



CENTRAL BANK OF CYPRUS
EUROSYSTEM

BANK LENDING SURVEY

January 2013

Results for Cyprus

Supply

Credit standards for loans and credit lines to enterprises in the fourth quarter of 2012 registered a significant tightening compared with the previous quarter (50% from 20%), considerably above the previous quarter's expectations. The increased tightening of credit standards for loans to enterprises was not reflected in commensurate changes in the respective terms and conditions. On the contrary, non-interest rate charges and the maturity of loans remained unchanged. According to the expectations of the participating banks for the first quarter of 2013, credit standards are expected to be tightened further, to a lesser extent however, compared with the fourth quarter of 2012, with the diffusion index¹ declining to 30%.

In the fourth quarter of 2012, the tightening of credit standards for loans to households for house purchase and for consumer credit and other lending was the same as in the previous quarter, with the diffusion index in both cases being equal to the expectations of the participating banks in the previous quarter. In the case of housing loans, the stable tightening was reflected in changes in terms and conditions broadly similar to the previous quarter's. For consumer credit and other lending, the widening of margins on average loans and the increase in collateral requirements was not commensurate with that registered in the previous quarter, while the maturity of loans and non-interest rate charges remained unchanged. According to the expectations of the participating banks for the first quarter of 2013, credit standards for loans to households for consumer credit and other lending will

1. See note on page 7.

2. The results refer to changes observed in the last three months (in this case, in the fourth quarter of 2012 compared with the previous quarter) as well as to changes that are expected in the next three months (that is, the first quarter of 2013), also relative to the respective previous quarter.

Summary of results ²	Cyprus		euro area	
	2012Q4	2013Q1 (expectations)	2012Q4	2013Q1 (expectations)
Credit standards for loans				
<i>Enterprises</i>	<i>Tightening</i>	<i>Tightening</i>	<i>Tightening</i>	<i>Tightening</i>
Households				
- Housing loans	<i>Tightening</i>	<i>Tightening</i>	<i>Tightening</i>	<i>Tightening</i>
- Consumer credit and other lending	<i>Tightening</i>	<i>Tightening</i>	<i>Tightening</i>	<i>Tightening</i>
Demand for loans				
<i>Enterprises</i>	<i>Decrease</i>	<i>Decrease</i>	<i>Decrease</i>	<i>Decrease</i>
Households				
- Housing loans	<i>Decrease</i>	<i>Decrease</i>	<i>Decrease</i>	<i>Decrease</i>
- Consumer credit and other lending	<i>Decrease</i>	<i>Decrease</i>	<i>Decrease</i>	<i>Decrease</i>

be further tightened to the same extent as in the two previous quarters.

Demand

Net demand for loans by enterprises stayed on its downward trend in the fourth quarter of 2012 (-20% from -10%). According to the expectations of the participating banks, the decrease in the demand for loans by enterprises in the first quarter of 2013 is expected to surpass its counterpart in the previous quarter.

Demand both for housing loans and for consumer credit and other lending by households continued decreasing in the fourth quarter of 2012, exceeding the decline registered in the previous quarter (-40% from -20%). Once again, the fall in demand for housing loans and for consumer credit and other lending by households was larger than anticipated by the participating banks. In the first quarter of 2013, net demand both for housing loans and for consumer credit and other lending is expected to further contract, with the diffusion index returning to -20%,

according to the expectations of the participating banks.

larger and commensurate with the decline registered in the fourth quarter of 2012, respectively.

Results for the euro area

Supply

Credit standards for loans to enterprises by euro area banks were slightly tightened in the fourth quarter of 2012, with the diffusion index hovering at 7%, in line with the previous quarter's expectations. In the first quarter of 2013 the net tightening of credit standards is expected to remain broadly similar to that of the four previous quarters.

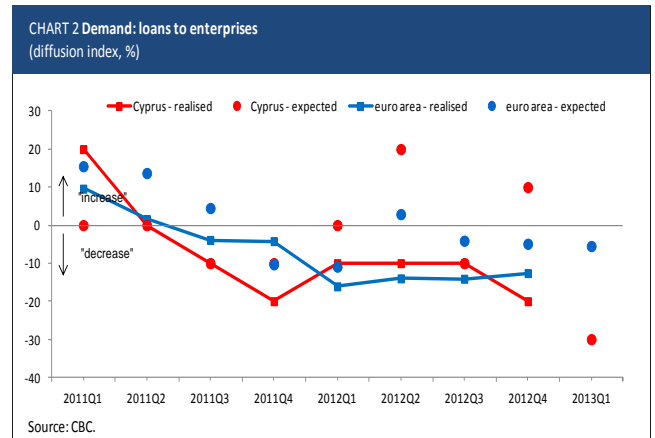
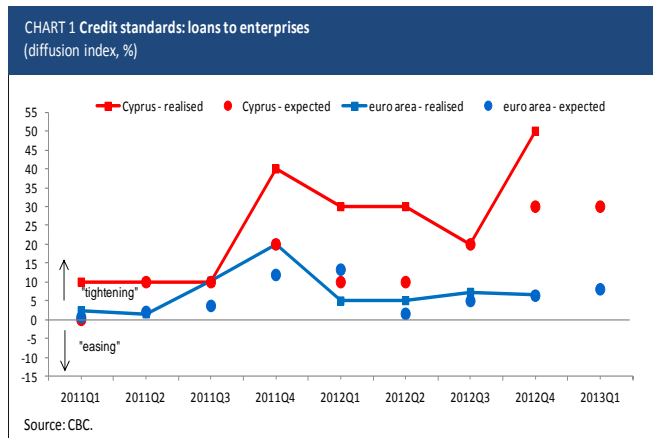
The net tightening of credit standards both for housing loans and for consumer credit and other lending to households in the fourth quarter of 2012 increased slightly compared with the previous quarter. In both cases the diffusion index stood above its expected value according to the participating banks' expectations in the previous survey. In the first quarter of 2013, banks expect a small drop in the net tightening of credit standards for housing loans and for consumer credit and other lending compared with the net tightening recorded in the fourth quarter of 2012.

Demand

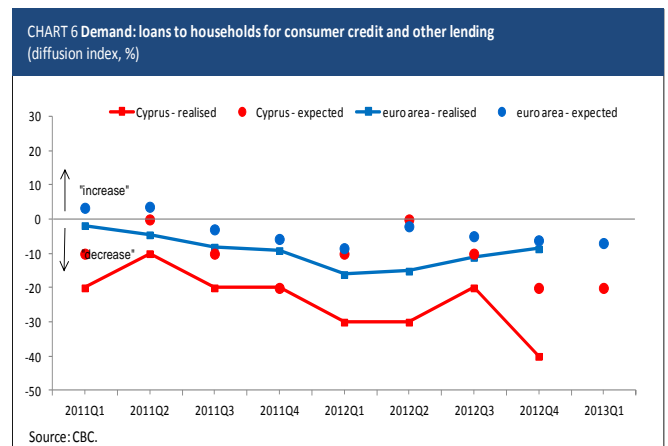
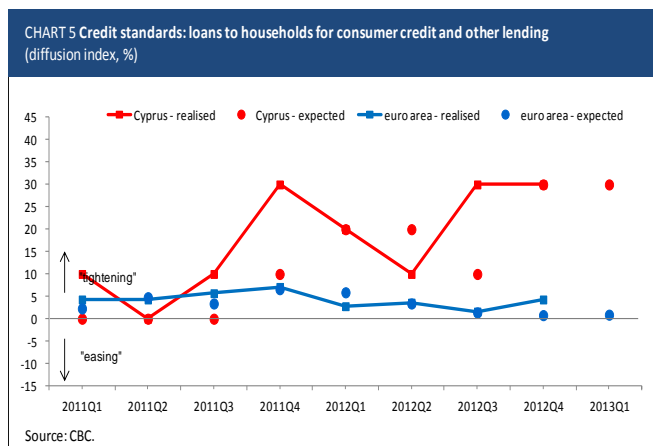
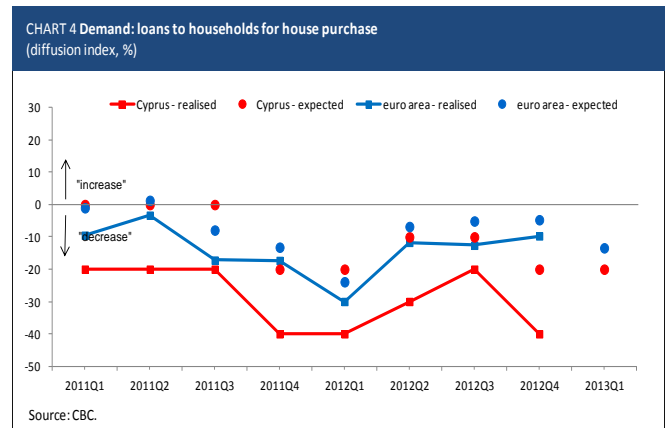
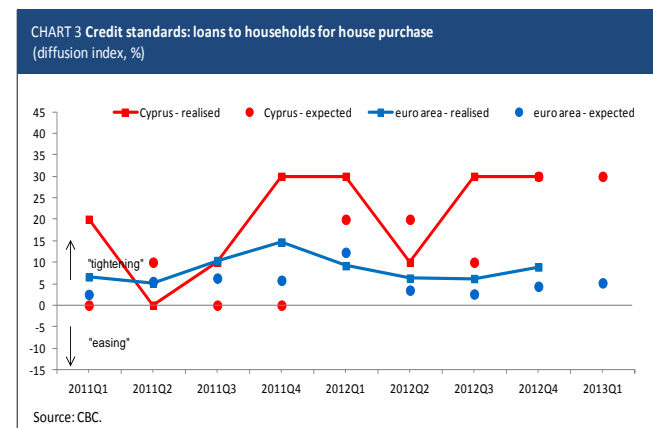
In the fourth quarter of 2012, net demand for loans by enterprises registered a decrease similar to the one recorded in the previous quarter (-13% from -14%), which, however, surpassed the expectations of the previous survey. Demand for housing loans in the fourth quarter of 2012 also registered a decrease, slightly smaller than the one in the previous quarter, yet larger than anticipated in the previous survey. The decline in the demand for consumer credit and other lending by households in the fourth quarter of 2012 was smaller than the decrease registered in the two previous quarters (-9% from -11% and -15%, respectively) and broadly in line with the previous quarter's expectations.

In the first quarter of 2013, net demand for all loan categories is anticipated to decrease. The decrease in net demand for loans by enterprises and by households for house purchase and for consumer credit and other lending is expected to be smaller,

1. Loans or credit lines to enterprises

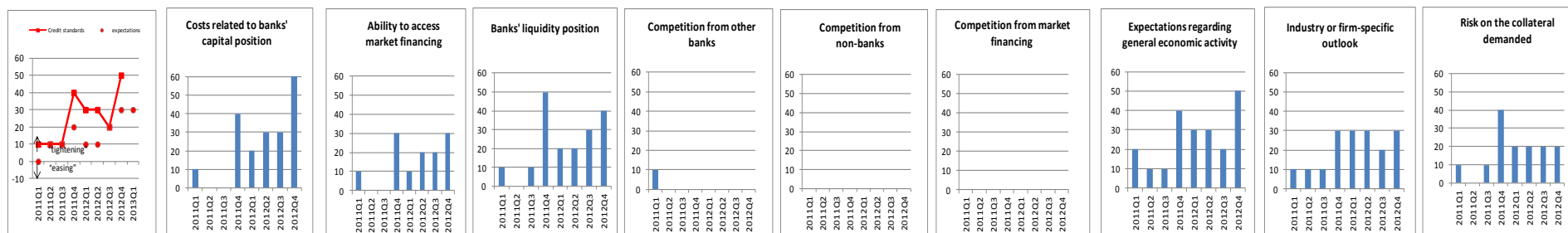


2. Loans to households

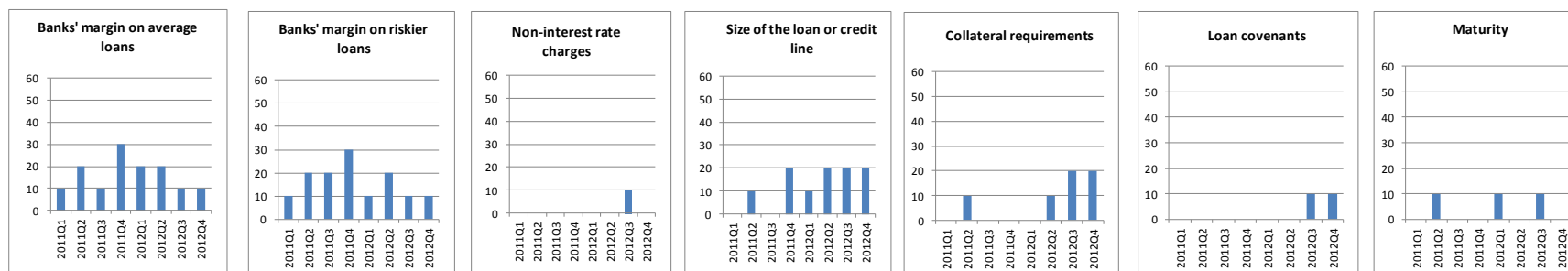


Appendix 1. Loans or credit lines to enterprises from MFI in Cyprus (diffusion index)

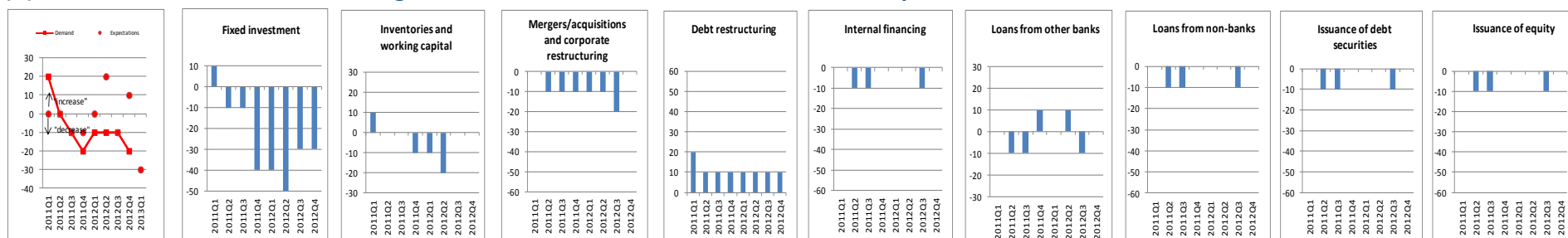
(A) Supply - Main factors affecting credit standards as applied to the approval of loans or credit lines to enterprises



- Changes in terms and conditions for approving loans or credit lines to enterprises



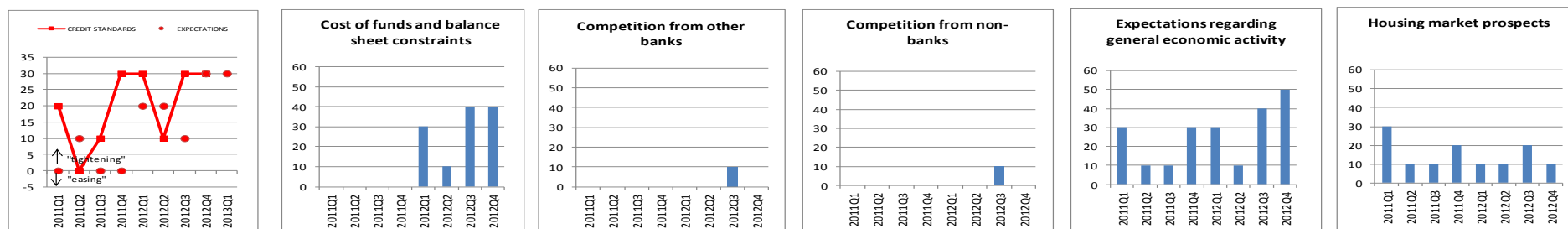
(B) Demand - Main factors affecting the demand for loans or credit lines to enterprises



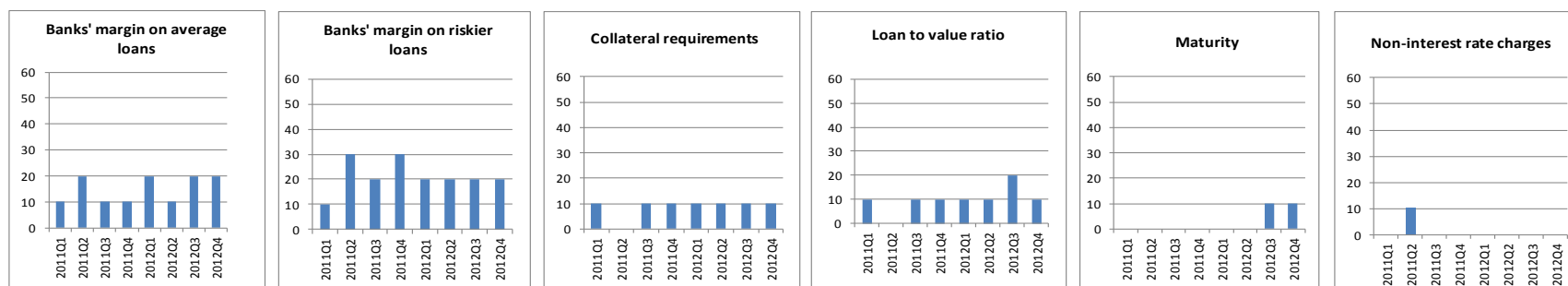
Note: In those cases where no bar is evident in the graph, the diffusion index is 0 for the respective quarter implying; (1) no change was recorded compared with the previous quarter; (2) the banks' responses cancel each other out; or (3) the banks responded by stating "N/A" (not applicable).

Appendix 2a. Loans to households for house purchase from MFI in Cyprus (diffusion index)

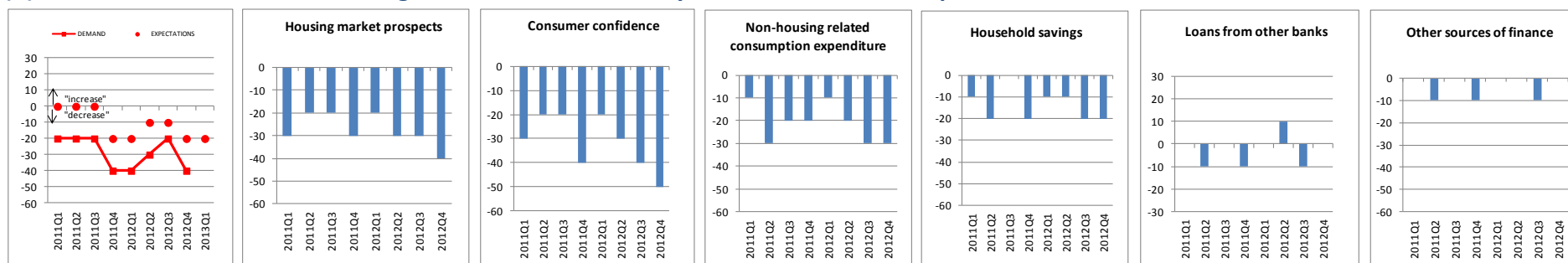
(A) Supply - Main factors affecting credit standards as applied to the approval of loans to households for house purchase



- Changes in terms and conditions for approving loans to households for house purchase



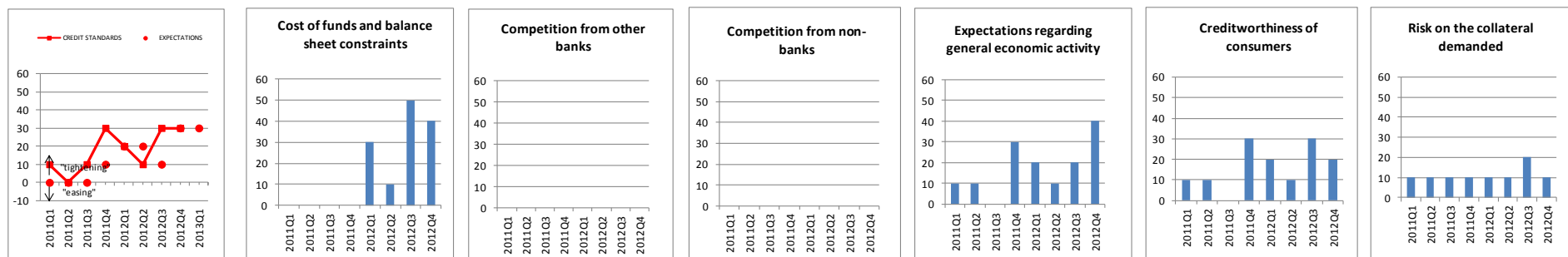
(B) Demand - Main factors affecting the demand for loans by households for house purchase



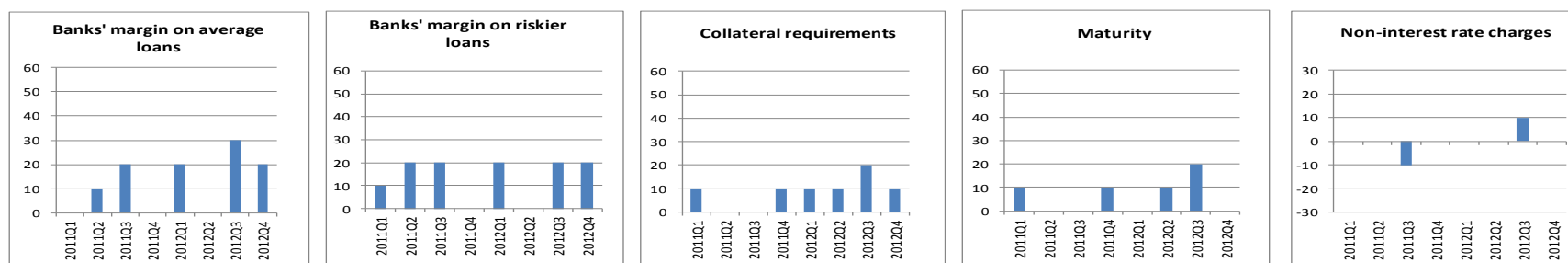
Note: In those cases where no bar is evident in the graph, the diffusion index is 0 for the respective quarter implying; (1) no change was recorded compared with the previous quarter; (2) the banks' responses cancel each other out; or (3) the banks responded by stating "N/A" (not applicable).

Appendix 2b. Loans to households for consumer credit and other lending from MFI in Cyprus (diffusion index)

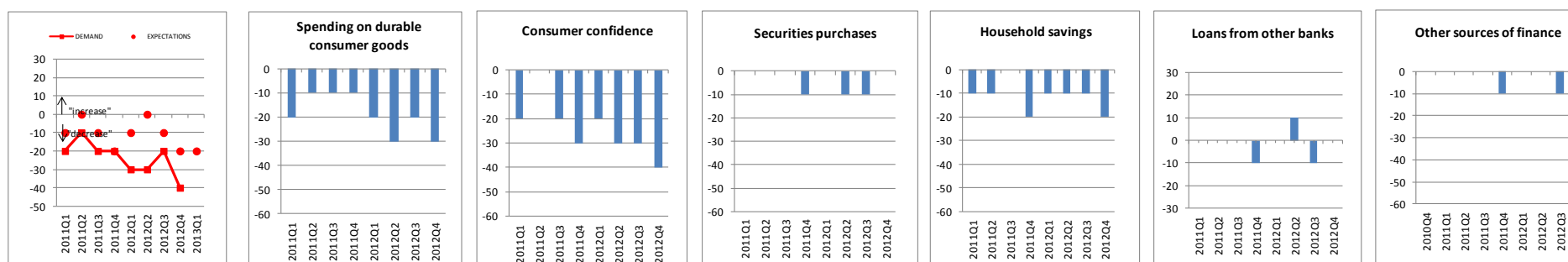
(A) Supply - Main factors affecting credit standards as applied to the approval of loans to households for consumer credit and other lending



- Changes in terms and conditions for approving loans to households for consumer credit and other lending



(B) Demand - Main factors affecting the demand for loans by households for consumer credit and other lending



Note: In those cases where no bar is evident in the graph, the diffusion index is 0 for the respective quarter implying: (1) no change was recorded compared with the previous quarter; (2) the banks' responses cancel each other out; or (3) the banks responded by stating "N/A" (not applicable).

Notes:

The Bank Lending Survey is a qualitative survey for the assessment of credit conditions in the euro area and its main objective is to enhance the understanding of bank lending behaviour. The survey questionnaire is addressed to senior loan officers in a representative sample of euro area banks and covers a broad area of relevant subjects regarding credit to enterprises and households. For example, it includes questions concerning credit standards, credit terms and conditions as applied to the approval of loans as well as questions concerning the evaluation by banks of factors affecting demand. More information on the methodology of the survey can be found at

http://www.centralbank.gov.cy/media/pdf_gr/Methodology_100210.pdf

The results of the January 2013 Bank Lending Survey relate to changes in the fourth quarter of 2012 compared with the previous quarter and to changes expected in the first quarter of 2013 regarding credit standards and demand for loans to enterprises and households¹.

It should be noted that the results of the survey relate to answers provided by the participating banks and represent their own assessment of the financial market. The results do not in any way reflect the views of the Central Bank of Cyprus.

1. The results of the survey for Cyprus are not weighted by the market share of each participating bank, thus the answers of all participants are given the same weight. The survey covers around 85% of the total market for outstanding loans in Cyprus granted to euro area enterprises and households. For the analysis of the aggregated results for Cyprus and the euro area, the diffusion index is used. It should be noted that a diffusion index value equal to zero may imply that; (a) there was no change compared with the previous quarter; (b) the answers of the participating banks offset one another; or (c) no data are available.