



REPORT BANK LENDING SURVEY

Agostinho Mendonca

**BANCO CENTRAL DE TIMOR-LESTE
ECONOMICS AND STATISTICS
JULY 26, 2021**

Content

I. General introduction	2
II. Overviews of result	2
III. Result of survey by individual	4
3.1. Loans to enterprises	4
3.1.1 Credit standard	4
3.1.2 Credit term and condition	5
3.1.3. Demand for loan in the past year	5
3.2. Loans to households	6
3.2.1. Credit standards	6
3.2.2. Credit term and condition	7
3.2.3. Demand for loan in the past year	8
4. Additional questions	11

I. GENERAL INTRODUCTION

The questionnaire for this period of the bank lending survey was sent to the banks on June 14, 2021 and the responses were received by June 28. The main objective of this survey is to increase understanding of the behavior of bank lending in Timor-Leste. The questionnaire survey was addressed to senior loan officers at each of the banks in Timor-Leste, containing 29 qualitative questions about past and expected developments in lending policies. These questions distinguish between loans to enterprises and loans to households. For both sectors, the survey addresses issues such as credit standards for approving loans and credit terms and conditions, as well as the assessment of the conditions that affect the demand for credit. The survey is conducted once a year.

II. OVERVIEWS OF RESULTH

2.1 Loans to enterprises

The results of recent bank lending survey show that the number of credit applications for 2020 is around 1,942 and loans approved around 1,927. For this total number loans application and number of approved, approximately were approved or about 99.2%.

The aggregate result of the survey shows most respondent banks reported tightening somewhat of credit standards applied to the approval of loans or credit lines to enterprises in 2020 (a DI of 10%). By observing the sector of economic activity, the credit standard for agriculture sector, tourism and services, and transportation were tightened somewhat (a DI of 25%, 17%, and 25% respectively). On the other hand, trade and finance and construction were easing the credit standard (a DI of -17% and -25% respectively). According to the banks, the tightening of credit standard was due to the perception of risk regarding general economic activity and for some sector due to pandemic Covid-19 (a DI of 40% and 25% respectively). The pressures from competition in the banking system, industry or firm specific outlook, and risk on the collateral demanded were contributed to the tightening of credit standard (a DI of 20%, 10%, and 10% respectively). In contrast, bank reported the easing of credit standard was fostered by the simplification in contract enforcement for loan to enterprise.

Overall, banks expect their credit standards applied to enterprises to ease somewhat for loans to enterprises in 2021 (a DI of -10%). It was reported that, agriculture sector, trade and finance, industry and manufacturing are expected to ease somewhat the credit standard in 2021 (an average DI of -17%). While, banks expect to tightening somewhat the credit standard for transportation in 2021 (a DI of 25%), and remained unchanged for tourism and services.

In term of enterprises demand for loan or credit lines in the past year (2020), in overall, banks indicated that they had decreased their demand (a DI of 67%). Reduce need for financing requirements related to fixed investment was the main factor that contributed to the decrease in overall demand for loans or credit line to enterprises (a DI of -50%), with the enterprises reducing their interest to invest in a situation

where there is high uncertainty and problem of drop in the economic activity. Internal financing (a DI of -25%) was contributed as well to the decline in the demand for loans by enterprises.

Overall, banks expect to increase somewhat in demand for loans or credit line in 2021 (a DI of 38%). They expect demand for loan to grow in those sectors like agriculture (a DI of 38%), trade and finance (a DI of 50%), tourism and services (a DI of 50%), industry and manufacturing (a DI of 25%), construction (a DI of 25%) and transportation (a DI of 25%).

2.2. Loans to household

The number of loan applications in 2020 for households is approximately 9,743. While, the number of loans approved was 9,613, with share in total for number loans of approved 99%.

In overall, credit standards for loans to household were tightened in the past year (2020). The tightening credit standard was reported for either house construction & refurbishment or for consumer credit and other lending (a DI of 10% respectively). Factors contributing to tightened credit standards on loans to households for house construction & refurbishment and for consumer credit and other lending over the past year was the pressure from competition in the banking system, and perception of risk regarding general economic activity (a DI of 38% and 25% respectively), which banks have responded in some way to the increased risk associated with the Covid-19 pandemic. On the other hand, risk on the collateral demanded, industry or firm specific outlook, and non-performing loans were contributed to ease somewhat for loans to household. Furthermore, bank reported unchanged for cost of fund and balance sheet and contract enforcement for house purchase.

There was a decrease in the demand for loans to households in 2020. Overall, banks reported the decrease in loans for house construction & refurbishment and consumer credit and other lending (a DI of -50%). Factors contributing to the decrease in demand for loans to households over the past year were notably weak in consumer confidence, low general level of interest, and increase in internal finance. Conversely, banks reported unchanged in financing need for housing/renovation.

In term of expectations for next year (2021), banks expect to ease somewhat of credit standards applied to loans for house construction & refurbishment and for consumer credit and other lending. Banks expect as well to increase in loan demand for house construction & refurbishment and consumer loans and other loans to households.

III. THE RESULTS OF SURVEY BY INDIVIDUAL

3.1 Loans to enterprises

3.1.1. Credit Standard for loans to enterprises

Overall, banks reported that credit standards applied to the approval of loans or credit lines to enterprises were tightened somewhat in 2020 (a DI of 10%). Across sector of economic activity, the tightening of credit standard was for agriculture, tourism and services, and transportation (a DI of 25%, 17% and 25% respectively). On the other hand, trade and finance, and construction were contributed to easing the credit standard in 2020 (a DI of 17% and 25% respectively).

Table 1. Changes in credit standards applied to enterprises over the past year

	Overall	Agriculture	Trade and finance	Industry and manufacturing	Construction	Tourism and services	Transport	Other
Tightened considerably	0	0	0	0	0	0	0	0
Tightened somewhat	1	1	0	0	0	1	1	1
Remained basically unchanged	4	2	2	3	2	2	2	2
Eased somewhat	0	0	1	0	1	0	0	0
Eased considerably	0	0	0	0	0	0	0	0
Diffusion Index	10	25	-17	0	-25	17	25	17

Calculated as net diffusion percentage. The positive values indicate tightened credit standards, whereas the negative values indicate eased credit standards

Banks reported that the main factor contributing to the overall tightened of credit standards applied to enterprises over the past year was the perception of risk regarding general economic activity (a DI of 40%), and for some sector due to pandemic Covid-19. The pressure from competition in the banking system, industry or firm specific outlook and risk on the collateral demanded, were contributed as well to the tightened of credit standard in 2020 (a DI of 20%, 10%, and 10% respectively). In contrast, banks have eased contract enforcement for loan to enterprise (a DI of 10%).

Table 2. Factor affecting changes in credit standard applied to enterprises

	1	2	3	4	5	Diffusion Index
Cost of funds and balance sheet	0	1	3	1	0	0
Pressure from competition in the banking system	0	2	3	0	0	20
Perception of risk regarding general economic activity	0	4	1	0	0	40
Industry or firm specific outlook	0	1	4	0	0	10
Risk on the collateral demanded	1	1	3	0	0	10
Contract enforcement	0	0	4	1	0	-10
Increasing Non-Performing Loans	0	2	1	2	0	0
Other factors, please specify	0	0	2	1	0	

Calculated as net diffusion percentage. The positive values indicate tightened credit standards, whereas the negative values indicate eased credit standards

In overall, most banks expect to keep their credit standards applied to enterprises to unchanged, while one-fifth of the banks expected to ease somewhat the credit standard for enterprises in the next year.

3.1.2 Terms and conditions for loans to enterprises

Overall, banks report that their terms and conditions on granting new loans or credit lines to enterprises in 2020 were tightened as regard to the collateral requirement and loan agreements (a DI of 20% and 10% respectively).

Table 3. credit terms and conditions

scale	1	2	3	4	5	Diffusion Index
Price						
Your bank's margin on average loans	0	1	3	1	0	0
Your bank's margin on riskier loans	0	1	3	1	0	0
Other conditions and terms						
· Non-interest rate charges	0	0	5	0	0	0
· Collateral requirements	0	2	3	0	0	20
· Loan covenants	0	1	4	0	0	10
· Maturity	0	0	5	0	0	0

Calculated as net diffusion percentage. The positive values indicate tightened credit terms and conditions, whereas the negative values indicate eased credit terms and conditions

Factors contributing to tightened in banks' terms and conditions on the approval of loans to enterprise over the past year (2020) were the pressure from competition in the banking system, perception of risk regarding general economic activity, industry or firm specific outlook, and risk on the collateral demanded (a DI of 10%, 40%, 10%, and 10% respectively). Conversely, cost of fund and balance sheet, and the non-performing loans were contributed to net easing of banks' credit terms and condition for loans to enterprises in 2020.

Table 4. Factor affected terms and conditions applied to enterprise in the past year

Scale	1	2	3	4	5	Diffusion Index
Cost of funds and balance sheet	0	0	3	2	0	-20
Pressure from competition in the bank	0	2	2	1	0	10
Perception of risk regarding general economic activity	0	4	1	0	0	40
Industry or firm specific outlook	0	1	4	0	0	10
Risk on the collateral demanded	0	1	4	0	0	10
Contract enforcement	0	0	5	0	0	0
Increasing Non-Performing Loans	0	1	2	1	1	-20
Other factors, please specify	0	1	2	0	0	

Calculated as net diffusion percentage. The positive values indicate tightened credit standards., whereas the negative values indicate eased credit standards

3.1.3 Demand for loan to enterprise

Overall, banks indicated that there was a decrease in demand for loans or credit lines to enterprises over the past year (a DI of -50%). All sector of economic activity were decrease in the demand for loans in 2020.

Table 5. Demand for loan enterprise in the past year

	Overall	Agriculture	Trade and finance	Industry and manufacturing	Construction	Tourism and services	Transport	Other
Decreased considerably	1	1	1	1	1	1	1	1
Decreased somewhat	2	2	0	1	2	3	1	1
Remained basically unchanged	1	2	3	2	1	1	3	1
Increased somewhat	0	0	1	1	1	0	0	0
Increased considerably	0	0	0	0	0	0	0	0
Diffusion Index	-50	-40	-10	-20	-30	-50	-30	-50

Calculated as net diffusion percentage. The positive values indicate increase of demand, whereas the negative values indicate decrease demand

Factors that contributed to decrease in overall demand for loans or credit lines to enterprises during the past year were lower financing requirements related to fixed investment (a DI of -50%), as the enterprises reducing their investment in the situation of pandemic Covid-19 that increase uncertainty and drop in the economic activity. The decline in the demand for loans was caused as well, for some reason, by effort of the enterprises to use internal financing (a DI of -25%).

Table 6. Factors affecting demand for loan to enterprises

Scale	1	2	3	4	5	Diffusion Index
Financing for fixed investment	1	2	1	0	0	-50
Financing the inventories and working c	1	0	2	2	0	0
Internal financing	1	0	3	0	0	-25
Other factors, please specify	1	0	2	0	0	-33

Calculated as net diffusion percentage. The positive values indicate increase of demand, whereas the negative values indicate decrease demand

In overall, most of reporting banks indicated that they expect to increase in demand for loans or credit line to enterprises in the next year.

3.2. Loans to household for house construction & refurbishment

3.2.1 Credit standard for loans to household for house construction & refurbishment

Banks reported that they have tightened credit standards on loans for house construction & refurbishment.

Factor contributed to tightened credit standards on loans to households for house construction & refurbishment over the past year was the pressure from competition in the banking system (a DI of 38%), and the perception of risk regarding general economic activity (a DI of 25%). Conversely, banks reported that risk on the collateral demanded, contract enforcement, and non-performance loans drive credit standard to ease somewhat in 2020 (a DI of -13%).

Table7. Factor determine credit standard for loans to house construction & refurbishment

	1	2	3	4	5	Diffusion Index
Cost of funds and balance sheet	0	1	2	1	0	0
Pressure from competition in the	0	3	1	0	0	38
Expectations regarding general ec	0	2	2	0	0	25
Industry or firm specific outlook	0	0	3	1	0	-13
Risk on the collateral demanded	0	0	3	1	0	-13
Contract enforcement	0	0	4	0	0	0
Increasing Non-Performing	0	1	1	2	0	-13
Other factors, please specify	0	0	2	0	0	0

Looking forward to 2021 banks expect to eased somewhat of credit standards applied to Loans for house construction & refurbishment (a DI of -13%).

3.2.2 Terms and conditions for loans to household for house construction & refurbishment

Banks' overall terms and conditions for approving new loans to households for house construction or refurbishment were easing somewhat in 2020. This progress was driven by minimized margins on average loans, non- interest rate charges, and collateral demanded. In contrast, bank margin on riskier loans and loans covenant remained basically unchanged.

Table 8. Banks terms and conditions for approving loans to household for construction & refurbishment

Scale	1	2	3	4	5	Diffusion Index
Price						
Your bank's margin on average loans	0	0	3	1	0	-13
Your bank's margin on riskier loans	0	0	4	0	0	0
Other conditions and terms						
· Non-interest rate charges	0	0	3	1	0	-13
· Collateral requirements	0	0	2	1	0	-17
· Loan covenants	0	0	2	0	0	0
· Maturity	0	1	3	0	0	13
Other factors, please specify	0	1	2	3	4	-50

Calculated as net diffusion percentage. The positive values indicate tightened credit standards, whereas the negative values indicate eased credit standards

The results of survey show that factor contributing the easing credit terms and conditions on loans to households for house construction or refurbishment were mainly due to decrease in non-performing loans. Conversely, pressure from competition in the banking system and perception of risk regarding general economic activity contributed to tighten somewhat the credit terms and conditions. The cost of fund and balance sheet, industry or firm specific outlook, risk on the collateral demanded, contract enforcement was basically unchanged.

Table 9. Factor affected credit term and condition for approving loans to household

Scale	1	2	3	4	5	Diffusion Index
Cost of funds and balance sheet	0	1	2	1	0	0
Pressure from competition in the	0	3	1	0	0	38
Expectations regarding general ec	0	2	2	0	0	25
Industry or firm specific outlook	0	0	4	0	0	0
Risk on the collateral demanded	0	1	2	1	0	0
Contract enforcement	0	1	2	1	0	0
Increasing Non-Performing	0	1	1	2	0	-13
Other factors, please specify	0	0	1	0	0	0

Calculated as net diffusion percentage. The positive values indicate tightened credit standards, whereas the negative values indicate eased credit standards

3.2.3. Demand for loans to household for house construction or refurbishment

In 2020, banks reported a decrease in the demand for loans to households for house purchases or reconstruction (a DI of -25%).

Table 10. Demand for loans to household for house construction or refurbishment

	Overall	Loans for house purchase or reconstruction	Consumer credit and other lending
Decreased considerably	1	1	1
Decreased somewhat	1	1	1
Remained basically unchanged	1	1	1
Increased somewhat	1	0	0
Increased considerably	0	0	0
Diffusion Index	-25	-50	-50

Calculated as net diffusion percentage. The positive values indicate increase of demand, whereas the negative values indicate decrease of demand

The decrease in demand for loans to households for house construction or refurbishment over the past year was driven by notably weak of consumer confidence and general level of interest. While, financing need for housing/renovation was contributed to increase in the demand for loans. And, there was unchanged reported by bank for internal finance.

Table 11. Factor affected demand for loans to household for house construction or refurbishment

Scale	1	2	3	4	5	Diffusion Index
Financing needs for housing/ renovator	0	1	1	2	0	13
Consumer confidence	0	2	1	1	0	-13
General level of interest	0	2	1	1	0	-13
Internal finance	0	1	2	1	0	0
Other factors, please specify	0	1	2	0	0	-17

Calculated as net diffusion percentage. The positive values indicate decrease of loan, whereas the negative values indicate increase demand

For next year 2021, banks expect a slight increase in loan demand for house construction or refurbishment (a DI of -25%).

3.3. Loans to household for consumer credit and other lending

3.3.1. Credit standard to household for loans to consumer credit and other lending

In overall, banks reported that they have tightened credit standards on loans for consumer credit and other lending. Most contributing factor to the tightening of credit standards on consumer credit and other lending to households was pressure from competition in the bank, expectation regarding general economic activity and risk on collateral demanded (a DI of 38%, 25%, and 13% respectively). Whereas, banks' contract enforcement, industry or firms' specific outlook and non-performing loans had an easing impact on credit standards.

Table 12. Factor affected credit standard as approval of loans to consumer credit and other lending

	1	2	3	4	5	Diffusion Index
Cost of funds and balance sheet constraints	0	1	2	1	0	0
Pressure from competition in the banking sys	0	3	1	0	0	38
Expectations regarding general economic activ	0	2	2	0	0	25
Industry or firm specific outlook	0	0	3	1	0	-13
Risk on the collateral demanded	0	1	3	0	0	13
Contract enforcement	0	0	3	1	0	-13
Increasing Non-Performing Loans	0	0	2	2	0	-25
Other factors, please specify	0	0	3	0	0	0

Calculated as net diffusion percentage. The positive values indicate tightened credit standards, whereas the negative values indicate eased credit standards

Looking forward to 2021, banks expect to ease somewhat of credit standards applied to Loans for consumer credit and other lending (a DI of -13%).

3.3.2. Terms and conditions for loans to household for consumer credit and other lending

Banks' terms and conditions for new consumer credit and other lending to household were tightened somewhat in 2020. The overall terms and conditions, collateral requirement, size of the loan, and maturity were the main driver of tightened. By contrast, banks report eased somewhat on banks' margin on average loans and non interest rate charges.

Table 13. Banks' terms and conditions for new consumer credit and other lending to household.

	1	2	3	4	5	Diffusion Index
Overall terms and conditions	0	1	3	0	0	13
Your bank's loan margin on avera	0	0	3	1	0	-13
Collateral requirements	0	1	3	0	0	13
Size of the loan	0	1	3	0	0	13
Maturity	0	2	2	0	0	25
Non-interest rate charges	0	0	3	1	0	-13
Other factors, please specify	0	0	2	0	0	0

Calculated as net diffusion percentage. The positive values indicate tightened credit standards., whereas the negative values indicate eased credit standards

Pressure from competition in the banking system and expectation regarding general economic activity were the predominant factor contributed to tightened credit terms and conditions for new consumer credit and other lending to household (a DI of 38% and 25% respectively). Non-performance loans were ease somewhat, while other factors had broadly neutral (unchanged) impact on credit terms and conditions.

Table 14. Factor affected bank terms and conditions as applied to new consumer credit and other lending

	1	2	3	4	5	Diffusion Index
Cost of funds and balance sheet	0	1	2	1	0	0
Pressure from competition in the	0	3	1	0	0	38
Expectations regarding general ec	0	2	2	0	0	25
Industry or firm specific outlook	0	0	4	0	0	0
Risk on the collateral demanded	0	1	2	1	0	0
Contract enforcement	0	0	4	0	0	0
Increasing Non-Performing	0	1	1	2	0	-13
Other factors, please specify	0	0	2	1	0	-17

Calculated as net diffusion percentage. The positive values indicate tightened credit standards., whereas the negative values indicate eased credit standards

3.3.3. Demand for loans to household for consumer credit and other lending

According to banks in Timor-Leste, net demand for consumer credit and other lending to household were decrease in 2020. Factors contributing to the decrease in demand for loans to households for consumer credit and other lending were the weak consumer confidence and low general level of interest. In contrast, financing need for housing/renovation increase somewhat, while alternative finance, such as internal finance, are broadly unchanged.

Table 15. Factor affected demand for loans to household for consumer credit and other lending

Scale	1	2	3	4	5	Diffusion Index
Financing needs for housing/ renovator	0	1	1	2	0	13
Consumer confidence	0	2	1	1	0	-13
General level of interest	0	2	1	1	0	-13
Internal finance	0	1	2	1	0	0

Calculated as net diffusion percentage. The positive values indicate increase in demand, whereas the negative values indicate decrease in demand

The survey shows that, over the next year, two-fifth of the banks expect a slight increase in loan demand for consumer loans and other loans to households, while another two-fifth expect the demand will be remain basically unchanged.

4. Additional questions

4.1. Bank lending interest rate

Result of the survey shows that, two-fifth of the banks reported their effective interest rate or lending rate of around 6-10% and another three-fifth reported at around 11-15%. As regard to their perception on average effective lending rate, three-fifth of the banks stated remained unchanged while two-fifth reported a decrease in lending rate.

Table 16. Average effective lending rate by bank

Average effective lending rate	Banks
0-5%	0
6-10%	2
11-15%	3
16-20%	0
Above 20%	0

Table 17. Average bank lending rate compare to previous year

	Banks
Increase	0
Remain at same level	3
Decrease	2

Reference

1. The Bank Lending Survey in Euro Area. ECB, available from <http://www.ecb.europa.eu/stats/money/surveys/lend/html/index.en.html>.
2. Bank lending survey in Portugal, April 2010. Available from <http://www.bportugal.pt/enUS/EstudosEconomicos/Publicacoes/IBMC/Pages/InqueritoaosBancossobreoMercadodeCredito.aspx>
3. Bank lending survey in Italia, January2003. Available from http://www.bancaditalia.it/statistiche/indcamp/bls;internal&action=_setlanguage.acminilanguage=en
4. Bank lending survey in Latvia, Available from https://www.bank.lv/images/stories/pielikumi/publikacijas/BLS_2014_April_ENG.p
5. The Bank Lending Survey in Euro Area. ECB, Available from <http://www.ecb.europa.eu/stats/money/surveys/lend/html/index.en.html>
6. Bank of Japan (2020), “Senior Loan Officer Opinion Survey on Bank Lending Practices at Large Japanese Banks – October 2020”, 21 October.
7. Berg, J., van Rixtel, A., Ferrando, A., de Bondt, G. and Scopel, S. (2005), “The bank lending survey for the euro area”, Occasional Paper Series, No 23, ECB.
8. De Bondt, G., Maddaloni, A., Peydró, J.-L. and Scopel, S. (2010), “The euro area bank lending survey matters: Empirical evidence for credit and output growth”, Working Paper Series, No 1160, ECB.
9. Bundesbank, D. (2016). Evolution of the Bank Lending Survey since the onset of the financial crisis. Deutsche Bundesbank. Monthly report, July, pp.15-40
10. Köhler, P., Hempell, H., & Scope, S. (2016). *The euro area bank lending survey*. European Central Bank. Occasional Paper Series. No 176/September 2016