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

We thank staff for the informative report and Mr. Bevilaqua, Mr. Saraiva, and Mr. Coelho for their comprehensive Buff statement.

COVID-19 has considerably hit Timor-Leste's economic activity, which has been further affected by recent floods and landslides. Despite a strong stimulus package which helped mitigate the impact of the pandemic, the economy contracted in 2020. Real non-oil GDP growth is projected to grow by 1.8 percent in 2021 but the outlook is uncertain and dependent on the recent surge of infection cases and on vaccine deployment. Going forward, accelerating reform momentum will be essential to put the economy on a sustainable and inclusive growth path.

In the near term it is critical to cushion the impact of the pandemic and recover from the floods. As noted in the Buff statement, the twin shocks required fiscal policy support. The increase in spending contemplated in the revised 2021 budget aims to provide relief to the surge in cases and the recent floods and landslides. In this regard, ensuring that the most vulnerable are protected, particularly aiming to alleviate disruptions to health and nutrition services arising from these crises is essential.

We encourage the authorities to preserve the Petroleum Fund to ensure intergenerational equity. Staff's assessment that under current policies, the Petroleum Fund assets will be depleted towards the end of the 20-year projection horizon is concerning. In this regard, we positively note, as mentioned in the Buff statement, the authorities' commitment to preserving the resources accumulated in the Petroleum Fund, while addressing developing needs and exploring new sources of revenue. Enhanced revenue mobilization and a careful prioritization of government spending are essential to safeguard the Petroleum Fund and ensure fiscal sustainability. To this end, we welcome the authorities' implementation of Public Financial Management (PFM) reforms and improvement of budget

execution and the request of technical assistance in the design of the VAT implementation plan and tax administration. In this connection, we note that the authorities are committed to increasing revenues and ensuring debt sustainability over time and consider the risk of debt distress as very low. *We would appreciate staff's further elaboration on the differing views on the risk of debt distress.*

On the financial system, we welcome the progress in access to formal credit markets and financial inclusion, including the growth of e-wallet services, the modernization of the National Payments System, and the launch by BCTL of the “Digital Village” awareness campaign to promote digital financial services. Further promoting access to and usage of financial services is key to continue reducing poverty and income inequality.

While Timor-Leste has made impressive progress over the years, achieving and sustaining inclusive growth will require broad reforms. The Economic Recovery Plan 2020-23 approved in August 2020 seeks to address impediments to faster growth in the medium term and diversify the economy away from oil and promote private sector development. As noted in Annex VI, medium-term measures focus on agriculture, education, health, social protection, tourism, and institutional reforms. We welcome the authorities’ commitment to improving the skills of youth and employment opportunities which are vital to increase productivity and well-being and we emphasize that closing gender gaps is also critical. To this end, we welcome the authorities’ engagement with the World Bank, UNDP, and the Fund to improve capacity and human capital development.

Lastly, improving statistics is key to support policy making and reforms. We take positive note of recent improvements, including in the timeliness of data release, and encourage the authorities to continue upgrading statistical capacity.

With these remarks, we wish the people of Timor-Leste every success in their future endeavors.