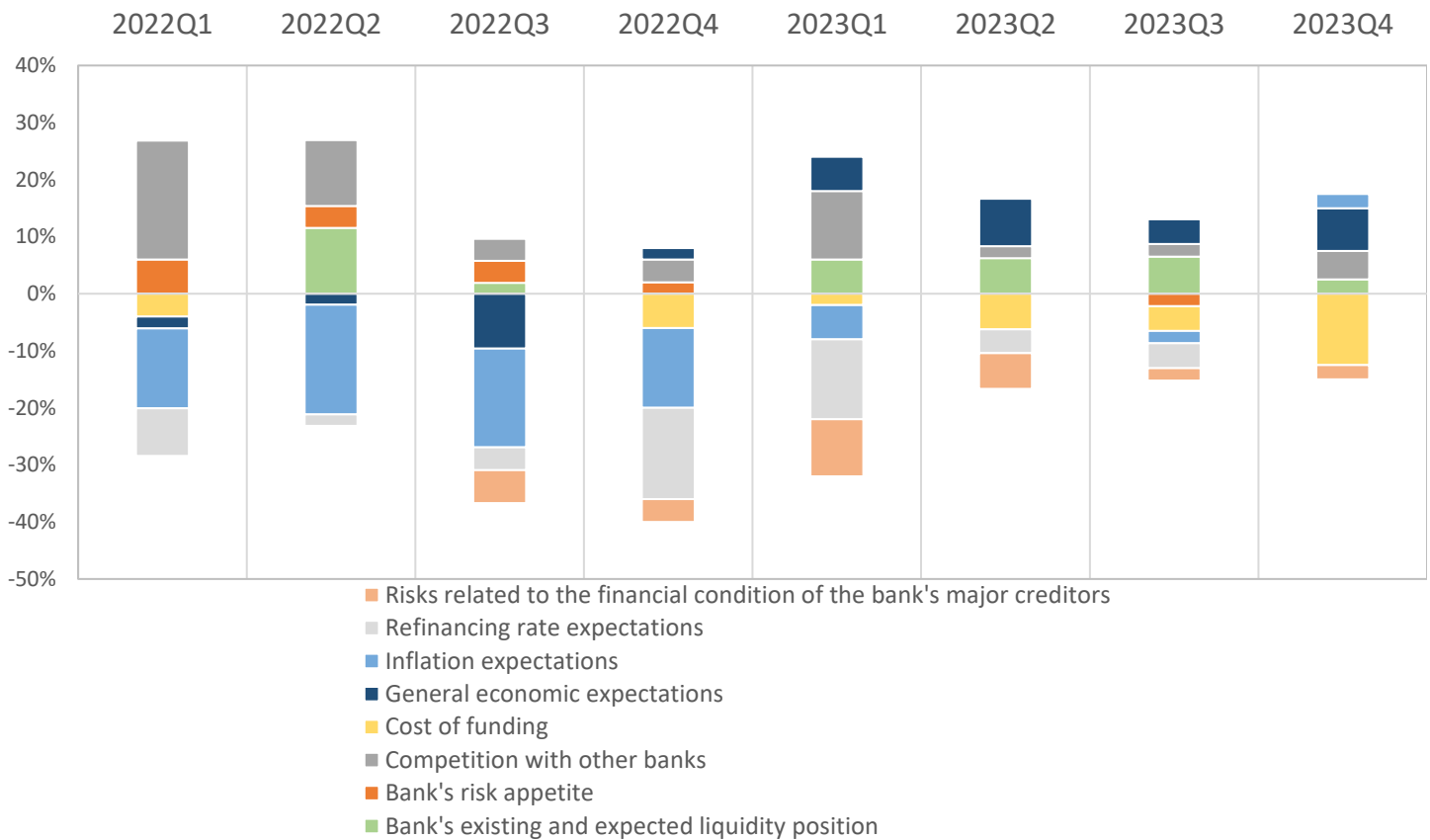
Diffusion Index: positive = softening, negative = tightening)



According to the survey results, demand for business loans increased. Compared to loans to large enterprises, demand for loans to MSMEs was higher. Banks expect the pace of growth in demand for loans to slow in Q1 2024. Demand for loans to large enterprises is expected to remain unchanged, while demand for loans to MSMEs is expected to increase at a slower pace in the fourth quarter.

Chart 2. Factors affecting credit standards for business loans

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



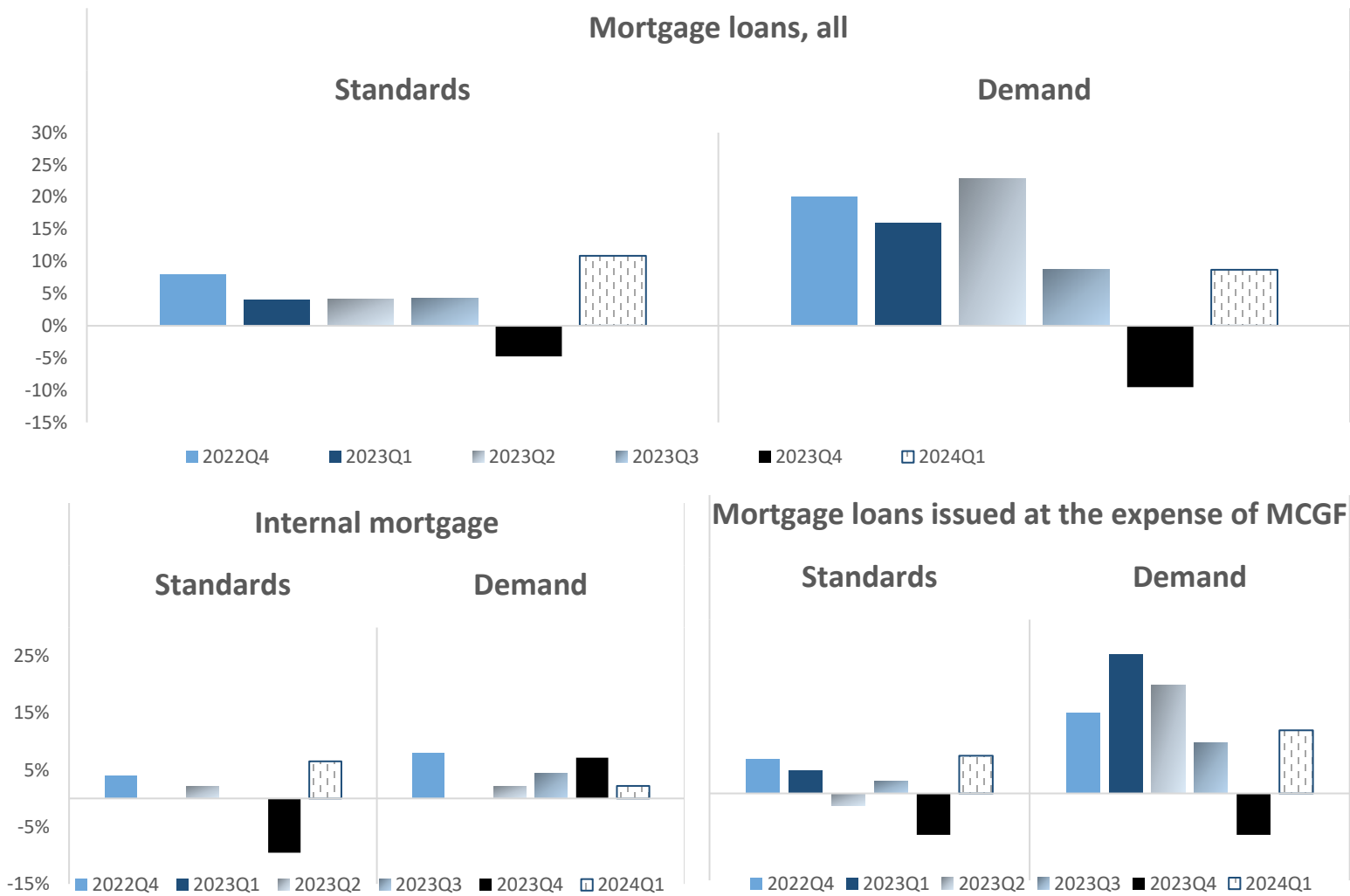
In the fourth quarter, the cost of funding and risks associated with the financial condition of banks' major creditors were the main factors behind the tightening of credit standards for business loans. Banks' current and expected liquidity positions, competition from other banks, general economic expectations, and inflation expectations were the factors that tended to ease credit standards. Last quarter, the cost of funding was the main factor tending to tighten credit standards, while economic expectations were the main factor tending to ease credit standards.

Mortgage loans

According to the results of the Credit Conditions Survey Q4 2023, there was a slight tightening of credit standards for mortgage loans originated internally and by the MCGF. Banks expect an easing 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

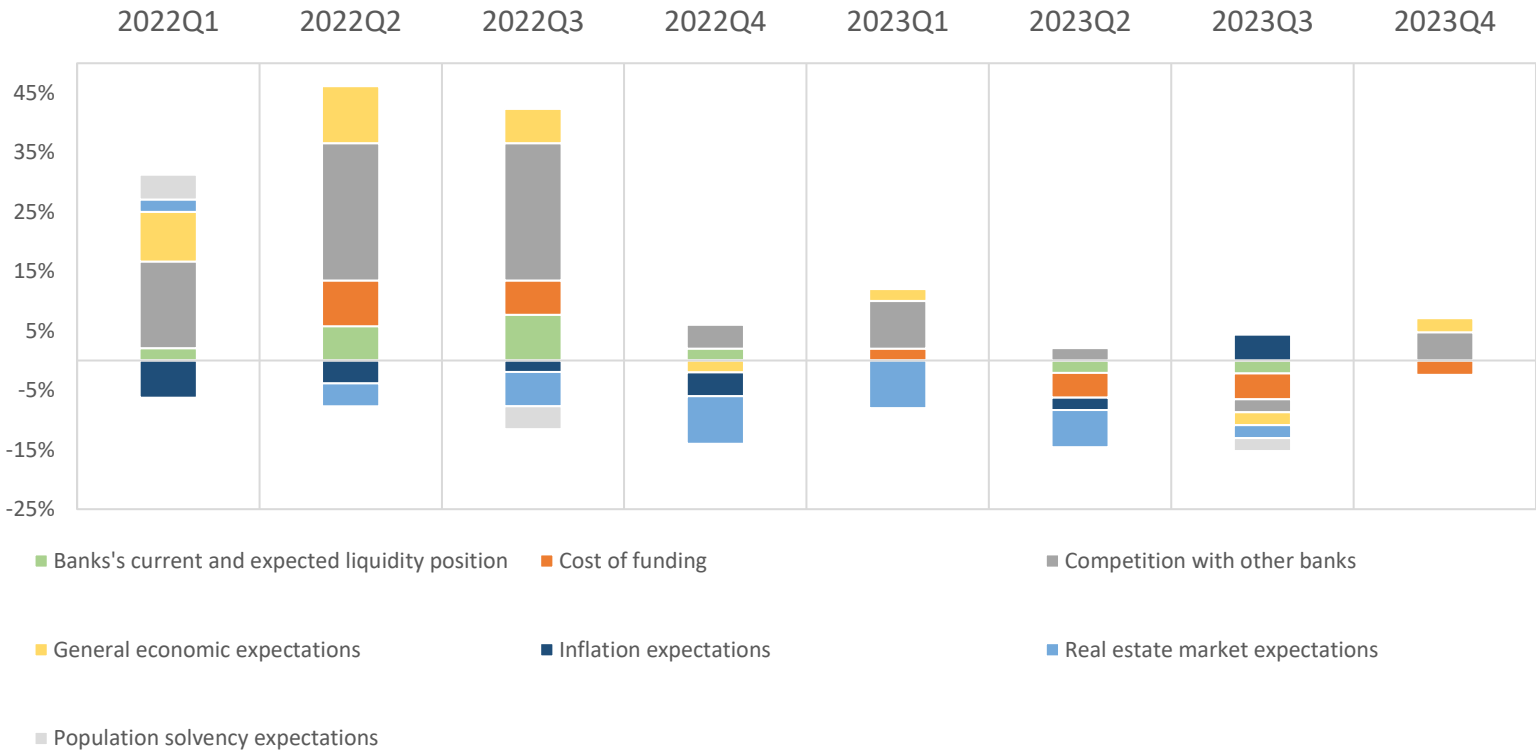
(Diffusion Index: positive = softening, negative = tightening)



In Q4 2023, demand for mortgage loans decreased. Loan demand for internal bank mortgage loans increased, while loan demand for MCGF loans decreased. Banks expect the demand for mortgage loans (especially for MCGF mortgages) to increase in the first quarter of 2024.

Chart 4. Factors affecting credit standards for mortgage loans

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



As with business loans, the cost of funding was the factor that tightened mortgage credit standards. In the last quarter, the factors that eased mortgage credit standards were expectations about the population's ability to pay and general economic expectations. In general, the impact of factors affecting credit standards has diminished over the past quarter.

Consumer loans

According to the survey results, credit standards for all types of consumer loans eased in the last quarter of 2023. The easing was observed in credit standards for salary loans, while credit standards for credit cards and household loans did not change. Banks expect the easing of credit standards for all types of consumer loans to continue in the first quarter of 2024.

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

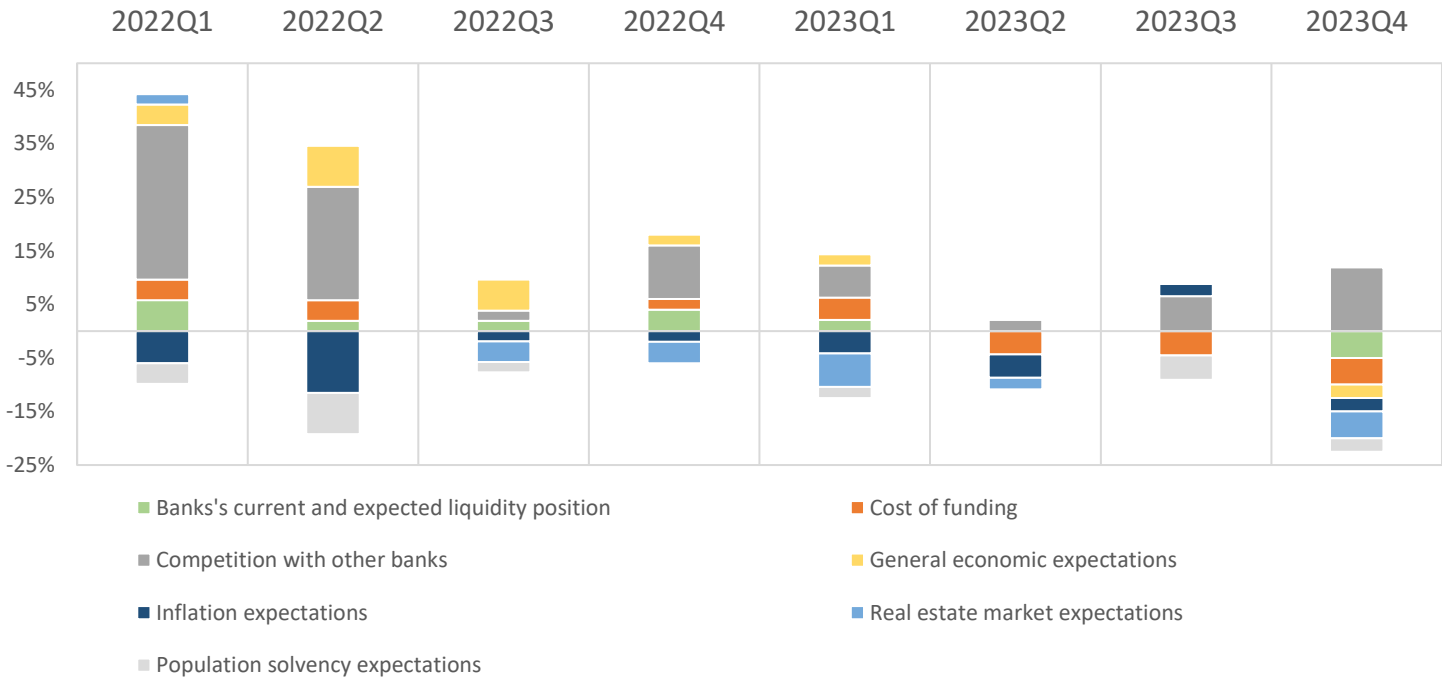
(Diffusion Index: positive = softening, negative = tightening)



Banks reported that the population's demand for consumer loans remained strong. Although the growth rate of demand for household loans is low, the growth rate of demand for credit cards and salary loans is high. Banks expect the population's demand for consumer loans to increase in Q1 2024. They forecast an increase in demand for all components.

Chart 6. Factors affecting credit conditions for consumer loans

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



Based on the survey findings, competition from other banks had an easing effect, while all other factors had a tightening effect on credit standards. Existing and projected liquidity was the most tightening factor affecting credit standards.

Chart 7. Diffusion index of population indebtedness

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

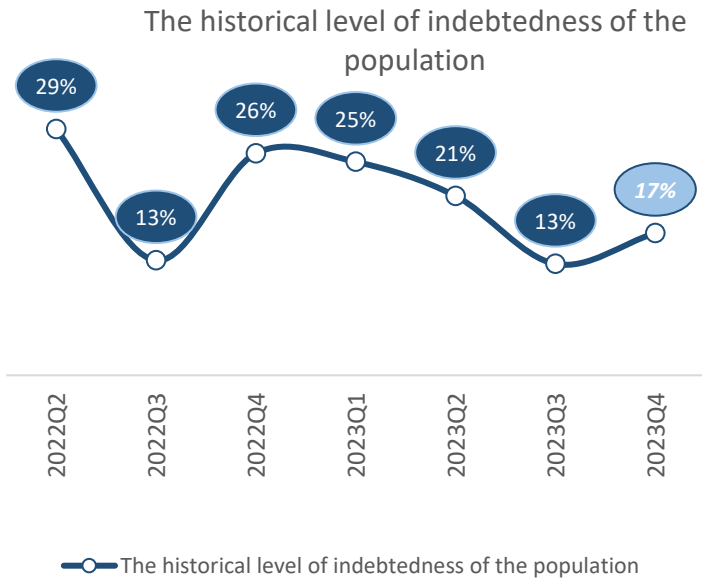
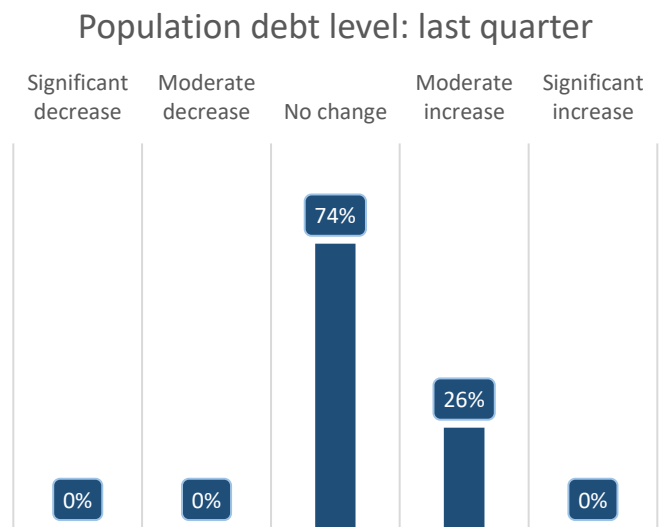


Chart 8. Changes in population indebtedness



According to the results of the survey, there was no serious increase in the level of indebtedness of the population in Q4 2023. 74% of the responding banks stated that the level of indebtedness of the population remained unchanged, while 26% reported a moderate increase in indebtedness of the population. Slowing down from late 2022, the long-run diffusion index of the indebtedness of the population increased by 4 p.p. to 17 % in the last quarter of 2023.