INTERNATIONAL MONETARY FUND

MEDIA RELATIONS

PRESS OFFICER: PEMBA SHERPA

PHONE: +1 202 623-7100 | **EMAIL:** MEDIA@IMF.ORG

PRESS RELEASE NO. 23/411

November 29, 2023

IMF Staff Completes 2023 Article IV Mission to Timor-Leste

- Timor-Leste's growth is expected to slow to 1.5 percent in 2023 but will recover to 3.5 percent in 2024 supported by the new government's prioritization of public capital expenditure. Inflation remains high and will average 8 percent in 2023 but is expected to ease to 2.5 percent in 2024.
- For future generations to enjoy sustained improvements in their living standards, Timor-Leste must develop a vibrant private sector. This should involve an ambitious agenda of reforms that aligns public spending with the economy's absorptive capacity.
- Public expenditure should be reduced and its quality improved by further prioritizing spending on human and physical capital, while domestic revenue should be gradually mobilized. A medium-term fiscal framework should underpin these efforts by setting a clear roadmap to fiscal sustainability.
- To boost growth and diversify the economy, structural reforms should remove bottlenecks in the agriculture and tourism sectors and foster digitalization to boost productivity, while addressing legal constraints that hinder business operations and financial development.

Washington, DC: An International Monetary Fund (IMF) team led by Mr. Yan Carrière-Swallow visited Timor-Leste during November 15-27 to conduct discussions for the 2023 Article IV consultation. At the conclusion of the discussions, Mr. Carrière-Swallow issued the following statement:

"Timor-Leste has made remarkable progress since its independence. Growth is expected to slow to 1.5 percent in 2023 due to the fiscal drag from difficulties in executing the budget surrounding the elections. In 2024, growth will recover to 3.5 percent supported by an increase of public capital expenditure. Inflation has remained high and will average 8 percent in 2023 but is expected to ease to 2.5 percent in 2024, driven by the projected decline of global commodity prices and lower inflation in trading partners, as well as by the new government's decision to reverse the increase in taxes on imports, cigarettes, and sugar.

"Risks to the outlook are tilted to the downside. Near-term downside risks to growth include the abrupt onset of a global recession and heightened commodity price volatility. These could require a fiscal response, posing obstacles to expenditure restraint and adversely affecting the Petroleum Fund's balance. Achieving the political commitment to rationalize public expenditure would reduce uncertainty surrounding the medium-term outlook.

"To achieve sustainable development, an ambitious agenda of reforms is required to align the budget with the economy's absorptive capacity. Excessive and poor-quality public spending is expected to lead to the depletion of the considerable wealth saved in Timor-Leste's Petroleum Fund. While the draft 2024 budget includes a welcome expansion of capital spending, public expenditure should be reduced and its quality improved, including further shifting its composition to support growth and protect the vulnerable. Domestic revenues should be mobilized gradually from a low base. The formulation of a medium-term fiscal framework should underpin these efforts by setting a roadmap to fiscal sustainability.

"These efforts should be combined with structural reforms to boost growth and encourage diversification. Reforms should initially seek to remove bottlenecks in the agriculture and tourism sectors and foster digitalization to boost productivity. Legal constraints that hinder business operations and financial deepening should also be urgently addressed.

"The central bank is rightly focused on developing the financial sector, including through the provision of digital financial services. To boost prudent lending to the private sector, improvements to the legal and regulatory framework are crucial.

"The IMF stands ready to provide capacity development and other support to assist the government's reform efforts.

"The IMF team had fruitful discussions with Minister of Finance Santina Viegas Cardoso, Central Bank Governor Hélder Lopes, Minister of Petroleum and Mineral Resources Francisco da Costa Monteiro, Secretary of State for Vocational Education and Training Rogério Araújo Mendonça, other senior officials, development partners, the private sector, and civil society. Staff from the World Bank also joined the discussions. The team would like to thank the Timorese authorities for their hospitality and excellent cooperation."