



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 detailing developments in 2023 and expected trends for 2024. The questionnaire for this period was sent to the banks on June 4, 2024, and the responses were received by 18 June of 2024. The main objective of this survey is to enhance the understanding of bank lending behaviour in Timor-Leste. The questionnaire survey was addressed to senior loan officers at each of the bank 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 annually.

II. SURVEY METHODOLOGY

The bank lending survey (BLS) is addressed to senior loan officers of all five commercial banks in Timor-Leste and specifically intends to assess trends for 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 and 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 range between -1 to +1. A positive diffusion index indicates that banks have

tightening credit and/or that demand for credit by enterprises and households has decreased. Conversely, a negative diffusion index indicates that banks have eased credit and/or that demand for credit by enterprises and households has increased.

III. Loans to enterprises and household

3.1 Loans to enterprises

The total number of loan applications for enterprises decreased by 5%, from 1,089 clients in 2022 to 1,035 clients in 2023. However, the total amount of loans applications increased by 192.7%, rising from \$41.9 million in 2022 to \$122.6 million in 2023. The number of approved loans also decreased by 4.6%, from 1,007 clients in 2022 to 961 clients in 2023, while the total amount of approved loans increased by 194.8% to \$120.3 million in 2023, from \$40.8 million in 2022. (See table 1).

Table 1 Loans to enterprises

Items	Number of		% change	Amount in U\$ dollar		% change
	2022	2023		2022	2023	
Loans applicant	1089	1,035	-4.96	41,896,923.60	122,623,095.14	192.7
Loans approved	1007	961	-4.57	40,805,912.67	120,314,588.00	194.8

Source: Bank Lending survey 2023

3.1.1. Enterprises Loans Credit Standards

Overall, banks reported that the credit standards for approving loans or credit lines to enterprises eased in 2023 with a diffusion index (DI) of -10%. The sectors that experienced eased credit standards included agriculture (-10%), industrial and manufacturing (-10%), construction (-10%), tourism and services (-10%), and transportation sectors (-10%). Credit standards also eased somewhat for trade and finance sectors (-10%).

Table 2. 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	4	3	3	3	3	3	3
Eased somewhat	1	1	1	1	1	1	1
Eased considerably	0	0	0	0	0	0	0
Diffusion Index	-10	-10	-10	-10	-10	-10	-10

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

3.1.2. Factors affecting changes in credit standard applied to enterprises

Banks report that the easing of credit standards is primarily due to competitive pressures within the banking system. Meanwhile, other factors continue to tighten, such as cost of funds, balance sheet constraints, perceptions of economic activity, an increase in non-performing loans and the risk of collateral demand. (see table 3)

Table 3. Factors affecting changes in credit standard applied to enterprises

Items	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	0	2	3	0	-30
Perception of risk regarding general economic activity	0	2	2	1	0	10
Industry or firm specific outlook	1	1	3	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	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

3.1.3. Credit terms and conditions for Enterprises

Overall, banks report that their terms and conditions for providing new loans or lines of credit to companies are tightening in 2023. This is due to risks related to collateral demands (with a diffusion index of 20%), an increase in non-performing loans (DI of 20%), and general economic activity (DI of 10%). Meanwhile, banks consider other factors to have remained unchanged.

Table 4. Terms and conditions for loans to enterprises

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	3	1	0	0
Perception of risk regarding general economic activity	0	2	2	1	0	10
Industry or firm specific outlook	1	0	4	0	0	0
Risk on the collateral demanded	0	2	3	0	0	20
Contract enforcement	0	0	5	0	0	0
Increasing Non-Performing Loans	0	2	3	0	0	20

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

3.1.4 Demand for loans in the past year (2023)

Overall, banks reported an increase in demand for loans or credit lines to enterprises over the past year (a DI of -13%). The increase in demand was notable in sectors such as agriculture, trade and finance, industry and manufacturing, tourism, and service, with diffusion index of -

10%, -20% and -20%, respectively. On the other hand, credit demand is lower for construction and transportation sectors, as well as services, with DIs of +20 and 13%.

Table 5. Demand for loan enterprises over the past year

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

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

3.1.5. Factor affecting demand for loan enterprise in the past year

Overall, banks reported the increase in Enterprise loan demand was primarily driven by financing needs for inventories and working capital, and internal financing, with DIs of -33% and -20%, respectively. On the other hand, banks have tightened financing for fixed investments.

Table 6. 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	1	1	3	1	-33
Internal financing	0	0	3	2	0	-20
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, (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.

3.1.6. Expectations for Enterprises Loans Demand in next year (2024)

Most of the reporting banks indicated that they expect demand for loans or lines of credit for companies to increase in 2024 (DI=-30%), which can be seen across all sectors of the economy, with all DIs being negative except for agriculture, which remains unchanged.

Table 7. Demand Expectations for loans to enterprises in 2024

Items	Overall	agriculture	Trade and finance	Industry and manufacturing	construction	Tourism and services	Transport
Decreased considerably	0	0	0	0	0	0	0
Decreased somewhat	0	2	0	0	0	0	0
Remained basically unchanged	2	1	2	3	1	2	3
Increased somewhat	3	2	3	2	4	3	2
Increased considerably	0	0	0	0	0	0	0
Diffusion Index	-30	0	-30	-20	-40	-30	-20

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

3.2. Loans to households

The total number of loan applications from households in 2023 decreased by 0.52% to 18,537 clients, compared to 18,633 clients in 2022, while the dollar amount rose by 0.03% to \$132.3 million, compared to \$132.2 million in 2022. However, the number of approved loans fell by 1.15% to 12,864 clients, compared to 13,013 clients in 2022, and the approved loan in dollar amount decreased by -2.87% to \$120.3 million, compared to \$123.8 million in 2022 (see table 8).

Table 8. Loans to Households

Items	Number of		% change	Amount in U\$ dollar		% change
	2022	2023		2022	2023	
Loans applicant	18633.00	18537	-0.52	132248358.96	132,291,912.00	0.03
Loans approved	13013.00	12864	-1.15	123840885.18	120,288,493.00	-2.87

Source: BLS 2023

3.2.1. Credit standard for loans to households for house construction & refurbishment and consumer credit

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

Table 9. Credit standards for loans to households

Items	Overall	Loans for house construction & refurbishment	Consumer credit and other lending
Tightened considerably	0	0	0
Tightened somewhat	0	0	0
Remained basically unchanged	1	1	1
Eased somewhat	3	3	3
Eased considerably	0	0	0
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

3.2.2.1 Factor affecting credit standard for loans to households for house construction & refurbishment.

The easing of credit standards on loans to households for house construction and refurbishment over the past year was primarily due to easier cost of fund and balance sheet constrains, with DI of -25%. On the other hand, banks reported tightening due to general economic activity, risk related collateral demands and an increase in non-performing loans (DI of 13%,13 and 13%). Meanwhile, competition in the banking system, industry, or firm specific outlooks, and contract enforcement remained unchanged, with DI of 0%.

Table 10. Factors Affecting Credit Standards for House construction and refurbishment Loans

Items	1	2	3	4	5	Diffusion Index
Cost of funds and balance sheet constraints	0	0	2	2	0	-25
Pressure from competition in the banking system	0	1	2	1	0	0
Expectations regarding general economic activity	0	1	3	0	0	13
Industry or firm specific outlook	1	0	3	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	2	1	1	0	13

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

3.2.2.2. Factor affecting Credit standard for consumer credit and other lending

The tightening of credit standards on loans to households for consumer credit and other lending over the past year was mainly due to increased non-performing loans, firm specific industry outlook, expectations regarding general economic activity, risk related to collateral demands and pressure from competition in the banking system, with diffusion index of 25, 25, 13, 13 and 13, respectively. Meanwhile, banks reported unchanged in cost of fund and balance sheet contains, and contract enforcement, with DI of 0%.

Table 11. Factors Affecting Credit Standards for Consumer Credit and other lending

Items	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	1	3	0	0	13
Industry or firm specific outlook	1	0	3	0	0	25
Risk on the collateral demanded	0	1	3	0	0	13
Contract enforcement	0	0	4	0	0	0
Increasing Non-Performing Loans	0	2	2	0	0	25
Other factors, please specify	0	0	3	0	0	0

3.2.3. Credit terms and conditions

3.2.3. 1 Terms and conditions for loans to households for house construction & refurbishment

In 2023, banks tightened their overall terms and conditions for approving new loans to households for house construction or refurbishment. This was driven by increased non-performing loans, industry or firm specific outlook, risk on the collateral demanded and pressure from competition in banking system (DI of 25,25%,13 and 17%).

Table 12. Banks terms and conditions for approving loans to household for construction and refurbishment

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	2	0	0	17
Expectations regarding general economic activity	0	1	2	1	0	0
Industry or firm specific outlook	1	0	3	0	0	25
Risk on the collateral demanded	0	1	3	0	0	13
Contract enforcement	0	0	4	0	0	0
Increasing Non-Performing Loans	0	2	2	0	0	25
Other factors, please specify	0	0	3	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 expectation regarding general economic activity and industry or firm specific outlook (DI of 13% and 13%). Meanwhile, banks have made it easier on the cost of funds and balance sheets constraints and non-performing loans (DI of -13 and -13), and others remained unchanged.

Table 12. 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	3	1	0	-13
Pressure from competition in the banking system	1	0	1	2	0	0
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	0	4	0	0	0
Contract enforcement	0	0	4	0	0	0
Increasing Non-Performing Loans	0	0	3	1	0	-13

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.

3.2.3. 2 Terms and conditions for loans for consumer credit and other lending

In 2023, banks tightened the terms and conditions for providing new consumer credit and other loans to households. Overall terms and conditions, bank loan margins on average loans and collateral requirements are the main driving factors, with DI 13%, 13% and 13%, respectively. In contrast, the banks reported no changed in loan size, maturity, and non-interest rate costs, each with DI of 0%.

Table 13. 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 general economic activity were the factors that contributed to tightened credit terms and conditions for new consumer credit and other lending to household, with diffusion index (DI) of 13%. In contrast, factors such as cost of fund and balance sheet constrains, competition within the banking system, and non-performance loans had a mitigating effect, with DIs of -13%, -25%, and -13%, respectively. Other factors remained broadly neutral or unchanged.

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

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

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

3.2. 4. Demand for loan to Households in the past year (2023)

In 2023, banks reported an increase in the demand for loans to households for house purchases or reconstruction, as well as for consumer credit, whose DIs were both -30%, respectively.

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

Scale	Overall	Loans for house purchase or reconstruction	Consumer credit and other lending
Decreased considerably	1	1	1
Decreased somewhat	0	0	0
Remained basically unchanged	0	1	0
Increased somewhat	3	3	3
Increased considerably	0	1	1
Diffusion Index	-13	-25	-30

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 needs for housing/renovations and internal funding for households, consumer confidence and general level of interest, with DI of -63%, -38%, -25% and -25%, respectively.

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

Items	1	2	3	4	5	Diffusion Index
Financing needs for housing/ renovation	0	0	0	3	1	-63
Consumer confidence	0	0	2	1	1	-38
General level of interest	0	0	2	2	0	-25
Internal finance	0	0	2	2	0	-25

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.

3.2.5. Demand for Loans to Households - Expectations for 2024

Banks expect an overall households' demand for loans to rise again in 2024, as the global diffusion index was -63%. This expectation is based on strong demand for credit for both housing construction and refurbishment, as well as higher consumer credit in 2023, with DI of -63% and -50%, respectively.

Table 17. Households Credit Demand Expectations

Scale	Overall	Loans for house purchase or	Consumer credit and other lending
Decrease considerably	0	0	0
Decrease somewhat	0	0	0
Remain basically unchanged	0	0	1
Increase somewhat	3	3	2
Increase considerably	1	1	1
Diffusion Index	-63	-63	-50

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 revealed that three banks reported annual lending rates ranging from 6 to 10%, while two other banks reported lending rates range between 11% and 15% in 2023 (see table 18). In comparison to the previous year, table 19 shows that three banks reported maintained unchanged lending rates, while the other two reported lower rates in 2023.

Table 18. Average bank lending Rates

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

Table 19. Bank Lending Rates compared to the previous year

	Banks
Increase	0
Remain at same level	3
Decrease	2

3.4. Factor affecting Commercial Bank Lending Rate

Commercial bank interest rates play a crucial role in the progress and development of various entrepreneurial activities. It is important to identify the factors that influence lending rates within a well-established and regulated banking sector. In Timor-Leste, there is no specific interest rate policy due to dollarization. The loan interest rates offered by banks are influenced by several factors. In general, factors considered to calculate lending rates from banks can be seen in the table below.

Table 20. Factor affecting commercial bank Lending Rate

Factor and its determinant
Cost of fund (saving deposit)
profit margin
The risk of bad loan reserve
Operational cost
Tax
Required yield
Risk Premium

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