

IMF Staff Completes 2021 Article IV Mission to Timor-Leste

May 17, 2021

- The economy has been severely affected by the pandemic and by recent floods. A modest recovery is expected in 2021 underpinned by strong fiscal support, a rebound in private consumption, and the vaccination rollout that began in April.
- A key priority should be to vaccinate the adult population as soon as possible and to provide financial relief to the most vulnerable people affected by the pandemic and the recent floods.
- Post-COVID, efforts should focus on putting the fiscal position on a more solid footing and on structural reforms to create jobs and diversify the economy.

An International Monetary Fund (IMF) team led by Mr. Pablo Lopez Murphy conducted discussions via virtual meetings for the 2021 Article IV consultation with Timor-Leste during May 4-18, 2021. At the conclusion of the virtual discussions, Mr. Lopez Murphy issued the following statement:

“The government adopted a strong support package that will help to mitigate the impact of the pandemic and revitalize the economy. The goal is to protect people, save jobs, sustain consumption, and catalyze private sector activity. Despite early success in containing the propagation of COVID-19, the recent surge in cases combined with the floods in early April will result in a modest economic recovery in 2021. Real non-oil GDP growth in 2021 is projected at 1.8 percent, driven by higher government spending, rebounding private consumption, and the vaccination rollout that began in April. The current account deficit will continue to increase as oil revenues decline. Inflation is projected to pick up, reflecting the increase in government spending and in energy prices. Real non-oil GDP growth is projected to stabilize at around 3 percent in the medium term, as structural constraints weigh on growth potential.

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

“In the near term, the focus should be on accelerating the ongoing rollout of vaccines and on providing relief to the most vulnerable. Once the pandemic is over, with vanishing oil revenues, putting the fiscal position on a more solid footing to preserve fiscal and external sustainability should be a priority. Expenditure rationalization and revenue mobilization should underpin fiscal reforms.

“Structural reforms to improve the business environment, strengthen governance, raise labor productivity, and increase financial inclusion would help promote private sector development, create jobs, diversify the economy, improve competitiveness and support the external position. Strengthening disaster risk management, given the country’s vulnerability to weather-related shocks is crucial. At the same time, improving data quality is also vital to support policy making”

The team had fruitful discussions with the Minister of Finance Rui Gomes, the Governor of the Central Bank Abraao de Vasconcelos, the Minister of Tourism, Trade and Industry Jose Lucas do Carmo da Silva, Minister of Petroleum and Minerals Victor da Conceicao Soares, other senior officials, development partners, civil society and private sector representatives. Staff from the World Bank also joined the discussions. The team would like to thank the Timorese authorities for their hospitality and excellent cooperation.

IMF Communications Department

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