



REPORT BANK LENDING SURVEY

CENTRAL BANK OF TIMOR-LESTE

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Contents

I. Introduction	3
II. Methodology of the Survey	3
III. Recent developments in credit standard, term conditions, demand for loans in 2016 and expectation for 2017	4
3.1. Loans to enterprises	4
3.2. Loan to household's construction & refurbishment and consumer credit	7
VI. Interest rate and it factor determinant	10
References	11
Annex 1. Result of recapitulation bank lending	12

I. Introduction

This paper reports the results of bank lending survey (BLS) related to the changes during the year of 2016 and expectations for the year of 2017. This Bank Lending Survey is a qualitative survey for the assessment of credit developments in Timor-Leste. The survey was conducted in mid-February 2017 by the Economics and Statistics Division. The Bank lending survey serves as an important tool in the analysis of bank lending conditions in Timor-Leste, with the mean to enhance the understanding of information on financing conditions or bank lending behavior in Timor-Leste. The analysis will be more specific look at the development trend of credit standards, determinants of credit, terms and conditions of the bank, loan demand and expectations of demand in 2017 for loans to companies and households.

II. Methodology of the survey

The bank lending survey (BLS) is addressed to senior loan officers of all four commercial banks in Timor-Leste. The questionnaire is design to distinguish between two loan categories: loans or credit lines to enterprises; and loans or consumer credit to households. For these two categories, questions are asked on credit standards for approving loans, credit terms and conditions on new loans, credit demand, and the factors affecting loan supply and demand conditions.

The survey questions are generally express in terms of changes over the past year or expectations of changes over the next year. Responses to questions in this report are analyzed by focusing on the diffusion index, measure the weighted difference (“diffusion index”) between the share of banks reporting that credit standards have been tightened and the share of banks reporting that they have been eased. 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 answer tightened considerably are given (score 1), tightened somewhat (score 0.5), basically unchanged (score 0), eased somewhat (score -0.5) and eased considerably (score -1). A positive diffusion index meaning that banks have tightening credit standards , whereas a negative diffusion index meaning that banks have eased credit standards.

The interpretation of demand for credit follows the same logic. Lenders who have answers increased considerably (score -1), increased somewhat (score-0.5), basically unchanged (score 0), decreased somewhat (score 0.5), decreased considerably (score 1). Diffusion index range between -1 to +1. A positive diffusion index meaning

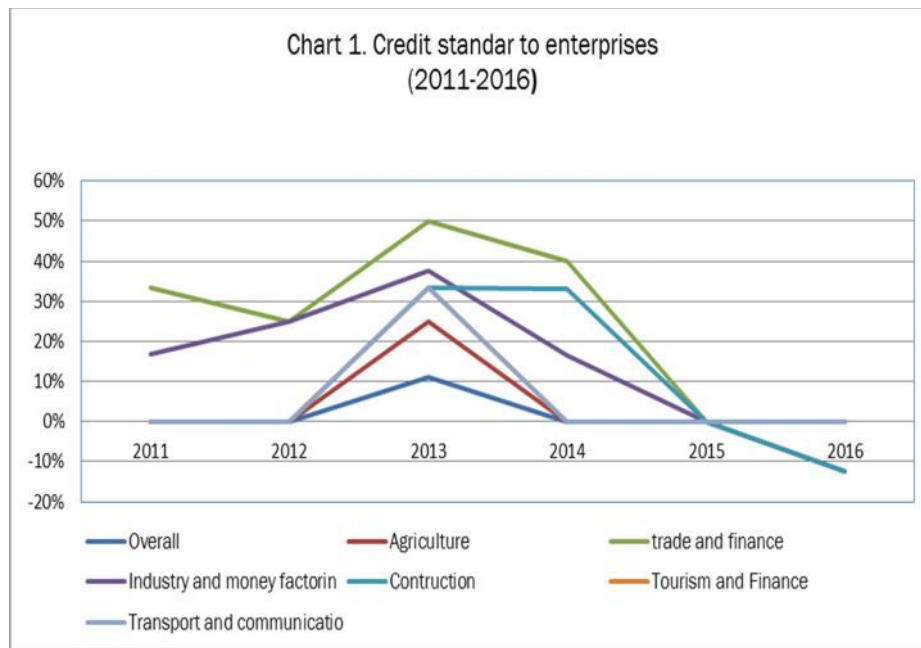
that banks have tightening credit and /or demand for credit by enterprise and household are decrease, whereas a negative diffusion index meaning that banks have eased credit and/or demand for credit by enterprises and households are increase.

III. Recent Developments in credit standard, term conditions, demand for loan and expectation for 2017

3.1 Loans to enterprises

3.1.1 Credit standard for loans to enterprises

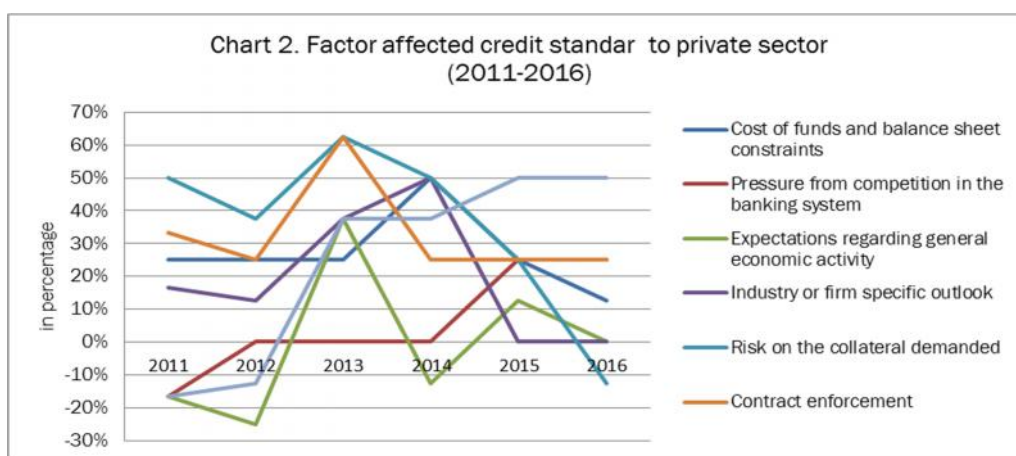
According to bank lending survey 2017, credit standard (internal guidelines) for loan to private sector, in overall, was reported as unchanged (0.0%) in 2016, and is expected to continue unchanged in 2017. The agriculture sector, tourism & services, transportation & communication were reporting with the diffusion index unchanged of 0.0%, from 0.0% recorded in the previous year. While, industry and manufacturing and construction sector are eased somewhat with diffusion index of minus 13% in 2016, compare with unchanged (0.0%) in previous year. (See chart 1 and table 4).



Source: bank lending survey, 2017

Factor determine credit standard to enterprises

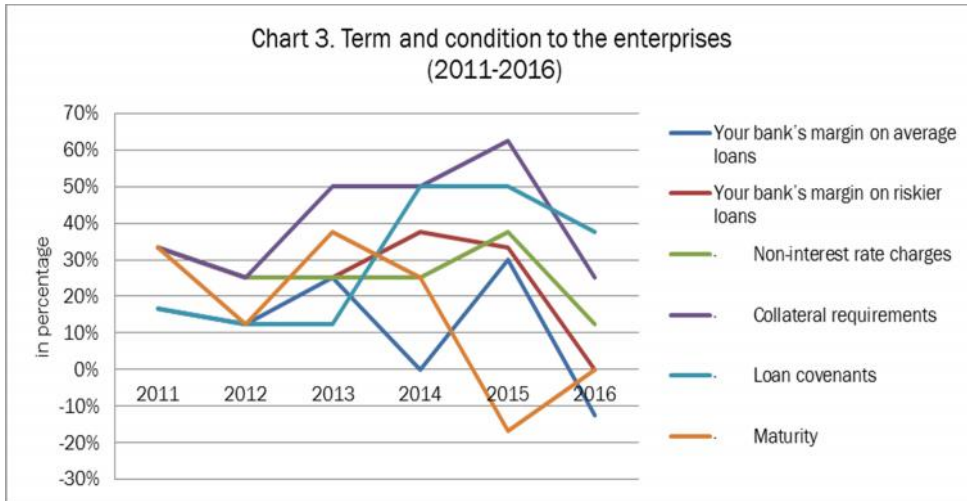
Non- performing loans, contract enforcement, pressure from competition in the banking system are continued to be the main factors reported as unchanged on credit availability. This is shown by the high net diffusion index in non-performing loans of 50%, unchanged from the previous year. This behavior is followed by contract enforcement and pressure from competition in the banking system (25%), unchanged from previous year. Cost of funds and balance sheet constraints slightly decrease, reduced by 13%, from 25% observed in 2015. While, risk on the collateral demanded eased somewhat for loans to enterprises (-13%, from 25%). Other factors are not change, 0.0% (See chart 2 and table 4 in annex).



Source: bank lending survey, 2017

3.1.2 Credit conditions

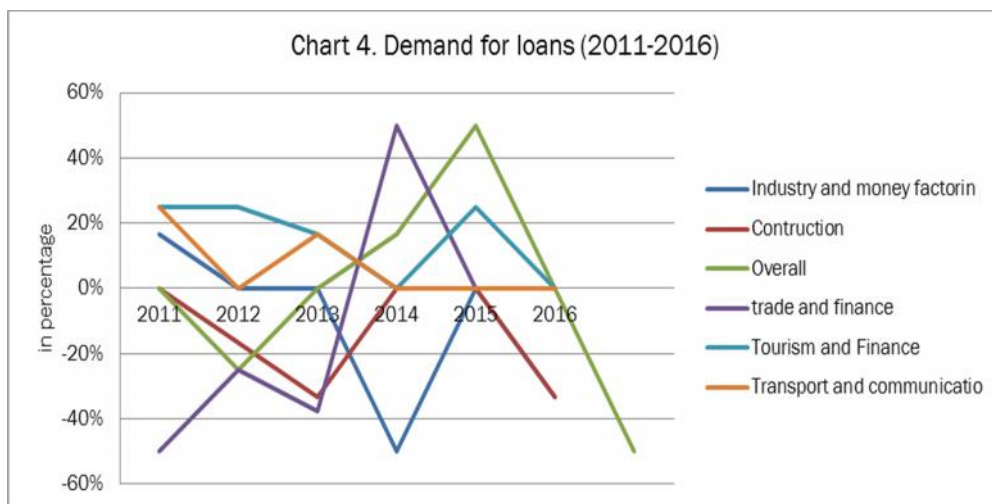
Banks terms and conditions that applied to the private sector when granting new loans was reported as continued improvement, this is indicated by lower diffusion index compared with previous year. Diffusion index of banks reporting on their non-interest rate charges, for instance, represent only 13%, compared to 38% observed in previous year. Collateral requirements perform 25%, down from 63%, Loan covenants made 38%, which has reached 50%. In term of banks margin on average loans, banks has ease somewhat, represent a reduction in the diffusion index of 13%, compared to 30% recorded in previous year. While, banks margins riskier on loans and maturity are unchanged (0.0%), from 50%.



Source: bank lending survey, 2017

3.1.3 Demand for loans

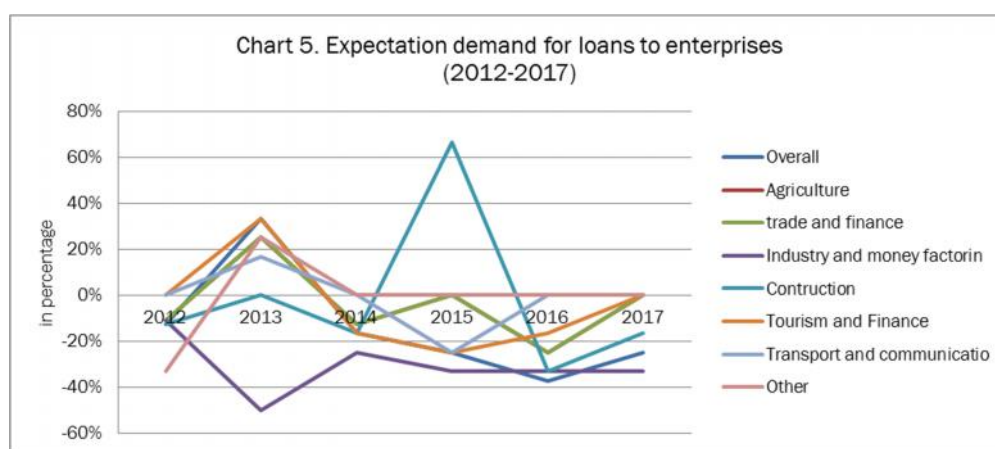
Banks have reported that they had accepted the increase in demand for loan to construction, industry and manufacturing. This performance indicated by the negative sign of the diffusion index of -33% in 2016, from 0.0% in 2015. While, the other sectors such as agriculture, trade & finance, transport and communication and other were not change (0.0%). (See chart 4 and table 4 on annex).



Source: bank lending survey, 2017

3.1.4 Expectation demand for loans to enterprises

In Overall, banks expected that the demand for loan will continue to increase somewhat in 2017, despite a slight decline in the diffusion index (-25%, down from -38%). This is indicated by the increase in the demand for loans by agriculture (-25%), industry and manufacturing (-33%), trade and finance (-17%), and construction (-17%). In the other side, transport and communication and others are expected to unchanged in 2017. This increase in the demand for loans is according with 2015's bank lending survey, which banks reported that they would accept the increase in demand for loans in 2016. (See chart 5 and table 3 on annex).

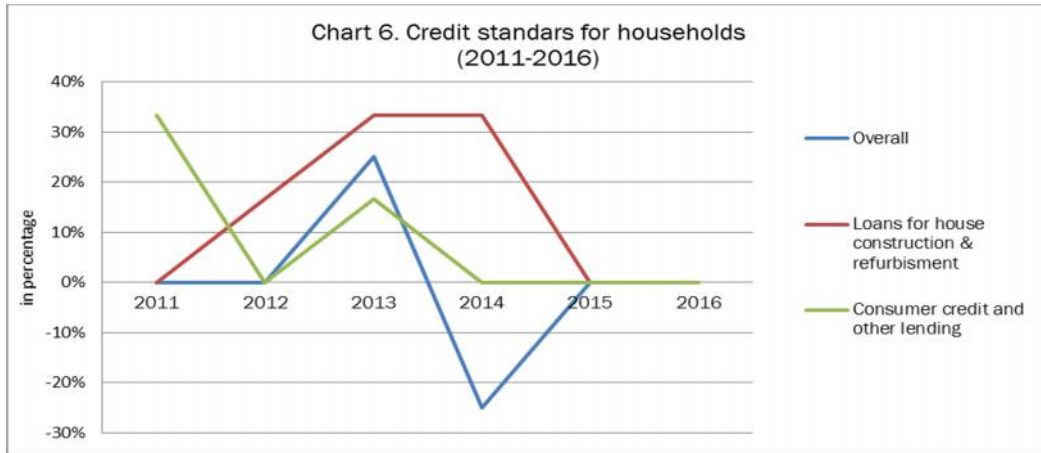


Source: bank lending survey, 2017

3.2 Loans or credit to households.

3.2.1 Credit standard for Loans to house construction& refurbishment

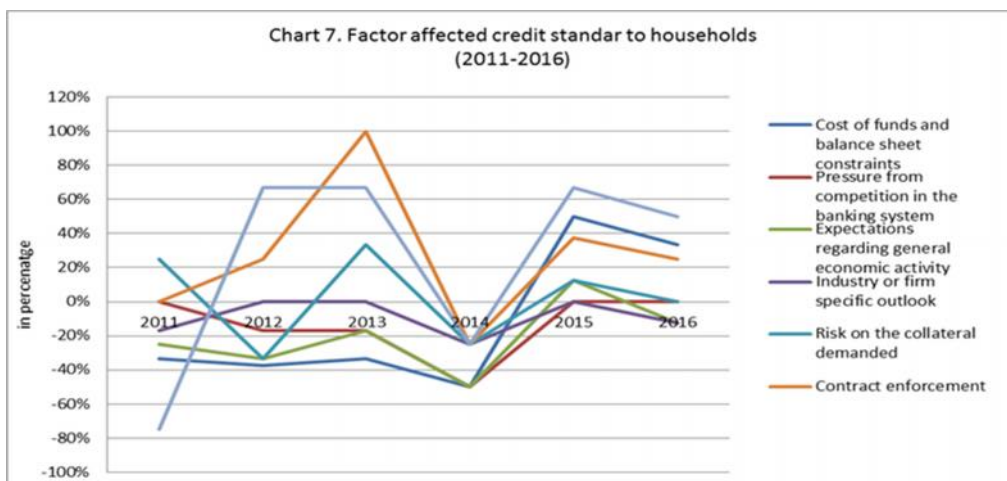
In 2016, credit standard for loans to household's construction & refurbishment and consumer credit continued to unchanged (0.0%, compare with 0.0% in previous years) (See chart 6 and table 4 in annex).



Source: bank lending survey, 2017

Factors determinant of credit standard to house construction& refurbishment

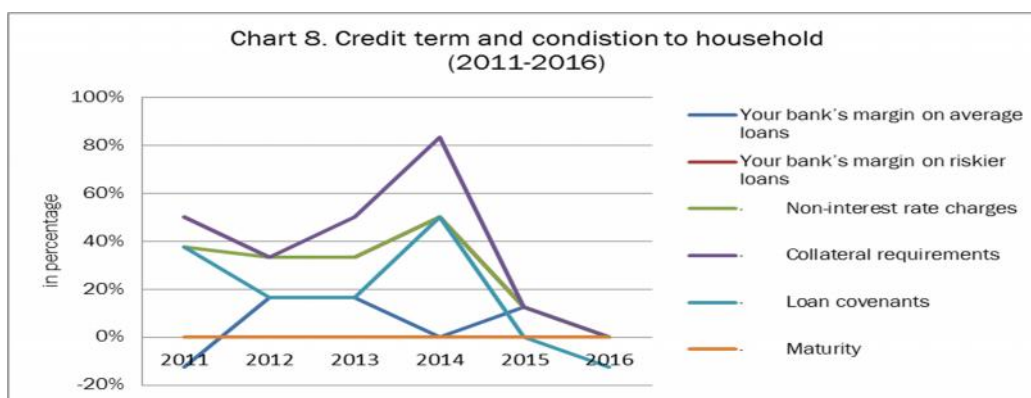
Important factors that contributed to the unchanged in the credit standard were the non-performing loans, cost of funds and balance sheet constraints contract enforcement. Non-performing loans diffusion index is higher compare with the other factors, reached 50%, however slightly lower than previous year (67%). This performance are followed by cost of funds and balance sheet constraints (33%, down from 50%), contract enforcement (25, down from 38%). While, the expectations regarding general economic activity was of -13, and industry or firm specific outlook -13%. On the other side, the pressure from competition in the banking system unchanged (0.0%). (See chart 7 and table 4 in annex).



Source: bank lending survey, 2017

3.2.2 Credit conditions

As shown in graph 8 and table 1 at the annex, banks reported that they did not change the terms and conditions applicable to households in 2016 compared with the previous year. Factors that caused change in the terms and conditions to not change were non-interest expense (0.0, from 13%), bank margins on riskier loans (0.0, from 13%), bank margins on average loans (0.0%, from 13%) , collateral requirements (0.0%, form 13%), and the maturity (0.0, from 0.0). While, loan covenants with diffusion index -13 %, change from 0.0 %).(See chart 8 and table 4 in annex).



Source: bank lending survey, 2017

3.2.3 Expectation Demand for loans

Overall, banks expected that the demand for loans in 2017 would increase, with the increase in the diffusion index of -38%, raised form -25%. Followed by expectation to increase in demand for loans to household construction and refurbishment and consumer credit and other with diffusion index -33%, compare with (-17%) in the previous year. (See chart 9 and table 4 in annex)



Source: bank lending survey, 2017

VI. Interest rate and its determinant

4.1 Interest rate

Based on the survey, two banks stated that the effective interest rates, or lending rate, were about 6-10% and two banks about 11-15%.

Table.1 Average affective of landing rate

Average Effective Interest Rate(%)	Banks
0-5%	
6-10%	2
11-15%	2
16-20%	
Above 20%	

4.2 Margin rate (lending rate and deposit)

Margin rate is difference between lending rate and deposit rate at the commercial banks. Banks state that the average margin rate was ranged between 8%-9.50%

4.3 Factor determinant base lending rate on commercial bank

Banks have different set of base lending rates and there are some fundamental factors that are considering as calculation of the base lending rate. The most important factor that commercial banks use to calculate base lending rate are summarize in table 2

Table 2. Factor that take into consideration when determine base lending rate.

Other factor and it determinant
Credit risk
The market (competition and demand)
Liquidity
Collateral law
The risk of bad loan reserve (provision for loan losses)
Operational cost
Tax
Cost of loanable fund
Risk premium
Expected return

4.4. Other factor determinant credit

Commercial banks said that they would like to increase the amount of credit to the economy but it should be resolved problems related to credit guarantees such as those in the table below.

Table 3. Other important factor that determine credit

Factor important to increase the amount of credit
Establish and issued the land law
Insolvency law
Collateral law as a crucial law of infrastructure that yet still unavailable

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Annex: Table 4. Result of recapitulation bank lending 2011-2016)

To calculate aggregate results, each lender is assigned a score based on their response. Lenders who have answer tightened considerably are given (score 1), tightened somewhat (score 0.5), basically unchanged (score 0), eased somewhat (score -0.5) and eased considerably (score -1). A positive diffusion index meaning that banks have tightening credit standards , whereas a negative diffusion index meaning that banks have eased credit standards.

Items	By sector	Diffusion Index (%)					
		2011	2012	2013	2014	2015	2016
1.Credit to private sector							
Credit Standar(Overall	0%	0%	11%	0%	0%	0%
	Agriculture	0%	0%	25%	0%	0%	0%
	trade and finance	33%	25%	50%	40%	0%	0%
	Industry and money factorin	17%	25%	38%	17%	0%	-13%
	Contruction	0%	0%	33%	33%	0%	-13%
	Tourism and Finance	0%	0%	33%	0%	0%	0%
	Transport and communicatio	0%	0%	33%	0%	0%	0%
	Other	0%	0%	25%	-17%	0%	0%
Factor affected credit standar	Cost of funds and balance sheet constraints	25%	25%	25%	50%	25%	13%
	Pressure from competition in the banking system	-17%	0%	0%	0%	25%	25%
	Expectations regarding general economic activity	-17%	-25%	38%	-13%	13%	0%
	Industry or firm specific outlook	17%	13%	38%	50%	0%	0%
	Risk on the collateral demanded	50%	38%	63%	50%	25%	-13%
	Contract enforcement	33%	25%	63%	25%	25%	25%
	Increasing Non-Performing Loans	-17%	-13%	38%	38%	50%	50%
	Other factors, please specify	0%	0%	63%	-13%	0%	0%
bank conditions and term	Your bank's margin on average loans	17%	13%	25%	0%	30%	-13%
	Your bank's margin on riskier loans	33%	25%	25%	38%	33%	0%
	Other conditions and terms						
	· Non-interest rate charges	33%	25%	25%	25%	38%	13%
	· Collateral requirements	33%	25%	50%	50%	63%	25%
	· Loan covenants	17%	13%	13%	50%	50%	38%
	· Maturity	33%	13%	38%	25%	-17%	0%
Demand for loans	Overall	-25%	0%	17%	50%	0%	-50%
	Agriculture	17%	0%	0%	0%	0%	0%
	trade and finance	-50%	-25%	-38%	50%	0%	0%
	Industry and money factorin	17%	0%	0%	-50%	0%	-33%
	Contruction	0%	-17%	-33%	0%	0%	-33%
	Tourism and Finance	25%	25%	17%	0%	25%	0%
	Transport and communicatio	25%	0%	17%	0%	0%	0%
	Other	-11%	-17%	-17%	-25%	0%	0%
Factor affected demand for loans	Financing for fixed investment	-33%	0%	-13%	-25%	-25%	33%
	Financing the inventories and working capital	-50%	50%	-38%	-50%	-30%	-25%
	Internal financing	0%	33%	-25%	-50%	25%	17%
Epectations							
Expect credit line to change	Overall	0%	17%	17%	0%	0%	0%
	Agriculture	17%	33%	13%	0%	0%	0%
	trade and finance	33%	0%	25%	17%	-17%	0%
	Industry and money factorin	-17%	38%	-13%	-17%	-17%	0%
	Contruction	-25%	0%	0%	-17%	-17%	0%
	Tourism and Finance	0%	17%	17%	0%	0%	0%
	Transport and communicatio	0%	33%	17%	0%	0%	0%
	Other	33%	17%	17%	0%	0%	0%
Expect demand for loans	Overall	-13%	33%	-17%	-25%	-38%	-25%
	Agriculture	-11%	25%	-13%	0%	-25%	0%
	trade and finance	-17%	-13%	-25%	0%	-33%	-17%
	Industry and money factorin	-11%	-50%	-25%	-33%	-33%	-33%
	Contruction	-13%	0%	-17%	67%	-33%	-17%
	Tourism and Finance	0%	33%	-17%	-25%	-17%	0%
	Transport and communicatio	0%	17%	0%	-25%	0%	0%
	Other	-33%	25%	0%	0%	0%	0%

2. Credit to household	By sector	2011	2012	2013	2014	2015	2016
Credit standar	Overall	0%	0.00	0.25	-25%	0%	0%
	Loans for house construction & refurbishment	0%	0.17	0.33	33%	0%	0%
	Consumer credit and other lending	33%	0.00	0.17	0%	0%	0%
Factor affcted credit standar	Cost of funds and balance sheet constraints	-33%	-38%	-33%	-50%	50%	33%
	Pressure from competition in the banking system	0%	-17%	-17%	-50%	0%	0%
	Expectations regarding general economic activity	-25%	-33%	-17%	-50%	13%	-13%
	Industry or firm specific outlook	-17%	0%	0%	-25%	0%	-13%
	Risk on the collateral demanded	25%	-33%	33%	-25%	13%	0%
	Contract enforcement	0%	25%	100%	-25%	38%	25%
	Increasing Non-Performing Loans	-75%	67%	67%	-25%	67%	50%
	Other factors, please specify	0%	-50%	0%	-25%	0	0
Bank condition and term	Your bank's margin on average loans	-13%	17%	17%	0%	13%	0%
	Your bank's margin on riskier loans	50%	33%	33%	50%	13%	0%
	Other conditions and terms						
	· Non-interest rate charges	38%	33%	33%	50%	13%	0%
	· Collateral requirements	50%	33%	50%	83%	13%	0%
	· Loan covenants	38%	17%	17%	50%	0%	-13%
· Maturity	0%	0%	0%	0%	0%	0%	
Expectation		2012	2013	2014	2015	2016	2017
Expect credit standar	Overall	0%	0%	25%	0%	-38%	-25%
	loans for house construction & refurbishment	0%	17%	33%	33%	-30%	-33%
	consumer credit and other lending	17%	17%	33%	33%	-38%	-33%
Expect demand for loans	Overall	-50%	-25%	-25%	-67%	-25%	-38%
	loans for house construction & refurbishment	-25%	-33%	-33%	-67%	-17%	-33%
	consumer credit and other lending	-50%	-33%	-33%	-67%	-17%	-33%