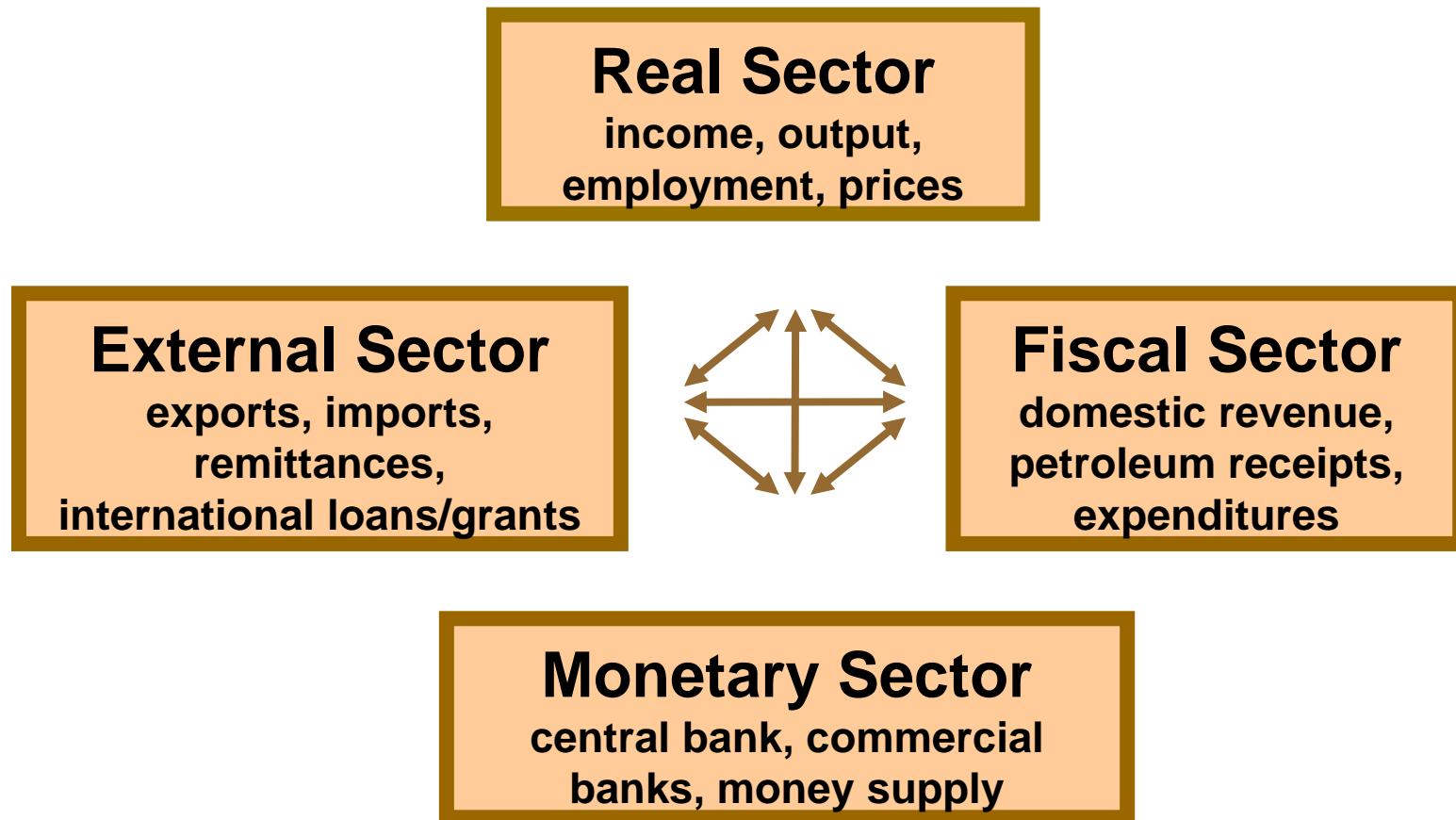

Macroeconomic Framework for the Timor-Leste Economy: 2009-2011

Ministry of Finance
October 2009

Interrelationships among macroeconomic accounts



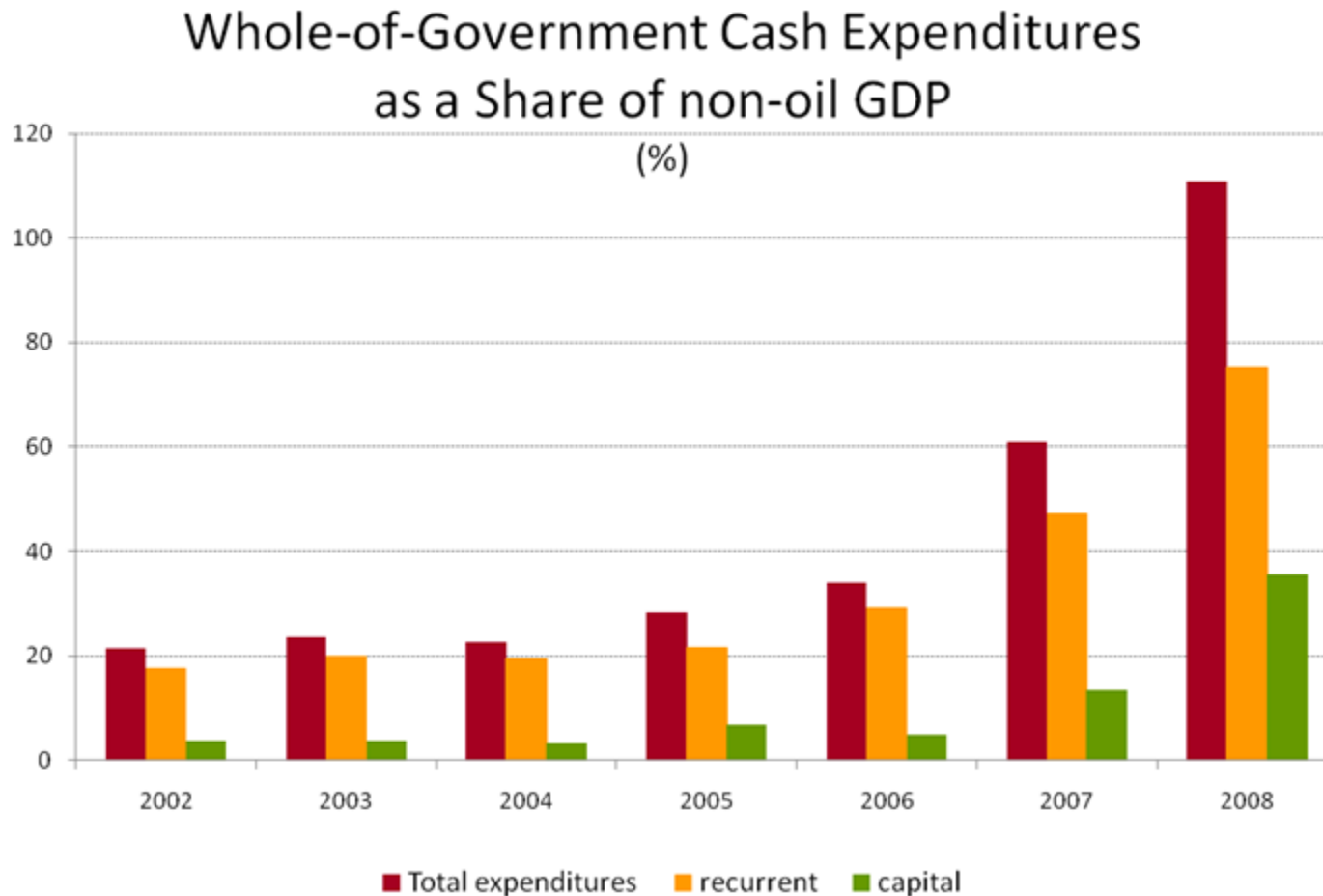
Timor-Leste's economic objectives

- 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

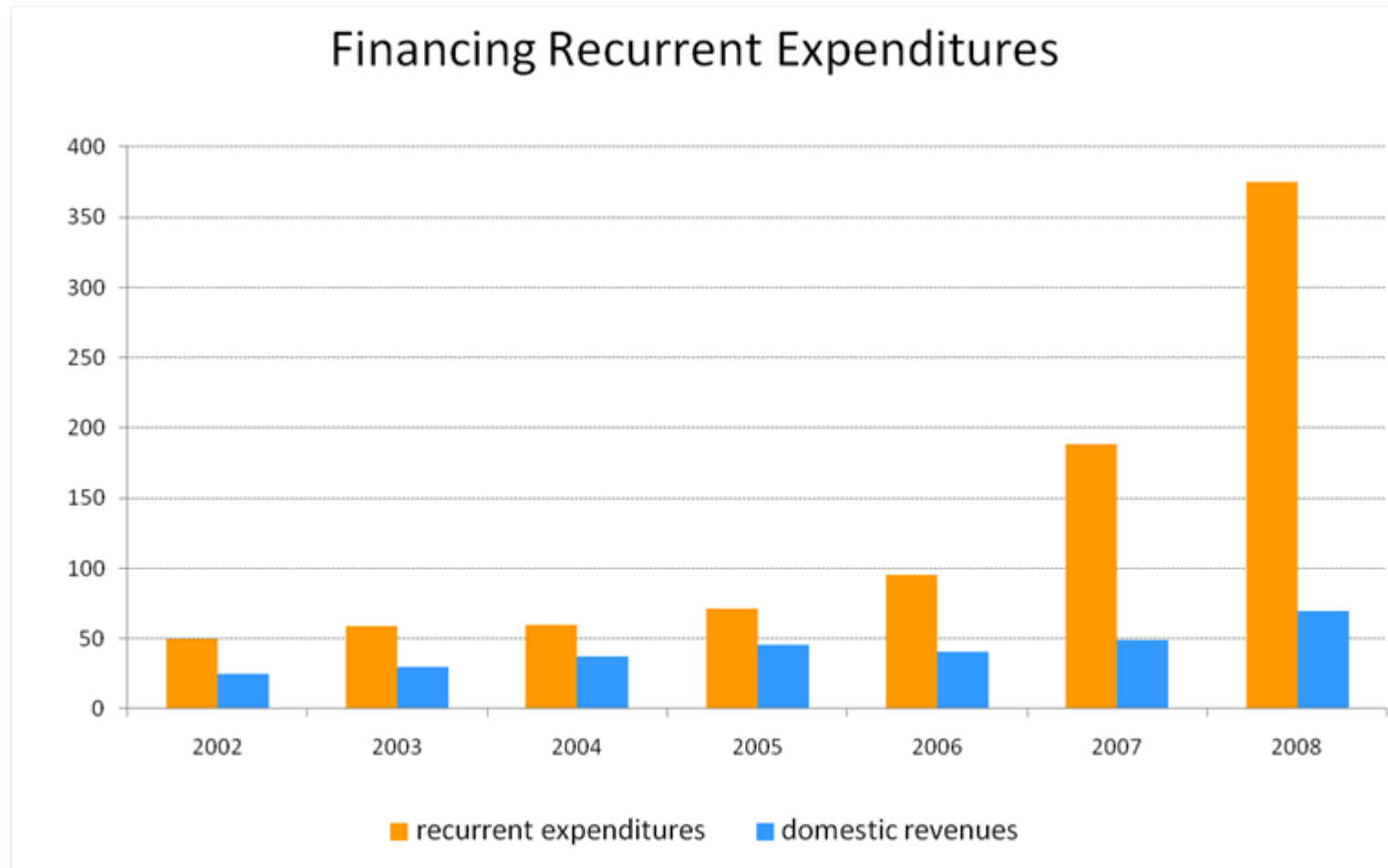
What drives the economy?

- 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

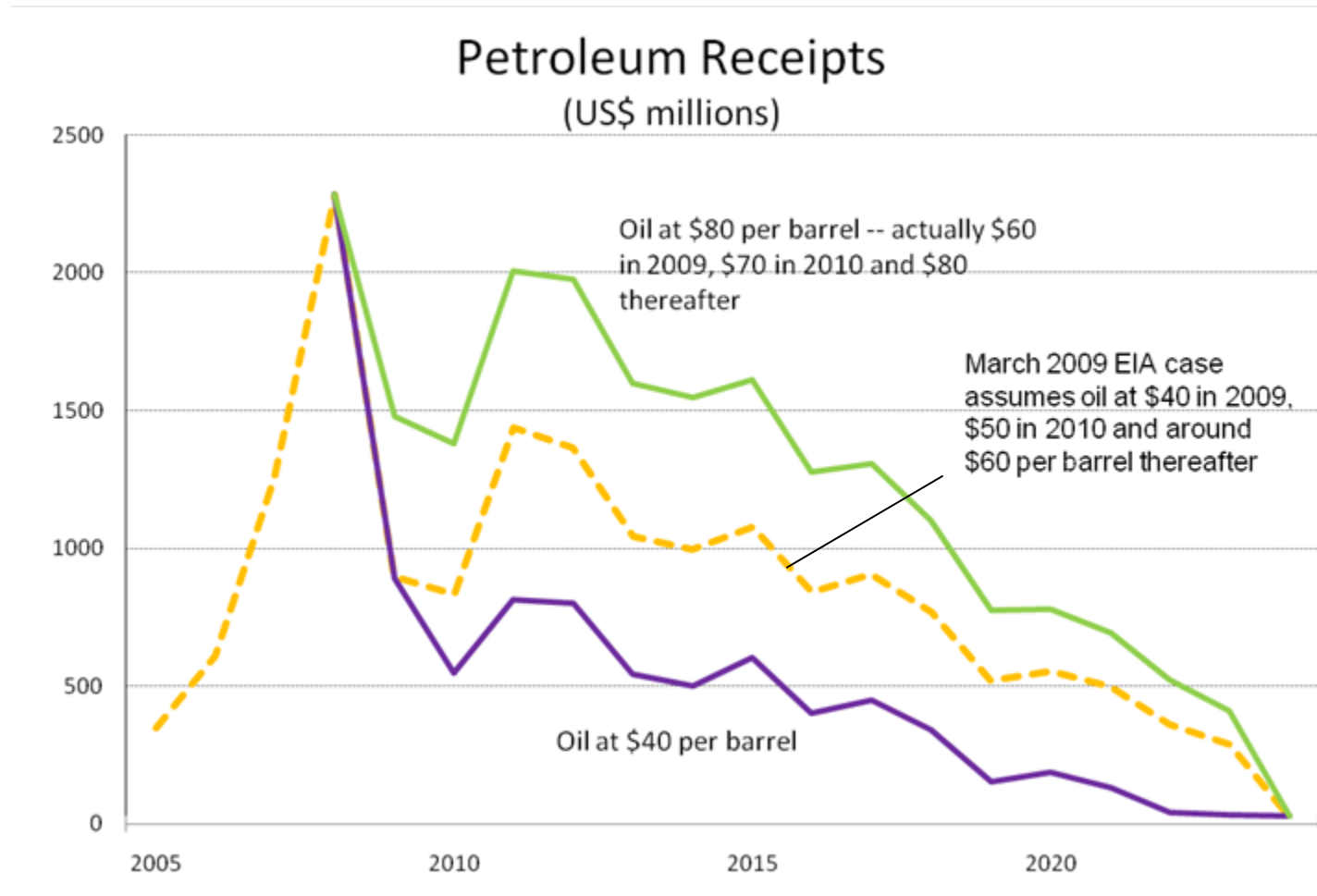
Government expenditures have been increasing



Domestic revenues lag far behind the growth of recurrent expenditures



2008 was probably the peak for petroleum income



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. 12

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			
percent growth			
	2009	2010	2011
Non-oil real GDP growth	8.8	7.1	9.9
Sectoral Contribution to Growth			
Agriculture	2.5	2.8	3.0
Industry	4.2	3.9	4.1
Public Sector	2.2	0.5	2.9
Inflation Rate (CPI)	1.3	4.0	4.0
Formal employment growth rate	8.5	6.4	10.1
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

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