

Economic Bulletin



A Quarterly Publication of the Central Bank of Timor-Leste

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I. Timor-Leste Merchandise Trade

Timor-Leste is well recognized as an open economy. The degree of coverage of the economy, in average for 10 years to 2013, is about 32%. Reached 64% in 2012 while declined to 46% in 2013 as both the value of export and import were reduced while the non-oil GDP is increasing.

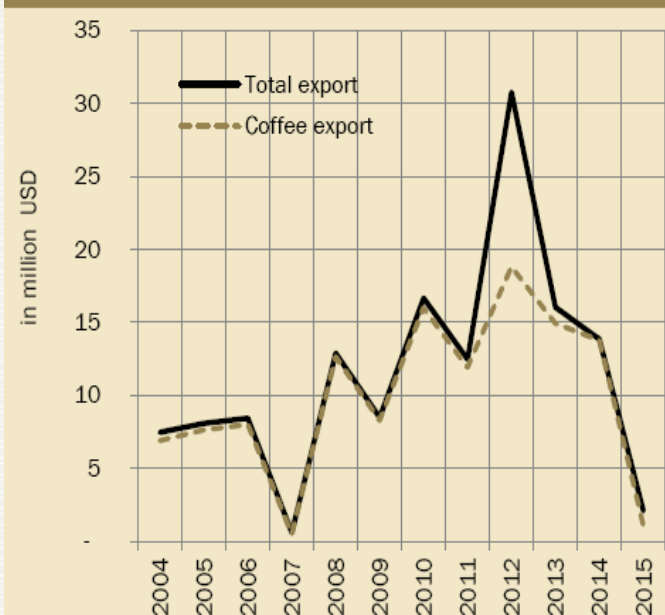
While the effort has been made to increase the import substitutions, trade statistics continue record huge deficit. In average, from 2004 to 2015, trade deficit record about 95.5%, which total export (exclude oil and gas) represent only 4.5% of import during the period.

The total value of goods exported up to September 2015 weaken to USD 5.7 million compares with Sep-

tember 2014 of USD 9.3 million, has declined by 38.7%. It was not expected to record a low value of export, however, that could be due to the low level of the crops, results from the long period of dry seasons. Coffee export accounted by 82% in 2015 while it was 99.5% in 2014. In average, for 10 years, coffee export recorded about 95% of total export, situated at USD 10 million.

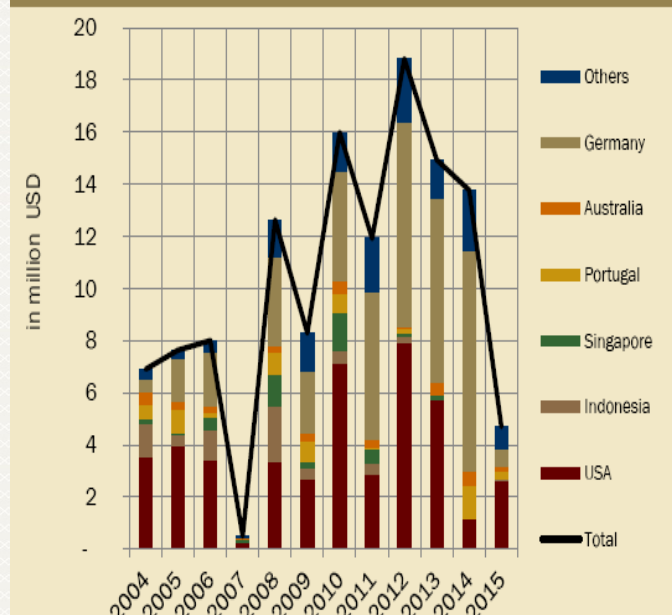
The main destination of coffee export is to the United State and to Germany, denote, in average of 10 years, about 38% and 30% respectively. Export to USA recorded 56.4%, surpassed those to Germany of 14.2%, for the year ended September 2015. By contrast, the year 2014, coffee export to Germany placed at 61% against 8.7% of USA.

Chart 1. Timor-Leste Export



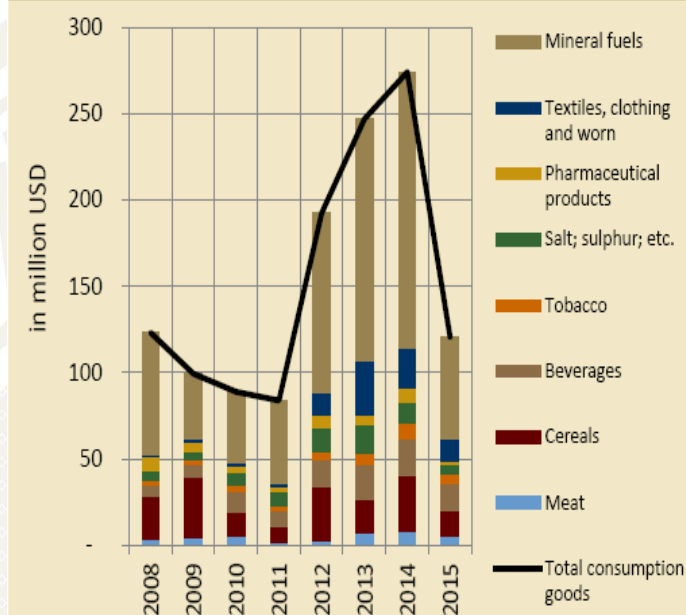
Source: General Directorate of Statistics

Chart 2. Export by Country of Destination



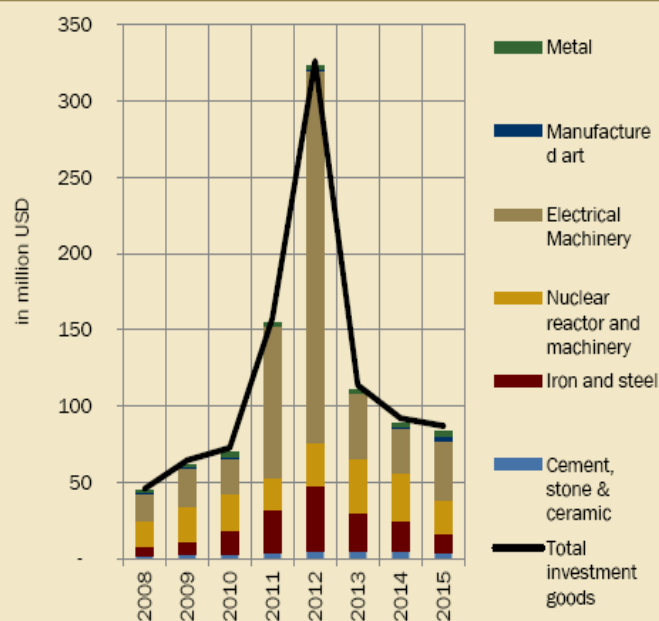
Source: General Directorate of Statistics

Chart 3. 8 Main Consumption Goods Imported



Fonte: General Directorate of Statistics and BCTL analysis

Chart 4. Investment Goods Imported



Fonte: General Directorate of Statistics and BCTL analysis

The total value of goods imported during the year to September 2015 about USD 418.5 million, compared to USD 402.3 million for the same period of 2014, recorded an increase of 4%.

Restructure the items of goods imported into the purposes, we divided the goods imported for the purpose of consumption and for investment. Noted that goods imported for consumption represent, in average for 8 years since 2008, about 70% of total goods imported. Mineral fuels represent 20% of total goods imported or about 28% of goods for consumption.

By looking at the weight of goods import for consumption and investments, it is noted that the behaviour of country's internal demand of goods is more for consumption, include demand for cereals, which in average denote about 8%.

The power plant constructions push goods imported for investment to increase a lot in 2011 and 2012, especially related to electricity equipment, resulted in the continue high import for mineral fuels in succeeding years. Interesting that cement imported represents, in average for 8 years, only 1% of total import goods for investment, reached USD 1.9 million in 2014, register an increase of 18.7% from 2013, while just about USD 0.8 million in 2015 (September) compared with USD 1.7 million at the same period of 2014. If a sack of cement cost 5 dollars then the economy is imported

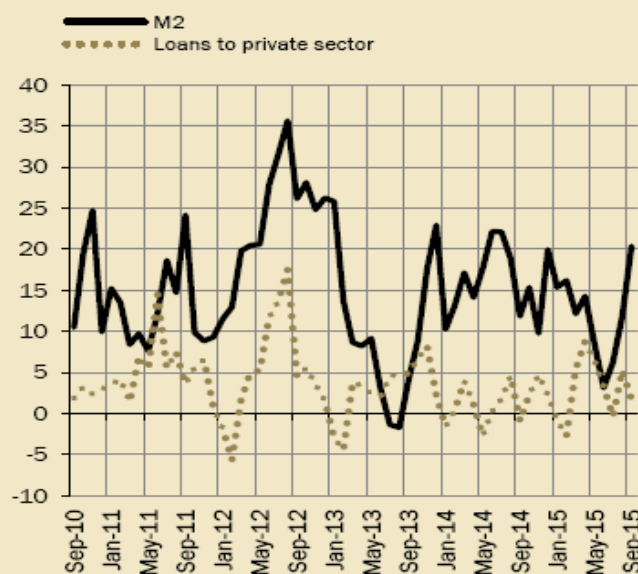
about 150 thousand sack of cement during 2015. We expected this is sufficient for the current construction development of the country.

Manufacture's articles, an item in which is expected to have more presence for the development of manufacture in the country, again represents only 4% of total investment goods imported in 2015, however is increasing against 1% record in 2014. This low importation of manufacture's goods could be seen as a signal of current situation of the country's private sector. It seems the intention and the effort to produce in the country still low. Whilst the government has provide conditions, such as sufficient electricity and others to support it for instance, however, there could be some other reasons. It could be too costly produce in the country.

It is noted that the tendency of country's imports is closely related to the government budget executions, as the budget increases the import tend to rise and vice versa. In 2013 for instance, when the growth rate of government budget's execution reduced by around 10%, compared to 2012, the total import is declining about 26%. In 2014, as the budget executions increases by 26.5%, the imports increase by 12%. For 2015, it seems a little inverse, when compare the data for September 2015 to the same period of 2014, the budget execution declined by about 10% while the total import showing an increase of 4%.

Chart 5 Broad money growth

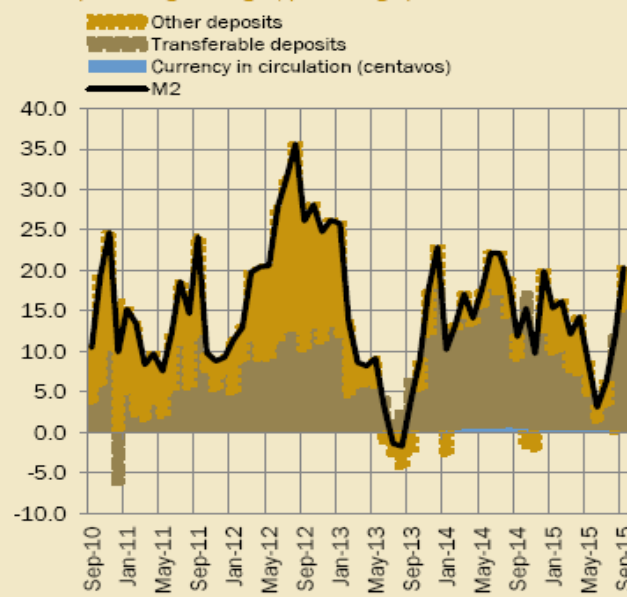
Year on year percentage changes



Source: BCTL

Chart 6 M2 and its components

Annual percentage changes; percentage point contributions



Source: BCTL

II. Recent Monetary and Credit Development

II. a. Money Supply

Monetary statistics data is used to ensure the importance analysis on the information gathered from money and credit to be considered in the monetary policy's decision-making process and it provides a cross-check from a medium to long-term perspective of the assessment of risks to price stability based on the economic analysis. The central bank of Timor-Leste however continues to ensure the analysis on monetary data and its effect in the economy. The monetary data is compiled and published monthly.

The analysis on M2 growth has strengthened in the quarter. The annual growth rate of M2 in September has increased, driven mainly by transferable deposits, the short term deposits. Reversing the slowdown in the growth rate recorded in the last quarter, which just grew by 3.1%, this quarter of September M2 has grown by 20.4%. The increase, in some extent, was followed by positive credit development from the banking system to private sector, and the increase in its net foreign assets (NFA). As the intermediary between those that have excess of the fund and those who lack of fund, banks have been performing their role by receiving and channeling the fund from and to the private sector in the economy, while for some reason they have to also diversify their assets by deposit or investing the fund abroad.

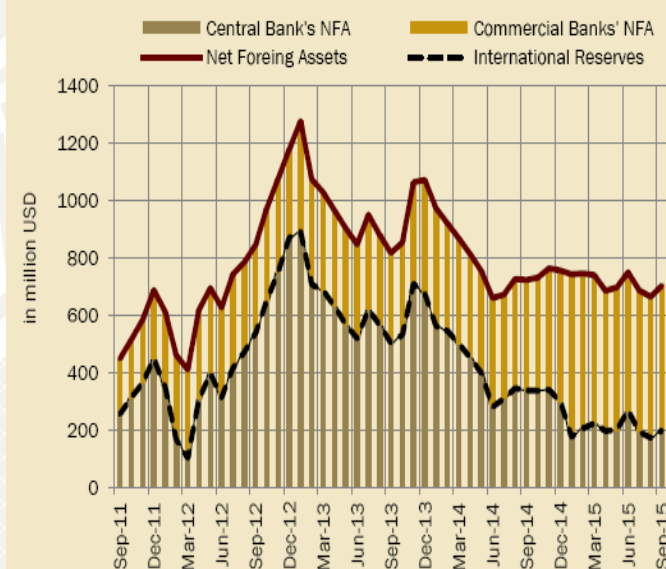
In fact, the development in cash withdrawal by depositors in the September quarter was decreasing, reflected by the increase in the deposits of both corporations and individuals. The annual growth rate of deposits of corporations increased by 11.5% in the quarter compared to a reduction of 1.2% in the previous quarter. Further, the individuals' deposits increased by 13.7% in relation to a 3.8% increase in the last quarter.

Transferable deposits, or the demand deposits, as the main driver of increase in the broad money, M2, has grown annually by 28% in the quarter under review, reversing an upsurge of 1.6% observed in the last quarter, contributed by 14.7% to the growth rate of the M2 in the September quarter. Time and savings deposits or called other deposits in monetary statistics, in conjunction, raised by 11.4% followed by an increase of 3.9% in the last second quarter of 2015. Together they contributed by 5.2% to the increase of the M2 in the quarter.

The currency in circulation (centavos) continues to grow, while slowing, rising by 22.2%, followed by a 27.4% increase in the second quarter of 2015, contributed by 0.5% to the upsurge of M2 in the quarter.

The annual growth rate of credit to the private sector grew by 13.2% followed by a 10.2% increase observed in the second quarter of 2015. The total amount of credit up to the September quarter represented 40.7% of M2, declining from 46% recorded in the second quarter.

Table 7 Net Foreign Assets



Source: BCTL

This development of the reduction was due to the large increase in the growth rate of deposit compare with the credit. The conditions to push banks to continue tighten their credit's terms and condition for approving loans still high. As the result, elevating the foreign assets.

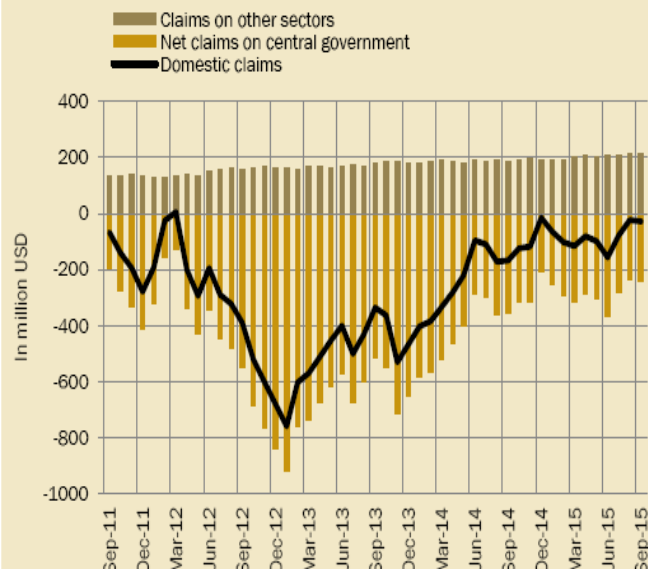
II. b. Net Foreign Assets

The annual growth rate of net foreign assets (NFA) for the financial system or the depository corporation were decreased, has reduced by 2.7%, reversing an increase of 13.6% observed in the second quarter of 2015. In fact this progress mostly was due to the decline in the central bank's NFAs, diminished by 40%, following a 4% reduction recorded in the last second quarter of 2015. While, the commercial banks' NFAs has increased, rising by 31.2%, followed a upturn of 26.8% perceived in the last quarter.

The main driver of the changes in the commercial banks' NFAs was the increased in its claims on non-residents, mostly from the other deposit, time and savings deposits, rising by 39.7%, followed by a 29.7% upsurge record in the last second quarter of 2015. Its liabilities declined by 9.9% before dropped by 13.3% in the last quarter.

While the decline in the central bank's NFAs was due to the reduction in its foreign currency and other deposits by 21.7% and 18.1% respectively. The BCTL's liability

Table 8 Domestic Claims



Source: BCTL

on non-resident continue decreased, due to exchange rate changes in the SDR allocation with the IMF, has reduced by 5.3% after a reduction of 8.7% in the second quarter of 2015.

II. c. Net Domestic Assets

Domestic assets mostly composed by claims on central government (net) and claims on private sector. Net claims on central government contain credit and liabilities to central government from the financial system. Actually, there is no credit from the financial system to the government of Timor-Leste, therefore the net claims on the central government, in the monetary statistics' point of view, is negative, which means that all corresponding amount is government deposits or the depository corporations liabilities to the central government. Simultaneously, claims on the private sector consist of credit to domestic private sector and others claims.

The annual growth of Domestic Claims decreased in the third quarter of 2015, has reduced by 83.4% , reversing a 63.5% upsurge observed in the last June quarter. This development of domestic claims mostly has contributed by the decline in the liabilities of depository institutions, especially the central bank, to the central government, recorded about 68.7%. While, the claims on private sectors, that reduce the

effect of increase in liabilities of depository corporations to the central government, contributed by 14.7% to the growth rate of domestic claims, record a growth rate of 13.2% in the quarter. From the total claims to private sector in the September quarter, loans represent about 90.7%, recorded an increase growth of 10.9% followed by 8.5% observed in the last quarter.

Part of subdued increase in the credit to private sector is accounted by sharp rise in provision for non-performing loans by banks, which is deducted from gross lending to arrive at the reported net figure of borrowing. Gross lending recorded in the September quarter of 2015 amounted to USD247 million with provisions for NPL of 22.7%.

Sector that has been receiving more credit from the commercial banks up to the quarter is individual, representing 45.1% share of total loans, however just recorded a growth rate of 2.4%, which contributed 1.2% to the growth in the quarter.

The second main share in the credit is construction sector, placed at 27.1% in the quarter, with a growth rate of 37.9%, which gave more contributions to the total growth of the credit in the quarter, recorded about 8.3%. In turn, the main growth occurred in the quarter were from the tourism and services sector, growing by 63.1%, while just contributed about 3.2%, due to the small amount of share in the total credit, which represent 7.4% in the quarter.

Credit to agriculture sector has significant growth in the last quarter of 2015, recorded a growth rate of 577.5%, which contributed about 4.2% to the total credit growth, in fact rose by only 2.8% in the quarter. The industry and manufacturing sector even declined, has reduced by 12.4%.

To safe a sound and stable financial system, the central bank has put as a tools of macroprudential policy, the liquidity requirement of 15% to the banks. The banks hold liquid asset more than the requirement of the Central Bank. This liquidity requirement also as a signal of the tools to channeling the fund to the economy via credit, then the output of the country.

II. d. Interest Rate

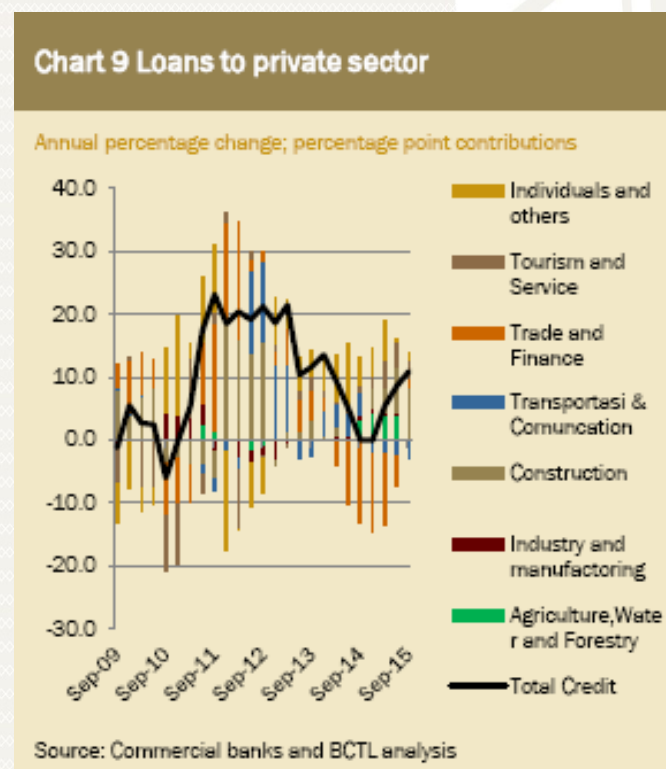
In the basic economy, when the money supply increase, means that more money is available in the economy for borrowing, in line with low demand for money, it tends to reduce the interest rates, or the price for borrowing money down. Similarly when the money supply decreases, it will tend to push up the interest rates. However, this will work if the banks feel there are competitions for lending.

Money supply in Timor-Leste continue to increase, with high excess liquidity, however as there are other factors, it does not influence the interest rate. The weighted average interest rate of loan stood at 13%.

Table 1 Credit to Private Sector (in thousand USD)

Sector	2014	2015		Change from Sept 2014	% point to contribution	Sept Share (%)
	Sept	June	Sept			
Agriculture, Water and Forestry	6,341	8,489	6,516	2.8	0.1	3.4
Industry and manufacturing	3,056	3,315	2,677	-12.4	-0.2	1.4
Construction	37,828	48,053	52,181	37.9	8.3	27.1
Transport & Comunication	19,306	15,370	14,239	-26.2	-2.9	7.4
Trade and Finance	13,757	12,783	16,000	16.3	1.3	8.3
Tourism and Service	8,747	15,005	14,262	63.1	3.2	7.4
Individuals	84,764	85,773	86,817	2.4	1.2	45.1
Total	173,799	188,788	192,692	10.9	10.9	100.0

Source: Commercial banks and BCTL analysis

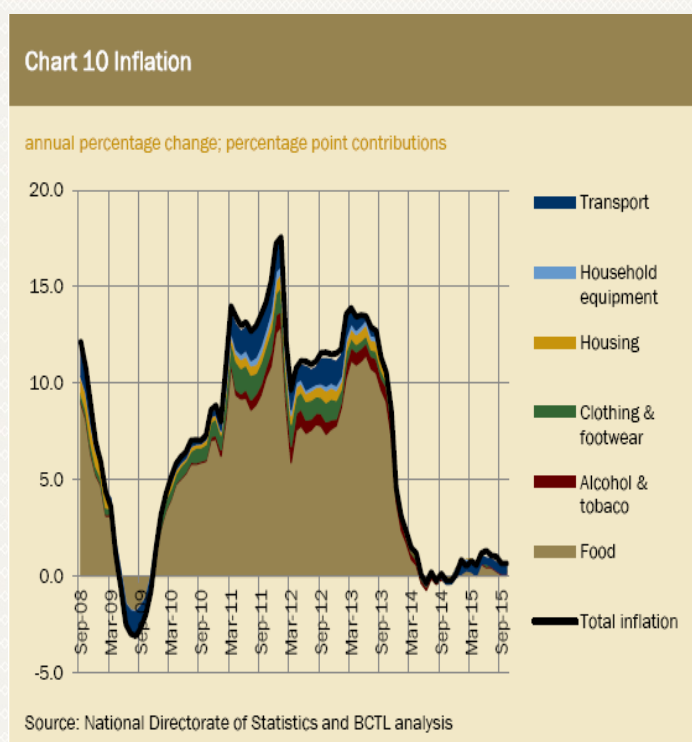


II. e. Price and inflation

Headline inflation embarked back into low territory in September. According to the General Directorate of Statistics of Timor-Leste, Dili annual CPI inflation was 0.4% in September 2015, down from 1.5% in June. This was the result of slowdown in most of the component within the CPI basket, except alcohol and tobacco. The reflection of lower energy price resulting in the slowing down in transportation cost, consequently its negative contribution to the headline inflation during three quarter consecutively, contributed by -0.39% in the quarter of September followed by -0.29% record in June quarter. Food price contributed by 0.06% to the slowdown in the headline inflation in September, down from 0.43% in June. This was mainly a result of larger price decreases for the vegetables and rice components of food.

The decline in transports and food inflation more than offset the increase in alcohol and tobacco price inflation, which has increased for two consecutive quarter. Clothing and footwear, and education while declining however still weighty, contributed by 0.29% and 0.47% respectively to the headline inflation in September.

Factors that affecting the slowing down in the inflation rate was the domestic economy, while recovered but still slowly from its reduction in 2013, mostly due to the slowdown in the government budget execution. The depreciation in the trading partner currency also contributed to the slowdown in the inflation.



III. Commercial Banks

The total number of banks at September 2015 are 4 commercial banks, which comprises by 3 branches of foreign banks and 1 local bank (the BNCTL). Hence these banks has expanding their Subsidiary (foreign banks) and branches (BNCTL). The total subsidiary at the end of September 2015 are 18 while branches of BNCTL are 15, with the total of 33, an increase of 6.5% compared to 2014, still there is no changes from second quarter 2015.

The asset base of the banking system and its key elements continue posted strong growth; particularly the deposit base, while lending to private sector consistently stood with slight growth in a long period of time, increased over the third quarters of 2015 compare with correspondent quarter of 2014.

Total assets of the banking system showed a net expansion of USD 90.8 million during a year from September 2014 and stood at USD 775.6 million. Hence the asset base of the banking system increased by 17.4% over the year to September 2015, followed an upsurge of 13.5% recorded in June. It rose by 1.4% in quarterly basis from June 2015. The annual trend of total deposits of the banking system continue increases, reached 33% growth at September quarter of 2015 to be arrived at USD 602.4 million, after record a 22% growth in last June 2015. Total lending in the quarter to September 2015 was of USD 191 million, record an increase of 10% from September 2014.

	Table 2 Highlights of the Banking System (in million USD)				change	change
	2013	Sep-14	Jun-15	Sep-15	from Sep 14	from Jun 15
Total Assets	665.3	660.6	765.2	775.6	17.4	1.4
Liquid Assets	534.8	527.0	612.6	617.8	17.2	0.8
Investments	0.0	4.0	4.0	4.0	0.1	0.0
Total Loans	176.9	173.8	188.8	191.0	9.9	1.2
Non-performing loans	49.5	48.0	46.5	44.7	-6.8	-3.9
Provision for Loan Losses	58.4	56.5	54.3	56.1	-0.7	3.3
Total Liabilities	645.1	623.7	723.3	775.6	24.4	7.2
Deposits	507.1	453.2	570.3	602.4	32.9	5.6
Capital	20.1	36.9	41.9	39.5	7.0	-5.8
Liquid assets requirement (15%)	96.8	93.6	108.5	116.3	24.4	7.2
Income	35.8	31.4	24.5	32.2	2.3	31.1
Expenses	22.5	22.9	18.5	28.5	24.5	54.0
Net income	13.3	8.5	6.0	3.7	-57.1	-39.2
ROA	2.0	1.3	0.8	0.5		

Source: Commercial Banks balance sheets and BCTL analysis

The annual income as percentage of assets (RoA, or Return on Assets) was 0.5% in September 2015, down from 1.3% as in September 2014 and 0.8% in last June. This decrease in ROA for September 2015 compared to the same month last year, was essentially due to the decline in income, reduce by 57%, while the assets were increased.

In the other side, the banks continue to have liquidity ratios above the minimum required by the BCTL, with an excess of liquidity ratios of 64.7%, down from 69.7% in the quarter of June 2015. The requirement actual held about USD 617.8 million compared to liquid assets requirement of USD 116.3 million. All of the banks have high liquidity fund, while is recognized that the percentages allocated to the credit is still low. Then, no interbank transaction occur between banks, especially for lending's necessity. Loans to deposit ratio at September 2015, just situated at 31.7%, which compare to the excess liquid held at least should be 83%.

IV. Fiscal development

To stimulate an economy each government try to change the levels of taxation or spending in order to influence the aggregate demand. However how budgeted funds are actually used or executed is the way of strengthen the ability to achieve the results. The gov-

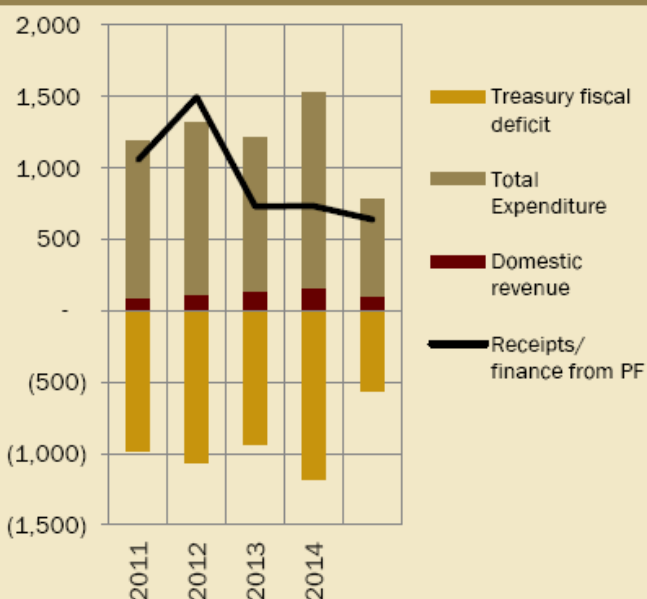
ernment of Timor-Leste has made significant effort to achieve the high budget execution rate in order to attain a reasonable result.

In 2011, for instance, when the government achieved about 84% of its budget execution rate, the GDP grew about 9.5%, while the budget execution rate decline occurred in 2012 and 2013 to more or less about 65%, the GDP growth also declined to 6.4% and 2.8% respectively. In 2014, the government has made a high budget execution rate, reached about 91%, and the GDP was projected to grow about 6%.

The budget execution up to September 2015 only reached about 43%, compare to 50% achieved in September 2014. The government has projected, in 2016 state budget, a GDP growth of 4.1 for 2015. A slow down in the economy growth that mostly could be due to the slow down in the budget execution.

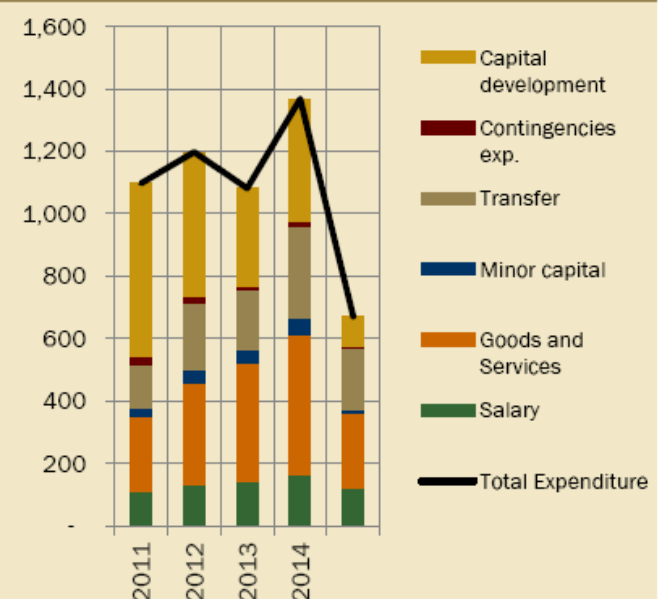
Look at the component of the aggregate demand from the government expenditure, up to September 2015, the highest execution rate mostly was from the government consumption, reached 86% of total budget executions. Goods and services recorded the highest rate, achieved 35%, followed by transfer of 30%. While the investment, the capital development, just represent 14%. By the end, we expected that our economy be stimulated at the same portion by both.

Chart 11 Fiscal deficit; Government budget execution



Source: Government transparency portal, BCTL analysis

Chart 12 Components; Government budget execution



Source: Government transparency portal, BCTL analysis

Table 3 Timor-Leste Monetary Survey

Millions of US Dollars

	Sep-14	Jun-15	Jun-15	% point cont. 1 Y ago	% change 1 Y ago
NET FOREIGN ASSETS	723.98	750.64	704.57	-2.68	-2.68
CLAIMS ON NONRESIDENTS	812.81	840.07	785.17	-3.82	-3.40
LIABILITIES TO NONRESIDENTS	-88.83	-89.42	-80.60	1.14	-9.26
DOMESTIC CLAIMS	-168.34	-157.19	-27.99	-83.37	-83.37
NET CLAIMS ON CENTRAL GOVERNMENT	-355.93	-365.98	-240.35	-68.66	-32.47
CLAIMS ON CENTRAL GOVERNMENT	0.00	0.00	0.00	0.00	-43.78
LIABILITIES TO CENTRAL GOVERNMENT	-355.93	-365.98	-240.35	-32.47	-32.47
CLAIMS ON OTHER SECTORS	187.59	208.79	212.36	-14.71	13.20
CLAIMS ON PRIVATE SECTOR	187.59	208.79	212.36	13.20	13.20
BROAD MONEY LIABILITIES	433.92	454.25	522.29	20.36	20.36
CURRENCY OUTSIDE DEPOSITORY CORPORATIONS	9.16	10.63	11.19	0.47	22.21
TRANSFERABLE DEPOSITS	227.90	242.50	291.81	14.73	28.04
OTHER DEPOSITS	196.87	201.13	219.29	5.17	11.39
SECURITIES OTHER THAN SHARES					
DEPOSITS EXCLUDED FROM BROAD MONEY	0.36	0.53	0.66	24.29	85.38
LOANS	0.00	0.13	0.06	-50.00	
SHARES AND OTHER EQUITY	66.73	89.59	97.67	9.02	46.37
OTHER ITEMS (NET)	54.63	48.96	55.94	14.26	2.39
Source: BCTL					
Memorandum item: Petroleum Fund Assets	16,585	16,863	16,437		


PRO FORMA BALANCE SHEET
 As at 30 September 2015

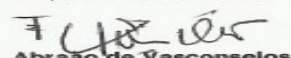
DESCRIPTION	\$'000
ASSETS	
Cash and cash equivalents	254,040
Marketable Securities	-
Investments	25,147
Property, plant and equipment	2,635
Other assets	4,932
TOTAL ASSETS	286,754
LIABILITIES	
Government deposits	118,691
Provision transfer of surplus to Government	-
Other deposits	99,689
Other liabilities	4,402
Currency issued	11,411
Total liabilities	234,193
EQUITY	
Capital	50,000
Reserves	32
Retained earnings	2,529
TOTAL EQUITY	52,561
TOTAL LIABILITIES & EQUITY	286,754

Nota:

1. At 30 September 2015 the balance of Petroleum Fund account managed by the BCTL was \$16,437 million. This is to recognise the reporting requirement under IFRS.

2. The Summary statements above are presented in accordance with article 58.6 of BCTL Law 2011/5 and have been prepared on an accrual basis from the financial records of BCTL as at 30 September 2015. These Financial Statements are unaudited.

Dili, 13 October 2015


Abraão de Vasconcelos
 Governor


Fernando da Silva Carvalho
 Chief Accountant