OUTLINE

• Characteristic of Timor-Leste’s Economy

• Timor-Leste’s Economic Policies

• Update of Key Economic Indicators
CHARACTERISTIC OF TIMOR-LESTE’S ECONOMY

- Low Productivity
- Access to Capital is Difficult and Expensive
- Dominated by Non-Formal Sector
- Highly Dependent on Public Sector
- Low Private Sector Investment
- Highly Dependent on Import
- Limited Diversification of the Economy
- Infrastructure, Human Resources, and Institutional Capacity Constraints
- Highly Dependent on Import

TIMOR-LESTE’S ECONOMIC POLICIES

**VISION: TIMOR-LESTE TO BE AN UPPER-MIDDLE INCOME COUNTRY WITH EDUCATED AND HEALTHY POPULATION IN 2030**

**Phase I: 2011-2015**
- Human Resource Development.
- Infrastructure Development.
- Strengthening Institutions

**Phase II: 2016-2020**
- Strengthening Human Resources.
- Strengthening Infrastructure.
- Develop Strategic Industries.

**Phase III: 2021-2030**
- Eradicate Extreme Poverty.
- Modernize and Strengthen Private Sector.
- Diversification of Economy.
TIMOR-LESTE’S ECONOMIC POLICIES: How to diversify the Economy

VISION: TIMOR-LESTE TO BE AN UPPER-MIDDLE INCOME COUNTRY WITH EDUCATED AND HEALTHY POPULATION IN 2030

DIVERSIFICATION OF THE ECONOMY

AGRICULTURE  TOURISM  PETROLEUM  MANUFACTURING

PREREQUISITES: PROPER AND ADEQUATE INFRASTRUCTURE, HUMAN CAPITAL & LEGAL FRAMEWORK, AND EFFICIENT INSTITUTION

TIMOR-LESTE’S ECONOMIC POLICIES: Planning Framework

SDP AND SDG ALIGNMENT

SDG 1: Eradicate Poverty
SDG Phase III: Eradicate Extreme Poverty, Modernize and Strengthen Private Sector, and Diversification of Economy.

SDG 8: Economic Growth and Employment
SDG 12: Sustainable Production and Consumption

SDG Phase II: Strengthening Human Resources, Strengthening Infrastructure, and Develop Strategic Industries.

SDG 2: Nutrition and Agriculture
SDG 3: Health
SDG 4: Education

SDG 5: Gender Equity
SDG 6: Water and Sanitation
ODS 9: Infrastructure

### TIMOR-LESTE’S ECONOMIC POLICIES and Targets

#### MACROECONOMIC POLICIES

1. Economic diversification;
2. Sound fiscal policy;
3. Enabling business environment;
4. Infrastructure for growth and connectivity;
5. Human Capital development for Productivities;
6. Price stability and external shock management.

#### REFORMS

1. Public Financial Management reform;
2. Legislative & Administrative Reform.

#### Policies Objectives and Targets 2019-2023

1. Reduction of poverty by 10% in 5 years;
2. Average economic growth of 7% and inflation below 6%;
3. Private sector investment increase by 10% annually;
4. Create 60,000 new jobs;
5. Increase domestic revenue to GDP to 17%.

### TIMOR-LESTE’S ECONOMIC POLICIES

#### POLICIES BEEN IMPLEMENTED FOR IMPROVING BUSINESS ENVIRONMENT

- Establish and empower SERVE and TradeInvest
- Macroeconomic Stability and Prudent Fiscal Policy
- Fiscal Incentives from Investment and Tax Laws
- Infrastructure Development – Despite still Lacking
- Land Law – A solution for Collateral
- “Credit Guarantee Scheme Initiative”
- Negative GDP growth in 2017 was -3.5%.
- Non-oil per-capita income in 2017 was $1,250, lower relative to $1,323 in 2016.
- To be an upper-middle income country (the vision of SDP) in 2030, the required per-capita income is $4,000.

Economy of Timor-Leste is still dominated by public sector expenditures, therefore so called "Public Sector Driven Economy" or "Oil Economy".
- This economic structure has to be change to an economic that is more inclusive and sustainable.
Key Economic Indicators: Inflation

**INFLATION**

**PRINCIPAL DRIVERS OF INFLATION**
- **EXTERNAL FACTORS:** Commodities prices, currencies, etc.
- **INTERNAL FACTORS:** Production and supply bottlenecks

**IMPACTS**
- Poverty
- Lack of Purchasing Power
- Lack of Competitiveness

**Key Economic Indicators: Doing Business**

**DOING BUSINESS INDICATORS IN TIMOR-LESTE, 2018**

Doing business indicators shows that Timor-Leste is ranked 178 out of 190 countries in 2018.

Doing business indicators indicated that Timor-Leste needs to improve business environment for attracting private sector investments.

Private sector investment is growing but in a very low pace, as indicated in its contribution to GDP.

Access to low cost of capital is among big challenges for private local private sector to grow, with the current borrowing cost is around 10%-12%
Public investments in health, education, agriculture and infrastructure.

Promote private sector investment.
Promote financial industry.

60,000 new jobs every year

Key Economic Indicators: Employment

LO PRODUCTIVITY DUE TO “MISSMATCHING” & SKILL GAP

MINIMUM SALARY IS GOOD FOR COMPETITIVENESS, BUT HIGH LIVING COST.

OVERSEAS LABOR SCHEME IS A SHORT-TERM SOLUTION – BUT MANY ARE STILL WITH LOW SKILL JOBS.

PREDOMINANT NON-FORMAL SECTOR RESULTED IN HIGH VULNERABLE EMPLOYMENT

High annual labor supply from tertiary education but low economic absorption

Difficult access to capital and market hampers self-employment initiatives

Young population but low labor force participation

High petroleum revenue but low investment return

Key Economic Indicators: Fiscal Framework

FISCAL FRAMEWORK

Petroleum Wealth

Petroleum Fund

Petroleum Revenue

PF Balance

Investment Return

Domestic Revenue

Budget

Loan

X 3%

ESI & Excess Withdrawal

EXPENDITURES

Capital

Recurrent

Promises
• Domestic revenues are from taxes and fees and charges.
• Tax revenues include direct and indirect taxes collected by Tax and Custom Authorities – taxes are the main source of domestic revenue.
• Domestic revenue from fees and charges include fees from electricity, rent and others.
• Annual domestic revenue is still smaller relative to total expenditure for salary and wages.

Key Economic Indicators: Petroleum Fund of Timor-Leste

<table>
<thead>
<tr>
<th>Balance PF</th>
<th>Investment Return since inception</th>
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<tbody>
<tr>
<td>$17.3 bn (As of 30 April 2019)</td>
<td>4.2% p.a. (As of 30 Abril 2019)</td>
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Petroleum Fund cumulative Revenues, Investment Return and Withdrawal, 2005-April 2019 ($M)

- Reveitas Minarai: $23,358
- Retomu Investimentu: $5,524
- Levantamentu: $10,616

Key Economic Indicators: Domestic Revenue

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