

# Economic Bulletin



A Quarterly Publication of the Central Bank of Timor-Leste

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## I. Development of the National Payment System

A payment system can be broadly defined as any system used to settle obligations through the transfer of monetary value. A payment system includes the institutions, payment instruments, parties to the transactions, the rules and procedures that guide and control the system, and the technology used to support to exchange process. Cash is part of a payment system, with banknotes being the medium of exchange. Under this definition, a national payment system is more than the simple exchange of payments between banks, it operates throughout the economy and underpins exchanges of value.

The development of computers and electronic communications has led to the emergence of a large number of alternative payment systems. These typically include such things as credit cards, debit cards, electronic funds transfers, direct credits, direct debits, internet banking and e-commerce. Payment systems are used to process domestic and international transactions, and are a major service—and source of profits—of banks and other financial institutions.

Each payment systems may either be electronic or involve the use of physical payment media, and each system has its own procedures and protocols. The commercial relationships between countries have been growing ever closer as a result of ongoing globalization and this has led to standards that allow payments systems to grow and expand internationally. However, many legacy systems and

products still operate on bespoke protocols. Consider, for example the use of credit cards and ATM systems.

Networks such as Visa, MasterCard and Union Pay operate globally based on common standards, whereas domestic and single-bank systems such as operate in Timor-Leste do not need to be fully compliant with International standards if they wish to remain strictly domestic in nature.

Special forms of payment system may be used for clearing and settling financial transactions in equity markets, bond markets, futures markets, derivatives markets, options markets. The transfer of high value funds between financial institutions also requires specialist systems, generally in the form of Real Time gross settlement (RTGS) systems domestically, and networks such as SWIFT for making international payments.

The BCTL has carried out a wide-ranging strategic study

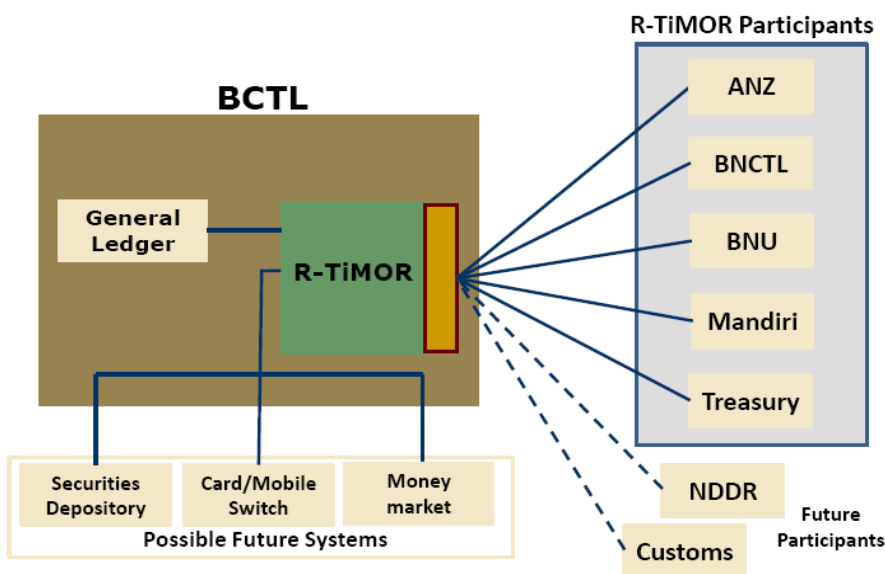


Chart 1. R-TiMOR and its positioning in the Timor-Leste financial system

of payment systems with the objective of developing modern payment systems in Timor-Leste. The study was published in 2014 as Strategy for the Development of the Timor-Leste National Payment System. The main conclusion of the study was that Timor-Leste needed to implement an automated interbank high value transfer system for large and time-critical payments, and an electronic clearinghouse for low value and less urgent payments. Such a system is generally known as an automated transfer system, or ATS. The purpose of the ATS system is to facilitate the electronic settlement of payments between banks, as well as payments to and from the BCTL and the Ministry of Finance. The ATS was to be complemented with a national card and mobile switch to facilitate retail-level payments.

Since the publication of the Strategy there has been remarkable progress. In April 2015 the BCTL launched an ATS which includes a Real Time Gross Settlement System (RTGS) and an automated clearinghouse. The RTGS settles payments between participants in real time, whereas the automated clearinghouse settles payments in batches twice daily, with clearing sessions at 10a.m. and 3 p.m. The system is known as R-TiMOR, an acronym for "Rede Transferência iha Momentu Real".

The introduction of R-TiMOR involved a considerable effort from the BCTL, the commercial banks, and the Ministry of Finance. One part of the project involved the conversion of all bank account numbers in Timor-Leste to the international standard format, known as IBAN, or International Bank Account Number.

Timor-Leste was the first country in the Pacific-South-East Asia region to adopt this standard, which is now in daily operation.

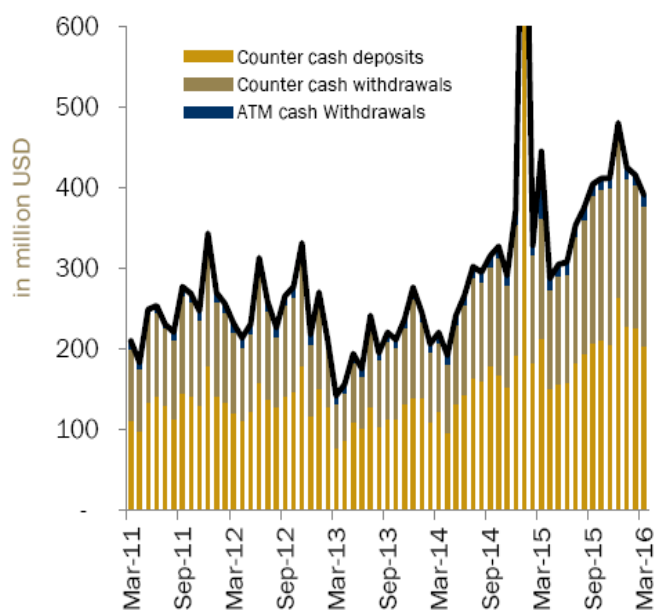
Modern payment systems, particularly those involving electronic money and phone-based payment mechanisms, require a strong and clear legal basis supported by an effective regulatory environment.

Accordingly the Council of Ministers enacted decree-law No 17/2015 on the National Payment System to provide the necessary legal foundation for the BCTL's national payment system development initiatives.

The next step in the development of the national payment system, which the BCTL started in 2015, is to develop the national card and payment switch. A switch allows bank system to be integrated. For example, a cardholder from one bank would be able to withdraw cash from an ATM belonging to another bank. This will enable transactions in the economy to settle much more efficiently and encourage the use of electronic transactions in the economy. The switch, once in place, will encourage the widespread use of debit and credit cards, as well as the use of mobile phones to make payments when telecommunication operators are linked to the system.

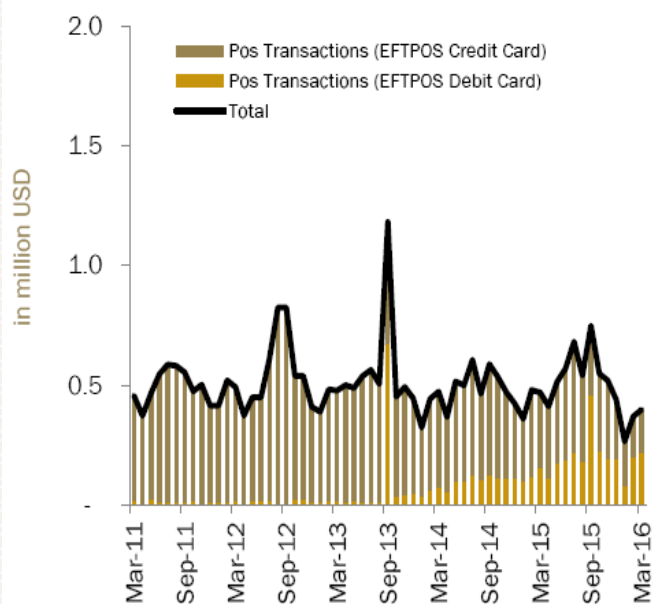
Because the switch will be central to economic activity in the future, the BCTL wishes that the switch be operated safely and soundly, and will carefully regulate and supervise participation, including banks and non-banks.

Chart 2. Development of Cash Transactions



Source: BCTL

Chart 3. Development of Non-cash Transactions



Source: BCTL



The switch will enable interoperability of cards and other payment devices (POS and mobile, for example) based on a common electronic network at the national level. The switch will enable the interconnection of all ATM, EFTPOS and mobile payment devices of all banks and ODTIs, and include a common standards and network capacity to support various types of transactions. The switch will accumulate the value of transactions between participants and settle the interbank obligations periodically in R-TiMOR.

The switch is a central to the concept of an integrated payment network, which will allow bank customers from one bank to use ATMs from any other bank, for electronic point of sale (POS) devices to accept any payment card issued by an institution in Timor-Leste, and for all these transactions to be settled electronically without the need for cash.

Charts 2 and 3 show the evolution of cash and non-cash transactions over the past five years. The total value of transactions has continued to grow, reflecting the growth in the overall economy. It is interesting to note the different growth rate of cash and non-cash transactions. In December 2015 the annual growth rate of cash transactions was 53% compared with the annual growth rate of non-cash transactions of 30%. In contrast by March 2016 cash transactions were growing at a rate of 6% and non-cash transactions were growing at a rate of 47%. It should be noted, however, that cash transactions, particularly evidenced by cash withdrawals from banks, are still the most important category of transactions in the national payment system.

## II. Recent Monetary and Credit Development

### II. a. Money Supply

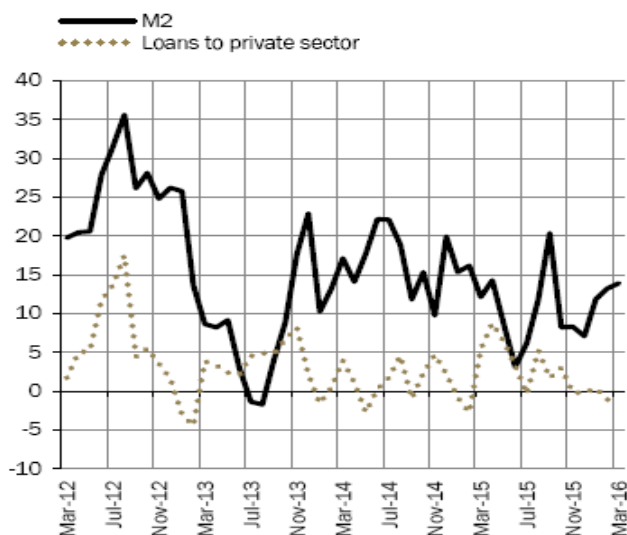
Broad money growth was strong, while loan growth is remained slowing down in the quarter. The broad money has started to recovering again after having experienced a deceleration in December quarter. The domestic economic activities were the main driver of the increase in the growth rate of broad money, reflecting the momentum in the growth rate of deposits, both of the enterprises and individuals' while the last was slowing down. After recorded a slowdown in the growth rate in the last quarter, M2 has accelerated again, grew by 13.9% in March quarter. The increase, in some extend, was followed by upsurge in net foreign assets (NFA) while there was decline in the credit development from the banking system to private sector.

As the intermediary between those that excess of the fund and those who lack of fund, banks have been performed their role by receiving and channeling the fund from and to the private sector in the economy, while for some reason they have to also diversify their assets by deposit or investing the fund abroad.

In fact, the growth rate of the deposits of corporations returns to rise, while individuals seems continues to slowing down. The annual growth rate of deposits of corporations increased by 13.4% compared to 0.4% observed in the previous quarter. Further, the individuals' deposits grew by 13.5% after having recorded an increased of 19.3% in the last quarter.

**Chart 4. Broad money growth**

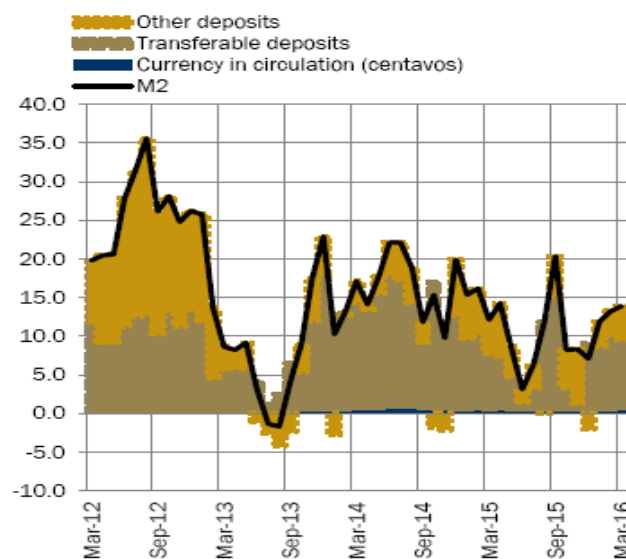
Year on year percentage changes



Source: BCTL

**Chart 5. M2 and its components**

Annual percentage changes; percentage point contributions



Source: BCTL



Transferable deposits, the demand deposits, continues as the main driver of increase in the broad money, M2, in the quarter, has grown by 16.7%, followed by an increase of 15.7% observed in the last December quarter, has contributed by a growth rate of 9% to the increase in growth rate of M2 in the quarter of March.

The time and savings deposits, or the term used in monetary statistics as other deposits, , in conjunction, revealed an increase of 9.8% reversing the decline of 4.8% in the last fourth quarter of 2015. Together they contributed by 4.3% to the expansion of the M2 in the quarter. The currency in circulation (centavos) continues grow, rising by 29.2% , followed by a 24.3% increase in the last quarter of 2015, contributed by 0.6% to the M2 growth in the quarter.

The annual growth rate of credit to private sector was decelerated, grew by only 3.8% followed a 10.5% increase observed in the fourth quarter of 2015. The total amount of this claims up to March quarter represented 38% of M2, increased from 33% recorded in the last quarter while has reduced from 41% compared to the same month last year. The reduction mostly was due to the decline in the growth rate of the credit, as the deposit is increasing. The conditions to push banks to continue tighten their credit's terms and condition for approving loans still high. As the result, elevating the foreign assets.

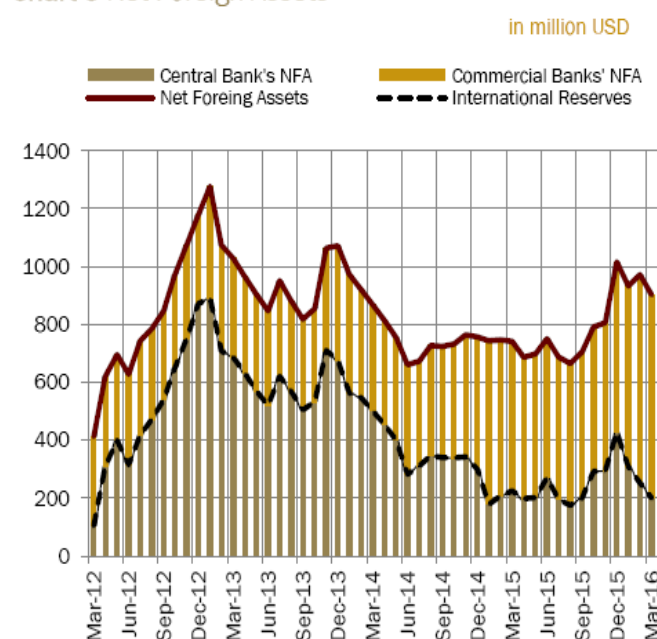
## II. b. Net Foreign Assets

The annual growth rate of net foreign assets (NFA) for the financial system or the depository corporations has decelerated, rose by only 21.7%, declining from 34.2% observed in the December quarter of 2015. In fact this progress was driven mainly by decrease in the central bank's NFAs, while the other depository corporations' NFS was increased. The Central bank's NFAs declined by 10.9% which contributed negatively by 3.3% to the slowdown in the growth rate, while the other depository corporations' NFAs increased by 35.9% or contributed by 25% to the total growth of the NFA.

The main driver of the changes in the central banks' NFAs was the slowdown in the growth rate of its claims on non-residents, mostly from both item of currency (cash) and deposits and other deposit, declined by 27.5% and 2.4% respectively. In part, its liabilities increased by 1.9%, after has dropped by 4.23 observed in the last quarter.

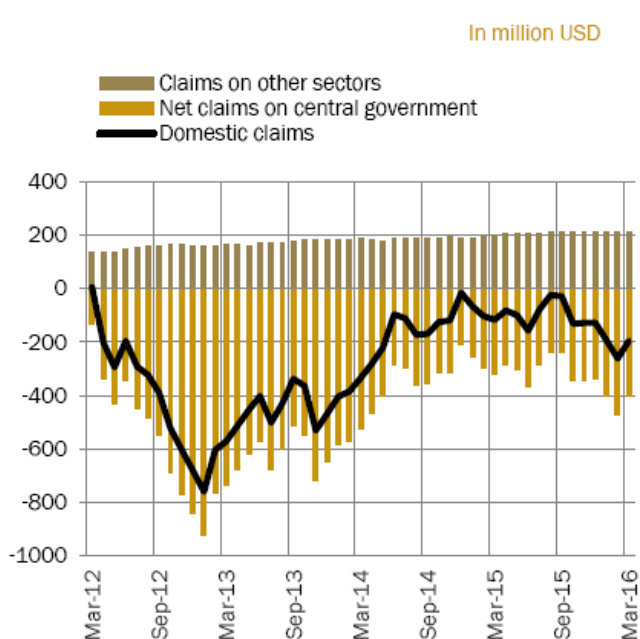
The increased in the commercial banks' NFAs was due to the development in its cash holding of foreign currency, was raised by 16.4%, reversing a decreased of 17.8% recorded in the last quarter. The other deposits continue to increase, has rising by 25.5% followed by an upsurge of 45.3% recorded in the last quarter, while transferable deposit has rising by 56.9%. Their contribution to the growth rate of NFAs

Chart 6 Net Foreign Assets



Source: BCTL

Chart 7 Domestic Claims



Source: BCTL



in the quarter were of 1%, 14.1% and 20.8% respectively. Its liabilities has growing by 6.4% and contributed by 0.9% to the growth rate of the NFA.

## II. c. Net Domestic Assets

The domestic assets composed by 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, is negative, which means that all corresponding amount is government deposits, or the depository corporations liabilities' to the central government. While, claims on the private sector consist of credit to domestic private sectors and others claims.

The annual growth of Domestic Claims has slowed down in the first quarter of 2016, increased by 67.5% followed a remarkable increase of 724.8% in the last December quarter of 2015. The liabilities of the depository corporation, mostly from the central bank, to the central government, continue the main component with the large contribution to the movement of the domestic claims. In the quarter of March 2016, it contributed by 74.1% to the growth rate of the domestic claims, followed by 855.3% recorded in last December quarter of

2015. While, the claims on private sector, that reduce the effect of increase in liabilities of depository corporations to the central government, has provided a negative contribution of 6.6% to the growth rate of domestic claims. From the total claims on private sector, loans represent about 90%, recorded a growth of 0.8%, which declined from 7.9% observed in the last quarter of December 2015.

Part of subdued increase in the credit to private sector is accounted by provisions for non-performing loans, which has an annual growth of 4.2%, recorded an amount of USD56.3 million in the quarter under review, representing 29.9% of total credit to the private sector. The total loans amounted to USD188.08 million in the quarter.

The individual sector continues become the main sector that has the higher share of credit from the commercial banks, representing 43.2% of total credit in the quarter, increasing moderately from 42.8% recorded in the last quarter. The lending to this sector was declining, down by 4.7% which contributed by 2.2% to the slowdown in the total credit growth.

The main sector that received more loans in the quarter was the construction sector, has increased by 26.3%, or contributed by 6.1% to the total credit growth, representing the second larger share of total credit, placed at 29.2%.

Table 1 Loans to Private Sector

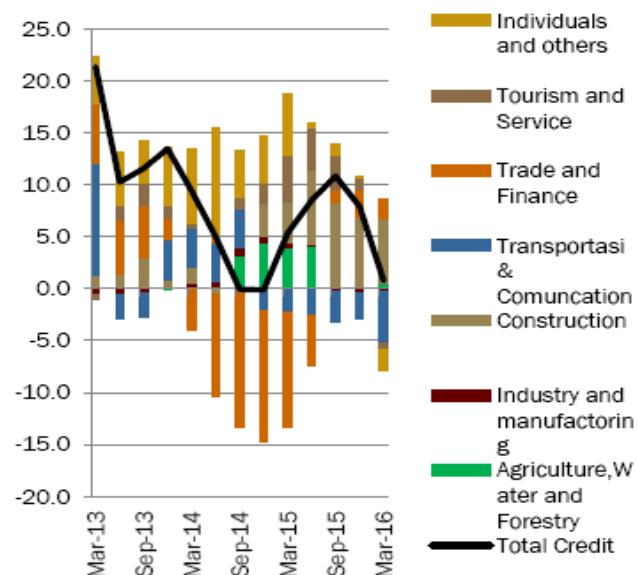
(in thousand USD)

Sector	2015		2016 Mar	Change from Mar 2015	% point to contribution	Mar Share (%)
	Mar	Des				
Agriculture, Water and Forestry	8,389	8,505	9,496	13.2	0.6	5.0
Industry and manufacturing	3,033	2,711	2,547	-16.0	-0.3	1.4
Construction	43,481	53,861	54,903	26.3	6.1	29.2
Transport & Comuncation	16,431	13,263	7,213	-56.1	-4.9	3.8
Trade and Finance	15,199	17,396	18,922	24.5	2.0	10.1
Tourism and Service	14,848	13,292	13,779	-7.2	-0.6	7.3
Individuals	85,247	81,691	81,222	-4.7	-2.2	43.2
Total	186,628	190,719	188,082	0.8	0.8	100

Source: Commercial banks and BCTL analysis

Chart 8 Loans to private sector

Annual percentage change; percentage point contributions



Source: Commercial banks and BCTL analysis



The second main sector that received more credit in the quarter were the trade and finance, recorded an expansion of 24.5% with 2% contribution to the total growth of credit. Tourism and service continue shown a weak tendency in the last two quarter, recorded a decline of 7.2% in the quarter under review, followed by a slowed down growth in the last quarter of December 2015.

Credit to agriculture sector has an expansion in the quarter, has raised by 13.2%, followed an increase of 2.7% in the last quarter. The industry and manufacturing sector continue to decline, has reduced by 16%, after record a reduction of 22% in the last quarter. The sector that representing the smallest share of the total credit in the economy for the quarter were the industry and manufacturing and transport and communication, recorded 1.4% and 3.8% respectively.

The effort continue been made to support the expansion of the credit to the economy. One latest effort was gather the seminar national with the title Develop sector of Micro-Small and Medium Enterprises and improve the access to credit in Timor-Leste, held on 11 March 2016. An important topic raised and discussed was the problem of credit. A considerable proposal to issue a credit guarantee scheme was presented. As in general objective it is expected to motivate the lenders to lend, at the same time could offer a degree of protection to these credit institutions against the losses.

## II. d. Interest Rate

In the basic economy, when money supply increased, means that more money is available in the economy for borrowing, in line with low demand for money, it tends to reduce the interest rates, or the price for borrowing money declined. Similarly when the money supply decreases, it will tend to push up the interest rates. However, this will work if the banks feel there are competitions for lending.

The money supply in Timor-Leste continue to increase, with high excess liquidity, however as there are other factors, it does not influence the interest rate. The weighted average interest rate of loan stood at 13.9%, the same rate observe in the last quarter.

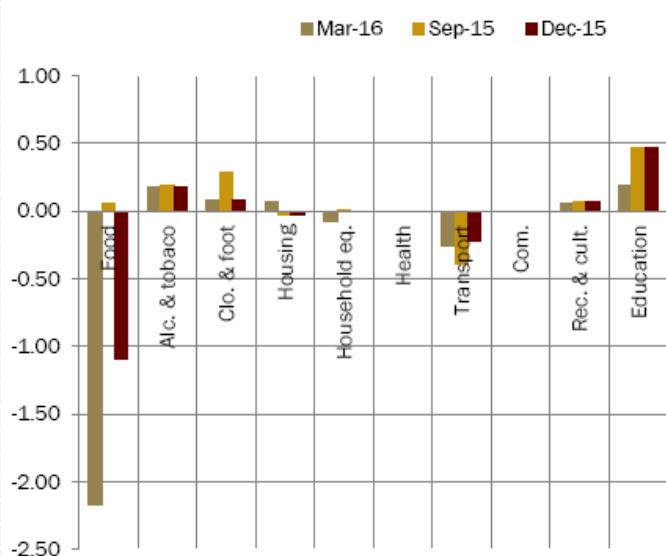
## II. e. Price and inflation

The headline inflation continues to decline. According to the General Directorate of Statistics of Timor-Leste, the annual CPI inflation rate (Dili) decreased to -1.9% in March 2016, from -0.7% in December 2015. This was mostly the result of decline in the price of goods with significant weighted within the CPI basket, the transportation cost and the food price, and the slow-down in others related price of goods and services.

The transportation cost continues reflected the main change in the quarter. The energy price inflation fur-

Chart 9 Inflation

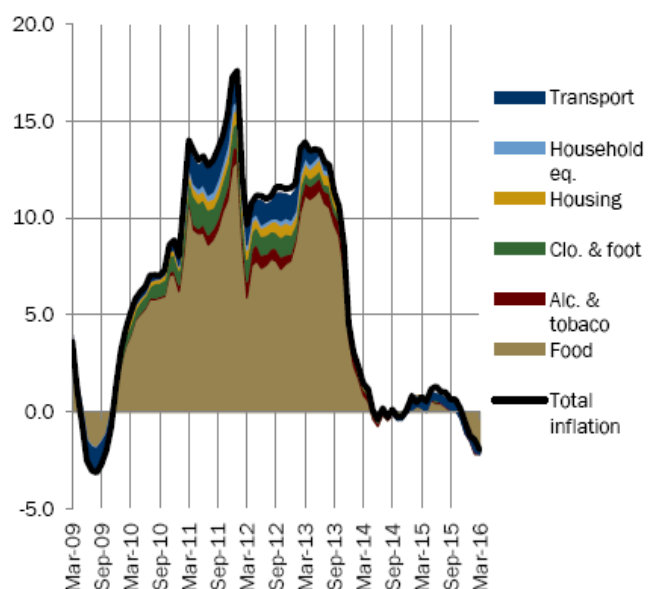
percentage point contributions; Sept, Dec 2015, Mar 2016



Source: General Directorate of Statistics and BCTL analysis

Chart 10 Inflation

annual percentage change; percentage point contributions



Source: General Directorate of Statistics and BCTL analysis



ther declined with the continued drop in oil prices brought down the already negative annual rate of transportation price inflation. However, in terms of contribution to the inflation, food price still the main contributor.

The price of food declined by 3.4% compared to 4.7% of transportation cost. The components of food price contributed by 2.2% to the decline in global inflation, while transportations cost contributed by 0.3%.

The decline of food price was mainly the result of larger decreases in rice price and vegetables. The price of rice declined by 3.1% and vegetables by 3%. Each of them contributed by 1% and 0.8% respectively to the decline in the food price.

### III. Commercial Banks

The total asset of the banking system and its key elements continue posted strong growth; particularly the deposit base, while lending to private sector consistently stood with slight growth in a long period of time, increased over the first quarter of 2016 compare with correspondent quarter of 2015.

Total assets of the banking system showed a net expansion of USD189 million during the year from March 2015 and stood at USD978 million in March 2016. Hence, the asset of the banking system increased by 24%, followed an upsurge of 15.2% recorded in the last

December quarter of 2015. In the same time, the annual trend of total deposits of the banking system continue to increase, has achieved USD752 million at the end of March 2016. Register an annual growth of 26.8%, after revealed a 24.2% growth in the last December quarter, denote about 77% of total assets at the end of March 2016. While, most of the deposits are placed abroad. The placement abroad recorded about 97% of total deposits or about 74.5% of total assets.

Total lending up to the quarter of March 2016 was of USD188 million, just recorded an annual growth of 0.8%, however has declined by 1.4% compared to the last quarter of December 2015.

The income during the quarter of March 2015, as percentage of assets (RoA, or Return on Assets), was of 0.5%, the same percentage recorded at the same month last year, declined from 0.7% in December 2015.

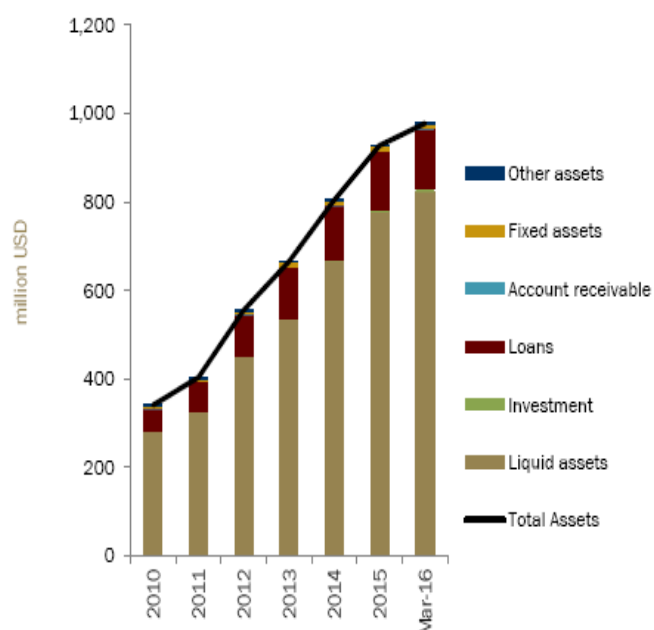
The banks continue to have liquidity ratios above the minimum required by the BCTL, with an excess liquidity ratios of 73% in the quarter under review. The requirement actual held was of USD823.2 million compared to the liquid assets required of USD140 million (15%). Commercial banks have high liquidity fund, while it is recognized that the percentages allocated to the credit is too low.

Table 2 Highlights of the Banking System (in million USD)

	Mar-15	Dec-15	Mar-16	change from Mar 15	change from Dec 15
Total Assets	789	928	978	24	5
Liquid Assets	638	776	823	29	6
Investments	4	4	9	126	126
Total Loans	187	191	188	1	-1
Non-performing loans	47	44	44	-6	0
Provision for Loan Losses	54	57	56	4	-1
Total Liabilities	749	885	933	25	5
Deposits	593	725	752	27	4
Capital	40	43	45	11	5
Liquid assets requirement (15%)	112	133	140	25	5
Income	14	39	15	6	-61
Expenses	10	32	10	-3	-69
Net income	4	7	5	26	-20
ROA (%)	0.5	0.7	0.5		

Source: Commercial Banks balance sheets and BCTL analysis

Chart 11 Banking Systems; Assets Development



Source: BCTL

**Table 3 Timor-Leste Monetary Survey**

Millions of US Dollars

	Mar-15	Dec-15	Mar-16	% point cont.	% change
				1 Y ago	1 Y ago
<b>NET FOREIGN ASSETS</b>	741.06	1015.50	902.09	21.7	21.7
CLAIMS ON NONRESIDENTS	820.85	1098.95	986.49	22.4	20.2
LIABILITIES TO NONRESIDENTS	-79.80	-83.46	-84.39	-0.6	5.8
<b>DOMESTIC CLAIMS</b>	-116.27	-127.06	-194.77	67.5	67.5
NET CLAIMS ON CENTRAL GOVERNMENT	-318.45	-338.92	-404.58	74.1	27.0
CLAIMS ON CENTRAL GOVERNMENT	0.00	0.00	0.00	0.0	122.9
LIABILITIES TO CENTRAL GOVERNMENT	-318.45	-338.92	-404.58	27.0	27.0
CLAIMS ON OTHER SECTORS	202.18	211.86	209.80	-6.6	3.8
CLAIMS ON PRIVATE SECTOR	202.18	211.86	209.80	3.8	3.8
<b>BROAD MONEY LIABILITIES</b>	485.09	642.38	552.51	13.9	13.9
CURRENCY OUTSIDE DEPOSITORY CORPORATIONS	10.13	12.15	13.10	0.6	29.2
TRANSFERABLE DEPOSITS	261.05	385.55	304.61	9.0	16.7
OTHER DEPOSITS	213.91	244.67	234.80	4.3	9.8
SECURITIES OTHER THAN SHARES					
<b>DEPOSITS EXCLUDED FROM BROAD MONEY</b>	0.38	0.63	2.02		435.2
<b>LOANS</b>	0.19	0.00	0.00		
<b>SHARES AND OTHER EQUITY</b>	90.16	99.58	103.23		14.5
<b>OTHER ITEMS (NET)</b>	48.97	145.97	49.55		1.2
Source: BCTL					
Memorandum item: Petroleum Fund Assets	16,823	16,218	16,578		-1.5



**PRO FORMA BALANCE SHEET**  
As at 31 March 2016

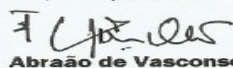
DESCRIPTION	\$'000
<b>ASSETS</b>	
Cash and cash equivalents	295,552
Investments	23,923
Property, plant and equipment	2,405
Other assets	5,757
<b>TOTAL ASSETS</b>	<b>327,637</b>
<b>LIABILITIES</b>	
Government deposits	187,355
Other deposits	70,572
Other liabilities	3,864
Currency issued	13,113
<b>Total liabilities</b>	<b>274,904</b>
<b>EQUITY</b>	
Capital	50,000
Reserves	1,492
Retained earnings	1,241
<b>TOTAL EQUITY</b>	<b>52,733</b>
<b>TOTAL LIABILITIES &amp; EQUITY</b>	<b>327,637</b>

Nota:

1. At 31 March 2016 the balance of Petroleum Fund account managed by the BCTL was \$16,578 million. This is to recognise the reporting requirement under IFRS.

2. The Summary statements above are presented in accordance with article 58.6 of BCTL Law 2011/5 and have been prepared on an accrual basis from the financial records of BCTL as at 31 March 2016. These Financial Statements are unaudited.

Dili, 14 April 2016

  
Abraão de Vasconcelos

Governor

  
Fernando da Silva Carvalho  
Chief Accountant