Media Release
Publication of Financial System Review

Dili 29 January 2016

Banco Central de Timor-Leste (BCTL) today launched its first Financial System Review covering the period up to June 2015.

The production of the *Financial System Review* is a further step in the implementation of the *Master Plan for Financial Sector Development in Timor-Leste*, launched in August 2014. A key theme in the *Master Plan* is the need for monitoring of progress. Publication of an annual *Financial System Review* is recommended as one of the means by which this can be done.

The purpose of the *Financial System Review* is to report on the soundness and efficiency of the Timor-Leste financial system, comprising banks, insurance companies, micro finance institutions and larger credit unions. The review is undertaken from two standpoints: the stability of the financial system, including potential risks to its stability; and the progress being made towards the development of a sound financial system in Timor-Leste.

The *Financial System Review* is focused mainly on those aspects of the financial system for which Banco Central Timor-Leste has regulatory and policy responsibility, although it also considers the wider picture. This includes a review of the risks, both domestic and foreign, that could impact on the financial system. It also reports on progress that has been made by financial institutions and the Central Bank in developing the national payments system, mobile and internet banking, branchless banking, financial literacy, and growth in the extension of credit.

The review finds that since mid-2013, the number of bank branches has increased by 30 per cent (from 24 to 31), and the number of ATMs has doubled (from 20 to 40). During the same period, bank deposit account numbers have increased by 36 percent and the balances in those accounts by 49 percent. Deposit balances at micro-finance institutions have increased by a similar percentage

The review identifies less progress has been made, so far, on extending the availability of credit to Timorese firms and households. Whereas the number of deposit accounts with banks has increased by nearly 95,000 since June 2013, the number of loan accounts over the same period has increased by less than 2,000. These trends are reflected in declining loan-to-deposit ratios, particularly for banks, where deposit growth has outstripped lending growth by a sizeable margin. The loan to deposit ratios for micro finance institutions are considerably higher, owing to those institutions raising only a small proportion of their funding from deposits; the majority of these institutions' funding is raised from donor sources and by borrowing. Accordingly, a major policy priority for the period ahead is to strengthen the policy settings for enabling Timorese firms and households to borrow and financial institutions to lend.

Copies of the *Financial System Review 2015* are available from the Central Bank, and may also be downloaded from the Central Bank's website. It is intended that the *Financial System Review* will be updated and published annually.

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