

ECONOMIC BULLETIN

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1. MONEY SUPPLY

After a US\$11.2 million decrease in the previous quarter, total money supply (M2) continue to decrease by US\$10.1 million to US\$273.82 million (3.5 percent) in June 2011 (See table 5 in last page Chart 1 and chart 2 below).

This slowdown in the quarterly growth rate of M2 is largely due to the drop in the growth rate of quasi money from -1.1% to -9.6% during the quarter under review. Narrow money (M1), expanded by 3.5% at the end of the 2nd quarter.

On an annual basis, money supply continued to increase 12.2% although at a lower pace than in the same month of 2010, when it grew 19.2% y-o-y.

Chart 2. Variation of Money Supply (Jun 2010-Jun 2011)

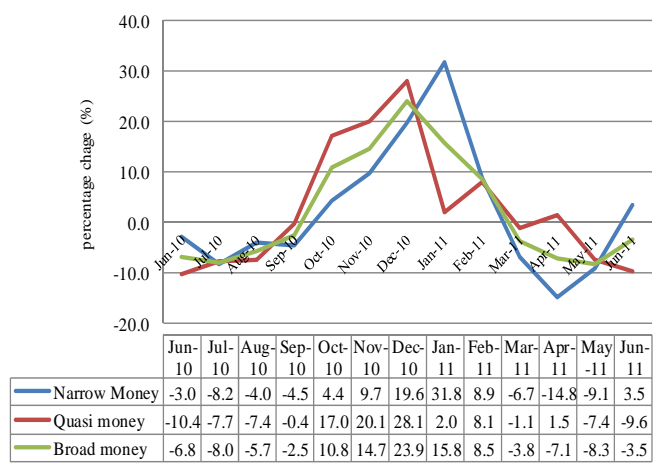
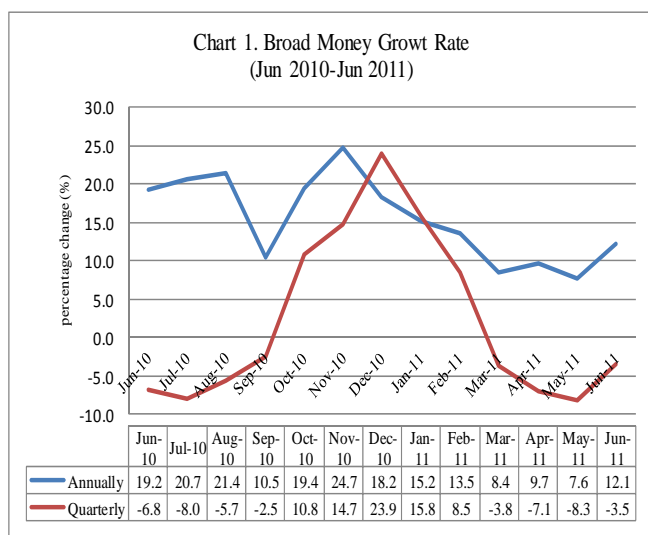


Chart 1. Broad Money Growth Rate (Jun 2010-Jun 2011)



Net foreign assets dropped significantly by US\$62.1 million in June 2011 compare to March11 but it stayed at almost the same level of one year before.

The fall in total net foreign asset from March to June11 reflected decreases of US\$52.3 million in net foreign assets of the Central Bank and of US\$9.8 million on the commercial banks assets.

On other hand, net domestic assets decreased by US\$47.1 million to US\$117.7 million (-28.6%) but was decrease US\$128.8 million higher than in March 2011. The decrease in net domestic assets from three month to June 2011 was mainly due to a US\$134.5 million dropped in domestic credit.

2. CREDIT FROM COMMERCIAL BANKS TO PRIVATE SECTOR

Development economics argues that a well functioning financial sector is an essential element for a broad based and sustained growth of the private sector and of the economy as a whole. In Timor-Leste the sector is dominated by the branches of three international commercial banks, which account for over two thirds of all financial system assets.

Table 1 below shows the main information on the commercial banks credit to the private sector of Timor-Leste. There is no public debt.

By June 2011 the total amount of credit was US\$126.1 millions, an increase of 17.4 compared with the same month of 2010. This increase follows a long period of almost stagnation of the total volume of credit.

By sector, credit is mainly to individuals (54%), “trade and finance” and “construction”. Actually an important part of the credit to individuals is credit for house rehabilitation (construction) and, even, for small businesses, including on the transportation sector (taxis, mikroletes, etc).

Credit to individuals increased 19% y-o-y (Jun10-Jun11) and credit for trade and finance increased by 57%, more then doubling the value of one year ago.

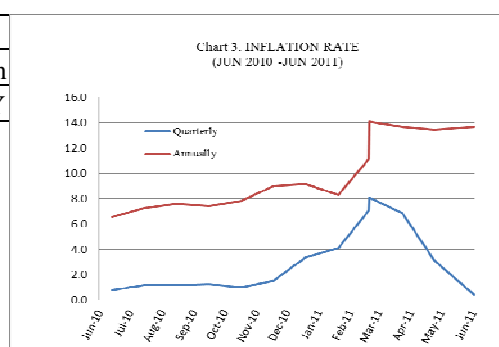
Construction registered a decrease of the total credit in one year and “industry and manufacturing”, one of the more important sectors in an economy, increased but still represents only 4% of the total. “Tourism and services”, another important sector, represents only 3%, an important decrease from March/11.

By Sector	June 2010	Mar 2011	Jun 2011	Percentage Change(%) Quarterly	Percentage Change (%) Y-on- Y
Agriculture, Water and Forestry	500	573	3,282	472.8	556.4
Industry and manufacturing	1,607	5,659	5,186	(8.4)	222.7
Construction	20,963	15,023	16,766	11.6	(20.0)
Transportation & Communication	2,412	2,398	629	(73.8)	(73.9)
Trade and Finance	17,900	12,880	28,189	118.9	57.5
Tourism and Service	7,128	17,123	4,062	(76.3)	(43.0)
Individuals and others	56,902	57,050	67,959	19.1	19.4
Total	107,412	104,382	126,073	20.8	17.4

3. PRICES EVOLUTION IN DILI

The Consumer Price Index (CPI) as published by the National Department of Statistics of Timor-Leste shows that consumer prices declined 0.5 percent in the second quarter of 2011 compared to an increase of 8.1 % in the previous quarter. This decline was caused by the declining in groups “foods”, “housing” and “recreation and education”. The annual headline inflation rate increased 13.7 percent in June 2011 (y-o-y), compared to 6.6 percent in the same month of 2010. The increase in the total inflation rate for the Jun210-June11 period was mainly due to the raise in groups like “Foods”, “Clothing and Footwear” and “transport & communications”. We remember that the Government and IMF estimates for the average annual inflation rate for 2011 is 6%. This figure refer to IMF Country Report . No . 11/65 in March 2011.

Items	CPI	CPI	CPI	Inflation	Inflation
	Jun_10	Mar_11	Jun_11	Quarterly	Y-on -Y
ALL GROUPS	155.6	176.1	176.9	0.5	13.7
Foods	161.9	187.2	185.8	-0.7	14.8
Alcohol and Tobacco	140.1	147.9	153.6	3.9	9.7
Clothing and Footwear	193.6	226.3	236.4	4.5	22.1
Housing	160.7	174.3	173.4	-0.5	7.9
Household Furnishings	101.3	105.2	108.0	2.7	6.6
Health	148.7	158.8	165.1	4.0	11.1
Recreation and Education	112.1	116.9	115.5	-1.2	3.0
Transport and communication	137.1	153.5	158.2	3.1	15.4



Source: Statistics Department

4. BALANCE OF PAYMENTS

The balance of payments is the balance sheet for economic transactions during a given period between Timor-Leste and rest of the world. The overall balance of payments had surplus 156.2 million in 2010 were compare to 39.5 million observed in 2009 .

The Current Account balance had (2010) a surplus of 5.2 % to US\$ 1.2 billion compare to 34.5% to 1.3 billion in 2009. The best year for Timor-Leste Current Account Balance due to the income account receives mostly from other primary income (income from JPDA).

On the other hand, the good and services is remain in deficit, mainly due to the trade balance continues to be in deficit widened and followed deficit in services coming from increased spending on imported goods of transpor-

ation, travel and government services. For instance, in 2010, Timor-Leste goods and services deficit went up to 42.9% in 2010, from 18.3 %2009. So that, one way of reducing a trade deficit is to export more and to import less from other countries. The high Timor-Leste dependence of Timor-Leste from import should be reduced the sooner the better.

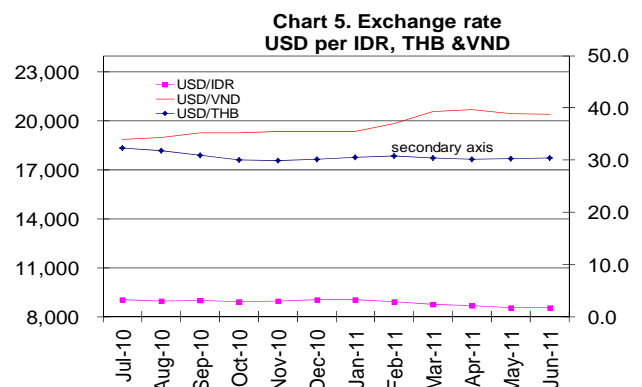
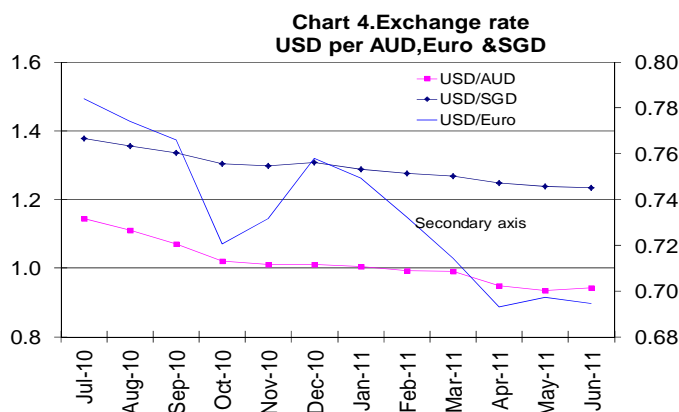
While, Financial and capital account decrease deficit 19.2 % in 2010 compare to increase deficit 38.8 % in 2009. The negative capital account and financial account means that the buying of foreign assets by domestic agents (including the Petroleum Fund) was higher than foreign buying from Timor-Leste. This means that foreign investors should be encouraged to invest more in Timor-Leste

Items	US\$ Million			Change (%)	
	2008	2009	2010	2009	2010
Balance Current Account	2,021,747	1,324,696	1,256,115	-34.5	-5.2
Goods and Services	-742,717	-878,997	-1,255,948	18.3	42.9
Balance of Goods	-296,877	-361,053	-648,916	21.6	79.7
Export	14,061	9,227	17,824	-34.4	93.2
Import	-310,938	-370,280	-666,740	19.1	80.1
Balance of services	-445,840	-517,944	-607,033	16.2	17.2
Export	44,083	46,207	69,032	4.8	49.4
Import	-489,922	-564,151	-676,064	15.2	19.8
Financial Account and Capital Account	-2,034,330	-1,245,273	-1,005,615	-38.8	-19.2
Overall Balance	-19,851	39,496	156,275	-299.0	295.7

5. EXCHANGES RATES

During the second quarter USD depreciated against major currencies. On average, USD slightly depreciated towards Asian currencies by 2.5%, 3% against the Euro; depreciation against the Australian dollar reached 5%.

This evolution is part of the explanation for Timor-Leste higher inflation rate. It could be an incentive for higher Timorese exports if the country has anything to export but coffee. If the trend continues it can be an incentive to produce internally a few goods that are imported .



6. THE COMPOSITION OF ASSETSS AND LIBILITIES OF BANKING SYSTEM

The overall financial condition of the banking system in Timor-Leste during the year under review is assessed as healthy. The total assets of the banking system were US \$405.4 million as at 30-6-2011 and represent an increase of 30.5% in relation to June of the previous year. Such increasing has fundamentally resulted from an increase of deposits on other banks and loans and advances to customers.

Composition of Assets

The total assets of the banking system as at 30 June 2011 amounted to USD 405.4 million, representing a growth of 30.5% from USD 310.7 million in June 10.

The main important assets are placements to other banks, which amounted to USD 294.6 million on 30 June 2011, representing 72.7% of the total assets. Net loans and advances to customer represented the same percentage of total assets during June 2010 and 2011 of 15.7%.

Items	Jun-10	% of Total assets	Jun-11	% of Total assets
Cash & BPA balance	26,201	8.4%	37,771	9.3%
Placements to other banks	225,898	72.7%	294,693	72.7%
Loans	48,669	15.7%	63,835	15.7%
Fixed Assets	3,804	1.2%	3,929	1.0%
Other Assets	6,205	2.0%	5,223	1.3%
Total	310,777	100.0%	405,451	100.0%

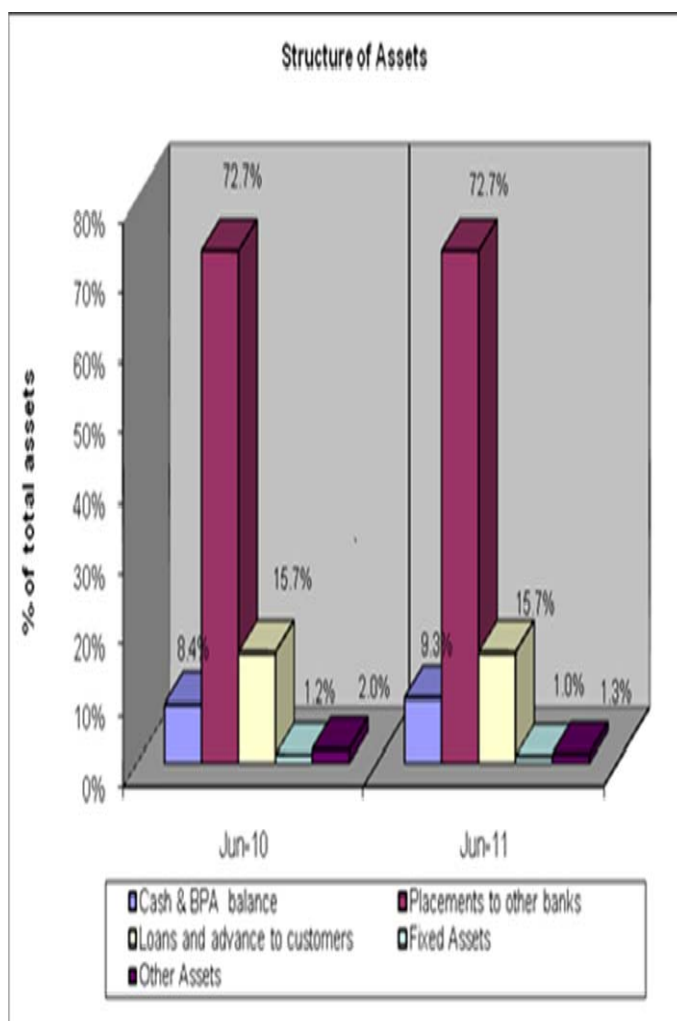
However, the gross loan portfolio has increased 17.4% in relation to June 2010. Loans were mainly concentrated in the personal loans, construction sector, and trade and finance. Despite of the increased in the loans portfolio the non-performing loans (NPL) also increase by 8.6% in relation to June 2010. However the banks have sufficient provisions to cover the potential losses. These provisions were of USD 64.3 million (including general provisions) for the year ended June 2011, an increase of 6.8% compared to the previous year and represent 51% of total gross loans portfolio.

Composition of Liabilities

During the period under review the total liabilities of banking system amounted to USD 407.7 million and represented more than a hundred percent of total assets while capital amounted less USD 2.3 million. Total liabilities had risen by 28.1% in relation to June 2010. Liabilities consists mainly of amounts due to depositors and placements from other banks.

The amount due to depositors was USD 274.2 million, representing 67.6% of total assets; this amount was 5.1% lower then in June 2010.

Demand deposits were 51.2% of the total. Saving deposits were 40.2% and term deposits were 8.6%. Placement from other registered banks were USD 110.2 million, representing 27.2% of total assets.



Period	2010 June	2011 Mar	2011 June	Quarterly Percentage Change (%)	Annually Percentage Change (%)
1. Net Foreign Assets	402.5	461.2	399.1	-13.47	-0.86
2. Net Domestic Asset	-146.0	-164.8	-117.7	-28.57	-19.34
a. Domestic credit	-78.1	-164.8	-41.1	-75.04	-47.31
(i) Net Government	-182.6	-204.3	-168.4	-17.57	-7.79
(ii) Private sector	104.6	111.2	127.3	14.47	21.71
b. Other items, net	-52.3	-53.8	-55.0	2.16	5.15
3. Broad Money (M2)	244.2	283.9	273.8	-3.54	12.14
a) Money (M1)	123.7	131.8	136.4	3.45	10.23
b) Quasi-Money	120.4	152.0	137.4	-9.60	14.10

Note:

The negative sign in net government meaning that those deposit of governments in BPA

Autoridade Bancária e de Pagamentos de Timor-Leste
Banking and Payments Authority of Timor-Leste

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QUARTERLY SUMMARY FINANCIAL STATEMENTS

BALANCE SHEET		PROFIT AND LOSS	
As at 30 June 2011		For the period ended 30 June 2011	
In thousands of US Dollars		In thousands of US Dollars	
ASSETS	US Dollars	OPERATING PROFIT	US Dollars
Cash and cash equivalents	50,164	Interest income	531
Investments	188,933	Interest expense	(137)
Other assets	6,826	Net investment income	394
TOTAL ASSETS	245,923	Fees and commissions	635
LIABILITIES		Petroleum fund management fee	4,111
Government deposits	167,324	Donations & Grants	156
Other deposits	48,581	Other income	27
Other liabilities	5,934	TOTAL OPERATING INCOME	5,323
Currency issued	3,780	EXPENSES	
TOTAL LIABILITIES	225,619	Personnel & capacity building expenses	967
EQUITY		Currency distribution expenses	411
Capital	20,000	Administration expenses	3,455
Reserves	7	Depreciation	173
Retained earnings	297	TOTAL EXPENSES	5,026
TOTAL EQUITY	20,304	OPERATING SURPLUS	297
TOTAL LIABILITIES & EQUITY	245,923		

Notes: At 30 June 2011 the balance of Petroleum Fund account managed by the BPA was \$8,300 millions. This is to recognise the reporting requirement under IFRS.

The Summary statements above are presented in accordance with section 56.2 of Regulation 2001/90 and have been prepared on an accrual basis from the financial records of BPA as at 30 June 2011. These Financial Statements are unaudited.


Abrão de Vasconcelos
General Manager


Fernando da Silva Carvalho
Chief Accountant

July 14, 2011