

# Boletim Económico

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Special issue

## Timor-Leste's First Circulating Coins

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### Points to note...

- ? **The first circulating coins for use in Timor-Leste, the centavos, will be issued in November 2003.**
- ? The coins will be issued at par (1:1) with American cents.
- ? **To issue a national currency, i.e. banknotes, just now would be wrong, because this would imply that Timor-Leste has technical and financial conditions in place that do not exist at present.**
- ? The process of determining the characteristics of the coins (denominations, designs, metals, etc) took nearly a year, and is an example of the close cooperation between Government and the ABP/BPA.
- ? **Although people can continue to use both the American cents and the Timorese centavos, the ABP/BPA will organize a campaign to promote the use of the national coins in place of the American coins.**

Working closely with the Government of the Democratic Republic of Timor-Leste, the BPA-Banking and Payments Authority (ABP-Autoridade Bancária e de Pagamentos) has decided to issue coins for Timor-Leste.

This decision, which *will not change the policy of using the United States dollar as Timor-Leste's official currency* – in particular US bank notes – is based on a number of reasons, including convenience, ease of use, having the values clearly expressed in numbers, having an alternative to the rapidly deteriorating US\$1 bills, affirming the sovereignty of Timor-Leste as the world's newest and youngest country, and finally, the possibility of the state obtaining a small financial benefit.

The authority to issue coins already exists in UNTAET Regulation 2001/30 which established the Banking and Payments Authority.

The Regulation clearly states that the BPA is empowered to issue coins, to be known as "centavos", which will have parity with US cents. The Regulation also permits both kinds of coins – Timorese "centavos" and American "cents" – to circulate side by side.

Therefore, people should be indifferent as to whether they are carrying one form of coin or the other, and the BPA guarantees the replacement of any amount of American "cents" with an equal amount of Timorese "centavos", and vice versa. In this manner, holders of Timorese "centavos" can be assured of their value.

A public campaign to inform people about the new coins starts in October and will last about one month.

The coins that will be put into circulation next November/2003 are pictured below.



## One example: the new 50 centavos coin

50 CENTAVOS



Ø 25 mm

# Timor Leste's new coins

## A short history and the main features

The first reference to Timorese national coins dates from the Melbourne Conference in 1998, promoted by CNRT, held late in the period of Timor-Leste's struggle for liberation. At that time, the thinking was that Timor-Leste would issue its own national currency, and not just the coins that are being issued now. On the last page of this Bulletin are a number of reasons why it is not feasible for Timor-Leste to issue its own currency at the present time.

The authority to issue coins is established by law in UNTAET Regulation 2001/30 on the Banking and Payments Authority of Timor-Leste. Article 6(a) states that the BPA is authorized to "issue coins, called centavos, that will have legal tender status in addition to the United States dollar." Section 50.2(a) states that the BPA "shall exchange centavos coins for United States dollars, and United States dollars for centavos coins, at the rate of one hundred centavos for one United States dollar," that is, there is parity between one centavo and one United States cent.

As a consequence of these provisions in the BPA Regulation, and taking into account a number of other reasons noted on the first page of this Bulletin, the Government of the Democratic Republic of Timor-Leste and the BPA has decided to issue coins, with the task being put in the hands of the BPA.

After a process of consultation with several international mints, and naturally with the Government of Timor-Leste – which involved the President of the Republic in choosing the designs that would be used – it was decided to award the minting contract to the *Imprensa Nacional-Casa da Moeda*, the Portuguese mint, because the company offered the most acceptable price and the most preferred designs for the coins. The Portuguese mint also, according to the terms of the contract signed in Lisbon on 20 May 2003, has the exclusive right to market the numismatic versions of the coins outside Timor-Leste. This marketing agreement enabled the minting cost to the BPA to be greatly reduced, while also affording the opportunity for the coins to enhance Timor-Leste's image worldwide.

A total of 16 million coins have been minted and will be put into circulation in November, with values of 1, 5, 10, 25 and 50 centavos. The reproductions alongside represent the coins at their actual sizes.

The coins have a common face that includes – apart from their value in easily-read numerals – a *kaibuk*, and, around the border, a design inspired by traditional *tais* patterns representing crocodiles.

The 1 centavo coin (in a silver colour being made of nickel coated steel with a diameter of 17mm, a thickness of 2.15mm, and weighing 3.1 grams) portrays a Nautilus (*Nautilus Pompilius*) a cephalopod with an external shell that lives up to 600m below the surface. Its use on the coin draws attention to the need to preserve our country's maritime resources, one of its main sources of wealth. The American cent is about 19mm, slightly larger than the Timorese one centavo.

The 5 centavos coin (in a silver colour being made of nickel coated steel with a diameter of 18.75mm, a thickness of 2.15mm, and weighing 4.1 grams) features rice (*oryza sariva*). The design intends to draw attention to the need to provide food for all Timorese, especially the poor, who form a significant part of the population. The American 5 cent coin (nickel) measures about 21.2mm, and is larger than the corresponding Timorese coin.

The 10 centavos coin (in a silver colour being made of nickel coated steel with a diameter of 20.75mm, a thickness of 2.15mm, and weighing 5.2 grams) portrays a Timorese rooster, frequently seen in one of the most typical sports in Timor-Leste, cockfighting. It was chosen as a homage to Timorese culture, but also to recognise the determination of the Timorese people during the struggle for independence. It also appears on the flag of the Timor-Leste Defence Force (FTDL) and its inclusion on the coin is a homage to those who fought for our country's freedom. The coin is larger than the corresponding US coin, the 10 cent (dime), by a little more than 3mm.

The 25 centavos coin (in a gold colour being made of nickel-brass alloy with a diameter of 21.25mm, a thickness of 2.3mm, and weighing 5.85 grams) portrays a *beiro*, a boat used for traditional fishing. Its use draws attention to the need to use marine resources economically, but in a way that will preserve them for future generations. At the same time it draws attention to the need of the people to increase the diversity of their diet to improve their health. The American 25 cents (quarter) is slightly larger than the 25 centavos coin.

Finally, the 50 centavos (in a gold colour being made of nickel-brass alloy with a diameter of 25mm, a thickness of 1.9mm, and weighing 6.5 grams) illustrated on the previous page portrays our country's main source of agricultural wealth, coffee (*coffea arabica*). Coffee was chosen for this coin to emphasise the wealth that comes from exports of this product, both for the country and the coffee-growers. Equally, it is a homage to the 75% of Timorese people who live in rural areas and who principally depend on agriculture for their livelihood. It is approximately the same size as an American quarter, and it is hoped that its introduction will partially replace the large number of one-dollar notes in circulation. Not having been designed for tropical climates, the American \$1 notes have been suffering rapid deterioration due to high usage in the economy. As a reminder, this is a new coin that does not have an equivalent American counterpart.





# Why Timor-Leste will not issue a National Currency

(at least for the present...)

Whether or not you agree with the choice of the American dollar as our national currency – there were suggestions at the outset of a Timorese national currency linked to the Australian dollar (AUD) or the Indonesian Rupiah (IDR), or even to a “basket” of 4 or 5 different currencies – it does not seem advisable to consider the possibility of Timor-Leste issuing its own currency at this time.

The main problem is that if it did so, Timor-Leste would have to choose an exchange rate and an exchange rate regime for its currency — and have, *inter alia*, enough reserves to manage them.

We can initially exclude the possibility of a floating exchange rate because given Timor-Leste’s present economic circumstances, it would most likely be that its currency would soon collapse into the realm of numismatic curiosities. The problem then is in defining how rigid the exchange rate would be, and to which currencies the strongest links would be made.

Some people consider that by issuing a currency there is an opportunity to devalue it, so that unlike the present 1:1 link to the US dollar, 1 US dollar could be made equivalent to 2 “osan” and the national currency would have a rate of about 2:1, or close to the Australian dollar. Alternatively, rates of 1:5 or 1:10 could be chosen. According to the defenders of this proposal, this is necessary to make the Timorese economy more competitive in comparison with our ASEAN neighbours, achieved through “artificially reducing” salaries in Timor-Leste, thereby attracting foreign investment that would generate growth in employment and exports.

In fact salary costs are not the main determinant in investment decisions, but rather such decisions are influenced by a range of other structural factors. Examples? A legal framework with well-defined rules, an effective and efficient judicial system (including access to the courts, and their means of operation) that assists in the resolution of conflicting interests, a well-founded infrastructure (transportation, communications, etc), a workforce that is well trained and willing to work, and a market environment.

But if gains in production (and productivity) resulting from such a devaluation turned out to be more illusory

than real – at least in the short-medium term – one thing would be inevitable: devaluation would translate into a long period of significant price increases for imported goods that, besides being inflationary in itself, would sooner or later transmit into the economy. This transmission of the effects of inflation would result in rises in internal production costs (energy, equipment, other inputs) that would combine with the “inflation effect” from producers and traders. Similar to the effects of tax increases, they would increase their prices beyond the point of the increases in production costs.

On the other hand, maintaining its own currency obliges a country to maintain a relatively balanced situation in its external accounts. Timor-Leste, at this stage in its development, is experiencing enormous commercial deficits, and would not have the financial resources to ensure the strength of its currency, which would be subjected to strong downwards pressures and a series of devaluations.

It seems likely that only in 5 or 6 years, after the inflow of the Timor Sea revenues enables a sufficient level of reserves to be acquired to support the exchange rate policy, and when the national economy is much less depended on external aid by being self-sustainable through the development of its resources, only then will the conditions be in place for starting to contemplate the possibility of issuing our own currency, i.e. both notes and coins of Timor-Leste.

That decision would have to be considered seriously from a technical viewpoint, for it rests on a number of important factors, and therefore would need to be studied very carefully. For example, the level of strictness in managing the exchange rate – and to what currencies the rate would be pegged, and how strongly – would have impacts on the money supply, and determine the tools of monetary policy.

In this context, there is a rule to follow: given the high degree of sensitivity on economic agents of the currency and its management, silence is the golden rule...

Therefore it seems advisable that from now on everyone should keep silent on this subject. We shall lead by example. Follow us.

