

MINISTER OF THE PRESIDENCY OF THE COUNCIL OF MINISTERS

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SPEECH

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INTRODUCTION

During 2020 our country faced unprecedented and historic challenges. We entered the year under crippling budget constraints. These were predicted to hamper our economy, to return us to another period of negative economic growth. We were confronted by an extra-ordinary political deadlock. In February, COVID-19 was declared an international pandemic. In late March we encountered our first case.

In reviewing this situation, we must transport ourselves back in time. We must resist the tendency to apply hindsight, to evaluate what took place in March to May with what we know now, with information we have after the fact. As I speak, Timor-Leste is one of only 23 countries with no COVID deaths. Of these 23 countries we are the second largest. During the development of our response our politicians put aside their differences. Our citizens followed the rules. They washed their hands, wore masks, and maintained social distancing. As I speak, our citizens have, more or less, resumed life as normal. To put this achievement into perspective, watch the news. We see other countries, both rich and poor, suffering through this pandemic, facing growing death tolls, suffering through repeated lock down and political infighting. This is the scenario many expected here; that is why many development partners and embassies evacuated their citizens and their staff. Looking back, we should also recall the economic projections at that time, the talk of economic depression and economic collapse.

Think again back to April. If in April, we saw where we are now, with no deaths, with daily life essentially back to normal by May or June, wouldn't we all have considered that a tremendous success?

Let me now provide you with the details of what the negative impacts were expected to be at that time and to compare that to what actually took place. At the start of the pandemic, the international community (INFORM Global Risk Index) predicted Timor-Leste may struggle the most health wise and economically, and their numbers indicated the second highest levels of risk for Timor-Leste in the entire region. International discussions at the time, also suggested state measures may lead to higher (human) costs than the disease itself – especially in developing countries like Timor-Leste. There were incredible high levels of uncertainty in March and April, from health shocks resulting in catastrophic events, with estimated deaths between 390 and 11,700. I repeat, the worse-case scenario projected deaths of almost 12,000 people. On top of that, the negative expected outcomes for the economy in 2020, where a pessimistic forecast scenario had Timor-Leste with a steep decline in GDP growth, at -9.3 percent (World Bank, April 2020) for the rest of the year.

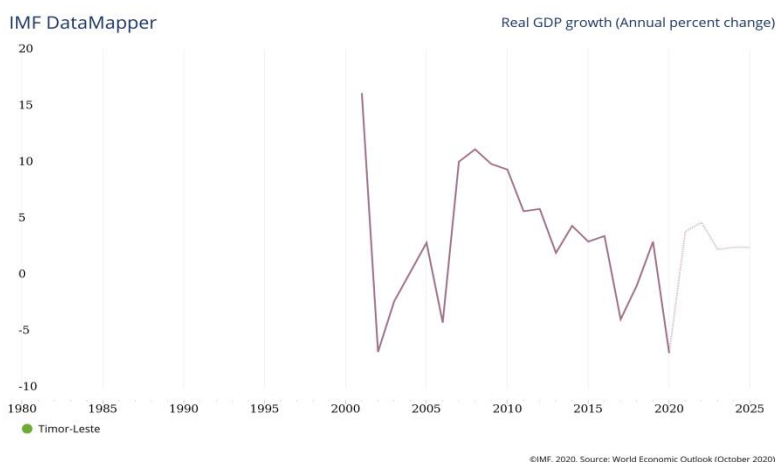
The fact of the matter today is that we have saved avoided the loss of life—that in itself created substantial economic benefits. Saving and protecting lives matter and that is sound economic policy, equivalent to a significant portion of GDP.

The latest international projections now expect the Timorese economy to contract by about 6.8 percent in 2020, a significant upward revision from the 9.3 percent decline. This is likely due to the stabilization measures that have mitigated the harshest impacts of Covid-19. The upward revision of the forecast suggests the worse may be over for now, but nothing is certain until the pandemic subsides globally.

However, there are three fundamental caveats to those projections. One, there is still much uncertainty (the recovery measures the government will rollout will most likely further help buffer the impact on businesses and people's lives, and, there is a possibility of a second wave of the virus kicking in). Second, the 6.8 percent contraction also incorporates the expected effects of political and environmental factors (the political deadlock earlier in the year and the lack of a state budget

that led to public expenditure constraints; and the floods and heavy rainfall), while the remaining is expected to be impacts of COVID-19 shocks. Third, we are heading into an increase in GDP in the third quarter of 2020, as activities are normalizing faster than expected.

We will be modestly advancing toward the path of economic activity projected pre-pandemic for the period 2020-2025 (see figure), which suggests it is possible that effects of the pandemic on economic activity last well beyond the end of the government containment measures, and GDP is expected to recover slowly. Even after the health risks recede, it would take the economy a little more time to



quickly go back to pre-virus levels of GDP, though it could get there eventually. International projections expect Timor-Leste’s projected growth rate to strengthen to 3.1 % (World Bank), 3.3% (Asian Development Bank) or 4% (IMF) in 2021, which is sufficient to regain the 2019 levels of activity (3.9%). The projected rebound in 2021 is stronger than the levels in 2018 (-0.8%), 2017 (-3.8%), 2016 (3.4%), and 2015 (3.1%). It is important to note that all emerging market and developing economies are expected to contract this year, notably Thailand by -8%, Philippines by -7.3%, Singapore by -6.2%, and Malaysia -5%, and these are expected to be the top performers in the world. Results are projected to be worse in many other parts of the world. The upward revision of growth forecasts for Timor-Leste reveals that the government’s intervention has been in the right direction.

Even though there are currently no COVID-19 cases in Timor-Leste, still households can be expected to reduce their consumption and businesses are also expected to remain cautious and to further delay their investment decisions. With this pattern of recovery, which economist term “U-shaped” or “Swoosh-shaped” recoveries, the economy is expected to respond more slowly even as the government has begun to lift restrictions. Nonetheless, the recession is turning out to be less severe than expected as economic normalization and our fiscal measures lift economic growth.

This account gives us a snapshot of the extent of the economic dislocation once COVID-19 hit Timor-Leste, albeit, this coronavirus induced recession is hopefully mild and appears to be short lived, where activity fell in Quarter 2, but we expect recovery starting in August and September as the economy reopens.

For context, it important to highlight that with no measures or even a late and mild response from the government, human loss and sick people from Covid-19 would have severely affected families, society and the economy, while adversely raising income poverty levels and inequality. We have managed to control a ‘perfect storm’ and the deepest economic shock in our history since independence because of bold policy action and most importantly a strong political consensus.

COVID-19 RESPONSE

In a very short period of time, the Government mobilized \$US 91.7 million to implement 19 diverse economic response measures. Within weeks of the State of Emergency, an emergency crisis center was established; a mechanism to finance the response was created; the measures were designed,

actively debated, and agreed upon. Subsidiary legislation was put in place at breakneck speed. At the time the country was operating on a principle to respond well and to act responsibly, not to respond perfectly. Perfection in such an environment is not and was not possible. All political parties, including the opposition firmly placed nation before party. The Timorese, across all strata of society, pulled together.

Within days of the creation of a state of emergency, electricity subsidies were being implemented and water was being provided free of charge. At this time, our warehouses of emergency food supplies were bare. Despite significant collapses of supply chains internationally, we successfully imported 30,000 metric tons of rice from Vietnam. Throughout this period, we maintained our international connectivity through Darwin. Flights continued to ferry essential medical staff and supplies. The centerpiece of our response was the universal cash transfer. The logistics of this were extremely complex. The intervention was designed from scratch. We registered households in all Suco; we developed operational procedures; we mobilized security and transport; and funds were transferred to all Municipal BNCTL branches. Within approximately two months, each household began receiving their cash support. To ensure food production the Ministry of Agriculture, Forestry and Fisheries distributed millions of dollars of agricultural inputs. Students trapped overseas were registered and financially supported, another exercise requiring tremendous logistical initiative.

Not surprisingly some measures proved challenging. We were late in establishing credit support programs through our banking system, and the wage subsidy proved especially difficult to implement.

For certain, our response was not perfect. But, taking a birds-eye view, we went from nothing, from a blank piece of paper, from a situation where there were virtually no financial resources, to a healthy debate and then a widespread agreement on what to do, to the mobilization of funds, and to the implementation of a diverse range of economic support measures, in the time of pandemic and fear, all implemented through a maze of Ministries, agencies, and emergency structures.

We have come a long way in learning that apart from containing the loss of life, government intervention in public health and in the economy can significantly smooth the economic output and consumption costs of Covid-19. It is likely that we have successfully “flattened the recession curve”. It appears that our package of 19 economic measures helped support households and businesses, that we partially avoided a massive recession that would have seen the year ending with a decrease in GDP of -9.3 percent.

As of August 2020, the COVID-19 Fund assigned a budget of \$US 91,716,636 Million, of which \$US 88,274,151 million has been spent on the economic stimulus (88.3%).

Although there remain challenges, Timor-Leste has done extremely well in terms of health and economics. We should be considered an international success story in how our country has dealt with and responded to the crisis. Today life in Timor-Leste has practically returned to normal. This is not the case in Europe. This is not the case in North America. This is not the case in South America. And unfortunately, this is not the case in South Asia and several parts of Asia.

See Appendix for Budget Execution.

THE RECOVERY

An economic recovery plan was approved, with a focus on agriculture, tourism, housing, education, health, social protection, and institutional reform. The plan combines 71 short and medium-term measures to be implemented by the VIII Constitutional Government, by 2023.

The plan is organized in two stages: a first stage aiming to mitigate the impacts of COVID-19 through short-term responses (mainly in the second half of 2020), and a second stage with medium-term measures aimed at the economic recovery (covering a period of 2-3 years). The first stage focusses on avoiding job losses, supporting households, and preventing firm closures – with a view to sustain consumption levels and living standards. Short-term measures include the provision of a basic basket of goods (or vouchers) worth \$25 per person (using the Uma-Kain registry), a four-month recovery subsidy for firms that have recorded revenue losses, and exemptions from social security contributions.

The second stage seeks to respond to the challenges caused by the pandemic, but also structural weaknesses. This phase covers several areas:

- **Agriculture** (and small agro-industry). The focus is on coffee (through a subsidy to support the renewal of plantations), as well as sandalwood and teak. Over time, the Government foresees the implementation of a (partial) import substitution policy, particularly for rice.
- **Tourism**. The aim is to create a state-owned company to boost the sector, improve vocational education and training, rehabilitate infrastructure (such as former administrator residences and rural roads), and promote eco-tourism (by combining accommodation with coffee or rice plantations).
- **Housing**. The plan aims to implement a social housing program managed by the National Institute of Social Security or a new institution, as well as achieve universal provision of basic sanitation, water, and electricity across the country.
- **Education**. The objective is to increase the proportion of the state budget allocated to the sector, expand the number of CAFE schools – as well as the network of secondary schools, pre-school and vocational training centers – and to promote the maintenance and recovery of school buildings.
- **Health**. The goal is to increase recurrent spending to improve the quality of health services, strengthen the financial and technical support to key programs (such as family health, school health, and occupational health), invest in infrastructure, and improve health personnel training.
- **Social protection**. The aim is to create alternative payment mechanisms (to avoid cash and reduce costs), expand coverage of ‘Bolsa da Mãe’; increase protection (e.g. death in non-contributory regime), implement active employment programs, and assess the feasibility of a universal basic income.
- **Institutional aspects**. The intention is to approve all legislation pertaining to land issues, elaborate and approve business legislation (such as a bankruptcy regime), improve the functioning of the courts, and reform the public administration.
- **Optical fibre installation**. The objective is to rollout optical fibre through the country, with the support of a submarine cable connecting Timor-Leste with the rest of the world.
- **Renewable, sustainable, and alternative energy sources**. The plan aims to promote renewable sources of energy – namely, solar, hydro and wind.

FINAL SECTION: LONGER TERM

The pandemic offered an important learning opportunity. The strength of our people and our national unity shined through. But so too did the challenges that continue to confront us. Our policy priorities will expand the broader economic objectives of the Program of the Eight Constitutional Government, in order to build a trajectory of stronger sustainable growth and equitable development.

First, our macroeconomic policy will be made more supportive of the development of productive sectors (agriculture, tourism, oil and minerals and manufacturing), promotion of private sector investment, and strengthening our fiscal sustainability and financial industry, as per section 5.1 of our Government program. This also means we will revitalize how macroeconomic policy supports

the development of infrastructure, youth employment and human resources building and the capacity of our public institutions.

Second, policies will be reinforced and deployed to ensure the implementation of actions and strategies for sustainable growth and equitable development throughout the country. This entails the following imperative priorities, relative to the Government's Program:

- **Development of the agribusiness, fisheries and tourism** are the sectors having the greatest potential to support the country's economic transformation in the short- and medium-term through investments in value addition and quality upgrading aimed at export markets. This is a key basis for the economic and social development in the country. There are important opportunities to be reaped in the transition from subsistence to enterprise production of agricultural, livestock and fisheries products (section 4 of the Government Program).
- **Technology has always been the primary driver of development.** Therefore, harnessing technology holds great promise for key sectors in Timor-Leste's long-term development, including tourism and trade, as well as for the modernization of the State and improvement of the delivery of services by public institutions.
- **An appropriately skilled workforce is a necessary condition for sustainable economic development,** it drives product quality upgrade and productivity growth, stimulates entrepreneurship and so on. Therefore, we will continue improving the quality of education and vocational training, ensuring equality of access for the entire Timorese population to all areas of education (section 2.1 of the Government Program).
- **We will revitalize the promotion of industry as one of the driving forces behind national economic development** (Section 4.5 of the Government Program). Timor-Leste's planned industrial park is aimed at servicing the logistics and warehousing sectors due to its unique position on key economic corridors. We will support complementary sectors based on their ability to service the goals behind the industrial park, such as value addition and economic diversification, which in turn should be aligned with broader economic and industrial strategy.

Appendix

CODE	POLICY AREA / STRATEGY	A: ORIGINAL BUDGET	B: REVISED BUDGET	C: TOTAL SPENT	D: BALANCE (B-C)	EXECUTED (C÷B)	
1	Transport Connectivity						
5080601	1.1	Subsidize 3 weekly Dili-Darwin flights (MTC)	\$585,009	\$1,813,609	\$1,514,836	\$298,773	83.53%
	1.2	Subsidize Dili-Atauro-Oecussi maritime transport of goods (2 trips/month: MTC)	\$90,000	\$0	\$0	\$0	0%
2	Distribution of supplies						
5890103	2.1	Ensure sufficient emergency rice supplies and safe distribution of approximately 19,000 MT (CNL)	\$18,216,815	\$16,962,500	\$16,500,000	\$462,500	97.27%
	2.2	Support 24-hour cargo transportation from Port to warehouse (MTC)	\$180,000	\$0	\$0	\$0	0%
5740501	2.3	Guarantee production by acquiring agricultural and fishery inputs (fertilizer, seeds, etc.) (MAFF)	\$4,952,522	\$4,952,522	\$2,198,290	\$2,754,232	44.39%
3	Tele-Communications						
3.1	Purchase SMS bundles to support electricity credits, cash transfers, and other communications	\$0	\$0	\$0	\$0	0%	
3.2	Provide subsidized internet connectivity for 67,500 higher education students and professors, and 165,000 secondary students (MTC)	\$600,000	\$0	\$0	\$0	0%	
3.3	Implement an alert system to track known COVID-19 cases (MTC)	\$260,000	\$0	\$0	\$0	0%	
4	Utilities				\$0		
4.1	Provide \$15 per month of free electricity to an estimated 160,555 metered households, (MPW)	\$7,686,675	\$0	\$0	\$0	0%	
4.2	Provide free water to all households (MPW)	\$262,680	\$0	\$0	\$0	0%	
5	Credit (BNTL)						
5.1	Implement a credit rescheduling program for both personal and business loans across the banking sector	\$8,182,500	\$0	\$0	\$0	0%	
5.2	Implement an Emergency Loan Facility	\$3,000,000	\$0	\$0	\$0	0%	
5.3	Implement a Guarantee Facility for Importers of Essential Goods	\$5,000,000	\$0	\$0	\$0	0%	
5.4	Provide Short-Term Liquidity Support	\$3,500,000	\$0	\$0	\$0	0%	
6	Direct Support						
5080505	6.1	Provide a \$200 cash payment to each household (MSSI)	\$15,000,000	\$66,856,800	\$66,527,692	\$329,108	99.51%
	6.2	Design and implement wage subsidy payments to an estimated 30,000 wage earners covering 60% of their salaries (MSSI)	\$14,688,000	\$0	\$0	\$0	0%
6.3	Exempt Social Security contributions by both workers and employers (30,000 workers) (MSSI)	\$2,448,000	\$0	\$0	\$0	0%	
6.4	Exempt rent payment on state properties for 4,057 tenants (MOJ)	\$1,217,100	\$0	\$0	\$0	0%	
5080504	6.5	Assist Timorese students overseas with living expenses (3,488 students) (Min Foreign Affairs)	\$2,404,850	\$3,233,696	1,343,100	\$1,890,596	41.53%
TOTAL		\$88,274,151	\$91,716,636	\$81,031,234	\$10,685,402	88.35%	

Note: some expenditure, for example strategy 1.1. covers overhead costs of other strategies (2.2. and 1.2). Total Spent refers to the sum of Actual, Commitment and Obligation as per the registries in the Freebalance report. Revised budget refers to adjustments made by the Ministry of Finance, reflecting the amount allocated.