



## ANNUAL REPORT

20

Sensitize the Financial System to  
Strengthen the National Economy



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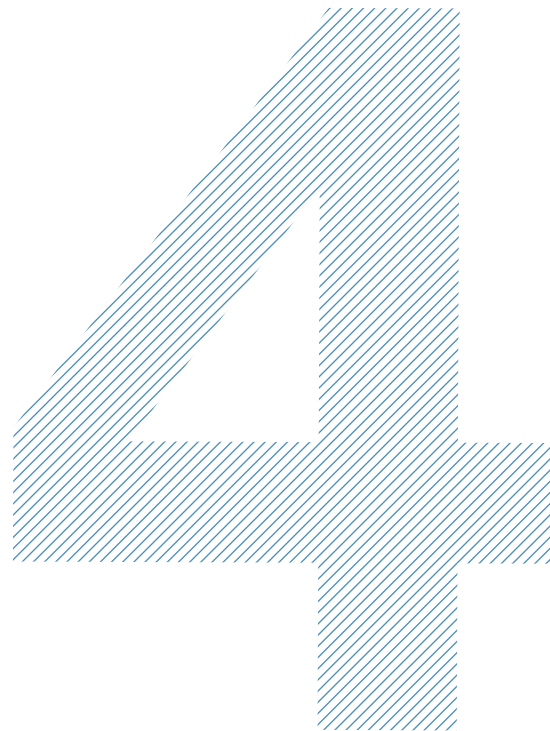


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## Introduction

The **annual report of the Banco Central de Timor- Leste (BCTL)** synthesizes and presents the main national and international economic developments in 2019, as well as the activities performed by the BCTL throughout the year. The Organic Law of the Central Bank establishes and provides the framework for annual reporting of the Central Bank in relation to the President of the Republic, the National Parliament, the Prime Minister and the Minister of Finance. The report consists of two major sections, specifically, the analysis of the domestic and international economic developments and outlook and the presentation of the Bank's activity report, which also includes the disclosure of relevant financial information.

Given the current importance and the serious impacts of the new coronavirus economic crisis, this report already includes a first assessment of the international economic impacts, based on the IMF's latest world economic outlook, published in April of 2020.

In 2019, the **world economy** grew 3%, which translated into a slight slowdown compared to the previous year (3.6%), but allowed it to continue the recovery cycle from the global financial crisis of 2008-2009. This slowdown was due to slowing growth both in developed and developing economies. Regionally, Asia has continued to lead in terms of GDP growth (5.9%) in 2019, despite the slight slowdown compared to 2018. The growth in ASEAN's five largest economies amounted to 4.8% in 2019, representing a slight reduction over the previous year's growth rate of 5.2%.

Given the impacts of Covid-19 crisis, the IMF significantly cut its economic growth forecasts for 2020 and now expects that the world economy to fall -3% in 2020. It should also be highlighted that the economic impact is expected to be higher for Developed Economies, whose GDP should fall -6.1% in 2020, than for Developing Economies (-1.1%). On the optimistic side, the IMF also expects a substantial recovery in economic growth for the world in 2021 and for those two major economic blocks, forecasting a full and relatively quick recovery from the recessive levels of 2020.



In 2019 there was an easing of inflationary pressures in the major world economies, reversing the upward inflationary trend observed since 2016. The US closed 2019 with an inflation rate of 1.8%, below the FED's official target and 2018's 2.4% level. This allowed the FED to cut interest rates multiple times in 2019 to mitigate the growing risks related to the worsening of trade tensions between the US and China.

In terms of the main international financial markets, 2-year interest rates, more sensitive to monetary policy changes and outlook, recorded a significant decline in 2019, especially in the US market. This development reversed the rising interest rate cycle observed since 2013 in the US market, and resulted from the multiple cuts in FED's interest rates in 2019, following its growing concerns over the unfavorable impact in its economy of trade tensions with China. The US 2-year interest rate thus declined from 2.49% to 1.57% at the end of 2019. Nonetheless, in both 2 and 10-year terms, US interest rates remained at levels well above those recorded in the Eurozone and Japan, as a result of the better US economic performance along the last years, and the sustained rise of FED's interest rates from 2013 to 2018.

Naturally, bond market developments, together with the already mentioned economic developments, also explained most of the changes in major foreign exchange and equity markets. With the exception of the yen, the dollar appreciated slightly against major world currencies, which resulted from the continued divergence in terms of interest rates levels, despite recent FED rate cuts, and robust US economic outperformance. In equity markets, 2019 was marked by the general recovery of the major world indices, supported by the implementation of monetary policy support measures in virtually all geographies and the easing of global trade tensions. This was especially visible at the end of 2019, on the back of the increasing expectation of the completion of the first phase of the trade agreement between China and the US. In terms of performance, the US market continued to lead, recording a gain of 28% in 2019, despite the remarkable performance of the European market (+21%) and developed markets in Asia (+15%). The overall world equity market gained 24% in 2019. These substantial gains have allowed global markets to fully recoup the losses experienced in 2018.

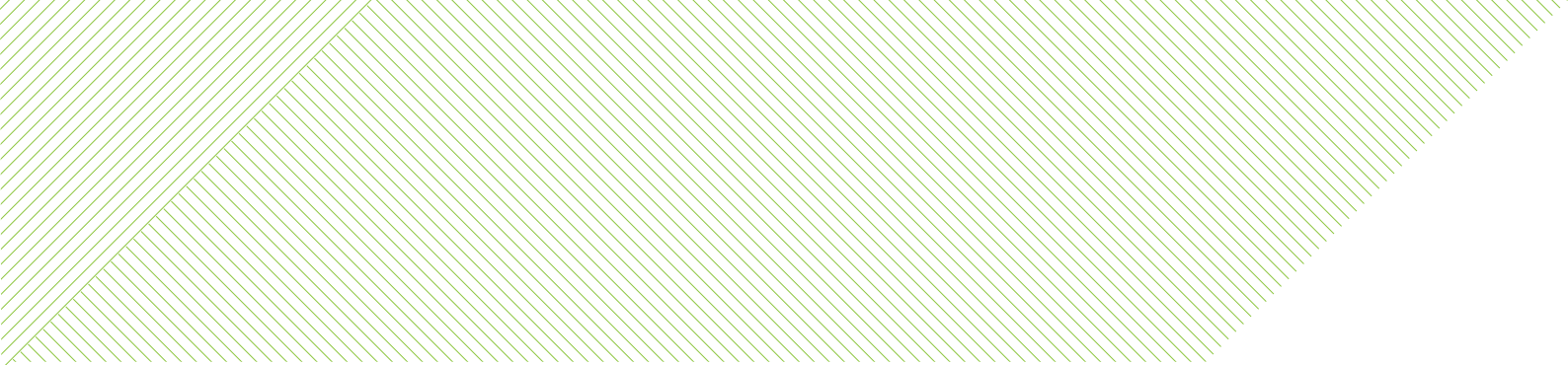




In the **Asian economic space**, growth levels remained robust in 2019, with the average GDP growth rate in the region standing at 4.1%, but which translates into a further gradual slowdown compared to the average growth rates recorded in 2017 and 2018. With regard to inflation, on average, the region recorded an annual rate of 1.8% in local currency terms, which translates into an easing from the 2.2% of 2018. Despite the strong decline in Indonesia's inflation since 2015, this economy continues to register the highest inflation levels in the region, or 3.2% in 2019. The slight slowdown in economic growth in the region in 2019, more moderate inflation rates in the various economies and the slight average depreciation of regional currencies against the dollar, explained in turn, the easing of regional inflationary pressures, when measured in dollar terms. Given the new coronavirus crisis impacts, the IMF now expects a substantial fall in Asian economic activity levels in 2020, especially in Thailand, Singapore and Malaysia, which should register economic recessions in this year. In line with its global optimism for 2021, the IMF expects a quick and substantial economic recovery across major Asian economies and full recovery of the lost ground in 2020.

In the **national economy**, economic growth recovered substantially in 2019, as the economy has expanded 4.5% in the year, after the substantial economic contraction recorded in 2017 and 2018. The recovery was mainly due, as has been normal, to the substantial increase in public spending in 2019. BCTL's projects a renewed slowdown in annual economic growth to 1% in 2020, followed by a recovery in 2021. The weak optimism for 2020 is mostly due to the recent failure to approve the new Budget proposal for 2020, in January 2020, which intensified the level of political uncertainty in the country. The increasing degree of political uncertainty, the implementation of the 'duodécimos' regime in the 2020's budget execution and possible early elections resulted in a worsening of the economic risks, which undermine the confidence of economic agents and, above all, reduce the economic clout of the public sector, which continues to be the main driver of Timor-Leste's economy.

Domestic annual inflation rate stood at 1% in December 2019, which represented a decrease compared to 2.5% in December 2018. Inflation thus slowed down during the year, retracing the pickups recorded in 2017 and 2018. Inflation's decline in 2019 was due mostly to the stabilization of external inflationary pressures in a context of dollar stability against the currencies of the country's trading partners. In terms of its outlook for 2020 and 2021, BCTL



expects inflation to remain low and stable, below 2% annually over the next 2 years, given expected external inflation stability amidst the continued stability of the dollar versus our trading partners' currencies.

In terms of the **State's Finances**, the public sector continues to record a high budgetary deficit, with non-oil revenues funding only a small part of total public expenditures. After the substantial delay in the adoption and implementation of the 2018 State Budget (OGE), budgetary policy implementation was regularized in 2019, especially in its most formal approval plan. However, overall execution rates were slightly lower than in 2018. The Government's state budget allocated a total expenditure of \$ 1,464 million for 2019, but only managed to spend a total of \$1,229 million, or 84% of the State Budget. Compared to the amount actually spent in 2018, public spending rose 6% in 2019, due to the greater budgeted amount. On the public revenues side, the Government expected total non-oil revenues of \$198 million, excluding loans, but the value of actual revenue amounted only to \$188 million. Despite this, this figure represented a significant increase of 8% compared to the \$173 million received in 2018. In terms of public revenues' composition, tax revenues continued to represent the most important category.

Timor-Leste's **external current account** recorded for the first time since 2016, a positive balance of \$133 million in 2019, with improved +\$324 million versus the deficit recorded in 2018 (-\$191 million). Measured as a percentage of non-oil GDP, the surplus amounted to 7% in 2019, representing a remarkable increase compared to the -11% deficit to GDP in 2018. The substantial improvement in the current account balance (+\$324 million) was especially due to the increase in primary income account surplus of +\$284 million, but also, albeit to a lesser degree, to the improvement of the balance in the secondary income account (+\$25 million) and the goods trade account (+\$22 million).

In terms of **annual activity**, the BCTL remains actively committed to promoting monetary and financial stability as well as its inclusion, having developed particularly relevant initiatives in this context. One of the main activities carried out by BCTL was the launch of the Credit Guarantee System (CGS) for Micro, Small and Medium Enterprises, which is now ready to receive potential requests from interested companies. Also worthy of note is the continued implementation of the Financial Literacy Program, which covered several primary schools and already counts with the participation of 334 teachers from primary schools in



the 12 municipalities and the RAEOA. In cooperation with IADE and CCI-TL, BCTL also continued to implement the training program in accounting and business registration for Micro, Small and Medium Enterprises, aiming of strengthen their business management capacity and access to bank financing. The celebration of the 5th anniversary of the National Savings Day, on 29th November 2019, was held at the Administrative Post of Maliana, during which a poetry and speech contest was organized among students from 10 primary schools from that city.

In terms of the **national payment system**, the Central Bank continued to make every effort to always maintain sufficient liquidity reserves to meet the needs for cash payments and to ensure the modernization and permanent functioning of the National payment and interbank settlement system, 'R-Timor'. The most relevant development in this context consisted in the official launch of the 'P24 system', which, by using the 'R-TiMOR', interconnected the country's various banking networks and is now able to automatically settle interbank liabilities, substantially facilitating the access to bank accounts and respective services. Also noteworthy is the remarkable progress in terms of the provision of electronic money services (E-Wallets), with the entry of a new operator in the market in 2019 and the operational success of the first operator of this type of services.

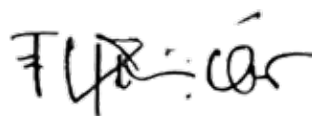
With regard to the **banking system**, the available information shows that it has remained stable and robust, underpinned by the high levels of liquidity, capital and provisions for credit risks as well as the continued robust growth of banking assets, which increased another 12% in 2019, to a total of \$1,394 million.

In the 2019 financial year, **BCTL's accounts** recorded a net profit of \$6.55 million, mostly due to interest received from the management of the Bank's own reserve assets and fee income, accruing from the Petroleum Fund's operational management.

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

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

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



**Abraão de Vasconcelos**

*Governor*

Dili, 30 April 2020



**CHAPTER**


**INTERNATIONAL ECONOMIC DEVELOPMENTS**

<b>1.1. Major World Economies</b>	<b>12</b>
<b>1.2. Asian Economic Developments</b>	<b>21</b>
<b>1.3. Timor-Leste's Economic Transmission Channels</b>	<b>25</b>



*This chapter describes major developments across the main global economic blocks in 2019, as well as the economies of Timor-Leste's principal Trading Partners, together with the most relevant international trends in global financial markets for our economy.*

*Based on this assessment, the chapter further looks into the main transmission channels of external developments to our domestic economy, detailing the influences observed in 2019 and the prospects expected from 2020 to 2022. Given the current importance and the serious impacts of the new coronavirus economic crisis, this chapter already includes a first assessment of the international economic impacts, based on the IMF's latest world economic outlook, published in April of 2020.*





# Major World Economies

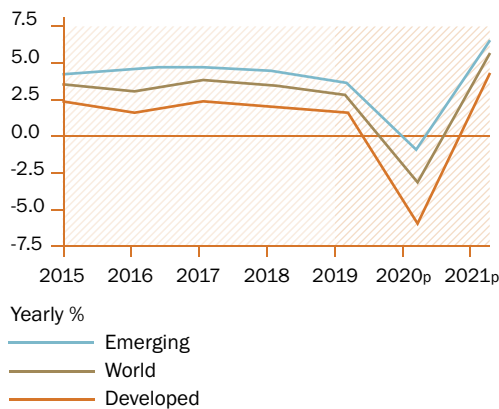
## 1.1.1. Economic Growth in Major World Economies

In 2019, global economic growth (3%) registered a slight slowdown compared to the previous year (3.6%), continuing the cycle of growth and recovery from the global financial crisis of 2008-2009. This slowdown was due to the slowing growth in developed economies, which should only grow 1.7% in 2019 compared to 2.3% last year, as well as in developing economies, which are expected to grow 3.9% compared to 4.5% 2018.

In view of the impact of the Covid-19 crisis, the IMF - in its April 2020 World Economic Outlook - has substantially revised its growth forecasts for 2020, now expecting the world economy to decline by - 3% this year. It should also be noted that the growth projections for 2020 are worse for Developed Countries (-6.1%) than for Developing Economies (-1.1%). The IMF further expects a marked recovery in growth in 2021 in global terms and in the 2 main blocs, forecasting a complete and relatively short recovery from the recessive levels of 2020.

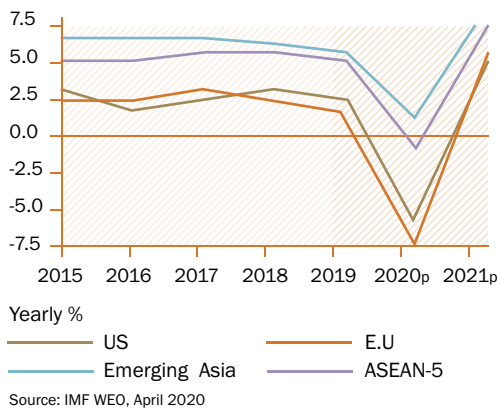
The world economy continued to expand in 2019, despite a slight slowdown in growth rates.

**Chart 1.1**  
GDP Growth - 3 Major Blocks



Source: IMF WEO, April 2020

**Chart 1.2**  
GDP Growth - Selected Regions



Source: IMF WEO, April 2020

Global growth perspectives for 2020 are now substantially negative, due to the Covid-19 crisis impact.

ASEAN economies have also maintained a robust growth level in 2019, but they will also be severally affected by the new coronavirus crisis in terms of 2020 economic growth.

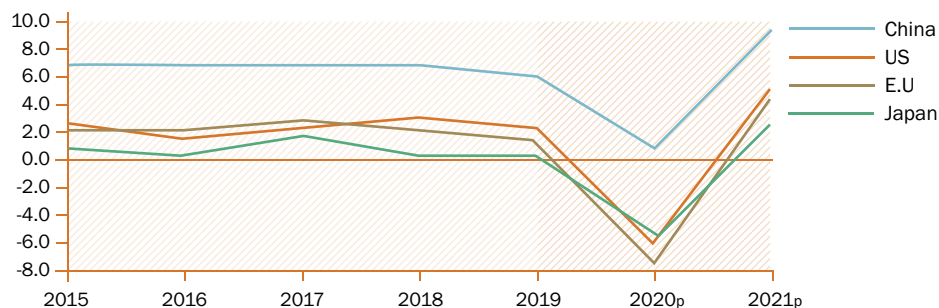
Regionally, Asia has continued to lead in terms of GDP growth (5.9%) in 2019, despite the slight slowdown compared to 2018 (+6.4%). Growth in ASEAN's five largest economies amounted to 4.8% in 2019, representing a slight reduction in the rate over the previous year (5.2%). Growth in the US (2.4%) in 2019 was again higher than in the European Union (1.5%), but both economies expanded less when compared to +2.9% and 2.2% recorded in 2018.

Despite their greater resiliency, Asian economies will also be negatively affected by the Covid-19 crisis in 2020. However and for 2021, the Fund anticipates a substantial economic recovery across the Asian economies, in line with its global optimism for that year.

### Chart 1.3

GDP Growth - Top 4 World Economies

Yearly %



Source: IMF WEO, April 2020

In terms of the 4 major world economies' performance - the US, EU, Japan, China - it should be highlighted that China recorded a further slight slowdown in growth in 2019 (6.1%), and should continue to exhibit a gradual and slight deceleration in the medium term. Japan continued to record GDP growth levels well below those of the US and EU, growing only 0.9% in 2019, compared to 0.8% 2018.

In terms of the impacts of the new coronavirus, the Fund expects the US, EU and Japan economies to be significantly more affected than China in 2020, but anticipates a substantial and synchronized growth pickup in the top 4 world economies in 2021.



### 1.1.2. Inflation in Major World Economies

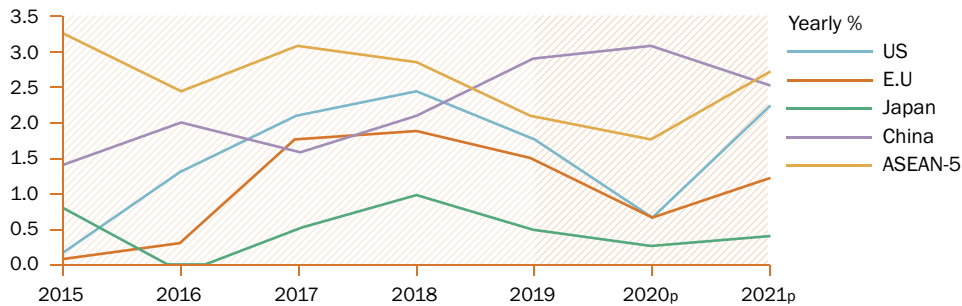
In 2019 there was an easing of inflationary pressures in the major economies, reversing the upward trend observed since 2016.

Inflationary pressures were down in 2019....

The US closed the year 2019 with an inflation rate of 1.8%, below the official FED's reference and 2018's inflation of 2.4%, which allowed the FED to cut its reference interest rates in 2019 to mitigate growth risks amidst the worsening of trade tensions between the US and China. On the other hand, the EU and Japan recorded inflation rates of 1.5% and 1% in 2019, which also represented a decline in the case of the EU, which had registered inflation of 1.9% in 2018.

#### Chart 1.4

Inflation Rates - 5 Selected Economies

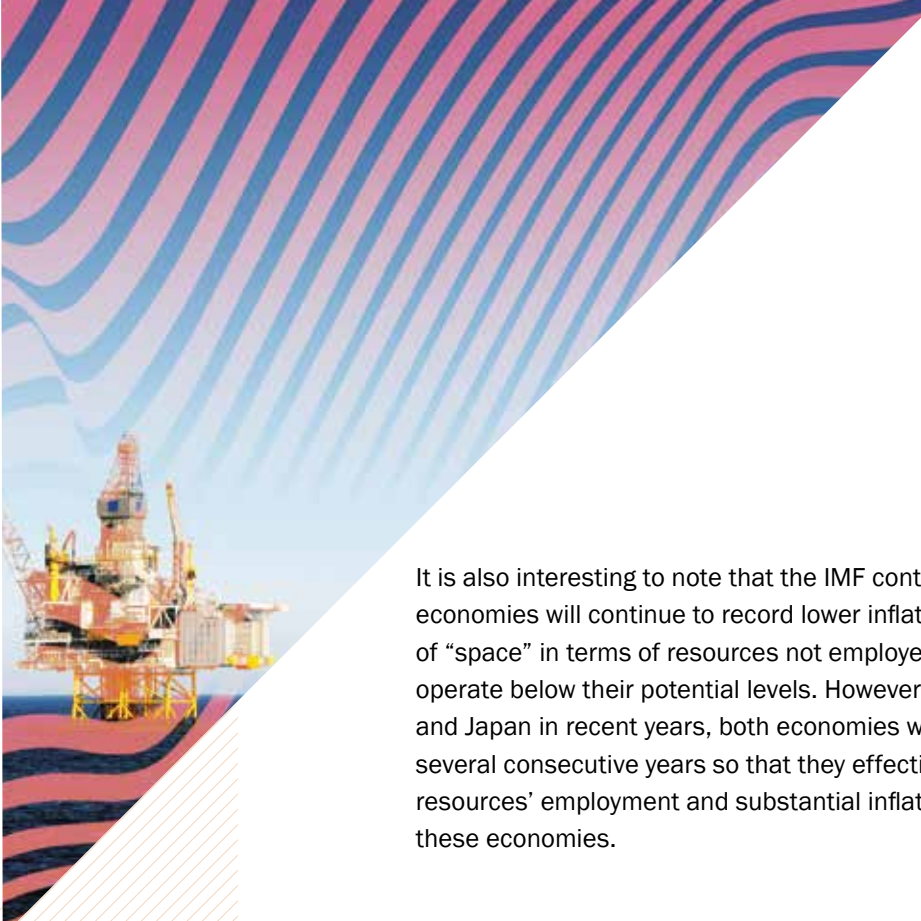


Source: IMF WEO, April 2020

The inflation slowdown resulted mainly from the lagged impact of interest rates increases in most world economies until the end of 2018 and the economic slowdown in 2019, driven mainly by rising trade disruptions worldwide. The decline in inflation was also influenced by the slight decrease in the general price of 'commodity' throughout the year, particularly food prices.

... due to the slowdown in global economic growth and price restraint in international commodity markets.

The IMF now expects inflation rates to slowdown in the main world economies in 2020 in line with the negative growth performance, which should then be followed by a pickup in inflation in 2021, due to the strong resumption of growth across the main economies in that year.



It is also interesting to note that the IMF continues to expect that the Japanese and EU economies will continue to record lower inflation rates than the US, given the existence of “space” in terms of resources not employed in these economies, which continue to operate below their potential levels. However, despite the economic recovery in the EU and Japan in recent years, both economies will need to continue to grow robustly for several consecutive years so that they effectively close the gap in terms of economic resources’ employment and substantial inflationary pressures are again materialized in these economies.

### 1.1.3. Global Commodities Markets

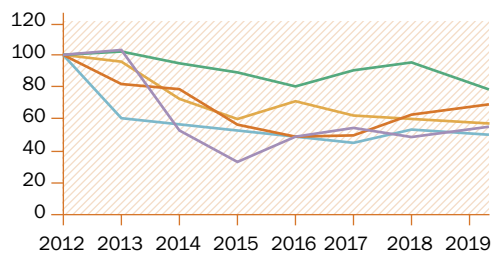
Commodity prices recorded mixed changes in 2019.

Commodities recorded mixed price changes in 2019, but crude oil (Brent reference) rose 17%. This increase lent further support to the ongoing recovery trend, recorded since the prices of these items touched multi-year minimum levels in 2015/2016.

For the exporting economies of these assets, typically developing countries, the evolution of international prices translates into a significant fluctuation of their external income and consequently their economies.

**Chart 1.5.1**

Major Commodities Prices



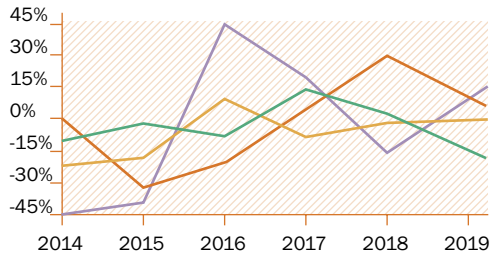
2012 = 100

— Corn — Rice  
— Soybean — Oil  
— Wheat

Source: World Bank

**Chart 1.5.2**

Major Commodities Prices



Yearly % change

— Corn — Rice  
— Soybean — Oil  
— Wheat

Source: World Bank



### 1.1.4. Major Global Financial Markets

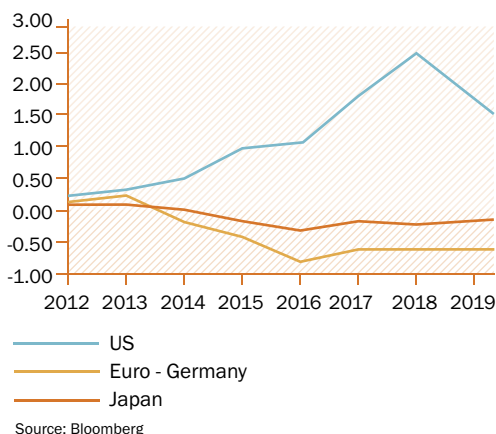
In terms of financial markets, we begin by analyzing trends across major bond markets, particularly those of Treasury bonds, which allow us to assess trends and changes, as well as expectations, of monetary policies, economic growth and inflationary pressures of the various world economies.

The 2-year interest rates, more sensitive to monetary policy changes, recorded a significant decrease in 2019, especially in the US market. This development resulted in the reversal of the interest rate hike cycle observed since 2013 in the US market, brought by the FED's multiple interest rate cuts decided in 2019, following the central bank's growing concerns over the unfavorable economic impacts of higher trade tensions with China. The dollar's 2-year interest rate declined from 2.49% to 1.57% at the end of 2019.

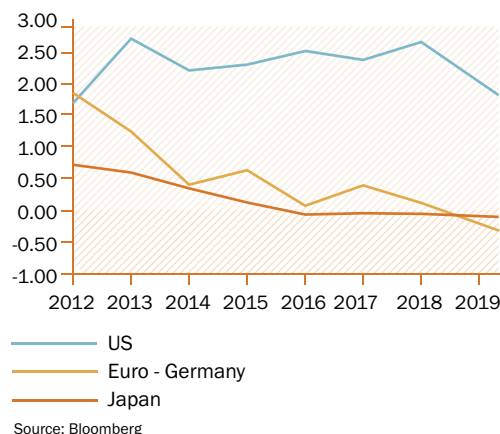
2 Years interest rates declined significantly in the US market, in line with the fall in FED's interest rates ....

However, in both 2 and 10-year terms, US interest rates remained at levels well above those recorded in Eurozone and Japan, as a result of the superior economic performance of the US economy in recent years and the FED's past interest rate hikes, implemented between 2013 and 2018.

**Chart 1.6**  
2-Year Interest Rates %



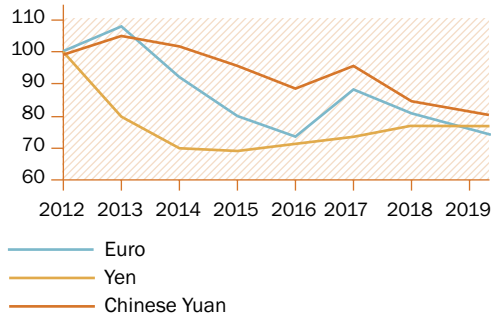
**Chart 1.7**  
10-Year Interest Rates %



Naturally, bond market developments, together with the referred above economic developments, have also determined much of the developments in major and global currency and equity markets.

### Chart 1.8

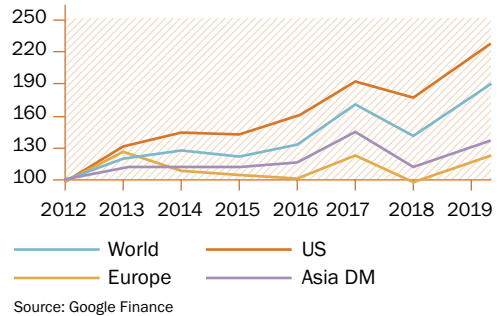
Major Currencies vs USD. 2012=100; Decline corresponds to depreciation



Source: Google Finance

### Chart 1.9

Stock Markets, USD prices 2012=100



Source: Google Finance

.... but the dollar appreciated slightly against major world currencies.

With the exception of the yen, the dollar appreciated slightly against major world currencies in 2019, which resulted from the continued divergence in terms of interest rates, despite the FED rate cuts, and from the outstanding US economic performance.

The main global stock markets recorded considerable gains in 2020, continuing the upward trend observed since 2009.

In equity markets, 2019 was marked by the general recovery of the major world markets, supported by the implementation of monetary policy support measures in virtually all geographies and the reduction of global trade tensions, especially at the end of 2019, with the increasing expectation of completion of the first phase of the trade agreement between China and the US. In terms of performance, the US market continued to lead, recording a gain of 28% in 2019, despite the remarkable performance of the European market (+ 21%) and developed markets in Asia (+ 15%). The overall market rose 24% in 2019. These increases have enabled equities to completely recover from the losses experienced in 2018.

As can also be observed in chart 1.9, the US equity market far outpaced the performance of other global markets in the last seven years and benefited from the higher strength of the US economy and the recent approval of substantial fiscal stimulus. In view of the remarkable performance of US equities over the last ten years, which resulted in the substantial appreciation of stock prices' ratios to corporate earnings, it should be noted that a possible economic slowdown in the US economy or an eventual corporate earnings underperformance could trigger a correction in this equity market.



# 12

## Asian Economic Developments

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

ASEAN's economic growth remained robust in 2019 ....

In terms of the two main macroeconomic indicators, GDP and inflation rates, growth levels remained robust in the region in 2019, with the average rate of growth standing at 4.1%. Nonetheless, this translates to a renewed slowdown when compared to the average growth rates of 5% and 5.3%, recorded in 2018 and 2017 respectively.

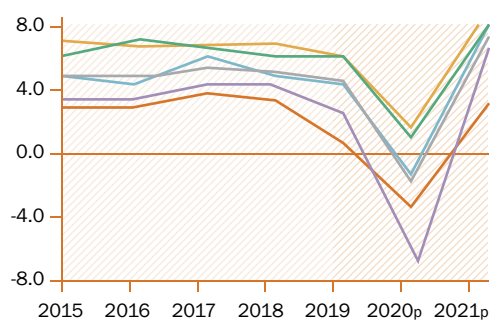
In terms of prospects, in light of the impact of the new coronavirus crisis, the IMF now expects a substantial drop in economic activity levels across the region in 2020, especially in Thailand, Singapore and Malaysia, which are expected to face recessions in this year. In line with its global optimism for 2021, the Fund then expects a marked resumption of growth across all Asian economies, predicting a complete recovery of the ground lost in 2020.

With regard to inflation, prices in the region rose by 1.8% on average in local currency terms, which translates into a slowdown from the 2.2% of 2018, while the Philippines' economy recorded the stronger disinflation in 2019. Despite the strong decline in inflation seen in Indonesia since 2015, this economy continues to register the highest inflation levels in the region, or 3.2% in 2019.



**Chart 1.10**

GDP Annual Growth



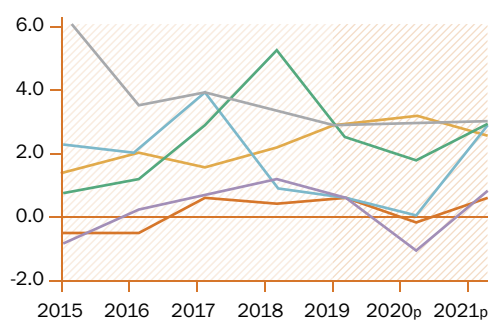
Yearly %

China, Malaysia, Philippines, Singapore, Thailand, Indonesia

Source: IMF WEO

**Chart 1.11**

Inflation Rate



Yearly %

China, Malaysia, Philippines, Singapore, Thailand, Indonesia

Source: IMF WEO

The slight slowdown in economic growth in the region in 2019, more moderate inflation rates in the various economies and the slight average depreciation of regional currencies against the dollar, explained in turn, the fall of regional inflationary pressures, as measured in US dollar terms.

.... while regional inflationary pressures trended lower.

These macroeconomic drivers explain, and are also explained, by the developments in two main financial markets, the foreign exchange and bond markets. In currency markets, 2019 was marked by a slight depreciation of the Asian currencies against the dollar, with the Chinese, Malaysian and Singaporean currencies recording stronger falls in the region. Note, however, that the Thai baht appreciated versus the US dollar and that the Indonesian and Philippines' currencies remained broadly unchanged.

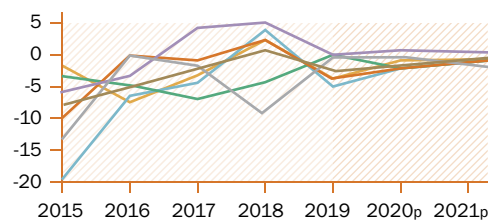
Regional currencies recorded a slight depreciation against the USD in 2019 ....

The IMF also expects that most regional currencies will remain relatively stable against the dollar between 2020 and 2022, which will contribute, if materialized, to stabilize inflationary pressures in the region and, above all, to stabilize prices of Timor-Leste's imported articles. It should be noted, however, that this exchange rate stability scenario can be materially affected in the context of the of the new coronavirus crisis, especially if the impacts are to be more profound and lasting than those predicted by the IMF.

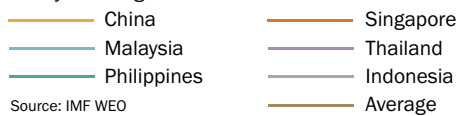


## Chart 1.12

Exchange Rates vs USD



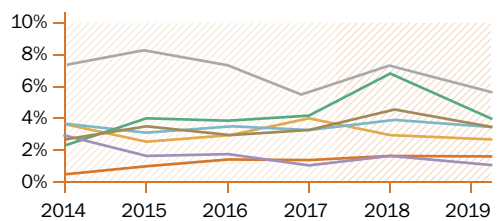
Yearly % change



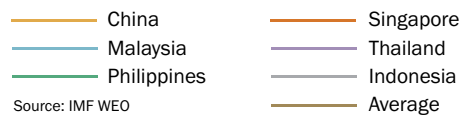
Source: IMF WEO

## Chart 1.13

2-Year Interest rates



% Year



Source: IMF WEO

.... with 2-year interest rates falling in line with the US market developments.

Bond markets' interest rates, here represented by 2-year interest rates, registered notable declines in 2019, as the average rate declined from 4% to 3% over 2019, tracking the aforementioned reduction in USD interest rates. It should also be noted that despite lower Indonesian and Philippines interest rates in 2019, these remain the highest in the region, standing at 5.8% and 4.1% in December of 2019.

Regional external accounts remained in surplus, with the exception of Indonesia and the Philippines.

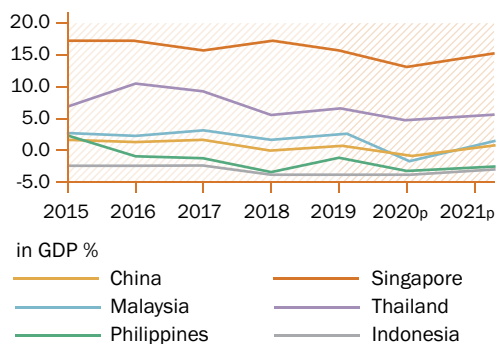
In terms of external accounts, most external partners continued to maintain substantial surpluses in 2019, except for the Philippines and Indonesia, which had external deficits of -2.9% and -2% of GDP in 2019. As Indonesia is a significant exporter of raw materials, especially of energy products and industrial metals, the decline in international prices of these "commodities" in the last five years has resulted in a substantial negative shock to its economy, requiring stronger restrictive macroeconomic policies to contain the dynamism of domestic demand, correct the external deficit and contain the depreciation of the rupiah against the dollar. The IMF still expects the economies of the region to record, on average, positive external balances in 2020 and 2021, anticipating however a deterioration of regional external balances in 2020, due to the Covid-19 crisis.

In terms of budgetary balances, 2019 was characterized by the maintenance of public deficits in this region, after the deterioration of fiscal positions recorded in both 2016 and 2017. In 2019, the two more extreme situations in the region were: Singapore, with a 4.3% fiscal surplus over GDP; and China, whose public deficit amounted to -6.1% of GDP in 2019. The IMF also expects that the virus crisis will substantially weaken the public deficits across the region in 2020, given the negative economic performance and economic support policies implemented to address this situation.



## Chart 1.14

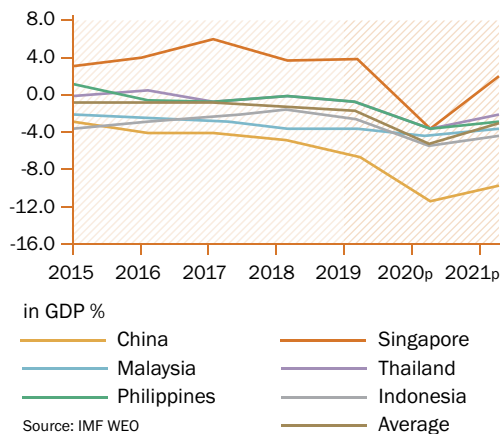
External Current Accounts



Source: IMF WEO

## Chart 1.15

Public Sector Balances



Source: IMF WEO

In short, the regional macroeconomic background remained broadly stable in 2019, which underpinned the stability of most regional currencies against the dollar. Despite the recent and gradual deterioration of public balances in the region, the continued positive external surpluses still confer a substantial margin of adjustment for most countries in the region, in case they are faced with any unforeseen shock to their economies.

Overall, the region's economies continue to be stable and robust in 2019.

Note, however, that this general framework does not apply completely to the Indonesian economy, the largest trading partner of Timor-Leste. The Indonesian economy managed to grow substantially by 5% in 2019, compared to 5.2% in 2018 and 5.1% in 2017, despite experiencing past levels of notable exchange rate volatility and the mentioned above sizeable external deficit. Also on the positive side, the Indonesian rupiah remained broadly stable against the dollar in 2019, after recording substantial losses in 2018 and between 2013 and 2015.

The importance of this trading-partner to our economy implies of course the need to adequately monitor these developments, hoping that the continuity of the policy measures introduced by that Government and a tighter surveillance by its central bank will continue to gradually reduce the respective macroeconomic risks. This concern assumes now a greater priority, given the negative impacts of the corona virus crisis.



# Timor-Leste's Economic Transmission Channels

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## 1.3.1. Summary

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

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

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

## 1.3.2. Imported inflation

One of the main transmission channels for our economy is in fact the impact of international prices on domestic inflation developments and respective expectations. Since Timor-Leste is a major importing economy - imports of goods and services accounted for 60% of non-oil GDP in 2018 - it is only natural to expect that international prices of imported goods and services will continue to substantially affect domestic inflation developments.



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

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

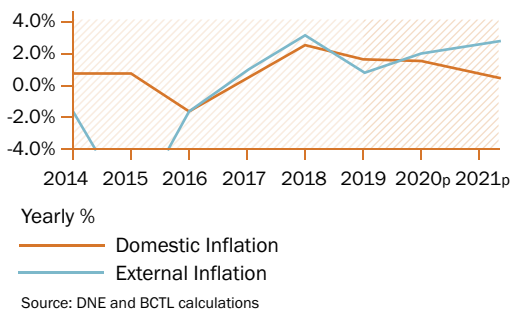
As can be seen below on the chart on the left, domestic inflation tends to reasonably track the movements of foreign inflation rates, albeit with lower volatility. To the extent that the external inflation rate is the average of six economies already mentioned, the BCTL's inflation forecasting models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

Foreign inflation rate has driven Timor-Leste inflationary developments ....

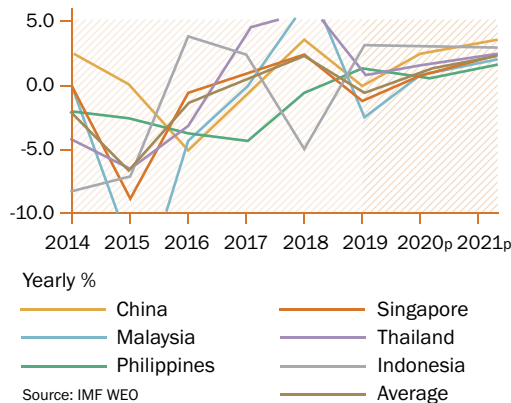
As can be concluded from the two charts, the recent inflation rises in Timor-Leste (2017 and 2018) was positively influenced by the pickup in foreign inflation rates. Of course, the relationship is not perfect, since the evolution of the non-oil economy of Timor-Leste, especially over the past few years, also strongly affects the domestic inflation's developments.

... as the 2017/2018 inflation pickup has been in line with the rise in external inflation.

**Chart 1.16**  
Domestic vs External Inflation



**Chart 1.17**  
Regional Inflation Rates in USD terms

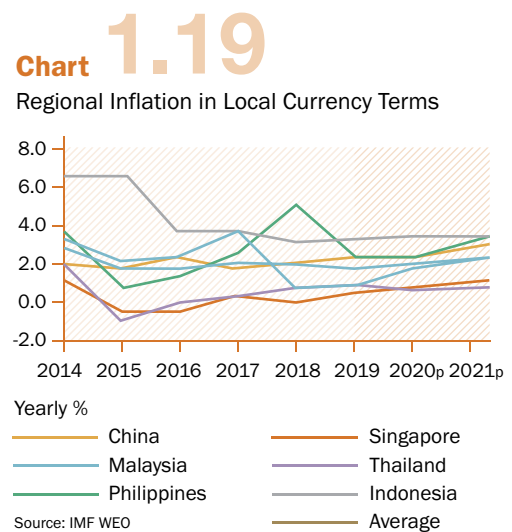
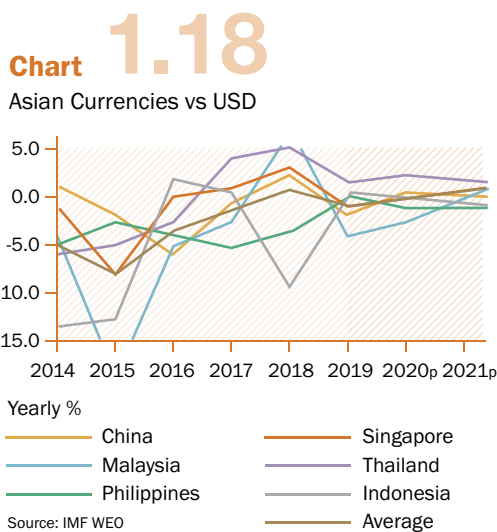




The decline in regional inflation rates in dollar terms in 2019, was mostly due to lower inflation rates in local currency terms of the various trading partners.

In 2019, the slight decrease in regional inflation rates in dollar terms, observed for most economies, were mostly due to lower inflation rates in local currency terms and the stability of Asian currencies against the dollar.

Since external inflation rates in local currency terms tend to be relatively stable over time, our Trading Partners' currencies developments against the dollar are fundamental in shaping developments in terms of our domestic inflation. In addition, the recent and substantial inflation fall in Timor-Leste is also due to the international price decreases of the many important commodities such as oil and food prices, as mentioned above.



Given the importance of this transmission channel, future developments in “external inflation” trends, strongly determined by the exchange rate changes, will continue to be one of the most influential factors in driving the evolution of domestic inflation.

In this regard, the BCTL expects, in line with the IMF, regional currencies to remain stable against the dollar in 2020 and 2021, which, together with moderate inflation rates in local currency, supports our view that imported inflation will remain stable over the next years, helping to steady inflation pressures in Timor-Leste in 2019 and 2020, under 2% on a yearly basis.

### 1.3.3. Energy Markets and Oil Revenue

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

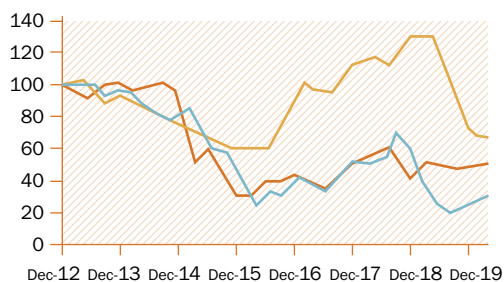
In 2019, crude oil price increased 17% (Brent benchmark) while, simultaneously, natural gas and coal prices fell. Despite the recent recovery in prices of energy inputs, note that these are still well below the figures recorded in 2012, after substantial declines observed in 2015.

In 2019, the oil price continued to recover, which diverged, but other Energy commodities recorded price falls.



**Chart 1.20**

Energy Prices - spot



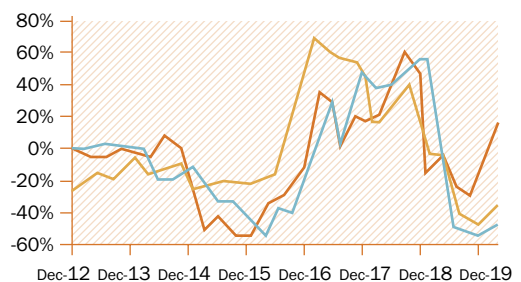
2012 = 100

— Oil, Brent  
— Coal, Australia  
— Europe Natural Gas

Source: World Bank

**Chart 1.21**

Energy Prices - % change



Yearly %

— Oil, Brent  
— Coal, Australia  
— Europe Natural Gas

Source: World Bank

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

This caveat is important because it prevents us from accepting simplistic scenarios and extrapolating further price declines, based only on the recent drops in oil prices. On the other hand, petroleum products prices are still important for Timor- Leste, since future oil revenues are still expected along the coming years.

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

The impact of fluctuations in energy prices in the country's oil wealth is now much lower, compared to previous years. This follows from the fact that future oil revenues are now much lower when compared to what has already been extracted from the Timor Sea reserves, with the prospect of the exploitation of existing fields to cease completely by 2023. The expected future income from 2020 to 2023 amounts to \$824 million in present value, which represents only 4.8% of the value of the Petroleum Fund at the end of 2019.



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

### 1.3.4. Financial Markets and the Petroleum Fund

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

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

The PF closed the year 2019 with the value of financial assets amounting to \$17,692 million dollars, invested mainly (60%) in Treasury bonds issued by developed countries and stocks (40%) of thousands of global companies.

The PF currently invests 60% of its value in bonds and 40% in equities.

In 2019, the Fund recorded a remarkable gain net of fees and taxes of 2,100 million dollars, due to the combined and substantial returns of stocks and bonds holdings of the Fund, while the foreign exchange fluctuations only had a very marginal impact during the year.

Since its inception, the PF has expanded its investment universe, starting first by only investing in US Treasury bonds and bills, then moving gradually to invest in stocks and, finally, extending its investments to bonds issued by other developed countries' Treasuries. The gradual extension of the investment mandate was driven by the increasing demand for a higher expected return of the Fund and for a greater diversification of the investments and markets.

... but only in fixed interest rate bonds.

Of course, this institutional development exposes the Fund to new risks and markets, but which, by benefiting from the diversification of the prices of the various assets, allows a more solid portfolio to be built and whose risk-return profile is more efficient. At present, the Fund invests only in fixed interest rate bonds and equities, so that interest

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



on bonds and dividends on shares provide the Fund with a fixed and constant income, at least on 'a priori' basis. Naturally, by investing in bonds and stocks, the Fund benefits from increases in market values of these securities or, on the contrary, can be adversely affected by its decline. Therefore, the Fund's main financial risks correspond to possible losses arising from the fall in the prices of the bonds or stocks in which the Fund is invested.

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

In addition, since the PF invests in several markets, denominated in currencies other than the US dollar, the Fund is also exposed to the exchange rate risk of investments, understood as the possibility of depreciation of the various investment currencies against the dollar. In short, the PF's financial risk includes 3 types of market risks: equity risk, or risk of falling prices of the main world stock markets, interest rate risk, which translates to the risk of falling Treasury bond prices; and currency risk, which consists of the risk of depreciation of the investment currencies against the US dollar.

In 2019, the Fund recorded gains explained by the positive performance of investments in both equity and bond markets.

The price changes of PF's assets and the various investment currencies thus constitutes the true channel of transmission between international markets, the value of PF and its ESI and our country's economy. In terms of returns, 2019 was very positive for the FP, which returned +13.25%, as it benefited both from the exceptional and positive performance in the bond and equity markets.

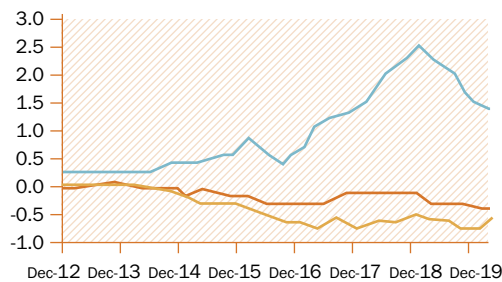
The Bonds portfolio registered gains in 2019, also benefiting from the declines in interest rates in the US market.

In 2019, global bond markets recorded generalized declines in interest rates, especially the US market, more evident in the shorter 2-year segment, than in the longer 10-year term, closely tracking the FED's interest rate cuts. In the European and Japanese markets, long-term interest rates also registered slight decreases to negative territory. This general interest rates decline reversed the upward rate cycle of recent years, particularly in the US market, which constitutes the largest bond allocation of the Fund. This added to the FP's performance reinforcing the 'carry income' of such investments. The PF's bond portfolio thus recorded a global performance of 5.16% in 2019.



## Chart 1.22

2-Year Interest Rates - % year

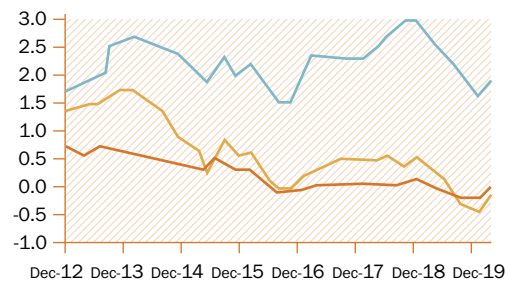


— US  
— Euro, Germany  
— Japan

Source: Bloomberg

## Chart 1.23

10-Year Interest rates - % year



— US  
— Euro, Germany  
— Japan

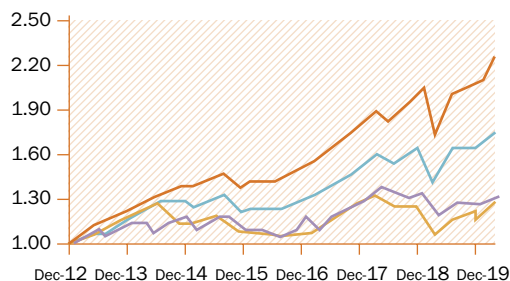
Source: Bloomberg

In terms of equity markets, the Fund's stocks benchmark – the black line in the chart below (“World”) – posted wide gains in 2019, fully recovering from the losses incurred in 2018. The FP shares portfolio's gains resulted from the US market's strong rebound, but also from the strong performance of other important global markets. The Fund's stock investments returned a record 27.26% in 2019. In terms of foreign exchange impacts, the FP's investment return was only marginally impacted by a slight depreciation of the USD versus the investment currencies.

The FP's stocks portfolio benefited from the strong performance across the large majority of global equity markets.

## Chart 1.24

Stock Markets in USD terms – 2012 = 100

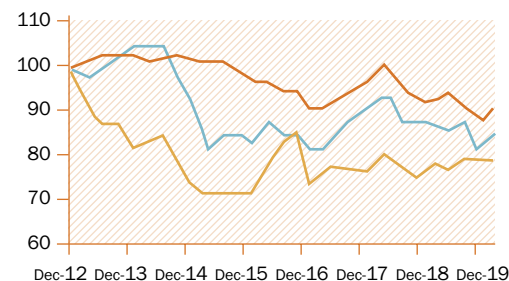


— World — US  
— E.U. — Developed Asia

Source: Google Finance

## Chart 1.25

Currencies vs USD – 2012 = 100



— Euro  
— Yen  
— China Yuan

Source: Google Finance



In short, the Petroleum Fund currently holds a portfolio of a vast and diverse set of securities and is invested in major global stock and bond markets, which allows an optimized risk-return profile.

The PF's value and returns continue to largely depend on the price developments in dollar terms of various global financial assets.

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

In a longer time-frame, we do think that the risk of a global stock or bond market correction is now significant, given the current and simultaneous high stock market valuations and the historically low levels of global bond interest rates. It should be noted in this regard that the US stock market, after its new rise in 2019, now trades at a level that corresponds to practically 2.5 times its value of December 2009 and close to an historical maximum level of price to corporate earnings ratio.

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

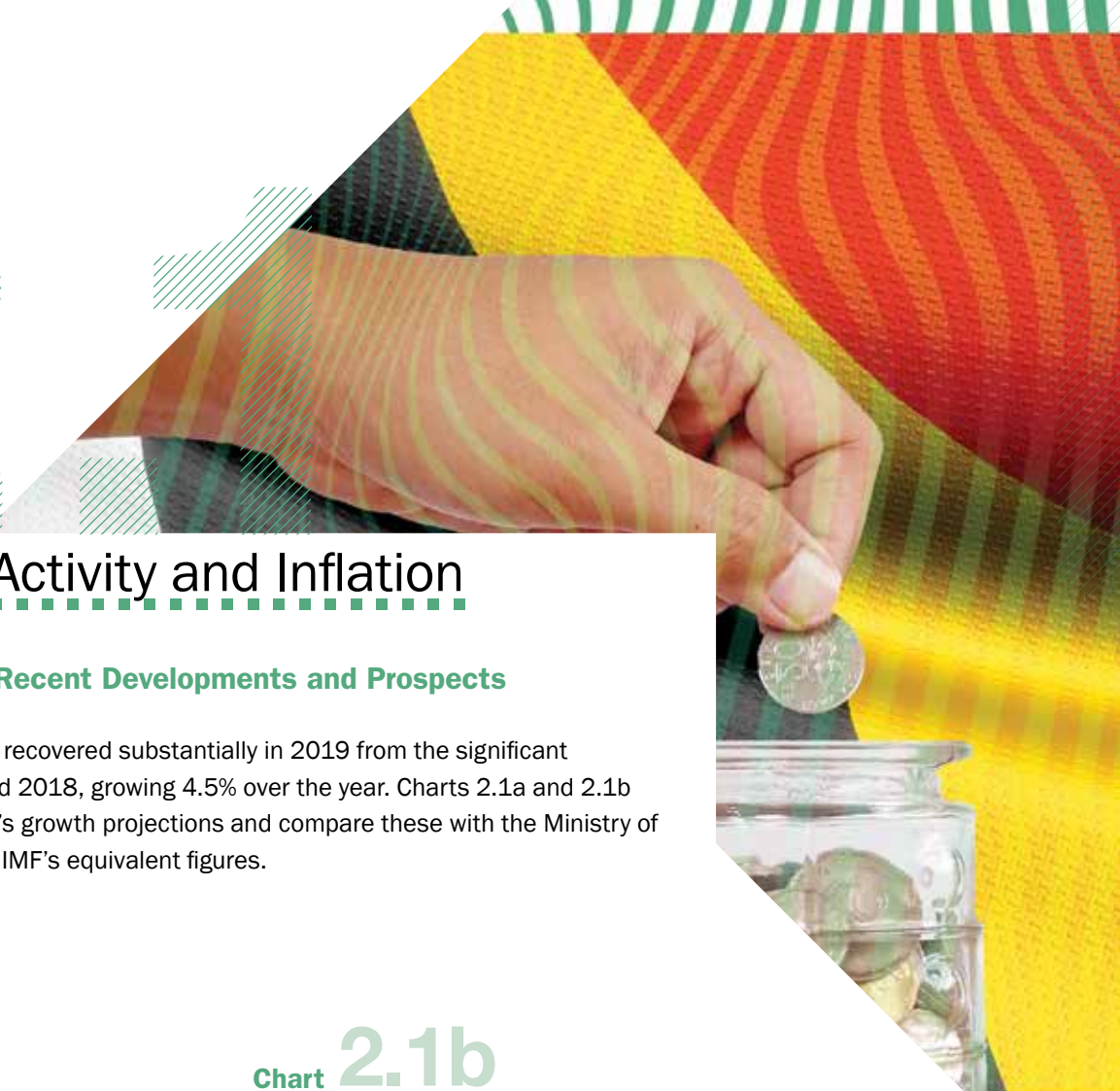






*This chapter describes major developments for Timor-Leste non-oil economy in 2019 and its outlook for 2020 and 2021, also highlighting relevant changes regarding the public, financial and external sectors of our country.*





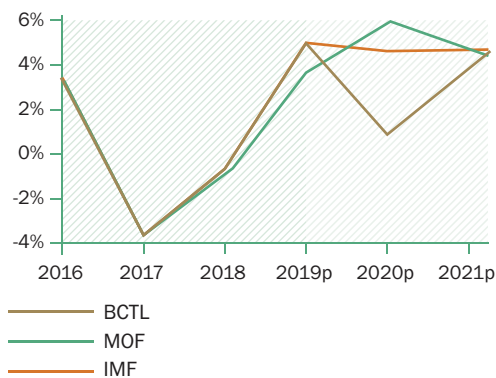
# Economic Activity and Inflation

## 2.1.1. Economy - Recent Developments and Prospects

Timor-Leste's economy recovered substantially in 2019 from the significant contraction of 2017 and 2018, growing 4.5% over the year. Charts 2.1a and 2.1b below summarize BCTL's growth projections and compare these with the Ministry of Finance (MOF) and the IMF's equivalent figures.

### Chart 2.1a

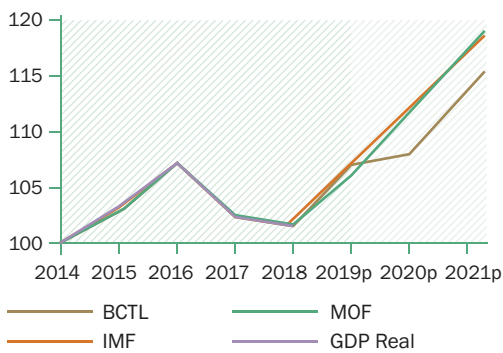
GDP Real Growth  
% annual change



Source: BCTL, 2020 Budget Proposal and IMF

### Chart 2.1b

GDP Real Levels  
2014 = 100



Source: BCTL, 2020 Budget Proposal and IMF

The domestic economy recovered substantially in 2019, after the significant contraction recorded in 2017 and 2018. GDP growth is expected to be 4.5% in 2019.

The chart above on the left, showing the actual growth rates between 2016 and 2019 and projections for 2020 and 2021, confirms 2019's recovery as expected by the BCTL, which is also in line with IMF and MoF's expectations.

BCTL's projections for 2020 and 2021 are not very optimistic, which is due to the recent increase in political and economic uncertainty.

In terms of projections, BCTL expects a new growth slowdown in 2020 to 1%, followed by a subsequent recovery in 2021. The weak optimistic outlook for 2020 is mostly due to the recent failure to approve the new budget proposal for 2020, in January 2020, which led to a substantial increase of political uncertainty in the country. BCTL's projections for 2020 are now lower than both MoF and IMF's forecasts, as they already incorporate the latest political developments, while those other predictions were based on the timely approval and implementation of an expansionary budget proposal for 2020, which failed to be approved in Parliament.

The increase in the degree of political uncertainty, the implementation of the 'duodecimos' regime in budget execution in 2020 and possible early elections resulted in a worsening of the economic risks, which undermines the confidence of economic agents and, above all, reduces the economic clout of the Public Sector, which continues to be a major driver of Timor-Leste's economy.

However, despite the further slowdown of the economy in 2020, BCTL expects the economy to regain dynamism in 2021, which is based on the expectation of lower of political uncertainty in that year and the regularization of the public budget's approval and execution process.

We also note that, similar to what happened in 2017 and 2018, the low economic optimism for 2020 confirms the continued and excessive economic dependence on public policies and expenditure programs, while the effective start of a developmental and investment process led by the private and productive sectors continues to be deferred.

We continue, therefore, to emphasize that the need to effectively quick-start growth across national productive sectors 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, given the substantial reduction of future oil revenues and/or Petroleum Fund's investment capital.



### 2.1.2. Official GDP Estimates – Different Perspectives

The last publication of National Accounts Timor-Leste, released by the General Statistics Directorate General (DGE) during the year, revealed the annual estimates for Gross Domestic Product (GDP) and its sub-aggregates until 2018.

The National Accounts' data have been updated until 2018, revealing that GDP has continued to fall in that year.

According to this publication, GDP's growth rate of in 2018 was -0.8% in real terms, thus extending the -3.8% contraction recorded in 2017. However, when compared to 2017, GDP's fall in 2018 was mainly due to the contraction in the services sector, while civil construction recovered slightly in 2018 from its sharp fall in 2017. The Public Administration sector, the largest in the economy, continued to grow in 2018, extending the advance of the previous year.

The civil construction and public administration sectors, directly dependent on public expenditure policies, registered a combined growth of 5.9% in 2018. The agricultural sector grew 4.4% in 2018, while the industrial sector's value-added including mining was down -4.6% in the same year. In the services sector, whose aggregate 'GDP' fell -9.2% in 2018, there were notable declines in the value-added of the distribution/trade (-9.5%) and real estate (-3.3%) subsectors, which are the 2 services subsectors with greater expression.

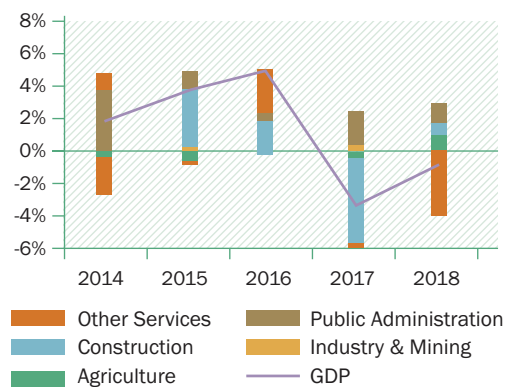
Chart 2.2b presents the contributions to GDP growth in terms of expenditure aggregates. Despite the contraction in 2018, the fall in GDP slowed down in 2018 versus 2017, due to the recovery of domestic public demand, which offset a large part of the combined decline in private demand, external demand and development partners' demand in 2018. In terms of domestic private demand, we should highlight the strength of private household consumption, which managed to grow about 2% in 2018 (7% in 2017), but also the substantial fall in private companies' investment, down -61 % in 2018, and in households' housing investment, which fell -11.6%.

Domestic demand's decrease eased somewhat in 2018, which helped to reduce the degree of economic contraction versus 2017.



## Chart 2.2a

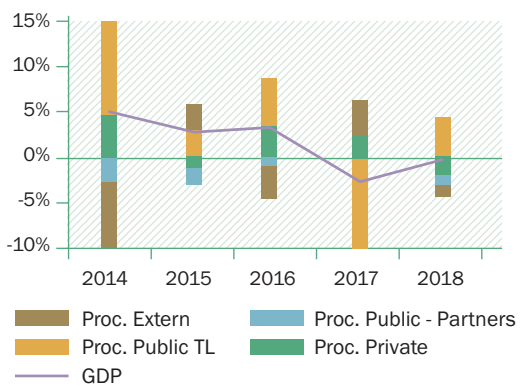
GDP Real Growth - Production Sectors  
% annual change and contributions.



Source: DGE and BCTL

## Chart 2.2b

GDP Real Growth - Spending Aggregates  
% annual change and contributions.



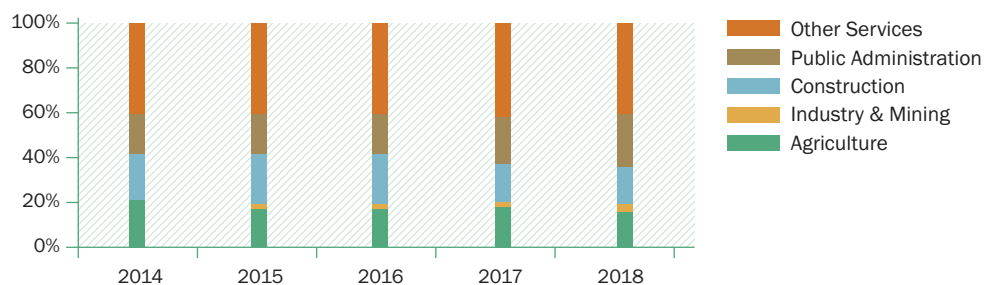
Source: DGE and BCTL

Public administration continued to be the most important activity sector in the economy.

In terms of production sectors according to chart 2.3, public administration maintained its dominant position in the economy in 2018, being responsible for 29% of total GDP. The agricultural sector has become the second most important sector (17% of GDP), as the fall in the commerce sector's GDP reduced its GDP weight to 16%. The 4th and 5th most important sectors in 2018 were civil construction (13%) and real estate (12%). Despite the strong growth of the industrial sector along the last 5 years, it only continues to represent a residual role in our economy, amounting to 1.7% of GDP in 2018.

## Chart 2.3

GDP Activity Sector Composition (in %)  
% PIB



Source: DGE and BCTL



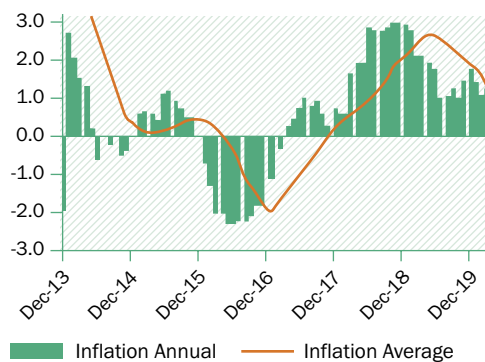
### 2.1.3. Prices and Inflation

Annual inflation, assessed by DGE for Dili CPI data, was 0.9% in December 2019, representing a decrease compared to the 2.5% recorded in December of 2018. As can be seen in the following charts, inflation eased over the year after the pickup recorded in 2017 and 2018 from the negative rates of 2016. Dili CPI data also show that the average annual inflation rate was 1.4 % and 2.6% in 2019 and 2018, respectively, in line with the mentioned inflation slowdown.

At the end of 2019, annual inflation rate was lower at 0.9%, compared to 2.5% in December of 2018.

**Chart 2.4**

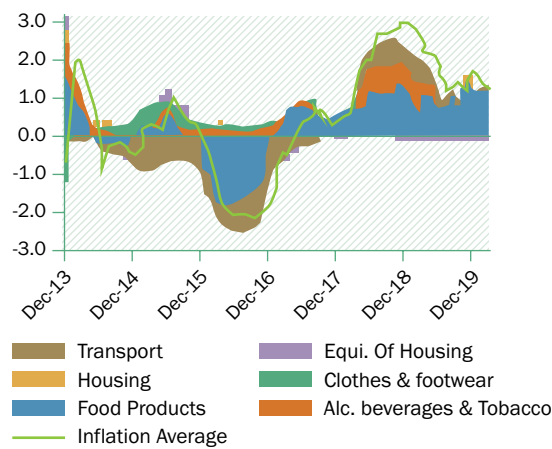
Timor-Leste Inflation (Dili CPI)  
% annual change



Source: DGE and BCTL

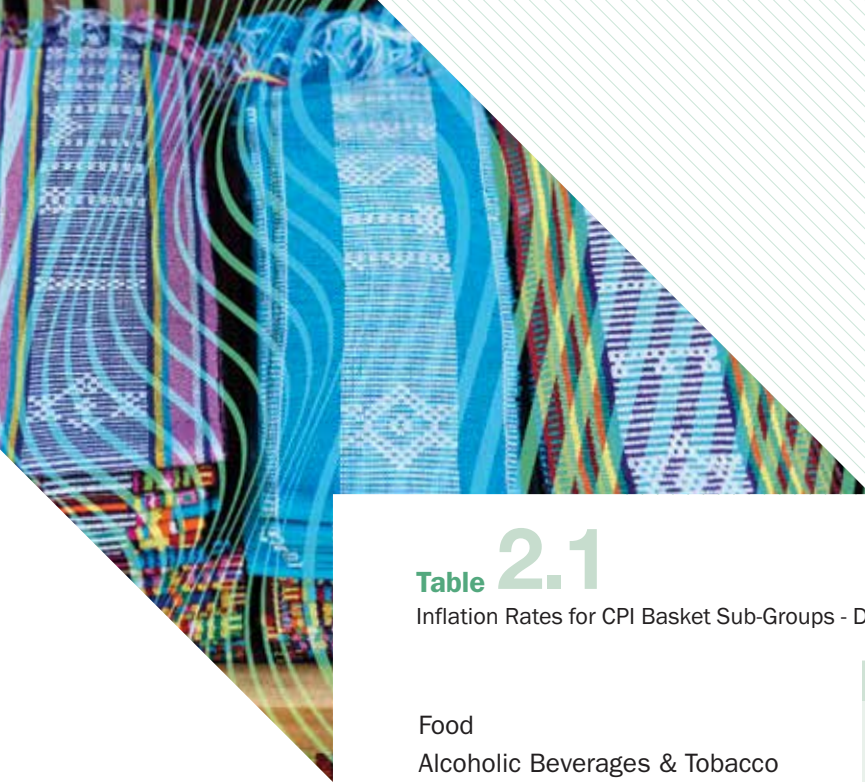
**Chart 2.5**

Timor-Leste Inflation (Dili CPI)  
% annual change and contributions



Source: DGE and BCTL

Table 2.1 shows the respective changes for the CPI and its components over 2019:



## Table 2.1

Inflation Rates for CPI Basket Sub-Groups - Dili CPI - % annual change

	Dez-18	Mar-19	Jun-19	Set-19	Dez-19
Food	2.2	0.4	-0.6	2.0	2.1
Alcoholic Beverages & Tobacco	10.5	1.1	0.6	-0.1	0.4
Clothing and Footwear	-0.2	0.0	-0.3	-0.5	0.6
Housing	0.7	0.0	0.0	0.0	0.0
Health	0.0	0.0	0.0	0.0	0.0
Transport	4.0	2.1	1.7	1.7	3.2
Communication	0.5	-0.2	-0.2	0.3	-1.4
Recreation	0.6	-2.1	-1.4	-0.7	0.0
Education	18.1	10.1	10.1	10.1	10.1
<b>Total</b>	<b>2.5</b>	<b>1.8</b>	<b>1.3</b>	<b>1.8</b>	<b>0.9</b>

Source: DGE and Analysis BCTL

The slowdown in inflation was mainly due to lower non-food inflation.

- Food products, which continue to dominate the CPI basket, registered an annual price increase of 2.1% in December 2019, a value higher than the rate of overall inflation of 0.9%;

- Non-food inflation was lower than food inflation, being relevant to note the continued and substantial increase in education prices;

Thus, the decline in inflation in 2019 was determined by the reduction in inflation of non-food goods and services, which bucked the developments recorded in the previous year.

BCTL's 2020 and 2021 inflation projections are below 2% annually, which corresponds to a low and stable inflation outlook.

In terms of drivers, the inflation slowdown was mainly due to the stabilization of external inflationary pressures in a context of dollar stability against the currencies of our trading partners. Despite the economic recovery in 2019, our domestic economy still seems to have ample economic resources to allow a stronger expansion without generating inflationary pressures, mostly due to the contraction seen in 2017 and 2018.

In terms of outlook for 2020 and 2021, BCTL anticipates that external inflation should remain stable and low, driven by the continued strength of the dollar versus our trading partners' currencies. This should allow domestic inflation to continue to be low and stable, under 2% annually over the next two years. These projections are also supported by the weak domestic growth picture expected for the economy in this horizon, which will contribute to maintain overall domestic economic resources underemployed throughout the same period.



## Public Finances

### 2.2.1. 2019 Public Budget

After the substantial delay in the adoption and implementation of the 2018 State Budget (OGE), budgetary policy was regularized in 2019, especially in terms of its formal approval process.

However, according to table 2.2 data below, global spending execution rates were lower than in 2018.

In terms of public expenditure, the Government expected to spend a total of \$ 1,464 million in 2019, but effectively spent only \$ 1,229 million, or 84% of the State Budget. Compared to the amount actually spent in 2018, public spending rose 6% in 2019, due to the higher budgeted amounts.

Public Expenditure rose 6% in 2019 to \$1,229 million and the overall execution rate was 84% of the approved spending budget.

On the revenue side, the Government projected in its state budget for 2019 an amount of non-oil revenues of \$198 million excluding loans, but the actual revenue amount totaled just \$188 million. Still, this amount represented an increase of 8% compared to the \$173 million effectively received in 2018. In terms of their composition, tax revenues continued to represent the most important category, amounting in 2019 to \$125 million. However, this value resulted in a reduction of 8% versus 2018's tax receipts of \$136 million.

**Table 2.2 State Budget – Main Categories and Execution Rates**

	Million of USD			% Annual Change		Execution Rate		
	2017	2018	2019	2018	2019	2017	2018	2019
<b>Total Revenue, Excl. Loans Tax Gov.</b>	<b>181</b>	<b>173</b>	<b>188</b>	<b>-4%</b>	<b>8%</b>	<b>88%</b>	<b>96%</b>	<b>95%</b>
Revenue	127	136	125	7%	-8%	85%	103%	92%
Gov. Non-Tax Revenue	48	31	56	-35%	80%	92%	61%	102%
Revenue Retention Agencies	6	6	7	6%	12%	113%	130%	96%
<b>Total Expenditure</b>	<b>1,225</b>	<b>1,160</b>	<b>1,229</b>	<b>-5%</b>	<b>6%</b>	<b>88%</b>	<b>91%</b>	<b>84%</b>
Recurrent Expenditure	961	826	937	-14%	13%	93%	94%	88%
Capital Expenditure	240	295	205	23%	-31%	97%	89%	65%
Loans	24	39	87	64%	123%	23%	63%	100%
<b>Financing</b>								
Estimated Sustainable Income (ESI)	482	550	529	14%	-4%	100%	100%	100%
Excess Withdrawals from the PF	597	434	667	-27%	54%	100%	100%	100%

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



2019

### 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 2019 State Budget, for example, the Government continued to highlight its "tax reform" policy, to improve the fiscal framework of the country and increase domestic revenues sourced from non-oil resources and activities.

Public revenues rose again in 2019, reversing the observed decreases of 2017 and 2018, which was due to the rise in total public expenditure, which remains the main driver of the economy, as well as to 2019's economic recovery, after the contraction recorded in 2017 and 2018.

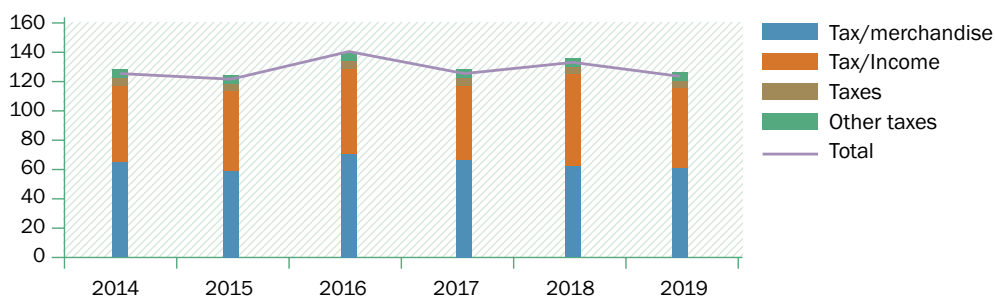
Public non-oil revenue increased 8% in 2019, amounting to \$188 million.

In 2019, on a cash basis, non-oil domestic revenue totaled \$188 million, an increase of 8% over the previous year. This expansion thus bucked the consecutive decreases of -4% and -7% recorded in 2018 and 2017. The increase in revenue resulted from the substantial increase in non-tax revenues (+80%) and, to a lesser extent, of autonomous State Agencies (+12%), which more than offset the decline in tax revenues (-8%).

Chart 2.6 depicts the changes in tax revenues and their main components, specifically, taxes on individuals and companies' income and the taxes levied on the import of goods. The annual reduction in tax revenues resulted from the reduction of taxes on income -\$10 million, but also from the fall of taxes on imports, estimated at - \$2 million.

## Chart 2.6

Fiscal Revenues  
USD million



Source: TL Portal da Transparencia and BCTL analysis

### 2.2.3. Public Spending

The overall execution rate of public expenditure declined to 84% in 2019, remaining close to the levels of 91% and 88% recorded in 2018 and 2017. However, since the amount budgeted for 2019 was higher than in the previous year, effective public spending increased 6% (or +\$68 million) to \$1,229 million. This rise was primarily due to the increase in recurring expenses (+\$111 million), since public investment, including the Loans program, declined -\$43 million.

Actual public expenditure rose to \$1,229 million, driven by the pickup in recurrent spending in 2019.

#### 2.2.3.1. Recurrent Expenditure

The substantial rise in overall public expenditure resulted mainly from the expansion of recurring expenses, which registered a nominal increase of 13% in 2019, reversing the consecutive declines of 2017 and 2018. Note that recurrent expenditure continued to be the main component of public spending, amounting to \$937 million, or 76% of total expenditure in 2019, versus 2018's \$826 million, equivalent to 71% of total expenditure.

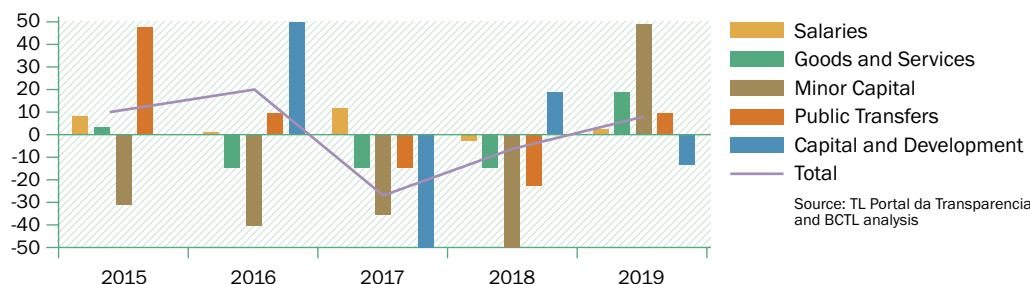


Chart 2.7 shows the growth rates of the main expenditure components. The execution level was calculated on the basis of the sum of “payments” and “obligations” assumed for each category.

## Chart 2.7

### Public Expenditure Developments

% annual change



Spending on goods and services was, for the first time, the largest category of recurrent spending in 2019 (40%).

For the first time, spending on goods and services occupied the first position in terms of recurrent spending, amounting to 40% of this type of spending (36% in 2018). Public transfers, especially personal and institutional subsidies, are now the second largest recurring expenses' category, with 37% of the total, down from 42% and 38% in 2017 and 2018. Spending on wages and salaries increased 5% in 2019, amounting to 22% of recurrent spending.

In terms of annual changes, increased spending on goods and services (+\$71 million) and, to a lesser extent, the pickup in public transfers (+\$29 million) were the factors that most contributed to the expansion of recurrent public expenditure in 2019.



### 2.2.3.2. Capital Expenditure and Public Investment

The Government budgeted for 2019 a total capital development expenditure of \$401 million including the loans program. From this amount, \$292 million were effectively spent, which translates into an execution rate of 73%.

Capital development Expenditure was budgeted at \$401 million, of which \$292 million were effectively spent.

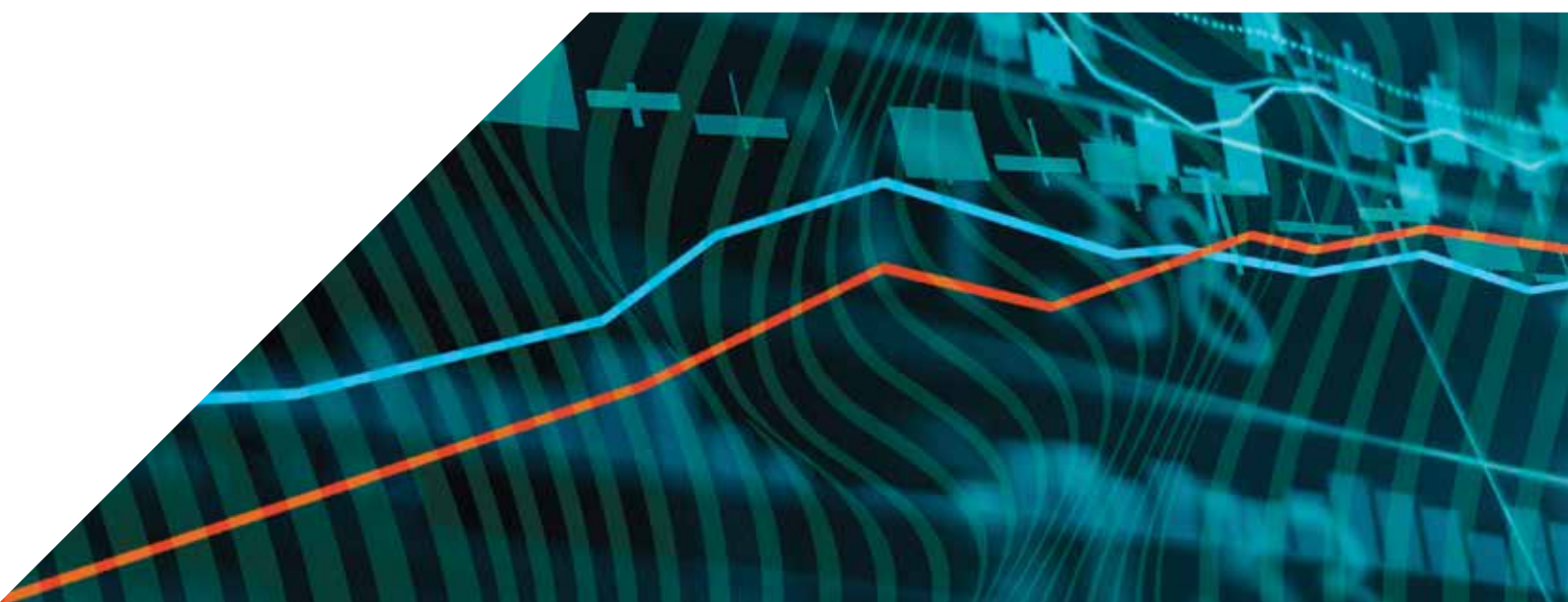
**Table 2.3** Public Investment Programs

	Million of USD			% Annual Change		% Total	
	2017 Efectivo	2018 OGE	2019 OGE	2018	2019	2018	2019
Minor Capital	13	5	29	-61%	476%	1%	7%
Prog. of Loans	30	62	87	105%	41%	15%	20%
Infrastructure Fund	202	324	279	61%	-14%	81%	65%
Pub. Investment excl. Infrastructure Fund	19	8	34	-54%	298%	2%	8%
<b>Total</b>	<b>263</b>	<b>399</b>	<b>430</b>	<b>52%</b>	<b>8%</b>	<b>100%</b>	<b>100%</b>

Source: OGE 2019 e cálculos do BCTL

The majority of capital expenditure was allocated to the infrastructure construction and loans programs, whose combined weight was 85% in 2019 (96% in 2018). The Infrastructure Fund's Program continues to be the highest priority in terms of public investment, since its budget corresponds to 65% of public investment in 2019.

Table 2.4 summarizes the information for the Infrastructure Fund's (IF) existing programs, with larger budgeted amounts.



## Table 2.4

### Infrastructure Fund – Relevant Subprograms

	million of USD				% Total			
	2017 Efec.	2018 OGE	2019 OGE	2020 OGE	2017 Efec.	2018 OGE	2019 OGE	2020 OGE
Roads	69	129	130	342	30%	33%	35%	53%
Program of Loans	30	62	87	40	13%	16%	24%	6%
Tasi Mane	68	101	61	196	29%	26%	17%	31%
Electricity	12	16	15	1	5%	4%	4%	0%
Roads - Maintenance	5	13	13	1	2%	3%	4%	0%
Airports	17	10	12	2	7%	3%	3%	0%
Bridges	8	11	10	10	3%	3%	3%	2%
Urban & rural development	5	5	10	3	2%	1%	3%	1%
Drawings & Supervision	1	1	4	0	0%	0%	1%	0%
Financial System and Support Infrastructure	7	5	4	0	3%	1%	1%	0%
Others	10	34	22	47	4%	9%	6%	7%
<b>Total IF Incl. Loans</b>	<b>231</b>	<b>385</b>	<b>366</b>	<b>641</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

Source: OGE 2019 e cálculos do BCTL

Investment in roads, including the loans program, continues to be the top investment priority, followed by the 'Tasi Mane' project.

In terms of sector priorities of the Infrastructure of the Fund in 2019, roads - including loans - continued to be the main priority, with 59% of total expenditure (49% in 2018), or \$217 million in 2019. The second largest investment program was the 'Tasi Mane' project – mostly an infrastructure construction program on the south coast, to support the planned energetic investments – which accounted for 17% of the IF's budget for 2019.

As to what regards annual changes and perspectives in terms of public investment, Road Construction and 'Tasi Mane' programs have represented in 2017 and 2018 and will continue to represent in 2019 and 2020 the main priorities of the Government, since the draft state budget for 2020 has allocated 59% of the Fund's investment to the Roads program and 31% to the 'Tasi Mane' project. The remaining IF's investment programs continue to represent smaller and less important individual allocations in terms of total projected public investment.



### 2.2.4. Public Funding Sources

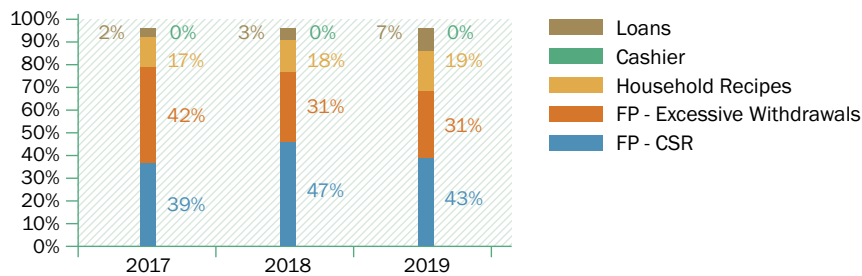
In its 2019's Budget, the Government expected to source \$1,196 million from the Petroleum Fund (PF), having withdrawn the same effective amount to finance its spending in 2019.

With this renewed pickup in PF's wiithdrawals versus 2018 (\$ 985 million), the PF's annual outflow remains well above its estimated sustainable income (ESI) level, valued at \$529 million in 2019. This development, in line with what has happened in the last years, again extended the structural reduction of the Fund's capital and its ESI, from \$550 to \$529 million in 2019.

The State continued to make withdrawals from the Petroleum Fund well above its ESI in 2019, which resulted in a further reduction of the Fund's capital.

## Chart 2.8

Public Expenditure Funding Sources  
% Of Total Expenditure each year



Source: TL Transparency Portal, OGE and BCTL analysis



Non-oil public revenues financed only 19% of public expenditure in 2019.

In terms of funding sources available to finance public expenditure, PF's distributions continue to be the main source of funds, financing 74% of the expenditure in 2019, but down from 78% in the previous year. Domestic public revenues financed, in turn, only 19% of total expenditure in the same year.

However, it should be noted that non-oil revenues have financed, since 2016, an increasing proportion of public expenditure, since in 2016 they only financed 12% of total expenditure.

Loans have increased their importance in terms of funding in recent years, financing 7% of the total in 2019, compared to 3% the previous year. These loans, which are mainly used to finance road construction in the country amounted to \$87 million in 2019, which corresponded to an execution rate of 100% of the budgeted amount. There has thus been a considerable increase in the execution capacity of the loans program, as in 2016 and 2017 only 28% and 23% of the budgeted programs were executed.

In short, these considerations allow us to confirm the continued and intense 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.

The PF's capital reduction constitutes a clear and significant risk to Public Finances' medium-term sustainability.

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 Sector

### 2.3.1. Interest Rates

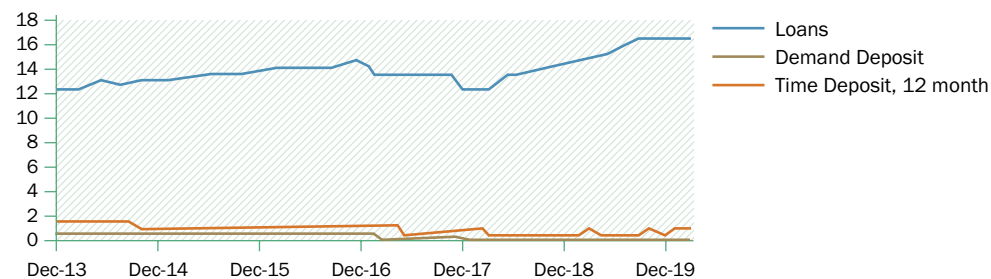
Average lending interest rates remain relatively high compared to overseas USD benchmark lending rates. Standard economic theory generally states that when a small country adopts the currency of a large economy as its own, interest rates tend to converge to its anchor's rates. In Timor Leste this has 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, which were already high, recorded a further increase in 2019.

### Chart 2.9

Key Lending and Deposit Interest Rates

% p.a.



Source: BCTL

Extending the previous year's rise, average interest rates on private sector loans again increased in 2019 by +1.78% (+2.5% in 2018), as can be seen in the chart above. Loans' average interest rate amounted to 16.29% in December 2019. However, the average rate paid on 6-month deposits remained virtually unchanged in 2019, at 0.66% at the end of the year. This distinct change in lending and deposit rates has again widened the respective credit spread by 1.78% to 15.63%.

**Table 2.5** Banking Interest Rates – Weighted Averages  
(in percentage)

Period	Loans + 6 month Libor	Demand Deposit	Saving Deposit	Time Deposit			
				1 Month	3 Month	6 Month	12 Month
2018 Dec	14.51	0.07	0.48	0.64	0.64	0.66	0.67
2019 Jan	14.73	0.07	0.45	0.64	0.65	0.66	0.65
Feb	14.83	0.07	0.44	0.64	0.65	0.66	0.65
Mar	14.98	0.07	0.44	0.64	0.65	0.66	0.65
Apr	15.65	0.06	0.40	0.65	0.65	0.66	0.64
May	15.81	0.06	0.44	0.65	0.65	0.66	0.64
Jun	15.93	0.06	0.45	0.65	0.65	0.67	0.65
Jul	16.21	0.06	0.48	0.65	0.65	0.67	0.67
Aug	16.20	0.06	0.45	0.65	0.66	0.67	0.65
Sep	16.26	0.06	0.44	0.65	0.66	0.67	0.65
Oct	16.00	0.11	0.72	0.59	0.62	0.67	0.74
Nov	16.09	0.06	0.45	0.65	0.66	0.67	0.65
Dec	16.29	0.06	0.47	0.64	0.65	0.66	0.66

Source: BCTL

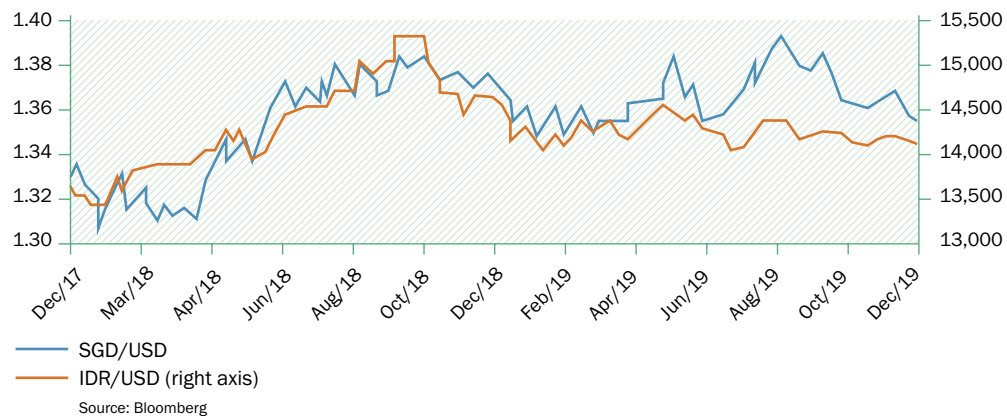
### 2.3.2. Exchange Rates

The dollar posted slight and mixed changes versus the currencies of our trading partners.

The US dollar (USD), Timor Leste's official currency, registered slight and mixed changes against the currencies of our main trading partners during 2019. Over the year, the dollar depreciated by 4% against the Indonesia rupiah, Timor Leste's main trading partner, but appreciated only 1% against the Singapore dollar, which is a reference currency in the Asian region.

## Chart 2.10

Nominal Exchange Rates versus the USD



As our country continues to be highly dependent on 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. Monetary Base

The Monetary Base or 'high-powered money', which is one of the determinant variables in terms of monetary policy, decreased significantly in 2019 by -\$48 million, while in 2018 it had remained practically unchanged. The monetary base was \$130 million at the end of 2019, of which \$20 million correspond to currency in circulation and the remaining \$ 110 million to commercial banks' funds deposited with the BCTL. The monetary base decline in 2019 was mostly explained by the reduction in banks deposits with the BCTL, amounting to -\$50 million.

The Monetary Base declined significantly in 2019, due to the reduction of commercial banks' deposits with the BCTL.

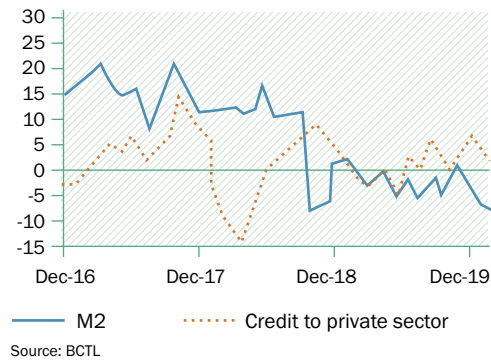


### 2.3.4. Money Supply

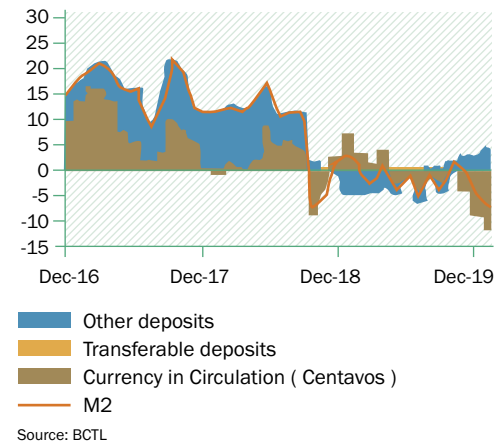
The compilation of monetary and financial statistics is used to assess relevant developments and in our monetary and financial systems.

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

**Chart 2.11**  
**Monetary Aggregates Growth**  
 % annual change



**Chart 2.12**  
**M2 and its Components**  
 M2 and its Components





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, 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.

Although Timor-Leste is a dollarized economy, BCTL can reasonably calculate the monetary aggregate M2, excluding dollar bills in circulation.

Charts 2.11 and 2.12 above depict the evolution of the M2 monetary aggregate over the period from 2016 to 2019. Note again that the M2 figures are approximate because, as the country uses the US dollar, it is difficult to accurately calculate the value of dollar bills in circulation. However, as this value should be a small and stable proportion of funds available for payments, our M2 estimate should serve as a reasonable measure of the size and changes of money supply in our economy.

The M2 aggregate amounted to \$788 million in December 2019, having recorded a decrease of -\$60 million compared to 2018, or -7%, reversing the increases registered in 2018 and 2017, respectively, \$26 and \$89 million.

M2 decreased - \$60 million compared to 2018, or -7%, reversing the consecutive increases recorded in 2017 and 2018.

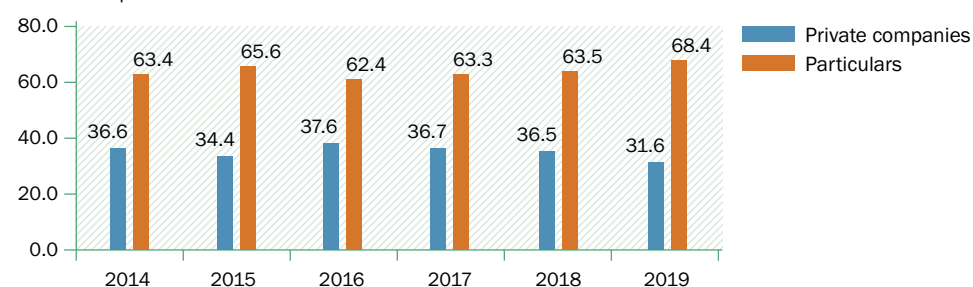
It is also important to analyze the evolution of the money supply’s components, presented in chart 2.12. Total deposits were the main driver of the fall in money supply, as they decreased -\$63 million in 2019, reversing the rises registered in 2017 and 2018.

In terms of institutional sector ownership, as shown in chart 2.13, 68.4% of deposits are held by households and 31.6% by private companies. These figures represent a meaningful increase in the proportion of households’ deposits, especially when compared with the ownership stability registered since 2013.

## Chart 2.13

### Deposits Ownership Trends

% of Total Deposits



Source: BCTL

Table 2.6 below, which presents another perspective of M2 and its other drivers, shows that the remarkable decrease of public sector deposits was the main cause for the M2's fall in 2019. Nevertheless, the increase in net internal and external assets contributed to amortize the overall decline of money supply, or M2.

## Table 2.6 Money Supply Change (M2)

In million of USD

	Annual flow 2018	Annual flow 2019
Credit to private sector	-9.8	13.8
Government	-58.9	-140.9
Claim on Central Government deposit	0.0	0.0
Net Foreign Assets	161.4	130.3
Other net Assets	67.1	63.5
<b>M2</b>	<b>25.7</b>	<b>-60.3</b>

Source: BCTL



### 2.3.5. Bank Credit

In 2019, loans granted by banks to the private sector increased \$9.47 million, or 4%, after being practically unchanged in 2018.

Bank credit increased slightly in 2019 to \$231 million.

**Table 2.7 Banking Credit Changes**

(In million of USD)

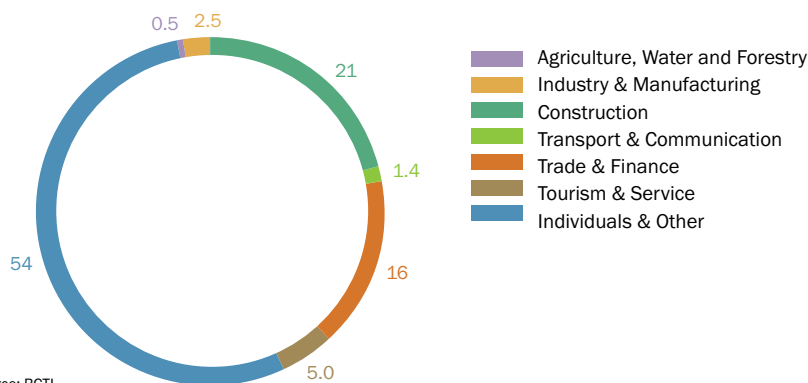
	Saldo		Variation		contribution empp.	weight (%)
	Dec-18	Dec-19	Nominal	Growth %		
Agriculture, Water and Forestry	1.0	1.1	0.1	10	0	0.5
Industry and Manufacturing	14.1	5.8	(8.3)	-59	-4	2.5
Construction	55.6	48.9	(6.7)	-12	-3	21
Transport & Communication	5.6	3.1	(2.5)	44	-1	1.4
Trade & Finance	41.3	35.8	(5.4)	-13	-2	16
Tourism and Service	13.0	11.5	(1.5)	-12	-1	5.0
Individuals and others	91.2	125.0	33.8	37	15	54
<b>Total</b>	<b>221.8</b>	<b>231.2</b>	<b>9.47</b>	<b>4.3</b>	<b>4.3</b>	<b>100</b>

Source: Commercial bank and BCTL calculation

The table shows that lending to domestic corporations fell again in 2019 -\$24 million, after declining -\$27 million in 2018. However, a renewed increase in loans to individuals of +\$37 million more than offset the decline of loans to companies.

**Chart 2.14**

Banking Credit by Sector- % of Total - Dec 2019



Source: BCTL



In terms of business sectors, lending declined for almost all sectors except for the primary sector (agriculture and forestry), which only represents a small part of total credit. The decline in outstanding credit was particularly notable for the manufacturing and communications sectors.

Retail loans remained the most important portion of bank credit, with 54% of the total.

Retail loans granted to individuals/households maintained the first position in terms of overall credit composition, with a total weight of 54%, compared to 41% in 2018. Within business credit, the construction (21%) and the distribution/trade sectors (16%) remain the most important. Agriculture and manufacturing, two important sectors for the economic development of the country, only account for 0.5% and 2.5% of total loans.

In addition to the “quantity” of loans we must also examine their “quality”, which is usually assessed via the amount of “doubtful loans” in the system and provisions for credit risks. Note then that total provisions for loan losses again decreased to \$16 million in 2019, compared to \$18 million in the end of 2018.

Banking institutions remained quite robust in terms of their capacity to withstand an eventual deterioration of credit quality levels, as: provisions for loan losses amounted to 6.9% of loans granted end of 2019, which is a higher proportion than for current non-performing loans; and the banking industry’s operating profit margins offers a robust base to finance such an eventuality.

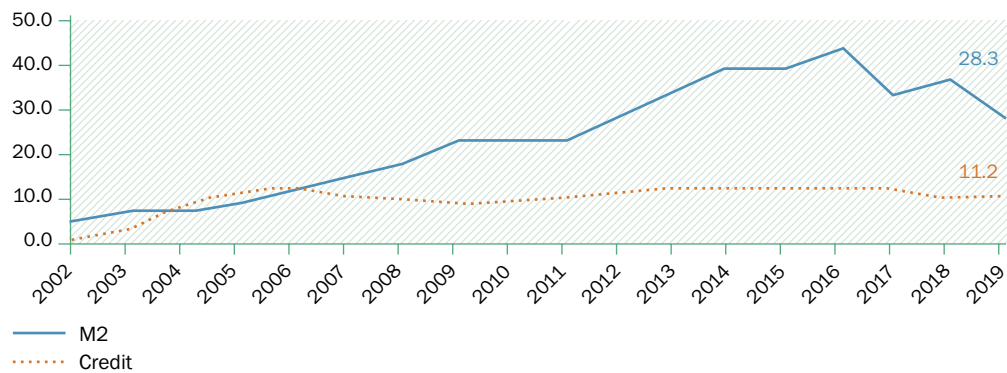
Despite the continued improvement in banks’ balance sheets quality, the value of domestic credit has remained much lower than overall banking deposits, providing commercial banks excess liquidity that tends to be invested preferably on bank deposits abroad.

### 2.3.6. Financial-Depth Indicators

The degree of financial-depth, or degree of monetization of the economy, can be measured based on the ratio of money supply (M2) to GDP. This ratio declined in 2019 to 28% compared to 37% in 2018. Another indicator that can also be used is the ratio of loans to GDP. This ratio was 11.2% at the end of 2019, recording a slight decline from the 11.3% of 2018.

## Chart 2.15

Monetary Aggregates Ratio Growth  
GDP %



Source: DGE and BCTL Calculation



# 2.4

## External Sector

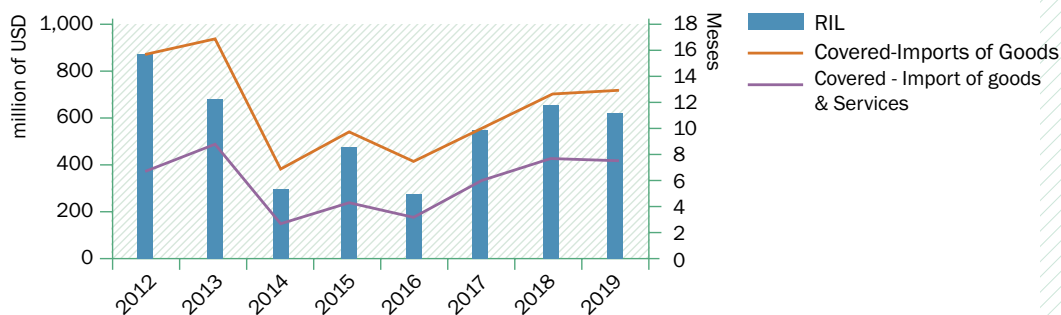
### 2.4.1. Net International Reserves (NIR)

Net International Reserves (NIR) declined slightly in 2019 to \$646 million, covering a total of 7.4 months of the country's imports.

At the end of 2019, Net International Reserves (NIR) amounted to \$646 million. This value corresponds to an annual decline of -\$18 million, which follows the successive increases, of \$130 and \$97 million, recorded in 2018 and 2017. NIR represented 7.4 months of overall goods and services imports, which remained practically unchanged versus the 7.5 months import coverage of 2018.

### Chart 2.16

Net International Reserves (NIR)  
NIR Import Coverage - \$ millions and months



Source: DGE e BCTL

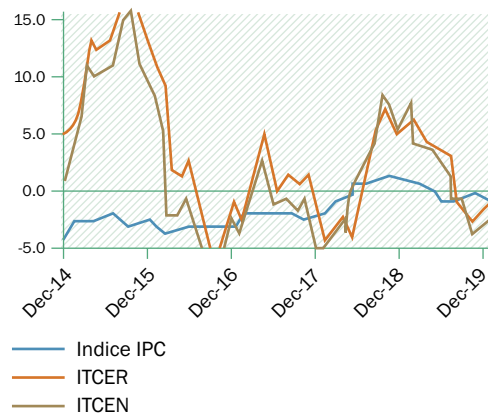
### 2.4.2. Real Effective Exchange Rate Index

The REER depreciated slightly, or -1.5%, in 2019, thus offsetting only a portion of the appreciation recorded in 2018.

The Real Effective Exchange Rate Index (REER) - an indicator used to assess the competitiveness of countries in terms of national tradable products - depreciated slightly in 2019, falling -1.5%, only partially reducing the +4.5% appreciation recorded in 2018 (chart 2.17a). In terms of average annual changes (chart 2.17b), the REER appreciated slightly by 1.2% in 2019, thus adding up to the average appreciation recorded in 2018 (1.5%).

## Chart 2.17a

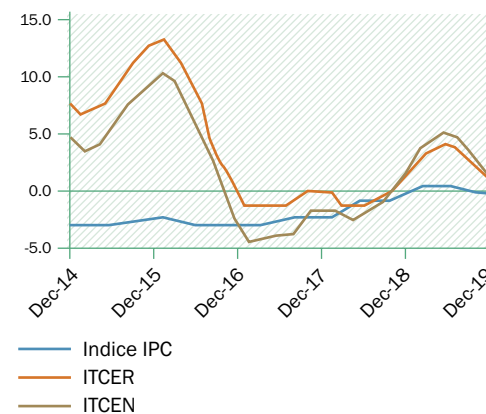
REER Index  
% annual change



Source: Bloomberg and BCTL analysis

## Chart 2.17b

REER Index  
% annual change

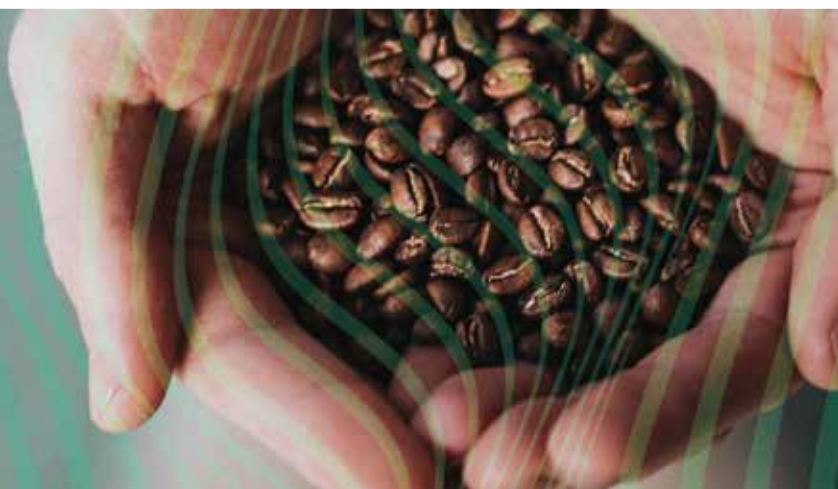


Source: Bloomberg and BCTL analysis

This development was mostly due to the nominal depreciation of the dollar against the currencies of our Commercial partners. The Nominal Effective Exchange Rate Index (NEER) registered an annual decline of -2.4% in 2019, which only cancelled a part of the nominal appreciation in 2018 (+5.3%).

Bilaterally, specifically against the currencies of Indonesia and Australia, two of our main trading partners, the REER recorded mixed real variations. Unlike the real appreciation versus the 2 currencies in 2018, respectively 6.2% and 7%, the REER depreciated -4.8% versus the Indonesian rupiah but gained 4% versus the Australian currency.

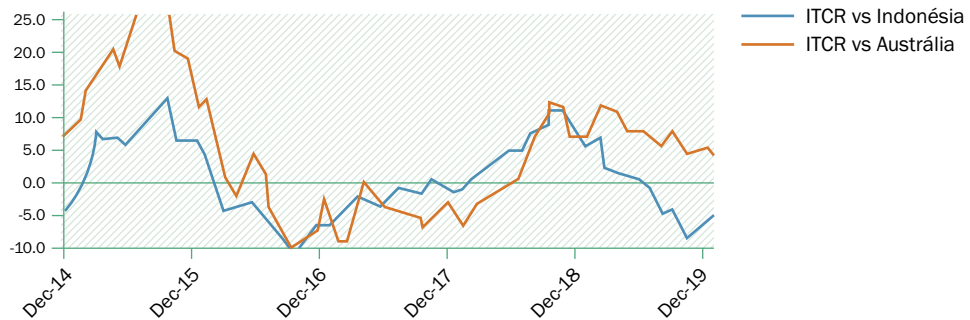
Bilaterally, the REER depreciated by 4.8% against the Indonesian rupiah, but appreciated 4% against the Australian dollar.



## Chart 2.18

### Real Bilateral Exchange Rates

% annual changes



Source: Bloomberg and BCTL analysis

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 is still highly dependent on imports to satisfy domestic aggregate demand, and contrary to what happened in 2018, the slight depreciation of the REER in 2019 has contributed to increase the upward pressure, albeit only marginally, on domestic inflation. Bilaterally, note that the prices of imported goods from Indonesia continue to be more competitive than those of similar goods from Australia, which is also confirmed by the larger importance of Indonesia as a trading partner of our economy.

# 2.5

## Balance of Payments

Timor-Leste's external current account recorded for the first time since 2016, a positive balance of \$133 million in 2019, with improved +\$324 million versus the deficit recorded in 2018 (-\$191 million). Measured as a percentage of non-oil GDP, the surplus amounted to 7% in 2019, representing a remarkable increase compared to the -11% deficit to GDP in 2018. Given this change, the combined balance of our current and capital accounts, which determines the overall net external financing needs of the economy, increased to 8% of GDP, compared to -8% in the previous year.

Our current account registered, for the first time since 2016, a positive balance of \$133 million in 2019.

**Table 2.8** Balance of Payments

	In million USD			% GDP	
	2018	2019	% Var.	2018	2019
Current Account Exclude other					
primary income	-701	-623	-11	-40	-34
Current Account	-191	133	-170	-11	7
Goods, fob	-589	-566	-4	-34	-31
Services	-349	-357	2	-20	-20
Primary Income	843	1,126	34	49	62
Secondary Income	-96	-70	-27	-6	-4
Capital Account	52	26	-50	3	1
Financial Account	250	-83	-133	14	-5
Direct Investment	48	75	56	3	4
Portfolio Investment	196	-269	-238	11	-15
Other Investment	6	112	1,646	0	6
Errors and Omissions	19	-93	-586	1	-5
Grand Total	96	76	-21	6	4
Reserve Assets (Variation)	-129	18	-114	-7	1

Source: BCTL



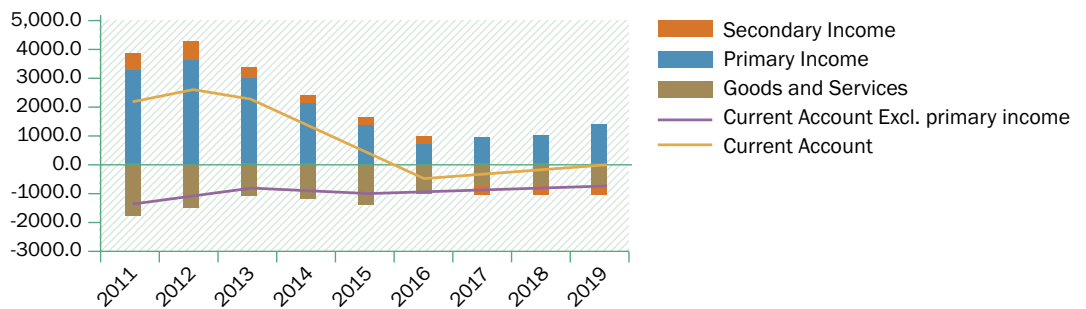
### 2.5.1. Current Account

The rise in oil revenues was the main factor behind the improvement in the current account balance in 2019.

Trade data between Timor-Leste and its partners in 2019 backed up the current account surplus of \$133 million for the year. The substantial improvement in the current account balance (+\$324 million) was especially due to the increase in primary income account surplus of +\$284 million, but also, albeit to a lesser degree, to the improvement of the balance in the secondary income account (+\$25 million) and the goods trade account (+\$22 millions).

## Chart 2.19

Current Account Balance, also excluding Primary Income  
USD million



Source: BCTL

As can be seen in the chart above, both the current account balance, as the current account balance excluding oil revenues, have all improved in 2019. Despite the still high trade deficit, there has been a progressive improvement since 2011, with a gradual decrease in the deficit over the past few years.



### 2.5.1.1. Goods Trade Balance

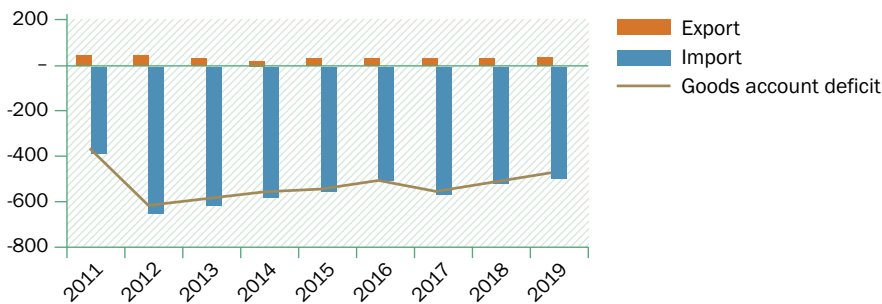
In 2019, the deficit of the goods trade account was \$566 million, which resulted in a decrease of \$22 million compared to the 2018 deficit, estimated at \$701 million. The reduction in this deficit thus reinforced the decrease of \$26 million already recorded in 2018.

The goods trade account continued to record a substantial deficit, which amounted to \$566 million in 2019.

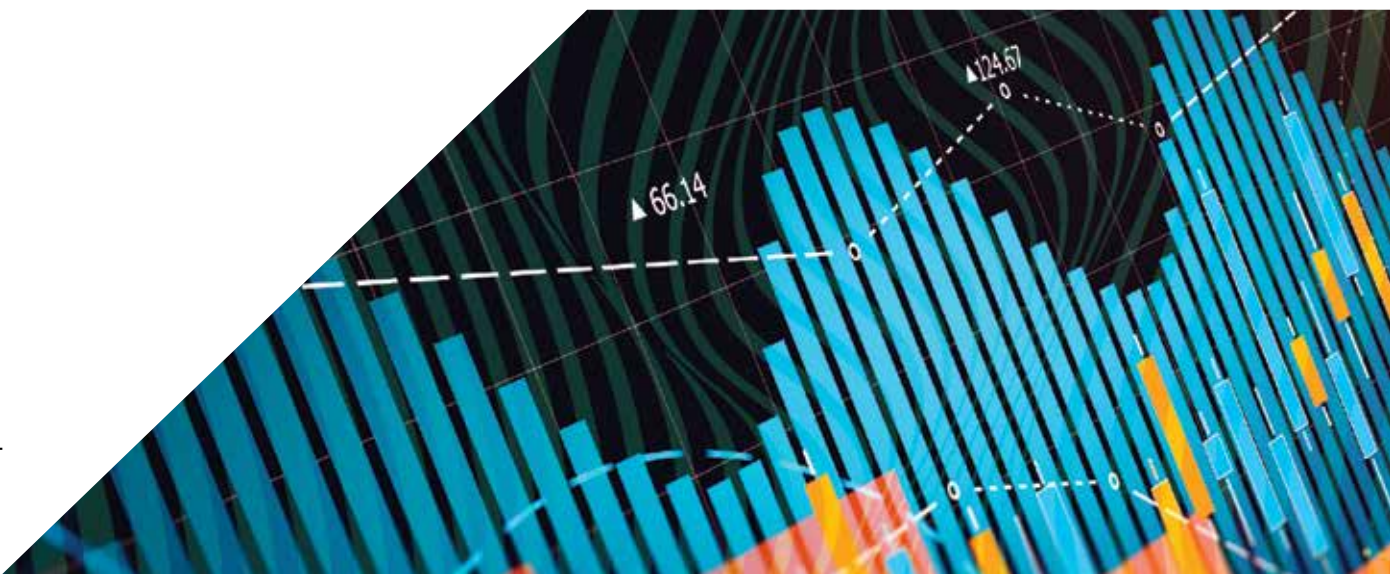
The improvement of the goods account's balance resulted mainly from the decrease in imported goods, which declined \$21 million. For the whole of 2019, the value of imported goods amounted to \$593 million, while exported goods were only \$26 million.

## Chart 2.20

Goods Trade Account  
USD million



Source: BCTL



## Goods Exports

Coffee is still our largest and practically only good export. These exports are affected by a strong seasonality, being highly concentrated on the second half of the year, after the respective harvest.

**Table 2.9 Exports Destination**

	Million of USD			% Total	
	2018	2019	Var % Ano	2018	2019
US	6	4	-30%	29%	18%
Indonesia	3	6	103%	14%	27%
Portugal	1	1	-35%	4%	3%
Australia	1	2	96%	4%	7%
Germany	2	1	-62%	10%	3%
Taiwan	0	0	56%	1%	1%
Japan	1	1	4%	4%	4%
Other	8	9	16%	34%	37%
<b>Total</b>	<b>22</b>	<b>24</b>	<b>8%</b>	<b>100%</b>	<b>100%</b>

Source: DGE and BCTL Calculation

Coffee exports' value increased 8% in 2019 to \$24 million<sup>1</sup>. The main destination of our coffee exports in 2019 has been Indonesia with a 27% weight of total exports and which received \$6 million of coffee exports in the same year, thus succeeding the United States at the top of the list, which in 2018 represented 29% of the total.

<sup>1</sup> Prior to the balance of payments' adjustment.

### Goods Imports

According to the DGE and before the relevant Balance of Payments' adjustments, imports declined -\$8 million to \$535 million in 2019.

The country's main imports are fuel (28% of total), followed by vehicles (12%) and cereals (7%). The increase in fuel and vehicle imports only offset a portion of the decline in most of the other articles and of total imports. We should also highlight that the substantial reduction in drinks' imports in 2019 seems to be mostly due to the operation of a new factory that is currently producing alcoholic and non-alcoholic beverages in the country.

The country's main imports are fuel, followed by vehicles and cereals.



**Table 2.10** Imports – Main Imported Articles

	million of USD			% Total	
	2018	2019	Var % Year	2018	2019
Mineral Fuel	142	149	5%	26%	28%
Vehicle	57	62	10%	10%	12%
Cereals	39	37	-4%	7%	7%
Beverages	28	18	-35%	5%	3%
Electrical Machinery	28	26	-8%	5%	5%
Mechanical Machinery	23	23	1%	4%	4%
Meat and Derivatives	19	18	-8%	4%	3%
Cement and Substitutes	18	19	10%	3%	4%
Cereals - Re ined	17	16	-5%	3%	3%
Iron and steel - articles	13	10	-21%	2%	2%
Edible Oils	11	10	-7%	2%	2%
Milk, Eggs and Substitutes	11	9	-12%	2%	2%
Tobacco	10	0	-98%	2%	0%
Others	129	136	5%	24%	25%
<b>Total</b>	<b>543</b>	<b>535</b>	<b>-2%</b>	<b>100%</b>	<b>100%</b>

Source: DGE e cálculos BCTL

It should be noted, however, that the imported value of most major items remained virtually unchanged, while the decline in imports of other less important items was the largest contributor to the overall decline in imports in 2019.



The geographical breakdown of imports and its evolution in 2019 was as follows.

**Table 2.11 Imports – Countries of Origin**

	Million USD			% Total	
	2018	2019	Var % Ano	2018	2019
Indonesia	161	182	13%	31%	34%
China, Peoples Republic of	66	69	5%	13%	13%
Singapura	76	70	-8%	15%	13%
Hong Kong	78	78	-1%	15%	15%
Viet Nam	25	29	13%	5%	5%
Thailand	17	10	-41%	3%	2%
Australia	10	10	4%	2%	2%
Malaysia	13	23	77%	2%	4%
Japan	9	8	-13%	2%	2%
Brazil	13	10	-22%	2%	2%
Portugal	6	5	-8%	1%	1%
Korea Republic of	5	3	-32%	1%	1%
Other	45	37	-17%	9%	7%
<b>Total</b>	<b>525</b>	<b>535</b>	<b>2%</b>	<b>100%</b>	<b>100%</b>

GDS and BCTL calculation

Indonesia, which has remained as the main trading partner of the country, accounted for 34% of total imports in 2019, which resulted in an increase versus the 31% recorded in 2018. Imports from this country rose 13% to \$182 million, thereby only recovering a part of the -18% decline observed in 2018.

Moreover, only the increase of imports from Indonesia and Malaysia contributed to mitigate the overall decline in imports. Most notably, the decrease of imports from other countries, outside the list of main partners, was a key driver of the fall in imports in 2019.

Indonesia remained the main trading partner of the country, even though China has continued to gradually increase its importance.

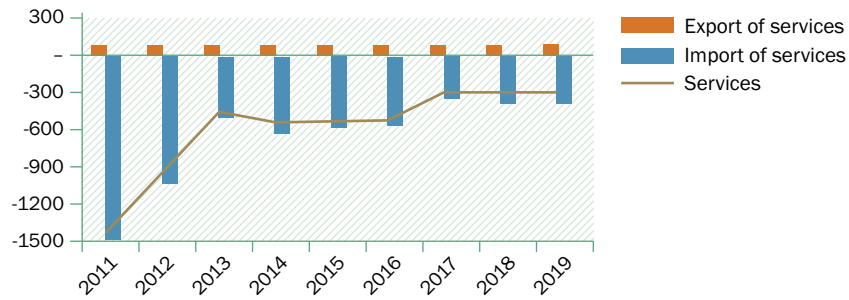
### 2.5.1.2. Services Trade Balance

The services trade account recorded a deficit of -\$357 million in 2019, which resulted in a slight increase compared to 2018.

In 2019, the services trade account registered a deficit of -\$357 million, which represented a slight increase versus the deficit recorded in 2018 (-\$349 million). As shown in the chart 2.21, this increase was due to the decrease in services exported in 2019 (-\$6 million) and to the slight increase of imported services (+\$1 million).

Chart 2.21

Services Trade Account  
USD millions



Source: BCTL

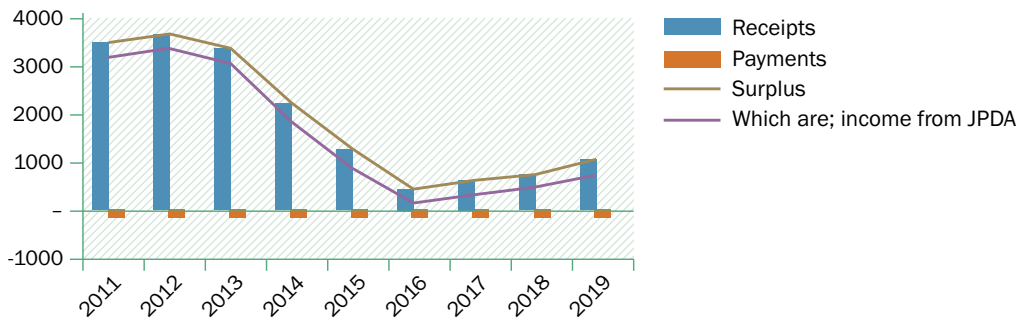
The decrease in services exports was especially determined by the drop in the exports of travel services. On the imports side, which remained practically unchanged overall, it should be noted that there was a moderate reduction in the imports of construction and travel services.

### 2.5.1.3. Primary Income Account

The increase in oil revenues in 2019, which include the fees and 'royalties' received from oil exploration in the Timor Sea - the joint petroleum development area (JPDA) - was the main driver behind the rise in the primary income account's balance, to \$1126 million in 2019. This increase has, in turn, improved the overall balance of our balance of payments. The chart 2.22 below shows the increase JPDA revenues in 2019, which rose to \$756 million. As can be seen in the same chart, the gradual rise in oil revenues observed since 2016 has supported the recovery in the primary income account surplus, since the minimum recorded in 2016.

Our primary income balance continued to recover in 2019, benefiting from higher annual oil revenues.

**Chart 2.22**  
Primary Income Account  
USD millions



Source: BCTL

The primary income account's balance amounted to 70% of non-oil GDP in 2019, compared to 51% in 2018.



#### 2.5.1.4. Secondary Income Account

The secondary income account' balance recorded a net outflow of funds of \$70 million in 2019, which resulted in a decrease versus the \$96 million deficit in 2018. It should be noted that remittances from foreign workers immigrants residing in Timor-Leste increased only \$3 million to \$286 million in 2019. On the opposite side, the value of remittances sent by Timorese working abroad increased \$4 million to \$95 million, contributing to improve the sub-account's deficit.

#### 2.5.2. Financial Account

The financial account recorded a net inflows balance of \$83 million in 2019.

In the period under review, the financial account, which nets the flows relating to external sources of financing of the economy, registered a net inflow of \$83 million which corresponds to an improvement versus the 2018's deficit of -\$333 million. The financial account balance continues to be mostly driven by the portfolio investment flows, which registered total inflows of \$269 million, or +\$465 million more than in 2018.

**Table 2.12 External Funding Sources**

	Million of USD	
	2018	2019
<b>Financial Account Operation</b>	<b>250</b>	<b>-83</b>
Direct Investment in Timor-Leste	48	75
Portfolio Investment	196	-269
PF investment in foreign	196	-269
other investment, assets	-32	54
other investment, liabilities	38	58

Source: BCTL



# 2.6

## Banking System



### 2.6.1. Banking Assets

Timor-Leste's banking system remained stable and solid in 2019. The sector continues to be practically funded by residents' deposits, but only lends a portion of those funds to companies and individuals, so that, as a whole, the banking system continues to exhibit a very substantive liquidity position.

The banking system remained stable and robust in 2019.

The tables and charts that follow provide information regarding the country's banking system, which in 2019 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).

Banking assets rose 12% in 2019 (6% in 2018) to \$1,394 million, having increased +\$154 million. This development resulted mostly from the increase of the deposits with other banks (+\$173 million) but also from net credit growth (+\$18 million).

Banks' assets increased 12% in 2019, to \$1,394 million.

**Table 2.13** Composition of Assets

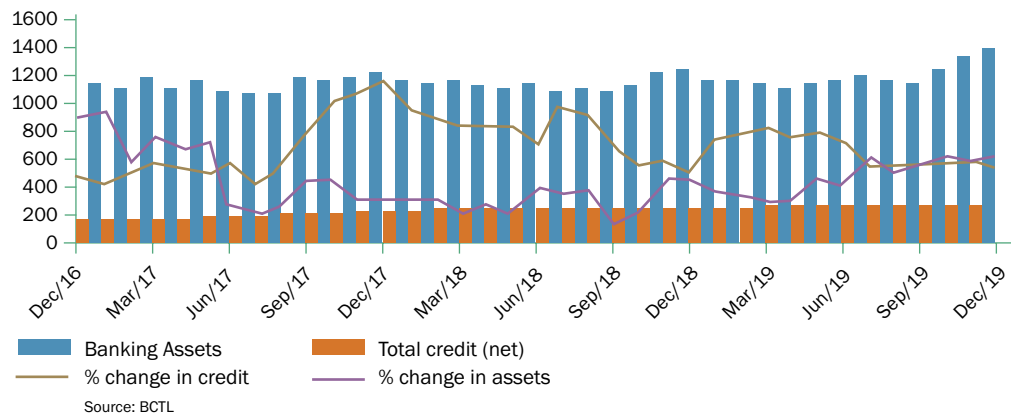
Items	US\$0.000		% of Total Assets	% of Changes
	Dec-18	Dec-19		
Cash & BCTL Balance	186,323	146,741	10.6%	-21.2%
Placement to other Banks	811,958	982,472	71.0%	21.0%
Investment	17,989	17,991	1.3%	0.0%
Loans	203,871	214,791	15.5%	5.4%
Fixed Assets	12,839	14,615	1.1%	13.8%
Other Assets	6,985	7,205	0.5%	3.1%
<b>Total</b>	<b>1,239,965</b>	<b>1,383,813</b>	<b>100%</b>	<b>11.6%</b>

Source: BCTL

Another relevant trend consists in the fact that credit growth has remained above or close to the growth rate of bank assets since June 2017, which resulted in a slight increase in the relative importance of credit within banks' balance sheets.

## Chart 2.23

Banking Assets - Recent Changes  
USD Million and % annual change



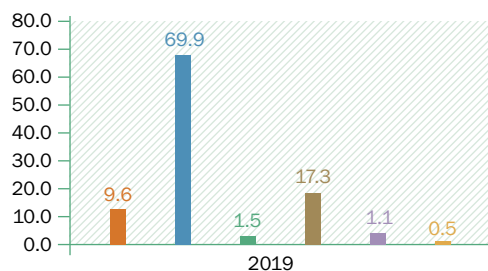
Funds deposited with other banks continue to dominate the structure of banking assets.

However, funds invested in deposits with other banks continue to lead the structure of banking assets. Their respective weight of total assets increased again in 2019, accounting for 69.9% of the total at the end of the year, compared to 65% in 2018 (charts 2.24a 2.24b).

**Chart 2.24a**

Banking Assets Composition

% Total

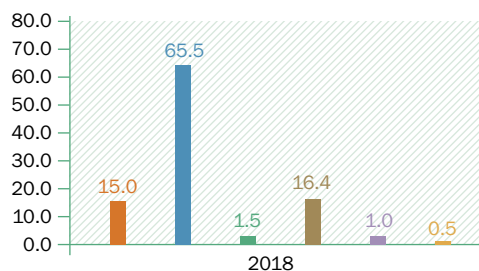


Source: BCTL

**Chart 2.24b**

Banking Assets Composition

% Total



Source: BCTL

Loans continue to be the second largest category of banking assets (17.3%). The value of banks net credit portfolios amounted to \$222 million at the end of 2019, increasing 9% over the year.

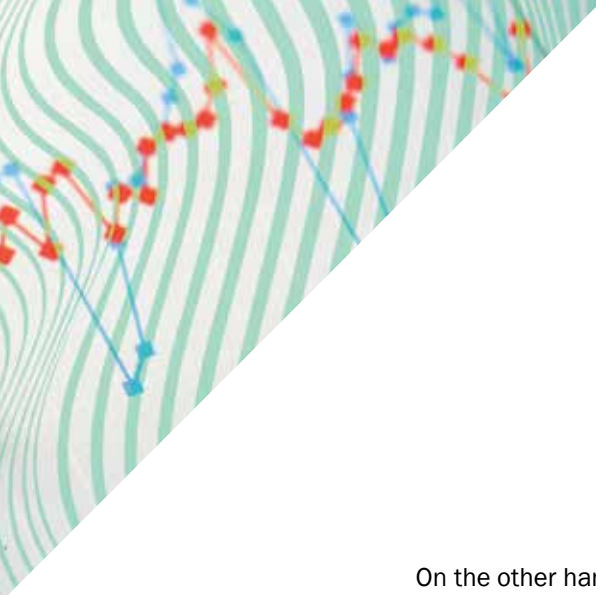
In December 2019, the total amount of funds deposited at the BCTL was \$147 million, which corresponds to 9.6% of total banking assets, which translated into a fall when compared to 2018.

### 2.6.2. Banking Liabilities

Client deposits continue to represent the major source of funds for banking institutions. Deposits accounted for about 82% of banks' liabilities, increasing again \$30 million in 2019 (+2.9%).

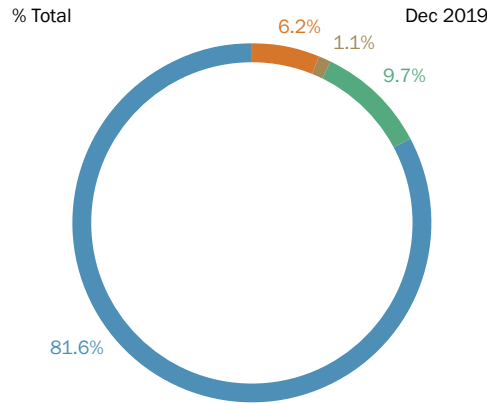
Client deposits continue to represent the major source of funds for commercial banks.

In 2019, funds owned by the Central Bank and deposited in commercial banks decreased -\$3 million (-15%), which reduced their weight of overall liabilities to 1.1%, after falling -0.4% over the year.



On the other hand, deposits of other credit institutions registered a further increase of +\$31 million in 2019 (+30%), which yielded a renewed increase in its weight to 9.7% of total liabilities.

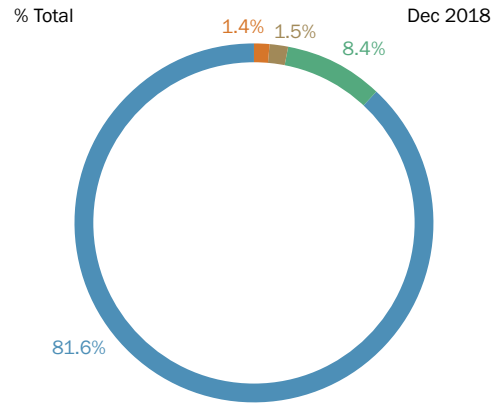
**Chart 2.25a**  
Banking Liabilities Composition  
% Total



■ Due to BCTL  
■ Deposit from other banks  
■ Deposit  
■ Others

Source: BCTL

**Chart 2.25b**  
Banking Liabilities Composition  
% Total



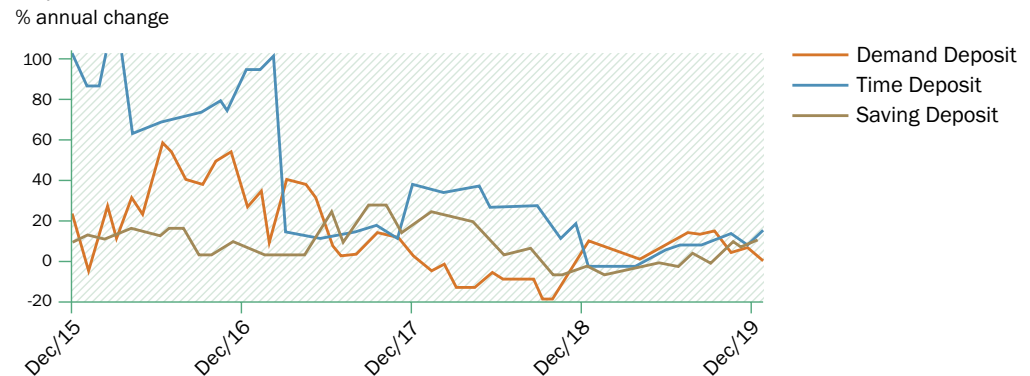
■ Due to BCTL  
■ Deposit from other banks  
■ Deposit  
■ Others

Source: BCTL

Fixed-term and savings deposits' growth more than offset the decline in checking-account deposits.

Checking-account deposits fell -\$12 million in 2019 (-2.1%), while fixed-term and savings deposits rose +\$24 and +\$18 million in 2019, or +13.7% and + 7% respectively.

**Chart 2.26**  
Deposits Growth  
% annual change

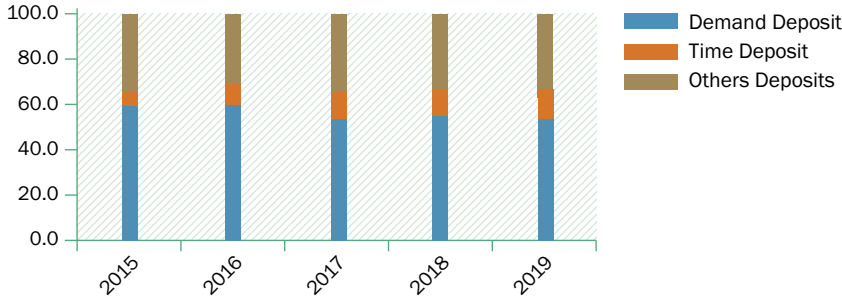


Source: BCTL

Given these changes, the structure of deposits recorded an evolution contrary to what was observed in 2018, with checking-account deposits shedding some of their importance in favor of fixed-term and savings deposits. Despite that fall, checking-account deposits continued to be the major portion of total deposits, with 56% of the total, although lower than in December 2018 (57.6%). The amounts invested in fixed-term deposits rose to 19% of the total, compared with 17% the previous year. Savings deposits represented 25% at the end of 2019, remaining practically unchanged compared to 2018.

### Chart 2.27

Deposits Composition  
% Total Deposits



Source: BCTL

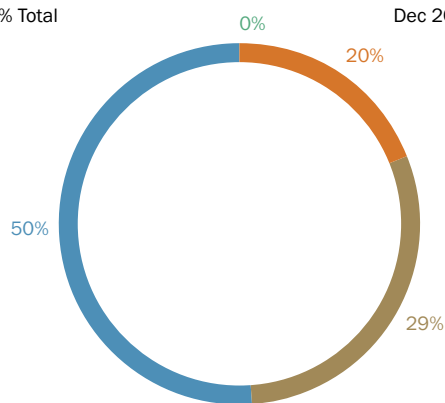
With regard to deposits held by residents, there were no significant changes in composition, as retail deposits continue to represent the largest share of overall deposits. However, it should be noted that the value of corporate deposits recorded a significant reduction of -\$61 million in 2019.

Households/retail deposits continue to represent the largest component of total deposits.

Retail deposits weight decreased slightly to 50% in 2019, versus the 51% of the previous year (charts 2.28ae 2.28b). Private companies' deposits maintained the second position in terms of deposits structure, with a 29% weight, but less than 30% of the previous year. Finally, public-sector deposits recorded a slight increase to 20% of total banking system deposits.

**Chart 2.28a**

Residents' Deposits Composition  
% Total Dec 2019

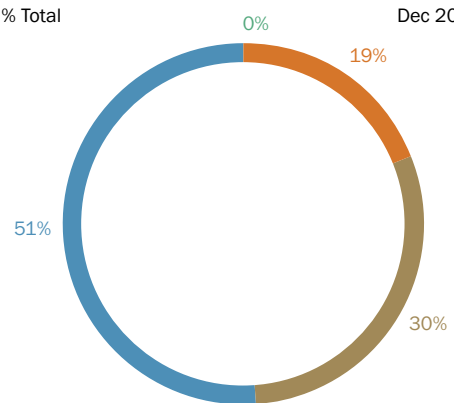


Financial Institutions    Public Sector  
Private Sector    Others

Source: BCTL

**Chart 2.28b**

Residents' Deposits Composition  
% Total Dec 2018



Financial Institutions    Public Sector  
Private Sector    Others

Source: BCTL

### 2.6.3. Banking Profits

Banks' operating revenues registered a significant rise to \$49 million.

Banks' revenues consisted of interest and fees charged to their customers, which amounted to a total of \$49 million in 2019. This corresponds to a significant annual increase of +18%, or +\$8 million.

As a result of their activities, banks recorded the following results in 2019, which are compared in the table below with their 2018's equivalents:

**Table 2.14 Banking Sector Consolidated Profit and Loss Statement**

Items	million in US			% of Gross Operating	
	2018	2019	Growth %	2018	2019
Net Interest	28	34	19%	69%	70%
Commissions and Other Revenue Op.	13	15	14%	31%	30%
<b>Gross Operating Result</b>	<b>41</b>	<b>49</b>	<b>18%</b>	<b>100%</b>	<b>100%</b>
Provisions and Impairments	-5	-4	-31%	-13%	-8%
Operational expenses	-21	-22	9%	-50%	-46%
<b>Net Operating Income</b>	<b>15</b>	<b>23</b>	<b>48%</b>	<b>37%</b>	<b>46%</b>
<b>Net income</b>	<b>14</b>	<b>21</b>	<b>47%</b>	<b>34%</b>	<b>43%</b>
RoA% - Return on Assets	1.14%	1.51%	32%		
RoE% - Return on Capital	16.0%	18.5%	16%		

Source: BCTL



The increase in operating income, both in net interest and fees and given the slight increase in operating expenses resulted in a significant increase of consolidated net income to \$21 million in 2019, from \$14 million in the previous year.

This increase explains most of the rise of the consolidated 'Return on Assets' ratio to 1.51% compared to 1.14% in 2018, as well as the expansion of the 'Return on Equity' ratio to 18.5%. Note, however, that these two profitability ratios grew in annual terms at a lower rate than the increase in absolute net profits, which was explained by the expansion of banks' assets and capital. Banks continue to maintain liquidity ratios higher than those required by the Central Bank.

The banking system continues to present robust profitability levels.

## 2.6.4. Money Transfer Services

### 2.6.4.1. Remittances Transfer - Commercial Banks

In 2019, commercial banks' money transfer services registered a total of transfers abroad close to 103 thousand transactions with an aggregate nominal value of \$2,379 million. The number of outward operations thereby decreased -3% compared to 2018, but the transferred amount significantly increased by 37%, which resulted in a substantial increase in the average value per outward transfer.

The negative net balance of inward and outward transfers from commercial banks widened to -\$1,728 million in 2019.

On the other hand, the number of received transfers increased 7% in 2019 to 54 thousand transactions, but the amount received was -16% lower at \$651 million.

This meant that the negative net balance of incoming and outgoing transfers intermediated by commercial banks widened substantially in 2019 to -\$1,728 million compared to 2018, whose overall negative balance was only -\$962 million.

### 2.6.4.2. Remittances Transfer - Specialized Operators (MTOs)

In 2019, Money Transfer Operators (MTOs) reported a total value of outward transfers of \$115 million, versus \$116 million in 2018. Inward transfers intermediated by MTOs were \$67 million, versus \$59 million in 2018. This represented an improvement in the net balance for this type of transfers, since their inward flows increased +\$8 million and outward flows fell -\$1 million.

On the contrary, MTOs' net transfers balance improved in 2019 to -\$48 million, compared to -\$57 million in 2018.

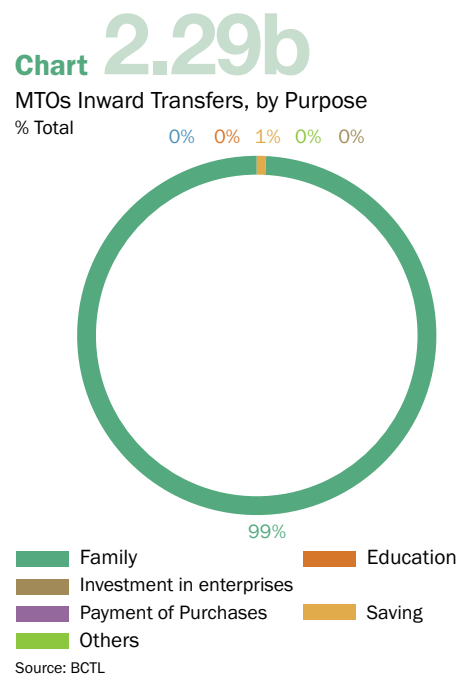
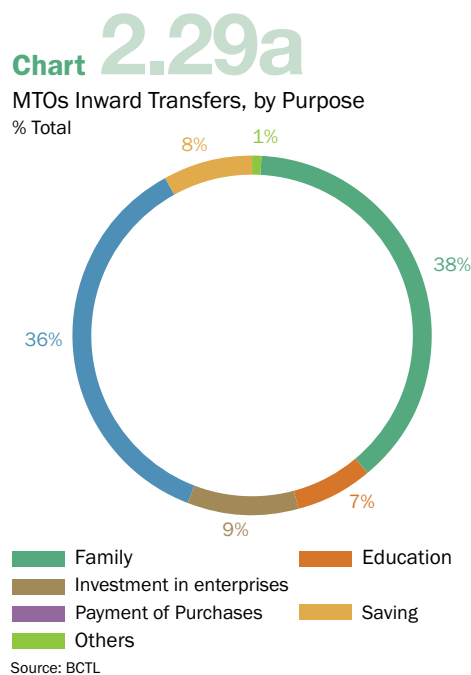


Personal transfers continued to have the largest share both in terms of inward and outward transfers, amounting to 55% and almost 100% of the respective total transfers. The 'Personal Transfers' classification aggregates amounts relative to operations which invoked purposes like 'family', 'education' and 'savings'.

This type of inflows continues to be mostly originated from Europe, while outflows continue to be mainly forwarded to the Asian region, and in particular to Indonesia.

In geographical terms, most of these inflows were originated in Europe, or \$44 million in 2019 (66% of total) and consisted mostly of remittances sent by Timorese nationals that live and work in Europe. Outward remittances were mostly forwarded to the Asian region (\$112 million), especially to Indonesia (\$102 million, or 88% of outward flows), which continues to benefit from the remittances sent by Indonesian citizens residing and working 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 2019.







**CHAPTER**

**THE BCTL: MISSION AND MANDATES,  
ORGANIZATION, GOVERNANCE AND ACTIVITIES**

**3.1. Principal Mandates and Functions 82**

**3.2. BCTL Organization and Governance 84**

**3.3. BCTL Activities in 2019 87**



*Banco Central de Timor Leste's (BCTL) 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, a secure and efficient payment system and the 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 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 2019, as well as its 2020 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.*



A large, stylized number '31' composed of a hatched pattern, positioned in the upper left corner of the page. The background features a purple and black striped pattern and a close-up of a hand writing on a document.

## Principal Mandates and Functions

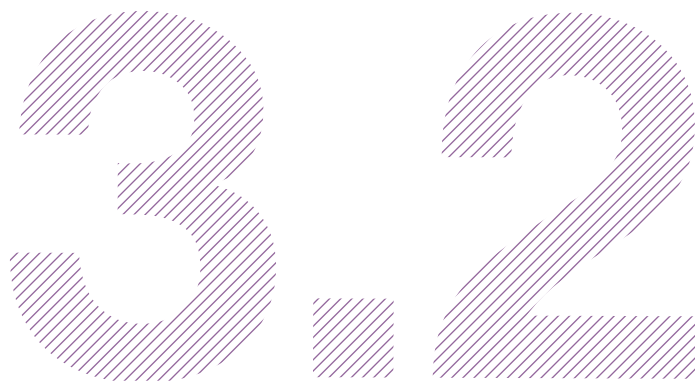
Banco Central de Timor Leste (BCTL) is a legal person governed by public law, with administrative and financial autonomy and its own assets. The BCTL, its entities, employees and agents, enjoy independence and cannot receive instructions from external entities, and its Organic Law guarantees the necessary 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 favor 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 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) To carry out operations in foreign currencies;
- d) Hold and manage the official external reserves of the country;
- e) Hold and manage the gold reserves of the State;
- 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 publish statistical information on the areas of its competence, notably 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 a secure and efficient domestic payment system;
- 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 focus on the above points;
- n) Be part of contracts and establish agreements and protocols with national or foreign entities, either public or private; 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.



## 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 management and operational activities of the Bank.

The governor is BCTL's highest executive body or its chief executive officer and is assisted by two Deputy Governors and by a management committee composed by the directors and heads of various Bank departments. At the end of 2019, the Board of Directors was composed of the Governor, two Deputy Governors and four non-executive members. The composition of the Board of Directors and the Management Committee is 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 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.



## T ransparency

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

## I ntegrity

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

## M obilization

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

## O wnership

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

## R esponsibility

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

INSTITUTIONAL VALUES

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 behavior 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.



## BCTL Activities in 2019

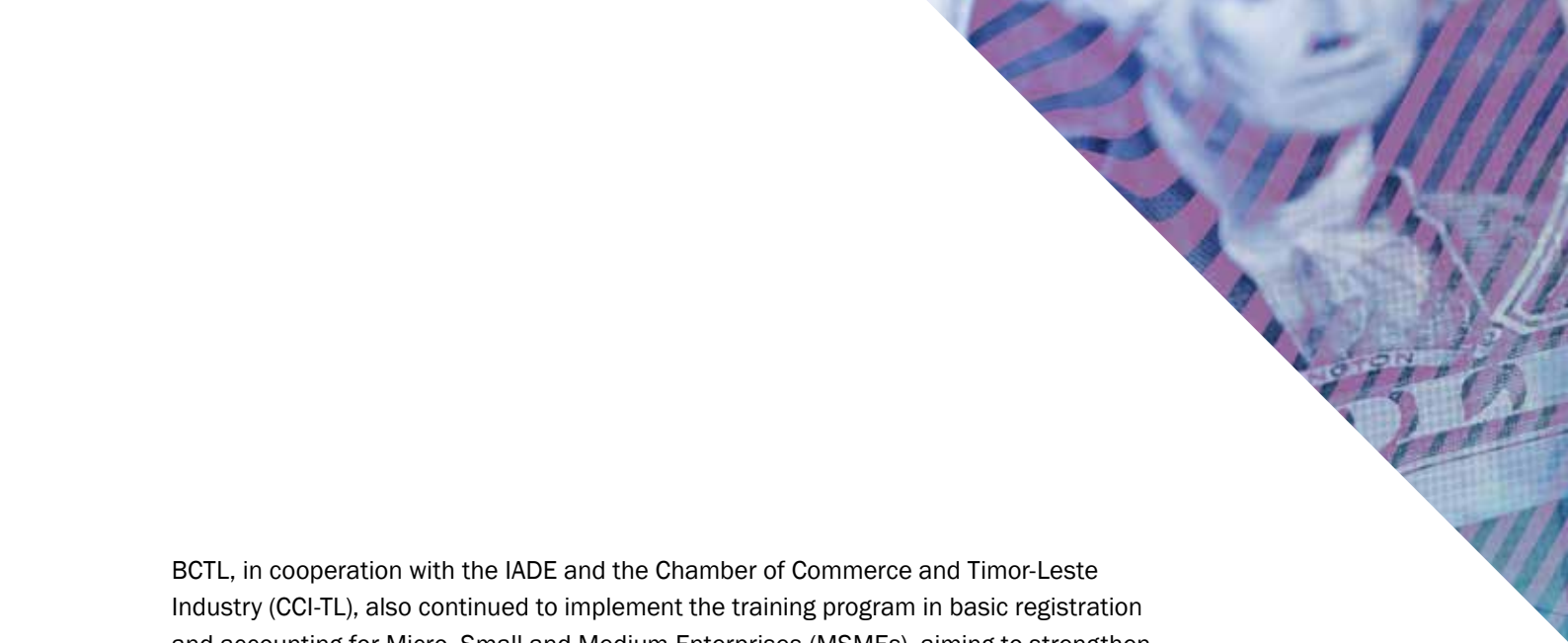
As part of the BCTL's mission to promote monetary and financial stability, the development of the financial system and the promotion of a secure and efficient payment system, the following set of activities and initiatives were planned and implemented in 2019.

Within the continued implementation of the Financial Sector Master Plan in Timor-Leste in 2019, BCTL continued to modernize the national payment system. In this regard, the Bank officially launched the P24 system, which is supported and embedded in the R-Timor system. Making use of the interbank network R-Timor, the P24 can automatically liquidate the net liabilities between banks on a daily basis. In 2019 a significant number of financial transactions was already recorded in this system, as its volume amounted to 7.9 million transactions with an aggregate value of \$3.6 million.

In August 2018, BCTL authorized 'Telemor Fintech Unipessoal Lda' to operate an electronic money wallet service (E-Wallet), under the brand 'Mosan Service'. This service, which has been in continuous operation for the last 2 years, is a digital financial service that allows its users to make transfers, withdrawals and deposits of cash in their wallets and other types of financial transactions. At the end of 2019, the company already had a network of 718 branches and 24,677 customers.

In the same context, the BCTL continued to implement in 2019 the financial literacy training program in primary schools of the country. In this regard, the Bank held a workshop to assess the progress in the implementation of the pilot program defined in the Memorandum of Understanding (MoU) with the Ministry of Education in 2016 and continued to implement the program "Training of Trainers", in collaboration with INFORDEP, so that teachers can continue training new teachers in all schools. The training covered in 2019 the districts of Aileu, Ainaro, Covalima and Bobonaro and a total of 82 teachers. By the end of 2019, the training has already covered nine municipalities of the country, including RAEOA and a total of 334 teachers.





BCTL, in cooperation with the IADE and the Chamber of Commerce and Timor-Leste Industry (CCI-TL), also continued to implement the training program in basic registration and accounting for Micro, Small and Medium Enterprises (MSMEs), aiming to strengthen their business management capabilities and access to bank financing.

The commemoration of the 5th anniversary of the National Savings Day in 2019 was held at the Administrative Office of Maliana, in the Municipality of Bobonaro, during which poetry and discourse competitions were organized for students of 10 primary schools from Maliana. This contest took place on 26 and 27 November and the winner received his symbolic prize on 29 November at his school, an event that was also part of the celebration of National Savings Day.

The BCTL launched in 2019 the Credit Guarantee Scheme (CGS) for Small and Medium Enterprises (SMEs), which is already operational to receive requests by interested companies.

In order to continue to improve and strengthen its institutional collaboration and cooperation, the BCTL created in 2019 the Unit for ‘Institutional Cooperation Affairs’, based on the Decision of the Governor No. 121/2019 of 27 February 2019. This new Unit, whose organizational importance is equivalent to a Department, will manage the institutional cooperation with partner organizations at the national and international levels in the areas of technical assistance, training and other forms of cooperation, and promote coordination with other Central Banks and other financial institutions.

Finally, in order to deepen the relationship with their relevant institutions, the BCTL organized two key meetings in 2019: the XXIII Conference and 16th General Assembly of the CPLP’s Association of Insurance Supervisors (ASEL) and the launch of the Financial Inclusion Initiative.

Major BCTL activities conducted over 2019 are described with greater detail in the following section.

### 3.3.1. National Payments 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. Also in this context, BCTL assured 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).

The CEL system operated steadily in 2019, having processed 15,200 transactions, corresponding to a value of \$92.7 million. However, these numbers represent a significant reduction of -21.6% in terms of quantity and -18% in value compared to 2018. These decreases thus reinforced the falls already recorded in 2018, which, though minor, were -12.5% and -15.8% respectively compared to 2017.

**Table 3.1** Dili Clearing House Transactions  
(Value in million USD, Quantity in 10<sup>3</sup>)

Month	Cheques 2018		Cheques 2019		Variation (%)	
	Quantity	Value	Quantity	Value	Quantity	Value
January	1,645	11,060	1,385	9,415	-15,8	-14,9
February	1,708	10,531	1,220	5,540	-28,6	-47,4
March	1,791	10,163	1,347	7,076	-24,8	-30,4
April	1,726	9,262	1,266	6,784	-26,7	-26,8
May	1,538	9,086	1,369	8,239	-11,0	-9,3
June	1,602	9,937	1,273	7,118	-20,5	-28,4
July	1,706	9,839	1,393	8,793	-18,3	-10,6
August	1,608	9,408	1,152	6,810	-28,4	-27,6
September	1,483	7,269	1,213	7,410	-18,2	1,9
October	1,626	9,638	1,228	9,163	-24,5	-4,9
November	1,371	8,012	1,136	7,713	-17,1	-3,7
December	1,518	8,947	1,175	8,611	-22,6	-3,8
<b>Total</b>	<b>19,322</b>	<b>113,152</b>	<b>15,157</b>	<b>92,673</b>	<b>-21,6</b>	<b>-18,1</b>

Source: BCTL

### 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 USD 200,000, are always made through the RTGS.

**Table 3.2 International and Domestic Payments**

(Value in million USD, Quantity in 10<sup>3</sup>)

	2018		2019		Growth %	
	Quantity	Value	Quantity	Value	Quantity	Value
<b>National Payments</b>						
Automatic Clearing House	77.65	103.55	90.27	107.97	16.2	4.3
RTGS-FICT	5.23	3,625.27	15.62	3,625.27	198.6	0.0
RTGS-SCCT	70.07	1,995.87	70.70	9,372.06	0.9	369.6
<b>Sub Total</b>	<b>152.95</b>	<b>5,724.69</b>	<b>176.58</b>	<b>13,105.30</b>	<b>15.4</b>	<b>128.9</b>
<b>International Payments</b>						
Outgoing Transfer-SWIFT	2.18	1,162.84	1.83	1,196.96	-16.1	2.9
Incoming Transfer-SWIFT	0.41	308.91	0.20	144.47	-52.0	-53.2
<b>Sub Total</b>	<b>2.59</b>	<b>1,471.75</b>	<b>2.03</b>	<b>1,341.43</b>	<b>-21.8</b>	<b>8.9</b>
<b>Total</b>	<b>155.54</b>	<b>7,196.44</b>	<b>178.60</b>	<b>14,446.73</b>	<b>14.8</b>	<b>100.7</b>

Table 3.2 shows the statistics of payments, both national and international, during the reporting period. With regard to national payments, 177,000 documents were processed, corresponding to a total of \$13 million, an increase of 15.5% in number and 129% in value, compared to 2018. The remarkable growth of such payments versus last year was due to the usage of the R-Timor system (RTGS) to make national payments for the complete duration of 2019, as it was only implemented in last half of 2018. On the other hand, international payment activities processed 2 thousand operations corresponding to a value of \$1,341 million, which represents a decrease of -22% in terms of number and -9% in terms of value, compared to 2018. The decline in international activity level was due to the fall in incoming transfers, which fell -52% in number and -53% in value.

Table 3.3 below exhibits the summary of international transactions undertaken by commercial banks in 2018, including both inflows and outflows.

Received external transfer operations via SWIFT in 2019 amounted to a total of 25.7 thousand and corresponded to a value of \$971.6 million, which yielded a reduction of -5% in number but a rise of 182% in value. Transfers abroad totaled 17,600 transactions, corresponding to \$1,449 million, which resulted in a decline of -19.6% in terms of quantity, but to an increase of 44%, with respect to transferred amounts.

**Table 3.3** SWIFT Incoming and Outgoing Transfers

(Value in million USD, Quantity in 10<sup>3</sup>)

	2018		2019		Growth %	
	Quantity	Value	Quantity	Value	Quantity	Value
<b>Incoming Transfers</b>						
SWIFT	27,0	344,6	25,7	971,6	-5,0	181,9
Non-SWIFT	7,8	144,4	10,7	182,2	37,5	26,1
Sub Total	34,8	489,0	36,4	1153,7	4,6	135,9
<b>Outgoing Transfers</b>						
SWIFT	21,8	1007,4	17,6	1449,2	-19,6	43,9
Non-SWIFT	61,1	371,7	62,4	629,0	0,5	69,2
Sub Total	83,9	1379,1	80,0	2078,2	-4,7	50,7
<b>Total</b>	<b>118,7</b>	<b>1868,1</b>	<b>116,3</b>	<b>3231,9</b>	<b>-2,0</b>	<b>73,0</b>

### 3.3.1.3. P24 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 the R-Timor's interbank network, allowing P24 to automatically liquidate the net value of transactions between banks on a daily basis.

Table 3.4 summarizes the evolution of the first transactions made in the P24 system in the country. Although the system was only fully operationalized at the end of 2019, it has already recorded a significant number of 1,216 million cash withdrawal operations, corresponding to an amount of \$142 million. In terms of electronic transfers of funds, P24 executed 7.9 thousand operations and moved \$3.6 million.



**Table 3.4 P24 System**

(Value in million USD, Quantity in 10<sup>3</sup>)

	Financial Transaction		Non-Financial Transaction		
	Cash Withdrawal		Transfer		Balance Inquiry
	Quantity	Value	Quantity	Value	
Jan/19	58,838	7,385	0,42	0,181	0,036
Feb/19	82,067	9,674	0,536	0,195	0,033
Mar/19	96,166	11,116	0,691	0,224	0,028
Apr/19	97,878	11,278	0,65	0,236	0,034
May/19	104,515	11,951	0,727	0,314	0,031
Jun/19	101,076	11,602	0,603	0,295	0,038
Jul/19	110,652	12,940	0,792	0,391	0,034
Aug/19	104,689	12,179	0,627	0,329	0,034
Sep/19	104,573	12,225	0,689	0,324	0,032
Oct/19	114,832	13,265	0,833	0,382	0,031
Nov/19	105,262	12,208	0,649	0,346	0,032
Dec/19	135,762	16,433	0,707	0,364	0,054
<b>Total</b>	<b>1216,310</b>	<b>142,257</b>	<b>7,924</b>	<b>3,582</b>	<b>0,417</b>

Source: BCTL

### 3.3.1.4. Mosan Service (E-Wallet)

In August 2018, the BCTL authorized 'Telemor Fintech Unipessoal Lda' to test the operation of an electronic money wallet service (E-Wallet) under the brand name 'Mosan Service'. This system consists in a digital financial service that enables its users to make transfers of funds, withdraw and deposit money in their wallets, top-up mobile phones balances, make electric utility prepayments (still being implemented) and check the balances and historic transactions. The Telemor Fintech was also authorized to extend the e-wallet transfer system (Mosan) to users who have not yet formally enrolled in the service. In 2019, the BCTL granted the formal and final authorization to 'Telemor Fintech Ltd' to operate the Mosan system.

For prudential reasons, BCTL imposed limits on the Mosan system, so that the maximum balance of each account was set at \$500 and the depositable maximum per day is \$300. At the end of 2019, the company already operates a network that includes 718 branches and 24,677 customers in several municipalities, including RAEOA and expects to have branches in all Timor-Leste's Sucos. '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 centers and citizens who do not have the possibility of access to formal financial services in Timor-Leste. Table 3.5 summarizes the statistics on transactions for this service in 2019. In its first year of steady operation, the number of transactions reached 585 thousand, corresponding to an aggregate value of \$6.4 million. Given the future network expansion and substantial growth, it is expected that these values and volumes will grow materially in the coming years, thus contributing to raise financial inclusion in our country.

**Table 3.5** 'Mosan' Service Transactions

	Quantity (000)	Value (000 USD)
Transfer	37	4420
Cash-in	27	987
Cash-out	3	512
Top-up	517	470
Buy data	0,381	0,697
<b>Total</b>	<b>585</b>	<b>6389</b>

Source: BCTL

### 3.3.2. Banking System

Table 3.6 shows the evolution cash (coins or notes) and other 'non-cash' based payments, made by commercial banks in Timor Leste. As can be seen, the number of cash transactions in 2019 totaled 10.5 million, or 97% of total transactions with a nominal value of \$ 2,202 million. Activity thus recorded a decrease of 39% in terms of number and an increase of 3.2% in terms of value, compared with 2018. Non-cash-based transactions represented were only 322 thousand, representing 3% of total transactions and growing 1% versus 2018. However, these corresponded to a value of \$3,064 million, or about 58% of the total. In terms of global transactions, the volume of transactions fell 38%, but their value rose 12% over 2018.

**Table 3.6** Cash and Non-cash Transactions  
(Value in million USD, Quantity in 10<sup>3</sup>)

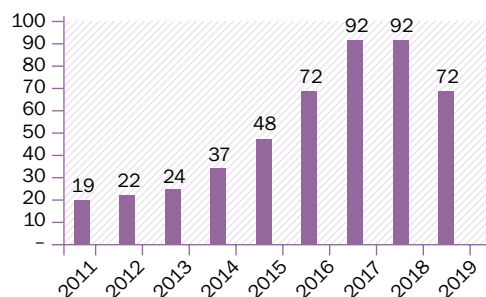
	2018		2019		Growth %	
	Quantity	Value	Quantity	Value	Quantity	Value
Cash Transactions	17,130	2,134	10,502	2,202	-38,7	3,2
Non-cash transactions	309	2,536	322	3,064	4.0	19,5
<b>Total</b>	<b>17,440</b>	<b>4,697</b>	<b>10,824</b>	<b>5,266</b>	<b>-37,9</b>	<b>12,1</b>

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, the BCTL continues to prioritize the substantial expansion of the network and range of digital payment services that do not use cash, but that make use of the National Switch System for the expansion of payment services, encouraging the widespread use of debit and credit cards, as well as the mobile phone as a platform for making payments.

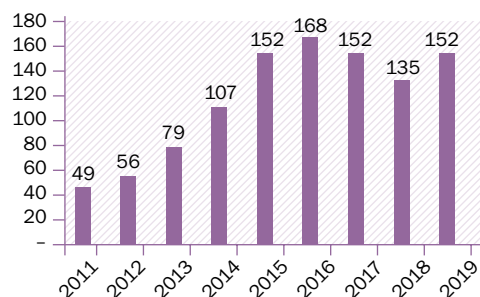
Charts 3.1 and 3.2 depict the evolution of the number of payment terminals installed in the country, which include the automatic teller machines (ATM), totaling 72 units in 2019 and the 152 Point-of-Sale (PoS) payment units. Compared to December 2018, this represents a 22% decrease for ATMs, while the number of PoS fell 13%.

**Chart 3.1**  
Automatic Teller Machines (ATM)  
Number of ATM



Source: BCTL

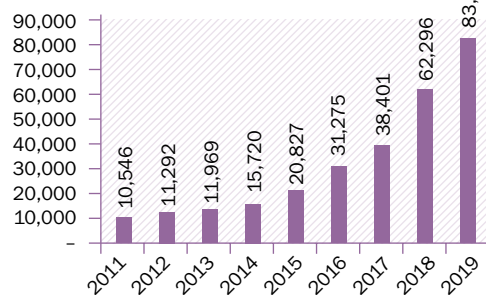
**Chart 3.2**  
Point-of-Sale (PoS)



Source: BCTL

The evolution of bank cards issued in Timor Leste can be seen in chart 3.3. The number of cards in circulation in the country in December 2019 totaled around 83 thousand, corresponding to a further 33% increase compared to 2018, when cards had grown 62%. As for the composition in terms of debit and credit cards, there was no major change, with the two types of cards registering almost identical increases. The number of debit cards increased 35% compared with the 32% increase observed in 2018. Despite the slowdown in bank card number growth, the existence and widespread use of cards continues to show a rising trend, confirming the effective interest of bank clients in these means of payment and the modernization and increasing digitization of our financial system.

**Chart 3.3**  
Contas Bancarias  
Number of the cards



Source: BCTL



## Box

### Progress on Financial Inclusion Strategy

#### Financial Literacy Program

In February 2019, the BCTL organized a ‘workshop’ to assess the progress in the implementation of the pilot program of the Memorandum of Understanding (MoU) with the Ministry of Education, signed in 2016. The ‘workshop’ concluded that the financial literacy program’s implementation in schools is crucial and it is essential that this program should be included in the national education curriculum.

The BCTL also continued to implement the ‘Trainers training program’ in partnership with INFORDEP to prepare teachers, principals and vice-principals of primary schools and expand the initiative in order to extend the program to all public primary schools. The training program was implemented in nine municipalities, including RAEOA, and formed already 334 teachers over the past three years. In September of 2019, the BCTL, in cooperation with the Federation of Credit Hanai-Malu Cooperatives (FCCHM) organized a training for instructors in financial literacy, which aims to extend the training program to all municipalities, including RAEOA.

During the year, the BCTL also held several training sessions for boards of private companies, in partnership with the Institute for Business Development (IADE) and the Chamber of Commerce and Industry of Timor-Leste. These sessions administered training modules in basic accounting and analysis for Micro, Small and Medium Enterprises (MSMEs) throughout the country. This initiative, which seeks to strengthen the management capacity and access of companies to bank loans benefited directly, in 2019, 71 MSMEs from various sectors, such as services, trade, construction, livestock, agriculture, finance and small industries.



### **National Financial Inclusion Strategy Progress Assessment**

In April 2019, BCTL formally released the report entitled “Financial Inclusion Report 2018 - Measure, Strategize and Innovate”. The report, based on detailed and updated data on the supply side (information from commercial banks and other financial service providers), analyzed the current state of the financial inclusion process and the progress made by the country since 2016. The report highlighted the increase 36% in access points, the supply of new types of financial services, especially the new electronic money wallet services, the progress in terms of the implementation of the National financial inclusion Strategy and the various relevant activities already organized to promote financial inclusion. The theme of the report “Measure, Strategize and Innovate” summarizes its purpose, which is to update the understanding of the factors influencing financial inclusion and to make recommendations for future policy guidelines and promote innovation. BCTL plans to carry out further research in the near future and produce an equivalent report, but focusing rather more on the demand side, as a way to conduct a comprehensive assessment of the financial inclusion process.

### **Credit Guarantee System (CGS) for SMEs and Training**

In July 2019, BCTL launched the Credit Guarantee Scheme (CGS) for Small and Medium Enterprises (SMEs), which is already operational to receive requests from interested institutions (creditors). The CGS is a digital online platform to streamline processes. BCTL has already received requests from the BNCTL to cover loans to SMEs under the CGS. ‘Bank Rakyat Indonesia’ (BRI) and Bank Mandiri also launched their CGS certification processes. During the year, BCTL also promoted public sessions to disseminate the existence and relevance of this system in combination with the Financial Literacy program for SMEs, explaining the application process and other CGS processes. In this context, BCTL has already established various partnerships to promote the Program in Dili, but also, and especially, in the various other Municipalities.

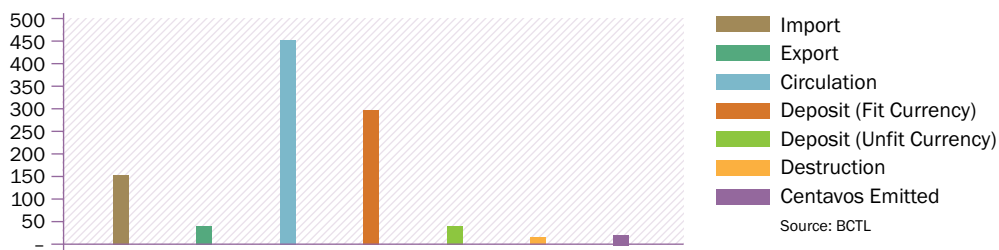
### 3.3.1.4. Currency Imports and Exports

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 the current economic activities and expected growth, of its agents. In this regard, the Central Bank effectively protects the general public confidence in the country's currency, through the supply of banknotes and coins that, at all times, must meet the demand of the public; and ensuring the physical integrity of the notes and coins.

As the country uses notes from another country and its own coins, which are not manufactured in the country, the supply of immediate means of payment (coins and banknotes) requires their import and, in the case of banknotes, when they reach a degree of very low quality, their re-export to the country of origin, the United States.

## Chart 3.4

TL: Currency Transaction in million USD



During 2019, CCTL imported \$145 million in US dollar bills, representing a major increase of 89% compared to 2018, and issued into circulation a total of \$434 million, including coins (centavos). In fact, the amount placed in circulation is greater than the imports due to the existence of deposits and reserves of cash. Note also that 20 USD bills continue to be those most used in transactions in the country, representing 55% of total imports, 67% of the circulation in the economy and 71% of the total (re) deposited by banks with the central bank (Table 3.7).

## Chart 3.7 Coin Transactions and Movements

(value in million USD)

Denomination	Import		Re-circulation		Deposit		Peso 2018			Growth %		
	2018	2019	2018	2019	2018	2019	Import	Re-Circulation	Deposit	Import	Re-Circulation	Deposit
100	4,800	4,800	10,560	7,200	1,960	4,801	3,3	2,8	1,7	0	-32	145
50	6,400	8,800	16,800	11,700	0,900	4,450	6,1	4,4	2,7	38	-30	394
20	44,160	80,000	249,201	286,361	191,681	218,391	55,3	65,7	67,1	81	15	14
10	18,240	46,880	96,290	116,260	69,967	76,510	32,4	25,4	27,2	157	21	9
5	2,800	4,160	6,425	5,170	2,601	2,626	2,9	1,7	1,2	49	-50	1
<b>Total</b>	<b>76,400</b>	<b>144,640</b>	<b>379,276</b>	<b>426,691</b>	<b>267,109</b>	<b>306,779</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>89</b>	<b>13</b>	<b>15</b>

Source: BCTL

As for coins, the 200 cents denomination, first issued in September 2017, registered a total circulation in 2019 of 2.7 million cents. This represents an increase of 39% over 2018, with the value of this denomination in circulation to continue to exceed the value of denominations of 100 and 50 cents. These two last coins recorded a value in circulation of 1.84 million and 1.40 million cents, respectively in 2019. These values, which amounted to 27% and 20% of the total circulating 'centavos', resulted in an increase of 19% and 13% respectively compared to 2018, thereby recovering partially from the falls of -44% and -31% recorded in 2018.





## Box

### Timor-Leste Payment System Modernization

#### 1. The R-Timor System

The R-TiMOR application launched in 2015 is a center of an integrated network of systems that enable payments to be made electronically in Timor-Leste between any two individuals, companies, other entities, and Government organizations through R-TiMOR participants.

After the effective implementation of the R-TiMOR in 2015, the Central Bank continues coordinate with the service provider and the R-TiMOR participants to enhance the services to facilitate and ensure efficient and effective payments system through Straight Through Processing (STP) aiming enable payments are executed in efficient and effective manner.

Following the launch of interface between the Ministry of Finance's GRP (Government Resources Planning) system and the Central Bank's R-TiMOR (Rede Transferénsia iha Momentu Reál) system in early 2018 to enable the Ministry of Finance to create and make single customer payments electronically in GRP which are transferred directly in real time through R-TiMOR to credit the vendor and other beneficiary accounts in commercial banks.

In July 2019, the BCTL improved the R-TiMOR services by introduced a new payment feature namely Own Account Transfer (OAT) to enable transfers funds between Ministry of Finance and its sub accounts efficiently.

The BCTL further continues to coordinate with the R-TiMOR provider and the participants for further necessary enhancements to facilitate straight through bulk payments, payments of the taxes through any participant bank.

#### 2. The National Card and Payment System Switch Projects

As reported in previous years, in March 2017, the BCTL engaged SIBS International to supply and implement a National Card and Payment Switch. The switch, designated "P24" (the "P" associated with the words Pagamentu, Pagamento, Payment and Pembayaran) in twenty-four hours will offer a full range of payment services.

The P24 launched in December 2018 where BNU and Bank Mandiri ATMs were integrated during the first stage enabled customers of each bank can perform transactions in other bank's ATMs.

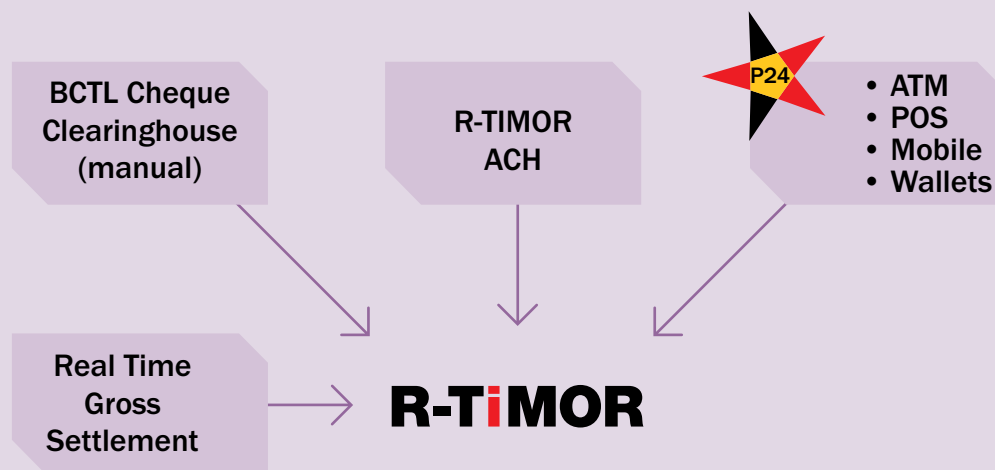
BNCTL further joined in December 2019 and BRI has also joined in early February 2020 where one of ATMs of both banks already integrated in the P24 system so that the P24 card holder can perform transactions in any ATM machine with P24 logo. Both BNCTL and BRI are in progress of mass production and once completed will convert most of their ATMs in P24 that will facilitate the card holders to perform transactions efficiently in any ATM with P24 logo.

As reported last year that the BCTL authorized Telemor Fintech Lda in 2018 to trial e-wallet transfer system with the brand name “Mosan” with the features of transfer money between e-wallet users, cash-in (deposit), cash-out (withdrawal), air time purchase, balance inquiry and mini statement inquiry as well as to facilitate **TRANFERS BETWEEN NON E-wallet** users. Telemor Fintech Lda fulfilled the requirements established in the trial period, therefore in August 2019, the BCTL has issued final authorization to Telemor Fintech Lda covered the above-mentioned services. At the end of 2019, Telemor has 718 agents operating in most of the Municipalities and it plans to have more agents operating in rural villages in the future to facilitate unbanked citizens in accessing financial services.

In October 2019, the BCTL also authorized Telin Digital Solution (TDS) branded T-Pay e-wallet Payment Services for limited internal clients trial with the features cash-in (deposit), cash-out (withdrawal), balance inquiry, mini statement inquiry, transfer of funds between e-wallet users within the territory of Timor-Leste and payment and/or purchase of goods and services. The T-Pay has established 13 merchants around Dili to facilitate purchase of goods.

As reported previous year on the connection of phone-based e-wallets to enable transfers between wallet to wallet accounts and between wallet to bank accounts and vice versa, Telemor Fintech has connected to the P24 system while both phone based e-wallet are working to connect with each other and the T-Pay is also working to connect to the P24.

With the integration of the e-wallets, working with its service providers and P24 participants the BCTL initiated a Mobile Switch which is currently in testing phase that will enable transfers from bank account to e-wallet account and vice versa. Once completed, this will facilitate citizens to perform transactions efficiently particularly those are living in remote areas.



The BCTL is also currently working with its service provider and the Tax Authority of Ministry of Finance to activate the service payments which will facilitate the tax payers to pay the taxes through ATMs at early stage and later through POS and Mobile Wallets once the development is completed.

As reported last year, the BCTL continues working with the service providers and the P24 participants in exploring regional interface starting with Indonesia and later to be expanded to respective ASEAN countries where a P24 card holder can perform transactions in Indonesia and other respective ASEAN countries and vice versa once completed. Obligations between banks will be settled automatically through the link between the P24 system and the Central Bank's settlement system (R-TiMOR). The P24 system will take some time to complete with full range of services because the project has been the most complex project undertaken by the Central Bank to date.

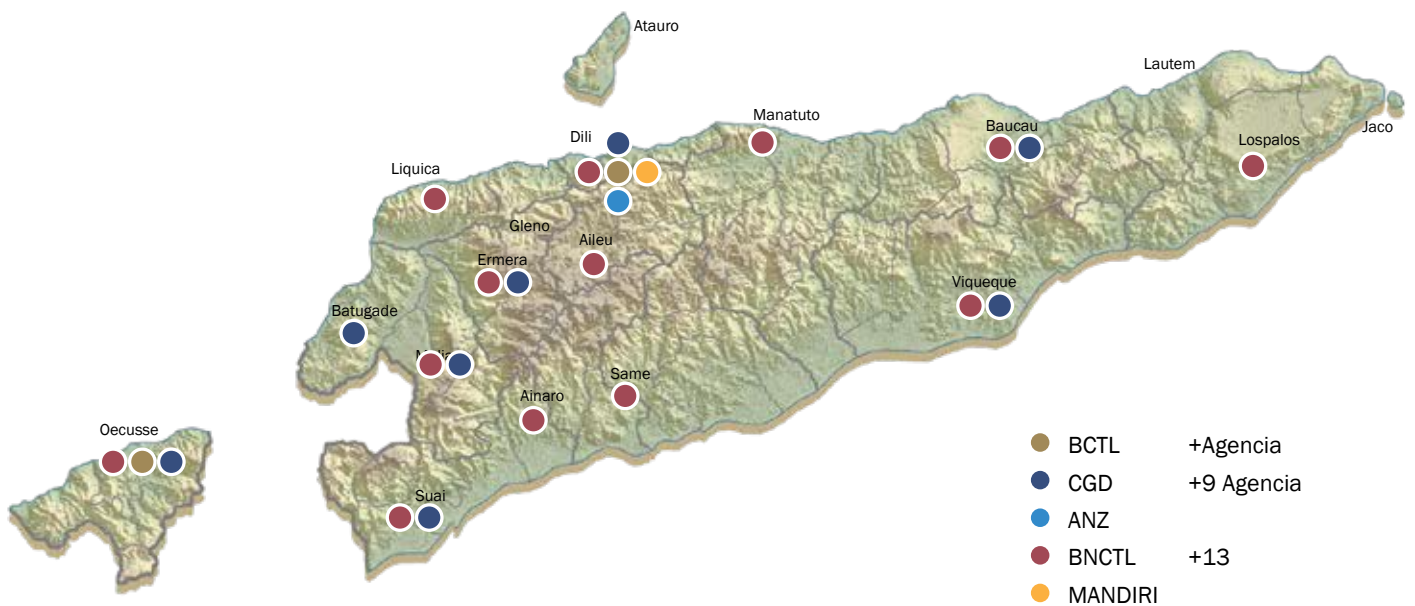
With the P24 central switch linking the ATM networks, POS network and e wallet providers, it would be possible for a much wider range of Timorese citizens to have access to banking and payment services. Giving people access to these services is a key strategy of the Central Bank to strengthen and develop financial sector and support economic growth, particularly outside Dili and remote areas.

### 3.3.4. Financial and Banking Systems

#### 3.3.4.1. 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.

#### Banking Services in Timor-Leste





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.

The BCTL also completed during the year, the process of liquidation of the former insurer 'National Insurance Timor-Leste (NITL)' in accordance with the provisions of the Insurance Act No.6 / 2005 on the licensing, supervision and regulation of insurers and insurance brokers.

Also in 2019, the BCTL implemented an online reporting system for all financial institutions, designated BSA, or 'Bank Supervision Application'. The BSA is a banking supervisory web-based software that allows a faster and more efficient submission of financial institutions reports, as well as validation and analysis of prudential indicators, to enhance the technological support the banking supervision activities. Currently, this application is used by 16 regulatory and supervisory institutions from 15 countries of South and East Africa, while Timor-Leste will be the first non-African country to use the application. The implementation stage also included an intensive and complete training of BCTL's internal team and teams from other institutions that will make use of the new bank reporting tool.



## Box

### 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 2019, 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).

In this context, throughout the year, one of the most important initiatives was the organization of a 'workshop' in February 2019. The objectives of the workshop consisted in identifying the weaknesses and challenges, as well as the planning of the approach to implement the Financial Literacy Program in primary schools, as defined in the MoU signed between the BCTL and the Ministry of Education in 2016. The 'workshop' was attended by the Director General of the Ministry of Education and INFORDEPE, all Municipal Education Directors and all teachers who currently teach this program in the respective municipalities. Among the issues discussed, the following stand out: the main elements of the implementation program, the progress of INFORDEPE's instructors training program, the progress on the implementation of the financial literacy program in primary schools, the possibilities for improving the coordination of the teaching program in primary schools, the definition of a fixed schedule for the teaching program in primary schools; the scope of plans for new primary schools' teaching and the effectiveness of the monitoring program.



In terms of the most important conclusions of the 'workshop', we highlight the following: the financial literacy program should be included in the national curriculum of primary schools, it is necessary to increase the numbers of teachers who teach the program in primary schools, it is desirable to maintain the fruitful cooperation between the BCTL and INFORDEPE in the training programs of the Directors and Deputy Directors in selected primary schools, so that teachers become familiar with the financial education materials before learning and teaching them.

Throughout 2019, training sessions covered the districts of Aileu, Ainaro, Covalima and Bobonaro, counting with a number of participants of 82 teachers. Between 2016 to 2018, this program has been administered in the districts of Baucau, Manatuto Lautem, Ermera, Liquica and the Special Administrative Region of Oecusse, covering a total number of participants of 252 teachers. Thus, taking into account the training sessions held in 2019, 334 teachers have already participated in this training program.





### 3.2. National Savings Day

The commemoration of National Savings Day in 2019 was a bit different compared to previous years, as BCTL organized an educational competition in various primary schools, also including schools which have not yet taught the financial education program. It was also held a drawing competition in 14 primary schools in 8 municipalities. The drawing competition took place between 7 and 8 October.



Photo: The winner of the poetry contest - Maliana



Photo: the winner of the speech contest - Maliana

The commemoration of the 5th anniversary of the National Day of Savings was held at the Administrative Office of Maliana, in Bobonaro, during which poetry and speeches competitions were organized, which included the participation of students from 10 primary schools from Maliana. These competitions were held on 26 and 27 November and the winners received their symbolic prizes on 29 November.

The BCTL also continued to disseminate in schools and communities the benefits of opening accounts “Hau-Nia Futuru” in commercial banks, to entice more families, including children and young people and promote widespread access to this savings product.



Photo: delivered the awards to the winners at the National Savings Day in EBC Vitor Santa Maliana



Photo: students EBC Lighthouse visit the B-CTL office

In parallel, the BCTL also organized in 2019 the GMN event to promote the account “Hau Nia Futuru” in various schools of Dili and Liquica. The ‘Global Money Week’ (GMN) is an initiative that aims to increase and encourage awareness of children and young people on ‘monetary’ matters. The celebration of GMN consisted in BCTL visits, together with elements of commercial banks, to schools to inform and share information about the account “Hau Nia Futuru.” Specifically, the team visited the schools: Lighthouse EBC, EBC Mary Help Comoro, the EBF Mauboge Liquica, EBC Casait Liquica and Taibesi school.

BCTL also benefited in 2019 from the technical advice of the Banco de Portugal to improve the implementation of financial literacy program, in particular, towards reviewing the current MoU with the Ministry of Education and of the current education program in primary schools.



Photos: Financial education in the EBC Simpang Tiga -Same and EBF Maununo- Ainaro.

During the year, the BCTL team also continued to assess the implementation of the Financial Literacy program in schools, having noted that its lessons have had a positive impact on the behavior of students, especially in terms of better managing their money and stimulating their savings. However, some obstacles were identified, faced by students who show interest in opening their account “Hau nia Futuru “, for example, the distance and the difficulty of access to banks and the difficulty in filling all bank forms, problems which affect more students in rural areas.

In terms of scope note that, by the end of 2019, 16 schools have actively taught the financial education program, with the direct participation of 5,403 students, of whom 2,746 were male and 2,357 female.

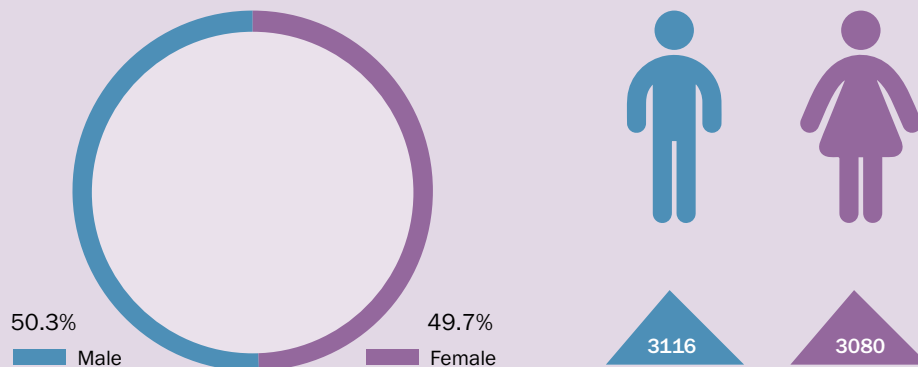


### 3.3. Account “Há’u-Nia Futuru”

#### CHILDREN SAVINGS ACCOUNTS “HA’U-NIA FUTURU”

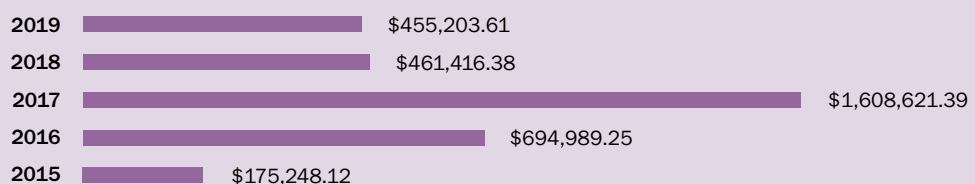
The account “Há’u-Nia Futuru” is now an extremely useful tool in terms of promoting financial inclusion of children and young people in the country, which, after being actively promoted by the BCTL, is now available in five commercial banks. In December 2019, the value of funds deposited in accounts “Há’u-Nia Futuru” amounted to \$455 thousand, which resulted in a slight decrease of 1% compared to \$461 thousand in 2018. In terms of new accounts of this type, 2019 recorded 6,146 new accounts, which resulted in a remarkable increase compared to 3,448 in 2018.

#### HNF composition by gender 2019



The chart below shows the value of savings deposited in accounts’ Hau-nia futuro” in recent years. Despite the downward trend of the last two years, especially in 2018, note that this has resulted from the fact that some account-holders have already exceeded 17 years, which means that their accounts’ balances are automatically excluded from this calculation.

#### HNF Accounts value



# 4

## Box

### Implementation of the Financial Sector Development Master Plan

#### 4.1 Accounting and Business Registration Training

The BCTL continued in 2019 to support micro, small and medium enterprises (MSMEs) by working together with the IADE and CCI-TL in training companies' staff in accounting and business registration. The 2019 training program was held in IADE's training centers in Baucau, Viqueque, Maliana and Maubessi, thus achieving greater participation of MSMEs.



As in previous years, the program seeks to reinforce the capacity of businesses and their staff in terms of accounting and management of their businesses, as well as facilitating their access and funding from financial institutions. The specific training in accounting intends that participants have the ability to prepare and produce autonomously financial reports for their businesses, including balance sheets, income and cash flows statements.



In terms of scope, given the initiatives held between 2016 and 2019, this program has managed to cover a total of 272 companies, and counted with a slightly higher share of women (149) than men (123).

These training sessions were also used to present and promote the new BCTL's Credit Guarantee System, in particular the submissions' requirements and the online application's specifications available to companies. BCTL also continued to assess the quality of training sessions, conducting visits to training centers and monitoring the successful transmission of knowledge.

In terms of regional coverage, most of the participating companies are from Dili (70 institutions), whereas companies based in Covalima, Manatuto and Aileu were those that registered lower levels of participation.

In terms of sectors, service sector firms were the largest participants, followed by trade, livestock and other productive sectors. From the 272 MSME participants in the training program and by the end of 2019, 26% were services companies, 17% trade, livestock, construction 12% and other sectors, including the agricultural sector, 11%.



## Box

### Meetings and Conferences

#### XXIII Conference and 16th General Assembly of the Association of Portuguese Speaking Insurance Supervisors (ASEL)

BCTL hosted the XXIII Conference and 16th General Assembly of CPLP's Association of Insurance Supervisors Insurance (ASEL). This annual event counted with the participation of Insurance Supervisors from Mozambique, Angola, Cape Verde, Timor-Leste and Macau.

The meeting began with the Opening Session XXIII Conference and General Assembly of the ASEL led by DG Venâncio Alves Maria, who represented the Governor Abraão Vasconcelos. It then continued with the presentation of 'Opportunities and Challenges for the Insurance Sector in the Future', by Dr António Félix Pontes from AMCM (IFS Training Macau's President), the 'Case-Study of Crisis in Malaysian Insurance Sector' by Dato 'Syed Moheeb Syed Kamarulzaman, former CEO of the Aean's Institute for Training and Research in Insurance (AITRI), the 'Right Governance Corporate for the Insurance Sector' by Dato Kamarulzaman, and the 'Money Laundering Issues in the Insurance Sector', by Mr. António Félix Pontes.

The Conference and General Assembly was participated by institutions coming from various sectors, such as insurance companies and universities. At the conclusion of the event, the election for the organizational structure of ASEL for the 2019-2020 period was held and Angola was appointed to organize the conference in 2020 and Brazil in 2021. In terms of conclusions, it was highlighted the positive progress of insurance and pension funds sectors in ASEL's members jurisdictions, particularly given the challenges of the current international situation. It was also stressed the importance of strengthening Financial Literacy as a valuable tool in promoting the benefits and social value of insurance and pension funds activities. Additionally, this meeting also and again renewed the rising importance of professional training amongst insurance supervisors' staff, as well as the need to strengthen ASEL's members cooperation.





## Financial Inclusion 2018 Report Publication

BCTL launched the 2nd edition of the “Financial Inclusion Report” with the theme “Measure, Strategize and Innovate” in order to update the understanding of the factors influencing financial inclusion and provide support to the recommendations to improve policies and guidelines and encourage innovation in this context.

The report is part of a series of publications already undertaken by the BCTL in order to promote financial inclusion in Timor-Leste. The first Financial Inclusion Report was published in 2016 and included the definition of a comprehensive set of relevant indicators and long-term goals. In 2017, the BCTL formulated the National Strategy for Financial Inclusion from 2017 to 2022, defining specific action plans to coordinate the efforts of stakeholders to achieve the desired inclusive and sustainable development of the financial sector.

The report, based on detailed and updated data on the supply side (information from commercial banks and other financial services providers), analyzed the current state of the financial inclusion process and the country progresses made since 2016, the year when it was defined and implemented the national financial inclusion strategy. The theme of the report “Measure, Strategize and Innovate” summarizes its purpose, which is to update the understanding of the factors influencing financial inclusion to formulate future policy guidelines recommendations and to promote innovation. The report highlighted the following progresses: 36% increase in financial access points, the establishment of new types of financial services, especially the new electronic wallet services, the progress in the implementation of the National Financial Inclusion Strategy and the various activities already established to promote financial inclusion.

BCTL plans to conduct further research in this field in the near future, aiming to produce an equivalent report, but focusing rather more on the demand side, as a way to conduct a comprehensive assessment of the financial inclusion process.

## Banking Supervision Application

In 2019, BCTL implemented an 'on-line reporting system for all financial institutions, designated BSA, or' Bank Supervision Application'. The BSA is a web-based banking supervisory software that contributes to automatize and provide a more robust financial reporting method, as well as to expedite the validation and analysis of prudential indicators and to upgrade the technological infrastructure for banking supervision activities.



The application was initially developed in 1997 by an international support institution, in order to harmonize banking supervision practices and promote the monitoring of prudential indicators, including economic and financial institutions' financial indicators and to ensure strict compliance with the rules and regulations and the implementation of reference international guidelines in this context. Currently, the application is used by 16 regulatory and supervisory institutions from 15 countries of South and East Africa, while Timor-Leste is the first country non-African to use the application.

The implementation phase also included intensive training of BCTL's team and teams from other institutions that will make use of the new bank reporting tool. BCTL also stipulated a transitional period of six months applying to institutions reporting to BCTL, after which they must all make use of this application.



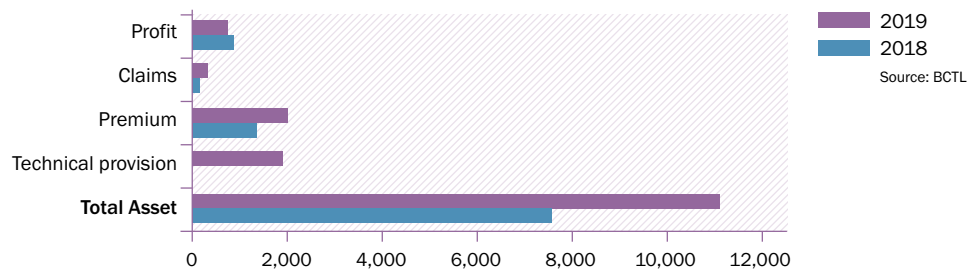
### 3.3.4.2. Insurance Sector

The domestic insurance industry continued in 2019 to rely on the existence of two institutions: 'SinarMas (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 total assets amounted to \$10.5 million in December 2019, increasing 41% over 2018. Also during 2019, total liabilities increased 43%, totaling the amount of \$7.6 million at the end of the year. The sector's equity rose by 35% to \$2.9 million, mostly made up by issued shares (51%), retained earnings (20%) and current earnings (29%).

Chart 3.5 illustrates the evolution of the main insurance business metrics in the last year.

**Chart 3.5** Insurance Companies Performance  
In thousand US





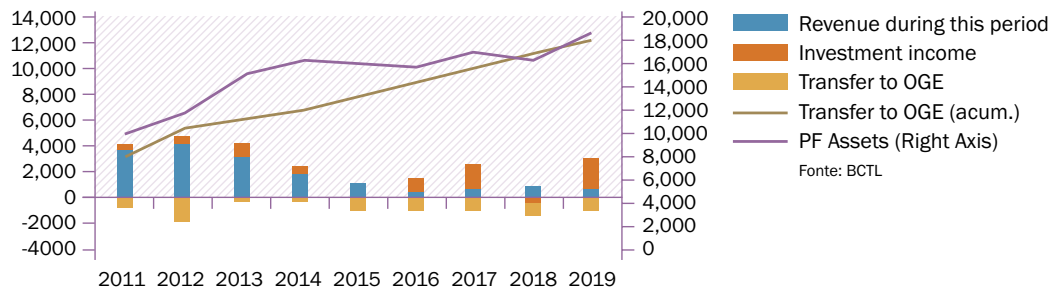
### 3.3.5. Petroleum Fund Management

According to the framework defined in the Petroleum Fund Law, the Central Bank continues to be responsible for the operational management of the Fund. At the end of 2019, the Fund’s capital was \$17.692 million, registering a 12% increase over the previous year. Annual oil revenues - taxes and “royalties” - amounted to \$756 million, resulting in an increase of 48% compared to 2018. On the other hand, surveys intended to finance the execution of the 2019 State Budget were \$969 million (\$ 983 million in 2018), registering an annual decrease of -1.4%. The costs of managing the Fund, both external and internal, amounted to \$4.9 million in 2019, a decrease of -69% over 2018.

As to what regards the financial performance during the year, the Fund accumulated a gross income of \$531 million, which corresponds to 3% of the average amount invested

## Chart 3.6

Petroleum Fund Assets – Levels and Changes



in the Fund in 2019 (\$17,418,000). The disaggregation of this income allows us to observe that received dividends and interest totaled 0.6% of the average Fund value in 2019, while capital gains were 2.5% of the Fund, rising 5.5% versus 2018.



Adding these two parcels, the Fund achieved a gross return of 3.1%, not counting foreign exchange effects. However, the slight appreciation of the US dollar in 2019 against the Fund's investment currencies resulted in a small foreign exchange loss of \$11.2 million in 2019, or 0.1% of the Fund, after a loss of -\$39.3 million recorded in 2018. The Fund's total return in 2019 was \$2,125 million, the highest in PF's history, and fully recovering from the loss recorded in 2018.

In terms of relevant activities and developments in this context, it should be noted that the Fund continues to maintain the proposed strategic allocation by investing 40% of the Fund in equity markets, while the remaining capital is invested in fixed income securities, mostly and practically fixed coupon Treasury bonds.

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 continuously monitor the adequacy of the strategic allocation of the Fund, always within Petroleum Fund legal framework. BCTL actively participated in discussions at the IAB level on the expansion of the investment universe, increasing the degree of diversification and adoption of new management policies targeted at achieving the expected yield of 3% for the Fund in real terms and on a pluriannual basis.

At the end of the year, investments in fixed income securities continued to be managed by four institutions, three of which are external managers - "Alliance & Bernstein", "Wellington Management", and 'Bank for International Settlements' - and the internal manager, BCTL itself. There were also 4 managers of equity investments, 3 major international institutions - Schroders Investment Management, State Street International Equity and BlackRock Investment Management - and the BCTL itself.

The BCTL continued to invest in the training of its staff and in technical and financial resources to support and continuously improve the internal management of the Fund, in order to internalize an increasing share of its management. In terms of human resources training, BCTL continued to support the costs to upgrade the staff's qualifications and their participation in training seminars and sessions, organized by BCTL's institutional partners.

### **3.3.6. Institutional Improvement**

The BCTL continues to develop and strengthen the Timorese financial system and modernize banking supervision. In 2019, BCTL implemented an 'on-line reporting system for all financial institutions, designated BSA, or' Bank Supervision Application'. The BSA is a web-based banking supervisory software that streamlines financial institutions reporting activities, as well as the validation and analysis of prudential indicators, while providing a better technological support for bank supervision activities. Currently, the application is used by 16 regulatory and supervisory institutions from 15 countries of South and East Africa, while Timor-Leste is the first non-African country to use the application.

In this context, the B-CTL believes that the progressive modernization and qualification of the financial system is an effective and fundamental pillar for strengthening the financial sector and the country's economy.

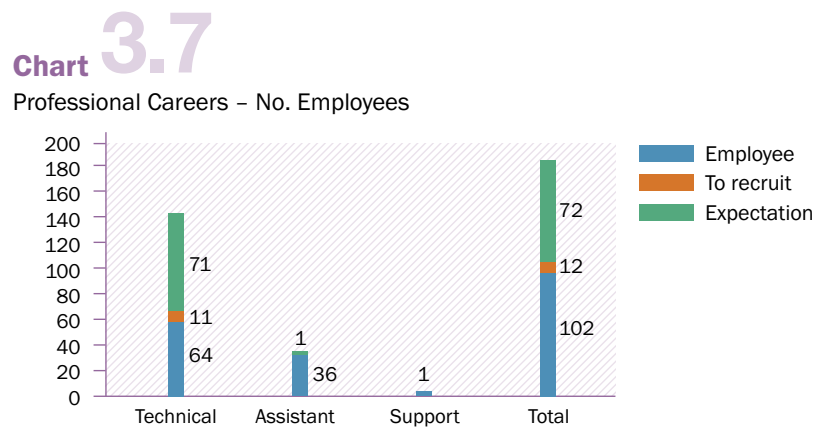
In the context of increasing efficiency and the national payment system's inclusion, BCTL authorized Telemor Fintech Ltd in 2018 to test its electronic wallet system under the "Mosan" brand. In 2019, taking into account that Telemor fulfilled the requirements set for the trial period, BCTL formally licensed the company to offer the above-mentioned services. BCTL also established rules and requirements for this system, which allows users to make transfers, cash withdrawals and deposits from their portfolios, top-up their mobile phones' balances and pre-pay their electric bills (still in testing phase) as well as checking balances and historic transactions. BCTL expects that, with its gradual expansion, this service may cover in the future all the villages in the country and substantially facilitate the lives of citizens who still do not have access to formal financial services.

### **3.3.7. Employees and Training Program**

At the end of 2019, BCTL had 102 employees, an increase of 12 employees from the 2018. Recruitment were carried out in December 2018 and March 2019, led to the selection of 12 employees, who started work effectively in January and September 2019, respectively.

BCTL's recruitment plan for 2020 expects the Bank to hire nine additional employees for the technical and assistant careers.

The number of BCTL's employees, including employees to recruit in 2020 and distributed across professional categories, is presented in chart 3.7:

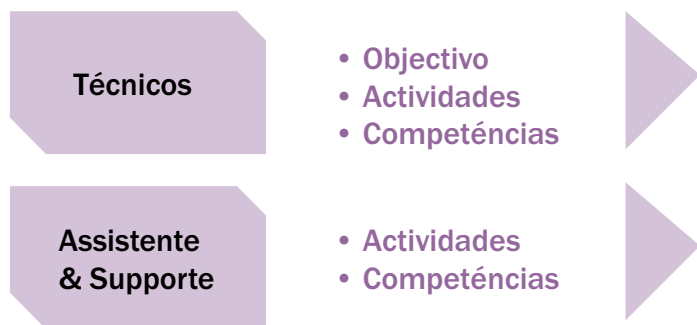


With regard to BCTL's performance evaluation system in 2019, the great majority of employees have achieved the objectives established at the level of the institution and their departments and divisions.

The performance evaluation system is implemented by the various divisional managers, to evaluate the work of the respective employees and analyze their contributions to BCTL's activity.

The dimensions used to evaluate employee performance 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 Assistant and Support Career 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. Additionally, the BCTL will award two scholarships to two of its employees to attend the master's program at the 'Macquarie University of Australia'.

In 2019, the BCTL personnel training initiatives have focused on strengthening the capacity of its staff across the areas of: Banking Supervision, Payment Systems, Economics and Statistics and the Petroleum Fund Management.

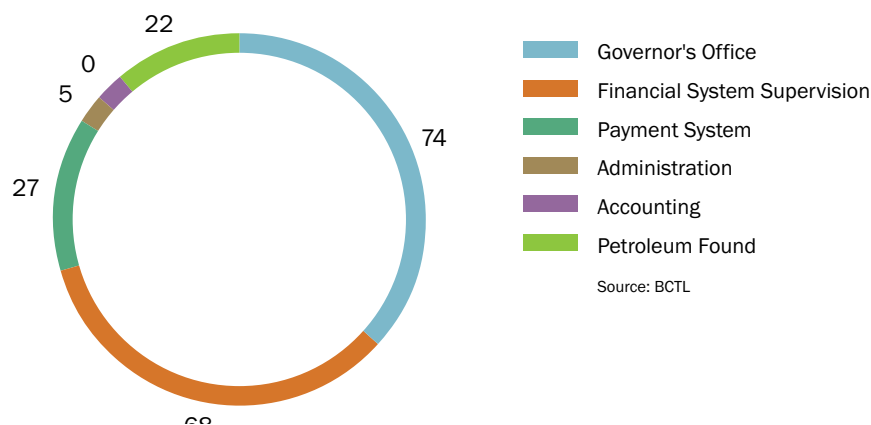
BCTL employees also continued to participate in various training programs, conferences and seminars organized by other central banks and partner financial institutions. The BCTL further expects its staff to continue to take advantage of such programs and training events.

Charts 3.8 and 3.9 detail the information regarding the number of employees and participation days in trainings, seminars and conferences throughout the year of 2019.



### Chart 3.8

Number of Training Days and Workshops in unit



Source: BCTL

#### 3.3.8. External Relations

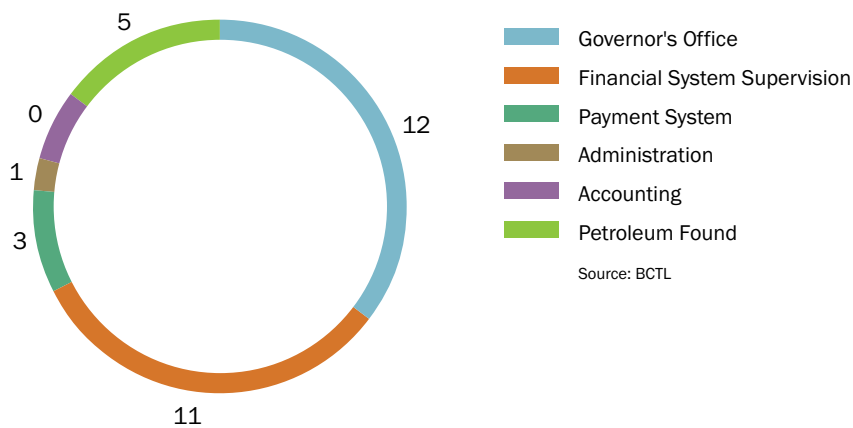
The BCTL created in 2019 a new internal unit designated “Institutional Cooperation Affairs Unit,” based on the Governor’s Decision No. 121/2019 of 27 February 2019. This unit, which has the organizational status equivalent to a Bank Department, will manage institutional cooperation with partner institutions at the national and international levels, in the areas of technical assistance, training and other forms of cooperation, and promote coordination with central banks and other financial institutions, in order to streamline and strengthen partnerships and BCTL’s cooperation ties.

With regard to cooperation, the BCTL continued to maintain close cooperation relationships with foreign institutions, especially with their counterparts from the Portuguese-speaking countries, particularly with the Bank of Portugal, with which it has had, since 2001 and to date, a fruitful cooperation relationship.

In 2019, the BCTL and the AMCM signed a cooperation agreement in Lisbon aimed at strengthening cooperation in the areas of technical assistance and staff training. In addition to the signing of the agreement with Macao Monetary Authority, BCTL also signed a Memorandum of Understanding with the University ‘Griffith-Queensland Australia’, focused mainly on strengthening BCTL’s economic research.

### Chart 3.9

Number of Employees Participating in Training Sessions  
in unit



Source: BCTL

Apart from this cooperation with CPLP's central banks, BCTL has also cooperated and benefited from the support of other central banks including: Bank Indonesia, Bank Negara Malaysia, the US Federal Reserve Bank, Reserve Bank of Australia, SEACEN, STI-Singapore, APRA and central banks of the Pacific Islands.

With regard to cooperation at the national level, BCTL continues to maintain a close cooperation with the National University of Timor-Leste, having provided internships for finalists of the Faculty for a period of six months, with the possibility of extension up to one year, conditional on their performance assessment.



## Box

### Implementation and BCTL Action Plan for 2020

#### 6.1. BCTL 2019 Action Plan Implementation Review

BCTL's plans implemented in 2019 were as follows:

- A) Implementation of the online reporting system “Banking Supervision Application (BSA)” to be used by financial institutions supervised by the BCTL;
- B) Completion and evaluation of the second financial inclusion report;
- C) Grant of final license to ‘Telemor Fintech’ to continue to provide electronic wallet services and a provisional license to ‘Telin Dijital Sollution’ to start its operations in providing the same kind of services;
- D) Implementation of the Credit Guarantee System (CGS) for Small and Medium Enterprises (SMEs), which enables the assessment of requests for guarantees by financial institutions/lenders;
- E) Implementation of the new Petroleum Fund’s investment mandate in equities, following a multifactorial approach;
- F) implementation of the new Petroleum Fund’s investment mandate in private shares (non-listed). The BCTL undertook the first investment in this type of assets in April 2019, following the Government’s decision to invest in oil assets, through Timor Gap, EP.

#### 6.2. Action Plan for 2020

BCTL plans to develop a wide range of initiatives in 2020, prioritizing the continued implementation of the Finance Sector Development Master Plan and National Payment System Plan.

##### **Financial System Development**

BCTL will implement new programs and continue to develop and implement the programs launched in previous years, in order to further develop the financial system, facilitating the access of economic agents and the expansion of domestic financial markets.

In 2020, BCTL will complete the implementation of the BSA System (Bank Supervision Application) and financial institutions will begin to submit monthly and annual reports through this system.

The DFSS will review and improve the regulatory framework for the protection of customers of financial institutions, ensuring a fairer and robust protection of their rights. In addition, the Division intends to review and improve the legal framework and the Banking Law regulating banking and financial activities, in order to respond to the latest developments in these activities and supervision priorities. This review will prioritize the underlying objectives of promoting access and quality of banking services, strengthening supervisory practices and preparing the 'Resolution' frameworks for banks and other financial companies.

In terms of direct supervision, the responsible Division will continue to carry out regular on-site inspection efforts and off-site prudential supervision of commercial banks, MTOs and insurers.

In terms of financial inclusion, in partnership with the National Directorate of Statistics (NBS), BCTL plans to undertake a new financial inclusion report, from the demand perspective and financial sector customers. Also in this context, the Financial Sector Development Division (DDSF) will implement additional initiatives defined in the National Financial Inclusion Strategy, including plans such as the expansion of the access points to financial services in rural areas and the further development of retail payment services.

In terms of promoting financial literacy, after the celebration of the new MoU with the Ministry of Education and the completion of training of trainers of the 12 municipalities and the RAEOA by INFORDEPE in 2019, the BCTL will enhance the scope of the financial education program. The BCTL hopes that, in the new academic year, the financial education subject will be taught in the 1st and 2nd cycles of public basic education.

In 2020, BCTL's Credit Guarantee System (CGS) team will be responsible for the dissemination and public presentation of the SGC implementation process and provide support for companies' applications. In this context and to benefit from this system, BCTL considers necessary to improve domestic companies' management processes, as well as to provide useful support to companies requesting guarantee support. Given these objectives, the project team, coordinated by the BCTL and together with IADE's contribution will organize CGS presentation sessions in all municipalities.

Also in 2020, BCTL expects to implement the pilot project 'Digital Sucos' in the country, whose aim is to encourage the use of digital media (mobile phone, ATM and POS) in the Communities, to carry out financial transactions, such as payments and transfers. This program should encourage the use of new financial technologies and demonstrate the potential of this utilization and respective technological media.

### **National Payment System**

Following the recent improvements of the R-Timor system, the BCTL will introduce a sanctioning regime governing the participation of entities and users in the system, in order to continue to improve its functioning and service quality.

In 2020, BCTL will implement the interconnection of the national network system with the regional payments network, first with the Indonesian payments network. This interconnection will allow P24 cardholders to conduct financial transactions in Indonesian banks that are part of its National Payment Gateway system (GPN- Gerbang Pembayaran Nasional).

BCTL also plans to implement and support commercial banks 'mobile banking' applications, once the banks are all integrated in the P24 system. These applications will allow bank customers to easily access their accounts, as well as to undertake financial transactions in a single application, allowing for a permanent operation of commercial banks' services.

### **Economic Research, Compilation and Disclosure of Data**

BCTL continues to include in its strategic plan the project to develop an in-depth study on the possibility of introducing a national currency in Timor-Leste, with the support of an external expert in this field. The expert is expected to work closely with BCTL's Economics Division during this study.

In this context, BCTL also expects to undertake comparative studies based on experiences of similar countries of the Pacific region, seeking to identify relevant experiences and lessons in terms of monetary and economic management of their economies and cash management processes.

In terms of economic data compilation and dissemination methods, BCTL intends to further automate its data collection system, particularly for its Balance of Payment data collection methods. The BCTL will continue to undertake economic research and studies on issues related to BCTL's main mandates and statistics published by the Bank.

The BCTL will also hold public socialization and awareness sessions on the discussion of the national currency thematic and further disseminate dollar bills and coins' characteristics to prevent and identify possible money counterfeit attempts.

#### **Petroleum Fund Operational Management**

BCTL will continue to improve the Petroleum Fund management, specifically in terms of PF's division activities and processes, continuing to optimize the usage of the Bloomberg and BAAM system platforms. BCTL expects to implement in 2020 the Social Security Fund investment program.

#### **Treasury and Cash Management**

BCTL, via DOM, expects to acquire in 2020 an ultraviolet machine that will contribute to improve the detection of counterfeits led by the Anti-Counterfeiting Unit. Moreover, it will increase cooperation and coordination of its activities with Scientific Police Unit of Criminal Investigation (PCIC), in order to facilitate the sharing of information in the fight against counterfeiting and counterfeit money circulation in the Timorese economy.

#### **Institutional Strengthening and Internal Training**

The Central Bank through its Accounting Division expects to acquire a new accounting system designated 'Core Banking System (CBS)' to replace the current system, T1 and thereby increase the functionality and the system's automation level. This system will integrate and facilitate: money-market and bonds investment management, foreign exchange transactions, payments, integration with R-Timor system, accounting operations, confirmation and settlement, administrative management, PF and Special Fund management and human resources management.

The Central Bank, through its Information Technology Division (DIT), plans to modernize its technology infrastructure to support the recent changes made in terms of BCTL's information technologies. The DIT will work with relevant departments to modernize or renew systems, especially in the areas of banking supervision, payments, accounting and security.

In terms of human resources development, knowledge and management techniques, in 2020, BCTL will continue to provide intensive and specialized training sessions, encouraging the participation in international relevant events and training in languages to its employees, in the country and abroad. In addition, BCTL will continue to provide scholarships to some of its employees currently attending masters and doctoral programs.

The Central Bank will organize important events and participate in international relevant events in 2020, such as the BCTL's Annual Meeting and seminars and workshops organized by international institutions like the World Bank, IMF, BIS, AFI, ASEL, SEACEN, APG and CPLP Central Banks. BCTL will also organize the VII Supervision Meeting and hold the VI Meeting of Issuance and Cash Management, both within the context of CPLP's central banks cooperation.





# Main Management Bodies - Banco Central de Timor Leste

## **Board of Directors**

The Governor

**Abraão de Vasconcelos**

Deputy-Governors

**Nur Aini Djafar Alkatiri**

**Venâncio Alves Maria**

Non-Executive Members

**Maria Madalena Brites Boavida**

**Aicha BU Bassarewan**

**Francisco da Costa Guterres**

**Elizário Ferreira.**

## **Management Committee**

BCTL Management Committee includes all the heads of major organizational areas of the Bank. They are as follows:

**The Governor Abraão de Vasconcelos**

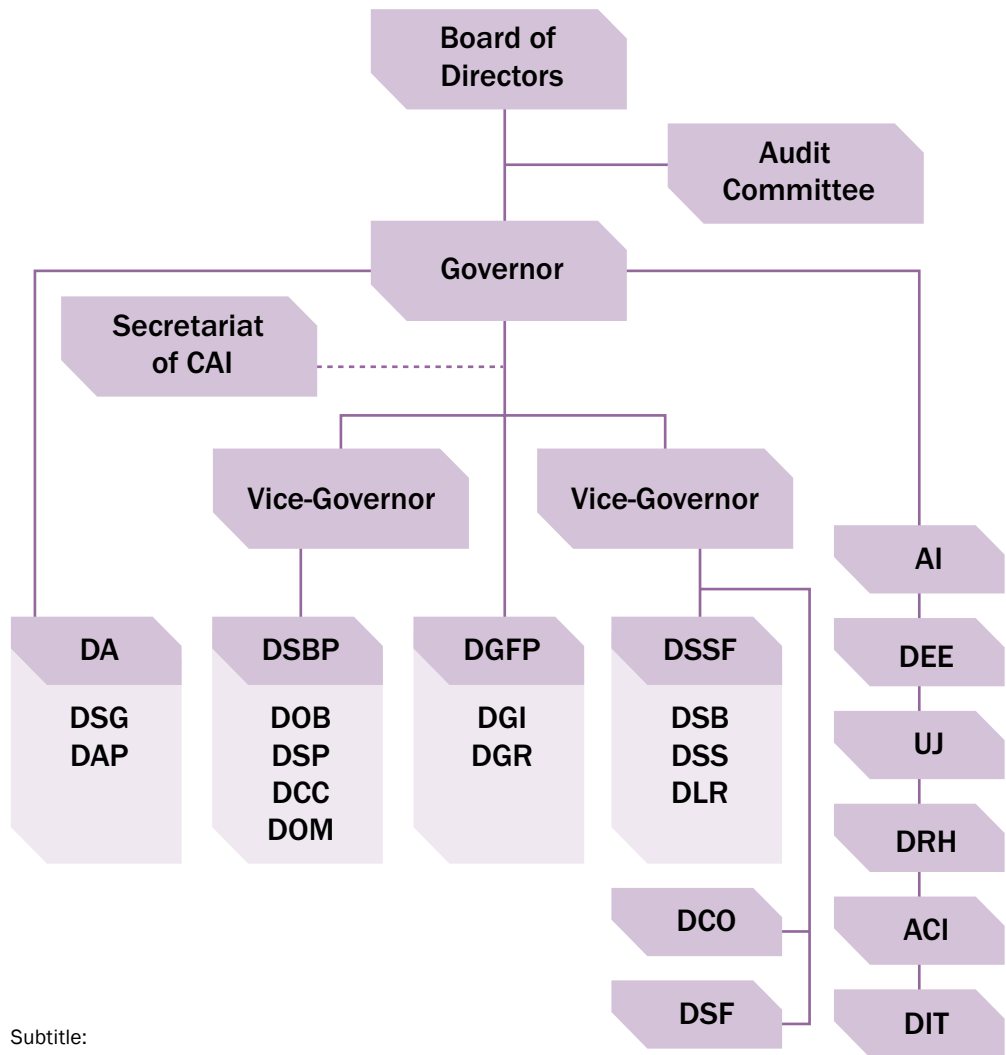
**The Deputy Governor, Nur Aini Djafar Alkatiri**

**The Deputy Governor, Venâncio Alves Maria**

**Accounting Division Head, Fernando de Carvalho**

**Institutional Cooperation Affairs Unit Director, Raquel Gonçalves**

**Department of Administration Director, Maria Ângela de Sousa S.**



Subtitle:

**CAI** Committee for Investment Advisory

**DA** Department of Administration  
**DSG** Division of General Services  
**DAP** Supply Division

**DSBP** Department of Banking and Payment Systems  
**DOB** Division of Banking Operations  
**DSP** Payment Systems Division  
**DCC** Division of Clearing House  
**SUN** Currency Operation Division

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

**DSSF** Department of Supervision of the Financial System  
**DSB** Banking Supervision Division  
**DSS** Insurance Supervision Division  
**DLR** Division of Licensing and Regulation

**DSF** Industry Development Division Financial  
**DCO** Division of Accounting and Budget

**AI** Internal audit  
**DEE** Division of Economics and Statistics  
**UJ** Legal unit  
**DRH** Human Resources Division  
**ACI** Institutional Cooperation Affairs  
**DIT** Division of Information Systems

# CHAPTER

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31 March 2020

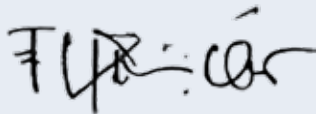
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## Statement of Compliance

The Financial Statements on pages 2 to 5 and the Notes from pages 6 to 32 which form an integral part of these statements have been prepared by the Management and approved by the Governing Board of Banco Central de Timor-Leste. I declare that these Financial Statements comply with the requirements of Central Bank Law no 5/2011 and fairly present the true financial position and performance of Banco Central de Timor-Leste as at 31 December 2019.

Dili, 31 March 2020

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

Abraão de Vasconcelos  
*Governor*

## Statement of Financial Position As at 31 December

In thousands of United States dollars

	Note	2019	2018
<b>Assets</b>			
Cash and cash equivalents	7	662,026	680,741
Investments	10	34,073	34,276
Property, plant and equipment	11	2,038	2,021
Other assets	12	6,296	5,183
<b>Total Assets</b>		<b>704,433</b>	<b>722,221</b>
<b>Liabilities</b>			
Government deposits	13	449,068	397,925
Other deposits	14	147,359	193,416
Other Liabilities	15	9,480	42,117
Currency issued		21,214	18,659
<b>Total Liabilities</b>		<b>627,121</b>	<b>652,117</b>
<b>Capital</b>			
Reserve	16	70,000	65,000
Net profit		762	762
<b>Total Equity</b>		<b>77,312</b>	<b>70,104</b>
<b>Total Liabilities and Equity</b>		<b>704,433</b>	<b>722,221</b>

*The above statement is to be read in conjunction with the policies and notes on pages 137 to 171*

## Statement of Profit or Lose and Other Comprehensive Income For the period ended 31 December

In thousands of United States dollars

	Notas	2019	2018
<b>Operating Income</b>			
Investment income:			
Interest income	19	8.471	5.254
Interest expense	19	-1.244	-748
<b>Net investment income</b>		<b>7.227</b>	<b>4.506</b>
Petroleum fund management fee	21	14.081	13.959
Petroleum fund administration expenses	21	-9.324	-8.752
<b>Net fee and commission income</b>		<b>4.757</b>	<b>5.207</b>
Fees and commissions	20	747	730
Other Income		214	1
<b>Total Operating Income</b>		<b>12.945</b>	<b>10.444</b>
<b>Expenses</b>			
Personnel expenses	22.25	2.362	2.174
Currency distribution expenses		1.086	717
Administration expenses	23	2.269	2.518
Depreciation	11	678	693
<b>Total Expenses</b>		<b>6.395</b>	<b>6.102</b>
<b>Profit</b>		<b>6.550</b>	<b>4.342</b>
Other comprehensive income		0	0
<b>Total profit and other comprehensive income</b>		<b>6.550</b>	<b>4.342</b>

The above statement is to be read in conjunction with the policies and notes on pages 137 to 171

## Statement of Changes In Equity For the period ended 31 December

In thousands of United States dollars

	Capital	Reserve	Nett Profit	Total Equity
As at 31-12-2018	65.000	762	4.342	70.104
Profit for the period	-	-	6.550	6.550
Other Comprehensive income	-	-	-	-
<b>Total Comprehensive income</b>	-	-	<b>6.550</b>	<b>6.550</b>
Capital Increase	5.000	-	-	5.000
Cash dividends	-	-	-4.342	-4.342
As at 31-12-2019	<b>70.000</b>	<b>762</b>	<b>6.550</b>	<b>77.312</b>

*The above statement is to be read in conjunction with the policies and notes on pages 137 to 171*



## Statement of Cash Flows For the period ended 31 December

In thousands of United States dollars

	2019	2018
<b>Cash Flows From Operating Activities</b>		
Profit for the period	6.550	4.342
Depreciation	677	693
Net Interest income	-7.227	-4.506
	<b>0</b>	<b>529</b>
Changes in receivables, prepayments & stock	-1.112	223
Changes in government deposits	51.143	110.164
Changes in other deposits	-46.057	-503
Changes in other liabilities	-32.637	13.671
	<b>-28.663</b>	<b>124.084</b>
Interest received	8.471	5.254
Interest paid	-1.244	-748
<b>Net cash from operating activities</b>	<b>-21.436</b>	<b>128.590</b>
<b>Cash Flows From Investing Activities</b>		
Acquisitions of investments	202	827
Acquisitions of property, plant & equipment	-694	-502
<b>Net cash from investing activities</b>	<b>-492</b>	<b>325</b>
<b>Cash Flows From Financing Activities</b>		
Currency issued	2.555	2.786
Capital subscription by government	5.000	5.000
Transfer of surplus to Government	-4.342	-3.110
<b>Net cash from financing activities</b>	<b>3.213</b>	<b>4.676</b>
<b>Increase In Cash &amp; Cash Equivalents</b>	<b>-18.715</b>	<b>133.591</b>
Cash & cash equivalents at the beginning of year	680.741	547.150
<b>Cash &amp; Cash Equivalents At The End Of Year</b>	<b>662.026</b>	<b>680.741</b>

The above statement is to be read in conjunction with the policies and notes on pages 137 to 171



## Notes to the financial statements

### 1. Reporting Entity and Statutory Base

These are the financial statements of Banco Central de Timor-Leste (“the Bank” or BCTL), a distinct autonomous public legal entity established by Organic Law number 5/2011 on the Central Bank of Timor-Leste. The head office of Banco Central de Timor-Leste is at Avenida Xavier do Amaral, no 9, P.O. Box 59, Dili, Timor-Leste.

The financial statements of the Bank are for the financial year ended 31 December 2019 and, in accordance with section 58 of the Organic Law no 5/2011, the accounts and records are maintained in accordance with International Financial Reporting Standards.

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

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

- to recommend broad policy guidelines to the government in areas under the Bank’s responsibility;
- to issue coins called centavos, that have legal tender status in addition to the United States dollar;
- to formulate and implement measures for, and supervise and regulate, payments and settlement systems for transactions in domestic and foreign currency in Timor-Leste;
- to own, operate, or participate in one or more payment systems;
- to act as banker to the government and related agencies;
- to act as fiscal agent of the government and related agencies;
- to hold and manage all public financial resources, including the official foreign exchange reserves;
- to undertake the operational management of the Petroleum Fund of Timor-Leste;
- to hold foreign currency deposits of Commercial Banks;
- to ensure an adequate supply of banknotes and coins for the settlement of cash transactions;

- 
- to maintain a depository for safe keeping of currency and securities;
  - to license, supervise, and regulate commercial banks;
  - to license, supervise and regulate currency exchange activities;
  - to license, supervise and regulate insurance companies and intermediaries; and
  - to conduct regular economic and monetary analysis of the Timor-Leste economy, make public the results, and submit proposals and measures to the government on the basis of such analysis.

## 2. Basis of Preparation

### a) Statement of compliance

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

The financial statements were authorised for issue by the Governing Board on 31 March 2020.

### b) Basis of Measurement

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

### c) Adoption of International Financial Reporting Standards


These financial statements incorporate all International Financial Reporting Standards in force at 31 December 2019. No standards have been adopted before the effective date.

### d) Functional and Presentation Currency

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

### e) Use of Estimates and Judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Estimates and underlying



assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described in note 3

**f) Comparative amounts opening balances**

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

### **3 Significant Accounting Policies**

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

**a) Foreign currency transactions**

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



	31 DEC 2019	31 DEC 2018
Australian dollars (AUD)	1.4401	1.4215
Special Drawing Rights (SDR)	0.7232	0.7190
Euro (EUR)	0.9012	0.8748

#### **b) Interest Rate Method**

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

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


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

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

#### **c) Fees**

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

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



**d) Operating Profit**

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

**e) Taxation**

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

**f) Financial Assets and Liabilities**

**i) Recognition**

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

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

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

**ii) Classification**

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

**iii) De-recognition**

Any interest in such transferred financial assets that qualify for derecognition that is created or retained by the Bank is recognised as a separate asset or liability.

On de-recognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred), and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.



#### **iv) Offsetting**

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

#### **v) Amortised cost measurement**

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

#### **vi) Fair value measurement**

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

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

#### **vii) Identification and measurement of impairment**

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

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant



increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

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


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

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

#### **g) Cash and Cash Equivalents**

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





#### **h) International Monetary Fund**

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

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

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

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

#### **i) Reverse-Repurchase Transactions**


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

#### **j) Other Assets and Liabilities**

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

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

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



**k) Property, Plant and Equipment**

**i) Recognition and measurement**

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

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

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

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

## ii) Subsequent Costs

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

## iii) Depreciation

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

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

	2019	2018
Buildings and improvements	20 years	20 years
Plant	5 years	5 years
Office equipment	8 years	8 years
Computers and electronic equipment	4 years	4 years
Vehicles	5 years	5 years

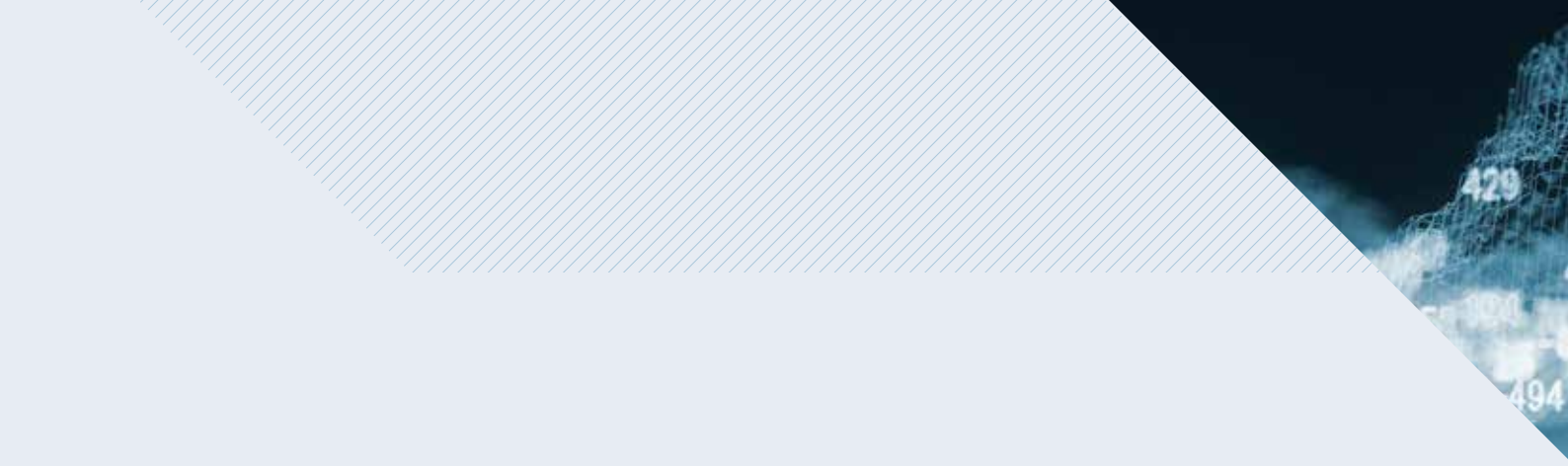
Depreciation methods, useful lives and residual values are reassessed at the reporting date.

## iv) Impairment

The carrying amounts of the Bank's fixed assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. An impairment loss is recognised if the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in profit and loss.

## I) Currency in circulation

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



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

**m) Employee benefits**

**i. Short term employee benefits**

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

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

**ii. Long-term employee benefits**

There is no pension scheme for employees of the Bank.

**n) Changes in accounting policies**

**i. Voluntary changes in accounting policies**

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

## ii. New standards and interpretations applicable in the year

There was no significant impact on the accounting policies and disclosures from the adoption by the Bank of new standards, revisions, amendments and improvements to standards and interpretations which were applicable as from 1 January 2019. These new standards, revisions, amendments and improvements to standards and interpretations are the following:

- IFRS 16 Leases
- IFRIC 23 Uncertainty over Income Tax Treatments
- Prepayment Features with Negative Compensation - Amendments to IFRS 9
- Long-term Interests in Associates and Joint Ventures - Amendments to IAS 28
- Plan Amendment, Curtailment or Settlement – Amendments to IAS 19
- Annual Improvement
  - IFRS 3 Business Combinations - Previously held Interests in a joint operation
  - IFRS 11 Joint Arrangements - Previously held Interests in a joint operation
  - IAS 12 Income Taxes - Income tax consequences of payments on financial instruments classified as equity
  - IAS 23 Borrowing Costs - Borrowing costs eligible for capitalisation

The following new standards, revisions, amendments and improvements to standards and interpretations are applicable as from 1 January 2020:

- Definition of a Business – Amendments to IFRS 3
- Interest Rate Benchmark Reform – Amendments to IFRS 9, IAS 39 and IFRS 7
- Definition of Material – Amendments to IAS 1 and IAS 8
- The Conceptual Framework for Financial Reporting
- IFRS 17 Insurance Contracts.



## 4. Financial Risk Management

### a) Introduction and Overview

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

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

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

### b) Risk Management Framework

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

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

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

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

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

### **c) Credit Risk**

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

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



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

### Statement of Financial Position For the period ended 31 December


	Rating*	Dec 2019 US\$ '000	Rating*	Dec 2018 US\$ '000
<b>Cash and cash equivalents</b>				
Cash	AAA	36.663	AAA	16.396
Deposits at central banks	AAA	606.578	AAA	645.435
Resident banks	BBB-	15.678	BB-	17.146
Non-resident banks	A-	3.107	A-	1.764
		<b>662.026</b>		<b>680.741</b>
<b>Investments</b>				
International Monetary Fund - "SDR"	N/A	34.073	N/A	34.276
<b>TOTAL ASSETS</b>		<b>696.100</b>		<b>715.017</b>
<b>Summary by credit rating</b>		<b>Dec 2019 US\$ '000</b>	<b>Dec 2018</b>	<b>Dec 2018 US\$ '000</b>
AAA	92.41%	643.241	92.56%	661.831
A-	0.45%	3.107	0.25%	1.764
Bal	2.25%	15.678	2.40%	17.146
Not applicable	4.89%	34.073	4.79%	34.276
<b>TOTAL ASSETS</b>	<b>100%</b>	<b>696.100</b>	<b>100%</b>	<b>715.017</b>

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

There were no impairment losses at balance date.

The carrying amount of these assets approximates their fair value.





#### **d) Liquidity Risk**

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

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

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

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

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

	2019 Carrying amounts US\$ '000	6 months or less	"Contractual Cash Flow" Over 6 months
Cash and Cash equivalents	662.026	662.026	0
<b>Total assets (Excluding PPE)</b>	<b>662.026</b>	<b>662.026</b>	<b>0</b>
Government deposits	449.068	449.068	0
Other deposits	147.359	113.263	34.096
Other liabilities	9,480	9,480	0
Currency issued	21.214	21.214	0
<b>Total liabilities</b>	<b>627.121</b>	<b>593.025</b>	<b>34.096</b>

	2018 Carrying amounts US\$ '000	6 months or less	"Contractual Cash Flow" Over 6 months
Cash and Cash equivalents	680.741	680.741	0
<b>Total assets (Excluding PPE)</b>	<b>680.741</b>	<b>680.741</b>	<b>0</b>
Government deposits	397.925	397.925	0
Other deposits	193.416	159.151	34.265
Other liabilities	42.117	42.117	0
Currency issued	18.659	18.659	0
<b>Total liabilities</b>	<b>652.117</b>	<b>617.853</b>	<b>34.265</b>

#### e) Market Risk

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

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

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

#### i) Interest Rate Risk

Interest rate risk is the risk of loss arising from changes in interest rates.

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

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

	<b>Total Carrying Amount 2019 US\$ '000</b>	<b>Non-Interest Sensitive</b>	<b>6 month or less</b>
Cash and cash equivalents	662.026	0	662.026
Investments	34.073	34.073	0
Other assets	6,296	6,296	0
<b>Total assets (Excluding PPE)</b>	<b>702.395</b>	<b>40.369</b>	<b>662.026</b>
Government deposits	449.068	0	449.068
Other deposits	147.359	34.096	113.263
Other liabilities	9.480	9.480	0
Currency issued	21.214	21.214	0
<b>Total liabilities</b>	<b>627.121</b>	<b>64.790</b>	<b>562.331</b>
<b>Interest Rate Sensitivity Gap</b>	<b>75.274</b>	<b>(24.421)</b>	<b>99.695</b>



	Total Carrying Amount 2018 US\$ '000	Non-Interest Sensitive	6 month or less
Cash and cash equivalents	680.741	0	680.741
Investments	34.276	34.276	0
Other assets	5.183	5.183	0
<b>Total assets (Excluding PPE)</b>	<b>720.200</b>	<b>39.459</b>	<b>680.741</b>
Government deposits	397.925	0	397.925
Other deposits	193.416	34.265	159.151
Other liabilities	42.117	42.117	0
Currency issued	18.659	18.659	0
<b>Total liabilities</b>	<b>652.117</b>	<b>95.041</b>	<b>557.076</b>
<b>Interest Rate Sensitivity Gap</b>	<b>68.083</b>	<b>-55.582</b>	<b>123.665</b>

### ii) Sensitivity Analysis – Interest risk

In managing interest rate risk the Bank aims to reduce the impact of short-term fluctuations on its net income. At 31 December 2019, it is estimated that a general increase/decrease of one percentage point in interest rates would increase/decrease the Bank's profit by approximately \$6,620 thousand (2018 - \$6,807 thousand).

### iii) Foreign Currency Risk

Foreign currency risk is the risk of loss arising from changes in exchange rates. The management of the Bank maintains a low exposure to foreign currencies, which are maintained at levels sufficient to meet operational settlement obligations. The Bank does not engage in foreign currency intervention activities.



As at 31 December 2019, the Bank's net exposure to major currencies was as follows:

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

	<b>Total 2018 US\$"000</b>	<b>United States Dollars</b>	<b>Australian Dollars</b>	<b>SDR</b>	<b>Euro</b>
Cash and cash equivalents	680.741	680.260	34	0	447
Investments	34.276	0	0	34.276	0
Other assets	5.183	5.183	0	0	0
<b>Total assets (Excluding PPE)</b>	<b>720.200</b>	<b>685.443</b>	<b>34</b>	<b>34.276</b>	<b>447</b>
Government deposits	397.925	397.925	0	0	0
Other deposits	193.416	159.151	0	34.265	0
Other liabilities	42.117	42.117	0	0	0
Currency issued	18.659	18.659	0	0	0
<b>Total liabilities</b>	<b>652.117</b>	<b>617.852</b>	<b>0</b>	<b>34.265</b>	<b>0</b>
<b>Net Foreign Currency Exposure</b>	<b>68.083</b>	<b>67.591</b>	<b>34</b>	<b>11</b>	<b>447</b>



#### iv) Sensitivity analysis - Currency exchange risk

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


#### f) Operational Risk

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

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

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

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



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

#### **g) Capital Management**

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

- The capital of the Bank must at least be \$20,000,000, fully subscribed and paid-up.
- The capital of the Bank may be increased on the recommendation of the Governing Board and approved by the Government.
- A general reserve account may be established to hold the paid-up capital up to the difference between ten percent of the total financial assets of the Bank.
- The capital of the Bank may not be transferable or subject to encumbrance of any kind.

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

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

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

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

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



## 6. Segment Reporting

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

## 7. Cash and Cash Equivalents

	2019 US\$ '000	2018 US\$ '000
<b>Cash and Cash Equivalents</b>		
Cash	36.663	16.396
Deposits at central banks	606.578	645.435
Resident banks	15.678	17.146
Non-resident banks	3.107	1.764
<b>Total</b>	<b>662.026</b>	<b>680.741</b>

## 8. Marketable Securities

No investment in Marketable securities for 2019.

## 9. Financial Assets and Liabilities

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



	Fair Value through Profit or Loss		Amortised Cost		Fair value through Other Comprehensive Income	
	2019	2018	2019	2018	2019	2018
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
<b>Financial assets</b>						
Cash and cash equivalents	0	0	662.026	680.741	0	0
Investments	0	0	34.073	34.276	0	0
Other assets	0	0	6.296	5.183	0	0
<b>Total assets (Excluding PPE)</b>	<b>0</b>	<b>0</b>	<b>702.395</b>	<b>720.200</b>	<b>0</b>	<b>0</b>
<b>Financial liabilities</b>						
Government deposits	0	0	449.068	397.925	0	0
Other deposits	0	0	147.359	193.416	0	0
Other liabilities	0	0	9.480	42.117	0	0
Currency issued	0	0	21.214	18.659	0	0
<b>Total liabilities</b>	<b>0</b>	<b>0</b>	<b>627.121</b>	<b>652.117</b>	<b>0</b>	<b>0</b>

## 10. Investments

### A) International Monetary Fund

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

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

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

	2019		2018	
	in SDR '000	in USD '000	in SDR '000	in USD '000
IMF Holdings of Currency	21.250	29.385	21.250	29.554
IMF SDR Holdings	3.391	4.688	3.395	4.721
<b>Total</b>	<b>24.641</b>	<b>34.073</b>	<b>24.645</b>	<b>34.276</b>

#### **B) The World Bank Group**

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

##### ***International Bank for Reconstruction and Development***

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

##### ***International Development Association***

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

##### ***Multilateral Investment Guarantee Agency***

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

## 11. Property, Plant and Equipment

Cost	Buildings US\$ '000	Plant US\$ '000	Office equipment US\$ '000	Computer equipment US\$ '000	Vehicles US\$ '000	Work in progress US\$ '000	Total US\$ '000
Balance at 1 January 2018	970	395	968	2,558	557	815	6,263
Acquisitions	331	20	85	817	36	0	1,288
Transfers	0	0	0	0	0	-786	-786
Balance at 31 December 2018	<b>1,301</b>	<b>415</b>	<b>1,053</b>	<b>3,375</b>	<b>593</b>	<b>29</b>	<b>6,766</b>
Acquisitions	84	0	15	557	0	0	656
Work in Progress	0	0	0	0	0	38	38
Balance at 31 December 2019	<b>1,385</b>	<b>415</b>	<b>1,068</b>	<b>3,932</b>	<b>593</b>	<b>67</b>	<b>7,460</b>
<b>Accumulated depreciation</b>							
Balance at 1 January 2018	699	354	643	1,887	470	0	4,052
Depreciation for the year	57	21	85	478	52	0	693
Adjustment	0	0	0	0	0	0	-
Balance at 31 December 2018	756	375	728	2,365	552	0	4,745
Depreciation for the year	66	22	90	453	49	0	680
Adjustment	0	0	0	0	-2	0	-2
Balance at 31 December 2019	<b>822</b>	<b>397</b>	<b>817</b>	<b>2,818</b>	<b>569</b>	<b>0</b>	<b>5,422</b>
<b>Net carrying amounts</b>							
As at 31 December 2019	<b>564</b>	<b>18</b>	<b>251</b>	<b>1,114</b>	<b>24</b>	<b>67</b>	<b>2,038</b>
As at 31 December 2018	<b>545</b>	<b>40</b>	<b>325</b>	<b>1,010</b>	<b>71</b>	<b>29</b>	<b>2,021</b>

Pending the establishment of a land and property registration system in Timor-Leste, and the commencement of a property market in which the valuation of commercial and other property can be established by reference to observable transactions, the Governing Board of the Bank has been unable to establish a fair value for the head office land and buildings occupied by the Bank. Work in progress includes costs incurred in relation to the implementation of projects on SINTRAF System. There were subsequently capitalised and transferred to Computer equipment and buildings.

There were no impairment losses at balance date.

## 12. Other Assets

Other assets comprise the following:

	2019 US\$'000	2018 US\$'000
<b>Other Assets</b>		
Accounts receivable	4.981	3.602
Advance, security & prepayment	101	40
Inventories	1.214	1.541
<b>Total</b>	<b>6.296</b>	<b>5.183</b>

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

### 13. Government deposits

	2019 US\$ '000	2018 US\$ '000
Government deposits	349.824	305.207
Consolidated fund	26.855	33.954
Infrastructure fund		
Human Development Capital fund	761	619
Autonomous agency accounts	14.387	12.547
Municipalities accounts	887	11.116
Social security fund	56.354	34.482
<b>Total</b>	<b>449.068</b>	<b>397.925</b>

### 14. Other deposits

	2019 US\$ '000	2018 US\$ '000
<b>Other deposits</b>		
Domestic financial institutions	113.263	159.151
International financial institutions	34.096	34.265
<b>Total</b>	<b>147.359</b>	<b>193.416</b>

### 15. Other Liabilities

	2019 US\$ '000	2018 US\$ '000
<b>Other Liabilities</b>		
Accounts payable	3.267	6.581
Withholding tax payable	38	52
Provision for Long service account	209	175
Letters of Credit	201	173
Operating accounts	5.765	35.136
<b>Total</b>	<b>9.480</b>	<b>42.117</b>



## 16. Capital and Reserves

The capital of the Bank is increased to \$70,000,000 (2018 - \$65,000,000).

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

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

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

Article 9 of the organic law no. 5/2011 on the Banco Central de Timor-Leste requires that the net profit of the Bank, after statutory deductions to the General Reserve Account and the Supplementary Reserve Account shall be transferred to the Government of Timor-Leste.

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

US\$ '000	2019	2018
<b>Transfer to Government</b>		
Net profit for the year ended 31 December 2019	6.550	4.342
Transfer to General Reserve Account	-6.550	-4.342
<b>Total transfer to Government</b>	<b>0</b>	<b>0</b>

For the year ended 31 December 2019, the transfer of surplus shall be taking into account, when the Governing Board approved the distribution of earnings to Government of Timor-Leste within four months after the end of financial year.

## 18. Contingent Liabilities

There were no contingent liabilities as at 31 December 2019.

## 19. Net Interest Income

	2019 US\$ '000	2018 US\$ '000
<b>Interest income from Financial Assets</b>		
Interest on deposits at foreign central banks	8,321	5,190
Interest on deposits at domestic banks	150	64
<b>Total interest income</b>	<b>8,471</b>	<b>5,254</b>
<b>Interest paid on Financial Liabilities</b>		
Interest paid on Government accounts	1,238	740
Interest paid to commercial banks	6	8
<b>Total interest expenses</b>	<b>1,244</b>	<b>748</b>

## 20. Fee and Commission Income

	2019 US\$ '000	2018 US\$ '000
<b>Fees and commissions</b>		
Currency withdrawal fees	15	23
Licensing and supervision fees	232	207
Government account management fees	500	500
<b>Total fees and commissions</b>	<b>747</b>	<b>730</b>

## 21. Petroleum Fund Management Fee

In accordance with the provisions of the Petroleum Fund Law No 9/2005 the Bank is entitled to charge a management fee for the operational management of the Petroleum Fund of Timor-Leste that reasonably represents the cost of managing the Petroleum Fund. The balance of Petroleum Fund at 31 December 2019 (unaudited) was \$17,692 million (2018 – 15,804 million).

Ministry of Finance agreed to covered internal management fee of BCTL up to 4 basis points on annual basis. The management fee received from the Petroleum Fund account for the period ended 31 December 2019 was amounted of \$14,081 thousand (2018 – \$13,959 or 9 basis points) or represented 7 basis points of the average balance of the funds. The management fees accrued at the end of the period was \$14,081 thousand and the fees covers expenses for custody services, external managers and Investment Advisory Board with the total cost of \$9,238 thousand or 66% of the entire cost. The management fees for BCTL internal management was amounted of \$5,074 thousand or 36% of the cost. Presented below is the petroleum fund management fee income per nature:

US\$ '000	2019	2018
<b>Total Petroleum fund management fee income</b>	14.081	13.959
External managers & custody mgmt services expenses	-9.063	-8.560
Investment Advisory management expenses	-261	-192
Others	317	0
<b>Net fee and commission income</b>	<b>5.074</b>	<b>5.207</b>

The breakdown of BCTL internal management fee expenses are as shown below.

US\$ '000	2019	2018
Salary, capacity building and Other personnel related costs	1.015	2.150
IT services, systems and data	1.624	1.060
Research, consulting and legal fees	1.268	839
Allocated common costs BCTL	913	996
Other costs	254	162
<b>Total BCTL operational expenses</b>	<b>5.074</b>	<b>5.207</b>



## 22. Personnel Expenses

US\$ '000	2019	2018
<b>Personnel Expenses</b>		
Salaries and related payments	1.669	1.621
Staff welfare payments	182	125
Capacity building and staff development	269	295
Representation at conferences and meetings	242	133
<b>Total personnel expenses</b>	<b>2.362</b>	<b>2.174</b>

## 23. Administration Expenses

US\$ '000	2019	2018
<b>Administration Expenses</b>		
Asset maintenance	58	50
Communications	90	54
Information systems	1.164	1.096
General expenses	44	74
Office Expenses	156	168
Professional fees	561	868
Other Assets management expenses	196	208
<b>Total Administration Expenses</b>	<b>2.269</b>	<b>2.518</b>

## 24. Petroleum Fund of Timor-Leste

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



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

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

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

The assets and liabilities of the Petroleum at 31 December 2019\* were as follows:

US\$ ‘000	2019	2018
<b>Petroleum Fund Assets</b>		
Cash and Cash Equivalents	921.876	725.099
Other receivables	32.684	25.799
Financial assets at fair value through profit or loss	16.758.013	15.072.096
Less: Pending Purchase of Securities & Account payables	(20.757)	(19.356)
	<b>17.691.816</b>	<b>15.803.638</b>
<b>Capital</b>	<b>17.691.816</b>	<b>15.803.638</b>
Capital	<b>17.691.816</b>	<b>15.803.638</b>

\*) the PF balance sheet is unaudited

## 25. Related Party transactions

### **Ultimate Controlling Party**

The capital of the Bank is held by the Democratic Republic of Timor-Leste and carries no voting or other rights of control. The Bank is established as a distinct autonomous public legal entity, endowed with administrative and financial autonomy and of its

own capital. Article 3.2 of Central Bank law no. 5/2011 gives the Bank complete legal, operational, administrative, and financial autonomy from any other person or entity, including the government and any of its agencies, and subsidiary organs or entities.

### **Governing Board**

There were three members of the Governing Board who were the executive management personnel. The compensation is determined by the Government through Government Decree No. 3/2015 of 21 January, which is disclosed below.

US\$ '000	2019	2018
<b>Executive Board members Compensation</b>		
Board members compensation (Included in personnel expenses)	286	258
<b>Total</b>	<b>286</b>	<b>258</b>

### **Non-Executive Governing Board**

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

US\$ '000	2019	2018
<b>Non-Executive Board Members Compensation</b>		
Sitting allowance (Included in personnel expenses)	85	86
<b>Total</b>	<b>85</b>	<b>86</b>

### **Key Management Personnel**

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

	2019 US\$ '000	2018 US\$ '000
<b>Key Management Personnel Compensation</b>		
Short-term employee benefits (Included in personnel expenses)	76	57
<b>Total</b>	<b>76</b>	<b>57</b>

### **Government-Related Entities**

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

## **26. Authorisation and approval of the financial statements**

As stated in the basis of preparation - Statement of compliance, these financial statements were authorised for issue by the Governing Board of the Bank on 31 March 2020.

## **27. Subsequent Events**

The existence of the Corona virus (2019-nCoV) was confirmed in 2020, with several zones in China and Europe being affected, maintaining the quarantine situation with no prediction of when its conclusion may be decreed. The virus has had a fast spread worldwide, and an effective vaccine / antibiotic has not been discovered to prevent/fight the disease.

Companies in the USA and the EU are already feeling an impact, having repercussions on the supply of goods from these countries. Given the speed which the situation is flowing, we cannot formulate a reliable estimate of the impact of this situation on the bank.





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(Translation from the original document in the Portuguese language.  
In case of doubt, the Portuguese version prevails)

## Auditor's Report

### REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

#### Opinion

We have audited the accompanying financial statements of Banco Central de Timor-Leste (the Bank), which comprise the Statement of Financial Position as at December 31, 2019 (showing a total of 704.433 thousands USD and a total equity of 77.312 thousands USD, including a net profit for the year of 6.550 thousands USD), the Statement of Profit or Loss and Other Comprehensive Income, the Statement of Changes in Equity and the Statement of Cash Flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view, in all material respects, of the financial position of Banco Central Timor-Leste as at December 31, 2019, and of its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards.

#### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and other technical and ethical standards and guidelines as issued by the Institute of Statutory Auditors. Our responsibilities under those standards are further described in the "Auditor's responsibilities for the audit of the financial statements" section below. We are independent of the Bank in accordance with the law and we have fulfilled other ethical requirements in accordance with the Institute of Statutory Auditors' code of ethics.

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

#### Emphasis of matter relating to Covid-19

The recent developments surrounding the Covid-19 pandemic (Coronavirus) have a significant impact on the health of people and on our society as a whole, increasing uncertainty around the operational and financial performance of organisations. The impacts and uncertainties resulting from the Covid-19 pandemic (Coronavirus) are disclosed in Note 27 of the Notes to the financial statements and reflect the expectations of the Governing Board of BCTL. Based on the information available at that date, the financial impacts of the event are uncertain, namely concerning the fair value of financial and non-financial assets. Our opinion has not been modified in relation to this matter.

#### Responsibilities of management and those charged with governance for the financial statements

The Bank's Governing Board is responsible for:

- ▶ the preparation of financial statements that presents a true and fair view of the Bank's financial position, financial performance and cash flows in accordance with the International Financial Reporting Standards;
- ▶ the preparation of the Management Report in accordance with the laws and regulations;
- ▶ designing and maintaining an appropriate internal control system to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error;
- ▶ the adoption of accounting policies and principles appropriate in the circumstances; and
- ▶ assessing the Bank's ability to continue as a going concern, and disclosing, as applicable, matters related to going concern that may cast significant doubt on the Bank's ability to continue as a going concern.

Those charged with governance are responsible for overseeing the Bank's financial reporting process.



## Auditor's responsibilities for the audit of the financial statements

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

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- ▶ identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- ▶ obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control;
- ▶ evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- ▶ conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern;
- ▶ evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation; and
- ▶ communicate with those charged with governance, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Our responsibility also includes the verification that the information contained in the Management Report is consistent with the financial statements.

Lisbon, 2<sup>nd</sup> April 2020

Ernst & Young Audit & Associados - SROC, S.A.  
Sociedade de Revisores Oficiais de Contas  
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# Notes



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