Country Notes

The economy continues to grow rapidly while inflation is softening

- Economic growth remained high at about 10.0% in 2012, virtually on par with the rate of 10.6% in 2011, fuelled by strong petroleum revenues and increased government expenditures. In particular, cash transfers and infrastructure spending on national electrification and road upgrades boosted domestic demand. In 2013, output growth is expected to remain high at around 10.0%.

- The annual average inflation rate declined from 13.5% in 2011 to 12.0% in 2012, and is expected to decline further to 8.0% in 2013. Strong demand-side pressure from rapidly rising government spending continues.

Macroeconomic policies are highly supportive of the national development plan, but challenges remain

- Under the Timor-Leste Strategic Development Plan, the Government is rapidly scaling up social spending and capital investment, with a view to develop the non-oil economy, create jobs and reduce poverty.

- As a young state emerging from conflict, large development gaps remain. With oil revenues allowing for policy space, the Government is investing heavily in infrastructure, including electrification and road upgrades.

- Credit to the private sector has risen but remains low at only 13% of non-oil GDP, reflecting the lack of collateral, weak contract enforcement and the limited number of banks.

Current account surplus remains high, but imports are increasing rapidly

- The current account surplus fell from 55% of GDP in 2011 to about 43.5% in 2012, owing to lower petroleum revenue and rising imports, which have more than doubled since 2010. There is currently no domestic production base except subsistence farming and coffee, leaving the country heavily dependent on imports.