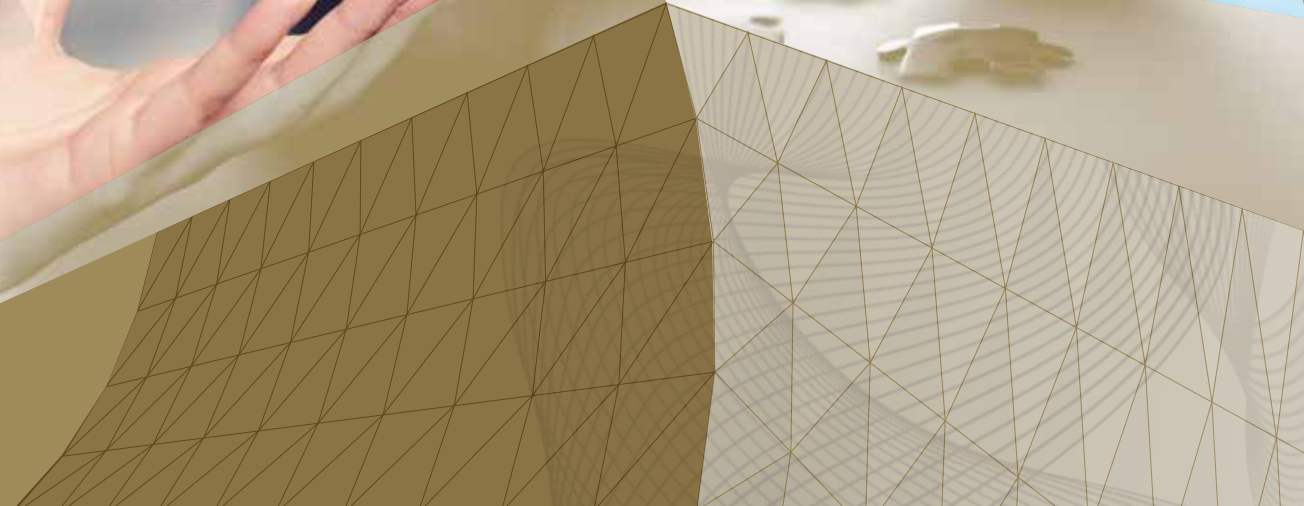


Timor-Leste and the Pandemic
– Economic Resilience and
the Global Challenges

Annual Report **2020**



Chapter 3

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

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

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

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

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3.1. Core Mandates and Functions

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

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

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

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

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

3.2. BCTL Organization and Governance

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

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

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

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

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



Institutional Values

Transparency

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

Integrity

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

Mobilization

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

Ownership

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

Responsibility

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

3.3. BCTL Activities in 2020

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

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

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

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

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

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

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

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

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

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

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

3.3.1. National Payment System

3.3.1.1. Interbank Clearing and Settlement System

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

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

Table 3.1 Dili Clearing House Transactions

(Value in million USD, Quantity in 10³)

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

Source: BCTL

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



3.3.1.2. SWIFT and R-Timor (RTGS) Systems

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

Table 3.2 International and Domestic Payments

(Value in million USD, Quantity in 10³)

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

Fonte: BCTL

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

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

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

Table 3.3 SWIFT Transfers Incoming and Outgoing

(In million of USD value, quantity in 10³)

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

Source: BCTL

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

3.3.1.3. P24 Network System

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

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

Table 3.4 P24 System

(Value in million USD, Quantity in 10³)

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

Source: BCTL

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

3.3.1.4. Mosan Service (E-Wallet)

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

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

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

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

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

Table 3.5 'Mosan' Service Transactions

(Value in million USD, Quantity in 10³)

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

Source: BCTL

3.3.1.5. Banking System

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

Table 3.6 Cash and Non-cash Transactions

(Value in million USD, Quantity in 10³)

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

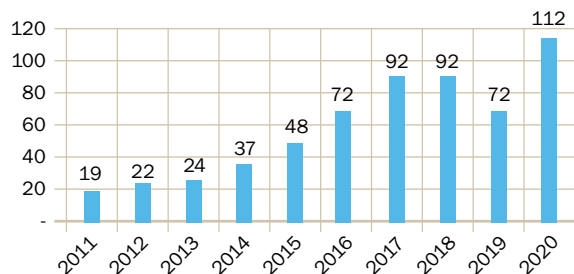
Source: BCTL

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

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

Chart 3.1

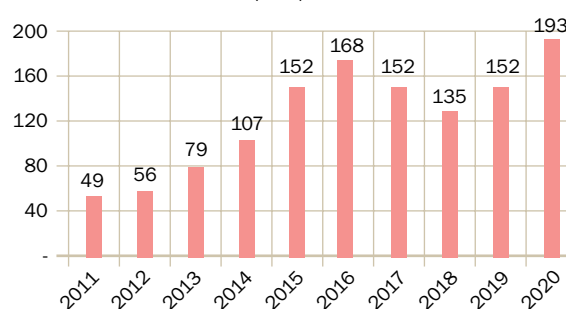
Automatic Teler Machines (ATM)



Source: BCTL

Chart 3.2

Automatic Point of Sale (PoS)

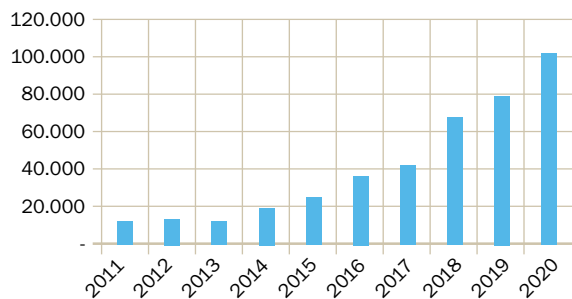


Source: BCTL

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

Chart 3.3

Bank Accounts



Source: BCTL

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



Box 1.



***Campo Digital'* National Program and the Financial Inclusion Plan**

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

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

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

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

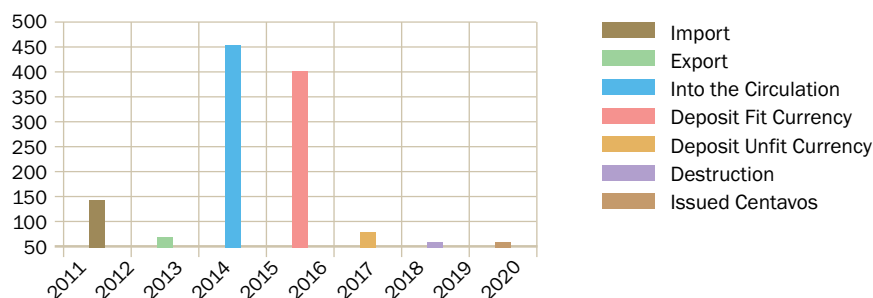
3.3.1.6. Currency Imports and Exports

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

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

Chart 3.4

TL: Currency Transaction in million USD



Source: BCTL

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



Table 3.7 Coin Transaction and Moviments

(In millions of USD value)

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

Source: BCTL

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



Box 2.

Timor-Leste Payment System Upgrade

1. The R-TiMOR System

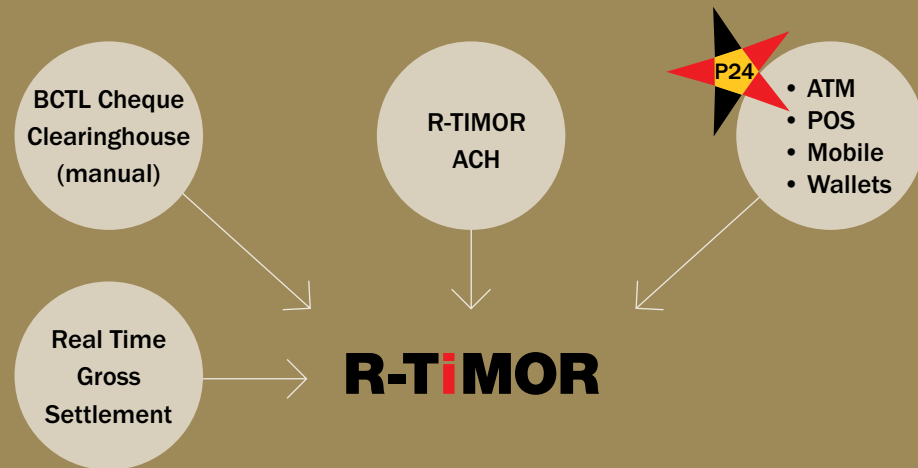
The R-TiMOR system, established in 2015, consists in an interconnected network of systems and platforms that allows individuals, companies, State organizations and other entities to make electronic payments in Timor-Leste. After the effective implementation of R-TiMOR in April 2015, the Central Bank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

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

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

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

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



2. The National Card and the PaymentSwitch Projects

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

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

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

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

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

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

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

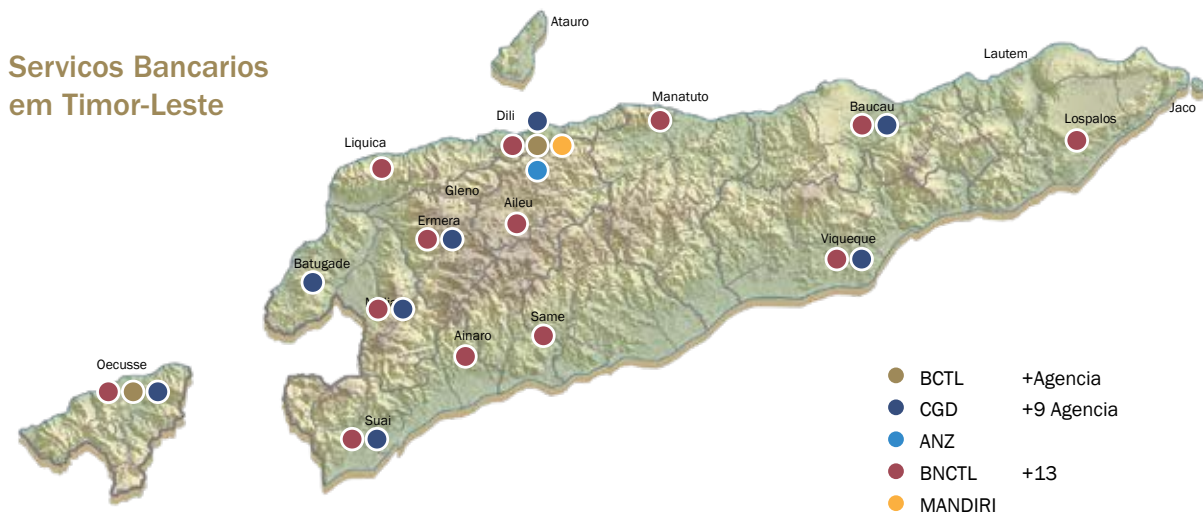
The full implementation of potential P24 system's functionalities will take some time to complete, given the natural complexities and challenges inherent in its roll-out. The establishment of the P24 and the interconnection of the various ATM networks, PoS and electronic wallet services already allowed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



3.3.2. Financial and Banking Systems

3.3.2.1. Licensing and Supervision

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



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

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

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

Box 3.

Financial Education Program Implementation

3.1. Financial Literacy Program in Primary Schools

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

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

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

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



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

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





PROGRAMA NACIONAL BA EDUKASAUN FINANSEIRA

“Poupa Agora Diak Ba Futuru”



3.2. National Savings Day

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

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

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

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

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

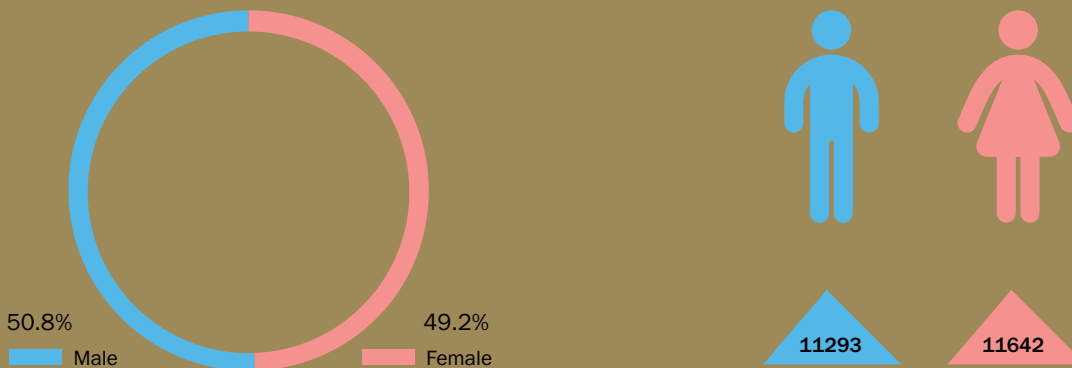


3.3. “Há’u-Nia Futuru” Saving Accounts

CHILDREN SAVINGS ACCOUNTS “HA’U-NIA FUTURU”

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

HNF composition by gender 2019

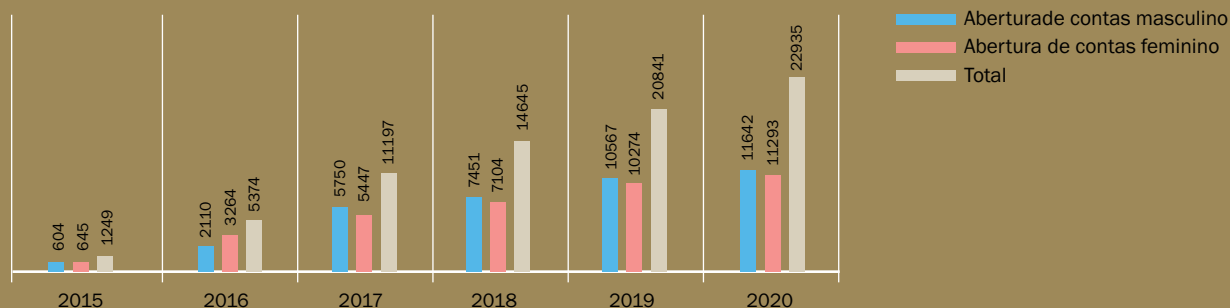


BCTL receives monthly information on the number of children who have deposited their money in Hau Nia Futuru (HNF) accounts with commercial banks. In 2020, the reporting of this information started to be done through the new online reporting system “Banking Supervision Application (BSA)”.

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

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

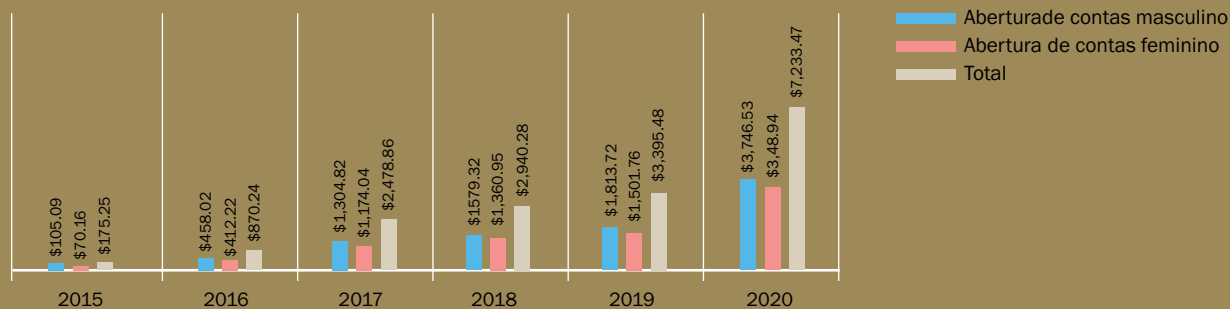
Número De Conta HNF



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

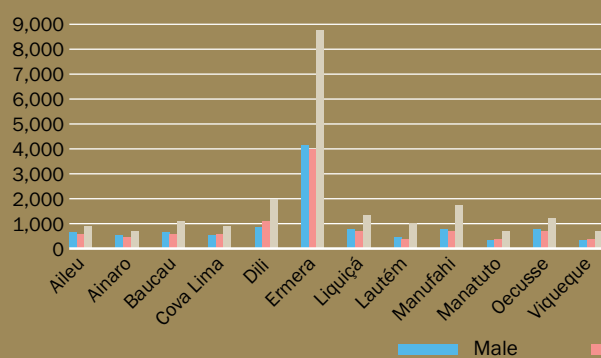
HNF Accounts value

In 000 USD



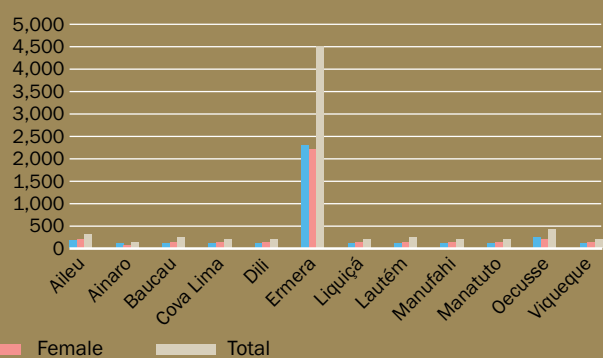
Conta HNF Por Município

(em Número)



Conta HNF Por Município

(em 000 USD)



Box 4.

Financial Sector Development Master Plan Implementation

4.1 Accounting and Business Registration Training

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

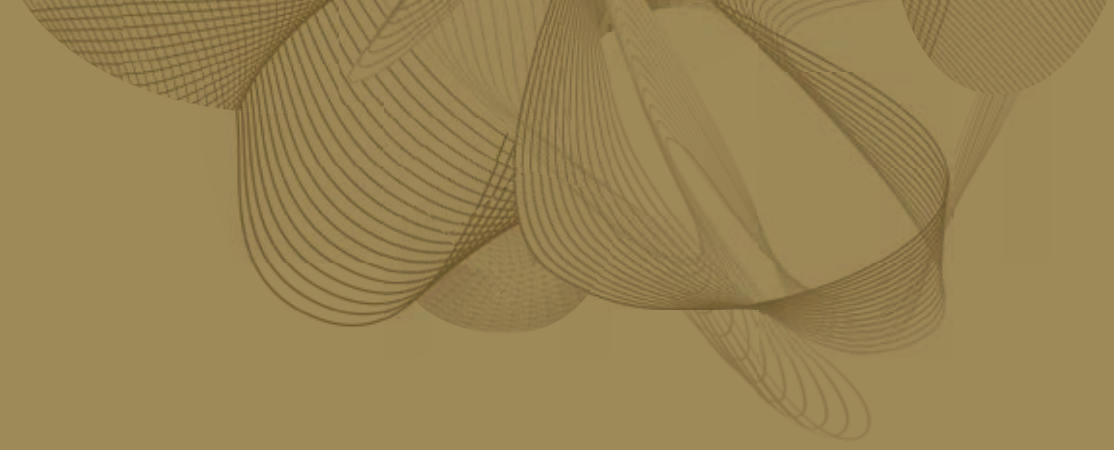
The objectives of the program are:

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

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

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

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



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

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

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

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

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

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

4.2. Survey on Customers and Demand for Financial Services

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

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

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

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



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

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

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

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

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

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

3.3.2.2. Insurance Sector

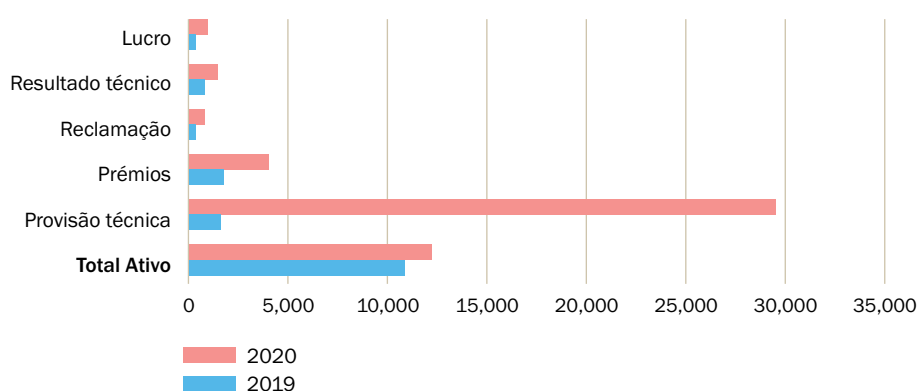
The domestic insurance industry continued in 2020 to rely on the existence of two institutions: 'Sinar Mas (SMI)' and the 'Federal Insurance Timor (FIT)'. Along the last years there has been a gradual improvement of the range of services offered by insurance companies in the country and the provision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

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

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

Gráfico 3.5 – Desempenho das Seguradoras

Em milhares de USD



Fonte: BCTL

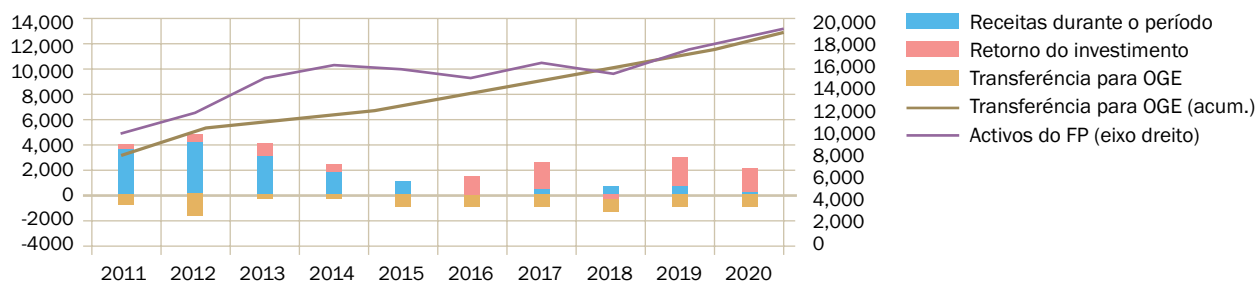
3.3.3. Petroleum Fund Management

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

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

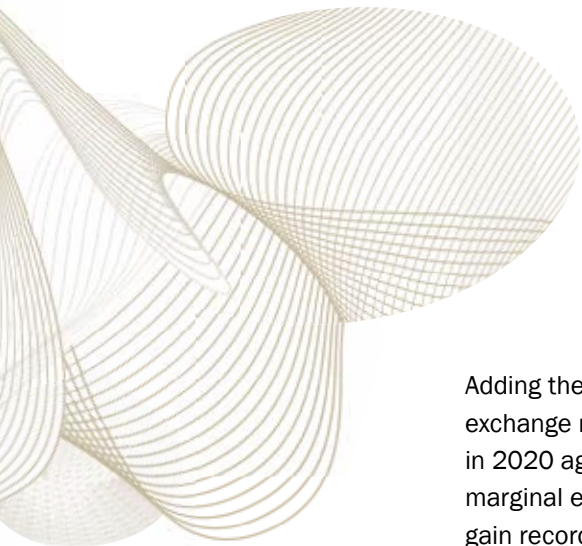
Gráfico 3.6 – Evolução dos Ativos do Fundo Petrolifero

Em milhões de USD



Fonte: BCTL

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



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

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

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

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

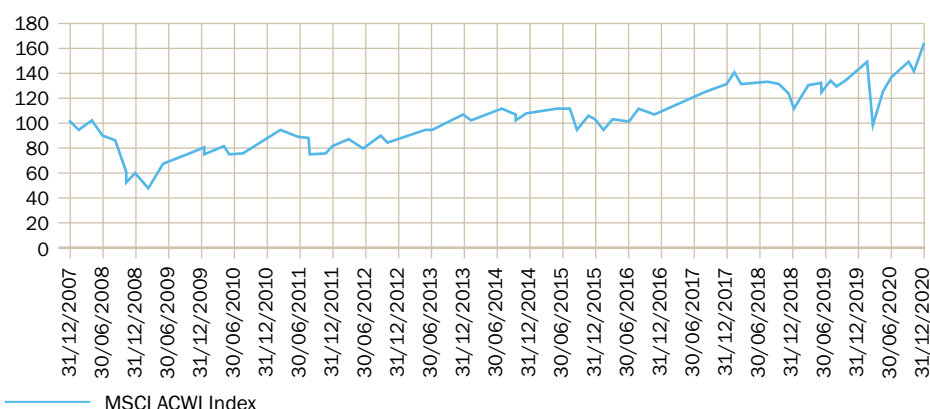
There continue to be 4 equity investment managers, including 3 leading international institutions in this area - Schroder Investment Management, State Street International Equity and BlackRock Investment Management - and BCTL itself.

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

3.3.3.1. Global Equity Markets

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

MSCI ACWI Index



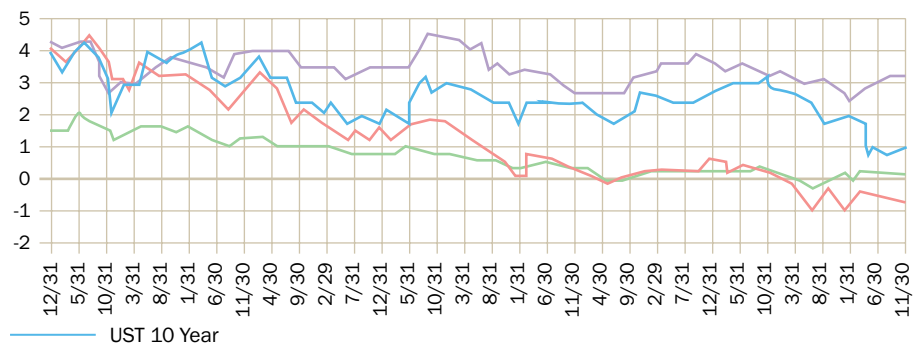
After these marked declines recorded up to April, there was a remarkable and extraordinary synchronized recovery in share prices worldwide in the second half of the year. This recovery was supported by the substantial size of the macroeconomic policy support packages around the world, the stabilization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

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

3.3.3.2. Global Bond Markets

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

Government Bond 10 Year



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



3.3.4. Institutional Improvement

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

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

3.3.5. Employees and Training Program

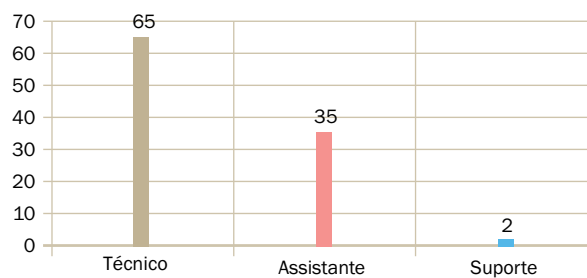
At the end of 2020, BCTL had 106 employees, which represents a further increase compared to 102 in 2019. In August of 2020, the 9 candidates selected in December 2019, started to work effectively at the BCTL, to fill the staffing needs in key areas of the Bank. BCTL thus concluded its 2018-2020 recruitment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

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

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

Gráfico 3.7

Categorias Profissionais



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

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

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

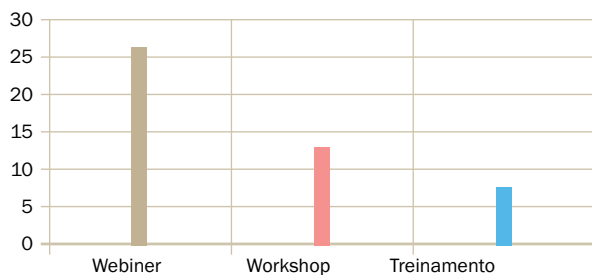


BCTL continues to allocate an appropriate amount to finance the development of skills and knowledge of its employees, who continued to benefit from the participation in seminars and training programs, held both in Timor-Leste and abroad. In addition, BCTL has recently benefited from a scholarship granted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

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

Gráfico 3.8

Atividade On-line - Número dos participantes



3.3.6. Institutional Partnerships

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

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

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

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

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

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

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

Box 6.

BCTL Plan Implementation in 2020 and Planned Initiatives for 2021

6.1. BCTL 2020 Action Plan Implementation Review

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

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

6.2. 2021 Action Plan

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

Financial System Development

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

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

Strengthen Digital Financial Services Supply

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

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

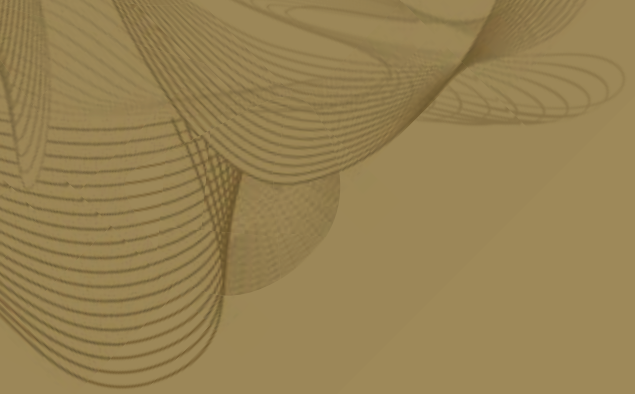
Promote Access to Bank Credit

In this context, the following planned initiatives are highlighted:

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

Economic Research and Statistical Data Compilation and Management Upgrade

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



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

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

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

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

Strengthening the Petroleum Fund's Investment and Management Capabilities

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

Treasury and Cash Management

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

National Treasury Bonds Implementation and Strengthen Domestic Investment Operations

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

Institutional Strengthening and Internal Capacity Development

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

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

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

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

Institutional Partnerships Strengthening

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

Main Governing Bodies

– Banco Central de Timor-Leste (BCTL)

Conselho de Administração

Board of Directors

Abraão de Vasconcelos

Vice Governors

Nur-Aini Djafar Alkatiri

Venâncio Alves Maria

Non-Executive Members

Maria Madalena Brites Boavida

Aicha B.U. Bassarewan

Francisco da Costa Guterres

Benjamim Corte Real.

Management Committee

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

The Governor

Abraão de Vasconcelos

The Vice-Governor

Nur-Aini Djafar Alkatiri

The Vice-Governor

Venâncio Alves Maria

Accounting Division Director

Fernando de Carvalho

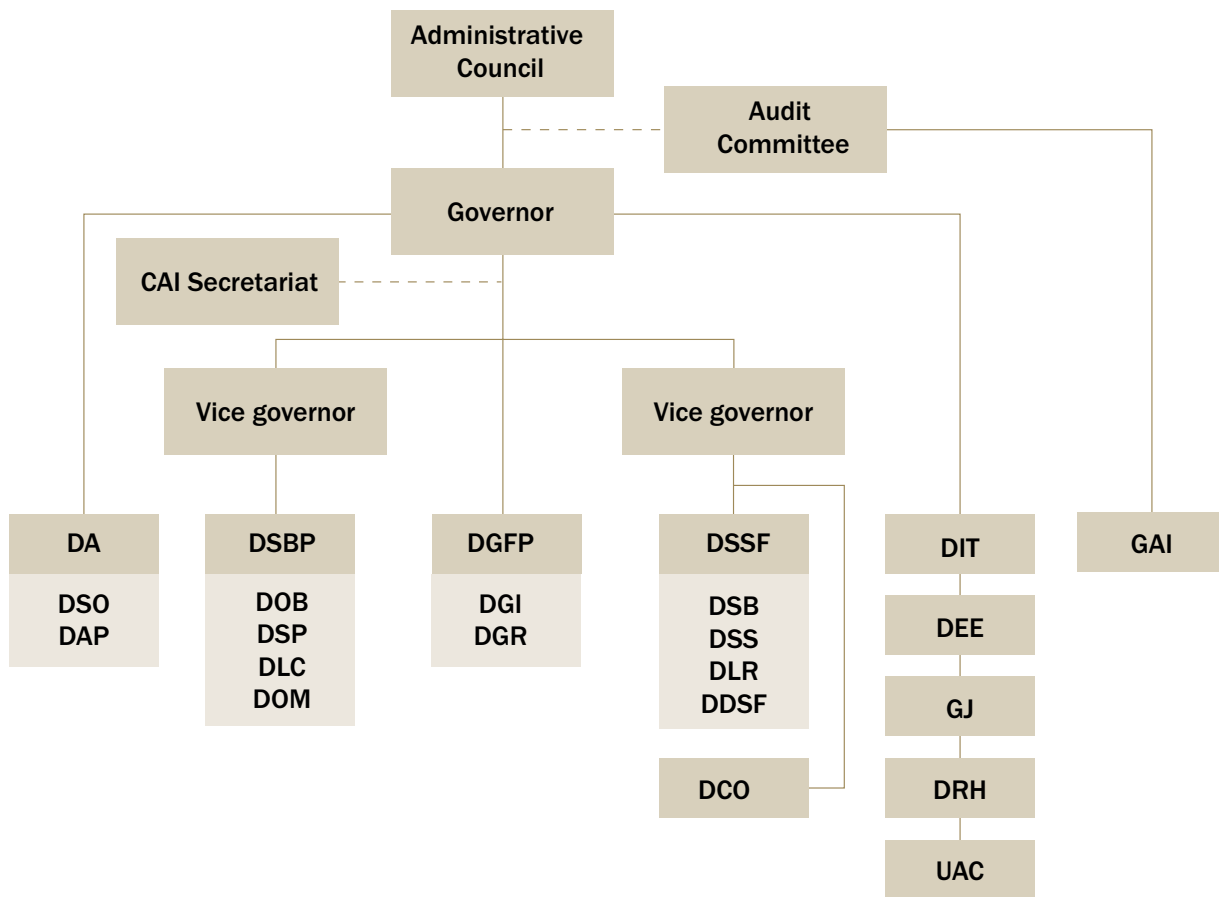
Administration Director

Maria Ângela de Sousa Soares

Institutional Cooperation Affairs Unit Director

Raquel Goncalves da Costa





Subtitle:

CAI Investment Advisory Committee

DA Administration Department
DSO General Services Division
DAP Procurement Division

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

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

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

CA Comité de Auditoria
GAI Internal Audit

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