

Timor-Leste and the Pandemic
– Economic Resilience and
the Global Challenges

Annual Report **2020**

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Introduction


The annual report of the Banco Central de Timor-Leste (BCTL) summarizes and presents the main national and international economic developments in 2020, as well as the activities carried out by the BCTL throughout the year. The Organic Law of the Central Bank establishes and provides the duties and framework for the Bank's annual reporting to the President of the Republic, the National Parliament, the Prime Minister and the Minister of Finance. The report consists of two major sections, specifically, the assessment of relevant domestic and international economic developments, including also near term projection scenarios and the presentation of the Bank's activity report, which comprises as well the relevant financial information.

The year of 2020 was undeniably and naturally impacted by the global pandemic crisis and its highly negative disruptions, which forced the widespread adoption of public health protection measures and highly restrictive constraints on social and economic activity worldwide. Given the current importance and impacts of the pandemic crisis, this report again devotes an important part of its attention to developments in this context, highlighting 2020's impacts, as well as the relief packages and economic support policies implemented at the national and international levels, including also the trajectories and consequences expected for the coming years.

The world economy experienced a recession in 2020 for the first time since the 2008/2009 crisis, with world GDP falling -3%, according to the latest estimates. This was the most pronounced annual drop in the past 30 years, which naturally reflects the devastating, global and synchronized impact of the pandemic crisis. However, the substantial and broad economic policy effort, at the monetary and budgetary levels, actively contributed to stabilize the respective impacts and to sustain a marked recovery of the world economy in the second half of the year, as the pandemic was reasonably contained in global terms. At the end of 2020, despite a further increase in infection levels in many countries, but especially in Europe and the Americas, the economic outlook was already much more optimistic, due to the approval of effective vaccines and the stabilization of the global commercial and financial markets.

In terms of prospects for 2021 and 2022, a substantial recovery is expected for the world economy and virtually all regional and national economies. The IMF specifically predicts that the world economy will grow 5.5% in 2021 and 4.2% in 2022. This optimism relies on the expectation of gradual and extensive implementation of vaccination programs in the main global economies, which, benefiting from the current





huge monetary and budgetary stimulus, and the return to “normality” and the opening of a set of economic sectors, should bring about a remarkable recovery in historical terms.


In terms of inflationary trends, 2020 was marked by the easing of inflationary pressures worldwide, in line with the general fall in economic activity. For 2021 and 2022, it is generally expected a pickup and recovery towards moderate inflation levels, for most world economies.

In the global monetary and bond markets, there was a marked reduction in interest rates across practically all geographies and maturities, in line with the substantial expansion of the monetary stimulus of major central banks. In the foreign exchange markets, the dollar ended up registering a slight depreciation against the main international currencies in 2020, resulting also from the reduction of the dollar’s interest rate premium. Despite the high volatility and pessimism prevailing in the first half of the year, the global equity and commodity markets ended up accumulating substantial gains in 2020, benefiting from the success of macroeconomic stabilization policies, the substantial reduction in investor pessimism and the beginning of worldwide vaccination programs.

The solid performance of Petroleum Fund’s investments in shares and bonds continued to benefit from the renewed rise in global share prices and the generalized fall in interest rates in 2020. However, the materialization and reinforcement of a historically high valuation scenario, both in the stock and bond markets in 2020, will naturally limit the Fund’s future performance over the coming years.

In the Asian economic space, in line with the global trajectory, the macroeconomic background also deteriorated. Despite the declines in activity, the Asian economies were still able to present a relatively robust performance, when compared to the rest of the world economies, which was due to the generic regional success in containing the virus and to the rapid and synchronized recovery of the productive processes and activity in the region. In terms of prospects, in line with global optimism, the IMF expects a substantial and widespread recovery in economic activity in Asian countries in 2021 and 2022, predicting that the region will continue to lead the world in terms of economic growth. As a result of these developments, there was a mixed evolution of Asian currencies against the dollar, which underpinned foreign exchange market stability and contributed to continue to anchor and limit inflation pressures for Timor Leste.

At the national level, Timor-Leste’s economy again recorded a recession in 2020, with the BCTL estimating that non-oil GDP contracted -3%. This contraction seems to have been more due to the elongation of political uncertainty and the late approval of the 2020 State Budget, which resulted in the annual reduction of public expenditure, but also to the adverse impact of the pandemic and the respective lockdown and social interaction limitations. With this performance in 2020, the domestic economy ended a very anaemic economic growth cycle in the last 4 years, as real GDP was, at the end of 2020, still below its value in 2016. For 2021, the BCTL expects a strong and substantial recovery in growth, a year in which GDP is expected to expand 7.7%. This expectation heavily relies on the extraordinary growth of public expenditure forecasted for 2021, as the approved 2021 State Budget results in a 21% increase in budgeted expenditure, but also because we expect a marked pickup in expenditure execution rates in that year, compared to 2020.



In terms of fiscal policy, 2020 was marked by a reduction in public expenditure and in the public deficit, which was mostly due to the decrease in public investment and the fall in expenditure's execution rates, especially in goods and services and transfers. However, a substantial increase in expenditure is expected for 2021, due to the substantial expansion of expenditure budgeted for 2021 and the recovery of the budgetary execution rates.

Domestic inflationary pressures have remained controlled and low throughout 2019 and 2020, with annual inflation rates remaining close to 1%. The BCTL continues to expect the persistence of this low and stable inflation scenario in 2021 and 2022, which is based primarily on the assumptions of the stability of the dollar against most Asian currencies and a moderate inflation in our trading partners' economies in the same period.


Although Timor-Leste continues to record a current account deficit, **the gradual and continued reduction in the deficit in the goods and services' commercial accounts has resulted in the contraction of the Country's effective external deficit**. However, the progressive and substantial reduction in oil revenues over the recent years has been the major driver of the simultaneous and symmetric increase of the global external deficit.

Despite these macroeconomic challenges, **the financial sector continued to be highly dynamic in terms of the growth of its activity, assets and deposited funds, thus remaining stable and solid**, as is visible in the maintenance of ample liquidity levels and low levels of credit at risk. It is illustrative to note that, even in the

difficult year of 2020, bank credit continued to grow significantly, as well as deposits and operating revenues of banks operating in the Country.

It should also be noted that during the year 2020, the BCTL implemented several relevant initiatives within the scope of monitoring the economic situation at the national level and mitigating the economic impacts of the pandemic crisis. In this context, we highlight the design and implementation of the credit moratorium program and loan subsidization scheme for national families and companies, as well as the undertaking of surveys on families and informal businesses, with the aim of assessing the respective economic impacts during the lockdown and post-lockdown period.

In terms of activities, the Bank remains actively committed to promoting monetary and financial stability and the respective inclusion, having developed initiatives that are particularly relevant in this context. One of the main activities developed by BCTL in 2020 was the pilot program "Campo Digital", which aims to promote knowledge and the widespread use of new technological tools - mobile phones, electronic money wallets, ATMs and PoS - in rural populations financial activities. Within our private sector development initiatives, we continued to promote basic accounting training for national Micro, Small and Medium Enterprises, in collaboration with IADE and CCI-TL, to strengthen their management capacity and access to bank funding. Also in 2020, BCTL signed the second memorandum of understanding with the Ministries of Education and the Ministry of Youth and Sports to continue to improve the implementation, monitoring and evaluation of the Financial Literacy Program in schools in the country. The celebration of the National



Savings Day's 6th anniversary was held on November 29 in Maubissi, in the municipality of Ainaro. During the event, the winners of the composition contest were announced, which was participated by many national students from the third cycle of basic education and secondary education levels.

In the context of the **national payment system**, the Central Bank continued to make every effort to maintain sufficient liquidity reserves at all times to meet the needs for cash payments and to ensure the modernization and full functioning of the national payment and interbank settlement system, the R-Timor. The main development registered in 2020 in this area was the implementation of additional functionalities in the R-TIMOR system to serve the needs of the Ministry of Finance and its sub-accounts, allowing its users to have access to historical reports, prepare their treasury management operations and project cash flows in real time. The P24 system, which already integrates the networks of all banks and an electronic money wallet system, already allows the payment of public fees, including taxes, and the transfer of funds between individuals and companies, through the use of the national ATM network. In addition, the BCTL's project to interconnect the P24 network with an Indonesian payment network is already under implementation, which will allow domestic bank card holders to use them in banks in Indonesia.

In 2020 financial year, the **BCTL's financial statements** recorded a net profit of \$1.5 million, mostly due to interest received from the management of the Bank's own reserve assets and fee income, due to the Petroleum Fund's operational management.

The BCTL continued to work closely with the Ministry of Finance as well as with the Petroleum Fund's Investment Advisory Committee to maintain an active and informed position within the ongoing discussions on the investment strategy of the Petroleum Fund and its rigorous implementation.

The Bank continues to maintain its focus on further advancing staff capacities, allocating significant financial resources for this purpose. This investment has been reflected positively on the quality of work in the institution, which is recognized as one of the best in the country.

Finally, as has been usual and as BCTL's Governor, I would like to thank all the employees of the Central Bank, as well as our partners and interlocutors at various times, which continued to actively contribute to the consolidation of the Central Bank and the economic development of our country.



Abraão de Vasconcelos

Governor

Dili, 27 April 2021



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Chapter 1

International Economic Developments

This chapter describes and assesses the major global economic developments in 2020, covering also the economies of Timor-Leste's main trading partners, together with the more relevant international trends in global financial markets for our economy.

Based on this assessment, the chapter further looks into external developments' spillovers to our domestic economy, detailing the influences observed in 2020 and the prospects expected from 2021 to 2022. This analysis is based mainly on the most recent IMF's estimates and perspectives, presented in its "World Economic Outlook Update", released in January of 2021.

In terms of the more worthy developments described in this chapter, we highlight the following:

- 2020 was undeniably and naturally impacted by the global pandemic crisis and its highly negative disruptions, which forced the widespread adoption of public health protection measures and highly restrictive constraints on social and economic activity worldwide.
- The world economy thus experienced a recession in 2020 for the first time since the 2008/2009 crisis, with world GDP falling -3%, according to the latest estimates. This was the most pronounced annual drop in the past 30 years, which naturally reflects the devastating, global and synchronized impact of the pandemic crisis.
- However, the substantial and broad economic policy efforts, at the monetary and budgetary levels, actively contributed to stabilize the respective impacts and to sustain a marked recovery of the world economy in the second half of the year, as the pandemic was reasonably contained in global terms.
- At the end of 2020, despite a further increase in infection levels in many countries, but especially in Europe and the Americas, the economic outlook was already much more optimistic, due to the approval of effective vaccines and the stabilization of the global commercial and financial markets, due to the large scale of economic support packages.
- In terms of prospects for 2021 and 2022, a substantial recovery is expected for the world economy and virtually all regional and national economies. The IMF specifically predicts that the world economy will grow 5.5% in 2021 and 4.2% in 2022.
- This optimism relies on the expectation of gradual and extensive implementation of vaccination programs in the main global economies, which, benefiting from the current huge monetary and budgetary stimulus, and the return to “normality” and the opening of a set of economic sectors, should bring about a remarkable recovery in historical terms.
- In terms of prices trends, 2020 was marked by the easing of inflationary pressures worldwide, in line with the general fall in economic activity. For 2021 and 2022, it is generally expected a pickup and recovery towards moderate inflation levels, for most world economies.

- In the Asian economic space, in line with the global trajectory, the macroeconomic background also deteriorated. Despite the declines in activity, the Asian economies were still able to present a relatively robust performance, when compared to the rest of the world economies, which was due to the generic regional success in containing the virus and to the rapid and synchronized recovery of the productive processes and activity in the region.
- In terms of prospects, in line with global optimism, the IMF expects a substantial and widespread recovery in economic activity in Asian countries in 2021 and 2022, predicting that the region will continue to lead the world in terms of economic growth.
- In the global monetary and bond markets, there was a significant reduction in interest rates across practically all geographies and maturities, in line with the substantial expansion of the monetary stimulus of major central banks.
- In the foreign exchange markets, the dollar ended up registering a slight depreciation against the main international currencies in 2020, resulting also from the reduction of the dollar's interest rate premium. Asian currencies also recorded mixed changes versus the dollar, which underpinned foreign exchange market stability and contributed to continue to anchor and stabilize inflation pressures in Timor-Leste.
- Despite the high volatility and pessimism prevailing in the first half of the year, the global equity and commodity markets ended up accumulating substantial gains in 2020, benefiting from the success of macroeconomic stabilization policies, the substantial reduction in investor pessimism and the beginning of worldwide vaccination programs.
- The solid performance of Petroleum Fund's investments in shares and bonds continued to benefit from the renewed rise in global share prices and the generalized fall in interest rates in 2020. However, the materialization and reinforcement of a historically high valuation scenario, both in global stock and bond markets in 2020, will naturally limit the Fund's future performance over the coming years.

1.1. Major World Economies

1.1.1. Economic Growth in Major World Economies

In 2020, the world economy experienced a recession for the first time since the 2008/2009 crisis, with the world's gross domestic product (GDP) falling -3%, an estimate still subject to revision. This appears to be the most pronounced annual decline in the world economy in the past 30 years, which naturally reflects the devastating, global and synchronized impact of the pandemic crisis in 2020.

As is widely known, the imposition of stringent public health controls and generally very strict lockdowns, together with the materialization of several waves of virus propagation in 2020, has led to a brutal paralysis of most productive sectors in the vast majority of economies for a significant period in 2020. However, the substantial and broad economic policy efforts, at the monetary and budgetary levels, actively contributed to stabilize the respective impacts and to sustain a conspicuous global economic recovery in the second half of the year, as the pandemic was reasonably contained around the world.

At the end of 2020, despite a further increase in infection levels in most countries, but especially in Europe and the Americas, the economic outlook was already much more optimistic than in the first half of the year, due to the approval of vaccines for the virus and the stabilization of the global commercial and financial markets, on the back of the large-scale economic support programs.

The world economy has experienced a recession in 2020 for the first time since the 2008/2009 crisis, due to the global pandemic.

Despite the pessimism of the first half, the strong economic recovery in the second semester stabilized global commercial and financial markets, on the back of extraordinary policy support.



Chart 1.1

GDP Growth - 3 Major Blocs

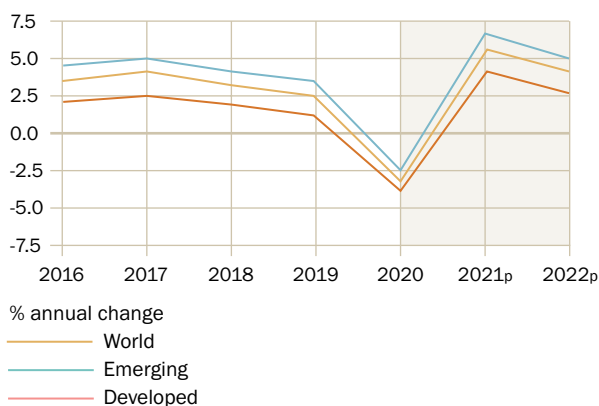
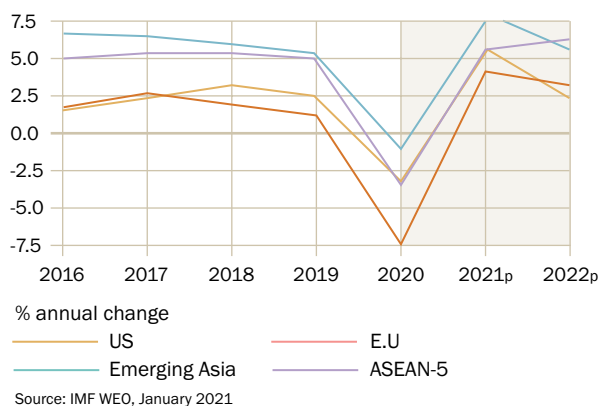


Chart 1.2

GDP Growth - Selected Regions





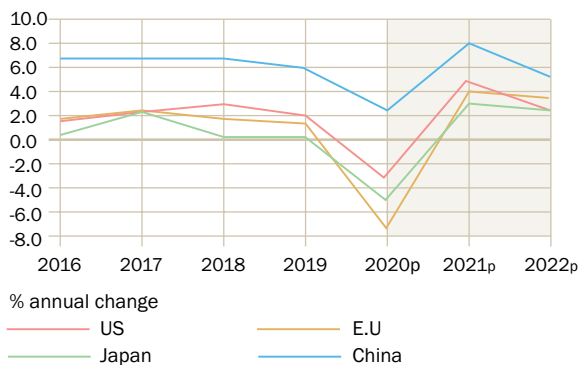
In terms of economic blocs, it should be noted that, according to IMF estimates, the developed economies bloc is expected to experience a recession in 2020 (-4.9%) worse than what is expected for the developing economies bloc (-2.4%). This performance seems to be due not only to the greater capacity to “freeze” the developed economies, with access to greater financial resources, but also to the difficulties of these countries in sustainably and permanently containing infection cases’ growth throughout the year. According to the IMF forecasts, it should also be noted that the aggregate GDP value of the developed bloc should only return to its 2019 levels in 2022, but developing countries’ GDP should recover fully already in 2021.

In regional terms, the resilient economic performance of Asian and Pacific economies, relative to global peers, is also noteworthy, with Emerging Asia’s and the 5 largest ASEAN economies’ GDP decreasing only -1.1% and -3.7% in 2020. In the Atlantic axis, it should be noted that the impact of the pandemic is expected to be much more profound in the Euro-area than in the US economy, with the first’s GDP falling -7.2% in 2020, compared to the -3.4% contraction expected for the US.

Charts 1.3.1 and 1.3.2 further compare the 4 largest world economies’ economic performance, which also allows us to confirm the outperformance of Asian economies - Japan and China - and the highest impact on the Eurozone economy.

Chart 1.3.1

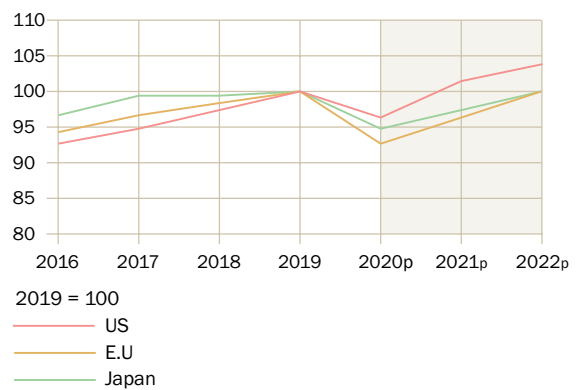
GDP Growth - 4 Major Blocs



Source: IMF WEO, January 2021

Chart 1.3.2

GDP Levels - 4 Major Economies



Source: IMF WEO, January 2021

In terms of prospects for 2021 and 2022, the IMF generally expects a substantial recovery in the world economy and in virtually all regional and national economies. In particular, the IMF forecasts that the world economy will grow 5.5% in 2021 and 4.2% in 2022, so that the world GDP should already exceed its level of 2019 by the end of 2021. In addition, the Fund also expects the recovery in developing economies to be more robust than that of the developed country bloc.

The IMF global prospects for 2021 and 2022 are now quite optimistic, consisting in a widespread and synchronized recovery for practically all economies worldwide.

This optimism is naturally based on the expectation of a gradual and extensive implementation of vaccination programs in the main world economies, which, benefiting from the current highly stimulative stance in monetary and budgetary policies worldwide, the return to “normality” and the reopening of a number economic sectors will all lend support to a remarkable recovery, in historical terms.

However, despite the optimism regarding the next 2 years, it is worth noting that the world economy will continue to face remarkable uncertainties during the period, due not only to the degree of success achieved by vaccination programs in eliminating the risk of the virus, but also to the challenges inherent to higher public and private debts and budget deficits in most economies and the gradual need to adjust the fiscal and monetary policy stimulus, without compromising the respective economic recovery process.

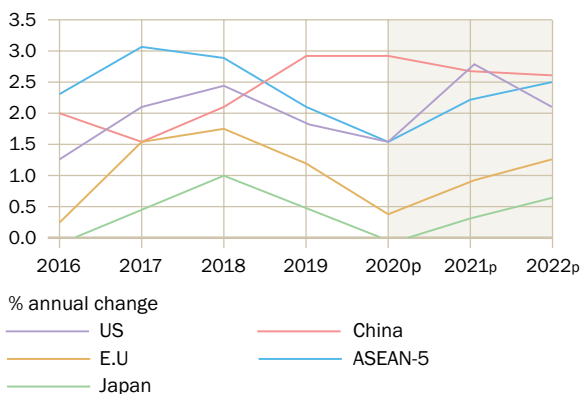
The control of the virus and the success of the global vaccination programs are crucial to support the materialization of IMF’s recovery anticipated for 2021 and 2022.

1.1.2. Inflation in Major World Economies

Due to the sharp declines in economic activity, inflationary pressures fell in most of the world’s economies.

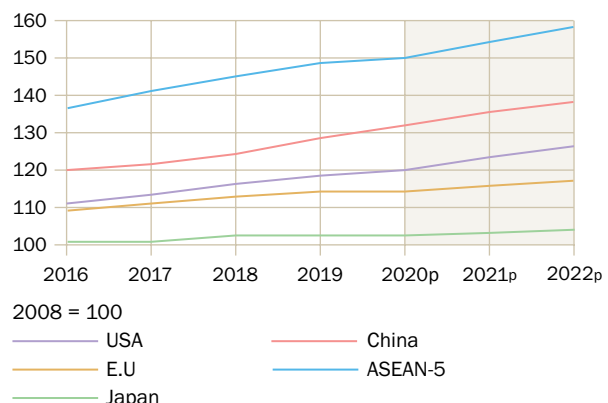
Inflationary pressures eased again in 2020

Chart 1.4.1
Inflation Rates - 5 Selected Economies



Source: IMF WEO, January 2021

Chart 1.4.2
Price Levels - 5 Selected Economies



Source: IMF WEO, January 2021



With the exception of China, the main world economies registered average inflation rates below 2% in 2020, which extended the disinflation already registered in 2019. It should also be noted that the US closed the year with an average inflation rate of 1.5%, compared to 1.8% in 2019, below the FED's inflation target of 2%. On their side, the Eurozone and Japan registered Inflation rates of 0.9% and -0.1% in 2020, values well below the objectives of respective monetary authorities.

.... due to the substantial declines in economic activity levels, recorded in practically all economies.

Naturally, the renewed easing of inflationary pressures stemmed from the economic impact of recessions caused by the pandemic crisis, which led to an increase in unemployment in most economies and a fall in activity levels below their respective potential levels. The need to inject substantial monetary stimulus to stabilize their economies, also allowed by the fall in inflationary pressures below policy objectives, has led most central banks to revisit a cycle of lower interest rates in economies with interest rates still in positive ground, and also (re)implement extraordinary and large-scale financial assets purchase programs.

However, inflationary pressures are expected to accelerate moderately into 2021/2022, in line with the global economic recovery.

For 2021 and 2022, the IMF foresees a gradual rise in average inflation rates, supported by the aforementioned economic recovery expected for most world economies. However, forecasts for 2021/2022 point only to a gradual and slow-paced rise in inflation to levels close to the 2% benchmark, relevantly targeted by the majority of central banks.

It should also be noted that the IMF continues to expect that the Eurozone and Japanese economies will continue to experience lower inflation rates than those of the USA in the next biennium, which should continue to undershoot the mentioned 2% level.

This is due to the existence of greater availability in terms of resources (un) employed in these economies, which will continue to operate below their potential employment levels. It will therefore be necessary for both economies to continue to grow robustly for several consecutive years in order to effectively close these gaps in the use of economic resources and substantial inflationary pressures are again materialized.

1.1.3. Global Commodity Markets

With the exception of oil, the prices of the most relevant commodities recorded widespread increases in 2020. Despite the high volatility registered during the year and the sharp simultaneous drop in prices in the first half, the prices of these goods rose significantly in the second semester, sustained by the stabilization and strong recovery of economies, especially in Asian economies, which are today, marginally, the most relevant economies in defining price trends in these markets.

With the exception of oil, and despite substantial volatility, commodity prices recorded substantial gains in 2020.

Alongside this effect, the injection of significant monetary stimulus, together with the depreciation of the dollar, especially at the end of 2020 - which usually moves inversely to commodities' prices - seems to have also reinforced the upward trend in raw materials' prices.

The continued upturn in commodities prices thus resulted in the extension of the recovery recorded since the prices of most of these inputs registered minimum levels in 2015/2016. For the economies that export them, typically developing countries, this upturn in international prices represented a positive development, which served to offset the substantial impact arising from the drop in global demand in the first half of the year.

Chart 1.5.1
Major Commodities Prices - levels

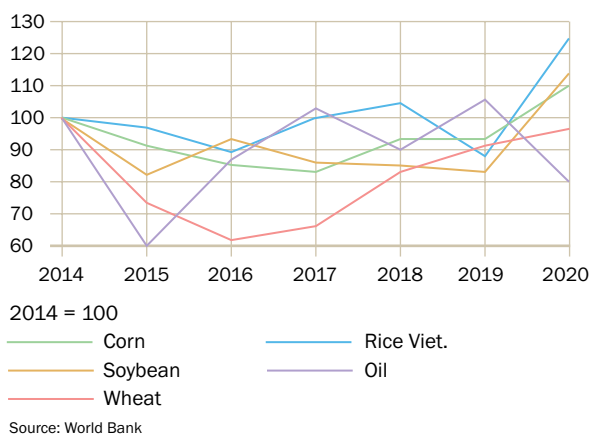
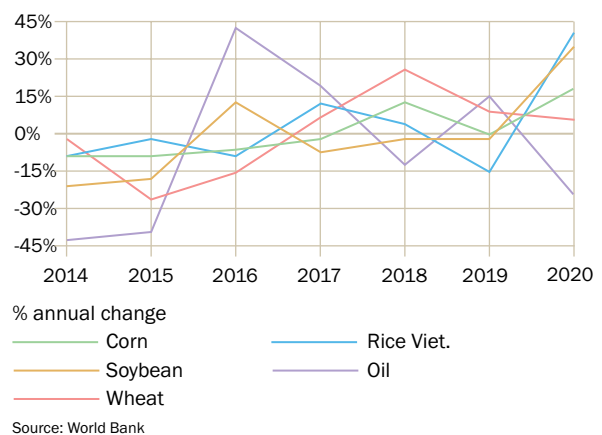


Chart 1.5.2
Major Commodities Prices - % change



It should also be noted that oil was the only relevant global commodity that registered a drop in price in 2020. Even so, despite the substantial falls recorded in the first half, its price managed to mitigate these losses, especially after the recovery observed in the last quarter of the year.

The fall in oil prices was mostly due to the decline in global demand, but also to the continued materialization of the global energetic model transition process.

The fall in oil prices was mainly due to the sharp decline in global economic activity, but it also resulted from the continued reinforcement of trends and policies adopted within the global energy transition process, towards the development of renewable energy sources and reduction of CO2 emission levels. This medium-term development gained new momentum in 2020 and will be a major constraint in terms of future demand for oil and refined products over the next coming years.

1.1.4. Major Global Financial Markets

In terms of financial markets, we begin by analyzing trends across major bond markets, particularly those for Treasury bonds, which allows us to assess trends and changes, as well as expectations, of monetary policies, economic growth and inflationary pressures of the various world economies.

Due to the mentioned implementation of highly stimulative monetary programs to stabilize world economies, interest rates in practically all markets and maturities registered a wide and generalized decline throughout 2020.

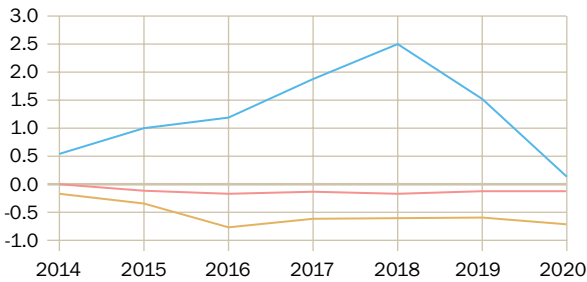
2-year interest rates have fallen significantly in the US, in line with the Fed's substantial monetary stimulus

Naturally, 2-year interest rates, more sensitive to changes in monetary policy stances recorded significant decreases in 2020, especially in the US market. In economies where the level of short-term interest rates was already close to the null threshold (0%), this decline was not so evident, as central banks continue to avoid implementing negative interest rates.



Chart 1.6

2-Years Interest Rates %

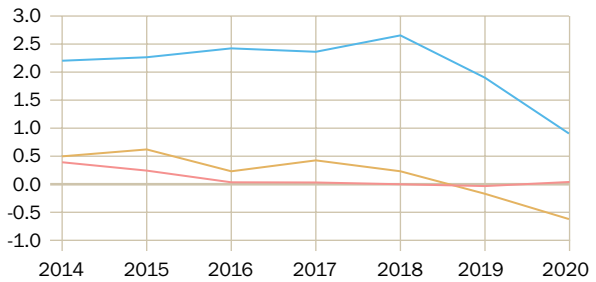


— US
— EU-Germany
— Japan

Source: Bloomberg

Chart 1.7

10-Years Interest Rates %



— US
— EU-Germany
— Japan

Source: Bloomberg

In the case of the US, the fall in 2 years interest rates was substantial, from 1.57% at the end of 2019, to just 0.12% at the end of 2020. The amplitude of this movement reflects the degree and extent of the FED's intervention program. However, we note that this movement, in fact, reinforced the process of falling interest rates that began earlier in 2019, with the FED implementing multiple interest rate cuts in that year, following the growing concerns over the unfavourable economic impacts from increasing trade tensions with China.

In the case of 10-year interest rates, there was also a significant decrease compared to 2019 levels, simultaneously explained by the pandemic crisis and the respective monetary intervention. Although long-term interest rates are, in general, more stable than short-term interest rates, they also registered significant declines. Specifically, the US 10-year rate fell -1% to 0.92% at the end of 2020, while the German benchmark sank to an even more negative level of -0.57%, compared to -0.19% in 2019.

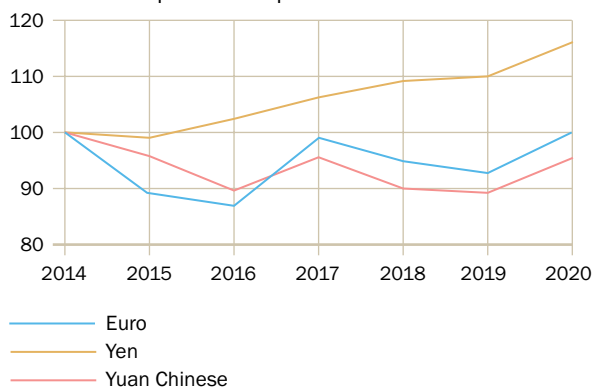
... as well as longer interest rates, which also dropped substantially in 2020.

Even so, in both 2 and 10 years, interest rates in the USA remained at levels higher than those observed in the Eurozone and Japan, similarly to what has been observed since 2018, which seems to result from the perpetuation of the perspective that the US economy is expected to continue to outperform its peers over the next few years.

Naturally, developments in bond markets, together with the economic trends discussed above, also determined a large part of the developments registered in major and global foreign exchange and equity markets worldwide.

Chart 1.8

Major Currencies vs USD: 2014=100;
Decline corresponds to depreciation

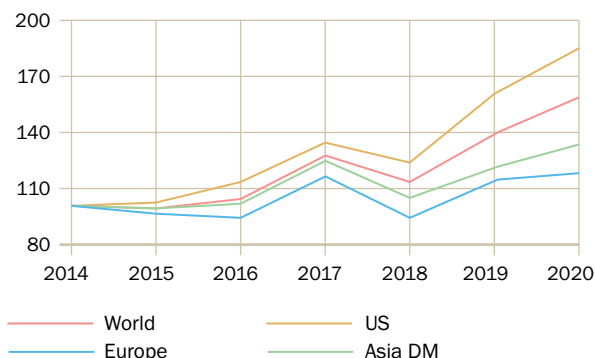


Source: Google Finance

The decline in interest rates contributed to the depreciation of the dollar against the main global currencies.

Chart 1.9

Mercados Accionistas, Preços em USD
2014=100



Source: Google Finance

Global equity markets again registered notable gains in 2020, extending the upward trend recorded since 2009.

In foreign exchange markets, the dollar depreciated against most foreign exchange currencies in 2020. This movement, despite the substantial appreciation recorded in the first semester, resulted mainly from the significant fall in FED's interest rates in 2020, which substantially reduced the dollar's positive interest rate premium to other global currencies. The stabilization of global economies in the second half of 2020, the widespread return of global investors' risk appetite and rising political instability in the US have also helped to consolidate the depreciation of the dollar in the later part of the year, as the USD is typically considered a safe/reserve asset in international terms.

In equity markets, after the sharp falls recorded until April, triggered by the initial stage of the global economic crisis and widespread pessimism, share prices worldwide staged a remarkable and extraordinary recovery from April onwards. As shown in chart 1.9, global equity markets continued to accumulate gains in 2020, with the US market once again outperforming its global peers.

The US equity market - represented here by the ETF (Exchange Traded Fund) which replicates the S&P 500 index - registered gains of 16% in 2020, which is notable given the disturbances and serious impacts of the pandemic crisis throughout the year. These gains have been supported by the optimism regarding the IT and revolutionary technologies sectors, which represents a growing and more significant portion of this market, when compared to other global equity markets peers. However, the substantive contribution of expansionary fiscal policy and extraordinary liquidity injections in the US and worldwide, were also crucial in driving the robust gains accumulated in 2020.

The vitality of equity markets in 2020 thus extended the long and rising share prices trajectory observed since 2009, resulting in a general increase in the degree of overvaluation of share prices versus the respective corporate earnings, to levels well above their historical averages.

In addition to the US, the global equity market recorded gains of 14% in 2020, with the Asian market - including developed countries only - adding 10%. The European market, as has been typical in recent years, underperformed its peers, having risen only 3% in the year.

In summary, the US equity market has thus continued to far outperform the rest of global markets over the past 8 years, having continued to benefit from the superior dynamism of its economy, despite the recent chaotic and disturbing political episodes.

Taking into account the remarkable performance of this market over the last 11 years, which resulted in the substantial appreciation of share prices in relation to corporate earnings, it should be noted that the uncertainty regarding the substantial recovery of the American economy in 2021/2022, or of the respective corporate profits, represents today, more than ever, given the challenges of overcoming the global pandemic, a significant risk for this stock market.

Many equity markets, and specifically the US, today register record valuation levels, with the ratio of prices to corporate earnings being well above its historical average.



1.2. Asian Economic Developments

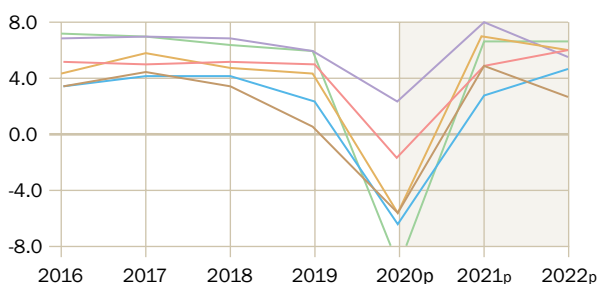
After summarizing the broad global macroeconomic panorama in 2020, it is important to detail the assessment of developments across the Asian space, in particular ASEAN, as the main economic partners of Timor-Leste are located in this region. Our analysis focuses on ASEAN's five major economies and China, whose economy has increasingly more global and regional relevance and clout. In turn, from these six economies, Indonesia continues to be Timor-Leste's main commercial partner, which justifies some further specific comments on its economic developments.

With the exception of China, the largest Asian economies also recorded recessions in 2020, in line with the global trend.

With the exception of China, all these economies registered declines in their respective levels of economic activity in 2020, due to the global pandemic crisis. Despite these falls, Asian economies displayed great resiliency and robustness, especially when compared to other global economies, which was due to the general success in containing the virus and the rapid and synchronized recovery of production processes and economic activity across the region and countries.

Chart 1.10.a

GDP Growth Rates



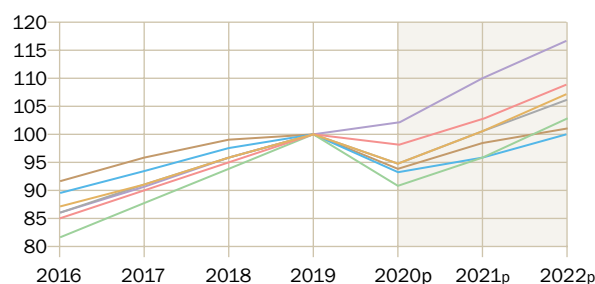
% Annual Change



Source: IMF January 2021 WEO

Chart 1.10.b

GDP Levels



2019 = 100



Source: IMF January 2021 WEO

However, economic activity recovery was more robust and faster in Asia than in the rest of the world, supported also by the general success in containing the virus in most countries across the region.

Extraordinarily, the Chinese economy still managed to record a 2.3% growth in 2020, without resorting to the implementation of large fiscal and monetary stimulus packages, and after having successfully suppressed the first wave of the virus in the country. Even so, this 2% expansion represents a substantial slowdown compared to the Chinese experience of the past 20 years. Of the ASEAN economies, Indonesia was the country whose GDP contracted to a lesser extent (-1.9%) and the Philippines the country that experienced the greatest recession (-9.6%).



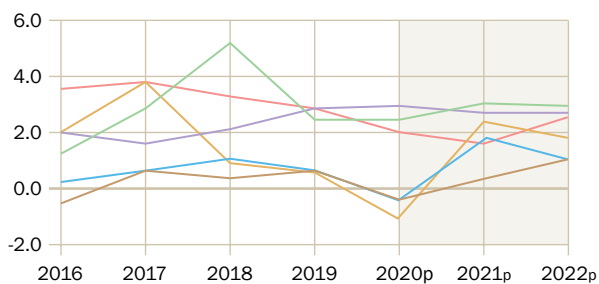
In terms of prospects, in line with its global optimism, the IMF expects a substantial and widespread recovery in economic activity in the region in 2021 and 2022, predicting that the region will continue to lead the world in terms of economic growth. It should be noted in this regard that the IMF expects the Indonesian and Malaysian economies to regain the GDP levels registered in 2019 as early as 2021, but the rest of the economies should only completely recover from the pandemic crisis in 2022.

According to the same forecasts, at the end of 2022, if the expected growth trajectories are materialized, Singapore and Thailand will be the countries that will have registered the lowest growth in the biennium, which seems to be due to their greater dependence on international trade and greater current level of development, in the case of Singapore, and the importance and less rapid recovery of the tourism sector, in the case of Thailand.

Also in line with the global trend, inflation slowed in 2020 in the region. The average inflation rate of the 6 Asian countries considered fell to 0.9% in 2020, from 1.7% in 2019, with 3 economies - Singapore, Malaysia and Thailand - registering negative inflation rates in the year.

Chart 1.11.a

Inflation Rates



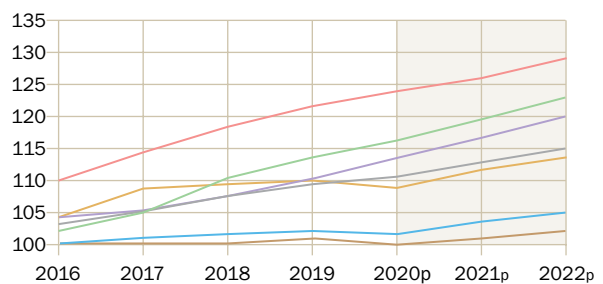
% annual change

- China
- Malaysia
- Philippines
- Singapore
- Thailand
- Indonesia

Source: IMF January 2021 WEO

Chart 1.11.b

Price Levels



2014 = 100

- China
- Singapore
- Malaysia
- Thailand
- Philippines
- Indonesia
- Average

Source: IMF January 2021 WEO

In terms of prospects for 2021 and 2022, the IMF expects a generic pickup in inflation in the region, consistent with the expected economic upturn. However, inflation forecasts for the next biennium only anticipate a return to average rates recorded in recent years, which corresponds to a moderate inflation pressures scenario.

Regional currencies remained, on average, stable against the dollar in 2020

The slowdown in inflation across these economies and the general stability of regional currencies values against the dollar, explained, in turn, the reduction in regional inflationary pressures, when measured in US dollars.

The developments recorded for these relevant macroeconomic indicators - economic activity and inflation - helps to explain, as is also explained, by movements registered in the 2 main financial markets, the foreign exchange and bond markets.

In foreign exchange markets, despite the high volatility recorded during the year, 2020 ended up being characterized by an 'average' stability of regional exchange rates against the US dollar, with the slight depreciations of Indonesia, Singapore and Malaysia's currencies being offset by the appreciation of the Chinese, Thai and Filipino currencies.

Chart 1.12
Exchange Rates vs USD

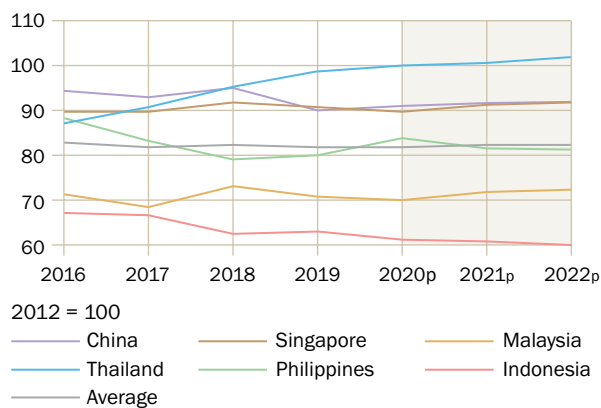
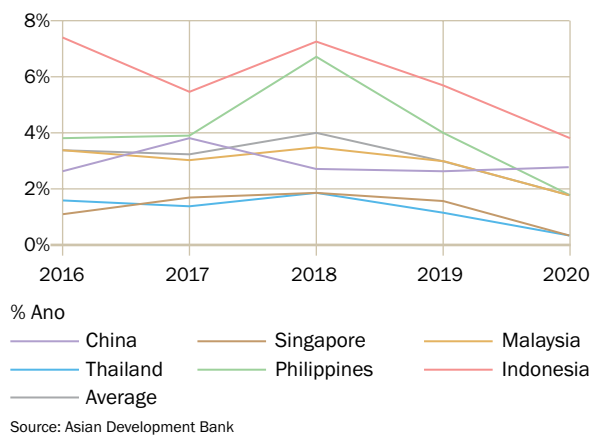


Chart 1.13
2-Years Interest Rates



The IMF further expects that most regional currencies will remain relatively stable against the dollar between 2021 and 2022, which will contribute, if this scenario materializes, to stabilize inflationary pressures in the region and, above all, to stabilize the prices of goods imported by Timor-Leste. It should be noted, however, that this scenario of exchange rate stability may be materially affected within the course of the current pandemic process, especially if its economic impacts come to be more profound and lasting than those predicted by the IMF.

Regional interest rates, represented here by 2-year bond yields, registered notable decreases in 2020, in line with developments in the main world bond markets, and extending the downward trend started in 2019.

... with regional 2-year interest rates declining, in line with the movement registered in the dollar market.

Average 2-year interest rates across the 6 economies dropped from 3% in 2019 to 1.8% at the end of 2020. With the exception of Chinese interest rates, which ended up rising in 2020 compared to the previous year, the fall in 2-year interest rates in these economies tracked the cuts in reference rates implemented by the various central banks as well as lower economic performance prospects. However, despite having tracked dollar market movements, regional interest rates remain well above those recorded in most developed markets, which reflects the region's better relative economic performance, but also their lower room for manoeuvre in terms of monetary and exchange rate policies.

With regard to external accounts, we can conclude that most of our trading-partners continued to maintain substantial external surpluses in 2020, with the exception of Indonesia, which recorded a deficit in its current account, amounting to -1.3% of GDP in 2020. It should also be noted that, although the region's average external surplus was reduced in 2020, the various economies managed to maintain positive external surpluses, despite the deep disruptions to economic activity and trade worldwide.

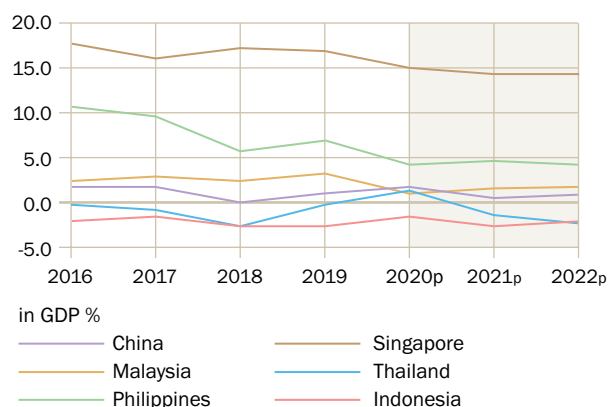
The external accounts remained in surplus, with the exception of Indonesia, despite the global economic turmoil.

For 2021 and 2022, the IMF continues to foresee a slight and gradual decline in net external surpluses for most countries in the region, but for the Philippines and Indonesia, the IMF expects them to continue to record external deficits in the same period.



Chart 1.14

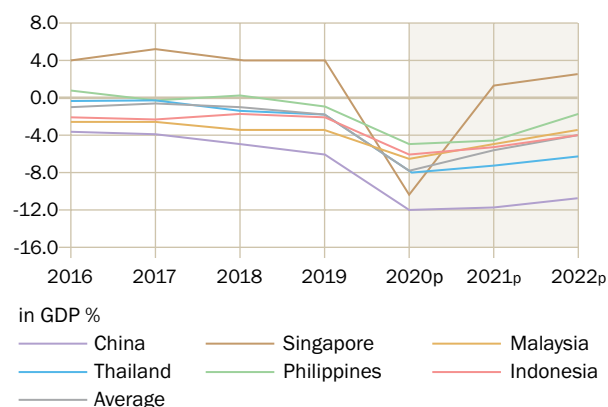
External Current Account Balances



Source: IMF January 2021 WEO

Chart 1.15

Fiscal Balances



Source: IMF January 2021 WEO

In 2020 there was a sharp deterioration in Asian fiscal deficits, due to the fall in economic activity and implementation of substantial policy support packages.

In terms of fiscal positions, 2020 was inevitably marked by the substantial deterioration in public deficits in the various Asian economies, due to the substantial declines in economic activity and mobilization of substantial amounts to support the respective populations and economic sectors affected by the pandemic. The case of Singapore is paradigmatic and illustrative, due to the strong deterioration of its fiscal balance in 2020, a fact that was also possible given the previous existence of substantial reserves and assets in this country.

For 2021 and 2022, the IMF expects a gradual reduction of budget deficits in the region, with the economy of Singapore expected to return to a surplus position in 2021. However, as is the case for most world economies, budgetary balances are expected to remain in negative territory over the next few years, given the need to continue supporting the economic recovery process and only gradually remove the current level of stimulus.

In short, in line with the global trend, the macroeconomic situation in Asia deteriorated in 2020, but, despite the substantial challenges faced during the year, the region managed to display great resiliency and robustness, especially when compared to the economic performance of its other global peers.

It is also worth highlighting the relative stability of regional currencies against the dollar and the maintenance of external surpluses in most economies, despite the simultaneous and significant deterioration in public deficits in the region, which continue to provide a substantial adjustment margin for Asian economies.

Note, however, that this general diagnostic does not fully apply to the Indonesian economy, Timor-Leste's largest trading partner. Despite experiencing remarkable levels of exchange rate volatility, alongside the mentioned above macroeconomic imbalances - the maintenance of the external deficit and deterioration of its budget deficit - the Indonesian economy managed to be the regional economy that lost less ground in 2020 after China, as its GDP declined only -1.9% this year.

Although inflationary pressures in local currency remained under control, the greater sensitivity of this economy to developments regarding the international demand and prices of many mineral and raw food materials, resulted in a slight depreciation of the rupiah in 2020 of -3.4%, thus returning to the falls recorded in 2018 and between 2013 and 2015. Naturally, the macroeconomic and financial performance of our neighbouring country will continue to be widely influenced by future developments across global commodity markets and the world economy. In parallel, the fact that Indonesia was one of the few Asian countries to fail to adequately contain the prevalence of the virus in its territory, also reinforces the susceptibilities of the respective economy relative to the developments in containing the pandemic in 2021.

The importance of this trading-partner to our economy naturally implies the need to adequately monitor these developments, hoping that the continuity of the policy measures introduced by its Government and a tighter surveillance by its central bank will continue to gradually reduce the respective macroeconomic risks. This concern will continue to be a relevant priority, given the negative impact of the global pandemic crisis.



1.3. Timor Leste Economic Transmission Channels

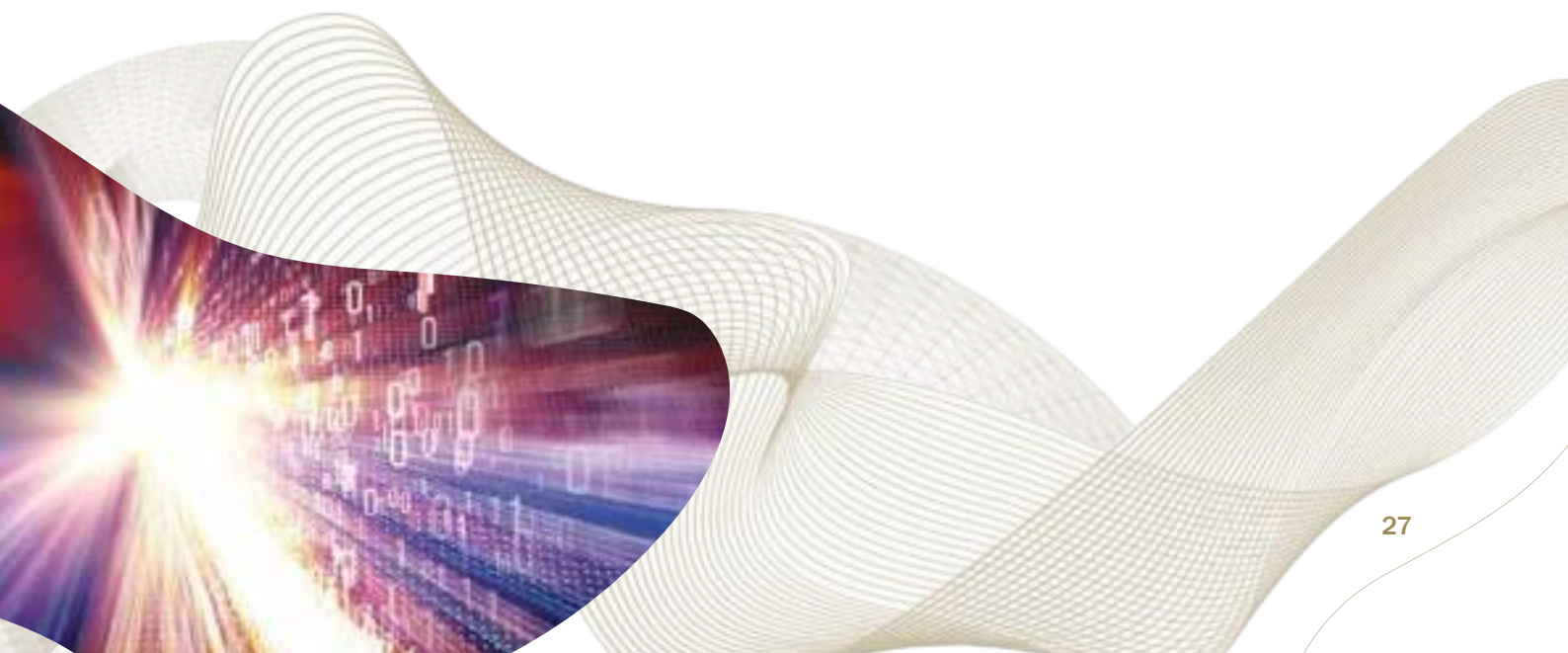
The above review of major international economic and financial developments as well as of Asian economic developments, which are much more relevant for Timor-Leste, would not be complete without understanding the respective repercussions on our economy.

This point tries to identify the main channels of transmission of the international developments to our economy. At present, it is reasonable to accept that these effects are still small and limited to certain sectorial aspects of our economy. This chapter seeks to illustrate the mechanism of operation of the main channels, specifically: the impact on domestic inflation levels, influence over oil revenues and effects on the Petroleum Fund's investments valuations. Foreign Direct Investment is certainly one of the variables most influenced by the external context, but the scarcity of effective investments and reliable data in Timor-Leste does not allow us to analyze this relationship properly.

Naturally, as our economy develops and effectively deepens interdependence relations with its regional economic partners, we expect that external developments will increasingly shape developments in our domestic economy, expanding the number and influence of the various transmission channels.

1.3.1. Imported Inflation

One of the main transmission channels for our economy is in fact the impact of international prices on domestic inflation developments and respective expectations. Since Timor-Leste is an economy with great import intensity - imports of goods and services accounted for 52% of non-oil GDP in 2019 - it is natural to expect that international prices of imported goods and services will continue to substantially influence domestic inflation developments.





BCTL's empirical research and economic modeling has confirmed the importance of this channel. One of the main issues of our work in this context stems from the difficulty in defining an appropriate variable to measure the level of "external inflation" for Timor-Leste, given the large variability of our import basket and of the geographical structure of our imports. After experimenting with several functional forms for this variable, we concluded that the most appropriate empirical variable seems to be an average of the inflation rates of the 5 largest economies of ASEAN and China converted into dollars. In practice, this measure corresponds to an average of the regional inflation rate measured in dollar terms, which at the same time captures the impact of regional exchange rate variations against the dollar and local currency inflation rates.

BCTL's inflation model is based on two key drivers: domestic economic performance and average inflation rates across the Asian region.

As can be seen below on the chart on the left, domestic inflation tends to reasonably track the movements of foreign inflation rates, albeit with lower volatility. To the extent that the external inflation rate is the average of six economies already mentioned, BCTL's inflation forecasting models use this variable and respective expectations to construct inflation forecasts.

Foreign inflation has driven Timor-Leste's inflation trajectory

Chart 1.16

Domestic vs External Inflation

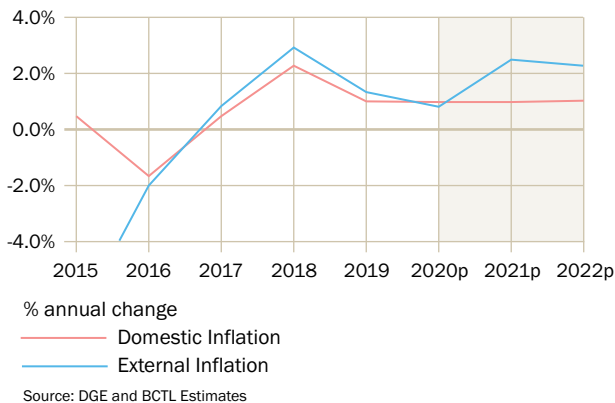
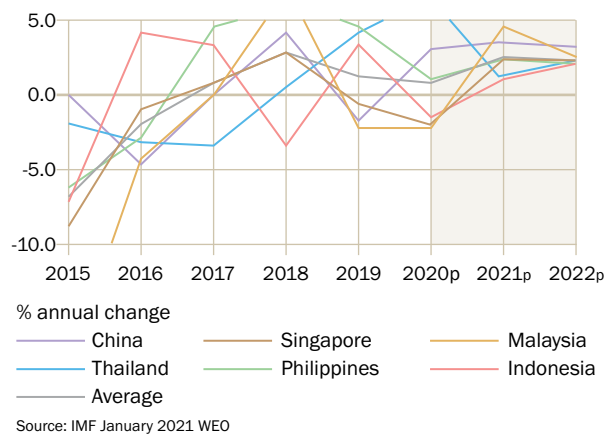


Chart 1.17

Regional Inflation Rates in USD Terms



Additionally, as can be seen from the 2 charts, the recent rise in the inflation rate in Timor-Leste (2017 and 2018) was positively influenced by the pickup in external inflation rates. Naturally, the relationship is not perfect, since changes in Timor-Leste's non-oil economy, especially over the last few years, also strongly influence the domestic inflation rate trajectory.



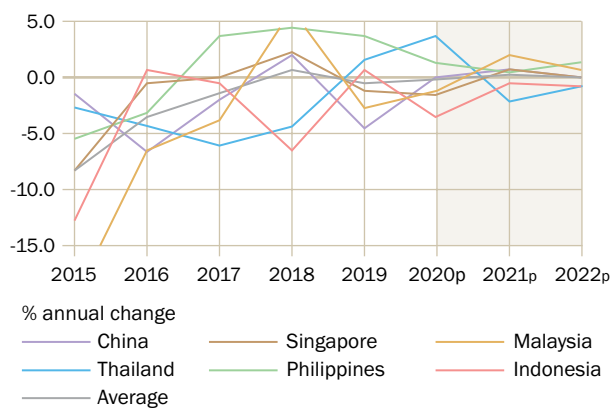
... as can be confirmed by the slight slowdown of domestic inflation in 2019 and 2020, in line with the downward trend in external inflation.

From 2019 to 2020, Timor Leste's inflation rate has trended downward from 2% to 1%, tracking the easing of external inflationary pressures, and providing further confirmation of the correlation between the 2 variables.

Since external inflation rates in local currency terms tend to be relatively stable over time, our Trading Partners' currencies developments against the dollar are fundamental in shaping developments in terms of our domestic inflation.

Chart 1.18

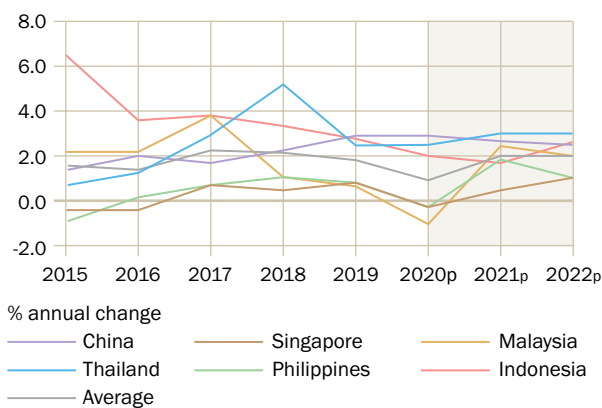
Asian Currencies vs USD



Source: IMF January 2021 WEO

Chart 1.19

Regional Inflation in Local Currency Terms



Source: IMF January 2021 WEO

Bearing in mind the importance of this transmission channel, external inflation's future developments, strongly determined by exchange rate developments, will be one of the most influential factors in driving the domestic inflation trajectory.

The expected stability for regional currencies in 2021 and 2022 is a crucial assumption of BCTL's forecast of stable and low inflation in Timor-Leste over the same horizon.

In this regard, the BCTL expects, in line with the IMF, regional currencies to remain stable against the dollar in 2021 and 2022, which, together with moderate Asian region's inflation rates in local currency, supports our view that imported inflation will remain stable over the next years, helping to steady inflation pressures in Timor Leste in 2021 and 2022, below 2% on a yearly basis.

Given that the domestic economy's performance also influences national inflation trends, BCTL's growth forecasts will be analysed in the report's chapter that addresses the domestic economy, which further details BCTL's inflation forecasts for the years ahead.

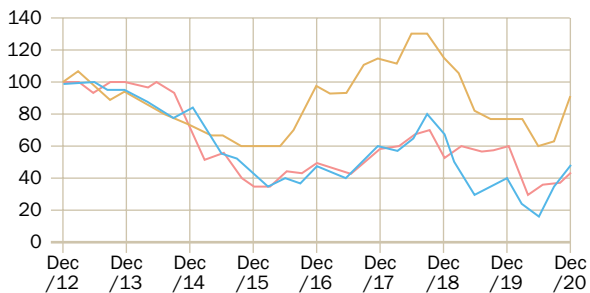
1.3.2. Energy Markets and Oil Revenues

Oil, natural gas and other energy resources' prices are highly volatile, having typically fluctuated widely between periods and regimes of high and low-price levels. The charts below depict these fluctuations and allow us to place the recent developments in energy prices on a longer time-frame perspective. It should be noted that it is not uncommon for energy prices to fall by 50% and rise by more than 50% within 1 year, as the 2020's pandemic crisis illustrates. In terms of levels, the sharp decline in oil prices from the end of 2014 cancelled all nominal price gains recorded since 2009.

In 2020, the oil's price (brent's benchmark) fell -24%, unlike gas and coal, fully offsetting the gains recorded in 2019 (+17%). With this new decline, the price of oil continued to remain well below the values recorded in 2012, which suffered substantial falls in 2015.

Oil was one of the few globally relevant commodities that recorded a drop in prices in 2020.

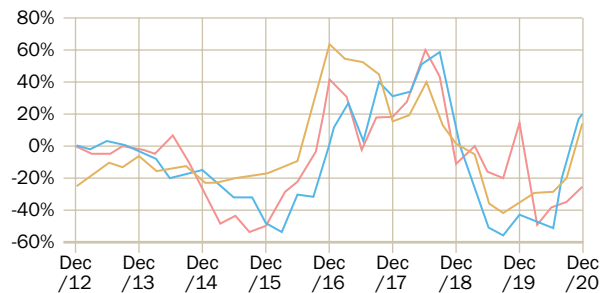
Chart 1.20
Energy Prices - spot levels



2012 = 100
 — Oil
 — Coal
 — Natural Gas

Source: World Bank

Chart 1.21
Energy Prices - % change



% annual change
 — Oil
 — Coal
 — Natural Gas

Source: World Bank



The price of oil exhibited significant volatility throughout 2020, due to the disturbances caused by the pandemic crisis and its developments. Even though it fell throughout the year, the reopening of economies in the second half and the gradual recovery in global energy demand supported the recovery in oil prices, particularly in the second half of the year.

However, changes in energy prices are not easy to anticipate, as they result both from the interdependence between demand and aggregate supply on physical markets and, increasingly, from the less measurable and unpredictable effects resulting from the financialization of these markets, yielded by the expansion of the financial derivatives market and increased participation of financial intermediaries and speculators. An obvious proof of this inability to predict is clearly the most recent drops in oil prices, whose speed and breadth were not effectively predicted by the majority of market players and analysts.

Future oil revenues are now much smaller than in the past, thus reducing the impact of oil price fluctuations on Timor Leste's oil wealth.

However, the impact of fluctuations in energy prices in our country's oil wealth is now much lower, compared to previous years. This follows from the fact that future oil revenues from ongoing activities are now much lower when compared to what has already been extracted from the Timor Sea reserves, with the prospect of existing fields exploration to cease completely by 2023. The expected future income from 2021 to 2023 amounts to \$200 million, which represents a renewed reduction compared to the expected value in 2019 of \$824 million.

Taking into account the now diminished estimate of expected future oil revenues expected, we do not develop in this report, as we did in previous years, the sensitivity analysis of oil revenue to changes in future oil prices.



1.3.3. Financial Markets and the Petroleum Fund

Finally, we consider another transmission channel of international developments to our economy, which relates to the Petroleum Fund (PF), established to efficiently manage the country's oil wealth. The working mechanism of this channel is similar to the price of oil, to the extent that the price changes of international financial assets drive the value of the Petroleum Fund and, in turn, the Fund's 'Estimated Sustainable Income' (ESI). Insofar as they drive changes in these two aggregates, financial asset prices end up influencing the amount of revenue available to finance the state budget and, consequently, the pace and scale of spending and public investment policies.

Financial asset prices influence the PF ESI and, in turn, overall funding of the State Budget.

The PF concluded 2020 recording total financial assets of \$18,991 million, invested mainly (60%) in Fixed Income of the most developed countries and in Equity (35%) of thousands of companies based in these same countries and (5%) Private debt instrument for oil operation

At the moment, the FP invests 60% in Fixed income and 35% in Equity ...

In 2020, the Fund recorded an overall net profit after fees and taxes of \$1,859 million, which was still slightly less than the record \$2.1 billion return achieved in 2019. This continued and substantial performance was due to the renewed combination of gains from investments in bonds and shares, in a year in which exchange rate changes only had a marginal impact for the year as a whole.

Since its founding, the PF has been expanding its investment universe, starting, first, by only investing in USA Treasury securities, then gradually investing in shares and, finally, extending investments to bonds issued by several global Treasuries. The gradual extension of its investment mandate was driven by the growing demand for a higher expected return for the Fund and search for greater diversification of its investments and relevant markets.

Naturally, this institutional development exposes the Fund to new risks and markets, but which, by benefiting from the diversification of the prices of the various assets, allow a more solid portfolio to be built and whose risk-return profile is more efficient. At present, the Fund invests only in fixed interest rate bonds and equities, so that received interest and dividends on bonds and shares provide the Fund with a fixed and constant income, at least on 'a priori' basis. Naturally, by investing in bonds and stocks, the Fund benefits from increases in market values of these securities or, on the contrary, can be adversely affected by eventual negative price changes. Therefore, the Fund's main financial risks correspond to possible losses arising from the fall in the prices of the bonds or stocks in which the Fund is invested.

PF's performance is now crucially driven by price trends in global bonds and equities markets....

.... but foreign exchange fluctuations also affect the PF, which has invested in currencies beyond the USD.

In addition, since the PF invests in several jurisdictions and markets, denominated in currencies other than the US dollar, the Fund is also exposed to exchange rate risks, understood as the possibility and impact arising from the depreciation of the various investment currencies against the dollar.

In short, the PF's financial risk includes 3 types of market risk: equity risk, or risk of falling global stock prices, interest rate risks, which translates to the risk of falling Treasury bond prices; and currency risk, which consists in the risk of depreciation of the investment currencies against the US dollar.

In 2020, the Fund continued to record substantially positive returns, due to the positive investment performance in both equity and bond markets.

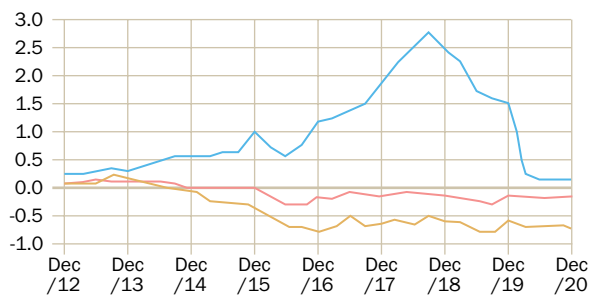
The price changes of PF's assets and the various investment currencies thus constitutes the true channel of transmission between international markets, the value of PF and its ESI and our country's economy. In terms of returns, 2020 was also very positive for the FP, which returned +10.67% for the year as a whole, compounding the gains already recorded in 2019 (13.25%), which was explained by the positive investment performance in bond markets, as well as in stock markets.

Bond investments continued to record gains in 2020, benefiting from the downward trend in global and US interest rates.

As previously mentioned for world bond markets, interest rates recorded substantial falls in 2020, especially in the US market, which were also more conspicuous in the case of 2-year terms than in 10-year terms years, in line with the cuts in FED's policy interest rates. These declines reinforced the interest rate declines already recorded in 2019.

Chart 1.22

2-Years Interest rates - % Year

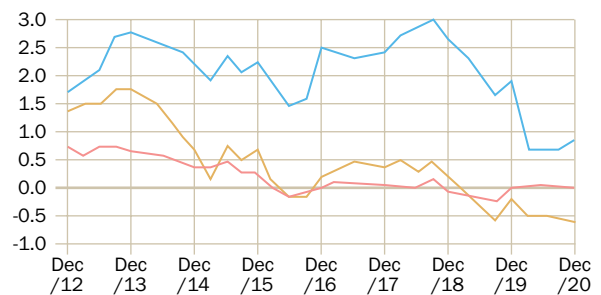


— US
— EU-Germany
— Japan

Source: Bloomberg

Chart 1.23

10-Years Interest rates - % Year



— US
— EU-Germany
— Japan

Source: Bloomberg

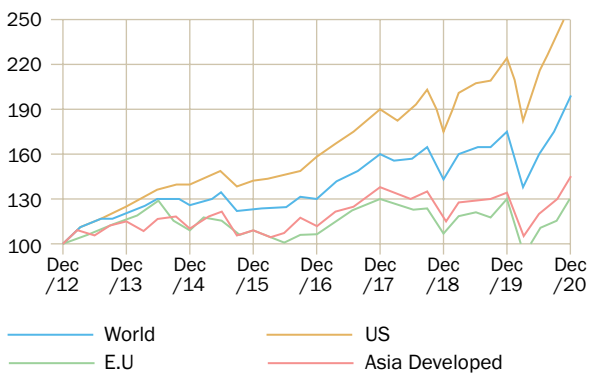
In the European and Japanese markets, long-term interest rates also registered further declines, although they were already and generally in negative territory at the end of 2019. These generalized rate declines, which reversed the upward interest rates' cycle recorded until 2018, particularly in the US market which represents the majority of the Fund's bond investments, further benefited the PF's bonds portfolio return, by adding to its accrued coupon returns. The PF's bond portfolio thus recorded an overall performance of 5.04%, extending the 5.16% gains registered in 2019.

In terms of its stock portfolio, the Fund's equity benchmark (the black line in the chart below - "World") accumulated new gains in 2020. The gains in PF equity portfolio stemmed from the rises in the US market, but also from most of global equity markets. PF investments in shares recorded a gain of 14.03% in 2020, after having accumulated a record return of 27.67% in 2019. In terms of foreign exchange impacts, the PF was only marginally affected by a very slight appreciation of the USD against investment currencies in 2020.

PF investments in shares have again benefited from the robust performance of practically all global equity markets, led by the US market.

Chart 1.24

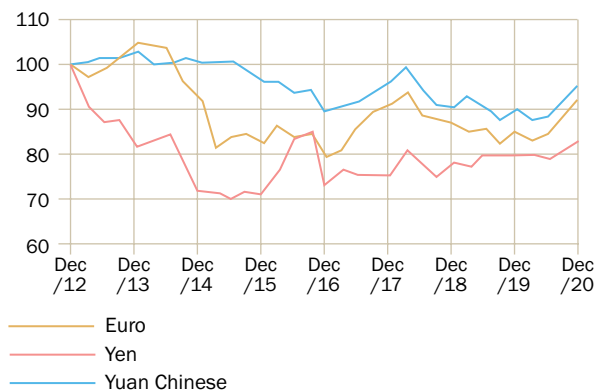
Stock Markets Indices in USD - 2012 = 100



Source: Google Finance

Chart 1.25

Currencies vs USD - 2012 = 100



Source: Google Finance

The PF's value and returns trajectory continues to largely depend on the price developments in dollar terms for these global financial assets.

In short, the Petroleum Fund currently holds a portfolio of a vast and diverse set of securities and is invested in major global stock and bond markets, that efficiently optimizes its risk-return profile.

However, given its substantial investments in global bonds and equities, the PF's future financial value and its returns trajectory continue to depend on price developments for these financial assets, which are naturally and also affected by the gyrations of the dollar against the respective investment currencies.

In a longer time-frame, we do think that the risk of a global stock or bond market correction is now significant, given the current and simultaneous high stock market valuations and the historically low levels of global bond interest rates. The trends evidenced in 2020 have further reinforced this historical overvaluation of securities in both investment markets.

In this regard, it should be noted that the top US stock market index, the S&P 500, after its renewed ascent in 2020, reached a new peak price level that corresponds to three times its level of December 2009 and today registers historically record valuations, visible for example in its extraordinary ratio of price to companies earnings.

However, the long investment horizon of the Fund and its institutional framework should allow us to deal with the markets' short-term swings in a rational way and even to benefit from the occasional episodes of price declines across markets, by a rigorous implementation of the Fund's investment discipline and targeted asset allocation.

On the contrary, the absence of significant future oil revenues from ongoing exploration projects, together with the continued maintenance of a level of public expenditure that results in an active reduction of the Fund's capital, today represent significant risks to this strategy's success and respective temporal investment horizon. These risks, if not mitigated adequately over the coming years, should require a due reassessment of respective PF's objectives to ensure consistency and coordination with its investment strategy implementation.





Chapter 2

Domestic Economy – Recent Developments and Projections

This chapter describes major developments in Timor Leste’s non-oil economy in 2020 and relevant perspectives for 2021 and 2022, also discussing important changes regarding the public, financial and external sectors.

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As is further detailed below, the main national economic developments in 2020 were:

- Timor-Leste's economy recorded a recession in 2020, with BCTL estimating that non-oil GDP contracted -3%. This contraction seems to have been more due to the elongation of political uncertainty and the late approval of the 2020 State Budget, which resulted in the annual reduction of public expenditure, but also to the adverse impact of the pandemic and the respective lockdown and social interaction restrictions. With this performance in 2020, the domestic economy ended a very anaemic economic growth cycle in the last 4 years, as real GDP was, at the end of 2020, still below its value in 2016.
- For 2021, BCTL expects a strong and substantial recovery in growth, a year in which GDP is expected to expand 7.7%. This expectation heavily relies on the extraordinary growth of public expenditure forecasted for 2021, as the approved 2021 State Budget results in a 21% increase in budgeted expenditure, but also because we expect a substantial pickup in expenditure execution rates in that year, compared to 2020.
- In terms of fiscal policy, 2020 was marked by a reduction in public expenditure and in the public deficit, which was mostly due to the decrease in public investment and the fall in expenditure's execution rates, especially in goods and services and transfers.
- Domestic inflationary pressures have remained controlled and low throughout 2019 and 2020, with annual inflation rates remaining close to 1%. BCTL continues to expect the persistence of this low and stable inflation scenario in 2021 and 2022, which is based primarily on the assumptions of the stability of the dollar against most Asian currencies and a moderate inflation in our trading partners' economies in the same period.

- Although Timor-Leste continues to record a current account deficit, the gradual and continued reduction in the deficit in the goods and services' commercial accounts has resulted in the contraction of the Country's effective external deficit. However, the progressive and substantial reduction in oil revenues over the recent years has been the major driver of the simultaneous and symmetric increase of the global external deficit.
- Despite these macroeconomic challenges, the financial sector continued to be highly dynamic in terms of the growth of its activity, assets and deposited funds, thus remaining stable and solid, as is visible in the maintenance of ample liquidity levels and low levels of credit at risk. It is illustrative to note that, even in the difficult year of 2020, bank credit continued to grow significantly, as well as deposits.
- The BCTL also implemented several relevant initiatives within the scope of monitoring the economic situation at the national level and mitigating the economic impacts of the pandemic crisis. In this context, we highlight the design and implementation of the credit moratorium program and loan subsidization scheme for national families and companies, as well as the undertaking of surveys on families and informal business, with the aim of assessing the respective economic impacts during the lockdown and post-lockdown period.

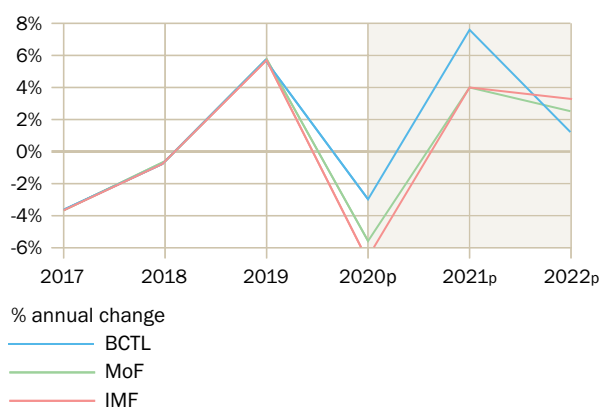
2.1. Economic Activity and Inflation

2.1.1. Economy - Recent Developments and Perspectives

Timor-Leste's economy contracted again in 2020, with BCTL estimating that non-oil GDP fell -3%. This contraction seems to have been more due to the prolongation of political uncertainty and late approval of the General State Budget (OGE) for 2020, that resulted in the annual reduction of public expenditure, but also to the adverse impacts of the pandemic and the enforcement of lockdowns, social restrictions and public health protection measures.

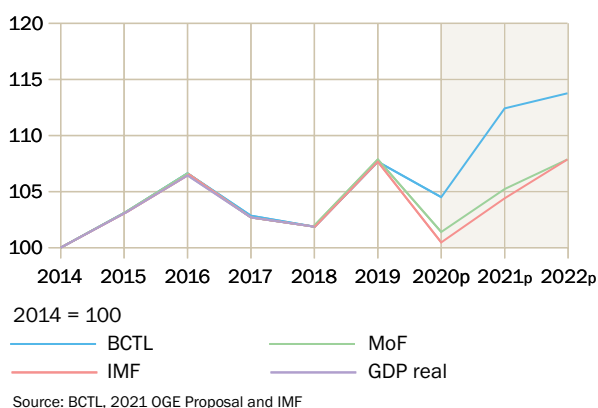
The domestic economy contracted again in 2020, due to the late approval of the 2020 OGE and the impact of the global pandemic.

Chart 2.1a
GDP - real growth



Source: BCTL, 2021 OGE Proposal and IMF

Chart 2.1b
GDP - real level



This renewed fall in GDP thus cancelled-out part of the economic recovery recorded in 2019 - when GDP grew 1.8% - after the contractions registered in 2017 and 2018. The anaemic economic performance of recent years can be demonstrated by the fact that the real GDP of 2020 is still below its 2016's level. This performance is due, in turn, to the increase in political instability over recent years, resulting in the difficulty in approving and executing budgetary policies and the natural limit on the use of public expenditure, given the progressive reduction in oil revenues, as the principal driver of growth in our economy.

On the positive side, the BCTL's estimate of a contraction of -3% for GDP in 2020 is more optimistic than the Ministry of Finance's forecast of -6%, as included in the OGE proposal for 2021. In fact, according to the data relative to several economic data series already published for 2020 - imports, public expenditure and revenue, activity and resources of the financial sector - we consider that

BCTL expects a substantial recovery in 2021, a year in which GDP is expected to grow 7.7% compared to 2020.

GDP's contraction is largely due to the major fall in public investment in 2020, since the two largest components of domestic demand - private consumption and public consumption – seem to have been resilient in 2020, despite the challenges posed by the pandemic.

In terms of projections, BCTL expects a strong and substantial recovery in 2021, a year in which GDP is expected to expand 7.7%. This expectation is based, above all, on the material growth forecasted for public expenditure in 2021, due to the fact that the 2021 State Budget foresees a 21% increase in budgeted expenditure, but also because we expect a pickup in expenditure execution rates in that year, compared to 2020. Naturally, given the continued and renewed importance of public expenditure programs for our economy, the approval of a highly expansionary fiscal policy will result in a substantial increase in public consumption and investment and in the reinforcement of the expansion in private demand aggregates, especially of household consumption.

It should also be noted that BCTL's economic prospects for 2021 are also more optimistic than those of the Ministry of Finance, which only anticipate 3.9% growth in that year, despite the already approved 2021's Budget, which implies an immense increase in public expenditure.

However, for 2022, BCTL expects the domestic economy to experience a renewed slowdown, growing only 1.2% over the year, which is due to the stabilization and even slight expected reduction in the levels of public expenditure in 2022. This should be required to take into account the increasing constraints in terms of funding resources, given continued high annual public deficits and the expected reduction in the Petroleum Fund's capital.

Finally, it should be noted that this projection scenario for 2021 and 2022, on par with the trends between 2017 and 2020, again confirms the continued and excessive dependence of the domestic economy on public expenditure policies and programs, while the effective start of a developmental and investment process led by the private and productive sectors continues to be deferred.

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 Trajectory – Spending, Production and Components

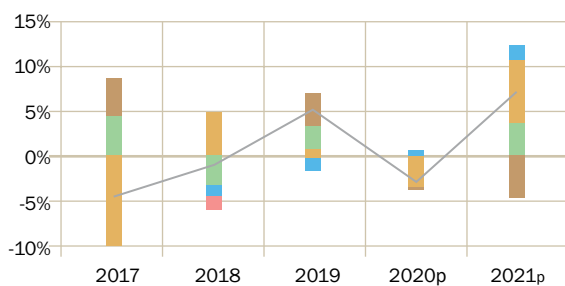
Although official estimates of Timor-Leste’s National Accounts only exist until 2019, BCTL has developed an internal model that allows it to estimate the evolution of the most relevant components of domestic and external demand for more current periods. This allows us to assess the preliminary trends and changes for GDP and respective aggregates already for 2020.

According to these estimates, the -3.2% GDP’s contraction in 2020 is mainly due to the fall in public demand this year, which, in turn, was explained by the substantial drop in public investment of -24.5%, as public consumption effectively rose 3.5%. Positively, despite the pandemic impacts and delays in the implementation of 2020’s budget program, available data points to a great resilience of private consumption, which seemed to have increased 1% in 2020. On the contrary, private companies’ investment seems to have fallen -15%, on par with the reduction in public investment.

The fall in public investment in 2020 was largely responsible for the drop in GDP.

Chart 2.2a

GDP real growth - Spending Aggregates

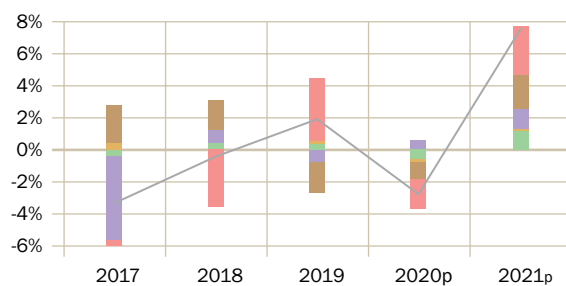


% annual change and contributions
 Proc. Extern Public Partners
 Public Sector Private Sector
 GDP

Source: DGE and BCTL

Chart 2.2b

GDP real growth - Production Aggregates



% annual change and contributions
 Services (Others) Public Administration
 Construction Industry & Mining
 Agriculture GDP

Source: DGE and BCTL

As can also be seen in chart 2.2a, the substantial recovery expected for 2021 should result from the material upturn in public and private demand, due to the mentioned increase in the fiscal stimulus, whose effect will be partially offset by the increase in the country's import levels in the same year.

The public administration sector maintains its leading position in the domestic economy.

In terms of the economic activity of the various occupational sectors, as shown in chart 2.2.b, the services and the public administration sectors should have registered the largest falls in 2020. Conversely, these will be the sectors that should rebound more during the expected expansion for 2021. Since 2010, according to graph 2.3a, the main change in the production structure consisted of a significant decrease in the weight of the agricultural/primary sector - from 25% to 17% of GVA, or gross valued added - and a simultaneous asymmetric increase in the weight of public administration, from 17% in 2010, to 27% of GVA in 2020. This change was naturally due to the substantial expansion of public expenditure which resulted from the policy priorities implemented over the last 10

Chart 2.3a

GDP Breakdown by Production Sectors

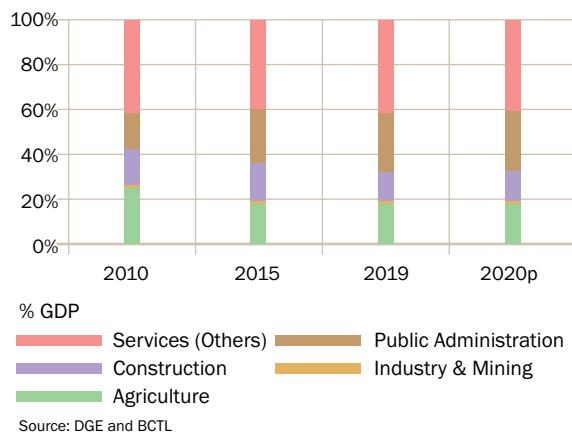
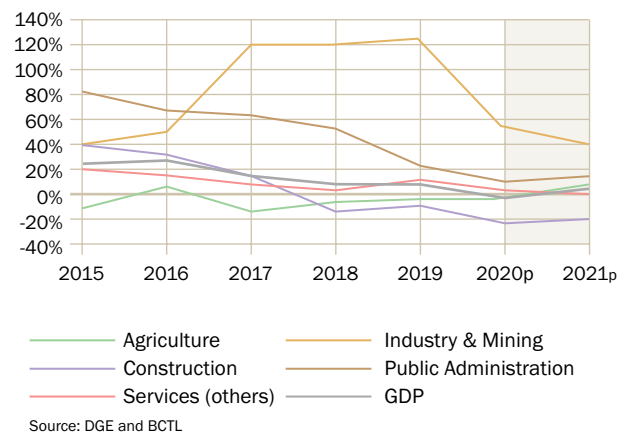


Chart 2.3b

Sectors 5 Year Cumulative Growth Rates



The decline in the importance of the civil construction to 13% of GDP in 2020 is also noteworthy. This sector's importance declined gradually after 2016 - the year in which it corresponded to 18% of GDP - due to the moderation of the pace of expansion of the public expenditure and the reduction of infrastructure development programs since that date.

On the positive side, the industrial sector has registered a notable expansion in activity, with its GVA growing 125% cumulatively since 2014. Even so, despite this robust expansion, this sector still represents a very small part of the domestic economy, representing only 2% of GDP.

In short, this production structure demonstrates that the country's economy continues to depend to a large extent on the public sector, since the sectors that are less dependent on the State - agriculture, fisheries, industry, hotels and restaurants - only continue to represent 21% of GDP in 2020. In a longer time perspective, compared to the economic structure of 2015, there was no significant change in the weight of the sectors less dependent on the State, which in 2015 already represented around 21% of GDP.

Furthermore, the accumulated growth of these 3 sectors between 2015 and 2020 was only 4%, in line with the growth in national GVA. Despite the noteworthy progress of the industrial sector, the stagnation of the agricultural and fisheries sector, which is the largest of these sectors and which grew only 2%, was the main obstacle to the progression of the productive sectors in the last 5 years, while the restaurants/hospitality sector even lost -4% of its GVA in the period. Finally, it should be noted that the public administration and logistics sectors, directly dependent on decisions and levels of public expenditure, grew 15% and 33% in the last 5 years.



2.1.3. Prices and Inflation

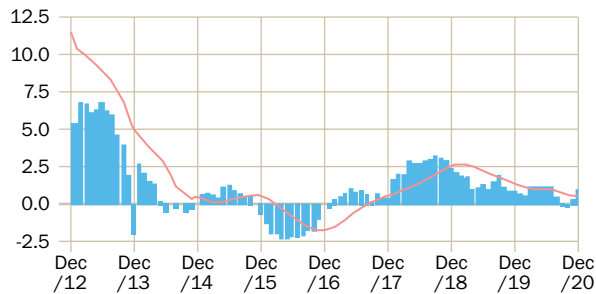
In 2020, average inflation slowed again to 0.6%, from 1.4% in 2019.

Average annual inflation in the city of Dili, according to DGE's CPI data was 0.6% in 2020 - CPI stands for consumer price index - which represented a slowdown compared to 1.4% in 2019. As can be seen in the charts below, inflation's recent slight slowdown over the last 2 years, followed the pickup recorded observed in 2017 and 2018, from the negative rates recorded in 2016.

In terms of year-on-year rates, the same data for the Dili's CPI shows that inflation remained virtually unchanged between December 2019 and the end of 2020, having risen slightly from 0.9% to 1%. This differs from what was observed for average inflation, because inflation rates were extremely low between August and October of 2020.

Chart 2.4

Inflation Rate - Dili CPI data



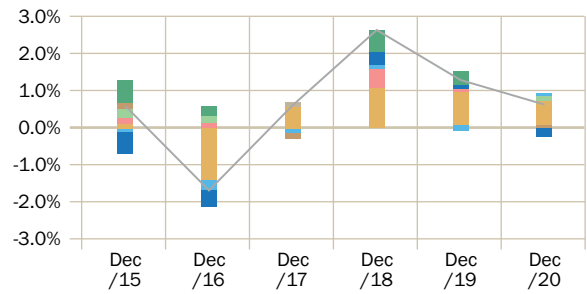
% annual change

— Inflation Annual
— Inflation Average

Source: DGE and BCTL calculations

Chart 2.5

Inflation Rate (average) and contributions



% annual change and contributions

— Food Products — Alcohol — Clothes & Footwear
— Housing — Equipment of Housing — Health
— Transport — Communication — Recreation
— Education — Total

Source: DGE and BCTL calculations

Table 2.1 offers more detail in terms of inflationary trends, disaggregating average inflation rate across large groups of goods and services:

Table 2.1. CPI Basket Sub-Groups Inflation Rate - % annual average

	Dec-16	Dec-17	Dec-18	Dec-19	Dec-20
Food	-2.7%	1.1%	2.1%	1.9%	1.4%
Alcoholic Beverages & Tobacco	3.2%	0.3%	9.0%	1.5%	-0.3%
Clothing and Footwear	1.0%	0.2%	0.6%	0.1%	2.5%
Housing	-1.1%	-0.8%	1.2%	0.4%	-0.5%
Equipment of Housing	-3.8%	-1.3%	0.5%	-0.4%	0.1%
Health	1.4%	0.7%	0.0%	-0.0%	0.0%
Transportation	-4.4%	-0.1%	3.3%	0.7%	-2.1%
Communication	-0.3%	-1.8%	-0.5%	-0.3%	-0.5%
Recreation	1.6%	-0.1%	0.7%	0.2%	0.2%
Education	6.5%	0.0%	18.1%	10.1%	0.0%
Total	-1.7%	-0.6%	2.6%	1.4%	0.6%

Fonte: DGE e análise BCTL

Food items, which continue to dominate the CPI, with a 53% share of the consumption basket, registered an average price increase of 1.4% in 2020, higher than the total inflation rate of 0.6%, but lower compared to 2019.

On the other hand, non-food inflation was lower than food inflation, where we highlight the slight increase in clothing inflation and the interruption of the strong increases in education prices registered over previous years.

Therefore, inflation slowdown in 2020 was mainly explained by the slowdown in non-food inflation, which dropped from 1.8% to 0.6% and whose effect was also reinforced by the deceleration in food inflation.

The slowdown in inflation was mainly due to the slowdown in non-food inflation, as had already happened in 2019.

In terms of macroeconomic drivers, this inflation slowdown was due to the continued stabilization of external inflationary pressures, in a context of stability of the dollar versus the currencies of our country's trading partners, despite the strong exchange rate volatility caused by the pandemic and the global economic crisis. In addition, the renewed GDP fall in 2020, which added to the anaemic performance recorded since 2016, resulted in an increase in the underemployment of domestic economic resources, which should continue to exert negative pressures on the general level of prices in our economy.

Inflation projections for 2021 and 2022 stand at 1.5% per year, which corresponds to a scenario of reduced and stable inflation.

In terms of prospects for 2021 and 2022, BCTL anticipates a slight acceleration in inflation rates to 1.5% per year, which represents a scenario of stable and moderate inflation expected for the next years ahead. These projections are naturally based on the assumption of: dollar exchange rate stability against Asian currencies; inflation stability in the economies of our main partners; and also on the fact that the domestic economy should continue to operate below its potential level, despite the economic recovery expected in 2021.

Notwithstanding the expected economic expansion in 2021 and 2022, the anaemic economic growth cycle recorded over the last 5 years has resulted in the current underemployment of labour and capital resources. In fact, the BCTL estimates that the current GDP level 6% below its full employment potential level. This fact, together with the expectation that the growth recovery will peak in 2021, and record a subsequent slowdown in 2022, leads us to believe that inflationary pressures, arising from the domestic economy side, will remain practically non-existent over the next few years.

2.2. Public Finances

2.2.1. 2020 Public Budget Program

In 2020, it was again recorded a substantial delay in the approval of the 2020's State Budget, which resulted in a notable decrease in expenditure execution rates. This development thus reversed the regularization of budgetary policy's execution recorded in 2019.

Public expenditure decreased -\$94 million in 2020, which was practically explained by the decline in public investment and the reduction in current expenditure execution rates.

According to the data in table 2.2 below, public expenditure, on an effective cash basis, recorded an annual decrease of -\$94 million in 2020, having dropped from \$1,221 million in 2019 to \$1,127 million. It is interesting to note that this decline occurred despite the fact that 2020's budget, totalling \$1,487 million, was slightly higher than that of 2019, valued at \$1,464 million.

Therefore, the reduction in public expenditure in 2020 resulted mainly from the fall in the overall expenditure's execution rate, which fell from 83% in 2019 to 76% in 2020, compared to the budgeted amounts.

This decrease was mainly explained by the fall in the execution rates for current expenditure - wages, goods and services as well as transfers - from 88% to 76%, since the execution rate of capital expenditure rose from 72% to 73%. It should also be noted that the difficulties in implementing the budget were especially evident for expenditure on goods/services and transfers, whose execution rate dropped to 67% and 78%, a level well below that of 2019.

Table 2.2. State Budget – Allocations, Changes and Execution Rates

	Million of USD			%Annual Change		Execution Rate		
	2018	2019	2020	2019	2020	2018	2019	2020
Total Revenue, Excl. Loans	190	187	182	-1%	-3%	101%	95%	112%
Gov. Tax Revenue	128	123	119	-4%	-3%	97%	90%	103%
Gov. Non-Tax Revenue	55	56	57	3%	0%	106%	102%	127%
Revenue Retention of Agencies	7	8	7	12%	-13%	149%	116%	134%
Total Expenditure	1,184	1,221	1,127	3%	-8%	95%	83%	76%
Recurrent Expenditure	925	907	967	-2%	7%	109%	88%	76%
Capital Expenditure	220	264	130	20%	-51%	65%	72%	73%
Loans	39	50	30	27%	-40%	64%	57%	50%
Financing								
Estimated Sustainable Income (ESI)	550	529	544	-4%	-3%	100%	100%	100%
Excess Withdrawals from the PF	432	440	420	2%	-5%	100%	66%	100%

Fonte: TL Portal da Transparência, Livro OGE No. 1, GAE e análise do BCTL



On the revenue side, the Government anticipated, in its 2020 OGE, overall non-oil revenues of \$172 million, excluding loans and grants, but actual revenue amounted to \$182 million, exceeding the budgeted figure. Even so, this amount represented a decrease of -3% compared to the \$187 million collected in 2019.

In terms of its composition, tax revenues continued to represent the most important category, rising in 2020 to \$123 million, which was translated into a reduction of - 3% compared to 2019. It should also be noted that revenue exceeded its budgeted value because non-tax and autonomous agencies' revenues have exceeded their respective forecasts.

2.2.2. Public Revenue

A key priority of the Government consists in reducing the country's dependence in terms of funding from the Petroleum Fund. These efforts remain fundamental in discussions and the Government budget planning. In the 2020 State Budget, for example, the Government continued to highlight its "tax reform" policy prioritization, to improve the country's fiscal framework and increase domestic revenues sourced from non-oil resources and activities.

The overall amount of public revenues fell in 2020, reversing the improvement seen in 2019. This new decline was naturally the result of the aforementioned contraction of the national economy and the fall in total public expenditure, which continues to be the main driver of the economy and of revenues collected by the public sector.

The value of public revenue decreased -3% in 2020, to \$182 million.

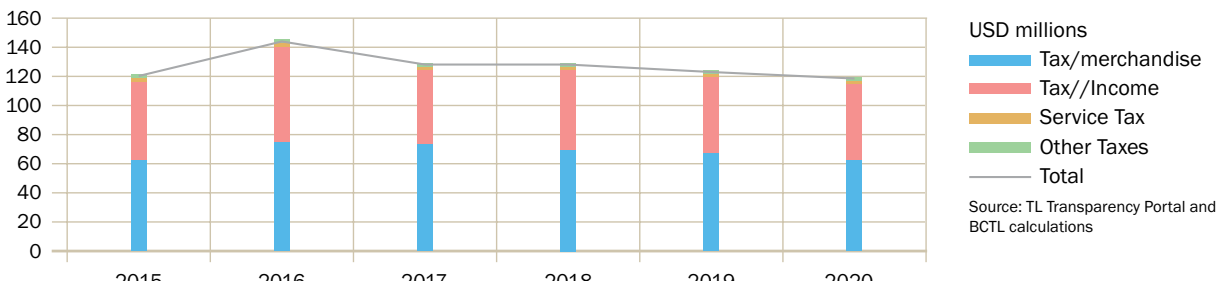
On a cash basis in 2020, domestic non-oil revenue reached \$182 million, down -3% from \$187 million a year ago. The contraction in revenue resulted mainly from the fall in fiscal revenue of -3%, but also from the reduction in revenue from autonomous public agencies. Conversely, non-tax revenue rose slightly from \$56 million to \$57 million in 2020.

In terms of importance, tax revenue remains the most relevant source of "organic" resources, contributing with 65% of total revenue in 2020, followed by non-tax revenue with 31% and that of autonomous agencies, with 4%. It should also be noted that, since 2018, there has been an increase in the relative importance of non-tax revenue, from 29% to 31% of the total, mainly due to the decrease in the weight of tax revenue from 68% to 65%.

Chart 2.6 depicts the changes in tax revenue and its main components, namely, taxes on individuals and companies' income and taxes levied on imported goods. The annual decrease in taxes was due to the fall in import taxes, valued at -\$3 million to \$64 million, and the decline in taxes on income, amounting to -\$2 million, to \$50 million collected in 2020.

Chart 2.6

Fiscal Revenue



2.2.3. Public Expenditure

The overall execution rate of public expenditure fell to 76% in 2020, a figure well below the 83% of 2019, thus remaining well below the 91% and 88% recorded in 2018 and 2017.

Although the overall budgeted amount for 2020 was slightly higher than in 2019, the substantial reduction in the respective execution rates, especially for transfers and goods and services, explained the decrease in the amount actually spent in 2020 on a cash basis to \$1,127 million. This figure resulted in an annual -8% reduction compared to 2019, or -\$94 million.

In terms of the main components and, despite the aforementioned reduction in execution rates, the value of capital expenditure decreased -\$134 million, but total current expenditure increased \$60 million, which resulted from the symmetric changes in budgeted allocations between 2019 and 2020, in favour of more current expenditure and less public investment.

Public expenditure decreased -8% to \$1,127 million, effectively due to lower execution rates for expenditure on transfers and goods & services.

2.2.3.1. Current Expenditure

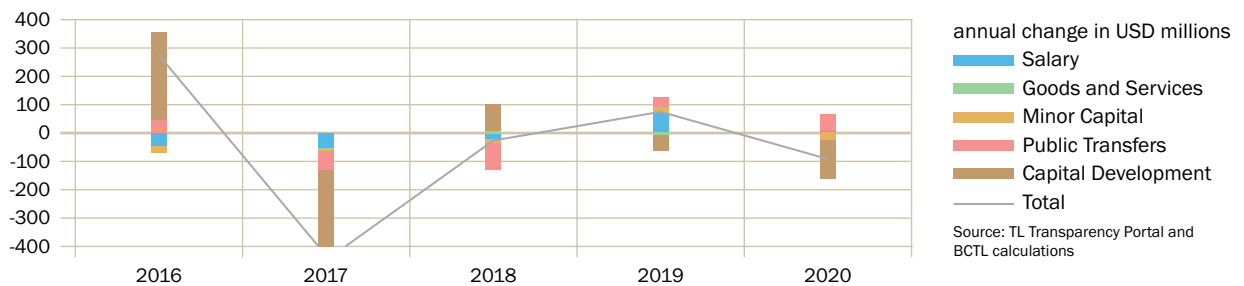
In 2020, current expenditure increased 7%, thus adding to the 14% expansion already recorded in 2019, which together reversed the combined decrease registered in 2017 and 2018. This type of expenditure, totalling \$967 million in 2020, thus returned to a level close to the historic highs recorded in 2015 and 2016, amounting to \$1,030 million.

Current expenses continued to be the main component of public spending, amounting to 86% of the total, which represented a huge increase compared to the 74% and 71% recorded in 2019 and 2018. Also noteworthy, the increase in current expenditure would have been much higher, had the execution rates for this type of expenditure not decreased substantially in 2020, as the 2020 budget foresaw a 23% increase in this type of expenditure, a figure well above the 7% increase recorded on an effective cash basis.

Chart 2.7 depicts the annual changes in public expenditure's main components, calculated on an effective cash basis. As can be seen, the increase in spending on transfers (+\$50 million) and, to a lesser extent, on goods and services (+ \$11 million) were the only categories that partly cancelled the substantial decline in capital expenditure.

Chart 2.7

Public Expenditure Changes by Category - cash basis



Transfers and goods and services are the most important categories in overall budget expenditure.

As result, expenditure on transfers represented the largest category of total expenditure, with 34% of the total (27% in 2019), followed by expenditure on goods and services with 33% (30% in 2019) and salaries with 18% (16% in the previous year).

2.2.3.2. Capital and Development Expenditure

The Government estimated in its 2020's OGE a global capital expenditure, including the loans program, of \$220 million, which represented a substantial reduction of -\$218 million, or -50%, compared to the \$438 million allocated in 2019. From this decision, also explained by the difficulties in implementing budgetary policy in 2020, resulted that the amount actually spent on public capital goods and investment decreased -\$154 million (-49%) to \$160 million.

Capital goods expenditure was budgeted at \$220 million in 2020, of which only \$160 million was effectively spent.

It should also be noted that the execution rate for this category amounted to 73% of the budget in 2020, slightly above the 72% of 2019. However, as the 2020's budget was only approved at the end of the year, the budgeted amount was intentionally reduced and partially postponed to 2021, as it was impossible to properly execute a substantial capital expenditure budget in the last quarter of 2020.

Table 2.3. Public Investment Programs

	Million of USD			% Annual Change		% Total	
	2019 Efectivo	2020 Efectivo	2021 OGE	2020	2021	2020	2021
Minor Capital	27	5	61	-81%	1051%	3%	11%
Prog. of Loans	50	30	71	-40%	135%	19%	13%
Infrastructure Found (IF)	225	124	255	-45%	105%	77%	48%
Public Investment Excl. IF	12	1	149	-94%	21374%	0%	28%
Total	314	160	535	-49%	234%	100%	100%

Fonte: OGE 2021 e cálculos do BCTL

The majority of capital and development expenditure was allocated to infrastructure construction, including also the loans program, whose weight amounted to 95%, compared to 85% in 2019 and 96% in 2018. The Infrastructure Fund Program continues to assume the largest share relevance in terms of public investment, since its budget corresponds to 77% of the category in 2020.

Roads investment, including the loans program, remains the top public investment priority.

Table 2.4 summarizes the information on the existing programs at the level of the Infrastructure Fund (FI), with higher budgeted values.

Table 2.4. Infrastructure Fund – Relevant Subprograms

	Sistema financeiro e infraestruturas de apoio							
	2018 Actual	2019 Efec.	2020 OGE	2021 OGE	2018 Actual	2019 Efec.	2020 OGE	2021 OGE
Roads	127	135	80	105	35%	49%	43%	31%
Program of Loans	87	50	60	71	24%	18%	33%	21%
Tasi Mane	61	45	2	9	17%	16%	1%	3%
Electricity	15	10	4	18	4%	4%	2%	5%
Roads - Maintenance	13	4	4	7	4%	2%	2%	2%
Airports	13	5	4	20	3%	2%	2%	6%
Bridges	10	9	4	5	3%	3%	2%	1%
Urban & Rural Development	10	4	2	6	3%	2%	1%	2%
Drawings & Supervision	4	0	4	9	1%	0%	2%	3%
Financial System and Support Infrastructure	4	3	3	3	1%	1%	2%	1%
Others	21	10	17	86	6%	4%	9%	25%
Total IF Incl. Loans	364	276	184	338	100%	100%	100%	100%

Fonte: OGE 2021 e cálculos do BCTL

The reduction in the amounts allocated to the 'Tasi Mane' investment program over the past few years is also clear.

In terms of the sectoral priorities of the Infrastructure Fund in the 2020 State Budget, roads - including loans - continued to assume the greatest importance with 76% of total expenditure (59% and 49% in 2019 and 2018), or \$140 million, which represented, however, a decline in absolute terms compared to the \$185 million of 2019. Contrary to previous years, the remaining investment program of the Fund does not highlight any other specific priorities. It is also clear the declining importance of the 'Tasi Mane' Program – a program mostly comprising infrastructure development on the south coast, to support the oil investment plan – which, in previous years, had received a substantial share of budgeted capital expenditure.

As to what regards annual changes and prospects for public investment in these programs, investments in roads have represented and will continue to represent in 2021 the Government's top priority, since the OGE proposal for 2021 allocates 52% of the Fund's investment to the roads program. In addition, we also highlight the expansion of allocations foreseen in 2021 for investments in airports and electricity, which, however, will remain considerably lower than the roads program. The remaining Fund's investment programs continue to allocate small individual amounts in terms of the total projected public investment.

2.2.4. Public Funding Sources

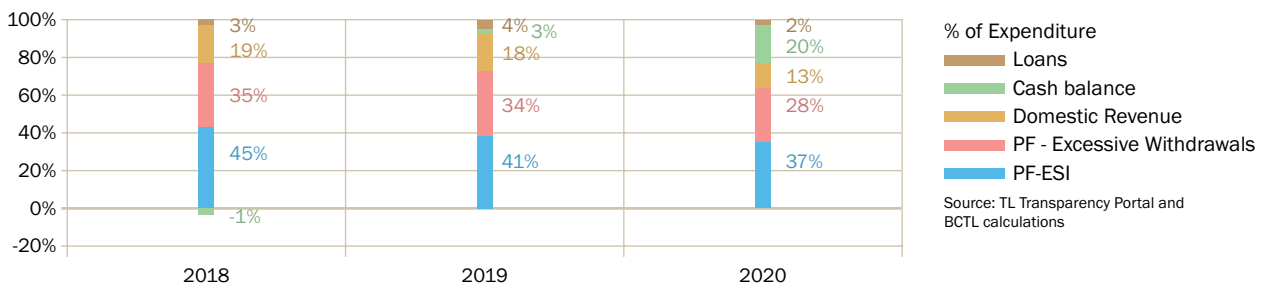
In its 2020 Budget, the Government planned to use \$964 million from the Petroleum Fund, having effectively withdrawn the same amount from the PF to finance its expenditure in 2020. Note that this amount has remained practically unchanged from the \$969 million withdrawn in 2019.

The State continued to withdraw funds from the PF well above its ESI in 2020, which resulted in a further reduction in the Fund's capital.

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

Chart 2.8

Public Expenditure Funding Sources



In terms of the funding sources available to finance public expenditure, PF distributions continue to be the main source of funds, financing 65% of 2020's expenditure. It should be noted that the reduction of this ratio compared to 74% in the previous year was due to a high Treasury cash balance, which had been accumulated in budget execution during the duodecimal regime in 2020. Domestic public revenues financed, in turn, 13% of total expenditure in 2020, when in 2019 these had financed 18%. This proportion decline is due to the same factor mentioned above.

Public non-oil revenues financed only 13% of public spending in 2020.

Loans have maintained their small importance in terms of expenditure financing in recent years, having financed 2% of the total in 2020, compared to 4% in the previous year. These loans, which have mainly served to finance investment in roads in the country, amounted to \$30 million in 2020 (\$87 million in 2019), corresponding to an execution rate of 50% versus the budgeted amount. This resulted in the decline of the execution rate of the loans program, since in 2018 and 2019, 64% and 57% of the respective OGEs, had been implemented.

The continued reduction in PF's capital constitutes a clear and significant risk 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

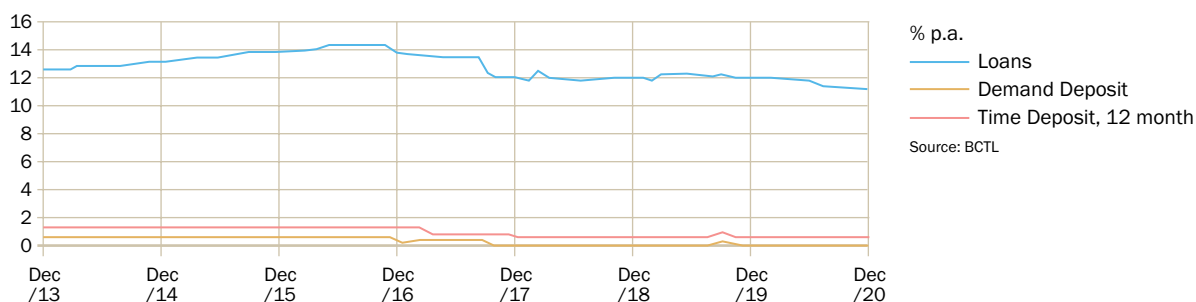
2.3.1. Interest Rates

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 declined in 2020.

Chart 2.9

Key Lending and Deposit Interest Rates



Contrary to the previous year, the still high average interest rates on loans to the private sector decreased from 11.98% to 11.28% in 2020, which represents a positive development for companies and families that rely on banking sector's funding. However, the average rate paid on 6-month deposits remained practically unchanged in 2020, standing at 0.64% at the end of the year. This distinct change in active and passive rates caused the credit spread - or rates differential - to fall in 2020 to 10.62%, contrary to the increases recorded in 2019 and 2018.

Table 2.5. Commercial Banks Interest Rates - Weighted Averages (% year)

Periods	Loans + 6 month Libor	Demand Deposit	Saving Deposit	Time Deposit			
				1 month	3 months	6 months	12 months
2019 Dec	11.98	0.06	0.44	0.62	0.63	0.64	0.62
2020 Jan	12.01	0.06	0.42	0.63	0.64	0.65	0.61
Feb	11.96	0.06	0.42	0.63	0.64	0.65	0.61
Mar	11.93	0.06	0.42	0.63	0.64	0.65	0.61
Apr	11.91	0.06	0.43	0.64	0.64	0.66	0.62
May	11.86	0.06	0.43	0.64	0.65	0.66	0.62
Jun	11.80	0.06	0.43	0.64	0.65	0.66	0.62
Jul	11.69	0.07	0.46	0.64	0.64	0.66	0.64
Aug	11.47	0.06	0.43	0.64	0.65	0.66	0.62
Sept	11.43	0.06	0.42	0.64	0.65	0.66	0.61
Oct	11.37	0.07	0.42	0.64	0.65	0.66	0.61
Nov	11.34	0.07	0.43	0.64	0.65	0.66	0.62
Dec	11.28	0.07	0.46	0.64	0.65	0.66	0.64

Source: BCTL

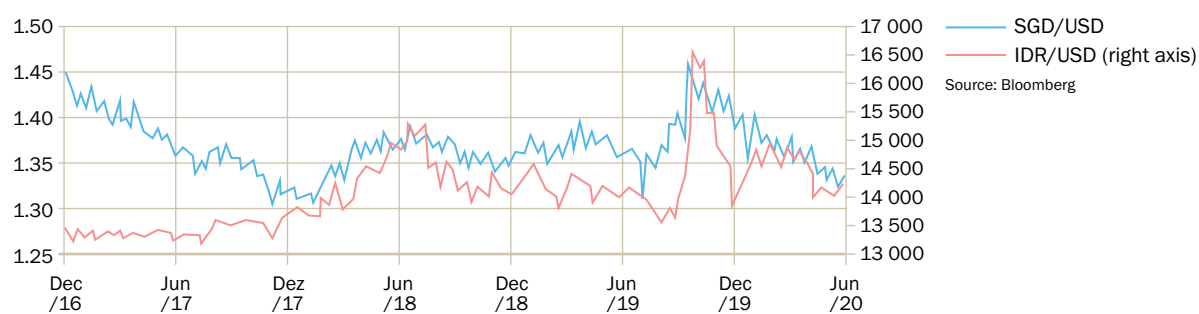
2.3.2. Exchange rates

The dollar recorded slight and mixed changes versus our main trading partners' currencies.

The US dollar, Timor-Leste's official currency, recorded slight and mixed changes versus the currencies of our main trading partners in 2020, similarly to the previous year. Over the year as a whole, the dollar appreciated 1% against the Indonesian rupiah, Timor-Leste's main trading partner, but depreciated -2% against the Singapore dollar, which is a reference currency in Asia.

Chart 2.10

Selected Foreign Exchange Rates versus the USD



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

2.3.3. High-Power Money, or Monetary Base

The Monetary Base or ‘high-powered money’, which is one of the crucial variables in terms of monetary policy, increased \$ 22 million in 2020, thus cancelling out part of the substantial drop recorded in 2019 (-\$48 million). The monetary base was valued at \$151 million at the end of 2020, of which \$23 million corresponds to the currency in circulation and the remaining \$128 million to bank deposits with the BCTL. The expansion of the monetary base in 2020 was mainly due to the increase in bank deposits with the BCTL, amounting to \$18 million.

High-power money increased in 2020, due to the expansion of bank deposits with the BCTL.

2.3.4. Money Supply

Financial sector development plays a vital role in facilitating economic growth and poverty reduction. The compilation and analysis of monetary and financial statistics 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.

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

Chart 2.11

Money Supply Growth

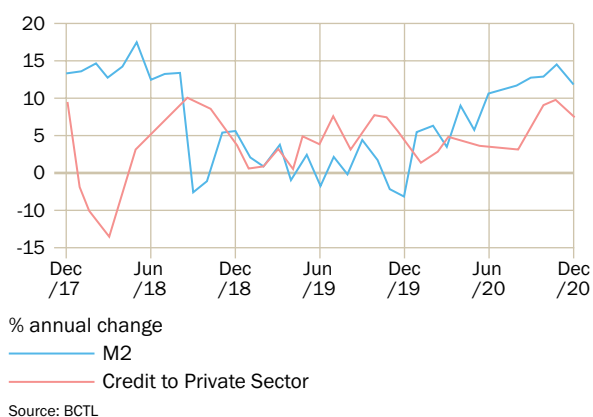
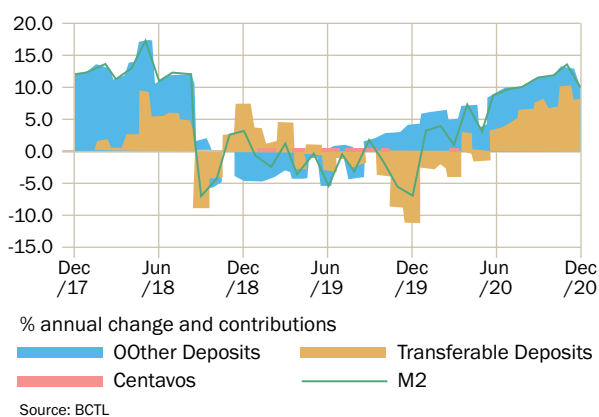


Chart 2.12

M2 and its Components



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 above depict the evolution of the M2 monetary aggregate over the period from 2016 to 2020. 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.

M2 increased in 2020 to \$869 million, fully offsetting the drop recorded in the previous year.

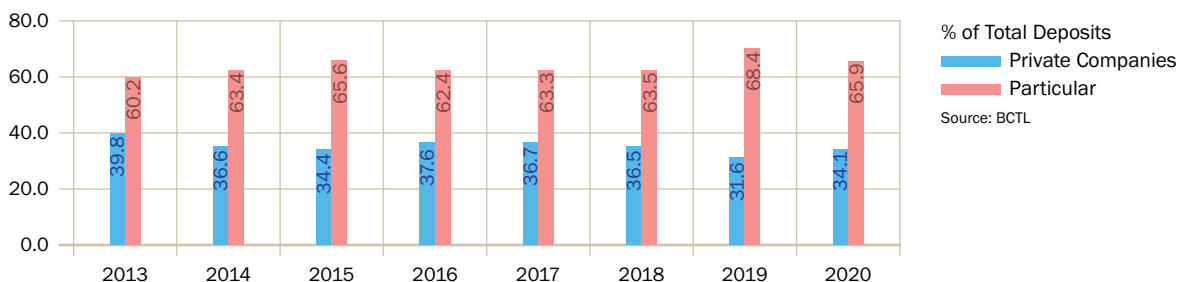
The M2 thus calculated amounted to \$869 million in December 2020, having expanded \$81 million, fully offsetting the -\$60 million annual drop recorded in 2019.

It is also important to analyse the evolution of the money supply components, presented in chart 2.12. Total deposits with financial institutions were instrumental in expanding the money supply, with an increase of \$77 million, completely offsetting the drop of -\$63 million registered in 2019.

As for its ownership by institutional sector, as shown in chart 2.13, it can be seen that 65.9% of deposits are held by individuals and 34.1% by private companies. These percentages translate into a slight reduction in the proportion of households’ deposits in 2020, after, in 2019, the respective increase had broken with the medium-term stability recorded since 2013.

Chart 2.13

Deposit Ownership Trends



In another perspective of M2 breakdown, 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 partially annulled by the increase in public sector deposits.

Table 2.6. Money Supply Changes (M2)

In millions of USD

	Annual Flow 2019	Annual Flow 2020
Credit to Private Sector	14	27
Government	-141	-34
Claim on Central Governmen	0	0
Deposit	141	34
Net Foreign Assets	130	32
Other net Assets	63	-57
M2	-60	81

Fonte: BCTL

2.3.5. Bank Credit

Bank credit increased again in 2020 to \$257 million.

In 2020, bank credit to the private sector recorded a further increase of +\$26 million, or 11%, adding up to the \$9.47 million expansion of the previous year.

Table 2.7. Banking Credit to Different Segments

In millions of USD

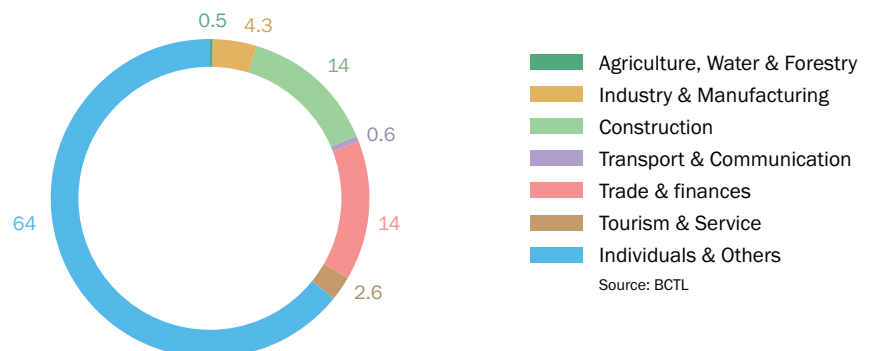
	Saldo		Variação		Composição em %	
	Dez-19	Dez-20	Nominal	%	Dez-19	Dez-20
Agriculture, Water & Forestry	1.1	1.3	0.2	16	0.5	0.5
Industry & Manufacturing	5.8	11.0	5.3	92	2.5	4.3
Construction	48.9	36.1	(12.8)	-26	21	14
Transport & Communication	3.1	1.4	(1.7)	-54	1.4	0.6
Trade & Finances	35.8	35.4	(0.4)	-1	16	14
Tourism & Service	11.5	6.5	(5.0)	-43	5.0	2.5
Particulars (Individual & Others)	125.0	165.3	40.3	32	54	64
Total	231.2	257.1	25.88	11.2	100	100

Source: Bancos Comerciais e análise do BCTL

Even so, the previous table shows that credit granted to companies decreased again -\$14 million, after contracting -\$24 million in 2019 and -\$27 million in 2018. It is also interesting to note that the robust increase in credit to individuals in 2020 and 2019, of \$40 and \$37 million, more than made up for the fall in corporate credit in recent years, having been solely responsible for the growth in global bank credit. Due to this continued increase, credit to individuals was, at the end of 2020, the most important segment in overall bank credit, amounting to 64% of the total.

Chart 2.14

Sector Credit - Dec 2020 - % Total



Retail loans are the most important segment of overall bank credit, amounting to 64% of the total.

In terms of business sectors, credit declined for certain sectors of activity, particularly civil construction and services and tourism. However, on the positive side, there was an increase in credit to the primary sector (agriculture and fisheries) and to the industrial sector in 2020. Despite rising bank credit granted to these key productive sectors, the combined value of their loans still remains low at \$12 million at the end of the year.

Retail credit reinforced its leading position in terms of overall credit portfolios, with a weight of 64%, compared to 54% and 41% in the previous 2 years. Within corporate credit, civil construction (14%) and the distribution and trade sector (14%) remain the most important segments. Agriculture and industry, two important sectors for the economic development of the Country, represent only 0.5% and 4.3% 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. Importantly, it should be noted that the value of provisions for credit risks decreased substantially to \$5.8 million at the end of 2020, compared to \$16 million in 2019. This reduction resulted from the final recognition of losses and cancellation of non-performing credit, which had already been fully written-off, thus having a negligible impact on the balance sheet and results of the banking system.

Banking institutions remain robust in terms of their ability to cope with a possible deterioration in credit quality, given that current levels of non-performing loans are low and that the banks’ operating profitability constitutes a robust basis for financing this eventuality.

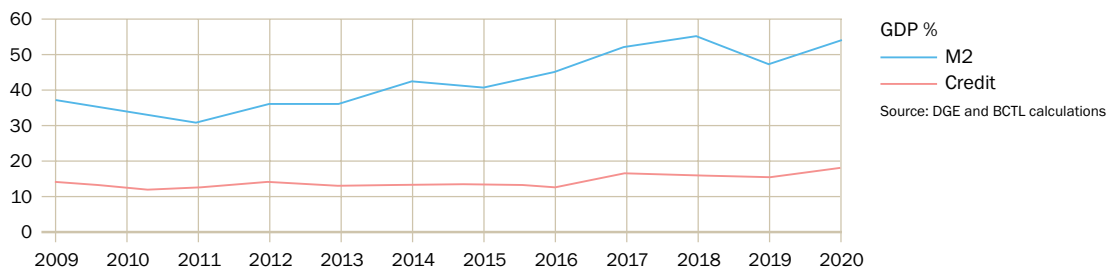
Despite the continued improvement in banks’ balance sheets quality, the value of domestic credit has remained much lower than overall banking deposits, providing commercial banks excess liquidity that tends to be invested preferably on bank deposits abroad.

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 to 53% in 2020, reversing the drop seen in 2019 and prolonging the upward trend recorded since 2011. Another indicator that can also be used to monitor the degree of financial depth is the credit-to-GDP ratio. This was estimated at 17.8% at the end of 2020, having risen 2% compared to 15.8% in 2019 and prolonging the respective acceleration seen since 2016.

Chart 2.15

Monetary Aggregates Growth



2.4. External Sector

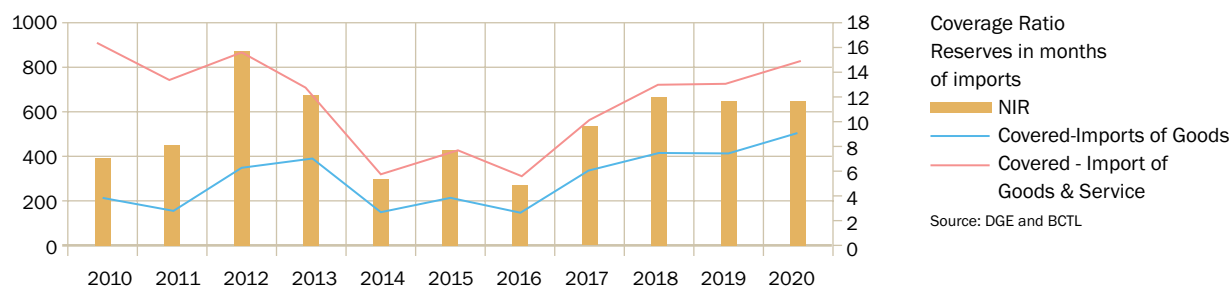
2.4.1. Net International Reserves (NIR)

At the end of 2020, net international reserves (NIR) stood at \$645 million, remaining practically unchanged compared to 2019 and around the levels recorded in the last 3 years. Expressed in months of coverage of total imports of goods and services, NIR amounted to 9.2 months, which corresponds to a substantial increase compared to 7.4 months in 2019, explained from the decrease in imports in 2020.

Net international reserves (NIR) remained practically unchanged in 2020, amounting to \$645 million and covering 9.2 months of the country's annual imports.

Chart 2.16

Net International Reserves



2.4.2. Real Effective Exchange Rate Index (REER)

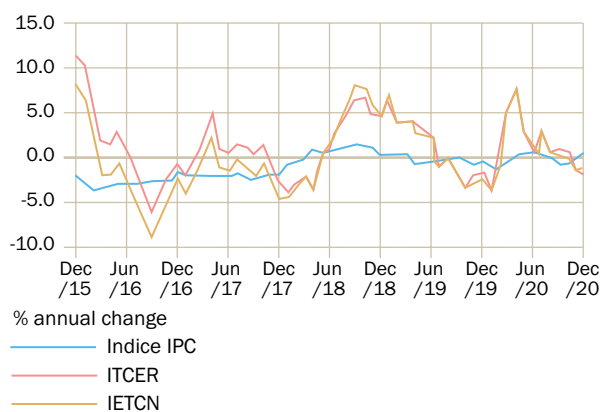
The Real Effective Exchange Rate Index (REER) - an indicator used to assess the competitiveness of countries in terms of tradable products - depreciated again but only slightly in 2020, recording a year-on-year change of -1.7%, which compounded the -1.5% fall recorded in 2019 (chart 2.17a). It should be noted, however, that the REER registered significant volatility during the year, whose peak coincided with the most acute phase of the global pandemic crisis, with the REER appreciating materially in the first half, and then recording a noticeable depreciation in the second half of the year.

The REER depreciated -1.5% in 2020, compounding the depreciation recorded in 2019.

This trajectory was mainly due to the nominal changes of the dollar exchange rate against the currencies of our trading partners. The Nominal Effective Exchange Rate Index (NEER) depreciated -1.3% in 2020, compounding the nominal depreciation of -2.4% in 2019.

Chart 2.17a

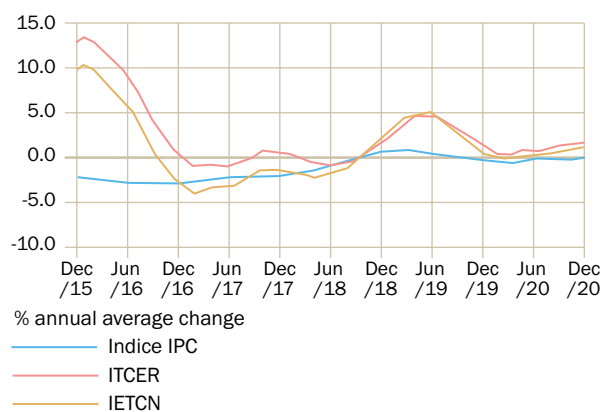
REER Index



Source: Bloomberg and BCTL

Chart 2.17b

REER Index



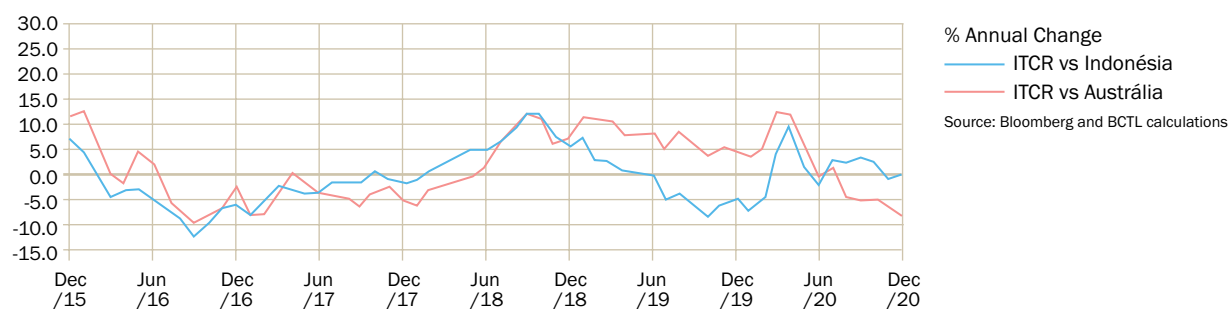
Source: Bloomberg and BCTL

In terms of annual averages (chart 2.17b), the REER registered a slight average appreciation at the end of the year of 1.4%, which compounded the real average appreciations of 1.2% and 1.5% recorded in 2019 and 2018. This average change was therefore symmetric to the REER depreciation on yearly basis in December 2020, which was due to the fact that the REER depreciation occurred practically in the last quarter of 2020, so that the REER average for 2020 was not materially affected by that fall.

In bilateral terms, specifically against the currencies of Indonesia and Australia, two of the country's main trading partners, the dollar remained practically unchanged against the rupiah, but depreciated -8.1% against the Australian dollar. This trajectory also followed the volatility developments recorded for the global REER, with a strong bilateral appreciation of the dollar in the first half of the year, followed by continued and intense depreciation in the last quarter.

Chart 2.18

Selected Real Exchange Rates - Indonesia and Australia



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 weakly influenced by the changes in these effective exchange rates.

However, since our economy remains highly dependent on imports to satisfy aggregate domestic demand, and as in 2019, the slight depreciation of the REER in 2020 should have contributed to increasing, albeit only marginally, pressures on domestic inflation levels. 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 recorded a deficit again in 2020, after having recorded a surplus in 2019 for the first time since 2016. The current account deficit was -\$302 million for the year as a whole, having declined -\$435 million compared to 2019, which was mostly explained by the fall in oil revenues (-\$433 million in 2020). This deficit amounted to -18% of GDP in 2020, thus returning to the average levels recorded between 2016 and 2018. As result, the combined balance of current and capital accounts, which determines the global net external financing needs of our economy, decreased to a negative value of -19% of GDP, compared to 10% in the previous year.

Our current account balance recorded a new deficit in 2020, following the surplus recorded in 2019.

Table 2.8. Timor-Leste Balance of Payments

	In million of USD			% GDP	
	2019	2020	% Change	2019	2020
Current Account Exclude Oil Income	-623	-625	0%	-35	-36
Current Account	133	-302	-327%	8	-18
Goods, FOB	-566	-510	-10%	-32	-30
Service	-357	-269	-25%	-20	-16
Primary Income	1,126	620	-45%	64	36
Secondary Income	-70	-143	103%	-4	-8
Capital Account	26	12	-52%	1	1
Financial Account	-21	263	-1352%	-1	15
Direct Investment	75	-621	-933%	4	-36
Portfolio Investment	-269	916	-440%	-15	53
Other Investment	174	-32	-118%	10	-2
Errors & Omissions	-155	27	-117%	-9	2
Grand Total	138	-27	-119%	8	-2
Reserve Asserts (Change)	18	0	-101%	1	0

Source: BCTL

2.5.1. Current Account

As can be seen in chart 2.19a below, the current account balance declined substantially to record deficit in 2020, which was mainly due to the reduction of -\$433 million in oil revenues. In addition, the -\$75 million decrease in Petroleum Fund income - included in the primary income account, together with oil revenues - and the -\$17 million decrease in the grants from our Development Partners also contributed to this decrease.

The decline in oil revenues was the main factor explaining the deterioration of the current account balance in 2020.

Chart 2.19a

Current Account and Components

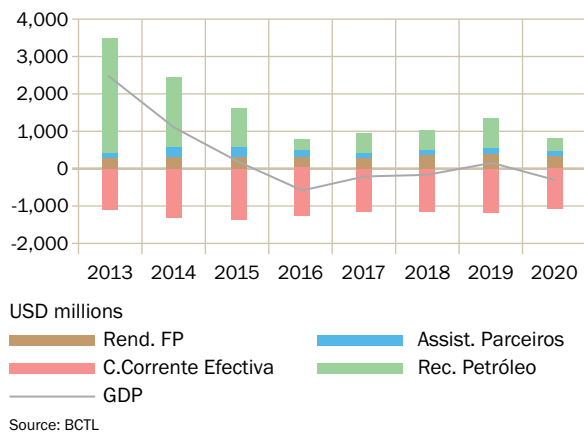
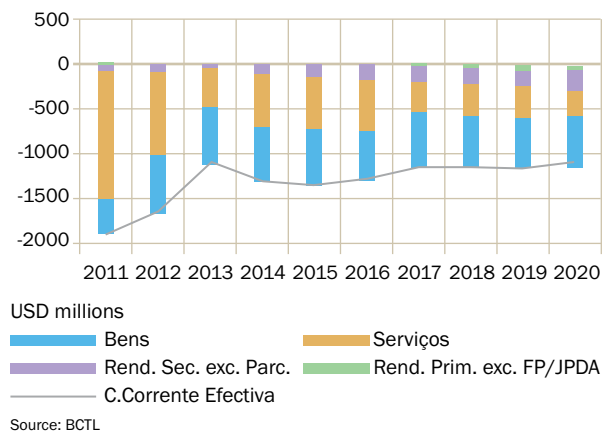


Chart 2.19b

Effective Current Account



Since Timor-Leste's current account is heavily influenced by these three factors that are relatively independent of the evolution of the domestic economy, we consider that the external aggregate that best reflects this economic evolution is the "effective" current account balance. This effective account subtracts those 3 factors from the balance of the global current account, where PF income and oil revenues are subtracted from the primary income account and international aid is subtracted from the secondary income account.

Chart 2.19b depicts the effective current account balance since 2011, calculated in this way. As can be seen, the actual balance improved +\$91 million in 2020, mainly explained by the reduction in the deficit of the trade

The effective current account balance, which eliminates the effect of three extraordinary factors, improved in 2020, despite continuing to record a deficit.

accounts for goods (-\$57 million) and services (-\$88 million). On the contrary, the deterioration in the secondary income account deficit (-\$56 million) cancelled out part of the improvement recorded for the commercial account.

It should also be noted that the deficit in the effective current account has been improving gradually and continuously since 2015, which is mainly due to the contraction of the trade deficit in recent years, despite the deterioration of the deficits in the primary and secondary income accounts, which offset part of that effect.

2.5.1.1. Goods Account

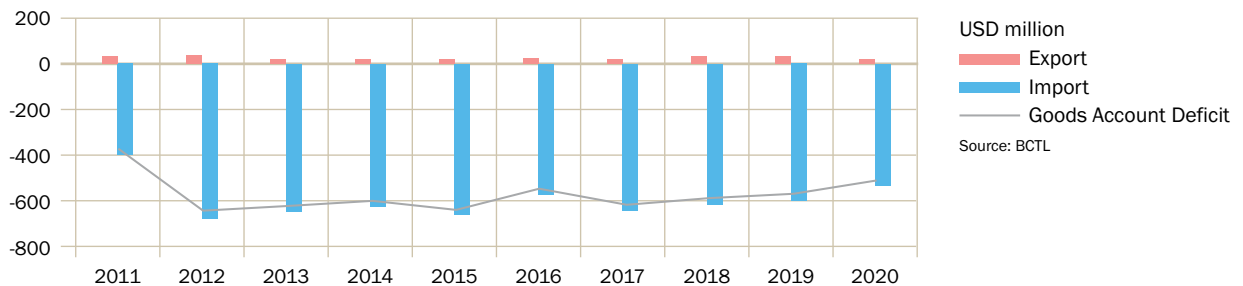
The goods trade account continued to post a substantial deficit, but there was a significant reduction in the deficit in 2020.

In the year under review, the goods account deficit was \$510 million, which translated into a substantial decrease of -\$57 million compared to 2019's deficit, thus compounding the improvements of \$22 and \$26 million registered in 2019 and 2018. Note also that these developments have accompanied the slowdown in domestic demand and overall economic growth rates over the same period.

The improvement in the balance of the goods account resulted mainly from the decrease in imported goods, valued at \$65 million, which had already fallen \$29 million in 2019. In 2020 as a whole, the value of these imports amounted to \$527 million, while the value of goods exports was only \$17 million.

Chart 2.20

Goods Trade Account



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		Annual Change %	% Total	
	2019	2020		2019	2020
US	4	4	-15%	19%	25%
Indonesia	6	1	-78%	27%	10%
Portugal	1	0	-100%	3%	0%
Australia	2	1	-34%	7%	7%
Germany	1	0	-100%	4%	0%
Taiwan	0	0	4%	1%	2%
Japan	1	1	15%	3%	6%
Others	9	8	-15%	37%	50%
Total	24	15	-37%	100%	100%

Source: DGE e cálculos BCTL

The value of exported coffee decreased substantially in 2020, or -\$7.7 million, to \$10.6 million exported for the year as a whole¹. This significant reduction was mainly due to logistical problems and reduced demand during the year, due to the impact of the global pandemic.

The main destination of our exports in 2020 became the USA, weighting 25% of the total, which received a total value of \$4 million in the year. Note that Indonesia, which in the previous year had represented the main destination, saw its exports drop to \$1 million in 2020.

¹ Before the respective adjustment in the balance of payments.



Imports of Goods

The main imported articles are fuels, followed by vehicles and cereals.

According to the DGE and before the respective adjustments in the balance of payments, the value of imports in 2020 fell -\$38 million to \$497 million, reinforcing the contraction of -\$8 million already recorded in 2019.

The main imported products are fuels (22% of the total, compared to 28% in 2019), followed by vehicles (10%) and cereals (8%). It should be noted that the reduction in fuel imports, mainly due to the fall in refined-fuel prices, and in vehicle imports explained the reduction in the overall value of imports, as most other imported items ended up registering rises in 2020. Therefore, the general increase in imports of different categories of goods in 2020 tends to offer confirmation of relative stability in domestic demand, despite the challenges inherent to the management and mitigation of the pandemic impacts in the country.

Table 2.10 Imported Goods – Main Articles

	Millions of USD			% Total	
	2019	2020	Annual Change %	2019	2020
Mineral Fuel	149	108	-27%	28%	22%
Vehicle	62	49	-21%	12%	10%
Cereal	37	38	2%	7%	8%
Beverages	18	22	19%	3%	4%
Electrical Machinery	26	29	11%	5%	6%
Mechanical Machinery	23	23	-1%	4%	5%
Meat & Derivatives	18	18	4%	3%	4%
Cement & Substitutes	19	18	-6%	4%	4%
Cereal - Refined	16	18	14%	3%	4%
Iron and Steel - articles	10	12	14%	2%	2%
Edible Oils	10	12	18%	2%	2%
Milk, Eggs & Substitutes	9	10	3%	2%	2%
Tobacco	0	0	-63%	0%	0%
Others	136	140	3%	25%	28%
Total	535	497	-7%	100%	100%

Source: DGE e cálculos BCTL

The geographic structure of imports and their recent changes are presented in the table below.

Table 2.11 Imports Countries of Origin

	Million of USD		Annual Change %	% Total	
	2019	2020		2019	2020
Indonesia	182	186	2%	34%	37%
China	69	78	13%	13%	16%
Singapore	70	52	-26%	13%	10%
Hong-Kong	78	39	-50%	15%	8%
Vietnam	29	21	-28%	5%	4%
Thailand	10	3	-66%	2%	1%
Australia	10	11	7%	2%	2%
Malaysia	23	29	28%	4%	6%
Japan	8	8	-5%	2%	2%
Brazil	10	9	-6%	2%	2%
Portugal	5	3	-41%	1%	1%
South Korea	3	3	-20%	1%	1%
Others	37	54	-46%	7%	11%
Total	535	496	-7%	100%	100%

Fonte: DGE e cálculos BCTL

Indonesia, which has remained the country's main trading partner, accounted for 37% of total imports in 2020, which translates into a new increase compared to 34% and 31% recorded in 2019 and 2018, with imports from this country rising 2% to \$186 million.

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

In addition, the increase in imports from Indonesia, China and Malaysia contributed to mitigate the decrease in imports from other relevant countries. We also highlight the annual increase in aggregate imports sourced from other countries, which are not included in the list of our typical main commercial partners.

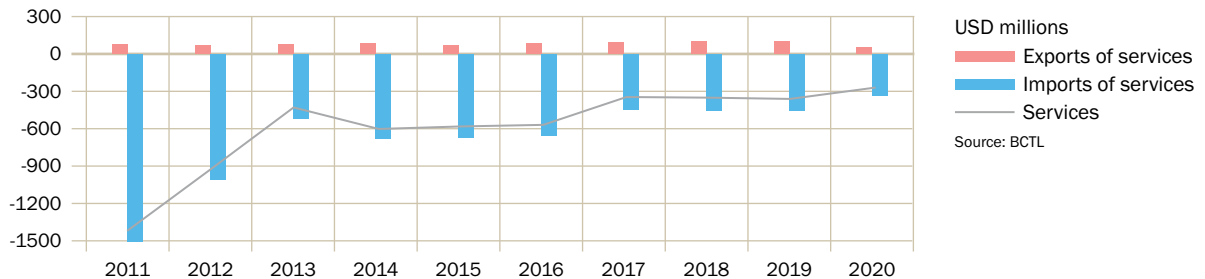
2.5.1.2. Services Account

The services account recorded a deficit of -\$269 million in 2020, which translated into a substantial deficit reduction, compared to 2019.

In 2020, the services account recorded a deficit balance of -\$269 million, which represented a substantial reduction versus its 2019 and 2018 deficit, amounting to -\$357 and -\$349 million. As shown in figure 2.21, this was mainly due to the decrease in services imports in 2020 (-\$133 million), as exported services decreased \$45 million in the same year.

Chart 2.21

Services Trade Account



The decline in services exports was particularly driven by the fall in exports of travel services. On the imports side, it is worth noting the substantial reduction in the imports of construction and travel services.

2.5.1.3. Primary Income Account

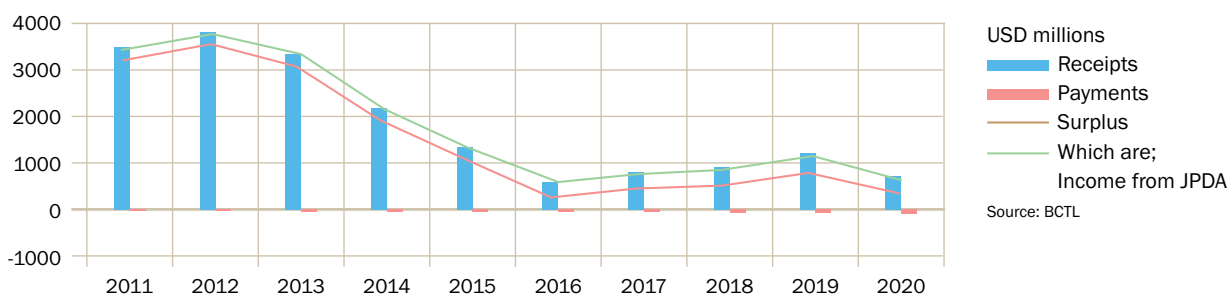
The primary income account surplus declined in 2020, as a result of the contraction in oil revenues.

The reduction in oil revenues in 2020, which includes fees and royalties received from oil exploration activities in the Timor Sea - the joint oil development area (JPDA) - was the main driver of the decline in the surplus balance of the primary income account in 2020 to \$620 million. This contraction in oil revenues, in turn, caused the global balance of our balance of payments to deteriorate.

Chart 2.22 shows the reduction in JPDA's revenues in 2020 to \$324 million, offsetting the improvement recorded in 2019. As can be seen in the same chart, the contraction recorded in 2020 interrupted oil revenues' gradual recovery trajectory observed since 2016, as well as for the primary income's surplus, since its lowest level in 2016.

Chart 2.22

Primary Income Account



As result, primary income account surplus amounted to 34% of non-oil GDP in 2020, compared to 64% and 51% in 2019 and 2018.

2.5.1.4. Secondary Income Account

The secondary income account balance recorded a net outflow of resources of -\$143 million in 2020, which translated into a substantial widening of the deficit versus the -\$70 and -\$96 million recorded in 2019 and 2018. It should also be noted that remittances of foreign workers in Timor-Leste increased \$110 million to \$397 million in 2020, thus contributing substantially to aggravate the global deficit of this sub-account.

Both inward and outward workers' remittances increased substantially in 2020.

On the contrary, the value of remittances received from emigrant Timorese workers increased again by \$55 million in 2020 to \$150 million, contributing to partially offset the impact of higher outward remittances on the sub-account deficit.

2.5.2. Financial Account

The financial account recorded a net inflow of \$263 million in 2020.

In the period under review, the financial account, which includes flows related to the economy's external financing sources, recorded a net inflow of \$263 million, which corresponds to an improvement in the account deficit of +\$284 million, compared to 2019.

This change continues to be mostly determined by the portfolio investment flows, namely those relative to the PF, which registered a total inflow of \$916 million. It should also be noted that the balance of the financial sub-account related to direct investment registered a very significant deficit, which was practically due to the State's acquisition of relevant shareholdings of international energy companies in the "Sunrise" oil field, on the south coast of Timor-Leste.

Table 2.12 External Funding Sources

USD millions

	2019	2020
Financial Account	-21	263
Net Direct Investment	75	-621
Portfolio Investment	-269	916
PF Investment in foreign	-269	916
Other investment, Assets	54	-29
Other Investment, Liabilities	120	-2

Source: BCTL



2.6. Banking System

2.6.1. Banking Assets

The banking system in Timor-Leste remained stable and solid during the period under review. The sector continues to be practically funded by residents' deposits, but only lends out a portion of those funds to resident companies and individuals, so that, as a whole, the system continues to hold a very substantive liquidity position.

The banking system continued to remain stable and robust in 2020.

The tables and charts that follow provide information regarding the country's banking system, which in 2020 was composed by a local public bank --- the 'Banco Nacional do Comércio de Timor-Leste; and local agencies of four major foreign banks, based in Portugal (CGD/BNU), Australia (ANZ) and Indonesia (Bank Mandiri and BRI).

Total banking assets continued to grow 8% in 2020 – having grown 12% and 6% in 2019 and 2018 - to \$1,507 million, thus rising +\$112 million. This resulted mainly from the increase in credit (+\$55 million) and higher deposits with other banking institutions (+\$27 million), but also from the expansion of other investments and deposits with the BCTL.

Banking assets increased again 8% in 2020, to \$1,507 million.

Table 2.13 Banking System Assets

Millions of USD

	Dec-19	Dec-20	Weight%	Change	
				%	Value
Cash & BCTL Balance	147	166	11	13	19
Placement to other Banks	985	1012	67	3	27
Investment	18	32	2	78	14
Loans	222	278	18	25	55
Fixed Asset	15	15	1	6	1
Other Asset	7	5	0	-39	-3
Total	1394	1507	100	8	112

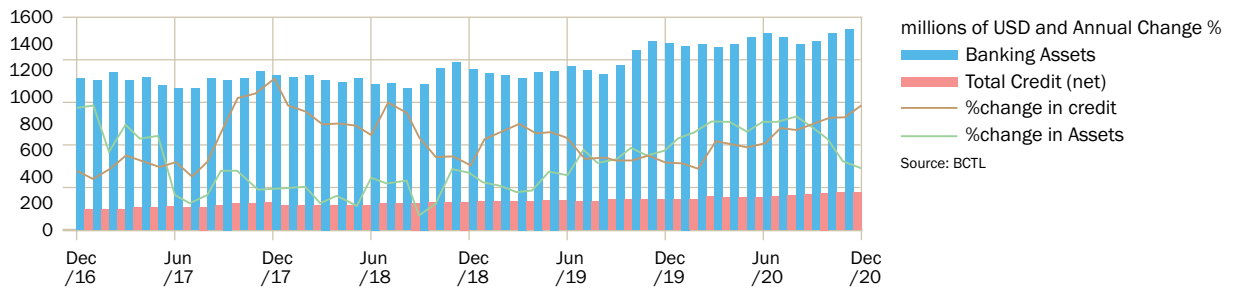
Fonte: BCTL



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 June 2017, which has resulted in a gradual and continuous increase in the relative importance of credit within overall banking assets. In 2020, credit growth once again exceeded the expansion of overall bank assets.

Chart 2.23

Banking Assets Levels and Changes

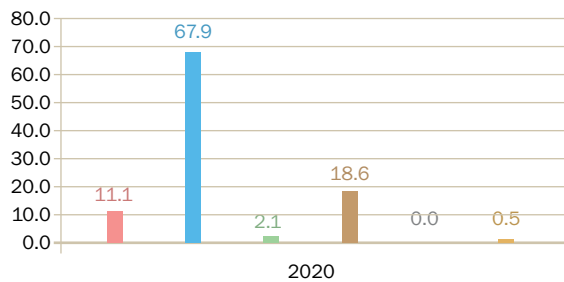


Deposits with other banks continue to be the more important category of banks portfolios.

However, deposits with other banking institutions continue to lead the composition of banks portfolios. Nonetheless, their respective weight in total assets decreased slightly in 2020, representing 67.9% of the total at the end of the year, compared to the 70.6% recorded in 2019 (charts 2.24a to 2.24b).

Chart 2.24a

Banking Assets Composition



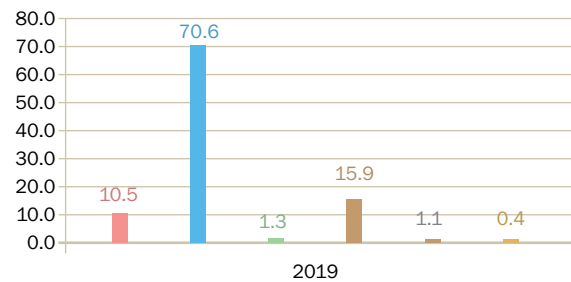
% Total Assets

- Cash & BCTL balance
- Placement to Other Bank
- Investment
- Loans (net)
- Fixed Assets

Source: BCTL

Chart 2.24b

Banking Assets Composition



% Total Assets

- Cash & BCTL Balance
- Placement to Other Bank
- Investment
- Loans (net)
- Fixed Assets

Source: BCTL

Loans continue to represent the second position in the banks assets' structure, with a weight of 18.6%. The net value of banks loans portfolio amounted to \$278 million at the end of 2020, having grown 25% over the year, despite the challenging macroeconomic context.

In December of 2020, the deposits with the BCTL amounted to \$166 million, which corresponds to 11.1% of total assets, having registered an expansion compared to 2019.

2.6.2. Banking Liabilities

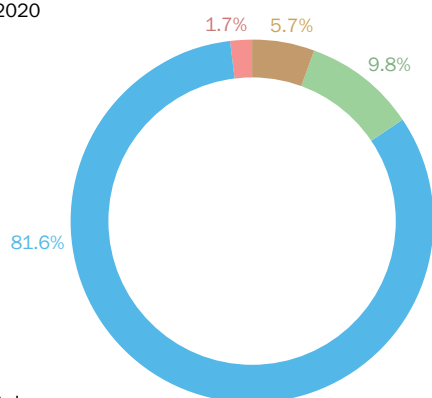
Clients' deposits continue to represent the largest source of funds for credit institutions. Deposits accounted for 73.5% of bank liabilities at the end of the year, having increased again +\$66 million in 2020, when in 2019 deposits of \$1,041 million represented 74.7% of total liabilities.

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

In 2020, liabilities owed to the Central Bank increased +\$70 million to 5.7% of total liabilities, while deposits owed to other financial institutions increased +\$13 million, to 9.8% of liabilities. It should be noted that both categories, especially deposits from other financial institutions, have recorded relevant increases since 2017.

Chart 2.25a

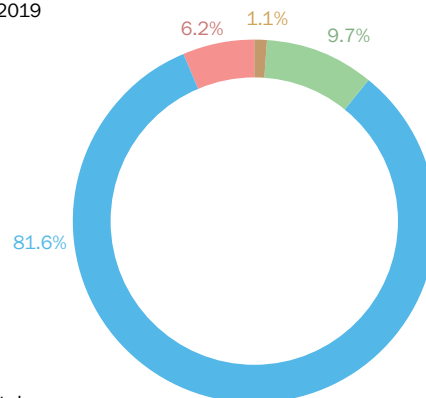
Banking Liabilities Composition
Dec 2020



% Total
■ Due to BCTL
■ Deposit from other banks
■ Deposit
■ Other
 Source: BCTL

Chart 2.25b

Banking Liabilities Composition
Dec 2019



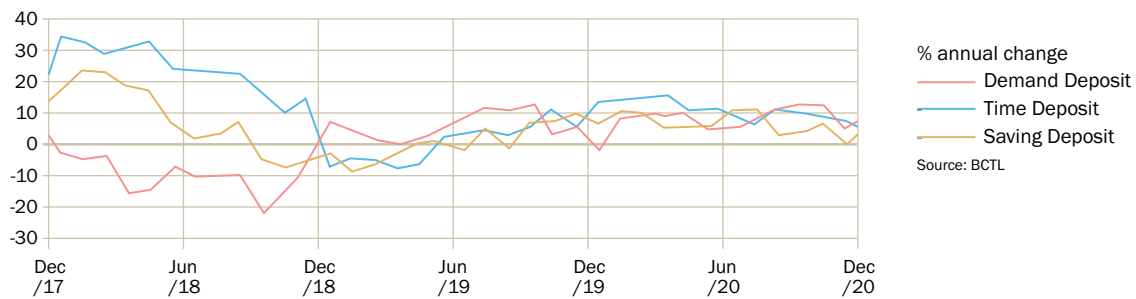
% Total
■ Due to BCTL
■ Deposit from other banks
■ Deposit
■ Other
 Source: BCTL

Continued deposits' growth was mainly due to the expansion of current/checking account deposits, but term and savings investments also grew in 2020.

In terms of deposits, current/checking account deposits increased \$45 million in 2020, while fixed-term and savings deposits increased by +\$8 and +\$13 million in the year, reinforcing the gains already observed in 2019.

Chart 2.26

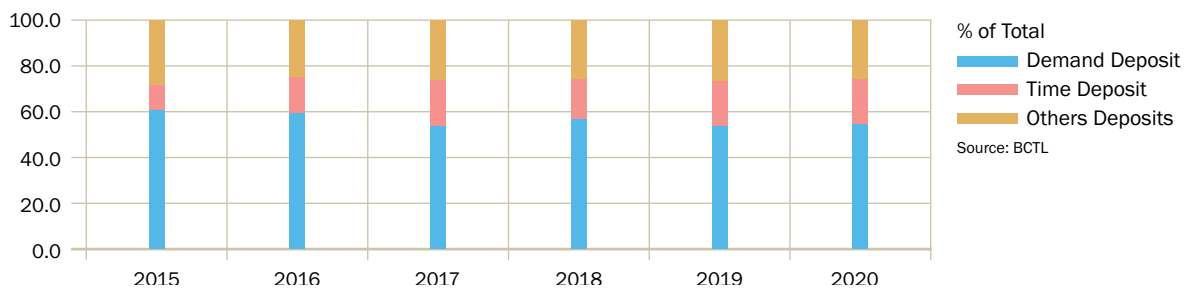
Deposits Growth



As result, the composition structure of deposits registered changes that contradicted what had been observed in 2019, with checking account deposits increasing their importance, in contrast with fixed-term and savings deposits. Checking account deposits thus continued to represent the largest component of total deposits, with 55.6% of the total. The amount invested in fixed-term deposits fell slightly to 18.8% of the total, compared to 19.3% in the previous year, while savings deposits, with 25.6% of the total at the end of 2020, recorded a slight decrease in their relative importance compared to 25.9% in 2019.

Chart 2.27

Deposits Term Composition



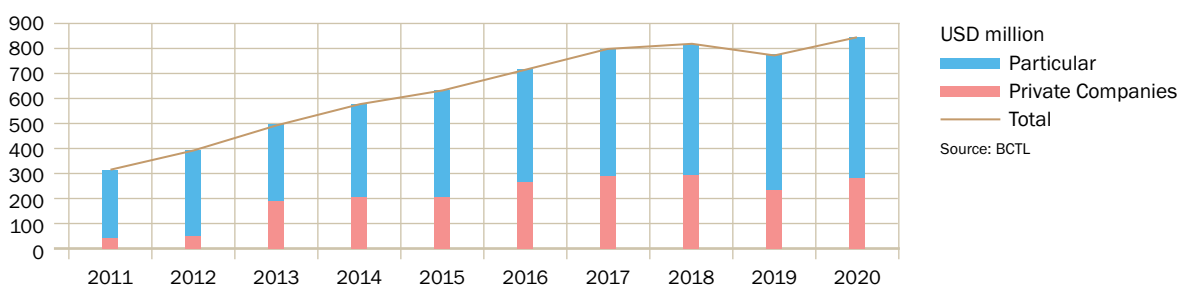
In terms of deposits' ownership, there was no relevant change in those held by private residents in terms of composition, whose weight was 81.6% of total deposits, with retail deposits continuing to represent the largest category. It should also be noted that both corporate and retail deposits expanded in 2020.

Private deposits continue to represent the majority of bank deposits.

As result, the weight of retail deposits decreased slightly to 66% of deposits from private residents in 2020, compared to 68% in 2019. Private companies' deposits maintained the second position, with a weight of 34% of resident's deposits, although higher than the 32% of the previous year.

Chart 2.28

Private Residents Deposits



2.6.3. Banking Profitability

Banks' operating revenues consisted of interest and commissions charged to their customers, which amounted to a total of \$ 44 million in 2020, registering a decrease of \$ 5 million compared to 2019, adding to the expansion seen in 2019.

Banks' operating revenue decrease in 2020 to \$44 million

As a result of their activity, banks presented the following consolidated results in 2020, which are compared with the equivalent figures for 2019 in the table below:

Table 2.14 Banking System Consolidated Earnings

Items	In million of USD		% Gross Op. Result		
	2019	2020	Annual Change %	2018	2019
Net Interest	34	31	-9%	70%	71%
Commission and other revenue Op.	15	13	-13%	30%	29%
Gross Operating Result	49	44	-10%	100%	100%
Provision & Impairments	-4	-3	-29%	-8%	-6%
Operational Expenses	-22	-22	-1%	-46%	-51%
Net Operations Income	23	22	-1%	46%	51%
Net Income	21	17	-18%	43%	39%
RoA%-Return on Assets	1.51%	1.16%	-23%		
RoE%-Return on Equity	18.5%	13.1%	-30%		

Source: BCTL

In terms of changes, it is worth noting the increase in operating revenues, both for net interest and fees income. However, given the simultaneous increase in operating expenses, the system's operating income remained unchanged at \$51 million. However, after taking into account higher other operational expenses, the system's consolidated net profit decreased to \$17 million in 2020, compared to \$21 million recorded in the previous year.

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

This decrease explained the bulk of the contraction in profitability ratios. RoA, or return on assets, in 2020 fell to 1.26%, compared to 1.53% in 2019, while RoE, or return on equity, declined to 13.6%. It should be noted, however, that these two ratios declined more than the fall in absolute net income, which was explained by the expansion of banks' assets and capital. Banks continue to maintain higher liquidity ratios than those required by the Central Bank and applicable regulation.



2.6.4. Other Deposit taking Institutions (ODTI)

Deposits and Taking Institutions (ODTI) that licensed by BCTL, named Kaebauk Investimentu no Finansas, SA (KIF) and Servisu Finanseiru Moris Rasik, SA (SFMR), that constituted at the end of 2018. Therefore the information below shows the financial performance of ODTI's as of December 2020.

The total assets registered US\$33.1 million or increased 1.5% compare to same period 2019.

The total assets registered US\$33.1 million or increased 1.5% compare to same period 2019. The gross loan portfolio recorded USD 24.7 million, increased 3% compare to December 2018. Total gross loan portfolio registered US\$26.3 million represent 79.4% of total assets grew 6.2% compare to December 2019. Deposit is consisting of voluntary deposit that represents 6.6% and guarantee account 25% of total liabilities. ODTI's continue to maintain liquidity ratios higher than required by central bank. As result of their activity, ODTI's recorded the net profit for the year declined from US\$2.8 million in 2019 to US\$1.9 million in 2020.

2.6.5. Money Transfer Services

2.6.5.1. Remittances Transfer - Commercial Banks

In 2020, money transfer services, reported by commercial banks operating in Timor-Leste, recorded a total of 92,000 transactions abroad, with an aggregate face value of \$1,491 million. The number of these transactions thus decreased -11% compared to 2019 and the total value transferred fell substantially by -37%, which was translated into a significant contraction of the average value per transfer abroad.

There was an improvement in the net balance of transfers reported by commercial banks to -\$912 million in 2020.

On the other hand, the number of received transfer transactions increased 5% in 2020 to 57,000 transactions, but the amount received decreased -11% to \$579 million.

As result, the net balance of transfers received and originated by commercial banks improved in 2020 to -\$912 million, compared to 2019, which recorded a negative balance -\$1,272 million.

2.6.5.2. Remittances Transfer – Money Transfer Operators (MTOs)

The net balance of transfers reported by MTOs also improved in 2020 to -\$15 million, compared to -\$48 million in 2019.

In 2020, Money Transfer Operators (MTOs) recorded a total value of transfers abroad of \$103 million, compared to \$115 million in 2019. Received transfers intermediated by these operators registered \$88 million, which were lower than the \$67 million in 2019. This also represents an improvement in the deficit balance of this type of transfers of \$33 million, to - \$15 million in 2020.

Personal transfers continued to represent the largest share, both in terms of inflows and outflows, amounting to 43% and 97% of total transfers in both directions. Note that personal transfers group together the amounts transferred using as justification the reasons ‘family’, ‘education’ and ‘savings’ invoked in operations.

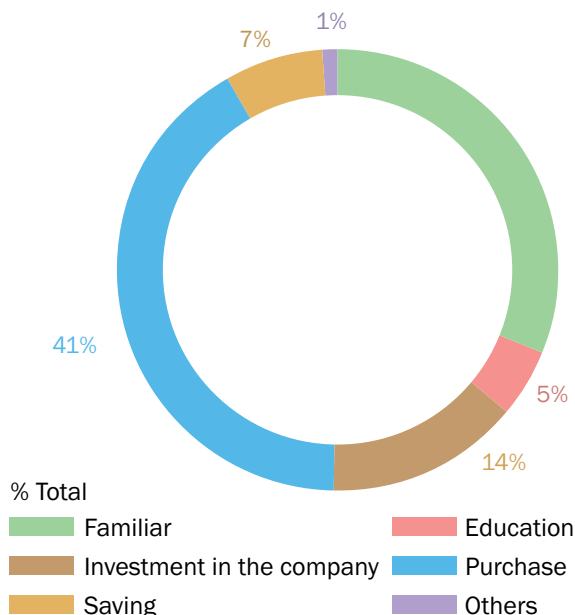
This type of inflows continue to be mostly originated in Europe, while the respective outflows are mainly bound for Asia and, in particular, Indonesia.

Geographically, most of the inflows came from Europe, having been responsible for \$55 million in 2020 (61% of the total), compared to the \$47 million of 2019. These were mostly due to remittances received from Timorese workers residing and working in Europe. Remittance outflows were mostly sent to the Asian region (\$112 million), especially to Indonesia (\$99 million, or 84% of total outflows), which continues to benefit from remittances sent by Indonesian citizens who reside and work in Timor-Leste.

Charts 2.29a and 2.29b depict the composition of Timor-Leste’s inward and outward transfers, according to their stated purpose, intermediated by MTOs in 2020.

Chart 2.29a

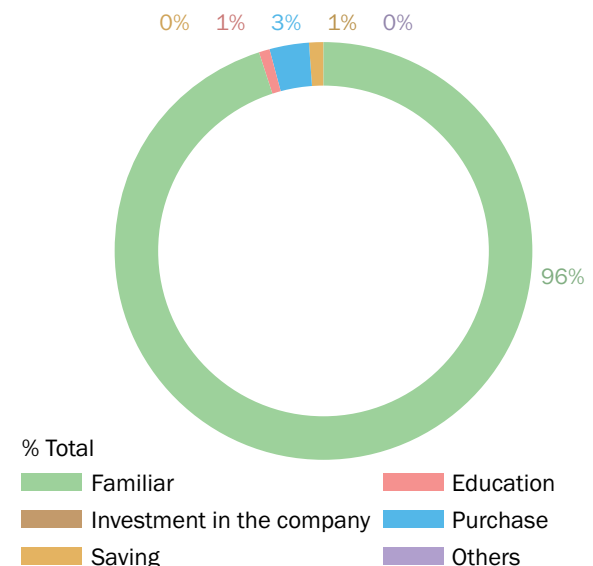
MTOs Outward Transfers, by Purpose



Source: BCTL

Chart 2.29b

MTOs Inward Transfers, by Purpose



Source: BCTL

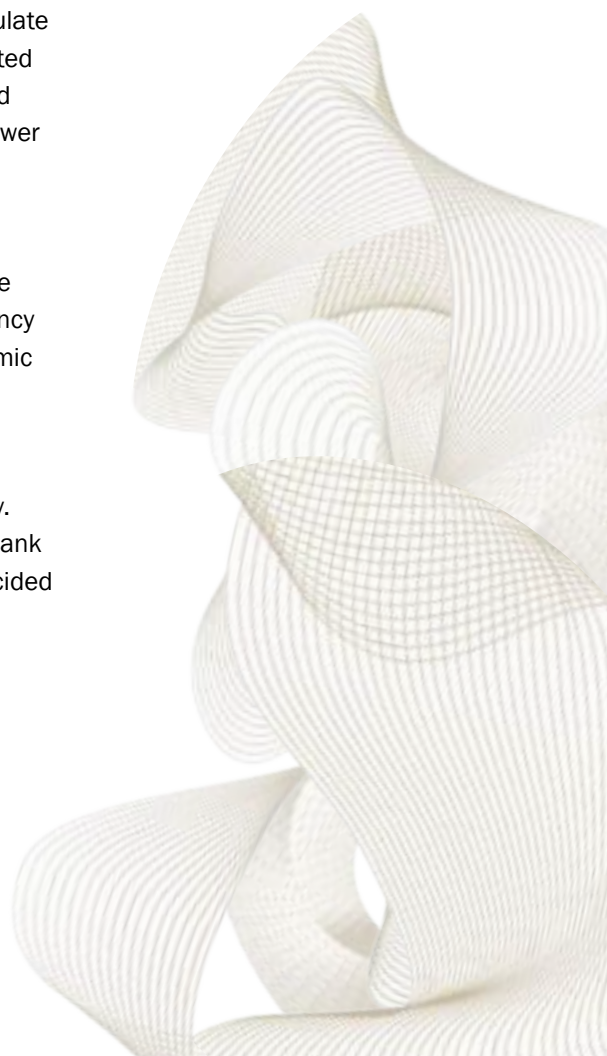
2.7. Relevant Economic Monitoring and Support Initiatives

This subsection describes the relevant initiatives implemented by the BCTL, relative to the monitoring and evaluation of the pandemic crisis's impacts in the national economy, as well as the credit moratorium program implemented by the Bank to mitigate those respective effects.

2.7.1. Credit Moratorium Program

The Covid-19 pandemic has been and continues to be a major global challenge which has been impacting Timor Leste since, at least, March of 2020. Throughout this period, the Government has imposed several successive states of emergency and widespread social restrictions to contain the virus, such as mandatory quarantines, domestic and international travel restrictions and social and physical distancing controls. Naturally, these restrictions have exerted a substantial social and economic toll in Timor Leste, as has been the case in practically all the countries around the world. Specifically, Timorese households and companies have been materially affected, being impacted in terms of declining income and consumption levels. Nonetheless, given the availability of financial reserves, the Government has managed to partially mitigate these adverse impacts, by setting up a Covid-19 Emergency Fund with an initial capital of \$219.5 million to stimulate the economy. The Credit Moratorium has been one of the programs enacted in this context, which was deemed necessary to help Timorese citizen and companies face material difficulties and lower income and purchasing power during the pandemic.

The Credit moratorium program was established under Decree-law no. 22/2020, dated 5th June 2020, as part of the policy package to stimulate the economic sectors affected by Covid-19 and respective social emergency status. The agreement was signed by the Coordinating Minister of Economic Affairs, the Ministry of Finance and BCTL on July the 20th of 2020, which designated BCTL as its operational manager. The program was designed to encourage widespread voluntary participation of all banks and other deposit-taking institutions in the country, but it was not made compulsory. The program was participated by four commercial banks - BNCTL, BNU, Bank Mandiri, and BRI - while ANZ and two other deposit-taking institutions decided not to join the official program, preferring to implement their own specific programs, which were nonetheless similar to the Credit Moratorium.



The program was initiated to provide direct support to Timorese businesses and individuals who had entered into loan agreements with Banks before the 1st of March of 2020 and which did not have business activities in the Telecommunications, Extractive Industries, and Financial Services sectors. The approved bank clients benefited from a delay in principal repayments and a public subsidy of 60% of their interest rate charges, paid for by the State for 3 months, which meant that private debtors only had to pay 40% of their due interest costs for the same period.

The total number of applications to the program amounted to 6,321, including 13 businesses and 6,308 individuals. After due compliance checks, only 4,601 applications were approved, covering 11 businesses and 4,590 individuals, because some applications did not meet the criteria and other applications were duplicated. Furthermore, in the end, the final BCTL's decision effectively approved 4,135 applications, including the 11 businesses, as 466 applicants ended up being rejected, due to the reasons shown in the table that follows.

Note also that all the processual steps of the program - such as the application, evaluation, confirmation, and verification - were done through an online platform designed and implemented by the BCTL, thus being the first program rolled-out through the exclusive use of an online platform. Although BCTL understands that there were some natural challenges during the effective implementation of the credit moratorium program, this initial success is an encouraging sign of the potential of the platform and the use of more digital services in the near future, as a way to promote financial inclusion and widespread access to financial services through digital platforms.

Table 2.15. BCTL Decisions Regarding Program Applications

Reason	No. of Approved	No. of Rejected	Total
Borrower name or CE does not match CRIS data		98	98
Cancelled by borrowers		24	24
Credit already past due		4	4
Credit amount differ from that of CRIS		18	18
Double record		97	97
Error in data submission		69	69
Meet the data requirements	4,124		4.124
No data available in CRIS		156	156
Total	4,124	466	4,590



The approved individual applicants are based in the 13 municipalities, but the majority were from Dili, which amounted to 65% of the total, or 4,124.

Table 2.16. Beneficiaries by Municipality

Municipality	Effective Participant (Man)	Amount (US\$)	Effective Participant (Woman)	Amount (US\$)	Total Effective Participant	Amount (US\$)
Aileu	77	697,500	33	283,350	110	980,850
Ainaro	133	1,138,986	57	458,700	190	1,597,686
Baucau	126	1,173,854	66	626,720	192	1,800,574
Bobonaro	83	776,300	33	407,982	116	1,184,282
Covalima	50	544,300	17	192,350	67	736,650
Díli	1,621	17,841,371	1,055	11,441,419	2,676	29,282,736
Ermera	113	1,189,258	29	364,202	142	1,553,459
Lautém	42	333,403	23	230,600	65	564,003
Liquiçá	113	1,047,373	49	456,348	162	1,503,720
Manatuto	61	633,300	23	279,600	84	912,900
Manufahi	80	745,671	43	426,435	123	1,172,106
Oe-Cusse	28	166,400	13	95,900	41	262,300
Viqueque	122	1,134,401	34	344,850	156	1,479,252
Total	2,649	27,422,063	1,475	15,608,456	4,124	43,030,519

In terms of borrowers' classification, public servants were the majority of the beneficiaries, amounting to 76% or 3,145 of total individual beneficiaries (4,124). BCTL also collected information on the employee type of each program beneficiary, which showed that 97% of beneficiaries were permanent employees and the rest temporary employees. Disaggregated by gender, male beneficiaries were over represented in the program, compared to female borrowers.

Table 2.17. Beneficiaries Grouped by Different Classifications

Table 2.17a: Effective borrowers by Group

Group	Individuals	Amount (US \$)
Inter. Agencies	32	288.350
Private Business	121	1,613.431
Public Institutions	142	2.981.750
Public Servants	3.145	31.920.765
Civil Society	1	5.200
Indiv. Business	20	83.350
PNTL / F-FDTL	627	5.962.993
Veterans and Elderly	36	168.680
Total	4.124	43.030.519

Table 2.17b: By Employee Type

Employee Type	Individuals
Permanent	4.026
Temporary	98
Total	4.124

Table 2.17c: By Gender

Gender	Individuals	Amount (US \$)
Male	2.649	27.422.062
Female	1.475	15.608.456
Total	4.124	43.030.519

The table below shows the number of effective participants by bank, including individuals and companies. BNCTL and BRI's participants in the credit moratorium were 1,777 and 1,670, which was higher compared with the other commercial banks, reflecting those 2 banks more retail-oriented focus. Given that BRI's participant loans interest costs' amounts was the highest amongst the 4 banks, it ranked as the highest, above 60%, subsidy-receiving bank of the program.

Table 2.18. Beneficiaries which were subsidized by more than 60%

	Effective Participants	Amount (US \$)	Interest costs (US \$)	Average lending rate (% pa)	60% Subsidized
BNCTL	1.777	13.010.546	101.558	11,8	60.935
BNU	570	21.837.251	56.131	11,1	33.679
MANDIRI	118	1.744.135	13.415	11,0	8.049
BRI	1.670	23.311.027	198.510	11,9	119.106
Total	4,135	59.902.959	369.614		221.768

The total budget allocated for the credit moratorium program was \$5 million, whereas only \$665,279 were effectively spent and transferred to reimburse the four commercial banks. The payments were made in five different days, while BNU ended up returning \$52,000 back to the BCTL, as some participants' credits became due before the payment date.

Therefore, the outstanding balance in the Treasury account with BCTL is still \$4,334,720. Given this balance, BCTL proposed to the Government that, if there is to be no extension of the program, the remaining balance could be reallocated for a possible credit emergency program for the duration of 1 year.

Table 2.19. Monthly Transferred Amounts to the 4 Commercial Banks

	September 2020	October 2020	November 2020	Total Paid
BNCTL	60.935	60.935	60.935	182.804
BNU	33.679	33.679	33.653	101.010
MANDIRI	8.049	8.049	8.049	24.147
BRI	119.106	119.106	119.106	35.318
Total	221.768	221.768	221.742	665.279

2.7.2. Surveys and Economic Monitoring

Households and Informal Businesses Surveys

The BCTL's Economic and Statistics Division carried out two surveys during the "state of emergency" stage in 2020. One was focused on households consumption, which was implemented in Aileu, Dili, Liquiçá and Manatuto, between the 5th and 11th August 2020, while the other focused on informal business activities, and was carried out in Manleu market, Taibesi market, Timor Plaza and Lecidere market from 31st of March to the 5th of April of 2020.

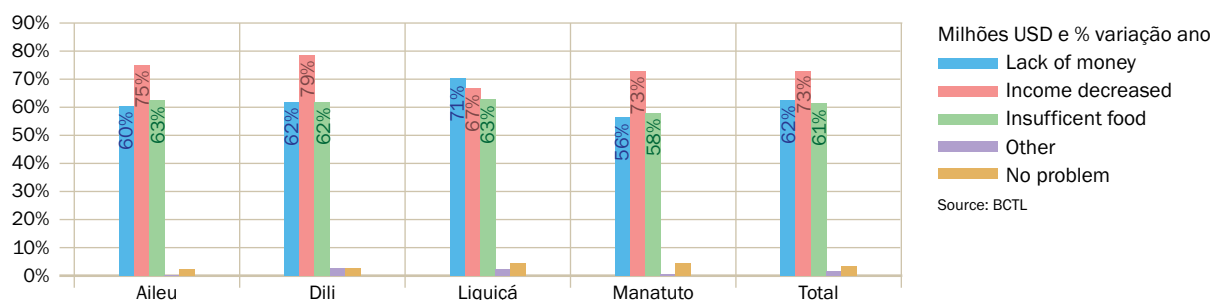
These surveys aimed at evaluating the impact of the "state of emergency" on households consumption and the income of informal business owners, as well as evaluating households consumption after receiving the \$200 public subsidy, together with assessing problems households faced during the lockdown. The surveys' participants included 189 households' representatives and 10 informal business. Some of the business owners' data were also collated from national media reports during the lockdown period.

Issues Households faced during Lockdown

Households faced various problems during the covid-19 pandemic lockdown, ranging from lack of money to insufficient food to consume. Of the 189 households: 73% reported they had issues with decreased income due to reduced demand for their selling goods during the state of emergency; 62% reported they had problems with lack of income; and 61% reported they had insufficient food to consume, due to having no paid work during the lockdown. Another 3% reported they did not have problems with income and food during the lockdown. These latter households were those whose income was not impacted with the lockdown, because they had a defined and permanent income source.

Chart 2.30

Main Households Issues during Lockdown



Note: Aileu = 48 Households, Dili = 42, Liquiçá = 51 and Manatuto = 48

Informal Business Owners' Income during the state of emergency

Informal business owners suffered huge losses in their daily revenue during the strict lockdown. On average, their daily minimum revenue decreased 94%, while their maximum revenue decreased 73%, due to limited or no demand for their goods, as most people worked and studied from home. All schools and religious activities were closed down during the first and second state of emergency, while they continued to operate with substantial restrictions during subsequent states of emergencies.

Table 2.20. Informal Business Income during Lockdown

Location	Revenue / day				Changes	
	Before		During		Minimum (%)	Maximum (%)
	Minimum (US \$)	Maximum (US \$)	Minimum (US \$)	Maximum (US \$)		
Timor Plaza	10	15	3	6	-70,0	-60,0
Coqueiros Beach	20	30	0	25	-100,0	-16,7
Largo Lecidere	42	55	0	0,5	-100,0	-99,1
Taibesi Market	140	190	10	40	-92,9	-78,9
Manleuana	7	10	0	4	-100,0	-60,0
Delta in the Manleu	10	15	0	10	-100,0	-33,3
Average	38	53	2	14	-94,3	-72,9

Households' consumption during the state of emergency

The Covid-19's lockdown also affected households' consumption in the surveyed areas. Of those who had issues with income and food insufficiency: 51% referred that their consumption decreased by -1% to -25% compared to their previous consumption before the lockdown; 16% reported that their consumption decreased by -26% and -50%; and 6% reported their consumption decreased by more than -50%. Of the total 189 households, 1% said their consumption actually increased between +1% and +25% and another 26% reported that their consumption remained the same during and before the lockdown.

Table 2.21. Households Incomes during Lockdown

Municipality	Decreased (-1 a 25%)	Decreased (-26 a 50%)	Decreased (-50%)	Increased (+1 a +25%)	Unchanged
Aileu	45%	10%	8%	2%	33%
Dili	50%	19%	2%	0%	29%
Liquica	59%	16%	6%	0%	20%
Manatee	49%	19%	9%	0%	23%
Total	51%	16%	6%	1%	26%

Households' consumption after receiving the public cash subsidy

A question was also added to the households' survey questionnaire to assess the impact of the public cash subsidy of \$200 to households with monthly income of or below \$500, which was designed to support and maintain household's consumption during the state of emergency. The results of the survey showed that: 67% of the 189 households reported their consumption increased by +1% to +25% after receiving the \$200 support, 10% reported their consumption increased by +26% and +50% and 5% reported their consumption increased by more than 50%. However, 17% of the households also referred that their consumption remained constant compared to what was the situation before receiving the subsidy, while only 1% mentioned that their consumption decreased by -1% to -25% post-subsidy.

Table 2.22. Households Consumption Post Public Subsidy (200\$ outlay)

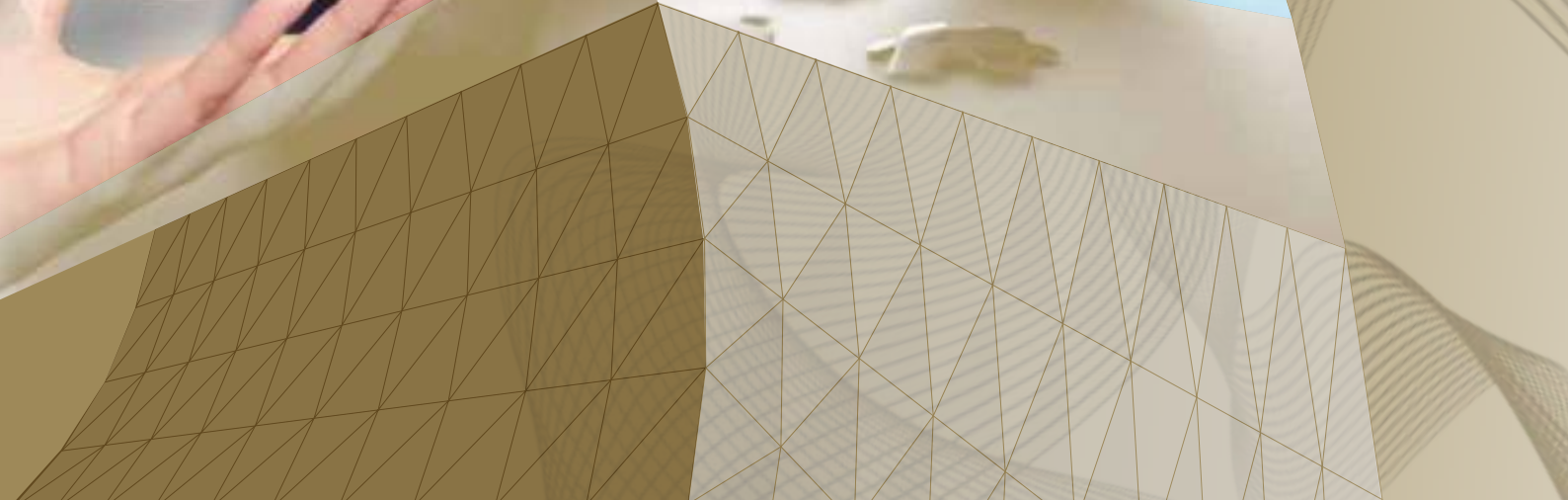
Municipality	Decreased (-1% e -25%)	Increased (+1 e +25%)	Increased (+26% e 50%)	Increased (> 50%)	Unchanged
Aileu	4%	63%	15%	0%	19%
Dili	0%	71%	7%	7%	14%
Liquiçá	0%	67%	12%	8%	14%
Manatuto	0%	69%	4%	4%	23%
Grand Total	1%	67%	10%	5%	17%

Besides the direct cash subsidy, the Government also subsidized households' electrical bills, for those with bills worth \$30 for two months, as well as employers, which received an outlay to pay for 60% of their employees' salary, and purchased 30,000 tons for its emergency rice supply program. As already referred above, the Government also approved a credit moratorium program for those who borrowed money from commercial banks, by extending their maturities for three months and the government paying for 60% of debtors' interest costs.

Moreover, the Government also: subsidized airlines, maritime and cargo transport to maintain open transport channels to source essential goods and medical supplies; bought goods to support agriculture and aquaculture; waived two months of water bills; exempted state property rental payments and 3 months of social security contributions from workers and companies. Additionally, the Government provided a stipend to around 3,500-4,200 Timorese students studying overseas, internet subsidy for students in secondary and higher education, implemented the alert system to support contact tracing and distributed food vouchers worth \$25 for all members of eligible households around the country.

These various efforts and public programs were all rapidly designed and implemented to provide direct useful household support and promote economic resiliency, by stimulating the local economy. In total, the Government allocated \$71.5 million for its economic recovery plan and \$150 million for its Covid-19 direct relief program.





Chapter 3

BCTL: Mission and Core Mandates, Organization, Governance and Activities

Banco Central de Timor-Leste's (BCTL) main mission consists in continuing to ensure and improve the quality of the services it provides to the Community, while maintaining a stable monetary system, as well as promoting a robust and functional financial system.

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

Taking into account the BCTL's mission, this chapter provides an overview of the institution's mandates and functions, its governance structure and key activities carried out during 2020, as well as its 2021 action plan. The brief summary of annual activities also details the main initiatives developed throughout the year by each of the various functional areas of BCTL.

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3.1. Core Mandates and Functions

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

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

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

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

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

3.2. BCTL Organization and Governance

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

The Governor is the highest executive body of BCTL, or its Chief Executive Officer and is assisted by two Vice-Governors and a Management Committee composed of the Directors and heads of various departments of the Bank. At the end of 2020, the year of this report, the Board of Directors was composed of the Governor, two Vice-Governors and four non-executive members. The composition of the Board of Directors and the Management Committee are presented at the end of the chapter.

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

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

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

Institutional Values

T ransparency

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

I ntegrity

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

M obilization

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

O wnership

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

R esponsibility

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

3.3. BCTL Activities in 2020

As part of the BCTL's mission to promote monetary and financial stability, the development of the financial system and the promotion of a secure and efficient payment system, the following set of activities and initiatives were planned and implemented in 2020.

In the context of the implementation of the Financial Sector Master Plan, the BCTL continued to upgrade the national payment system. In this regard, new R-TIMOR functionalities were implemented to better serve the needs of the Ministry of Finance and its subaccounts and to produce activity analysis reports on a monthly and annual basis. These new services now allow the Ministry of Finance and its sub-accounts to have access to historical statements, prepare cash flow management reports and project future cash flows in real time.

The Central Bank also introduced new payment features, namely for taxes and B2W2B transfers. The B2W2B functionality, in addition to enabling the payment of taxes, also allows any P24 cardholder to transfer money from his bank account to a Mosan e-wallet account and vice versa.

During 2020, BCTL promoted the “Campo Digital” pilot program in the territory of Timor-Leste. The respective plan foresees that all rural areas use digital services (Mobile, ATMs and POSs) to carry out daily financial transactions - payments, transfers and balances reports. The aim of the program is to promote knowledge and the widespread use of these new technological tools in the financial and commercial activities of rural populations.

Also in 2020, the BCTL signed the second memorandum of understanding (MoU) with the Ministry of Education and the Ministry of Youth and Sports in order to continue to improve the implementation, monitoring and evaluation of the Financial Literacy program in national schools. The aim of the new MoU is to improve the quality of education in the implementation of the program. In addition to this new memorandum of understanding, BCTL maintained coordination activities with the Instituto Nacional de Formação de Professores e Profissionais da Educação (INFORDEPE), in order to review the teacher's training module and develop pedagogical guidelines to facilitate the understanding of teachers and students.

Within the scope of its private sector promotion initiatives, the BCTL decided to continue to promote basic accounting training for Micro, Small and Medium Enterprises (MSMEs) in cooperation with IADE and the “Câmara de Comércio e Indústria de Timor-Leste (CCI-TL)”. BCTL also conducted a survey to evaluate the results of the training in the municipalities of Baucau, Viqueque, Manufahi,

Ainaro, Bobonaro, Dili and in the autonomous region of Oe-Cusse. According to the results from a sample of 27% of the total 272 participants in the program, on average, they tend to recognize the training's great usefulness and its relevance for the upgrade of their financial management activities within their businesses.

The celebration of the 6th anniversary of the National Savings Day in 2020 consisted of a composition contest for students in the third cycle of basic education and students in secondary education. This contest was open to the public, and all interested students and schools were able to register, following the respective conditions. The results were officially announced on November 29th, in Maubisse, in the municipality of Ainaro. This initiative was supported by the MEJD and the non-governmental organization "CARE International".

The BCTL reviewed in 2020, for the first time, the regulation no. 04/2018, on the general rules applicable to the Credit Guarantee System for Small and Medium Enterprises.

The BCTL continued to develop, through the "Institutional Cooperation Affairs" Unit - created in 2019 - its cooperation activities with similar institutions and relevant organizations, both at the international and national levels. These activities have focused mainly on the areas of technical assistance and the development of internal capacities, with the aim of enhancing the effectiveness of the cooperation program and strengthening BCTL's institutional partnerships. Despite the operational difficulties and impediments related to the pandemic situation in 2020, the BCTL continued to ensure its participation and that of its staff in various cooperation programs with their counterparts, which were held online via web conference.

These and other BCTL activities carried out in 2020 are described in greater detail in the sections that follow.

3.3.1. National Payment System

3.3.1.1. Interbank Clearing and Settlement System

During the period covered by this report, the Central Bank continued to act in a consistent manner so as to always maintain sufficient cash reserves to meet the cash payment requirements of state entities and commercial banks. In this context, BCTL ensured the permanent functioning and execution of interbank financial transactions through the Clearing House and Real Time Gross Settlement (RTGS) systems. Table 3.1 summarizes the transactions recorded in Dili's interbank clearing and settlement system (CEL).

Due to the pandemic emergency, this system worked in 2020 under significant operational restrictions, with only 3,000 transactions being processed, amounting only to \$16.6 million. These figures represented a significant reduction of -79.7% in volume and -82% in value, compared to 2019.

Table 3.1 Dili Clearing House Transactions

(Value in million USD, Quantity in 10³)

Month	Cheques 2019		Cheques 2020		Change (%)	
	Quantity	Value	Quantity	Value	Quantity	Value
January	1,385	9,415	1,194	10,169	-18,8	8,0
February	1,220	5,540	0,998	0,676	-18,2	-87,8
March	1,347	7,076	0,889	5,795	-34,0	-18,1
April	1,266	6,784				
May	1,369	8,239				
June	1,273	7,118				
July	1,393	8,793				
August	1,152	6,810				
September	1,213	7,410				
October	1,228	9,163				
November	1,136	7,713				
December	1,175	8,611				
Total	15,157	92,673	3,081	16,640	-79,7	-18,1

Source: BCTL

The abrupt reduction in activity levels resulted from the interruption of clearing activities during the pandemic and successive states of emergency, from April to December 2020, during which time all clearing and clearing activities were not undertaken.



3.3.1.2. SWIFT and R-Timor (RTGS) Systems

BCTL payment services are subdivided into 1 of 2 categories: Domestic or International. Domestic payments, in turn, can also be 1 of 2 types, depending on their size: Large Amount or Retail. International payments from the country to the outside and vice versa are always made through the SWIFT system. Domestic payments, especially retail payments, are directly processed in the automated clearing house, two times per day. These payments include salaries, subsidies to veterans, payments to suppliers, which, among others, are processed and transferred to commercial banks. Payments of large sums, above USD200,000, are always made through the RTGS.

Table 3.2 International and Domestic Payments

(Value in million USD, Quantity in 10³)

	2019		2020		Growth %	
	Quantity	Value	Quantity	Value	Quantity	Value
National Payments						
Automatic Clearing House	90.27	107.97	575.07	265.70	537.1	146.1
RTGS-FICT	15.62	3,625.27	14.80	4,329.76	-5.2	19.4
RTGS-SCCT	70.70	9,372.06	77.32	800.23	9.4	-91.5
Sub Total	176.58	13,105.30	667.19	5,395.69	277.8	-58.8
International Payments						
Outgoing Transfer-SWIFT	1.83	1,196.96	2.48	981.80	35.5	-18.0
Incoming Transfer-SWIFT	0.20	144.47	0.20	93.69	0.0	-35.2
Sub Total	2.03	1,341.43	2.67	1,075.49	32.0	-19.8
Total	178.60	14,446.73	669.86	6,471.18	275.1	-55.2

Fonte: BCTL

Table 3.2 above shows payments activity statistics, national and international, during the period under review. With regard to national payments, 667 thousand documents were processed, corresponding to a total of \$5.396 million, representing an increase of 278% in number and a decrease of -59% in value, compared to 2019. The significant decrease in terms of value, mainly for received payments, is probably due to the contraction in economic activity levels due to the substantial delays in approving 2020's State Budget, as well as the pandemic impacts. On the other hand, regarding international payments activities, 2.67 thousand transactions were processed, corresponding \$1,075 million, which represented an increase of 32% number of transactions, in contrast to a decrease of -20% in value.

The reduction in transferred amounts was due to the simultaneous decrease in transfers received and sent abroad, which decreased -18% and -35%.

Table 3.3 below also shows the international transactions, corresponding to transfer and receipt transactions carried out by commercial banks in 2020, for transactions carried out via SWIFT and Non-SWIFT.

Table 3.3 SWIFT Transfers Incoming and Outgoing

(In million of USD value, quantity in 10³)

	2019		2020		Change (%)	
	Quantity	Value	Quantity	Value	Quantity	Value
Transfers Incoming						
SWIFT	25.7	971.6	26.1	289.3	1.8	-70.2
Non-SWIFT	10.7	182.2	10.0	183.0	-6.8	0.5
Sub Total	36.4	1,153.7	36.1	472.3	-0.7	-59.1
Transfers Outgoing						
SWIFT	17.6	1,449.2	14.2	488.1	-18.9	-66.3
Non-SWIFT	62.4	629.0	55.1	797.7	-11.8	26.8
Sub Total	80.0	2,078	69.3	1,285.8	-13.3	-38.1
Total	116.3	3,231.9	105.4	1,758.1	-9.4	-45.6

Source: BCTL

Incoming transfers in 2020, via SWIFT, amounted to a total of 26.1 thousand and corresponded to \$289.3 million, which translates into an increase of 1.8% in number, but decreased 70.2% in value. However, transfers abroad totalled 14.1 thousand transactions, with a value of \$488.1 million, which resulted in a 19% decrease in volume and decrease of 66.3% in terms of amounts.

3.3.1.3. P24 Network System

With the implementation of the P24 system in 2019, the main elements of the National System of Timor-Leste Payments are now fully operational. The P24 system makes use of R-TIMOR interbank network, allowing P24 to automatically settle the net value of transactions of each bank's transactions on a daily basis. The main objective in the purpose and implementation of the system was to reduce the use of physical cash in our citizens' daily transactions and allow people without bank accounts, or those who are far away from banks, to have electronic payment means, in addition to cash, accepted in local markets and stores.

Table 3.4 summarizes the evolution of the transactions carried out on the P24 system in the country.

Table 3.4 P24 System
(Value in million USD, Quantity in 10³)

	Financial Transactions				Non-Financial Transaction
	Cash Withdrawal		Transfer		Balance Inquiry
	Quantity	Value	Quantity	Value	
2019	1,216.3	142.257	7.924	3.582	0.417
2020	1,423.4	171.598	9.127	4.234	0.534

Source: BCTL

These figures confirm the continued significant growth of P24's financial transaction activity levels in 2020. In the year, 1.4 million cash withdrawal transactions (in kind) were carried out through the P24 system, amounting to \$172 million, which resulted in a rise 17% in volume and 21% in value. Regarding P24 transfers, 9 thousand transactions were recorded, totalling \$4.2 million, which corresponds to an increase of 15% and 18%, respectively, in relation to 2019.

3.3.1.4. Mosan Service (E-Wallet)

In 2019, BCTL granted the formal and final authorization to 'Telemor Fintech Lda' to operate its Mosan service, which is an electronic money wallet service (E-Wallet). This digital financial service allows its users to make funds transfers, withdraw and deposit money in their wallets, top-up mobile phone balances, make electric bills prepayments, check balances and historic payment reports.

For prudential reasons, BCTL imposed limits on the Mosan system, so that each account's maximum balance was set at \$500 and the depositable maximum per day is \$300. By the end of 2020, the authorized companies to run the service - Telemor and Telkomsel - already had 2,648 branches and 97,424 customers in the various municipalities, which represents significant increases of 269% and 294%, compared to 2019. Mosan's agents, which act as 'access points', allow customers to:

- transfer and receive funds;
- deposit and withdraw money;
- register users/accounts and update customer information.

The 'Mosan' service thus allows access to basic financial services to citizens of Sucos and villages who live far from major urban centres and citizens who do not have the possibility of access to formal financial services in Timor-Leste.

Table 3.5 summarizes the statistics related to this service transaction in 2020. In its second year of regular operation, there was an exponential increase in the levels of usage, which confirms its utility. The total number of transactions amounted to 2.8 million, corresponding to \$23 million, registering a remarkable growth of 382% and 261% in quantity and value, respectively, compared to 2019. Given the future network expansion and substantial growth, it is expected that these values and volumes will continue to grow materially in the coming years, thus contributing to advance financial inclusion in our country.

Table 3.5 'Mosan' Service Transactions

(Value in million USD, Quantity in 10³)

	2019		2020		Change (%)	
	Quantity	Value	Quantity	Value	Quantity	Value
Transfer	37	4.420	150	15.236	306	245
Cash-in	27	0.987	248	3.730	819	278
Cash-out	3	0.512	15	1.918	412	275
Top-up	517	0.470	2,388	2.120	362	351
Buy data	0.38	0.001	9	0.015	2,247	2,058
Payment utility	-	-	6	0.029		
Total	584	178.60	2,817	23.047	382	261

Source: BCTL

3.3.1.5. Banking System

Table 3.6 summarizes the statistics regarding of transactions in 'kind' (coins or notes) and other 'non-cash based', intermediated by commercial banks in Timor-Leste. The number of 'currency' transactions in 2020 amounted to 4.6 million, or 93% of the total, with a nominal value of \$2,520 million. These numbers translate into a decrease of -56% in number and an increase of 14.5% in value, compared to 2019. Non-cash based transactions represented only 7% of the total number of transactions in the country or only 0.36 million transactions, but corresponded to an aggregate value of \$1,416 million, or 36% of the total value. These values represent decreases of -54% in number and -25% in value, compared to 2019.

Table 3.6 Cash and Non-cash Transactions

(Value in million USD, Quantity in 10³)

	2019		2020		Growth (%)	
	Quantity	Value	Quantity	Value	Quantity	Value
Cash Transactions	10,502	2,202	4,579	2,520	-56.4	14.5
Non-cash transactions	322	3,064	360	1,416	11.9	-53.8
Total	10,824	5,266	4,939	3,937	-54.4	-25.2

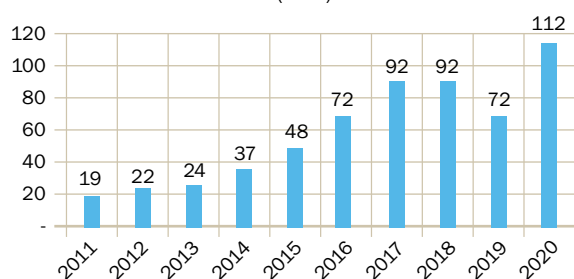
Source: BCTL

BCTL plans and is consistently working towards assuring that the settlement of transactions in the economy becomes progressively more efficient, through the increased usage of electronic payments and digital financial services. Consequently, BCTL continues to prioritize the substantial expansion of the network and range of digital payment services that do not use cash, but instead make use of the National Switch System. This switchsystem in increasingly fostering the expansion of payment services, encouraging the widespread use of debit and credit cards, as well as of mobile phones as platforms for making payments.

Charts 3.1 and 3.2 depict the evolution in the number of payment terminals installed in the country, including automatic teller machines (ATMs), which totalled 112 units in 2020 and the 193 Point-of-Sale (PoS) units. These figures, when compared to December 2019, represent a 56% increase for ATMs and 27% for PoS terminals. This expansion thus completely reversed the decrease recorded in 2019.

Chart 3.1

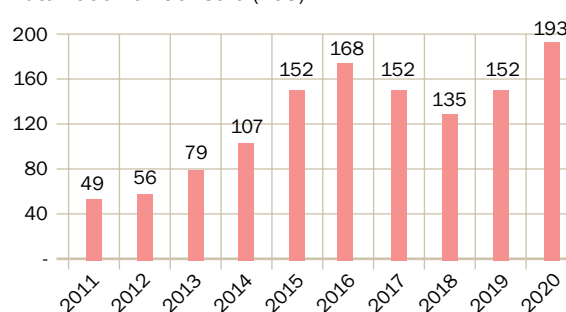
Automatic Teler Machines (ATM)



Source: BCTL

Chart 3.2

Automatic Point of Sale (PoS)

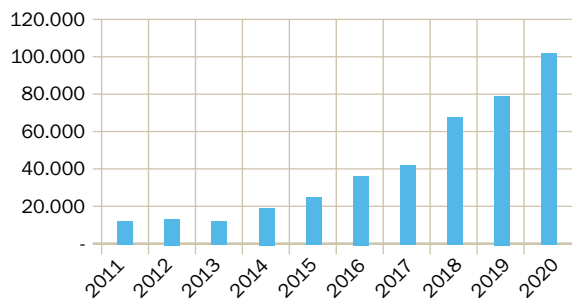


Source: BCTL

The progress and statistics on bank cards issued in Timor-Leste can be seen in chart 3.3. The number of cards in circulation in the country totalled, in December 2020, close to 110 thousand, which corresponds to an annual increase of 32%, which had already logged substantial growth of +33%. Regarding the composition of the total number of debit and credit cards, there was a relevant change in favour of the importance of debit cards, with the number of these cards growing considerably more (99.8%), following the 50% expansion observed in 2019. On the other hand, the number of credit cards grew only 0.2%, compared to its 50% growth in 2019, which resulted in the decrease in their importance of the national cards stock.

Chart 3.3

Bank Accounts



Source: BCTL

The incessant growth in the number and degree of use of bank cards reflects the effective interest of users in these means of payment and the modernization and increasing digitalization of our financial system.



Box 1.



Campo Digital National Program and the Financial Inclusion Plan

In 2020, one of BCTL's major operational priorities was the promotion of the pilot program 'Campo Digital' in the national territory. On November 29th, BCTL officially launched the program at the Administrative Post of Maubisse, in the Municipality of Ainaro. This program and its respective implementation intend that all rural areas use digital means (Mobile, ATM and POS) to carry out daily financial transactions, including payments, transfers and balance inquiries. The aim of the program is to promote knowledge and widespread use of these new technologies in the financial activities of rural populations. Education and familiarization of the rural population with the development of the national payment system and with digital financial services is also one of the objectives of the program. Another of its aims is to expand, in the medium term, the number of access points with integrated and interconnected financial services that will serve rural areas.

The launching ceremony of the 'Campo Digital' Program received the full support of the Maubisse Administrative Post's Authority and counted with the enthusiastic participation of the local community and businessmen.

The financial institutions participating in the Program are those that already integrate the mobile switch system, currently including only BNU Timor – from Group 'Caixa Geral de Depósitos' - the national branch of Bank Rakyat Indonesia and Telemor Fintech, with its MOSAN product. The Central Bank continues to expect that the remaining national financial services providers to be interconnected with the P24 system. It should also be noted that, given the current integration of the BNU and Mosan system, the P24 system already allows BNU network's users to transfer funds from their bank accounts to 'Mosan' e-wallet accounts and vice versa.

BCTL expects, therefore, that this platform and its interconnection to more service providers will bring increasing benefits to our citizens and companies, facilitate their business activities, sustain national economic potential growth and upgrade the efficiency and security of commercial and financial transactions in our Territory.

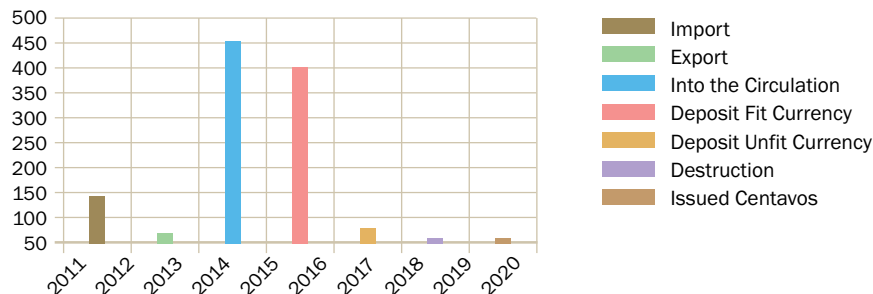
3.3.1.6. Currency Imports and Exports

One of the fundamental functions of the Central Bank is to ensure that the national economy has access to the necessary means of payment to support its economic agents' current economic activities, as well as expected growth. In this regard, the Central Bank effectively fosters the public confidence in the country's currency, by supplying enough banknotes and coins that, at all times, must meet the demand of the public and ensuring the physical integrity of notes and coins.

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

Chart 3.4

TL: Currency Transaction in million USD



Source: BCTL

In 2020, the BCTL imported \$109.2 million, representing a decrease of -25% compared to 2019, having circulated a total of \$463.4 million, including coins (centavos). The amount issued into circulation is thus higher than the imported amount, due to deposits' inflow and the existence of reserves. It should also be noted that the 20 dollar banknotes continue to be the most used in transactions in the country, representing 61% of total imports, 66% of circulation in the economy, and 65% of the (re)deposited total by banks with the Central Bank (Table 3.7).



Table 3.7 Coin Transaction and Moviments

(In millions of USD value)

Denomination	Import		Re-circulation		Deposit		Weight 2020			Change (%)		
	2019	2020	2019	2020	2019	2020	Import	Re-circulation	Deposit	Import	Re-circulation	Deposit
100	4.80	4.80	7020	7.00	4.80	6.90	4.4	1.5	1.7	0.0	-2.8	43.7
50	8.80	1.60	11.70	4.35	4.45	5.65	1.5	1.0	1.4	-81.8	-62.8	27.0
20	80.00	66.88	286.36	302.64	218.39	257.96	61.2	66.3	64.8	-16.4	5.7	18.1
10	46.88	33.76	116.26	139.05	76.51	123.41	30.9	30.5	31.0	-28.0	19.6	61.3
5	4.16	2.16	5.17	3.42	2.63	4.21	2.0	0.7	1.1	-48.1	-33.9	60.3
Total	144.64	109.20	426.69	456.46	306.78	398.13	100	100	100	-24.5	7.0	29.8

Source: BCTL

As for coins, the 200 centavos coin - issued for the first time in 2017 - recorded a total circulated amount in 2020 of 1.8 million centavos. This value represents a decrease of -34.2%, in relation to 2019. On the contrary, the 100 cent coin registered an increase of +46% to 2.7 million centavos, thus exceeding the value of the denominations of 200 and 50 centavos. The latter denomination registered a circulation value of 1.6 million centavos in 2020, amounting to 23.4% of total centavos in circulation, increasing 15% compared to 2019.



Box 2.

Timor-Leste Payment System Upgrade

1. The R-TiMOR System

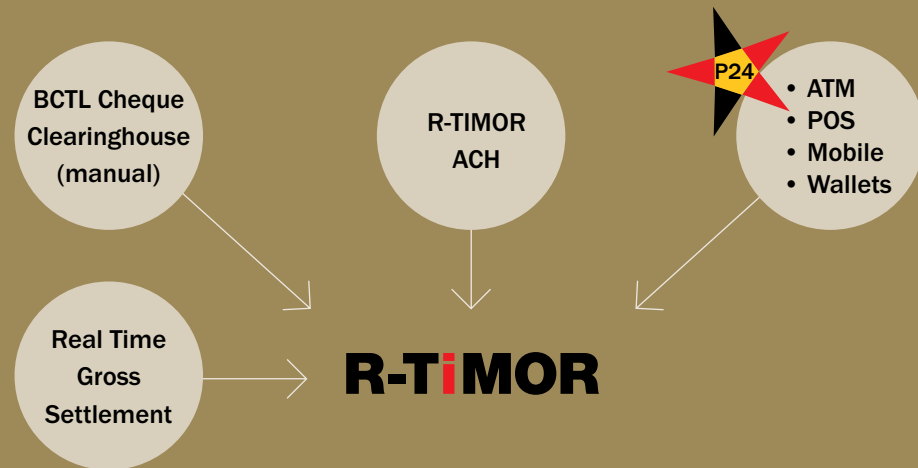
The R-TiMOR system, established in 2015, consists in an interconnected network of systems and platforms that allows individuals, companies, State organizations and other entities to make electronic payments in Timor-Leste. After the effective implementation of R-TiMOR in April 2015, the Central Bank continued to play the role of coordinator between the service provider and R-TiMOR users in order to improve services to ensure the existence of an efficient and effective payments system, in particular through the implementation of the Direct Processing module (STP), which ensures that payments are executed in an efficient and secure manner. The STP has already been implemented and is currently used in all commercial banks and in the Ministry of Finance, although some entities still do so partially. It should however be noted that the full implementation of the STP is still in progress and should be completed in the near future.

In 2020, BCTL completed the implementation of additional R-TiMOR functionalities to serve the needs of the Ministry of Finance and its subaccounts and to produce activity analysis reports on a monthly and annual basis. These new services now allow the Ministry of Finance and its sub-accounts to have access to their financial statements and balances, prepare treasury management reports and project cash flows in real time.

Another additional resource being developed currently is the R-TiMOR transaction services' monthly and annual reporting system, which will support the Central Bank's report on R-TiMOR statistics, in real time.

At the end of 2020, R-TiMOR had 6 direct participants and 57 indirect participants, including Municipalities and Special Funds. Note that the system also allows its indirect participants to process their payments directly via the GRP at their workplaces and access to the system.

The BCTL also continues to make every effort and is planning, together with the technology provider of R-Timor and its participants, to implement several improvement initiatives to further accelerate and automate any kind of direct large amount payments, particularly for payments to State entities. It should be noted that the system already allows several types of payments to the State to be made via access to certified commercial banks, including the payment of taxes, bids and deposits.



2. The National Card and the PaymentSwitch Projects

In March 2017, the BCTL hired ‘SIBS International’ from Portugal to develop the technology platform that serves as the basis for the National Card and Payment Switch system. This “switch”, designated “P24” (the “P” associated with the words Pagamentu, Payment, Payment and Pembayaran) will offer a wide range of payment services to national citizens and is always available over 24 hours on a daily basis.

The P24 system was officially launched in December 2018, with the initial integration of CGD and Mandiri Bank’s ATM networks.

BNCTL joined in December 2019 and BRI joined in early February of 2020. Some ATMs of both banks are already integrated in the P24 system, which allows P24 cardholders to carry out financial transactions on their ATM network of these banks and of the other system’s participants. BCTL expects that BNCTL and BRI should complete the interconnection of all their ATMs to the P24 network in the near future.

In 2020, BCTL also introduced new payment features in the P24 system, namely taxes and B2W2B transfer. The B2W2B functionality, in addition to enabling the payment of taxes, also allows any P24 cardholder to transfer money from his bank account to a Mosan e-wallet account and vice versa. It should also be noted that another e-wallet system (T-Pay) is already finalizing the necessary tests so that it will be officially authorized to intermediate B2W2B money transfers.

In May of 2020, the Central Bank initiated a joint project with the company that developed the P24 and the company PT.A Rintis to carry out the interconnection of the P24 system with the regional payments network, with half of the plan already concluded. With this interconnection, the service will allow the P24 cardholder to withdraw money and make balance inquiries in any ATMs with the PRIMA logo in Indonesia.

In August of 2020, BNCTL integrated the 'Union Pay' platform in P24, enabling its users to carry out transactions in ATM and POS terminals with the P24 logo.

VISA launched a new version of the '3D Secure' protocol, which led the Central Bank to request SIBS to implement the 3D secure functionality for VISA cards issued by BNU, in accordance with the most recent VISA requirements. Accordingly, BNU VISA cards will continue to be able to be used to make effective purchases and online transactions, and comply with VISA stipulations 2.1 of 3D Secure.

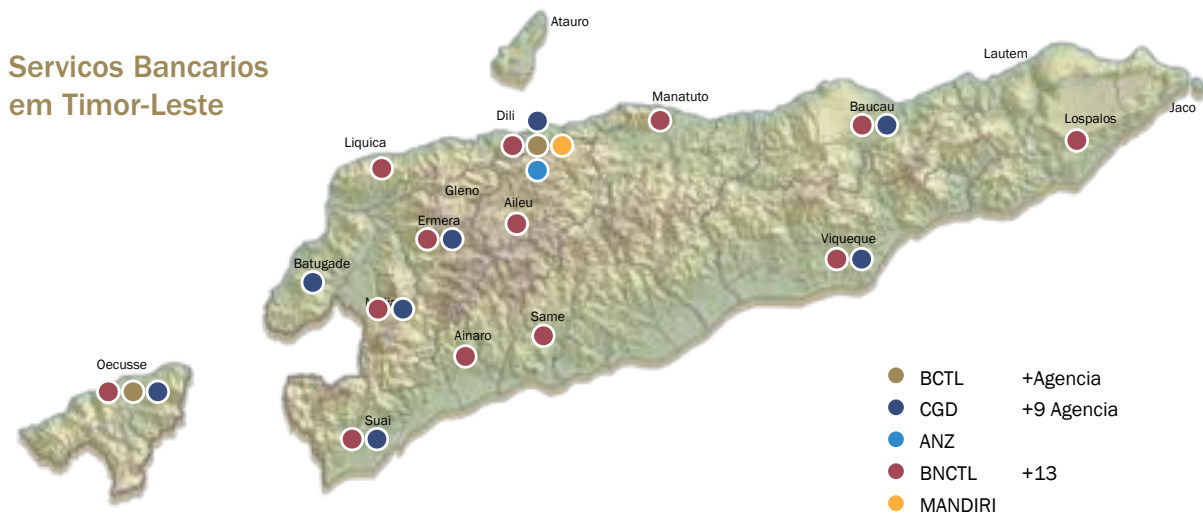
The full implementation of potential P24 system's functionalities will take some time to complete, given the natural complexities and challenges inherent in its roll-out. The establishment of the P24 and the interconnection of the various ATM networks, PoS and electronic wallet services already allowed a much larger number of Timorese citizens to have access to banking and payment services, which is one of the main objectives of the BCTL's strategy to strengthen and develop the financial sector and support economic growth, especially in rural areas.



3.3.2. Financial and Banking Systems

3.3.2.1. Licensing and Supervision

Timor-Leste Financial System is composed by 5 commercial banks, 2 insurance companies, other deposit receiving institutions, money changers and money transfer operators (MTOs), and also several credit unions. The financial system has been stable and robust throughout the year, continuing to significantly contribute to national economic stability.



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

During 2020, the Division submitted to the approval of the BCTL Board of Directors the proposal for licensing a new life insurance company "Sinar Mas Life Insurance, SA", to develop life insurance activities in Timor-Leste. Additionally, a new money transfer service provider - Alexander Money Transfer, Unipessoal, Lda - was also licenced.

Also in 2020, the BCTL Board of Directors did not approve the request for a license to provide funds transfers services in Timor-Leste from "TS. COV, Unipessoal, Lda".

Box 3.

Financial Education Program Implementation

3.1. Financial Literacy Program in Primary Schools

Since the BCTL defined as one of its main priorities the development of financial literacy in 2016, the bank has been implementing a program to promote this objective. In 2020, BCTL continued to maintain a strong relationship with its partners and stakeholders in this area, namely the Ministry of Education and the National Institute for Training Teachers and Education Professionals of Timor-Leste (INFORDEPE).

At the beginning of 2020, BCTL signed the second memorandum of understanding (MoU) with the Ministry of Education and the Ministry of Youth and Sports to frame the continued implementation, monitoring and evaluation of the financial literacy program in primary schools. The aim of the new MoU is to improve the quality of education in the implementation of the program, which was established by the previous MoU in June 2016.

The new relevant points included in the MoU to improve the quality of the program, were:

- a) a) Improvement of the coordination with the National Institute for the Training of Teachers and Education Professionals (INFORDEPE) for trainers.
- b) Reinforcement of the coordination with the National Curriculum Unit (UCN) for the evaluation of students participating in the program.
- c) Integrate the coordination with the National Pre-School, Basic Education and Recurrent Education Directorate and the National Basic Education Directorate to promote the relevance of the program.
- d) Establish a timetable on Saturdays for teachers from the 1st and 2nd period of primary school to teach this program.
- e) Define adequate methods to evaluate students who attend financial education classes.
- f) Analyse the possibility of formally introducing the financial literacy program into the national curriculum, especially in the mathematics program for the third cycle of basic education.



However, the pandemic emergency situation made it impossible to fully implement the program in 2020, with the Ministry of Education suspending regular teaching activities for several months. Subsequently, the Ministry only allowed teaching for a few hours and classes with few students.

In addition to this new memorandum of understanding, BCTL maintains its full coordination with the MEJD, in particular with the National Institute for the Training of Teachers and Education Professionals (INFORDEPE), in order to review the teacher's teaching module and develop pedagogical guidelines to facilitate teachers and students learning. A review of the respective modules is currently underway, which is expected to be completed and distributed in the coming year of 2021.





PROGRAMA NASIONAL BA EDUKASAUN FINANSEIRA

“Poupa Agora Diak Ba Futuru”



3.2. National Savings Day

The National Savings Day is a regular BCTL program to further develop the financial literacy of our population, especially amongst children and young people, with the aim of encouraging them to have an account specially created by BCTL and commercial banks since 2015.

The celebration of the 6th anniversary of the National Savings Day in 2020 consisted in a composition contest for students in the third cycle of basic education and students in secondary education. This contest was open to the public, and all interested students and schools could register for the contest, by following the respective criteria.

This initiative was supported by the MEJD and the non-governmental organization CARE International. As part of these activities, BCTL invited students to participate in the competition, allowing them to submit their application electronically by email. The MEJD and “CARE International” contributed very positively by evaluating the students’ writing results and selecting the respective winners.

After analysing the students’ essays, the BCTL publicly announced, on the 29th of November in the Municipality of Ainaro, Maubisse, the winners of the competition.

In this celebration, BCTL also officially announced the implementation of the digital village program, to promote the use of electronic money wallets.

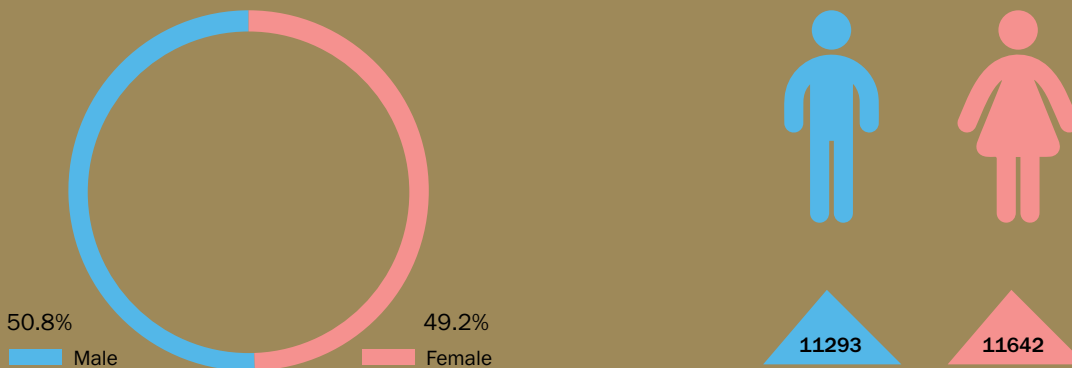


3.3. “Há’u-Nia Futuru” Saving Accounts

CHILDREN SAVINGS ACCOUNTS “HA’U-NIA FUTURU”

BCTL established the Children’s Savings Account, or the “Ha’u-niaFuturu” account, on August the 28th of 2015. The objective of the “Ha’u-niaFuturu” program is to encourage children to discover the benefits of saving money in a bank account and see their deposits and interest income grow as they accumulate further savings in their account. The program covers all Timorese children up to 17 years of age and provides benefits that will be accumulated in full in favour of the account holder, because no commissions will be charged, and the accounts will be remunerated at an interest rate above the average market levels. Until the holder’s 17th birthday, there can be no withdrawals or outflows from these accounts. All commercial banks apply the same terms and conditions to these savings accounts.

HNF composition by gender 2019

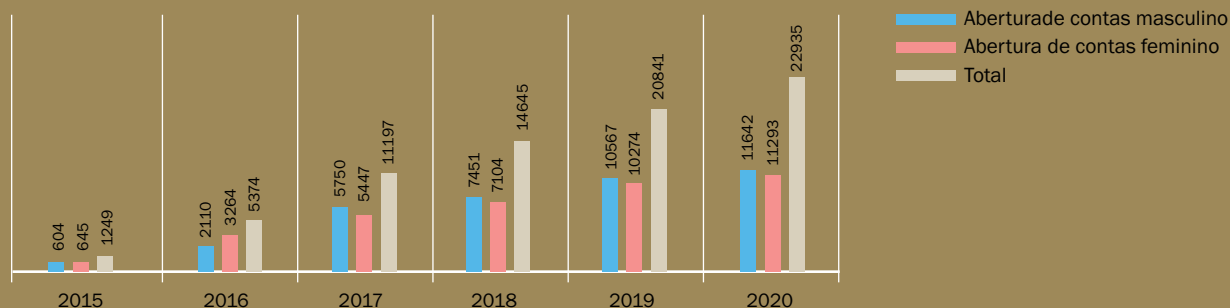


BCTL receives monthly information on the number of children who have deposited their money in Hau Nia Futuru (HNF) accounts with commercial banks. In 2020, the reporting of this information started to be done through the new online reporting system “Banking Supervision Application (BSA)”.

BCTL continues to actively promote the social utility of “Ha’u-niaFuturu” accounts by distributing brochures on visits to schools and has determined that all winners of the National Savings Day celebration receive the prize in their HNF accounts.

The charts below show the value of savings deposited in 'Hau NianFuturo' accounts in recent years, highlighting the changes recorded from 2015 to 2020.

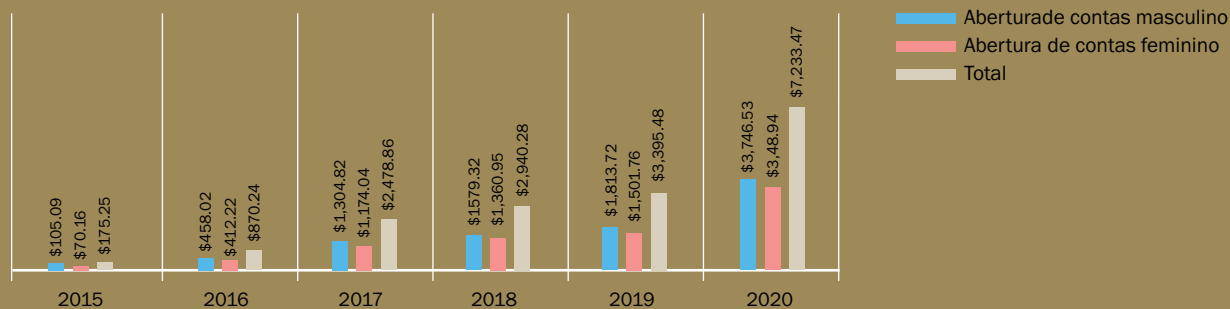
Número De Conta HNF



The number of HNF accounts for children of both genders has continued to grow since the beginning of the program in 2015, as well as the respective value deposited in these accounts.

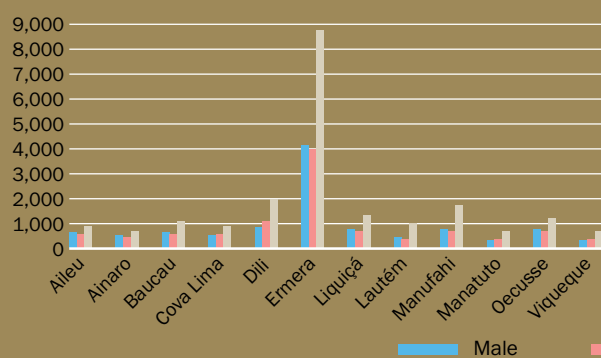
HNF Accounts value

In 000 USD



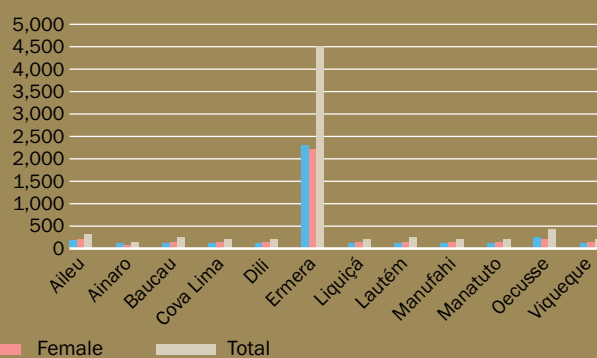
Conta HNF Por Município

(em Número)



Conta HNF Por Município

(em 000 USD)



Box 4.

Financial Sector Development Master Plan Implementation

4.1 Accounting and Business Registration Training

As part of private sector promotion initiatives, the Central Bank continued to provide basic accounting training courses for Micro, Small and Medium Enterprises (MSMEs) employees.


The objectives of the program are:

- Promote the development of the private sector by advancing the entrepreneur's business management capabilities;
- Support MSMEs as a fundamental driver of economic development, due to their capacity to generate jobs and contribute to national income growth;
- Encourage financial intermediation between borrowers and regulated creditors, addressing a very relevant issue related to the lack of reliable financial reports, as one of the reasons often cited for low bank lending to companies;
- Specific training in financial management that covers financial planning, bank loan applications and an overview of the criteria that commercial banks consider in their credit risk assessments;
- To disclose information on the available public programs to facilitate MSMEs access to finance, such as the national Credit Guarantee System.

The contents of the training were designed and adapted to the context and needs of our country, considering the prevailing economic activities, the profile of the entrepreneurs, the language and the available financial services.

In 2016, BCTL, CCI-TL and ISAT started the pilot program with four groups of entrepreneurs selected in Dili.

In 2018, the program was transferred to IADE and included in its training courses portfolio offered regularly to the private sector.



In 2020, BCTL decided to carry out a comprehensive evaluation of the accounting training program to define its next stages, the need to continue to support training organizations, and the possible transition to reduce BCTL's influence in the program. Additionally, this review also intended to assess the benefits for the participants, problems to be corrected and to identify relevant improvement opportunities.

BCTL thus carried out this survey in the municipalities of Baucau, Viqueque, Manufahi, Ainaro, Bobonaro, Dili and in the autonomous region of Oe-Cusse, covering 27% of the total 272 participants in the program.

The results show that, in general, the participants recognize the great utility and relevance of the training, as it substantially reinforces the monitoring, control and financial management of their businesses.

However, some of the topics covered appear to be very complex for most micro and small companies, which results in limited capacity and willingness to adopt best-practice reports and controls. For their part, the basic cash management tools are well understood and implemented by most participants.

The survey also found that the program's impact on access to credit appears to be insignificant, with the participants' companies still lacking reliable financial reports to support their loan applications.

In order to address the identified problems, different options have already been considered to be implemented in the next iterations of the program, such as: simplifying and reducing the training program to two days; the review of curricular contents to support an intermediate level training in accounting, with a greater focus on banking products, loan applications and the calculation of interest rates and financing costs; and a greater focus on specialist certification programs, which are longer and more demanding in terms of training and evaluation.

4.2. Survey on Customers and Demand for Financial Services

The collection of data related to Customers and demand for financial services was one of the 5 areas highlighted in BCTL 2018 Financial Inclusion Report, as well as the 2017-2022 NSFI strategic results.

The Demand for Financial Services Survey (DSS) consists in a national survey of financial services customers. BCTL decided to undertake the first DSS with the following objectives:

- To better understand the needs and perceptions of our Citizens in relation to financial products and services;
- Collect useful information on access, use and quality of financial services, both regulated and non-regulated;
- Identify segments of the population with the greatest barriers to accessing finance and how to design and implement support strategies.

Therefore, on October 5th 2020, the BCTL established a cooperation agreement with the international non-governmental organization (NGO) 'Asia Foundation (TAF)', to carry out a first DSS survey. TAF's support consisted in providing the use of survey tools, selecting enumerators, training enumerators and analysing DSS data.



This first survey has already made it possible to collect primary data to support policy development in the financial sector, as well as to support the creation of new products in financial institutions.

BCTL and other National Policy Decision-makers will thus have, more concrete data to promote and monitor financial inclusion, encourage the development of new products, define action plans. In particular, efforts will be made to advance understanding in the following areas:

- Barriers to access and use of financial services;
- Customer motivations, use and evaluation of financial services available in the country;
- Better estimate of the population without access to these services;
- Degree of use of non-regulated financial services;
- Level of financial literacy of the adult population.

The topics covered in the DSS included the opening and use of bank accounts, savings and loan actions and initiatives, financial resilience, financial education, digital financial services and quality indicators.

Data collection took place in the months of October and November 2020, and involved collecting sample data representative of the adult population of all Municipalities. In total, 909 interviews were conducted with adults about financial services and their financial behaviour.

The DSS data collection and analysis stage was completed at the end of the year 2020. Following this process, the BCTL will prepare in 2021 its financial inclusion report for 2020, based on the results and lessons learned from this innovative survey.

3.3.2.2. Insurance Sector

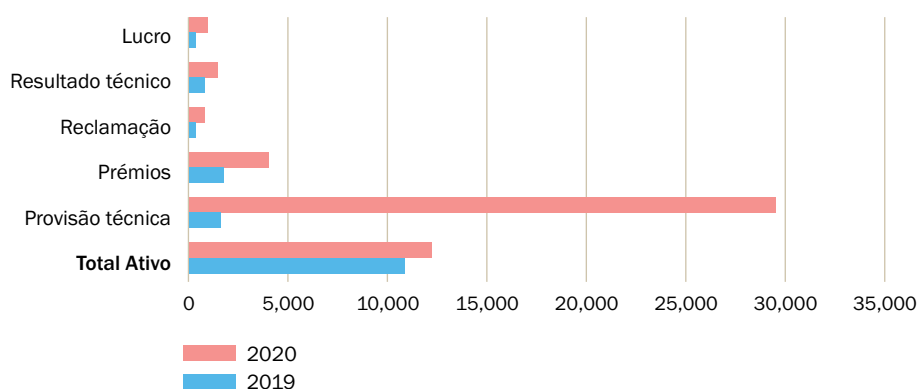
The domestic insurance industry continued in 2020 to rely on the existence of two institutions: 'Sinar Mas (SMI)' and the 'Federal Insurance Timor (FIT)'. Along the last years there has been a gradual improvement of the range of services offered by insurance companies in the country and the provision of affordable general insurance policies for the various sectors and an appropriate level of competition.

The sector recorded total assets of \$12.5 million in December of 2020, registering a 19% growth compared to 2019, within which net liquid assets - cash and bank deposits - constitute the vast majority. In the same year under review, total liabilities increased 9%, amounting to \$8.3 million at the end of the year, of which a large part corresponds to technical reserves and other liabilities. The sector's equity also increased 43%, to \$4.2 million, largely constituting current and previous earnings. The consolidated sector's earnings grew significantly in 2020, expanding by 73% to \$1.3 million, mainly due to the increase in revenues from sold premiums and investments returns.

Chart 3.5 illustrates the changes in the main metrics used to assess Timor-Leste insurance business sector annual performance.

Gráfico 3.5 – Desempenho das Seguradoras

Em milhares de USD



Fonte: BCTL

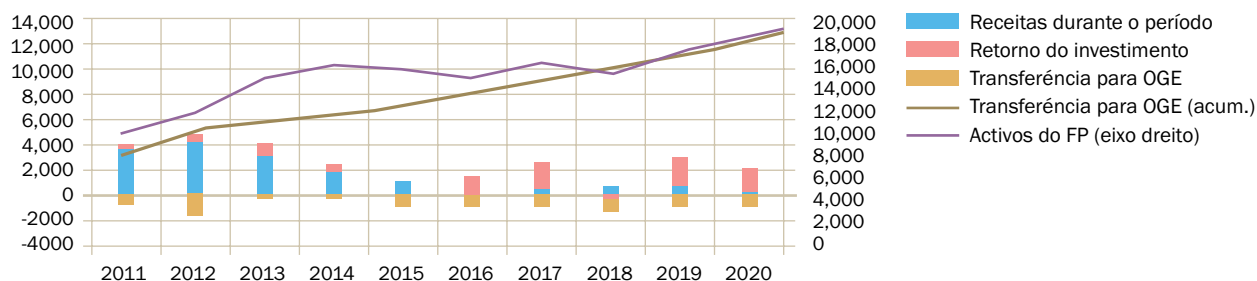
3.3.3. Petroleum Fund Management

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

At the end of 2020, the Fund's capital was valued at \$18,991 million, increasing 7% over the previous year. Annual oil revenues - taxes and royalties - amounted to \$323 million, resulting in a decrease of -57,2% compared to 2019. On the other hand, the withdrawals to finance the 2020 State Budget were \$886 million, less than the \$969 million in 2019. Fund management expenses, both external and internal, amounted to \$16.98 million in 2020, registering an increase compared to 2019 (\$14.84 million).

Gráfico 3.6 – Evolução dos Ativos do Fundo Petrolífero

Em milhões de USD



Fonte: BCTL

With regard to financial performance during the year, the Fund accumulated a gross income of \$1,884 million, which corresponds to approximately 10% of the Fund's value at the end of 2020 (\$18,991 million). The decomposition of this income allows us to observe that the interest and dividend income totalled 1.8% of the Fund's value (2.3% in 2019). On the other hand, capital gains recorded during the year were 8.1%, resulting in a slight decrease compared to the significant capital gains of 2019, valued at 12% of the Fund's value.



Adding these 2 parcels, the Fund achieved a gross return of 9.9%, not including exchange rate effects. However, the very slight appreciation of the US dollar in 2020 against the respective investment currencies resulted only in a marginal exchange rate loss of -\$11 million in 2020, following the \$53 million gain recorded in 2019. This exchange rate loss, therefore, had practically no expression in the set of results for the year.

In terms of activities and relevant developments in this area, it should be noted that the Fund slightly changed its strategic allocation in 2020, duly approved by the Fund's Governing structures. In particular, the weight of the Fund's total investment in equity markets - indexed to the "MSCI World Index" benchmark - has been reduced from 40% to 35%. The remaining value of the Fund's capital (65%) is invested in fixed income securities, mainly and practically bonds issued by the main world Treasuries.

The BCTL continued to work closely with the Ministry of Finance, as well as with the PF Investment Advisory Board (IAB) to re-evaluate and continually monitor the adequacy of the Fund's strategic allocation, always within Petroleum Fund legal framework. BCTL actively participated in discussions at the IAB level on the expansion of the investment universe, the degree of diversification and adoption of new management policies targeted at achieving the expected return of the Fund.

In terms of the bond portfolio management, the number of external managers of investment mandates was reduced from 3 in 2019 to just 1 in 2020. Therefore, at the end of 2020, investments in fixed income securities were only managed by a single external manager, the Bank for International Settlements (BIS) - and by the internal manager, BCTL.

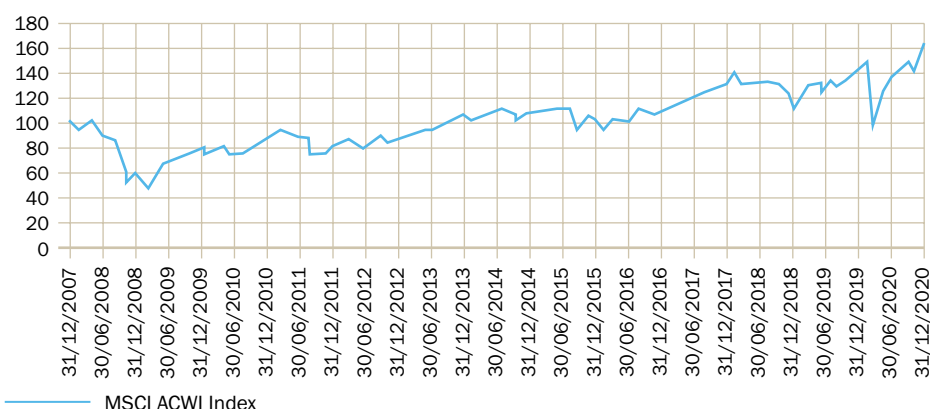
There continue to be 4 equity investment managers, including 3 leading international institutions in this area - Schroder Investment Management, State Street International Equity and BlackRock Investment Management - and BCTL itself.

BCTL continued to actively invest in human resources training programs and in the expansion of technical and financial resources used to support and improve the Fund's direct management, with the aim of internalizing an increasing share of its operational management. In terms of human resources training, BCTL continued to support the costs to further advance its staff's qualifications and their participation in training seminars and sessions, organized by BCTL's institutional partners.

3.3.3.1. Global Equity Markets

In the first quarter of the year, the global financial markets were profoundly impacted by the pandemic expansion worldwide, as illustrated in the chart below, which shows the performance of the global equity index “MSCI ACWI”, which is the benchmark for the Petroleum Fund’s equity investments.

MSCI ACWI Index



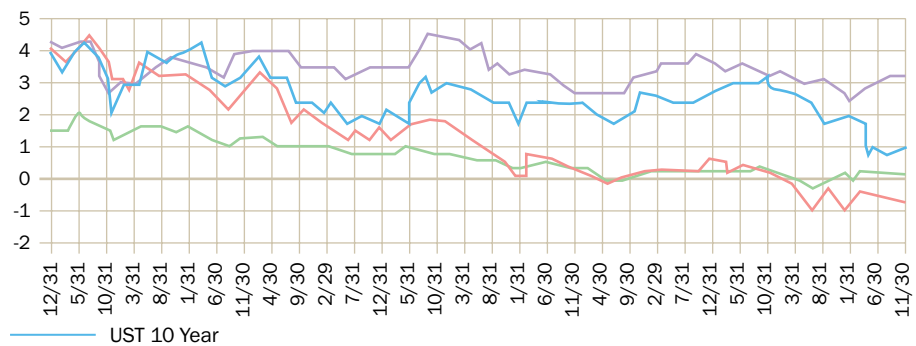
After these marked declines recorded up to April, there was a remarkable and extraordinary synchronized recovery in share prices worldwide in the second half of the year. This recovery was supported by the substantial size of the macroeconomic policy support packages around the world, the stabilization in the main global economies and a significant reduction in the global pessimism. In the year as a whole, the main global equity markets ended up accumulating gains, and the US market once again surpassed the performance of its global peers.

The US stock market registered overall price returns of 16% in 2020, which is notable given the disturbances and serious impacts of the pandemic crisis throughout the year. These gains were sustained specifically by the growing optimism regarding the IT and revolutionary technologies sectors, which represent a growing and more significant portion of this market, when compared to other countries equity markets. The considerable contribution of expansionary fiscal policy and the extraordinary monetary injections in the USA and globally, were also a major driver of stock markets performance in 2020.

3.3.3.2. Global Bond Markets

The chart below illustrates the recent developments regarding 10-year interest rates in the world's largest Treasuries bond markets. These interest rates registered a significant drop compared to 2019 levels, also explained by the pandemic crisis and the respective monetary intervention.

Government Bond 10 Year



Although long-term interest rates are, in general, more stable than short-term interest rates, the former also registered significant declines. Specifically, the US 10-year bond rate fell -1% to an interest rate of 0.92% at the end of 2020, and the benchmark for German bonds sank to even more negative levels of -0.57%, compared to -0.19% in 2019. Even so, in both 2 and 10 years, interest rates in the US have remained at levels higher than those observed in the Eurozone and Japan, similarly to what has been observed since 2018.



3.3.4. Institutional Improvement

The BCTL continues to develop and strengthen the Timor-Leste financial system and modernize banking supervision. The most relevant actions, developed in 2020, related to the institutional strengthening of the Bank are highlighted below:

- BCTL continued to cooperate with the Monetary Authority of Macau in the area of technical assistance with the aim of improving the regulatory framework of the insurance sector in the country, namely with the purpose of reviewing and improving the basic insurance law.
- Following the cooperation established in 2019 with Griffith University from Queensland, Australia, a first joint research work was carried out and published in 2020, entitled “The Impact of Public Spending on Consumption”.
- In order to facilitate the financing of small and medium-sized national companies, BCTL made its first amendment to the BCTL regulation no. 4/2018, on the general rules applicable to the National Credit Guarantee System for small and medium-sized companies.

3.3.5. Employees and Training Program

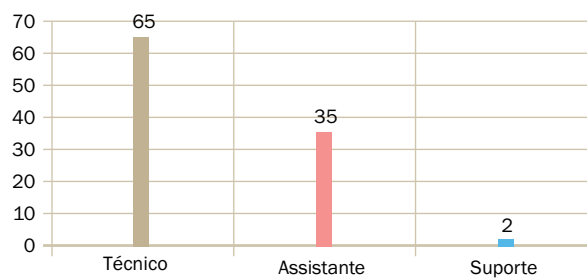
At the end of 2020, BCTL had 106 employees, which represents a further increase compared to 102 in 2019. In August of 2020, the 9 candidates selected in December 2019, started to work effectively at the BCTL, to fill the staffing needs in key areas of the Bank. BCTL thus concluded its 2018-2020 recruitment process, which planned to recruit 20 new employees, according to internal resolution no. 65/2017.

The 2021 plan aims to move forward with the hiring of 4 new employees to fill the positions of investment officer and assistants in the Petroleum Fund Department and another position in the Legal Affairs Division.

The number of BCTL employees, including the 9 employees recruited in 2020 and 3 UIF personnel, are distributed among the various professional categories as shown in chart 3.7:

Gráfico 3.7

Categorias Profissionais



With regard to the BCTL Employee performance assessment system, during 2020, the vast majority of employees managed to achieve the objectives established at the level of the institution and the respective departments and divisions.

The Performance evaluation system is implemented by the various Department managers, with the aim of valuing the work of the respective employees and analysing their contributions to BCTL's activity.

The dimensions used in assessing the performance of employees have remained unchanged from the previous year, as indicated in the diagram below, namely: Objectives, Activities and Skills for technical career employees; and Activities and Skills for assistants and support professionals.

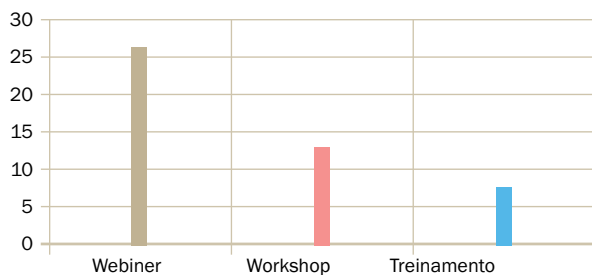


BCTL continues to allocate an appropriate amount to finance the development of skills and knowledge of its employees, who continued to benefit from the participation in seminars and training programs, held both in Timor-Leste and abroad. In addition, BCTL has recently benefited from a scholarship granted by the Government of Australia to one of its employees to study at Macquarie University in the same country. However, this scholarship has not yet materialized, due to the ongoing pandemic restrictions.

Also due to the pandemic situation, all training planned for 2020, involving the physical presence of employees, under the responsibility of BCTL, or organized by other central banks or international financial institutions were cancelled. However, some employees managed to participate in the meetings or seminars that still took place, using video conferencing and virtual means. BCTL expects its workforce to resume their participation in training programs and events, which have been vital to develop employee's skills, if the pandemic situation is regularized over the next year.

Gráfico 3.8

Atividade On-line - Número dos participantes



3.3.6. Institutional Partnerships

The “Institutional Cooperation Affairs” Unit, which was created in 2019, continued to develop its cooperation activities with similar institutions and relevant organizations at both the international and national levels. These activities have focused mainly on the areas of technical assistance and the development of internal capacities, with the aim of enhancing the effectiveness of the cooperation program, strengthening BCTL institutional partnerships and coordination with other Central Banks.

BCTL thus continued to maintain close cooperative relations with foreign institutions, especially with its counterparts in Portuguese-speaking countries (CPLP central banks), especially with Banco de Portugal, with whom it has maintained, since 2001 and until the present date, a fruitful cooperation partnership, particularly relevant for the training of BCTL staff throughout this period.

Despite the operational difficulties and impediments related to the pandemic situation in 2020, BCTL continued to ensure its participation and that of its staff in various cooperation programs with their counterparts, via remote web conference participation. The participation registered significant levels, but the number of participants in 2020 decreased compared to 2019, due to the natural reduction of events in 2020.

In addition to the aforementioned cooperation with the CPLP central banks, the BCTL has also been cooperating and benefiting from the support of other central banks, namely: Bank of Indonesia, Bank Negara Malaysia, Federal Reserve Bank of the USA, Reserve Bank of Australia, SEACEN , STI-Singapore, APRA and Pacific Islands Central Banks.

In 2020, the cooperation with the Monetary Authority of Macau focused mainly on technical assistance to the insurance area, specifically aimed at reviewing the sector’s respective legislative and regulatory framework.

Following the cooperation established in 2019 with the Griffith University of Queensland, Australia, in 2020 a first joint research work was carried out and published, entitled “The Impact of Public Spending on Consumption”.

With regards to cooperation at the national level, BCTL continues to maintain its partnership with the National University of Timor-Leste (UNTIL), having provided internships at BCTL’s Legal Office to finalists from its LawCourse, for a period of six months, with the possibility of extending them up to one year, subject to the respective performance evaluation.

Box 6.

BCTL Plan Implementation in 2020 and Planned Initiatives for 2021

6.1. BCTL 2020 Action Plan Implementation Review

BCTL's plans carried out in 2020 were as follows:

- (a) Implementation of the national switch system to interconnect the bankcard system with mobile phone networks. This new functionality already allows all the members of the P24 system to be connected to the mobile switch of Telemor Fintech, making it possible to transfer funds between bank accounts - currently only on the BNU network - and Telemor e-wallet accounts. The interconnection with Telin Digital Solution's electronic wallet (T-Pay) is already undergoing operational tests and should be concluded in the near future.
- (b) Public fees payment is now possible to be done through ATMs. BCTL, in collaboration with the Tax Authority of the Ministry of Finance, completed the integration of the Tax Authority's fee payment system with the P24 system, making it possible to now pay 4 types of public fees via ATMs.
- (c) Review of the insurance sector's regulatory framework, contemplating the definition of: financial reporting requirements, minimum solvency levels; investment assets allowed for general insurance companies; and licensing terms and conditions for life insurance companies.
- (d) Signing of the second memorandum of understanding (MoU) with the Ministry of Education and the Ministry of Youth and Sport for the implementation, monitoring and evaluation of the ongoing Financial Literacy program in primary schools. The aim of the new MoU is to improve the education quality in the implementation of the program.
- (e) Reinforcement of basic accounting training for Micro, Small and Medium Enterprises (MSMEs) in cooperation with IADE and CCI-TL. BCTL also carried out a survey to evaluate training results in several municipalities in the country.
- (f) Review of regulation no. 04/2018, regarding the general rules applicable to the Credit Guarantee System for Small and Medium Enterprises.
- (g) Inauguration of the 'Campo Digital' pilot program in Timor-Leste territory. The respective plan foresees that all rural areas use digital means (Mobile, ATMs and POSs) to carry out daily financial transactions, including payments, transfers and consultation balance. The aim of the program is to promote knowledge and the widespread use of these new technologies in rural populations' financial activities.

6.2. 2021 Action Plan

BCTL expects to develop a wide range of initiatives in 2021 detailed below, of which the continued implementation of the Master Plan for Financial Development and the Plan for the National Payments System stands out.

Financial System Development

BCTL will implement new programs and those launched in previous years, with the aim of further developing the financial system, facilitating the access of economic agents and the expansion of national financial markets. The following initiatives are highlighted:

- Implementation of the new regulatory framework for the BSA banking reporting and supervision system, through the development of internal policies, instructions and a user guide.
- Finalization of the proposal to regulate the protection of consumers of financial services
- Finalization of the legal framework for Finance Companies.
- Acquire a new CRIS platform to optimize the management and use of financial information and credit data, including 4 interconnected applications: 2 applications for banks, 1 for life insurance and one for general insurance.
- Coordination and joint work with insurers and relevant Authorities, such as DNTT, in order to effectively implement public instruction no. 07/2010 on mandatory vehicle insurance on third parties risk and liabilities, through the undertaking of a public awareness program on the benefits of this type of insurance.
- Publication of the third Financial Inclusion report, which will include the results of the survey on the demand for financial services, as well as supply side inputs.
- First review of the National Financial Education Strategy that will be discussed with the relevant Partners.
- Within the scope of the Financial Education Program, continue to carry out the Program in the 1st and 2nd cycles of public Basic Education, distribute the guides to teachers; complete the training of INFORDEPE trainers and school teachers; and organize the quarterly meeting with the MEJ team.

Strengthen Digital Financial Services Supply

In terms of the digital financial services development plan, BCTL intends to regulate the use and consumption of these services and promote their increasing use in the national financial system, by undertaking the following initiatives:

- Conclude the national payment system regulatory framework;
- Prepare the system rules for Fintech companies that integrate the P24 system;
- Establish the sanctioning framework applicable to authorized participants who may infringe the R-TiMOR system rules;
- Interconnect the new “e-Wallet” operator in the National Switch system;
- Start the implementation of the interface between e-wallet operators already authorized by BCTL, in order to allow money transfers between e-wallet operators;
- Implement the single quick response code of electronic money wallet operators;
- Continue to implement the interconnection of the national payment network with regional networks. This project has already started with an Indonesia network and should allow P24 cards to be used at ATMs in banks in Indonesia and vice versa.
- Launch the second ‘Campo Digital’ project in the administrative post in Baguia, in the Baucaumunicipality; and
- Implement the Emergency Credit Program.

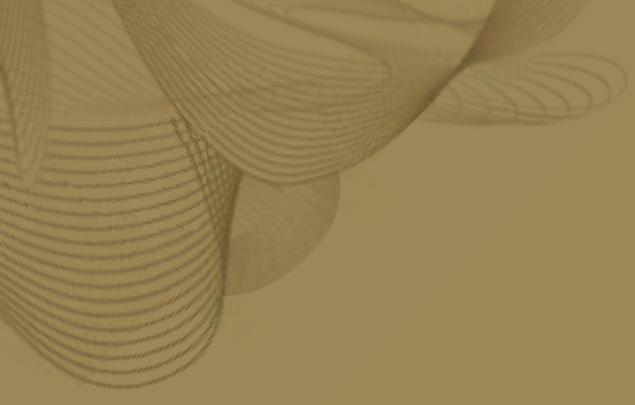
Promote Access to Bank Credit

In this context, the following planned initiatives are highlighted:

- Improve the training program in accounting registry and analysis;
- Prepare the guide to support borrowers and their respective requests for access and compliance with requirements of emergency credit lines;
- Disseminate information on the SIGIT online system among national SMEs, which is used to manage requests for access to emergency credit lines;
- Carry out face-to-face visits to companies (SMEs) that have benefited from support and access to emergency credit lines;
- Further improve the emergency credit lines Program.

Economic Research and Statistical Data Compilation and Management Upgrade

In this area, we highlight the continued BCTL research and study efforts on the national currency theme, benefiting from the cooperation with Banco de Portugal, which has already delivered a preliminary study and survey of the most relevant factors in 2020.



In 2021, we expect to continue to assess the most relevant aspects and impacts of this project, in order to produce an objective and impartial reference guide and to support strategic and operational decisions regarding the most appropriate monetary and exchange rate framework for our Country. We also expect to count with the collaboration of an external expert in this theme, to support an independent evaluation of the produced studies and proposals.

Within this context, BCTL also intends to carry out comparative studies of Timor-Leste similar countries in the Pacific region, to identify relevant experiences and lessons in the monetary management of their economies, especially in terms of economic policy, monetary policy implementation and currency logistics and operational management.

In the context of the continuous improvement in economic data compilation and dissemination methods, BCTL intends to automate its data compilation system, especially within the scope of the National Balance of Payments.

BCTL will continue to undertake economic research and studies on themes related to BCTL's main mandates and statistics published by the Bank. These works should preferably focus on the following themes: currency circulation, money stock supply and management, and the effects of remittances on the national economy.

Strengthening the Petroleum Fund's Investment and Management Capabilities

BCTL will continue to improve the Petroleum Fund management, specifically in terms of PF's division activities and processes and assess the impact on the FP arising from the establishment of national Treasury Bonds.

Treasury and Cash Management

Acquire an automatic machine to filter and evaluate banknotes (UWF4) and another for metallic coins to reinforce the current equipment. The Bank also hopes to purchase banknote packaging plastic to facilitate its repatriation initiatives and coin packaging plastic with smaller and larger measures than the current one, to improve currency management operations.

National Treasury Bonds Implementation and Strengthen Domestic Investment Operations

BCTL plans to proceed with the implementation of the Treasury bonds project. Following up on the completion of the draft framework for the implementation of this Project, it will be necessary to deepen the reflection and analysis of the identified crucial factors, including the respective legal framework and operational implementation of the securities. These preparatory works will also include the study of adaptations and functionalities to be developed in the R-TIMOR system to allow the operationalization of Treasury bonds and bills.

Institutional Strengthening and Internal Capacity Development

BCTL has already agreed with the 'Central Bank Institute' to provide training for Bank employees in the areas of finance, banking, supervision, economics, investment and accounting. The Central Bank will also cooperate with several Universities to train senior staff in relevant areas.

Acquire and implement a new accounting system or "Core Banking System" (CBS) to replace the T1 accounting system, which will allow new functionalities and capabilities in this area.

Recruitment of Civil Engineering and Architecture consultants to carry out the architecture and construction planning of the new Central Bank building, as well as to outline the public tender for the selection of the respective construction company.

Continue to strengthen employees technical capacities and knowledge by sponsoring the participation in intensive short-term training programs in the country and abroad, particularly for technical staff, as well as granting scholarships and financing for long-term learning and training.

Institutional Partnerships Strengthening

BCTL intends to continue to strengthen its close cooperation ties with international institutions, development agencies and central banks in other countries, which have helped the Central Bank to promote its institutional advancement, to improve the quality of its activities and better achieve BCTL's core mandates.

Main Governing Bodies

– Banco Central de Timor-Leste (BCTL)

Conselho de Administração

Board of Directors

Abraão de Vasconcelos

Vice Governors

Nur-Aini Djafar Alkatiri

Venâncio Alves Maria

Non-Executive Members

Maria Madalena Brites Boavida

Aicha B.U. Bassarewan

Francisco da Costa Guterres

Benjamim Corte Real.

Management Committee

The BCTL Management Committee includes all the heads of major organizational areas of the Bank, which are as follows:

The Governor

Abraão de Vasconcelos

The Vice-Governor

Nur-Aini Djafar Alkatiri

The Vice-Governor

Venâncio Alves Maria

Accounting Division Director

Fernando de Carvalho

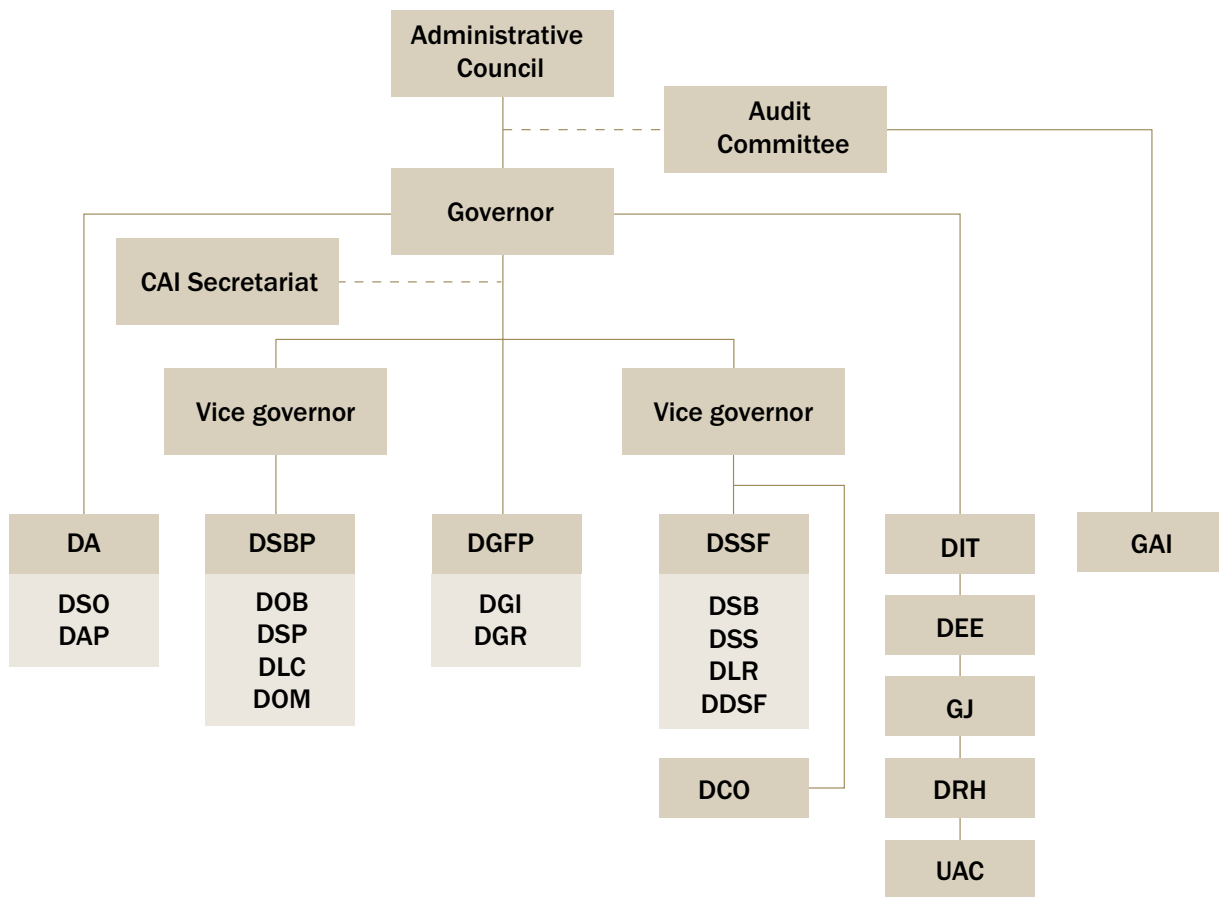
Administration Director

Maria Ângela de Sousa Soares

Institutional Cooperation Affairs Unit Director

Raquel Goncalves da Costa





Subtitle:

CAI Investment Advisory Committee

DA Administration Department
DSO General Services Division
DAP Procurement Division

DSBP Banking and Payment Systems Department
DOB Banking Operations Division
DSP Payment Systems Division
DLC Clearing house Division
DOM Operation Currency Division

DGFP Petroleum Fund Management Department
DGI Investment Management Division
DGR Risk Management Division

DSSF Financial System Supervision Department
DSB Banking Supervision Division
DSS Insurance Division
DLR Licensing and Regulation Division
DDSF Divisão Desenvolvimento Sistema Financeiro
DCO Accounting and Budget Division

CA Comité de Auditoria
GAI Internal Audit

DIT Information Systems Division
DEE Economics and Statistics Division
GJ Legal Unit
DRH Human Resources Division
UAC Institutional Cooperation Affairs Unit



Chapter 4

Financial Statements

For the period ended 31 December 2020

20 April 2021

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Statement of Compliance

The Financial Statements on pages 140 to 144 and the Notes from pages 145 to 177 which form an integral part of these statements have been prepared by the Management and approved by the Governing Board of Banco Central de Timor-Leste. I declare that these Financial Statements comply with the requirements of Central Bank Law no 5/2011 and fairly present the true financial position and performance of Banco Central de Timor-Leste as at 31 December 2020.

Dili, 20 April 2021

A handwritten signature in black ink, appearing to read 'Abraão de Vasconcelos', written in a cursive style.

Abraão de Vasconcelos
Governor

Statement of Financial Position

As at 31 December 2020

In thousands of United States dollars

	Note	2020	2019
Assets			
Cash and cash equivalents	7	731,717	662,026
Investments	10	35,488	34,073
Other assets	12	3,217	6,296
Property, plant and equipment	11	2,164	2,038
Total Assets		772,586	704,433
Liabilities			
Government deposits	13	497,486	449,068
Other deposits	14	167,446	147,359
Other Liabilities	15	11,906	9,480
Currency issued		23,446	21,214
Total Liabilities		700,283	627,121
Capital	16	70,000	70,000
Reserve		762	762
Net profit		1,541	6,550
Total Equity		72,303	77,312
Total Liabilities and Equity		772,586	704,433

The above statement is to be read in conjunction with the policies and notes on pages 144 to 177

Statement of Profit or Loss and other Comprehensive Income
For the period ended 31 December 2020

In thousands of United States dollars

	Note	2020	2019
Operating Income			
Investment Income			
Interest income	19	1.387	8.471
Interest expense	19	-514	-1.244
Net investment income		873	7.227
Petroleum fund management fee	21	14.531	14.081
Petroleum fund administration expenses	21	-7.976	-9.324
Net fee and commission income		6.555	4.757
Fees and commissions	20	666	747
Other Income		18	214
Total Operating Income		6.555	4.757
Expenses			
Personnel expenses	22.5	2.034	2.362
Currency distribution expenses		987	1.086
Administration expenses	23	2.984	2.269
Depreciation	11	566	678
Total Expenses		6.571	6.395
Profit		1.541	6.550
Other comprehensive income		0	0
Total profit and other comprehensive income		1.541	6.550

The above statement is to be read in conjunction with the policies and notes on pages 145 to 177

Statement of Changes in Equity
For the period ended 31 December 2020
 In thousands of United States dollars

	Capital	Reservas	Resultado Líquido	Total
As at 31 December 2019	70.000	762	6.550	77.312
Profit for the period	-	-	1.541	1.541
Other Comprehensive income	-	-	-	-
Total Comprehensive income	-	-	1.541	1.541
Capital Increase	-	-	-	-
Cash dividends	-	-	-6.550	-6.550
As at 31 December 2020	70.000	762	1.541	72.303

The above statement is to be read in conjunction with the policies and notes on pages 145 to 177

Statements of Cash Flows
For the period 31 December 2020
In thousands of United States dollars

Cash Flows from Operating Activities

Profit for the period	
Depreciation	
Net Interest income	
TOTAL	
Changes in receivables, prepayments & stock	
Changes in government deposits	
Changes in other deposits	
Changes in other liabilities	
Interest received	
Interest paid	
Net cash from/used in operating activities	

Cash Flows from Investing Activities

Acquisitions of investments	
Acquisitions of property, plant & equipment	
Net cash from/used in investing activities	

Cash Flows from Financing Activities

Currency issued	
Capital subscription by government	
Transfer of surplus to Government	
Net cash from financing activities	

Increase in Cash & Cash Equivalents

Cash & cash equivalents at the beginning of year

Cash & Cash Equivalents at the End of Year

	2020 MIL USD	2019 MIL USD
	1.541	6.550
	566	677
	-873	-7.227
	1.234	0
	3.078	-1.112
	48.419	51.143
	20.087	-46.057
	2.424	-32.637
	75.242	-28.663
	1.387	8.471
	-514	-1.244
	76.115	-21.436
	-1.414	202
	-692	-694
	-2.106	-492
	2.232	2.555
	-	5.000
	-6.550	-4.342
	-4.318	3.213
	-69.691	-18.715
	662.026	680.741
	731.717	662.026

The above statement is to be read in conjunction with the policies and notes on pages 145 to 177

Notes to the financial statements

1. Reporting Entity and Statutory Base

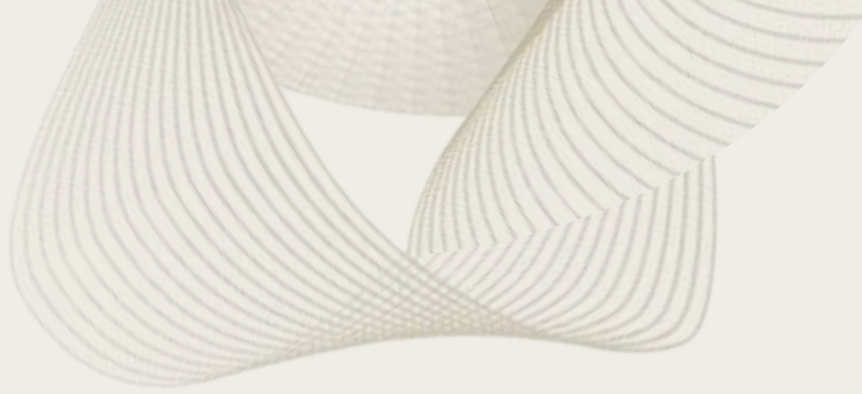
These are the financial statements of Banco Central de Timor-Leste (“the Bank” or BCTL), a distinct autonomous public legal entity established by Organic Law number 5/2011 on the Central Bank of Timor-Leste. The head office of Banco Central de Timor-Leste is at Avenida Xavier do Amaral, no9, P.O. Box 59, Díli, Timor-Leste.

The financial statements of the Bank are for the financial year ended 31 December 2020 and, in accordance with section 58 of the Organic Law no 5/2011, the accounts and records are maintained in accordance with International Financial Reporting Standards. The primary objective of the Bank is to achieve and maintain domestic price stability.

The other objectives of the Bank are to foster the liquidity and solvency of a stable market-based banking and financial system, to execute the foreign exchange policy of Timor-Leste, and to promote a safe, sound, and efficient payment system.

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

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



2. Basis of Preparation

a) *Statement of compliance*

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by International Accounting Standard Board (IASB).

The financial statements were authorised for issue by the Governing Board on 20 April 2021.

b) *Basis of Measurement*

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

c) *Adoption of International Financial Reporting Standards*

These financial statements incorporate all International Financial Reporting Standards in force at 31 December 2020. No standards have been adopted before the effective date.

d) *Functional and Presentation Currency*

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

e) *Use of Estimates and Judgements*

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

f) *Comparative amounts opening balances*

To ensure consistency with the current year, comparative figures have been restated where appropriate. Certain presentational changes have been made in the financial statements.

3. Significant Accounting Policies

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

a) Foreign currency transactions


Transactions in foreign currencies are translated into United States dollars at the spot exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated at balance date into United States dollars at the spot exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated into the functional currency at the spot exchange rate at the date that the fair value was determined. The following United States dollar exchange rates have been used to convert foreign currency assets and liabilities to United States dollars for reporting purposes.

	31 DEC 2020	31 DEC 2019
Australian dollars (AUD)	1.3139	1.4401
Special Drawing Rights (SDR)	0.6943	0.7232
Euro (EUR)	0.8159	0.9012

b) Interest Rate Method

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

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



Interest income and expense presented in the profit and loss statement include:

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

c) Fees

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

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

d) Operating Profit

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

e) Taxation

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

f) Financial Assets and Liabilities

(i) Recognition

The Bank recognises loans, advances and deposits on the date at which they are originated. All other financial assets are initially recognised on the settlement date at which payment is made and title received according to market contractual arrangements.

A financial asset or financial liability is initially measured at fair value plus (for an item not subsequently measured at fair value through profit or loss) transaction costs that are directly attributable to its acquisition or issue.

The Bank enters into transactions whereby it acquires assets but does not acquire all the risks and rewards of the assets or a portion of them. Such assets, including assets acquired in connection with the Bank's management of the Petroleum Fund, are not recognised on the balance sheet.

(ii) *Classification*

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

(iii) *De-recognition*

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

(iv) *Offsetting*

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

(v) *Amortised cost measurement*

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

(vi) *Fair value measurement*

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


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

(vii) *Identification and measurement of impairment*

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

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

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



The Bank considers evidence of impairment investment securities at both a specific asset and collective level. All individually significant investment securities are assessed for specific impairment. All individually significant investment securities found not to be specifically impaired are then collectively assessed for any impairment expected for the remaining life of exposure (lifetime ECL). Investment securities that are not individually significant are then collectively assessed for impairment by grouping together investment securities with similar risk characteristics.

Impairment losses on securities subsequently measured at fair value through other comprehensive income are recognised by transferring the cumulative loss that has been recognised directly in equity to profit or loss. The cumulative loss that is removed from equity and recognised in profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

g) Cash and Cash Equivalents


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

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

h) International Monetary Fund

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

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



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

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

i) Reverse-Repurchase Transactions

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

j) Other Assets and Liabilities

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

Accounts receivable are recorded at expected realisable value after making due allowance for doubtful debts.

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

k) Property, Plant and Equipment

i) Recognition and measurement

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

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

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

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

ii) Subsequent Costs

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

iii) Depreciation

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

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

	2020	2019
Buildings and improvements	20 years	20 years
Plant	5 years	5 years
Office equipment	8 years	8 years
Computers and electronic equipment	4 years	4 years
Vehicles	5 years	5 years

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

iv) Impairment

determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. An impairment loss is recognised if the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in profit and loss.

l) Currency in circulation

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

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

m) Employee benefits

i. Short term employee benefits

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

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

ii. Long-term employee benefits

There is no pension scheme for employees of the Bank.

n) Changes in accounting policies

i. Voluntary changes in accounting policies

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

ii. New standards and interpretations applicable in the year

There was no significant impact on the accounting policies and disclosures from the adoption by the Bank of new standards, revisions, amendments and improvements to standards and interpretations which were applicable as from 1 January 2020. These new standards, revisions, amendments and improvements to standards and interpretations are the following:

- Definition of Material (Amendment – Disclosure initiative) – IAS 1 and IAS 8
- Definition of a Business (Amendments to IFRS 3)
- Conceptual framework for financial Reporting (Revised)
- Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7, IFRS 4 and IFRS 16)
- COVID-19 - Related Rent Concessions (Amendment to IFRS 16).

iii) New standards and interpretations applicable in the future years

The following new standards, revisions, amendments and improvements to standards and interpretations are applicable as from 1 January 2021:

- Interest Rate Benchmark Reform – Amendments to IFRS 9, IAS 39 and IFRS 7

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



4. Financial Risk Management

a) Introduction and Overview

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

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

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

b) Risk Management Framework

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

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

- Article 19 states that the Bank may hold in its investment portfolio any or all the following foreign assets: Gold and other precious metals held by or for the account of the Bank, including credit balances on account representing such gold and other precious metals; Banknotes and coins denominated in freely convertible foreign currencies held by or for the account of the Bank; Credit balances and interbank deposits that are payable on demand or within a short term denominated in freely convertible foreign currencies and are held in the accounts of the Bank, on the books of foreign central banks, or international financial institutions; Readily-marketable debt securities denominated in freely convertible foreign currencies issued by, or backed by foreign governments, foreign central banks or international financial institutions; Claims on international financial institutions resulting from repurchase agreements, sale and buy back and securities lending agreements for the foresaid debt securities; Special drawing rights held in the account of Timor-Leste in the International Monetary Fund; The reserve position of Timor-Leste in the International Monetary Fund.

- Article 71.1 prohibits the Bank from granting credit, engaging in commerce, purchasing the shares of any corporation or company including the shares of any Financial Institution, or otherwise have an ownership interest in any financial, commercial, agricultural, industrial, or other undertaking or acquire by purchase, lease, or otherwise any real rights in or to immovable property, except as it shall consider necessary or expedient for the provision of premises for the conduct of its administration and operations.
- Article 39 authorises the Bank to manage special fund owned by the state on the basis of management contract and maintain earmarked receipts on its books special accounts provided that the assets and liabilities shall be segregated from the other assets and liabilities of the Bank.

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

c) Credit Risk

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

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

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

Statement of Financial Position
For the period ended 31 December
In thousands of United States dollars

	Rating*	Dec 2020	Rating*	Dec 2019
Cash and cash equivalents				
Cash	AAA	62.432	AAA	36.663
Deposits at central banks	AAA	575.399	AAA	606.578
Resident banks	BBB-	86.303	BB-	15.678
Non-resident banks	A-	7.582	A-	3.107
		731.717		662.026
Investments				
International Monetary Fund - "SDR"	N/A	35.488	N/A	34.276
TOTAL ASSETS		767.205		696.100
Summary by credit rating				
	Dec 2020	Dec 2020	Dec 2019	Dec 2019
AAA	83.14%	637.831	92.41%	643.241
A-	0.99%	7.582	0.45%	3.107
Baa2	11.25%	86.303	2.25%	15.678
Not applicable	4.63%	35.488	4.89%	34.073
TOTAL ASSETS	100%	767.205	100%	696.100

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

There were no impairment losses at balance date.

The carrying amount of these assets approximates their fair value.

d) Liquidity Risk

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

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

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

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

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

	2020 Carrying amounts US\$ '000	6 months or less	"Contractual Cash Flow" Over 6 months
Cash and Cash equivalents	731.717	731.717	0
Total assets (Excluding PPE)	731.717	731.717	0
Government deposits	497.486	497.486	0
Other deposits	167.446	131.934	35.512
Other liabilities	11,905	11,905	0
Currency issued	23.446	23.446	0
Total liabilities	700.283	664.771	35.512

	2019 Carrying amounts US\$ '000	6 months or less	"Contractual Cash Flow" Over 6 months
Cash and Cash equivalents	662.026	662.026	0
Total assets (Excluding PPE)	662.026	662.026	0
Government deposits	449.068	449.068	0
Other deposits	147.359	113.263	34.096
Other liabilities	9.480	9.480	0
Currency issued	21.214	21.214	0
Total liabilities	627.121	593.025	34.096

e) Market Risk

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

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

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

(i) Interest Rate Risk

Interest rate risk is the risk of loss arising from changes in interest rates. The Bank's management of interest rate risk is partially governed by the legal framework outlined above, and partly by a management policy of closely matching the re-pricing periods of its assets and liabilities.

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

	Total Carrying Amount 2020 US\$ '000	Non-Interest Sensitive	6 month or less
Cash and cash equivalents	731.717	62.432	669.285
Investments	35.488	35.488	0
Other assets	3.217	3.217	0
Total assets (Excluding PPE)	770.422	101.137	669.285
Government deposits	497.486	0	497.486
Other deposits	167.446	35.512	131.934
Other liabilities	11.905	11.905	0
Currency issued	23.446	23.446	0
Total liabilities	700.283	70.863	629.420
Interest Rate Sensitivity Gap	70.139	30.274	39.865

	Total Carrying Amount 2019 US\$ '000	Non-Interest Sensitive	6 month or less
Cash and cash equivalents	662.026	36.663	625.363
Investments	34.073	34.073	0
Other assets	6.296	6.296	0
Total assets (Excluding PPE)	702.395	77.032	625.363
Government deposits	449.068	0	449.068
Other deposits	147.359	34.096	113.263
Other liabilities	9.480	9.480	0
Currency issued	21.214	21.214	0
Total liabilities	627.121	64.790	562.331
Interest Rate Sensitivity Gap	75.274	12.242	63.032

ii) Sensitivity Analysis – Interest risk

In managing interest rate risk the Bank aims to reduce the impact of short-term fluctuations on its net income. At 31 December 2020, it is estimated that a general increase/decrease of one percentage point in interest rates would increase/decrease the Bank's profit by approximately \$399 thousand (2019 - \$630 thousand).

iii) Foreign Currency Risk

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

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

As at 31 December 2020, the Bank's net exposure to major currencies was as follows:

	Total 2020 US\$"000	United States Dollars	Australian Dollars	SDR	Euro
Cash and cash equivalents	731.717	731.689	7	0	21
Investments	35.488	0	0	35.488	0
Other assets	3.217	3.217	0	0	0
Total assets (Excluding PPE)	770.422	734.906	7	35.488	21
Government deposits	497.486	497.486	0	0	0
Other deposits	167.446	131.934	0	35.512	0
Other liabilities	11.905	11.905	0	0	0
Currency issued	23.446	23.446	0	0	0
Total liabilities	700.283	664.771	0	35.512	0
Net Foreign Currency Exposure	70.139	70.135	7	-24	21

	Total 2019 US\$"000	United States Dollars	Australian Dollars	SDR	Euro
Cash and cash equivalents	662.026	661.702	14	0	310
Investments	34.073	0	0	34.073	0
Other assets	6.296	6.296	0	0	0
Total assets (Excluding PPE)	702.395	667.998	14	34.073	310
Government deposits	449.068	449.068	0	0	0
Other deposits	147.359	113.263	0	34.096	0
Other liabilities	9.480	9.480	0	0	0
Currency issued	21.214	21.214	0	0	0
Total liabilities	627.121	593.025	0	34.096	0
Net Foreign Currency Exposure	75.274	74.973	14	-23	310

iv) *Sensitivity analysis - Currency exchange risk*

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

f) **Operational Risk**

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

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

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

- Requirements for the appropriate segregation of duties, including independent authorisation of transactions;
- Requirements for the timely reconciliation and monitoring of transactions;
- Compliance with regulatory and other legal requirements;
- Written documentation of all major operating procedures;
- Requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;
- Requirements for the reporting of operational losses and development of proposed remedial actions;
- Development of contingency plans;
- Ongoing capacity building and professional development;
- Establishment of ethical standards of behaviour; and
- Risk mitigation, including insurance for high risk operations.

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

g) Capital Management

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

- The capital of the Bank must at least be \$70,000,000, fully subscribed and paid-up.
- The capital of the Bank may be increased on the recommendation of the Governing Board and approved by the Government.
- A general reserve account may be established to hold the paid-up capital up to the difference between ten percent of the total financial assets of the Bank.
- The capital of the Bank may not be transferable or subject to encumbrance of any kind.

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

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

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

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

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

6. Segment Reporting

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

7. Cash and Cash Equivalents

	2020 US\$ '000	2019 US\$ '000
Cash and Cash Equivalents		
Cash	62.432	36.663
Deposits at central banks	575.399	606.578
Resident banks	86.303	15.678
Non-resident banks	7.583	3.107
Total	731.717	662.026

8. Marketable Securities

There were none in 2020 and 2019.

9. Financial Assets and Liabilities

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



	Fair Value through Profit or Loss		Amortised Cost		Fair value through Other Comprehensive Income	
	2020 US\$'000	2019 US\$'000	2020 US\$'000	2019 US\$'000	2020 US\$'000	2019 US\$'000
Financial assets						
Cash and cash equivalents	0	0	731.717	662.026	0	0
Investments	0	0	35.488	34.073	0	0
Other assets	0	0	3.217	6.296	0	0
Total assets (Excluding PPE)	0	0	770.422	702.395	0	0
Financial liabilities						
Government deposits	0	0	497.486	449.068	0	0
Other deposits	0	0	167.446	147.359	0	0
Other liabilities	0	0	11.905	9.480	0	0
Currency issued	0	0	23.446	21.214	0	0
Total liabilities	0	0	700.283	627.121	0	0

10. Investments

a) International Monetary Fund

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

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

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

	2020		2019	
	in SDR '000	in USD '000	in SDR '000	in USD '000
IMF Holdings of Currency	21.250	30.606	21.250	29.385
IMF SDR Holdings	3.389	4.882	3.391	4.688
Total	24.639	35.488	24.641	34.073

b) The World Bank Group

The Democratic Republic of Timor-Leste became a member of three institutions within the World Bank Group on 23 July 2002. Under the relevant Articles of Association, the Bank was designated as the official depository. In accordance with general practice, the Bank records the outstanding balances with the members of the World Bank Group on a net liability basis. The amounts subscribed are in US dollars, as follows:

International Bank for Reconstruction and Development

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

International Development Association

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

Multilateral Investment Guarantee Agency

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

11. Property, Plant and Equipment

Cost	Buildings US\$ '000	Plant US\$ '000	Office equipment US\$ '000	Computer equipment US\$ '000	Vehicles US\$ '000	Work in progress US\$ '000	Total US\$ '000
Balance at 1 January 2019	1,301	415	1,053	3,375	593	29	6,766
Acquisitions	16	0	15	624	0	0	655
Transfers	0	0	0	0	0	38	38
Balance at 31 December 2019	1,317	415	1,068	4,000	593	67	7,460
Acquisitions	0	11	281	33	152	0	477
Adjustment	68	0	0	-68	0	0	
Work in Progress	0	0	0	0	0	216	216
Balance at 31 December 2020	1,385	426	1,349	3,964	745	283	8,152
Accumulated depreciation							
Balance at 1 January 2019	756	375	727	2,365	522	0	4,745
Depreciation for the year	66	22	90	453	46		677
Adjustment	0	0	0	0	0	0	0
Balance at 31 December 2019	822	397	817	2,818	568	0	5,422
Depreciation for the year	65	9	121	355	16	0	566
Adjustment	0	0	0	-17	0	0	-17
Balance at 31 December 2020	887	406	938	3,173	584	0	5,988
Net carrying amounts							
As at 31 December 2020	498	20	411	791	161	283	2,164
As at 31 December 2019	495	18	251	1,182	25	67	2,038

Pending the establishment of a land and property registration system in Timor-Leste, and the commencement of a property market in which the valuation of commercial and other property can be established by reference to observable transactions, the Governing Board of the Bank has been unable to establish a fair value for the head office land and buildings occupied by the Bank.

Work in progress includes costs incurred in relation to the implementation of payment system projects namely P24 and regional integration, and Acquisition of HR Attendance and fingerprint project. There were subsequently capitalised and transferred to Computer equipment in 2021.

There were no impairment losses at balance date.

12. Other Assets

Other assets comprise the following:

	2020 US\$ '000	2019 US\$ '000
Other Assets		
Accounts receivable	2.296	4.981
Advance, security & prepayment	79	101
Inventories	842	1.214
Total	3.217	6.296

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

13. Government deposits

	2020 US\$ '000	2019 US\$ '000
Government deposits		
Consolidated fund	305.215	349.824
Infrastructure fund	7.086	26.855
Human Development Capital fund	552	761
Autonomous agency accounts	49.340	14.387
Municipalities accounts	1.422	887
Social security fund	133.871	56.354
Total	497.486	449.068

14. Other Deposits

	2020 US\$ '000	2019 US\$ '000
Other deposits		
Domestic financial institutions	131.934	113.263
International financial institutions	35.512	34.096
Total	167.446	147.359

15. Other Liabilities

	2020 US\$ '000	2019 US\$ '000
Other Liabilities		
Accounts payable	2.437	3.267
Withholding tax payable	104	38
Provision for Long service account	375	209
Letters of Credit	269	201
Operating accounts	8.720	5.765
Total	11.905	9.480

16. Capital and Reserves

The capital of the Bank is maintained at \$70,000,000 (2019- \$70,000,000).

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

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

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

profit of the Bank, after statutory deductions to the General Reserve Account and the Supplementary Reserve Account shall be transferred to the Government of Timor-Leste.

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

	2020 US\$ '000	2019 US\$ '000
Transfer to Government		
Net profit for the year ended 31 December 2020	1.541	6.550
Transfer to General Reserve Account	0	0
Total transfer to Government	1.541	6.550

The Bank will transfer the profit for the year 2020 (2019 – transferred to Government in early May 2020) to Government, when the Governing Board approved the distribution of earnings.

18. Contingent Liabilities

There were no contingent liabilities as at 31 December 2020.

19. Net Interest Income

	2020 US\$ '000	2019 US\$ '000
Interest income from Financial Assets		
Interest on deposits at foreign central banks	1.313	8,321
Interest on deposits at domestic banks	74	150
Total interest income	1.387	8.471
Interest paid on Financial Liabilities		
Interest paid on Government accounts	512	1.238
Interest paid to commercial banks	2	6
Total de juros pagos	514	1.244

20. Fee and Commission Income

	2020 US\$ '000	2019 US\$ '000
Fees and commissions		
Currency withdrawal fees	8	15
Licensing and supervision fees	158	232
Government account management fees	500	500
Total fees and commissions	666	747

21. Petroleum Fund Management Fee

In accordance with the provisions of the Petroleum Fund Law No 9/2005 the Bank is entitled to charge a management fee for the operational management of the Petroleum Fund of Timor-Leste that reasonably represents the cost of managing the Petroleum Fund. The balance of Petroleum Fund on 31 December 2020 (unaudited) was \$18,991 million (2019- \$17,692 million).

Ministry of Finance agreed to cover internal management fee of BCTL up to 4 basis points on an annual basis. The management fee received from the Petroleum Fund account for the period ended 31 December 2020 amounted to \$14,531 thousand (2019- \$14,081 thousand or 7 basis points) or represented 8 basis points of the average balance of the funds. The fees cover expenses for custody services and external managers, Investment Advisory Board, and the fees for BCTL internal management. Presented below is the petroleum fund management fee income by nature:

	2020 US\$ '000	2019 US\$ '000
Total Petroleum Fund Management Income	14.531	14.081
External managers & custody mgmt services	-7.814	-9.063
Investment Advisory management expenses	-162	-261
Others	-582	317
Net Fee and Commission Income	5.973	5.074

The breakdown of BCTL internal fees receipts which allocated to expenses as shown below.

	2020 US\$ '000	2019 US\$ '000
Salary, capacity building and Other personnel related costs	1.195	1.015
IT services, systems and data	1.911	1.624
Research, consulting and legal fees	1.493	1.268
Allocated common costs BCTL	1.075	913
Other costs	299	254
Total BCTL Operational Expenses	5.973	5.074

22. Personnel Expenses

	2020 US\$ '000	2019 US\$ '000
Personal Expenses		
Salaries and related payments	1.836	1.669
Staff welfare payments	185	182
Capacity building and staff development	11	269
Representation at conferences and meetings	2	242
Total personnel expenses	2.034	2.362

23. Administration Expenses

	2020 US\$ '000	2019 US\$ '000
Administration Expenses		
Asset maintenance	89	58
Communications	125	90
Information systems	1.664	1.164
General expenses	45	44
Office Expenses	226	156
Professional fees	619	561
Other Assets management expenses	216	196
Total Administration Expenses	2.984	2.269

24. Petroleum Fund of Timor-Leste

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

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

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

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

The assets and liabilities of the Petroleum at 31 December 2020* were as follows:

	2020 US\$ ‘000	2019 US\$ ‘000
Petroleum Fund Assets		
Cash and Cash Equivalents	1.361.477	940.853
Other receivables	17.247	32.565
Financial assets at fair value through profit or loss	16.943.356	16.064.676
Financial assets at Amortised Cost	701.350	671.313
Less: Pending Purchase of Securities	-32.849	-17.591
& Account payables	18.990.581	17.691.816
Capital	18.990.581	17.691.816

Notes: *) the PF balance sheet is unaudited

25. Related Party transactions

Ultimate Controlling Party

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

Governing Board

O Conselho de Administração do Banco inclui três membros executivos, cujas There were three members of the Governing Board who were the executive management personnel. The compensation is determined by the Government through Government Decree No. 3/2015 of 21 January, which is disclosed below.

	2020 US\$ '000	2019 US\$ '000
Executive Board Members Compensation (included in personnel expenses)		
Short-term employee benefits	260	269
Long-term benefits	17	17
Total	277	286

Non-Executive Governing Board

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

	2020 US\$ '000	2019 US\$ '000
Non-Executive Board Members Compensation		
Sitting allowance (Included in personnel expenses)	68	85

Key Management Personnel

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

	2020 US\$ '000	2019 US\$ '000
Key Management Personnel Compensation (Included in personnel expenses)		
Short-term employee benefits	72	71
Long-term benefits	6	5
Total	78	76

Government-Related Entities

The Bank provides banking services on an arm's-length basis to the Ministry of Finance and other public entities which are exempt from the disclosure requirements of paragraph 18 of IAS 24 – "Related Party Disclosures" in relation to related party transactions and outstanding balances, including commitments. The nature and amount of each individually significant transaction with Government related entities are disclosed in Notes 13,15,22 and 25.

26. Authorisation and approval of the financial statements

As stated in the basis of preparation - Statement of compliance, these financial statements were authorised for issue by the Governing Board of the Bank on 20 April 2021.

27. Subsequent Events

On January 30, 2020, the World Health Organization ("WHO") announced a global health emergency because of a new strain of coronavirus originating in Wuhan, China (the "COVID-19 outbreak") and the risks to the international community as the virus spreads globally beyond its point of origin. In March 2020, the WHO classified the COVID-19 outbreak as a pandemic, based on the rapid increase in exposure globally.

The impact of the COVID-19 outbreak continues to evolve as of the date of this report., but there were no subsequent events have occurred after the reporting date but prior to the issuance of the financial statements that have a material effect on the financial statements and therefore require adjustment or disclosure in the statements.

INDEPENDENT AUDITOR'S REPORT

To the Governing Board of Banco Central de Timor-Leste (the Bank)

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Banco Central de Timor-Leste (the Bank), which comprise the statement of financial position as at 31 December 2020, the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion the accompanying financial statements of the Bank:

- (i) Give a true and fair view of the Bank's financial position as at 31 December 2020 and of its financial performance and its cash flows for the year ended on that date; and
- (ii) Complies with the International Financial Reporting Standards (IFRSs).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Statements* section of our report. We are independent of the Bank in accordance with the ethical requirements of the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Timor Leste. We have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of the Bank's Governing Board for the Financial Statements

The Bank's Governing Board is responsible for the preparation of the financial statements that gives a true and fair view in accordance with the IFRSs and for such internal control as the Governing Board determines is necessary to enable the preparation of the financial statements that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Governing Board is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Governing Board either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional skepticism throughout the planning and performance of the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control;
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

We are required to communicate with the Management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

BDO Australia Ltd



Clive Garland
Audit Partner

Darwin, 21 April 2021



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