



ANNUAL REPORT

# Challenges of the Country's Economic Development

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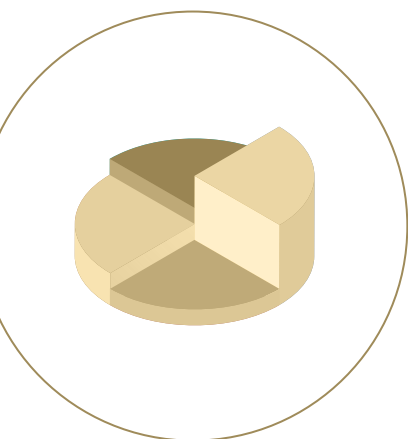
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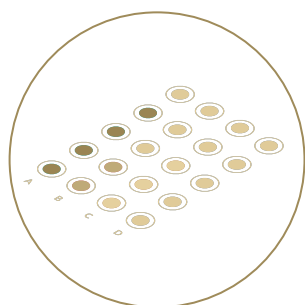


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# Introduction

The **Annual Report of the Central Bank of Timor-Leste (BCTL)** summarizes and presents the national and international economic evolution in 2022, as well as the set of activities developed by the BCTL throughout the year. The Organic Law of the Central Bank establishes and frames the annual reporting duties of the Central Bank to the President of the Republic, the National Parliament, the Prime Minister and the Minister of Finance. The report is composed of two major sections, namely, the analysis of the national and international economic overview and the presentation of the Bank's activity report, also including relevant financial information.

**The year of 2022 was marked by a slowdown in world economic growth of 3.4% compared to 2021, a year of substantial economic growth of 6% due to the post-COVID economic recovery.**

Higher inflationary pressures in 2022 and the consequent tighter monetary policies contributed greatly to this deceleration in the GDP growth rate. According to the IMF, global economic growth in 2022 was highly synchronized, with emerging economies registering higher average GDP growth than developed economies. It should also be noted that, with the exception of the Thai economy, the IMF estimates that the Asian economies have already fully recovered from the adverse shock caused by the pandemic.



**Regarding the outlook for 2023 and 2024, the IMF foresees a divergence in growth patterns** between developed and emerging economies. More specifically, the IMF estimates an even sharper slowdown in 2023 and 2024 in GDP growth rates for the World and Developed economies, while it projects an acceleration in economic growth in emerging economies from the values registered in 2022. In detail, in 2023, emerging economies are expected to register a 4% growth rate compared to 2.9% and 1.4% for the World and Developed economies. It is only in 2024 that a greater convergence of growth rates among the various economic blocks is projected.

These projections are quite positive for the emerging economies because they reflect a process of convergence with the higher income economies. However, the IMF and other international institutions have warned about the growing risks of accelerating inflation rates in 2021 and 2022, which may impose some added challenges to economic growth in the short term. It should be noted that inflation rates in 2022 revealed 30-year historical highs, especially in the developed economies of Europe.

**Global inflationary pressures registered a notable increase in 2022**, with greatest evidence in the US, Eurozone and ASEAN economies, to record highs in recent decades. Inflation rates observed in 2022 were even higher than the highs already recorded in 2021. The values reached in 2022 were well above the reference values of most monetary policy authorities (2%), with the USA and the Euro-Zone registering inflation rates over 8%. Despite the more pronounced acceleration of prices in 2022, the IMF expects inflation rates to start decelerating in 2023 and 2024, but still above the central banks' reference values for price increases. Inflation rates in 2021 and 2022 have been explained by supply-side constraints, namely, the constraints experienced in international logistics chains, but also to the sharper recovery in aggregate demand in 2022 and the pressure that the war in Ukraine has caused on the price of energy and food commodities in international markets.

**In the money and bond markets, interest rates rose sharply in practically all geographies and maturities**, especially in the US and the Euro Zone, as a response by central banks to faster price growth. In foreign exchange markets, the dollar continued to appreciate slightly against major international currencies in 2022, mainly explained by the interest rate differential.

**The Petroleum Fund's investments have performed negatively due to slowing global equity markets and tighter monetary policies.** Despite losses of almost \$2 billion in 2022, the Petroleum Fund has recorded positive cumulative returns, which is an encouraging result of the management of the assets that constitute the fund. However, it is cautioned that the increasing monetary policy measures imposed during 2022 and 2023 may impact the profitability of the assets comprising the Petroleum Fund and thus require more cautious risk management.

**The Asian economies once again recorded a stronger evolution of economic activity than the other global economies in 2022,** which was due to the more pronounced and synchronized recovery of production processes and economic activity in the region and countries. Despite the slowdown in the pace of economic growth in 2023 and 2024, the IMF expects the Asian economies to lead the pack of economies with higher economic growth rates compared to other global economies.

**Within the national framework, the economy of Timor-Leste registered a faster rate of economic growth in 2022 than the value observed in 2021,** which translates into a positive sign about the development and economic sustainability of Timor. The economic growth rate in 2022 of 4.0% translates into an acceleration of 1.1 p.p. in relation to the GDP growth observed in 2021. The increase in public spending by \$299 million, which follows the pace of increase of public spending observed in 2021 (\$306 million), contributes greatly to the 2022 GDP growth rate. However, we caution against the risks that the successive expansion of fiscal policy may have on the sustainability of Timor-Leste's public accounts and, consequently, hinder the more robust economic development of the private sector of the economy.

**For 2022, the BCTL projects economic growth to be quite positive, although lower than in 2022.** This expectation is based, above all, on a prospect of a slowdown in the contribution of domestic demand growth in 2023 in relation to that observed in 2022. Consequently, it is important to emphasize the positive and greater contribution that the external sector will have to economic growth in the current year.

**In terms of budgetary policy, 2021 was marked by a significant increase in expenditure (+\$299 million) and in the public deficit,** due mainly to the growth of current expenditure (+\$236 million), in line with the increase in the respective budget. Also noteworthy is the growth of public investment in 2022 (\$63 million), due to a higher execution rate of the respective budget. For 2023, the BCTL expects a new increase in expenditure and in the public budget deficit, mostly explained by the recovery of the capacity to execute investment in infrastructure and buildings.

**In line with the global trend, there was a marked increase in domestic inflationary pressures in 2022,** with the average inflation rate standing at 7.1%, up from 3.8% and 0.5% in 2021 and 2020, respectively. Global production and logistics constraints in 2022, as well as the outbreak of war in Ukraine, which has put pressure on food and energy commodities, have contributed greatly to this faster dynamic of generalized price increases.

**Timor-Leste recorded a significant increase in the external current account deficit in 2022,** registering a value of -\$928 million, mainly explained by a sharp growth in imports of goods and services. Despite the decrease in oil revenues in recent years, these remain a factor in mitigating the impact of the high trade deficit of the economy of Timor-Leste.

**Notwithstanding the challenging macroeconomic context, the financial sector has remained robust and highly dynamic** in terms of the growth of its activity, assets and funds raised. It is illustrative to note that bank credit continued to grow in 2022, as did deposits and funds raised by banks operating in the country.

**During the year 2022, the BCTL developed several relevant initiatives within the scope of monitoring the economic situation at national level.** In this context, we highlight the continued implementation of the loan subsidy program for domestic households and companies, as well as the surveys of households and informal businesses in order to assess their degree of financial inclusion and socioeconomic conditions.

In **terms of activities**, the Bank remains actively committed to promoting monetary and financial stability and related financial inclusion and has developed particularly relevant initiatives in this regard. One of the main activities developed by the BCTL was the Digital Field pilot program, which aims to promote knowledge and widespread use of new technological tools - cell phones, electronic money wallets, ATMs and PoS - in the financial activities of rural populations. Also in 2022, the BCTL continued to operationalize its partnership with the Ministry of Education, Youth and Sports to continue improving the teaching, monitoring and evaluation of the Financial Literacy Program in the country's schools, taught to students from 1st to 6th grade. The celebration of the 7th anniversary of the National Savings Day, on November 29th, 2022, took place in the administrative post of Baguia, municipality of Baucau, and was attended by local authorities, representatives from commercial banks, fintech companies and their branches, users of financial services, students, and the community of Maubisse.

In the context of the **national payment system**, the Central Bank continued to make every effort to always maintain sufficient liquidity reserves to meet cash payment needs and to ensure the modernization and full operation of the national payment and interbank settlement system, R-Timor. The main developments recorded in 2022 in this area consisted of the implementation of additional functionality in the R-TiMOR system, now allowing domestic taxpayers to pay their taxes from the banks' ATM network or their e-money wallets. Still in 2022, the BCTL in cooperation with relevant parties completed the Automatic Split of Tax Payments by automatize credit of taxes into the Government's Consolidated Account per different types of taxes identified by taxes codes through R-TiMOR, eliminated manual intervention in R-TiMOR system when cardholders carry out tax payments through ATMs.

The implementation of the "B2W2B" functionality, in addition to enabling the payment of taxes, now allows any P24 cardholder to transfer money from their bank account to an e-wallet account and vice versa. Additionally, the project to interconnect the P24 network with an Indonesian payment network run by BCTL, which will allow domestic bank cardholders to use their cards at banks in Indonesia, continued to be implemented.

BCTL initiated and promotes the use of digital financial services in Timor-Leste through the "Campo Digital" program. The Program aims to expand, in the medium to long term, points of access to integrated and interconnected financial services in rural areas, such as the use of digital means (Mobile, ATM and POS) to carry out financial transactions (payments, transfers and balance inquiries).



BNU in collaboration with Mastercard, BCTL and its service provider, has achieved 92% development on the Mastercard acquisition and is expected to be finalized in the near future. The completion of this project will allow holders of international Mastercard cards to carry out transactions at BNU-Timor ATMs and POS in Timor-Leste with the P24 logo. Meanwhile, BNCTL in collaboration with BCTL and its service provider, started issuing Union Pay (contactless & 3D Secure). This will make it easier for cardholders to carry out transactions in the domestic market and when traveling abroad. 3D Secure, once complete, will facilitate cardholders in carrying out financial transactions online efficiently.

In fiscal year 2022, BCTL's **accounts** recorded a positive net income of \$4,825 million, generated primarily by interest received on investments of BCTL's reserves and income from Petroleum Fund management fees.

BCTL has continued to work with the Ministry of Finance as well as the Petroleum Fund Investment Advisory Committee to maintain an active and informed position in the ongoing review of the Petroleum Fund's investment strategy and its rigorous implementation.

The Bank continued to reinforce its internal policy of strengthening the quality and capacity of its staff, allocating significant financial resources for this purpose. This investment has been positively reflected in the quality of the work developed in the institution, recognized as one of the best in the country.

Finally, and as has become customary, it remains for me, as Governor of the BCTL, to thank all the employees of the Central Bank, our partners or interlocutors at various times, who have continued to contribute actively to the consolidation of the Central Bank and to the economic development of our country.



**Abraão de Vasconcelos**  
Governor  
Dili, April 26, 2022

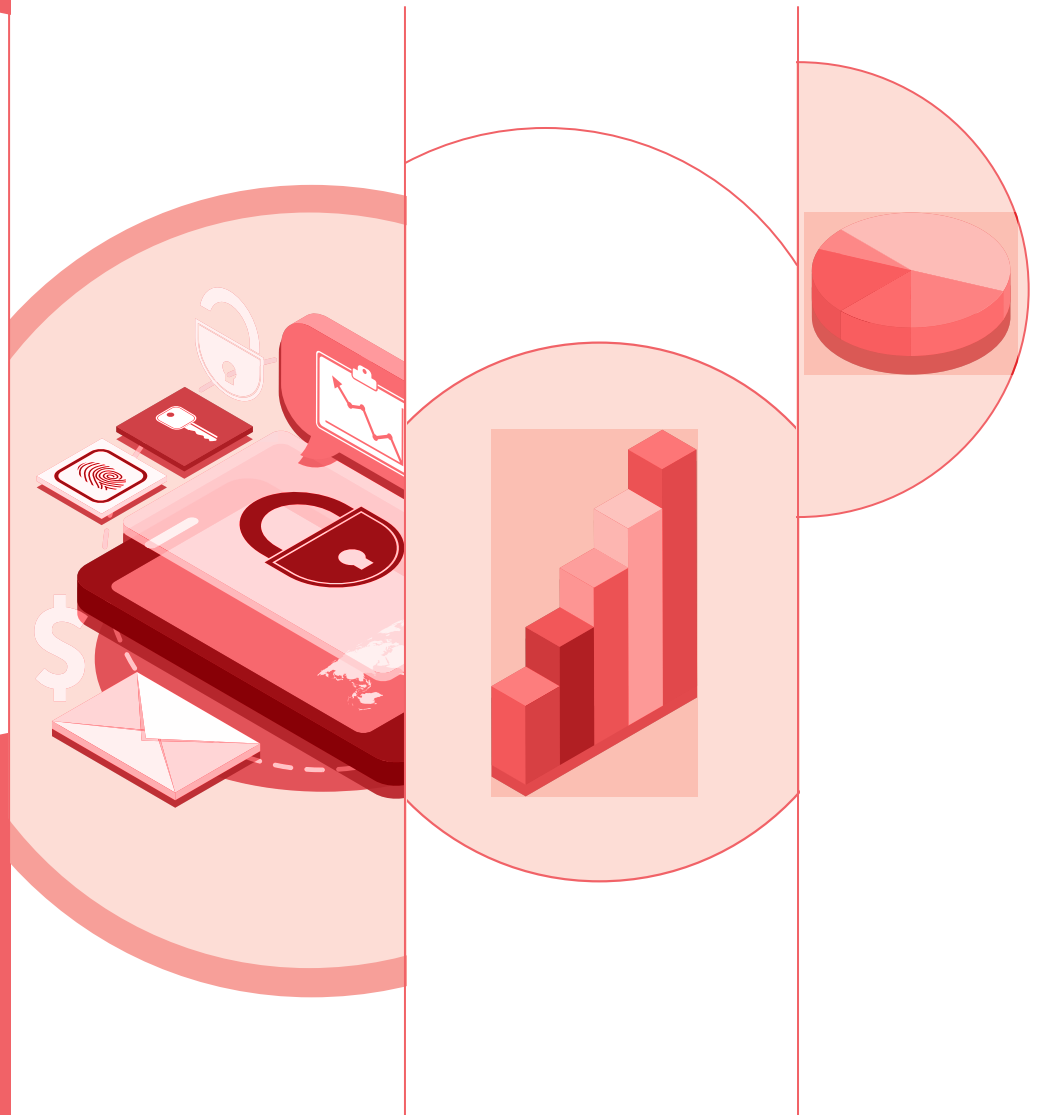
# Evolution of the International Economy

This chapter describes the dynamics of the evolution of the world economy in 2022, as well as the economies of Timor-Leste's main regional and trading partners, together with the most relevant trends for our economy, concerning the world financial and commodity markets.

Next, this chapter also analyzes the main transmission channels of external developments and possible impacts on our domestic economy, focusing on the relevant developments that occurred in 2022 and the economic projections for the years 2023 and 2024. This analysis is mainly based on the most recent estimates and outlooks of the International Monetary Fund (IMF), as contained in its "World Economic Outlook Update", released in January 2023 and October 2022.



# CHAPTER 01



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**In terms of the most relevant developments described in this chapter, the following are highlighted:**

- The year 2022 was marked by a slowdown in the world economy, although showing a positive growth rate. The world economy grew 3.4% in 2022, after having shown a remarkable 6% growth in 2021. This deceleration dynamic was common to the groups of developed and emerging economies.
- In terms of projections for 2023 and 2024, the IMF foresees a deceleration in economic growth until 2023 and an acceleration in economic activity starting in 2024 for the global economy and for developed economies. However, it notes that emerging economies will experience continued increases in their economic growth rates as early as 2023. Specifically, the IMF projects the world economy to grow 2.9% in 2023 and 3.1% in 2024. This projected slowdown in 2023 and 2024 has mainly to do with the recorded uncertainties of the geopolitical and geoeconomic risks caused by the war in Ukraine, as well as the rising inflation rates recorded during 2022.
- The IMF, and other international institutions, have considered that the growing inflationary pressures seen worldwide generate an increased risk and may lead to an even more pronounced cooling of economic activity. The price levels verified in 2022 are even higher than the peaks already registered in 2021 and that signal the potential risks between a more prudent monetary and fiscal policy management to cope with the price level growth, while price increases may impact, without adequate public policies, on lower income populations.
- On the other hand, despite the decrease in risks associated with COVID-19, the spread of cases in countries such as China, whose authorities began to lift movement restrictions more pronouncedly as of 2022, may lead to an exponential growth of cases and, with this, present greater risks of a slowdown in global economic activity, through a negative impact on the supply side aggravating the current inflationary pressures recorded globally.
- Inflationary pressures registered an even more marked increase in 2022, when compared to 2021. This more pronounced dynamic was felt especially in the economies of the USA, Euro Zone and ASEAN, to record values in recent decades. In these 3 blocks, annual inflation reached values well above 2%, which tend to be the reference of most central banks, with average inflation in the USA and Euro-Zone standing at 8.1% and 9.2% in 2022.

- However, the IMF foresees a gradual convergence of average inflation rates only in 2024, with a generalized deceleration of the inflation rate to the 2% level, a value admittedly desirable in the medium term, in practically all world economies, foreseeing that the sharp increase in prices felt in 2021 and 2022 as being cyclical. This deceleration projected by the IMF is based on the fact that it is understood that the restrictive policies of monetary policy, coupled with a containment of fiscal policy, on the other hand, will produce the necessary effects during 2023 and, with greater impact, in 2024.
- The Asian economies once again recorded an evolution of economic activity more accentuated than the other global economies in 2022, despite the inflationary pressures felt worldwide, demonstrating a high degree of economic resilience. In the short term, namely 2023 and 2024, the IMF continues to distinguish the Asian economic bloc in relation to the other economies, translating into a substantial and generalized recovery of economic activity in the region, foreseeing that the bloc will continue to lead the world in terms of economic growth.
- In the money and bond markets, the highlight was the generalized rise in interest rates, even more pronounced in 2022 compared to 2021, in practically all geographies and maturities, especially in the US and the EU, in line with the worsening of inflationary pressures and the growing monetary policies of economic contraction aimed at moderating aggregate demand.
- In the foreign exchange markets, the dollar continued to appreciate in 2022, a trend that continued in 2021, mainly explained by the interest rate differential in the US against other economies. Similarly to 2021, and regarding the Asian bloc, there was a generalized appreciation of the currencies of the Asian economies against the dollar, allowing these economies a relative exchange rate stability.
- On the other hand, while the world's commodity markets continued to increase their prices in 2022 to levels even higher than those already recorded in 2021, in 2022 the equity markets ended up recording some losses as a result of the reduction of stimuli by the world's monetary authorities.
- The performance of the Petroleum Fund's investments registered a loss in 2022, reversing the trend seen in 2021 and 2020, a performance that was due to the steeper rise in interest rates in 2022 and the devaluation of equity markets.



# 1.1 Major World Economies

## 1.1.1. Economic Growth in Major Economies

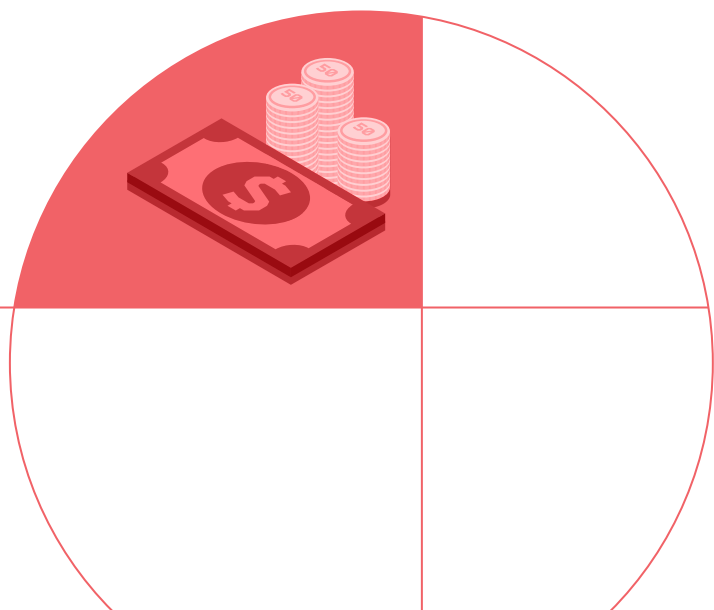
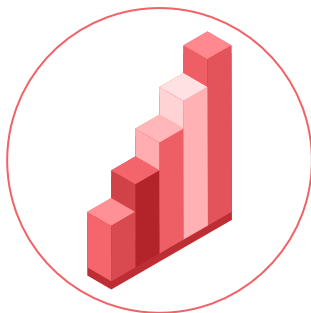
After 2021, a year in which the Gross Domestic Product (GDP) of the world economy recovered quite significantly, and in which both developed and emerging economies showed similar trajectories in their growth rates, largely due to the lifting of restrictions on citizen mobility and the consequent resumption of economic and social activities prior to the emergence of the pandemic caused by COVID-19, the growth rates expected in 2022 are now on a decelerating path.

Expected growth rates in 2022 are now on a decelerating path.

This phenomenon of deceleration in world GDP growth rates is expected. In fact, and considering the evolution of the world economy in the pre-pandemic period, the growth rates expected for 2022 are in line with the observed history. More specifically, like the average of world GDP growth rates between 2016 and 2019, a world growth rate of 3.4% is expected in 2022 (2.1% and 4.4% for developed and emerging economies, respectively).

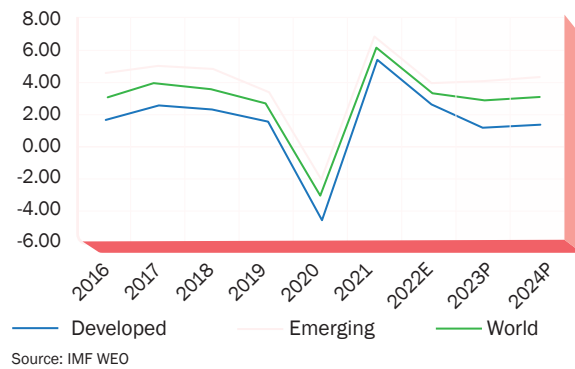
The world economy is expected to have grown in 2022 by 3.4% compared to 2021.

However, it should be emphasized that the observed slowdown in world economic growth rates in 2022, and especially for 2023 and 2024, should be contextualized in light of two important economic political phenomena that occurred in 2022, namely, the return of inflationary pressures and the armed conflict in Ukraine. The fight against rising prices cautioned by monetary policy authorities by reducing monetary stimulus to economies, as well as the uncertainty generated by the armed and diplomatic tension between the pro-Ukraine and pro-Russia bloc, may lead to an even more significant reduction in global aggregate demand, with more pronounced implications for the reduction of global economic development than expected.



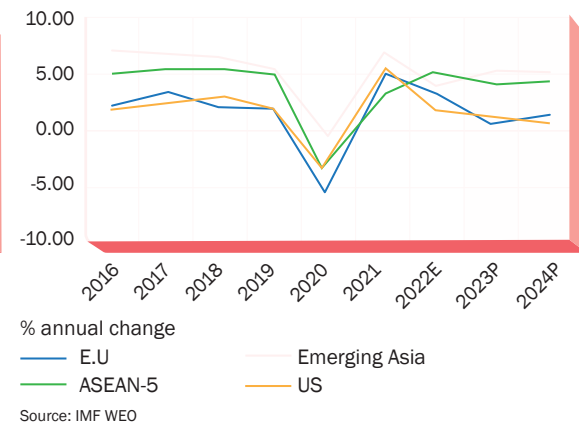
**Chart 1.1**

GDP growth - 3 main block-% change year



**Chart 1.2**

GDP growth - selected regions - % change year



In 2022 emerging economies grow 1.2 p.p. more than developed economies

When we analyze the expected growth figures for 2022, both for the main world economic blocks (Figure 1.1), as well as for some selected groups of economies that are relevant for Timor-Leste's economy (Figure 1.2), we cannot assess the same synchronism of the evolution of economic activity seen in 2021. While there is a remarkable growth rate for emerging economies (3.9%), the GDP growth rate for the block of developed economies is more modest (2.7%). The difference in the growth rates of the two blocks, rounding 1.2 p.p., is of particular importance because it reflects a phenomenon of convergence of the lower income economies with those of higher income, with all that this positive convergence phenomenon entails from the economic and social point of view.

ASEAN-5 economies grew 5.2% on average.

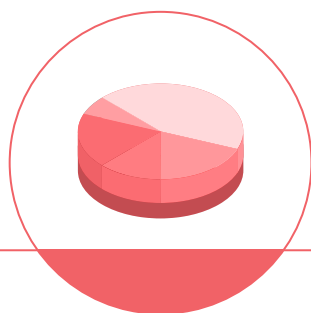
This heterogeneity regarding economic synchronization between developed and emerging economies is even more evident when analyzed in regional terms (Figure 1.2). Based on IMF forecasts, while the emerging economies of Asia grow by 4.3% and the economies belonging to the ASEAN-5 group register an average GDP growth rate of around 5.2% in 2022, the GDP grows, on average, by 3.7% in the economies of the European Union (EU) and 2.0% in the United States of America (USA). From these forecasts, especially for those made for the years 2023 and 2024, the phenomenon of economic convergence is increasing, which is of extreme importance for the Asian economies. In these years 2023 and 2024, and according to IMF forecasts, the average difference in the GDP growth rates of the Asian economies is about 3 p.p. higher than those of the EU and US economies.

On the other hand, and when analyzing the economic performance of each of the regional economies, it is possible to conclude that only the ASEAN-5 economies register a positive variation in the GDP growth rate, accelerating from an annual GDP growth rate of 3.4% in 2021 to a rate of 5.2% in 2022. On the contrary, the economies belonging to the group of emerging Asian economies register a reduction of 2.9 p.p. of their GDP growth rates between 2021 and 2022, from 7.2% to 4.3%, while the North American economy registers a slowdown in its growth rate in the order of 2.7 p.p. in the same period, from 5.7% in 2021 to 2.0% in 2022. Finally, the economies of the European Union also register a deceleration in their economic growth rates, from 5.4% in 2021 to 3.7%, which translates into a reduction in their economic performance between the two years of 1.7 p.p. In comparative terms, the European economies recorded a less abrupt reduction in growth rates when compared with the US economy, largely due to the more pronounced program of reduction of monetary stimuli in the US when compared with the European reality and, on the other hand, these policies had a more significant impact in the US than the economic effects that the war in Ukraine had on the European economies.

Figures 1.3.1 and 1.3.2 also present the comparative economic performance of the 4 largest world economies, which enables us to see that the Chinese economy had a substantial reduction in its growth rate in 2022 - even more pronounced than the growth rate expected by the IMF in 2021 of the Chinese economy for 2022. This more pronounced deceleration in 2022 of the Chinese GDP growth rate, when compared with previous forecasts, is mainly due to the resurgence of cases related to the COVID-19 pandemic, as well as the attempt by the Chinese political authorities to impose restrictions on the freedom of movement of the Chinese population due to the pandemic effects, a reality already outdated in the European context.

While the economies of the Union recorded an economic slowdown in 2022.

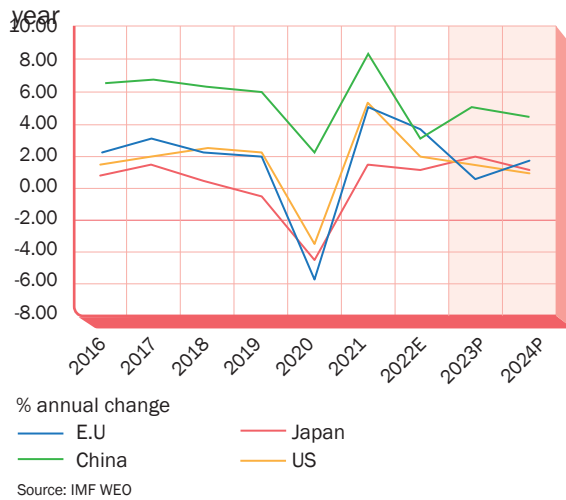
Of the world's largest economies, the Chinese economy was the one that registered the greatest deceleration in the GDP growth rate.





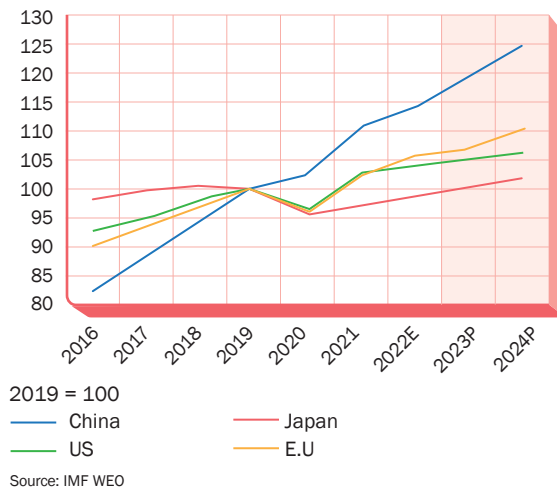
**Chart 1.3.1**

GDP growth - 4 largest economies-% change



**Chart 1.3.2**

GDP growth in Levels - 4 largest economies



The slowdown in GDP recorded in 2022 is largely due to the more restrictive economic policy measures.

Regarding the forecasts for 2023 and 2024, from the data projected for these years, it can be concluded that the IMF an inflection in the dynamics of growth rates in 2023, forecasting that the growth rate of the world economy will accelerate in 2024 to 3.1% compared to that expected for 2023, at 2.9%. This economic acceleration for 2024 is due, according to the forecasts made by the IMF, to a greater contribution from the acceleration of the GDP growth rates of the developed economies, when compared to the emerging economies. This expectation, on the part of the IMF, of a greater contribution from the developed economies in 2024 is justified, to a large extent, by the fact that the IMF believes that the peak of the inflation rate in the developed economies has already occurred in 2022 and that, even if some tighter monetary and fiscal policies are maintained in order to force a slowdown in the rise of the general price level, the intensity of these policies may come to relax as from the 2nd half of 2023, 1st half of 2024.

However, it is important to note the constant warnings that the IMF and other international institutions have given about inflationary pressures worldwide, requiring an effective strategy to reduce inflation in order to combat the anchoring of inflation expectations. Additionally, one should point out the significant risks to the world economy that the war in Ukraine - a country that is one of the largest world producers of cereals - and a potential uncontrolled pandemic situation in China - imposing an expected policy of control over the movement of people and with unpredictable effects on the production of goods and essential services to the rest of the world - may give rise to in the near future.

## 1.1.2. The Evolution of Inflation in Major Economies

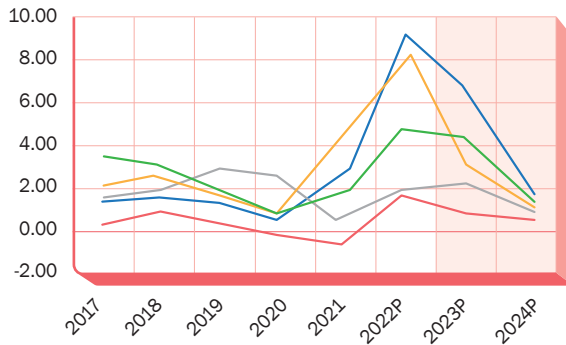
The following graphs show the evolution of average inflation rates and price levels in 5 of the world's major economies.

In 2022 the inflation rate was significantly high, especially in the context of Western economies.

### Chart 1.4.1

Inflation rates

- 5 major economies - % change year)



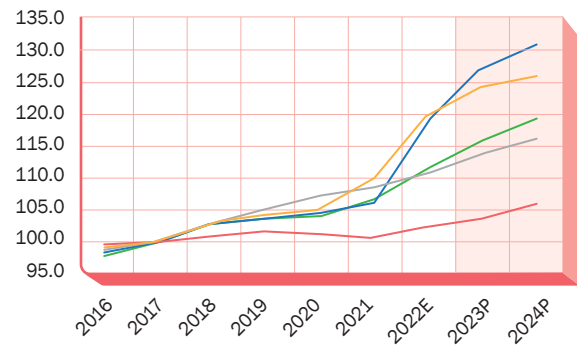
% annual change

— E.U. — Japan — China  
— ASEAN-5 — US

Source: IMF WEO

### Chart 1.4.2

Price levels - 5 major economies

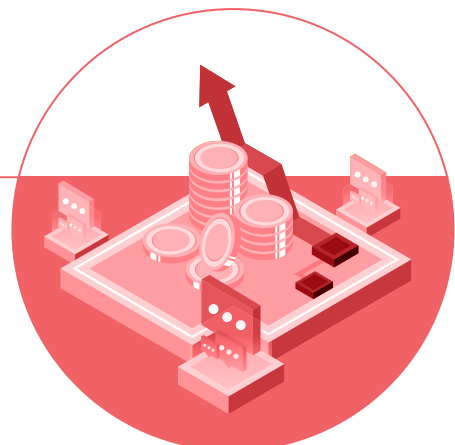


— E.U. — Japan — China  
— ASEAN-5 — US

Source: IMF WEO

Through graphs 1.4.1 and 1.4.2 we can conclude that despite the fact that in 2021 it was already considered that there had been a significant increase in the price level, in 2022 the inflation rate was significantly higher, particularly in the economies of the European Union and the USA. With lower values for the inflation rate than in the U.S. and the U.S., we find the ASEAN-5 economies. More specifically, and according to IMF forecasts, the EU economies registered in 2022 an inflation rate of 9.2% compared to an inflation rate of 2.9% in 2021. The USA, on the other hand, registered in 2022 an inflation rate of 8.1% versus a registered value of 4.7%. In turn, the ASEAN-5 economies saw an acceleration in the growth of the general price level from 2.0% in 2022 to 4.7% in 2023. On the other hand, and more modestly, we conclude about a slight acceleration of the inflation rate in China (from 0.9%, in 2021 to 2.2% in 2022) and Japan (-0.2% in 2022 to 2.0% in 2023).

In particular, in 2022 the inflation rate in the US was 8.1% while the euro-zone reported a historic inflation rate of 9.2%.



While the ASEAN-5 economies recorded an inflation rate close to the reference value

Therefore, we can see that although in 2021 there has already been an acceleration in the evolution of prices compared to 2020, already in 2021, the economies of the EU and USA recorded values above the reference value of 2%. The difference between this reference value and the even more significant values expected for 2022 increased for these two economies, and the ASEAN-5 economies have already registered a value for their inflation rate well above the 2.0% reference value. These dynamics in the evolution of prices, especially in developed economies are extremely relevant, since the inflation rates seen in 2021 and, especially, in 2022, were just a remnant of the last decades of the 20th century in these two economic blocks.

In addition to the war between Ukraine and Russia, an overly expansionary monetary policy in the recent past will have contributed to the inflation rates seen in 2022.

The inflation rates seen in these two economic blocks, but also somewhat at the global level, can be explained by several factors. First, one can list successive expansionary policies in the years preceding the pandemic crisis of COVID-19 that took place globally. Secondly, the lifting of restrictions on freedom of movement that took place in 2021 allowed aggregate demand to revive, causing additional pressure on the price level. To this factor we can also point out that many economies launched income protection programs in 2020 and 2021 for workers who had to stay in their homes without being able to commute to work. In short, there has not been a convergence between incomes and production, thus causing a more pronounced recovery in demand. Third, the fact that some economies, particularly Asian ones such as China, stopped their production processes during the years 2020 and 2021 due to the confinements carried out, led to adverse shocks in global production chains, with significant reductions in production and increased costs of intermediate goods and services needed to produce final goods. In parallel, and lastly, the war in Ukraine and the political and diplomatic consequences arising from this event, led to an upward movement in food prices - remember that Russia and Ukraine are among the world's largest cereal producers - as well as to an increase in energy prices. This is because the set of economic and diplomatic sanctions by Western economies on the Russian economy, as well as the reduction of fossil fuel production by this economy - Russia is the world's third largest oil producer and the second largest natural gas producer - have caused some apprehension in international markets leading to an increase in oil and natural gas prices.

Bearing in mind this generalized increase in prices, as well as its acceleration in 2022 in relation to 2021, the budgetary authorities, but especially the monetary authorities, have developed policies to contain the evolution of price levels, namely reducing or even ending monetary stimulus programs, with an increasing verification of key interest rates of central banks. However, and given that in a first stage, the monetary authorities, especially of the US and EU economies, have developed monetary policies in order to reduce the differential between deposit and lending interest rates to stimulate the reduction of aggregate demand and the consequent normalization of the evolution of the price level.

Monetary policy authorities have made efforts to contain rising inflation rates.

Regarding inflation expectations, the IMF now foresees for 2023 and 2024 a convergence of inflation rates, however, this convergence will be more substantive in 2024. However, and even in 2024, inflation rate values will register values slightly above 2%. In short, according to the values projected by the IMF, this institution admits that the values verified in 2021 and 2022 do not represent a structural phenomenon, but rather a temporary one, and so the inflation rate in the USA and in the EU should reduce from 3.5% and 6.8%, respectively, to 2.2% and 3.0% in 2024, respectively. In parallel, the economies belonging to the ASEAN-5 economic bloc, China and Japan will experience the same downward trend between 2023 and 2024. Specifically, and from 2023 to 2024, the economies belonging to the ASEAN-5 will see their inflation rate reduce from 4.4% to 2.8%, China's inflation rate will fall from 2.2% to 1.9% and the inflation rate of the Japanese economy will drop by about 0.4 p.p., from 1.4% in 2023 to 1.0% in 2024.

Although the inflation rates projected for 2023 are high, price increases are believed to slow down.

### 1.1.3 Commodity Markets

Unlike what happened in 2021 compared to 2020, where there were some exceptions in the rise in commodity prices, the year 2022 was marked by a generalized rise in international prices of the main world commodities, as shown in figures 1.5.1. and 1.5.2. However, and compared to the period between 2020 and 2021, where oil was the commodity with the highest price increase (about 49%), we can see that, in general, food commodities were those that registered a more pronounced evolution in their prices.

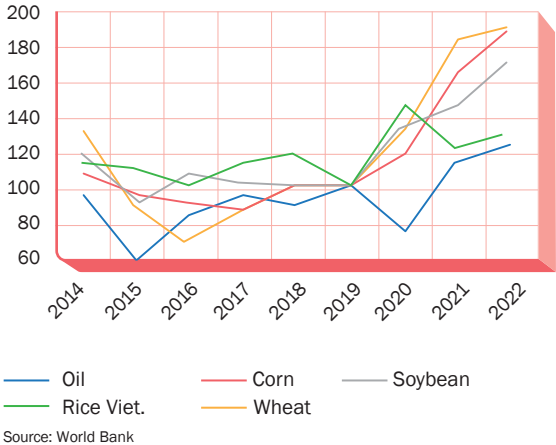
In 2021, oil was the commodity that registered a 49% percentage increase.

When analyzing the price evolution of each commodity individually, between 2021 and 2022, we see that, in decreasing terms, we have soybean with an increase of 16.5%, corn with an increase of 14.3%, rice-viet with an appreciation of 7.4%, oil with an increase of 8.9% and, finally, wheat with an increase of 2.5%.

However, food prices also registered significant increases.

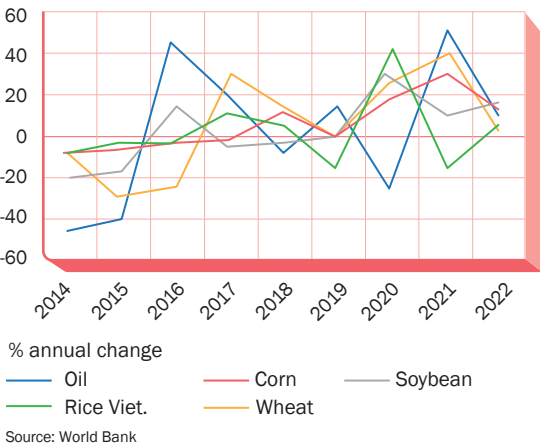
**Chart 1.5.1**

Major commodity prices - levels



**Chart 1.5.2**

Major commodity prices - % change



Food commodities registered price increases of more than 20% between 2019 and 2022.

It should be noted, however, that although wheat is the “commodity” with the lowest growth between 2021 and 2022, it is the one with the highest growth between 2019 and 2022, with an accumulated appreciation of 83.2%, followed by corn (81%), soybeans (68.5%), rice-viet (28.1%) and, finally, oil (22.9%). From this we can conclude that the prices of food goods are on a strongly upward trajectory, which may jeopardize some lower income economies that are not producers of these “commodities”. The continued rise in prices of these goods can put additional pressure on the food security of populations.

As previously highlighted, the price dynamics of these commodities are, in addition to the causes related to the post-covid economic recovery and the consequent increase in aggregate demand, very correlated to the war between Russia and Ukraine, two important global players in terms of cereal production. In addition to this factor, and as highlighted in the 2021 edition, it should be noted the continued dependence on oil, despite all efforts to reduce the use of this and other fossil fuels, in order to combat climate change caused by CO2 emissions. Also contributing to this phenomenon is the high dependence that the EU economies have on fossil energy sources, despite their continuous investment in alternative energy sources, and which has worsened with the military conflict between Russia and Ukraine.

## 1.1.4 World Financial Markets

Regarding international financial markets, namely the main bond markets - Germany, the United States and Japan - the data allows us to analyze not only the past medium-term evolution, but also the evolution of the last two years, which allows us to gauge the future evolution through its recent trend. This analysis is extremely relevant since it allows us to assess future inflation expectations in these economies and which, in general, condition the other world financial markets.

After a downward trend in US interest rates between 2018 and 2020, when a 2-year interest rate of just over 0.7% was recorded, in 2021 and, especially in 2022, there was a strong increase in short-term interest rates, reaching, in the USA, a value of approximately 4.4%. This dynamic was also followed in the EU, where interest rates registered historically low values - negative values until 2021, reaching a value of, approximately, 2.8%. However, when we analyze the evolution of interest rates in the Japanese economy, we can observe a growing evolution, but rather timid, when compared to the two economic blocks.

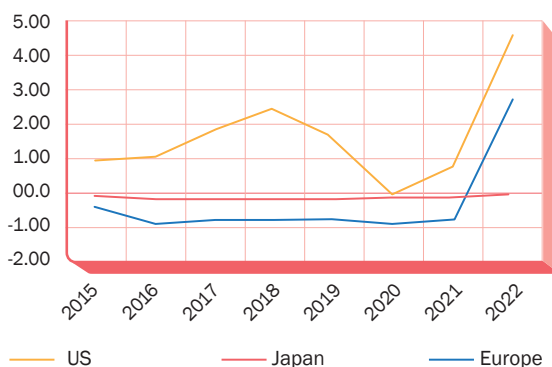
Last year, short-term interest rates accentuated the upward trend...

These developments in short-term interest rates were also observed, as expected, in long-term interest rates. This phenomenon of sudden increases in interest rates is very much due to the growing inflationary pressures observed in the economies under analysis and, as a result of this phenomenon, the monetary policy authorities were forced to end their stimulus programs in order to bring the values of the inflation rates to more reasonable values.

There was an increase of approximately 3.7 p.p. and 2 p.p. in the 2-year interest rates for the US and Europe, respectively.

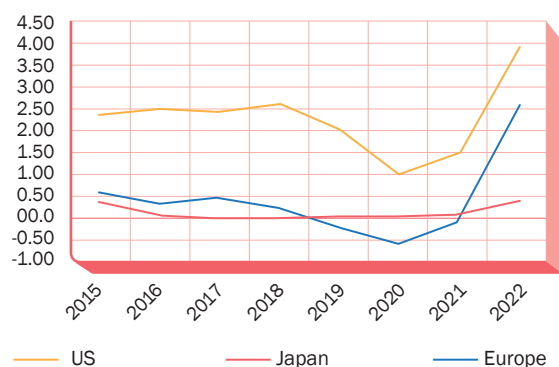
### Chart 1.6

2-Year Interest Rates (%)



### Chart 1.7

10-Year Interest Rates (%)



However, it is important to point out some additional aspects about the evolution of interest rates in these three economies in order to put into perspective what the future dynamics will be. First, we can observe that the European Central Bank was less reactive than the US Federal Reserve between 2021 and 2022, through a more pronounced rise in short-term interest rates in the US than in the EU. Following this dynamic, a convergence of interest rates between the two economies can be expected in the short term, through a more intense rise in interest rates in the EU than in the US. This is because, given the trade relations between the two countries and the appreciation of the USD against the EUR, the European economies may experience inflationary pressures via more expensive imports - imported inflation. Namely, and given that commodities are traded in USD in international markets, there is a growing tendency for higher imported inflation as the USD appreciates against the EUR. Thus, only a more pronounced rise in short-term interest rates in the EU versus the US will allow us to combat an important component of the inflation currently felt in Europe, which is imported inflation.

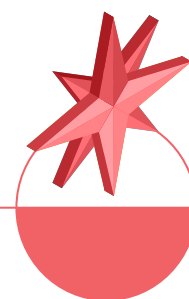
Short-term interest rates have been higher than long-term interest rates, signalling that the recent high inflation rates may be a temporary phenomenon.

A second aspect to highlight is the fact that long-term interest rates in the US and EU economies are slightly lower than those of the short term, something contrary to what one would expect. However, this dynamic can be explained considering an expectation of high and temporary inflation only in the short term, while the monetary authorities fear a potential financial crisis with a very assertive increase in long-term interest rates.

Finally, the Japanese economy has a higher long-term interest rate than the short-term, as expected, but much lower than the interest rates of the other two economies. This fact is important given that the Japanese economy has experienced in recent decades a very low growth rate and with inflation rates also very close to zero. This may indicate that the Japanese authorities, aiming to stimulate some inflation in the short and medium term, want some inflation, namely imported inflation, to cause a generalized increase of prices in their economy.

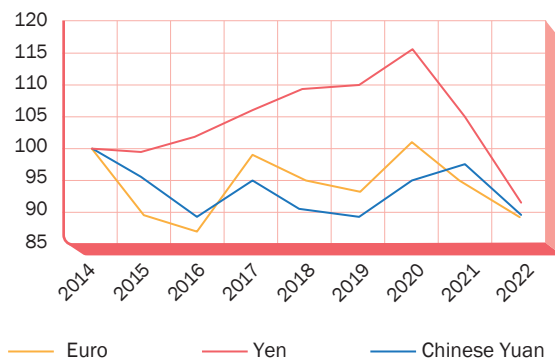
With the increase in interest rates there was some devaluation of the world stock markets...

In this sense and bearing in mind the analysis previously made of the recent bond market dynamics, together with the economic developments already examined, have also determined, to a considerable extent, the developments in the main foreign exchange and equity markets worldwide.



**Chart 1.8**

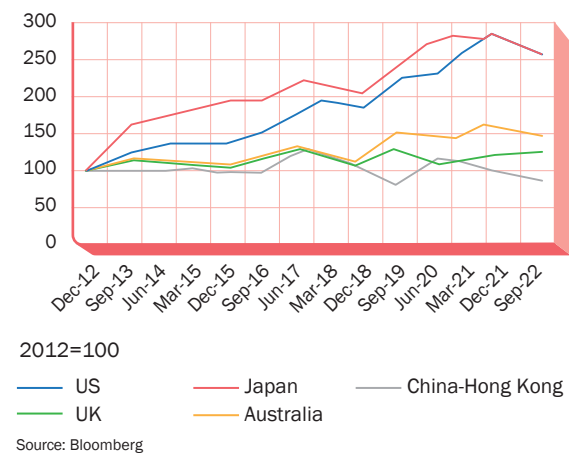
Foreign Exchange Rates - December



Source: Bloomberg

**Chart 1.9**

Stock markets, USD prices, 2012=100



Source: Bloomberg

In the foreign exchange markets, the dollar appreciated against all currencies under consideration, namely the Euro, the Yen and the Yuan, in 2022 versus 2021. This appreciation resulted from the fact that the North American monetary policy authority, the North American Federal Reserve (FED) acted more quickly and earlier in reducing expansionary measures in the money market, due to growing expectations and observation of inflation, when compared to what was seen in other economies.

On the other hand, the USD appreciated against the more relevant world currencies.

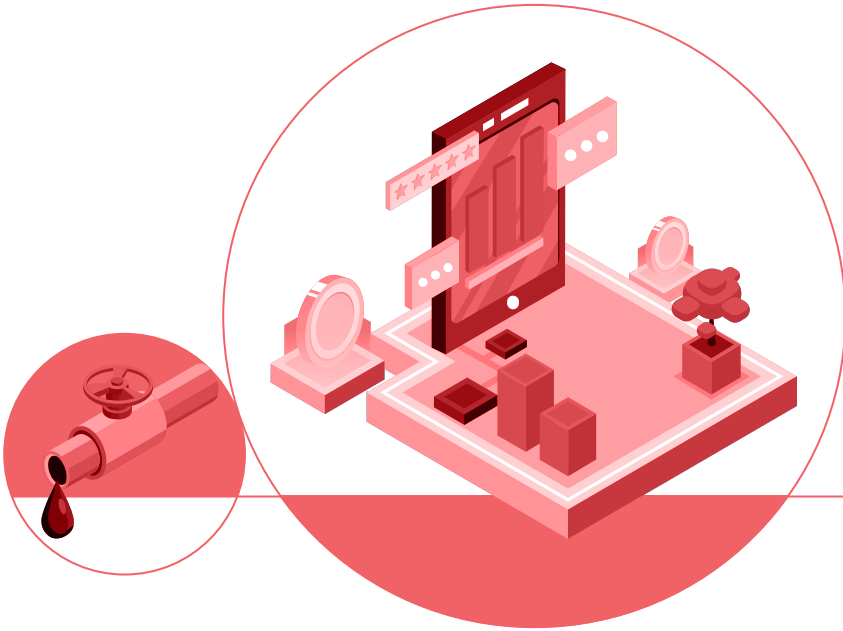
The observation of a tighter monetary policy than the other economies, through a sharper increase in interest rates in the US relative to other economies, caused a greater demand for US dollars in foreign exchange markets, as international investors are encouraged to seek financial investments with higher rates of return. Taking into account this movement of appreciation of the USD against other currencies, the ECB (monetary policy authority of the euro zone) and faced with expectations of imported inflation, but also confronted with increases in the domestic inflation rate, decided to make an equally remarkable increase in its interest rates, therefore reducing the monetary stimulus to European economies. However, its action was later than the FED's which explains, in part, the appreciation of the USD against the EUR.



The tightening of monetary policy by the major central banks contributed to a less positive dynamics of the stock markets.

On the other hand, equity markets have registered some losses, which is understandable given the tightening policies of monetary policy authorities. As can be seen in graph 1.9 above, in 2022 the equity markets of the largest economies recorded losses, namely the US, Japan, Australia and China, which saw their stock markets register losses of -8.96%, -9.39%, -6.0% and -14.49%, respectively, in 2022 relative to 2021, with only the UK seeing its stock index appreciate by 1.24% in 2022 relative to the previous year.

This generalized decline in stock markets was only observed in 2018, a year in which all these indices showed a devaluation. Not even in 2020, with the consequences of the Covid-19 pandemic, did the markets show the devaluations that were felt in 2022. Bearing in mind future inflation expectations and the consequent tighter monetary policies to cope with the generalized increase in prices, we can foresee that 2023 will see a slight reduction in the stock market indices, or, in case of an increase in value, it will not be as significant as the one seen in 2021 compared to 2020. Thus, it is clear that uncertainties about the evolution of future inflation and the economy will be fundamental in determining the evolution of the main stock markets.



## 1.2 Economic Framework in Asia

After analyzing the world macroeconomic framework, it is of great importance to assess the economic development of the major Asian economies, namely those belonging to the ASEAN group, which, not only for their geographical location but also for the economic impact they have on the economy of Timor-Leste, deserve a detailed analysis.

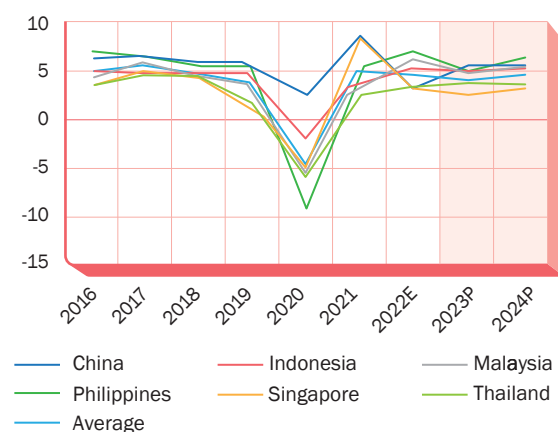
The analysis here will focus, therefore, on the 5 largest ASEAN economies together with China, whose economy has assumed a key role not only regionally but also globally. Besides this, the Indonesian economy deserves a special focus in the economic analysis, given its extreme relevance as the main economic partner in the foreign relations of the Timorese economy.

Economic growth in Asian economies in line with that observed in 2021.

About the economic evolution of the economies mentioned above, all 6 economies recorded a positive evolution of their GDP, registering an average growth rate in 2022 of 4.7 compared to 2021, a growth rate that recorded quite similar values to those recorded in 2021 compared to 2020 (5.0%). The slight slowdown recorded in 2022 compared to the growth rate in 2021 can be considered normal given that in 2021 the Asian economies returned to a more normal pace of economic activity post-pandemic.

Chart 1.10.a

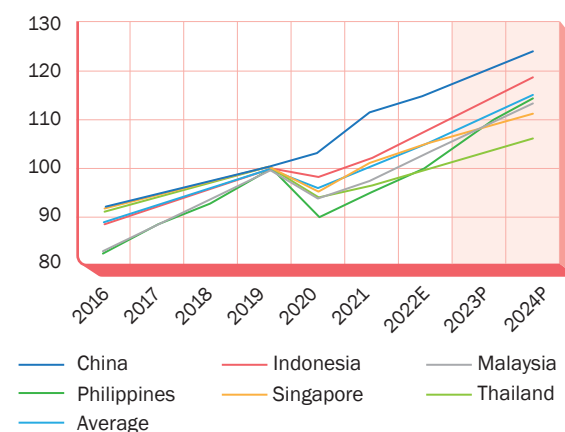
GDP - Annual Growth



Source: IMF WEO

Chart 1.10.b

GDP - Levels



Source: IMF WEO

The observed economic growth in the Asian economies displayed greater convergence in 2022.

Thus, we can conclude that this group of Asian economies continued to record sustained economic growth and at similar rates to those seen before the COVID-19 pandemic that ravaged the world. Furthermore, it is important to note that the growth rates of the various economies in 2022 showed a more convergent growth pattern when compared to 2021. This pattern of converging growth rates is even greater for 2023 and 2024, as forecast by the IMF.

Given the IMF data, we can also conclude that of the 6 economies under analysis, only Thailand's economy has not yet fully recovered from the negative effects of COVID-19 on its economy. It is only in 2023 that the IMF projects a full economic recovery for Thailand given the decrease in income of its economy recorded during the health crisis. By 2022, the economies of the Philippines and Malaysia have fully recovered from the cumulative economic contraction in 2020 and 2021 caused by the pandemic, with their economies already showing net GDP gains compared to 2019.

Most Asian economies have now recovered from the economic contraction experienced during the pandemic of COVID-19.

Of this set of countries, only 3 - the Philippines, Thailand and Malaysia - had an annual GDP in 2021 that was lower than in 2019 (pre-pandemic), with Indonesia, China and Singapore having already recovered the pre-pandemic level in 2021, with special emphasis on China, whose 2021 GDP is already 11% above that of 2019.

In terms of short-term growth prospects, IMF expectations for these economies are generally optimistic. Despite the deceleration of the 6 economies in 2023 when compared to 2022, only countered by the acceleration of economic growth in China (5.2% in 2023 against 3.0% in 2022) and Thailand (3.7% in 2023 against 3.2% in 2022), the economies of these regions will register quite significant values and belong to the group of economies that grow the most in 2023. Additionally, in 2024 and according to the IMF, it is expected that this regional and economic block will grow again at a faster pace than in 2023.

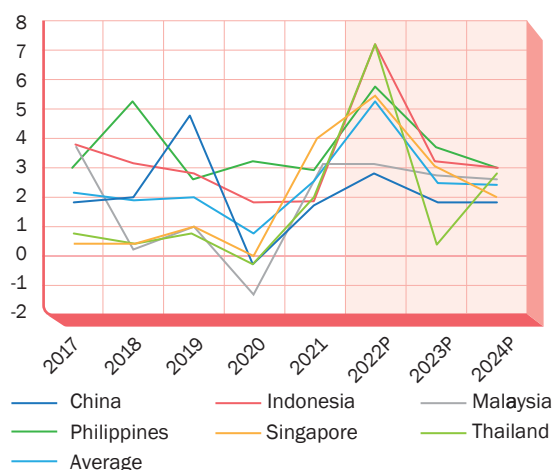
By 2024, China and Indonesia will register a GDP increase of approximately 20 p.p. over 2019.

More specifically, in 2024, the IMF forecasts that the economies of China and Indonesia will show GDP values that are 24.5% and 18.3% higher, respectively, compared to 2019, while the economies of the Philippines, Malaysia and Singapore will see their annual income increase by 13.4%, 12.4% and 11.5%, respectively, between 2019 and 2024. More modestly, Thailand's economy will only see 5.2% more income in 2024 than in 2019.

On the other hand, and following the trend in global terms, in 2022 the rise in the general price level also accelerated in these economies, a phenomenon already seen in 2021. When observed the values projected by the IMF, the average inflation rate accelerated to 5.3% in 2022 when compared with the values of 2.7% observed in 2021. Apart from the economies of China and Malaysia, all other economies recorded an inflation rate above the average and, more specifically, above 3%.

**Chart 1.11.a**

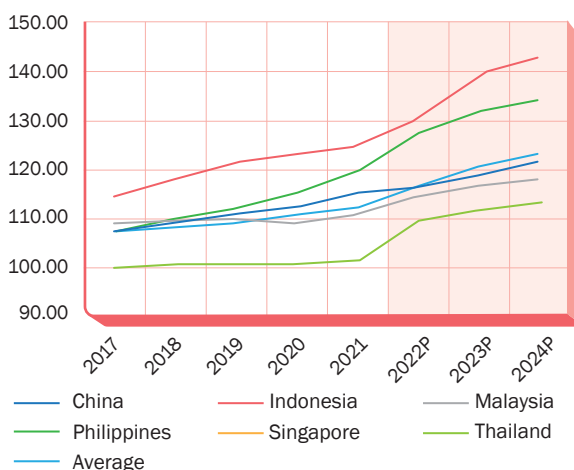
Inflation rates – annual change (%)



Source: IMF WEO

**Chart 1.11.b**

Price Levels 2014 = 100



Source: IMF WEO

Despite the trend acceleration in the inflation rate in 2023 relative to 2022, the IMF projects a deceleration in inflation rates for 2023 and 2024 in the economies of this region, to an average value of 2.5% in each of the years. With the outbreak of war in Ukraine and a more intense wave of COVID-19 in China, the inflation rate has accelerated again, contrary to what was forecast for 2022 and 2023 by the IMF in the recent past. This data on the future evolution of inflation rates signals the IMF's confidence in less expansionary policies, namely those that are the responsibility of monetary policy authorities.

The IMF forecasts a deceleration of the inflation rate for 2023 compared to 2022.

Therefore, the rise in inflation rates, as well as the appreciation of the debts of these 6 economies against the USD, by more than 3%, help explain the acceleration of regional inflation rates, when these are measured in USD.

The dynamics of the two important macroeconomic variables - GDP and inflation - are also explained by the relevance that the foreign exchange and bond markets play in macroeconomic terms.

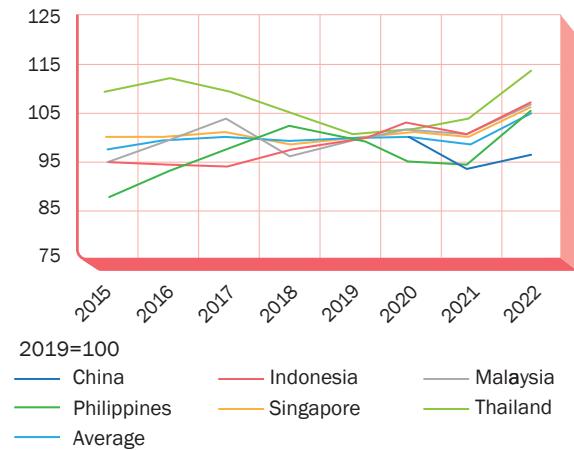
In 2022, Asian currencies appreciated against the USD.

As far as the foreign exchange market is concerned, and despite the volatility verified in the exchange rate dynamics of each economy, in 2022 an average depreciation of the various currencies against the USD is registered, in the order of 6.1%, with only Singapore's currency registering a depreciation against the USD below 3%.

In foreign exchange terms, despite the high volatility registered throughout the year, 2021 ended up being marked by an average appreciation of the currencies against the dollar of 3%, with only the currencies of the Philippines and Indonesia registering an appreciation against the dollar of less than 3%, of 0.6% and 1.8%, respectively.

**Chart 1.12**

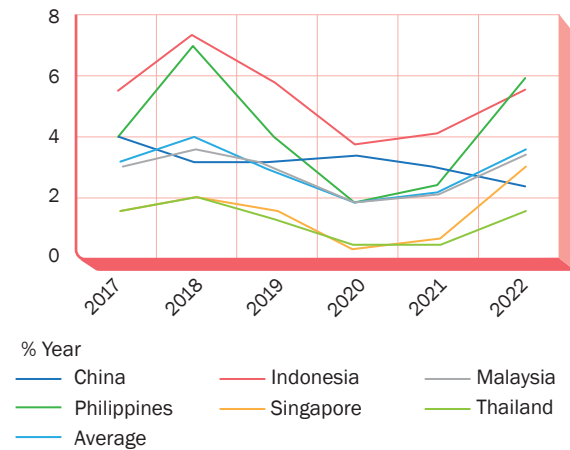
Exchange Rate of ASEAN 5 + China vs USD 2019 = 100



Source: IMF WEO

**Chart 1.13**

2 - year interest rates

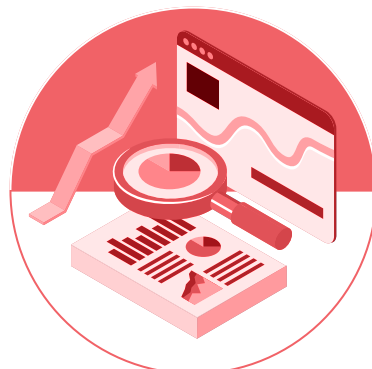


Fonte: Google Finance

The IMF foresees a stable exchange rate for Asian currencies in the short term.

The IMF expects that most regional currencies will remain relatively stable against the dollar between 2022 and 2023, which will contribute, if this scenario materializes, to stabilize inflationary pressures in the region and, above all, to stabilize the prices of goods imported by Timor-Leste. It should be noted, however, that this scenario of exchange rate stability may be materially affected by risks related to economic recovery, pandemic developments and inflationary pressures in global terms.

The bond market interest rates, illustrated in figure 1.13 and based on 2-year bonds, have registered a generalized and more pronounced increase in 2022 than the one registered in 2021 versus 2020, in line with world markets. This more pronounced increase in 2022 has mainly to do with the inflationary risks already discussed above, and which accompany tighter policies by central banks.



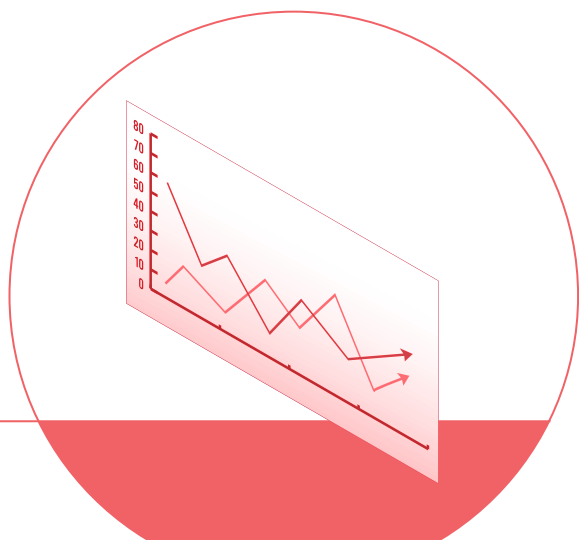
Short-term interest rates in Asian economies grew by 1.5 p.p. in 2022.

The average 2-year interest rate of the 6 economies increased by 1.5 p.p., rising from an average rate of 2.2% in 2021, to 3.7% at the end of 2022, this average value of interest rates being only surpassed by the average value of interest rates recorded in 2018. The generalized rise in interest rates, particularly in the shorter maturities is the result of a growing concern with the growing increase in price levels and the potential anchoring of inflation expectations, as well as the prospects for future economic development that may have repercussions on the rise in the cost of living of the population. It should also be noted that, despite interest rates registering similar dynamics to those seen in developed economies, short-term interest rates in Asian economies are lower than in the US but higher than in Europe. Based on this, we can gauge that there is some risk on the lower margin as far as monetary and exchange rate policy is concerned. However, given the expectations of rising interest rates in the developed economic blocks, this risk may be circumscribed.

At the same time these economies recorded external surpluses...

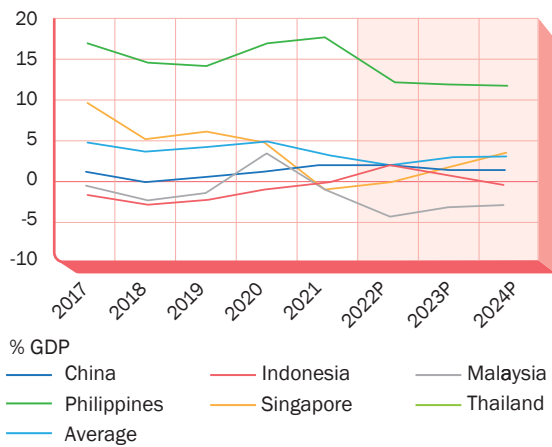
With respect to the analysis of the external sector of the economies, it is noted that most of the 6 economies under analysis recorded a surplus in 2022. More specifically, while the Chinese economy recorded a similar external surplus in 2021, around 1.8% of GDP, the external surplus of the Indonesian economy recorded an increase of almost 1.9 p.p. in 2022 compared to 2021 (in 2022 the external current account balance was 2.2% compared to 0.3% in 2021). On the other hand, Thailand and the Philippines registered a drop in their external surplus in 2023. More specifically, while Thailand recorded a slowdown in its external account balance surplus of 3.3 percent of GDP in 2021 from a recorded 2.4 percent of GDP, the Philippines recorded a much steeper decline in its external account balance by 5.3 percent from a surplus of 18.1 percent of GDP in 2021 to a surplus of 12.8 percent in 2022. Contrary to the external balance surplus, the economies of Singapore and Malaysia registered a deficit in their external accounts, although there has been an improvement in the balance of the Singaporean economy, where there was an improvement of 1.7 p.p. relative to 2021, reaching the value of -0.5% of GDP in 2022. Malaysia saw its external dynamics worsen significantly, by approximately 2.6 p.p., presenting an external deficit of -4.4% of GDP in 2022.

For 2023 and 2024, the IMF foresees a reduction in external surpluses, noting, however, that only the economies of Malaysia and Indonesia, Timor-Leste's main economic partner, will show negative values by 2024.



**Chart 1.14**

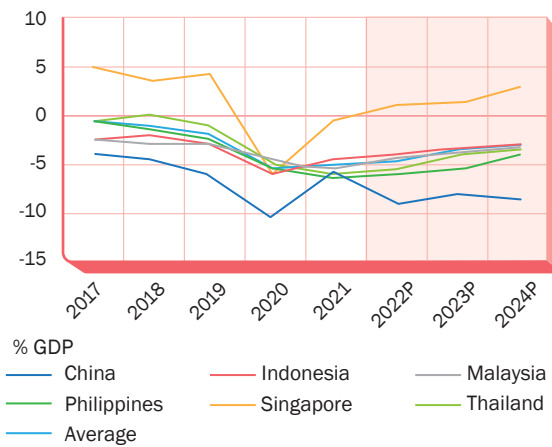
External Current Account Balance - % GDP



Source: IMF WEO

**Chart 1.15**

Public sector Balance - % GDP



Source: IMF WEO

For the public sector, the year of 2022 reveals an improvement in budget balances compared to 2021.

Regarding the public sector of the economies under analysis, only Singapore showed a budget surplus of 1.4% of GDP in 2022, a figure which translates as an improvement of almost 1.6 p.p. against 2021. In turn, China's public sector is the only one to register a deterioration in its budget balances, registering a deficit of 8.9% of GDP in 2022, when in 2021 it registered a balance of -6.1% of GDP. All the other Asian economies register an improvement in their budgetary balances, despite having a negative value. In 2022, and relative to the economies that present negative balances, Indonesia is the economy that presents the best results (-3.9% of GDP), followed by Malaysia (-4.9% of GDP), the Philippines (-5.4% of GDP) and finally Thailand, which registers a budget balance of -5.6% of GDP. When analyzing the 6 Asian economies, one can conclude that there was a slight improvement in the average budget balances, from -5% in 2021 to -4.6% in 2022.



For the near future, namely 2023 and 2024, the IMF believes that, for these 6 economies as a whole, there will be a marked average reduction in deficits in 2023, from -4.6% of GDP in 2022 to -3.4% of GDP in 2023, and less pronounced between 2023 and 2024, with only a 0.3 p.p. reduction in fiscal balances, when the IMF projects an average fiscal balance equal to -3.1% of GDP, in 2024. Despite the improvement in the budget balances in 2023 and 2024, the negative figures suggest a bet on economic growth in the next two years. The only exception to this negative dynamic of budget balances is Singapore, which maintains a positive budget balance between 2022 and 2024. However, it should be noted that these future developments of improving budget balances anticipate a balance between the commitment to growth, as mentioned above, and the inflationary pressures that a too expansionary fiscal policy, through the presentation of constantly negative budget balances, may entail.

In the near future, the IMF foresees a consolidation of public accounts, with an improvement in budget balances for Asian economies.

In summary, there was an improvement in the macroeconomic framework of the economies analyzed in 2022, in line with what was observed in the rest of the world, namely in the recovery of the level of economic activity from the pandemic period experienced mainly in 2020 and an improvement in the external position and fiscal balances.

In addition to these dynamics, the exchange rate stability of the Asian economies against the US dollar associated with a positive evolution of external accounts and a reduction of public deficits signal that these economies have an increased degree of economic resilience capable of dealing with possible future adverse shocks.

However, it is important to give a special focus on the Indonesian economy, Timor-Leste's main trading partner and whose evolution is extremely relevant for Timor-Leste's domestic economy. In addition to a remarkable economic growth, an improvement in external accounts, allied with exchange rate stability and an improvement in public accounts compared to 2021, these dynamics of the Indonesian economy, as analyzed above, are extremely positive for the economy of Timor-Leste. The dynamics foreseen for the macroeconomic fundamentals of the Indonesian economy for 2023 and 2024 are even more significant, signaling good prospects for Timor-Leste's main economic partner.

The Indonesian economy, the main partner of Timor-Leste's economy has shown important improvements from a macroeconomic point of view.

On the other hand, the sharp appreciation of "commodity" prices felt in 2020 and 2021, but also seen in 2022, allows us to assess the positive contribution that this price increase has on Indonesia's national accounts, particularly the positive effects on the balance of external accounts and, consequently, on the balance of the Indonesian public sector.



However, excessive dependence on these “commodities” implies that the future economic growth of Indonesia may show some signs of fatigue, particularly if the pace of increase in prices of exported raw materials, very determined by global and regional developments, slows down, which will pose some potential obstacles to the increase in national income of this important partner of the Timorese economy.

In sum, the evolution of the Indonesian economy, namely the positive evolution of the main macroeconomic indicators and its specificities of domestic production implies continued analysis by the fiscal policy authorities and the BCTL. However, it is expected that both the government as well as the central bank of Indonesia will continue to implement economic policy measures in order to gradually mitigate the underlying economic risks to its economy.



## 1.3 Economic Transmission Channels for Timor-Leste



An analysis, even if brief, of the international financial evolution and of the ASEAN countries, is of vital importance to the economy of Timor-Leste, since the financial component of the world and Asian economy decisively influences the evolution of the national economy.

In this sense, this section aims to identify the main transmission mechanisms of international economic developments with relevant impacts on our economy. At present, it is admitted that these effects impact in a very circumscribed way on some sectorial components of the economy of Timor-Leste. Thus, in the next sections to be discussed, the study on the impact on the evolution of domestic inflation rates, the analysis on the oil revenues, as well as the investment made under the Petroleum Fund are something of a broader discussion in order to understand, in a more comprehensive way, the various mechanisms of economic transmission to Timor-Leste. Still, and although foreign direct investment (FDI) is a variable of particular interest to be able to assess the mechanisms of international transmission to the economy of Timor-Leste, the lack of data with the necessary quality on the investments made in Timor-Leste makes it difficult to make a rigorous analysis of this component.

In this way, and as there is a growing openness of the Timor-Leste economy and a greater integration of trade interdependence with major economic partners, particularly at the regional level, it is expected that the external dynamics of regional partners will increasingly impact the evolution of the Timorese domestic economy, thus broadening the range of influences of the various transmission channels.

### 1.3.1 Imported Inflation

The evolution of international prices of goods and services impacts decisively on an economy, and the greater the degree of openness of an economy, the greater the impact on, among other variables, domestic inflation and the formulation of its expectations. Thus, the evolution of international prices represents an important channel of transmission for an economy which, like the economy of Timor-Leste, has a large share of imported goods and services. More specifically, the economy of Timor-Leste had a ratio of imports, compared to non-oil GDP, in 2021 of 47.6%, increasing this percentage to 55.1% in 2022. From these data it is clear, therefore, that the evolution of international prices decisively influences the evolution of the domestic price level.

In 2022, imports increased to 55.1% of GDP, an increase of 6.5 p.p.

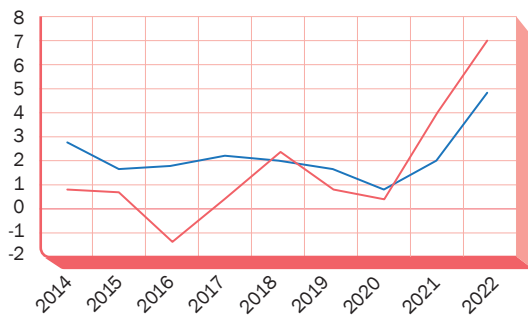
The empirical analyses as well as the development of economic models carried out by the BCTL have continuously demonstrated the great relevance of this transmission channel. However, one of the main difficulties in conducting this analysis stems from the difficulty in defining an appropriate variable to assess the impact of “external inflation” for Timor-Leste. This difficulty has to do with the lack of a price index for imports associated, at the same time, with a great volatility of the basket of goods and services imported by the national economy, as well as the economic origin of the goods and services that are purchased from abroad. Thus, and after analyzing different ways that best fit the required analysis, the BCTL has opted for a variable that seems more adapted to the specificities of the Timorese economy, therefore choosing an average of the inflation rates of the 5 largest ASEAN economies together with China’s inflation rate, this inflation rate being measured in USD. In practical terms, this measure of inflation calculated for regional economies has two main advantages. The first is that it allows for the measurement of price developments while keeping in mind the exchange rate changes of these Asian economies and, secondly, it allows for a benchmarking of inflation rates in regional currency.

The domestic inflation rate in Timor-Leste was significantly influenced by the external inflation rate.

As can be seen in graph 1.16, below, the domestic inflation rate tends to show similar dynamics to those recorded for external inflation, although with less variability. Since the BCTL uses the average inflation rate of the Asian partners, the inflation forecast models are based on this variable, as described above, allowing a distinction to be made between the domestic and imported components of inflation in Timor-Leste.

**Chart 1.16**

(Domestic vs foreign inflation - % change year)



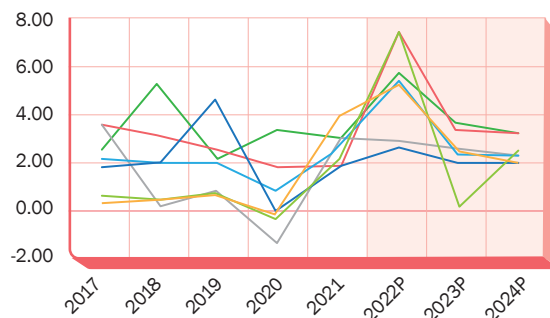
% annual change

External Inflation Domestic Inflation

Source: DGE & BCTL calculations

**Chart 1.17**

(Regional inflation in USD terms)



% annual change

China Philippines Average Indonesia Singapore Malaysia

Source: IMF WEO

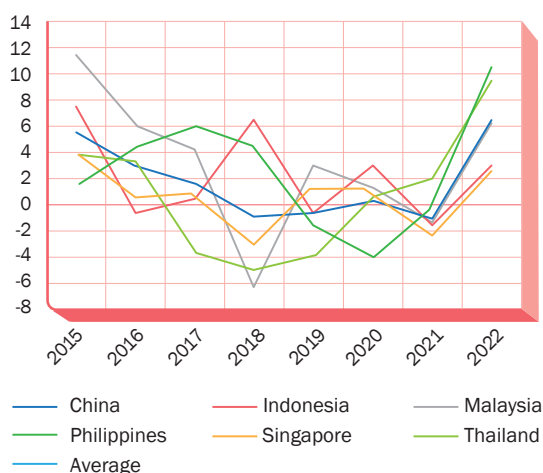
As can be seen from the two graphs above, we can conclude that the rise in the inflation rate in Timor-Leste is quite correlated with the acceleration of external inflation. Recognizing that naturally the correlation between the inflation of the domestic economy and the partner economies of the Timorese economy is not unitary, we can only conclude that the evolution of the price level in Timor-Leste has been significantly influenced by the evolution of the domestic inflation rate.

In terms of trajectory, the year 2022 is marked by an increase in external inflationary pressures, which led to a more accentuated growth in domestic inflation, as already recorded in 2021, when a generalized increase in world prices began to be observed. It should be noted that in 2022, external inflation as measured by the BCTL was 4.7%, when in 2021 it had been 2.2%. The figure recorded in 2022 for external inflation results from an appreciation of regional currencies against the USD by just over 6%, on the one hand, and an increase in the inflation rate, measured in local currency, of 5.3%.

There was an external inflation rate of 4.7%, the result of an appreciation of Asian regional currencies.

### Gráfico 1.18

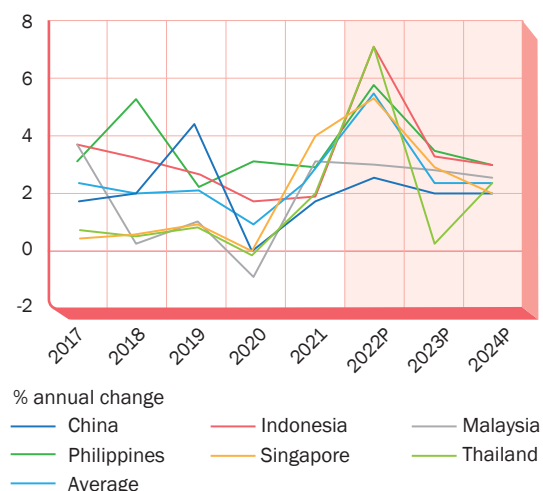
Taxa de câmbio vs USD



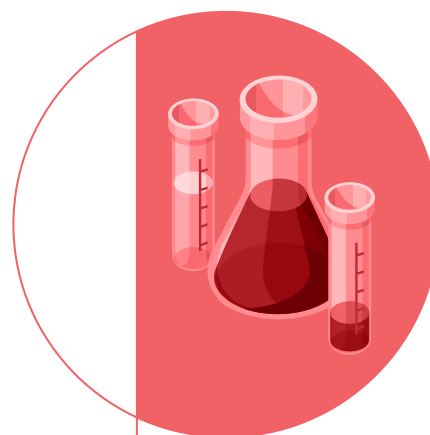
Source: IMF WEO

### Gráfico 1.19

Taxas de inflação – anual variação %



Source: IMF WEO



Bearing in mind the enormous relevance of this transmission channel for the national economy, the short and medium-term evolution of “external inflation”, decisively influenced by the exchange rate evolution, will be one of the main factors in determining the evolution of domestic inflation.

In this domain, the BCTL expects that, in line with the IMF expectations, the regional currencies will be stable against the USD in 2023, which together with the forecasts of slowdown in the inflation rate of the Asian trading partners, will allow the economy of Timor-Leste to register moderate levels of its inflation rate during this year. On the other hand and given that the evolution of the domestic economy in Timor-Leste also plays a relevant explanatory role in determining the inflation rate, the growth forecasts for Timor-Leste will be analyzed in greater detail in the chapter that analyzes the evolution of the domestic economy, providing a more detailed analysis, as well as its assumptions, for the forecasts made by BCTL on the evolution of future prices in Timor-Leste.

### 1.3.2 Energy Markets and Oil Revenues

In 2022, coal has seen a significant price increase of 147% compared to 2021.

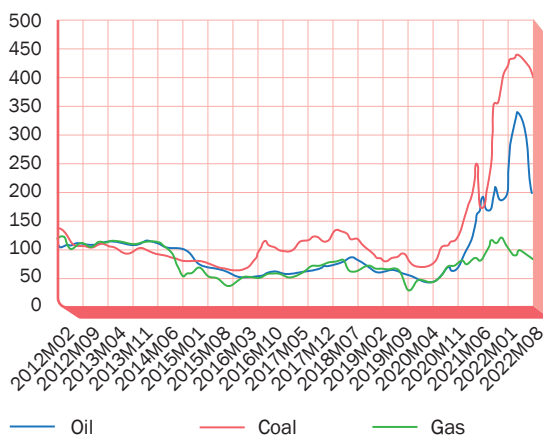
The development of energy prices, such as oil and natural gas, among others, are highly volatile, both in the short and long term, oscillating significantly between periods of low and high prices of these “commodities”. Charts 1.20 and 1.21, below, show not only these oscillations mentioned, but also allow us to assess the recent evolution of the price of these commodities in a multi-year and intra-annual perspective. Thus, the graphs allow us to verify that prices can register variations of +/- 25% in year-on-year terms. When analyzing commodity prices in levels, we can see that the price of oil rose significantly in world markets, having, in some of the months of last year, reached peak values like those recorded in 2012. However, the price of this energy commodity registered a slight decrease in December 2022, when compared with December 2021. In 2022 it is therefore notable the volatility that the price of this raw material recorded in international markets, with inflationary pressures, but especially the war in Ukraine, playing a relevant role in explaining the price dynamics.

On the other hand, natural gas prices recorded an all-time high in April 2022.

In 2022, the price of other “commodities” such as natural gas and coal, but especially gas, recorded remarkable price increases, with natural gas increasing 27.4% in December 2022 compared to the same month of the previous year, while in the same period, coal recorded an incredibly significant increase in its price by more than 147d%. Although natural gas prices had already peaked in 2021, the price of this energy commodity was even higher, with an all-time high of 11 years in April 2022. Similarly, coal also recorded a price maximum in 2022 compared to the last decade.

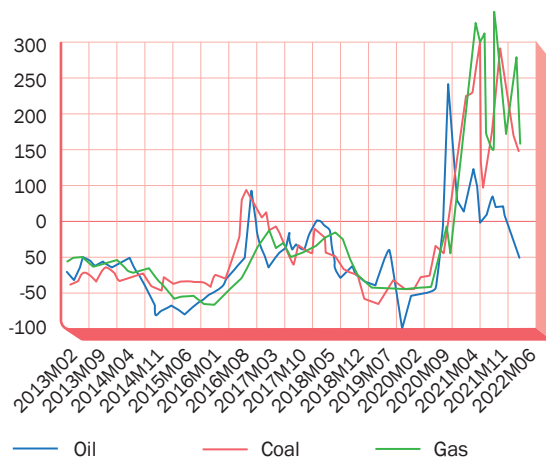
The price dynamics of these raw materials are essentially due to the anxieties and risks associated with the military escalation in Ukraine which, in view of the sanctions imposed on Russia - one of the world's largest producers of natural gas and oil - caused a general increase in prices. As a result of these events, EU countries have reopened some coal plants to deal with increased potential shortages of oil and natural gas, which has led to pressure on coal prices.

**Chart 1.20**  
(Energy prices – SPOT)



Source: World Bank

**Chart 1.21**  
(Energy prices - Variation)



Source: World Bank

However, the future evolution of energy commodity prices is not easy to predict, given that the movement of prices of these raw materials is not only the result of the natural forces of the economy, dictated by demand and supply, but also significantly by the international political context, as is the case of the war in Ukraine, as well as by the aspects of financial leverage characteristic of these markets, greatly influenced by financial futures contracts and other derivative financial instruments. More specifically, and as proof of this reflection is the galloping rise in energy commodity prices in 2022, at an even faster pace than the price dynamics recorded in 2020, and whose variability and amplitude of the rise recorded in 2022 was considered totally unexpected by financial analysts researching this market.

The sharp increase in energy commodity prices was partly a result of the military tensions in Ukraine.

It should also be noted that the impact of energy price fluctuations on the country's oil wealth is much lower today than in previous years. This stems from the fact that future petroleum revenues, considering the fields in current exploration, are today very small compared to what has already been extracted from the reserves of the Timor Sea, with the prospect of

The impact of oil prices is lower for oil revenues in the near future given the closure of oil exploration in 2023.

the exploration of existing fields cease completely by 2023. The expected future revenues from 2022 to 2023 now amount to only about \$150 million, a further reduction from the expected 2020 figure of \$200 million.

Given the now tiny estimate of future petroleum revenues expected from the Timor Sea, we have not developed in this report, as we did in previous years, the exercise of sensitivity analysis of revenues in relation to the price of oil.

### 1.3.3 Financial Markets and the Petroleum Fund

FP recorded losses of USD 2,237 million in 2022 versus 2021.

Finally, we address another channel of transmission of international developments to our economy, related to the Petroleum Fund created to efficiently manage the country's oil wealth. The operating mechanism of this channel is similar to that of the price of oil, in that the evolution of international financial asset prices determines the value of the Petroleum Fund and, in turn, the value of Sustainable Income. Insofar as they affect these two aggregates, the prices of financial assets end up influencing the amount of revenue available to finance the State Budget and, consequently, the pace and size of spending policies and public investment.

The Petroleum Fund (PF) closed the year 2022, with a value of net financial assets of \$17,414 million, which represents a reduction of \$2,237 million compared to the year 2021, where the PF recorded an amount of \$19,651 million. The assets of the PF were mainly invested in Treasury bonds of the most developed countries, a percentage equal to 72.23%, and in shares of companies based in these economies, representing 27.77% of the Petroleum Fund.

FP assets were worth USD 17.4 billion at the end of 2022.

In the year 2022, FP recorded an overall loss net of fees and taxes of \$1,939 million, when in the year 2021 it had recorded a net gain of \$1,088 million. This result was mainly due to the devaluation of assets, negatively impacting FP's results.

Since its inception, the PF has broadened its investment universe, first by investing only in U.S. Treasuries, then gradually investing in equities, and finally extending investments into bonds of various global Treasuries. The gradual broadening of the investment mandate has been driven by the Fund's increasing demand for higher expected returns and greater diversification of the investments and markets considered.

Rising interest rates in the US had a negative impact on FP profitability.

Unsurprisingly, this institutional development exposes the Fund to new risks and markets, but by benefiting from the diversification between the evolution of the prices of the various assets, it allows to build a more solid Portfolio whose return is more efficient, for the desired level of risk.

Currently, the Fund invests only in fixed interest rate bonds and stocks, so that the interest on the bonds and the dividends on the stocks provide the Fund with a fixed and constant income, at least a priori. Naturally, when investing in bonds and stocks, the Fund benefits from the rises in their respective market values, or, on the contrary, may be adversely affected by their declines. Therefore, the Fund's main financial risks correspond to possible losses arising from a decrease in the prices of the bonds or of the shares acquired.

In addition, since the PF invests in several markets denominated in currencies other than the US dollar, the Fund is also exposed to currency risk on investments, understood as the possibility of depreciation of the various investment currencies against the US dollar. In summary, the financial risk of the PF includes 3 types of risks: equity risk, or the risk of falling prices on the main world equity markets, interest rate risk, which corresponds to the risk of falling prices of treasury bonds; and currency risk, which consists of the risk of depreciation of the investment currencies against the dollar.

Thus, it is latent the contribution of the dynamics of the price of PF assets and exchange rate changes of currencies associated with each of the investments, thus consisting of this interconnection between the two economic aspects in the most relevant channel of transmission between international markets and the evolution of the value and profitability of the PF. Regarding profitability, the PF recorded a loss of 10.1% in 2022, contrasting with an appreciation in 2021 of 5.6%. It should be noted, however, that in a long medium-term perspective, that is, for 3 and 5 years, the annual profitability of the fund is positive, registering gains of 1.4% and 2.8% per year in these periods. Furthermore, since its conception, the FP has shown an average annual return of 3.9%.

As previously mentioned, in 2022, in the global Treasury bond markets, there was an even more expressive rise in interest rates in the US market and in the EU (Germany), with greater acceleration in the case of 2-year maturities than in 10-year maturities.

The PF profitability registered, in 2022, a devaluation of 10.1% when, in 2021, it presented a positive return of 5.6%.

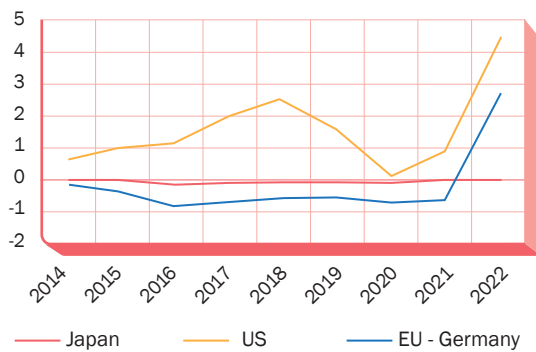
However, the profitability of the PF has registered positive values in a 5-year term.





**Chart 1.22**

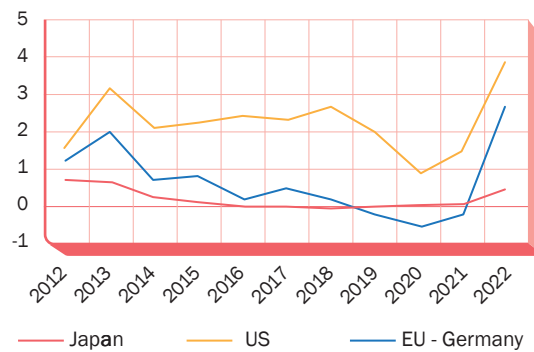
(2-year Interest Rate - % year)



Source: Bloomberg

**Chart 1.23**

(10-Year Interest Rates - % year)



Source: Bloomberg

In the European and Japanese markets, long-term interest rates have also risen, with 2022 as much as 8 times the 2021 figure. However, short-term interest rates, despite a rather marginal increase, rose to positive ground, a trend recorded since 2014.

This rise in interest rates, to be felt from 2020 on, but more expressively in 2022, in the three economic blocks, but mainly in the USA, the market that represents the largest percentage of the Petroleum Fund's bond investments, may translate into higher expected returns, contrary to what happened in 2021.

FP investment in US treasury bonds explained the largest share of the return observed in 2022.

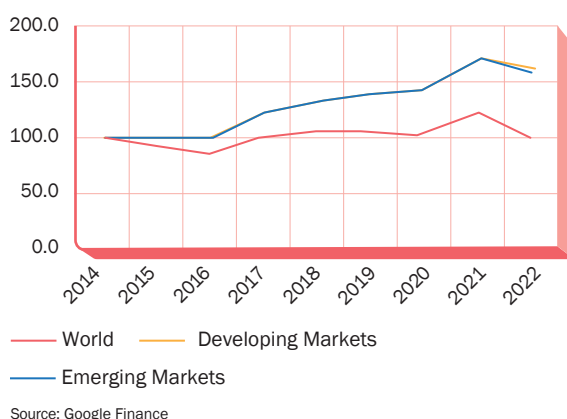
The increase felt since 2021, but even more pronounced in 2022, year in which there was a reversal of the cycle of interest rates observed between 2019 and 2020, with special emphasis on the US market which represents the largest share of the FP investments, had a negative impact on the profitability of the Petroleum Fund, despite the coupons received. This movement resulted in the calculation of an overall loss of the bond portfolio of -9.1% in 2022, when in 2021 the overall loss for this item had already been -2.25% and, further cancelling out part of the gains of this type of investment, registered in 2020 (5.04%) and in 2019 (5.16%).

Regarding equity markets, the equity benchmark of the Fund (**blue line** - “World”) registered losses in 2022, after a sharp rise in 2021. This loss was due to the losses registered in the US equity markets, but also in most global markets. The investments made by the PF in stocks registered a loss of 16.84% in 2022, in contrast to the profitability registered in 2021, at an impressive 22.72%, to which were added the gains of 2020 and 2019, profitability that totaled 14.03% and 27.67%, respectively. However, the PF recorded some gains, as a result of an appreciation of the USD against other investment currencies.

Similarly, the more negative equity market dynamics, at 16.8%, contributed to a significant portion of the PF return in 2022.

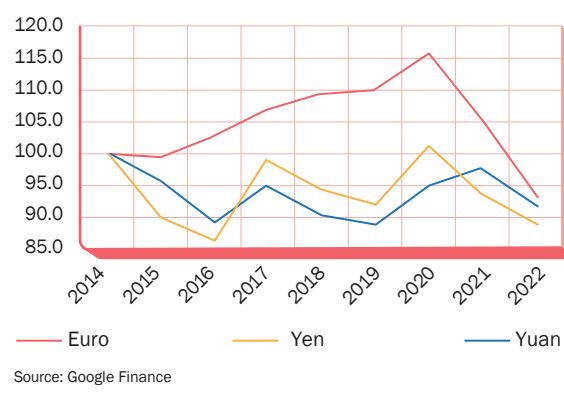
**Chart 1.24**

(Stock markets – Annual 2014 = 100)



**Chart 1.25**

(Foreign Exchange Rate - December)



In conclusion, the PF today has a wide range of investments cemented in the main stock and bond markets worldwide, allowing it to optimize the return-return profile and, at the same time, minimize the associated risks.

From a medium-term perspective and given the restrictive policies of monetary authorities to address the generalized increase in prices, some risk, at least for 2023, on the profitability of global equity and bond markets should be considered. With expectations of a lower slowdown in the inflation rate than previously forecast by central banks, the potential risks to the evolution of profitability that the PF may experience in the year ahead should be highlighted.

It should be noted, in this regard, that the North American stock market, after the new rise recorded in 2021, a year in which the share price was three times the level recorded in December 2009, the share devaluation seen in 2022 may herald some risks for 2023 and the respective evolution of the income generated by the PF.

However, the Fund's long-time horizon and its institutional framework were optimally designed to allow it to face market fluctuations in a rational way and even to benefit from episodes of price declines that regularly occur in the markets.

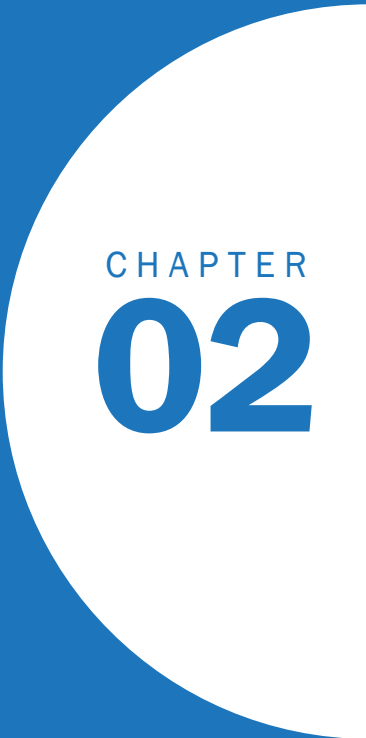
On the contrary, the lack of significant future revenues from the current exploitation of petroleum resources, together with the continued maintenance of a level of public spending that requires a reduction in the capital of the petroleum fund, now represent significant risks to the success of the strategy and time horizon of the Fund, so its objectives and implementation may have to be reassessed in light of these highly relevant developments.



# Recent Evolution of the National Economy

This chapter details the evolution of Timor-Leste's economy in 2022 and the respective projections for 2022 and 2023, also highlighting the main developments in our country's public, financial, and external sectors.





CHAPTER  
**02**



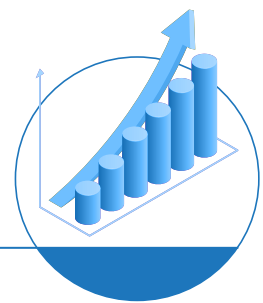
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**As described in more detail below, the main developments concerning the national economy consist of:**

- The economy of Timor-Leste registered an acceleration of the GDP growth rate in 2022, continuing the growth trajectory after the recession felt with the COVID-19 pandemic. The growth rate of 4.0% in 2022 compared to 2021, is mainly because of the increase in public spending during the year, valued at \$299 million (+21%). Also of note is a slight slowdown in household consumption in 2022, while there was a growth in exports. However, our forecasts also consider the negative impacts of increased inflationary pressures and reduced consumer purchasing power.
- For 2023, the BCTL foresees a continuation of the economic recovery, although it forecasts a deceleration of economic growth to 3.1%. This expectation is based on a slowdown in the contribution of domestic demand growth in 2023 compared to that observed in 2022, while, on the other hand, the contribution of net external demand increases. Public consumption is also expected to grow by 2.4% and household consumption by 1.4% in 2023 relative to 2022. In contrast to 2022, we expect public investment to decline slightly (-0.4%), contrary to the significant increase observed in 2022 relative to 2021 (\$34 million)
- In terms of fiscal policy, 2022 was marked by a significant increase in expenditure (+\$299 million) and in the public deficit, due to the increase in current expenditure (+18%), in line with the increase in the respective budget and following the same dynamics already observed in 2021. Also noteworthy is the growth in public investment in 2022 (\$63 million), due to a higher execution rate of the respective budget. For 2023, the BCTL expects a new increase in expenditure and in the public budget deficit, mostly explained by the recovery of the capacity to execute investment in infrastructure and buildings, so that fiscal policy will continue to support the economic recovery from the pandemic crisis of 2020.
- In line with the global trend, there was a notable increase in domestic inflationary pressures in 2022, with the average inflation rate standing at 7.1%, up from 3.8% and 0.5% in 2021 and 2020, respectively. The rise in inflation was mainly due to worsening external inflationary pressures, explained by the robustness of the recovery in global demand and the persistence of global production and logistics constraints in 2022, as well as the outbreak of war in Ukraine that has put pressure on food and energy commodities. In terms of the outlook, the BCTL anticipates an acceleration of inflationary pressures throughout 2023, followed by a marginal easing of the inflation rate this year, forecasting an average inflation rate of 6.9%.

- Timor-Leste continued to register a deficit in the external current account, which registered a significant increase in 2022, registering in this year the negative value of \$950 million, explained by the growth in imports of goods and services. Although oil revenues have registered a significant decrease over the last few years, they continue to be a factor in mitigating the impact of the high trade deficit on our country's current account balance. However, the mitigation of oil activity was substantially lower in 2022 than in previous years.
- Notwithstanding the challenging macroeconomic context, the financial sector continued to remain robust and highly dynamic in terms of the growth of its captivity, assets and funds raised. It is illustrative to note that bank credit continued to grow in 2022, as did deposits and funds raised by banks operating in the country.





## 2.1 Economic Activity and Inflation

### 2.1.1. Economy - Recent Developments and Global Prospects

In 2022, according to the projections made by the BCTL, the domestic economy will have recorded an acceleration in its economic growth, registering in this year a 4.0% increase in GDP compared to 2021, a year that also displayed a growth rate of 2.9%, after an economic recession in 2020, when real GDP contracted by 8.3%.

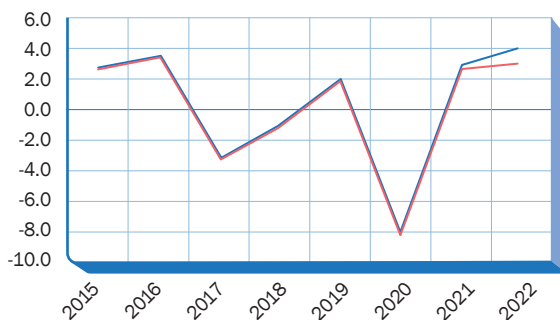
In 2022, the GDP growth rate accelerated to 4.0% from 2.9% in 2021.

The economic growth registered in 2022 counted with the important contribution of the public sector, whose contribution totaled almost 60% of the real GDP verified in 2022. In fact, the public sector registered an increase in expenditure of \$299 million in 2022 relative to 2021, an increase that was still slightly lower than that registered in 2021 relative to 2020 (just over \$306 million USD). In proportional terms, this increase in public spending represented a year-on-year change of 21%. Additionally, investment, as well as exports represented a growth rates.

Economic growth was mainly due to the contribution of public spending.

Chart 2.1a

Real GDP Growth



% change year

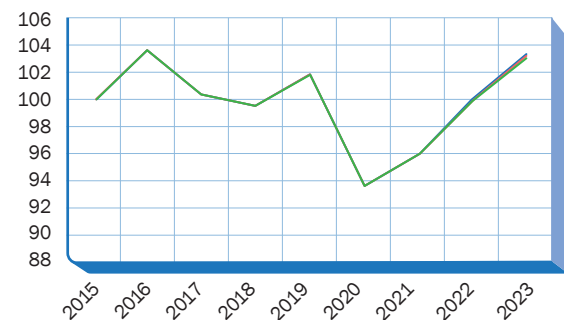
— BCTL

— MdFinancas

Source: BCTL, 2023 propose Budget, and IMF

Chart 2.1b

Real GDP



2015=100

— BCTL

— FMI

— MdFinancas

Source: BCTL, 2023 propose Budget, and IMF

As mentioned, the recovery in growth in 2022 was due to the increase in the public sector, as well as in private demand, which recorded a net positive contribution of 3.7 p.p. in the 4% growth rate in 2022. However, the increase in domestic demand may have negative implications on net external demand. In the case of 2022, and despite the economic growth rate verified, we can see that total imports increased, albeit slightly. However, and even though imports increased not only in absolute value, imports as a percentage of GDP decreased marginally (46.9% of GDP in

Private demand represented a positive impact of more than 90% of the growth rate observed in 2022.



2022 versus 47.6% of GDP in 2021). In terms of net exports, there was an external deficit in 2022 of \$686 million and corresponding to 43.2% of GDP, in line with the figure reached in 2021, when there was a negative balance of net exports of \$688.5 million, equivalent to 45% of Timor-Leste's GDP.

When we disaggregate the various components of real GDP, we can see that, regarding the public sector in 2022, its contribution to the observed growth rate was essentially due to an increase with the public administration wage bill by 13.4% compared to 2021, an increase in public investment by 64.3% and a growth in transfers in the order of 34%. On the other hand, consumption of goods and services fell by 3.3% in 2022 compared to 2021. Still, and despite this increase in the assorted items, it should be noted the high degree of budget execution that allowed the public sector to contribute significantly to economic growth.

About private demand, the BCTL estimates that household consumption had a negative impact on the evolution of GDP in 2022, given that the consumption of these economic agents registered a slight decrease of 0.4% compared to 2021, contributing, in 2022 with an amount of \$962 million. At the same time, there was a significant decrease in private investment of 26% compared to 2021, totaling \$38 million, offset by the 19.6% growth in public investment in 2022, which registered \$204 million.

In 2023, a growth rate of 3.1% is projected, representing a slower pace compared to the observed rate for 2022.

Regarding the projections for the year 2023, the BCTL foresees a positive evolution of GDP, despite forecasting a slowdown in economic growth for the current year. According to the estimates made, it is projected that in 2023, the economy of Timor-Leste may register a positive growth rate of 3.1% compared to 2022. This projection for 2023 is based on a 2.3 p.p. contribution from domestic demand, which represents a slowdown in this contribution of 3.7 p.p. recorded in 2022, and on a 0.6 p.p. increase in the contribution of net external demand in 2023 (the contribution of net exports for the 2023 growth rate is 0.8 p.p.). In fact, and according to the projections made, the negative balance of net exports is projected to decrease, essentially explained by a decrease in imports of goods and services to values close to 41% of GDP in 2023, thus increasing the contribution of net external demand to economic growth in 2023, despite the already mentioned reduction of the slowdown in the contribution that domestic demand will have in 2023.

Regarding the consumption dynamics of Timorese families, it is expected that this should increase by 1.4% in 2023 compared to 2022, which represents a reversal of the negative trend recorded since 2022, when a reduction of 0.4 p.p. is expected, totaling in 2023 an amount of approximately \$981 million. Regarding investment, both public and private investment are expected to register a negative variation, in the same direction as that observed in 2022 relative to 2021. In detail, a growth rate of public investment of -0.4% is expected, as well as a decrease in private investment of about 1.1% in 2023 compared to 2022.

For 2023, the private sector of the economy is expected to reduce its importance...

In summary, the projections made by BCTL maintain a more conservative outlook for the economic development of Timor-Leste in 2023, which is mainly due to a slowdown in the private sector of the economy, given that there is some stagnation, and even reduction, of private demand in the economy, only offset by an increase in public spending in 2023, of 1.4%. Depending on the developments forecast for 2023, the BCTL estimates that 2023 will already see a level of real GDP almost 3 p.p. higher than in 2019, which was interrupted by the COVID-19 pandemic, with all its negative economic and social consequences.

To 2022, and when comparing the estimated values for Timor-Leste's real GDP dynamics with the Ministry of Finance and the IMF, the BCTL's values present a greater optimism. Specifically, while the BCTL forecasts a 4.0% growth in 2022, the Ministry of Finance and the IMF present a more conservative value for the real GDP growth rate of 2.7% and 3.3%, respectively.

The economic projections made by the BCTL are in line with other national and international institutions.

Finally, it should be noted that this scenario of projections for 2022 and 2023, as happened between 2017 and 2020, once again confirms the excessive weight of the public sector in the domestic economy, thus delaying the economic development led by private productive sectors and that can contribute decisively to greater resilience in the face of constant negative net export balances, which could compromise economic sustainability in the medium and long term. Only with greater promotion of the most productive sectors of activity will it be possible to create quality jobs, especially for the younger population, and thus be able to better remunerate both productive factors and, on the other hand, to promote a more robust and intergenerationally sustainable economic development.

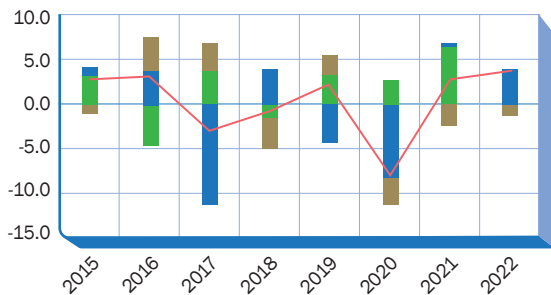
## 2.1.2 Evolution of the GDP - Optics and Components

Although there are only official estimates of Timor-Leste's National Accounts up to 2021, BCTL has internally developed a model that allows it to estimate the evolution of the most relevant components of domestic and external demand in more current terms, and thus assess the evolution of GDP and its aggregates in 2022. In this sense, the analysis that follows is based on the official data from the DGE up to 2021 and on the BCTL estimates for 2022, seeking to focus on the medium-term trends most relevant for our domestic economy.

According to the National Accounts of Timor-Leste projected by BCTL, there was an acceleration of the real growth rate of the non-oil Gross Domestic Product (GDP) in 2022 of 4.0%, after already observed a positive GDP growth rate in 2021 of 2.9%. The resumption of growth in 2021, like other countries, was due to the normalized recovery of economic activity after the restrictions on the freedom of movement imposed caused by the COVID-19 pandemic, felt in 2020 and still a little in 2021.

Chart 2.2a

Real GDP growth - Expenditure approach

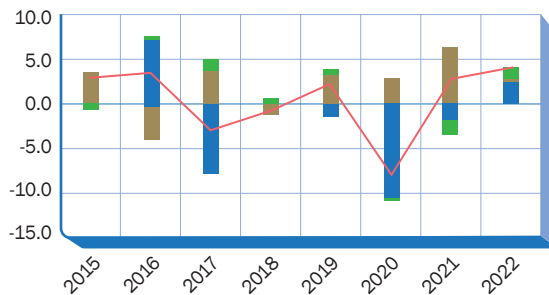


annual % change and p.p. contributions  
■ External Demand ■ Public Sector  
■ Private sector — GDP

Source: DGE and BCTL

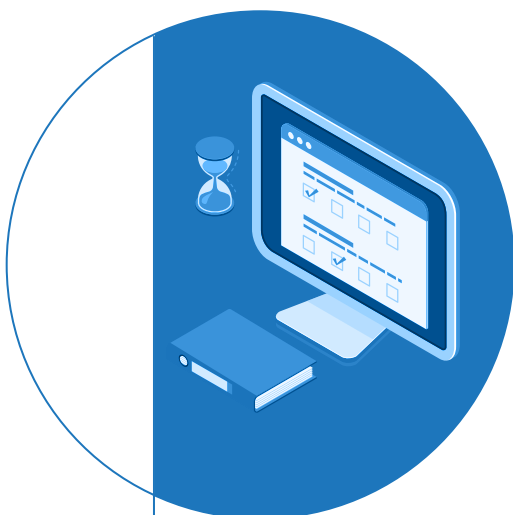
Chart 2.2b

Real GDP growth - Expenditure approach



annual % change and p.p. contributions  
■ Domestic Demand ■ External Demand  
■ Changes in inventories — GDP

Source: DGE and BCTL



According to these projections, the increase in GDP was mostly due to the acceleration of activities related to public consumption, which contributes with more than 70% (3.7 p.p. for a 4.0% growth rate of GDP in 2022), representing almost 63% of GDP in 2022, a slight decrease from the 64% in the 2021 GDP.

In 2022, public investment registered a positive growth rate.

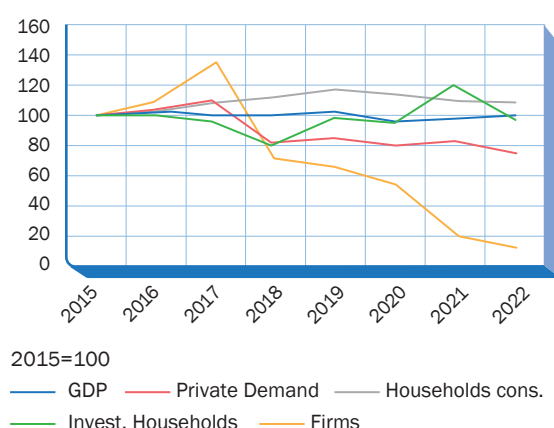
Regarding the perspective of expenditure, as already mentioned and according to the graphs below, we stress that the recovery of the economy in 2021 and 2022 is due to a greater contribution of consumption and public investment, caused by increased spending by the government of Timor-Leste in these 2 years. This relevance of the evolution of public demand for the trajectory of our economy has been, in fact, one of the main trends of our economy in the last decade.

The chart showing the evolution of real GDP and of private and public demand since 2015 confirms that the downward trend in the level of activity (GDP) from 2016 to 2020 was due to the gradual reduction in public demand, while the increase in public expenditure between 2021 and 2022 explains the resumption of GDP growth after 2020. It should also be noted that private demand has recorded some growth since 2016, albeit moderate, and for this reason, the contribution of the private sector of the economy will not have been sufficient to offset the decrease in the public sector and the corresponding impact that it has had on the evolution of the economy of Timor-Leste in recent years.

In charts 2.2c and 2.2d, below, we present the evolution of the subcomponents of private and public demand, compared with the trajectory of GDP since 2015.

**Chart 2.2c**

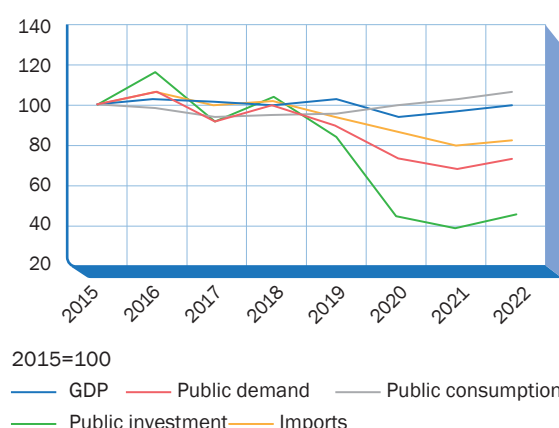
Real GDP and Private Demand



Source: DGE and BCTL

**Chart 2.2d**

Real GDP, Public Demand and Imports



Source: DGE and BCTL

The year of 2022 is also marked by a no total recovery from the reduction in economic activity recorded during the pandemic of COVID-19.

In what concerns the demand of the private sector of the economy, it should be noted that it has shown a less volatile trajectory than the trajectory of GDP since 2016, a phenomenon explained by the dynamics of private consumption. In contrast, private investment has been the worst performing subcomponent of private demand, particularly since 2017, which will be 96.6% below its 2015 level by 2022. This dynamic is alarming for the future of Timor-Leste's economy. With this trajectory in the short and medium-term, we may see an economy excessively dependent on public investment, which increased in 2022 compared to 2021 and which could jeopardize the resilience of the future economic development of Timor-Leste. The negative dynamics of investment in the private sector of the economy has very severe impacts on the future productivity of the economy of Timor-Leste, with unpredictable consequences on capital income and, consequently, on the labor factor.

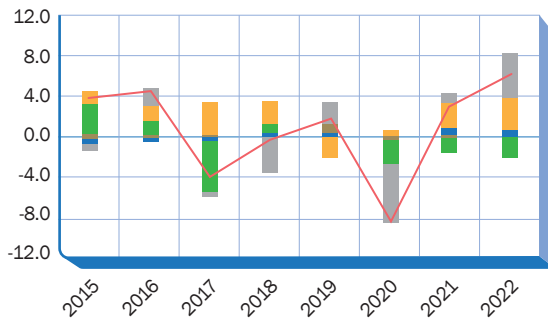
Despite the positive dynamics of public investment in 2022, it must be strengthened in order to promote a long-term sustainable development.

As for public sector demand, it has shown much lower amounts when compared to 2015. In particular, the value of public demand in 2022 represented only 76% of the value observed in 2015. A negative contribution to this fact is the fact that public investment only accounts for 45% of the value recorded in 2015, thus elucidating the impact that the fall in public investment represents for public demand in the economy of Timor-Leste. On the other hand, it should be noted that public investment can have important consequences for private investment decisions. In this sense, public investment should be strengthened in order to increase the infrastructure necessary for the development and promotion of the private sector, namely private investment.

Regarding the productive structure of the Timorese economy, the graphs below (2.3a and 2.3b) allow us to understand which sectors of activity have contributed in greater proportion to a greater dynamism of economic activity in Timor-Leste. More specifically, it is highlighted that in 2022, and even in 2021, the other services sector, in addition to public administration, have decisively contributed to accelerate economic growth. In 2022 there was also a greater contribution from manufacturing, which is an important sign for the future development of the secondary sector of the economy. By 2022, the manufacturing industry is expected to have surpassed the levels of value added to the economy that were recorded in 2018, and if the trend observed in 2022 continues, it is projected to reach values close to those reached in 2019, the year before the COVID-19 pandemic occurred. Conversely, and recording the sector that contributed to the performance of the economy in 2022, the construction sector stands out, which continued to decline since 2016, although a marginal increase in 2019.

**Chart 2.3a**

Real GDP Growth - Production approach



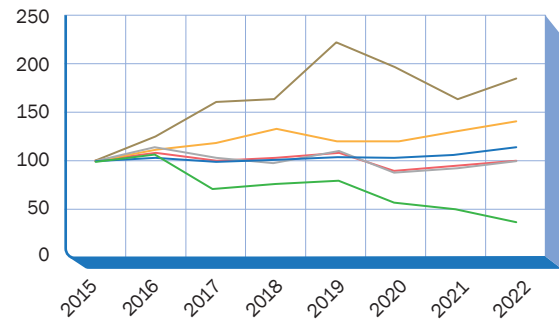
Annual percentage changes and p.p. contributions

■ Agriculture  
■ Construction sector  
■ Other services  
■ Manufacturing sector  
■ Public administration  
— Non-oil GDP

Source: DGE and BCTL

**Chart 2.3b**

Real GDP - Production Sectors



2015 = 100

— Agriculture  
— Construction sector  
— Other services  
— Manufacturing sector  
— Public administration  
— GVA

Source: DGE and BCTL

In terms of the outlook for 2022 and 2023, we note that the recovery in GDP growth should be driven more, in 2022, by the growth of services, construction, and manufacturing, together with the growth forecast by the public sector. Naturally, the growth of public expenditure, namely the growth of public investment may lead through the effects of fiscal stimuli to promote the growth of the other sectors previously discussed.

When the GDP is analyzed resorting to the production approach, it should be highlighted the contribution of construction services and manufacturing for the economic development in Timor-Leste.

Since 2015 and until 2022, according to what we can see in graph 2.3c, the main change in the production structure consisted of significant decreases in the weights of the construction sector (from 17% to 7% of GVA) while there is an increase in the contribution of public administration, from 24% in 2015 to almost 33% in 2022. The services sector continued to maintain its dominant position in the economic structure, accounting for 39% of GVA in 2022, up from 40% in 2015.

As for 2022 and 2023, the BCTL expects this production structure to remain relatively stable, with the exception that the importance of the manufacturing sector is expected to grow slightly as a result of the expected recovery in private and public investment.

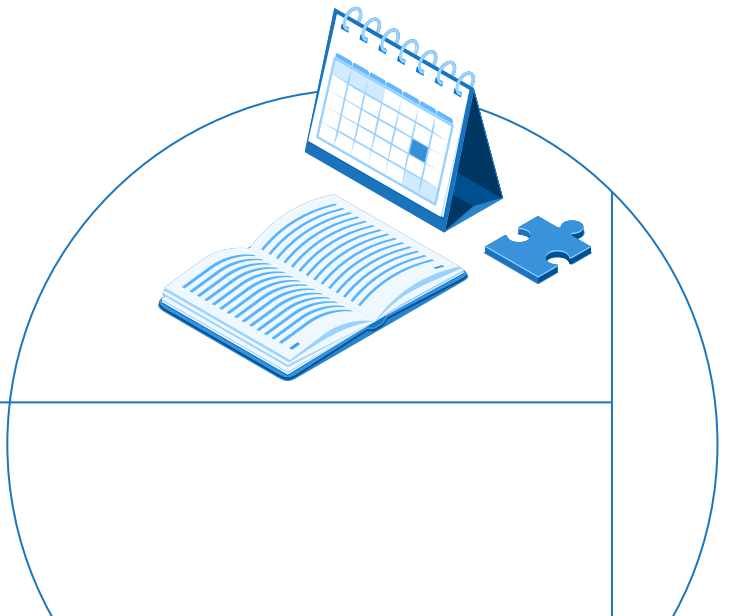
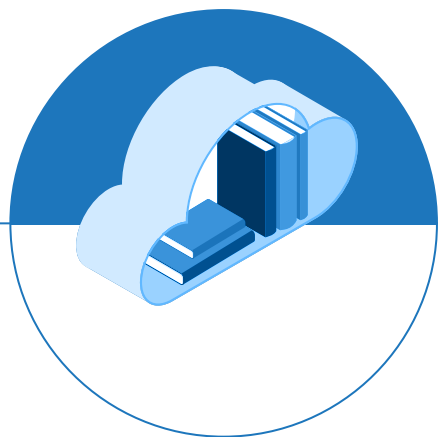


Chart 2.3c

GDP composition by production sectors

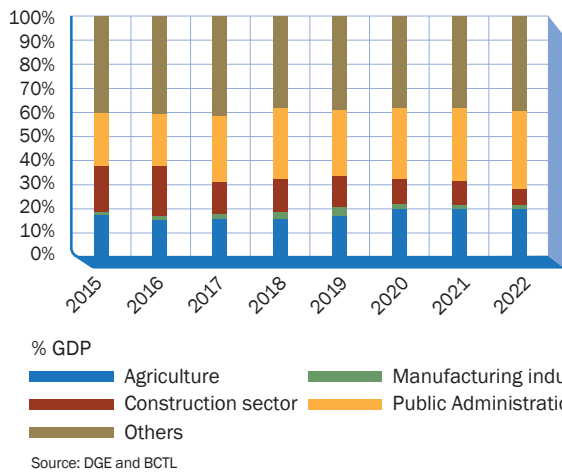
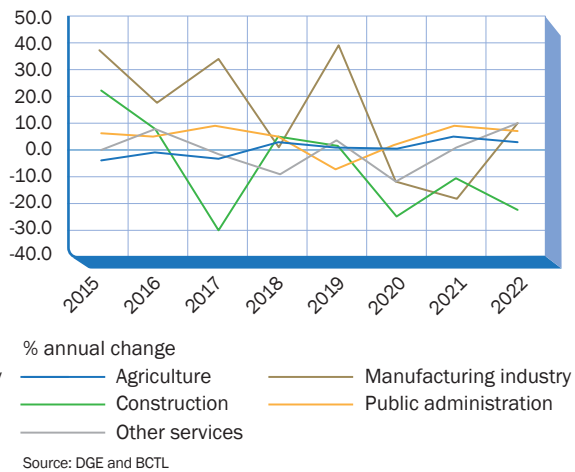


Chart 2.3d

Sectoral Growth Rates



The industrial sector has seen a very appreciable development, growing by more than 360% in the last 7 years.

On the positive side, the industrial sector has seen a remarkable expansion of its activity, with its GVA growing 367% between 2015 and 2022. Yet, despite this robust expansion, this sector continues to represent an insubstantial share of the domestic economy, accounting for only 6.9% of GDP in 2022, to the detriment of other sectors of economic activity.

This productive structure shows that the country’s economy continues to depend heavily on the public sector, since the sectors less dependent on the State - agriculture, fisheries, industry, hotels and restaurants - would only represent 39% of GDP in 2022, with the weight of these sectors being relatively stable in the economy of Timor-Leste.

Despite the significant increase in the industrial sector, the anemic growth of the agriculture and fisheries sector, which has recorded a cumulative growth of 11.7% since 2015, coupled with weak dynamics of other activity sectors between 2015 and 2022 already described above, have resulted in a limitation of the economic development of these sectors less dependent on the public sector.

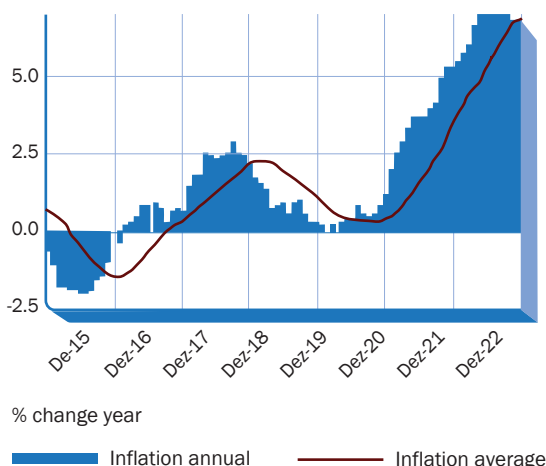
### 2.1.3. Prices and Inflation

The price level grew even faster in 2022 than in 2021.

The average annual inflation rate in Timor-Leste, according to the DGE, was 7.1% in 2022, which represented a strong increase compared to the 3.8% and 0.5% registered in 2021 and 2020, respectively. In year-on-year terms, the rise in the inflation rate is even more visible, having accelerated from 5.3% in December 2021, to 6.9% in December 2022.

### Chart 2.4

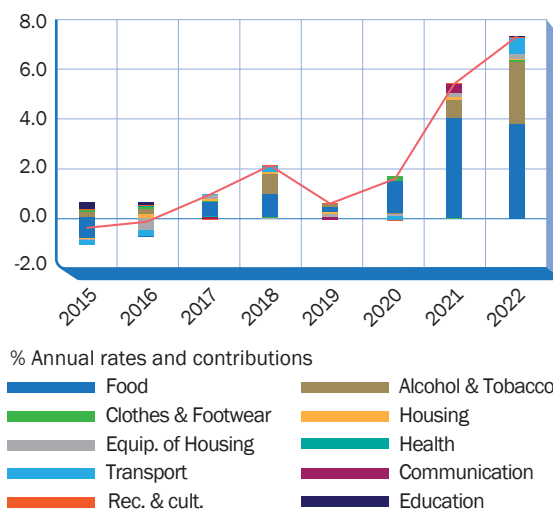
Inflation rate in East Timor



Source: DGE

### Chart 2.5

Inflation rate in East Timor



Source: DGE and BCTL analysis

As shown in the graphs and tables below, in 2022 there was a general rise in inflation to the maximum levels of the last decade, recorded in 2015. This trend, in line with what has been happening in the various world economies following the inflationary pressures arising from the negative supply shock, combined with the economic recovery from the 2020 pandemic, culminated in the end of the trajectory of a stable inflation rate dynamic recorded between 2015 and 2020.

The average annual inflation rate in 2022 was 7.2%, up from 3.8% in 2021.

It should be noted that the acceleration of prices in 2022 in Timor-Leste was essentially due to an acceleration in the prices of alcoholic beverages and tobacco, whose prices registered a price increase of around 24% (compared with an increase of 7.2% registered in 2021), followed by the transport sector, with this sector registering a price increase of 12.5% when, in 2021, prices had only registered an increase of 2.7%, and, finally, the food sector which registered an inflation rate of 7.5% in December 2022 against an increase of 5.8% registered in the same month of the previous year. In contrast, only the clothing and footwear sector recorded a 0.2% decrease in prices in 2022.

The price rise is mainly explained by an increasing growth of the alcoholic and beverages as well as transportation sector prices.



Table 2.1 provides more detail in terms of inflationary trends, disaggregating the average inflation rate by major goods/services groups: O quadro 2.1 oferece maior detalhe em termos das tendências inflacionistas, desagregando a taxa de inflação média por grandes grupos de bens/serviços:

**Table 2.1**

Average inflation of the CPI consumer basket sub-groups - % average year

	Dec-15	Dec-16	Dec-17	Dec-18	Dec-19	Dec-20	Dec-21	Dec-22
Food	0.3	-2.1	0.5	1.7	0.1	0.9	5.8	7.5
Alcohol & tobacco	2.6	1.8	0.1	8.3	3.2	-0.4	7.2	23.8
Clothing & footwear	4.6	1.0	-0.3	0.6	1.5	1.6	0.0	-0.2
Housing	-0.7	-1.3	-0.9	1.2	-0.4	-0.6	0.4	1.4
Household	-0.2	-3.2	-0.2	0.4	-0.8	-0.2	-0.3	2.9
Health	1.5	1.3	0.3	0.0	0.8	0.0	0.2	0.8
Transport	-6.3	-4.3	-0.8	3.0	-2.1	-1.3	2.7	12.1
Communication	-0.4	0.3	-0.8	0.3	-0.1	-0.4	0.0	0.0
Rec. & cult.	1.8	1.4	0.0	-0.6	-0.6	0.1	0.1	1.7
Education	18.6	6.1	0.2	16.6	10.3	2.6	0.0	2.5
<b>Total</b>	<b>0.5</b>	<b>-1.4</b>	<b>0.4</b>	<b>2.0</b>	<b>0.4</b>	<b>0.5</b>	<b>3.8</b>	<b>7.0</b>

Source: DGE and BCTL analysis

The inflation rate verified in 2022 in Timor-Leste is in line with the values registered worldwide.

As can be seen from the table above, the “Food” and “Alcoholic beverages and tobacco” sectors were the main responsible for the acceleration of the price level in 2022, not only because of the observed sectoral inflation rates - 7.5% for the “Food” sector and 23.8% for the “Alcoholic beverages and tobacco” sector, but also because of the quite significant proportion of these sectors in the representative basket of goods and services consumed in the economy of Timor-Leste.

It should be noted, however, that the acceleration of the inflation rate in Timor-Leste in 2022 shows a dynamic like to what has occurred in most world economies, this trend was not at all homogeneous, and some sectors such as “Health”, “Clothing and footwear” and “Communication” showed modest inflation rates when compared with other sectors.

Supply rigidity as well as the war in Ukraine have accentuated the price rise seen in 2022.

About the macroeconomic determinants of the inflation rate in 2022, the acceleration in price levels is due to inflationary pressures coming from the external sector and an appreciation of the currencies of our economy's trading partners against the USD. As previously mentioned, in the chapter




that analyzes the developments in the international economy, the inflationary pressure felt in 2022 is explained by a set of factors such as the war in Ukraine, with the increasing monetary expansions in developed economies without the necessary repercussions in economic activity and, in parallel, the resumption of aggregate demand in a way that the existing supply has not yet been able to respond.

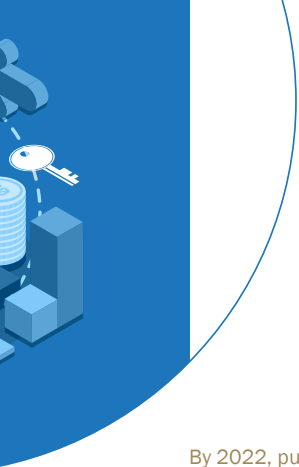
Bearing this in mind, and despite the economic growth registered in 2022, the growing inflation felt in 2022 leads us to the conclusion that investment, both public and private, should be stimulated to promote a more productive supply, with higher wages and high-quality jobs that will allow the Timor-Leste economy to be more resilient to adverse external shocks such as those felt in 2022. In line with this conclusion, the BCTL predicts that the level of economic activity in Timor-Leste will remain below potential GDP, creating problems of underemployment of the various productive.

In terms of prospects for 2023 and 2024, it anticipates a continued increase in the price level, with greater expressiveness in 2023 than in 2024, in line with the expected inflation rates for 2023 and 2024 for the world economy and for the trading partners of the Timorese economy. In this context, BCTL expects that the average inflation rate, in 2022, will remain at similar levels higher than those recorded in 2021, more specifically, 7.2% in 2022 against the 4.0% observed in 2021, but that it will then slow down to 6.9% in 2023.

These projections are naturally based on the assumption of exchange rate stability of the dollar against Asian currencies, on the gradual stabilization over the next few years of international inflationary pressures and on the economies of our country's main partners, and on the fact that the domestic economy should continue to operate below its potential level. Despite the economic recovery expected from 2021 to 2023, the anemic performance of the past 5 years has resulted in the current underemployment of labor and capital resources. The BCTL thus estimates that the current level of GDP is currently below its potential, or full employment, level. This, coupled with the expectation that the expected economic recovery will not be sufficient to close the domestic output gap by 2023 and that sustained growth in the future level of public spending will be difficult to expect given the absence of budgetary resources and the growing risks to the sustainability of public finances, leads us to believe that inflationary pressures on the domestic side will remain almost non-existent over the next few years.



For 2023 it is expected an inflation rate close to that observed in 2022.



## 2.2 Public Finance

### 2.2.1. 2022 Budget Program

By 2022, public spending has registered a significant increase of \$299 million.

In 2022, according to the data in table 2.2 below, public spending on a cash effective basis increased significantly by \$299 million, marginally less than the \$301 increase recorded in 2021 versus 2020.

Therefore, the overall value of realized expenditure amounted to \$1,741 million in 2022. The increase in public spending compared to 2021 is explained by a higher degree of spending execution of the 2022 budget compared to 2021. Namely, the execution rate of public spending in 2022 increased 8 p.p. to 79%. Note that the 2022 State Budget budgeted a total expenditure of \$2210 million (excluding expenditure on transfers to the PF), thus resulting in an increase of \$181 million in 2022 from the amount budgeted in 2021.

The expenditure execution rate in 2022 was higher than that observed in 2021.

The increase in the execution rate of the 2022 budget compared to the 2021 budget is explained by an increase in budget execution in both expenditure items. More specifically, there was an increase in the execution rate of Recurrent Expenditure by 8 p.p. in 2022 compared with 2021 (91% execution in 2022 compared with 83% execution in 2021) and an increase of 9 p.p. in the execution rate for capital expenditure (39% in 2022 compared with a degree of execution of 30% in 2021). It should be noted, however, that the degree of execution of capital expenditures is quite low which, in our view, may compromise future economic activity, since public investment is essential to promote the development of the private sector of Timor-Leste's economy.



## Table 2.2

State Budget - Evolution and Execution

	Millions of USD		Growth rate	Implementation rate	
	2021	2022	2022	2021	2022
<b>Total Revenues</b>	<b>709</b>	<b>730</b>	<b>3%</b>	<b>96%</b>	<b>104%</b>
<b>Domestic Revenues</b>	161	176	9%	86%	117%
Tax Revenues	119	143	21%	95%	117%
Non-Tax Revenues	26	18	-31%	46%	108%
Agency Retention Revenues	17	11	-33%	266%	95%
Grants & Contribution	0	4	100%	0%	100%
<b>Estimated Sustainable Income</b>	<b>548</b>	<b>554</b>	<b>1%</b>	<b>100%</b>	<b>100%</b>
<b>Total Spending</b>	<b>1,442</b>	<b>1,741</b>	<b>21%</b>	<b>71%</b>	<b>79%</b>
Recurrent Expenditures	1,302	1,538	18%	83%	91%
Capital Expenditures	140	203	45%	30%	39%
<b>Financing</b>					
Excess Withdrawals from the Petroleum Fund	600	850	42%	72%	112%
Use of Cash Balances	108	116	7%	28%	28%
Loans	15	30	94%	22%	58%

Source: TL Transparency Portal and BCTL calculations

In annual terms, on a cash basis, the \$299 million increase in public spending was explained by a substantial increase in capital expenditure, which represented a 45% growth rate compared to 2021, amounting \$203 million, and a significant growth in volume of Recurrent Expenditure by \$236 million in 2022 compared to 2021, which translates as an 18% increase over the amount executed in 2021.

The increase in public spending is explained by a significant increase in recurrent spending (\$236 million).

Regarding revenue, the government forecast in its 2022 State Budget, a total non-oil revenue of \$150 million, excluding loans and grants. However, as can be seen in Table 2.2, this budgeted revenue was exceeded by 17 p.p., i.e., a 117% execution rate, reaching the value of \$176 million. The higher revenues achieved than budgeted resulted in the collection of more tax revenue than initially budgeted, which equaled \$143 million with a corresponding execution rate of 117%. Moreover, this and the subsidies and contributions item were the only revenue items with a growth rate.

The revenue collected by the government was 17% above the projected in the state budget.

Due to the substantial increase in public expenditure (+\$299 million) and despite a slight increase in non-oil revenue (+\$15 million) from the Central State, the deficit on a cash basis, excluding oil revenues, increased in 2022 by \$285 million, to \$1565 million (in 2021 the budget balance excluding oil revenues recorded a deficit of -\$1281 million).

## 2.2.2 Revenue

One of the Government's main priorities is to reduce the country's dependence on funding from the Petroleum Fund. Efforts in this direction remain central to the Government's budget discussions and planning. In the 2022 SGB, for example, the Government continued to emphasize its policy of "tax reform" to improve the country's fiscal framework and increase domestic revenues from non-oil resources and activities, as well as rebalancing the external accounts by increasing tax rates on imports.

In 2022, non-oil revenues totalled \$176 million, an increase of more than \$9 million over 2021.

In 2022, on a cash basis, domestic non-oil revenues reached \$176 million, registering a growth of 9.3 million compared to the \$161 million recorded in 2021. Regarding each of the items, tax revenue recorded a 21% increase, a significant increase, totaling an amount of \$143 million, while non-tax revenue and agency withholding revenue recorded a drop of 31% and 33%, respectively, compared to the previous year. In detail, in 2022 a total of non-tax revenues and agency retention revenues of \$18 million (in 2021, the amount of this revenue line was \$26 million) and \$11 million (in 2021, the amount of this revenue line was \$17 million), respectively, were accounted for.

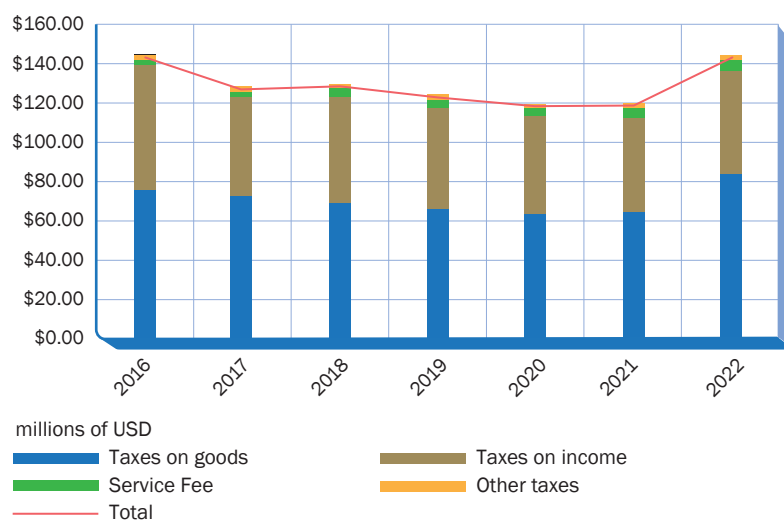
Taxes on goods continued to account for the largest share of tax revenues.

Chart 2.6 shows the changes in tax revenue and its main components over the past few years, namely taxes levied on personal and corporate income and taxes levied on the importation of goods. With the rise in tax revenue collected, it is worth noting the huge increase in revenue from taxes on goods, which was almost \$84 million, when in the year 2021 the revenue from this tax amounted to \$65 million. On the other hand, income taxes saw a \$5 million increase in revenue collected, with the amount of income taxes received of \$53 million in 2022, an increase of approximately 12% over 2021. Revenue from other taxes and service fees, on the other hand, collected almost the same amount as in 2022, representing a negligible share of tax revenue in the overall amount of taxes collected by the government.



## Chart 2.6

ET - Evolution of Tax Revenues - cash basis



Source: TL Portal de Transparencia and BCTL analysis

### 2.2.3. Public Expenditure

In 2022, the overall execution rate of public expenditure rose to 79%, reversing the downward trend in budget execution recorded between 2019 (83%) and 2021 (71%), while remaining short of the much more significant budget execution figures recorded in 2018 and 2017, where execution rates of 91% and 88% were achieved, respectively.

The expenditure execution rate increased compared to 2021, reversing the trend observed until then.

While the amount of expenditure budgeted in 2022 was higher than that budgeted in 2021, by about \$180 million, the amount of budgeted expenditure executed was much higher than in 2021, not only because of the increase in budgeted expenditure in 2022 compared to 2021, but also because of a significant increase in the expenditure execution rate, as expressed above, which ultimately explained an actual increase in expenditure of more than \$299 million, an increase of almost 21% in realized expenditure compared to that observed in 2021.

Finally, the overall expenditure executed by the government increased, as previously mentioned, by \$299 million, which is essentially the result of an increase in current expenditure, as already documented, it also included an increase in capital expenditure with an increase in capital expenditure of \$66 million in 2022 compared to 2021, which translates into a percentage increase of almost 28%. For this increase in public investment expenditure contributed the fact that, despite having slightly reduced the implementation of this budget line in relation to 2022, the budgeted amount was significantly higher which resulted in an overall amount in 2022 higher than in 2021.

### 2.2.3.1 Current Expenditure

Current expenditure increased by 18% in 2022.

In 2022, current spending increased by 18%, adding to the expansions already seen in 2021 (+33%) and in 2020 of 7%, which together reversed the decline recorded in 2017 and 2018. Current spending, which totaled approximately \$1538 million in 2022, once again records an all-time high, above the values seen in 2021, with an amount of effective public spending of \$1302 million, a year that had already recorded a maximum observed in relation to the values totaled in 2015 and 2016, about \$1030 million.

These expenditures represented more than 85% of the total expenditure in 2022.

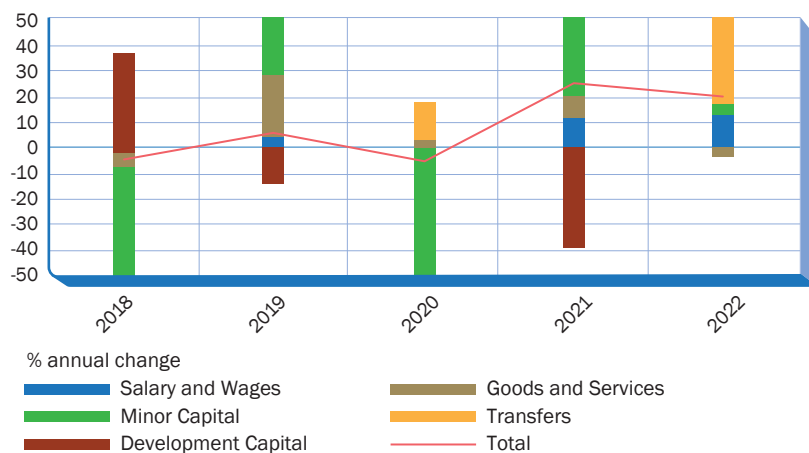
Thus, current expenditure continued to be the main component of public spending, amounting to 88% of the total, which represented a slight decrease, 2 p.p. below the proportion of this expenditure in the total expenditure executed in 2020. It should also be noted that the increase in expenditure was due to greater execution of this component of expenditure, reaching an execution rate of 90.7% in 2022 compared to an execution rate of 83.1% in 2021.

In 2022 there was a substantial increase in transfer spending.

Graph 2.7 shows the annual evolution in millions of dollars of the components of public expenditure, determined on an effective cash basis, or expenditure actually incurred in each of the years. As can be seen, as in the previous year, the increase in transfers (+\$220 million) and in salaries (+\$13 million) and a slight reduction in goods and services (-\$3 million) explained the significant increase in current expenditure, while the increase in public investment expenditure of around \$63 million helps to complement the explanation for the increase in total expenditure recorded in 2022.

### Chart 2.7

ET - Evolution of Public Expenditures



Source: TL Portal de Transparencia and BCTL analysis

As a result of these developments, spending on transfers represented the largest category of total spending in 2022, with 50% of the total (46% and 34% in 2021 and 2020, respectively), followed by spending on goods and services with 23% (29% and 33% in 2020 and 2019, respectively) and wages with 15% (16% and 18% in 2021 and 2020, respectively).

### 2.2.3.2 Capital and Development Expenditure

The government estimated in the 2022 SGB an overall capital expenditure, including the loan program, of \$515 million, representing an appreciable increase in the order of \$51 million, representing an increase of 11% compared to the amount in the 2021 budget. However, this increase is far from the amount budgeted in 2021, when \$464 million was budgeted, representing an increase of \$244 million (+111%) over the \$220 million allocated in 2020.

On the other hand, capital expenditure increased by 11% compared to 2021, totalling \$515 million in 2022.

However, and despite the amounts budgeted, there was still a low execution rate of around 39%, a value which was nevertheless higher than the low budget execution of this component of expenditure in 2021, when there was a rate of 30%. These low execution rates contrast with a much more significant execution rate in 2020, around 73%. Thus, it should be noted that in 2022 the total executed amount of public investment totaled \$203 million, an increase in executed expenditure of \$63 million compared to 2021.

Most of the capital development expenditure was spent under the infrastructure construction program, also including loans, whose weight amounted to 73%, a value 9 p.p. above the value recorded in 2021 (68%) and quite far from the value recorded in 2020, of approximately 86%. The Infrastructure Fund Program continues to be the most relevant in terms of public investment since its expenditure corresponds to 73% of the total category in 2022.

Infrastructure construction was the program that benefited most from the total capital expenditures.

Table 2.3 details the information on the main components of the national public investment program, identifying the top priorities in terms of the most relevant infrastructure programs.





## Table 2.3

Composition of Public Investment

	Million USD - cash basis			% Public Investment		
	2020	2021	2022	2020	2021	2022
Minor Capital	5	44	46	3%	32%	23%
Development Capital	155	96	157	97%	68%	77%
Total Infrastructure	153	91	147	96%	65%	73%
Total Public Investment	160	140	203	14%	10%	12%
<b>Total Expenditures</b>	<b>1136</b>	<b>1442</b>	<b>1741</b>			

Major infrastructure asset investment sectors

	Million USD - cash basis			% Public Investment		
	2020	2021	2022	2020	2021	2022
Agriculture	5	2	3	3%	2%	1%
Infrastructure	43	13	73	27%	9%	36%
Private Sector Industry Commerce	4	1	1	2%	1%	0%
Macroeconomic Management	11	4	2	7%	3%	1%
Water and sanitation			2	0%	0%	1%
Health	5	8	5	3%	6%	3%
Education		0	28	0%	0%	14%
Roads	0	3	18	0%	2%	9%
Other infrastructures	85	60	15	53%	43%	7%
<b>Total infrastructures</b>	<b>153</b>	<b>91</b>	<b>147</b>	<b>96%</b>	<b>65%</b>	<b>73%</b>

Source: TL Transparency Portal and BCTL calculations

Investment in infrastructure and schools has registered a significant increase of \$103 million by 2022.

As can be seen, investment in minor capital saw its importance reduce by \$2 million in 2022 from \$44 million in 2021, the previous year accounting for 23% of public investment. In terms of the sectoral priorities of public investment in infrastructure, investment in roads and education were the main investment programs, with a combined annual expenditure of \$119 million in 2022, with the importance of these priorities significantly higher than in 2021 (\$16 million).

## 2.2.4. Funding Sources

In its 2022 Budget, the Government planned to use \$1,311 million from the Petroleum Fund, having withdrawn a higher amount from the PF, in the order of \$1,404 million to finance its actual expenditure during the year. Note that this figure represents an increase from the \$256 million withdrawn in 2021, due to higher public spending and the higher value of the non-oil fiscal deficit.

PF financed \$1,404 million of public spending in 2022.

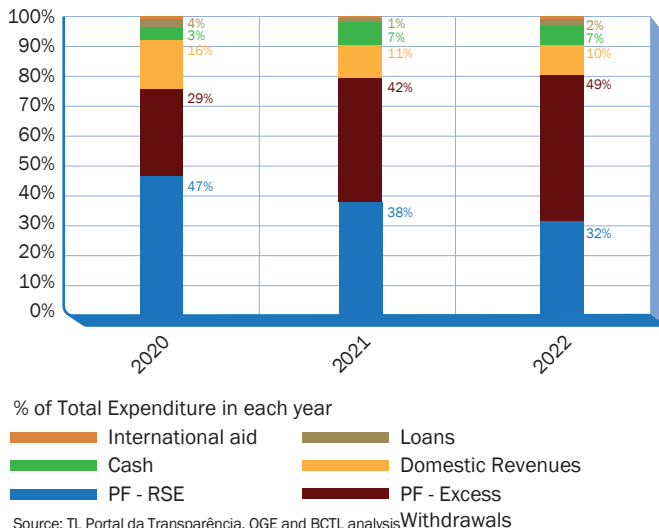
With this continued use of funds, the annual amount taken from the FP continues to be well above its estimated sustainable income (ESI), valued at \$554 million (\$548 million in 2021 and \$544 million in 2020), which translates into a continued reduction of the FP's capital.

About the sources of funding used to finance public expenditure in 2022, it should be noted that the PF remains the main source of funding, with this source representing 66% of the total funding, while in 2021 this source of funding represented 68% of the total funding used to finance the expenditure incurred. This slight decrease in the proportion of FP funding is mainly due to an increase in funding from the cash balance arising from the 2021 fiscal year. On the other hand, domestic public revenues accounted for only 9% of total financing, marginally higher than in 2021 and well below the 16% observed in 2020. Contributing to this downward dynamic is the fact that total expenditure rose between 2022 and 2021, while non-oil revenues recorded in 2022 were unable to keep up with the increase in expenditure.

The PF continues to be the main source of funding for the state budget.

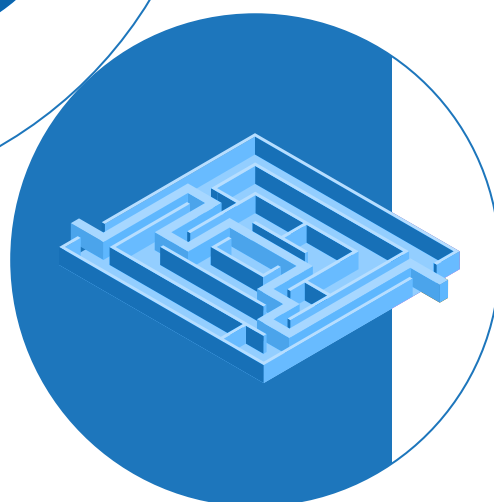
### Chart 2.8

Public Expenditure Funding Sources



Regarding loans, these have represented similar proportions in recent years, between 3% and 4% between 2020 and 2022, with the latter year representing 3% of total public expenditure financing. These loans, which have served to finance investment in roads in the country, amounted to \$51 million in 2022 (\$71 million and \$30 million in 2021 and 2020), corresponding to an execution rate, in 2022, of 100%, which represents a relevant execution capacity for loans foreseen in the State Budget.

In short, these considerations allow us to see the continuity of the enormous dependence of the State budgets on funding from petroleum revenues or, more specifically, transfers from the Petroleum Fund, in a value that exceeds its sustainable income. Despite the existence of substantial energy reserves in Timor's waters, the fact that the exploration projects currently underway are scheduled to end in 2023 means that the continued and substantial reduction of the Fund's capital represents a material risk to the sustainability of our public finances in the medium term.



## 2.3 Monetary and Exchange Sector

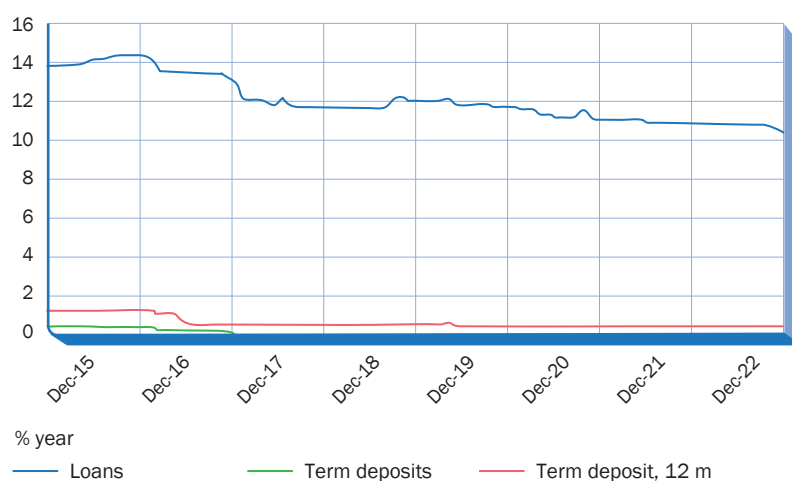
### 2.3.1. Interest Rates

The level of interest rates on loans remains high when compared to the levels of the international dollar benchmark rates. In fact, economic theory states that when a small country adopts as its currency the currency of a large economy, its interest rates tend to converge with those of its benchmark. In Timor-Leste this is not the case, especially for interest rates on credit for several reasons, the main one being the risk of the banking business. On the other hand, the government of Timor-Leste provides financial capital for lending at lower rates (3%). However, this economic policy is not yet producing effects on the rates currently seen in the banking system of Timor-Leste.

Loan interest rates remain significantly high despite the program of lending at lower rates.

#### Chart 2.9

ET: Interest Rates on Loans and Deposits



Source: BCTL

Like the evolution of the previous year, the high average interest rates on loans to the private sector continued to decline from 11.03% at the end of 2021 to 10.83% in December 2022, which is a positive sign for companies and families that use bank loans to finance themselves. However, there was only a slight decrease in the average rate paid on 6-month deposits compared to 2021. More specifically, while in December 2021 the 6 month deposits were rewarded with a rate of 0.69%, in December 2022

the interest rate for deposits with the same maturity was 0.67%, a slight reduction of 0.02 p.p. in one year. This dynamic in lending and borrowing interest rates has caused the spread, i.e., the interest rate differential, to fall to 10.16%, when at the end of 2021, the same differential was approximately 10.48%.

**Table 2.4**  
Weighted Average Interest Rate of Commercial Banks (In percentage)

Period	Loans + 6 months Libor	Term deposits	Savings Deposits	Term deposits			
				1 month	3 months	6 months	12 months
2021 Dec	11.03	0.10	0.48	0.63	0.65	0.69	0.64
2022 Jan	11.04	0.09	0.45	0.64	0.67	0.72	0.63
Feb	11.04	0.08	0.45	0.64	0.67	0.73	0.63
Mar	11.04	0.08	0.45	0.63	0.66	0.71	0.63
Apr	11.03	0.10	0.46	0.60	0.63	0.68	0.63
May	11.02	0.11	0.45	0.60	0.63	0.69	0.63
Jun	11.08	0.11	0.46	0.60	0.63	0.69	0.64
Jul	11.08	0.12	0.48	0.57	0.59	0.64	0.63
Aug	11.06	0.12	0.46	0.60	0.62	0.68	0.63
Sep	11.00	0.12	0.46	0.60	0.62	0.68	0.63
Oct	11.00	0.12	0.46	0.60	0.62	0.68	0.63
Nov	10.90	0.13	0.46	0.59	0.62	0.67	0.63
Dec	10.83	0.13	0.52	0.59	0.62	0.67	0.67

Source: BCTL

### 2.3.2. Exchange Rates

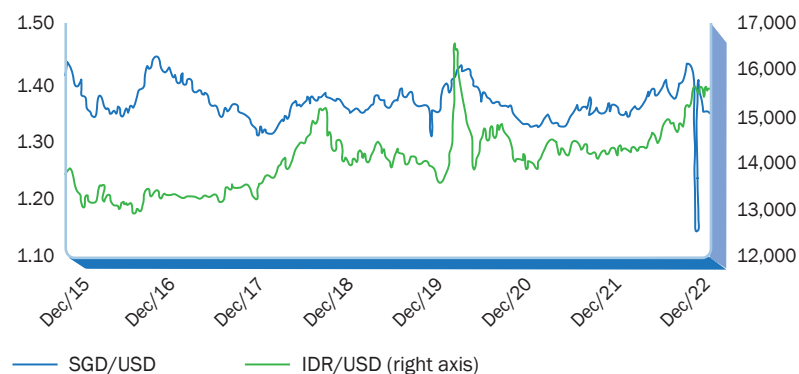
In 2022, the USD appreciated by 3.8% against the rupiah of Indonesia, Timor-Leste's main economic partner.

Contrary to what happened in 2021, the US dollar, the official currency of Timor-Leste, did not show the same dynamics of currency appreciation against the two currencies of Timor-Leste's main trading partners. More specifically, between December 2021 and December 2022, there was a devaluation of the USD against the Singapore dollar, a reference currency in the Asian context, of about 2.5%, while the currency of Timor-Leste appreciated by 3.8% against the Indonesian rupiah, which is Timor-Leste's main trading partner economy. It should be noted, however, that in 2022 there was a greater exchange rate volatility than the volatility observed in 2021.



### Chart 2.10

Nominal Exchange Rates vs USD



Source: Bloomberg

Despite the appreciation of the USD against the currency of Timor-Leste's main trading partner, the rise in the value of the Singapore dollar ended up counterbalancing the positive effect that the devaluation of the Indonesian rupiah had on the stabilization of domestic inflation. Thus, and given that Timor-Leste maintains a high dependence on imported goods and services to meet the existing domestic demand, the net effect of the two exchange rate dynamics contributed to the observed worsening of the inflation rate in 2022.

The economy of Timor-Leste remains highly dependent on the external sector.

### 2.3.3 Monetary Base (BM)

The Monetary Base, which is one of the determinant variables in terms of monetary policy, decreases significantly in 2022 in the amount of \$145 million, contrary to the increase registered in 2021 (\$166 million). The monetary base is valued at \$172 million at the end of 2022, of which \$28 million is currency in circulation and the remaining \$144 million is deposits by banks with the BCTL. The reduction in the monetary base in 2022 is explained by the reduction in deposits of banks with the BCTL by \$147 million.

The monetary base decreased by \$145 million in 2022, contrary to the monetary expansion seen in 2021.

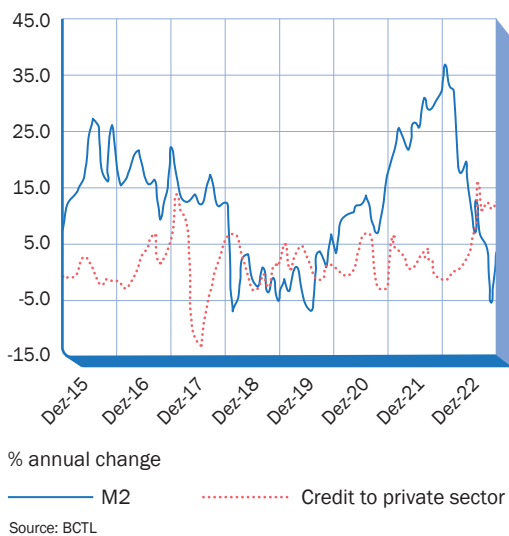
### 2.3.4 Money Supply

Financial sector development plays a vital role in facilitating economic growth and poverty reduction. The compilation and analysis of monetary and financial statistics allows us to gauge the development of and changes in a country's monetary and financial systems. The Central Bank of Timor-

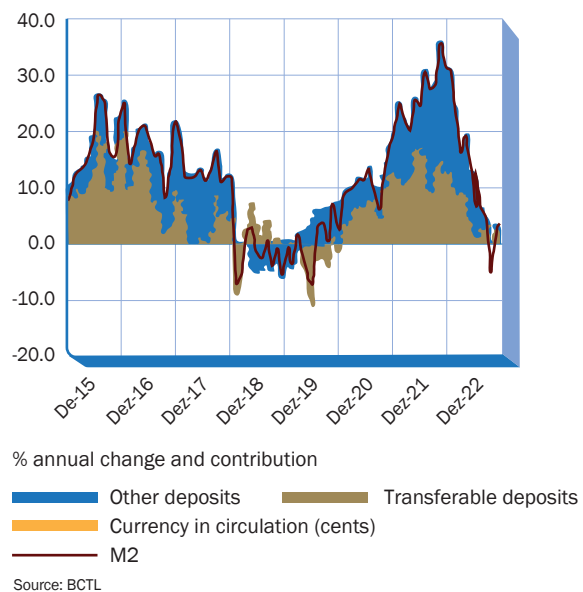
M2 amounted in 1,215 million in December 2022, representing an increase of \$96 million.

Leste has been collecting and compiling these statistics systematically with the objective of developing a comprehensive and detailed overview of our financial sector in order to develop the BCTL's functions of macroprudential supervision and monetary policy implementation. However, to date, the BCTL still lacks monetary policy instruments as our country continues to use a foreign currency, the US dollar, as its official currency.

**Chart 2.11**  
Money supply dynamics



**Chart 2.12**  
M2 and its components



Although Timor-Leste is a “dollarized” economy, it is possible for the BCTL to reasonably calculate the aggregate money supply (the M2 aggregate) excluding dollar bills in circulation, which in most countries is used as a measure of the availability of means of payment, the money supply in Timor-Leste is calculated by adding money in circulation to demand deposits (which, like the previous tranche, can be mobilized immediately to make payments by checks) and “quasi money” (savings and time deposits), which can also be mobilized at relatively short notice to make payments.

Graphs 2.11 and 2.12 show the evolution of the monetary aggregate M2 over the period 2015 to 2022. Note that the M2 figures are approximate because, as the country uses the US dollar, it is difficult to accurately calculate the value of banknotes in circulation. However, since this should constitute a small and stable proportion of the amounts available for payments, the approximate M2 serves well for the purposes of measuring the size and change in the money supply in our economy.

The M2 thus calculated amounted to \$1,215 million in December 2022, having expanded by \$96 million, an increase well below the \$250 million increase in money supply that occurred between December 2021 and December 2020.

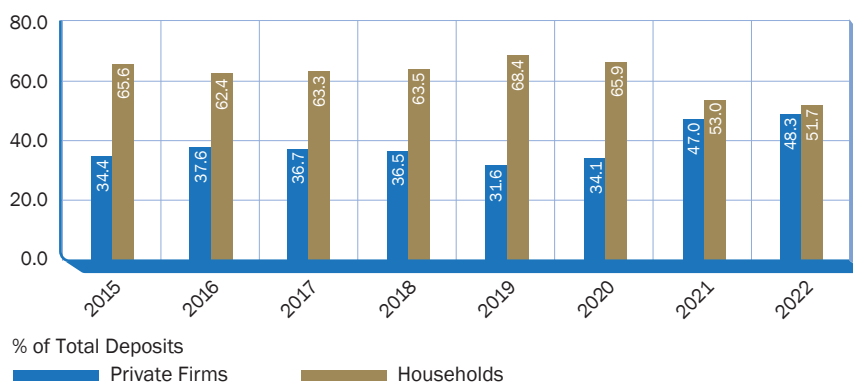
It is also important to analyze the evolution of the components of the money supply, presented in graph 2.12. Total deposits taken by financial institutions were determinant in the expansion of the money supply, with an increase of \$94 million, reinforcing the \$248 million increase of 2021.

In terms of ownership by institutional sector, as shown in Chart 2.13, 51.7% of deposits are held by individuals and 48.3% by private companies. These percentages reflect a slight increase of 1.3 p.p. in the proportion of deposits held by private companies, as opposed to individuals whose total proportion of deposits naturally declined by the same magnitude. With the trajectory of increase in the weight of deposits held by private companies from 2020, in 2022 the weight of deposits held by companies and individuals will be identical.

Of total deposits, an increasing convergence of the percentage of deposits held by private companies and individuals is observed since 2019...

### Chart 2.13

Share of Deposits by Ownership



Source: BCTL

From another perspective of M2 analysis, according to table 2.6 below, the increase in credit and net foreign assets explained the bulk of the increase in the money supply, although they were countered by the significant increase in public sector deposits with the BCTL.



## Table 2.5

Main explanatory sources of Money Supply (M2)

Millions of USD

	Annual Cash Flow 2021	Annual Cash Flow 2022
Credit to the Economy	13.3	104.6
Government	-78.3	-193.8
BCTL Complaints	0.7	-0.3
Deposits	-79.0	-193.5
Net External Assets	388.9	312.4
Others	74.3	127.0
M2	249.6	96.3

Source: BCTL

### 2.3.5. Bank Credit

Bank credit increased significantly in 2022 (33%), with special emphasis on credit granted to the construction and transport and communications sectors.

In 2022, the credit granted by banks to the private sector recorded an increase, a trend recorded since 2019. However, the increase in 2022 compared to 2021 broke a record of \$89 million, which is equivalent to a 33% increase and surpasses the increase recorded in 2021 of \$14.8 million, or even the maximum increase recorded in that period of \$26 million in 2020 compared to 2019.

## Quadro 2.6

Credit to Economy

Sector	Balance (million USD)		Change		Composition	
	2021	2022	Nominal	%	2021	2022
Agriculture, Water and Forestry	1.9	1.5	-0.4	-21.3%	0.7%	0.4%
Industry and Manufacturing	16.2	16.6	0.4	2.2%	6.0%	4.6%
Construction	32.6	65.8	33.2	101.9%	12.0%	18.2%
Transport and Communications	2.7	48.2	45.5	1681.3%	1.0%	13.3%
Business and Finance	32.5	26.5	-6.0	-18.5%	12.0%	7.3%
Tourism and Services	3.3	11.1	7.7	231.7%	1.2%	3.1%
Households	182.7	192.0	9.3	5.1%	67.2%	53.1%
<b>Total</b>	<b>271.9</b>	<b>361.6</b>	<b>89.7</b>	<b>33%</b>	<b>100%</b>	<b>100%</b>

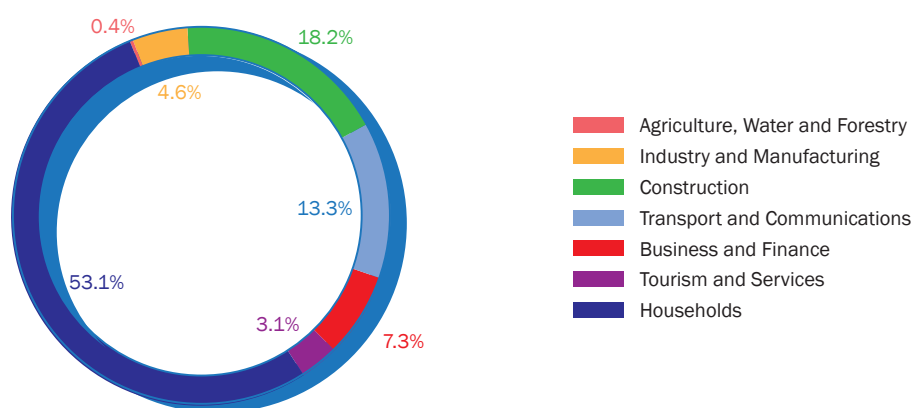
Sources: Commercial Banks and BCTL analysis.

When analyzing the credit granted by sector of activity, we can see that the transport and construction sectors were the ones that obtained the most credit, amounting to \$48.2 million and \$65.8 million, respectively. On the other hand, credit granted to the agricultural sector decreases slightly (-\$0.4 million), to a total of \$1.5 million.

Still, it should be noted the increase in credit granted to Timorese families, with the increase registered in 2022 compared to 2021 totaling \$9.2 million, in addition to the increase in credit already verified and that has been granted to individuals, of \$17 million in 2021 and \$40 million in 2020. However, and despite this increase, the proportion of credit granted to individuals decreased to 53.1% in 2022 when, in 2021, credit granted to individuals represented 67.2% of total credit granted. The decrease in the relative weight of credit granted to individuals is due to the increase in the weight of credit granted to the construction and transport and communication sectors, as can be seen in the table above.

## Chart 2.14

Credit by Sector - Dec 2022 - % Total



Source: BCTL

As mentioned above, the agriculture, water and forestry sector were one of the two sectors of activity that saw lending decline, albeit marginally. The other sector that saw a decrease in credit granted was the trade and finance sector, with a decrease of almost \$6 million. On the other hand, the sectors that registered the highest growth were the transport sector (+1681%), the tourism and services sector, with a growth rate of 232%, and construction with a positive rate of change of 102%. After the credit granted to individuals, these three sectors together represented a total of 34.6% of total credit granted to the economy of Timor-Leste in 2022.

On the other hand, the agriculture sector registered a reduction in the credit granted.

In addition to the “quantity” of loans, it is also important to analyze their “quality,” which can be done based on indicators such as the amount of “non-performing loans” and the system’s provisions for credit risk. It should also be noted that the value of provisions for credit risk has continued its downward trend, registering once again a historically low level in 2022, amounting to \$6.8 million, when in 2021 there was also a low value for this item, amounting to 7.7 million.

It should also be noted that banking institutions remain quite robust in terms of their ability to cope with an eventual deterioration in credit quality, as the current levels of non-performing loans are exceptionally low, and the sector’s operating profitability margin provides a robust basis to finance such an eventuality.

Despite the improvement in the quality of the balance sheet of financial institutions, the aggregate value of credit has remained at levels well below those of deposits, providing commercial banks with excess liquidity that tends to be applied preferentially by banks in deposits abroad.

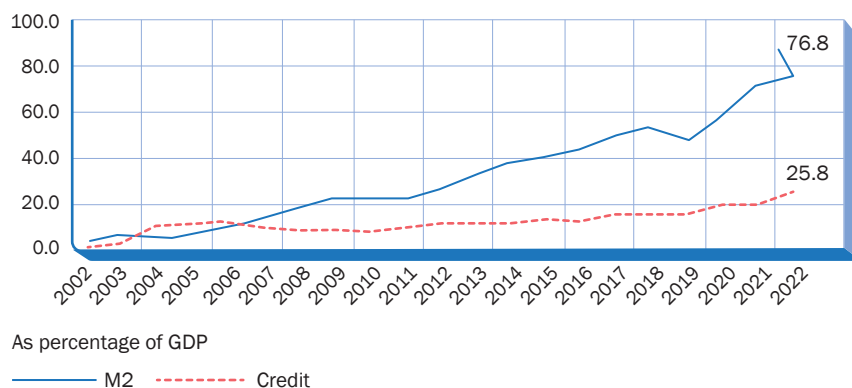
### 2.3.6 Financial Depth Indicators

The degree of financial deepening rose by 3.6 p.p. in 2022 compared to about 2021.

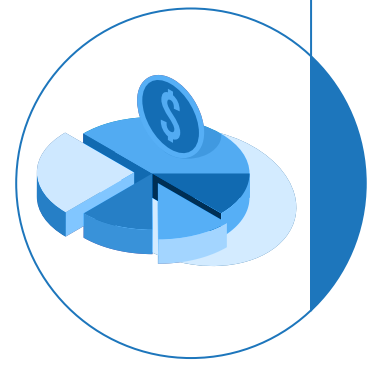
The degree of financial deepening, also known as the degree of monetization of the economy, can be measured based on the ratio of M2 to GDP. This ratio rises 3.6 p.p. in 2022 to 76.8% of GDP (73.2% in 2021), showing the increasing trend seen in the recent past, although with some variations. Another indicator that can also be used for monitoring the degree of financial deepening is the ratio of credit to GDP. This ratio recorded a value of 25.8% at the end of 2022, while at the end of 2021 this variable recorded a value of 19.9%, a significant percentage increase (+5.9 p.p.) compared to that observed in recent years.

#### Chart 2.15

Monetary aggregates growth rates



Source: DGE and BCTL analysis



## 2.4 External Sector

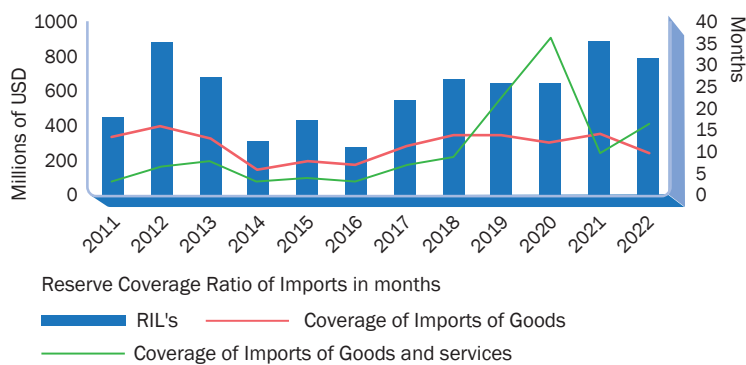
### 2.4.1. Net International Reserves (NIR)

At the end of 2022, the balance of net international reserves (NIR) stood at \$788 million, a decrease from the value recorded in 2021 (\$890 million) but still well above the average values observed since 2014. Expressed in months of coverage of total imports of goods and services, the NIR corresponded last year to 16 months, which corresponds to a significant increase compared to 9 months in 2021.

RIL had decreased by \$102 million in 2022 compared to 2021. On the other hand, the import coverage ratio increased significantly compared to 2021.

Chart 2.16

Net Foreign Reserves



Source: DGE and BCTL

### 2.4.2. Effective Real Exchange Rate Index

The Effective Real Exchange Rate Index (EERTI) - an indicator used to assess the competitiveness of countries in terms of tradable national products - appreciated 6.2% in 2022, accelerating the real appreciation already recorded in 2021 (2.9%), when there had been a devaluation in 2020 (-1.7%), shown in Chart 2.17a. It should also be noted that the ICTER recorded greater volatility in 2022 than in the previous year, explained by the recovery of global economic activity while inflationary pressures increased.

The ICTER appreciated to 6.2% in 2022 (2.9% in 2021).

This evolution was mostly due to the contribution of the nominal appreciation of the dollar against the currencies of our trading partners. It should be noted, therefore, that the Effective Nominal Exchange Rate Index (ITCEN) recorded a year-on-year appreciation of 7.2% in 2022, an acceleration in relation to 2021, when a year-on-year appreciation of 6.5% was observed.

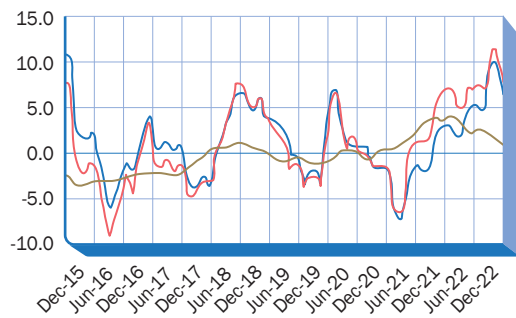
In terms of average annual changes (chart 2.17b), the ICTER recorded a slight significant appreciation at the end of the year of 5.3%, in line with the appreciation recorded since 2018, only interrupted by the devaluation that occurred in 2021 (-2.2%).

The export of coffee continues to be the country's main export commodity.

In bilateral terms, specifically against the currencies of Indonesia and Australia, two of the country's main trading partners, the dollar recorded a notable appreciation of 8.9% against the rupiah and 4.3% against the Australian dollar. This evolution also followed the context registered for the global ITCER, with the appreciation of the dollar during the year 2022. The export of coffee continues to be the main, and the only, export of our country. However, international prices remain the strongest determinant of this type of export, as the respective volumes exported are only slightly influenced by the evolution of these effective exchange rates.

Chart 2.17a

Real Effective Exchange Rate Index (REER)



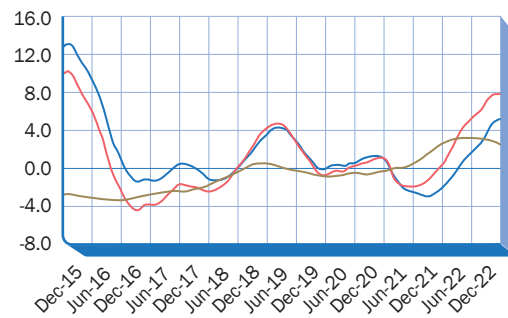
% Annual change

— CPI — ITCER — ITCEN

Source: Bloomberg and BCTL analysis

Chart 2.17b

Real Effective Exchange Rate Index Average



% Annual average change

— CPI — ITCER — ITCEN

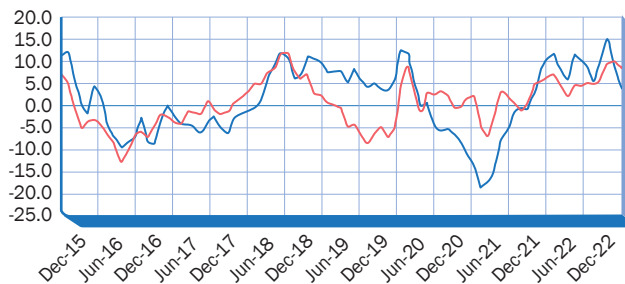
Source: Bloomberg and BCTL analysis

The goods imported from Indonesia are more price competitive with those from Australia.

In bilateral terms, it should be noted that the prices of imported goods from Indonesia continue to be more competitive than those of similar goods from Australia, which is also confirmed by the greater importance of Indonesia as a trading partner of our economy.

Chart 2.18

Bilateral Real Exchange Rates



% change year

— ITCR vs Indonesia — ITCR vs Australia

Source: Bloomberg and BCTL analysis

## 2.5 Balance of Payments

The external current account of Timor-Leste recorded, once again, in 2022 a significant worsening of its deficit by \$950 million (a worsening of \$318 million if oil activity is excluded). For this worsening, in 2022, mostly contributed by deterioration of the goods account, which recorded a net change of -\$785 million and a significant worsening of primary income by \$295 million compared to 2021. While the current account, including oil activity, recorded a deficit of \$1,043 million, compared to a surplus of \$9 million in 2021. This deficit corresponded to -65.8% of GDP in 2022, which represents an increase of 66.2 p.p. compared to 2021 and an increase of 6 p.p., if oil activity is excluded.

The year 2022 is marked by a significant worsening of the external deficit.

As a result of this evolution, the combined current and capital account balance, which determines the overall net external financing need of the economy, decreased to a negative -58,7% of GDP, from -40% of GDP in the previous year.

**Table 2.7**

Timor-Leste Balance of Payments

	Millions of USD			As % of GDP	
	2021	2022	% Var.	2021	2022
Current balance -Exc. Petroleum activities	-631	-950	50	-41	-60
Current account	9	-1,043	-11,847	1	-66
Goods account	1,878	1,093	-42	123	69
Services account	-752	-649	-14	-49	-41
Primary income account	-1,123	-1,418	26	-73	-89
Secondary income account	6	-69	-1,161	0	-4
Capital account	13	17	32	1	1
Financial account	-609	-261	-57	-40	-16
Direct investment	-755	262	-135	-49	17
Portfolio Investment	150	-152	-201	10	-10
Other investment	-4	-372	8,164	0	-23
Errors and Omissions	866	1,183	37	57	74
Global balance	-588	-1,287	119	-38	-81
Reserve assets (change)	-278	104	-137	-18	7

Source: BCTL

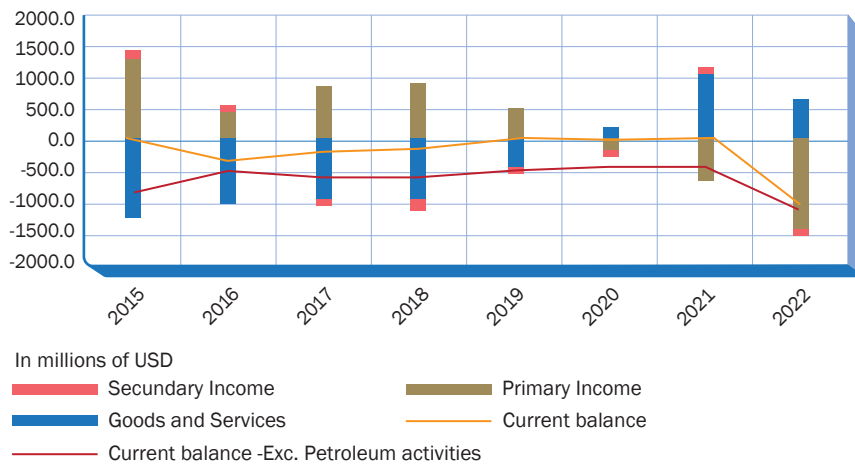


## 2.5.1. Current Account

As can be seen in graph 2.19 below, the current account balance recorded a further widening of the deficit in 2022, which, as noted above, was mostly due to increased imports of goods and services and lower FP income.

**Chart 2.19**

Timor-Leste - Current account Balance



Source: BCTL

Note: Until Q3 2019 petroleum revenues (taxes and royalties) are treated as other primary income. After Q3 2019 petroleum exports are treated as exports of the country.

### 2.5.1.1. Goods Account

The goods account recorded a surplus of \$1,190 million, representing a decrease from that observed in 2021.

In the year under review, the goods sub-account of the trade balance, including the export of petroleum products, recorded a surplus of \$1093 million, which resulted in a reduction from the value observed in 2021 of \$1,878 million. This evolution was due to a reduction in the export of petroleum products by \$6113 million compared to 2021.

It should also be noted that the rise in exports since 2019 - since exports of petroleum products will now be accounted for in this sub-account instead of in the primary income account.

## Chart 2.20

ET - Goods account



Source: BCTL

However, when excluding oil revenues from the goods trade account, this sub-account recorded a worsening of its deficit in 2022, valued at \$135 million, due to increased imports of goods during the year, as the country's exports of non-oil goods remain negligible.

If oil revenues are excluded, the trade account for goods registers a deficit in 2022.

## Export of Goods

The main destination of our exports during 2022 was, as registered in 2021, continua with the United State of America, with a total weight of 26%, which corresponded to \$7.6 million, reduced 19% compared to 2021.

Indonesia was the main destination for Timor-Leste's exports.

## Table 2.8

Export Destinations

	Million USD			% Total	
	2021	2022	Annual % change	2021	2022
United States of America	9.4	7.6	-19%	30%	26%
Indonesia	2.2	4.0	77%	7%	14%
Portugal	0.9	0.7	-30%	3%	2%
Australia	1.0	2.1	112%	3%	7%
Germany	4.9	3.3	-32%	16%	11%
Taiwan	0.1	0.2	274%	0	1%
Japan	1.1	1.5	29%	4%	5%
Others	11.9	10.1	-15%	38%	34%
<b>Total</b>	<b>31.5</b>	<b>29.4</b>	<b>-7%</b>	<b>100%</b>	<b>100%</b>

Source: DGE and BCTL calculations.



## Importing Goods

On the other hand, imports increased by \$250 million in 2022.

According to the DGE and before the respective balance of payments adjustments, the value of imports in 2022 increased by \$250 million to \$839 million, thus countering the increases already seen in 2021 compared to 2020 (\$497 million).

The main products imported by the country continued to be fuels (26% of the total, compared to 21% in 2021), followed by vehicles (9%) and cereals (8%). It should also be noted that most of the most important items recorded an annual increase in their import value, which was due, in part, to price increases and inflationary pressures in international markets in 2022, as is the case of fuels, but also a recovery in domestic demand in the year under review, which continues to rely on imports of items produced abroad.

Fuels continue to have the highest weight in imports of goods.

**Table 2.9**  
Main Imported Goods

	Million USD			% Total	
	2021	2022	Annual % change	2021	2022
Fuels	124	219	77%	21%	26%
Vehicles	55	72	31%	9%	9%
Grains	53	67	25%	9%	8%
Beverages	21	29	41%	4%	3%
Electrical Equipment	31	38	21%	5%	5%
Mechanical Equipment	26	58	125%	4%	7%
Meat and Derivatives	25	33	32%	4%	4%
Cement and Derivatives	20	22	14%	3%	3%
Grains - Refined	20	26	28%	3%	3%
Iron and Steel - Products	33	20	-40%	6%	2%
Food Oils	13	16	25%	2%	2%
Milk, Eggs, and Derivatives	7	7	-6%	1%	1%
Others	161	232	44%	27%	28%
<b>Total</b>	<b>589</b>	<b>839</b>	<b>42%</b>	<b>100%</b>	<b>100%</b>

Source: DGE and BCTL calculations

The geographic structure of imports and their evolution are shown in the table below.



**Table 2.10**  
Import Origins

Indonesia continues to be the main seller of goods to the Timor-Leste's economy.

	Million USD			% Total	
	2021	2022	Annual % change	2021	2022
Indonesia	194	250	29%	34%	32%
China, Peoples Republic of	112	106	-5%	19%	13%
Singapore	72	89	23%	12%	11%
Hong Kong	10	21	107%	2%	3%
Viet Nam	25	19	-25%	4%	2%
Thailand	7	16	115%	1%	2%
Australia	13	17	33%	2%	2%
Malaysia	24	54	125%	4%	7%
Japan	7	10	46%	1%	1%
Brazil	12	17	41%	2%	2%
Portugal	4	5	25%	1%	1%
Korea, Republic of	1	7	626%	0%	1%
Other	99	178	81%	17%	23%
<b>Total</b>	<b>580</b>	<b>790</b>	<b>36%</b>	<b>100%</b>	<b>100%</b>

Source: DGE and BCTL calculations.

Indonesia, which has remained the main trading partner of the country, accounted for 32% of total imports in 2022, reflecting a slight reduction of its weight in the origin of imports by 1 p.p. compared to 2021, with imports from this country increasing 32% to \$250 million. Note, then, that the decrease in the relative importance of Indonesian goods was due to the stronger increase in imports from other countries such as Malaysia, Hong Kong, and Singapore.

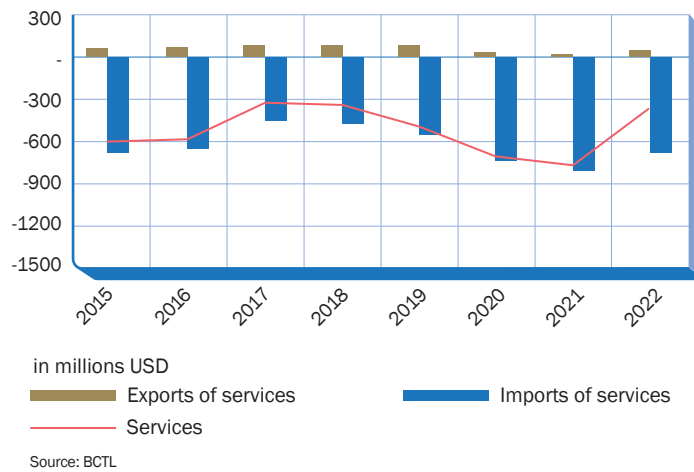
Besides Indonesia, imports from China and Singapore continued to occupy the 2nd and 3rd positions in the ranking, representing 13% and 11% of total imports in 2021. The continued increase in aggregate imports from other countries, which are not included in the list of the country's main traditional partners, should also be noted.

### 2.5.1.2. Service Account

In 2022, the trade services account recorded a deficit of -\$649 million, an improvement of \$103 million from the deficit of \$752 million recorded in 2021. As shown in graph 2.21, this was due to a \$79 million reduction in services imports in 2022, but also due to a slight increase in services exports of \$24 million in the same year.

The services account registered an improvement of \$379 million, although the balance of this account is still in deficit.

**Chart 2.21**  
ET - Services account



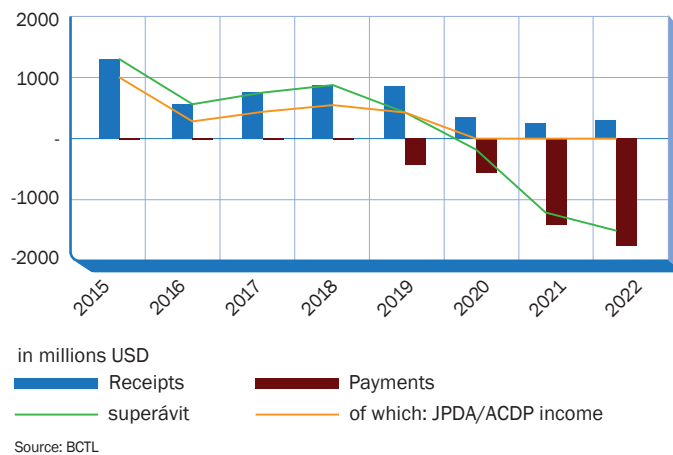
The export of travel services was the fastest growing sector in 2022.

The increase in exports of services was explained by the increase in the export of travel services (\$30 million). On the import side, imports of transportation (\$17 million) and travel services (\$29 million) increased while, in the opposite direction, imports of construction-related services declined (-\$35 million).

### 2.5.1.3 Primary Income Account

As mentioned earlier, petroleum revenues are no longer accounted for in the primary income account since the end of 2019 but are included in the goods sub-account after Timor-Leste ratified the maritime boundary-setting agreement with Australia. This change explains the substantial decline in the primary income account surplus since that date.

**Chart 2.22**  
ET Primary income account



In 2022, there was a surplus of \$1418 million compared to \$1123 million observed in 2021.

#### 2.5.1.4. Secondary Income Account

The secondary income account balance recorded a net outflow of resources of \$69 million in 2022, which was a substantial decrease from the positive balance of \$6 million recorded in 2021.

There has been an increase in remittances from emigrated Timorese citizens, worth \$10 million in 2022.

It should be noted here that remittances from foreign workers immigrating to Timor-Leste have increased again (\$45 million) to \$363 million in 2022. Simultaneously, and in the same year, the value of remittances from immigrant Timorese workers recorded, once again, a growth of \$10 million to \$181 million, thus contributing to alleviate the impact of the growth of remittances sent in the deficit of the sub-account.

### 2.5.2 Financial Account

In the period under review, the financial account, which includes the flows related to the economy's external financing sources, recorded a net inflow of \$261 million, which corresponds to an increase compared to the net outflow of \$609 million in 2021.

Although portfolio investments resulting from FP investment abroad, amounting to \$152 million, it was the significant increase in direct investment that contributed most significantly to the financial account, a sub-heading that recorded an increase of more than \$1 billion compared to the -\$755 million figure observed in 2021. This variation shows, as already explained in the 2021 edition of the BCTL report, that foreign direct investment (FDI) has continued to show sustainable dynamics since 2014.

Foreign direct investment was the largest contributor to the financial account, despite the FP contributions.

**Table 2.11**  
Funding Sources

	In millions of USD	
	2021	2022
Financial Operations Account	-609	-261
Direct investment in Timor-Leste	-755	262
Portfolio Investment	150	-152
d/q. PF investment in foreigners	150	-152
Other investment, assets	-51	-397
Other investment, liabilities	46	25

Source: BCTL

## 2.6 Banking System

### 2.6.1. Bank Assets

The robustness of Timor-Leste's banking system should be highlighted.

The banking system in Timor-Leste has remained stable and sound during the period under review. The sector continues to be funded solely by residents' deposits, lending only a fraction of these resources to businesses and individuals, so that the banking system continues to have a remarkably high level of liquidity.

In the following tables and graphs, a set of information is provided about the country's banking system, which was composed, at the end of 2022, of a bank headquartered in Timor-Leste --- the National Bank of Commerce of Timor-Leste --- and local branches of four major foreign banks, headquartered in Portugal (CGD/BNU), Australia (ANZ), and Indonesia (Bank Mandiri and the BRI).

The total assets of the banking sector grew 27% to \$2,379 million in 2022.

The total assets of the banking system once again recorded a significant growth of 27% to \$2,337 million, an increase that exceeded the significant increase to that seen in 2021 (24%), resulting in an increase of +\$505 million. This growth recorded in total assets in 2022 follows the growth trend recorded since 2017. The positive development in 2022 is the result of an increase of \$488 million in deposits with credit institutions, an increase in loans granted (+\$90 million) and, to a greater extent, an increase in investments (+\$46 million).

**Table 2.12**

Commercial Banks Asset Structure

In millions of USD

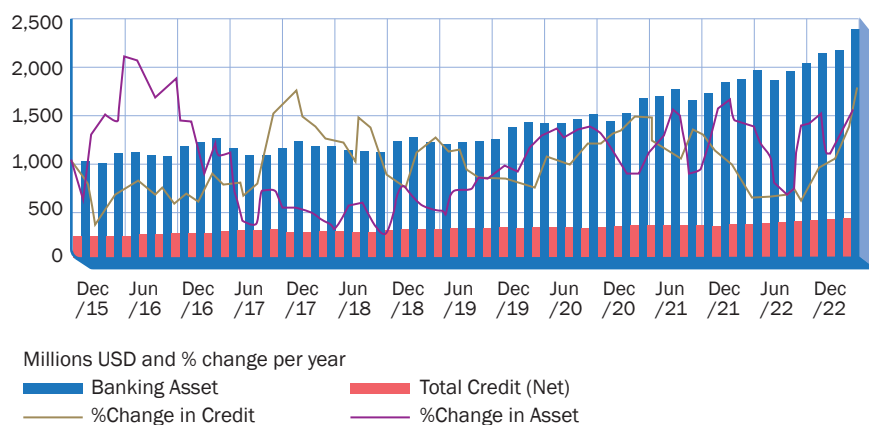
	Dec-21	Dec-22	Share %	Change	
				%	Amount
Central bank deposits	336	203	9	-40	-133
Deposits at credit institutions	1,110	1,598	68	44	488
Investment	98	144	6	46	46
Credit Granted (net)	266	356	15	34	90
Tangible Assets	15	15	1	3	0
Other assets	6	20	1	215	14
<b>Total</b>	<b>1,831</b>	<b>2,337</b>	<b>100</b>	<b>28</b>	<b>505</b>

Source: BCTL

It should be noted, once again, and similarly to what happened in 2021, the growth rate of credit granted has registered a growth rate similar to the growth rate of assets of the Timor-Leste banking system, thus translating into a sustained growth of the relative importance of credit in the set of applications of commercial banks.

## Chart 2.23

Evolution of Banking Assets



The investment of funds with other banks continued to account for the largest proportion of banking assets, reaching 68% of the structure of assets at the end of the year in 2022, having reversed the fall in 2021 against 2020. In more detail, while the investment of funds with other banking institutions grew from 59.8% in 2021 to 68.4% in 2022, that is, a growth of 7.8 p.p. in relation to 2021, the same proportion had reduced by 7.3 p.p. in 2021 in relation to the value recorded in 2020, where the proportion of assets in an institution of assets represented 67.1% (Charts 2.24a and 2.24b). This decrease was due to the reduction in the weight of investments in BCTL.

We highlight the importance of deposits in credit institutions for the composition of the assets of Timor-Leste's banking sector.

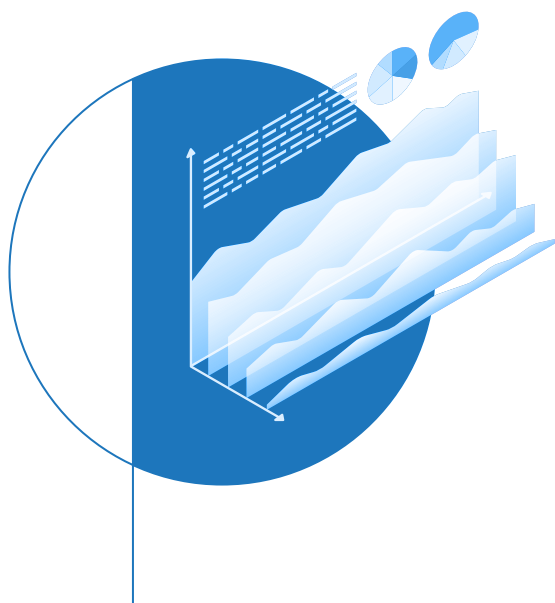
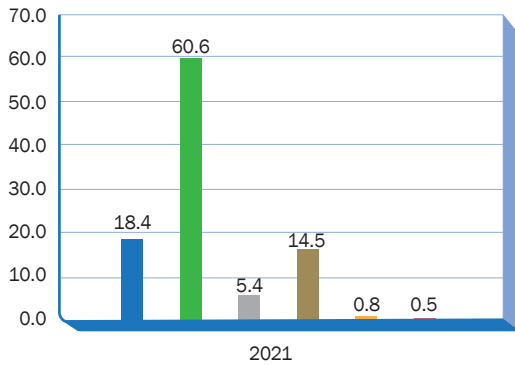


Chart 2.24a

Asset structure



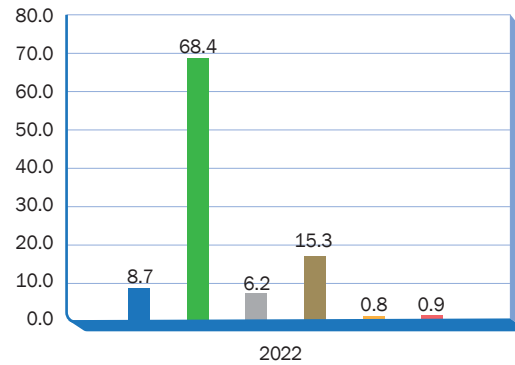
As % of total assets

- Central bank deposits
- Deposits at credit institutions
- Investments
- Lending (net)
- Tangible Assets
- Other assets

Source: BCTL

Chart 2.24b

Asset structure



As % of total assets

- Central bank deposits
- Deposits at credit institutions
- Investments
- Lending (net)
- Tangible Assets
- Other assets

Source: BCTL

Loans now occupy the second largest proportion position in the structure of banking assets (16.3%), when in 2021, loans were the third largest item in the structure of assets. The value of the bank loan portfolio (net), amounted to \$356 million at the end of 2022, compared to 266 million at the end of 2021, and continued to grow by 34.2% over the year, despite the challenging macroeconomic environment.

In December 2022, the overall value of deposits with the BCTL amounted to \$203 million, which corresponds to 8.7% of total assets, down from \$336 million at the end of 2021 (18% of total assets).

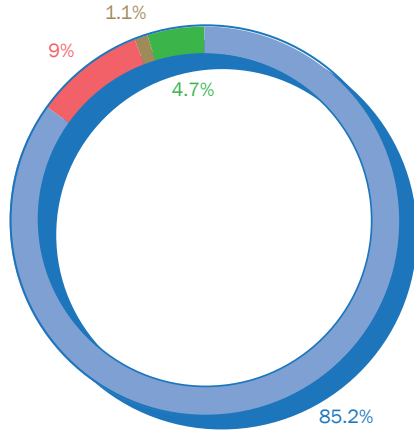
## 2.6.2 Bank Liabilities

By 2022, deposits from customers represented more than 72% of bank liabilities.

Raising customer deposits continues to represent the largest source of funds for credit institutions. Deposits taken represented 81.2% of banks' liabilities and capital at year-end 2022, having increased significantly by 30%, in 2022, to \$1.7 billion.

**Chart 2.25a**  
Bank Liabilities Structure

Dec 2021



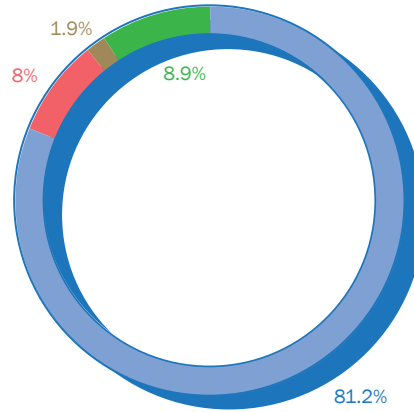
As % of Total

- Due to BCTL
- Placement from Other Banks
- Deposits
- Others

Source: BCTL

**Chart 2.25b**  
Bank Liabilities Structure

Dec 2022



As % of Total

- Due to BCTL
- Placement from Other Banks
- Deposits
- Others

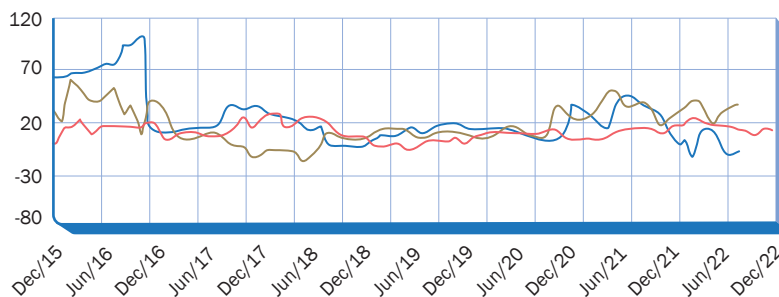
Source: BCTL

In 2022, resources obtained from the Central Bank recorded an increase of \$23 million, representing a total of 1.9% of total resources, while deposits due to other financial institutions increased once again in the amount of \$188 million, representing, for 8.9% of consolidated liabilities. Note that both categories, especially deposits received from other financial institutions, have seen a substantial increase since 2017.

Demand and savings deposits together increased by \$296 million in 2022.

In terms of the type of customer deposits, demand and savings deposits increased by \$274 million and \$22 million respectively in 2022, while time deposits decreased by \$24 million.

**Chart 2.26**  
Deposit Evolution



Annual growth rate

- Demand deposits
- Term deposits
- Savings deposits

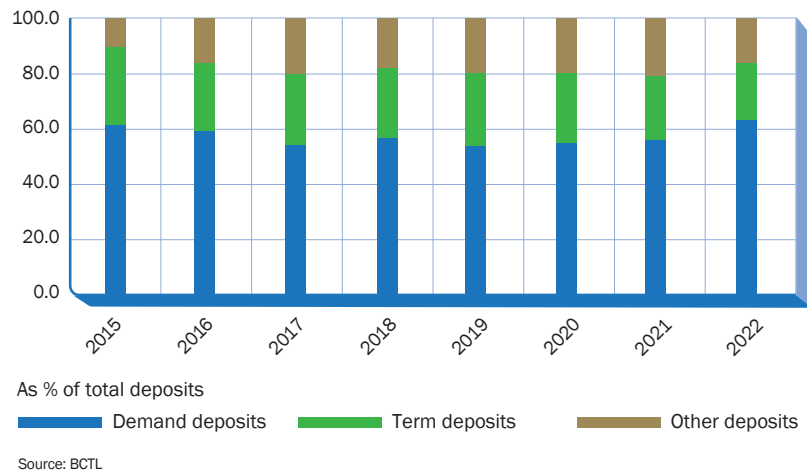
Source: BCTL

However, time deposits have seen their importance in the structure of deposits to decline.



As a result of these variations, the structure of deposits recorded a growth trend in demand deposits, as observed in 2021. However, time deposits lost some importance in the deposit structure (-2.4 p.p. compared to 2021), representing a total of 20.8% of the deposit structure. Demand deposits thus continued to represent the largest component of total deposits, with 63.7% of the total.

**Chart 2.27**  
Deposit structure



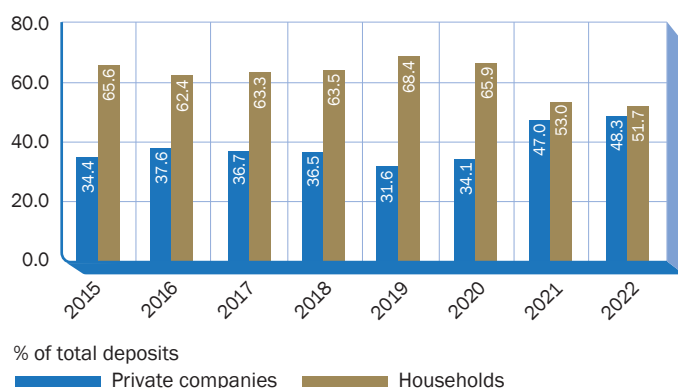
2022 is marked by greater convergence in deposit ownership, a trend that began in 2019.

In terms of ownership of deposits in banks, there was, as observed in 2021, a reduction in deposits held by private residents, with deposits by individuals reducing their importance to 51.7% of total deposits, as opposed to the increase in the relevance of resources from private companies to 48.3% of the total in 2022. This evolution therefore translated into a significant increase in the weight of corporate deposits in total resources taken, when compared to their relative importance over the last 10 years.



## Chart 2.28

Share of Deposits by Ownership



Source: BCTL

2022 is marked by greater convergence in deposit ownership, a trend that began in 2019.

As can be seen in the previous graph, the slight increase in the absolute value of deposits from companies, amounting to \$60 million, has helped explain the relative increase in deposits from companies in total deposits in 2022, since deposits from individuals continued to increase by only \$34 million in the same year.

### 2.6.3 Bank profitability

The banks' revenues, consisting of interest received and commissions charged to their customers, amounted to a total of \$59.9 million, recording a significant increase of \$19.88 million compared to 2021, countering the decrease observed in 2021 compared to 2020.

Bank revenues increased significantly to \$84.1 million in 2022 from \$25.8 million in 2021.

As a result of their activity, the banks reported the following consolidated results in 2022, which are compared with the equivalent 2021 figures in table 2.13 below:

### Table 2.13

Consolidated Results of the Banking System

Items	In millions of USD		annual % change	in % Gross operating income	
	2021	2022		2021	2022
Received Interest	30.7	49	59.0%	76.6%	81.5%
Paid interest	2.6	5.1	93.9%	6.6%	8.5%
Net interest income	28.1	43.8	55.7%	70.0%	73.0%
Commissions and Other Revenues	12.0	16.2	34.3%	30.0%	27.0%
<b>Gross Operating Income</b>	<b>40.2</b>	<b>59.9</b>	<b>49.3%</b>	<b>100.0%</b>	<b>100.0%</b>
Provisions and Impairments -	-2.5	-2.2	-10.6%	-6.2%	-3.7%
Operational Expenses	-21.9	-28.2	28.7%	-54.5%	-47.0%
<b>Net Operating Income</b>	<b>15.8</b>	<b>29.5</b>	<b>87.2%</b>	<b>39.3%</b>	<b>49.3%</b>
Extraordinary income/expenses	-0.1	1.1		-0.2%	1.8%
<b>Net income before tax</b>	<b>15.7</b>	<b>30.7</b>	<b>95.1%</b>	<b>39.1%</b>	<b>51.1%</b>
income tax	-1.4	-2.4	77.7%	-3.4%	-4.0%
<b>Net income</b>	<b>14.3</b>	<b>28.2</b>	<b>96.8%</b>	<b>35.7%</b>	<b>47.1%</b>
RoA % - Rendibilidade dos Activos	0.8	1.2	53.8%	1.9%	2.0%
RoE % - Rendibilidade do Capital	10.6	12.9	21.7%	26.4%	21.5%

Source: BCTL

The return on assets and return on equity grew significantly in 2022.

As we can see, both interests received, and commissions grew more than 30% in 2022 compared to 2021. The gross operating income of the Timor-Leste banking system registered an increase of \$19.8 million, representing a growth of 49% compared to 2021. Consequently, the net operating income grew \$13.8 million compared to 2021, which is equivalent to a growth of 87.2%.

Finally, considering extraordinary income and costs and taxes on profits for the year, the system’s consolidated net income increased to \$28.2 million in 2021 from \$14.3 million in the previous year.

This decrease explained the increase in the return on assets (RoA, or Return On Assets) observed in 2022 to 1.2%, up from 0.8% in 2021, as well as the growth in the return on equity (RoE, or Return On Equity) to 12.9%, when 2021, this return was 10.6%. Banks continue to maintain liquidity ratios above those required by the Central Bank and the regulatory framework in force.

## 2.6.4 Transfer Services

### 2.6.4.1 Transfer of Remittances - Commercial Banks

The number of transfers grew by 86.7% in 2022 compared to 2021.

During 2022, money transfer services, reported by commercial banks operating in Timor-Leste, recorded total outbound transfers of about 206 thousand transactions, with an aggregate nominal value of \$3,505 million. The number of transactions thus conducted increased by 86.7% and the total value transferred grew by 101.4%, compared to 2021.

On the other hand, the number of incoming transfer transactions increased a whopping 100.3% in 2021 to 169,000 transactions, with the amount received also growing 99% to \$1,427 million.

The net balance of transfers was significantly high in 2022.

As such, the net balance of transfers received and originated by commercial banks recorded substantial negative growth, registering at -\$2,078 million in 2022, when compared to the also negative balance of -\$1,024 million in the previous year.

### 2.6.4.2 Transfer of Remittances - Specialized Operators (OTO)

Personal transfers remain the largest share of total transfers in 2022.

In 2022, the group of Other Money Transfer Operators (OTOs) recorded a total value of transfers abroad of \$196 million, up from \$137 million in 2021. The transfers from abroad and intermediate by these operators recorded, in 2022, an amount of approximately \$147 million, compared with \$135 million recorded in 2021. This evolution led to an increase in the already loss-making balance observed in 2021 of -\$1.7 million to -\$49 million in 2022.

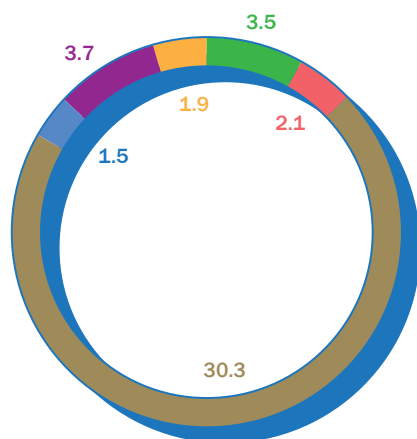
Personal transfers continued to represent the largest share, both in terms of inflows and outflows, amounting to 40% and 84% of total transfers, respectively. Personal transfers aggregate the reasons 'family', 'education' and 'savings' invoked in the operations.

In geographical terms, most inflows continued to come from Europe, accounting for \$80.5 million in 2022 (55% of the total), up from \$74 million in 2021, and were mostly explained by remittances sent by Timorese workers residing and working in Europe. The remittance outflows operated by the OTOs were mostly directed to the Asian region, reaching an amount of \$175 million, with Indonesia being the largest destination of transfers from Timor-Leste, with a total of \$149 million, equivalent to 76% of the total. This amount is explained by remittances sent by Indonesian citizens living and working in Timor-Leste.

Europe continues to be the main origin of where remittances come from.

Charts 2.29a and 2.29b present the weight of transfers made to and from Timor-Leste, by purpose, by use of the services of money transfer operators in 2022.

**Chart 2.29a**  
External Transfers, by Type (OTOs)

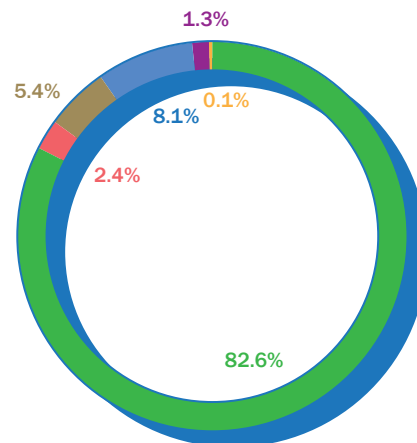


As % of total

- Households
- Education
- Investment on firms
- Purchase Payments
- Savings
- Others

Source: BCTL

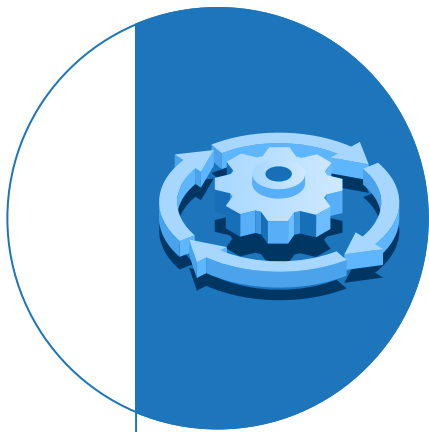
**Chart 2.29b**  
Received Transfers, by Type (OTOs)



As % of total

- Households
- Education
- Investment on firms
- Purchase Payments
- Savings
- Others

Source: BCTL





The BCTL main mission consists in continuing to ensure and improve the quality of the services it provides to the Community, while maintaining a stable monetary system, as well as promoting a robust and functional financial system.

This mission is pursued by maintaining: a low and stable inflation rate, a secure and efficient payment system; credible functioning of all financial institutions, through the implementation of appropriate legal and regulatory standards and banking supervision; the financial education of the population; and conducting studies on the national economy, supported by rigorous and useful statistics.

Taking into account the BCTL's mission, this chapter provides an overview of the institution's mandates and functions, its governance structure and key activities carried out during 2022, as well as its 2023 action plan. The brief summary of annual activities also details the main initiatives developed throughout the year by each of the various functional areas of BCTL.

## CHAPTER 03



## 3.1 Core Mandates and Functions

The BCTL is a legal person governed by public law, with administrative and financial autonomy and its own assets. The BCTL, its entities, employees and agents, enjoy independence and cannot receive instructions from external entities, and its Organic Law guarantees the necessary independence of the Central Bank vis-à-vis the Government.

As is common in most international central banks within the area of economic policy, BCTL's main objective is to ensure the stability of domestic prices. Other equally important objectives are the promotion and the maintenance of a financial system stability based on free market economy's principles, where there is appropriate competition. Having these objectives and principles as a guiding line, the Central Bank should also support the Government economic policies.

In order to achieve its objectives, the functions of the BCTL are, under the terms of the law:

- a)** Define and implement the country's monetary policy;
- b)** Define and adopt the exchange rate regime as well as the associated exchange rate policy;
- c)** Carry out operations in foreign currency;
- d)** Hold and manage the country's official external reserves;
- e)** Hold and manage the State's gold reserves;
- f)** Issue and manage the official currency of Timor-Leste
- g)** Collect and distribute statistical information regarding the areas within its competence, namely monetary, financial and balance of payments statistics;
- h)** Inform the National Parliament, the Government and the general public about the policies it implements;
- i)** Establish, promote and supervise the national payment system, in order to guarantee the efficient and safe execution of payments;
- j)** Regulate, license and supervise financial institutions operating in the country;
- k)** Advise the Government on matters within its competence;
- l)** Act as fiscal agent of the Government;
- m)** Participate in international organizations and meetings that concern the above-mentioned points;
- n)** Be part of contracts and establish agreements and protocols with national or foreign, public or private entities; and
- o)** Perform any other activities as defined by law.

Currently, some of these functions are not yet performed by the BCTL due to the adoption of the US dollar (USD) as the official currency of the country.



## 3.2 BCTL Organization and Governance

BCTL's highest authority is its Board of Directors, which formulates the institution's strategies and policies and oversees their implementation, including the supervision of the Bank's executive management and operational activities.

The Governor is the highest executive body of BCTL, or its Chief Executive Officer and is assisted by two Vice-Governors and a Management Committee composed of the Directors and heads of various departments of the Bank. At the end of 2022, the year of this report, the Board of Directors was composed by the Governor, two Vice-Governors and four non-executive members. The composition of the Board of Directors and the Management Committee are presented at the end of the chapter.

BCTL is internally organized into four main departments: Financial System Supervision; Banking and Payments Systems; Petroleum Fund Management; and Administration. Some Divisions and Units report directly to the Governor, namely the: Legal Unit, Internal Audit, Economics and Statistics Division, the Institutional Cooperation Affairs Unit, Human Resources Division (which previously belonged to the Administration Department) and the Financial Information Unit. The Accounting and Budget Division is dependent on the Deputy Governor responsible for the supervision of the financial system. The central bank is also in charge of the secretariat of the Advisory Board for the investment of the Petroleum Fund.

BCTL's Board of Directors continues to adopt the motto abbreviated by the acronym **TIMOR**, representing **T**ransparency, **I**ntegrity, **M**obilization, **O**bligation and **R**esponsibility, essential slogans in the day-to-day operations of the institution and of its employees.



# Institutional Values

## **T**ransparency

We are a role model for society and for the institutions, our procedures and rules are clear and applied in a rigorous, universal and consistent way, both internally and externally.

## **I**ntegrity

We exercise our business with honesty, high ethical and moral standards, respecting the confidentiality and legality in all actions and decisions involving our interests and resources.

## **M**obilization

We mobilize to provide the best service to the Timorese community, through the ability to consult, listen and learn so committed.

## **O**wnership

We exhibit a sense of belonging and involvement, establishing as priority the objectives of the institution and showing availability to perform activities beyond the scope of our role.

## **R**esponsibility

We invest in expanding our technical and professional skills, deliver on the responsibilities that are assigned to us and that we proactively seek, through ongoing monitoring of the consequences of our decisions and actions.

BCTL has long adopted a code of ethics applicable to all employees, also covering appropriate guidelines in dealings with external entities to the Bank. The code of ethics includes strict rules on various aspects of the behaviour of those to whom it applies. Note, for example, the obligation of every Bank employee to perform its duties solely on the basis of serving the BCTL and general public interest, and not their individual interests, which includes not receiving instructions, whatever they may be, from entities other than the legally appointed structures of the Central Bank.

Bank employees are also, of course, forbidden to receive any remuneration from any persons or institutions who may be interested in influencing their decisions.

## 3.3 BCTL Activities in 2022

BCTL implemented several activities according to the plan defined in 2022, mainly those related to its mission to promote monetary and financial stability, develop the financial system and promote a secure and efficient payment system.

BCTL, in 2022, continued to preserve its mission to modernize the national payments system. In this regard, BCTL monitors the functioning of the implementation of R-TiMOR to serve the needs of the Government, mainly the Ministry of Finance and its sub-accounts. In fact, these services allow the Ministry of Finance and its sub-accounts to now have access to historical statements, prepare treasury management and project cash flows in real time. BCTL continues to make efforts to ensure necessary improvements to the R-TiMOR service system, maintaining coordination with the supplier and participants of R-TiMOR.

The BCTL, in 2022, continues to guarantee the full operation of real-time gross settlement systems (RTGs) in order to carry out financial transactions to meet the needs of the public, both the state and commercial banks. For this reason, BCTL also guarantees sufficient cash reserves. The Central Bank also continues to introduce new payment functionalities, namely taxes and B2W2B transfers. The functionality of B2W2B, in addition to enabling the payment of taxes, also allows any holder of a P24 card to transfer money from their bank account to a Mosan and T-Pay “e-wallet” account and vice versa

The BCTL Governing Board took several decisions throughout 2022, notably, among others, the approval of an instruction for the external auditors, the publication of the audit report and the annual report of insurers and insurance intermediaries in order to improve the audit program development procedures for the Insurance sector.

The celebration of the 8th anniversary of the National Savings Day, on November 29, 2022, took place at the administrative post of Baguia, municipality of Baucau. The program consisted of celebrating the 2nd anniversary of the “Campo Digital” program. This program was attended by members of the Governing Board of BCTL, representatives of SECOOP, MEJD, President of the Municipal Authority of Baucau, Commercial Banks, and ODTIs, and directors of primary and secondary schools.

In order to maintain relationship ties, in addition to institutional cooperation, and increase the sharing of information, BCTL through the Institutional Cooperation Affairs Unit (UACI) continues to exercise its functions in the development of cooperation with its counterpart and

other institutions, both national and international. Cooperation activities in 2022 have focused mainly on training, seminars and meetings, and technical assistance. Most of the cooperation activities between BCTL and its counterparts throughout 2022 were carried out in person with the easing of restrictions from the Covid-19 pandemic crisis.

These and other BCTL activities carried out in 2022 are described in more detail in the following section.

### 3.3.1. National Payment System

#### 3.3.1.1. Interbank Clearing and Settlement System

During the period of 2022, the BCTL continued to act in a consistent manner, to always maintain sufficient cash reserves to meet the needs of cash payments requirement, both the State entities and commercial banks. In order to carry out the respective financial transactions, BCTL ensured the full functioning of the Gross Settlement in Real Time (RTGS) systems. Note that, in order to mitigate the impacts of the pandemic, in 2020 and 2021, it was not possible to determine the movements and amounts recorded in the Interbank Clearing and Settlement System (CEL) in Dili. Therefore, the activities of the Automatic Clearing House (ACC) system began to be processed directly by commercial banks and government. These activities continue in 2022, and commercial banks, however, only make credit notes and there is no clearing check by BCTL.

#### 3.3.1.2. The SWIFT and R-TIMOR (RTGS) Systems

BCTL provides payment services to the public in two categories: domestic and international. Domestic payments are, in turn, of two types: High Value and Retail. International payments made from the country to the outside and vice versa, are always using the SWIFT system. Domestic payments, particularly with regard to retail payments, are directly processed in the automated clearing house (ACH), processing payments relating to salaries, veterans' subsidies, payments to suppliers, which, among others, are processed and transferred to commercial banks. Meanwhile, payments of large amounts, above 200 thousand USD, are always made through the RTGS. The RTGS system accepts all transaction amounts, on the contrary, the CCA system does not accept payments greater than 200 thousand USD.

**Table 3.1**

Domestic and International Payments  
(Value in millions of USD, Quantity in 103)

	2021		2022		Change (%)	
	Quantity	Value	Quantity	Value	Quantity	Value
<b>National Payments</b>						
Automatic						
Clearing House	1,208.29	523,78	1,238.80	598,80	2.5	14.3
RTGS-FICT	14,73	4.015,63	18.21	5,561.73	23.6	38.5
RTGS-SCCT	76,49	1.206,87	92.16	1,565.51	20.5	29.7
<b>Sub Total</b>	<b>1,299.52</b>	<b>5.746,27</b>	<b>1,349.17</b>	<b>7,726.04</b>	<b>3.8</b>	<b>34.5</b>
<b>International Payments</b>						
Outgoing						
Transfer-SWIFT	1.32	1.088,85	1.4	1,638.6	6.1	50.5
Incoming						
Transfer-SWIFT	0.18	77,77	0.2	196.3	-4.4	152.4
<b>Sub Total</b>	<b>1.50</b>	<b>1.166,62</b>	<b>1.58</b>	<b>1,834.88</b>	<b>4.9</b>	<b>57.3</b>
<b>Total</b>	<b>1,301.02</b>	<b>6.912,89</b>	<b>1,350.75</b>	<b>9,560.92</b>	<b>3.8</b>	<b>38.3</b>

Source: BCTL

Table 3.1 shows the statistics on payments, both national and international, during the period 2022. With regard to national payments, 1.349 million operations were processed, corresponding to a total of 7.726 million USD, representing only an increase of 4 % in number and 34% in value compared to 2021, which compares with a growth of 108% and 140% in 2021 compared to 2020. Outgoing payments through RTGS continues to be the main driver of growth in operations, recording an increase of 38% in value compared to 2021. At the same time, there is a significant number of operations in ACH, with a weight of 92% in total operations in RTGS, but registers only a small value of its share, 9%. Due to the fact that the ACH only has to process small amounts of operations.

On the other hand, within the scope of international payment activities, 1,600 operations were processed, corresponding to a value of 1.835 million USD, which represented an increase of 5%, in terms of number, with an increase of 57% in value, compared to 2021.

The increase in the level of international activity in number and value transferred was mainly due to the increase in transfers sent abroad, with a weight of 89% of the total international payments made in 2022, increased by 6% and 50%, respectively,

Table 3.2 also presents data on international transactions, corresponding to transfer and receipt transactions carried out by commercial banks in 2022, therefore it only includes transactions carried out via SWIFT.



**Table 3.2 SWIFT Transfers Incoming and Outgoing**

(Value in millions of USD, Quantity 10<sup>3</sup>)

	2021		2022		Change (%)	
	Quantity	Value	Quantity	Value	Quantity	Value
<b>Transfer Incoming</b>						
SWIFT	39.7	355.5	29.2	176.4	-26.4	-50.4
Non-SWIFT	52.9	805.0	33.3	158.6	-37.2	-80.3
<b>Sub Total</b>	<b>92.6</b>	<b>1,160.5</b>	<b>62.4</b>	<b>335.0</b>	<b>-32.6</b>	<b>-71.1</b>
<b>Transfer Outgoing</b>						
SWIFT	33.3	906.5	9.2	221.2	-72.4	-75.6
Non-SWIFT	60.9	807.5	107.1	1,237.2	75.8	53.2
Sub Total	94.3	1,714.0	116.3	1,458.4	23.4	-14.9
<b>Total</b>	<b>186.9</b>	<b>2,874.4</b>	<b>178.8</b>	<b>1,793.5</b>	<b>-4.3</b>	<b>-37.6</b>

Source: BCTL

The number of external transfers received and carried out in 2022, via SWIFT, amounted to a total of 29 thousand and corresponded to a value of 176 million USD, which led to a decrease of 26% in number and 50% in value. On the other hand, transfers made via non-SWIFT reached a volume of 33 thousand, which corresponded to a value of 159 million USD, which showed a decrease of 37% and 80%, respectively. Meanwhile, transfers abroad totaled 116 thousand transactions, with a value of 1.458 million USD, which resulted in an increase of 23%, in terms of quantity, and a decrease of 15% in terms of the amount transferred. Transfers of this type via SWIFT were the ones that most contributed to explaining the decrease in activity, having reduced by 72% in volume and 76% in terms of value.

### 3.3.1.3. The P24 System

The P24 system makes use of the R-TiMOR interbank network, allowing the P24 to automatically settle the net value of each bank's transactions, on a daily basis, or 24 hours and 7 days. The implementation of electronic system of P24 has the main objective to reduce the use of physical money (species) to carry out citizens' daily transactions. P24 allowed people without bank accounts, or those who are far from banks, to have electronic means of payment, in addition to cash, which are accepted in local markets and stores, also allowing citizens to make bank transfers.

Table 3.3 summarizes the evolution of transactions carried out in the P24 system in the country during 2022.



**Table 3.3 P24 System**

(Value in millions of USD, Quantity 10<sup>3</sup>)

	Financial Transactions				Non-Financial Transaction
	Cash Withdrawal		Transfer		Balance Inquiry
	Quantity	Value	Quantity	Value	
2021	1,512.1	187.7	22.6	8.0	0.5
2022	2,640.5	329.4	14.1	7.7	1.1

Source: BCTL

The numbers fascinated the evidence of a continued significant growth of financial transaction activities in the P24 in 2022. In 2022, 2.6 million cash withdrawal operations (cash) were carried out through the P24 system, corresponding to a value of 329 million USD, which resulted in a 75% increase in volume and value, respectively. Regarding the level of transfers carried out in P24, 14 thousand operations were registered, totaling \$7.7 million, which corresponds to a decrease of 38% and 5%, respectively, in relation to 2021.

### 3.3.1.4. The Electronic Wallet System Service (E-Wallet)

The Mosan and T-Pay system are electronic money wallet (E-Wallet) services that allow its users to transfer funds, withdraw and deposit money in their wallets, top up mobile phone balances, make electricity prepayments and consult balance and transaction history report.

For prudential reasons, limits were imposed on the 'Mosan' system, stipulating a maximum account balance of USD 500 and a maximum depositable per day of USD 300. While the maximum transaction of 'T-Pay' is 300 USD per day and the maximum balance per account is 300 USD. Mosan and T-Pay Agents, which act as 'points of transaction', allow their customers to:

- Transfer and receive funds;
- Depositing and withdraw money;
- Make purchases (QR-Code), including charging mobile phones and electricity; and Register user/account and update customer information.

'Mosan and T-Pay' thus allows access to basic financial services to citizens of sucos and villages who live far from the main urban centers and to citizens who still do not have the possibility of accessing formal financial services in Timor-Leste.



Table 3.4 shows the statistics relating to transactions carried out by this service in 2022. The levels of use of the Mosan and T-Pay system registered, in 2022, a significant increase. The total number of transactions, therefore, was 4,940 thousand, corresponding to 61.6 million USD, registering an increase of 461% in relation to the transaction volume, as opposed to a decrease of 0.1% in its value, in relation to 2021.

**Table 3.4 E-wallet Service Transaction**

(Value in millions of USD, Quantity in 10<sup>3</sup>)

	2021		2022		Change (%)	
	Quantity	Value	Quantity	Value	Quantity	Value
Transfer	374.2	49.82	427.67	45.59	14.3	-8.5
Cash-in	3.37	0.05	410.82	6.16	12090.6	11485.1
Cash-out	298.34	7.92	38.09	4.99	-87.2	-36.9
Top-up	8.50	0.25	3,124.10	3.06	36658.4	1129.9
Buy data	173.66	0.16	602.75	0.64	247.1	302.3
Payment Utility	21.88	3.46	336.13	1.17	1436.5	-66.1
<b>Total</b>	<b>879.9</b>	<b>61.66</b>	<b>4,939.56</b>	<b>61.62</b>	<b>461.3</b>	<b>-0.1</b>

Source: BCTL

### 3.3.1.5. Banking System

The statistics presented in Table 3.5 summarize the evolution of transactions in 'cash' (coins or notes) and other means carried out by commercial banks in Timor-Leste. The number of 'currency' transactions carried out in 2022 totaled 1.6 million, corresponding to 54% of the total number of transactions carried out, with a nominal value of USD 4,330 million. These numbers translate into a 25% increase in number and a 50% increase in value, compared to 2021. Transactions in means other than "currency", on the contrary, represented 46% of the total number of transactions in the country, or 1.4 million transactions, corresponding to an aggregate value of USD 4,973 million. These values represent increases of 53% in number and 186% in value, compared to 2021.

**Table 3.5. Cash and Non-cash Transaction**

(Value in millions of USD, Quantity in 10<sup>3</sup>)

	2021		2022		Change (%)	
	Quantity	Value	Quantity	Value	Quantity	Value
Cash Transaction	1,295	2,879	1,619	4,330	25.1	50.4
Non-cash Transaction	889	1,737	1,357	4,973	52.7	186.3
<b>Total</b>	<b>2,184</b>	<b>4,616</b>	<b>2,976</b>	<b>9,302</b>	<b>36.3</b>	<b>101.5</b>

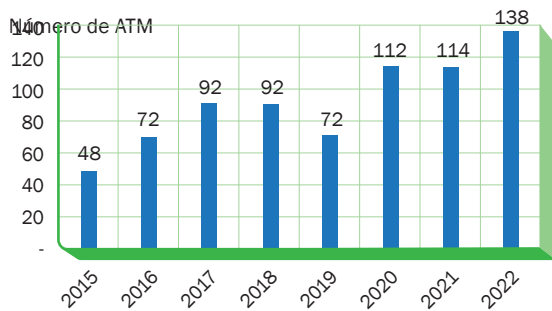
Source: BCTL



BCTL wants the settlement of economic transactions to become progressively more efficient and effective, through greater usage of electronic means of payment and digital financial services. Consequently, BCTL continues to promote the substantial expansion of the network and range of automatic/digital payment services, that do not use banknotes/coins but make use of the national interconnection system for the expansion of payment services, stimulating the widespread use of credit and debit card and the mobile phone, as platforms for making payments.

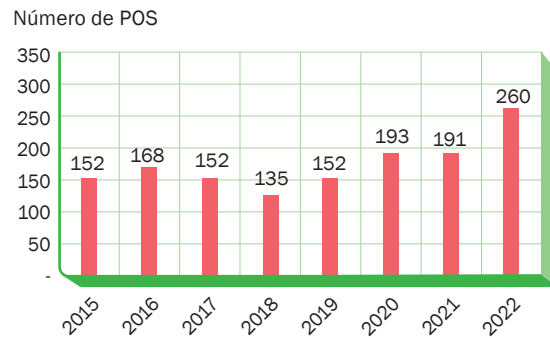
Graphs 3.1 and 3.2 describe the evolution of the number of payment terminals installed in the country, including automatic teller machines (ATM), which totaled 138 units in 2022 and 260 units of points-of-sale terminals (PoS). These values, when compared to December 2021, represent an increase of 21% for ATMs and 36% for PoS.

**Chart 3.1**  
Automatic Teler Machines (ATM)



Source: BCTL

**Chart 3.2**  
Automatic point of Sale (PoS)



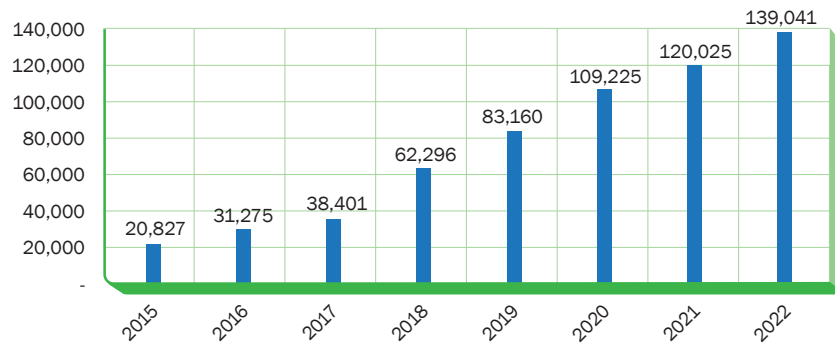
Source: BCTL

The evolution of bank cards issued in Timor-Leste can be seen in Graph 3.3. The number of active cards in circulation in the country totaled, in December 2022, around 139 thousand, which corresponds to an increase of 16% compared to the previous year, which resulted in an increase in their importance for the stock of national bank cards.



### Chart 3.3

Number of Credit and Debit Card



Source: BCTL

#### 3.3.1.6. Currency Imports and Exports

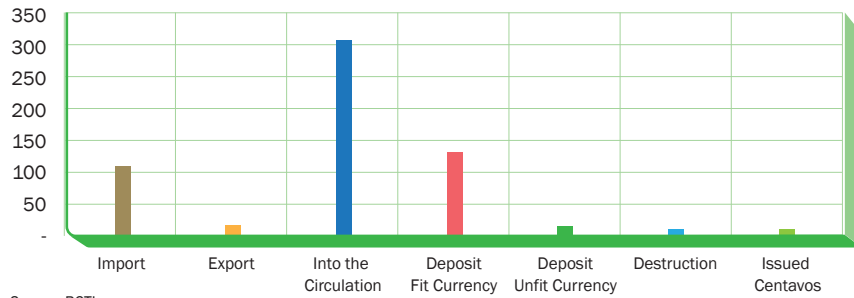
One of the fundamental functions of the BCTL is to manage the country's official currency. In this sense, the BCTL must ensure that the national economy has access to the necessary means of payment to support its economic agents' economic activities and the expected economic growth. BCTL, therefore, has an important role in protecting public confidence in the country's currency by: supplying and adequate level of banknotes and coins which, at all times, must satisfy public demand; and guarantee the physical integrity of the banknotes.

Since the country uses banknotes from another country and its own metallic coins, but are not manufactured in the national territory, supplying the national economy with physical means of payment (coins and banknotes) requires importing them and, in the case of banknotes, when they reach a very low degree of conservation, their re-export to the country of origin, the United States.



### Chart 3.4

TL: Currency Transaction in millions of USD in 2022



Source: BCTL

During 2022, BCTL imported 112.6 million USD banknotes, representing a 25% decrease compared to 2021, having placed a total of 316 million USD in circulation, including coins (centavos), which corresponds to down 16% compared to 2021. The amount put into circulation was higher than that imported, registering a difference of more than 196 million USD. The fact that the excess was due to inflows of deposits and the existence of reserves. It should also be noted that the 20-dollar bills continue to be the most used in transactions in the country, followed by the 10-dollar denomination. The \$20 and \$10 bills represented, respectively, 66% and 30% of total imports, 61% and 37% of circulation in the economy, and 52% and 43% of the total (re)deposited (“fit currency”) by banks with the central bank. Due to their frequent use, these two denominations register a very low degree of conservation, so that the (re)deposited amounts of “unfit currency” and their repatriation to the country of origin of these banknotes have had a significant weight, 31% and 38% of (re)deposits, and 33% and 28% of repatriations, respectively (Table 3.6).



Table 3.6. Coin Transaction and Movement

Denomination	Import		Re-circulation		Deposit		Weight 2022			Change (%)		
	2021	2022	2021	2022	2021	2022	Import	Re-circulation	Deposit	Import	Re-circulation	Deposit
100			1.300	3.800	1.300	2.800	0.0	1.23	2.22		192.3	115.4
50		3.200	1.150	1.950	1.050	1.850	2.8	0.63	1.46		69.6	76.2
20	97.280	74.240	177.200	187.400	109.547	66.531	66.0	60.75	52.67	-23.7	5.8	-39.3
10	50.560	33.920	85.810	113.090	53.050	53.808	30.1	36.66	42.60	-32.9	31.8	1.4
5	2.240	1.200	1.455	2.235	1.143	1.333	1.1	0.72	1.06	-46.4	53.6	16.6
<b>Total</b>	<b>150.080</b>	<b>112.560</b>	<b>266.916</b>	<b>308.476</b>	<b>166.090</b>	<b>126.323</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>-25.0</b>	<b>15.6</b>	<b>-23.9</b>

Source: BCTL

A total of 7.5 million cents coins were put into circulation during the year 2022, while new 1.6 million cents coins were issued. In 2022, the 200 cents coin recorded a total amount in circulation of 545 thousand cents or represents 7% of the total cents in circulation. This value continues to show a downward trend, representing a decrease of 46% in 2022, after a drop of -62.2% in 2021. On the contrary, the 100 cent coin registered an increase of 43% after having registered an increase of 54 % in 2021, thus reaching a value of 4 million centavos in 2022. While the 50 centavos denomination recorded a value in circulation of 1.9 million centavos, amounting to 26% of total coins in circulation, with an increase of 34% compared to 2021.



# Box 1. Modernization of Timor-Leste’s Payment System

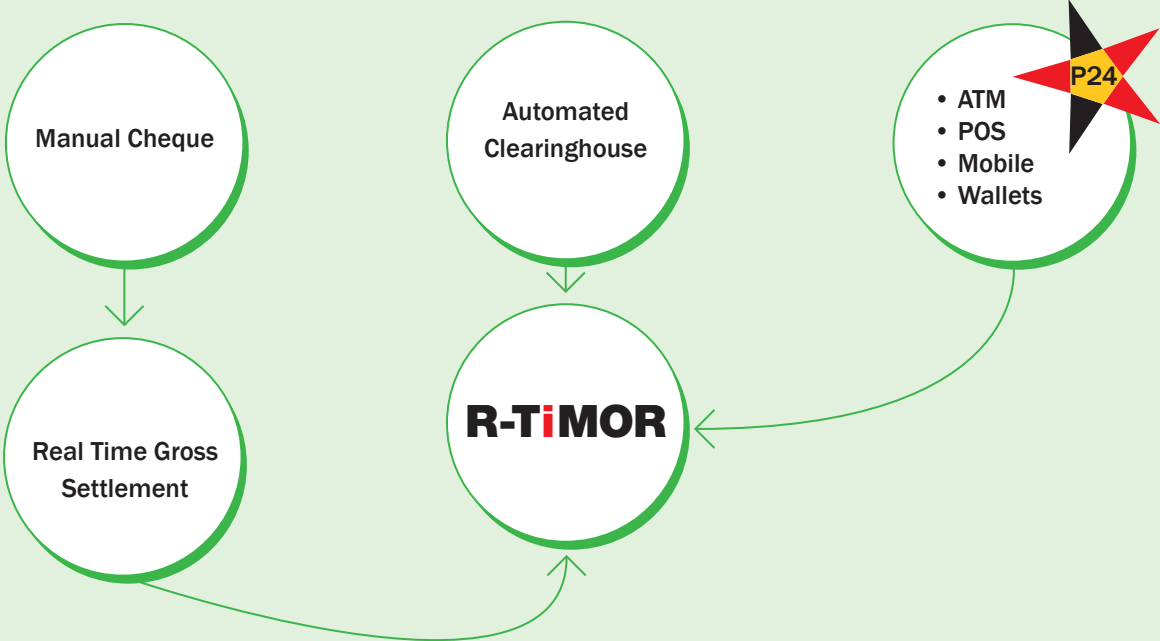
## 1.1 The R-TiMOR System

BCTL launched the R-TiMOR system in 2015. It is an integrated network system that allows participants to make electronic payments, in Timor-Leste, between individuals, companies, public institutions and other entities. The administrator of the R-TiMOR system is the Central Bank, as well as the provider of services to its members and participants. BCTL therefore continues to improve the quality of services provided by R-TiMOR in order to maintain an efficient and effective national payment system through ‘Direct Processing module (STP)’. In fact, STP has already been implemented and is currently used in all commercial banks and in the Ministry of Finance.

The number of participants in the R-TiMOR system is divided by direct and indirect participant. Until the end of 2022, the number of direct participants remained at 6 participants, while the number of indirect participants in R-TiMOR increased significantly by 25% to a total of 96 participants, compared to the previous year. Indirect participants consist of Autonomous Agencies, Municipalities and Special Funds. The system allows indirect participants to process their payments directly using the Government Resource Planning (GRP) system installed at their workplaces

The Central Bank continues to make efforts to ensure the necessary improvements to the R-TiMOR service system, maintaining coordination with the participants of R-TiMOR and relevant parties. The additional objective of this effort and coordination is to implement other necessary improvements to facilitate direct payments, carry out all types of payments to the State (taxes, tenders, etc.) from any bank participating in the R-TiMOR.

In 2022, BCTL, in cooperation with relevant parties, completed the Automatic Split of Tax Payments by automatize credit of taxes into the Government’s Consolidated Account per different types of taxes identified by taxes codes through the R -TiMOR. Compared to the previous approach, this initiative has eliminated manual intervention in the R-TiMOR system when cardholders carry out tax payments through ATMs.



## **1.2. The National Card and the Payment Switch Projects**

SIBS International, from Portugal, was contracted by BCTL in 2017, they developed the National Card Project and the Payment System Interconnection, called “P24” (the “P” derived from the words ‘Pagamentu, Pagamento, Payment e Pembayaran’ ). The P24 system offers a wide range of financial services, which are always available 24 hours a day, 7 days a week.

By the end of 2022, most banks operating in Timor-Leste, Caixa Geral de Depósito (CGD), Banco Mandiri, Bank Rakyat Indonesia (BRI), and BNCTL joined this P24 system. With the integration of the ATM network of these Banks to the P24 system, customers of each bank are able to carry out transactions at the ATMs of other banks with the P24 logo.

BCTL, with the collaboration of these P24 participants, completed the interconnection of the “Mobile Switch” with the P24 system. Therefore, electronic wallets, the e-wallet, composed by Mosan (from Telemor Fintech Lda) and T-Pay (from Telin Solution Lda), can now transfer funds from bank accounts to electronic wallet accounts and vice versa (B2W2B).

Fully operationalizing the tax payment module with the P24 system allows taxpayers to pay their taxes through the P24 system. This important milestone in the development of the national payments system now allows P24 cardholders of all participating bank customers to pay their taxes electronically, through ATMs with the P24 logo, without the need to travel to their banks. It should be noted that the use of this payment system increased significantly in 2022, with the total number of tax payments reaching 19 thousand, registering an increase of 480%, with a total value of 2 million USD or an increase of 386% against 2021. As the P24 system is also interconnected with the Central Bank’s R-TIMOR settlement system, BCTL then credits the tax payment received through R-TIMOR to a government account at the Central Bank. It should also be noted that, for the service to work, the Banks will have to ask their customers to exchange their previous bank cards for the P24 network cards. It was later jointly announced by the BCTL and the Ministry of Finance in an official launching ceremony on 5 March 2021. Giving people access to these services is a key strategy of the Central Bank to modernize, strengthen and develop the financial sector to support economic growth and it is a key strategy of the Government to promote e-government to simplify and make government services more efficient going forward.

At the end of 2021, BNCTL in collaboration with BCTL, completed the integration of Union Pay International acquiring into the P24 systems. This integration allows international Union Pay card holders to carry out transactions at BNCTL ATMs and POS devices in Timor-Leste with the P24 logo. Since VISA has also been integrated into the P24 system, BNU Timor in collaboration with BCTL and service providers, has already implemented the use of the “contactless” payment method for its visa card and the issuance and operation of security protocols “ Visa 3D Secure”, fully compliant with Visa’s operational requirements.

In 2022, some commercial banks in collaboration with the Central Bank continue to coordinate with the P24 system provider to further improve, modernize and enrich the P24 by adding more features and services making the payment system services in Timor-Leste rich and efficient. The following are projects that are currently in progress and are expected to be completed in 2023:

- **Mastercard Acquiring**

BNU in collaboration with Mastercard, the BCTL and its service provider have achieved 92% development of acquiring the Mastercard and expect to be finalized in the near future. The completion of this project will allow international Mastercard cardholders to carry out transactions at BNU-Timor ATMs and POS devices in Timor-Leste with the P24 logo.

- **Tax Payment - Mobile Wallet & POS**

The BCTL in 2022 continued to upgrade the P24 systems to also enable tax payments through Mobile Wallet and POS devices. The project completion achieved 87% developments and is expected to be finalized in the first semester of 2023. Once completed, the customers will have many choices of channels when making payment of taxes. Clients of e-wallet (Mosan & T-Pay) will be able to make payment of taxes directly to the government's consolidated account through their mobile wallet and POS devices conveniently.

- **UnionPay Issuing (Contactless & 3D-Secure)**

BNCTL, upon the completion of the UnionPay Acquiring in 2021 where the UnionPay International card holders can now perform transactions in BNCTL ATMs and POS devices with the logo of the P24. The BNCTL has further collaboration with the BCTL and its service provider, initiated the UnionPay Issuing (contactless & 3D Secure) in 2022. The completion of this project will allow BNCTL to issue the contactless & 3D Secure UnionPay International cards to the interested BNCTL clients. This will facilitate the cardholders to perform transactions domestically and when traveling abroad. The 3D Secure once completed will facilitate the cardholders in conducting online financial transactions efficiently.

### **1.3 National Program of Digital Village**

The Digital Village Program is a National Program initiated by the Central Bank to promote the use of digital financial services in Timor-Leste. The Program also aims to expand, in the medium-long run, access points to integrated and interconnected financial services in rural areas, such as the use of digital media (Mobile, ATM and POS) to carry out financial transactions (payments, transfers and balance inquiries). The program's participants are the financial institutions that are interconnected with the electronic wallet systems within the P24 Network.

The objective of the project is to promote the knowledge and widespread use of these new technological tools in the daily financial activities of the population. The education and familiarization of the rural population with the development of the national payment system and with digital financial services is also one of the objectives of the program. In addition to these objectives, it is also intended to expand, in the medium to long term, the number of access points to integrated and interconnected financial services that will serve rural areas.

On November 29, 2022, the Central Bank celebrated the 8th anniversary of Savings Day at the same time celebrate the 2nd anniversary of "Campo Digital" program at the Administrative Post of Baguia, in the Municipality of Baucau, which had the participation of the members of the BCTL Board of Directors, representatives of SECOOP, MEJD, President of the Authority Municipality of Baucau, Commercial Banks, and ODTIs, and directors of primary and secondary school.

On December 20, 2022, the Central Bank also implemented the “Campo Digital” National Program at the Administrative Post of Baguia, in the Municipality of Baucau, preceded by the dissemination of information on digital payments and continued training of Fintech Agents and customers, in order to facilitate and streamline the payment of salaries at local Fintech Agents. This event was attended by the local authority, school principals, civil servants, veterans, companies, e-wallet agents and customers.

Geographical and road conditions in Baguia have contributed to the successful implementation of this program in Baguia. E-wallet agents are competing in providing basic financial transaction services to the communities in the area. Civil servants, PNTL, veterans and the communities trying to carry out financial transactions at e-wallet agents and merchants in Baguia. Since the implementation of the program in Baguia, they no longer need to go to the city of Baucau to simply carry out basic financial transactions unless other needs require them to go to Baucau. P24 cardholders, teachers, for example, every month they can collect their salary at e-wallet agents or at available POS merchants in Baguia.

At the end of October 2022, there were 4 Mosan agents and 2 merchants who were very actively providing financial services to customers. Customer monitoring program focused on those who subscribed at ATMs to allow B2W transactions. The Central Bank’s agent organized and mobilized e-wallet clients performing subscription HBMB at P24 ATMs in the city of Baucau and Dili. The system registered 1,834 transactions and with the total value of USD 21, 206 digital transactions.

In 2022, in cooperation with local authority, the Central Bank realized the dissemination of information on digital payments continued in other administrative posts such as Administrative Post of Uatu-Carbau and Administrative Post of Uatu-Lari (Municipality of Viqueque), Administrative Post of Illiomar (Municipality of Lautem) and Administrative Post of Cai-Laco (Municipality of Bobonaro). The same as other administrative posts, the participants who attended this program were very enthusiastic which was evident from the questions asked, suggestions, criticisms and hopes for the future modern and efficient payments system. These programs have facilitated customers to access basic financial services in those Administrative Posts.

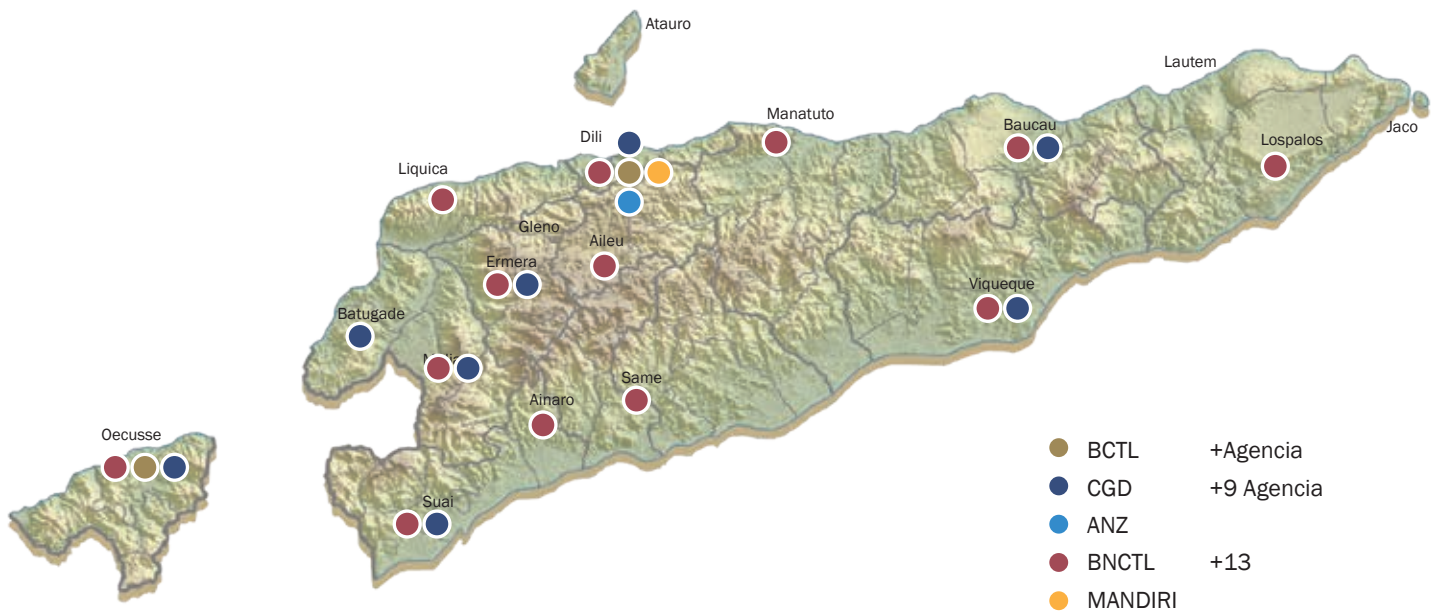




### 3.3.2. Financial and Banking Systems

#### 3.3.2.1. Licensing and Supervision

Timor-Leste Financial System is composed by commercial banks, insurance companies, other deposit receiving institutions, money changers and money transfer operators (MTOs), and also several credit unions. The financial system has been stable and robust throughout the year, continuing to significantly contribute to national economic stability.



Articles 5 and 29 of Law No. 5/2011 and the Organic Law of the Banco Central de Timor-Leste grant BCTL the exclusive power to regulate, license and supervise all financial institutions. BCTL's Supervision Division is responsible for the licensing and supervision of banks, money changers, insurance companies or insurance intermediaries, other deposits receiving institutions and money transfer operators (MTOs) operating in the country.

During the 2022 financial year, no applications were submitted by this Division for consideration by the BCTL Board of Directors or approval for licensing, as there were no new applications. BCTL, through the Division of Supervision, continues to exercise supervision of financial institutions licensed by BCTL to ensure full compliance with the Laws and Regulations issued by BCTL. In addition, to promote and maintain the soundness and security of financial services, the Division worked during the year on the preparation of draft prudential regulations for the banking and insurance sectors.

## Box 2. Financial Education Program in Timor-Leste

### 2.1. Financial Literacy Program in Primary Schools

BCTL continues to strengthen cooperation and coordination with relevant parties on Financial Literacy Programs. As an indication, for example, in March 2022, BCTL and the Ministry of Education, Youth and Sports of Timor-Leste (MEJD) held a meeting on the implementation of financial literacy in elementary school. Several representatives of national institutions participated in this meeting, such as the National Institute for the Training of Teachers and Education Professionals (INFORDEPE), directors of the Ministry of Education and directors of basic education schools in 9 municipalities such as

Aileu, Ainaro, Baucau, Bobonaro, Ermera, Lautem, Liquica, Manatuto and Manufahi. The objective was to discuss

the coordination and progress of the implementation of financial literacy in basic education. BCTL

distributed financial literacy module, whose level from 1 to 6 of elementary school, and books for trainers to teachers. Meanwhile, the Ministry of Education, Youth and Sports (MEJD), through the Directorate-General for Education and Teaching, distributed the circular letter, that serves as an instruction for public schools, to the participant in the meeting, to teach financial literacy in the respective schools.

In May 2022, BCTL in coordination with MEDJ, Executive Secretary of Education and Social Solidarity of the Special Administrative Region of Oé-Cusse Ambeno (RAEOA), and INFORDEPE organized the same meeting at RAEOA – Oecusse.



### 2.2. Training of Trainers to Directors of Elementary School

BCTL and INFORDEPE, during the period from 22 to 26 August 2022, organized the training of trainers program (TOT) for directors of elementary school in 4 municipalities (Dili, Viqueque, Atauro, and Covalima). A total of 40 participants from elementary schools participated in this training. BCTL continued to monitor the progress of financial literacy implementation through regular coordination with the MEJD general directorate of education and teaching, and also conducted direct interviews with some elementary school teachers that implement financial literacy program in their respective schools. In order for this monitoring service to be effective, BCTL created a social media communication group, composed of BCTL, MEJD, and teachers, which facilitates and obliges teachers to send regular reports on the progress of implementation of teaching the financial literacy program in schools.



### 2.3. Financial Literacy Program to SECOOP

Based on the memorandum of understanding between BCTL and the Secretariat of State for Cooperatives of Timor-Leste (SECOOP) signed in 2021, which defined BCTL's support to SECOOP in defining and carrying out training in financial education for cooperatives and support in the preparation of support materials for training activities in financial education for cooperatives, BCTL therefore, in 2022, conducted a financial literacy training program for SECOOP trainers, comprising training in financial planning, financial savings and protection, including insurance products, and awareness of how digital payments work. Directors, heads of departments and employees took part in this program in a total of 18 people, 7 male and 11 female. SECOOP trainers in this training are required to share and teach their counterparts at municipal and administrative post level.



### 2.4. Financial Literacy Program for Youth

Financial literacy for young people was defined in the 2016 – 2020 National Financial Literacy Strategy. Therefore, in 2022, BCTL organized the implementation of the financial literacy program for 4 secondary schools in Baguia, Baucau municipality, namely Escola Secundária Geral (ESG) Publico Buawa, Lavatari, ESG Publico Baguia, ESG Private Taur Matan Ruak, Osso-Huna, and ESG Católica Pe. João De Deus Pires, SDB Baguia. This program ran from October 12 to 15, 2022, with a total of 243 students participating. Materials provided during school visits are the roles of BCTL, roles of financial institutions, importance of financial planning, budget planning, identification of aspects of needs and wants, advantages of having a bank account, identification of money fake and the introduction of various types of digital payment systems in Timor-Leste.



### 2.5. National Saving Day and “Campo Digital” program



#### PROGRAMA NASIONAL BA EDUKASAUN FINANSEIRA

“Poupa Agora Diak Ba Futuru”



The celebration of the 8th anniversary of the National Savings Day in Baguia, municipality of Baucau, consisted of commemorating the second anniversary of the digital field. This event was attended by members of the BCTL Board of Directors, representatives of SECOOP, MEJD, President of the Baucau Municipal Authority, Commercial Banks, and ODTIs, and directors of primary and secondary schools. Mr. Abraão de Vasconcelos, BCTL Governor, in his speech highlights that the digital field program in Baguia has been successfully implemented. He added that this will serve as a reference to carry out the same program in other places. BCTL organized pre-celebration activities for the National Savings Day and Digital Field from 25th to



30th of July in Baguia, at 7 primary schools, namely Ensino Básico Central (EBC) public Lavateri, Ensino Básico Filial (EBF) Larisula, EBC Publiku Baguia, EBC S. João Baguia, EBC PribaduSatilus, and EBC Publiku Ossu-Huna. Raising awareness about the importance of knowing about money in circulation and counterfeit money, how to make simple financial planning, the importance of saving money and digital payment systems in Timor-Leste are the subjects of the program. About 639 students participated in the program. In addition, BCTL organized an awareness program on digital payment - namely in daily transactions, withdrawals, transfers, and payments - for the population in the Administrative Posts of Baguia, Uatu-Carbau, Uatulari and Iliomar during the year 2022.

## 2.6. Launch of the Second National Financial Literacy Strategy 2023-2027

BCTL officially launched its second National Strategy document for the 2022-2027 Financial Literacy Program on the day of the celebration of the 8th National Savings Day. This second National Financial Literacy Strategy aims to bring together the various stakeholders to work more efficiently, expand target groups, align program content and achieve greater impact. It highlights the importance of digital literacy as part of financial literacy, as many services are offered through digital channels. The development process of the second cycle of the National Financial Literacy Strategy began with the evaluation of the action plans implemented in the first strategy document. The status of each action plan, the challenges faced and the results achieved provided valuable data for developing a more effective plan for the next five years. The first survey, on the demand side of the financial sector, provided evidence of the level of financial literacy, awareness of concepts, use of available financial services, and common financial behaviors and their reasons. The survey result emphasizes the need for a more holistic approach to promoting financial literacy in the country. A wide range of stakeholders were identified and collaborated with the development of the document. The Central Bank conducted interviews to collect information on financial literacy initiatives and discuss the main themes of the strategy.



## 2.7. “Há’u-Nia Futuru” Saving Account

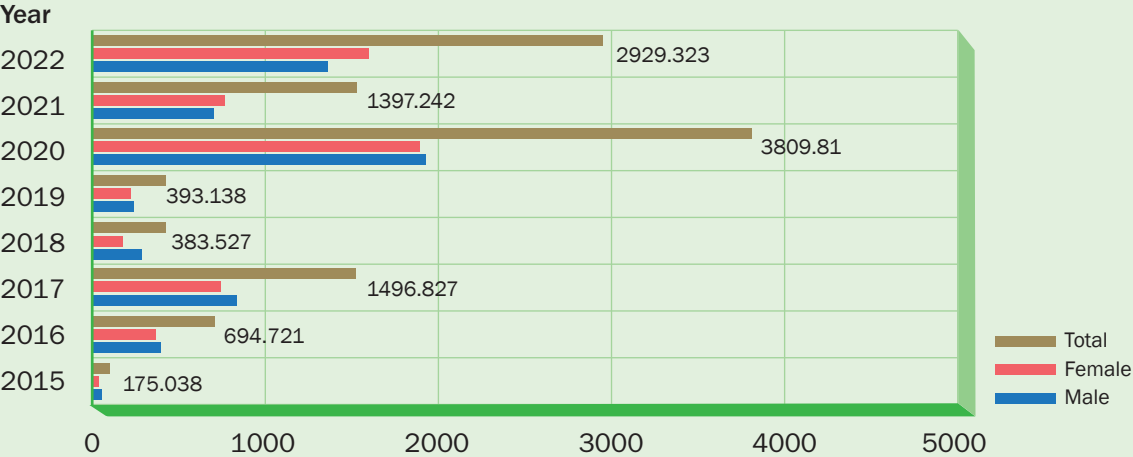
### CHILDREN’S SAVINGS ACCOUNTS “HA’U-NIA FUTURU”

The Ha’u-nia Futuru savings program was developed for children up to the age of 17, with the main objective of promoting the formal financial inclusion of children and families. Every month, banks provide BCTL with reports on the progress of Hau Nia Futuru savings program in order to monitor its development. The benefits of these savings are that children only need one dollar (US\$1) to open an account, there are no administration fees and they benefit from an annual income of 1.5%. To open this account, only the birth certificate and the parents’ ID cards are required.

From the start of the program until the end of 2022, the amount invested in Ha’u Nia Futuru accounts was valued at USD 11.3 million, registering a growth of 31.4% compared to December 2021. Annual data show that in 2022 the volume applied increased by around 357% to 4,457 children’s accounts, with the amount applied increasing by 110% to USD 2.93 million, against the USD 1.397 million invested in 2021. funds saved in this account are concentrated in the capital Dili (67%). The smallest expression was recorded for the municipality of Ainaro, which represents only 1% of the total account. At the end of 2022, there were 24,352 customers, 50.1% male children and 49.9% female.

### HNF SINCE THE BEGINNING

(000 USD)



Municipality	Percentage	Municipality	Percentage
Dili	66.6%	Viqueque	2.2%
Ermera	2.1%	Aileu	3.0%
Liquiçá	3.2%	Ainaro	1.1%
Lautém	3.3%	Baucau	5.6%
Manufahi	2.0%	Bobonaro	2.5%
Manatuto	3.2%	Cova Lima	3.0%
Oecusse	2.2%		

### 3.3.2.2. Insurance Companies

In 2022, it continued to exist with two insurance institutions in Timor-Leste: Sinar Mas (SMI) and Federal Insurance Timor (FIT). For the time being, within the period, the BCTL granted a definitive license to the insurance company Sinar Mas to manage the life insurance business in the country. Information for this branch of life insurance would be available in 2023. The sector thus recorded yet another evolution in the set of services offered in the country and in the offer of general insurance to the various sectors of activity.

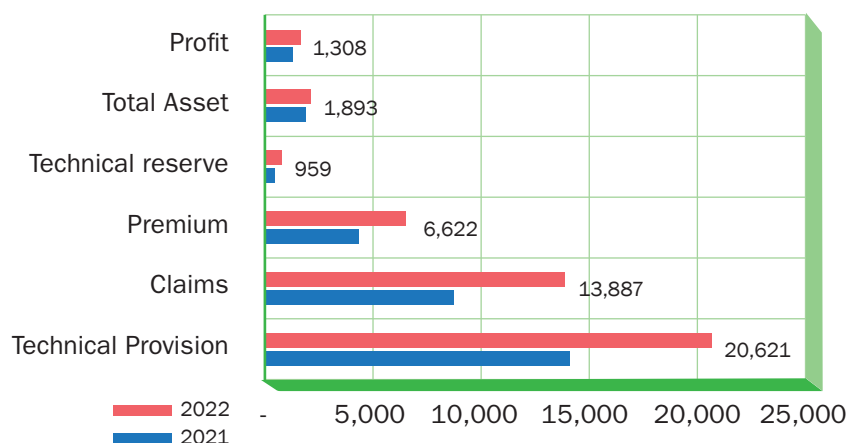
General insurance recorded total assets of USD 20.6 million in December 2022, accounting for a growth of 45.4% compared to 2021. In the same year under review, total liabilities increased by 57.88%, amounting to 14 million USD at the end of the year, of which a large part corresponds to technical reserves and other liabilities. The sector's equity also increased by 24% to USD 6.5 million, largely due to current and past results. The sector's consolidated result increased in 2022, recording an increase of 18% - compared to a decrease of 15% in 2021 - to USD 1.3 million, mainly due to the increase in revenues from technical results and investments. Premiums grew 57% to USD 6.6 million compared to USD 4.2 million in December 2021. Much of this was due to personal accident, motor vehicle and property (fire). On the other hand, the number of policy issues grew by 28.5% to 11,659, most of which with the contribution of personal accident and motor vehicle insurance policies. Meanwhile, the same complaint also increased by 10% to 78.

Chart 3.5 illustrates the evolution of the main measures for evaluating the annual performance of the insurance business in Timor-Leste.

#### Chart 3.5

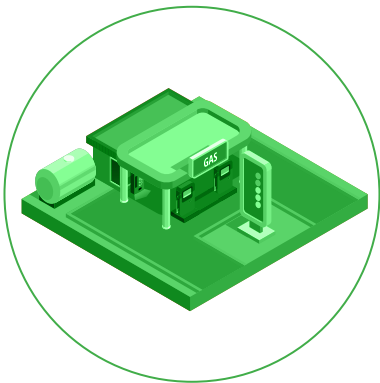
##### Insurance Performance

Em milhares de USD



### 3.3.3. Petroleum Found Management

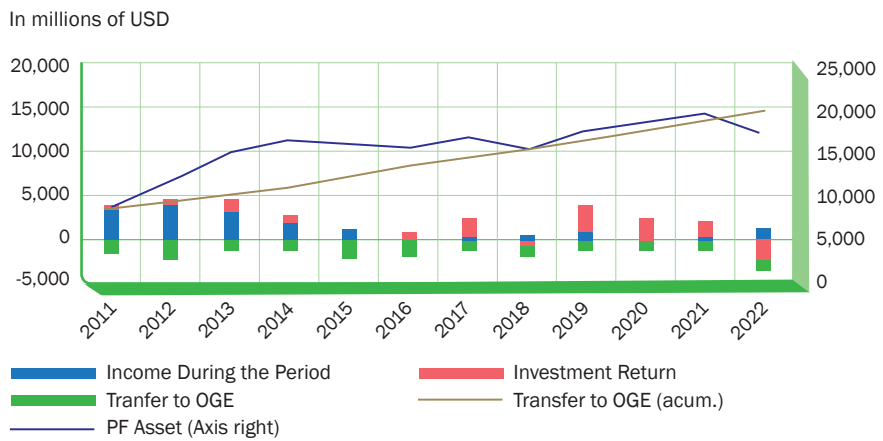
According to the framework defined by the Petroleum Fund Law - Law no. 9/2005, subsequently amended in 2011 - the Central Bank is the institution responsible for the operational management of the Fund. According to this legislation, the Ministry of Finance is responsible for defining the overall investment strategy of the Petroleum Fund and the Central Bank is responsible for the operational implementation and specific management of the investments and mandates that implement that strategy.



At the end of 2022, the Fund's capital value amounted to USD 17,414 million, down 11.4% from the previous year. Annual oil revenues - taxes and royalties - amounted to USD 1.106 million, resulting in a significant increase of 54% compared to 2021. On the other hand, PF's withdrawals destined to finance the General State Budget were estimated at USD 1.404 million. The Fund's management expenses, both external and internal, amounted to USD 19.5 million in 2022.

With regard to financial performance during the year, the Fund accumulated gross income of USD 2,025 million, which corresponds to approximately 11.6% of the Fund's value at the end of 2022 (USD 17,414 million). The breakdown of this income allows us to observe that the income arising from the receipt of interest and dividends totaled 1.7% of the value of the Fund (1.4% in 2021), while the capital gains recorded during the year were -13.3%, resulting in a decline from the substantial 2021 capital gains, valued at 4.3% of the Fund's value.

**Chart 3.6**  
Petroleum Fund Asset Evolution

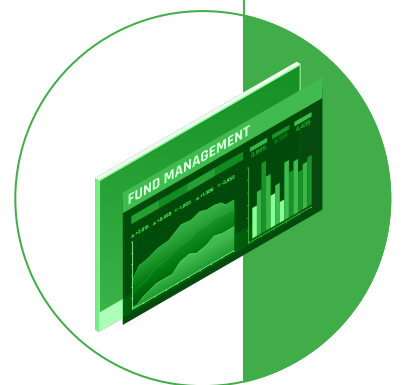


The Petroleum Fund, in 2022, continues to invest in the segmentation of the liquidity portfolio and in the growth portfolio. The liquidity portfolio is invested in highly liquid securities with maturities of less than 3 years, in order to cover the expected withdrawals to finance the State Budgets projected over the next 3 years. The growth portfolio is mostly invested (65%) in fixed income securities and global company equities (35%).

In 2022, the performance of the liquidity portfolio in investment in the financial market registers a loss of -0.65%, and investments in growth portfolios register a

The negative performance of the investment portfolio in the financial market during the year was mainly due to the impact of the rise in interest rates, and the negative sentiment of investors about the global economic situation. The main world economies maintained their high interest rate levels to avoid new inflationary pressures. Central banks' determination to keep inflation under control by raising interest rates had a significant impact on investor sentiment. The rise in benchmark interest rates led to a rise in interest rates on global sovereign bonds, particularly US Treasury bonds in which the Petroleum Fund is substantially invested. The normalization of the pandemic situation substantially affected the resumption of world economic activities and, in turn, the evolution of financial markets in 2022, but the development of the political crisis in Ukraine and Russia allowed the start of a new, more negative dynamic for the situation economic. With the political instability in Ukraine and Russia, the effect of the slowdown in growth and the rise in inflation was brought to the entire world economy, due to restrictions on the supply of energy by Russia, and the decrease in the confidence of economic agents, with the increase in investor uncertainty, had repercussions on the prices of financial assets.

At the end of 2022, the composition of the Petroleum Fund's investment portfolio is mostly invested (84.25%) in the growth portfolio, and 15.75% in the liquidity portfolio. The investment composition of the liquidity portfolio was 12.14% invested in US Treasuries with maturities of 3 months, and 3.61% invested in US Treasuries with maturities of 1 - 3 years. In relation to the growth portfolio, 56.48% is invested in fixed portfolio, being 39.54% in US Treasuries between 3 - 5 years, 8.46% in US Treasuries between 5 - 10 years, and 8.49% in the global Treasury bond market of developed countries, excluding the US. While, the remaining 27.77% of the investment portfolio is invested in the equity portfolio. The 10-year interest rates of US Treasury bonds increased by 2.4% in 2022, Similarly, interest rates on other countries' sovereign bonds also increased sharply in 2022. The 10 years European rates rose 2.75%, and Japanese rates for the same term were up 0.35%. These rises in interest rates are mainly due to increasing inflationary pressures, which is why the Central Banks introduced their





contractionary monetary policy, they were forced to raise interest rates in order to bring the values of inflation rates to more stable values.

With the restrictive policies of the monetary authorities, the global stock market showed some losses in the period of 2022. The global stock market index (MSCI World) depreciated 19.5% in 2022, led by the US, which fell 24% in the period, with the European index depreciating 12%. This evolution strongly followed the performance of the Asia Pacific markets, which registered a loss of -19% in the year.

### 3.3.4. Institutional Strengthening

BCTL continues to develop and strengthen the Timorese financial system and modernize banking supervision. The most relevant actions, carried out in 2022, regarding the institutional strengthening of the Bank are highlighted below:

- The BCTL Governing Board granted Sinar Mas the insurance company a definitive license to manage the life insurance business in the country.
- The Governing Board approved the establishment of rules and regulations for the actuarial function and the appointment of the appointed actuary. The regulations and rules were established with a view to maintaining adequate supervision of the risk management and control systems of the management bodies of life insurance companies and certain general insurance companies and the fulfillment of their attributions in actuarial matters.
- In order to improve the procedures for developing the audit program for the Insurance sector, the Governing Board approved an instruction for the external auditors, the publication of the audit report and the annual report of insurers and insurance intermediaries.
- The Governing Board adopted the change of name TELEMOR FINTECH, Lda.
- To regulate the procurement and contracting procedures carried out by BCTL, the Governing Board approved the contracting regulation. This regulation aims to ensure the definition of principles and rules that must be followed by BCTL services and units in the acquisition of goods, services and execution of contracts.
- In the construction process of the New Headquarters of the Central Bank of Timor-Leste, the Governing Board approved a normative regime for the provision and contracting of the technical and economic feasibility study and a preliminary architectural study. This regime was instituted in view of the need to ensure the installation and development of the Bank's Headquarters in Dili and the need to carry out a survey of technical, economic and architectural information, which allows identifying and describing the current situation in view of

real needs and in view of perspectives for the future evolution of the institution in order to consider the competent and qualified alternatives to study and propose alternatives that allow to enhance the mission of the Central Bank.

- The Governing Board of the BCTL continues emphasis to introduce policy to bring financial sector reached out the risk identification by adopting the requirements established by IFRS and BASEL III since 2021. This is to ensure the stability of the financial system of Timor-Leste as mandated under Law 05/2011 on Organic Law of BCTL. The prudential standards on the capital and liquidity that being developed by the Basel Committee on Banking Supervision (BCBS) is the international standard setter for banks which are relevant to compiling with IFRS. Therefore, BCTL started with the enforcement of the implementation IFRS by entering in force the Instruction No.11/2021 on the Implementation of International Financial Reporting Standard. This Instruction requires Banks and ODTIs licensed to operate in Timor-Leste to keep correct and complete books and records of accounts and prepare annual financial statements and reports in accordance with International Financial Reporting Standards (IFRS), as published by the International Accounting Standards Board (IASB). In complementary the enforcement of IFRS, BCTL has endorsed the Instruction on Credit Risk Management, Instruction on Audit, Publication of Auditor's Opinion and Annual Report and Instruction on the Credit Risk Classification and Provisioning. Moreover, BCTL prepared several draft instructing such as on Liquidity Risk Management, Liquidity ratio and Indicators, Regulatory Capital, Chart of Account (CoA) in line with IFRS and Instruction on Reporting of Financial Statements.
- The Governing Board also approved the financial literacy strategic plan for the year 2022 - 2027.
- Following the cooperation established with the Griffith University of Queensland in Australia, in 2022, three joint research works were carried out, one of which was published.

### 3.3.5. Employees and Training Programs

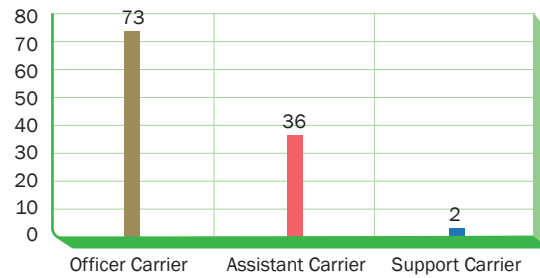
At the end of the 2022 period, BCTL had 104 employees, which represented a marginal increase compared to the 103 in 2021.

For 2023, BCTL intends to recruit around 7 (seven) new employees to fill the official career positions in the departments of the Financial Intelligence Unit (UIF), Petroleum Fund and Technology Division.



The 7 candidates expected for the year 2023, plus the current BCTL employees until the end of 2022, which are distributed across the various professional categories, are shown in Graph 3.7:

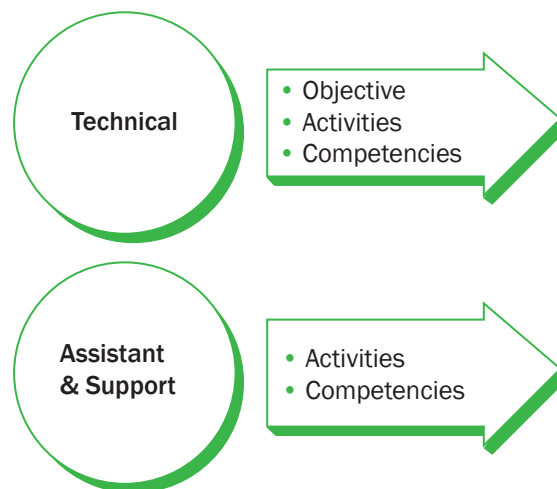
**Chart 3.7**  
Professional Categories



At the end of the year, BCTL evaluates the performance of its employees. The system used to carry out this evaluation is called the Performance Improvement System (PIS). The result of the evaluation throughout 2022 shows that the majority of employees were able to achieve the objectives established at the level of the institution and the respective departments and divisions.

The Performance Improvement System (PIS) is implemented by the various Departmental managers, with the aim of valuing the work of the respective employees and analyzing their contributions towards achieving the BCTL objectives, which were annually planned by each department and division.

The dimensions used in assessing the performance of employees have remained unchanged during the year, as shown in the diagram below, namely: Objectives, Activities and Skills for employees in the technical career professional; and Activities and Skills for employees in the Assistant and Support professional careers.





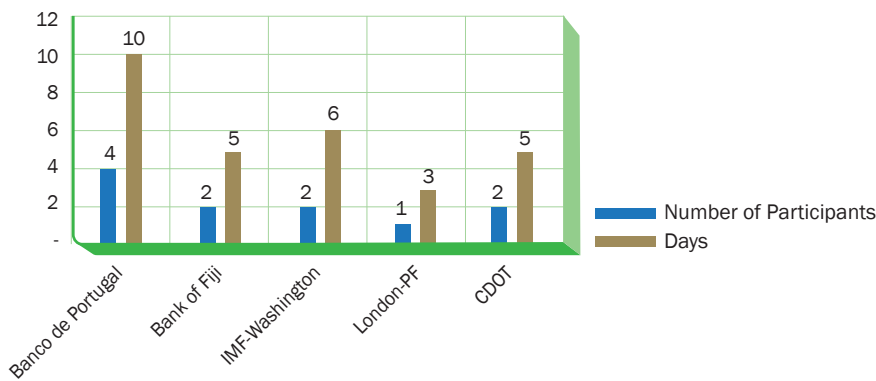
With regard to the development of skills and knowledge of its employees, BCTL continues to allocate an adequate amount each year for the fulfillment of its training program, which includes training in technical skills assigned to its employees, held both in Timor-Leste and abroad. In addition to these training courses, BCTL continues to grant scholarships to its employees to attend master's and doctoral courses abroad.

One of the BCTL employees who received the scholarship in 2020 was only beneficiary of it in 2022 at Macquarie University, due to Covid-19.

Due to the pandemic situation, many of the training or work visits abroad planned for 2022 were not carried out in person at the beginning of the year, but managed to participate in person after the middle of the year. Graph 3.8 shows the presence of BCTL employees in training activities, seminars or conferences abroad.

### Chart 3.8

Training, Seminar and face-to-face Conferences



### 3.3.6. Institutional Partnerships

The Institutional Cooperation Affairs Unit (UACI) carries out its functions related to BCTL's cooperation with other institutions, both at international and national level. The objective of establishing institutional cooperation is, in addition to strengthening relationship ties, also to increase the sharing of specific information in the areas of central banks.

In addition to the natural cooperation with the central banks of the Community of Portuguese Speaking Countries (CPLP), the BCTL also continued its cooperation program with other central banks, namely: Bank of Indonesia, Banco Negara Malaysia, Reserve Bank of the USA and Australia, SEACEN, STI-Singapore, APRA and Central Banks of the Pacific Islands, and Monetary Authority of Macau. This cooperation included participation in meetings, seminars, conferences and courses in the form of virtual and face-to-face organized by the various cooperating entities. Due to restrictions related to the Covid-19 pandemic in 2021, most activities were not carried out, or were carried out partially and virtually. In 2022, these actions continued and were mostly carried out in person. Participation in cooperation programs in 2022 saw a significant increase, both in training actions, seminars and meetings, and in the sharing of information in key areas. In fact, these cooperation programs in 2022 were satisfactory in relation to 2021. One of the international cooperations was the establishment with Griffith-Queensland University, Australia, the development of joint areas within the scope of economic and financial research projects. The result of this cooperation was the publication of a research working paper in 2022.

Regarding cooperation at the national level during the year 2022, BCTL continued to strengthen cooperation with relevant entities to promote public access to the financial sector. It stood out, in 2022, for maintaining cooperation with the National University of Timor-Leste (UNTL), providing internships to finalists of the Faculty of Law.

The BCTL also maintains, in 2022, the role of host of high-level meetings, mainly of the central banks of the CPLP, in the case of a biennial meeting. The holding of this meeting, in addition to maintaining cooperation ties, at the same time enables joint reflection on specific topics of action in matters of common interest.

## Box 3. BCTL Plan Implementation in 2022 and Action Plan for 2023

### 3.1. 2022 Plan Implementation

The most relevant BCTL programs carried out in 2022 were as follows:

1. In order to reinforce the regulatory framework, in 2022, the Central Bank authorized the entry into force of instruction no.14/2021. Through this instruction, financial institutions included in insurance companies must report monthly and quarterly reports through BSA. BCTL at the same time introduced instruction no. 11/2021 on IFRS implementation. In addition to these, it approved two instructions for insurance companies as requirements for the actuarial function and acting appointment, and the requirements for acting externally.
2. As part of the improvement of the financial inclusion program in Timor-Leste, in 2022, BCTL continued to work together with SECOOP in carrying out training on financial literacy for youth, mainly in remote areas. In addition, it held a regular celebration of the 8th National Savings Day, in order to reinforce the financial inclusion programs in the field.
3. To strengthen the Financial Inclusion program, in 2022, BCTL updated the 2016-2020 financial literacy program strategic plan, and launched the new 2022-2027 financial literacy plan, as the new roadmap for program implementation during 5 years. During the year, BCTL together with MdEJD and INFORDEPE distributed the new version of the financial literacy manual and guide to trainers/trainers in 105 EBC/EBF in 13 municipalities and RAEOA. In this way, trainers will continue to disseminate financial literacy programs in their schools with the new manual.
4. To promote digital financial service in Timor-Leste, in 2022, BCTL continued to implement the second Campo Digital Program at administrative posts. This program establishes the public campaign about electronic transaction uses that has existed in Timor-Leste. BCTL has also appointed an agent at the Baguia administrative post to carry out regular monitoring of the campo digital program in that area. The Program also propagated in the Uatucarbau and Uatulari administrative post, municipality of Viqueque, in the Ilhomar administrative post, municipality of Lautem and in the Cailaco administrative post, municipality of Bobonaro.
5. As part of the improvement of the digital payment system, in 2022, the Central Bank managed to complete the interconnection of the Union Pay International System (UPI) and the BNCTL system. This development allows the holder of the international UPI card to carry out transactions at the BNCTL ATM throughout Timor-Leste. With this development, it also permits activating the interoperability of the POS machine between the holder of the BNU and BNCTL card and also allows the BNCTL and CGD P24 card to carry out transactions at any POS with the P24 logo in the country. In addition, it also completed the installation of Mobile Switch in the Disaster Recovery (DR) data center.
6. In relation to institutional strengthening and capacity building, in 2022, the Central Bank continues to authorize and finance technical staff to participate in technical capacity development programs such as conferences, trainings and workshops through a website or in person, organized by international and national partners. In addition, it also implemented scholarship programs for technical staff to continue their study at the master's level.

### 3.2. The Strategic Priorities for 2023

The strategic priorities for 2023 continue to reflect the guidelines of the financial sector development master plan and the plan for the national payments system.

#### **Development of the Inclusive Financial Systema.**

- a. To ensure the quality of service in financial institutions, in 2023, BCTL will introduce the sanctioning regime for financial institutions that violate applicable laws and regulations. It is a sanctioning regime that can ensure the administrative process initiated by the BCTL. In addition, it will develop an administrative procedure based on BCTL's disciplinary power to apply disciplinary measures to workers. This administrative procedure aims to ensure transparency, including the right of the interested party to exercise their right to participate in the administrative process.
- b. In order to adopt the international standard IFRS and the fundamental principles of Basel III in guaranteeing financial integrity and stability in Timor-Leste, in 2023, the BCTL will: finalize instructions on opening, treatment and closure of deposit and credit accounts, finalize instructions on plan of account, finalize instruction applicable to banks on liquidity ratio and indicators, finalize instruction on liquidity risk management, finalize instruction on regulatory capital and leverage ratio, finalize instruction on risk-weighted assets to define procedure for calculation of regulatory capital of asset retention power (Capital Adequacy Ratio), finalize instruction on capital management for operational risk and finalize instruction on capital requirements for market risk.

In addition to these instructions mentioned above, BCTL will also: finalize the revision and update of the instruction of money transfer service providers (MTO), in order to accommodate the existing evolution, including the services provided by the fintech company, finalize the instruction on consumer protection in the financial service to have its own regulation to protect the consumer's right under the services of the financial institution and in the last finalize the instruction on the plan of accounts to the insurer to standardize the system of plans of accounts that was in force in the general insurance company and life insurance based on the international standard of IFRS 9.

- c. BCTL will also introduce a framework on oversight in the payment system to adopt the international standard based on relevant law, regulation, instruction and rules. The creation of a framework refers to the basis for the central bank to carry out the oversight service to payment systems such as R-Timor, P24, PSP and SWIFT.
- d. To facilitate the application of licensing to any type of financial service in Timor-Leste, in 2023, BCTL intends to develop an online application platform through the BSA system, with the aim of ensuring effectiveness and efficiency in the licensing process.
- e. To enhance integrity and accessibility in the financial sector, BCTL will conduct training on AML/CFT matters for fintech companies, and will prepare the APG mutual evaluation process in relation to financial activities and show that the necessary information and data are in the right position.

- f. BCTL will develop the format of the financial indicator in the financial report, which allows to demonstrate the statistical format of the financial indicator in the quarterly report, based on data and reports provided by banks and ODTI including insurance companies. The objective is to demonstrate to the public, through the BCTL website, in each quarter the consolidation of financial indicators, such as: Loans-to-Deposit Ratio (LDR), liquidity ratio, non-performing loan ratio (NPL), solvency ratio (Ratio capital adequacy), solvency margin and other.
- g. In addition, to demonstrate the transparency and outcome of the financial inclusion program effort, BCTL will publish the 4th Financial Inclusion Report for Timor-Leste.

**Promotes the Digital Payment System and Improvement of Service to the Public.**

- a. To promote the digital payment system and improve service to the public, in 2023, BCTL commits:
  - Complete more integrations of key features into the P24 system, such as fee payment via mobile wallet and POS and other key features.
  - Will recycle modules at the ATM, which allow the public to deposit money through the ATM.
  - Will carry out the acquisition of BAM functionality, which will allow banks to monitor transactions and other activities related to commercial aspects.
  - Will collaborate with acquirer banks to finalize the MasterCard and UPI certification process.
  - Will support and collaborate with the tax authority to continue the process of integrating the SIGTAS V-3 into the P24 system, which will allow efficient payment of taxes to the government. In addition, it will collaborate with the customs authority to initiate the process of integrating ASYCUDA to facilitate the government's TilesSW program, which will allow for a more efficient in import tax payment process. It also plans to continue supporting and collaborating with EDTL in the field of facilitating purchases electricity credit at any time through the existing system.
- b. The central bank through the campo digital program will continue the public campaign on the use of existing electronic transactions, which will allow the public to make more efficient payments and know how to use existing financial transaction capabilities. And it also intends to extend the campaign to raise awareness of the official currency of Timor-Leste in the campo digital program. In 2023 BCTL will continue to carry out the campo digital project in administrative posts in municipalities such as: RAEOA, Atauro, Covalima, Ermera and Baucau. Thus, it will increase the community's knowledge in the indicated areas, which will allow for increasing awareness of the uses of the existing digital payment system in Timor-Leste.
- c. In order to improve the public service at the BCTL counter, the central bank will set up the currency (centavos) exchange machine in some public spaces, to facilitate customers to exchange currencies more efficiently.

**Promoting Financial Inclusion.**

- a. Based on the action plan described in the NSLF 2023 document, BCTL will define a financial competence matrix for women, children and Micro, Small and Medium Enterprises (MSMEs), and develop a specific program and module for women, as well as carry out a campaign about the benefit of a financial plan.
- b. The central bank plans to develop the online financial literacy training platform to improve the financial literacy program and expand the program coverage towards the target set in the national financial literacy strategy document 2022-2027. This platform will include a module on financial literacy so that the recipient of this program will have the essential knowledge, skills and competencies for better financial management.



- c. BCTL will continue to work together with INFORDEPE and MdEJD to implement the financial education program in public elementary school. Those involved will continue with regular activities such as: meetings at least quarterly to discuss the progress of the program's implementation in the 1st and 2nd cycle of elementary school and follow-up activity of the program's implementation in schools in 13 municipalities and RAEOA. Additionally, there is an expectation of expanding the financial literacy program in elementary school of the 3rd cycle. BCTL will also collaborate with MdEJD and The Asian Foundation to conduct research on the benefits of the financial education program in Timor-Leste.
- d. BCTL continues to regularly celebrate National Savings Day and including the campo digital program, identifying schools that participate in financial literacy activity, and targeting the campo digital program at the designated administrative post. The priority of activities in commemorating the National Savings Day are: an educational competition activity for elementary school students and the distribution of a brochure to promote the transfer of money to the HNF account via E-wallet or Multibank.
- e. In support of private sector development, BCTL, in cooperation with CCITL and IDE, will provide MSMEs with basic accounting training, including credit guarantee scheme and digital payment system. The recipients of this program are women, adults and cooperatives from productive areas such as: commerce, fishing and agriculture. The program will allow participants to better manage finances in their daily activities. In addition to these, the program also aims to increase participants' knowledge about financial literacy, business planning, savings and wealth protection from risks through insurance products.
- f. To increase access to credit by the private sector, mainly MSMEs, in 2023, BCTL will work together with the legal advisor to review and update BCL Circular No. 79/2019 on the implementation of a credit guarantee system for MSMEs.

#### **Strengthens Research and Statistics Capability**

- a. BCTL will conduct a study on Central Bank Digital Currency (CBDC). CBDC is a non-monetary currency, but in general as another form of "digital" currency, which is created by central banks, and has the same function as conventional currency, thus fulfilling the function of a unit of account, store of value and means of payment. There are some benefits regarding the creation of CBDC such as: it reinforces monetary and financial stability, increases financial inclusion and improves the payment system. Thus, BCTL concludes that it is important to create and adopt CBDC in the economy of Timor-Leste.
- b. BCTL will also continue to carry out economic research projects and studies on issues related to the main functions of BCTL and statistics published by the Bank. These works should preferably focus on the following topics:
  - Continue carrying out research on the quantification and impacts of emigrant/immigrant remittances from the perspective of the demand for this type of service and the respective effects on the domestic economy. This research project will be jointly developed with Griffith University.
  - Determining factors of inflation in Timor-Leste, also will collaborate with the University of Griffith.
  - It will also carry out the study on "Factor that affects credit and its implication in the economy of Timor-Leste".
- c. To improve compilation and ensure timely publication of balance of payments and monetary statistics, BCTL intends to establish an automatic system of balance of payments and monetary statistics.

- d. In 2023, BCTL will also start a new phase of establishing central balance sheet statistics. Data as an economic and financial information center for non-financial companies in Timor-Leste. There is importance as sources for: economic analysis, investigation of financial stability, supervision in the financial system, risk assessment and management.

### **Strengthens Management and Investment Capacity**

The central bank has sufficient capacity in asset and investment management. However, it needs to continue to strengthen through strategic study in the relevant operational aspect, to ensure sufficient currency management, promote digital banking services, and increasingly strengthen asset investment management to provide the most efficient services to customers, guarantees the management of the petroleum fund and other relevant funds that delegate their operational management to the central bank.

In 2023, BCTL will support the study on the government's treasury title and reform operational investment management, to promote the study of the Pooled Found strategy approach to facilitate the implementation of efficient long-term investment management and to ensure the investment activity of the Petroleum Fund. Additionally, it intends to carry out the investment in treasury management as long as market conditions allow.

### **Institutional Strengthening and Development of Internal Capabilities**

In order to strengthen the administrative activity and management of BCTL, in 2023, the central bank plans to carry out technical and physical capacity building activities and policies as follows:

- a. The Central Bank will start the construction process of the new building.
- b. The Central Bank plans to establish the "Central Bank Institute" to provide training to bank staff in banking & finance, supervision, economics, investment and accounting.
- c. Central bank plans to purchase new accounting system or "Core Banking System (CBS)" to switch to T1 accounting system, so the system can better serve services more quality and efficiently. The system will elaborate the key activities as follows: Banking operation, treasury operation, government securities registration, currency operations, payment system operation, R-Timor system, accounting operation, settlement confirmation operation, provisioning, petroleum fund, special fund, human resource management and security & control system.
- d. In order to improve technical capacity and knowledge, the Central Bank will take full advantage of training programs (seminars, workshops and conferences) offered by entities such as the Central Bank of the CPLP, SEACEN, BI, BdP, BNM, IMF, ADB, World Bank, Reserve Bank of Australia & South Pacific, AFI, PFTAC and participate in programs offered by the Malaysia Institute of Insurance and BSA training. In addition to participating in these events, the central bank also continues to contribute as a member of the commission in AFI, APG and ASEL.

The Central Bank will continue to provide opportunities to its employees in a master's and PhD scholarship program.

# Main Governing Bodies of the Central Bank of Timor-Leste (BCTL)

## Board of Directors

*The Governor*  
**Abraão de Vasconcelos**

*Deputy-Governors*  
**Nur Aini Djafar Alkatiri**  
**Venâncio Alves Maria**

*Non-Executive Members*  
**Maria Madalena Brites Boavida**  
**Aicha B.U. Bassarewan**  
**Francisco da Costa Guterres**  
**Benjamin Cortereal**



## Management Committee

The BCTL Management Committee includes all those responsible for the Bank's main organizational areas, as indicated:

*The Governor*  
**Abraão de Vasconcelos**

*Deputy-Governor*  
**Nur Aini Djafar Alkatiri**

*Deputy-Governor*  
**Venâncio Alves Maria**

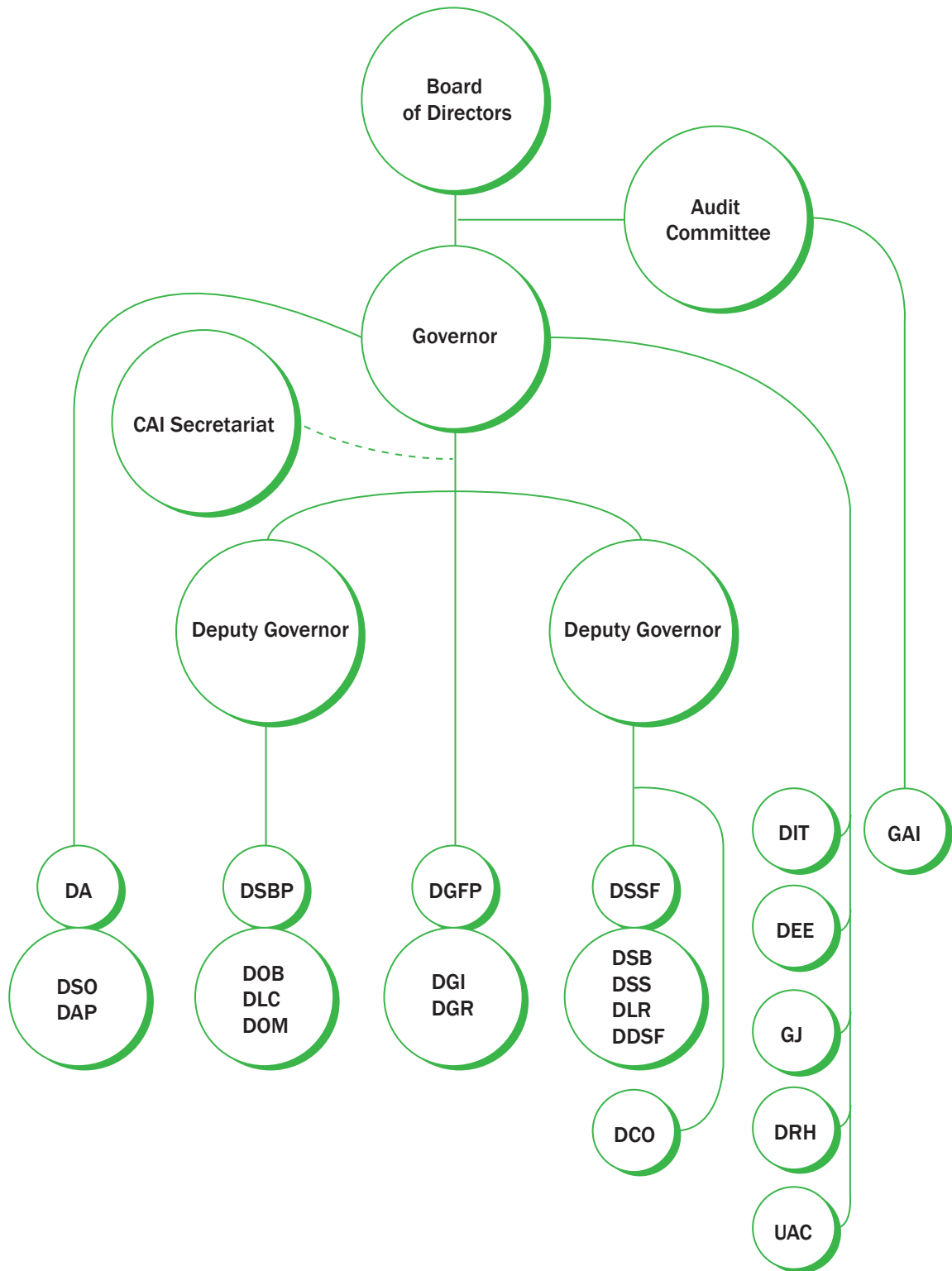
*Accounting Division Director*  
**Fernando da Silva Carvalho**

*Administration Division Director*  
**Maria Ângela de Sousa Soares**

*Institutional Cooperation Affairs Unit Director*  
**Raquel G. Da Costa**

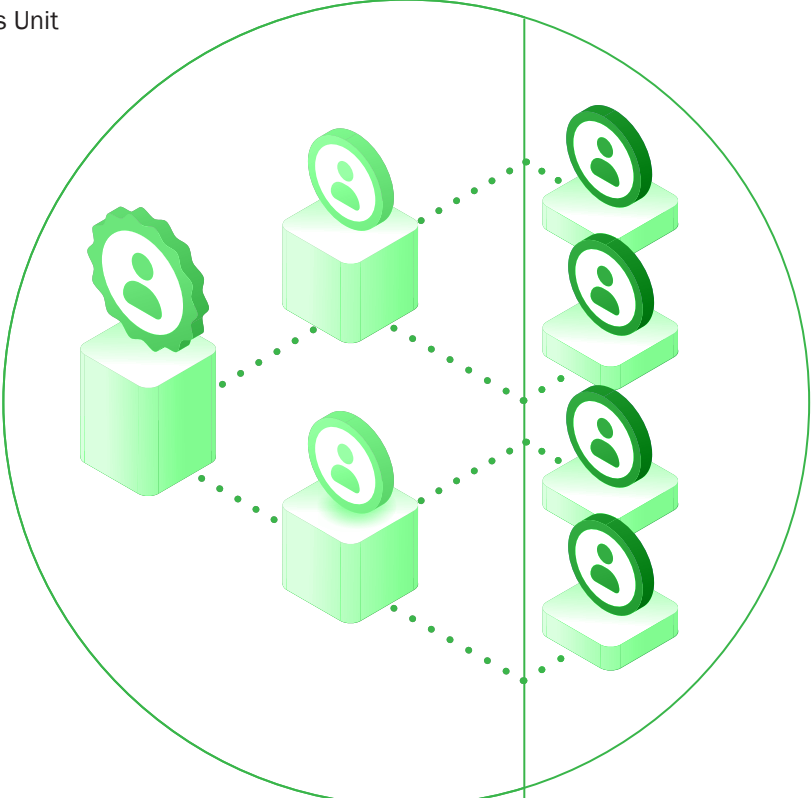


# BCTL Internal Organization in December of 2022



Subtitle:

- CAI** Investment Advisory Committee
  
- DA** Administration Department
  - DSO** General Services Division
  - DAP** Provisioning Division
  
- DSBP** Department of Banking and Payment Systems
  - DOB** Banking Operations Division
  - DLC** Settlement and Confirmation Division
  - DOM** Operations Division currency
  
- DGFP** Department of Petroleum Fund Management
  - DGI** Management Division and Investment
  - DGR** Management Division and Risk
  
- DSSF** Financial System Supervision Department
  - DSB** Banking Supervision Division
  - DSS** Division Insurance Supervision
  - DLR** Licensing and Regulation Division
  - DDSF** Financial System Development Division
  - DCO** Accounting and Budget Division
  
- CE** Audit Committee
  - GAI** Internal Audit Office
  
- DIT** Information Systems Division
- DEE** Division of Economics and Statistics
- UJ** Legal Unit
- DRH** Human Resources Division
- UAC** Institutional Cooperation Affairs Unit



# Financial Statements

For the year ended 31 December 2022



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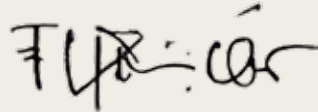
## CHAPTER 04

## Statement of Compliance

The Financial Statements on pages 2 to 5 and the Notes from pages 6 to 35 which form an integral part of these statements have been prepared by the Management and approved by the Governing Board of Banco Central de Timor-Leste.

I declare that these Financial Statements comply with the requirements of Central Bank Law no 5/2011 and fairly present the true financial position and performance of Banco Central de Timor-Leste as at 31 December 2022.

Dili, 30 March 2023



**Abraão de Vasconcelos**  
*Governor*



## Statement of Financial Position

As at 31 December

	Note	2022	2021
<b>Assets</b>		US\$ '000	US\$ '000
Cash and cash equivalents	7	688.499	665.600
Financial assets at fair value through other comprehensive income	8	145.363	249.372
IMF related assets	10	71.231	68.827
Other assets	12	3.939	4.647
Property, plant and equipment	11	1.702	2.306
<b>Total Assets</b>		<b>910.734</b>	<b>990.752</b>
<b>Liabilities</b>			
Government deposits	13	511.939	504.420
Other deposits	14	220.668	365.484
Other Liabilities	15	63.123	22.521
Currency issued		27.657	25.805
<b>Total Liabilities</b>		<b>823.387</b>	<b>918.230</b>
Capital	16	80.000	70.000
Fair value through OCI	27	-4.431	-366
General reserve		2.888	762
Net profit		8.890	2.126
<b>Total Equity</b>		<b>87.347</b>	<b>72.522</b>
<b>Total Liabilities and Equity</b>		<b>910.734</b>	<b>990.752</b>

The above statement is to be read in conjunction with the policies and notes on pages 141 to 168

## Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2022

	Note	2022	2021
<b>Operating Income</b>		US\$ '000	US\$ '000
<i>Investment income:</i>			
Interest income	19	10.713	184
Interest expense	19	-3.971	-9
<b>Net interest income</b>		<b>6.742</b>	<b>175</b>
Petroleum fund management fee	21	13.155	16.549
Petroleum fund administration expenses		-6.791	-9.195
<b>Net fee and commission income</b>		<b>6.364</b>	<b>7.354</b>
Interest on financial assets at fair value through profit or loss	20	2.483	144
Fees and commissions	22	671	659
Other Income		385	131
<b>Total Operating Income</b>		<b>16.645</b>	<b>8.463</b>
<b>Expenses</b>			
Personnel expenses	23,26	2.716	2.039
Currency distribution expenses		1.043	1.112
Administration expenses	24	3.330	2.573
Depreciation	11	666	613
<b>Total Expenses</b>		<b>7.755</b>	<b>6.337</b>
<b>Profit</b>		<b>8.890</b>	<b>2.126</b>
Other comprehensive income		-4.065	-366
<b>Total profit and other comprehensive income</b>		<b>4.825</b>	<b>1.760</b>

The above statement is to be read in conjunction with the policies and notes on pages 141 to 168

## Statement of Changes in Equity

For the year ended 31 December

US\$ '000

	Capital	General reserve	Fair value through OCI	Net Profit	Total equity
<b>Balance at 31-1-2021</b>	<b>70.000</b>	<b>765</b>		<b>1.541</b>	<b>72.303</b>
Profit for the period				2.126	2.126
Other Comprehensive income			-366		-366
<b>Total Comprehensive income</b>			<b>-366</b>	<b>2.126</b>	<b>1.760</b>
General reserve					
Capital Increase					
<b>Cash dividends</b>				<b>-1.541</b>	<b>-1.541</b>
<b>Balance at 31-12-2021</b>	<b>70.000</b>	<b>762</b>	<b>-366</b>	<b>2.126</b>	<b>72.522</b>
<b>Balance at 1-1-2022</b>	<b>70.000</b>	<b>762</b>	<b>-366</b>	<b>2.126</b>	<b>72.522</b>
Profit for the period				8.890	8.890
Other Comprehensive income			-4.065		-4.065
<b>Total Comprehensive income</b>			<b>-4.065</b>	<b>8.890</b>	<b>4.825</b>
General reserve		<b>2.126</b>			2.126
Capital Increase	10.000				10.000
Cash dividends				-2.126	-2.126
<b>Balance at 31-12-2022</b>	<b>80.000</b>	<b>2.888</b>	<b>-4.431</b>	<b>8.890</b>	<b>87.347</b>

The above statement is to be read in conjunction with the policies and notes on pages 141 to 168

## Statement of Cash Flows

For the year ended 31 December

	2022	2021
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	US\$ '000	US\$ '000
Profit for the period	8.890	2.126
Depreciation	666	613
Net Interest income	-6.742	-175
	<b>2.814</b>	<b>2.564</b>
Changes in receivables, prepayments & stock	708	-1430
Changes in government deposits	7.519	6.933
Changes in other deposits	-147.221	164.700
Changes in other liabilities	40.602	10.616
Changes in fair value	-4.062	-366
	<b>-99.643</b>	<b>183.017</b>
Interest received	10.713	184
Interest paid	-3.971	-9
<b>Net cash (used)/from operating activities</b>	<b>-92.901</b>	<b>183.192</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisitions of investment from financial assets at fair value through other comprehensive income	104.009	-249.372
Acquisitions of property, plant & equipment	-62	-755
<b>Net cash from investing activities</b>	<b>103.947</b>	<b>-250.127</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Currency issued	1.853	2.359
Capital subscription by government	10.000	0
Transfer of surplus to Government	0	-1.541
<b>Net cash from/used in financing activities</b>	<b>11.853</b>	<b>818</b>
<b>INCREASE/(DECREASE) IN CASH &amp; CASH EQUIVALENTS</b>	<b>22.899</b>	<b>-66.117</b>
Cash & cash equivalents at the beginning of year	665.600	731.717
<b>CASH &amp; CASH EQUIVALENTS AT THE END OF YEAR</b>	<b>688.499</b>	<b>665.600</b>

The above statement is to be read in conjunction with the policies and notes on pages 141 to 168

# Notes to the financial statements

For the year ended 31 December 2022

## 1. Reporting Entity and Statutory Base

These are the financial statements of Banco Central de Timor-Leste (“the Bank” or BCTL), a distinct autonomous public legal entity established by Organic Law number 5/2011 on the Central Bank of Timor-Leste. The head office of Banco Central de Timor-Leste is at Avenida Xavier do Amaral, no 9, P.O. Box 59, Díli, Timor-Leste.

The financial statements of the Bank are for the financial year ended 31 December 2022 and, in accordance with section 58 of the Organic Law no 5/2011, the accounts and records are maintained in accordance with International Financial Reporting Standards.

The primary objective of the Bank is to achieve and maintain domestic price stability. The other objectives of the Bank are to foster the liquidity and solvency of a stable marketbased banking and financial system, to execute the foreign exchange policy of Timor-Leste, and to promote a safe, sound, and efficient payment system.

The Bank’s role is to function as the central bank of Timor-Leste. The functions are defined in the organic Law 5/2011 and other laws, are summaries as the followings:

- to recommend broad policy guidelines to the government in areas under the Bank’s responsibility;
- to issue coins called centavos, that have legal tender status in addition to the United States dollar;
- to formulate and implement measures for, and supervise and regulate, payments and settlement systems for transactions in domestic and foreign currency in Timor-Leste;
- to own, operate, or participate in one or more payment systems;
- to act as banker to the government and related agencies;
- to act as fiscal agent of the government and related agencies;
- to hold and manage all public financial resources, including the official foreign exchange reserves;
- to undertake the operational management of the Petroleum Fund of Timor-Leste;
- to hold foreign currency deposits of Commercial Banks;
- to ensure an adequate supply of banknotes and coins for the settlement of cash transactions;
- to maintain a depository for safe keeping of currency and securities;
- to license, supervise, and regulate commercial banks;
- to license, supervise and regulate currency exchange activities;
- to license, supervise and regulate insurance companies and intermediaries; and
- to conduct regular economic and monetary analysis of the Timor-Leste economy, make public the results, and submit proposals and measures to the government on the basis of such analysis.

## 2. Basis of Preparation

### **a) Statement of compliance**

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by International Accounting Standard Board (IASB). The financial statements were authorised for issue by the Governing Board on 30 March 2023.

### **b) Basis of Measurement**

The financial statements have been prepared on the historical cost basis except for certain financial assets which are measured at fair value.

### **c) Adoption of International Financial Reporting Standards**

These financial statements incorporate all International Financial Reporting Standards in force at 31 December 2022. No standards have been adopted before the effective date.

### **d) Functional and Presentation Currency**

The financial statements are presented in United States dollars, being the official currency of Timor-Leste and the Bank's functional and presentation currency. Financial information is presented in US dollars rounded to the nearest thousand dollars, unless otherwise stated. This may result in minor differences between accounts reported in the Income statement, Balance sheet and detailed supporting notes.

### **e) Use of Estimates and Judgements**

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described in note 5.

## 3. Significant Accounting Policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

### **a) Foreign currency transactions**

Transactions in foreign currencies are translated into United States dollars at the spot exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated at balance date into United States dollars at the spot exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated

at the exchange rate at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated into the functional currency at the spot exchange rate at the date that the fair value was determined. The following United States dollar exchange rates have been used to convert foreign currency assets and liabilities to United States dollars for reporting purposes.

	31-Dec-22	31-Dec-21
Australian dollars (AUD)	1,4769	1,3787
Special Drawing Rights (SDR)	0,7514	0,7145
Euro (EUR)	0,9382	0,8810

**b) Interest Rate Method**

Interest income and expense are recognised in the income statement using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective interest rate, the Bank estimates future cash flows considering all contractual terms of the financial instrument but not future credit losses.

The calculation of the effective interest rate includes all fees and points paid or received transaction costs, and discounts or premiums that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.

- Interest on financial assets and liabilities at amortised cost on using effective interest rate basis

**c) Fees**

Fee income, including account service fees, cash distribution, and investment management fees, are recognised as the related services are performed. Fee income from government is recognised upon appropriation by parliament and amortised over the period during which the services are provided.

Fee and commission expenses relate mainly to transaction and service fees, which are expensed as the services are received.

**d) Operating Profit**

Operating profit comprises gains net of losses related to trading assets and liabilities, and includes all realised and unrealised fair value change.

## **e) Taxation**

The Bank is exempt from taxes on its income under the provisions of Article 72, Organic Law no. 5/2011.

## **f) Financial Assets and Liabilities**

### **i) Recognition**

The Bank recognises loans, advances and deposits on the date at which they are originated. All other financial assets are initially recognised on the settlement date at which payment is made and title received according to market contractual arrangements. A financial asset or financial liability is initially measured at fair value plus (for an item not at FVTPL), transaction costs that are directly attributable to its acquisition or issue. The Bank enters into transactions whereby it acquires assets but does not acquire all the risks and rewards of the assets or a portion of them. Such assets, including assets acquired in connection with the Bank's management of the Petroleum Fund, are not recognised on the balance sheet.

### **ii) Classification**

See accounting policies 3 (g), (h) and (i).

### **iii) De-recognition**

Any interest in such transferred financial assets that qualify for derecognition that is created or retained by the Bank is recognised as a separate asset or liability. On de-recognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred), and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

### **iv) Offsetting**

Financial assets and liabilities are set off and the net amount presented in the balance sheet when, and only when, the Bank has a legal right to set off the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

### **v) Amortised cost measurement**

The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

### **vi) Fair value measurement**

The determination of fair values of financial assets is based on quoted market prices for financial instruments traded in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.



The best evidence of the fair value of a financial instrument at initial recognition is the transaction price, i.e the fair value of the consideration given or received, unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets.

#### **vii) Identification and measurement of impairment**

At each balance date the Bank recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Bank expects to receive, discounted at an approximation of the original effective interest rate.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

The Bank considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Bank may also consider a financial asset to be in default when internal or external information indicates that it is unlikely to receive the outstanding contractual amounts in full before considering any credit enhancements held by the Bank. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

The Bank considers evidence of impairment of financial assets at both a specific asset and collective level. All individually significant financial assets are assessed for specific impairment. All individually significant financial assets found not to be specifically impaired are then collectively assessed for any impairment expected for the remaining life of exposure (lifetime ECL). Financial assets that are not individually significant are then collectively assessed for impairment by grouping together financial assets with similar risk characteristics. Impairment losses on financial assets subsequently measured at fair value through other comprehensive income are recognised by transferring the cumulative loss that has been recognised directly in equity to profit or loss. The cumulative loss that is removed from equity and recognised in profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

### **g) Cash and Cash Equivalents**

Cash and cash equivalents includes notes and coins on hand, unrestricted balances held with other banks, which are subject to an insignificant risk of changes in their fair value, and are used by the Bank in the management of its short-term commitments, including the maintenance of a supply of United States currency to ensure an adequate supply of banknotes and coins for the settlement of cash transactions in Timor-Leste.

Cash and cash equivalents are carried at nominal amount in the balance sheet, which approximates fair value.

### **h) Financial assets**

On initial recognition, a financial asset is classified at amortised cost; Fair value through other comprehensive income (FVOCI); Fair value through profit or loss (FVTPL). Financial assets are classified under these categories on the basis of both the Bank's business model for managing the financial asset and contractual cash flow characteristics of the financial asset.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- The financial asset are held within a business model whose objective is to hold assets to collect contractual cash flows; and
- The contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI).

A financial asset (debt instrument) shall be measured at fair value through other comprehensive income if both of the following conditions are met:

- a. the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and
- b. the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The BCTL holds financial assets in a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets. In this type of business model, the entity's key management personnel have made a decision that both collecting contractual cash flows and selling financial assets are integral to achieving the objective of the business model. There are various objectives that may be consistent with this type of business model. For example, one objective of the business model is to manage the BCTL's everyday liquidity needs. To achieve such an objective, BCTL will both collect contractual cash flows and sell financial assets.

The BCTL reserves (debt instruments) meet both conditions (a) and (b) above, and accordingly are classified as Fair Value through Other Comprehensive Income.

FVOCI debt instruments are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in OCI. Interest income is recognised in profit or loss in the same manner as for financial assets measured at amortised cost.

The ECL calculation for debt instruments at FVOCI is explained in Note [3f]. Where BCTL holds more than one investment in the same security, they are deemed to be disposed of on a first-in first-out basis. On derecognition, cumulative gains or losses previously recognised in OCI are reclassified from OCI to profit or loss.

#### Fair value through profit or loss

This is the default classification if the financial assets do not meet the tests for amortised cost or fair value through other comprehensive income. As the BCTL holdings of debt instruments already meet one of the defined classifications, this classification is not applicable.

#### **i) International Monetary Fund**

The Democratic Republic of Timor-Leste became a member of the International Monetary Fund (IMF) on 23 July 2002. The Bank was designated as the official depository under Article XIII of the IMF Articles of Association. In accordance with article 19 (f) of Organic Law no. 5/2011 the Bank holds the Timor-Leste reserve position subscription in the IMF.

The recognition of the transactions and balances with the IMF follows the indications given by this institution, which consider the specific characteristics of the financial relations of the member countries with the Fund.

The IMF Securities Account reflects the value of a Promissory Note payable by the Ministry of Finance as the fiscal agent of the IMF in Timor-Leste held by the Bank in favour of the IMF.

The Bank recognises an asset and a liability account in relation to the IMF Securities. They are both subsequently measured at amortised cost.

#### **j) Reverse-Repurchase Transactions**

The Bank enters into overnight reverse-repurchase agreements in the course of its cash management activities. These transactions are recognised in the balance sheet as cash and cash equivalents, and income is recognised in profit and loss on the transaction date.

#### **k) Other Assets and Liabilities**

Local and foreign currency cash, deposits, accounts receivable and payable, are valued at the transaction date, inclusive of any accrued interest.

Unissued currency stocks are recorded as inventory at the cost of acquisition and expensed when issued. They are recorded at the lower of cost or net realisable value. Cost is determined on a weighted average basis.

## I) Property, Plant and Equipment

### i. Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses.

Cost includes expenditures that are reasonably attributable to the acquisition of the asset. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

The land and head office occupied by the Bank is recognised at the cost of acquisition in 2000 at nil value. The Bank still carries these assets at zero value pending the establishment of a fair value at a future time when the land and property market in Timor-Leste operates on a sound legal basis and objective valuations can be derived from observable property market transactions.

### ii. Subsequent Costs

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Bank and its cost can be measured reliably. The carrying amount of replaced part is derecognised. The costs of day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

### iii. Depreciation

Depreciation is recognised in profit and loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment.

The Bank categorises its assets into broad groups and depreciates them according to indicative useful lives as follows:

	2022	2021
Buildings and improvements	20 years	20 years
Plant	5 years	5 years
Office equipment	8 years	8 years
Computers and electronic equipment	4 years	4 years
Vehicles	5 years	5 years

Depreciation methods, useful lives and residual values are reassessed at the reporting date.

#### **iv. Impairment**

The carrying amounts of the Bank's fixed assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. An impairment loss is recognised if the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in profit and loss.

#### **m) Currency in circulation**

Currency issued by the Bank in the form of centavos coins (which are legally a sub-unit of the United States dollar in Timor-Leste) represents a claim on the Bank in favour of the holder. The liability for the value of currency in circulation is recorded at face value on the balance sheet.

The Bank also issues collectors' currency. Although it is unlikely that significant amounts of collectors' currency will be returned for redemption, the Bank records the face value of the collectors' currency sold with currency in circulation.

#### **n) Employee benefits**

##### **i) Short term employee benefits**

A short-term benefits include the full amount of all staff benefits, including salaries and accrued leave. Accruals of personnel costs are recorded in the balance sheet under other liabilities.

Short-term employee benefit obligations are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the Bank has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be measured reliably.

##### **ii) Long-term employee benefits**

There is no pension scheme for employees of the Bank.

#### **o) Changes in accounting policies**

##### **i) Voluntary changes in accounting policies**

During the year there were no voluntary changes in accounting policies from the ones used in the preparation of the previous year's financial statements presented as comparative information.

##### **ii) New standards and interpretations applicable in the year**

There was no significant impact on the accounting policies and disclosures from the adoption by the Bank of new standards, revisions, amendments and improvements to standards and interpretations which were applicable as from January 2022. These new standards, revisions, amendments and improvements to standards and interpretations are the following:

- Onerous contracts – costs of fulfilling a contract (Amendments to IFRS 16)
- Annual Improvements to IFRS 2018 – 2020
- Property, Plant and Equipment: Proceeds before intended use (Amendment to IAS 16)

### iii) New standards and interpretations applicable in the future years

The following new standards, revisions, amendments and improvements to standards and interpretations are applicable as from 1 January 2023:

- Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2)
- Definition of Accounting Estimates (Amendments to IAS 8); and
- Deferred Tax Related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12).

The Bank does not anticipate a material impact on the financial statements when these new standards revision, amendments and improvements to standards and interpretations are applied for the first time.



## 4. Financial Risk Management

### a) Introduction and Overview

The Banco Central de Timor-Leste has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risks
- Operational risks

This note presents information about the Bank's exposure to each of the above risks, the Bank's objectives, policies and procedures for measuring and managing risk, and the Bank's management of capital.

### b) Risk Management Framework

The Governing Board has overall responsibility for the establishment and oversight of the Bank's risk management framework.

The Governing Board is guided by the Bank's establishing law (Organic Law 5/2011), which sets broad risk management guidelines, including the following:

- Article 19 states that the Bank may hold in its investment portfolio any or all the following foreign assets: Gold and other precious metals held by or for the account of the Bank, including credit balances on account representing such gold and other precious metals; Banknotes and coins denominated in freely convertible foreign currencies held by or for the account of the Bank; Credit balances and interbank deposits that are payable on demand or within a short term denominated in freely convertible foreign currencies and are held in the accounts of the Bank, on the books of foreign central banks, or international financial institutions; Readily-marketable debt securities denominated in freely convertible foreign currencies issued by, or backed by foreign governments, foreign central banks or international financial institutions; Claims on international financial institutions resulting from repurchase agreements, sale and buy back and securities lending agreements for the foresaid debt securities; Special drawing rights held in the account of Timor-Leste in the International Monetary Fund; The reserve position of Timor-Leste in the International Monetary Fund.
- Article 71.1 prohibits the Bank from granting credit, engaging in commerce, purchasing the shares of any corporation or company including the shares of any Financial Institution, or otherwise have an ownership interest in any financial, commercial, agricultural, industrial, or other undertaking or acquire by purchase, lease, or otherwise any real rights in or to immovable property, except as it shall consider necessary or expedient for the provision of premises for the conduct of its administration and operations.
- Article 39 authorises the Bank to manage special fund owned by the state on the basis of management contract and maintain earmarked receipts on its books special accounts provided that the assets and liabilities shall be segregated from the other assets and liabilities of the Bank.

The Bank has established an Internal Audit Office, whose duties are to undertake both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Governor, and, at the discretion of the Chief Internal Auditor, the Governing Board.

### c) Credit Risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally in connection with the Bank's investment and banking activities.

Regular audits of the divisions responsible for the investment of funds are undertaken by Internal Audit.

The Bank's exposure to credit risk, based on the ratings issued by S&P Rating, is as follows:

	Rating*	Dec-2022 US\$ '000	Rating*	Dec-2021 US\$ '000
<b>Cash and cash equivalents</b>				
Cash	AAA	34.381	AAA	98.628
Deposits at central banks	AAA	597.156	AAA	530.400
Resident banks	Baa2	45.952	BBB-	21.506
Non-resident banks	A-	11.010	A-	15.066
		<b>688.499</b>		<b>665.600</b>
Financial assets at fair value through other comprehensive income				
Investment in securities	AAA	145.363	N/A	249.372
<b>IMF related assets</b>				
International Monetary Fund - "SDR"	N/A	71.231	N/A	68.827
<b>TOTAL ASSETS</b>		<b>905.093</b>		<b>983.799</b>
<b>Summary by credit rating</b>		<b>Dec2022 US\$ '000</b>	<b>Dec-2021</b>	<b>Dec-2021 US\$ '000</b>
AAA	86%	779.900	89%	878.400
A-	1%	11.010	2%	15.066
Baa2	5%	45.952	2%	21.506
Not applicable	8%	71.231	7%	68.827
<b>TOTAL ASSETS</b>	<b>100%</b>	<b>905.093</b>	<b>100%</b>	<b>983.799</b>

\*Where a central bank is not rated, the sovereign rating has been used.

There were no impairment losses at balance date.

The carrying amount of these assets approximates their fair value.



#### d) Liquidity Risk

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations from its financial liabilities. Liquidity risk is also the risk that the Bank will have to sell a financial asset quickly at much less than its fair value.

The Bank is responsible for managing the daily liquidity of the banking system. This role includes the management of the clearing system. The Bank is prohibited by statute from advancing funds to the banking system.

The Bank's approach to managing liquidity risk is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Bank's reputation.

The investment management function considers the cash flows historically observed in the deposit accounts of both the government and the commercial banks. From this information, decisions are made that determine the size of the physical cash holdings held in Timor-Leste, the amount of cash to be maintained in correspondent bank accounts, and the nature of the investments to be made in short-term United States Treasury Bills, for which a deep and liquid market exists, such that there will always be bills close to maturity that may be sold if necessary, without incurring the risk of suffering a material market loss.

The following are the remaining contractual maturities of financial liabilities at the reporting date. The amounts are gross and undiscounted and include contractual interest payments and exclude the impact of netting arrangements.

	2022 Carrying amounts US\$'000	"Contractual Cash Flow"	
		6 months or less	Over 6 months
Cash and Cash equivalents	688.499	688.499	
Financial assets at fair value through other comprehensive income	145.363	69.545	75.818
IMF related assets	71.231		71.231
<b>Total assets (Excluding PPE and other assets)</b>	<b>905.093</b>	<b>758.044</b>	<b>147.049</b>
Government deposits	511.939	511.939	
Other deposits	220.668	149.449	71.219
Other liabilities	63.123	63.123	
Currency issued	27.657	27.657	
<b>Total liabilities</b>	<b>823.387</b>	<b>752.168</b>	<b>71.219</b>

	2021 Carrying amounts US\$ 000	“Contractual Cash Flow”	
		6 months or less	Over 6 months
Cash and Cash equivalents	665.600	665.600	
Financial assets at fair value through other comprehensive income	249.372	169.982	79.390
IMF related assets	68.827		68.827
<b>Total assets (Excluding PPE and other assets)</b>	<b>983.799</b>	<b>835.582</b>	<b>148.217</b>
Government deposits	504.420	504.420	
Other deposits	365.484	296.657	68.827
Other liabilities	22.521	22.521	
Currency issued	25.805	25.805	
<b>Total liabilities</b>	<b>918.230</b>	<b>849.403</b>	<b>68.827</b>

### e) Market Risk

Market risk is the risk that changes in market prices, such as interest rate, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor’s/ issuer’s credit standing) will affect the Bank’s income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

The Bank’s approach to the management of market risks is strongly guided by its legislative framework that requires investments to be in high quality financial instruments.

The Bank measures and manages its exposure to market risk in terms of interest rate risk and foreign currency risk, and information on these two risks is provided in the following sections.

### i) Interest Rate Risk

Interest rate risk is the risk of loss arising from changes in interest rates.

The Bank’s management of interest rate risk is partially governed by the legal framework outlined above, and partly by a management policy of closely matching the re-pricing periods of its assets and liabilities.

The assets and liabilities of the Bank will mature or re-price within the following periods:

	Total Carrying Amount 2022 US\$'000	"Interest Sensitivity"	
		Non-Interest Sensitive US\$'000	Interest Sensitive US\$'000
Cash and cash equivalents	688.499	34.381	654.118
Financial assets at fair value through other comprehensive income	145.363		145.363
IMF related assets	71.231	71.231	
Other assets	3.939	3.939	
<b>Total assets (Excluding PPE and other assets )</b>	<b>909.032</b>	<b>109.551</b>	<b>799.481</b>
Government deposits	511.939		511.939
Other deposits	220.668	71.219	149.449
Other liabilities	63.123	63.123	
Currency issued	27.657	27.657	
<b>Total liabilities</b>	<b>823.387</b>	<b>161.999</b>	<b>661.388</b>
<b>Interest Rate Sensitivity Gap</b>	<b>85.645</b>	<b>-52.448</b>	<b>138.093</b>

	Total Carrying Amount 2022 US\$'000	"Interest Sensitivity"	
		Non-Interest Sensitive US\$'000	Interest Sensitive US\$'000
Cash and cash equivalents	665.600	98.628	566.972
Financial assets at fair value through other comprehensive income	249.372		249.372
IMF related assets	68.827	68.827	
Other assets	4.647	4.647	
<b>Total assets (Excluding PPE and other assets)</b>	<b>988.446</b>	<b>172.102</b>	<b>816.344</b>
Government deposits	504.420		504.420
Other deposits	365.484	68.827	269.657
Other liabilities	22.521	22.521	
Currency issued	25.805	25.805	
<b>Total liabilities</b>	<b>918.230</b>	<b>117.153</b>	<b>801.077</b>
<b>Interest Rate Sensitivity Gap</b>	<b>70.216</b>	<b>54.949</b>	<b>15.267</b>

## ii) Sensitivity Analysis – Interest risk

In managing interest rate risk the Bank aims to reduce the impact of short-term fluctuations on its net income. At 31 December 2022, it is estimated that a general increase/decrease of one percentage point in interest rates would increase/decrease the Bank's profit by approximately \$1,383 thousand (2021 - \$153 thousand).

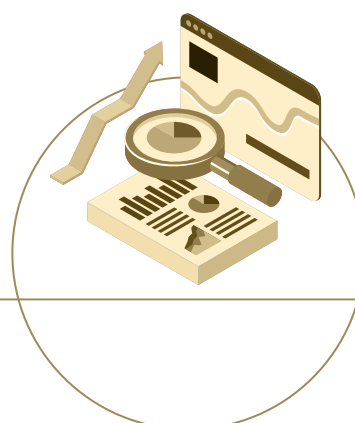
## iii) Foreign Currency Risk

Foreign currency risk is the risk of loss arising from changes in exchange rates.

The management of the Bank maintains a low exposure to foreign currencies, which are maintained at levels sufficient to meet operational settlement obligations. The Bank does not engage in foreign currency intervention activities.

As at 31 December 2022, the Bank's net exposure to major currencies was as follows:

	Total 2022 US\$'000	US Dollars US\$'000	Australian Dollars US\$'000	SDR US\$'000	Euro US\$'000
Cash and cash equivalents	688.499	685.292	27	-	3.180
Financial assets at fair value through other comprehensive income	145.363	145.363	-	-	-
IMF related assets	71.231	-	-	71.231	-
Other assets	3.939	3.939	-	-	-
<b>Total assets (Excluding PPE and other assets)</b>	<b>909.032</b>	<b>834.594</b>	<b>27</b>	<b>71.231</b>	<b>3.180</b>
Government deposits	511.939	511.939	-	-	-
Other deposits	220.668	149.449	-	71.219	-
Other liabilities	63.123	63.123	-	-	-
Currency issued	27.657	27.657	-	-	-
<b>Total liabilities</b>	<b>823.387</b>	<b>752.168</b>	<b>-</b>	<b>71.219</b>	<b>-</b>
<b>Net Foreign Currency Exposure</b>	<b>85.645</b>	<b>82.426</b>	<b>27</b>	<b>12</b>	<b>3.180</b>



	Total 2021 US\$'000	US Dollars US\$'000	Australian Dollars US\$'000	SDR US\$'000	Euro US\$'000
Cash and cash equivalents	665.600	661.703	97	-	3.800
Financial assets at fair value through other comprehensive income	249.372	249.372	-	-	-
IMF related assets	68.827	-	-	68.827	-
Other assets	4.647	4.647	-	-	-
<b>Total assets (Excluding PPE and other assets)</b>	<b>988.446</b>	<b>915.722</b>	<b>97</b>	<b>68.827</b>	<b>3.800</b>
Government deposits	504.420	504.420	-	-	-
Other deposits	365.484	296.657	-	68.827	-
Other liabilities	22.521	22.521	-	-	-
Currency issued	25.805	25.805	-	-	-
<b>Total liabilities</b>	<b>918.230</b>	<b>849.403</b>	<b>-</b>	<b>68.827</b>	<b>-</b>
<b>Net Foreign Currency Exposure</b>	<b>70.216</b>	<b>66.319</b>	<b>97</b>	<b>-</b>	<b>3.800</b>

#### iv) Sensitivity analysis - Currency exchange risk

In managing currency exchange risk, the Bank only hold small net positions in foreign currency and therefore it's not materially exposed to changes in foreign exchange rate.

#### f) Operational Risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks, such as those arising from legal requirements or adverse events in the community at large. Operational risks arise from all the Bank's operations and are faced by all business entities.

The Bank's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Bank's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management in each business area. This responsibility is supported by the development of standards for the management of operational risk in the following areas:

- Requirements for the appropriate segregation of duties, including independent authorisation of transactions;
- Requirements for the timely reconciliation and monitoring of transactions;
- Compliance with regulatory and other legal requirements;
- Written documentation of all major operating procedures;
- Requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;

- Requirements for the reporting of operational losses and development of proposed remedial actions;
- Development of contingency plans;
- Ongoing capacity building and professional development;
- Establishment of ethical standards of behaviour; and
- Risk mitigation, including insurance for high risk operations.

Compliance with these standards is supported by a programme of risk-based periodic reviews undertaken by Internal Audit. The results of Internal Audit reviews are discussed with the management of the business area in which they relate, with all findings submitted monthly to the Governor, and a summary of work undertaken submitted quarterly to the Governing Board.

### **g) Capital Management**

The management of the capital of the Bank is subject to organic Law No 5/2011 on the Banco Central de Timor-Leste. In particular, the following requirements are stipulated in the law:

- The capital of the Bank must at least be \$20,000,000, fully subscribed and paid-up.
- The capital of the Bank may be increased on the recommendation of the Governing Board and approved by the Government.
- A general reserve account may be established to hold the paid-up capital up to the difference between ten percent of the total financial assets of the Bank.
- The capital of the Bank may not be transferable or subject to encumbrance of any kind.

There have been no material changes in the Bank's management of capital during the period.

The allocation of capital between specific operations and activities is, to a large extent, driven by the need to provide liquidity to the financial and economic systems of Timor-Leste. Accordingly, a significant proportion of capital is allocated to maintaining physical holdings of currency in Timor-Leste, which earn no interest, and cash balances in current accounts at correspondent banks.

## **5. Critical Accounting Judgements in applying the Bank's Accounting Policies**

Critical accounting judgements made in applying the Bank's accounting policies include:

- Although article 39 of the Organic Law no. 5/2011 states that the Bank is authorised to manage and maintain special funds on its books, the assets and liabilities of which shall be segregated from the other assets and liabilities of the Bank, the management of the Bank, having taken advice concerning the provisions of the Petroleum Fund Law and IFRS, has determined that the liabilities and assets of the Petroleum Fund managed and registered in the name of the Bank should for reporting purposes not be presented on the face of the Bank's balance sheet.

- Management has recognised the classification of the debt instruments at Fair value through other comprehensive income (FVOCI). The bank holds financial assets in a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.

## 6. Segment Reporting

The Bank's primary function is to act as the central bank of a single geographical area – Timor-Leste. The shares of the Bank are not tradable. Accordingly, the Bank is not required to present segment information.

## 7. Cash and Cash Equivalents

	2022 US\$'000	2021 US\$'000
<b>Cash and Cash Equivalents</b>		
Cash	34.381	98.628
Deposits at central banks	597.156	530.400
Resident banks	45.952	21.506
Non-resident banks	11.010	15.066
<b>Total</b>	<b>688.499</b>	<b>665.600</b>

## 8. Financial Assets at fair value through other comprehensive income

	2022 US\$'000	2021 US\$'000
<b>Designated as fair value through other comprehensive income</b>		
US Government Treasury Bills		100.000
US Government Treasury Notes	75.818	79.390
FIXBIS - Fixed-Rate Investments at the BIS	69.545	69.982
<b>Total</b>	<b>145.363</b>	<b>249.372</b>

## 9. Financial Assets and Liabilities

The table below sets out the Bank's classification of each class of its assets and liabilities, identifying the nature and amounts of financial assets and liabilities, with their fair values (excluding accrued interest).

	Fair Value through Profit or Loss		Amortised Cost		Fair value through Other Comprehensive Income	
	2022 US\$ '000	2021 US\$ '000	2022 US\$ '000	2021 US\$ '000	2022 US\$ '000	2021 US\$ '000
<b>Financial assets</b>						
Cash and cash equivalents	-	-	688.499	665.600	-	-
Financial assets at fair value through other comprehensive income	-	-	-	-	145.363	249.372
IMF related assets	-	-	-	-	-	-
Other assets	-	-	71.231	68.827	-	-
<b>Total assets (Excluding PPE and other assets)</b>	-	-	<b>763.669</b>	<b>739.074</b>	<b>145.363</b>	<b>249.372</b>
<b>Financial liabilities</b>						
Government deposits	-	-	511.939	504.420	-	-
Other deposits	-	-	220.668	365.484	-	-
Other liabilities	-	-	63.123	22.521	-	-
Currency issued	-	-	27.657	25.805	-	-
<b>Total liabilities</b>	-	-	<b>823.387</b>	<b>918.230</b>	-	-

## 10. IMF related assets

### a) International Monetary Fund

The Democratic Republic of Timor-Leste became a member of the International Monetary Fund (IMF) on 23 July 2002. The Bank was designated as the official depository under Article XIII of the IMF Articles of Association. In accordance with article 19 (f) of Organic Law no. 5/2011 the Bank holds the Timor-Leste reserve position subscription in the IMF.

The IMF Securities Account reflects the value of a Promissory Note payable by the Ministry of Finance as the fiscal agent of the IMF in Timor-Leste held by the Bank in favour of the IMF.

The Bank recognises an asset and a liability account in relation to the IMF Securities. The underlying balances of the IMF are denominated as follows:

	2022		2021	
	In SDR '000	In SDR '000	In SDR '000	In SDR '000
IMF Holdings of Currency	21.250	28.280	21.250	29.742
IMF SDR Holdings	32.274	42.951	27.926	39.085
<b>Total</b>	<b>53.524</b>	<b>71.231</b>	<b>49.176</b>	<b>68.827</b>

### b. The World Bank Group

The Democratic Republic of Timor-Leste became a member of three institutions within the World Bank Group on 23 July 2002. Under the relevant Articles of Association, the Bank was designated as the official depository. In accordance with general practice,



the Bank records the outstanding balances with the members of the World Bank Group on a net liability basis. The amounts subscribed are in US dollars, as follows:

**International Bank for Reconstruction and Development**

The Bank records the outstanding balance with IBRD on a net liability basis.

**International Development Association**

Timor-Leste has subscribed for \$314,858, of which \$314,858 has been paid in the form of a Promissory Note held at the Bank.

**Multilateral Investment Guarantee Agency**

Timor-Leste has subscribed to 50 shares with a total value of \$54,100, of which \$54,100 has been paid on the form of a Promissory Note held at the Bank.

## 11 Property, Plant and Equipment

	Buildings US\$ '000	Plant US\$ '000	Office equipment US\$ '000	Computer equipment US\$ '000	Vehicles US\$ '000	Work in progress US\$ '000	Total US\$ '000
<b>Cost</b>							
Balance at 1 January 2021	1.385	426	1.349	3.9643	745	283	8.152
Acquisitions		1	107	341	113		562
Adjustment WIP						183	193
Balance at 31 December 2021	<b>1.385</b>	<b>427</b>	<b>1.456</b>	<b>4.305</b>	<b>858</b>	<b>476</b>	<b>8.907</b>
Acquisitions	306	2	4	190	0	0	502
Adjustment	-1	0	0	0	0	0	-1
Work in Progress	0	0	0	0	0	-439	-439
Balance at 31 December 2022	<b>1.690</b>	<b>429</b>	<b>1.460</b>	<b>4.495</b>	<b>858</b>	<b>37</b>	<b>8.969</b>
<b>Accumulated depreciation</b>							
Balance at 1 January 2021	887	406	938	3.173	584		5.988
Depreciation for the year	63	8	87	421	54	0	633
Adjustment	-19	0	0	-1	0	0	-20
Balance at 31 December 2021	<b>931</b>	<b>414</b>	<b>1.025</b>	<b>3.593</b>	<b>638</b>		<b>6.601</b>
Depreciation for the year	64	7	87	524	110	0	792
Adjustment	-10	-1	-7	-59	-49	0	-126
Balance at 31 December 2022	<b>985</b>	<b>420</b>	<b>1.105</b>	<b>4.058</b>	<b>699</b>		<b>7.267</b>
<b>Net carrying amounts</b>							
As at 31 December 2022	<b>705</b>	<b>9</b>	<b>355</b>	<b>437</b>	<b>159</b>	<b>37</b>	<b>1.702</b>
As at 31 December 2021	<b>454</b>	<b>13</b>	<b>431</b>	<b>712</b>	<b>220</b>	<b>476</b>	<b>2.306</b>

Pending the establishment of a land and property registration system in Timor-Leste, and the commencement of a property market in which the valuation of commercial and other property can be established by reference to observable transactions, the Governing Board of the Bank has been unable to establish a fair value for the head office land and buildings occupied by the Bank. Work in progress includes costs incurred in relation to the acquisition of coin dispenser machine. There were subsequently capitalised and transferred to property, plant, and equipment in 2023.

There were no impairment losses at balance date.

## 12. Other Assets

Other assets comprise the following:

	2022 US\$'000	2021 US\$'000
<b>Other Assets</b>		
Accounts receivable	3.215	3.699
Advance, security & prepayment	373	314
Inventories	351	634
<b>Total</b>	<b>3.939</b>	<b>4.647</b>

Inventories comprise the cost of unissued centavos coins held for circulation. There were no impairment losses at balance date.

## 13. Government deposits

	2022 US\$'000	2021 US\$'000
<b>Government deposits</b>		
Consolidated fund	245.976	251.712
Infrastructure fund	56.800	33.030
Human Development Capital fund	4	1.724
Autonomous agency accounts	72.441	96.260
Municipalities accounts	8.921	16.692
Social security fund	127.797	105.002
<b>Total</b>	<b>511.939</b>	<b>504.420</b>

## 14. Other deposits

	2022 US\$'000	2021 US\$'000
<b>Other Deposits</b>		
Domestic financial institutions	149.449	296.657
International financial institutions (Note 10a)	71.219	68.827
<b>Total</b>	<b>220.668</b>	<b>365.484</b>

## 15. Other Liabilities

	2022 US\$'000	2021 US\$'000
<b>Other Liabilities</b>		
Accounts payable	4.834	3.862
Withholding tax payable	19	59
Provision for Long service account	126	552
Letters of Credit	7.462	10.733
Operating accounts	50.682	7.315
<b>Total</b>	<b>63.123</b>	<b>22.521</b>

## 16. Capital and Reserves

Based on the Governing Board decision, the capital of the Bank have increased to \$80,000,000 (2021 - \$70,000,000).

The following reserves are established by article 10.1 of the organic law:

- An amount equivalent to at least 50 percent of distributable earnings shall be credited to the general reserve account until the capital and general reserves equal 10 percent of the total financial assets of the Bank.
- A part of the remaining distributable earnings may, on the proposal of the Governing Board, approved by the Government, be credited to special reserve accounts that may be established by the Bank pursuant to paragraph 4 of Article 8 until such reserve accounts reach a sum that the Governing Board deems appropriate.
- After deduction of the amounts referred to in the previous sub-paragraphs (a) and (b), the remaining distributable earnings shall be used to redeem any securities issued by the Bank, the remainder being transferred to the Treasury as revenue for the general budget of the State.

## 17. Provision for Transfer of Surplus to Government of Timor-Leste

Article 9 of the organic law no. 5/2011 on the Banco Central de Timor-Leste requires that the net profit of the Bank, after statutory deductions to the General Reserve Account and the Supplementary Reserve Account shall be transferred to the Government of Timor-Leste.

Furthermore article 10.1 (a) of the organic law no. 5/2011 states that an amount equivalent to 50 percent of profits shall be credited to the general reserve account until the capital and general reserves equal 10 percent of the total financial assets of the Bank. A transfer to the Government will be made as follows:

	2022 US\$'000	2021 US\$'000
<b>Transfer to Government</b>		
Net profit for the year ended 31 December 2022	8,890	2.126
Transfer to General Reserve Account	-8,890	-2.126
<b>Total transfer to Government</b>	<b>-</b>	<b>-</b>

The organic law no. 5/2011 states that an amount equivalent to 50% of the profits shall be credited to reserve account. However, on the basis of the Government's commitment to increase the Bank's capital to \$100 million, subsequent to year-end, the Governing Board decided to transfer the profit amounting to \$8,890 million (2021: \$2,126 million) to the General Reserve Account.

## 18. Contingent Liabilities

There were no contingent liabilities as at 31 December 2022.

## 19. Net Interest Income

	2022 US\$'000	2021 US\$'000
<b>Interest income from Financial Assets</b>		
Interest on deposits at foreign central banks	10.486	173
Interest on deposits at domestic banks	227	11
<b>Total interest income</b>	<b>10.713</b>	<b>184</b>
<b>Interest paid on Financial Liabilities</b>		
Interest paid on Government accounts	3.950	9
Interest paid to commercial banks	21	
<b>Total interest expenses</b>	<b>3.971</b>	<b>9</b>
<b>\Net Interest Income</b>	<b>6.742</b>	<b>175</b>

## 20. Interest on financial assets at fair value through profit or loss

	2022 US\$'000	2021 US\$'000
<b>Interest on financial assets at fair value through profit or loss</b>		
Interest on financial assets at fair value through profit or loss	2.483	144
<b>Total interest</b>	<b>2.483</b>	<b>144</b>

There is no impairment on the financial assets at fair value through other comprehensive income during the year (2021 – nil).

## 21. Fee and Commission Income

	2022 US\$'000	2021 US\$'000
<b>Fees and commissions</b>		
Currency withdrawal fees	11	7
Licensing and supervision fees	160	152
Government account management fees	500	500
<b>Total fees and commissions</b>	<b>671</b>	<b>659</b>

## 22. Petroleum Fund Management Fee

In accordance with the provisions of the Petroleum Fund Law No 9/2005 the Bank is entitled to charge a management fee for the operational management of the Petroleum Fund of Timor-Leste that reasonably represents the cost of managing the Petroleum Fund. The balance of Petroleum Fund on 31 December 2022 (unaudited) was \$17,414 million (2021 – \$19,651 million).

Ministry of Finance agreed to cover internal management fee of BCTL up to 4 basis points on an annual basis. The management fee received from the Petroleum Fund account for the period ended 31 December 2022 amounted to \$13,155 thousand (2021 – \$16,549 thousand or 8 basis points) or represented 8 basis points of the average balance of the funds. The fees cover expenses for custody services and external managers, Investment Advisory Board, and the fees for BCTL internal management. Presented below is the petroleum fund management fee income by nature:

	2022 US\$'000	2021 US\$'000
<b>Total Petroleum fund management fee income</b>	<b>13.155</b>	16.549
External managers & custody mgmt services	-6.857	-9.103
Investment Advisory management expenses	-142	-92
Others	208	0
<b>Net fee and commission income</b>	<b>6.364</b>	<b>7.354</b>

The BCTL internal fees receipts from the management of the fund was \$6.3 million (2021 - \$7.3 million) which allocated to expenses as shown below.

	2022 US\$'000	2021 US\$'000
Salary, capacity building and Other personnel related costs	1.273	1.471
IT services, systems and data	2.036	2.353
Research, consulting and legal fees	1.591	1.838
Allocated common costs BCTL	1.146	1.324
Other costs	318	368
<b>Total BCTL operational expenses</b>	<b>6.364</b>	<b>7.354</b>

## 23. Personnel Expenses

	2022 US\$'000	2021 US\$'000
<b>Personnel Expenses</b>		
Salaries and related payments	2.082	1.988
Staff welfare payments	137	48
Capacity building and staff development	73	3
Representation at conferences and meetings	424	
<b>Total personnel expenses</b>	<b>2.716</b>	<b>2.039</b>

## 24. Administration Expenses

	2022 US\$'000	2021 US\$'000
<b>Administration Expenses</b>		
Asset maintenance	62	29
Communications	86	72
Information systems	1.788	1.426
General expenses	19	43
Office Expenses	210	244
Professional fees	976	593
Other Assets management expenses	189	166
<b>Total Administration Expenses</b>	<b>3.330</b>	<b>2.573</b>

## 25. Petroleum Fund of Timor-Leste

The Bank is responsible for the operational management of the Petroleum Fund of Timor-Leste in accordance with Law number 9/2005 on the Petroleum Fund Timor-Leste and an Operational Management Agreement signed between the Bank and the Minister of Finance.

Under those arrangements, the following mechanisms have been established by the Bank:

- An “earmarked receipts account” has been opened by the Bank in its own name at the Federal Reserve Bank of New York into which all payments made as petroleum receipts must be made.
- The investments of the Petroleum Fund and related custodial arrangements are made in the name of the Bank.
- The Bank is not liable for losses arising from the operations of the Petroleum Fund unless such losses arise from the negligence of the Bank or its employees.

Taking into account the recognition tests set out in international accounting standards, the assets and liabilities of the Petroleum Fund are not shown on the face of the Bank’s balance sheet.

The assets and liabilities of the Petroleum at 31 December 2022\* were as follows:

	2022 US\$'000	2021 US\$'000
<b>Petroleum Fund Assets</b>		
Cash and Cash Equivalents	2.029,562	1,379,487
Other receivables	45,170	4,730
Financial assets at fair value through profit or loss	15.367,527	18,280,950
Less: Pending Purchase of Securities & Account payables	-28,662	-14,490
	<b>17,413,597</b>	<b>19,650.677</b>
<b>Capital</b>		
Capital	17,413,597	19,650.677
	<b>17,413,597</b>	<b>19,650.677</b>

Notes: (\*) the PF balance sheet is unaudited

## 26. Related Party transactions

### **Ultimate Controlling Party**

The capital of the Bank is held by the Democratic Republic of Timor-Leste and carries no voting or other rights of control. The Bank is established as a distinct autonomous public legal entity, endowed with administrative and financial autonomy and of its own capital. Article 3.2 of Central Bank law no. 5/2011 gives the Bank complete legal, operational, administrative, and financial autonomy from any other person or entity, including the government and any of its agencies, and subsidiary organs or entities.

### **Governing Board**

There were three members of the Governing Board who were the executive management personnel. The compensation is determined by the Government through Government Decree No. 3/2015 of 21 January, which is disclosed below.

	2022 US\$'000	2021 US\$'000
<b>Executive Board members Compensation (Included in personnel expenses)</b>		
Short-term employee benefits	242	242
Long-term benefits	17	17
<b>Total</b>	<b>259</b>	<b>259</b>

### **Non-Executive Governing Board**

There were four members of the Governing Board who were not one of the key management personnel, whose compensation is disclosed below.

	2022 US\$'000	2021 US\$'000
<b>Non-Executive Board members Compensation</b>		
Sitting allowance (Included in personnel expenses)	93	77
<b>Total</b>	<b>93</b>	<b>77</b>

### **Key Management Personnel**

The management of the Bank is undertaken by a Management Committee comprising the three-senior staff.

	2022 US\$'000	2021 US\$'000
<b>Key Management Personnel Compensation (Included in personnel expenses)</b>		
Short-term employee benefits	78	71
Long-term benefits	5	5
<b>Total</b>	<b>83</b>	<b>76</b>

### **Government-Related Entities**

The Bank provides banking services on an arm's-length basis to the Ministry of Finance and other public entities which are exempt from the disclosure requirements of paragraph 18 of IAS 24 – “Related Party Disclosures” in relation to related party transactions and outstanding balances, including commitments. The nature and amount of each individually significant transaction with Government related entities are disclosed in Notes 13, 15, 16, 17, 23 and 26.

## 27. Fair value revaluations

	2022 US\$'000	2021 US\$'000
<b>Fair value revaluation</b>		
Opening balance	-366	-
Fair value changes	-4,065	-366
<b>Total Fair value</b>	<b>-4,431</b>	<b>-366</b>

## 28. Authorisation and approval of the financial statements

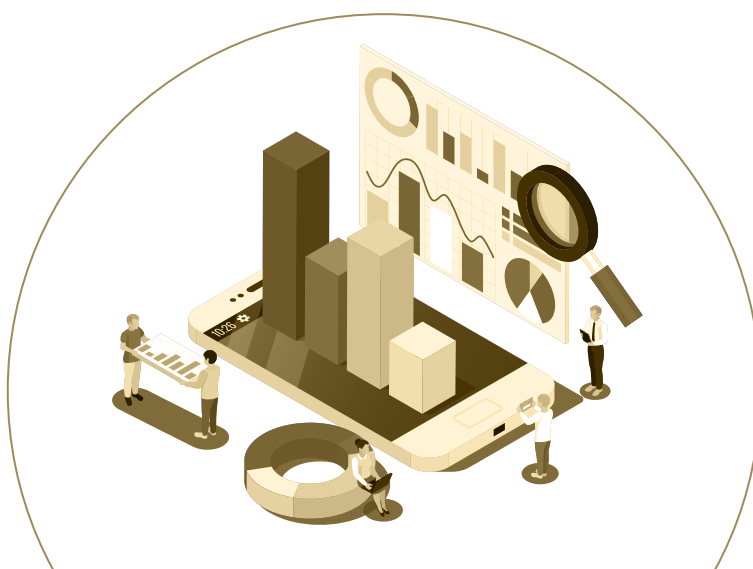
As stated in the basis of preparation - Statement of compliance, these financial statements were authorised for issue by the Governing Board of the Bank on 30 March 2023.

## 29. Subsequent Events

The COVID-19 pandemic developed rapidly in 2020, with a significant number of cases. Measures taken by the governments to contain the virus have affected economic activity. The Bank have taken a few measures to monitor and mitigate the effects of COVID-19, such as safety and health measures for our people (such as social distancing and working from home).

At this stage, the impact on the business and results has not been significant. The bank will continue to follow the government policies and advice and, in parallel, the bank will do to continue operations in the best and safety way possible without jeopardising the health of the people.

At this moment, there were no subsequent events have occurred after the reporting date and the date of the issuance of the financial statements.





## INDEPENDENT AUDITOR'S REPORT

To the Governing Board of Banco Central de Timor-Leste (the Bank)

### Report on the Audit of the Financial Statements

#### Opinion

We have audited the financial statements of Banco Central de Timor-Leste (the Bank), which comprise the statement of financial position as at 31 December 2022, the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion the accompanying financial statements of the Bank:

- (i) Give a true and fair view of the Bank's financial position as at 31 December 2022 and of its financial performance and its cash flows for the year ended on that date; and
- (ii) Complies with the International Financial Reporting Standards (IFRSs).

#### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial statements* section of our report. We are independent of the Bank in accordance with the ethical requirements of the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Timor Leste. We have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Other information

The governing board is responsible for the other information. The other information comprises the information contained in Annual report for the year ended 31 December 2022, but does not include the financial statements and our auditor's report thereon, which is expected to be made available to us after that date.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

When we read the Annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the directors and will request that it is corrected. If it is not corrected, we will seek to have the matter appropriately brought to the attention of users for whom our report is prepared.



### **Responsibilities of the Bank's Governing Board for the Financial Statements**

The Bank's Governing Board is responsible for the preparation of the financial statements that gives a true and fair view in accordance with the IFRSs and for such internal control as the Governing Board determines is necessary to enable the preparation of the financial statements that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Governing Board is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Governing Board either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

### **Auditor's responsibilities for the audit of the Financial Statements**


Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional skepticism throughout the planning and performance of the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control;
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

We are required to communicate with the Management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

**BDO Audit (NT)**

  
Clive Garland  
Audit Partner

Darwin, 24 April 2023