BANK LENDING SURVEY REPORT

AGOSTINHO DA COSTA MENDONCA

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Content

I INTRODUCTION

This Bank Lending Survey is a qualitative assessment of credit developments in Timor-Leste, providing a comprehensive overview of lending conditions during 2025 and expectations for credit developments in 2026. The questionnaire for this survey period was distributed to banks on 5 May 2026, and completed responses were received on 14 May 2026.

The primary objective of the survey is to enhance understanding of bank lending behaviour and the factors influencing credit developments in Timor-Leste. The questionnaire was addressed to senior loan officers of each commercial bank operating in Timor-Leste and comprised 25 qualitative questions covering both past developments and expected changes in banks' lending policies.

The survey distinguishes between lending to enterprises and lending to households. For both sectors, it examines key aspects of credit conditions, including banks' credit standards for loan approval, lending terms and conditions, and the factors affecting the demand for bank credit. It also captures banks' assessments of the main drivers influencing credit demand and lending activity.

The Bank Lending Survey is conducted annually to monitor trends in credit supply and demand, support analysis of financial sector developments, and provide insights into the role of banking sector intermediation in the Timor-Leste economy.

II. SURVEY METHODOLOGY

The Bank Lending Survey (BLS) conducted among senior loan officers of all four commercial banks operating in Timor-Leste. The survey aims to assess developments and trends in the two main categories of bank lending: (i) loans and credit lines extended to enterprises; and (ii) loans and consumer credit provided to households.

For both lending categories, the survey examines changes in banks' credit standards for loan approval, the terms and conditions applied to new lending, developments in credit demand, and the underlying factors influencing the supply of and demand for credit. The survey questions are generally formulated to capture either observed changes over the previous year or expectations regarding developments over the following year.

The analysis of survey responses is based on diffusion indexes (DIs), which measure the weighted balance between the proportion of banks reporting a tightening of credit standards and the proportion reporting an easing of credit standards. Similarly, for credit demand, the diffusion index captures the weighted difference between the share of banks reporting an increase in loan demand and the share reporting a decline in demand.

The diffusion index is calculated by assigning weights to banks' responses according to the intensity and direction of reported changes. For credit standards, responses indicating "tightened considerably" are assigned a score of 1; "tightened somewhat" a score of 0.5; "basically unchanged" a score of 0; "eased somewhat" a score of -0.5; and "eased considerably" a score of -1. The resulting diffusion index ranges from -1 to +1. A positive value indicates that, on balance, banks have tightened their credit standards, while a negative value indicates that banks have eased credit standards.

The interpretation of the diffusion index for credit demand follows the same principle, but with the direction of the scoring reversed. Banks reporting that loan demand has "increased considerably" are assigned a score of -1; "increased somewhat" a score of -0.5; "basically unchanged" a score of 0; "decreased somewhat" a score of 0.5; and "decreased considerably" a score of 1. A positive diffusion index therefore indicates that credit demand by enterprises and households has declined, whereas a negative diffusion index indicates that demand for credit has increased.

Overall, the diffusion index provides a quantitative measure of the direction and magnitude of changes in credit conditions. It allows for a systematic assessment of developments in credit supply and demand conditions, supporting the analysis of banking sector lending behavior and financial intermediation dynamics.

III. Loans to enterprises and household

3.1 Loans to enterprises

Table 1 indicates a significant expansion in private sector credit activity in 2025 compared with 2024, reflected in both the number of loan applications and the volume of approved lending. The number of loan applications increased from 1,450 in 2024 to 2,351 in 2025, representing an annual growth rate of 62.1 percent. Over the same period, the total value of loan applications increased by 32.0 percent, rising from US$174.9 million to US$230.8 million.

Similarly, lending approvals recorded strong growth during 2025. The number of approved loans increased from 1,362 in 2024 to 2,322 in 2025, corresponding to an increase of 70.5 percent. The total value of approved loans also expanded, increasing from US$173.3 million to US$202.8 million, equivalent to annual growth of 17.0 percent.

Overall, these developments suggest a strengthening of private sector demand for credit in 2025, accompanied by increased lending activity by financial institutions. The substantially higher growth in the number of loan applications and approvals relative to the growth in the corresponding loan values suggests that credit expansion was driven primarily by an increase in the volume of lending transactions, particularly through smaller-sized loans. This may indicate broader access to bank financing among enterprises and a gradual deepening of financial intermediation.

Nevertheless, the slower growth in the value of approved loans compared with the increase in the number of approvals implies that the average loan size declined during the period. This development may reflect banks' greater willingness to extend credit to smaller borrowers or enterprises requiring relatively modest financing, while maintaining prudent lending practices.

Table 1 Loans to enterprises

Items	Number of		% change	Amounts in US$		% change
	2024	2025		2024	2025	
Loans applicant	1,450	2,351	62.1	174,880,425.40	230,843,951.40	32.0
Loans approved	1,362	2,322	70.5	173,332,839.07	202,852,151.64	17.0

Source: Bank Lending survey 2026

Table 2 presents the distribution of outstanding private sector credit by loan-size category, showing both the number of credit accounts and the corresponding value of loans outstanding in US dollars. This breakdown provides an assessment of the structure of credit allocation, including the extent to which lending is distributed among small borrowers and concentrated among larger borrowers.

Total private sector credit outstanding reached US$202.9 million in 2025, distributed across 2,324 loan accounts. The distribution of lending by loan size indicates a dual pattern: while the majority of borrowers accessed relatively small amounts of credit, a significant share of total outstanding credit remained concentrated among a limited number of large borrowers.

Loans below US$50,000 accounted for 75.2 percent of total loan accounts (1,748 borrowers), but represented only US$16.2 million of total outstanding credit. Similarly, loans within the range of US$50,000 to US$200,000 accounted for 20.0 percent of loan accounts and US$49.1 million in outstanding credit. Combined, these two categories represented more than 95 percent of total credit accounts, highlighting the broad participation of small and medium-sized borrowers in the formal banking system.

In contrast, larger loan categories represented a relatively small proportion of borrowers but accounted for a substantial share of total credit outstanding. Loans between US$200,000 and US$2 million represented only 2.4 percent of total accounts but accounted for US$55.9 million in outstanding credit. Meanwhile, loans exceeding US$2 million accounted for only 19 accounts, equivalent to 0.8 percent of total borrowers, but represented US$81.7 million, or approximately 40 percent of total private sector credit.

Overall, the distribution of credit suggests that the banking sector has achieved relatively broad outreach in terms of the number of borrowers, particularly among small and medium-sized clients. However, credit exposure remains highly concentrated in larger loan segments, with a small number of borrowers accounting for a significant share of total outstanding credit. Such concentration may represent a potential source of credit risk, particularly if large borrowers experience financial distress. Strengthening credit risk management frameworks, improving borrower diversification, and enhancing access to finance for underserved segments would support a more balanced and resilient credit expansion.

Table 2. Distribution of Private Sector Credit by Loan Size Category

Items	Number of	% of Share	Amount in US Dollars	% of share
below $50,000	1748	75.2	16,159,678.22	8.0
$50,000-$200,000	464	20.0	49,069,325.44	24.2
$200,000-500,000	64	2.8	20,756,023.59	10.2
500001- $2 million	29	1.2	35,159,624.39	17.3
Above $2 million	19	0.8	81,709,700.00	40.3
Total	2324	100	202,854,351.64	100.0

Source: Bank Lending Survey 2026

Table 3 presents the distribution of commercial bank lending by economic sector in 2025, including the number of loan applications, approved loans, and the corresponding value of approved credit. During the year, commercial banks received 2,353 loan applications amounting to US$230.8 million, of which 2,322 applications valued at US$202.9 million were approved. The approval rate reached 98.7 percent in terms of the number of loans, suggesting that banks maintained supportive lending conditions and that the majority of credit applications met banks' lending criteria during the period.

The sectoral distribution of approved credit indicates a high degree of concentration in a limited number of economic activities, particularly Trade & Finance and Construction. The Trade & Finance sector received US$96.5 million, representing 47.6 percent of total approved credit, while the Construction sector accounted for US$78.9 million, equivalent to 38.9 percent. Combined, these two sectors absorbed US$175.4 million, or 86.5 percent of total approved lending, despite accounting for only around one-third of approved loan accounts. This indicates that credit allocation was primarily driven by larger-value financing requirements in these sectors.

In contrast, Agriculture accounted for the largest share of approved loan accounts, representing 32.4 percent of total accounts, but received only US$1.6 million, equivalent to 0.8 percent of total approved credit. This suggests that agricultural lending was predominantly composed of small-scale loans, reflecting limited financing volumes despite broad borrower participation. Similarly, the Tourism & Services sector accounted for 21.8 percent of approved loan accounts but received US$12.5 million, representing 6.2 percent of total approved credit.

The Transport & Communications sector showed a similar pattern, accounting for 13.4 percent of approved loan accounts but receiving only US$2.6 million, or 1.3 percent of total lending. Meanwhile, credit extended to the Industry & Manufacturing sector remained marginal, accounting for only 0.2 percent of total approved credit, reflecting the relatively limited scale of industrial activity and associated demand for bank financing.

Overall, the sectoral distribution of credit highlights a concentration of bank lending toward Trade & Finance and Construction activities, while sectors such as Agriculture, Tourism, Transport, and Manufacturing received a larger number of relatively small-value loans. This pattern suggests that although commercial banks have expanded outreach across different sectors, credit allocation remains concentrated in sectors with larger financing needs. Promoting greater diversification of lending, particularly toward productive sectors such as agriculture, manufacturing, and export-oriented activities, would support broader financial intermediation and contribute to economic diversification.

Table 3. Distribution of Commercial Bank Credit by Economic Sector, 2025

Sector	Loans applications				Loans approved			
	Number of	% of share	Value in USD	% of share	Number of	% of share	Value in USD	% of share
Agriculture	773	32.9	1,587,860.00	0.7	753	32.4	1553660	0.8
Trade & Finance	415	17.6	122,793,564.92	53.2	410	17.7	96482220.5	47.6
Industry & manufac.	1	0.0	387,529.96	0.2	1	0.0	387529.96	0.2
Construct.	335	14.2	80,566,600.26	34.9	331	14.3	78920344.94	38.9
Tourism & services	508	21.6	12,562,530.52	5.4	506	21.8	12562530.52	6.2
Transport & comm.	310	13.2	2,644,585.53	1.1	310	13.4	2644585.53	1.3
Other	11	0.5	10,301,280.19	4.5	11	0.5	10301280.19	5.1
Total	2353	100	230,843,951.38	100	2322	100.00	202,852,151.64	100.0

Source: Bank Lending survey 2026

3.1.1. Enterprises Loans Credit Standards

Overall, banks reported that credit standards for enterprise lending remained broadly unchanged throughout 2025. The diffusion index was neutral across all surveyed sectors, indicating that there was no significant net tightening or easing of lending conditions during the period. Banks generally maintained a prudent and consistent approach to credit assessment, with lending policies remaining stable across key economic sectors, including agriculture, trade and finance, industry and manufacturing, construction, tourism and services, and transportation. This suggests that credit supply conditions were broadly unchanged, reflecting continued caution by banks in managing credit risks while maintaining support for productive sector financing.

Table 4. Changes in credit standards applied to corporate loans over the past year

Item	Overall	Agriculture	Trande and Finance	ndustry and manufactorin	Contruction	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	5	4	4	5	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

3.1.2. Factors affecting changes in credit standard applied to enterprises

The unchanged credit standards reported by banks in 2025 were influenced by a combination of risk and market-related considerations. Collateral risk emerged as the primary factor shaping lending decisions, recording a positive diffusion index of 20 percent, indicating that it contributed to maintaining a cautious lending approach. Additional considerations included funding costs, competitive dynamics in the banking sector, sector-specific outlooks, contract enforcement conditions, and developments in non-performing loans (NPLs), each registering a diffusion index of 10 percent. At the same time, banks' assessments of overall economic activity remained neutral, with a diffusion index of zero, suggesting that macroeconomic conditions did not materially influence changes in credit standards during the survey period (see Table 5).

Table 5. 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	1	4	0	0	10
Pressure from competition in the banking system	0	2	2	1	0	10
Perception of risk regarding general economic activit	0	1	2	1	0	0
Industry or firm specific outlook	0	1	4	0	0	10
Risk on the collateral demanded	0	2	3	0	0	20
Contract enforcement	0	1	4	0	0	10
Increasing Non-Performing Loans	0	1	4	0	0	10

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

Banks reported a continued tightening of lending terms and conditions for new loans and credit lines extended to enterprises during 2025. This tightening was mainly attributed to heightened credit risk considerations, particularly stricter collateral requirements, an increase in non-performing loans (NPLs), and a more cautious assessment of overall economic conditions, as reflected by diffusion indices of 40%, 20%, and 10%, respectively.

In contrast, lending conditions related to funding costs and balance sheet constraints, industry- and firm-specific outlooks, competitive pressures within the banking sector, and contract enforcement conditions remained broadly unchanged, with diffusion indices remaining close to zero (Table 6). These developments suggest that banks' more conservative lending stance was primarily driven by risk management considerations rather than by constraints arising from liquidity conditions, funding availability, or competitive dynamics within the banking sector.

Table 6. 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	2	1	2	0	0
Perception of risk regarding general economic activity	0	3	0	2	0	10
Industry or firm specific outlook	1	0	4	0	0	0
Risk on the collateral demanded	0	4	1	0	0	40
Contract enforcement	0	1	3	1	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 (2025)

Overall, banks reported an increase in demand for loans and credit lines from enterprises during 2025, excluding normal seasonal variations. This was reflected in the aggregate diffusion index (DI) of -13%, whereby negative DI values indicate an increase in credit demand.

Across economic sectors, the most notable weakening in loan demand was observed in the agriculture sector, which recorded a positive DI of +20%, indicating a decline in borrowing activity relative to other sectors. In contrast, the Trade and Finance sectors continued to experience the strongest increase in demand for bank financing, with a DI of -30%, suggesting a significant rise in businesses' financing needs during the year. The Construction and Other sectors also recorded relatively strong growth in credit demand, with both sectors registering a DI of -25%. Meanwhile, Industry and Manufacturing and Transportation each recorded a DI of -13%, indicating a moderate increase in demand for credit. The Tourism and Services sector recorded the smallest increase in loan demand, with a DI of -10%, suggesting a more limited expansion in financing requirements compared with other sectors (Table 7).

Overall, the survey results indicate that enterprise credit demand remained broadly resilient in 2025, supported mainly by financing needs in trade-related activities and construction, while demand from agriculture remained relatively subdued.

Table 7. Demand for loan enterprises over the past year

Items	Overall	Agriculture	'rade and financ	stry and manufacto	Contruction	urism and servic	Transportation
Decreased considerably	0	1	0	0	0	0	0
Decreased somewhat	0	1	0	0	0	0	0
Remained basically unchanged	3	2	2	3	2	4	3
Increased somewhat	1	1	3	1	2	1	1
Increased considerably	0	0	0	0	0	0	0
Diffusion Index	-13	20	-30	-13	-25	-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, the survey results indicate that demand for enterprise loans in 2025 was primarily driven by firms' internal financing constraints and increased working capital requirements. This is reflected in the negative diffusion index (DI) values, whereby negative readings indicate that these factors became more important in driving credit demand.

Among the underlying drivers, internal financing needs exerted the strongest influence, recording a DI of -50%. This suggests that enterprises increasingly turn to bank financing to compensate for insufficient internally generated funds and to support ongoing business operations and expansion. Financing for inventories and working capital also emerged as an important driver of credit demand, with a DI of -20%, reflecting businesses' increased liquidity needs to finance day-to-day operations, inventory accumulation, and other short-term operational requirements.

By comparison, financing for fixed investment recorded a DI of -10%, indicating a more moderate increase in borrowing for capital expenditure, including investment in machinery, equipment, and business expansion projects. Overall, these findings suggest that enterprise credit demand in 2025 was driven predominantly by short-term financing needs rather than long-term investment, reflecting a cautious business environment in which firms prioritized operational liquidity over capital expansion.

Table 8. Factors affecting demand for corporate loans

Scale	1	2	3	4	5	Diffusion Index
Financing for fixed investment	0	0	4	1	0	-10
Financing the inventories and working capital	0	0	4	0	1	-20
Internal financing	0	0	2	0	2	-50
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 (2026)

Overall, banks expect demand for enterprise loans and credit lines to strengthen in 2026, with all sectors recording negative diffusion indices. Under the survey methodology, negative diffusion index (DI) values indicate that, on balance, a larger proportion of banks expect demand for credit to increase rather than decline over the coming year.

Across sectors, the agriculture sector is expected to record the most modest increase in credit demand, with a DI of -13%, indicating relatively subdued borrowing prospects compared with other sectors. Trade and Finance and Industry and Manufacturing each recorded a DI of -20%, while the Transportation sector registered a DI of -25%, reflecting stronger anticipated growth in financing demand. The largest increase in expected loan demand is projected for the Construction sector, which recorded a DI of -40%, followed by the other sector (-38%) and Tourism and Services (-33%). At the aggregate level, the overall DI also stood at -40%, indicating broad-based optimism regarding enterprise credit demand in 2026.

These findings suggest that businesses are expected to increase their demand for bank financing over the coming year, supported by stronger investment intentions, business expansion plans, and expectations of improved economic activity. The broad-based increase in projected credit demand also points to strengthening business confidence and a more favorable outlook for private sector financing in 2026.

Table 9. Demand Expectations for loans to enterprises in 2025

Items	Overall	agriculture	Trade and finance	industry and manufactoring	contruction	Tourism and services	Transport	other
Decreased considerably	0	0	0	0	0	0	0	0
Decreased somewhat	0	1	0	0	0	0	0	0
Remained basically unchanged	2	1	3	3	2	3	2	2
Increased somewhat	2	2	2	2	2	2	2	1
Increased considerably	1	0	0	0	1	1	0	1
Diffusion Index	-40	-13	-20	-20	-40	-33	-25	-38

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

Household loan demand continued to strengthen in 2025, as reflected in increases in both loan applications and approvals. The total number of household loan applications rose by

7.4% to 21,814 clients, up from 20,314 in 2024, while the total value of applications increased by 9.1% to US$205.8 million, compared with US$188.7 million in the previous year. Loan approvals also recorded positive growth, although at a more moderate pace than applications. The number of approved household loans increased by 4.3% to 17,458 clients, from 16,739 in 2024, while the total value of approved loans rose by 8.4% to US$192.8 million, compared with US$177.9 million in 2024 (Table 10).

Overall, the increase in both loan applications and approvals suggests sustained household demand for bank credit during 2025, reflecting continued consumer financing needs and banks' generally supportive lending stance toward the household sector.

Table 10. Loans to Households

Items	Number of		% change	Amounts in US$		% change
	2024	2025		2024	2025	
Loans applicant	20,314	21,814	7.4	188,701,668.65	205,788,931.07	9.1
Loans approved	16,739	17,458	4.3	177,887,850.10	192,834,099.84	8.4

Source: BLS 2025

Table 11 shows that commercial bank lending to households remained highly concentrated in the smaller loan-size segments in 2025. Loans with values below US$10,000 accounted for the largest share of lending by number of accounts and also represented the largest proportion of total household credit, comprising 63.4% of the total loan value.

The US$10,000–20,000 and US$20,000–50,000 loan categories also accounted for a substantial share of total household lending, indicating that household credit was predominantly concentrated in small- and medium-sized loans. By contrast, loans exceeding US$50,000 represented only a marginal share of total lending, suggesting limited demand for larger household loans and/or a more conservative lending approach by commercial banks toward higher-value household credit.

Overall, the distribution of household lending reflects a banking sector that is primarily oriented toward financing modest household borrowing needs, with relatively limited exposure to large-value retail loans. This lending pattern is broadly consistent with the structure of the domestic economy, household income levels, and banks' prudent retail credit risk management practices.

Table 11. Commercial Bank Credit to household by size of distribution

Items	Number of	% of share	Amount in US Dollars	% of share
below $10,000	12168	63.4	61,436,516.12	31.2
$10,000-$20,000	4747	24.7	67,541,915.34	34.3
$20,000-50,000	2180	11.4	60,030,936.43	30.5
50,000- $100 million	106	0.6	7,637,815.80	3.9
Above $100,000 million	0	0.0	0	0.0
Total	19201	100	196,647,183.69	100

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

Banks reported a modest easing of credit standards for household loans during 2025, particularly for loans related to house construction, home refurbishment, consumer credit, and other household lending. This is reflected in the diffusion indices, with each loan category recording a diffusion index (DI) of -10%, where negative values indicate a net easing of lending standards.

These results suggest that banks adopted a slightly more accommodative lending stance toward the household sector over the year, reflecting improved willingness to extend credit across a broad range of household financing needs.

Table 12. 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	1	1	1
Remained basically unchanged	1	1	1
Eased somewhat	2	2	2
Eased considerably	0	0	0
Diffusion Index	-10	-10	-10

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

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

Credit standards for household loans related to house construction and refurbishment eased over the past year, mainly supported by lower funding costs and reduced balance sheet constraints. These factors contributed to a net easing of lending conditions, enhancing banks' capacity and willingness to extend housing-related credit. Nevertheless, several factors exerted offsetting tightening pressures on credit standards. These included stronger competitive pressures within the banking system, a less favorable assessment of overall economic conditions, increased borrower-related risks, and collateral-related considerations, each recording a diffusion index (DI) of 13%.

Meanwhile, banks reported that industry- and firm-specific outlooks, as well as contract enforcement conditions, remained broadly unchanged, with diffusion indices of 0%, indicating that these factors had a neutral effect on household credit standards during the survey period. Overall, the results suggest that the easing of housing-related lending standards was primarily driven by improved funding conditions and banks' balance sheet capacity, while risk considerations continued to influence lending decisions.

Table 13. 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	3	1	0	-13
Pressure from competition in the banking system	0	2	1	1	0	13
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	1	3	0	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

Banks reported that the tightening of credit standards for consumer credit and other household lending in 2025 was driven by several risk-related and market factors. The most significant factor was collateral-related risk, which recorded the highest diffusion index (DI) of 25%, indicating that concerns regarding collateral quality and associated risks contributed substantially to stricter lending conditions. This was followed by an increase in non-performing loans (NPLs), with a DI of 17%, reflecting heightened credit risk considerations in banks' lending decisions.

Other factors contributing to the tightening of credit standards included competitive conditions within the banking sector, overall economic activity, and industry-specific outlooks, each recording a DI of 13%. These results indicate a moderate net tightening effect arising from market competition and a more cautious assessment of economic and sectoral conditions. Meanwhile, banks reported that funding costs, balance sheet constraints, and contract enforcement conditions remained broadly unchanged during the survey period, with diffusion indices of 0% (Table 14).

Overall, the findings suggest that the tightening of consumer credit standards in 2025 was primarily driven by credit risk considerations, particularly collateral quality and asset quality concerns, rather than by funding availability or balance sheet limitations.

Table 14. 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	2	1	1	0	13
Expectations regarding general economic activity	0	1	3	0	0	13
Industry or firm specific outlook	1	0	2	1	0	13
Risk on the collateral demanded	0	2	2	0	0	25
Contract enforcement	0	0	3	0	0	0
Increasing Non-Performing Loans	0	1	2	0	0	17
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 2025, banks reported a net tightening of lending terms and conditions for household loans related to house construction and refurbishment. The tightening was primarily attributed to stricter loan covenants and maturity conditions, which recorded a diffusion index (DI) of 25%, indicating a more conservative approach toward loan structuring and repayment conditions. In addition, higher margins on riskier loans and collateral requirements contributed to the tightening of lending conditions, each recording a DI of 13%. Other lending terms and conditions, including additional relevant factors, were reported to have remained broadly unchanged during the review period.

Overall, the results suggest that while banks continued to support housing-related lending, they adopted a more cautious approach by strengthening contractual requirements and incorporating greater risk differentiation into loan pricing and collateral arrangements.

Table 15. Banks terms and conditions for approving loans to household for construction and refurbishment

Items	1	2	3	4	5	Diffusion Index
Price						
Your bank's margin on average loans	0	1	2	1	0	0
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	1	3	0	0	13
· Loan covenants	0	1	1	0	0	25
· Maturity	0	2	2	0	0	25
Other factors, please specify	0	0	0	0	0	

Note: please rate using following scale: "(1) tightened considerably", "(2) tightened somewhat", "(3) remained basically unchanged", "(4) eased somewhat" and "(5) eased considerably".

Banks reported that the tightening of credit terms and conditions was primarily driven by concerns related to collateral risk, industry- and firm-specific outlooks, expectations regarding overall economic activity, and contract enforcement conditions, which recorded diffusion indices (DIs) of 38%, 25%, 17%, and 13%, respectively. These factors indicate that risk considerations and a more cautious assessment of borrowers' operating environments played a significant role in shaping lending decisions during the period under review.

Conversely, banks reported an easing of lending terms and conditions in response to competitive pressures within the banking system, which recorded a DI of -38%, suggesting that stronger competition among banks contributed to more favorable lending conditions for borrowers. Meanwhile, other factors, including funding costs and balance sheet constraints, remained broadly unchanged, with no material impact on overall lending terms and conditions. Overall, the results suggest that banks' adjustments to lending conditions were mainly driven by credit risk considerations, while competitive dynamics provided some offsetting support to borrowers.

Table 16. 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	0	1	3	0	-38
Expectations regarding general economic activity	0	1	2	0	0	17
Industry or firm specific outlook	1	0	3	0	0	25
Risk on the collateral demanded	1	1	2	0	0	38
Contract enforcement	0	1	3	0	0	13
Increasing Non-Performing Loans	0	1	2	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 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

Banks reported a net easing of lending terms and conditions for consumer credit and other household lending in 2025. The easing was primarily supported by an increase in loan size, which recorded a diffusion index (DI) of -25%, indicating that banks were, on balance, more willing to extend larger loan amounts to households. Further easing was observed in collateral requirements and loan margins on average loans, both recording a DI of -13%, suggesting more favorable lending conditions in these areas.

In contrast, other lending terms and conditions remained broadly unchanged during the review period. In particular, loan maturity and non-interest rate charges recorded diffusion indices of 0%, indicating no net adjustment compared with the previous year. Overall, the findings suggest that banks adopted a moderately more accommodative approach toward consumer and other household lending in 2025, mainly through increased loan availability and more flexible collateral and pricing conditions, while maintaining stability in other lending parameters.

Table 17. 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	0	4	0	0	0
Your bank´s loan margin on average loans	0	0	3	1	0	-13
Collateral requirements	0	0	3	1	0	-13
Size of the loan	0	0	2	2	0	-25
Maturity	0	0	4	0	0	0
Non-interest rate charges	0	0	4	0	0	0

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

Additionally, factors such as funding costs, balance sheet constraints, competitive conditions within the banking system, and non-performing loans (NPLs) were reported to have contributed to the maintenance of broadly unchanged credit terms and conditions for consumer credit and other household lending, with each factor recording a diffusion index (DI) of 0%.

Conversely, several factors exerted tightening pressures on lending conditions. These included overall economic activity, collateral-related considerations, and contract enforcement conditions, which recorded diffusion indices of 25%, 20%, and 13%, respectively. These results suggest that while banks maintained a generally stable lending framework for consumer credit, concerns related to economic conditions, collateral risk, and enforceability of loan contracts contributed to a more cautious approach in setting lending terms and conditions.

Table 18. 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	4	0	0	0
Pressure from competition in the banking system	0	1	2	1	0	0
Expectations regarding general economic activity	0	2	2	0	0	25
Industry or firm specific outlook	1	0	0	0	0	0
Risk on the collateral demanded	0	2	3	0	0	20
Contract enforcement	0	1	3	0	0	13
Increasing Non-Performing Loans	0	1	2	1	0	0
Other factors, please specify						

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 (2025)

Overall, banks reported an increase in household demand for loans and credit during 2025, as reflected in the aggregate diffusion index (DI) of -20%. Across loan categories, demand strengthened for both housing loans and consumer credit, indicating a broad-based increase in households' financing needs during the year. The diffusion index for loans for house purchases stood at -17%, while consumer credit recorded a stronger increase in demand, with a DI of -33%. These negative diffusion index values indicate that, on balance, a greater proportion of banks observed an increase rather than a decline in household credit demand.

The results suggest that household borrowing appetite remained resilient in 2025, supported by stronger demand for both housing-related financing and consumer lending. The relatively larger increase in consumer credit demand may reflect households' greater reliance on bank financing for consumption and other short-term financial needs, while housing loan demand continued to expand at a more moderate pace.

Table 19. 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	0	0	0
Decreased somewhat	1	1	0
Remained basically unchanged	1	0	1
Increased somewhat	3	2	2
Increased considerably	0	0	0
Diffusion Index	-20	-17	-33

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

Banks reported that the increase in household demand for loans related to house construction and refurbishment during 2025 was primarily driven by stronger financing needs for housing investment and renovation activities, as well as developments in households' internal funding conditions. These factors each recorded a diffusion index (DI) of 38%, indicating a significant contribution to the increase in demand for housing-related credit.

In addition, the general level of interest rates and consumer confidence also supported the rise in loan demand, with both factors recording a DI of 25%. The positive diffusion index values indicate that, on balance, a greater proportion of banks identified these factors as contributing to stronger demand for housing-related financing during the reporting period. Overall, the results suggest that household borrowing for housing purposes was supported by both financing requirements and improvements in household financial conditions.

Table 20. 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	2	1	1	-38
Consumer confidence	0	0	3	0	1	-25
General level of interest	0	0	2	1	1	-38
Internal finance	0	0	2	1	1	-38

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 2026

Banks expect household loan demand to strengthen further in 2026, as indicated by an overall diffusion index (DI) of -63 percent. The anticipated increase in demand is expected to be driven by both housing-related lending and consumer credit. In particular, banks foresee stronger demand for loans for housing construction and refurbishment, with a DI of -63 percent, while consumer credit and other lending categories are also expected to improve, recording a DI of -50 percent.

Table 21. Households Credit Demand Expectations

Scale	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	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 decrease in demand, whereas the negative values indicate increase in demand

3.3. Bank Lending Interest Rates

The survey results indicate that three banks reported annual lending rates ranging between 6 and 10 percent in 2025, while one other bank reported lending rates within the 11–15 percent range (Table 22).

As shown in Table 23, compared with the previous year, three banks indicated that their lending rates remained unchanged, whereas one bank reported a reduction in lending rates during 2025. This suggests that lending conditions were broadly stable, with limited adjustments in pricing across the banking sector.

Table 22. Average bank lending Rates

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

Table 23. Bank Lending Rates compared to the previous year

	Banks
Increase	0
Remain at same level	3
Decrease	1

3.4. Factor affecting Commercial Bank Lending Rate

Commercial bank interest rates play a critical role in supporting economic progress and the development of entrepreneurial activities, particularly by influencing access to finance and the cost of credit. In a well-established and integrated banking system, lending rates are typically determined by a range of factors within the framework of monetary policy and financial market conditions. However, in Timor-Leste, the absence of an independent interest rate policy framework, due to the use of the US dollar as legal tender, limits the Central Bank's ability to influence market interest rates through conventional monetary policy instruments. Consequently, lending rates are primarily determined by commercial banks based on their own pricing mechanisms and prevailing market conditions.

The survey results indicate that commercial banks consider several key factors when determining lending rates. The cost of funds was identified as the most significant determinant, with all responding banks highlighting its importance in loan pricing decisions. Other major factors include operating and administrative costs, credit risk considerations, profit margins, and overall market conditions.

Banks also reported that competitive pressures within the banking sector, prevailing market interest rates, and broader financial conditions influence lending rate decisions. In addition, some banks identified legal and regulatory requirements, taxation costs, and provisions for potential loan losses as relevant factors in determining the final pricing of credit products.

Overall, the findings suggest that lending rates in Timor-Leste are shaped by a combination of funding costs, risk-adjusted pricing, operational efficiency, profitability objectives, and competitive market dynamics. This reflects banks' efforts to balance the need to maintain financial sustainability with the objective of providing credit under a dollarized financial system where monetary policy transmission through interest rates is limited.

3.5. Suggestions and Recommendations from Commercial Banks

Commercial banks identified several policy measures that could help strengthen credit growth and enhance financial intermediation in Timor-Leste. A key recommendation was the establishment of a credit guarantee scheme to mitigate lending risks and encourage banks to extend financing to a wider range of borrowers, particularly micro, small, and medium-sized enterprises (MSMEs), which often face challenges in accessing formal credit due to limited collateral and higher perceived risks.

Banks also emphasized the importance of advancing financial inclusion initiatives to broaden access to formal financial services and expand the base of financially capable and creditworthy borrowers. Furthermore, strengthening the legal and credit infrastructure, including the development of reliable credit information systems and more effective collateral registration and enforcement mechanisms, was identified as essential for improving credit risk assessment, reducing information asymmetries, and facilitating more efficient lending decisions.

Maintaining macroeconomic stability was highlighted as another important prerequisite for sustainable credit expansion, as a predictable economic environment supports business confidence, investment activity, and demand for financing. In addition, banks underscored the need for greater legal certainty regarding collateral ownership, recovery procedures, and enforcement frameworks. Strengthening creditor rights and reducing uncertainty in collateral execution would help lower credit risks and encourage financial institutions to expand lending activities.

Overall, commercial banks' recommendations point to the importance of coordinated policy efforts to improve the enabling environment for credit growth, strengthen financial sector resilience, and enhance the role of banking institutions in supporting private sector development and economic transformation in Timor-Leste.

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