

The BCTL: Mission and Core Mandates, Organization, Governance and Activities



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The BCTL main mission consists in continuing to ensure and improve the quality of the services it provides to the Community, while maintaining a stable monetary system, as well as promoting a robust and functional financial system.

This mission is pursued by maintaining: a low and stable inflation rate, a secure and efficient payment system; credible functioning of all financial institutions, through the implementation of appropriate legal and regulatory standards and banking supervision; the financial education of the population; and conducting studies on the national economy, supported by rigorous and useful statistics.

Taking into account the BCTL's mission, this chapter provides an overview of the institution's mandates and functions, its governance structure and key activities carried out during 2021, as well as its 2022 action plan. The brief summary of annual activities also details the main initiatives developed throughout the year by each of the various functional areas of BCTL.



3.1 Core Mandates and Functions

The BCTL is a legal person governed by public law, with administrative and financial autonomy and its own assets. The BCTL, its entities, employees and agents, enjoy independence and cannot receive instructions from external entities, and its Organic Law guarantees the necessary independence of the Central Bank vis-à-vis the Government.

As is common in most international central banks within the area of economic policy, BCTL's main objective is to ensure the stability of domestic prices. Other equally important objectives are the promotion of a financial system based on market economy's principles, where there is appropriate competition, which works in favour of citizens and the economy in general. Having these objectives and principles as a guiding line, the Central Bank should also support the Government economic policies.

In order to achieve its objectives, the functions of the BCTL are, under the terms of the law:

- a)** Define and implement the country's monetary policy;
- b)** Define and adopt the exchange rate regime as well as the associated exchange rate policy;
- c)** Carry out operations in foreign currency;
- d)** Hold and manage the country's official external reserves;
- e)** Hold and manage the State's gold reserves;
- f)** Issue and manage the official currency of Timor-Leste --- at this time the country uses the US dollar as its currency;
- g)** Collect and distribute statistical information regarding the areas within its competence, namely monetary, financial and balance of payments statistics;
- h)** Inform the National Parliament, the Government and the general public about the policies it implements;
- i)** Establish, promote and supervise the national payment system, in order to guarantee the efficient and safe execution of payments;
- j)** Regulate, license and supervise financial institutions operating in the country;
- k)** Advise the Government on matters within its competence;
- l)** Act as fiscal agent of the Government;
- m)** Participate in international organizations and meetings that concern the above-mentioned points;
- n)** Be part of contracts and establish agreements and protocols with national or foreign, public or private entities; and
- o)** Perform any other activities as defined by law.

Currently, some of these functions are not yet performed by the BCTL due to the adoption of the US dollar (USD) as the official currency of the country.

3.2 BCTL Organization and Governance

BCTL's highest authority is its Board of Directors, which formulates the institution's strategies and policies and oversees their implementation, including the supervision of the Bank's executive management and operational activities.

The Governor is the highest executive body of BCTL, or its Chief Executive Officer and is assisted by two Vice-Governors and a Management Committee composed of the Directors and heads of various departments of the Bank. At the end of 2021, the year of this report, the Board of Directors was composed by the Governor, two Vice-Governors and four non-executive members. The composition of the Board of Directors and the Management Committee are presented at the end of the chapter.

BCTL is internally organized into four main departments: Financial System Supervision; Banking and Payments Systems; Petroleum Fund Management; and Administration. Some Divisions and Units report directly to the Governor, namely the: Legal Unit, Internal Audit, Economics and Statistics Division, the Institutional Cooperation Affairs Unit, Human Resources Division (which previously belonged to the Administration Department) and the Financial Information Unit. The Accounting and Budget Division is dependent on the Deputy Governor responsible for the supervision of the financial system. The central bank is also in charge of the secretariat of the Advisory Board for the investment of the Petroleum Fund.

BCTL's Board of Directors continues to adopt the motto abbreviated by the acronym **TIMOR**, representing **T**ransparency, **I**ntegrity, **M**obilization, **O**bligation and **R**esponsibility, essential slogans in the day-to-day operations of the institution and of its employees.





Institutional Values

T ransparency

We are a role model for society and for the institutions, our procedures and rules are clear and applied in a rigorous, universal and consistent way, both internally and externally.

I ntegrity

We exercise our business with honesty, high ethical and moral standards, respecting the confidentiality and legality in all actions and decisions involving our interests and resources.

M obilization

We mobilize to provide the best service to the Timorese community, through the ability to consult, listen and learn so committed.

O wnership

We exhibit a sense of belonging and involvement, establishing as priority the objectives of the institution and showing availability to perform activities beyond the scope of our role.

R esponsibility

We invest in expanding our technical and professional skills, deliver on the responsibilities that are assigned to us and that we proactively seek, through ongoing monitoring of the consequences of our decisions and actions.

BCTL has long adopted a code of ethics applicable to all employees, also covering appropriate guidelines in dealings with external entities to the Bank. The code of ethics includes strict rules on various aspects of the behaviour of those to whom it applies. Note, for example, the obligation of every Bank employee to perform its duties solely on the basis of serving the BCTL and general public interest, and not their individual interests, which includes not receiving instructions, whatever they may be, from entities other than the legally appointed structures of the Central Bank.

Bank employees are also, of course, forbidden to receive any remuneration from any persons or institutions who may be interested in influencing their decisions.



3.3 BCTL Activities in 2021

As part of the BCTL's mission to promote monetary and financial stability, the development of the financial system and the promotion of a secure and efficient payment system, the following set of activities and initiatives were planned and implemented in 2021.

In the context of implementing the Master Plan for the Financial Sector in Timor-Leste, the BCTL, in 2021, continued to modernize the national payment system. In this regard, we highlight the final implementation of additional R-TIMOR functionalities to serve the needs of the Ministry of Finance and its sub-accounts and producing activity analysis reports on a monthly and annual basis. These new services allow the Ministry of Finance and its sub-accounts to now have access to historical statements, prepare cash management and project cash flows in real time.

The Central Bank also introduced new payment features, that enable users to pay taxes and undertake B2W2B transfers. The functionality of B2W2B, in addition to making it possible to pay taxes, also allows any holder of a P24 card to transfer money from their bank account to a Mosan e-wallet account and vice versa.

The BCTL's Board of Directors took several decisions throughout 2021, from which we highlight, among others, the granting of licenses to companies with the aim of enhancing and facilitating Timor-Leste's population access to the financial sector.

The Board of Directors also approved several instructions and regulatory frameworks related to the financial sector and good governance, as exemplified by the Internal Audit Manual.

The celebration of the 7th anniversary of the National Savings Day, on 29 November 2021, took place at the administrative post of Maubisse, in the municipality of Ainaro. The program consisted of carrying out the 1st anniversary of the "Campo Digital" pilot program, with the participation of local authorities, representatives of commercial banks, fintech companies and their agencies, users of financial services, students and the Maubisse community.

Due to the continuation of the pandemic situation in 2021, BCTL had to postpone again the implementation of some activities, including initiatives to promote the national private sector, namely the basic accounting training module for Micro, Small and Medium Enterprises (MSMEs) staff, in cooperation with IADE and the Timor-Leste Chamber of Commerce and Industry (CCI-TL).



The BCTL also continued to develop, through its “Institutional Cooperation Affairs” Unit, its cooperation activities with similar institutions and relevant organizations, both nationally and internationally. These activities have mainly focused on the areas of technical assistance and internal capacity building, with the aim of reinforcing the effectiveness of the cooperation program and strengthening BCTL’s institutional partnerships. Most of the cooperation activities between the BCTL and its counterparts throughout 2021 continued to be carried out virtually, due to the ongoing pandemic situation.

These and other BCTL activities carried out in 2021 are described in more detail in the following section.

3.3.1. National Payment System

3.3.1.1. Interbank Clearing and Settlement System

During the period covered by this report, the Central Bank continued to act in a consistent manner so as to always maintain sufficient cash reserves to meet the cash payment requirements of state entities and commercial banks. In this context, BCTL ensured the permanent functioning and execution of interbank financial transactions through the Clearing House and Real Time Gross Settlement (RTGS) systems. It should be noted, however, that the activities of the automatic “Clearing House” system could not be carried out during the year due to the implementation of social distancing measures, to mitigate the impacts of the pandemic. This fact meant that in 2021 it was not possible to record the movements and values liquidated in the Interbank Clearing and Settlement System (CEL) in Dili.

3.3.1.2. The SWIFT and R-Timor (RTGS) Systems

BCTL’s payment services are subdivided into 1 of 2 categories: Domestic or International. Domestic payments, in turn, can also be 1 of 2 types, depending on their size: Large Amount or Retail. International payments from the country to the outside and vice versa are always made through the SWIFT system. Domestic payments, especially retail payments, are directly processed in the automated clearing house, two times per day. These payments include salaries, subsidies to veterans, payments to suppliers, which, among others, are processed and transferred to commercial banks. Payments of large sums, above USD 200,000, are always made through the RTGS.

Table 3.1 International and Domestic Payments

(Value in million USD, Quantity in 10³)

	2020		2021		Change (%)	
	Quantity	Value	Quantity	Value	Quantity	Value
National Payments						
Automatic Clearing House	575.07	265.70	1,208.29	523.78	110.1	97.1
RTGS-FICT	14.80	4,329.76	14.73	4,015.63	-0.5	-7.3
RTGS-SCCT	77.32	800.23	76.49	1,206.87	-1.1	50.8
Sub Total	667.19	5,395.69	1,299.52	5,746.27	108.58	140.69
International Payments						
Outgoing Transfer-SWIFT	2.48	981.80	1.32	1,088.85	-46.6	10.9
Incoming Transfer-SWIFT	0.20	93.69	0.18	77.77	-8.6	-17.0
Sub Total	2.67	1,075.49	1.50	1,166.62	-55.3	8.5
Total	669.86	6,471.18	1,301.02	6,912.89	53.32	149.17

Source: BCTL

Table 3.1 shows payment statistics, both national and international, during the period under review. With regard to national payments, 1.3 million operations were processed, corresponding to a total of \$5,746 million, representing a growth of 109% in number and 141% in value compared to 2020. The significant increase, both in quantity and value, was due to the inclusion of transactions carried out by the automatic clearing house.

On the other hand, within the scope of international payment activities, 1,500 operations were processed, amounting to \$1,167 million, which represented a decrease of 55% in terms of number, in contrast to an increase of 8.5% in value, compared to 2020.

The reduction in the level of international transferred quantities was due to the simultaneous decrease in transfers received and sent abroad, which fell by 47% and 9%, respectively.

Table 3.2 also presents data regarding international transactions, corresponding to transfer and receipt transactions carried out by commercial banks in 2021, thus only includes transactions carried out via SWIFT.

Table 3.2 SWIFT Transfers Incoming and Outgoing

(Value in million of USD, quantity in 10³)

	2020		2021		Change (%)	
	Quantity	Value	Quantity	Value	Quantity	Value
Transfers Incoming						
SWIFT	26.1	289.3	39.7	355.5	51.8	22.9
Non-SWIFT	10.0	183.0	52.9	805.0	429.4	339.9
Sub Total	36.1	472.3	92.6	1,160.5	156.4	145.7
Transfers Outgoing						
SWIFT	14.2	488.1	33.3	906.5	134.1	85.7
Non-SWIFT	55.1	797.7	60.9	807.5	10.7	1.2
Sub Total	69.3	1,285.8	94.3	1,714.0	36.0	33.3
Total	105.4	1,758.1	186.9	2,874.4	77.3	63.5

Source: BCTL

External transfers received and carried out in 2021, via SWIFT, amounted to a total of 39.7 thousand and corresponded to the value of \$356 million, thus increasing by 51.8% in number and 23% in value. On the other hand, transfers made via non-SWIFT channels reached a volume of 52.9 thousand, which corresponded to a value of \$805 million. This was translated into a significant increase of 429% and 340%, respectively. Meanwhile, transfers abroad totalled 94.3 thousand transactions, amounting to \$1,714 million, which resulted in an increase of 36% in terms of quantity, and of 33% in terms of the amount transferred. Transfers of this type via SWIFT were the ones that most contributed to explain the increase in activity, having risen 134% in volume and 86% in terms of value.

3.3.1.3. The P24 System

The P24 system makes use of R-TiMOR interbank network, allowing P24 to automatically settle the net value of each bank's transactions on a daily basis. The main objective in the implementation of the system was to reduce the use of physical cash in our citizens' daily transactions and allow people without bank accounts, or those who are far away from banks, to have electronic means of payment, in addition to cash, accepted in local markets and stores.

Table 3.3 summarizes the evolution of transactions carried out in the P24 system in the country.



Table 3.3 P24 System

(Value in millions of USD, Quantity in 10³)

	Financial Transactions				Non-Financial Transaction
	Cash Withdrawal		Transfer		Balance Inquiry
	Quantidade	Valor	Quantidade	Valor	
2020	1,423.4	171.6	9.1	4.2	0.5
2021	1,512.1	187.7	22.6	8.0	0.5

Source: BCTL

These figures show the continued significant growth of P24's financial transaction activities in 2021. In 2021, 1.5 million cash withdrawal operations (in kind) were carried out through the P24 system, corresponding to a value of \$188 million, which resulted in an increase of 6% in volume and 9% in value. Regarding the level of transfers carried out in P24, 23 thousand operations were registered, totalling \$8 million, which corresponds to a significant increase of 148% and 90%, respectively, compared to 2020.

3.3.1.4. The Mosan System Service (E-Wallet)

The Mosan system is an electronic money wallet (E-Wallet) service that allows its users to transfer funds, withdraw and deposit money in their wallets, top up mobile phone balances, make electricity prepayments and consult balances and historic transactions reports.

For prudential reasons, limits have been imposed on the 'Mosan' system, stipulating a maximum balance per account of \$500 dollars and the maximum depositable per day at \$300 dollars. By the end of 2021, the authorized companies - Telemor and Telkomcel - already had more than 2,648 branches and 97,424 customers in the various municipalities. Mosan Agents, which act as 'transaction points', allow their customers to:

- Transfer and receive funds;
- Deposit and withdraw money;
- Register user/account and update customer information.

'Mosan' thus allows access to basic financial services to citizens of sucos and villages who live far from the main urban centres and to citizens who still do not have the possibility of accessing formal financial services in Timor-Leste.

Table 3.4 summarizes the statistics on transactions carried out by this service in 2021. In 2021 there was an exponential increase in the usage of the system, which confirms its social utility. The total number of transactions was 880 thousand, corresponding to \$62 million, which despite the 69% decrease in volume, translated into a remarkable growth of 168% in value, in relation to 2020. Given the expectations regarding network expansion and substantial growth of its customers, these values and volumes are expected to grow materially in the coming years.

Table 3.4 Mosan Service Transaction

(Value in millions of USD, Quantity in 10³)

	2020		2021		Change (%)	
	Quantity	Value	Quantity	Value	Quantity	Value
Transfer	150.0	15.2	374.2	50.0	149.5	227.0
Cash-in	248.0	3.7	3.4	0.1	-98.6	-98.6
Cash-out	15.0	1.9	298.3	7.9	1,888.9	313.0
Top-up	2,388.0	2.1	8.5	0.2	-99.6	-88.3
Buy data	9.0	0.02	173.7	0.2	1,829.6	956.6
Payment utility	6.0	0.03	21.9	3.5	264.6	11,822.9
Total	2,817.0	23.0	879.9	61.7	-68.8	167.5

Source: BCTL

3.3.1.5. Banking system

The statistics presented in table 3.5 summarize the evolution of transactions in 'kind' (coins or banknotes) and other means carried out by commercial banks in Timor-Leste. The number of 'currency' transactions carried out in 2021 totalled 1.3 million, or 59% of the total number of transactions carried out, with a nominal value of \$2,879 million. These figures translate into a 72% decrease in number and a 14% increase in value, compared to 2020. Transactions undertaken via in non-cash means accounted for 41% of the total number of transactions in the country, or 0.89 million transactions, but corresponded to an aggregate value of \$1,737 million, or 38% of the total value. These values represent increases of 147% in number and 23% in value, compared to 2020.

Table 3.5 Cash and Non-cash Transactions
(Value in millions of USD, Quantity in 10³)

	2020		2021		Change (%)	
	Quantity	Value	Quantity	Value	Quantity	Value
Cash Transactions	4,579	2,520	1,295	2,879	-71.7	14.2
Non-cash transactions	360	1,416	888	1,737	147.4	22.7
Total	4,939	3,937	2,183	4,616	-55.8	17.2

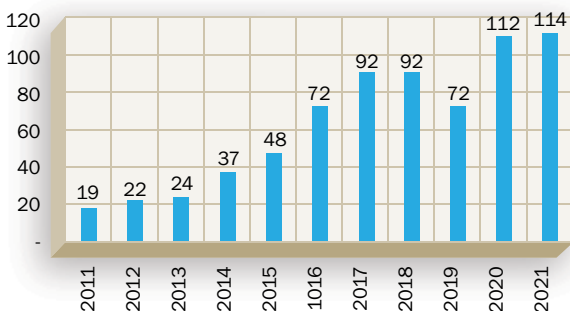
Source: BCTL

BCTL plans and is consistently working towards assuring that the settlement of transactions in the economy becomes progressively more efficient, through the increased usage of electronic payments and digital financial services. Consequently, BCTL continues to prioritize the substantial expansion of the network and range of digital payment services that do not use cash, but instead make use of the national payments system. Specifically, the switch system is increasingly fostering the expansion of payment services, encouraging the widespread use of debit and credit cards, as well as of mobile phones as platforms for making payments.

Chart 3.1

Automatic Teler Machines (ATM)

Number of ATM

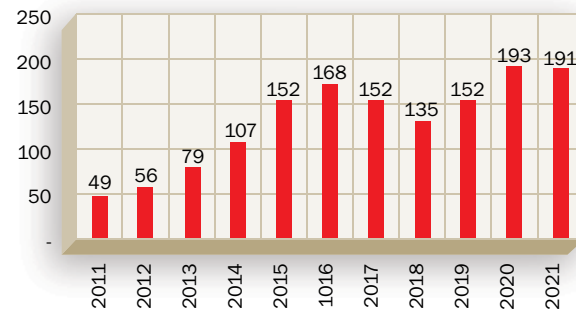


Source: BCTL

Chart 3.2

Automatic Point of Sale (PoS)

Number of PoS



Source: BCTL

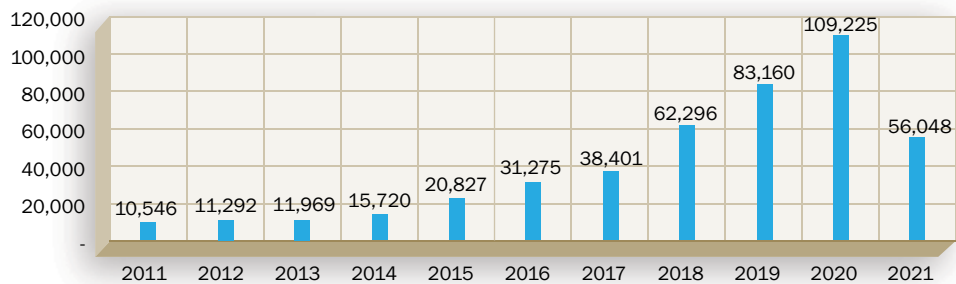
Charts 3.1 and 3.2 depict the evolution of the number of payment terminals installed in the country, including automatic teller machines (ATM), which totalled 114 units in 2021 and 191 units of points-of-sale terminals (PoS). These values, when compared to December 2020, represent an increase of 2% for ATMs and a decrease of 1% for PoS.

The annual evolution of issued bank cards in Timor-Leste can be seen in chart 3.3. In December 2021, the number of active cards in the country totalled around 56 thousand, which corresponds to a decrease of 49% compared to the previous year. Regarding the composition of the total number of debit and credit cards, there was a relevant change against the importance of debit cards, with the number of these cards falling significantly (-49%), after the significant expansion observed in 2020. On the other hand, the number of credit cards grew considerably (173%) compared to 2020, which resulted in an increase in their importance of overall national bank cards.

The continued growth in the number and degree of use of bank cards reflects the effective interest of users in these means of payment and the modernization and increasing digitalization of our financial system.

Chart 3.3

Number of Credit and Debit Card



Source: BCTL



Box 1: “Campo Digital” National Program

The “Campo Digital” Program is a National Program initiated by the Central Bank to promote the use of digital financial services in Timor-Leste. The Program also aims to expand, in the medium-long term, access points to integrated and interconnected financial services in rural areas, such as the use of digital media (Mobile, ATM and PoS) to carry out financial transactions (payments, transfers and balance inquiries). The program’s participants are the financial institutions that are interconnected with the electronic wallet systems within the P24 Network.

The objective of the project is to promote the knowledge and widespread use of these new technological tools in the daily financial activities of the population. The education and familiarization of the rural population with the development of the national payment system and with digital financial services is also one of the objectives of the program. In addition to these objectives, it is also intended to expand, in the medium to long term, the number of access points to integrated and interconnected financial services that will serve rural areas.

On November 29, 2021, the Central Bank celebrated the 7th anniversary of National Savings Day, simultaneously with the launch of the “Campo Digital” pilot program at the Maubisse Administrative Post, in Ainaro Municipality, with the participation of local authorities, representatives of Commercial Banks, Fintech Companies and their agencies, users of financial services, students and the Maubisse community.

The pilot project in Maubisse was frankly positive, benefiting from the efforts of BCTL and the two agents contracted by BCTL to monitor, raise awareness and disseminate the use of existing digital financial systems among the community and local merchants. This success was yet another proof of the project’s progress, which mainly aims to enhance the use of electronic wallets (e-wallets). The implementation of the program also allowed the installation of a new P24 ATM in Maubisse, in order to enhance the use of P24 cards in this locality.

On December 20, 2021, the Central Bank also implemented the National “Campo Digital” Program at the Administrative Post of Baguia, in the Municipality of Baucau, preceded by the dissemination of information on digital payments and continued training of Fintech Agents and Customers, in order to facilitate and streamline the payment of salaries at local Fintech agents. This event was attended by the local authority, school principals, civil servants, veterans, companies, e-wallet agents and customers.

At the end of 2021 in Maubisse, the system included 754 customers, 26 “merchants” - retailers that accept payments from electronic wallets, through the QR code scanner or via transfers between accounts - and 11 agencies, having registered a total of 27,561 transactions in the e-wallet system throughout the year.



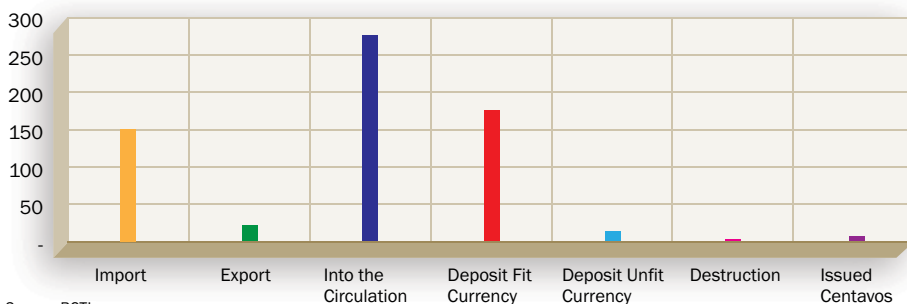
3.3.1.6. Currency Imports and Exports

One of the fundamental functions of the Central Bank is to ensure that the national economy has access to the necessary means of payment to support its economic agents' economic activities, as well as their expected growth. In this regard, the Central Bank effectively fosters the public confidence in the country's currency, by supplying an adequate level banknotes and coins that, at all times, must meet the demand of the public, while also ensuring the physical integrity of notes and coins.

Since the country uses banknotes from another country and its own metallic coins, which are not manufactured in the national territory, supplying the national economy with physical means of payment (coins and banknotes) requires importing them and, in the case of banknotes, when they reach a very low degree of conservation, their re-export to the country of origin, the United States.

Chart 3.4

TL: Currency Transaction in millions of USD



Source: BCTL

During 2021, BCTL imported \$150 million of dollar bills, representing an increase of 37.4% compared to 2020, having issued into circulation a total of \$273 million, including coins (cents), which corresponds to a decrease of 41.1% compared to 2020. The issued amount was higher than the imported amount, due to deposits inflows and the existence of reserves. It should also be noted that the 20-dollar bills continue to be the most used in transactions in the country, followed by the 10-dollar denomination.

The 20- and 10-dollar banknotes represented, respectively, 65% and 34% of total imports, 66% and 32% of circulation in the economy, and 66% and 32% of the total (re) deposited (“fit currency”) by banks with the central bank (Table 3.6).

Table 3.6 Coin Transactions and Movement

(Value in millions of USD)

Denomination	Import		Re-circulation		Deposit		Import	Peso 2021 (%)			Change (%)	
	2020	2021	2020	2021	2020	2021		Re-circulation	Deposit	Import	Re-circulation	Deposit
100	4.800	0	7.000	1.300	6.900	1.300	0.0	0.5	0.8	-100.0	-81.4	-81.2
50	1.600	0	4.350	1.150	5.650	1.050	0.0	0.4	0.6	-100.0	-73.6	-81.4
20	66.880	97.280	302.641	177.200	257.961	109.547	64.8	66.4	66.0	45.5	-41.4	-57.5
10	33.760	50.560	139.051	85.810	123.411	53.050	33.7	32.1	31.9	49.8	-38.3	-57.0
5	2.160	2.240	3.415	1.455	4.210	1.143	1.5	0.5	0.7	3.7	-57.4	-72.8
	109.200	150.080	456.457	266.915	398.132	166.090	100	100	100	37.4	-41.5	-58.3

Source: BCTL

As for coins, a total of \$6 million dollars were issued into circulation in 2021. The 200-cent coin had a total amount in circulation of 1 million cents. This figure represents a decrease of -62.2% compared to 2020. On the contrary, the 100-cent coin increased by 54% to 2.8 million cents, thus exceeding the value of the 200 and 50 cent denominations. The latter denomination had a value in circulation of 1.5 million cents, amounting to 24% of the total coins in circulation, with an decrease of 4% compared to 2020.

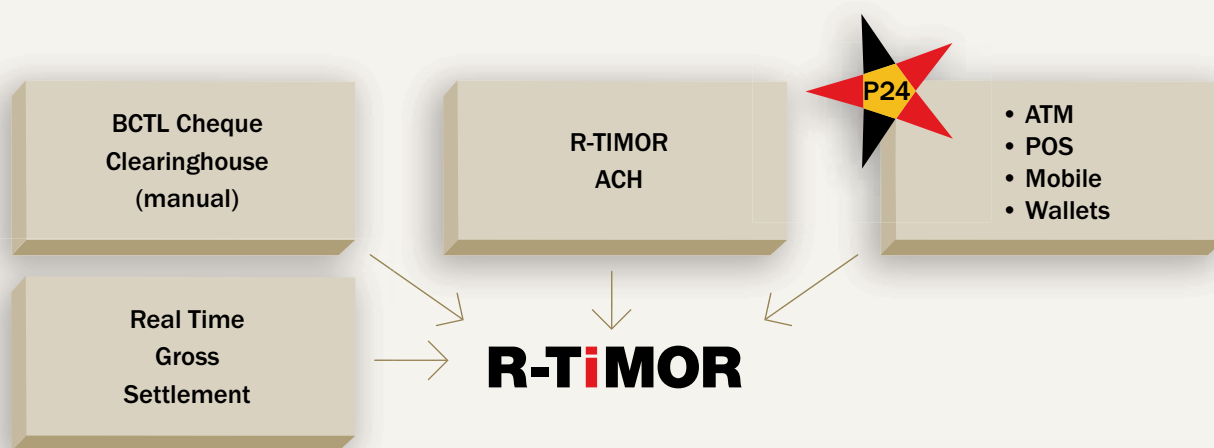
Box 2: Modernization of Timor-Leste's Payment System

1. The R-TiMOR System

The R-TiMOR system, established in 2015, consists in an interconnected network of systems and platforms that allows individuals, companies, State organizations and other entities to make electronic payments in Timor-Leste. The Central Bank continued to play the role of coordinator between the service provider and R-TiMOR users in order to improve services to ensure the existence of an efficient and effective payments system, in particular through the implementation of the Direct Processing module (STP), which ensures that payments are executed in an efficient and secure manner. The STP has already been implemented and is currently used in all commercial banks and in the Ministry of Finance

At the end of 2021, 6 direct participants and 77 indirect participants were registered in R-TiMOR. The number of indirect participants increased by 35% over the previous year. Indirect participants consist of Autonomous Agencies, Municipalities and Special Funds. The system allows indirect participants to process their payments directly using the Government Resource Planning (GRP) system installed at their workplaces.

The Central Bank also continues to coordinate with the R-TiMOR system provider and with the participants the implementation of other necessary improvements to facilitate direct large amount payments, carry out all types of payments to the State (taxes, bids, etc.), from any bank participating in the R-TiMOR.



2. The National Card and the Payment Switch Projects

In March 2017, BCTL hired SIBS International de Portugal to develop and implement the National Card Project and the Interconnection of the Payment System. The interconnector/switch, designated "P24" (the "P" derived from the words 'Pagamentu, Pagamento and Pembayaran'), offers a wide range of financial services and is always available 24 hours a day.

The P24 system went officially live in 2019, with the integration of CGD and Banco Mandiri's ATMs networks during the first phase and allowing customers of each bank to carry out transactions at the ATMs of other banks with the P24 logo.

BNCTL then joined in December 2019 and BRI also joined in early February 2020. Some ATMs from both banks are already integrated into the P24 system, which allows P24 cardholders to carry out financial transactions on the network of ATMs of these banks and other participants in the system.

In 2021, with the collaboration of P24 participants, the Central Bank completed the implementation of the “Mobile Switch” with the P24 system now interconnecting e-wallets, which allows e-wallet customers to now carry out fund transfers from bank accounts to e-wallet accounts and vice versa (B2W2B).

The interconnection of the electronic wallets subsystem with the P-24 system now allows holders of these wallets to transfer funds from their bank account to the Telemor Fintech Lda wallet (Mosan brand) or the Digital Telin Solution Lda wallet (T- Pay), as well as carrying out transfers from wallets to bank accounts (W2B) from the wallets of Telemor Fintech Lda (Mosan) or Telin Digital Solution, Lda.

In October 2021, BCTL also completed the full operationalization of the Tax Payment module through the P24 ATM network, which has always been one of the essential elements and objectives of the National Payment System. This important milestone in the development of the national payment system now allows P24 cardholders of all participating bank customers to pay their taxes electronically, through ATMs with the P24 logo, without having to go to their banks. As the P24 system is also interconnected with the Central Bank’s R-TIMOR settlement system, the BCTL then credits the payment of taxes received through R-TIMOR to a State account at the Central Bank. It should also be noted that, for the service to work, banks have to request their customers to exchange their previous bankcards for the new P24 bankcards.

This new tax payment functionality was later jointly launched by BCTL and the Ministry of Finance, in an official ceremony held on 5 March 2021. At the ceremony, the Governor and the Minister of Finance appealed to the business communities, service providers and Timorese citizens to increase the use of electronic payment tools through the P24 network. Providing access to these services has been one of the Central Bank’s key strategies to modernize, strengthen and develop the financial sector to support economic growth and one of the Government’s priorities to promote “e-government” in the sense of simplifying and facilitating the use of public services and the inclusion of citizens.

At the end of 2021, BNCTL, in collaboration with BCTL, completed the integration of Union Pay International with the P24 system, with the status of “acquisitor”. This integration allows international Union Pay cardholders to carry out transactions at BNCTL ATMs in Timor-Leste with the P24 logo.

Since VISA has also been integrated into the P24 system, BNU Timor, in collaboration with BCTL and service providers, has already implemented the use of the “contactless” payment method for its visa cards and the issuance and operation of security protocols “Visa 3D Secure”, fully compliant with Visa’s operational requirements.



Box 3: Financial Education Program Implementation

3.1. Financial Literacy Program in Primary Schools

This year, the celebration of the seventh anniversary of the National Savings Day was held at the administrative post of Maubisse, in the municipality Ainaro. The program consisted of carrying out the 1st anniversary of the Campo Digital pilot program, and implementing the digital financial literacy program that combines financial education with the theme of digital payments. The implementation of the digital financial literacy program took place in several elementary schools in the municipality, including mainly students in the 5th and 6th year. The financial literacy materials presented in this program cover topics such as: currency circulating in Timor-Leste and methods of detecting counterfeit money, identifying needs and wants, spending and saving, Ha'u-nia Futuru savings account and introduction to the digital payment systems available in Timor-Leste. The following table presents data regarding the schools and students that attended the financial literacy program.

It should be noted that students from the 2nd cycle of basic education were the main recipients of the financial literacy program, with 267 students from this group actively participating in the program. Additionally, 110 students are in the third cycle of primary education and 70 secondary school students are students specializing in agriculture education.

No	School	Male	Female	Total
1	EBC Rimori	9	17	26
2	EBC Aituto	26	34	60
3	EBC Fleicha	38	35	73
4	EBC Fleicha third cycle	49	61	110
5	EBC Beremoli	33	12	45
6	Agriculture Vocational school	21	49	70
7	EBC Rita	31	32	63
Total		207	240	447

A quiz competition was organized between primary schools that received materials on financial literacy and digital payments. The questions covered topics that were taught, combined with general questions, related to the history or constitution of our country. The Instituto Superior de Cristal also supported the technical assistants in carrying out this competition. Representatives of the Ministry of Education, Youth and Sports, the municipal director of Ainaro, also participated in this activity. The winners of the contest were, from first to fifth place: EBC Aituto, EBC Fleixa, EBC Rita, EBC Riamori and the EBC Beremoli. These winners will receive money, in the form of savings for participating children, to be deposited into their Hau' Nia Futuru accounts.



3.2. National Savings Day



PROGRAMA NASIONAL BA EDUKASAUN FINANSEIRA

“Poupa Agora Diak Ba Futuru”



The celebration of the 7th anniversary of the National Savings Day in Maubisse consisted of the celebration of the first day of the “Campo Digital”. This event was attended by guests from the Secretary of State for Cooperative Affairs, municipal authorities, financial institutions, teachers and students, as well as people from other interested parties. At the event, the Central Bank and the Secretary of State for Cooperative Affairs signed a memorandum of understanding for the cooperation in the field of financial literacy for cooperative members.

During the celebration, the Central Bank distributed prizes to the winners and awarded certificates to the schools involved in the financial literacy program and the digital field project. The celebration of this event was attended by at least 1,259 people.

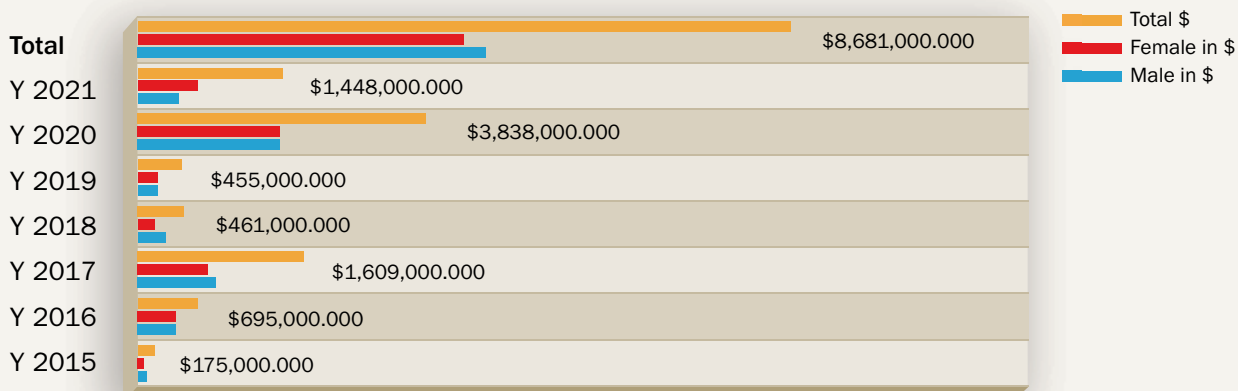


3.3. “Ha’u-Nia Futuru” Savings Accounts

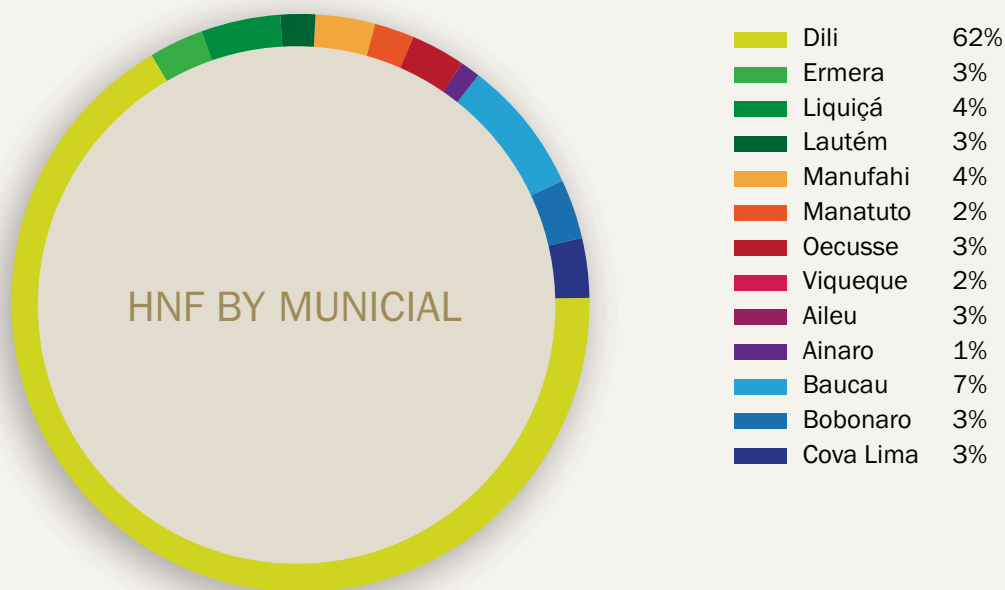
CHILDREN’S SAVINGS ACCOUNTS “HA’U-NIA FUTURU”

The Ha’u-nia Futuru savings program was developed for children up to the age of 17, with the main objective of promoting the formal financial inclusion of children and families. Every month, banks provide BCTL with reports on the progress of Hau Nia Futuru savings program in order to monitor its development. The benefits of these savings are that children only need one dollar (US\$1) to open an account, there are no administration fees and they benefit from an annual income of 1.5%. To open this account, only the birth certificate and the parents’ ID cards are required.

HNF SINCE THE BEGINNING



From the beginning of the program until the end of 2021, the amount invested in Ha'u Nia Futuru accounts amounted to US\$ 8.6 million. Annual data show that in 2021 the savings volume decreased by about 62% to \$1.44 million, against the \$3.83 million saved in 2020. It should be noted that most of the funds invested in these accounts are concentrated in the capital Dili (62%). The lowest expression was registered for the municipality of Ainaro, which represents only 1% of the total amounts. At the end of 2021, there were 24,352 customers, of which 51% were male and 49% female.



3.4. Cooperation with the Ministry of Education, Youth and Sports

Since the signing of the second memorandum of understanding in early 2020, the Central Bank continues to strengthen its coordination and cooperation with the Ministry of Education, Youth and Sports of Timor-Leste, to define the terms and methods of implementing financial literacy for the basic education, specifically for students from the 1st to the 6th year of schooling.

During the pandemic, a joint team from the Central Bank and the Ministry of Education, Youth and Sports carried out a review of the financial literacy textbook to facilitate teachers' teaching and students' understanding through concrete examples available in their social contexts. The review aimed to make the material more relevant and adapted to the Timorese reality. The complete series includes a book for each school year, with detailed lesson plans, activities, games and exercises to facilitate the learning process.

The financial literacy program aims to introduce financial concepts and prepare students for the future and teaches topics related to spending decisions and the importance of saving for the future. The program requires students to express their levels of knowledge about money and economic terms, use their mathematical skills to solve problems, and reason critically and analytically. The collaboration between the Ministry of Education, Youth and Sports, INFORDEPE and the Central Bank of Timor-Leste has been fundamental in the implementation of this program in all schools in Timor-Leste. The revised financial literacy program book was approved and nominally adopted by the Minister of Education, Youth and Sports and the Governor of the Central Bank.

In addition to this review, the Central Bank and the Ministry of Education, Youth and Sports, through the National Institute for the Training of Teachers and Education Professionals (INFORDEPE), also revised the Teacher Guidance Manual to teach the Literacy Program Financial.



3.5. Formalization of the new MoU with SECOOP

During the celebration of the 7th National Savings Day, BCTL signed a Memorandum of Understanding with the Secretary of State for Cooperatives (SECOOP) within the scope of cooperation in the area of training in financial education, monitoring and supervision of the implementation of the educational program for cooperatives. The main objective of this MoU is to improve the capacity of cooperatives within the field of financial education.

Pursuant to this MoU, BCTL will support SECOOP in defining and delivering financial education training for cooperatives and will support the preparation of materials to support the financial education training activity for cooperatives. The BCTL will also manage, together with the Secretary of State for Cooperatives, training in financial education for cooperatives and, if possible, directly monitor the training of trainers to teach financial education to members of cooperatives selected by SECOOP. BCTL will also prepare training materials and tools for financial education and subsequently support SECOOP in monitoring and supervising the implementation of the financial education program in Cooperatives.

For its part, SECOOP will have the role of appointing qualified trainers to participate in the financial education training and will be responsible for the financial costs necessary for the training and education of the cooperatives carried out by BCTL. In addition, SECOOP should ensure that the BCTL is involved in the training motorization program together with the SECOOP team, if necessary.

SECOOP must also ensure the involvement of SECOOP trainers in the training program or other financial programs carried out by BCTL, free of charge. Upon completion of the training, SECOOP will be responsible for awarding certificates to participants.

3.6. National Financial Literacy Strategy Review

During 2021, BCTL conducted a review of the existing document that guides the National Financial Literacy Strategy program. The national financial literacy program is designed for a period of five years. This program provides guidance to the central bank in carrying out its financial literacy activities. The first program covered the years 2016 to 2020, so it needed to be revised to guide the next five years, from 2021 to 2026.

In the previous five years, the central bank carried out financial literacy activities, such as financial literacy programs dedicated to 1st to 6th grade students, members of small and medium-sized enterprises and cooperatives. In this context, BCTL also sought to disseminate among parents and students the benefits of creating savings for a better future, often done annually during the celebration of National Savings Day. The review of the program was based on dialogues and interviews with various stakeholders from both the public and financial sectors and various non-governmental organizations operating in Timor-Leste.

Institutions interviewed by the BCTL

Institution	Number of Interviews
Bank	5
fintech	2
government entity	3
Insurance	2
money transfer operator	2
international NGO	4
Other deposit-taking institution	2
United Nations Agency (UNCDF)	1
Total	21

These interviews sought to assess and include the respective feedback, as well as to assess the participants' knowledge of the various topics taught. The central bank intends to further the involvement these participants, so that more people can benefit from relevant lessons and knowledge in the field of financial literacy.

According to the plan, the BCTL will publish the new strategy document in 2022, after which it plans to proceed with the respective implementation phases.

3.7. Financial Inclusion Report-2020

The financial inclusion report (FIR) must be published by the Central Bank of Timor-Leste every two years. However, there was a slight difference in the 2020 financial inclusion report compared to the previous publication, with the 2020 report now considering supply and demand data.

The report, entitled “Boosting Financial Services Access through Digitalization”, highlighted the impact of the modernization of the National Payment Systems in the expansion of access points through the interoperability of ATM and ETFPOS networks, the integration of e-wallet services, as well as the connectivity with international payment systems.

The main conclusions of the report were:

- FIR2020 observed significant improvements in access points in Timor-Leste, resulting from the increased coverage of sucos (cities) with, for the first time, all Administrative Posts being covered by at least one type of financial services access points;
- Exponential growth of e-wallet services from a pilot service in 2018 to more than 3,000 agents and 86,000 registered customers in 2020
- Modernization of the National Payments System: interoperability of e-wallets and connection of e-wallet services to banks, allowing customers to transfer money from bank accounts to their e-wallet accounts
- The use of banking services has increased moderately since 2016. Other deposit-taking institutions and e-wallet service providers recorded higher growth.
- The Timorese Government and BCTL implemented a Credit Moratorium Program in 2020 to support the economy, directly benefiting companies and families affected by COVID-19. The program supported a total of 4,135 entities, most of them individual borrowers.
- A demand-side survey results showed that some bank customers do not know they have a bank account, as they have been forced to open accounts to receive payments from the Government. These customers use their bank accounts as a “mailbox” and do not yet understand the services available.
- The Central Bank launched the “Campo Digital” awareness campaign to promote digital financial services among Timorese in rural and urban areas.

The report evidenced progress in all relevant dimensions of financial inclusion.

Photo: The first FIR was published in 2016, the second FIR in 2018 and the third FIR in 2020





Photo: The Governor of the Central Bank Mr. Abraão de Vasconcelos, at the launch of the financial inclusion report, presented the report to Mr. Phan Thanh Tung, from the Fintech company Telemor MOSAN, for his significant contribution in increasing access points through the presence of his agents in many locations in the country.

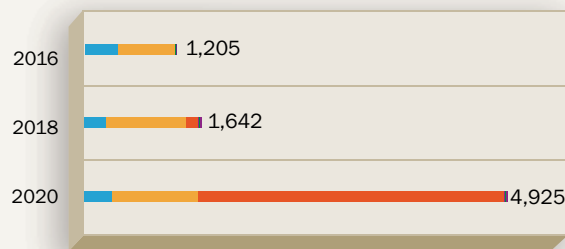
Furthermore, access to financial services has significantly improved since 2018. The number of access points has increased by 200%, mainly driven by e-wallet services, with all types of financial services except insurance increasing their number of access points since 2018. The distribution of access points to financial services now covers the 12 municipalities and the RAEOA and, for the first time, all 65 administrative posts. At the suco level, 391 sucos have at least one access point to financial services, but 61 sucos do not yet have any access point. The report also included a coverage map of access points in the country.

Financial Services Access Point Evolution

Financial Services access points tripled in the last two years.

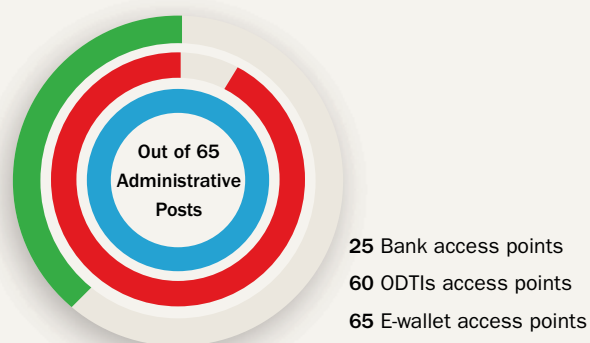
All types of financial services increase the number of access points, except insurance. The e-wallet services had the most significant progress.

- Banks
- ODTIs
- Cooperatives
- Others
- E-wallets

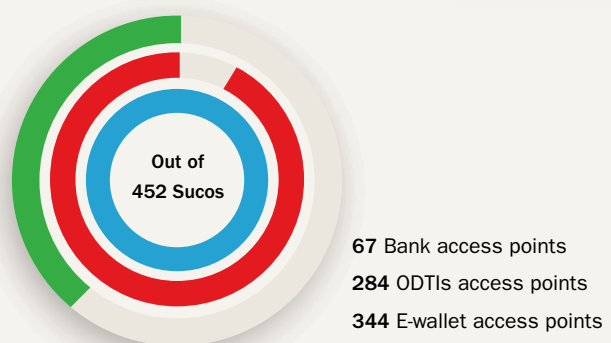


Banks, ODTIs and E-wallet Access Points Coverage by Administrative Posts

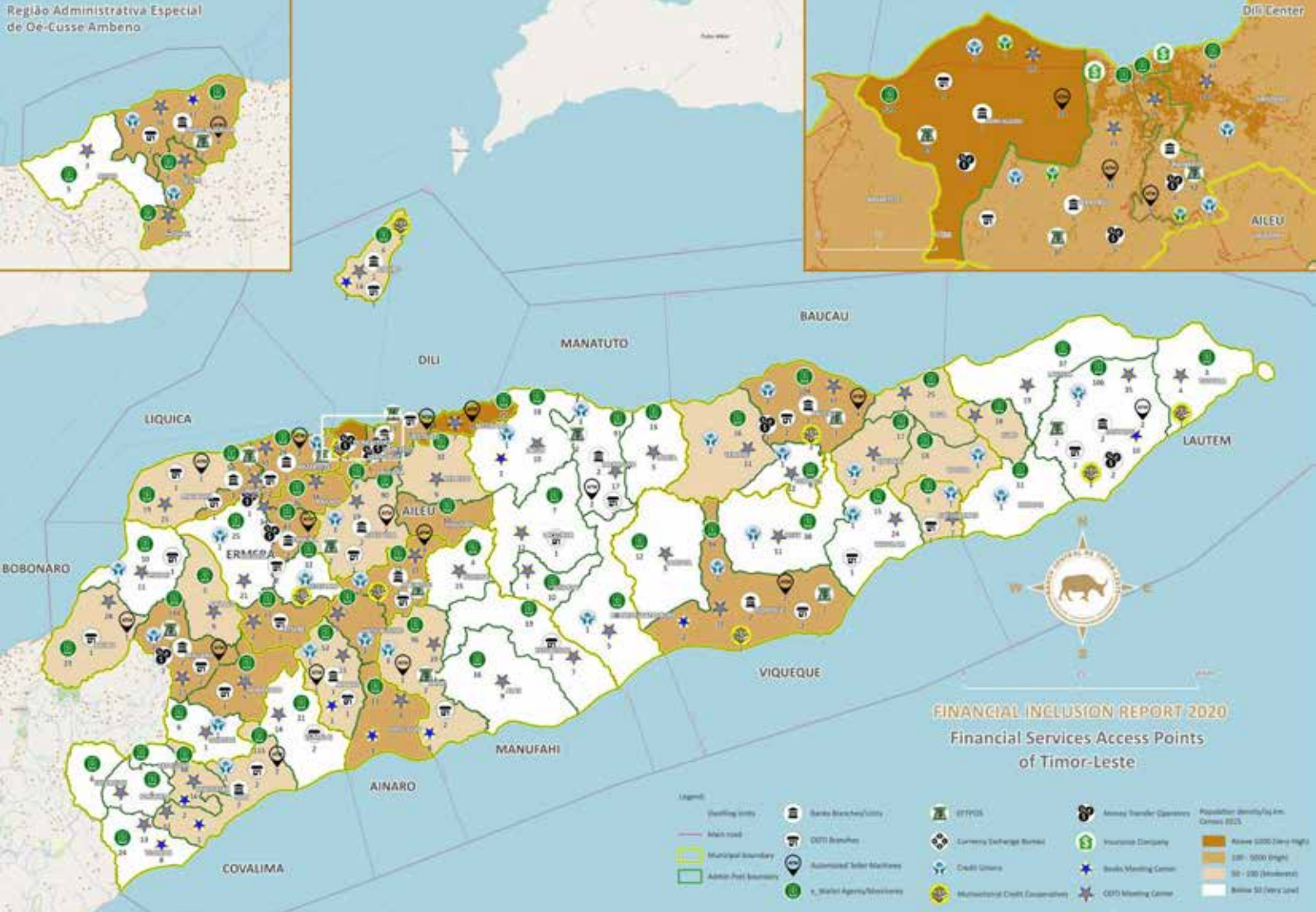
Banks' access points are limited to urban areas. ODTIs' access points are more widespread than banks. E-wallet's access points are almost everywhere.



Banks, ODTIs and E-wallet Access Points Coverage by Sucos



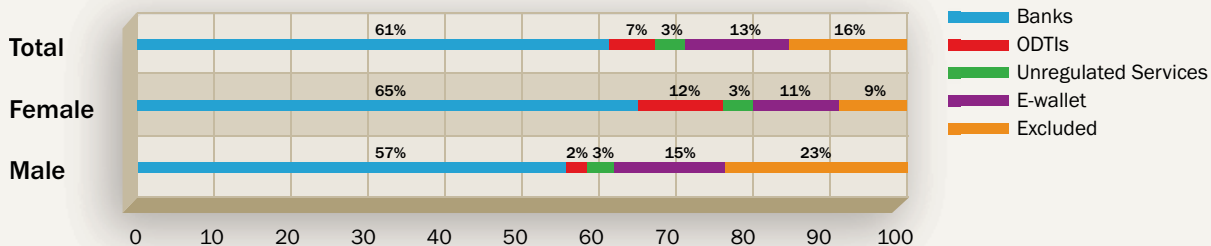
- Bank access points
- ODTIs access points
- E-wallet access points



Timorese adults are now using more financial services compared to 2018. At the end of 2020, around 61% of the adult population were bank customers, 7% were ODTI customers, 3% were members of credit unions or multi-sector cooperatives that offered credit and 13% were customers of e-wallet systems. In 2020, around 16% of the adult population was still excluded from all financial services, compared to 35% in 2018. In terms of gender, women use more financial services than men, with the exception of e-wallet services.

In case you want access to this comprehensive report, please find it in the Central Bank of Timor-Leste website at <https://www.bancocentral.tl/en/go/financial-inclusion-report>. The report addresses the development of financial inclusion in terms of access points, degree of coverage of the adult population, access to credit, frequency of use of customer accounts, means of savings, main reasons for not having a bank account and other topics.

Population Using Financial Services in 2020



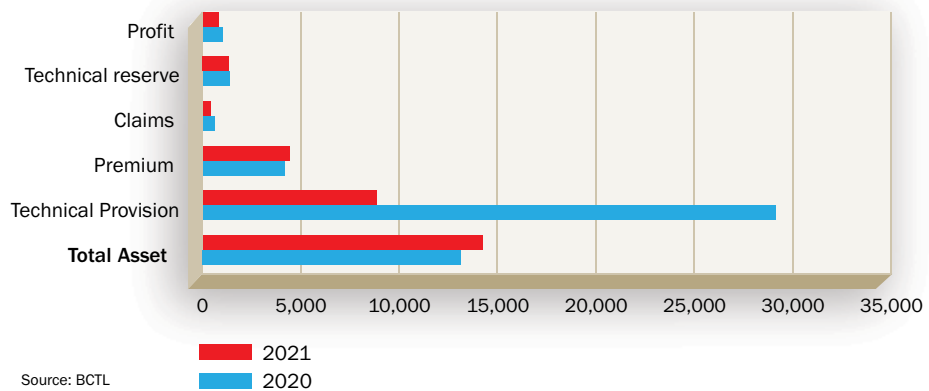
3.3.2.2. Insurance Companies

In 2021, the domestic insurance sector continued to be composed by two institutions: SinarMas (SMI) and Federal Insurance Timor (FIT). The sector registered a further progressive improvement in the range of services offered in the country and in the provision of general insurance to the various sectors of activity, at affordable prices and an adequate level of competition.

The sector recorded total assets of \$14.185 million in December 2021, accounting for a growth of 13.5% compared to 2020, within which liquid funds - cash and bank deposits - constitute the vast majority. In the same year under review, total liabilities increased by 8% to \$9 million at year end, a large part of which corresponds to technical reserves and other liabilities. The sector's equity also rose 23% to \$5.2 million, largely comprising current and carry-over earnings.

Chart 3.5 illustrates the evolution of the main metrics used to assess the insurance business's annual performance in Timor-Leste.

Chart 3.5
Insurance Performance
In millions of USD





3.3.3. Petroleum Fund Management

According to the framework defined in the Petroleum Fund Law - Law no. 9/2005, subsequently amended in 2011 - the Central Bank continues to be responsible for the operational management of the Fund. According to this legislation, the Ministry of Finance is responsible for defining the overall investment strategy of the Petroleum Fund and the Central Bank is responsible for the operational implementation and specific management of the investment mandates that implement that strategy.

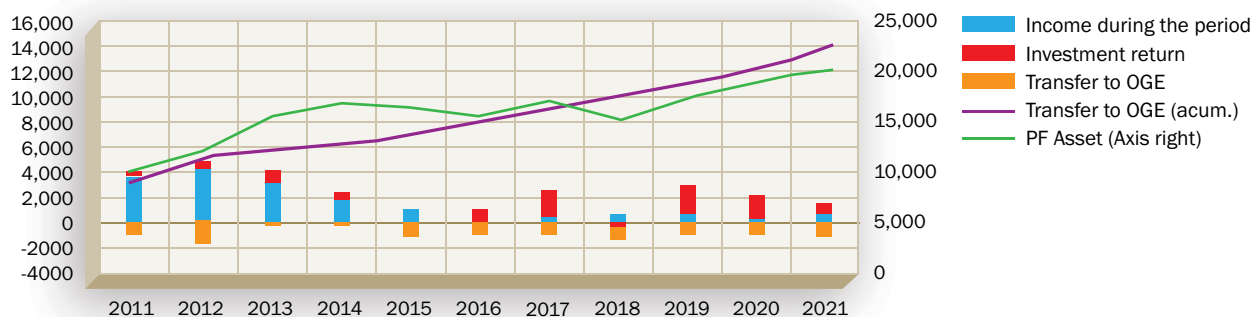
At the end of 2021, the Fund's capital amounted to \$19,651 million, an increase of 3.5% compared to the previous year. Annual oil revenues - taxes and royalties - amounted to \$717 million, resulting in a significant increase of 231% compared to 2020. On the other hand, PF's withdrawals to finance the annual State Budget were \$1,148 million.

In terms of its financial performance, the Fund accumulated a gross income of \$1,104 million, which corresponds to approximately 6% of the Fund's value at the end of 2021 (\$19,651 million). The breakdown of this income allows us to observe that the income from interest and dividends totalled 1.4% of the Fund's value (1.8% in 2020), while capital gains were 4.3%, resulting in a decrease compared to the substantial capital gains recorded in 2020 (8.2% of the Fund's value).

Chart 3.6

Petroleum Fund Asset Evolution

In millions of USD



Source: BCTL

The Petroleum Fund registered a relevant change in terms of investment strategy in 2021, after the Minister of Finance adopted the recommendation of the Investment Advisory Committee (IAC) to segment the Fund into two sub-portfolios, namely: the liquidity portfolio and the growth portfolio. The liquidity portfolio is invested in highly liquid securities with maturities of less than 3 years, in order to cover the expected withdrawals to finance the State Budgets projected in the next 3 years. The growth portfolio is mostly invested (65%) in fixed income securities and global equities (35%) and is expected to provide a higher potential return for the invested capital.

In 2021, the performance of asset classes for the period under review was mixed, with the global bond portfolio losing -2.25% and equity investments posting again notable gains of 22.7%.

The negative performance of the bond portfolio was due to the increase in interest rates on global sovereign bonds, particularly US Treasury bonds in which the Petroleum Fund is substantially invested. The pandemic situation continued to substantially affect the evolution of the financial markets in 2021, but the development and approval of vaccines by the health authorities at the end of 2020 allowed for a more positive and dynamic in 2021. However, due to initial logistical problems, vaccination rates grew slowly at the beginning of the year, but made significant progress in the second half of the year. However, when vaccination rates improved, the Delta variant emerged, which proved to be more contagious and to cause more severe disease. Consequently, most countries then reintroduced restrictions and border controls to contain the spread of this variant. However, progressively, people began to learn to live with the virus which, together with the rise in vaccination rates, allowed the authorities to gradually ease their social restrictions and facilitate the resumption of economic activities. With the substantial pick-up in global economic demand, inflation picked up and interest rate hikes expectations rose, which in turn led to higher bond interest rates. Additionally, the better prospects for economic growth also led investors to move away from less risky assets (treasury bonds) in favour of riskier assets, with higher potential returns.

The Petroleum Fund's bond portfolio is mainly invested (70%) in US Treasuries with maturities between 3 and 5 years, 15% in US Treasuries between 5 and 10 years and 15% in the global Treasury bonds issued by global developed countries, excluding the US. 5-year US Treasury bonds rates increased 0.90% in 2021, while the 10-year yield increased 0.60%. Similarly, interest rates on sovereign bonds

from other countries also increased in 2021. UK 10-year interest rates rose 0.77%, German 10-year yields rose 0.23% and Japanese rates for the same maturity rose 0.05%. Since yields change inversely with bond prices, 2021's generalized rise in rates has caused a widespread fall in global bond prices, especially for US Treasury bonds.

On the other hand, the global stock market recorded a robust return in 2021 supported by several factors: the substantial recovery in economic activity, solid corporate earnings and the extension of main central banks' monetary stimulus programs. The global stock market index (MSCI World) appreciated 20% in 2021, led by the USA, which rose 26.5% in the period, while the European sub-index (ex-UK) was up by 22.6%. This contrasted sharply with the anaemic performance of emerging markets, which registered a marginal loss in the year of -0.2%.

Despite the higher number of COVID infections during the year, people around the world are now better prepared to mitigate and live with pandemic risks. Improving global vaccination rates from mid-2021 onwards has been very helpful in fighting the pandemic. Since the start of the pandemic, governments around the world have expanded their budgetary support, including generous subsidies to households and businesses, to prevent people movements and the spread of the virus. However, consumers were unable to spend these subsidies due to restrictions imposed on business activities and people. The data collected show that overall household savings increased by 7.5% in 2021. When economies reopened, consumers were finally able to spend these savings, which, in turn, supported higher corporate revenues and, naturally, stronger companies' profits.

The economic reopening was not exclusively positive for investors, as it also caused a substantial increase in inflationary pressures. Typically, given a rise in inflation pressures, central banks tend to raise interest rates to prevent the economy from overheating, which is then reflected in the rising cost of financing for private companies, states and consumers. However, major central banks, particularly the US Federal Reserve (FED), considered this initial rise in inflation to be transitory, mostly due to pandemic restrictions and associated with extraordinary workforce shortages and unusually high consumer spending. The Fed believed that as time progressed and restrictions were eased, the workforce would tend to return to the labour market to support the supply response to the substantial recovery in demand. This line of reasoning led the Fed and other major central banks to keep their interest rates unchanged in 2021 to support their respective economic recovery.



3.3.4. Institutional Strengthening

BCTL continues to develop and strengthen the Timorese financial system and modernize banking supervision. The most relevant actions carried out in 2021, relating to the Bank's institutional strengthening program, are highlighted below:

- BCTL established the framework for the Promotion of Financial Markets and the regulation on the issuance and trading of Central Bank certificates.
- It implemented a new Audit Manual, which sets out the procedures related to the internal audit program.
- In order to improve the reporting and prudential reporting of commercial banks and other financial institutions, the Board of Directors approved an instruction to regulate the financial reporting by financial institutions through the BSA.
- It adopted the International Financial Reporting Standards (IFRS) to be applied by commercial banks and other Deposit-taking Institutions (ODTIs) in the presentation of their reports.
- The Board of Directors evaluated a proposal to amend the instruction on Credit Risk Management so that commercial banks can manage their credit risks and simulate the impact of possible macroeconomic risks on their credit portfolios. This instruction was revised based on the principles contained in the previous instruction and on the requirements stipulated by IFRS.
- BCTL operationalized the instruction relating to the classification of credits, regulatory capital, provisions and reserves. This instruction revoked other pre-existing instructions and took into account instruction no. 11/2021 on the adoption of International Financial Reporting Standards (IFRS). Additionally, this new instruction is intended to help enforce appropriate policies and procedures for the timely identification and management of problematic assets, as well as maintain adequate provisions to the effective quality of the respective assets.
- BCTL also enacted the instruction on the classification of insurance activity, namely with the aim of segmenting the licencing and supervision framework for the life and non-life segments within this sector.
- Following-up on the cooperation established with the Griffith University of Queensland in Australia, in 2021 two joint research works were carried out, the publication of which was postponed to 2022, due to the pandemic situation.
- Within the scope of cooperation in the area of financial education training, as well as monitoring and supervision of this training program for cooperatives, BCTL signed a Memorandum of Understanding with the Secretary of State for Cooperatives (SECOOP).



3.3.5. Employees and Training Programs

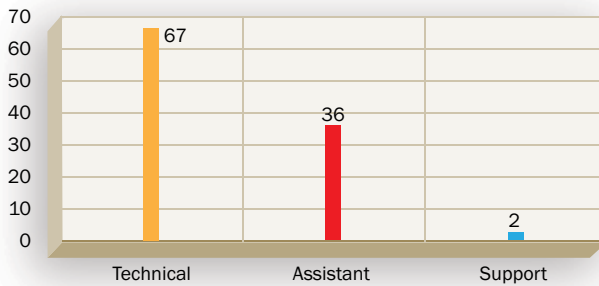
At the end of the period under review, BCTL had 103 employees, which represented a marginal decrease compared to 105 in 2020.

The plan for 2022 intends to move forward with the hiring of 2 new employees to fill the official career positions for legal assistants in the Legal Affairs Division.

The number of BCTL employees, including the 2 employees expected to be recruited in 2022, distributed across the various professional categories, is shown in chart 3.7:

Chart 3.7

Professional Categories

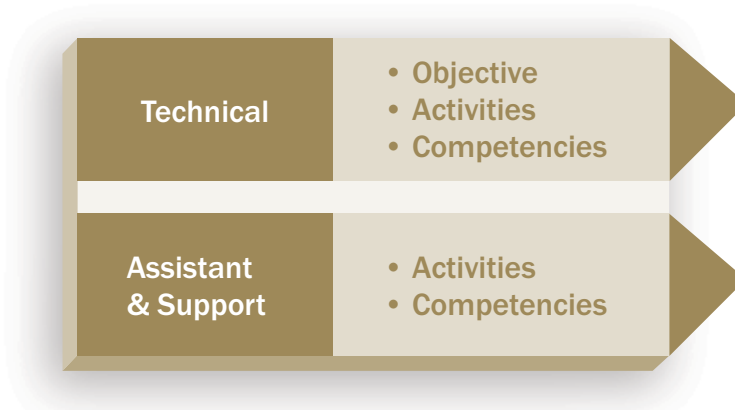


With regard to the Performance Assessment system for BCTL employees, throughout 2021, the vast majority of employees were able to achieve the objectives established by the institution and respective departments and divisions.

The Performance Assessment system is implemented by the various Department managers, with the aim of valuing the work of the respective employees and analysing their contributions towards achieving the BCTL objectives, as planned by each department for the 2021 financial year.



The dimensions used in assessing the performance of employees have remained unchanged from the previous year, as indicated in the diagram below, namely: Objectives, Activities and Skills for technical career employees; and Activities and Skills for assistants and support professionals.

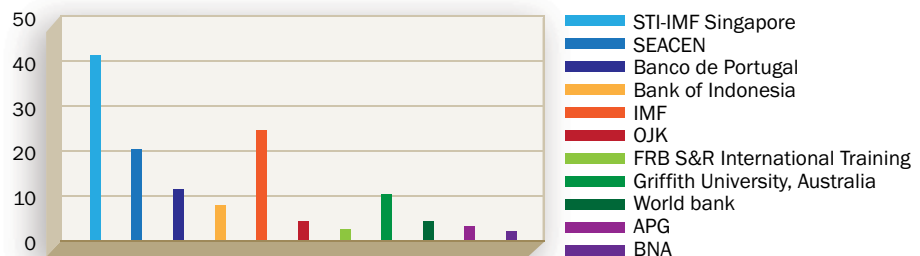


BCTL continues to allocate an appropriate amount to finance the development of skills and knowledge of its employees, who continued to benefit from the participation in seminars and training programs, held both in Timor-Leste and abroad. In addition, BCTL continues to grant scholarships to its employees to attend master’s and doctoral courses abroad.

Due to the pandemic situation, all trainings planned for 2021 that required the physical presence of employees, organized by the BCTL, other central banks or international financial institutions, were cancelled. However, some employees and officials managed to participate in the meetings and seminars that still took place, based on videoconferencing or other virtual means.

Chart 3.8

Number of participants in Courses, Workshops and Virtual activities in 2021



3.3.6. Institutional Partnerships

The “Institutional Cooperation Affairs” Unit continued to develop its cooperation activities with similar institutions and relevant organizations at both the international and national levels. These activities have focused mainly on the areas of technical assistance and the internal capacity building, with the aim of enhancing the effectiveness of the cooperation program, strengthening BCTL institutional partnerships and coordination with other Central Banks.

Most of the cooperation activities between BCTL and its counterparts throughout 2021 continued to be carried out virtually, as in 2020, due to the pandemic. The participation of BCTL in the cooperation activities in 2021 was satisfactory and the degree of participation of BCTL increased significantly compared to 2020. The BCTL and its employees and officials thus continued to participate in the various activities related to meetings, conferences, workshops, seminars and information sharing events, within the most relevant areas of banking activity.

In addition to the natural cooperation with the central banks of the Community of Portuguese Speaking Countries (CPLP), BCTL also continued its cooperation program with other central banks, namely: Bank of Indonesia, Bank Negara Malaysia, Reserve Bank of the USA and Australia, SEACEN, STI-Singapore, APRA and Pacific Islands central banks. This cooperation included the participation in meetings, seminars, conferences and virtual courses organized by the various cooperating entities. Additionally, the BCTL continued its cooperation activities with the Monetary Authority of Macau, currently focused in terms of technical assistance for insurance supervision.

Regarding cooperation at the national level during 2021, BCTL continued to strengthen its cooperation with relevant entities to promote public access to the financial sector. We highlight, in 2021, the signing of a Memorandum of Understanding between BCTL and the Secretary of State for Cooperatives (SECOOP), which aims to frame the partnership for the financial education training to national cooperatives. BCTL also continues to cooperate with the National University of Timor-Leste, providing internships for finalists from its Law Faculty.

With regard to the cooperation with Griffith-Queensland University, Australia, which was established last year, BCTL continued to develop efforts within the framework of ongoing joint economic research projects.

Box 6: BCTL Plan Implementation in 2021 and Action Plan for 2022

6.1. 2021 Plan Implementation

The most relevant BCTL programs carried out in 2021 were the following:

- 1.** In collaboration with the tax authority of the Ministry of Finance, the Central Bank managed to launch, in March 2021, the interconnection between the tax payment system of the Tax Authority and the P24 system, in order to allow bank customers to carry out tax payments from any ATM in the P24 network. In June, BCTL also managed to interconnect the banks' ATM system with the P24 Integrated Management System Terminal (SiGIT), which allows banks to carry out the technical monitoring of the ATMs that are part of the P24 system, improving the efficiency of the technical response to possible operational failures.
- 2.** In November 2021, BCTL as a P24 service provider, in collaboration with BNCTL and "Union Pay International", successfully interconnected the BNCTL system with the "Union Pay International" system. This development now allows Union Pay International customers visiting Timor-Leste to use P24 network ATMs.

The Central Bank also continues to collaborate with one of the providers of the "Switch" in Indonesia in order to interconnect the national payment system with the regional system. This project is already in the testing phase in the "issuing" aspect (usage tests of P24 cards in the ATMs of the associated members of the GPN network – Gerbang Pembayaran Nasional).

- 3.** The Central Bank continued to collaborate with the Government in the operationalization of the second phase of the credit moratorium program in 2021, which is a public program that aims to boost economic recovery in Timor-Leste.
- 4.** During the year, BCTL implemented other notable programs and initiatives, namely:
 - a.** It managed to interconnect the national switch systems with the mobile switch, allowing the integration of bank account systems with electronic wallets (Mosan and T-Pay) in the P24 system. This integration now allows customers of all banks (except Mandiri, which is in the internal testing phase) and Fintech companies to carry out transfers between their bank accounts and e-wallet accounts.
 - b.** Implemented a new regulatory instruction to regulate the provision of life insurance in Timor-Leste, establishing standards for minimum capital, allowed investment assets and the licensing of insurance companies operating in this segment.
 - c.** Formalized a second agreement with the Ministry of Education, Youth and Sports (MEJD) to improve the implementation, monitoring and evaluation of the financial literacy program in basic education.
 - d.** Carried out the pilot project of the "Campo Digital" at the administrative post of Maubisse, in the municipality of Ainaro. This is a national BCTL program aiming to promote the use of digital financial services in Timor-Leste.



6.2. The Strategic Priorities for 2022

The strategic priorities for 2022 continue to reflect the priorities set in the master plan for financial sector development and the plan for the national payments system.

Promoting Financial Inclusion

BCTL will continue to review the regulatory framework for financial institutions, in terms of liquidity and capital ratios (CAR), asset valuation policies, as well as the adoption of IFRS. BCTL will also complete the legal framework applicable to life and general insurance companies

BCTL will continue to promote stronger financial inclusion through the following programmes:

- a. Providing training in accounting (new module of the basic accounting program) for Micro, Small and Medium Enterprises (MSMEs) mainly on productive sectors
- b. In 2022 the DDSF team from the financial literacy program for youth will cooperate with Secretary of State for youth and Sport (SEJD) in order to develop the teaching of the program. In addition, training on financial products should also be carried out at youth centres in several municipalities.
- c. In 2022 the BCTL team will continue to work together with Training of Teachers and Education Professionals (INFORDEPE) and MEJD to complete the training of basic education trainers (1st and 2nd cycles) who have not yet attended training in Financial Literacy, mainly teachers from the Municipalities of Dili, Viqueque and Covalima.
- d. BCTL will improve its training program in accounting practices and book keeping. The team also plans to disseminate the results of this evaluation so that the quality of the program can be assessed and improved.

Promote Digital Financial Services and Develop the Digital Payments System

- The Central Bank will coordinate with commercial banks, Fintech companies and national authorities the launch of the second phase of the pilot project of the “campo digital” in the administrative post of Baguia, municipality of Baucau.
- BCTL will also coordinate with the Government and relevant authorities to promote the widespread use of electronic payments in medium-sized stores and service providers in Dili.
- BCTL will prepare the system rules for Fintech companies that are already part of the P24 system, also including the regulation framework for the supervision of electronic payment services (E-wallet).
- The Bank will also implement the sanctions regime for any undesirable actions by R-TIMOR participants, which will come into effect effectively in 2022, when all participants complete the full implementation of the “Straight Through Processing (STP)” module and other relevant resources. The central bank will also complete the first comprehensive regulatory framework for the national payments system.
- In terms of the “National Switch” system, BCTL will continue to integrate payment services via “e-wallets” and points of sale (PoS, Point of Sales), which have not yet been included in 2021.
- BCTL will complete the full operationalization of the interface between e-wallet operators in 2022, in order to allow financial transfers between different operators’ e-wallets.
- The Central Bank will work together with e-wallet operators in order to continue the discussion and agree on the technological solution to support the “single QR code” within the scope of P24, in order to allow customers to make purchases of goods and services through this code.

- The Bank will also work with EDTL to integrate EDTL's payment system with the P24 network, in order to allow the purchase of electrical "pulsa" through electronic wallets and ATMs.
- BCTL intends to finalize the regional integration of the national payment system, so that customers of banks in the Indonesian GPN network can carry out financial transactions at any P24 ATM in Timor-Leste, and so that customers of banks operating in Timor-Leste can use their P24 cards to carry out financial transactions on the "Prima Network" network in Indonesia.
- The Central Bank will develop and implement a single "Mobile Banking" application, to allow banking transactions to be carried out with any of the banks in the P24 network, which is the last operational phase of the plan to create the modern payment system in Timor-Leste.
- BCTL will finalize the certification of the "Master Card acquiring" and "Union Pay International Issuing" system, in order to allow its future interconnection with the P24. It should be noted that the certification proponents are BNU Timor, in the case of "Master Card" and BNCTL, in the case of "Union Pay International".
- Finally, BCTL will prepare the Standard Operating Procedures manual (SOP) related to the implementation of GPS location in electronic wallet applications, for agents of the 2 national fintech networks.

Promoting Access to Bank Credit

- BCTL will introduce and prepare guidelines to facilitate borrowers' access to emergency credits, allowing that, in the future, if necessary, the respective transfers of funds can be carried out efficiently via "E-wallets".
- BCTL will carry out socialization activities related to credit guarantee system (SGC) regulations and provide training to financial institutions (especially ODTIs) on how to access and use the SGC portal.
- BCTL will work together with BNCTL, KIF and Moris Rasik to operationalize the SIGIT online platform, which will allow its small and medium-sized enterprise (SME's) customers to access credit through this technological solution via web.

Research and Economic Studies

In this area, the emphasis will continue to be on the development of BCTL studies regarding the theme of the national currency, benefiting from cooperation with the Bank of Portugal, which has already presented a study and preliminary survey of the most relevant factors in 2020. This study has been suspended. in 2021, due to the pandemic situation, but it should be resumed in 2022.

BCTL will also continue to carry out economic research projects and studies on issues related to BCTL's main functions and statistics published by the Bank. These works should preferably focus on the following topics:

- Circulation and use of the monetary stock (currency) in Timor-Leste.
- Quantification and impacts of emigrants/immigrants' remittances from the perspective of demand for this type of services and what are the respective effects on the domestic economy. This research project will be jointly developed with Griffith University.
- Inflation drivers in Timor-Leste, also in collaboration with Griffith University.

Strengthening the Management and Investment Capabilities of the Petroleum Fund

- Continue to study and reassess the objectives and investment strategy of the Petroleum Fund and assess the impact on the PF resulting from the operationalization of national Treasury bonds.
- Proceed with the implementation of the Treasury Bonds project. After having already completed the framework for the implementation of this Project, BCTL is already working on the respective legal framework and operational implementation of these securities. These works will also include the implementation of the adaptations and functionalities within the R-TiMOR system to allow the operationalization of Treasury bonds.
- Study and implement the State's treasury management and financing strategy.
- Prepare the legal and operational framework for the issuance of national treasury bonds indexed to inflation "Treasury Inflation-Protected Security (TIPS)", which will be subject to approval by the Ministry of Finance.
- Define and agree with the INSS/RFSS the operational framework for managing the Social Security reserve fund.

Institutional Strengthening and Internal Capacity Development

a) Mobilize Human Resources and Develop Competencies

- Continue to strengthen the technical skills and competences of officials at home and abroad, particularly for those in the technical career. This will be done through the participation in trainings, workshops, seminars and conferences organized by the BdP, BNM, ADB, World Bank, IMF, AFI, PFTC and the Malaysian insurance institution.
- Provide training in Portuguese and English to all BCTL employees.
- Continue to offer employees participation in master's and doctoral scholarship programs.
- Extend the scholarship award program to obtain specific professional certifications - such as the "Chartered Financial Analyst" (CFA) and "Certified Public Accountant (CPA)" - with the aim of strengthening the technical skills of staff in accounting and finance issues.
- Based on the support of a human resources consulting company, carry out an analysis of the personal and professional growth potential of its technical and management staff and define internal policies aimed at fulfilling this potential.
- The BCTL will revise and harmonize the current cyber policies and procedures on current and future cyber threats. BCTL will also conduct security testing towards networks, systems and applications as well as deploying an additional protection and monitoring security.

b) Institutional Cooperation Strengthening

- Participation as a member of the AFI, APG and ASEL committees, and funding the participation of staff in the trainings, seminars and conferences offered in 2022.
- Organize the 7th meeting of supervisors and treasury of CPLP central banks.

Main Governing Bodies of the Central Bank of Timor-Leste (BCTL)

Board of Directors

The Governor

Abraão de Vasconcelos

Deputy-Governors

Nur-Aini Djafar Alkatiri

Venâncio Alves Maria

Non-Executive Members

Maria Madalena Brites Boavida

Aicha B.U. Bassarewan

Francisco da Costa Guterres

Benjamin de Araujo Cortereal

Management Committee

The BCTL Management Committee includes all those responsible for the Bank's main organizational areas, as indicated:

The Governor

Abraão de Vasconcelos

Deputy Governor

Nur-Aini Djafar Alkatiri

Deputy Governor

Venâncio Alves Maria

Accounting Division Director

Fernando da Silva de Carvalho

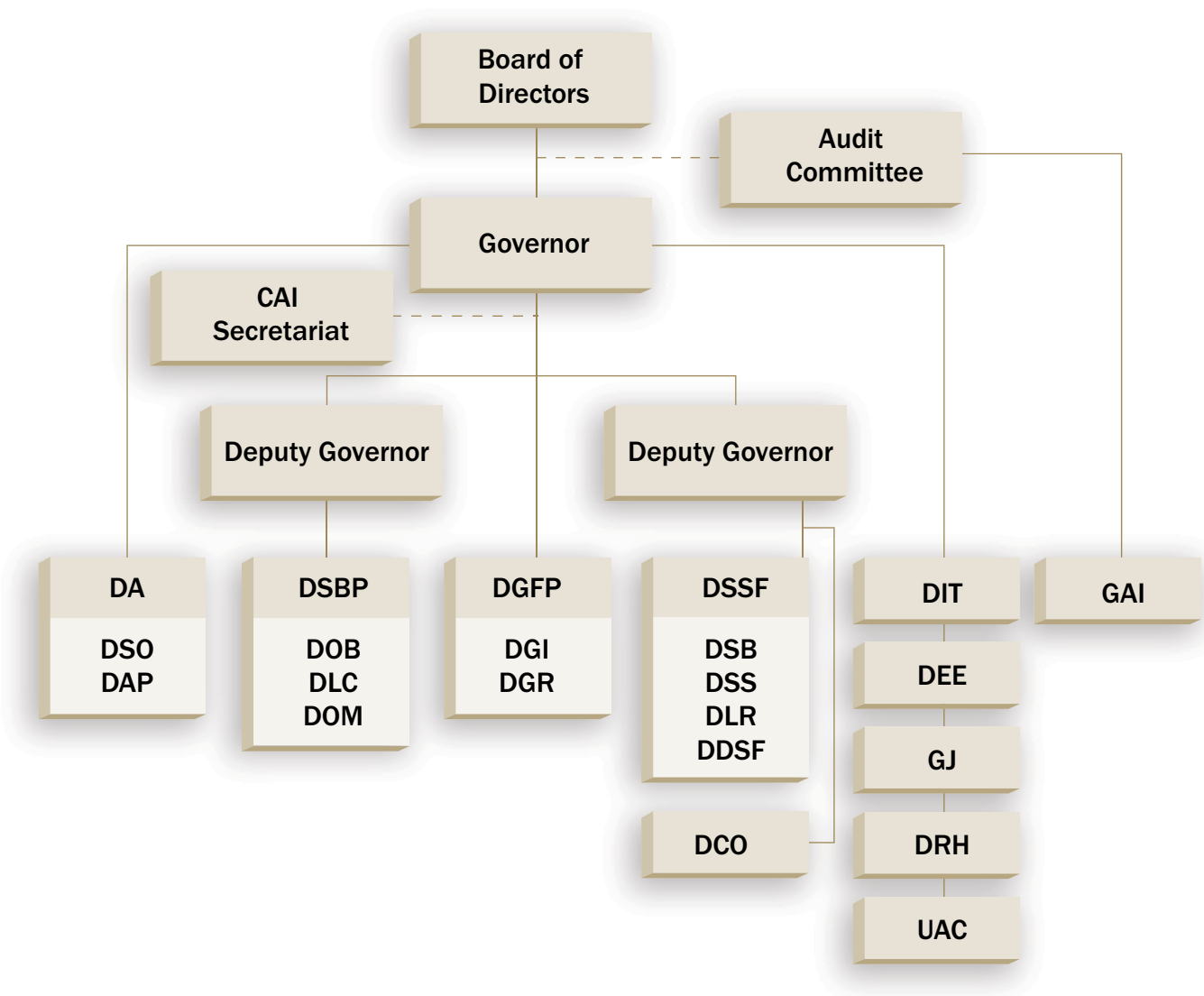
Administration Division Director

Maria Ângela de Sousa Soares

Institutional Cooperation Affairs Unit Director

Raquel da Costa Gonçalves

BCTL Internal Organization in December of 2021



Subtitle:

CAI Investment Advisory Committee

DA Administration Department
DSG General Services Division
DAP Provisioning Division

DSBP Department of Banking and Payment Systems
DOB Banking Operations Division
DLC Settlement and Confirmation Division
DOM Operations Division currency

DGFP Department of Petroleum Fund Management
DGI Management Division and Investment
DGR Management Division and Risk

DSSF Financial System Supervision Department
DSB Banking Supervision Division
DSS Division Insurance Supervision
DLR Licensing and Regulation Division
DDSF Financial System Development Division
DCO Accounting and Budget Division

CE Audit Committee
GAI Internal Audit Office

DIT Information Systems Division
DEE Division of Economics and Statistics
GJ Legal Unit
DRH Human Resources Division
UAC Institutional Cooperation Affairs Unit