INTERNATIONAL MONETARY FUND

# DEMOCRATIC REPUBLIC OF TIMOR-LESTE

## STAFF REPORT FOR THE 2011 ARTICLE IV CONSULTATION

January 13, 2012

## KEY ISSUES

**Context.** After emerging from a long struggle for independence and internal conflicts between 1999 and 2006, Timor-Leste has made substantial progress toward restoring stability and rebuilding the country. Rising government spending has supported strong economic growth, but inflation has increased to double digits. The government launched its Strategic Development Plan to step up development.

**Focus.** Discussions centered on an appropriate fiscal stance to manage near-term inflation risks and sustain high growth, and on financial sector development.

**Fiscal stance.** The planned investment in infrastructure is welcome, but given double-digit inflation, staff advised slowing the planned increase in capital spending over the next few years to better align with the absorptive capacity of the economy and administrative constraints. In the absence of monetary policy (Timor-Leste uses the U.S. dollar), sound fiscal policy is key to containing high inflation and sustaining strong growth. Staff supported the government's plan to reduce the non-oil fiscal balance to a sustainable level over the next 10 years, to provide an anchor for fiscal policy.

**Public financial management (PFM).** The government has improved the PFM system. A well managed Petroleum Fund is in place, and new institutions have been established to manage large public investment programs. The authorities need to further strengthen institutional capacities and develop human resources.

**Financial sector.** Foreign bank branches dominate the sector, but financial services are underdeveloped and nonperforming loans are high. Developing the financial sector and strengthening the credit culture are crucial for sustained growth in the private sector.

Approved By
**Ray Brooks and Dhaneshwar Ghura**

Discussions took place in Dili during November 11–24, 2011. The staff team comprised Messrs. Jang (head), Kataoka, Ochirkhuu, Tan (all APD). A World Bank team joined the mission and Mr. Cardoso (OED) participated in the discussions. Mr. Zavadjil, Resident Representative in Indonesia, joined the mission toward the end.

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# FROM CONFLICT TO PROSPERITY

1. **Context.** After emerging from a 24-year struggle for independence and internal conflicts between 1999 and 2006, Timor-Leste has made substantial progress toward restoring stability and rebuilding the country. The first decade after Timor-Leste's independence in 2002 saw a significant rise in national income and improvements in human development indicators, thanks to petroleum and sound policies. Petroleum income accounted for about 270 percent of non-oil GDP, as of 2010. The country is still in the process of building its administration and governmental institutions.

2. **Strategic Development Plan** (SDP). The government launched the SDP in 2011, with donor support, to transform Timor-Leste from a low-income to an upper-middle-income country by 2030. The SDP aims for rapid, inclusive growth by improving infrastructure, worker skills, education, training and health systems, and by combating malnutrition. The majority of the country's infrastructure (including the electric grid, irrigation and water supply, housing and schools) was destroyed in the 1999 conflict (Box 1).

3. **Politics.** Presidential and parliamentary elections are set for March and June 2012. Donors expect the elections to take place smoothly and the UN mission (UNMIT) and international security force should leave Timor-Leste by end-2012. The government and UNMIT have begun joint planning for UNMIT's withdrawal. The impact of UNMIT's withdrawal on the economy is expected to be limited (text table).

UNMIT's Local Spending

| | 2010 Million $ | Percent of GDP 1/ |
|---|---|---|
| Local procurement | 5.3 | 0.1 |
| Payments to national staff | 6.4 | 0.1 |
| Local payments to international staff | 34.9 | 0.8 |

Sources: UNMIT and IMF staff calculations.
1/ In percent of projected 2011 GDP.

4. **Past advice.** The authorities have made progress in implementing past advice. New institutions were established to strengthen public investment management, fiscal transparency has been improved further, and financial supervision and regulations have been strengthened. The 2011 budget increased spending sharply to improve poor infrastructure, while most Directors had suggested a more gradual increase in such spending in the last Article IV consultation.

## Box 1. Infrastructure Development Needs

**Infrastructure bottlenecks are a fundamental constraint to economic development in Timor-Leste.** According to the Global Competitiveness Report 2011–12, inadequate infrastructure is the most problematic factor for doing business in Timor-Leste, and Timor-Leste ranks at the bottom in the Asia Pacific region and among fragile states, marked by an inadequate electricity supply and poor roads.

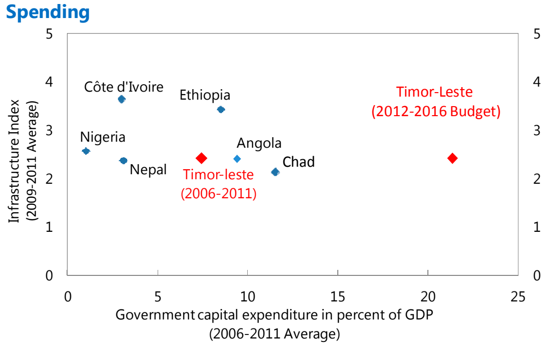
**Comparision of Infrastructure Quality, 2010**

| Region/Country | Country Ranking | Overall Infrastructure | Roads | Port | Air Transport | Electricity |
|---|---|---|---|---|---|---|
| World (average) | 66 | 4.3 | 4.0 | 4.3 | 4.7 | 4.5 |
| Developing Asia (average) | 82 | 3.9 | 3.8 | 3.9 | 4.4 | 3.6 |
| Malaysia | 23 | 5.7 | 5.7 | 5.7 | 6.0 | 5.9 |
| Brunei | 44 | 5.0 | 5.2 | 4.4 | 4.9 | 5.4 |
| Cambodia | 76 | 4.1 | 4.0 | 4.0 | 4.3 | 3.5 |
| Indonesia | 82 | 3.9 | 3.5 | 3.6 | 4.4 | 3.7 |
| Ethiopia | 98 | 3.6 | 2.9 | 3.9 | 5.3 | 2.8 |
| Côte d'Ivoire | 102 | 3.6 | 2.9 | 4.9 | 4.3 | 3.3 |
| Vietnam | 123 | 3.1 | 2.6 | 3.4 | 4.1 | 3.3 |
| Nigeria | 125 | 3.0 | 2.7 | 3.3 | 3.9 | 1.5 |
| Bangladesh | 129 | 2.8 | 2.9 | 3.4 | 3.5 | 1.6 |
| Chad | 130 | 2.8 | 3.0 | 2.7 | 3.2 | 1.5 |
| Nepal | 132 | 2.7 | 2.5 | 2.6 | 3.4 | 1.3 |
| Timor-Leste | 138 | 2.5 | 2.1 | 2.6 | 3.1 | 1.8 |
| Angola | 141 | 2.1 | 2.5 | 2.3 | 3.1 | 1.4 |

Source: World Economic Forum, *The Global Competitiveness Report 2011-12*.

**The infrastructure of Timor-Leste was largely destroyed in the 1999 civil conflict.** One third of the population has no access to improved drinking water, 60 percent lack decent sanitation facilities, and two thirds are living without electricity. Around 90 percent of roads are in poor condition and seaport, airport, and telecommunications need urgent improvements.

**Fragile States: Infrastructure and Government Capital Spending**




Sources: World Economic Forum; WEO; and IMF staff calculations.

**The SDP puts infrastructure development as a central pillar to promote the country's development.** To improve poor infrastructure, capital spending has increased rapidly and is expected to remain very high compared with that of other countries, including fragile states (text figure). The government is focusing on electricity, roads, and the rural housing program. It is also investing in infrastructure on the South Coast to attract investment in the downstream petroleum sector.

**Timor-Leste: Central Government Budget**

(In millions of U.S. dollars)

| | 2010 | 2011 | 2012 | 2013-16 |
|---|---|---|---|---|
| | Actual | Budget | | |
| Total government spending | **794** | **1,306** | **1,763** | **6,728** |
| Recurrent | 527 | 588 | 679 | 3,031 |
| Capital | 268 | 718 | 1,084 | 3,697 |
| Of which: | | | | |
| Electricity grid and power plants | | 447 | 282 | |
| Tasi Mane program | | 19 | 163 | 220 |
| Suai-Beacu highway | | | | 722 |
| Roads and drainage projects financed with loans | | | 43 | 577 |
| MDG-Suco program | | 45 | 55 | 135 |

Source: Timor-Leste authorities.

1/ The program includes a supply base, a refinery and petrochemical center, and an LNG plant.

**To better manage large public investment programs, the government established several new institutions.** In 2011 the Infrastructure Fund was set up to facilitate the development of large, multi-year projects. The Secretariat of Major Projects at the MOF was given responsibility for reviewing projects proposed by line ministries, and the final approval is decided either by the Board of the Infrastructure Fund (for projects less than $5 million), or by the Council of Ministers (for projects above $5 million). The National Development Agency was established to supervise project implementation, and the Procurement Commission to assist in the procurement for large scale projects undertaken by the Infrastructure Fund.

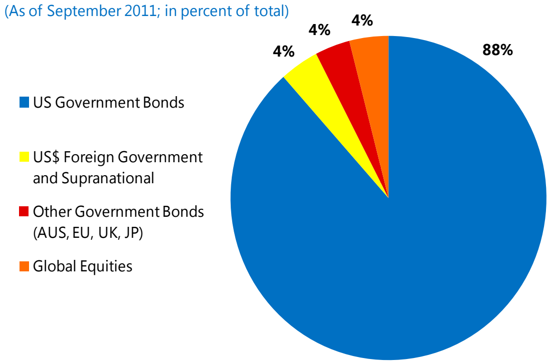
**Large infrastructure spending is mainly to be financed by withdrawals from the Petroleum Fund.** The government is also considering other financing options such as borrowing and public-private partnerships (PPPs).

# RECENT DEVELOPMENTS AND OUTLOOK

5. **Growth and inflation.** Rising government spending and a rebound in agriculture supported strong non-oil GDP growth since 2007, averaging 12 percent (Table 1 and Figure 1). Despite unseasonal rain that damaged agricultural produce, staff estimates growth in 2011 to remain strong at about 10 percent on the back of high government spending. Inflation in Dili rose to 14½ percent (y/y) in October and is becoming broad-based.

6. **Fiscal performance.** To improve poor infrastructure, capital expenditure has increased sharply in 2011 with total government spending estimated to rise to $1.2 billion from $0.8 billion in 2010 (Table 2 and Figure 2). Owing to large petroleum revenue, however, the overall balance is expected to continue to record a large surplus of 50 percent of GDP in 2011 and the Petroleum Fund (PF) has risen to about $9 billion (text figures).

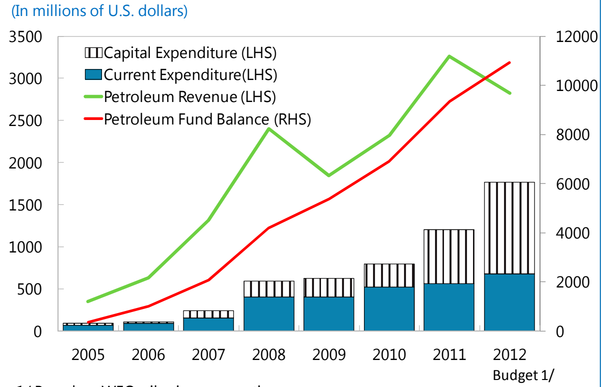
**Petroleum Fund Asset Allocation**
(As of September 2011; in percent of total)




Source: The Central Bank of Timor-Leste, Petroleum Fund Quarterly Report.

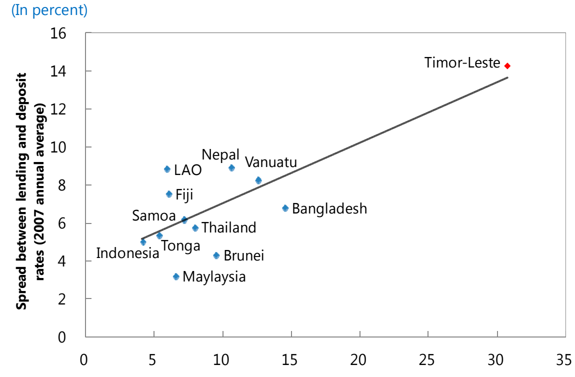
7. **Financial sector.** Credit to the private sector has started rising after being stagnant for a few years (Table 3). However, it remains low at only 13 percent of non-oil GDP, reflecting the lack of collateral and weak contract enforcement. These weaknesses together with high nonperforming loans (NPLs) have contributed to high lending rates in Timor-Leste (text figure). NPLs are fully covered by provisions (text table), and banks tightened lending standards and improved credit assessments.

**Expenditure and Petroluem Revenue**
(In millions of U.S. dollars)




1/ Based on WEO oil price assumptions.

**Nonperforming Loans and Interest Spreads**
(In percent)



**Timor-Leste: Financial Soundness Indicators**
**(In percent)**

| | 2009 Q4 | 2010 Q4 | 2011 Q3 |
|---|---|---|---|
| Return on assets 1/ | 1.73 | 0.31 | 0.58 |
| NPLs/total loans | 32.1 | 41.7 | 39.1 |
| Total provisions/NPLs | 162.6 | 131.7 | 125.4 |
| Loans/deposits | 38.4 | 36.5 | 43.0 |

Source: The Central Bank of Timor-Leste.
1/ Data for 2011 is as of Q2.

**8.** Three foreign bank branches (Australian, Indonesian, and Portuguese) dominate the financial sector. Their parent banks are profitable with capital above regulatory minimums (text table). A small state-owned microfinance institution recently became the first locally incorporated bank. The Banking and Payments Authority was transformed to a central bank, with no change in its function. Timor-Leste uses the U.S. dollar, so has no independent monetary policy.

Parent banks' Financial Soundness Indicators
(In percent; as of end-2010)

| | ANZ 1/ | Bank Mandiri | Caixa Geral de Depositos |
|---|---|---|---|
| Capital adequacy ratio | | | |
| Tier 1 | 10.9 | 10.5 | 8.9 |
| Total | 12.1 | 13.4 | 12.3 |
| Return on equity | 15.3 | 24.4 | 4.1 |
| Return on assets | 1.0 | 3.4 | 0.3 |

Sources: Banks' annual reports
1/ As of September 2011.

**9. External position.** Staff estimates a continued large current account surplus of over 50 percent of GDP in 2011 due to high oil revenue (Table 4). Timor-Leste exports little, except petroleum and coffee, and depends heavily on imports. Foreign assets (mostly in the PF) have risen to an all-time high at 170 months of imports.

**10. Outlook.** The outlook for growth and poverty reduction is promising, as Timor-Leste stands to benefit enormously from its petroleum wealth in coming years. Using this wealth, the government has resolved to step up development. With rising government spending, staff projects growth to remain strong at about 10 percent in 2012 and over the medium term (Table 5).

**11. Risks.** Key risks to the outlook are high inflation, a fall in oil prices, and slow progress in building public financial management capacity.

- On the external front, global growth could stall, hitting oil revenue and income from the PF. A permanent fall in oil prices to $50 a barrel would reduce the estimated sustainable income (ESI) from petroleum by almost 40 percent to just over $0.4 billion.
- Deleveraging by the Portuguese bank is a limited risk. Even if it cuts its lending by half, private sector credit would decline only by about 1 percent of non-oil GDP.

- Domestically, the planned large increases in fiscal spending could maintain inflation above 10 percent given the small non-oil economy. In turn, high inflation could push back progress on poverty reduction and lead to a real currency appreciation that would hurt private-sector-led growth.

- Limited progress on plans to improve government institutions could undermine public financial management and reduce the effectiveness of large public investment.

### Authorities' Views

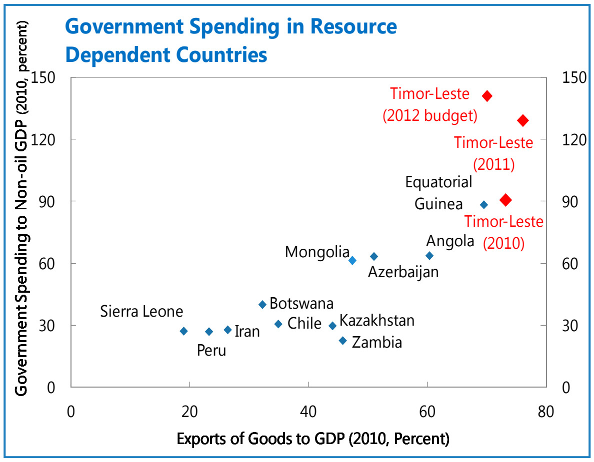
**12. The authorities broadly agreed with staff's assessment of the economy and outlook.** They noted that in a relatively short period of time, Timor-Leste as a young nation has made strong progress in moving forward as a secure and stable nation and in laying down the foundations for government institutions and good governance. As envisaged in the SDP, the government is now focusing on improving inadequate infrastructure, particularly electricity and roads, which will lessen the key constraints to economic development and enhance growth potential. To better manage large public investment programs, the government established new agencies that are responsible for project appraisal, procurement, and monitoring.

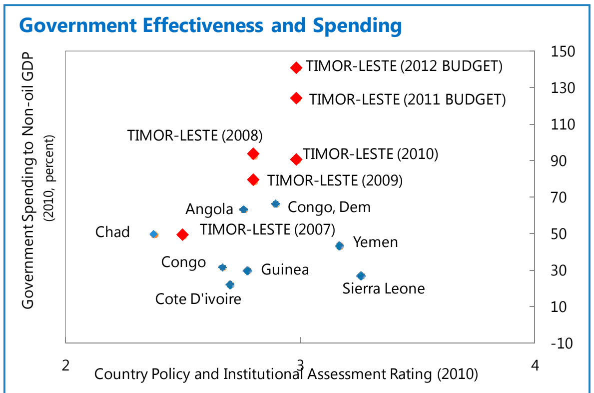
# SECURING SUSTAINABLE HIGH GROWTH

## A. Fiscal Policy

**13. Developments.** The government launched the SDP to transform Timor-Leste into an upper-middle-income country by 2030. To achieve this goal, it plans to scale up public investment to improve poor infrastructure. The proposed 2012 Budget envisages another scaling up of capital spending so total government spending would rise to $1.8 billion, an increase of about 45 percent over 2011 spending and more than twice the level of the ESI of $0.7 billion (Appendix I).[1] Given high oil revenue, the PF balance is projected to continue to rise, but the non-oil fiscal deficit to increase to over 100 percent of non-oil GDP.

[1]The authorities' calculation of the ESI is conservative. The ESI would increase by about $160 million if the WEO oil price assumptions were used and by another $250 million if the Greater Sunrise oil field is included. Moreover, the assumed rate of return on PF investments is a 10-year average of US Treasury bond yields.




Sources: World Bank; and IMF staff calculations.

**14. Fiscal stance.** While noting the need to frontload investment in infrastructure, staff encouraged the government to consider the following in determining the pace of spending over the next few years:

- Inflation has increased and price pressures are likely to continue given strong demand and the planned large increases in fiscal spending. Other countries' experiences suggest that high inflation would impose significant costs on the poor (Box 2).
- There is a risk that inflation expectations could become un-tethered, requiring difficult disinflation policies down the road.
- In the absence of monetary policy, sound fiscal policy to increase government spending gradually is key to containing high inflation and sustaining strong economic growth.
- With the Infrastructure Fund in place to manage large, multi-year projects, it would be possible to phase the spending in a manner that is better aligned with capacity constraints and the absorptive capacity of the economy.[2]

**15. To rebuild infrastructure and deliver sustainable high growth with moderate inflation, staff advised slowing the planned rise of capital spending over the next few years.** This would imply lower spending in coming years, while keeping total capital spending over the next five years in line with the authorities' plan (text figure and table).

[2] According to the World Bank's Country Policy and Institutional Assessment (CPIA) index, which measures the quality of policies and institutions, Timor-Leste is still classified as a "weak" performer despite the recent improvements.

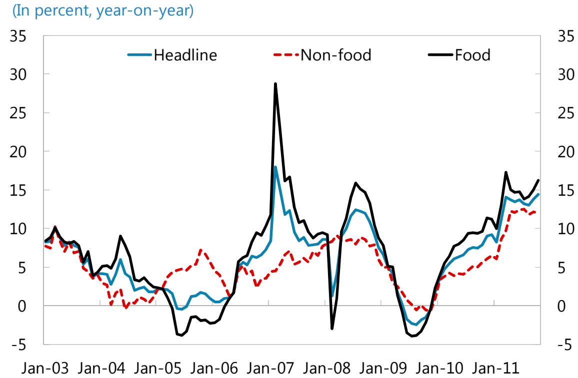
## Box 2. Inflation and the Poor

**Inflation in Timor-Leste has remained in double digits and above that of other Asian low income countries from early 2011.** Inflation picked up following the rise in global commodity prices in 2010. Imported and local food inflation has been the main driver of inflation, but non-food inflation has also risen to double digits, contributing 4 percentage points to inflation. Timor-Leste is a net importer of foods, and food comprises about 60 percent of its consumer price index basket, placing it above other Asian low income countries. A weak US dollar and strong demand from rising government spending have also contributed to the high inflation.

**A few factors distinguish the current inflation episode from the one in 2007–08.** Staff estimates indicate that the contribution of local inflation to headline inflation is much bigger and persistent this time and that local inflation is about 5 percentage points higher than imported inflation. Local products and services are estimated to comprise about 39 percent of household consumption (47 percent of food consumption and 27 percent of non-food consumption). Government spending has more than tripled since 2007 and continues to rise rapidly, which has increased inflationary pressure given the small non-oil economy. In 2008, the government introduced a rice subsidy program to dampen the impact of rising global rice prices, but the subsidy program will end soon. Rice is the main staple and comprises about 15 percent of the CPI basket. Moreover, wage pressures are reportedly rising recently but no reliable data are available.

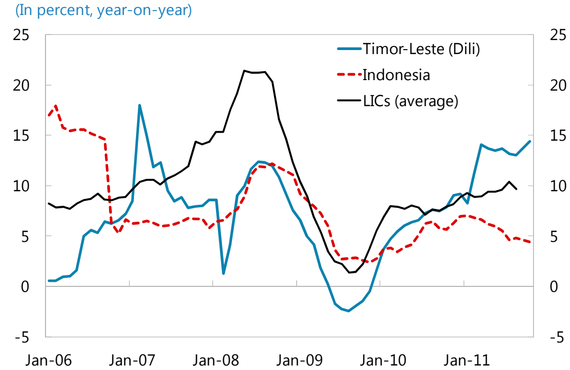
**Previous studies indicate that the poor suffer more from inflation than the rich do.** Easterly and Fischer (2000),[1] for example, found that the poor are more likely than the rich to mention inflation as a top concern and that high inflation tends to lower the income share of the bottom quintile and increase poverty. Agenor (1998) also found poverty rates to be positively related to inflation in cross-country data.[2] A recent ADB study estimates that a 10 percent rise in food prices in Timor-Leste could increase poverty incidence by 2¼ percentage points.[3]

**CPI Inflation in Dili**
(In percent, year-on-year)



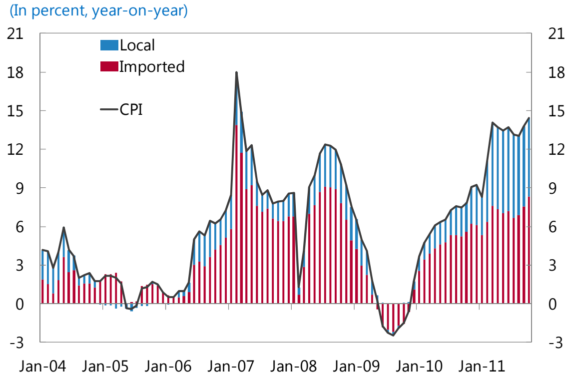

Sources: Timor-Leste authorities; and IMF staff estimates.

**Consumer Price Index**
(In percent, year-on-year)



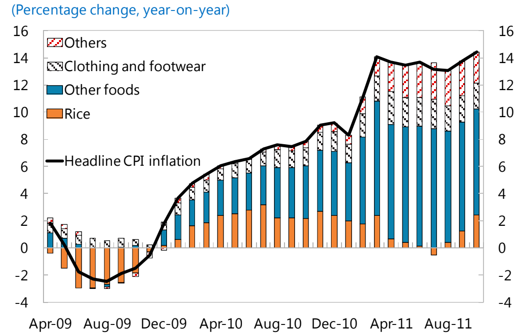

Sources: Timor-Leste authorities; and IMF staff estimates.

**Contributions to CPI Inflation in Dili**
(In percent, year-on-year)




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

**Contributions to CPI Inflation in Dili**
(Percentage change, year-on-year)




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

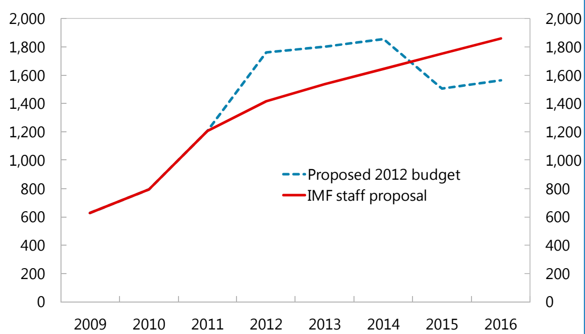
[1] Easterly, W., and S. Fischer, "Inflation and the Poor." World Bank Policy Research Working Paper 2334 (May 2000).
[2] Agenor, P., "Stabilization Policies, Poverty, and the Labor Market," IMF and World Bank (1998).
[3] Asian Development Bank, *Global Food Inflation and Developing Asia* (March 2011).

Timor-Leste: Medium-Term Fiscal Outlook

| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | 2012 Proposed Budget | | | | |
| Real non-oil GDP growth (percent) | 14.6 | 12.8 | 9.5 | 10.6 | 10.9 | 10.4 | 9.9 | 10.8 | 11.5 |
| Total government expenditure (in millions of U.S. dollars) 1/ | 594 | 627 | 794 | 1206 | 1763 | 1804 | 1855 | 1506 | 1564 |
| (In percent of non-oil GDP) | 93.6 | 79.4 | 90.7 | 114.5 | 140.8 | 121.3 | 105.0 | 71.7 | 62.7 |
| Non-oil overall balance (percent of non-oil GDP) | -85.3 | -71.1 | -81.1 | -104.0 | -130.0 | -110.6 | -94.5 | -61.4 | -52.4 |
| Petroleum Fund balance (in millions of U.S. dollars) | 4197 | 5377 | 6904 | 9338 | 10565 | 11674 | 12509 | 13854 | 15242 |
| | | | | | Alternative Scenario | | | | |
| Real non-oil GDP growth (percent) | 14.6 | 12.8 | 9.5 | 10.6 | 10.0 | 10.0 | 10.0 | 10.0 | 10.0 |
| Total government expenditure (in millions of U.S. dollars) | 594 | 627 | 794 | 1206 | 1416 | 1539 | 1647 | 1754 | 1859 |
| (In percent of non-oil GDP) | 93.6 | 79.4 | 90.7 | 114.5 | 113.1 | 103.5 | 93.2 | 83.5 | 74.5 |
| Non-oil overall balance (percent of non-oil GDP) | -85.3 | -71.1 | -81.1 | -104.0 | -102.2 | -92.8 | -82.7 | -73.2 | -64.3 |
| Petroleum Fund balance (in millions of U.S. dollars) | 4197 | 5377 | 6904 | 9338 | 10923 | 12297 | 13340 | 14437 | 15530 |

Sources: Timor-Leste authorities; and IMF staff calculations.
1/ Based on the September 2011 WEO oil price assumptions.

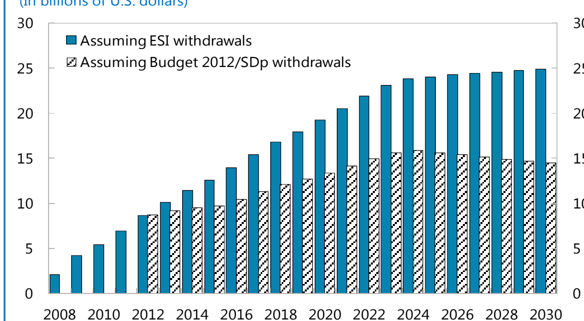
**Medium-Term Expenditure Scenarios**
(In millions of U.S. dollars)




**Sources: 2012 budget book; and IMF staff calculations.**

projects and recurrent costs. Moreover, available information indicates that the planned current spending for 2013–16, including wages and fuel costs, could be underbudgeted. The authorities indicated that once the key basic infrastructure development is completed over the next several years, capital spending is expected to decline sharply.

**Petroleum Fund Balance**
(In billions of U.S. dollars)




**Sources: Timor-Leste authorities and Fund staff estimates and projections.**

16. **Longer-term fiscal policy.** The government intends to reduce the non-oil fiscal balance to the level implied by the ESI over the next 10 years. Staff supported this goal as an anchor for fiscal policy. The government has started studying the long-term impact of the current fiscal stance and new capital spending initiatives. The SDP envisages excess withdrawals for the next two decades, which would bring down the ESI and PF by about 40 percent by 2030 (text figure). Staff expressed concern that the current medium-term budget framework (MTBF) does not reflect the full costs of planned major

17. **Staff noted that the 2012 budget and SDP scenario indicates that the government may need to take substantial measures (amounting to 10–15 percent of nonoil GDP) to reduce the non-oil fiscal balance to the ESI within 10 years.** The

measures could include containing spending growth and increasing domestic revenue, including by adjusting utility tariffs, changing tax rates and exemptions, strengthening tax administration, and introducing a Value Added tax (VAT) over the medium term.[3] Non-oil tax revenue is less than 6 percent of non-oil GDP. The government may also consider repealing the costly and possibly ineffective tax holidays under a new private investment law, as recommended by the recent FAD TA mission.

**18. A downside scenario of lower global growth would imply further adjustments to the budget.** The large size of the PF, however, would limit the impact of a fall in oil prices on the budget over the next few years. Over the long-term, a sharp and permanent fall in oil prices would require a considerable scaling back of spending plans to bring the non-oil fiscal balance into line with the lower ESI within 10 years. Another significant risk to the budget is possibly large recurrent costs related to the new major projects.

**19. Public financial management** (PFM). Staff welcomed continued progress in addressing weaknesses in PFM. The fiscal report on the observance of standards and codes (ROSC) and Public Expenditure and Financial Accountability (PEFA) assessment in 2010 found that Timor-Leste made solid progress in improving the PFM system, including a well-managed PF and a transparent framework for the governance of the petroleum sector. To address the weaknesses identified in the two assessments, the government established new institutions to improve procurement and project appraisal and costing and further strengthened the treasury single account by closing line ministries' accounts at commercial banks. Line ministries should now utilize the new procurement system. Moreover, the government launched an online transparency portal, which allows public access to timely data on government spending. Staff supported the government's ongoing efforts to improve audits and the oversight of autonomous agencies. Given the lack of skilled personnel, the government set up the Human Capital Development Fund to speed up the training of Timorese by studying abroad. Staff welcomed these steps and encouraged further efforts to strengthen economic and policy analysis capacity.

**20. Petroleum Fund.** The PF remains the cornerstone for managing Timor-Leste's oil-based financial resources. The PF Law was amended in 2011 to allow higher investment in equities (up to 50 percent of the PF) and for

[3] Timor-Leste's flat income tax rate at 10 percent is very low by regional standards and most personal income is untaxed. The FAD mission in November 2011 estimates that each percentage point of VAT could raise ½ percent of non-oil GDP in revenue.

the PF to be used to secure government borrowing (up to 10 percent of the PF). Staff noted that prudent management of the PF would be key to continued funding for the budget over the longer term. The authorities plan to gradually increase the share of equities with assistance from external consultants, particularly given volatile global financial markets. They requested TA from the Fund on PF asset management.

21. **External borrowing.** An updated debt sustainability analysis (DSA) continues to indicate a low risk of debt stress, despite higher borrowings envisaged compared with the previous DSA. Parliament approved, for the first time, concessional borrowing of $43 million in 2012 from the World Bank, the ADB, and bilateral donors to finance infrastructure projects. More loans are envisaged over the medium term. These loans would help build the authorities' capacity to appraise and plan projects. Staff advised, however, that any borrowing should substitute, not complement, withdrawals from the PF. The government is building up a debt management system. It is also considering using PPPs for projects such as airports and seaports. PPPs can provide know-how from the private sector, helping overcome government capacity constraints. Staff noted the importance of having a sound PPP framework in place and that given other countries' experiences, PPPs could also be significant sources of fiscal risk, particularly depending on the assumption made on the usage of the envisaged project.

22. **Poverty and human development.** Timor-Leste has introduced a wide range of social safety net programs, including benefits for veterans and the elderly, and public work programs have provided jobs, particularly in rural areas. Human development indicators have also improved, particularly in the health area (Table 6). Nonetheless, poverty incidence remained high at 41 percent in 2009 (Box 3). To reduce poverty further, the government is focusing on rural development, better targeted transfers, and improved databases for the safety net programs. Staff supported these efforts and noted that speeding up implementation of the national ID program would help avoid abuse and ensure support goes to those most in need.

### Authorities' Views

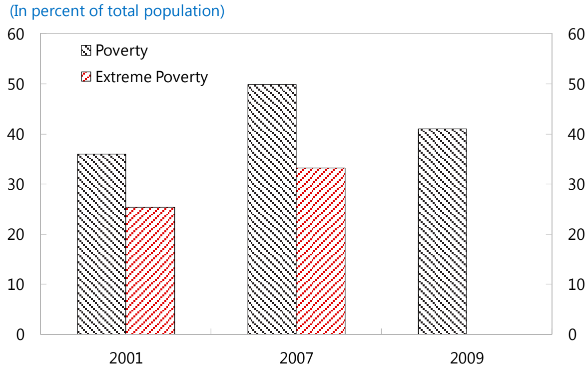
23. **The authorities broadly shared staff's views.** They stressed the need to rebuild basic infrastructure soon to address the key constraint to economic growth, but shared staff concerns about high inflation and its impact on the poor. They indicated that if inflation remains high in double digits, the government would consider adjusting the pace of budget execution, including delaying some

## Box 3. Poverty and Food Security in Timor-Leste

**A recent World Bank study indicates a sharp decline in poverty to 41 percent in 2009 from 50 percent in 2007.[1]** The decline is due to high economic growth and increased public spending, particularly on social protection programs and labor-intensive infrastructure works; moreover, poverty incidence spiked in 2007 because of the 2006 civil unrest and lower agricultural production. The 2011 living standards survey outcomes with the latest poverty estimates will be available in 2012.

**The poverty line in Timor-Leste was $0.88 per day in 2007,** which increased from $0.52 in 2001. The $0.88 per day represents, in December 2007 prices, the typical cost of attaining 2,100 calories per day ($0.54) and meeting some basic non-food needs ($0.34). The extreme poverty line was $0.71 per day, below which one-third of the population lived in 2007.

**Poverty Incidence**
(In percent of total population)



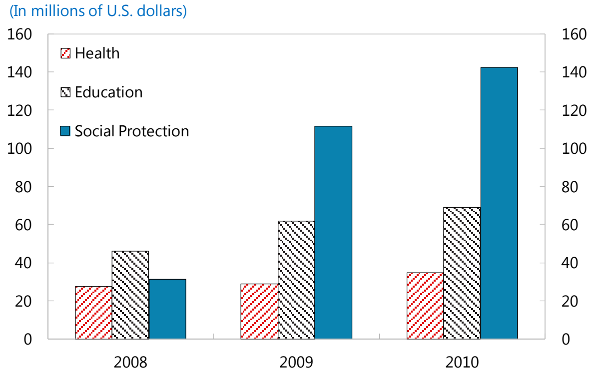

Sources: Timor-Leste authorities; and World Bank.

**Rural poverty (52 percent) is higher than urban poverty (45 percent) according to the 2007 estimates, owing to low agricultural productivity and limited access to roads.** Poverty incidence also varies widely among regions; the Central region's poverty rate (58 percent) is more than double that of the Eastern region (27 percent).

**Food security is one of the key elements in poverty reduction in Timor-Leste.** Subsistence farming is the main source of livelihood for 75 percent of the population. About one-fourth of the population lived in hunger in 2010. 70 percent experienced food shortages in 2007, and the agricultural production data indicate that little progress has probably been made in recent years. Food shortage usually occurs for at least 2-3 months before the maize and rice harvest. Although food imports could address the shortage, poor roads and transportation systems are the major constraints to food supply to rural areas.

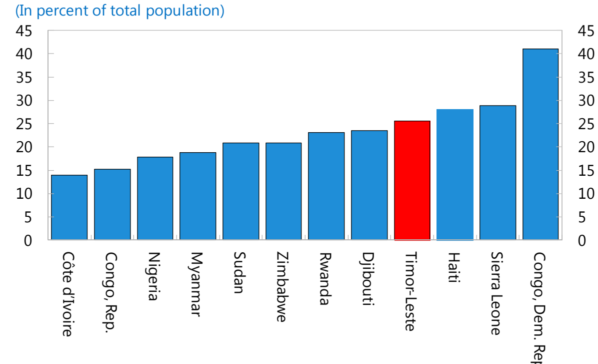
**Improving food security and reducing poverty are integral parts of the Millennium Development Goals (MDGs) for Timor-Leste.** The government aims to develop the agriculture sector to reduce rural poverty, achieve food security by 2020, and promote economic growth in rural areas. Following India's "green revolution" model, it has focused on providing high yielding seeds and fertilizers and improving irrigation.

**Public Expenditure**
(In millions of U.S. dollars)




Source: Timor-Leste authorities.

**Global Hunger Indices, 2010**
(In percent of total population)




Source: International Food Policy Research Institute.

[1] In the absence of an updated living standards survey, the 2009 poverty estimate is derived using an econometric model and the 2009/10 demographic and health survey results.

new investment projects, to reduce inflationary pressures. They agreed that the challenge faced by Timor-Leste is to utilize petroleum earnings in a way that avoids "resource curse" problems, including excessive real currency appreciation ("Dutch Disease"), to sustain strong economic growth over the long term.

**24. The authorities noted that to bring the non-oil fiscal balance back in line with the ESI over the next 10 years, they plan to strengthen the MTBF to highlight the longer-term impact of the current fiscal stance and new spending initiatives.** The MTBF will also include the government's strategy of private-sector-led growth to reduce its dependence on petroleum revenue. Costing of planned major projects is underway. The authorities indicated that the full costs and related recurrent costs will be incorporated in the MTBF once they are available. The authorities plan to review the recent FAD mission's recommendations to raise domestic revenue over the medium term. They also noted that Timor-Leste has many other mineral resources such as copper and iron ore, which will provide additional fiscal revenue in the period ahead and that geological mapping is underway.

**25. The authorities stressed their commitment to transparency.** They noted the importance of transparency in Timor-Leste as a tool to prevent mismanagement and corruption as governmental institutions and legal frameworks are still being built. As the co-chair of the G7+ Group of Fragile and Conflict Affected States, the authorities plan to share their transparency model and experience with other fragile states.

**26. The authorities noted that, although the government does not face financing constraints, loans from development banks to finance projects would help build their capacity to appraise and plan projects.** They stated that any borrowing would substitute, not complement, withdrawals from the PF and that they are studying the pros and cons of PPPs, given substantial fiscal costs incurred in other countries.

## B. Financial Sector Policy

**27. Financial sector development.** Staff advised that continued progress in developing the financial sector and strengthening the credit culture are critical for sustained growth in the private sector. The new commercial bank plans to start mobile banking services soon to provide financial services to rural areas. To expand financial services further, infrastructure bottlenecks such as telecommunications need to be addressed. The public credit registry information system continues to improve, with an increasing number of borrowers in the database. The system could cover other nonbank lending institutions when they are ready to join it. Speeding up passage of key legislation would help financial sector development. In particular, the land law that parliament plans to discuss soon should help clarify property rights. In addition, contract enforcement needs to be improved by judicial reform to allow effective collateralization of loans and help expand private sector credit.

**28. Financial supervision.** Staff welcomed the Central Bank's efforts to strengthen financial supervision and regulation. The Central Bank has started conducting on- and off-site bank supervision and plans to strengthen coordination with foreign banks' home supervisors. It recently issued a regulation to provide a framework for other deposit-taking institutions such as microfinance institutions. A law on anti-money laundering and combating the financing of terrorism (AML/CFT) was submitted to Parliament, and after passage of the law, a financial intelligence unit (FIU) is expected to be established.

### Authorities' Views

**29. The authorities broadly agreed with staff's views.** They indicated that the Central Bank will need continued TA in many areas, including for payments system and financial sector development.

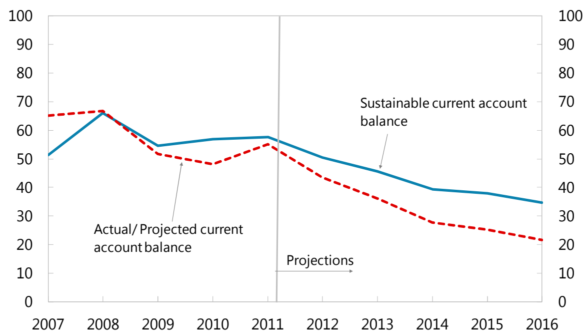
## C. Exchange Rate and External Stability

**30. Exchange rate regime.** Staff supported the authorities' intention to continue to use the U.S. dollar as its currency. Given the country's limited capacity for independent monetary and exchange rate policies, the use of the U.S. dollar is appropriate and has provided a nominal anchor. There are no plans to change the exchange rate regime in the medium term, but as indicated in the SDP, the Central Bank plans to study, by 2015, the merits of adopting Timor-Leste's own currency.

**31. External stability.** The real effective exchange rate has appreciated by 6 percent in 2011. However, non-oil exports, excluding coffee, are minimal and the country depends highly on imports given almost no domestic production base except subsistence farming and coffee. The current account surplus is high but is projected to decline with rising government spending. The surplus is expected to remain below its sustainable level, computed as the difference between petroleum income and the ESI (text figure).

Prudent fiscal policy will be key to maintaining external stability over the long term. A standard exchange rate assessment is not feasible because of a lack of data.

**Current Account Sustainability: Baseline Scenario**
(In percent of GDP)




**Sources: Timor-Leste authorities, and IMF staff calculations.**

**Assessment of Business Climate, 2010-11**

| Doing Business 1/ | | | Global Competitiveness Index | | |
|---|---|---|---|---|---|
| Countries | Rank Among 183 (2011) | Rank Among 183 (2010) | Countries | Rank Among 142 (2011) | Rank Among 139 (2010) |
| Bangladesh | 107 | 119 | Bangladesh | 108 | 107 |
| Botswana | 52 | 45 | Botswana | 80 | 76 |
| Cambodia | 147 | 145 | Cambodia | 97 | 109 |
| Indonesia | 121 | 122 | Indonesia | 46 | 44 |
| Nepal | 116 | 123 | Nepal | 125 | 130 |
| Papua New Guinea | 103 | 102 | Philippines | 75 | 85 |
| Philippines | 148 | 144 | Sri Lanka | 52 | 62 |
| Sri Lanka | 102 | 105 | Thailand | 39 | 38 |
| Timor-Leste | 174 | 164 | Timor-Leste | 131 | 133 |
| Vietnam | 78 | 93 | Vietnam | 65 | 59 |

Sources: World Bank, *World Development Indicators;* and World Economic Forum.
1/ There are some discrepancies on the 2010 ranking between the 2011 and the 2010 reports, due to the adjustment in methodology.

**32. Competitiveness.** Despite the government's efforts, Timor-Leste's business climate has improved little and remains among the least favorable of countries covered in recent surveys (text table). While political and security risks have fallen after the 2006 conflict, the most unfavorable factors include underdeveloped infrastructure, access to financing, and a low skill base. The ongoing structural reforms such as judicial reform and introduction of the land law will help the country improve its competitiveness.

## D. Other Issues

**33. Statistics.** Staff welcomed the authorities' continued efforts to improve data quality and availability. The national accounts advisor, with IMF assistance, is finalizing compilation of the national accounts statistics for 2004–10 for the first time. Staff supported the decision to hand over the responsibility of national accounts compilation to the Statistical Office from the MOF's Macroeconomic Directorate. Data shortcomings remain and more staff and training will be needed to improve the data necessary for policy analysis and formulation. The authorities plan to update the CPI basket weights and improve price data collection. The agriculture survey needs to be improved, coordinated by the Statistical Office, together with the Ministry of Agriculture and FAO. The planned TA to improve trade data, and participation in the General Data Dissemination System would help the authorities upgrade macroeconomic statistics.

**34. Technical assistance.** Since 1999, Timor-Leste has been one of the largest recipients of Fund TA. It has focused on establishing key economic institutions for macroeconomic management, as well as on developing local capacity to manage them. There are still many areas where Timor-Leste needs further extensive TA. To manage its petroleum wealth, Timor-Leste is receiving TA under the Managing Natural Resource Wealth Topical Trust Fund. In addition to planned TA on statistics and PF asset management, two resident advisors for Treasury and PF management will be extended at the authorities' requests.

# STAFF APPRAISAL

**35. Rising government spending has supported strong economic growth, but inflation has jumped to double digits.** Using its petroleum wealth, the government has resolved to step up development by scaling up investment in infrastructure. Real non-oil GDP growth is projected to remain strong at about 10 percent in 2012 and over the medium term. Key risks to the outlook are oil price volatility and the possibility that inflation continues to rise on the back of large increases in government spending.

**36. Given development needs, investment in infrastructure is welcome, but the planned increase of spending over the next few years needs to be slowed to better align with the absorptive capacity of the economy and administrative constraints.** Continued large increases in government spending would raise inflationary pressure further, and high inflation will impose significant costs on the poor. In the absence of monetary policy, sound fiscal policy is key to containing high inflation and sustaining strong economic growth. The government's intention to consider adjusting the pace of 2012 budget execution if inflation remains high is welcome. Staff stressed the importance of continued progress in improving the capacity to implement capital projects.

**37. The authorities' plan to reduce the non-oil fiscal deficit to a sustainable level over the next 10 years is appropriate.** This will provide an important anchor for fiscal policy. To achieve this goal, the government may need to take substantial measures, including containing spending growth and increasing domestic revenue. In addition, the medium-term budget framework needs to be strengthened by including the full costs of planned major projects and recurrent costs once they are available. The authorities' intention to review the recent FAD mission's recommendations to raise non-oil revenue, including the introduction of a VAT over the medium term, is welcome. Repealing the very generous tax holidays under a new private investment law is recommended.

**38. The government has made solid progress in improving public financial management.** A well-managed Petroleum Fund is in place. Further progress has been made in addressing the weaknesses in PFM by establishing new institutions to strengthen public investment management. The lack of skilled personnel is the key constraint to PFM so the government's focus on training Timorese should help build capacity.

**39. Developing the financial sector and strengthening the credit culture are critical for sustained growth in the private sector.** The Central Bank's continued efforts to strengthen financial sector supervision and regulations are welcome. Banks tightened their lending standards and improved credit assessments. Speeding up the passage of key legislations such as the land law would help financial sector development.

**40. The use of the U.S. dollar is appropriate given the limited capacity for independent monetary and exchange rate policies.** Non-oil exports, excluding coffee, are minimal and the country depends highly on imports. Accelerating structural reforms is needed to improve competitiveness. Prudent fiscal policy will be key to maintaining external stability over the long term.

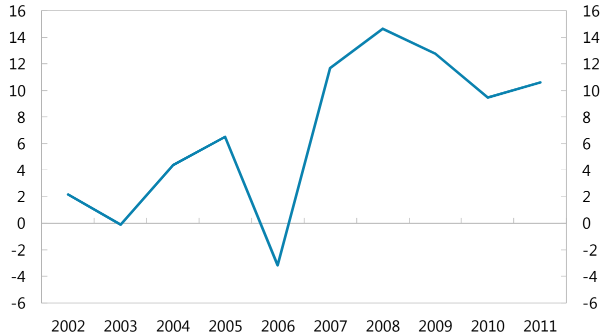
**41. Data quality and availability need to be improved.** More staff and training are needed to improve the data necessary for policy analysis and formulation.

**42.** Staff recommends the next Article IV consultation be held on the standard 12-month cycle.

# Figure 1. Timor-Leste: Macroeconomic Developments

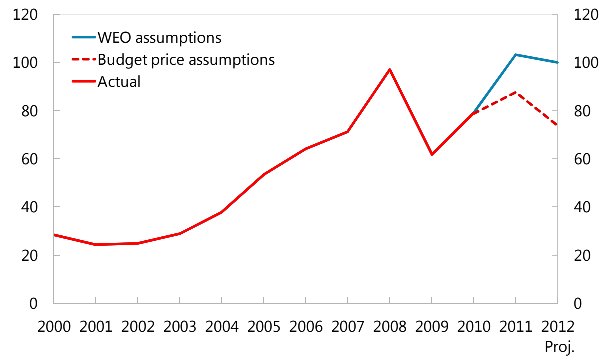
*The non-oil economy has been growing rapidly since 2007 …*

**Real Non-Oil GDP Growth**
(In percent)



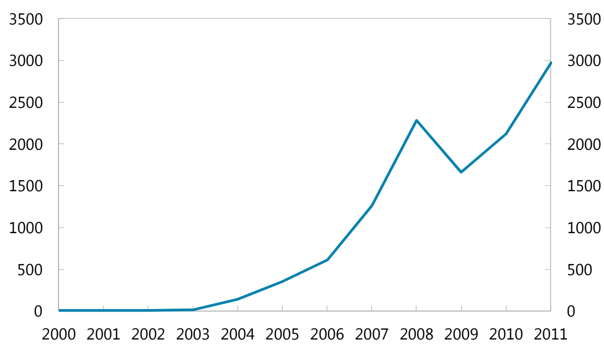

*… supported by high oil prices and …*

**Oil Prices**
(U.S. dollars per barrel)



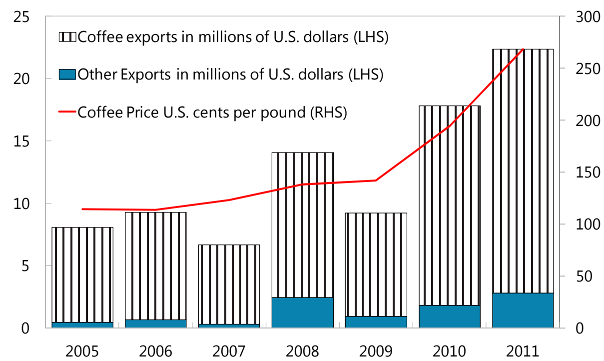

*… rising oil exports earnings.*

**Oil Exports**
(In millions of U.S. dollars)



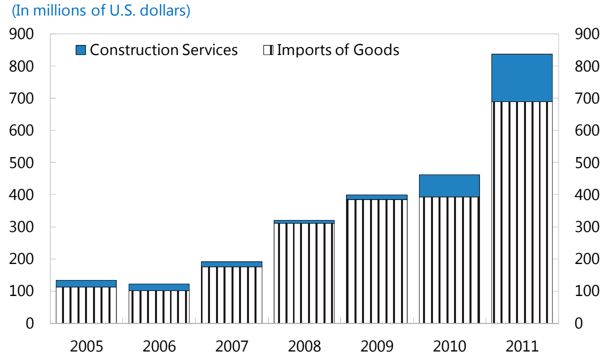

*Non-oil exports are also picking up, driven by an all-time high coffee price.*

**Exports**



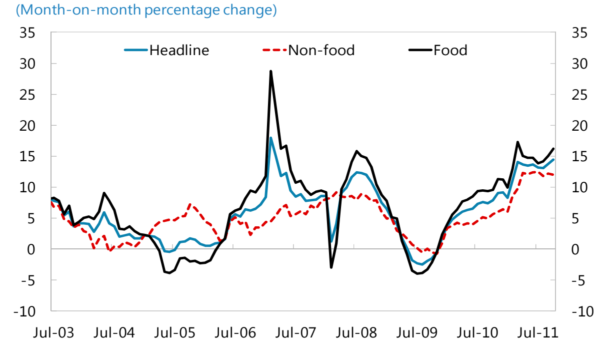

*Imports are growing rapidly due to strong demand and …*

**Imports**
(In millions of U.S. dollars)




*… inflation is also rising rapidly to over 10 percent, due to high food prices and strong demand.*

**Consumer Price Index in Dili**
(Month-on-month percentage change)



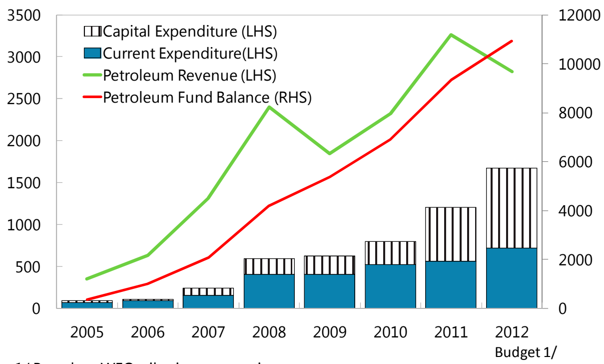

Sources: Timor-Leste authorities; INS; and IMF staff estimates.

## Figure 2. Timor-Leste: Policy Developments

*The overall fiscal balance is in large surplus in recent years...*

**Expenditure and Petroluem Revenue**

(In millions of U.S. dollars)

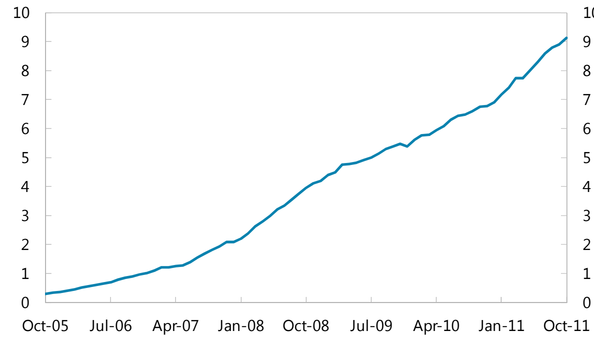



1/ Based on WEO oil price assumptions.

*... resulting in large increases in the Petroleum Fund.*

**Petroleum Fund Balance**

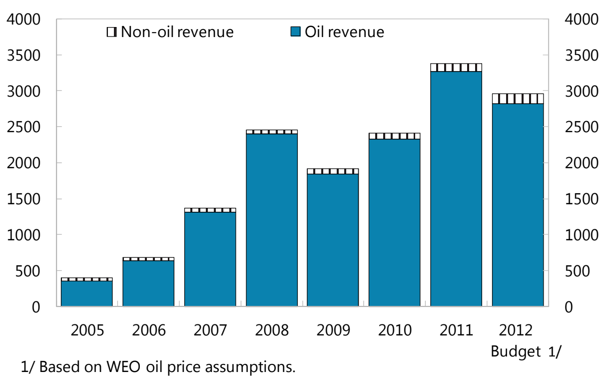
(In billions of U.S. dollars)




*Non-oil government revenue is very small, but on the back of large oil revenue ...*

**Revenue**

(In millions of U.S. dollars)

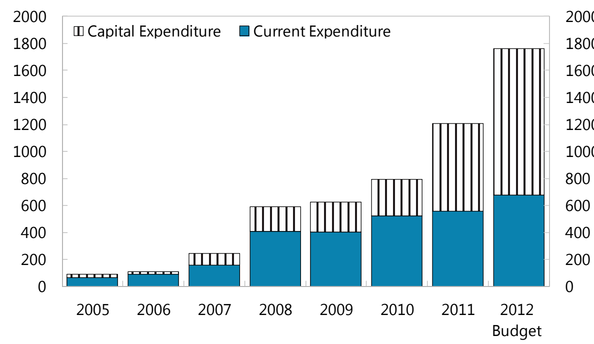



1/ Based on WEO oil price assumptions.

*... government capital spending is growing fast.*

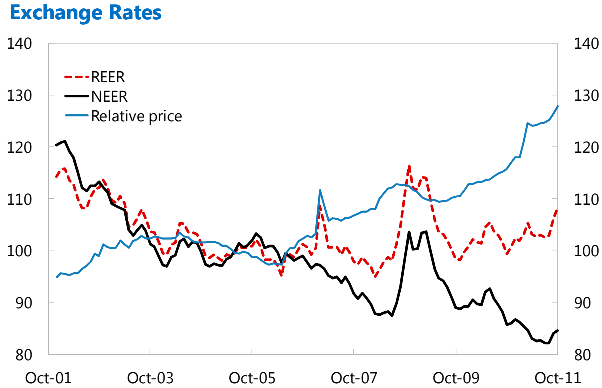
**Expenditure**

(In millions of U.S. dollars)



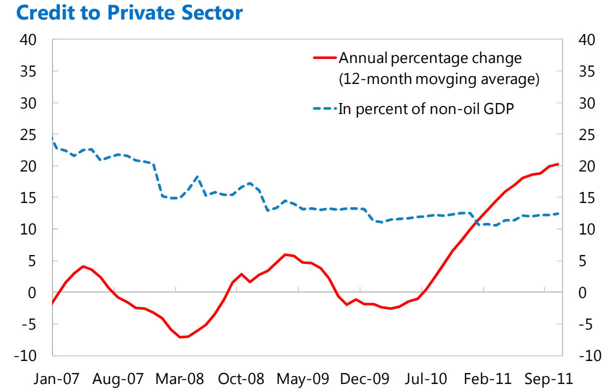

*High inflation has driven up the REER despite the depreciation of the U.S. dollar.*

**Exchange Rates**




*Credit to the private sector has started rising after being stagnant for a few years.*

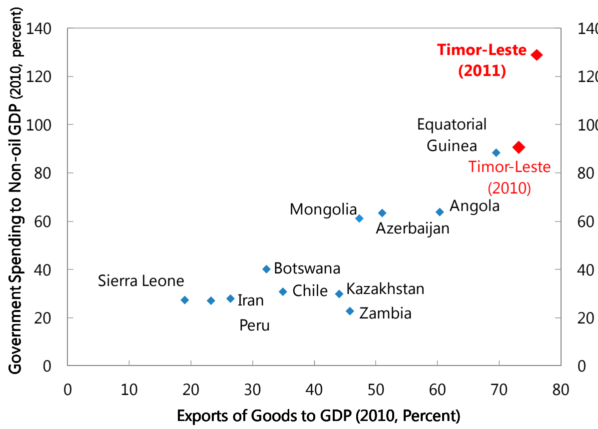
**Credit to Private Sector**



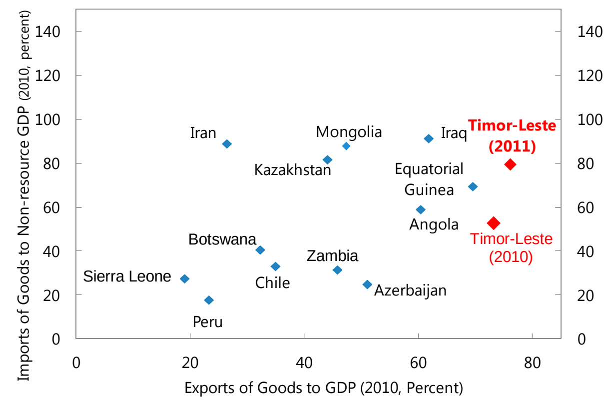

Sources: Timor-Leste authorities; INS; and IMF staff estimates.

# Figure 3. Timor-Leste: Cross-Country Perspective

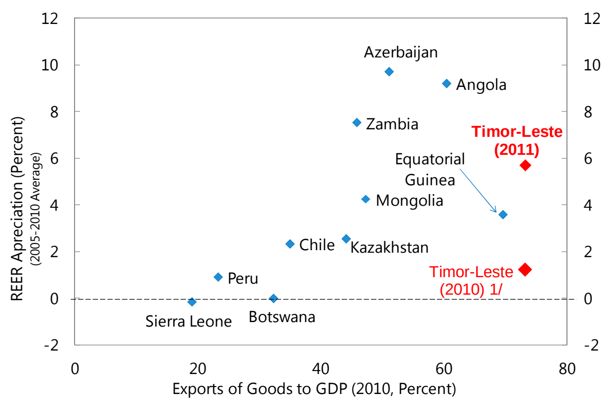
*Government spending in Timor-Leste stands out relative to other resource dependent economies.*




*...and Timor-Leste's dependence on imports is going up.*

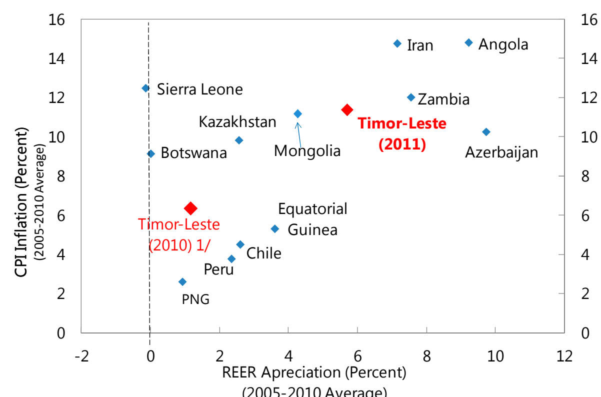



*Timor-Leste had not experienced large real exchange appreciation until recently, but ...*



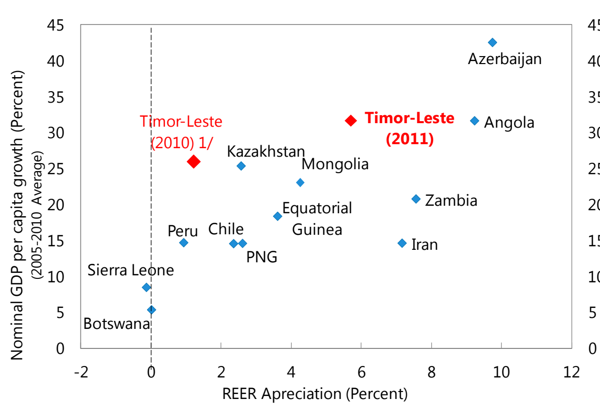

1/ 2007 to 2010 Average.

*... high inflation in 2011 resulted in large real exchange appreciation.*



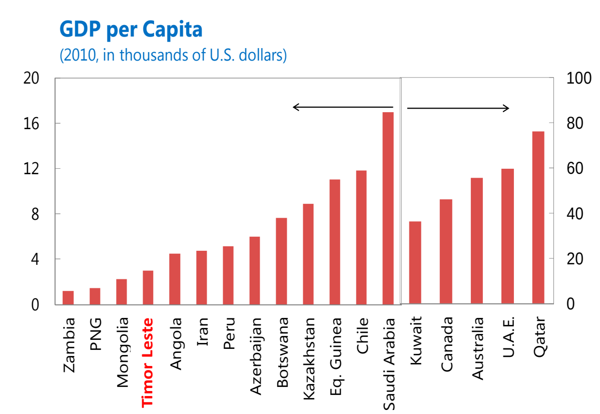

1/ 2007 to 2010 Average.

*Per-capita income growth in Timor-Leste has been higher than in many other resource dependent economies...*




1/ 2007 to 2010 Average.

*... but income per capita in Timor-Leste remains on the low side for resource dependent economies.*




Sources: WEO database; APD LISC database; and IMF staff estimates.

## Table 1. Timor-Leste: Selected Economic and Financial Indicators, 2007–12

GDP at current prices (2010): US$3.2 billion
Population (2010): 1.1 million
GDP per capita (2010): US$2,908
Non-oil GDP per capita (2010): US$821
Quota: SDR 8.2 million

| | 2007 | 2008 | 2009 | 2010 | 2011 Proj. | 2012 Proj. 1/ |
|---|---|---|---|---|---|---|
| | (Annual percent change) | | | | | |
| Real sector | | | | | | |
| Real non-oil GDP growth | 11.7 | 14.6 | 12.8 | 9.5 | 10.6 | 10.0 |
| CPI (annual average) 2/ | 10.3 | 9.0 | 0.7 | 6.8 | 13.1 | 8.0 |
| CPI (end-period) 2/ | 8.6 | 7.5 | 1.7 | 9.2 | 13.1 | 8.0 |
| | (In percent of GDP, unless otherwise indicated) | | | | | |
| Central government operations | | | | | | |
| Revenue | 75.4 | 80.8 | 72.5 | 75.2 | 78.1 | 72.6 |
| Domestic revenue | 2.7 | 1.7 | 2.5 | 2.6 | 2.6 | 3.3 |
| Petroleum revenue | 72.6 | 79.1 | 70.0 | 72.6 | 75.6 | 69.3 |
| Expenditure | 13.5 | 19.6 | 23.8 | 24.8 | 28.0 | 34.8 |
| Recurrent expenditure | 8.8 | 13.5 | 15.4 | 16.5 | 13.0 | 16.7 |
| Capital expenditure | 4.8 | 6.1 | 8.4 | 8.4 | 15.0 | 18.1 |
| Overall balance | 61.8 | 61.2 | 48.7 | 50.4 | 50.2 | 37.9 |
| Non-oil overall balance (in percent of non-oil GDP) | -39.6 | -85.3 | -71.1 | -81.1 | -104.0 | -102.2 |
| | (Annual percent change, unless otherwise indicated) | | | | | |
| Money and credit | | | | | | |
| Deposits 3/ | 44.2 | 34.9 | 38.7 | 9.8 | 14.2 | … |
| Credit to the private sector 3/ | -9.8 | 1.9 | 1.1 | 5.9 | 23.6 | … |
| Lending interest rate (percent) 3/ | 15.0 | 13.1 | 11.2 | 11.0 | 10.8 | … |
| | (In millions of U.S. dollars, unless otherwise indicated) | | | | | |
| Balance of payments | | | | | | |
| Current account balance | 1177 | 2023 | 1363 | 1538 | 2375 | 1773 |
| (In percent of GDP) | 65.1 | 66.7 | 51.7 | 48.1 | 55.0 | 43.5 |
| Trade balance | -169 | -297 | -376 | -374 | -666 | -795 |
| Exports 4/ | 7 | 14 | 9 | 18 | 22 | 33 |
| Imports | 176 | 311 | 385 | 392 | 689 | 829 |
| Petroleum revenue | 1313 | 2400 | 1845 | 2323 | 3261 | 2821 |
| Overall balance | 147 | -20 | 39 | 156 | -3 | 160 |
| Public foreign assets (end-period) 3/ 5/ | 2316 | 4407 | 5627 | 7310 | 9743 | 11487 |
| (In months of imports) | 158 | 170 | 175 | 224 | 170 | 166 |
| Exchange rates | | | | | | |
| NEER (2000=100, period average) 3/ | 94.4 | 92.1 | 95.4 | 89.3 | 83.8 | … |
| REER (2000=100, period average) 3/ | 100.9 | 102.3 | 105.1 | 102.3 | 103.9 | … |
| NEER (2000=100, end-period) 3/ | 91.8 | 100.3 | 89.3 | 86.7 | 84.7 | … |
| REER (2000=100, end-period) 3/ | 98.7 | 112.0 | 99.8 | 102.4 | 108.2 | … |
| Memorandum items: | | | | | | |
| GDP at current prices: | 1808 | 3035 | 2634 | 3199 | 4315 | 4073 |
| Non-oil GDP 6/ | 494 | 635 | 790 | 876 | 1054 | 1252 |
| Oil GDP 7/ | 1313 | 2400 | 1845 | 2323 | 3261 | 2821 |
| Crude oil prices (U.S. dollars per barrel, WEO) 8/ | 71 | 97 | 62 | 79 | 104 | 100 |
| Petroleum Fund balance (in millions of U.S. dollars) 3/ | 2086 | 4197 | 5377 | 6904 | 9338 | 10923 |
| Petroleum Fund balance (in percent of non-oil GDP) 3/ | 422 | 661 | 681 | 788 | 886 | 872 |
| Public debt (in millions of U.S. dollars) | 0 | 0 | 0 | 0 | 0 | 43 |

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

1/ Staff proposals.
2/ For Dili (capital city). The countrywide CPI is available on a quarterly basis only.
3/ Data for 2011 is as of end-October.
4/ Excludes petroleum exports, the income of which is recorded under the income account.
5/ Includes Petroleum Fund balance and the central bank's official reserves.
6/ Based on the resident national accounts advisor's new estimates.
7/ Petroleum revenue is used as a proxy for oil GDP.
8/ September 2011 WEO assumptions.

Table 2. Timor-Leste: Summary Operations of the Central Government, 2008-16

| | 2008 | 2009 | 2010 | 2011 | | 2012 | | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | Budget | Proj. | Budget | Proj. 1/ | | Projections 1/ | | |
| | (In millions of U.S. Dollars, unless otherwise indicated) | | | | | | | | | | |
| **Revenue** | **2453.0** | **1910.5** | **2407.2** | **2940.0** | **3372.3** | **2225.9** | **2957.4** | **2832.8** | **2608.4** | **2748.2** | **2771.7** |
| Petroleum revenue | 2400.2 | 1844.7 | 2323.4 | 2829.5 | 3261.5 | 2089.9 | 2821.3 | 2674.1 | 2422.9 | 2530.3 | 2515.3 |
| Domestic revenue | 52.8 | 65.8 | 83.7 | 110.4 | 110.8 | 136.1 | 136.1 | 158.7 | 185.5 | 217.9 | 256.3 |
| **Expenditure** | **594.2** | **627.0** | **794.2** | **1307.9** | **1206.4** | **1763.4** | **1415.6** | **1538.9** | **1646.6** | **1753.6** | **1858.8** |
| Expense | 409.8 | 405.4 | 526.5 | 588.4 | 559.0 | 679.0 | 679.0 | 710.0 | 741.9 | 775.0 | 804.3 |
| Net acquisition of non-financial assets | 184.4 | 221.7 | 267.7 | 719.5 | 647.4 | 1084.4 | 736.6 | 828.9 | 904.7 | 978.6 | 1054.5 |
| **Overall balance (Net lending (+)/borrowing (-))** | **1858.8** | **1283.4** | **1612.9** | **1632.1** | **2165.9** | **462.6** | **1541.8** | **1293.9** | **961.8** | **994.6** | **912.9** |
| **Non-oil overall balance** | **-541.4** | **-561.2** | **-710.5** | **-1197.5** | **-1095.6** | **-1627.3** | **-1279.5** | **-1380.2** | **-1461.1** | **-1535.8** | **-1602.5** |
| **CASH FLOWS FROM FINANCING ACTIVITIES:** | | | | | | | | | | | |
| **Net acquisition of financial assets** | 2026.5 | 1298.9 | 1658.5 | 1632.1 | 2165.9 | 495.7 | 1584.9 | 1374.1 | 1042.9 | 1097.4 | 1092.9 |
| **Net incurrence of liabilities** | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 33.1 | 43.1 | 80.2 | 81.1 | 102.8 | 180.0 |
| | (In percent of GDP) | | | | | | | | | | |
| **Revenue** | **80.8** | **72.5** | **75.2** | **68.1** | **78.1** | **54.6** | **72.6** | **68.1** | **62.3** | **59.4** | **55.3** |
| Taxes | 1.3 | 1.8 | 1.6 | 1.5 | 1.4 | 2.3 | 2.3 | 2.6 | 2.9 | 2.9 | 3.0 |
| Taxes on income, profits, and capital gains | 0.6 | 0.6 | 0.6 | 0.5 | 0.5 | 1.0 | 1.0 | 1.0 | 1.1 | 1.1 | 1.1 |
| Taxes on goods & services | 0.5 | 0.9 | 0.8 | 0.8 | 0.7 | 1.1 | 1.1 | 1.2 | 1.4 | 1.5 | 1.5 |
| Taxes on international trade & transactions | 0.1 | 0.2 | 0.2 | 0.2 | 0.2 | 0.3 | 0.3 | 0.3 | 0.4 | 0.4 | 0.4 |
| Petroleum revenue | 79.1 | 70.0 | 72.6 | 65.6 | 75.6 | 51.3 | 69.3 | 64.3 | 57.8 | 54.7 | 50.2 |
| Other revenue | 0.5 | 0.7 | 1.0 | 1.1 | 1.1 | 1.0 | 1.0 | 1.2 | 1.5 | 1.8 | 2.1 |
| **Expenditure** | **19.6** | **23.8** | **24.8** | **30.3** | **28.0** | **43.3** | **34.8** | **37.0** | **39.3** | **37.9** | **37.1** |
| Expense | 13.5 | 15.4 | 16.5 | 13.6 | 13.0 | 16.7 | 16.7 | 17.1 | 17.7 | 16.7 | 16.1 |
| Compensation of employees | 1.7 | 3.3 | 2.9 | 2.7 | 2.6 | 3.4 | 3.4 | 3.5 | 3.6 | 3.4 | 3.3 |
| Purchases of goods and services | 7.0 | 8.1 | 7.6 | 6.8 | 6.5 | 8.5 | 8.5 | 8.7 | 9.1 | 8.6 | 8.2 |
| Subsidies/Social Benefits | 4.8 | 4.0 | 6.0 | 4.1 | 3.9 | 4.8 | 4.8 | 4.9 | 5.0 | 4.7 | 4.5 |
| Net acquisition of non-financial assets | 6.1 | 8.4 | 8.4 | 16.7 | 15.0 | 26.6 | 18.1 | 19.9 | 21.6 | 21.1 | 21.1 |
| **Gross operating balance** | **67.3** | **57.1** | **58.8** | **54.5** | **65.2** | **38.0** | **55.9** | **51.0** | **44.5** | **42.6** | **39.3** |
| **Overall balance (Net lending (+)/borrowing (-))** | **61.2** | **48.7** | **50.4** | **37.8** | **50.2** | **11.4** | **37.9** | **31.1** | **23.0** | **21.5** | **18.2** |
| **CASH FLOWS FROM FINANCING ACTIVITIES:** | | | | | | | | | | | |
| **Net acquisition of financial assets** | **66.8** | **49.3** | **51.8** | **37.8** | **50.2** | **12.2** | **38.9** | **33.0** | **24.9** | **23.7** | **21.8** |
| **Net incurrence of liabilities** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** | **0.8** | **1.1** | **1.9** | **1.9** | **2.2** | **3.6** |
| | (In percent of non-oil GDP) | | | | | | | | | | |
| **Revenue** | **386.5** | **241.9** | **274.9** | **279.0** | **320.0** | **177.8** | **236.2** | **190.5** | **147.6** | **130.9** | **111.1** |
| o/w Petroleum revenue | 378.2 | 233.6 | 265.3 | 268.5 | 309.5 | 166.9 | 225.3 | 179.8 | 137.1 | 120.5 | 100.9 |
| **Expenditure** | **93.6** | **79.4** | **90.7** | **124.1** | **114.5** | **140.8** | **113.1** | **103.5** | **93.2** | **83.5** | **74.5** |
| Expense (Recurrent expenditure) | 64.6 | 51.3 | 60.1 | 55.8 | 53.0 | 54.2 | 54.2 | 47.7 | 42.0 | 36.9 | 32.3 |
| Net acquisition of non-financial assets (Capital expenditure) | 29.1 | 28.1 | 30.6 | 68.3 | 61.4 | 86.6 | 58.8 | 55.7 | 51.2 | 46.6 | 42.3 |
| **Non-oil overall balance** | **-85.3** | **-71.1** | **-81.1** | **-113.6** | **-104.0** | **-130.0** | **-102.2** | **-92.8** | **-82.7** | **-73.2** | **-64.3** |
| *Memorandum items:* | | | | | | | | | | | |
| Development Partner Commitments (in millions of U.S. dollars, grants) | 184.4 | 215.6 | 263.9 | 272.8 | 245.5 | 188.9 | 188.9 | 128.8 | 72.0 | 63.7 | 0.0 |
| Rice operations (in millions of U.S. dollars): | | | | | | | | | | | |
| Sales | 16.8 | 20.4 | 12.6 | 10.0 | 10.0 | 0.8 | 0.8 | 0.9 | 1.1 | 1.2 | 1.3 |
| Purchases | 77.8 | 31.8 | 35.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Education (in millions of U.S. dollars) | 45.9 | 61.7 | 68.8 | 85.0 | | 111.1 | | | | | |
| Education (in percent of non-oil GDP) | 7.2 | 7.8 | 7.9 | 8.1 | | 8.9 | | | | | |
| Health (in millions of U.S. dollars) | 27.6 | 28.9 | 34.6 | 40.5 | | 51.1 | | | | | |
| Health (in percent of non-oil GDP) | 4.3 | 3.7 | 4.0 | 3.8 | | 4.1 | | | | | |
| ESI (in percent of non-oil GDP) | 62.4 | 51.7 | 57.3 | 69.6 | 73.3 | 52.9 | 61.4 | 52.0 | 44.1 | 37.3 | 31.6 |
| Withdrawals above ESI (in percent of non-oil GDP) | 0.0 | 13.2 | 35.3 | 18.6 | 5.2 | 74.5 | 37.3 | 35.4 | 34.0 | 30.9 | 25.4 |
| Petroleum Fund balance | 138.3 | 204.1 | 215.8 | 204.0 | 216.4 | 228.2 | 268.2 | 295.5 | 318.4 | 311.8 | 310.0 |
| Crude oil price (U.S. dollar per barrel) 2/ | | | | 87.7 | | 73.7 | | 75.7 | 78.6 | 81.6 | 84.7 |
| Crude oil price (U.S. dollar per barrel, WEO) 3/ | 97.0 | 61.8 | 79.0 | | 104.2 | | 100.0 | 99.5 | 97.5 | 96.5 | 95.5 |
| Non-oil GDP at current prices (in millions of U.S. dollars) | 635 | 790 | 876 | 1054 | 1054 | 1252 | 1252 | 1487 | 1767 | 2099 | 2494 |
| GDP at current prices (in millions of U.S. dollars) | 3035 | 2634 | 3199 | 4315 | 4315 | 4073 | 4073 | 4161 | 4190 | 4630 | 5009 |

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

1/ Staff proposals.

2/ Simple average of EIA's low case and reference prices.

3/ September 2011 WEO assumptions.

Table 3. Timor-Leste: Monetary Developments, 2006-11

| | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 Proj. |
|---|---|---|---|---|---|---|
| | | | (In millions of U.S. dollars) | | | |
| **Banking system 1/** | | | | | | |
| **Net foreign assets 2/** | **113** | **318** | **393** | **443** | **622** | **558** |
| Gross reserves | 84 | 230 | 210 | 250 | 406 | 368 |
| Other foreign assets | 61 | 126 | 211 | 219 | 244 | 368 |
| Foreign liabilities | 31 | 38 | 29 | 26 | 28 | 178 |
| **Net domestic assets** | **-13** | **-174** | **-200** | **-174** | **-327** | **-210** |
| Net credit to central government | -83 | -219 | -230 | -206 | -331 | -248 |
| Net credit to state and local government | 0 | 0 | 0 | 0 | 0 | 0 |
| Net credit to public nonfinancial corporations | 0 | 0 | 0 | 0 | 0 | 0 |
| Credit to private sector | 111 | 101 | 102 | 104 | 110 | 136 |
| Other items (net) | -42 | -56 | -73 | -72 | -105 | -97 |
| **Broad money** | **100** | **144** | **193** | **268** | **295** | **348** |
| Narrow money | 54 | 75 | 104 | 157 | 141 | 167 |
| Currency in circulation 3/ | 2 | 2 | 2 | 3 | 3 | 4 |
| Transferable deposits | 52 | 73 | 102 | 155 | 138 | 163 |
| Other deposits | 46 | 68 | 88 | 111 | 154 | 181 |
| **Central Bank** | | | | | | |
| **Net foreign assets 2/** | **84** | **230** | **210** | **238** | **394** | **356** |
| Gross reserves | 84 | 230 | 210 | 250 | 406 | 368 |
| Foreign liabilities | 0 | 0 | 0 | 12 | 12 | 12 |
| **Net domestic assets** | **-76** | **-210** | **-185** | **-182** | **-340** | **-293** |
| Net credit to central government | -56 | -190 | -196 | -163 | -318 | -240 |
| Net credit to other depository corporations | 1 | 1 | 42 | 2 | 24 | 8 |
| Other items (net) | -20 | -20 | -31 | -21 | -45 | -61 |
| **Monetary Base** | **8** | **20** | **26** | **56** | **55** | **63** |
| Currency in circulation | 2 | 2 | 2 | 3 | 3 | 4 |
| Other liabilities to depositary corporations | 6 | 18 | 23 | 53 | 51 | 59 |
| | | | (In percent, unless otherwise indicated) | | | |
| Memorandum items | | | | | | |
| Annual broad money growth | 28.2 | 43.9 | 34.1 | 39.3 | 9.9 | 18.0 |
| Annual reserve money growth | 30.0 | 147.0 | 25.9 | 120.4 | -2.7 | 15.0 |
| Annual credit to the private sector growth | 5.2 | -9.8 | 1.9 | 1.1 | 5.9 | 23.6 |
| Credit/non-oil GDP | 25.6 | 20.3 | 16.1 | 13.1 | 12.5 | 12.9 |
| Broad money/non-oil GDP | 22.9 | 29.1 | 30.4 | 34.0 | 33.7 | 33.1 |
| Credit/deposits | 113.6 | 71.1 | 53.9 | 39.0 | 37.6 | 39.4 |
| Nonperforming loans/total loans | 27.8 | 30.2 | 28.2 | 32.1 | 41.7 | … |
| Amounts of non-perfoming loans (in millions of U.S. dollars) | 25.6 | 30.3 | 29.7 | 35.6 | 46.3 | … |
| Loan rate 4/ | 16.6 | 15.0 | 12.3 | 10.8 | 11.1 | … |
| Deposit rate 5/ | 1.0 | 1.0 | 1.1 | 1.1 | 1.1 | … |

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

1/ Includes the Central Bank, three commercial banks (branches of foreign banks), and a micro-finance institution.
2/ An oil fund was created in September 2005 and the deposits were moved off-shore and onto the government balance sheet.
3/ Includes only coinage issued by the Central Bank. No data are available for notes due to dollarization of the financial system.
4/ Rate offered by other depository corporations on three-month time deposits in U.S. dollars. The rate is weighted by deposit amounts.
5/ Rate charged by other depository corporations on loans in U.S. dollars. The rate is weighted by loan amounts.

Table 4. Timor-Leste: Balance of Payments, 2008–16

| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|---|---|---|---|
| | | | Prel. | Proj. | | | Projections | | |
| | | | | | (In millions of U.S. dollars) | | | | |
| Current account balance | 2,023 | 1,363 | 1,538 | 2,375 | 1,773 | 1,506 | 1,158 | 1,168 | 1,082 |
| Trade balance | -297 | -376 | -374 | -666 | -795 | -861 | -909 | -976 | -1,016 |
| Exports 1/ | 14 | 9 | 18 | 22 | 33 | 29 | 43 | 37 | 56 |
| Of which: Coffee | 12 | 8 | 16 | 20 | 30 | 25 | 38 | 33 | 49 |
| Imports | -311 | -385 | -392 | -689 | -829 | -890 | -952 | -1,013 | -1,072 |
| Of which: Food | -45 | -50 | -42 | -52 | -52 | -53 | -54 | -56 | -57 |
| Manufactured goods | -169 | -263 | -267 | -537 | -668 | -715 | -764 | -807 | -859 |
| Services (net) | -444 | -505 | -607 | -690 | -641 | -548 | -449 | -469 | -498 |
| Receipts | 44 | 47 | 69 | 93 | 103 | 97 | 92 | 107 | 126 |
| Of which: Travel | 14 | 18 | 36 | 42 | 50 | 59 | 69 | 80 | 95 |
| Payments | -488 | -552 | -676 | -782 | -744 | -645 | -541 | -576 | -624 |
| Of which: UN and donor related | -398 | -417 | -445 | -446 | -362 | -215 | -72 | -64 | -64 |
| Construction | -9 | -14 | -69 | -148 | -156 | -177 | -188 | -201 | -214 |
| Income (net) | 2,407 | 1,846 | 2,171 | 3,284 | 2,847 | 2,699 | 2,443 | 2,548 | 2,532 |
| Of which: Oil/gas receipts and interest | 2,400 | 1,845 | 2,323 | 3,261 | 2,821 | 2,674 | 2,423 | 2,530 | 2,515 |
| Current transfers (net) | 357 | 399 | 348 | 446 | 363 | 216 | 72 | 64 | 64 |
| Capital and financial accounts | -2,041 | -1,263 | -1,280 | -2,377 | -1,614 | -1,354 | -1,011 | -1,027 | -937 |
| Official capital transfers | 17 | 27 | 31 | 35 | 30 | 21 | 13 | 9 | 4 |
| Financial account | -2,058 | -1,290 | -1,312 | -2,412 | -1,644 | -1,375 | -1,024 | -1,036 | -941 |
| Of which: Oil/gas savings | -2,003 | -1,330 | -1,482 | 2,461 | -1,585 | -1,374 | -1,043 | -1,097 | -1,093 |
| FDI | 39 | 30 | 5 | 46 | 55 | 64 | 75 | 88 | 104 |
| Errors and omissions (net) | -2 | -61 | -101 | 0 | 0 | 0 | 0 | 0 | 0 |
| Overall balance | -20 | 39 | 156 | -3 | 160 | 151 | 146 | 140 | 146 |
| Changes in official reserves (increase -) | 20 | -39 | -156 | 3 | -160 | -151 | -146 | -140 | -146 |
| | | | | | (In percent of GDP) | | | | |
| Current account | 67 | 52 | 48 | 55 | 44 | 36 | 28 | 25 | 22 |
| Trade balance | -10 | -14 | -12 | -15 | -20 | -21 | -22 | -21 | -20 |
| Exports | 0 | 0 | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| Imports | -10 | -15 | -12 | -16 | -20 | -21 | -23 | -22 | -21 |
| Services (net) | -15 | -19 | -19 | -16 | -16 | -13 | -11 | -10 | -10 |
| Income (net) | 79 | 70 | 68 | 76 | 70 | 65 | 58 | 55 | 51 |
| Current transfers (net) | 12 | 15 | 11 | 10 | 9 | 5 | 2 | 1 | 1 |
| Capital and financial accounts | -67 | -48 | -40 | -55 | -40 | -33 | -24 | -22 | -19 |
| Overall balance | -1 | 1 | 5 | 0 | 4 | 4 | 3 | 3 | 3 |
| | | | | | (In percent of non-oil GDP) | | | | |
| Current account | 319 | 173 | 176 | 225 | 142 | 101 | 66 | 56 | 43 |
| Trade balance | -47 | -48 | -43 | -63 | -64 | -58 | -51 | -46 | -41 |
| Exports | 2 | 1 | 2 | 2 | 3 | 2 | 2 | 2 | 2 |
| Imports | -49 | -49 | -45 | -65 | -66 | -60 | -54 | -48 | -43 |
| Services (net) | -70 | -64 | -69 | -65 | -51 | -37 | -25 | -22 | -20 |
| Income (net) | 379 | 234 | 248 | 312 | 227 | 181 | 138 | 121 | 102 |
| Current transfers (net) | 56 | 50 | 40 | 42 | 29 | 15 | 4 | 3 | 3 |
| Capital and financial accounts | -322 | -160 | -146 | -226 | -129 | -91 | -57 | -49 | -38 |
| Overall balance | -3 | 13 | 29 | 0 | 13 | 10 | 8 | 7 | 6 |
| | | | | | (In millions of U.S. dollars, unless otherwise indicated) | | | | |
| Memorandum items: | | | | | | | | | |
| Public foreign assets (end-period) | 4,407 | 5,627 | 7,310 | 9,743 | 11,487 | 13,013 | 14,202 | 15,440 | 16,678 |
| Of which: Central bank reserves | 210 | 250 | 406 | 405 | 565 | 716 | 862 | 1,003 | 1,148 |
| Petroleum Fund balance | 4,197 | 5,377 | 6,904 | 9,338 | 10,923 | 12,297 | 13,340 | 14,437 | 15,530 |
| Non-oil GDP at current prices | 635 | 790 | 876 | 1,054 | 1,252 | 1,487 | 1,767 | 2,099 | 2,494 |
| GDP at current prices | 3,035 | 2,634 | 3,199 | 4,315 | 4,073 | 4,161 | 4,190 | 4,630 | 5,009 |
| Crude oil price (U.S. dollar per barrel, WEO) 2/ | 97 | 62 | 79 | 104 | 100 | 100 | 98 | 97 | 96 |

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

1/ Excludes petroleum exports, the income of which is recorded under the income account.

2/ September 2011 WEO assumptions.

Table 5. Timor-Leste: Medium-Term Scenario, 2008–16

| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|---|---|---|---|
| | | | | Proj. | Projections 6/ | | | | |
| Real sector | | | | | | | | | |
| GDP at current prices (in millions of U.S. dollars) | 3035 | 2634 | 3199 | 4315 | 4073 | 4161 | 4190 | 4630 | 5009 |
| Non-oil GDP | 635 | 790 | 876 | 1054 | 1252 | 1487 | 1767 | 2099 | 2494 |
| Oil GDP 1/ | 2400 | 1845 | 2323 | 3261 | 2821 | 2674 | 2423 | 2530 | 2515 |
| Real non-oil GDP growth (percentage change) | 14.6 | 12.8 | 9.5 | 10.6 | 10.0 | 10.0 | 10.0 | 10.0 | 10.0 |
| CPI (percentage change, period average) 2/ | 9.0 | 0.7 | 6.8 | 13.1 | 8.0 | 8.0 | 8.0 | 8.0 | 8.0 |
| | (In percent of GDP) | | | | | | | | |
| Central government operations | | | | | | | | | |
| Revenue | 80.8 | 72.5 | 75.2 | 78.1 | 72.6 | 68.1 | 62.3 | 59.4 | 55.3 |
| Domestic revenue | 1.7 | 2.5 | 2.6 | 2.6 | 3.3 | 3.8 | 4.4 | 4.7 | 5.1 |
| Petroleum revenue | 79.1 | 70.0 | 72.6 | 75.6 | 69.3 | 64.3 | 57.8 | 54.7 | 50.2 |
| Expenditure | 19.6 | 23.8 | 24.8 | 28.0 | 34.8 | 37.0 | 39.3 | 37.9 | 37.1 |
| Recurrent expenditure | 13.5 | 15.4 | 16.5 | 13.0 | 16.7 | 17.1 | 17.7 | 16.7 | 16.1 |
| Capital expenditure | 6.1 | 8.4 | 8.4 | 15.0 | 18.1 | 19.9 | 21.6 | 21.1 | 21.1 |
| Overall balance | 61.2 | 48.7 | 50.4 | 50.2 | 37.9 | 31.1 | 23.0 | 21.5 | 18.2 |
| Non-oil overall balance | -17.8 | -21.3 | -22.2 | -25.4 | -31.4 | -33.2 | -34.9 | -33.2 | -32.0 |
| | (In percent of non-oil GDP) | | | | | | | | |
| Revenue | 386.5 | 241.9 | 274.9 | 320.0 | 236.2 | 190.5 | 147.6 | 130.9 | 111.1 |
| Domestic revenue | 8.3 | 8.3 | 9.6 | 10.5 | 10.9 | 10.7 | 10.5 | 10.4 | 10.3 |
| Petroleum revenue | 378.2 | 233.6 | 265.3 | 309.5 | 225.3 | 179.8 | 137.1 | 120.5 | 100.9 |
| Expenditure | 93.6 | 79.4 | 90.7 | 114.5 | 113.1 | 103.5 | 93.2 | 83.5 | 74.5 |
| Recurrent expenditure | 64.6 | 51.3 | 60.1 | 53.0 | 54.2 | 47.7 | 42.0 | 36.9 | 32.3 |
| Capital expenditure | 29.1 | 28.1 | 30.6 | 61.4 | 58.8 | 55.7 | 51.2 | 46.6 | 42.3 |
| Overall balance | 292.9 | 162.5 | 184.2 | 205.5 | 123.1 | 87.0 | 54.4 | 47.4 | 36.6 |
| Non-oil overall balance | -85.3 | -71.1 | -81.1 | -104.0 | -102.2 | -92.8 | -82.7 | -73.2 | -64.3 |
| | (In millions of U.S. dollars, unless otherwise indicated) | | | | | | | | |
| Balance of payments | | | | | | | | | |
| Current account balance | 2,023 | 1,363 | 1,538 | 2,375 | 1,773 | 1,506 | 1,158 | 1,168 | 1,082 |
| Trade balance | -297 | -376 | -374 | -666 | -795 | -861 | -909 | -976 | -1,016 |
| Exports 3/ | 14 | 9 | 18 | 22 | 33 | 29 | 43 | 37 | 56 |
| Imports | 311 | 385 | 392 | 689 | 829 | 890 | 952 | 1,013 | 1,072 |
| Petroleum revenue | 2,400 | 1,845 | 2,323 | 3,261 | 2,821 | 2,674 | 2,423 | 2,530 | 2,515 |
| Public foreign assets (end-period) 3/ | 4,407 | 5,627 | 7,310 | 9,743 | 11,487 | 13,013 | 14,202 | 15,440 | 16,678 |
| (In months of imports) | 170 | 175 | 224 | 170 | 166 | 176 | 179 | 183 | 187 |
| Gross official reserves | 210 | 250 | 406 | 405 | 565 | 716 | 862 | 1,003 | 1,148 |
| Petroleum Fund balance | 4,197 | 5,377 | 6,904 | 9,338 | 10,923 | 12,297 | 13,340 | 14,437 | 15,530 |
| | (In percent of non-oil GDP, unless otherwise indicated) | | | | | | | | |
| Current account balance | 319 | 173 | 176 | 225 | 142 | 101 | 66 | 56 | 43 |
| Trade balance | -47 | -48 | -43 | -63 | -64 | -58 | -51 | -46 | -41 |
| Exports 3/ | 2.2 | 1.2 | 2.0 | 2.1 | 2.7 | 1.9 | 2.4 | 1.8 | 2.2 |
| Imports | 49.0 | 48.7 | 44.8 | 65.3 | 66.2 | 59.8 | 53.9 | 48.2 | 43.0 |
| Public external debt | | | | | | | | | |
| (In millions of U.S. dollars) | 0 | 0 | 0 | 0 | 43 | 123 | 204 | 306 | 486 |
| (In percent of GDP) | 0.0 | 0.0 | 0.0 | 0.0 | 1.1 | 3.0 | 4.9 | 6.6 | 9.7 |
| Memorandum items: | | | | | | | | | |
| Crude oil prices (U.S. dollars per barrel) 4/ | … | … | … | 87.7 | 73.7 | 75.7 | 78.6 | 81.6 | 84.7 |
| Crude oil prices (U.S. dollars per barrel, WEO) 5/ | 97.0 | 61.8 | 79.0 | 104.2 | 100.0 | 99.5 | 97.5 | 96.5 | 95.5 |
| Petroleum Fund balance (in percent of GDP) | 138 | 204 | 216 | 216 | 268 | 295 | 318 | 312 | 310 |
| Petroleum Fund balance (in percent of non-oil GDP) | 661 | 681 | 788 | 886 | 872 | 827 | 755 | 688 | 623 |

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

1/ Petroleum revenue is used as a proxy for oil GDP.

2/ For Dili (capital city). The countrywide CPI is available on a quarterly basis only.

3/ Excludes petroleum exports, the income of which is recorded under the income account.

4/ A simple average of EIA's low case and reference prices for West Texas Intermediate (WTI) crude oil.

5/ A simple average of UK Brent, Dubai, and WTI crude oil prices; September 2011 WEO assumptions.

6/ Staff proposals.

Table 6. Timor-Leste: Millennium Development Goals Progress, 1990-2009

| | 1990 | 1995 | 2000 | 2005 | 2009 |
|---|---|---|---|---|---|
| **Goal 1: Eradicate extreme poverty and hunger** | | | | | |
| Employment to population ratio, 15+, total (percent) | 67 | 67 | 65 | 68 | 68 |
| Employment to population ratio, ages 15-24, total (percent) | 53 | 53 | 51 | 59 | 60 |
| Income share held by lowest 20 percent | ... | ... | 7 | 9 | 9 |
| Malnutrition prevalence, weight for age (percent of children under 5) | ... | ... | 41 | 42 | ... |
| Poverty gap at $1.25 a day (PPP) (percent) | ... | ... | 19 | 9 | 9 |
| Poverty headcount ratio at $1.25 a day (PPP) (percent of population) | ... | ... | 53 | 37 | 37 |
| **Goal 2: Achieve universal primary education** | | | | | |
| Primary completion rate, total (percent of relevant age group) | ... | ... | ... | ... | 80 |
| Total enrollment, primary (percent net) | ... | ... | ... | 69 | 83 |
| **Goal 3: Promote gender equality and empower women** | | | | | |
| Proportion of seats held by women in national parliaments (percent) | ... | ... | ... | 25 | 29 |
| Ratio of female to male primary enrollment (percent) | ... | ... | ... | 92 | 95 |
| Ratio of female to male secondary enrollment (percent) | ... | ... | ... | 100 | ... |
| Ratio of female to male tertiary enrollment (percent) | ... | ... | 127 | ... | 71 |
| Share of women employed in the nonagricultural sector (percent of total nonagricultural employment) | ... | ... | 35.0 | ... | ... |
| **Goal 4: Reduce child mortality** | | | | | |
| Immunization, measles (percent of children ages 12-23 months) | ... | ... | 56 | 48 | 68 |
| Mortality rate, infant (per 1,000 live births) | 127 | 105 | 82 | 62 | 44 |
| Mortality rate, under-5 (per 1,000) | 169 | 137 | 104 | 76 | 64 |
| **Goal 5: Improve maternal health** | | | | | |
| Adolescent fertility rate (births per 1,000 women ages 15-19) | ... | 72 | 71 | 68 | 60 |
| Births attended by skilled health staff (percent of total) | ... | 26 | 24 | 18 | 30 |
| Contraceptive prevalence (percent of women ages 15-49) | 25 | 23 | 8 | 20 | 22 |
| Maternal mortality ratio (modeled estimate, per 100,000 live births) | 650 | 590 | 520 | 420 | 557 |
| Pregnant women receiving prenatal care (percent) | ... | ... | 43 | 61 | ... |
| **Goal 6: Combat HIV/AIDS, malaria, and other diseases** | | | | | |
| Children with fever receiving antimalarial drugs (percent of children under age 5 with fever) | ... | ... | 47 | ... | ... |
| Incidence of tuberculosis (per 100,000 people) | ... | ... | 498 | 498 | 498 |
| Tuberculosis case detection rate (percent, all forms) | ... | ... | 64 | 76 | 84 |
| **Goal 7: Ensure environmental sustainability** | | | | | |
| CO2 emissions (kg per PPP $ of GDP) | ... | ... | 0 | 0 | 0 |
| CO2 emissions (metric tons per capita) | ... | ... | 0 | 0 | 0 |
| Forest area (percent of land area) | 65.0 | .. | 57.4 | 53.7 | 49.9 |
| Improved sanitation facilities (percent of population with access) | ... | ... | 32 | 44 | 50 |
| Improved water source (percent of population with access) | ... | ... | 52 | 63 | 69 |
| Marine protected areas (percent of territorial waters) | 0 | 0 | 1 | 1 | 7 |
| Net ODA received per capita (current US$) | 0 | 0 | 279 | 183 | 197 |
| **Goal 8: Develop a global partnership for development** | | | | | |
| Fertility rate, total (births per woman) | 5 | 6 | 7 | 6 | 6 |
| **Other** | | | | | |
| GNI per capita, Atlas method (current US$) | ... | ... | 330 | 730 | 2,020 |
| GNI, Atlas method (current US$) (billions) | ... | ... | 0.3 | 0.7 | 2.2 |
| Gross capital formation (percent of GDP) | ... | ... | 25.6 | ... | ... |
| Life expectancy at birth, total (years) | 46 | 51 | 56 | 60 | 62 |
| Literacy rate, adult total (percent of people ages 15 and above) | ... | ... | 38 | 51 | 51 |
| Population, total (millions) | ... | ... | 0.8 | 0.9 | 1.0 |

Source: World Development Indicators database, 2010.

## APPENDIX I. TIMOR-LESTE'S PETROLEUM FUND AND ESTIMATED SUSTAINABLE INCOME

The Petroleum Fund (PF) is the centerpiece of Timor-Leste's resource management framework. It is essentially a government account with the Central Bank to which the country's petroleum receipts are credited and from which debits can be made to finance the state budget. The PF was established with the PF Law in 2005.

- The PF Law defines the estimated sustainable income (ESI) as 3 percent of Timor-Leste's total petroleum wealth that is the current PF balance plus the net present value of future petroleum receipts. The ESI for 2012 is estimated at $665 million.

- The ESI is a benchmark to guide budget withdrawals from the PF rather than a rigid fiscal ceiling and to inform policy discussions. Actual withdrawals can exceed the ESI, but the government is required to provide parliament with a justification of why this is in the long-term interest of the country.

- The ESI is calculated every year based on a set of assumptions on petroleum output and prices. The PF law requires the ESI to be estimated using prudent assumptions reflecting international best practice and based upon recognized international standards. The oil prices used are derived from the US Energy Information Administration (EIA) forecast for low sulfur light crude oil, consistent with West Texas Intermediate (WTI), a key benchmark international oil price. The price forecast used is the average of the EIA low and reference case from the 2011 Annual Energy Outlook, which is $74 per barrel for 2012. This price is well below the WEO price assumption of $100.

- Only projects with approved development plans and firm investment commitments (i.e., the Bayu-Undan and Kitan fields) have been included in the ESI calculation. The Greater Sunrise field has been declared a commercial discovery, but does not yet have an approved development plan. Therefore, Sunrise is not included in the ESI although it is a confirmed petroleum resource.

- The discount rate used for the ESI calculation is the historical 10-year rolling average of U.S. government bond yields for each maturity date, which is 3.7 percent.