

Economic Bulletin



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I. Timor-Leste National Accounts 2016

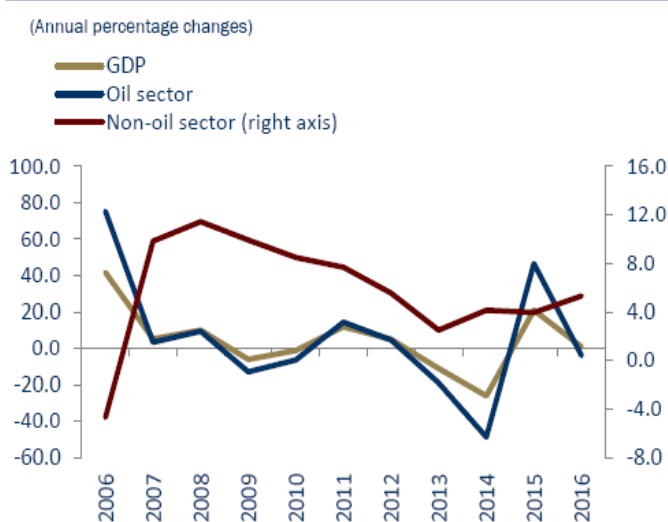
As it is well known that, in many of literatures, there is approach on how to measure the gross domestic product (GDP), which defines that the GDP can be obtained by looking the spending patterns of household, firm, government and foreigners. GDP represents the final goods and services produces within a country in the certain period of time. Under expenditures approach GDP is calculated by adding up all the expenditure made on final good and services produced within the countries. These include personal consumption, business investment, government spending and net exports. Personal consumption expenditure represents the spending by individual on goods and services for personal use. Private investments on the other side representing the spending by entrepreneurs to sustain

and grows their business. While, government expenditures represents the spending by government on consumption and on investment in its infrastructure. Net export is then comprised by purchase of goods produced in the country that are consumed by foreigners and goods imported to consume within the country.

General Directorate of Statistics just published the latest Timor-Leste GDP measure for 2016 on January 2018. According to the released, Timor-Leste total GDP grew at 0.8% in 2016, compared to 20.9% in the previous year. The main contribution to this growth is non-oil sector, comprising government and the private sector which has been performing favourable growing at 2.8% during the 2016, compared to 2.4% in the previous year. The growth in this sector has facilitated to offset the negative growth in the oil sector. The

Chart 1

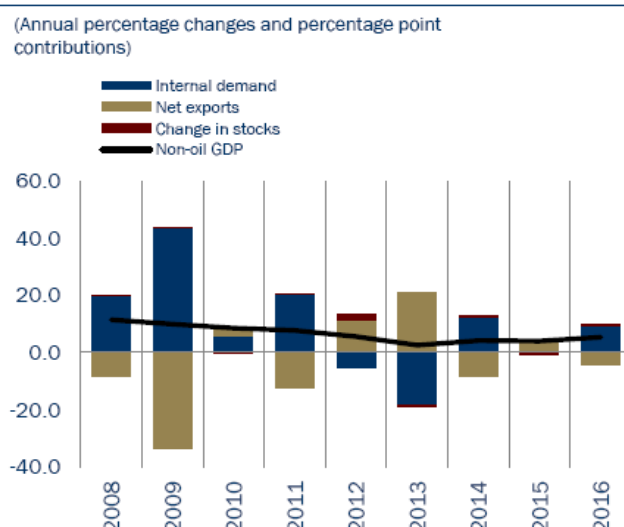
TL: Oil, non-Oil GDP growth; expenditure approach



Source: General Directorate of Statistics and BCTL' analysis

Chart 2

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



Source: General Directorate of Statistics and BCTL' analysis

growth rate of non-oil real gross domestic product (GDP), therefore, increased in 2016 by 5.3%, higher than 4% in “2015”. This increase was mainly due to higher internal demand, driven by investment spending, followed by export of good and services, private consumption and also import of good and services.

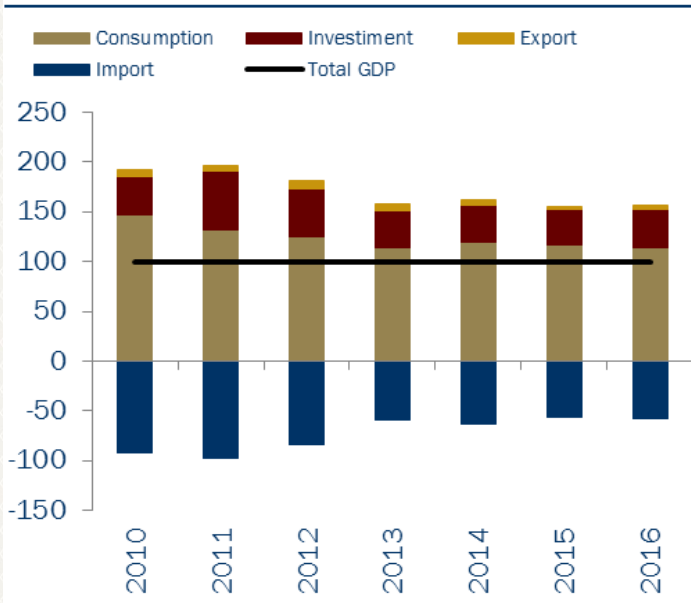
In terms of annual change shows that, in 2016 gross fixed capital formation (Investment) reflected an increases in spending by 16% (up from 3.6% in 2015). The increase in capital formation was due to increase in both publics and private sector investment by 18.3% and 9.6% respectively. Exports and imports of goods and services increase as well in 2016. The exports were increased by 15.3% (up from -29.2 % in 2015), while imports increased by 8.2 % (up from -8.4% in 2015). The increase in exports was mainly due to increase in goods (coffee export) by 110.8%. However, services fell by 12.0% (down from 30.6% in 2015). The increase in imports was due to the increase in both goods and services, rose by 10.6% and 5.3% respectively (up from 10.7 and 23.6% in 2015). In contrast, public consumption decreases by 0.2% (down from 3.2% in 2015).

The data shown that, contribution of non-oil sector to GDP at constant prices has increased from 2.4% in 2015 to 2.8% in 2016. The increase was mainly contributed by the gross fixed capital formation which representing by 5.6%, import of good and services repre-

senting by 4.6%, followed by private consumption of 3.5%, while export of goods and services only represent by 0.5%. By contrast, the contribution from public’s consumption fell by 0.1%. It could be noted also that, the experience in the GDP evolution was mostly determined by the proportion of two components in the internal demand, the consumption and the investment. Both components continue with its significant weighted, mostly consumption (graph 4), places at 114% in 2016, compared to 117% of non-oil GDP in 2015, While, the investment recorded a weighted of 39% in 2016, compared to 35% in 2015. The components of export continue with a small weighted in the economy of Timor-Leste, placed only about 3% in 2016. Import, on the other side, still represent a numerous weighted, posted at 58% in 2016. It was noted that, the private sector investment, and households plus NPISHs, together represent only 7.4% of non-oil GDP in 2016, compared to 7.3%, in 2015, contributed about 0.5% to the GDP growth in 2016, after record a positive contribution of 0.04% in 2015.

With the national objective to diversify the economy, the government of Timor-Leste, in certain extent, has been planned to promote tourism, agriculture, industry and manufacture sector, which is expected these sectors, in the medium and long term perspective, could highly contribute to drive the non-oil GDP growth of the country.

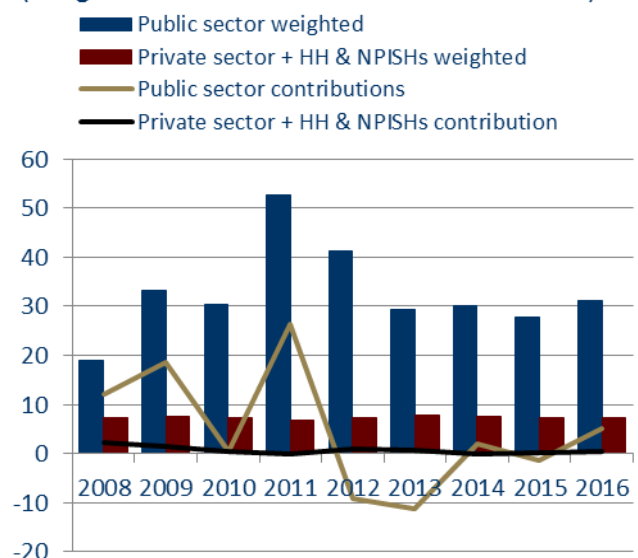
Chart 3
Weighted of GDP components



Source: General Directorate of Statistics and BCTL' analysis

Chart 4
TL Public and Private Sector Investment

(Weighted and contribution to the GDP Growth)



Source: General Directorate of Statistics and BCTL' analysis

II. Recent Monetary and Credit Development

II. a. Money Supply

In economics, broad money (M2) is an economics term denoting a certain measure of amount of money in national economy, and it used depending on local practice. Total broad money (M2) consists of currency outside bank and customers' deposit with the banking system. Currency includes coins issued by the Central Bank and the banks. As indicated by chart 5 and chart 6, the growth rate of total money supply decelerate by 12.3%, compared with 22.3% increase in previous quarter of 2017. The slowdown in the growth rate of broad money (M2) was mainly caused by decreased in the demand deposit, and supported by slowdown in currency outside bank. Other deposits, in contrast, continue increase in December quarter of 2017, break further decline in the broad money. The currency outside banks (centavos) decelerates in the growth rate by 14.2% in June 2017, 12.7% in September, and it decelerates further to 4.2 in December 2017.

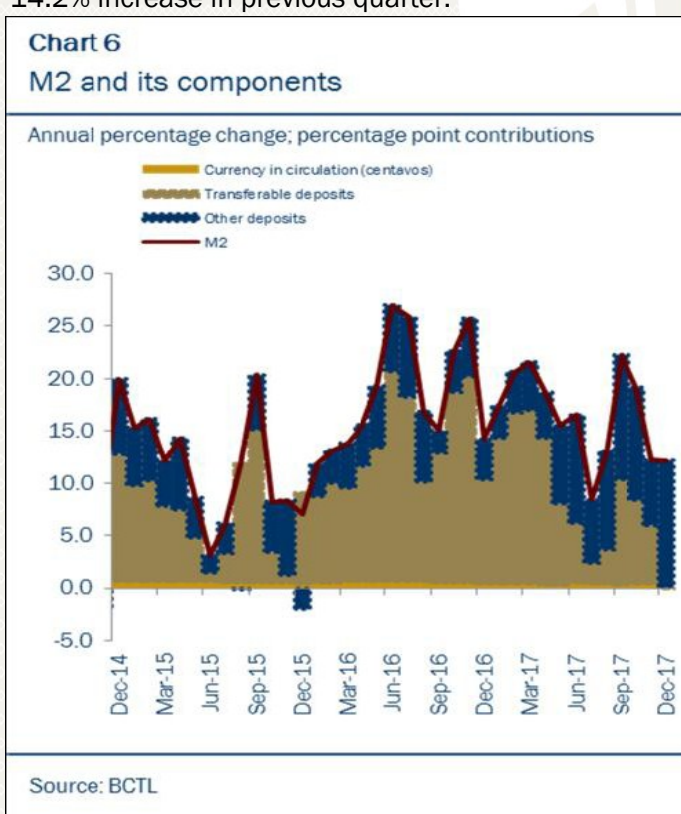
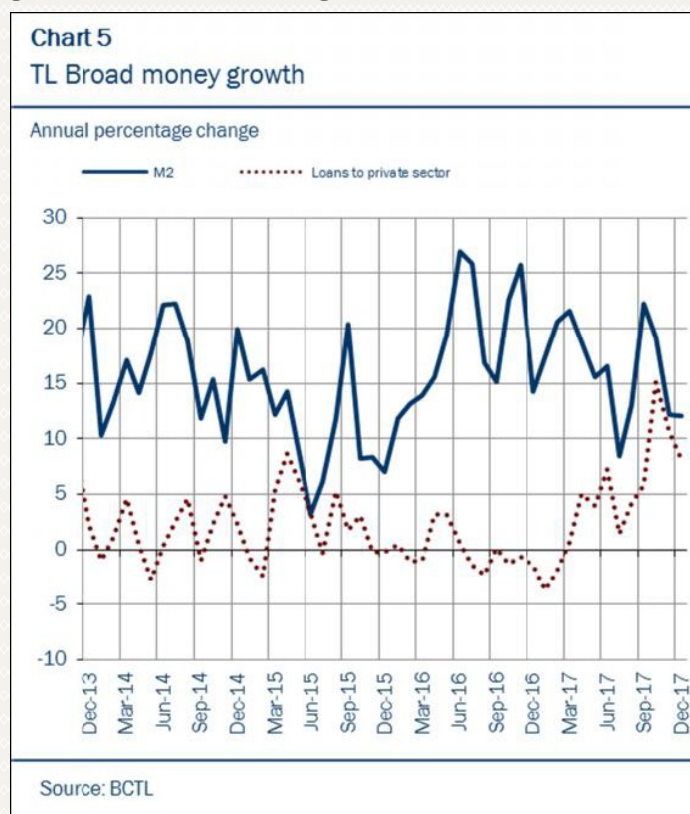
Actually, demand deposit, the main driver to the growth rate of the broad money, M2, has reduced by 0.01% in the quarter, after recorded an increase of 16.9% observed in the last September quarter. The time and savings deposits, or the term used in monetary statistics as other deposits, in conjunction, revealed a growth of 32.7% following the increase of 31.1% in the

last September quarter of 2017. Domestic economic activities, backed by government activities, were the main driver of deceleration in the growth rate of broad money, reflecting the slowdown in the growth rate of the deposits, both of the enterprises and individuals'. The deceleration, in some extend, was followed by reduction in the other depository corporations' net foreign assets (NFA), however with the increase in the credit development from the banking system to private sector. Despite decrease in demand deposit, this deposit still constitutes about 54.7% of total money supply (M2). Time deposit also is regarded part of money supply representing about 43.5% of total money supply.

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 channelling 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.

II. b. Net Foreign Assets

The annual growth rate of net foreign assets (NFA) for the financial system or the depository corporations, slightly decelerate, grew by 14.1%, compared with 14.2% increase in previous 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 to increase, rising by 97.2%, compared with 77.1%, in previous quarter.

The main driver of changes in the central bank's NFAs was the increase in the growth rate of other deposit, rising by 108.7%, supported by the foreign currency of 39.8%, while transferable deposits decline by 20.9%. On the other side, the liabilities increase as well, rose by 8.9%, after recorded an increase of 1.3% in the last quarter.

While, the other depository corporations' NFAs continue decline, reduce by 13.1%, compared with 2.7% decreased observe in the previous quarter. The decrease in the NFA of other depository corporations was mainly due to the reduction in claim on non-resident by 10.7%, compared with 3.2% in previous quarter. On the other side, liabilities of other depository cooperation increase by 29.5%, compared with 8.5% decrease in September quarter. The reduction in claim on non-resident was due to the reduction in the holding of foreign currency and transferable deposit by 11.1% and 18.7% respectively.

The increase in liabilities of other depository cooperation was mainly due to increase in other deposit on non-resident and other loans to non-residents by 33.3% and 14% respectively.

II. c. Net Domestic Assets

The domestic assets composed by claims on central government (net) and claim 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.

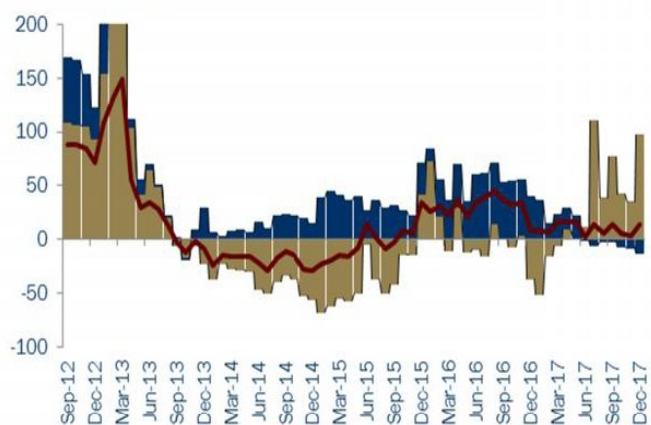
After declined in two consecutive quarters, the annual growth of domestic claims increase again in the December quarter of 2017, rose by 1.6% after recorded a reduction of 16.8% in last quarter of September. On the other side, the liability to central government was increased, grew by 12.5%, while the credit to private sector continues to increase, rose by 23.4%. This situation, has driven the claims on private sector to become the larger contributor to the increase in domestic claims, has contributed by 23.5%.

The liabilities to the central government, in turn, contributed by 25.1% to the increase in the growth rate of domestic claims. The increase in liabilities to central government mostly was driven by the increase in the liabilities of central bank, has rose by 29.5%, of

Chart 7
Net Foreign Assets

Year-on-year percentage change

Central Bank's NFA
Commercial Banks' NFA
Net Foreign Assets

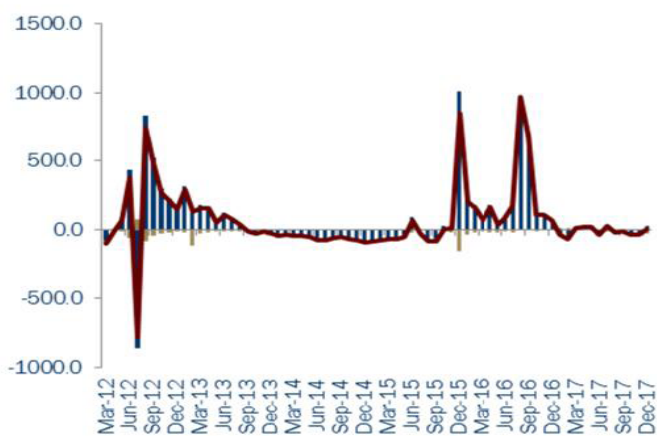


Source: BCTL

Chart 8
Domestic Claims

Annual percentage change; percentage point contributions

Claims on other sectors
Net claims on central government
Domestic claim



Source: BCTL

which contributed by 15.1% to the increase in liabilities to central government. On the other side, the liabilities of commercial bank was declined, reduced by 5.3%, and contributed to break the decline in the total liabilities to central government in the quarter by 2.6% . 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 40.9%, after recorded 67.5% and 59.2% in June and September 2017 respectively. In turn, the weighted of central banks' liabilities to the central government is increasing, placed at 59.1% after recorded 40.8% in September quarter.

The claims on private sector, on other side, produced a positive annual growth in the quarter, grew in 23.4%, after record an increased of 12.4% in September quarter. From the total claims on private sector, loans represent about 94.6%, of which commercial banks occupied 90.9% in the quarter and the rest was from other microfinance institutions (8.1%) and credit union (1.0%). In fact, these total claims increased in 23.4%, while commercial banks loans to the private sector increased by 21%, in December 2017 , compared by an increase of 14% observed in the last quarter of September 2017.

The non-performing loans, in other side, have increased in the quarter by 9.4%. However, its share to the total gross loans portfolio was declining to 13%. While the non-performing loans is increasing, but the provision

for loan losses continue to falling, which reduced by 3.6% in the quarter under review, which representing 16% of the total gross loans to the private sector, compared to 14% observed in the last September quarter.

Looking into economic sector, construction sector remained the main sector with higher share in total, representing 29.4% in the quarter, followed by individual and others of 28.7%, trade and finance of 20%, tourism and services 12.6%, industry and manufacturing representing 5.2%, agriculture, water and forestry 2.6%, and transport and communication representing 1.5% only. While, Noted that, construction sector was continue to increase in terms of nominal and annual change. The sector in which banks has granted more credit in the December quarter. This sector, recorded a nominal terms by USD16.2 million or about 33.4% annual change in the quarter, followed an increase of USD22.3 million or 48.5% observed in last September and representing the larger share of total credit in the quarter, placed at 29.4%. (see table 1).

Actually an important part of credit to individual is credit to house rehabilitation (constructions) and, even for small business, including to transportation sector (such as taxis, minibus, etc.).

In terms of annual change, industry and manufacturing representing the highest growth, increased by

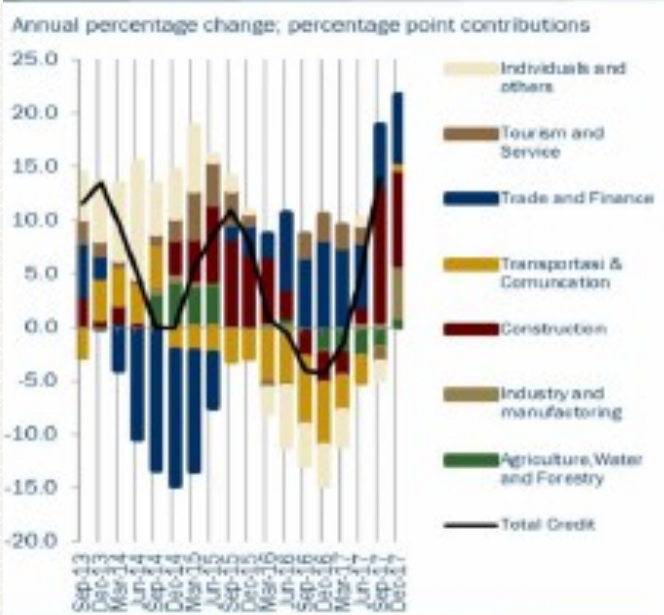
Table 1
TL Loans to Private Sector

in thousand USD

Sector	2016		2017		Change from Sept 2017	% share of total Dec 2017
	Dec	Sep	Dec	Dec		
Agriculture, Water and Forestry	3,949	1,880	5,743	45.4	2.6	
Industry and manufacturing	2,474	3,784	11,431	362.0	5.2	
Construction	48,619	70,997	64,876	33.4	29.4	
Transport & Communication	2,070	1,518	3,389	63.7	1.5	
Trade and Finance	32,978	39,272	44,205	34.0	20.0	
Tourism and Service	17,721	16,465	27,751	56.6	12.6	
Individuals	74,692	76,727	63,463	-15.0	28.7	
Total	182,503	210,642	220,858	21.0	100	

Source: Commercial banks and BCTL analysis

Chart 9
TI Loans to private sector



Source: Commercial banks and BCTL analysis

362%, tourism and services by 56.6%, transport and communications by 63.7%, agriculture water and forestry grew about 45.4%, trade and finance sector recorded a growth rate of 34%, and construction representing 33.4%. While, individual and others registered a declined growth of 15%.

II. e. Price and inflation

In general, inflation becomes one of the serious problems over a period of time. It can be said that, over the past few years, Timor-Leste inflation has been caused by many factors. These factors are caused by the economy or caused by external factors other than the economy (politics or natural disasters). Under the monetary, the money supply is one of the economics factor causing inflation as well as changes in exchange rate.

According to the General Directorate of Statistics of Timor-Leste, the annual CPI inflation rate (Dili) increased to 0.6% in December 2017, from 0.3% in September 2017. By the contribution, food group, with 56.7percent weight in CPI basket, which showed an increase of 0.7% in December 2017, contributed by 0.43% to the acceleration in the headline inflation. This was higher than 0.19% observed in the corresponding period of last quarter. While, non-food inflation increase by 0.1% as against -1.8% in the last quarter, contributed by 0.17% to the increase in headline inflation. The increase in food item was driven by prices rise in rice,

milk, cheese and eggs and fruits.

The following graphic depicts the yearly headline inflation rate as well as the food and non-food items inflation rates. As it's clearly shown, food inflation is the fundamental driver of headline or overall CPI based Inflation rate, as headline inflation closely tracks the movements in food inflation.

II. e. Interest Rate

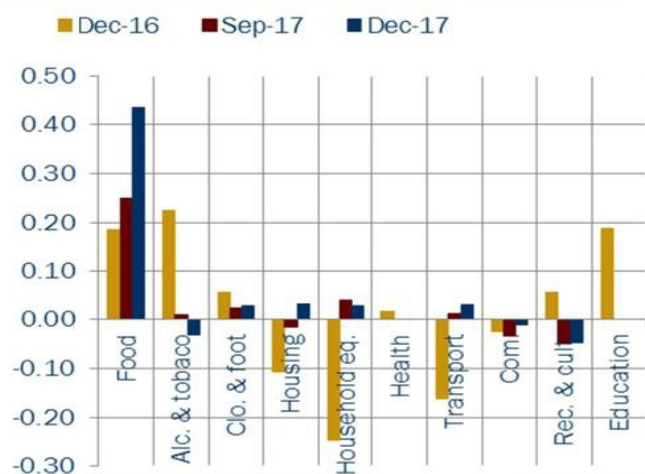
The weighted average lending rate for commercial banks decreased dramatically by 7.5% or by 1 basis point to 12.46% in December 2017, compared with 0.4% or 0.05bp decrease in September quarter. This decrease was mainly attributed to slight adjustment in the six month Libor fluctuation applied by commercial banks and also there are some fundamental factors that have been considering by commercial banks of Timor-Leste in determining the base lending rate like reduce of cost of fund and taxes, according to the bank lending survey in 2017. While, weighted average Interest rate of demand deposit and saving deposits continued to decrease as well, declined in 82.4% to 0.06% and 28.3% to 0.27% respectively.

III. Commercial Banks

The overall financial condition of the banking system in Timor-Leste during the quarter under review as

Chart 10
TL Inflation (Dili)

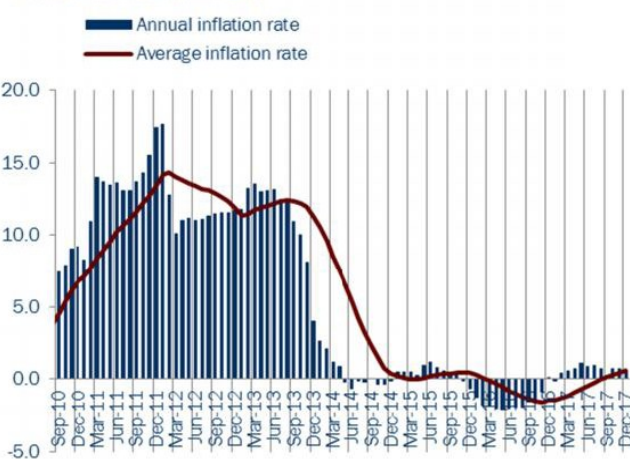
Annual percentage change; percentage point contributions



Source: General Directorate of Statistics and BCTL analysis

Chart 11
TL Inflation (Dili)

Annual percentage changes



Source: General Directorate of Statistics and BCTL analysis

essed as healthy. The main important in the banking system are asset, liabilities, revenue and expense. The relationship between asset and liabilities and revenue and expense, are things need to understand in order to run a successful business. Asset and liabilities are fundamental element of banks financial position, while revenue and expense represent the flow of money through banks operation. A successful bank has more asset than liabilities, meaning that it has resources to fulfill its obligation. On the other hand, a bank whose liabilities exceed its asset, probably its financial condition is unhealthy.

The total assets of the banking system in Timor-Leste continue to increase, rose by USD21 million to USD1,169 million in December quarter of 2017. Hence, the assets of the banking system rose by 1.8% compared to an increase of 7.1% recorded in the last September quarter of 2017. In the same time, the annual trend of total deposits of the banking system continued to increase, has achieved USD989 million at the end of December 2017. Indicated an annual growth of 7.9%, after revealed a 16.5% growth in the last September quarter, denote about 84.6% of total assets at the end of December 2017, decelerated from 85.1% in the last September quarter.

Total lending of commercial banks up to the quarter of December 2017 were of USD220.8 million, recorded

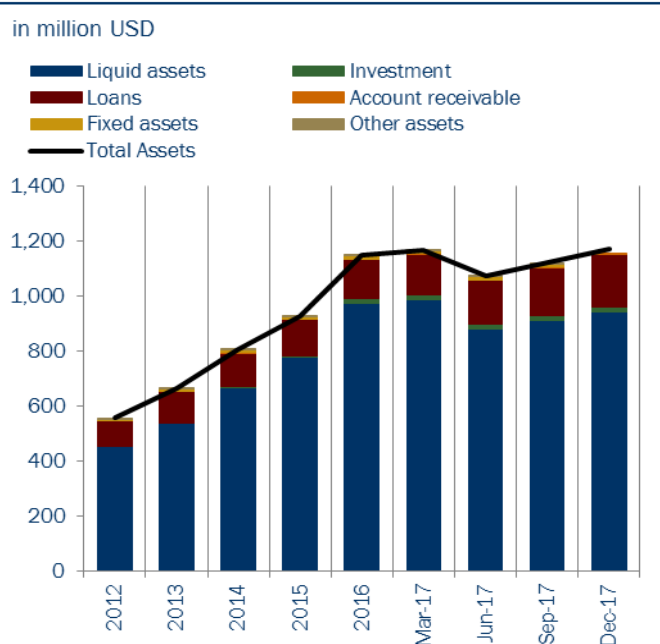
an annual growth of 21% in the quarter. The most important indicator intended to identify problem with asset quality in the loan is non-performance loans. The total non-performance loans of all commercial banks in the country continue decreasing, was reduced to 14% in December 2017, compared with 15% in the previous quarter. Meanwhile, the income received during the quarter, as percentage of assets (RoA, or Return on Assets), was of 1.35%, increased from 1.27% recorded at last quarter.

The banks continue to have liquidity ratios above the minimum required by BCTL, with an excess liquidity ratio of 71.27% in the quarter under review. The requirement actual held was of USD941 million compared to the liquid assets required of USD163 million (15%). Liabilities of banking system consist of deposit, capital and liquid reserve requirement. During the period under review the total liabilities of banking system amounted to USD1,092 million, compare with USD1,046 in September quarter. While, capital mounted by USD78 million, increase from 74 million in September quarter, and total deposit of banking system amounted by USD990 million in December 2017. Looking into percentage change, capital is higher growth by 31.9% in December 2017. While, deposit and liquid asset requirement representing only 7.9% and 0.2%.

in million USD					
	Dec-16	Sep-17	Dec-17	change from Dec 16	change from Sep 17
Total Assets	1,149	1,120	1,170	1.8	4.5
Liquid Assets	931	911	942	1.1	3.4
Investments	18	18	18	0.0	0.0
Total Loans	183	211	227	24.5	7.9
Non-performing loans	28	30	31	9.4	3.0
Provision for Loan Losses	40	38	38	-3.6	-0.5
Total Liabilities	1,090	1,046	1,092	0.2	4.4
Deposits	917	953	990	7.9	3.8
Capital	59	74	78	31.9	5.5
Liquid assets requirement (15%)	163	157	164	0.2	4.4
Income	42	43	49	17.0	13.7
Expenses	30	29	33	10.8	15.0
Net income	12	14	16	32.6	11.1
ROA (%)	1.0	1.27	1.35	30.3	6.4

Source: Commercial Banks balance sheets and BCTL analysis

Chart 12
TL Banking Systems; Assets Development



Source: Commercial Banks and BCTL analysis

Table 3: Gross Domestic Product by Expenditure
(In millions of US Dollars)

	2009	2010	2011	2012	2013	2014	2015	2016	% change 2015	% change 2016
AT CONSTANT PRICES										
Final consumption expenditure (FCE)	1828.0	1879.7	1802.0	1807.8	1700.8	1845.7	1876.0	1930.9	1.6	2.9
Private consumption	780.8	810.4	812.5	843.2	895.3	943.7	945.5	1002.3	0.2	6.0
Households FCE	740.0	778.8	739.3	791.8	815.6	864.7	890.0	943.5	2.9	6.0
NPISHs FCE	40.8	31.6	73.2	51.4	79.7	79.0	55.6	58.8	-29.7	5.8
Public Consumption	1047.1	1069.3	989.5	964.6	805.4	902.0	930.5	928.7	3.2	(0.2)
Gross fixed capital formation	467.4	481.7	815.4	704.9	553.4	586.7	565.5	655.8	-3.6	16.0
General government (GG)	317.5	315.1	668.7	574.2	395.6	423.6	410.8	491.1	-3.0	19.5
DP&TA (on-budget)	59.7	72.2	53.7	23.9	40.8	43.2	36.2	38.6	-16.2	6.6
Public Corporations	4.7	1.9	0.1	0.1	0.5	3.5	0.9	0.2	-73.8	(78.3)
Public Sector	382.0	389.3	722.5	598.2	436.9	470.3	447.9	529.9	-4.8	18.3
Private corporations	65.1	76.3	70.3	76.1	85.1	84.0	85.1	93.3	1.4	9.6
NPISHs	3.1	3.6	8.7	6.0	9.6	9.4	6.4	6.7	-32.2	4.9
Households	17.3	12.5	14.0	24.6	21.9	22.9	26.0	25.9	13.4	(0.3)
Changes in inventories	1.9	0.7	3.1	31.5	22.5	30.7	20.9	27.2	-32.1	30.5
Acquisitions less disposals of valuables	0.1	0.1	0.2	0.2	0.2	0.2	0.2	0.2	2.3	2.2
Exports of goods and services	83.6	96.4	89.4	116.9	93.7	71.3	50.5	58.2	-29.2	15.3
Exports of goods	14.3	27.5	24.4	59.3	25.1	14.7	11.2	23.6	-23.9	110.8
Exports of services	69.3	68.9	64.9	57.6	68.5	56.6	39.3	34.6	-30.6	(12.0)
Less: Imports of goods and services	1205.0	1182.9	1336.5	1211.5	884.6	987.1	904.4	978.1	-8.4	8.2
Imports of goods	232.9	223.1	240.5	475.5	403.4	437.8	484.7	536.2	10.7	10.6
Imports of services	972.1	959.8	1096.0	736.0	481.2	549.3	419.7	441.9	-23.6	5.3
Equals: Non-oil sector contribution to GDP	1176.0	1275.7	1373.6	1449.8	1485.9	1547.5	1608.7	1694.3	4.0	5.3

Source: General Directorate Statistics

Table 4 Timor-Leste Monetary Survey
(Millions of US Dollars)

	Sep-16	Dec-16	Sep-17	Dec-17	Annual % change Sep-17	Annual % change Dec-17
NET FOREIGN ASSETS	963.107	1,096.238	1,099.710	1,250.574	14.2	14.1
CLAIMS ON NON RESIDENTS	1,038.336	1,156.825	1,169.595	1,326.962	12.6	14.7
LIABILITIES TO NONRESIDENTS	-75.229	-60.586	-69.884	-76.388	-7.1	26.1
DOMESTIC CLAIMS	-206.166	-209.413	-171.495	-212.774	-16.8	1.6
NET CLAIMS ON CENTRAL GOVERNMENT	-419.621	-419.787	-411.796	-472.389	-1.9	12.5
CLAIMS ON CENTRAL GOVERNMENT	0.002	0.002	0.001	0.001	-41.0	-36.4
LIABILITIES TO CENTRAL GOVERNMENT	-419.623	-419.789	-411.797	-472.390	-1.9	12.5
CLAIMS ON OTHER SECTORS	213.455	210.375	240.301	259.615	12.6	23.4
CLAIMS ON OTHER FINANCIAL CORPORATIONS	0.000	0.000	0.000	0.000		
CLAIMS ON STATE AND LOCAL GOVERNMENT	0.000	0.000	0.000	0.000		
CLAIMS ON PUBLIC NONFINANCIAL CORPORATIONS	0.000	0.000	0.000	0.000		
CLAIMS ON PRIVATE SECTOR	213.455	210.375	240.301	259.615	12.6	23.4
BROAD MONEY LIABILITIES	601.080	734.045	734.969	822.896	22.3	12.1
CURRENCY OUTSIDE DEPOSITORY CORPORATIONS	13.893	14.509	15.663	15.123	12.7	4.2
TRANSFERABLE DEPOSITS	356.474	449.801	416.870	449.747	16.9	0.0
OTHER DEPOSITS	230.713	269.735	302.437	358.026	31.1	32.7
SECURITIES OTHER THAN SHARES	0.000	0.000	0.000	0.000		
DEPOSITS EXCLUDED FROM BROAD MONEY	2.793	2.121	14.877	14.842	432.7	599.8
LOANS	0.030	0.025	0.012	0.012	-60.8	-53.1
SHARES AND OTHER EQUITY	117.755	126.761	152.162	156.626	29.2	23.6
OTHER ITEMS (NET)	35.283	23.875	26.228	43.458	-25.7	82.0

Source: BCTL