INTERNATIONAL MONETARY FUND

IMF Country Report No. 24/342

DEMOCRATIC REPUBLIC OF TIMOR-LESTE

2024 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT

December 2024

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2024 Article IV consultation with the Democratic Republic of Timor-Leste, the following documents have been released and are included in this package:

- A **Press Release**.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on a lapse-of-time basis, following discussions that ended on October 8, 2024, with the officials of the Democratic Republic of Timor-Leste on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on November 20, 2024.
- An **Informational Annex** prepared by the IMF staff.
- A **Debt Sustainability Analysis** prepared by the staffs of the IMF and the World Bank.

The documents listed below have been or will be separately released.

Selected Issues

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

Copies of this report are available to the public from

International Monetary Fund • Publication Services
PO Box 92780 • Washington, D.C. 20090
Telephone: (202) 623-7430 • Fax: (202) 623-7201
E-mail: publications@imf.org Web: http://www.imf.org

International Monetary Fund
Washington, D.C.

IMF Executive Board Concludes 2024 Article IV Consultation with Timor-Leste

FOR IMMEDIATE RELEASE

Washington, DC – **December 17, 2024:** The Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with Timor-Leste on December 10, 2024 and endorsed the staff appraisal without a meeting on a lapse-of-time basis.[2]

Non-oil GDP growth slowed to 2.4 percent in 2023 (from 4 percent in 2022) due to a drag from fiscal policy as budget execution fell in the election year. After averaging a high 8.4 percent in 2023, headline inflation sharply declined this year, reaching 0.6 percent (y/y) in September, driven by lower global food prices and the rollback of tax hikes introduced in 2023.

Growth is estimated to increase to 3.4 percent in 2024, supported by fiscal expansion and strong credit growth. A significant fiscal expansion in 2025 is expected to sustain growth at 3.4 percent in 2025. Inflation is expected to ease further—averaging 2.2 percent in 2024 and 1.5 percent in 2025—given the continued moderation of global commodity prices. Risks to the outlook are balanced.

Executive Board Assessment

Fiscal expansion and strong credit growth are expected to support economic growth in 2024. Following a slowdown in 2023, growth is estimated to rise to 3.5 percent this year. A large fiscal expansion in 2025—mainly driven by transfers with low multiplier—would deliver growth of 3.4 percent next year. In the long run, non-oil GDP growth is expected to remain modest at around 3 percent, which corresponds to about 1.5 percent in per-capita terms. As global commodity prices moderate, inflation will ease further, averaging 2.2 and 1.5 percent in 2024 and 2025, respectively. The external sector position in 2023 was substantially weaker than implied by fundamentals and desirable policy settings.

Risks to the outlook are balanced. Near- to medium-term risks include a sudden global recession that could reduce PF returns, severe climate events affecting food security, and an onset of political instability limiting foreign direct investment. Conversely, reaching an agreement to develop the Greater Sunrise oil field could boost long-term exports.

The sizable savings in the PF should be used productively and prudently to deliver higher living standards. In the past decade, a high share of public spending relative to the economy has delivered only modest growth and development. Timor-Leste remains at moderate risk of overall and external debt distress, but large fiscal imbalances over the medium term would fully deplete the PF by the end of the 2030s. Fiscal and structural reforms

[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.

[2] The Executive Board takes decisions under its lapse-of-time procedure when the Board agrees that a proposal can be considered without convening formal discussions.

are needed to secure fiscal sustainability, which would also strengthen the external sector position.

Public spending should be reduced gradually, and its quality further improved, while domestic revenue mobilization should start promptly. Expenditure restraint should involve gradually unwinding the surge in recurrent spending since 2020, while accommodating higher spending on human and physical capital (including in climate-resilient infrastructure) and on social safety nets (to protect the vulnerable). Regarding revenue mobilization, a key reform priority is the introduction of the VAT in 2026, which requires immediate progress with legislation and strengthening tax administration. These fiscal efforts should be underpinned by advancing PFM reforms and formulating a medium-term fiscal framework.

Addressing structural bottlenecks to lending through financial sector reforms is crucial for private sector development. The authorities' ambitious agenda of legal reforms of the financial sector is welcome. Accelerating the issuance of land titles would provide essential collateral and is urgently needed to fully realize the potential of these legal reforms.

These should be combined with other structural reforms to support economic diversification. Ongoing steps towards deeper integration in the global and regional economies should continue. While governance reforms are progressing, more are needed to address vulnerabilities, notably in the domain of rule of law. Deficiencies in the AML/CFT framework should be addressed in a timely manner, in line with the findings and recommendations in the Mutual Evaluation Report recently adopted by the Asia Pacific Group. Improved performance under dollarization requires reduced fiscal imbalances and advancement of reforms that address structural bottlenecks that also undermine competitiveness.

Table 1. Timor-Leste: Selected Economic and Financial Indicators, 2023–26

Non-oil GDP at current prices (2023): US$1.802 billion
Population (2023): 1.377 million
Non-oil GDP per capita (2023): US$1,309
Quota: SDR 25.6 million

	2023	2024 Est.	2025 Proj.	2026 Proj.
	(Annual percent change)			
Real sector				
Real Non-oil GDP	2.4	3.5	3.4	3.2
Real Non-oil GDP per capita	1.3	2.4	2.1	1.9
CPI (annual average)	8.4	2.2	1.5	2.0
CPI (end-period)	8.7	0.5	1.8	2.0
	(In percent of Non-oil GDP, unless otherwise indicated)			
Central government operations				
Revenue	51.4	49.2	46.1	42.7
Domestic revenue	13.8	11.4	11.5	11.5
Estimated Sustainable Income (ESI)	27.2	28.3	26.2	23.6
Grants	10.5	9.4	8.5	7.6
Expenditure	93.9	92.5	95.3	91.5
Recurrent	70.6	69.8	73.6	70.5
Net acquisition of nonfinancial assets	12.8	13.3	13.2	13.4
Donor project	10.5	9.4	8.5	7.6
Net lending/borrowing	-42.5	-43.3	-49.2	-48.8
	(Annual percent change, unless otherwise indicated)			
Money and credit				
Deposits	2.5	7.6	6.9	6.8
Credit to the private sector	20.6	20.5	15.7	8.1
Lending interest rate (percent, end of period)	11.3	11.3	11.3	11.3
	(In millions of U.S. dollars)			
Balance of payments				
Current account balance	-17	-195	-515	-575
(In percent of Non-oil GDP)	-1	-10.1	-24.9	-26.0
Trade of Goods	-149	-611	-814	-836
Exports of goods	632	233	142	152
Imports of goods	781	845	956	988
Trade of Services	-353	-310	-309	-318
Primary Income	397	540	427	406
Secondary Income	88	186	180	173
Overall balance	-49	19	77	33
Public foreign assets (end-period) 1/	19,072	18,881	18,282	17,554
(In months of imports)	190	184	162	150
Exchange rates				
NEER (2010=100, period average)	158.0	...	...	...
REER (2010=100, period average)	167.2	...	...	...
Memorandum items				
Nominal Non-oil GDP (in millions of U.S. dollars)	1,802	1,939	2,073	2,215
Nominal Non-oil GDP per capita (in U.S. dollars)	1,309	1,393	1,471	1,551
(Annual percent change)	6.3	6.5	5.6	5.5
Crude oil prices (U.S. dollars per barrel, WEO) 2/	81	81	73	70
Petroleum Fund balance (in millions of U.S. dollars) 3/	18,288	18,078	17,402	16,641
(In percent of Non-oil GDP)	1,015	932	839	751
Public debt (in millions of U.S. dollars)	259	267	293	306
(In percent of Non-oil GDP)	14.4	13.7	14.1	13.8
Population growth (annual percent change)	1.1	1.1	1.3	1.3

Sources: Timor-Leste authorities; and IMF staff estimates and projections.
1/ Includes Petroleum Fund balance and the central bank's official reserves.
2/ Simple average of UK Brent, Dubai, and WTI crude oil prices based on October 2024 WEO assumptions.
3/ Closing balance.

DEMOCRATIC REPUBLIC OF TIMOR-LESTE

November 20, 2024

STAFF REPORT FOR THE 2024 ARTICLE IV CONSULTATION

KEY ISSUES

Context. Timor-Leste has made impressive progress since independence but remains a fragile post-conflict nation with an under-diversified private sector. The economy remains highly dependent on the public sector, which has been financed primarily by proceeds from the Petroleum Fund, in which the state has invested its substantial savings from past oil and gas production. But production is dwindling and large withdrawals from the PF, should they continue, would lead to its full depletion by the end of the 2030s. Over the past decade, a high share of public spending relative to the economy has delivered only modest growth and development.

Recent developments and outlook. Following a slowdown in 2023, growth is estimated to rise to 3.5 percent this year supported by fiscal expansion and strong credit growth. Despite a large fiscal expansion that is mainly driven by transfers with a low multiplier, growth will moderate to 3.4 percent in 2025. From a high level in 2023, inflation has moderated in recent months and is expected to ease further as global food prices moderate, averaging 2.2 and 1.5 percent in 2024 and 2025 respectively.

Themes of the Article IV. The discussions focused on policies to achieve fiscal sustainability while supporting growth; and structural reforms to promote private sector development, starting with financial and legal reforms.

Policy recommendations. A key policy priority is ensuring that Timor-Leste's sizable savings in the Petroleum Fund are spent most effectively and prudently to deliver higher living standards. To support growth, the composition and quality of public spending must be improved. At the same time, containing overall spending is needed to preserve fiscal sustainability. Promoting private sector development requires well-sequenced structural reforms, and the authorities are rightly prioritizing an ambitious agenda of legal and institutional reforms of the financial sector.

Approved By
Nada Choueiri (APD) and Fabian Bornhorst (SPR)

Discussions took place in Dili, Democratic Republic of Timor-Leste during September 25–October 8, 2024. The staff team comprised Yan Carrière-Swallow (Head), Kohei Asao, Raju Huidrom, and Danila Smirnov (all APD). The team met with Prime Minister Kay Rala Xanana Gusmão, Minister of Finance Santina Cardoso, Central Bank Governor Hélder Lopes, and representatives from other government ministries, the anti-corruption commission, development partners, the private sector, and civil society. Bernard Harborne and Amina Coulibaly (both World Bank) participated in some meetings. Andre Roncaglia, Bruno Saraiva, and Pedro Miranda (all OEDBR) joined some meetings virtually. Ricardo Davico and Seble Abebe (both APD) assisted in the preparation of this report.

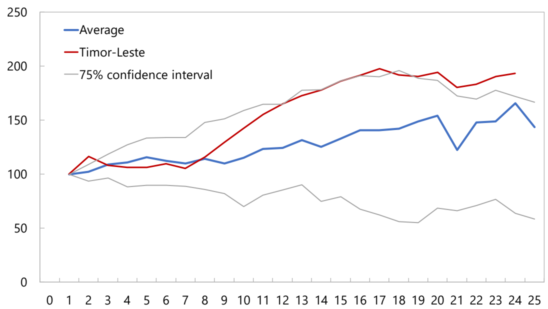
CONTENTS

ANNEXES

CONTEXT

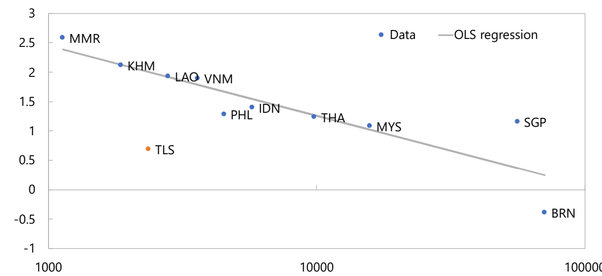
1. **Timor-Leste has made significant progress since its independence in 2002.** Timor-Leste has maintained stability, made progress in building up its institutions, and its growth and inflation have outperformed other post-conflict nations. By investing its substantial savings from past oil and gas production, it has accumulated sizable financial buffers in the Petroleum Fund (PF) (1,015 percent of non-oil GDP in 2023).

Post-Conflict Economic Growth
(Average GDP, end-conflict=100, x-axis: years since conflict)



Sources: UNDP, IMF Staff calculations
Note: 29 post-conflict countries included in the study

ASEAN members annualized growth 2000-2018
(GDP per Capita growth, PPP, constant 2017 USD prices)



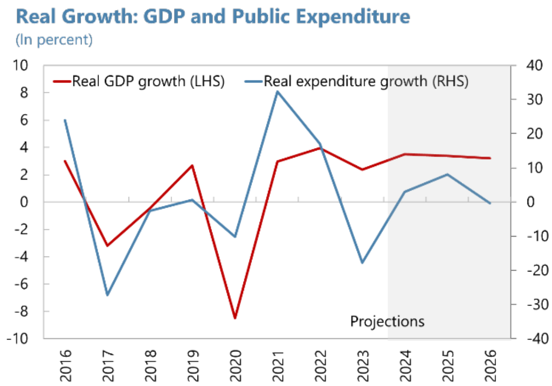
Sources: IMF staff calculations
Note: Chart shows the per capita GDP measured in PPP growth rate over the period of 18 years for ASEAN members, depending on the per capita GDP level in 2000. The fitted line shows the result of the OLS regression for these countries, excluding TLS.

2. **Yet, the country continues to face pressing development needs.** Rates of poverty and malnourishment remain among the highest in the region and acute food insecurity—exacerbated by El Niño—continues to affect a quarter of the population (World Food Program 2024). Since independence, average non-oil per-capita growth of 0.7 percent has not kept up with regional peers. The economy remains under-diversified and highly dependent on the public sector, which has been financed primarily by proceeds from the PF. While the PF balance is large for now, inflows are declining as oil and gas production is dwindling and large withdrawals are expected to fully deplete the PF by the end of the 2030s, posing risks to long-term fiscal sustainability and contributing to fragility (2024 IMF; Country Engagement Strategy). Timor-Leste has one of the youngest populations in Asia, but the labor force faces multiple challenges: quality of education, human capital metrics, and labor force participation are all low relative to peers.

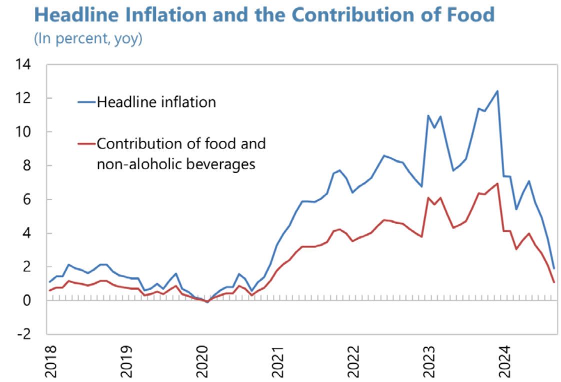
RECENT DEVELOPMENTS

3. **Growth slowed in 2023.** From 4 percent in 2022, non-oil GDP growth slowed to 2.4 percent in 2023 due to a drag from fiscal policy, as budget execution fell during the election year. From the demand side, a decline in the growth of private consumption and public investment contributed to the slowdown (Figure 1).

4. **Inflation was high in 2023 but has since moderated.** Headline inflation surged in 2023 averaging 8.4 percent, driven by rising food inflation and a tax hike in January 2023 (Annex I). Inflation fell sharply starting in January 2024, reaching 0.6 percent (y/y) in September. This was largely driven by moderating global food prices, the fading effect of tax hikes in January 2023, and the rollback of the tax hikes on import duties, sugar, and tobacco introduced by the new government.

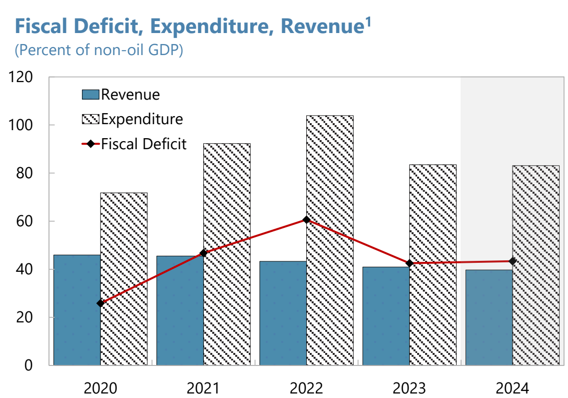


Sources: General Directorate of Statistics; and IMF staff estimates.

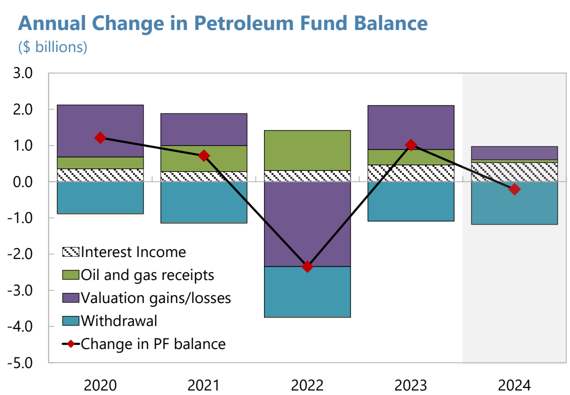


Sources: Timor-Leste General Directorate of Statistics.

5. The fiscal position improved significantly in 2023 but is deteriorating moderately in 2024. From 60½ percent of non-oil GDP in 2022, the fiscal deficit shrank to a still-sizable 42½ percent of non-oil GDP in 2023. Notwithstanding large excess withdrawals to finance the deficit, the PF's balance rose to $18.2 billion at end-2023 due to large valuation gains. For 2024, the budgeted expenditure envelope was large and incorporated a welcome expansion of capital expenditure. However, about 80 percent of expenditure was on recurrent items including large transfers to veterans and state-owned electricity company EDTL, and a high public sector wage bill. While the execution rate of capital expenditure has been sluggish (33 percent through end-October), staff expects it to rise to 60 percent by end-2024. Domestic revenues are expected to decline this year as the temporary factors that drove revenues higher in 2023—excises, import taxes, and non-tax revenues—unwind. The fiscal deficit is expected to deteriorate by 1 percentage point of non-oil GDP to 43½ percent in 2024.



Sources: Ministry of Finance; and IMF staff calculations.
1/ Revenue includes ESI.



Sources: BCTL's PF Reports; and IMF staff estimates and calculations.

6. Credit growth remains strong despite some moderation, and systemic risk is low. Since reaching 39 percent (y/y) in June 2023, credit growth has moderated but remains strong at around 30 percent in June 2024. Banks are well-capitalized and liquid, with a system-wide liquidity ratio of 77 percent as of end-2023, and the share of non-performing loans remains low at around 2 percent. The state-owned bank (BNCTL)—one of the largest in the country, with around a third of total system assets—has rapidly expanded its lending while maintaining a healthy capital adequacy ratio.

7. The external sector position in 2023 was substantially weaker than implied by fundamentals and desirable policies. The non-oil current account (CA) deficit remained large at 21 percent of non-oil GDP, reflecting fiscal imbalances and the underdevelopment of the private sector, while the overall current account deficit stood at 1 percent of non-oil GDP. The decline in oil exports is weighing heavily on the overall CA, while non-oil exports have stagnated. The real effective exchange rate (REER) appreciated by about 20 percent over the last three years, reflecting the global strength of the US dollar. On a preliminary basis, the external sector assessment remains unchanged in 2024 (Annex II). Following IMF technical assistance to improve the reporting of balance of payments statistics, staff's presentation of Timor-Leste's balance of payments now reflects the treatment of oil exports consistent with the 2018 Maritime Boundary Treaty (Box 1).

Box 1. Summary of Changes to the Balance of Payments for Timor-Leste[1]

Recent improvements in reported Balance of Payments (BOP) data for Timor-Leste—supported by extensive technical assistance from the IMF's Statistics Department (STA)—have prompted a comprehensive revision of BOP data used for bilateral surveillance. Unlike in previous consultations, data presented in Table 4 now coincide with official data published by the Banco Central de Timor-Leste (BCTL).

The revised data reflect the implications of the 2018 Maritime Boundary Treaty, which reclassified offshore oil and gas operations in Timor Sea as being resident activities in Timor-Leste. This called for the following adjustments:

- Goods exports now incorporate oil and gas sales, reflecting a substantial increase in the current account (CA).
- Services imports now include wages paid to oil and gas labor, providing a measure of production costs that can be used to estimate profits.
- Primary investment income no longer includes inflows for the oil and gas profits of Timor Sea but includes outflows for profits repatriated by foreign joint-venture partners.

Since some of the repatriated profits by foreign partners are reflected in the Financial Account as Direct Investment outflows instead of Primary Investment income, the changes tend to improve the current account balance. Measurement of the profit allocation requires continued technical improvement supported by ongoing technical assistance (TA), which will help reduce errors and omissions.

These modifications enable a more accurate estimation of the non-oil current account balance that is the basis for the External Sector Assessment (Annex II). They also lead to more accurate stock-flow consistency between the BOP's financial account and the change in the net international investment position.

[1] Prepared by Danila Smirnov.

OUTLOOK AND RISKS

8. Growth is estimated to rise to 3.5 percent in 2024, supported by fiscal expansion and strong credit growth. Credit growth would remain strong at about 18 percent y/y by end-2024, which will support private demand. A large expansionary fiscal impulse in 2025 will provide a smaller boost to growth because the additional spending is mainly driven by transfers which tend to be largely spent on imports (¶12). This will lead to a moderation in growth to 3.4 percent in 2025, which remains above the pre-pandemic average of 3 percent. Over the medium term, growth will converge gradually to 3 percent.

9. Inflation is expected to moderate further in the near term. While low crop yields associated with El Niño have been placing upward pressure on local food prices, this will be offset by the disinflationary effects from the expected moderation in global food prices. Headline inflation is estimated to average 2.2 percent in 2024 (Annex I). In 2025, inflation will ease further—averaging 1.5 percent—as the moderation of global food prices continues, before stabilizing at around 2 percent over the medium term.

10. Risks to the outlook are balanced. Near-to-medium-term downside risks include a global slowdown that would shrink the returns of the PF, and the materialization of extreme climate and weather shocks that would harm food security, price stability, and growth (Annex III). The onset of political instability—coupled with governance vulnerabilities (¶27)—would constrain foreign direct investment and delay progress on economic diversification. Upside risks include the materialization of major projects, including the development of the Greater Sunrise oil field, which would likely involve significant investment and a boost to long-term export receipts.[1]

Authorities' Views

11. The authorities broadly agreed with staff's assessment of the outlook and risks. They project slightly higher near-term growth based on more optimistic budget execution and private demand, citing strong incoming remittances and rising tourist arrivals. They noted that progress in major infrastructure projects, such as the expansion of the international airport and the submarine fiber-optic cable, as well as continued fiscal expansion would boost growth to 5 percent in the medium term. They shared staff's outlook for further moderation of inflation, and broadly concurred with staff's external sector assessment, underscoring the need to develop the private sector in order to reduce external imbalances.

POLICY DISCUSSIONS

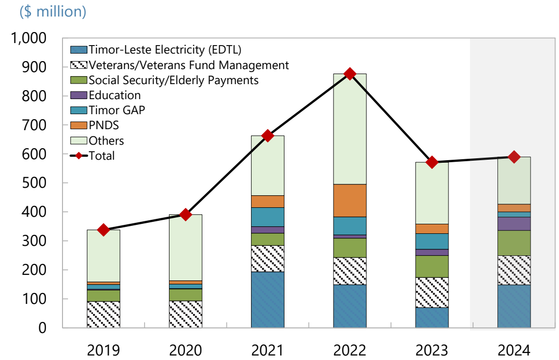
Amid capacity constraints and slow progress in reform implementation, policy should focus on key priorities. To support growth, the composition and quality of public spending must be improved. At the same time, containing overall spending is needed to preserve fiscal sustainability. Promoting private sector development requires well-sequenced structural reforms, and the authorities are rightly prioritizing an ambitious agenda of legal and institutional reforms of the financial sector.

[1] A study of project design and viability has been tendered for development of the offshore Greater Sunrise natural gas fields and is expected to be delivered in end-2024. The current baseline assumes no new oil production after the exhaustion of the Bayu Undan field in 2026.

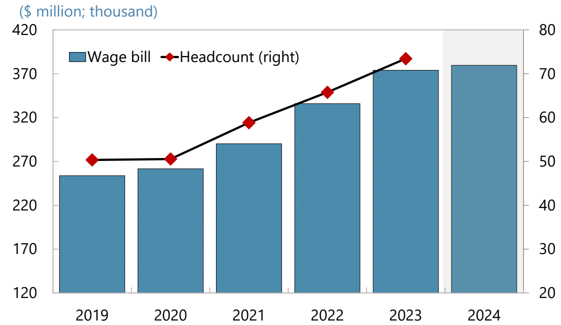
A. Supporting Growth While Securing Fiscal Sustainability

12. The 2025 budget contains an excessive increase in recurrent spending that will have a limited impact on growth. The draft 2025 budget proposes a spending envelope that is about 10 percent larger than the 2024 budget, notably due to a large—and permanent—increase in transfers to veterans and pensioners.[2] It includes an appropriate and well-calibrated increase in spending on capital projects, health, and education. Staff assumes that the execution rate of capital expenditure will continue to rise in 2025 (and over the medium term) as PFM reforms advance. The fiscal deficit is expected to deteriorate by 5 percentage points of non-oil GDP to 49 percent of GDP in 2025. The large expansionary fiscal impulse will, however, have a limited impact on growth given the low multipliers associated with transfer schemes (¶8).

13. The budget's increased fiscal transparency is welcome. Staff welcomes the compilation and publication of more granular information in the 2025 budget on recurrent spending, including transfer programs and the public sector wage bill. This should be supplemented by ongoing initiatives to improve reporting by line ministries, including the establishment of government accounting standards. In 2024, transfers to veterans and state-owned electricity company EDTL comprise more than 40 percent of total transfers.[3] According to payroll data, the headcount of public sector employees rose sharply by 45 percent from 2020 to 2023, but this does not seem to have alleviated capacity constraints.[4]



Source: Ministry of Finance.



Source: Payroll Data; Ministry of Finance; and IMF staff estimate.
1/ Based on payroll data. For 2024, wage bill is based on wages and salaries in 2024 budget adjusted for level shift relative to the payroll data.

2 The additional allocation—which would accommodate the expanded list of eligible veterans—amounts to $97 million (4½ percent of non-oil GDP), almost doubling the total allocation for veterans from $101 million in 2024.

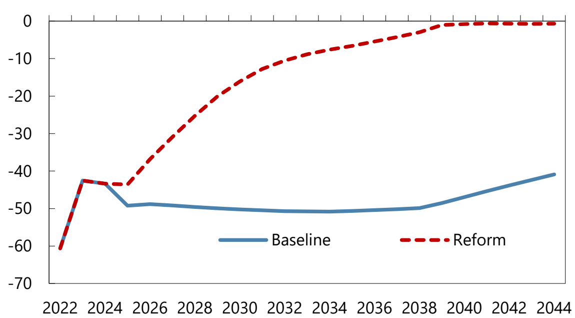
3 Current transfers declined sharply in 2023 notably due to lower allocations for EDTL and the National Program for Village Development (PNDS).

4 The newly published headcount data are based on administrative payroll data that are subject to certain measurement challenges, including from the reclassification of certain short-term contractors under the modifications to the treasury's chart of accounts in 2019.

14. Over the medium term, the fiscal deficit should be reduced gradually to preserve fiscal sustainability.

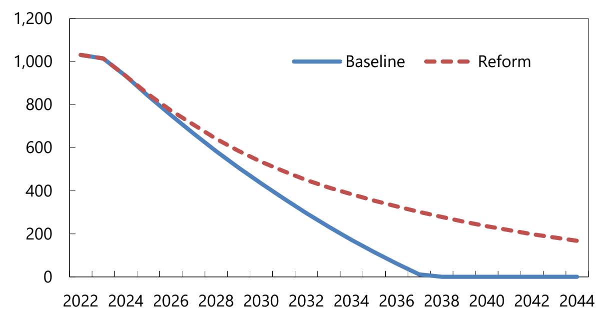
- *Baseline*. Over the medium term, the government expects to raise the budget envelope and the share of capital expenditure to pursue its 5 percent growth target. Staff's baseline broadly reflects this expenditure path but continues to assume a more modest expansion in view of constraints from public procurement and investment systems and the economy's limited absorptive capacity. With low domestic revenues, fiscal deficits will remain large, requiring excess withdrawals from the PF that result in its full depletion by 2038 (the Ministry of Finance estimates full depletion by 2035 due to its assumption of higher public expenditure growth). Notwithstanding this long-term challenge, the large buffer in the PF provides enough room for maneuver to maintain a rating of moderate risk of debt distress in the 2024 Debt Sustainability Analysis.

Fiscal Balance
(Percent of non-oil GDP)



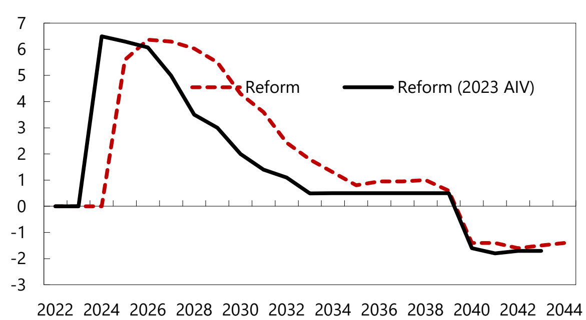
Source: IMF staff estimates.

PF Balance
(Percent of non-oil GDP)



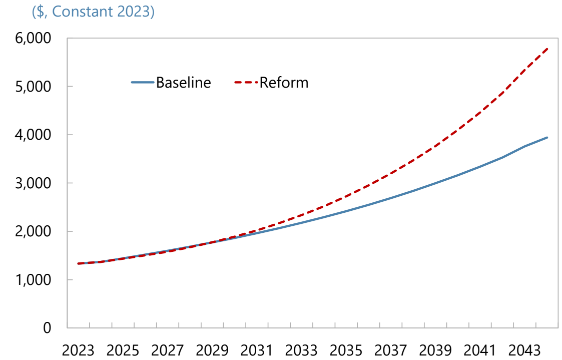
Source: IMF staff estimates.

Added Fiscal Effort for Reforms
(Diff. in primary balance; percent of non-oil GDP)



Source: IMF staff estimates.

Per-Capita Non-Oil GDP
($, Constant 2023)



Source: IMF staff estimates.

- *Recommendation*. Staff recommends a reform scenario during 2025-34 that supports the private sector through structural reforms and gradually reduces fiscal deficits to stabilize fiscal buffers (i.e., no excess withdrawals from the PF from 2034 onwards). The recommended fiscal effort is somewhat more gradual than in the 2023 Article IV, given the stronger-than-expected balance in the PF at end-2023, which mitigates the adverse growth impact from consolidation. The reform scenario includes expenditure restraint and rationalization (¶15), domestic revenue mobilization supported by improvements to tax administration (¶16), and structural reforms to develop the private sector and boost growth (¶20, ¶25, Annex IV).

Baseline and Recommended Reform Scenario

			Baseline				Reform			
	2023	2024	2025	2029	2034	2044	2025	2029	2034	2044
	Percent of non-oil GDP (unless noted otherwise)									
Real non-oil GDP growth (in percent)	2.4	3.5	3.4	3.0	3.0	3.0	2.9	3.9	5.5	6.3
Revenue (excl. grants)	41.0	39.7	37.6	28.2	19.0	12.5	37.8	34.1	28.4	22.0
Domestic revenue	13.8	11.4	11.5	11.7	12.5	12.5	11.5	16.2	17.0	17.0
Estimated Sustainable Income	27.2	28.3	26.2	16.4	6.5	0.0	26.3	17.9	11.4	5.0
Expenditure	83.5	83.1	86.8	78.1	69.8	53.3	81.4	54.2	36.0	22.7
Recurrent	70.6	69.8	73.6	64.4	55.5	41.3	68.4	42.3	26.0	16.0
Capital	12.8	13.3	13.2	13.7	14.3	12.0	13.0	11.9	10.0	6.7
Fiscal balance	-42.5	-43.3	-49.2	-49.9	-50.8	-40.9	-43.6	-20.1	-7.6	-0.7
Financing										
PF excess withdrawals	33.3	32.6	47.9	49.0	48.5	0.0	42.3	17.8	0.0	0.0
Net incurrence of liabilities	0.6	0.4	1.3	0.9	2.3	39.9	..	..	..	..
PF closing balance										
$ million	18,288	18,078	17,402	13,640	6,367	0	17,476	15,748	15,619	17,253
Percent of non-oil GDP	1,015	932	839	507	172	0	847	585	384	168
Current account balance	-1.0	-10.1	-24.9	-33.3	-33.9	-28.0	-20.6	-16.9	-10.8	-4.5

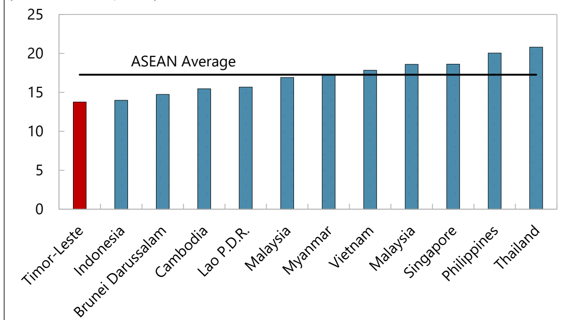
Source: IMF staff estimates.

15. **The composition and quality of public spending should be improved.** Expenditure restraint and rationalization should entail gradually unwinding the surge in recurrent spending—on the public sector wage bill and those transfer programs that do not target Timor-Leste's most vulnerable citizens—that has been rolled out since 2020, while accommodating higher spending on human capital (health and education), physical capital (including for climate-resilient infrastructure) and a better-targeted social safety net. Prioritizing spending in these areas would also align the budget towards Timor-Leste's Sustainable Development Goals (¶26). The pace of capital spending should remain aligned with the economy's absorptive capacity. This requires careful project selection based on cost-benefit analysis that should consider how projects alleviate structural bottlenecks identified in the government's long-term strategic plan. The planned IMF capacity development (CD) to strengthen budget preparation will contribute to address this effort. The unwinding of the public wage bill should involve trimming public employment while increasing productivity through reforms to professionalize the public service.

16. **Domestic revenue mobilization should start promptly and be raised gradually.** Timor-Leste's domestic revenue of 13.8 percent of non-oil GDP lags ASEAN peers. Staff supports the authorities' plan to introduce a VAT in 2026, which requires immediate progress with legislation, organizational change at the revenue agency, improved taxpayer registration, and upgraded IT infrastructure. Since it will replace some existing tax instruments, the VAT's rate and coverage should

be calibrated to raise overall tax revenues. Improving tax administration procedures, supported by IMF CD, would also raise compliance with tax-filing obligations and boost revenues in the short term.[5] Over the long term, additional tax reforms should aim to gradually increase revenues towards the ASEAN average of around 17 percent of GDP (Annex IV).

Domestic Revenue: Timor-Leste and ASEAN[1]
(Percent of GDP; 2023)



Sources: CEIC Data Company Ltd; national authorities; and World Economic Outlook.
1/ Percent of non-oil GDP for Timor-Leste.

17. Advancing PFM reforms and developing a medium-term fiscal framework would contribute to budget discipline and spending efficiency. Low and variable budget execution rates demonstrate weak fiscal discipline, limited capacity in project selection and implementation, and a lack of coordination across line ministries. Implementation of the revised Procurement and Budget and PFM Framework laws should improve budget planning and execution as well as project selection—these would also improve the quality and efficiency of public spending. Efforts to promote digitalization could enable better targeting of social assistance programs in the future. The authorities should also formulate a medium-term fiscal framework that articulates their multi-year fiscal strategy. IMF CD on the macroeconomic projection tool (MPT), which has been assisting the authorities with budget planning and monitoring, will also contribute to implementing a medium-term fiscal framework to ensure growth-friendly fiscal consolidation.

Authorities' Views

18. The authorities noted that their fiscal strategy prioritizes stronger growth, expenditure efficiency, and domestic revenue mobilization. They envisage a larger growth impact from the expansionary fiscal impulse in 2025, reflecting their focus on boosting budget execution of capital expenditure. In this regard, they pointed out that project readiness—prioritizing projects in the infrastructure fund that have advanced to the procurement phase—was a key criterion in the 2025 budget. They underscored that additional transfer payments would support private consumption and investment while acknowledging significant import leakage. The authorities remain committed to strengthening budget credibility, project selection, and fiscal transparency. To that end, they highlighted progress on legislative reforms to the Procurement and Budget and PFM Framework laws. The authorities expressed their commitment to fiscal sustainability, and noted the likely development of the Greater Sunrise oil fields was a major mitigating factor. To improve fiscal discipline, they are planning to formulate a multi-year fiscal strategy with indicative spending ceilings. The authorities are committed to improving the productivity of the public sector workforce. They remain committed to mobilizing domestic revenues and aim to implement a VAT in 2026.

[5] Filing compliance is currently around 30 percent for personal income tax, and 8 percent for corporate income tax (ISORA 2022).

B. Reforms to Promote Financial Deepening and Inclusion

19. The financial system remains shallow, impeded by an incomplete legal framework. Despite the strong credit growth—which has been particularly directed to households with stable income sources, including public employees and recipients of government transfers and social security—the credit-to-GDP ratio remains low at 27 percent in 2023. The authorities appropriately seek to promote financial deepening and inclusion, including through the digitalization of financial services. Lending is impeded by the lack of (i) a functional land titling system, (ii) a legal framework for collateralization, and (iii) standardized corporate financial reporting.

20. Addressing structural bottlenecks to lending through financial sector reforms is essential for private sector development. Staff welcomes the authorities' ambitious agenda of financial sector reforms. First, a new banking law is being developed with support from Banco de Portugal and the IMF, which aims to align the local regulatory framework with international best practices. Second, a framework for secure transactions is being developed in collaboration with the IFC, which will allow movable assets to be used as collateral. Third, the legal and institutional framework for financial reporting and auditing standards is being developed with assistance from the World Bank. Accelerating the issuance of land titles will offer a crucial source of collateral, and is urgently needed to fully realize the potential of these legal reforms. These reforms—in conjunction with improved internet access enabled by the installation of a new submarine fiber-optic cable—can support digitalization of financial services, as demonstrated by the Rwanda case (Box 2).

21. The loan-to-deposit ratio (LDR) floor does not appear to be boosting lending and may be having unintended adverse effects on the banking sector. The central bank gradually phased in a minimum LDR requirement last year, which reached 35 percent in January 2024. Since its introduction, credit expansion has been primarily driven by the state-owned bank (BNCTL), which has been operating above the regulatory floor. While lending by private commercial banks has also grown and most are in compliance with the regulatory floor, it has grown at a rate that is broadly consistent with its previous trend and that remains subdued. Some private banks are unwilling to extend unsecured new loans, which they assess as too risky in view of the structural impediments described above. By reducing banks' net interest margins, the LDR floor may be reducing their appetite to accept deposits, though its relatively low level limits this distortion. To encourage financial development, the authorities should prioritize advancing their ambitious reform agenda and refrain from increasing the LDR floor.

22. The BCTL should continue close monitoring and oversight of the financial sector. Staff recommends enhancing the collection and public dissemination of Financial Soundness Indicators (FSIs)—supported by CD from STA—and the implementation of IFRS9 accounting standards for all banks, following up on recent training provided by PFTAC.

Box 2. Lessons from Rwanda's Digitalization and Collateral Reforms for Timor-Leste[1]

Rwanda and Timor-Leste share a common experience as post-conflict states facing similar challenges. These include a high share of the rural population, lack of formal land property rights, and under-developed financial systems. However, Rwanda has since implemented significant reforms. Between 2009 and 2012, the government of Rwanda transformed land ownership, which had been in disarray due to civil conflict and subsequent migration of returnees, into a digital registry of 10.4 million land parcels. At the same time, driven by strong activism, political commitment, and affordability, internet connectivity grew and became pervasive. While access to formal financing was limited initially, these reforms together contributed to the growth of formal banking, leading to better borrowing opportunities and lending conditions.

Rwanda's experience demonstrates the complementarity between digitalization and legal reforms in enhancing access to formal financial services. Rwanda's integration of mobile internet with land tenure reforms significantly improved the use of land as collateral, thereby increasing access to credit and participation in the banking system (D'Andrea and others 2024). This is particularly relevant for Timor-Leste where domestic lending currently faces challenges from lack of access to collateral, but, going forward, a sizable improvement in reliability and penetration of internet connectivity is expected due to the upcoming underwater fiber optic cable.

From 2008 to 2020, financial inclusion[2] in Rwanda increased from 48 to 93 percent of the population, and the share of adult population using commercial banking services grew from 14 to 36 percent. Importantly, internet connectivity has been proven to have a significant effect on the increase in commercial bank usage, but not on overall financial inclusion as shown both by D'Andrea and others (2024) and by Breza and Kinnan (2021) for a similar case in India. Crucially, collateral plays the key role of mediator and boosting the effect of internet connectivity by approximately 50 percent for bank loans overall and by four times for collateralized loans specifically.

From the perspective of Timor-Leste, a key lesson is that despite the high potential impact for supporting financial access, mobile internet access effect could be further strengthened with other crucial reforms. First, it is crucial to implement land reform together with the introduction of digital registry to ensure the transparency of land property rights as well as streamline their verification process and allow the use of land as collateral. Second, the ongoing fiber-optic cable project should be completed, facilitating the development of widespread and reliable mobile internet coverage, especially in rural areas. Third, it is important to strengthen legal and regulatory frameworks to support digital transactions and property rights, while also training local officials and public in using digital platforms and understanding new regulatory frameworks.

[1] Prepared by Danila Smirnov.

[2] Refers to individuals who access financial products or services formally through regulated institutions, including those who use services from licensed commercial banks and other financial products. It also encompasses those who utilize financial services from regulated non-bank institutions. Also includes those using unregulated mechanisms like community savings groups.

Authorities' Views

23. **The authorities expressed their commitment to boosting financial deepening and inclusion, which are needed to support private sector development.** The central bank has developed a new strategic plan for financial sector development that outlines several initiatives, including (i) a legislative reform agenda, (ii) digitalization of the financial sector, and (iii) the development of a credit information system. The authorities agreed that advancing their legislative

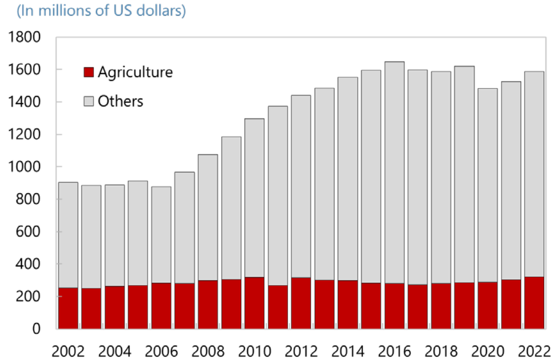
reform agenda is key to boosting lending but argued that the regulatory LDR floor serves as a useful complementary measure before the effects of these reforms materialize. They viewed the measure as effective—overall credit has grown at a faster pace since its introduction—and not overly burdensome to banks given their high profit margins and conservative business models. They concurred that accelerating issuance of land titles is crucial to financial development, emphasizing that this is a priority for the government.

C. Other Structural Reforms for Private Sector Development

24. Timor-Leste is taking welcome steps towards deeper integration in the global and regional economies. Timor-Leste joined the WTO in February 2024 and is proceeding with its ASEAN accession roadmap. These steps are providing a positive impulse to the reform agenda and could contribute to higher growth, as seen in previous accession cases (Brotto and others 2020). A new insolvency framework has been committed under the WTO accession, and improvements to macro statistics and implementation of a VAT are part of the economic pillar for ASEAN accession.

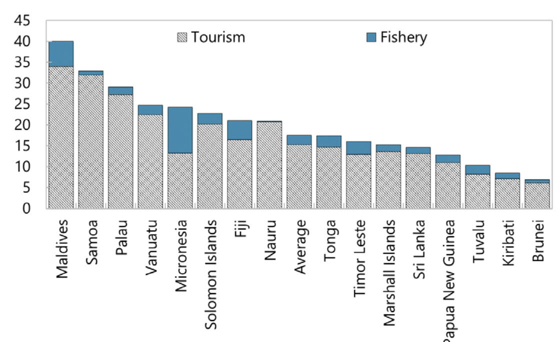
25. Developing the agriculture and tourism sectors is crucial to diversify export receipts, address malnutrition, and foster rural development.[6] The WTO and ASEAN accession will support this effort by providing stable market access and an impetus to improve the business climate—both crucial for attracting foreign direct investment (World Bank 2024). Tourism arrivals have not fully recovered since the pandemic, constrained by poor infrastructure and low business and hospitality skills in the workforce (ILO 2014), and possibly by an overvalued REER. The planned public investment to expand the airport will increase connectivity and could support tourism. For rural areas, sustainable development of the "blue economy" through ecotourism could be particularly beneficial, and will require responsible stewardship of Timor-Leste's rich ocean environment (IMF 2021).

Total Real Non-Oil GDP: Agriculture and Others
(In millions of US dollars)



Sources: General Directorate of Statistics.

The Blue Economy: Tourism and Fishery
(In percent of gross value-added, 2019)



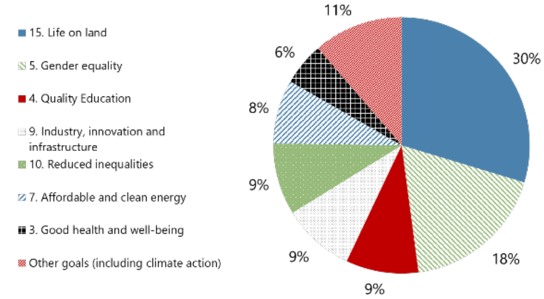
Sources: IMF staff estimates, based on Gonguet and Zhou (2024, forthcoming) and Huo et al (2022).

[6] About 60 percent of the Timorese population depend on subsistence agriculture, and productivity in the sector is very low (Figure 5). Coffee production currently accounts for 90 percent of non-oil export and provides income for about 20 percent of all households (ADB 2019).

26. Investment in climate-resilient infrastructure is needed. Timor-Leste is vulnerable to natural disasters including floods, whose frequency and severity are expected to increase with climate change. Overall, Timor-Leste is among the most vulnerable Asian economies to climate change (IMF 2023—CES). Given the limited budget allocation (0.1 percent of the 2025 budget for climate agenda) and to conserve limited fiscal space, concessional resources could be mobilized gradually to finance investments in climate-resilient infrastructure. To that end, the authorities should develop a pipeline of projects as part of the broader capital expenditure plan. Developing climate-resilient roads to connect rural areas with Dili would facilitate more reliable market access for agricultural producers. Climate resilience is also essential for mitigating food insecurity. A recent program supported by Japan International Cooperation Agency to enhance rural rice production through modernized irrigation provides an example of building capacity for climate-resilient agriculture.

Budget Allocation by SDG Goals

(In percent, 2025 proposed budget)



Source: Ministry of Finance.

27. Governance reforms are progressing, but more are needed to address vulnerabilities. There has been progress in governance reforms in some areas, including the adoption of an expanded anti-corruption law in 2020. However, the anti-corruption commission remains under-resourced, and its work is undermined by capacity constraints across government agencies. Substantial governance weaknesses exist in the domain of rule of law, including contract enforcement. The unclear status of land rights and lack of an insolvency framework should be addressed to enhance the protection of property rights. Efforts are also required to complete the regulatory framework, including product market regulation and business registration. The authorities should address deficiencies in their AML/CFT frameworks in a timely manner, in line with the findings and recommendations in the Mutual Evaluation Report recently adopted by the Asia Pacific Group.

28. The quality and frequency of macroeconomic statistics should be enhanced. Data are broadly adequate for surveillance but have some shortcomings. There has been steady progress in the compilation and reporting of macroeconomic statistics, but limited capacity leads to shortcomings in data provision (Annex V). Ongoing CD from the IMF and development partners improved the reconciliation of BOP and IIP data, compilation of Financial Soundness Indicators, and Public Sector Debt Statistics, but further improvements are needed. These include better handling of petroleum-related transactions and foreign direct investment flows, compilation and dissemination of GFS, and strengthening inter-agency coordination. Moreover, authorities should complement the ongoing CD efforts with adequate staffing and resource allocation.

29. Dollarization has helped Timor-Leste achieve relatively low and stable inflation in the context of post-conflict fragility but may be contributing to weakening competitiveness. Compared to other post-conflict economies, Timor-Leste has achieved relatively good performance in terms of growth since independence (Selected Issues Paper). However, the non-oil economy has underperformed in the last decade despite continued high levels of public spending relative to the economy. Inflation has remained relatively low and stable in the last decade under dollarization. The real exchange rate has appreciated considerably as the US dollar strengthened, which may be acting as a headwind to the diversification of exports. Besides the constraints on nominal adjustment imposed by dollarization, several structural bottlenecks also constrain competitiveness.

30. Improved performance under dollarization requires reduced fiscal imbalances and advancement of reforms that address structural bottlenecks that also undermine competitiveness. While the choice of currency regime lies with the authorities, progress at addressing these challenges, as well as building technical capacity at the central bank, and improving the regulatory and legal framework for the financial system, should be seen as pre-requisites before consideration is given to the introduction of a national currency.

Authorities' Views

31. The authorities agreed on the need for reforms to strengthen export diversification, governance, and macroeconomic statistics. They saw potential opportunities for diversification from WTO and ASEAN accession, and recognized that improving the competitiveness of Timor-Leste's young workforce would be needed to reap the full benefits of greater integration. They noted staff's diagnosis of governance vulnerabilities, and were hopeful that the recent appointment of a new commissioner for the Anti-Corruption Commission would strengthen its activities. They noted that the Asia Pacific Group adopted its mutual evaluation report of Timor-Leste's AML/CFT framework and expressed commitment to implementing its recommendations. The authorities broadly concurred with staff's data adequacy assessment, and highlighted their commitment to ongoing efforts to enhance data quality and timeliness. They welcomed CD support in this area from the IMF and other development partners. The authorities welcomed staff's analysis of Timor-Leste's experience under dollarization, and noted that they have no immediate plans to introduce a new currency.

STAFF APPRAISAL

32. Fiscal expansion and strong credit growth are expected to support economic growth in 2024. Following a slowdown in 2023, growth is estimated to rise to 3.5 percent this year. A large fiscal expansion in 2025—mainly driven by transfers with low multiplier—would deliver growth of 3.4 percent next year. In the long run, non-oil GDP growth is expected to remain modest at around 3 percent, which corresponds to about 1.5 percent in per-capita terms. As global commodity prices moderate, inflation will ease further, averaging 2.2 and 1.5 percent in 2024 and 2025, respectively. The external sector position in 2023 was substantially weaker than implied by fundamentals and desirable policy settings.

33. Risks to the outlook are balanced. Near- to medium-term risks include a sudden global recession that could reduce PF returns, severe climate events affecting food security, and an onset of political instability limiting foreign direct investment. Conversely, reaching an agreement to develop the Greater Sunrise oil field could boost long-term exports.

34. The sizable savings in the PF should be used productively and prudently to deliver higher living standards. In the past decade, a high share of public spending relative to the economy has delivered only modest growth and development. Timor-Leste remains at moderate risk of overall and external debt distress, but large fiscal imbalances over the medium term would fully deplete the PF by the end of the 2030s. Fiscal and structural reforms are needed to secure fiscal sustainability, which would also strengthen the external sector position.

35. Public spending should be reduced gradually, and its quality further improved, while domestic revenue mobilization should start promptly. Expenditure restraint should involve gradually unwinding the surge in recurrent spending since 2020, while accommodating higher spending on human and physical capital (including in climate-resilient infrastructure) and on social safety nets (to protect the vulnerable). Regarding revenue mobilization, a key reform priority is the introduction of the VAT in 2026, which requires immediate progress with legislation and strengthening tax administration. These fiscal efforts should be underpinned by advancing PFM reforms and formulating a medium-term fiscal framework.

36. Addressing structural bottlenecks to lending through financial sector reforms is crucial for private sector development. The authorities' ambitious agenda of legal reforms of the financial sector is welcome. Accelerating the issuance of land titles would provide essential collateral and is urgently needed to fully realize the potential of these legal reforms.

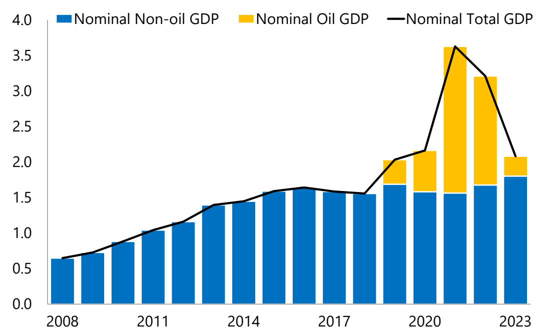
37. These should be combined with other structural reforms to support economic diversification. Ongoing steps towards deeper integration in the global and regional economies should continue. While governance reforms are progressing, more are needed to address vulnerabilities, notably in the domain of rule of law. Deficiencies in the AML/CFT framework should be addressed in a timely manner, in line with the findings and recommendations in the Mutual Evaluation Report recently adopted by the Asia Pacific Group. Improved performance under dollarization requires reduced fiscal imbalances and advancement of reforms that address structural bottlenecks that also undermine competitiveness.

38. It is proposed that the next Article IV consultation with Timor-Leste take place on the standard 12-month cycle.

Figure 1. Timor-Leste: Real Sector Developments

Oil production has been part of total GDP since 2019 post the treaty on maritime boundaries with Australia.

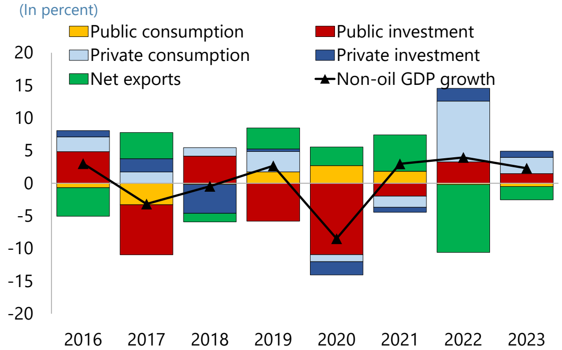
Nominal GDP: Total, Oil, and Non-Oil
(In billions of US dollars)



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

Growth slowed in 2023 mainly due to a slowdown in private consumption and public investment.

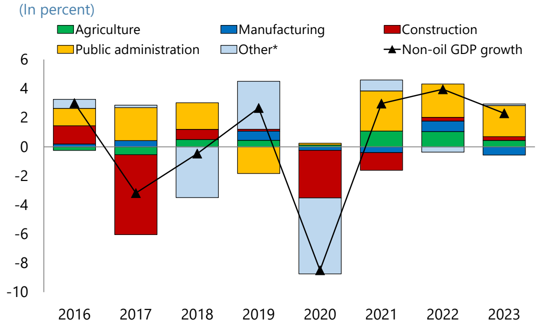
Real Non-Oil GDP Expenditure: Contributions to Growth
(In percent)



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

Public administration continued to play a sizable role.

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

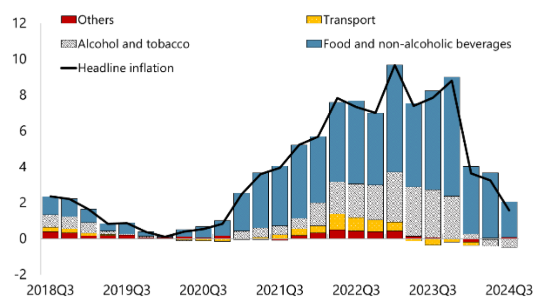


*Other includes wholesale and retail trade, real estate services, and other activities.

Source: General Directorate of Statistics.

Food has been the primary contributor to recent inflation dynamics.

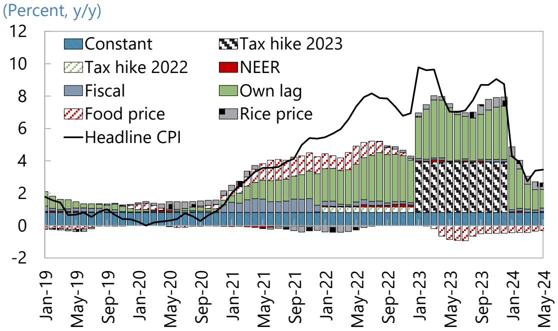
Contribution to Headline Inflation
(In percent, y/y, quarterly)



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

In recent months, headline inflation has eased as global food prices moderate and tax hikes were rolled back…

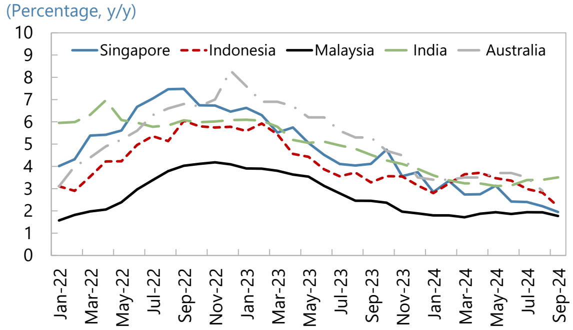
Headline Inflation: Decomposition
(Percent, y/y)



Source: IMF staff estimates.

….mirroring the disinflation experience of Timor-Leste's main trading partners.

Core CPI: Trade Origin Economies
(Percentage, y/y)

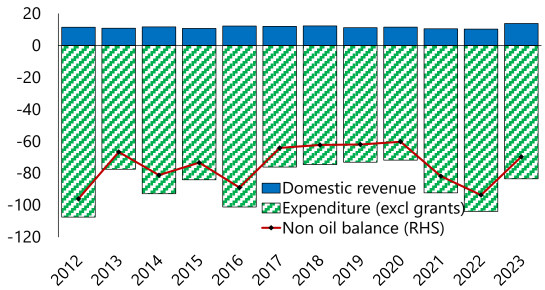


Sources: CEIC Data Company Limited; and IMF staff calculations.

Figure 2. Timor-Leste: Fiscal Sector Developments

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

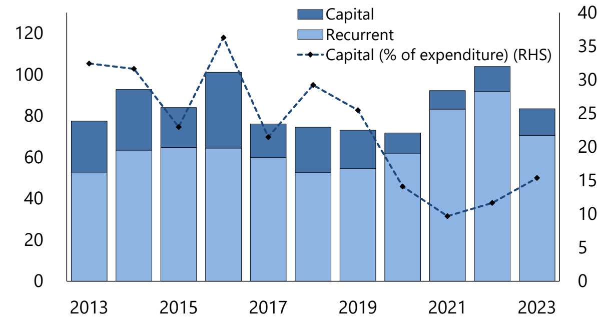
Non-Oil Balance
(Percent of non-oil GDP)



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

The share of capital spending remains small…

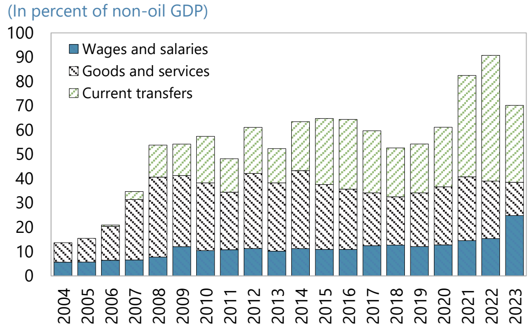
Expenditure Shares
(Percent of non-oil GDP, excl. donor projects)



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

…but recurrent spending moderated in 2023 following a large partly Covid-related spike in 2021-22.

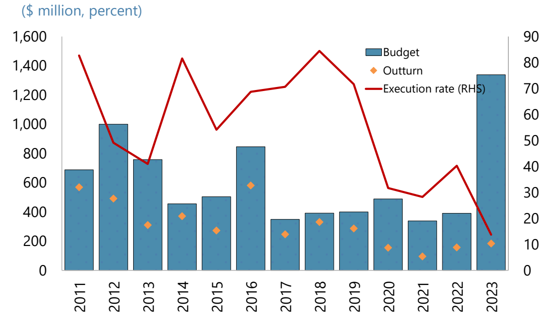
Recurrent Spending
(In percent of non-oil GDP)



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

The execution rate for capital spending was low during 2020-23.

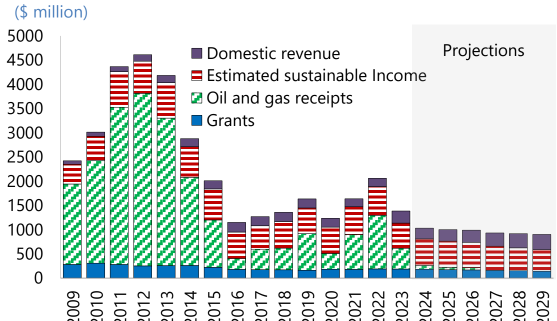
Capital Expenditure: Budget and Execution[1]
($ million, percent)



Sources: Ministry of Finance of Timor-Leste; and IMF staff estimates.
1/ Budget and execution rate for 2023 are based on the original budget.

With oil and gas receipts dwindling, there is a pressing need to mobilize domestic revenues…

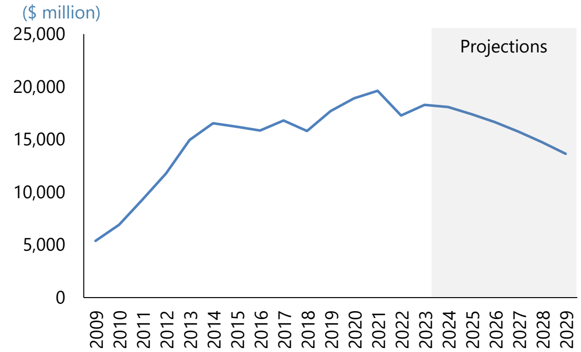
Revenue Sources
($ million)



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

…and to reduce fiscal deficits to avoid depleting the PF.

Petroleum Fund Balance
($ million)



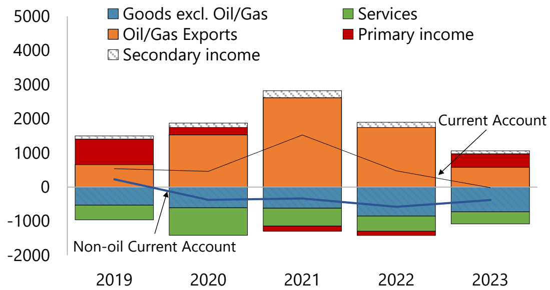
Sources: Ministry of Finance of Timor-Leste; and IMF staff estimates.

Figure 3. Timor-Leste: External Sector Developments

Dwindling oil/gas exports have substantially deteriorated the overall current account.

Current Account Balance

($ million)

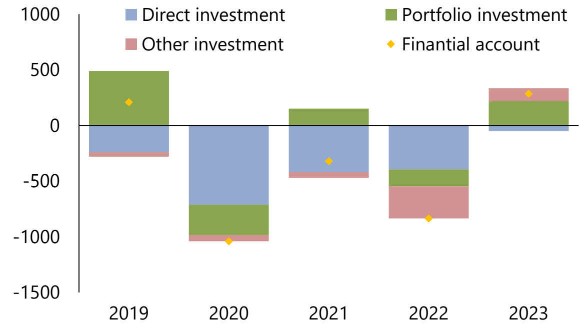


Sources: Central Bank of Timor-Leste; and IMF staff estimates.
Note: Oil/Gas revenue used for Oil/Gas exports prior to MBT.

Large direct investment outflows subsided in 2023, turning the financial account positive.

Financial Account Balance

(In millions of US dollars)

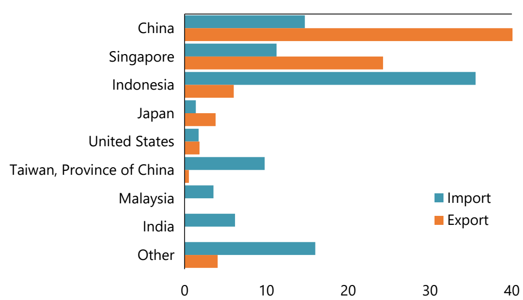


Sources: Central Bank of Timor-Leste; and IMF staff estimates.

China and ASEAN countries are the main trading partners.

Trade Composition by Economy in 2023

(In percent of total)

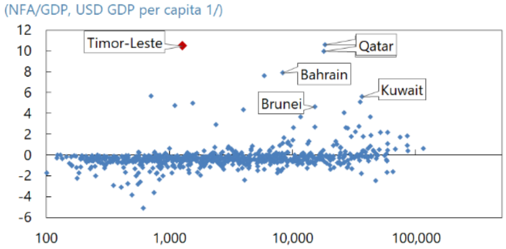


Sources: National Statistics Institute of Timor-Leste.

Timor-Leste's NFA position is one of the highest in the world as a share of the domestic economy.

Timor-Leste's Net Foreign Assets in 2022 in Global Context

(NFA/GDP, USD GDP per capita 1/)

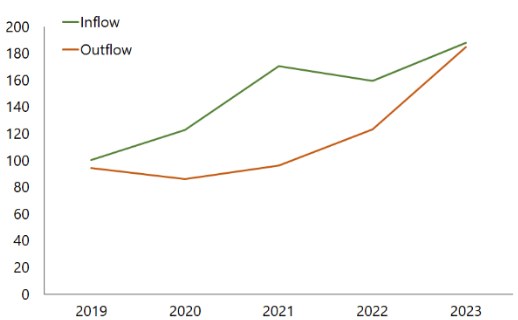


Sources: Lane and Milesi-Ferretti (2022), World Bank; and IMF staff calculations.
1/ Datapoint represents 10-year average Net Foreign Asset (NFA) position vs average GPD per capita in the same period. Data spans all IMF member countries up to 2022 and stretches back to 1970 for some countries.

Remittance flows are increasing, with outflows picking up in the last years.

Remittances Flows

(In millions of US dollars)

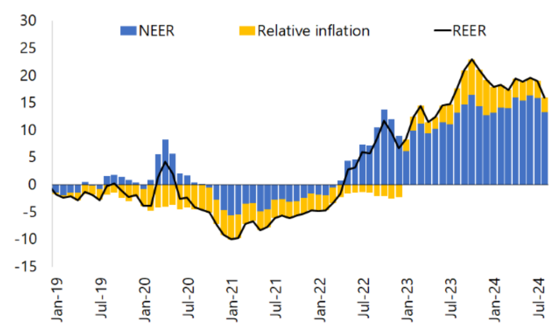


Sources: Central Bank of Timor-Leste

The REER has appreciated sharply amid global strength of the US dollar.

Real Effective Exchange Rate: Cumulative Change

(In percent, y/y)

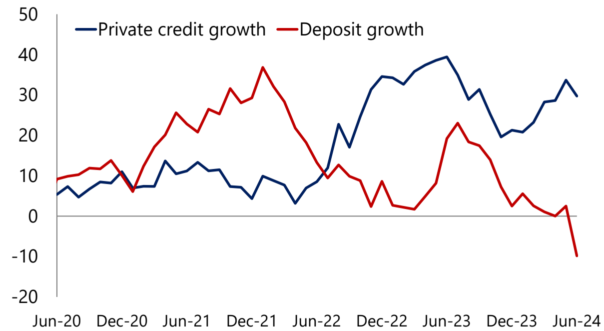


Source: Information Notice System (INS); and IMF staff calculations.

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

Private sector credit growth has moderated but remains strong at around 30 percent in June 2024.

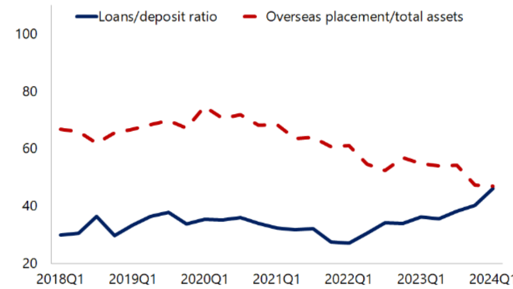
Credit and Deposit Growth
(In percent, year-on-year)



Source: Central Bank of Timor-Leste.

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

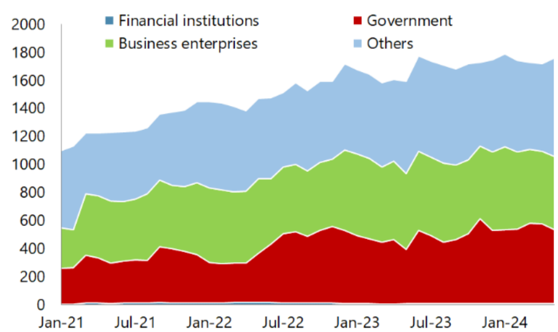
Liquidity Ratios
(In percent)



Source: Central Bank of Timor-Leste.

After a surge in deposits by the private sector in 2021, the growth remained relatively stable, moderating in the last year.

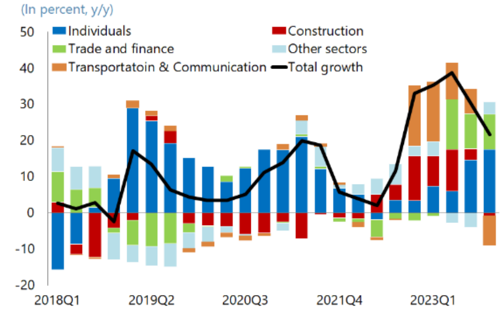
Deposits by Type of Depositors
(In millions of US dollars)



Source: Central Bank of Timor-Leste.

Despite recent moderation, private sector credit growth remains strong, supported by a rising contribution from loans to individuals.

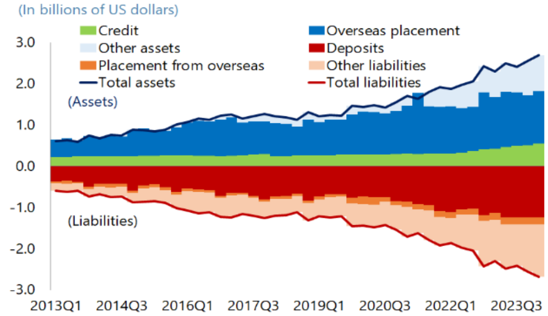
Loans to Private Sector: Contribution to Growth
(In percent, y/y)



Source: Central Bank of Timor-Leste.

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

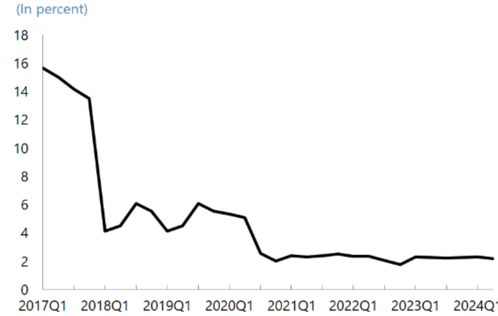
Banking Sector Balance Sheet
(In billions of US dollars)



Source: Central Bank of Timor-Leste.

NPLs remained low through 2024Q1.

NPL Ratio
(In percent)



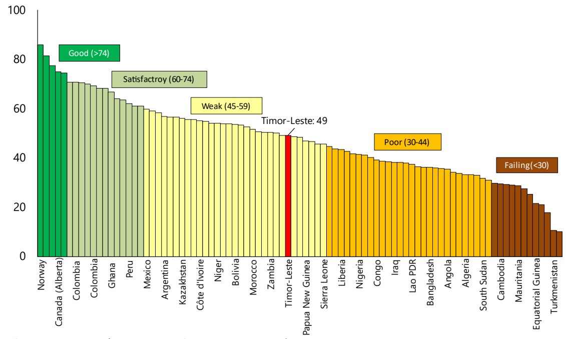
Source: Central Bank of Timor-Leste.

Figure 5. Timor-Leste: Business Environment and Governance

The governance of the Timor-Leste's natural resource sector is weak by international standards, and…

Resource Governance Index

(Index ranges from 0-100, higher is better, 2021)

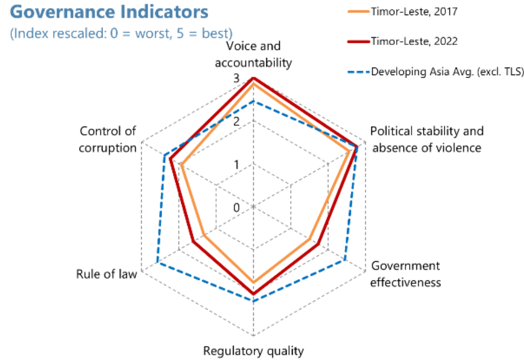


Source: Natural Resource Governance Institute.

…the perceived governance of the public sector is improving but with some vital areas of weaknesses.

Governance Indicators

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

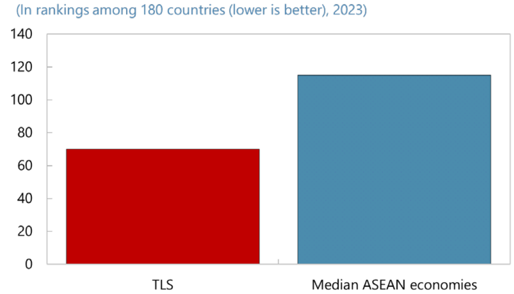


Source: Daniel Kaufmann and Aart Kraay (2023).

Perception of corruption appears to be less of a concern compared with ASEAN economies.

Corruption Perception Index

(In rankings among 180 countries (lower is better), 2023)

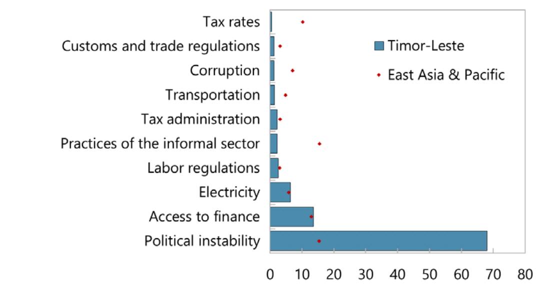


Source: Transparency International's Corruption Perceptions Index.
Note: BRN is not included in the right bar because the data is unavailable.

Political instability and limited financial access are the main business constraints perceived by firms.

Top Ten Business Environment Constraints

(Percent of firms choosing as their biggest obstacles, 2021)

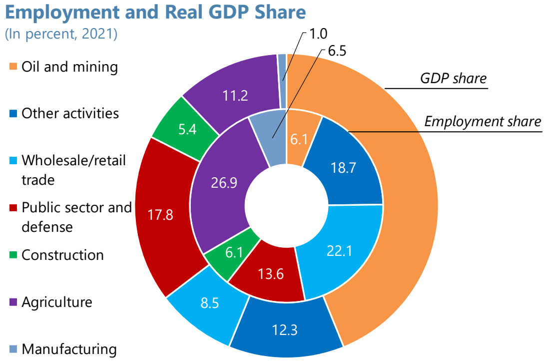


Source: World Bank Enterprise Surveys. These are firm-level surveys with managers and owners of businesses in over 150 economies.

Despite a large share of employment in the agriculture and services sectors, their share in GDP remains small…

Employment and Real GDP Share

(In percent, 2021)

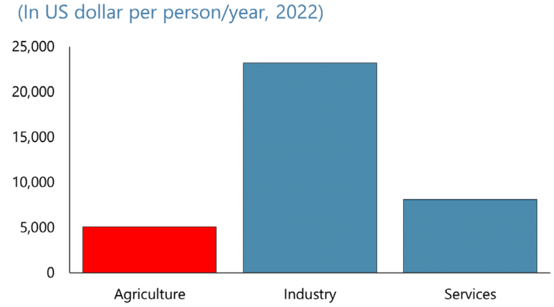


Source: General Directorate of Statistics and Ministry of Finance.

…driven by very low labor productivity.

Labor Productivity

(In US dollar per person/year, 2022)

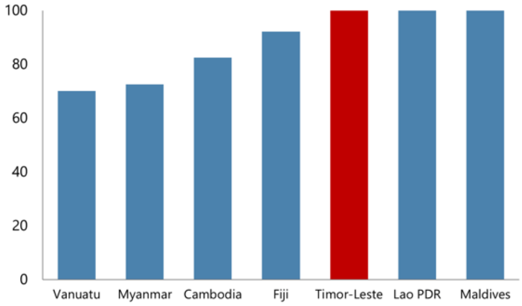


Source: National Institute Of Statistics Timor-Leste.
Note: The number of employers is based on 2021 Labor Force Survey.

Figure 6. Timor-Leste: Challenges to Growth

Access to electricity is nearly universal and aligned with Asian EMDEs …

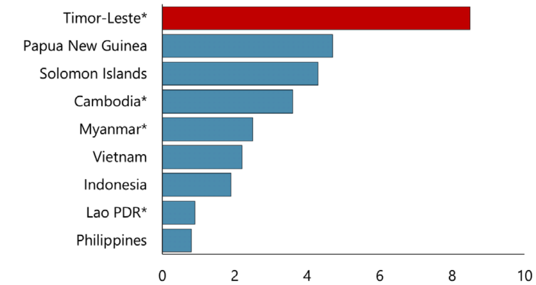
Access to Electricity
(In percent of population, 2021)



Source: World Bank, World Development Indicators.

…but losses due to electrical outages are high.

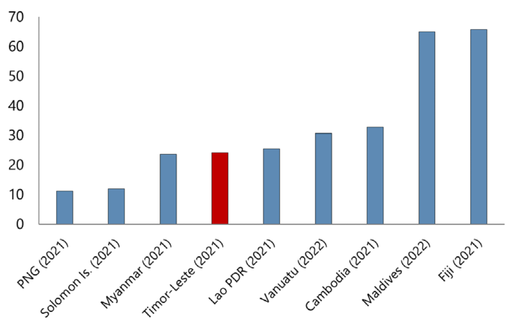
Value of Loss due to Electrical Outages
(In percent of sales of affected firms, 2021)



Source: World Bank, World Development Indicators.
* 2021 data for Timor-Leste, 2018 data for Lao PDR, 2016 data for Cambodia and Myanmar, 2015 data for the rest countries.

Access to the internet is low…

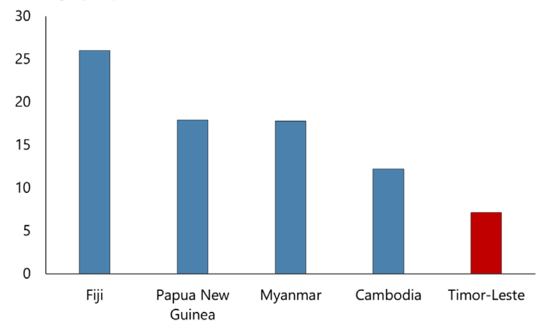
Individuals using the Internet
(Percent of population, 2021)



Source: World Bank, World Development Indicators.

…and internet speed is slow.

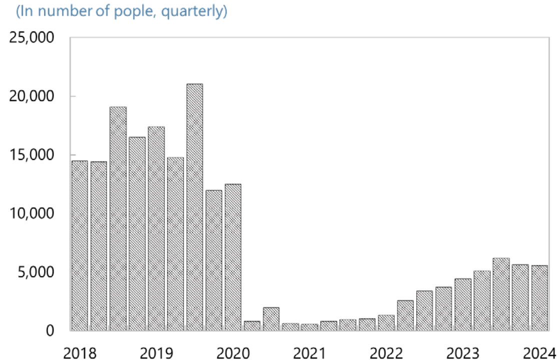
Southeast Asia: Average Internet Speed in 2020
(In megabytes per second)



Source: Statista.

The number of tourist arrivals remains well below the pre-pandemic level.

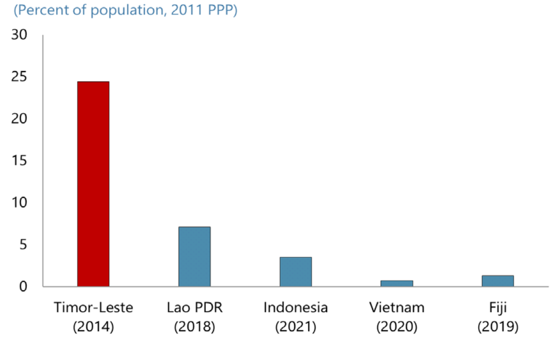
Tourist Arrival
(In number of pople, quarterly)



Sources: Central Bank of Timor-Leste.

The poverty rate is among the highest in the region.

Poverty Headcount Ratio at $1.90 a Day
(Percent of population, 2011 PPP)

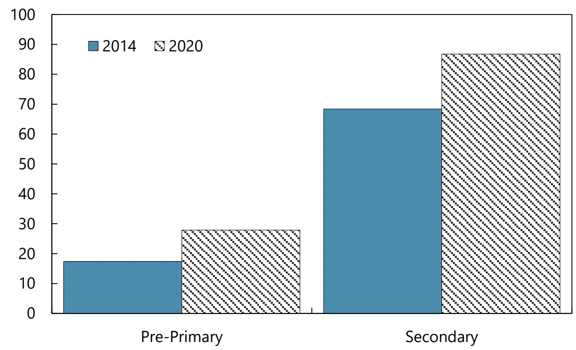


Source: World Bank, World Development Indicators.

Figure 7. Timor-Leste: Labor Market and Human Capital Indicators

School enrollment rates in Timor-Leste increased significantly in recent years.

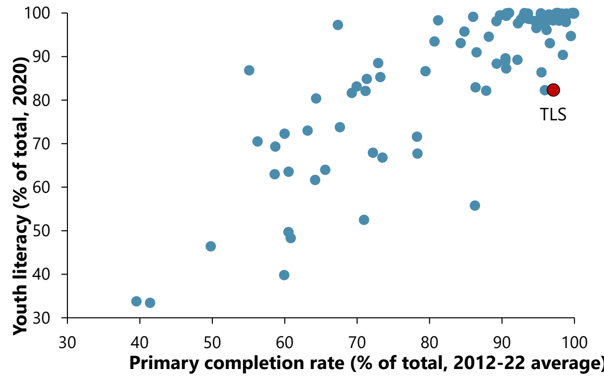
Gross School Enrollment
(Percent)



Source: World Bank, World Development Indicators.

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

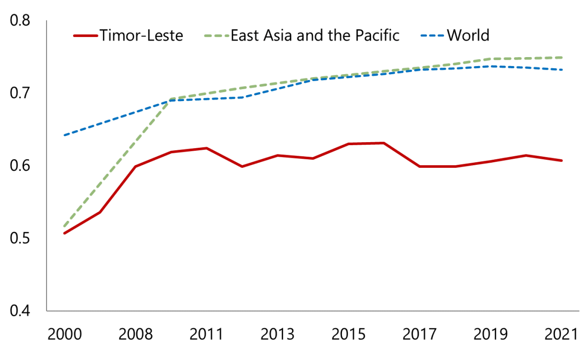
Human Capital: Youth Literacy



Source: World Bank, World Development Indicators.

Timor-Leste's human development had improved steadily until mid-2010s but has stagnated for the past decade…

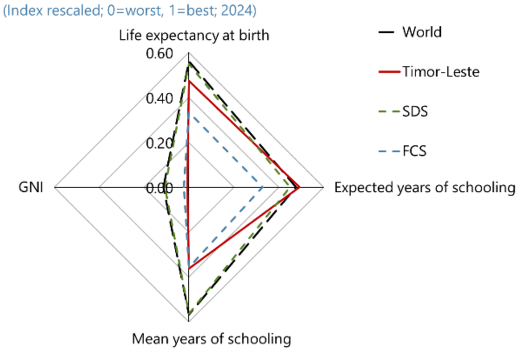
Human Development Index (HDI)
(Higher is better)



Source: United Nations Human Development Report, 2021.

…reflecting low educational attainment compared to peers.

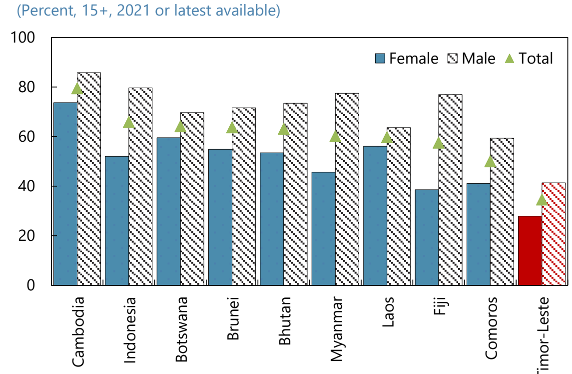
HDI Components
(Index rescaled; 0=worst, 1=best; 2024)



Source: United Nations Human Development Report, 2024.

Labor force participation is the lowest among peers, with participation among women lower than men…

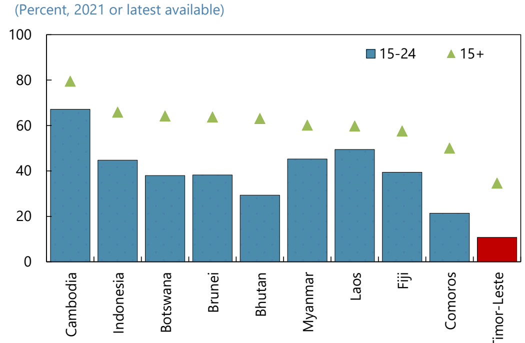
Labor Force Participation
(Percent, 15+, 2021 or latest available)



Source: ILO.

…and the youth exhibit a similar picture.

Labor Force Participation: By Age Cohorts
(Percent, 2021 or latest available)



Source: ILO.

Table 1. Timor-Leste: Selected Economic and Financial Indicators, 2021–29

Non-oil GDP at current prices (2023): US$1.802 billion
Population (2023): 1.377 million
Non-oil GDP per capita (2023): US$1,309
Quota: SDR 25.6 million

	2021	2022	2023	2024	2025	2026	2027	2028	2029
				Est.	Proj.	Proj.	Proj.	Proj.	Proj.
	(Annual percent change)								
Real sector									
Real Non-oil GDP	3.0	4.0	2.4	3.5	3.4	3.2	3.1	3.1	3.0
Real Non-oil GDP per capita	1.1	2.2	1.3	2.4	2.1	1.9	1.8	1.7	1.5
CPI (annual average)	3.8	7.0	8.4	2.2	1.5	2.0	2.0	2.0	2.0
CPI (end-period)	5.3	6.9	8.7	0.5	1.8	2.0	2.0	2.0	2.0
	(In percent of Non-oil GDP, unless otherwise indicated)								
Central government operations									
Revenue	57.1	54.6	51.4	49.2	46.1	42.7	39.5	36.4	33.6
Domestic revenue	10.5	10.2	13.8	11.4	11.5	11.5	11.6	11.6	11.7
Estimated Sustainable Income (ESI)	35.1	33.1	27.2	28.3	26.2	23.6	21.1	18.7	16.4
Grants	11.6	11.3	10.5	9.4	8.5	7.6	6.8	6.1	5.4
Expenditure	103.9	115.2	93.9	92.5	95.3	91.5	88.7	86.0	83.5
Recurrent	83.3	91.8	70.6	69.8	73.6	70.5	68.4	66.3	64.4
Net acquisition of nonfinancial assets	8.9	12.1	12.8	13.3	13.2	13.4	13.5	13.6	13.7
Donor project	11.6	11.3	10.5	9.4	8.5	7.6	6.8	6.1	5.4
Net lending/borrowing	-46.7	-60.6	-42.5	-43.3	-49.2	-48.8	-49.2	-49.6	-49.9
	(Annual percent change, unless otherwise indicated)								
Money and credit									
Deposits	29.3	8.6	2.5	7.6	6.9	6.8	6.7	6.7	6.6
Credit to the private sector	4.6	34.5	20.6	20.5	15.7	8.1	6.7	6.7	6.6
Lending interest rate (percent, end of period)	11.3	11.3	11.3	11.3	11.3	11.3	11.3	11.3	11.3
	(In millions of U.S. dollars)								
Balance of payments									
Current account balance	1,525	474	-17	-195	-515	-575	-766	-829	-896
(In percent of Non-oil GDP)	98	28	-1	-10.1	-24.9	-26.0	-32.4	-32.9	-33.3
Trade of Goods	1,996	894	-149	-611	-814	-836	-938	-972	-1,007
Exports of goods	2,744	1,798	632	233	142	152	93	105	119
Imports of goods	748	904	781	845	956	988	1,031	1,078	1,126
Trade of Services	-522	-441	-353	-310	-309	-318	-337	-340	-345
Primary Income	-152	-128	397	540	427	406	336	310	281
Secondary Income	204	149	88	186	180	173	173	173	175
Overall balance	279	-102	-49	19	77	33	48	41	45
Public foreign assets (end-period) 1/	20,556	18,106	19,072	18,881	18,282	17,554	16,697	15,740	14,688
(In months of imports)	190	155	190	184	162	150	136	123	110
Exchange rates									
NEER (2010=100, period average)	142.9	151.9	158.0	…	…	…	…	…	…
REER (2010=100, period average)	144.6	154.8	167.2	…	…	…	…	…	…
Memorandum items									
Nominal Non-oil GDP (in millions of U.S. dollars)	1,563	1,676	1,802	1,939	2,073	2,215	2,363	2,522	2,688
Nominal Non-oil GDP per capita (in U.S. dollars)	1,167	1,231	1,309	1,393	1,471	1,551	1,634	1,720	1,807
(Annual percent change)	-3.0	5.4	6.3	6.5	5.6	5.5	5.3	5.3	5.1
Crude oil prices (U.S. dollars per barrel, WEO) 2/	69	96	81	81	73	70	69	68	67
Petroleum Fund balance (in millions of U.S. dollars) 3/	19,621	17,273	18,288	18,078	17,402	16,641	15,736	14,737	13,640
(In percent of Non-oil GDP)	1,256	1,031	1,015	932	839	751	666	584	507
Public debt (in millions of U.S. dollars)	237	253	259	267	293	306	314	329	354
(In percent of Non-oil GDP)	15.1	15.1	14.4	13.7	14.1	13.8	13.3	13.1	13.2
Population growth (annual percent change)	1.9	1.7	1.1	1.1	1.3	1.3	1.3	1.4	1.4

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

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

2/ Simple average of UK Brent, Dubai, and WTI crude oil prices based on October 2024 WEO assumptions.

3/ Closing balance.

Table 2. Timor-Leste: Summary Operations of the Central Government, 2021–29 1/

	2021	2022	2023	2024	2025	2026	2027	2028	2029
				Est.	Proj.	Proj.	Proj.	Proj.	Proj.
				(In millions of U.S. dollars)					
Revenue	**892**	**915**	**927**	**953**	**956**	**945**	**933**	**918**	**903**
Domestic revenue	163	171	248	222	238	254	273	294	316
Taxes	118	143	187	182	196	209	225	242	261
Of which: Taxes on income, profits, and capit	46	71	84	80	86	92	99	107	115
Taxes on goods and services	54	57	87	79	84	90	97	104	112
Taxes on international trade and trans	13	15	36	23	25	27	29	31	34
Non-tax revenue	45	29	61	39	42	45	48	51	55
Estimated Sustainable Income	548	554	490	549	542	522	499	472	442
Donor Projects	181	190	189	183	176	169	161	153	145
Expenditure	**1,623**	**1,931**	**1,693**	**1,794**	**1,976**	**2,026**	**2,095**	**2,168**	**2,245**
Expenditure excluding donor projects	1,442	1,741	1,504	1,611	1,800	1,857	1,935	2,016	2,100
Expense	1,483	1,728	1,461	1,537	1,702	1,731	1,777	1,825	1,876
Recurrent	1,302	1,538	1,273	1,354	1,526	1,561	1,616	1,673	1,731
Compensation of employees	226	257	447	454	475	484	501	519	537
Goods and services	411	397	246	270	291	289	299	310	321
Current transfers	651	867	571	582	753	765	792	820	848
Interest payment	4	9	8	7	8	8	8	8	8
Donor projects	181	190	189	183	176	169	161	153	145
Net acquisition of NFA	140	203	231	257	274	296	319	343	369
Gross operating balance	**-591**	**-813**	**-535**	**-584**	**-746**	**-785**	**-844**	**-907**	**-973**
Net lending/borrowing	**-730**	**-1,016**	**-766**	**-841**	**-1,020**	**-1,081**	**-1,162**	**-1,250**	**-1,343**
Statistical discrepancy	-192	0	23	0	0	0	0	-1	-2
Net financial transactions	-538	-1,015	-789	-841	-1,020	-1,081	-1,162	-1,249	-1,341
Net acquisition of FA	-522	-997	-779	-833	-994	-1,068	-1,155	-1,234	-1,316
Foreign	0	0	0	0	0	0	0	0	0
Domestic (net)	-522	-997	-779	-833	-994	-1,068	-1,155	-1,234	-1,316
Equity	-600	-850	-600	-633	-994	-1,068	-1,155	-1,235	-1,318
of which, Excess withdrawal from PF	-600	-850	-600	-633	-994	-1,068	-1,155	-1,235	-1,318
Change in cash/deposit	78	-147	-179	-200	0	0	0	0	0
Net incurrence of liabilities	16	18	10	8	26	13	8	16	24
Foreign	23	31	25	25	45	32	27	35	44
Domestic	0	0	0	0	0	0	0	0	0
Amortization	6.4	12.5	14.7	17.3	18.5	18.7	18.9	19.0	20.0
				(in percent of nominal non-oil GDP)					
Revenue	**57.1**	**54.6**	**51.4**	**49.2**	**46.1**	**42.7**	**39.5**	**36.4**	**33.6**
Domestic revenue	10.5	10.2	13.8	11.4	11.5	11.5	11.6	11.6	11.7
Taxes	7.6	8.5	10.4	9.4	9.4	9.4	9.5	9.6	9.7
Non-tax revenue	2.9	1.7	3.4	2.0	2.0	2.0	2.0	2.0	2.1
Estimated Sustainable Income	35.1	33.1	27.2	28.3	26.2	23.6	21.1	18.7	16.4
Expenditure	**103.9**	**115.2**	**93.9**	**92.5**	**95.3**	**91.5**	**88.7**	**86.0**	**83.5**
Expenditure excluding donor projects	92.3	103.9	83.5	83.1	86.8	83.9	81.9	79.9	78.1
Expense	94.9	103.1	81.1	79.3	82.1	78.1	75.2	72.4	69.8
Recurrent	83.3	91.8	70.6	69.8	73.6	70.5	68.4	66.3	64.4
Compensation of employees	14.5	15.3	24.8	23.4	22.9	21.9	21.2	20.6	20.0
Goods and services	26.3	23.7	13.7	13.9	14.0	13.0	12.6	12.3	11.9
Current transfers	41.7	51.7	31.7	30.0	36.3	34.5	33.5	32.5	31.6
Donor projects	11.6	11.3	10.5	9.4	8.5	7.6	6.8	6.1	5.4
Net acquisition of NFA	8.9	12.1	12.8	13.3	13.2	13.4	13.5	13.6	13.7
Gross operating balance	**-37.8**	**-48.5**	**-29.7**	**-30.1**	**-36.0**	**-35.5**	**-35.7**	**-36.0**	**-36.2**
Net lending/borrowing	**-46.7**	**-60.6**	**-42.5**	**-43.3**	**-49.2**	**-48.8**	**-49.2**	**-49.6**	**-49.9**
Statistical discrepancy	-12.3	0.0	1.3	0.0	0.0	0.0	0.0	0.0	-0.1
Net financial transactions	-34.4	-60.6	-43.8	-43.3	-49.2	-48.8	-49.2	-49.5	-49.9
Net acquisition of FA	-33.4	-59.5	-43.2	-43.0	-47.9	-48.2	-48.9	-48.9	-49.0
Domestic (net)	-33.4	-59.5	-43.2	-43.0	-47.9	-48.2	-48.9	-48.9	-49.0
Equity	-38.4	-50.7	-33.3	-32.6	-47.9	-48.2	-48.9	-49.0	-49.0
of which, Excess withdrawal from PF	-38.4	-50.7	-33.3	-32.6	-47.9	-48.2	-48.9	-49.0	-49.0
Change in cash/deposit	5.0	-8.8	-9.9	-10.3	0.0	0.0	0.0	0.0	0.0
Net incurrence of liabilities	1.0	1.1	0.6	0.4	1.3	0.6	0.3	0.6	0.9
Memorandum item									
Nominal Non-oil GDP	1,563	1,676	1,802	1,939	2,073	2,215	2,363	2,522	2,688
Petroleum Fund									
Opening balance	18,905	19,621	17,273	18,288	18,078	17,402	16,641	15,736	14,737
Comprehensive investment income	1,881	-931	2,105	972	860	829	749	708	663
Oil and gas receipts	720	1,106	427	78	46	46	0	0	0
Investment returns incl. valuation gain/ loss	277	307	464	528	452	435	416	393	368
(*Minus*) Expenses and withholding tax	0	0	0	0	0	0	0	0	0
Withdrawal	1,148	1,404	1,090	1,182	1,536	1,590	1,654	1,707	1,761
Estimated Sustainable Income (ESI)	548	554	490	549	542	522	499	472	442
Excess withdrawal	600	850	600	633	994	1,068	1,155	1,235	1,318
Closing balance	19,621	17,273	18,288	18,078	17,402	16,641	15,736	14,737	13,640
(In percent of non-oil GDP)	1,256	1,031	1,015	932	839	751	666	584	507

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

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

Table 3. Timor-Leste: Monetary Developments, 2021–25 1/

	2021	2022	2023	2024	2025
				Est.	Proj.
Banking system 1/					
Net foreign assets 2/	**1,928**	**2,242**	**2,069**	**2,680**	**2,887**
Gross reserves	935	788	739	803	880
Other foreign assets	1,185	1,614	1,537	1,655	1,769
Foreign liabilities	191	160	207	223	238
Net domestic assets	**-810**	**-1,028**	**-821**	**-1,270**	**-1,294**
Net credit to central government	-785	-979	-846	-846	-846
Net credit to state and local government	-9	-4	-12	0	0
Net credit to public nonfinancial corporations	-52	-52	-6	0	0
Credit to private sector	304	408	493	593	687
Other items (net)	-268	-402	-450	-1,018	-1,135
Broad money	**1,119**	**1,215**	**1,248**	**1,410**	**1,593**
Narrow money	619	679	678	766	866
Currency in circulation 2/	26	28	31	35	39
Transferable deposits	593	651	647	731	826
Central Bank					
Net foreign assets	**890**	**788**	**739**	**803**	**880**
Gross reserves	935	788	739	803	880
Foreign liabilities	45	0	0	0	0
Net domestic assets	**-572**	**-615**	**-456**	**-656**	**-656**
Net credit to central government	-443	-457	-324	-524	-524
Net credit to other depository corporations	21	46	14	14	14
Other items (net)	-150	-204	-146	-146	-146
Monetary Base	**318**	**172**	**283**	**147**	**224**
Currency in circulation	26	28	31	35	39
Other liabilities to depositary corporations	292	145	252	112	185
Others 2/	0	0	0	0	0
	(12-month percentage change)				
Broad money growth	28.7	8.6	2.7	13.0	13.0
Reserve money growth	110.3	-45.7	64.1	-48.0	52.4
Credit to the private sector growth	4.6	34.5	20.6	20.5	15.7
Memorandum items					
Credit/GDP	19.4	24.4	27.3	30.6	33.1
Broad money/GDP	71.6	72.5	69.3	72.7	76.8
Credit/deposits 3/	27.8	34.4	40.5	45.3	49.0
Amounts of non-perfoming loans (in millions of U.S. dollars)	6.7	6.7	8.4	…	…
Non-performing loans/total loans	2.4	2.2	2.2	…	…
Loan rate 4/	11.3	11.3	11.3	11.3	11.3
Deposit rate 5/	0.6	0.6	0.6	0.6	0.6

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

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

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

3/ Excludes government deposits.

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

5/ 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, 2021–29 1/

	2021	2022	2023	2024	2025	2026	2027	2028	2029
				Est.	Proj.	Proj.	Proj.	Proj.	Proj.
(In millions of U.S. dollars)									
Current account balance	1,525	474	-17	-195	-515	-575	-766	-829	-896
Trade of Goods	1,996	894	-149	-611	-814	-836	-938	-972	-1,007
Exports of goods	2,744	1,798	632	233	142	152	93	105	119
of which: Oil	2,615	1,745	577	170	70	70	0	0	0
Imports of goods	-748	-904	-781	-845	-956	-988	-1,031	-1,078	-1,126
Trade of Services	-522	-441	-353	-310	-309	-318	-337	-340	-345
Receipts	28	60	69	78	87	96	109	123	138
Payments	-550	-501	-422	-388	-395	-415	-445	-463	-483
of which: Manufacturing and repair	-367	-291	-151	-75	-38	-19	-9	-5	-2
Primary Income	-152	-128	397	540	427	406	336	310	281
of which: Non-oil investment income repatriatior	-48	-52	-57	-63	-68	-72	-77	-81	-85
Oil investment income repatriation	-387	-401	-64	0	0	0	0	0	0
Interest from Petroleum Fund	277	307	464	528	452	435	416	393	368
Secondary Income	204	149	88	186	180	173	173	173	175
of which: Remittance inflows	171	160	188	203	217	231	247	263	281
Capital and financial accounts	-308	-819	289	214	593	609	815	871	941
Official capital transfers	13	17	4	14	12	12	12	11	12
Financial account	-321	-836	285	200	580	597	803	860	929
Direct investment	-419	-395	-50	54	56	58	59	61	63
of which: Oil FDI	-463	-443	-103	0	0	0	0	0	0
Non-oil FDI	44	48	53	54	56	58	59	61	63
Portfolio investment	150	-152	219	82	442	470	680	727	786
of which: Petroleum Fund excess withdrawal	1,148	1,404	1,090	1,182	1,536	1,590	1,654	1,707	1,761
Oil/Gas Revenue	-720	-1,106	-427	-78	-46	-46	0	0	0
Banking Sector	-110	-416	124	-102	-99	-104	-110	-117	-123
Other	-168	-33	-569	-920	-949	-970	-864	-863	-851
Other investment	-53	-289	116	64	82	69	64	71	80
Assets	-97	-368	56	56	56	56	56	56	56
Liabilities	44	79	60	8	26	13	8	16	24
Government Debt	38	67	46	8	26	13	8	16	24
Errors and omissions (net)	-938	243	-321	0	0	0	0	0	0
Overall balance	279	-102	-49	19	77	33	48	41	45
Financing									
Change in reserves	-279	102	49	-19	-77	-33	-48	-41	-45
(In percent of Total GDP)									
Current account balance	42.1	14.8	-0.8	-10.1	-24.9	-26.0	-32.4	-32.9	-33.3
Trade of Goods	55.1	27.9	-7.2	-31.5	-39.2	-37.7	-39.7	-38.5	-37.5
Exports of goods	75.7	56.0	30.4	12.0	6.9	6.9	3.9	4.2	4.4
Imports of goods	-20.6	-28.2	-37.6	-43.6	-46.1	-44.6	-43.6	-42.7	-41.9
Trade of Services	-14.4	-13.7	-17.0	-16.0	-14.9	-14.4	-14.2	-13.5	-12.8
Primary Income	-4.2	-4.0	19.1	27.8	20.6	18.3	14.2	12.3	10.4
Secondary Income	5.6	4.6	4.2	9.6	8.7	7.8	7.3	6.9	6.5
Capital and financial accounts	-8.5	-25.5	13.9	11.0	28.6	27.5	34.5	34.5	35.0
Overall balance	7.7	-3.2	-2.4	1.0	3.7	1.5	2.0	1.6	1.7
(In millions of U.S. dollars, unless otherwise indicated)									
Memorandum items:									
Public foreign assets (end-period)	20,556	18,106	19,072	18,881	18,282	17,554	16,697	15,740	14,688
(In months of imports of G&S)	190	155	190	184	162	150	136	123	110
(In percent of Total GDP)	567	564	917	974	882	793	707	624	546
of which: Central bank reserves	935	833	784	803	880	913	962	1,003	1,048
Petroleum Fund balance 1/	19,621	17,273	18,288	18,078	17,402	16,641	15,736	14,737	13,640
(In percent of Non-oil GDP)	1,256	1,031	1,015	932	839	751	666	584	507
Petroleum Fund change	717	-2,348	1,015	-210	-677	-761	-905	-999	-1,097
Of which: Market Revaluation	884	-2,345	1,215	366	362	348	333	315	295
NIIP	19,816	17,263	18,496	18,881	18,282	17,554	16,697	15,740	14,688
(In percent of Non-oil GDP)	1,268	1,030	1,027	974	882	793	707	624	546
Nominal Non-oil GDP	1,563	1,676	1,802	1,939	2,073	2,215	2,363	2,522	2,688
Nominal Total GDP	3,625	3,209	2,080	1,939	2,073	2,215	2,363	2,522	2,688

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

1/ Closing balance.

Table 5. Timor-Leste: Sustainable Development Goals Monitoring

Goals	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Poverty										
Income share held by lowest 20%		9.4								
Poverty gap at $1.90 a day (2011 PPP) (%)		5.1								
Poverty headcount ratio at $1.90 a day (2011 PPP) (% of population)		24.4								
Poverty headcount ratio at national poverty lines (% of population)		41.8								
Hunger										
Prevalence of overweight (modeled estimate, % of children under 5)	2.2	2.1	1.9	1.8	1.7	1.6	1.5	1.4	1.3	1.3
Prevalence of stunting, height for age (modeled estimate, % of children un	51.5	50.6	49.7	48.8	48.1	47.4	46.7	46.1	45.6	45.1
Prevalence of undernourishment (% of population)	29.8	28.4	27.6	27.1	26.1	25.0	23.8	23.7	22.3	
Prevalence of underweight, weight for age (% of children under 5)	37.5	32.4						31.9		
Prevalence of wasting, weight for height (% of children under 5)	9.9	12.2						8.3		
Good Health and Well-being										
Births attended by skilled health staff (% of total)				56.7						
Mortality rate, under-5 (per 1,000 live births)	65.3	63.5	61.6	59.7	57.7	55.8	53.9	52.2	50.5	48.6
Mortality rate, neonatal (per 1,000 live births)	25.9	25.4	25.0	24.5	24.1	23.6	23.2	22.8	22.3	21.7
Demand for family planning satisfied by modern methods (% of married women with demand for family planning)				46.9						
Smoking prevalence, males (% of adults)			72.3			69.1	68.4	67.6		
Source data assessment of statistical capacity (scale 0 - 100)	70.0	60.0	60.0	70.0	70.0	60.0	60.0	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						
Adolescent fertility rate (births per 1,000 women ages 15-19)	41.6	40.0	38.4	37.2	36.5	35.7	35.2	34.6	33.9	
Clean Water and Sanitation										
People using at least basic drinking water services (% of population)	70.0	72.1	74.2	76.4	78.6	80.8	82.4	84.0	85.6	87.0
People using at least basic sanitation services (% of population)	48.5	49.7	50.8	51.9	53.0	54.1	55.2	56.3	57.3	58.4
Affortable and Clean Energy										
Access to electricity (% of population)	59.2	62.4	67.3	76.5	79.5	85.2	90.6	96.0	100.0	99.7
Access to clean fuels and technologies for cooking (% of population)	6.9	8.0	9.0	10.2	11.2	12.4	13.7	14.9	16.4	17.7
Decent Work and Economic Growth										
Unemployment rate (% of total labor force)	4.0	4.2	4.5	4.7	4.6	4.5	4.4	5.1	5.1	
Peace, Justice and Strong Institutions										
Corruption Perception Index (worst 0-100 best)	30	28	28	35	38	35	38	40	41	42
Global Partnerships for the Sustainable Development										
Individuals using the Internet (% of population)	11.0	17.5	18.6	21.2	24.2	27.6	28.0	34.1	39.5	

Sources: World Bank's World Development Indicators; Timor-Leste authorities; and Transparency International's Corruption Perceptions Index, 2023.

Annex I. Understanding and Forecasting Inflation in Timor-Leste[1]

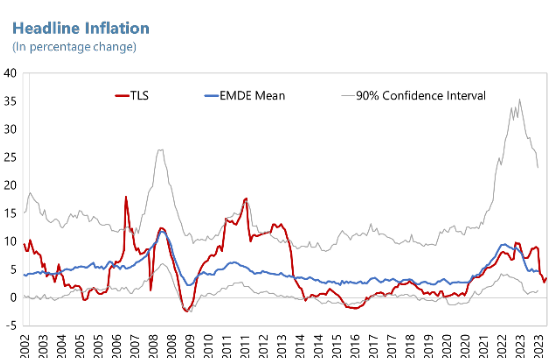
This Annex analyzes the key factors driving inflation in Timor-Leste and develops a simple model to forecast inflation. Inflation in Timor-Leste is strongly underpinned by global commodity prices, but there may be also a role for domestic factors. With the expected moderation of global commodity prices, the model predicts inflation to further ease in the near term—broadly informing staff's baseline inflation projections.

A. Introduction

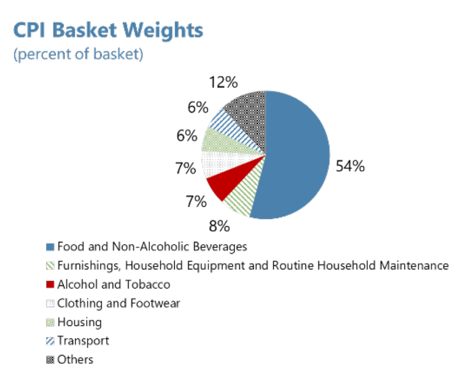
1. This annex analyzes the key drivers of inflation in Timor-Leste. Previous studies suggest that inflation in Timor-Leste is primarily driven by global food prices, given the heavy dependence on food imports, while domestic demand plays some role in certain historical periods. However, there is little analytical work to quantify these relationships. We undertake an econometric investigation and estimate the drivers of inflation in Timor-Leste deploying a Phillips Curve framework. We then use the model to forecast recent inflation.

B. Stylized Facts

2. Timor-Leste has experienced inflation of varying strength and volatility over the past two decades. The first phase saw a steady decline in inflation from 7.2 percent in 2003 to 1.1 percent in 2005, followed by a sharp rise triggered by the 2006 social unrest, reaching 10.3 percent annually in 2007. The second phase was characterized by high and volatile inflation, ranging from -2.5 percent (y/y) at its lowest in August 2009 to 17.7 percent (y/y) at its peak in January 2012. Inflation dynamics closely followed global food prices since food accounts for 54 percent of the economy's CPI basket and 60 percent of food is imported (2024 World Food Program). The third phase involved relatively low and stable inflation (averaging 0.6 percent during 2014-20) and coincided with moderation in global commodity and food prices. Inflation surged from 2021 onwards, as seen in most other countries, reaching 9.8 percent (y/y) in January 2023 and easing substantially in 2024.



Sources: IMF Staff calculations

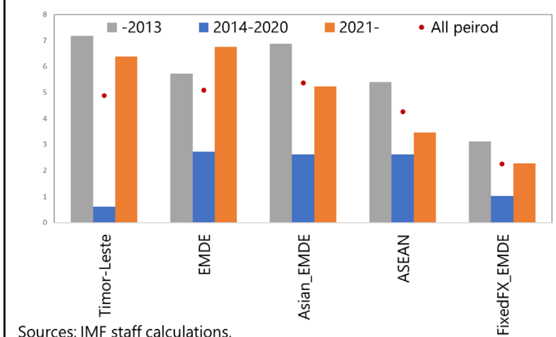


Source: Timor-Leste General Directorate of Statistics.

[1] Prepared by Kohei Asao and Raju Huidrom.

3. Timor-Leste's inflation has generally aligned with other EMDEs, yet higher than peers under fixed exchange rate regimes. While the comparison varies based on the specific peer groups and time frame, Timor-Leste's inflation: (i) has been broadly aligned with inflation in other EMDEs since its independence; (ii) but has been higher compared to EMDEs with fixed exchange rate regimes, including other dollarized economies, except during the period of global commodity price moderation (2014-20).

Headline Inflation: Average[1]
(In percent, yoy)



Sources: IMF staff calculations.
1/ We report the median across countries in each group.

C. Methodology

4. Empirical Model. We employ a Phillips Curve framework where, in the baseline model, we regress headline inflation on: (i) lagged inflation to capture the persistence of inflation dynamics; (ii) government spending as a proxy for domestic demand as high-frequency GDP is not available; (iii) global food prices given the importance of food in the CPI basket; (iv) rice prices as an additional variable to capture food price dynamics specific to Timor-Leste given that rice price has diverged from overall food prices in recent periods[2]; and (v) the nominal effective exchange rate to account for exchange rate pass-through. We use two lags of the independent variables based on the Akaike Information Criterion. We also account for tax changes using dummy variables, as these can matter for inflation dynamics. The cigarette excise tax was raised in 2022; and in 2023, import duties, sugary beverages and tobacco taxes. For robustness, we also consider other factors such as oil prices, shipping costs, Indonesian inflation, US policy rate, Timor-Leste's import prices, M2, and rainfall.

5. Database. We compile inflation data from World Bank and WEO, and other data sources are listed in the table in the end. The sample period spans the last ten years, from January 2013 to May 2024. The start of the estimation period is chosen to avoid the high volatility in the 2000s and related measurement and composition issues. The estimation is based on monthly data, and we express the variables in month-over-month growth rates. All variables are seasonally adjusted except for the US policy rate.

D. Regression Results

6. Global food price inflation is a key driver of inflation in Timor-Leste, while there is some role for domestic factors. The estimated coefficients on global food price inflation are positive and statistically significant. The coefficients before rice price inflation are positive, but not

[2] Although this results in multicollinearity with global food prices, we motivate including rice prices mainly to improve the out-of-sample forecasts. We use the rice price (A1 Thai) taken from the World Bank's pink sheet (Appendix I). Since Timor-Leste mainly imports rice from India, we also include the Indian rice price. While the price of rice imported into Timor-Leste from India would be ideal, we use Indian wholesale rice price as a proxy.

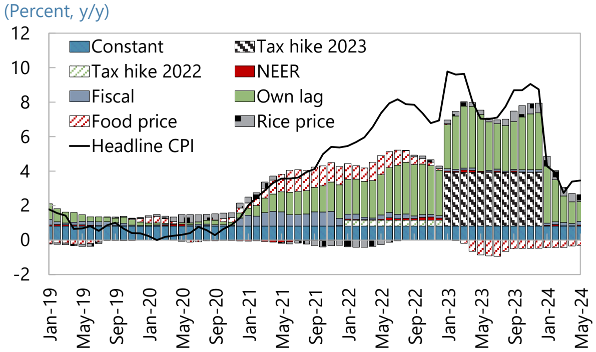
statistically significant likely reflecting collinearity with global food price inflation. The estimated coefficients on lagged headline inflation, which are positive and statistically significant, suggest the persistence of Timor-Leste's inflation (reflecting adaptive expectations). Public spending growth, as a proxy for domestic demand growth, has a statistically significant positive impact on inflation. Additionally, the tax hike in January 2023 is suggested to have had a strong impact on inflation. All in all, inflation dynamics in Timor-Leste conform to a Phillips curve framework. These results are robust across model specifications as well.

Explanatory Variable[1]	Lag 1	Lag 2
Lagged inflation	+	+
Public spending	+	+
Food price	+	+
Rice price	+	+
NEER	+	-
2022 tax rise	+	
2023 tax rise	+	

Source: IMF staff estimates.

1/ Green denote "correct" signs and statistically significant; Yellow denote "correct" sign but not statistically significant; Red denote incorrect sign

Headline Inflation: Decomposition
(Percent, y/y)



Source: IMF staff estimates.

7. More recently, food price inflation and tax measures were important drivers of Timorese inflation. A historical decomposition suggests that food price inflation contributed positively to the surge in inflation in 2021 and 2022 as global food price inflation increased. But as the latter moderated, those effects were unwound starting early 2023. That said, rice price inflation—which remained elevated diverging from food price inflation in general—continued to put some upward pressure on inflation. The one-time tax hike in January 2023 had an immediate impact on inflation (m/m), keeping inflation elevated throughout 2023 on a year-on-year basis. But these base effects are fully unwound in 2024, leading to significantly lower inflation (y/y) in 2024. In addition, these tax hikes were rolled back[3] in the 2023 rectification and 2024 annual budget. Public spending growth contributed little to inflation dynamics in recent periods. The relative strength of the USD in nominal terms—measured by the NEER—did not appear to have an economically meaningful impact on inflation dynamics.

E. Forecasting

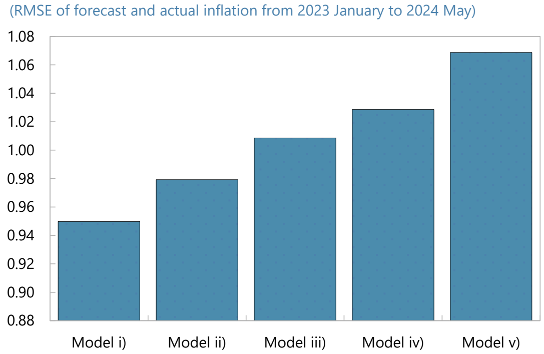
8. Out-of-sample forecast approach. We conduct out-of-sample forecasts to evaluate the predictive power of the Phillips Curve model. For this, we estimate the model from 2013 to 2022, generate monthly inflation out-of-sample forecasts for the period January 2023 to May 2024, and compare these forecasts against the actual inflation outturns by computing root mean squared error

[3] With the exception of the tax on sugary beverages, which was maintained.

(RMSE). To generate the forecasts, we use actual outturns of the independent variables, except for inflation (since it appears as lagged term) for which we use the model-implied inflation forecast. The impact of the tax hike in 2023 is mechanically added (using estimates from the full sample), as it falls outside the estimation period for the out-of-sample exercise. We start with the baseline model and compare its out-of-sample performance with other specifications: (ii) baseline model with public spending substituted by M2; (ii) baseline model with the rice price substituted by the Indian wholesale rice price (as India is the main origin of rice imports); (iii) baseline model plus global shipping costs; and (iv) baseline model plus rainfall.

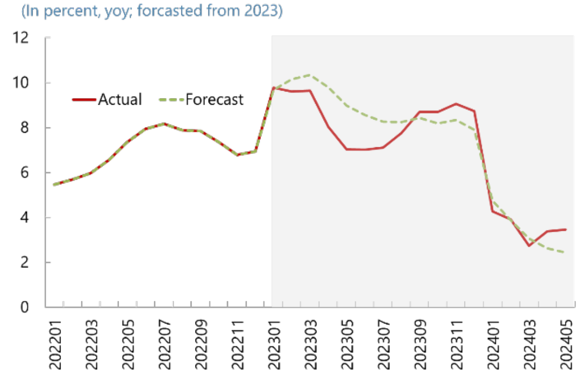
9. Results. The baseline model—with the lowest RMSE—exhibits the best forecasting performance across specifications. The baseline model projects an annual headline inflation of 8.9 percent in 2023, which is 0.5 percentage points higher than the actual inflation outturn of 8.4 percent. The projection for inflation in May 2024 is 0.2 percent (y/y), which is close to the actual figure of 0.3 percent.[4]

Model Performance: Root Mean Square Error
(RMSE of forecast and actual inflation from 2023 January to 2024 May)



Source: IMF Staff estimates.

Out-of Sample Fit: Phillips Curve Model
(In percent, yoy; forcasted from 2023)



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

10. Actual forecasting approach. To inform our near-term inflation projections, we extend the out-of-sample exercise to forecast inflation during August 2024 to December 2025. For this, we use the baseline model estimates using the full sample period. Unlike the out-of-sample exercise that employs actual values of the independent variables, this approach necessitates the forecasts of the independent variables themselves. For this, we compile the relevant forecasts at the annual frequency (which are more readily available), and subsequently interpolate them to create monthly series (since the model is estimated at the monthly frequency). We draw the forecasts from the following sources: the World Bank's Pink Sheet (food and rice prices), IMF's WEO (public spending). We assume a constant Nominal Effective Exchange Rate (NEER) for simplicity. And as in the case of the out-of-sample exercise, lags of inflation are endogenously generated. Regarding the interpolation, we implement a simple process using the MS Excel Solver tool. Projections of inflation

[4] Following the Phillips curve specification, inflation is projected at the monthly frequency on a month-over-month basis. We then transform into year-over-year inflation for ease of exposition.

are first computed at the monthly frequency which are then averaged to yield the average annual inflation for 2024 and 2025.

11. Results. The model's forecasts indicate an average annual inflation of 2.2 percent for 2024 and 0.5 percent for 2025. The low inflation projections reflect strong disinflationary effects stemming from the moderation of global food prices that is expected in the World Bank's Pink Sheet. While staff's baseline inflation projections are informed by the model's forecasts, they also incorporate upward inflationary pressures that are not fully captured in the model. These include: inflationary impact related to the Pope's visit; low agricultural yields anticipated from the 2024 harvest, potentially exacerbated by the effects of El Niño on food supply; and a rising inflation trend in the non-food category, which has shown upward momentum since 2023H1. Taken together, in the baseline, staff projects inflation to average 2.2 percent in 2024 and 1.5 percent in 2025.

Data Series and Sources

Variable	Data source
Lagged inflation	World Bank and INETL, I.P.
Public spending	The authorities' website (fiscal portal)
Money supply	Banco Central de Timor-Leste
Food price	FAO Food Price Index
Rice price (A1, Thai)	World Bank Pink Sheet
IND wholesale rice price	IND Department of Consumer Affairs
Global shipping cost	Baltic Exchange Dry Index
Global oil price	West Texas Intermediate
NEER	INS
TLS import price	INS
US policy rate	Federal Reserve Board
IDN inflation	World Bank
2022 tax rise	The authorities' announcement
2023 tax rise	The authorities' announcement
Rainfall	The Humanitarian Data Exchange (HDX)

Source: IMF staff.

Regression Table

Model	(1)	(2)	(3)	(4)	(5)	(6)
	Baseline	Robustness	Robustness	Robustness	Robustness	Robustness
Variables (mom, percent change)	Headline CPI	Headline CPI	Headline CPI	Headline CPI	Headline CPI	Headline CPI
Lag 1 headline CPI	0.187***	0.202***	0.192***	0.184***	0.185***	0.152**
	(0.0571)	(0.0572)	(0.0579)	(0.0590)	(0.0580)	(0.0640)
Lag 2 headline CPI	0.193***	0.193***	0.201***	0.189***	0.187***	0.216***
	(0.0555)	(0.0560)	(0.0564)	(0.0576)	(0.0564)	(0.0631)
Lag 1 global food price	0.0252**	0.0241*		0.0253*	0.0256**	0.0311*
	(0.0125)	(0.0126)		(0.0129)	(0.0127)	(0.0171)
Lag 2 global food price	0.0145	0.0124		0.0140	0.0124	0.0211
	(0.0125)	(0.0126)		(0.0129)	(0.0127)	(0.0178)
Lag 1 Rice price (A1, Thai)	0.00960		0.00854			0.0164**
	(0.00604)		(0.00615)			(0.00742)
Lag 2 Rice price (A1, Thai)	0.00642		0.00549			0.0110
	(0.00605)		(0.00616)			(0.00741)
Lag 1 Public expenditure	0.000682**	0.000703**	0.000754**		0.000694**	0.000673*
	(0.000311)	(0.000313)	(0.000314)		(0.000318)	(0.000341)
Lag 2 Public expenditure	0.000284	0.000272	0.000336		0.000222	0.000201
	(0.000310)	(0.000312)	(0.000316)		(0.000314)	(0.000337)
Lag 1 money supply				0.000957		0.00189
				(0.00835)		(0.00886)
Lag 2 money supply				0.0115		0.0166*
				(0.00832)		(0.00881)
Lag 1 NEER	0.0271	0.0256	0.0112	0.0200	0.0238	0.0188
	(0.0206)	(0.0208)	(0.0198)	(0.0213)	(0.0210)	(0.0253)
Lag 2 NEER	-0.0127	-0.0182	-0.0275	-0.0152	-0.0171	-0.00537
	(0.0204)	(0.0204)	(0.0195)	(0.0208)	(0.0205)	(0.0244)
Dummy for 2022 tax hike	0.346	0.319	0.372	0.270	0.279	0.207
	(0.292)	(0.294)	(0.297)	(0.297)	(0.294)	(0.311)
Dummy for 2023 tax hike	3.115***	3.137***	3.044***	3.159***	3.114***	3.104***
	(0.292)	(0.295)	(0.297)	(0.304)	(0.295)	(0.309)
Lag 1 global shipping cost						-0.000854
						(0.00147)
Lag 2 global shipping cost						0.000282
						(0.00130)
Lag 1 global oil price						0.0103*
						(0.00552)
Lag 2 global oil price						0.0109*
						(0.00641)
Lag 1 IDN inflation						0.0994
						(0.0835)
Lag 2 IDN inflation						-0.0891
						(0.0890)
Lag 1 TLS import prices						-0.0258
						(0.0159)
Lag 2 TLS import prices						-0.0262
						(0.0169)
Lag 1 US policy rate						-3.68e-05
						(0.000738)
Lag 2 US policy rate						0.000675
						(0.000798)
Lag 1 IND wholesale rice price				0.0402	0.0339	0.0424
				(0.0325)	(0.0324)	(0.0343)
Lag 2 IND wholesale rice price				0.0308	0.0380	0.0208
				(0.0329)	(0.0327)	(0.0345)
Lag 1 TLS rainfall						-0.00288
						(0.00526)
Lag 2 TLS rainfall						0.00443
						(0.00530)
Constant	0.0676**	0.0687**	0.0715**	0.0504	0.0449	0.00908
	(0.0308)	(0.0310)	(0.0314)	(0.0350)	(0.0335)	(0.0472)
Observations	137	137	137	136	136	133
R-squared	0.598	0.584	0.575	0.586	0.595	0.651
Adj. R-squared	0.559	0.551	0.541	0.546	0.556	0.557

Standard errors in parentheses

*** p<0.01, ** p<0.05, * p<0.1

Source: IMF staff estimates.

Annex II. External Sector Assessment

Overall Assessment: *The external position of Timor-Leste in 2023 was substantially weaker than the level implied by fundamentals and desirable policies. This weak external sector position reflects large fiscal imbalances and the underdevelopment of the non-oil economy. On a preliminary basis, the external sector assessment remains unchanged in 2024.*[1]

Potential Policy Responses: *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.*

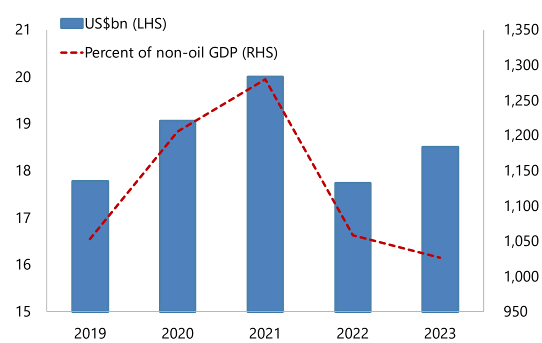
Foreign Assets and Liabilities: Position and Trajectory

Background. The net international investment position was $18.5 billion (1,027 percent of non-oil GDP) at end-2023, $0.8 billion higher than end-2022 due in part to large valuation gains on the Petroleum Fund's holdings of foreign assets.[2] External assets and liabilities were $20.1 billion (1,113 percent of non-oil GDP) and $1.6 billion (86 percent of non-oil GDP), respectively. External assets mainly consist of portfolio investment of $17.8 billion (989 percent of non-oil GDP) held by the Petroleum Fund, but they also include currency and deposits of $1.2 billion (67 percent of non-oil GDP) and foreign reserves held by the central bank of $0.8 billion (43 percent of non-oil GDP). Foreign direct investment liabilities were $1.0 billion (56 percent of non-oil GDP), loans were $0.34 billion (19 percent of non-oil GDP), and other liabilities (11 percent of non-oil GDP). About 29 percent of the financial market investment of the Petroleum Fund assets are in stocks, 57 percent in bonds, and 14 percent in U.S. dollar cash.

Assessment. The net international investment position is estimated to decline in 2024 and in the medium term under current policies as large and persistent current account deficits will steadily erode the net international investment position.

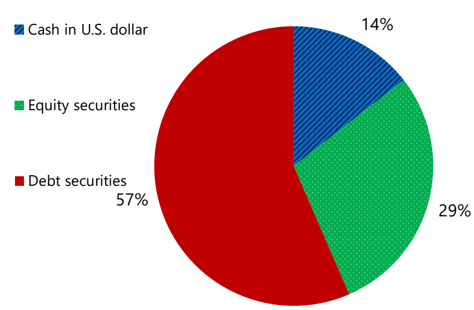
End-2023 (% non-oil GDP)	NIIP: 1027	Gross Assets: 1113	Debt Assets: 650	Gross Liab.: 86	Debt Liab: 19

Net International Investment Position



Source: Central Bank of Timor-Leste.

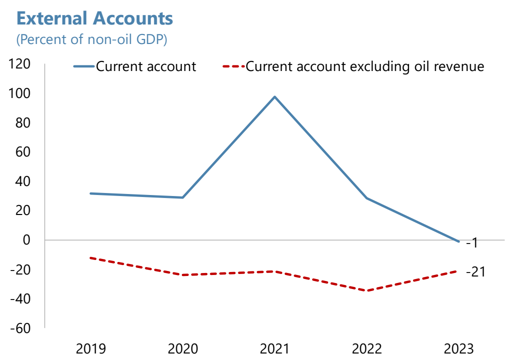
Petroleum Fund Asset Composition
(End-2023; percent of total assets in financial market)



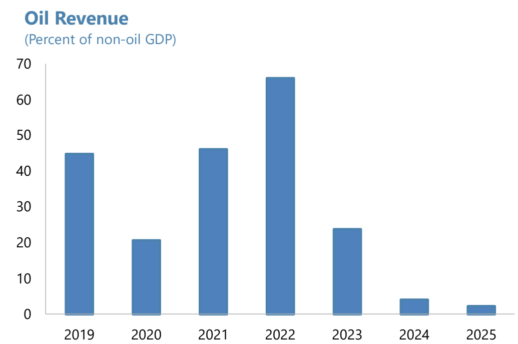
Source: Central Bank of Timor-Leste.

Current Account

Background. While the current account balance deteriorated from 98 percent of non-oil GDP in 2021 to -1.0 percent in 2023 due to dwindling oil exports, the non-oil current account balance was consistently negative, averaging -23 percent of non-oil GDP in 2019-23.[3] With oil exports sharply declining in 2023, the current account is expected to move into persistent deficit starting in 2024. Following progress in technical assistance, the presentation of the balance of payments here is fully reconciled with the data published by the BCTL. Box 1 provides a summary of the changes this involves.



Source: Central Bank of Timor-Leste.



Sources: Central Bank of Timor-Leste; and IMF staff estimates.
(Projections for 2024-2025)

Assessment. Due to the very large sovereign wealth holdings that are not well captured by EBA-Lite's regression model, the model fits the CA data for Timor-Leste over 2006-23 very poorly (model's mean squared error is 181 percent of non-oil GDP) and its parameters are likely biased. As such, we utilize an alternative approach to assess the current account using the annuity of consumption wealth.

The annuity approach estimates the CA norm by setting the non-oil CA equal to zero, as this stabilizes the NIIP. The estimated current account norm in 2023 is equal to $0.4 billion (20.1 percent of non-oil GDP), which is the additional contribution of oil-related activities to the current account.

The underlying CA isolates the structural contributors to external imbalance, and is calculated by subtracting the deviation of the non-oil CA from its trend from the actual CA balance. The underlying CA was estimated at 0.6 percent of non-oil GDP in 2023.

The CA gap is the difference between the underlying CA and the CA norm, and was estimated at -19.5 percent of non-oil GDP in 2023. This suggests that the external sector position was substantially weaker than fundamentals and desirable settings. This weak external sector position reflects large fiscal imbalances and the limited development of the non-oil economy. Expenditure restraint and structural reforms to promote private sector development and the diversification of the economy should help improve competitiveness and reduce the current account gap.

While not used as the basis for the assessment, the EBA-Lite regression model's estimate of the CA gap is reported in the table below and consistently suggests that the external sector position was substantially weaker than fundamentals and desirable policy settings.

Timor-Leste: EBA-lite Model Results, 2023

	CA model 1/	REER model 1/	Annuity approach
		(in percent of GDP)	
CA-Actual	**-1.0**		**-1.0**
Cyclical contributions (from model) (-)	0.6		
Natural disasters and conflicts (-)	-0.1		
Adjusted CA	**-1.5**		
CA Norm (from model) 2/	**25.7**		**20.1**
Adjustments to the norm (+)	0.0		
Adjusted CA Norm	**25.7**		
CA Gap	**-27.2**	**-1.8**	**-19.5**
o/w Relative policy gap	-15.7		
Elasticity	-0.15		
REER Gap (in percent)	**183.0**	**11.8**	**130.3**

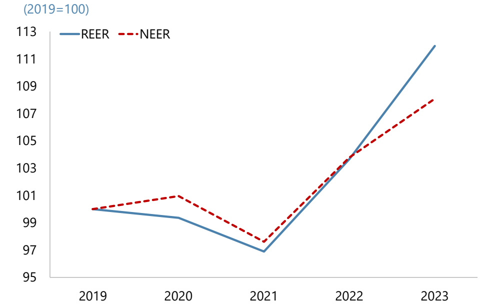
1/ Based on the EBA-lite 3.0 methodology
2/ Cyclically adjusted, including multilateral consistency adjustments.

Real Exchange Rate

Background. The real effective exchange rate (REER) and the nominal effective exchange rate (NEER) were relatively stable during 2019–21. In 2022-23 the REER appreciated by 15 percent and NEER by 10 percent, driven by strong pressures from global US dollar strength and higher inflation in Timor-Leste than in trading partners.

Assessment. Using a standard trade elasticity of -0.15, a current account gap at -19.5 percent of GDP is equivalent to a REER gap of about 130 percent.

Effective Exchange Rates
(2019=100)



Sources: IMF Statistics Department, Information Notice System (INS).

Capital and Financial Accounts: Flows and Policy Measures

Background. Portfolio inflows are the main source of financing of current account deficits in Timor-Leste. They consist of withdrawals from the Petroleum Fund. FDI outflows since 2019 have been large, accounting for repatriation of profits by foreign oil companies that reduce the value of their equity positions in the resident investment. Outflows averaged 27 percent of non-oil GDP in period 2019-2022, but reduced to only 3 percent in 2023, due to declining oil production.

Assessment. No major vulnerabilities exist related to capital flows in the short and medium term, given the large size of the Petroleum Fund.

FX Intervention and Reserves Level
Background. Reserves were at $739 million at end-2023, amounting to about 7 months of imports of goods and services, 59 percent of broad money, 285 percent of external debt, and 41 percent of non-oil GDP. **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 182 months of imports.
[1] The external position would remain weak in 2024, with the overall current account deficit expected to decline further due to dwindling oil/gas exports and large fiscal deficit. [2] Non-oil GDP was $1.8 billion in 2023. [3] We estimate the non-oil current account by excluding the oil related activities from the current account. Specifically, we exclude revenue from oil/gas exports from goods exports, manufacturing and repair services from services imports, and estimated investment income repatriation from investment income debit.

Annex III. Risk Assessment Matrix[1]

Risks	Likelihood	Impact	Policy Response
External Risks			
Abrupt global slowdown. Growth slowdown in major economies, including due to supply disruptions, tight monetary policy, rising corporate bankruptcies, or a deeper-than-envisaged real estate sector contraction.	Medium	**Medium.** This would trigger adverse spillovers through trade and financial channels, triggering sudden stops in the economy.	Promote private sector development and the diversification of the economy. Mobilize domestic revenue to reduce the reliance on the PF to finance government spending.
Commodity price volatility. Supply and demand fluctuations (e.g., due to conflicts, export restrictions, OPEC+ decisions, and green transition) cause recurrent commodity price volatility, external and fiscal pressures and food insecurity in EMDEs, cross-border spillovers, and social and economic instability.	High	**Medium.** Higher oil prices would exert greater inflationary pressure and worsen the current account, as the country relies on imports for oil products.	Support vulnerable households with targeted transfers to offset rising consumer prices. To create fiscal space, contain government spending pressures, mobilize domestic revenue, and align spending with sustainable revenues.
Domestic Risks			
Onset of political instability. The new government inaugurated in 2023 has a strong commitment to undertake various reforms for achieving a 5-percent growth target. However, slow progress on reforms and economic stagnation could fuel discontent, potentially leading to political instability.	Medium	**Medium.** Aggravated political instability, coupled with weak governance, would further constraint foreign direct investment and economic diversification.	Prioritize reforms to support inclusive growth, improve the business environment, diversify the economy, and achieve fiscal sustainability, coordinated with developing partners.
Development of major oil projects, including Greater Sunrise. The authorities are in the process of negotiating with stakeholders on Greater Sunrise, which is one of the major ongoing oil projects.	Medium	**Large**. Significant oil revenues could support higher social spending and inclusive growth. Meanwhile, large public investment related to project development would 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. The authorities have a number of projects in the pipeline, but the selection criteria are unclear.	Medium	**Large**. 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.
Extreme climate and weather shocks. ST/MT: Drought associated with El Niño is estimated to result in lower agricultural production. New events, including natural disasters triggered by climate change related to El Niño, could cause severe damage to the economy.	Medium	**Medium.** Food insecurity, which is more severe than in peer Asian countries, would worsen further. Inflation will accelerate, as food accounts for 54 percent of the CPI basket. The limited climate resilience of infrastructure will exacerbate the impact.	Gradually mobilize concessional resources to finance investments in climate- resilient infrastructure. To that end, start by identifying a pipeline of projects as part of the broader capital expenditure plan. Develop climate-resilient roads.

[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 ("Low" is meant to indicate a probability below 10 percent, "Medium" a probability between 10 and 30 percent, and "High" a probability between 30 and 50 percent). 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. The PF denotes the Petroleum Fund.

Annex IV. Reform Scenario

The recommended package of measures underpinning the reform scenario in the main text closely follows the 2022 and 2023 Article IV consultations. This Annex lists the full set of specific measures that staff recommend as part of this policy package. Of these measures, the more immediate priorities are discussed in the main text.

1. To preserve fiscal sustainability, reduce fiscal deficits gradually during 2025-34 and advance a package of structural reforms to boost growth and diversify the economy:

- **Expenditure reforms:** (i) Prioritize spending on human capital (health and education) and physical capital, including climate-resilient infrastructure; (ii) prioritize improvements to social safety nets and manage costs through better targeting to the most vulnerable; (iii) contain the rise in the wage bill by restraining public employment; (iv) curb the budget for goods and services by improving procurement; and (v) limit public transfers that do not safeguard the poor; (vi) proceed with PFM reforms: strengthen top-down budgeting to improve budget credibility; upgrade framework used for public investment management to better select projects; and establish strong governance safeguards and transparent fiscal reporting.

- **Domestic revenue mobilization:** (i) Introduce a value-added tax; (ii) increase corporate income tax rates to levels more in line with regional peers; and (iii) adopt a property tax once the land registry is complete.

- **Tax administration:** (i) Modernize operations by upgrading human capacity and minimizing manual procedures in the tax administration system; (ii) develop a medium-term tax administration plan; (iii) institutional reforms to streamline the organizational structure of the tax authority; (iv) upgrade the tax procedure code; and (v) promote e-tax filing.

- **Structural reforms to boost growth and diversify the economy:** (i) Public investment to expand connectivity and market access (e.g. airport expansion); (ii) improve business environment by removing legal constraints, including completing the land registry and adopting corporate accounting standards; (iii) progress in regional integration; (iv) financial sector legal reform, including a new banking law and a legal framework for collateralization of loans; (v) boost human capital (improving education quality) and strengthen vocational education and training; and (vi) strengthen governance and enforcement of contracts.

Annex V. Data Issues

Table 1. Timor-Leste: Data Adequacy Assessment for Surveillance

Data Adequacy Assessment Rating 1/							
B							
Questionnaire Results 2/							
Assessment	National Accounts	Prices	Government Finance Statistics	External Sector Statistics	Monetary and Financial Statistics	Inter-sectoral Consistency	Median Rating
	B	B	B	C	B	C	B
Detailed Questionnaire Results							
Data Quality Characteristics							
Coverage	B	B	C	C	B		
Granularity 3/	B		C	B	B		
			B		C		
Consistency			B	C		C	
Frequency and Timeliness	C	A	B	B	B		

Note: When the questionnaire does not include a question on a specific dimension of data quality for a sector, the corresponding cell is blank.
1/ The overall data adequacy assessment is based on staff's assessment of the adequacy of the country's data for conducting analysis and formulating policy advice, and takes into consideration country-specific characteristics.
2/ The overall questionnaire assessment and the assessments for individual sectors reported in the heatmap are based on a standardized questionnaire and scoring system (see IMF *Review of the Framework for Data Adequacy Assessment for Surveillance*, January 2024, Appendix I).
3/ The top cell for "Granularity" of Government Finance Statistics shows staff's assessment of the granularity of the reported government operations data, while the bottom cell shows that of public debt statistics. The top cell for "Granularity" of Monetary and Financial Statistics shows staff's assessment of the granularity of the reported Monetary and Financial Statistics data, while the bottom cell shows that of the Financial Soundness indicators.

A	The data provided to the Fund is adequate for surveillance.
B	The data provided to the Fund has some shortcomings but is broadly adequate for surveillance.
C	The data provided to the Fund has some shortcomings that somewhat hamper surveillance.
D	The data provided to the Fund has serious shortcomings that significantly hamper surveillance.

Rationale for staff assessment. Notable progress has been made in improving macro statistics in the external, fiscal, and financial sectors. With the support of IMF Capacity Development (CD), the authorities initiated efforts to compile Financial Soundness Indicators (FSI) and Public Sector Debt Statistics (PSDS), and have prepared and reported the annual 2022 data for Government Finance Statistics (GFS). However, further improvements are necessary: improving handling of petroleum-related transactions and foreign direct investment flows and compilation and dissemination of GFS, including resolving data discrepancies between non-financial and financial transactions. Strengthening inter-agency coordination and addressing capacity constraints remains the top priority.

Changes since the last Article IV consultation. Commendable efforts and progress in several areas were observed. Establishment of the National Institute of Statistics Timor-Leste is welcome, but communication on statistical issues among the authorities has not materially improved. Data on remittances was improved and material progress made on the oil-related transactions and direct investment. Central Bank has notified banks of the necessary reporting of FSI data, and official releases of this data are planned for the next year.

Corrective actions and capacity development priorities. Enhancement of coordination between the authorities should be prioritized, as it is paramount for compiling and disseminating comprehensive statistics that will enhance surveillance capabilities, particularly on external and fiscal sectors. Ongoing CD efforts should be complemented with adequate staffing and resource allocation to enhance existing data compilation through contentious coordination with the Fund. Compilation of FSIs by the Central Bank of Timor-Leste (BCTL) should be utilized for supervision and monitoring efforts to effectively track the performance of the financial sector.

Use of data and/or estimates in Article IV consultations in lieu of official statistics available to staff. The team relies on the Coordinated Direct Investment Survey (CDIS) data for outward direct investment, as well as data from Green Climate Fund, Statista, and publicly available financial statements of local banks.

Other data gaps. Data on labor markets needs to be improved to assess distributional concerns and to track employment by age. This enhancement would provide a better understanding of income and gender inequality, and the impact of digitalization on the workforce. Additionally, better data on the effects of climate change would strengthen staff analysis and support more informed policy recommendations.

Table 2. Timor-Leste: Data Standards Initiatives

Timor-Leste participates in the Enhanced General Data Dissemination System (e-GDDS) and publishes the data on its National Summary Data Page since February 2019.

Table 3. Timor-Leste: Table of Common Indicators Required for Surveillance

As of October 30, 2024

	Data Provision to the Fund				Publication under the Data Standards Initiatives through the National Summary Data Page			
	Date of Latest Observation	Date Received	Frequency of Data[6]	Frequency of Reporting[6]	Expected Frequency[6,7]	Timor-Leste[8]	Expected Timeliness[6,7]	Timor-Leste[8]
Exchange Rates	30-Sep-24	30-Sep-24	M	M	D	30	...	30
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	Sep-24	Nov-24	M	M	M	30	1M	60
Reserve/Base Money	Sep-24	Nov-24	M	M	M	30	2M	60
Broad Money	Sep-24	Nov-24	M	M	M	30	1Q	60
Central Bank Balance Sheet	Sep-24	Nov-24	M	M	M	30	2M	60
Consolidated Balance Sheet of the Banking System	Sep-24	Nov-24	M	M	M	30	1Q	60
Interest Rates[2]	Sep-24	Nov-24	M	M	M	30	...	60
Consumer Price Index	May-24	Sep-24	M	M	M	30	2M	60
Revenue, Expenditure, Balance and Composition of Financing[3]–General Government[4]	Dec-23	Oct-24	A	A	A	365	3Q	270
Revenue, Expenditure, Balance and Composition of Financing[3]–Central Government	Dec-23	Oct-24	A	A	Q	90	1Q	180
Stocks of Central Government and Central Government-Guaranteed Debt[5]	Dec-23	Oct-24	A	A	Q	90	2Q	180
External Current Account Balance	Jun-24	Jul-24	Q	Q	Q	90	1Q	90
Exports and Imports of Goods and Services	Jun-24	Jul-24	Q	Q	M	90	12W	90
GDP/GNP	Dec-23	Oct-24	A	A	Q	365	1Q	480
Gross External Debt	Jun-24	Jul-24	Q	Q	Q	90	2Q	180
International Investment Position	Jun-24	Jul-24	Q	Q	A	90	3Q	90

[1] Includes reserve assets pledged or otherwise encumbered, as well as net derivative positions.
[2] Both market-based and officially determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.
[3] Foreign, domestic bank, and domestic nonbank financing.
[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.
[5] Including currency and maturity composition.
[6] Frequency and timeliness: ("D") daily; ("W") weekly or with a lag of no more than one week after the reference date; ("M") monthly or with lag of no more than one month after the reference date; ("Q") quarterly or with lag of no more than one quarter after the reference date; ("A") annual.; ("SA") semiannual; ("I") irregular; ("NA") not available or not applicable; and ("NLT") not later than.
[7] Encouraged frequency of data and timeliness of reporting under the e-GDDS and required frequency of data and timeliness of reporting under the SDDS and SDDS Plus. Any flexibility options or transition plans used under the SDDS or SDDS Plus are not reflected. For those countries that do not participate in the IMF Data Standards Initiatives, the required frequency and timeliness under the SDDS are shown for New Zealand, and the encouraged frequency and timeliness under the e-GDDS are shown for Eritrea, Nauru, South Sudan, and Turkmenistan.
[8] Based on the information from the Summary of Observance for SDDS and SDDS Plus participants, and the Summary of Dissemination Practices for e-GDDS participants, available from the IMF Dissemination Standards Bulletin Board (https://dsbb.imf.org/). For those countries that do not participate in the Data Standards Initiatives, as well as those that do have a National Data Summary Page, the entries are shown as "..."

Annex VI. Integration of Capacity Development and Surveillance

Area	Surveillance Recommendations	Capacity Development Recent Actions/Plans
Tax Administration	Strengthen tax administration to improve tax compliance.	In 2024, PFTAC supported the launch of a pilot program on taxpayer services and e-tax for petroleum industry. Additionally, PFTAC started audit training in July 2024 to implement Standard Operating Procedures.
Revenue Mobilization	Introduce the VAT in 2026, which requires immediate progress with legislation and strengthening tax administration.	PFTAC is currently discussing with the tax authorities to design a new CD modality on VAT introduction.
Fiscal Framework and Public Financial Management (PFM)	Advance PFM reforms and develop a medium-term fiscal framework to budget discipline and spending efficiency.	ICD has been providing CD on the macroeconomic projection tool (MPT), which has been assisting the authorities with budget planning and monitoring. PFTAC and CDOT are planning to deliver a CD activity on strengthening budget preparation.
Governance and AML/CFT	More governance reforms are needed in the domain of rule of law and regulatory frameworks. Address deficiencies in the AML/CFT frameworks in a timely manner.	The authorities committed to a new insolvency framework under the WTO accession. APG adopted Timor-Leste's Mutual Evaluation Report in September 2024. Other reform areas lack progress.
Banking Sector Regulation and Financial Supervision	Enhance prudential standards and risk assessment methodologies to capture emerging risks in the financial sector.	MCM and LEG have assisted with reviewing the draft of the banking law that will be submitted to the parliament and is ready to provide further technical assistance through PFTAC.
Macroeconomic statistics	Improve the quality and frequency of macroeconomic statistics.	PFTAC reviewed the methodology and the compilation system of national accounts in collaboration with the Australian statistical authorities. The Statistics Department (STA) is providing CD on external sector statistics, government finance statistics, and will assist with preparing the future compilation of quarterly national accounts.
Financial Soundness Indicators (FSI)	Release FSI data without delay.	Ongoing improvement of the FSI is supported by STA and is expected to be completed by mid-2025. STA is ready to provide further technical support on Monetary and Financial Statistics (MFS).

Annex VII. Responses to Past Fund Advice

Fund Recommendation	Policy Actions
Fiscal Policy	
• Fiscal consolidation and gradual elimination of Petroleum Fund (PF) excess withdrawals	The fiscal balance is estimated to deteriorate in 2024 and no consolidation is planned for 2025.
• Revenue mobilization and expenditure rationalization	The government reduced import duties and eliminated the tax on sugar and tobacco in August 2023. They plan to implement VAT in 2026, and related CD is ongoing, including with a new long-term expert.
• Strengthen public financial management (PFM)	The authorities are planning to implement the revised Procurement and Budget and PFM Framework laws, which should improve budget planning and execution as well as project selection.
Financial Policies	
• Upgrade the financial sector regulatory and supervisory framework	The central bank issued the IFRS 9 and Basel III instructions, and private banks started the appropriate training. The first round of FSI data collection happened in July 2024 and full compliance is expected by July 2025. In consultation with development partners, the central bank has drafted a new banking law. The secure transactions law and institutional framework for financial reporting and auditing standards were submitted to Parliament.
• Strengthen digital literacy, cybersecurity, and data/consumer protection and privacy	The physical installation of the first submarine fiber-optic cable is expected by the end of 2024. Authorities have formulated a national broadband plan, national cyber security plan, e-Government plan, and digital economy infrastructure plan.
Structural Reforms	
• Investment in human capital, raise productivity in the agriculture sector, conducive business environment including simplified licensing requirements and land registration, stronger governance, better enforcement of legal contracts, labor market reforms, investment in digital infrastructure.	The authorities are discussing technical assistance from the IMF and the World Bank for legal reforms aimed at financial sector development. On AML/CFT, APG adopted Timor-Leste's Mutual Evaluation Report (MER) in September 2024, and the authorities have expressed their commitment to implementing the recommendations from the MER. Other reform areas lack progress.
Statistics	
• Improve the quality of data for informed policy making.	Progress has been made with IMF CD, but further improvements are required in both the quality and frequency of official statistics, including for essential standard statistics such as national accounts, GFS, BOPS, MFS, and FSI.

INTERNATIONAL MONETARY FUND

DEMOCRATIC REPUBLIC OF TIMOR-LESTE

November 20, 2024

STAFF REPORT FOR THE 2024 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

Prepared By	Asia and Pacific Department (In consultation with other departments)

CONTENTS

FUND RELATIONS

(As of September 30, 2024)

Membership Status: Joined July 23, 2002; Article VIII.

General Resources Account:

	SDR Million	% Quota
Quota	25.60	100.00
IMF Holdings of Currency (Holdings rate)	21.25	83.01
Reserve Tranche Position	4.35	17.00

SDR Department:

	SDR Million	% Allocation
Net Cumulative Allocation	32.26	100.00
Holdings	27.89	86.46

Outstanding Purchases and Loans: None

Latest Financial Commitments: None

Projected Payments to Fund:

(SDR Million; based on existing use of resources and present holdings of SDRs)

	Forthcoming				
	2024	2025	2026	2027	2028
Principal					
Charges/Interest	0.04	0.15	0.15	0.15	0.15
Total	0.04	0.15	0.15	0.15	0.15

Exchange Rate Arrangements:
The exchange rate arrangement (de jure and de facto) is an exchange arrangement with no separate legal tender. On January 24, 2000, the U.S. dollar was adopted as the official currency of then East Timor by the United Nations Transitional Administration in East Timor (UNTAET). This arrangement has been maintained after Timor-Leste's independence on May 20, 2002. At present, the monetary authority does not undertake foreign exchange transactions; they are handled by commercial banks on the basis of rates quoted in the international markets. Timor-Leste has accepted the obligations under Article VIII, Sections 2(a), 3 and 4 of the IMF's Articles of Agreement, and maintains an exchange system free of multiple currency practices and restrictions on the making of payments and transfers for current international transactions.

Article IV Consultations:

The previous Article IV consultation was concluded on February 27, 2023. The associated Executive Board assessment is available at IMF Executive Board Concludes 2023 Article IV Consultation with Timor-Leste. Timor-Leste is on the standard 12-month consultation cycle.

Resident Representative:

The resident representative office in Dili, established in August 2000, closed at end-June 2009.

RELATIONS WITH OTHER INTERNATIONAL FINANCIAL INSTITUTIONS

- World Bank: http://www.worldbank.org/en/country/timor-leste
- Asian Development Bank: https://www.adb.org/countries/timor-leste/main

INTERNATIONAL MONETARY FUND

DEMOCRATIC REPUBLIC OF TIMOR-LESTE

November 20, 2024

STAFF REPORT FOR THE 2024 ARTICLE IV CONSULTATION—DEBT SUSTAINABILITY ANALYSIS

Approved By
Nada Choueiri (IMF), Fabian Bornhorst (IMF), Lalita Moorty (IDA), and Manuela Francisco (IDA)

Prepared by Staff of the International Monetary Fund and the International Development Association

Timor-Leste: Joint Bank-Fund Debt Sustainability Analysis	
Risk of external debt distress	Moderate
Overall risk of debt distress	Moderate
Granularity in the risk rating	Limited space to absorb shocks
Application of judgement	Yes. Petroleum sovereign wealth fund is a strong mitigating factor for the country's debt sustainability in the next 10 years.

Timor-Leste remains at moderate risk of overall and external debt distress, with application of judgement, unchanged from the 2023 Article IV debt sustainability analysis. The present value of the external debt-to-exports ratio and the debt service-to-exports ratio under the baseline are projected to breach their respective indicative thresholds in the medium term, triggering a mechanical rating of high risk of overall and external debt distress. In the medium term, however, the Petroleum Fund (PF) remains large relative to projected debt levels and debt service requirements, and its assets are liquid and accessible, thus acting as a mitigating factor, prompting the use of judgement to upgrade the risk assessment. Long-term risks to debt sustainability remain broadly the same as in the 2023 Article IV debt sustainability analysis, with the impact of larger deficits over the projection horizon mitigated by a more favorable PF balance outturn in 2023. Staff projects that the PF, which is the main source of funding of fiscal deficits, would be fully depleted in 2038 under the baseline scenario, triggering a breach of all debt indicators towards the end of the twenty-year projection horizon. However, there is time to adopt necessary policy adjustments—staff's reform scenario illustrates how fiscal consolidation and structural reforms can ensure both fiscal and debt sustainability in the long term.

PUBLIC DEBT COVERAGE

1. The coverage of public sector debt used in this report is public and publicly guaranteed debt. Timor-Leste's public and publicly guaranteed external debt is held entirely by the central government. The coverage of public sector debt includes state-owned enterprise debt. Under the Public Debt Regime Law, state-owned enterprises are not allowed to borrow for themselves and can only obtain financing via on-lending from the Ministry of Finance.[1] Currently, there are no guarantees granted by the state to state-owned enterprises. The Social Security Fund does not issue debt on its own. Currently, debt related to the state and local government, extra budgetary funds, central bank, and non-guaranteed SOE are not applicable. The public sector only borrows externally, given a lack of domestic financing sources. The data coverage is broadly comprehensive for Timor-Leste, given the dominant role of the central government in incurring debt obligations. The debt definition of the debt sustainability analysis (DSA) is currency-based, and the legal tender is the US dollar.

Text Table 1. Timor-Leste's Coverage of Public Debt

	Subsectors of the public sector	Check box
1	Central government	X
2	State and local government	
3	Other elements in the general government	
4	o/w: Social security fund	
5	o/w: Extra budgetary funds (EBFs)	
6	Guarantees (to other entities in the public and private sector, including to SOEs)	X
7	Central bank (borrowed on behalf of the government)	
8	Non-guaranteed SOE debt	

2. The contingent liability stress test settings were customized (Text Table 2). The default shock to contingent liabilities from state-owned enterprises debt and Public Private Partnerships is reduced to zero. This is because the former is already included in the baseline public debt, and the latter is negligible (see ¶1). As part of the World Bank's Sustainable Development Finance Policy (SDFP) Performance and Policy Actions (PPA), the Government will continue implementing the PPAs aimed at enhancing fiscal risk monitoring through the publication of a Fiscal Risk Statement and financial information on all state-owned enterprises (SOEs) in its Budget Book.

Text Table 2. Coverage of Public Debt and Design of Contingent Liabilities (tailored) Stress Tests

1	The country's coverage of public debt	The central government, government-guaranteed debt		
		Default	Used for the analysis	Reasons for deviations from the default settings
2	Other elements of the general government not captured in 1.	0 percent of GDP	0	
3	SoE's debt (guaranteed and not guaranteed by the government) 1/	2 percent of GDP	0	Included in the baseline public debt
4	PPP	35 percent of PPP stock	0.00	Negligible PPP stock
5	Financial market (the default value of 5 percent of GDP is the minimum value)	5 percent of GDP	5	
	Total (2+3+4+5) (in percent of GDP)		5.0	

1/ The default shock of 2% of GDP will be triggered for countries whose government-guaranteed debt is not fully captured under the country's public debt definition (1.). If it is already included in the government debt (1.) and risks associated with SoE's debt not guaranteed by the government is assessed to be negligible, a country team may reduce this to 0%.

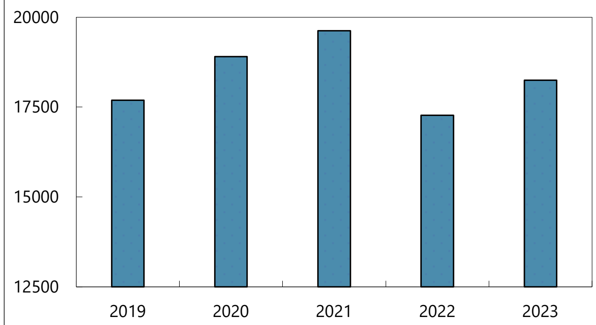
[1] According to the Public Debt Regime Law No. 13/2011, the Government of Timor-Leste, in particular the Ministry of Finance, is the only entity that may engage in borrowing, motivated by financing needs generated by the need to execute the State's priority tasks relating to the building of strategic infrastructure for the country's development.

BACKGROUND ON DEBT

3. Timor-Leste's net public asset position is currently strong due to oil-related savings accumulated in Petroleum Fund assets and low levels of public debt.

- The Petroleum Fund (PF) balance at end-2023 stood at $18.2 billion (988 percent of non-oil GDP), covering 182 months of prospective goods and services imports. The Petroleum Fund balance increased by $1.1 billion in 2023 as favorable market revaluations ($1.2 billion; 7 percent), interest and dividend income ($0.5 billion), and oil revenues ($0.4 billion) more than offset withdrawals to finance the budget ($1.1 billion, of which $0.6 billion was excess withdrawal).[2] The average nominal return on Petroleum Fund assets during 2018–23 was 4.4 percent.

Text Figure 1. Petroleum Fund balance
(Million US dollars)

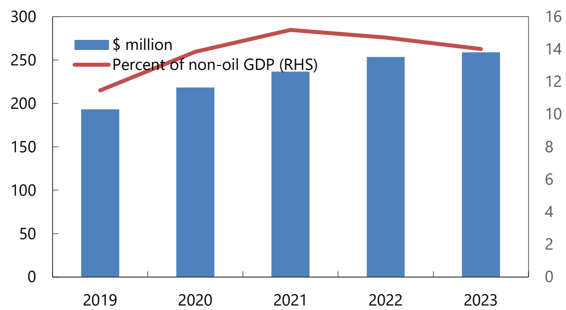


Source: Central Bank of Timor-Leste.

- Outstanding public external debt stood at $259 million in 2023—as share of non-oil GDP, this represents a slight decline to 14.4 percent from 14.7 percent in 2022, and is lower than the estimate in the previous DSA due to lower-than-expected disbursement of external loans. All external loans signed since 2012 have consisted of concessional loans from the Asian Development Bank, the World Bank Group, and the Japan International Cooperation Agency to finance mainly road infrastructure projects, water supply and sanitation, and development of the airport. The Asian Development Bank has the largest share of total external debt, comprising nearly 75 percent of total external debt at end-2023. The average maturity of existing loans is 25.5 years, with grace periods ranging from 5 to 10 years. Debt service payments on existing debt average $27 million annually (close to 1.1 percent of non-oil GDP) in the medium term.

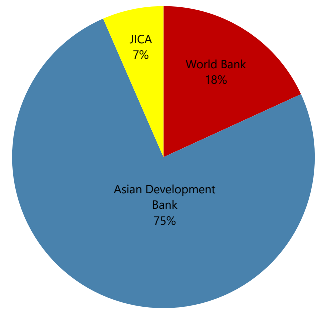
[2] The Petroleum Fund constitutes the main financing source for the budget. The Fund's estimated sustainable income (ESI) is 3 percent of total petroleum wealth (sum of the Petroleum Fund balance and the net present value of expected future petroleum revenue). The revenue rule—enshrined in the Petroleum Fund Law—limits the withdrawal for budget purpose from the Petroleum Fund up to the ESI. Withdrawals in excess of the ESI can be made with the approval of Parliament. The debt rule sets a ceiling on the cost of external borrowing at 3 percent and requires the government to benchmark the costs of external borrowing (external debt) with the Petroleum Fund's average rate of investment returns, subject to regular reviews to align with the Petroleum Fund's investment strategies.

Text Figure 2. PPG External Debt
($ million, percent)



Source: BCTL; and IMF staff estimates.

Text Figure 3. External Debt by Creditors, 2023
(Percent of PPG external debt)



Source: BCTL; Ministry of Finance; and IMF staff estimates.

BACKGROUND ON MACRO FORECASTS

4. Timor-Leste faces large and pressing development challenges. Despite notable socio-economic achievements since gaining independence in 2002, Timor-Leste remains a fragile post-conflict state with weak human and institutional capacity, large infrastructure gaps, and high dependence on revenues from the Petroleum Fund. GNI per capita in current USD was $2,140 in 2023, much lower than the threshold of at least $4,096 to be classified as an upper-middle income country. While the poverty rate (based on the national poverty line) declined from 50.4 percent in 2007 to 41.8 percent in 2014, it remains among the highest in the region, and acute food security continues to affect a quarter of the population (World Food Program 2024). Timor-Leste is vulnerable to natural disasters including floods, whose frequency and severity are expected to increase with climate change (IMF 2022).

5. This debt sustainability analysis is based on the macroeconomic projections underlying the 2024 Article IV consultation (Text Table 3). To illustrate the impact of different policy options on debt sustainability, two scenarios—baseline and reform—are considered.

6. Macro-fiscal developments have improved somewhat compared to the 2023 Article IV debt sustainability analysis (Text Table 4). The following revisions were made to reflect recent developments and the latest data. First, the outturn of the Petroleum Fund's outstanding balance at end-2023 is larger than the estimate in the previous DSA, mainly due to larger-than-estimated valuation gains. Second, the outturn of non-oil GDP growth in 2023 (2.4 percent) was higher than the estimate in the previous DSA (1.5 percent) driven by larger-than-expected public spending in the last months of 2023. Third, the fiscal deficit decreased to 42½ percent in 2023 (from 60½ percent of non-oil GDP in 2022) as difficulties in executing the original 2023 budget surrounding the elections and power transfer restrained expenditure in 2023. The fiscal deficit in 2023 is somewhat larger than previously estimated. This is due to higher-than-expected revenues (temporary increases in excise and import taxes) that partially offset the higher-than-expected expenditure.

Text Table 3. Main Macroeconomic Projections, 2021-29

	2021	2022	2023	2024	2025	2026	2027	2028	2029
				Est.	Proj.	Proj.	Proj.	Proj.	Proj.
	(Annual percent change)								
Real sector									
Real Non-oil GDP	3.0	4.0	2.4	3.5	3.4	3.2	3.1	3.1	3.0
Real Non-oil GDP per capita	1.1	2.2	1.3	2.4	2.1	1.9	1.8	1.7	1.5
CPI (annual average)	3.8	7.0	8.4	2.2	1.5	2.0	2.0	2.0	2.0
CPI (end-period)	5.3	6.9	8.7	0.5	1.8	2.0	2.0	2.0	2.0
	(In percent of Non-oil GDP, unless otherwise indicated)								
Central government operations									
Revenue	57.1	54.6	51.4	49.2	46.1	42.7	39.5	36.4	33.6
Domestic revenue	10.5	10.2	13.8	11.4	11.5	11.5	11.6	11.6	11.7
Estimated Sustainable Income (ESI)	35.1	33.1	27.2	28.3	26.2	23.6	21.1	18.7	16.4
Grants	11.6	11.3	10.5	9.4	8.5	7.6	6.8	6.1	5.4
Expenditure	103.9	115.2	93.9	92.5	95.3	91.5	88.7	86.0	83.5
Recurrent	83.3	91.8	70.6	69.8	73.6	70.5	68.4	66.3	64.4
Net acquisition of nonfinancial assets	8.9	12.1	12.8	13.3	13.2	13.4	13.5	13.6	13.7
Donor project	11.6	11.3	10.5	9.4	8.5	7.6	6.8	6.1	5.4
Net lending/borrowing	-46.7	-60.6	-42.5	-43.3	-49.2	-48.8	-49.2	-49.6	-49.9
	(Annual percent change, unless otherwise indicated)								
Money and credit									
Deposits	29.3	8.6	2.5	7.6	6.9	6.8	6.7	6.7	6.6
Credit to the private sector	4.6	34.5	20.6	20.5	15.7	8.1	6.7	6.7	6.6
Lending interest rate (percent, end of period)	11.3	11.3	11.3	11.3	11.3	11.3	11.3	11.3	11.3
	(In millions of U.S. dollars)								
Balance of payments									
Current account balance	1,525	474	-17	-195	-515	-575	-766	-829	-896
(In percent of Non-oil GDP)	98	28	-1	-10.1	-24.9	-26.0	-32.4	-32.9	-33.3
Trade of Goods	1,996	894	-149	-611	-814	-836	-938	-972	-1,007
Exports of goods	2,744	1,798	632	233	142	152	93	105	119
Imports of goods	748	904	781	845	956	988	1,031	1,078	1,126
Trade of Services	-522	-441	-353	-310	-309	-318	-337	-340	-345
Primary Income	-152	-128	397	540	427	406	336	310	281
Secondary Income	204	149	88	186	180	173	173	173	175
Overall balance	279	-102	-49	19	77	33	48	41	45
Public foreign assets (end-period) 1/	20,556	18,106	19,072	18,881	18,282	17,554	16,697	15,740	14,688
(In months of imports)	190	155	190	184	162	150	136	123	110
Exchange rates									
NEER (2010=100, period average)	142.9	151.9	158.0	...	...	...	...	...	...
REER (2010=100, period average)	144.6	154.8	167.2	...	...	...	...	...	...
Memorandum items									
Nominal Non-oil GDP (in millions of U.S. dollars)	1,563	1,676	1,802	1,939	2,073	2,215	2,363	2,522	2,688
Nominal Non-oil GDP per capita (in U.S. dollars)	1,167	1,231	1,309	1,393	1,471	1,551	1,634	1,720	1,807
(Annual percent change)	-3.0	5.4	6.3	6.5	5.6	5.5	5.3	5.3	5.1
Crude oil prices (U.S. dollars per barrel, WEO) 2/	69	96	81	81	73	70	69	68	67
Petroleum Fund balance (in millions of U.S. dollars) 3/	19,621	17,273	18,288	18,078	17,402	16,641	15,736	14,737	13,640
(In percent of Non-oil GDP)	1,256	1,031	1,015	932	839	751	666	584	507
Public debt (in millions of U.S. dollars)	237	253	259	267	293	306	314	329	354
(In percent of Non-oil GDP)	15.1	15.1	14.4	13.7	14.1	13.8	13.3	13.1	13.2
Population growth (annual percent change)	1.9	1.7	1.1	1.1	1.3	1.3	1.3	1.4	1.4

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

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

2/ Simple average of UK Brent, Dubai, and WTI crude oil prices based on October 2024 WEO assumptions.

3/ Closing balance.

Macroeconomic Assumptions:

- **Real non-oil GDP growth** is projected to recover to 3.5 percent in 2024 from 2.4 percent in 2023. Growth in 2024 will be supported by fiscal expansion and strong credit growth. A large expansionary fiscal impulse in 2025 will, however, provide a smaller boost to growth because the additional spending is mainly driven by transfers with a low fiscal multiplier. Growth is projected to hover around 3 percent in the medium and long term, driven by the private sector and broadly aligned with past performance (non-oil real GDP growth averaged between 2½-3¼ percent depending on specific periods assumed during 2001-23). Oil production from active fields is dwindling and expected to cease by end-2026 after which it is not projected to restart in the baseline scenario.[3]

Text Table 4. Macroeconomic and Fiscal Assumptions: Current and 2023 Article IV

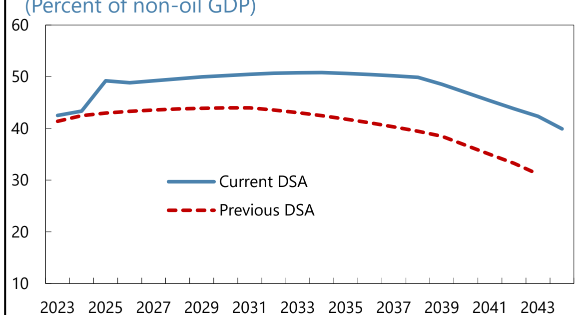
	Current (2024 Article IV)				Previous (2023 Article IV)			
	2023	2024	2029	2043	2023	2024	2029	2043
Real non-oil GDP growth (in percent)	2.4	3.5	3.0	3.0	1.5	3.5	3.0	3.0
CPI inflation	8.4	2.2	2.0	2.0	8.4	3.5	2.0	2.0
Revenue (excl. grants, percent of non-oil GDP)	41.0	39.7	28.2	12.5	38.6	36.5	25.4	14.0
Government expenditure (percent of non-oil GDP)	83.5	83.1	78.1	54.8	80.0	78.9	69.3	45.1
Recurrent	70.6	69.8	64.4	42.6	67.9	65.0	54.7	33.6
Capital	12.8	13.3	13.7	12.2	12.1	14.0	14.6	11.5
Net lending/borrowing (percent of non-oil GDP)	42.5	43.3	49.9	42.3	41.4	42.5	43.9	31.2
Net incurrence of liabilities (percent of non-oil GDP)	0.6	0.4	0.9	42.3	3.2	3.5	2.4	0.3
Petroleum Fund balance (USD million)	18,288	18,078	13,640	0	17,503	16,774	12,655	0
Current account balance (percent of non-oil GDP)	-1.0	-10.1	-33.3	-28.8	-20.4	-42.0	-47.1	-34.9

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

- **Inflation** has fallen sharply from a high level in 2023, reaching around 1.8 percent (y/y) in August 2024 as global food prices moderate. From an average of 8.4 percent in 2023, inflation is expected to average 2.2 percent in 2024 and 1.5 percent in 2025, and return to 2 percent in the medium term, in line with the previous DSA. Over the medium to long term, the growth in the GDP deflator—another gauge of inflation—is revised down (3½ percent) relative to the previous DSA (4 percent) to better align with underlying nominal wage dynamics. This results in a downward revision of nominal GDP relative to the previous DSA.

- **The fiscal deficit** is projected to increase from 42½ percent of non-oil GDP in 2023 to 43 percent in 2024, led by an increase in capital spending. The deficit will widen more in 2025 to 49 percent of non-oil GDP, driven by large—and permanent—increases in transfers to veterans and pensioners (as envisaged in the draft 2025 budget). Over the medium term, the execution rate of capital expenditure is expected to rise gradually as the government's plans to prioritize public spending on capital projects materialize. As a result, the fiscal deficit will continue to edge

Text Figure 4. Fiscal Deficit
(Percent of non-oil GDP)



Source: IMF staff estimates.

[3] Production was expected to cease end-2023 in the 2023 DSA, but now is expected to continue until 2026—as new production contracts are signed—after which it will cease. The expected petroleum receipts during 2024-26 however are small, averaging just 3 percent of non-oil GDP (relative to 40 percent in the last five years). Non-oil and total GDP are equal from 2027 onwards. As in the 2023 DSA, the baseline does not include the development of the Greater Sunrise fields as development plans are not yet approved.

up, reaching 50 percent of non-oil GDP by 2029. Over the medium and long term, the projected deficits are larger than in the previous DSA: spending ratios are now higher as the nominal GDP levels are revised down and the additional transfers in 2025 persist.

- **The current account deficit** is expected to increase from around 1 percent of non-oil GDP in 2023 to about 10 percent in 2024, further increasing to around 33 percent by 2029, reflecting the projected fiscal path, dwindling oil revenues, strong imports of goods and services, and limited exports. The medium-term current account deficit is smaller than in the last DSA mainly due to the more favorable Petroleum Fund Balance in 2023 that generates higher interest income in the primary account.[4] . In the long term, the current account deficit gradually declines as the domestic production of tradeable goods and services expands. Remittances are assumed to grow in line with non-oil GDP.

- **External financing** consists of concessional loans from official creditors throughout most of the projection horizon. The depletion of the PF in 2038 opens up a sizable financing gap as access to concessional loans is limited. A technical assumption is made such that the remaining financing gap is closed by external non-concessional loans.[5] No private external borrowing is assumed, in line with existing data. Timor-Leste does not have exceptional financing such as accumulation of arrears. There is no domestic financing assumed in the baseline, though the government had expressed an interest in developing an issuance program for government bills in the local market.

- **The grant element of loans** is assumed to decline moderately in the medium term as the economy develops. Other assumptions include that no off-budget debt is accumulated including by state-owned enterprises in line with existing legislation.

- **Natural disasters and climate change vulnerability.** By assuming medium-to-long-term growth of 3 percent that is thus broadly consistent with past performance, the baseline assumes that Timor-Leste will be impacted by a similar frequency and intensity of natural disasters as in the past. Since 2001, the country has been affected by 14 natural disasters (EM-DAT database). Increased frequency and severity of natural disasters due to climate change (¶4) pose a downside risk to long-term growth.

7. The baseline fiscal scenario assumes lower spending than planned under the 2024 and 2025 budgets, mainly reflecting under execution of capital expenditure. Recurrent spending during 2024-25 is assumed to average around 94 percent of the planned amount in the respective budgets. The execution rate of capital expenditure, on the other hand, is expected to be much lower,

[4] The downward revision to the current account deficit in 2023 reflects changes to the BOP framework which now accounts for the 2018 Maritime Boundary Treaty.

[5] The terms of the external non-concessional loans are: 5 percent interest rate, 20-year grace period, and 40-year maturity.

60 percent by end-2024.[6] The execution rate for capital expenditure is assumed to pick up gradually in 2025 and the medium term (Text Figure 5). An annual nominal investment return on the Petroleum Fund of around 4.5 percent is assumed during 2023-30—in line with its average returns over 2005–23—after which a smaller return of 4 percent is assumed to reflect a shift into more liquid investments as the Fund's balance falls.

- Government revenues (which include the Petroleum Fund's estimated sustainable income) are projected to decline from 41 percent of non-oil GDP in 2023 to about 40 percent in 2024, and further to about 13 percent by 2044. In the baseline, there is a gradual erosion in the balance of the Petroleum Fund which, in turn, reduces its estimated sustainable income. The government had signaled its intention to raise domestic revenue by 5 percentage points of non-oil GDP in the medium term.[7] The baseline, however, assumes domestic revenue ratio rising only by around ½ percentage points by 2029 from 11½ percent of non-oil GDP in 2024 (and only by 1 percentage point by 2034).

- Beyond 2025, recurrent spending is projected to increase by 3.5 percent each year, broadly in line with projected population growth and inflation. Capital spending is projected to increase at an annual rate of around 8 percent during 2026-29 (and around 5 percent in the long term, broadly unchanged from the previous DSA), to reflect the government's prioritization of public investment.

- As the government relies on Petroleum Fund withdrawals to meet its financing needs, the Petroleum Fund falls to $13.6 billion by 2029. The fund is fully depleted by 2038—one year earlier than the previous DSA—after which it is assumed that the government relies on external debt to finance fiscal deficits.[8]

- External borrowing—expected to remain all on concessional terms over the medium term—is projected at about 1½ percent of non-oil GDP during 2024–29 in line with updated borrowing plans shared by the authorities and slightly below recent values. The average maturity and grace periods of the new external loans are broadly similar with existing loans, though the baseline incorporates access to IDA Shorter Maturity Loans (SMLs) during 2023-25.[9] In the long term when the PF is depleted, a technical assumption is made such that external non-concessional loans meet the remaining financing gaps (¶6).

- Domestic financing is not assumed in the baseline reflecting the current coverage of debt. In addition, the baseline assumes no take-up of public debt by the central bank or banks.

---

[6] The execution rate of capital expenditure remained around 26 percent through mid-September 2024. Staff assumes the execution rate to pick up in the later months of 2024, reaching 60 percent by end-2024.

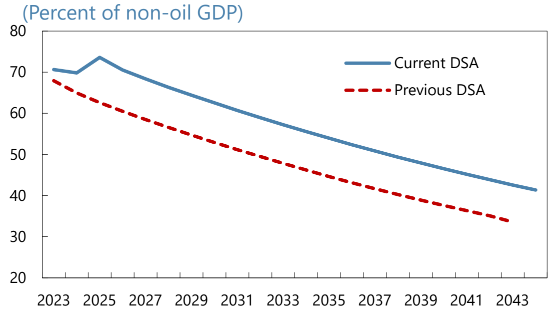
[7] The authorities plan to introduce a VAT in 2026 and attendant reforms in tax administration are ongoing.

[8] According to the draft 2025 budget, the Ministry of Finance projects higher levels of public expenditure than staff over the medium term, and thus expects the PF to be fully depleted by 2035.

[9] For Timor-Leste in FY25, SMLs comprise approximately 24 percent of its IDA's country allocation. SMLs have a 12-year final maturity, a 6-year grace period, and zero interest or service charge.

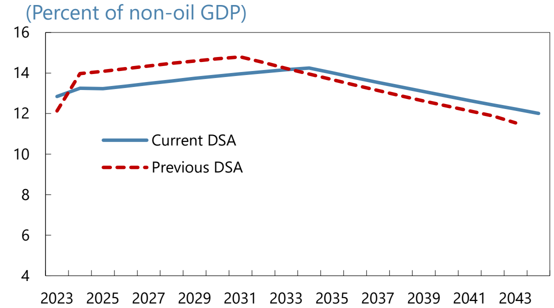
- Outstanding external debt as a share of non-oil GDP is projected to decline slightly from 14 percent in 2023 to 13 percent in 2029, reflecting the projected disbursement of external loans and growth of nominal non-oil GDP. Once the PF fully depletes in 2038, external borrowing is assumed to be the main source of financing of the fiscal deficit, with the stock of external debt rising to around 270 percent of non-oil GDP by 2044 under the baseline. Relative to the previous DSA, projected external debt ratio in the long term is now much larger as non-concessional financing—with larger debt servicing than concessional loans—are assumed to meet the financing gap when the PF is depleted (¶6).

Text Figure 5. Recurrent Spending
(Percent of non-oil GDP)



Source: IMF staff estimates.

Text Figure 6. Capital Spending
(Percent of non-oil GDP)



Source: IMF staff estimates.

8. While the baseline scenario is identified as potentially unrealistic, there are plausible and relevant mitigating factors that suggest it does not warrant adjustments. The three-year primary balance adjustment (between 2023 and 2026) is projected to be -6½ percentage points of GDP: this lies in the 10th percentile of the distribution of Fund-supported programs in low-income countries since 1990. The large deterioration reflects a combination of a low starting fiscal deficit in 2023—as budget execution fell in the election year—and a large deficit in 2025 driven by the transfers—as envisaged in the draft 2025 budget which staff has incorporated (¶6). The fiscal expansion contrasts with the large consolidation during 2022-25 in the previous DSA—the latter was driven by the low fiscal deficit in 2023. Projected growth in 2024 would be broadly consistent with the expansionary fiscal impulse into 2024, whereas the relatively modest growth—despite the large expansionary impulse—in 2025 reflects a low multiplier associated with transfers as they tend to be spent on imports. Growth in public investment is expected to contribute to about one-third of GDP growth over the medium term. The projected contribution is somewhat smaller than the contribution in the last five years, which had been driven by a large one-off increase in public investment—from a low base—in 2019.

9. Under staff's reform scenario—which is broadly consistent with the scenario that has been previously presented in the 2022 and 2023 DSAs—policy actions are adopted to safeguard long-term fiscal sustainability.

- **A target to achieve a sustainable fiscal position by 2034.** More moderate levels of spending coupled with higher domestic revenue gradually unwind fiscal imbalances and align withdrawals from the Petroleum Fund with its sustainable income. A growth-friendly fiscal composition and structural reforms would boost growth in the reform scenario, helping to reduce deficit and debt ratios. Relative to the previous DSA, fiscal consolidation—which starts in 2025—is somewhat more gradual given the better starting point—a stronger PF balance in 2023 (¶6)—and mitigates the adverse growth impact from consolidation. The consolidation plan leaves a healthy level of Petroleum Fund buffers in 2044 of around 168 percent of non-oil GDP. Fiscal deficits in the medium-term (2029) would be around 20 percent of non-oil GDP, instead of 50 percent under the baseline. Overall, in the reform scenario the Petroleum Fund is preserved from 2034 onwards and generates a permanent level of investment income to support government expenditures, thus putting fiscal and debt sustainability on a solid footing.

Text Table 5. Macroeconomic Assumptions: Baseline and Reform Scenarios

			Baseline				Reform			
	2023	2024	2025	2029	2034	2044	2025	2029	2034	2044
	Percent of non-oil GDP (unless noted otherwise)									
Real non-oil GDP growth (in percent)	2.4	3.5	3.4	3.0	3.0	3.0	2.9	3.9	5.5	6.3
Revenue (excl. grants)	41.0	39.7	37.6	28.2	19.0	12.5	37.8	34.1	28.4	22.0
Domestic revenue	13.8	11.4	11.5	11.7	12.5	12.5	11.5	16.2	17.0	17.0
Estimated Sustainable Income	27.2	28.3	26.2	16.4	6.5	0.0	26.3	17.9	11.4	5.0
Expenditure	83.5	83.1	86.8	78.1	69.8	53.3	81.4	54.2	36.0	22.7
Recurrent	70.6	69.8	73.6	64.4	55.5	41.3	68.4	42.3	26.0	16.0
Capital	12.8	13.3	13.2	13.7	14.3	12.0	13.0	11.9	10.0	6.7
Fiscal balance	-42.5	-43.3	-49.2	-49.9	-50.8	-40.9	-43.6	-20.1	-7.6	-0.7
Financing										
PF excess withdrawals	33.3	32.6	47.9	49.0	48.5	0.0	42.3	17.8	0.0	0.0
Net incurrence of liabilities	0.6	0.4	1.3	0.9	2.3	39.9	..	..	..	..
PF closing balance										
$ million	18,288	18,078	17,402	13,640	6,367	0	17,476	15,748	15,619	17,253
Percent of non-oil GDP	1,015	932	839	507	172	0	847	585	384	168
Current account balance	-1.0	-10.1	-24.9	-33.3	-33.9	-28.0	-20.6	-16.9	-10.8	-4.5

Source: IMF staff estimates.

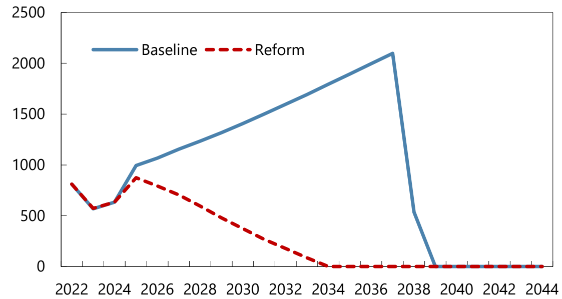
- **Domestic revenue mobilization**. A VAT is adopted by 2026 which would generate additional revenues of about 2½ percentage points of non-oil GDP by 2034.[10] Other tax policies over the medium term—strengthening of tax compliance through tax administration reforms and further tax policy measures (e.g., revision of excise tax rates, increase in statutory income tax rate, adopting a property tax—would further yield an additional 2½ percentage points of revenues. Taken together, domestic revenue would increase to the ASEAN average of 17 percent of GDP by 2034. Along with these initiatives, structural reforms (¶10) are estimated to yield additional revenue growth of about 3½ percent (annualized average) during 2025-44 relative to the baseline.

- **Expenditure moderation.** Recurrent spending (wages and salaries; and transfers) declines gradually to pre-pandemic levels by 2034. The quality of government spending is improved by

[10] This assumes that a 10 percent VAT rate is applied to a tax base corresponding to 10 percent of household consumption in 2026. The tax base is assumed to gradually rise with 45 percent of household consumption subject to the 10 percent VAT rate by mid-2030s.

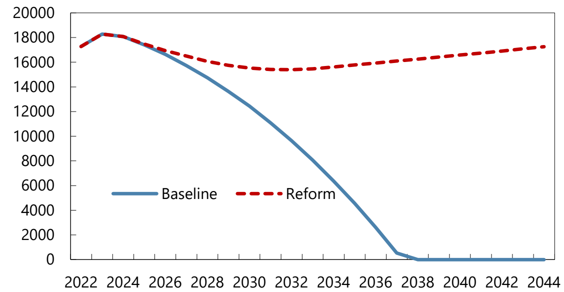
allocating more spending towards human capital development and a strengthened social safety net. Capital expenditure grows at an average annual rate of around 4½ percent (considering the absorptive capacity of the economy) and its growth dividend is boosted through rigorous cost-benefit analysis. Taken together, the total expenditure envelope remains flat until 2034, though it declines as share of GDP over the projection horizon (and remains below the baseline).

Text Figure 7. PF Excess Withdrawal
($ million)



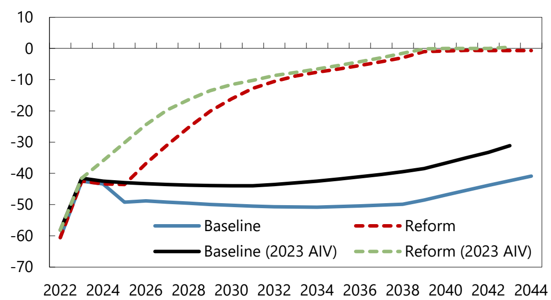
Source: IMF staff estimates.

Text Figure 8. PF Balance
($ million)



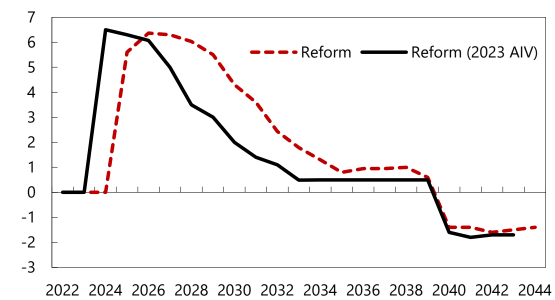
Source: IMF staff estimates.

Text Figure 9. Fiscal Balance
(Percent of non-oil GDP)



Source: IMF staff estimates.

Text Figure 10. Added Fiscal Effort for Reforms
(Diff. in primary balance; percent of non-oil GDP)

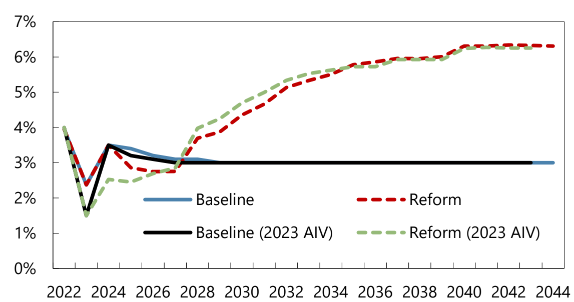


Source: IMF staff estimates.

- Public external borrowing via concessional loans is raised to finance public investment in infrastructure projects and to preserve the Petroleum Fund wealth continues to hold. Overall, external borrowing is significantly lower in 2038–44 as the Petroleum Fund is preserved and public spending increases in line with higher sustainable sources of revenue.

10. At the same time, structural reforms are implemented to improve the business environment, raise productivity, and promote private sector development. These include improving business environment by advancing land titling and adopting corporate accounting standards, financial sector reforms to encourage lending, progress in regional integration, boosting human capital, and strengthening governance and enforcement of contracts. The authorities are

Text Figure 11. Real Non-Oil GDP Growth
(Percent)



Source: IMF staff estimates.

advancing financial sector reforms this year; and the draft 2025 budget laid out other structural reform measures, focusing on some of the abovementioned priorities.

11. The macro-fiscal outlook is significantly stronger under the reform scenario:

- **Real non-oil GDP** is somewhat lower than in the baseline in the short run owing to the output costs of fiscal consolidation.[11] However, these are mitigated by the positive impact of reprioritization, by the improvement in the quality of public spending, and by structural reforms to promote the expansion of the private sector.[12] With sustained improvement in productivity and competitiveness, the economic impact of structural reforms is higher over the long term, where growth is projected to reach around 6 percent by 2044—significantly higher than under the baseline.

- **The current account deficit** over the medium and long term is projected to be considerably smaller in comparison to the baseline scenario. This reflects both higher exports (in line with economic diversification) and lower imports of goods and services (in line with lower fiscal spending), though the improvement would be partially offset by higher capital imports related to physical investment.

COUNTRY CLASSIFICATION AND DETERMINATION OF SCENARIO STRESS TESTS

12. The debt-carrying capacity is assessed to be weak (Text Table 6). The latest Composite Indicator (CI) index of 2.71—which is now above the 2.69 threshold and better than the previous 2.68—presents a first signal of potential upgrade to medium term debt capacity. That said, Timor-Leste's final debt carrying capacity is assessed to be weak—unchanged from the previous DSA—according to the CI index of 2.68 based on the two previous vintages. The assessment is calculated based on the April 2024 World Economic Outlook and the 2022 Country Policy and Institutional Assessment. The Composite Indicator is based on a weighted average of the country's real GDP growth, remittances, international reserves, world growth, and the Country Policy and Institutional Assessment score.[13] Accordingly, the debt sustainability analysis thresholds applicable for Timor-Leste are: 30 percent for the present value of the external debt-to-GDP ratio, 140 percent for the present value of the external debt-to-exports ratio, 10 percent for the external debt service to-

[11] Fiscal multiplier in Timor-Leste is thought to be low, with estimates of around 0.1 (2022 Article IV staff report) and 0.2 (World Bank 2021). For a detailed discussion, see Box 1 in the 2023 Article IV staff report.

[12] The positive impact of structural reforms often take time to materialize and could even entail short-term costs. This is consistent with the macroeconomic impact of structural reforms seen across various IMF-supported programs (see Andritzky and others 2021). Structural reforms are estimated to have a positive impact on real GDP growth of around 0.3 percentage points in the medium-term, and 2½ percentage points over the long run.

[13] The final debt-carrying capacity is revised only if two consecutive signals suggest the need for an upgrade or downgrade. The calculation is based on 10-year averages of the variables, across 5 years.

exports ratio, 14 percent for the external debt service-to-revenue ratio, and 35 percent for the present value of the public debt-to-GDP ratio.

Text Table 6. Timor-Leste Debt Carrying Capacity and Thresholds

Debt Carrying Capacity and Thresholds

Country	Timor-Leste
Country Code	537

Debt Carrying Capacity	Weak

Final	Classification based on current vintage	Classification based on the previous vintage	Classification based on the two previous vintage
Weak	Medium	Weak	Weak
	2.71	2.68	2.68

APPLICABLE THRESHOLDS	
EXTERNAL debt burden thresholds	
PV of debt in % of	
Exports	140
GDP	30
Debt service in % of	
Exports	10
Revenue	14

APPLICABLE THRESHOLDS	
TOTAL public debt benchmark	
PV of total public debt in percent of GDP	35

13. The size of the shocks to non-debt creating flows (foreign direct investment) and to export growth was customized to account for temporary and structural factors. First, there are large outflows in foreign direct investment during 2019-22, mainly reflecting Timor Gap's purchasing stake in the Greater Sunrise join venture.[14] Staff expects these outflows to be small going forward, as oil production is dwindling and expected to cease end-2026 (¶6) Thus, to prevent this temporary deviation in foreign direct investment flows from inflating the foreign direct investment-to-GDP ratio shock, the historical average and the standard deviation corresponds to 2014–23 (excluding 2019-22). Second, to account for the fact that petroleum production is stalling, the export stress test was customized to reflect a non-fuel export structure that is now expected in the baseline projection.

[14] Timor Gap is an autonomous government agency with the mandate to conduct oil and gas business on behalf of the Timor-Leste government. The FDI outflows mainly reflects Timor Gap's buy-out of the combined interests in Greater Sunrise held by Shell and ConocoPhillips.

14. A tailored stress test on natural disasters is added to the sensitivity analysis given that Timor-Leste is prone to natural disasters.[15] The default setting (10 percent of GDP increase in debt stock, 1.5 percent decline in real GDP growth, and 3 percent decline in exports growth) was modified so that the stress test captures Timor-Leste's most recent experience with the cyclone and floods in April 2021.[16] The tailored stress test assumes that a natural disaster occurs in 2025 and that new debt is contracted to finance damages, increasing the public debt-to-GDP ratio by 14 percent in 2025, which is equivalent to the estimated damages from the April 2021 floods.[17] Real GDP and exports growth decline by 3 percent and 4 percent in 2025, respectively, relative to the baseline.[18]

15. The stress test on commodity price shocks is no longer triggered. As petroleum production is stalling, fuel exports are coming to a halt. And commodity exports (mostly capturing non-fuel goods exports) will predominantly comprise of coffee exports going forward. Commodity exports would comprise, on average, only about 13 percent of total exports of goods and services in the projection horizon (as services exports dominate). This is less than the 50 percent threshold that would trigger the commodity price stress test.

ASSESSMENT

External Debt Sustainability Analysis

16. Under the baseline scenario, two of Timor-Leste's external debt indicators breach their respective debt sustainability analysis thresholds in the medium-term (Figure 1). First, the present value of external debt in percent of exports breaches the indicative threshold of 140 percent during 2024-29. Second, the debt service to exports ratio breaches the indicative threshold of 10 percent during 2024-32 (Figure 1). All other indicators remain well below their relevant thresholds until the PF is fully depleted in 2038. Over the medium term, the present value of external debt is projected to decline somewhat from 15 percent of non-oil GDP in 2023 to 13 percent in 2030; but it will increase thereafter as the PF is depleted.

17. Debt dynamics show vulnerability to shocks from natural disasters and non-debt flows. Standardized stress tests show that a natural disaster shock and a shock to the non-debt flows (reflecting outflows of FDI and current transfers) are the most extreme shocks to the debt trajectory, also causing breaches of the debt service-to-exports and the present value of debt-to-exports thresholds. Timor-Leste's high vulnerability to shocks reflects its very small exports and

[15] In terms of assessing the impact of natural disasters, the stress test is over and above the baseline which implicitly has incorporated the historical incidence of natural disasters.

[16] See Selected Issues Paper for the 2022 Article IV consultation.

[17] See World Bank (2021) report on "Learning from Tropical Cyclone Seroja: Building Disaster and Climate Resilience in Timor-Leste."

[18] The damages from Tropical Cyclone Seroja in April 2021 are estimated at US$245 million, which is historically the highest available estimates for economic damages. According to the International Disaster Database, the economic damages from previous natural disasters range from US$4 million to US$20 million.

revenue bases, and, therefore, its exposure to high debt service payment risks if its Petroleum Fund assets are not considered.

Public Debt Sustainability Analysis

18. Under the baseline scenario, the present value of the total public and publicly guaranteed debt-to-GDP ratio remains below the threshold level until the PF is fully depleted (Figure 2). However, this indicator is vulnerable to growth shocks and is expected to breach the threshold under the stress scenario starting in 2029. The Petroleum Fund is depleted towards the end of the twenty-year projection horizon, leading to all debt indicators breaching their respective debt sustainability analysis thresholds (Figure 1). This is projected to lead to a substantial jump in external borrowing resulting in a breach of all debt thresholds beyond 2039.

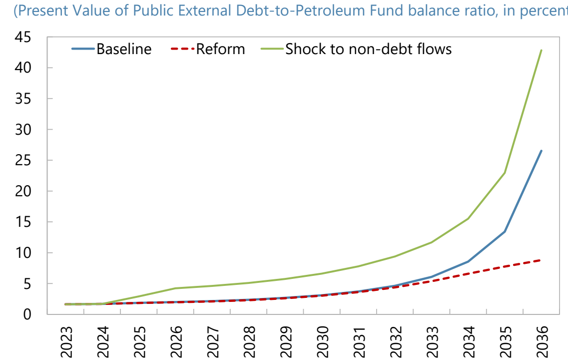
Reform Scenario

19. Staff's reform scenario illustrates how fiscal consolidation coupled with structural reforms can ensure long-term fiscal and debt sustainability. The introduction of reforms significantly improves debt dynamics—the paths of debt burden indicators are better—over the next twenty years. The duration of the breach of the present value of external debt in percent of exports and the debt service-to-exports ratio in the medium-term is also smaller compared to the baseline. Importantly, the Petroleum Fund is stabilized and generates a sustainable stream of resources to finance the budget.

RISK RATING AND VULNERABILITIES

20. While the debt sustainability analysis assigns Timor-Leste a mechanical rating of high risk of debt distress, judgement is applied to upgrade the rating to moderate. Under the baseline scenario, the present value of debt-to-exports and debt service-to-exports breach the benchmark over 2024-32—generating a mechanical debt distress rating of high. The use of judgement invokes the country's large, liquid, and accessible net foreign assets saved in the Petroleum Fund, which serves as a strong mitigating factor allowing Timor-Leste to carry and service debt until the PF is depleted, even under the scenario of the most extreme shock case (i.e., shock to non-debt flows). The present value of debt remains around 25 percent of the projected value of the Petroleum Fund until 2036 under the baseline (Text Figure 12). Under the scenario of the most extreme shock case (i.e., shock to non-debt flows), the present value of debt-to-Petroleum Fund assets reaches around 40 percent by 2036. There is still time for the authorities to undertake the necessary policy adjustment to stabilize the Petroleum Fund balance (see ¶21). Conditional on the implementation of these reforms

Text Figure 12. Petroleum Fund Buffer
(Present Value of Public External Debt-to-Petroleum Fund balance ratio, in percent)



Source: IMF staff calculations.

(¶22), the debt is sustainable. With this, the risk of debt distress—both external and overall—is assessed as "moderate" with limited space to absorb shocks (see Figure 5), which is unchanged from the previous 2023 DSA rating.

21. The projected depletion of the Petroleum Fund within the 20-year horizon under current policies makes the case for gradual fiscal consolidation and implementation of important structural reforms. The projection horizon displays the next 20 years which reflects long-term considerations related to the expected depletion of the Petroleum Fund. Although the Petroleum Fund is projected to be depleted by 2038 under the baseline, it could be depleted much faster—for instance, with a nominal investment return of 2.5 percent, it would be depleted by 2036. Fiscal consolidation aiming to achieve a sustainable fiscal position by 2034, supported by expenditure rationalization and domestic revenue mobilization, would allow decreasing withdrawals from the Petroleum Fund until they reach a level consistent with preserving the Petroleum Fund. This process should go hand in hand with structural reforms to improve the business environment and governance, enhance competitiveness, and strengthen the external sector position. Political consensus is a crucial element that is needed to implement the reform scenario on a sustained basis. A study of project design and viability has been tendered for development of the offshore Greater Sunrise natural gas fields and is expected to be delivered in end-2024.

22. Resilience to natural disasters and climate change should be enhanced, including by prioritizing climate adaptation investment. Rationalizing and prioritizing public spending towards capital spending should encompass building climate-proof infrastructure, which will require developing a pipeline of projects. Given Timor-Leste's limited fiscal space, it would be important to accommodate this spending within the fiscal envelope as in the reform scenario. Furthermore, to conserve fiscal space, it is important to tap into concessional resources to finance investments in climate-resilient infrastructure; reforms to mobilize domestic revenues would also help. PFM reforms would help improve the quality and efficiency of public spending, thereby boosting the gains from investment in climate-resilient infrastructure (IMF 2022).

23. The IMF and the World Bank stand ready to support the authorities in their efforts to ensure fiscal and debt sustainability. The authorities are aware of the challenge and requested extensive technical assistance from the IMF for ambitious fiscal reforms aiming to secure fiscal sustainability. Staff welcomes the increased fiscal transparency in the draft 2025 budget that features more granular information on recurrent spending, including transfer programs and the public sector wage bill. This should be supplemented by ongoing initiatives to improve reporting by line ministries, including the establishment of government accounting standards. Ongoing technical assistance on public financial management reforms by the IMF Fiscal Affairs Department, on revenue administration by the IMF Pacific Financial Technical Assistance Center, and on governance in anti-money laundering by the IMF Legal Department will support the authorities in ensuring fiscal and debt sustainability.[19] Implementation of the revised Procurement and Budget and PFM Framework

[19] The IDA's Sustainable Development Finance Policy (SDFP) has supported ongoing reform measures—such as VAT, tax procedures code and Fiscal Risk Statement.

laws should improve budget planning and execution as well as project selection. The authorities should also formulate a medium-term fiscal framework that articulates their multi-year fiscal strategy. Moreover, the World Bank and the International Finance Corporation (IFC) are providing technical assistance to improve the financial sector and prospects for private sector development.

24. While there is some progress, public debt management needs to be strengthened. The MOF established in September 2023 the National Directorate of Cash and Public Debt Management (NDCPDM) under the General Directorate of the Treasury (DGT) as a dedicated unit in charge of state government treasury and public debt management as well as issuance of debt securities. In February 2024, with TA support from the IMF Statistics Department, the authorities for the first time began reporting Public Sector Debt Statistics (PSDS) data to the joint IMF-World Bank Quarterly Public Sector Debt statistics (QPSD) database. There is, however, scope for strengthening public debt management. External borrowing should be embedded in the debt management framework, supported by best practice debt management policies and procedures. Strengthening the organization and capacity of the debt management unit, including preparing a medium-term debt management strategy (MTDS), and upgrading debt recording software are key areas for capacity building. However, in the near term, there is a need to produce comprehensive and realistic debt servicing projections for the existing debt. The monitoring and reporting of fiscal risks—such as contingent liabilities related to credit guarantees, pensions, public corporations, and public-private partnerships—should also be improved.

AUTHORITIES' VIEWS

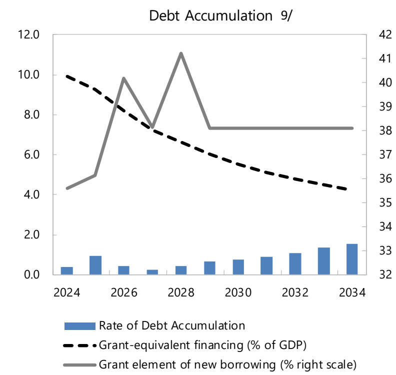
25. While the authorities broadly agreed with staff's debt sustainability analysis, they emphasized that boosting growth was key to achieving fiscal sustainability. Under spending plans and projections in the draft 2025 budget, they estimated the Petroleum Fund to be fully depleted by 2035 (earlier than staff's estimate given their assumption of higher public expenditure growth). They broadly agreed on the need to achieve fiscal sustainability, and noted the likely development of the Greater Sunrise oil fields was a major mitigating factor. While they saw merit in staff's reform scenario, they flagged a lack of political consensus on fiscal adjustment given existing spending commitments. The authorities' approach to securing fiscal sustainability relies more on boosting growth via a prioritization of capital spending. They agreed that mobilizing domestic revenues would also help, and are committed to implementing a VAT in 2026. The modalities of the VAT—rates, thresholds, and exemptions—will be decided based on a careful assessment of the incidence and tax bearing capacity.

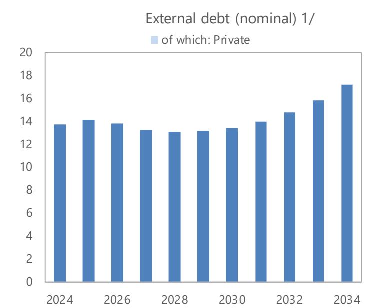
Table 1. Timor-Leste: External Debt Sustainability Framework, Baseline Scenario, 2021-2044

(In percent of non-oil GDP, unless otherwise indicated)

	Actual			Projections								Average 8/	
	2021	2022	2023	2024	2025	2026	2027	2028	2029	2034	2044	Historical	Projections
External debt (nominal) 1/	**15.1**	**15.1**	**14.4**	**13.7**	**14.1**	**13.8**	**13.3**	**13.1**	**13.2**	**17.2**	**268.5**	**9.5**	**14.2**
of which: public and publicly guaranteed (PPG)	**15.1**	**15.1**	**14.4**	**13.7**	**14.1**	**13.8**	**13.3**	**13.1**	**13.2**	**17.2**	**268.5**	**9.5**	**14.2**
Change in external debt	1.3	0.0	-0.8	-0.6	0.4	-0.3	-0.5	-0.2	0.1	1.3	25.0		
Identified net debt-creating flows	**-70.6**	**-5.7**	**2.7**	**6.8**	**21.7**	**23.0**	**29.5**	**30.1**	**30.6**	**31.5**	**19.8**	**-10.8**	**27.2**
Non-interest current account deficit	**-97.9**	**-28.8**	**0.5**	**9.7**	**24.5**	**25.6**	**32.1**	**32.6**	**33.0**	**33.6**	**17.6**	**-21.3**	**29.6**
Deficit in balance of goods and services	-110.8	-60.6	9.3	45.0	48.8	47.4	44.7	40.9	40.6	35.3	-23.0	**-10.8**	**41.3**
Exports	177.4	110.9	39.0	7.3	7.7	8.1	8.6	9.1	9.6	12.8	23.0		
Imports	66.6	50.3	48.2	52.3	56.5	55.5	53.2	49.9	50.2	48.1	0.0		
Net current transfers (negative = inflow)	-13.0	-8.9	-4.9	-9.6	-8.7	-7.8	-7.3	-6.9	-6.5	-5.5	-4.7	**-5.1**	**-6.9**
of which: official	-11.6	-11.3	-10.5	-9.4	-8.5	-7.6	-6.8	-6.1	-5.4	-3.0	0.0		
Other current account flows (negative = net inflow)	26.0	40.7	-3.9	-25.7	-15.7	-14.0	-5.3	-1.5	-1.1	3.8	45.3	**-5.4**	**-4.8**
Net FDI (negative = inflow)	**26.8**	**23.6**	**2.8**	**-2.8**	**-2.7**	**-2.6**	**-2.5**	**-2.4**	**-2.3**	**-2.0**	**-1.4**	**10.5**	**-2.4**
Endogenous debt dynamics 2/	**0.4**	**-0.5**	**-0.6**	**-0.1**	**-0.1**	**-0.1**	**-0.1**	**-0.1**	**-0.1**	**-0.1**	**3.6**		
Contribution from nominal interest rate	0.3	0.5	0.5	0.4	0.4	0.4	0.3	0.3	0.3	0.3	10.4		
Contribution from real GDP growth	-0.4	-0.6	-0.3	-0.5	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4	-6.9		
Contribution from price and exchange rate changes	0.6	-0.5	-0.7	...	...	...	...	...	...	...	...		
Residual 3/	**72.0**	**5.7**	**-3.4**	**-7.4**	**-21.3**	**-23.3**	**-30.1**	**-30.3**	**-30.5**	**-30.2**	**5.2**	**12.2**	**-26.9**
of which: exceptional financing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Sustainability indicators													
PV of PPG external debt-to-GDP ratio	**...**	**...**	**16.7**	**15.8**	**15.7**	**15.1**	**14.4**	**13.9**	**13.6**	**14.7**	**259.0**		
PV of PPG external debt-to-exports ratio	**...**	**...**	**42.8**	**216.7**	**203.9**	**186.4**	**167.9**	**152.9**	**141.8**	**114.8**	**1124.9**		
PPG debt service-to-exports ratio	**0.4**	**1.1**	**3.1**	**17.3**	**16.4**	**14.9**	**13.4**	**11.9**	**11.0**	**9.0**	**48.9**		
PPG debt service-to-revenue ratio	**1.5**	**2.9**	**3.0**	**3.2**	**3.3**	**3.4**	**3.5**	**3.6**	**3.7**	**6.0**	**90.4**		
Gross external financing need (Million of U.S. dollars)	-1099.8	-66.1	80.8	158.3	478.0	536.5	725.9	787.3	853.5	1213.6	1926.6		
Key macroeconomic assumptions													
Real GDP growth (in percent)	3.0	4.0	2.4	3.5	3.4	3.2	3.1	3.1	3.0	3.0	3.0	**1.0**	**3.1**
GDP deflator in US dollar terms (change in percent)	-4.0	3.2	5.0	4.0	3.4	3.5	3.5	3.5	3.5	3.5	3.5	**1.7**	**3.5**
Effective interest rate (percent) 4/	2.0	3.7	3.3	2.8	2.8	2.7	2.7	2.6	2.5	2.2	4.6	**1.9**	**2.5**
Growth of exports of G&S (US dollar terms, in percent)	73.5	-33.0	-62.2	-79.8	12.5	12.4	13.0	13.0	12.9	13.0	13.1	**3.4**	**4.4**
Growth of imports of G&S (US dollar terms, in percent)	-1.9	-19.0	3.2	16.8	15.4	4.9	2.4	0.1	7.2	5.7	-100.0	**-2.1**	**6.8**
Grant element of new public sector borrowing (in percent)	...	...	...	35.6	36.1	40.2	38.1	41.2	38.1	38.1	3.7	**...**	**38.2**
Government revenues (excluding grants, in percent of GDP)	45.5	43.3	41.0	39.7	37.6	35.0	32.7	30.4	28.2	19.0	12.5	**46.0**	**28.7**
Aid flows (in Million of US dollars) 5/	181.0	190.0	188.8	187.9	186.0	179.2	167.2	164.7	155.8	140.7	134.5		
Grant-equivalent financing (in percent of GDP) 6/	...	...	...	9.9	9.3	8.2	7.2	6.6	6.0	4.2	2.5	**...**	**6.5**
Grant-equivalent financing (in percent of external financing) 6/	...	...	...	92.3	87.0	90.5	91.2	89.2	85.6	68.4	5.9	**...**	**83.0**
Nominal GDP (Million of US dollars)	1,563	1,676	1,802	1,939	2,073	2,215	2,363	2,522	2,688	3,702	7,017		
Nominal dollar GDP growth	-1.2	7.3	7.5	7.6	6.9	6.8	6.7	6.7	6.6	6.6	6.6	**2.7**	**6.8**
Memorandum items:													
PV of external debt 7/	...	...	16.7	15.8	15.7	15.1	14.4	13.9	13.6	14.7	259.0		
In percent of exports	...	...	42.8	216.7	203.9	186.4	167.9	152.9	141.8	114.8	1124.9		
Total external debt service-to-exports ratio	0.4	1.1	3.1	17.3	16.4	14.9	13.4	11.9	11.0	9.0	48.9		
PV of PPG external debt (in Million of US dollars)			300.1	306.8	324.8	333.5	339.6	349.6	366.0	544.6	18176.0		
(PVt-PVt-1)/GDPt-1 (in percent)				0.4	0.9	0.4	0.3	0.4	0.7	1.6	41.7		
Non-interest current account deficit that stabilizes debt ratio	-99.2	-28.8	1.2	10.3	24.1	25.9	32.6	32.8	32.9	32.3	-7.4		

Definition of external/domestic debt	**Currency-based**
Is there a material difference between the two criteria?	**No**





Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

2/ Derived as [r - g - ρ(1+g)]/(1+g+ρ+gρ) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, and ρ = growth rate of GDP deflator in U.S. dollar terms.

3/ The residual in debt-creating flows is financed through excess withdrawals from the Petroleum Fund. Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate changes.

4/ Current-year interest payments divided by previous period debt stock.

5/ Defined as grants, concessional loans, and debt relief.

6/ Grant-equivalent financing includes grants provided directly to the government and through new borrowing (difference between the face value and the PV of new debt).

7/ Assumes that PV of private sector debt is equivalent to its face value.

8/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

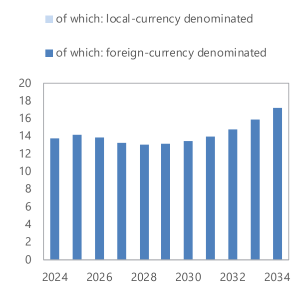
9/ The grant element may be overestimated due to debt projections.

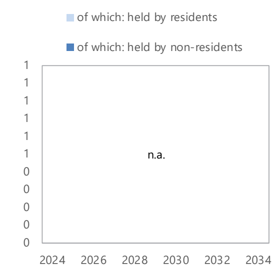
Table 2. Timor-Leste: Public Sector Debt Sustainability Framework, Baseline Scenario, 2021-2044
(In percent of non-oil GDP, unless otherwise indicated)

	Actual			Projections								Average 7/	
	2021	2022	2023	2024	2025	2026	2027	2028	2029	2034	2044	Historical	Projections
Public sector debt 1/	15.1	15.1	14.4	13.7	14.1	13.8	13.3	13.1	13.2	17.2	268.5	9.5	14.2
of which: external debt	15.1	15.1	14.4	13.7	14.1	13.8	13.3	13.1	13.2	17.2	268.5	9.5	14.2
of which: local-currency denominated													
Change in public sector debt	1.3	0.0	-0.8	-0.6	0.4	-0.3	-0.5	-0.2	0.1	1.3	25.0		
Identified debt-creating flows	46.9	59.6	41.5	42.3	48.3	47.9	48.3	48.7	49.1	49.8	24.9	39.2	48.5
Primary deficit	46.5	60.1	42.1	43.0	48.8	48.5	48.8	49.2	49.6	50.5	29.5	39.2	49.0
Revenue and grants	57.1	54.6	51.4	49.2	46.1	42.7	39.5	36.4	33.6	22.0	13.4	58.0	34.5
of which: grants	11.6	11.3	10.5	9.4	8.5	7.6	6.8	6.1	5.4	3.0	1.0		
Primary (noninterest) expenditure	103.6	114.7	93.5	92.1	94.9	91.1	88.3	85.7	83.2	72.5	42.9	97.1	83.5
Automatic debt dynamics	0.4	-0.5	-0.6	-0.7	-0.5	-0.5	-0.5	-0.5	-0.5	-0.7	-4.7		
Contribution from interest rate/growth differential	-0.4	-0.2	-0.5	-1.0	-0.6	-0.4	-0.3	-0.3	-0.3	-0.4	-0.9		
of which: contribution from average real interest rate	0.0	0.3	-0.2	-0.6	-0.1	0.0	0.1	0.1	0.1	0.0	6.2		
of which: contribution from real GDP growth	-0.4	-0.6	-0.4	-0.5	-0.5	-0.4	-0.4	-0.4	-0.4	-0.5	-7.1		
Contribution from real exchange rate depreciation	0.8	-0.3	-0.1	...	...	...	...	...	...	...	...		
Other identified debt-creating flows	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Privatization receipts (negative)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Recognition of contingent liabilities (e.g., bank recapitalization)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Debt relief (HIPC and other)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Other debt creating or reducing flow (please specify)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Residual 2/	-45.6	-59.6	-42.2	-42.6	-47.9	-48.4	-49.1	-49.2	-49.2	-48.7	-3.6	-37.8	-48.4
Sustainability indicators													
PV of public debt-to-GDP ratio 3/	...	...	16.7	15.8	15.7	15.1	14.4	13.9	13.6	14.7	259.0		
PV of public debt-to-revenue and grants ratio	...	...	32.4	32.2	34.0	35.3	36.4	38.1	40.5	66.8	1930.7		
Debt service-to-revenue and grants ratio 4/	1.2	2.3	2.4	2.6	2.7	2.8	2.9	3.0	3.1	5.2	83.9		
Gross financing need 5/	46.9	60.8	43.3	44.2	50.1	49.7	50.0	50.3	50.7	51.6	40.8		
Key macroeconomic and fiscal assumptions													
Real GDP growth (in percent)	3.0	4.0	2.4	3.5	3.4	3.2	3.1	3.1	3.0	3.0	3.0	1.0	3.1
Average nominal interest rate on external debt (in percent)	2.0	3.7	3.3	2.8	2.8	2.7	2.7	2.6	2.5	2.2	4.6	1.9	2.5
Average real interest rate on domestic debt (in percent)	6.3	0.5	-1.6	-1.2	-0.5	-0.8	-0.8	-0.8	-0.9	-1.3	1.0	0.3	-1.0
Real exchange rate depreciation (in percent, + indicates depreciation)	6.0	-1.8	-0.4	...	...	...	...	...	...	...	...	0.3	...
Inflation rate (GDP deflator, in percent)	-4.0	3.2	5.0	4.0	3.4	3.5	3.5	3.5	3.5	3.5	3.5	1.7	3.5
Growth of real primary spending (deflated by GDP deflator, in percent)	28.1	15.1	-16.6	2.0	6.5	-0.9	-0.1	0.0	0.1	0.3	-5.5	2.0	0.8
Primary deficit that stabilizes the debt-to-GDP ratio 6/	45.1	60.1	42.8	43.6	48.5	48.8	49.4	49.5	49.5	49.1	4.5	49.3	48.8
PV of contingent liabilities (not included in public sector debt)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		

Definition of external/domestic debt	**Currency-based**
Is there a material difference between the two criteria?	**No**

Public sector debt 1/





Sources: Country authorities; and staff estimates and projections.
1/ Coverage of debt: The central government, government-guaranteed debt. Definition of external debt is Currency-based.
2/ The residual in debt-creating flows is financed through excess withdrawals from the Petroleum Fund.
3/ The underlying PV of external debt-to-GDP ratio under the public DSA differs from the external DSA with the size of differences depending on exchange rates projections.
4/ Debt service is defined as the sum of interest and amortization of medium and long-term, and short-term debt.
5/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period and other debt creating/reducing flows.
6/ Defined as a primary deficit minus a change in the public debt-to-GDP ratio ((-): a primary surplus), which would stabilizes the debt ratio only in the year in question.
7/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

Table 3. Timor-Leste: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2024-2044

(In percent)

	Projections 1/																				
	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040	2041	2042	2043	2044
PV of debt-to GDP ratio																					
Baseline	16	16	15	14	14	14	13	14	14	14	15	15	16	18	**54**	**98**	**138**	**174**	**206**	**234**	**259**
A. Alternative Scenarios																					
A1. Key variables at their historical averages in 2024-2044 2/	16	-11	-40	-74	-108	-143	-178	-214	-249	-282	-314	-343	-371	-397	-376	-340	-304	-266	-227	-187	-147
B. Bound Tests																					
B1. Real GDP growth	16	17	18	18	17	17	16	17	17	17	18	19	20	22	**66**	**120**	**168**	**212**	**252**	**287**	**317**
B2. Primary balance	16	23	29	28	27	27	26	26	26	26	26	26	26	27	**63**	**107**	**146**	**182**	**213**	**242**	**266**
B3. Exports	16	16	15	14	14	14	14	14	14	14	15	16	16	18	**54**	**98**	**138**	**174**	**206**	**234**	**259**
B4. Other flows 3/	16	24	**32**	**31**	30	29	29	28	28	27	27	26	27	27	**62**	**106**	**145**	**180**	**211**	**239**	**264**
B5. Depreciation	16	20	9	9	8	8	8	9	9	10	11	13	15	17	**63**	**118**	**169**	**214**	**255**	**291**	**322**
B6. Combination of B1-B5	16	25	25	24	23	23	22	22	22	22	22	23	24	25	**68**	**121**	**168**	**211**	**249**	**283**	**313**
C. Tailored Tests																					
C1. Combined contingent liabilities	16	19	18	17	17	16	16	16	16	17	17	18	19	20	**56**	**100**	**140**	**176**	**208**	**236**	**261**
C2. Natural disaster	16	26	25	25	25	25	25	25	26	26	27	28	29	30	**67**	**113**	**154**	**190**	**224**	**253**	**278**
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	30	30	30	30	30	30	30	30	30	30	30	30	30	30	30	30	30	30	30	30	30
PV of debt-to-exports ratio																					
Baseline	**217**	**204**	**186**	**168**	**153**	**142**	133	125	120	117	115	114	114	115	**333**	**571**	**757**	**899**	**1005**	**1080**	**1125**
A. Alternative Scenarios																					
A1. Key variables at their historical averages in 2024-2044 2/	**217**	-149	-499	-862	-1190	-1485	-1750	-1986	-2178	-2332	-2448	-2529	-2579	-2599	-2324	-1983	-1668	-1378	-1110	-862	-639
B. Bound Tests																					
B1. Real GDP growth	**217**	**204**	**186**	**168**	**153**	**142**	133	125	120	117	115	114	114	115	**333**	**571**	**757**	**899**	**1005**	**1080**	**1125**
B2. Primary balance	**217**	**296**	**359**	**327**	**299**	**277**	**257**	**240**	**225**	**211**	**200**	**191**	**184**	**179**	**391**	**623**	**804**	**941**	**1043**	**1114**	**1156**
B3. Exports	**217**	**205**	**188**	**169**	**154**	**143**	133	126	121	117	115	115	115	116	**335**	**574**	**760**	**903**	**1009**	**1085**	**1130**
B4. Other flows 3/	**217**	**318**	**393**	**359**	**328**	**304**	**282**	**263**	**243**	**224**	**208**	**195**	**184**	**176**	**386**	**616**	**795**	**932**	**1032**	**1103**	**1144**
B5. Depreciation	**217**	**204**	92	81	73	68	65	63	63	67	71	76	81	87	**309**	**550**	**739**	**884**	**992**	**1069**	**1116**
B6. Combination of B1-B5	**217**	**286**	**258**	**234**	**214**	**198**	**184**	**173**	**162**	**153**	**146**	**141**	138	136	**351**	**587**	**771**	**912**	**1016**	**1090**	**1134**
C. Tailored Tests																					
C1. Combined contingent liabilities	**217**	**245**	**224**	**203**	**185**	**172**	**160**	**151**	**143**	138	135	132	131	131	**348**	**584**	**769**	**911**	**1015**	**1089**	**1134**
C2. Natural disaster	**217**	**337**	**317**	**296**	**277**	**262**	**248**	**236**	**226**	**218**	**211**	**206**	**201**	**198**	**419**	**661**	**850**	**994**	**1100**	**1174**	**1217**
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	140	140	140	140	140	140	140	140	140	140	140	140	140	140	140	140	140	140	140	140	140
Debt service-to-exports ratio																					
Baseline	**17**	**16**	**15**	**13**	**12**	**11**	**11**	**10**	**10**	10	9	9	8	8	7	**16**	**27**	**35**	**41**	**45**	**49**
A. Alternative Scenarios																					
A1. Key variables at their historical averages in 2024-2044 2/	**17**	**17**	7	-2	-11	-19	-25	-31	-50	-67	-84	-98	-110	-120	-128	-120	-108	-96	-86	-77	-67
B. Bound Tests																					
B1. Real GDP growth	**17**	**16**	**15**	**13**	**12**	**11**	**11**	**10**	**10**	10	9	9	8	8	7	**16**	**27**	**35**	**41**	**45**	**49**
B2. Primary balance	**17**	**16**	**17**	**17**	**16**	**14**	**14**	**13**	**15**	**17**	**16**	**15**	**14**	**13**	**12**	**20**	**31**	**38**	**44**	**48**	**52**
B3. Exports	**17**	**16**	**15**	**13**	**12**	**11**	**11**	**10**	**10**	10	9	9	8	8	7	**17**	**27**	**35**	**41**	**46**	**49**
B4. Other flows 3/	**17**	**16**	**18**	**18**	**16**	**15**	**14**	**14**	**16**	**18**	**17**	**16**	**14**	**13**	**12**	**21**	**31**	**38**	**44**	**48**	**51**
B5. Depreciation	**17**	**16**	**15**	**11**	10	9	9	9	9	5	5	5	5	5	5	**14**	**25**	**33**	**39**	**44**	**48**
B6. Combination of B1-B5	**17**	**16**	**17**	**15**	**13**	**12**	**12**	**12**	**14**	**13**	**12**	**11**	**10**	10	9	**18**	**28**	**36**	**42**	**46**	**50**
C. Tailored Tests																					
C1. Combined contingent liabilities	**17**	**16**	**16**	**14**	**13**	**12**	**11**	**11**	**11**	10	9	9	9	8	8	**17**	**27**	**35**	**41**	**46**	**49**
C2. Natural disaster	**17**	**17**	**18**	**17**	**15**	**14**	**14**	**13**	**13**	**12**	**11**	**11**	**10**	10	9	**18**	**29**	**37**	**43**	**48**	**52**
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10
Debt service-to-revenue ratio																					
Baseline	3	3	3	3	4	4	4	5	5	6	6	7	8	8	9	**23**	**40**	**54**	**67**	**79**	**90**
A. Alternative Scenarios																					
A1. Key variables at their historical averages in 2024-2044 2/	3	3	2	0	-3	-6	-10	-14	-25	-39	-56	-77	-100	-129	-162	-166	-157	-149	-142	-133	-124
B. Bound Tests																					
B1. Real GDP growth	3	4	4	4	4	5	5	6	6	7	7	8	9	10	11	**28**	**48**	**66**	**82**	**97**	**111**
B2. Primary balance	3	3	4	5	5	5	5	6	8	10	11	11	13	14	**15**	**28**	**45**	**59**	**72**	**84**	**95**
B3. Exports	3	3	3	3	4	4	4	5	5	6	6	7	8	8	9	**23**	**40**	**54**	**67**	**79**	**90**
B4. Other flows 3/	3	3	4	5	5	5	6	6	8	11	11	12	13	**14**	**16**	**29**	**45**	**59**	**72**	**84**	**95**
B5. Depreciation	3	4	4	4	4	4	4	5	6	4	5	5	6	7	8	**25**	**46**	**65**	**81**	**97**	**111**
B6. Combination of B1-B5	3	4	5	5	5	5	6	6	8	9	9	10	11	12	14	**30**	**50**	**67**	**83**	**97**	**110**
C. Tailored Tests																					
C1. Combined contingent liabilities	3	3	4	4	4	4	4	5	5	6	6	7	8	9	10	**23**	**40**	**54**	**67**	**79**	**91**
C2. Natural disaster	3	3	4	4	4	5	5	6	6	7	7	8	9	10	11	**24**	**41**	**56**	**69**	**81**	**92**
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	14	14	14	14	14	14	14	14	14	14	14	14	14	14	14	14	14	14	14	14	14

Sources: Country authorities; and staff estimates and projections.
1/ A bold value indicates a breach of the threshold.
2/ Variables include real GDP growth, GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.
3/ Includes official and private transfers and FDI.

Table 4. Timor-Leste: Sensitivity Analysis for Key Indicators of Public Debt, 2024-2034

(In percent)

	Projections 1/										
	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
	PV of Debt-to-GDP Ratio										
Baseline	16	16	15	14	14	14	13	14	14	14	15
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2024-2044 2/	16	9	0	-11	-23	-37	-53	-70	-89	-109	-130
B. Bound Tests											
B1. Real GDP growth	16	20	26	30	33	**36**	**39**	**42**	**45**	**48**	**50**
B2. Primary balance	16	23	29	28	27	27	26	26	26	26	26
B3. Exports	16	16	15	14	14	14	14	14	14	14	15
B4. Other flows 3/	16	24	32	31	30	29	29	28	28	27	27
B5. Depreciation	16	19	16	14	12	10	9	7	6	5	5
B6. Combination of B1-B5	16	21	19	16	16	15	15	15	15	16	16
C. Tailored Tests											
C1. Combined contingent liabilities	16	19	18	17	17	16	16	16	16	17	17
C2. Natural disaster	16	26	25	25	25	25	25	25	26	26	27
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Public debt benchmark	35	35	35	35	35	35	35	35	35	35	35
	PV of Debt-to-Revenue Ratio										
Baseline	32	34	35	36	38	41	44	47	52	59	67
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2024-2044 2/	32	18	-1	-27	-62	-107	-163	-234	-322	-429	-557
B. Bound Tests											
B1. Real GDP growth	32	42	59	72	88	104	123	144	167	192	221
B2. Primary balance	32	49	68	71	75	79	84	91	98	107	117
B3. Exports	32	34	35	36	38	41	44	47	52	59	67
B4. Other flows 3/	32	53	74	78	82	87	93	99	106	113	121
B5. Depreciation	32	41	39	36	33	31	28	26	24	23	23
B6. Combination of B1-B5	32	46	45	41	43	46	49	53	58	65	73
C. Tailored Tests											
C1. Combined contingent liabilities	32	41	42	44	46	49	53	57	63	70	78
C2. Natural disaster	32	55	59	63	68	74	81	88	98	109	122
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Debt Service-to-Revenue Ratio										
Baseline	2.6	2.7	2.8	2.9	3.0	3.1	3.5	3.9	4.4	4.8	5.2
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2024-2044 2/	2.6	2.8	2.6	2.1	1.5	0.8	0.1	-0.8	-3.8	-7.7	-12.8
B. Bound Tests											
B1. Real GDP growth	2.6	3.0	3.5	3.9	4.3	4.8	5.6	6.5	7.9	9.7	11.6
B2. Primary balance	2.6	2.7	3.2	3.8	3.9	4.1	4.5	4.9	6.7	8.5	9.1
B3. Exports	2.6	2.7	2.8	2.9	3.0	3.1	3.5	3.9	4.4	4.8	5.2
B4. Other flows 3/	2.6	2.7	3.3	3.9	4.0	4.3	4.7	5.1	7.2	9.2	9.8
B5. Depreciation	2.6	3.1	3.6	3.6	3.5	3.6	4.0	4.3	4.3	4.2	4.2
B6. Combination of B1-B5	2.6	2.7	2.9	3.0	3.1	3.3	3.7	4.1	4.6	5.0	5.4
C. Tailored Tests											
C1. Combined contingent liabilities	2.6	2.7	3.0	3.1	3.2	3.3	3.7	4.2	4.6	5.0	5.5
C2. Natural disaster	2.6	2.8	3.4	3.6	3.7	4.0	4.4	4.9	5.5	6.0	6.5
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

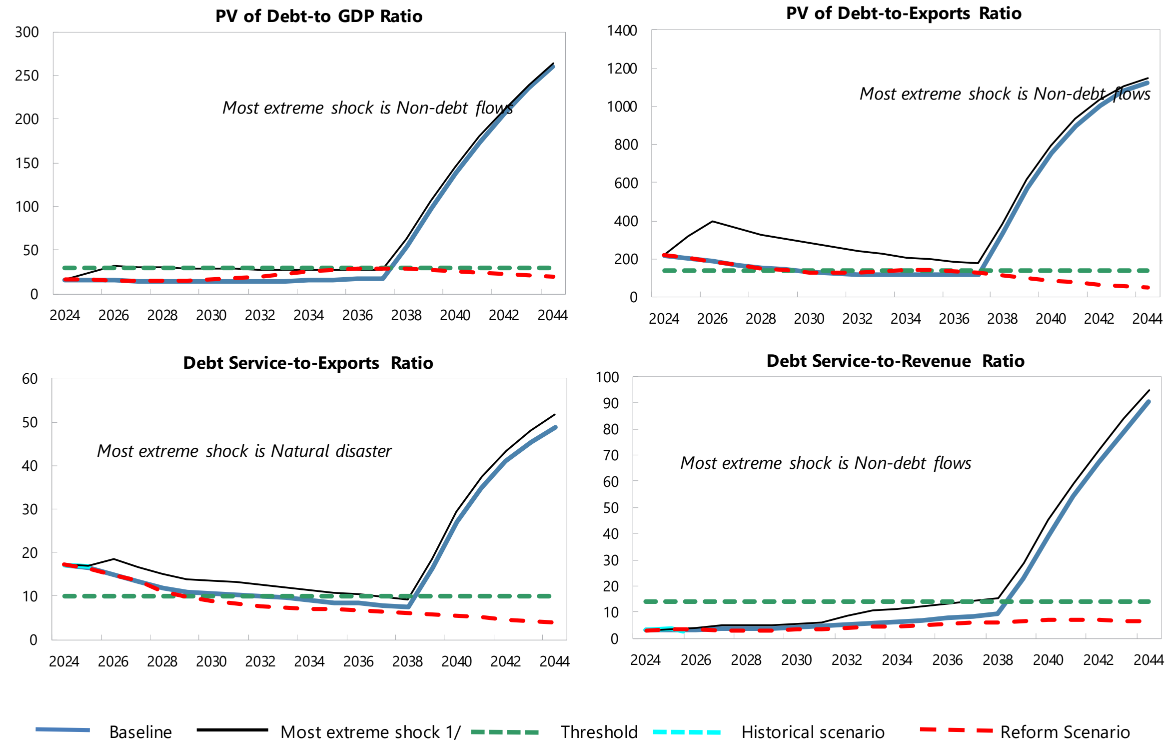
Sources: Country authorities; and staff estimates and projections.

1/ A bold value indicates a breach of the benchmark.

2/ Variables include real GDP growth, GDP deflator and primary deficit in percent of GDP.

3/ Includes official and private transfers and FDI.

Figure 1. Timor-Leste: Indicators of Public and Publicly Guaranteed External Debt under Alternative Scenarios, 2024-2044



Customization of Default Settings	Size	Interactions
Tailored Tests		
Combined CLs	Yes	
Natural Disasters	Yes	Yes
Commodity Prices [2/]	n.a.	n.a.
Market Financing	n.a.	n.a.

Note: "Yes" indicates any change to the size or interactions of the default settings for the stress tests. "n.a." indicates that the stress test does not apply.

Borrowing Assumptions for Stress Tests*	Default	User defined
Shares of marginal debt		
External PPG MLT debt	100%	
Terms of marginal debt		
Avg. nominal interest rate on new borrowing in USD	1.7%	1.7%
USD Discount rate	5.0%	5.0%
Avg. maturity (incl. grace period)	28	28
Avg. grace period	6	6

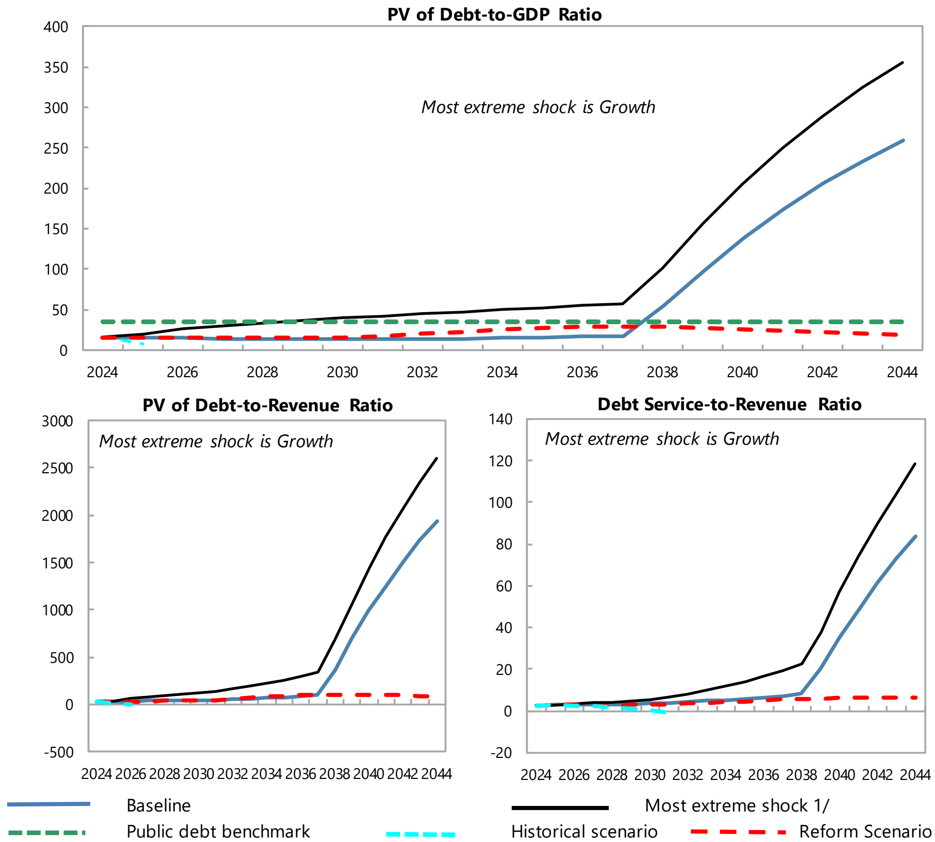
* Note: All the additional financing needs generated by the shocks under the stress tests are assumed to be covered by PPG external MLT debt in the external DSA. Default terms of marginal debt are based on baseline 10-year projections.

Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2034. Stress tests with one-off breaches are also presented (if any), while these one-off breaches are deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

2/ The magnitude of shocks used for the commodity price shock stress test are based on the commodity prices outlook prepared by the IMF research department.

Figure 2. Timor-Leste: Indicators of Public Debt under Alternative Scenarios, 2024-2044



Borrowing Assumptions for Stress Tests*	Default	User defined
Shares of marginal debt		
External PPG medium and long-term	100%	100%
Domestic medium and long-term	0%	0%
Domestic short-term	0%	0%
Terms of marginal debt		
External MLT debt		
Avg. nominal interest rate on new borrowing in USD	1.7%	1.7%
Avg. maturity (incl. grace period)	28	28
Avg. grace period	6	6
Domestic MLT debt		
Avg. real interest rate on new borrowing	0.0%	0.0%
Avg. maturity (incl. grace period)	1	1
Avg. grace period	0	0
Domestic short-term debt		
Avg. real interest rate	0%	0.0%

* Note: The public DSA allows for domestic financing to cover the additional financing needs generated by the shocks under the stress tests in the public DSA. Default terms of marginal debt are based on baseline 10-year projections.

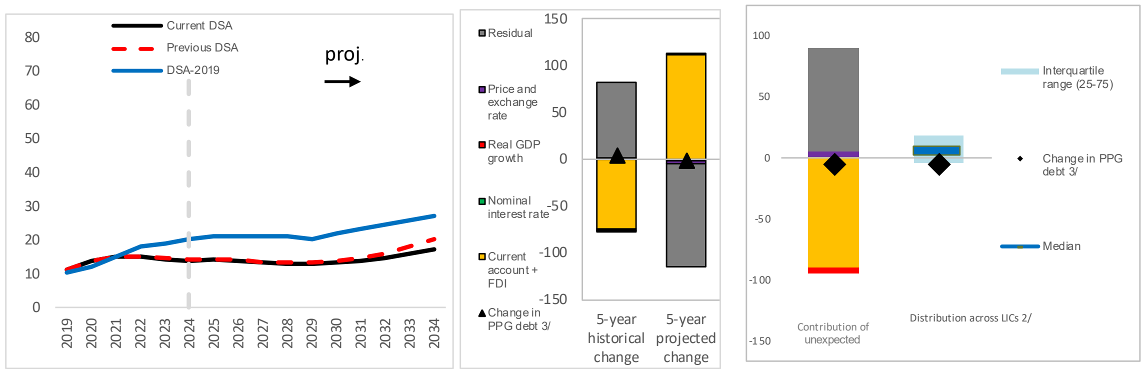
Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2034. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

Figure 3. Timor-Leste: Drivers of Debt Dynamics – Baseline Scenario

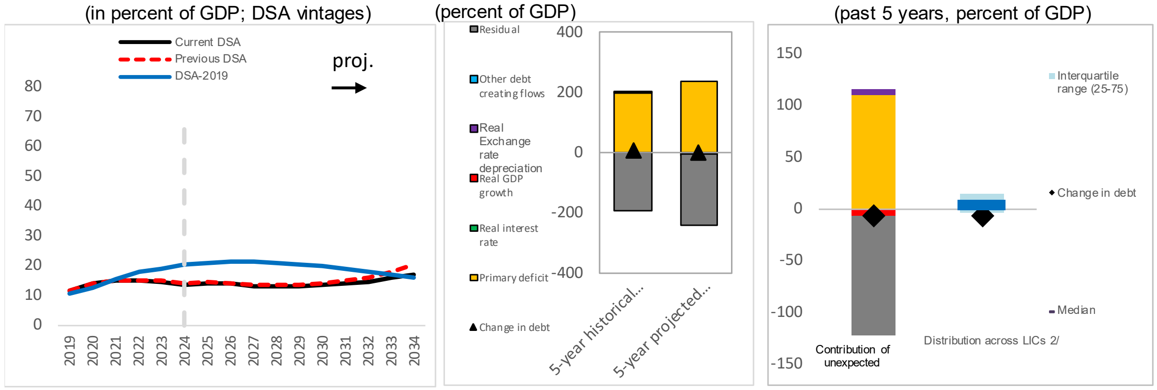
External Debt

Gross Nominal PPG External Debt (in percent of GDP; DSA vintages) | Debt-creating flows (percent of GDP) | Unexpected Changes in Debt 1/ (past 5 years, percent of GDP)



Public Debt

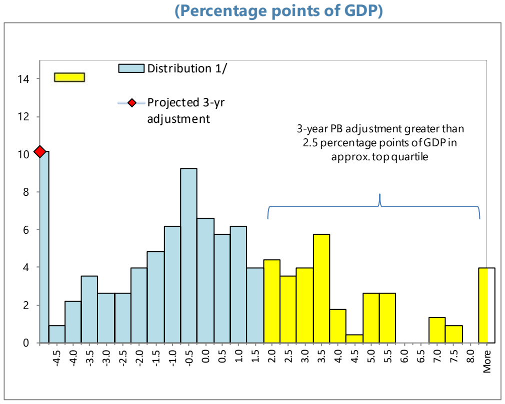
Gross Nominal Public Debt (in percent of GDP; DSA vintages) | Debt-creating flows (percent of GDP) | Unexpected Changes in Debt 1/ (past 5 years, percent of GDP)



1/ Difference between anticipated and actual contributions on debt ratios.. The residual in debt creating flows is financed through excess withdrawals from the PF.
2/ Distribution across LICs for which LIC DSAs were produced.
3/ Given the relatively low private external debt for average low-income countries, a ppt change in PPG external debt should be largely explained by the drivers of the external debt dynamics equation.

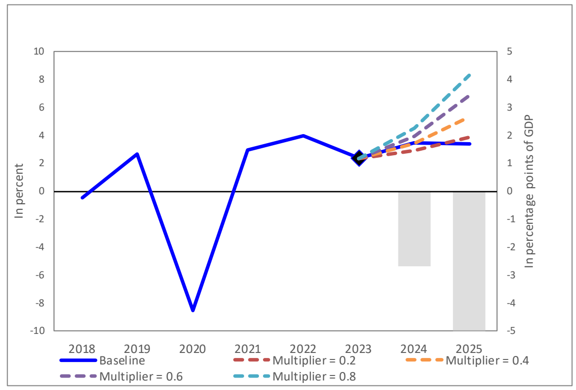
Figure 4. Timor-Leste: Realism Tools

3-Year Adjustment in Primary Balance
(Percentage points of GDP)



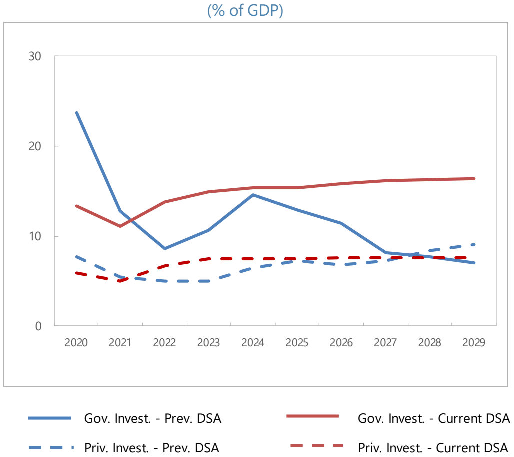
1/ Data cover Fund-supported programs for LICs (excluding emergency financing) approved since 1990. The size of 3-year adjustment from program inception is found on the horizontal axis; the percent of sample is found on the vertical axis.

Fiscal Adjustment and Possible Growth Paths 1/



1/ Bars refer to annual projected fiscal adjustment (right-hand side scale) and lines show possible real GDP growth paths under different fiscal multipliers (left-hand side scale).

Public and Private Investment Rates
(% of GDP)



Contribution to Real GDP Growth
(percent, 5 year average)

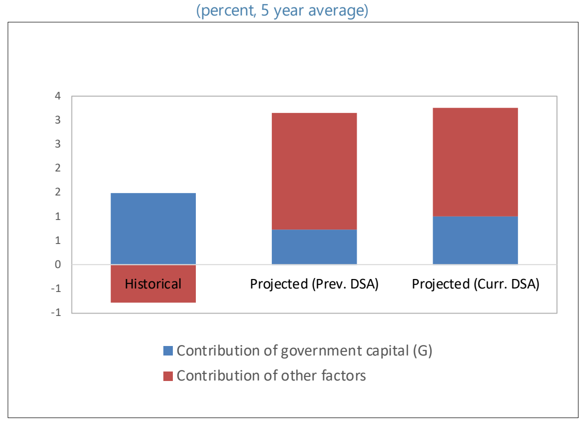
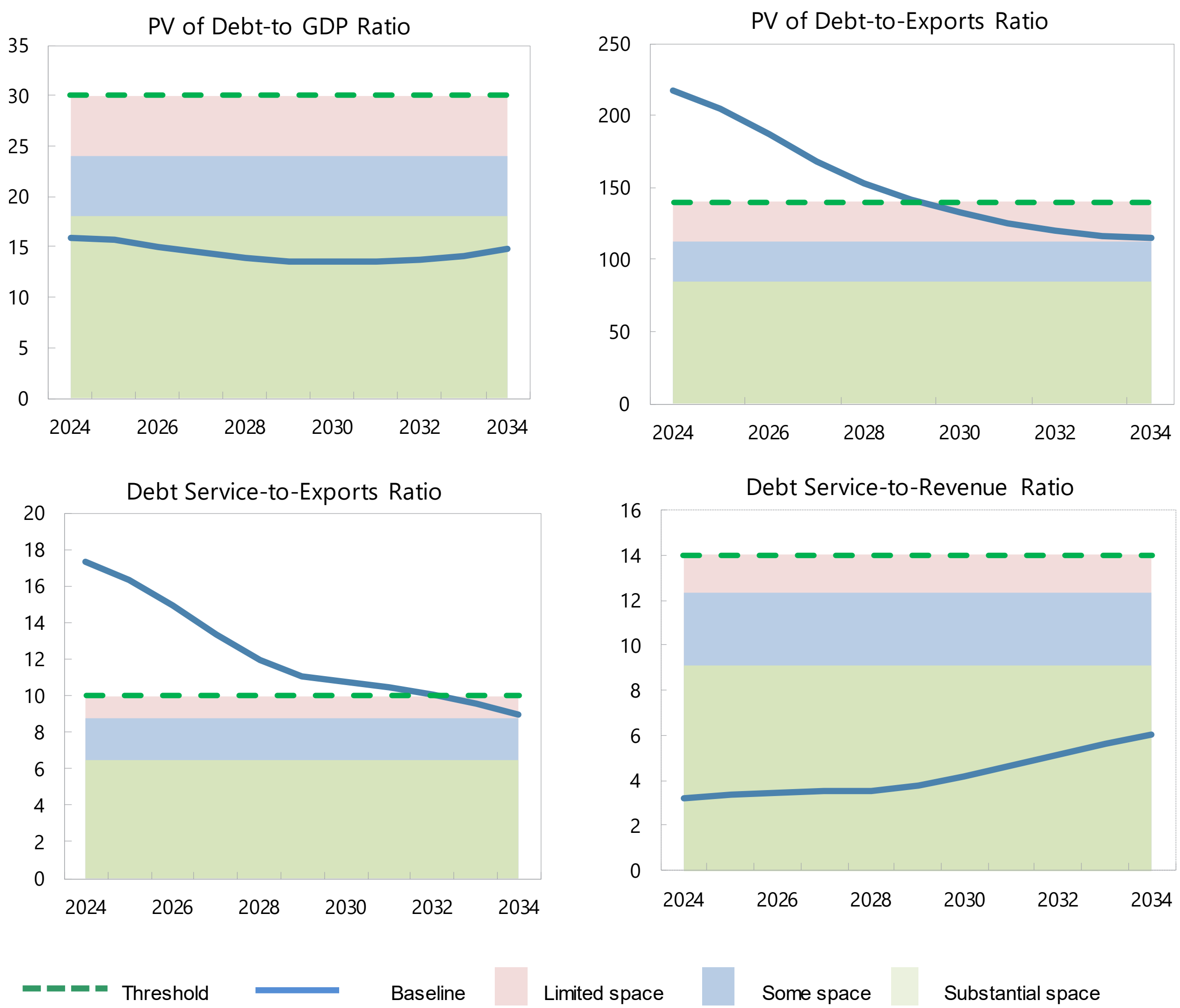


Figure 5. Timor-Leste: Qualifications of the Moderate Category, 2024-2034 1/



Sources: Country authorities; and staff estimates and projections.

1/ For the PV debt/GDP and PV debt/exports thresholds, x is 20 percent and y is 40 percent. For debt service/Exports and debt service/revenue thresholds, x is 12 percent and y is 35 percent.