

The contents of this document are preliminary and subject to change.

GRAY/21/1924

July 7, 2021

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

We thank staff for the well-written report and Mr. Bevilaqua, Mr. Saraiva, and Mr. Coelho for their helpful Buff statement. Despite noteworthy achievements since the country's independence, most of Timor-Leste challenges are of a medium-term nature and require a structural approach. We broadly share the staff's appraisal and offer the following additional comments:

- **We commend the authorities for the fiscal support to address the pandemic and the consequences of the flood** and consider the authorities' priorities for 2021 to be properly focused on this twin-shock. We note that the authorities report difficulties in providing relief to some vulnerable population segments due to lack of information. We encourage staff and the authorities to draw on lessons from other countries that developed innovative solutions to effectively identify and support vulnerable population groups.
- Once the recovery from the pandemic and the flood is ensured, **we encourage the authorities to find the right balance between Petroleum Fund drawdowns for development and savings for future generations.** In this regard, we appreciate staff's analysis on the trade-off between the level of drawdowns from the Petroleum Fund and the impact on growth from fiscal consolidation. While we agree with the authorities that it is necessary to frontload government spending due to basic infrastructure and development needs, we encourage the authorities to improve public financial management and to invest only in projects with positive long-term returns. In addition, we welcome the authorities' intention to adopt fiscal reforms namely to enhance domestic revenue mobilization.
- **Structural reforms will be key for growth, as staff's analysis shows.** We agree with staff that the spending priorities should focus on human capital formation and on

increasing productivity in the agricultural sector. In addition, improving the business environment, by enhancing the rule of law and strengthening institutions will help remove some obstacles to private investment. Overall, we consider the authorities' Economic Recovery Plan 2020-2023 to aim at the right policy priorities, including the development of tourism. We welcome the developments on digitalization, financial inclusion, and climate-resilient infrastructure and contingency, as described in the Buff statement and encourage the authorities to fully factor in digitalization and climate change adaptation in their Recovery Plan.