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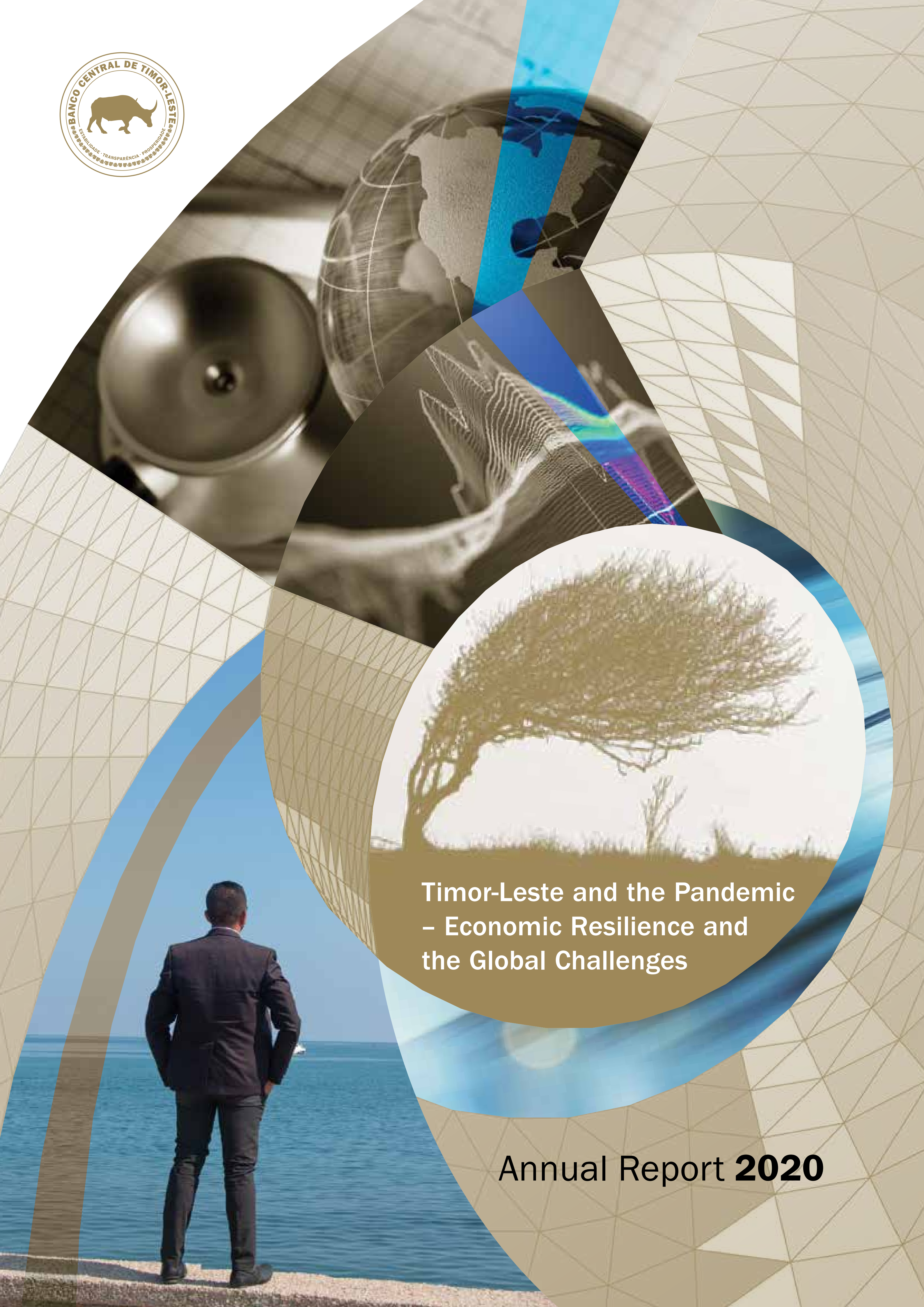


# Timor-Leste and the Pandemic – Economic Resilience and the Global Challenges

## Annual Report **2020**

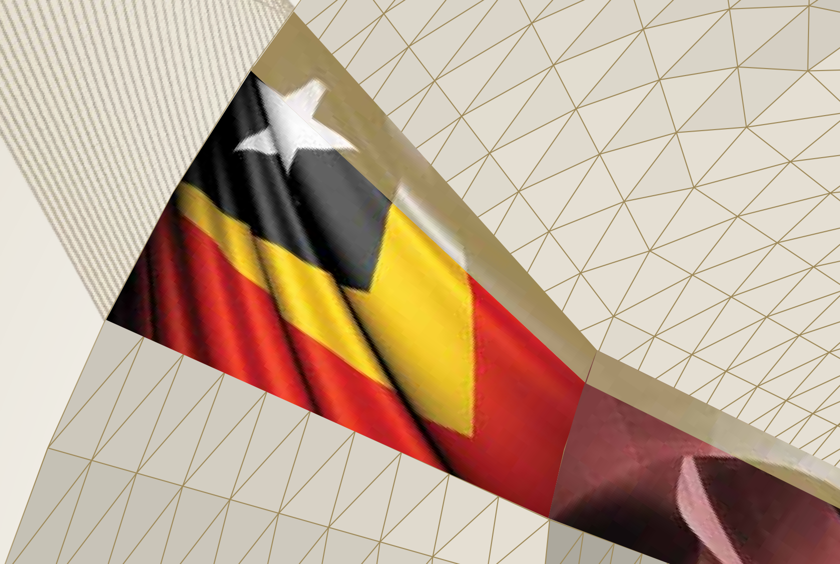

ESIA
Dili
EAST TIMOR
Timor
Darwin

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.*





## 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

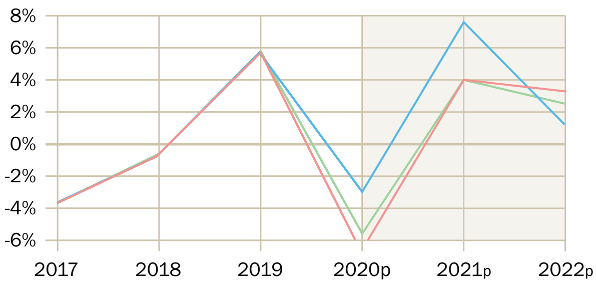
## 2.1.1. Economy - Recent Developments and Perspectives

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




% annual change

BCTL

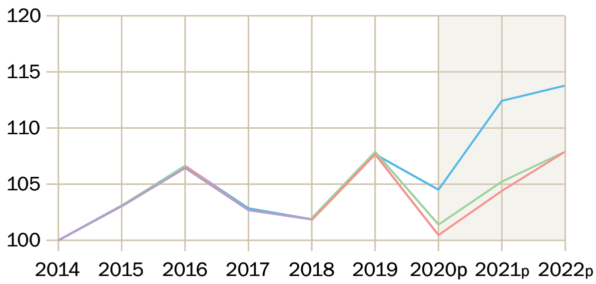
MoF

IMF

Source: BCTL, 2021 OGE Proposal and IMF

**Chart 2.1b**

GDP - real level




2014 = 100

BCTL | MoF

IMF | GDP real

Source: BCTL, 2021 OGE Proposal and IMF

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

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.

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

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

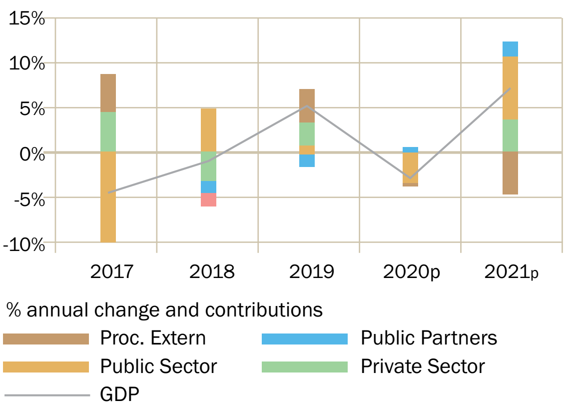
Although official estimates of Timor-Leste's National Accounts only exist until 2019, BCTL has developed an internal model that allows it to estimate the evolution of the most relevant components of domestic and external demand for more current periods. This allows us to assess the preliminary trends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

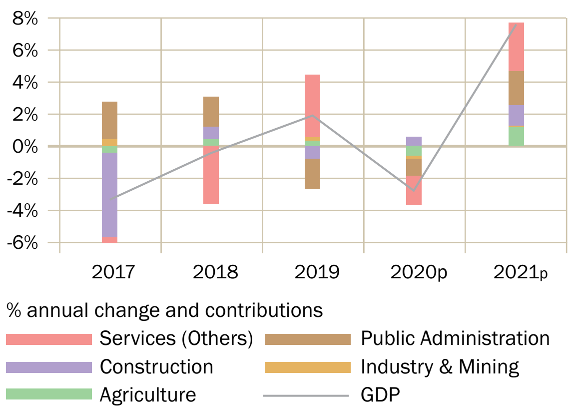
GDP real growth - Spending Aggregates




Source: DGE and BCTL

**Chart 2.2b**

GDP real growth - Production Aggregates




Source: DGE and BCTL

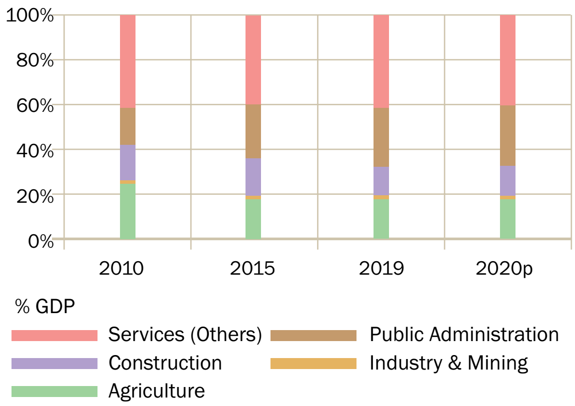
As can also be seen in chart 2.2a, the substantial recovery expected for 2021 should result from the material upturn in public and private demand, due to the mentioned increase in the fiscal stimulus, whose effect will be partially offset by the increase in the country's import levels in the same year.

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

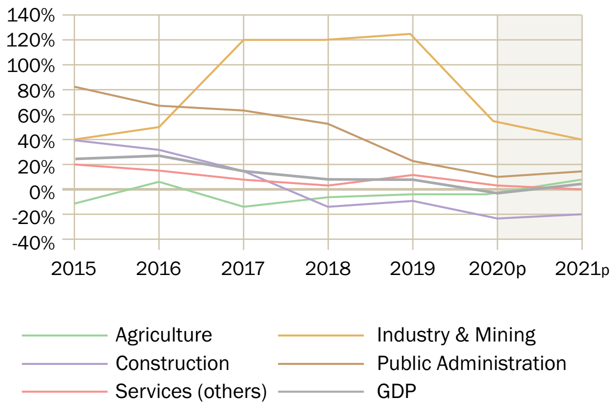
GDP Breakdown by Production Sectors




Source: DGE and BCTL

## Chart 2.3b

Sectors 5 Year Cumulative Growth Rates




Source: DGE and BCTL

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

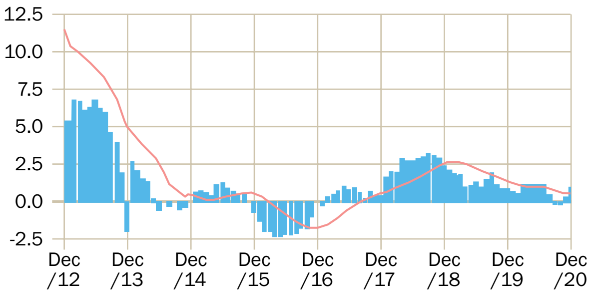
In 2020, average inflation slowed again to 0.6%, from 1.4% in 2019.

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**

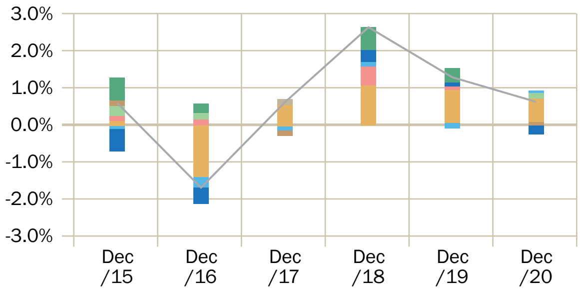
Inflation Rate - Dili CPI data




Source: DGE and BCTL calculations

**Chart 2.5**

Inflation Rate (average) and contributions




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.

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.

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.

### 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 anélise 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.

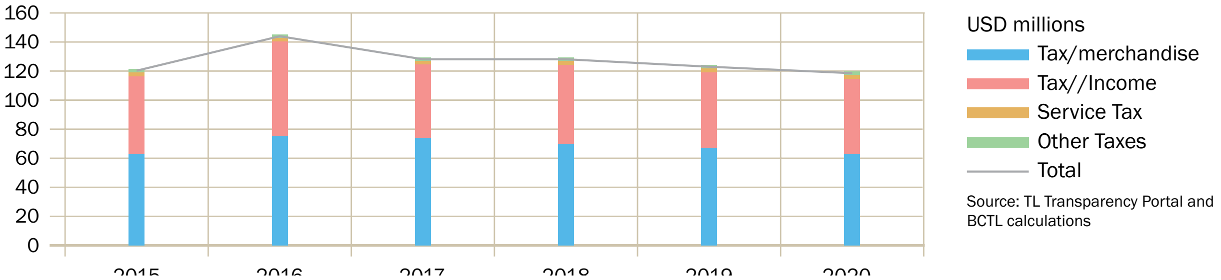
On a cash basis in 2020, domestic non-oil revenue reached $182 million, down -3% from $187 million a year ago. The contraction in revenue resulted mainly from the fall in fiscal revenue of -3%, but also from the reduction in revenue from autonomous public agencies. Conversely, non-tax revenue rose slightly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




Source: TL Transparency Portal and BCTL calculations

### 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.

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

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.

### 2.2.3.1. Current Expenditure

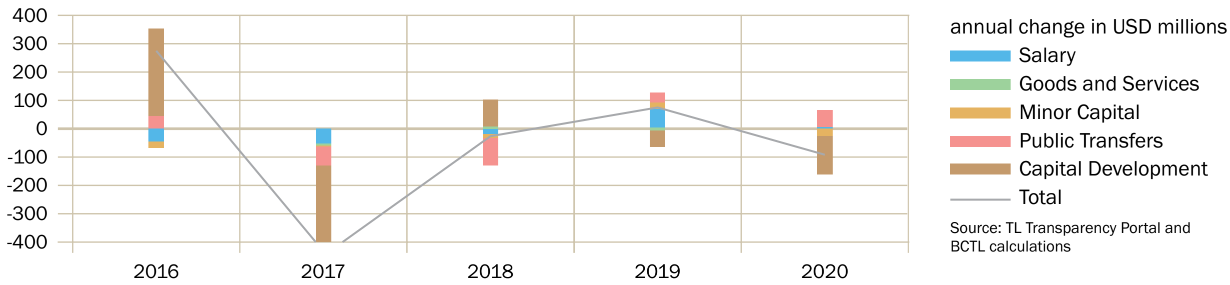
In 2020, current expenditure increased 7%, thus adding to the 14% expansion already recorded in 2019, which together reversed the combined decrease registered in 2017 and 2018. This type of expenditure, totalling $967 million in 2020, thus returned to a level close to the historic highs recorded in 2015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




Source: TL Transparency Portal and BCTL calculations

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

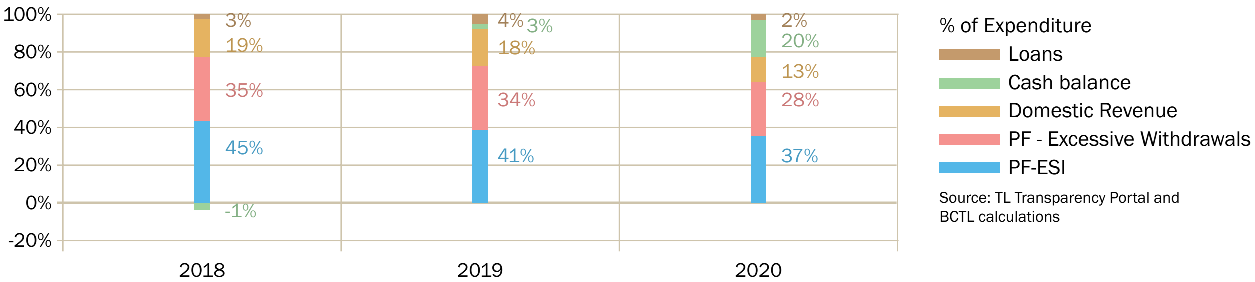
In its 2020 Budget, the Government planned to use $964 million from the Petroleum Fund, having effectively withdrawn the same amount from the PF to finance its expenditure in 2020. Note that this amount has remained practically unchanged from the $969 million withdrawn in 2019.

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




Source: TL Transparency Portal and BCTL calculations

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

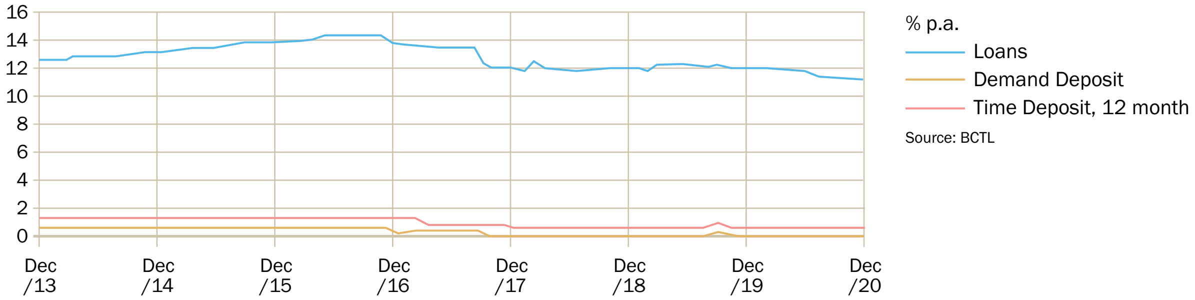
## 2.3.1. Interest Rates

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




Source: BCTL

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

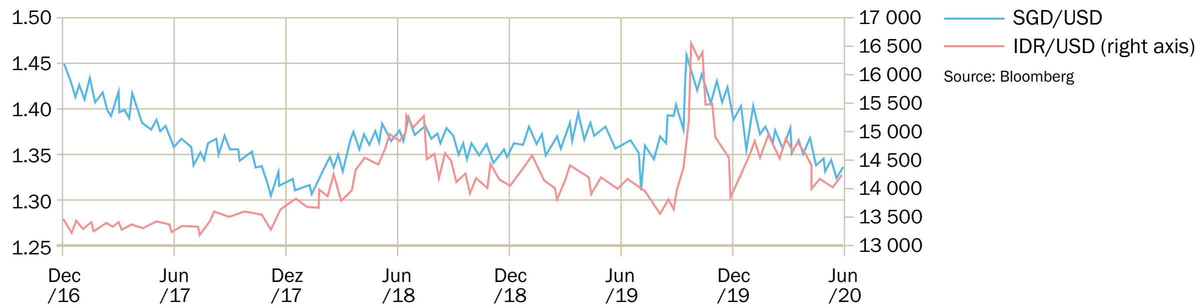
## 2.3.2. Exchange rates

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




Source: Bloomberg

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.

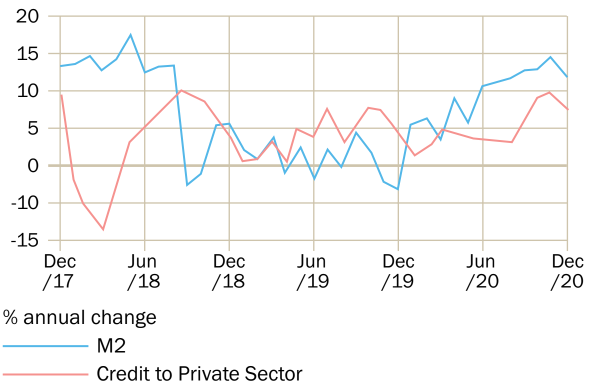
## 2.3.4. Money Supply

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

### Chart 2.11

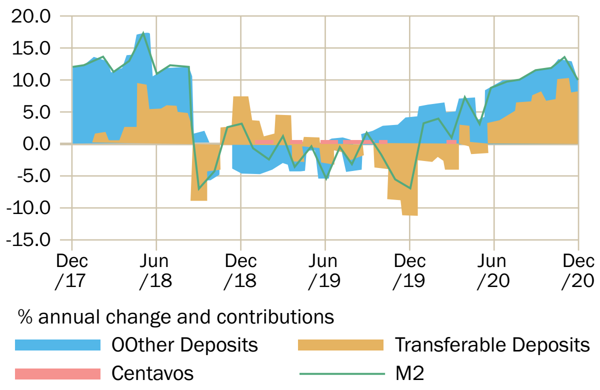
Money Supply Growth




Source: BCTL

### Chart 2.12

M2 and its Components




Source: BCTL

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

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

Charts 2.11 and 2.12 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.

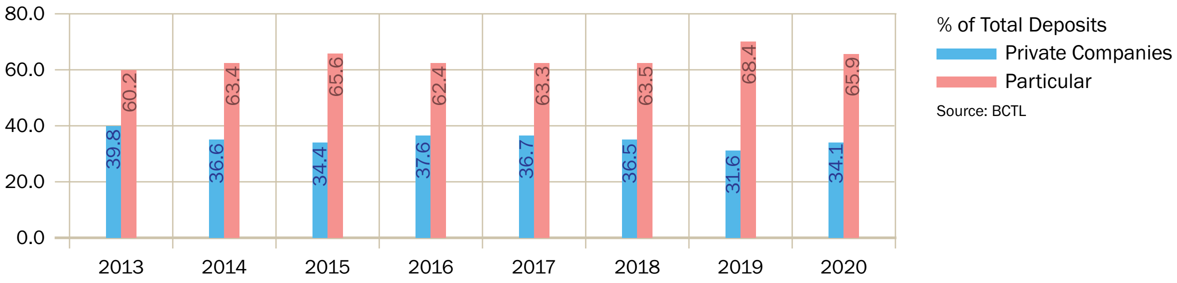
The M2 thus calculated amounted to $869 million in December 2020, having expanded $81 million, fully offsetting the -$60 million annual drop recorded in 2019.

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




Source: BCTL

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

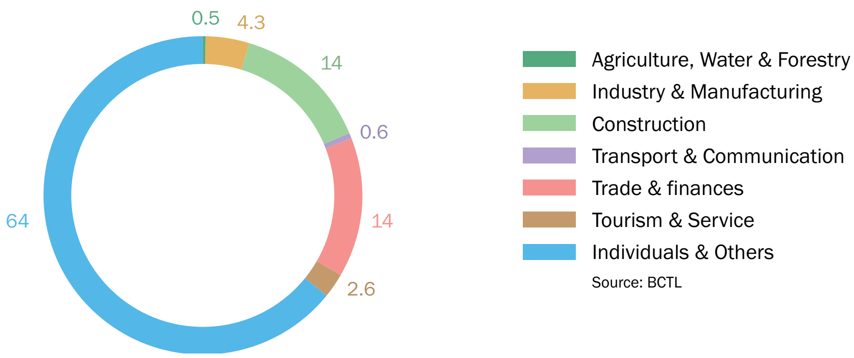
| | Saldo | | Variação | | Composiçcão em % | |
|---|---|---|---|---|---|---|
| | Dez-19 | Dez-20 | Nominal | % | Dez-19 | Dez-20 |
| Agriculture, Water & Forestry | 1.1 | 1.3 | 0.2 | 16 | 0.5 | 0.5 |
| Industry & Manufacturing | 5.8 | 11.0 | 5.3 | 92 | 2.5 | 4.3 |
| Construction | 48.9 | 36.1 | (12.8) | -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




Source: BCTL

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

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.

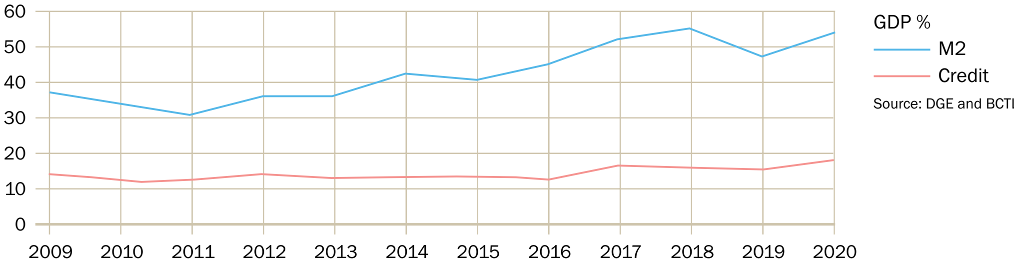
Despite the continued improvement in banks' balance sheets quality, the value of domestic credit has remained much lower than overall banking deposits, providing commercial banks excess liquidity that tends to be invested preferably on bank deposits abroad.

### 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




Source: DGE and BCTL calculations

# 2.4. External Sector

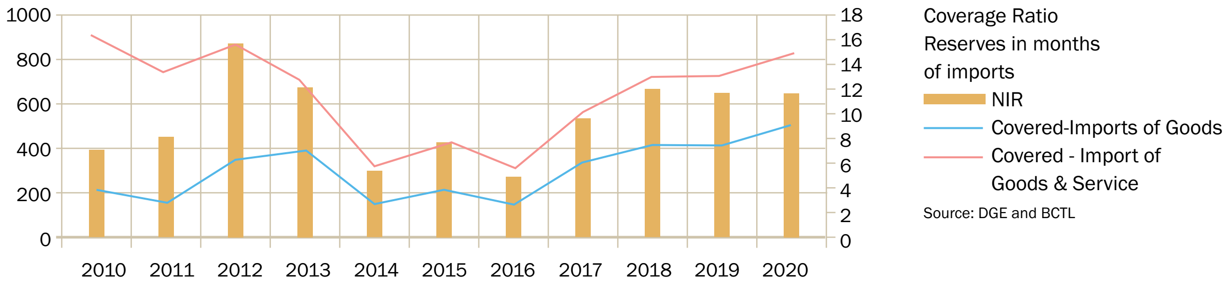
## 2.4.1. Net International Reserves (NIR)

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




Source: DGE and BCTL

## 2.4.2. Real Effective Exchange Rate Index (REER)

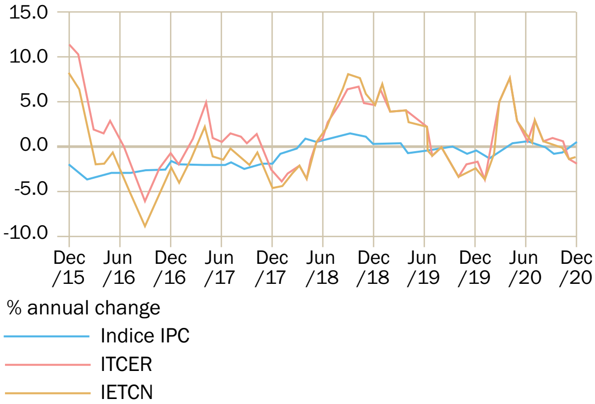
The Real Effective Exchange Rate Index (REER) - an indicator used to assess the competitiveness of countries in terms of tradable products - depreciated again but only slightly in 2020, recording a year-on-year change of -1.7%, which compounded the -1.5% fall recorded in 2019 (chart 2.17a). It should 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

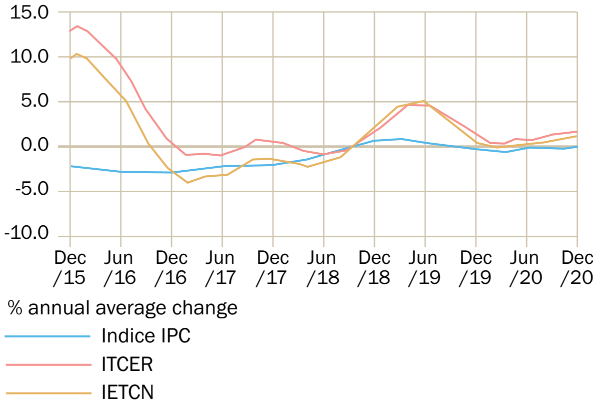
REER Index




Source: Bloomberg and BCTL

### Chart 2.17b

REER Index



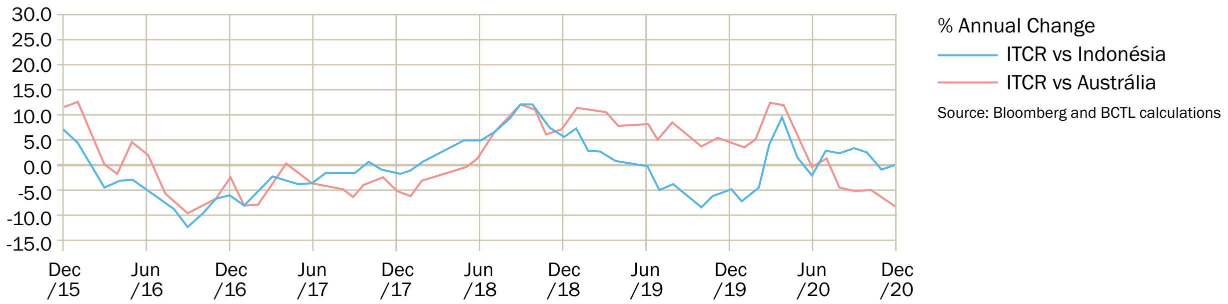

Source: Bloomberg and BCTL

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




Source: Bloomberg and BCTL calculations

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

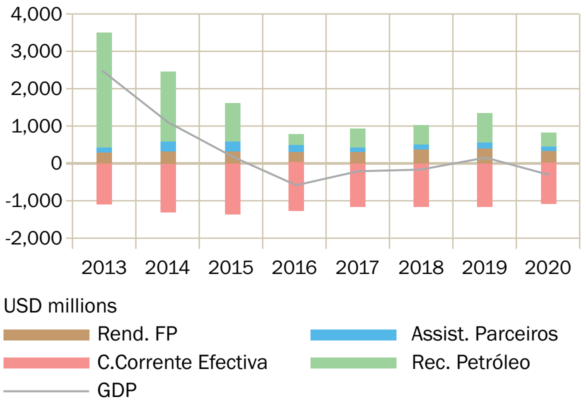
## 2.5.1. Current Account

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

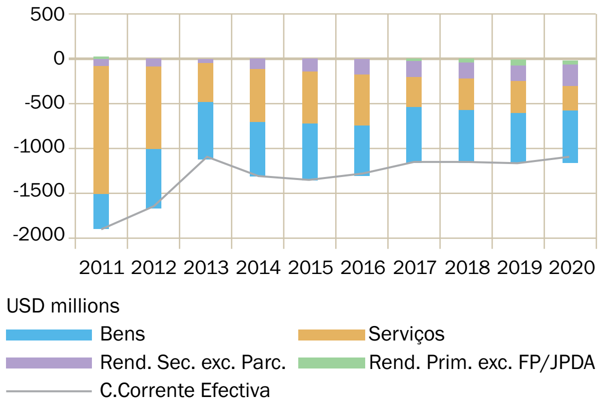
Current Account and Components




Source: BCTL

### Chart 2.19b

Effective Current Account




Source: BCTL

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

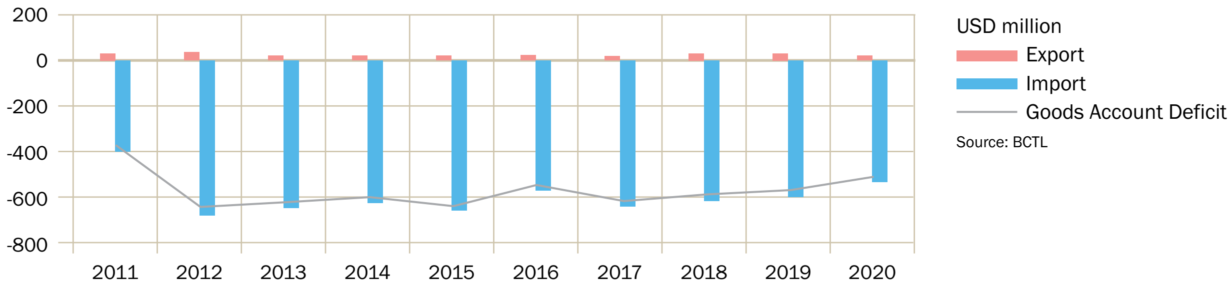
The goods trade account continued to post a substantial deficit, but there was a significant reduction in the deficit in 2020.

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




Source: BCTL

## 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 whole[1]. 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 | | Annual Change % | % Total | |
|---|---|---|---|---|---|
| | 2019 | 2020 | | 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.

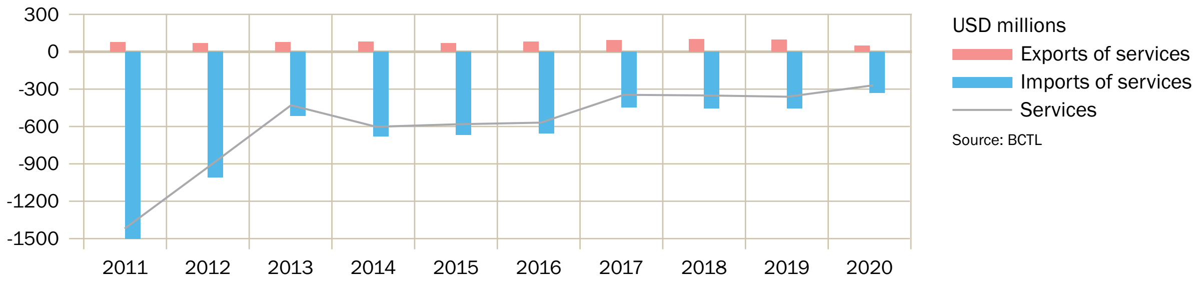
### 2.5.1.2. Services Account

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




Source: BCTL

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

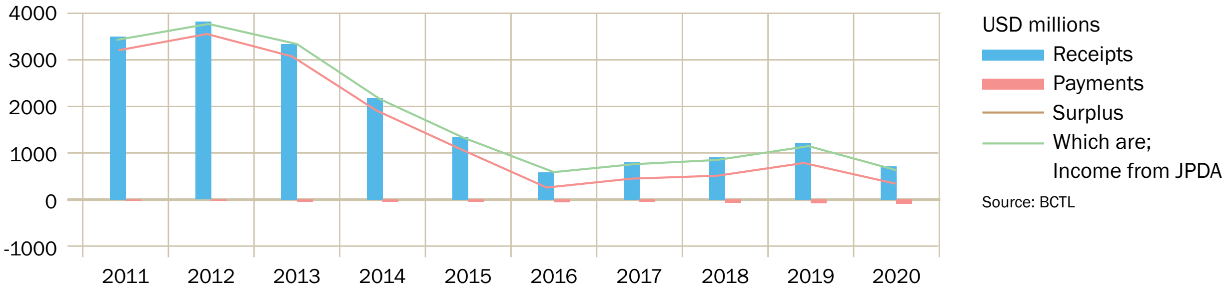
The primary income account surplus declined in 2020, as a result of the contraction in oil revenues.

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




Source: BCTL

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 substantiative 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

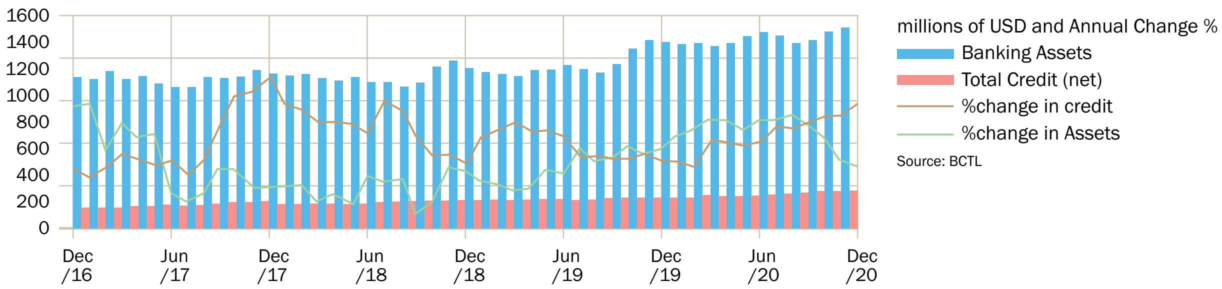
| | | | | Change | |
|---|---|---|---|---|---|
| | Dec-19 | Dec-20 | Weight% | % | Value |
| Cash & BCTL Balance | 147 | 166 | 11 | 13 | 19 |
| Placement to other Banks | 985 | 1012 | 67 | 3 | 27 |
| Investment | 18 | 32 | 2 | 78 | 14 |
| Loans | 222 | 278 | 18 | 25 | 55 |
| Fixed Asset | 15 | 15 | 1 | 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



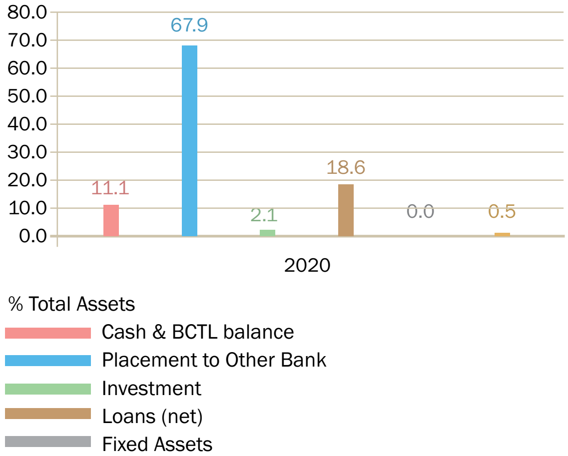

Source: BCTL

Deposits with other banks continue to be the more importante 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

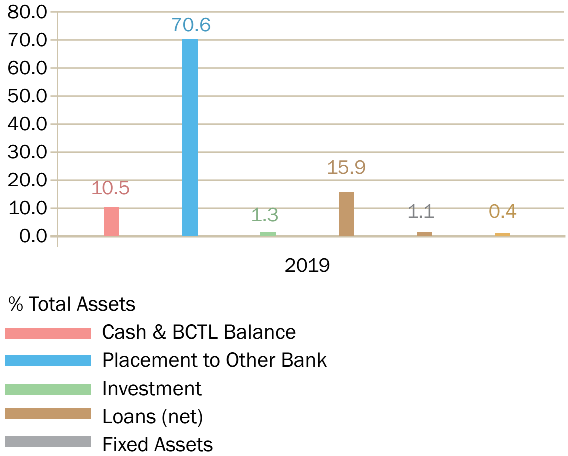
Banking Assets Composition




Source: BCTL

## Chart 2.24b

Banking Assets Composition




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.

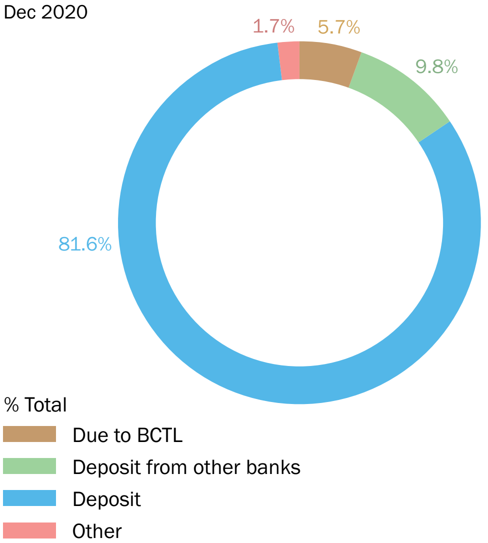
Clients' deposits continue to represent the largest source of funds for commercial banks.

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

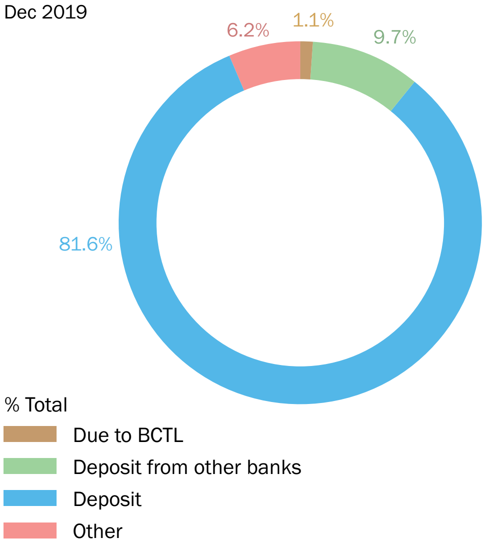



Source: BCTL

**Chart 2.25b**

Banking Liabilities Composition

Dec 2019



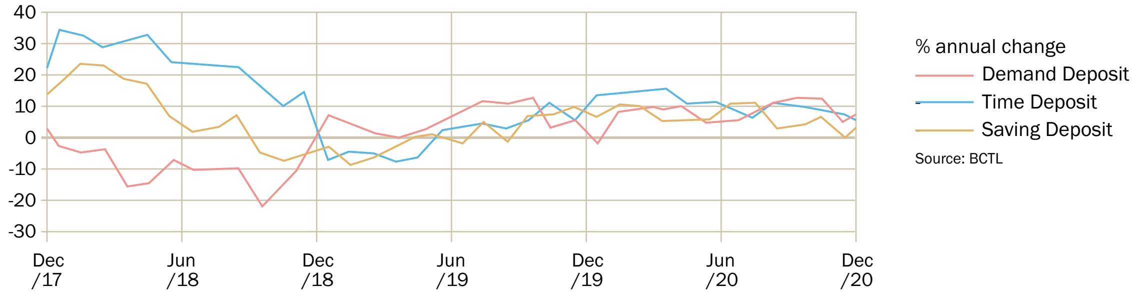

Source: BCTL

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

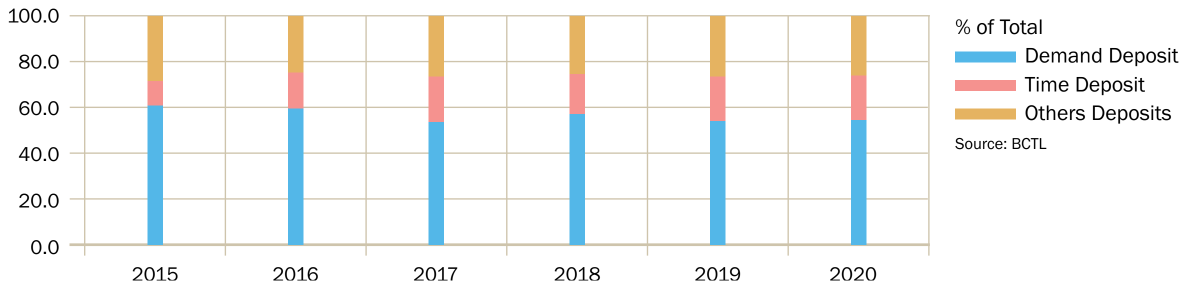
Deposits Growth




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



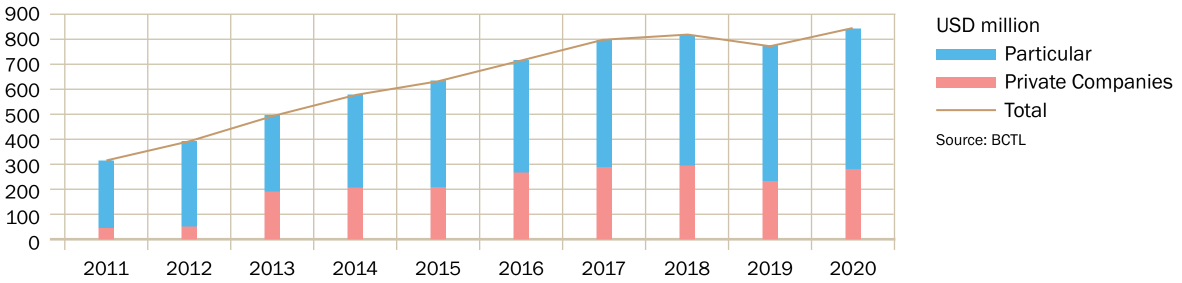
In terms of deposits' ownership, there was no relevant change in those held by private residents in terms of composition, whose weight was 81.6% of total deposits, with retail deposits continuing to represent the largest category. It should also be noted that both corporate and retail deposits expanded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

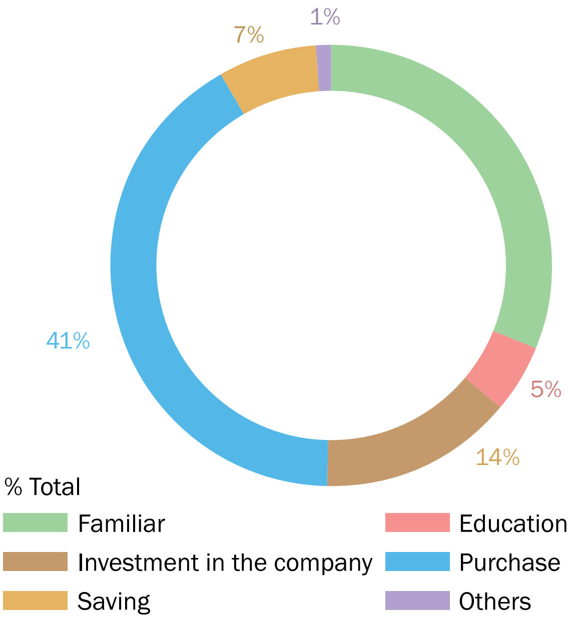
This type of inflows continue to be mostly originated in Europe, while the respective outflows are mainly bound for Asia and, in particular, Indonesia.

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

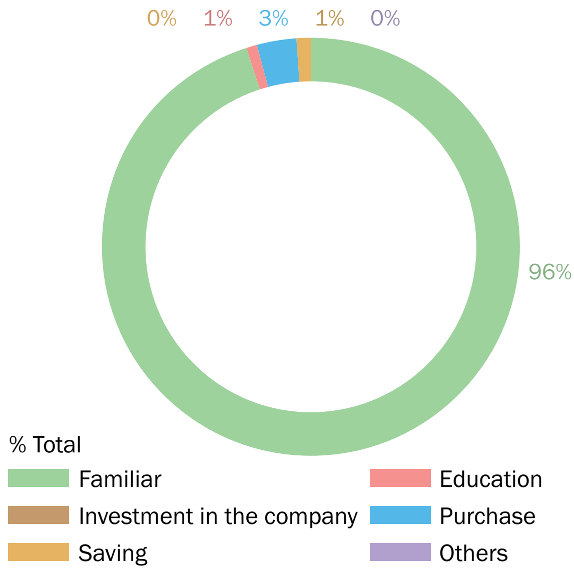
MTOs Outward Transfers, by Purpose




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.

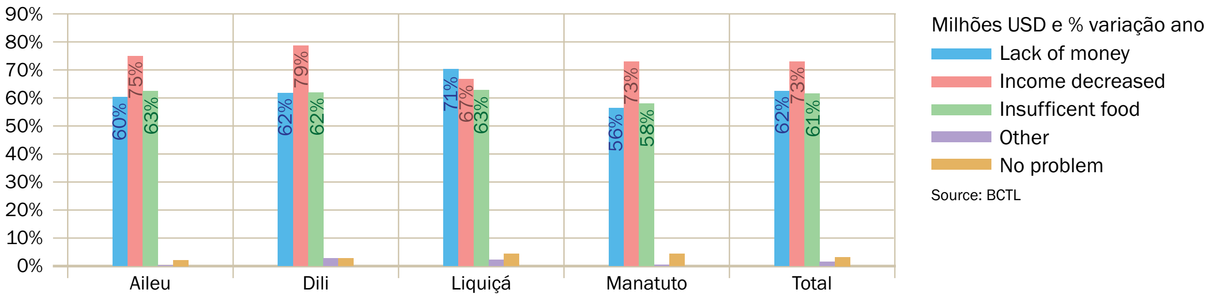
These surveys aimed at evaluating the impact of the "state of emergency" on households consumption and the income of informal business owners, as well as evaluating households consumption after receiving the $200 public subsidy, together with assessing problems households faced during the lockdown. The 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% |
| Dı̂li | 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.