Fiscal Strategy in Timor-Leste

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Plan of the Presentation

• Fiscal Developments
• Inflation
• Fiscal Policy in Timor-Leste
• Fiscal sustainability over the long term
Government spending is growing rapidly.
Government spending in Timor-Leste stands out relative to other resource dependent economies.
Inflation has risen rapidly to over 10 percent, due to high food prices and strong demand.

**Consumer Price Index**
(Year-on-year percentage change)
Inflation is becoming more broad-based.

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

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

- Given development needs, the government plans to frontload capital spending to improve poor infrastructure.
- The trade-off between
  - the need to rebuild basic infrastructure soon and
  - the pace of spending increases required to deliver sustainable high growth with moderate inflation.
The SDP envisages excess withdrawals for the next two decades.

**Petroleum Fund Withdrawals**
(In millions of U.S. dollars)

Sources: Timor-Leste authorities and Fund staff estimates and projections.
The excess withdrawals would lower the projected Petroleum Fund balance by about $10 billion by 2030.

Sources: Timor-Leste authorities and Fund staff estimates and projections.
The projected ESI would continue to decline accordingly.
The size of government spending is different, depending on countries.

<table>
<thead>
<tr>
<th>Government Spending</th>
<th>2011</th>
<th>2002-11 Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>Emerging and developing economies</td>
<td>29.5</td>
<td>28.1</td>
</tr>
<tr>
<td>Central and eastern Europe</td>
<td>40.1</td>
<td>39.8</td>
</tr>
<tr>
<td>Commonwealth of Independent States</td>
<td>37.1</td>
<td>34.9</td>
</tr>
<tr>
<td>Developing Asia</td>
<td>22.8</td>
<td>21.5</td>
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</tbody>
</table>
Nonperforming loans in Timor-Leste are very high, even compared to other LDCs.
International Monetary Fund

Thank you!