

# Economic Bulletin



A Quarterly Publication of the Central Bank of Timor-Leste

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## I. Timor-Leste Merchandise Trade

Timor-Leste is a small open economy, that regularly imports a substantial and wide range of edible, raw, transformed and consumer goods and services to satisfy its domestic demand, while also exporting good and services domestically produced. This bulletin updates the information regarding the country's import and trade performance for the most recent period, as well as a brief assessment of the respective discernible trends from 2004 to 2018.

### 1.1 Timor-Leste Exports

As showed in chart 1 and 2 below, the total value of good exported, up to September 2018, increased to

USD 14 million, versus the 11 million registered up to September 2017, or 25.5%. Coffee exports accounted for 86% in 2018 and 91% of total exports in 2017. On average, for the last 10 years, coffee export represented 88.3% of total exports.

The USA was the top destination of our coffee exports to this country amounted to 37.6% of respective total. Germany is the second largest export market, with a weight of 14.7%, Indonesia 8.5%, Portugal 6.5%. Other relevant export destination are Australia with 2.2%, and Singapore 0.5%, while non-relevant destination total amounted to 29.9%.

Chart 1. Timor-Leste Export

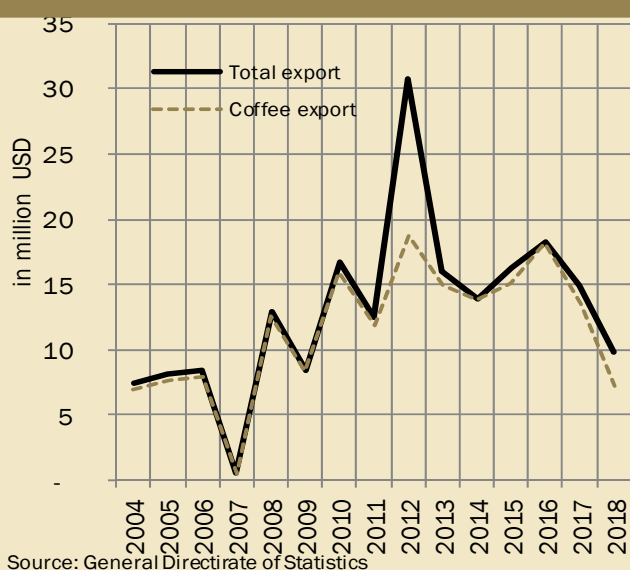
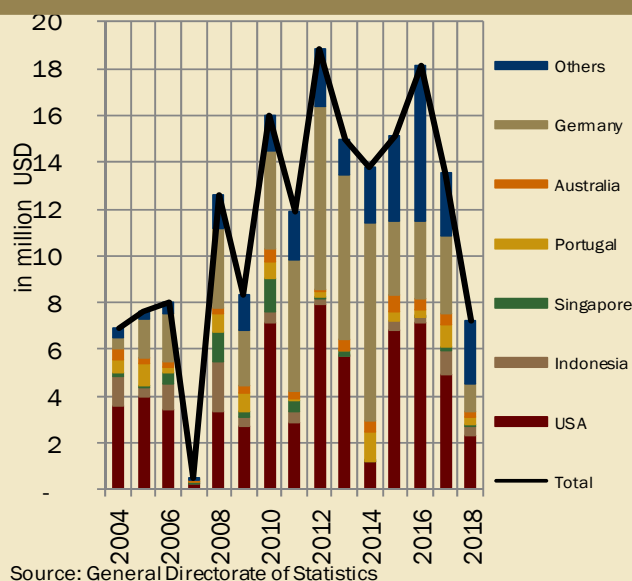
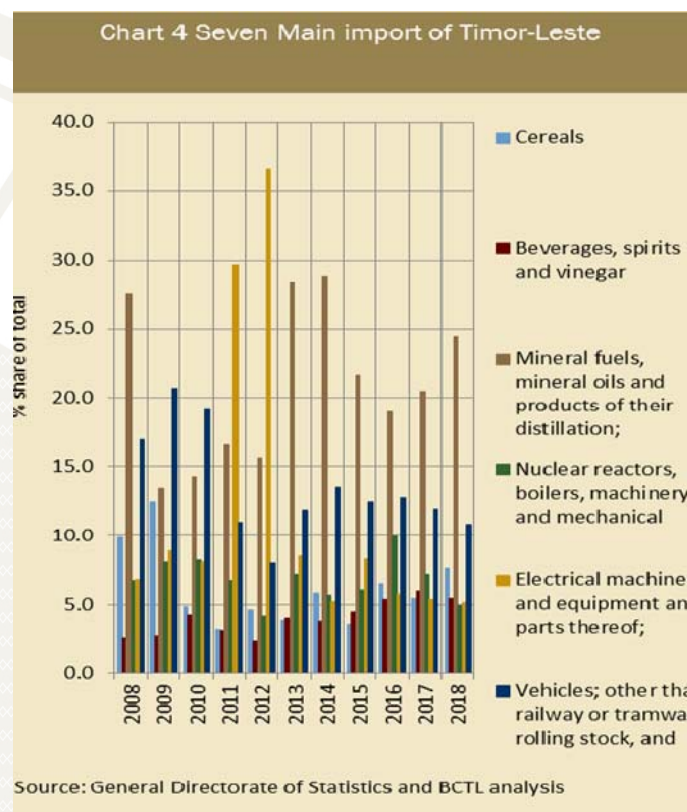
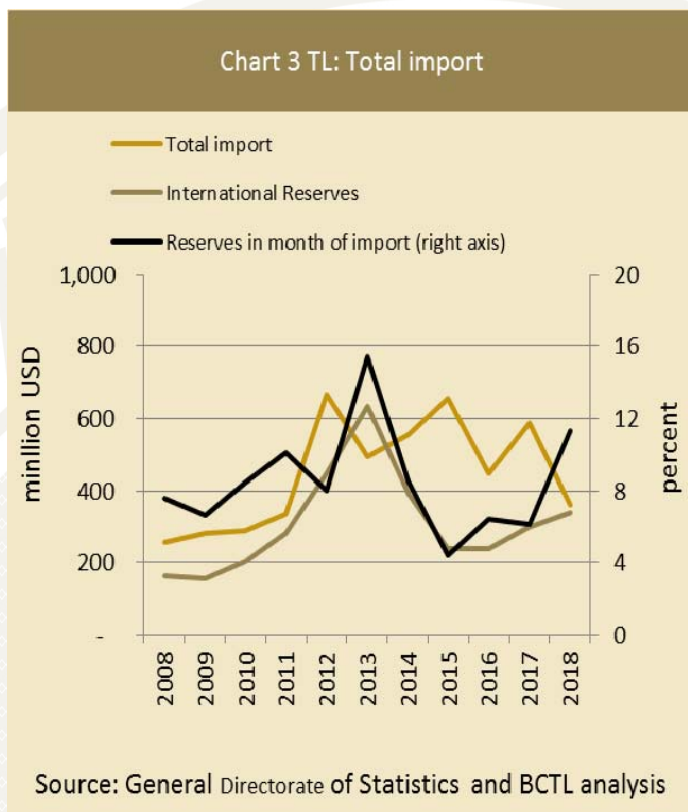


Chart 2. Export by Country of Destination





### 1.2 Timor-Leste Imports

Timor-Leste economy continues to be highly dependent on the import and goods and services sourced from foreign economies. The total value of import during the year up to September 2018 was USD 384.2 million, compared to USD 396.5 million for the same period of 2017, which amounts to an annual decrease of 3.1%. According to charts 3 and 4, the main relevant type of imports, or goods and services whose share is more than 5% of total imports, were: fuel were the largest category, with 20.5% of the total” vehicles amounted to 12.8% of the total: general machinery 7.3%: electrical machinery (6.6%): cereal (5.4%): Beverages, spirit and vinegar represents 5.1%: and pharmaceutical product were 1.7%.

Conservative macroeconomic management rule state a country should hold sufficient foreign currency reserves to fund a robust level of imports, typically 3 month, and 100% of short-term debts, in accordance with the best international standards (i.e.online survey,2011).

According to these criteria, Timor-Leste foreign ex-

change reserve are now sufficient to pay for import bills for more than eleven months, while the country does not have short term debts. According to 2018 import data up to September, Timor-Leste main trading partners were: Indonesia(30.5%), Singapore (14.7%), China (13.1%), Hong Kong (13.7%), Vietnam (5.5%), Thailand (3.2%), Malaysia (2.7%),Australia (2.2%), Japan (2%) and Portugal (1%)

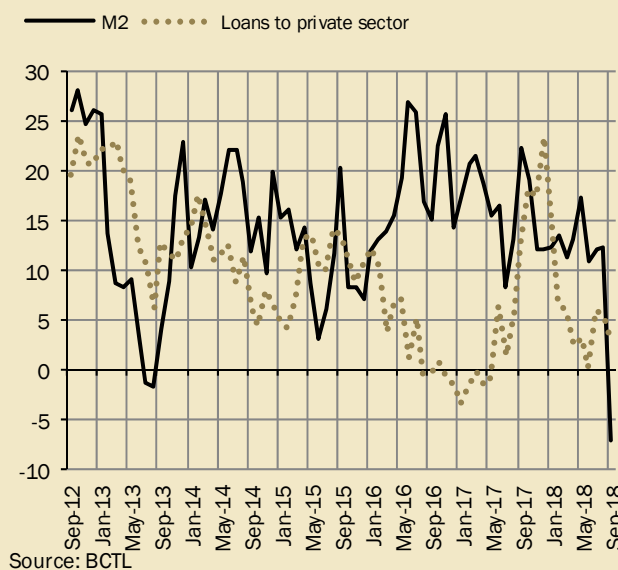
### 1.3. Trade balance

The trade balance corresponds to the difference between the value of a country good and services exports and its imports for specific period. Timor-Leste non-oil exports continue to substantially smaller than its imports, resulting in a structural non-oil trade deficit throughout the last decade. For the year to September 2018, the net trade deficit was USD 370 million, which represents a small improvement versus the deficit of USD 385.7 million registered for the equivalent period in 2017. The decline in the trade deficit was practically due to the decline in total import, in annual terms.



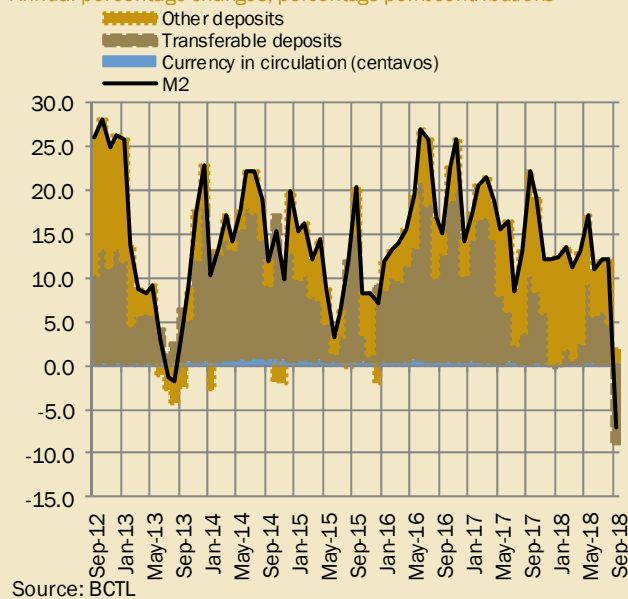
**Chart 5 Broad money growth**

Year on year percentage changes



**Chart 6 M2 and its components**

Annual percentage changes; percentage point contributions



## II. Recent Monetary and Credit Development

### II. a. Money Supply

Monetary statistics and other relevant financial data coverage generally include the following financial institutions: the central bank, commercial banks and other non-depository financial corporations. This data is published monthly by the central bank on a regular basis.

Typically, around the world, monetary and financial statistics are used to support and enhance the assessment of relevant monetary and credit trends, which are crucial and fundamental inputs of the monetary policy decision-making processes, normally focused on the medium and long-term objective of price and general macroeconomic stability. Although Timor Leste is currently a formally dollarized economy, whereby the Central Bank is not able to set an autonomous monetary policy, detailed monetary and financial aggregate analysis is still carried-out to assess the broad macroeconomic trends, specifically the trends for the main economic aggregates: inflation, non-oil GDP growth and current account and public accounts balances.

Available data up to September 2018 indicate that the broad money aggregate (M2) and credit growth have slowed down, on the back of the stagnation of non-oil domestic economic activity in 2018. Total deposit growth has also slowed down in the same period, re-

flecting the slowdown of both of enterprises and retail deposit growth. In terms of M2 components: narrow money aggregate (M1), which comprise currency in circulation and deposit, growth slowed down; and currency in circulation growth accelerated.

In terms of deposit holders' institutional sectors: non-financial corporations' deposits annual growth decreased to 19.3% in September from 26.7% in June 2018; household deposits annual growth slowed to 9% in September, compared with 9.5% in June 2018.

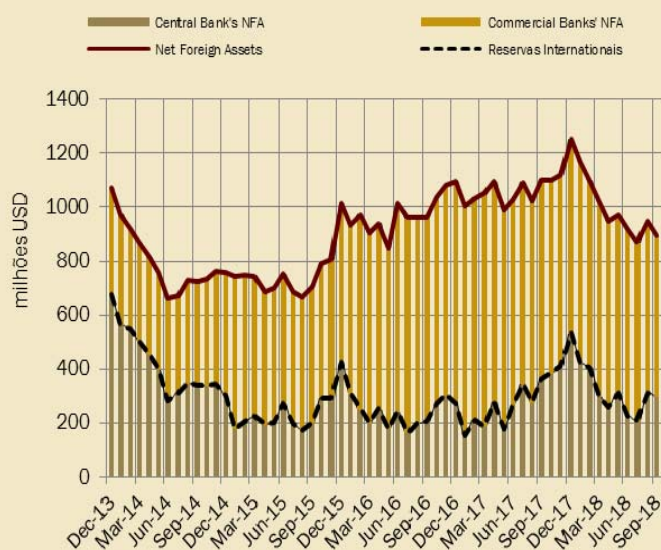
Furthermore, the annual growth rate of credit to private sector grew by 2.6% followed by a 0.3% increase observed in the second quarter of 2018. Total banking credit amounted, by the end of September 2018, to 36.1% of M2, increasing from 30.5% recorded in June.

### II. b. Net Foreign Assets

Net Foreign Asset (NFA) position of Timor-Leste is the value of asset that the country owns abroad, minus the value of domestic assets owned by foreigners. The annual growth rate of net foreign assets (NFAs) for the financial system or the depository corporations continued to decrease, 18.7% in the 3rd quarter of 2018, compared with the decrease of 10.6% observed in the second quarter of 2018. In fact, this change was mostly due to the decline in the central bank's NFAs, which



**Chart 7**  
**Net Foreign Asset**



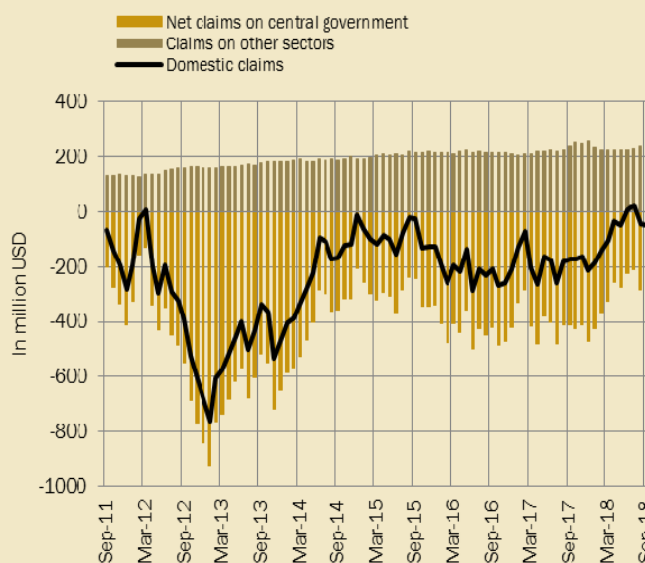
Fonte: BCTL

decreased 17.5%, following a 16.4% reduction recorded in the last second quarter of 2018. Commercial banks' NFAs has also decreased, 19.3% in the 3rd quarter, following a fall of 8.5% in the second quarter. The main driver of the changes in the commercial banks' NFAs was the decrease in its claims on non-residents, mostly on other deposit-taking institutions, which declined 19.1%, following a 18.2% reduction in the second quarter of 2018. On the other hand, liabilities increased by 30.7%, following an increase of 81.1% in the last quarter. The decline in the central bank's NFAs was due to the reduction 36.7% for other deposits. On the contrary, the Central Bank's foreign currency levels increased by 75%. The BCTL's liability to non-resident institutions decreased, due to exchange rate changes in the SDR allocation with the IMF, 1.3% in the 3rd quarter, after an increase of 1.1% in the second quarter of 2018.

### II. c. Net Domestic Assets

Domestic assets consist of claims on central government (net) and claims on the private sector. Net claims on the central government include the respective credit and to the financial system. Actually, there is no credit from the financial system to the government of Timor-Leste, therefore the net claims on the central government, in the monetary statistics' point of view, is nega-

**Table 8 Domestic Claims**



Source: BCTL

tive. These negative net claims thus consist of public funds deposited with domestic banks, or other depository corporations. On the other hand, claims on the private sector consist of the financial credit to domestic private sector and other claims. The annual growth of domestic claims continued to decline in the 3rd quarter of 2018, by 72.1%, after having recorded a decrease of 103.3% in the 2nd quarter of 2018. Net liabilities to the State (or public deposits) was the main driver of the decline, which declined 28.5%, while banking credit to the private sector rose 2.6%. The liabilities to the central State, therefore, contributed by 68.5% to the decline in the growth rate of domestic claims, supported by 3.6% from credit to the private sector. The decline in liabilities to central government was practically driven by the decline in the liabilities of the commercial banks, which declined by 24.6% on a yearly basis, and were compounded by the decline in the liabilities to the Central bank, which fell 34.2%. On the other hand, credit to the private sector increased by 2.6%, up from 0.3% in previous quarter. The increase in commercial banks' lending was led by a rise in both private companies' credit and retail loans (individual and other). In terms of



lending, the following sectors registered an annual growth: industry and manufacturing (320%), transports & communication (305%), trade and finance (29%), Tourism and Services (15%) and individual and others (3.4%). On the contrary, there was a yearly decline in commercial bank credit to the construction and agriculture and water and forestry sectors, which fell by 36.3% and 78.4%, respectively. In terms of total shares, individual or personal/retail credit is the sector that tops bank credit, representing 36.7% share of total loans, having contributed with 1.3% to total annual credit growth. The second sector, trade and finance sector, amounted to 23.4% of the total, which and contributed with 5.4% to total growth. Construction credit amounted to 20.9% of total credit, with a total contribution to credit growth of -22.2%, while credit to tourism and services companies was 8.8% of the total, with a contribution of 1.2% to growth. Industry and manufacturing credit was 7% of the total, with a growth contribution of 5.4%, transports and communication recorded 2.8% of total credit, and agriculture, water and forestry credit was only 0.2% of the total credit.

## II. d. Interest Rate

Although the interest rate for savings has been and continues to be low in Timor Leste, especially when compared to lending interest rates, our population continues to prefer and grow the aggregate level of savings deposited with banks, as this application is typically safer and better than other available investment alternatives in the country. The commercial banks' lending rates has increased marginally in the third quarter of 2018. Commercial banks weighted average lending rate increased slightly to 13% in September 2018 from 12.9% in June 2018. Meanwhile, the weighted average deposit rate decreased by 0.08% to 0.5%, over the same period. As a result, the banking spread increased by 0.4 basis points to 12.9% from September 2017 until September 2018. Although the level of interest rate commercial loans increased slightly in the quarter, note that lending to the private sector still grew in the same quarter.

Table 1 Credit to Private Sector

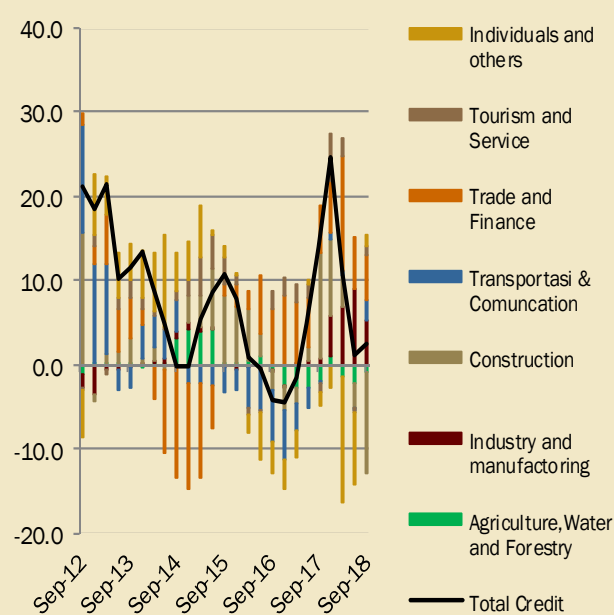
(in thousand USD)

Sector	2017		2018		Change from Sept 2017	% point to contribution	Sept Share (%)
	Sept	June	Sept	June			
Agriculture, Water and Forestry	1,880	810	407		-78.4	-0.7	0.2
Industry and manufacturing	3,784	21,197	15,223		302.3	5.4	7.0
Construction	70,997	50,478	45,236		-36.3	-12.2	20.9
Transport & Comuncation	1,518	1,330	6,150		305.1	2.2	2.8
Trade and Finance	39,272	49,242	50,656		29.0	5.4	23.4
Tourism and Service	16,465	17,178	18,982		15.3	1.2	8.8
Individuals	76,727	58,930	79,373		3.4	1.3	36.7
<b>Total</b>	<b>210,642</b>	<b>199,165</b>	<b>216,027</b>		<b>2.6</b>	<b>2.6</b>	<b>100.0</b>

Source: Commercial banks and BCTL analysis

Chart 9 Loans to private sector

Annual percentage change; percentage point contributions



Source: Commercial banks and BCTL analysis



## II. e. Price and inflation

Generally, inflation, as measured by the consumer price index (CPI), is defined as the rate of change in the prices of a basket of goods and services that are purchased by the typical household of the country. In economic terms, high inflation rates – and also sustained negative inflation – can represent a macroeconomic risk and impediment to the effective progress of a country's economy, as it may distort substantially the behavior of economic agents and render public economic policies inefficient. Notably, according to Friedman (1977) and the general economic consensus, inflation is a 'monetary phenomenon, meaning that growth rate of money supply should be in line with inflation rates, especially in the medium to long term.

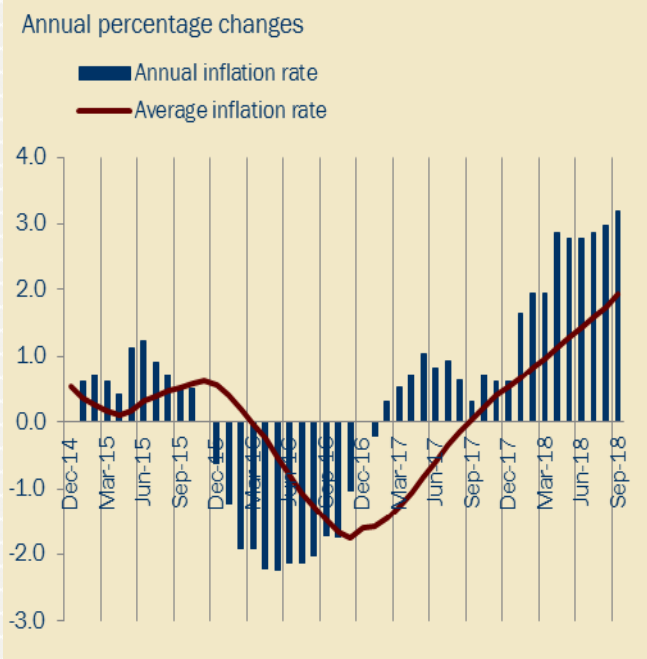
The General Directorate of Statistics of Timor-Leste has just published a new revision of its consumer price index, which rebased the index to the year of 2018. According to this official institution, the inflation rate has been trending upwards in 2018, up to September 2018. Dili annual CPI inflation was 3.2% in September 2018, up from 2.8% in June. Average inflation rate for the 12 months (October 2017 through September 2018) rose to 1.9%, which was also higher than the annual average recorded in June 2018.

The increase in the price of both food and non-food components of the CPI has pushed up inflation in September 2018. Food inflation rose from 1.09% in June to 1.36% in September 2018, while non-food inflation rose from 1.60% to 1.76%. Higher food inflation rate was mostly due to the inflation rates for: milk, cheese and eggs (inflation 12.1% with a contribution 0.33%), bread and cereal (1.6% inflation, with a contribution 0.04%), rice (7.2% inflation, with a contribution of 0.57%), meat (1.8% with a contribution 0.16%), and oils and fats (6.9%, with a contribution 0.18%).

As shown in chart 10, non-food inflation was mostly due to the price pressures for the following sub-items: alcohol and tobacco (11.9% inflation with a contribu-

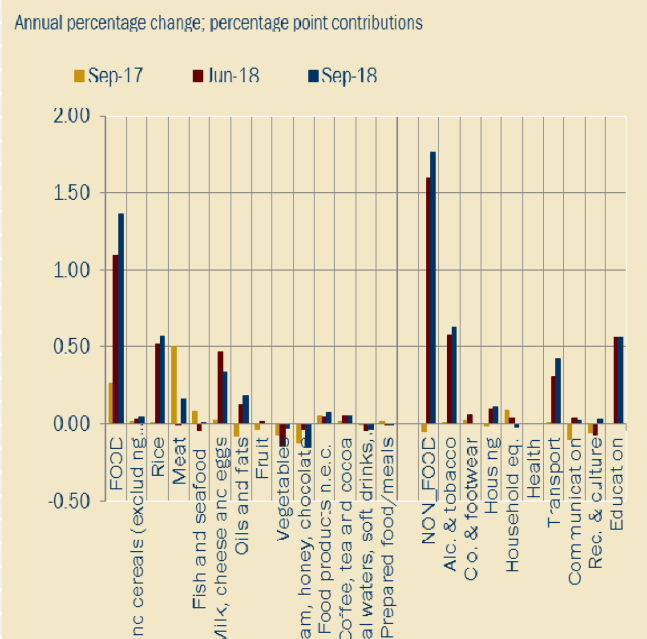
tion of 6%), transport (4.8% inflation with a contribution of 4%), education (18.1% inflation with a contribution 0.6%) and housing (1.5% with a contribution 0.1%).

**Chart 10**  
TL Inflation (Dili)



Source: General Directorate of Statistics and BCTL analysis

**Chart 11**  
TL Inflation (Dili)



Source: General Directorate of Statistics and BCTL analysis

### Table 3 Timor-Leste Monetary Survey

Millions of US Dollars

	Sep-17	Jun-18	Sep-18	% point cont	
				1 Y ago	1 Y ago
<b>NET FOREIGN ASSETS</b>	1099.71	918.19	893.85	-18.72	-18.72
CLAIMS ON NONRESIDENTS	1169.59	1004.94	981.68	-17.09	-16.07
LIABILITIES TO NONRESIDENTS	-69.88	-86.75	-87.82	-1.63	25.67
			0.00		
<b>DOMESTIC CLAIMS</b>	-171.50	5.76	-47.86	-72.09	-72.09
<b>NET CLAIMS ON CENTRAL GOVERNMENT</b>	111.80	221.88	291.36	68.18	28.52
CLAIMS ON CENTRAL GOVERNMENT	0.00	0.00	0.00	0.00	-18.08
LIABILITIES TO CENTRAL GOVERNMENT	-411.80	-221.88	-294.36	-28.52	-28.52
CLAIMS ON OTHER SECTORS	240.30	227.64	246.50	-3.61	2.58
CLAIMS ON PRIVATE SECTOR	240.30	227.64	246.50	2.58	2.58
<b>BROAD MONEY LIABILITIES</b>	734.97	745.99	683.31	-7.03	-7.03
CURRENCY OUTSIDE DEPOSITORY CORPORATIONS	15.66	16.96	17.59	0.26	12.31
TRANSFERABLE DEPOSITS	416.87	404.00	351.76	-8.86	-15.62
OTHER DEPOSITS	302.44	325.03	313.96	1.57	3.81
SECURITIES OTHER THAN SHARES					
<b>DEPOSITS EXCLUDED FROM BROAD MONEY</b>	14.88	5.18	4.24	-18.26	-71.53
<b>LOANS</b>	0.01	0.01	0.01	0.00	
<b>SHARES AND OTHER EQUITY</b>	152.16	163.02	162.18	-0.52	6.58
<b>OTHER ITEMS (NET)</b>	26.23	9.77	-3.72	-138.08	-114.18

Source: BCTL



### PRO FORMA BALANCE SHEET

As at 30 September 2018

DESCRIPTION	(\$'000)
<b>ASSETS</b>	
Cash and cash equivalents	317,357
Investments	36,523
Property, plant and equipment	3,040
Other assets	5,405
<b>TOTAL ASSETS</b>	<b>361,325</b>
<b>LIABILITIES</b>	
Government deposits	53,524
Other deposits	160,405
Other liabilities	24,351
Currency issued	18,259
<b>Total liabilities</b>	<b>296,539</b>
<b>EQUITY</b>	
Capital	60,000
Reserves	763
Retained earnings	4,024
<b>TOTAL EQUITY</b>	<b>64,786</b>
<b>TOTAL LIABILITIES &amp; EQUITY</b>	<b>361,325</b>

**Notes**

1. At 30 September 2018 the balance of Prédium Fund account managed by the BCTL was \$17,558 million. This is to recognize the reporting requirement under IFRS.

2. The Summary statements above are presented in accordance with article 56.6 of BCTL Law 2011/9 and have been prepared on an accrual basis from the financial records of BCTL as at 30 September 2018. These Financial Statements are unaudited.

DIL 18 October 2018

  
Abelio de Vasconcelos  
Governor

  
Fernando de Silva Carvalho  
Chief Accountant