

**NATIONAL PARLIAMENT WORKSHOP
CENTRAL BANK, GOVERNMENT BORROWING & LENDING
AND GENERAL BUDGET OF THE STATE 2010**

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The Role of the Banking and Payments Authority

By:

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Outline of presentation

1. Brief History of the BPA
2. Status of the BPA
3. Objectives and Functions
4. Other important roles
5. The NEXT steps...

Brief history of the BPA

- ◆ Initially set up as a Central Payments Office (CPO)
 - Established in January 2000
 - As an autonomous public legal entity which enjoyed operational, administrative and judicial autonomy from any other person or entity.
 - Responsibilities and functions include:
 - Formulate & implement measures and policies for payments and settlements system
 - Provide temporary payments and storage services to the CFA and other public entities.
 - Act as fiscal agent of the CFA and other public entities.
 - Depository and cashier of the CFA
 - Ensure adequate supply of banknotes and coins of legal tender.
 - License, supervise and regulate banks.
 - License, supervise and regulate currency exchange bureaus.
 - CPO shall be consulted on any proposal for regulations, administrative directions with respect to matters that relate to its functions and responsibilities before submitted for promulgation by Transitional Administrator.

Brief history of BPA

– Prohibited activities:

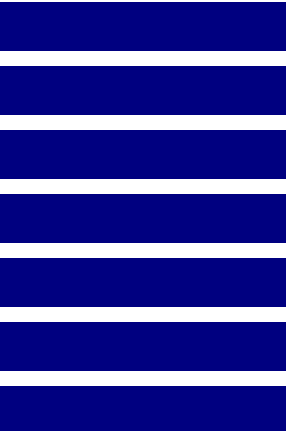
- Grant any credit, borrow directly, extend guarantees on borrowing from any source whether domestic or international;
- Engage in commerce, purchase the shares of any corporation or company, including shares of financial institutions;
- Has ownership interest in any financial, commercial, agriculture, industrial, etc;
- Acquire, by purchase or lease any real rights in respects of immovable property, etc.
- Cannot extend credit to any public authority or legal entity.

◆ In November 2001 the CPO was transformed to become the Banking and Payments Authority.

Status of the BPA

- ◆ The BPA was established as a distinct autonomous public legal entity, accountable for its operations to the Transitional Administrator (art. 2).
- ◆ The BPA enjoys complete legal, operational, administrative and financial autonomy from any other person or entity, incl. the Government and any of its agencies and subsidiary organs (art. 4.2).
- ◆ The BPA shall exercise all powers specifically granted by laws to carry out its functions and responsibility.

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Objectives and Functions

◆ Objectives:

- achieve and maintain domestic price stability;
- foster the liquidity and solvency of a stable-market based banking and financial system;
- execute foreign exchange policy in Timor-Leste;
- promote a safe, sound and efficient payments system.
- Without prejudice to its primary objectives, the BPA shall support the general economic policies of the Government.

Objectives and Functions

In order to achieve the objectives, the functions of BPA include the following:

- ◆ recommend broad policy guidelines to the Government in areas under its responsibility;
- ◆ advises the Government of banking and monetary matters;
- ◆ issue coins (centavos);
- ◆ ensure adequate supply of the US dollar and centavos coins;
- ◆ operate and oversees the national's payments and settlement system;
- ◆ act the banker to the Government;
- ◆ licenses, regulates and supervises financial institutions (mainly banks, insurance companies, currency exchange bureau);

Objectives and Functions

In order to achieve the objectives, the functions of BPA include the following:

- ◆ manage the petroleum fund of Timor-Leste.
- ◆ compile the Balance of Payments statistics.
- ◆ manage and operate credit information system for banks and other credit providers.
- ◆ carries out economic research and analysis.

In order to pursue its objectives and to carry out its functions the BPA is required to cooperate with the Government and its related agencies.

Prohibited activities

The BPA shall not (art. 59.1):

- ◆ grant any credit or make any monetary or financial gift;
- ◆ Engage in commercial, purchase the shares of any corporation including any financial institutions or have an ownership interest in any financial, commercial, agricultural, industrial, or other undertakings;
- ◆ Acquire by purchase, lease, or any real rights in or to immovable property.

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Other important roles

- ◆ The BPA is required to inform the public and the Government on a regular basis of its analysis of macroeconomic and financial market developments and on related statistical information (art. 9).
- ◆ The BPA shall be consulted by the CFA (Ministry of Finance) on the occasion of the preparation of the budget (art. 35.3);
- ◆ The BPA shall be consulted by the Government on any proposals with respect to matters that related to the BPA's objectives or that otherwise is within its field of competence before they are finalized (art.57);

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The NEXT steps...

- ◆ The next and the final stage will be to transform the BPA into a fully fledged central bank.
- ◆ The roles and functions will remain the same EXCEPT when Timor-Leste decides to have its own currency. In this case the role will be expanded to include (based on the current draft law);
 - formulate and implement monetary policy;
 - formulate and adopt the exchange rate system;
 - to conduct foreign-exchange operations;
 - act as lender-of-last-resort, etc.

The NEXT steps...

- ◆ The BPA with the technical assistances from the International Monetary Fund and the Bank of Portugal has prepared a draft Central Bank Law in 2005.
- ◆ The draft law was submitted, for the first time, in February 2007 and presented to the Council of Ministers in March 2007.
- ◆ Resubmit to the Government in September 2007 and presented to the Council of Ministers in September 2008.

The NEXT steps...

- ◆ The key features of the draft law on the Central Bank of Timor-Leste are;
 - Enhanced accountability process;
 - Strong requirements for central bank transparency, and
 - Enhanced good corporate governance and governance structures

The relationships between the Central Bank and the National Parliament, Government as well as the Public have been made clear.

The NEXT steps...

◆ Objectives;

- achieve and maintain domestic price stability;
- foster and maintain a stable and competitive market-based financial system;
- Without prejudice to its primary objectives, the BPA shall support the general economic policies of the Government.

The NEXT steps...

- ◆ Most of the provisions in the draft law are the same with the existing Regulation 2001/30 or have been clarified, *except* the following addition:
 - Exclusive right to issue currency;
 - Formulate and implement monetary policy;
 - After consultation with the Government, the Bank may formulate and adopt the exchange rate regime;
 - The Governor may, at the request of NP or its Commission or on their own initiative, periodically be heard concerning monetary policy and financial system issues and the state of the economy;
 - Governor shall hold regular meetings with Minister of Finance on monetary and fiscal policies and other matters of common interest;
 - Governor and the Minister shall keep one another fully informed of all matters that affect the Bank and the Ministry jointly;

The NEXT steps...

- ◆ Most of the provisions in the draft law are the same with the existing Regulation 2001/30 or have been clarified, *except* the following addition:
 - Governor and the Minister shall keep one another fully informed of all matters that affect the Bank and the Ministry jointly;
 - The Bank shall be consulted by the Government on any draft law concerning matters that relate to the objectives of the Bank or within its field of competence before submit to the NP. The Government shall submit the opinion of the Bank together with the draft law to the NP;
 - Conflict resolution mechanism (Directives from the Government);



Obrigado!