

Emerging Markets Bank Lending Conditions Survey

- 2011Q4-

- The IIF EM Bank Lending Conditions (EMLC) index signaled a further deterioration in EM banking conditions, dropping to 44.8 in Q4 2011
- The deterioration in international funding conditions continues to be a key feature
- Banking conditions have weakened sharply in Emerging Europe, reflecting spillover from the Euro Area crisis

GLOBAL EMERGING MARKETS BANK LENDING CONDITIONS

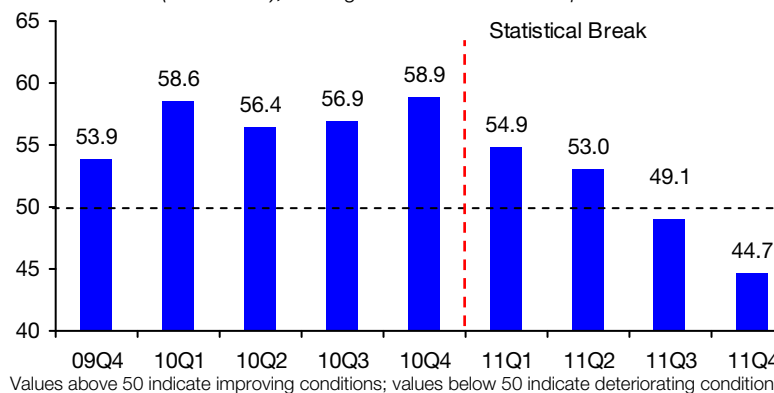
The December 2011 IIF's EM Bank Lending Conditions (EMLC) survey showed a gloomier outlook than all previous surveys with global banking conditions weakening substantially over the past 3 months in all major regions (top chart). Although all factors have contributed to this grimmer mood, the most significant deterioration has occurred once again in funding conditions. Our overall funding conditions index declined to 32.3 in Q4, its weakest level to date (lower chart).

The situation has deteriorated the most in Emerging Europe. The rapid deleveraging of European banks has continued to loom over Emerging Europe. All indices for Emerging Europe, especially the credit standards index, declined to worrying levels. **In response to a special ad hoc question on the Euro Area crisis, 63% of the banks in Emerging Europe acknowledged a tightening in credit standards due to the financial strains in the Euro Area (page 6).** The demand for loans, particularly for commercial and residential real estate loans, continued to decline in Emerging Europe. There was also a rise in NPLs.

Other regions in our sample of emerging market banks have also been negatively effected by recent developments. Most importantly, international funding conditions have tightened appreciably further across all regions (page 4 and 14). The brightest aspect of the downbeat survey is that the demand for credit in emerging economies is generally holding up quite well (with the exception of Emerging Europe). Notably, Asian banks reported an increase in the demand for international trade finance.

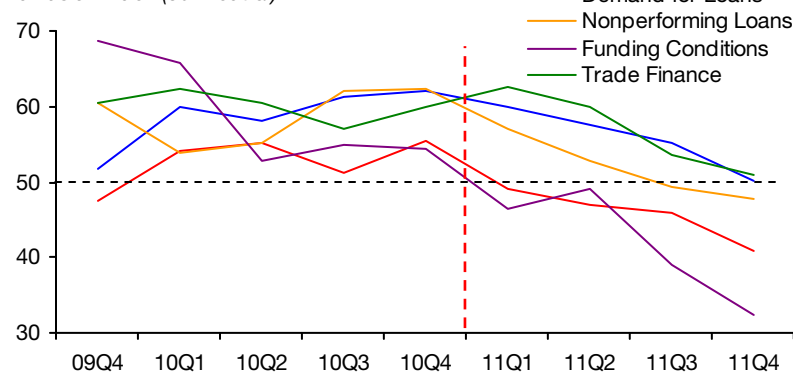
Global EM Bank Lending Condition Indices

diffusion index (50=neutral), average of answers to all 14 questions



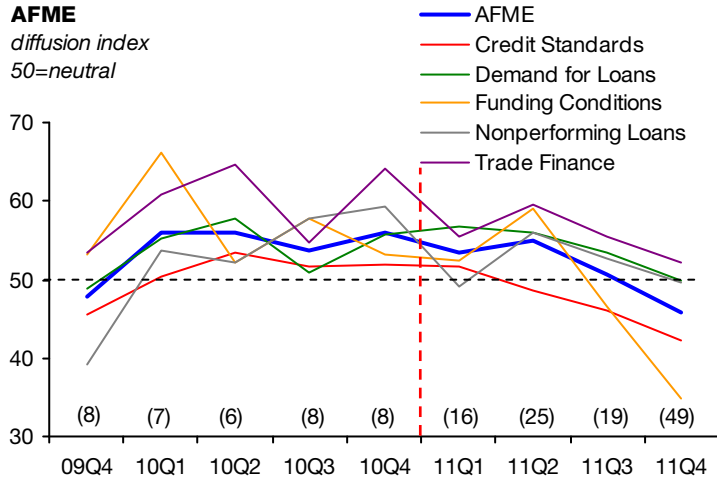
Conditions by Category

diffusion index (50=neutral)

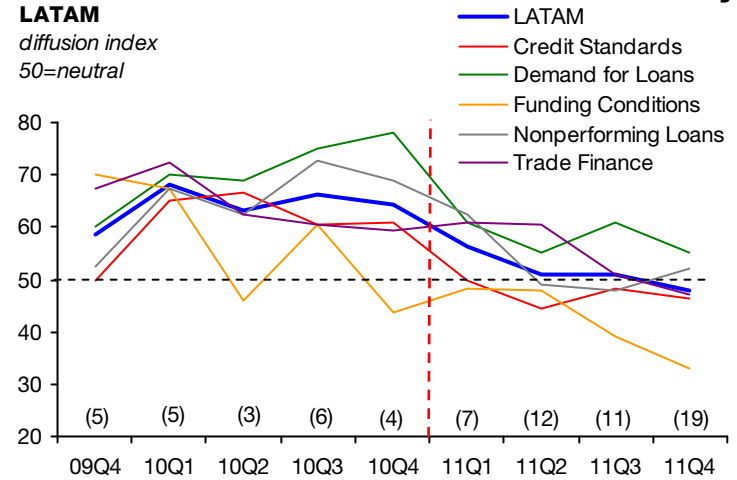


*Given the uneven number of answers across the regions, the "Global EM Index" is calculated as a non-weighted average of regional aggregates, which in turn are calculated from the answers to the 14 questions (see page 7).

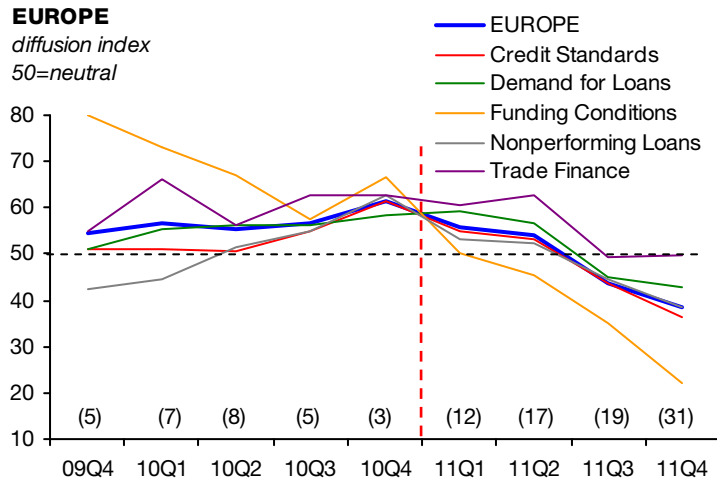
Summary



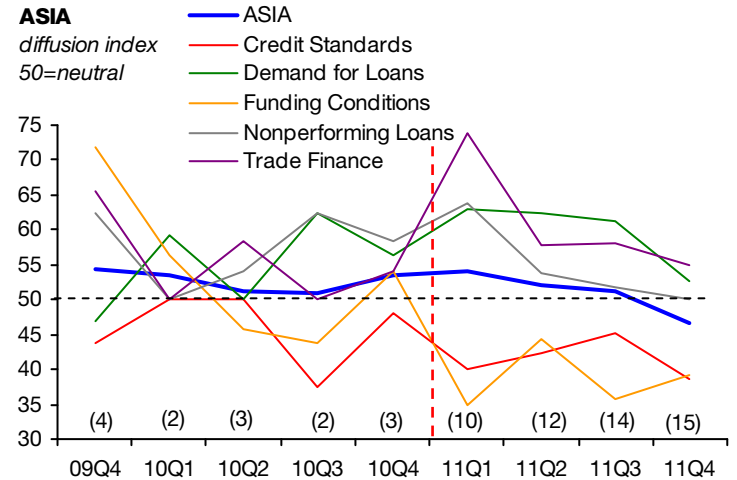
The main features of this quarter's AFME lending conditions include: a sharp tightening in overall lending standards; a sharp deterioration both in local and external funding conditions; a slight increase in non-performing loans; but a solid demand for trade finance.



In LATAM, our overall index of lending conditions deteriorated for the first time. Tighter credit standards, weak funding and trade finance conditions contributed to this drop. Encouragingly, nonperforming loans have diminished marginally.



Credit standards tightened further. The deterioration in both local and international funding conditions continued to be worrisome. Non-performing loans increased sharply. The demand for loans deteriorated substantially. The demand for trade finance was least affected.



Lending conditions weakened sharply due mainly to the increasingly tight credit standards and funding conditions. The demand for loans has increased but at a slower pace. There was no major change in non-performing loans. Trade finance was solid.

Summary

OVERALL LENDING CONDITIONS (Average of all 14 Indices)

The Q4 EMLC Survey was conducted between mid December 2011 and early January 2012. For the ninth EMLC survey, 114 banks participated (49 from AFME, 31 from Emerging EUROPE, 19 from LATAM and 15 from ASIA). Representation from AFME and Emerging EUROPE was up strongly in this survey, but we have no reason to think that this biased the results.

At 44.7, the overall index of bank lending conditions, which averages the outcomes of the 14 questions of our survey, signaled a significant deterioration in EM bank lending conditions over the past three months.

Although all major regions have contributed to this disruption, the most significant deterioration has occurred in Emerging EUROPE. At the other end of this fairly bleak spectrum, LATAM banks have been least affected, bolstered by continued strength in regional credit demand.

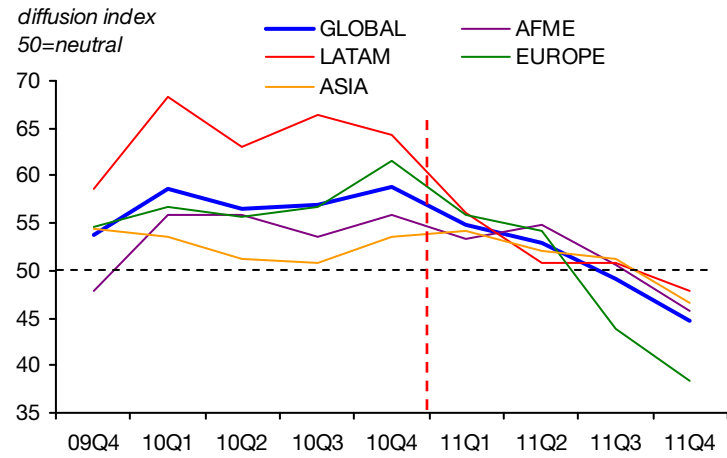
CREDIT STANDARDS (Average of Questions 1-4)

Banks domiciled in emerging market economies continued to tighten their credit standards in the fourth quarter of 2011. The overall index of credit standards declined to 40.8 in Q4 from 45.9 in Q3, implying that EM banks are becoming more cautious in their lending practices. There was a tightening in credit standards across all four categories of loans in our survey.

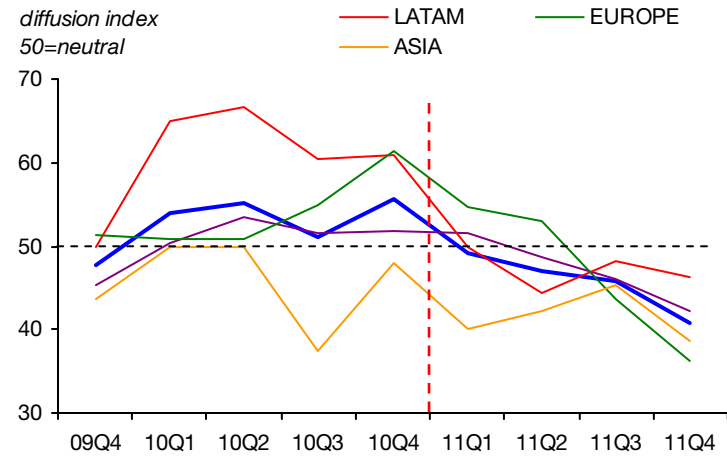
The tightening in credit standards was most pronounced in Emerging EUROPE. We believe that this mainly reflects the spillover tensions from the Euro Area to Emerging EUROPE. Not surprisingly, the tightening in credit standards was most acute in real estate lending (both residential and commercial).

Credit standards have also tightened significantly in ASIA, and across all types of loans. In particular, banks reported a tightening of credit standards to industrial borrowers and commercial real estate.

EM Bank Lending Condition Indices



Credit Standards



Summary

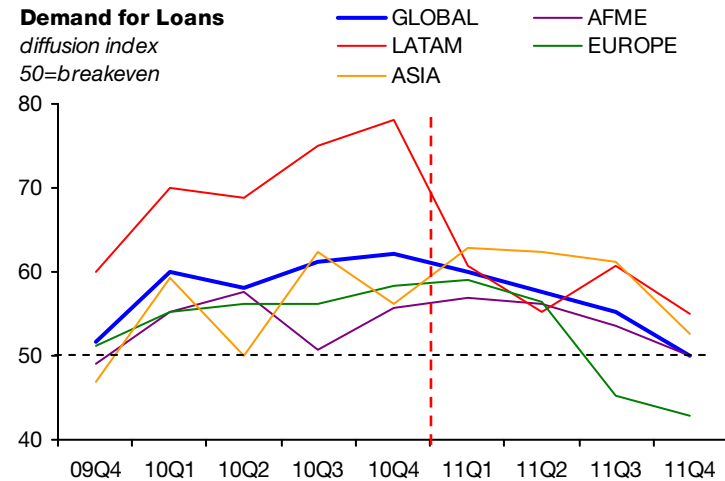
DEMAND FOR LOANS (Average of Questions 5-8)

The overall demand for loans in our survey was unchanged from the previous quarter (the aggregate loan demand index is 50.1 in Q4). Demand for credit from EM banks, however, has weakened steadily over the past year.

Once again, it is developments in Emerging EUROPE that are most noteworthy. Demand for both commercial and residential real estate loans was especially weak, although demand for consumer and business lending was quite steady.

By contrast, demand for loans in ASIA and, especially, in LATAM remained very healthy. The most robust demands in these regions came from business and consumer lending. As with Europe, the demand for real estate loans was relatively weak.

Overall demand for credit from AFME was broadly unchanged.

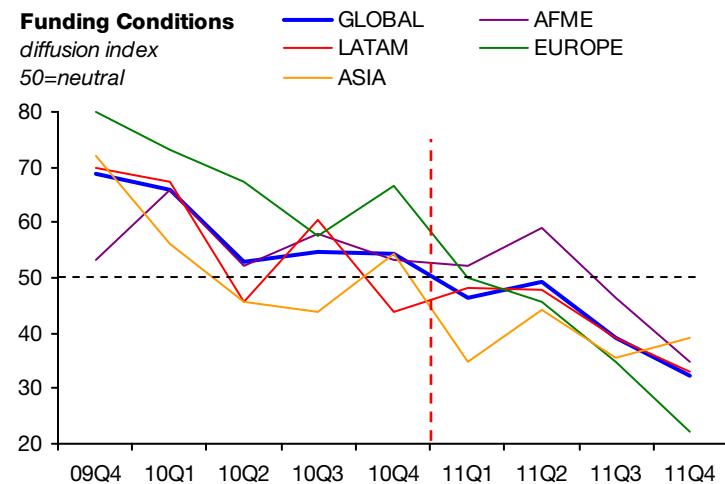


FUNDING CONDITIONS (Average of Questions 9-10)

The deterioration in both local and international funding conditions continued to be worrisome. Overall funding conditions tightened further in all four regions. Once again, it was Emerging EUROPE leading the way. The most important driving force continued to be the deterioration in international funding conditions. 74% of survey participants reported an overall tightening in international funding conditions (page 14).

For Europe, new capital requirements imposed by the European Banking Authority appear to have caused the European banks to reduce their exposure to Emerging EUROPE.

What is most striking, however, is the further tightening in domestic funding conditions in all regions of our survey, except ASIA where it was broadly unchanged. Overall, 47% of EM banks acknowledged an overall tightening in domestic funding conditions.



Summary

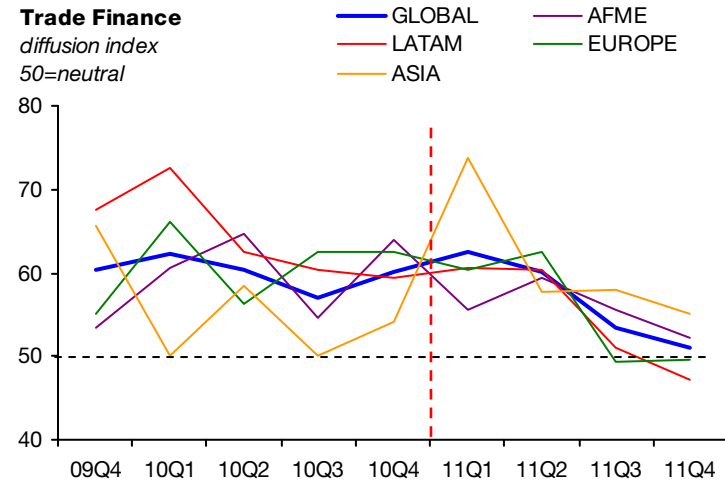
INTERNATIONAL TRADE FINANCE (Average of Questions 11-12)

Encouragingly, the results of the survey indicate a slight continued improvement in international trade finance conditions in the last quarter, albeit at a somewhat slower pace than before. This was due mainly to the robust demand for international trade finance.

On the demand side, there was impressive strength in the demand for international trade finance from ASIA, which is important given ASIA's significance in world trade.

On the supply side, banks in LATAM became more cautious in the past three months. Given the tightening of international funding conditions, however, it is quite encouraging that the supply conditions for trade finance did not tighten dramatically over the past quarter, even in Emerging EUROPE.

Trade Finance
diffusion index
50=neutral

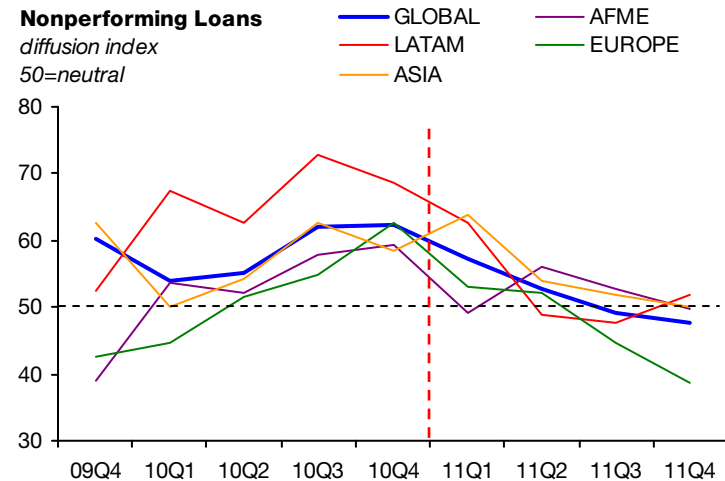


NONPERFORMING LOANS (Average of Questions 13-14)

Our overall index of NPLs showed the second straight quarterly deterioration (note a reading of our NPL index below 50 implies rising NPLs).

The evaluation of NPLs in Emerging EUROPE is most concerning, both over the past 3 months, and in the 3 months ahead (page 16). By contrast, NPLs in the last 3 months fell slightly in all other regions, helped by monetary easing. Unfortunately, however, NPLs are projected to rise, on balance, over the next 3 months in AFME and ASIA. NPLs in LATAM are expected to continue to decline.

Nonperforming Loans
diffusion index
50=neutral



Summary

EURO AREA SPECIFIC AD HOC QUESTIONS

This quarter, we have included two additional questions in our questionnaire. These ad hoc questions were designed to give clearer insight as to how the financial turmoil in the Euro Area is affecting emerging economies.

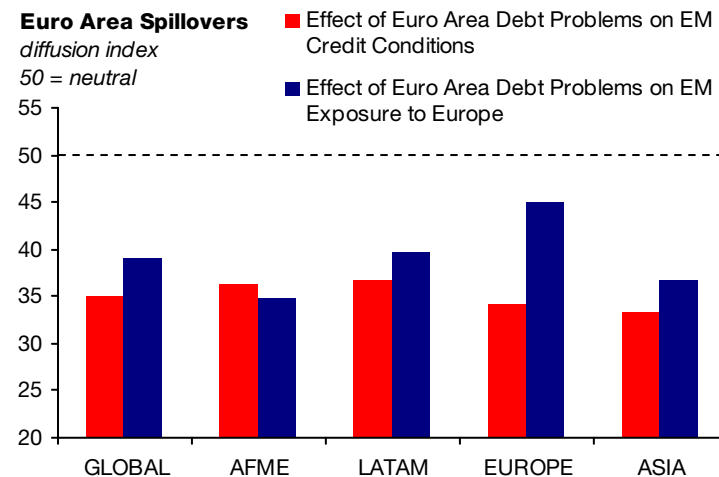
These questions were:

- Over the last three months, how have your Bank's **credit standards been affected by the financial strains in the Euro Area?**
- Over the last three months, how has your bank's **exposure to the Euro Area changed?**

As with other questions in our survey, respondents were given 5 possible answers and their responses were translated into diffusion indices.

The results indicate that emerging economies have been sharply affected by the ongoing financial crisis in the Euro Area:

- All major regions acknowledged that credit standards tightened significantly over the past 3 months due to the Euro Area crisis. The tightening in credit standards was most pronounced in Emerging EUROPE and, especially, in ASIA. 67% of survey participants from ASIA reported that credit standards have tightened significantly in Q4 (63% in Emerging EUROPE, 53% both in AFME and LATAM).
- Mounting concerns over the Euro Area sovereign debt crisis had prompted emerging economies to reduce their exposures to the Euro Area over the past 3 months. Overall, 41% of the banks acknowledged a decline in their exposure to the Euro Area. Given that banks in Emerging EUROPE are tightly interconnected with the Euro Area, the drop in their exposures was less than the other regions. Only 24% of survey participants from Emerging EUROPE reported a decline in their exposure to the Euro Area.



Values below 50 indicate deteriorating conditions

BACKGROUND

The Emerging Markets Bank Lending Conditions Survey (EMLC) is addressed to Senior Loan Officers, Chief Credit Officers or other senior officers in equivalent positions from banks based in emerging market countries. The questions address five different topics: credit standards, demand for loans, funding conditions, trade finance and nonperforming loans. Regional indices for each question are simple averages of answers to that question. Regional indices by category are calculated as an average of the regional indices for questions 1-4 (credit standards), questions 5-8 (demand for loans), questions 9-10 (funding conditions), questions 11-12 (trade finance), and questions 13-14 (nonperforming loans). Global indices by category are then calculated as a non-weighted average of regional indices by category. Finally, the Global EM Index is an average of the 14 regional indices. See the table in Appendix page 18 for detailed results.

For the ninth EMLC survey, 114 banks participated. The regional distribution is as follows: 49 banks from Africa and Middle-East (AFME), 31 banks from Emerging Europe (EUROPE), 19 banks from Latin America (LATAM), and 15 banks from Emerging Asia (ASIA). Not all banks could answer the 14 questions that comprised the survey due to their specialization, and the number of answers received for each question is indicated in the detailed survey results. The Q4 EMLC Survey was conducted between mid December 2011 and early January 2012 and all questions thus relate to changes that occurred during the fourth quarter of 2011 unless otherwise stated. Moreover, this survey includes two additional questions on Euro Area financial strain (page 6 and 17).

Results of the survey are displayed in two different parts:

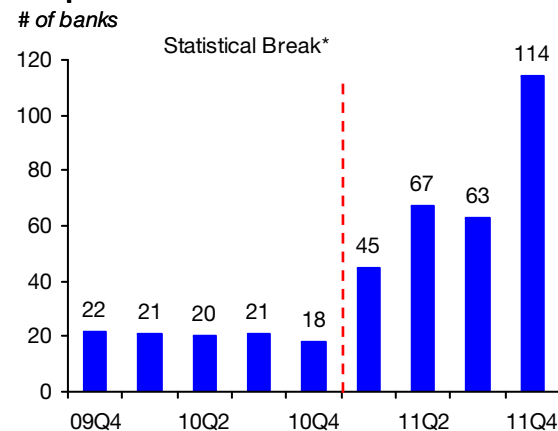
- The “Lending Conditions Outlook” compares results with bank lending surveys from the G3 (pages 8 and 9).
- The “Survey Results” are displayed as a net percentage of total answers (left-hand side), and as a regional diffusion index (right side; pages 10 to 17).

The diffusion indices are designed to capture the distribution of answers to each question in one number.

To calculate the indices, each type of answer is assigned a value: 0 if conditions have tightened/demand has decreased considerably; 25 if conditions have tightened/demand has decreased somewhat; 50 if conditions/demand remained unchanged; 75 if conditions have eased/demand has increased somewhat; and 100 if conditions have eased/demand has increased considerably. The average (mean) value is then calculated, and this percent is the diffusion index number. A diffusion index reading of 50 should be interpreted as a neutral reading to the question; a value above 50 (the maximum is 100) reflects greater strength; a value less

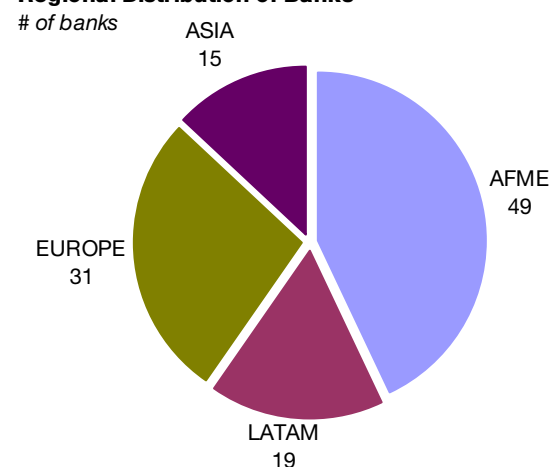
Lending Conditions Outlook

Sample Size over Time



*In the first quarter of 2011, we increased the number of banks we sent the survey to, from around 35 banks composing the IIF Emerging Markets Advisory Council to the entire IIF emerging market membership.

Regional Distribution of Banks

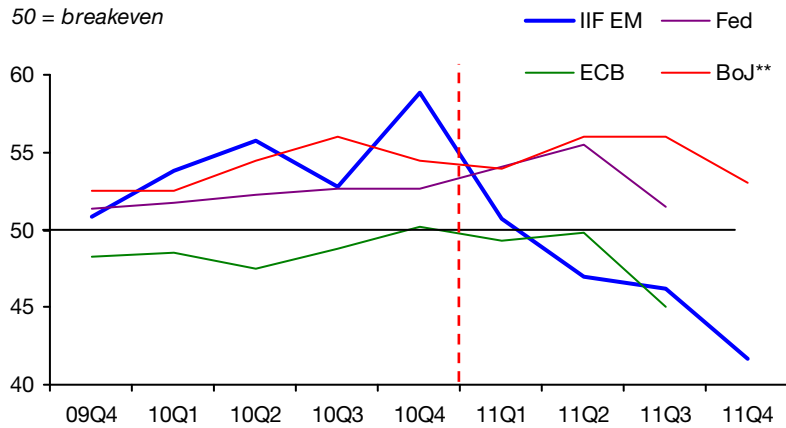


Lending Conditions Outlook

COMPARISON WITH G3* BANK LENDING CONDITIONS: SUPPLY

Credit Standards for Corporate Loans

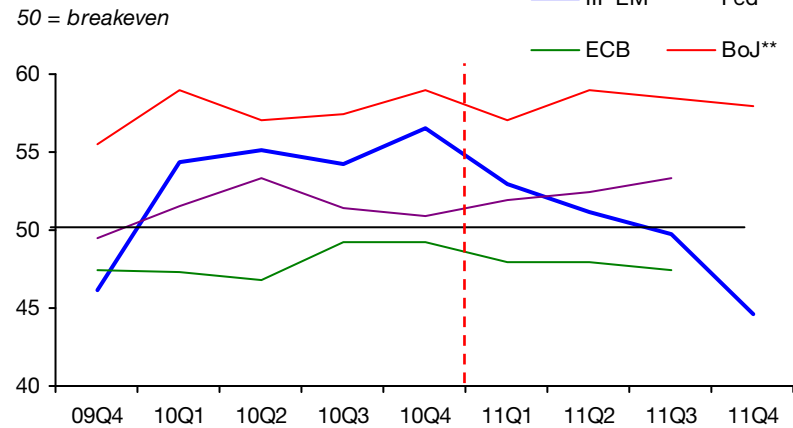
50 = breakeven



**Large firms

Credit Standards for Consumer Loans

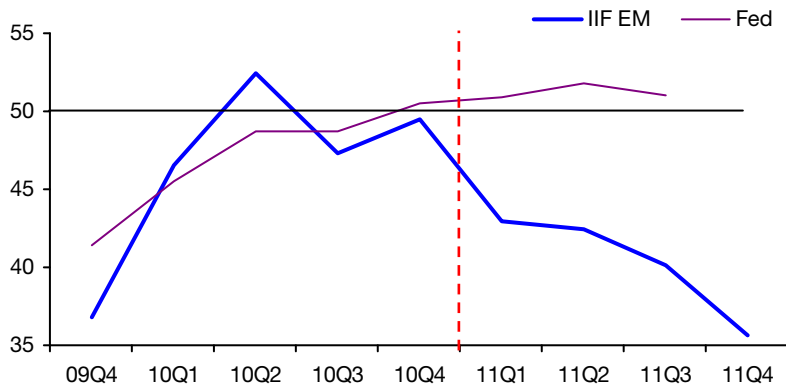
50 = breakeven



**Total consumer lending

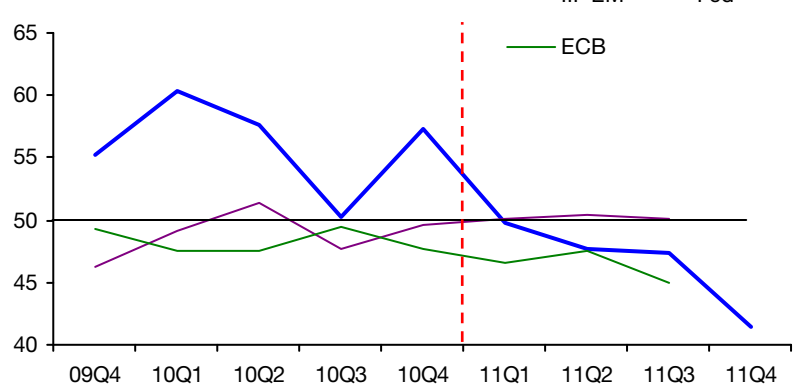
Credit Standards for Commercial Real Estate Loans

50 = breakeven



Credit Standards for Residential Real Estate Loans

50 = breakeven



**Prime mortgage

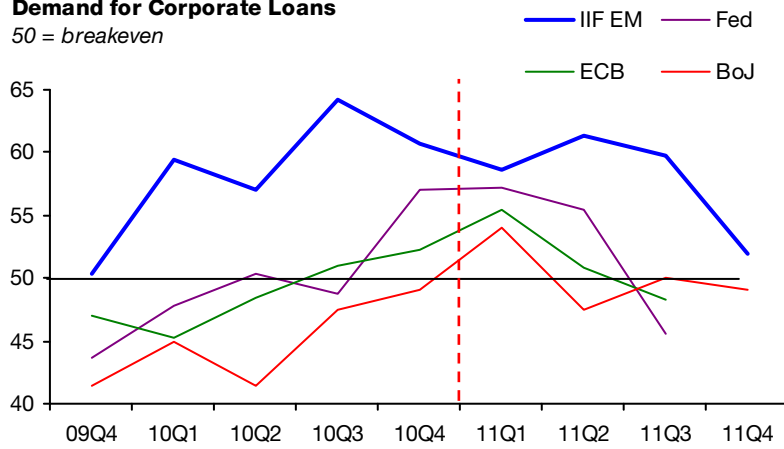
*G3 surveys used: Fed Senior Loan Officer Opinion Survey on Bank Lending Practices (11Q3); ECB Bank Lending Survey (11Q3); BoJ Senior Loan Officer Opinion Survey on Bank Lending Practices at Large Japanese Banks (11Q4).

Lending Conditions Outlook

COMPARISON WITH G3* BANK LENDING CONDITIONS: DEMAND

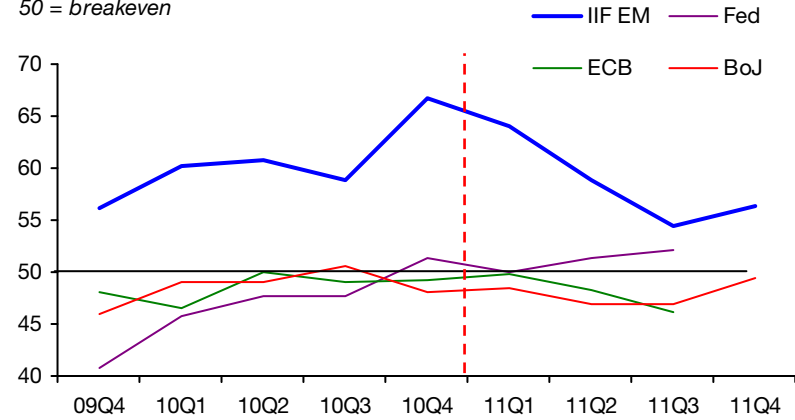
Demand for Corporate Loans

50 = breakeven



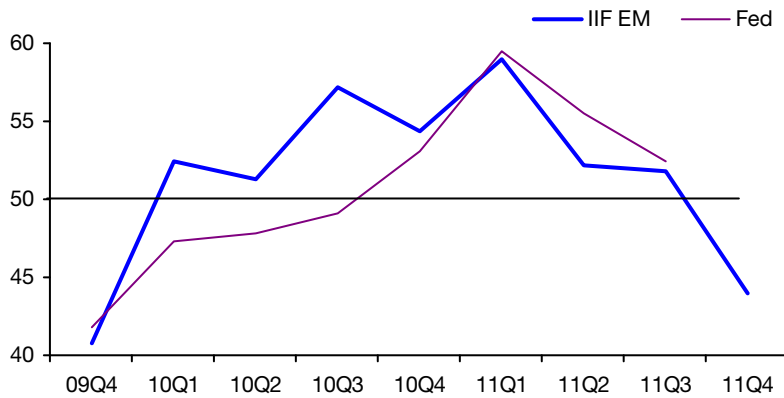
Demand for Consumer Loans

50 = breakeven



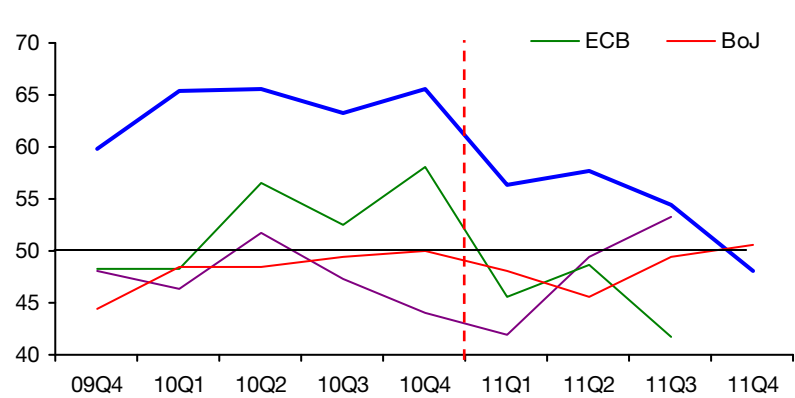
Demand for Commercial Real Estate Loans

50 = breakeven



Demand for Residential Real Estate Loans

50 = breakeven



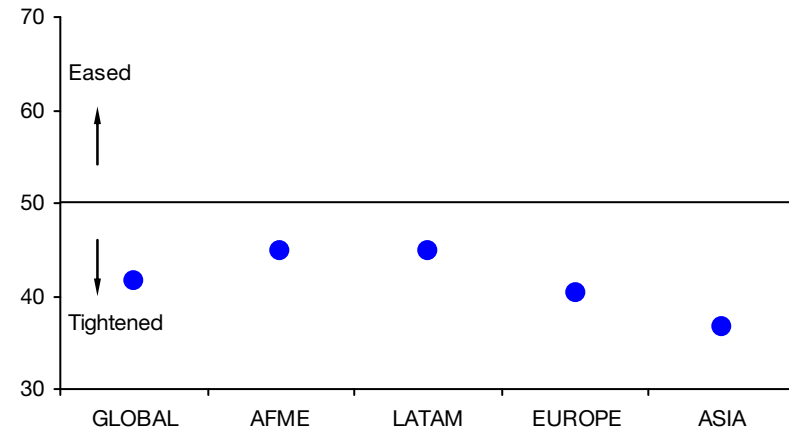
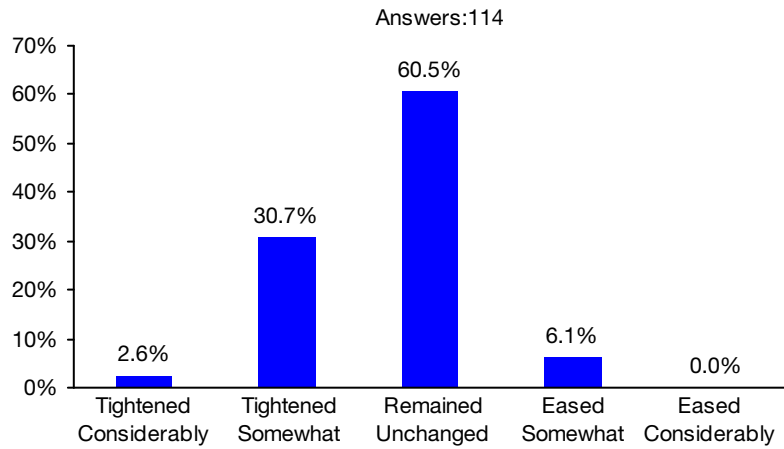
**Prime mortgage

*G3 surveys used: Fed Senior Loan Officer Opinion Survey on Bank Lending Practices (11Q3); ECB Bank Lending Survey (11Q3); BoJ Senior Loan Officer Opinion Survey on Bank Lending Practices at Large Japanese Banks (11Q4).

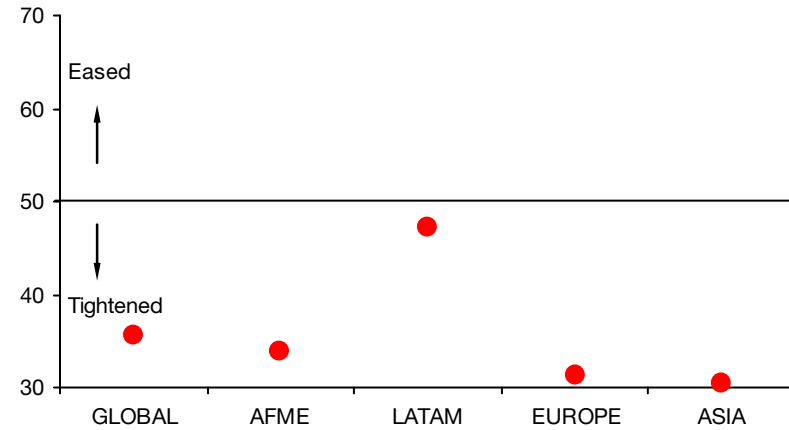
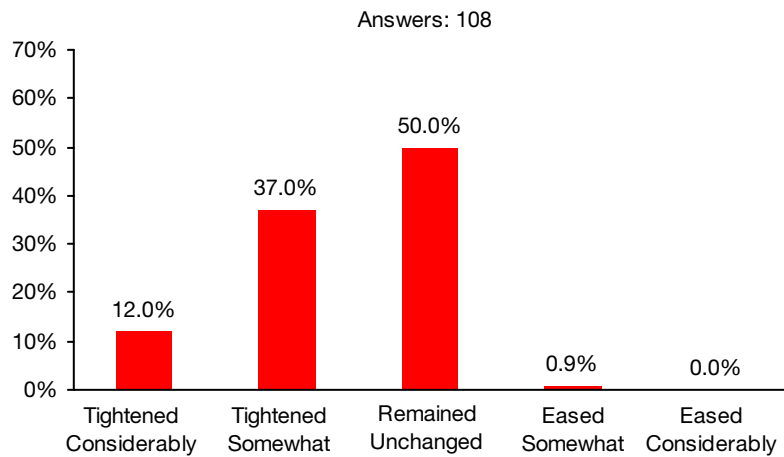
Emerging Markets Bank Lending Conditions Survey

RESULTS: CREDIT STANDARDS

1. Over the past three months, how have your bank's credit standards as applied to loans to **commercial and industrial enterprises** changed?



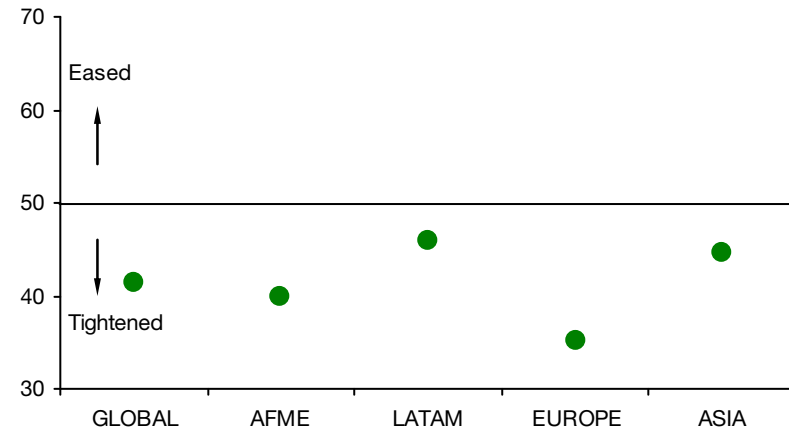
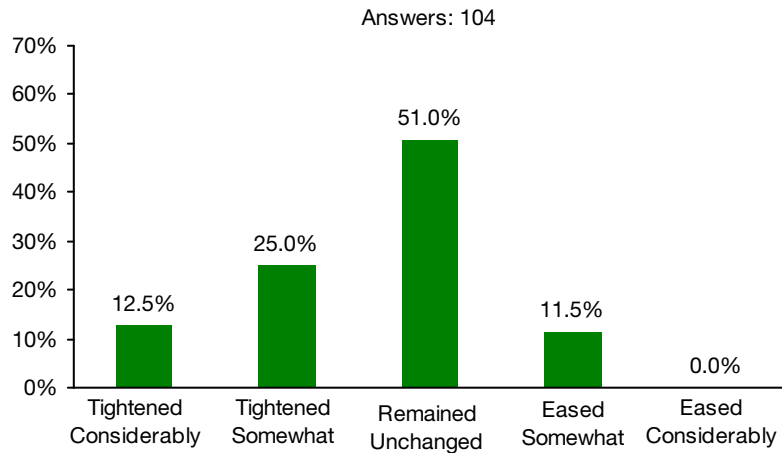
2. Over the past three months, how have your bank's credit standards as applied to loans for **commercial real estate** changed?



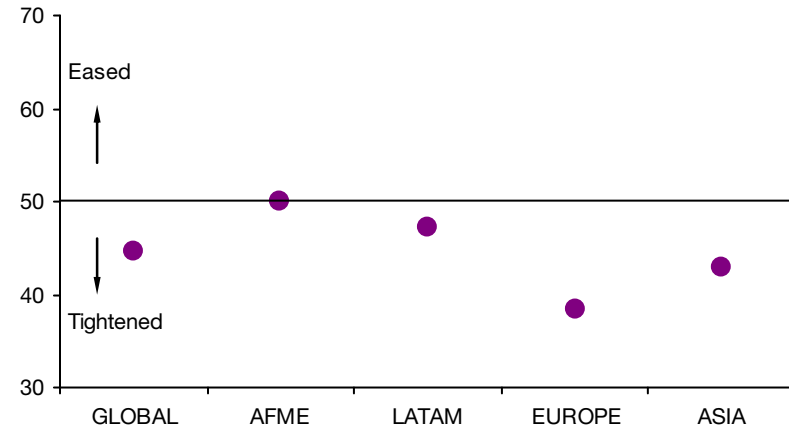
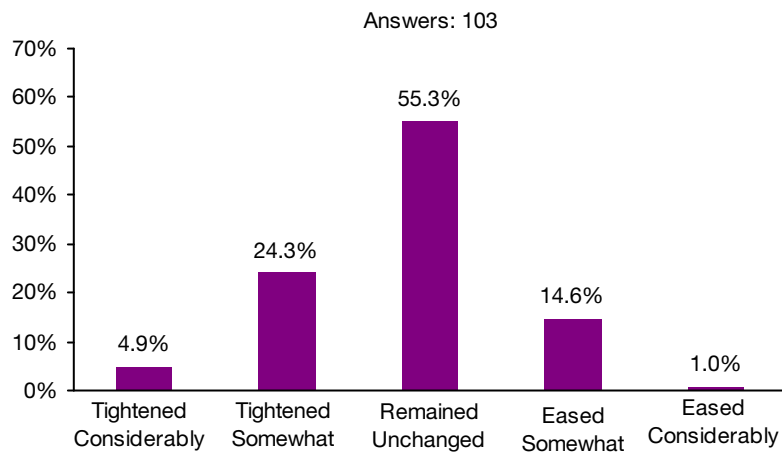
Emerging Markets Bank Lending Conditions Survey

RESULTS: CREDIT STANDARDS (CONTINUED)

3. Over the past three months, how have your bank's credit standards as applied to loans for **residential real estate** changed?



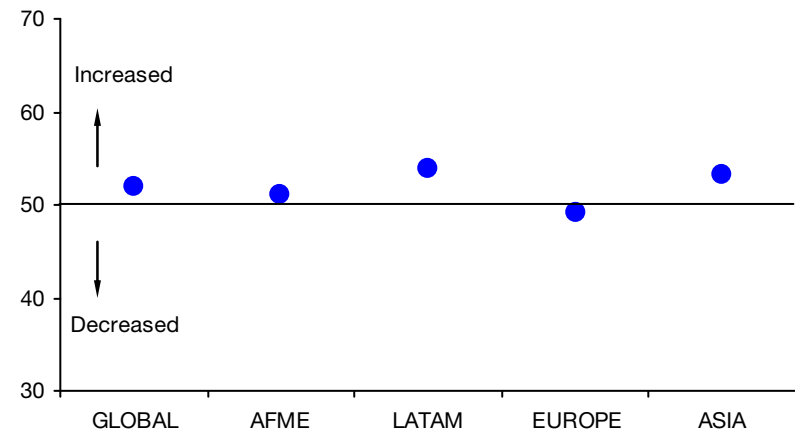
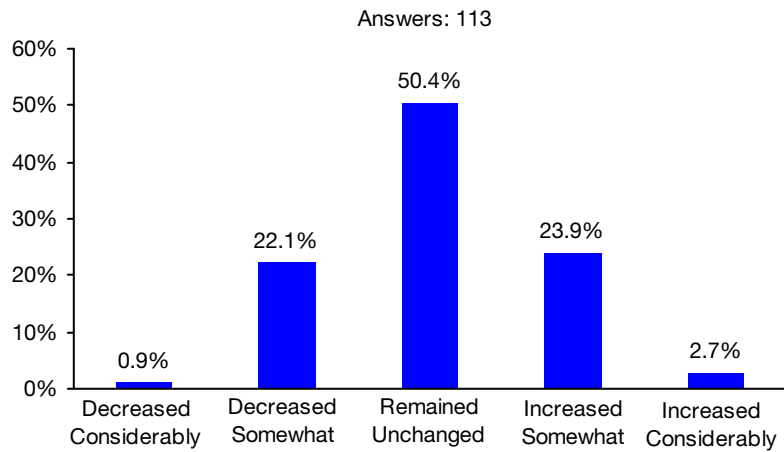
4. Over the past three months, how have your bank's credit standards as applied to **other consumer lending** (excluding residential mortgages) changed?



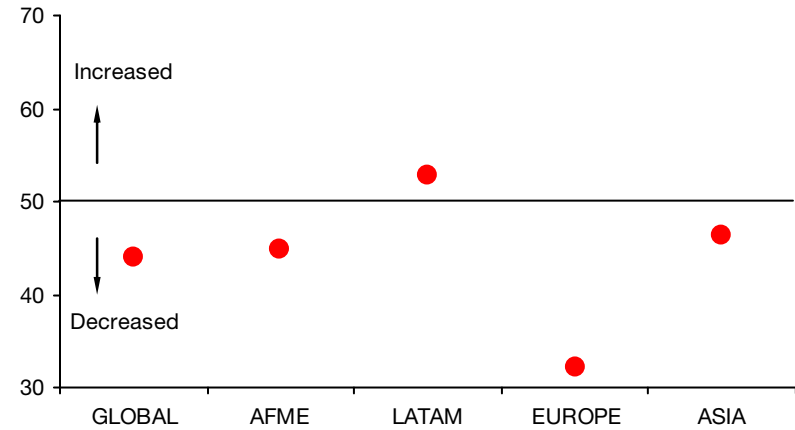
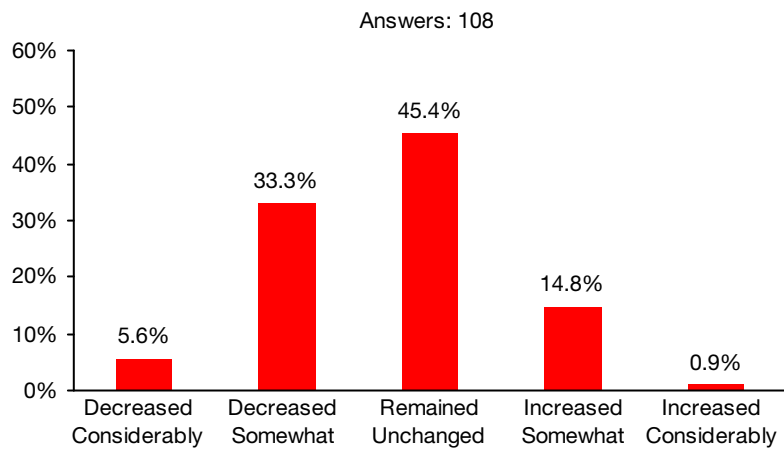
Emerging Markets Bank Lending Conditions Survey

RESULTS: DEMAND FOR LOANS

5. Over the past three months, how has the demand for loans from your bank's **commercial and industrial clients** changed?



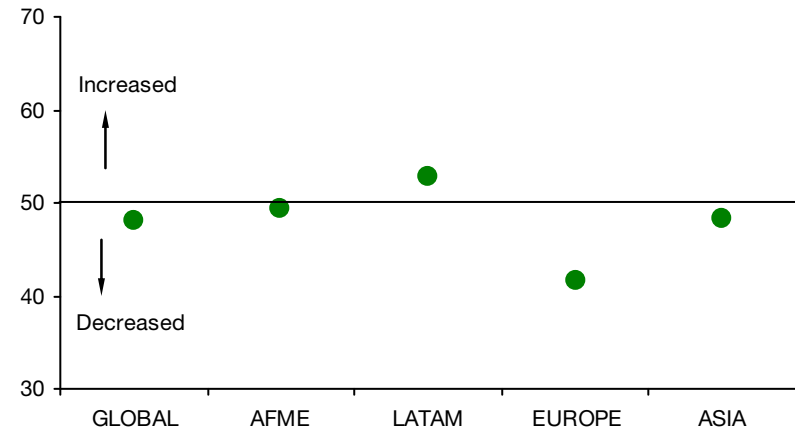
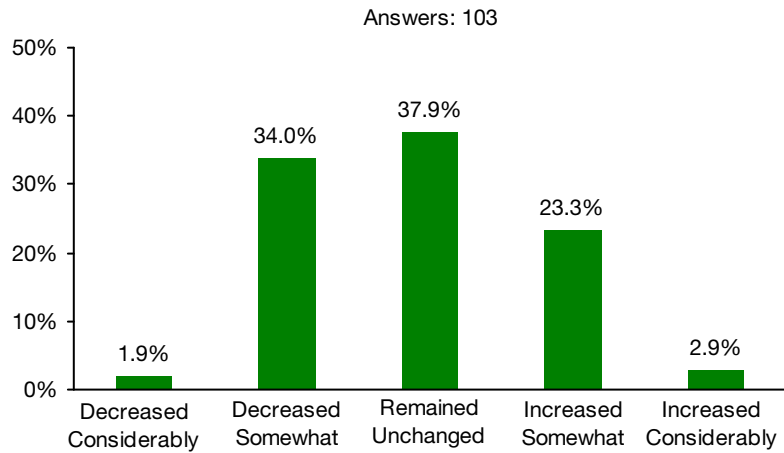
6. Over the past three months, how has the demand for loans from your bank's **commercial real estate clients** changed?



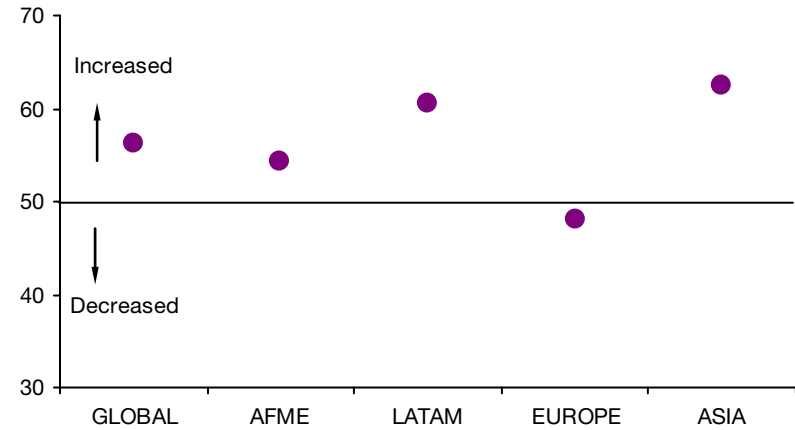
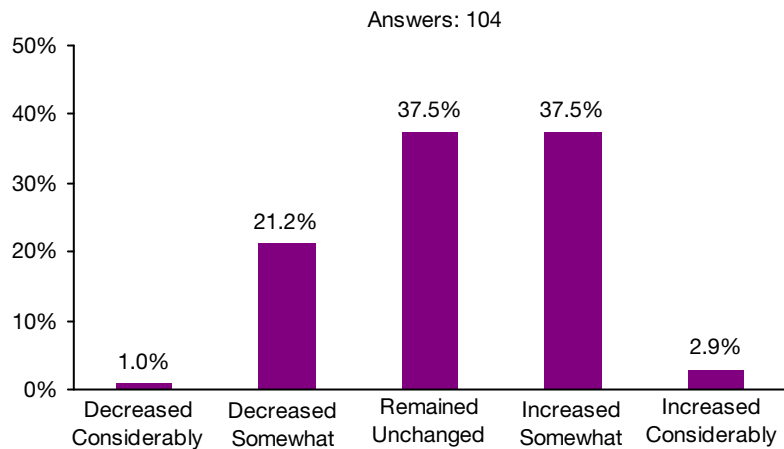
Emerging Markets Bank Lending Conditions Survey

RESULTS: DEMAND FOR LOANS (CONTINUED)

7. Over the past three months, how has the demand for loans from your bank's **residential real estate clients** changed?



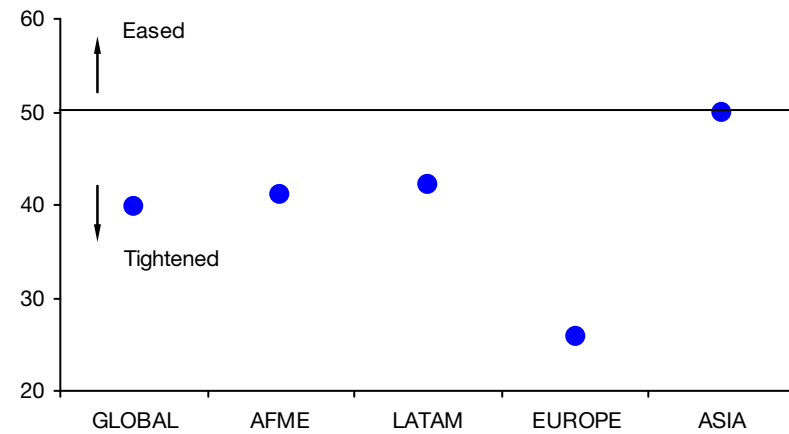
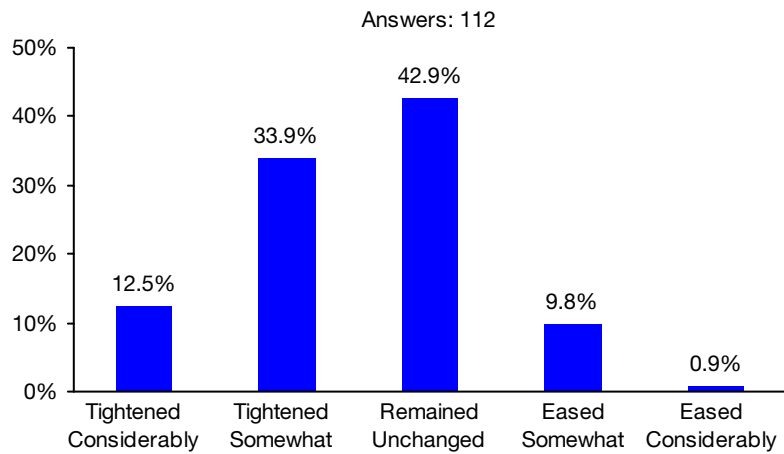
8. Over the past three months, how has the demand for **consumer loans** (other than residential mortgages) changed?



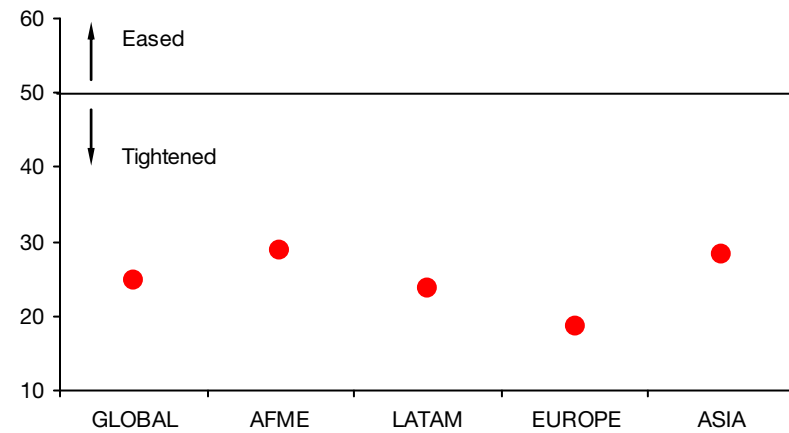
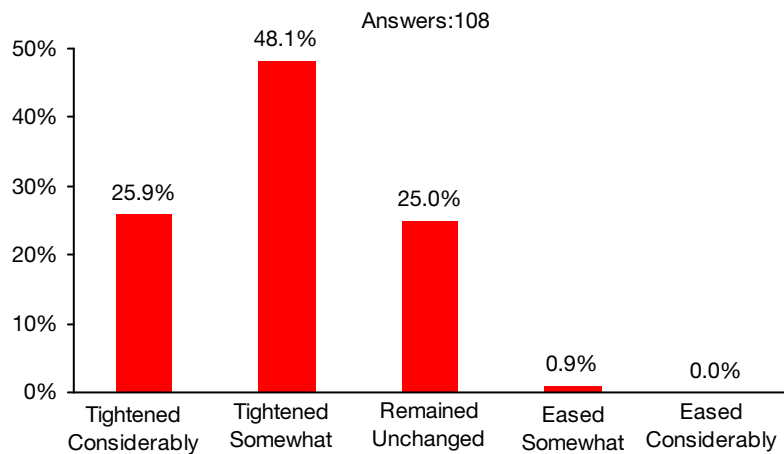
Emerging Markets Bank Lending Conditions Survey

RESULTS: FUNDING CONDITIONS

9. Over the past three months, how have **local funding conditions** changed?



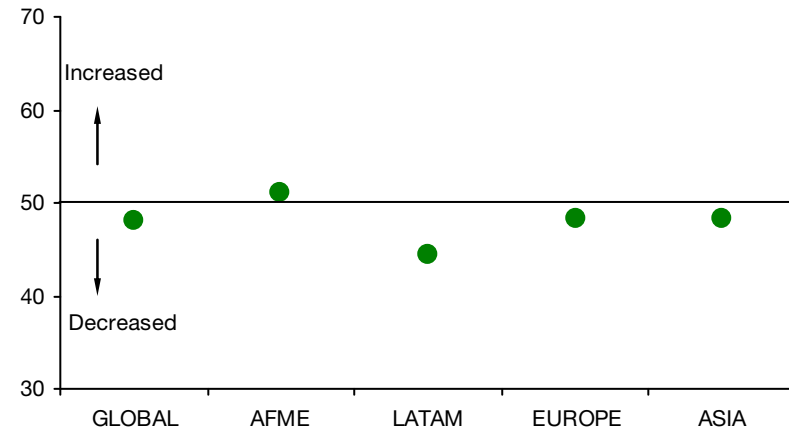
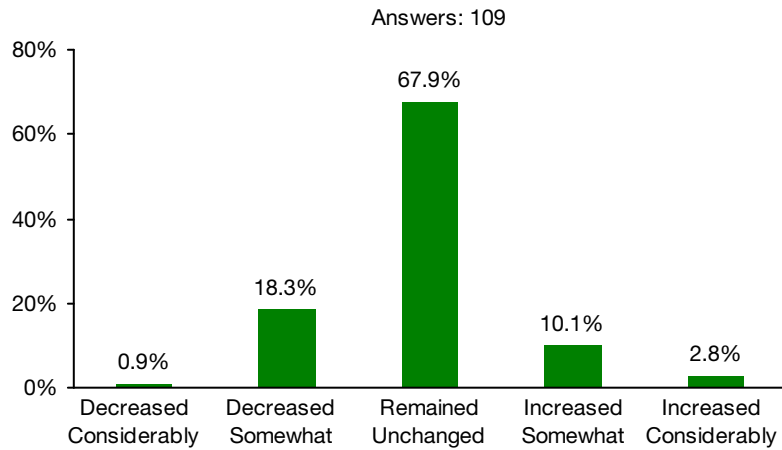
10. Over the past three months, how have **funding conditions in international markets** changed?



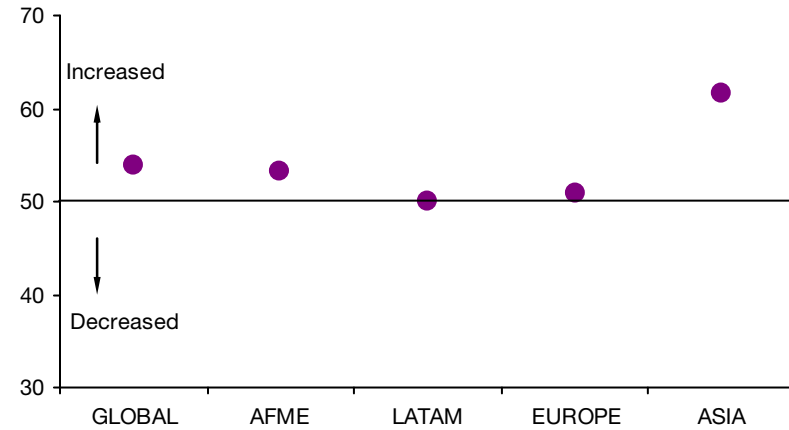
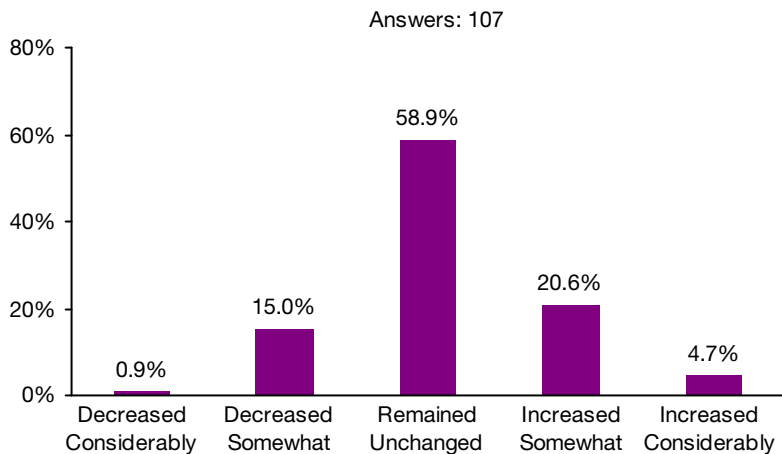
Emerging Markets Bank Lending Conditions Survey

RESULTS: INTERNATIONAL TRADE FINANCE

11. Over the past three months, how has your willingness to **supply international trade finance** changed?



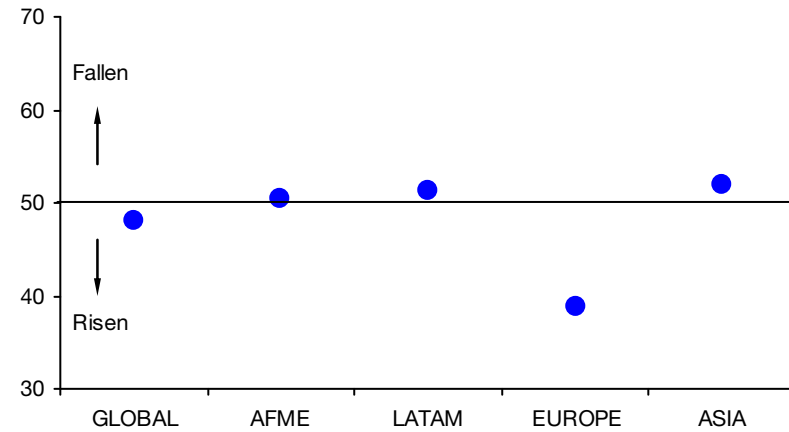
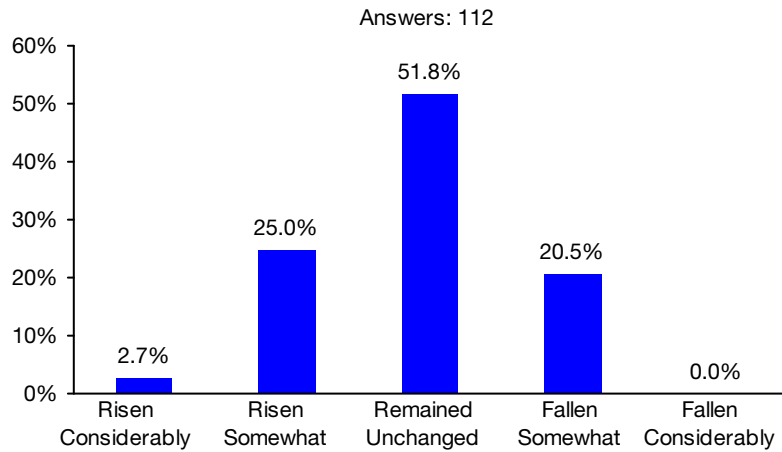
12. Over the past three months, how has the **demand for international trade finance** from your clients changed?



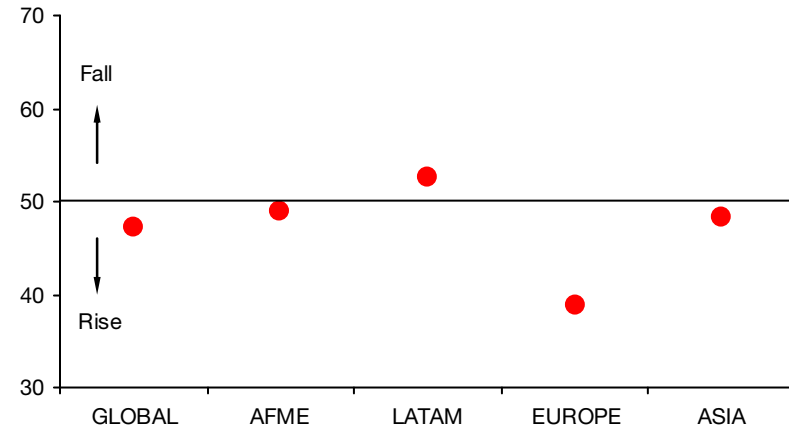
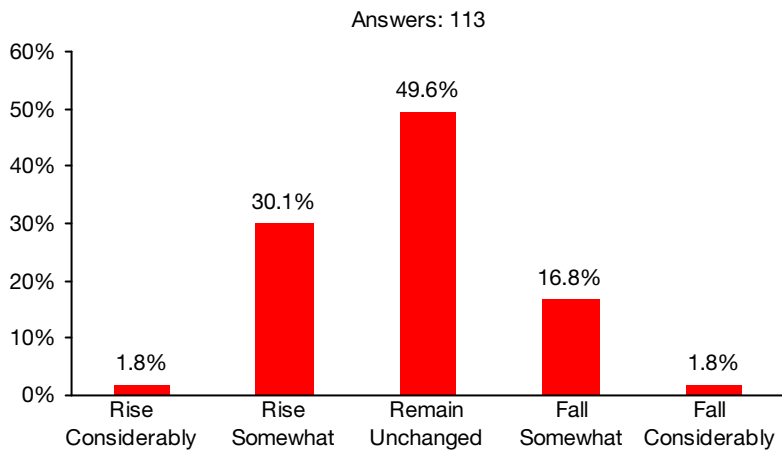
Emerging Markets Bank Lending Conditions Survey

RESULTS: NONPERFORMING LOANS

13. Over the past three months, how have nonperforming loans evolved in your bank lending portfolio?



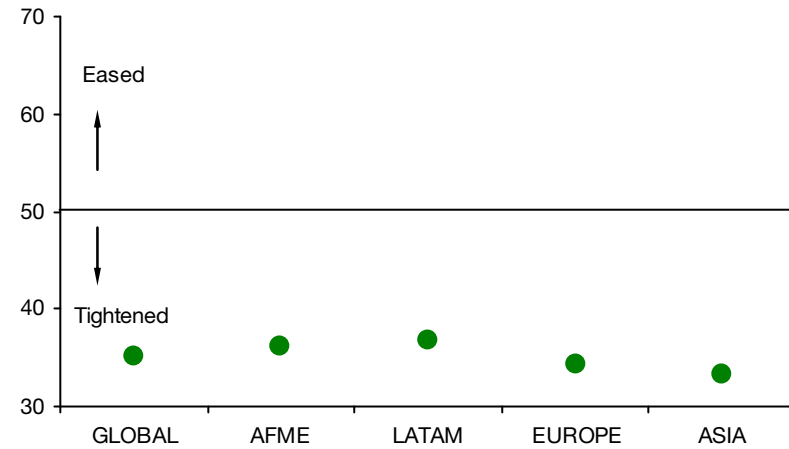
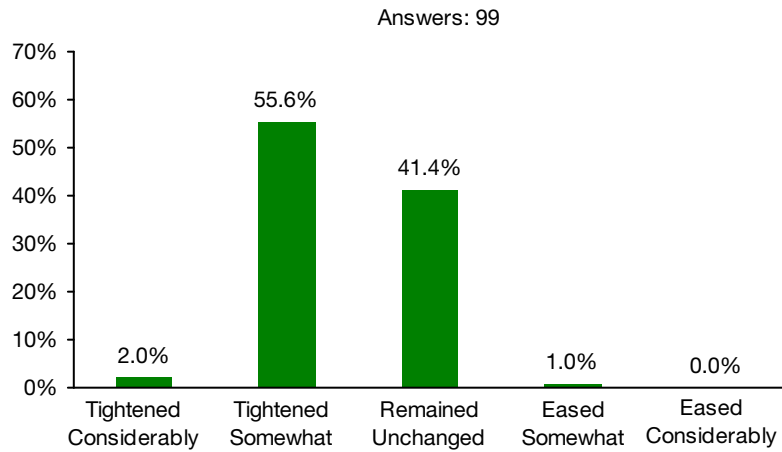
14. Over the next three months, how do you expect nonperforming loans to evolve in your bank lending portfolio?



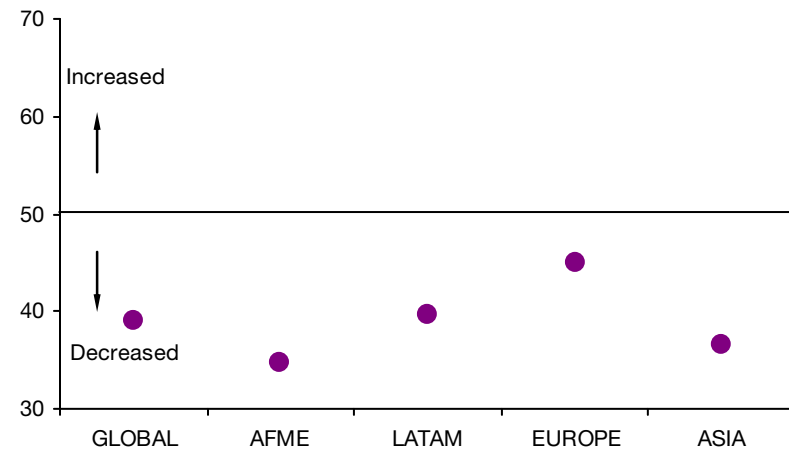
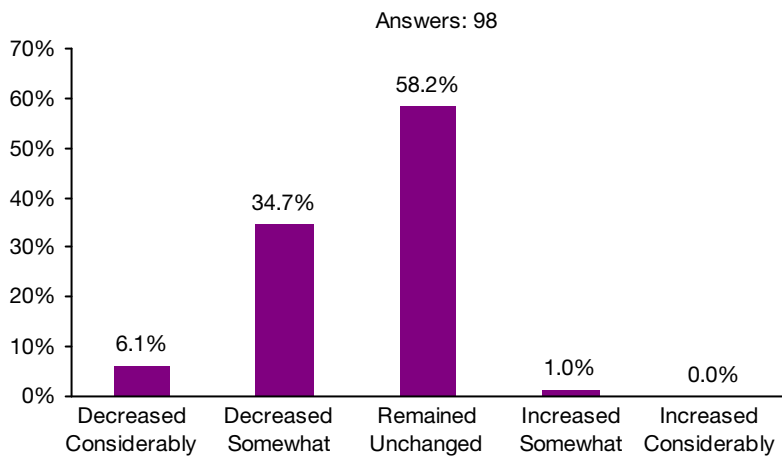
Emerging Markets Bank Lending Conditions Survey

RESULTS: EURO AREA SPECIFIC AD-HOC QUESTIONS

15. Over the last three months, how have your Bank's **credit standards** been affected by the financial strains in the Euro Area?



16. Over the last three months, how has your bank's **exposure to the Euro Area** changed?



Appendix**DIFFUSION INDICES***

Question	Global	AFME	LATAM	EUROPE	ASIA
<u>Credit Standards</u>	<u>40.8</u>	<u>42.2</u>	<u>46.3</u>	<u>36.3</u>	<u>38.6</u>
1. Commercial and Industrial Enterprises	41.7	44.9	44.7	40.3	36.7
2. Commercial Real Estate	35.7	33.9	47.2	31.3	30.4
3. Residential Real Estate	41.4	40.0	45.8	35.2	44.6
4. Other Consumer Lending	44.6	50.0	47.2	38.5	42.9
<u>Demand for Loans</u>	<u>50.1</u>	<u>49.9</u>	<u>55.0</u>	<u>42.7</u>	<u>52.6</u>
5. Commercial and Industrial Clients	51.9	51.0	53.9	49.2	53.3
6. Commercial Real Estate Clients	44.0	44.8	52.8	32.1	46.4
7. Residential Real Estate Clients	48.0	49.4	52.8	41.7	48.2
8. Demand for Consumer Loans	56.3	54.3	60.5	48.0	62.5
<u>Funding Conditions</u>	<u>32.3</u>	<u>34.9</u>	<u>32.9</u>	<u>22.2</u>	<u>39.2</u>
9. Local Funding Conditions	39.8	41.1	42.1	25.8	50.0
10. Funding Conditions in International Markets	24.8	28.7	23.7	18.5	28.3
<u>Trade Finance</u>	<u>51.0</u>	<u>52.1</u>	<u>47.2</u>	<u>49.6</u>	<u>55.0</u>
11. Supply of International Trade Finance	48.0	51.0	44.4	48.2	48.3
12. Demand for International Trade Finance	53.9	53.2	50.0	50.9	61.7
<u>NPLs</u>	<u>47.6</u>	<u>49.7</u>	<u>52.0</u>	<u>38.7</u>	<u>50.1</u>
13. Evolution in Past 3 Months	48.1	50.5	51.3	38.7	51.9
14. Expected Evolution in Next 3 Months	47.1	49.0	52.6	38.7	48.2
Total	44.7	45.9	47.8	38.4	46.7

*See page 7 for a methodological explanation

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