Economy Domestic – Recent Developments and Projections

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Chapter 2

This chapter describes major developments in Timor Leste's non-oil economy in 2021 and relevant perspectives for 2022 and 2023, also discussing important changes regarding the public, financial and external sectors.

As is further detailed below, the main national economic developments in 2021 were:

- Timor-Leste's economy activity recovered in 2021, but only offset part of the steep tumble recorded in 2020, when GDP fell -8.6%. The recovery in economic growth in 2021 to 2.9% is mainly due to the stabilizing effect of a significant increase in public expenditure throughout the year, amounting to $306 million (+27%) and the expected recovery in private demand. However, despite the substantial increase in public spending, our forecasts also consider the negative impacts arising from the extension of the pandemic mitigation measures, the massive floods of April of 2021 and their respective damages, as well as the increase in inflationary pressures and the reduction in consumers' purchasing power.

- For 2022, BCTL expects the economic recovery to continue and strengthen, projecting that economic growth will accelerate to 5.8%. This expectation is based, above all, on the continued growth of public demand in the coming year (+10.4%) and on the acceleration of private demand growth (+2%), while higher net imports (+6.5 %) will once again offset part of the recovery in domestic demand. Unlike 2021, we expect public investment (+75%) to be the main driver of public demand growth in 2022.

- In terms of fiscal policy, 2021 was marked by a significant surge in public spending (+$306 million) and the public deficit, which was practically due to the increase in current expenditure (+$326 million), in line with higher budgeted spending. We also highlight the continued fall in public investment in 2021 (-$20 million), mostly due to weak budgetary execution rates. For 2022, BCTL expects a further increase in spending and a wider public budget deficit, mostly explained by the recovery of the capacity to execute the budgeted investments in infrastructure and buildings, expecting that budgetary policy will continue to be broadly supportive of the economic recovery from the 2020 pandemic crisis.

- In line with global trends, there was a notable increase in domestic inflationary pressures in 2021, with the average annual inflation rate standing at 3.8%, above the 0.5% and 0.9% of 2020 and 2019, respectively. The rise in inflation was mainly due to the worsening of external inflationary pressures, explained by the strength of the recovery in world demand and the persistence of global production and logistical constraints in 2021. The BCTL further anticipates an acceleration of inflationary pressures over the first few months of 2022, followed by a gradual slowdown throughout 2022 and 2023. Specifically, we expect average inflation rate in 2022 to remain at levels similar to those of 2021, above 3%, but then converge down to 2% in 2023.

- Timor-Leste continued to record an external current account deficit, which increased again in 2021, mostly due to the rise in goods and services imports. Although oil revenues have decreased substantially over the last years, they continue to be a relevant factor to mitigate the vast trade deficit's impact on the current account balance.

- Notwithstanding the challenging macroeconomic context, the financial sector continued to remain robust and highly dynamic, recording continued growth of its activity, assets and funds. It is illustrative to note that bank credit continued to grow in 2021, as well as deposits and funds raised by banks operating in the country.

- In 2021, the BCTL continued to implement several relevant initiatives regarding national economic monitoring and the pandemic crisis and 2021's mass-floods impact mitigation. The most relevant initiatives in this context were the continued implementation of the credit moratorium and loan subsidization program for households and companies and the undertaking of household and informal businesses surveys, with the objective of evaluating financial inclusion trends and assessing socioeconomic conditions.

2.1 Economic Activity and Inflation

2.1.1. Recent Economic Developments and Perspectives

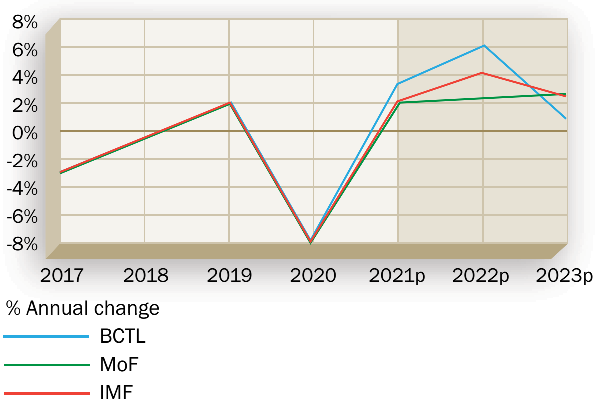
According to BCTL projections – at the time of this report, the official national accounts data was only available until 2020 – the domestic economy should have recorded an economic recovery in 2021, but managed to recover only a part of the steep 2020's GDP recession (-8.6% fall in GDP).

In 2021, the domestic GDP rose 2.9%, but only managed to offset part of the abrupt drop in 2020's GDP.

Economic growth in 2021 (+2.9%) should be mainly due to the stabilizing effect of a significant annual increase in public expenditure, amounting to $306 million (+27%) and an expected recovery in private demand. However, despite the substantial increase in public spending, our forecasts also consider the negative impacts arising from the extension of the pandemic mitigation measures, the massive floods of April 2021 and their respective damages, as well as the increase in inflationary pressures and the reduction in consumers' purchasing power.

Chart 2.1a

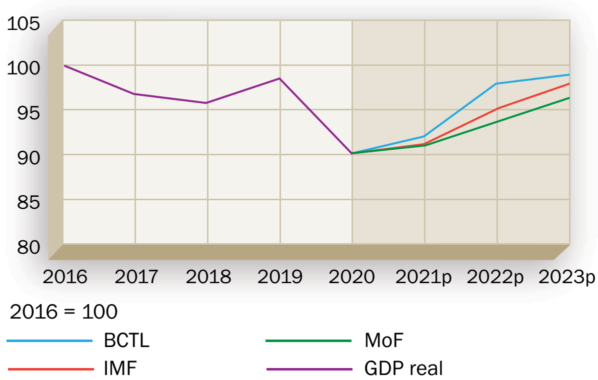
GDP Real Growth



Source: BCTL, 2022 OGE Proposal and IMF

Chart 2.1b

GDP Real



Source: BCTL, 2022 OGE Proposal and IMF

The resumption of growth in 2021 was due to the expansion of public demand and, to a lesser extent, to the recovery of private demand.

As already mentioned, the recovery in growth in 2021 was mainly due to the expansion of public demand - which is expected to have risen 2.7%, in real terms, in 2021 - and of private demand, which should have increased by 1.8% in the year. However, as has been normal in the past, the domestic demand expansion led to an increase in net imports, which grew 2.8%, thus cancelling part of the effect of the recovery in domestic demand.

At a more disaggregated level, the recovery in public demand in 2021 was mainly due to the increase in public consumption (+8.2%) – led by the increase in public expenditure on wages and on goods and services – as public investment continued to decline in 2021 (-15.7%), due to the extraordinary reduction in the capacity to execute the capital expenditure budget in 2021, as described below in the section regarding the State budget. This rise thus recovers only part of the drop in public demand seen in 2020 (-11.4%) due to the abrupt drop in public investment in that year (-50%) – explained by the pandemic and the substantial delay in the approval of the 2020's budget - which had been mitigated by the expansion of public consumption (+6.2%).

In terms of the recovery in private demand in 2021 (+1.8%), we estimate that the recovery is due to the recovery of household investment in housing (+35%) and corporate investment (+21%) and, to a lesser extent, to the slight recovery in household consumption (+0.5%). It is therefore important to note that our projected recovery of private investment in 2021 is mainly due to the efforts and expenses in the rebuilding of infrastructure and houses destroyed in the April floods, which is easily observable in the expressive increase in the imports of construction materials (+89%) and industrial inputs (+16%) in 2021. In terms of private consumption, we highlight that some indicators suggest a recovery throughout the year, but that the increase in inflationary pressures in 2021, together with the extension of pandemic restrictions, should have limited the recovery in households' consumption to 0.5% in 2021. The pickup in private demand in 2021 thus only managed to reverse part of the fall recorded in 2020 (-3.3%) due to pandemic situation, which led to extraordinary decreases in private consumption (-2.4%), households' investment (-4.6%) and private companies' investment (-25%), in that year.

BCTL expects the recovery to continue and to strengthen in 2022, projecting that the GDP will grow 5.8% in the coming year.

The BCTL further expects the economic recovery to continue and strengthen in 2022, projecting that GDP growth will accelerate to 5.8% in 2022. This expectation is based, above all, on the continued growth of public demand in the coming year (+10.4%) and on the strengthening of private demand growth (+2%), while the expected expansion in net imports (+6.5%) will once again subtract from the recovery in domestic demand of GDP.

Unlike 2021, we expect public investment (+75%) to be the main driver of public demand growth in 2022, despite our conservative expectation regarding the ability to execute the public capital expenditure budget next year. On the contrary, also based on the already approved Budget for 2022, we estimate that public consumption will register a slight decrease (-0.5%) in 2022.

In terms of private demand, household consumption growth is expected to accelerate to 2% in real terms in 2022. Additionally, we project that private investment will only rise 3% in 2022, as we believe that the extraordinary rise in private investment in 2021 will not be repeated in 2022.

In short, our optimistic projections for economic growth in 2022 are mainly due to the maintenance of a high level of public expenditure, an increase in the capacity to execute public investment and the continued recovery of private demand in our economy. Due to this trajectory, BCTL expects real GDP to reach at the end of 2022 its pre-pandemic 2019 level.

BCTL's economic growth prospects for 2021 are practically in line with those from the Ministry of Finance (1.6%). However, for 2022, our projections are more optimistic than Ministry of Finance's estimates, which only anticipates growth of 2.1% for next year. This may be due to the fact that the budget approved for 2022 is substantially higher than its initial proposal presented to the National Parliament.

For 2023, assuming that public expenditure level will be similar to 2022 and despite the projection's elevated uncertainty, we estimate a renewed slowdown in economic growth to 1%, since the continued recovery of private demand will not be able to offset the stagnation of public demand expansion in that year.

Beyond 2022, taking into account the growing public budgetary restrictions, we expect a further deceleration of economic growth, due to the need to contain the expansion of public expenditure.

Finally, it should be noted that this projection scenario for 2022 and 2023, similarly to what happened between 2017 and 2020, once again confirms the uninterrupted and excessive dependence of the domestic economy on public spending policies and programs, while the effective start of a developmental and investment process led by the private and productive sectors continues to be postponed.

We thus renew our emphasis on the need to effectively promote and quick-start growth across national productive sectors. This continues to be particularly necessary and important to meet the growing challenges in terms

of job creation for our young population and prepare the country for the coming need to implement a reduction in the level of spending and public investment, in view of the substantial reduction in future oil revenues and accumulated returns in the Petroleum Fund's capital.

2.1.2. GDP Developments – Spending and Production Components

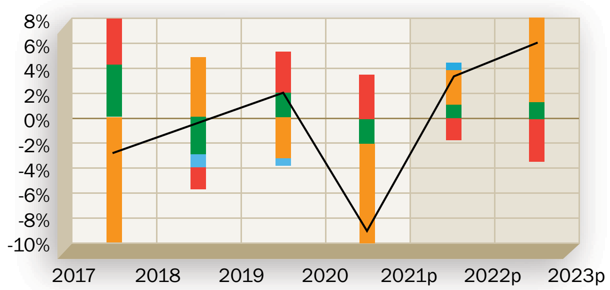
Although official estimates of Timor-Leste's national accounts only exist until 2020, BCTL has developed an internal model that allows it to estimate the trajectory of the most relevant components of domestic and external demand for more up-to-date periods. In this sense, the analysis that follows is based on official data up to 2020 and on BCTL estimates for 2021, seeking to assess the most relevant medium-term trends for our domestic economy.

Public demand will continue to be a relevant driver of domestic economic performance in 2022.

In terms of expenditure's macroeconomic aggregates, as already mentioned and according to the charts that follow, we again emphasize that the 2021 and 2022's economic recovery is mainly due to the significant increase in public demand, due to the material increase in public expenditure in these 2 years. The relevance 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.

Chart **2.2a**

GDP real growth - Spending Aggregates



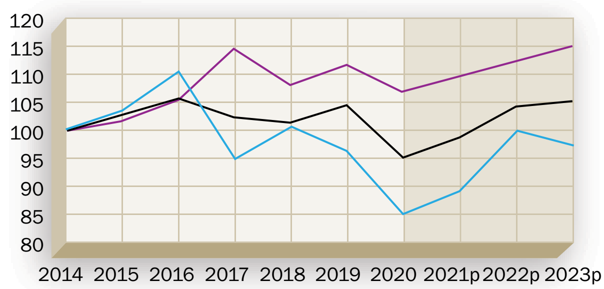
% annual changes and contributions

Net Exports
Public Partners
Public sectors
Private sectors
GDP

Source: DGE and BCTL

Chart **2.2b**

GDP real levels - Main Components



2014 = 100

Private demand
PIB
Public demand

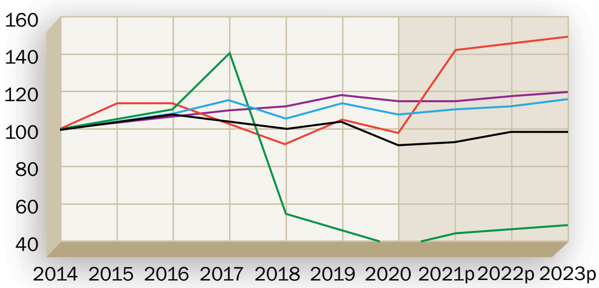
Source: DGE and BCTL

In the chart depicting the trajectories of real GDP and private and public demand since 2014, we can see that the downward trend in the level of activity (GDP) recorded from 2016 to 2020 was mainly due to the gradual reduction in public demand, while the increase in public expenditure between 2020 and 2022 drove the resumption of GDP growth after 2020. It should also be noted that private demand has registered moderate growth since 2016, but which was not enough to offset the impact of the fall in public expenditure on the GDP's downward trajectory.

In the graphs below, we present the evolution of the private and public demand subcomponents, compared to the GDP trajectory since 2014.

Chart **2.2c**

GDP real levels and Private Demand



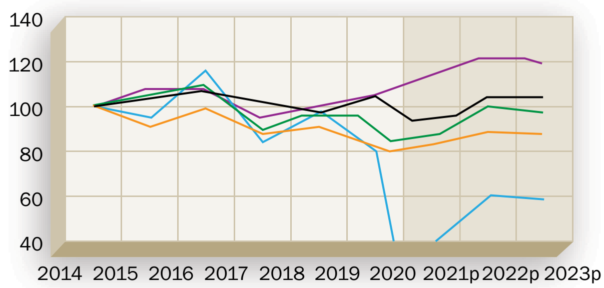
2014 = 100

Household consumption
Household investment
Private investment
Private demand
GDP

Source: DGE and BCTL

Chart **2.2d**

GDP real levels, Public Demand and Imports



2014 = 100

Public consumption
Public investment
Public demand
Imports
PIB

Source: DGE and BCTL

In terms of private demand, it should be noted that it has been more robust than GDP since 2016, supported by the continuous growth of households' private consumption. Private company investment was the worst-performing sub-component of private demand between 2017 and 2020, having dropped below 40% of its 2014's real level. This sharp drop in business investment, evident from 2018 onwards, represents a very negative development for our economy, since it translates into a disinvestment in equipment and capital goods necessary to increase the economy's productivity and reflects the anaemic performance of the national private sector.

Despite the sustained growth of private demand in recent years, we also highlight the negative impacts arising from the drop in corporate investment in the same period.

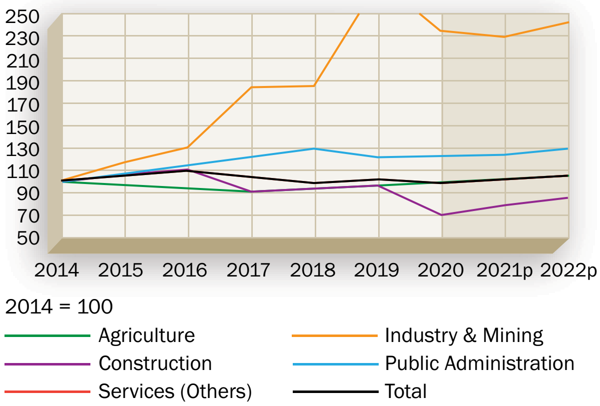
With regard to public demand, it should be noted that it has underperformed GDP since 2016, mainly due to the drop in public investment recorded since that date. It is also interesting to point out that the substantial drop in public investment until 2021 has been accompanied by a significant reduction in private investment in the same period, which once again demonstrates the importance of public expenditure on capital goods for the investment of private companies in our economy.

The construction, public administration and services sectors should be those that most contribute to the economic recovery in2021 and 2022.

In terms of the trajectory of the economy's productive structure, as shown in the following charts, the remarkable growth of the industrial and mining sector and, to a lesser extent, of the public administration, which have surpassed the trajectory of GDP since 2016, stands out. On the negative side, due to the aforementioned reduction in private and public investment, the civil construction sector was the one whose activity decreased the most since 2016.

Chart **2.3a**

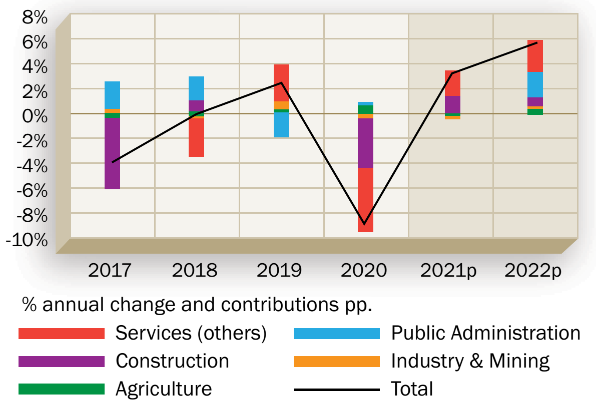
GDP real levels - Production Sectors



Source: DGE and BCTL

Chart **2.3b**

GDP real growth - Production Sectors



Source: DGE and BCTL

In terms of the outlook for 2021 and 2022, we emphasize that the recovery in GDP growth should be more driven, in 2021, by the growth of services and construction and, in 2022, by the growth of these sectors together with public administration's expansion. This trajectory also reflects the upward trend public expenditure in 2021 and 2022, since these sectors are among those that typically benefit the most from the respective budgetary stimulus.

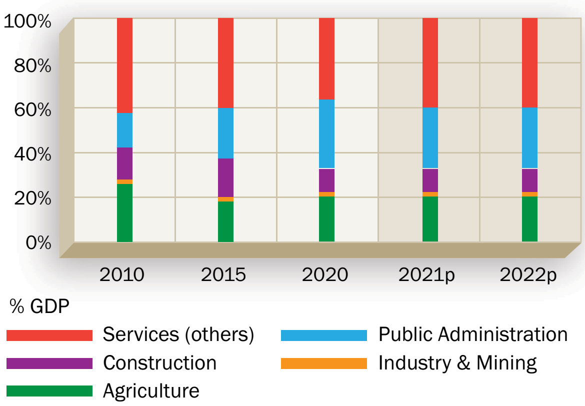
From 2010 to 2020, according to chart 2.3c, the main trend in the production structure consisted of significant drops in the shares of the agricultural/ primary sector (from 25% to 20% of GVA) and civil construction (from 16% to 10%) and the simultaneous increase in the weight of public administration, from 17% in 2010 to 30% in 2020. The services sector continued to maintain its dominant position in the economic structure, representing 38% of GVA in 2020, compared to 42% in 2010.

The services sector has maintained its dominant position in the domestic economy.

With regard to 2021 and 2022, BCTL expects this production structure to remain relatively stable, with the exception of a slight pickup in the importance of the construction sector, due to the expected recovery of private and public investment.

Chart **2.3c**

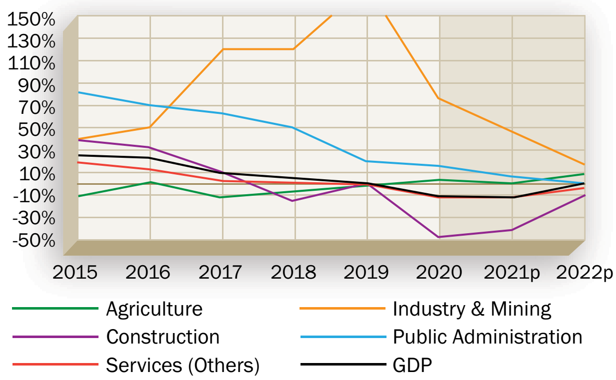
GDP Composition - Production Sectors



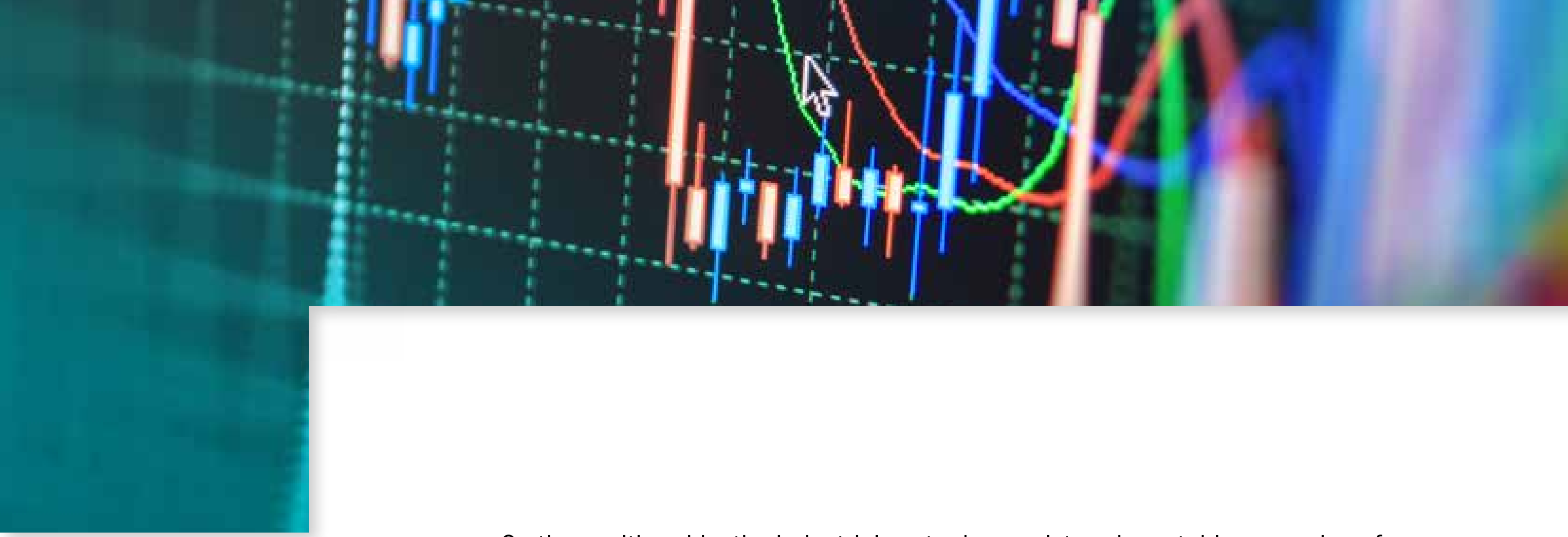
Source: DGE and BCTL

Chart **2.3d**

Sectors 5-Year Cumulative Real Growth Rates %



Source: DGE and BCTL



On the positive side, the industrial sector has registered a notable expansion of its activity, with its GVA growing 136% between 2014 and 2020. Even so, despite this robust expansion, this sector continues to represent a small part of the domestic economic production, amounting only to 2.2% of GDP.

The growth of sectors less dependent on budgetary policies continues to be limited, not yet allowing an effective diversification of our economy.

This productive structure demonstrates that the country's economy continues to largely depend on the public sector, since the sectors less dependent on the public budget - agriculture, fisheries, industry, hotels and restaurants - only represented 24% of GDP in 2020. However, there was a slight improvement in the relative importance of these productive sectors, as in 2015 their combined GVA amounted to 21% of GDP. This trajectory was due to the fact that the accumulated growth of these 3 sectors between 2015 and 2020 (7%) surpassed the accumulated fall in GDP of -7.1% in the same period.

Despite the clear progress of the industrial sector, the anaemic growth of the agricultural and fisheries sector - which is the largest of these sectors and which grew 6% - and the substantial fall in the restaurant/hotel sector of -25% between 2015 and 2020, limited the expansion in activity of the productive sectors less dependent on budgetary policies. Finally, it should be noted that public administration and logistics, more directly dependent on decisions and levels of public expenditure, grew 15% and 11% in the 5 years to 2020.

2.1.3. Prices and Inflation

At the end of 2021, the average inflation rate rose substantially to 3.8%, compared to 0.5% and 0.9% in 2020 and 2019.

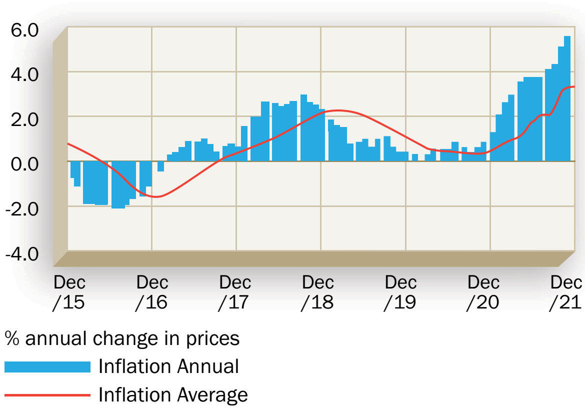
The average annual inflation rate in Timor-Leste, according to the DGE, was 3.8% in 2021, which represented a strong rise compared to the 0.5% and 0.9% recorded in 2020 and 2019, respectively. In year-on-year terms, inflation rate's rise is even more noticeable, having accelerated from 1.2% in December 2020 to 5.3% in December 2021.

As can be seen in the charts and tables that follow, in 2021 inflation rose to the record levels of the last decade. This trend, in line with what has been happening in the various world economies following the economic recovery from the 2020 pandemic, broke away from the relative price stability recorded between 2013 and 2020 in Timor.

We also note that the increase in inflationary pressures in 2021 was mainly due to the surge in food inflation in the CPI basket, as food inflation in 2021 accelerated to 7.3%, compared to 2.2% in 2020. On the other hand, non-food inflation – non-food items represent 46% of the consumption basket – increased to 3.1% in 2021, compared to -0.1% in 2020, which was itself mostly due to increasing alcoholic and tobacco inflation.

Chart **2.4**

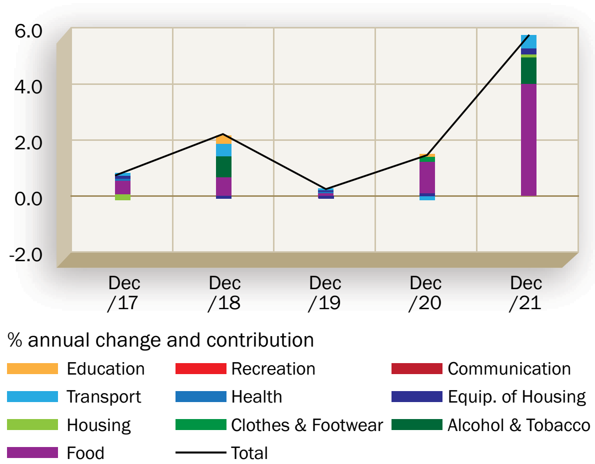
TL Inflation Rate



Source: DGE

Chart **2.5**

Contribution to Inflation rate



Source: DGE and BCTL analysis

Table 2.1 provides more detail in terms of inflationary trends, disaggregating annual inflation rates by large groups of goods/services:

Table **2.1**

CPI Basket Sub-Groups Inflation Rates - % annual average

	Dec-17	Dec-18	Dec-19	Dec-20	Dec-21
Food	0.8	1.5	0.2	2.2	7.3
Alcohol & tobacco	-0.3	11.0	0.8	-0.4	10.7
Clothing & Footwear	8.0	-0.1	0.1	2.2	-0.1
Housing	0.7	0.7	-0.2	0.0	1.4
Household equip.	1.7	-0.5	-0.7	-1.0	2.1
Health	0.0	0.0	0.0	0.0	0.7
Transport	-0.5	3.9	0.1	-2.5	6.6
Comunication	-0.9	0.4	-1.1	0.6	0.0
Recreation	-1.1	0.5	0.3	-0.1	1.0
Education	0.0	16.6	9.0	2.6	0.0
Total	**0.6**	**2.1**	**0.3**	**1.2**	**5.3**

Source: DGE and BCTL Analysis

The rise in inflation in 2021 was mainly due to the substantial acceleration in food inflation.

As can be seen, the high contribution of the acceleration of food inflation to the rise in general inflation resulted from both the acceleration of food prices - average of 6% in 2021 and year-on-year of 8.5% in December 2021 - and the elevated importance of food expenditure in the consumers' reference basket, representing 54% of the basket.

Despite the smaller contribution of non-food inflation to the rise in inflationary pressures in 2021, we highlight among these items, the acceleration of alcoholic beverages and tobacco (10.7%) and transport (6.6%) inflation.

We thus note that, despite the worsening of inflationary pressures in our economy in 2021, in line with what happened in most world economies, this trend does not seem to have affected all sectors and expenditure classes, which indicates that inflationary pressures were not yet widespread in our economy in 2021.

In terms of macroeconomic determinants, the rise in inflation in 2021 seems to be mostly due to the worsening of external inflationary pressures and a slight generalized depreciation of the dollar against the currencies of Asian countries, which continue to be our country's main trading partners. As already mentioned in the chapter regarding the international economic background, the worsening of international inflationary pressures was due to the robustness of the global economic recovery, supported by stimulative levels of monetary and budgetary policies, and to the perpetuation of logistical and productive bottlenecks in the world economy in 2021, resulting in a significant increase in the prices of many goods and services traded internationally.

Although the trajectory of aggregate demand and domestic GDP continues to be one of the determinants of the inflation trends in the country, the weakness of the apparent recovery of the national economy should have contributed to anchoring inflationary pressures in 2021. After the substantial fall in GDP in 2020, which compounded the anaemic economic performance recorded since 2016, and notwithstanding the economic recovery expected in 2021, BCTL anticipates that the current level of economic activity remains below its potential level, which has resulted in the underemployment of domestic economic resources and will continue to exert a negative pressure on the general level of prices in our economy.

In terms of future prospects for 2022 and 2023, BCTL anticipates an acceleration of inflationary pressures over the first few months of 2022, followed by a gradual slowdown throughout 2022 and 2023. Specifically, the BCTL expects that the average inflation rate in 2022 will remain close to that of 2021, above 3%, but then to converge down to 2% in 2023.

Inflation projections for 2022 and 2023 stand at 3.3% and 2.2%, which translates into a gradual reduction in inflationary pressures over the next 2 years.

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 stable inflation in the economies of our country's main partners and also on the fact that the domestic economy should continue to operate below its potential level.

Despite the expected economic recovery from 2021 to 2023, the anaemic performance of the last 5 years has resulted in the current underemployment of labour and capital resources. The BCTL therefore estimates that the current level of GDP is currently below its potential, or full employment, level. This fact, together with the expectation that the expected economic recovery will not be enough to close the domestic "product gap" by 2023 and that it is difficult to expect a sustained growth in the level of future public expenditure, given the lack of budgetary resources and the rising risks to the sustainability of public finances, leads us to believe that inflationary pressures due to the domestic economy performance, will remain practically non-existent over the next few years.

2.2 Public Finances

2.2.1. 2021 Public Budget Program

Public expenditure increased substantially in 2021 ($306 million), which was explained by the increase in the 2021's Budget, and particularly to much higher current expenditure.

In 2021, according to the data in table 2.2 below, public expenditure, on an effective cash basis, recorded a substantial increase of $306 million, which more than compensated for the -$94 million drop seen in 2020, due to the delay of the respective delay in the approval of the public budget for that year.

Therefore, the overall amount of expenditure incurred amounted to $1,442 million in 2021. The increase in public expenditure compared to 2020 was due to the increase in the 2021 budget, compared to the previous year, as the overall rate of expenditure execution decreased in 2021 to 71%, compared to 76% in 2020. It should be noted, therefore, that the 2021 Budget approved total expenditure amounting to $2,030 million, which translated into an increase of $533 million compared to the $1,497 budgeted for 2020.

The decrease in the overall expenditure execution rate was due to the reduction in the budget execution of public investment, since the current expenditure execution rate increased to 83%, compared to 76% in 2020. On the contrary, the public investment execution rate dropped from 50% in 2020 to an historically low level of 27% in 2021.

Table **2.2**

Public Budget – Allocations, Changes and Execution Rates

	Million of USD			% annual change		Execution rate		
	2019	2020	2021	2020	2021	2019	2020	2021
Total revenues, exc. Loans	**187**	**182**	**161**	**-3%**	**-12%**	**94%**	**111%**	**86%**
Fiscal revenues	123	119	119	-3%	0%	90%	103%	95%
Non-fiscal revenues	56	57	26	0%	-54%	102%	127%	46%
Revenue Retention of agenices	8	7	17	-13%	144%	116%	134%	266%
Total public expenditure	**1,221**	**1,136**	**1,442**	**-7%**	**27%**	**83%**	**76%**	**71%**
Recurrent expenditure	907	975	1,302	8%	33%	88%	76%	83%
Capital expenditure	264	130	125	-51%	-4%	72%	73%	31%
Loans	50	30	15	-40%	-51%	57%	50%	27%
Financing								
RSE	529	544	548	3%	1%	100%	100%	100%
Excess witdrawals from PF	440	420	600	-5%	43%	66%	100%	72%

Source: TL Transparency Portal and BCTL calculations

In annual terms, on a cash basis, the increase in total public expenditure of $306 million was explained by the substantial increase in current expenditure ($326 million), as capital expenditure decreased by -$20 million. The drop in investment and its execution rate are therefore particularly noticeable, given that the 2021 Budget forecast an increase of $256 million in 2021 compared to the previous year.

On the revenues side, the Government foresaw in its 2021 OGE total non-oil revenue of $187 million, excluding loans and grants, but actual revenue amounted only to $161 million, which resulted an overall execution rate of 86%.

This resulted in an annual reduction in revenue of $21 million compared to 2020, mainly due to the drop in non-tax revenues, largely due to the reclassification of EDTL as a public company, which led to its revenues no longer being accounted for as budgetary revenues. In terms of its composition, tax revenues continued to represent the most important category, amounting to $119 million in 2021, having remained practically unchanged compared to 2020. It should also be noted that revenues from autonomous State agencies recorded a notable increase from $10 million to $17 million in 2021.

Due to the substantial increase in public expenditure (+$306) and the simultaneous decline in non-oil revenue (-$21 million), the public sector deficit calculated on a cash basis, excluding oil revenues, increased in 2021 by $327 million, to $1,281 million.

The significant increase in expenditure, together with the decline in non-oil revenue, resulted in a deterioration of the budget deficit, in 2021.

2.2.2. Public Revenue

One of the main priorities of the Government continues to be in reducing the country's dependence in terms of Petroleum Fund's financing. Efforts in this direction remain fundamental in the Government's discussions and budget planning. In its 2021 OGE, for example, the Government continued to highlight its tax reform policy, in order to improve the country's fiscal framework and boost non-oil domestic revenues.

The overall amount of public revenues decreased in 2021, which was due, as mentioned, to the drop in non-tax revenues, due to the reclassification of EDTL as a public company, so its revenues are no longer accounted for as budget revenues.

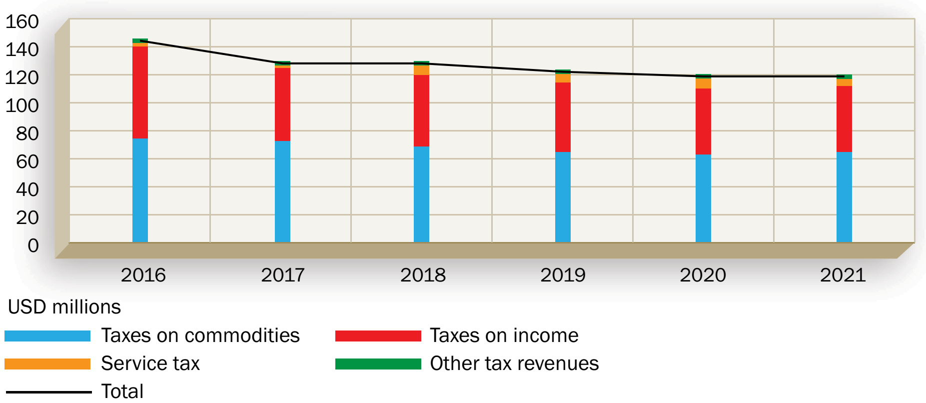
Public non-oil revenue declined -12% in 2021, to $161 million.

In 2021, on a cash basis, domestic non-oil revenues reached $161 million, down -12% from $182 million in the previous year. In terms of its components, tax revenue was broadly unchanged at $119 million, tax revenue decreased -54% to $26 million and autonomous agencies' revenue increased 144% to $17 million.

Chart 2.6 shows the changes in tax revenues and its main components over the last few years, namely, taxes levied on the income of individuals and companies and taxes levied on the import of goods. Despite the stability of overall tax revenues in 2021, it should be noted that the slight decrease in income taxes (-$2 million) to $47 million was fully offset by the increase in revenue obtained from taxes on imports (+$1 million, to $65 million) and on services (+$1 million, to $5 million).

Chart **2.6**

Fiscal Revenue - cash basis



Source: TL Transparency Portal and BCTL calculations

2.2.3. Public Expenditure

The overall public expenditure execution rate dropped again in 2021 to 71%, prolonging the execution rate's decline in 2020 (76%) and 2019 (83%), which thus remained well below the 91% and 88% recorded in 2018 and 2017.

Although the expenditure budgeted for 2021 was substantially higher than that for 2020 (+$533 million), the renewed reduction in the overall rate of execution ended up limiting the annual increase to $306 million, on a cash basis. This resulted in an annual 27% increase in effective public expenditure, more than offsetting the drop of -$94 million (-8%) recorded in 2020.

Public expenditure increased 27% to $1,442 million, as a result of the substantial increase in the expenditure on public transfers, goods and services, and wages.

As mentioned above, the increase in global expenditure was explained by the substantial increase in current expenditure, valued at $326 million, as capital expenditure declined by -$20 million in 2020. We also note that the reduction in public investment was exclusively due to the weak capacity to execute the investment programs, as the investment budgeted for 2021 would have resulted in an annual increase of $251 million. This rising trend in terms of current expenditure importance, to the detriment of capital expenditure, reinforced the trajectory already observed in 2020 and 2019.

2.2.3.1. Current Expenditure

In 2021, current expenditure increased 33%, adding to the rises already recorded in 2020 (+7%) and 2019 (+14%), which as a whole reversed the decline observed in 2017 and 2018. This type of expenditure, which amounted to $1,302 million in 2021, it is now at its highest level in historical terms, already well above the maximum values seen in 2015 and 2016, of $1,030 million.

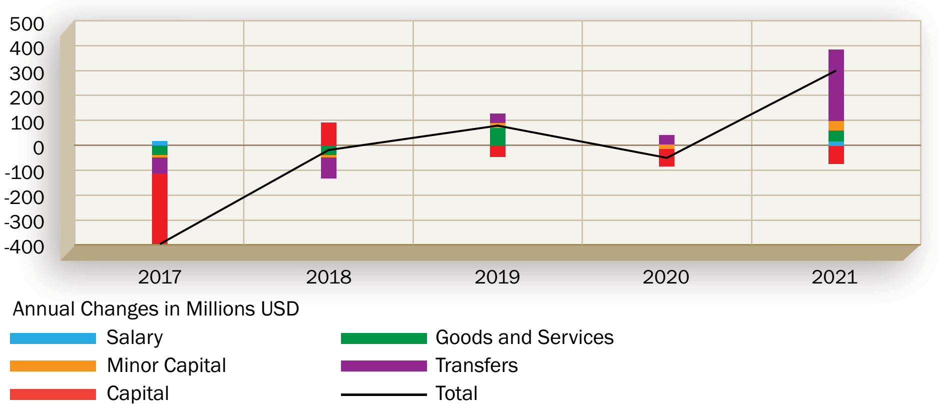
The significant surge in current public expenditure practically explained the increase in global public expenditure in 2021.

Current expenditure thus continued to be the main component of public spending, amounting to 90% of the total, which represented a continued rise compared to the 86% in 2020 and the 74% and 71% recorded in 2019 and 2018. It should be noted that the increase in current expenditure was due to the increase in budgeted amounts (+$289 million), but also to the increase in the rate of execution of this type of expenditure, which rose from 76% in 2020 to 83% in 2021.

Chart 2.7 presents the annual changes in the components of public expenditure for the last years, determined on an effective cash basis. As can be seen, in 2021 the increase in expenditure on transfers (+$273 million), on goods and services (+$37 million) and on salaries (+$25 million) explained the significant increase in current and total expenditure, taking into account the decrease in public investment of -$20 million.

Chart **2.7**

Public Expenditure Changes by Category - cash basis



Source: TL Transparency Portal and BCTL calculations

Due to these changes, expenditure on transfers represented in 2021 the largest category of total expenditure, with 46% of the total (34% and 27% in 2020 and 2019), followed by expenditure on goods and services with 29% (33% and 30% in 2020 and 2019) and public wages with 16% (18% and 16% in previous years).

2.2.3.2. Development Capital Expenditure

The Government budgeted for 2021 an overall capital expenditure, including the loans program, a total of $464 million, which represented a substantial increase of $244 million (+111%) compared to the $220 million allocated in 2020. This budget thus sought to offset the budgeted decrease in 2020 (-$218 million) and provide more budgetary support to the domestic economy.

Expenditure on capital goods was budgeted at $464 million, of which only $140 million was executed.

However, taking into account the poor execution capacity in terms of public investment in 2021, with the execution rate falling to 30%, from 73% in 2020, the effective value of public investment ended up falling - $20 million, to $140 million in 2021.

Despite the stated decrease in the execution rate, it should be noted that the 2020 execution rate of 73% resulted mainly from the late approval of the 2020 OGE, which meant that the budgeted amount was intentionally reduced and partially postponed to 2021, as it was impossible to properly execute a higher budget just in the last quarter of 2020. In this context, we consider that the execution of the public investment program continued to face substantial restraints in 2021, similar to those of 2020.

Table **2.3**

Public Investment Programs

	millions of USD			% annual Change		% Total	
	2019	2020	2021	2020	2021	2020	2021
Minor Capital	27	5	44	-81%	732%	3%	32%
Loans	50	30	15	-40%	-51%	19%	11%
Infrastructure Funds	225	108	58	-52%	-46%	67%	41%
Public Inv. ecl.Infr.Funds	12	17	23	44%	36%	11%	17%
Total	**314**	**160**	**140**	**-49%**	**-13%**	**100%**	**100%**

Source: TL Transparency Portal and BCTL calculations

The majority of capital and development expenditure was spent under the infrastructures program, including loans, whose weight amounted to 52%, whose weight fell versus the 86% in 2020. The Infrastructure Fund Program continues to assume the greatest relevance in terms of public investment, as its expenditure corresponds to 41% of the total for the category in 2021.

Investment in roads, including the loans program, continues to represent the top priority for public investment.

Table 2.4 further details information regarding the main components of the national public investments programme, identifying the highest priorities in terms of its infrastructure programmes.

Table 2.4

Public Investment Composition

	Million of USD			% of Public Investment		
	2019	2020	2021	2019	2020	2021
Minor capital	27	5	44	9%	3%	32%
Buildings	1	2	4	0%	1%	3%
Total Infrastructures	286	153	91	91%	96%	65%
Public investment	**314**	**160**	**140**	**100%**	**100%**	**100%**

10 main investments in infrastructures

	Million of USD			% of Public Investment		
	2019	2020	2021	2019	2020	2021
Roads	232	118	60	74%	74%	43%
Institutional development	9	12	9	3%	7%	6%
ZEESM	0	0	5	0%	0%	4%
Planning	5	3	4	2%	2%	3%
COVID	0	1	3	0%	0%	2%
PDIM	3	5	2	1%	3%	2%
Health	0	0	2	0%	0%	1%
Agriculture	1	1	2	0%	1%	1%
Education	1	0	2	0%	0%	1%
Defense and security	3	1	1	1%	1%	1%
Other Infrastructures	32	12	3	10%	7%	2%
Total infrastructures	**286**	**153**	**91**	**91%**	**96%**	**65%**

Source: TL Transparency Portal and BCTL calculations

As can be seen, investment in minor capital – capital goods – increased considerably in 2021 to $44 million, which translated into an increase in its importance to 32%, compared to 3% in 2020. This substantial increase thus cancelled part of the substantial drop in investment in infrastructure (-$62 million), and was reinforced by the pick-up in buildings investment amounting to $2 million.

In terms of sector priorities for public investment in infrastructure, investment in roads and bridges continued to be the main programme, with an annual expenditure of $60 million in 2021. However, the relative weight of this priority in overall public investment declined to 43% of the total, compared to 74% in 2020 and 2019.

In terms of the remaining items, investment in institutional development, ZEESM, infrastructure planning and design, investment in infrastructure necessary to implement the Covid mitigation program and PDIM represented the most relevant investment categories, in addition to roads and bridges.

2.2.4. Public Funding Sources

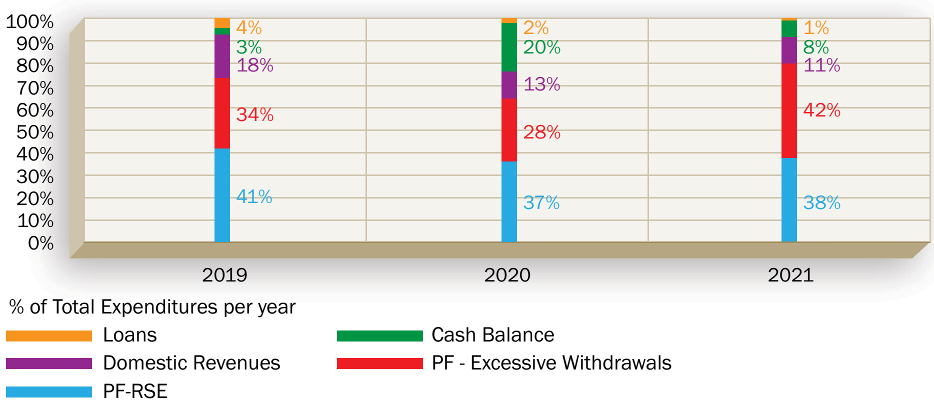
In its 2021 Budget, the Government planned to use $1,378 million from the Petroleum Fund, having withdrawn from the PF only $1,148 million to finance its actual expenditure throughout the year. It should be noted that this figure represents an increase from the $964 million used in 2020, due to higher public spending and the higher non-oil fiscal deficit.

The State continued to make withdrawals from the Petroleum Fund well above its 2021's ESI, which resulted in a further reduction in the Fund's capital.

With this continued use of funds, the annual value withdrawn from the PF continues to be well above its estimated sustainable income (ESI), valued at $548 million ($544 million in 2020 and $529 million in 2019), which translates into a direct and continued reduction of the Fund's capital.

Chart 2.8

Source of public expenditure Funding



Source: TL Transparency Portal and BCTL calculations

Non-oil public revenues financed only 11% of public expenditure in 2021, compared to 13% in 2020.

In terms of funding sources available to finance public expenditure, PF distributions continue to be the main source of funds, financing 80% of expenditure incurred in 2021. It should be noted that the increase in this ratio compared to 65% of the previous year is due to the existence of a higher Treasury cash balance in 2020, which had been accumulated during the duodecimal regime in 2020. Domestic non-oil public revenues financed, in turn, 11% of total expenditure in 2021, when in 2020 and 2019 they had financed 13% and 18%, respectively. This decrease is naturally due to the increase in public expenditure, as non-oil revenues recorded only a small fall in 2021.

Loans importance has remained low in terms of expenditure financing in recent years, having financed 1% of the total in 2021, compared to 2% and 4% in previous years. These loans, which have mainly served to finance investment in roads in the country, amounted to $15 million in 2021 ($30 million and $87 million in 2020 and 2019), which corresponded to an execution rate of only 27% of the respective budget. Thus, the capacity to execute the loans program fell in 2021, since in 2020 and 2019 50% and 57% of the respective budget had been implemented.

The continued reduction in PF's capital further increases the risks to public finances' medium-term sustainability.

In short, these considerations allow us to confirm the continued and immense dependence of state budgets from oil revenues or, more specifically, transfers originating from the Petroleum Fund, aggravated by the fact that the respective annual outflows have substantially exceeded the Fund's sustainable income.

Despite the existence of substantial oil and gas reserves in Timor-Leste's territory, the fact that ongoing exploration projects are expected to be terminated by 2023, makes the continued and considerable reduction of the Fund's capital a material risk to our Public Finances' medium-term sustainability.

2.3 Monetary and Foreign Exchange Sectors

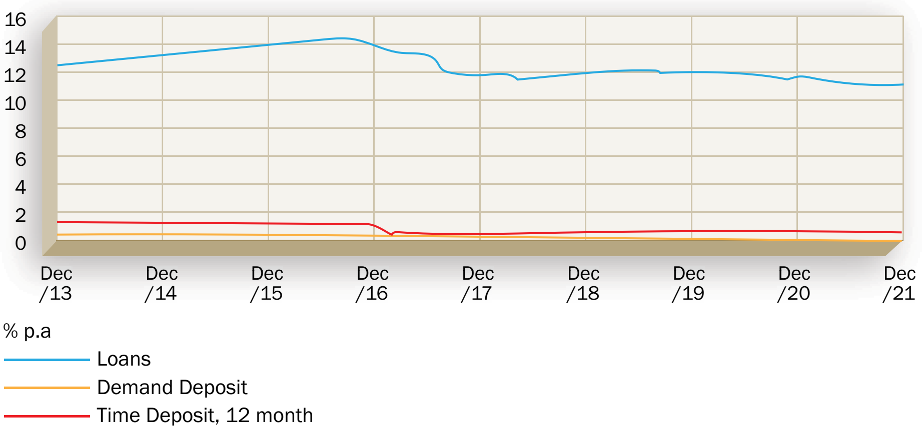
2.3.1. Interest Rates

Average lending interest rates remain relatively high compared to overseas USD benchmark lending rates. Standard economic theory generally states that when a small country adopts the currency of a large economy as its own, interest rates tend to converge to its anchor's rates. In Timor Leste this has not been true, especially for credit interest rates due to several reasons, mostly related to banking business risks in our country, which include local credit risks and the country risk itself.

Credit interest rates continue to be quite high, but fell slightly in 2021, as had been the case in 2020.

Chart 2.9

Key Lending and Deposit Interest Rates



Source: BCTL

As in the previous year, average interest rates on loans to the private sector recorded a renewed decline from 11.28% to 11.03% in 2021, which represents a positive development for companies and families that resort to banking sector financing. However, the average rate paid on 6-month deposits rose slightly in 2021 (+0.03%), to 0.69% at the end of the year. This distinct evolution of lending and deposit rates meant that the banking spread, or the differential between rates, fell again in 2021 to 10.48%, similarly to 2020, contrary to the increases recorded in 2019 and 2018.

Table **2.5**

Commercial Banks Interest Rates - Weighted Averages (% year)

Periods	Loand+ 6 month Libor	Demand Deposit	Saving Deposit	Time Deposit			
				1 month	3 month	6 month	12 month
2020 Dec	11.28	0.07	0.46	0.64	0.65	0.66	0.64
2021 Jan	12.74	0.06	0.42	0.63	0.64	0.65	0.61
Feb	11.14	0.07	0.43	0.64	0.65	0.66	0.61
Mar	11.16	0.09	0.43	0.64	0.65	0.66	0.61
Apr	11.14	0.09	0.43	0.63	0.64	0.66	0.62
May	11.14	0.09	0.43	0.63	0.64	0.68	0.62
Jun	11.12	0.09	0.46	0.64	0.66	0.69	0.62
Jul	11.09	0.09	0.45	0.65	0.67	0.69	0.64
Aug	11.13	0.09	0.44	0.65	0.66	0.69	0.62
Sep	11.09	0.11	0.45	0.65	0.66	0.68	0.61
Oct	11.07	0.10	0.44	0.65	0.67	0.71	0.61
Nov	11.06	0.09	0.47	0.64	0.66	0.70	0.62
Dec	11.03	0.10	0.48	0.63	0.65	0.69	0.64

Source: BCTL

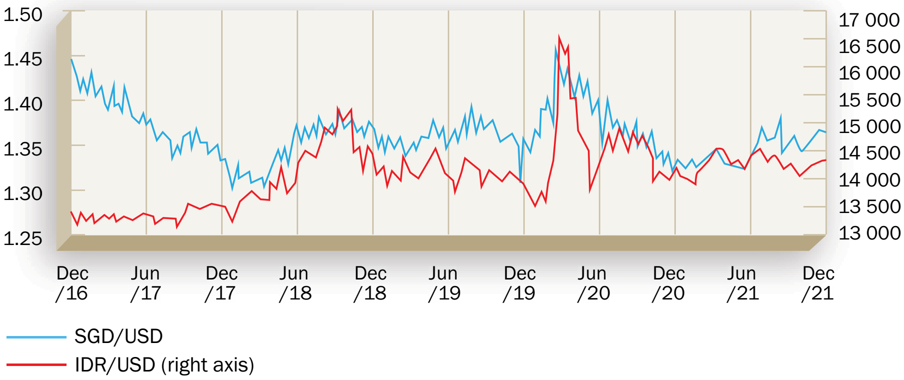
2.3.2. Exchange Rates

The dollar registered a slight and generalized appreciation against our trading partners' currencies in 2021.

The US dollar, Tmor Leste's official currency, recorded a slight and generalized appreciation against the currencies of our main trading partners in 2021. In the year as a whole, the dollar appreciated by 1% against the Indonesian rupiah, our main trading partner, having also appreciated 2% against the Singapore dollar, which is a reference currency in the Asian space. It should also be noted that exchange rate volatility was much lower in 2021, compared to the previous year.

Chart **2.10**

Selected Foreign Exchange Rates versus the USD



Source: Bloomberg

As our country continues to be highly dependent on imports of goods and services to satisfy domestic demand, the slight appreciation of the dollar contributed to contain price pressures for imported products and, in turn, to stabilize domestic inflation.

2.3.3. High-Powered Money, or Monetary Base

Monetary base, or 'high-powered money', which is one of the crucial variables in terms of monetary policy, increased notably $167 million in 2021, thus reinforcing the previous 2020 increase ($22 million). The monetary base was valued at $318 million at the end of 2021, with $26 million corresponding to coin in circulation and the remaining $292 million to bank deposits with the BCTL. The extraordinary expansion of the monetary base in 2021 was largely due to the increase in bank deposits with the BCTL, valued at $164 million.

The Monetary Base increased extraordinarily in 2021, due to the expansion of bank deposits with the BCTL.

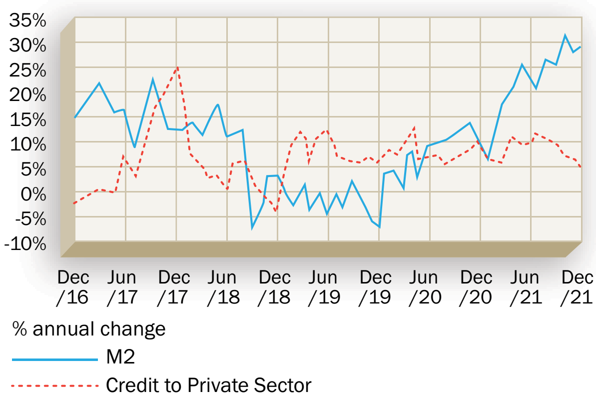
2.3.4. Money Supply

The compilation of monetary and financial statistics fundaments our assessment of relevant developments in our monetary and financial systems.

Financial sector development plays a vital role in facilitating economic growth and poverty reduction. The compilation and analysis of monetary and financial statistics allow us to gauge developments and changes in our monetary and financial systems. BCTL has been collecting and compiling these statistics systematically in order to build a comprehensive and detailed understanding of the financial sector and, in turn, support the development of BCTL's macro prudential and monetary policies frameworks. However, to date, BCTL does not yet have an autonomous monetary policy and respective instruments, as our country continues use a foreign currency, the USD, as its official currency.

Chart 2.11

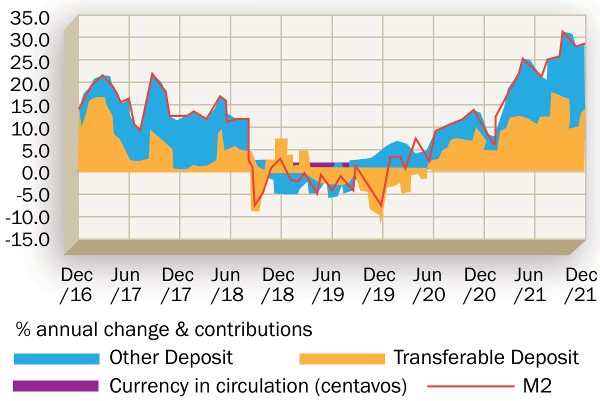
Money Supply Growth



Source: BCTL

Chart 2.12

M2 and its Components



Source: BCTL

Although Timor-Leste is a "dollarized" economy, the BCTL is able to reasonably calculate the money supply aggregate M2.

Although Timor-Leste is a "dollarized" economy, BCTL can still reasonably calculate the aggregate money supply (M2 aggregate), excluding the dollar bills in circulation, which in most countries is used as a measure of the availability of means of payment. As usual, the money supply in Timor Leste is calculated by the sum of coins in circulation, current/checking account deposits - which, like currency, can be mobilized immediately to make payments - and “quasi-currency “(savings and fixed-term deposits), which can also be mobilized relatively quickly to make payments.

Charts 2.11 and 2.12 depict the evolution of the M2 monetary aggregate, over the period from 2017 to 2021. Note again that the M2 figures are approximate because, as the country uses the US dollar, it is difficult to accurately calculate the value of dollar bills in circulation. However, as this value should be a small and stable proportion of funds available for payments, our M2 estimate should serve as a reasonable measure of the size and changes of money supply in our economy.

The M2 aggregate thus calculated amounted to $1,119 million in December 2021, having registered an extraordinary expansion of $250 million compared to 2020, thus reinforcing the increase of $81 million recorded in 2020.

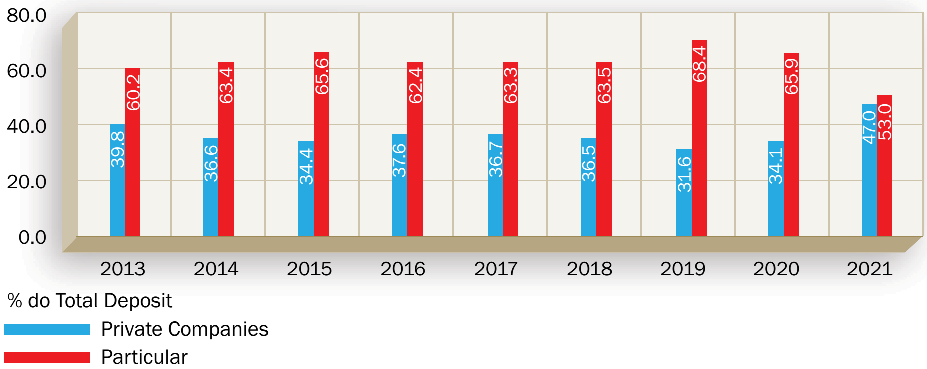
M2 increased in 2021 to $1,119 million, reinforcing the increase recorded in the previous year.

It is also important to assess the evolution of money supply components, shown in graph 2.12. Total deposits received by financial institutions were instrumental in the expansion of the money supply, with an increase of $248 million, reinforcing the increase of $77 million in 2020.

In terms of their ownership by institutional sector, as can be seen in chart 2.13, it can be seen that 53% of deposits are held by individuals and 47% by private companies. These percentages translate into a significant increase in the proportion of corporate deposits in 2021, which resulted in a substantial departure versus the average institutional weights recorded since 2013.

Chart **2.13**

Institutional Deposit Ownership



Source: BCTL

From another M2 components perspective, according to table 2.6 below, the increase in credit and net foreign assets explained the bulk of the increase in the money supply, despite having been curtailed by the increase in public sector deposits.

Table **2.6**

Money Supply Change & Driver

In millions US	Annual Flow 2020	Annual Flow 2021
Crédit to Private Sector	26.7	13.3
Government	-34.5	-78.3
Claims on Central Government	0.0	0.7
Deposit	34.5	79.0
Net Foreign Assets	31.6	388.9
Other net Assets	-56.8	74.3
M2	**80.7**	**249.6**

Source: BCTL

2.3.5. Bank Credit

In 2021, credit granted by banks to the private sector recorded a further increase of $14.8 million, or 5.8%, but which was less expressive than the increase of $26 million observed in the previous year.

Bank credit increased again in 2021 to $272 million.

Table 2.7

Bank Credit Composition

	Outstanding (million USD)		Growth		Composition in %	
	Dec-20	Dec-21	Nominal	%	Dec-20	Dec-21
Agriculture, Water & Forestry	1.3	1.9	0.6	47	0.5	0.7
Industry & Manufacturing	11.0	16.2	5.2	47	4.3	6.0
Constructions	36.1	32.6	(3.5)	-10	14	12
Transport & Communications	1.4	2.7	1.3	88	0.6	1.0
Trade & Finances	35.4	32.5	(2.9)	-8	14	12
Tourism & Service	6.5	3.3	(3.1)	-48	2.5	1.2
Individuals & Others	165.3	182.7	17.4	11	64	67
Total	**257.1**	**271.9**	**14.82**	**5.8**	**100**	**100**

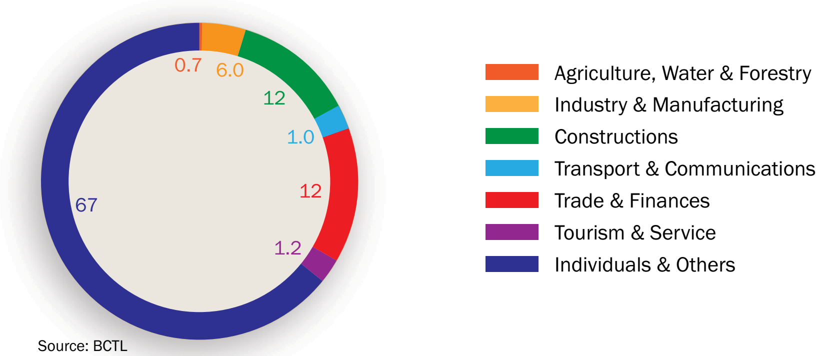
Source: Comercial Banks and BCTL analysis.

Even so, the previous table shows that credit granted to companies decreased again -$2.5 million in 2021, after having contracted -$14 million and -$24 million, in 2020 and 2019. Actually, the steady and substantial fall in corporate credit since 2017 has been one of the defining trends in the financial sector.

It is interesting to note that the robust increase in loans to individuals in 2021, 2020 and 2019, of $17, $40 and $37 million, more than compensated for the decline in corporate credit in recent years, having been solely responsible for the growth in global bank credit. As a result of this continued rise, loans to individuals were, at the end of 2021, the most important segment of bank loans as a whole, amounting to 67% of the total.

Chart **2.14**

Sector Credit - Dec 2021 - % Total



Source: BCTL

In terms of business sectors, as in 2020, there was a negative change in credit granted to some sectors of activity, particularly civil construction and services and tourism. However, on the positive side, the increase in credit to the primary sector (agriculture and fisheries) and to the industrial sector in 2021 stood out. Despite the growth in credit granted to these 2 productive sectors, the combined value of their loans remains low, amounting to just $18 million at the end of the year.

Loans to individuals constitute the most important part of bank credit, with 67% of the total.

Credit granted to individuals reinforced its first position in terms of credit composition, with a weight of 67%, compared to 64%, 54% and 41% in the previous 3 years. In the context of corporate credit, civil construction (12%) and the distribution and commerce sector (12%) continue to be the most important. The agriculture and industry sectors, two important sectors for the country's economic development, represent only 0.7% and 6% of total loans granted.

In addition to the "quantity" of loans, it is also important to analyse their "quality", which can be done based on indicators such as the amount of "bad debts" and the provisions of the system for credit risks. We thus note that the value of provisions for credit risks continued to remain at very low historical levels ($7.6 million), despite having risen from the $5.8 million at the end of 2020.

It should also be noted that banking institutions remain quite robust in terms of their ability to deal with a possible deterioration in credit quality, given that current levels of non-performing loans are very low and that the sector's operating profitability margins offer a robust basis for financing such an eventuality.

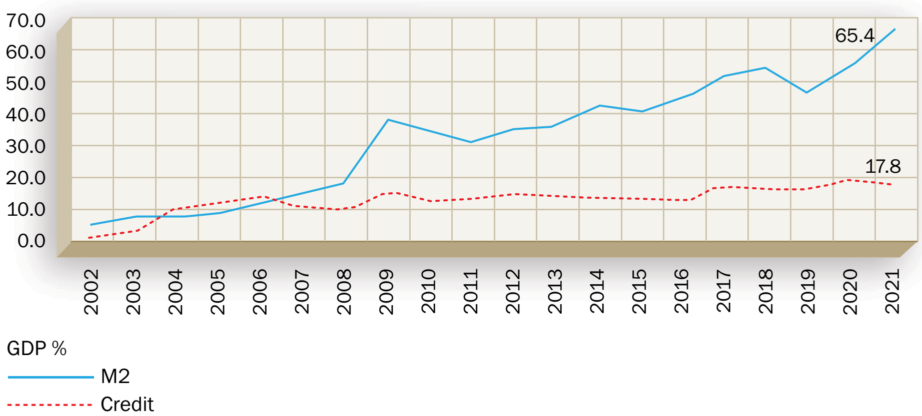
Despite the improvement in the quality of the balance sheet of financial institutions, overall bank credit has remained at levels much lower than that of deposits, providing commercial banks with excess liquidity that tends to be invested preferentially on bank deposits abroad.

2.3.6. Financial Depth Indicators

The degree of financial depth, also known as the degree of monetization of the economy, can be measured based on the ratio of M2-to-GDP. This ratio rose remarkably in 2021 to 65.4%, prolonging the upward trend seen since 2011. Another indicator that can also be used to monitor the degree of financial depth is the credit-to-GDP ratio. This ratio amounted to 17.8% at the end of 2021, having fallen by 0.4% compared to 18.2% in 2020, thus contradicting the upward trend recorded since 2016.

Chart **2.15**

Monetary Aggregates Versus GDP



Source: DGE and BCTL analysis

2.4 External Sector

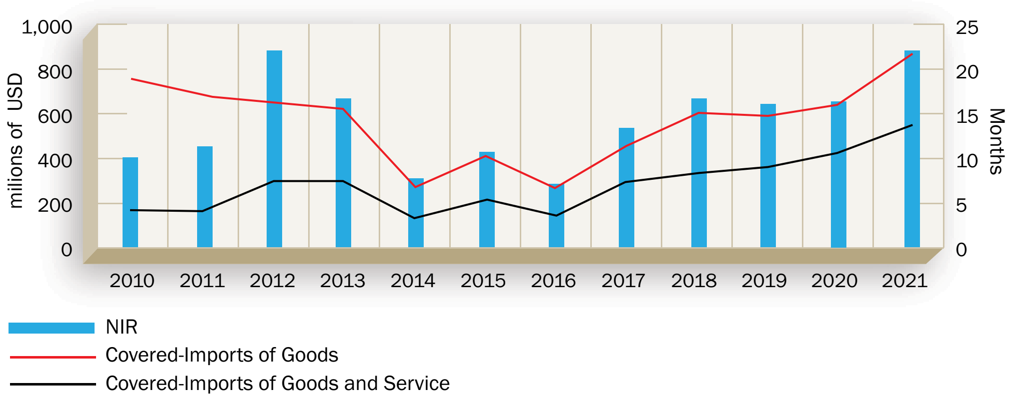
2.4.1. Net International Reserves (NIR)

Net international reserves (NIR) recorded a significant increase in 2021, corresponding to 13 months of coverage of the country's imports.

At the end of 2021, net international reserves (NIR) stood at $890 million, registering a significant increase compared to the average level of the last 3 years ($650 million). Expressed as months of coverage of total imports of goods and services, NIR correspond to 13 months, thus recording a substantial increase versus 10 months in 2020.

Chart 2.16

Net International Reserves



Fonte: DGE e BCTL

2.4.2. Real Effective Exchange Rate Index (REER)

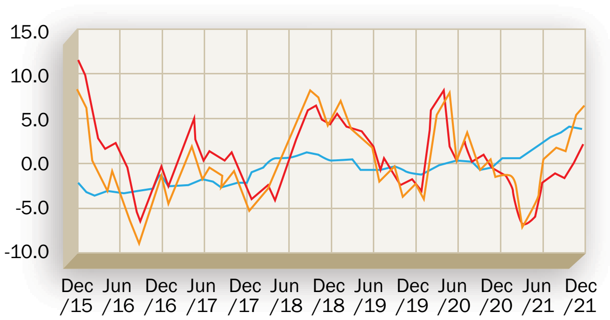
The REER appreciated 6.5% in 2021, contrary to the depreciations observed in 2020 and 2019.

The Real Effective Exchange Rate Index (REER) – an indicator used to assess the competitiveness of countries in terms of tradable products – appreciated 6.5% in 2021, inverting the real year-on-year depreciations of 2020 (-1.3%) and 2019 (-2.2%), as shown in chart 2.17a. It should also be noted that in 2021 the REER registered a notable reduction in its volatility compared to the previous year, which coincided with the most acute phase of the global pandemic crisis.

This development was mainly due to the contribution of the nominal appreciation of the dollar against the currencies of our trading partners, which is observable in the appreciation of the Nominal Effective Exchange Rate Index (NEER). The NEER recorded an annual appreciation of 2.9% in 2021, reversing the depreciations of -1.7% and -1.5%, recorded in 2020 and 2019.

Chart **2.17a**

REER Index

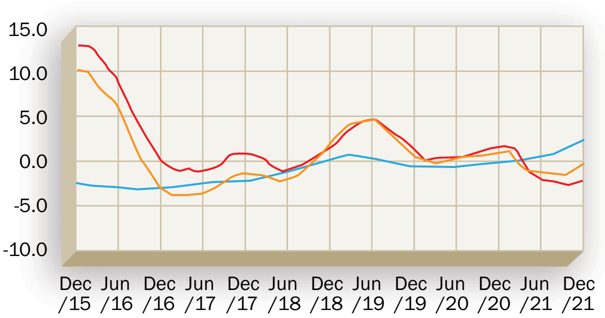


% annual change
CPI Index
NEER
REER

Source: Bloomberg and BCTL

Chart **2.17b**

REER Average Index



% annual change
CPI Index
NEER
REER

Source: Bloomberg and BCTL

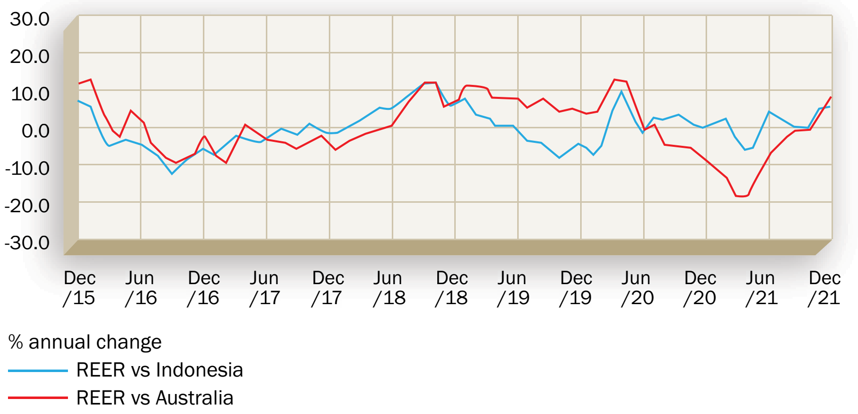
In terms of annual average changes (chart 2.17b), the REER recorded a slight depreciation at the end of the year of 0.1%, thus offsetting the upward trend recorded since 2018. This evolution was thus contrary to the year-on-year REER change in December 2021, which was due to the fact that the REER appreciation took place only in the last quarter of 2021, so that the 2021 REER average was not materially affected by this rise.

In bilateral terms, specifically versus the currencies of Indonesia and Australia, two of the country's main trading partners, the dollar appreciated notably or 5.5% against the rupiah and 8.0% against the Australian dollar. This evolution also followed the global REER trajectory in 2021, with the depreciation of the dollar in the first half of the year being followed by a continuous and intense appreciation in the last quarter.

In bilateral terms, the REER recorded depreciations against the Indonesian rupiah and the Australian dollar.

Chart **2.18**

Selected Real Exchange Rates- Indonesia and Australia



Source: Bloomberg and BCTL

Coffee exports remain the main and practically only trade export of our country. However, international coffee prices continue to be the strongest driver of these exports, as the respective export volumes are only slightly influenced by the changes in these effective exchange rates.

In bilateral terms, it should be noted that prices for goods imported from Indonesia remain much more competitive than those for similar goods from Australia, which is also confirmed by Indonesia's greater importance as a trading partner for our economy.

2.5 Balance of Payments

Timor-Leste's external current account's deficit rose further in 2021 to $248 million, rising $191 million compared to 2020. This deterioration resulted, above all, from the increase in the trade deficit ($151 million) and declining Petroleum Fund's income (PF, -$80 million). On the other hand, external oil revenues – which since the end of 2019 have been registered as goods exports in the trade account – increased $213 million in 2021, which helped to mitigate the rising current account deficit.

The current account deficit rose further in 2021, to $248 million.

The current account deficit corresponded to -15% of domestic non-oil GDP in 2021, thus returning to the average range levels recorded between 2015 and 2018. The combined balance of current and capital accounts, which determines the overall net external financing need for the economy, decreased to a negative value of -14% of GDP, compared to -3% in the previous year.

Table 2.8

Timor-Leste Balance of Payments

	In millions of USD			% GDP	
	2020	2021	% Change	2020	2021
Current Account Exclude Oil Income	**-824**	**-1,229**	**49**	**-52**	**-72**
Current Account	**-57**	**-248**	**333**	**-4**	**-15**
Goods, FOB	136	215	58	9	13
Service	-453	-683	51	-28	-40
Primary Income	297	213	-28	19	13
Secondary Income	-37	6	-117	-2	0
Capital Account	**12**	**13**	**2**	**1**	**1**
Financial Account	**272**	**194**	**-29**	**17**	**11**
Direct Investment	72	66	-8	5	4
Portfolio Investment	244	150	-38	15	9
Other Investment	-45	-23	-49	-3	-1
Errors & Omissions	**-227**	**320**	**-241**	**-14**	**19**
Grand Total	**227**	**-41**	**-118**	**14**	**-2**
Reserve Asserts (Change)	**-0.24**	**-278**	**114,433**	**0**	**-16**

Source: BCTL

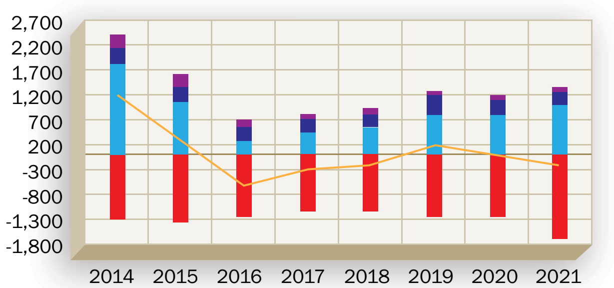
2.5.1. Current Account

Higher goods and services imports and the decrease in PF income were the factors that most contributed to the rise in the current account deficit.

As can be seen in chart 2.19a below, the current account deficit rose further in 2021, which, as mentioned above, was mainly due to higher goods and services imports and the reduction in PF's income.

Chart **2.19a**

Current Account and Components



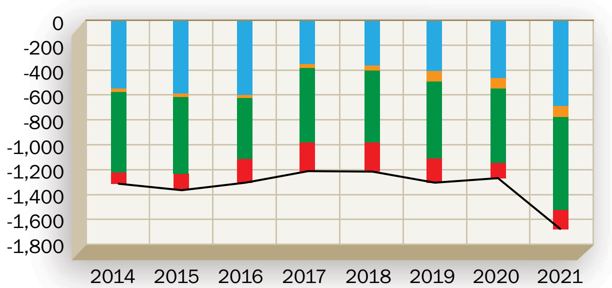
USD millions

Partner assist.
PF. Rev.
Current Account
Current Account Effective
Oil Export

Source: BCTL

Chart **2.19b**

Effective Current Account



USD millions

Secundary Income (Exc. Partner)
Goods (Exc. Oil)
Primary Income (Exc. JPDA & PF)
Service
Current Account Effective

Source: BCTL

Since Timor-Leste's current account is strongly driven by three factors that are relatively independent of domestic economic developments – oil revenues, PF revenues and international assistance – BCTL considers that the external aggregate that excludes these variables ends up allowing a better assessment of substantive economic trends in terms of our external position.

In this sense, chart 2.19b depicts the evolution of the effective current account balance, which excludes those 3 factors from the global current account balance. Specifically, PF's income is excluded from the primary income account, oil revenues are deducted from the goods trade account (or primary income until 2019) and international assistance is subtracted from the secondary income account.

As can be seen, this effective external deficit increased $248 million in 2021, which was practically explained by the substantial rise in the goods trade deficit ($79 million) and services trade deficit (-$230 million), due to the aforementioned increase in public expenditure and economic recovery recorded in 2021. It should also be noted that the adjusted primary and secondary income accounts' deficits also rose by $84 million and $44 million in 2021.

The effective current account deficit, which excludes three extraordinary factors, rose in 2021, due to higher deficits for the goods and services trade accounts.

The changes recorded in 2021 ended up reinforcing the rising current account deficit trend recorded since 2017, which has been mainly due to the continued expansion of net services imports, but also to rising goods' imports.

2.5.1.1. Goods Trade Account

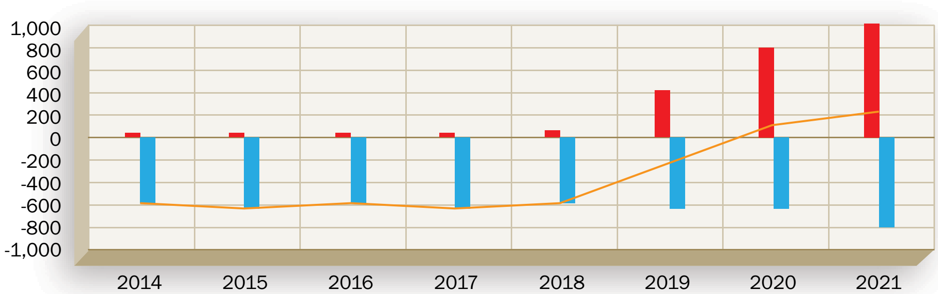
In 2021, the goods trade account, including exports of petroleum products, recorded a surplus of $215 million, which resulted in a further increase of $79 million compared to 2020. This change was mainly due to the rise in petroleum products exports (+$229 million), as goods' imports also grew $150 million.

The goods trade account has been in surplus since 2019, due the inclusion of petroleum exports since that date.

It should also be noted that the rise in exports since 2019 - due to the fact that exports of oil products are now accounted for in this sub-account instead of the primary income account - explain the substantial increase in the balance of the goods trade account since 2019.

Chart **2.20**

Goods Trade Account



In millions of USD

Export

Import

Good Account Deficit

Source: BCTL

stock-photo-east-timor-traditional-cloth-called-tais-pattern-fabrics-and-multicolor-2104697900.jpeg

However, if oil revenues were excluded from the goods trade balance, then this sub-account deficit would have recorded a higher deficit in 2021, amounting to $134 million, due to higher goods imports during the year, as the country's non-oil goods exports continue to be very small.

Export of Goods

As is well known, coffee is our biggest and almost only export. Coffee exports are characterized by a strong seasonality, being concentrated almost exclusively in the second half of each year, after the end of the harvest.

Table 2.9

Export Destinations

	Millions of USD			% Total	
	2020	2021	Annual Change %	2020	2021
USA	4	9	148%	25%	24%
Indonesia	1	2	56%	10%	6%
Portugal	0	1	-	0%	2%
Australia	1	1	-6%	7%	3%
Germany	0	5	-	0%	13%
Taiwan	0	0	-84%	2%	0%
Japan	1	1	23%	6%	3%
Other	8	20	162%	50%	50%
Total	**15**	**39**	**162%**	**100%**	**100%**

Source: DGE and BCTL calculation

The value of exported coffee increased substantially in 2021 from $24 million to $39 million[1], thus reversing the fall recorded in 2020.

The main destination of our exports during 2021 continued to be the USA, receiving 24% of total exports, amounting to $9 million. There was also a notable increase in coffee exported to non-traditional markets, with emphasis on the rise of Canada bound exports, to $7.2 million in 2021.

1 Before the corresponding adjustment in the balance of payments.

Import of Goods

According to the DGE and before the respective balance of payments' adjustments, goods imports rose $92 million in 2021 to $589 million, reversing the declines recorded in 2020 (-$38 million) and 2019 (-$8 million).

The main imported products continued to be fuel (21% of the total, compared to 22% in 2020), vehicles (9%) and cereals (9%). The rise in the imports of the most important items was partly due to the rise in prices and inflationary pressures in international markets in 2021, but also due to the recovery in domestic demand over the year.

The main imported products continued to be fuel, followed by vehicles and cereals.

Table 2.10

Imported Goods – Main Articles

	Millions of USD			% Total	
	2020	**2021**	**Annual Change %**	**2020**	**2021**
Mineral Fuel	108	124	14%	22%	21%
Vehicle	49	55	12%	10%	9%
Cereal	38	53	42%	8%	9%
Beverages	22	21	-6%	4%	4%
Electrical Machinery	29	31	8%	6%	5%
Mechanical Machinery	23	26	13%	5%	4%
Meat & Derivatives	18	25	35%	4%	4%
Cement & Substitutes	18	20	7%	4%	3%
Cereal - Refined	18	20	13%	4%	3%
Iron and Steel - articles	12	33	186%	2%	6%
Edible Oils	12	13	6%	2%	2%
Milk, Eggs & Substitutes	10	7	-27%	2%	1%
Others	140	161	15%	28%	27%
Total	**497**	**589**	**18%**	**100%**	**100%**

Source: DGE and BCTL calculation

The geographical structure of imports and their annual changes are shown in table 2.11.

Indonesia has remained the country's top trading partner, although China has continued to gradually increase its importance.

Table **2.11**

Imported Goods - Countries of Origin

	Millions of USD			% Total	
	2020	2021	Annual Change %	2020	2021
Indonesia	186	194	5%	37%	33%
China, Peoples Republic of	78	112	43%	16%	19%
Singapura	52	72	39%	10%	12%
Hong Kong	39	10	-74%	8%	2%
Vietnam	21	25	23%	4%	4%
Thailand	3	7	124%	1%	1%
Australia	11	13	17%	2%	2%
Malaysia	29	24	-18%	6%	4%
Japan	8	7	-15%	2%	1%
Brazil	9	12	29%	2%	2%
Portugal	3	4	24%	1%	1%
Korea Republic of	3	1	-65%	1%	0%
Other	54	99	82%	11%	17%
Total	**496**	**580**	**18%**	**100%**	**100%**

Source: DGE and BCTL calculation

Indonesia, which has remained the country's main trading partner, represented 33% of total imports in 2021, which resulted in a decrease compared to 37% in 2020, with imports from this country increasing 5% to $194 million. The decline in the relative importance of Indonesian imports was thus due to the stronger increase in imports from other countries.

In addition to Indonesia, imports from China and Singapore continued to rank 2nd and 3rd on this list, representing 19% and 12% of total imports in 2021. It is also worth noting that aggregate imports from other countries, which have not traditionally been our largest trading partners, have continued to rise in 2021.

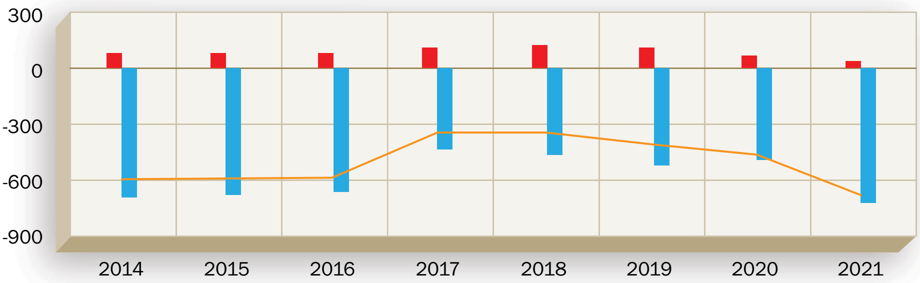
2.5.1.2. Services Trade Account

In 2021, the services trade account recorded a deficit of $683 million, which represented a substantial increase versus 2020's deficit, amounting to $230 million. As shown in chart 2.21, this change was mainly due to the increase in services imports in 2021 ($218 million), but also to lower services' exports (-$12 million) in the same year.

The services trade account recorded a higher deficit in 2021, amounting to -$683 million.

Chart **2.21**

Services Trade Account



USD millions
Export of service
Import of service
Service

Source: BCTL

The decline in services' exports was particularly driven by the continued decline in travel services exports (-$13 million). On the imports side, it is worth noting in 2021 the substantial increase in construction services' imports (+$96 million).

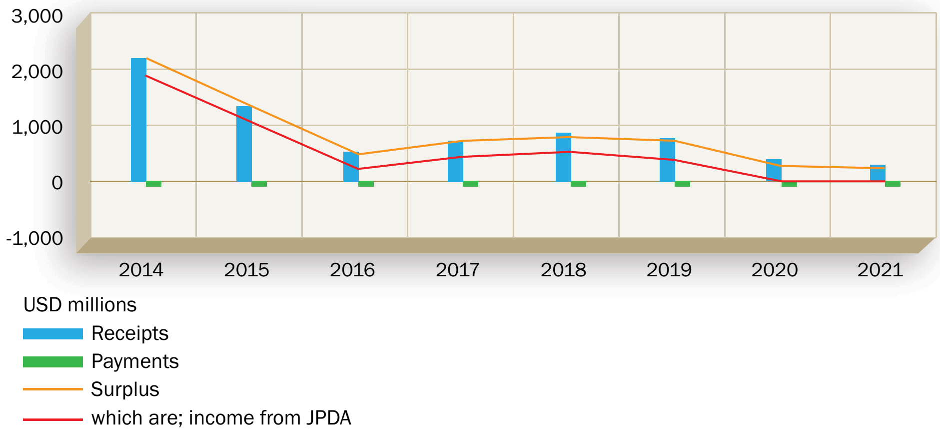
2.5.1.3. Primary Income Account

As mentioned above, oil revenues are no longer recorded in the primary income account since the end of 2019, being instead included in the goods trade account, after Timor-Leste ratified the maritime border agreement with Australia. This change explains the substantial decline in the primary income account surplus since that date.

The primary income account surplus declined in 2021, which was mainly due to the decrease in Petroleum Fund's income.

Chart **2.22**

Primary Income Account



Source: BCTL

In 2021, the primary income account surplus further declined to $213 million, which was mainly due to the decrease in the Petroleum Fund's investment income.

2.5.1.4. Secondary Income Account

Inward and outward workers' remittances registered further rises in 2021.

The secondary income account recorded a net inflow of $6.5 million in 2021, which translated into a substantial improvement compared to the negative balance of -$37 million recorded in 2020.

It should also be noted that remittances of foreign workers residing in Timor-Leste increased again by $27 million, to $318 million in 2021. On the other hand, the value of remittances received from emigrant Timorese workers also rose again by $48 million in 2021 to $171 million, contributing to partially offset the impact of higher outward remittances on the sub-account balance.

2.5.2. Financial Account

In the period under review, the financial account, which includes flows related to the economy's external financing sources, recorded a net inflow of funds of $194 million, which corresponds to a reduction compared to the $272 million in 2020.

The financial account recorded a net inflow of $194 million in 2021.

financial account continues to be mainly determined by portfolio investment flows, specifically by PF's related flows, which registered total inflows of $150 million in 2021. It should also be noted that the foreign direct investment (FDI) continued to remain close to $70 million in annual terms, which shows that FDI has remained robust when compared to post 2014 annual investment flows.

Table **2.12**

External Funding Sources

USD millions	2020	2021
Financial Account	**272**	**194**
Net Direct Investment	72	66
Portfolio Investment	244	150
PF investment in foreign	244	150
Others Investments	-45	-23

Source: BCTL

2.6 Banking System

2.6.1. Banking Assets

The banking system continued to remain stable and robust in 2021.

The banking system in Timor-Leste remained stable and solid during the period under review. The sector continues to be financed practically solely on the basis of resident deposits, lending only a fraction of these resources to companies and individuals, so that, as a whole, the banking system continues to record a robust liquidity position.

The following tables and diagrams provide a set of information about the country's banking system, which was composed, at the end of 2021, by a bank based in Timor-Leste --- the National Bank of Commerce of Timor -East --- and local branches of four important foreign banks, based in Portugal (CGD/BNU), Australia (ANZ) and Indonesia (Banco Mandiri and BRI).

Banking assets increased again by 24% in 2021, to $1,867 million.

The total assets of the banking system recorded a renewed and expressive growth of 24% to $1,867 million, which resulted in an annual increase of +$361 million and the extension of the upward trend registered since 2017. This evolution resulted, mainly, from the increase in resources invested with the BCTL (+$171 million) and other banking institutions (+$105 million), but also from the expansion of investments in securities and, to a lesser extent, bank credit.

Table 2.13

Banking System Asset

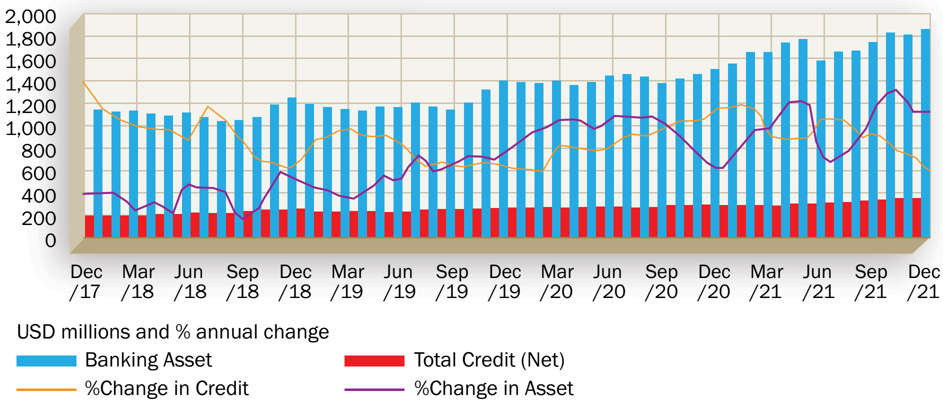
In millions of USD				Change	
	Dec-20	Dec-21	Weight (%)	%	Value
Cash & BCTL Balance	166	337	18	103	171
Placement to other Banks	1,012	1,117	60	10	105
Investment	32	98	5	208	66
Loans	278	293	16	5	15
Fixed Asset	15	16	1	3	1
Other Asset	5	6	0	41	2
Total	**1,507**	**1,867**	**100**	**24**	**361**

Source: BCTL

It is also worth noting that the growth rate of net credit has remained above or close to the growth rate of bank assets since 2017, which has resulted in a gradual and steady increase in the relative importance of credit within overall banking assets. It should be noted, however, that in 2021, contrary to what happened in the previous year, credit growth did not exceed the rate of expansion of total banking assets.

Chart **2.23**

Banking Assets Levels and Changes



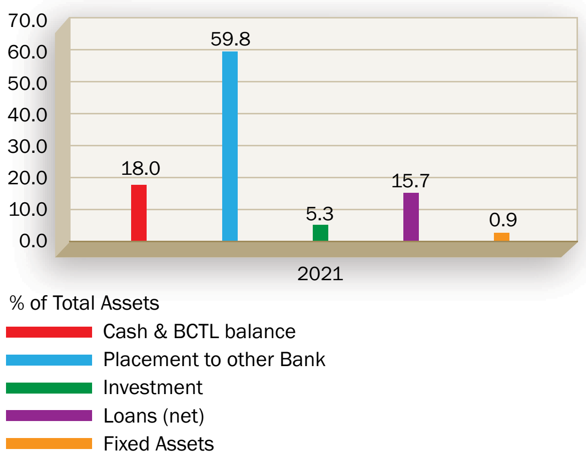
Source: BCTL

Deposits with other banking institutions, however, continue to dominate the structure of banking assets. Their weight in total assets decreased in 2021, representing 59.8% of the total at the end of the year, compared to 67.1% recorded in 2020 (charts 2.24a 2.24b). This decrease was mainly due to the increase in the weight of deposits with the BCTL.

Deposits with other banks continue to be the most important type of banking assets.

Chart **2.24a**

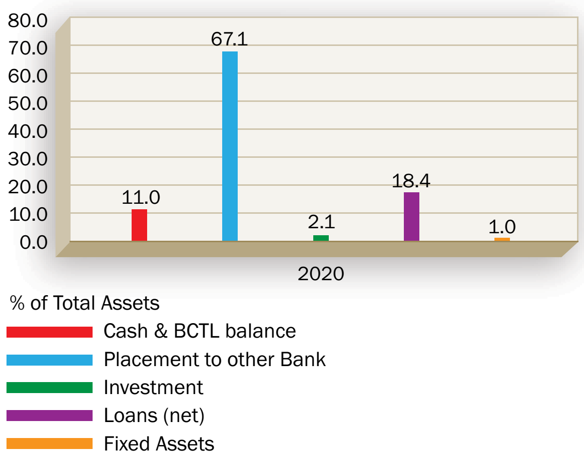
Banking Assets Composition



Source: BCTL

Chart **2.24b**

Banking Assets Composition



Source: BCTL

Credit now occupies the third position in terms of the structure of banking assets (15.7%), as the absolute increase in credit did not match the strong increase in global banking assets. The value of the banks' net loan portfolios reached $293 million at the end of 2021, having continued to grow by 5% over the year, despite the challenging macroeconomic environment.

In December of 2021, the deposits with the BCTL amounted to $337 million, which corresponds to 18% of total assets, having registered a strong and renewed expansion compared to 2020.

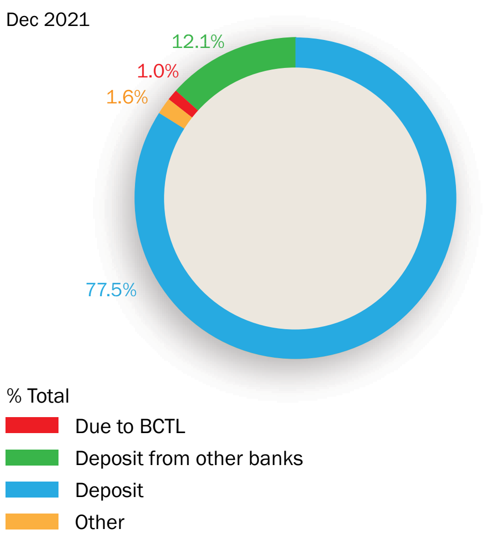
2.6.2. Banking Liabilities

Clients' deposits continue to represent the largest source of funds for credit institutions. These deposits represented 77.5% of the banks' liabilities and capital at the end of the year, having significantly increased by $340 million in 2021, while in 2020 deposits of $1,108 million represented 73.5% of liabilities and available capital.

Client deposits continue to represent the largest source of funds for commercial banks.

Chart 2.25a

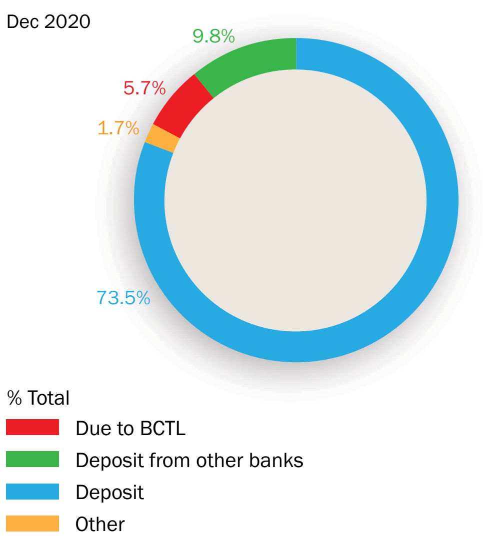
Banking Liabilities Composition



Source: BCTL

Chart 2.25b

Banking Liabilities Composition



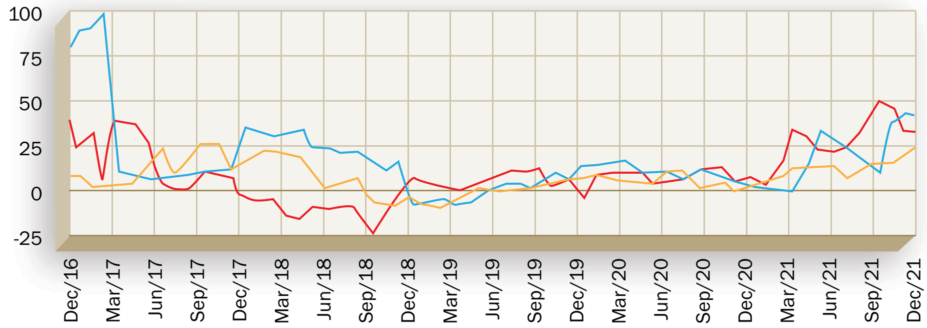
Source: BCTL

In 2021, liabilities owed to the Central Bank registered a decrease of -$68 million to 1% of resources, while deposits owed to other financial institutions increased again ($79 million), to 12.1% of consolidated liabilities. It should be noted that both categories, especially deposits received from other financial institutions, have registered large rises since 2017.

In terms of customer deposits, current/checking deposits increased $205 million in 2021, while fixed-term and savings deposits recorded increases of +$82 and +$52 million in the year, substantially reinforcing the gains seen in 2020 and 2019.

Chart **2.26**

Deposits Growth



% annual changes

Demand Deposit

Time Deposit

Saving Deposit

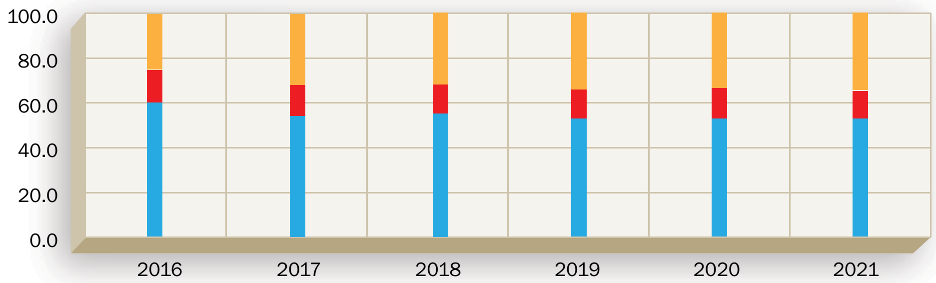
Source: BCTL

As a result of these developments, the structure of deposits registered a change in its composition, with checking and fixed-term deposits increasing in importance, in detriment of savings deposits. On-demand deposits thus continued to represent the largest component of total deposits, with 55.7% of the total. The amount invested in fixed-term deposits increased to 20.1% of the total, while savings deposits, with 23.2% of the total at the end of 2021, lost a relative importance of -2.4%, compared to their weight in 2020.

Retail deposits lost relative importance, but continue to represent the majority of banking deposits.

Chart **2.27**

Deposits Term Composition



% of Total

Demand Deposit

Time Deposit

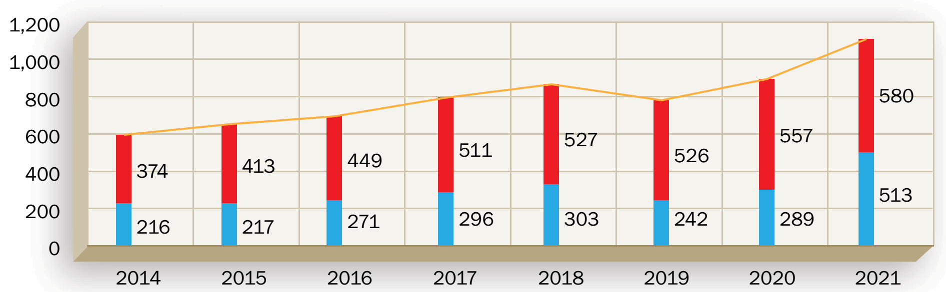
Other Deposit

Source: BCTL

In terms of deposits ownership, there was a significant change in deposits held by private residents, with individuals' deposits losing importance to 53% of total deposits and private companies deposits rising to 47% of total deposits in 2021. This development thus caused a significant increase in the weight of corporate deposits, to a level well above their relative importance over the last 10 years.

Chart **2.28**

Private Residents Deposits



In millions of USD

Particular

Private Companies

Total

Source: BCTL

As can be seen above, the significant increase in the absolute value of corporate deposits (+$224 million) explained the significant increase in their weight in 2021, as retail deposits continued to increase by $23 million in 2021.

2.6.3. Banking Profitability

Banks' gross operating income declined in 2021 to $40 million.

Banks' operating revenues consisted of interest and fees charged to their customers, amounted to a total of $42.8 million, representing a decrease of -$4.1 million compared to 2020 and slightly offsetting the upward trend recorded since the end of 2018.

As a result of their activity, the banks presented the following consolidated earnings in 2021, which are compared with the equivalent values of 2020 in the following table:

Table **2.14**

Banking System Consolidated Earnings

Items	In millions of USD 2020	In millions of USD 2021	% Annual Change	% Gross Op. Result 2020	% Gross Op. Result 2021
Net Interest	34.0	30.7	-10%	78%	77%
Commission & Other revenue Op.	12.8	12.0	-6%	29%	30%
Gross Operating Result	**43.6**	**40.2**	-8%	100%	100%
Provision & Impairments	-2.7	-2.5	-7%	-6%	-6%
Operational Expenses	-22.1	-21.9	-1%	-51%	-55%
Net Operations Income	**18.7**	**15.8**	-16%	43%	39%
Net Income	**17.1**	**14.3**	-16%	39%	36%
RoA % - Return on Assets	1.16%	0.78%	-33%		
RoE % - Return on Equity	13.1%	10.6%	-19%		

Source: BCTL

In terms of variations, we already highlighted the decrease in operating revenue, including both interest and fees. Given the simultaneous decline in interest costs and commissions paid by banks, gross operating income declined by just -$3.4 million in 2021. In line with the decline in gross income, given stable operating expenses including provisions, banks' net operating income fell to $15.8 million, from $18.7 million in 2020.

Finally, taking into account extraordinary revenues and costs as well as income taxes for the year, the system's consolidated net income decreased to $14.3 million in 2021 from $17.1 million in the previous year.

The banking system continues to present robust profitability levels, which were, however, lower than in 2020 and 2019.

This decrease explained the bulk of the contraction in return on assets (RoA) ratio in 2021 to 0.78%, compared to 1. 16% in 2020 (1.53% in 2019), as well as the reduction in the return on equity (RoE) ratio to 10.6% from 13.1%. It should be noted, however, that these two ratios decreased more than the fall in absolute net income, which was explained by the expansion of banks' assets and capital. Banks continue to maintain liquidity ratios above those required by the central bank and the existing regulatory framework.

2.6.4. Money Transfer Services

2.6.4.1. Remittances Transfers - Commercial Banks

In 2021, money transfer services, reported by commercial banks operating in Timor-Leste, recorded total number of transfers abroad of around 110 thousand, with an aggregate nominal value of $1,741 million. The number of this type of operations carried out by banks increased 20% and the total transferred amount grew substantially by 17%, compared to 2020.

The net balance of international transfers intermediated by commercial banks fel further to -$1,024 million in 2021.

On the other hand, the number of received transfer operations jumped 48% in 2021 to 84 thousand transactions, with the amount received also growing by 24% to $717 million.

As a result of these transactions, the net balance of transfers received and originated by commercial banks decreased in 2021 to -$1,024 million, compared to the negative balance of -$912 million in the previous year.

2.6.4.2. Remittances Transfers – Other Transfer Operators (OTOs)

In 2021, other money transfer operators (OTOs) recorded a total value of transfers abroad of $137 million, compared to $103 million in 2020. Transfers from abroad and intermediated by these operators amounted to $135 million, compared to $88 million in 2020. This evolution translated into a renewed improvement in the deficit balance of this type of transfers, to -$1.7 million only, compared to -$15 million in 2020.

The net balance of transfers intermediated by OTOs improved again in 2021 to -$1.7 million, compared to -$15 and -$48 million in 2020 and 2019.

Personal transfers continued to represent the largest share, both in terms of inflows and outflows, amounting to 44% and 92% of total transfers, either way. Personal transfers aggregate the ‘family’, ‘education’ and ‘savings’ justifications invoked in the transactions.

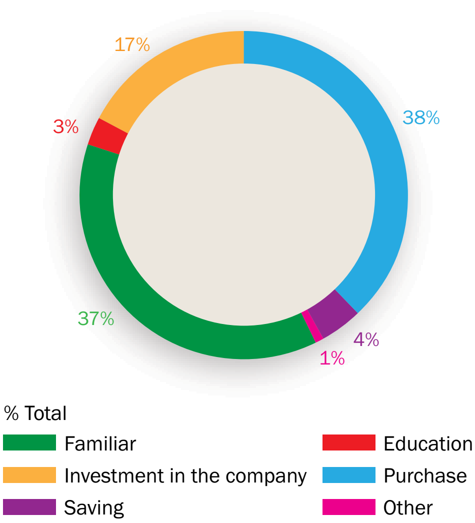
In geographic terms, most inflows continued to be originated in Europe, accounting for $74.4 million in 2021 (55% of the total), compared to $55 million in 2019, mostly explained by the remittances from Timorese workers residing and working in Europe. Remittance outflows operated by OTOs were, for the most part, sent to the Asian region ($120 million), especially Indonesia ($96.7 million, with 71% of total outflows), which continues to benefit from remittances sent by citizens Indonesians residing and working in Timor-Leste.

Remmitances inflows continue to be mainly originated in Europe, while outflows continue to be mostly sent to Asian countries and, in particular, Indonesia.

Diagrams 2.29a and 2.29b depict the composition of outward and inward transfers, according to their purpose, intermediated by other money transfer operators in 2021.

Chart **2.29a**

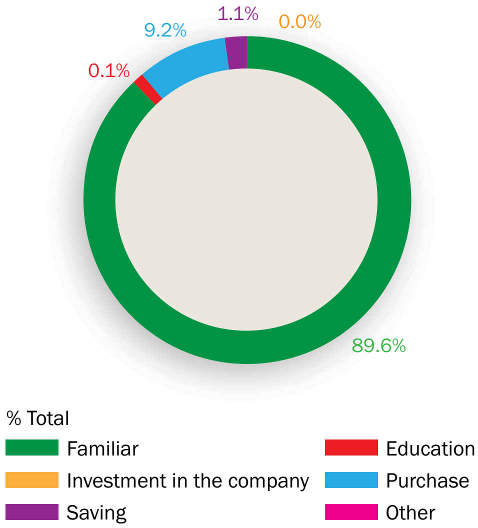
OTOs Outward Transfers, by Purpose



Source: BCTL

Chart **2.29b**

OTOs Inward Transfers, by Purpose



Source: BCTL

2.7 Relevant Socio-Economic Monitoring and Support Initiatives

This subsection describes the overall substantial damages and socio-economic impacts caused by the pandemic crisis and April 2021's massive floods, as well as the respective policy programs implemented by public authorities to address these extraordinary events and respective impacts. It also includes a detailed overview of relevant socio-economic surveys implemented by the BCTL in 2021.

2.7.1 Pandemic and 2021 Floods Socio-Economic Impact Assessment

As all countries around the world, Timor Leste's society and economy have been deeply impacted by the Covid-19 pandemic since 2020. In addition to the ongoing pandemic challenges, the country was also terribly affected in 2021 by the massive floods caused by the onset of tropical cyclone seroja, which, in addition to its terrible human and health tragedies, produced substantial and widespread damage to the country's public infrastructure, private housing and agricultural land.

Covid-19 Pandemic Impacts

Covid-19 has been a serious public health issue in the country since 2020. Up to 15 December 2022, the virus had infected 19,830 people in the country and caused 122 deaths (Table 2.15). These values amount to 9.4% and 0.1% of the total number of people tested for Covid-19. Up to December 15, 2020, there were only 31 reported cases.

Table 2.15

Number of people testing positive for Covid-19 and number of deaths

Data	Total cases	New cases	Total death	New death	Total recovered	Active cases	Total people tested
15-Dec-20	31	0	0	0	30	1	14,932
15-Jun-21	8,285	0	18	0	6,731	1,536	92,122
14-Oct-21	19,690	9	119	0	19,438	38	169,501
16-Nov-21	19,810	1	122	0	19,682	6	169,501
15-Dec-21	19,830	1	122	0	19,704	4	211,166

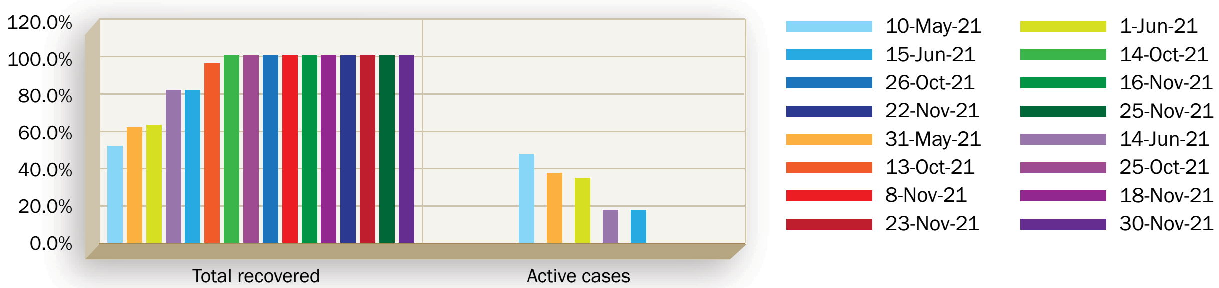
Note: Unchanged row numbers indicate that no new cases were reported.

Source: Worldometer

Up to December 15, 2021, 211,166 people were already tested for Covid-19 and of the total affected, 99.4% have recovered, which confirms the country's low covid lethality rate. As shown in chart 2.30, the percentage of people that recovered from Covid-19 during May-December 2021 increased, while the percentage of people affected by it decreased during the same period. The period between May and June corresponds to the pandemic peak in the country, up to now. We also note the low prevalence of the virus in the country at the end of 2021, as there were only 6 and 4 active cases in November and December of 2021.

Chart **2.30**

Percentage of People Affected by the Covid-19 virus



Source: Worldometer

The total number of people tested for Covid-19 rose 84% in December of 2021 to 211,166, from the 14,032 tested up to December of 2020, as shown in table 2.16.

Table **2.16**

Evolution of number of people tested for Covid-19, 15 December 2020 – 15 December 2021

14,932	92,122	169,501	211,166
15 December 2020	31 May 2021 – 15 June 2021	13 October 2021 – 15 November 2021	10 December 2021 – 17 December 2021

Source: Worldometer

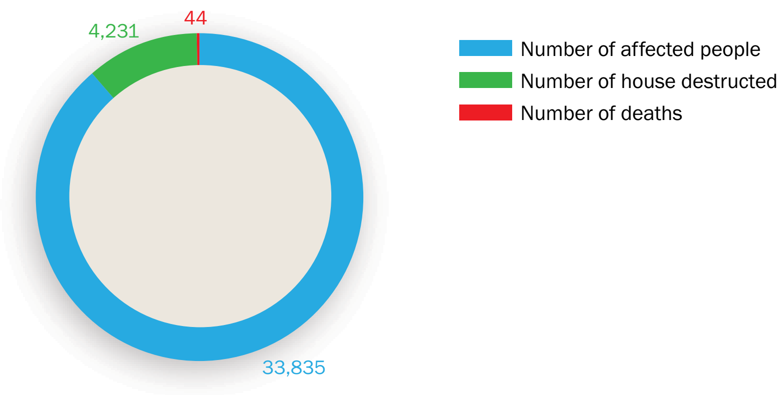
Beyond the tragic loss of lives and impact over our people's health, the pandemic has substantially weighed down domestic economic activity, due to the imposition of the state of emergency, strict confinements and sanitary enclosures. These public-health policies forced most businesses to close, with the exception of businesses that sold essential goods such as supermarkets, pharmacies and construction materials' wholesalers and retailers. Naturally, these widespread negative impacts required immediate public policy responses, which we will detail below.

April 2021 Floods Impact (tropical cyclone seroja)

In addition to the pandemic, the April of 2021's tropical cyclone seroja and subsequent mass-floods compounded the damages to our society, causing further tragic life losses, impairment to many public infrastructures and civil population's houses country wide. As shown in chart 2.31, 33,835 people were affected by the cyclone, 44 people died or went missing and 4,231 houses were destroyed by floods and landslides, due to heavy rains from March 29th to April 4th of 2021.

Chart **2.31**

Number of people affected and houses destroyed
by tropical cyclone seroja



Source: United Nations-Timor Leste and Tatoli 2022

A total of 183 public facilities were also devastated during this period, as shown in table 2.17. The Ministry of Public Works's (MOP) survey reported that 78 infrastructures were destroyed (excluding public buildings) during the tropical cyclone seroja and that a total of 183 public infrastructures and buildings in 28 locations were substantially impaired. Those facilities specifically included public roads, bridges, protection walls, electricity lines and public buildings. Additionally, a total of 2,163 hectares of agricultural lands were also affected by the floods, which further weighed down on agricultural production and food availability in the country (UNRCO, 2021). The scale of the damages required the approval of an amended public budget in May of 2021, urgently required to finance the respective relief, recovery, renovation and rebuilding activities.

Table **2.17**

Number of infrastructures destroyed during the tropical cyclone seroja

No	Infrastructure	Quantity	Unit
1	Roads	22	Roads
2	Bridges	8	Bridges
3	Protection walls	20	Walls
4	Electricity lines	28	Locations
5	Public building	105	Buildings
	Total	**183**	**Units**

Source: Timor Post, Ministry of Public Works and GMNTV

2.7.2 Public Policies Implemented to address these Situations

Beyond the enforcement of social distancing measures, mask usage, border and people movement controls and provision of free food baskets to households around the country, the Government undertook two main programs to address and mitigate the pandemic impacts: the vaccination and credit moratorium programs.

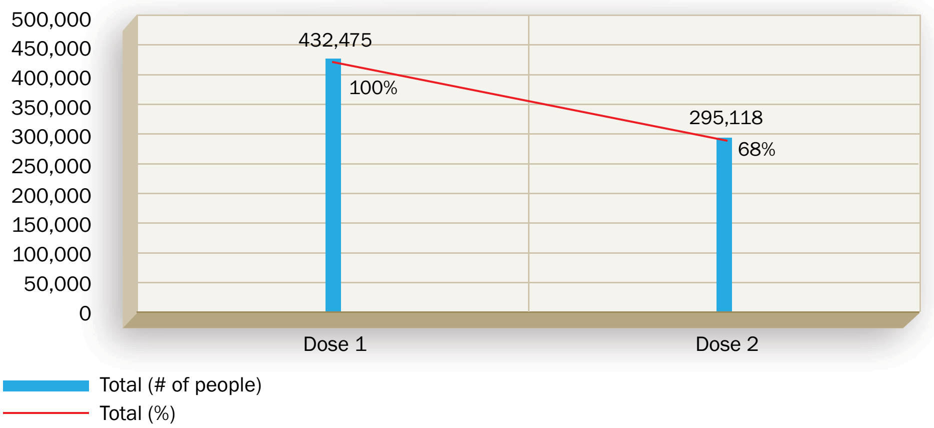
Vaccination Program

As around the world, vaccination programs have become in 2021 the principal mitigation policy to address the dissemination and lethality of the Covid-19 virus. Vaccination programs were implemented to improve people's immunity against covid-19 although they do not fully prevent the virus onset and its dissemination.

As shown in figure 2.32, as of December 2021, 432,475 people across the country were already vaccinated, while 68% of them had already received 2 full doses of either AstraZeneca, Sinovac or Pfizer's vaccines, which amounts to 22.7% of the total population.

Chart **2.32**

Total number of vaccinated people



Source: RSETL

Of those vaccinated, 40.1% reside in Dili while the rest (59.9%) live in other municipalities. We also highlight that 32% of the 432,475 vaccinated people still need to receive their second dose, to have a higher degree of immunity.

Given the ongoing public vaccination program efforts, we expect the population inoculation rate to increase above these 2021 levels, but note that this rate is still substantially below the world's top countries' vaccination rates.

Credit Moratorium Program

In order to directly support households and companies dependent on financing from commercial banks, the Government designed and implemented the credit moratorium program, aiming to extend general loans' maturities for nine months. Initially, this program was planned for three months only and was introduced in August 2020 to respond to the intitial pandemic stage. According to the program's guidelines, the State subsidizes 60% of lending interest costs to commercial banks while borrowers pay only 40% of the lending interest costs during the program's period. Borrowers will be required to pay both principal and full loan interest costs after these nine months, as mandated under the credit moratorium program.

In 2020, 4,124 people across 13 municipalities benefitted from the program, whose total amount was $0.67 million (BCTL, 2021). For 2021, no official beneficiaries' data was yet reported, as this program is expected to last for nine months, ending in March of 2022.

Public responses to April 2021 Mass-Floods

Our government and the country's development partners spent a total of $32 million in order to address the devastation caused by the massive floods' crisis (Timor Leste Government and United Nations, 2021). Of these $32 million, $8.8 million were allocated to immediate relief efforts and $23.9 million for short term recovery and rebuilding plans that directly helped 65,000 people and indirectly benefited all the flood affected population. At least 86 organizations participated in the joint relief plan which lasted for 7 months until December 2021. This set includes 9 UN agencies, 63 humanitarian partners and 14 public ministries and departments (Table 2.18).

Table **2.18**

Number of Agencies involved in the Joint Recovery Efforts

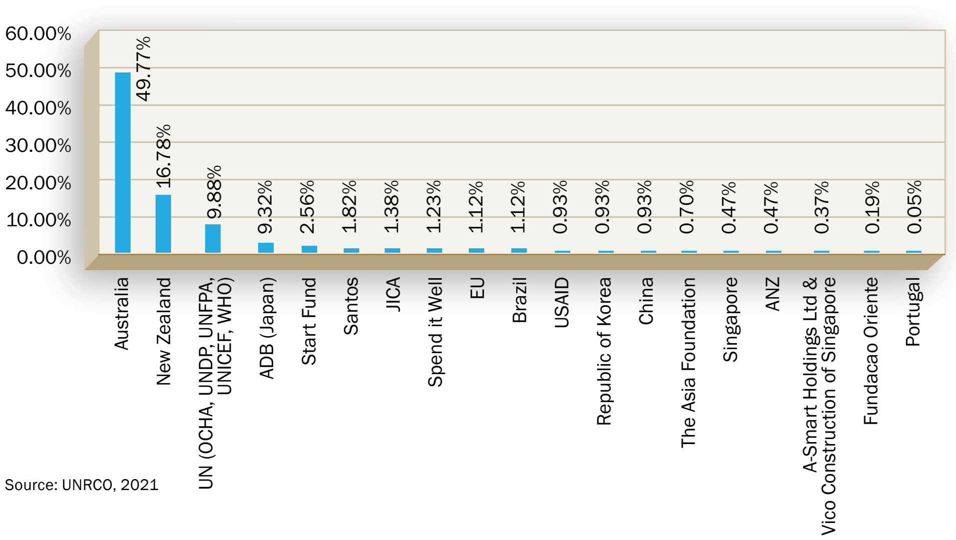
Agency	# of involved agencies
UN	9
Humanitarian partners	63
Ministries and Department	14
Total	**86**

Source: United Nations-Timor Leste in Tatoli, 2021

From the $10.7 million allocated by development partners to assist the cyclone's victims, the most part was financed by the Australian government (49.8%), New Zealand government (16.8%), United Nations (9.9%) and Asian Development Bank (9.3%). In addition, less than 3% of the total contribution came from other 15 international partners as depicted in chart 2.33. In total, 19 international organisations were involved in the flood recovery program. The State, through the Secretary of State for Civil Protection, also offered food and non-food items to 12,197 flood affected households across the 13 municipalities. These goods included 317.5 metric tons (MT) of rice, 104 MT of other edible items and more than 18 MT of non-food articles (UNRCO, 2021).

Chart **2.33**

Development Partners Contribution towards
Assisting Cyclone Seroja's Victims



Source: UNRCO, 2021

Together with the immediate and short-term recovery efforts, the government allocated a total $287.6 million to finance the overall relief and rebuilding programs, including also the public programs to mitigate the pandemic effects.

This allocation included an increase of the contingency fund's budget from $23.8 million to $65.2 million in April 2021 to mitigate the pandemic impacts in 2021 and for responding to the April 2021 cyclone seroja's damages. The covid-19 fund was mostly used to procure vaccines, protective equipment and materials for virus testing and medical treatment. Part of the covid-19 fund was also used to finance employment support programs, students' internet access, students' enrolment fees, wage supplements for front-line workers and basic consumption baskets for all deprived households in the country.

2.7.3 Economic Activity and Financial Inclusion Survey

The BCTL together with Escola Secundaria de Nossa Senhora do Carmo, Lete-Foho (ES-NOCAR), prepared and implemented a case study survey in the administrative post of Lete-Foho, municipality of Ermera, between January and June of 2021. The survey intended to collect and assess socio-economic data regarding the types and value of economic activities and financial inclusion trends for households in Lete-Foho.

Picture 2.1. Survey Socialization Activities

This activity consisted in a field survey undertaken by ES-NOCAR in the 8 sucos belonging to Lete-Foho, specifically: Dukurai, Eraulu, Goulolo, Hatugau, Haupu, Katrai-Kraik, Katrai-Leten and Lauana.

The survey showed that: the majority of these households work for the coffee industry; most of their income is used for consumption or daily needs; and that the majority of the households in Lete-Foho still does not have access to formal financial services. In addition, the long distance to financial services' access points is considered the main obstacle faced by households in that administrative post, in terms of their access to financial services.

Picture 2.2.
Survey Participants

2.7.2.1 Economic Activity Survey

The economic survey showed that 85% of households in Lete-Foho work in coffee farming, 19% are involved in business activities, 13% in horticulture, forestry or mining activities and that only 9% are involved in livestock activities.

Chart **2.34**

Lete-Foho - Economic Activities

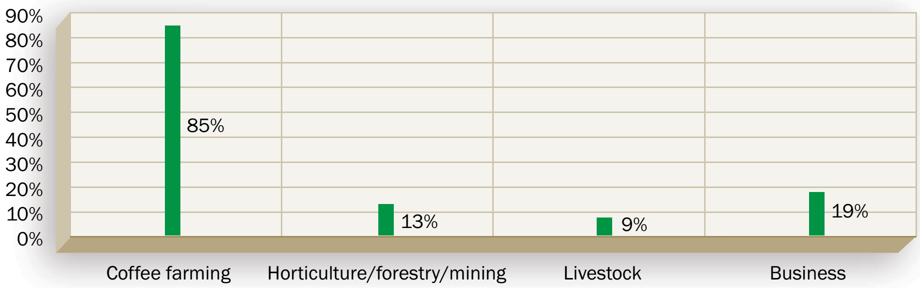
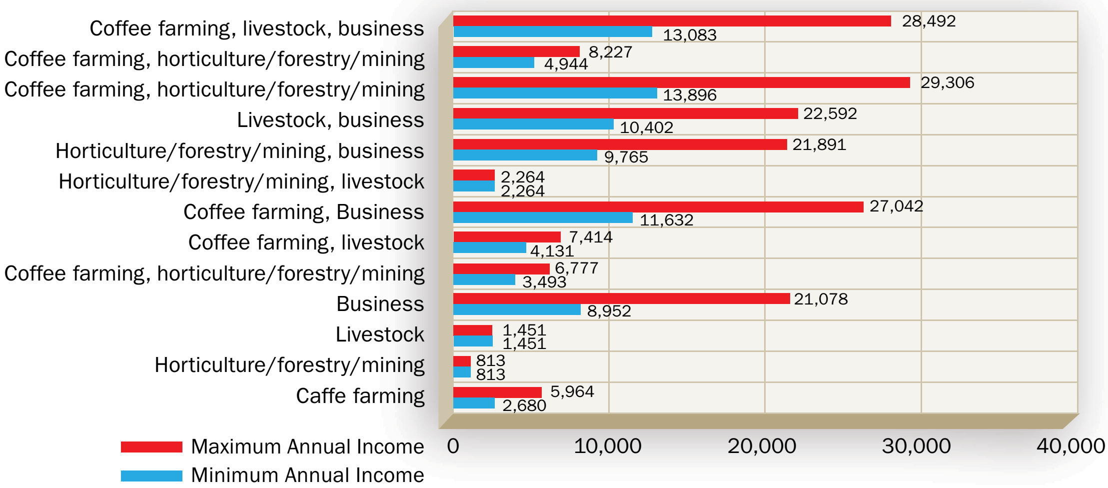


Chart 2.35 shows the minimum and maximum household income in each one of the 4 economic activities, considering also a business or livestock segmentation.

Chart **2.35**

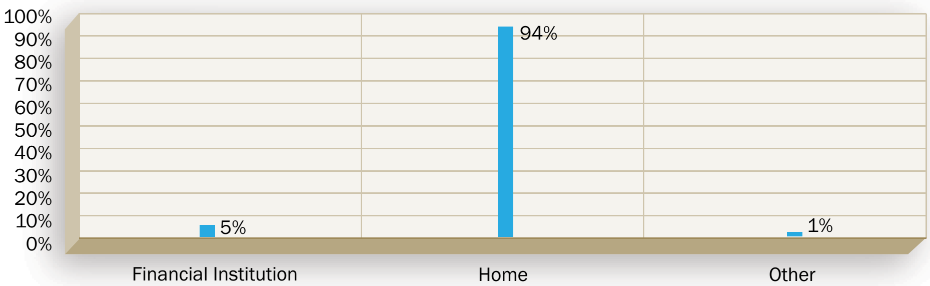
Lete-Foho Income From Economic Activities



The survey results showed that 94% of households hold their cash balances at home, 5% in financial institutions and 1% stated that their income was kept with the cooperatives to which they belong or the CCT.

Chart **2.36**

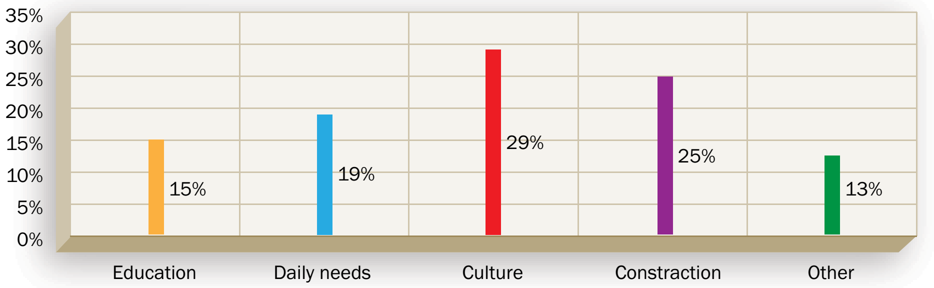
Income Savings



In terms of household spending needs, the survey results showed that: 29% of net income is used for cultural activities, 25% for housing (house rehabilitation or construction), 19% used to meet daily needs, 15% for education and 13% used for other expenses or investments. These other expenses category includes the purchase of vehicles or motorcycles, livestock, retail business inventory, loan repayments and external agricultural workers wages, mostly for coffee production activities.

Chart **2.37**

Lete-Foho Spending Needs

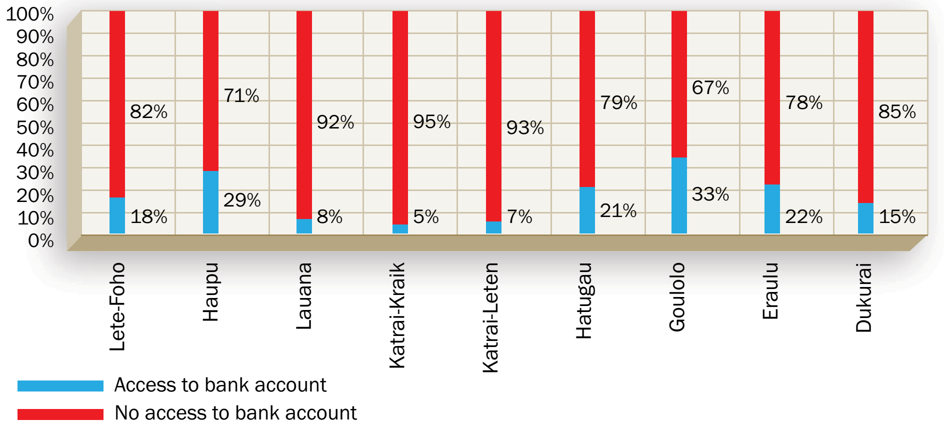


2.7.2.1 Financial Inclusion Survey

This simultaneous survey concluded that 82% of households in Lete-Foho do not yet have a bank account, while only 18% of them reported having a bank account. In terms of considered Sucos in Lete-Foho, we obtained the following bank account access percentages: in suco Goulolo 33% of households have a bank account, in suco Houpu with 29%, Eraulo with 22%, Hatugau with 21%, Dukurai with 15%, Lauana with 8%. Katrai-Leten with 7% and finally Katrai-Kraik with only 5%.

Chart **2.38**

Lete-Foho Bank Accounts Access



For those who already have a bank account, 55% are BNCTL clients, 25% are Moris Rasik Financial Service clients, 8% are BNU and Mandiri clients respectively, 4% are KIF clients and BRI only has 2% of clients in Lete-Foho.

Of those households which have a bank account, 49% reported that it is mostly used to get acess to bank credit, 19% reported that their bank account is used for savings, 17% informed that their bank accounts are intended to receive their wages and 15% stated that their bank accounts serve to receive benefits or subsidies.

Chart **2.39a**

Lete-Foho FIs Bank Accounts Shares

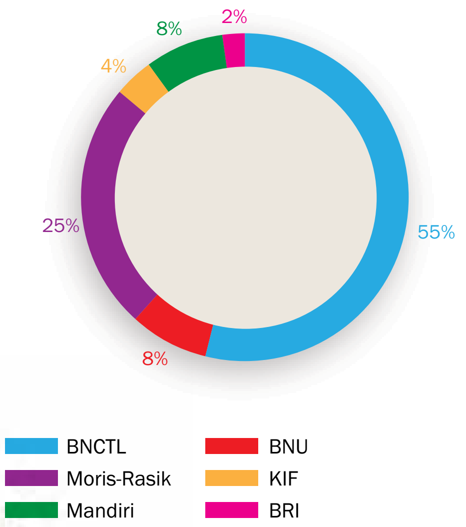
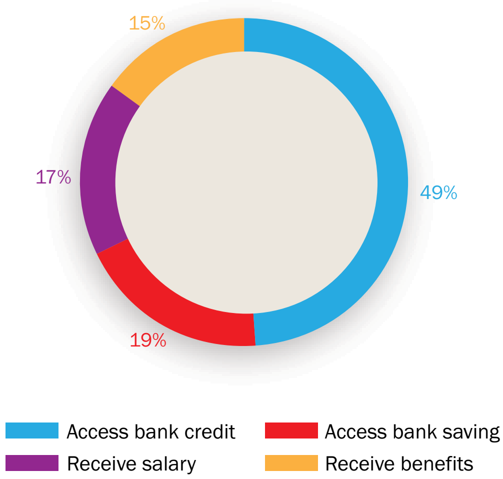
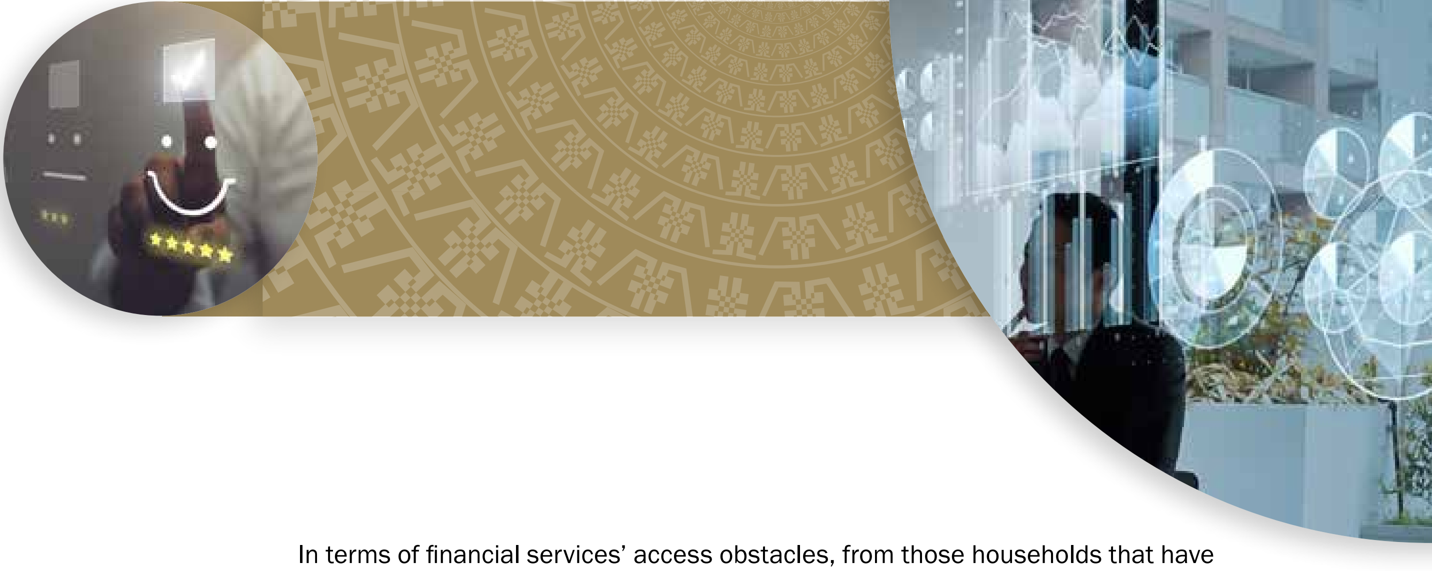


Chart **2.39b**

Bank Accounts Uses

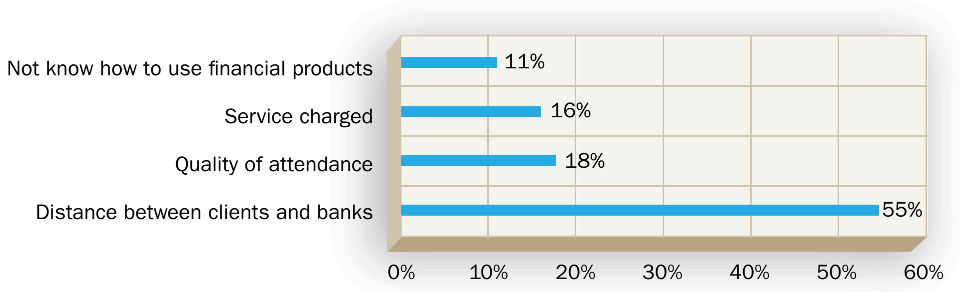




In terms of financial services' access obstacles, from those households that have already accessed to financial services or that already have a bank account: 55% reported that the main issue in accessing financial services was the material distance to financial institutions' (FI) agencies; 18% were mostly affected by poor FI's service, 16% were unsatisfied with FI's services costs and 11% reported that they do not yet know how to use existing financial products, such as ATMs.

Chart **2.40**

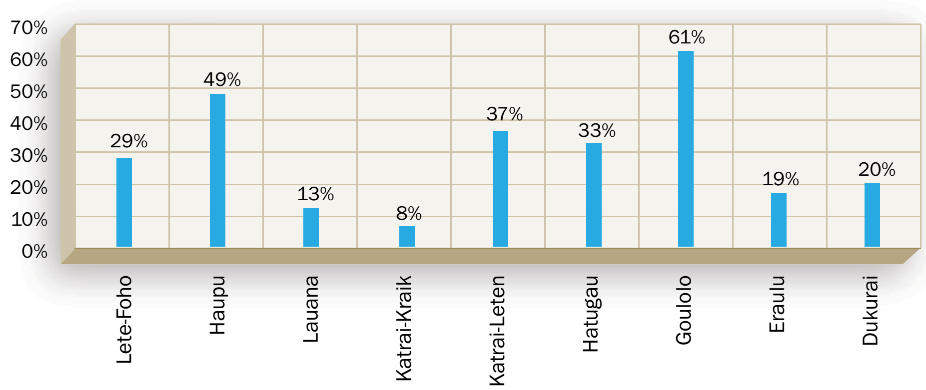
Lete-Foho - Obstacles to Financial Services Access



The survey further showed that 29% of households have already had access to formal bank credit or to private informal loans. From these households, 66% obtained bank credit in financial institutions, 25% had borrowed loans from other households or private businesses and 9% reported having had access to NGOs' credit facilities.

Chart **2.41**

Lete-Foho - Access to Bank Credit or Informal Loans

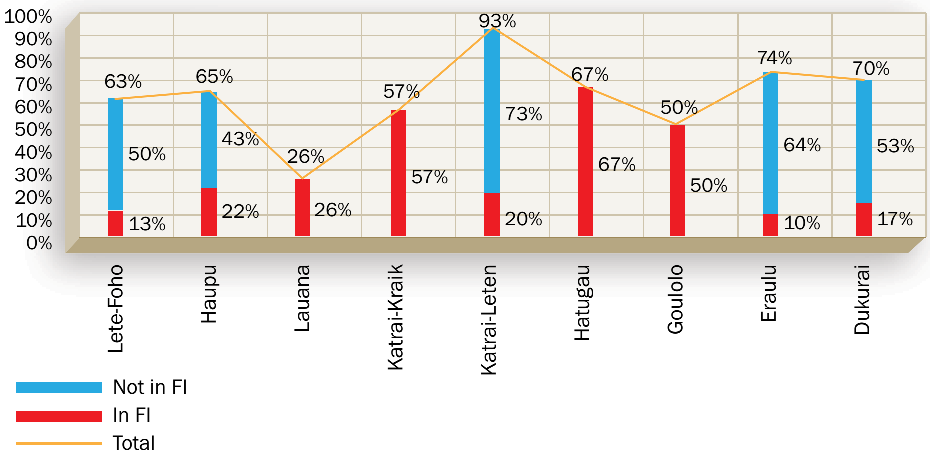


In terms of actual needs, 63% of households reported having the need to access bank credit or private loans. Of these, 50% stated that they intend to access credit through FIs and 13% reported that they do not wish to access FIs loans.

In terms of Sucos, 93% of Katrai-Leten's households have the need to access credit or loans, while 73% intend to acess credit through financial institutions. In the meanwhile, in sucos Goulolo, Hatugau and Lauana, all the households that will need loans intend to do so through FIs credit (details in chart 2.42).

Chart **2.42**

Lete-Foho - Future Credit Financing Intentions



Of those interested in accessing bank credit or loans, 78% report that they will use this for daily consumption, 55% inform that they will use it for investment, 7% plan to use it to cover working capital needs and 1% state that it will used for undertaking cultural activities.

Chart **2.43**

Lete-Foho - Future Financing Usage Intentions