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July 7, 2021

**Statement by Mr. Buissé, Mr. Rozan, and Ms. de Waziers on Democratic Republic of
Timor-Leste
(Preliminary)
Executive Board Meeting
July 9, 2021**

We thank staff for the comprehensive Article IV report and Mr. Bevilaqua, Mr. Saraiva and Mr. Coelho for their informative Buff statement. We broadly share staff's analysis and appraisal and want to offer the following comments.

We commend the authorities for their appropriate response to the two severe exogenous shocks, the Covid-19 pandemic and heavy floods. Large direct public support contributed to mitigate the impact on vulnerable households. We welcome the authorities' engagement with the Covax Facility mechanism to facilitate vaccine rollout. Given the exceptionally high uncertainty around the outlook, we agree with staff that maintaining relief to the most vulnerable and accelerating the vaccine rollout remain the near-term priority.

We agree with the authorities and staff that recent floods point to the need to enhance the disaster management strategy. The 2021 floods had a much stronger impact on the economy and the population than past episodes, leading to a lower growth forecast and an amendment to the budget law. Given its significant impact on agriculture, on infrastructure and on the vulnerable populations, we would appreciate an analysis of Timor Leste's climate vulnerabilities in future Articles IV consultations.

In the medium run, after several years characterized by political instability due to fragile government coalitions, we agree with staff that securing political consensus will be essential to implement the needed structural reforms, in particular those linked to the use of the Petroleum Fund, the strengthening of governance and the improvement of business environment, which are all macrocritical. The recent anticorruption law provides a useful

framework and its implementation will be decisive to ensure success, and we support staff's technical assistance in this area.

We also agree with staff on the need for a comprehensive fiscal reform strategy to ensure a sustainable trajectory. First, we agree on the need to better prioritize public spending based on economic and social impact. We underline that the World Bank's ongoing public expenditure review will be an important step in this area. Domestic non-oil revenue mobilization and public financial management reforms in line with international best practices will also contribute to strengthen the fiscal framework. We encourage the authorities to benefit from Fund technical support. Second, we underline the positive developmental impact of the management of the Petroleum Fund, which is also reflected in the debt sustainability analysis. Thus, we agree on the need for a long-term sustainable strategy to prevent the depletion of the Petroleum Fund balance and ensure fiscal and debt sustainability. We particularly thank staff for the options explored in this regard. We also encourage the authorities to carefully select public investment projects, including the Greater Sunrise project, based on independent and in-depth cost-benefit analysis, including regarding inequality reduction, for example through stable domestic job creations. We underline that, in order to support inclusive sustainable and green medium term growth, poverty reduction and economic diversification, public spending should focus on increasing spending in climate-resilient development of agriculture and services, which are more job intensive, and in the education system.

Finally, we welcome the authorities' engagement with the Fund and other international organizations in capacity and human capital development. Given the current capacity constraints, including in statistics, we would have appreciated a detailed table of past, current and future IMF CD activities to better assess the strategic integration of CD activities into surveillance. Examples from other country reports could usefully be transposed.