

2

Recent Developments for The National Economy





Production: Economic Activity

Government set annual growth Target of 11.3% per annum up to 2020.

The Government set as strategic objective that the country will be an “upper middle income country” by 2030. To achieve this objective, the Government has decided to front-load public investment policies, to build a set of basic infrastructure and enact programmes needed to support a robust and sustainable growth process. Consequently, the increase in public expenditure along the last 6 years boosted domestic economic growth, with the non-oil national economy growing annually on average by 11.8%, between 2007 and 2012, above the target of 11.3% defined up to 2020.

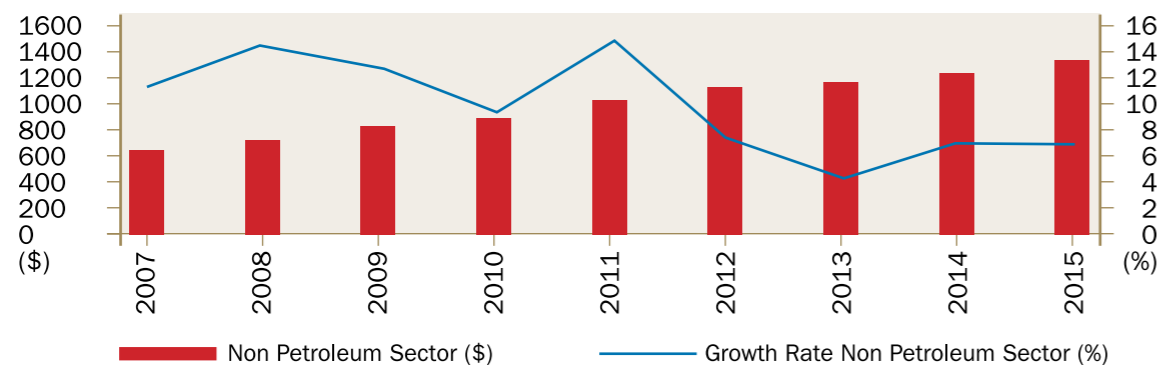
... DNE published in 2014 national accounts for 2012, which show annual growth of 7.8% in 2012.

National Directorate of Statistics (DNE) published, in 2014, Timor Leste National Accounts for 2012, where it stated that non-oil GDP growth in 2012 was 7.8%. (<http://www.statistics.gov.tl/pt/timor-leste-national-account-2000-2012/>).

Government projects growth rates of 5.6% and 7.1% for 2013 and 2014.

The Government still projects for 2013 a GDP growth rate of 5.6%, which, although substantial, will be below the strategic objective. For 2014, the annual growth rate is projected to be 7.1% (OGE15-Proposta inicial Livro 1, pg. 19).

Figure 2.3.2.2.1: Non-oil GDP 2007 - 2012 & Projections 2013 - 2015



Fonte: DNE e Ministerio das Financas

The IMF expects, as stated in its World Economic Outlook Database of October 2014, that the non-oil economy has grown 5.4% and 6.6% in 2013 and 2014, respectively, in line with Government estimates.

Taxa de crescimento do PIB não petrolífero (%)					
2010	2011	2012	2013	2014	2015
9.4	14.7	7.8	5.4	6.6	6.8

Fonte: IMF World Economic Outlook , Oct 2014 database

Given the known delays and difficulties with publishing timely National Accounts for Timor Leste, BCTL has developed an “almost real-time” indicator that allows us to have crude, but more actual estimates of economic growth, fundamental to understand the changes of other important economic aggregates as inflation and, eventually offer quantitative support for needed policy making. This indicator uses monthly and quarterly data to quantify the growth estimate for the economy, using 9 variables that are considered good proxies of the economic cycle.

Subcomponentes do Indicador de Actividade Económica do BCTL		
	Sectores	Subcomponentes
1	Importações	Materiais de Construção Combustíveis
2	Despesa Publica	Capital de Desenvolvimento Total Despesa
3	Receita Publica	Impostos s/ Rendimento Total Impostos
4	Financeiro	Depositos Particulares Credito Total Transferencias Liquidadas p/ Estrangeiro

Fonte: BCTL

Based on BCTL economic activity indicator presented below, we estimate that the economy has practically stagnated in 2013 (growth of 0.5%) and came back to a robust pace in 2014 (8% annual growth), versus the annual average of 11.8% registered between 2007 and 2012. These estimates mean that for the last 2 years the annual growth rate should be around 4%, which reflects a clear slowdown of aggregate demand growth, versus the previous 5 years. Note also that our indicator closely tracks the changes in overall public expenditure, which fell in 2013 and picked up markedly in 2014.

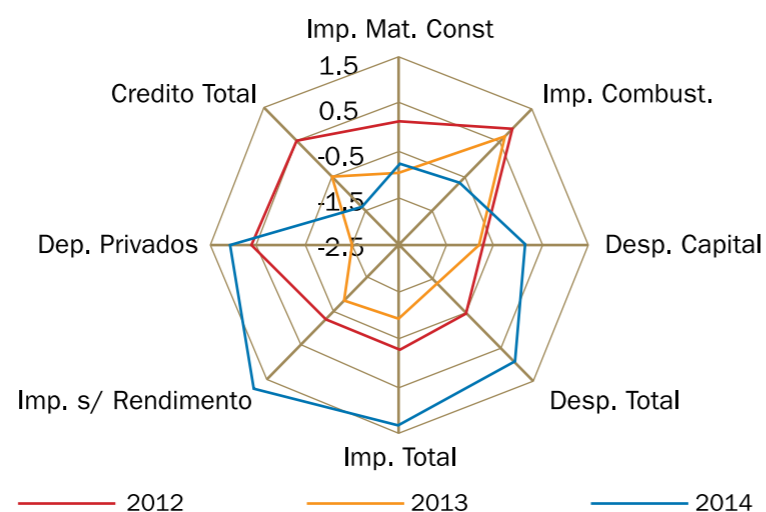
BCTL developed its economic activity indicator to have a more timely measure of economic growth...

... which registered growth of 0.5% in 2013 and a strong recovery in 2014 to 8%.

... while agriculture and industry have barely grown.

The chart below presents the annual change for each of the 8 subcomponents of BCTL activity indicator. These variables cover fundamental areas of our economy and are available on a monthly basis, allowing us to track developments for each sector on timely basis. The chart below presents the annual change for each variable, measured in millions of dollars for the years of 2012, 2013 and 2014.

Sub-Indicators Performance - annual real changes in million USD, standardized



We presented the data using their normalized/standardized transformations, to facilitate their joint comparison, given that the series have different levels, averages and volatilities. This chart allows us to identify the sectors, which are more or less robust for the 3 years. Note that the greater is the classification of each series, the stronger is the performance of the sub-indicator in the respective year. For example, total tax revenue registered 1.5 in 2014, versus the -1 of 2013 and -0.4 of 2012. This means that this indicator registered a very strong annual growth in 2014, compared to previous years.

Another important conclusion of the chart is the economic recovery of 2014, versus 2013, as most series pick-up growth in 2014, with the exception of imports and credit. In fact, the sub-indicators confirm the robust recovery of the economy in 2014, led by the increase of public expenditure and visible in the substantial rise of public revenues and retail deposits. Nonetheless, according to the chart, 2014 recovery was not materialized in the case of imports of construction materials and fuels as well as total banking credit.

Below, on the right hand side, we also present an indicator developed by BCTL that allows us to estimate economic growth on a sectorial basis, for the years for which we do not yet have national accounts data.

This production indicator, after aggregating growth across the various sectors, allows us to obtain another useful estimate of GDP growth. As can be seen, 2013 was characterized by a generalized slowdown across almost all economic sectors, with the exception of public administration and agriculture, but in 2014, it has registered a strong recovery for all sectors, particularly for services and civil construction.

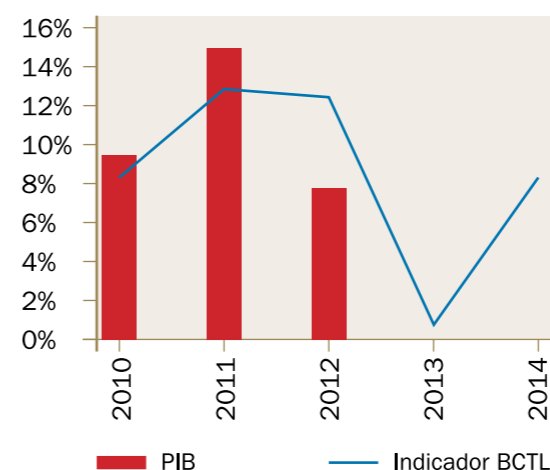
Within a longer timeframe, it should be highlighted that the strong economic growth of the last 7 years was essentially due to the growth registered for civil construction, services and public administration. On the contrary, the contributions of agriculture and industry, fundamental sectors for an effective and sustainable growth process, have been marginal along this period, resulting in the loss of importance of these sectors in overall national production.



BCTL also developed a complementary production indicator....

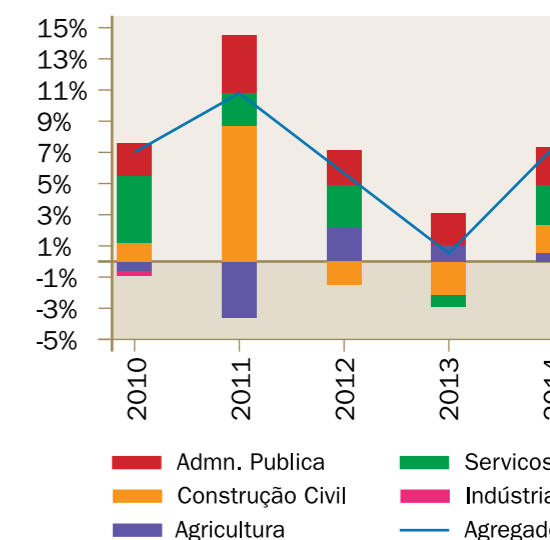
.... which shows 2013 economic slowdown visible across all sectors.

GDP annual % growth



Fonte: DNE e BCTL

Sectors Contributions to annual % growth



Prices and Inflation

Annual inflation fell substantially in 2014 to 0.5%....

Domestic inflation rate, measured by DNE using the Consumer Price Index (CPI), has been high above 8%, since 2010 until the 3rd quarter of 2013, decreasing substantially there after until the end of 2014, registering a year-on-year 0% rate in December of 2014. CPI data reveal that annual average inflation rate decreased from 7.8% in 2013 to 0.5% in 2014.

TL: Índice de Preços no Consumidor (IPC) Díli 2012-14, (2012=100)														
Mês	Jan	Fev	Mar	Abr	Mai	Jun	Jul	Ago	Set	Out	Nov	Dez	Média IPC	Taxas IPC
Índice 2014	104.1	104.1	104.2	104.3	103.5	103.3	103.5	103.6	103.7	103.6	103.7	103.9	103.8	
Taxa mensal	0.1	0.0	0.1	0.1	-0.8	-0.2	0.2	0.1	0.1	-0.1	0.1	0.2		
Taxa homólogo	2.7	2.1	1.6	1.3	0.2	-0.7	-0.1	-0.2	0.0	-0.4	-0.4	-0.1		-0.1
Taxa média														0.5

Fonte: Direcção Geral de Estatística

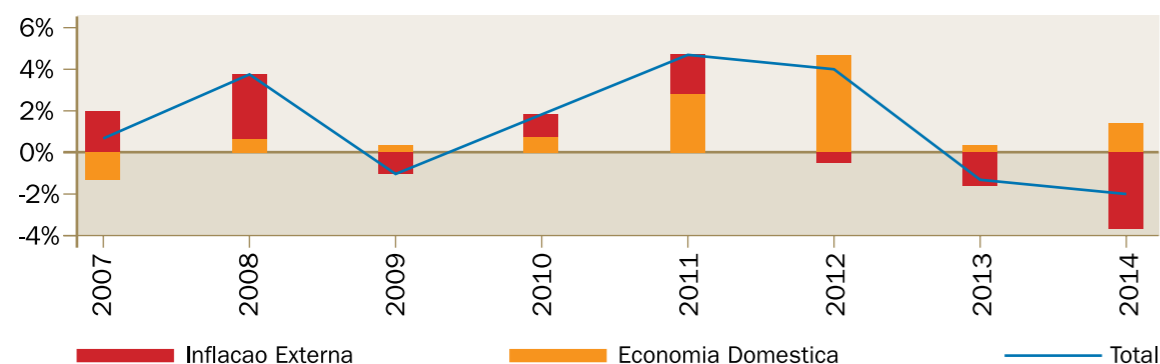
For the last 7 years, growth has been mostly visible for civil construction, services and public administration....

According to BCTL's empirical model, inflation slowdown in 2014 was mostly due to a substantial decrease of external inflation in 2014 (-1%), well below the average of the last decade, explained by the depreciation of regional currencies versus the dollar and decrease of commodities' international prices in 2014. The depreciation of partners' currencies resulted in lower prices for goods and services imported into our country. This effect was also reinforced by the impact of the domestic economy slowdown in 2013 and 2014, mostly evident in 2013.

.... mostly due to the fall in external inflation and the economic slowdown of the last 2 years.

The chart below compares the impacts of both factors in terms of the 2 drivers of domestic inflation, which presents the deviations of inflation versus its long-term average, explained by the 2 factors.

Inflation deviations versus Long-Term Average - Factors Contributions

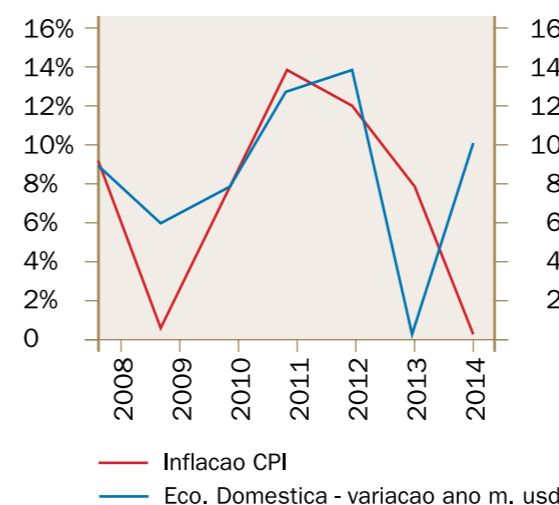


Fonte: BCTL

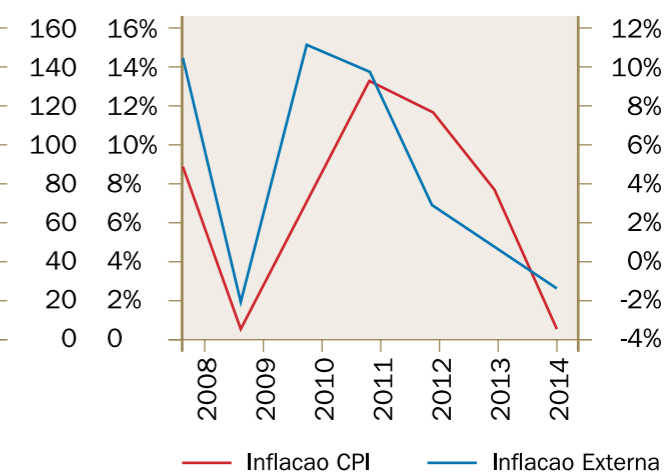
As can be seen, inflation slowdown in 2013 and 2014 is mostly due to the decrease in external inflation in the 2 years. As also can be seen, domestic economy does not influence inflation trends in 2013, but, in 2014, the substantial economic growth recovery comes back to exert upward pressures on prices. Note that this pattern inverts the trend registered in 2011 and 2012, when the high expansion level of domestic demand explained the larger part of high inflation pressures in our economy.

The 2 charts below further present the relationship between BCTL's model 2 inflation drivers and domestic inflation. As can be seen, both drivers present a strong contemporaneous correlation with domestic inflation, although some lags can also be identified in these relationships.

Inflation versus Domestic Inflation



Domestic versus External Inflation



Fonte: BCTL

The slowdown in domestic Inflation to a more subdued and stable pace constitutes a positive development for the national economy and consumers, since it reduces the price pressures evident in the last few years, which had negative socio and economical consequences, including the worsening of inequality and poverty levels.

Lower inflation benefited Timor Leste economy and population.

The current consumption basket of the national CPI is based on 2011 data and continues to overweight food expenditures (64.3%) in overall spending basket, similar to the previous version of the CPI, used up to 2012 (56.7%).

CPI basket is mostly composed by food items expenditures...

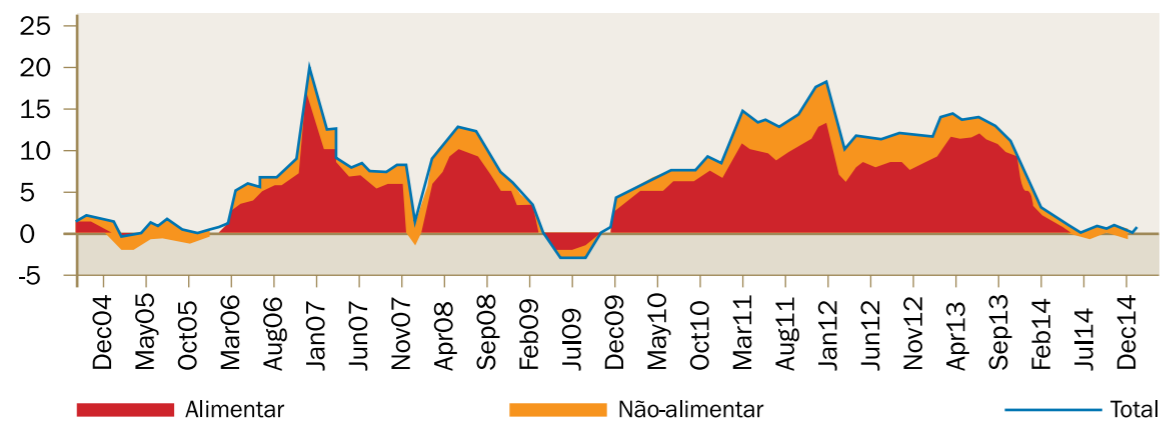
Timor-Leste: IPC			
Componentes		Peso	
		2001=100	2012=100
1	Alimentação	56.7	64.3
2	Alcoól e Tabaco	4.8	4.9
3	Vestuário e Calçado	8.9	5.9
4	Habitação	10.2	5.7
5	Despesas com a habitação	7.9	4.1
6	Saude	4.2	0.7
	Educação e Divertimentos	3.4	
	Transportes e Comunicações	4.2	
7	Transportes		6.4
8	Comunicações		2.3
9	Divertimentos e Cultura		3.3
10	Educação		2.3

Fonte: Direcção Geral de Estatística

...thus explaining why food inflation drives most of the overall inflation trends.

The fact that food expenditures constitute the majority of the CPI consumption basket, together with the highest historical levels of food inflation, results in the fact that food inflation mostly determines total inflation trends, when compared to non-food inflation contribution.

CPI Total Inflation
Total and respective contributions



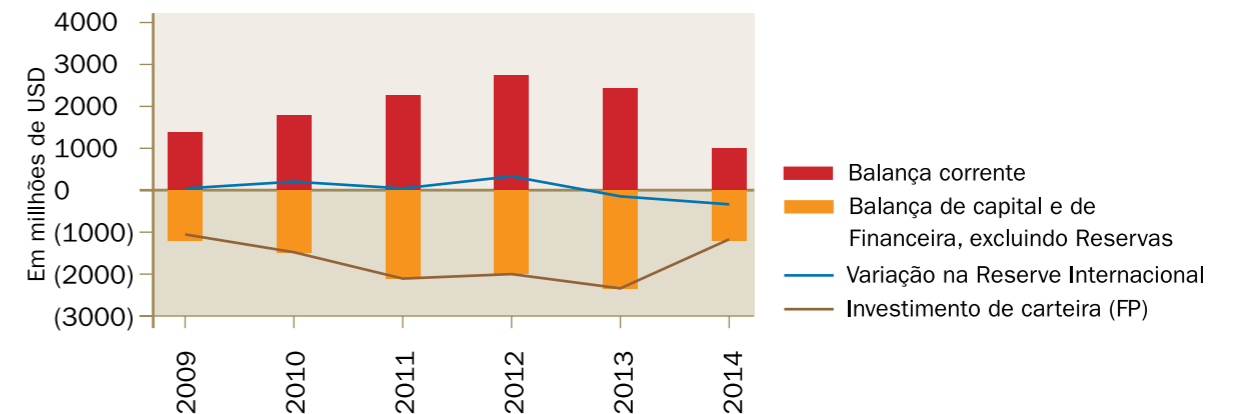
Fonte: DNE

Balance of Payments

Balance of payments is an importante macroeconomic indicator...

The Balance of Payments (BoP), specifically its net balance, composition and change, is an important macroeconomic indicator, which numerically summarizes the net value of transactions, commercial and financial, between one economy and the rest of the world. In the chart below, you may find the recent change and value of Timor Leste BoP net statement.

TL: Balance of Payments



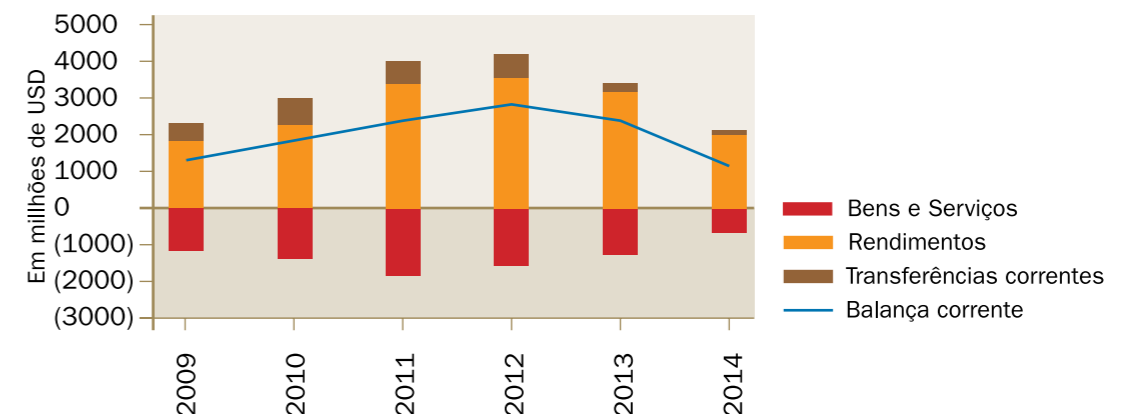
Fonte: BCTL

If we exclude the Petroleum Fund income, as well as oil and gas revenues, Timor Leste continued to have an external deficit in 2014. Nonetheless, if we include those revenues, the external position is in surplus. In the chart below, we present the total BoP of Timor Leste, including PF income and oil revenue, which has always been in surplus.

...which registers the net balance between incoming and outgoing comercial and financial transactions.

Timor-Leste continued to register an external deficit, if we exclude oil revenue and PF income.

TL: Current Account including PF



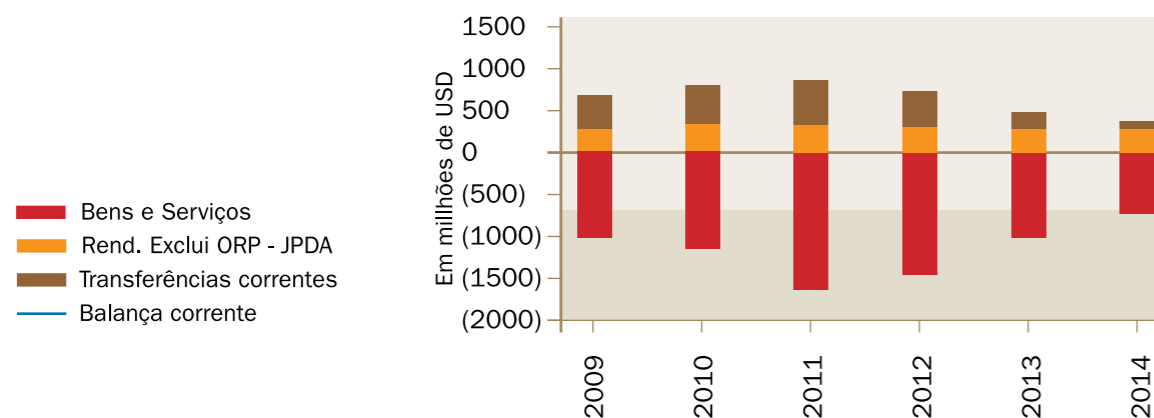
Fonte: BCTL

The following chart presents the current account, excluding the PF income and oil revenue. Note how the current account has always been in deficit, which has been due to substantially negative trade account deficit, which measures the net value of exports minus imports. In this context, it is also important to highlight that the current account deficit has been negative but relatively stable along the last 3 years.

Although including these items results in substantially surplus BoP.

Current account surplus as percentage of GDP has decreased....

TL: Current Account excluding PF



Fonte: BCTL

.... but current account excluding oil revenue and PF income continues to be in deficit.

Including the primary income, the current account surplus was 82% of non-oil GDP in 2014, substantially below the 196% registered in 2013. This decrease was due to the fall of oil and gas revenue and the maintenance of a substantial trade account deficit.

Balança de Pagamentos em % do PIB não petrolífero

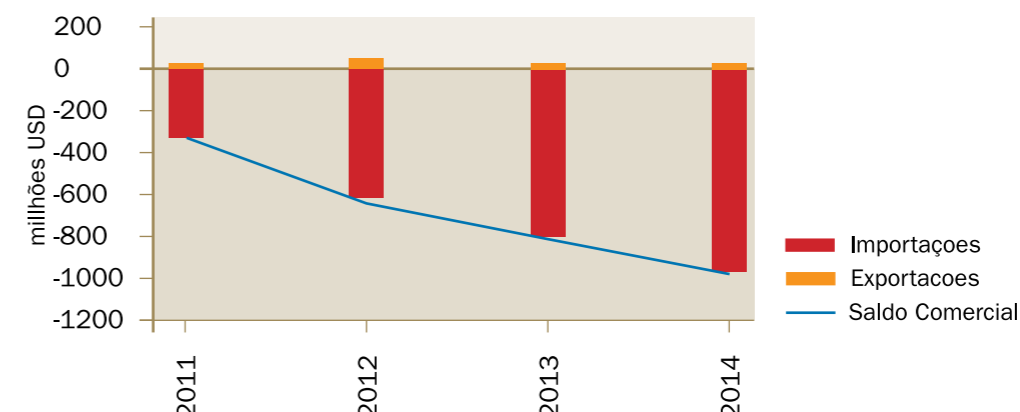
	2009	2010	2011	2012	2013	2014
em milhões de USD						
PIB não petrolífero	853	934	1071	1155	1220	1307
Conta Corrente	1284	1678	2352	2746	2397	1096
Bens e serviços	-1097	-1241	-1758	-1558	-1116	-1137
Rendimento	1930	2435	3577	3873	3333	2149
Transferência corrente	451	484	533	432	180	84
% do PIB						
Conta Corrente	150	180	220	238	196	84
Bens e serviços	-129	-133	-164	-135	-91	-87
Rendimento	226	261	334	335	273	164
Transferência corrente	53	52	50	37	15	6

Fonte: Direcção Geral de Estatística

Total exports are substantially below total imports....

The trade account continues to register a huge deficit position, given the low level of national exports and huge need to import merchandise to supply national aggregate demand. This aspect and its durability are and have been a major characteristic of Timor Leste's international commerce profile. Imports in 2014 amounted to 54% of non-oil GDP (710 millions of dollars, for a GDP of 1307 millions, as calculated by the Government).

TL: Annual External Commerce Statistics



Fonte: Direcção Geral de Estatística

As can be seen, the huge commercial deficit in 2014 was due to the continued imports dependence, whose growth remained robust in 2014. Exports continue to be low and concentrated, representing less than 10% of total commerce, and an annual growth of 1.4%. As is publicly known, the Government has already recognized the need to reduce this unbalance and defined as strategic priority the need to foster national production to reduce imports dependence, although the implementation of this directive still awaits specific and substantial measures.

.... explaining the huge trade deficit of the country.

Exports were only 1.4% of total international commerce in 2014...

TL: Estatísticas do Comércio Externo								
Month/Year	Importações			Exportações			Saldo	
	Mercadorias	Não-merc	TOTAL	Exportação	re-export	TOTAL	Total	Mercadorias
	2013	842.79	0.00	842.79	16.04	63.29	79.34	-763.45
Janeiro 14	99.13	0.00	99.13	0.67	1.58	2.24	-96.88	-98.46
Fevereiro 14	37.54	0.00	37.54	0.83	1.68	2.51	-35.03	-36.71
Marco 14	42.16	0.00	42.16	0.45	0.72	1.17	-41.00	-41.71
T1 - 2014	178.82	0.00	178.82	1.94	3.98	5.92	-172.90	-176.88
Abril 14	36.95	0.33	37.28	0.07	0.46	0.53	-36.75	-36.87
Mai 14	245.14	0.09	245.23	0.04	1.48	1.52	-243.70	-245.10
Junho 14	50.17	0.12	50.29	0.50	1.22	1.72	-48.57	-49.67
T2 - 2014	332.26	0.54	332.80	0.62	3.16	3.78	-329.03	-331.64
1º Semestre 14	511.08	0.54	511.63	2.56	7.14	9.70	-501.93	-508.53
Julho 14	48.91	0.12	49.03	1.57	48.50	50.08	1.05	-47.33
Agosto 14	52.88	0.57	53.45	2.84	1.69	4.52	-48.92	-50.05
Setembro 14	95.17	0.47	95.64	2.39	10.14	12.53	-83.10	-92.77
T3 - 2014	196.95	1.16	198.11	6.80	60.33	67.14	-130.98	-190.15
Outbro	54.59	0.13	54.73	2.09	1.64	3.73	-51.00	-52.50
Novembro	98.81	0.52	99.34	1.66	2.45	4.11	-95.23	-97.15
Dzembro	122.43	0.39	122.82	0.76	6.54	7.29	-115.52	-121.67
T4 - 2014	275.84	1.05	276.88	4.51	10.62	15.14	-261.75	-271.32
2º Semestre 14	472.79	2.20	475.00	11.32	70.95	82.27	-392.73	-461.48
2014 (Total)	983.88	2.75	986.62	13.87	78.09	91.97	-894.66	-970.00

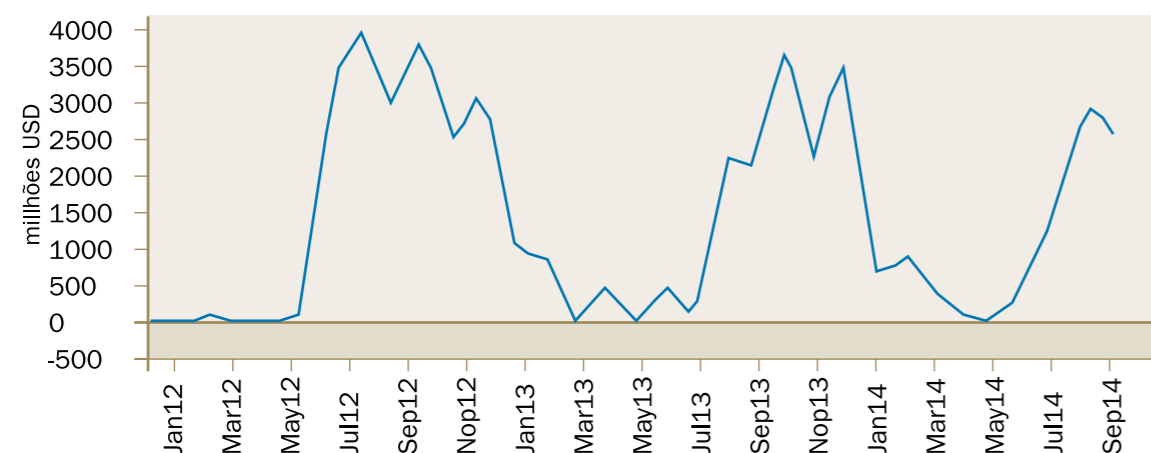
Fonte: Direcção Geral de Estatística

Exports

.... and coffee continues to be the only relevant export.

Practically the only export of the country – which is systematically registered by the Statistics Office – is coffee. The chart below present the monthly nominal exports of coffee between 2012 and 2014. As can be seen, coffee export has a strong seasonality, peaking in the 2nd half of the year, after the annual crop. Note also that the value and volume of 2014 were below 2013's.

TL: Coffee Monthly Exports, 2012 - 2014



Fonte: Direcção Geral de Estatística

Valor (mil USD) e volume (toneladas) de café exportado					
	2010	2011	2012	2013	2014
Valor	15.987	11.923	18.813	15.781	13.646
Volume	25.671	22.203	33.775	13.252	9.643

Fonte: Direcção Geral de Estatística

Imports

.... while the country continues highly dependent of imports.

The main imported products are fuels, followed by vehicles and electrical machinery. Energetic goods represented 15.8% of total imports in 2014, continuing to grow substantially, given the need to supply the country's 2 electrical power plants and growing vehicle usage.

TL: importações por tipo de produtos nos anos mais recentes

(Em milhões de USD)	2011	2012	2013	2014
Cereais (10)	11	31	23	32
Petróleo (27)	56	104	144	160
Máquinas mecânicas (84)	22	28	39	32
Máquinas eléctricas (85)	99	244	44	29
Veículos (87)	37	53	64	75
Total	335	668	842	984

Fonte: Direcção Geral de Estatística

Nota: 1 - o número entre parenteses na primeira coluna é o da classe da pauta aduaneira.

Cereals have registered a new annual increase in 2014, probably due to the rise of national consumption and, eventually, to the insufficiency of national production. In 2014, cereals represented 3.6% of total imports.

Cereals imports are mostly due to the physical incapacity of local production to supply national consumption.

The table below presents imports according to their geographical origin for the last 4 years.

Timor-Leste: importações por países nos anos mais recentes (milhões USD)				
	2011	2012	2013	2014
Total	318.7	661.2	526.8	561
Finlândia	68.6 (21.5%)	228.8 (34.6%)	0.9 (0.1%)	0.08 (0.01%)
Indonésia	98 (30.7%)	149 (22.5%)	181.3 (34.4%)	159 (28.4%)
Singapura	21 (6.6%)	45 (6.8%)	62.6 (11.9%)	125 (22.3%)
Austrália	15 (4.7%)	24 (3.6%)	15.9 (3.0%)	19 (3.4%)
China	60 (18.8%)	44 (6.7%)	39.8 (7.6%)	41 (7.4%)
Vietname	7 (2.2%)	31 (4.7%)	41.3 (7.8%)	33 (5.9%)
Estados Unidos			1.4 (0.27%)	12 (2.2%)
Portugal	4.8 (1.5%)	10.5 (1.6%)	12.3 (2.3%)	9 (1.6%)
Malásia	13.8 (4.3%)	51.7 (7.8%)	79.5 (15.1%)	36 (6.4%)

Fonte: Direcção Geral de Estatística

Nota: Este quadro exclui 2 itens: USD191 milhões importados dos E.U.A., classificados na categoria (49) 'livros impressos' que correspondem (na maioris) á importação de notas de dólar; e um valor de USD269 milhões, classificados na categoria (71) como metais preciosos, originários de Portugal. O valor total das importações registadas pela DNE, em 2014, foi de USD984 milhões, que incluíam estes 2 registos.

Simultaneously with growing imports in 2014, it should be noted that the origin of the imports has not been stable throughout time, with Indonesia losing importance, but still being the main commercial partner of Timor Leste.

Indonesia continues to be our main trading partner.



Public Finances

As stated in Government's Budget for 2014, the State has defined as budgetary priorities the investments in Health, Education and Security, including building small and large scale infrastructure necessary to support a robust, inclusive and high quality growth process.

2014's budget foresees high inclusive growth as Government's priority.

Benefiting from previous State investment in new technologies, national citizens can today access a good database to assess the implementation of public programmes and activities, which is the "Portal das Financas" at <http://www.budgettransparency.gov.tl/public/index>. This website is updated daily allowing us to monitor the composition, change and value of public finance programmes, constituting a major source for the analysis that follows.

Despesas Pública	2010	2011	2012	2013	2014
Orçamento (milhões USD)	838	1,306	1,806	1,648	1,500
Variação (%)	23.1	55.9	38.3	-8.8	-9.0
Actual (milhões USD)	760	1097	1198	1082	1368
% do total Orçamento	90.7	84.0	66.3	65.6	91.2

Fonte: Portal de transparência de Timor-Leste

2014 saw a substantial growth in cash execution rates of budgeted expenditure,

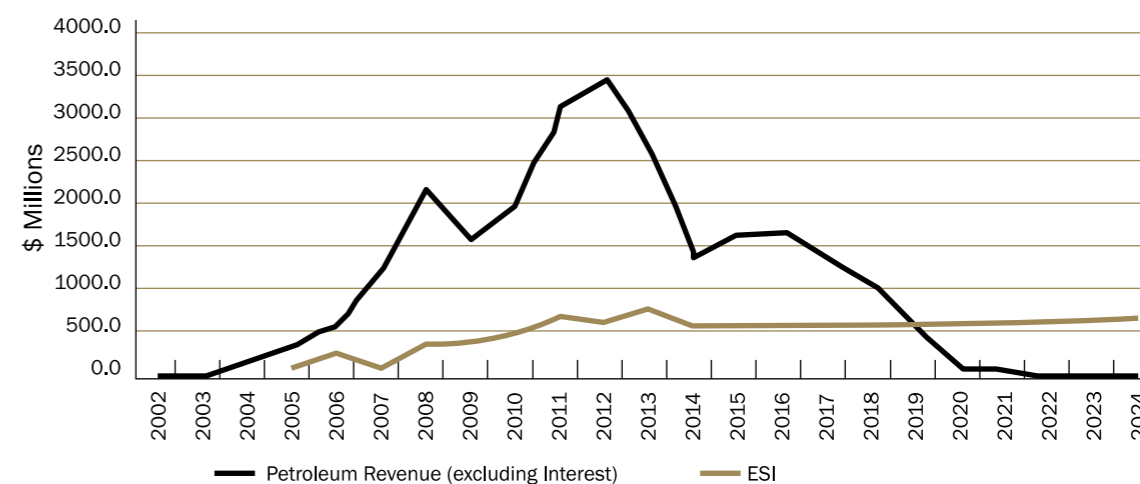
Notwithstanding the Government's concern with restricting public spending growth, the amount spent in 2014 was higher than in 2013, resulting from the higher budgetary allocations and increased spending execution rates. Note also that the years of 2012 and 2013, coincident with a domestic economic slowdown, registered low spending execution rates.

Public Revenues

Public Budget financing has been overwhelmingly originated from Petroleum Fund's transfers, dully authorized by the National Parliament, when the annual Budget is approved. The so-called domestic non-oil revenues, due from taxes and fees, are fundamentally sourced from income taxes and customs taxes.

PF transfers have been the major source of financing for the Public Budget.

Figure 2.5.3.2.1: Timor-Leste's Petroleum Revenues and Estimated Sustainable Income 2002-2025



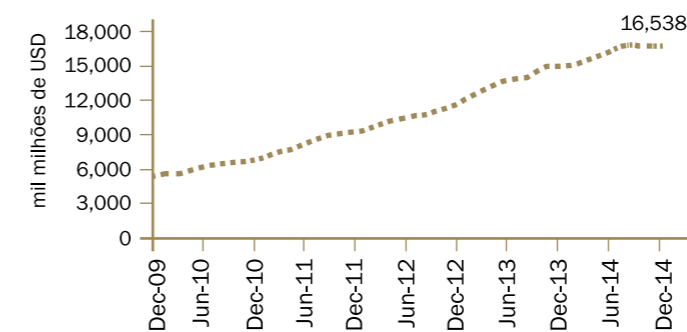
Source: Petroleum Fund Administration Unit

Petroleum Fund transfers, which depend on oil revenue and financial assets returns, were 902.9 million USD in 2014, well above the sustainable income (ESI), by 270.6 million USD. ESI was 632.3 million USD in 2014. This estimate is based on the current present value of the PF and estimation of future oil revenue, using credible price forecasts for the next 6 years. The approval of 2014's Budget in Parliament also approved the transfer of an amount above ESI for 2014, thus reducing total Oil Wealth of the country.

In 2014, 902.9 million USD were transferred from the PF to State's accounts...

.... while ESI was 632.3 millions. Thus the amount transferred was above the ESI..

Petroleum Fund Capital, monthly data



Fonte: BCTL

Government also used public external debt as financing source...

... while also using 2013's remaining bank account balances.....

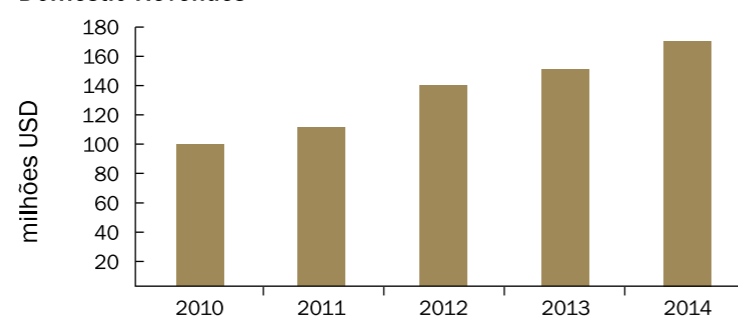
... and 2014's domestic non-oil public revenues.

Another financing source consists of issuing Public Foreign Debt, which, for 2014, was estimated at 51 million USD, to finance the recovery and widening of 3 main roads of the country.

The account balance of State's bank accounts left over from 2013 was also used to finance 2014 Budget, amounting to 379.9 million USD.

Domestic public revenue and its increase continue to be a main priority for the Government in terms of public finances, so as to reduce the dependency from PF transfer financing. Note that, in line with the expansion of domestic economy, domestic revenues have increased substantially from 2010 to 2014, amounting to 166.1 million USD at the end of the period.

Domestic Revenues



Fonte: OGE 2014

In the table below, it can be seen that total taxes, including customs taxes and taxes on income and consumption, are the most important category of domestic revenues.

Receitas Doméstica em 2014 (milhões USD)				
Categoria	Orçamento	Cobrado	Saldo	Execução %
Total	166.1	184.3	-18.2	110
Rendimento de impostos	120	142	-22	118
Rendimento não-fiscal	22.3	18.2	4.1	81
Rendimento de agências	24.8	24.1	0.7	101

Fonte: Portal de transparência de Timor-Leste

Although the value of domestic revenue has increased in 2014's Budget, these represented only 11% of total Budget financing, given that the total budgeted spending for 2014 was 1500 million USD. In 2013, the financing portion of these revenues was only 8.9% of total budgeted amount of 1648 million USD.

Taking only in consideration the cash expenditure levels (1367.8 million USD), effective domestic revenues financed 13.5% of the total in 2014. These values confirm the high level of dependency from PF transfers to finance the Public Budget.

Domestic revenues were only 11% of total financing needs.

Public Expenditure

Budgeted public expenditure and amounts effectively spent, according to their category, are presented in the table below (execution rates are computed by adding payments and assumed obligations).

Goods and services expenditures continue to be the largest spending category of Public Budget, increasing 11.8% versus 2013. This category amounted to 31.9% of total budgeted expenditure and 32.8% of total effective spending of 2014, highlighting the heavy weigh of recurrent expenditure in total Budget. Note, however, that this category includes substantial spending in fuel for the national power plants, amounting to 92 million USD, whose building and operation was one of Government's priorities to develop the country, improve life quality standards and attract external investment.

Developmental expenditure, or public investment, amounted to 30.4% of total Budget and its execution rate was 92% in 2014.

Goods and services spending continues to be the largest spending category in the Public Budget, with 31,9% of total spending....

... while capital and public investment amounted to 30.4% of total expenditure.

Ano Fiscal Grupo	Despesas					
	2014 Detalhes do orçamento (milhões USD)					
Categoria	Orçamento	%	Obrigações	Real	%	Execução %
Total	1500.0	100	37.1	1367.8	100	93.7%
Salário e vencimentos	177.7	11.8	0.0	162.4	11.9	91.4%
Bens e serviços	478.0	31.9	6.6	449.0	32.8	95.3%
Capital Menor	61.0	4.1	2.8	54.3	4.0	93.7%
Capital de desenvolvimento	456.4	30.4	27.5	393.9	28.8	92.3%
Transferências	310.0	20.7	0.1	291.7	21.3	94.1%
Despesas para contingências	17.0	1.1	0.0	16.8	1.2	97.6%

Fonte: Portal de transparência de Timor-Leste



Generator fuel was the largest spending item within goods and services spending.

The table below presents goods and services expenditures whose value is above 5 million USD. The 3 main categories within this spending class are “fuel for generators”, “professional services” (including consulting expenses) and “various operational items”.

Ano Fiscal Grupo	Despesas 2014 Detalhes do orçamento		
	Orçamento	Real	Execução %
Total	1,500.00	1,367.82	93.7%
Bens e serviços	478.04	449.00	95.3%
Fuel para geradores	94.09	92.44	98.6%
Serviços Profissionais	84.58	77.29	91.9%
Despesas Operacionais	75.28	49.60	66.3%
Materiais Operacionais	56.31	55.90	102.0%
treino e Seminários	51.10	42.02	82.4%
Outros serviços vários	33.98	28.34	87.0%

Fonte: Portal de transparência de Timor-Leste

Note additionally that spending on “operational items” had an execution rate over 100% in 2014, while the same had already happened in 2013.

Government established an Infrastructure Fund to manage and build the country infrastructure.

We proceed with a more detailed analysis of one of the Budget’s more important spending categories and crucial for the country’s development, which is the Infrastructure Fund (IF). This Fund is managed by a joint-ministerial team, under the direct supervision of the Prime Minister.

The Fund is invested in a set of sectorial programmes and manages the most important part of the national infrastructure programme. The table below presents details related to respective programmes, budgeted amounts and effectively spent amounts in 2014.

Despesas Grupo	Ano Fiscal 2014 Detalhes do orçamento				
	Orçamento	Obrigações	Real	Execução (Real+ Obrigações)	Execução (só real)%
Total Orçamento	1,500.00	37.12	1,367.82	93.7%	91.2%
Fundo de infraestruturas - FI	337.50	8.43	324.21	98.6%	96.1%
Irrigação	9.50	0.01	9.49	100.0%	99.9%
Piano mestre	2.21	0.00	1.85	84.1%	83.9%
Esgotos	1.76	0.06	20.6	119.9%	116.7%
Desenvolvimento urbano e rural	8.26	0.02	8.25	100.0%	99.8%
Edifício pública	9.73	0.79	8.93	99.8%	91.7%
Escolas	4.66	0.13	3.75	83.1%	80.4%
Universidades	0.50	0.03	0.13	33.8%	27.1%
Energia eléctrica	138.47	2.13	133.79	98.2%	96.6%
Equipamento informatika	0.59	0.05	0.55	100.0%	92.3%
Habitação	5.92	0.00	5.92	100.0%	100.0%
Hospital/clinica	1.97	0.21	1.76	100.0%	89.1%
Segurança e defesa	6.13	0.65	4.66	86.6%	76.0%
Sub-programa segurança	0.20	0.00	0.20	100.0%	100.0%
Sub-programa defesa	0.02	0.02	0.00	96.5%	0.0%
Monumentos	1.06	0.01	1.05	100.0%	99.5%
Aeroportos	13.54	0.00	13.54	100.0%	100.0%
Petrollo e gas	9.00	0.06	8.21	91.9%	91.2%
Aeroportos	0.22	0.00	0.22	99.8%	99.8%
Estradas	58.60	1.80	56.96	100.3%	97.2%
Pontes	11.71	0.38	11.33	100.0%	96.7%
Portos	6.20	0.01	9.17	148.0%	147.9%
Preparação de desenhos e supervisao-novos projectos	1.23	0.00	0.86	70.0%	70.0%
Programa de desenvolvimento região oecusi	24.00	0.11	23.74	99.4%	98.9%
Programa do sector turismo	2.57	1.50	1.07	100.0%	41.7%
Programa sector das finanças	19.09	0.40	16.44	88.2%	86.1%
Programa do sector juventude e desporto	0.36	0.07	0.29	100.0%	80.5%

Fonte: Portal de transparência de Timor-Leste

In terms of execution rates, the IF spent 93.7% of the budgeted amount in 2014, well above the 50.5% spent in 2013. Note also that the simple non-weighted average execution rate across all programmes was 90% in 2014.

.... and IF cash execution rate was 93.7% in 2014.

Secondly, although the budgeted amount for the IF amounted to 22.5% of total Budget (36.7% in 2013), total effective IF spending amounted to 22.2% of total actual spending, versus the 18.5% of 2013.

... or 22.2% of total actual spending.

Electrical energy was the largest item expenditure for the IF.

The Fund's programme with a higher budgeted amount, 41% of the total, was electrical energy. This programme had an execution rate of 98% in 2014 and has as objective the electrification of the country, whereas spending includes supporting the contracts for building and operating the power plants and distribution networks, signed with the respective services providers.

The second and third largest programmes – Roads (58.6 million USD and Oecusse development programme (24 millions) – amounted to 17.4% and 7.1% of the IF's budgeted total amount, while their cash execution rates amounted to 100% and 99.4% respectively.

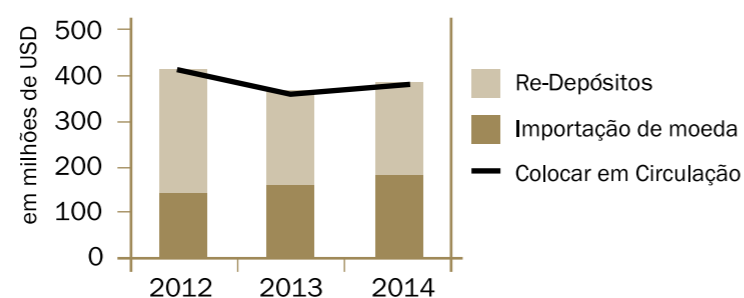
Financial and Monetary Developments

BCTL has a fundamental role in defending public trust in currency.

One of the most important sectors in a modern economy is the financial sector, including its monetary sector. BCTL has been and continues to be actively engaged in securing public trust in the legal currency of the country, the dollar. As the country continues to use a foreign currency as its official currency, BCTL's actions cannot be judged under the traditional monetary policy perspective, but in terms of securing the operational trust in the currency. This means that BCTL intends to have and provide at all times the needed currency demanded by the public, including coins and bills, as well as maintaining the physical integrity of the currency.

The chart below presents the total imported currency in 2014 and the amounts put into circulation in the economy by BCTL.

Currency Transactions



Fonte: BCTL

Since ours is a dollarized economy, BCTL cannot exactly compute the total amount of currency in circulation, although we can reasonably estimate the monetary aggregate M2, which is normally used throughout the world as the standard monetary aggregate. M2 corresponds to the sum of currency in circulation (coins and bills), demand deposits (which, as currency, can be mobilized to pay responsibilities) and quasi-currency, which includes other bank deposits that can be easily be mobilized to make payments.

As usd is the country's currency, we cannot compute accurately currency in circulation...

In the chart below we present the approximated M2 in Timor Leste from 2010 to 2014. Note that these values are estimated, because do not include the bills in circulation. However, since these are relatively small compared to overall M2, which includes coins, deposits and quasi-currency, estimated M2 serves reasonably to measure the currency in circulation in our economy.

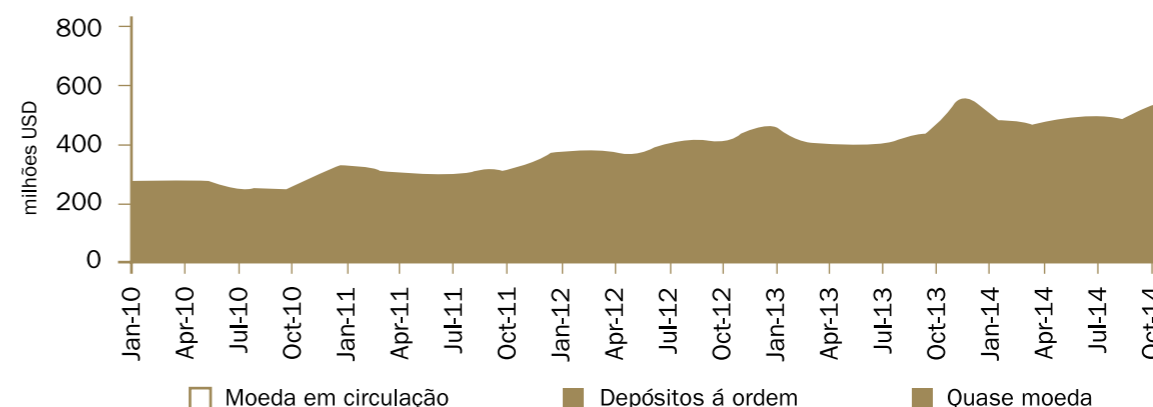
.... but is possible to have a reasonable approximation of the monetary aggregate M2.

Money supply has registered a continuous increase along the last 4 years, due, naturally, to the expansion of domestic economic activity, boosted by the increase in public spending.

Within this monetary perspective it is also important to monitor the changes in banking deposits and their relationship with banking credit, as banks finance credit with the available deposit base.

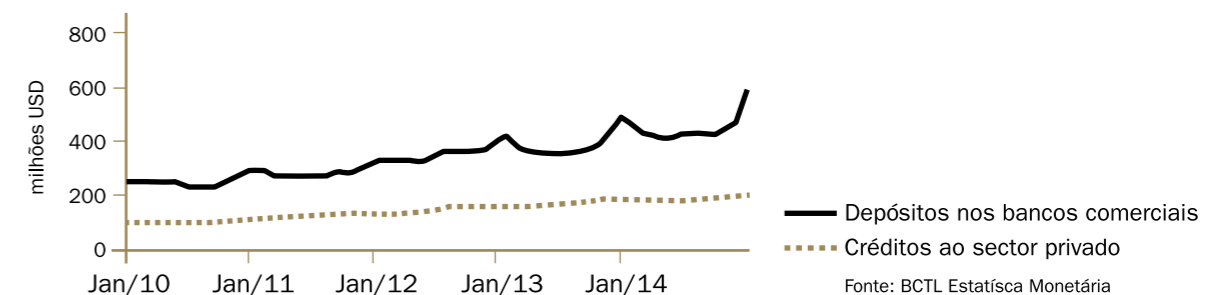
Economic activity growth has boosted M2 growth in the last few years.

Money Supply (M2) and its Components



Fonte: BCTL Estatística Monetária

Deposits and Lending to Private Sector

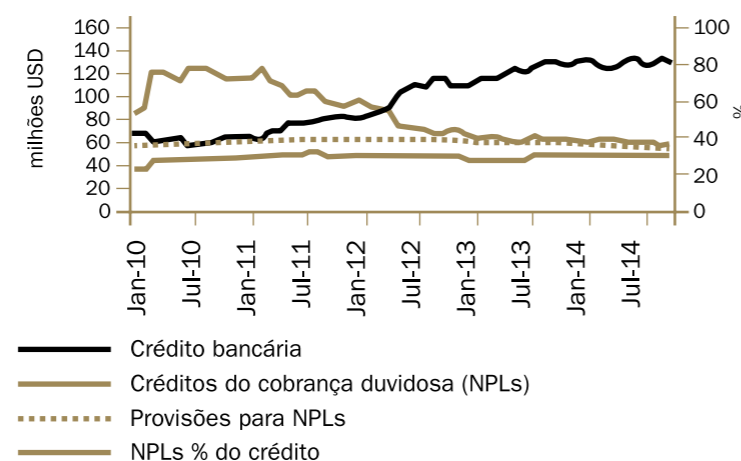


Fonte: BCTL Estatística Monetária

A subida dos recursos bancários foi muito superior à dos empréstimos concedidos..

As can be seen in the chart above, deposits exceed credit volume by a substantial amount. Thus the banking system has a substantial excess liquidity position, which is mostly invested abroad, with the parent banking institutions of each of the branches operating in Timor Leste.

NPLs and respective Provisions



Fonte: BCTL Estatística Monetária

Additionally, it is also important to monitor the quality of banking credit in the country. A useful indicator in this regard is the total amount of “non performing loans”, which corresponds to credit, which is not being repaid, either capital or interest, timely by the respective borrower.

Although elevated, NPLs ratio has been on a downward trend...

In the case of Timor Leste’s financial system, NPLs are quite high, amounting to 37% of total credit at the end of 2014. Although NPLs are elevated, this indicator has registered a continuous fall since 2010, when it amounted to 70% of total credit.

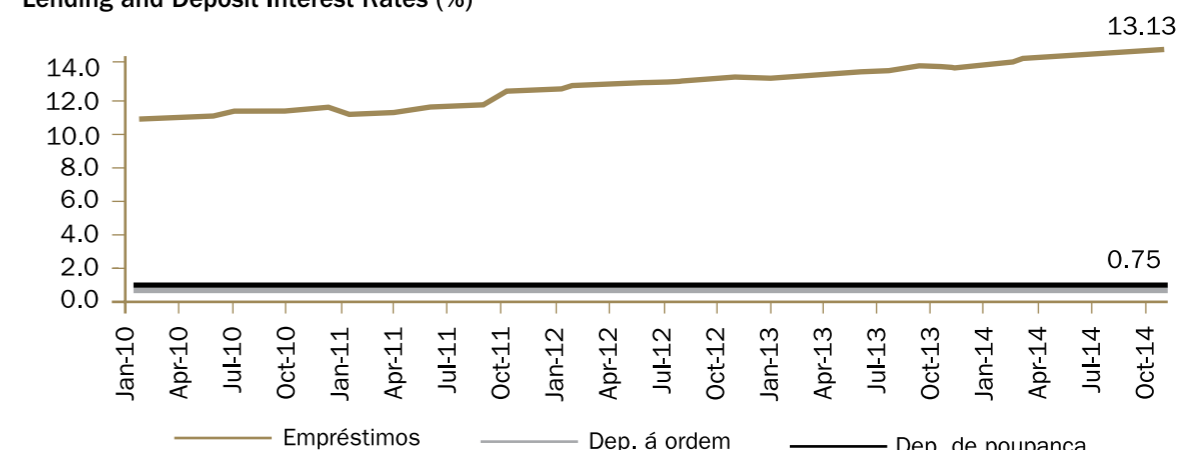
This, however, does not constitute a threat to the system, either because banking institutions in the country are non-segregated subsidiaries of larger and solid banking franchises in their respective countries, or because they adapted successfully to the growing NPLs in their portfolios, establishing massive reserves/provisions more than sufficient to cover the total NPLs in the system. Note that total provisions have always been above total NPLs.

High NPLs levels is nonetheless an indicator of the banking business risks in the country, as if NPL’s are high those risks are elevated. Naturally, high credit risk is one of the components that explain the high levels of lending interest rates in the country. In fact, Timor Leste’s lending interest rates are relatively high, when compared with those from US, the country’s whose currency we use, contradicting the expectation that when a small country adopts the currency of a larger one, its rates should converge. In Timor Leste, this expectation is not materialized, especially for lending rates, for various reasons, particularly because banking risks, or credit and lending risks have been very high in the country.

.... high credit risk is one of the factors that explains the country’s high lending rate.

The chart below compares rates for deposits and credit and the respective spread, which has been always very high.

Lending and Deposit Interest Rates (%)



Fonte: BCTL

These high nominal rates correspond to high real rates. If we take the average annual interest rate (12.87%) in 2014 and subtract the 2014’s annual average inflation rate (0.5%), the real interest rate of 2014 was 12.37%.

The chart presents the huge spread between lending and deposit rates....

Note also that historical spread between rates has only changed slightly, mostly due to changes in lending rates, as deposit rates have been stable, registering an average of 11.52% in 2014.

.... spread was 11.52% on average, in 2014.

Taxa de Juro do banco Comercial				(Em percentagem)			
Perodo	Empréstimos +6 meses Libor	Depósitos a Ordem	Depósitos de Poupança	Depósitos a Prazo			
				1 Mês	3 Meses	6 Meses	12 Meses
2014 Jan	12.59	0.56	0.75	0.86	1.09	1.29	1.36
Fev	12.56	0.56	0.75	0.87	1.10	1.31	1.37
Mar	12.58	0.56	0.75	0.87	1.09	1.30	1.37
Abr	12.80	0.55	0.75	0.86	1.09	1.29	1.36
Mai	12.85	0.55	0.75	0.86	1.09	1.29	1.36
Jun	12.87	0.52	0.75	0.86	1.09	1.29	1.36
Jul	12.92	0.54	0.75	0.86	1.09	1.29	1.36
Ago	12.95	0.53	0.75	0.85	1.08	1.27	1.34
Set	13.02	0.52	0.75	0.84	1.06	1.25	1.33
Out	13.02	0.52	0.75	0.82	1.04	1.23	1.30
Nov	13.13	0.52	0.75	0.83	1.04	1.24	1.30
Dez	13.11	0.54	0.75	0.83	1.05	1.24	1.31

Fonte: BCTL

As the banking system restricts credit to the economy, it invests the excess liquidity abroad.

As already referred before, the banks in the country, unable to invest the full amount of their deposit resources in the country, end up by investing the excess liquidity in deposits abroad to profit from the resources not used to finance credit. The chart below presents the changes in "Net Foreign Assets" (DLX) of the country, segregating BCTL and commercial banking reserves.

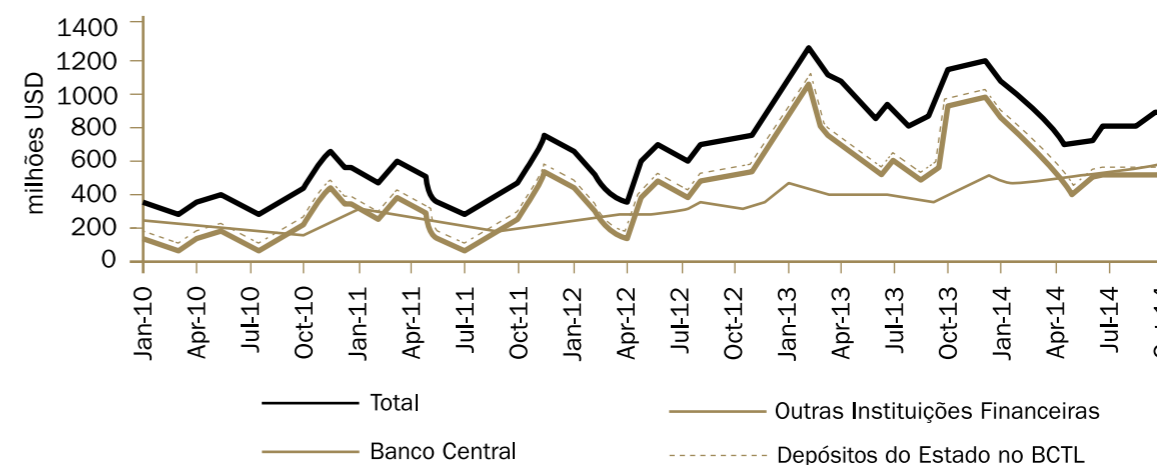
Nonetheless, DLX are more sensitive to BCTL's changes in reserves.

As can be seen, total NFA are highly sensitive to changes in BCTL's reserves and these are highly influence by State's deposits with the BCTL, which means that a major portion of these resources is invested abroad. When the State requests its resources, deposits with the BCTL decrease and, subsequently, BCTL's NFA.

Commercial banking's NFA are more stable and have grown gradually along the years, following closely the growth in overall banking deposits.



Net Foreign Assets



Fonte: BCTL Estatística Monetárias

Banking Sector Developments

Timor Leste's banking system continues to be solid and stable in 2014. It continues to be overwhelmingly financed by deposits and only lends out a small portion of these resources to companies and retail clients, causing the overall system to have a major liquidity surplus.

The banking system remained stable and robust in 2014.

In the tables and charts below, we present several data regarding the banking system, which was composed of, at the end of 2014, by 1 Timorese bank – BNCTL – and 3 banking subsidiaries of 3 major international banks headquartered in Portugal (CGD/BNU), Australia (ANZ) and Indonesia (Mandiri).

Total banking assets at the end of 2014 were 805 million USD, registering a growth of 21% versus 2013.

Banking assets increased 21% in 2014.

Activos da banca Comercial			(Em milhões de USD)			
Items	Dez/13	% TA	Dez/14	% TA	Taxa de variação	Valorda variação
Moeda e aldo no BCTL	105.01	15.8%	179.41	22.3%	70.9	74.40
Depósitos noutros bancos	429.81	64.6%	487.63	60.6%	13.5	57.83
Investimento	0.00	0.0%	3.98	0.5%	100.0	3.98
Empréstimos e adiantamentos a clientes	118.46	17.8%	120.86	15.0%	2.0	2.40
Activos fixos	9.21	1.4%	9.92	1.2%	7.7	0.71
Outros activos	2.79	0.4%	3.26	0.4%	16.9	0.47
Total	6665.28	100%	805.06	100%	21.0	139.79

Fonte: BCTL

But total credit lowered in 2014.

During 2014, total credit decreased 0.1%. The gross credit portfolio, including NPLs, was 176.7 million USD at the end of 2014, being that 47.4 millions were classified as NPLs. Note again that this high NPL level does not constitute a threat for the banking system, because total registered provisions were well above total NPLs, at 55.8 million USD.

Empréstimos segundo a sua performance			(Em milhões de USD)			
Item	Dez/13	% do Total CBE	Dez/14	% do Total CBE	variação	
Empréstimos em cumprimento	127.32	72.0%	129.29	73.2%	1.5%	
“Crédito de cobrança duvidosa”	49.54	28.0%	47.41	26.8%	-4.3%	
Provisões para “Crédito de cobrança duvidosa”	58.40	33.0%	55.84	31.6%	-4.4%	
Total liquido dos empréstimos e adiantamentos	118.46	67.0%	120.86	68.4%	2.0%	
Carteira bruta de empréstimos (CBE)	176.86		176.70		-0.1%	
Provisões em % “Crédito de cobrança duvidosa”	117.9%		117.8%			
“Crédito de cobrança duvidosa” em % da carteira bruta de empréstimos	28.0%		26.8%			

Fonte: BCTL

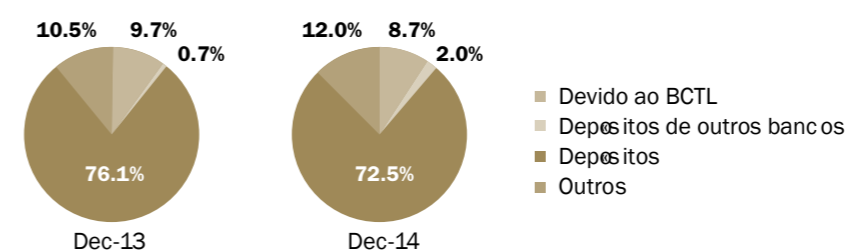
.... but total deposits increased 15,2% to 583 million USD.

Global deposits value was 583 million USD in 2014, rising 15.2% versus 2013 and representing 72.5% of total banking liabilities and capital.

Responsabilidades / Passivo			(Em milhões de USD)			
Item	Dez/13	% das responsab. e capital	Dez/14	% das responsab. e capital	variação	
Devido ao Banco Central de TL	64.30	9.7%	70.08	8.7%	9.0%	
Depósitos de outros bancos	4.37	0.7%	15.75	2.0%	260.2%	
Depósitos	506.31	76.1%	583.28	72.5%	15.2%	
Outros	70.15	10.5%	96.87	12.0%	38.1%	
Capital	20.14	3.0%	39.11	4.9%	94.1%	
Total das responsab. e capital	665.27	100.0%	805.06	100%	21.0%	
Total das responsabilidades	645.13	97.0%	765.96	95.1%	18.7%	

Fonte: BCTL

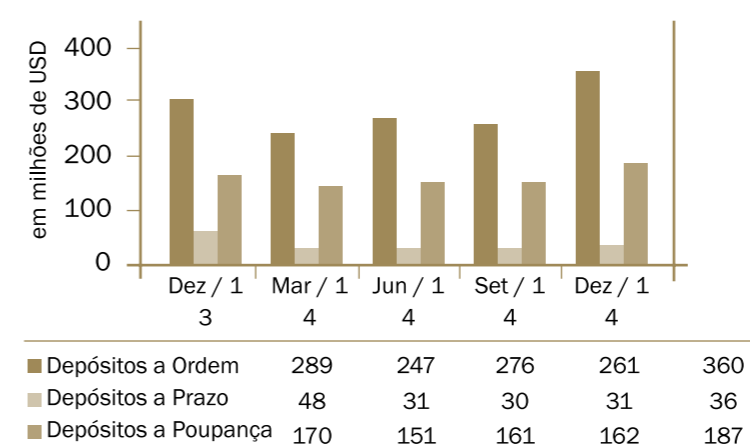
The pie charts below further decompose the liability structure of the banking system.



Demand deposits continued to represent the major part of total deposits, with 61.7% of total, increasing by 24.7% versus 2013. Saving deposits as percentage of total deposits increased again in 2014, after consecutive decreases in the 3 years before. Term deposits lost some expression of total deposits, decreasing from 9.5% to 6.2% of total.

.... 61.7% of which are demand deposits.

Deposits Structure



Fonte: BCTL



In fact, interest paid on deposits received was only 1.7 million USD....

.... a marginal value compared with banks primary income sources.

Banks' primary revenues were composed of interest and fees, totalling 16.5 and 17.2 million USD respectively in 2014. Total paid interest was substantially lower at 1.7 million USD.

The consolidated profit and loss statement of the banking sector in 2014 was as follows (2013 is presented for comparison purposes):

	(Em milhões de USD)	
	Dec-13	Dec-14
Rendimento Bruto	27.87	26.90
Rendimento liquido antes de impostos	14.81	10.20
Impostos sobre o rendimento	1.51	1.11
Rendimento liquido antes de impostos	13.30	9.10
Rendimento em % dos activos	Dec-13	Dec-14
Juros recebidos de bancos	0.33%	0.28%
Juros de investimentos 'overnight'	0.00%	0.00%
Juros e taxas derivados de empréstimos	1.91%	0.57%
Outros juros recebidos	0.21%	0.21%
outros rendimentos operacionais	2.93%	2.14%

Fonte: BCTL

Banking asset growth has reduced Return on Assets to 1.2% in 2014, from 2% in 2013.

The annual income as percentage of assets (RoA, or Return on Assets) was 1.2% in 2014, lower than 2013's 2%. This decrease was essentially due to the increase in banking assets, without an equivalent rise in income, which actually fell slightly versus 2013. RoA's decrease was then due to the reduction of interest and fees in 2014, as percentage of banking assets. Banks continue to have liquidity ratios above the minimum required by the BCTL.

Conclusions

2012's national accounts published by DNE in 2014 estimate that non-oil GDP's growth in 2012 was 7.8%. According to 2015's Budget Books, the Government estimates that growth was 5.6% in 2013 and 7.1% in 2014. However, BCTL estimates based on its models, that growth was weaker at 0.5% in 2013, but stronger in 2014 (8%). BCTL models and activity indicator's estimates closely track the pattern in public expenditure in the last 2 years, which has fallen on a cash basis in 2013 and recovered substantially in 2014.

Average annual inflation rate was 0.5% in 2014, in what constitutes a major fall versus 2013's value. According to BCTL's empirical models, this reduction was mostly due to the fall in external inflation pressures, resulting from the depreciation of trading partners' currencies versus the dollar and the fall of international prices of commodities. External inflation, as measured by BCTL – average of 6 Asian economies inflation rates in dollar terms – was negative at -1% in 2014, the first time since 2009, a year affected by the global recessive effects of the great financial crisis. On the other hand, the domestic economy recovery in 2014 has added slight upward price pressures to our economy, but its effect was only marginal compared to external inflation.

Our country continues to have a deficit in the Balance of Payments, when we exclude the oil and natural gas revenues and Petroleum Fund's income, due to the huge deficit of the trade account. Nonetheless, when include those revenues and income, the BoP has a substantial surplus. Our economy continued to post a substantial trade account deficit in 2014, due to the high import dependency of our economy, which continued to increase in 2014. Exports have grown only 1.5% in 2014, amounting to only 10% of total international commerce, and are practically represented by coffee exports.

In terms of budgetary and fiscal policy, total effective expenditure increased substantially in 2014, registering an annual record of 1368 million USD, versus the 1082 millions spent in 2013. This increase was mostly due to an increase in cash execution rates. In terms of public revenues, non-oil public revenues continued to grow in 2014 to 184 million USD, but only covered 17% of total expenditure, whose financing continues to be mostly assured by transfers originated from the Petroleum Fund.

In terms of monetary aggregates, money in circulation continued to increase in 2014, extending the gradual rising trend registered along the decade, in line with the domestic economy expansion. The country's banking system continued to have a substantial excess liquidity position, since total credit was substantially below total deposits. This excess liquidity is mostly invested abroad in deposits with the parent franchises of local banking subsidiaries.

Timor Leste banking system continued stable and solid in 2014, continuing to register solid income levels and robust levels of coverage for NPLs as well as a substantial excess liquidity position.