



Quarterly Economic Bulletin

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Content:

- I Money and Banking
 - II External Trade
 - III Domestic Economy
- Appendix: Monetary Statistics and BPA balance sheet

I. MONEY AND BANKING

Money Supply

The latest monetary data, up to December 2010, confirm an acceleration of the growth rate of broad money, followed by an increase in the credit development to the private sector. Other deposits are the main underline upward of monetary growth in the quarter.

The annual growth rate of depository institution loans to the private sector although volatile it is performed an upward sign of movement in the quarter. The issue of nonperforming loans become the central issue of, continue, slowing down in the credit growth to private sector in the economy.

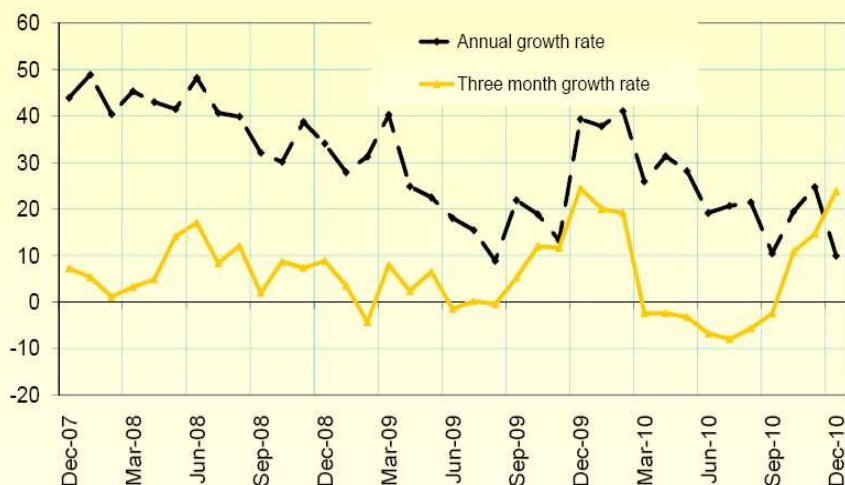
The Banking sector in a country is a key sector for the economic development that it plays the important role as a financial intermediary between the depositors and the investors. Therefore the bankers act, it should be seen both as the provider of the credit and, more important, as the responsible for the deposit.

The quarterly growth rate of broad money is increased while the claims to private sector expand slightly in the December quarter. It was resulted the commercial banks claims abroad declined. However as the liabilities are reduced more than claims, the net foreign assets of the other depository corporations is increased, rose by 20.6%.

The annual growth rate of broad money continue expand, although it was slowed down in the December 2010. The growth was rose by 9.9% followed an increase of 10.5% in the third quarter of 2010. It was grew by 24.7% in the last November.

The quarterly growth rate of broad money rose by 23.9%, reversing a downward growth of 2.5% observe in the last third quarter, and it was driven by all component of deposits. Saving deposits are the main driver, accounted about 29%, while time and demand deposits are supported about 21% and 5% respectively. Although currency in circulation (centavos) continue grows, it rose by 6%, followed a 7.1% increase in the last September quarter.

Chart 1 Broad Money Growth
(Percentage change)



Further the net foreign assets (NFA) occurring a huge increase in the December 2010 quarter, it rose by 48%, followed a 4.4% observed in the last September quarter. In fact this progress mostly due to the huge increase in the BPA's claims on nonresidents, as it rose by 66.8%, followed a 29.6% growth observes in the last quarter. While the others depository corporations' claims on nonresidents was dropped, it was down by 4%, reversing a slight growth of 2.3% observe in the last quarter.

The main driven of the evolution of BPA's claims on nonresidents in the quarter continue to be sources from the portfolio investment securities abroad. The securities investment was raised in the quarter by 81.2% followed an increase of 37% in the last September quarter. Transferable deposits, while has a small amount compare to the security investment, has contributed to this upward changes. While the other deposits and cash reserve were declined by 10.3% and 7.9% respectively.

However, the BPA's liability to non-resident was declined, it was reduced mostly due to exchange rate changes in the SDR allocation with the IMF. The reduction is about 1%.

Table 1

Commercial Bank Outstanding Credit to Private Sector

(in thousand USD)

Sector	2009		2010		Change from Dec 2009	Change from Sept 2010	Dec'10 Share (%)
	Dec	Sept	Dec	Sept			
Agriculture, Water and Forestry	218	238	318	318	45,9	33,6	0,3
Industry and manufacturing	1.711	6.436	6.016	6.016	251,6	-6,5	5,4
Construction	19.413	17.773	16.085	16.085	-17,1	-9,5	14,5
Transport & Comuncation	2.357	2.245	2.202	2.202	-6,6	-1,9	2,0
Trade and Finance	19.113	9.157	11.328	11.328	-40,7	23,7	10,2
Tourism and Service	13.081	2.246	2.268	2.268	-82,7	1,0	2,0
Individuals	55.143	66.287	72.642	72.642	31,7	9,6	65,5
Total	111.036	111.099	111.036	111.036	-0,2	6,2	100,0

Further the main driven of decrease in the commercial banks' claims on nonresidents is the other deposit, reduced by 39.6%. While holdings of foreign currency, transferable deposits and other loans to nonresident, have been risen by 34.9%, 102.4% and 24.1% respectively.

Domestic Credit

Domestic credit mostly comprises claims on central government (net) and claims on private sector. Net

claims on central government contain credit and liabilities to central government from the financial system. Actually there is no credit from the financial system to the government of Timor-Leste, therefore the net claims on the central government in the monetary statistics point of view is negative, which means that all corresponding amount is government deposits or depository corporation liabilities to the central government. Simultaneously, claims on the private sector consist of credit to domestic private sector and others claim. If there is credit to non-resident it will be recorded on claims to non-resident under NFA.

Observing the 'Timor-Leste Monetary Survey' (table 7) we can conclude that, for the month of December, the 'Domestic Claims' mark a huge growth, it rose by 115.6%. The growth rate of claims on central government is increased more than the liabilities, while as the total amount of that claim plus claims on private sector are less than the amount of liabilities to central government, the results are the negative in the domestic claims. The development of this domestic claim is therefore represent an increase in the liabilities to central government.

When considering credit from commercial banks to the private sectors (table 1), it is observed that for the month of December 2010 and its 2009 corresponding period, there was a slight decrease of 0.2% in the total amount of credit awarded. While it compares to September 2010, this credit to the private sector is increased by 6.2%.

The sector that absorb more resources, 33.6% of the total, was the agriculture, water and forestry, followed by trade and finance and individuals by 23.7% and 9.6% respectively. Although the total credit to the private sector was increased, however the sector that are expected to absorb more this credit, the construction, industry and manufacturing sector, as the Government put a lot of effort to develop those sector, and it must be as the country in the stage of de-



veloping, in contrast are reduced. The construction sector is reduced by 9.5% while industry and manufacturing by 6.5%. Although the credit to agriculture sector is increased, the share is excessively low when it compare to the size of dependency of Timorese people on the agriculture sector.

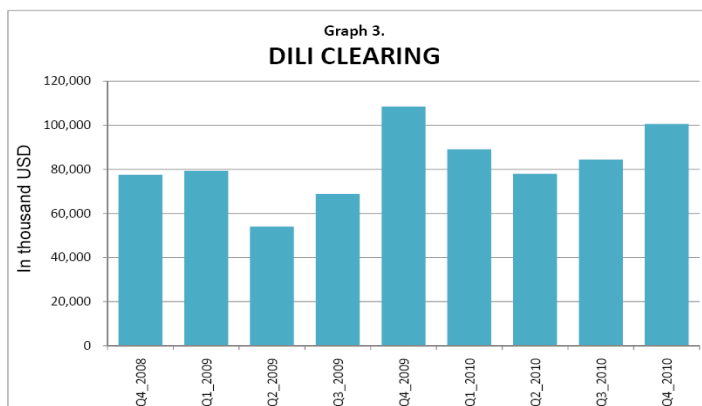
Total Liquidity

The total Liquidity Assets in the banking system recorded an upward development in December 2010 quarter. It rose by 1.7%, followed by an increase of 9.4% in the last September.

The upward growth drives liquid ratio reached 80.8% mostly it have been supported by component of deposit with the BPA (69.9%), cash in vault of 36.2%, while deposits with other financial institutions abroad was contributed a negative growth of 8.7%.

The liquid ratio has therefore a contraction growth of 0.8%, reversing an increase of 3.1% observes in the last quarter. These developments caused the actual liquid requirements held, resulting excess liquidity reached 65.8%.

The BPA’s portfolio investment abroad, exclude Petroleum Fund investment, increased during the fourth quarter of 2010. It has been rose by 81.2% followed an increase of 37% in the last third quarter. The upward movement mostly was due to the increase in the Government deposits with the BPA. Further this expansion, in the portfolio investment abroad, pushes the Timor-Leste claims on nonresident to increase, then the net foreign assets is affected, it rose by 48%.



Clearing activities in the quarter show upward development after having a consecutive decline in the last three quarter to June. The increase was supported by the number of the government payment order with its customer, which it was contributed by 14%. Thus the total value of clearing increased, it rose by 19%, followed an increase of 8% in the last quarter.

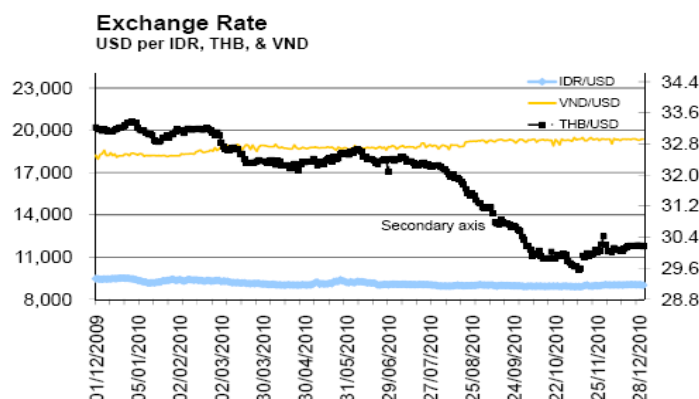
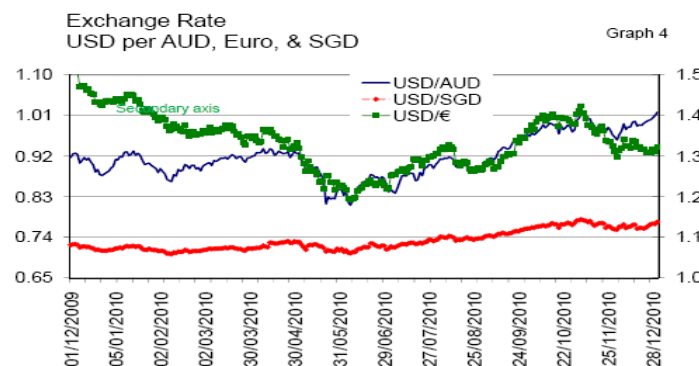
Interest Rate

The commercial banks’ weighted average interest rate on deposits has been changed about 0.7 basis point while the lending rates increased by 2.9 basis point reversing a downward of 4.7 basis points in September 2010 quarter.

Weighted Average				
Deposit Rates				
Savings	Time Deposits			
	Up to 3 mths	3 to 6 mths	6 to 12 mths	Over 12 mths
0.75	0.83	1.06	1.24	1.33
Lending rates				
Loans + Libor 3 months				11.11

Exchange Rate

The USD depreciated against the main trading partner and major trading currencies during December 2010 quarter. In average, the USD depreciates by 5% against the Euro, 8.6% against the Australian dollar, 0.4% against the Indonesia rupiah, Japanese Yen by 3.8%, Thailand bath by 5.3% and Singapore dollar by 3.9%, while it appreciates by 1.5% against the Vietnam VND.



II. EXTERNAL TRADE : The Balance of Payments of Timor-Leste

One of the main sectors of macroeconomic that it is use to measure economic condition of a country is the balance of payments (BOP) statistics. There are three main components in the BOP that can be used. The current account is one of the three main components, the others being the capital account and financial account. In this article, we will focus on analyzing the current account balance excluding other primary income, (income from JPDA) and how it reflects an economy's position.

The current account balance is the net value of a country's international trade in goods and services plus the net value of income payments and transfer to and from nonresidents. Timor-Leste trade in goods and services reached a deficit of USD 881.2 millions, of which goods represent USD 296.9 millions and ser-

183.8 millions) and paid was USD 16.2 millions. The investment income contributed to the net foreign income was USD 112.5 in 2008 and USD 167.9 millions in 2009, the rest was from compensation of employees.

A rises in the investment from abroad will raise resident country obligation or liabilities to pay investment income. However, as a FDI in the country of resident is a source of finance to the current account deficit, this increase in the investment from abroad could be seen as a trade off to the investment income deficit. By observing Timor-Leste investment income in the table (excluding income from PF investment), there is no income receive, meaning that there is still no investment abroad from Timor-Leste. Consequently, an increase in the deficit will be financed by financial liabilities (FDI in Timor-Leste) or, otherwise, from a decrease in the reserve.

Another major item in the current account is the transfer account. Net current transfers were USD 356.5 millions in 2008 compare to USD 398.6 millions in 2009. The largest entry in the transfer account for 2009 is general government transfers (USD 365.4 millions), followed by remittances (USD 5.8 millions).

Table 3. Current Account Balance

Components	2008 (in millions US Dollars)	2009 (in millions US Dollars)
Current Account (Exclude Other Primary Income)	-261.064	-297.013
Current Account	2,023.141	1,363.175
A. Goods and Services	-740.593	-881.160
1. Goods, fob	-296.877	-375.711
2. Services	-443.716	-505.449
B. Net Income	2,407.197	1,845.731
Net income exclude other primary income & PF inv. income	10.507	17.685
1. Compensation of Employs (wages and salaries)	10.507	17.685
2. Investment income	112.485	167.858
Of which: income from PF investment	112.485	167.858
3. Other primary income (income from JPDA)	2,284.205	1,660.188
C. Net Current transfers	356.537	398.604
GDP (at current prices, US Dollars)	499	590
Current Account Balance (% as of GDP)	52 %	50 %

Source: BPA, IMF

vices of USD 443.7 millions.

From this phenomenon, we can see that, in fact, Timor-Leste are import (bought) more from nonresidents than nonresidents are bought from Timor-Leste. In 2008 and 2009 for instance, the net services absorbed were USD 443.7 millions and USD 505.5 millions respectively.

However, the net foreign income, exclude other primary income and PF investment income, was surplus of USD 10.5 millions in 2008 and USD 17.7 millions in 2009). An income surplus arises when the total income received by Timor-Leste from nonresident is more than the income paid by Timor-Leste to nonresident. In 2009 income received was about USD 201.763 (includes PF investment income of USD

In general, Timor-Leste current account balance has a deficit of USD 261.1 in 2008 and USD 297.0 millions in 2009, as can be seen from the table. This deficit reflects Timor-Leste economy is using more resources from other economies to meet its domestic consumption and investment requirements.

By looking at the values of the current account balance deficit relative to GDP as a proportion of the consideration, the ratio was uncomfortable, about 50%. If policy makers fail to take decisive action to improve budget deficit and investing productively, by 2030 current account deficit will continue increasing and increasing. The nation could be continuing transferring most of fund resources and its percentage of GDP annually to foreigners.

III. DOMESTIC ECONOMY

Coffee export during the December 2010 quarter shown a downward development. It was reduced by 34% compare to almost 800% increase that was observed in the last quarter. However, when it compare to the same month of last year, it has been increased, it was reached 93%.

The total amount of coffee export that was exported during the year are 25.6 million kg. These are the highest amount that were exported since the live of coffee export, and it was occurred mainly during the second semester.

The biggest destination of total coffee export during the year were the United State, with the total quantity exported of 12.6 million kg or about 50% of total coffee export, and followed by Germany of 30%.

Price Evolution in Dili

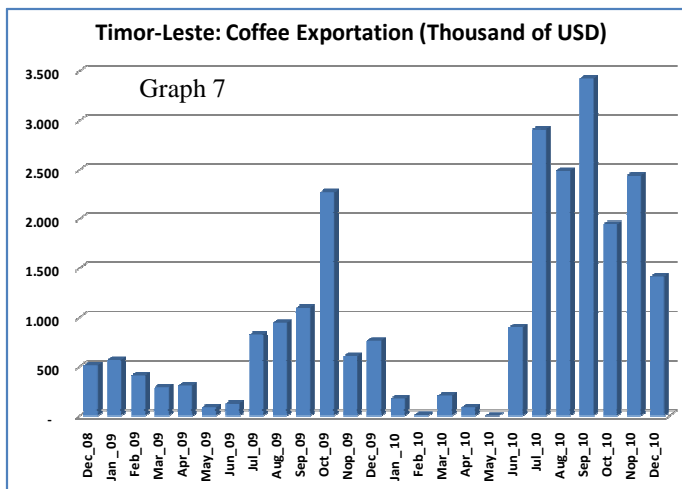
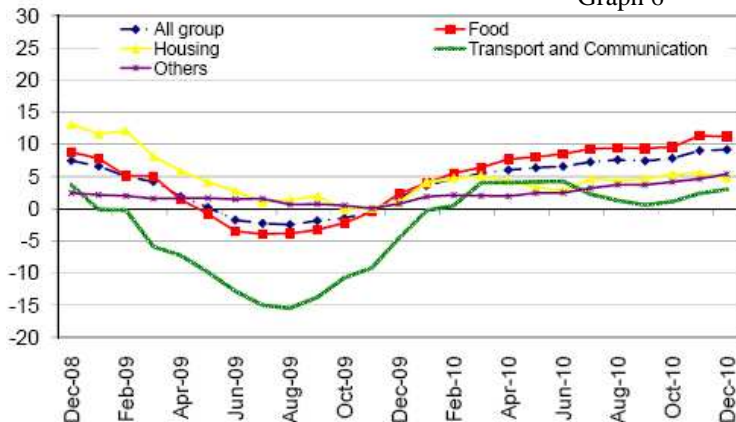
Table 4

CONSUMER PRICE INDEX (2001 = 100)							
Group	Weights (%)	Index			% Change		
		Dec_09	Sept_10	Dec_10	Dec10/ Sept10	Sept10/ Sept09	Dec10/ Dec09
ALL GROUPS	100.0	149.2	157.6	162.9	3.4	7.4	9.2
Food	56.7	153.4	164.0	170.6	4.0	9.4	11.2
Alcohol and Tobacco	4.8	138.1	140.6	144.1	2.5	2.0	4.3
Clothing and Footwear	8.9	182.3	200.6	210.6	5.0	12.9	15.5
Housing	10.2	156.1	161.8	163.6	1.1	4.6	4.8
Household Furnishings, Supplies and Services	7.9	102.2	100.3	100.9	0.6	-1.9	-1.3
Health	4.2	148.1	154.6	155.9	0.8	4.4	5.3
Recreation and Education	3.4	112.1	113.3	115.6	2.0	1.1	3.1
Transport and Communication	4.2	133.6	134.8	137.6	2.1	0.6	3.0

Note: this CPI just for Dili
Source: National Statistics Department

Contribution to annual CPI Inflation (Percentage points)

Graph 6



Energy Price and Coffee

Table 5

Coffee price, ICO (USD cents/lb)			Energy prices (USD)	
End of period	Recent	Previous day	Crude oil, W.T.I Cushing (barrel)	Natural gas, Nymex Henry Hub, \$mmBtu.
30-Dec-10	194.69	194.69	91.12	4.31
30-Nov-10	172.90	172.90	85.73	4.21
29-Oct-10	171.49	170.88	82.18	3.91
30-Sep-10	165.89	163.99	77.86	3.96
31-Aug-10	153.18	149.55	74.70	3.83
30-Jul-10	154.52	153.35	78.36	4.83
30-Jun-10	155.46	155.60	75.94	4.56
31-May-10	128.46	128.46	73.97	4.38
30-Apr-10	125.77	123.79	85.17	4.03
31-Mar-10	130.14	128.94	82.37	4.01

The quarterly inflation rate reported by National Statistics Department rose by 3.4% in December 2010, following the 1.3% growth observes in the third quarter of 2010.

After a deceleration during the period of six month in the second half of 2009, the annual inflation rate continue marks the upward trend in the whole year of 2010, rose from 1.8% in December 2009 to 9.2% in December 2010. The acceleration in the inflation rate mostly reflected the impact of increase in the price of clothing and footwear that correspond of 15.5%, followed by food of 11.2%, housing of 4.8% and health of 5.3%.

Observing this increase in the inflation rate, it can be draw a conclusion that with one dollar in December 2010 people could buy less than in December 2009, thus it means an ongoing fall in the whole purchasing power of population in Timor-Leste. On the other case price is rise more as there are more dollars circulated while it demand the same amount of goods.

Timor-Leste Monetary Survey

Millions of US Dollars

Table 6

	Dec-08	Dec-09	Sep-10	Dec-10	Percentage change	
					1 Q ago	1 Year ago
NET FOREIGN ASSETS	392.641	442.728	420.215	621.783	48.0	40.4
CLAIMS ON NONRESIDENTS	421.535	468.847	497.333	649.760	30.6	38.6
LIABILITIES TO NONRESIDENTS	-28.895	-26.118	-77.118	-27.977	-63.7	7.1
DOMESTIC CLAIMS	-127.059	-102.653	-102.618	-221.366	115.7	115.6
NET CLAIMS ON CENTRAL GOVERNMENT	-229.508	-206.194	-209.147	-331.014	58.3	60.5
CLAIMS ON CENTRAL GOVERNMENT	11.625	1.147	4.375	22.380	411.6	1851.0
LIABILITIES TO CENTRAL GOVERNMENT	-241.133	-207.341	-213.521	-353.394	65.5	70.4
CLAIMS ON OTHER SECTORS	102.449	103.541	106.528	109.648	2.9	5.9
CLAIMS ON OTHER FINANCIAL CORPORATIONS	0.000	0.000	0.000	0.000	0.0	0.0
CLAIMS ON STATE AND LOCAL GOVERNMENT	0.000	0.000	0.000	0.000	0.0	0.0
CLAIMS ON PUBLIC NONFINANCIAL CORPORATIONS	0.000	0.000	0.000	0.000	0.0	0.0
CLAIMS ON PRIVATE SECTOR	102.449	103.541	106.528	109.648	2.9	5.9
BROAD MONEY LIABILITIES	192.658	268.356	238.195	295.022	23.9	9.9
CURRENCY OUTSIDE DEPOSITORY CORPORATIONS	2.454	2.801	3.183	3.374	6.0	20.4
TRANSFERABLE DEPOSITS	101.837	154.642	115.037	138.012	20.0	-10.8
OTHER DEPOSITS	88.367	110.913	119.975	153.637	28.1	38.5
SECURITIES OTHER THAN SHARES	0.000	0.000	0.000	0.000	0.0	0.0
DEPOSITS EXCLUDED FROM BROAD MONEY	0.031	0.064	0.088	0.095	8.0	48.0
SHARES AND OTHER EQUITY	8.726	15.547	16.446	17.638	7.2	13.4
OTHER ITEMS (NET)	64.167	56.108	62.868	87.661	39.4	56.2
<i>IFS Vertical Check</i>	0.000	0.000	0.000	0.000	0.0	0.0
Petroleum Fund Assets	4,196.972	5,376.626	6,603.628	6,903.996	4.5	28.4

Autoridade Bancária e de Pagamentos de Timor-Leste
Banking and Payments Authority of Timor-Leste

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Table 7

QUARTERLY SUMMARY FINANCIAL STATEMENTS

BALANCE SHEET		PROFIT AND LOSS	
As at 31 December 2010		For the period ended 31 December 2010	
In thousands of US Dollars		In thousands of US Dollars	
	US Dollars		US Dollars
ASSETS		OPERATING PROFIT	
Cash and cash equivalents	55,956	Interest income	248
Investments	385,939	Interest expense	(61)
Other assets	23,656	Net investment income	187
TOTAL ASSETS	465,551		
		Fees and commissions	316
LIABILITIES		Petroleum fund management fee	1,794
Government deposits	340,143	Donations & Grants	81
Other deposits	75,161	Other income	16
Other liabilities	26,744	TOTAL OPERATING INCOME	2,394
Currency issued	3,421		
TOTAL LIABILITIES	445,469	EXPENSES	
		Personnel & capacity building expenses	414
EQUITY		Currency distribution expenses	211
Capital	20,000	Administration expenses	1,643
Reserves	37	Depreciation	81
Retained earnings	45	TOTAL EXPENSES	2,349
TOTAL EQUITY	20,082		
		OPERATING SURPLUS	45
TOTAL LIABILITIES & EQUITY	465,551		

Notes: At 31 December 2010 the balance of Petroleum Fund account managed by the BPA was \$0,804 million. This is to recognise the reporting requirement under IFRS.

The summary statements above are prepared in accordance with section 66.2 of Regulation 2001/30 and have been prepared on an accrual basis from the financial records of BPA as at 31 December 2010. These Financial Statements are unaudited.

448.508
 Abração de Vasconcelos
 General Manager

Fernando de Silva Carvalho
 Chief Accountant

January 14, 2011