

# Economic Bulletin



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## I. Balance of Payments Statistics Timor-Leste

BCTL has just published Timor-Leste's balance of payments statistics for the full year of 2018. Our current account balance continued to record a deficit in 2018, amounting to -50.7 USD million, or 2.9% of GDP. These figures thus represent a substantial improvement for our external accounts. The substantial decline in the current account deficit was mainly due to a decrease in our trade account deficit (goods and services account balance), as well as an improvement of the balance of our primary income account, on the back of higher oil-related inflows.

Naturally and as a matter of accounting balance, the current account deficit has to be financed by an equivalent balance, but of opposite sign, in the capital and financial accounts. In terms of the external deficit financing sources, we highlight the importance of re-

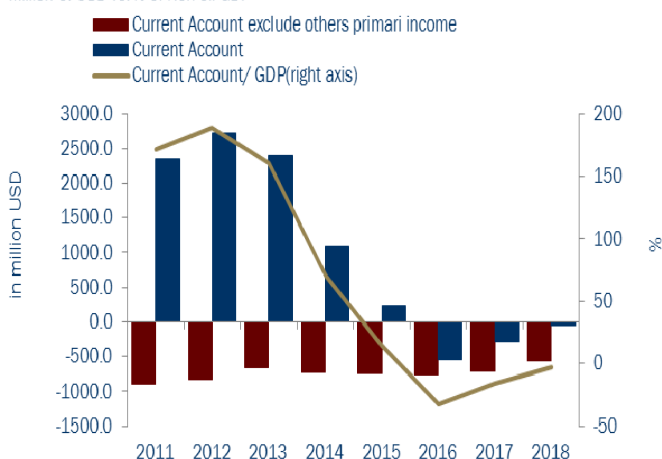
sources relating to equity and foreign direct investment in our economy, banking system's funds deposited abroad, and public investment abroad, including naturally the Petroleum Fund's assets.

The overall trade account deficit was lower in 2018, totaling -797.4 million, compared with the -958.8 USD million recorded in the previous years. In 2018, this deficit represented -45.9% of non-oil GDP. The overall trade deficit was due to both deficits in the goods account of -610.7 USD million and services account of -208.9 million. The goods account deficit decreased in 2018, compared with the -614.8 USD million deficit recorded in 2017, which was, in turn, due to the slight fall in goods imports of -0.3%, to -394.9 USD million in 2018

Chart 1

TL BoP Current Account

Million of USD vs. % of Non-oil GDP

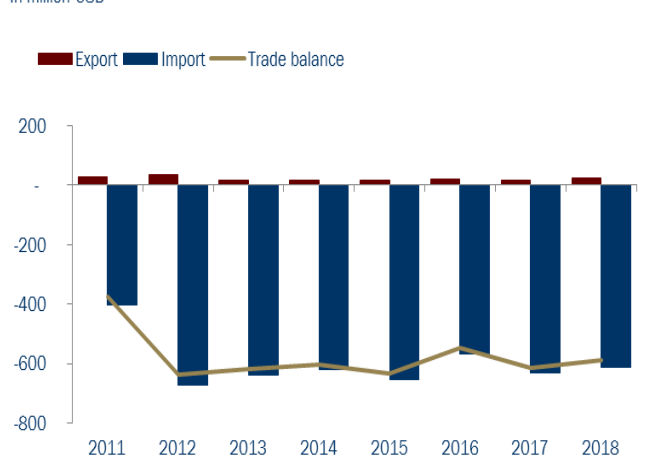


Source: BCTL

Chart 2

TL BoP Goods Account

In million USD



Source: BCTL

The services account recorded a narrower deficit in 2018, amounting to -208.9 USD million, versus the -344 USD million registered in 2017. This was due to the simultaneous rise in services exports to 237.9 USD million in 2018, compared with the 92.5 USD million in 2017, and reduction of services imports to 446.8 USD million in 2018.

In turn, note that the increase in services export was largely driven by the increase of tourism/travel related inflows to USD218 million in 2018, compared with the USD73 million recorded in 2017. On the other hand, the decline in services imports was driven by the falls in imports of transportation services (-3%), insurance services (-3%), tourism /travel(-5), government services (-18%), and telecommunications and other services, which recorded declines of -31% and -38%, respectively

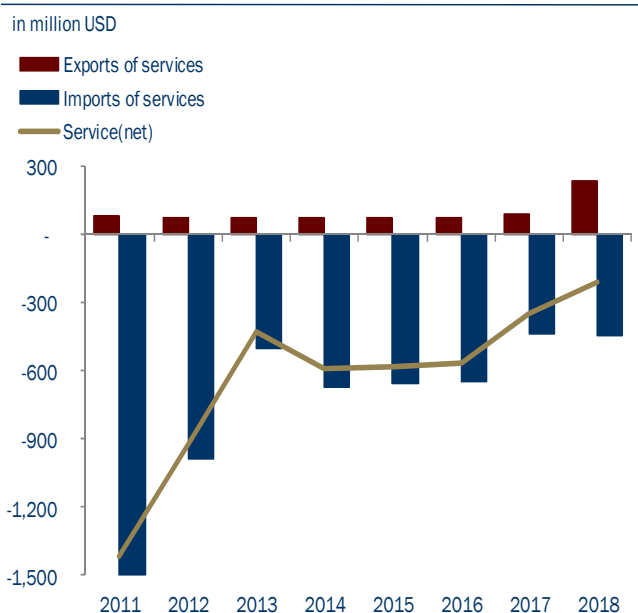
The primary income account surplus continued to recover in 2018, on the back of 2017's improvement. Note also that the recovery in the last 2 years offset, but only partly, the substantial and structural decline recorded between 2012 and 2016, driven by the huge decrease of oil-related revenue from the JPDA (Joint Petroleum Development Area). In 2018, total primary income increased by 14.6% to 842.6 USD million, amounting to 48.5% of GDP, when compared to the 753.3 million recorded in 2017. Note also that this substantial improvement explained the majority of the improvement in our current account deficit, referred above.

The secondary income account deficit continued to widen in 2018, recording a net outflow of 95.9 million USD, higher than the 60.7 million of 2017. In turn, this was mainly due to the expansion of outward worker remittances, despite the expansion of inward workers remittances. Outflows corresponding to worker remittances were 283.4 USD million, while inward remittances amounted to USD187.5 million. Note also that part of rise of the deficit in this account was explained by the reduction in donors' programs disbursements

Total capital and financial account with transaction in the rest of the world was positive in the three consecutive years and amounted to 286.6 USD million (16.5% of non oil GDP) in 2018, lower than USD532.7 USD million (in 2017). This evolution of the financial account

**Chart 3**

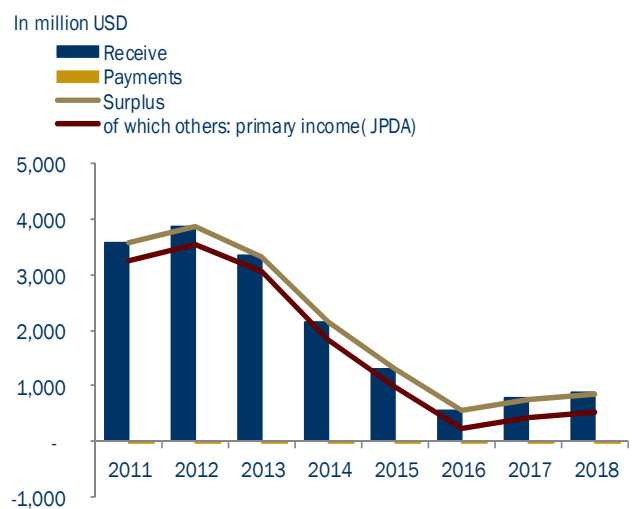
TL BoP Service Account



Source: BCTL

**Chart 4**

TL Primary Income Account



Source: BCTL

continues to be determined by portfolio investment flows, which totaled 180.7 USD million, compare with USD340.4 USD million in 2017 lower than USD690 million in 2016. The reduction in the price of oil and the oil production in the Timor Sea, together with the withdrawal of capital from the petroleum fund to finance the State Budget, resulted in the net decrease in the country's foreign assets.



## I. Recent Monetary and Credit Development

### II. a. Money Supply

BCTL's monetary and financial statistics generally include data that covers our domestic financial system, which includes the following institutions: the central bank, commercial banks and other non-depository financial companies. This dataset is published monthly by the central bank, on a regular basis.

Total broad money (M2) is calculated as the sum of total coins issued by the central bank and in circulation and bank deposits, including demand deposits, as well as term and savings deposits. As depicted in chart 5, money supply growth was 3.1% in the 4<sup>th</sup> quarter of 2018, compared with the -7% decrease recorded in the previous quarter. This increase of broad money (M2) was mainly driven by the expansion in demand deposits and coins in circulation, by 12.8% and 20.1% respectively. This represented an acceleration for this category, when compared with the decrease of -15.6% of demand deposits in the previous quarter.

The growth in demand deposits in Q4-2018 was mostly driven by the increase of private sector demand deposits denominated in USD. In terms of institutional sectors, formal companies and households/retail deposits rose by 4% and 26.7%, respectively.

### II b. Net Foreign Assets

Timor Leste's Net Foreign Assets (NFAs) position corresponds to the net balance of assets value that the country and its institutions/agents own abroad, subtracted of the value of domestic assets owned by foreigners (or liabilities of domestic economic agents).

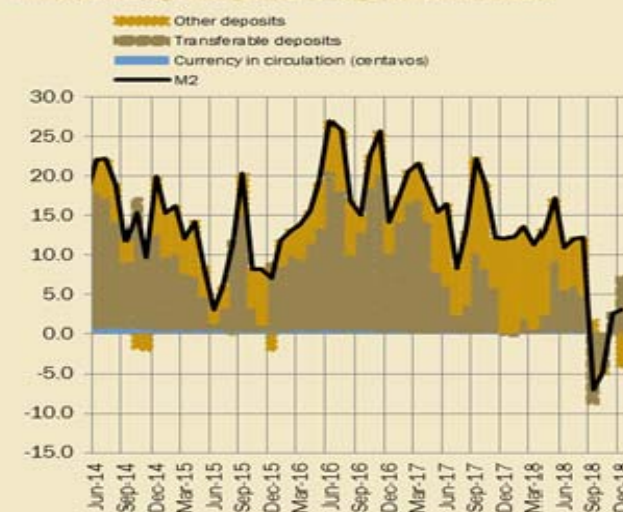
After three consecutive quarterly declines, NFAs' recorded an annual increase of 12.9% in the last quarter of 2018. Despite this rise, total net foreign assets remain lower, when compared to past years' levels.

Net foreign asset growth was driven mainly by the expansion of central bank's NFAs and NFAs of other depository corporations. BCTL's NFAs rose by 24.3%, compared with the decrease of -17.5% recorded in the previous quarter. Additionally, other depository corporations NFAs increased by 4.4%, compared with a decrease of -19.3% in the previous quarter.

The main driver of changes in the central bank's NFAs was the increase in claims on nonresident by 23.4%,

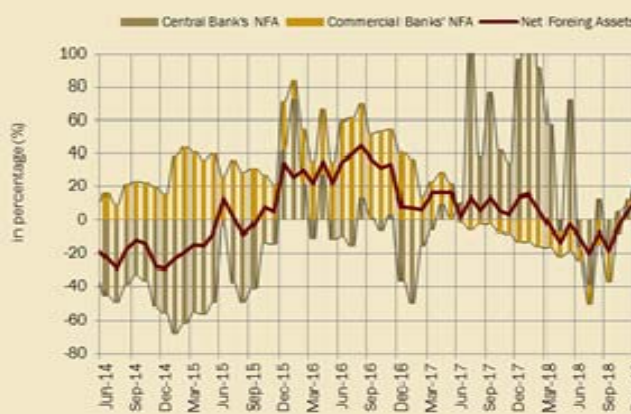
Chart 5 M2 and its components

Annual percentage changes; percentage point contributions



Source: BCTL

Table 6 Net Foreign Assets



Source: BCTL

compared with the decrease of -17% in previous quarter. The increase in claims on nonresidents was driven by the expansion of other deposit by 34.6% in the December quarter, much higher than the -36.7% decrease in the September quarter. On the other hand, financial liabilities continued to decrease by -2.3%, after recording a fall of -1.3% in the previous quarter.

The increase in other depository corporations' NFAs was mostly due to the increase in claims on non-residents of 5.1%, compared with decrease of -15.6% in the previous quarter. On the other hand, liabilities of other depository cooperation rose by 12.8%, compared with 30.7% in the September quarter. The increase of claims on non-residents was, in turn, due to the rise in other deposit denominated in foreign currency, which amounted to 16.8%



## II. c. Net Domestic Assets

The financial sector domestic assets are composed by claims on the central government (net) and claims on our private sector. Net claims on the central government include financial system credit and liabilities to the Public Sector. Since Timor Leste's Public Sector has no domestic borrowings, the net claims on this sector in the monetary statistics have been and continue to be negative. These then correspond to the value of Public Sector funds deposited with domestic banks. On the other hand, claims on the private sector consist of bank credit to the domestic private sector.

After having declined for 3 consecutive quarters, domestic claims' annual growth was again positive in the last quarter of 2018, rising by 32.3%, after having registered a reduction of -72.1% in the 3<sup>rd</sup> quarter. On the other hand, the liabilities to the Public Sector grew by 12.5%, while the credit to private sector continues to decrease, recording a fall of -2.4%. The increase in liabilities to the State was mostly driven by the increase in the liabilities of the central bank, which rose 22.4%.

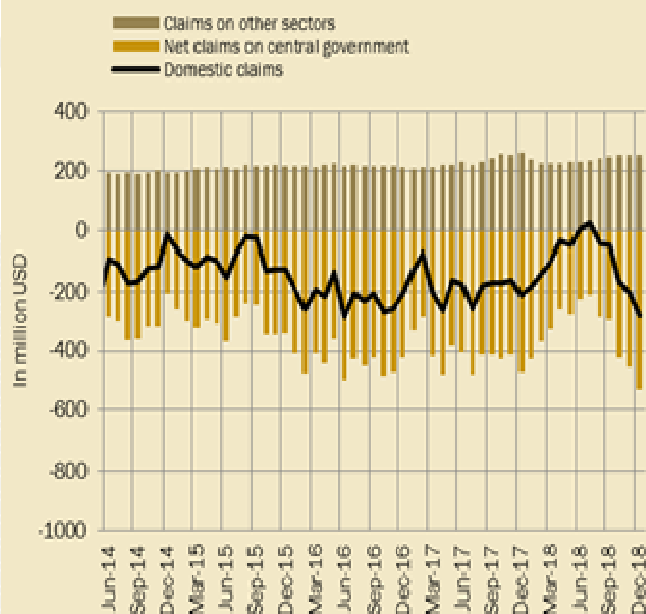
## II. d. Credit to private sector

Overall bank lending growth has been trending down all along 2018. As depicted in chart 8, total credit declined -2.4% to 221.8 USD million in the last quarter of 2018. The decline in credit was mainly due to the low demand for credit from the private formal companies' sector. Lending to the agricultural sector recorded the worse decline (-82%), followed by tourism and services with a decline of -53.1% and construction (-14.7%). In terms of contribution to total annual changes, the declines in lending to tourism and services sectors contributed substantially (-6.5%), followed by construction (-4.2%) and agriculture (-2.1%). Note also that the decline of overall credit lending seems to be in line with the substantial slowdown/contraction of our non-oil economy in both 2017 and 2018.

## II. e. Interest rate

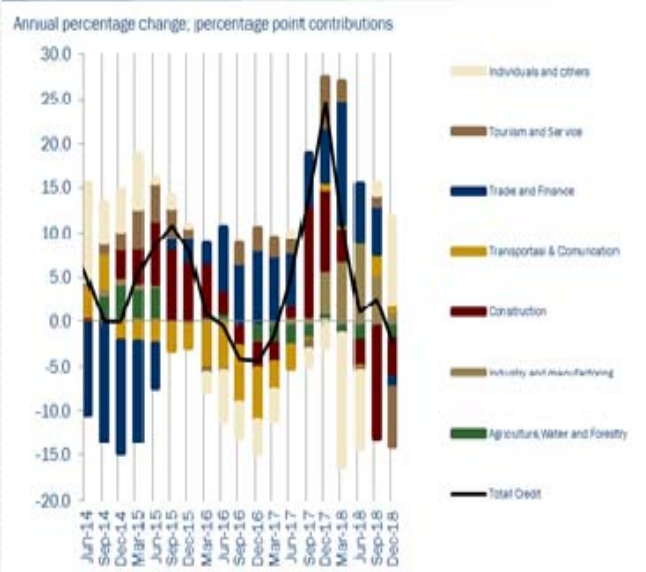
The weighted average lending rates for commercial banks decrease by 0.2 basis points to 13.5% in December of 2018 from 13.3% in the same month last year. This decrease was mainly attributed to a slight adjustment in the six month Libor fluctuations applied by commercial banks. While, demand deposits of

Table 7 Domestic Claims



Source: BCTL

Chart 8  
II Loans to private sector



Source: Commercial banks and BCTL analysis

weighted average interest rate decrease by 0.2 basis point to 0.06% in December 2018 from 0.31% in the same month last years, As the result increase the spread (between deposits and loans), as measured by the credit, increase 0.4% to 13.4% in December 2018, compared to same month previous year.



## II. f . Price and inflation

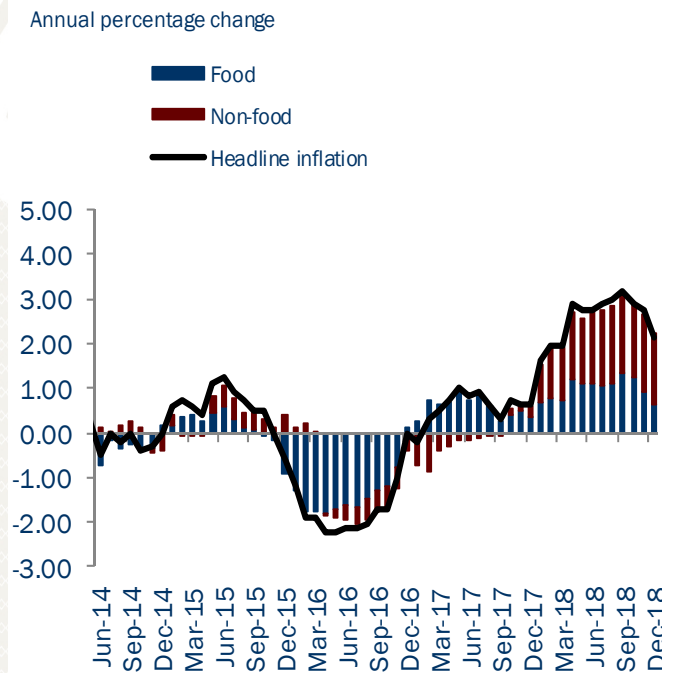
Economically inflation affect many factor and lead to economic problems which can drop the economy growth of a particular country. According to Friedman (1977), inflation is monetary phenomenon, meaning that growth rate of money supply increase or decrease will affect inflation as well. Headline inflation, as measured by the consumer price index (CPI), has decelerated in the last quarter of 2018. According to 'Direção Geral de Estatística' (DGE), Dili's annual CPI inflation was 2.1% in December 2018, down from 3.2% in September 2018. Meanwhile, the average annual inflation rate rose to 2.4% in 2018, from a lower average figure in 2017.

The decline recorded for inflation in December 2018 was driven by the slowdown of inflation rates for both food and non-food categories. Non-food inflation contribution to annual headline inflation was 1.32%, while food inflation contribution was only 0.36%, in December of 2018. Charts 9 and 10 below depict the annual percentage change and annual percentage change contribution of each category to CPI headline inflation.

The slowdown of food inflation was mainly due to deceleration of price increases for milk, cheese and eggs to 5.4%, down from 12.2%, contributing only 0.15% to headline inflation in December of 2018. This subgroup's contribution was followed by the slowdown of rice price inflation to 3.7%, down from 7.2% (contribution 0.29%), bread and cereals (to 0.9%, down from 1.6%, with a contribution of 0.02%), oils and fats (to 0.7%, down from 6.9%, with a contribution of 0.02%), and meat inflation (to 1.1%, down from 1.8%, with a contribution of 0.10%).

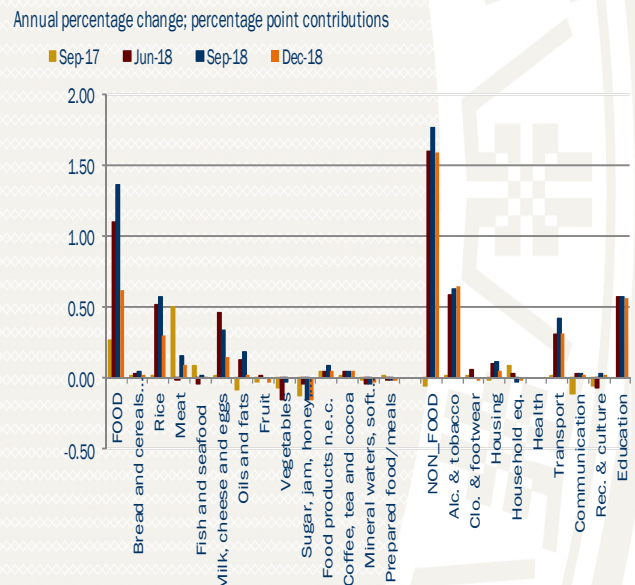
In terms of non-food CPI items, the major changes were for: alcohol and tobacco price inflation, which was 11.1% in December, down from 11.9%, and a contribution to headline inflation of 0.64%, transportation inflation was 3.9%, down from 5%, and a contribution of 0.31% and housing inflation, which was 0.7%, down from 1.5% in September, with a contribution of 0.05%.

**Chart 9**  
TL Inflasaun (Dili)



Source: Diresaun Geral Estatística no análise BCTL

**Chart 10**  
TL Inflation (Dili)



**Table 1. Timor-Leste Balance of Payments**

	2011	2012	2013	2014	2015	2016	2017	2018
	<b>(In million USD)</b>							
Current Account exclude others primari income	-888.1	-823.1	-660.0	-723.8	-740.1	-769.2	-705.9	-560.8
<b>I. Current Account</b>	2352.0	2736.0	2390.1	1093.2	238.7	-545.5	-284.2	-50.7
<b>A. Goods and Services</b>	-1758.3	-1558.2	-1050.7	-1196.7	-1214.8	-1115.1	-958.8	-797.4
1. Goods, fob	-373.3	-638.4	-619.7	-603.0	-634.9	-546.5	-614.8	-610.7
Exports, fob	28.7	33.3	17.7	15.5	18.0	20.0	16.6	2.4
Imports, fob	-401.9	-400.9	-399.9	-398.9	-397.9	-396.9	-395.9	-394.9
2. Services(net)	-1415.1	-919.8	-431.0	-593.7	-579.9	-568.6	-344.0	-208.9
Exports of services	78.9	69.4	70.2	73.8	73.6	76.7	92.5	237.9
Imports of services	-1494.1	-989.3	-501.1	-667.5	-653.4	-645.3	-436.5	-446.8
<b>B. Primary Income</b>	3577.3	3862.1	3326.7	2133.5	1289.8	543.1	735.3	842.6
1. Compensation of employees	118.4	119.4	120.4	121.4	122.4	123.4	124.4	125.4
2. Investment income	218.8	207.4	274.2	315.9	310.8	319.7	311.8	329.9
3. Other primary income (income from JPDA), credit 1/	3240.1	3559.1	3050.1	1817.0	978.9	223.7	421.7	510.1
<b>C. Secondary Income</b>	533.0	432.1	114.1	156.4	163.7	26.4	-60.7	-95.9
<b>II. Capital account and financial, Exclude Reserves</b>	-2248.7	-2219.8	-2544.0	-1364.4	57.6	532.9	532.7	286.6
Capital account	26.2	23.4	20.1	13.7	29.0	47.4	34.0	51.6
Financial account	-2274.9	-2243.2	-2564.1	-1378.1	28.6	485.5	498.7	235.1
<b>Overall Balance (I+II)</b>	103.3	516.2	-153.9	-271.2	296.4	-12.6	248.5	235.9
<b>III. Errors and omissions</b>	-47.9	-94.2	-42.7	-105.1	-76.6	-144.2	15.0	-106.4
Non-oil GDP at contant prices	1373.6	1449.83	1485.92	1547.49	1608.7	1694.26	1753.56	1736.02
	<b>(In percent of GDP)</b>							
Current Account exclude others primari income	-64.7	-56.8	-44.4	-46.8	-46.0	-45.4	-40.3	-32.3
<b>I. Current Account</b>	171.2	188.7	160.9	70.6	14.8	-32.2	-16.2	-2.9
<b>A. Goods and Services</b>	-128.0	-107.5	-70.7	-77.3	-75.5	-65.8	-54.7	-45.9
1. Goods, fob	-27.2	-44.0	-41.7	-39.0	-39.5	-32.3	-35.1	-35.2
Exports, fob	2.1	2.3	1.2	1.0	1.1	1.2	0.9	0.1
Imports, fob	-29.3	-46.3	-42.9	-40.0	-40.6	-33.4	-36.0	-35.3
2. Services	-103.0	-63.4	-29.0	-38.4	-36.0	-33.6	-19.6	-12.0
Exports of services	5.7	4.8	4.7	4.8	4.6	4.5	5.3	13.7
Imports of services	-108.8	-68.2	-33.7	-43.1	-40.6	-38.1	-24.9	-25.7
<b>B. Primary Income</b>	260.4	266.4	223.9	137.9	80.2	32.1	41.9	48.5
1. Compensation of employees	8.6	6.6	0.2	0.0	0.0	0.0	0.1	0.2
2. Investment income	15.9	14.3	18.5	20.4	19.3	18.9	17.8	19.0
3. Other primary income (income from JPDA), credit 1/	235.9	245.5	205.3	117.4	60.8	13.2	24.0	29.4
<b>C. Secondary Income</b>	38.8	29.8	7.7	10.1	10.2	1.6	-3.5	-5.5
<b>II. Capital and financial Exclude Reserves</b>	-163.7	-153.1	-171.2	-88.2	3.6	31.5	30.4	16.5
Capital account	1.9	-154.7	-172.6	-89.1	1.8	28.7	28.4	13.5
Financial account	7.5	35.6	-10.4	-17.5	18.4	-0.7	14.2	13.6
<b>Overall Balance</b>	7.5	35.6	-10.4	-17.5	18.4	-0.7	14.2	13.6
<b>III. Errors and omissions</b>	-3.5	-6.5	-2.9	-6.8	-4.8	-8.5	0.9	-6.1

**Table 2 Timor-Leste Monetary Survey**

Millions of US Dollars

	Dec-17	Sep-18	Dec-18	% point cont.	% change
				1 Y ago	1 Y ago
Net Foreign Asset	1250.6	893.9	1412.0	12.9	12.9
Claim on non residents	1327.0	981.7	1496.5	13.6	12.8
Liabilities to nonresidents	-76.4	-87.8	-81.3	-0.4	6.4
Domestic claims	-212.8	-47.9	-281.4	32.3	32.3
Net claims on central government	-472.4	-294.4	-531.3	27.7	12.5
Claims on central government	0.0	0.0	0.0	0.0	0.0
Liabilities to central government	-472.4	-294.4	-531.3	12.5	12.5
Claims on other sectors	259.6	246.5	249.9	4.6	-3.8
Claims on private sector	210.7	246.5	249.9	15.1	18.6
Broad money liabilities	822.9	683.3	848.6	3.1	3.1
Currency outside depository corporations	15.1	17.6	18.2	0.4	20.1
Transferable deposits	449.7	351.8	507.2	7.0	12.8
Other deposit	358.0	314.0	323.2	-4.2	-9.7
Securities other than shares					
Deposit excluded from broad money	14.8	4.2	63.2	1391.6	325.7
Loans	0.0	0.0	0.0	0.0	0.0
Shares and other equity	91.8	162.2	171.6	5.8	87.0
Other items(net)	43.5	-3.7	47.2	-1369.3	8.7

Source: BCTL