



The Central Bank of Timor-Leste (BCTL) annual report synthesizes and presents relevant national and international economic developments in 2017, as well as the activities undertaken by the BCTL throughout the year.

Introduction

The Organic Law of the Central Bank establishes the annual reporting duties of the Central Bank vis-à-vis the President of the Republic, the National Parliament, the Prime Minister and the Minister of Finance. The report is composed of two main sections, specifically: the analysis of national and international economic trends; and a review of the Bank's activities, including statutory financial information.

In 2017, the world economy registered an acceleration in terms of growth (3.6%). The pace of growth of the more developed economies remained strong, above 2%, while the accelerating growth of emerging economies (4.6% in 2017) explained the acceleration of global growth. In terms of regions,



Asia continued to lead in terms of growth (6.5%) while Latin America was the region with the lowest growth rate in 2017 (1.2%). Growth for all of ASEAN's five largest economies accelerated to 5.2%. For 2018 and 2019, the IMF expects continued strong growth for the world economy, underpinned by the dynamism of the emerging economies, which should offset a slight slowdown in growth in more developed countries.

In 2017, there was a slight acceleration in inflation rates in the major world economies. Of particular note was the US and EU, which averaged annual inflation rates of about 2.1% and 1.7% compared to virtually zero (0%) in 2015.

In terms of the international financial markets, the two-year interest rates, more sensitive to changes in monetary policy trajectories, continued to show a clear divergence in policies among the world's 3 largest economic blocs, with markets continuing to gradually incorporate the impact of rising policy rates in the US. With regard to 10-year interest rates, US interest rates remained stable in 2017, while in Germany there was a small pickup in interest rates. In both 2 and 10 years, US interest rates remained much higher than those in the Euro-Zone and Japan.

In the Asian economic space, growth levels remained robust in 2017, with an average growth rate at around 5%, with growth accelerating in almost all economies. In terms of inflation, on average, the region recorded rates of around 2.4%. Continued

economic dynamism in the region in 2017, together with the pickup in inflation in the various economies, and the slight depreciation of the regional currencies against the dollar, has in turn explained the slight increase in regional inflationary pressures, when measured in US dollars.

In terms of our domestic economy, the growth rate of non-oil GDP (Gross Domestic Product) in 2016 was 5.3%, while, according to the BCTL's economic activity indicator data, the economy appears to have slowed in terms of growth in 2017 to 3.5%, versus 2016.

The domestic inflation rate, computed on the basis of the Consumer Price Index (CPI) by the DGE, stood at 0.6% in December 2017. In terms of annual averages, Dili's CPI data shows that the annual inflation stood at -1.6% and 0.6% in 2016 and 2017 respectively. The slight increase in inflation in 2017 is due in large part to the pickup of external inflation, despite the relative stability of Timor-Leste's economic partners' currencies against the dollar and rising international commodity prices.

In budgetary terms, the Public Sector continues to register a substantial budget deficit, with non-oil revenues financing only a small part of total public expenditure. In 2017, the State registered a total collection of non-oil domestic revenues of US\$ 203 million. The overall budgeted amount for State Expenditure was USD 1,387 million, of which only 88.3% was spent.

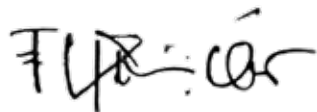
On the external front, the small increase in oil revenues in 2017, as a result of the rise in the international oil price, resulted in a slight reduction of the country's current account deficit (excluding other primary incomes) of US\$ 64 million to US\$ 705 million of GDP in 2017. The continuing decline in income from resources exploited in the Timor Sea (taxes and royalties) and the maintenance of high levels of imports of goods and services continued to be the main drivers of a substantial current account deficit in the Timor-Leste balance of payments.

In terms of BCTL's annual activity, the Bank remains actively committed to promoting monetary and financial stability and has developed particularly relevant initiatives in this context. One of the main activities developed by the BCTL during the period was the continued implementation of the Timor-Leste Financial Sector Master Plan and the continued management of the financial literacy development program, which covered several primary schools and was attended by 56 teachers from 39 primary schools in 12 municipalities, and the Special Administrative Region of Oé-Cusse Ambeno (RAEOA). As part of the National Savings Day celebration, the BCTL organized

role-playing activities on November 27 in coordination with the RAEOA Authority - in particular with the Education Department - under the theme “save now for a better future”. The Central Bank continued to act in a consistent manner to support the development of the National Payments System. During the year, the R-TiMOR support unit at the BCTL supported banks and State Authorities in various initiatives to strengthen electronic integration (STP, or Straight Through Processing) between R-TiMOR and their internal systems. In March 2017, the BCTL hired SIBS International of Portugal to supply and implement a National Card and a Payment Switch. The switch, designated “P24” (the “P” associated with the words Pagamentu, Pagamento, Payment and Pembayaran) will offer a full range of payment services. As far as the Timorese banking system is concerned, available information shows that it remained stable and robust, maintaining high levels of liquidity and reduced provisions for credit risks, while also registering strong asset growth, which have grown 1.8% in 2017, to a total of US\$ 1,170 million. In the 2017 financial year, the BCTL’s accounts recorded a positive net result of US \$ 3.1 million, generated mainly by the revenues from the management fees of the Petroleum Fund and interest received from the investments made with BCTL’s own assets.

The Bank continues to maintain its strong commitment to staff training and allocates significant financial resources to this end. This has been reflected positively in the quality of the work developed by the institution, recognised as one of the best in the country.

Finally and as usual, I, as Governor of the BCTL, am grateful to all the staff of the Central Bank and our partners during the year, who continued to contribute actively and collaboratively to the development of the BCTL and the economic development of our country.



Abraão de Vasconcelos, Governador

Dili, 28th April 2018