

TIMOR-LESTE

Table 1	2021
Population, million	1.3
GDP, current US\$ billion	1.6
GDP per capita, current US\$	1204.9
School enrollment, primary (% gross) ^a	112.5
Life expectancy at birth, years ^a	69.7
Total GHG emissions (mtCO ₂ e)	6.5

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent WDI value (2020).

After a large contraction in 2020, the economy is gradually recovering from several waves of COVID-19 outbreaks and from a severe natural disaster with cyclone Seroja in 2021. The non-oil economy is estimated to expand by 3.0 percent in 2022, underpinned by public spending and rebounding private consumption. The war in Ukraine and the associated higher commodity and food prices will affect inflation, the fiscal and external accounts. The outlook is subject to downside risks from external and domestic sources.

Key conditions and challenges

Timor-Leste is an oil and gas producer that saves its hydrocarbon revenues in a Petroleum Fund. The accumulated financial assets are worth around USD 17.8 billion, nearly 10 times the size of the non-oil economy. Large government spending has allowed the country to make significant strides in the development of infrastructure and basic services, although the efficiency of spending has been mixed. Timor-Leste government spending remained one of the highest in the world (82.6 percent of GDP in 2020) and has led to a large fiscal deficit of 25.6 percent of non-oil GDP in 2020.

The fundamental challenge facing the country is the transformation of its petroleum wealth into sustained and broad-based increases in living standards. With active oil fields nearly depleted, Timor-Leste's long-term risks to fiscal sustainability are increasing. The country faces the risks of a fiscal cliff as the Petroleum Fund is projected to be depleted by 2032 under current spending trajectories.

In addition to a fledgling private sector that depends on the demand created by public sector spending, Timor-Leste suffers from limited economic integration and high market concentration of its exports. Tourism is the main export on the services side, but its contribution is constrained by weak connectivity. The country is also vulnerable to natural hazards, including floods, landslides, earthquakes, and tsunamis.

Recent developments

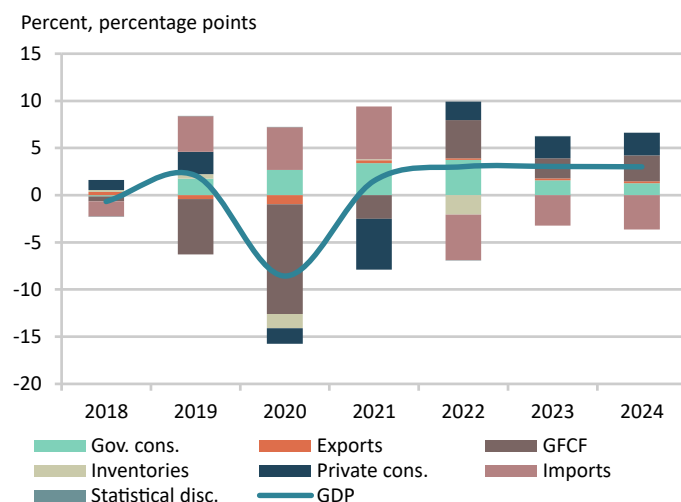
Strong progress with vaccination allowed the authorities to lift COVID-19-related restrictions at the end of November 2021 and social and economic life has largely returned to normal.

The economy is substantially exposed to the impacts of the war in Ukraine through commodity markets. Headline inflation rose to 8.0 percent year-on-year (YoY) in June 2022, driven by surging global food and energy prices and the increase in tax rates for alcoholic beverages and tobacco.

Despite the slow budget execution, Parliament approved a mid-year increase to the budget in May 2022. The revision was made to incorporate measures proposed during the Presidential election campaign and to deal with higher food and fuel prices. These include the Food Basket program; interventions aimed to support expectant mothers and children; and a fuel voucher scheme for national public transport operators, national maritime and air transport operators, and purchasers of fuel intended for agricultural and fishing activities.

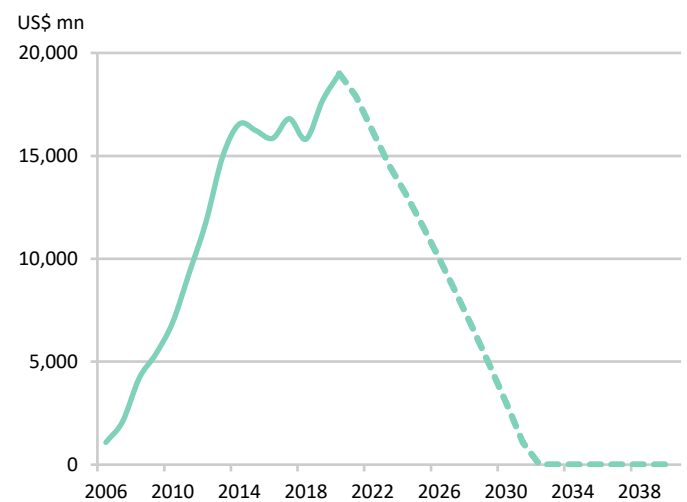
Lack of more recent data poses a challenge to fully understand the current poverty condition and a threat of inflation may set back any progress. The poverty rate at the national poverty line fell from 50.4 percent in 2007 to 41.8 percent in 2014. The latest poverty measurement was produced using the 2014 Timor-Leste Survey of Living Standards (TL-SLS) and the next one is

FIGURE 1 Timor-Leste / Real GDP growth and contributions to real GDP growth



Sources: Ministry of Finance and World Bank staff estimates.

FIGURE 2 Timor-Leste / Petroleum fund



Sources: Central Bank of Timor-Leste (BCTL) and World Bank staff estimates.

planned to be conducted only in 2023. A 2019 joint report by The National Council on Food Security, Sovereignty and Nutrition in Timor-Leste (KONSSANTIL), WFP, and FAO found that the majority of Timorese cannot afford a nutritious diet. Inflation induced by increasing global food and energy prices may set back any progress in poverty reduction.

Outlook

The non-oil economy is projected to expand by 3.0 percent in 2022, driven by a

significant increase in government spending and rebounding private consumption. The fiscal deficit is projected to increase to close to 55 percent in 2022 as transfers and capital spending escalate. The Petroleum Fund is expected to fall in value at least until there are inflows from a new hydrocarbon production field or a structural reform of fiscal policy.

Uncertainties surrounding the baseline forecast remain large. Macroeconomic risks include further increases in global food and energy prices and COVID-19-related mobility restrictions. Exposure to natural disasters also makes it vulnerable to upward pressure on food prices. It is

difficult, however, to track the impact of these risks at the household level due to very limited data. Domestic policy reform slippages can also lead to protracted macroeconomic imbalances.

Fiscal consolidation, Public Financial Management (PFM) and structural reforms could help lay the foundation for more diversified and resilient growth in the medium term. PFM reforms are a major priority because government expenditure will continue to drive the economy in the medium term. To preserve fiscal and external sustainability, expenditure rationalization and revenue mobilization should accompany PFM reforms.

TABLE 2 Timor-Leste / Macro poverty outlook indicators

(annual percent change unless indicated otherwise)

	2019	2020	2021e	2022f	2023f	2024f
Real GDP growth, at constant market prices	2.1	-8.6	1.5	3.0	3.0	3.0
Private Consumption	3.7	-2.5	-7.8	3.1	3.7	3.8
Government Consumption	3.2	4.9	5.3	5.7	2.3	1.9
Gross Fixed Capital Investment	-17.4	-42.5	-14.5	28.0	11.8	14.0
Exports, Goods and Services	-17.2	-51.1	29.3	12.2	13.8	14.0
Imports, Goods and Services	-6.5	-8.5	-10.5	10.3	6.4	7.0
Real GDP growth, at constant factor prices	2.0	-8.3	1.6	3.0	3.0	3.0
Agriculture	2.5	5.1	2.9	2.9	2.9	2.9
Industry	4.8	-28.5	2.4	2.4	2.4	2.4
Services	1.2	-7.1	1.1	3.2	3.2	3.2
Inflation (Consumer Price Index)	0.9	0.5	3.8	7.5	2.5	2.5
Current Account Balance (% of GDP)	4.7	-5.3	61.9	-5.7	-9.6	-12.8
Fiscal Balance (% of GDP)^a	-29.9	-25.6	-45.3	-54.0	-53.8	-53.7
GHG emissions growth (mtCO₂e)	1.5	-5.7	1.8	3.2	3.8	3.9
Energy related GHG emissions (% of total)	9.7	9.5	9.6	9.7	9.7	9.7

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.

Notes: e = estimate, f = forecast.

a/ The ESI is part of total revenue, while excess withdrawals from the PF is a financing item.

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SELECTED INDICATORS*

	Avg. '00-15	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022 E
INCOME AND ECONOMIC GROWTH															
GDP growth (annual %)	9.1	10.0	9.5	5.8	6.0	2.1	4.6	2.8	3.4	-3.1	-0.7	2.1	-8.6	1.5	3.0
GDP per capita growth (annual %, real)	7.0	8.1	7.5	3.9	4.2	0.3	2.7	0.9	1.4	-4.9	-2.6	0.1	-10.3	-0.5	1.1
GDP per capita (US\$, nominal)	730.8	676.6	806.4	947.5	1013.1	1210.0	1232.5	1332.8	1353.8	1299.5	1249.1	1317.9	1210.5	1204.9	1308.8
Private Consumption growth (annual %)	1.7	13.1	3.8	1.2	3.2	5.1	5.6	-1.3	4.5	3.1	1.7	3.7	-2.5	-7.8	3.1
Gross Investment (% of nominal GDP)	34.3	48.7	42.7	69.3	58.2	40.2	41.1	35.5	38.0	32.3	32.3	25.0	15.4	13.0	15.7
Gross Investment - Public (% of nominal GDP) ²	26.3	38.6	33.8	61.2	49.4	32.0	32.9	28.2	30.6	23.7	28.0	21.1	11.9	10.1	12.7
MONEY AND PRICES															
Inflation, consumer prices (annual %, EOP or MRV) ^{1,3}	6.0	1.7	9.0	17.2	11.5	3.9	0.3	-0.5	0.0	0.8	2.3	..	..	..	..
Inflation, consumer prices (annual %, period average) ³	3.8	-0.2	5.2	13.2	10.9	9.5	0.8	0.6	-1.5	0.5	2.3	0.9	0.5	3.8	7.5
Broad Money (% of GDP) ²	28.8	34.3	33.5	30.6	35.5	35.8	41.4	40.3	44.5	50.9	53.6	46.3	54.5	69.1	87.8
Domestic Credit to the Private Sector (% of GDP) ²	14.4	14.2	12.4	12.7	13.8	13.0	13.2	13.3	12.6	16.1	15.8	12.9	15.3	..	..
10 year interest rate (annual average) ³	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Nominal Exchange Rate (local currency per USD)	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Real Exchange Rate Index (2015=100)	71.7	65.7	73.8	78.3	86.6	91.3	89.7	100.0	99.1	97.8	94.9	98.1	97.1	94.1	99.8
FISCAL															
Revenue (% of GDP)	55.7	65.9	66.4	79.7	69.5	69.6	55.3	50.7	45.1	41.5	46.8	42.7	45.5	43.8	41.0
Expenditure (% of GDP)	63.7	83.1	86.2	104.8	108.7	77.5	92.8	83.8	98.8	74.8	75.5	72.6	71.2	89.0	94.9
Interest Payments (% of GDP)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.2	0.2
Non-Interest Expenditure (% of GDP)	63.7	83.1	86.2	104.8	108.7	77.5	92.8	83.8	98.8	74.8	75.5	72.6	71.1	88.9	94.7
Overall Fiscal Balance (% of GDP)	-11.6	-17.2	-19.8	-25.0	-39.1	-7.9	-37.6	-33.1	-53.7	-33.3	-28.7	-29.9	-25.6	-45.3	-54.0
Primary Fiscal Balance (% of GDP)	-11.6	-17.2	-19.8	-25.0	-39.1	-7.9	-37.6	-33.1	-53.7	-33.3	-28.7	-29.9	-25.5	-45.1	-53.8
General Government Debt (% of GDP)	0.4	0.0	0.0	0.0	0.0	0.5	1.5	2.9	4.7	6.6	9.1	11.3	13.7	14.6	-13.6
External Public Debt (% of GDP) ²	1.2	..	..	..	0.0	0.5	1.5	2.9	4.3	6.8	9.1	9.3	11.6	..	..
EXTERNAL ACCOUNTS															
Export growth, G&S (nominal US\$, annual %)	8.5	13.8	54.6	4.6	-4.1	-14.4	1.6	2.6	5.7	13.3	11.1	317.1	62.1	181.0	1.8
Import growth, G&S (nominal US\$, annual %)	10.3	19.2	14.5	42.3	-12.4	-31.4	13.0	1.8	-7.5	-11.9	-0.8	9.5	-1.7	34.2	24.6
Merchandise exports (% of GDP)	2.0	2.0	3.1	2.7	2.9	1.3	1.1	1.1	1.2	1.0	1.6	24.5	49.2	141.2	140.4
Merchandise imports (% of GDP)	31.9	46.4	34.9	38.1	58.5	45.7	42.7	41.0	34.3	39.1	38.7	37.8	40.6	49.4	49.5
Services, net (% of GDP)	-86.4	-106.5	-107.7	-134.3	-80.1	-30.9	-41.0	-36.5	-34.4	-21.2	-22.1	-25.0	-28.4	-43.5	-65.9
Current account balance (current US\$ millions)	944.8	1195.4	1588.9	2218.8	2647.9	2391.7	1093.8	203.6	-544.5	-283.5	-191.2	80.1	-84.9	1002.4	-101.9
Current account balance (% of GDP)	106.5	164.5	180.2	210.4	230.7	171.4	75.6	12.8	-33.0	-17.5	-12.1	4.7	-5.3	61.9	-5.7
Multilateral debt (% of total external debt) ²

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SELECTED INDICATORS*	Avg. '00-15	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022 E
POPULATION, EMPLOYMENT AND POVERTY															
Population, total (millions)	1.0	1.1	1.1	1.1	1.1	1.2	1.2	1.2	1.2	1.2	1.3	1.3	1.3	1.3	1.4
Population Growth (annual %)	2.0	1.8	1.8	1.8	1.8	1.8	1.8	1.9	1.9	2.0	2.0	2.0	1.9	2.0	1.9
Unemployment Rate ²	3.6	3.3	3.3	3.5	3.8	4.0	4.2	4.4	4.7	4.8	4.7	4.5	4.9	5.1	..
International poverty rate (\$2.15 in 2017 PPP) ⁴	..	..	..	..	..	..	8.0	..	..	..	8.9	8.8	10.7	10.8	10.6
Lower middle-income poverty rate (\$3.65 in 2017 PPP) ⁴	..	..	..	..	..	..	43.3	..	..	..	45.2	45.2	49.2	49.4	48.9
OTHER															
GDP (current LCU, millions)	787.6	726.9	881.8	1054.7	1147.8	1395.5	1447.3	1594.4	1650.6	1615.6	1583.9	1704.2	1595.5	1619.4	1791.7
GDP (current US\$, millions)	787.6	726.9	881.8	1054.7	1147.8	1395.5	1447.3	1594.4	1650.6	1615.6	1583.9	1704.2	1595.5	1619.4	1791.7
GDP per capita LCU (real)	1081.9	1101.2	1184.1	1230.8	1282.0	1286.2	1321.2	1332.8	1351.9	1285.1	1251.4	1252.5	1123.5	1118.3	1130.9
Human Development Index Ranking ⁵	128.8	126	126	123	126	127	129	134	137	140	141	141	..	..	..
CPIA (overall rating) ²	2.9	2.9	3.0	3.0	3.0	3.1	3.1	3.0	3.0	2.9	2.8	2.8	2.8	..	..
Economic Management ²	3.5	3.3	3.5	3.8	3.8	3.8	3.8	3.7	3.5	3.2	3.0	3.0	3.0	..	..
Structural Policies ²	2.8	2.8	2.8	2.8	2.8	3.0	3.0	3.0	3.0	2.8	2.8	2.8	2.8	..	..
Policies for Social Inclusion and Equity ²	2.8	2.8	2.9	2.9	2.9	2.9	2.9	2.9	2.9	2.9	2.9	2.9	2.9	..	..
Public Sector Management and Institutions ²	2.6	2.7	2.7	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.6	2.6	..	..

Notes: ".." indicates not available. E = estimate, F = forecast. Data from MFMOD unless otherwise noted. Poverty data are expressed in 2017 PPP, versus 2011 PPP in previous editions - resulting in major changes. See pip.worldbank.org

1/ Used latest month available.

2/ World Development Indicators Database and World Bank Staff Estimates

3/ World Bank GEM database; MRV = Most recent value

4/ Calculations based on EAPPOV harmonization, using 2007-TLSLS and 2014-TLSLS. Projection using annualized elasticity (2007-2014) with pass-through = 1 based on GDP per capita in constant LCU. Actual data: 2014. Nowcast: 2015-2021. Forecasts are from 2022 to 2024.

5/ The HDI ranking in 2001 is in relation to 175 countries and in 2010 in relation to 169 countries. Methodological enhancements in HDI calculations have resulted in notable improvements in the countries' rankings.

Sources: MFMOD Database, World Bank WDI and GEM databases, IMF.