

Excellencies,  
Distinguished development partners,  
Esteemed colleagues in Government,  
Ladies and gentlemen,

Welcome to this technical discussion on the economic development sector of Timor-Leste. Today, we gather to forge a path forward that not only aligns with the IX Government's strategic objectives but also addresses the pressing needs and potential of our nation in agriculture, finance, trade and industry, and environmental sustainability.

Timor-Leste stands at a crucial juncture. Since our independence, we have made commendable strides in rebuilding and developing our infrastructure and institutional frameworks, despite the challenges of our past.

The overall GDP contribution is still heavily dependent on public sector expenditure, where productive and private sector contributions to GDP are still in small-scale. Despite these years of independence, the major share of FDI attracted by Timor-Leste continues to be in the oil & gas (O&G) sector. While this is an important investment for the economy, such FDI does not contribute sufficiently to job creation, and the GoTL has grown dependent on this sector, which finances 90 percent of public spending through the Petroleum Fund. At the same time, as we are all aware, these resources are finite. The need to diversify our economy and enhance the non-oil sectors is more pressing than ever.

Our agriculture sector, employing a significant portion of our population, remains pivotal not just for economic stability but also for food security. Yet, it faces challenges of productivity and market access. In finance and trade, while there is progress, the need for a more robust framework to support small and medium enterprises and to attract foreign investment is clear. The environmental sector also requires urgent attention to ensure sustainable development and resilience against natural disasters, which are all too common in our region. Some key sectors towards economic diversification, namely on agriculture, tourism, fisheries, manufacturing and industry and downstream petroleum sectors to drive economic diversification.

Moreover, I wish to underscore the significance of cooperative systems development as a catalyst for grassroots economic empowerment. Cooperatives play a pivotal role in fostering inclusive growth, particularly in rural communities. By supporting cooperative initiatives, we can empower families and communities to actively participate in economic activities, thereby fostering social cohesion and sustainable development.

I emphasize the importance of diversifying our agricultural sector through cooperative groups and organizations. Timor-Leste boasts fertile land and favorable climatic conditions, presenting immense potential for agricultural diversification. By promoting cooperative farming practices and facilitating access to markets, we can unlock the latent potential of our agricultural sector and enhance food security.

Our focus must also center on strengthening key infrastructure projects that lay the foundation for robust economic activity. Among these, the expansion and development of Dili International Airport stand as paramount. Enhanced airport facilities will not only facilitate smoother travel but also stimulate tourism and trade, thereby fueling economic growth.

Furthermore, the establishment of a robust telecommunication system through fiber optics infrastructure is imperative. A modern and efficient telecommunications network is the lifeblood of a thriving economy, fostering connectivity, innovation, and entrepreneurship. Therefore, I urge our esteemed partners to lend their support to this critical endeavour.

Additionally, effective port management is essential to capitalize on Timor-Leste's strategic maritime location. Investment in our ports will bolster trade facilitation and bolster our connectivity with regional and global markets. We must prioritize the optimization of air and sea connectivity to maximize our economic potential.

In tandem with infrastructure development, we must not overlook the importance of meteorological forecasting. Timely and accurate weather forecasts are indispensable for sectors such as agriculture, fisheries, and tourism. By investing in meteorological capabilities, we can enhance resilience and mitigate the impact of natural disasters on our economy.

Within this context, the Government recognizes that private investment in key productive sectors is key to economic growth, and that it will benefit from being open to the regional and global economy. The Government continues to prioritize its membership to the Association of Southeast Asian Nations (ASEAN) and its recent signatory towards membership to the World Trade Organization (WTO) to soon become a full-fledge member to the Organization. This initiative marks as a key strategy to accelerate growth and economic diversification.

As we embark on this journey towards economic prosperity, let us not forget the immense opportunities that lie within the ASEAN region. Together, its member states represent a population exceeding 600 million and a vast market spanning 4.5 million square kilometers, the ASEAN region presents a gateway to global

economic integration for Timor-Leste. Let us seize this opportunity to forge partnerships, drive innovation, and propel Timor-Leste towards a brighter future.

Excellencies,  
Distinguished participants,

The IX Government has been proactive in addressing gaps to streamline reforms for economic diversification. We have initiated programs aimed at enhancing infrastructure, such as the recent developments in our road networks and the expansion of our airports, which are crucial for improving connectivity and economic activity. However, the road ahead is long, and the need for a coordinated approach with all our valued development partners is critical.

Looking ahead, in 2024 and 2025 respectively, we expect to see improvement in economic growth. Timor-Leste's economic growth data is estimated to grow at 4.2% this year compared to 2.3% in 2023. This performance is expected to further increase in 2025 to 4.6% according to the Central Bank data.

At the same time, the country's inflation is expected to decline at 4.5% in 2024 compared to 8.4% in 2023. Inflation is mainly driven by high consumption in food and beverage products, where the CPI value for food products almost doubled in 2023 compared to in previous year. Timor-Leste's inflation is generally higher than its trading partners, but this rate is projected to decline in 2024.

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In today's meeting, we aim to outline the major priorities within these sectors and sequence our actions to ensure efficiency and impact. We will identify areas where additional support is crucial, fostering a collaborative environment to leverage international expertise and resources.

Furthermore, we are at a stage where we must reassess our financial strategies, including the reconsideration of loan financing. The current administration is meticulously reviewing previous loan agreements to ensure that any financial commitments align with our long-term development goals and do not compromise our economic sovereignty.

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The economic development sector in Timor-Leste faces several major challenges:

1. **Heavy Reliance on Petroleum:** Timor-Leste's economy is significantly dependent on oil and gas revenues, which are finite and subject to global price fluctuations. This dependency has led to concerns about the sustainability of the economy once these resources are depleted.
2. **Need for Economic Diversification:** There is an urgent need to diversify the economy to reduce reliance on government spending and revenues from natural resources. This includes developing sectors such as agriculture, tourism, and manufacturing to create a more resilient and sustainable economic base.
3. **Infrastructure Development:** While there has been investment in infrastructure, it alone does not solve the problems of economic diversification. There is an urgent need for intervention in other sectors, such as human capital and good governance, and more investment in productive sectors.
4. **Institutional Constraints and Weakness:** Addressing institutional constraints is critical for economic diversification and development. This includes creating a conducive environment for the private sector, improving the efficiency of public finance, and adopting a different approach to politics. Weak institutions have been obstacles to economic growth, affecting business sector confidence and delaying public and private investments.
5. **High Unemployment and Poverty Rates:** Despite low official unemployment rate, the reality of the labor market does not reflect this, with a significant portion of the population living in poverty.

The latest employment and population census data shown in 2021 reported that only 30.5% of the active population are currently contributing within the labour force population. While the registered unemployment rate was only 5.1%, this value could be more, considering the unregistered informal sector dominated by low level of labour force participation and high unemployment rate in subsistence agriculture.

Our strategy is to maximize the benefit of our abundant young population under the age of 35. Prioritizing economic development beyond the capital

city Dili is particularly crucial for improving living standards across the country.

6. Challenges in Education and Youth Employment: With a large youth population, there is a need to invest in the quality of education and training to unlock the potential of young people for economic diversification. Creating a friendly environment for business and entrepreneurship is also essential.
7. Access to finance: Timor-Leste has most liquid financial assets with the total liquid assets of \$1.853 billions, representing 76% of total assets. However, average interest rate for credit is still relatively high, around 10.65%.

The Government aims to promote and facilitate access to financial services with low costs and enhance financial education to promote entrepreneurships, particularly for MSMEs. Women in particular play crucial role in entrepreneurship and MSMEs business development in Timor-Leste. At the same time, majority of MSMEs still engage in informal economic activities, such as selling goods in local markets, running small shops, and providing services in their communities.

Therefore, enhancing MSMEs participation in the formal economy through access to finance, business training, and market opportunities can enhance their contribution to economic growth and contribute to poverty reduction.

8. Environmental Sustainability: The global trend towards sustainable development implies that environmental sustainability is likely a challenge, especially given the country's reliance on fossil fuels and the need to protect its natural beauty and biodiversity for sectors like tourism.

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These challenges underscore the need for a comprehensive and coordinated approach to economic development in Timor-Leste, focusing on diversification, sustainable practices, and inclusive growth to ensure long-term prosperity. As we proceed with today's discussion, let us keep in mind the ultimate goal: to build a resilient, diversified economy that not only withstands global economic shifts but also provides prosperity and security for all of our people.

[Ver. 2] DRAFT – Introductory Remarks/Technical Discussion on the Economic Development Sector  
Lead Ministry – Vice-Prime Minister and Minister Coordinator for Economic Affairs and Minister of  
Tourism & Environment

Let us embark on this journey together, with clarity and purpose, to achieve the milestones set forth in our Strategic Development Plan (SDP).

Thank you.