Statement by the IMF Staff Representative on the Democratic Republic of Timor-Leste
January 19, 2011

1. **This statement provides information that has become available since the Staff Report was circulated to the Executive Board on December 3, 2010.** The information does not alter the thrust of the staff appraisal.

2. **Timor-Leste's economic growth picked up in the second half of 2010.** Preliminary data provided by the authorities indicate that GDP growth in 2010 is likely to be higher than the estimate in the Staff Report of 6 percent and closer to the government's estimate of 9½ percent:

- Bad weather conditions in 2010 appear to have had a more limited impact on agricultural output than expected. Preliminary estimates indicate that, despite unseasonally high rainfalls, total agricultural production grew by ½ percent in 2010, rather than declined by 5 percent as estimated by staff.
- Preliminary government estimates of activity in industry and services also show stronger-than-expected growth of 16 percent in 2010. Activity was particularly strong in the transport and communication, financial services, and the small manufacturing sectors.

3. **Government revenue from petroleum was higher than budgeted, because of higher-than-projected oil prices:** US$ 2.2 billion was collected in petroleum revenue for 2010, 30 percent above the mid-year 2010 budget estimate. If higher oil prices persist, sustainable income (ESI) from petroleum could be revised up by 3 to 5 percent when the annual recalculation is made in April.

4. **The Ministry of Finance has revised upwards its estimate of government cash spending in 2010 to US$729 million, about 20 percent higher than in 2009**. Spending remained below the sum of expected 2010 domestic revenue and the estimated sustainable income (ESI) from petroleum by about US$100 million.

5. **The Banking and Payments Authority (BPA) reported an increase in CPI inflation for Dili to 9.1 percent year-on-year in November 2010**. The rate increased from the 7.5 percent reported in the Staff Report for September.

6. **As noted in the staff appraisal, a higher ESI creates room for additional spending.** Staff supports government investment in public infrastructure, health and education, and their efforts to reduce administrative and absorptive capacity constraints. Meanwhile, spending at a more measured pace would stand a better chance of realizing high quality investment, crowding in private investment, and thereby achieving balanced and sustainable growth. The higher-than-expected inflation also underlines the need for fiscal restraint.