



Luta Hamutuk

INSTITUTU BA PESQUIZA/INVESTIGASAUN, ADVOKASIA NO KAMPAÑA
Timor-Leste Institute for Research, Advocacy and Campaigns

Add: Rua Gov. Celestino da Silva-Farol, Aldeia Lirio, Suco Motael, Vera Cruz, Dili

Email Add: lutahamutuk2005@yahoo.com or lutahamutuk.timorleste@gmail.com

Website: www.lutahamutukistitute.org

PO. BOX: 1034, Correios, Dili, Timor-Leste

Tel: (+670) 332 2619 or (+670) 7726 3783 & 7724 3966

Special Report on

Monitoring toward Timor Leste's Central Bank

A. INTRODUCTION

Within economic development of such nation, there is always a phenomenon in respect of fiscal and monetary control. Timor Leste is a nation, which used American Dollar to finance its nation development. Since as a new country Timor Leste hasn't has its own currency to be used as trading instrument. The utilization of American Dollar has been long for about 10 years, and during that time problems start to rise such as difficulties in conducting monetary control including money distribution and operation. The utilization of American Dollar has also brought such implication toward economic stability, particularly in generating inflation, which prejudices people's buying capacity. Based on such fact, Luta Hamutuk has conducted monitoring toward the work of Central Bank of Timor Leste [Banco Central Timor Leste (BCTL)], which has such responsibility over monetary and fiscal policy.

Central Bank of Timor Leste (BCTL)

BCTL was established in 2010 based on Decree Law No.5/2011, and has 3 important functions; first is to maintain and secure the stability of domestic price, second is to develop and maintain financial system which is stable and able to compete within global market based on free market principals and the last is to support economic policy made by the government. Central Bank considered as an independent organ in conducting its function.

Within monetary context, BCTL has also function to define and execute monetary policy, based on mandates of relevant laws. Such function is conducted by Administration Council which has such competency in formulating as well as adopting monetary policy and decide on intermediate objective of such policy, including, profit interest tax and monetary services in Timor-Leste. BCTL

also regulates financial system, giving certain licence, conduct registration and supervise over financial institution based on the existing law. This also including imposition of corrective tools and administrative sanction. Apart from that, BCTL functions also as authority toward payment system in Timor Leste, aimed to stabilize, promote and regulate payment system (exclusive competency)

In relation with Petroleum Fund, BCTL function as authority that conducts management toward it's operational. Operational management signifies that Central Bank or other public entities who ha been pointed by National parliament to manage and operate Petroleum Fund.

B. OBJECTIVE

The objectives from such monitoring activity are:

- Identify the role of Central bank in conducting fiscal control and monetary policy in Timor Leste
- Identify problems faced by Central Bank within the process of fiscal and monetary control
- Produce recommendation as an alternative toward government in respect of fiscal and monetary control

1. Monitoring Team

Budget Transparency Division of Luta Hamutuk conducts this activity, therefore the member of this division are actively involved:

1. Elio P. Guimaraes (research coordinator)
2. Manuel Freitas (Assistant)
3. Jonathan Goncalves (assistant)

2. Methodology

Methodology which used within this monitoring activity is Interview (using questioner) toward key stakeholders and relevant institution which legally trusted to conduct control function, such as; *Central Bank, E Commission of National Parliament and Ministry of Finance-Macro Economic Department.*

3. Monitoring Site

The team has set such plan to conduct monitoring within Dili district, particularly Central Bank of Timor Leste, National Parliament and Ministry of Finance.

C. MONITORING RESULTS

During the process of monitoring activity, the team has identified important points through interviews with relevant institutions like BCTL, Ministry of finance, National Parliament, Ministry of Industry, Commercial and Environment (MCIA) as well as Trade Invest Timor Leste. Results are like the following:

1. Internal and External factors have become the caused for inflation. Within external factor, BCTL do not have such power to influence money supply and control over inflation which continuously increasing every year 2011: 8%, 2012: 11.7% no 2013: 12%). In addition, Timor Leste hasn't has its own currency to be used as trade instrument, therefore maintains to use American dollar. As consequence monetary policy will always depend on "volatile" of such currency within US and other currency.
2. The cause of inflation also believed to be generated by internal factor, which in this case including the competency of the government, particularly Ministry of Finance and Central bank in conducting control mechanism. The result of monitoring has showed that infrastructure condition such as Sea Port and road (public transport) also give certain contribution toward price of goods within market. Timor Leste still depends on importing goods coming from other countries, therefore limited capacity of Sea Port will have an impact toward price of goods, since such good must waits for certain of time which can generate menus supply. Automatically, such condition will create huge demand, which perceive as an opportunity among vendors to increase the price.
3. The result of monitoring has also showed that government's policy in conducting reform over tax law in 2008 is failed, as there isn't any significant impact toward price of goods, which believed, will be decrease after such action. Instead this has brought such benefits only toward certain groups like importer. Five years after such reformation over tax law, Luta Hamutuk conducted survey twice which was in 2009 and 2013 toward import goods like basic goods, construction materials and electronics which regulate within tax law. The result from such survey has identified that after such reform over tax law, the price of goods started from 2009 – 2013 was continuously increased. As consequence, people who have small income became more suffer as they couldn't afford goods, particularly basic goods. Based on data coming from Ministry of Tourism, Commercial and Industry (<http://www.mtci-timorleste.com>) started in 2005 until 2008 workers within area of Hotel and Restaurant were significantly increased (up to 2179). However after reform upon tax law in 2008 such numbers begin to decrease to only 235 workers in 2010.
4. Based on internal factor, Luta Hamutuk has also identified that inflation is also caused by the low production within the country, which make Timor Leste continuously depends on import goods such as; basic goods, construction material and electronics. Within this context, the government hasn't has any policy aimed to conduct intervention toward inflation through investment within productive area. BCTL often conducts intervention toward state budget plan, aimed to put investment priority toward productive sectors. However, such sectors haven't been developed yet to be able to respond over domestic demand. Investment is believed as medium and long term mean to create balance over

demand and supply within domestic market.

5. The result of monitoring has also identified that BCTL should to face obstacles, particularly within area of human resource both within quality and quantity aspects, therefore impede BCTL in addressing the complex of financial things.

D. RECOMMENDATION

Based on result of monitoring, Luta Hamutuk would like to recommend certain suggestions toward relevant institution.

1. Human resource should to provide to be able to meet with qualification as well as quantity needed by Central Bank, therefore able to function based on Article 5, Decree of law no.05/2011.
2. In respect of fiscal policy, Luta Hamutuk asks government to conduct investment into productive sectors such as agriculture, tourism, infrastructure and human resource therefore create balance over demand and supply in the future.
3. In relation with currency, which restricts the competency of Central Bank in conducting monetary control, Luta Hamutuk asks for in-depth study in respect of establishing Timor Leste's currency.
4. Ask National Parliament to conduct revision over Tax Law which believed to be prejudiced the buying capacity of people.