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From: The Acting Secretary

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DEMOCRATIC REPUBLIC OF TIMOR-LESTE

June 22, 2021

STAFF REPORT FOR THE 2021 ARTICLE IV CONSULTATION

KEY ISSUES

Context. Although Timor-Leste has made considerable progress in many areas since its independence in 2002, it faces significant medium-term challenges. The nation has pressing development needs, young institutions, and is highly dependent on oil. Oil revenues from active fields, which have been the main source of funding for government spending, are drying up. The non-oil private sector economy remains underdeveloped and lack of good jobs and high youth unemployment are serious concerns.

Recent developments and outlook. The economy has been severely affected by the pandemic and by recent floods. Despite early success in containing the propagation of COVID-19, the recent surge in cases and floods in early April will mean only a modest economic recovery in 2021.

Themes of the Article IV. Against this background, the discussions focused on: (1) the short-term challenges of dealing with the twin shocks—COVID-19 outbreak and floods, (2) the need to put fiscal policy on a sustainable footing amid the drying up of active oil fields, and (3) structural reforms to support the development of the non-oil private sector economy and generate jobs.

Policy recommendations. In the near term, the focus should be on accelerating the ongoing rollout of vaccines and on providing relief to the most vulnerable. Once the pandemic is well contained, regaining a more solid fiscal footing should be a priority to preserve fiscal and external sustainability. Expenditure rationalization and revenue mobilization should underpin fiscal reforms. Structural reforms to improve the business environment, strengthen governance, raise labor productivity, and increase financial deepening, including through harnessing digitalization, would help promote private sector development, create jobs, and diversify the economy. Strengthening disaster risk management and preparedness is also crucial, given the country's vulnerability to climate shocks.

Approved By
APD (Alfred Schipke)
and SPR (Geremia Palomba)

Virtual discussions took place during May 4-17, 2021. The staff team comprised Pablo Lopez Murphy (Head), Purva Khera, and Masakazu Kumakura (all APD). Pedro Martins (World Bank) participated in several meetings. Bruno Saraiva and Diogo Coelho (OED) participated in policy discussions. Ricardo Davico and Nadine Dubost assisted in the preparation of this report.

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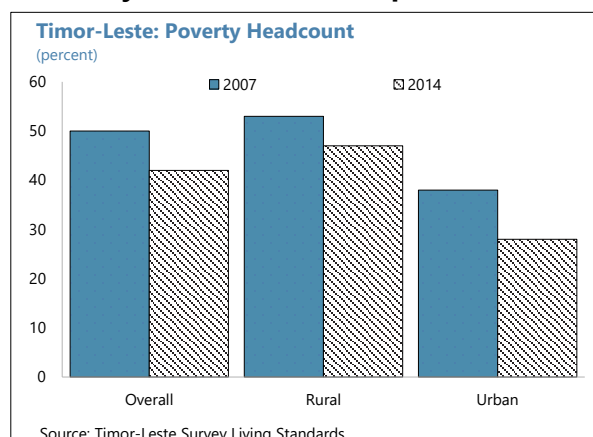
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PRE-COVID-19 CONTEXT

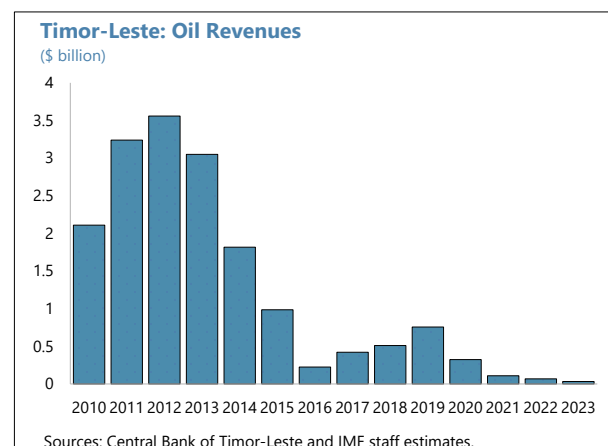
1. Timor-Leste has made significant progress in many areas since its independence in

2002. After decades of conflict, it is a stable democracy with a young and fast-growing population. Remarkable achievements include conducting transparent elections with smooth transitions in government; rebuilding basic public infrastructure, including roads, ports, airports, and water and sanitation systems; reducing poverty; and saving a significant fraction of oil revenues in the Petroleum Fund. Moreover, institutional progress has been steady, with a network of functional public institutions built from scratch quickly.



2. However, Timor-Leste faces significant medium-term challenges compounded by a drying up of oil revenues.

They include large and pressing development needs, wide-ranging institutional capacity building gaps, and high dependence on oil revenues. Oil revenues from active fields, which have been the main source of funding for government spending, are drying up. Fiscal policy needs to adjust to the new reality to preserve fiscal and external sustainability. The country's young public sector institutions and incipient governance structure also need to be further developed to overcome the country's fragility. One-third of the population suffers chronic food insecurity and significant gaps exist in health and education. The non-oil private sector economy remains underdeveloped and lack of good jobs and high youth unemployment are serious concerns.

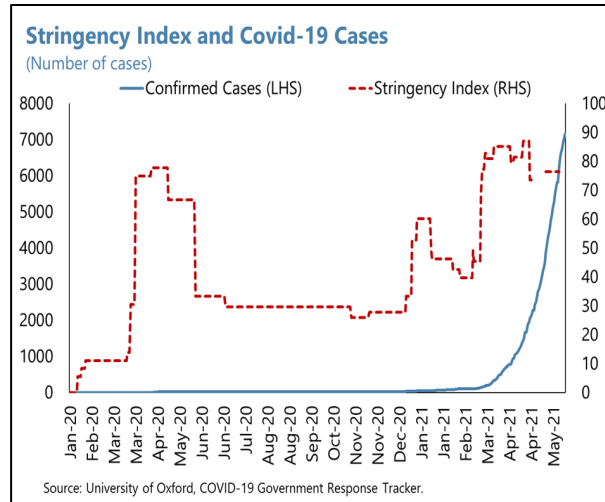


RECENT DEVELOPMENTS

3. Timor-Leste was highly effective in containing the spread of COVID-19 in 2020, however, recent developments have made it much more challenging. Just 44 confirmed cases of COVID-19 and no deaths occurred in 2020 amid severe restrictions imposed on contact with the outside world. From a low of 113 on February 28, the cumulative number of infections, however, has

been increasing fast since early March 2021 reaching 8,728 cases on June 21, and is yet to show a clear sign of slowing. Moreover, heavy rains resulting in nationwide floods in early April 2021 left about 16,000 people without homes and sheltering in refugee centers, complicating efforts to contain the spread of the pandemic.

4. Although Timor-Leste adopted a strong package to mitigate the impact of COVID-19, economic growth contracted sharply in 2020. The government spent 12.3 percent of non-oil GDP in COVID-19-related spending, including cash transfers to 334,000 households. However, with the pandemic-related disruptions to mobility and activity, real non-oil GDP is estimated to have declined 7.6 percent in 2020, the largest output contraction since independence in 2002. Government revenues remained broadly unchanged and current spending spiked driven by COVID-19 related spending. Together with a fall of public investment following long delays in passing the 2020 budget, they drove the fiscal deficit to decline to 26 percent of non-oil GDP (from 31 percent of non-oil GDP in 2019). Inflation pressures remained muted and private sector credit growth doubled to more than 10 percent year over year in 2020.



Timor-Leste Covid-19 Related Spending 2020
(percent of 2020 non-oil GDP)

Program	Spending
Adequate quarantines	0.3
Contact tracing	0.1
Isolation and treatment	1.3
Social support to affected population	8.7
o.w. cash transfers to households	4.2
o.w. transfers to social security	2.7
o.w. basic consumption basket	0.5
o.w. wage subsidy for private sector	0.4
o.w. electricity subsidy	0.2
o.w. credit moratorium	0.3
Prevention and mitigation of COVID	0.5
Food production	0.1
Rice purchase for food security	1.1
Total	12.3

Source: Ministry of Finance.

5. The external sector position in 2020 is estimated to be substantially weaker than implied by medium-term fundamentals and desirable policy settings. The current account balance moved from a surplus in 2019 to a deficit in 2020 against declining oil revenues. The underlying current account, defined as the actual current account deficit adjusted for temporary factors, is estimated at -23 percent of non-oil GDP in 2020, about 7 percent of non-oil GDP below the "norm" backed out from setting consumption as an annuity of total wealth (Annex III). Likewise, the real exchange rate is estimated to be overvalued by about 32 percent.

6. Timor-Leste has joined the "COVAX Facility" mechanism and will have free access to the COVID-19 vaccine for 20 percent of its population. The inoculations started on April 7 and 127,074 people (17 percent of the adult population) were vaccinated by June 20. The vaccine rollout will be sequenced as follows: in the first phase (April), frontline workers, immigration officers, and people with comorbidities; in the second phase (July) people over 60 years old, healthcare workers, community leaders, teachers, and market workers; in the third phase (October), the remaining adult population.

7. Although credit growth accelerated during the pandemic, financial stability has been maintained. Credit growth doubled to 10 percent year over year in 2020, driven by high lending to individuals in public administration jobs, and to a lesser extent by loans to businesses. The authorities introduced a credit moratorium for 3 months in August 2020, which led to 23 percent of total bank loans being restructured.

	Dec-17	Dec-18	Dec-19	Dec-20
Asset Quality				
Capital adequacy ratio ¹	32.9	27.7	28.6	27.9
Non-performing loans to total gross loans	13.5	5.6	5.6	2.0
Provision for loan losses to total gross loans	16.7	8.1	6.4	2.1
Earnings and Profitability				
Return on assets	1.4	1.1	1.7	2.3
Return on equity ¹	13.9	6.8	5.1	4.3
Liquidity				
Liquid assets to total assets	80.5	80.5	91.1	79.5
Memorandum items (In millions of U.S. dollars):				
Total assets	1,170	1,240	1384	1474
Total loans	227	222	250	281

Source: Central Bank of Timor-Leste.
¹ Covers BNCTL only.

This scheme has been reintroduced for 2021, with an extended duration of 9 months. Moreover, the credit guarantee scheme was extended to cover micro enterprises in addition to small and medium enterprises. Capital adequacy and liquidity ratios remain comfortably above the regulatory threshold, and nonperforming loan ratios remain low at 2 percent in end-2020.

OUTLOOK AND RISKS

8. Fiscal policy support will underpin a modest recovery in 2021 that will gain more momentum in the medium term. Real non-oil GDP growth in 2021 is projected at 1.8 percent, driven by higher government spending, a gradual rebound in private consumption, and the vaccination rollout that began in April. The 2021 budget was passed without delay in December and was followed by a revision in April 2021 aiming to respond to rising COVID-19 infections and the recent floods. The fiscal deficit is projected to increase from 26 percent of non-oil GDP in 2020 to 46 percent in 2021, 52 percent in 2022, and to stabilize around 35 percent in the medium term. The current account deficit will continue increasing as oil revenues decline. Under current policies, fiscal and external sustainability are at risk in the long term. With the drying up of oil revenues and current fiscal plans, the Petroleum Fund will be fully depleted in 21 years and the external sector position will remain weak for long. Inflation is projected to pick up, reflecting the increase in government spending and in energy prices. Real non-oil GDP growth is projected to stabilize at around 3 percent in the medium term, as structural constraints weigh on growth potential. The baseline does not include the development of the Greater Sunrise fields.¹

9. The uncertainty around the outlook is exceptionally high. An intensification of the pandemic or delays in the vaccination program could derail the recovery in the near term (Annex I). A sustained increase in the number of COVID-19 cases would hurt economic activity, as the planned resumption of infrastructure projects and activity in the services sector are further delayed. The inability to reach political consensus to implement the structural reforms needed to promote private

¹ There are no approved development plans for the Greater Sunrise fields.

sector development could undermine growth prospects over the medium term. The development of the Greater Sunrise fields could be an upside risk over the medium term. Yet, it could also be a downside risk if the project does not attract private investment for its development and the government makes big investments (Annex II).

Authorities' Views

10. The authorities broadly agreed with staff's outlook and risks. They project real non-oil GDP growth in 2021 at 2.0 percent, driven by public investment and a rebound in coffee exports. In the medium term, growth will be supported by (1) political stability (government coalitions were fragile in recent years); (2) improved budget execution underpinned by the new public financial management law; (3) many public-private partnership investment projects. They are still evaluating options for developing the Greater Sunrise fields and acknowledged the uncertainty around it. A prolonged pandemic is the main risk to the outlook since it would affect private investment, construction, household consumption, and the incipient tourism sector. Natural disasters are a risk to infrastructure and agricultural production. The evolution of international food prices is a risk to the inflation outlook.

POLICIES TO SECURE THE RECOVERY AND STRENGTHEN THE MEDIUM-TERM OUTLOOK

Against this background, policy discussions focused on: (1) the short-term challenge of dealing with a surge in COVID-19 cases and recovering from the devastating floods in early April, (2) the need to put fiscal policy on a sustainable footing amid the drying up of active oil fields, and (3) structural reforms to support the development of the non-oil private sector economy and generate jobs.

A. Providing Relief and Supporting the Recovery

11. The revised 2021 budget approved in late April includes an unprecedented fiscal response to deal with the recent twin shocks—COVID-19 and floods. Fiscal deficit is projected to expand. The COVID-19 Fund was increased to 17.7 percent of non-oil GDP while the Contingency Reserve Fund for response against natural disasters to 4 percent of non-oil GDP. The funds will be used to purchase vaccines, protective equipment, and more material for testing and treatment. They will also finance employment support, internet connections for students, a supplement for front-line workers, and a basic consumption basket.

12. In the near term, providing relief to mitigate the impact of the pandemic and the floods is appropriate with adequate transparency arrangements. The large increase in spending should prioritize the execution of measures aiming to protect the most vulnerable, support testing and tracing, strengthen the health system, and rehabilitate basic community infrastructure. While the authorities relaxed procurement safeguards in April 2021 to procure emergency medical supplies in a timely manner, they are doing procurement with the assistance of UNDP and World Health Organization as a safeguard (Annex V). The online procurement portal functions

intermittently and has no information on many important contracts. Amid that background, COVID-19-related spending and procurement processes should be reported in a full and more timely manner to mitigate vulnerabilities to corruption. The Anti-Corruption Commission intends to undertake audits of COVID-19-related spending. Given capacity constraints, the Anti-Corruption Commission could consider risk-based audits in coordination with the Supreme Audit Institution. It will also be important to ensure that the logistical, administrative, and financial requirements of the vaccine rollout are in place.

13. It would be important to intensify banking supervision to preserve financial stability.

The supervisors should have an accurate and timely picture of the financial system's health. This is particularly important in the context of the COVID-19-related credit moratorium scheme to avoid a spike in credit costs and nonperforming loans when the scheme expires. Early recognition of potential problems is also important—financial institutions should assess the borrower's capacity of repayment and performance of the loan under the revised terms, and be required to properly classify, provision, and monitor loans, including restructured loans.² In this regard, we welcome the introduction of an online reporting system for all financial institutions.

Authorities' Views

14. Their priority in 2021 is to strengthen pandemic- and flood-related economic relief measures and support the recovery.

They underscored that the budget revision in April 2021 successfully refocuses spending on relief and mitigation, and its execution is on track. Concurrently, providing relief to the most vulnerable continues to be challenging as many of them are unbanked and the government lacks information on them. In this regard, they pointed out delays in the new census and poverty survey which are now planned for 2022 and 2023, respectively, and will help better target transfers in the future. They underscored the strong support to their vaccination program from Australia and China that will provide 630,000 and 100,000 vaccines, respectively.

15. They acknowledged potential risks from the COVID-19-related financial sector easing measures, but also reiterated that supervision of financial institutions remains adequate.

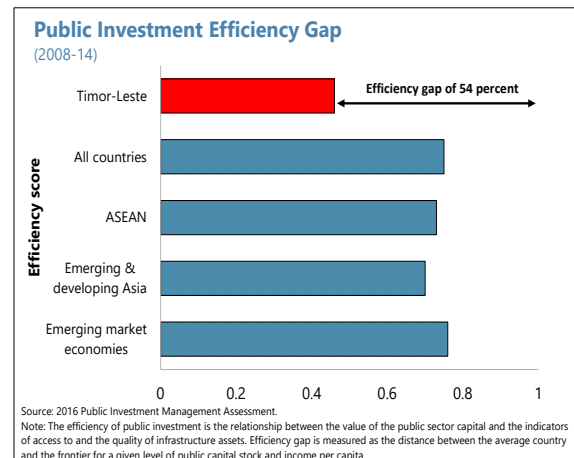
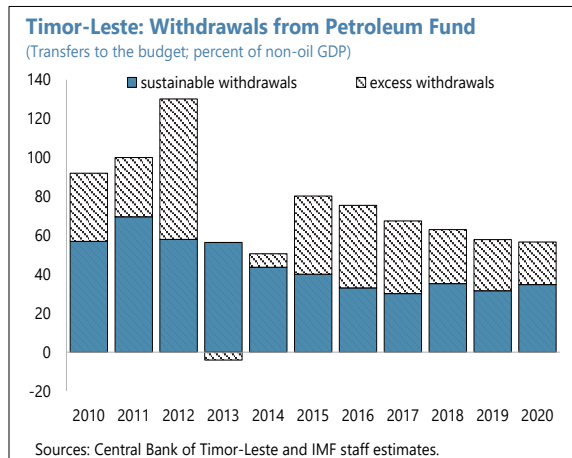
They underscored the strong stability of Timor-Leste's banking system, while noting potential weaknesses in one of the two other deposit taking institutions operating in rural areas which have been disproportionately impacted by the pandemic. They were confident that the reintroduction of the credit moratorium will help provide economic relief while agreeing with staff that the most vulnerable will not benefit much as they do not have access to formal credit. While acknowledging the risk that credit costs and nonperforming loans could spike once the credit moratorium expires, the authorities underscored recent efforts to improve the regulatory and supervisory framework, including enhanced reporting standards for the insurance sector.

² See IMF Special Series Note on COVID-19 "Banking Sector Regulatory and Supervisory Responses to Deal with Coronavirus Impact".

B. Ensuring Fiscal Sustainability

16. Timor-Leste has had a framework to manage its oil revenues that provides a benchmark for sustainable spending, but withdrawals in excess of the basic benchmark have been the norm. The framework (Annex IV) could be interpreted to be closer to the modified permanent income hypothesis approach under which frontloading of public investment financed with “excess withdrawals” from the Petroleum Fund is allowed for a temporary period to support economic growth. Although high public investment financed with excess withdrawals has been the norm since 2010, the growth dividend has been tepid, and government wealth has been eroded. Sustained excess withdrawals are possible because there are no limits to them (Annex IV), which may undermine the viability of the framework over time.

17. The authorities’ medium-term fiscal plans, published in the 2021 budget, envisage sustained government expenditure and persistent fiscal deficits that would deplete the Petroleum Fund and undermine the fiscal framework. The priority is on public infrastructure



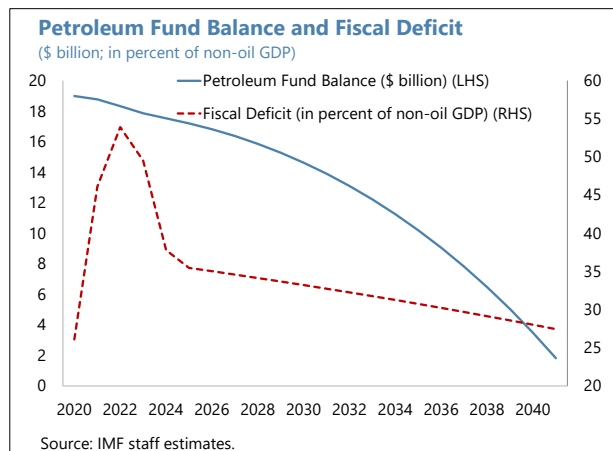
projects, especially in electricity, airports, and roads, that help promote private sector development. The baseline fiscal scenario assumes capital spending in line with historical project average implementation rates of 70 percent and that the Petroleum Fund will remain the main source of financing, in line with the current fiscal framework. Excess withdrawals go hand in hand with a declining Petroleum Fund balance and with moderate risks of debt distress, downgrading the low risk rating in the 2019 Article IV (Debt Sustainability Analysis Supplement).³ The 2021 budget also suggests that large fiscal imbalances (averaging 31.2 percent of non-oil GDP in 2027–41) will persist in the long term and that the Petroleum Fund balance will be depleted by 2042.⁴ This will lead to a fiscal cliff that will force a reduction of the fiscal

³ The revised risk rating reflects worse initial conditions and a downgrade in debt carrying capacity from medium to weak.

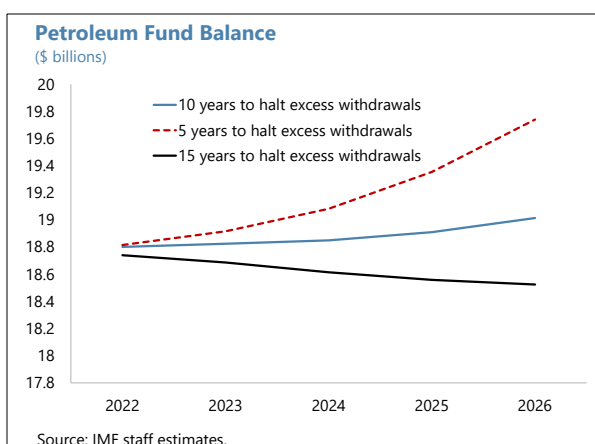
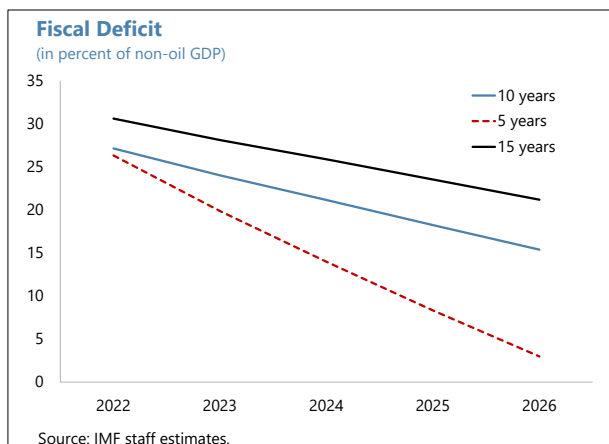
⁴ This assumes an annual nominal investment return of the Petroleum Fund at 5 percent, in line with the historical average return. If the investment return is 4 percent, then the Petroleum Fund is depleted in 2039. The lower the investment return, the sooner the Petroleum Fund is depleted (Annex I).

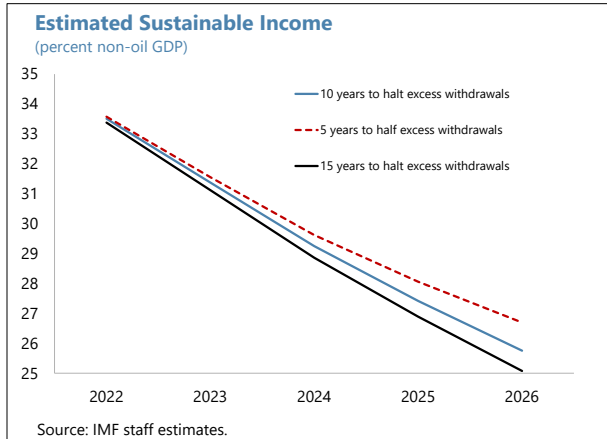
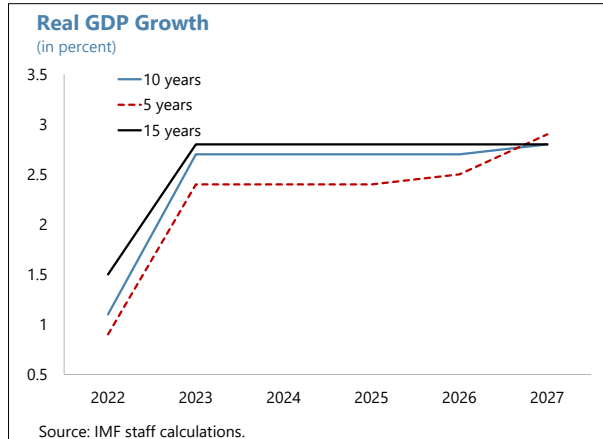
deficit by 27 percent of non-oil GDP, and hence stop the provision of basic public services, cause current account deficit financing shortages, and generate macroeconomic instability.

18. Once the pandemic is over, putting the fiscal position on a more solid footing should be a priority. The goal should be to stop relying on excess withdrawals from the Petroleum Fund to secure fiscal sustainability, underpinned by fiscal consolidation. Given that eliminating excess withdrawals would warrant a reduction of the fiscal deficit of about 30 percent of non-oil GDP, there should be a transition period allowing a gradual fiscal consolidation to contain the adverse impact on growth (and on development needs). A fiscal strategy to stop relying on excess withdrawals should be laid out in the 2022 budget and should be supported by more impediments to authorize excess withdrawals (e.g., requiring a special majority from Parliament rather than a simple one).



19. The sooner the exit from excess withdrawals, the higher the sustainable sources of income preserved, but the larger the fiscal consolidation (and growth costs) during the transition. If excess withdrawals are eliminated in 5/10/15 years, the Estimated Sustainable Income reaches 26.7/25.8/25.1 percent of non-oil GDP in 2026 and the average annual growth during 2022–26 is 1.8/2.4/2.6 percent. It is important to note that the growth cost differential across the three scenarios will widen as the fiscal multiplier increases. Similarly, the Estimated Sustainable Income differential across the three scenarios will widen as the investment return of the Petroleum Fund lowers. Hence, the case for a faster fiscal consolidation is stronger for a lower fiscal multiplier and for a lower investment return of the Petroleum Fund. The trade-off between preserving sustainable sources of income and the growth costs from fiscal consolidation could be improved by accompanying fiscal consolidation with structural reforms to tap the country’s growth potential (Section C).





20. Staff’s illustrative fiscal consolidation scenario shows a gradual reduction of excess withdrawals from the Petroleum Fund until they are halted in a period of 10 years. In this way, fiscal deficit (in percent of non-oil GDP) declines much faster than under the baseline, averaging 3 percent of non-oil GDP in 2027–41. The reduction in the fiscal deficit is supported by revenue mobilization and expenditure rationalization (paragraph 21). Public investment averages 16 percent of non-oil GDP in 2022–26, requiring a better selection of investment projects than in the baseline. Non-oil GDP growth is lower than in the baseline, averaging 2.4 percent in 2022–26, owing to the output costs of fiscal consolidation.⁵ The Petroleum Fund balance is higher than under the baseline, averaging \$21.4 billion in 2027–41, which generates higher sustainable sources of revenue both in the medium and long term to support government expenditures, thus putting fiscal and debt sustainability on a solid footing.

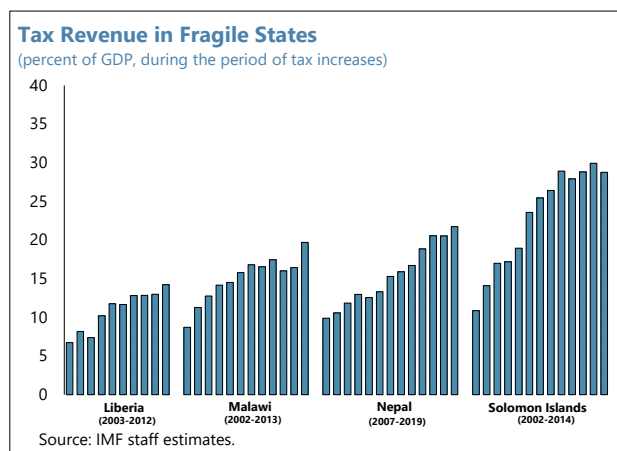
	Baseline scenario				Fiscal consolidation scenario	
	2020	2021	2022-26	2027-41	2022-26	2027-41
	Est.	Proj.	Proj.	Proj.	Proj.	Proj.
Total revenue	46.4	47.1	39.3	22.1	43.0	34.5
Domestic revenue	11.6	11.7	11.7	12.0	13.5	17.5
Estimated Sustainable Income	34.8	35.4	27.5	10.1	29.5	17.1
Total expenditure	72.5	93.1	81.6	53.2	64.2	37.5
Recurrent spending	62.3	74.6	57.4	42.5	48.1	28.2
Capital spending	10.2	18.6	24.2	10.8	16.0	9.4
Net lending	-26.1	-46.1	-42.3	-31.2	-21.2	-3.0
Financing						
PF excess withdrawal	24.5	43.2	39.4	30.6	18.3	2.4
Borrowing	1.6	2.9	2.9	0.6	2.9	0.6
Outstanding public debt	13.9	17.2	21.9	19.3	21.9	20.0
Petroleum Fund balance (\$ million)	18,991	18,785	17,553	10,415	18,880	21,392
Real non-oil GDP growth	-7.6	1.8	2.8	3.0	2.4	2.9
Current account balances	-19.3	-31.6	-39.4	-32.2	-31.4	-22.9

1/ In percent of non-oil GDP, unless otherwise specified.

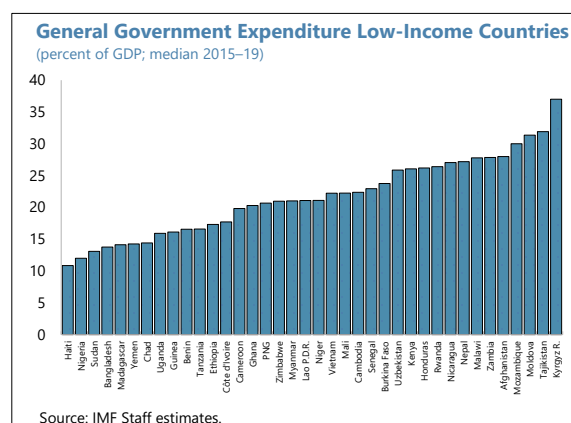
⁵ The fiscal multiplier is the change in real non-oil GDP growth induced by a change in the primary balance of 1 percent of non-oil GDP. It is estimated at 0.1 suggesting that much of government spending leaks into imports and/or is low quality to address supply side constraints (Timor-Leste Economic Report: Towards a Sustained Recovery, October 2020, World Bank).

21. Fiscal consolidation should be supported by revenue mobilization and expenditure rationalization.

- Domestic revenues are low compared to other countries, averaging 12 percent of non-oil GDP during 2015–19. Tax revenues, which account for about two thirds of domestic revenues, are also low. Domestic revenue mobilization should be underpinned by a revised tax procedure code and the adoption of a Value-Added Tax. A revision of the excise tax rates is warranted (as they have been unchanged since 2008, and many are set as value per unit). The statutory income tax rate is among the lowest in the world (so there could be some scope to increase). Strengthening tax administration to improve tax compliance with technical assistance from PFTAC should also be a priority. In staff’s fiscal consolidation scenario, domestic revenues average 13.5 percent of non-oil GDP in 2022–26 and 17.5 percent of non-oil GDP in 2027–41. This is in line with the actual increases in tax revenues—between 7–20 percentage points of GDP over a decade—in four fragile states that introduced tax reforms.⁶



- Expenditure rationalization should aim to gradually put the level of government expenditure in line with sustainable sources of revenue. Government expenditure in Timor-Leste averaged 74 percent of non-oil GDP in 2015–19, an outlier compared to other countries. The ongoing public expenditure review conducted by the World Bank will provide useful information to identify large ticket expenditures that could be cut. For example, expenditure in goods and services averaged 22 percent of non-oil GDP in 2015–19, mainly driven by spending on professional services. These include expenses related to temporary job contracts with the government, as well as payments to consultants and advisors that could be rationalized. Expenditures in transfers averaged 25 percent of non-oil GDP in 2015–19. These include pensions to veterans, old-age and disability pensions, capitalization of banks, and support to state-owned enterprises. These transfers should be reviewed and prioritized. Better selection of investment projects will allow improvement in the efficiency of public investment (paragraph 23). In staff’s fiscal consolidation scenario, government expenditure remains broadly constant in nominal terms at the 2019 level



⁶ See IMF Working Paper WP/20/143.

during 2022–32 and averages 64.2 percent of non-oil GDP in 2022–26 and 37.5 percent of non-oil GDP in 2027–41, close to 15 percentage points lower than in the baseline.

22. Addressing public financial management weaknesses is essential to strengthen the current fiscal framework and improve the quality of government spending.

- The budget has limited credibility, as there are significant adjustments to budget allocations, budget revisions, and systematic under execution (Figure 2, middle-right). Moreover, medium-term expenditure projections are not anchored by fiscal sustainability considerations. This hampers fiscal discipline and the quality of government spending. Against this background, improving the annual budget process by strengthening the strategic top-down elements, tightening expenditure controls, and enhancing fiscal reporting and transparency with technical support from IMF FAD and PFTAC is recommended.
- The budget for public investment is prepared by the Ministry of Planning and the budget for current spending by the Ministry of Finance. This separation leads to fragmentation and lack of consistency between different parts of the budget, including unfunded recurrent costs of capital projects. Projects are not subject to rigorous appraisal, and cost-benefit analysis and risk assessments are not systematically carried out. According to the 2016 Public Investment Management Assessment, the average public investment efficiency gap in Timor-Leste is about 54 percent, well below the average of 24 percent for emerging market economies and 30 percent for emerging and developing Asia. A full project appraisal to get the most out of the public investment program and consolidating capital and current budget preparations, including projection selection, in the Ministry of Finance is essential.
- The authorities developed a draft law, which is currently in Parliament, to replace the 2009 Budget and Financial Management Law (Law 13/2009). The draft law should be upgraded in line with international best practices to support improved macro-fiscal management, introduce a strategic planning phase and strengthen the various accountability arrangements, besides ensuring coherence with the entire budget management cycle. IMF FAD and PFTAC stand ready to provide technical support.
- Since 2015, several autonomous agencies were created to support line ministries aiming to make public services delivery more efficient. The resources transferred to those agencies are not scrutinized with the same degree of detail and their spending is not subject to the same reporting requirements as are line ministries, undermining governance and accountability. Staff recommended stemming the proliferation of autonomous agencies and channel government spending through the budget.

23. Adoption of digital fiscal tools offers significant upside potential through higher revenues, more efficient public spending, and greater transparency. The recent implementation of an online tax payments platform through the P24 system (paragraph 27) will help improve efficiency of tax collection and compliance. Plans to implement a unique digital ID for all citizens is

also welcome, which could help improve the ability to properly target social assistance, reduce fraud, and eliminate duplication of payments.

Authorities' Views

24. They concurred with staff recommendations on the need to shift focus towards fiscal sustainability once the pandemic is over. While they underscored that frontloading government spending is warranted to build basic infrastructure and diversify the economy, they also acknowledged the tradeoffs and the adverse consequences of depleting petroleum wealth and putting fiscal sustainability at risk. The authorities plan to adopt fiscal reforms to mobilize domestic revenue through introduction of the Value-Added Tax and a revised tax procedure code. In addition, the recent implementation of program-based budgeting will facilitate the prioritization of government spending. They also agreed on the need to improve the cost-benefit analysis of public investment projects, and to review the autonomous agencies that do not generate their own revenue.

25. They emphasized ongoing efforts to improve public financial management. Ongoing reforms aim to: (1) increase the stability of the budget by introducing a strong multi-year element and connecting it to the Multiannual Strategic Plan; (2) increase predictability by establishing a Medium-Term Fiscal Framework, approved and revised annually by Parliament; (3) increase transparency by overhauling budgeting and reporting and make it more frequent; and (4) increase comparability by adopting a chart of accounts and budget classifications based on international standards.

C. Structural Reforms to Bolster Medium-Term Growth Prospects

26. A number of structural barriers need to be lifted to unleash the country's growth potential. Human capital gaps in terms of the contribution of health and education to the next generation of workers are significant. The agriculture sector employs a large fraction of the labor force, but its productivity is low (Figure 5, bottom right) and the country relies heavily on food imports. There are several impediments to private investment, including restricted access to credit, obstacles to doing business, weak governance, and limited digital infrastructure (Figures 5 and 6). Low female labor force participation (Figure 7, bottom right) limits the contribution from labor.

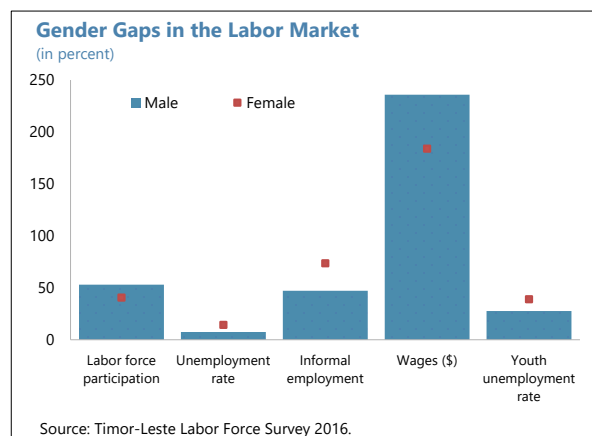
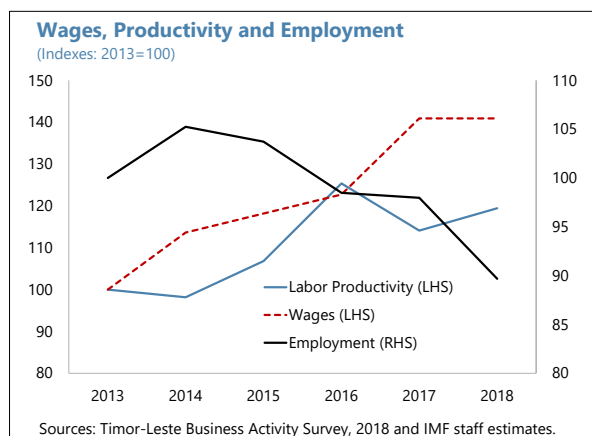
27. Government policies should prioritize strengthening human capital formation and higher productivity in the agricultural sector.

- Spending in health and education accounts for only 16 percent of the 2021 budget and should be expanded in future budgets. Investing in human capital is essential to develop a labor force able to adapt to future job opportunities and achieve economic diversification. In 2020, the Human Capital Index for Timor-Leste stood at 0.45, which means that a worker of the next generation in the country, will be only 45 percent as productive compared to what would be the case under the benchmark of complete education and full health.

- Spending in agriculture accounts for 2 percent of the budget and more than half of the population lives from agriculture. Low agricultural productivity is a key cause of food insecurity among rural households and contributes to high rates of child malnutrition. Although it is a key sector for poverty reduction and economic diversification, agriculture’s share in non-oil GDP declined from 28 percent in 2000 to 17 percent in 2019. Hence, increasing public investment to improve the productivity of agriculture, including in climate resilient agricultural practices and technology, should be a priority.⁷

28. Continued efforts to strengthen institutions, the business environment, and governance are important to limit corruption vulnerabilities and lower obstacles to job-creating investment. Governance in the petroleum sector is strong, as documented in the 2019 Article IV staff report. The new anti-corruption law adopted in September 2020 is also a step in the right direction (Annex V). Significant improvements in the justice system are nonetheless warranted. One critical gap is the lack of well-trained lawyers and judges, especially on commercial issues. This complicates contract enforcement and discourages private investment. Further efforts should continue to simplify licensing requirements and improve property rights, land registration, contract enforcement, and insolvency frameworks.

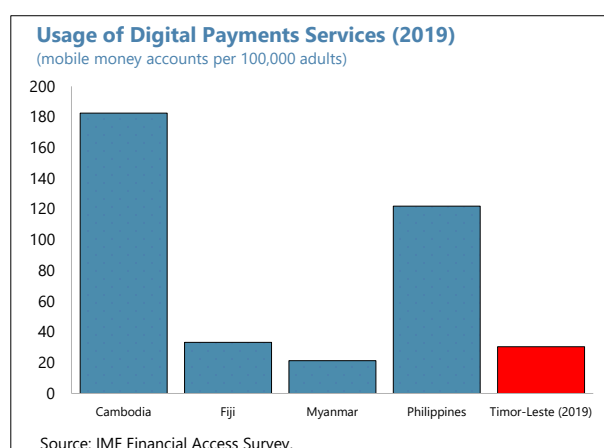
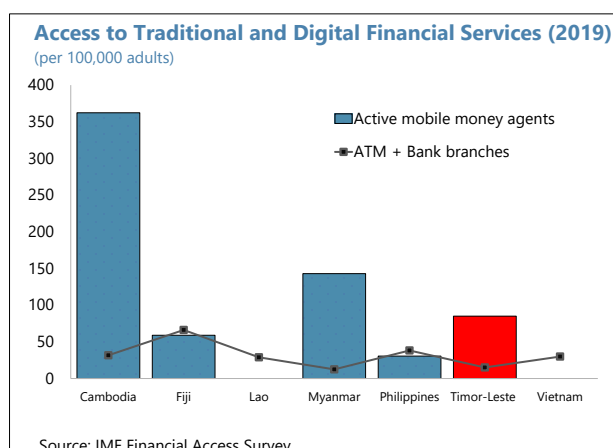
29. Labor market reforms should be prioritized to create good jobs and close gender gaps. Significant challenges remain in creating jobs for youth entering the labor force—45 percent of young people are neither employed nor studying in the education/training system. Growth in wages (likely driven by the public sector) has been outpacing growth in labor productivity, discouraging formal employment. Moreover, gender gaps in the labor market remain high—women have lower labor force participation, higher unemployment and share in informal jobs, and lower wages. Closing labor skills and gender gaps and raising labor productivity through strengthening worker skills and training remains key. There is also a need to assess the impact of public employment and wage setting on the private sector.



⁷ See Timor-Leste Economic Report: Moving Beyond Uncertainty (April 2019), World Bank Group.

30. The tourism sector is underdeveloped but could make a significant contribution to diversifying the economy. Tourism is relatively labor intensive, and with the right mix of products, services, and supporting infrastructure it could bring widespread economic benefits and create jobs for a burgeoning youth population. The national tourism policy should be reviewed and aligned with the post-COVID new normal focusing on eco-sustainable tourism services with lower density, higher value-added, and greater digitalization. A recent survey of Timor-Leste’s tourism firms also identified the need for better connectivity and digital enhancement of tourism marketing to support the sector’s recovery post COVID.⁸

31. Significant progress has been achieved in development of the payments system and the implementation of the financial inclusion agenda. The establishment of R-TIMOR (an electronic system of platforms that allows individuals and entities to make electronic payments) and the P24 system (connects the core banking system and payment networks) are remarkable achievements. In addition, the central bank authorized two electronic money wallet services in 2018–19 to help expand access to financial payments services in the villages and rural areas given the low accessibility to bank branches. This has contributed to a substantial improvement in financial inclusion—the share of population excluded from financial services has decreased from close to 40 percent in 2018 to 16 percent in 2020.



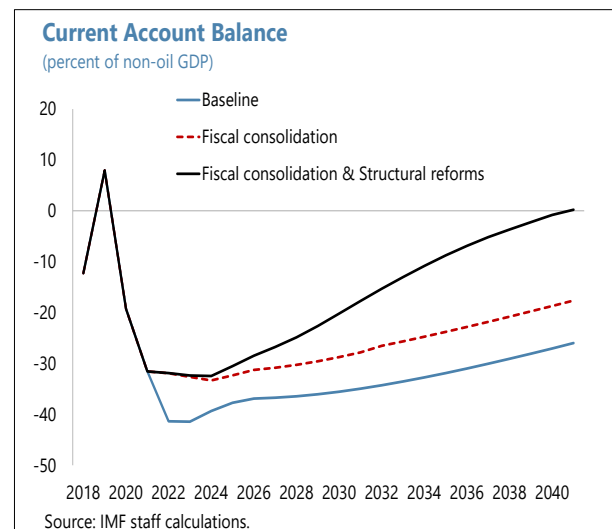
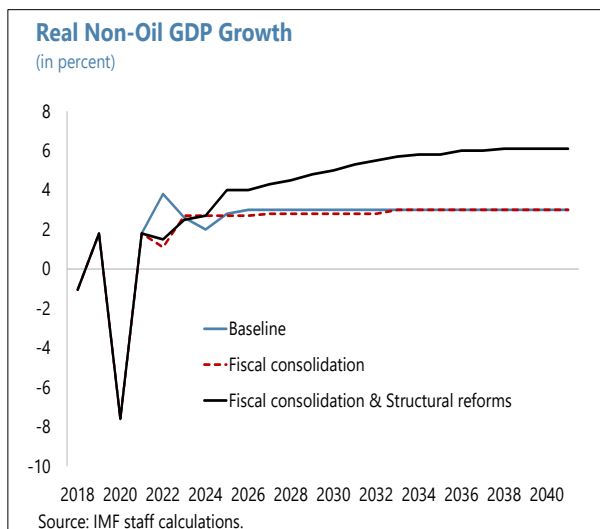
32. Nonetheless, limited access to credit for small and medium enterprises remains an important challenge reported by the private sector. Private sector credit to GDP ratios remain significantly lower than regional peers. Lending rates by commercial banks are usually higher than 10 percent and banks are reluctant to lend, despite the implementation of the credit guarantee scheme in 2019. Lending rates are expensive because property cannot be used as collateral in that there is no land registration. Digitalization could help generate alternative information to assess a borrower’s creditworthiness and help expand credit to those with no collateral or limited credit history.

⁸ See “Timor-Leste Tourism Reboot Initiative: A Productive Plan for the After COVID Era”, USAID’s Tourism for All Project (May 2020).

33. Upgrading the financial sector regulatory and supervisory framework and expanding digital financial literacy should be a priority. Timor-Leste’s prudential standards and risk assessment methodologies are still basic and need to be enhanced to capture the risk emerging in the financial sector, including those related to cybersecurity and data/consumer protection. Increasing digital financial literacy will also be crucial to expand the safe use of financial services. The central bank has already initiated some work on drafting a few prudential standards and credit risk management regulation including treatment of expected credit losses under IFRS 9 and this work should continue, with support from PFTAC.

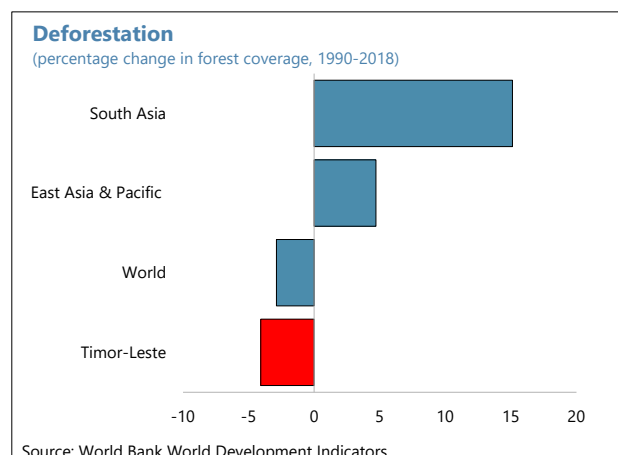
34. To tap digitalization’s potential, Timor-Leste should invest in information and communication technology. While significant progress has been made in expanding the mobile phone network (more than 95 percent coverage), Timor-Leste has the second slowest internet speed in the world and the slowest in the region, which is an impediment for private sector development. Moreover, with less than 30 percent of the population using the internet, the digital divide is widening (Figure 6, bottom charts).

35. Staff’s reform scenario illustrates the combined impact of fiscal consolidation with structural reforms to promote growth. It shows the gradual fiscal consolidation (paragraph 20) combined with structural reforms including higher quality of government spending, progress in facilitating doing business, addressing digital infrastructure and connectivity bottlenecks, increasing financial access, building human capacity, closing labor skill gaps, and strengthening the justice sector to improve governance. Real non-oil GDP growth is broadly similar to the baseline in the medium term (2021–26) as structural reform compensates for the growth cost of fiscal consolidation. With sustained improvement in productivity and competitiveness, the economic impact of structural reforms is higher over the long-term, where growth is projected to hover around 5–6 percent, significantly higher than under the baseline⁹, driven by higher private investment and the development of the non-oil private sector, reduced imports, and a larger exports base.



⁹ This growth performance would be closer to the average one by emerging and developing countries in 2010–19.

36. Strengthening disaster risk management and preparedness should also be prioritized. Although natural disasters such as floods and landslides are quite common, the floods triggered by Tropical Cyclone Seroja on April 4 were the most severe in decades. The United Nations reported 45 deaths, serious damage to infrastructure, and 16,000 people seeking shelter. Livestock, rice fields, and coffee plantations were also destroyed. There were no early warnings and, more importantly, no building codes preventing people from constructing precarious houses along riverbanks. Deforestation is also a problem in that it results in landslides.



37. The U.S. dollar as legal tender continues to serve Timor-Leste well. Use of the U.S. dollar can reduce external competitiveness when the currency appreciates against trading partners. However, dollarization remains appropriate given Timor-Leste's limited financial sector development, low institutional capacity, and its U.S. dollar-denominated major exports (coffee and petroleum).

38. Further efforts are required to improve statistical capacity. We commend the authorities for shortening the time lag in the release of the annual GDP data. Staff considers that data provision to the IMF is broadly adequate for surveillance, an upgrade compared to the 2019 Article IV. Yet, efforts to strengthen statistics should continue. Main areas of concern include inconsistencies between national accounts and balance of payments on petroleum-related transactions, unreliability of trade statistics, weaknesses in compilation and dissemination of government financial statistics, and delays in releasing financial soundness indicators data. The IMF is ready to provide technical assistance.

Authorities' Views

39. They noted recent efforts to prioritize investment in the people, especially the young. The increase of public expenditures in 2021 for health and education and the adoption of the Economic Recovery Plan (Annex VI) reflects a continued commitment to raise labor productivity. In addition, efforts to provide job opportunities abroad have continued, including through worker programs with Australia and Korea. However, they pointed out the need to expand the number of worker vocational training centers across the country.

40. They acknowledged that agriculture has been below potential, despite its economic importance. The 2021 budget will support the operation of irrigation schemes, water supply, and harvesting storage. The Economic Recovery Plan prioritizes the renewal of coffee plantations with new techniques enhancing productivity and the quality of coffee produced.

41. They are confident that the new anti-corruption law will help strengthen their fight against corruption. Efforts to conduct anti-corruption campaigns to raise public awareness, including in schools, are ongoing. However, the Anti-Corruption Commission highlighted human and financial resource constraints as key impediments to effective oversight and enforcement. They are implementing the second cycle of its United Nations Convention Against Corruption and expect to complete it by end-2021.

42. They acknowledged the need for improving the business environment, including through digitalization. They plan to: (1) streamline business registration and licensing, including by moving towards electronic certification; (2) strengthen the judicial system by developing extrajudicial means of dispute resolution, such as arbitration and mediation; and (3) transform internet connectivity by installing a submarine fiber-cable through Australia's northern territory to replace slow connection via satellite.

43. They agreed that structural reforms combined with fiscal consolidation are warranted to strengthen the external sector position. They nonetheless emphasized that improving competitiveness and diversifying the economy would take time. They underscored the importance of a stronger agricultural sector to increase commodity exports such as coffee and reducing food imports, to help close the current account gap.

44. They will promote the development of the tourism sector to support the economic recovery. In 2021, they will develop a new tourism policy and master plan and want to develop eco-tourism, combining accommodation with coffee and rice fields.

45. They emphasized that the modernization of the payment system, including via digitalization, has enhanced access to financial payments services and promoted a stable financial sector. The central bank is simultaneously focusing on financial literacy programs in elementary schools and launched the "Digital Village Program" to enhance safe financial inclusion. However, weaknesses in the collateral regime, contract enforcement and in credit registry information were noted as significant obstacles to credit expansion, especially to businesses.

46. They acknowledged that recent floods point to the need to enhance their disaster management strategy. They see a case for shifting towards climate-resilient infrastructure, strengthening the contingency fund, and starting territorial planning to identify and develop an integrated plan for urban and housing development, especially along riverbanks.

47. The regime of official dollarization has contributed to macroeconomic stability. Nonetheless, the central bank will review the advantages and disadvantages of the current regime versus alternative regimes.

48. The central bank is taking steps to strengthen the AML/CFT framework. The central bank introduced a new threshold for money transfer operators and e-wallet providers to report cash transactions over \$150,000 to the Financial Information Unit. The central bank has also implemented new supervisory tools to assess financial institutions' compliance with AML/CFT requirements.

49. The authorities expressed appreciation for ongoing IMF technical assistance and agreed on the need to strengthen statistics. They appreciated the ongoing technical assistance on the public financial management draft law and on balance of payments statistics. They conveyed interest in continued IMF support in the above-mentioned areas as well as Value-Added Tax implementation, and tax administration. They recognized that improved statistics are essential for better policy formulation, and plan to change the General Directorate of Statistics, currently under the Ministry of Finance, into a public institute with autonomy.

STAFF APPRAISAL

50. Timor-Leste has made significant progress in many areas since its independence, but faces significant near- and medium-term challenges. The most pressing issue in the near term is containing the adverse impact from the COVID-19 pandemic. Although the country was highly effective in limiting the spread of infections during 2020, the number of cases has been increasing fast since March 2021. Moreover, heavy floods in early April 2021 left many people without homes and sheltering in refugee centers, complicating efforts to halt the spread of the virus.

51. In the near term, the focus should be on accelerating the ongoing rollout of vaccines and on providing relief to the most vulnerable. The government appropriately responded to the twin shocks—COVID-19 outbreak and floods—with a strong fiscal package aiming to mitigate the adverse impact on the most vulnerable. A key priority should be to vaccinate the adult population as soon as possible and to provide financial relief to the most vulnerable people affected by the pandemic and the recent floods.

52. Post COVID, with oil revenues coming to a halt, fiscal consolidation is warranted to ensure long-term fiscal and debt sustainability. The 2021 budget envisages a frontloading of government spending in the medium term, large fiscal imbalances persisting in the long term, and depletion of the Petroleum Fund balance. This fiscal cliff scenario, the associated macroeconomic instability and adverse social impact should be avoided. A fiscal reform strategy aiming to put the fiscal position on a sustainable footing should be laid out in the 2022 budget.

53. Addressing public financial management weaknesses will help improve the quality of government spending and strengthen the fiscal framework. Public investment projects should focus on high-return projects by making them subject to thorough cost-benefit analysis. The basic public financial management draft law should be aligned with international best practices, with technical support from the IMF. Budget credibility should be enhanced and fiscal transparency improved to limit corruption vulnerabilities.

54. Structural reforms should underpin the diversification of the economy. Efforts to improve the business environment, strengthen governance, raise labor productivity, and increase financial deepening, including through harnessing digitalization, would help promote private sector development, create jobs, improve competitiveness, and support the external position. Improving the productivity of the agriculture sector is important given the large fraction of the population

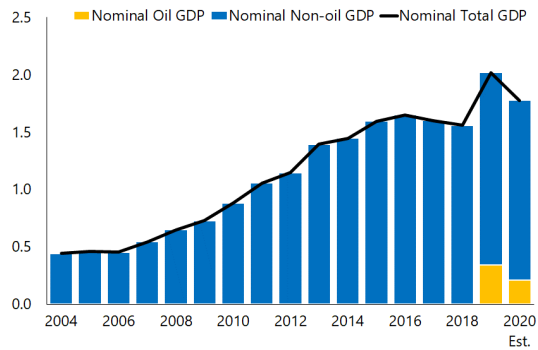
dedicated to that activity. Strengthening disaster risk management and preparedness is also crucial, given the country's vulnerability to climate shocks. Likewise, improving data quality is vital to support policy making.

55. It is proposed that the next Article IV consultation take place on the standard 12-month cycle.

Figure 1. Timor-Leste: Real Sector Developments

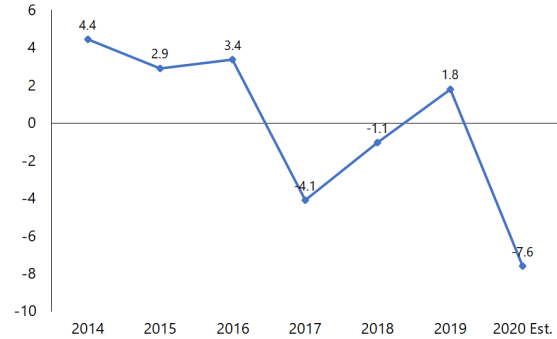
Oil production is part of GDP since September 2019 following the treaty on maritime boundaries signed with Australia.

Nominal GDP: Total, Oil, and Non-Oil
(In billions of US dollars)



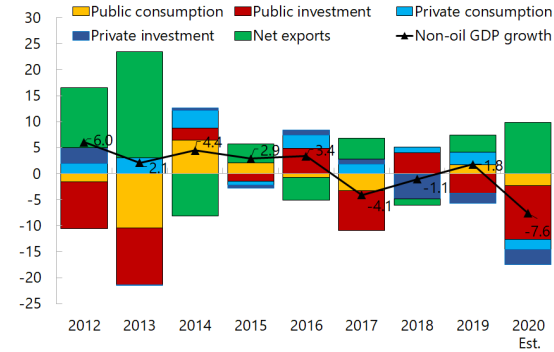
The pandemic has hit hard when the economy was still slowly recovering from recession in 2017–2018.

Real Non-Oil GDP
(Annual percentage change)



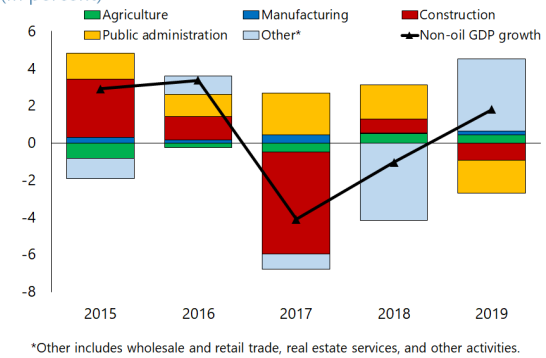
Non-oil GDP has been largely driven by government spending on the demand side...

Real Non-Oil GDP Expenditure: Contributions to Growth
(In percent)



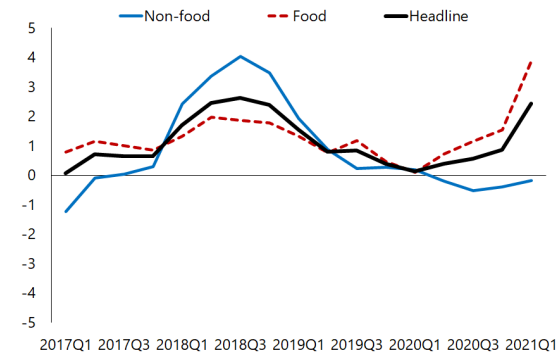
...and by construction and public administration on the supply side.

Real Non-Oil GDP Production: Contributions to Growth
(In percent)



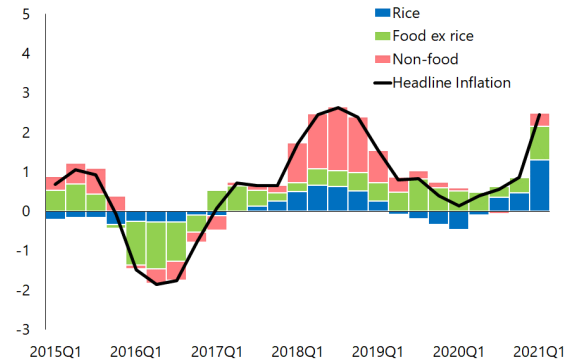
Inflation has been low but food prices are picking up amid the pandemic...

Food and Non-food Prices
(In percent, y/y)



...reflecting increase in both domestic and international rice prices.

Contribution to Headline Inflation
(In percent, y/y)

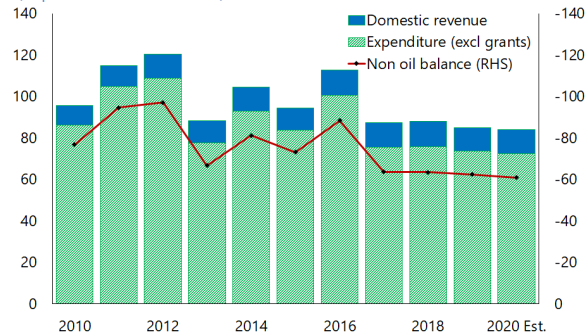


Sources: General Directorate of Statistics; and IMF staff estimates.

Figure 2. Timor-Leste: Fiscal Sector Developments

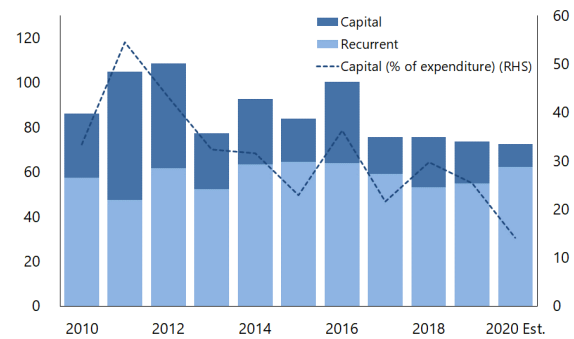
Non-oil domestic revenue has been financing a small fraction of government spending.

Non-Oil Balance
(In percent of Non-Oil GDP)



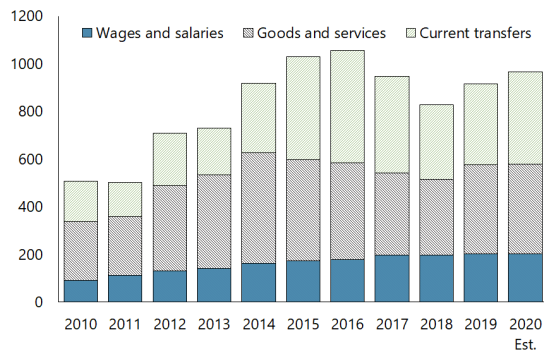
While the share of capital spending has continued to fall...

Expenditure Shares
(In percent of Non-Oil GDP, excl. donor projects)



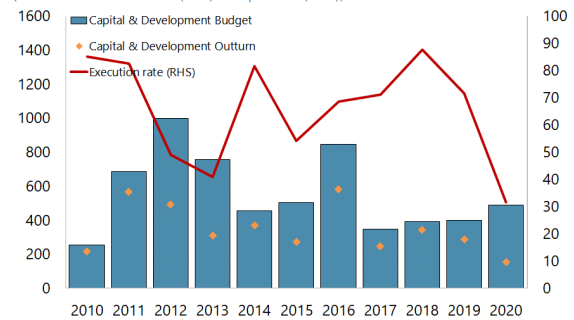
...recurrent spending has been increasing steadily since 2018

Recurrent Spending
(In millions of US dollars)



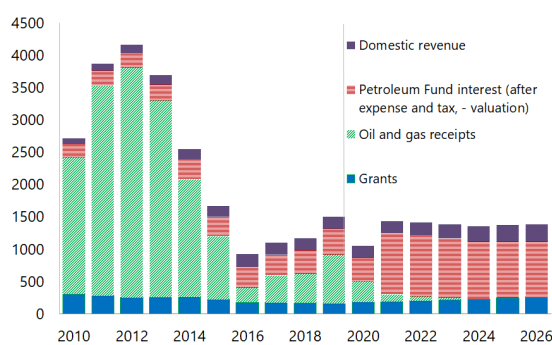
There has been a significant gap between capital spending plans and execution.

Capital and Development Expenditure: Budget and Execution Rate
(In millions of US dollars (LHS) and percent (RHS))



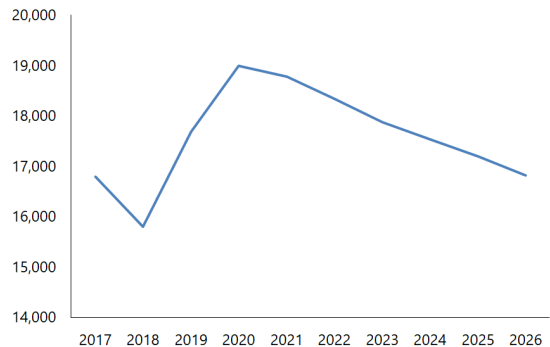
With oil and gas receipts depleting in 2023, there is a greater need to increase domestic revenues...

Revenue Sources
(In millions of US dollars)



...and to reduce excess withdrawals to avoid depleting the PF.

Petroleum Fund Balance
(In millions of US dollars)



Sources: Ministry of Finance of Timor-Leste; IMF staff calculations and estimates.

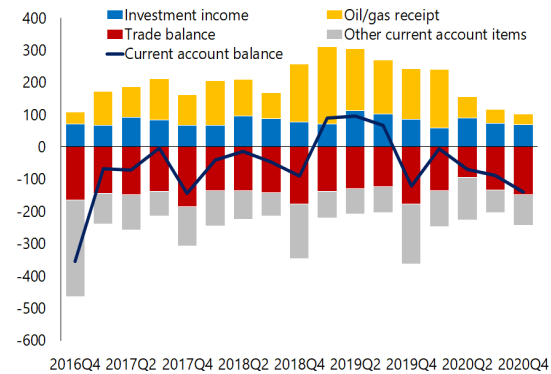
Notes: ESI= Estimated Sustainable Income; PF= Petroleum Fund.

Figure 3. Timor-Leste: External Sector Developments

The current account weakened due to lower oil/gas revenues.

Current Account Balance

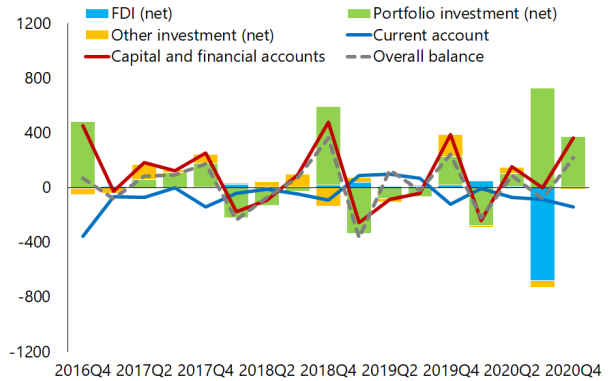
(In millions of US dollars)



Current account deficits have largely been financed by withdrawals from the PF (portfolio investment).

Financial Account Balance

(In millions of US dollars)



Non-oil exports rose in 2020 but remain volatile...

Goods Exports and Imports Growth

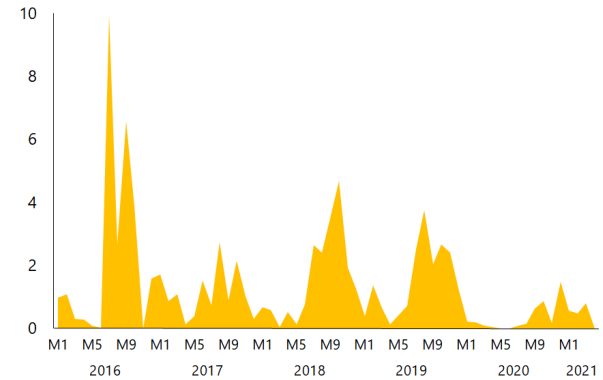
(In percent, y/y)



...reflecting fluctuations in coffee exports, the single-largest export item after oil/gas.

Coffee Exports Value

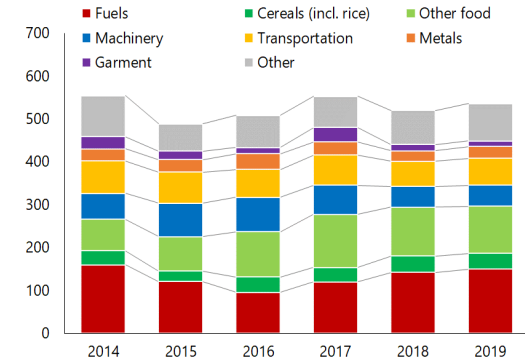
(In millions of US dollars)



Fuel and food account for more than one-half of total goods import.

Goods Imports

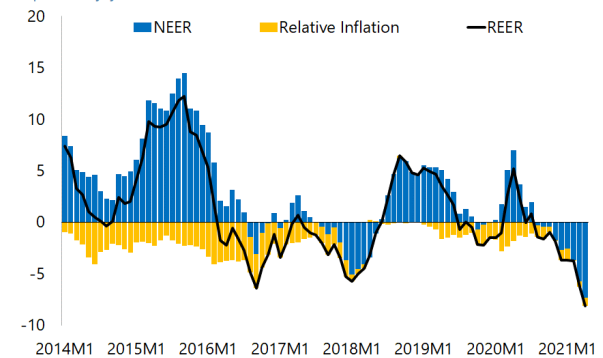
(In millions of US dollars)



The REER appreciated in 2020H1 and since then has been depreciating, mainly due to the U.S. dollar weakening vis-à-vis trading partners.

Real Effective Exchange Rate: Contribution to Change

(In percent, y/y)

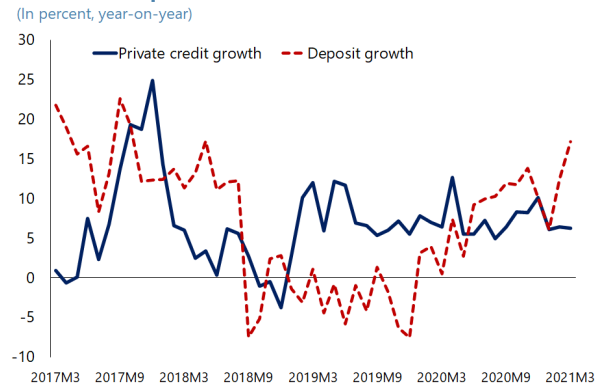


Sources: Central Bank of Timor-Leste; General Directorate of Statistics; and IMF staff estimates.

Figure 4. Timor-Leste: Monetary and Financial Sector Developments

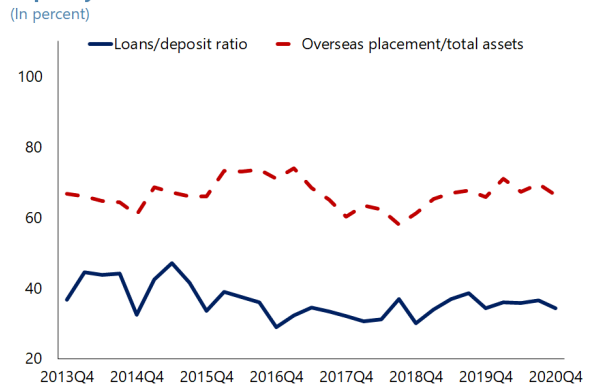
Private sector credit growth has been growing since 2019 and deposit growth has started to rise after the pandemic.

Credit and Deposit Growth



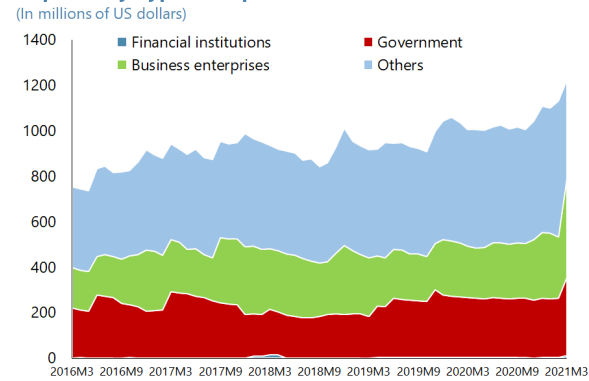
The banking sector is highly liquid with a large overseas placement of bank assets.

Liquidity Ratios



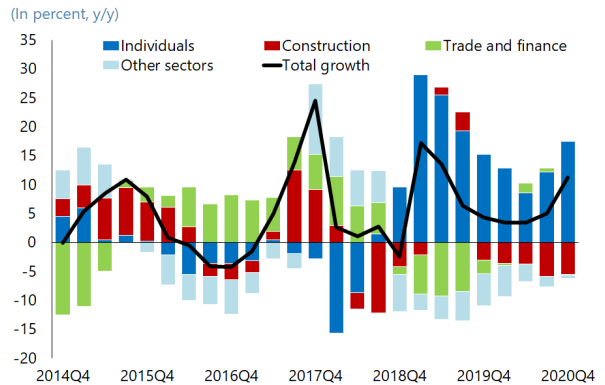
Deposits by the private sectors rose in 2020 while those of the public sector remained broadly stable.

Deposits by Type of Depositors



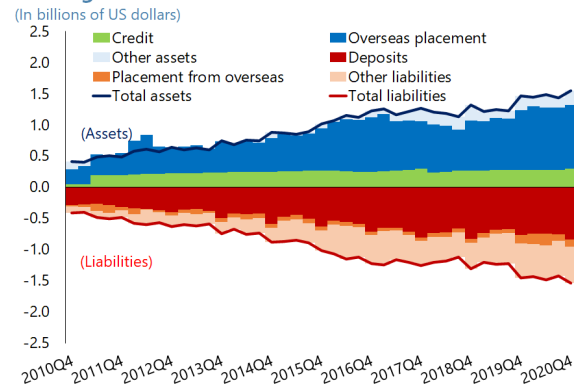
Recent private sector credit has been growing driven by loans to individuals.

Loans to Private Sector: Contribution to Growth



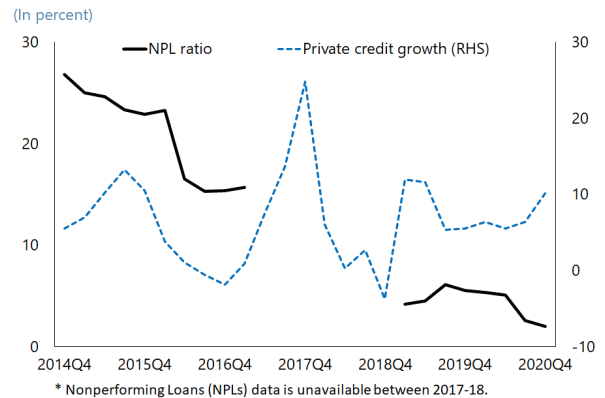
Overseas placement of assets constitutes a significant share of the assets of the banking sector.

Banking Sector Balance Sheet



The impact on NPLs by the pandemic related recession might be observed with a lag.

NPL Ratio and Private Sector Credit Growth



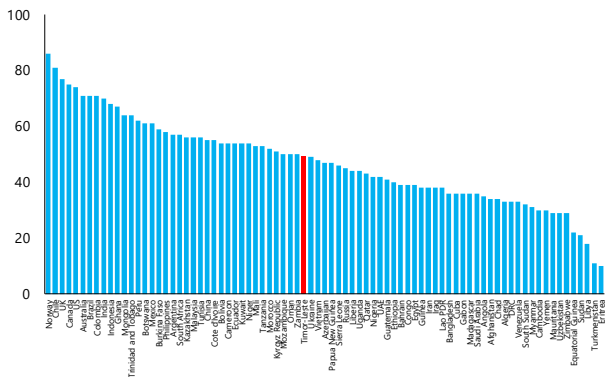
Sources: Central Bank of Timor-Leste; General Directorate of Statistics; and IMF Statistics Department.

Figure 5. Timor-Leste: Business Environment and Governance

The governance of the Timor-Leste's Petroleum Fund is strong by international standards, and...

Resource Governance Index

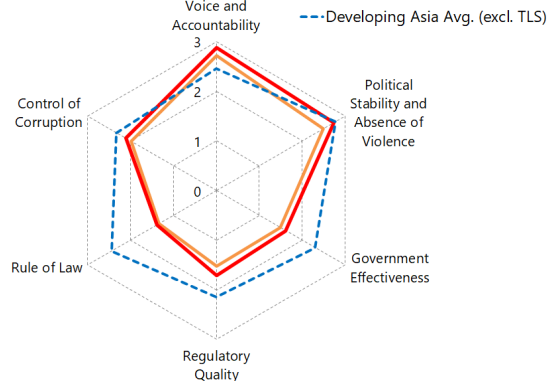
(Index ranges from 0-100, higher is better; 2017)



...the governance of the public sector is improving but lagging somewhat behind peers.

Governance Indicators

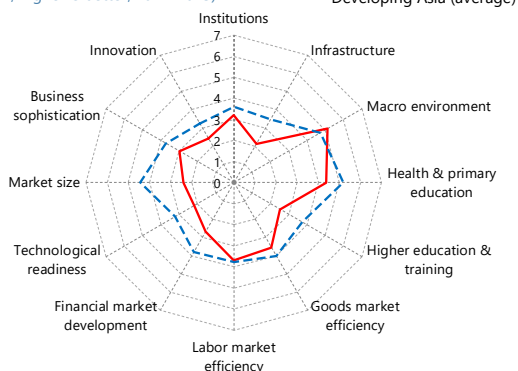
(Index rescaled: 0 = worst, 5 = best)



Education and infrastructure gaps undermine competitiveness.

Global Competitiveness Index

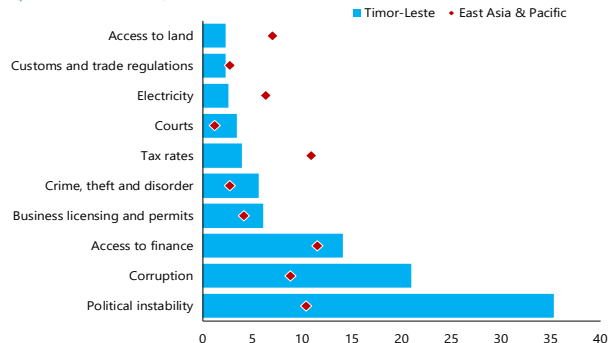
(Score 1-7, higher is better; 2014-2015)



Political instability, governance and limited financial access are among the major business constraints perceived by firms.

Top ten business environment constraints

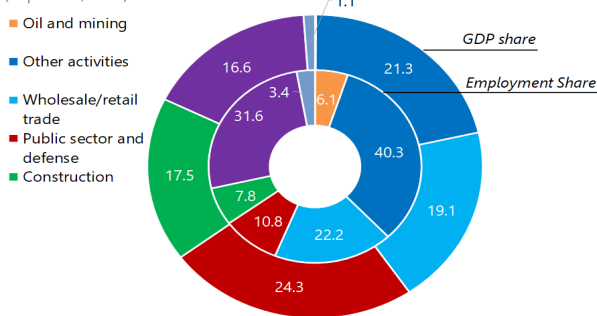
(percent of firms, 2015)



Agriculture and services absorb a large fraction of employment, despite their small share in GDP...

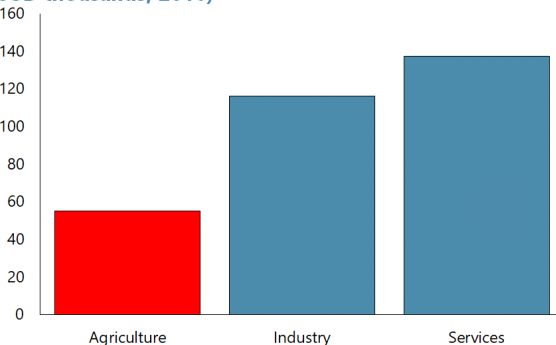
Employment and Real GDP Share

(In percent; 2016)



...so labor productivity in agriculture is very low.

Labor Productivity (USD thousands, 2016)

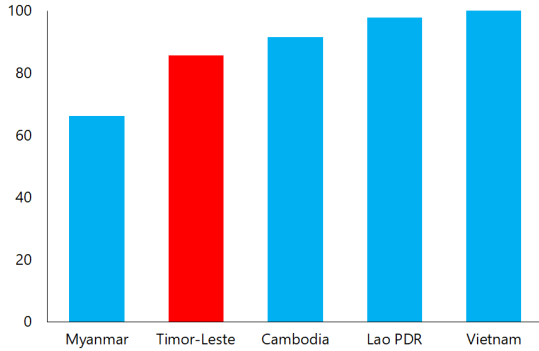


Sources: Labor Market Survey, 2016; Worldwide Governance Index, 2019; Natural Resource Governance Institute, Resource Governance Index 2017; the World Economic Forum Global Competitiveness Index 2014-2015; World Bank Enterprise Survey, 2015 and World Bank Development Indicators, latest available data.

Figure 6. Timor-Leste: Challenges to Growth—Comparison with Regional Peers

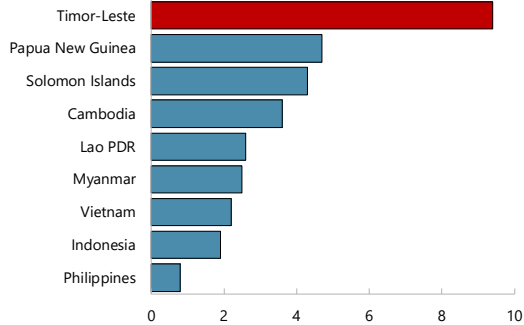
Access to electricity improved considerably and electricity tariffs are largely subsidized...

Access to Electricity
(In percent of population, 2018)



...but the losses due to electrical outages are high.

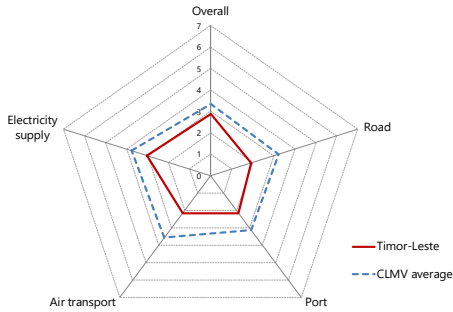
Losses due to electrical outages
(In percent of sales; 2015)



* 2016 data for Cambodia, Lao PDR, Myanmar.

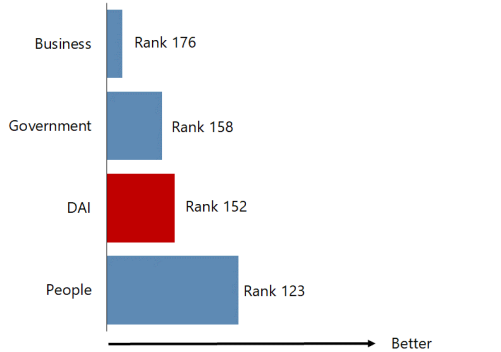
The perceived quality of infrastructure is lower than regional peers.

Quality of Infrastructure
(Score 1-7, higher is better; 2014-15)



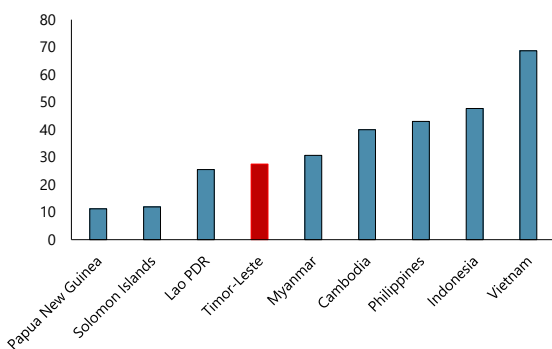
Mobile penetration is high but digital adoption in business is at low level.

Digital Adoption Index
(Rank out of 183, 2016)



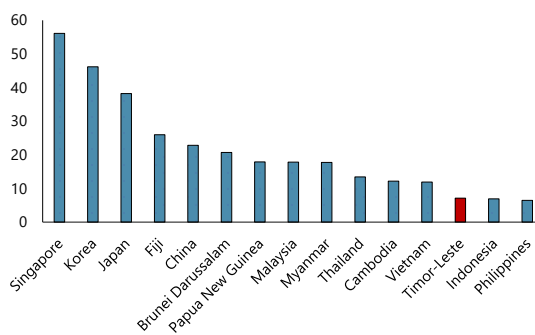
Access to internet is low...

Individuals using the Internet
(Percent of population, 2019)



...and the service has poor quality.

Southeast Asia: Average Internet Speeds in 2020
(megabytes per second)



Sources: World Bank Development Indicators; World Economic Forum Global Competitiveness Index 2014-2015; Statista, and IMF staff calculations.

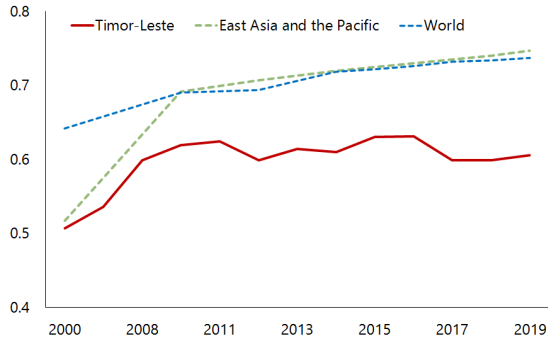
Note: CLMV denotes Cambodia, Lao PDR, Myanmar, and Vietnam.

Figure 7. Timor-Leste: Social Economic Development

Timor-Leste's human development had improved steadily until mid-2010s but has been stagnating recently...

Human Development Index (HDI)

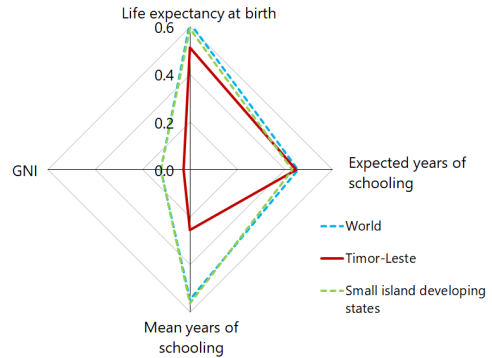
(Higher is better)



...reflecting lags among peers in average years of schooling.

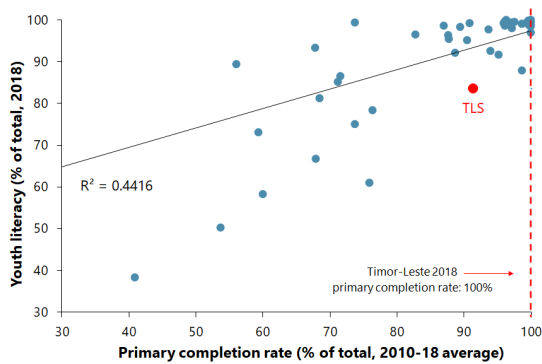
HDI Components

(Index rescaled; 0=worst, 1=best; 2019)



Improved completion rates of basic education achieved in recent years will help to raise the literacy rate...

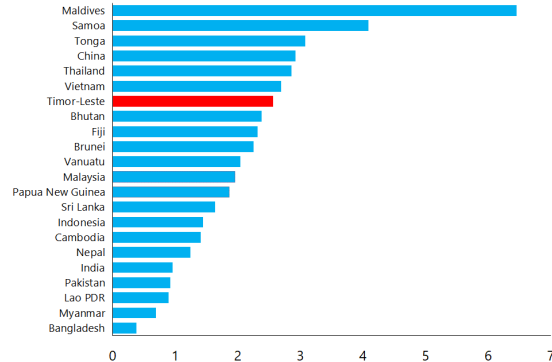
Human Capital: Youth Literacy



...and increasing the level and quality of public spending on health would help strengthen human capital.

Health Expenditure: Selected Developing Asian Economies

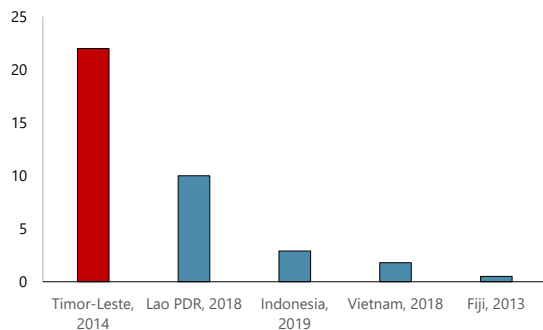
(In percent of GDP, 2017)



Poverty remains high...

Poverty Headcount Ratio at \$1.90 a Day

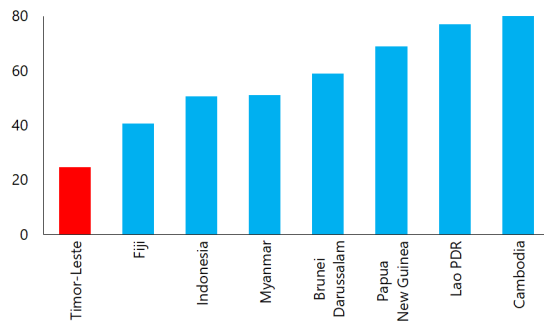
(Percent of population, 2011 PPP)



...while raising female participation in the labor market is a challenge.

Female Labor Force Participation Rate

(In percent of female population ages 15+, 2018)



Sources: United Nations, Human Development Report, 2020; World Bank, World Development Report, 2020; and World Bank, World Development Indicators.

Table 1. Timor-Leste: Selected Economic Indicators, 2016–22

Non-oil GDP at current prices (2019): US\$1.674 billion
 Population (2019): 1.293 million
 Non-oil GDP per capita (2019): US\$1,295
 Quota: SDR 25.6 million

	2016	2017	2018	2019	2020	2021	2022
					Est.	Proj.	Proj.
(Annual percent change)							
Real sector							
Real Non-oil GDP	3.4	-4.1	-1.1	1.8	-7.6	1.8	3.8
CPI (annual average)	-1.5	0.5	2.3	0.9	0.5	1.6	2.5
CPI (end-period)	0.0	0.6	2.1	0.3	1.2	2.0	3.0
(In percent of Non-oil GDP, unless otherwise indicated)							
Central government operations							
Revenue	56.1	53.0	58.5	52.5	58.2	58.8	56.1
Domestic revenue	12.1	11.9	12.2	11.2	11.6	11.7	11.7
Estimated Sustainable Income (ESI)	33.0	30.1	35.3	31.6	34.8	35.4	32.7
Grants	11.0	11.0	11.0	9.7	11.8	11.8	11.8
Expenditure	111.5	86.6	86.7	83.4	84.3	104.9	110.0
Recurrent	64.0	59.2	53.1	54.9	62.3	74.6	60.5
Net acquisition of nonfinancial assets	36.5	16.3	22.6	18.8	10.2	18.6	37.8
Donor project	11.0	11.0	11.0	9.7	11.8	11.8	11.8
Net lending/borrowing	-55.4	-33.6	-28.2	-30.9	-26.1	-46.1	-53.9
(Annual percent change, unless otherwise indicated)							
Money and credit							
Deposits	14.1	12.3	2.8	-7.5	10.1	3.8	6.9
Credit to the private sector	-1.8	24.8	-3.8	5.5	10.1	6.6	6.9
Lending interest rate (percent, end of period)	14.5	12.5	14.5	16.3	11.3	...	...
(In millions of U.S. dollars, unless otherwise indicated)							
Balance of payments							
Current account balance 1/ (In percent of Non-oil GDP)	-544 -33	-284 -18	-191 -12	133 8	-302 -19	-513 -32	-719 -41
Trade balance	-546	-615	-589	-566	-510	-558	-657
Exports 2/ Imports	20 567	17 631	25 613	26 592	17 527	29 587	33 691
Services (net)	-569	-343	-349	-357	-269	-318	-370
Primary Income	544	735	843	1,126	620	328	320
Secondary Income	26	-61	-96	-70	-143	-74	-79
Overall balance	-157	263	129	-18	0.2	-177	144
Public foreign assets (end-period) 3/ (In months of imports)	16,125 160	17,343 195	16,477 187	18,348 212	19,647 280	19,265 241	18,964 198
Exchange rates							
NEER (2010=100, period average)	130.0	129.7	130.9	134.1	135.8	...	...
REER (2010=100, period average)	143.5	140.7	141.7	143.4	143.3	...	...
Memorandum items							
Nominal Non-oil GDP (in millions of U.S. dollars)	1,651	1,599	1,560	1,674	1,565	1,625	1,738
Nominal Non-oil GDP per capita (in U.S. dollars)	1,354	1,286	1,230	1,295	1,187	1,210	1,269
(Annual percent change)	1.6	-5.0	-4.4	5.2	-8.3	1.9	4.9
Crude oil prices (U.S. dollars per barrel, WEO) 4/ Petroleum Fund balance (in millions of U.S. dollars) 5/ (In percent of Non-oil GDP)	43 15,844 960	53 16,799 1,050	68 15,803 1,013	61 17,692 1,057	41 18,991 1,213	59 18,785 1,156	55 18,340 1,055
Public debt (in millions of U.S. dollars) (In percent of Non-oil GDP)	77 4.7	106 6.6	145 9.3	193 11.5	218 13.9	279 17.2	330 19.0
Population growth (annual percent change)	1.9	2.0	2.0	2.0	2.0	1.9	1.9

Sources: Timor-Leste authorities; and IMF staff estimates and projections.

1/ Excludes trade in goods and services of entities located in the Joint Petroleum Development Area which are considered non-resident entities until August 2019.

2/ Excludes petroleum exports, the income of which is recorded under the income account.

3/ Includes Petroleum Fund balance and the central bank's official reserves.

4/ Simple average of UK Brent, Dubai, and WTI crude oil prices based on April 2021 WEO assumptions.

5/ Closing balance.

Table 2. Timor-Leste: Summary of Central Government Operations, 2017–26 1/

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
				Est.	Proj.	Proj.	Proj.	Proj.	Proj.	
(In millions of U.S. dollars)										
Revenue	848	912	879	910	956	975	988	998	1,020	1,046
Domestic revenue	190	191	188	182	189	203	217	231	247	265
Taxes	127	128	122	119	121	130	139	147	158	169
Non-tax revenue	57	63	65	63	68	73	78	83	89	96
Estimated Sustainable Income	482	550	529	544	576	568	553	536	526	516
Donor Projects	177	171	162	184	191	204	218	231	247	265
Expenditure	1,385	1,352	1,396	1,319	1,705	1,911	1,906	1,741	1,766	1,835
Expenditure excluding donor projects	1,208	1,181	1,234	1,135	1,514	1,707	1,688	1,510	1,519	1,570
Expense	1,124	1,000	1,081	1,159	1,403	1,255	1,308	1,363	1,422	1,484
Recurrent	947	829	920	975	1,212	1,051	1,090	1,132	1,175	1,220
Compensation of employees	197	197	203	202	209	217	225	234	243	252
Goods and services	344	317	374	378	392	407	422	439	455	472
Current transfers	405	312	339	387	406	420	436	451	467	484
Interest payment	1	2	3	2	5	6	7	8	10	11
Donor projects	177	171	162	184	191	204	218	231	247	265
Net acquisition of NFA	261	352	314	160	302	656	598	378	344	351
Gross operating balance	-276	-88	-203	-249	-447	-280	-320	-365	-402	-438
Net lending/borrowing	-537	-440	-517	-409	-749	-936	-918	-743	-746	-789
Statistical discrepancy	36	-27	-170	-76	0	0	0	0	0	0
Net financial transactions	-573	-412	-347	-333	-749	-936	-918	-743	-746	-789
Net acquisition of FA	-544	-373	-299	-308	-688	-886	-867	-689	-688	-727
Foreign	0	0	0	0	0	0	0	0	0	0
Domestic (net)	-544	-373	-299	-308	-688	-886	-867	-689	-688	-727
Equity	-597	-432	-440	-342	-688	-886	-867	-689	-688	-727
<i>of which, Excess withdrawal from PF</i>	-597	-432	-440	-342	-688	-886	-867	-689	-688	-727
Change in cash/deposit	53	59	141	34	0	0	0	0	0	0
Net incurrence of liabilities	29	39	48	25	61	51	51	54	58	62
Foreign	29	39	52	29	70	66	69	72	76	80
Domestic	0	0	0	0	0	0	0	0	0	0
Amortization			3.3	3.8	8.9	15.2	18.1	18.2	18.3	18.4
(in percent of nominal non-oil GDP)										
Revenue	53.0	58.5	52.5	58.2	58.8	56.1	53.3	50.7	48.5	46.4
Domestic revenue	11.9	12.2	11.2	11.6	11.7	11.7	11.7	11.7	11.7	11.8
Taxes	8.0	8.2	7.3	7.6	7.4	7.5	7.5	7.5	7.5	7.5
Non-tax revenue	3.6	4.0	3.9	4.0	4.2	4.2	4.2	4.2	4.2	4.3
Estimated Sustainable Income	30.1	35.3	31.6	34.8	35.4	32.7	29.8	27.3	25.0	22.9
Expenditure	86.6	86.7	83.4	84.3	104.9	110.0	102.8	88.5	84.0	81.5
Expenditure excluding donor projects	75.6	75.7	73.7	72.5	93.1	98.2	91.0	76.7	72.2	69.7
Expense	70.3	64.1	64.6	74.0	86.3	72.2	70.6	69.3	67.6	65.9
Recurrent	59.2	53.1	54.9	62.3	74.6	60.5	58.8	57.5	55.9	54.1
Compensation of employees	12.3	12.6	12.1	12.9	12.9	12.5	12.2	11.9	11.6	11.2
Goods and services	21.5	20.3	22.3	24.1	24.1	23.4	22.8	22.3	21.6	21.0
Current transfers	25.3	20.0	20.3	24.7	25.0	24.2	23.5	22.9	22.2	21.5
Donor projects	11.0	11.0	9.7	11.8	11.8	11.8	11.8	11.8	11.8	11.8
Net acquisition of NFA	16.3	22.6	18.8	10.2	18.6	37.8	32.2	19.2	16.3	15.6
Gross operating balance	-17.3	-5.6	-12.1	-15.9	-27.5	-16.1	-17.3	-18.6	-19.1	-19.5
Net lending/borrowing	-33.6	-28.2	-30.9	-26.1	-46.1	-53.9	-49.5	-37.8	-35.4	-35.0
Statistical discrepancy	2.3	-1.8	-10.1	-4.8	0.0	0.0	0.0	0.0	0.0	0.0
Net financial transactions	-35.8	-26.4	-20.7	-21.3	-46.1	-53.9	-49.5	-37.8	-35.4	-35.0
Net acquisition of FA	-34.0	-23.9	-17.9	-19.7	-42.3	-51.0	-46.8	-35.0	-32.7	-32.3
Domestic (net)	-34.0	-23.9	-17.9	-19.7	-42.3	-51.0	-46.8	-35.0	-32.7	-32.3
Equity	-37.3	-27.7	-26.3	-21.8	-42.3	-51.0	-46.8	-35.0	-32.7	-32.3
<i>of which, Excess withdrawal from PF</i>	-37.3	-27.7	-26.3	-21.8	-42.3	-51.0	-46.8	-35.0	-32.7	-32.3
Change in cash/deposit	3.3	3.8	8.4	2.2	0.0	0.0	0.0	0.0	0.0	0.0
Net incurrence of liabilities	1.8	2.5	2.9	1.6	3.8	2.9	2.7	2.7	2.7	2.7
Memorandum item										
Nominal Non-oil GDP	1,599	1,560	1,674	1,565	1,625	1,738	1,854	1,967	2,103	2,253
Petroleum Fund										
Opening balance	15,844	16,799	15,803	17,692	18,991	18,786	18,340	17,869	17,537	17,200
Comprehensive investment income	2,033	-13	2,858	2,185	1,058	1,007	950	893	877	860
Oil and gas receipts	421	447	756	326	109	68	33	0	0	0
Investment returns incl. valuation gain/ loss	1,636	-435	2,102	1,859	950	939	917	893	877	860
<i>(Minus) Expenses and withholding tax</i>	24	25	0	0	0	0	0	0	0	0
Withdrawal	1,079	983	969	886	1,263	1,453	1,420	1,225	1,214	1,243
ESI	482	550	529	544	576	568	553	536	526	516
Excess withdrawal	597	432	440	342	688	886	867	689	688	727
Closing balance	16,799	15,803	17,692	18,991	18,786	18,340	17,869	17,537	17,200	16,817
(In percent of non-oil GDP)	1,050	1,013	1,057	1,213	1,156	1,055	964	892	818	746

Sources: Timor-Leste authorities; IMF staff calculations.

1/This table is in accordance with the GFS format, with some modifications, to facilitate policy discussion and analysis.

Table 3. Timor-Leste: Monetary Sector Developments, 2016–21

	2016	2017	2018	2019	2020	2021
					Est.	Proj.
(In millions of U.S. dollars)						
Banking system 1/						
Net foreign assets 2/	1,096	1,251	1,412	1,542	1,574	1,254
Gross reserves	271	533	663	646	645	479
Other foreign assets	876	783	823	980	1,045	890
Foreign liabilities	50	65	74	84	116	116
Net domestic assets	-362	-428	-563	-754	-705	-284
Net credit to central government	-420	-472	-531	-672	-707	-707
Net credit to state and local government	0	-12	-11	-1	-1	0
Net credit to public nonfinancial corporations	-1	-1	-50	-51	-51	0
Credit to private sector	208	260	250	264	290	309
Other items (net)	-149	-202	-221	-293	-236	113
Broad money	734	823	849	788	869	970
Narrow money	464	465	525	432	496	553
Currency in circulation 3/	15	15	18	20	23	26
Transferable deposits	450	450	507	411	473	527
Other deposits	270	358	323	357	373	416
Central Bank						
Net foreign assets 2/	271	533	663	646	645	479
Gross reserves	271	533	663	646	645	479
Foreign liabilities	0	0	0	0	0	0
Net domestic assets	-179	-359	-486	-516	-494	-394
Net credit to central government	-215	-279	-342	-397	-446	-446
Net credit to other depository corporations	90	12	17	15	86	106
Other items (net)	-54	-92	-161	-134	-135	-55
Monetary Base	91	174	177	130	151	85
Currency in circulation	15	15	18	20	23	26
Other liabilities to depository corporations	77	159	159	109	128	59
Others 3/	0	0	0	0	0	4
Commercial banks 4/						
Net foreign assets	825	717	749	897	928	774
Foreign assets	876	783	823	980	1,045	890
Foreign liabilities	50	65	74	84	116	116
Net domestic assets	-106	91	82	-130	-83	110
Net credit to central government	-204	-193	-190	-275	-261	-261
Net credit to public nonfinancial corporations	0	0	0	0	0	0
Credit to private sector	203	256	246	259	288	309
Capital accounts	67	93	102	129	144	144
Other items (net)	-38	121	127	14	34	34
Deposits	719	808	830	768	845	878
Transferable deposits	450	450	507	411	473	491
Other deposits	270	358	323	357	373	387
(12-month percentage change)						
Broad money growth	14.3	12.1	3.1	-7.1	10.2	11.6
Reserve money growth	-57.2	90.7	1.9	-26.9	16.6	-43.6
Credit to the private sector growth	-1.8	24.8	-3.8	5.5	10.1	6.6
Memorandum items (In percent, unless otherwise indicated)						
Credit/GDP	12.6	16.2	16.0	15.7	18.5	19.0
Broad money/GDP	44.5	51.5	54.4	47.1	55.5	59.7
Credit/deposits 4/	28.9	32.1	30.1	34.3	34.3	35.2
Amounts of non-performing loans (in millions of U.S. dollars)	28.0	31.0	12.3	...	...	...
Non-performing loans/total loans	15.4	13.5	5.6	...	...	...
Loan rate 5/	14.5	12.5	14.5	16.3	11.3	...
Deposit rate 6/	1.0	0.6	0.6	0.7	0.6	...

Sources: Central Bank of Timor-Leste; and IMF staff estimates.

1/ Includes the Central Bank, four commercial banks (including three branches of foreign banks).

2/ An oil fund was created in September 2005 and the deposits were moved off-shore and onto the Government balance sheet.

3/ Includes only coinage issued by the Central Bank. No data is available for notes due to dollarization of the financial system.

4/ Excludes government deposits.

5/ Rate charged by other depository corporations on loans in U.S. dollars. The rate is weighted by loan amounts.

6/ Rate offered by other depository corporations on three-month time deposits in U.S. dollars. The rate is weighted by deposit amounts.

Table 4. Timor-Leste: Balance of Payments, 2017–26

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
				Est.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
(In millions of U.S. dollars)										
Current account balance 1/	-284	-191	133	-302	-513	-719	-768	-774	-794	-831
Trade balance	-615	-589	-566	-510	-558	-657	-673	-666	-684	-710
Exports 2/	17	25	26	17	29	33	39	45	49	54
of which: Coffee	15	23	25	17	23	25	28	31	34	37
Imports	-631	-613	-592	-527	-587	-691	-712	-711	-733	-765
Services (net)	-343	-349	-357	-269	-318	-370	-352	-315	-300	-293
Receipts	93	97	91	46	55	91	105	115	127	140
of which: Travel	73	78	70	26	43	72	83	91	100	110
Payments	-436	-447	-448	-315	-372	-461	-458	-429	-426	-433
Income (net)	735	843	1,126	620	328	320	306	292	281	268
of which: Investment income	312	330	372	292	330	322	308	295	283	271
Other primary income (oil/gas) 3/	422	510	756	324	109	68	33	0	0	0
Current transfers (net)	-61	-96	-70	-143	-74	-79	-82	-86	-91	-96
Capital and financial accounts	532	301	5	275	336	863	827	709	804	852
Official capital transfers	34	52	26	12	38	38	38	38	38	38
Financial account	498	249	-21	263	298	825	789	672	766	814
Direct investment	7	48	75	-621	77	79	81	84	86	100
Portfolio investment	340	196	-269	916	210	745	707	584	672	701
Other investment	151	6	174	-32	11	1	1	4	8	13
Assets	113	-32	54	-29	-50	-50	-50	-50	-50	-49
Liabilities	38	38	120	-2	61	51	51	54	58	62
Government Debt	38	37	116	-7	61	51	51	54	58	62
Errors and omissions (net)	15	20	-155	27	0	0	0	0	0	0
Overall balance	263	129	-18	0.2	-177	144	58	-65	10	21
Financing										
Change in net foreign assets	-263	-129	18	-0.2	177	-144	-58	65	-10	-21
(In percent of Non-oil GDP)										
Current account balance 1/	-17.7	-12.3	7.9	-19.3	-31.6	-41.4	-41.4	-39.3	-37.7	-36.9
Trade balance	-38.4	-37.7	-33.8	-32.6	-34.3	-37.8	-36.3	-33.9	-32.5	-31.5
Exports 2/	1.0	1.6	1.6	1.1	1.8	1.9	2.1	2.3	2.3	2.4
Imports	-39.5	-39.3	-35.4	-33.7	-36.1	-39.7	-38.4	-36.1	-34.8	-33.9
Services (net)	-21.5	-22.4	-21.3	-17.2	-19.5	-21.3	-19.0	-16.0	-14.3	-13.0
Income (net)	46.0	54.0	67.3	39.6	20.2	18.4	16.5	14.9	13.3	11.9
Current transfers (net)	-3.8	-6.1	-4.2	-9.1	-4.6	-4.5	-4.4	-4.4	-4.3	-4.3
Capital and financial accounts	33.3	19.3	0.3	17.6	20.7	49.7	44.6	36.1	38.2	37.8
Overall balance	16.5	8.3	-1.1	0.02	-10.9	8.3	3.1	-3.3	0.5	0.9
(In millions of U.S. dollars, unless otherwise indicated)										
Memorandum items:										
Public foreign assets (end-period)	17,343	16,477	18,348	19,647	19,265	18,964	18,551	18,155	17,828	17,466
(In months of imports of G&S)	195	187	212	280	241	198	190	191	185	175
(In percent of Non-oil GDP)	1,084	1,056	1,096	1,255	1,185	1,091	1,000	923	848	775
of which: Central bank reserves	545	674	656	657	479	624	682	618	628	649
Petroleum Fund balance 4/	16,799	15,803	17,692	18,991	18,785	18,340	17,869	17,537	17,200	16,817
(In percent of Non-oil GDP)	1,050	1,013	1,057	1,213	1,156	1,055	964	892	818	746
NIIP	17,698	16,805	18,673	19,647	19,265	18,964	18,551	18,155	17,828	17,466
(In percent of Non-oil GDP)	1,107	1,077	1,115	1,255	1,185	1,091	1,000	923	848	775
Nominal Non-oil GDP	1,599	1,560	1,674	1,565	1,625	1,738	1,854	1,967	2,103	2,253
Nominal Total GDP	1,599	1,560	2,018	1,777	1,696	1,782	1,876	1,967	2,103	2,253

Sources: Data provided by the Timor-Leste authorities; and IMF staff estimates.

1/ Excludes trade in goods and services in the Joint Petroleum Development Area which are considered non-resident entities until August 2019.

2/ Excludes petroleum exports, the income of which is recorded under the income account.

3/ Since September 2019, the authorities have recorded income from the Joint Petroleum Development Area as export, but in this table, it is other primary income.

4/ Closing balance.

Table 5. Timor-Leste: Medium-Term Scenario, 2017–26

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
				Est.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Non-oil GDP per capita (2019): US\$1,295										
Real sector										
Nominal Non-oil GDP (in millions of U.S. dollars)	1,599	1,560	1,674	1,565	1,625	1,738	1,854	1,967	2,103	2,253
Nominal Oil GDP (in millions of U.S. dollars)	0	0	344	212	71	44	22	0	0	0
Nominal Total GDP (in millions of U.S. dollars)	1,599	1,560	2,018	1,777	1,696	1,782	1,876	1,967	2,103	2,253
Real Non-oil GDP growth (percent change)	-4.1	-1.1	1.8	-7.6	1.8	3.8	2.6	2.0	2.8	3.0
CPI (percent change, period average)	0.5	2.3	0.9	0.5	1.6	2.5	2.8	2.3	2.0	2.0
CPI (percent change, end-period)	0.6	2.1	0.3	1.2	2.0	3.0	2.5	2.0	2.0	2.0
Money and credit										
Private sector credit (annual percent change)	24.8	-3.8	5.5	10.1	6.6	6.9	6.1	...	...	...
(In percent of Non-Oil GDP)										
Central government operations										
Revenue	53.0	58.5	52.5	58.2	58.8	56.1	53.3	50.7	48.5	46.4
Domestic revenue	11.9	12.2	11.2	11.6	11.7	11.7	11.7	11.7	11.7	11.8
Estimated Sustainable Income (ESI)	30.1	35.3	31.6	34.8	35.4	32.7	29.8	27.3	25.0	22.9
Grants	11.0	11.0	9.7	11.8	11.8	11.8	11.8	11.8	11.8	11.8
Expenditure	86.6	86.7	83.4	84.3	104.9	110.0	102.8	88.5	84.0	81.5
Recurrent expenditure	59.2	53.1	54.9	62.3	74.6	60.5	58.8	57.5	55.9	54.1
Capital expenditure	16.3	22.6	18.8	10.2	18.6	37.8	32.2	19.2	16.3	15.6
Donor project	11.0	11.0	9.7	11.8	11.8	11.8	11.8	11.8	11.8	11.8
Net lending/borrowing	-33.6	-28.2	-30.9	-26.1	-46.1	-53.9	-49.5	-37.8	-35.4	-35.0
(In millions of U.S. dollars, unless otherwise indicated)										
Balance of payments										
Current account balance 1/	-284	-191	133	-302	-513	-719	-768	-774	-794	-831
Trade balance	-615	-589	-566	-510	-449	-589	-640	-666	-684	-710
Exports 2/	17	25	26	17	29	33	39	45	49	54
Imports	631	613	592	527	587	691	712	711	733	765
Services (net)	-343	-349	-357	-269	-318	-370	-352	-315	-300	-293
Primary Income	735	843	1,126	620	328	320	306	292	281	268
Secondary Income	-61	-96	-70	-143	-74	-79	-82	-86	-91	-96
(In percent of Non-oil GDP, unless otherwise indicated)										
Memorandum items										
Current account balance 1/	-17.7	-12.3	7.9	-19.3	-31.6	-41.4	-41.4	-39.3	-37.7	-36.9
Trade balance	-38.4	-37.7	-33.8	-32.6	-27.6	-33.9	-34.5	-33.9	-32.5	-31.5
Exports 2/	1.0	1.6	1.6	1.1	1.8	1.9	2.1	2.3	2.3	2.4
Imports	39.5	39.3	35.4	33.7	36.1	39.7	38.4	36.1	34.8	33.9
Services (net)	-21.5	-22.4	-21.3	-17.2	-19.5	-21.3	-19.0	-16.0	-14.3	-13.0
Primary Income	46.0	54.0	67.3	39.6	20.2	18.4	16.5	14.9	13.3	11.9
Secondary Income	-3.8	-6.1	-4.2	-9.1	-4.6	-4.5	-4.4	-4.4	-4.3	-4.3
Public external debt										
(In millions of U.S. dollars)	106	145	193	218	279	330	381	435	493	554
(In percent of Non-oil GDP)	6.6	9.3	11.5	13.9	17.2	19.0	20.5	22.1	23.4	24.6
Petroleum Fund balance (in millions of U.S. dollars) 3/										
(In months of imports)	189	179	204	271	235	191	183	185	178	169
(In percent of Non-oil GDP)	1050	1013	1057	1213	1156	1055	964	892	818	746
Crude oil prices (U.S. dollars per barrel, WEO) 4/										
	53	68	61	41	59	55	53	51	51	51

Sources: Timor-Leste authorities; and IMF staff estimates and projections.

1/ Excludes trade in goods and services of entities located in the Joint Petroleum Development Area which are considered non-resident entities until August 2019.

2/ Excludes petroleum exports, the income of which is recorded under the income account.

3/ Closing balance.

4/ Simple average of UK Brent, Dubai, and WTI crude oil prices; April 2021 WEO assumptions.

Table 6. Timor-Leste: Sustainable Development Goals Monitoring

Goals	2014	2016	2018
Poverty			
Income share held by lowest 20%	9.4	...	...
Poverty gap at \$1.90 a day (2011 PPP) (%)	6.7	...	...
Poverty headcount ratio at \$1.90 a day (2011 PPP) (% of population)	30.7	...	...
Poverty headcount ratio at national poverty lines (% of population)	41.8	...	...
Hunger 1/			
Prevalence of overweight, weight for height (% of children under 5)	1.6	...	...
Prevalence of stunting, height for age (% of children under 5)	51.7	...	...
Prevalence of undernourishment (% of population)	26.3	25.4	24.9
Prevalence of underweight, weight for age (% of children under 5)	37.5	...	...
Prevalence of wasting, weight for height (% of children under 5)	9.9	...	...
Good Health and Well-being			
Births attended by skilled health staff (% of total)	...	56.7	...
Mortality rate, under-5 (per 1,000 live births)	52.8	49.2	45.8
Mortality rate, neonatal (per 1,000 live births)	22.3	21.3	20.4
Demand for family planning satisfied by modern methods (% of married women with demand for family planning)	...	46.9	...
Adolescent fertility rate (births per 1,000 women ages 15-19)	36.8	34.8	32.4
Smoking prevalence, males (% of adults)	80.7	78.1	...
Source data assessment of statistical capacity (scale 0 - 100)	60.0	70.0	60.0
Gender Equity			
Proportion of women subjected to physical and/or sexual violence in the last 12 months (% of women age 15-49)	...	34.6	...
Women who were first married by age 15 (% of women ages 20-24)	...	2.6	...
Women who were first married by age 18 (% of women ages 20-24)	...	14.9	...
Clean Water and Sanitation 2/			
People using at least basic drinking water services (% of population)	72.3	76.7	78.3
People using at least basic sanitation services (% of population)	50.2	52.4	53.5
Affordable and Clean Energy			
Access to electricity (% of population)	62.4	76.5	85.6
Access to clean fuels and technologies for cooking (% of population)	6.0	6.9	...
Decent Work and Economic Growth 3/			
Number of depositors with commercial banks per 1,000 adults	450.7	495.8	510.6
Peace, Justice and Strong Institutions			
Completeness of birth registration (%)	...	60.4	...
Global Partnerships for the Sustainable Development 4/			
Individuals using the Internet (% of population)	17.5	25.2	27.5

Source: World Bank's World Development Indicators

1/ 2014 data as of 2013.

2/ 2018 data as of 2017

3/ Source: IMF's Financial Access Survey

4/ 2018 data as of 2017

Annex I. Risk Assessment Matrix¹

Source of Risk	Relative Likelihood	Source	Time Horizon	Expected Impact	Direction of Impact	Main Impacts → Recommended Policy Actions
Prolonged rise in COVID-19 infections and delays with vaccines	Medium	External	ST, MT	High	↓	This would restrict mobility and economic activity. → Provide relief to vulnerable households and intensify public health measures.
Large swings in energy prices	Medium	External	ST, MT	Low	↓ ↑	Oil revenues from active oil fields are projected to decline fast amid lower oil production. The magnitude of potential oil revenues from untapped oil fields will depend on future oil prices. → Contain government spending pressures, mobilize domestic revenue, and align spending with sustainable revenues.
Risk asset prices fall sharply	Medium	External	ST, MT	Medium	↓	The Petroleum Fund invests its assets in equities (40 percent) and bonds (60 percent). Although the investment portfolio is well diversified, a decline in risk asset prices caused by a reassessment of market fundamentals (e.g., in response to pandemic developments) could result in big losses. → Mobilize domestic revenue to reduce the reliance on the PF to finance government spending.
Political fragmentation	High	Domestic	ST, MT	Medium	↓	Lack of political consensus could impede reforms warranted to strengthen medium-term growth prospects. → Prioritize reforms to improve the business environment and help diversify the economy.
Development of Greater Sunrise or other oil fields	Low-Medium	Domestic	MT	High	↓ ↑	Significant oil revenues could support higher social spending and inclusive growth. Large public investment could deplete the PF more quickly. → Carefully assess benefits, costs, and risks from various development options before making investment decisions.
Over investment in projects with low returns	Medium	Domestic	ST, MT	High	↓	Large capital-intensive projects could yield low economic and social benefits and have large opportunity costs. → Strengthen project appraisal by developing a standard methodology and verifying that it is consistently applied across line ministries.
Higher frequency and severity of natural disasters related to climate change	Medium	Domestic	MT	Medium	↓	Floods have resulted in lower agricultural production, damage to roads, and displacement of communities. → Invest in infrastructure helping to limit the adverse impact of floods, establish contingency plans, and early warnings systems.

¹ The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood of risks listed is the staff’s subjective assessment of the risks surrounding the baseline (“L” (low) is meant to indicate a probability below 10 percent, “M” (medium) a probability between 10 percent and 30 percent, and “H” (high) a probability of 30 percent or more). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly.

Annex II. The Greater Sunrise Project

1. The maritime boundary treaty between Timor-Leste and Australia removed a key impediment for the development of the Greater Sunrise fields. The agreement was ratified by both governments in August 2019. The Greater Sunrise fields in the Timor Sea were discovered in 1974 but have remained undeveloped in part because of maritime boundary disputes. The agreement set a stable legal framework for both countries to jointly develop the fields and share the associated revenue.

2. The Greater Sunrise fields could yield substantial oil revenues for Timor-Leste for several years. The Greater Sunrise fields have more gas reserves than the Bayu Undan fields, which have helped rebuild Timor-Leste since independence. Estimates from Timor Gap suggest that Greater Sunrise holds 6.6 trillion cubic feet of gas and 273 million barrels of oil/condensate, estimated at a value of \$56 billion. The Bayu Undan fields had 3.4 trillion cubic feet of gas, 350 million barrels of oil/condensate, and yielded \$23 billion in cumulative oil revenues to Timor-Leste during 2006–20. Oil revenues were deposited in the Petroleum Fund, invested overseas, and gradually withdrawn to finance the budget. The Petroleum Fund was worth \$19 billion by end-2020. Oil revenues from Bayu Undan are expected to vanish after 2023.

3. The 2011 Strategic Development Plan envisaged a different development strategy for Greater Sunrise compared to Bayu Undan. While the gas from Bayu Undan was extracted from beneath the Timor Sea and piped directly to an export plant in Australia, the view in the Strategic Development Plan was to shift away from the extraction-only model to a more diversified one that would help attract other manufacturing activities and create more jobs. Specifically, the plan was to build a new \$12 billion liquefied natural gas plant and a petrochemical plant as part of the industrial complex, called Tasi Mane, to be built along the southern coast of Timor-Leste. In addition to the energy plants, Tasi Mane would include a renovated airport and a 160-kilometer highway.

4. The best option to develop the Greater Sunrise fields is unclear. No credible independent studies exist with a thorough cost-benefit analysis of the different options, which include:

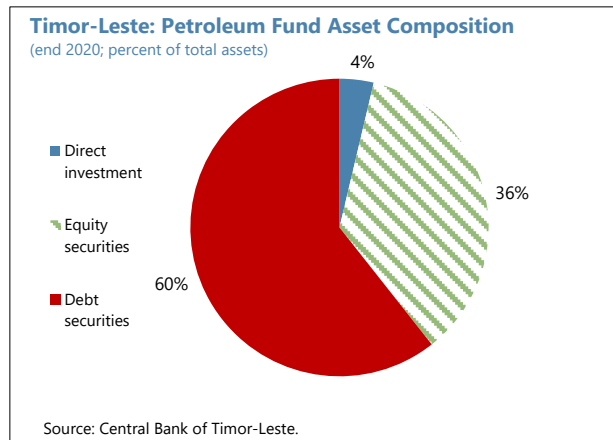
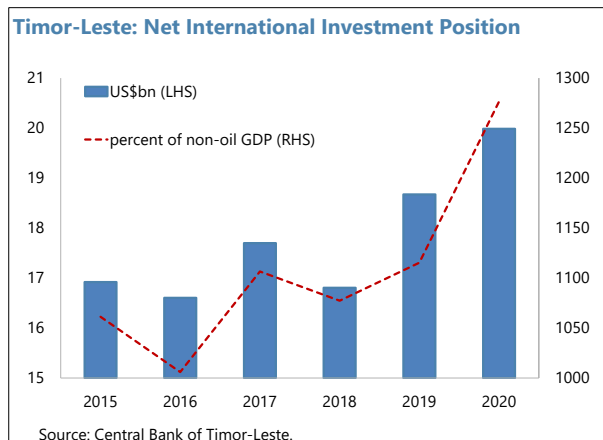
- 1) Pumping the gas to Timor-Leste, entailing huge investments costs, 70 percent of the upstream revenue, and the benefits from developing a refining industry.
- 2) Pumping the gas to an existing liquefied natural gas plant in Darwin, Australia, under which Timor-Leste would get 80 percent of the upstream revenue.

Annex III. External Sector Assessment

The external sector position in Timor-Leste in 2020 was substantially weaker than implied by fundamentals and desirable policies. This weak external sector position reflects large fiscal imbalances and the underdevelopment of the non-oil economy. Fiscal consolidation and structural reforms to promote private sector development and the diversification of the economy should help improve competitiveness and reduce the current account gap.

Foreign Assets and Liabilities

1. *Background.* The net international investment position was \$20 billion (1,277 percent of non-oil GDP) by end-2020, \$1.3 billion higher than by end-2019.¹ External assets and liabilities were \$20.7 billion (1,326 percent of non-oil GDP) and \$0.8 billion (49 percent of non-oil GDP), respectively. External assets mainly consist of portfolio investment for \$18.3 billion (1,168 percent of non-oil GDP) and direct investment for \$0.7 billion (45 percent of non-oil GDP) held by the Petroleum Fund, but they also include currency and deposits for \$1 billion (65 percent of non-oil GDP) and foreign reserves held by the central bank for \$0.7 billion (42 percent of non-oil GDP). Foreign direct investment liabilities were \$0.4 billion (26 percent of non-oil GDP), loans were \$0.24 billion (15 percent of non-oil GDP), and other liabilities (8 percent of non-oil GDP). About 36 percent of the assets of the Petroleum Fund are in stocks, 60 percent in bonds, and 4 percent in the Greater Sunrise fields. The net international investment position increased by \$3.1 billion during 2015–20, explained by \$1.7 billion flows from the financial account and \$1.4 billion from valuation effects.

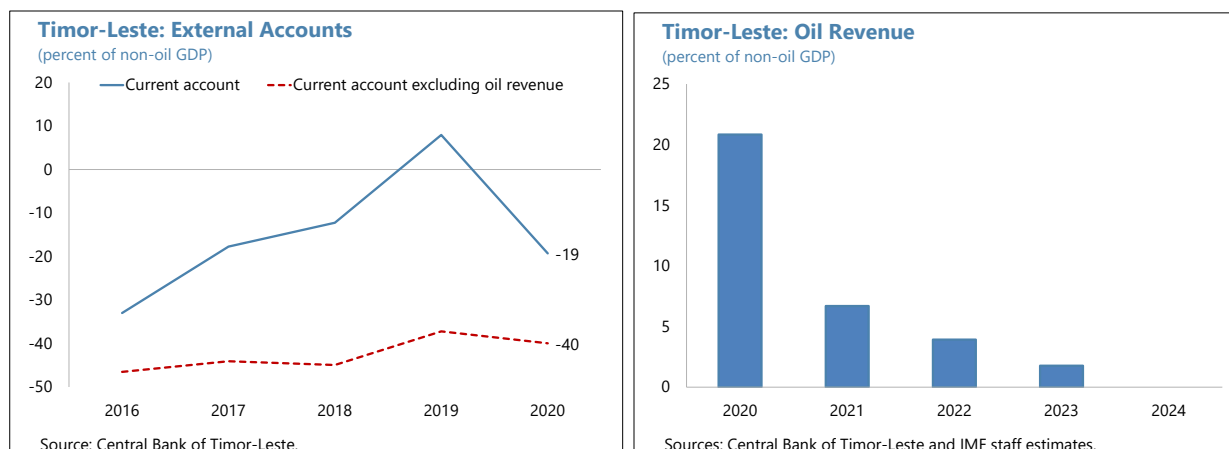


2. *Assessment.* The net international investment position is projected to decline in 2021 and in the medium term under current policies as large and persistent current account deficits will steadily erode the net international investment position.

¹ Non-oil GDP is estimated at about \$1.6 billion in 2020.

Current Account

3. *Background.* The current account balance improved steadily from -33 percent of non-oil GDP in 2016 to 8 percent in 2019, driven by growing oil revenues. In contrast, the current account balance excluding oil revenues was more stable, averaging -43 percent of non-oil GDP during 2016–19. The current account balance declined to -19 percent of non-oil GDP in 2020 amid significantly lower oil revenues. The current account excluding oil revenues was -40 percent of non-oil GDP in 2020, around 3 percentage points higher than the 2016–19 average of -43 percent of non-oil GDP. Oil revenues from active fields are expected to decline fast in coming years before vanishing in 2023.



4. *Assessment.* The current account gap in 2020 was estimated at -7 percent of non-oil GDP. This suggests that the external sector position was substantially weaker than fundamentals and desirable settings. The underlying current account was -23 percent of non-oil GDP and the current account norm was estimated at -16 percent of non-oil GDP. The current account gap is the difference between the underlying current account and the current account norm. This weak external sector position reflects large fiscal imbalances and the limited development of the non-oil economy. Fiscal consolidation and structural reforms to promote private sector development and the diversification of the economy should help improve competitiveness and reduce the current account gap.

5. Due to the very large sovereign wealth holdings that are not well captured by EBA-Lite's regression model, this (preferred) estimate of the current account norm was backed out from setting a norm for consumption as an annuity of total wealth. In turn, total wealth was equal to the sum of net foreign assets (above-ground wealth) and the present value of oil revenues (below-ground wealth).

6. Net foreign assets by end-2019 were \$18.7 billion and the present value of oil revenues by end-2019 was \$0.5 billion. Hence, total wealth was \$19.1 billion. Assuming that the implicit real return on total wealth is 3 percent, then the current account deficit (excluding oil revenues) norm in 2020 was around \$574 million (37 percent of non-oil GDP). Since oil revenues were \$326 million (21 percent of non-oil GDP), then the estimated current account norm was -16 percent of non-oil GDP.

The actual current account balance in 2020 was -19 percent of non-oil GDP but this was higher than in more normal circumstances because of the large contraction in economic activity. The underlying current account balance in 2020 is estimated at about -23 percent of non-oil GDP and it is equal to the actual current account balance (-19 percent of non-oil GDP) plus the deviation of the current account balance excluding oil revenue from recent trends (-3 percent of non-oil GDP).

7. The current account gap estimated using the EBA-Lite regression model also suggests that the external sector position was substantially weaker than fundamentals and desirable policy settings. The current account gap was estimated at -43.0 percent of non-oil GDP, the current account norm at 25.0 percent of non-oil GDP, and the policy gap at -8.6 percent of non-oil GDP. But the EBA-Lite regression does not provide a good fit of the current account in Timor-Leste as can be seen from the large unexplained residual equal to 34.3 percent of non-oil GDP.

Timor-Leste: Model Estimates for 2020 (in percent of non-oil GDP)	
	CA model
CA-Actual	-19.3
Cyclical contributions (from model) (-)	0.3
COVID-19 adjustor (+) 1/	0.3
Additional temporary/statistical factors (+)	0.0
Natural disasters and conflicts (-)	-1.3
Adjusted CA	-18.0
CA Norm (from model) 2/	25.0
Adjustments to the norm (+)	0.0
Adjusted CA Norm	25.0
CA Gap	-43.0
o/w Relative policy gap	-8.6
Elasticity	-0.22
REER Gap (in percent)	199.8

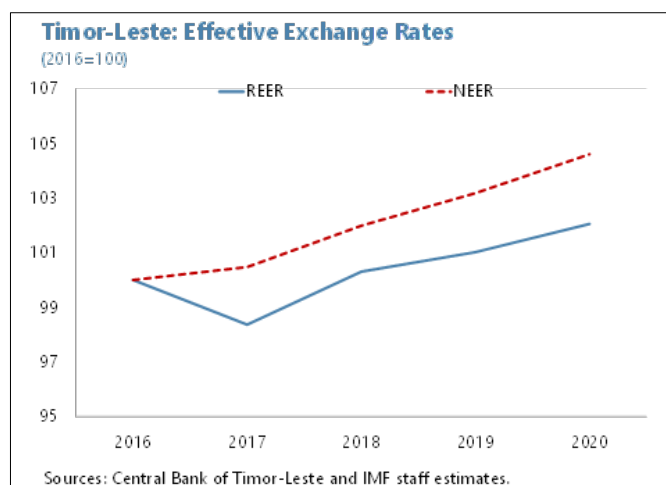
1/ Additional cyclical adjustment to account for the temporary impact of the pandemic on tourism (-0.5 percent of GDP) and on remittances (0.8 percent of GDP).
2/ Cyclically adjusted, including multilateral consistency adjustments.

Source: IMF staff estimates.

Given its residual mean squared error from the regression during 2006–20 of 224 percent, the 90-percent confidence band around EBA-Lite’s current account norm of 25.0 percent of non-oil GDP encompasses the preferred estimate of a current account norm of -16 percent of non-oil GDP.

Real Exchange Rate

8. *Background.* The real effective exchange rate (REER) appreciated by about 1 percent during 2016–19 amid an appreciation of about 3 percent in the nominal effective exchange rate. Consumer price index inflation in Timor-Leste was lower relative to its trading partners, compensating for appreciation pressures on the REER coming from a stronger U.S. dollar. Small movements in the REER since 2016 were in line with the relatively stable current account balance excluding oil revenues. The REER and the nominal effective exchange rate appreciated 1.0 and 1.4 percent year over year, respectively, in 2020.



Assessment. Using a standard trade elasticity of -0.22, a current account gap at -7 percent of GDP is equivalent to a REER gap of about 32 percent.

Capital and Financial Accounts

9. *Background.* Portfolio inflows have been the main source of financing of current account deficits since 2016. They consist of withdrawals from the Petroleum Fund. FDI inflows since 2016 have been small, averaging 2 percent of non-oil GDP.

10. *Assessment.* No major vulnerabilities exist related to capital flows in the short and medium term, given the large size of the Petroleum Fund. Nonetheless, the current account deficit projected under the baseline is unsustainable in the long term.

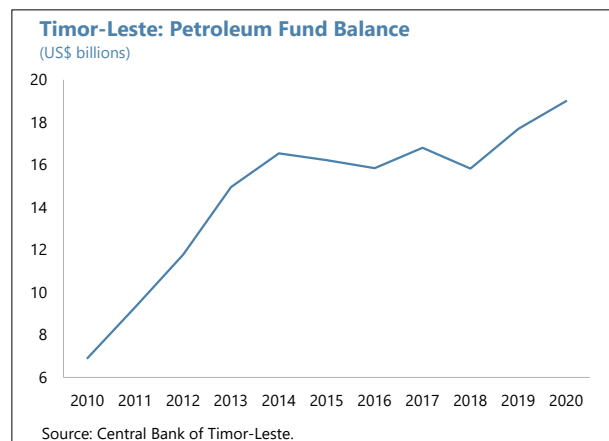
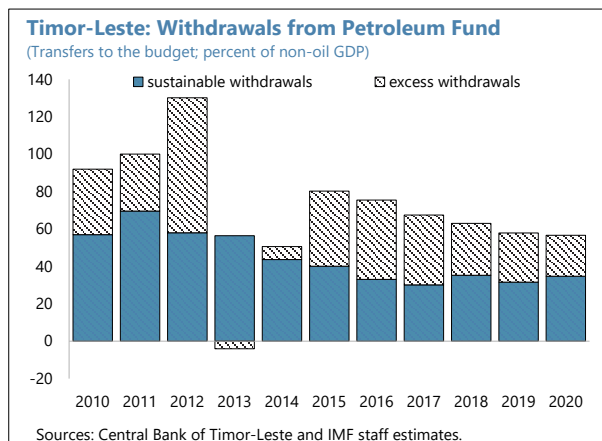
FX intervention and Reserves Level

11. *Background.* Reserves were at \$645 million at end-2020, amounting to about 8 months of imports of goods and services, 74 percent of broad money, 296 percent of external debt, and 41 percent of non-oil GDP.

12. *Assessment.* According to the template to Assess Reserve Adequacy in Credit-Constrained Economies, the optimal level of reserves for Timor-Leste is around 12 months of imports, much higher than the traditional metric of 3 months of imports. The benefits from holding reserves in the template are a function, among other variables, of the fiscal deficit, which for Timor-Leste is very large. However, the template neglects that Timor-Leste has a Petroleum Fund worth 238 months of imports.

Annex IV. The Fiscal Framework in Timor-Leste

- 1. The two main components of the fiscal framework in Timor-Leste are the Petroleum Fund and a guideline focused on long-term fiscal sustainability.** The Petroleum Fund was established in 2005 and invests its assets abroad. All oil revenues go into the fund.
- 2. Transfers from the fund to the budget are guided by the principle of maintaining the real value of government wealth.** Specifically, annual transfers from the Petroleum Fund to the budget are equal to the Estimated Sustainable Income (ESI), set at 3 percent of government wealth.¹ Government wealth is defined as financial assets in the fund plus the net present value of petroleum wealth under the ground. This formulation is in line with the permanent income hypothesis approach and the ESI is updated annually. In fiscal accounting, the ESI is considered a revenue item above the line and excess withdrawals are considered financing below the line.
- 3. The ESI is a benchmark, not a legal obligation.** Transfers in excess of the ESI are allowed, but only after the government provides a justification that has to be approved by Parliament. The spirit of the framework was to put reasonable impediments on the ability of government to spend government wealth. This flexibility is a departure from the standard permanent income hypothesis framework and is justified by the fact that low-income countries have large investment upfront needs and very limited financing sources.



- 4. Withdrawals from the Petroleum Fund averaged around 5.2 percent of government wealth during 2010–20, much higher than the 3 percent under the ESI.** Although excess withdrawals have been the norm since 2008, the Petroleum Fund balance has so far kept increasing steadily, driven by large oil revenues and strong investment returns.²

¹ The Greater Sunrise fields do not have approved development plans yet. Hence, they are not part of the baseline.

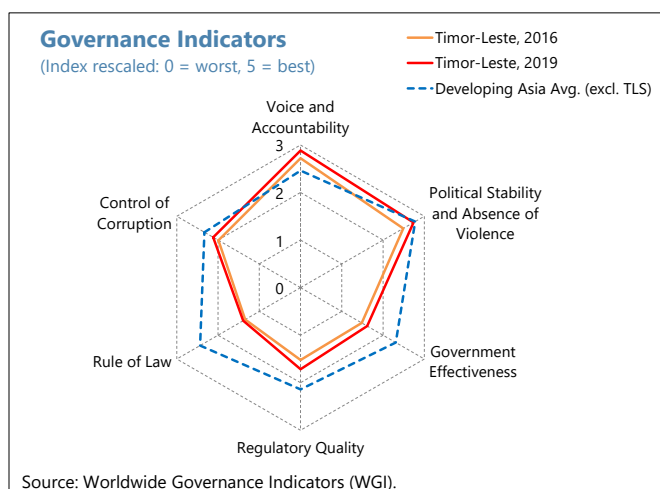
² Parliament has yet to reject a request for excess withdrawals.

Annex V. Governance Issues in Timor-Leste: Macroeconomic Implications

Corruption was a key concern in Timor-Leste even before the COVID-19 crisis given the economic importance of public services and contracts, but the pandemic has further heightened the importance of stronger governance. While additional budget has been allocated for COVID-19, bottlenecks in public financial management, procurement, and supply chains have hindered a faster response. Continued efforts to strengthen institutions, the business environment, and governance are important to limit corruption vulnerabilities and lower obstacles to job-creating investment.

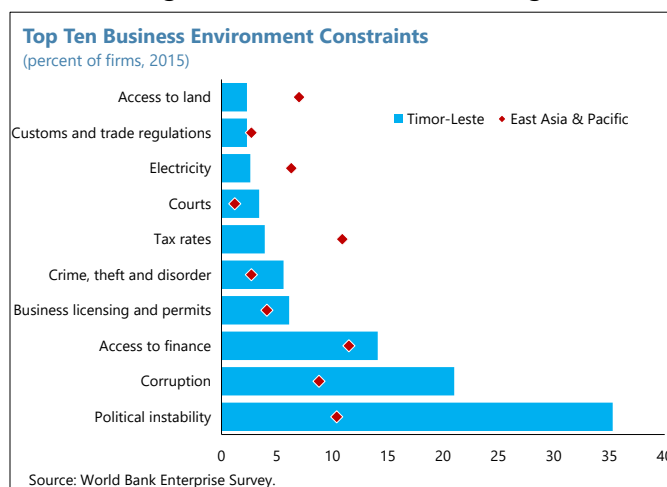
1. Although the governance of Timor-Leste’s public sector is improving, it continues to lag behind regional peers, with some vital areas of weaknesses.

Governance in Timor-Leste’s petroleum sector is strong¹, and steps have been taken to improve the institutional framework to combat corruption, including through the establishment of the Anti-Corruption Commission. However, the institutional framework suffers from fragmentation and weak coordination, further exacerbated by the formation of autonomous agencies, and a deficit of technical, human, and financial resources. The lack of corruption awareness and understanding of published budget documents amongst the public is also a challenge. Timor-Leste continues to rank much lower than comparator countries in budget transparency and oversight, with no significant improvements over recent years.² Moreover, governance vulnerabilities in fiscal areas (e.g., procurement in practice), regulatory framework (doing business) and rule of law (e.g., contract enforcement and property rights) remain key areas of concern.



2. Corruption and difficulty in obtaining business licensing and permits are among the major constraints to businesses.

According to the latest World Bank Enterprise Survey, private sector players argue that laws and regulations are not well-coordinated, that renewing licenses is very time consuming, and that corruption is a serious issue. Corruption is



¹ See the 2019 Article IV staff report.

² See [Timor-Leste Open Budget Survey 2019](#).

especially acute in the fiscal sector which discourages private investment—e.g., potential bribery in securing government contracts, in the procurement process, in getting construction permit, an electrical connection and obtaining an operating license.³

3. The new anti-corruption law is a step in the right direction.⁴ Adopted in September 2020, it describes the general measures to prevent corruption and the income, assets, and interests declaring regime.⁵ The law includes: publicity and transparency in public procurement procedures (see Box 1); an online declaration of income, assets, and interests for all individuals in public service and their household members; prohibition for public officials to exercise any activity in the private sector directly related with roles performed in office for a period of two years after the end of the term as public official; prohibition from taking or being in public offices for a period of 5–10 years for those convicted of a crime enshrined in this law, punishable by imprisonment.

4. However, enforcement and punishment should be further strengthened. Lack of sufficient human and financial capacity constraints enforcement, including the investigative capacity of the Anti-Corruption Commission. While this new law strengthens prevention measures, there is still scope for strengthening punishment and the asset recovery process. Moreover, asset declaration is limited to the Court of Appeals—and thus could be expanded to be made more accessible to the general public.

5. Improving public governance framework requires efforts on multiple fronts including strengthening institutions to promote integrity and accountability. Timor-Leste should start with areas of key weaknesses and higher risk—such as procurement and business licensing—as well as effective internal controls and independent external scrutiny. Concurrently, the legal and institutional oversight framework needs to be strengthened, the capacity of the Anti-Corruption Commission and court system raised to ensure effective implementation of the new anti-corruption law, and corruption awareness and public understanding of accountability and effectiveness of public spending enhanced to tackle public governance from all angles. The heads of agencies, ministries, and public enterprises must also promote ethical behavior by setting a clear tone at the top.

6. The IMF stands ready to provide technical support on the implementation of the new anti-corruption law and provide specific recommendations on how to strengthen the public financial management framework.

³ See [October 2019 Timor-Leste Economic Report: Unleashing the Private Sector](#)

⁴ See <http://timor-leste.gov.tl/?p=25518&lang=en>

⁵ It also changes the penal code with the creation of the new categories of illegal acts and the concentration of all corruption crimes in a single legal diploma. Police and judicial authorities may accept anonymous complaints, with protection for the identity of whistle-blowers and protection against reprisals.

Box 1. Procurement Process in Timor-Leste

Currently the Decree Law on the Procurement (Law No. 10/2005) provides the framework for the procurement regime in Timor-Leste. The Ministry of Finance also launched an online Procurement Portal in 2011, intended to increase transparency by providing equal access to information on government tenders and procurement contracts. The Audit Chamber, under the Court of Appeals, is responsible for reviewing government procurements above \$5 million.

However, recent assessments indicate that the current procurement process is lengthy and inefficient, which hinders budget execution, and thus the delivery of services. Moreover, the online procurement portal functions intermittently and has no information on many important contracts, including the largest ones in the last few years.

Inefficiencies in the procurement process have been especially problematic in the public health sector delivery, including during the pandemic. Bottlenecks in public financial management and in the procurement process has hindered a faster health response to the COVID crisis. To address these challenges, procurement safeguards were relaxed in April 2021 to procure emergency medical supplies in a timely manner, which is being done with the assistance of UNDP and World Health Organization.

Further upgrades to the procurement process could facilitate public spending, increase competitiveness and transparency, and lower vulnerabilities to corruption. While the Decree Law on the Procurement provides the framework for the procurement regime in Timor-Leste, transparency and reporting provisions may be strengthened in the ongoing reforms to public financial management. Particularly, procurement plans should be included in the budget cycle and presented in the budget books. Also, the transparency requirements should be clearly laid out in the public financial management law, e.g., requiring that government procurement data on resolution of complaints and annual procurement statistics will be published.

Digitalization should be harnessed to increase transparency. While Timor-Leste already established an electronic procurement system, ensuring that it is updated frequently and that it reflects full and accurate information (including publishing the contracts and the beneficial ownership information of awarded companies on a regular basis) is key.¹

¹ <https://www.state.gov/reports/2020-investment-climate-statements/timor-leste/>

Annex VI. Economic Recovery Plan 2020–23

1. In August 2020, the government approved a plan to support the economic recovery in the short and medium term. The plan includes short- and medium-term measures that will be implemented in 2020–23 as follows: a first stage aiming to mitigate the adverse impact from the COVID-19 pandemic through short-term response (mainly in the second half of 2020), and a second stage with medium-term measures aimed at addressing pre-existing structural weaknesses for long-term growth (covering a period of 2–3 years).

2. The first stage aims to avoid job losses and provide financial support with households and businesses to sustain consumption and production levels and people’s living standards. Short-term measures include the distribution of a basic food basket (or voucher), recovery subsidy for firms that resume economic activity, and social security contribution exemption for employers.

3. The second stage seeks “recovery with transformation” addressing not only challenges caused by the COVID-19 pandemic but also pre-existing structural weaknesses. Medium-term measures focus on private economic sectors (agriculture and tourism); housing; human capital (education, health, and social protection); and institutional reforms.

- Private economic sectors. In agriculture, the focus is on renewal of coffee plantations through a subsidy and implementing import substitution policy, particularly for rice. In tourism, the measures include creating a state-owned company to boost the sector, improving vocational education and training, rehabilitating infrastructure such as former administrator residences and rural roads, and promoting eco-tourism by combining accommodation with coffee or rice plantations.
- Housing. The government aims to implement a social housing program and to achieve universal provision of basic sanitation, water, and electricity across the country.
- Human capital. In education, the government will increase the proportion of the state budget allocated to the area. The measures include increasing the number of Centers for Learning and School Training, extending the network of secondary schools, pre-school and vocational training centers, and promoting the maintenance and recovery of school buildings. In health, their goals are to increase recurrent spending for improvement of health services, strengthen financial and technical support to key programs, invest in infrastructure, and improve health personnel training. In social protection, the focus is on creating alternative payment mechanisms or instruments for social benefits payment to reduce costs of social benefit measures, implementing active employment programs, and study the feasibility of a universal basic income system.
- Institutional reforms. The government will make all legislations related to land issues, prepare necessary regulatory framework for business such as access to credit, improve the functioning of the courts, and proceed with reform in the public administration. The measures also include optical fiber installation and promotion of renewable energy such as solar, hydro and wind.



Appendix I. Draft Press Release

IMF Executive Board Concludes 2021 Article IV Consultation with Timor-Leste

FOR IMMEDIATE RELEASE

WASHINGTON, DC – July 7, 2021 the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation¹ with Timor-Leste.

Timor-Leste has been severely affected by the pandemic and by recent floods. Despite early success in containing the propagation of COVID-19, the recent surge in cases combined with the floods in early April will result only in a modest economic recovery in 2021. Real non-oil GDP growth in 2021 is projected at 1.8 percent, driven by higher government spending, rebounding private consumption, and the vaccination rollout that began in April. The current account deficit will continue to increase as oil revenues decline. Inflation is projected to pick up, reflecting the increase in government spending and in energy prices. Real non-oil GDP growth is projected to stabilize at around 3 percent in the medium term, as structural constraints weigh on growth potential.

In the near term, the focus should be on accelerating the ongoing rollout of vaccines and on providing relief to the most vulnerable. Once the pandemic is well contained, regaining a more solid fiscal footing should be a priority to preserve fiscal and external sustainability. Expenditure rationalization and revenue mobilization should underpin fiscal reforms. Structural reforms to improve the business environment, strengthen governance, raise labor productivity, and increase financial deepening, including through harnessing digitalization, would help promote private sector development, create jobs, and diversify the economy. Strengthening disaster risk management and preparedness is also crucial, given the country's vulnerability to climate shocks.

¹ Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

Executive Board Assessment²

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² At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: <http://www.IMF.org/external/np/sec/misc/qualifiers.htm>.

Table 1. Timor-Leste: Selected Economic Indicators, 2016–22

Non-oil GDP at current prices (2019): US\$1.674 billion

Population (2019): 1.293 million

Non-oil GDP per capita (2019): US\$1,295

Quota: SDR 25.6 million

	2016	2017	2018	2019	2020	2021	2022
					Est.	Proj.	Proj.
(Annual percent change)							
Real sector							
Real Non-oil GDP	3.4	-4.1	-1.1	1.8	-7.6	1.8	3.8
CPI (annual average)	-1.5	0.5	2.3	0.9	0.5	1.6	2.5
CPI (end-period)	0.0	0.6	2.1	0.3	1.2	2.0	3.0
(In percent of Non-oil GDP, unless otherwise indicated)							
Central government operations							
Revenue	56.1	53.0	58.5	52.5	58.2	58.8	56.1
Domestic revenue	12.1	11.9	12.2	11.2	11.6	11.7	11.7
Estimated Sustainable Income (ESI)	33.0	30.1	35.3	31.6	34.8	35.4	32.7
Grants	11.0	11.0	11.0	9.7	11.8	11.8	11.8
Expenditure	111.5	86.6	86.7	83.4	84.3	104.9	110.0
Recurrent	64.0	59.2	53.1	54.9	62.3	74.6	60.5
Net acquisition of nonfinancial assets	36.5	16.3	22.6	18.8	10.2	18.6	37.8
Donor project	11.0	11.0	11.0	9.7	11.8	11.8	11.8
Net lending/borrowing	-55.4	-33.6	-28.2	-30.9	-26.1	-46.1	-53.9
(Annual percent change, unless otherwise indicated)							
Money and credit							
Deposits	14.1	12.3	2.8	-7.5	10.1	3.8	6.9
Credit to the private sector	-1.8	24.8	-3.8	5.5	10.1	6.6	6.9
Lending interest rate (percent, end of period)	14.5	12.5	14.5	16.3	11.3	...	...
(In millions of U.S. dollars, unless otherwise indicated)							
Balance of payments							
Current account balance 1/ (In percent of Non-oil GDP)	-544 -33	-284 -18	-191 -12	133 8	-302 -19	-513 -32	-719 -41
Trade balance	-546	-615	-589	-566	-510	-558	-657
Exports 2/ Imports	20 567	17 631	25 613	26 592	17 527	29 587	33 691
Services (net)	-569	-343	-349	-357	-269	-318	-370
Primary Income	544	735	843	1,126	620	328	320
Secondary Income	26	-61	-96	-70	-143	-74	-79
Overall balance	-157	263	129	-18	0.2	-177	144
Public foreign assets (end-period) 3/ (In months of imports)	16,125 160	17,343 195	16,477 187	18,348 212	19,647 280	19,265 241	18,964 198
Exchange rates							
NEER (2010=100, period average)	130.0	129.7	130.9	134.1	135.8	...	...
REER (2010=100, period average)	143.5	140.7	141.7	143.4	143.3	...	...
Memorandum items							
Nominal Non-oil GDP (in millions of U.S. dollars)	1,651	1,599	1,560	1,674	1,565	1,625	1,738
Nominal Non-oil GDP per capita (in U.S. dollars)	1,354	1,286	1,230	1,295	1,187	1,210	1,269
(Annual percent change)	1.6	-5.0	-4.4	5.2	-8.3	1.9	4.9
Crude oil prices (U.S. dollars per barrel, WEO) 4/ Petroleum Fund balance (in millions of U.S. dollars) 5/ (In percent of Non-oil GDP)	43 15,844 960	53 16,799 1,050	68 15,803 1,013	61 17,692 1,057	41 18,991 1,213	59 18,785 1,156	55 18,340 1,055
Public debt (in millions of U.S. dollars) (In percent of Non-oil GDP)	77 4.7	106 6.6	145 9.3	193 11.5	218 13.9	279 17.2	330 19.0
Population growth (annual percent change)	1.9	2.0	2.0	2.0	2.0	1.9	1.9

Sources: Timor-Leste authorities; and IMF staff estimates and projections.

1/ Excludes trade in goods and services of entities located in the Joint Petroleum Development Area which are considered non-resident entities until August 2019.

2/ Excludes petroleum exports, the income of which is recorded under the income account.

3/ Includes Petroleum Fund balance and the central bank's official reserves.

4/ Simple average of UK Brent, Dubai, and WTI crude oil prices based on April 2021 WEO assumptions.

5/ Closing balance.