

# Economic Bulletin



A Quarterly Publication of the Central Bank of Timor-Leste

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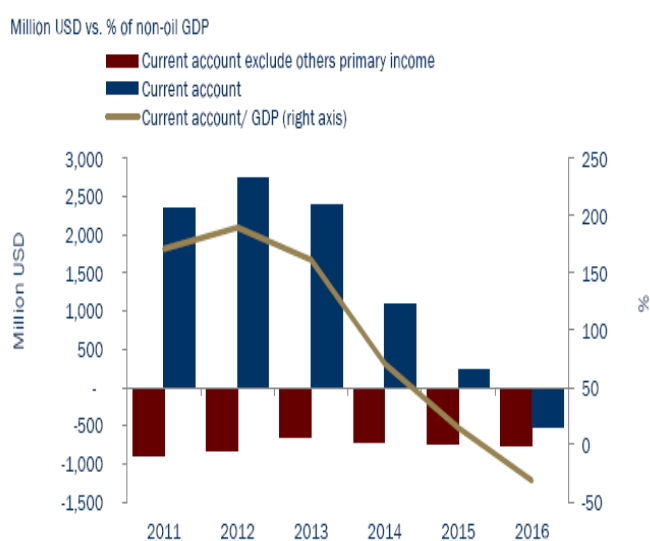
## I. The Balance of Payments Statistics

The development of Timor-Leste's balance of payments statistics was reported in the last edition economic bulletin of September 2016, which highlighted the remarkable sign of current account surplus, while continue declining. Just copy a sentence: "The current account surplus reached its highest level in 2012 of USD 2.7 billion, while continues declining up to just USD 240 million in 2015, recording a 91.3% decline over the period". In fact, The current account of Timor-Leste's balance of payments continued to deteriorate in 2016, reflecting the deficit (including other primary incomes) of USD 528 million, equivalent to -31.2% of non-oil GDP in 2016 (using TL-NA 2010–2015 and Projection), minus 46% compared to 2015. In addition,

the joint current and capital account deficit in 2016, which determines the overall net external financing need of the Timorese economy, decreased by 46.1% to -29.4% of GDP.

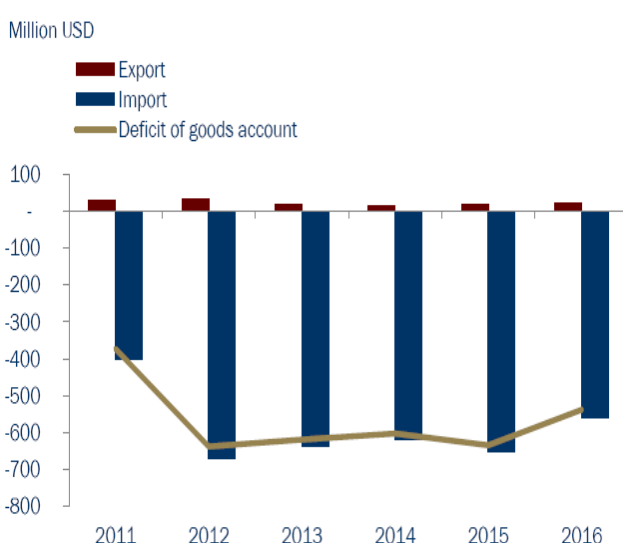
For the case of accounting balance, this high deficit of current and capital accounts had to be financed by an equivalent but opposite sign in the financial account. In terms of sources of financing of this external deficit, the importance of resources related to equity participation and foreign direct investment, deposits of the banking system applied in the foreign country, and public investment (petroleum fund) abroad are highlighted. However, the need to meet payments abroad during 2016 has resulted in the overall reduction of the country's international reserves of 36.6%, equivalent to USD 157 million (9% of non-oil GDP).

Chart 1  
TL BoP Current Account



Source: BCTL

Chart 2  
TL Goods Account



Source: BCTL

The 2016 current account represents a worsening of the deficit by 319%, or about USD 762 million over 2015. Situation in which is reflected the continue reduction in the income resources exploited from Timor Sea (taxes and royalties) and the maintenance of high levels of imports of goods and services are the main determinants of the deterioration in Timor-Leste's current account deficit over the last few years. However, for the first time and in a negative way, in 2016, the current account (including other primary incomes - oil revenues) posted a global deficit.

In fact, during 2016, net balance of the account of goods was of USD 538.6 million, an improvement in the deficit of 15.2% compared to 2015. This development was explained by an increase of 11.1% in exports to USD 20 million, but mainly due to deceleration of expenditure on imports of goods by 14.4% to USD 559 million in 2016.

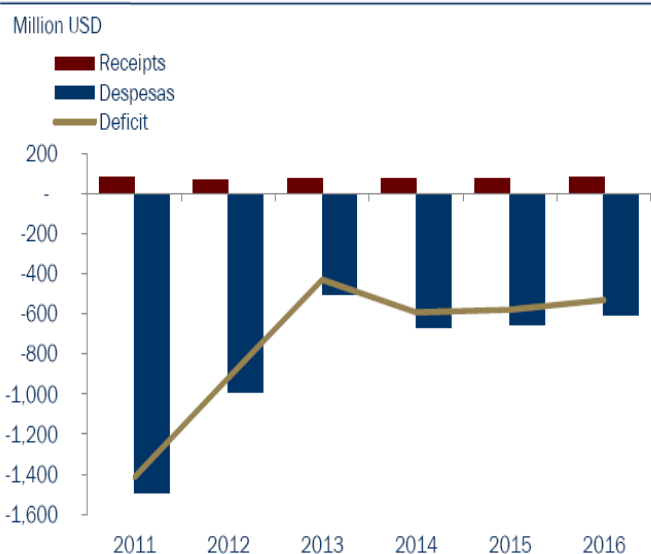
In relation to the service account, there was recorded a deficit of USD 527 million, a decrease of about 9.2%, or equivalent to USD 53 million when compared to the balance for 2015. The decline was driven by transportation services imported, with a reduction of 11.9%, insurance services, recorded a 13.2% improvement, telecommunication and other services (including government services), of which recorded a decline of 45% and 44% respectively. On the contrary, the external deficit worsened for construction services by 50.1% and travel services by 22.7%.

Whiles, primary income continued show a substantial reduction, as the consequence of ongoing decrease in the other primary income in recent years, income on tax and royalties received from oil and gas in the joint petroleum development area (JPDA), which decreased by 77.1% to USD 224 million in 2016, compared to USD 979 million in 2015. This decline resulted, in turn, in the significant deterioration of the overall balance of payments in Timor-Leste. The primary income account for about 13% of non-oil GDP in 2016, down from 61% in 2015.

The secondary incomes, on the other side, recorded a net outflow of US \$ 1 million in 2016, justified by the reduction in donor disbursements for direct state budget support of 40.3% to US \$ 155.9 million, and an increase in the net outflow of workers' remittances of 136% to 156.9 million USD.

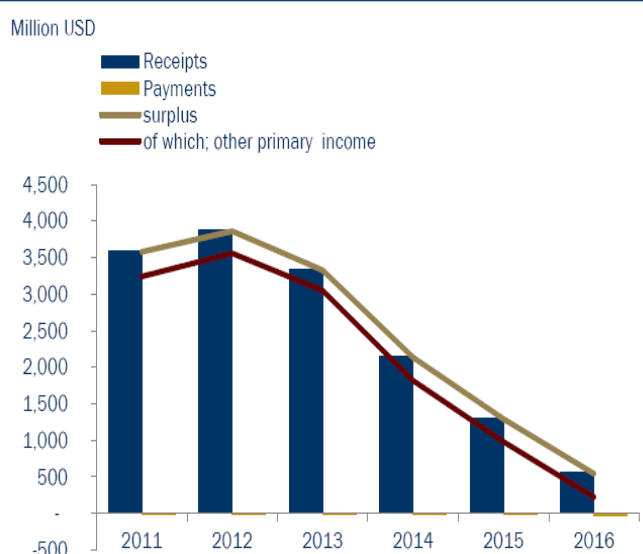
In the period under review, the financial account, which includes flows from external sources of finance, recorded USD 486 million net outflow of funds, or equivalent to 27% of non-oil GDP, which account a deficit of USD 457 million in relation to 2015. This evolution of the financial account continues to be determined by portfolio investment flows, which totaled USD 690 million (USD 539 million more than in 2015). The reduction in the price of oil and the oil production in the Timor Sea, together with the withdrawal of capital from

**Chart 3**  
TL Service Account



Source: BCTL

**Chart 4**  
TL Primary Income Account



Source: BCTL



the petroleum fund to finance the State Budget, resulted in the net decrease in the country's foreign assets in 2016.

## II. Recent Monetary and Credit Development

### II. a. Money Supply

Broad money growth has decelerated again in June quarter of 2017, while the lending growth to the private sector started to recover, after declined in the three consecutive quarter of 2016 and in March 2017. Despite demonstrated an acceleration growth in the last quarter of March 2017, the annual growth of broad money has slowed down again.

The slowdown in the government activities, in some part was due to the period of election, affect the private sector economic activities as well as the household's. This slowdown in the domestic economic activities were the main driver of the deceleration in the growth rate of broad money, reflecting the slowdown in the growth rate of the deposits, both of the enterprises and individuals'.

After recorded an acceleration of the annual growth rate in the last quarter, M2 has slowdown again, recorded a growth rate of 16.5% in June quarter of 2017, compared to 21.6% in March 2017.

The deceleration, in some extend, was followed by slowdown in the growth rate of other depository corporations' net foreign assets (NFA), at the same time,

with the increase in the credit development from the banking system to private sector.

The experience has shown that, the increased in foreign competition will lowers the supply of credit domestically. In Timor-Leste case, can be seen that, most of the fund in the banking system is deposited or invested abroad and only a small percentage was reserved for the domestic credit.

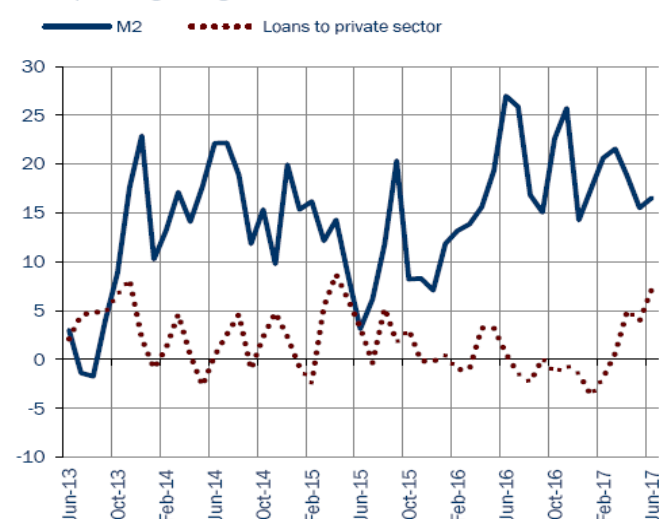
In fact, the growth rate of the deposits of both corporations and individuals were decelerated. The annual growth rate of deposits of corporations decreased to 39.9% compared to 50.3% growth rate observed in the previous quarter. In addition, the individuals' deposits grew by 51.2% after having recorded a growth rate of 65.3% in the last quarter.

Transferable deposits, the demand deposits, continues as the main driver to the growth rate of broad money, M2, in the quarter, despite has grown by only 10%, compared to an increase of 30.2% observed in the last quarter, which contributed by 5.8% to the growths rate of M2 in the quarter of June 2017.

The time and savings deposits, or the term used in monetary statistics as other deposits, manifest an acceleration growth in the quarter, in conjunction, grew by 26% following an increase of 10.7% in the last quarter of 2017, represent an increment of 15%. Together they contributed by 10.3% to the growth rate of the M2 in the quarter. The currency in circulation (centavos), continues grow, rising by 17.9%, followed an increase

**Chart 5**  
TL Broad money growth

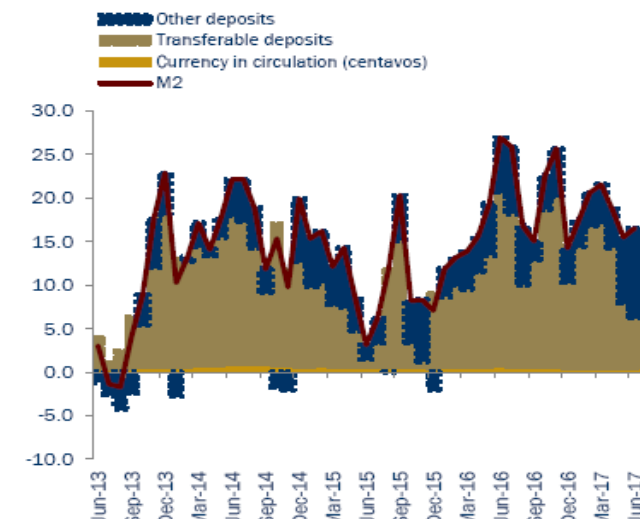
Annual percentage change



Source: BCTL

**Chart 6**  
M2 and its components

Annual percentage change; percentage point contributions



Source: BCTL



of 14.6% in the last quarter, while contributed by only 0.4% to the M2 growth.

On the other side, the annual growth rate of commercial banks' credit to the private sector was started to recover, has increased by 6.4% in the quarter, after recorded a negative growth during three quarter consecutively, which in average represent a decline of 2.2%. We should expected that, with the continue reduction in the non-performing loans, will be resulting in the expansion of credit to the private sector by banking sector. In fact, the non-performing loans declined by 5%, after produced a reduction of 34% in the last quarter, represent 15% of total loan, in relation to 23% recorded in the same quarter last year.

It was noted that, the total amount of credit in June quarter represented only 34% of M2, while increased from 31.5% recorded in the last quarter. With the expansion of credit to private sector, lower the application of the deposit abroad, reducing 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, in fact, has decelerated, rose by only 1.5%, after recorded an increase of 16.6% in the last March quarter.

In fact, this progress was driven mainly by increased in the NFA of central bank, while the NFA of other depository corporations has contributed negatively to this

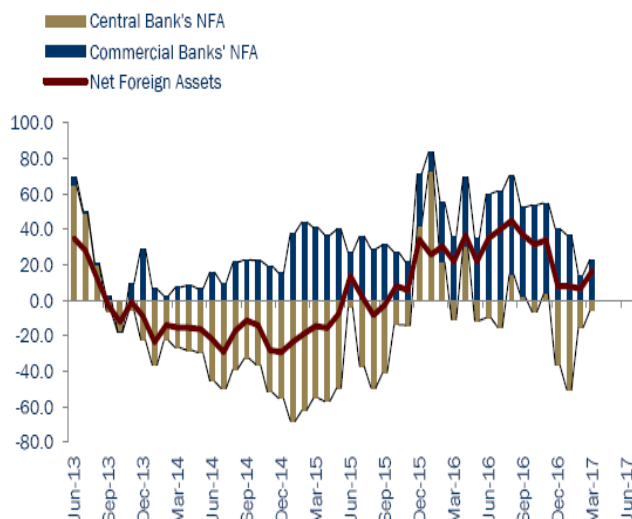
growth. The Central bank's NFAs recovered again after remained broadly declined in two consecutive quarter, it increase by 10.8%, reversing a decrease of 6% in the last quarter, contributed by 2.6% to the growth rate of total NFA. While, the other depository corporations' NFAs has decreased by 1.5%, which contributed negatively by 1.1% to the total growth of the NFA.

Although declined, however the NFA of other depository corporations continue oversized the NFAs of the central bank, occupied 74% of total NFA in the quarter. The decrease in the NFA of other depository corporations was mainly due to the reduction in both transferable and other deposits, which decreased by 15.5% and 2.9% respectively. Both deposit, respectively, account for 22.7% and 76% of the total Commercial banks' NFA in the quarter. Cash holding, on other side, has reduced by 3.8%, followed by a reduction of 6.9% recorded in March quarter, contribute by -0.2% to the decline in the growth rate of the other depository corporations' NFA. Its liabilities also decline, reduce by 39%, and contributed by -3.5% to the growth of NFA in the quarter.

The main driver of changes in the central bank's NFAs was the increase in the growth rate of other deposit, has rose by 23.4%, while its currency and transferable deposits decline by 36% and 29.2% respectively. The liabilities decrease as well, reduce by 0.5%, followed a decline of 3.7% observed in the last quarter.

**Chart 7**  
Net Foreign Assets

Year-on-year percentage change

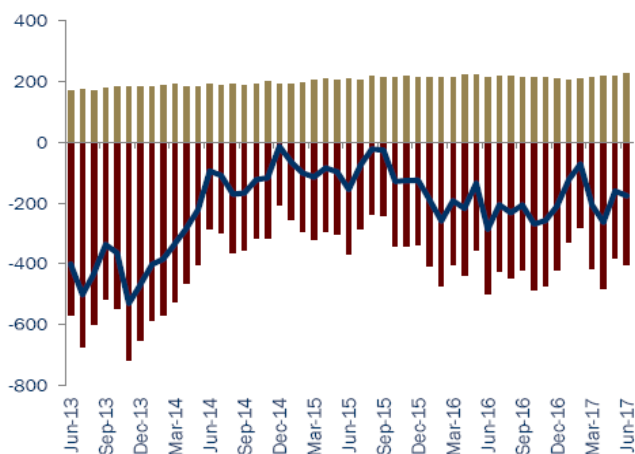


Source: BCTL

**Chart 8**  
Domestic Claims

in million USD

Claims on other sectors  
Net claims on central government  
Domestic Claims



Source: BCTL



## 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 declined in June quarter of 2017, reduced 38.7% after recorded a slowdown growth of 6.7% in last quarter of March. The net claims on central government was the component with large contribution to the decline in domestic claims, contributed about 33.9%, of which recorded a growth rate of -19.4%. The total liabilities to the central government represent 100% contributions (-19.4%) to the declined in the growth rate of net claims on central government, of which Central Bank representing -18.4% with a decline in the growth rate of 41.3%, while commercial banks placed at -1.0% with the decline in the annual growth of 1.9%.

The commercial banks' liabilities to the central government continue represent the higher weighted in the total liability of depository corporations, amounted to

67.5%, after recorded 70.2% in March. In turn, the weighted of central banks' liabilities to the central government placed at 32.5%.

The claims on private sector, on other side, produced a positive annual growth in the quarter of 6.4%, after recorded a reduction of 0.1% in March quarter, however negatively contributed to the growth rate of total domestic claims by 4.8%.

From the total claims on private sector, loans represent about 97.3%, of which commercial banks occupied 89.3% in the quarter and the rest was from other microfinance institutions (9.7%) and credit union (1.1%). The rest of 2.7% from the total claims on private sector are other claims, include claims from the central banks.

In fact, these total loans increased by 6.4% while commercial banks loans to the private sector recorded an acceleration in the growth rate of 4.9%, after the decline of 1.5% and 4.3% observed in the last quarter of March 2017 and December 2016 respectively. This moderate increase in the loans from commercial banks to the private sector in the quarter, could be also as result of the beneficial part of continue decline in the non-performing loans, which has an annual reduction of 5%, to account for 15% of total gross loan in the quarter, followed a fall of 34% observed in the last March quarter of 2017. As the non-performing loans declined, the provision for loan losses have followed, reduced by 10% in the quarter un-

**Table 1**  
TL Loans to Private Sector

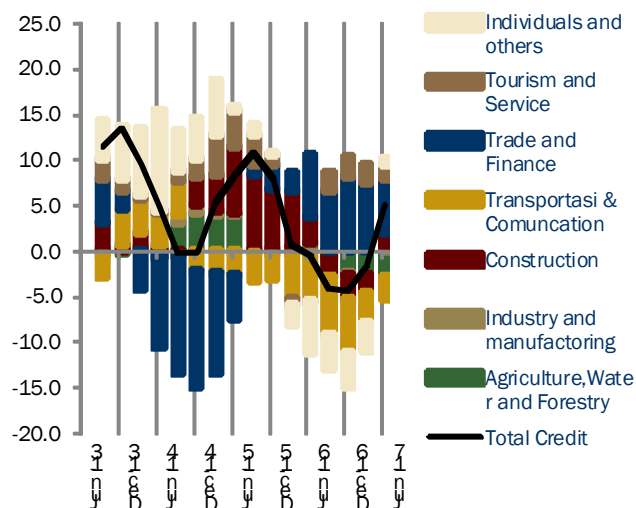
in thousand USD

Sector	2016		2017		Change from Jun 2016	% point to contribution	Jun Share (%)
	Jun	Mar	Jun	Mar			
Agriculture, Water and Forestry	10,378	4,660	5,239		-49.5	-2.7	2.7
Industry and manufacturing	2,433	2,837	3,569		46.7	0.6	1.8
Construction	53,218	51,058	55,951		5.1	1.5	28.4
Transport & Communication	6,089	1,161	1,623		-73.3	-2.4	0.8
Trade and Finance	25,738	32,742	36,738		42.7	5.9	18.6
Tourism and Service	14,768	17,469	17,898		21.2	1.7	9.1
Individuals	75,189	75,281	76,080		1.2	0.5	38.6
<b>Total</b>	<b>187,813</b>	<b>185,208</b>	<b>197,098</b>		<b>4.9</b>	<b>4.9</b>	<b>100</b>

Source: Commercial banks and BCTL analysis

**Chart 9**  
TI Loans to private sector

Annual percentage change; percentage point contributions



Source: Commercial banks and BCTL analysis



der review, which representing 20% of the total gross credit to the private sector.

The individual sector remained the main sector with the higher share of credit from the commercial banks, representing 38.6% of the total credit in the quarter, albeit decreased from 40.6% recorded in the last quarter. The lending to this sector was expanding in the quarter, with an annual growth of 1.2%, reversing a declined during 6 consecutive quarter, contributed by 0.5% to the increase in the total credit growth in the quarter under reviewed.

The available data shows that, on annual basis, and in terms of nominal, the trade and finance were the sector in which banks has granted more credit in the quarter. This sector, recorded an annual growth rate of 42.7%, decelerated from 73% achieved in last quarter, contributed by 5.9% to the total credit growth, representing the third larger share of total credit in the quarter, placed at 18.6%.

The tourism and services sector were recorded as the second sector that received more credits in the quarter, shown an expansion of 21.2% with 1.7% contribution to the total growth of credit. The credit grant to the construction sector recovered again, after register a decline during three consecutive quarter, increased by 5.1%, represent a contribution of 1.5% to the total credit growth in the quarter.

Industry and manufacturing sector, are important sec-

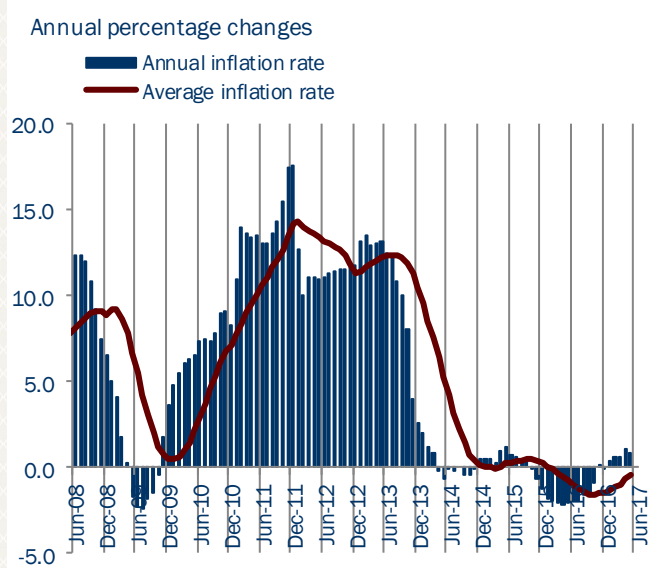
tors in the developing country, such as Timor-Leste, which should pay more attention. As the empirical study shows that industrialization is a key feature of modern economic growth, and the manufacturing sector as the main engine of fast growth. Fortunately, the credit into this sector started to recover in two consecutive quarter, grew by 46.7% in the quarter, which contributed 0.6% to the total credit growth.

## II. d. Price and inflation

The headline inflation continue to increase in June 2017. According to the General Directorate of Statistics of Timor-Leste, the annual CPI inflation rate (Dili) increased to 0.9% in June 2017, from 0.6% in March. This was mostly the result of upsurge in the price of goods with significant weighted within the CPI basket, the food price, while there were still decline in others related price of goods and services, non-food inflation, however it does not influence too much the headline inflation as its weighted is quite small compared to food items.

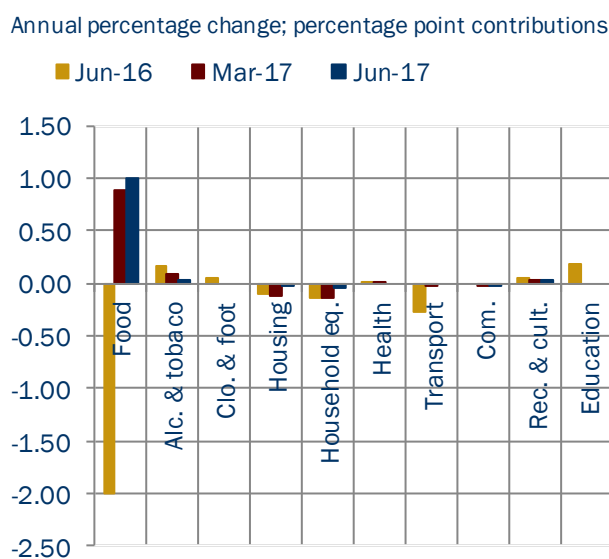
It was note that the behavior of food price in the last June quarter of 2016 was negatively contributed to the price change in the quarter, pull down the global price inflation to -2.0% (chart 11). By contrast, the current June quarter, the food price contributed positively to the increase in global inflation, represent 1.01% of its contribution to headline inflation of 0.9%.

**Chart 10**  
TL Inflation (Dili)



Source: General Directorate of Statistics and BCTL analysis

**Chart 11**  
TL Inflation (Dili)



Source: General Directorate of Statistics and BCTL analysis



Non-food inflation contributed with  $-0.05\%$  to break the further increase in the global inflation in the quarter, include transport related prices, which had no changed, or contributed  $0.0\%$  to the headline inflation, compared to a  $-0.06\%$  contribution in the last quarter of March.

## II. e. Interest Rate

It was observed that the average bank lending rate remained declined in the quarter. The weighted average of bank lending rate reduced by  $0.1\%$  to  $12.85\%$  in June 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 annual growth of total assets of the banking system and its key elements, while decelerated, continue posted the strong development, however declined in quarterly basis; particularly its liquid assets which mostly accounted by the deposit base. The lending to private sector consistently stood with slight growth in a long period of time, decreased in last three consecutive quarter, while recovered again in the current quarter compared with correspondent quarter of 2016.

The total assets of the banking system showed a net expansion of USD2.2 million during the year, from June 2016, and stood at USD1,074 million in June 2017. Hence, the assets of the banking system decelerated, rose only by  $0.2\%$  compared to an increased of  $19.4\%$  recorded in the last March quarter of 2017. In the same time, the annual trend of total deposits of the banking system continued to increase, has achieved USD919 million at the end of March 2017. Indicate an annual growth of  $10.2\%$ , after revealed a  $25.3\%$  growth in the last March quarter, denote about  $85.6\%$  of total assets at the end of June 2017, increased from  $80.6\%$  in last March. While, most of the deposits are placed abroad. The placement abroad recorded about  $81.3\%$  of total deposits, from  $92.2\%$  recorded in last quarter, represented most part of the banking system assets, about  $70\%$  of total assets.

Total lending of commercial banks up to the quarter of June 2017 were of USD197 million, recorded an annual growth of  $4.9\%$ . Meanwhile, the income received during the quarter, as percentage of assets (RoA, or Return on Assets), was of  $1.0\%$ , increased from  $0.5\%$  recorded at last quarter.

Banks continue to have liquidity ratios above the minimum required by BCTL, with an excess liquidity ratios of  $72.6\%$  in the quarter under review. The requirement actual held was of USD879 million compared to the liquid assets required of USD150 million ( $15\%$ ).

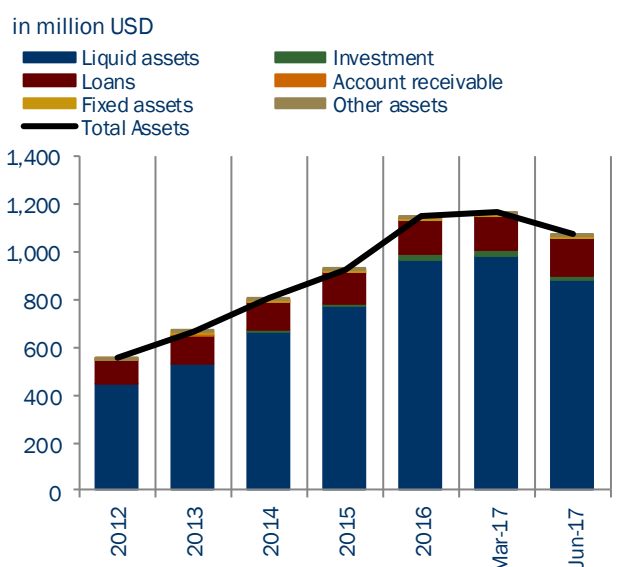
**Table 2**  
Highlights of the Banking System

in million USD					
	Jun-16	Mar-17	Jun-17	change from Jun 16	change from Mar 17
Total Assets	1,072	1,168	1,074	0.2	-8.0
Liquid Assets	902	987	880	-2.5	-10.9
Investments	9	18	18	100.2	0.0
Total Loans	188	185	197	4.9	6.4
Non-performing loans	31	29	30	-4.7	1.9
Provision for Loan Losses	43	39	39	-9.6	-1.0
Total Liabilities	1,023	1,107	1,003	-1.9	-9.3
Deposits	834	942	919	10.2	-2.4
Capital	49	61	71	44.2	15.2
Liquid assets requirement (15%)	153	166	151	-1.9	-9.3
Income	28	15	29	5.9	95.2
Expenses	18	9	18	-0.9	100.3
Net income	9	6	11	19.2	87.4
ROA (%)	0.9	0.5	1.0		

Source: Commercial Banks balance sheets and BCTL analysis

**Chart 12**

TL Banking Systems; Assets Development



Source: Commercial Banks and BCTL analysis

Table 3. Balance of Payments

	Million USD					Var %		% GDP	
	2012	2013	2014	2015	2016	2015	2016	2015	2016
Current Account excludes Other Primary Income	- 823	- 660	- 724	- 740	- 752	2.3	1.6	-46.1	-44.4
Current Account	2,736	2,390	1,093	239	- 528	-78.2	-321.2	14.9	-31.2
Goods	- 638	- 620	- 603	- 635	- 539	5.3	-15.2	-39.5	-31.8
Services	- 920	- 431	- 594	- 580	- 531	-2.3	-8.3	-36.1	-31.4
Primary Income	3,862	3,327	2,134	1,290	543	-39.5	-57.9	80.3	32.1
Secondary Income	432	114	156	164	- 1	4.7	-100.6	10.2	-0.1
Capital account	23	20	14	29	30	111.0	3.0	1.8	1.8
Financial Account	- 2,243	- 2,564	- 1,378	29	485	-102.1	1595.3	1.8	28.7
Direct Investment	26	37	37	30	- 7	-17.3	-123.7	1.9	-0.4
Portfolio Investment	- 2,274	- 2,553	- 1,385	151	690	-110.9	357.6	9.4	40.8
o/w. PF investment abroad	- 2,280	- 2,556	- 1,385	151	690	-110.9	357.6	9.4	40.8
Other Investment	5	- 48	- 30	- 152	- 197	407.8	29.5	-9.5	-11.7
Net Errors and Omissions	- 94	- 43	- 105	- 77	- 144	-27.1	88.3	-4.8	-8.5
Global Balance	516	- 154	- 271	296	- 13	-209.3	-104.3	18.4	-0.7
Reserve Assets	- 422	197	376	- 220	157	-158.4	-171.3	-13.7	9.3

Note: the negative sign in the financial account denote an increase in the assets

Source: BCTL

Table 4 Timor-Leste Monetary Survey

Millions of US Dollars

	Jun-16	Mar-17	Jun-17	% point	
				cont.	% change
				1 Y ago	1 Y ago
<b>NET FOREIGN ASSETS</b>	1012.11	1051.87	1027.28	1.5	1.5
CLAIMS ON NONRESIDENTS	1091.60	1121.67	1079.93	-1.2	-1.1
LIABILITIES TO NONRESIDENTS	-79.49	-69.80	-52.65	2.7	-33.8
<b>DOMESTIC CLAIMS</b>	-286.92	-205.62	-175.98	-38.7	-38.7
NET CLAIMS ON CENTRAL GOVERNMENT	-500.15	-417.32	-402.90	-33.9	-19.4
CLAIMS ON CENTRAL GOVERNMENT	0.00	0.00	0.00	0.0	-46.4
LIABILITIES TO CENTRAL GOVERNMENT	-500.15	-417.32	-402.90	-19.4	-19.4
CLAIMS ON OTHER SECTORS	213.24	211.70	226.93	-4.8	6.4
CLAIMS ON PRIVATE SECTOR	213.24	211.70	226.93	6.4	6.4
<b>TOTAL ASSETS</b>	725.20	846.25	851.30		17.4
<b>BROAD MONEY LIABILITIES</b>	576.87	671.62	672.33	16.5	16.5
CURRENCY OUTSIDE DEPOSITORY CORPORATIONS	13.44	14.84	15.84	0.4	17.9
TRANSFERABLE DEPOSITS	333.84	396.92	367.25	5.8	10.0
OTHER DEPOSITS	229.59	259.85	289.23	10.3	26.0
SECURITIES OTHER THAN SHARES					
DEPOSITS EXCLUDED FROM BROAD MONEY	3.84	11.73	8.88		131.1
LOANS	0.04	0.02	0.02		
SHARES AND OTHER EQUITY	114.96	129.52	141.15		22.8
OTHER ITEMS (NET)	29.48	33.36	28.93		-1.9
<b>TOTAL LIABILITIES</b>	725.20	846.25	851.30		17.4

Source: BCTL

Memorandum item: Petroleum Fund Assets

16,466

16,266

16,505

0.2