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 2011-2030
“Vision: Timor-Leste to be an upper-middle income country by 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 2030”

TRANSFORMING STRUCTURE OF ECONOMY

MODERNIZE AND DIVERSIFY ECONOMY

AGRICULTURE
TOURISM
PETROLEUM

KEY SUPPORTING SECTOR: Infrastructure and Human Capital Development
Major Economic Policies

- To achieve inclusive and high economic growth rate:
  - “Front loading” for infrastructure and human capital development;
  - “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

Petroleum Revenue: Excluding Greater Sunrise

PR decreases in the long run but domestic revenue is increasing

Domestic Revenue ($ Millions)

- Income Tax  Royalties & Profit oil
Fiscal Policy

Substantial Savings and Increased in Expenditures

PF Balance and 2013 Budget ($ billions)

<table>
<thead>
<tr>
<th>Year</th>
<th>PF Balance, June 2013</th>
<th>2013 Budget</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>96.4</td>
<td></td>
</tr>
<tr>
<td>2011</td>
<td>108.5</td>
<td></td>
</tr>
<tr>
<td>2012</td>
<td>137.1</td>
<td></td>
</tr>
<tr>
<td>2013 Budgeted</td>
<td>146.3</td>
<td></td>
</tr>
</tbody>
</table>

Total Expenditure and Domestic Revenue

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Expenditure</th>
<th>Domestic Revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>760.3</td>
<td></td>
</tr>
<tr>
<td>2011</td>
<td>1,059.9</td>
<td></td>
</tr>
<tr>
<td>2012</td>
<td>1,190.5</td>
<td></td>
</tr>
<tr>
<td>2013 Budgeted</td>
<td>1,647.5</td>
<td></td>
</tr>
</tbody>
</table>
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

- General Gov.
- Others

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

- Azerbaijan
- China
- Kazakhstan
- Korea
- South Africa
- Timor-Leste

GDP:
- Timor-Leste
- China
- Indonesia
- Vietnam
- Australia
- Portugal
- PNG
Fiscal Policy
And led to strong growth in sectors that directly benefit from Government contracts

Growth Rate by Sector in 2011 at constant prices

Agriculture, forestry and fishing
Financial and insurance activities
Wholesale & retail, transport & storage, accommodation & food services
Real estate activities
Mining and quarrying
Other service activities
Prof., scientific, technical, admin. & support services
Public administration, defence, education, human health & social work
Construction
Information and communication
Manufacturing and other industry
Real estate activities

Contribution to Real GDP - 2011 - Percent

- Construction
- Public administration and defence; compulsory social security
- Agriculture, forestry and fishing
- Wholesale and retail trade; repair of motor vehicles and motorcycles
- Real estate activities
- Information and communication
- Accommodation and food services
- Manufacturing
- Transportation and storage
- Others
# Economic Growth

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

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

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

...Amongst the highest in the region

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>9.2%</td>
<td>10.4%</td>
<td>9.2%</td>
<td>7.8%</td>
<td>8.2%</td>
</tr>
<tr>
<td>Australia</td>
<td>1.4%</td>
<td>2.5%</td>
<td>2.1%</td>
<td>3.3%</td>
<td>3.0%</td>
</tr>
<tr>
<td>Singapore</td>
<td>-1.0%</td>
<td>14.8%</td>
<td>4.9%</td>
<td>2.1%</td>
<td>2.9%</td>
</tr>
<tr>
<td>ASEAN-5</td>
<td>1.7%</td>
<td>7.0%</td>
<td>4.5%</td>
<td>5.4%</td>
<td>5.8%</td>
</tr>
<tr>
<td>Indonesia</td>
<td>4.6%</td>
<td>6.2%</td>
<td>6.5%</td>
<td>6.0%</td>
<td>6.3%</td>
</tr>
<tr>
<td>Vietnam</td>
<td>5.3%</td>
<td>6.8%</td>
<td>5.9%</td>
<td>5.1%</td>
<td>5.9%</td>
</tr>
<tr>
<td>Philippines</td>
<td>1.1%</td>
<td>7.6%</td>
<td>3.9%</td>
<td>4.8%</td>
<td>4.8%</td>
</tr>
<tr>
<td>Thailand</td>
<td>-2.3%</td>
<td>7.8%</td>
<td>0.1%</td>
<td>5.6%</td>
<td>6.0%</td>
</tr>
<tr>
<td>Malaysia</td>
<td>-1.5%</td>
<td>7.2%</td>
<td>5.1%</td>
<td>4.4%</td>
<td>4.7%</td>
</tr>
<tr>
<td>Timor-Leste*</td>
<td>12.8%</td>
<td>9.5%</td>
<td>12.0</td>
<td>10.6**</td>
<td>10.4**</td>
</tr>
</tbody>
</table>

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


### GDP Growth, Selected Countries 2004-11, %

- Timor-Leste Non-Oil
- Indonesia
- Vanuatu
- Solomon Islands
INFLATION
And concerns that high inflation will undermine future competitiveness

SDP TARGET RANGE

[Graph showing inflation trends from Dec-09 to Dec-12 with various categories represented by bars and a line graph.]

- Food
- Clothing and Footwear
- Household Furnishings, Supplies and Services
- Health
- Recreation and Education
- Transport and Communication
- Inflation

- Alcohol & Tobacco
- Housing
- Inflation
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

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

1/ A lower number indicates a more friendly business climate.
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: Petroleum Fund Withdrawal Target

Financing Government Expenditures, US$ millions

- Petroleum Fund Withdrawals
- Other Revenue and Financing

- 2010-15
- 2015-20
- 2020-25
- 2025-30
Key Challenges & Way Forward
Growth in expenditure will have to be moderated in the medium term

- Expenditure
- Sustainable Revenue (ESI + Domestic Revenue)
Key Challenges & Way Forward
Needs to have a moderate inflation

Potential Inflation Trend

Acceptable inflation range based on SPD

Potential downward inflation range
Key Challenges & Way Forward
Needs to maintain the momentum of high growth rate

<table>
<thead>
<tr>
<th>SENARIU</th>
<th>INDIKADOR IHA 2030</th>
<th>INVESTIMENTU (Average) &quot;USD Billion&quot;</th>
<th>TRABALADOR (Average) &quot;000 pesos&quot;</th>
<th>PRODUTIVIDADE (TFP) (Kresimentu %)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Rendimentu &gt; USD 3,946</td>
<td>Edukasaun (Tinan 12)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Senariu A: Low Growth Rate (8.5%)</td>
<td>USD 2,611</td>
<td>Tinan 8.3</td>
<td>USD 1.153</td>
<td>470</td>
</tr>
<tr>
<td>Senariu B: Moderate Growth Rate (9.5%)</td>
<td>USD 3,136</td>
<td>Tinan 8.9</td>
<td>USD 1.301</td>
<td>517</td>
</tr>
<tr>
<td>Senariu C: High Growth Rate With Labor Intensive (11%)</td>
<td>USD 4,117</td>
<td>Tinan 12.4</td>
<td>USD 1.134</td>
<td>752</td>
</tr>
<tr>
<td>Senariu D: High Growth Rate With Capital Intensive</td>
<td>USD 4,117</td>
<td>Tinan 12.4</td>
<td>USD 2.117</td>
<td>517</td>
</tr>
</tbody>
</table>

Nota: Uza dadus 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

- Agriculture, forestry and fishing
- Public administration
- Retail & wholesale
- Real estate activities
- Construction
- Information and communication
- Transport
- Accom & restaurants
- Manufacturing
- Others

2010:
- Agriculture, forestry and fishing: 858

2030:
- Agriculture, forestry and fishing: 4,851
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.