

# Introduction

This annual report summarizes and presents the national and international economic developments in 2014, as well as the set of activities of the Central Bank of Timor-Leste (BCTL), throughout the year. The Organic Law of the Central Bank describes the responsibility of the Central Bank regarding the President, the National Parliament, the Prime Minister and the Minister of Finance, on the submission of its annual report. The report consists of two main parts, namely, analysis of national and international economic developments and the presentation of the Bank's activity report, also including relevant financial information.



The world economy remained robust in 2014, with emphasis on the acceleration of economic growth rates in most advanced economies, led by the US, which offset the slight slowdown in emerging economies. For 2015 and 2016, IMF anticipates a slight acceleration of global economic growth, sustained by the good performance of both economic blocs. Note, however, that some of the major economies such as the Eurozone and Japan continue to experience significant levels of underemployment, and whose economic recovery since 2008, was not strong enough to recover the dynamism in these blocks. In emerging economies, it is natural to expect a gradual and slight economic slowdown in coming years, particularly with regards to China, after the high rates of GDP growth and debt levels, recorded from 2008 to date.

The US economy has been the star of the world economy, with the official unemployment rate to decline substantially in 2014 and the economy has registered moderate growth levels. This performance led to its central bank, the Fed, to end the large scale asset purchase program and announced that it hopes to start soon, as far as possible, a new cycle of rising reference interest rates.

In terms of international financial markets, we highlight two important developments, in particular, the appreciation of the dollar against most world currencies and the substantial fall in international prices of raw materials, particularly relevant to Timor-Leste, as regards the price of oil. The appreciation of the dollar was supported by the robust US economic performance in 2014, versus the key global blocks and increased probability of beginning a new interest rate hike cycle by the Fed. With regard to the fall in the price of raw materials, the causes generally identified relate to a slowdown in global aggregate demand of various goods as well as a substantial increase in supply surpluses of the various raw materials, the result of investments in the last years. The substantial decline in oil prices, especially in the last quarter of 2014 is particularly negative for our country, since the price of the end of the year is substantially lower than the forecast of the Government to calculate the yield of oil wealth, registered in the State Budget 2015.

In terms of Asian economic developments, the region's economies remained robust in 2014, benefiting also from the depreciation of their currencies against the dollar. In general, the various economies continue to show very favorable external positions, robust levels of growth and controlled inflation. The exception, on the negative side, has been the Indonesian economy, which has been experiencing high levels of inflation, a significant depreciation of the rupiah against the dollar and a perpetuation of the external deficit position. Note also that the combination of these controlled levels of regional inflation, together with the depreciation of Asian currencies against the dollar, resulted in a favorable development for Timor-Leste, in the sense that it reduced the external inflationary pressures on our economy.

With regard to the national economy, the BCTL estimates that the economy has recovered substantially in 2014, growing by about 8% after the slowdown in 2013, for which BCTL estimates an annual growth of less than 1%. Note that there are not yet known estimates of the National Accounts for 2013 and 2014, so the BCTL's estimates are based on a set of leading indicators available for the national economy, using a model developed internally. For 2015 and 2016, BCTL continues to project levels of economic growth close to the average recorded in recent years, between 7 and 8% on an annual basis. These forecasts remain naturally dependent on the materialization of a series of working assumptions, among which are: an increase of budgetary spending and continued growth of domestic investment levels.

From a structural perspective, although our economy has been growing robustly since 2008, GDP growth was overwhelmingly explained by the growth sectors of the public administration, services and construction. The agriculture and fisheries, as well as manufacturing, basic industry, fundamental sectors for job creation, have recorded anemic growth rates, at most, which resulted in significant loss of these sectors importance in total GDP. This development is another evidence that our economy remains overly dependent on the implementation of policies and public budget programs, which must be countered, by actively promoting the diversification of the economic base and the increase in domestic production.

With regard to price developments in Timor-Leste, we point out the favorable decline in inflation levels in 2014, after the high levels recorded in the previous 3 years. The average annual inflation in 2014 was 0.5%, compared to the annual average of 11%, recorded between 2011 and 2013. This decline was mainly due to the reduction of external inflationary pressures, which, as already mentioned, was due to the appreciation of the dollar against the Asian currencies and fall in international prices of raw materials, but also by the slowdown in the economy growth rate over the past two years.

In terms of annual activity of BCTL, the Bank remained actively committed in promoting monetary and financial stability and developing initiatives particularly relevant in this context. One of the main activities of the BCTL during the period was the launch of the Master Plan for the Financial Sector Development. This Plan was officially launched on 28 August 2014. The Master Plan sets a comprehensive roadmap for the development of the financial sector over the decade to 2025. The BCTL also launched, on 29 November 2014, the financial education campaign. The campaign was launched in Dili, under the patronage of His Excellency the President of the Republic Mr Taur Matan Ruak, who established the 29th November as the National Savings Day. The first national campaign to raise awareness and financial education was held in 6 districts.

At the end of 2014, BCTL, together with the Asian Development Bank (ADB), worked in developing the legal framework for Agent/Subsidiary Banking.

The BCTL also conducted a comprehensive strategic study of the National Payments System of Timor-Leste, which recommended the need of BCTL to implement an automated transfer system (STA / ATS), whose goal is to facilitate payments electronically between all banks, including the BCTL and the Ministry of Finance. The BCTL designated the ATS as R-Timor, short for "Rede Transferência iha Momento real". The system is designed to accept and process payments electronically between banks.

The BCTL continued to work with the Ministry of Finance as well as the Investment Advisory Board of the Petroleum Fund, in order to maintain an active and informed discussion of the challenges and priorities for strategic management of the Petroleum Fund.

The Bank continues to maintain its strong focus on staff training, allocating significant internal financial resources for this purpose. This has been reflected positively on the quality of work in the institution, admittedly one that works best in our country.

Finally, as has been usual, left me, as Governor of BCTL, thank all the staff of the Central Bank, our partners or partners of activity at various times, which continued to actively contribute to the consolidation of the Central Bank of Timor Leste and to the economic development of our country.



**Abraão de Vasconcelos**  
Governor  
Dili, 27 April 2015