



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 2021 and expected trends for 2022. The questionnaire for this period was sent out to the banks on 13th May of 2022 and the responses were received on the 23rd May of 2022. The main objective of this survey is to increase the understanding of bank lending behaviour in Timor-Leste. The questionnaire survey was addressed to senior loan officers at each of the banks in Timor-Leste, containing 25 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 bank credit demand. This survey is conducted once a year.

II. SURVEY METHODOLOGY

The bank lending survey (BLS) is addressed to senior loan officers of all four commercial banks in Timor-Leste and specifically intends to assess trends for the two main loan categories: loans or credit lines to enterprises; and loans or consumer credit to households. For these two categories, the questions enquire on credit standards for approving loans, credit terms and conditions on new loans, credit demand, and the factors affecting loans supply and demand. The survey's questions are generally expressed in terms of changes over the past year or expectations of changes over the next year.

Responses to questions in this report are analysed by focusing on diffusion indexes (DI), which measure the weighted difference between the share of banks reporting tightening credit standards and the share of banks reporting easing standards. Likewise, regarding the demand for loans, the diffusion index refers to the weighted difference between the share of banks reporting an increase in loan demand and the share of banks reporting a decline.

The diffusion index is constructed in the following way: lenders who have answered "tightened considerably" are given a score of 1, tightened somewhat (score 0.5), basically unchanged (score 0), eased somewhat (score -0.5) and eased considerably (score -1). A positive diffusion index means that banks have tightening credit standards, whereas a negative diffusion index means that banks have eased credit standards. The interpretation of demand for credit follows the same logic. Lenders who have answered "increased considerably" are given a score of -1, increased somewhat (score -0.5), basically unchanged (score 0), decreased somewhat (score 0.5), decreased considerably (score 1). The diffusion indexes thus range between -1 to +1. A positive diffusion index means that banks have tightening credit and/or that demand for credit by enterprises and households fell, whereas a negative diffusion index means that banks have eased credit and/or that demand for credit by enterprises and households rose.

III. RESULTS OVERVIEW

3.1 Corporate Loans

The total number of loan applications for enterprises fell -47% to 1,030 clients in 2021, compared to 1,942 clients in the previous year, with the total amount of loans applicants falling -58% to \$18.8 million, compared to \$44.8 million in 2020. Unfortunately, the number of loans approved was also reduced by -51% to 937 clients, compared to 1927 clients in 2020, with the total amount of loans approved falling also -59% to \$16.5 million, compared to \$40.5 million in 2020. Approved loans corresponded to 90.7% of total loan applications, as banks have rejected applications from 93 clients (See table 1).

Table 1 Loans to enterprises

Items	Number of		% change	Amount in U\$ Dollar		% change
	2020	2021		2020	2021	
Loans applicants	1,942.00	1,030.00	-47	44,893,122.29	18,850,094.53	-58
Loans approved	1,927.00	937.00	-51	40,543,112.29	16,565,298.05	-59

Source: BLS 2022

The aggregate results also show that most banks reported unchanged credit standards in the approval of loans or credit lines to enterprises in 2021, in line with expectations expressed in the previous year survey.

In terms of economic activity sectors, credit standards for the agricultural, tourism and services sectors, as well as transportation, trade and finance and construction remained basically unchanged (DI unchanged at 0%). According to the banks, there was no change in credit standards, despite growing risks to economic activity in general and the continued pandemic impact.

Overall, banks expect their credit standards applied to companies to ease slightly in 2022 and especially for the trade and finance, agricultural, trade and financial, industrial and manufacturing, construction, transportation and tourism and services.

In term of companies' demand for loans in the past year, banks indicated that aggregate credit demand fell in 2021. Lower needs for financing fixed corporate investments was the factor that most contributed to the decrease in overall demand for corporate loans. This development seems to be due to the rise in economic activity uncertainties and recent below-trend economic performance, with companies preferring to rely more on internal financing sources for their investment needs.

Most banks indicated that they expect demand for companies credit to rise in the next year (DI=-25%), which should be visible across all industries.

3.2. Household Loans

The total number of applications for loans from households in 2021 increased 56% to 15,165 clients, compared with 9,743 clients in 2020 while its dollar amount rose 692% to \$546.8 million, compared with \$69.1 million in 2020. However the number of approved loans fell -8% to 8,878 clients, compared to 9,613 clients in 2020, but the approved dollar amount rose 3% to \$64.3 million, compared to \$62.2 million in 2020, corresponding to 58.5% of total loan applications (see table 2).

Table 2 Loans to Households

Items	Number of		% change	Amount in US\$ Dollar		% change
	2020	2021		2020	2021	
Loans applicants	9,743.00	15,165.00	56	69,075,434.99	546,868,899.95	692
Loans approved	9,613.00	8,878.00	-8	62,234,254.89	64,286,657.17	3

Source: BLS 2022

Banks reported that they have eased credit standards on loans for house construction and refurbishment and consumer credit over the last year. This was mostly due to higher contract enforcement and decreasing non-performing loans for this category.

Looking forward to 2022, banks expect easier credit standards applied to loans for house construction and refurbishment and general consumer credit, as well as greater demand for this type of credit in 2022.

VI. DETAILED SURVEY RESULTS

4.1 Loans to enterprises

4.1.1. Corporate Loans Credit Standards

Banks reported that credit standards applied to the approval of loans or credit lines to enterprises were remain basically unchanged in 2021 (DI of 0.0%), while credit standards were also basically unchanged for agriculture, trade and finance, industry and manufacturing, construction, tourism and services, and transportation sectors.

Table 3. Changes in credit standards applied to corporate loans over the past year.

Item	Overall	Agriculture	Trade and Finance	Industry and manufacturing	Construction	Tourism and services	Transportation
Tightened considerably	0	0	0	0	0	0	0
Tightened somewhat	0	0	0	0	0	0	0
Remained basically unchanged	5	4	4	4	4	4	4
Eased somewhat	0	0	0	0	0	0	0
Eased considerably	0	0	0	0	0	0	0
Diffusion Index	0	0	0	0	0	0	0

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

Banks reported that this development was mostly due to unchanged risk perceptions in terms of general economic activity (a DI of 40%). The pressures from banking competition, cost of funds and balance sheet constrains, industry or firm specific outlook and risk on the collateral demanded and increasing non-performing loans, mostly explained unchanged credit standards in 2021 (a DI of 20%, 20%,10%, 10%, and 10% respectively). In contrast, banks have eased contract enforcement standards somewhat for corporate loans (a DI of -10%).

Table 4. Factors affecting changes in credit standard applied to enterprises

	1	2	3	4	5	Diffusion Index
Cost of funds and balance sheet constraints	0	2	3	0	0	20
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	1	4	0	0	10
Other factors, please specify	0	0	4	0	0	0

Note: 1=tightened considerably, 2= tightened somewhat, 3= remained basically unchanged, 4=eased somewhat, 5=eased considerably. Calculated as net diffusion percentage. The positive values indicate tightened credit standards, whereas the negative values indicate eased credit standards

Most banks expect their company credit standards to ease somewhat in the next year (2022). In terms of sectors, banks expect to increase loans to trade and finance (diffusion index of -38%) followed by agriculture, construction and tourism and services, whose individual

diffusion indexes were -13%. On the other hand, industry and manufacturing credit is expected to remain unchanged.

Table 5. Company credit standards' expectations for next year

Items	Overall	Agriculture	Trade and finance	Industry and manufacturing	Construction	Tourism and services	Transport
Tighten considerably	0	0	0	0	0	0	0
Tighten somewhat	0	0	0	0	0	0	0
Remain basically unchanged	4	3	1	4	3	3	3
Ease somewhat	1	1	3	0	1	1	1
Ease considerably	0	0	0	0	0	0	0
Diffusion Index	-10	-13	-38	0	-13	-13	-13

Note: Calculated as net diffusion percentage. The positive values indicate tightening credit standards, whereas negative values indicate easier credit standards

4.1.2 Enterprise Loans' Terms and Conditions

Overall, banks reported that their terms and conditions on granting new loans or credit lines to enterprises were tightened in 2021, mostly due to higher bank's margin on average loans, banks margin on riskier loans, collateral requirement and loan agreements (with DIs of 20%, 30%, 20% and 20% respectively).

Table 6. Terms and conditions for loans to enterprises

scale	1	2	3	4	5	Diffusion Index
Price						
Your bank's margin on average loans	0	2	3	0	0	20
Your bank's margin on riskier loans	0	3	2	0	0	30
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	2	3	0	0	20
· Maturity	0	0	5	0	0	0

Note: 1=tightened considerably, 2= tightened somewhat, 3= remained basically unchanged, 4=eased somewhat, 5=eased considerably. Calculated as net diffusion percentage. The positive values indicate tightened credit terms and conditions, whereas the negative values indicate eased credit terms and conditions

This was mostly due to the banking system competition trends, risk perceptions regarding general economic activity, industry or firm specific outlook, and collateral risks, whose DIs were 10%, 40%, 10%, and 10% respectively. Conversely, contract enforcement contributed to reduce company credit's terms, while cost of funds and balance sheet restrictions and non-performing loans remained unchanged.

Table 7. Factors affecting terms and conditions of company credit over the past year

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

Note: 1=tightened considerably, 2= tightened somewhat, 3= remained basically unchanged, 4=eased somewhat, 5=eased considerably
 Calculated as net diffusion percentage. The positive values indicate tightened credit standards., whereas the negative values indicate eased credit standards.

4.1.3 Demand for Enterprise Loans in the past year

Overall, banks indicated that there was a decrease in demand for loans or credit lines to enterprises over the past year (a DI of 17%). This fall in demand was mostly visible for sectors like industry and manufacturing, tourism and services as well as for transportation, whose diffusion indexes were 20%, 20% and 30% respectively. On the other hand, demand for credit was lower for agriculture and fishing, trade and finance and construction, as their diffusion indexes registered -10%, -10% and -30% respectively.

Table 8. Demand for loan enterprises over the past year

	Overall	Agriculture	Trade and finance	Industry and manufacturing	Construction	Tourism and services	Transportation	Other
Decreased considerably	0	0	0	0	0	0	0	0
Decreased somewhat	1	1	1	2	1	2	3	1
Remained basically unchanged	2	3	3	3	2	3	2	3
Increased somewhat	0	0	0	0	0	0	0	0
Increased considerably	0	1	1	0	2	0	0	0
Diffusion Index	17	-10	-10	20	-30	20	30	13

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

This fall in corporate loan demand was mostly due to lower financing requirements for inventories and working capital and higher internal financing (DIs of 20% and 20%). On the other hand, banks eased financing for fixed investments reflected in its DI of -13%.

Table 9. Factors affecting demand for corporate loans

Scale	1	2	3	4	5	Diffusion Index
Financing for fixed investment	0	1	3	0	0	-13
Financing the inventories and working capital	0	0	4	0	1	20
Internal financing	0	0	3	2	0	20
Other factors, please specify	0	0	3	0	0	0

Note (1) = contributed considerably to lower demand, (2)= contributed somewhat to lower demand, (3)= contributed to basically unchanged demand, (4)= contributed somewhat to higher demand, (5)= contributed considerably to higher demand. Calculated as net diffusion percentage. The positive values indicate decrease of demand, whereas the negative values indicate increase demand.

4.1.3. Expectations for Corporate Loans Demand in 2022

Most reporting banks indicated that they expect demand for loans or credit line to enterprises to rise in the next year (DI=-25%), which should be visible across all economic sectors, as their individual DI were all negative.

Table 10. Demand Expectations for loans to enterprises in 2022

	Overall	agriculture	Trade and finance	industry and manufacturing	construction	Tourism and services	Transport	other
Decrease considerably	0	0	0	0	0	0	0	0
Decrease somewhat	0	1	0	0	0	0	0	0
Remain basically unchanged	1	1	0	1	1	1	1	0
Increase somewhat	1	1	2	2	1	2	2	1
Increase considerably	0	0	1	0	1	0	0	0
Diffusion Index	-25	-17	-67	-33	-50	-33	-33	-50

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

4.2. Loans to households

4.2.1. Loans to households for house construction & refurbishment

4.2.1.1 Credit standard for loans to households for house construction & refurbishment

Banks reported that they have eased credit standards on loans for house construction and refurbishment and consumer credit in the last year, as their overall diffusion indexes were -30% and -30%.

Table 11. Credit standards for loans to households

	Overall	Loans for house construction & refurbishment	Consumer credit and other lending
Tightened considerably	0	0	0
Tightened somewhat	0	0	0
Remained basically unchanged	2	2	2
Eased somewhat	1	1	1
Eased considerably	1	1	1
Diffusion Index	-30	-30	-30

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

Easier credit standards on loans to households for house construction and refurbishment over the past year were mostly due to easier contract enforcement (DI=-13%) and decreasing non-performing loans (DI=-13%). On the other hand, banks reported tightening pressures arising from competition in the banking system (a DI of 38%), higher risk perceptions regarding general economic activity (a DI of 25%) and risk on loan collateral (13%).

Table 12. Credit Standards Factors for House construction and refurbishment Loans

	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 system	0	3	1	0	0	38
Expectations regarding general economic activity	0	2	2	0	0	25
Industry or firm specific outlook	0	0	4	0	0	0
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	3	1	0	-13
Other factors, please specify	0	1	1	0	0	25

Note: 1=tightened considerably, 2= tightened somewhat, 3= remained basically unchanged, 4=eased somewhat, 5=eased considerably. Calculated as net diffusion percentage. The positive values indicate tightened credit terms and conditions, whereas the negative values indicate eased credit terms and conditions. Calculated as net diffusion percentage. The positive values indicate tightened credit standards, whereas the negative values indicate eased credit standards

Looking forward to 2022, banks expect to apply easier credit standards in loans for house construction and refurbishment (DI of -13%).

4.2.1.2 Terms and conditions for loans to households for house construction & refurbishment

Banks' overall terms and conditions for approving new loans to households for house construction or refurbishment were tightened in 2021. This was driven by higher bank margins on average loans and riskier loans (DI of 25% and 13%). In contrast, terms like loans covenants, maturities, and non-interest rate charges remained basically unchanged.

Table 13. Banks terms and conditions for approving loans to household for construction and refurbishment

Scale	1	2	3	4	5	Diffusion Index
Price						
Your bank's margin on average loans	0	2	2	0	0	25
Your bank's margin on riskier loans	0	1	3	0	0	13
Other conditions and terms						
· Non-interest rate charges	0	0	4	0	0	0
· Collateral requirements	0	0	3	1	0	-13
· Loan covenants	0	0	4	0	0	0
· Maturity	0	0	3	0	0	0
Other factors, please specify	0	0	2	0	0	0

Note: 1=tightened considerably, 2= tightened somewhat, 3= remained basically unchanged, 4=eased somewhat, 5=eased considerably. Calculated as net diffusion percentage. The positive values indicate tightened credit terms and conditions, whereas the negative values indicate eased credit terms and conditions. Calculated as net diffusion percentage. The positive values indicate tightened credit standards, whereas the negative values indicate eased credit standards

The results of survey further show that tightening credit terms and conditions on loans to households for house construction or refurbishment were mainly due to higher pressures arising competition in the banking system and risk on demanded collateral (DI=13% and 13%). The remaining credit terms' factors remained unchanged.

Table 14. Factors affecting credit terms and conditions for approving loans to households

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

Note: 1=tightened considerably, 2= tightened somewhat, 3= remained basically unchanged, 4=eased somewhat, 5=eased considerably. Calculated as net diffusion percentage. The positive values indicate tightened credit terms and conditions, whereas the negative values indicate eased credit terms and conditions. Calculated as net diffusion percentage. The positive values indicate tightened credit standards, whereas the negative values indicate eased credit standards

4.2.1.3. Demand for loans to households in the past year

In 2021, banks reported an increase in the demand for loans to households for house purchases or reconstruction and consumer credit, whose DIs were both -25%.

Table 15. Demand for loans to household for house construction or refurbishment and consumer credit

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

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

The increase in the demand for loans to households for house construction or refurbishment over the past year was driven by higher financing need for housing/renovation and lower internal funding for households. Simultaneously, consumer confidence and general level of interest factors remained unchanged.

Table 16. Factors affecting the demand for loans to households for house construction or refurbishment

Scale	1	2	3	4	5	Diffusion Index
Financing needs for housing/ renovation	0	0	2	1	1	38
Consumer confidence	0	1	2	1	0	0
General level of interest	0	1	2	1	0	0
Internal finance	0	0	3	1	0	13
Other factors, please specify	0	0	2	0	0	0

Note: : (1) contributed considerably to lower demand", "(2) contributed somewhat to lower demand", "(3) contributed to basically unchanged demand", "(4) contributed somewhat to higher demand" and "(5) contributed considerably to higher demand" and (NA) not applicable.

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

4.2.2. Loans to households for consumer credit and other purposes

4.2.2. 1. Household Loans Credit Standards for consumer credit and other lending

Banks reported that they have tightened credit standards on loans for consumer credit and other lending, mostly due to higher cost of funds and balance sheet constraints, pressure from bank competition, expectation regarding general economic activity, industry or firm specific outlook, risk on collateral demanded and increasing non-performing loans (whose DIs were 13%, 25, 13%, 13%, 13% and 13% respectively). Note also that only the contract enforcement factor remained unchanged in 2021.

Table 17. Factors affecting credit standards in the approval of consumer credit and other lending.

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

Note: (1) tightened considerably”, “(2) tightened somewhat”, “(3) remained basically unchanged”, “(4) eased somewhat” and “(5) eased considerably”. Calculated as net diffusion percentage. The positive values indicate tightened credit standards, whereas the negative values indicate eased credit standards.

Looking forward to 2022, banks expect to ease somewhat their credit standards applied to consumer credit and other lending (DI of -13%).

4.2.2.2 Terms and conditions for loans to households for consumer credit and other lending

Banks’ terms and conditions for new consumer credit and other lending to households were tightened in 2021. The overall terms and conditions, banks loan margins on average loans and collateral requirement were the respective main drivers (DI=13% and 13%) of this trend. In contrast, banks reported unchanged loan sizes, maturity and non-interest rate charges.

Table 18. Banks’ terms and conditions for new consumer credit and other lending to households

	1	2	3	4	5	Diffusion Index
Overall terms and conditions	0	1	3	0	0	13
Your bank’s loan margin on average loans	0	1	3	0	0	13
Collateral requirements	0	1	3	0	0	13
Size of the loan	0	0	4	0	0	0

Maturity	0	0	4	0	0	0
Non-interest rate charges	0	0	4	0	0	0
Other factors, please specify	0	0	2	1	0	-17

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

Pressure from the banking system competition, risk on demanded collateral and increasing non-performing loans were the factors that most contributed to tightened credit terms and conditions for new consumer credit and other lending to household (DIs of 13% 13%, 13% respectively). Most other factors remained broadly neutral, or unchanged.

Table 19. Factor affecting bank terms and conditions applied to new consumer credit and other lending.

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

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

4.2.2.3. Demand for Loans to Households - Expectations for 2022

Banks expect overall households' demand for loans to rise again in 2022, as the global diffusion index was -63%. As already noted before, this rise should be due to higher household demand for credit for both housing construction and refurbishment as well as higher consumer credit in 2022.

Table 20. Households Credit Demand Expectations

	Overall	Loans for house purchase or reconstruction	Consumer credit and other lending
Decrease considerably	0	0	0
Decrease somewhat	0	0	0
Remain basically unchanged	0	0	0
Increase somewhat	3	3	3
Increase considerably	1	1	1
Diffusion Index	-63	-63	-63

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

3.3. Bank Lending Interest Rates

The survey also showed that 3 of banks reported annual lending rate ranging from 11% to 15%, while one bank reported substantially lower lending rates of between 6% and 10%. In terms of previous year comparisons, 2 banks reported unchanged lending rates, while the other 2 reported lower lending rates in 2021.

Table 21. Average Bank Lending Rates

Average effective lending rate	Banks
0-5%	0
6-10%	1
11-15%	3
16-20%	0
Above 20%	0

Table 22. Bank Lending Rates compared to the previous year

	Banks
Increase	0
Remain at same level	2
Decrease	2

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