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TIMOR-LESTE
ECONOMIC REPORT

Land of Opportunities: How Modern Land Administration Can Unlock Timor-Leste's Economic Transformation

September 2025

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Timor-Leste Economic Report

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Acknowledgments

The Timor-Leste Economic Report (TLER) is a bi-annual World Bank report that assesses recent macroeconomic developments, outlook, and risks, as well as specific development challenges for the Timorese economy. In doing so, the TLER aims to inform the public policy debate and is geared towards a wide audience, including the general public, the government, the private sector, civil society organizations, and other domestic and international stakeholders.

The TLER is a product of the World Bank Jakarta and Dili office and receives strategic guidance from Carolyn Turk, Division Director for Indonesia and Timor-Leste. The report is prepared by the Economic Policy Global Practice team, under the leadership of Sebastian Eckardt (Practice Manager), Bjorn Philipp (Practice Manager) and David Freedman (WBG Resident Representative). The first and second chapters were led by Amina Coulibaly and Yus Medina Pakpahan. The focus chapter was also prepared by Willem Van Der Muur (Senior Land Administration Specialist) and Dao Harrison (Senior Housing Specialist,) with contributions from Amina Coulibaly. Rideca Duarte provided administrative support and coordinated the report's launch event. The report also benefited from comments provided by Alief Rezza (Senior Economist), Djeneba Doumbia (Economist), Mika-Petteri Torhonen (Lead Land Administration Specialist) Bernardo Ribeiro de Almeida (Assistant Professor at the Leiden University College and Leiden University Law School)

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GDP per capita (USD)	1,295
Poverty headcount ratio -national poverty line (percent population)	41.8
Poverty headcount ratio-USD 3.0 a day (2021 PPP, percent population)	44.2
Poverty headcount ratio-USD 4.20 a day (2021 PPP,[1] percent population)	71.6
GINI index	28.7

Notes: Population and GDP data are for 2019. Poverty and inequality data are for 2014 (with revised PPPs)

[1] The 2021 PPP poverty rates are the June 2025 update. Timor-Leste poverty rates are based on 2014 data.

Acronyms

ASEAN	Association of Southeast Asian Nations
BCTL	Central Bank of Timor-Leste
CPI	Consumer Price Index
DGSRN	General Directorate of Registration and Notaries
DGTPSC	General Directorate of Land, Property and Cadastral Services
EAP	East Asia and Pacific
EDTL	*Electricidade de Timor-Leste*
EIRR	Economic Internal Rate of Return
EMDE	Emerging Markets and Developing Economies
ESI	Estimated Sustainable Income
FFPLA	Fit-For-Purpose Land Administration
GDP	Gross Domestic Product
IMF	International Monetary Fund
INETL	Institute National Statistics of Timor-Leste
IPSAS	International Public Sector Accounting Standards
LIS	Land Information System
LPC	Land and Property Commission
MoJ	Ministry of Justice
MSME	Micro, Small, and Medium-Sized Enterprises
NEER	Nominal Effective Exchange Rate
NEET	Not in Employment, Education, or Training
PDIM	Integrated Municipal Development Planning
PFM	Public Financial Management
PIM	Public Investment Management
PNDS	National Program for Village Development
REER	Real Effective Exchange Rate
SEFOPE	Secretary of State for Vocational Training and Employment Policy
SME	Small and Medium-Sized Enterprise
SNC	*Sistema Nacional de Cadastro*
SOE	State-Owned Enterprise
UN	United Nations
TLER	Timor-Leste Economic Report
UNDP	United Nations Development Programme
VAT	Value added Tax
WTO	World Trade Organization
yoy	Year-On-Year

Executive Summary

Timor-Leste is at a defining moment—one that brings both urgent challenges and real opportunities to build a more resilient and prosperous future. With oil production halted, the country now relies on withdrawals from its Petroleum Fund, which could be depleted by 2038. This raises a pressing question: how can Timor-Leste build a sustainable future and preserve its fiscal buffers? The stakes are high, but so is the potential, with several pathways already emerging. Membership of the Association of Southeast Asian Nations (ASEAN) promises deeper regional integration, long-delayed infrastructure projects are starting to bear fruit, and the tourism sector is rebounding. To seize this moment, Timor-Leste needs to mobilize its financial assets to grow its private sector, but for this to happen it needs to tackle the lack of land tenure security which is a barrier to investment across the board. Get this right, and Timor-Leste could become a model for sustainable growth in Southeast Asia. **The question is no longer *if* change is needed, but *how fast* it can be achieved!**

1. Recent Developments: A Recovery Amid Challenges

After showing signs of stabilizing in 2024, the global economy entered a period of heightened uncertainty in 2025. In 2024 global trade rebounded, driven by goods and a recovery in services, particularly in emerging markets and the United States, but trade policy uncertainty rose sharply in 2025, posing headwinds to global demand and confidence. Inflation dynamics diverged, with falling energy prices reducing headline inflation, while services inflation and wage growth kept core inflation elevated. Financial conditions have eased following policy shifts by the U.S. Federal Reserve 2024. However, structural challenges such as supply chain disruptions, climate risks, and sovereign debt burdens continued to affect developing economies.

In Timor-Leste, 200 are evident, although built on fragile foundations. Non-oil GDP grew by 4.1 percent in 2024, the fastest pace in recent years, driven by a sharp increase in public capital spending and a robust recovery in tourism, which grew by 30 percent year-on-year, pushing services exports up 43 percent. This momentum continued into early 2025 as budget execution improved and infrastructure spending unlocked long-delayed projects in transport, energy, and water, while foreign arrivals nearly doubled in the first quarter of 2025 compared to the same period in 2024. However, the recovery rests on narrow foundations: agriculture and industry together contributed less than half a percent of the growth in 2024, and the economy remains heavily dependent on imports for food, fuel, vehicles and construction materials.

Inflation in Timor-Leste has eased, but the economy remains vulnerable to external shocks. In the first half of 2025, inflation fell to an average of 0.12 percent year-on-year, offering some relief to consumers. This moderation is largely due to falling global commodity prices; food inflation, especially for staples like rice and vegetables, remains a persistent concern. Timor-Leste's reliance on imports leaves it vulnerable to external price shocks. Although dollarization ensures price stability, it constrains monetary flexibility, particularly in boosting export competitiveness.

Labor migration is playing an increasingly vital role in Timor-Leste's development strategy, particularly for youth employment and household resilience. Over 20,000 Timorese are working abroad, including around 4,700 in formal programs. These numbers are expected to grow further, as the government expands participation in overseas work schemes—particularly in Australia. Remittances from these workers already exceed 11 percent of non-oil GDP, providing a crucial source of household income and boosting domestic consumption. As a result, migration has become a key livelihood strategy, especially for educated youth facing limited job prospects at home. However, access remains unequal: high upfront migration costs, limited outreach, and eligibility restrictions often exclude poorer households, especially in rural areas, and women. Moreover, the growing outflow of workers must be carefully managed to avoid potential domestic labor shortages. In response, the government is advancing key reforms—including bilateral labor agreements and targeted skills training aligned with foreign job markets to make labor mobility more equitable, inclusive, and development-oriented.

External trade imbalances have worsened. The current account deficit widened from 21 percent of non-oil GDP in 2023 to 49 percent in 2024, reflecting lower Petroleum Fund returns and a widening trade gap. Coffee exports have declined in volume despite stronger global prices, while imports surged, particularly for capital goods. Although remittances provide a cushion, sustaining external stability will require urgent measures including diversifying exports, advancing targeted import substitution, and implementing fiscal adjustments to curb import demand.

The financial sector remains shallow. In 2024, credit to the private sector grew by 39 percent, yet lending is still heavily concentrated on loans to individuals and the construction sector. Despite a marked acceleration in credit growth in the first quarter of 2025, domestic credit reached only 37 percent of GDP, well below the 56 percent typical of peer countries. The loan-to-deposit ratio barely exceeded 30 percent in 2024, compared to nearly 87 percent in Indonesia. Structural constraints—such as weak collateral systems, and gaps in legal enforcement—continue to restrict access to finance, particularly for small businesses**.**

On the fiscal front, budget execution improved but the fiscal deficit remains unsustainable without reform. Public spending rose by 11 percent in the first half of 2025, mostly on transfers and recurrent costs. However, this expansion is fiscally unsustainable. Only 10 percent of the 2025 budget is expected to be funded by domestic revenues, while over 85 percent comes from Petroleum Fund withdrawals—far above the Estimated Sustainable Income (ESI). Despite temporary investment gains, withdrawals continue to erode the Fund's long-term value. Without comprehensive tax reform, better expenditure prioritization, and a credible fiscal rule, fiscal fragility will intensify and further undermine external sustainability.

2. Outlook and Risks: The Road Ahead—Full of Promise, but not Without Risk

The global environment is expected to remain challenging over the medium term. Global growth is projected to average 2.4 percent through 2027, with inflation easing and monetary policy loosening. However, persistent geopolitical tensions and trade policy uncertainty continue to disrupt global supply chains, commodity markets, and investment flows. For small, open economies like Timor-Leste, these risks heighten external vulnerabilities and may complicate recovery and diversification efforts. Within the East Asia and Pacific (EAP) region, growth is also expected to slow, largely due to China's economic deceleration which will potentially weaken trade and investment prospects for the region's smaller economies.

Looking ahead, Timor-Leste's economy is expected to grow by an average 3.7 percent from 2025 to 2027. This growth will be driven primarily by public investment in infrastructure, service sector expansion, and improvements in digital and transport connectivity. The ongoing rollout of fiber-optic infrastructure is expected to support the digital economy, while tourism and remittance inflows will provide additional momentum. ASEAN accession could offer further opportunities for growth and integration. Inflation is projected to ease gradually, reaching around 2.1 percent by 2027, although food prices and external shocks remain key risks in the context of limited monetary policy instruments.

Nevertheless, Timor-Leste faces several significant risks that could undermine its economic stability and growth prospects. Structural constraints including a narrow export base, high import dependence, and underdeveloped institutions—continue to limit the expansion of the non-oil economy and heighten its external vulnerabilities. The country is also highly exposed to natural disasters, including floods, earthquakes, and cyclones, which are intensifying with climate change and pose growing threats to critical sectors like agriculture and infrastructure. Institutional instability and delays in policy implementation further compound these challenges, increasing the risk of macroeconomic imbalances. At the same time, limited economic diversification leaves the country vulnerable to external shocks, such as commodity price volatility and geopolitical disruptions.

At the same time, Timor-Leste's fiscal outlook remains fragile. In 2025–26, the deficit is projected to remain around 50.7 percent of GDP, fueled by high public spending and continued withdrawals from the Petroleum Fund. Although the Fund held US$18.25 billion as of March 2025 and finances more than 85 percent of government revenue, it could be depleted by 2038 if current policies persist. This heavy reliance highlights the urgent need to strengthen

domestic revenues, improve the efficiency of public investment, and gradually reduce dependence on oil income. Temporary windfalls from Greater Sunrise or other petroleum reserves would only postpone the challenge, not resolve it. Importantly, the need for fiscal discipline and economic diversification remains unchanged even if future revenues from Greater Sunrise or other petroleum reserves materialize. By adopting a credible medium-term fiscal framework, prioritizing productive investments, and broadening the tax base, Timor-Leste can transform fiscal fragility into an opportunity—building resilience, supporting economic diversification, and laying the foundation for inclusive long-term growth.

In response, the IX Constitutional Government has launched a broad reform agenda to strengthen fiscal sustainability and support economic diversification. Key measures include the Framework Law on the General State Budget and Public Financial Management (Law No. 3/2025) to enhance fiscal transparency, and a new Internal Audit Decree-Law to improve oversight. The adoption of International Public Sector Accounting Standards (IPSAS) will raise the quality of financial reporting, while a Public Investment Management reform plan—endorsed by the Infrastructure Fund Board (CAFI)—has designated the Major Project Secretariat under the Ministry of Planning and Strategic Investment to lead project implementation. These reforms mark a strategic shift toward greater accountability and long-term resilience.

To secure both short-term momentum and long-term resilience, Timor-Leste will need reforms on both fiscal and structural fronts. On the fiscal side, reducing reliance on Petroleum Fund withdrawals, broadening domestic revenues, and improving spending efficiency are essential. Introduction of a value-added tax (VAT), stronger income tax collection, and better tax administration could provide additional revenues. On the spending side, reforms should focus on making the wage bill more sustainable, phasing out untargeted transfers, and strengthening procurement and project management. On the structural side, accelerating diversification is critical to create jobs and prepare for ASEAN integration. Weak land administration stands as one of the most pressing barriers to diversification. Unclear ownership and usage rights, overlapping claims, and weak enforcement limit investment, delay infrastructure, and constrain private-sector development. Addressing these challenges will be central to unlocking agriculture, tourism, and housing opportunities, making land reform a cornerstone of Timor-Leste's next stage of development.

3. Special Focus: Making Land Work for Economic Transformation

Missed Opportunities: Land Governance Gaps Limit Timor-Leste's Development Potential

Timor-Leste has a unique opportunity to make land governance a pillar of inclusive growth and resilience. Land reform is not just about property, it is about power, opportunity, and growth. Well-functioning land administration systems provide clarity and security over land tenure, minimize conflict, and enable efficient and transparent land transactions. Land could be used to unlock private investment, support agriculture and tourism, plan infrastructure, and empower rural families—especially women. Yet, rather than enabling growth, land has become a source of foregone opportunities. Timor-Leste's legacy of historical systems and weak land governance has led to widespread insecure tenure, unclear ownership, and overlapping claims. These have become a barrier to investment, with detrimental impacts on agriculture, tourism, and manufacturing. Households and businesses cannot use land as collateral without secure land and property rights, reducing their access to credit.

In a post-conflict setting like Timor-Leste, clarifying and securing land rights is also essential to social cohesion. Land tenure insecurity has become a significant driver of social tension, inequality, and vulnerability, especially in rural and post-conflict areas. Overlapping claims rooted in Portuguese, Indonesian, and customary legal systems create uncertainty over tenure. Most land claims remain undocumented and are managed through customary systems, which, while recognized under law, are poorly implemented in practice. This widespread insecurity continues to limit productivity and reinforce inequality. Women, youth, and minority communities are at particular risk of losing their land. Although there are no formal legal barriers to women's land rights, in practice most Timorese are not familiar with their rights and gender equality in land ownership remains limited. With 16 percent of rural households female-headed, this has implications for reaching the country's development goals.

The impacts are far-reaching. Agricultural productivity suffers from restricted access to credit due to insecure land tenure. The housing market suffers from unclear ownership rights, preventing middle-class wealth accumulation and contributing to urban overcrowding, while the absence of formal land titles restricts access to financial services, stifling entrepreneurial activities and hindering business expansion. Property transfers can take over 180 days, while obtaining environmental permits may exceed 250 days. Government infrastructure projects face costly delays due to competing land claims, reducing public investment efficiency and discouraging private sector participation. Land insecurity also undermines spatial planning and restricts the government's ability to mobilize domestic revenues through property taxation, as ownership records remain incomplete and unreliable. The lack of essential planning tools such as zoning laws, hazard maps, and public construction codes renders land use decisions risky and unpredictable and makes it harder to build resilience in the face of growing climate risks. Overall, the complexity of land administration creates a web of uncertainty that deters investment, stifles economic growth, and limits Timor-Leste's ability to diversify its economy.

Although the 2017 Land Law and further supporting regulations have laid an important legal foundation, significant implementation gaps persist. Key regulations—governing landholding by legal entities, management of public domain land, and protection of communal land—are still pending. Positive reforms such as identity verification and alternative dispute resolution mechanisms have been introduced, but critical safeguards are still lacking. These gaps include buyer protection against registry errors, clear rules for state land management, and non-judicial compensation frameworks. Institutional constraints, especially the shortage of licensed land surveyors, further weaken implementation. There have been three systematic land registration initiatives, but although they recorded over 300,000 land parcels, technical and operational shortcomings mean they did not result in the issuance of land titles. As a result, fewer than 200 land titles have been issued, out of an estimated 1 million parcels, and legal uncertainty continues to discourage investment.

International Lessons: Reform is Possible—and Powerful

International experiences highlight the transformative potential of well-designed land reforms. Successful land reform programs in Indonesia and Rwanda demonstrate the transformative potential. In Indonesia's integration of customary rights into formal systems boosted agricultural productivity by 25 percent in reformed areas. Systematic registration increased provincial GDP by 0.12 percent for every 1 percent increase in land coverage and raised land values by 26 percent. Rwanda's comprehensive reforms—including digital land systems and legal safeguards—led to the registration of over 11 million parcels and a 30 percent increase in land-related investments. These examples demonstrate that effective land reform can lead to increased investment, enhanced productivity, and sustainable economic growth. These cases show also that legal clarity, digital infrastructure, and community engagement are key ingredients for success.

From Vision to Action: Seven Priorities to Make Land Work for Development

A practical pathway forward exists through the "7 Ps" framework. The government's new inter-ministerial Working Group on Land provides an opportunity to implement comprehensive reforms through a practical and coordinated reform agenda that addresses both urgent bottlenecks and systemic gaps in land governance:

- **Policy**: finalizing outstanding regulations under the 2017 Land Law to clarify landholding rights, procedures, and institutional responsibilities.
- **Protection**: formally recognizing and safeguarding customary land rights through participatory community mapping.
- **Planning**: designing a National Action Plan for Systematic Land Registration with sequenced, results-driven targets starting in urban areas to build early momentum.
- **Past Data**: auditing and integrating existing cadastral records from the *Sistema Nacional de Cadastro* to fast-track registration in low-dispute areas.
- **People**: addressing the acute shortage of skilled land professionals through targeted training, certification, and partnerships with the private sector.

- **Processes**: simplifying and digitizing administrative procedures, eliminating redundancies, and piloting one-stop service models.
- **Platform**: developing a modern, multilingual Land Information System that offers online access, mobile compatibility, and enhanced transparency to users across the country.

With strong political commitment, the reforms outlined in the "7 Ps" framework can be advanced and consolidated within the next three to five years, turning land governance into an engine of inclusive and sustainable growth.

Table of Recommendations

Priority Area	Objective	Proposed Actions	Lead Institution
Policy foundation	Finalize and operationalize the legal foundation for land administration	• Finalize pending Land Law regulations (ownership, state/public land, community protection zones) • Disseminate updated legal framework to stakeholders	Ministry of Justice (MoJ)
Protection	Secure legitimate customary land rights and ensure inclusive protection	• Develop legal framework to recognize customary tenure • Conduct participatory community mapping • Integrate safeguards and protection for women and vulnerable groups	MoJ, Land and Property Directorate, Municipal Authorities
Planning	Establish a national roadmap for systematic land registration	• Design National Action Plan with clear targets and phased approach • Prioritize urban/peri-urban zones (e.g., Dili) • Include dispute resolution and monitoring tools	Inter-Ministerial Working Group on Land, DGTPSC
Past data	Leverage existing SNC data to accelerate registration	• Audit SNC data for quality and relevance • Classify parcels by verification needs • Integrate verified data into registration pipeline	DGTPSC, National Directorate of Cadaster
People	Expand human resources and technical capabilities for land reform	• Develop training and certification programs (with universities) • Enable private sector participation under public supervision • Build capacity in GIS, adjudication, and records management	DGTPSC, SEFOPE, Ministry of Higher Education
Processes	Simplify and streamline land administration processes	• Map and simplify existing workflows • Delegate routine approvals where appropriate • Pilot one-stop land service center in Dili	MoJ, Land and Property Directorate
Platform	Develop an integrated, user-friendly digital land platform	• Design and deploy a phased LIS (starting with parcel mapping and ownership records) • Ensure interoperability across agencies • Enable online and mobile services	DGTPSC, Ministry of Planning and Territory

1. Recent Developments

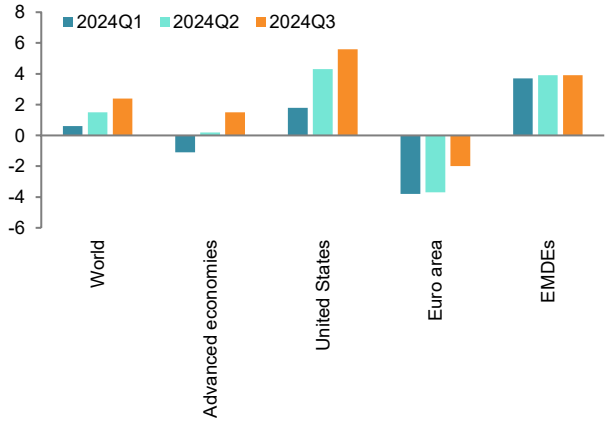
Timor-Leste's economy has continued to strengthen in 2025, although non-oil GDP per capita remains below pre-pandemic levels. However, this recovery has been largely built on tourism and public investment, with the economy still heavily dependent on imports. Headline inflation has slowed in line with global trends but real exchange rate appreciation risks eroding external competitiveness. Labor migration has become a critical source of both income and opportunity for Timorese households, with remittances playing a growing role in supporting the national economy. With oil production halted, exports have weakened, and the trade deficit has reached almost half of non-oil GDP. Domestic revenues have risen but still remains far short of the US$2.1 billion needed to fully finance the 2025 budget, continuing Timor-Leste's dependence on its Petroleum Fund to support spending and investment—a fund which is projected to be depleted by 2038. The country will need to grow and broaden its private sector but although credit to the sector is growing, it remains well below regional peers relative to GDP and largely concentrated in personal loans to individuals rather than supporting investment in agriculture and industry.

1.1. Slowing Growth Amid Rising Global Uncertainty in the East Asia and Pacific Region

The global economy showed tentative signs of stabilization in 2024 as inflationary pressures eased and major central banks initiated cautious monetary easing. Three key trends characterized the year: a modest rebound in global trade, diverging inflation dynamics, and the beginnings of financial easing. Goods trade grew by 2.7 percent, led by emerging markets and the United States (Figure 1-1), while services trade partially recovered as tourism approached pre-pandemic levels—though East Asia remained an exception. Falling energy prices reduced headline inflation, but core inflation stayed elevated due to service costs and wage pressures. Advanced economies saw inflation fall below target, while most emerging markets and developing economies (EMDEs) saw inflation return to pre-pandemic levels, albeit with temporary spikes in some countries (Figure 1-2). As headline inflation declined but core pressures persisted, several central banks began reassessing their stance. By mid-2024, the U.S. Federal Reserve shifted toward rate cuts, easing global financial conditions. However, escalating trade tensions, renewed tariffs, high debt burdens, climate risks, and food insecurity cloud the outlook, especially for developing economies.

Figure 1-1: Global goods trade growth picked up in late 2024, driven by EMDEs and the U.S., but remained weak in other advanced economies

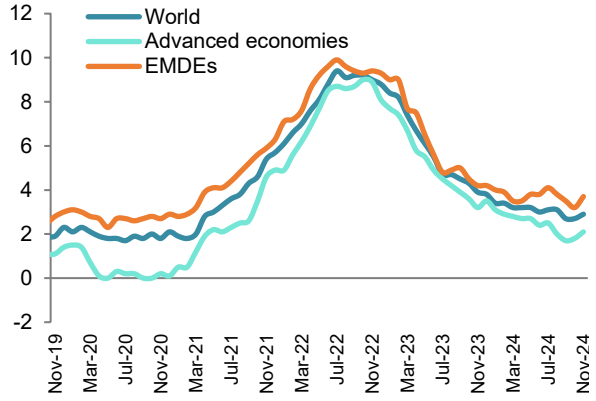
(yoy growth, percent)



Source: Global Trade Alert (database); Haver Analytics; World Bank

Figure 1-2: Global inflation eased in 2024, driven by lower energy and food prices, improved supply chains, and delayed impacts of tight monetary policy

(percent)



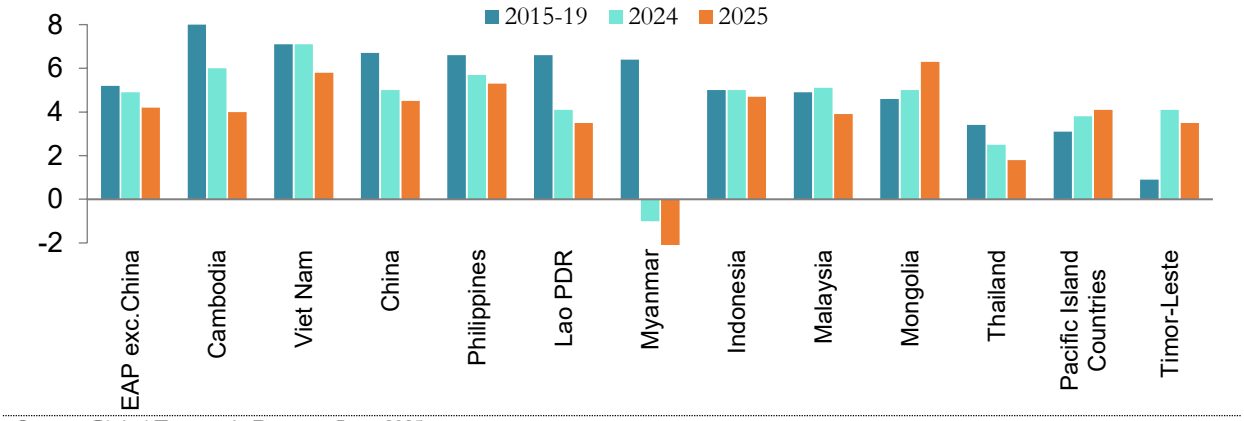
Source: Consensus Economics; Haver Analytics; Oxford Economics; World Bank

Growth in the developing East Asia and Pacific (EAP) region remained stronger than the global average in 2024 but is expected to decelerate in 2025. Developing economies in the region grew faster than the global average, but their growth rates were below the 2015–19 period, with China growing by 5.0 percent and the rest of the region by 4.9 percent (Figure 1-3). The Pacific Island countries saw growth rise to 3.7 percent, reflecting a delayed recovery from the COVID-19 recession. Regional forecasts for 2025 project growth to slow to 4.0 percent, with China and its neighbors facing weaker global demand, fragile property markets, and heightened trade frictions. For Timor-Leste, these

trends offer both opportunities and risks: a more resilient global economy will support external demand, but volatile trade and commodity markets could quickly spill over into its small, open economy.

Figure 1-3: Most economies in the region are expected to have slower growth in 2025

(percent)



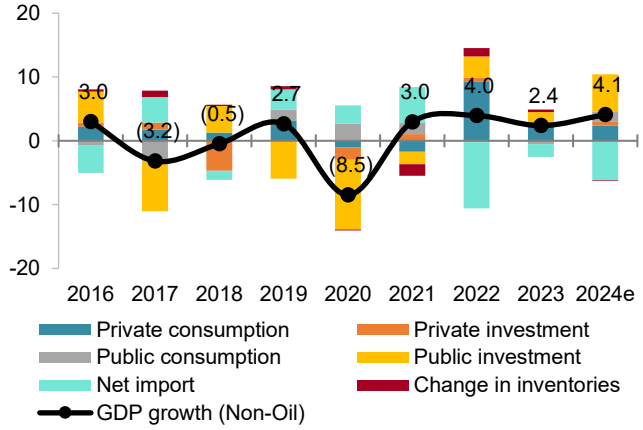
Source: Global Economic Prospect June 2025

1.2. Public Investment and the Service Sector Fuel Timor-Leste's Recovery, but Structural Gaps Persist

Timor-Leste's economy strengthened in 2024 thanks to higher public investment, yet per capita output remained below the pre-pandemic level. Non-oil GDP expanded by 4.1 percent, up from 2.4 percent in 2023 (Figure 1-4), the fastest in years, largely due to a 48 percent surge in public capital spending. Better budget execution allowed long-delayed projects in transport and energy to move forward. At the same time, services exports rebounded—tourism grew by 30 percent year-on-year (yoy), pushing overall services exports up 43 percent. However, private consumption remained subdued, growing by just 3.3 percent, while the surge in imports of 12.5 percent cut GDP by 7.2 percentage points. Despite overall gains, per capita GDP remains below 2019 levels (Figure 1-5), reflecting persistent structural challenges such as low productivity, limited private sector dynamism, and weak local implementation capacity.

Figure 1-4: The economy grew faster in 2024 than the previous year…

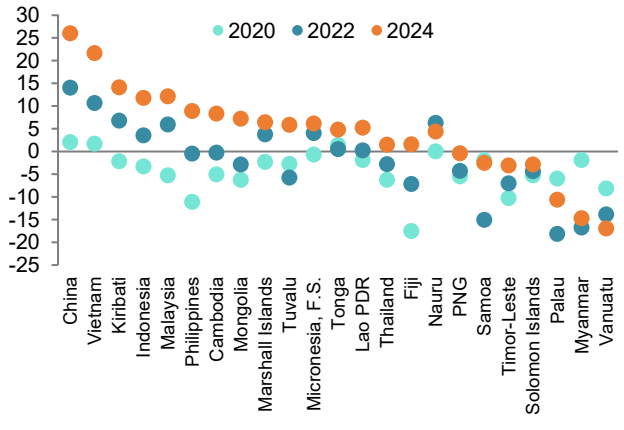
(real growth of non-oil GDP, percent)



Source: INETL and World Bank staff calculations

Figure 1-5:…but Timor-Leste's per capita output remained below the pre-pandemic level

(GDP per capita compared to 2019, percent)



Source: World Economic Outlook and World Bank staff calculations
Note: Figure for Timor-Leste represents non-oil GDP per capita.

On the supply side, the services sector drove most of the recovery, while agriculture and industry contributed very little to growth. Services, especially construction, retail, and hospitality linked to foreign arrivals—were responsible for nearly all of the GDP growth in 2024. Agriculture and industry together contributed less than half a percentage point, despite employing a large share of the workforce.[2] The agricultural sector continues to face significant challenges, including low productivity, inadequate irrigation systems, adverse weather conditions, and weak land governance (see Chapter 3).[3] Insecure tenure and fragmented land use remain critical barriers to investment and commercialization in rural areas (World Bank, 2023a).

Building on the 2024 rebound, Timor-Leste's economy continued to expand in the first half of 2025, supported by strong public investment and a rebound in tourism. Public investment remained the primary growth driver, with capital spending in the first quarter totaling US$117 million in construction (public buildings, housing, and general civil works), and US$40 million in transport and communications, which includes roads, bridges, ports, airports, and telecommunication networks. This surge in infrastructure activity was reflected in higher vehicle registrations, greater electricity consumption, and stronger demand for materials. Tourism provided an additional boost as foreign arrivals nearly doubled compared to the same period in 2024. More than 35,000 passengers entered through Dili Airport in the first quarter (a 78 percent increase compared to the same period in 2024), helped by new international routes such as Aero Dili's direct flights to China. Hotels, restaurants, and transport services benefited from this influx, creating positive spillovers across the services sector. Together, these gains show that growth is shifting from short-term recovery to a more sustained trajectory.

Despite these gains, the 2025 recovery still rests on narrow foundations. Agriculture and industry continue to contribute little to growth, reflecting persistent productivity gaps, limited use of irrigation, adverse weather, and constraints on investment due to insecure land tenure. The economy also remains heavily import-dependent, with higher domestic demand translating into wider trade deficits. Moreover, growth relies overwhelmingly on public spending financed by Petroleum Fund withdrawals, raising concerns about long-term fiscal sustainability. Without stronger private sector participation and more diversified production, Timor-Leste risks a shallow consumption-led recovery rather than one based on structural transformation.

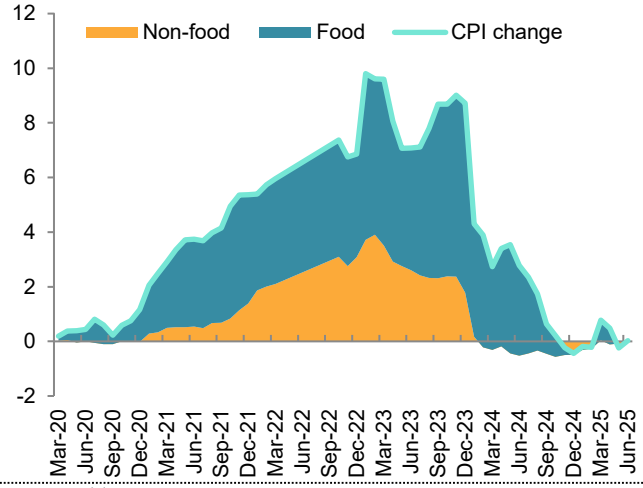
1.3. Inflation Slowed Further in the First Half of 2025 Despite Higher Food Prices

Headline inflation slowed further in the first half of 2025, but high food prices continue to weigh on households. The average overall Consumer Price Index (CPI) eased to an average 0.12 percent yoy in the first six months (Figure 1-6), remaining well below the full-year average inflation rate of 2.1 percent in 2024. The main contributors to inflation were food items such as vegetables, which recorded average inflation of 7.6 percent yoy for the first six months (Figure 1-7). In contrast, rice prices fell by 0.9 percent in June, continuing a downward trend supported by declining global prices. Yet locally produced rice remains scarce and relatively expensive, constrained by poor weather conditions and low productivity. Among non-food items, health, household furnishings, clothing and footwear contributed modestly to inflation, offset by lower prices for alcohol, tobacco, transport, and communications.

[2] 38 percent of employment is still in the agriculture sector making it the largest sector of employment in Timor-Leste (INETL, 2021)
[3] FAO (2020), Avg. farm size: 0.8 ha (vs. 1.5 ha needed for profitability), Land Fragmentation & Productivity (pp. 29–31)

Figure 1-6: Overall price increases in Q1 2025 were due to food price inflation

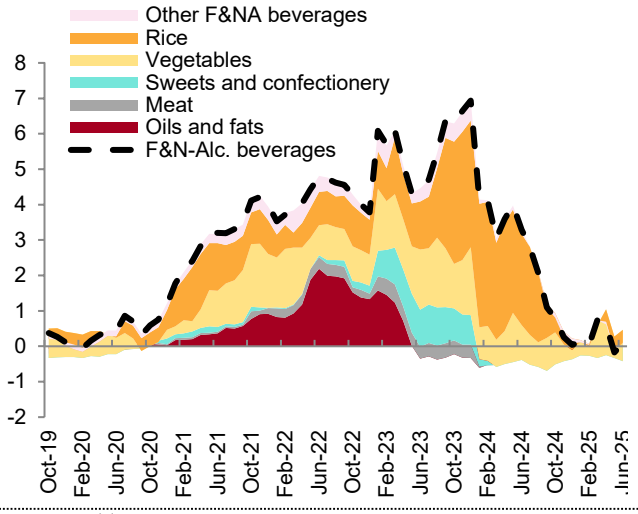
(percent contribution and change yoy)



Source: INETL and World Bank staff calculations

Figure 1-7: Consumer price inflation was driven mainly by vegetable prices

(percent contribution to overall inflation yoy)

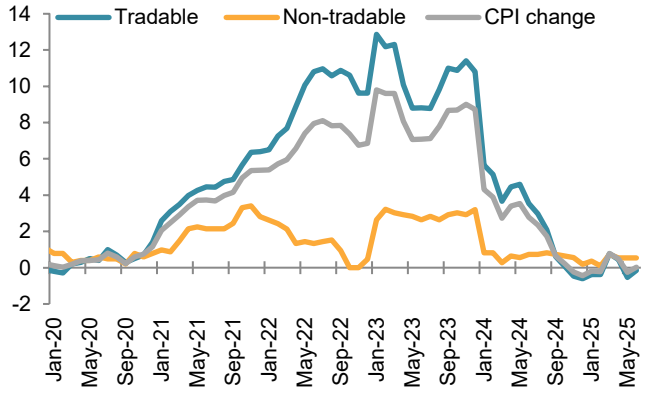


Source: INETL and World Bank staff calculations

Non-tradable goods prices saw a marginal increase while tradable goods prices slightly decreased. Non-tradables rose by 0.47 percent yoy on average for the first six months, driven by slight demand pressures in categories such as health (1.24 percent), education (0.4 percent), and recreation and culture (0.36 percent). Over the same period, tradable goods, which dominate the consumption basket and are highly import dependent, saw prices decline slightly thanks to a strong U.S. dollar and lower international fuel and food prices (Figure 1-8). This divergence shows how inflation is shaped by two channels: external shocks transmitted through imports, and domestic pressures affecting wages and services. The reliance on imported food and fuel means external factors play a much larger role in headline inflation than those elements more easily influenced by domestic policy.

Figure 1-8: Tradable goods inflation started to pick up in March 2025

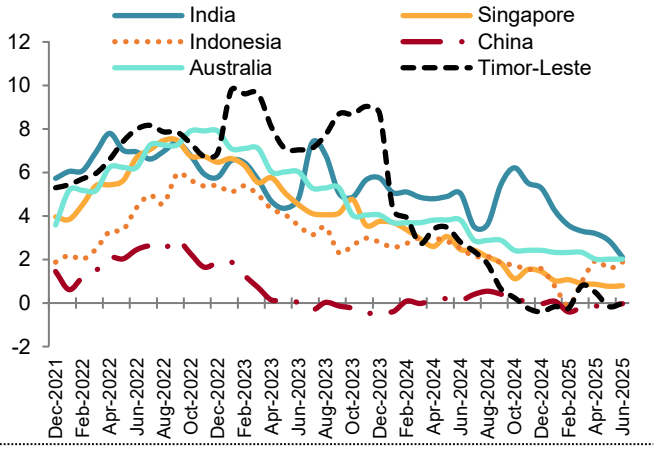
(percent, change yoy)



Source: INETL and World Bank staff calculations

Figure 1-9: Inflationary pressures in Timor-Leste's main trading partners could impact tradable goods prices

(Percent, change yoy)

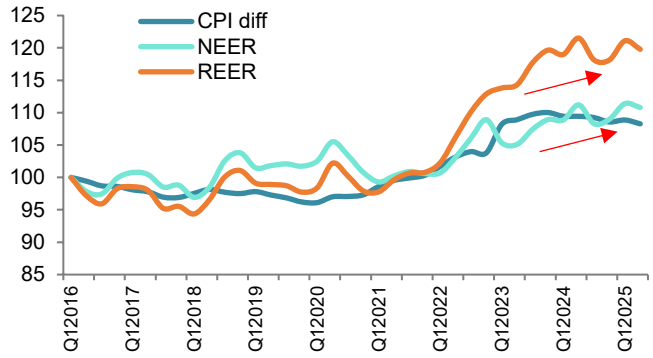


Source: World Commodity Prices Pink Sheet

Exchange rate movements over the past three years have also shaped inflation and competitiveness. Both the nominal effective exchange rate (NEER) and real effective exchange rate (REER) appreciated steadily, reflecting the sustained strength of the U.S. dollar against the currencies of Timor-Leste's major trading partners. In the second quarter of 2025, however, this trend reversed slightly: the NEER depreciated by 0.4 percent yoy, compared to a 2.3 percent appreciation in the previous quarter (Figure 1-10), while the REER fell by 1.4 percent after a 1.8 percent rise earlier. These shifts signal evolving trade competitiveness, driven by inflation differentials, exchange rate fluctuations, and broader global conditions.

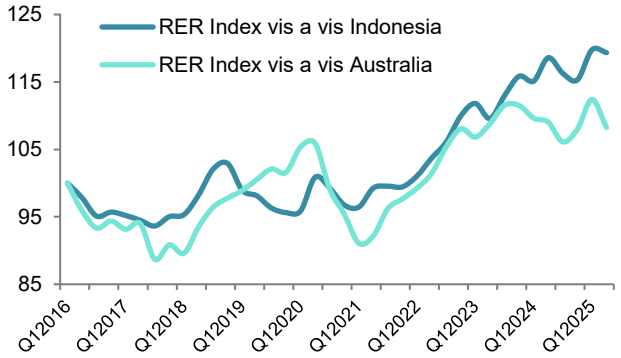
A stronger dollar has reduced import costs, but it has also eroded external competitiveness. Rising inflation in trading partners such as Indonesia and China has partly offset these benefits by making goods from those countries more expensive (Figure 1-9). At the same time, Timor-Leste's goods and services have become relatively more costly compared to regional peers, especially in labor-intensive sectors, cross-border trade, and tourism. Recent bilateral exchange rate data confirm this: in Q2 2025 the real exchange rate against both the Indonesian rupiah and the Australian dollar remained above 100 relative to 2016 (Figure 1-11). These developments suggest that domestic inflation and limited nominal depreciation are driving real currency appreciation, reducing incentives for local production and constraining competitiveness.

Figure 1-10: REER and NEER have remained strong for the last three years, though weakening slightly in Q2 2025
(index, 2016 Q1=100)



Source: BCTL
Note: REER: real effective exchange rate which measures the average of the bilateral RERs between the country and each of its trading partners along with each trade weights. NEER: Nominal effective exchange rate.

Figure 1-11: Real exchange rates remain high relative to key trading partners
(index, 2016 Q1=100)



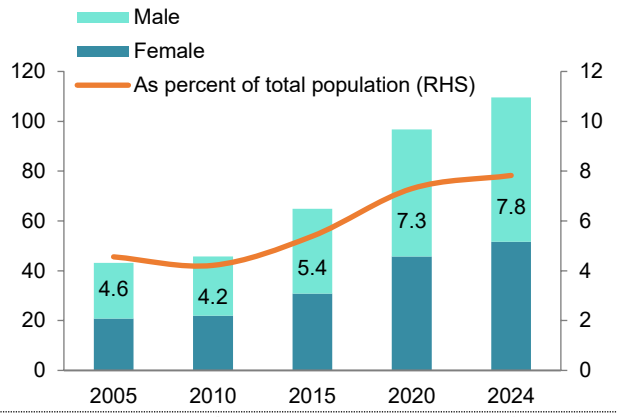
Source: BCTL
Note: RER; real exchange rate indexes (adjusted with relative price of goods) between two countries i.e Timor-Leste with Indonesia or Timor-Leste with Australia.

1.4. Migration Provides a Lifeline for Households but Highlights Labor Market Gaps

Labor migration has become a critical source of income and opportunity for Timorese households, especially for young people facing limited jobs at home. Despite efforts to boost job creation, labor force participation remains just 30.5 percent—the lowest in East Asia and the Pacific—while youth unemployment exceeds 40 percent (INETL, 2021). Lack of opportunity has pushed many to seek work abroad (Figure 1-12). In 2022, around 18,700 Timorese were recorded as migrants, with 57 percent citing employment as the main reason (Figure 1-13). As of March 2025, about 4,700 had secured jobs through formal overseas programs, primarily in Australia (Box 1.1).

Figure 1-12: The number of Timorese who have migrated overseas has grown continuously for the last two decades

(thousands (left), percent (right))

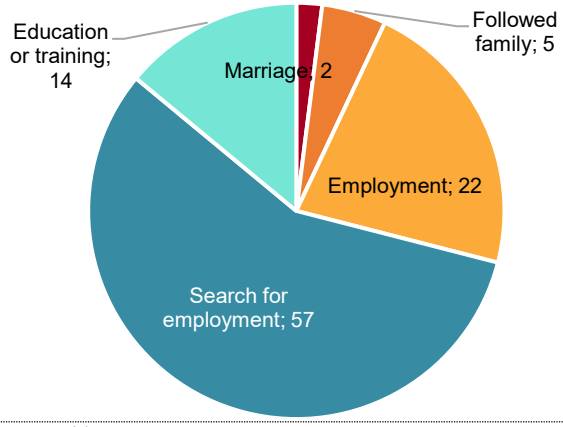


Source: United Nations Department of Economic and Social Affairs (DESA), 2024

Note: International migrant stock of Timor-Leste at mid-year.

Figure 1-13: Seeking employment was one of the main reasons for Timorese to migrate overseas

(percent)

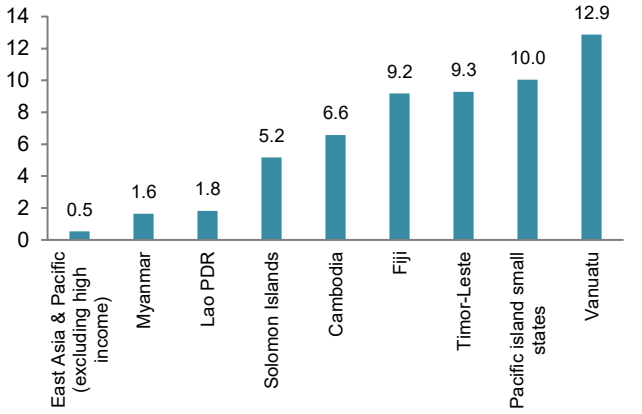


Source: INETL

As migration expands, remittances are playing a growing role in stabilizing household welfare and supporting the national economy. In 2021, remittances accounted for 11.3 percent of non-oil GDP, making Timor-Leste one of the most remittance-dependent countries in the region (Figure 1-14). Migration plays a dual role—both as a household coping strategy and as a macroeconomic buffer. The Asia Foundation Survey (2025) found that 79 percent of remittance-receiving families spend some of the money on food, followed by education and health (53 percent), and housing improvements (32 percent). At the national level, remittances provide an important cushion against trade deficits and declining oil exports.

Figure 1-14: Timor-Leste is among the most remittance-dependent countries in the region

(personal remittances, received (percent of GDP))



Source: World Development Indicators

At the same time, migration brings social and economic challenges that require careful policy management. High upfront costs and restrictive eligibility criteria make it harder for those from poorer and rural households to migrate, while women face additional barriers in access to vocational training and overseas employment. Remittances may also reduce labor participation at home, particularly in low-paying informal jobs, as families rely more on income from abroad. The 2023 Labor Market Analysis found that only 23 percent of remittance-receiving households participated in the labor force, compared to 31 percent of non-recipients, suggesting that steady inflows raise reservation wages and reshape local labor supply. Finally, the outflow of young workers risks creating skill shortages domestically, especially if returning migrants are not effectively reintegrated into the local economy.

Turning migration into a long-term development strategy will require a more inclusive and coordinated approach. Priorities include lowering barriers to participation, aligning vocational training with international job markets, and strengthening protections for women and vulnerable workers. Reintegration support for returnees through business development services, job placement, or further education, will be equally important to ensure skills gained abroad translate into productive opportunities at home. Over the long term, a comprehensive diaspora engagement strategy could help transform overseas communities into active partners in investment, knowledge transfer, and national development—following the successful example of the Philippines and Viet Nam (World Bank, 2025).

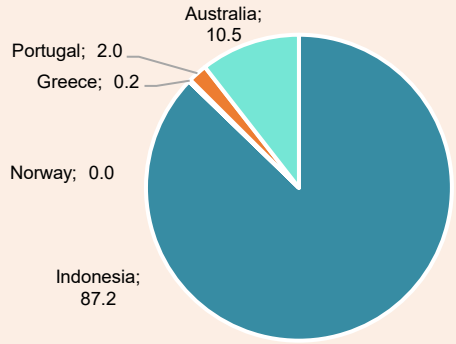
Box 1.1: From Migration to Transformation: Leveraging Overseas Employment for National Prosperity

Labor migration has emerged as both a consequence of and response to domestic labor market constraints. With high youth unemployment, limited formal job creation, and widespread informal work, many Timorese seek opportunities abroad. In 2023, most migrants were based in Indonesia (60.6 percent), Australia (26.7 percent), the United Kingdom (7.7 percent), and Portugal (4.5 percent) (Figure 1-15). Migration to Indonesia reflects longstanding historical and cultural ties rooted in Timor-Leste's past integration within Indonesia.

Formal labor mobility programs now serve as key pathways to better employment. Australia's Pacific Australia Labor Mobility (PALM) scheme accounts for the largest share of formal Timorese migrants, 72 percent of whom are in short-term placements. Other channels include South Korea's Employment Permit System (EPS) and a recent agreement with the United Kingdom for seasonal agricultural work. Through the Secretary of State for Vocational Training and Employment Policy (SEFOPE), the government has expanded pre-departure training in English, workplace safety, and financial literacy, supported by a new National Training Center in Becora.

Figure 1-15: The majority of migrants are based in Indonesia

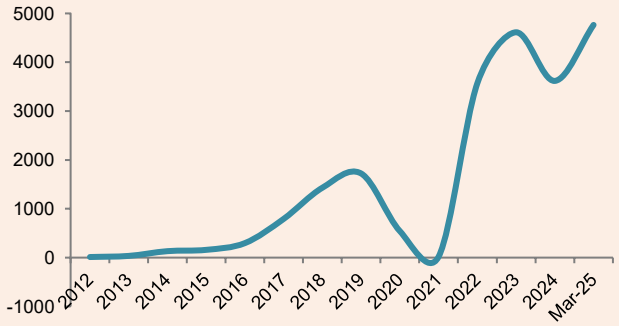
(percent)



Source: United Nations Department of Economic and Social Affairs (DESA), 2024
Note: International migrant stock of Timor-Leste at mid-year.

Figure 1-16: Australia's PALM scheme has become the largest channel for formal labour mobility

(people)



Source: Pacific Australia Labour Mobility

To maximize the developmental impact of labor migration, Timor-Leste must adopt a more strategic, inclusive, and coordinated approach. Despite progress in recruitment processes and international partnerships, policy gaps remain. There is no national reintegration strategy for returning workers, diaspora engagement is fragmented, and domestic training often fails to match international labor market needs. Benchmarking countries like the Philippines—where bilateral labor agreements include worker protections and reintegration support—could guide reforms. Priorities include aligning vocational curricula with overseas job requirements, investing in certification systems, and mobilizing the diaspora for investment and knowledge transfer.

Source: World Bank staff

1.5. The Current Account Balance has Worsened as Oil Revenues have Halted

Timor-Leste's external position has deteriorated due to weak exports and rising imports. By the end of December 2024, the trade deficit stood at 49 percent of non-oil GDP, even after including oil and gas exports (yp). Imports, which equal 54 percent of non-oil GDP, cover fuel, food, vehicles, and construction materials, underscoring the country's dependence on foreign goods. Excluding oil and gas, total exports are minimal, amounting to only 5 percent of non-oil GDP in 2024. Coffee remains the dominant non-oil export but is highly vulnerable to external shocks. Despite stronger global coffee prices, export revenues declined during Jan-May 2025 partly due to lower exports from the previous year harvest (Figure 1-18) [4]. Despite some policy efforts to promote trade diversification and regional

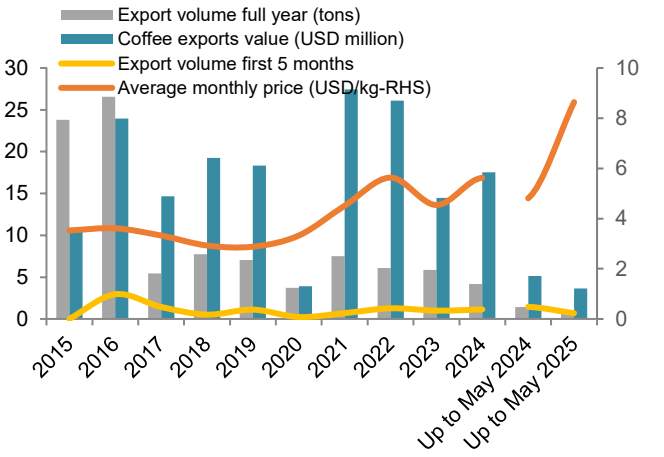
[4] Annual harvest of Coffee usually begin in May, so exports from January until May in the current year would be from the previous year harvest.

integration, including the recent World Trade Organization (WTO) accession and forthcoming ASEAN membership, lack of infrastructure, weak private sector capacity, and limited access to finance continue to constrain export development.

Figure 1-17: The trade deficit has continued to deteriorate
(percent of non-oil GDP)

Source: Monthly Trade Report, INETL, and World Bank staff calculations
Note: 2025 GDP is estimated using the annual average GDP in 2021–24.

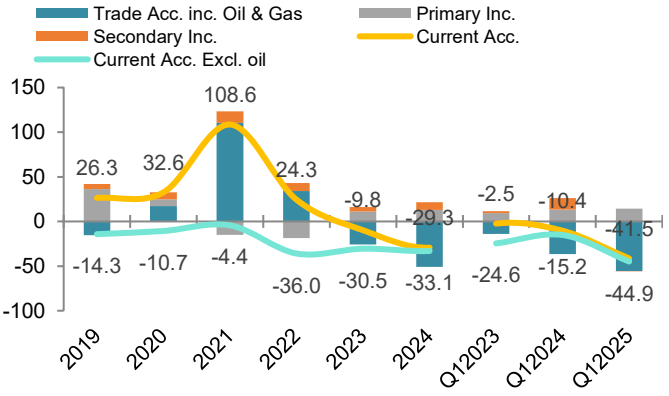
Figure 1-18: Coffee exports up to May 2025 were down on 2024 in both value and volume
(volume (tons), export value (USD million), and coffee price (USD/kg))



Source: Monthly Trade Report, INETL, World Bank Commodity Markets Reports, and World Bank staff calculations
Note: Coffee price is the average price of Arabica coffee for each year

As a result, Timor-Leste's current account deficit has widened in the past two years. The deficit in the current account balance increased from 30.5 percent of non-oil and gas GDP in 2023 to 33.1 percent in 2024 (Figure 1-19). This trend has continued in the first quarter of 2025. Net remittance inflows and primary income receipts—mainly from the Petroleum Fund—have provided some relief but are not enough to offset the growing trade imbalance. The expanding trade deficit reflects deep structural weaknesses in the economy. Limited private sector dynamism and low domestic production capacity have severely constrained export performance, while demand for imported fuel, food, and construction materials remains high. As a result, the country's external position has worsened, underscoring the urgent need to diversify exports, strengthen the productive base, and reduce reliance on imports.

Figure 1-19: The current account has been in deficit for the last two years
(percent of non-oil GDP)



Source: Monthly Trade Report, INETL, and World Bank staff calculations
Note: 2025 GDP is estimated by using the annual average GDP in 2019-24. Government's new method for calculating BOP, such as including oil and gas sales as exports, started in Q3 2019 (IMF, 2024).

1.6. The Budget Deficit Increased Amid Stronger Revenue and Spending

Timor-Leste's 2025 General State Budget expanded significantly, supporting growth but widening fiscal pressures. The budget grew to US$2.1 billion (excluding social security), an increase of 12.4 percent in 2024, and prioritized infrastructure, social protection, and institutional development. Social capital accounted for 35 percent of the total (US$741 million), infrastructure 31 percent (US$654 million), and institutional development 27 percent (US$ 574 million). Alongside higher spending, the government advanced fiscal reforms to strengthen procurement systems, accelerate decentralization, and improve financial management. However, the expansion widened the fiscal deficit which

is projected to reach 52 percent of non-oil GDP, underscoring the urgency of revenue mobilization and more sustainable expenditure management.

Total revenue increased slightly in the first six months of 2025, owing to higher domestic revenue. Compared to the same period in 2024, total revenue rose by 4 percent (Figure 1-20). As the largest source of government income, Estimated Sustainable Income (ESI) from the Petroleum Fund (PF) continues to shape revenue trends—91 percent of the ESI was withdrawn in the first half of 2025, compared to 96 percent during the same period the previous year. Meanwhile, domestic revenue—which includes both tax and non-tax income—increased sharply, rising by 22 percent year-on-year to reach US$127 million in the first six months of 2025. This growth was driven in part by stronger tax collections, despite the rollback in 2023 of several temporary tax measures introduced earlier. However, it remains far short of the US$2.1 billion needed to fully finance the 2025 state budget. As such, reducing reliance on the Petroleum Fund remains one of the country's most pressing fiscal challenges.

Tax revenue has shown steady recovery since the pandemic, but the overall tax-to-GDP ratio remains low. Following a slowdown during the pandemic, tax revenues grew at an average annual rate of 19 percent from 2022 to 2024, reaching 10.9 percent of GDP in 2024 (Figure 1-21). However, this remains considerably lower than averages for the EAP region and lower-middle income countries. The tax buoyancy[5] in 2024 was 1, which implies that tax revenue collection was broadly keeping pace with economic activity. To raise the tax-to-GDP ratio to desired levels [6] will require much stronger domestic revenue mobilisation efforts. This might include efforts to widen the tax base, increase tax rates, and reform the outdated 2008 tax framework (World Bank, 2021b).

Figure 1-20: Total revenue collection up to Q2 2025 increased slightly compared to the same period in 2024
(USD million)

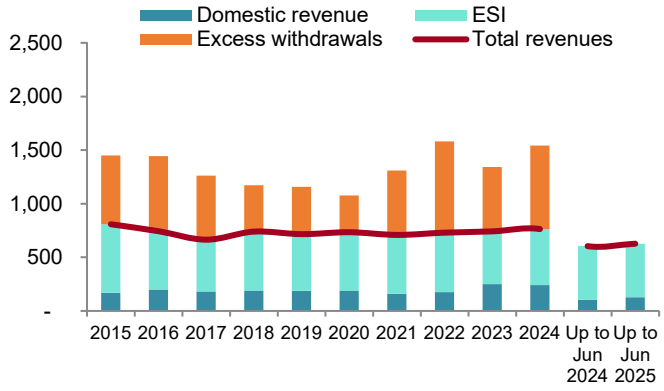
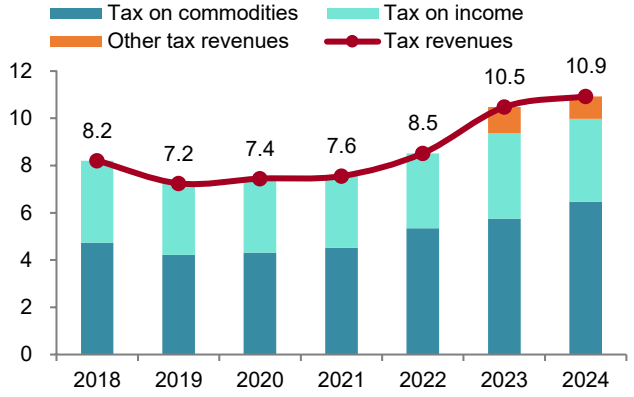


Figure 1-21: Tax revenue collection has been improving post pandemic, despite the revocation of some tax measures from Q4 2023
(percent of GDP)



Source: Ministry of Finance and World Bank staff calculations

Meanwhile, the balance of the Petroleum Fund remained relatively stable. The balance stood at US$18.25 billion by the end of March 2025 or 10.1 times GDP (Figure 1-22). Following earlier investment losses, the Fund posted positive net returns, which—combined with lower government withdrawals—helped moderate outflows in the first quarter. However, underlying structural risks remain. Oil revenues declined sharply from an average of US$630 million annually during 2018–23 to just US$85 million in 2024. Continued withdrawals above the 3 percent ESI benchmark have put the Fund's sustainability at risk. The cessation of production at Bayu-Undan, as confirmed by the Minister of

[5] Tax buoyancy is a measure of how tax revenue changes in response to changes in the overall economy, specifically gross domestic product (GDP). It captures both automatic growth in revenues due to economic expansion and discretionary policy measures like changes in tax rates or structures. A buoyancy greater than 1 means that tax revenue is growing faster than the economy, indicating strong revenue performance (possibly due to both economic growth and policy changes). A buoyancy less than 1 means tax revenue is growing slower than the economy, which may signal inefficiencies in tax collection or weak policy responses.

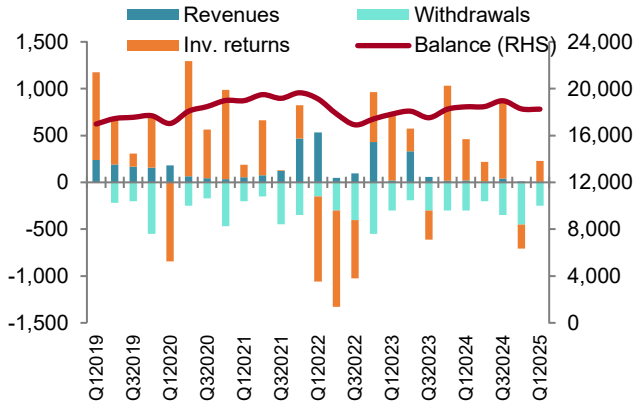
[6] In the government's Strategic Development Plan (SDP) 2011–2030, Timor-Leste set targets to raise domestic tax revenue to 15% of (non-oil) GDP by 2020 and to about 18% of GDP by 2023, with the introduction of VAT and related reforms.

Petroleum and Minerals, further compounds this pressure. If current spending trends persist, the Ministry of Finance projects that the Petroleum Fund could be depleted by 2038.

Government spending rose sharply in the first half of 2025, in line with the increased budget. Total public spending up to the second quarter grew by 11.1 percent, well above the five-year average of 6 percent—driven mainly by recurrent expenditures. Public expenditure has also grown substantially as a share of GDP, from 75 percent in 2018 to over 100 percent in the 2025 budget, raising questions about the sustainability and efficiency of spending patterns (Figure 1-24).

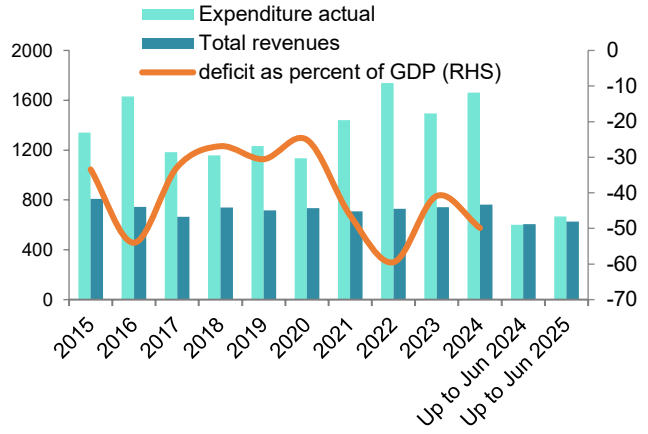
The fiscal balance recorded a deficit as of June 2025, compared to a slight surplus in the same period in 2024. The fiscal deficit stood at US$41 million by June 2025, down from a slight surplus of US$3 million in June 2024 (Figure 1-23). Although total revenue collection improved, particularly domestic revenue from both tax and non-tax sources, it was still insufficient to match the increased in government spending. ESI withdrawals from the Petroleum Fund remained unchanged from the previous year. Despite the rise in domestic revenue, the faster growth in spending outpaced collection, leading to a fiscal deficit.

Figure 1-22: The balance of the Petroleum Fund was relatively stable in Q1 2025, after edging down in the previous quarter
(USD million)



Source: INETL, World Bank Commodity Markets Reports, and World Bank staff calculations

Figure 1-23: The fiscal balance recorded a deficit as of June 2025
(left: USD million, right: percent of GDP)



Source: Ministry of Finance and World Bank staff calculations

Figure 1-24: Government expenditure grew significantly, exceeding the country's annual GDP in 2025
(percent of GDP)

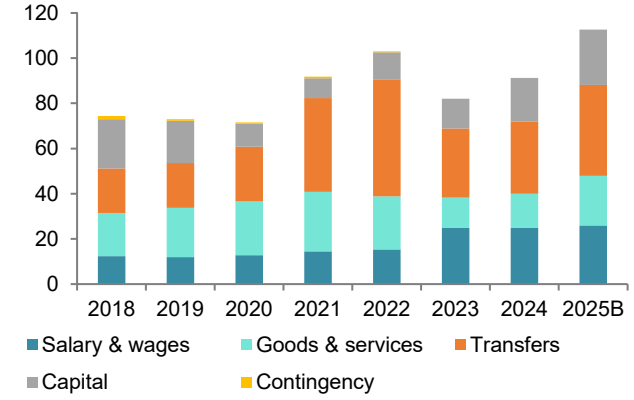
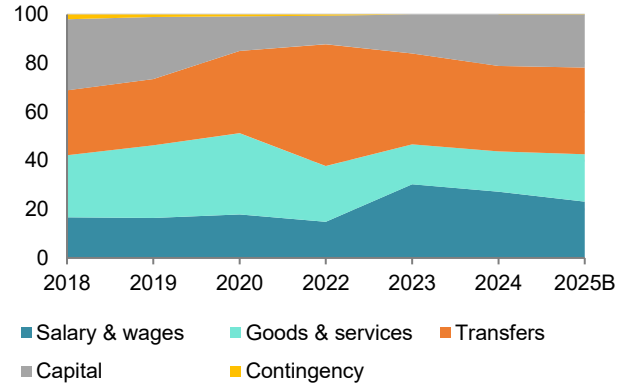


Figure 1-25: Transfers continue to dominate while capital spending has not recovered to pre-COVID levels
(percent of expenditure)



Source: Ministry of Finance and World Bank staff calculations
Note: Total spending covers Central Administration and RAEOA

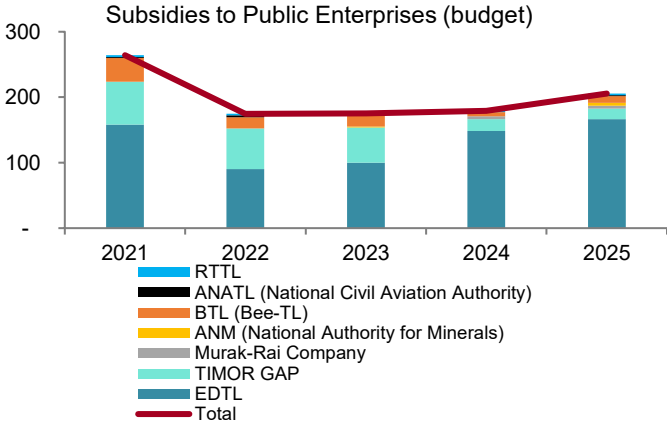
The composition of spending raises concerns. Recurrent transfers continue to dominate, while capital spending remains low compared to pre-COVID levels limiting the budget's effectiveness in addressing long-term development challenges such as infrastructure deficits, low productivity, and weak private sector growth. Transfers—including social security, subsidies, and financial aid—grew slightly compared to the first half of 2024, especially in social protection and state-owned enterprises (SOEs) reaching US$300 million or 40 percent of total expenditures (Figure 1-25). Nearly half of this amount was directed to public administration and social security, followed by transfers to veterans, state-owned enterprises, and government entities.

Spending on goods and services increased up to the second quarter of 2025 compared to the same period in 2024, partly due to recent reclassifications. The rise in expenditure reflects increased outlays for fuel, professional services, and travel. Notably, goods and services spending has averaged 23.3 percent of GDP from 2018 to 2022—high by regional standards. Spending on wages and salaries also grew, at a slightly higher pace than in 2024. Wage spending remains structurally high, after peaking at 30 percent of the budget in 2023, driven by public sector hiring (Figure 1-25). According to the 2021 Labor Force Survey, the public sector accounts for 77 percent of paid jobs and 88 percent of formal employment—well above regional and global averages (World Bank, 2025).

Public subsidies to SOEs remain a major driver of recurrent spending and a key structural challenge for fiscal policy. In 2025, subsidies are projected to exceed US$200 million, up from US$180 million in 2024 (Figure 1-26). Although they have fallen from the 2021 peak of US$265 million, subsidy levels have remained broadly stable since 2022. *Electricidade de Timor-Leste* (EDTL) absorbs over 80 percent of total subsidies, reflecting persistent inefficiencies in service delivery and operational performance. Other SOEs, including TIMOR GAP, Bee Timor-Leste (BTL), and public media agencies—receive regular, though smaller, transfers. In response, the Prime Minister has launched a comprehensive audit of SOEs and state institutions to identify candidates for closure or integration into core government operations. This effort offers an opportunity to reallocate spending toward growth-enhancing priorities and improve service delivery. In parallel, strengthening fiscal decentralization will be essential to ensure these improvements reach all regions (Box 1.2).

Figure 1-26: Fiscal pressure from state-owned enterprises is rising

(USD million)



Source: Ministry of Finance and World Bank staff calculations

Budget execution rates have begun to stabilize following recent budget reclassifications. As of June 2025, 31.4 percent of the total US$2.1 billion budget had been disbursed, down slightly from 31.8 percent in the same period of 2024 (Figure 1-27). The disbursement rate for goods and services increased slightly to 24 percent for the period, compared to an average of 21 percent in the last five years (Figure 1-28). Moreover, the full year realization of goods and services spending has been below the pre-pandemic average since 2020. Transfers increased marginally by 2.4 percent in Q1 2025 (Figure 1-29), There was an increase in execution rates for wages and salaries, with 45 percent of the budget disbursed by June 2025, compared to 39 percent in the same period in 2024 (Figure 1-30).

Figure 1-27: Overall budget execution up to Q2 2025 aligned with the five-year average…

(cumulative budget execution, percent)

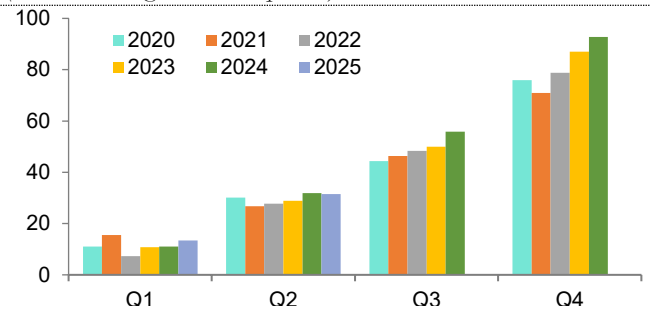
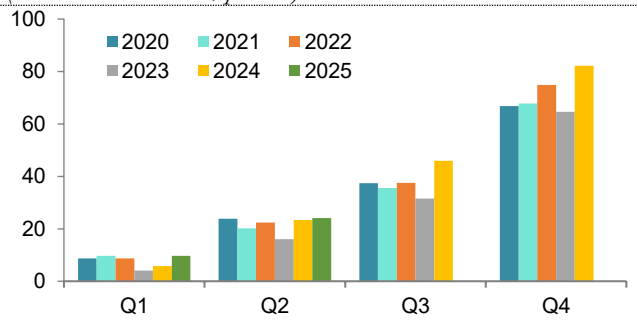


Figure 1-28: Cumulative goods and services execution up to Q2 2025 was similar to previous years…

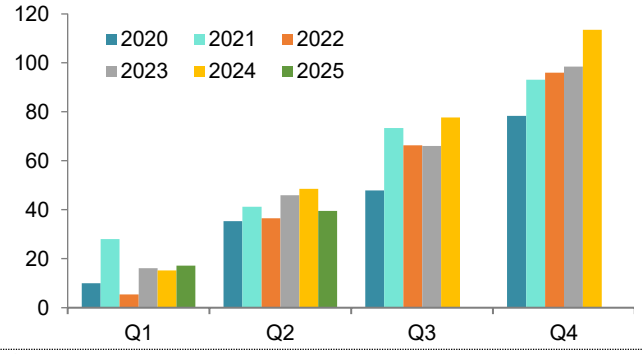
(cumulative execution, percent)



Source: Ministry of Finance and World Bank staff calculations

Figure 1-29: Transfer spending execution rates remain higher than the recent average

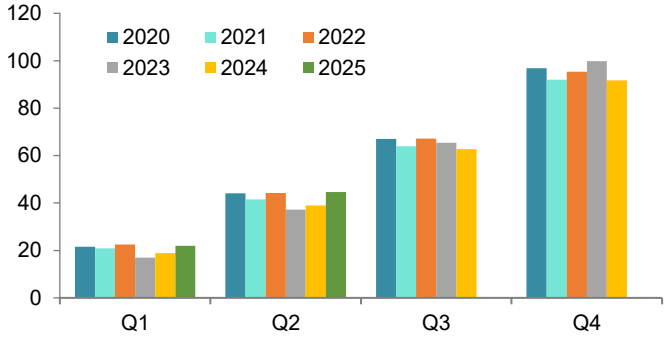
(percent)



Source: Ministry of Finance and World Bank staff calculations

Figure 1-30: Execution of wages and salaries are up slightly for the first two quarters

(percent)



Source: Ministry of Finance and World Bank staff calculations

Box 1.2: Advancing Fiscal Decentralization to Strengthen Local Governance and Equity in Timor-Leste

Timor-Leste's ambitious decentralization program is demonstrating tangible progress through expanded municipal budgets and strengthened local governance. Recent reforms, including Decree-Law No. 84/2023 and Ministerial Diploma No. 85/2023, have established 12 Municipal Authorities with expanded functions and administrative powers, creating new mechanisms for local development planning. These reforms will also support the improvement of service delivery and promote more inclusive economic development across all regions.

The 2025 municipal budget reflects this commitment with a total of USD 123.6 million, showing a 29 percent overall increase over 2024. This fiscal expansion enables local governments to implement infrastructure projects and deliver services more effectively. The increases vary across municipalities—from an 81 percent increase in Ainaro to 11 percent in Manatuto (Figure 1-31). Dili continues to receive the largest share overall due to its population size.

Several key programs have been assigned substantial budget allocations to strengthen local development, focusing on improving education, infrastructure, and community governance (Figure 1-32)**.** The School Feeding Program will receive 18.2 percent of the total budget to municipalities to provide nutritious meals in pre-schools and basic education, aiming to boost student attendance and retention, particularly in rural areas. The School Grants Program will receive 5 percent of the budget to support the operational needs of schools to enhance educational quality. The National Program for Village Development (PNDS) is allocated 12.1 percent of the budget to improve essential rural infrastructure like roads and water systems, empowering local communities to take charge of development planning. The Integrated Municipal Development Planning (PDIM) program provides US$13.26 million to municipalities to invest in vital infrastructure, including health and education facilities and public buildings. Lastly, the Strengthening Suco initiative allocates US$11.82 million to support 434 *sucos* (villages) by subsidizing over 8,000 community leaders and strengthening local administration, reinforcing decentralization efforts and local service delivery, as well as training for over 500 municipal officials to help improve public financial management and administrative capacity.

Figure 1-31: Total budget allocation to all municipalities increased in 2025 compared to 2024
(USD per capita)

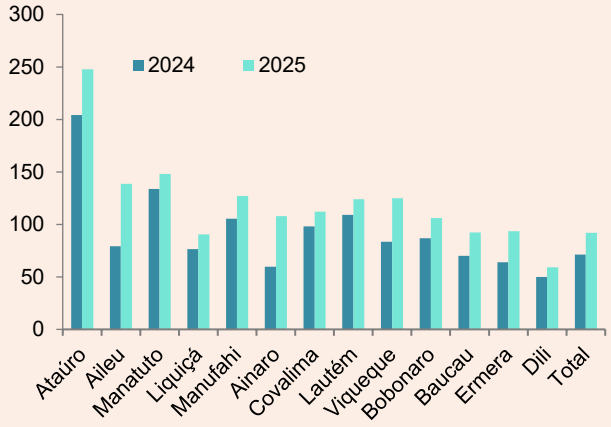
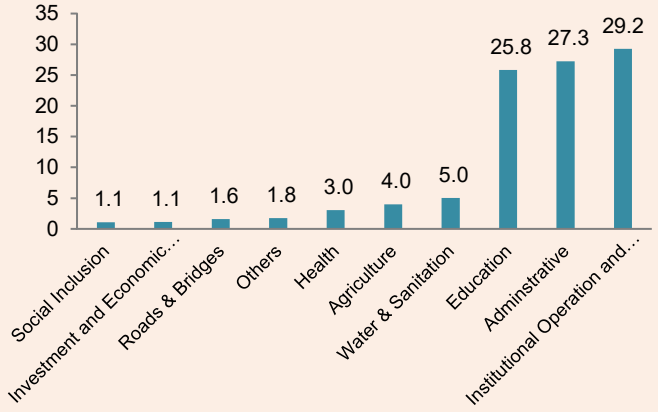


Figure 1-32: Administrative and institutional operation and education received the bulk of the allocation
(percent)



Source: 2025 Budget Book, Ministry of Finance
Note: The budget excludes special development funds for Atauro (Fundo Especial de Desenvolvimento Atauro/FEDA)

1.7. Credit to the Private Sector is Growing but Still Remains Below Regional Benchmarks

Credit growth has accelerated sharply in recent months. As of March 2025, domestic credit to the private sector had risen to 37 percent of GDP—more than double its post-pandemic level—reflecting notable progress in financial deepening. Total commercial bank credit reached US$602 million in Q1 2025, driven largely by lending to construction (US$117 million), trade and finance (US$95.8 million), and transport and communications (US$39.6 million), reflecting increased infrastructure activity and private sector demand. Credit to tourism and services also rose notably, reaching US$28.1 million—up from US$18.8 million in Q1 2024, aligned with the rebound in foreign arrivals. Credit to the agriculture sector rose also slightly to US$2.8 million from US$2.3 million in 2024 but still represents less than 0.5 percent of total private sector lending. In contrast, lending to industry and manufacturing declined sharply, falling to US$8.4 million from US$34.7 million a year earlier, highlighting a persistent financing gap in productive and tradable sectors.

Despite the recent expansion, credit remains limited relative to regional benchmarks. The credit-to-GDP ratio remains well below the 56 percent level typical of peer countries [7], and the loan-to-deposit ratio stood at just 31.5 percent at the end of 2024, pointing to significant underutilization of available liquidity (Figure 1-33). This is due to a combination of supply-side constraints, such as limited credit infrastructure and high perceived lending risks, and demand-side challenges, including widespread informality and low financial literacy. On a positive note, deposit mobilization has continued to improve, supported by growing public trust and the expansion of banking services. Nevertheless, financial institutions remain cautious, often prioritizing liquidity management over lending.

Growing monetary assets have not translated into strong credit expansion. By the end of March 2025, monetary assets grew by 12.8 percent yoy, consistent with the quarterly average growth of 12.9 percent yoy from 2021 to 2024 (Figure 1-34). More than 70 percent of the assets were invested offshore. Strengthening credit registries, expanding rural banking access, and supporting small business finance could help enhance financial deepening and better align the financial sector with the country's development goals.

[7] The peer countries for 2024 include Solomon Island, Bhutan, Djibouti, Fiji, and Vanuatu.

Figure 1-33: The financial sector remains shallow, indicated by low credit as percent of GDP

(percent)

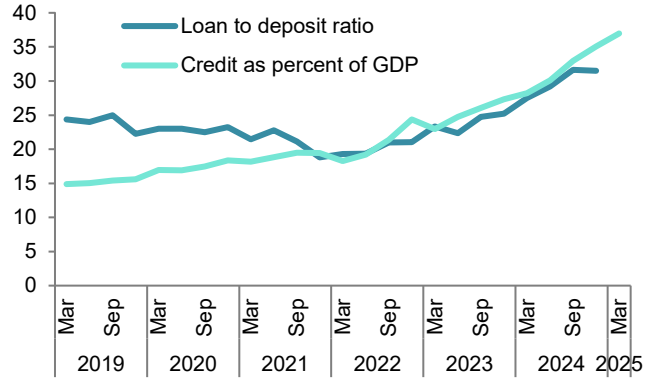
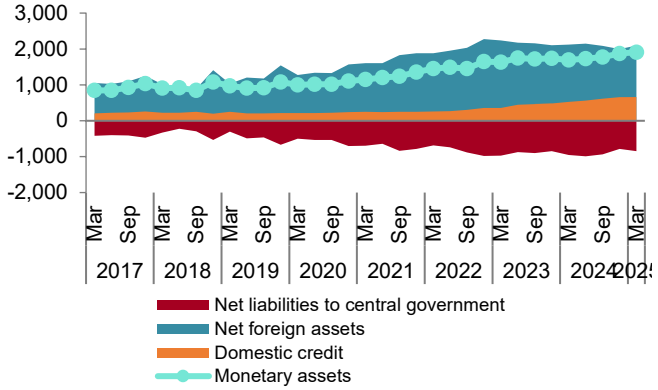


Figure 1-34: Monetary assets remained stable but largely consisted of net foreign assets

(percent)

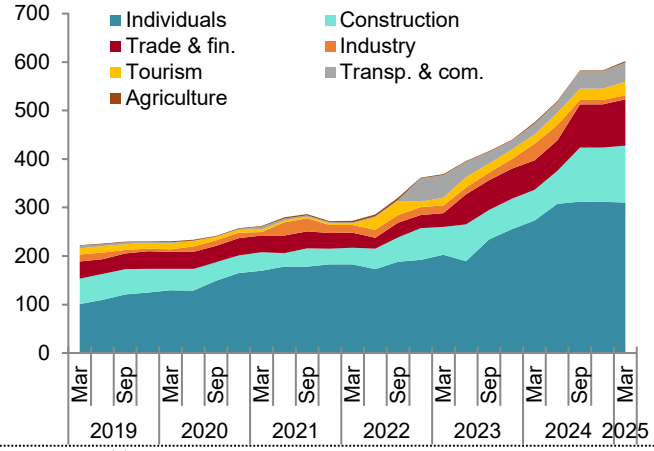


Source: BCTL and World Bank staff calculations

The growth in credit to the private sector has primarily concentrated on personal loans and construction. Private sector credit grew by 39 percent until the end of December 2024, considerably higher than the average of 27 percent since the pandemic. Loans for individuals remain the largest contributor to this growth, followed by construction and trade (Figure 1-35). This reflects persistent structural challenges, including an underdeveloped land registry system that hampers the use of property as collateral (see Chapter 3), limited financial documentation among businesses, and difficulties in contract enforcement (Figure 1-36). These issues contribute to the banks' reluctance to expand lending, particularly to micro, small, and medium-sized enterprises (MSMEs). To address these challenges, the government has introduced measures such as a credit guarantee scheme and requirements for banks to increase their loan-to-deposit ratios, aiming to enhance financial intermediation and support private sector development.

Figure 1-35: Private credit growth is slowing and remains dominated by loans to individuals

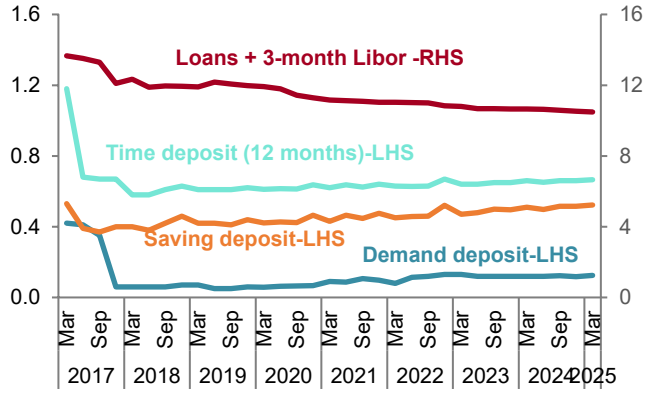
(USD million)



Source: INETL, World Bank Commodity Markets Reports, and World Bank staff calculations

Figure 1-36: The lending rate remains consistently high and deposit rates are much lower

(percent)



Source: BCTL and World Bank staff calculations

2. Economic Outlook and Risks

The medium-term outlook for Timor-Leste is cautiously optimistic but with significant downside risks, both regionally and globally. Global growth is projected to remain slow, and trade-related uncertainty has surged to record levels. The economic outlook for Timor-Leste is more promising, with the country projected to grow by 3.6 percent on average over 2025–27, driven primarily by public investment in infrastructure, expanding services, and improvements in digital and transport connectivity. Inflation is expected to moderate in the medium term as global commodity prices fall, but the outlook continues to be uncertain especially for food prices, which could remain volatile due to climate risks and agricultural supply chain disruptions. Without significant reforms, the fiscal deficit is projected to remain above 50 percent of GDP over the next two years. This will put continued pressure on the Petroleum Fund, which, with the cessation of oil production in June 2025 combined with global uncertainty impacting its investment portfolio, could be depleted by 2038. The current account deficit is also expected to widen, due to the country's import dependence and narrow export base. The government has taken substantial steps to reform its fiscal and institutional framework to enhance transparency, accountability, and fiscal discipline. It now needs to complement its public investment-driven model with stronger private sector participation by creating an enabling environment for private investment.

2.1. Outlook

Global economic growth is projected to slow to 2.3 percent in 2025 followed by a modest recovery to 2.5 percent in 2026 and 2027 (World Bank, 2025b). This would be the slowest global growth since 2008, excluding periods of outright global recessions. The steep rise in tariffs combined with the resulting uncertainty they bring plays a significant role in slowing growth across a wide range of economies and worsening the global economic outlook. Commodity prices are forecast to decline in 2025 and soften further in 2026 in response to deteriorating growth prospects. However, global headline inflation is generally projected to remain high relative to central bank targets and pre-pandemic averages, partly influenced by the implementation of trade restrictions. Growth in advanced economies is expected to hover around 1.2 percent in 2025, below historical norms, due to a slowdown in the United States and the EURO area and only modest recoveries in Japan. In contrast, growth in emerging market and developing economies (EMDEs), excluding China, is anticipated to slow to around 3.4 percent in 2025, before edging up to an average of 3.9 percent over 2026–27. This reflects a combination of adverse policy shifts at the global level announced earlier in 2025, weaker external demand from slowing growth in advanced economies, and lower prices for some commodities. Global growth may fall short of projections if there are unfavorable shifts in trade policies, increased policy-related uncertainty, or heightened financial market volatility.

The outlook for global inflation has become more uncertain since 2024, with significant differences across countries. Advanced economies are making steady progress, with most projected to reach their inflation targets by 2026, allowing central banks to adopt more accommodative stances. Meanwhile, emerging markets face a more gradual path to price stability due to persistent domestic pressures. Uniquely, China is seeing unusually low inflation driven by tepid domestic demand, while several Southeast Asian economies like Indonesia and Thailand are benefiting from credible monetary frameworks that help anchor expectations.

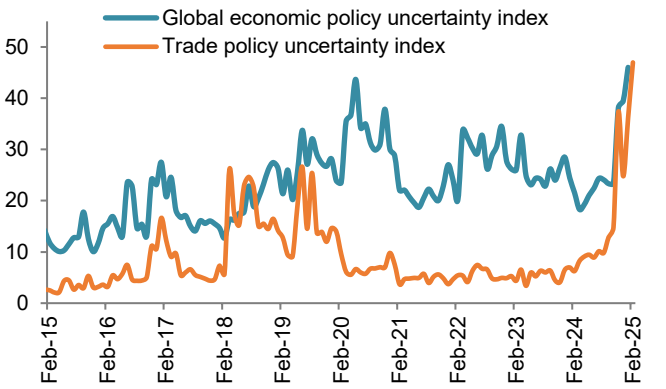
The downside risks to the outlook continue to dominate. Most immediately, escalating trade restrictions and policy uncertainty threaten to dampen growth. Furthermore, climate-related disruptions and geopolitical tensions risk triggering new supply shocks that could reignite inflationary pressures. Most concerningly, food price volatility continues to disproportionately affect vulnerable, import-dependent regions, where agricultural supply chain disruptions exacerbate food insecurity. Taken together, these challenges suggest that although the global economy appears to be emerging from recent crises, the path ahead remains uncertain and uneven across different regions and income levels.

Growth in the EAP region is projected to slow gradually, largely due to China's continued deceleration. Specifically, regional economic growth is expected to slow by 3.8 percent in 2025 and stabilize in 2026–27, supported by robust performance in several major economies. Remarkably, China's economy is forecast to grow at just 4.5 percent in 2025—marking the first time in over 30 years (excluding pandemic periods) that China's growth will trail the rest of

the region. Meanwhile, Pacific Island countries are anticipated to maintain steady growth of 4.3 percent in 2025 before easing to 3.4 percent in 2026 as post-pandemic rebound effects fade.

Economic policy uncertainty, particularly trade-related, has surged to record levels across major economies, increasingly constraining private investment and consumption decisions throughout EAP. This uncertainty is transmitted through three critical channels that amplify volatility: confidence effects delaying business investment and household spending decisions; trade disruptions fragmenting value chains; and financial transmission effects depressing asset prices while increasing borrowing costs (World Bank EAP Update, April 2025). Although global trade growth is projected to reach 3.1 percent in 2025–26, it will likely remain below historical averages due to these persistent uncertainties (Figure 2-1).Figure 2-1). Similarly, while global inflation should average 2.7 percent (aligning with central bank targets), it remains vulnerable to policy shifts and climate shocks, particularly for highly integrated EAP economies that feel global pressures through weakened external demand and volatile capital flows.

Figure 2-1: Uncertainty surrounding global economic policy, especially trade related, has surged in recent months



Source: EAP Update April 2025

Timor-Leste's economic recovery is projected to continue, driven primarily by government expenditure. Growth is projected to average 3.7 percent during 2025–27 (Table 2-1) driven by public investment in infrastructure, service sector expansion, and improvements in connectivity and digital infrastructure. In the medium term, the successful development of the Greater Sunrise gas project could provide a boost to fiscal sustainability and export earnings. Growth will also be supported by tourism and remittances, although non-oil exports are likely to remain limited due to a narrow export base centered on coffee, and high import dependency. The completion of fiber-optic cable installation will support growth in the digital economy and expand the service sector, contributing to economic diversification. Increased visitor arrivals from ASEAN engagement and steady remittance inflows will provide additional support to the economy. More broadly, deeper ASEAN integration—combined with strategic reforms in investment climate, tourism, and digital governance—offers a pathway to a more diversified and inclusive growth model. To realize these growth benefits, Timor-Leste must enhance budget execution, improve public investment efficiency, address infrastructure gaps, and reduce costs for the private sector.

Table 2-1: Economic Forecast

(percent)

	2020	2021	2022	2023	2024e	2025f	2026f	2027f
Real non-oil GDP growth	-8.5	3.0	4.0	2.4	4.1	4.0	3.4	3.8
Private consumption	-1.7	-2.4	14.0	3.4	3.3	6.0	7.0	8.0
Government consumption	4.9	2.9	-0.3	-0.8	2.6	2.0	-3.2	-1.9
Gross fixed capital investment	-46.9	-6.1	27.0	11.5	33.6	4.5	2.0	1.2
Public investment	-47.2	-14.9	29.7	10.8	39.0	3.7	0.3	-1.1
Private investment	-45.5	40.9	18.3	14.1	15.0	8.0	9.0	9.5
Exports: goods and services	-47.3	79.3	30.3	31.9	34.0	9.5	10.0	10.0
Imports: goods and services	-7.0	-8.8	22.9	4.9	12.5	4.9	5.0	5.0
Inflation (Consumer Price Index)	0.5	3.8	7.0	8.4	2.1	2.0	2.1	2.1
Fiscal balance (percent of non-oil GDP)	-25.1	-46.4	-59.5	-40.9	-50.5	-54.0	-50.2	-47.0
Current account balance (percent of non-oil GDP)	32.6	108.6	24.3	-9.8	-29.3	-31.8	-32.3	-32.7

Source: INETL and World Bank staff estimate and forecasts

Inflation is expected to moderate in the medium term, although external risks remain. Inflation is projected to slightly decrease in 2025 helped by stronger US dollar against Timor-Leste trading partners, then will pick up to an average of 2.1 percent over 2026–27, largely due to increase global commodity prices. Although food prices are generally expected to decrease, rice prices may temporarily rise in 2025 due to supply concerns related to El Niño and export restrictions from key markets like India. Timor-Leste's heavy reliance on imports makes it particularly vulnerable to global price fluctuations.

The fiscal deficit is expected to remain high, raising concerns about long-term sustainability. Without significant fiscal reforms, the deficit is projected to average above 50 percent of GDP in 2025–27, with continued heavy reliance on withdrawals from the Petroleum Fund. The 2025 General State Budget underscores this vulnerability: domestic revenue is expected to finance only 37 percent of total spending, leaving the remaining 63 percent to be covered by the Fund. The cessation of oil production from the Bayu-Undan field in June 2025 will place additional strain on the Fund. Without new revenue measures or spending adjustments, the deficit will continue to grow, and the Petroleum Fund is projected to be depleted by 2038,[8] threatening fiscal sustainability and economic stability. While the development of Greater Sunrise may provide temporary relief, resource windfalls alone cannot secure fiscal sustainability. A credible medium-term framework, anchored in stronger non-oil revenue mobilization, better expenditure prioritization, and greater investment efficiency, is essential to ensure that new petroleum revenues, if realized, are used to drive structural transformation rather than fuel renewed dependency.

Similarly, the current account deficit is likely to widen due to high import dependence and a narrow export base. Exports are primarily reliant on coffee, while limited domestic production capacity drives strong demand for imports to meet consumption and investment needs. This imbalance is exacerbated by the public sector-led economy, where significant government spending fuels import demand. Without diversification, external imbalances will persist, posing risks to external sustainability. However, Timor-Leste's expected accession to ASEAN and the potential for a tourism boost could partially offset these risks by opening new markets and attracting foreign investment.

Reinforcing Timor-Leste's fiscal and institutional frameworks will be crucial to achieving a resilient, inclusive, and diversified post-oil economy. Key priorities include improving the quality and efficiency of public investment, broadening the domestic revenue base, and aligning public spending with long-term development goals. On the revenue side, the planned introduction of a value-added tax (VAT) and stronger income tax collection could bring in much-needed funds, while better tax administration would help secure these gains. On the expenditure side, reforms should focus on making the public wage bill more sustainable, streamlining spending on goods and services, and shifting from broad cash transfers to targeted support for the most vulnerable. Strengthening procurement and project management would also reduce waste and delays, ensuring that every dollar delivers more impact. Looking ahead, accelerating structural reforms and investing in economic diversification are essential to reduce reliance on the Petroleum Fund, foster private sector growth, and place the country on a more sustainable, long-term growth path.

The IX Constitutional Government is already demonstrating strong commitment to this vision, with an ambitious reform agenda (Box 2.1). Key legislative measures aim to enhance transparency, accountability, and fiscal discipline, combined with reforms to public investment management and economic legislation aimed at fostering fair competition and creating a more dynamic business environment. The success of these reforms will depend on effective coordination across central and municipal levels and a focus on delivering tangible benefits—particularly for remote and underserved communities.

[8] Ministry of Finance projections.

Box 2.1: Advancing Structural Reforms: Key Legislative Actions under the IX Constitutional Government

The IX Constitutional Government has launched a bold reform agenda to strengthen fiscal governance, improve public service delivery, and unlock private sector potential. These efforts are timely, as Timor-Leste faces declining petroleum revenues and rising demand for transparency and efficiency.

Fiscal governance reforms are at the core of this agenda. The new Framework Law on the General State Budget and Public Financial Management (Law No. 3/2025), approved in April 2025, modernizes budgeting processes and requires capital injections into state-owned enterprises (SOEs) to be tied to profitability plans and performance targets. In parallel, the Internal Audit Decree-Law (October 2024) formalizes audit principles and enhances internal controls across government entities.

The government has also taken steps to improve transparency and accountability in financial reporting. With World Bank support, Timor-Leste is transitioning to International Public Sector Accounting Standards (IPSAS), starting with cash basis accounting. As of May 2024, all institutions submitted financial statements—following the training of 350 accountants, 58 percent of whom were women. These statements have since been consolidated and submitted to the Chamber of Accounts.

Public investment management (PIM) is being streamlined to improve efficiency and project delivery. In April 2024, the Council of the Infrastructure Fund approved a reform package and designated the newly created Major Project Secretariat under the Ministry of Planning and Strategic Investment to lead its implementation. Planned reforms include clear project selection criteria, legislative changes, and government staff training.

New commercial laws aim to boost private sector growth. Trade Remedies Decree-Laws (December 2023) introduced WTO-compliant anti-dumping and safeguard measures. The Competition Law (February 2025) sets rules to curb market dominance and encourage fair competition. Other laws include the Insolvency Law (June 2025) and the Secured Transactions Law, which will support business restructuring and expand credit access for MSMEs.

Together, these reforms lay the groundwork for a more accountable, competitive, and resilient Timor-Leste. Success will depend on effective implementation, strong coordination, and sustained capacity-building, accompanied by transparent accountability mechanisms whereby the government can inform key stakeholders on what reform steps are being taken, when they are achieved, and what support is required.

Sources: Government of Timor Leste (2025); Tatoli (2025); Ministry of Finance (2022).

2.2. Risks

Timor-Leste's economic outlook faces significant downside risks from both external and internal factors, requiring careful policy management. Externally, climate disruptions linked to El Niño threaten domestic rice production and could disrupt food imports, exacerbating food insecurity. At the same time, global geopolitical tensions may push up food and energy prices, adding pressure to the country's already import-dependent economy. Timor-Leste's narrow production base and heavy reliance on global supply chains make it highly vulnerable to price volatility and trade shocks. While ASEAN accession could unlock new trade and investment opportunities, it may also expose the economy to greater competition and policy shifts among regional and global players (Box 2.2). Internally, weak public service delivery, delays in project execution, and institutional inefficiencies continue to limit infrastructure development and private sector growth. Given that public expenditure remains the primary driver of economic activity, improving the quality and efficiency of spending is crucial. Targeted investments in infrastructure, particularly in underserved regions, could close development gaps asnd better align fiscal resources with national priorities.

Timor-Leste's fiscal outlook hinges on its Petroleum Fund, which is heavily invested in U.S. dollar-denominated assets like government bonds and equities. The Fund's strategy has evolved to balance returns and risk—incorporating equities, limited petroleum investments, and a dedicated liquidity portfolio for short-term fiscal needs. However, persistent global headwinds, including inflation, monetary tightening, and geopolitical uncertainty, expose the portfolio to heightened risks. Higher interest rates—driven by policies such as those of the U.S. Federal Reserve—depress bond values, while equity market volatility constrains capital gains. Currency fluctuations, compounded by concentrated U.S. dollar exposure, further increase the Fund's vulnerability to external shocks. These factors could also test the adequacy of the liquidity portfolio as a buffer during periods of financial stress. As a result, global market dynamics—particularly those in the United States—play an increasingly significant role in shaping the Fund's capacity to safeguard long-term fiscal sustainability.

To sustain growth in the medium term, Timor-Leste must complement its public investment-driven model with stronger private sector participation. While recent growth benefited from post-pandemic service recovery and capital spending, these drivers are insufficient as fiscal buffers diminish. The state-led approach has had an uneven regional impact, and persistent gaps in services, jobs, and infrastructure underscore the need for an enabling environment for private investment, especially in rural and underserved areas. As the government pivots to private sector–led development, addressing structural barriers to competitiveness and local entrepreneurship will be essential for building a more inclusive, diversified, and resilient economy.

Addressing these challenges requires a dual reform agenda. On the fiscal side, sustainability depends on broadening the domestic tax base, improving expenditure efficiency, and adopting a credible fiscal rule to reduce dependence on Petroleum Fund withdrawals. On the structural side, diversification is essential: ASEAN accession should be leveraged to expand trade and investment, while reforms to ease doing business, improve trade facilitation, and enhance human capital will be critical for competitiveness. At the same time, securing land rights and modernizing land administration can unlock private investment across agriculture, housing, and infrastructure

Given the central role of land in Timor-Leste's development transition, this edition of the Economic Report includes a special section on land administration. Land access and tenure security remain pressing constraints to private sector development outside the capital. Secure, transparent land systems are vital to unlock investment in agriculture, infrastructure, housing, and natural resource management, while also rebuilding trust in institutions, reducing conflict, and fostering social cohesion in this post-conflict setting. This special focus chapter examines the current status of land governance in Timor-Leste, the institutional and legal challenges that constrain land markets, and the reforms needed to ensure that land administration supports inclusive, climate-resilient, and private sector–driven growth.

Box 2.2: Tariff Policy in Timor-Leste: Balancing Protection and Openness

Timor-Leste maintains a largely open trade regime, but structural constraints limit its export potential. Tariff rates are generally low and aligned with major partners like the United States—86 percent of traded goods face similar tariffs. A smaller share of imports—mostly agricultural and manufactured goods—face moderately higher tariffs (5–10 percentage points above the baseline) to support domestic producers. Just 4 percent of U.S. exports face significantly higher tariffs in Timor-Leste. While this tariff structure supports predictability and consumer access, it has not translated into meaningful export growth.

In 2024, non-oil exports made up just 5 percent of non-oil GDP, while imports reached 54 percent, underscoring a persistent trade imbalance. In contrast, regional peers like Indonesia and Vietnam have achieved rapid export expansion despite higher tariffs. The issue is not tariff policy, but a narrow industrial base, limited product diversification, and weak participation in global value chains. Regulatory and logistical barriers—such as slow customs clearance, inadequate port infrastructure, and burdensome licensing—further raise trade costs and deter investment, especially for small and medium enterprises.

Shifting global trade patterns offer both opportunities and challenges. Countries like Malaysia and the Philippines have attracted investment diverted from China in sectors such as electronics and textiles, but Timor-Leste has yet to capture similar gains due to its underdeveloped manufacturing base and supply chain gaps. While lower import prices for food, machinery, and construction materials can benefit consumers, weak export competitiveness limits broader economic gains.

Longer term, rising global protectionism could pose significant risks. "Reciprocal tariff" measures by major economies threaten ASEAN trade preferences, while uncertainty over the future of multilateral trade governance—such as the weakening of the WTO—could dampen investor confidence. For a small, open economy like Timor-Leste, these trends heighten the importance of maintaining a stable, transparent, and predictable trade regime to attract foreign direct investment and support export-led growth.

To remain competitive, Timor-Leste's priorities should include upgrading trade infrastructure, streamlining customs and border procedures, aligning product standards with ASEAN norms, and targeting investment into export-oriented sectors. ASEAN accession provides a timely opportunity to accelerate these reforms and unlock new trade and investment opportunities. By improving logistics, reducing non-tariff barriers, and better integrating into regional value chains, Timor-Leste can enhance competitiveness, diversify exports, and support inclusive, sustainable growth.

Source: World Bank staff, World Bank (2023b) *Country Economic Memorandum.*

3. Making Land Work for Economic Transformation

Strengthening land governance is one of Timor-Leste's most urgent challenges and its most high-impact opportunity for unlocking inclusive economic growth. Despite legislative progress in the recognition of land rights, most claims to land have yet to go through the required legal process, and there is virtually no property registry in Timor-Leste, leaving households, farmers, and businesses in legal limbo. This widespread uncertainty constrains private investment, limits access to credit, and hampers diversification across key sectors. The impact is substantial: agricultural productivity remains well below regional averages; public and private investment alike faces barriers and delays; and banks cannot accept land as collateral, contributing to a low loan-to-deposit ratio that leaves over $1.6 billion in domestic savings underutilized. Past systematic efforts to register land have failed to issue titles due to operational and technical shortcomings but global examples from Indonesia and Rwanda show that rapid and effective reform is possible. Decisive action could unlock over $200 million in new lending, stimulate the construction and real estate sectors, and generate sustainable local revenue through property taxation. This will require a sequenced and practical program built around clear and actionable interlinked policies.

3.1. Introduction: Land as a Catalyst for Inclusive Growth

The Promise and Challenge of Land Administration

Secure land rights are foundational to inclusive growth and private investment. In many post-conflict and developing countries, strong land governance builds trust in public institutions, reduces conflict, and unlocks investment across multiple sectors—from agriculture and tourism to housing and infrastructure. Yet, in Timor-Leste, unclear land ownership and a fragmented and underdeveloped land administration system remain a major constraint to economic diversification, contributing to the country's continued fiscal dependence on its Petroleum Fund. Managing the transition from subsistence agriculture toward more diverse and sustainable land-based livelihoods will require a robust land administration system that ensures tenure security and facilitates equitable access to land.

Land administration comprises the laws, institutions, and data infrastructure that governments use to manage land rights, land use, and land markets. These include property registries, cadasters, and spatial information systems that document ownership, boundaries, and changes in land use. When functioning well, these systems provide clarity and security over land tenure, minimize conflict, and enable transparent land transactions. In contrast, the absence of a functioning land administration system severely limits economic potential. Financial institutions are unable to accept land as collateral without secure land and property rights, restricting access to credit for households and entrepreneurs. This in turn constrains the development of real estate markets, limits land-based investments and prevents families from making full use of their primary assets. These constraints may contribute to slower growth in construction, agriculture, and services, reinforcing Timor-Leste's continued reliance on petroleum revenues.

Instead of serving as an engine of growth, land in Timor-Leste is more often a source of delay, legal dispute, and foregone opportunity. Access to land and unclear property rights have been identified as significant hurdles for the private sector to engage in and invest in Timor-Leste (World Bank, 2019). Insecure tenure, unclear ownership, incomplete cadastral maps, and overlapping claims generate legal uncertainty that deters good-faith, long-term investment, while potentially enabling opportunistic or speculative land acquisitions. These issues are especially detrimental to sectors with high growth potential—such as agribusiness, ecotourism, and manufacturing—where unreliable land services delay projects and increase investment risk. This institutional gap also limits public sector effectiveness. In the absence of reliable land data and formal ownership records, the government struggles to design and execute infrastructure projects, manage urban development, or plan long-term investments. Property taxation, an important source of revenue in most countries, remains untapped, weakening the fiscal capacity of local governments. Addressing this challenge is not simply a matter of administrative reform, it is a foundational step toward economic transformation.

International experience illustrates the transformative potential of land administration. Both Rwanda and Indonesia offer valuable examples of the economic potential of land administration, offering valuable insights for Timor-Leste as it seeks to transform land governance into a cornerstone of equitable, climate-resilient development of how land registration can drive rural transformation with substantial gains in agricultural productivity, food security, and rural investment. Similar reforms in Ethiopia and Vietnam have also demonstrated how clarifying land rights can incentivize long-term investment and facilitate the emergence of dynamic rural economies (*Do & Iyer, 2003; Markussen, Fosse & Tarp, 2011; Deininger & Jin, 2006; Ayalew, Dercon & Gautam, 2005).*

The Social Dimensions of Land Insecurity

In a post-conflict setting like Timor-Leste, clarifying and securing land rights is also essential for social cohesion and institutional legitimacy. Land holds deep cultural and economic significance for many Timorese and is closely tied to their sense of identity and belonging (Haburas Foundation and Rede ba Rai, 2013). Yet decades of conflict, displacement, and changing legal frameworks have left a legacy of overlapping claims, unclear boundaries, and widespread lack of formal land documentation. Most land in Timor-Leste has not gone through a formal registration process and remains under customary or informal tenure arrangements. This contributes to uncertainty that can undermine trust, investment, and long-term development planning. Without a functioning system to record and verify rights, many households fear eviction or face unresolved disputes.

Land tenure insecurity has become a significant driver of social tension, inequality, and vulnerability, especially in rural and post-conflict areas (Batterbury et al., 2015). According to the recent 2025 *Tatoli* national survey, land disputes are the second most frequently reported security issue, affecting 35 percent of respondents, with 15 percent having experienced a land conflict firsthand in the past year (Asia Foundation, 2025). Crucially, land disputes also elicit the highest rate of help-seeking behavior: 64 percent of individuals facing such issues actively seek assistance, primarily from customary leaders rather than formal institutions. Importantly, land tenure insecurity intersects with a broader set of risks. Households affected by land disputes often also face related threats such as fighting (36 percent), domestic violence (32 percent), and destruction of crops by roaming livestock (31 percent). These overlapping risks exacerbate rural vulnerability and reduce the incentive to invest in land, housing, or community infrastructure. Rural families with secure land tenure, whether formal or perceived, can more confidently plan for the future, invest in their land, and access public programs aimed at supporting livelihoods. Land policy is thus not only a legal or economic issue, but also a precondition for peacebuilding, rural resilience, and social inclusion.

The lack of a functioning land registry and legal measures to protect vulnerable groups leave women, youth, and minority communities at risk of losing their land. Without legal recognition or documentation, their rights remain insecure and subject to disputes, eviction, or exclusion. These risks are compounded by cultural norms, legal illiteracy, and power imbalances that allow elites to dominate decision-making processes. Among these groups, women face some of the most systemic barriers to land ownership and tenure security, despite their central roles in agriculture, food security, and household resilience. Ensuring gender equity in land governance must therefore be a core priority in any land administration strategy. International experience, such as Rwanda's post-conflict land registration program (see Section 3.5), shows that when land rights are formalized, women and other marginalized groups are better able to invest in land, retain benefits when migrating, and participate in rental and transfer markets.

There are no formal legal barriers to women's land rights in Timor-Leste. Both the Constitution and the Land Law contain provisions affirming equal rights to land for women and men. However, in practice, gender equality in land ownership remains limited (see Annex 2 In many parts of the country, customary norms continue to restrict women's access to and control over land—although exceptions exist in certain matrilineal communities where women hold stronger land rights, which, as Annex 2 notes, often remain symbolic rather than substantive. The Civil Code, largely transplanted from the Portuguese legal system, includes inheritance provisions intended to promote gender equality but these rules are unfamiliar to most Timorese and require complex administrative procedures that are rarely followed.

Similarly, while the Civil Code provides for joint ownership of property between spouses, this depends on formal marriage registration, which is uncommon in practice.

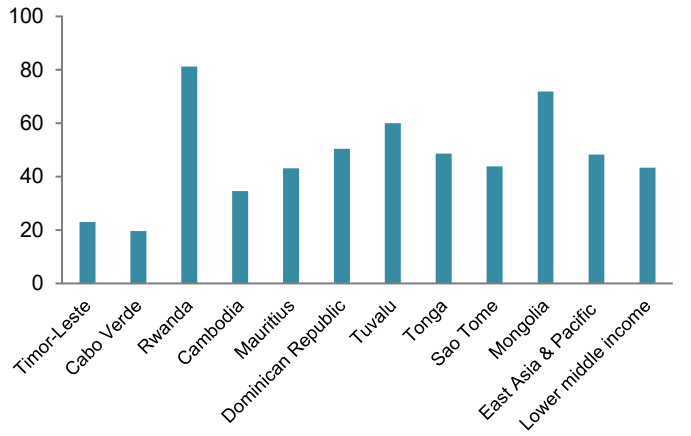
3.2. Why Land Matters: The Case for Investing in Land Administration

Agricultural Transformation: Unlocking Rural Productivity Through Secure Tenure

Land constraints are a major impediment to agricultural growth and rural development in Timor-Leste. Agriculture employs a significant share of Timor-Leste's workforce but contributes only about 20 percent of GDP, highlighting a significant productivity gap. This imbalance reflects chronic underinvestment, limited mechanization, and low yields. Only 23 percent of potential arable land is currently cultivated, far below regional comparators such as Vietnam (35 percent) and Thailand (55 percent) (Figure 3-1). Yields for key crops are equally low. For example, rice production averages 1.2 tons per hectare in Timor-Leste, compared to 4 tons in Vietnam and 3.2 tons in Indonesia. Coffee yields—a critical export crop—are just 0.8 tons per hectare, compared to 1.5 tons in Rwanda under similar climatic conditions.

Low agricultural productivity reflects a number of challenges, exacerbated by insecurity over land ownership. The expansion of productive farmland is limited by steep terrain, poor soil quality, and weak irrigation systems. Just 15 percent of cultivated land is irrigated, and fertilizer use remains among the lowest in Southeast Asia. Without formal land rights, farmers are reluctant to invest in soil improvement, irrigation, or modern technologies that require multi-year planning (Mbudzya, Gido, and Owuor, 2022). With poor access to credit and limited extension services, productivity gains remain elusive. The recent *Tatoli* survey (Asia Foundation, 2025) highlights a concerning decline in access to improved agricultural inputs: although a large share of the labor force remains engaged in agriculture, only 37 percent of farmers reported access to improved seeds in 2025—down from 71 percent in 2023 Although multiple factors influence access to inputs, insecure tenure may play a role by limiting access to credit or government support programs, which are often tied to proof of land use or ownership.

Figure 3-1: Use of land for agriculture is limited in Timor-Leste compared to peers
(agricultural land as a percent of land area, 2022)



Source: WDI

This underperformance leaves the country reliant on imports. Domestic food production meets only 60 percent of national demand, so the country relies more on imports, especially rice, which makes up 60 percent of food imports.[9] Between 2022 and 2024, food imports rose by 26 percent, increasing the trade deficit and making the country vulnerable to global price shocks. As Timor-Leste seeks to diversify its economy, unlocking agricultural productivity through secure land tenure will be essential for rural livelihoods, food security, and inclusive growth.

[9] About 6 percent of total imports.

Private Sector Investment: Tapping into the Potential of the Financial Sector

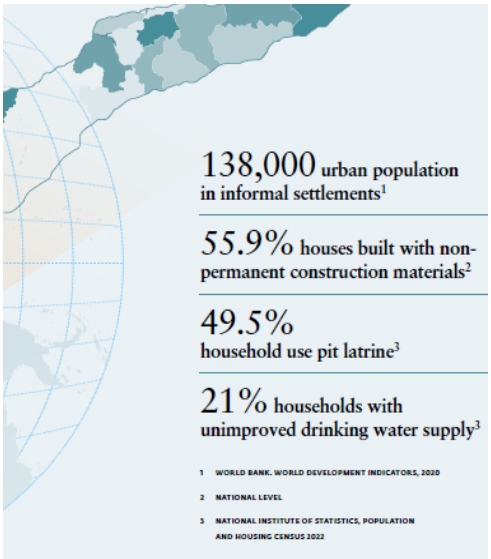
The absence of secure land rights in turn limits access to credit. Without land titles, households, farmers, and small and medium-sized enterprises (SMEs)—which constitute 95 percent of all enterprises—are unable to use land as collateral, effectively cutting them off from access to credit (ADB, 2015). As a result, this weakens the potential for investment in housing, agriculture, and small businesses, and prevents families from leveraging their most valuable asset for education or entrepreneurship.

Timor-Leste's financial sector holds significant untapped potential—but the lending engine remains stalled. With US$1.85 billion in total deposits, over 59.9 percent from individual savings, and a deposit interest rate of just 0.66 percent versus commercial lending rate at 10.5 percent, there is abundant capital and adequate margin but no clear pathway to productive use (BCTL, 2025). The loan-to-deposit ratio is just 30.2 percent,[10] far below regional peers (in Indonesia the ratio is 86.9 percent, in Malaysia 87.5 percent, and in Cambodia 120.6 percent[11]). Consequently, over US$1.64 billion is parked overseas rather than financing homes or businesses domestically (BCTL, 2025).

Land-related constraints are significantly hindering private investment in Timor-Leste, particularly in the tourism and real estate sectors. Investors face challenges such as inconsistent documentation, unclear titles, and lengthy approval processes, exacerbated by overlapping customary and formal legal systems. According to the World Bank's B-READY assessment, property transfers in Timor-Leste require eight separate procedures and take over 180 days—compared to just 25 days in Indonesia or merely 5 days in Singapore (World Bank, 2024b). These transfers are also legally insecure due to the absence of a functioning property registry. Environmental permits add another 250 days on average, making Timor-Leste one of the most time-consuming countries in the EAP region for development approvals. Consequently, several eco-resort and hospitality projects have been delayed or abandoned despite the country's exceptional natural and cultural tourism assets.

Meeting Affordable Housing Needs

Figure 3-2: Most households are in informal sub-standard housing



National Institute of Bureau of Statistics, Population and Housing Census 2022

Timor-Leste faces significant housing challenges. A large portion of the current housing stock consists of self-built structures, often built from non-permanent construction materials and with limited access to basic services such as sanitation and clean water (Figure 3-2). In both urban and rural areas, these dwellings expose families to health risks, climate hazards, and intergenerational poverty. The construction of new formal housing is not keeping pace with demand due to rapid population growth, uncertain land tenure, and affordability, and financing issues.

These challenges are compounded by deep affordability constraints. For the vast majority of Timorese families, formal housing—whether to rent or to buy—is financially far beyond their reach. Under current market conditions, it is possible to self-build a home for US$25,000, but only 12 percent of households earning US$600 or more per month can afford this[12]—leaving most families without access to adequate and secure shelter.

[10] IFC calculations, based on BCTL Economic Performance data for 2024 (total loans of US$560.2 million / total deposits of US$1,852.3 million).
[11] Based on data from Otoritas Jasa Keuangan (Indonesia's Financial Services Authority), Kenanga Investment Bank Malaysia, and World Bank (2024a).
[12] Affordability analysis undertaken by IFC based on market assumptions (IFC, 2025).

Timor-Leste lacks a functioning mortgage financing system. The absence of a reliable land titling system makes it impossible to apply the civil code's basic mortgage provision. Housing finance is only being provided in the form of multi-purpose loans to salaried workers with stable incomes. Microcredit institutions do not offer long-term or affordable financial products suitable for housing upgrades or land acquisition.

Despite some evolution, Timor-Leste's housing policy focus remains the direct provision of houses for the poorest and most vulnerable households. The 2024 Decree-Law No. 47 reflects the government's strategy toward community-based housing development which prioritizes the public delivery of housing. It includes participatory planning, the provision of basic infrastructure, and the allocation of homes through different affordability regimes—commercial, subsidized, community, and social. Although the program introduces stronger institutional coordination and community engagement, Timor-Leste still lacks a policy framework to meet its broader affordable housing needs by stimulating the development of formal housing and housing finance systems by engaging banks, developers, and contractors.

The Wider Governance Impacts of Ineffective Land Administration

Weak land governance undermines the state's ability to plan, tax, and deliver infrastructure and services. Infrastructure projects often face delays due to unresolved compensation claims and land disputes. These challenges are compounded by the limited implementation of the 2017 Expropriation Law and the absence of clear legal frameworks to regulate evictions. In some cases, this legal vacuum has contributed to ad hoc or unauthorized evictions, eroding public trust and exacerbating land tenure insecurity—particularly in peri-urban areas. Furthermore, local governments—unable to levy property taxes—remain highly dependent on central transfers and external aid, limiting their fiscal autonomy and capacity to respond to local development needs. This dependency, in turn, reinforces spatial inequalities and impairs long-term planning for climate resilience and economic diversification.

Land administration will also be critical to responding to Timor-Leste's growing exposure to environmental and climate-related risks. The country is acutely vulnerable to natural disasters such as floods, landslides, and seismic activity—hazards that are being intensified by the impacts of climate change. Timor-Leste has experienced 14 major natural disasters since 2001, including floods, landslides, earthquakes, and droughts, with floods being the most frequent hazard (IMF, 2022). In April 2021, Tropical Cyclone Seroja caused widespread devastation, affecting over 30,000 households, destroying more than 4,000 homes, and resulting in 42 deaths. The economic damage was estimated at US$245 million, with recovery needs reaching US$422 million—equivalent to 31 percent of Timor-Leste's non-oil GDP (World Bank, 2021a). The resulting pressures also contribute to land degradation, deforestation, and the shrinking of productive agricultural areas. These figures underscore the urgency of integrating land administration with climate resilience and disaster risk management. A functioning land registry enables authorities to assess post-disaster damage, implement compensation mechanisms, and carry out land reallocation in a timely and transparent manner. Without clear data on land ownership and use, recovery efforts are frequently delayed, contested, and vulnerable to mismanagement, compounding social tensions.

A reliable cadaster could also support proactive climate action. A well-structured land-registry system enables planners to identify priority zones for reforestation, watershed restoration, and climate-smart agriculture—all key components of climate mitigation and adaptation (Quan and Dyer, 2008). In Timor-Leste, where land degradation is widespread and vulnerability to climate shocks is high, an integrated approach that connects tenure security with spatial planning is essential to building resilience and protecting rural livelihoods. In this context, effective land use planning becomes an urgent necessity for disaster risk reduction and climate change adaptation.

3.3. Using Land Titling as a Catalyst for Growth

The Multiplier Effect of a Functioning Land and Housing Market

The most critical barrier to a functioning housing market is the lack of formal land rights. In a country where most land is untitled, households cannot use land as collateral, developers cannot acquire or subdivide plots in a legally secure way, and financial institutions face unmanageable credit risks. Without formal land systems, the entire housing and construction finance ecosystem stalls. A scalable, transparent land titling program—digitized and accessible—would unlock incremental upgrades for families, support formal construction activity, and create the legal certainty needed for lending and private investment.

If land titling and housing finance systems were established, the economic impact would be significant and self-reinforcing. At a national level, repatriating even a portion of the US$1.6 billion held overseas into productive housing finance lending could transform both urban and rural economies (BCTL, 2025). Assuming a modest 10 percent mortgage-to-GDP ratio, Timor-Leste could unlock up to US$210 million[14] in additional lending for the housing sector. This would help create jobs, boost construction activity, and stimulate wider economic investment. The real estate value chain—from construction materials to labor to infrastructure—would become more dynamic, stimulating local enterprise and innovation. The multiplier effect of the construction sector is sizeable as exemplified by neighboring countries (Acolin, Green, and Hoek-Smit, 2021) (Table 3-1).

Table 3-1: Neighboring countries enjoy extensive multiplier effects from their construction sector[13]

Construction sector multipliers	Output multipliers	Employment multipliers
Indonesia	2.0	2.1
India	2.5	1.8
Philippines	2.2	1.4

Secure land and housing catalyze economic benefits for households, markets, and the state. Titled land and secure housing empower households to earn income, grow equity, and establish enduring family assets. Homes can be monetized through rentals, home-based businesses, or as loan collateral, supporting today's cash flow. As property values rise, homes can be reinvested or passed on to future generations. Banks can deploy their liquidity to grow their domestic lending portfolio, rather than continuing the prevailing practice of placing excess funds in foreign financial institutions. Developers can operate with legal clarity, and the government can begin to plan for urban growth, implement land value capture mechanisms, and collect revenue from property markets. With a functioning real estate market, land becomes more than a static asset, but becomes a tool for inclusion, a platform for investment, and a driver of long-term, equitable growth.

Land and Property Valuation: An Opportunity for Revenue Generation

The lack of a functioning land administration system limits the government's ability to generate revenue. A land registry is needed to support land and property valuations, which are essential not only for facilitating land markets and private investment but also for supporting public revenue generation through property taxation. For a country seeking to reduce dependence on petroleum revenues and external aid, a sustainable and equitable property tax system offers a promising avenue for enhancing domestic resource mobilization and strengthening local governance.

International experience underscores the importance of linking property valuation systems with accurate land records to improve revenue collection, tenure security, and public trust. For instance, in the Philippines, property tax reform efforts gained significant momentum with the passage of the Real Property Valuation and Assessment

[13] Source: OECD: Input/Output data by sector, including construction industry (ISIC 41-43). ILO: Employment by Sector, including for Construction Industry (ISIC 41-43).
[14] A 10 percent mortgage-to-GDP ratio, based on a 2024 GDP of US$ 2.1 billion, implies potential mortgage lending of ~US$210 million.

Reform Act in 2024, which mandates the development of a comprehensive national property database to support standardized valuation and improved tax administration[15]. Previously, outdated land records had significantly undermined municipal revenues. The subsequent establishment of a centralized valuation authority enabled the government to conduct property valuation. Similarly, Rwanda successfully conducted cadastral mapping and land registration alongside property taxation reform, improving tax compliance and revenue collection while enhancing tenure security for millions of households (Section 3.5). Rwanda's success was due to keeping the valuation process simple, transparent, and directly linked to an inclusive land registration system, which instilled confidence in landholders regarding ownership and taxation.

These international examples underscore the importance of designing a locally appropriate land valuation system. With a functioning registry in place, a transparent and consistent valuation system can improve land market transparency, support spatial planning, and generate much-needed sustainable local revenues. To implement such a system, Timor-Leste must strengthen institutional capacity, develop fair and standardized valuation methodologies, and design policies that are inclusive and equitable. Importantly, valuation approaches must reflect local realities—particularly in areas governed by customary tenure where formal registration has yet to occur. Therefore, phased implementation, robust public communication, and legal empowerment of communities will be essential to ensure that property valuation systems are trusted, socially legitimate, and developmentally effective.

3.4. The State of Land Governance in Timor-Leste

The Legal Framework Governing Land Administration

Land governance in Timor-Leste is characterized by legal pluralism, with statutory law operating alongside deeply rooted customary systems. In rural areas especially, most households access and manage land based on customary norms upheld by traditional authorities. Most of Timor-Leste's land is held under *rai lisan*, or customary tenure systems rooted in ancestral claims by origin groups (Rede Ba Rai, 2019). The 2017 Land Law represented an important recognition of this reality, as it explicitly acknowledges the legitimacy of customary land rights. However, despite this major legislative milestone, the law is not yet supported by a comprehensive legal or institutional mechanism to formally register or record these rights. As a result, implementation remains uneven, with significant gaps in how customary claims are documented, and increases the risk of exclusion or misrepresentation particularly for vulnerable groups. The disconnect between legal recognition and practical registration continues to limit the integration of customary tenure into the formal land administration system. (Rede Ba Rai, 2019; Almeida, 2022).

Contemporary land administration in Timor-Leste is shaped by a legacy of overlapping and fragmented property regimes. Each successive wave of rule under Portuguese colonization, Indonesian occupation, and the post-independence transition introduced different legal frameworks and property systems, often without reconciling previous claims. This has created a patchwork of unresolved ownership and tenure arrangements across the country. The situation was further exacerbated by widespread displacement and the destruction of land records during the withdrawal of Indonesian forces in 1999, which left large gaps in institutional memory and official documentation. While there are no definitive numbers, it is calculated that around 3,000 formal land titles were issued by the Portuguese authorities, and 44,000 formal titles under Indonesian rule (Rede Ba Rai, 2019). However, the destruction of Indonesian records makes it impossible to verify which rights should be accorded and to whom. Many landowners in Timor-Leste continue to hold on to these historical land titles as their primary evidence of ownership.

The passage of the 2017 Land Law was a legislative milestone. At independence, Timor-Leste faced fundamental legal dilemmas: whether to validate prior formal land titles, how to treat long-term occupation and informal tenure, the extent to which customary tenure systems should be integrated into statutory law, and how to adjudicate the multiplicity of overlapping claims. These unresolved tensions produced a fragmented legal and institutional landscape, in which no single authoritative framework could effectively resolve claims or allocate tenure rights. The passage of Law No.

[15] Republic Act No. 12001 (Real Property Valuation and Assessment Reform Act). Signed into law June 13, 2024. Supreme Court E-Library.

13/2017—*Special Regime for the Determination of Ownership of Immovable Property (*Land Law) was a legislative milestone, providing for the legal recognition of rights based on formal titles, long-term occupation, and customary tenure.

The 2017 Land Law established a comprehensive legal framework on land rights. Its overarching goal was to recognize and convert historic claims from the Portuguese and Indonesian eras into formal land titles, as well as to recognize customary rights. This represents a major step forward, as the status of such rights has been unclear since independence. The law stipulates criteria for the recognition of land rights, establishes mechanisms for dispute resolution through the Land and Property Commission (LPC), defines state land more clearly, and lays the foundation for the recognition of *propriedade comunitária* (communal property) and community protection zones. It also introduces a cadastral survey mechanism as a precondition for legal recognition of rights, where undisputed claims are converted into registrable rights under the Property Registry. Disputed claims undergo a quasi-judicial resolution process by the LPC, with access to judicial review. Upon registration, these rights fall under the regulatory scope of the Civil Code (Law No. 10/2011), which governs subsidiary matters such as transfer, succession, usufruct, and mortgage.

Implementation of the Land Law remains limited. Apart from the establishment of the LPC and some steps to register properties, most of the law's provisions have not been implemented. Initially, the absence of supporting regulations was one reason for delay, but there are now key legal instruments in place covering a broad range of areas. These cover the structure and functions of the Land and Property Commission (Decree-Law 5/2020), land classification (Decree-Law 8/2021), urban planning and construction (Decree-Law 9/2022), and territorial planning (Decree-Laws 35/2021 and 45/2023). Critical tools such as the Property Registry Code (Decree-Law 14/2022), cadastral procedures (Decree-Law 65/2022 and Ministerial-Decree 32/2023), and various ministerial diplomas governing land certificates, parcel identifiers, and registry formats have also been adopted (UNDP, forthcoming).

Several regulatory and legal gaps remain, preventing the full operationalization of the Land Law. These include provisions on the types of legal entities allowed to own land, the management and delimitation of land within the state public domain, and the legal framework for communal land and community protection zones. Although customary land rights are acknowledged in the Constitution and recognized in the Land Law, they still lack practical legal recognition. The absence of a comprehensive legal framework to recognize collective or communal land further exacerbates legal uncertainty, especially for customary communities, as there is no clear mechanism for integrating customary rights into the formal land registry. There are also legal gaps in areas such as the regulation of private rights over state land, conditions under which state land may be sold, compensation and eviction frameworks, and the taxation of immovable property. The law also requires regulations on the Immovable Property Fund, mediation services and mediators, and the long-awaited Civil Registry Code referenced in the Civil Code. These regulatory gaps hinder the full effectiveness of the legal framework and contribute to the uncertainty surrounding the implementation of land rights (UNDP, forthcoming).

Implementation has also been hampered by structural issues. Many laws in Timor-Leste are enacted without accompanying implementation strategies or monitoring mechanisms, leaving institutions with no guidance or accountability frameworks. The continued failure to implement key provisions of the Land Law, even where not legally dependent on subsidiary rules, thus reflects a deeper governance issue. For example, nothing in the existing legal framework justifies declaring land as state-owned outside the cadastral process prescribed in the Land Law. This inconsistent application of the law diminishes trust in the legal system. At the same time, limited public awareness of land rights and legal procedures—among both officials and the wider population—further weakens effective implementation. Public consultation and legal awareness raising efforts are sporadic, unstructured, and sometimes misleading.

To operationalize the Land Law and scale up systematic land registration, the government should prioritize the development of a comprehensive implementation strategy. This strategy should outline clear steps to finalize the missing legislative framework, ensuring timely adoption of the necessary regulations. It should also establish robust mechanisms to monitor the implementation of these laws and regulations, ensuring accountability and consistency across all levels of government. Key areas for investment are capacity building within institutions responsible for land registration, including training for surveyors, and upgrading technological infrastructure to support a digital land registry.

A strategic plan for rolling out systematic registration across the country should be put in place, with an emphasis on integrating local communities and stakeholders in the process.

The Institutional Framework: Challenges and Opportunities in Timor-Leste's Land Administration

Timor-Leste's land administration system is hindered by fragmentation, undercapacity, and a lack of coordination across agencies. The Ministry of Justice (MoJ) leads land administration efforts, including cadastral mapping, registration of land rights, and issuance of land certificates. Within the MoJ, two General Directorates have distinct responsibilities: the General Directorate of Land, Property and Cadastral Services (DGTPSC) manages cadastral surveys, state land, and geospatial data, while the General Directorate of Registration and Notaries (DGSRN) maintains the Property Registry. Despite these clearly defined roles, the institutional setup suffers from fragmentation and weak operational coordination.

Capacity to resolve land disputes is significantly limited. The LPC is tasked with resolving land disputes arising from the cadastral process, particularly those uncovered during systematic land registration efforts. With just nine officials with cadastral and legal expertise, it faces significant capacity constraints. Of the approximately 300,000 parcels recorded (see below), an estimated 55–75,000 are contested, and the LPC does not have the capacity to resolve these. The judicial system also lacks the expertise to adjudicate these cases, frequently relying on Commission members for technical support. In practice, the LPC also handles disputes outside of its formal mandate, receiving cases on an ad hoc basis rather than through structured cadastral processes, further stretching its limited resources, compromising its legitimacy, and contributing to the overall bottleneck in land dispute resolution.

Capacity constraints also remain a major bottleneck to cadastral mapping. The DGTPSC faces a significant shortage of key personnel, including land surveyors, lawyers, paralegals, and administrative staff, all of whom are crucial for the comprehensive land registration process. With only about 20 trained surveyors, the DGTPSC lacks the human resources necessary to support a nationwide cadastral mapping program. Outdated equipment and the absence of a formal system for certifying or licensing surveyors further hinder progress. As its current Indonesian-trained professionals approach retirement, institutional capacity is rapidly declining. Officials estimate that at least 120 surveyors are needed, but without strategic education, professional development, and investment in other necessary roles, this target remains out of reach.

Institutional coordination challenges further complicate these capacity gaps. A recent initiative by the Ministry of Finance to establish an Inter-Ministerial Working Group on Land, chaired by the MoJ and supported with an initial budget appropriation of US$800,000, is a promising step. However, parallel efforts, such as a separate report on land administration commissioned by the Prime Minister's Advisor for Judicial Reform and led by the United Nations Development Programme (UNDP), reflect a broader pattern of fragmented planning and weak inter-agency communication. Without improved coordination and strategic investment in human capital, Timor-Leste will struggle to build a land administration system capable of meeting its development goals.

Systematic Land Registration Efforts in Timor-Leste

Since independence, the country has undertaken three systematic land registration initiatives. The first registration attempt in 2003 produced only a few hundred certificates, and its data remains largely inaccessible. A second effort through the USAID funded Ita Nia Rai (INR) project (2007–12) recorded approximately 50,000 parcels, mainly in urban areas, but failed to complete the data transfer to the DGTPSC and did not result in the issuance of land titles. The most comprehensive initiative, the *Sistema Nacional de Cadastro* (SNC) project (2014–20), mapped an estimated 300,000 parcels across the country and stored the information digitally. However, despite its scale, the SNC project did not result in the issuance of land titles, highlighting the persistent gap between data collection and formal legal recognition.

The SNC project was Timor-Leste's most ambitious land registration initiative, but design flaws and institutional breakdowns limited its impact. Led by a Timorese Portuguese joint venture between 2014 and 2020,

the US$60 million project aimed to document land claims across the country. However, it ultimately failed to deliver legal land titles due to weak technical design, and a lack of institutional continuity—particularly after changes in political leadership stalled implementation. Using orthophotos and tablets, the project digitized parcel boundaries and linked them to claimant information, including identity photos, inheritance claims, and dispute statuses. However, the mapping methodology did not follow national administrative boundaries, and areas with complex land disputes or limited access were often excluded.

Despite using simplified methods, the project incurred high costs and suffered from technical and operational shortcomings. At an average cost of about US$200 per parcel, the SNC project raised concerns about efficiency and the reliability of its data. It was implemented by a consortium with little experience in cadastral mapping and did not employ conventional surveying methods. Government technical staff, especially from DGTPSC, were not involved in the field surveying activities. The approach incorporated several elements of Fit-for-Purpose Land Administration (FFPLA), such as participatory mapping, boundary walks, and public claims displays. However, many of these were held so far from the demarcated areas that it was practically impossible for most community members to confirm or challenge the boundaries being proposed. This discrepancy between the claim locations and the actual demarcated parcels highlights a significant shortcoming in ensuring community participation and transparency in the land registration process (Rede ba Rai, 2019).

Technical setbacks further undermined the project's outcomes, including prolonged inaccessibility of the cadastral database. All data were stored on a server managed by the Directorate of National Cadaster within the DGTPSC. However, after the project ended in 2020, the server fell into disuse due to lack of maintenance, repeated power outages, and infrastructure issues. As a result, cadastral data remained inaccessible for nearly five years, preventing its use in land administration. Only recently, at the request of the Minister of Finance, was the server brought back online, and the data recovered. However, the information is now 5–11 years old and is largely outdated.

The SNC database remains the most extensive digital cadastral resource in the country, but it requires urgent updates and validation. Each digital parcel polygon is linked to claimant records and legal status, covering categories such as state-owned, abandoned, or privately held land during the Indonesian period. Nonetheless, the dataset lacks key elements required for formal registration, most notably parcel size data and adequate spatial resolution. These technical shortcomings, combined with the absence of rigorous standards, prevent the data from being used for legal certification under FFPLA standards. In addition, concerns have been raised about the quality and transparency of data collection, particularly how legal status was determined. In some cases, parcels were designated as state land without adequate consultation, potentially excluding legitimate claims or preventing individuals from asserting rights over land they occupied or used. This undermines both the inclusiveness and legal reliability of the database.

To address these deficiencies, the DGTPSC has initiated a re-surveying process, but progress has been slow and fragmented. Government teams, using legacy equipment from the SNC era, are attempting to verify and correct parcel maps, and newly certified parcels now include more accurate size information. However, these improved records have not yet been integrated into the national system, and there is a risk that this piecemeal approach may further complicate an already fragmented cadastral landscape. Although the government has expressed a commitment to use the SNC data as a foundation for renewed registration efforts, a more comprehensive, carefully planned, and fully systematic approach is urgently needed. Without clear standards, strong institutional coordination, and legal clarity, partial interventions risk undermining the credibility and effectiveness of the cadastral system.

Where We Stand Today: Ongoing Efforts and Institutional Challenges

Timor-Leste is resuming cadastral efforts, but their scale and impact remain limited. Drawing on legacy data from earlier efforts and guided by the 2017 Land Law, the DGTPSC began issuing land titles under the current legal framework in 2022. That year, 39 titles were issued, increasing slightly to 54 in 2023 and 100 in 2024. All these titles were for state land—primarily covering government buildings and public assets. Following the reactivation of the SNC database in 2025, DGTPSC has set a target of 500 titles for the year. However, even this modest goal falls far short of addressing the estimated 1 million unregistered parcels nationwide. At this rate, it would take centuries to complete

nationwide registration—highlighting the urgent need to scale up efforts. Under Decree-Law 65/2022, land certificates must first be notarized to gain legal standing. In addition, each title must receive formal approval from the Minister of Justice, adding another layer of delay. These administrative hurdles have created bottlenecks that slow implementation.

Land registration efforts have predominantly focused on state land, rather than private or community land. Land titles have been used more as instruments for regulating public assets than as tools for enhancing tenure security for the whole population. In Timor-Leste, the state leases land to individuals and entities through contracts. This approach reflects the current legal framework, in which the Land Law recognizes only ownership rights and no other types of land use rights such as leaseholds. As a result, state-owned land is not alienated but remains under government ownership while being leased to users for a defined period, as specified in the contract. These contracts are administrative in nature and do not confer registrable or transferable land rights. Consequently, land users operate under time-bound arrangements that offer limited tenure security and are not recorded in the formal land registry, which can constrain long-term investment and land-based development.

Although the Land Law permits the recording of land use or function in certificates, this section is often left blank due to the absence of spatial plans. The lack of integration between land registration and spatial planning reduces the strategic value of the cadastral system. This highlights the need for a more coordinated and well-resourced approach to land governance.

Throughout the country most land transactions occur outside the formal legal framework. In urban areas, informal settlements are widespread, and evictions—often carried out without due process—continue to occur. Many affected residents may hold valid legal or customary claims to the land, but these are frequently disregarded or remain unrecognized due to weak implementation of land laws. In rural regions, disputes commonly arise over boundaries and inheritance, particularly where migration or external investments disrupt traditional land arrangements.

Traditional land tenure arrangements are seen as more accessible than formal systems. The recent Tatoli survey highlighted the enduring legitimacy and accessibility of customary authorities, such as *aldeia* and *suco* chiefs, in resolving land matters (Asia Foundation, 2025). It also underlined the weakness of the formal legal system, which is often seen as remote, costly, or ineffective, particularly in rural areas. Despite the prevalence of disputes, satisfaction with the outcomes of customary mechanisms remains high at 88 percent, suggesting that they are functioning relatively well. However, this reliance also leaves communities vulnerable to unequal treatment, limited legal protections, and inconsistent enforcement.

3.5. Land's Economic Potential: Examples from Indonesia and Rwanda

To fully appreciate the transformative potential of land administration reforms, it is necessary to examine successful examples from other countries. Both Indonesia and Rwanda have implemented comprehensive land registration programs that offer valuable insights for Timor-Leste. These countries have demonstrated how systematic land registration can enhance tenure security, stimulate economic growth, and foster financial inclusion. By exploring their experiences, Timor-Leste can identify effective strategies and best practices that could be adapted to its unique context.

Indonesia's Transformative Progress with Systematic Land Registration

In recent years, Indonesia has made transformative progress in land registration through its flagship Systematic and Complete Land Registration Program. Between 2017 and 2025, the number of registered land parcels increased from around 40 million to over 110 million. Indonesia is now in the final phase of completing registration of the estimated 126 million land parcels outside the state forest area. This has been achieved through participatory mapping initiatives which effectively mobilized private sector capacity via licensed surveying firms. The program has not only bolstered tenure security but also spurred economic growth, increased investment, expanded financial inclusion, and supported climate-smart development.

Registered land parcels are accessible through Bhumi, Indonesia's official cadastral geoportal, enhancing transparency and supporting spatial planning. Bhumi provides interactive access to digital cadastral maps and key information on registered land rights, including parcel boundaries, ownership status, and land use. Bhumi is part of the government's broader efforts to enhance transparency, improve land governance, and support spatial planning by making authoritative land data available to the public, professionals, and policymakers. The system plays a critical role in reducing land disputes, facilitating land transactions, and promoting evidence-based decision making in land administration.

Empirical evidence highlights the economic benefits of land registration in Indonesia, demonstrating its impact on provincial GDP and land values. Analysis across 34 provinces during 2010–19 found that a 1 percent increase in registered land share led to a 0.12 percent rise in provincial GDP per capita, with the greatest impact in regions with initially low registration rates (Wahyu et al., 2023). Systematic land registration under the Program also increased land values by an average of 26 percent, which was attributed to improved tenure security and reduced transaction costs (Suryadama et al., 2025). In East Java, land titling improved access to financial services, while the establishment of mortgage rights significantly boosted both financial deepening and investment (Pratomo and Wardhani, 2020). Together, these findings highlight how formal land rights strengthen economic activity through enhanced credit access, increased property values, and regional economic growth.

The World Bank-financed Program to Accelerate Agrarian Reform/One Map Project[16] further accelerated these gains, contributing to poverty reduction, productivity, and job creation. Initially targeting 4.3 million parcels, the project mapped 8.4 million parcels and issued 4.2 million certificates in 10 provinces, facilitated by innovations such as drone-based mapping and competitive procurement. After a period of piloting and institutional capacity strengthening, implementation efficiency was high, with 98.8 percent of the loan disbursed (World Bank, 2024c). The project's economic and financial analysis estimated net benefits of US$154.4 million and an economic internal rate of return (EIRR) of 49.2 percent (World Bank, 2025c).[17] These gains were largely driven by increases in land value and avoided deforestation-related emissions. An independent survey found that household business capital increased by 37 percent, business ownership rose by 17 percent, and 62 percent of respondents used land certificates as collateral for working capital loans. The project also generated employment, engaging 9,800 surveyors and over 32,000 village-based data collectors and para-surveyors, building local capacity and creating a skilled workforce for land administration services.

From Post-Conflict Recovery to Land Governance Reform: Lessons from Rwanda

Rwanda's land tenure reform has been instrumental in its post-conflict recovery and social stability. Following the 1994 conflict, Rwanda prioritized land tenure reform as a foundation for recovery through its first National Land Policy in 2004, followed by the Land Law in 2005. Policy objectives included regularization of tenure, building land administration institutions, and national land use planning. Between 2007 and 2010, Rwanda piloted a low-cost, community-based land registration program using satellite imagery, trained local para-surveyors, and invited active public participation to transparently demarcate land boundaries and resolve disputes at the community level.

The pilot produced significant results, improving tenure security and encouraging investment. Tenure security improved significantly, especially for women, encouraging investment in land by female-headed households—including the adoption of sustainable practices such as soil conservation (Deininger, 2016). The land rental market also became more functional, enabling land access without triggering distress sales. Based on these outcomes, the program was refined and rapidly scaled up nationwide. By 2013, over 11 million parcels had been demarcated and registered at a cost of less than US$6 per parcel (Ngoga Hoza, n.d.), creating a scalable and cost-effective model of land governance that is highly relevant for countries like Timor-Leste. Rwanda's program involved clear public information campaigns, community-based dispute resolution, and open, participatory fieldwork—which significantly strengthened trust in the

[16] The One Map Project in Indonesia, supported by a $200 million IBRD loan, aims to support agrarian reform and sustainable land governance through activities such as land registration and participatory mapping.
[17] The economic and financial analysis conducted a cost-benefit analysis and determined that the project has a positive net present value and EIRR that exceeds the discount rate which confirms that the project is economically justified and had a positive impact on Indonesia's economy and environment.

system. For Timor-Leste, where land disputes remain a sensitive issue and public confidence in institutions is still being built, embedding transparency at every stage—from awareness-raising to final registration—could enhance the legitimacy and sustainability of land administration reforms.

Rwanda's program generated substantial economic benefits, facilitating access to secured loans and driving long-term investments. Formal registration enabled landowners to use their titles as collateral, facilitating access to more than US$2.6 billion in secured loans by the end of 2015, with most lending concentrated in residential markets in Kigali (Ali, Deininger, and Duponchel, 2017). Improved tenure security also drove long-term investments in land and agricultural productivity. Tax revenues increased significantly, from US$2.9 million in 2011 to over US$14.4 million in 2013, and reached US$23 million in 2024, as a result of more effective land tax collection (Allen, 2014). Registered land transactions also rose dramatically—from roughly 10,000 in 2013–14 to over 547,000 between 2015 and 2020 (Ngoga Hoza, 2020). Importantly, gender equity was strengthened, with 86 percent of registered parcels listing a woman as a sole or joint owner (Deininger, 2016).

However, sustaining these gains requires continuing effort, highlighting the importance of system maintenance and integration. Data from the Land Administration and Information System found that many subsequent land transactions remained unregistered, undermining the long-term impact of the program. In response, the government piloted targeted fee reductions and public awareness campaigns, particularly aimed at women, to encourage the formal registration of transactions. Efforts are underway to integrate the administration system with court, tax, and land-use data to enable real-time monitoring and more responsive land administration. This underlines the need to plan for system maintenance and integration from the start and shows how administrative data can guide low-cost, targeted interventions to sustain reform benefits.

3.6. Unlocking Timor-Leste's Land Potential: A Reform Roadmap for Growth, Equity, and Stability

Strengthening land administration in Timor-Leste could unlock powerful engines of economic growth and resilience. As described above, secure land rights empower households to invest in housing, access credit, and participate in formal land markets, while a functioning land and property valuation system could boost domestic revenues through property taxation. A land registry that reflects actual land claims on the ground—supported by basic, fit-for-purpose spatial data—would also enable smarter planning, climate-resilient infrastructure, and safer land use, helping prevent informal settlement in high-risk areas and reduces vulnerability to disasters.

From Policy to Platform: The Seven Ps to Unlock Land for Development in Timor-Leste.

Timor-Leste has a critical opportunity to transform its land administration system into a foundation for inclusive growth, institutional legitimacy, and social cohesion. To achieve this, reforms must be sequenced, practical, and rooted in national priorities. This roadmap presents seven interlinked policy priorities—the Seven Ps of Land Administration—to guide action over the short and medium term. These actionable recommendations focus on leveraging existing data, closing technical and institutional gaps, and building long-term capacity

Implementing these recommendations could deliver meaningful progress within 3–5 years, with broader national coverage achievable in 7–10 years. The examples of Rwanda and Indonesia show that, with clear legal frameworks, strong institutions, and sustained investment, land administration reform can move quickly. Timor-Leste can adopt a similar phased approach, starting in urban areas, to build momentum while laying the foundation for long-term, nationwide implementation.

1. Policy Foundation: Finalize the Land Law Regulations

A complete legal framework is the cornerstone of a functioning land system. In Timor-Leste, significant legal gaps remain that prevent the full realization of land governance goals. Most urgently, the country needs to adopt foundational legislation that addresses the recording of communal land rights, protection of community zones, and

safeguards against forced evictions, all of which are essential for recognizing customary tenure and preventing land disputes. Closing these legal gaps is critical to ensure that land governance delivers for all segments of society. The updated legal framework needs then to be disseminated to all stakeholders.

2. Protection: Recognize and Integrate Customary Land Rights

Protecting customary land rights is essential to building a legitimate and inclusive land administration system. Developing a clear legal and policy framework to register customary claims—supported by participatory community mapping—is critical to securing rural tenure, preventing conflict, and promoting equity. This approach must also ensure that vulnerable groups, including women and marginalized clans, are protected within customary structures.

In addition, the limits of land titling should be recognized given the diversity of tenure systems. Although formal land titles and functioning property markets will be important in urban areas, expectations of widespread titling or market activation across all of Timor-Leste should be tempered. With most land still being governed under customary tenure and legal pluralism, a one-size-fits-all approach is unlikely to succeed. A land registration program should not aim to commercialize customary tenure, but rather to secure these rights in ways that empower communities and protect their assets—social, economic, or otherwise. Recognizing, recording, and registering customary claims—often collective in nature—should be seen as an end in itself. Communities should retain the choice to engage with land markets when and where they see fit, without being pressured into formalization or commodification.

3. Planning: Develop a National Action Plan for Systematic Land Registration

A coherent national planning framework for systematic land registration is urgently needed to move beyond fragmented, donor-driven efforts. To date, land registration in Timor-Leste has lacked a unified strategy, resulting in limited progress, uneven coverage, and duplication of efforts. A national action plan should provide clear strategic direction, outlining the goals, scope, sequencing, and institutional responsibilities for a comprehensive land registration program. It should adopt a phased, area-based approach—starting in urban and peri-urban areas such as Dili, where land tenure is generally less complex, institutional capacity is stronger, and the visibility of early success can help build momentum. Urban areas are often chosen for early implementation because they offer easier access, better infrastructure, and more institutional presence. Some areas may already have records or boundaries (either titles issued under previous regimes or parcel maps from previous land registration efforts), speeding the process. While disputes can still arise in urban zones, starting in less complex parts can help build momentum and demonstrate early results. The plan should include clear annual targets, technical standards, dispute resolution mechanisms, and monitoring tools to track progress and accountability. Importantly, it must be grounded in principles of equity and inclusion. Specific provisions should be made to ensure that vulnerable groups—including women, informal settlers, and customary landholders—are identified, consulted, and supported throughout the process. By coordinating actors around a single national strategy, Timor-Leste can improve the efficiency of land registration, reduce legal uncertainty, and lay the foundation for integrated land use planning, infrastructure development, and climate-resilient spatial governance.

4. Past Data: Audit and Use Existing SNC Data

Timor-Leste should capitalize on existing data by auditing and leveraging the land claims recorded under the *Sistema Nacional de Cadastro*. Although the dataset is becoming outdated many of the land claims collected by the SNC program between 2014 and 2020 remain valid and it remains a valuable resource to accelerate registration, especially in areas where tenure disputes are minimal. A technical audit should be conducted to evaluate data quality and to assess how it can support ongoing and upcoming land registration efforts. Integrating verified SNC data into the current registration process can save time, reduce costs, and demonstrate early progress, particularly in urban areas where land pressure is high. Moreover, using existing data will allow the government to build early momentum while planning for more complex rural registration tasks.

5. People: Expand Surveyor Capacity and Field Teams

Expanding institutional human capacity is critical to delivering land registration at scale and ensuring long-term sustainability. A pressing constraint is a shortage of licensed surveyors, but there are gaps across the whole land administration system, including legal, administrative, and dispute resolution functions. Many agencies remain understaffed and under-resourced, with limited field presence and uneven technical capabilities. Addressing this will require a comprehensive human resource strategy. First, the government should strengthen legal and administrative competencies within the land administration system. Efforts to expand the pool of licensed land surveyors will also be important. With fewer than 20 qualified professionals nationwide, a dual-track strategy could include investment in formal training in collaboration with local universities and regional partners such as Indonesia, and the creation of a regulatory framework to allow certified private surveyors to operate under state supervision. Over time, a hybrid delivery model could be considered, where public teams provide oversight and legal validation, while private actors focus on field data collection. This balanced approach can help scale delivery without compromising legal quality or tenure security

In parallel, long-term investment in broader institutional capacity is essential. This includes training staff not only in surveying but also in land adjudication, legal documentation, GIS tools, digital data management, and the maintenance of land records. Standard operating procedures should be developed across agencies to ensure consistency, reduce discretion, and institutionalize knowledge. Coordination among key bodies—the DGTPSC, the LPC, and the MoJ—must also be improved to ensure a coherent approach and avoid duplication of effort. By investing in both people and systems, Timor-Leste can ensure that its land administration is not only scalable but also sustainable in the long term.

6. Processes: Streamline Land Titling Procedures

Simplifying and streamlining land titling processes is essential to improving accessibility, reducing delays, and increasing trust in formal systems. Currently, land titling involves multiple institutional steps—from technical validation by cadastral offices to legal verification by notaries and final approval by the MoJ. This multi-step process is slow, confusing for applicants, and prone to delays. To address this, the government should re-assess the current titling process and identify opportunities to simplify procedures and reduce redundancies. Routine approvals should be delegated where appropriate, and a one-stop shop model should be piloted in Dili to consolidate institutional roles and provide a user-friendly interface for citizens. These reforms would reduce the time and cost of obtaining land titles, encourage more households to formalize land claims, and improve public perceptions of land administration services.

7. Platform: Build a Digital Land Information System (LIS)

Developing a modern, scalable digital platform is vital for delivering transparent and efficient land services. Timor-Leste currently lacks a functioning Land Information System (LIS) capable of storing, updating, and sharing land-related data across institutions. As land registration expands, the absence of such a system risks data fragmentation, duplication, and inefficiency. Development should be phased, beginning with core functionality such as parcel mapping, ownership records, and title issuance. Over time, the system should be expanded to include land valuation, transaction history, dispute tracking, and public access tools. The LIS must be interoperable across government agencies, secure, user-friendly, and adaptable to changing technological needs. Importantly, the platform should be designed with citizen engagement in mind, offering online services, mobile tools, and local-language accessibility to promote broad usage and transparency.

Together, these seven priorities offer a clear and actionable path forward. By implementing these priorities in a sequenced and inclusive manner over the next three to five years, Timor-Leste can unlock the full potential of its land resources. Land administration is not just a technical or legal exercise—it is a development imperative that can stimulate investment, improve service delivery, enhance government credibility, and promote a more just and equitable future for all Timorese.

ANNEX 1. Key Indicators

Annex Table 1: Economic Indicators

	2019	2020	2021	2022	2023	2024E	2025F	2026F	2027F
Real sector	*(annual percentage change, constant)*								
Gross domestic product (non-oil)	2.7	-8.5	3.0	4.0	2.4	4.1	4.0	3.4	3.8
Final consumption expenditure	4.1	1.3	0.09	7.0	1.5	3.0	4.2	4.3	4.8
Gross fixed capital formation	-17.4	-46.9	-6.1	27.0	11.5	33.6	4.5	2.0	1.2
Consumer Price Index, period average	0.9	0.5	3.8	7	8.4	2.1	2.0	2.5	2.5
Fiscal sector	*(percentage of non-oil GDP)*								
Total revenue	42.4	46.4	45.4	43.6	41.2	40.8	41.3	41.4	41.3
Domestic revenue	11.1	11.5	10.3	10.3	14.0	13.4	14.0	14.1	14.0
Estimated Sustainable Income	31.3	34.4	35.1	33.1	27.2	27.4	27.3	27.3	27.3
Total expenditure	73.0	71.5	91.8	103.1	82.0	91.3	95.3	91.6	88.2
Recurrent expenditure	54.3	61.4	82.9	90.9	68.9	72.7	76.4	73.1	70.4
Capital expenditure	18.6	10.1	8.9	12.1	13.1	18.6	18.7	18.5	17.8
Fiscal balance	-30.5	-25.1	-46.4	-59.5	-40.9	-50.5	-54.0	-50.2	-47.0
Monetary and financial sector	*(as stated)*								
Credit to the private sector (percent growth)	4.3	11.2	5.8	3.03	22.0	31.0			
Lending interest rate (percent)	11.9	11.2	10.9	10.7	10.5	10.4			
Nominal effective exchange rate (index)	102.3	103.6	100.8	105.3	107.3	110			
Real effective exchange rate (index)	119.0	120.3	120.3	130.1	140.4	144			
External sector	*(percentage of non-oil GDP)*								
Current account	26	33	109	24	-9.8	-29.3	-31.8	-32.3	-32.7
Goods and services	-16.0	17.0	111.0	34.0	-26.0	-51.0	-53.0	-54.0	-56.0
Primary and secondary income	42.0	15.0	-2.0	-10.0	16.0	22.0	21.0	22.0	23.0
Capital account	2.0	1.0	1.0	1.0	0.0	0.0	1.0	1.0	1.0
Financial account	1.0	59.0	43.0	33.0	5.0	27.0	10.0	11.0	11.0
Direct investment	9.0	40.0	23.0	17.0	-7.0	-13.0	-10.0	-10.0	-10.0
Portfolio investment	-8.0	19.0	20.0	15.0	12.0	40.0	21.0	21.0	21.0
Other investment	0.0	0.0	0.0	0.0	0.0	0.0	1.0	2.0	3.0
Net errors and omissions	-28.0	25.0	-49.0	1.0	12.0	54.0	0.0	0.0	0.0
Change in reserves	-1.0	0.0	18.0	-6.0	-3.0	-2.0	-3.0	-3.0	-3.0
Memorandum items	*(as stated)*								
Oil production (million BOE)	38	36	37	11.7	7	1			
Petroleum Fund, closing balance (US$ billion)	17.69	18.99	19.65	17.41	18.25	18.27			

Source: Ministry of Finance, BCTL

Starting from 2019, the BOP figures include the export and import value from oil activities.

ANNEX 2. Women's Land Rights: A Hidden Barrier to Inclusive Growth

Gender inequality in land access remains a structural barrier to inclusive development in Timor-Leste. Despite constitutional guarantees, women continue to face significant disadvantages in claiming, owning, and benefiting from land. Cultural norms limited legal literacy, and unequal access to registration services have resulted in far fewer land parcels being registered to women. These barriers limit women's ability to use land as collateral, invest in agriculture or housing, and participate in the formal economy. The *2024 Women, Business and the Law* report underscores these challenges, highlighting the lack of sex-disaggregated data, weak incentives for joint titling, and insufficient public awareness campaigns on women's property rights (World Bank, 2024d). Without targeted legal aid and gender-sensitive policies, women will remain excluded from the benefits of land administration.

Although legal reforms have progressed, implementation gaps persist, especially in rural areas. Recent legislation regulates equal terms for the joint property of couples, but these protections have not translated into widespread change. In practice, land is still predominantly governed by customary systems were male family members control access and decision-making. Even in matrilineal communities such as those in Manufahi Municipality, women's roles tend to be symbolic rather than substantive. Women's land rights are often informal and contingent on their relationships with male relatives, leaving them vulnerable to dispossession and insecurity.

Women continue to face multiple barriers participating in land governance. Legal protections are often poorly understood at the community level, where complex procedures and technical language hinder accessibility. Outreach efforts have been uneven, and rural women—those most affected by land issues—are rarely engaged through appropriate formats or in local languages. Customary mediation remains the dominant mechanism for resolving land disputes, yet it frequently excludes women's voices. Although gender quotas have increased women's representation on *suco* councils, their roles are poorly defined and under-resourced. This disconnects between formal rights and local realities reinforces structural inequality.

The consequences of women's exclusion from landownership are far-reaching. Without secure tenure, women are less likely to invest in land, make long-term improvements, or access financial services. This limits productivity, household resilience, and opportunities for economic empowerment. In a country where over two-thirds of rural households rely on subsistence farming and 16 percent are female-headed, these constraints have direct implications for national development. International experience—from Rwanda to Ethiopia—demonstrates that protecting women's land rights can increase agricultural yields, strengthen family welfare, and enhance community resilience. Timor-Leste stands to benefit from similar reforms.

Securing women's land rights is not only a matter of fairness, but also a sound economic strategy. Enabling women to register, use, and inherit land strengthens household livelihoods, supports private sector participation, and contributes to broader economic resilience. It also fulfills the country's commitments to constitutional equality and international human rights standards. A gender-inclusive land administration agenda—grounded in legal clarity, inclusive outreach, and local-level support—can help build a more just, productive, and equitable future for Timor-Leste.

Source: World Bank staff

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