



# BANK LENDING SURVEY REPORT

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CENTRAL BANK OF TIMOR-LESTE

June 5<sup>th</sup>, 2019

# Bank Lending Survey Report

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## I. Introduction

This Bank Lending Survey is a qualitative survey assessment of credit developments in Timor-Leste, which specifically details developments in 2018 and expected trends for 2019. The survey was conducted in mid-April of 2019 by BCTL's Economics and Statistics Division. The Bank lending survey serves as an important tool to assess bank lending conditions in Timor-Leste, supporting a better understanding of financing conditions and bank lending behavior in Timor-Leste. The analysis specifically looks at trends in terms of credit standards, credit drivers, lending terms and conditions, loan demand and expectations for loan demand in 2019, from both companies and households.

## II. Number of Clients, Loan Applications and Approvals by Commercial Banks to Companies and Households.

### 2.1 Loans to Companies

The total number of applications for loans to companies decreased 58.5% to 2,160 clients in 2018, compared with the previous year, while its total amount also decreased 24% to USD 50.9 million. The total number of approved loans was also reduced by 58.1% to 2,158 clients, with the total amount of credit granted decreasing by 22.7% to USD 46.9 million. Approved loans amounted to 92.2% of the total loans' applications (**see table 1**).

**Table 1. Loans To Companies - Number and Value of Loans and Clients**

Items	Number of		% change	Amounts in US\$ Dollar		% change
	2017	2018		2017	2018	
Loans applicants	5,199	2,160	(58.5)	67,072,295.28	50,994,745.16	-24.0
Loans approved	5,146	2,158	(58.1)	60,782,905.28	46,994,745.16	-22.7

Source: BCTL (Bank Lending Survey, 2019)

### 2.2 Loans to Households

The total number of applications for loans from households in 2018 decreased by 54.25% to 5,720 clients in 2018, compared to 2017 and its USD amount decreased by 0.8% to USD 59.697 million. The number of approved loans decreased by 53% to 5,716 clients, with the total amount of credit granted decreasing by 0.8% to USD 59.632 million, representing 99.9% of total loan applications (**see table 2**).

**Table 2. Households' Loans - Number an value of Loans and Clients**

Items	Number		% change	Amounts in US dollar		% change
	2017	2018		2017	2018	
Loans applicants	12,503	5,720	(54.25)	60,189,049.67	59,697,654.51	-0.8
Loans approved	12,166	5,716	(53.02)	58,469,483.67	59,632,654.51	2.0

Source: BCTL (Bank Lending Survey, 2019)

### III. Recent Developments in Credit Standards, Term Conditions, Demand for Loans and Expectations for 2019

#### 3.1 Loans to Companies

##### 3.1.1 Credit Standards for Loans to Companies

According to the 2019's bank lending survey, overall credit standards (i.e. banks' internal guidelines or loan approval criteria) for loans to enterprises were unchanged in 2018, compared to 2017, as the diffusion index registered 0% in 2018, compared with 13% in 2017. Credit standards were tightened for the tourism and finance, industry & manufactures and construction sectors, whose respective diffusion indexes were 50%, 17% and 13% respectively. Credit standards for agriculture, trade & finance and transports and communication and others sectors were unchanged, as their diffusion indexes registered 0%. (See table 3).

**Table 3. Credit Standards in Loans to Companies**

Items	By sector	2013	2014	2015	2016	2017	2018
1.Credit to private sector							
Credit Standar(2)	Overall	11%	0%	0%	0%	13%	0%
	Agriculture	25%	0%	0%	0%	0%	0%
	trade and finance	50%	40%	0%	0%	0%	0%
	Industry and money facturing	38%	17%	0%	-13%	17%	17%
	Contruction	33%	33%	0%	-13%	25%	13%
	Tourism and Finance	33%	0%	0%	0%	25%	50%
	Transport and communicatio	33%	0%	0%	0%	0%	0%
	Other	25%	-17%	0%	0%	0%	0%

Source: BCTL (Bank Lending Survey, 2019)

### 3.1.2 Drivers of Credit Standards in Loans to Companies

Credit standards were unchanged in 2018, despite the increased riskiness of collateral demand (30%), increase in non-performing loans (50%), contract enforcement (10%), competition in the banking system (30%) and slowing down of general economic activity (30%). **(See table 4).**

**Table 4. Credit Standards - Drivers of Loans to Companies**

	Factor affected credit standar	2013	2014	2015	2016	2017	2018
Factor affected credit standar (3)	Cost of funds and balance sheet constraints	25%	50%	25%	13%	10%	0%
	Pressure from competition in the banking system	0%	0%	25%	25%	30%	30%
	Expectations regarding general economic activity	38%	-13%	13%	0%	20%	30%
	Industry or firm specific outlook	38%	50%	0%	0%	20%	0%
	Risk on the collateral demanded	63%	50%	25%	-13%	0%	30%
	Contract enforcement	63%	25%	25%	25%	20%	10%
	Increasing Non-Performing Loans	38%	38%	50%	50%	50%	50%
	Other factors, please specify	63%	-13%	0%	0%	-25%	0%

Source: BCTL (Bank Lending Survey, 2019)

### 1.3 Credit Terms and Conditions

The net diffusion index shows that the banks globally eased the terms and conditions for credit in 2018, despite the rise in non-interest rate charges. The index on 'Bank margins on average loans' was -10%, loan constraints was -17%, while banks tightened non-interest rate charges (index reading of 17%). **(see table 5)**

**Table 5. Credit Terms and Conditions**

	Factor affected credit standar	2013	2014	2015	2016	2017	2018
Bank term and condition (4)	Your bank's margin on average loans	25%	0%	30%	-13%	8%	-10%
	Your bank's margin on riskier loans	25%	38%	33%	0%	0%	0%
	Other conditions and terms						
	Non-interest rate charges	25%	25%	38%	13%	13%	17%
	Collateral requirements	50%	50%	63%	25%	0%	0%
	Loan covenants	13%	50%	50%	38%	10%	-17%
	Maturity	38%	25%	-17%	0%	-17%	0%

Source: BCTL (Bank Lending Survey, 2019)

### 3.1.4 Demand for Loans in 2018

Overall companies' loans demand decreased in 2018, as the diffusion index moved to 63%, from -30% in 2017. Please note that a positive reading means that demand for loans decreased and vice-versa.

The decrease was driven by lower demand for loans from agriculture, trade & finance, industry & manufacturing, constructions, tourism & finance sectors. On the other hand, transport & communication and industry & manufacturing sectors loan demand was unchanged as their diffusion indexes amounted to 0% in 2018. **(See table 6).**

**Table 6. Demand for Loans in 2018 – Companies Sectors**

	By sector	2013	2014	2015	2016	2017	2018
<b>Demand for loans (5)</b>	Overall	17%	50%	0%	-50%	-30%	63%
	Agriculture	0%	0%	0%	0%	0%	0%
	trade and finance	-38%	50%	0%	0%	0%	25%
	Industry and money factorin	0%	-50%	0%	-33%	0%	0%
	Construction	-33%	0%	0%	-33%	-13%	25%
	Tourism and Finance	17%	0%	25%	0%	25%	38%
	Transport and communicatio	17%	0%	0%	0%	0%	0%
	Other	-17%	-25%	0%	0%	-33%	-25%

Source: BCTL (Bank Lending Survey, 2019)

### 3.1.5 Demand for Loans to Companies - Expectations for 2019

Banks expect that companies' overall demand for loans will increase generally in 2019 and for practically all sectors, except transport and communication and other sectors, whose indexes remain unchanged. The more relevant sectors' diffusion indexes were as following: industry & manufacturing (-25%), trade and finance (-25%), construction (-25%), tourism and finance (-25%) and agriculture (-17%) (See table 7).

**Table7. Demand for Loans – Expectations for 2019**

	By sector	2014	2015	2016	2017	2018	2019
<b>Expect demand for loans (8)</b>	Overall	17%	0%	0%	-25%	-20%	-20%
	Agriculture	13%	0%	0%	0%	0%	-17%
	trade and finance	25%	17%	-17%	-17%	-13%	-25%
	Industry and money factorin	-13%	-17%	-17%	-33%	-25%	-25%
	Construction	0%	-17%	-17%	-17%	-25%	-25%
	Tourism and Finance	17%	0%	0%	0%	-25%	-25%
	Transport and communicatio	17%	0%	0%	0%	-25%	0%
	Other	17%	0%	0%	0%	-25%	0%

Source: BCTL (Bank Lending Survey, 2019)

## 3.2 Loans to Households.

### 3.2.1 Credit Standards for Loans to Households

Based on the survey, banks' credit standards for household loans were unchanged in 2018. Credit standards for house construction & refurbishment loans and consumer credit were also unchanged, as shown in their sub-index reading (0%). (See table 8).

**Table 8. Credit Standards in Loans for Households**

2. Credit to household	Items	2013	2014	2015	2016	2017	2018
Credit standar(10)	Overall	25%	-25%	0%	0%	-20%	0%
	Loans for house construction & refurbishment	33%	0%	0%	0%	0%	0%
	Consumer credit and other lending	17%	0%	0%	0%	-25%	0%

Source: BCTL (Bank Lending Survey, 2019)

### 3.2.2 Drivers of Credit Standards of Loans to Households

Banks reported unchanged credit standards for this type of loans, despite the mixed trends in the various subcomponents. (See table 9).

**Table 9. Credit Standards Drivers of Loans to Households**

	Factor affected credit standar	2013	2014	2015	2016	2017	2018
Factor affcted credit standar (11)	Cost of funds and balance sheet constraints	-33%	-50%	50%	33%	33%	0%
	Pressure from competition in the banking system	-17%	-50%	0%	0%	-20%	-13%
	Expectations regarding general economic activity	-17%	-50%	13%	-13%	20%	25%
	Industry or firm specific outlook	0%	-25%	0%	-13%	-30%	
	Risk on the collateral demanded	33%	-25%	13%	0%	0%	-25%
	Contract enforcement	100%	-25%	38%	25%	20%	25%
	Increasing Non-Performing Loans	67%	-25%	67%	50%	20%	25%
	Other factors, please specify	0%	-25%	0	0	0	0

Source: BCTL (Bank Lending Survey, 2019)

### 3.2.3 Credit Terms and Conditions

As shown below, the terms and conditions for loans to households remained broadly unchanged in 2018. Despite the tightening in the banks margin on average loans (17%), banks have simultaneously eased loans covenants charges (50%). The remaining subcomponents of bank margins on riskier loans, non-interest rate charges, collateral demanded and maturity were unchanged. (See table 10).

**Table 10. Credit Terms and Conditions**

	Factor affcted term and conditions	2013	2014	2015	2016	2017	2018
Bank term and condition (12)	Your bank's margin on average loans	17%	0%	13%	0%	0%	17%
	Your bank's margin on riskier loans	33%	50%	13%	0%	0%	0%
	Other conditions and terms						
	Non-interest rate charges	33%	50%	13%	0%	-13%	0%
	Collateral requirements	50%	83%	13%	0%	38%	0%
	Loan covenants	17%	50%	0%	-13%	0%	-50%
	Maturity	0%	0%	0%	0%	0%	0%

Source: BCTL (Bank Lending Survey, 2019)

### 3.2.4 Demand for Loans to Households - Expectations for 2019

Banks expect that households' demand for loans will ease again in 2019, as the diffusion index was -63%, while household demand for loans to construction and refurbishment and consumer credit are also expected to ease in 2019 (index reading at -50%). (See table 11)

**Table 11. Demand for Loans to Households – Expectations for 2019**

Expectation	Items	2014	2015	2016	2017	2018	2019
Expect demand for loans (15)	Overall	-25%	-67%	-25%	-38%	-67%	-63%
	Loans for house construction & refurbishment	-33%	-67%	-17%	-33%	-17%	-50%
	Consumer credit and other lending	-33%	-67%	-17%	-33%	-17%	-50%

Source: BCTL (Bank Lending Survey, 2019)

## III. Interest rates and their determinants

### 3.1 Interest rates

The survey results also indicated that most of the banks stated that their effective lending rates were between 11%-15%, while only one bank reported lending rates to be lower, ranging between 6-10%.

**Table.12 Effective Average Lending Rates**

Average lending rate(%)	Banks
0-5%	
6-10%	1
11-15%	4
16-20%	
Above 20%	

### 3.2 Bank Margin (Lending Rates less Deposit Rates)

The margin rate is the difference between lending rates and deposit rates practiced by commercial banks. Banks stated that their average margin rate ranged between 8% - 10%.

### 3.3 Commercial Banks Lending Rates' Determinants

Banks have different lending rates, as there are some fundamental factors and differences that are considered in the calculation of the base lending rates. Commercial banks continue to use the same relevant factors to calculate their lending rates, as in the previous year.

As can be seen in table 13, there are five factors that commercial banks use to calculate their lending rate. Operational cost's contribution was the highest driver of lending rates (4.4% with a share of total 36.7%), followed by risk premium 3%, with a 25% share, spread was 2.6% (22% of total), cost of funds was 1% (8.6% share) and other drivers were 0.9% (7.8% share).

**Table 13. Average Lending Rates by Commercial Banks.**

<b>Factors</b>	<b>%</b>	<b>Share of total</b>
Operational Cost	4.4%	36.7
Risk premium	3.0%	25.0
Spread	2.6%	22.0
Cost of fund	1.0%	8.6
Othes	0.9%	7.8
<b>Total</b>	<b>12%</b>	<b>100.0</b>

Note: average above does not include BNU's rates.

Source: Commercial Banks

### VI. Commercial Banks' Important Suggestions

Amongst others, we highlight the suggestion and concern with increasing overall bank credit to the economy. This suggestion included the support and recommendation that the Government may approve and implement a national Land Law, which is fundamental to create sound collateral for bank credit, and that the State may improve the functioning of the country's judicial system, to increase and facilitate contract enforcement.

## REFERENCES

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