

Economic Bulletin



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I. Modernisation of Timor-Leste Payment System

1. R-TIMOR

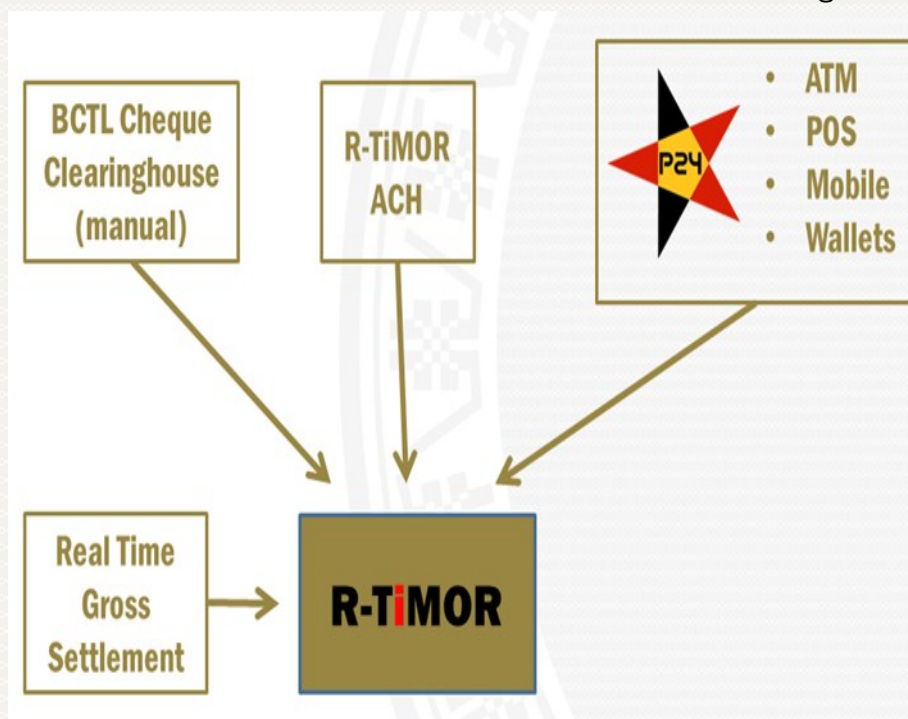
The launch of the R-TiMOR system in April 2015 provided the nation with four key foundations for the National Payment System:

- A Real Time Gross Settlement (RTGS) system that provides banks with the ability to transfer high value and urgent payments between banks in real time;
- An interbank financial network that provides participants with a safe and secure electronic network to make transfers and other financial activities, based on a fibre-optic network with a redundant microwave backup network;

- An Automated Clearing House (ACH) that provides participants with the ability to submit low value and non-urgent payments individually or in batches; and
- Settlement accounting for BCTL clients, namely the commercial banks and various government entities.

During the year the R-TiMOR support unit in BCTL supported banks and the government in various initiatives to strengthen the electronic integration (based on STP, or Straight Through Processing) between R-TiMOR and their own systems, including the following:

- Bank Rakyat Indonesia was granted a banking licence in March 2017 and completed a full STP integration with R-TiMOR shortly afterwards.



- Bank Mandiri achieved STP for submission of payments to R-TiMOR.

• Banco Nacional de Comercio de Timor-Leste (BNCTL) implemented a new core banking package in September, which required a new STP application to be developed and tested as part of the systems development project.

• The Ministry of Planning and Finance made substantial progress during the year towards the STP integration of their GRP system with R-TiMOR, which was formally launched by the Prime Minister at a ceremony in February 2018.

2. National Card and Payment Switch

In March 2017 the BCTL signed a contract with SIBS International from Portugal for the supply and implementation of a National Card and Payment Switch. The switch, branded as “P24” (the “P” intending to recall the words Pagamentu, Pagamento, Payment and Pembayaran) will offer a range of services at the retail level:

- It will enable holders of credit and debit cards issued in Timor-Leste to use the ATM of any bank to make cash withdrawals, balance enquiries, funds transfers, bill payments and other functions in the P24 system. There are currently about 100,000 debit and credit cards on issue to bank customers in Timor-Leste.
- It will enable cardholders from any bank to pay for goods and services at any merchant with Point-of-Sale (POS) capabilities.
- It will provide mobile banking services, including balance enquiry, purchase of “pulsa”, and transfers, accessible to bank customers with a mobile phone, estimated to be about [400,000] people.
- It will provide mobile wallet services that will enable everyone with a mobile phone, whether they have a bank account or not, to make cashless payments to other wallet users.

The project itself has been the most complex undertaken by the Central Bank, because it not only involves the implementation of the core P24 system, but each par-

ticipating bank has had to create a dedicated project team to complete the interfaces with their core banking systems for the range of transactions, including issuance and management of cards, balance verification, cash management, and transaction processing.

The P24 system will share the R-TIMOR interbank network, and will be linked with R-TIMOR, enabling P24 to automatically settle the net value of each bank’s transactions each day.

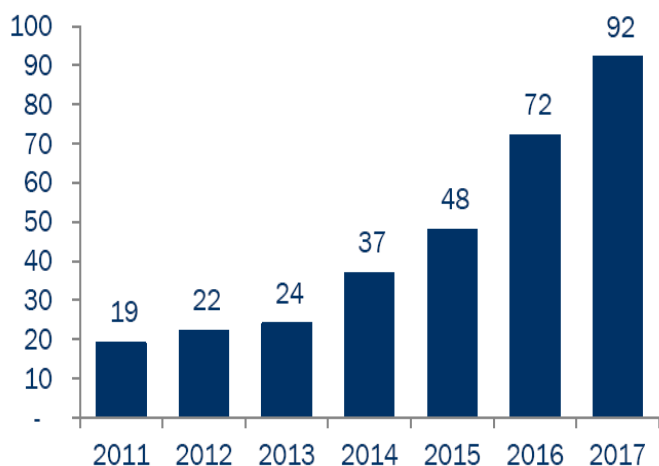
The Central Bank believes the P24 system will be of significant benefit to the economy as a whole, particularly because it will reduce people’s reliance on cash to complete day-to-day transactions, and also because it will allow people without bank accounts and those who live at a distance from a bank to access non-cash means of payment, which will be accepted in local markets and shops.

When the P24 system is launched in the second semester of 2018, the core elements of the Timor-Leste National Payment System will be in place. The following image shows the various systems that have been developed and how they settle into R-TIMOR.

Subject to confirmation, future developments of the P24 system may include the ability to make tax and other payments directly to government, expanding the sale of pulsa to include electricity, enabling bank customers to apply for credit, expanding the range of bill payment options, and a range of other electronic payment services.

Chart 2
Automatic Payment Machines

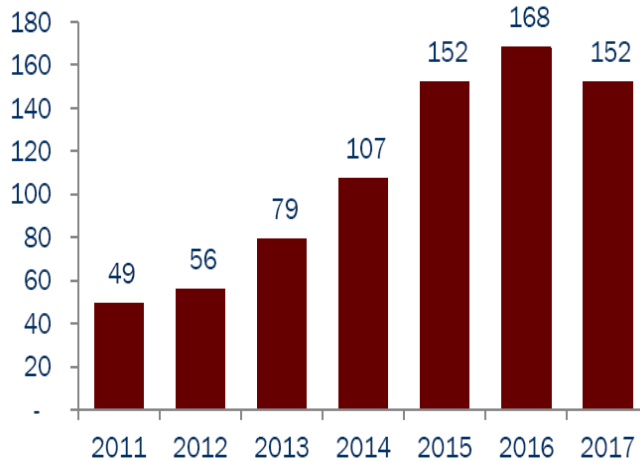
Number of ATM



Source: BCTL

Chart 3
Automatic Payment Terminals

Number of POS



Source: BCTL

II. Recent Monetary and Credit Development

II. a. Money Supply

In March 2018 broad money (M2) growth continued to expand at the robust space, while decelerated. At the same time there are continue to progress in the recovery of loan growth to the private sector, although decelerated in the quarter. After demonstrated a deceleration growth in the last quarter of December 2017, the annual growth of broad money decelerated again. The slowed down in the growth rate of broad money was reflecting with the deceleration progress in the growth rate of the deposits, especially of individuals'.

After recorded a deceleration of the annual growth rate in the last quarter, M2 has continue to decelerate, recorded a growth rate of 11.3% in March quarter of 2018, compared to 12.1% growth observe in December 2017. The deceleration in M2, in some extent, was followed with the slowdown in the expansion of credit development from the banking system to private sector, at the same time, the growth rate of net foreign assets (NFA) declined, especially driven by NFA of other depository corporations'.

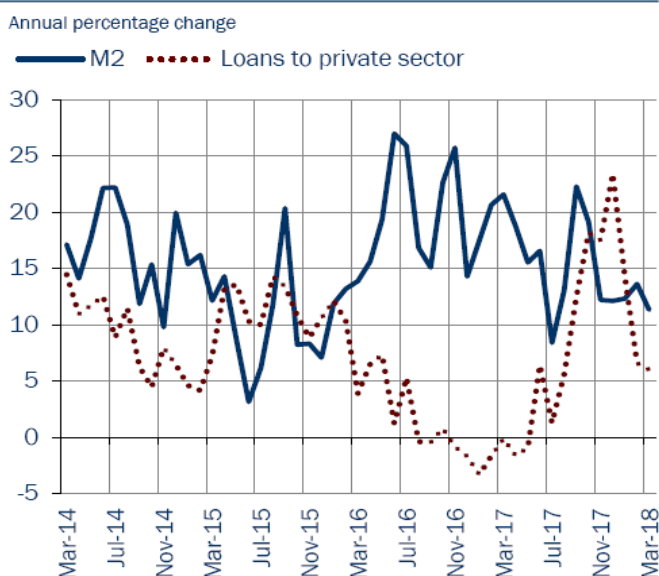
It was noted that, the growth rate of the deposits, especially of corporations had expanded, while individuals has shown a deceleration. The annual growth rate of deposits of corporations increased by 16.6% or USD37.8 million to USD265 million compared to an increase of 9.5% or USD25.8 million observed in the last quarter of December 2017. In addition, the individ-

uals' deposits have decelerated by 8.5% to USD456.6 million, after having recorded a growth rate of 13.5% in the last quarter.

Transferable deposit, while in terms of the value, represent the highest weighted in the structure of deposits, and still continue to drive the expansion of broad money, M2, although decelerated, in the quarter. While, the other deposits has grown more than it. Transferable deposit grew by only 0.8%, followed by 0% observed in the last quarter, which contributed by 0.5% to the growths rate of M2 in the quarter of March 2018. While, the time and savings deposits, or the terms used in the monetary and financial statistics as other deposits, in the other side, continue manifest the acceleration growth. In fact, the other deposit grew by 27.4% in the current quarter, following an increase of 32.7% observe in the last December quarter of 2017, contributed by 10.6% to the growth rate of the M2 in the quarter. The currency in circulation (centavos), continues grow, rising by 10.3%, followed an increase of 4.2% observed in the last quarter, while contributed by only 0.2% to the M2 growth.

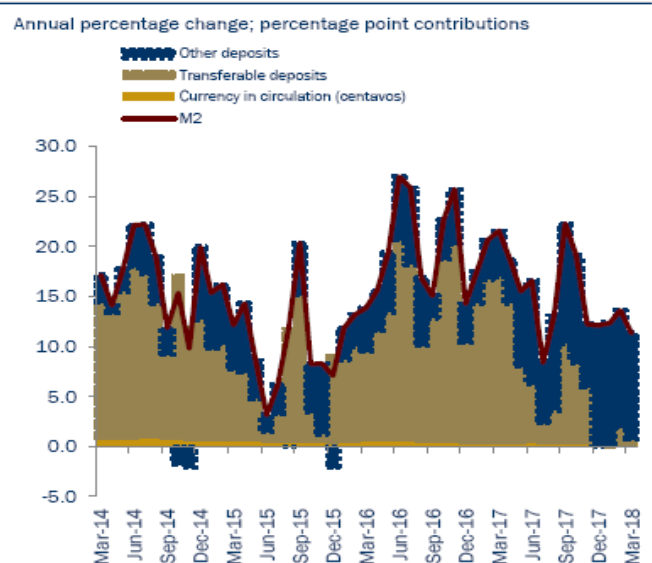
On the other side, the annual growth rate of commercial banks' credit to the private sector continue to recover, while slowed down, has increased by 6% in the quarter, after recorded a growth of 23.4% observed in the last quarter of December 2017. It is expected that, with the continued reduction in the non-performing loans, will be resulting in the expansion of credit to the private sector by banking sector. The portion of non-

Chart 4
TL Broad money growth



Source: BCTL

Chart 5
M2 and its components



Source: BCTL

performing loans represent 4% of total loan in the quarter, compared to 14% recorded in the last quarter of December 2017.

It was noted that, while the lending from the banking system to the private sector is recovering, still considering low. The amount of credit to the private sector in March quarter represented only 30% of M2, in fact decelerated from 31.5% observed in the last quarter. The expectation is that, with continue expansion in the credit to the private sector, the application of the deposit abroad will reduce, consequently the reduction of foreign assets.

II. b. Net Foreign Assets

The annual growth rate of net foreign assets (NFA) for the financial system or the depository corporations, in fact, declining, reduced by 3.3%, after recorded an increase of 14.7% in the last quarter of December 2017.

In fact, this progress was driven mainly by decreased in the NFA of other depository corporations, while the NFA of central bank has contributed positively to this growth. The other depository corporations' (ODC) NFAs continue declined in the last three quarter consecutively, and in March 2018. The ODCs' NFA decrease by 16.6%, followed a reduction of 13.1% in the last quarter, contributed by -13.7% to the growth rate of total NFA.

The main driver of the decline in other depository cor-

porations' NFAs was due to the reduction in both holding of cash and other deposits, which decreased by 27% and 22.3% respectively, contributed by -1.1% and 146.2% to the growth rate of total NFAs of ODCs. Both deposit, respectively, account for 3.6% and 67.8% of the total ODCs' NFA in the quarter. Transferable deposit, on other side, has decelerated by 0.1%, after recorded a growth of 2% in December quarter of 2017, contribute by 0.02% to break the decline in the growth rate of the other depository corporations' NFA. Its liabilities increase, rose by 20.8%, and contributed by 1.4% to the growth of NFA in the quarter.

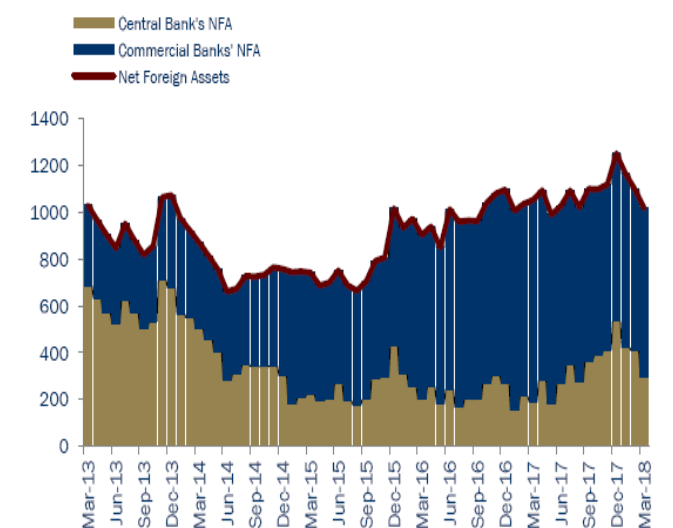
On the other side, the main driver of changes in the central bank's NFAs was the increase in the growth rate of other deposit, has rose by 97.6% to USD242.3million, supported by transferable deposits of 199.3% to USD4.4 million, while the foreign currency decline by 21.6% to USD49.9 million. The liabilities increase as well, rose by 7.1%, followed by 8.9% increase recorded in the last quarter.

II. c. Net Domestic Assets

The annual growth of Domestic Claims decline again in March quarter of 2018, has reduced by 51% after recorded an increased of 1.6% in last quarter of December 2017. The liabilities to central government was the main driven of the declined, has reduced by 22.1%, with the deceleration of credit to other sector

Chart 6
Net Foreign Assets

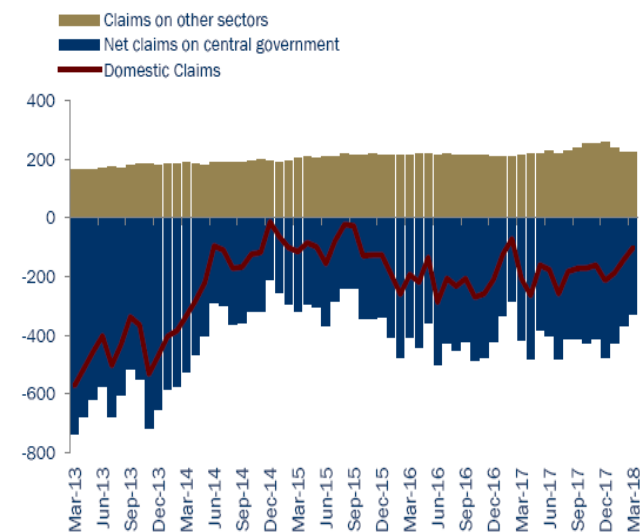
in million USD



Source: BCTL

Chart 7
Domestic Claims

in million USD



Source: BCTL

of 6%. The liabilities to the central government, therefore, contributed by 44.8% to the declined in the growth rate of domestic claims, supported by 6.2% from credit to the private sector. The decline in liabilities to central government mostly was driven by the decline in the liabilities of commercial banks, has reduced by 31.7% (yoy), of which contributed by 22.3% to the decline in liabilities to central government. On the other side, the liabilities of central bank decelerated, raised by 0.7% in the quarter, compared to 29.5% in last quarter of December 2017, contributed by 0.2% to break the decline in the total liabilities to central government.

While declining, however the commercial banks' liabilities to the central government continue represent the higher weighted in the total liability of depository corporations, amounted to 61.5%, after recorded 40.9% in December 2017. In turn, the weighted of central bank's liabilities to the central governments decreased, placed at 38.5% after recorded 59.1% in December 2017. The claims on private sector, on other side, produced a positive annual growth in the quarter, grew by 6%, after recorded an increased of 23.4% in the last quarter of December 2017, and negatively contributed to drive the decline in the growth rate of total domestic claims by 6.2%.

From the total claims on private sector, loans represent major share, the reminder of the claims are other claims, include claims from the central banks. Commercial banks occupied 91.3% loans in the quarter and the

rest was from other microfinance institutions and credit union.

In fact, these total claims increased by 6% while commercial banks loans to the private sector recorded an deceleration of 10.6%, followed by an increase of 24.5% observed in the last quarter of December 2017. The non-performing loans, in other side, have decreased in the quarter by 73%, fortunately, resulting the decline in its share to the total gross loans portfolio to 4%. Following the decline in non-performing loans, the provision for loan losses have falling, which reduced by 61% in the quarter under review, which representing 8% of the total gross loans to the private sector, compared to 17% observed in the last December quarter.

In fact, credit to individual sector continue decline, resulting in the reduction of its share in the credit from the commercial banks, representing 23.4% of the total credit in the quarter, reversing 30.6% observed in the last quarter of December 2017, contributed by -14.8% to slowed down the total credit growth in the quarter under reviewed.

Noted that, industry and manufacturing were the sector in which banks has granted more credit in the quarter, both in terms of quarter and annual changes. This sector, recorded an annual growth of USD12.8 million or about 452% in the quarter, followed an increase of 533.1% observed in last December of 2017, which contributed by 6.9% to the total credit

Table 1
TL Loans to Private Sector

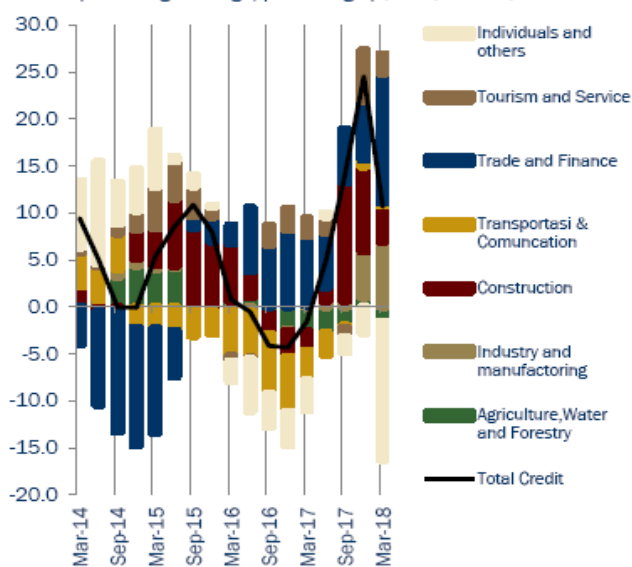
in thousand USD

Sector	2017		2018	Change from Mar 2017	% point to contribution	Mar Share (%)
	Mar	Dec	Mar			
Agriculture, Water and Forestry	4,660	5,743	1,888	-59.5	-1.5	0.9
Industry and manufacturing	2,837	11,431	15,663	452.1	6.9	7.6
Construction	51,058	65,156	58,130	13.9	3.8	28.4
Transport & Communication	1,161	3,389	1,748	50.6	0.3	0.9
Trade and Finance	32,742	44,254	58,246	77.9	13.8	28.4
Tourism and Service	17,469	27,751	21,350	22.2	2.1	10.4
Individuals	75,281	69,565	47,899	-36.4	-14.8	23.4
Total	185,208	227,289	204,924	10.6	10.6	100

Source: Commercial banks and BCTL analysis

Chart 8
TI Loans to private sector

Annual percentage change; percentage point contributions



Source: Commercial banks and BCTL analysis

growth, while still representing the fourth larger share of total credit in the quarter, placed at 7.6%.

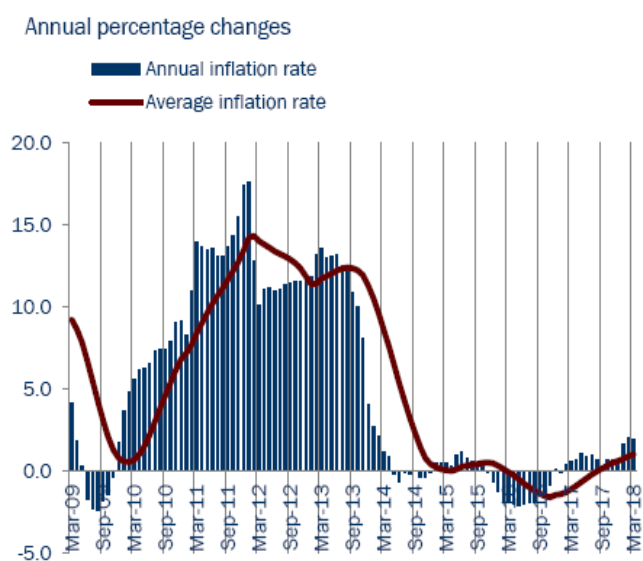
The trade and finance, the sector that recorded the first larger recipient of credit by commercial banks in the quarter, recorded a nominal annual changes of USD25.5 million, which shown an expansion of 77.9%, with a 13.8% contribution to the total credit growth. Construction, in turn, grew by 13.9% in the quarter (USD7 million), after demonstrated a growth rate of 34% in the last quarter of December 2017, which contributed 3.8% to the total credit growth. The construction sector placed as the second larger recipient of credit by commercial banks in the quarter. Transport and communication, the sector that continue decline as recipient of credit since December 2014, has grown again in the two last consecutive quarter, grew by 50.6% in March 2018, followed by 63.7% in last December quarter of 2017. Outstanding credit of this sector in March 2018 were USD1.7 million, compare to USD20.5 million in March 2014, a reduction of 91.5% during the period, or about 9% decline in terms of total credit. The drop in the sector could be related to the decline in non-performing loans. Individual sector could also be treated in the same manner. The continue reduction in the credit to individual sector since 2015, and that register huge drop in the current quarter, in some part, could be related to the decline in the non-performing loans.

II. d. Price and inflation

The headline inflation accelerate again in March 2018. According to the General Directorate of Statistics of Timor-Leste, the annual CPI inflation rate (Dili) accelerate to 1.9% in March 2018, from 0.6% in last December 2017. This was mostly the result of the increase in others related price of goods and services, non-food inflation, mostly education and alcohol and tobacco. On the other side, the food price, increased as well in the quarter, while does not expressive, however as has significant weighted within the CPI basket, it supported to drive the acceleration of the inflation rate.

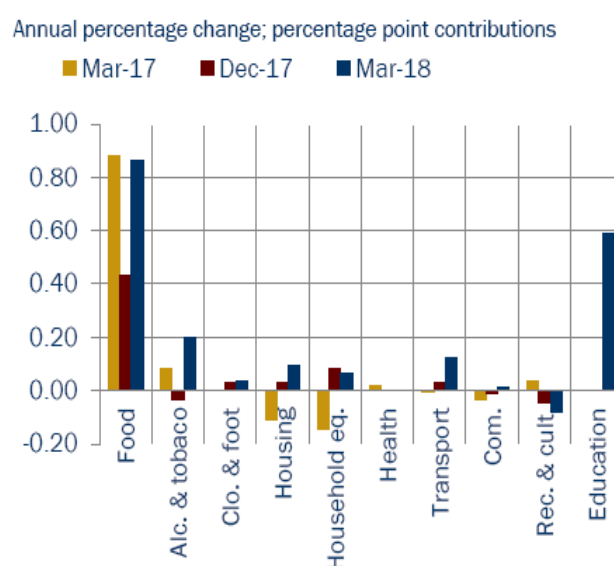
It was note that the behavior of food price in the last December quarter of 2017 was the most contributed to the price change in the quarter, push up the global price inflation to 0.6% (chart 10). The same situation, in current March quarter, the food price contributed heavily to drive the global inflation, represent 0.86% of its contribution to headline inflation, increased compare to last December of 2017 of 0.43%. Non-food inflation, which in average increased by 2.9%, contributed with 1.03% to the global inflation in the quarter, include alcohol and tobacco and transportation related prices, which had increased by 3.5% and 2.3% respectively, contributed by 0.2% and 0.12% to the headline inflation, compared to a -0.03% and 0.03% contribution in the last quarter of December 2017.

Chart 9
TL Inflation (Dili)



Source: General Directorate of Statistics and BCTL analysis

Chart 10
TL Inflation (Dili)



Source: General Directorate of Statistics and BCTL analysis

II. e. Interest Rate

It was observed that the average bank lending rate start to increased again in the quarter, after experienced the decline in the whole year of 2017. The increased was due to the increase in the, six month, Libor interest rate. The weighted average of bank lending rate, therefore, increased by 0.62% to 13.08% in March quarter of 2018. In turn, in average, the deposits rate is less than 1%. The time deposits for instance, in average, situated at 0.65%, while demand and savings deposits less than 0.5% in March quarter of 2018.

III. Commercial Banks

The annual growth of total assets of the banking system and its key elements posted a decline growth, particularly its liquid assets which mostly accounted by the deposit base. The lending to private sector, on the other side, recorded a slight growth in the quarter, compared with last quarter of December 2017.

The total assets of the banking system showed a net decline of USD29.1 million during the year, and stood at USD1,139 million in March 2018. Hence, the assets of the banking system reduced by 2.5% compared to an increase of 1.8% recorded in the last December quarter of 2017. The reduction mostly was due to the decline in the deposit, be it with the central bank as well as the other financial institutions abroad. The annual trend of total deposits of the banking system,

hence, decreased by 5.5% to USD900 million at the end of March 2018, after revealed a decline growth of 2.7% in the last December quarter of 2017, denote about 79% of total assets at the end of current quarter under reviewed, while accelerated from 77.7% in last December quarter of 2017. Although, most of the deposits are placed abroad. The placement abroad recorded about 83.3% of total deposits, rising from 75.8% recorded in the last quarter, represented most part of the banking system assets, or about 68.5% of total assets, unfortunately has accelerated from 64.1% in last quarter.

Total lending of the commercial banks up to the quarter of March 2018 were of USD190 million (exclude the credit from other deposits taking institutions—the Kaibauk Investment, Lda), recorded an annual growth of only 2.8%, compared with 6% of total credit. Meanwhile, the income received during the quarter, as percentage of assets (RoA, or Return on Assets), was of 0.6%, decreased from 1.3% recorded at last quarter of December 2017. Interest income represent 60% of total income in the quarter, of which interest income and fees on loans was about 39%, while non-interest income recorded about 40% of the income. Banks continue to have liquidity ratios above the minimum required by BCTL, with an excess liquidity ratio of 72.5% in the quarter under review. The requirement actual held was of USD925 million compared to the liquid assets required of USD158.7 million (15%).

Table 2
Highlights of the Banking System

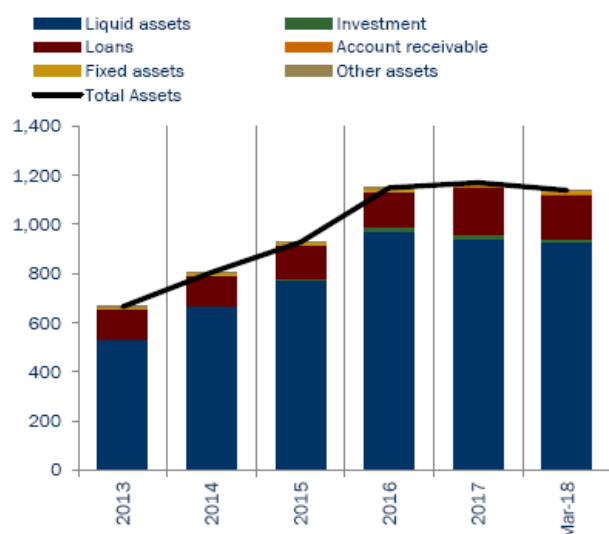
in million USD

	Mar-17	Dec-17	Mar-18	change from Mar 17	change from Dec 17
Total Assets	1,168	1,170	1,139	-2.5	-2.7
Liquid Assets	987	942	926	-6.3	-1.8
Investments	18	18	18	0.0	0.0
Total Loans	185	227	190	2.8	-16.2
Non-performing loans	29	31	8	-72.7	-74.2
Provision for Loan Losses	39	38	15	-60.9	-59.6
Total Liabilities	1,107	1,092	1,058	-4.4	-3.1
Deposits	942	990	937	-0.5	-5.3
Capital	61	78	81	31.9	3.5
Liquid assets requirement (15%)	166	164	159	-4.4	-3.1
Income	15	49	16	9.1	-66.5
Expenses	9	33	10	10.1	-69.9
Net income	6	16	6	7.6	-59.4
ROA (%)	0.5	1.3	0.6		

Source: Commercial Banks balance sheets and BCTL analysis

Chart 11
TL Banking Systems; Assets Development

in million USD



Source: Commercial Banks and BCTL analysis

Table 3 Timor-Leste Monetary Survey

Millions of US Dollars

	Mar-17	Dec-17	Mar-18	% point cont.	% change
				1 Y ago	1 Y ago
NET FOREIGN ASSETS	1051.87	1250.57	1016.89	-3.3	-3.3
CLAIMS ON NONRESIDENTS	1121.67	1326.96	1099.81	-2.1	-1.9
LIABILITIES TO NONRESIDENTS	-69.80	-76.39	-82.92	-1.2	18.8
DOMESTIC CLAIMS	-205.62	-212.77	-100.82	-51.0	-51.0
NET CLAIMS ON CENTRAL GOVERNMENT	-417.32	-472.39	-325.23	-44.8	-22.1
CLAIMS ON CENTRAL GOVERNMENT	0.00	0.00	0.00	0.0	-29.3
LIABILITIES TO CENTRAL GOVERNMENT	-417.32	-472.39	-325.23	-22.1	-22.1
CLAIMS ON OTHER SECTORS	211.70	259.62	224.41	-6.2	6.0
CLAIMS ON PRIVATE SECTOR	211.70	259.62	224.41	6.0	6.0
TOTAL ASSETS	846.25	1037.80	916.06		8.3
BROAD MONEY LIABILITIES	671.62	822.90	747.62	11.3	11.3
CURRENCY OUTSIDE DEPOSITORY CORPORATIONS	14.84	15.12	16.36	0.2	10.3
TRANSFERABLE DEPOSITS	396.92	449.75	400.15	0.5	0.8
OTHER DEPOSITS	259.85	358.03	331.11	10.6	27.4
SECURITIES OTHER THAN SHARES					
DEPOSITS EXCLUDED FROM BROAD MONEY	11.73	14.84	8.03		-31.5
LOANS	0.02	0.01	0.01		
SHARES AND OTHER EQUITY	129.52	156.63	159.56		23.2
OTHER ITEMS (NET)	33.36	43.46	0.87		-97.4
TOTAL LIABILITIES	846.25	1037.83	916.09		8.3
Source: BCTL					
Memorandum item: Petroleum Fund Assets	16,266	16,799	16,847		3.6

Table 4.

TL: Consumer Price Index

	Dec-15	Dec-16	Mar-17	Dec-17	Mar-18	Year on Year Change		Contribution	
						Dec-17	Mar-18	Dec-17	Mar-18
Total IPC	103.2	103.3	103.3	103.9	105.3	0.6	1.9	0.6	1.9
Food	104.5	104.8	104.7	105.5	106.1	0.6	1.9	0.4	0.9
Alc. & tobacco	114.8	119.4	119.3	118.7	123.5	0.7	1.3	0.0	0.2
Clo. & footwear	106.3	107.3	107.6	107.8	108.2	0.5	0.6	0.0	0.0
Housing	102.9	100.9	100.6	101.5	102.3	0.6	1.7	0.0	0.1
Household eq.	99.8	93.2	93.6	95.2	95.2	2.1	1.7	0.1	0.1
Health	103.1	105.3	105.3	105.3	105.3	0.0	0.0	0.0	0.0
Transport	89.9	87.2	87.3	87.7	89.3	0.6	2.3	0.0	0.1
Communication	80.6	79.5	79	79	79.6	-0.6	0.8	0.0	0.0
Rec. & culture	108.7	110.5	111.7	109	109	-1.4	-2.4	0.0	-0.1
Education	117.7	125.5	125.5	125.5	148.1	0.0	18.0	0.0	0.6

Sources: General Directorate of Statistics and BCTL analysis