AGENDA

1. WHERE SHOULD WE GO?

2. WHERE ARE WE NOW?

3. WHAT SHOULD WE DO AND WHO SHOULD DO IT?

Opportunities and challenges

Indicators

Fiscal policy:
1) Fiscal rules;
2) Sustainable fiscal policy.

Outline

Outline

What Should We Do and Who Should Do It?

Outline

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Outline

What Should We Do and Who Should Do It?
Dependent mentality without innovation

Human resource crisis

Fiscal sustainability in the future

Difficult for private sector to access capital

Little private sector investment

Strong dependency on petroleum

Small domestic revenues

No Legal infrastructure for banks to give credit

Quality of spending

Coordination and communication

Development of potential sector lacks coherence

Need to define who is to do evaluation

Envisioning: Large job

Need to define who is to do evaluation

Secure inclusive development

No appropriate classification and treatment

Visually, GAP between poor and rich, and urban and rural areas increased

High budget execution rate but low results

Missed match skills and employment opportunities

Programs are not integrated/package

Highly dependent on oil

High inflation and low productivity

Big budget low execution

Poor planning

Lack of inter and intra Ministerial coordination

Implementation and controlling are not efficient and effective

High non-oil deficit

Low domestic revenue because has not explored yet all potentials

Dependency and uncreative mentality

Public management needs to be improved.

Lack of strong and credible institutions

Private sector local participation is still low

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**Infrastructure: INDICATORS (1)**

<table>
<thead>
<tr>
<th>No</th>
<th>INFRASTRUCUTRE INDICATORS</th>
<th>Responsible</th>
<th>Targets</th>
<th>Challenges</th>
<th>Opportunities</th>
<th>What should we do?</th>
<th>How can you contribute?</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>% km of national roads - constructed and rehabilitated</td>
<td>MoPW</td>
<td>?</td>
<td>?</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>% km of district roads - constructed and rehabilitated</td>
<td>MoPW</td>
<td>?</td>
<td>?</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>% km rural roads - constructed and rehabilitated</td>
<td>MoPW</td>
<td>?</td>
<td>?</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>% bridges - constructed and rehabilitated</td>
<td>MoPW</td>
<td>?</td>
<td>?</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>% National Airport - constructed and rehabilitated</td>
<td>MoPW</td>
<td>?</td>
<td>?</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>% Regional Airport - constructed and rehabilitated</td>
<td>MoPW</td>
<td>?</td>
<td>?</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7</td>
<td>% Port - constructed and rehabilitated</td>
<td>MoPW</td>
<td>?</td>
<td>?</td>
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</tbody>
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**Infrastructure: INDICATORS (2)**

<table>
<thead>
<tr>
<th>No</th>
<th>INFRASTRUCUTRE INDICATORS</th>
<th>Responsible</th>
<th>Results</th>
<th>Targets</th>
<th>Challenges</th>
<th>Opportunities</th>
<th>What should we do?</th>
<th>How can you contribute?</th>
</tr>
</thead>
<tbody>
<tr>
<td>8</td>
<td>% School buildings - constructed and rehabilitated</td>
<td>MoPW</td>
<td>?</td>
<td>?</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>9</td>
<td>% household access to electricity</td>
<td>MoPW</td>
<td>?</td>
<td>?</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>10</td>
<td>% health clinic - constructed and rehabilitated</td>
<td>MoPW &amp; MoH</td>
<td>?</td>
<td>?</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>11</td>
<td>% population access to telephone services</td>
<td>MTT</td>
<td>?</td>
<td>?</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>12</td>
<td>% population access to internet</td>
<td>MTT</td>
<td>?</td>
<td>?</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>13</td>
<td>% School buildings - constructed and rehabilitated</td>
<td>MoPW</td>
<td>?</td>
<td>?</td>
<td></td>
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<td></td>
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</table>

**Economy: INDICATORS (1)**

<table>
<thead>
<tr>
<th>No</th>
<th>ECONOMIC INDICATORS</th>
<th>Responsible</th>
<th>Results</th>
<th>Targets</th>
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<th>Opportunities</th>
<th>What should we do?</th>
<th>How can you contribute?</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>% Employment</td>
<td>SEPFOPE</td>
<td>?</td>
<td>?</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>% Trainees get employment</td>
<td>SEPFOPE</td>
<td>?</td>
<td>?</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>% Vulnerable employment</td>
<td>SEPFOPE</td>
<td>?</td>
<td>?</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>% Employment in formal sector</td>
<td>SEPFOPE</td>
<td>?</td>
<td>?</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>% FDI</td>
<td>SEAPRI</td>
<td>?</td>
<td>?</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>% Investment from SME</td>
<td>SEAPRI</td>
<td>?</td>
<td>?</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7</td>
<td>Public investment (capital expenditure S$) 2011</td>
<td>MoF &amp; SEAPRI</td>
<td>S$1.2</td>
<td>?</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Economy: INDICATORS (2)**

<table>
<thead>
<tr>
<th>No</th>
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<th>How can you contribute?</th>
</tr>
</thead>
<tbody>
<tr>
<td>8</td>
<td>% Economic Growth</td>
<td>MoF</td>
<td>10.8</td>
<td>11.5</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>9</td>
<td>Non-oil balance % of non-oil GDP</td>
<td>MoF</td>
<td>112.4</td>
<td>97.4</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>10</td>
<td>% Inflation</td>
<td>All</td>
<td>10.9</td>
<td>6.6</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>11</td>
<td>Domestic Revenue (S$)</td>
<td>MoF</td>
<td>134.1</td>
<td>181.7</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>12</td>
<td>% Non-oil deficit 2011</td>
<td>MoF</td>
<td>101.2</td>
<td>88.8</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>13</td>
<td>Import (S$) 2011</td>
<td>MCIA</td>
<td>330.6</td>
<td>?</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>14</td>
<td>Export (S$) 2011</td>
<td>MCIA</td>
<td>51.2</td>
<td>?</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>15</td>
<td>Balance of import and export (S$) 2011</td>
<td>MCIA</td>
<td>-286.4</td>
<td>?</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**TYPES OF FISCAL RULES**

<table>
<thead>
<tr>
<th>TYPES OF FISCAL RULES</th>
<th>AIM OF THIS TYPE OF FISCAL RULE</th>
<th>WHY IS THIS TYPE OF RULE IMPORTANT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sustainability</td>
<td>To ensure that expenditure is set at an affordable level. The Government is not going to run out of money in the future</td>
<td>If the Government runs out of money: Expenditure has to be suddenly cut Massive disruption to services Sharp contraction in economy</td>
</tr>
<tr>
<td>Macroeconomic</td>
<td>Ensure expenditure is consistent with low inflation, sustainable economic growth and a competitive economy</td>
<td>Government spending too much in the short term can lead to high short term economic growth. But also high inflation. High prices reduce competitiveness and long term economic growth.</td>
</tr>
</tbody>
</table>

**Fiscal Sustainability is Possible**

- Expenditure
- Sustainable Revenue (ESI + Domestic Revenue)
**What Should We Do and Who Should We Do It?**

**Economy: Fiscal Rules – Macroeconomic (3)**

<table>
<thead>
<tr>
<th>Question</th>
<th>Answer</th>
</tr>
</thead>
<tbody>
<tr>
<td>What is the non-oil balance as a % of non-oil GDP?</td>
<td>Non-oil balance as a % of GDP = (domestic revenue – total expenditure)/non-oil GDP.</td>
</tr>
<tr>
<td>What is it showing?</td>
<td>A larger balance shows a more expansionary budget. Too larger balance will be associated with inflation and a loss of competitiveness.</td>
</tr>
<tr>
<td>What is the logic of this measure?</td>
<td>Spending financed by domestic revenue is not inflationary. Because the increase in expenditure by the Government is matched by a increase in tax revenue. And therefore a reduction in spending by consumers or businesses. Spending financed by oil revenue increases the money circulating in the economy. And is therefore expansionary and can increase inflation.</td>
</tr>
<tr>
<td>What is the right level for the non-oil balance as a % of GDP?</td>
<td>Requires more detailed work. Some evidence that in Timor-Leste non-oil balances as a % of GDP above 60% to 80% have coincided with high inflation.</td>
</tr>
</tbody>
</table>

**What Should We Do and Who Should We Do It?**

**Economy: Summary of Fiscal Rules (4)**

<table>
<thead>
<tr>
<th>Rule</th>
<th>What it means in practice for 2014</th>
<th>Advantages of Rule</th>
<th>Disadvantages of Rule</th>
</tr>
</thead>
<tbody>
<tr>
<td>1: Estimated Sustainable Income</td>
<td>Reduce total 2014 budget (excluding rollover) to $1,020 million or less.</td>
<td>ESI has well thought out methodology.</td>
<td>Government policy is to frontload. Immediately going back to ESI might involve delaying some Infrastructure Fund projects.</td>
</tr>
<tr>
<td>2: Frontload in short term, ESI in medium term.</td>
<td>Recurrent expenditure not above $875 million. If spending not above 200 to 250 million per year until 2017 (excluding rollover).</td>
<td>This Government policy. Should be possible to complete all Infrastructure projects which have started.</td>
<td>Complex to work out how much frontloading is sustainable. Getting back to ESI only possible with strong economic growth and low inflation.</td>
</tr>
<tr>
<td>3: Recurrent expenditure should not grow by more than 6% a year.</td>
<td>Recurrent expenditure not above $883 million.</td>
<td>Shows commitment of Government to low inflation.</td>
<td>Evidence for recurrent expenditure and inflation link. But it is hard to prove.</td>
</tr>
<tr>
<td>4: Non-oil fiscal balance as a % of GDP</td>
<td>Should never be above 80% and should fall to 60% in medium term.</td>
<td>Distinguishes between economic impact of expenditure financed by Petroleum Fund and Domestic Revenue.</td>
<td>Complexity. Overlap with rule 3.</td>
</tr>
</tbody>
</table>

**What Should We Do and Who Should We Do It?**

**Expected Outcomes**

- Same understanding on opportunities and challenges for Timor-Leste;
- Same understanding on development partners contribution to SDP matrix;
- Recommending national priorities for 2014.

**Question for Discussion**

- What can you do to help implement the SDP? What are your comparative advantages?
- What are opportunities and challenges (your perspective) for Timor-Leste?