

What Determines Bank Lending Standards in Cyprus?

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Abstract

We study, for the first time in the existing literature, how lending standards and demand for loans affect and are affected by other macroeconomic factors in Cyprus. The results suggest that only house prices appear to affect lending standards, with a positive house price shock causing a tightening. House prices have the opposite impact on demand for loans, with an increase in the former having a positive effect on demand, while demand is inversely affected by the lending rate. Lending standards have a strong impact on the economy, as they register an effect on lending rates and loan growth, and subsequently on GDP. This highlights the importance of credit availability in the economy.

Keywords: bank lending standards, macroeconomic factors, vector-autoregression model.

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