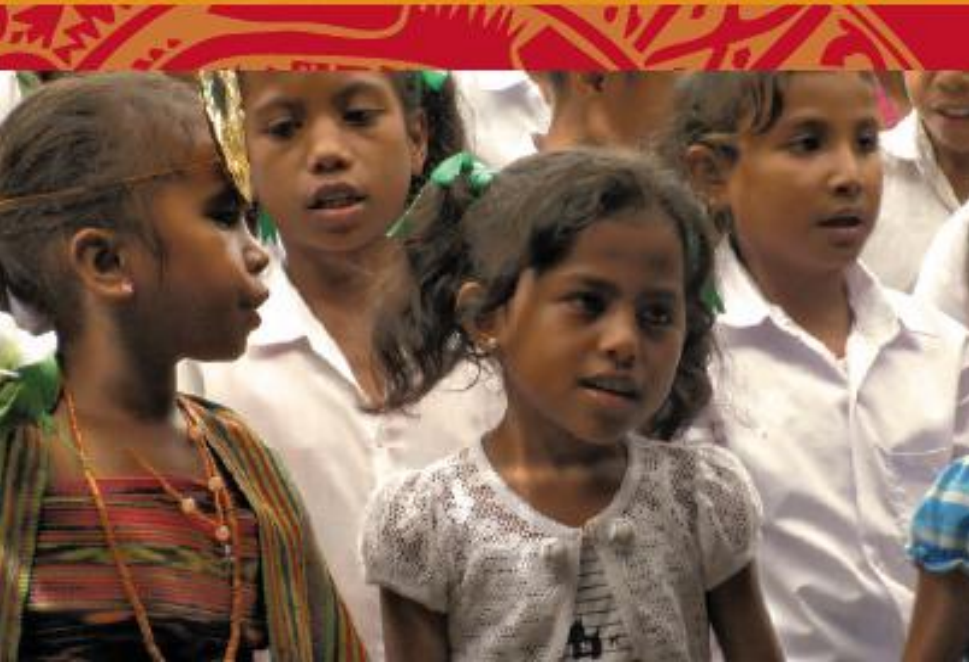


THE ECONOMY OF TIMOR-LESTE



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Dili, Timor-Leste

June 2013



Outline



1. Timor-Leste Strategic Development Plan
2. Timor-Leste's Recent Economic Development
 - - Fiscal Policy
 - - Economic Growth
 - - Inflation
3. Key Challenges and Way Forward



Strategic Development Plan: Vision and Stage of Implementation



STRATEGIC DEVELOPMENT PLAN 2011-2030

"Vision :Timor-Leste to be an upper-middle income country by 20130"

Short-Term 2011-2015

Mid-Term 2016-2020

Long-Term 2021-2030

STAGE I

- Human Resources Development;
- Infrastructure;
- Strategic Industries.

STAGE II

- Infrastructure;
- Strengthening Human Resources;
- Market Formation.

Stage III

- Eradication of Extreme Poverty;
- Strong Private & Cooperative Sector;
- Diversified Non-oil Economy.



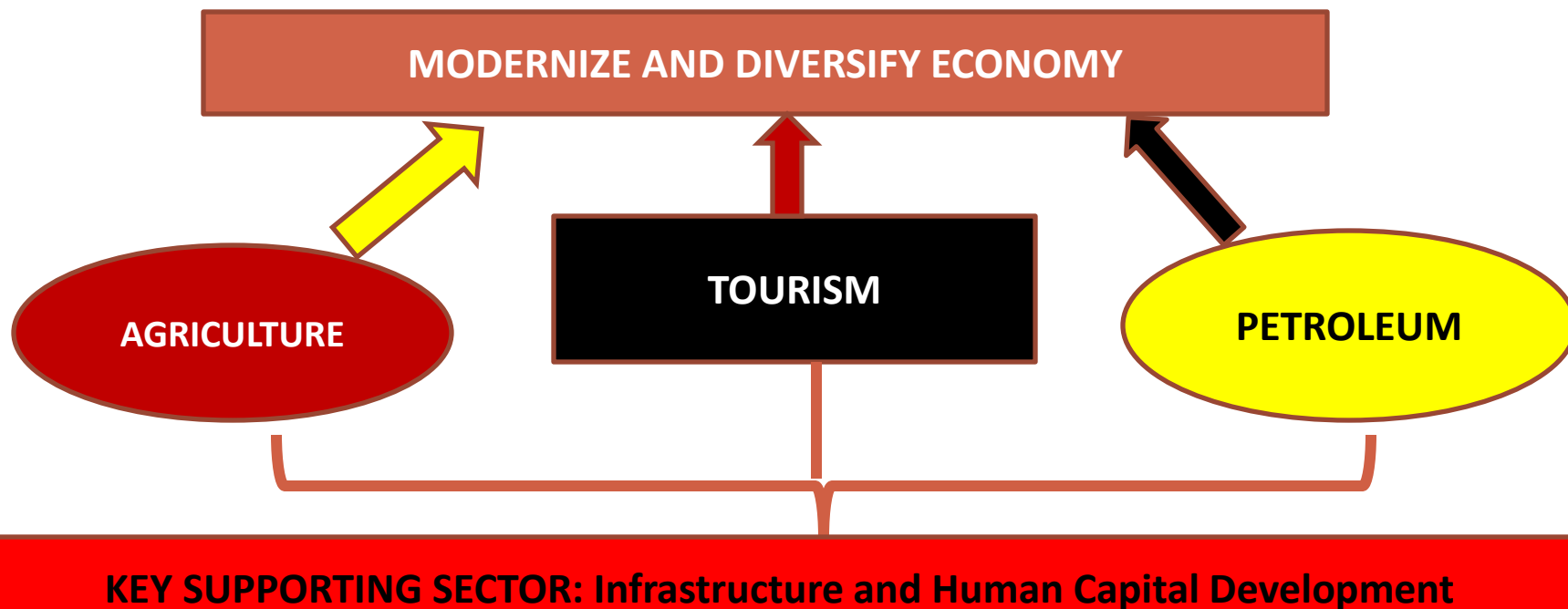
TL's Economy Must Be Diversified



STRATEGIC DEVELOPMENT PLAN 2011-2030

"Vision :Timor-Leste to be an upper-middle income country by 20130"

TRANSFORMING STRUCTURE OF ECONOMY





Major Economic Policies



- To achieve inclusive and high economic growth rate:
 - “Front loading” for infrastructure and human capital development;
 - “Transparency” of Public Financial Management and Petroleum Fund;
 - “Tax reform” to provide incentive for private sector investment;
 - “SME development” via PDD, PDID and PNDS;
 - Establishment of Central Bank and a Public Commercial Bank
 - “Loans” for infrastructure – “cheap money”;
 - “PPP” for Airports and Sea Port;
 - Social assistance program.

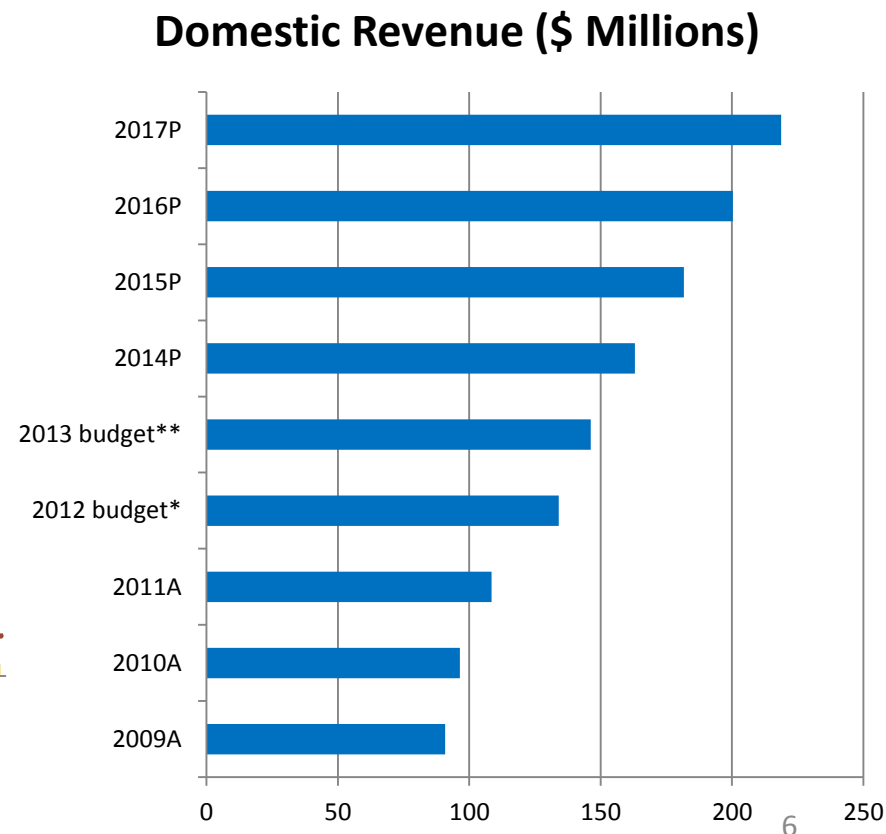
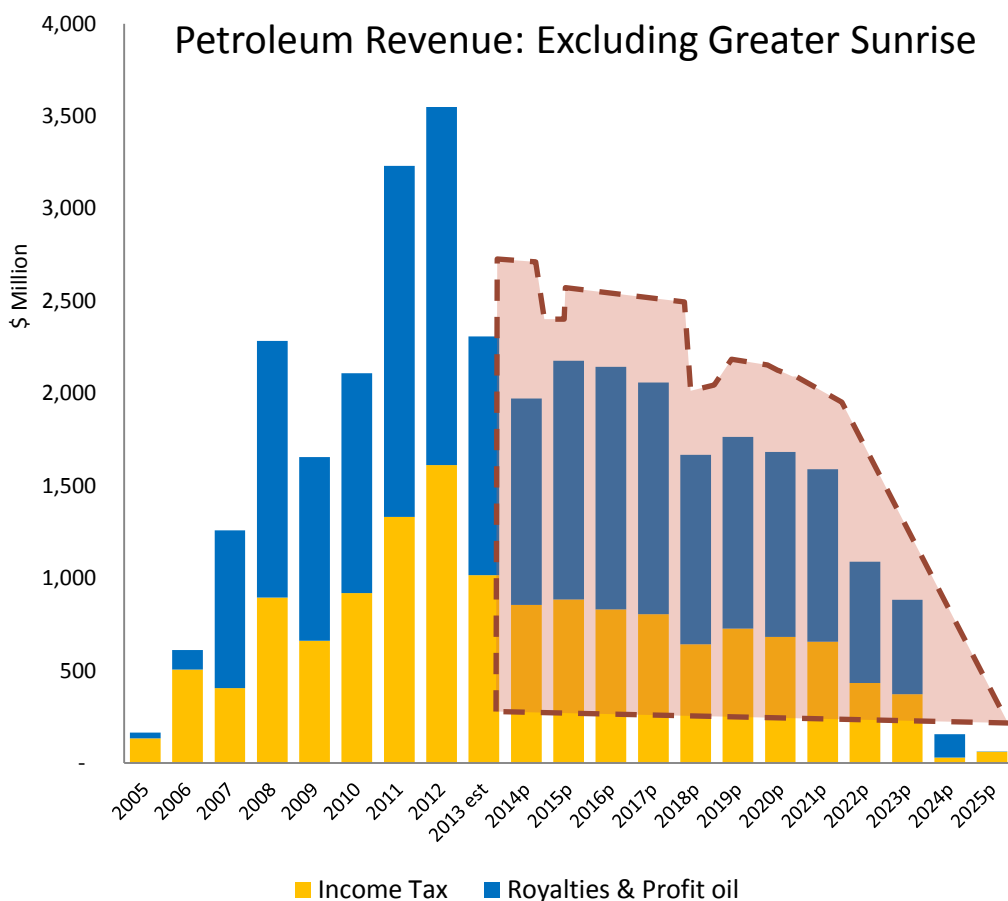


Fiscal Policy

Revenue: Domestic and Petroleum Revenues



PR decreases in the long run but domestic revenue is increasing



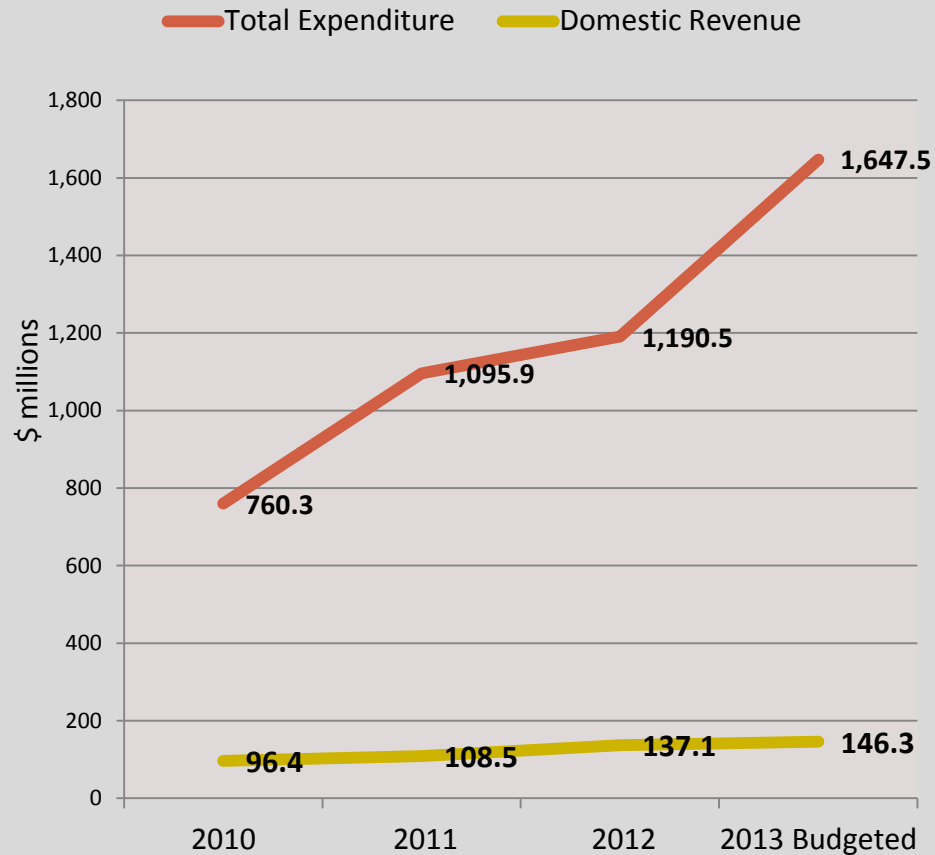
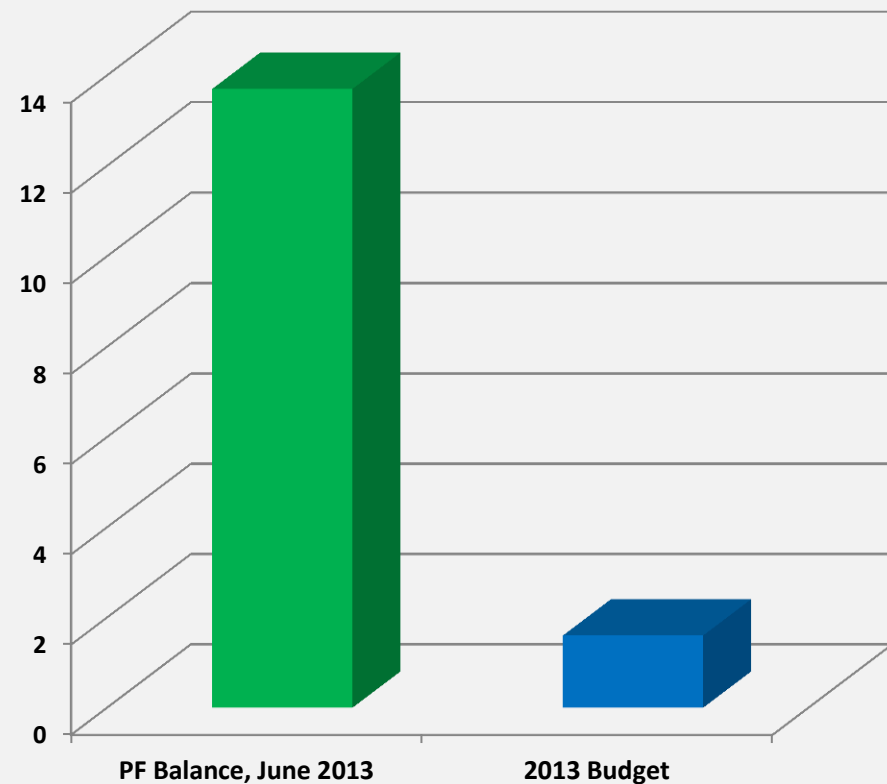


Fiscal Policy



Substantial Savings and Increased in Expenditures

PF Balance and 2013 Budget (\$ billions)



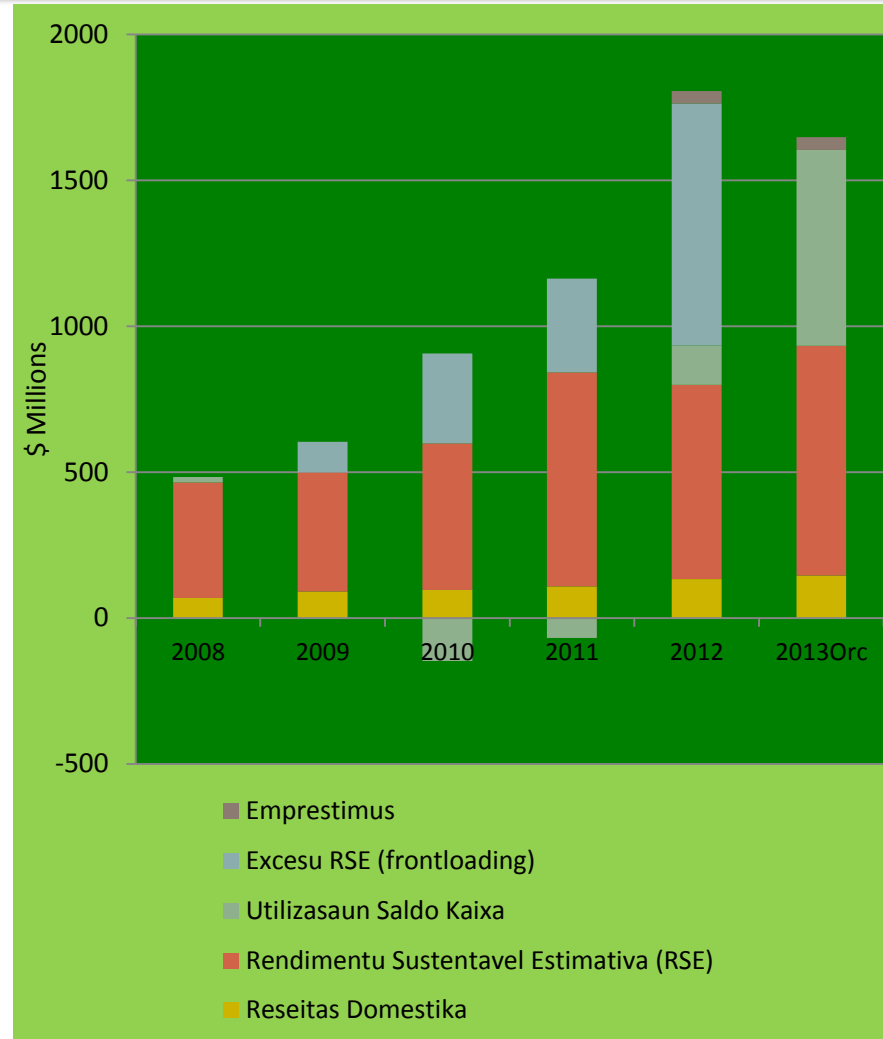
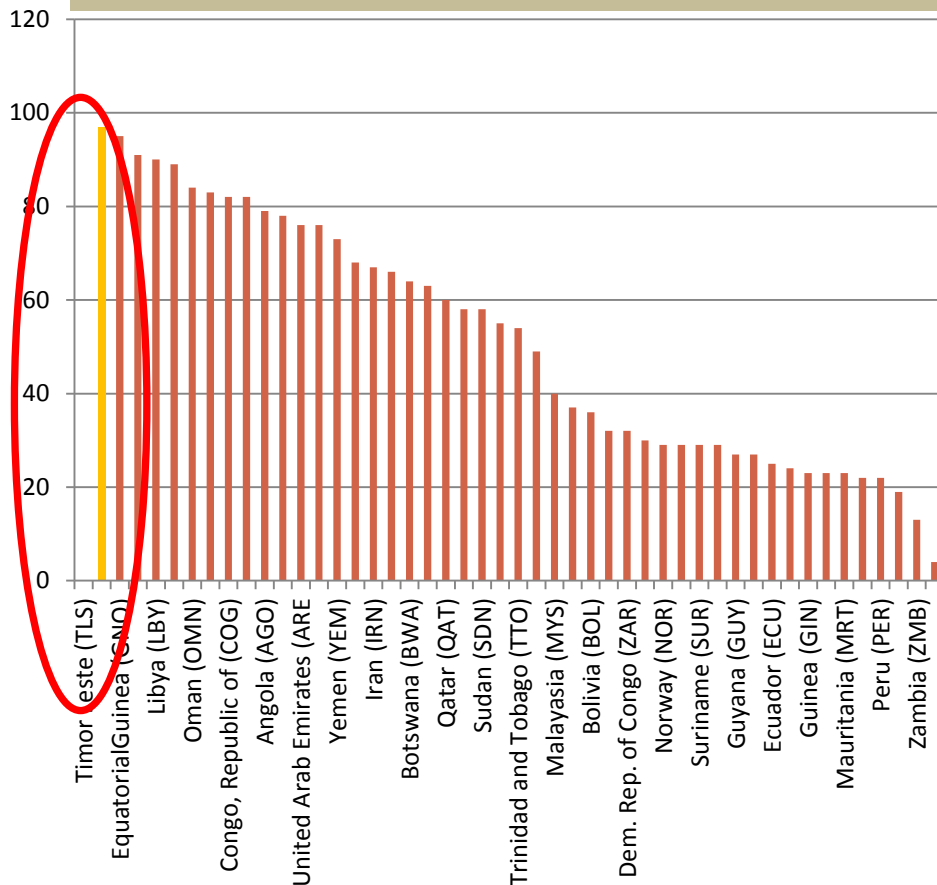


Fiscal Policy

Increase in Expenditure Financed by Withdrawals from Petroleum Fund



Timor-Leste is highly dependent on oil revenue



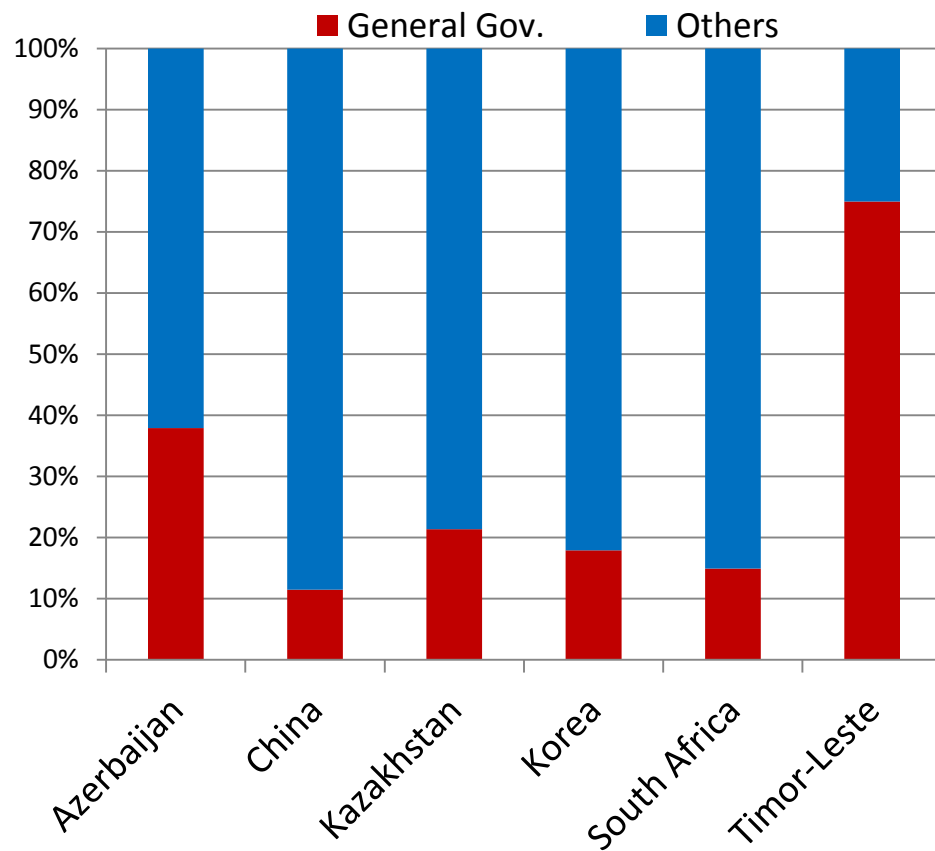


Fiscal Policy

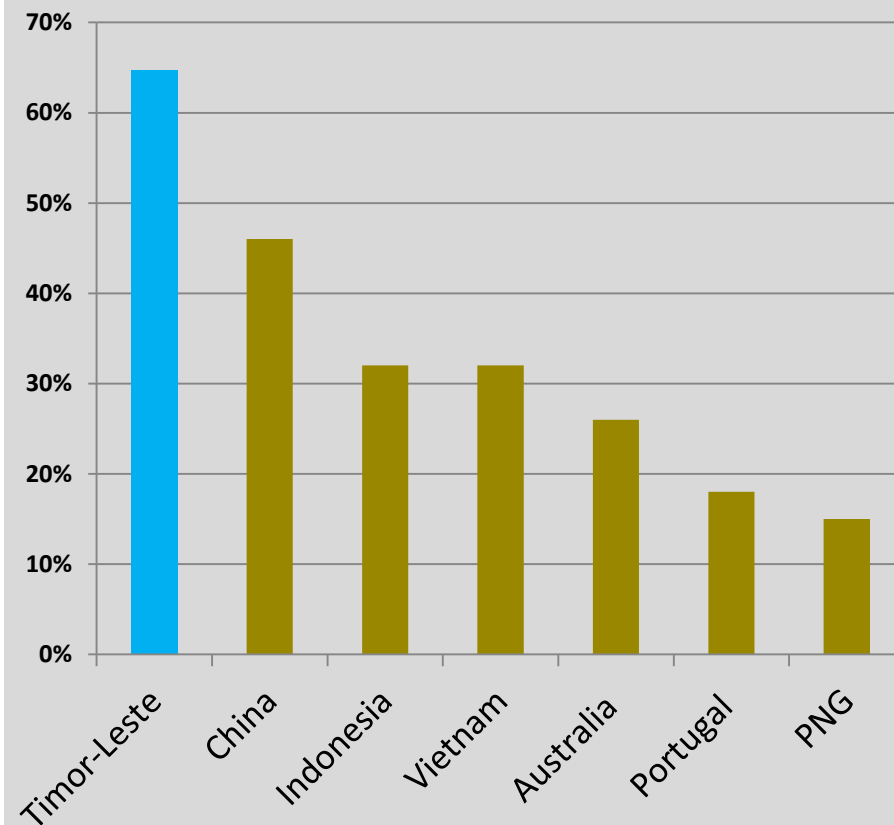
Government Expenditures Dominates Investments



Gross Fixes Capital Formation Dominated by Government



Gross Fixed Capital Formation as a % of non-oil GDP, 2011



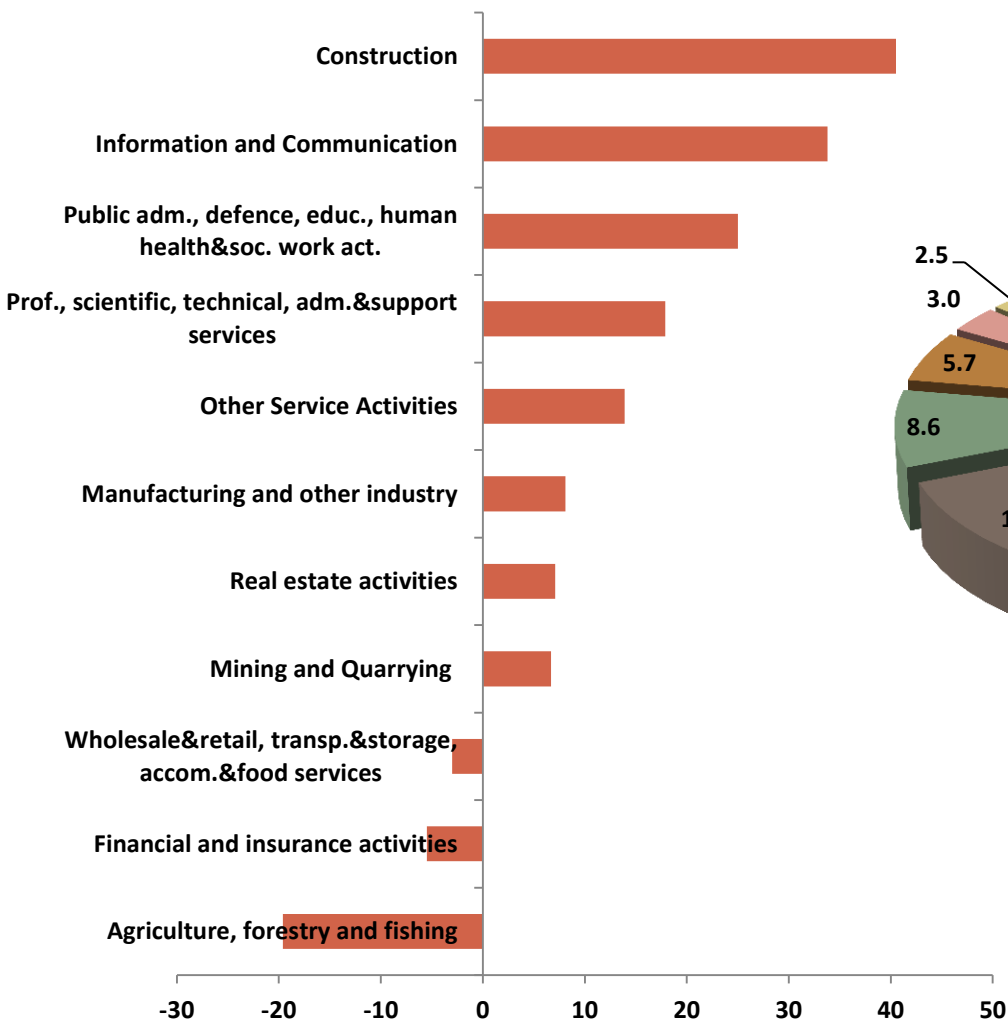


Fiscal Policy

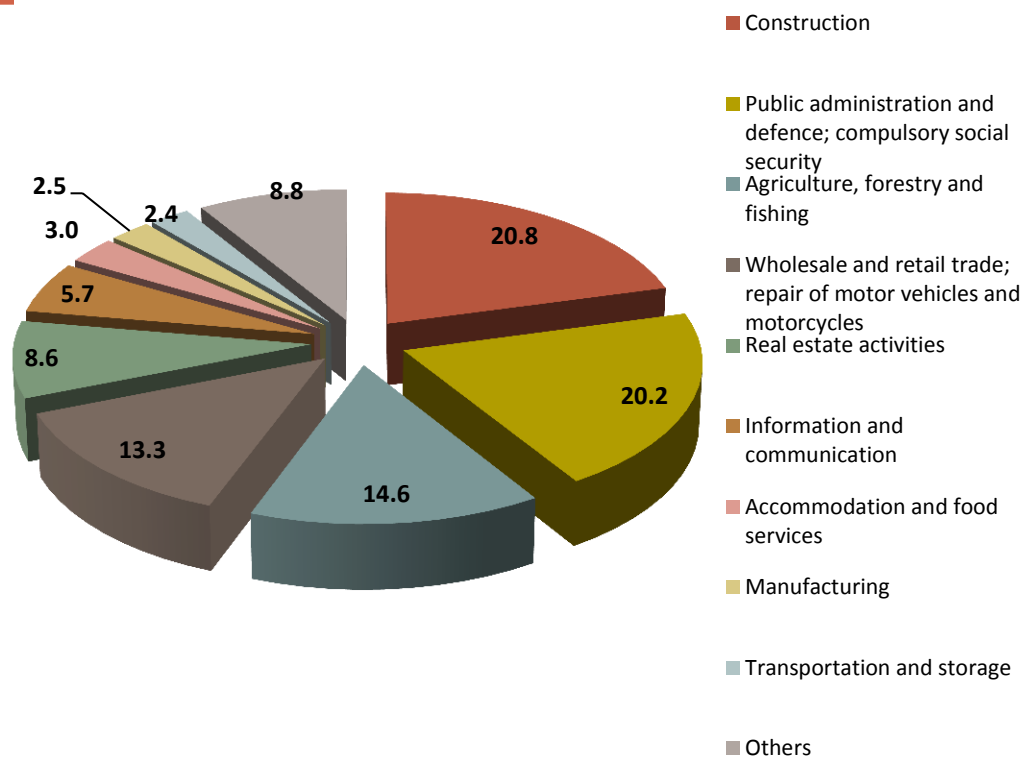
And led to strong growth in sectors that directly benefit from Government contracts



Growth Rate by Sector in 2011 at constant prices



Contribution to Real GDP - 2011 - Percent





Economic Growth

And led to strong overall rates of GDP growth...



	2004	2005	2006	2007	2008	2009	2010	2011*
Total GDP Growth Rate (%)	134.3	53.3	60.2	-0.6	12.1	-6.7	-1.4	7.3
Oil GDP Growth Rate (%)	664.9	77.6	79.9	-2.7	11.6	-10.6	-4.1	6.0
Non-Oil GDP Growth Rate (%)	0.4	6.5	-3.2	11.6	14.6	12.8	9.5	12.0
Total GDP (\$M)	1,675.6	2,568.3	4,113.4	4,088.2	4,583.0	4,275.0	4,215.6	4,525.1
Oil GDP (\$M)	1,102.2	1,957.5	3,522.0	3,428.1	3,826.3	3,421.7	3,281.3	3,478.4
Non-Oil GDP (\$M)	573.3	610.8	591.4	660.1	756.7	853.3	934.3	1,046.7
Total GDP Per-Capita (\$)	1,760	2,649	4,160	4,046	4,432	4,032	3,871	4,040
Oil GDP Per-Capita(\$)	1,158	2,019	3,561	3,393	3,700	3,228	3,013	3,106
Non-Oil GDP Per-Capita (\$)	602	630	598	653	732	805	858	935

Note: All figures are based on the updated figures from National Account (NA 2000-2011)



Economic Growth

...Amongst the highest in the region



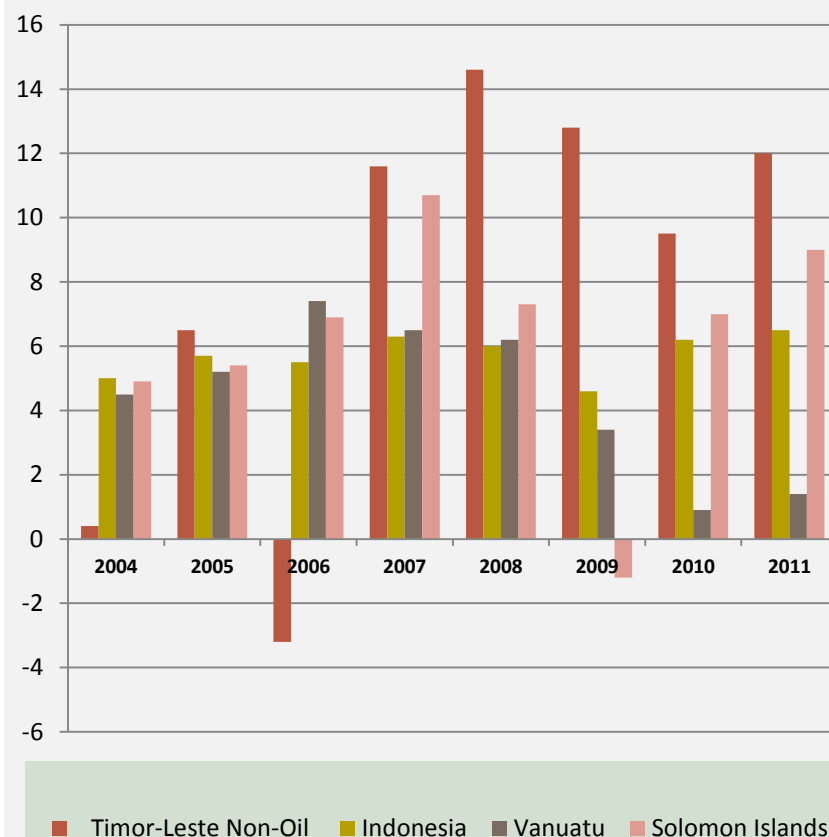
Country	Actual			Projection	
	2009	2010	2011	2012	2013
China	9.2%	10.4%	9.2%	7.8%	8.2%
Australia	1.4%	2.5%	2.1%	3.3%	3.0%
Singapore	-1.0%	14.8%	4.9%	2.1%	2.9%
ASEAN-5	1.7%	7.0%	4.5%	5.4%	5.8%
Indonesia	4.6%	6.2%	6.5%	6.0%	6.3%
Vietnam	5.3%	6.8%	5.9%	5.1%	5.9%
Philippines	1.1%	7.6%	3.9%	4.8%	4.8%
Thailand	-2.3%	7.8%	0.1%	5.6%	6.0%
Malaysia	-1.5%	7.2%	5.1%	4.4%	4.7%
Timor-Leste*	12.8%	9.5%	12.0	10.6**	10.4**

•Timor-Leste GDP refers to the non-oil sector only

•** Targets

Sources: National Directorate of Economic Policy, Ministry of Finance, 2012
and IMF WEO October 2012

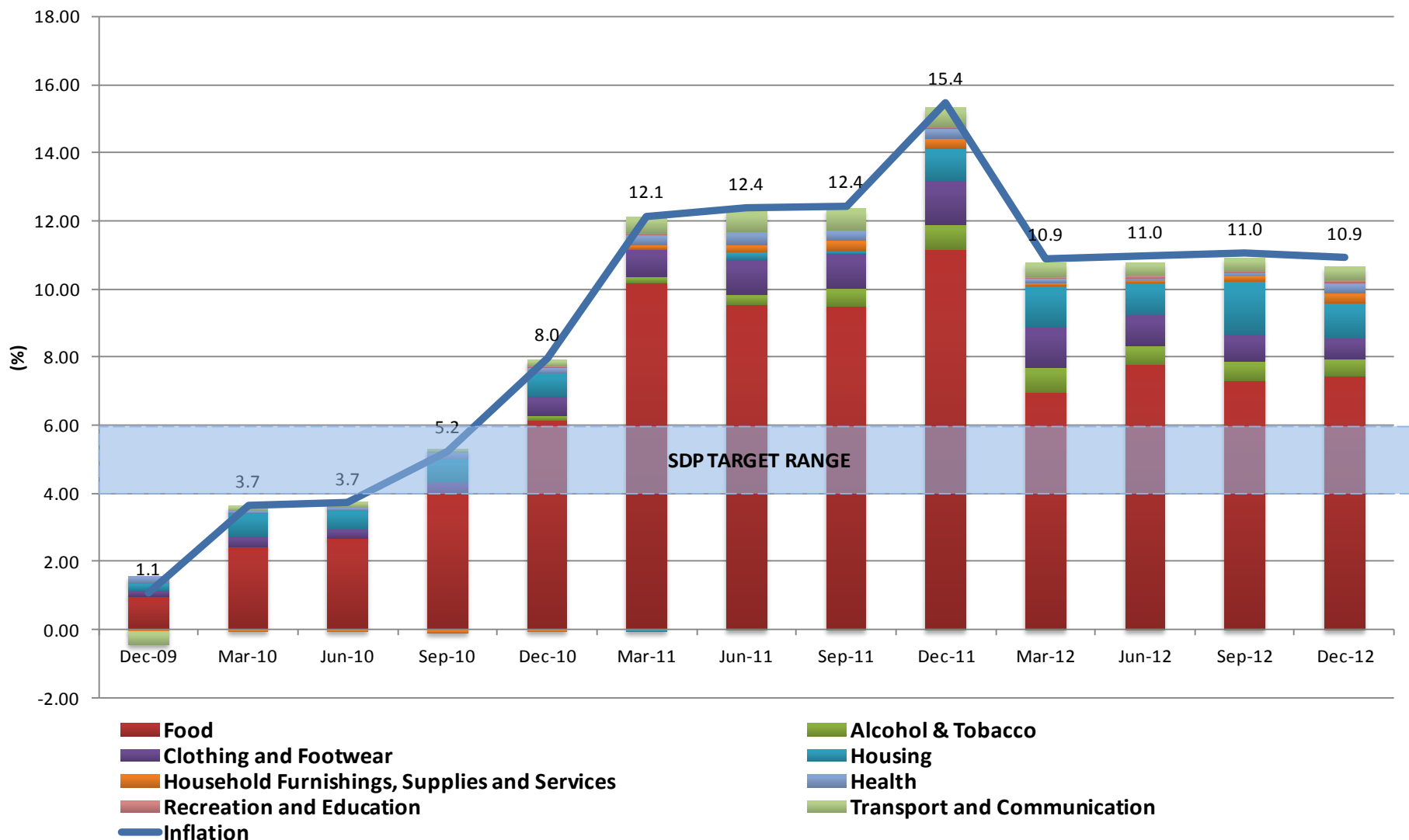
GDP Growth, Selected Countries 2004-11, %





INFLATION

And concerns that high inflation will undermine future competitiveness



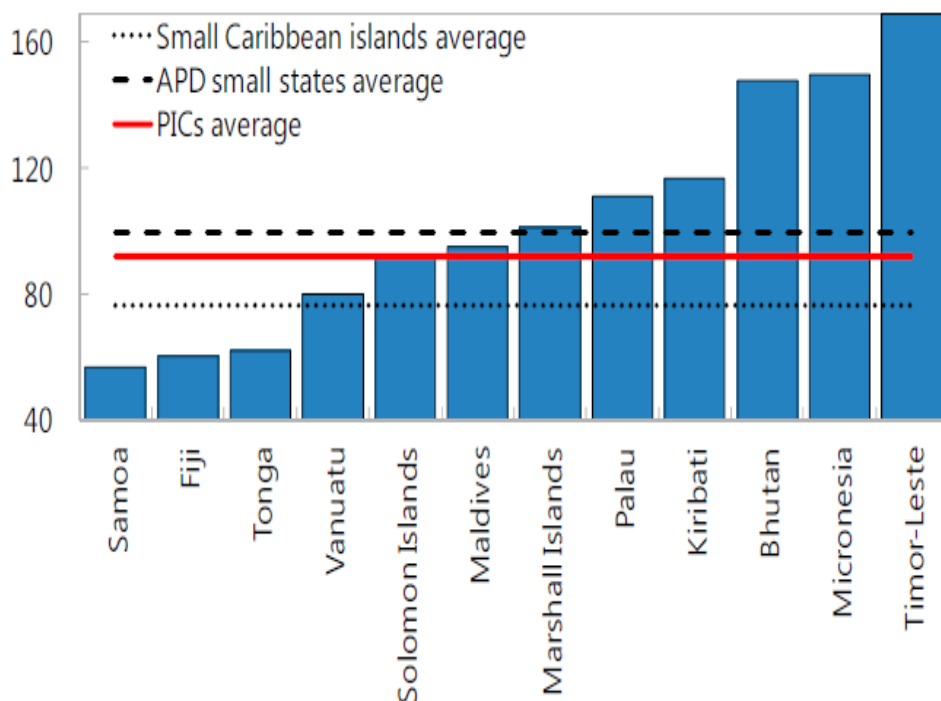


BUSINESS ENVIRONMENT

Private sector growth is important but there are concerns regarding business environment



Figure 13. Small States—Asia and Pacific Region: Ease of Doing Business Index ^{1/}



Sources: World Bank, *Doing Business 2013*; and IMF staff estimates.

1/ A lower number indicates a more friendly business climate.

	Doing Business 2013 Rank	Doing Business 2012 Rank	Change in Rank
Total 185 Countries	169	169	0
Topic Rankings			
Starting a Business	147	151	4
Dealing with Construction Permits	116	118	2
Getting Electricity	40	45	5
Registering Property	185	185	No change
Getting Credit	159	158	-1
Protecting Investors	139	136	-3
Paying Taxes	61	56	-5
Trading Across Borders	83	82	-1
Enforcing Contracts	185	185	No change
Resolving Insolvency	185	185	No change



Key Challenges

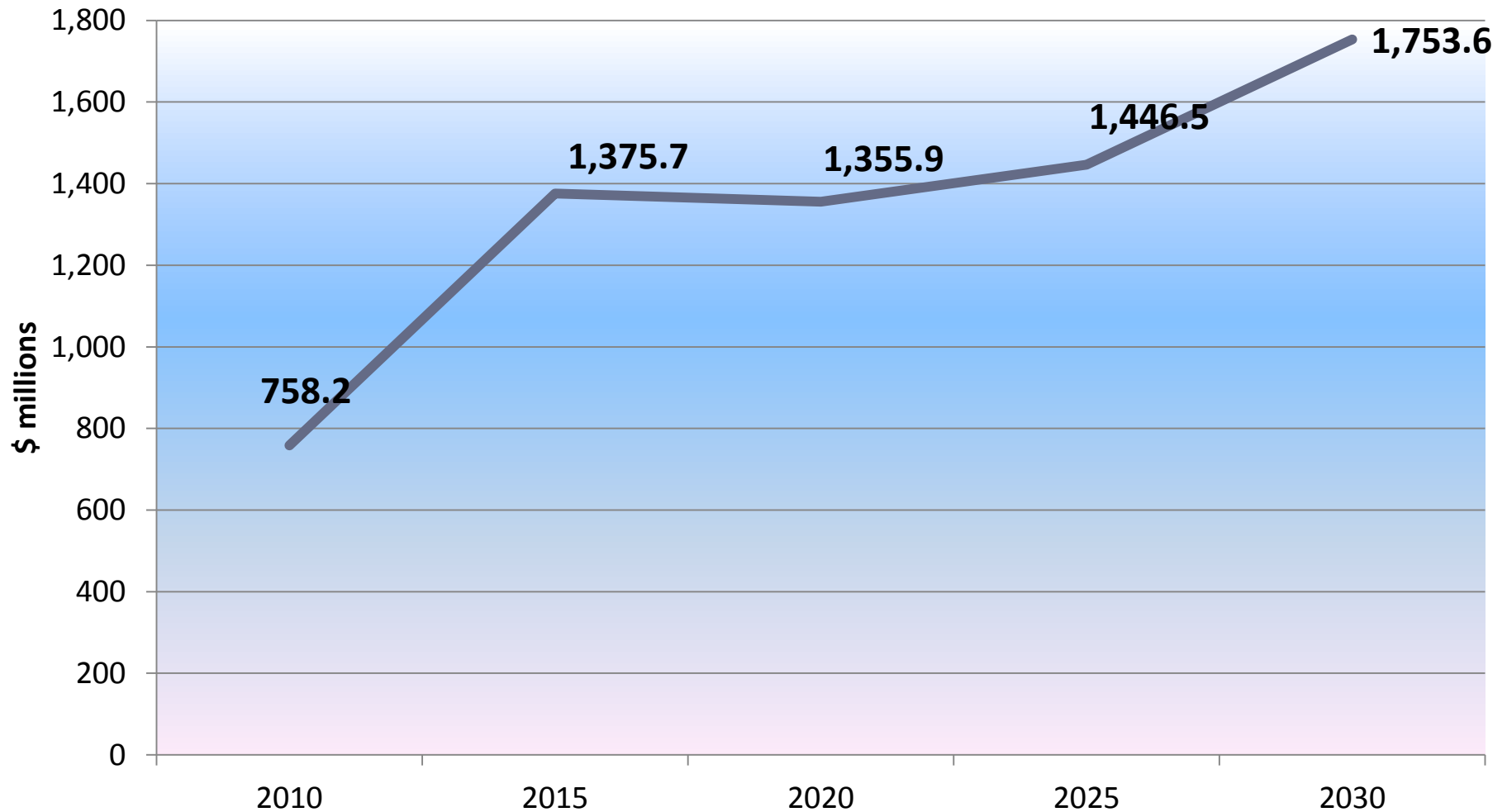


1. Strong and credible institutions;
2. Qualify and adequate human resources;
3. Adequate and appropriate infrastructure;
4. Create a good business environment;
5. Economic structural reform;
6. From oil economy to non-oil economy.



Key Challenges & Way Forward

SDP: Expenditure Target



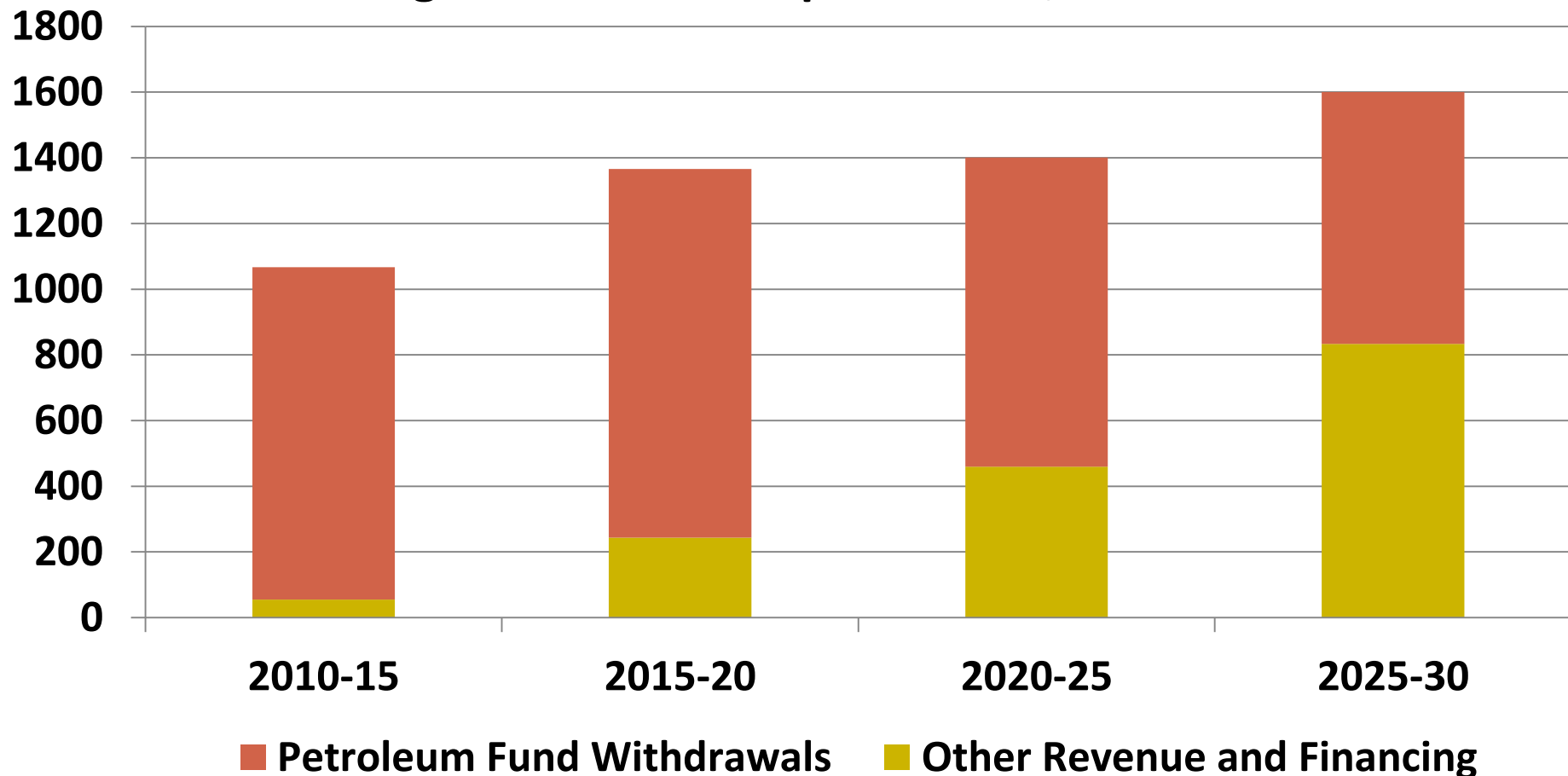


Key Challenges & Way Forward

SDP: Petroleum Fund Withdrawal Target



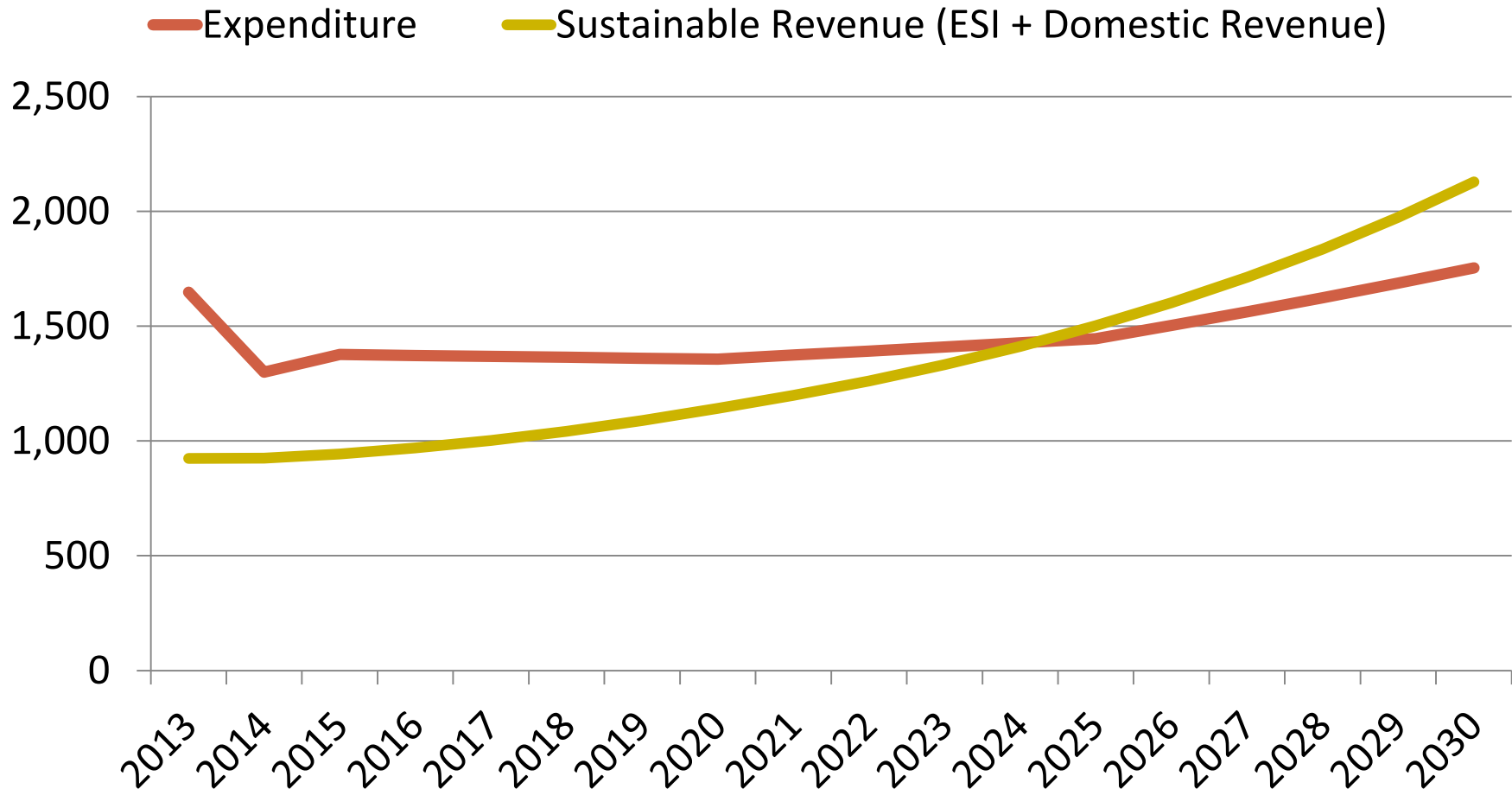
Financing Government Expenditures, US\$ millions





Key Challenges & Way Forward

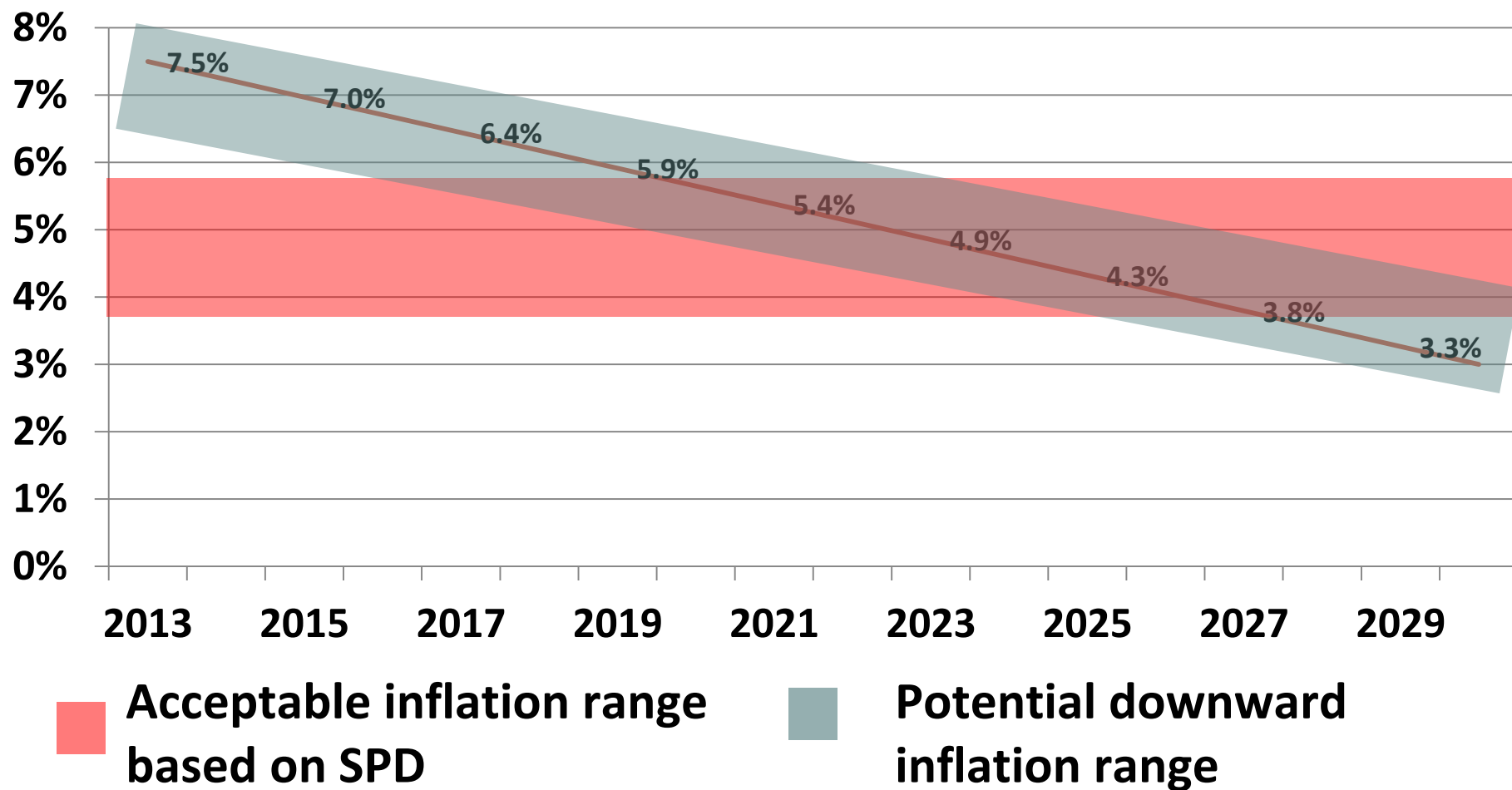
Growth in expenditure will have to be moderated in the medium term



Key Challenges & Way Forward

Needs to have a moderate inflation

Potential Inflation Trend





Key Challenges & Way Forward

Needs to maintain the momentum of high growth rate



SENARIU	INDIKADOR IHA 2030		INVESTIMENTU (Average) "USD Billion"	TRABALADOR (Average) "000 pesoas"	PRODUTIVIDADE (TFP) (Kresimentu %)
	Rendimentu > USD 3,946	Edukasaun (Tinan 12)			
Senariu A: Low Growth Rate (8.5%)	USD 2,611	Tinan 8.3	USD 1.153	470	1.6
Senariu B: Moderate Growth Rate (9.5%)	USD 3,136	Tinan 8.9	USD 1.301	517	1.8
Senariu C: High Growth Rate With Labor Intensive (11%)	USD 4,117	Tinan 12.4	USD 1.134	752	1.4
Senariu D: High Growth Rate With Capital Intensive	USD 4,117	Tinan 12.4	USD 2.117	517	1.2

Nota: Uza dados Konta Nasional 2004-2010 husi DNE.

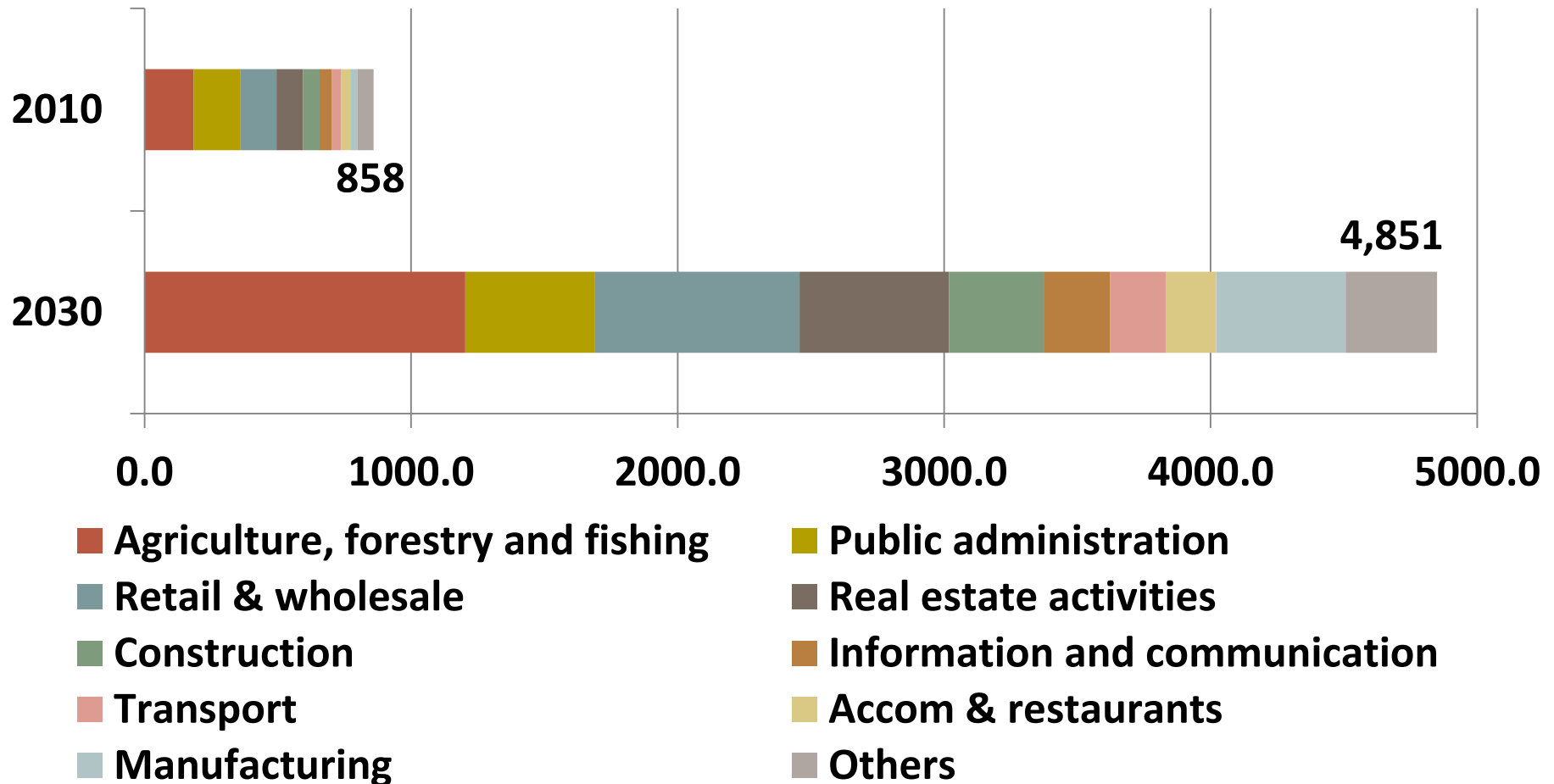


Key Challenges & Way Forward

And the growth should be contributed by potential sectors in the economy



Nominal GDP by Sector, in 2010 US\$ millions





Conclusion



- Timor-Leste's vision is to be an upper-middle income country by 2030;
- Government spending has driven strong economic growth;
- Substantial savings mean no fiscal crisis in the short or medium term;
- Development of Agriculture, Tourism, and Petroleum is required to diversify the economy.