

# 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