Interrelationships among macroeconomic accounts

- **Real Sector**: income, output, employment, prices
- **External Sector**: exports, imports, remittances, international loans/grants
- **Fiscal Sector**: domestic revenue, petroleum receipts, expenditures
- **Monetary Sector**: central bank, commercial banks, money supply
Timor-Leste’s economic objectives

- Economic growth: 8-10% a year or more
- Social stability
  - using transfers in the near term, while
  - balancing near with long term needs
- Poverty reduction: reducing poverty to 25% by 2020
  - ensuring that economic gains are widely shared
- Employment generation: 10% increase per year
  - providing job opportunities for youth and underemployed
- Controlling inflation: 4%
  - overly ambitious public sector efforts erode competitiveness by inflating wages and costs of construction & services
- Fiscal envelop: reign in annual spending growth
What drives the economy?

- At present, government is the key actor
  - level and composition of spending is driving the economy
  - near-term challenge is to get maximum value for the public’s money

- Over the longer term the challenge is to
  - grow the private sector
  - transform the rural economy out of subsistence agriculture
  - reduce reliance on petroleum revenue

- Some things are beyond control
  - Timor-Leste is a small country far from economic entrepots
  - Movements in oil prices
Government expenditures have been increasing

Whole-of-Government Cash Expenditures as a Share of non-oil GDP

(%)
Domestic revenues lag far behind the growth of recurrent expenditures

Financing Recurrent Expenditures

- Orange bars represent recurrent expenditures.
- Blue bars represent domestic revenues.
2008 was probably the peak for petroleum income

Petroleum Receipts
(US$ millions)

Oil at $80 per barrel -- actually $60 in 2009, $70 in 2010 and $80 thereafter

March 2009 EIA case assumes oil at $40 in 2009, $50 in 2010 and around $60 per barrel thereafter

Oil at $40 per barrel

Projection is for Bayu-Undan only. Kitan would add about ½ of one year’s current revenue from BU, spread over several years. Greater Sunrise might add about the same as Bayu Undan, but starting in 2015 at the earliest.
Now let’s look at different scenarios of expenditure growth and policy/regulatory reform might lead to.

- Rate of Government expenditure growth -> prudent, how
- Rate of domestic revenue growth -> how (compliance, more coverage, etc)?
- Level of effort to reform policies & regulations
  - How fast can business environment be improved?
  - How can we increase the “value for money” of public investment?
  - These scenarios assume intensive efforts on both fronts
# Results for 2009-2011

## Key Results

<table>
<thead>
<tr>
<th></th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Non-oil real GDP growth</strong></td>
<td>8.8</td>
<td>7.1</td>
<td>9.9</td>
</tr>
<tr>
<td><strong>Sectoral Contribution to Growth</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Agriculture</td>
<td>2.5</td>
<td>2.8</td>
<td>3.0</td>
</tr>
<tr>
<td>Industry</td>
<td>4.2</td>
<td>3.9</td>
<td>4.1</td>
</tr>
<tr>
<td>Public Sector</td>
<td>2.2</td>
<td>0.5</td>
<td>2.9</td>
</tr>
<tr>
<td>Inflation Rate (CPI)</td>
<td>1.3</td>
<td>4.0</td>
<td>4.0</td>
</tr>
<tr>
<td>Formal employment growth rate</td>
<td>8.5</td>
<td>6.4</td>
<td>10.1</td>
</tr>
</tbody>
</table>

Note: The growth rate of non-oil GDP declines in 2010 because of the reduced contribution to growth from the public sector, which includes both government and donor services and capital investments. Projected slower growth in private construction in 2010.
Thank You for Your Attention

Ministry of Finance