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

Before the crisis the Timorese authorities made noticeable progress in some elements of institutional development and political stability. However, the country was hit hard by the pandemic and severe floods, which further aggravated existing imbalances in an already challenging economic environment. We broadly agree with staff's assessment and offer the following comments for emphasis.

We support the authorities in their decision to extend fiscal support to 2021 but note that it should become more targeted, aiming at gradual fiscal consolidation in the medium term. We welcome the authorities' efforts to strengthen public financial management (PFM) and look forward to the adoption of a new PFM law to improve budget preparation, expenditure control, and procurement. We believe that the PFM law, together with the new Budget Framework Law, if fully implemented, will increase fiscal transparency and accountability. We also encourage the authorities to strengthen the public investment framework in line with the 2016 PIMA recommendations to enhance the efficiency of public investments. On the revenue mobilization side, we welcome the authorities' work on tax policy measures. *In this regard, we would like to hear staff's views on the extent that these measures will help improve non-oil revenue performance in the medium term.* We also urge the authorities to reduce their reliance on the Petroleum Fund to finance budget deficits to ensure that future generations can also benefit from it.

We welcome the authorities' commitment to addressing long-standing structural challenges in the financial system by leveraging digital solutions and the digital transformation. We encourage authorities to continue their work on financial inclusion. We take note of staff's assessment that Timorese's banking system has remained resilient and

stable throughout the recent crisis. Nonetheless, it will be essential to continue monitoring risks to bank asset quality and non-performing loans (NPLs).

Finally, continued structural reforms would be instrumental to promote sustainable growth and development. We strongly encourage the authorities to maintain their commitment to labor market reforms and strengthen human capital formation with a focus on the rural population, youth, and women. Enhancing governance and transparency to boost private sector investment and improve that business environment is also key. Finally, given the increased exposure of Timor-Leste to natural disasters, we encourage the Timorese authorities to enhance resilience against climate change. Channeling private and public investments into building climate resilient infrastructure could help in this regard.