

Economic Bulletin



A Quarterly Publication of the Central Bank of Timor-Leste

VOLUME 27_ISSUE NO.3_Sept 2017

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CONTENTS

Encouraging financial inclusion in Timor-Leste	P.1
Recent monetary and credit development	P.3
Commercial banks	P.7
Annex: Financial sector access points coverage and monetary & financial statistics	P.8

I. Encouraging financial inclusion in Timor-Leste – The experience of the Central Bank of Timor-Leste

Timor-Leste is a fairly new developing nation, and financial inclusion is especially vital to empower its citizens with the tools that allow them to meet their financial needs. The Central Bank of Timor-Leste (BCTL) is committed to ensure that no Timorese will be left behind as the financial sector develops and grows. To promote financial inclusion in Timor-Leste, the BCTL started in 18 July 2016 the report on financial inclusion in Timor-Leste, which was officially released on 13 September 2016.

After one year since the report was published, some development has been occurred. It is therefore, this bulletin, beside highlighted the key point in the report,

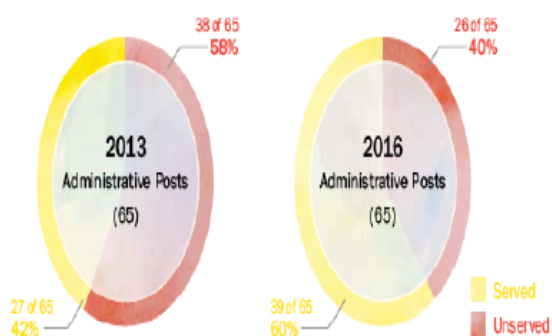
would provide also some new development in the financial inclusion in the country.

Despite being a new country, with a financial system under development, Timor-Leste has already 4 commercial banks: one local – BNCTL – and three branches of foreign banks – ANZ Bank, Mandiri Bank (Indonesia) and BNU/CGD (Portugal). There are also available microfinance institutions, credit unions, saving groups, insurance companies, and money transfer operators. After the report was published, one new commercial bank was entering into the system in 2017, namely Bank Rakyat Indonesia (BRI).

The report shows that, as at June 2016, a total of 484 access points was reached, including bank branches, automated teller machines (ATMs), elec-

Chart 1
Financial Services by Banks in Administrative post

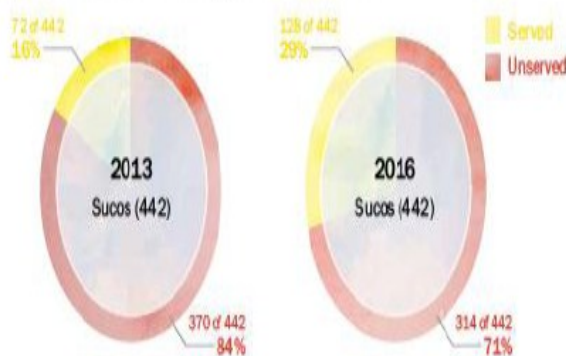
Increase in Administrative Posts with Regulated Financial Services by Banks
Aumenta iha Postu Administrativu ho Servisu Finansa Regular sira Lihusi Banku



Source: Banco Central de Timor-Leste Financial Inclusion Report 2016

Chart 2
Financial Services by Banks in Sucos post

Increase in Sucos With Regulated Financial Services by Banks
Aumenta iha suku ho servisu finansa regular sira liuhusi banku



Source: Banco Central de Timor-Leste Financial Inclusion Report 2016

tronic funds transfer point of sales (EFTPOS) and meeting centres. Of this total, 48% were related to meeting centres, 34 to EFTPOS, while ATMs and bank branches represented 11% and 7% respectively. As at September 2017 the meeting centres were reduced to 46%, EFTPOS to 29%, while ATM and bank branches have increased to 17% and 8% respectively (Table 3).

It was noted that Banks have shown a remarkable progress in widening outreach of financial services through the years: the total number of access points expanded from 198 in 2009 to 484 in June 2016, an increase of 144%. On the other side, non-banks also promoted 721 access points, which corresponds to 59% of the total access points in the country. Non-banks bridge the gaps in areas where banks are not able to serve.

In fact, all municipalities (13) are served with financial services access points, and the majority of administrative posts also benefit from the presence of financial services. As at June 2016, 88% from 65 administrative posts were covered. At the sucos level, 58% of 442 have the presence of financial services access points. It is evident that gaps still exist, as there are administrative posts that are not yet covered by financial access. The numbers are more concerning at the sucos level. 187 among a total of 442 sucos still do not have financial services access points, while 314 sucos remain unserved by banking regulated financial services. This limited coverage, in some extent, was due to the distance, which was identified as some barriers. People

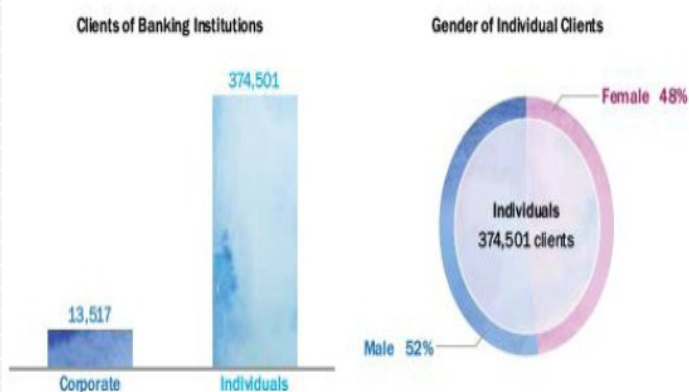
living in remote areas, for instance, may need to travel up to 25km to reach the nearest bank branch.

On the Usage Indicators, there were 422,941 clients with accounts in banks, MFIs and credit unions. Given this figure, it is estimated that about 42% of the population (or 68% of adult population) use financial products and services. The largest share of clients in the financial system is held by banking institutions, with a total of 388,018 customers (91.7%), of which 96.5% are individuals, while the remaining 3.5% are corporate clients. The individual client shows that a slightly higher percentage of males are using financial services by banks (52% of total banking clients), the rest are females. Recent data shows that, on September 2017, the total amount of banking institutions' clients reached 388,539, registered an increase of 0.13%.

It was observed that, related to the credit market, only 6% of adult population has an outstanding loan, of which 55% borrowed from the banking system and 45% borrowed from MFIs. It was noted also that Loan products offered by banks are granted in a higher proportion to male clients, corresponding to 63% of the total costumers. While, MFIs loan products are more demanded by female, representing 96% of total costumers (16,257). In fact, the other financial products usage still limited, which out of the total 387,063 deposit accounts registered in banks, only 7% of the clients are using debit cards, 297,630 clients with deposit balances below USD100.00. In fact, young

Chart 3
Banking Clients

Breakdown of Banking Institution Clients
Repartisaun iha Kliente Instituisaun Bankária



Source: Banco Central de Timor-Leste Financial Inclusion Report 2016

Chart 4
Credit Markets

Gender Distribution of Loan Account Ownership
Distribuisaun Jeneru tuir Propriedade Conta empréstimo



Source: Banco Central de Timor-Leste Financial Inclusion Report 2016

adults (15 -30) is the age segment with lowest bank account penetration.

Insurance providers in the country have been motivated to expand their product range. Currently, there are a total of 1,052 individual insurance policy holders and 212 collective insurance policy holders. Timorese also use the MTOs to conduct international transfers, being the majority of transactions outbound, represent 70.5% of total transactions in the first half of 2016.

The actual state of financial sector also suggests that there is a need for supporting the infrastructures to improve information asymmetry and manage emerging risks. In fact, there are still many people within the unbanked and underserved segments who simply do not comprehend what financial services are available, why they are important, how to use and what are the benefits of using them. It is therefore, the BCTL introduces key initiatives to promote financial inclusion in the country, including promoting E-Wallet, promoting banking agent, small and medium enterprises' (SME) access to credit, modernizing national payments system, and financial literacy and consumer protection.

II. Recent Monetary and Credit Development

II. a. Money Supply

Broad money (M2) growth has accelerated again in September quarter of 2017, at the same time there are continue to progress in the recovery of loan growth to the private sector. After demonstrated a deceleration

growth in the last quarter of June 2017, the annual growth of broad money expanded again. The expansion in the growth rate of broad money was reflecting with the progress in the growth rate of the deposits, both of the enterprises and individuals'.

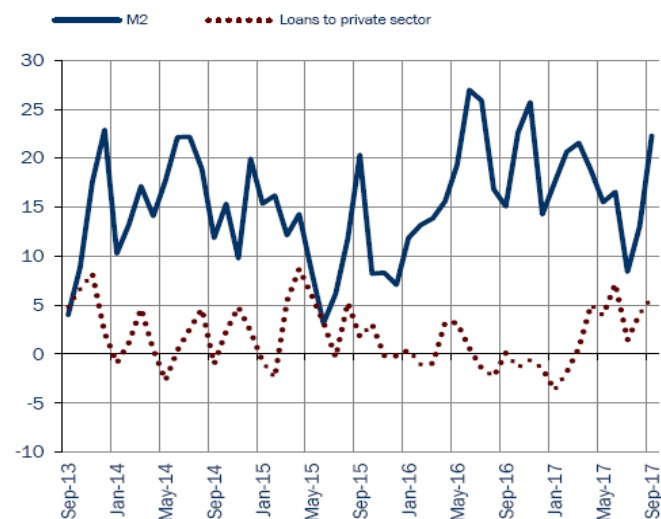
After recorded a deceleration of the annual growth rate in the last quarter, M2 has recovery again, recorded a growth rate of 22.3% in September quarter of 2017, compared to 16.5% growth observe in June 2017. The acceleration in M2, in some extent, was followed with the expansion in the credit development from the banking system to private sector, at the same time the growth rate of other depository corporations' net foreign assets (NFA) was declined in the quarter.

It was noted that, the growth rate of the deposits, especially of corporations had expanded, while individuals has shown a deceleration. The annual growth rate of deposits of corporations increased by 46.9% or USD91.6 million to USD286.6 million compared to an increase of 23.4% or USD39.9 million observed in the last June quarter. In addition, the individuals' deposits have decelerated by 10.1% to USD422.9 million, after having recorded a growth rate of 13.3% in the last quarter.

Transferable deposit, while in terms of the value, still continues as the main driver to the expansion of broad money, M2, in the quarter, however other deposits has grown more than it. Transferable deposit grew by 16.9%, compared to an increase of 10% observed in the last quarter, which contributed by 10% to the

Chart 5
TL Broad money growth

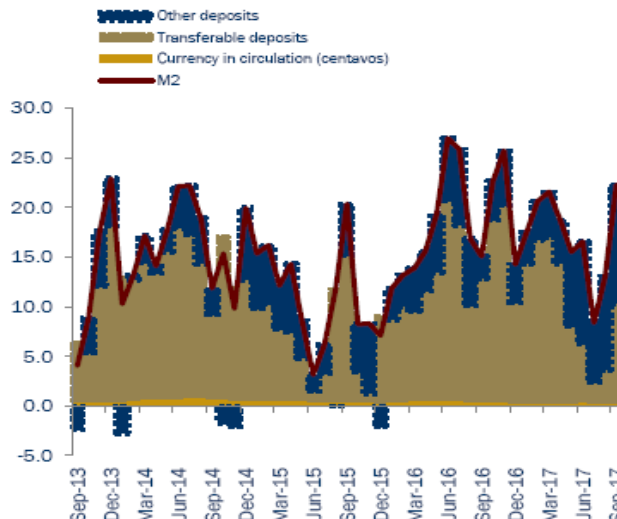
Annual percentage change



Source: BCTL

Chart 6
M2 and its components

Annual percentage change; percentage point contributions



Source: BCTL

growth rate of M2 in the quarter of September 2017. While, the time and savings deposits, or the term used in monetary and financial statistics as other deposits, in the other side, started to manifest the acceleration growth. In fact, this other deposit, grew surpass the growth rate of transferable deposit in the last two consecutive quarter, grew by 31.1% in the current quarter, following an increase of 26% observed in the last June quarter of 2017, contributed by 11.9% to the growth rate of the M2 in the quarter. The currency in circulation (centavos), continues grow, rising by 12.8%, followed an increase of 117.9% observed in the last quarter, while contributed by only 0.3% to the M2 growth.

On the other side, the annual growth rate of commercial banks' credit to the private sector was continue to recover, has increased by 12.4% in the quarter, after recorded a growth of 6.4% observed in the last June quarter. It is expected that, with the continued reduction in the non-performing loans, will be resulting in the expansion of credit to the private sector by banking sector. The portion of non-performing loans represent 14% of total loan in the quarter, compared to 15% recorded in the last June quarter.

It was noted that, while the lending from the banking system to the private sector is recovering, still considering low. The amount of credit to the private sector in September quarter represented only 32.7% of M2, in fact decelerated from 33.8% observed in the last quarter. It is expected that, with the expansion of credit to

the private sector, will 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 accelerated, rose by 14.2%, after recorded an increase of 1.5% in the last June quarter.

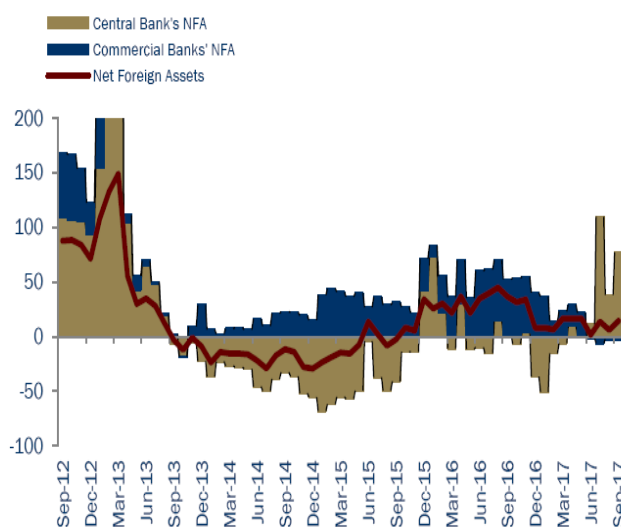
In fact, this progress was driven mainly by increased in the NFA of central bank, while the NFA of other depository corporations has contributed negatively to this growth. The Central bank's NFAs continue recovered, increased by 77.1%, after recorded an increase of 10.8% in the last quarter, contributed by 16.3% to the growth rate of total NFA.

The main driver of changes in the central bank's NFAs was the increase in the growth rate of other deposit, has rose by 98.6%, supported by the foreign currency of 3%, while transferable deposits decline by 59%. The liabilities increase as well, rose by 1.5%, after recorded a decline of 0.5% in the last quarter.

While, the other depository corporations' NFAs has decreased by 2.7%, which contributed negatively by 2.2% 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 67.1% of total NFA in the quarter. The decrease in the NFA of other depository corporations

Chart 7
Net Foreign Assets

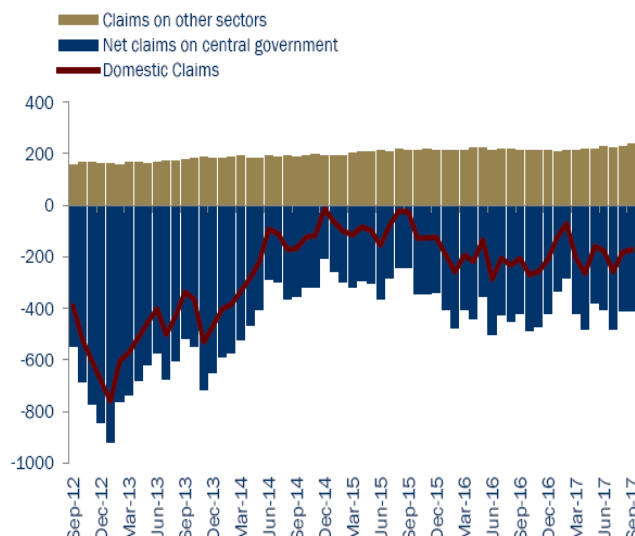
Year-on-year percentage change



Source: BCTL

Chart 8
Domestic Claims

in million USD



Source: BCTL

was mainly due to the reduction in both holding of cash and other deposits, which decreased by 14.1% and 10% respectively, contributed by -0.6% and 7.5% to the growth rate of total NFAs. Both deposit, respectively, account for 3.6% and 69.6% of the total Commercial banks' NFA in the quarter. Transferable deposit, on other side, has increased by 10.3%, reversing a reduction of 15.5% recorded in June quarter, contribute by 2.9% to break the decline in the growth rate of the other depository corporations' NFA. Its liabilities also decline, reduce by 8.5%, and contributed by -0.7% to the growth of NFA in the quarter.

II. c. Net Domestic Assets

The annual growth of Domestic Claims continue decline in September quarter of 2017, has reduced by 16.7% after recorded a reduction of 38.7% in last quarter of June. The liabilities to central government is declining, has reduced by 1.9%, while the credit to private sector is increasing, rose by 12.4%. This situation, has driven the claims on private sector to become the larger contributor to the decline in domestic claims, has contributed by 12.9%. The liabilities to the central government, in turn, contributed only by 3.8% to the declined in the growth rate of domestic claims. The decline in liabilities to central government mostly was driven by the decline in the liabilities of central bank, has reduced by 7.4%, of which contributed by 3.2% to the decline in liabilities to central government. On the other

side, the liabilities of commercial bank is increasing, rose by 2.3%, and contributed by 1.3% to break the decline in the total liabilities to central government in the quarter.

While declining, however the commercial banks' liabilities to the central government continue represent the higher weighted in the total liability of depository corporations, amounted to 59.2%, after recorded 70.2% and 67.5% in March and June 2017 respectively. In turn, the weighted of central banks' liabilities to the central government increasing, placed at 40.8% after recorded 32.5% in June quarter. The claims on private sector, on other side, produced a positive annual growth in the quarter, rose by 12.4%, after recorded an increase of 6.41% in June quarter, however negatively contributed to the growth rate of total domestic claims by 12.9%. From the total claims on private sector, loans represent about 97.8%, of which commercial banks occupied 89.7% in the quarter and the rest was from other microfinance institutions (9.2%) and credit union (1.0%). The rest of 2.0% from the total claims on private sector are other claims, include claims from the central banks.

In fact, these total claims increased by 12.4% while commercial banks loans to the private sector recorded an acceleration of 14%, followed by an increase of 4.9% observed in the last quarter of June 2017. The non-performing loans, in other side, have increased in the quarter by 6%. However, its share to the total

Table 1
TL Loans to Private Sector

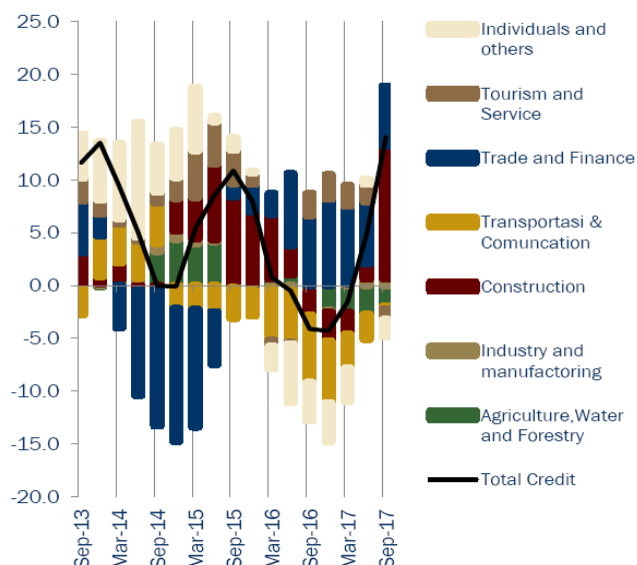
in thousand USD

Sector	2016		2017		Change from Sept 2016	% point to contribution	Sept Share (%)
	Sept	Jun	Sept	Sept			
Agriculture, Water and Forestry	5,472	10,378	1,880	-65.6	-1.9	0.9	
Industry and manufacturing	2,607	2,433	3,784	45.1	0.6	1.8	
Construction	47,799	53,218	70,997	48.5	12.6	33.7	
Transport & Communication	2,020	6,089	1,518	-24.9	-0.3	0.7	
Trade and Finance	28,725	25,738	39,272	36.7	5.7	18.6	
Tourism and Service	18,326	14,768	16,465	-10.2	-1.0	7.8	
Individuals	79,785	75,189	76,727	-3.8	-1.7	36.4	
Total	184,734	187,813	210,642	14.0	14.0	100	

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

gross loans portfolio was declining to 14%. While the non-performing loans is increasing, but the provision for loan losses have falling, which reduced by 5% in the quarter under review, which representing 18% of the total gross loans to the private sector, compared to 20% observed in the last June quarter.

The individual sector remained the main sector with the higher share of credit from the commercial banks, representing 36.4% of the total credit in the quarter, albeit continue decline, as the lending to this sector was decreasing in the quarter by 3.8%, contributed by -1.7% to the total credit growth in the quarter under reviewed.

Noted that, construction sector was the sector in which banks has granted more credit in the quarter, both in terms of quarter and annual changes. This sector, recorded an annual changes of USD23.2 million or about 48.5% in the quarter, followed an increase of 5.1% observed in last June, which contributed by 12.6% to the total credit growth, representing the second larger share of total credit in the quarter, placed at 33.7%.

The trade and finance, the sector that recorded the first larger recipient of credit by commercial banks in the last June quarter, are listed now as the second sector, recorded a nominal annual changes of USD10.6 million, which shown an expansion of 36.7%, with a 5.7% contribution to the total credit growth. Industry and manufacturing sector, fortunately continue recover, grew by 45.1% in the quarter (USD1.2 million), after

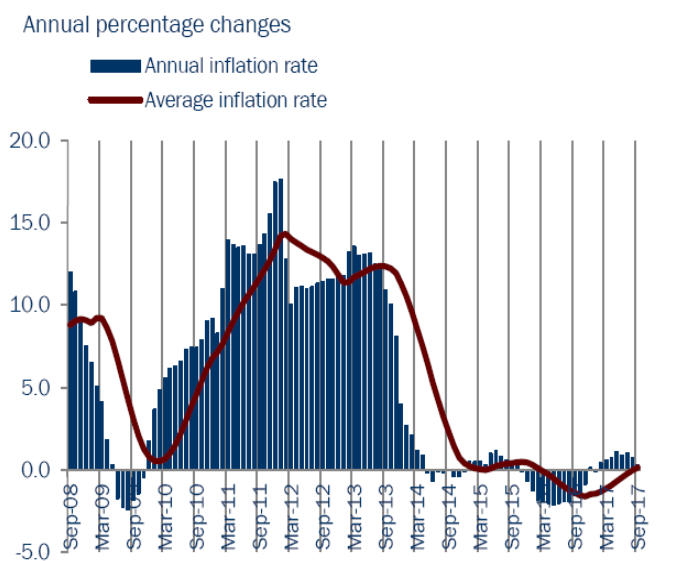
demonstrated a growth rate of 46.7% in the last June quarter, which contributed 0.6% to the total credit growth. As this sector is an important sectors in the development of a country, it is expected that support into this sector will continue evidence in the future, therefore could become the main engine of fast modern economic growth in the country.

II. d. Price and inflation

The headline inflation slowed down again in September 2017. According to the General Directorate of Statistics of Timor-Leste, the annual CPI inflation rate (Dili) slowed down to 0.3% in September 2017, from 0.9% in last June. This was mostly the result of the deceleration in the price of goods with significant weighted within the CPI basket, the food price, while there were still increase in others related price of goods and services, non-food inflation, mostly household equipment and transportation, however it does not influence too much the headline inflation as its weighted is quite small compared to food items.

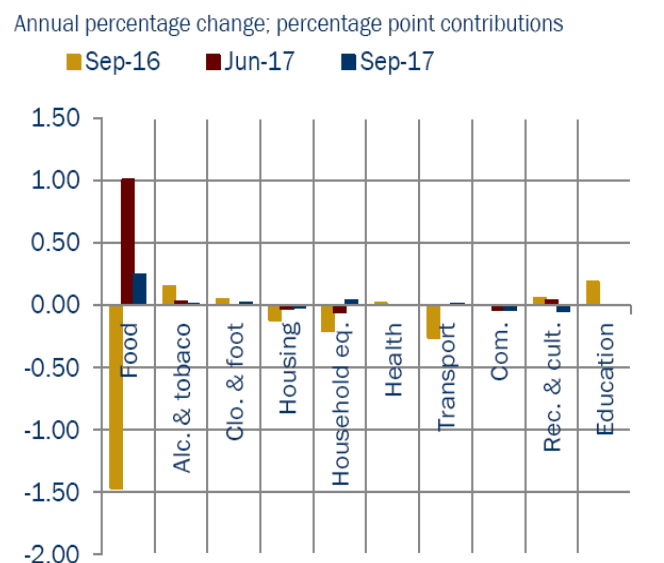
It was note that the behavior of food price in the last September quarter of 2016 was negatively contributed to the price change in the quarter, pull down the global price inflation to -1.5% (chart 11). By contrast, the current September quarter, the food price contributed positively to the global inflation, represent 0.31% of its contribution to headline inflation of 0.3%, while

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

slowing down compared to last June of 2017. Non-food inflation contributed with -0.01% to the global inflation in the quarter, include transport related prices, which had 0.2% changed, contributed 0.01% to the headline inflation, compared to a 0.0% contribution in the last quarter of June.

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 0.15% to 12.70% in September quarter of 2017. In turn, in average, the deposits rate is less than 2% . The time deposits for instance, in average, situated at 1.7% , while demand and savings deposits registered about 0.35% and 0.26% respectively in September 2017.

III. Commercial Banks

The annual growth of total assets of the banking system and its key elements continue posted the strong development, 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 in the last quarter and continue grow in the current quarter compared with correspondent quarter of 2016.

The total assets of the banking system showed a net expansion of USD74.1 million during the year, and stood at USD1,120 million in September 2017. Hence, the assets of the banking system rose by 7.1% compared to an increase of 0.2% recorded in the last June quarter of 2017. In the same time, the annual trend of total deposits of the banking system continued to increase, has achieved USD953 million at the end of September 2017. Indicate an annual growth of 16.5% , after revealed a 10.2% growth in the last June quarter, denote about 85.1% of total assets at the end of September 2017, decelerated from 85.6% in last June. While, most of the deposits are placed abroad. The placement abroad recorded about 78.7% of total deposits, from 81.3% recorded in last quarter, represented most part of the banking system assets, about 67% of total assets, fortunately decelerated from 70% in last June quarter.

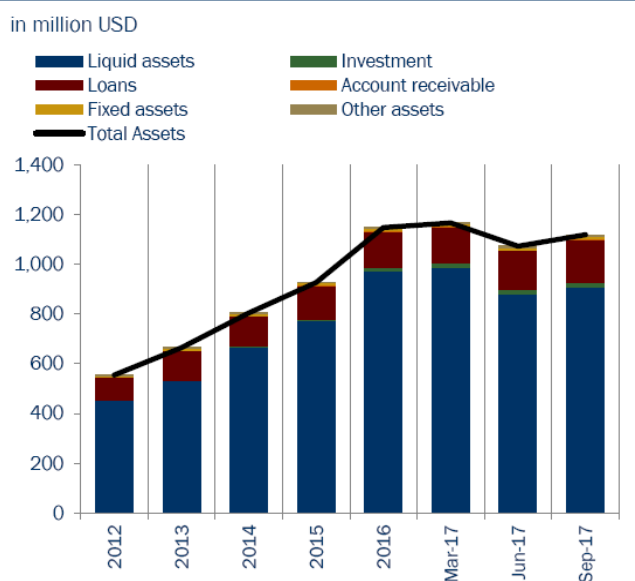
Total lending of commercial banks up to the quarter of June 2017 were of USD210.6 million, recorded an annual growth of 14% . Meanwhile, the income received during the quarter, as percentage of assets (RoA, or Return on Assets), was of 1.3% , increased from 1% recorded at last quarter. Banks continue to have liquidity ratios above the minimum required by BCTL, with an excess liquidity ratio of 72.06% in the quarter under review. The requirement actual held was of USD910 million compared to the liquid assets required of USD157 million (15%).

Table 2
Highlights of the Banking System

in million USD					
	Sep-16	Jun-17	Sep-17	change from Sep 16	change from Jun 17
Total Assets	1,046	1,074	1,120	7.1	4.3
Liquid Assets	876	880	911	4.0	3.6
Investments	9	18	18	100.2	0.0
Total Loans	185	197	211	14.0	6.9
Non-performing loans	28	30	30	5.6	0.9
Provision for Loan Losses	40	39	38	-4.8	-1.7
Total Liabilities	996	1,003	1,046	5.0	4.2
Deposits	818	919	953	16.5	3.7
Capital	50	71	74	48.7	4.9
Liquid assets requirement (15%)	149	151	157	5.0	4.2
Income	39	29	43	10.3	46.9
Expenses	26	18	29	10.1	58.8
Net income	13	11	14	10.5	27.4
ROA (%)	1.2	1.0	1.3		

Source: Commercial Banks balance sheets and BCTL analysis

Chart 12
TL Banking Systems; Assets Development



Source: Commercial Banks and BCTL analysis

Table 3: Financial Sector Access Points Coverage

Financial Services Providers	June 2016: access Points					Total
	Branch/ Field Office	ATM	EFTPOS	Meeting Center	Other	
Banks	33	52	164	235		484
MFIs	37			634		671
Credit Unions					32	32
Insurance	2					2
Others (MTO, CEB)	10					10
Total	82	52	164	869	32	1199

Financial Services Providers	September 2017: access Points					Total
	Branch/ Field Office	ATM	EFTPOS	Meeting Center	Other	
Banks	39	88	149	235		511
MFIs	37			634		671
Credit Unions					32	32
Insurance	3					3
Others (MTO, CEB)	11					11
Total	90	88	149	869	32	1228

Source: Banco Central de Timor-Leste

Table 4 Timor-Leste Monetary Survey

Millions of US Dollars

	Sep-16	Jun-17	Sep-17	% point cont. 1 Y ago	% change 1 Y ago
NET FOREIGN ASSETS	963.11	1027.28	1099.64	14.2	14.2
CLAIMS ON NONRESIDENTS	1038.34	1079.93	1169.52	13.6	12.6
LIABILITIES TO NONRESIDENTS	-75.23	-52.65	-69.88	0.6	-7.1
DOMESTIC CLAIMS	-206.17	-175.98	-171.77	-16.7	-16.7
NET CLAIMS ON CENTRAL GOVERNMENT	-419.62	-402.90	-411.80	-3.8	-1.9
CLAIMS ON CENTRAL GOVERNMENT	0.00	0.00	0.00	0.0	-41.0
LIABILITIES TO CENTRAL GOVERNMENT	-419.62	-402.90	-411.80	-1.9	-1.9
CLAIMS ON OTHER SECTORS	213.45	226.93	240.03	-12.9	12.4
CLAIMS ON PRIVATE SECTOR	213.45	226.93	240.03	12.4	12.4
TOTAL ASSETS	756.94	851.30	927.87		22.6
BROAD MONEY LIABILITIES	601.08	672.33	734.96	22.3	22.3
CURRENCY OUTSIDE DEPOSITORY CORPORATION	13.89	15.84	15.67	0.3	12.8
TRANSFERABLE DEPOSITS	356.47	367.25	416.85	10.0	16.9
OTHER DEPOSITS	230.71	289.23	302.44	11.9	31.1
SECURITIES OTHER THAN SHARES					
DEPOSITS EXCLUDED FROM BROAD MONEY	2.79	8.88	14.87		432.4
LOANS	0.03	0.02	0.02		
SHARES AND OTHER EQUITY	117.75	141.15	151.87		29.0
OTHER ITEMS (NET)	35.28	28.93	26.16		-25.9
TOTAL LIABILITIES	756.94	851.30	927.87		22.6

Source: BCTL

Memorandum item: Petroleum Fund Assets 16,605 16,505 16,687 0.5