



Domestic Economy Recent Developments

Chapter 02

2.1.	Real Sector	36
2.2.	Public Finance	42
2.3.	Monetary and Exchange Sector	49
2.4.	External Sector	57
2.5.	Balance of Payments	60
2.6.	Banking System Development in Timor Leste	67





The latest publication of the National Accounts of Timor-Leste, which was released by the Directorate-General of Statistics (DGE) in January 2018, showed that the growth rate of non-oil GDP in 2016 was 5.3% in real terms, an acceleration of 1.3% compared to 2015.

DGE estimates that 2016 annual GDP growth was 5.3% in real terms.

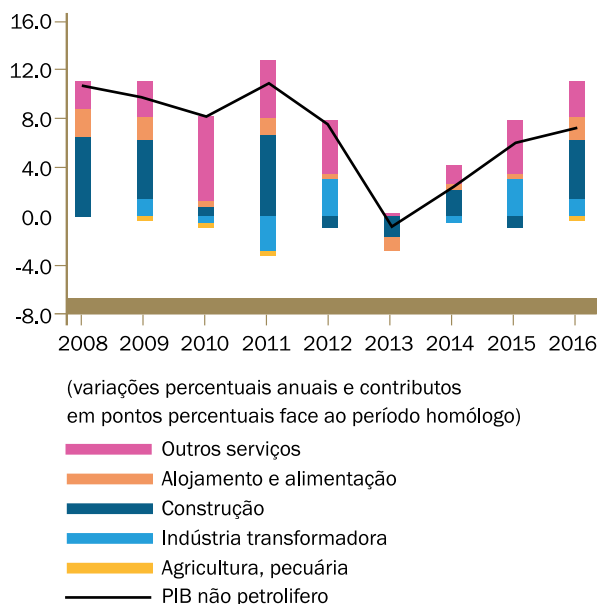
2.1 Real Sector

2.1.1. Production, Spending and Economic Activity

The increase in GDP was mainly due to the acceleration of activities related to construction and public administration services, which, with a combined weight of 42% of GDP in 2016 (41.0% in 2015), contributed to GDP growth of 2.8%. The combined contribution of the agriculture, manufacturing, information and communication technology, housing and other services sectors including financial services, contributed 3.2% to GDP growth and together accounted for 58% of the total product (59% in 2015).

Chart 2.1.a

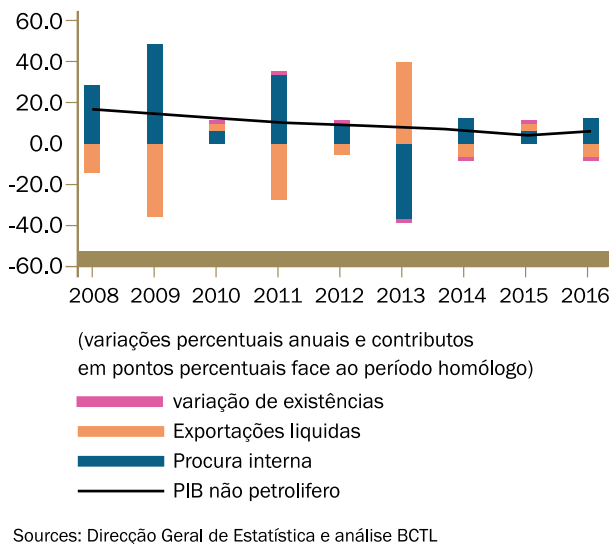
TL: GDP growth and composition;
Production Perspective



Sources: Direcção Geral de Estatística e análise BCTL

Chart 2.1.b

TL: GDP growth and composition;
Expenditure Perspective



Sources: Direcção Geral de Estatística e análise BCTL

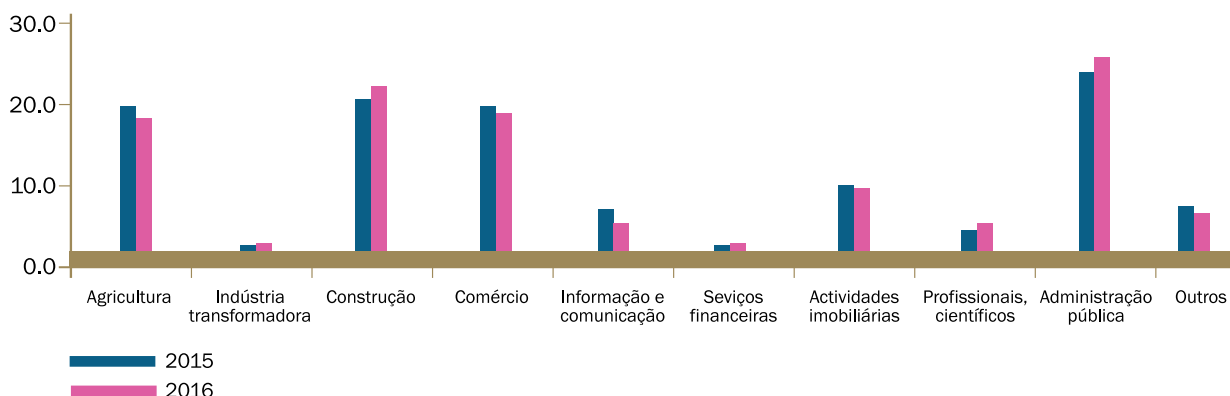
Contributions to GDP growth from an expenditure perspective can be seen in chart 1.b. Domestic demand, having registered a significant slowdown in 2015, once again grew in 2016. The increase in domestic demand was mainly due to the increase in private consumption, public and private investment as well as imports, which increased in the order of 6.0%, 18.3% and 7.2%, and 8.2%, respectively, while public consumption registered a decrease of 0.2%.

Public Sector maintained its dominant position in the domestic economy.

It should be noted that, in sectoral terms, according to figure 2.2, the public administration maintained its dominant position in the economy in 2016, accounting for 24.2% of total GDP, followed by commerce (18.3%), construction (17.3%), which is also very dependent on the levels of public investment, agriculture (16.9%, whose importance in GDP continued to decline), real estate activities (11%) and manufacturing and financial services, which represent only 1.3% and 1.2%, respectively.

Chart 2.2

TL: GDP Sectorial Structure (%)



Sources: Direcção Geral de Estatística e análise BCTL

O Governo, estima, no OGE 2017, uma taxa de crescimento de 5,4% e 3,9% para 2016 e 2017

The Government, in its proposal for the General State Budget (OGE) for 2017 - we refer to the 2017 OGE due to the fact that there is still no program and OGE for 2018 - expects a slowdown to 3.9% in 2017 (OGE17 - Book 1, page 18).

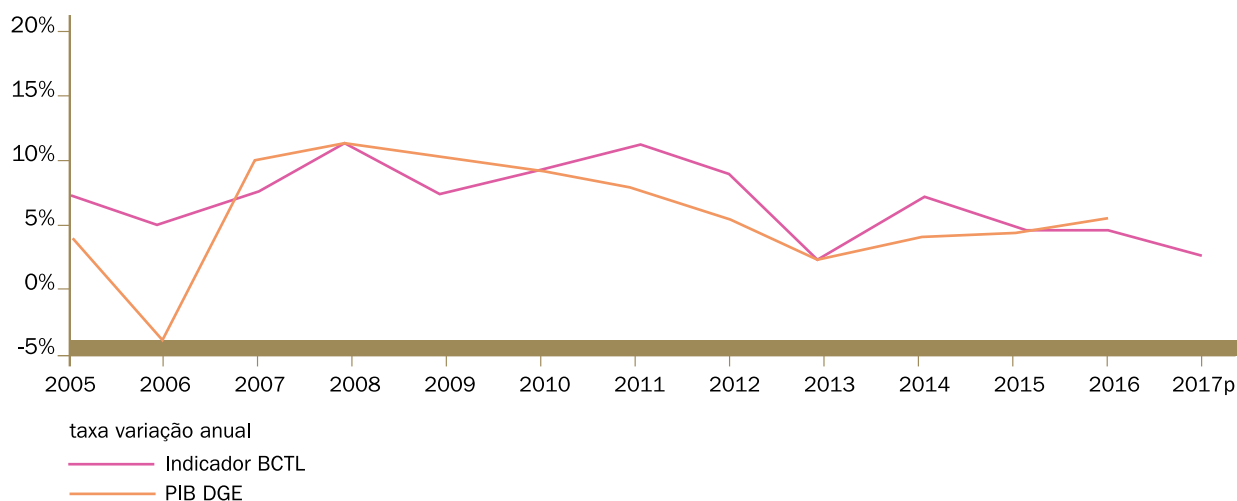
Note also that, usually, the annual National Accounts estimates have taken about 2 years to be publicly disclosed - by early 2018, there were only official data for 2016. However, there has been some progress, as these last figures were published earlier than previously.

The BCTL, to support its economic assessment framework, developed and generally uses an economic activity indicator that allows it to calculate in a simplistic, but timely fashion, the evolution of the domestic economy. This indicator uses all available information relating to a set of sectors of the national economy - imports, public expenditure (total and capital expenditure development, the financial sector and domestic revenues - to calculate a simple average of the annual variations of the relevant variables. Indeed, this indicator is not intended to replace national accounts data, but rather to complement and enable us to quantitatively measure recent developments in the domestic economy in a timely manner, which can be used as inputs for the discussion and eventual implementation of appropriate economic stabilization policies.

As shown in chart 2.3, the BCTL indicator allows us to calculate the annual growth rates of the economy for 2017.

Chart 2.3

GDP Growth and BCTL Economic Indicator

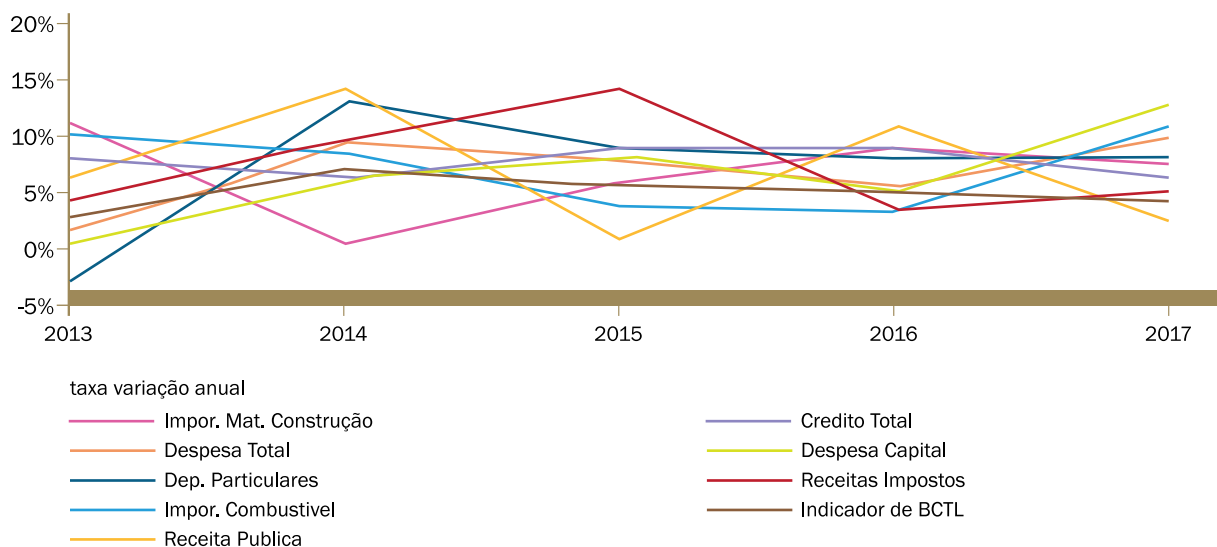


Source: DGE, Ministerio das Financas e BCTL

According to the BCTL indicator, the domestic economy appears to have decelerated in terms of growth in 2017 to 3.5%, compared to the 4.4% growth (5.3% in the DGE National Accounts) registered in 2016. It should be noted that the economic performance in 2017, as measured by our indicator, is in line with the most recent official forecasts of the Ministry of Finance (3,9 - OGE 2017) and the IMF (Art IV, October 2017), although the forecast of the IMF for 2017 is slightly higher (3%), compared to the value calculated by our activity indicator (3.5%).

In order to better understand the recent developments in the national non-oil economy, we also present below the performance of the various components of the activity indicator, which provide an indication of the economic trends for the most relevant domestic sectors (and for which data are currently available), such as imports, public expenditure and the financial sector, as well as domestic revenues. Figure 2.4 shows the growth rate of each sub-indicator, normalized in terms of the average growth rate of the non-oil GDP / economy.

Chart 2.4
Economic Activity Indicator



Sources: DGE, Ministerio das Financas e BCTL

As can be seen, the deceleration of growth in 2017 (line in black) is due to a decline in the pace of expansion of the indicator components in the same years, with the exception of imports of fuel, construction materials, credit and tax revenues. It should also be noted that, despite the decline in the various components, there was only an overall small growth slowdown in 2017 (3.5%).

However, despite the maintenance of positive growth rates between 2013 and 2017, with an average growth of 4%, the domestic economy registered a substantial slowdown compared to the growth rates observed between 2008 and 2012 (with average rates of 8% per annum). Although part of this deceleration has resulted from the slowing down of the rate of increase in Public Expenditure, resulting in a positive stabilization of domestic inflationary pressures, the economic evolution of the last 5 years also shows that our economy remains highly dependent on public expenditure policies and programs, which continues to postpone the implementation of a development and investment process led by the private sector.

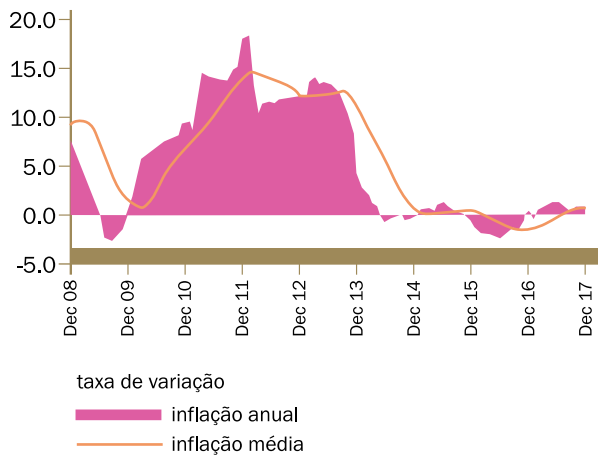
We continue to emphasize that the need to reinvigorate the national productive

sector today is particularly necessary and completely important in order to meet the growing challenges in terms of job creation for our young population and to prepare the country for the need to implement a reduction in the level of public expenditure and investment, in view of the substantial reduction of future oil revenues and/or the accumulated returns in the Petroleum Fund.

2.1.2. Prices and Inflation

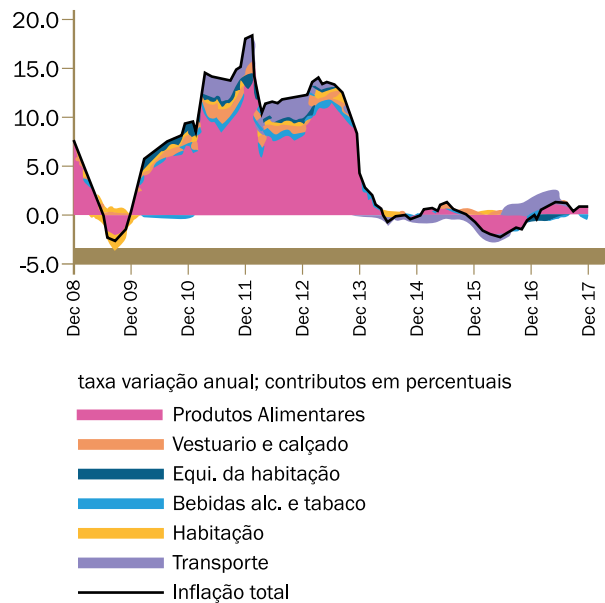
Annual inflation in the capital Dili, according to the DGE data, stood at 0.6% in December 2017, corresponding to an increase of around 0.5% compared to 0.1% in the same period of 2016. During the year 2017, the domestic inflation rate, calculated on the basis of the consumer price index (CPI) by the DGE, returned to the positive camp, compared to the negative rate registered during 2016. It can be seen that, in terms of annual averages, Dili's CPI inflation rate was -1.6%, and 0.6% in 2016 and 2017 respectively.

Chart 2.5
TL Inflation (Dili)



Sources: Direcção Geral de Estatística e análise BCTL

Chart 2.6
TL Inflation (Dili)



Sources: Direcção Geral de Estatística e análise BCTL

Table 1 shows the following trends in the breakdown of the CPI by large groups of goods and services:

- Food products – which continue to dominate the CPI basket, with a weight of 64.3%, recorded a price increase of 0.7% (0.3% in 2016), contributing 0.5% to annual inflation in December 2017.

- Non-food products - with an annual growth of 0.3% in prices (-4.2% in 2016), contributed 0.09% to the rise of total inflation in December 2017.

The recent inflation increase was mostly due to rising external inflationary pressures.

The slight increase in inflation in 2017 was due, in large part, to the rise in external inflation, despite the relative stability of Timor-Leste’s economic partners’ currencies against the dollar and rising international commodity prices. However, these price rises were offset by the depreciation of regional currencies, thus resulting in a fall in the price of imported goods from our country’s main trading partners. This effect was further reinforced by the slowdown in domestic economic growth in recent years, when compared to the extremely high growth observed between 2008 and 2012, contributing to stabilize inflation pressures in the country.

Table 2.1. CPI products with greater CPI weights (%) - Dili

Classes de Produtos	Dez 16	Mar 17	Jun 17	Set 17	Dez 17
Produtos Alimentares	0.29	1.36	1.55	0.39	0.67
Bebidas alc. e tabaco	4.01	1.45	0.50	0.17	-0.59
Vestuário e calçado	0.94	0.00	0.00	0.37	0.47
Habituação	-1.94	-2.04	-0.49	-0.30	0.59
Equi. da habitação	-6.61	-3.90	-1.35	1.06	2.15
Saúde	2.13	2.13	0.00	0.00	0.00
Transporte	16.69	20.02	19.89	0.00	0.00
Comunicação	-9.18	-9.18	-8.56	0.27	1.23
Rec. & culto.	-26.86	-28.51	-28.51	-1.99	-0.63
Educação	-16.82	-20.00	-20.00	-1.62	-0.92
Inflação total	0.10	0.58	1.08	0.29	0.58

Sources: Direcção Geral de Estatística e análise BCTL



The previous government's policy of ensuring a prudent level of public expenditure by stabilizing the overall budget and revising existing programs, yielded an overall decrease in total budgeted spending for 2017.

The Government expected for 2017 total non-oil domestic revenues of US \$ 206 million.

2.2

Public Finance

2.2.1. 2017 Budget Program

The Government, in its general state budget for 2017, as set out in table 2.2, expected domestic non-oil revenues of around US\$ 206 million. This amount results in an expected increase in total revenue of 20.4% vs 2016. From the total revenue, US\$ 149 million corresponds to tax revenues, or 72.4% of the total, resulting in a nominal increase of 28.3% of this category for 2016 (or USD 33 million).

The total spending amount approved for 2017 was US\$ 1,387 million.

In terms of expenditure, the overall budget budgeted for 2017, approved by the National Parliament, was US\$ 1,387 million, of which US\$ 1,037 million was budgeted for current expenditure and US\$ 349 million for development capital spending (including external loans), representing a nominal variation of -7.3% and -58.1% respectively versus 2016.

Table 2.2. Orçamento do Estado e Execução

Rubricas	2016		2017		Taxa de variação			Taxa de Execução 2017
	Realizado	Orçamentado	Realizado	Orçamentado	2016	2017		
					Realizado	Orçamentado	Realizado	
Receitas Totais	212	206	203	0.6	9.1	20.4	-4.0	98.4
Receitas Fiscais	142	149	127	-7.3	18.2	28.3	-10.0	85.4
Receitas Não Fiscais	46	52	48	23.7	5.0	12.6	4.2	92.4
Receitas Retenção de Agências	8	5	6	16.7	19.5	-43.4	-27.8	113.1
Outros Passivos de Longo Prazo	16	0	22		-32.0		35.9	
Despesas Totais	1718	1387	1225	24.4	28.2	-29.0	-28.7	88.3
Despesa corrente	1069	1037	961	-4.7	0.1	-7.3	-10.0	92.7
Capital Dez. (inc. Empréstimo)	650	349	264	110.5	100.8	-58.1	-59.4	75.5
Saldo Global antes Donativos	-1507	-1181	-1022	27.3	31.4	-33.7	-32.2	86.6
Donativos	160	157	153	-35.4	-28.3	9.2	-4.3	97.6
Saldo Global após Donativos	-1347	-1024	-869	39.1	45.9	-37.5	-35.5	84.9
Financiamento	1705	1181	1103	-0.6	45.7	-15.1	-35.3	93.4
RSE	545	482	482	-14.7	-14.7	-11.6	11.5	100.1
Excesso retiradas do Fundo Pet.	1130	597	597	7.3	76.5	-19.2	-47.2	100.0
Uso do saldo de caixa	0	0						
Empréstimo	30	102	24	52.9	26.9	-4.9	-21.2	23.4

Source: TL Portal da Transparência, Livro OGE no. 1, GAE e análise do BCTL

2.2.2. Budget Execution in 2017

2.2.2.1. Revenue

One of the government's main priorities is to reduce the country's dependence on withdrawals from the oil fund. Efforts to invigorate domestic revenue remain central to government budget discussions and planning. In OGE's book for 2017, for example, the government describes a tax reform policy to improve and increase domestic revenues based on non-oil resources.

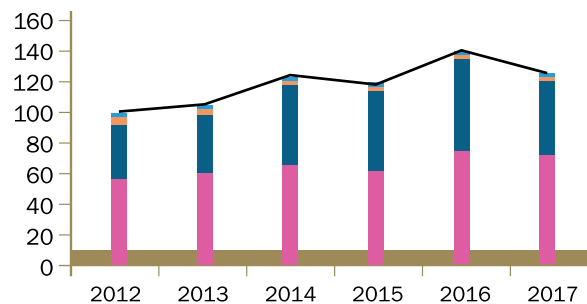
Actually, overall and effective domestic revenue in 2017 was US \$ 203 million.

It should be noted that, in line with the expansion of the domestic economy, domestic revenues have risen significantly in recent years, except in 2017, in which, with the slowdown in the economy, revenues received were slightly reduced. Domestic revenues received in 2017 amounted to US \$ 203 million, with a nominal reduction of 4%, mainly reflecting decreases of: (i) US \$ 14 million in the tax component, from US\$ 141.6 million USD in 2016 to USD 127.5 million in 2017; (ii) US \$ 2 million in revenue from autonomous state institutions, from US \$ 8 million in 2016 to US \$ 6 million in 2017. However, the impact of the abovementioned reduction in revenues was offset by the increase in funds from non-tax revenues (mainly fee and service charges) of USD 2 million, from USD 46 million in 2016 to USD 48 million in 2017, and USD 6 million from long-term loans, which rose from \$ 16 million in 2016 to \$ 22 million in 2017.

Figure 2.7 shows the changes in total tax revenue and its main components, specifically, taxes on the income of individuals and companies and taxes levied on the importation of goods.

Chart 2.7

TL - Public revenue



em milhões de USD

- Impostos s/mercadorias
- Taxa de serviço
- Impostos s/rendimento
- Outros impostos
- Total

Sources: TL Portal de Transparencia e análise do BCTL

2.2.2.2. Spending

Effective public spending in 2017 was US\$ 1,225 million, which corresponded to an execution rate of 88.3%.

The government maintained a performance almost the same as that of 2016, in the execution of the expenditure, having spent 88.3% of the budgeted amount. The amount actually spent was lower than that of 2016, valued at USD 1,225 million, resulting in a nominal annual reduction of 28.7%. This reduction was due to the substantial reduction of the total 2017 budget of 29%, resulting mainly from cuts in public investment, 58.1% compared to 2016, from USD 833 million in 2016 (including the rectifying budget) to USD 349 million in 2017.

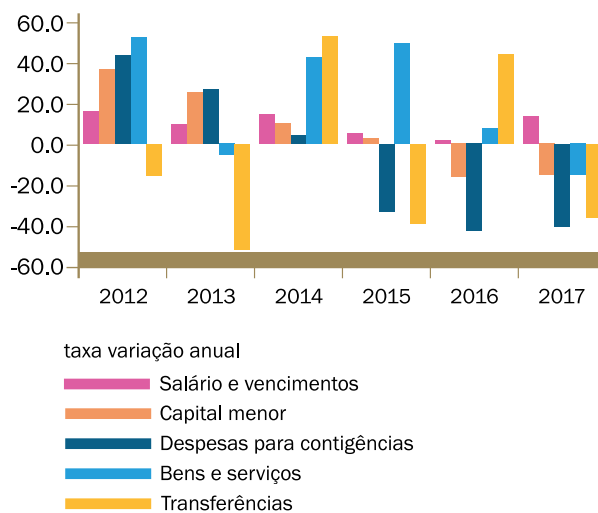
Current Spending

The substantial reduction in overall public spending was also a consequence of the decline in the level of current expenditure, which registered a nominal decrease of 10% in 2017. It should be noted that current expenditure remained the main component of public spending, amounting to US\$ 961 million, or about 78.5% of total expenditure in 2017, after having registered USD 1,069 million in 2016, or 62.2% of total expenditure.

Chart 2.8 presents the evolution of the growth rate of the main components of current expenditure. Execution is calculated as the sum of the “payments” and “obligations” assumed for each category.

Chart 2.8

TL Current Public Expenditure



Sources: TL Portal de Transparencia e análise do BCTL

Transfers and subsidies continued to be the largest spending category in 2017, corresponding to 41,7% of the total spent.

Expenditure on transfers (mainly personal and institutional allowances) continued to be the largest component of current expenditure (41.7%) in 2017, having exceeded expenditure on goods and services in 2016. Goods and services, in turn, were second with 35.5%, followed by wages and salaries (20.4%). It should also be noted that public transfers include the allocation of the budget for the Oecusse region's development program (USD 171.9 million), which is part of the ZEESM project, which registered a nominal decline of 21.1% compared to 2016, accounting for 42.9% of total transfers made in 2017.

On the other hand the budget allocated to social support programs, including subsidies to former liberation fighters, reached 23.6% of the total budget for the category of transfers, or 7.7% of the total budget, having been reduced by 3.2% compared to 2016, with an execution rate of 92.8% to 97.8% in 2016.

Capital and Development Spending

Capital expenditure was US\$ 264 millions in 2017...

The government estimated in the 2017 Budget a global expenditure on capital and development assets of USD 349 million, of which only USD 264 million was executed, corresponding to an execution rate of 75.5%.

.... the largest part of which corresponded to infrastructure investment (99.5%), while capital spending was 75% of the budgeted amount.

The majority (99.5%) of capital and development spending was allocated to the infrastructure construction program, with only 75.1% of the budgeted plan being executed. The road program was responsible for the largest slice in of infrastructure costs, 38.6% of the total budgeted, while in terms of execution, the respective weight reached 70%, followed by projects of Tasi Mane and water and sanitation, with a weight of 19.3% and 9, 2% of the budget and with an implementation rate of 100.5% and 1%, respectively.

Table 2.3 summarizes information on existing programs at the level of the Infrastructure Fund (IF) of more than USD 5 million, including its budgetary allocation and the amount actually spent in 2017.

Table 2.3. Detalhes do Orçamento de Infraestrutura (milhões USD)

Classes de Produtos	Orçamento	Obrigações	Real	Execução %
Total	1386.83	40.13	1184.78	88.3
Capital de Desenvolvimento	349.37	23.41	240.21	75.5
Infraestrutura	349.37	22.84	239.38	75.1
Estradas	135.0	0.3	1.9	1.6
Tasi Mane	67.6	-	-	0.0
Água e saneamento	32.2	0.2	0.3	1.6
Aeroportos	18.2	-	7.2	39.3
Programa de Empréstimos	15.2	0.2	0.0	1.4
Planos integrado de desenvolvimento distrital	14.7	0.3	6.8	47.8
Energia Eléctrica	12.4	-	0.0	0.3
Pontes	7.8	-	-	0.0
Programa de Manutenção e Reabilitação	7.1	0.2	5.0	73.2
Programa Sector das Finanças	7.0	-	-	0.0
Boa governança e gestão institucional	6.8	-	-	0.0
Desenvolvimento Rural e Urbano	5.5	0.1	12.2	221.3

Source: Portal de Transparência de Timor-Leste

IF spending amounted to 25.2% of total public expenditure in 2017.

The first relevant point concerns the maintenance of the implementation rate of the IF in 2017, of 75,1% compared to the rate of 76,3% recorded in 2016. It should be noted that if we calculate the execution rate only with the cash amount spent, then it fell to 68.5%, a rate virtually identical (but slightly above) to that of the previous year of 67.7%.

The second point to note is that, although the State Budget allocated to the IF represents 25.2% of the total budgeted expenditure (42.6% in the 2016 Budget), the expenses actually made were 21.4% of the total, a figure below the equivalent of 2016 (37.1%).

2.2.2.3. Budget Balance and Funding Sources

The State expected PF transfers of 1,079 million in 2017 to finance the deficit....

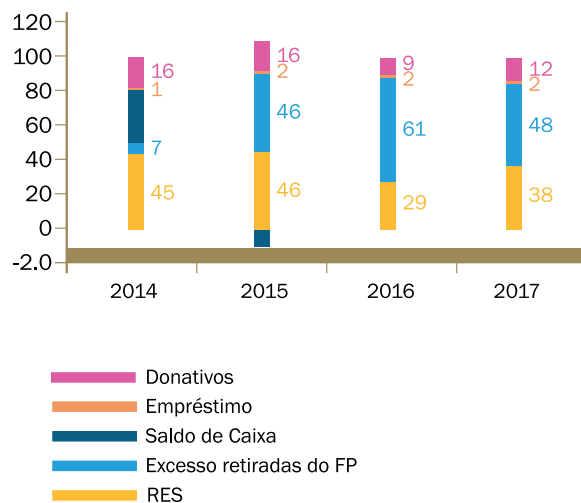
The Government of Timor-Leste expected, in its budget program for 2017 excluding donations, a global deficit of about \$ 1,181 million, to be funded through: donor grants of \$157 million; foreign loans in the amount of US\$ 102 million; and Petroleum Fund (PF) transfers amounting to US\$ 1,079 million. In terms of PF funding, US\$ 482 million corresponds to the “estimated sustainable income” (ESI) of the FP and the remaining balance of USD 597 million, to an actual reduction in the capital of the FP as it exceeds the relevant ESI. Indeed, the overall pre-donation deficit stood at US\$ 1,022 million in 2017.

... clearly above the PF's ESI of US\$ 482 million, thus public deficit funding reduced the PF's capital, as in previous years.

In its budget execution, the Government used the following sources to finance the deficit: (i) Donations of US\$ 153 million, (ii) External Loans of US\$ 24 million, and total PF transfers of US \$ 1,079 million.

Chart 2.9

TL: Public Deficit Funding Sources



Sources: TL Portal da Transparência, Livro OGE no. 1, GAE e análise do BCTL

In 2017 PF's excess withdrawals above the ESI rose to 38% of the public deficit.

The analysis of the evolution of the public deficit and its financing structure shows that most of the deficit was financed by transfers from the PF. It should be noted that, in the last three years, the amounts withdrawn from the PF has exceeded 100% of the deficit, around 111,5%, 111,1% and 105,6% in 2015, 2016 and 2017 respectively. However, in 2017, the decrease of PF capital (by withdrawing an amount above ESI), having financed 38% of the 2017 deficit, registered a nominal reduction of 47.2%, or US \$ 533 million compared to 2016.

These facts highlight the continuing need to fund the substantial Public Budget deficits from oil revenues or, more specifically, from transfers originating from the Petroleum Fund, as the State continues to withdraw amounts that substantially exceed the Fund's sustainable income.



The Monetary Base (MB), which is one of the determining variables in terms of monetary policy, increased by about US\$ 82.7 million (90.7%) in 2017, of which, or most of this increase, US\$ 82.1 million (99,3%) was in the form of bank deposits in USD held at the BCTL

In 2017, the average private loan interest rate declined to 12,5%, which represents a slight improvement for the country's borrowers.

2.3

Monetary and Exchange Sector

2.3.1. High-Powered Money (MB)

(mainly related to bank settlement accounts with the BCTL) and US\$ 0.6 million in the form of cash outside the central bank, whose value was estimated, at the end of December 2017, at US\$ 15.1 million. Cash outside BCTL grew 4.2% compared to 2016, valued at US\$ 14.5 million in this year.

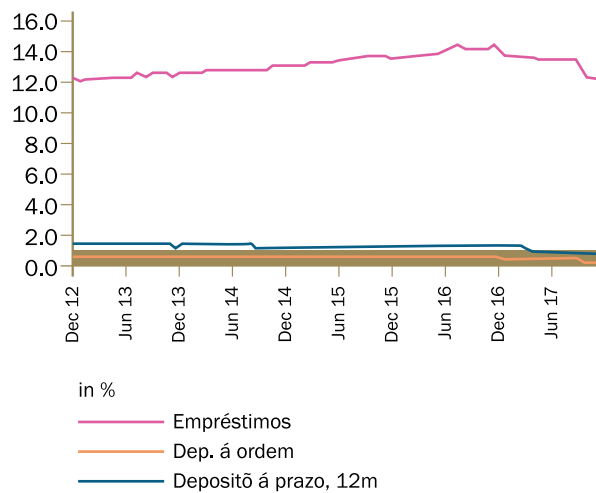
2.3.2. Interest Rates

In 2017, the average private loan interest rate declined to 12,5%, which represents a slight improvement for the country's borrowers.

The level of weighted average interest rates on loans continues to be relatively high compared to those of the issuing country of the country's currency, the United States dollar. In fact, economic theory says that when a small country adopts as its currency, one from a large country, interest rates in one and the other tend to converge. In Timor-Leste, this is not the case, especially for interest rates on credit, for a number of reasons, the main one being the risk of the banking business, which has to account for the debtors' risk of default and the country's own risk.

Chart 2.10

TL: Deposits and Loans Interest Rates



Source: BCTL

Interest rates on bank loans to the private sector decreased by 2.02%, as can be seen in chart 2.10, to 12.46 in December 2017. In average annual terms, interest rates on loans stood at 12.9%, compared to 14.2% in 2016. On the other hand, the average rate paid to deposits increased in the same period by 0.30% to 0.61%, which meant that the "spread" (differential) between active and passive rates decreased by 0.46% to 12.68% in December 2017, versus the previous year.

Table 2.4. Taxa de juro média ponderada dos Bancos Comerciais
(Em percentagem)

Período	Empréstimos + 6 meses Libor	Depósitos a Ordem	Depósitos de Poupança	Depósitos a Prazo			
				1 mês	3 meses	6 meses	12 meses
2016 Dez	14.46	0.54	0.75	0.76	1.00	1.14	1.25
2017 Jan	12.94	0.35	0.26	1.28	1.49	1.76	2.08
Fev	12.94	0.35	0.26	1.26	1.47	1.72	2.04
Mar	12.95	0.41	0.26	1.36	1.52	1.77	2.09
Abr	12.95	0.41	0.26	1.41	1.55	1.76	2.07
Mai	12.88	0.43	0.25	1.44	1.59	1.77	2.06
Jun	12.85	0.41	0.26	1.56	1.63	1.77	2.04
Jul	12.87	0.42	0.26	1.60	1.67	1.80	2.04
Ago	12.88	0.41	0.26	1.61	1.68	1.79	2.04
Set	12.86	0.35	0.26	1.56	1.63	1.74	1.99
Out	12.88	0.35	0.26	1.56	1.66	1.80	2.04
Nov	12.92	0.35	0.26	1.59	1.70	1.86	2.09
Dez	13.09	0.30	0.27	1.62	1.72	1.85	2.08

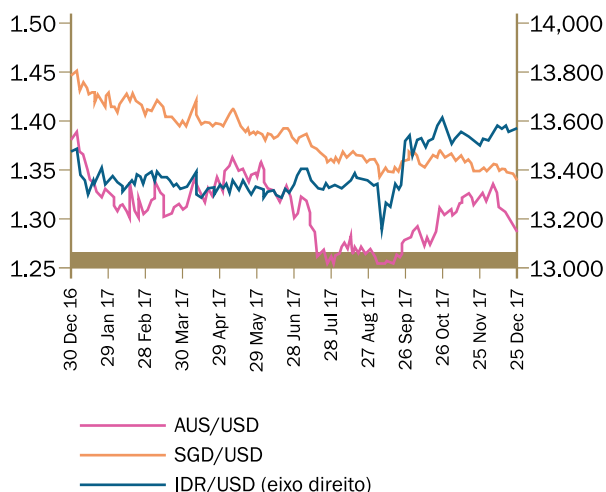
Source: BCTL

2.3.3. Exchange Rates

The USD continued in 2017 its appreciation trend versus the currencies of Timor Leste Trading Partners.

The US dollar, the official currency of Timor-Leste, depreciated slightly against the currencies of the main economic partners during the first half of 2017, but then resumed its traditional appreciation trend in the second half of the year, as can be observed in chart 2.11. For the year as a whole, the dollar appreciated by 0.7% against the Indonesian rupiah, Timor-Leste's main trading partner. Contrary to the Indonesian Rupiah, the USD lost ground against the Australian dollar, declining by 2.9% in 2017.

Chart 2.11
Nominal Exchange Rates



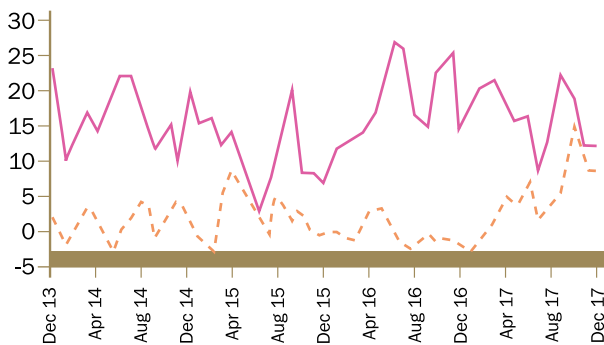
Source: Bloomberg

Note also that, as our country is heavily dependent on imported goods and services to meet domestic demand, an appreciation of the dollar contributes to contain the prices of imported products and, in turn, stabilize domestic inflation.

2.3.4. Monetary Aggregates

The development of the financial sector plays a vital role in facilitating economic growth and poverty reduction. The compilation and analysis of monetary and financial statistics allow us to gauge the development and changes in the monetary and financial system of a country. The Central Bank of Timor-Leste has been collecting and compiling these statistics in order to gain a comprehensive and detailed view of Timor-Leste’s financial sector in order to support the BCTL in macro prudential and monetary policies. However, to date, the BCTL does not yet have monetary policy instruments since our country continues to use as its official currency a foreign currency, the US dollar.

Chart 2.12
Money Supply Growth

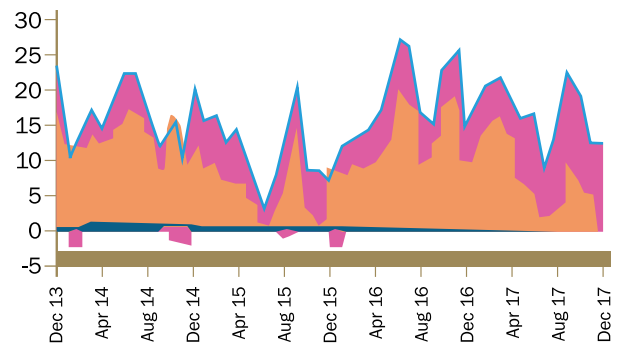


Taxa de variação homólogo, em percentagem

- M2
- - - - - Crédito ao setor privado

Source: BCTL

Chart 2.13
M2 and its components



% contribution to annual changes

- Outros depósitos
- Depositos transferíveis
- Moeda em circulação (centavos)
- M2

Source: BCTL

Although Timor Leste is a dollarized economy, we can reasonably estimate the aggregate Money Supply (M2)

Although Timor-Leste is a “dollarized” economy, it is possible for the BCTL to reasonably compute the aggregate money supply (the M2 aggregate), which in most countries is used as a measure of the availability of means of payment. As usual, money supply in Timor Leste is calculated as the sum of banknotes and currency in circulation with demand deposits (which, as the previous category, can be immediately mobilized to make payments through checks) and the “quasi-currency”, which includes savings and term deposits that can be mobilized “quickly” to make payments.

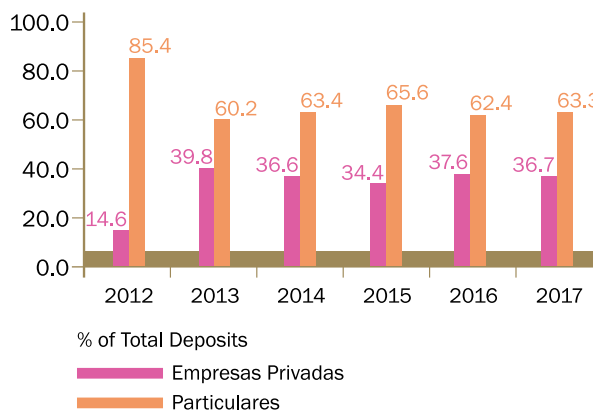
Charts 2.12 and 2.13 shows the evolution of the money supply, the approximate M2 for Timor-Leste, over the period from 2013 to 2017. It should be noted that the figures are approximate since, since the country uses the US dollar it is difficult to accurately calculate the value of banknotes and coins in circulation. However, since this should constitute a small and stable percentage of the available values for payments, the approximate M2 - the total of currencies, deposits and quasi-currency - is a reasonable estimate to measure the amount of money in circulation in the domestic economy.

M2 amounted to US\$ 822.9 million at the end of 2017, rising US \$ 89 millions, or +16.3%.

The M2 balance thus calculated amounted to US\$ 822.9 million in December 2017 - an increase of US\$ 89 million (16.3%) over the same period in 2016 - which was due to increased economic activity, stimulated by the government's economic policies. It is also important to analyze the evolution of the components of money supply, as can be seen in Chart 13, which shows the following:

- Total deposits were decisive in the increase of the monetary mass, with an inflow of USD 88.4 million (increase of 12.3%), a growth similar to that of the previous year of USD 89 million (14.1%).
- Banknotes and coins grew only US \$ 0.61 million (4.2%), in contrast to a growth of 19.4% in 2016;
- In terms of denomination, the national currency deposit (USD) component grew by USD 88.4 million (12.3%) and foreign currency denominated deposits decreased by USD 8 thousand (-1.7%);
- As regards their ownership by institutional sector, as can be seen in chart 2.14, 63.3% of deposits are privately owned (up by 0.9% compared to 2016) and 36.7% by private companies.

Chart 2.14
Banking Deposits Ownership



Source: BCTL

According to table 2.5 below, the change in net foreign assets of USD 158.8 million was the main source of monetary expansion in 2017, together with the increase in other net liabilities of USD 64.8 million, government deposits of USD 56.6 million, and credit to the economy, amounting to USD 51.7 million (25% increase), which confirms a significant expansion in bank lending over the last few years.

Table 2.5. Money Supply Growth Determinants (M2)

US \$ million

	Fluxo Anual 2016	Fluxo Anual 2017
Crédito à Economia	-3,909	51,661
Governo	-76,855	-56,616
Reclamações do BCTL	0,001	-0,001
Depósitos	76,856	56,615
Activos Externo Líquidos	76,165	158,796
Outros liq.	-96,103	64,846
M2	91,504	89,017

Source: BCTL

2.3.5. Bank Credit

Private sector borrowings from the domestic banking sector rose 21% to US\$ 220.9 million.

In 2017, direct indebtedness of the private sector to the Timor-Leste banking system increased by US\$ 38.355 million (21%) to a balance of US\$ 220.9 million, as can be seen in table 2.6.

Table 2.6. Evolução do Crédito à Economia

Em milhões de USD

Sector	Saldo		Variação		contributos em pontos percentuais	Peso (%)
	Dez 16	Dez 17	Nominal	%		
Agricultura, Água e Florestas	3.95	5.74	1.79	45.4	1.0	2.6
Indústria e fabricação	2.47	11.43	8.96	362.0	4.9	5.2
Construção	48.62	64.88	16.26	33.4	8.9	29.4
Transportes e Comunicação	2.07	3.39	1.32	63.7	0.7	1.5
Comércio e Finanças	32.98	44.20	11.23	34.0	6.2	20.0
Turismo e Serviço	17.72	27.75	10.03	56.6	5.5	12.6
Particulares	74.69	63.46	-11.23	-15.0	-6.2	28.7
Total	182.50	220.86	38.35	21.0	21.0	100.0

Source: Bancos Comerciais e análise de BCTL

... the largest lending growth rate was registered for the construction sector.

The analysis of the evolution of credit to the economy in 2017 shows that the most significant increase (nominal variation) occurred in the construction sector, whose credit rose by about US\$ 16.3 million (33.4%), followed by trade and (USD 11.2 million or 34%), tourism (USD 10 million or 56.6%), and industry (US\$ 9 million or 362%). This last sector thus registered the highest growth in 2017. Agriculture and transport, on the other hand, registered a significant growth, however, with a very low nominal absolute change, at 1.8 and 1.3 million US\$ respectively. However, the decline in credit to individuals has dampened the increase in total credit, with the sector's credit falling by 11.2 million US\$ (-15%) in 2017.

NPL's weight has continued to gradually decline in the last few years, amounting to only 14% of overall credit at the end of 2017.

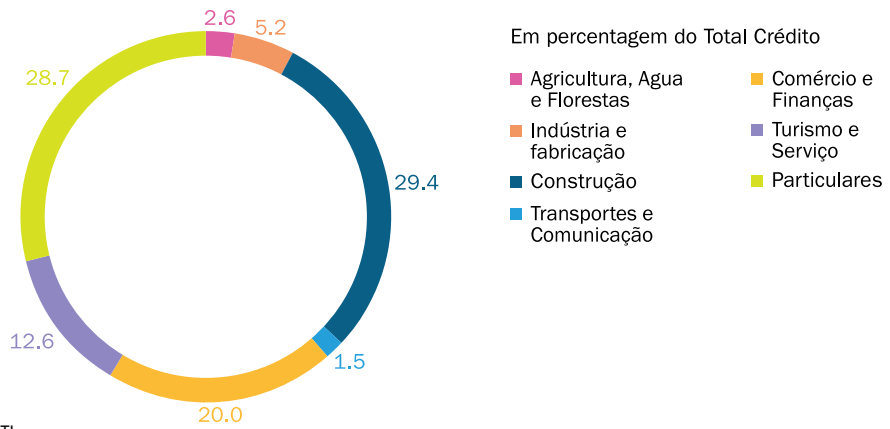
In addition to the "quantity" of the loans, it is also important to assess their "quality". An indicator of this is the amount of "bad debt" in the banking sector (NPLs). In the case of Timor-Leste's banking system, the amount of these low-quality loans has gradually declined in recent years: to 14% of total loans granted at the end of 2017 compared to 27%, 23% and 15% in 2014, 2015 and 2016 respectively. However, banking institutions remain quite robust in terms of their capacity to deal with this type of low quality credit, since the value of the credit risk provisions already established is more than sufficient to cover these losses, amounting to 17 % of the credit granted at the end of 2017.

In fact, the substantial size of 'non-performing loans' has been one of the factors often cited to justify the difficulty in the expansion of bank credit in Timor-Leste. As a result, the aggregate value of credit has remained at much lower levels than that of deposits raised, providing commercial banks with an excess of liquidity that tends to be preferentially invested by banks in deposits abroad.

Loans to the construction sector are the largest, corresponding to 29,4% of the overall lending portfolio.

In terms of credit composition, construction loans reassumed the top position, with a weight of 29.4%, followed by individuals (28.7% of the total), which were the largest share in 2016 (40.9%), and commerce and finance (20%). The sectors of agriculture and industry, two important sectors for the economic development of the Country, represent only 2.6% and 5.2% of total loans granted.

Chart 2.15
Banking Credit Sectorial Composition - Dez 2017



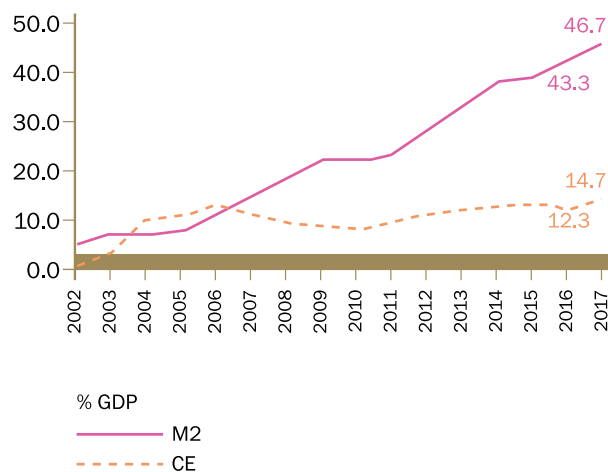
Source: BCTL



2.3.6. Financial Deepening Indicators

The degree of financial deepening, also known as the degree of monetization of the economy, can be measured using the M2 to GDP ratio. This ratio increased by 3.4% in 2017 to 46.7%. On the other hand, another indicator that could be used to monitor the degree of financial deepening is the ratio of credit to GDP, which amounted to 14.7%, thus rising 2.5% in 2017.

Chart 2.16
Money Supply Growth



Source: DGE, MoF Livro 1 OGE 2017 e BCTL análise



At the end of 2017, the balance of net international reserves stood at US\$ 533 million, corresponding to an increase of USD 263 million in the year, following a decrease of USD 157 million in 2016. This balance corresponds to 7 months of imports of goods and services (3 months in 2016).

Net International Reserves rose by US\$ 263 million.

NIR now cover 7 months of imports of goods and services.

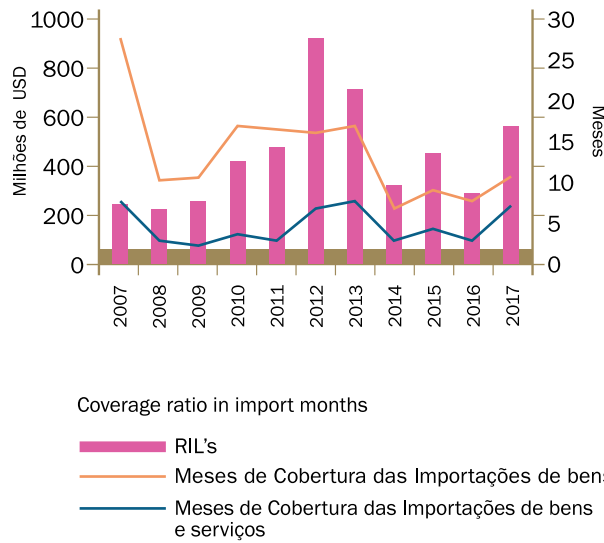


External Sector

2.4.1. Net International Reserves (NIR)

The increase in the country's NIR in 2017 was mainly due to the increase in other deposits amounting to US\$ 249.7 million, especially overnight deposits, and to the currency/cash balance of the BCTL (cash and bank deposits) in the amount of USD 14.3 million. These components, together with the various receipts and payments ordered by the State and the withdrawal of resources from the Petroleum Fund in favor of the state account with the central bank (USD 1,079 million in 2017) determined the evolution of the country's international reserves.

Gráfico 2.17
Net International Reserves



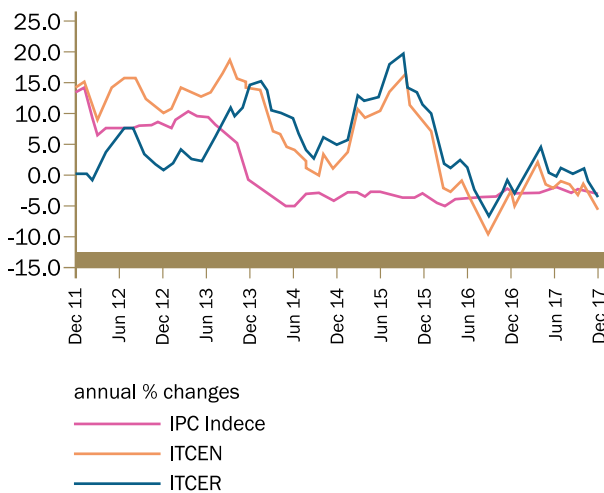
Sources: DGE e BCTL

2.4.2. Real Effective Exchange Rate Index

The REER depreciated 2.7% in 2017.

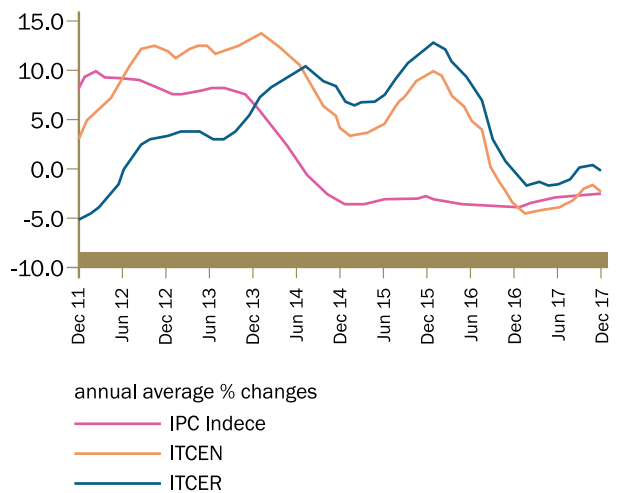
The Real Effective Exchange Rate (REER) index - an indicator used to assess the country's competitiveness in terms of tradeable goods and services - depreciated 2.7% in 2017, following a depreciation of 0.7% in 2016 (chart 2.18). In terms of annual averages, the REER appreciated by 0.5%, after having registered a small average appreciation of 0.3% in 2016 (figure 2.19).

Chart 2.18
REER Index



Sources: Bloomberg e BCTL análise

Chart 2.19
REER Index

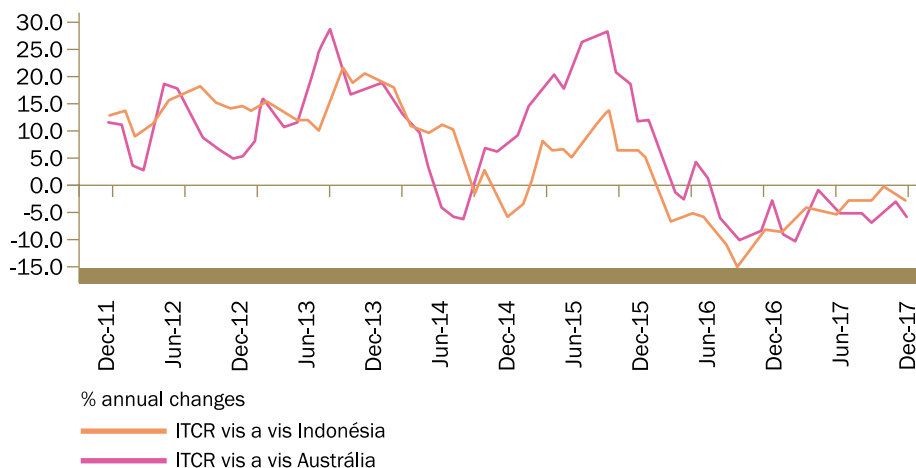


Sources: Bloomberg e BCTL análise

This change was, in turn, determined by the depreciation registered by the Effective Nominal Exchange Rate Index (ENER) of 5%, following a nominal depreciation of 2.4% in 2016.

In bilateral terms, specifically against the currencies of Indonesia and Australia, two of the main trading partners of the country that comprise the index, there was a real depreciation of 1.7% and 5% respectively, following a depreciation of 5.9% and 2.6% in 2016 (chart 2.20).

Chart 20
BILLATERAL REERs



Sources: Bloomberg e BCTL análise

The export of coffee continues to be the main, and almost unique, export of our country. However, international prices continue to be the strongest determinant of the price of this type of export, since the respective volumes exported are weakly influenced by the evolution of these effective exchange rates. As our economy continues to be highly dependent on imports to meet domestic aggregate demand, the depreciation of the ERC should translate into a rise in the prices of imported goods in the domestic market and consequently the acceleration of inflation. In bilateral terms, it should be noted that the prices of imported goods from Indonesia are generally more competitive than those from Australia.



There was a slight reduction in the current account deficit (excluding other primary income) of USD 64 million to USD 705 million, the equivalent of 40.1% of GDP in 2017 (projection), or less 5.3% compared to 2016. In addition, the joint current account and capital deficit in 2017, which determines the net external external financing need of the Timorese economy, decreased 4.5% to 38.1% of GDP.

The external deficit of the BoP slightly improved in 2017...

... reflecting also the declining deficit of the current account, excluding primary income, which amounted to US\$ 705 million.

2.5

Balance of Payments

Of course, and for the sake of accounting balance, the high deficit in the 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 the external deficit, the importance of resources related to equity participation and foreign direct investment, deposits of the banking system applied in foreign countries, and public investment (including the Petroleum Fund) abroad is highlighted below. The need to cope with payments abroad during 2017 has resulted in the overall reduction of the country's international reserves to USD 263 million (15% of GDP).

Table 2.7. Balança de Pagamentos

	Milhões de USD			% PIB	
	2016	2017	Var %	2016	2017
Conta Corrente exclui Outros Rendimento Primário	-769.2	-705.2	-8.3	-45.4	-40.1
Conta Corrente	-545.5	-283.5	-48.0	-32.2	-16.1
Conta de Bens	-546.5	-614.8	12.5	-32.3	-34.9
Conta de Serviços	-568.6	-342.8	-39.7	-33.6	-19.5
Conta de Rendimentos Primários	543.1	735.3	35.4	32.1	41.8
Conta de Rendimentos Secundários	26	61	-329.9	1.6	-3.5
Conta Capital	47	34	-28.2	2.8	1.9
Conta Financeira	485	475	-2.1	28.7	27.0
Investimento Directo	-7	7	-193.4	-0.4	0.4
Investimento de Carteira	690	340	-50.7	40.7	19.3
Outro Investimento	-197	128	-164.9	-11.7	7.3
Erros e Omissões Líquidos	-144	38	-126.2	-8.5	2.1
Saldo Global	-13	226	-1890.1	-0.7	12.8
Activos de Reserva	157	-263	-268.0	9.3	-15.0

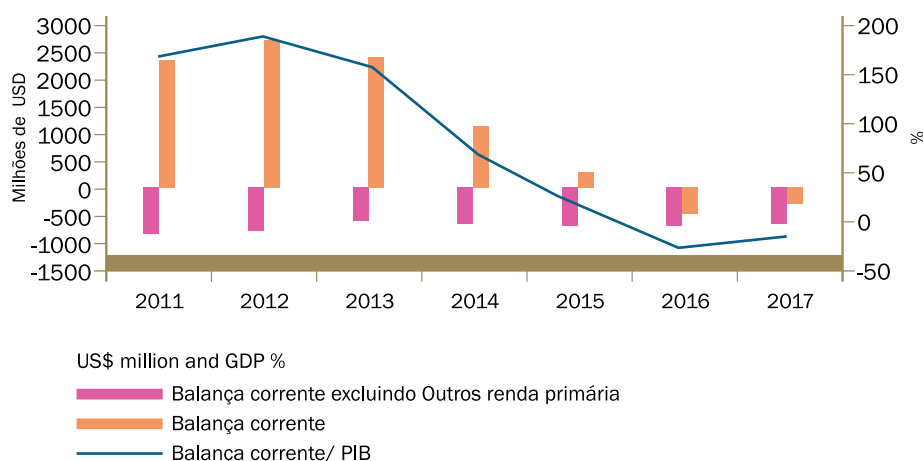
Source: BCTL

2.5.1. Current Account

Data on commercial transactions between Timor-Leste and its trading partners in 2017 have enabled us to ascertain a current deficit of USD 283 million (including other primary income), or about -16% of non-oil GDP. This balance represents an improvement of the deficit position by 48%, or USD 261 million over 2016. The slight increase in the income of resources exploited in the Timor Sea (taxes and royalties) in 2017 and the reduction of services imported are the main determinants of the reduction in the current account deficit of the balance of payments of Timor-Leste in 2017. However, the current account (including other primary income - oil revenues) continued to register a global deficit in 2017, although it had been positive up to 2015.

Chart 2.21

TL Current Account Surplus



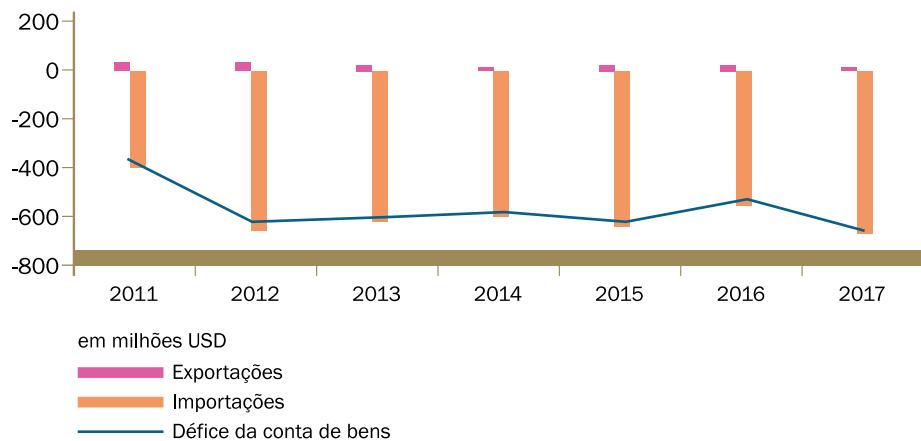
Source: BCTL

2.5.1.1. Goods Account

In the year under review, the net deficit balance of the goods account was US\$ 615 million, having deteriorated by 12.5% compared to 2016. This deterioration was explained by a 16.7% decrease in exports to USD 17 million, but above all by the acceleration of spending on imports of goods of 31.6% to 567.6 million USD in 2017.

Chart 2.22

TL Goods External Account



Source: BCTL

Goods Exports

As is well known, the country's almost unique export - at least that which is systematically registered by official statistical services - is coffee. The export of coffee is marked by a strong seasonality, concentrating almost exclusively on the second half of each year, after the harvest.

Table 2.8. Exportações por países

	Milhões de USD			% PIB	
	2016	2017	Var %	2016	2017
Estados Unidos de América	7.143	4.894	(31.5)	0.42	0.28
Indonésia	0.269	1.083	302.0	0.02	0.06
Portugal	0.283	0.937	231.0	0.02	0.05
Australia	0.470	0.531	12.9	0.03	0.03
Alemanha	3.309	3.297	(0.4)	0.20	0.19
Taiwan	0.094	0.573	507.1	0.01	0.03
Japão	0.574	0.547	(4.7)	0.03	0.03
Outros	6.007	2.095	(65.1)	0.35	0.12
Total	18.149	13.955	(23.1)	1.07	0.79

Source: DGE e BCTL análise

The nominal value of coffee exported in 2017 decreased by 23.1% compared to 2016 to USD 14 million , which is equivalent to 0.8% of GDP (down 0.3%). The main destination of our coffee exports in 2017 continues to be the US, which, with a weight of 35.1%, received USD 4.9 million of this product (Table 2.8), down 31.5% compared to 2016.

Goods Imports

Refined petroleum products are the main import of Timor Leste.

In 2017, there was an increase in imports of goods of 31.6% to 567.6 million USD.

The main products imported by the country are petroleum products, followed by vehicles and mechanical machines. Energy goods accounted for about 19% of total imports in 2017 and increased 42% to a sub-total of USD 120 million.

Cereals, which account for only 5.4% of all imported goods, recorded a 13.6% increase versus 2016, a deceleration versus the 36% rise in 2016. The increase in value of imports of this type of product, compared to 2016, was due to the increase in the price of the same cereals, albeit with some depreciation of the currencies of trading partners against the dollar.

The geographical structure of imports and its evolution are as follows in table 2.9.

China's weight of overall imports has continued to rise, amounting to 15.5% in 2017.

Table 2.9. Importações por países

	Milhões de USD			% PIB		
	2016	2017	Var %	Peso	2016	2017
Indonesia	136.78	179.28	31.1	31.6	8.1	10.2
China, República popular da	88.08	83.50	-5.2	14.7	5.2	4.7
Singapura	51.99	75.69	45.6	13.3	3.1	4.3
Hong Kong	52.17	59.22	13.5	10.4	3.1	3.4
Viet Nam	26.87	36.96	37.6	6.5	1.6	2.1
Thailandia	10.38	17.58	69.4	3.1	0.6	1.0
Australia	11.48	13.55	18.1	2.4	0.7	0.8
Malaysia	10.91	15.74	44.2	2.8	0.6	0.9
Japão	5.74	10.95	90.9	1.9	0.3	0.6
Brasil	9.66	15.17	57.0	2.7	0.6	0.9
Portugal	8.41	6.42	-23.7	1.1	0.5	0.4
Korea, República da	8.94	5.56	-37.8	1.0	0.5	0.3
Outros	24.53	48.04	95.9	8.5	1.4	2.7
Total	445.91	567.65	27.3	100	26.3	32.2

Source: DGE e BCTL análise

However, Indonesia continues to be our largest Trading Partner.

The geographical composition of imports of goods has not been stable in recent years. It should be noted, however, that the relative importance of China has gradually increased over the last few years. This country maintains its 2nd position, which was reached last year in terms of the origin of imported goods, exceeding Singapore. This Partner now originates 14.7% of total imports, which yielded a decline of -5,2% to USD 83,5 million. Indonesia, which has remained the country's main trading partner, reached a weight of 31.6% in 2017, with imports sourced in this country increasing substantially in 2017 (31.1%).

Table 2.10. Importações por tipo de produtos

	Milhões de USD			Peso	% PIB	
	2016	2017	Var %		2016	2017
Cereais (10)	29.08	31.91	9.7	5.4	1.7	1.8
Petróleo (27)	84.72	120.29	42.0	20.5	5.0	6.8
Máquinas mecânicas (84)	44.43	42.06	-5.3	7.2	2.6	2.4
Máquinas Elétricas (85)	25.77	31.40	21.8	5.4	1.5	1.8
Veículos (87)	56.89	69.97	23.0	11.9	3.4	4.0
Outros	205.03	291.13	42.0	49.6	12.1	16.5
Total	445.91	586.77	31.6	100.0	26.3	33.3

Sources: DGE e BCTL análise

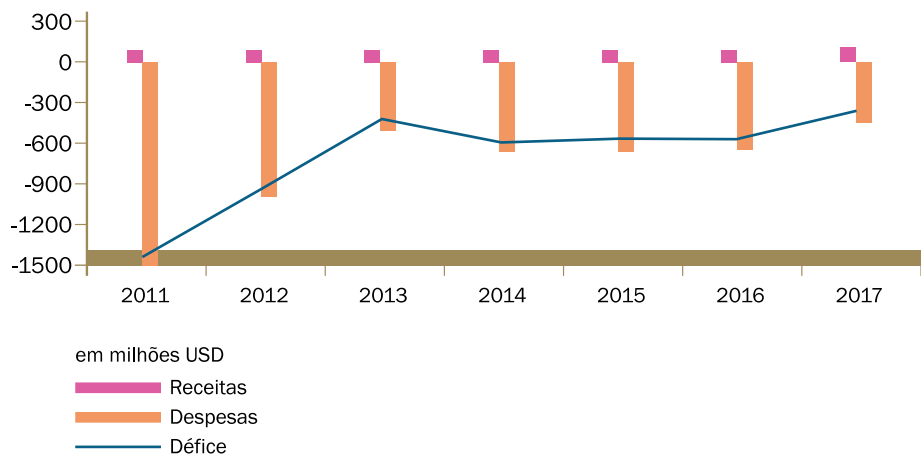
Nota: 1 - o número entre parênteses na primeira coluna é o da classe da pauta aduaneira

2.5.1.2. Services Account

2017 net services account deficit was USD 348 million, which resulted in a reduction of around 38.7%, equivalent to USD 220 million, when compared to the 2016 deficit. According to chart 2.22, the reduction in the deficit resulted from a rise in service exports of: (i) transport, which rose 42.7% (ii) travel, with an improvement of 26.2%, (iii) and other services (including government services), with an improvement of 6.7%. On the other hand, the external deficit improvement was dampened by the rise in construction import services of 67.3%, other business services by 26%, and government services by 34.4%.

Chart 2.23

TL Services External Account



Source: BCTL

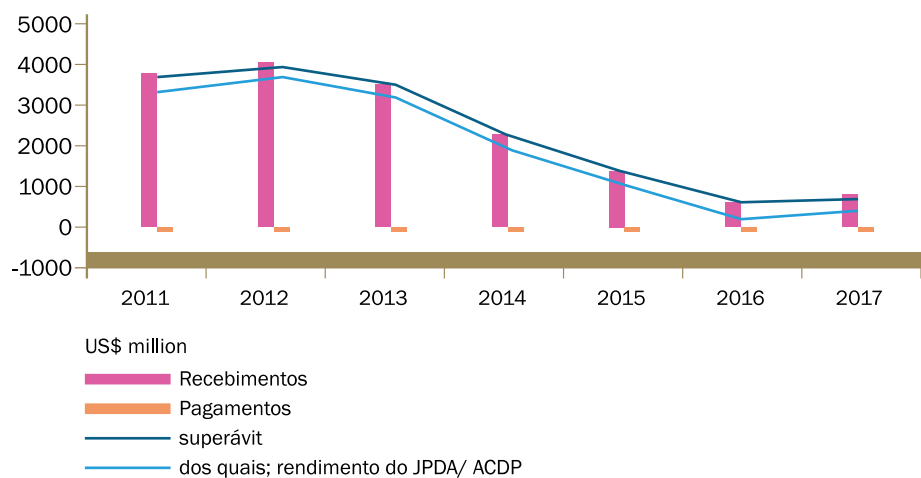
2.5.1.3. Primary Income Account

The small rise of offshore petroleum revenues in 2017 yielded a slight improvement in the overall BoP's external deficit.

The rise in oil prices in 2017 drove an increase in oil fund income, royalties and royalties from oil exploration in the Timor Sea - the joint oil development area (JPDA) - and resulted in a rise of the surplus of the primary income account in 2017. This increase has, in turn, resulted in a reduction in the deficit of the overall balance of payments in Timor-Leste. Chart 2.23 shows the increase in JPDA income in 2017, which increased by 88.5% to US\$ 422 million in 2017, compared with US\$ 224 million in 2016. The primary income account surplus stood at 24% of Non-oil GDP in 2017, compared to 13% in 2016.

Chart 2.24

TL Primary Income Account



Source: BCTL

2.5.1.4. Secondary Income Account

Secondary income account recorded a net outflow of resources of US\$ 61 million in 2017, justified by the reduction in donor disbursements to direct state budget support of 35.2%, to USD 119 million and a slowdown in net outflow of workers' remittances of 12.7% to 263 million USD (Table 2.11).

Table 2.11. Remessas de Trabalhadores

Em milhões de USD

	2011	2012	2013	2014	2015	2016	2017
Entrada	11	23	71	76	57	76	83
Saida	83	84	91	140	124	233	263

Source: BCTL

2.5.2. Financial Flows

The financial account recorded a net outflow of US\$ 509 million.

In the period under review the financial account, which includes inflows from external sources of finance, recorded a net outflow of funds of USD 509 million, or 29% of non-oil GDP, which represents an improvement of the overall account deficit of US\$ 25 million. The evolution of the financial account continues to be determined by the portfolio investment flows, which totaled USD 340 million (USD 350 million less than in 2016). The reduction of oil production in the Timor Sea, despite the increase in the price of oil in 2017, together with the withdrawal of capital from the Petroleum Fund to finance the State Budget, have resulted in the continued net decrease of the country's foreign assets in 2017 (Table 2.11).

Table 2.12. Fontes de Financiamento

Em milhões de USD

	2016	2017
Conta de Operações Financeiras	485.48	475.24
Investimento directo em Timor-Leste	-7.19	6.72
Investimento de carteira	690.06	340.39
d/q. investimento do FP nos estrangeiros	690.06	340.39
Outro investimento, activos	-200.52	86.92
Outro investimento, passivos	3.13	41.22

Source: BCTL



The banking system in Timor-Leste remained stable and solid during the period under review. The banking system continues to be almost exclusively financed by deposits, whereas only a fraction of these depositions is lent out to companies and individuals, so that, as a whole, the banking system has a surplus liquidity position.

2.6

Banking System Development in Timor Leste

2.6.1. Banking Assets and Liabilities

2.6.1.1. Banking Assets Composition and Developments

The Banking sector remained stable and solid in 2017.

The tables and charts below detail various aspects of the country's banking system, which comprised, at the end of 2017, a national bank based in Timor Leste -- the National Bank of Commerce of Timor-Leste - and bank branches of four major overseas banks, headquartered in: Portugal (CGD / BNU),

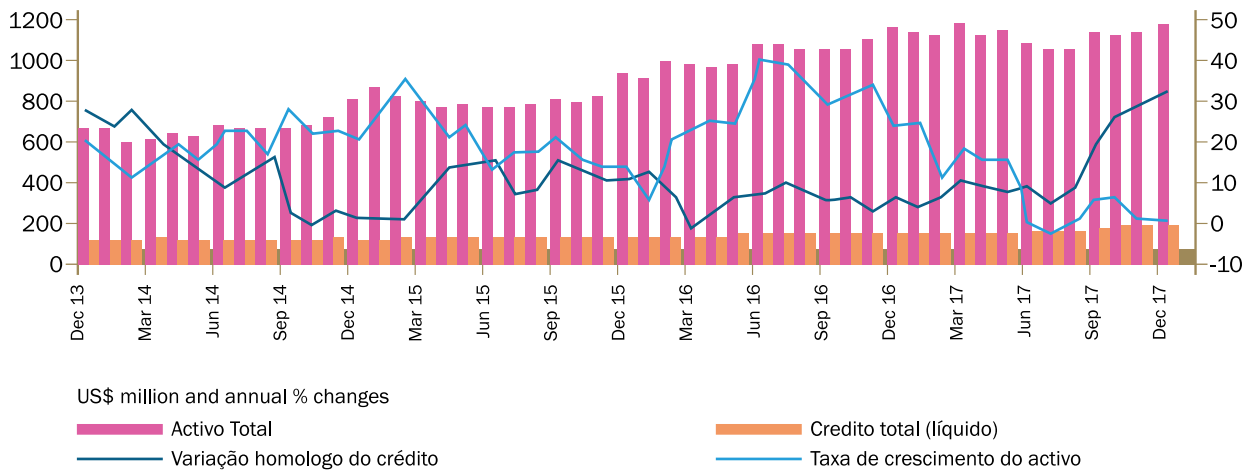
Australia (ANZ) and Indonesia (Mandiri and BRI, the new bank that was granted the operating license by BCTL in 2017).

Banking assets increased 1.8% to US 1,170 million.

Total banking system assets grew by 1.8% at the end of 2017 (24% in 2016) to US\$ 1,170 million, increasing by US\$ 21 million compared to 2016 (chart 24). This growth was mostly due to the increase in investments at the Central Bank (54.1%), but also to the increase in: loans (net) (32.3%), tangible assets (31.6%) and other assets (14.5%). Meanwhile, deposits made with other credit institutions fell by 11.4%, and there was no investment in the period.

The deceleration of the growth rate of financial assets, was due to a large extent to the lower growth rate of the funds of commercial banks in Timor-Leste deposited with other credit institutions abroad and/or their own headquarters.

Chart 2.25
Banking Assets

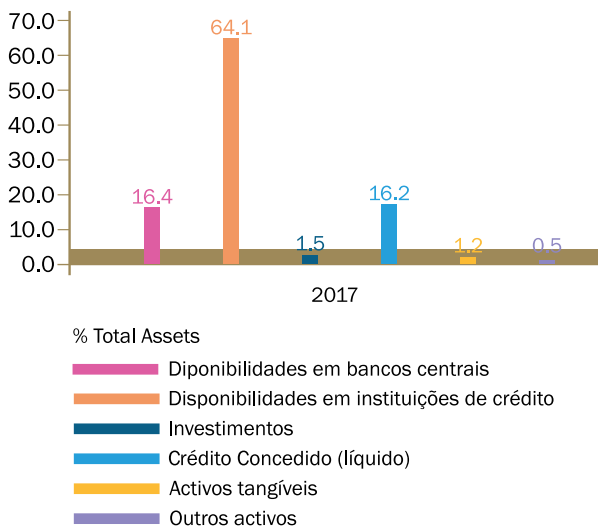


Source: BCTL

The overall banking portfolio continues to be dominated by funds deposited with other banking institutions.

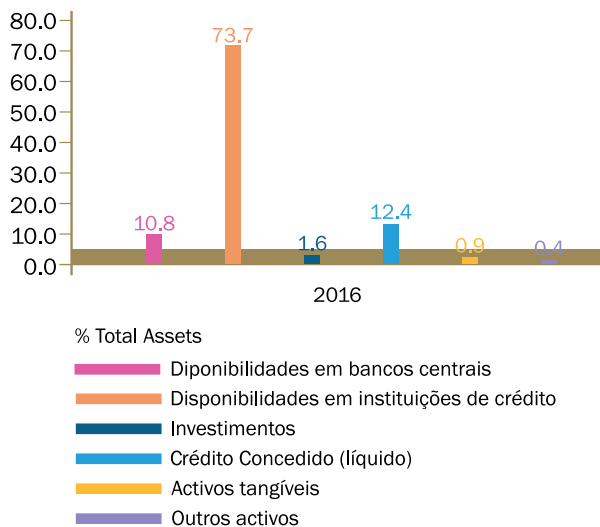
Despite the decline of banking funds deposited with other credit institutions, this category continues to dominate the banking assets portfolio. In 2017 the category accounted for 64.1% of total assets (USD 750 million), versus 73.7% (847 million USD) registered in 2016 (chart 2.25).

Chart 2.26.a
Banking Assets Composition



Source: BCTL

Chart 2.26.b
Banking Assets Composition



Source: BCTL

Deposits made with the Central Bank now occupy the second position in the banking assets' structure, thus displacing from the 2nd place credits granted to the private sector. In December 2017, the total value of the assets deposited with the BCTL amounted to US\$ 192 million, corresponding to 16.4% of total assets, an increase of 54.1% over December 2016.

The banking net loan portfolio assumed the third position in 2017, but its weight of total assets at the end of 2017 increased by 16.2%, compared to 12.4% at the end of 2016.

Table 2.13. Estrutura dos Activos dos Bancos Comerciais

Em milhões de USD

	Dez 16	Dez 17	Peso	Variação	
				%	Valor
Diponibilidades em bancos centrais	124	192	16.4	54.1	67
Disponibilidades em instituições de crédito	847	750	64.1	-11.4	-97
Investimentos	18	18	1.5	0.0	0
Crédito Concedido (líquido)	143	189	16.2	32.3	46
Activos tangíveis	11	14	1.2	31.6	3
Outros activos	6	7	0.6	14.5	1
Total	1149	1170	100	1.8	21

Source: BCTL

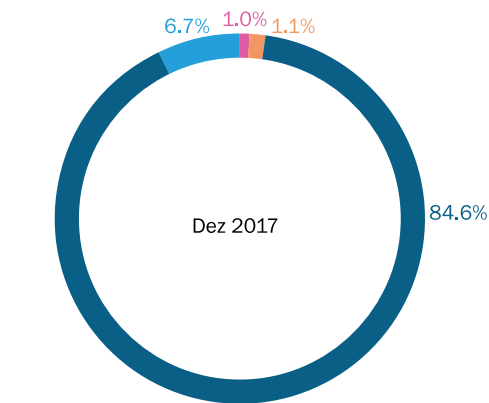
2.6.1.2. Liabilities

Deposits continue to be the largest funding source for the sector.

Deposits continue to represent the main source of funds for credit institutions, whose overall weight of liabilities increased 4.8% to 84.6% in December 2017 compared to 79.8% in December 2016 (chart 2.26). In terms of nominal variation, deposits raised by the banking sector increased 7.9% compared to the previous year.

In 2017, resources obtained from the Central Bank registered a reduction of 87.6% compared to a growth of 22.1% in 2016, and as result, there was a decrease in their weight in total liabilities, 7.9% from 2016 to 1% in December 2017. On the other hand, deposits received from other credit institutions declined by 54.6% in December 2017, following to a significant increase of 141.6% in 2016.

Chart 2.27.a
Banking Liabilities Composition

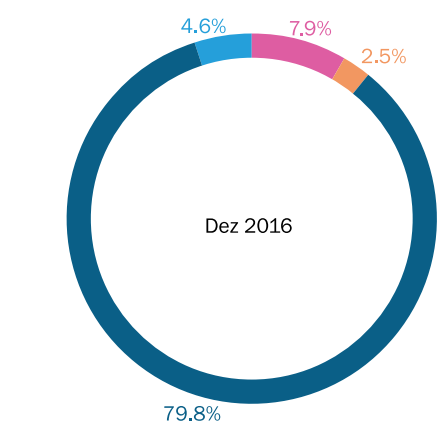


% Total

- Devido ao BCTL
- Depósitos
- Depósitos de outros bancos
- Outros

Source: BCTL

Chart 2.27.b
Banking Liabilities Composition



% Total

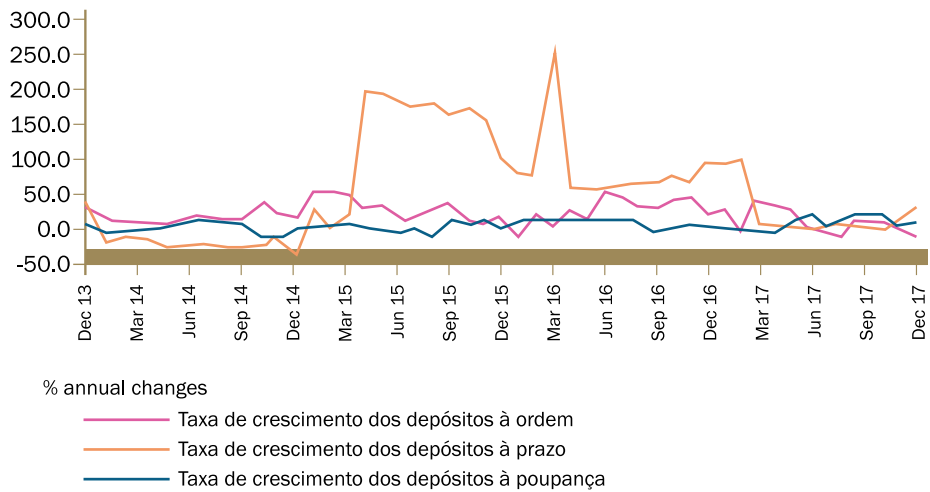
- Devido ao BCTL
- Depósitos
- Depósitos de outros bancos
- Outros

Source: BCTL

Time deposits' growth exceeded demand deposits growth in 2017.

The growth rates of time deposits exceeded those of demand deposits during 2017, growing 34.6% versus 2016. On the other hand, demand deposits recorded a negative growth rate in 2017, decreasing 2.4 % at the end of the year in homologous terms.

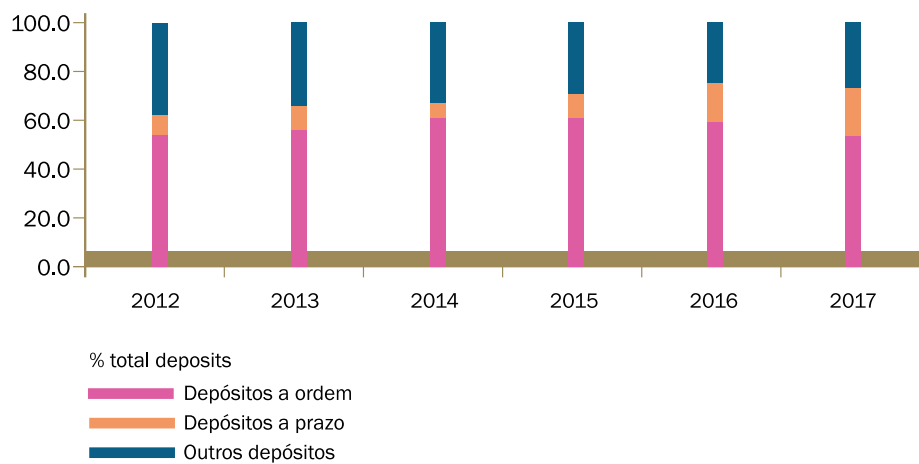
Chart 2.28
Banking Deposits Growth



Source: BCTL

The deposit structure continues to follow the trend recorded in previous years. Demand deposits continued to represent the largest component of total deposits, reaching 54.7% of the total, despite a slight reduction compared to December 2016 (60.5%). Savings deposits accounted for around 26.2% of total deposits at the end of 2017, down from 24.2% in 2016. The amount invested in time deposits continued to increase substantially, amounting to 19,2% of total deposits collected, compared to 15.4% in the previous year.

Chart 2.29
Deposits % composition

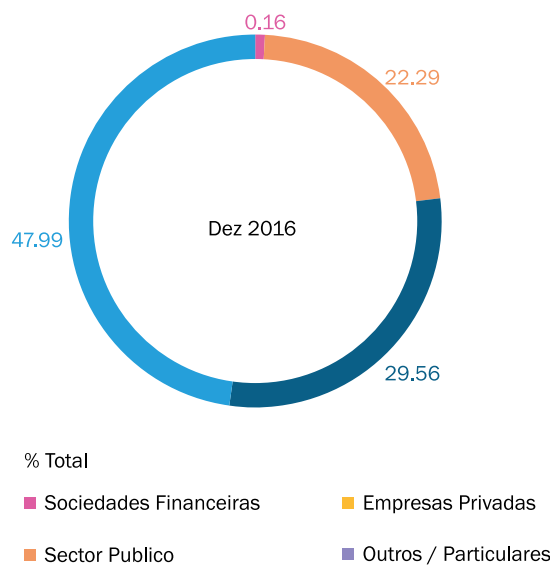


Source: BCTL

Private retail deposits continue to be the largest source of banking deposits.

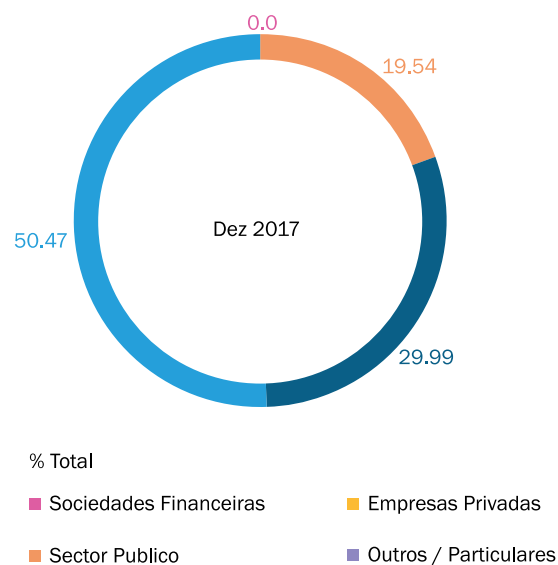
With regard to deposits held by residents, there were no significant changes in composition, with private deposits continuing to represent the largest component of deposits, increasing in importance from 48% in 2016 to 50.5% of the total in December of 2017 (chart 2.29). Deposits from private companies maintained the second position in the deposit structure, with a weight of 30% (+ 0.4% compared to 2016). However, Public Sector deposits increased by USD 25.8 million compared to December 2016. At the end of 2017, State deposits amounted to USD 193.4 million, or 19.5% of the total, which corresponded to a decrease of 2.8% compared to 2016.

Chart 2.30.a
Deposit Ownership



Source: BCTL

Chart 2.30.b
Deposit Ownership



Source: BCTL

2.6.1.3. Profitability

Banking revenue rose substantially by 19%, to US\$ 41.6 million.

Banks' revenues were composed of interest and commissions charged to their clients, amounting to a total of USD 41.6 million. This corresponds to an annual growth of 19%, or USD 6.6 million.

As a result of their activity, banks reported the following results in 2017 (the 2016 figures are presented to facilitate comparison):

Table 2.14. Resultados das Atividades Bancárias

Em milhões de USD

	Dec 16	Dec 17
Rendimento Bruto	34.93	41.57
Rendimento líquido antes de impostos	13.21	16.87
	0	0
Impostos sobre o rendimento	1.31	1.00
	0	0
Rendimento líquido depois de Impostos	11.89	15.78
Rendimento em % dos activos	Dec 16	Dec 17
Juros recebidos de bancos	0.73%	0.54%
Juros de investimentos 'overnight'	0.00%	0.00%
Juros e taxas derivados de empréstimos	1.71%	1.62%
Outros juros recebidos	0.32%	0.34%
Outros rendimentos operacionais	2.76%	1.31%

Source: BCTL

Return on assets (RoA) rose to 1.4% in 2017 from 1.04% in 2016. The increase in RoA is mainly due to the increase in the value of gross revenues equivalent to USD 6.6 million. In terms of determinants, the increase in RoA was due to the increase in interest rates received from deposits with other banks and loans, when considered as a percentage of banking assets. Banks continue to maintain liquidity ratios higher than those required by the Central Bank.

2.6.2. Transfer Services

2.6.2.1. Money Transfer Services (MTS)

Outward transfers rose to US\$ 1,500 million.

During 2017, money transfer services reported by commercial banks operating in Timor Leste, recorded a total number of transfers abroad of 86,200 transactions, with a nominal value of US \$ 1,500 million, representing a reduction of 9.4% compared to 2016. On the other hand, transfers from abroad amounted to 12.4 thousand operations, with a nominal value of US\$ 590 million, which represents a reduction of 36,3% compared to 2016.

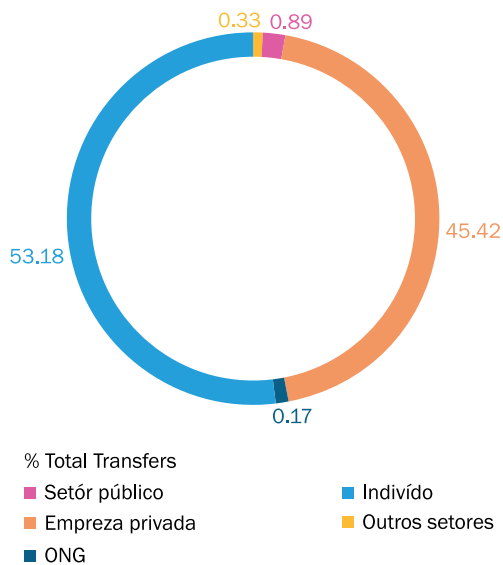
2.6.2.2. Money Transfer Operators (MTO)

MTO's were responsible for outward transfers of US\$128.6 million.

In 2017, this sector recorded a total amount of foreign transfers of US\$ 128.6 million, while transfers from abroad totaled US\$ 51.8 million. These figures represent annual growth rates of 7.1% and 24.8%, respectively. It should also be noted that personal transfers continued to make the greatest contribution to the growth of both types of transfer - to (18%) and from abroad (52%). In terms of origin, most of the inflows came from Europe, which accounted for a 24.1% contribution to the growth of 2017. These inflows consisted mostly of remittances from Timorese workers living and working in Europe. Most transfers abroad were made to the Asia Pacific region (17.9%), especially Indonesia (17.8%), taking up 75.8 per cent of total remittances, which mostly consisted of outward remittances of Indonesian citizens residing and working in Timor-Leste.

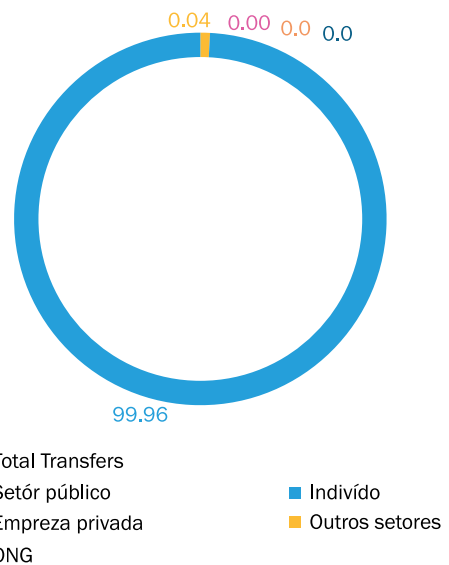
Figure 2.30 shows the weight of the transfers made by each sector through the money transfer operators in 2017.

Chart 2.31.a
Outward Transfers



Source: BCTL

Chart 2.31.b
Inward Transfers



Source: BCTL

