

INSTRUCTION NO. 12/2021 OF 11 NOVEMBER
ENHANCING THE INTERMEDIARY FUNCTION OF THE BANKING SYSTEM

Considering the policy framework established by the Governing Board of Banco Central de Timor-Leste to promote the development of the financial sector in Timor-Leste through Decision No. 113/2021 of 26 August; and

Further considering that the ultimate objective of the measures included in such framework is to promote the growth of the financial system by enhancing the intermediation function of the financial sector,

Following the consultation made by Banco Central de Timor-Leste with various banks participating in the financial system, the Governor of Banco Central de Timor-Leste, pursuant to the authority granted under Article 46 of Law No. 5/2011 of 15 June, hereby resolves to approve the following Instruction:

CHAPTER I
GENERAL PROVISIONS

Article 1
Definitions

For the purpose of this Instruction the terms below shall have the following meaning:

- a). “Bank” means the institutions defined in the Regulation No. 2000/8 on Bank Licensing and Supervision.
- b). “Basis Point or bp” means one hundredth of one percentage point.
- c). “Capital Reserve Account or CRA” means an interest-bearing account which is used to deposit the Minimum Amount of Regulatory Capital pursuant to the level of their banking license as required under this Instruction.
- d). “Deposit Liability” means the third-party deposits placed in the bank which are recorded under account 2.4. on the Catalog of Accounts for Banks as prescribed in the Instruction No. BPA/B-2002/01.
- e). “Government Deposits” means the deposits placed in the bank by the Government of Timor-Leste and its bodies, by the entities forming part of the direct and indirect public administration, State-owned companies, commercial companies with public capital, public institutes, agencies and entities, any other legal persons governed by public law (“pessoas coletivas de direito público”) but excluding Banco Central de Timor-Leste and the State-owned banks.
- f). “Lending Reserve Account or LRA” means a non-interest-bearing account which is operated pursuant to this Instruction.
- g). “LDR” means loan to deposit ratio.
- h). “LDR Shortfall” means the actual loans to deposit ratio minus the LDR threshold established in paragraph 1. a). of Article 3.
- i). “Loan” means any direct or indirect commitment to disburse a sum of money in exchange for a right to repayment of the amount disbursed and outstanding and to

payment of interest or other charges on such amount, any extension of the due date of a debt, any debt payment guarantee issued, and any commitment to acquire a right to payment of a sum of money; the term “Loan” shall not include bank deposits and the purchase of debt securities in the secondary market.

- j). “Micro, Small and Medium Enterprise (MSME)” means the enterprises which the classification is defined in the Decree-Law No. 23/2017 of 12 July on the Credit Guarantee System for Micro, Small and Medium Enterprises, as amended by Decree-Law No. 32/2020, of 26 August.
- k). “Minimum Amount of Regulatory Capital” means the capital required for the level of license.

Article 2

Requirements

1. Banks are required to open a Capital Reserve Account and a Lending Reserve Account with Banco Central de Timor-Leste, within 30 (thirty) days after the entry into force of this Instruction.
2. The accounts referred to in the previous paragraph shall be operated necessarily based on and in accordance with the provisions of this Instruction and Banco Central de Timor-Leste standard terms and conditions.

CHAPTER II

LENDING REQUIREMENTS

Article 3

Minimum Lending Requirements

1. Banks are required to maintain the following minimum requirements:
 - a). Loans to deposits ratio of not less than 35%.
 - b). Loans to MSME sector of not less than 35% of the loan portfolio.
2. The ratio referred to in the previous paragraph shall be calculated based on the average balances of the loans and deposits in the last two months.

Article 4

Mandatory Deposits

1. Banks that have an LDR Shortfall shall deposit an amount equivalent to the LDR Shortfall multiplied by the Deposit Liabilities, but excluding Government Deposits, in the LRA account, in the month following the term of the implementation periods set out in Article 5, by reference to the percentages established therein.
2. Banks that have an LDR Shortfall shall deposit the whole amount of their regulatory capital in to the CRA account.
3. Notwithstanding the requirement in paragraph 2 above, banks which have a loan portfolio to the MSME sector fulfil the threshold established in paragraph 1. b). of Article 3 are exempted from depositing the amount required therein.
4. If, in a given month, a bank achieves the target established in Article 3 or Article 5, as applicable, as verified based on the report submitted pursuant to Article 6 and has deposited the amount required under Article 4 in the LRA and the CRA, Banco Central de Timor-Leste shall without delay return the amount to the respective bank.

Article 5

Implementation

The implementation of the requirements established in the paragraph 1 of Article 3 above shall achieve the minimum LDR threshold target defined as follows:

- a). LDR of 12.5% by June 2022.
- b). LDR of 27.5% by June 2023.
- c). LDR of 35% by December 2023.

Article 6

Reporting Requirement

1. Banks shall submit to Banco Central de Timor-Leste monthly reports outlining the status of the implementation of this Instruction, within 10 (ten) business days following the previous month-end.
2. Banco Central de Timor-Leste shall determine the forms and means of submission of such reports through Circular.

CHAPTER III

FINAL PROVISION

Article 7

Administrative Penalty

1. Banks that fail to meet the requirements established in Article 4 of this Instruction may be subject to an administrative penalty of up to 0.15 bp of the LDR Shortfall portion established in paragraph 1. a) of Article 3 multiplied by the Deposit Liability, but excluding Government Deposits, which shall be determined and applied on a monthly basis.
2. The data used by Banco Central de Timor-Leste to determine the amount of penalty shall be based on the most recent data submitted by the banks as required under Article 6.
3. The penalty amount referred to in the previous paragraph may be debited directly from the Settlement account of banks held at Banco Central de Timor-Leste.

Article 8

Entry into Force

This Instruction shall enter into force on the day following its publication in the Jornal da República.

Governor,

Abraão de Vasconcelos