



# REPORT BANK LENDING SURVEY

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CENTRAL BANK OF TIMOR-LESTE

June 6, 2018

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## I. Introduction

This paper reports the results of bank lending survey (BLS) related to the changes during the year of 2017 and expectations for the year of 2018. This Bank Lending Survey is a qualitative survey for the assessment of credit developments in Timor-Leste. The survey was conducted in mid-April of 2018 by the Economics and Statistics Division. In this year, the population size of the survey was expanded from 4 to 5 existing banks operated in the country. The response rate was 100%.

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 2018 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. Number of clients and loan application and loan approved by commercial banks

The total number of loans application in 2017 was about 5,199 thousands and the amount of loans application was of USD 67.1 million. While the number of loans approved approximately 5,146 thousands clients or about 99% of the applicant, with the total amount of credit granted of USD 60.7 million, representing 90.6% of total loans application (see table 1).

Table 1. Total number of clients and loan approved

Items	Number of	Amount in U\$ Dollar
Loans application	5,199	67,072,295.28
Loans approved	5,146	60,782,905.28

Source: BCTL (bank lending survey, 2018)

### IV. Recent developments in credit standard, term conditions, demand for loan and expectation for 2018

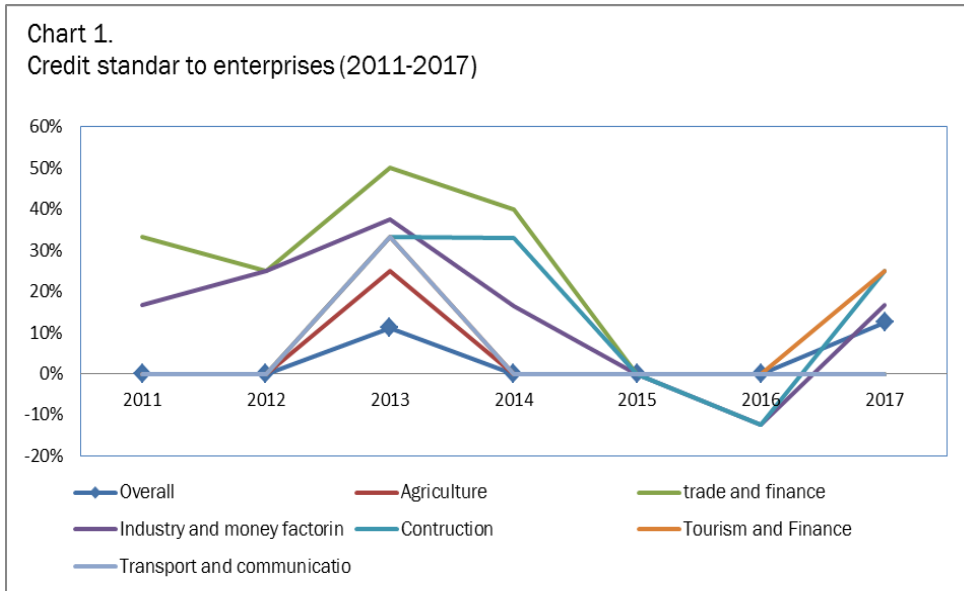
#### 4.1 Loans to enterprises

##### 4.1.1 Credit standard for loans to enterprises

According to bank lending survey 2018, overall credit standard (i.e. banks' internal guidelines or loan approval criteria) for loans to enterprises has been moving from unchanged in the previous year (0.0%) to tighten in 2017, as reported on the diffusion index at 13.0% in 2017, reversing the expectations reported in the previous 2017 survey as unchanged. Credit standard to the sectors that somewhat tightened are industries and manufacturers with diffusion index (17%), tourism & services (25%) and construction sector (25%). Meanwhile, the agriculture sector, trade and finance and transportation & communication were reporting with the

diffusion index unchanged of 0.0%, from 0.0% as recorded in the previous year. (See chart 1 and table 4).

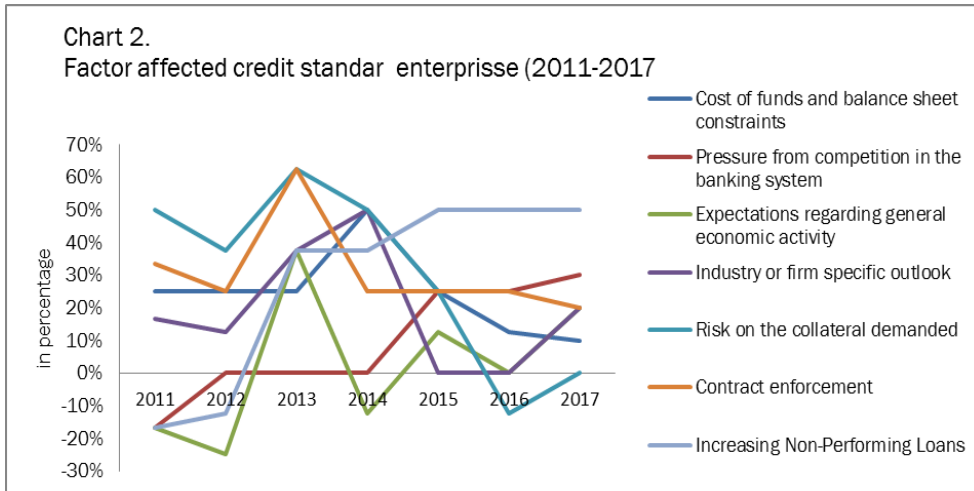
For 2018, banks expect an increase of credit standards in the overall loans to enterprises.



Source: bank lending survey, 2018

### Factor determine credit standard to enterprises

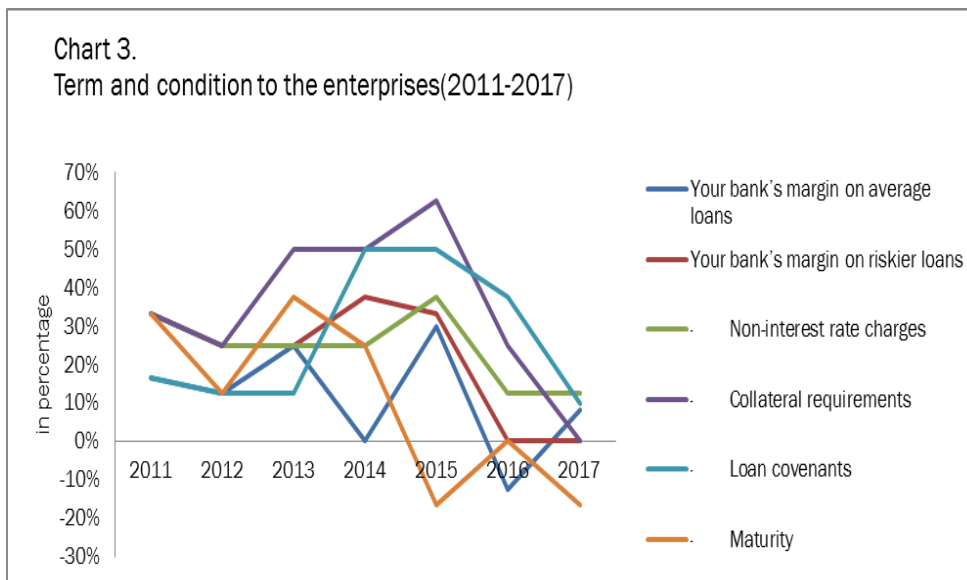
The main reason reported as factors in which banks tighten the credit standard in 2017 include: the status of non- performing loans, contract enforcement, cost of funds and balance sheet constraints, expectations regarding general economic activity, and the industry or firm specific outlook. This is shown by positive sign on net diffusion index of non-performance loans (50%), pressure from competition in the banking system (30%), followed by cost of funds and balance sheet constraints (10%), as well as expectations regarding general economic activity (20%) observed in 2017. While, risk on the collateral demanded is not changed in 2017(0.0%). (See chart 2 and table 4 in annex).



Source: bank lending survey, 2018

#### 4.1.2 Credit term and conditions

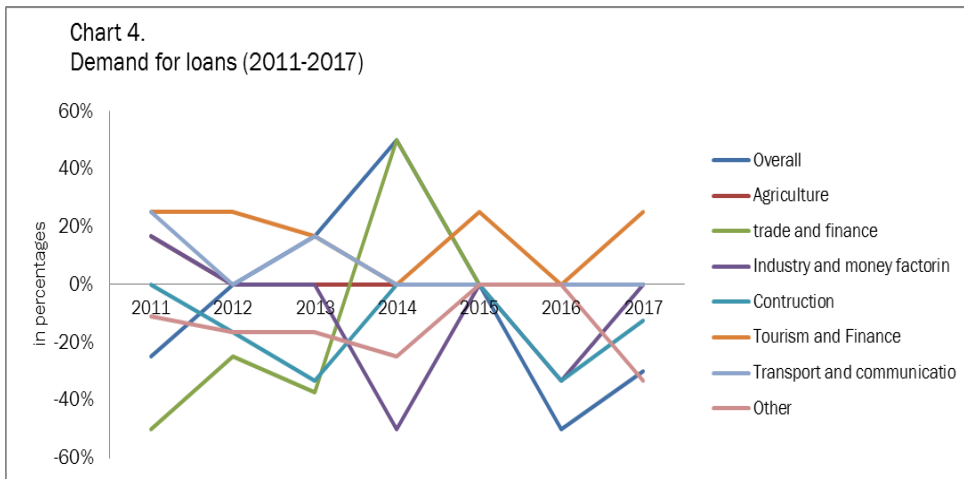
The net diffusion index indicates that, banks tighten most of the terms and conditions to concede the credit in 2017, except for maturity. The main items of the terms and conditions that were tightened by the banks include; non-interest rate charge, which represents 13%, loan covenants made 10% and bank's margin on average loans (8%). While, banks ease the maturity of loans in 2017, with the diffusion index of -17%. Others, such as bank's margin on riskier loans and collateral requirement were not changed, represents 0.0%.



Source: bank lending survey, 201

### 4.1.3 Demand for loans in 2017

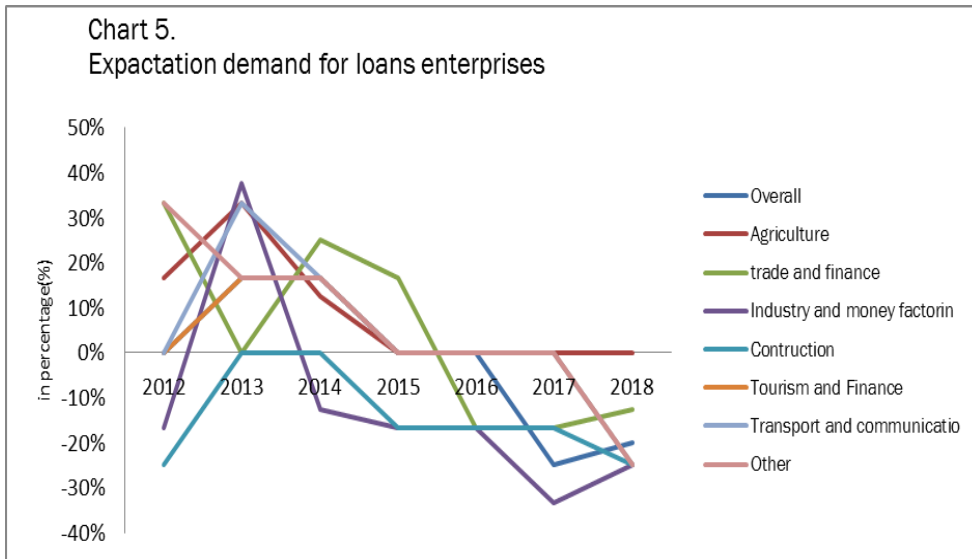
In overall, loan demand from enterprises continue to increase somewhat although at a slower pace of diffusion index of -30%, down from -50%. The increase somewhat is driven particularly by demand for loan to construction and others with diffusion index of -13%, down from -33% in 2016. In contrast, tourism and finance were decrease in 2017 with diffusion index of 25%, down from 0.0%. On the other hands, agriculture, trade & finance, transport and communication, industry and manufacturing were not change with diffusion index of 0.0% from 0.0%. (See chart 3 and table 4 on annex).



Source: bank lending survey, 2018

### 4.1.4 Expectation demand for loans to enterprises in 2018

The banks expected that loans demand from enterprises will increase in 2018 and this is indicated by the diffusion index performance for all sectors, which are increased, except the agricultural sector that remains unchanged. The diffusion index of each sector as following: industry & manufacturing (-25%), trade and finance (-13%), construction (-25%), transport & communications (-25%), tourism & (-25) and others (-25) and agriculture (0.0%) (See chart 5 and table 4 on annex).

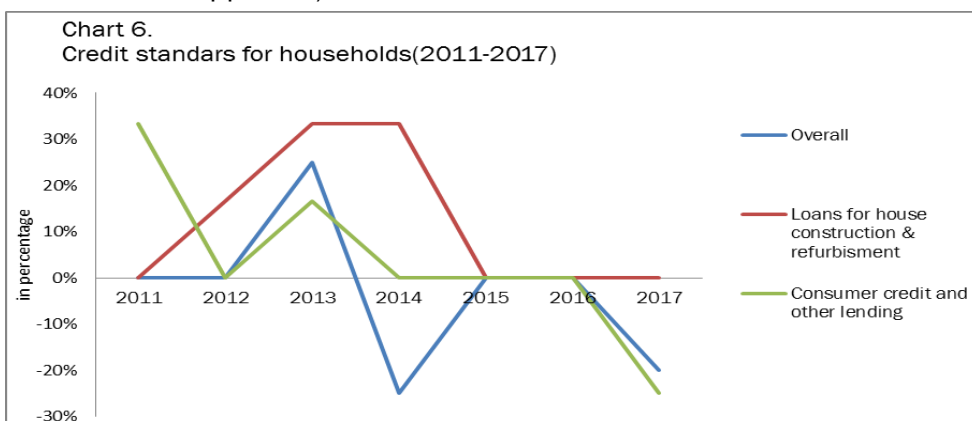


**Source:** bank lending survey, 2018

## 4.2 Loans or credit to households.

### 4.2.1 Credit standard for households

According to responses from banks, overall, banks ease credit standards for households in 2017. This was driven by ease credit standard for consumer credit and other lending. Meanwhile, the credit standard for loans to house construction & refurbishment remains unchanged, as shown in the diffusion index of 0.0% compared to the same index of 0.0 % observed in previous years. (See chart 6 and table 3 in the appendix).

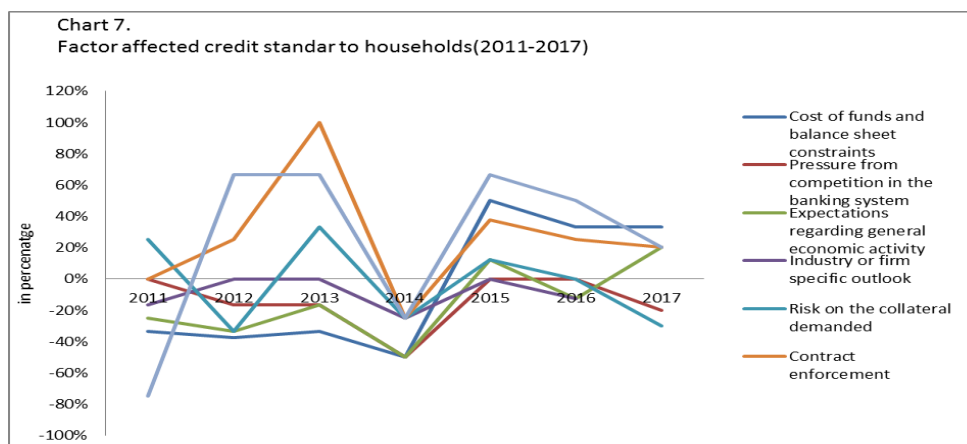


**Source:** bank lending survey, 2018



## Factors determinant of credit standard to households

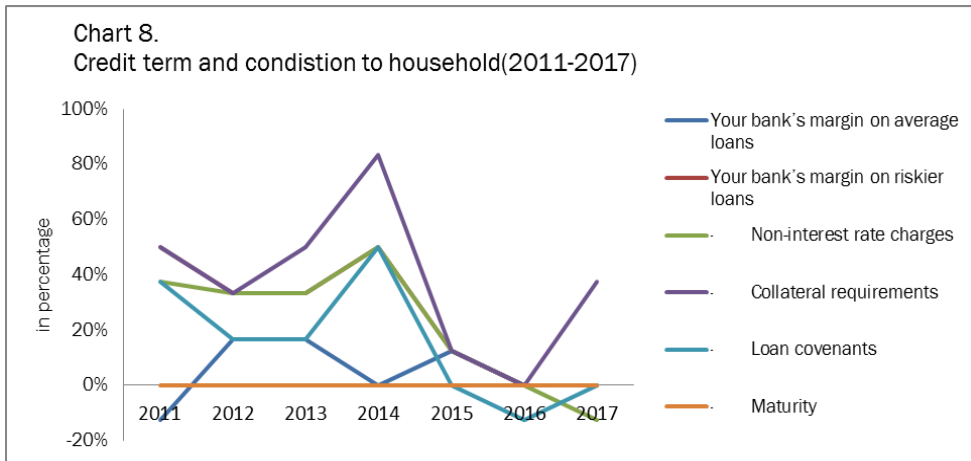
The main factors of which the banks ease the credit standards for consumer credit and other loans include: increased competition from other lending institutions and risk on the collateral demanded with diffusion index of -20 and -30 respectively. Meanwhile, others factor remain tightened, such as: non-performing loans (20%), contract enforcement (20%), expectations of general economic activity (20%) and cost of funds and balance sheet constraints (33%)(See chart 7 and table 4 in annex).



Source: bank lending survey, 2018

### 4.2.2 Credit term and conditions

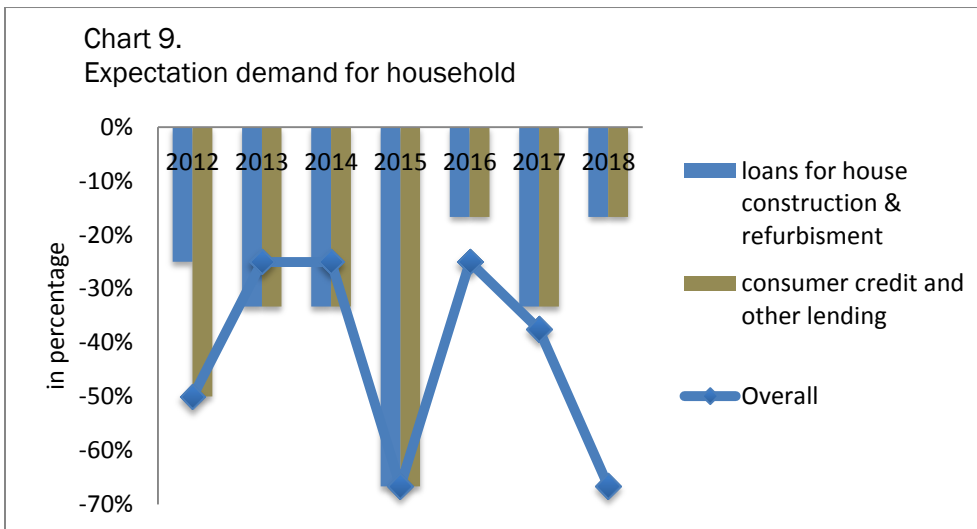
As shown in graph 8 and table 3, at the annex, the terms and condition of loans to household are remain largely unchanged in 2017 compared with the previous year. However, the collateral demanded is tightening, at the same time banks has eased non-interest rate charges. This is indicated by each diffusion index as following: bank margins on riskier loans (0.0%), bank margins on average loans (0.0%), maturity (0.0), and loan covenants with diffusion index of 0.0. While, collateral requirements is 38% and non interest rate charges about -13%. (See chart 8 and table 4 in annex).



**Source:** bank lending survey, 2018

### 4.2.3 Expectation Demand for loans

Overall, banks expected that the demand for loans from household in 2018 would increase, with the increase on the diffusion index of -67%, raised from -35%. The Demand for loans to household construction and refurbishment and consumer credit are also expected to increase in 2018 with diffusion index -17%. (See chart 9 and table 4 in annex)



**Source:** bank lending survey, 2018

## V. Interest rate and its determinant

### 5.1 Interest rate

The survey results indicated that most of bank stated that the effective interest rates, or lending rate, were about 11-15% and only one bank reported at about 6-10%.

**Table.2 Average affective of landing rate**

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

### 5.2 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%.

### 5.3 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 3.

**Table 3. Factor that take into consideration when determine base lending rate.**

Factor detemine lending rate
Deposit rate & cost of funds
Collateral
Liquidity
Cost of fund
Profit margin
Operational cost
Tax
Base lending rate
Risk premium
Required yeld
Expected return
Market risk
Credit risk

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## Annex: Table 4. Result of recapitulation bank lending 2011-2017)

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 (%)						2017
		2011	2012	2013	2014	2015	2016	
<b>1. Credit to private sector</b>								
<b>Credit Standar</b>	Overall	0%	0%	11%	0%	0%	0%	13%
	Agriculture	0%	0%	25%	0%	0%	0%	0%
	trade and finance	33%	25%	50%	40%	0%	0%	0%
	Industry and money factorin	17%	25%	38%	17%	0%	-13%	17%
	Contruction	0%	0%	33%	33%	0%	-13%	25%
	Tourism and Finance	0%	0%	33%	0%	0%	0%	25%
	Transport and communicatio	0%	0%	33%	0%	0%	0%	0%
	Other	0%	0%	25%	-17%	0%	0%	0%
<b>Factor affected credit standar</b>	Cost of funds and balance sheet constraints	25%	25%	25%	50%	25%	13%	10%
	Pressure from competition in the banking system	-17%	0%	0%	0%	25%	25%	30%
	Expectations regarding general economic activity	-17%	-25%	38%	-13%	13%	0%	20%
	Industry or firm specific outlook	17%	13%	38%	50%	0%	0%	20%
	Risk on the collateral demanded	50%	38%	63%	50%	25%	-13%	0%
	Contract enforcement	33%	25%	63%	25%	25%	25%	20%
	Increasing Non-Performing Loans	-17%	-13%	38%	38%	50%	50%	50%
	Other factors, please specify	0%	0%	63%	-13%	0%	0%	-25%
<b>bank conditions and term</b>	Your bank's margin on average loans	17%	13%	25%	0%	30%	-13%	8%
	Your bank's margin on riskier loans	33%	25%	25%	38%	33%	0%	0%
	Other conditions and terms							
	· Non-interest rate charges	33%	25%	25%	25%	38%	13%	13%
	· Collateral requirements	33%	25%	50%	50%	63%	25%	0%
	· Loan covenants	17%	13%	13%	50%	50%	38%	10%
	· Maturity	33%	13%	38%	25%	-17%	0%	-17%
<b>Demand for loans</b>	Overall	-25%	0%	17%	50%	0%	-50%	-30%
	Agriculture	17%	0%	0%	0%	0%	0%	0%
	trade and finance	-50%	-25%	-38%	50%	0%	0%	0%
	Industry and money factorin	17%	0%	0%	-50%	0%	-33%	0%
	Contruction	0%	-17%	-33%	0%	0%	-33%	-13%
	Tourism and Finance	25%	25%	17%	0%	25%	0%	25%
	Transport and communicatio	25%	0%	17%	0%	0%	0%	0%
	Other	-11%	-17%	-17%	-25%	0%	0%	-33%
<b>Factor affected demand for loans</b>	Financing for fixed investment	-33%	0%	-13%	-25%	-25%	33%	30%
	Financing the inventories and working capital	-50%	50%	-38%	-50%	-30%	-25%	-20%
	Internal financing	0%	33%	-25%	-50%	25%	17%	-10%
<b>Epectations</b>		<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>
<b>Expect credit line to change</b>	Overall	0%	17%	17%	0%	0%	0%	10%
	Agriculture	17%	33%	13%	0%	0%	0%	0%
	trade and finance	33%	0%	25%	17%	-17%	0%	-13%
	Industry and money factorin	-17%	38%	-13%	-17%	-17%	0%	0%
	Contruction	-25%	0%	0%	-17%	-17%	0%	13%
	Tourism and Finance	0%	17%	17%	0%	0%	0%	25%
	Transport and communicatio	0%	33%	17%	0%	0%	0%	0%
	Other	33%	17%	17%	0%	0%	0%	0%
<b>Expect demand for loans</b>	Overall	0%	17%	17%	0%	0%	-25%	-20%
	Agriculture	17%	33%	13%	0%	0%	0%	0%
	trade and finance	33%	0%	25%	17%	-17%	-17%	-13%
	Industry and money factorin	-17%	38%	-13%	-17%	-17%	-33%	-25%
	Contruction	-25%	0%	0%	-17%	-17%	-17%	-25%
	Tourism and Finance	0%	17%	17%	0%	0%	0%	-25%
	Transport and communicatio	0%	33%	17%	0%	0%	0%	-25%
	Other	33%	17%	17%	0%	0%	0%	-25%

<b>2. Credit to household</b>	<b>By sector</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>
<b>Credit standar</b>	Overall	0%	0.00	0.25	-25%	0%	0%	-20%
	Loans for house construction & refurbishment	0%	0.17	0.33	33%	0%	0%	0%
	Consumer credit and other lending	33%	0.00	0.17	0%	0%	0%	-25%
<b>Factor affcted credit standar</b>	Cost of funds and balance sheet constraints	-33%	-38%	-33%	-50%	50%	33%	33%
	Pressure from competition in the banking system	0%	-17%	-17%	-50%	0%	0%	-20%
	Expectations regarding general economic activity	-25%	-33%	-17%	-50%	13%	-13%	20%
	Industry or firm specific outlook	-17%	0%	0%	-25%	0%	-13%	
	Risk on the collateral demanded	25%	-33%	33%	-25%	13%	0%	-30%
	Contract enforcement	0%	25%	100%	-25%	38%	25%	20%
	Increasing Non-Performing Loans	-75%	67%	67%	-25%	67%	50%	20%
	Other factors, please specify	0%	-50%	0%	-25%	0	0	0
<b>Bank condition and term</b>	Your bank's margin on average loans	-13%	17%	17%	0%	13%	0%	0%
	Your bank's margin on riskier loans	50%	33%	33%	50%	13%	0%	0%
	Other conditions and terms							
	- Non-interest rate charges	38%	33%	33%	50%	13%	0%	-13%
	- Collateral requirements	50%	33%	50%	83%	13%	0%	38%
	- Loan covenants	38%	17%	17%	50%	0%	-13%	0%
	- Maturity	0%	0%	0%	0%	0%	0%	0%
<b>Expectation</b>		<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>
<b>Expect credit standar</b>	Overall	0%	0%	25%	0%	-38%	-25%	-25%
	loans for house construction & refurbishment	0%	17%	33%	33%	-30%	-33%	-33%
	consumer credit and other lending	17%	17%	33%	33%	-38%	-33%	-33%
<b>Expect demand for loans</b>	Overall	-50%	-25%	-25%	-67%	-25%	-38%	-67%
	loans for house construction & refurbishment	-25%	-33%	-33%	-67%	-17%	-33%	-17%
	consumer credit and other lending	-50%	-33%	-33%	-67%	-17%	-33%	-17%