CHAPTER 2

DOMESTIC ECONOMY RECENT DEVELOPMENTS AND PROJECTIONS

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.

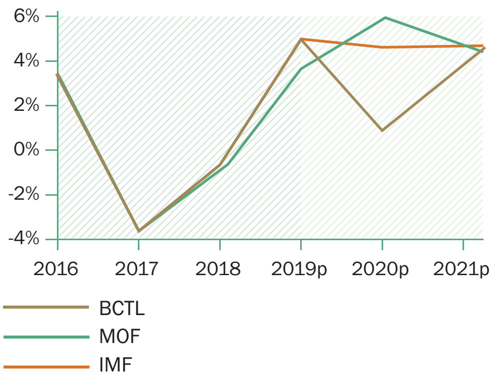
Economic Activity and Inflation

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

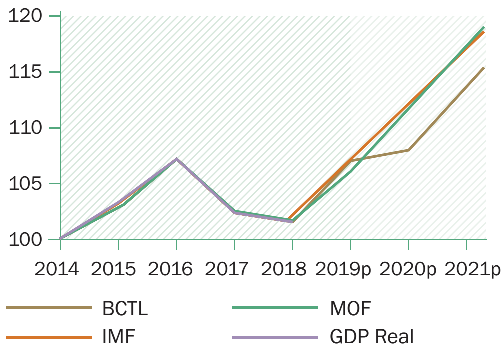
GDP Real Growth
% annual change



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.

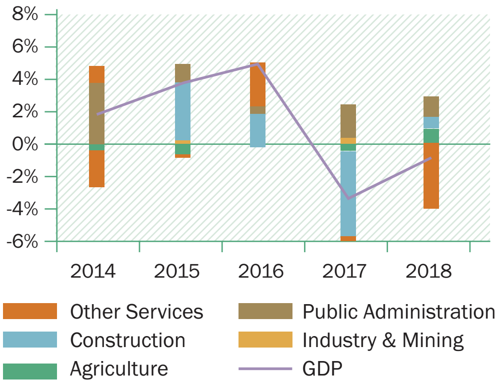
Chart 2.2b presents the contributions to GDP growth in terms of expenditure aggregates. Despite the contraction in 2018, the fall in GDP slowed down in 2018 versus 2017, due to the recovery of domestic public demand, which offset a large part of the combined decline in private demand, external demand 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.

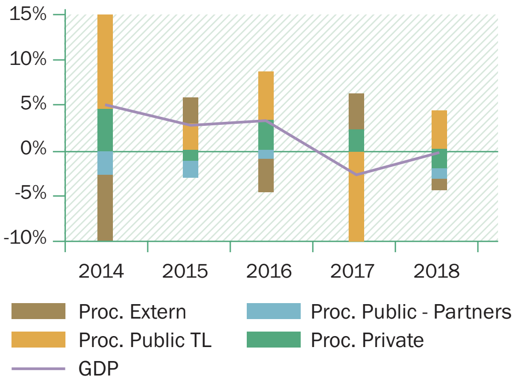


Source: DGE and BCTL

Chart 2.2b

GDP Real Growth - Spending Aggregates

% annual change and contributions.



Source: DGE and BCTL

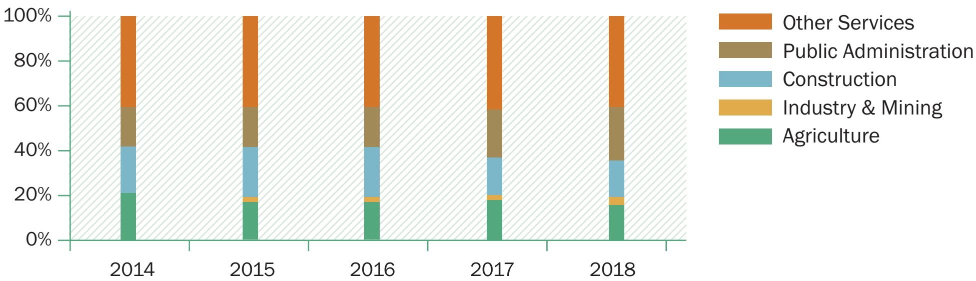
Public administration continued to be the most important activity sector in the economy.

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

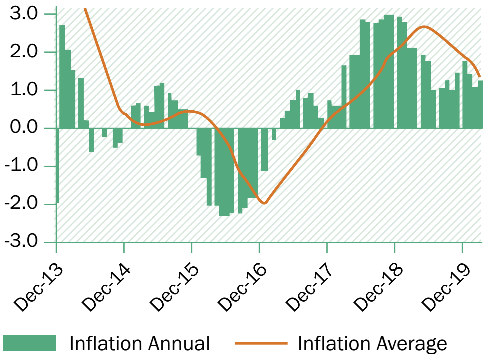
Annual inflation, assessed by DGE for Dili CPI data, was 0.9% in December 2019, representing a decrease compared to the 2.5% recorded in December of 2018. As can be seen in the following charts, inflation eased over the year after the pickup recorded in 2017 and 2018 from the negative rates of 2016. 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 inlflation 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

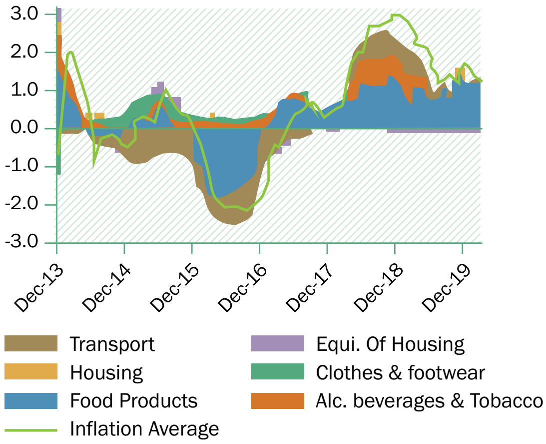


Source: DGE and BCTL

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
Total	**2.5**	**1.8**	**1.3**	**1.8**	**0.9**

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.

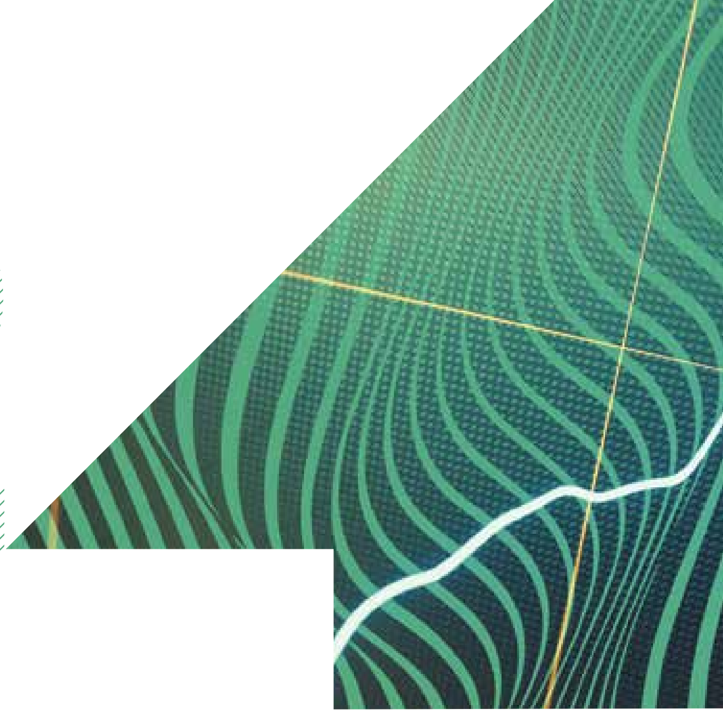
BCTL's 2020 and 2021 inflation projections are below 2% annually, which corresponds to a low and stable inflation outlook.

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.

2.2

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
Total Revenue, Excl. Loans Tax Gov.	**181**	**173**	**188**	**-4%**	**8%**	**88%**	**96%**	**95%**
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%
Total Expenditure	**1,225**	**1,160**	**1,229**	**-5%**	**6%**	**88%**	**91%**	**84%**
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%
Financing								
Estimatedb 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 anélise do BCTL

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.

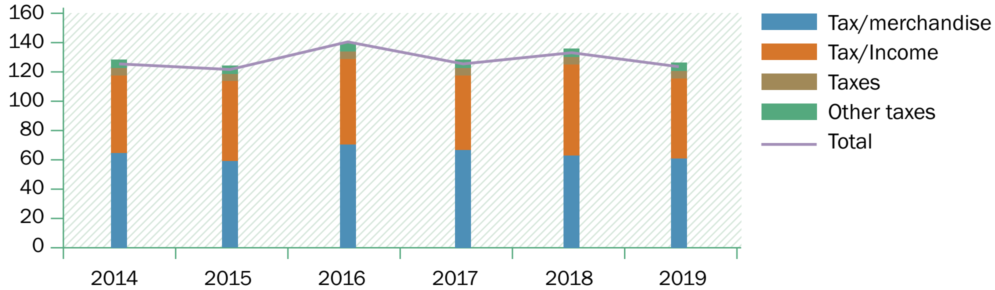
In 2019, on a cash basis, non-oil domestic revenue totaled $188 million, an increase of 8% over the previous year. This expansion thus bucked the consecutive decreases of -4% and -7% recorded in 2018 and 2017. The increase in revenue resulted from the substantial increase in non-tax revenuex (+80%) and, 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

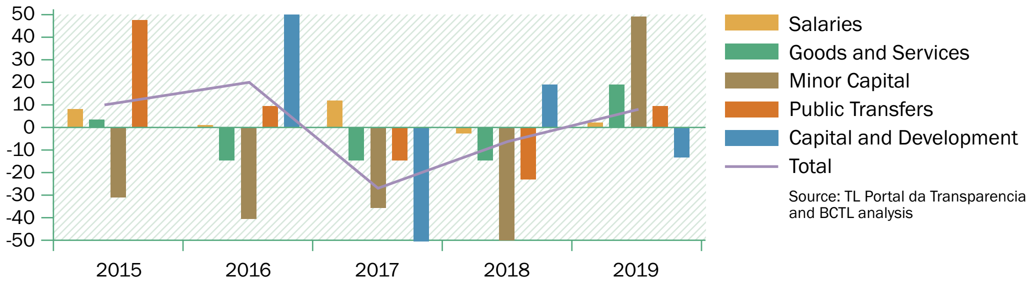
The substantial rise in overall public expenditure resulted mainly from the expansion of recurring expenses, which registered a nominal increase of 13% in 2019, reversing the consecutive declines of 2017 and 2018. Note that recurrent expenditure continued to be the main component of public spending, 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



Source: TL Portal da Transparencia and BCTL analysis

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%
Total	**263**	**399**	**430**	**52%**	**8%**	**100%**	**100%**

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.

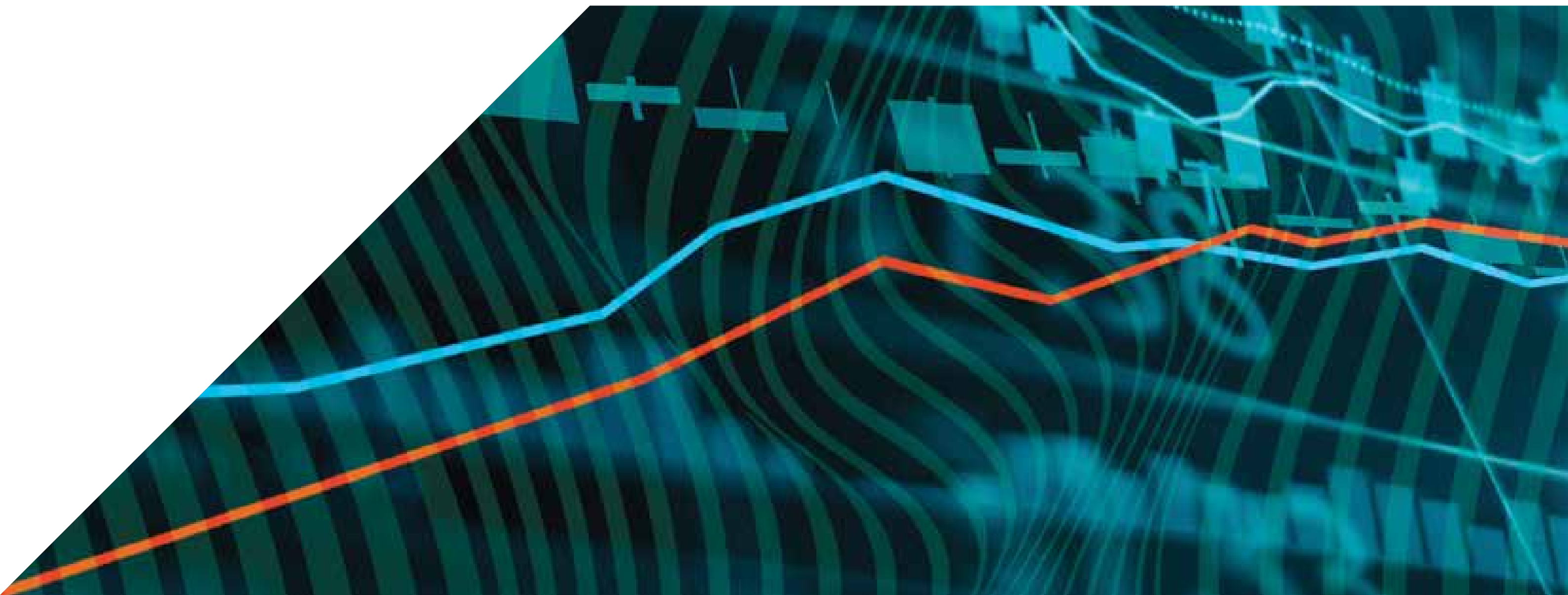


Table 2.4 Infrastructure Fund – Relevant Subprograms

	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%
Total IF Incl. Loans	**231**	**385**	**366**	**641**	**100%**	**100%**	**100%**	**100%**

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.

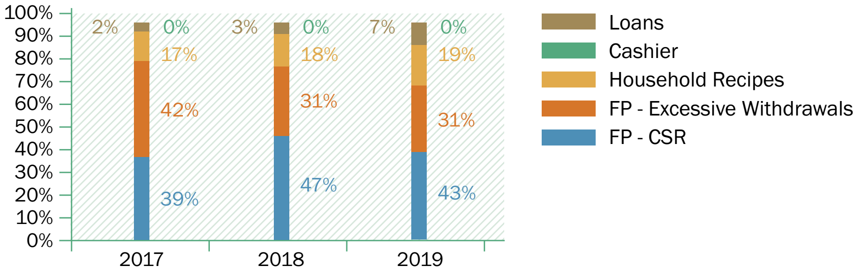
With this renewed pickup in PF's wiithdrawals versus 2018 ($ 985 million), the PF's annual outflow remains well above its estimated sustainable income (ESI) level, valued at $529 million in 2019. This development, in line with what has happened in the last years, again extended the structural reduction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

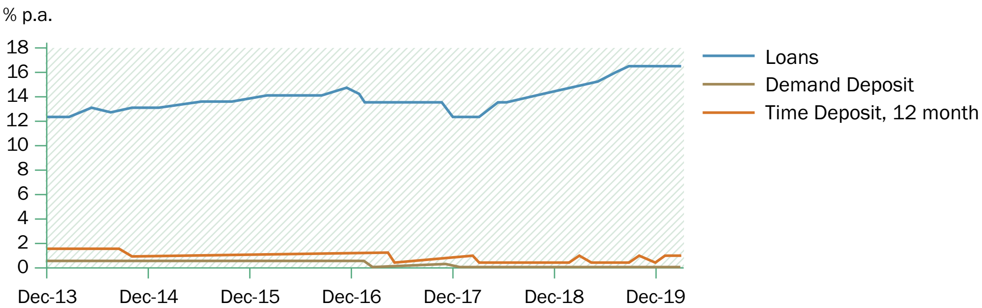
2.3.1. Interest Rates

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



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

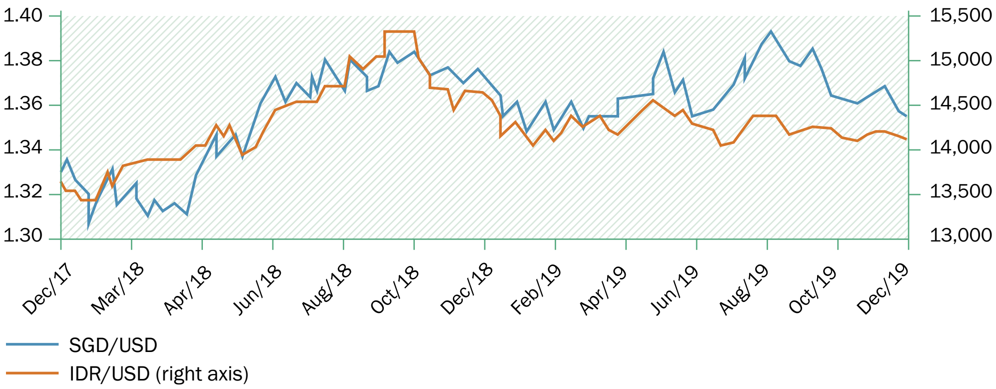
2.3.2. Exchange Rates

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



Source: Bloomberg

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

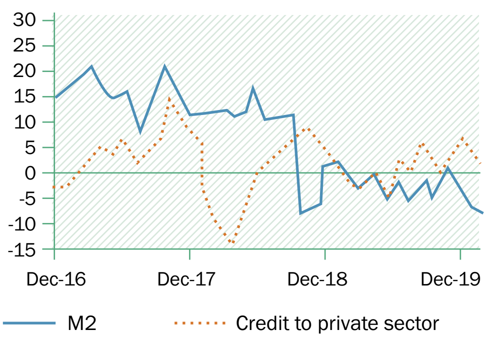
The compilation of monetary and financial statistics is used to assess relevant developments and in our monetary and financial systems.

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

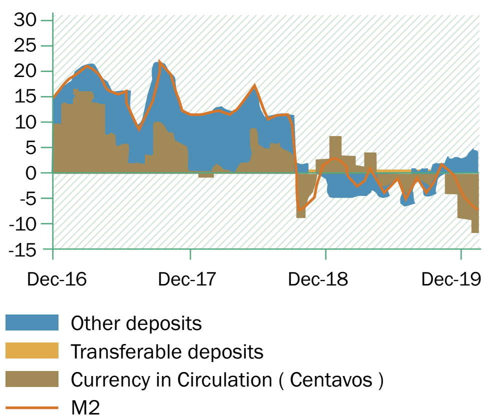


Source: BCTL

Chart 2.12

M2 and its Components

M2 and its Components



Source: BCTL

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.

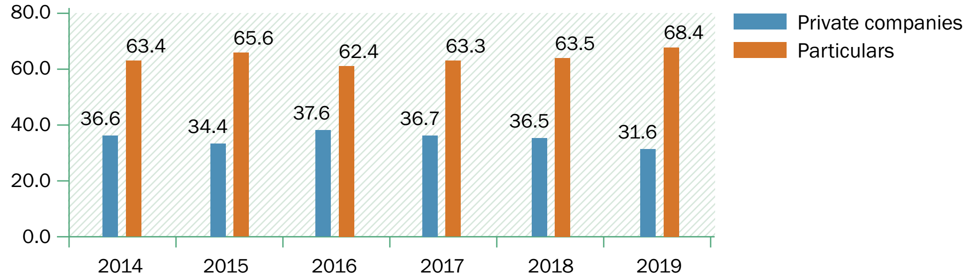
It is also important to analyze the evolution of the money supply's components, presented in chart 2.12. Total deposits were the main driver of the fall in money supply, as they decreased -$63 million in 2019, reversing the rises registered in 2017 and 2018.

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	0.0	0.0
deposit	-58.9	-140.9
Net Foreign Assets	161.4	130.3
Other net Assets	67.1	63.5
M2	**25.7**	**-60.3**

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)

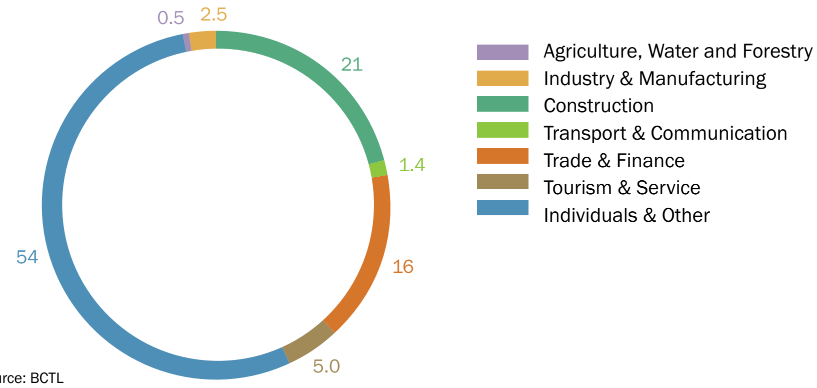
	Saldo		Variation		contribution empp.	weight (%)
	Dec-18	Dec-19	Nominal	Growth %		
Agriculture, Water and Forestry	1.0	1.1	0.1	10	0	0.5
Industry and Manufacturing	14.1	5.8	(8.3)	-59	-4	2.5
Construction	55.6	48.9	(6.7)	-12	-3	21
Transport & Communication	5.6	3.1	(2.5)	44	-1	1.4
Trade & Finance	41.3	35.8	(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
Total	**221.8**	**231.2**	**9.47**	**4.3**	**4.3**	**100**

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 otal 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.

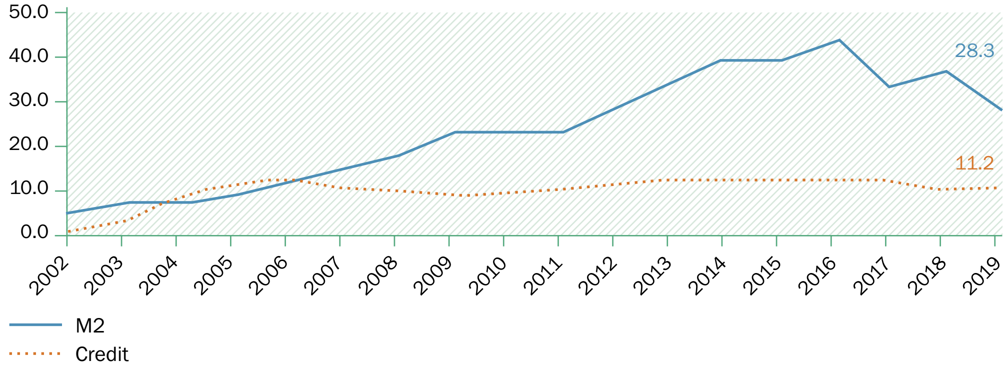
2.3.6. Financial-Depth Indicators

The degree of financial-depth, or degthe ree 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

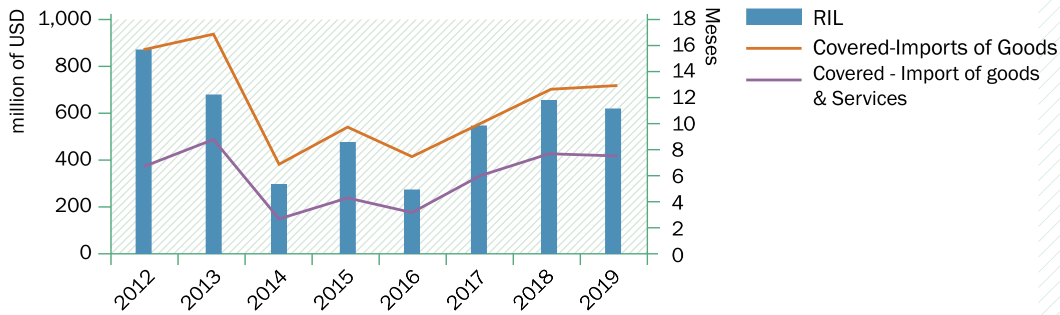
2.4.1. Net International Reserves (NIR)

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 anual decline of -$18 million, which follows the sucessive 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

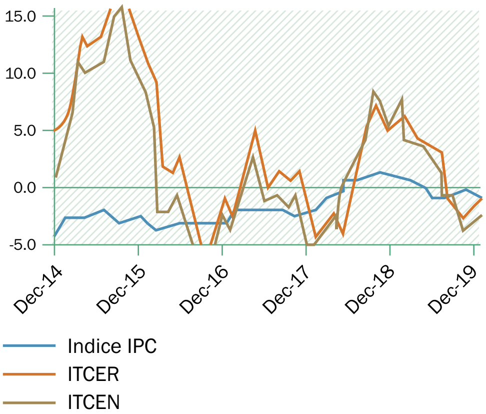
The REER depreciated slightly, or -1.5%, in 2019, thus offseting only a portion of the appreciation recorded in 2018.

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

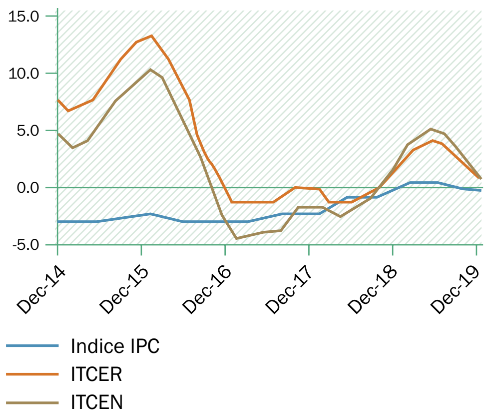


Source: Bloomberg and BCTL analysis

Chart 2.17b

REER Index

% annual change



Source: Bloomberg and BCTL analysis

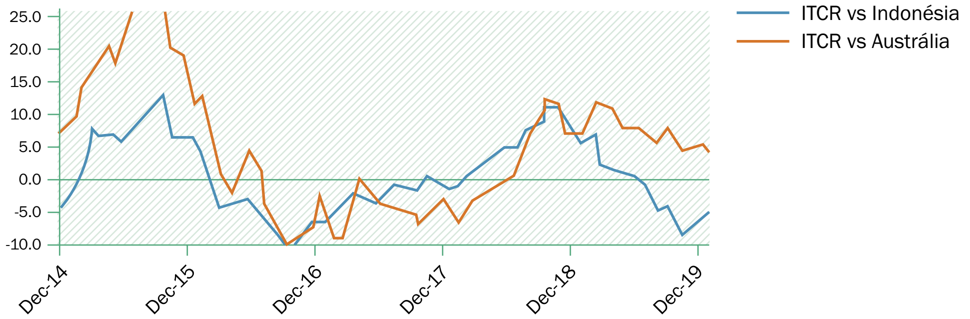
This development was mostly due to the nominal depreciation of the dollar against the currencies of our Commercial partners. The Nominal Effective Exchange Rate Index (NEER) registered an annual decline of -2.4% in 2019, which only cancelled a part of the nominal appreciation in 2018 (+5.3%).

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 Billateral 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

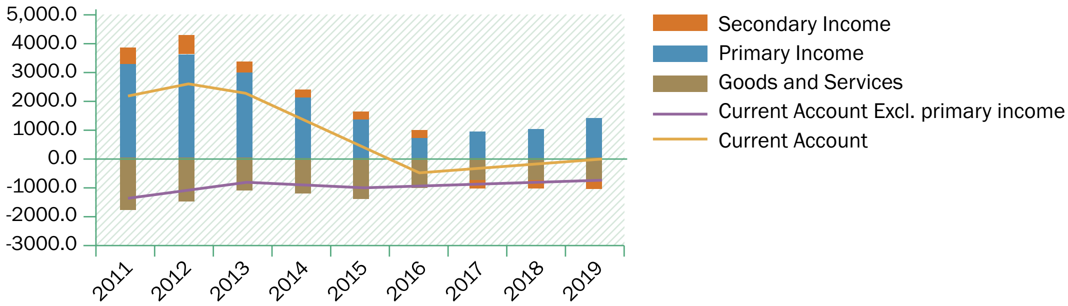
2.5.1. Current Account

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.

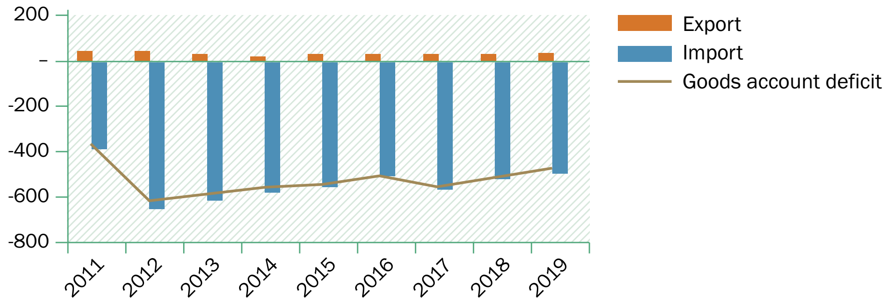
The goods trade account continued to record a substantial deficit, which amounted to $566 million in 2019.

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.

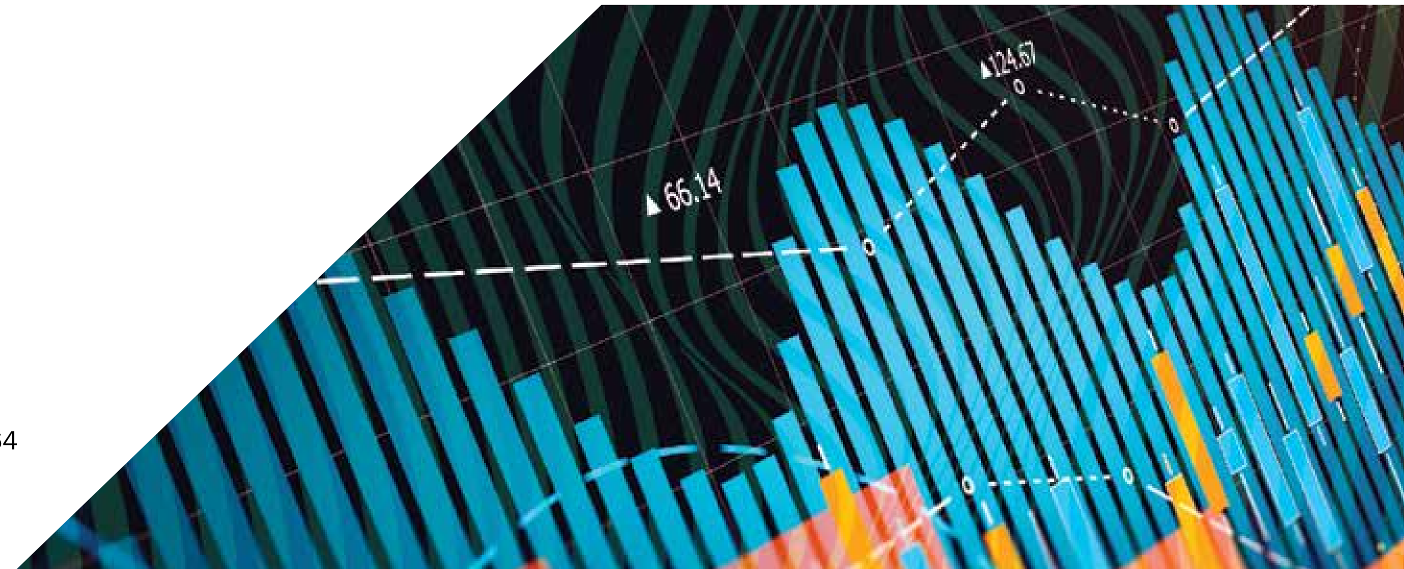
Chart 2.20

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%
Total	**22**	**24**	**8%**	**100%**	**100%**

Source:DGE and BCTL Calculation

Coffee exports' value increased 8% in 2019 to $24 million[1]. 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.

1 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.

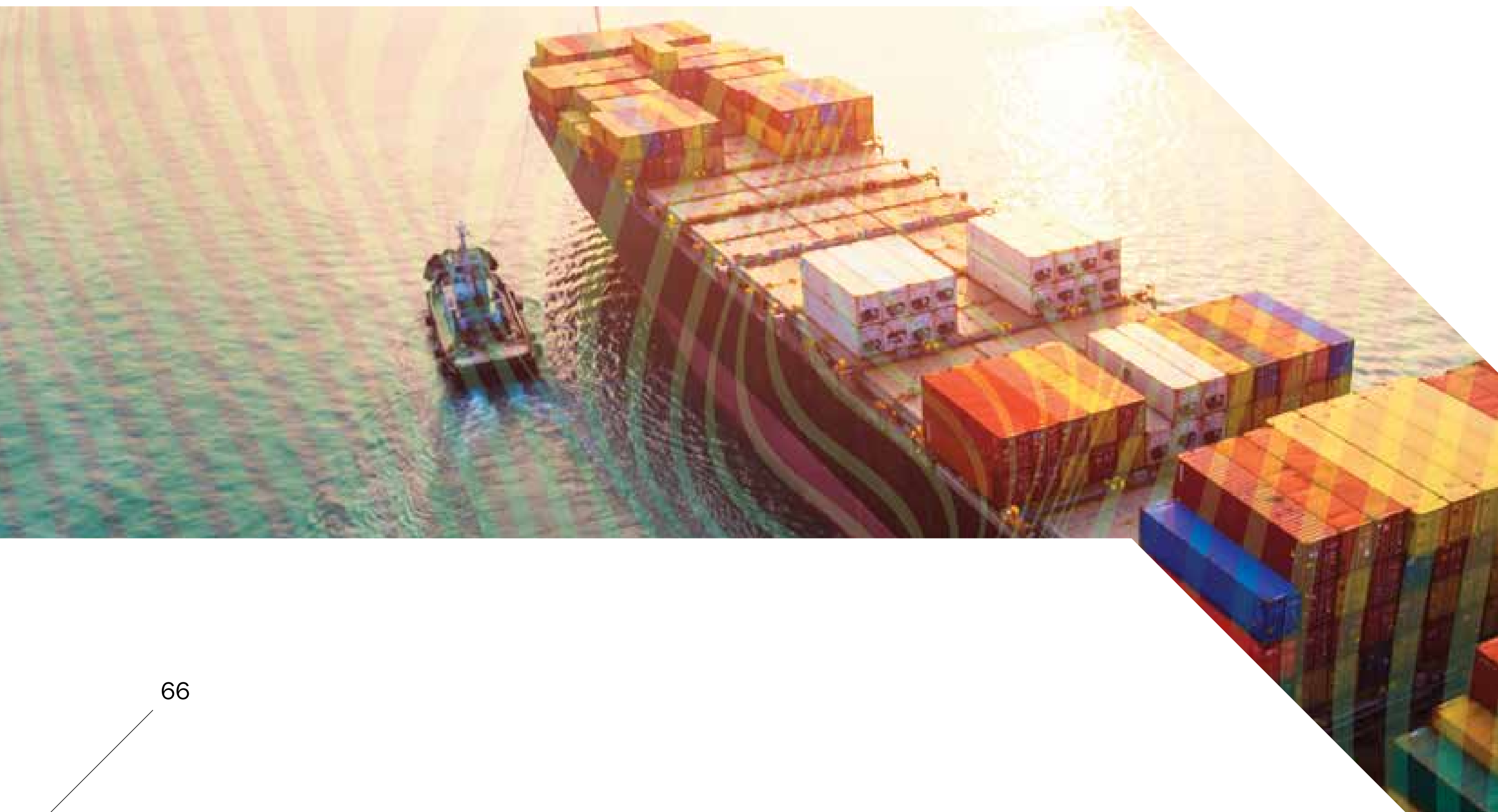


Table 2.10 Imports – Main Imported Articles

	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%
Total	**543**	**535**	**-2%**	**100%**	**100%**

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%
Total	**525**	**535**	**2%**	**100%**	**100%**

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.

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

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.

2.5.1.2. Services Trade Balance

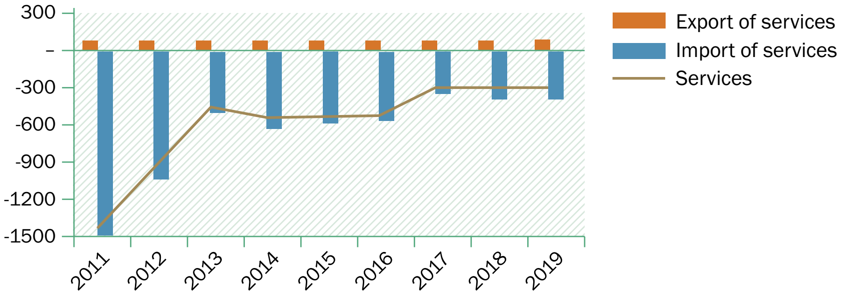
The services trade account recorded a deficit of -$357 million in 2019, which resulted in a slight increase compared to 2018.

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 pratically 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

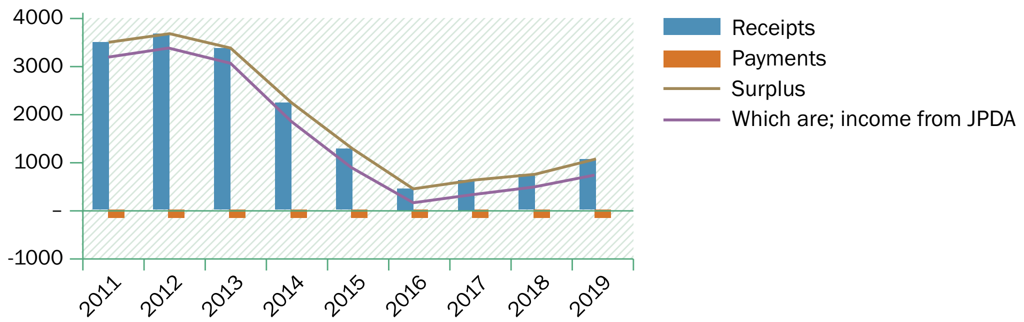
The increase in oil revenues in 2019, which include the fees and 'royalties' received from oil exploration in the Timor Sea - the joint petroleum development area (JPDA) - was the main driver behind the rise in the primary income account's balance, to $1126 million in 2019. This increase has, in turn, 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**
Financial Account Operation	**250**	**-83**
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 substantative 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 Dec-18	Dec-19	% of Total Assets	% of Changes
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%
Total	**1,239,965**	**1,383,813**	**100%**	**11.6%**

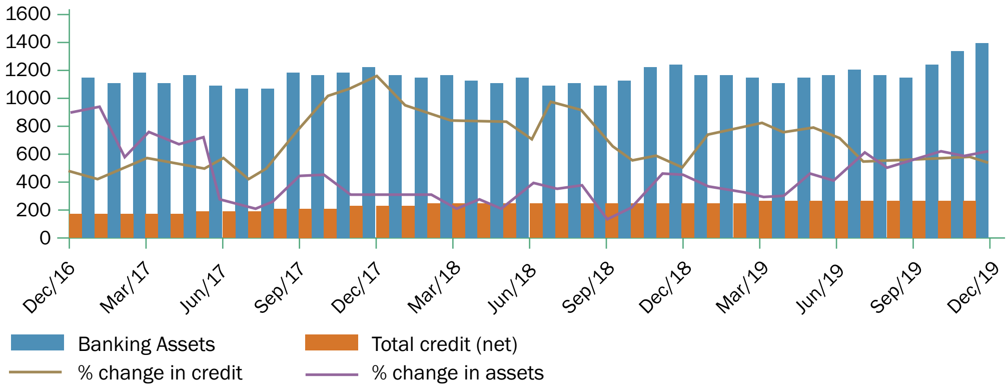
Source: BCTL

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



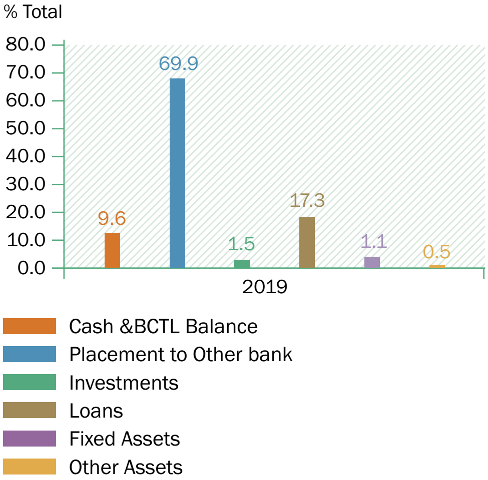
Source: BCTL

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

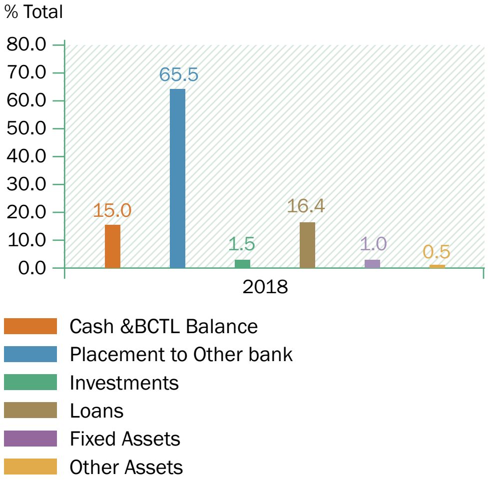
Banking Assets Composition



Source: BCTL

Chart 2.24b

Banking Assets Composition



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.

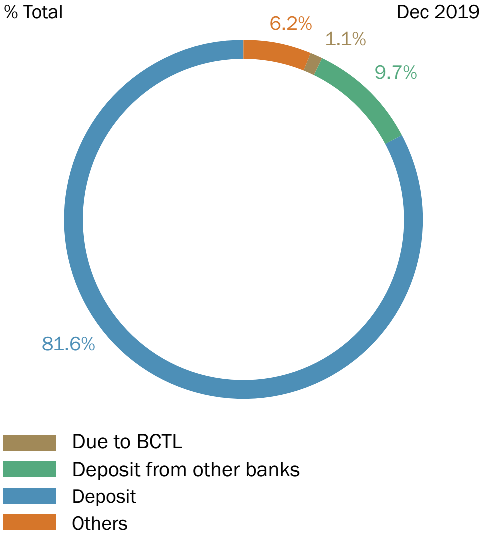
In 2019, funds owned by the Central Bank and deposited in commercial banks decreased -$3 million (-15%), which reduced their weight of overall liabilities to 1.1%, after falling -0.4% over the year.

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

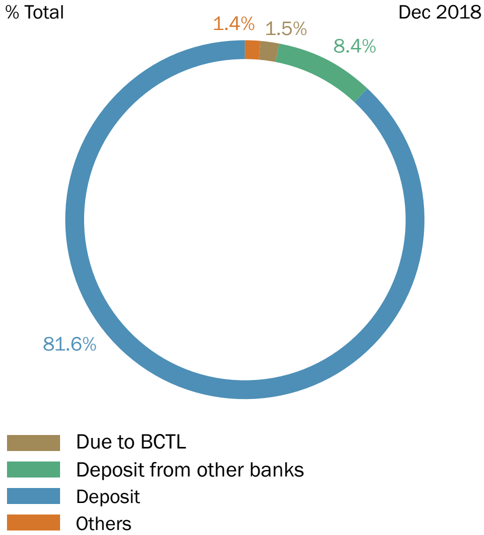


Source: BCTL

Chart 2.25b

Banking Liabilities Composition

% Total



Source: BCTL

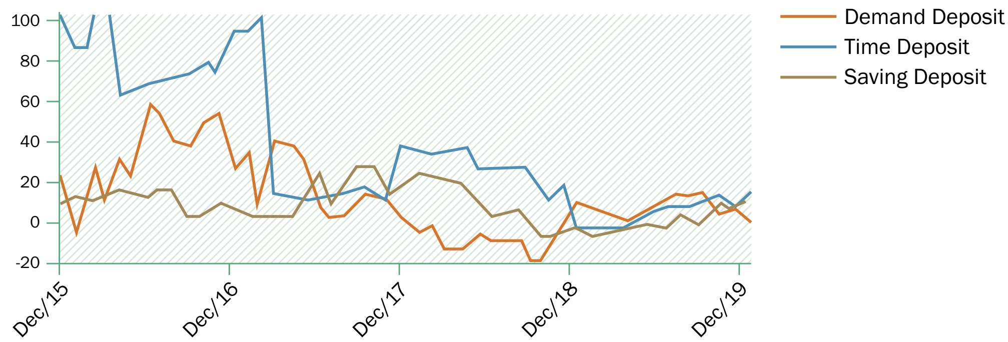
Fixed-term and savings deposits' growth more than offset the decline in checking-account deposits.

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



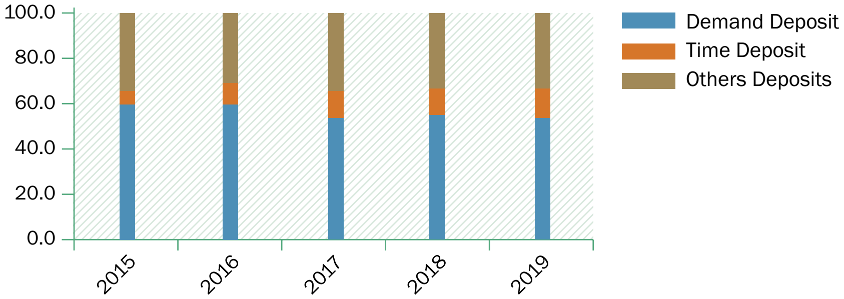
Source: BCTL

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

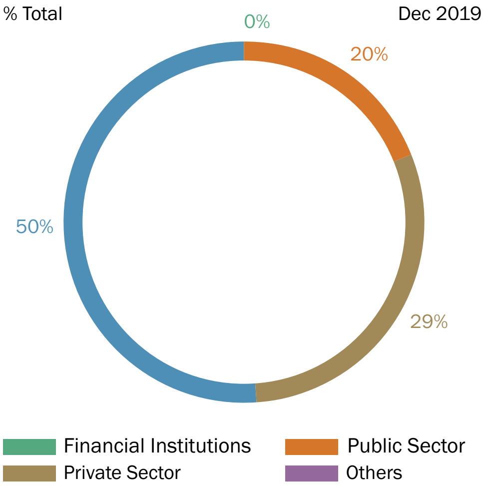
With regard to deposits held by residents, there were no significant changes in composition, as retail deposits continue to represent the largest share of overall deposits. However, it should be noted that the value of corporate deposits recorded a significant reduction of -$61 million in 2019.

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

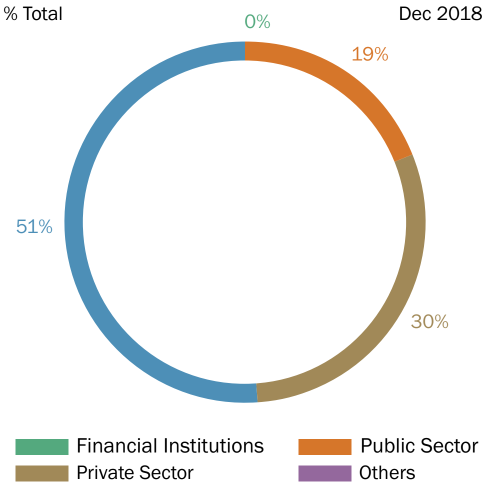
Residents' Deposits Composition



Source: BCTL

Chart 2.28b

Residents' Deposits Composition



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%
Gross Operating Result	**41**	**49**	18%	100%	100%
Provisions and Impairments	-5	-4	-31%	-13%	-8%
Operational expenses	-21	-22	9%	-50%	-46%
Net Operating Income	**15**	**23**	48%	37%	46%
Net income	**14**	**21**	47%	34%	43%
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 tranfers 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 outword 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.

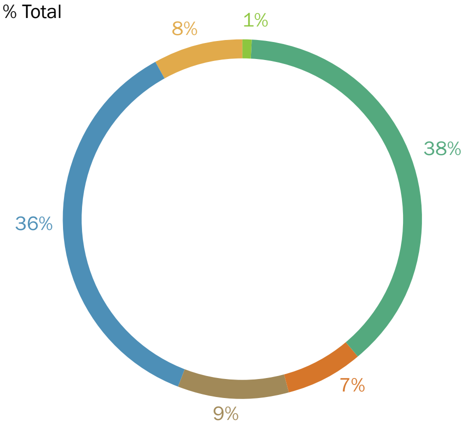
In geographical terms, most of theses inflows were originated in Europe, or $44 million in 2019 (66% of total) and consisted mostly of remittances sent by Timorese nationals that live and work in Europe. Outward remittances were mostly forwarded to the Asian region ($112 million), especially to Indonesia ($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.

Chart 2.29a

MTOs Inward Transfers, by Purpose

% Total



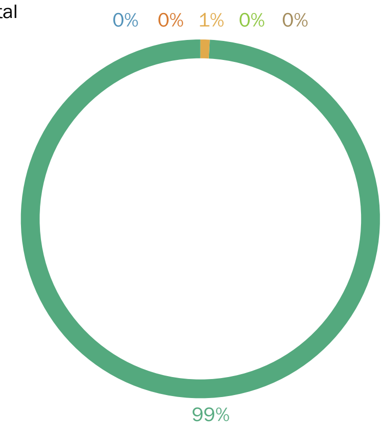
Family
Education
Investment in enterprises
Payment of Purchases
Saving
Others

Source: BCTL

Chart 2.29b

MTOs Inward Transfers, by Purpose

% Total



Family
Education
Investment in enterprises
Payment of Purchases
Saving
Others

Source: BCTL