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Democratic Republic of Timor Leste: Selected Issues and Statistical Appendix

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DEMOCRATIC REPUBLIC OF TIMOR-LESTE

Selected Issues and Statistical Appendix

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I. The National Development Plan and Development Strategy

1. **The National Development Plan (NDP, FY2001/02–FY2006/07), approved by Parliament upon independence, sets out Timor-Leste's development objectives and strategy**. It was prepared on the basis of a nationwide consultation process involving more than 38,000 citizens, civil society organizations, and government officials. Among wide-ranging development goals, the attainment of higher economic growth and the alleviation of wide-spread poverty constitute two overriding objectives.

2. **Under the NDP, economic growth is targeted to reach an annual rate of 5 percent over the medium term, and the number of people below the national poverty line to be reduced by half by 2015**. These objectives are designed to address deep-rooted economic difficulties facing the new nation. Timor-Leste is one of the most underdeveloped economies in the region, with per capita GDP estimated at about \$470 in 2001 (Table 2). More than 40 percent of the population falls below the national poverty line (defined as \$0.55 per capita per day), with the incidence substantially higher in rural areas (46 percent).[1] The literacy rate of the population aged 15 and above is only slightly over 40 percent.

3. **The NDP sets out policy actions and programs to be taken in the pursuit of the development objectives**. Among them, the following constitute core components:

- **Sectoral development policy**: Development of the agricultural sector is a major sectoral policy envisaged in the NDP to promote growth and reduce poverty. Agriculture accounts for about one-fourth of GDP and three-fourths of total employment.[2] However, agricultural productivity is low (around half the level of neighboring countries), and most output is produced for subsistence. Low productivity reflects the absence of economies of scale associated with subsistence production, the limited use of modern inputs, poor extension services and infrastructure, and unfavorable weather conditions. To improve agricultural production and promote the transformation of the sector, the NDP envisages strengthening of infrastructure (especially the construction of irrigation systems), the promotion of modern inputs (especially fertilizer and new varieties of seeds), the provision of marketing and extension services, and the increased availability of agricultural financing.

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[1] Based on UNDP Human Development Report, 2002.

[2] Agricultural production is dominated by staples, tree crops, and livestock. Staples account for about half of total production, and consist of maize, cassava, rice, and sweet potato. Tree crops account for about one-fourth of production comprising mostly coffee—the main export commodity—in the highlands, and coconuts in the lowlands.

- **Role of the private sector**: The NDP recognizes the critical role played by the private sector in economic development. To promote private sector development, the NDP stresses the urgent need to create an enabling legal and regulatory framework essential for business activity. This includes the early enactment of key economic laws (especially those for landownership, company, bankruptcy, and banking and insurance) and the development of enforcement mechanisms (in particular, the establishment of a well-functioning and transparent judiciary system). The NDP envisions that foreign investment will make important contributions to the development of economic sectors (especially tourism, manufacturing, and services) by bringing in capital, improving entrepreneurial skills, and facilitating the transfer of technology.

- **Resource allocation based on the market mechanism**: The NDP stresses that economic development should be pursued on the basis of a free market system and calls for the maintenance of a liberal trade and investment regime. To ensure the effective functioning of the market system, the government is envisaged to play a strategic and regulatory role, focusing on the effective provision of essential physical infrastructure and social services, the establishment of an enabling policy and legal environment, and the maintenance of social safety nets. The NDP cautions against administrative interference by the government in private business activities, except for cases where the private sector and the market mechanism fail to provide goods and services necessary for economic growth and poverty reduction.

- **Capacity building**: The NDP recognizes that the development of institutions and capacity to administer a modern nation and a market-based economy is a fundamental prerequisite and challenge for Timor-Leste's economic development. Under the NDP, the focus of institution and capacity building is placed on: (i) improving the competence and skills of civil servants; (ii) developing an effective judicial system (including the creation of a pool of well-trained judges and lawyers, the enactment of key laws, and the simplification of legal procedures in both civil and criminal law); (iii) strengthening the educational system to reduce the illiteracy rate and improve the quality of learning; and (iv) developing entrepreneurial, technical, and vocational skills of the youth.[3] The NDP views the establishment of a capable civil service as especially crucial for the effective delivery of basic social and economic services.

- **Macroeconomic management**: Under the NDP, maintenance of macroeconomic stability is the cornerstone of the development strategy. The NDP emphasizes that this task will become more important over the medium term, when significant oil/gas revenues begin to flow into Timor-Leste. The NDP notes that macroeconomic stability is especially important to avoid a major erosion of Timor-Leste's external

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[3]It is estimated that about 15,000–20,000 young East Timorese become of working age each year.

competitiveness.[4] Against this background, the NDP underscores the critical importance of prudent management of public finances. A challenging task for public finances is to provide infrastructure (especially electricity and water, telecommunications, and transport) and social services (including education and health) within the constraints of the nascent government capacity. In view of this challenge, the NDP stresses the importance of improving the government's capacity for fiscal management.

4. **Initial actions toward the realization of the objectives set out by the NDP were taken in the context of the World Bank-supported Transition Support Program I (TSP I) for FY2002/03**. The TSP I focused on establishing the legal and institutional framework required for the government's core activities and on developing its capacity, especially for poverty reduction planning, public expenditure management, governance, and power sector management. To this end, an annual action plan was developed for each core ministry. Among a substantial number of actions taken, it is noteworthy that a basic law for landownership was promulgated, setting the stage for the preparation of legislation governing the lease and sale of government property. Also, a ministerial committee was formed to prepare key economic legislation (including the investment, company, bankruptcy, and insurance laws) for submission to the Council of Ministers by end-June 2003. For the judiciary, the Superior Council of the Judiciary was nominated and the President of the Court of Appeals was sworn in, as initial steps to build the justice system. With respect to the power sector, steps have been taken to improve management, including its placement under an external management contractor (see Section V).

5. **To further operationalize the NDP, a medium-term action plan (the Road Map), covering four years through FY2006/07, was developed in early 2003**. The Road Map also incorporates an action plan (the "stability" program) which was announced by the government in early 2003 in response to growing demands by veterans of the resistance movement for welfare assistance and employment and the civil unrest in Dili in early December 2002 (triggered by firing by security forces on student demonstrations).[5] The Road Map provides a comprehensive list of priority programs to be implemented by each ministry, together with their appropriate sequencing. It describes main development issues facing each

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[4]Partly reflecting the impact of the large international presence during the transition to independence, wages increased substantially, especially those for skilled workers and professional staff. As a result, wages in Timor-Leste are higher than those in neighboring countries at a similar level of development. For example, wages for unskilled labor (about $3.50 per day) are about 30–50 percent higher than those in Indonesia.

[5]The "stability" program calls for the strengthening of governance (especially improvement in the justice system and the capacity of the police and security forces), the adoption of measures to create job opportunities (especially for youth and veterans), and the enhancement of government service delivery.

ministry, outlines key steps to be taken to address them, and presents an annual action plan over the next four years. It also presents detailed estimates of funding requirements for each ministry to implement the action plan, thus providing key inputs for preparation of annual budgetary allocations. At the same time, the Road Map is used as a vehicle to explain the authorities' policy intentions to donors and seek their financial assistance to fund programs critical for Timor-Leste's economic developments.

II. Oil/Gas Reserves, Fiscal Arrangements, and Revenue Outlook

6. **Following the discovery of large oil/gas reserves in the Timor Sea, Timor-Leste is expected to benefit significantly from their commercial exploitation over the medium term**. This section provides an overview of major oil/gas fields and their prospect for development, summarizes the fiscal arrangements governing oil/gas activities in the Timor Gap, and discusses the outlook for oil/gas revenues.

Major oil/gas fields

7. **Exploration in the Timor Sea began in the mid-1960s under uncertainty over territorial sovereignty**. With exploration accelerating in the early 1990s, a number of major oil/gas fields have been discovered, making the area prominent for rich oil/gas resources. Commercially viable oil/gas fields discovered to date include the Elang-Kakatua-Kakatua-North (EKKN), Bayu-Undan, and Greater Sunrise fields.[6]

- **The EKKN field** contains relatively small oil reserves estimated at 27 million barrels. The development of the field was initially undertaken by Broken Hill Proprietary (BHP) and subsequently by a consortium lead by Phillips Petroleum (now ConocoPhillips). The EKKN is the only field developed at present, with production having commenced in mid-1998. With daily production averaging 14,000 barrels in recent years, oil reserves are expected to be depleted in 2004.

- **The Bayu-Undan field** is endowed with rich oil/gas reserves, comprising about 370 million barrels of liquids (condensate and liquefied natural gas—LNG) and 2.7 trillion cubic feet of gas. A development plan and production sharing contracts to exploit these resources were agreed on May 16, 2003 between oil companies (led by ConocoPhillips) and the Joint Commission representing Timor-Leste and Australia (¶9, footnote 12). The development plan aims at producing both liquids and gas, with the latter to be transported to Australia for downstream activities, including power

[6] In addition to these fields, there are a couple of fields (Jahal and Kudatashi), with sizes similar to the EKKN, that could be developed in the next few years.

generation and LNG production for Asian markets.[7] Production of liquids is expected to commence in 2004, to be followed by gas production a few years later.

- **The Greater Sunrise field** holds a significant amount of gas reserves, estimated at 7.6 trillion cubic feet. The field is to be developed under joint venture arrangements involving ConocoPhillips, Shell, Woodside, and Osaka Gas. Progress toward the commercial exploitation of gas reserves is considered to depend, among others, on (i) the resolution of differences in the development strategy among the joint-venture partners,[8] and (ii) agreement between Timor-Leste and Australia on a revenue-sharing arrangement for the field. The latter issue was resolved on March 6, 2003, when Timor-Leste and Australia reached agreement on an interim revenue-sharing arrangement (the International Unitization Agreement; see ¶10, footnote 14).

Fiscal arrangements for the Timor Gap

8. **A substantial part of the major oil/gas fields is located in the Timor Gap, an area of disputed sovereignty.**[9] To establish legal, fiscal, and administrative arrangements governing oil/gas-related activities in the Timor Gap, the Timor Gap Zone of Cooperation (ZOC) Treaty was signed between Australia and Indonesia in October 1989.[10] Under the ZOC Treaty, the disputed area was partitioned into three zones (A, B, and C) covering 65,000 square kilometers ("zones of cooperation"), with different revenue sharing arrangements applicable to each zone. These arrangements are a 50/50 split between Australia and Indonesia for Zone A; a 90/10 split in favor of Australia for Zone B; and a 10/90 split in favor of Indonesia for Zone C. The three zones were administered by the Joint Authority, which was established as an executive organ representing the two countries and was responsible for daily operations in the areas.

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[7]Total capital costs are estimated at \$2–3 billion (\$1.5–2 billion for exploration and development activities in the field and \$0.5–1 billion for pipeline construction and on-shore acceptance facilities).

[8]At present, two different strategies are proposed among the joint venture partners. One is to transfer gas through a pipeline to Northern Australia where an LNG plant is to be established aiming at the Australian market. The other is the construction of a floating LNG vessel, through which LNG is to be marketed to countries other than Australia.

[9]The emergence of the Timor Gap goes back to 1972, when a treaty was signed between Australia and Indonesia setting the permanent seabed boundary between the two countries. However, the treaty failed to cover an area adjacent to then East Timor (the Timor Gap), as agreement could not be reached with Portugal (the administrative power in then East Timor) on the seabed boundary in the area.

[10]Underlying the ZOC Treaty is no final agreement on the permanent seabed boundary.

9. **Following Timor-Leste's independence, the ZOC Treaty was replaced by the Timor Sea Treaty effective April 2, 2003.**[11] The new Treaty maintains key provisions of the ZOC Treaty, including the partition of the area into the same three zones. However, Zone A has been renamed the Joint Petroleum Development Area (JPDA),[12] while Zones B and C have been placed under exclusive jurisdiction of Australia and Timor-Leste, respectively. Also, Timor-Leste's revenue share from the JPDA has been increased from 50 percent to 90 percent, while revenues from Zones B and C have come to accrue exclusively to Australia and Timor-Leste, respectively.[13] The new Treaty assures that the existing contracts for oil/gas projects already in operation remain valid, while allowing future projects to be negotiated on new terms.

10. **Both the EKKN and Bayu-Undan fields fall under the JPDA, giving a 90 percent revenue share to Timor-Leste**. The Greater Sunrise field straddles the JPDA. Under the International Unitization Agreement, oil/gas revenues from the field are to be shared by Timor-Leste and Australia with a 18/92 split as an interim arrangement subject to the resolution of seabed boundary disputes.[14]

Oil/gas revenues

11. **Oil/gas revenues accruing to Timor-Leste consist of (i) those associated with production sharing contracts (PSCs), and (ii) taxes levied on oil/gas companies operating in the JPDA (and Zone C)**.

[11]Meanwhile, the United Nations Transitional Administration in East Timor (UNTAET), upon its establishment, assumed Indonesia's rights and obligations relating to the ZOC Treaty. In February 2000, UNTAET and Australia agreed to negotiate a new arrangement for the post-independence period, while affirming the continuation of the terms of the ZOC Treaty in the interim. The Timor Sea Treaty was signed by Timor-Leste and Australia on May 20, 2002 to establish new arrangements for the Timor Gap.

[12]The JPDA is to be managed by a three-tier joint administrative structure: the Ministerial Council with equal ministerial representatives of Timor-Leste and Australia; the Joint Commission consisting of representatives of the two countries; and the Designated Authority (the former Joint Authority), which is to be transformed into a Timor-Leste government ministry responsible for petroleum activities after three years.

[13]No oil/gas projects, however, are developed in Zones B and C at present.

[14]At present, only 20.1 percent of the field lies within the JPDA, with the remainder located in an area claimed by Australia. However, Timor-Leste argues that a larger portion of the field should come under its jurisdiction if a seabed boundary is set on the basis of current international standards. Under the International Unitization Agreement, it was agreed that 20.1 percent of oil/gas revenues from the entire Great Sunrise field will be apportioned to the JPDA, which will be shared by Timor-Leste and Australia with a 90/10 split.

- **Oil/gas revenues associated with PSCs**: Oil/gas production in the Timor Gap takes place under PSCs agreed between the Designated Authority (the former Joint Authority) and oil/gas companies (operators). Under the PSCs, oil/gas produced is divided into three categories ("first tranche petroleum," "cost petroleum," and "profit petroleum").[15] The first tranche petroleum represents de facto royalty payments, while the profit petroleum is a profit share. They are shared by the Designated Authority and oil/gas companies in accordance with the rules specified under the contracts.[16] Consequently, oil/gas revenues accruing to Timor-Leste from PSCs consist of the first tranche petroleum and profit petroleum obtained from the Designated Authorities on the basis of the revenue-sharing arrangement applicable to each zone.

- **Taxes levied on oil/gas companies**: Both Timor-Leste and Australia levy taxes on economic activities in the JPDA, with the tax base adjusted according to the applicable revenue-sharing scheme. Timor-Leste levies taxes on the oil/gas-related activities in the JPDA on the basis of the Indonesian taxation provisions that were applicable as of October 1999. Taxes levied include income tax (30 percent) and retained profits tax (20 percent); VAT (10 percent); withholding taxes (20 percent) on dividend, royalties, and interest; and wage income tax (applicable after the signing of the Timor Sea Treaty).

- **Outlook for oil/gas revenues**: With the EKKN project scheduled to close in 2004, and given the uncertainty regarding the Greater Sunrise project, oil/gas revenues are expected to be generated primarily by the Bayu-Undan project. At present, total oil/gas revenues accruing to Timor-Leste from the project are estimated to reach $3.1 billion, on the basis of oil/gas prices equivalent to $19 per barrel at 2002 prices. Of the total, $1.7 billion is accounted for by oil/gas revenues associated with PSCs, and the remainder by tax revenues. Among tax revenues, the income tax is projected to reach $1.3 billion. Oil/gas revenues from the Bayu-Undan field are projected to reach a peak level of $350 million (about 60 percent of projected GDP) in FY2012/13. Production is expected to come to an end in FY2022/23.

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[15] The "first tranche petroleum" represents 10 percent of oil/gas produced during the first five years of production and 20 percent thereafter. The "cost petroleum" constitutes a part or all of the remaining 90 percent (80 percent after the first five years) which is retained by oil companies to recover investment credits and operating costs (including exploration costs and depreciation of capital equipment). The "profit petroleum" comprises any remaining oil/gas produced after the recovery of operating costs and investment credits.

[16] Both the first tranche and profit petroleum are shared by the Designated Authority and oil/gas companies with a 50/50 split. However, for the liquid portion of the profit petroleum, the Designated Authority's revenue share can increase to 70 percent, depending on the level of daily production.

III. THE FINANCIAL SYSTEM AND RECENT MONETARY DEVELOPMENTS

Overview

12. **The financial system of Timor-Leste was severely disrupted by the post-referendum turmoil**, which resulted in the breakdown of the payments system and the departure of banking officials and staff. In the immediate aftermath of the 1999 destruction, steps were taken to restore the financial system, especially through technical assistance from the Fund. Such steps focused on the establishment of a monetary authority and the adoption of a currency that would serve as legal tender.

13. **Substantial progress has been made in restoring and developing the financial system over the last three years**. A monetary authority is now in place, and three foreign-owned commercial banks,[17] and one microcredit institution are in operation.[18] In addition, the U.S. dollar has been firmly established as the official currency. Nonetheless, the financial system is still at an early stage of development; interbank transactions are virtually nonexistent, and there are no financial markets, including those for government securities.

Establishment of the monetary authority

14. **The establishment of the monetary authority began with the creation of the Central Payment Office (CPO) in April 2000**. The CPO's initial task centered on providing basic cash and noncash payment services (especially for the government), as well as treasury functions related to payments of stipends for the civil service. As normal banking and payment services began to be provided by commercial banks following their establishment, the CPO's main role was shifted to bank licensing and bank supervision. To these ends, the CPO adopted a prudential regulatory framework based on Basle Core Principles, including instructions on bank licensing, capital requirements, and liquidity. This was followed by the adoption of instructions on large exposures, connected lending, accounting and reporting requirements, and asset classification. Furthermore, instructions on licensing of foreign exchange bureaus and regulation of nonbank financial institutions were also established. All these actions were completed by late 2001.

15. **The CPO was transformed into the Banking and Payments Authority (BPA) in November 2001**, following the approval of the BPA Regulation by the Constituent Assembly. The thrust of the BPA Regulation is to strengthen the monetary authority's financial and institutional autonomy as a step toward the establishment of a full-fledged

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[17] They comprise subsidiaries of the Caixa Geral de Depositos (CGD), the Australia and New Zealand (ANZ) Banking Group, and Bank Mandiri.

[18] In addition, two licensed currency exchange bureaus and five credit unions are operating in the financial system. Under Indonesian rule, the banking system consisted of the Dili branch of Bank Indonesia and eight Indonesian commercial banks.

central bank over the medium term. To this end, it calls for full transfers of budgetary appropriations at the beginning of each fiscal year, the strengthening of the capital base to realize the statutory level ($20 million), and the appointment of the seven BPA Board members.

16. **Following the enactment of the BPA Regulation, further actions have been taken to strengthen the monetary institution and system**. These included a further development of the payment system (e.g., improvement in clearing house operations and the adoption of regulations to monitor and control systemic risk), the establishment of an off-site and on-site bank supervision system, and the introduction of a basic bank reporting scheme. Steps have also been taken to implement the BPA Regulation, including full transfer of all budgetary appropriations for the BPA at the beginning of FY2002/03. However, the amount of paidup capital is still well below the statutory level ($7 million as of end-March 2003). Also, three positions on the BPA Board remain vacant partly reflecting the difficulty to find suitable candidates.

17. **Under the BPA Regulation, the monetary authority is not permitted to extend credit to the government or to commercial banks**. The absence of scope for monetary policy is closely related to the current U.S. dollar-based currency system, the lack of well-developed financial markets, and a still nascent institutional capacity of the monetary authority. In particular, progress in overcoming the latter two conditions is an important prerequisite for the establishment of a full-fledged central bank capable of conducting monetary policy.

Dollarization

18. **Timor-Leste's financial system is marked by dollarization, reflecting the adoption of the U.S. dollar as the official currency in January 2000**.[19] The decision to avoid the introduction of a national currency reflected the recognition that necessary conditions to manage the national currency would be difficult to develop in the short term. Such conditions include: (i) the capacity to maintain a sound and credible financial policy; and (ii) a well-developed institutional framework and financial resources to support the value of a new currency. The choice of the U.S. dollar is attributable to the desirable characteristics held by the currency, including stable value, wide international use, and convertibility. It was also reinforced by technical considerations, including the denomination in the U.S. currency

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[19] A key consideration underlying the adoption of a single currency system was the urgent need to eliminate the distortions and inefficiencies associated with the simultaneous circulation of multiple currencies. Following the collapse of the financial system, several currencies began to be used, including the Indonesian rupiah, and the Australian, New Zealand, and U.S. dollars. The circulation of multiple currencies made the restoration of the payment system difficult, while exerting an adverse impact on commercial transactions due to sizeable spreads among the cross exchange rates.

of most of Timor-Leste's international trade, its relatively low transaction costs in Asian markets, and the absence of a requirement for a special arrangement with the U.S. Federal Reserve System to use the U.S. dollar as legal tender.

19. **Progress in dollarization was initially slow and limited mainly to the Dili area.** This reflected a smaller-than-expected supply of U.S. dollars due to slow budget execution; the large denomination of U.S. notes relative to the average size of transactions undertaken by the local population; and unfamiliarity among the local population with the U.S. dollar, especially coins, which are not marked with numerals. To speed up the dollarization process, the BPA undertook an education campaign to familiarize the population with the U.S. currency, while promoting rupiah/dollar exchanges at the district level. In addition, a BPA regulation was issued in July 2001 to make the U.S. dollar the *sole* legal tender, prohibit the quotation of prices in other currencies, and provide for penalties for noncompliance. On the strength of these measures, dollarization was largely complete by mid-2002.[20]

Recent monetary developments

20. **After declining sharply in response to the collapse of the banking system in late 1999, bank deposits showed a strong recovery over the last three years.** Total deposits increased to $55 million (16 percent of GDP) by end-March 2003, almost tripling compared with the end-2000 level (Table 6). Demand deposits continue to account for a dominant portion of bank deposits, although the share of savings and time deposits has been increasing, reaching 30 percent of the total by end-March 2003. However, the average maturity of savings and time deposits remains short (mostly less than one month).

21. **Despite the expansion in bank deposits, financial intermediation remains weak.** Total domestic bank loans (mostly housing loans) stood at $6 million at end-March 2003, accounting for 11 percent of bank deposits (Table 8);[21] the bulk of bank deposits is invested abroad (mainly Asian financial markets) in short-term papers. The limited financial intermediation is attributable to a number of factors, including the lack of viable borrowers, the underdevelopment of financial markets, an inadequate legal framework, and the absence

[20]Despite dollarization, the denomination of U.S. notes and coins is still large relative to the average size of transactions conducted by the population, especially at district levels. To address the problem, the authorities are planning to issue local coins (small denomination) to supplement the use of U.S. coins. Initially, 16 million coins (with three different denominations) with a face value of $2.4 million are expected to be issued.

[21]Including microcredits extended under the World Bank-sponsored Small Enterprises Project (SEP) funded by the Trust Fund for East Timor (TFET), total outstanding loans were about $7 million in March 2003. The SEP is an on-lending facility through a private bank and is designed to assist private sector enterprises. The existing SEP is expected to be replaced by a successor version in 2004.

of appropriate collateral. As a way to promote financial intermediation, the authorities are giving priority to strengthening the basic legal and regulatory framework essential for bank lending and business activity, including the enactment of legislation on bankruptcy, company, and landownership (the latter to permit land as collateral). Reflecting banks' cautious lending operations, the amount of nonperforming loans remains modest.

22. **Interest rates continue to be determined freely on the basis of market forces.** In March 2003, the annual rate of interest on demand, savings, and time deposits was 0–0.25 percent, 0.1–0.3 percent, and 0.25–0.75 percent, respectively. The deposit rate is estimated to have declined substantially over the last three years, in response to a decline in the rate of interest on U.S. dollar-denominated deposits in the overseas markets. The rate of interest on bank loans was about 18 percent in March 2003. The high spread is mainly attributable to risks associated with domestic lending.

23. **To meet the financial needs of small-scale borrowers, the Microfinance Institution of Timor Leste (IMFTL) became operational in mid-2002.**[22] IMFTL's lending is at present targeted mainly to small-scale traders and entrepreneurial rural women. Available information suggests that aggregate lending has been expanding, but the amount of loans is modest ($0.2 million as of end-March 2003).

IV. Public Finance

Introduction

24. **The disruption following the 1999 referendum resulted in the collapse of Timor-Leste's fiscal system.** The departure of civil servants paralyzed tax administration and the execution of the expenditure program, while the termination of fiscal transfers from Jakarta forced a sharp cut-back in expenditures. Consequently, the establishment of a fiscal system became one of the most urgent tasks for UNTAET.

25. **Over the last three years, major progress has been made in reestablishing a fiscal system.** Through substantial Fund technical assistance, a Central Fiscal Authority (CFA) was created in early 2000, which has since been transformed into the Ministry of Planning and Finance. A legal framework has been established for budget planning and execution; the tax system and administration have been restored; and a treasury and expenditure management system has been put in place. The first annual budget was prepared and executed for FY2000/01 (fiscal year: July–June), contributing to the restoration of

[22]The IMFTL is owned and supported by the Foundation for Poverty Reduction, which is supported by the Asian Development Bank and the Australian and Portuguese state-owned development agencies. It is allowed to take deposits from the general public, with total deposits subject to a ceiling of $1 million.

essential government services. Nonetheless, the fiscal system is still at an early stage of development and its strengthening remains essential for macroeconomic management.

Public sector fiscal operations

26. **Fiscal and quasi-fiscal operations in Timor-Leste are undertaken by the central government, nonfinancial autonomous agencies, multilateral institutions, and bilateral donors.**

- **The central government** comprises the government ministries and departments, including local offices. Government fiscal operations are fully centralized. Revenues are collected by the Revenue Service and Customs Service of Timor-Leste; procurement is undertaken by the Procurement Unit; cash disbursement and management are done solely by the Treasury. Budget planning and execution are governed by the Budget and Financial Management Law (Regulation 2001/13).[23]

- **The nonfinancial autonomous agencies** consist of the harbor, airport, and power authorities. These agencies are empowered to retain collected user fees and charges to finance their operations. No budgetary transfers are provided to the harbor and airport authorities, but the power authority is highly dependent on the budget to finance its operations (Table 15 and Section V).

- The involvement of **multilateral institutions** (including the World Bank, the Asian Development Bank, and UNTAET/UNMISET,[24] as well as other UN agencies) and **bilateral donors** in fiscal and quasi-fiscal operations is closely associated with reconstruction activities following the 1999 destruction. With the reconstruction phase winding down, their fiscal operations are increasingly geared toward assisting Timor-Leste in achieving the main objectives set out under the NDP.

CFET budget

27. **The central government budget—the Consolidated Fund for East Timor (CFET)—has been marked by large deficits, averaging 6.5 percent of GDP over the last three years** (Table 9). This reflects pressing expenditure needs in the face of limited revenues (¶32). CFET budgetary allocations have been centered on providing funding for the establishment of the civil service, purchases of equipment and services required for the functioning of ministries, and the provision of essential recurrent government services (especially for health and education). As a result, recurrent expenditures have constituted a significant share of CFET expenditures (about 80 percent of total expenditure over the last

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[23] The Regulation was promulgated under UNTAET. A revised law has been prepared with the Fund's technical assistance.

[24] Refers to the UN Mission in Support of East Timor, a scaled-back successor of UNTAET.

two years). On the other hand, capital expenditures have been undertaken predominantly through bilateral and multilateral programs (¶30). With external assistance expected to wind down over the medium term, the CFET budget is envisaged to assume increasing capital expenditures.

28. **CFET budget deficits have been financed solely through cash grants provided by donors** (including carry-over of cash grants from past years). This is attributable to the lack of access to domestic bank financing and the government's policy to avoid external borrowing. The former is partly associated with the current BPA Regulation, which does not permit the monetary authority to extend credits to the government (¶17). At the meeting held in May 2002, donors pledged budgetary support totaling $81 million for three years through FY2004/05, covering 90 percent of the overall deficits projected for the period.

29. **CFET budget operations have also been characterized by an ad-hoc oil/gas saving policy**, under which royalties are saved automatically and only tax revenues are available for financing of expenditures. The NDP envisions that this policy will be maintained until FY2004/05; thereafter, all oil/gas revenues, including those saved in the past, will be available for financing of CFET expenditures. The authorities are expected to revisit the current saving policy in connection with the establishment of a petroleum fund to manage oil/gas revenues.

Combined fiscal operations

30. **Significant fiscal activities also take place outside the CFET budget**. The principal part of such activities has been financed by external assistance, including the Trust Fund for East Timor (TFET),[25] bilateral donor assistance, and the UNTAET/UNMISET assessed contributions budget (excluding military-related expenditures).[26] In particular, TFET and bilateral assistance have provided a major vehicle for rehabilitation and reconstruction activities, by undertaking capital projects and providing technical assistance. Fiscal and quasi-fiscal operations encompassing the central government, the nonfinancial autonomous agencies, multilateral institutions, and bilateral donors constitute "combined fiscal

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[25]TFET was established in December 1999 as a vehicle to provide grant assistance for reconstruction activities and economic development in Timor-Leste. Pledges to the TFET were made by 12 donor countries, the European Commission, and the World Bank, with the total amount of funds reaching $177 million. This comprises donors' contributions of $169 million (including $10 million by the World Bank) and investment income of $8 million. Of this total, $122 million was disbursed by end-April 2003. TFET projects are expected to wind down by end-2005.

[26]Under a scaled-back presence, the UN continues to fund key activities, including a substantial number of civilian police and 100 core public administration posts. As the UN presence further winds down, the CFET budget is expected to take over these outlays.

operations" (Table 10). With revenues limited to those raised by the central government and the nonfinancial autonomous agencies, the overall deficit of "combined fiscal operations" has been substantial and financed predominantly through external assistance.

31. **Toward the achievement of objectives set out under the NDP, increasing efforts have been made to incorporate key development programs into the CFET budget, as well as into non-CFET combined fiscal operations**. Such programs have been formulated under the Road Map (see Section I), and embodied in the annual action plan with appropriate sequencing. The authorities are planning to seek funding for those programs through multilateral and bilateral assistance, in the event that they cannot be accommodated under the CFET budget for the lack of fiscal resources.

Revenue system

32. **Revenues of the CFET budget comprise domestic revenues and oil/gas revenues**. Total CFET revenue increased from $27 million (7.7 percent of GDP) in FY2000/01 to $44 million (12.4 percent of GDP) in FY2002/03. The increase was accounted for by a steady rise in oil/gas revenues, from $13 million (3.7 percent of GDP) to $27 million (7.5 percent of GDP). Domestic revenues remained more or less stable, averaging about 5 percent of GDP over the last three years.

- **Domestic revenues**

  Timor-Leste's tax system is simple, reflecting limited tax administration capacity (Table 19). However, it is sound by comparison to that in countries at a similar stage of economic development.[27] The tax base is narrow, due to an underdeveloped domestic production base. Also, the compliance rate is low owing to the lack of sufficient staff and an underdeveloped taxpayer information system, and there is substantial scope for improvement over the medium term.

  Indirect taxes account for a major portion of domestic revenues (62 percent, on average, over the last two years; Tables 9 and 11). They comprise import duties (a uniform 6 percent rate applicable to most imports), excise taxes (mostly at a 12 percent ad-valorem rate), sales tax (6 percent), and a service tax (a 12 percent turnover tax, levied on hotels, restaurants, and transportation rental services). Although excise taxes and sales taxes are applicable to goods and services produced domestically, they are currently collected only on imports at the border because of limited tax administration capacity and an extremely small domestic tax base.

  The share of income tax is relatively small, at 27 percent of total domestic revenues. Income tax began to be collected in FY2001/02 and comprises wage

[27]Based on the assessment made by the FAD technical assistance mission on tax policy and tax administration (February–March 2002).

income tax (10 and 30 percent brackets), corporate income tax (30 percent), and final scheduler withholding taxes on income (including interest, royalties, and dividends). Nontax revenue comprises fees, property rental, and interest, together accounting for 11 percent of the total.

- **Oil/gas revenues**

  Oil revenues consist of royalties associated with production sharing contracts and taxes levied on oil companies. Royalties are shared by Timor-Leste and Australia according to the agreed revenue-sharing scheme. Taxes on oil companies are levied on the basis of the Indonesian taxation provisions applicable as of October 1999 (see Section II for details). Total oil/gas revenues are estimated to reach \$27 million (about 7.5 percent of GDP) in FY2002/03 (Table 12). The bulk of oil/gas revenues is accounted for by tax revenues.

CFET expenditure

33. **CFET expenditures exhibited a relatively sharp expansion over the last three years**, from 14.5 percent of GDP in FY2000/01 to 19.8 percent of GDP in FY2002/03. As noted earlier (¶27 and Tables 9 and 13), recurrent expenditures account for a dominant portion of CFET total expenditure. Among them, wages and salaries increased from 3.9 percent of GDP in FY2000/01 to 6.3 percent of GDP in FY2002/03, as efforts have been stepped up to restore the civil service. The government currently sets the total size of the civil service at 17,200 (consisting of about 12,440 for government staff, and 4,760 for the police and defense); of this total, about 14,700 positions are targeted to be filled by end-FY2002/03 (Table 14). The average salary for civil servants is estimated at \$125 per month for FY2002/03. Expenditures for goods and services more than doubled, from 4.5 percent of GDP in FY2000/01 to 10 percent of GDP in FY2002/03. This primarily reflects the need to fund basic logistics required for the functioning of ministries, as well as to meet pressing needs for social services. CFET capital expenditures remained modest, accounting for less than 4 percent of GDP in FY2002/03.

34. **CFET budget execution, however, has been marked by underspending of budget appropriations**. This reflected weaknesses in the government's capacity for fiscal management in general, and delays in procurement and capital project planning in particular. The problems associated with procurement were especially serious during the first half of FY2002/03, as new procedures were introduced following independence to replace the UN-managed system. The line ministries' unfamiliarity with the new system led to a major slowdown in service delivery by the government. Budget execution was also sluggish in the area of capital expenditure and wages/salary payments. The former reflected weaknesses in the line ministries' capacity to plan and execute capital projects and the latter, a slow recruitment of civil servants.

35. **To address these problems, steps were taken in early 2003 to improve budget execution**. Seminars and training sessions were held to familiarize line ministry officials

with the new procedures. Also, information on the status of expenditure execution was provided by the treasury to each ministry on a regular basis. These steps have led to a substantial improvement in expenditure execution and delivery of government services. However, the execution of capital expenditure remains generally slow, and the recruitment of civil servants is still below expectations.

V. POWER SECTOR ISSUES

36. **The power system was severely affected by the violence of 1999 and the ensuing departure of managers and technicians**. The violence seriously damaged power stations across the country (which operated by using 58 diesel fuel-based generators), resulting in a major disruption in electricity supply. Following the destruction, the reconstruction of the power system was undertaken by UNTAET. The power authority (Electricidade de Timor Leste—EDTL) was established, and 31 generators have been restored thus far, supplying electricity to Dili, 12 districts, and 33 subdistricts. However, the financial position of EDTL has been weak, creating a serious fiscal burden on the government. This section discusses the main problems associated with the power sector, their impact on EDTL's financial position, and reform measures taken by the Timor-Leste government.

Electricity generation

37. **Major power stations are located in Dili, where electricity is supplied on a 24-hour basis**. At the time of independence, eight generators were allocated to the capital area, with a total capacity of 16.6 megawatt. However, due to poor maintenance, only three generators were in operation, with a maximum capacity of 6.7 megawatt. This was well below the capital area's electricity demand (12.5 megawatt during peak hours), thus creating frequent load-shedding and blackouts. In December 2002, new generators with a total capacity of 6 megawatt were installed under external assistance to meet electricity demand in the capital. Nonetheless, hotels, restaurants and other commercial users, as well as some private residences, continue to use private generators to meet their electricity needs.

38. **In districts and subdistricts, power generation capacity is considerably smaller, and electricity is available only for limited hours**. Baucau, the second largest city, is equipped with three generators with a total capacity of 2 megawatt, which supply electricity for 18 hours a day. Most other districts have generators with a maximum capacity of 1–2 megawatt, supplying electricity for 6 to 12 hours a day. Subdistricts are mostly equipped with 25–50 kilowatt generators, with power supply limited to 6 hours a day.

Users, tariff structure, and costs of electricity generation

39. **The total number of electricity users connected to the EDTL network is estimated at 46,000 nationwide, of which 21,000 users reside in the capital area**. Users are classified into four categories: domestic (residential), commercial, government, and social (nongovernmental organization, etc.) users. In the capital area, residential users account for a predominant share (93 percent), followed by commercial users (6 percent). In terms of actual electricity usage, commercial users account for about half of total electricity

consumption. In districts and subdistricts, residential users are estimated to be the largest consumers of electricity.[28]

40. **At present, tariffs are charged only to users in Dili, as the billing system has been developed only for the capital area**. This reflects the difficulty in establishing a nationwide billing system, due to limited managerial capacity of EDTL. As a result, electricity supplied to districts and subdistricts is free of charge. The tariff structure was revised downward in February 2003 to rationalize electricity charges which are viewed as excessively high. As a result, the new tariff structure is better aligned with the average generation costs for private generators in Dili.[29]

41. **Nonetheless, the electricity tariff in Timor-Leste is still substantially higher than that in comparable countries, partly reflecting high costs of electricity generation and distribution**. This is attributable to a number of factors, including: (i) high costs associated with diesel-powered generators requiring more expensive light diesel fuel; (ii) a heavy load on the distribution system that results in greater losses of electricity; (iii) aging equipment that entails high maintenance costs; and (iv) high costs relating to transportation of fuel to the districts.

Billing system

42. **The establishment of an appropriate billing system has been lagging significantly, as priority was given by the transitional administration to the restoration of electricity supply**. At present, less than half of total users in Dili are billed and only one-fourth of bills issued are actually collected. A number of factors underlie poor bill collection.

- **Inadequate installment of meters and electricity theft**: Either no meters or faulty meters have been installed for about 20 percent of users. In addition, 10 percent of users have informal or illegal connections. This has contributed to a high level of electricity losses, estimated to exceed 50 percent of electricity production (including technical losses).

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[28]No customer database is available at present other than for Dili.

[29]The new tariff consists of $0.16 per kwh for domestic and social users and $0.20 per kwh for commercial and government users, while the average generation costs for private generators are estimated at about $0.17 per kwh. Notwithstanding the downward adjustment, the new tariff structure is set on a commercial basis. EDTL expects that, as the new tariff reduces the financial burden of users (especially residential), nonpayment of electricity bills will decline and bill collection will improve.

- **Inaccuracy of electricity bills**: Bill collection is seriously hampered by the inaccuracy of electricity bills due to poor management.[30] Complaints from users about their bills are not properly dealt with at the billing center, because staff are not well trained and there is no system to check the validity of the bills on site. This has resulted in a high level of arrears.

- **Problems associated with the bill collection system**: Due to the lack of a reliable mailing system, electricity bills need to be picked up at billing centers. However, many users do not take the trouble to go to the billing centers in the absence of strict enforcement measures. The only enforcement measure available to EDTL is to cut electricity supply, but recourse to this measure has been seldom made for social or political reasons.

Financial position of the power authority

43. **The power authority has been facing serious financial problems since the onset of its operation due to weak management and the ineffective billing system**. Budgetary allocations from the central government[31] amounted to $8.4 million in FY2000/01 and $6.7 million in FY2001/02, accounting for 16 percent and 13 percent of total expenditure, respectively (Table 16). For FY2002/03, budgetary appropriations were initially limited to $4 million (5 percent of total expenditure), as revenue collection was targeted at $5.0 million (equivalent to $0.42 million per month). However, revenue collection during the first half of FY2002/03 turned out to be substantially weaker than expected, averaging only $0.18 million per month, indicating that total collection for the year as a whole would be limited to only $2.5 million. To finance EDTL's widening deficit, budgetary appropriations were revised at the time of the midyear budget review upward to $8.4 million (12 percent of total expenditure), including $1.9 million for the installment of prepaid meters (¶44).

Reform of the power authority

44. **To improve the financial position of the EDTL, the authorities decided in late 2002 to take reform measures**. The core of the reform measures consists of (i) the placement of EDTL under a three-year external management contract to strengthen management, and (ii) the introduction of prepaid meters to improve bill collection. The bidding process for the management contractor started in early 2003. So far, three tenders

[30] The quality of data in the billing system is poor, as there is no mechanism to check data entries, which are at present made only manually.

[31] Budgetary allocations for EDTL comprise those for wage payments, purchases of goods and services, and capital investment. Among these, allocations for goods and services, which are used mostly to purchase fuel, account for a predominant portion (almost 90 percent, on average, for FY2000/01–2001/02).

have already been received, and an external contractor is expected to take control of EDTL's assets and staff in mid-2003. The main features of these reform measures are:

- **External management contract**: Under the planned external management, the contractor will take over management of assets and staff of EDTL, while the government will still be responsible for policy, regulations, and tariff structure. The performance of the management contractor will be monitored against key indicators.[32] Remuneration of the contractor (except for the contract fees) will be linked to its performance. The management contractor will report monthly to the authorities on its performance and on the progress made. The performance will be audited by an "Independent Auditor and Certification Entity."

- **Prepaid meter system**: The management contract is conditional on the installation of prepaid meters. Although prepaid meters are more expensive than regular ones, they are considered to be significantly more effective in collecting electricity bills (as they force users to pay before consuming electricity). They are also considered to contribute to preventing wasteful, excess usage of electricity by users.[33] It is expected that regular meters will continue to be used where proper payments can be expected. For the implementation of the new system, a company has been contracted to install the first 10,000 prepaid meters, and the installation is expected to be completed by end-2003. Total costs for prepaid meter installations are estimated at \$2.7 million, of which \$1.9 million is to be financed through the revised FY2002/03 budget and \$0.8 million through external assistance.

45. **Although these reform measures are expected to improve revenue collection substantially over the coming years, EDTL's financial position is projected to improve only slowly**. Official projections indicate that budgetary allocations for EDTL would remain at about \$6.8 million (8.6 percent of total expenditure) in FY2003/04 before falling gradually and being eliminated in FY2006/07. This outlook is attributable to (i) an increase in operating costs due to payments for the external management contract and an increase in electricity generation, and (ii) needs for appropriations for adequate maintenance and capital investment. Over the medium term, the authorities intend to address the high-cost structure inherent in the current system, and are preparing a National Power Development Plan with technical assistance from the Asian Development Bank.

[32] These include bill collection (measured by bills paid over bills issued); electricity losses (the amount billed over electricity generated); generation efficiency (electricity generated over fuel used); and supply reliability (electricity supplied over estimated demand).

[33] The poor billing system and the lack of enforcement measures are encouraging excess usage of electricity beyond the levels users would otherwise consume.

TIMOR LESTE: SUMMARY OF THE EXCHANGE AND PAYMENTS SYSTEM

(Position as of April 30, 2003)

I. Status Under IMF Articles of Agreement

1. Date of membership		July 23, 2002.
Article VIII	Yes	Effective as of July 23, 2002

II. Exchange Arrangement

1. Currency		The currency of the Democratic Republic of Timor-Leste is the U.S. dollar.
a. Other legal tender	No.	
2. Exchange rate structure		
a. Unitary	Yes	
3. Classification		
a. Exchange arrangement with no separate legal tender	Yes	The dollar is legal tender and circulates freely. The current currency regime provides no scope for an independent exchange rate policy. Foreign exchange transactions are effected through two (foreign-owned) commercial banks and one licenced currency exchange bureau.
4. Exchange tax	No	
5. Exchange subsidy	No	
6. Forward exchange market		
a. Official cover of forward operations	No	

III. Arrangements for Payments and Receipts

1. Prescription of currency requirements		
a. Controls on the use of domestic currency		All domestic transactions and settlements must be in the domestic currency (U.S. dollar).
b. Use of foreign exchange among residents		Withdrawals from bank accounts denominated in foreign currencies must be made in U.S. dollars, though bank transfers from foreign currency accounts abroad may be made in foreign currencies.
2. Payments arrangements	None	
3. Administration of control		Overall responsibility for the administration of exchange controls rests with the BPA, which has the power to regulate payment and settlement systems in domestic and foreign currency.
4. International security restrictions	No	
5. Payments arrears	No	
6. Controls on trade in gold (coins and/or bullion)	No	

7. Controls on exports and imports of banknotes		
a. On exports	No	
b. On imports		
1. Domestic currency	No	
2. Foreign currency	Yes	Imports of foreign currencies exceeding the equivalent of US$2,000 are prohibited without a permit from the BPA; imports of those currencies whose issuers maintain export restrictions are limited to the equivalent of US$500 without a permit from the BPA

IV. Resident Accounts

1. Foreign exchange accounts permitted		
a. Held domestically	No restriction	There are no restrictions on the holding of foreign exchange accounts, but withdrawals from the accounts should be made in domestic currency (U.S. dollar).
Approval required	No	
b. Held abroad	No restrictions	
Approval required	No	
2. Accounts in domestic currency held abroad	No restricitons	
3. Accounts in domestic currency convertible into foreign currency	Restricted	Withdrawals from bank accounts in foreign currency are prohibited.

V. Nonresident Accounts

1. Foreign exchange accounts permitted	No restrictions	
a. Approval required	No	
2. Domestic currency accounts	No restrictions	
a. Convertible into foreign currency		Withdrawals from bank accounts in foreign currency are prohibited.
b. Approval required	No	
3. Blocked accounts	No	

VI. Imports and Import Payments

1. Foreign exchange budget	No	
2. Financing requirements for imports	No	
3. Documentation	No	

requirements for release of foreign exchange for imports		
4. Import licenses and other nontariff measures	No	
5. Import taxes and/or tariffs		
a. Taxes collected through the exchange system		There are no quantitative restrictions on imports. With the exception of selected items (e.g., cigarettes and alcohol with certain limits, household effects of returning former residents), a uniform ad-valorem tariff (6 percent) is levied on all imports. Also, excise taxes are levied on imports of selected goods at specific or ad-valorem rates (12 percent) depending on types of goods. In addition, the sales tax (6 percent) is levied on the sum of customs value, import duty, and excise payable.
6. State import monopoly	No	

VII. Exports and Export Proceeds

1. Repatriation requirements	No	
2. Financing requirements	No	
3. Documentation requirements	No	
4. Export licenses	No	
5. Export taxes	No	

VIII. Payments for Invisible Transactions and Current Transfers

Controls on transfers	No	

IX. Proceeds from Invisible Transactions and Current Transfers

1. Repatriation requirements	No	
2. Restrictions on use of funds	No	

X. Capital Transactions

A. Controls on capital transactions		
1. Controls on capital and money market instruments	No	No domestic capital and money markets have developed yet.
2. Controls on derivatives and other instruments	No	
3. Controls on credit	No	

operations		
4. Controls on direct investment	No	
5. Controls on liquidation of direct investment	No	
6. Controls on real estate transactions		
a. Purchase abroad by residents	No	
b. Purchase locally by nonresidents	Yes	The constitution prohibits ownership of land by foreigners.
c. Sale locally by nonresidents	Yes	The constitution prohibits ownership of land by foreigners.
7. Controls on personal capital transactions	No	
8. Provisions specific to commercial banks and other credit institutions		
a. Borrowing abroad	No	
b. Maintenance of accounts abroad	No	
c. Lending to nonresidents (financial or commercial credits)	No	
d. Lending locally in foreign exchange	Yes	All domestic transactions must be made in the domestic currency.
e. Purchase of locally issued securities denominated in foreign exchange	Yes	All domestic transactions must be denominated in the domestic currency.
f. Differential treatment of deposit accounts in foreign exchange	No	
g. Differential treatment of deposit accounts held by nonresidents	No	
h. Investment regulations	No	
i. Open foreign exchange position limits	No	
9. Provisions specific to institutional investors	No	
10. Other controls imposed by securities laws	No	

Changes During 2002

Fund status	July 23, 2002	Timor-Leste became Fund member.
Imports and import payments	July 1, 2002	The import duty was raised from 5 percent to 6 percent; the ad-valorem rates of excise taxes were raised from 10 percent to 12 percent and their specific rates were increased by 10-170 percent; and sales tax was raised from 5 percent to 6 percent.

Table 1. Timor-Leste: Selected Economic Indicators, 1998–2002

	1998	1999	2000	2001	2002
			Est.		
Output and prices					
GNP at current prices (in millions of U.S. dollars)	390	270	328	397	394
GDP	390	270	321	385	378
Oil/gas income	0	0	7	12	16
Real GDP growth (percentage change)	1	-35	15	17	3
Inflation (percentage change at end-period) 1/2/	80	140	3	0	5
			(In percent of GDP)		
Investment-saving balance					
Gross investment 3/	35	21	29	36	32
Gross national savings	4	-13	-44	-44	-41
External savings	31	34	73	80	73
Government budget (CFET) 4/					
Revenues	...	...	7.7	8.2	12.4
Domestic revenues	...	...	4.0	5.4	4.9
Oil/gas revenues	...	...	3.7	2.8	7.5
Expenditure	...	...	14.5	13.8	19.7
Recurrent expenditure	...	...	8.4	10.7	16.3
Capital expenditure	...	...	6.1	3.0	3.5
Overall balance	...	...	-6.8	-5.5	-7.4
Money and credit					
Broad money 5/	39	48	6	13	15
Currency	5	9	...	...	...
Bank deposits	34	38	6	6	6
Net domestic assets	36	47	-4	-4	-10
			(In millions of U.S. dollars)		
External sector					
Current account excluding official transfers	-121	-92	-237	-257	-230
Current account including official transfers	-21	6	68	45	37
Trade balance	-91	-67	-213	-212	-180
Merchandise exports 6/7/	61	52	5	4	6
Merchandise imports 6/	-152	-119	-218	-216	-186
Overall balance	0	0	16	8	23
			(In percent of GDP)		
Current account excluding official transfers	-31	-34	-74	-67	-61
Current account including official transfers	-5	2	21	12	10
Trade balance	-23	-25	-66	-55	-48
Merchandise exports 6/7/	16	19	2	1	2
Merchandise imports 6/	-39	-44	-68	-56	-49
Overall balance	0	0	5	2	6

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

1/ Rupiah-based CPI for Dili through 2000 and, thereafter, dollar-based CPI for Dili.
2/ The figure for the latest month in 2003 (April) is 7 percent on a year-on-year basis.
3/ Excludes investment relating to the oil/gas sector.
4/ On the basis of fiscal year (July-June); for example, 2000 relates to FY2000/01.
5/ Figures after 1999 exclude currency holdings by the public, on which no data are available.
6/ Figures after 2000 exclude unrecorded border trade.
7/ Excludes oil/gas revenues, which are recorded under the income account (royalties) and transfers (tax revenues).

Table 2. Timor-Leste: Selected Social Indicators 1/

	Timor-Leste	East Asia and Pacific island countries	Low-income countries
Per capita income (U.S. dollars)	**472**	1,060	420
Area (in thousands of square kilometers)	**15**	...	...
Demography			
Total population (in thousands)	**825**	1,855,200	2,459,800
Population growth (in percent)	**1.9** 2/	1.0	1.9
Life expectancy and mortality			
Life expectancy at birth (years)	**57**	69	59
Male	**56**	67	58
Female	**59**	71	64
Infant mortality (per thousand live births)	**80**	36	76
Male	**88**	...	...
Female	**72**	...	...
Under 5 mortality rate (per thousand live births)	**144**	45	115
Male	**156**	...	...
Female	**132**	...	...
Education			
Illiteracy rate (in percent) 3/	**57**	15	39
Male	**57**	...	...
Female	**57**	...	...
Net primary school enrollment rate (in percent)	**76**	99	86
Health			
Hospitals (per thousand)	**0.5** 4/	1.1	...
Doctors (per thousand)	**0.2** 4/	...	...
Nurses (per thousand)	**1.4** 4/	...	...
Other indicators			
Population below the poverty line 5/	**41**	29	...
Households with access to electricity 5/	**36**	...	...
Households with access to drinking water 5/	**65**	75	76

Sources: UNDP Human Development Report 2002; World Bank; and Fund staff estimates.

1/ Relate to 2001, unless otherwise indicated.

2/ Average rate for the 1990s.

3/ Relates to the population of ages 15 and above.

4/ Relates to 1997.

5/ In percentage share of the total.

Table 3. Timor-Leste: Gross Domestic Product by Sectoral Origin, 1998–2002 1/
(In millions of U.S. dollars)

	1998	1999	2000	2001	2002
	(At current market prices)				
Agriculture, forestry, and fishery	160.6	116.6	83.3	98.9	102.6
Mining and quarrying	2.5	2.7	3.1	3.3	3.5
Manufacturing	10.7	7.5	8.7	9.9	10.4
Electricity, gas, water	3.0	2.1	2.6	3.0	3.1
Construction	41.3	33.0	45.9	56.4	57.7
Trade, hotels, and restaurants	28.4	15.1	25.1	34.2	34.0
Transport and communications	47.0	14.6	23.2	30.8	30.7
Finance, rents, and business services	15.1	10.8	21.1	26.3	26.1
Public administration and defense	78.3	66.2	106.3	119.9	107.3
Private services	3.5	1.6	1.9	2.6	2.6
Total	390.4	270.1	321.2	385.3	378.0
	(At constant 2000 market prices)				
Agriculture, forestry, and fishery	98.7	95.1	83.3	96.0	96.7
Mining and quarrying	3.6	3.1	3.1	3.2	3.3
Manufacturing	15.9	7.9	8.7	9.6	9.8
Electricity, gas, water	4.7	2.3	2.6	2.9	3.0
Construction	47.3	34.4	45.9	54.4	54.1
Trade, hotels, and restaurants	40.5	17.4	25.1	32.8	31.8
Transport and communications	37.4	15.9	23.2	29.5	28.7
Finance, rents, and business services	38.3	16.9	21.1	25.4	24.5
Public administration and defense	141.8	83.5	106.3	119.6	132.2
Private services	2.9	1.7	1.9	2.5	2.4
Total	431.0	278.2	321.2	375.9	386.6

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

1/ Figures prior to 1999 are based on data provided by the Indonesian authorities. Figures for 2000 are based on estimates made under a World Bank-supported technical assistance project.

Table 4. Timor-Leste: Gross Domestic Product by Expenditure, 1998–2002 1/

	1998	1999	2000	2001	2002
	(In millions of U.S. dollars)				
GDP at current prices	390.4	270.1	321.2	385.3	378.0
Consumption	375.1	305.3	470.1	567.8	547.5
Private	316.5	264.8	300.1	371.3	360.8
Public 2/	58.6	40.5	170.0	196.5	186.6
Gross investment 3/	136.6	56.7	91.8	137.3	121.6
Private	39.0	13.5	19.8	22.9	23.8
Public 2/	97.6	43.2	72.0	114.4	97.8
Net exports of goods/nonfactor services	-121.3	-91.9	-240.8	-319.8	-291.1
GNP at current prices	390.4	270.1	327.7	397.1	394.2
GDP	390.4	270.1	321.2	385.3	378.0
Oil income	0.0	0.0	6.5	11.8	16.2
Gross national savings	15.4	-35.2	-142.5	-170.7	-153.3
Private	23.2	-32.5	13.8	-4.8	-1.8
Public 2/	-7.8	-2.7	-156.3	-165.9	-151.5
External savings	121.3	91.9	234.3	308.0	274.9
	(In percent of GDP)				
GDP at current prices	100.0	100.0	100.0	100.0	100.0
Consumption	96.1	113.0	146.4	147.4	144.8
Private	81.1	98.0	93.4	96.4	95.5
Public 2/	15.0	15.0	52.9	51.0	49.4
Gross investment 3/	35.0	21.0	28.6	35.6	32.2
Private	10.0	5.0	6.2	5.9	6.3
Public 2/	25.0	16.0	22.4	29.7	25.9
Net exports of goods/nonfactor services	-31.1	-34.0	-75.0	-83.0	-77.0
GNP at current prices	100.0	100.0	102.0	103.1	104.3
GDP	100.0	100.0	100.0	100.0	100.0
Oil income	0.0	0.0	2.0	3.1	4.3
Gross national savings	3.9	-13.0	-44.4	-44.3	-40.6
Private	5.9	-12.0	4.3	-1.2	-0.5
Public 2/	-2.0	-1.0	-48.7	-43.1	-40.1
External savings	31.1	34.0	72.9	79.9	72.7

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

1/ Figures prior to 1999 are based on data provided by the Indonesian authorities. Figures for 2000 are based on estimates made under a World Bank-supported technical assistance project.

2/ Includes fiscal and quasi-fiscal activities undertaken by multilateral institutions and bilateral donors.

3/ Excludes investment relating to the oil/gas sector.

Table 5. Timor-Leste: Consumer Price Index, 2000–03

(April 2000 = 100.0)

	Jan.	Feb.	Mar.	April	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Annual average
2000													
Index	...	...	...	100.0	108.4	110.4	111.3	110.4	110.2	111.1	110.3	114.6	109.6
Month-to-month percentage change	...	...	...	...	8.4	1.8	0.8	-0.8	-0.2	0.8	-0.7	3.9	...
Year-on-year percentage change	...	...	...	...	...	...	...	...	...	...	...	...	...
2001													
Index	113.6	114.1	112.7	111.4	111.9	115.8	115.6	113.0	112.9	113.4	113.9	114.2	113.5
Month-to-month percentage change	-0.8	0.4	-1.2	-1.2	0.4	3.6	-0.2	-2.2	-0.2	0.5	0.5	0.3	...
Year-on-year percentage change	...	...	...	11.4	3.2	4.9	3.9	2.4	2.4	2.1	3.3	-0.3	3.6
2002													
Index	112.5	111.5	110.0	109.2	110.4	111.8	112.5	112.5	113.6	113.6	119.7	119.5	113.1
Month-to-month percentage change	-1.5	-0.9	-1.3	-0.8	1.1	1.3	0.6	0.0	1.0	0.0	5.3	-0.1	...
Year-on-year percentage change	-1.0	-2.2	-2.4	-2.0	-1.3	-3.5	-2.6	-0.5	0.6	0.2	5.0	4.6	-0.4
2003													
Index	118.6	117.4	118.7	116.6									...
Month-to-month percentage change	-0.8	-1.0	1.1	-1.8									...
Year-on-year percentage change	5.4	5.3	7.9	6.8									...

Source: Data provided by the Timor-Leste authorities.

Table 6. Timor-Leste: Monetary Survey, 2000–03

	2000	2001				2002				2003
	Dec.	Mar.	June	Sept.	Dec.	Mar.	June	Sept.	Dec.	Mar.
	(In millions of U.S. dollars; end of period)									
Net foreign assets	33.8	41.5	64.3	62.7	65.4	72.9	68.9	77.3	89.9	92.8
Assets	33.8	43.8	69.7	69.7	72.9	80.9	72.7	80.4	94.5	97.0
Cash holdings	6.3	6.2	13.6	13.1	11.7	12.1	7.7	12.4	18.0	15.1
Claims on foreign banks	27.5	37.6	56.2	54.8	61.2	68.8	65.0	68.1	76.5	81.9
Other	0.0	0.0	0.0	1.8	0.1	0.0	0.0	0.0	0.0	0.0
Liabilities	0.0	2.3	5.4	7.0	7.5	8.0	3.8	3.1	4.6	4.2
Net domestic assets	-13.8	-5.7	-13.5	-13.7	-14.3	-17.7	-18.4	-21.8	-34.4	-37.6
Claims on government (net)	-19.0	-15.1	-9.9	-13.2	-21.1	-22.3	-19.2	-20.8	-33.7	-36.3
Loans and advances to private sector 1/	0.3	1.1	1.4	2.3	3.0	3.5	4.4	4.5	5.1	6.1
Other items (net)	4.9	8.3	-5.0	-2.8	3.8	1.2	-3.5	-5.5	-5.8	-7.4
Broad money 2/	20.0	35.8	50.8	49.0	51.1	55.2	50.5	55.6	55.5	55.2
Demand deposits	19.3	29.8	38.3	34.9	28.9	40.1	36.2	40.4	40.0	38.3
Savings deposits	0.0	3.6	5.6	7.2	16.2	9.7	8.4	9.4	10.2	11.7
Time deposits	0.7	2.4	6.9	6.9	6.0	5.4	5.9	5.8	5.3	5.2
	(In percent of GDP)									
Net foreign assets	10.5	10.8	16.7	16.3	17.0	19.3	18.2	20.5	23.8	27.5
Net domestic assets	-4.3	-1.5	-3.5	-3.6	-3.7	-4.7	-4.9	-5.8	-9.1	-11.1
Deposits	6.2	9.3	13.2	12.7	13.3	14.6	13.4	14.7	14.7	16.4
Demand deposits	6.0	7.7	9.9	9.1	7.5	10.6	9.6	10.7	10.6	11.3
Savings deposits	0.0	0.9	1.5	1.9	4.2	2.6	2.2	2.5	2.7	3.5
Time deposits	0.2	0.6	1.8	1.8	1.6	1.4	1.6	1.5	1.4	1.5

Source: The Banking and Payments Authority.

1/ Excludeds on-lending through the Small Enterprise Project funded under the TFET.

2/ Excludes currency in circulation, on which no data are available due to dollarization of the financial sysem.

Table 7. Timor-Leste: Balance Sheet of the Banking and Payments Authority, 2000–03

(In millions of U.S. dollars; end of period)

	2000	2001				2002				2003
	Dec.	Mar.	June	Sept.	Dec.	Mar.	June	Sept.	Dec.	Mar.
Net foreign assets	16.0	11.0	17.8	19.0	23.7	28.2	26.7	33.2	43.5	46.3
Assets	16.0	11.0	17.8	19.0	23.7	28.2	26.7	33.2	43.5	46.3
Cash in vault	1.3	0.3	4.4	4.8	4.9	8.7	5.7	8.5	13.0	12.2
Claims on central banks	14.7	10.7	13.5	12.4	18.8	19.5	21.0	24.8	30.5	34.1
Reserve Bank of Australia	14.7	10.7	12.9	12.3	18.7	19.5	20.8	24.8	30.5	34.1
Timor Sea account 1/	3.1	3.1	3.1	3.1	7.4	7.4	7.4	7.4	7.5	10.5
Current accounts with RBA	11.6	7.6	9.8	9.2	11.4	12.2	13.5	17.4	23.0	23.6
Other foreign central banks	0.0	0.0	0.5	0.0	0.0	0.0	0.1	0.0	0.0	0.0
Other	0.0	0.0	0.0	1.8	0.1	0.0	0.0	0.0	0.0	0.0
Liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net domestic assets	-16.0	-11.0	-12.8	-14.7	-22.7	-25.7	-23.0	-27.0	-38.1	-41.6
Government (net position)	-19.0	-15.1	-9.9	-13.2	-21.1	-22.3	-19.2	-20.8	-33.7	-36.3
Budget	-16.0	-12.0	-6.8	-10.1	-13.8	-15.0	-11.9	-13.4	-26.2	-25.8
Timor Sea account 1/	-3.1	-3.1	-3.1	-3.1	-7.4	-7.4	-7.4	-7.4	-7.5	-10.5
Claims on domestic banks	3.0	4.1	2.1	3.5	3.5	1.7	2.4	0.9	2.4	1.7
Commercial banks	3.0	4.1	2.1	3.5	3.5	1.7	2.4	0.9	2.4	1.7
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other items (net)	0.0	0.0	-5.0	-5.0	-5.0	-5.1	-6.2	-7.1	-6.9	-7.0
Of which : capital and reserves	-0.7	-0.7	-5.7	-5.0	-5.0	-5.0	-5.6	-6.9	-6.9	-6.9
Liabilities	0.0	0.0	5.0	4.3	1.0	2.5	3.7	6.3	5.4	4.7
Financial institutions	0.0	0.0	4.6	4.2	1.0	2.5	3.6	5.5	4.5	4.0
Commercial banks	0.0	0.0	4.6	4.2	1.0	2.5	2.4	3.4	2.3	2.0
Other 2/	0.0	0.0	0.0	0.0	0.0	0.0	1.2	2.1	2.2	2.0
Other 3/	0.0	0.0	0.4	0.1	0.0	0.0	0.1	0.8	0.9	0.7

Source: The Banking and Payments Authority.

1/ Cumulative oil/gas revenue savings.

2/ Mainly microfinance institution.

3/ Figures after June 2002 relate to a transit account for pension funds from Indonesia to pensioners in Timor-Leste.

Table 8. Timor-Leste: Consolidated Balance Sheet of Commercial Banks, 2000–03 1/

(In millions of U.S. dollars; end of period)

	2000	2001				2002				2003	Memorandum item
	Dec.	Mar.	June	Sept.	Dec.	Mar.	June	Sept.	Dec.	Mar.	Interest rates 2/
Net foreign assets	17.8	30.5	46.5	43.7	41.7	44.7	42.2	44.1	46.4	46.5	
Assets	17.8	32.8	51.9	50.7	49.2	52.7	46.0	47.2	51.0	50.7	
Cash holdings	5.0	5.9	9.2	8.3	6.8	3.4	2.0	3.9	5.0	2.9	
Claims on foreign banks	12.8	26.9	42.7	42.4	42.4	49.3	44.0	43.3	46.0	47.8	
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Liabilities	0.0	2.3	5.4	7.0	7.5	8.0	3.8	3.1	4.6	4.2	
Net domestic assets	5.2	9.4	6.0	8.7	12.9	12.3	10.6	11.6	10.7	9.7	
Deposits with BPA	0.0	0.0	4.6	4.2	1.0	2.5	3.6	5.5	4.5	4.0	
Claims on government (net)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Loans and advances to private sector	0.3	1.1	1.4	2.3	3.0	3.5	4.4	4.5	5.1	6.1	
Other items (net)	4.9	8.3	4.6	6.4	9.9	8.8	6.3	7.1	5.6	3.6	
Deposit liabilities	20.0	35.8	50.4	48.9	51.1	55.2	50.4	54.8	54.6	54.5	
Current deposits	19.3	29.8	37.9	34.8	28.9	40.1	36.1	39.6	39.1	37.6	0.00-0.25
Savings deposits	0.0	3.6	5.6	7.2	16.2	9.7	8.4	9.4	10.2	11.7	0.10-0.30
Time deposits	0.7	2.4	6.9	6.9	6.0	5.4	5.9	5.8	5.3	5.2	0.20-0.75
Liabilities to BPA	3.0	4.1	2.1	3.5	3.5	1.7	2.4	0.9	2.4	1.7	
Memorandum items:											
Total loans	1.8	3.4	4.3	6.0	7.0	6.8	7.0	6.5	6.8	7.2	
Bank loans	0.3	1.1	1.4	2.3	3.0	3.5	4.4	4.5	5.1	6.1	16.5-19.0
On-lending under SEP 3/	1.5	2.3	2.9	3.7	4.0	3.3	2.7	2.0	1.7	1.1	10.0

Source: The Banking and Payments Authority.

1/ Includes the microfinance institution.

2/ Refes to annual rates as of March 2003; no data are available prior to that month.

3/ Refers to loans extended under the Small Enterprise Project funded by the TFET.

Table 9. Timor-Leste: CFET Fiscal Operations, FY2000/01–2002/03 1/

	FY2000/01	FY2001/02	FY2002/03 Est. 2/
	(In millions of U.S. dollars)		
Revenue	27.1	31.3	44.1
Domestic revenues	14.1	20.5	17.4
Direct tax	0.6	5.4	4.8
Indirect tax	11.6	12.7	10.7
Nontax	1.9	2.4	1.9
Oil/gas revenues 3/	13.1	10.8	26.7
Tax	9.9	6.5	24.6
Royalties and interest	3.1	4.3	2.1
Expenditure	51.3	52.6	70.6
Recurrent expenditure	29.6	41.1	58.2
Wages and salaries	13.9	18.8	22.5
Goods and services	15.7	22.2	35.7
Capital expenditure	21.7	11.5	12.4
Overall balance	-24.2	-21.3	-26.5
Financing	24.2	21.3	26.5
Donor support (grants)	31.6	22.7	33.0
Change in CFET cash balances (increase -) 4/	-4.2	2.8	-4.4
Oil/gas revenue savings (increase -)	-3.1	-4.3	-2.1
	(In percent of GDP)		
Revenue	7.7	8.2	12.4
Domestic revenues	4.0	5.4	4.9
Direct tax	0.2	1.4	1.4
Indirect tax	3.3	3.3	3.0
Nontax	0.5	0.6	0.5
Oil/gas revenues 3/	3.7	2.8	7.5
Tax	2.8	1.7	6.9
Royalties and interest	0.9	1.1	0.6
Expenditure	14.5	13.8	19.8
Recurrent expenditure	8.4	10.8	16.3
Wages and salaries	3.9	4.9	6.3
Goods and services	4.5	5.8	10.0
Capital expenditure	6.2	3.0	3.5
Overall balance	-6.8	-5.6	-7.4
Financing	6.8	5.6	7.4
Donor support (grants)	8.9	6.0	9.3
Change in CFET cash balances (increase -)	-1.2	0.7	-1.2
Oil/gas revenue savings (increase -)	-0.9	-1.1	-0.6

Sources: Data provided by the Timor-Leste authorities; and Fund staff calculations.

1/ Fiscal year: July-June

2/ Estimates made for FY2003/04 budget preparation.

3/ Under the current saving policy, royalties and interest income are automatically saved and only tax revenues are available for budget financing.

4/ Net of unsettled expenditures due to technical delays, including float; not necessarily corresponding to changes in government deposits shown in monetary data.

Table 10. Timor-Leste: Combined Fiscal Operations, FY2000/01–2002/03

	2000/01	2001/02	2002/03
		Est.	
	(In millions of U.S. dollars)		
Revenue	29	36	49
CFET	27	31	44
Autonomous agencies	1	4	5
Total expenditure	392	400	333
CFET 2/	43	46	62
Non-CFET	349	354	270
Autonomous agencies	9	9	11
TFET	48	46	43
Bilateral	79	116	109
UNTAET/UNMISET 3/	213	183	108
Recurrent expenditure 4/	292	300	243
CFET 2/	22	35	52
Non-CFET	271	265	191
Autonomous agencies	8	8	9
TFET	19	18	17
Bilateral	42	60	57
UNTAET/UNMISET 3/	201	178	108
Capital expenditure	99	100	90
CFET 2/	21	11	10
Non-CFET	78	89	80
Autonomous agencies	1	1	2
TFET	29	27	25
Bilateral	37	56	52
UNTAET/UNMISET 3/	12	5	0
Overall balance	-363	-364	-284
Financing	363	364	284
CFET 2/	23	19	25
Non-CFET	340	345	259
TFET	48	46	43
Bilateral	79	116	109
UNTAET/UNMISET 3/	213	183	108
	(In percent of GDP)		
Revenue	8	9	14
Total expenditure	111	105	93
CFET 2/	12	12	17
Non-CFET	99	93	76
Recurrent expenditure 4/	83	79	68
CFET 2/	6	9	15
Non-CFET	77	70	53
Capital expenditure	28	26	25
CFET	6	3	3
Non-CFET	22	23	22
Overall balance	-103	-95	-79
Financing	103	95	79
CFET	7	5	7
Non-CFET	96	90	72

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

1/ Comprise the "combined sources budget" in the official presentation and UNTAET/UNMISET operations as defined in footnote 3; includes technical assistance.

2/ Net of CFET budget transfers to autonomous agencies.

3/ Excludes military expenditures and those not directly related to government operations.

4/ Includes technical assistance.

Table 11. Timor-Leste: CFET Domestic Revenues, FY2000/01–2002/03

	FY2000/01	FY2001/02	FY2002/03 Est. 1/
	(In millions of U.S. dollars)		
Total domestic revenue	14.1	20.5	17.4
Tax revenue	12.2	18.1	15.5
Tax on income	0.6	5.4	4.8
Wage tax	0.5	2.5	2.5
Government	0.5	0.5	0.5
Other	0.0	1.9	2.0
Corporate income tax	0.2	1.7	1.6
Final withholding tax	0.0	1.3	0.7
Tax on goods and services	8.8	9.6	7.9
Sales tax 2/	3.0	3.3	3.2
Excises 2/	4.1	4.3	3.1
Service tax 3/	1.7	2.0	1.6
Tax on international trade	2.8	3.1	2.9
Import duty	2.6	3.1	2.9
Export duty 4/	0.2	0.0	0.0
Nontax revenue	1.9	2.4	1.9
Fees and charges	0.3	1.1	0.8
Property rental	1.1	1.1	1.0
Interest receipts	0.5	0.2	0.1
	(In percent of GDP)		
Total domestic revenue	4.0	5.4	4.9
Tax	3.5	4.7	4.4
Tax on income	0.2	1.4	1.4
Wage tax	0.1	0.6	0.7
Corporate income tax	0.0	0.4	0.4
Final withholding tax	0.0	0.3	0.2
Tax on goods and services	2.5	2.5	2.2
Sales tax	0.8	0.9	0.9
Excises	1.2	1.1	0.9
Service tax	0.5	0.5	0.4
Tax on international trade	0.8	0.8	0.8
Nontax	0.5	0.6	0.5
Memorandum item:			
Taxes collected at the border	9.9	10.7	9.2
(In percent of GDP)	2.8	2.8	2.6

Sources: Data provided by the Timor-Leste authorities; and Fund staff calculations

1/ Estimates made for FY2003/04 budget preparation.

2/ Currently collected only at the border.

3/ Turnover tax on hotel, restaurant, and transportation rental services.

4/ Abolished in July 2001.

Table 12. Timor-Leste: Oil/gas Revenues, FY2000/01–2002/03

	FY2000/01	FY2001/02	FY2002/03 Est. 1/
	(In millions of U.S. dollars)		
Total oil/gas revenues	13.1	10.8	26.7
Tax revenues	9.9	6.5	24.6
Income tax	6.2	4.1	7.0
Value-added tax	3.1	1.7	10.5
Withholding tax	0.7	0.7	5.8
Wage tax 2/	0.0	0.0	1.3
Royalties 3/	3.0	4.2	1.7
Interest income	0.1	0.1	0.4
	(In percent of GDP)		
Total oil/gas revenues	3.7	2.8	7.5
Tax revenues	2.8	1.7	6.9
Income tax	1.8	1.1	2.0
VAT	0.9	0.5	2.9
Withholding tax	0.2	0.2	1.6
Wage tax 2/	0.0	0.0	0.4
Royalties 3/	0.9	1.1	0.5
Interest income	0.0	0.0	0.1
Memorandum item:			
Oil/gas savings (end of period)	0.9	2.0	2.7

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

1/ Estimates made for FY2003/04 budget preparation.

2/ Wage income from Timor Gap oil/gas production became taxable upon signing of the Timor Sea Treaty in May 2002.

3/ Royalties (First Tranche Petroleum—FTP) are received once a year at the end of the fiscal year.

Table 13. Timor-Leste: CFET Expenditure by Functional Classifications, FY2000/01–2002/03

	FY2000/01	FY2001/02	FY2002/03 Est. 1/
	(In thousands of U.S. dollars)		
Total expenditure	51,319	55,064	70,588
General public services	19,399	12,250	12,026
Defense	551	3,979	4,930
Public order and safety	5,569	6,640	9,821
Economic affairs	10,992	13,316	16,430
Environmental protection	0	44	65
Housing and community	1,438	1,917	1,875
Health	3,076	4,965	7,434
Recreation, culture, and religion	148	206	537
Education	10,147	11,747	17,096
Social protection	0	0	374
	(In percent of total expenditure)		
Total expenditure	100.0	100.0	100.0
General public services	37.8	22.2	17.0
Defense	1.1	7.2	7.0
Public order and safety	10.9	12.1	13.9
Economic affairs	21.4	24.2	23.3
Environmental protection	0.0	0.1	0.1
Housing and community	2.8	3.5	2.7
Health	6.0	9.0	10.5
Recreation, culture, and religion	0.3	0.4	0.8
Education	19.8	21.3	24.2
Social protection	0.0	0.0	0.5
	(In percent of GDP)		
Total expenditure	14.5	14.4	19.8
General public services	5.5	3.2	3.4
Defense	0.2	1.0	1.4
Public order and safety	1.6	1.7	2.8
Economic affairs	3.1	3.5	4.6
Environmental protection	0.0	0.0	0.0
Housing and community	0.4	0.5	0.5
Health	0.9	1.3	2.1
Recreation, culture, and religion	0.0	0.1	0.2
Education	2.9	3.1	4.8
Social protection	0.0	0.0	0.1

Sources: Data provided by the Timor-Leste authorities; and Fund staff calculations.

1/ Estimates made for FY2003/04 budget preparation.

Table 14. Timor-Leste: Public Sector Employment and Wages, FY2000/01–2002/03

(In number of employees unless otherwise specified)

		FY2000/01		FY2001/02		FY2002/03		Memorandum item:
		Budget	Actual	Budget	Actual	Budget 1/	Actual 2/	Monthly wage (in US$) 3/
Total government employees		11,164	10,012	14,817	12,569	16,387	13,170	
L1		2,263	1,995	3,013	2,594	3,440	2,655	85
L2		789	557	1,283	1,362	2,024	1,964	110
L3		4,958	4,713	6,402	5,395	6,793	5,187	123
L4		2,599	2,360	3,119	2,678	3,357	2,920	155
L5		359	255	693	392	549	320	201
L6		162	104	261	121	201	112	266
L7		34	28	46	27	23	12	361
Total non-police/defense		9,648	8,499	11,894	9,839	12,139	9,474	
L1		763	495	892	825	839	562	85
L2		779	548	885	662	970	688	110
L3		4,952	4,709	6,153	5,344	6,380	5,164	123
L4		2,599	2,360	3,003	2,479	3,222	2,630	155
L5		359	255	661	383	513	309	201
L6		162	104	256	119	194	110	266
L7		34	28	44	27	21	11	361
Police (PNTL)		916	913	2,050	1,864	2,855	2,581	
L1		900	900	1,435	1,083	1,400	1,126	85
L2		10	9	347	649	1,000	1,207	110
L3		6	4	205	7	370	2	123
L4		0	0	39	124	55	245	155
L5		0	0	20	0	24	0	201
L6		0	0	3	1	5	1	266
L7		0	0	1	0	1	0	361
Defense (FDTL)		600	600	873	866	1,393	1,115	
L1	Recruit/ DEF01-02	600	600	686	686	1,201	913	83
L2	DEF03-05	0	0	51	51	54	123	104
L3	DEF06-08	0	0	44	44	43	21	128
L4	DEF09-10	0	0	77	75	80	45	146
L5	DEF11-12	0	0	12	9	12	11	184
L6	DEF13	0	0	2	1	2	1	266
L7	DEF14	0	0	1	0	1	1	361
Memorandum items:								
Average monthly wage (in U.S. dollars)								
Total employee		127	126	128	125	125	124	
Total non-police/defense		134	134	136	132	134	133	
Police		86	85	96	99	101	103	
Defense		85	85	97	96	93	90	

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

1/ The midyear budget review provided appropriations for an additional 300 employees for the police (PNTL).

2/ Relates to November 2002.

3/ The public sector payscale has not been changed since FY2000/01.

Table 15. Timor-Leste: Autonomous Agencies Operations, FY2000/01–2002/03

	FY2000/01	FY2001/02	FY2002/03 Est. 1/
	(In millions of U.S. dollars)		
Total retained revenues	1.4	4.4	4.6
Aviation	0.4	1.1	1.1
Port	0.7	1.3	1.0
Power	0.3	2.0	2.5
Total expenditures	8.8	9.1	12.3
Aviation	0.1	0.2	0.9
Port	0.1	0.2	0.5
Power	8.6	8.7	10.9
Wages and salaries	0.4	0.4	0.6
Aviation	0.0	0.0	0.2
Port	0.0	0.0	0.1
Power	0.4	0.3	0.3
Goods and services	7.8	7.9	9.5
Aviation	0.0	0.1	0.6
Port	0.0	0.1	0.4
Power	7.8	7.6	8.6
Capital	0.6	0.9	2.2
Aviation	0.1	0.0	0.1
Port	0.0	0.0	0.1
Power	0.5	0.8	2.1
Overall balance	-7.4	-4.7	-7.7
Financing	7.4	4.7	7.7
Budget appropriations	8.4	6.8	8.4
Aviation	0.0	0.0	0.0
Port	0.0	0.0	0.0
Power	8.4	6.8	8.4
Change in bank balances (Increase -)	-0.9	-2.0	-0.7
Aviation	-0.3	-0.9	-0.2
Port	-0.6	-1.1	-0.5
Power	0.0	0.0	0.0
	(In percent of GDP)		
Total retained revenues	0.4	1.2	1.3
Aviation	0.1	0.3	0.3
Port	0.2	0.3	0.3
Power	0.1	0.5	0.7
Total expenditures	2.5	2.4	3.5
Aviation	0.0	0.1	0.2
Port	0.0	0.0	0.2
Power	2.4	2.3	3.1

Sources: Data provided by the Timor-Leste authorities, and Fund staff estimates.

1/ Estimates made for FY2003/04 budget preparation, and Fund staff estimates.

Table 16. Timor-Leste: Operations of the Power Authority, FY2000/01–2002/03

	FY2000/01	FY2001/02	FY2002/03 Est. 1/
	(In thousands of U.S. dollars)		
Revenue collection 2/ 3/	258	1,997	2,500
Expenditure	8,638	8,748	10,944
Wages and salaries	364	309	312
Goods and services	7,782	7,618	8,560
Capital expenditure	493	822	2,072
Overall balance	-8,380	-6,751	-8,444
Budgetary transfers	8,380	6,751	8,444
Of which : Appropriations for fuel purchases	7,523	5,596	6,060
	(In percent of GDP)		
Revenue collection 2/ 3/	0.1	0.5	0.7
Expenditure	2.4	2.3	3.1
Wages and salaries	0.1	0.1	0.1
Goods and services	2.2	2.0	2.4
Capital expenditure	0.1	0.2	0.6
Budgetary transfers	2.4	1.8	2.4
Of which : Appropriations for fuel purchases	2.1	1.5	1.7
	(In percent of total CFET expenditure)		
Budgetary transfers	16.3	12.8	12.0
Of which : Appropriations for fuel purchases	14.7	10.6	8.6
	(In thousands of U.S. dollars)		
Memorandum item:			
Average monthly revenue collection	29	166	208

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

1/ Estimates made for FY2003/04 budget preparation, and Fund staff estimates.

2/ Includes interest income.

3/ Collection started in October 2000.

Table 17. Timor-Leste: Balance of Payments, 1998–2002

	1998	1999	2000	2001	2002
			Est.		
			(In millions of U.S. dollars)		
Current account excluding official transfers	-121	-92	-237	-257	-230
Current account including official transfers	-21	6	68	45	37
Trade balance	-91	-67	-213	-212	-180
Exports of goods 1/2/	61	52	5	4	6
Of which: Coffee	...	...	4	3	5
Imports of goods 1/	-152	-119	-218	-216	-186
Of which: UNTAET/UNMISET and humanitarian	-50	-58	-115	-64	-18
Services (net)	-31	-25	-28	-50	-54
Income (net)	0	0	3	5	4
Of which: Oil/gas royalty and interest	0	0	3	4	3
Current transfers (net)	100	98	305	303	267
Of which: Oil/gas tax revenues	0	0	5	8	13
UNTAET/UNMISET and humanitarian	0	43	232	190	143
Capital and financial accounts	10	-3	-38	-27	5
Official capital transfers	0	0	63	83	83
Financial accounts	10	-3	-101	-110	-78
Errors and omissions (net)	12	-3	-13	-10	-18
Overall balance	0	0	16	8	23
Changes in foreign assets (increase -)	...	...	-16	-8	-20
Oil/gas revenue savings (increase -)	0	0	-3	-4	-3
Other	...	...	-13	-3	-17
			(In percent of GDP)		
Current account excluding official transfers	-31	-34	-74	-67	-61
Current account including official transfers	-5	2	21	12	10
Trade balance	-23	-25	-66	-55	-48
Memorandum items:					
Oil/gas revenues (in millions of U.S. dollars)	0	0	7	12	16
Gross foreign assets (in millions of U.S. dollars)	...	...	16	24	44
Of which: Oil/gas revenue savings	0	0	3	7	11

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

1/ Figures after 1999 exclude unrecorded border trade.

2/ Exclude oil/gas revenues, which are recorded under income (royalties) and transfers (tax revenues).

Table 18. Timor-Leste: Oil/Gas Receipts, 2000–02
(In millions of U.S. dollars)

	2000	2001 Est.	2002
Total oil/gas receipts	6.5	11.9	16.1
Royalties (first tranche petroleum)	1.5	3.6	2.9
Elang-Kakatua-Kakatua field	1.5	3.6	2.9
Bayu-Undan fields	0.0	0.0	0.0
Tax revenues	5.0	8.2	13.1
Elang-Kakatua-Kakatua field	5.0	8.2	5.3
Bayu-Undan field	0.0	0.0	7.8
Interest income	0.0	0.1	0.1
Memorandum item: Oil/gas revenue saving	3.1	7.4	11.3

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

Table 19. Timor-Leste: Summary of Tax System (as of March 2003) 1/ 2/

Tax	Nature of Tax	Exemptions and Deductions	Rates
1. Direct Taxes			
1.1. Income tax	Timor-Leste has inherited the Indonesian income tax system with some modifications. The income tax applies to all taxable income other than that subject to withholding taxes (1.3) or wage income tax (1.4), and is supplemented by the minimum income tax (1.2). In the case of a legal person, income from dividends, interest, royalties and rent is included in the taxable income, with a credit for withholding tax. Progressive rates with three brackets are applicable in the case of a natural person, and a flat rate is applicable in the case of a legal person.	*Depreciation* Business building - Straight line depreciation - 20 years useful life at 5 percent - 10 years useful life at 10 percent Depreciable assets Individual depreciation - 1-4 years useful life at 25 percent - 5-8 years useful life at 12.5 percent - 9+ years useful life at 6.25 percent Pooling depreciation - 1-4 years useful life at 50 percent - 5-8 years useful life at 25 percent - 9+ years useful life at 12.5 percent *Amortisation of intangibles* - 1-4 years useful life at 25 percent - 5-8 years useful life at 12.5 percent - 9+ years useful life at 6.25 percent *Deductible expenses include:* bad debt, interest, foreign exchange losses, salary and wages, contractor expenses, R&D expenses, and losses from sale/ transfer of property.	[Natural person] Income brackets and tax rates: 0 - $3,368 10 % $3,368 - $6,737 15 % $6,737 - 30 % [Legal person] Income tax rate: 30%
1.2. Minimum income tax	Minimum income tax is levied on the taxpayer's total turnover for the year. The ordinary income tax payable is credited against the minimum tax payable for the year.	The taxpayer's total turnover does not include any amount derived by the taxpayer that is subject to the withholding taxes.	1 % of the total turnover

Table 19. Timor-Leste: Summary of Tax System (as of March 2003) 1/ 2/

Tax	Nature of Tax	Exemptions and Deductions	Rates
1.3. Withholding taxes	Income earned from designated sources (including dividend, interest, royalty, and rent) is subject to withholding tax at a variety of rates. The tax is withheld by a person making payments to the recipient of the income. The withholding taxes are final, except for dividends, interest, royalties and rent paid to a legal person.		Tax rates vary according to the source of income: *Payable to residents and non-residents with permanent establishment:* Type of income — Tax rate dividend/ interest/ royalty 15 % rent from land/ building 10 % income from : prizes and lotteries 15 % construction activities 2 % construction consulting 4 % provision of transportation 2.64 % petroleum drilling/ mining 4.5 % provision of selected services 0 % *Payable to non-resident without permanent establishment:* all income 20 %
1.4. Wage income tax	The wage income tax is withheld by the employer.	Each employee is allowed a monthly tax credit of $10 against the wage income tax payable for the month. Excess credit is neither refunded nor carried forward. Exempt wages include: (a) wages received for official duties by diplomatic staff of a foreign government's representative office (b) wages of a public servant of a foreign government (c) wages of an employee of the UN or its agencies	*Resident with Tax Identification Number (TIN)* Monthly wage income — Tax rate $0 to $550 10 percent above $550 30 percent *Non-resident* 20 percent *Resident without TIN* 30 percent
1.5. Presumptive income tax on coffee exports	Imposed on exports of coffee beans, whether processed or unprocessed, at the time of export. Not applicable for coffee export after 05/31/01	Up to 5 kilograms of coffee beans exported in accompanied baggage by a person departing from Timor-Leste are exempt.	5 percent of the value of coffee beans. The value of the coffee beans is the arm's length free on board value of the beans.

Table 19. Timor-Leste: Summary of Tax System (as of March 2003) 1/ 2/

Tax	Nature of Tax	Exemptions and Deductions	Rates
2. Indirect Taxes			
2.1 Border Taxes	All taxes in this category are levied at the border.		
2.1.1. Import duty	Applicable to all imports at an ad-valorem rate except for selected import items.	Imported goods that are exempt include: (a) when accompanying an arriving person - 200 cigarettes and 2.5 liters of excisable beverages - non-commercial goods for personal use up to $300 - household effects (returning former residents) (b) imports by diplomats, UN and specialized agencies. (c) re-imported goods (d) goods for which import duty is less than $10.	6 percent of the customs value. The customs value is the transaction value of the goods, including cost, insurance and freight.
2.1.2. Excise tax	Excise tax is levied on designated goods at specific or ad-valorem rates. Excise taxes on imported goods are levied on the excise value, or the customs value plus the import duty payable. Excise tax is also applicable to designated goods produced domestically, but is not collected currently because of the absence of domestic production. Some of the excises (e.g., those on private yachts and aircrafts) bear characteristics of a luxury goods tax.	Exemption is given to: (a) Goods exported from Timor-Leste within 28 days of importation. (b) Goods that are exempt from import duty.	Rates for major excisable goods: *Specific rates on quantity* Soft drinks $ 0.65 per liter Beer $ 1.90 per liter Wine $ 2.50 per liter Alcoholic beverages $ 8.90 per liter Tobacco $ 19.00 per kg Gasoline, diesel fuel $ 0.06 per liter *Ad-valorem rates of the excise value* Fruit juices/ ice cream 12 % cigarette lighter, smoking pipe 12 % Audio electronic goods 12 % Mobile phones, TV, videos 12 % Perfumes 18 % Fireworks, arms/ ammunition 120% Motor cars: the greater of 36 % excise value, or $500 + 36% over $20,000 private yachts / aircrafts 12 % in excess of US $20,000 36 %

Table 19. Timor-Leste: Summary of Tax System (as of March 2003) 1/ 2/

Tax	Nature of Tax	Exemptions and Deductions	Rates
2.1.3. Sales tax	Sales tax is applicable to imported goods, and goods sold and services provided domestically. For imported goods, the tax base consists of customs value, and the import duty and excise tax payable. Sales tax applicable to goods sold and services provided domestically is not collected currently.	Sales tax does not apply to imported goods exempt from import duty.	6 percent of the sum of : the customs value of the goods; the import duty payable; and the excise tax payable.
2.2. Service tax	The service tax applies to designated services, which comprise: (a) hotel services (b) restaurant and bar services (c) telecommunications services (d) rental services of: (i) cars, trucks, omnibuses, etc (ii) helicopters and airplanes (iii) seagoing vessels	Service tax is payable by providers of services, with monthly turnover of $500 or more.	A uniform 12 percent.

Source: Information provided by the Timor-Leste authorities.

1/ The tax system of Timor-Leste was established by UNTAET Regulation (No. 2000/18 June 30, 2000), modifying then applicable Indonesian Law on Income Tax. After independence, the tax system was amended by the Revenue System Amendment Act (applicable on July 1, 2002).

2/ These taxes are not applicable to oil/gas activities in the Timor Gap.