

A National Currency for Timor-Leste - Criteria and Requirements -



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Agenda

- ✓ INTRODUCTION
- ✓ NATIONAL CURRENCY: WHAT MONETARY POLICY
- ✓ CRITERIA FOR A NATIONAL CURRENCY
- ✓ CHARACTERIZATION OF TIMOR-LESTE'S ECONOMY
- ✓ BCTL'S INITIATIVES



Introduction

- One of the most important options in the field of economic policy that Timor-Leste faced before its independence was the decision on the exchange rate regime and the currency to be used internally.
- The option consisted in the adoption of the US dollar as Timor-Leste's currency (ie dollarization).
- Today, in a different context of economic development, society start to rethink whether the option of dollarization remains appropriate for Timor-Leste.



National Currency: what monetary policy

- The main implication of the issuance of national currency is the possibility of an **autonomous monetary policy**
- However, in order for this policy to produce the desired objectives, it is necessary for the country's economic characteristics and structures to meet the conditions for its proper functioning.
- The objectives and the degree of autonomy of the monetary policy are conditioned to the exchange rate regime that will be followed.



What monetary policy....cont.

- While the adoption of an exchange rate regime are conditioned by economic circumstance.
- It should be noted that in an open economy the effects of monetary policy decisions have repercussions on net exports and on capital movements, both of which are likely to cause pressure on the exchange rate



Criteria to have a National Currency

- An existence of national currency does not in itself guarantee the autonomy of monetary policy,
- and in order to do so, it is necessary to establish a set of conditions that make it operational and efficient, for instance:
 - A developed financial systems,
 - the creation of instruments / money market and,
 - an economy with sufficient financial intermediation to allow the actions of the Central Bank to influence the decisions of the economic agents and to transmit to the economy in general.



Criteria....cont.

- another support criteria that need to observe is the liquidity situation of its financial institutions and the associated risks and, on the other hand, of the international reserves available to the country.
- Thus, a decision on the implementation of national currency should imply a reflection on what monetary policy the country wants and can implement.
- On the other hand, the degree of monetary policy autonomy is conditioned to the exchange rate regime that will be implemented.



Characterization of Timor-Leste's Economy

Sectoral distribution of GDP (as% of non- oil GDP)

	2014	2015	2016
Agriculture, forestry and fishing	18.7	17.2	16.9
Industry and services			
Extractive industry (excluding oil / gas)	0.1	0.1	0.1
Manufacturing and other industry	0.8	1.0	1.1
Of which: manufacturing	0.7	1.0	1.1
Construction	14.6	17.0	17.3
Wholesale and retail trade, transportation	18.3	18.1	18.3
Information and communication	1.4	2.3	2.4
Financial and insurance activities	0.8	0.7	0.9
Real estate activities and other services	18.6	18.1	17.6
Public administration	23.5	23.9	24.2

Source: GDE, 2016 National Account



Characterization...cont.

Indicators of Economic and Financial Stability

	2015	2016	2017
Credit Risk			
Credit growth	7.9	-4.3	24.5
Deposits growth	7.1	14.3	12.1
NPL, in % of total credit	22.9	15.4	13.5
Provisions, in % of total credit	29.7	21.7	16.8
Interest rate risk			
Short term deposits (DD), in % of total deposits	60.0	61.3	54.7
Total credit, in % of DD	55.5	46.8	57.7
Liquidity risk			
Liquid assets, in % of total assets	83.7	84.6	80.5
Liquid assets, in % of short term liabilities (DD)	200.8	215.1	209.2

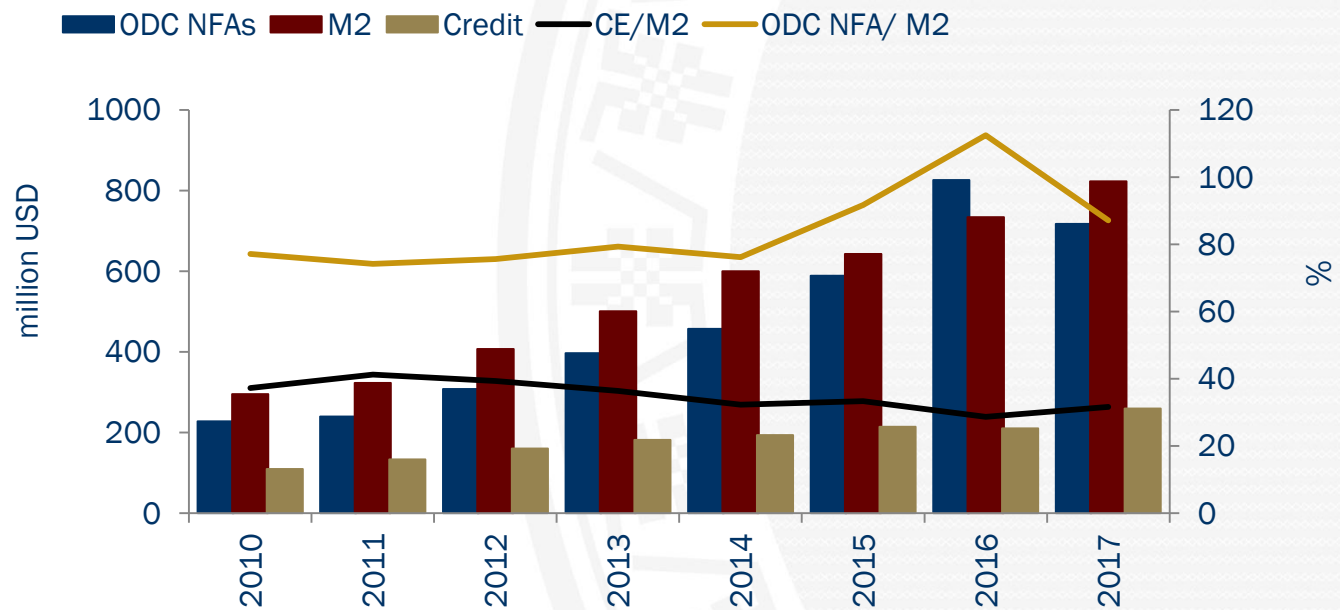
Source: BCTL



Characterization...cont.

Broad Money and Credit Development

Million of USD and percentage share



Source: BCTL



Characterization...cont.

Evolution of Timor-Leste's External Trade and Exchange Rate of USD vs IDR

	Export (million USD)	Import (million USD)	External Balance (million USD)	IDR (IDR/USD)
2010	17	289	-272	9087
2011	12	335	-322	8798
2012	31	668	-637	9376
2013	16	495	-479	10407
2014	14	554	-540	11866
2015	16	581	-564	13388
2016	18	446	-428	13302
2017	15	637	-622	13377

Source: GDE

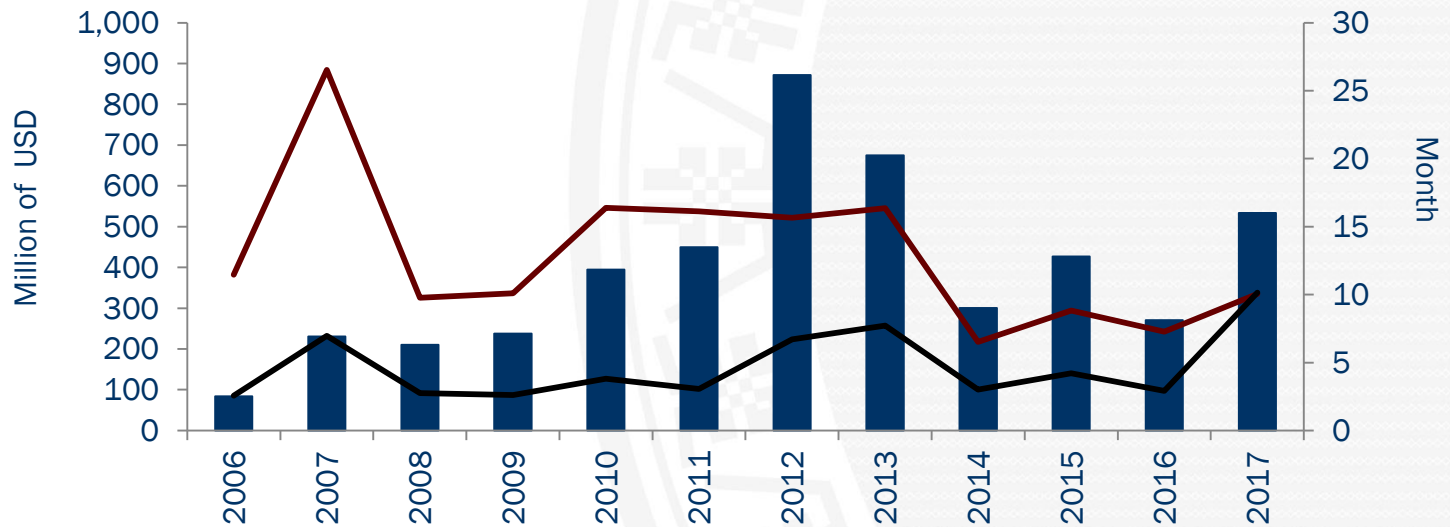


Characterization...cont.

TL International Reserves

Ratio of Reserve Coverage in Months of Imports

- International Reserves
- Months of Import Coverage (goods)
- Months of Import Coverage (goods & services)



Source: DGE and BCTL



BCTL initiatives to support future monetary policy implementation

- Issue coin (centavos)
- Strengthen the legal base: Central Bank Law, banking Law
- Transform the BPA to fully Central Bank (2011)
- Promote credit expansion
- Improving the payment system (The SWIFT and RTGS System, and automatic clearing house, National SWITCH)
- Promote population access to the financial system (financial inclusion)
- In the process of creating the BCTL certificate



Obrigado

