

# Economic Bulletin



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## I. Timor-Leste National Accounts 2010–2015

The General Directorate of Statistics just officially publish the Timor-Leste 2010–2015 National Account (TL-NA 2010–2015) on 10th of April 2017. According to this new publication of TL-NA 2010–2015, the non-oil GDP growth for 2015 was decelerated compared to 2014, has reduced to 4%, after recorded a 4.3% growth in 2014.

It is noted that, in this new publication, the values of the 2010–2015 time series are a little bit different than the values in the last publication of TL-NA 2000–2014. The reviewed non-oil GDP growth for 2014, for instance, now is 4.3%, which before was 5.9%. However, in the technical notes have shown that the differences was due to the new benchmark compilation was

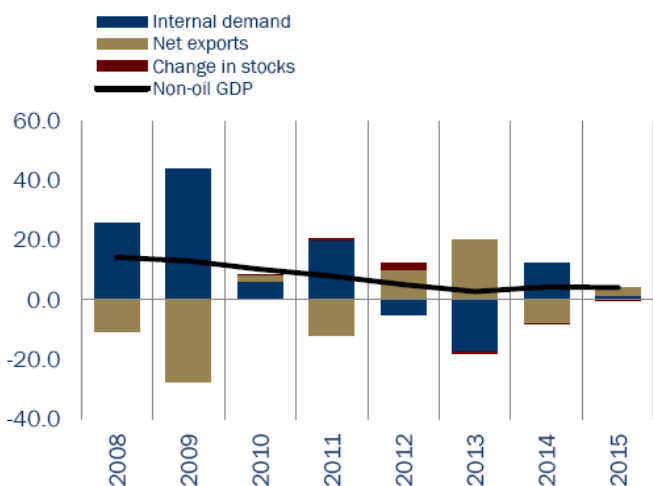
used, including new rebased. In this new benchmark compilation, the new low frequency data has been introduced, including the improvement of compilation methods to allows the best level of GDP compilation. It is therefore, this new publication of TL-NA only present the time series from 2010–2015 with the new base year of 2015 ( 2015 = 100). Noted also that, the technical notes in the TL-NA 2010–2015 allows users to derive more long time series, if it is needed, by employing other methodology. The BCTL, therefore, employ a simple method to obtain series from 2000 to 2009, thus could maintain a long time series. The result can be seen in the Table 3, GDP by expenditure approach.

It was observed that, the experience in GDP evolution

Chart 1

TL: Non-oil GDP growth and its composition; expenditure approach

(Annual percentage changes and percentage point contributions)

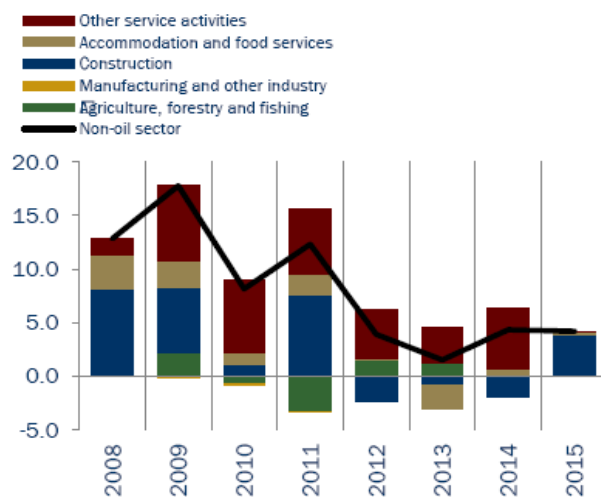


Source: General Directorate of Statistics and BCTL' analysis

Chart 2

TL: Non-oil GDP growth and its composition; production approach

(Annual percentage changes and percentage point contributions)



Source: General Directorate of Statistics and BCTL' analysis

was primarily driven by the internal demand. In fact, the slowdown in the growth rate of GDP, in 2015, also has contributed mainly by the reduction in the internal demand. This evolution can be validated by looking at the tendency of the two components of the internal demand, the consumption and the investment. Both components continue with its significant weighted, mostly consumption (graph 3), places at 117% of non-oil GDP in 2015, and contributed by 3.1% to the GDP growth, marked a sizeable decline compared to 2014 of 10.1%. While, the investment recorded a weighted of 35%, represents a negative contribution of 1.5% to the non-oil GDP growth in 2015, compared to 2.3% achieved in 2014.

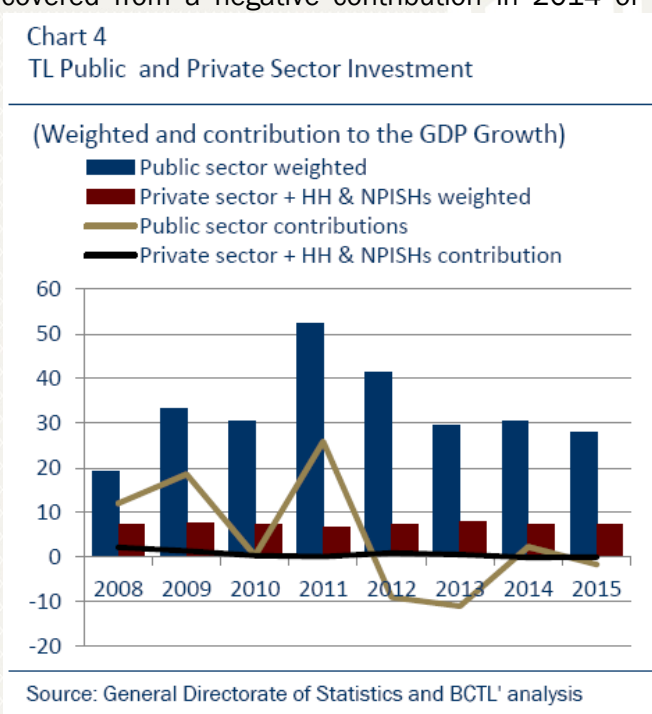
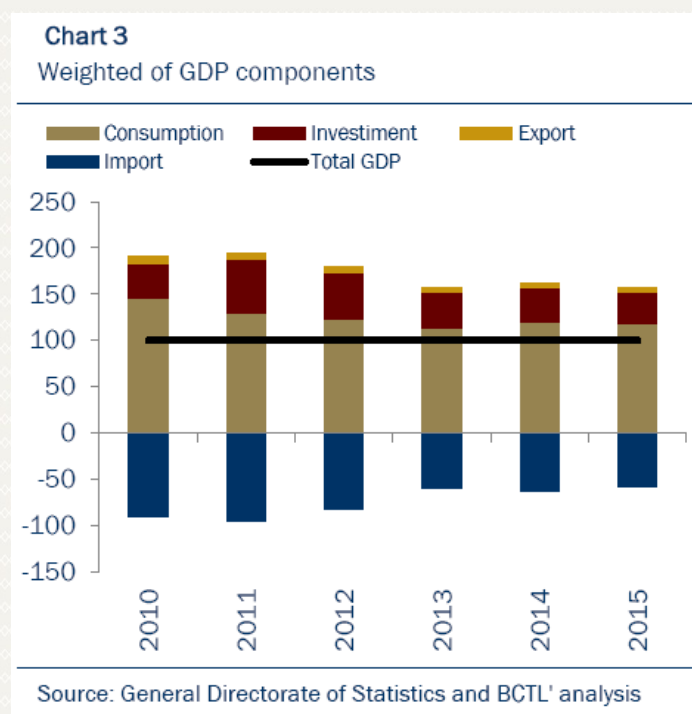
The component of export continue with a small weighted in the economy of Timor-Leste, placed only about 4% in 2015, and contributes -0.3% to the non-oil GDP growth. Import, in the other side, present a numerous weighted, posted at 58% in 2015, with 3.0% contribution to (brake) the non-oil GDP growth at the year.

More detail observation can be seen in the part of institutional sector. The participation of public sector investment to the non-oil GDP, for instance, represent a determinant factor, weighted about 28% in 2015, however with a negative contribution (-1.6%) to the GDP growth in the year, compare to 2.3% in 2014. The weighted of this public investment has declined about 3% compare to 2014, and it drop from 52% in 2011.

Private sector investment, and households plus NPISHs, together represent only 7% of non-oil GDP in 2015, the same rate for the average of 6 year since 2010, contributed about 0.04% to the GDP growth in 2015, after record a negative contribution of 0.03% in 2014.

In terms of public consumption, the weighted continue to reduce, reached 58.1% in 2015, declined from 81.8% in 2010, contributed 2.1% to the non-oil GDP growth in 2015. In fact, has reduced from 6.7% register in 2014. At the other side, private consumption/households and NPISHs, in conjunction, represent 59.4% of its participation to the non-oil GDP in 2015. The household consumption represent 56.1%, has decreased from 61.2% in 2010, it contributed by 2.2% to the non-oil GDP growth, compared to 3.4% register in 2014.

We can also observed the interesting tendency of the GDP components by production approach, the manufacturing and other industry for instance, a field with low share and contribution to the GDP growth of the country, represent only 0.8% of non-oil GDP in 2015, maintain in 4 years consecutively, contribute by 0.02% for the GDP growth in 2015 (chart 2). The agriculture sector, in other side, showing the continue decline in its participation to the non-oil GDP, represent 17.5% of its share in 2015, has reduced from 34.6% in 2006 and 22.2% in 2010 respectively. Provided a contribution by only 0.1% in 2015, while recovered from a negative contribution in 2014 of -





0.1%. Construction, on the other side, represent 17.8% of non-oil GDP in 2015, has contributed positively to the GDP growth in the year, after recorded negative contribution during 3 years consecutively, added at 3.8% in 2015, raised from -1.9% in 2014. Public administration in turn, with 23.8% of share in 2015, contributed by 1.2% to the non-oil GDP growth.

A short conclusion can be drawn that to date the public sector still has an important role in Timor-Leste's economy, albeit gradually declining, coupled with an increase in private sector participation.

## II. Recent Monetary and Credit Development

### II. a. Money Supply

Broad money growth start to recovered in March 2017, while the lending growth continued its declining in the three consecutive quarter of 2016 and in March 2017. The broad money has accelerated again after having experienced slowdown in two consecutive quarter. The domestic economic activities, backed by government activities, were the main driver of the increase in the growth rate of broad money, reflecting the acceleration in the growth rate of the deposits, both of the enterprises and individuals'. After recorded a deceleration of the growth rate in the last quarter, M2 has increased again, has raised from 14.3% in December 2016 to 21.6% in March quarter of 2017.

The increase, in some extend, was followed by augment in the other depository corporations' net foreign

assets (NFA), albeit slowed, however with the reverse small decrease in the credit development from the banking system to private sector.

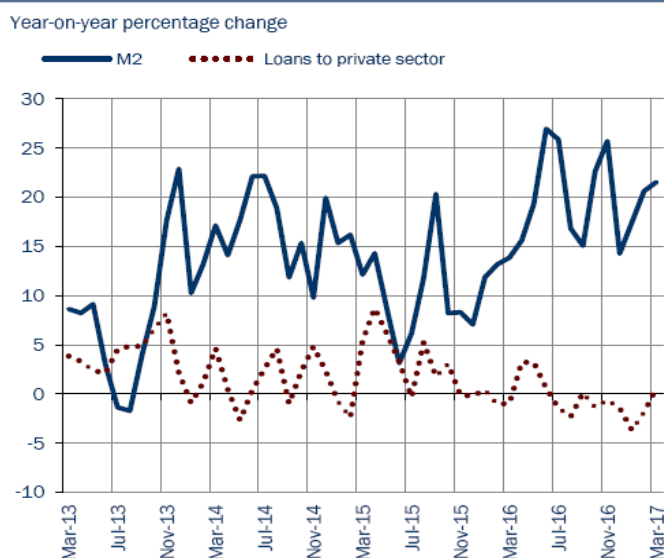
It is well note that, as the intermediary between those that who has excess of the fund and those who lack of fund, banks have been performed their role by receiving and channeling the fund from and to the private sector in the economy, while for some reasons, they have to also diversify their assets by deposit or investing the funds abroad.

In fact, the growth rate of the deposits of both corporations and individuals were accelerated. The annual growth rate of deposits of corporations increased to 28.4% compared to 25.4% growth rate observed in the previous quarter. In addition, the individuals' deposits grew by 16.6% after having recorded an increased of 7.5% in the last quarter.

Transferable deposits, the demand deposits, continues as the main driver to the growth rate of the broad money, M2, in the quarter, has grown by 30.2%, followed by an increase of 16.6% observed in the last December quarter, has contributed by 16.7% to the acceleration in growth rate of M2 in the quarter of March 2017.

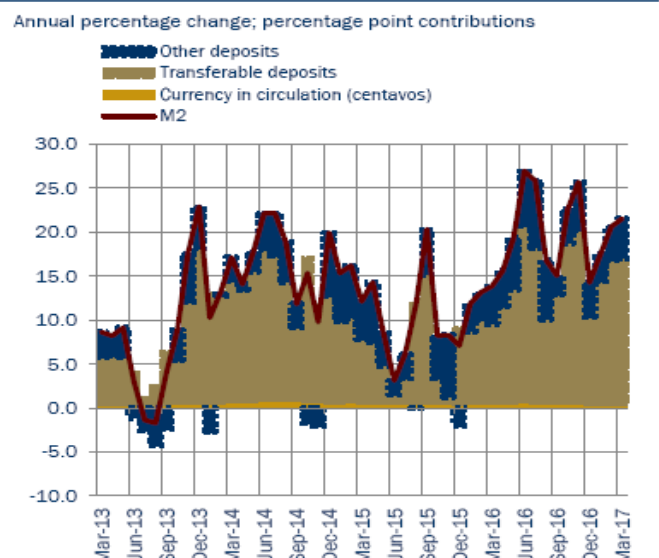
The time and savings deposits, or the term used in monetary statistics as other deposits, in conjunction, revealed a growth of 10.7% following the increase of 10.2% in the last December quarter of 2016, represent an increment of 0.5%. Together they contributed

**Chart 5**  
TL Broad money growth



Source: BCTL

**Chart 6**  
M2 and its components



Source: BCTL



by 4.5% to the acceleration of the M2 in the quarter. The currency in circulation (centavos), while slowing but continues grow, rising by 14.6%, followed an increase of 20.6% in the last quarter, contributed by 0.3% to the M2 growth.

On the other side, the annual growth rate of commercial banks' credit to private sector continued with the tendency of declining, has reduced by 0.1% in the quarter, after recorded a reduction rate of 1.7% in the last quarter of December 2016. It seems that the loan growth continue deteriorate during the last three quarter consecutively to March 2017, while this performance was due to the continue tightened of credit standard applied by the banks, concerning the high level of non-performing loans and other determinant factors that contributed to break the loans growth. This total amount of credit in March quarter 2017 represented 31.5% of M2, increased from 28.7% recorded in the last quarter of December 2016 and 38.4% compared to the same quarter last year. The conditions to push the banks to continue tighten their terms and condition of the credit for approving loans elevating the application of the deposit abroad, raising 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

accelerated again, rose by 16.6%, after moderated to 7.9% in the December quarter, has decelerated from 36.6% observed in September 2016. In fact, this progress was driven mainly by increased in the NFA of other depository corporations, while central bank's NFA has contributed negatively to this growth.

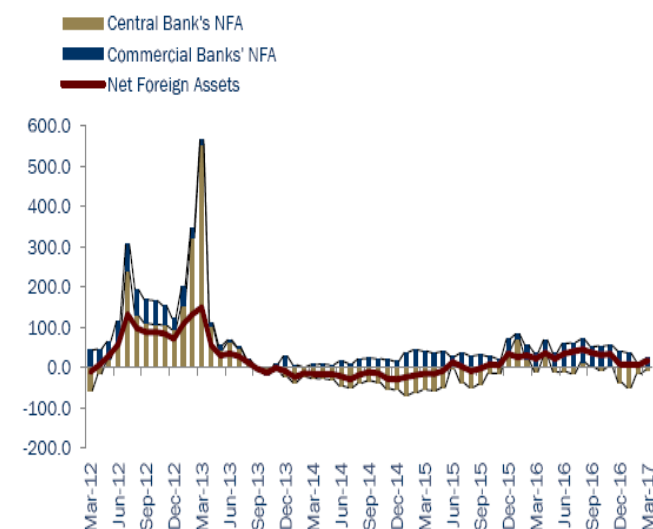
The other depository corporations' NFAs has increased by 23%, which contributed by 17.9% to the total growth of the NFA. While, The Central bank's NFAs continue remained broadly weaken, has declined by 6%, followed by a negative growth of 36.6% in the last December quarter, contributed by -1.3% to the growth rate of total NFA.

It was noted that the NFA of other depository corporations expanded and oversized the NFAs of the central bank. The increase was mainly due to the evolution of its transferable deposits and other deposits, which increased by 20.3% and 18.9% respectively. Meanwhile, it slowed from 53.6% and 25.2% observed in the last quarter of December. Both deposit, respectively, account for 27.9% and 72.8% of the Commercial banks' NFA in the quarter.

Cash holding, on other side, has reduced by 6.9% after recorded a growth rate of 3.3% in December quarter, contributed negatively of 0.4% to the slow down in the growth rate of the other depository corporations' NFA. Its liabilities has contributed to slowing down of the NFA, with a negative growth of 19.3%, which contributed -2% to the growth rate of the NFA.

**Chart 7**  
Net Foreign Assets

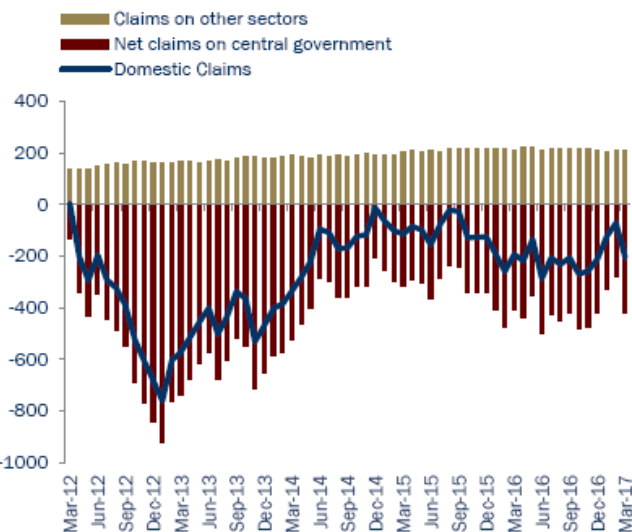
Year-on-year percentage change



Source: BCTL

**Chart 8**  
Domestic Claims

in million USD



Source: BCTL



The main driver of the changes in the central bank's NFAs was the decrease in the growth rate of its claims on non-residents, mainly the other deposit, has reduced by 12.4%. In contrast its liabilities decreased by 3.7%, followed a decline of 5.7% observed in the last quarter, reduced downward pressure on the NFA growth.

## 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 domestic 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 decelerated in March quarter of 2017, rose by only 6.7% after recorded an increase of 67.6% and more than 600% observed in the last December and September quarter of 2016 respectively. The liabilities of the depository corporation, especially the central bank to the central government are components with the large contribution to

the pull the slow down growth in the domestic claims. In the other side, the commercial banks' liabilities to the central government remained to increase, raised by 34.2% in the quarter, pushed its weight higher, which representing 70.2% of the total liability of depository corporations, contributed about 18.4% to the growth rate of total liabilities. On the other hand, the liabilities of central bank decreased by 33.2%, and contributed -15.3% to the growth rate of total liabilities of the depository corporations.

The claims on private sector, on other side, has a negative annual growth in the quarter of 0.1% followed by a reduction of 1.7% in December quarter of 2016, however positively contributed by 0.1% to the growth rate of total domestic claim in the quarter.

From the total claims on private sector, loans represent about 103%, of which commercial banks occupied 82% in the quarter and the rest was from other microfinance institutions (16%) and credit union (2%). In fact, these total loans has declined by 0.1% while commercial banks loans to the private sector recorded a reduction of 1.5%, followed by the decline of 4.3% and 4.1% observed in the last quarter December and September quarter of 2016 respectively.

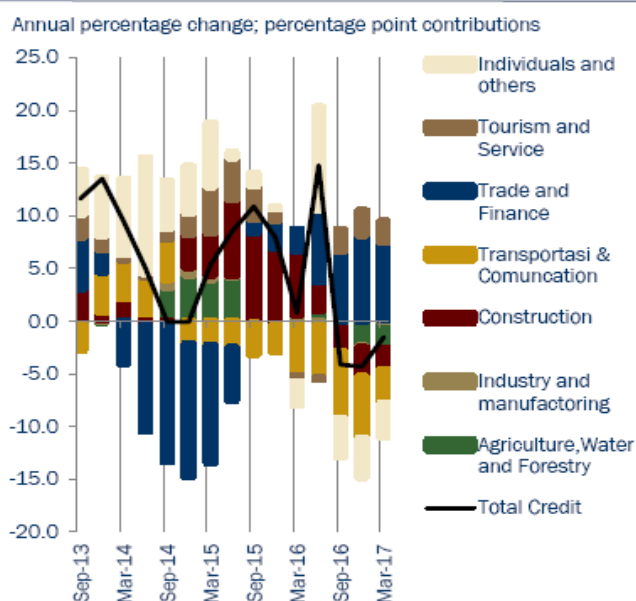
A beneficial part of subdued decrease in the credit to private sector from the commercial banks is accounted by continue decline in the non-performing loans, which has an annual reduction of 34%, to account for 16% of total gross loan in the quarter, followed a fall

**Table 1**  
TL Loans to Private Sector

in thousand USD						
Sector	2016		2017	Change from Mar 2016	% point to contribution	Mar Share (%)
	Mar	Dec	Mar			
Agriculture, Water and Forestry	9,496	3,949	4,660	-50.9	-2.6	2.5
Industry and manufacturing	2,547	2,474	2,837	11.4	0.2	1.5
Construction	54,903	48,619	51,058	-7.0	-2.0	27.6
Transport & Comuncation	7,213	2,070	1,161	-83.9	-3.2	0.6
Trade and Finance	18,922	32,978	32,742	73.0	7.3	17.7
Tourism and Service	13,779	17,721	17,469	26.8	2.0	9.4
Individuals	81,222	74,692	75,281	-7.3	-3.2	40.6
<b>Total</b>	<b>188,082</b>	<b>182,503</b>	<b>185,208</b>	<b>-1.5</b>	<b>-1.5</b>	<b>100</b>

Source: Commercial banks and BCTL analysis

**Chart 9**  
TI Loans to private sector



Source: Commercial banks and BCTL analysis



of 36% observed in the last December quarter of 2016. As the non-performing loans declined, the provision for loan losses have followed, reduced by 30% in the quarter under review, representing 21% of the total gross credit to the private sector.

The individual sector remained the main sector that has the higher share of credit from the commercial banks, representing 40.6% of the total credit in the quarter, decreased from 40.9% recorded in the last quarter, as the lending to this sector was declining, has reduced by 7.3%, which contributed by -3.2% to the decline in the total credit growth.

The available data shows that, during March quarter of 2017, sectors that receives additional credit and has positive growth to brake the decline in the total credit were the trade and finance, tourism and services and industry and manufacturing sector. Trade and finance sector, recorded a growth rate of 73%, and contributed by 7.3% to the total credit growth, representing the third larger share of total credit in the quarter, placed at 17.7%. The tourism and services sector were recorded as the second sector that received more credits in the quarter, shown an expansion of 26.8% with 9.4% contribution to the total growth of credit. Industry and manufacturing, after recorded a declines in 6 consecutive quarter, now presenting 11.4% growth in the quarter, and contributed 1.4% to the total credit growth.

Unfortunately, most of the sectors had the negative

growth in the quarter, or there were no credit to these sector, and therefore had contributed to the decline in the growth rate of the total credit's conceded. The credit to agriculture sector has dropped again in the quarter, recorded a reduction of 50.9%, followed a declines of 53.6% and 16% in December and September 2016 respectively.

Looking to the data, it seems that there was no credit grant to the construction sector during three consecutive quarter. In the quarter under review, the credit to this sector decline by 7%, after recorded a reduction of 9.7% and 8.4% in the last two respective quarter of 2016 .

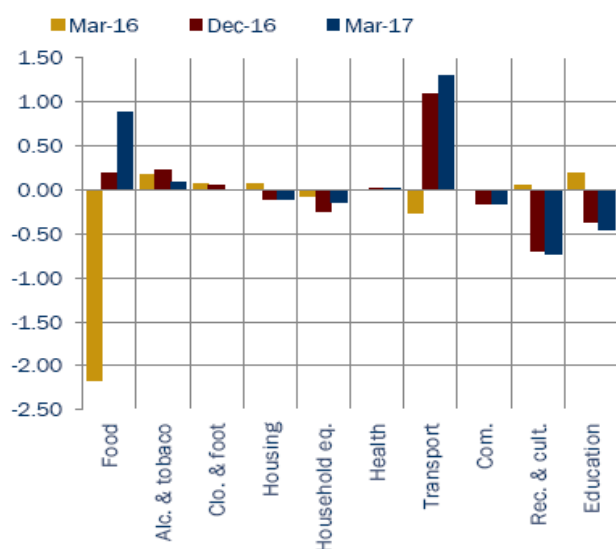
#### II. d. Price and inflation

The headline inflation started to increase in March 2017. According to the General Directorate of Statistics of Timor-Leste, the annual CPI inflation rate (Dili) increased to 0.6% in March 2017, from 0.1% in December 2016. This was mostly the result of upsurge in the price of goods with significant weighted within the CPI basket, the food price and mostly the transportation cost, while there were still decline in others related price of goods and services, however it does not influence too much the headline inflation as its weighted is quite small compared to food items.

The transportation cost reflected the main change in the quarter. Transport related prices increase by 20%,

**Chart 10**  
TL Inflation (Dili)

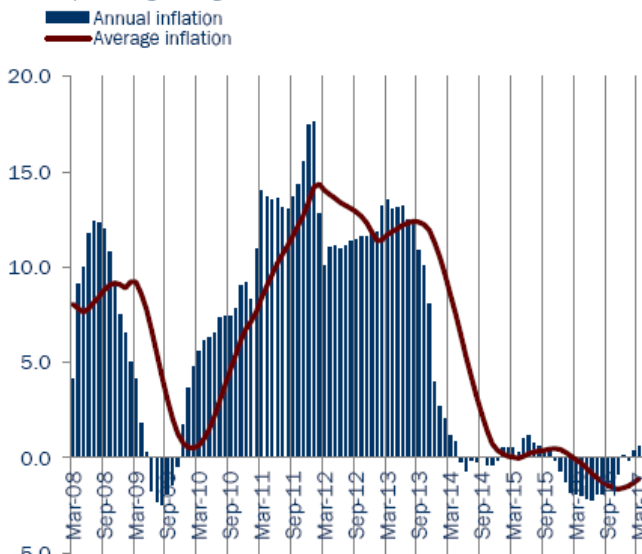
Annual percentage changes; percentage point contributions



Source: General Directorate of Statistics and BCTL analysis

**Chart 11**  
TL Inflation (Dili)

Annual percentage changes



Source: General Directorate of Statistics and BCTL analysis



followed an increment of 16.7% recorded in December quarter of 2016. Contributed by 1.30% to the augment of inflation rate in the quarter. The price of food started recovering by, raising by 1.4% in the quarter, from -2.3% and 0.3% in the quarter of September and December 2016 respectively. Food items contributed by 0.88% to the acceleration in global inflation, compared to 0.2% in December 2016.

## II. e. Interest Rate

Bank lending rate remained high up to December quarter of 2016, while diminished in the first quarter of 2017. The weighted average of bank lending rate reduced by 1.5% to 12.95% in March quarter of 2017. There are some fundamental factors that have been considering by commercial banks of Timor-Leste in determining the base lending rate. According to the 2017 bank lending survey, some of those factors are credit risk, collateral law, and bad loan reserve (provision for loan losses).

## 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, in fact decreased again in March quarter of 2017 compared with correspondent quarter of 2016.

**Table 2**  
Highlights of the Banking System

in million USD					
	Mar-16	Dec-16	Mar-17	change from Mar 16	change from Dec 16
Total Assets	978	1,149	1,168	19	2
Liquid Assets	823	971	987	20	2
Investments	9	18	18	100	0
Total Loans	188	183	185	-2	1
Non-performing loans	44	28	29	-34	3
Provision for Loan Losses	56	40	39	-30	-1
Total Liabilities	933	1,090	1,107	19	2
Deposits	752	917	942	25	3
Capital	45	59	61	37	3
Liquid assets requirement (15%)	140	163	166	19	2
Income	15	42	15	-1	-64
Expenses	10	30	9	-8	-70
Net income	5	12	6	11	-50
ROA (%)	0.5	1.0	0.5		

Source: Commercial Banks balance sheets and BCTL analysis

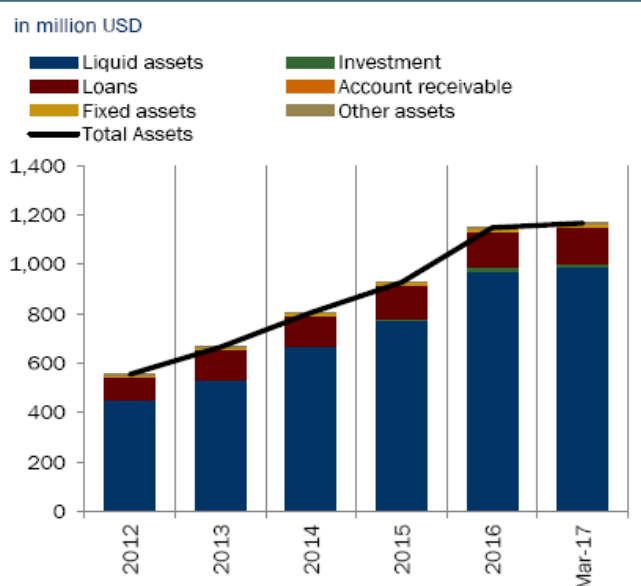
The total assets of the banking system showed a net expansion of USD190 million during the year from March 2016 and stood at USD1,168 million in March 2017. Hence, the assets of the banking system increased by 19.4%, followed an upsurge of 23.8% recorded in the last December quarter of 2016. In the same time, the annual trend of total deposits of the banking system continued to increase, has achieved USD942 million at the end of March 2017. Indicate an annual growth of 25.3%, after revealed a 26.5% growth in the last December quarter, denote about 80.6% of total assets at the end of March 2017. While, most of the deposits are placed abroad. The placement abroad recorded about 92.2% of total deposits or about 74.4% of total assets.

Total lending of commercial banks up to the quarter of March 2017 were of USD185 million, recorded a negative annual growth of 1.5%, followed a decline growth of 4.3% at the end of December 2016.

The income during the quarter of March 2016, as percentage of assets (RoA, or Return on Assets), was of 0.5%, slowed down from 1% recorded at last quarter of December 2016.

The banks continue to have liquidity ratios above the minimum required by the BCTL, with an excess liquidity ratios of 74.2% in the quarter under review. The requirement actual held was of USD987 million compared to the liquid assets required of USD166 million (15%).

**Chart 12**  
TL Banking Systems; Assets Development



Source: BCTL

Table 3

## Section II. Expenditure approach

Table 2.1: Gross domestic product by expenditures

(In millions of US Dollars)

## AT CONSTANT PRICES

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Final consumption expenditure (FCE)	1,145	1,440	1,543	1,787	1,852	1,774	1,785	1,690	1,839	1,887
Households FCE	595	644	651	713	779	738	791	816	866	901
NPISHs FCE	19	25	26	40	31	80	55	73	72	53
General Government FCE	543	774	866	1,030	1,042	955	939	802	901	934
Gross capital formation	85	139	260	623	591	914	800	639	652	587
Gross fixed capital formation	84	139	262	629	590	911	768	617	630	570
Oil sector	0	0	0	148	108	98	65	63	43	6
Non-oil sector	88	145	272	475	482	813	703	554	588	564
Changes in inventories	0	0	0	0	1	3	32	23	21	17
Export of goods and services	2,725	2,745	3,026	2,921	2,718	2,914	3,233	2,805	2,067	2,346
Oil sector	2,657	2,667	2,944	2,832	2,621	2,827	3,118	2,713	1,993	2,276
Non-oil sector	52	67	69	81	97	87	115	92	74	70
Less: Import of goods and services	930	1,279	1,385	2,061	1,837	1,883	1,922	1,665	1,991	1,717
Oil sector	407	505	515	887	680	580	729	787	1,013	786
Non-oil sector	518	771	871	1,165	1,158	1,303	1,193	878	978	932
GDP	3,232	3,218	3,607	3,368	3,323	3,719	3,897	3,470	2,566	3,102
Oil sector	2,191	2,138	2,387	2,138	2,050	2,345	2,454	1,989	1,022	1,496
Non-oil sector	804	896	1,023	1,156	1,274	1,374	1,443	1,481	1,544	1,607
GDP growth	60.5	-0.4	12.1	-6.6	-1.3	11.9	4.8	-10.9	-26.0	20.9
Oil sector	81.9	-2.4	11.6	-10.5	-4.1	14.4	4.6	-19.0	-48.6	46.4
Non-oil sector		-5.9	11.4	14.2	13.0	10.2	7.9	5.0	2.7	4.3

Source: Timor-Leste National Account 2010 - 2015, General Directorate of Statistics, and BCTL's calculation

Table 4 Timor-Leste Monetary Survey

Millions of US Dollars

	Mar-16	Dec-16	Mar-17	% point cont. 1 Y ago	% change 1 Y ago
<b>NET FOREIGN ASSETS</b>	902.48	1096.24	1051.87	16.6	16.6
CLAIMS ON NONRESIDENTS	986.86	1156.82	1121.67	14.9	13.7
LIABILITIES TO NONRESIDENTS	-84.38	-60.59	-69.80	1.6	-17.3
<b>DOMESTIC CLAIMS</b>	-192.64	-209.41	-205.62	6.7	6.7
NET CLAIMS ON CENTRAL GOVERNMENT	-404.59	-419.79	-417.32	6.6	3.1
CLAIMS ON CENTRAL GOVERNMENT	0.00	0.00	0.00	0.0	-52.9
LIABILITIES TO CENTRAL GOVERNMENT	-404.59	-419.79	-417.32	3.1	3.1
CLAIMS ON OTHER SECTORS	211.95	210.37	211.70	0.1	-0.1
CLAIMS ON PRIVATE SECTOR	211.95	210.37	211.70	-0.1	-0.1
<b>TOTAL ASSETS</b>	709.84	886.83	846.25		19.2
<b>BROAD MONEY LIABILITIES</b>	552.51	734.04	671.62	21.6	21.6
CURRENCY OUTSIDE DEPOSITORY CORPORATIONS	12.95	14.51	14.84	0.3	14.6
TRANSFERABLE DEPOSITS	304.76	449.80	396.92	16.7	30.2
OTHER DEPOSITS	234.80	269.73	259.85	4.5	10.7
SECURITIES OTHER THAN SHARES					
DEPOSITS EXCLUDED FROM BROAD MONEY	2.05	2.12	11.73		471.3
LOANS	0.05	0.02	0.02		
SHARES AND OTHER EQUITY	106.16	126.76	129.52		22.0
OTHER ITEMS (NET)	49.06	23.88	33.36		-32.0
<b>TOTAL LIABILITIES</b>	709.84	886.83	846.25		19.2

Source: BCTL

Memorandum item: Petroleum Fund Assets

16,578 15,844 16,266

-1.9