IMF Country Reports 25/278

Democratic Republic of Timor-Leste: 2025 Article IV Consultation-Press Release; Staff Report; and Statement by the Executive Director for the Democratic Republic of Timor-Leste

INTERNATIONAL MONETARY FUND

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IMF Country Report No. 25/278

DEMOCRATIC REPUBLIC OF TIMOR-LESTE

September 2025

2025 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR THE DEMOCRATIC REPUBLIC OF TIMOR-LESTE

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2025 Article IV consultation with the Democratic Republic of Timor-Leste, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its September 19, 2025 consideration of the staff report that concluded the Article IV consultation with the Democratic Republic of Timor-Leste.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on September 19, 2025, following discussions that ended on July 2, 2025, with the officials of the Democratic Republic of Timor-Leste on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on August 25, 2025.
- An **Informational Annex** prepared by the IMF staff.
- A **Debt Sustainability Analysis** prepared by the staffs of the IMF and the World Bank.
- A **Statement by the Executive Director** for the Democratic Republic of Timor-Leste.

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PRESS RELEASE

PR 25/315

IMF Executive Board Concludes 2025 Article IV Consultation with Timor-Leste

FOR IMMEDIATE RELEASE

Washington, DC – September 26, 2025: The Executive Board of the International Monetary Fund (IMF) completed the Article IV Consultation for Timor-Leste.[1]

Growth is estimated to have risen to 4.1 percent in 2024, supported by fiscal expansion and strong credit growth. Inflation declined from 8.4 percent in 2023 to 2.1 percent in 2024, driven by moderating global food prices and the rollback of tax hikes, and fell further to -0.2 percent y/y in May 2025.

Growth is projected to remain robust at 3.9 percent in 2025, supported by a strong fiscal impulse and continued rapid credit growth. In 2026, growth is expected to moderate to 3.3 percent, as ASEAN accession begins to support growth through stronger FDI inflows and non-oil exports, but being more than offset by the expected drag from fiscal policy. Inflation is expected to rise modestly in the second half of the year—averaging 0.9 percent in 2025 and 1.8 percent in 2026—as global food prices rise. Risks to the outlook are balanced.

Executive Board Assessment[2]

Executive Directors noted that growth is expected to remain robust in 2025 and inflation to remain contained, with balanced risks to the medium-term outlook. However, considering the cessation of oil production in 2025, and the substantial fiscal and external imbalances, Directors underscored the importance of gradual fiscal consolidation and growth-enhancing structural reforms to avoid depletion of the Petroleum Fund, secure fiscal and external sustainability, and promote needed economic diversification. They welcomed Timor-Leste's WTO accession and forthcoming accession to ASEAN, which are expected to boost trade and attract more foreign investment.

Directors concurred that improving the composition and quality of public spending, and gradually enhancing revenue mobilization, are needed to support fiscal consolidation efforts. They welcomed recent initiatives to restrain recurrent spending and encouraged further efforts to reduce untargeted transfers and contain the public wage bill, while prioritizing investments in human capital and high-quality capital projects. They welcomed plans for the implementation of VAT by 2027, and encouraged efforts to strengthen tax administration and

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[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

[2] At the conclusion of the discussion, the Managing Director, as Chair of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.IMF.org/external/np/sec/misc/qualifiers.htm.

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compliance. While noting prospects offered by the Greater Sunrise gas field, Directors called for carefully managing the risks associated with its development. They encouraged the full implementation of ongoing reforms to public financial management and procurement to improve budget discipline and spending efficiency.

Directors noted that the financial system remains shallow, despite strong credit growth in recent years. They welcomed ongoing legal reforms in the financial sector, and called for accelerating the issuance of land titles and developing a national digital ID to address structural impediments to lending and support growth. While systemic risks remain limited, Directors called for close monitoring and supervision of the financial sector given the rapid credit growth. Addressing AML/CFT framework deficiencies is also important.

Directors emphasized that advancing structural reforms is crucial to boost private sector development, enhance financial inclusion, and support sustainable growth. They encouraged the authorities to continue ongoing efforts to strengthen governance and the rule of law. They noted that human capital development, including by strengthening vocational training, would help Timor-Leste to unlock its large demographic dividend.

Directors welcomed ongoing capacity development projects and noted that continued engagement with the Fund would help support Timor-Leste's reform agenda.

Timor-Leste: Selected Economic and Financial Indicators, 2022–30

Non-oil GDP at current prices (2024):US$1.947 billion
Population (2024): 1.392 million
Non-oil GDP per capita (2024): US$1,399
Quota: SDR 25.6 million

	2022	2023	2024	2025	2026	2027	2028	2029	2030
			Est.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Real sector (annual percent change)									
Real Non-oil GDP 1/	4.0	2.4	4.1	3.9	3.3	3.2	3.2	3.2	3.2
Real Non-oil GDP per capita	2.2	1.3	3.0	2.6	2.0	1.9	1.8	1.7	1.7
CPI (annual average)	7.0	8.4	2.1	0.9	1.8	2.0	2.0	2.0	2.0
CPI (end-period)	6.9	8.7	-0.4	1.9	1.7	2.0	2.0	2.0	2.0
Central government operations (in percent of Non-oil GDP, unless otherwise indicated) 1/									
Revenue	58.3	50.7	48.9	45.4	42.4	39.5	36.6	33.9	31.4
Domestic revenue	12.0	13.1	12.2	12.2	11.9	12.0	12.0	12.1	12.3
Estimated Sustainable Income (ESI)	33.1	27.2	26.8	26.5	24.1	21.8	19.5	17.2	15.0
Grants	13.2	10.4	9.9	6.7	6.4	5.7	5.1	4.6	4.1
Expenditure	114.7	90.8	94.0	97.0	92.5	90.1	87.9	85.5	83.3
Recurrent	90.6	68.6	66.7	73.3	69.6	67.9	66.2	64.6	63.0
Net acquisition of nonfinancial assets	10.9	11.8	17.4	16.9	16.5	16.5	16.5	16.3	16.1
Donor project	13.2	10.4	9.9	6.7	6.4	5.7	5.1	4.6	4.1
Net lending/borrowing	-56.4	-40.1	-45.0	-51.5	-50.1	-50.6	-51.2	-51.6	-51.8
Money and credit (annual percent change, unless otherwise indicated) 1/									
Deposits	8.6	2.5	7.3	6.8	6.2	6.1	6.1	6.1	6.1
Credit to the private sector	34.5	20.6	31.8	22.6	12.3	6.1	6.1	6.1	6.1
Lending interest rate (percent, end of period)	11.0	10.7	10.5	…	…	…	…	…	…
Balance of payments (in percent of Non-oil GDP, unless otherwise indicated) 1/									
Current account balance	24.3	-9.8	-29.0	-31.8	-32.3	-32.7	-33.3	-33.7	-33.9
Trade of Goods	60.4	-7.8	-33.0	-40.9	-40.1	-40.2	-39.4	-38.4	-37.5
Exports of goods	107.3	35.1	10.1	4.8	3.7	3.0	3.2	3.4	3.6
Imports of goods	46.9	42.9	43.1	45.8	43.8	43.2	42.6	41.8	41.1
Trade of Services	-26.3	-18.1	-16.6	-16.7	-16.5	-16.4	-15.5	-14.5	-13.6
Primary Income	-18.7	11.2	11.9	14.1	12.8	12.9	11.0	9.1	7.4
Secondary Income	8.9	4.9	8.7	11.8	11.5	11.0	10.5	10.1	9.8
Overall balance	-6.1	-2.7	-2.2	4.1	1.2	2.0	1.6	1.5	1.5
Public foreign assets (in months of imports) 2/	169.0	195.7	183.5	160.7	150.1	135.3	122.3	109.6	96.9
Exchange rates									
NEER (2010=100, period average)	156.2	161.0	163.5	…	…	…	…	…	…
REER (2010=100, period average)	159.3	170.3	172.7	…	…	…	…	…	…
Memorandum items									
Fiscal impulse (percentage point of non-oil GDP) 3/	-7.4	22.1	-4.6	-6.2	3.8	1.8	1.7	1.9	1.9
Nominal Non-oil GDP (in millions of U.S. dollars)	1,676	1,802	1,947	2,079	2,208	2,343	2,485	2,637	2,797
Nominal Non-oil GDP per capita (in U.S. dollars)	1,231	1,309	1,399	1,475	1,547	1,620	1,695	1,773	1,854
(annual percent change)	5.4	6.3	6.9	5.5	4.9	4.7	4.6	4.6	4.6
Petroleum Fund balance (in millions of U.S. dollars) 4/	17,273	18,288	18,274	17,746	17,054	16,145	15,133	14,022	12,807
(in percent of Non-oil GDP)	1,031	1,015	939	853	772	689	609	532	458
Public debt (in percent of Non-oil GDP)	15.1	14.4	13.8	14.2	14.7	14.7	14.6	14.6	14.7
Population growth (annual percent change)	1.7	1.1	1.1	1.3	1.3	1.3	1.4	1.4	1.4

Sources: Timor-Leste Authorities; IMF Staff Estimations and Projections.
1/ Non-oil and Total GDP are equal from 2026 onwards.
2/ Includes Petroleum Fund balance and the central bank's official reserves.
3/ Change in net lending/borrowing (excluding ESI and interest payment).
4/ Closing balance.

DEMOCRATIC REPUBLIC OF TIMOR-LESTE

STAFF REPORT FOR THE 2025 ARTICLE IV CONSULTATION

August 25, 2025

KEY ISSUES

Context. Timor-Leste's financial buffers and favorable demographics provide an opportunity to develop its economy. Despite impressive progress since independence, the economy remains under-diversified, while fiscal and external imbalances are large. The Petroleum Fund's (PF) balance stood at 939 percent of non-oil GDP in 2024, making Timor-Leste's Net Foreign Asset position one of the highest in the world as a share of the domestic economy. But oil and gas production has ceased and large withdrawals from the PF to finance fiscal deficits, should they continue, would lead to its full depletion by the end of the 2030s. Timor-Leste has one of the youngest populations in the Asia-Pacific region, holding promise for future growth.

Recent developments and outlook. Growth is estimated to have risen to 4.1 percent in 2024 supported by fiscal expansion and strong credit growth. Growth is projected to remain robust at 3.9 percent this year and to moderate to 3.3 percent in 2026. Inflation, which fell sharply last year, is expected to increase moderately in the remainder of 2025 as global food prices rise. Risks to the outlook are balanced.

Policy recommendations. To support growth and macroeconomic stability, Timor-Leste's substantial savings should be spent better and more prudently. The composition and quality of public spending must be improved by prioritizing investment in physical and human capital. At the same time, containing overall spending is needed to preserve fiscal sustainability. Advancing the financial sector reform agenda, including progress on the issuance of land titles, is crucial to accelerate private sector development. Eliminating large fiscal and external imbalances while facilitating higher growth through structural reforms would support continued macroeconomic stability and deliver higher living standards.

Approved By
Nada Choueiri (APD) and Stefania Fabrizio (SPR)

Discussions took place in Dili, Timor-Leste during June 19 – July 2, 2025. The staff team comprised Yan Carrière-Swallow (Head), Raju Huidrom, and Ken Teoh (all APD). José Aloisio Costa Filho (OEDBR) joined some of the discussions. The team met with Minister of Finance Santina Cardoso, Central Bank Governor Hélder Lopes, and representatives from other government ministries, the private sector, civil society, and development partners. Kohei Asao, Ricardo Davico, Puying Wang, and Yan Xu (all APD) contributed to the preparation of this report.

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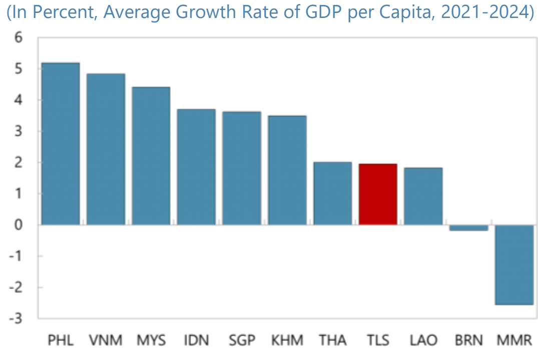
ANNEXES

CONTEXT

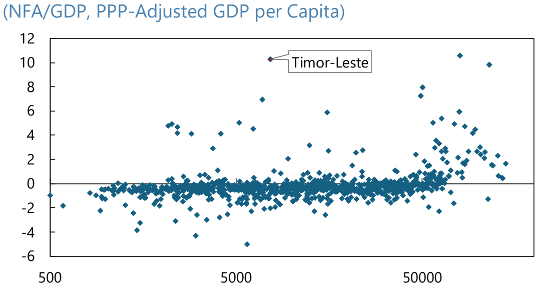
1. Timor-Leste's financial buffers and favorable demographics provide an opportunity to develop its economy. Timor-Leste has made impressive progress since independence in building up its institutions, and its growth and inflation have outperformed other post-conflict nations (IMF 2024; Huidrom and Smirnov 2024). Nonetheless, it continues to face development challenges: the economy remains under-diversified, fiscal and external imbalances are large, and poverty and malnutrition rates are thought to remain high.[1] The Petroleum Fund's (PF) balance stood at 939 percent of non-oil GDP in 2024, making Timor-Leste's Net Foreign Asset position one of the highest in the world as a share of the domestic economy. But oil and gas production has ceased and large withdrawals from the PF to finance fiscal deficits, should they continue, would lead to its full depletion by the end of the 2030s, posing risks to long-term fiscal sustainability and contributing to fragility (IMF 2024; Country Engagement Strategy). Large fiscal deficits have created an excessive dependence on the public sector and have not delivered the desired pace of economic growth and development. Per capita growth has averaged only 1.9 percent over 2021-24—lower than most ASEAN countries. Timor-Leste has one of the youngest populations in the Asia-Pacific region, which can provide a potential demographic dividend.

Average Per-Capita Growth
(In Percent, Average Growth Rate of GDP per Capita, 2021-2024)



Source: IMF Staff Calculations.

Timor-Leste's Net Foreign Assets in the Global Context[1]
(NFA/GDP, PPP-Adjusted GDP per Capita)



Sources: Lane and Milesi-Ferretti (2025), IMF IFS; and IMF Staff Calculations.
1/ Data point represents 10-year average Net Foreign Asset (NFA) position vs average GDP per capita in the same period. Data spans all IMF member countries up to 2023 and stretches back to 1970 for some countries.

RECENT DEVELOPMENTS

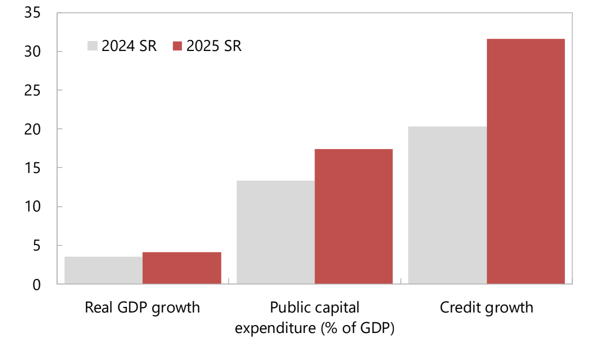
2. Growth picked up in 2024, supported mainly by expansionary fiscal policy. From 2.4 percent in 2023, growth in non-oil GDP is estimated to have increased to 4.1 percent in 2024. This is better than the 3.5 percent expected in the 2024 Article IV, driven by higher-than-expected execution of public capital expenditures towards the end of 2024 and, to a lesser extent, stronger private credit growth.

3. Inflation fell in 2024 and remains low in 2025. Inflation declined from 8.4 percent in 2023 to 2.1 percent in 2024, driven by moderating global food prices and the rollback of tax hikes. The

[1] The most recent measurement of poverty was based on the 2014 Living Standards Survey. The latest survey has recently been completed and is expected to be finalized by end-2025.

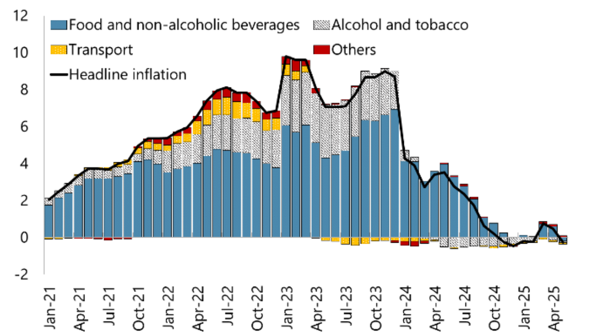
trend of low inflation has continued in 2025, in line with the moderation of global rice prices—Timor-Leste's staple food, which is largely imported—with inflation reaching -0.2 percent (y/y) in May.

Growth in 2024 and Drivers
(In Annual Percent Change, Unless Otherwise Indicated)



Source: IMF Staff Calculations.

Contribution to Headline Inflation
(In Percent, y/y, Monthly – May 2025)



Sources: National Institute of Statistics Timor-Leste; and IMF Staff Calculations.

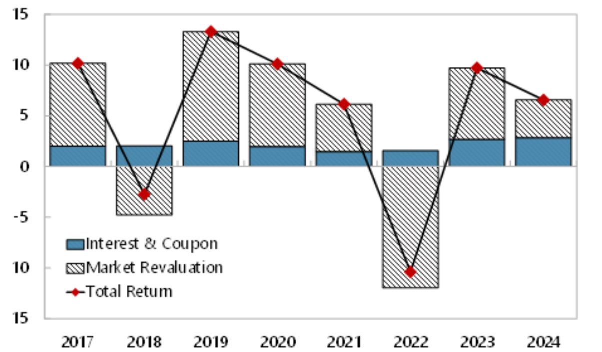
4. **After delays related to the government's review of debt-financed investments, some key infrastructure projects have resumed.** The airport expansion project (financed by ADB and JICA) and projects to improve water and sanitation (supported by ADB) are proceeding. A fiberoptic submarine cable connecting Timor-Leste and Australia has been installed but remains unutilized until a regulatory framework can be established. The development of a new Franco-Japanese solar energy joint venture could reduce the fiscal burden of energy subsidies and the diesel import bill.

5. **Timor-Leste is actively seeking greater economic integration, having joined the WTO in August 2024 and having been accepted to join ASEAN as a full member in October 2025.** These accession processes are welcome, are expected to improve market access, and are providing a positive impulse to the government's reform agenda. Planned reforms include a new insolvency framework, introduction of a VAT, and improved macroeconomic statistics.

6. **Fiscal spending expanded in 2024, with further easing expected based on the 2025 budget.** The fiscal deficit in 2024 deteriorated to 45 percent of non-oil GDP (from 40 percent in 2023) due to higher public capital expenditure. The 2025 budget authorized a large permanent increase in transfers to veterans and pensioners. The PF balance stood at $18.3 billion at end-2024, broadly unchanged from 2023 as stronger-than-expected valuation gains and interest income on the PF's foreign assets fully covered the excess withdrawal to finance the fiscal deficit. In May 2025, the government implemented a public service hiring freeze and decided to introduce forced retirement (at age 65) for public servants to address a sustained increase in the wage bill.

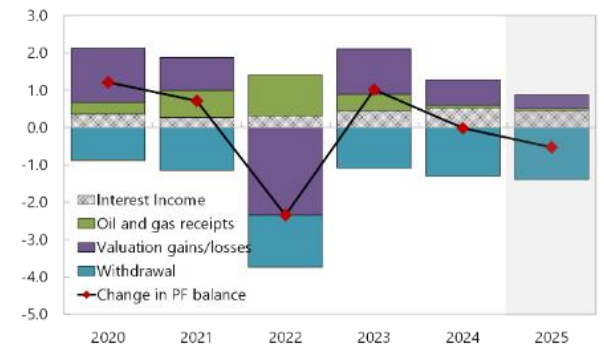
7. **The external sector position in 2024 remained substantially weaker than implied by fundamentals and desirable policies.** Based on preliminary data, the current account deficit widened to 29 percent of non-oil GDP in 2024 (from 10 percent in 2023), reflecting diminishing oil revenues and a larger fiscal deficit, in the context of continued underdevelopment of the private sector that constrains non-oil exports and provokes high dependence on imports. Exports fell to 10 percent of non-oil GDP in 2024, reflecting a 73 percent decline in oil exports alongside a moderation

Petroleum Fund Return
(Percent of Opening Balance)



Sources: BCTL Petroleum Fund reports; and IMF Staff Estimates.

Annual Change in Petroleum Fund Balance
(In Billions of US Dollars)

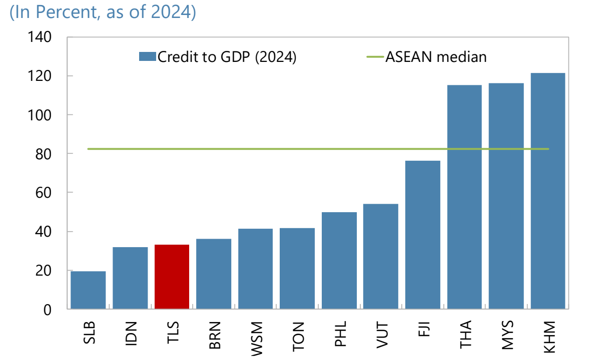


Sources: BCTL Petroleum Fund reports; and IMF Staff Calculations.

of non-oil exports. The real effective exchange rate (REER) appreciated by 17.1 percent between 2021-24 but has depreciated in recent months due to a weakening of the US dollar and low domestic inflation.

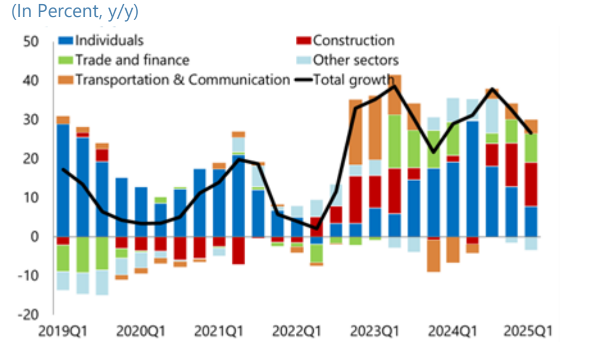
8. **Credit growth has been strong for the past two years, but the financial system remains shallow, limiting systemic risk.** Credit to the private sector has continued to grow at elevated rates (27 percent y/y in 2025Q1), with a rising share of new loans going to private businesses in the construction sector. While the credit-to-GDP ratio has increased to 33 percent (from 27 percent in 2023), it remains well below the ASEAN median. Available indicators—including a low non-performing loans ratio (2.2 percent) and a moderate loan-to-deposit ratio (52.8 percent) at end-2024—suggest limited systemic risk in the banking system. The regulatory floor on the loan-to-deposit ratio (LDR) (35 percent since January 2024) has had limited traction among private banks, whose lending growth has remained moderate. Credit expansion has been concentrated in the state-owned bank (BNCTL)—operating well above the LDR floor and holding 75 percent of banking system loans—whose capital adequacy ratio (27.8 percent), NPL ratio (2.7 percent), and profitability (2.6 percent return on assets) remained strong at end-2024.

Private Sector Credit to GDP
(In Percent, as of 2024)



Source: IMF International Financial Statistics.

Loans to Private Sector: Contribution to Growth
(In Percent, y/y)

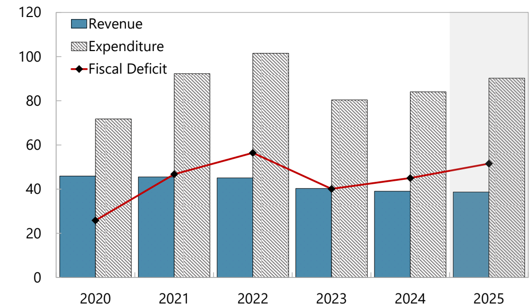


Source: Central Bank of Timor-Leste.

OUTLOOK

9. The fiscal deficit is projected to widen significantly to 51½ percent of non-oil GDP in 2025, driven by the large increase in transfers. Relative to the 2024 Article IV, staff have upgraded the forecast for capital expenditure in 2025 to reflect faster-than-expected execution to-date, which will produce a larger deficit with a somewhat more growth-friendly fiscal composition. Still, recurrent spending will continue to dominate public expenditures in 2025 and are associated with very low fiscal multipliers. Taken together, the large expansionary fiscal impulse of 6.2 percentage points of non-oil GDP in 2025 is estimated to have a limited positive impact on growth.[2] The PF balance is expected to fall by end-2025 as withdrawals to finance the budget deficit more than offset interest income and dwindling gas receipts.

Fiscal Deficit, Expenditure, Revenue [1]
(Percent of Non-Oil GDP)



Sources: Ministry of Finance of Timor-Leste and IMF Staff Calculations.
[1] Revenue includes ESI.

10. Growth is expected to remain robust at 3.9 percent in 2025. This forecast is somewhat higher than the 3.4 percent in the 2024 Article IV, driven by the expected improvement in the composition of fiscal spending and stronger credit growth. The adverse impact from US tariffs (10 percent on imports from Timor-Leste) is expected to be small given the scale of Timorese exports.[3] The reduction in USAID spending—Timor-Leste had been among the largest recipients in Asia-Pacific as a share of GDP—will have a meaningful effect on the local development community and a modest negative impact on growth in 2025. In 2026, ASEAN accession is expected to begin supporting growth through stronger FDI inflows and non-oil exports, though the impact will be modest until the reform agenda advances. This positive effect will be more than offset by an expected drag from fiscal policy (¶16), such that growth is expected to moderate to 3.3 percent. Growth is expected to converge to 3.2 percent over the medium term (about 1.7 percent in per-capita terms), supported by favorable demographics, and without incorporating the impact of future reforms.

11. Inflation is expected to rise moderately in the near term. From a low rate of -0.2 (y/y) in May 2025, staff expect a moderate pickup in inflation during the remainder of 2025 and into 2026 as global food prices rise, and the effects of a large fall in rice prices last year fade. Inflation is expected to average 0.9 percent in 2025 and to rise to 1.8 percent in 2026, before converging to 2 percent over the medium term.

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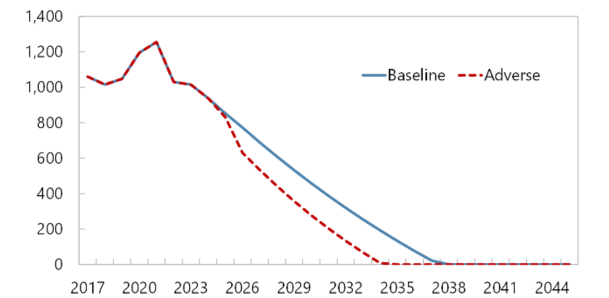
[2] The fiscal impulse is defined as the change in net lending/borrowing as a share of non-oil GDP, excluding ESI revenue and interest payments.

[3] Non-oil goods exports account for only 3 percent of non-oil GDP, and exports to the US made up just 1.8 percent of total exports in 2023.

12. Risks to the outlook are balanced. The implementation of the financial and fiscal reform agendas (¶19, ¶24) could accelerate credit and private sector development, and would boost the growth dividend from ASEAN accession. On the other hand, extreme climate events could harm food security, raise prices, and lower growth. Global commodity price volatility poses two-sided risks to inflation that are most pronounced if they affect imported food crops such as rice. The development of Greater Sunrise could boost long-term export receipts and public revenue. While its development would boost growth in the development phase, the financing could pose fiscal risks (¶18).

13. Amid high global uncertainty, a scenario of escalating global trade tensions would pose, on balance, downside risks for Timor-Leste. The main downside risk from such a scenario is weaker performance of PF financial assets in the event of a prolonged global market downturn. While carrying a relatively low probability, a large and sustained fall in global asset prices could lead to earlier PF depletion than in the baseline and require a more pronounced fiscal adjustment path to ensure sustainability. Slower-than-expected growth in major trading partners (China, ASEAN) could also weigh on growth, but the impact is small due to Timor-Leste's limited export exposure. On the upside, potential investment diversion to Timor-Leste could boost growth, to the extent that it remains one of the region's economies facing the lowest US tariff rates. Timor-Leste could better position itself to benefit from such a scenario by advancing reforms to improve the business climate.

PF Closing Balance
(Percent of Non-Oil GDP)



Sources: BCTL Petroleum Fund reports; and IMF Staff Estimates.
Notes: The adverse scenario assumes a return of around -13 percent during 2026 and around 2 percent of the medium-term.

Authorities' Views

14. The authorities broadly agreed with staff's assessment of the outlook and risks. They project slightly higher growth in 2025, driven by a larger execution of capital spending, but expect growth to moderate more sharply next year, based on the tight indicative budget ceiling they have adopted for 2026. Over the medium term, they remain committed to raising growth towards their 5-percent target, supported by better-quality public spending, effective implementation of their structural reform agenda, and ASEAN accession, all of which should support private sector-led growth. On risks from global tariff escalation, the authorities saw that Timor-Leste's limited trade and financial linkages with the US and global economies would shield the domestic economy, and that the Petroleum Fund's foreign asset portfolio was the main exposure, while noting that their prudent asset management strategy would mitigate downside risks. They anticipate a moderate pick-up in inflation, and broadly agreed with staff's assessment of the external sector, emphasizing the need to boost domestic production through private sector development and diversification to reduce imbalances.

POLICY DISCUSSIONS

Policy priorities are the achievement of fiscal sustainability and promoting private sector development to support growth. The composition and quality of public spending must be improved by prioritizing investment in physical and human capital, while containing overall spending. Advancing the financial sector reform agenda, including progress on the issuance of land titles, is crucial to accelerate private sector development.

A. Fiscal Policy

15. While the increased transparency in the 2025 budget is welcome, the large increase in recurrent spending is unwarranted. The 2025 budget contained an appropriate and well-calibrated increase in spending on capital projects, health, and education, but an excessive increase in recurrent spending that has a limited impact on growth. The expected expansion of public expenditures by 14.6 percent in 2025 is at odds with the need to consolidate over the medium term.

16. The 2026 budget should prioritize implementing high-quality capital spending and containing recurrent expenditure.

- ***Baseline.*** Recent initiatives seek to restrain recurrent expenditure in 2026, while continuing to prioritize spending on capital projects, with a growing emphasis on fiscal sustainability. Recently approved measures should allow for some moderation in the growth of recurrent spending, including savings from the introduction of a mandatory retirement age and civil service hiring freeze (estimated around $15 million, 0.7 percent of GDP). Staff expect revenue to decline moderately, reflecting a lower ESI as the PF balance is eroded and a reduction in import duties following ASEAN accession. Based on staff's assumptions on likely budget execution rates, the fiscal deficit is expected to improve to 50 percent of GDP in 2026, which would imply a contractionary fiscal impulse of 3.8 percentage points of GDP. While this will place a modest drag on growth, it rightly goes in the direction of preserving fiscal sustainability.

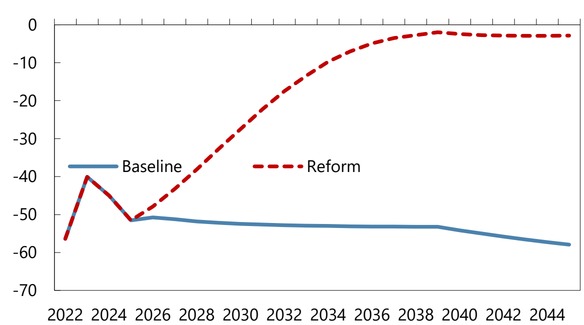
- ***Recommendation.*** Staff recommend an overall spending envelope for central government around US $1.85 billion, which is about $50m lower than the baseline and is broadly aligned with the indicative ceiling approved in the government's June 30 Budget Strategy Statement. This should be achieved through cuts to recurrent spending, including (i) shifting away from transfers for subsidies, including for energy consumption, and towards more targeted transfers to vulnerable households, and (ii) reducing the public sector wage bill, which has grown sharply since 2020. By focusing on these two areas of spending, which have low multipliers, this additional effort would not place a large additional drag on growth.

17. Absent further reforms, deficits are projected to remain large over the medium term, risking the eventual depletion of the PF that would trigger substantial hardship. Over the medium term, staff assume that public expenditures will grow around 4 percent annually in nominal terms, which is broadly aligned with recent fiscal outturns and with medium-term expenditure projections included in the 2026 Budget Strategy Statement. Expenditures are, thus, expected to remain high which, together with low domestic revenues, will result in large fiscal deficits financed by excess withdrawals from the Petroleum Fund, risking its full depletion by the end of the 2030s.[4] Notwithstanding this long-term challenge, the large buffer in the PF provides room for feasible implementation of a reform scenario, which allows staff to maintain a rating of moderate risk of debt distress in the 2025 LIC-DSF.

18. The Greater Sunrise gas field presents a potential fiscal lifeline but risks associated with its development need to be carefully managed. Negotiations were ongoing at the time of writing among the relevant stakeholders (the governments of Timor-Leste and Australia as well as the joint venture partners) with choices of project design, financing arrangements, and the fiscal regime still undecided.[5] The development of the gas field—whose proven gas reserves are 150 percent larger than those of the now depleted Bayu-Undan field—could unlock a huge source of resource wealth over the long term for the Timorese government. But the financing of the investment potentially borne by Timor-Leste—given its high equity stake through the state-owned enterprise Timor Gap—could deteriorate the net foreign asset position during the development phase. Initiating fiscal adjustment plans through implementation of staff's recommended reform package (Box 1) would significantly mitigate these risks and provide a buffer against uncertainty about future natural gas prices.

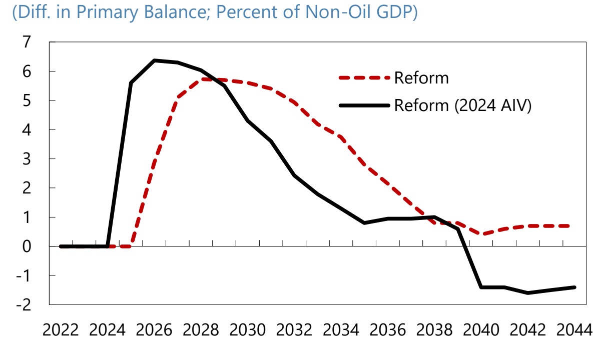
19. Budget deficits should be gradually reduced to preserve fiscal sustainability. Staff recommend a medium-term fiscal path and reform scenario that gradually reduces fiscal deficits to stabilize fiscal buffers within 10 years, such that there are no excess withdrawals from the PF from 2035 onwards. Relative to the 2024 Article IV, the consolidation effort is more evenly spread out over the 10-year horizon, making its implementation more feasible. The reform scenario includes expenditure restraint and rationalization, domestic revenue mobilization supported by improvements to tax administration, and structural reforms to develop the private sector.

Fiscal Balance
(Percent of Non-Oil GDP)



Source: IMF Staff Estimates.

Added Fiscal Effort for Reforms
(Diff. in Primary Balance; Percent of Non-Oil GDP)



Source: IMF Staff Estimates.

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[4] Staff estimate the PF will be fully depleted in 2038, in line with the estimates in the Budget Strategy for 2026.

[5] The participating oil and gas companies in the Sunrise Joint Venture are Timor Gap (Timorese SOE, with a share of 56.56 percent), Woodside (Australian corporation; 33.44 percent), and Osaka Gas (Japanese corporation; 10 percent). See Government of Timor-Leste (2024).

Box 1. Staff's Recommended Reform Package

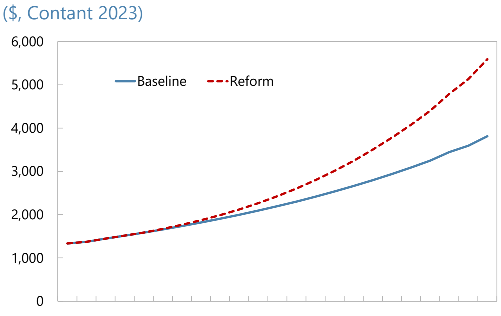
This box lists the full set of specific measures that staff recommend as part of this policy package. Of these measures, the more immediate priorities are discussed in the main text.

To preserve fiscal sustainability, it would be important to reduce fiscal deficits gradually during 2026-35 and advance a package of structural reforms to boost growth and diversify the economy. The reform package includes the following:

- **Expenditure reforms:** (i) Prioritize spending on human capital (health and education) and physical capital, including climate-resilient infrastructure; (ii) prioritize improvements to social safety nets and manage costs through better targeting to the most vulnerable; (iii) contain the rise in the wage bill by restraining public employment; (iv) curb the budget for goods and services by improving procurement; and (v) limit public transfers that do not safeguard the poor, including energy subsidies; (vi) implement PFM and procurement laws: strengthen top-down budgeting to help curb the deficit through improving control over the budget; upgrade framework used for public investment management to better select projects; and establish strong governance safeguards and transparent fiscal reporting.
- **Domestic revenue mobilization:** (i) Introduce a value-added tax by January 2027; (ii) increase corporate income tax rates over the medium term, reaching levels more in line with regional peers by 2035; and (iii) adopt a property tax once progress has been made in the issuance of land titles. As reforms progress, consideration should be given to the progressivity of the tax system.
- **Tax administration:** (i) Modernize operations by upgrading human capacity and minimizing manual procedures in the tax administration system; (ii) develop a medium-term tax administration plan to strengthen tax compliance; (iii) institutional reforms to streamline the organizational structure of the tax authority; (iv) upgrade the tax procedure code; and (v) promote e-tax filing.
- **Structural reforms to boost growth and diversify the economy:** (i) Public investment to expand connectivity and market access (e.g. airport expansion); (ii) improve business environment by removing legal constraints, including completing the land registry and adopting corporate accounting standards; (iii) further progress in regional integration; (iv) financial sector legal reform, including a new banking law and a legal framework for collateralization of loans; (v) boost human capital (improving education quality) and strengthen vocational education and training; and (vi) strengthen governance and enforcement of contracts.

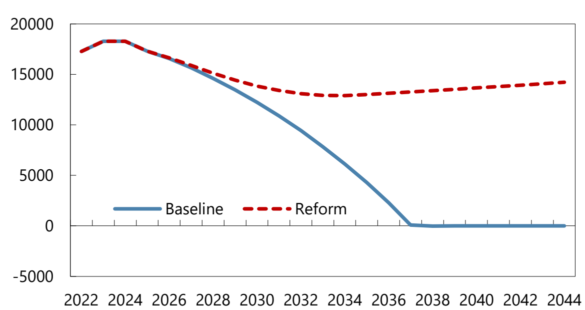
The macro-fiscal outlook would significantly strengthen under the reform scenario. Per-capita growth is boosted in the long term, bringing Timor-Leste closer to the ASEAN average of around $6600. Importantly, the PF is stabilized and generates a sustainable stream of resources to finance the budget.

Per-Capita Non-Oil GDP
($, Contant 2023)



Source: IMF Staff Estimates.

PF Balance
(Millions of Dollars)



Source: IMF Staff Estimates.

Box 1. Staff's Recommended Reform Package (Concluded)

Box 1. Table 1. Timor-Leste: Baseline and Reform Scenarios

			Baseline				Reform			
	2024	2025	2026	2030	2035	2045	2026	2030	2035	2045
	Percent of non-oil GDP (unless noted otherwise)									
Real non-oil GDP growth (in percent)	4.1	3.9	3.3	3.2	3.2	3.2	3.5	4.5	5.7	6.1
Revenue (excl. grants)	39.0	38.7	36.0	27.3	18.3	13.2	36.4	31.1	26.6	21.5
Domestic revenue	12.2	12.2	11.9	12.3	12.9	13.2	12.3	15.4	17.0	17.0
Estimated Sustainable Income	26.8	26.5	24.1	15.0	5.4	0.0	24.1	15.6	9.6	4.5
Expenditure	84.1	90.2	86.1	79.1	70.9	71.1	83.6	57.9	33.0	24.4
Recurrent	66.7	73.3	69.6	63.0	55.7	57.7	67.1	43.1	20.8	16.1
Capital	17.4	16.9	16.5	16.1	15.1	13.4	16.5	14.8	12.2	8.3
Fiscal balance	-45.0	-51.5	-50.1	-51.8	-52.5	-57.9	-47.2	-26.8	-6.5	-2.9
PF excess withdrawals	40.0	40.6	44.3	51.0	50.6	0.0	41.4	25.0	0.0	0.0
PF closing balance										
$ million	18,274	17,746	17,054	12,807	4,991	0	17,116	14,407	13,687	15,118
Percent of non-oil GDP	939	853	772	458	133	0	774	501	322	152
Current account balance	-29.0	-31.8	-32.3	-33.9	-31.9	-34.0	-30.5	-21.0	-5.3	0.0

Source: IMF Staff Estimates.

20. **The composition and quality of public spending should be improved.** Staff recommend gradually unwinding the surge in recurrent spending that has been rolled out since 2020, while accommodating higher spending on human capital (health and education), physical capital (including for climate-resilient infrastructure) and a better-targeted social safety net. The latter would be facilitated by the introduction of a digital ID, which would also support efficient provision of public services.

- ***Recurrent spending.*** This should be done by reducing transfer programs that do not target Timor-Leste's most vulnerable citizens. It should also involve trimming the public sector wage bill, while securing adequate staffing for key technical functions such as tax administration, statistics, and anti-corruption efforts. Staff welcome the ongoing work of the Ministry of Finance and civil service commission, which have been tasked with identifying reforms to professionalize the civil service while significantly reducing the public sector wage bill.

- ***Capital expenditure.*** The pace of capital spending should remain aligned with the economy's absorptive capacity. Capital projects should be carefully selected based on cost-benefit analysis of their economic and social impact—informed by the recommendations of the World Bank's technical support on modernizing the Public Investment Management system—and should be disciplined by how projects alleviate structural bottlenecks identified in the government's long-term strategic plan.

21. **Domestic revenue mobilization should start promptly and be raised gradually.** Staff call for urgent implementation of VAT in January 2027 (in line with the government's target), which would offset the expected loss in import duty revenues following ASEAN accession. Legislative and technical preparatory work for VAT implementation are ongoing with active support from Prosivu (funded by DFAT) and PFTAC. Staff also recommend improving tax compliance to boost revenue in

the short term, including by strengthening tax administration functions. Additional measures—including corporate income and property taxes—should be introduced during the 10-year reform horizon, with consideration given to the progressivity of the tax system. Domestic revenues should be gradually raised from the estimated 12 percent of GDP in 2024 towards the ASEAN average of 17 percent of GDP by 2035.

22. Ongoing fiscal reforms should help improve budget discipline and spending efficiency once fully implemented. A new Public Financial Management (PFM) law promulgated in April 2025 contains elements of an indicative medium-term fiscal framework, such as a requirement to include multi-year expenditure scenarios in pre-budget strategy documents. A new procurement decree-law is expected to take effect in early 2026, and seeks to improve transparency, accountability, and flexibility. These reforms are welcome steps that—once fully implemented—should contribute to improved spending efficiency, budget discipline and planning, and better governance. Ongoing IMF CD projects are supporting the formulation of a medium-term debt management strategy and improving macroeconomic projection tools that should contribute to a more robust fiscal framework.

Authorities' Views

23. The authorities noted that their fiscal strategy is focused on achieving greater efficiency and ensuring long-term sustainability. They noted that the Budget Strategy Statement—adopted by the Council of Ministers in June—includes a tighter indicative budget ceiling for 2026 and signals slower expansion of public spending over the medium term, laying the ground for long-term sustainability. They are committed to prioritizing high-impact public investment projects that are aligned with the government's long-term strategic plan, supported by World Bank technical assistance in PIM. The authorities remain committed to fully implementing legislative reforms to procurement and PFM which they saw as crucial to strengthen budget credibility and fiscal transparency. They are also committed to implementing a VAT by January 2027 and noted that attendant preparatory work remains on track. The authorities are confident that risks associated with Greater Sunrise can be prudently managed by all stakeholders, allowing for the timely development of a project that will bring broad benefits to the Timorese economy including substantial fiscal revenue.

B. Financial Sector Policies

24. Financial sector reforms being advanced this year are needed to address the structural bottlenecks to lending. Staff welcome recent progress on several ongoing reforms. A new secure transactions law, developed in collaboration with the IFC, will enable the use of movable property as collateral and was approved by Parliament in June 2025. A new financial system and banking activity law, developed with support from Banco de Portugal and the IMF, is expected to be approved by Parliament this year and aims to align the local regulatory framework with international best practice. An insolvency framework law, committed under the WTO accession, has been submitted to Parliament. National corporate accounting standards, developed with assistance from the World Bank and Indonesia, are being established through a consultative process involving the private sector, financial institutions, and academia. To encourage financial development, the authorities should continue prioritizing structural legal reforms and refrain from increasing the LDR regulatory floor. Progress in the issuance of land titles has been slow and should be accelerated to fully realize the potential of these legal reforms (Box 2; Annex VI).

Box 2. Land Title Reforms and Financial Development

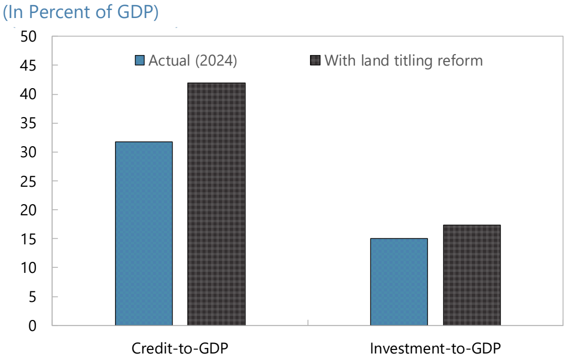
Property rights in Timor-Leste remain underdeveloped, reflecting a legacy of conflict-related displacement and limited administrative capacity. While successive initiatives—including the Ita Nia Rai project and the launch of the National Cadastral System (SNC) in 2014—have made some progress in mapping and registering the country's 326,000 land parcels, the formal issuance of legally recognized titles has lagged. As of 2024, the total number of valid certificates issued was unclear, while some 55,000 parcels remained under dispute.

Stronger property rights can support private sector development by facilitating access to credit and supporting long-term investment (Annex VI). Formal titles allow land to be used as collateral, improve contract enforcement, and increase tenure security. In Timor-Leste, 26 percent of firms report land access as a major or very severe constraint, which is more than four times the ASEAN median. This limited access to titled land contributes to a broader lack of bankable collateral, with a similarly high share of firms citing access to finance as an obstacle to their current operations. These patterns are consistent with broader cross-country evidence: staff's regression analysis across 156 countries finds that constraints on land access are associated with weaker credit provision and lower investment, controlling for the level of economic development.

Improving land administration and reducing land access constraints could yield sizeable economic gains. Based on the estimated cross-country elasticities, narrowing the share of firms facing severe land access barriers from 26 percent to 6 percent (ASEAN median) could raise Timor-Leste's credit-to-GDP ratio by 10 percentage points and its investment-to-GDP ratio by 2 percentage points.

Land Titling Reform, Credit, and Investments[1]

(In Percent of GDP)



Source: IMF Staff Calculations.

1/ This figure shows the level of credit-to-GDP and investment-to-GDP for Timor-Leste in 2024 if the share of firms reporting land access as a major or very severe constraint falls from 26 percent to 6 percent (ASEAN median). Estimates based on elasticities reported in Annex Table 1.

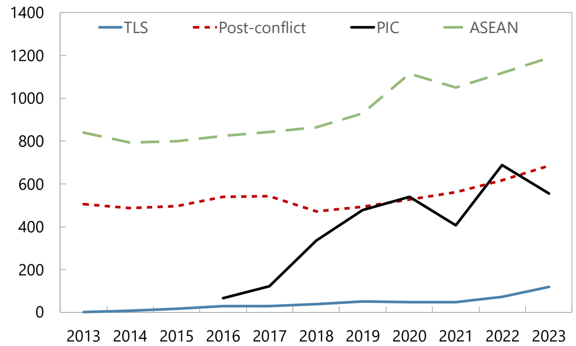
25. **The central bank is advancing its agenda to improve payment systems and broaden financial inclusion through digitalization.** Staff welcome the BCTL's priority to develop the instant retail payments platform. This will enable mobile-based digital transactions via standardized QR codes, and in the future could enable fast cross-border payments to other economies. The authorities should prioritize establishing a national digital ID system, which could further enhance the efficiency and inclusion of financial services by providing a trusted and efficient means of identity verification. This would also help in the better targeting of social transfers and improving tax compliance.

26. **Given rapid credit growth and its ambitious agenda of financial development, BCTL should ensure close monitoring and supervision of the financial sector.** The central bank is evaluating several applications for new banking licenses and expects their entry will enhance

competition and expand the range of financial products available. The BCTL should continue to build its technical capacity through an active staff training program, drawing on support from partners, and continuously improve its data collection efforts. As the financial system deepens, staff see rising urgency in the BCTL introducing timely compilation and dissemination of core FSIs for deposit takers, following up on training by PFTAC concluded last April.

Number of Debit Cards

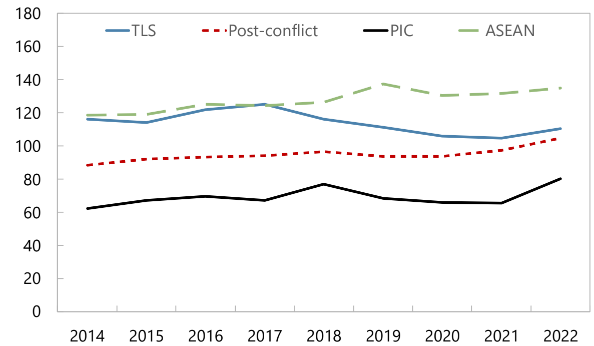
(Per 1,000 Adults)



Sources: Financial Access Survey; and IMF Staff Calculations.

Mobile Cellular Subscriptions

(Per 100 Adults)



Sources: World Bank Development Indicators; and IMF Staff Calculations.

Authorities' Views

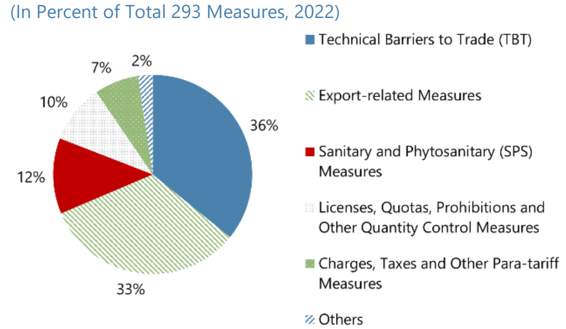
27. The authorities reaffirmed their commitment to advancing financial sector reforms to support private sector development and enhance financial inclusion. The central bank highlighted continued progress on the government's legislative reform agenda and remains committed to its full implementation. In addition, they are exploring the development of a financial consumer protection law and a digital financial transactions law to expand retail fast payment adoption. The central bank felt the regulatory LDR floor was useful in boosting credit growth, but indicated they are prioritizing legal reforms and have no plans to raise the LDR floor further. The authorities see accelerating the issuance of land titles as crucial to boosting private lending. In this regard, the Ministry of Justice reported some progress in their surveying work, which is allowing them to accelerate issuance of land titles during 2025. The authorities underscored the importance of establishing a national digital ID system, noting that it is a government priority. The central bank is committed to strengthening financial supervision and statistics, noting that banks have begun implementing IFRS-9 and that the compilation and dissemination of FSIs is expected by end-2025.

C. Other Structural Reforms for Private Sector Development

28. Staff welcome Timor-Leste's steps towards deeper integration in the global and regional economies through WTO and ASEAN accession. While terms are still being negotiated,

Categories of Timorese Non-Tariff Measures

(In Percent of Total 293 Measures, 2022)

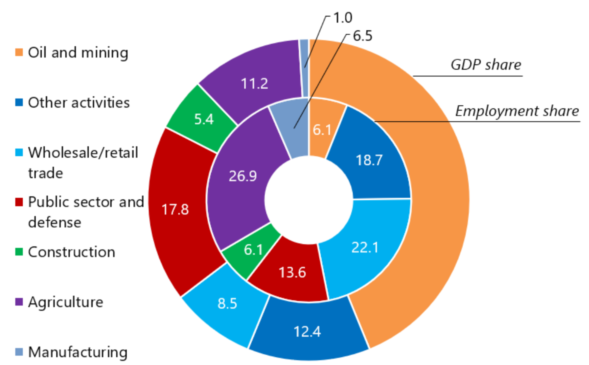


Source: UNCTAD TRAINS NTMs database.

accession to ASEAN is expected to lead to lower effective tariff rates on imports, improve market access for Timorese exporters, and contribute to a strengthened environment for foreign investments. While non-tariff measures (NTMs)—such as product registration/approval requirements, which make up a high share of NTMs in Timor-Leste—are generally lower than in trade partners, commitments under these accessions should reduce them further. The authorities are preparing a Legislative Action Plan alongside their WTO Post-Accession Implementation Strategy, which will be key to improving the trade business environment (World Bank 2024) and maximizing accession benefits.

29. Human capital development is a key priority to unlock Timor-Leste's large demographic dividend. Labor force participation continues to lag peers, driven by multiple factors: a large informal sector (IMF 2021), weak human capital (despite an elevated school enrollment rate), and limited opportunities for skill development.[6] A large share of the workforce is employed in the agriculture sector, where its productivity is low. Staff recommend strengthening vocational training, prioritizing higher-quality public spending on health and education, and improvements to the business climate to attract private investment as a source of job opportunities.

Employment and Real GDP Share
(In Percent, 2021)



Source: National Institute of Statistics Timor-Leste.

30. Governance and AML/CFT reforms are advancing but further progress is needed. There has been progress in governance reforms in some areas, including efforts to establish accounting standards and a decree-law on public procurement. However, capacity constraints—particularly due to under-resourcing across government agencies—hinder monitoring and enforcement. Main governance weaknesses include the domain of rule of law, such as contract enforcement and protection of property rights. In this respect, the lack of recognized land titles should be urgently addressed and the implementation of an insolvency framework should be prioritized. Efforts are also required to strengthen the regulatory framework, including product market regulation and business registration, and fiscal governance through continued improvements to the PFM framework. The authorities should address deficiencies in their AML/CFT frameworks in a timely manner, in line with the findings and recommendations in the Mutual Evaluation Report recently adopted by the Asia Pacific Group in September 2024.

31. The quality and frequency of macroeconomic statistics should continue to be enhanced. Data are broadly adequate for surveillance but have some shortcomings. Progress has been made in several areas: based on the recent Living Standards Survey, completed with support

[6] The most recent labor force survey was conducted in 2021. Staff call for improved labor market data as part of the Data Adequacy Assessment (Annex III).

from the World Bank, the authorities are working to rebase the national accounts and update the CPI basket. IMF CD activities to support the timely and accurate compilation of Government Finance Statistics, Balance of Payments, and Financial Soundness Indicators are ongoing. However, limited capacity continues to constrain data quality and reporting frequency, highlighting the need for additional technical staff in statistical functions.

32. Several pre-requisites must be met before consideration is given to the introduction of a national currency. While the authorities have no immediate plans to introduce a national currency, the central bank is exploring its long-term feasibility. Progress at reducing fiscal and external imbalances, and the advancement of reforms that address structural bottlenecks that undermine competitiveness are needed to improve economic performance under dollarization (Huidrom and Smirnov 2024) and are key pre-requisites for the introduction of a national currency. Building technical capacity at the central bank, and improving the regulatory and legal framework for the financial system are also important (IMF 2022).

Authorities' Views

33. The authorities are committed to reforms to boost private sector development. They underscored the importance of WTO and ASEAN accession in supporting deeper regional and global integration and reiterated their commitment to implementing the necessary legislative reforms required under the accession processes. To build human capital, they will prioritize high-quality public spending on health and education and noted they intend to increase allocations for vocational training in the 2026 Budget. The Anti-Corruption Commission noted that the adoption of e-procurement systems by line ministries would help strengthen monitoring and transparency. The authorities are highly committed to improving the AML/CFT framework by updating their national risk assessment and adopting a strategic implementation plan in line with the recommendations of the Asia Pacific Group's Mutual Evaluation Report. They broadly concurred with staff's data adequacy assessment and welcomed CD support from the IMF and other development partners to enhance data quality and timeliness.

STAFF APPRAISAL

34. A strong fiscal impulse and rapid credit growth are expected to support robust growth of 3.9 percent in 2025. Starting in 2026, staff expect ASEAN accession to boost investment and growth modestly, though this effect could be larger if structural reforms progress and improve the business environment. Over the medium term, growth is expected to converge to 3.2 percent, which corresponds to about 1.7 percent in per-capita terms. Inflation has been running low since mid-2024, held down by falling food prices, but is expected to rise modestly in the second half of 2025 and into 2026.

35. Risks to the outlook are balanced. Accelerating the reform agendas could accelerate private sector development and boost the growth dividend from ASEAN accession. A scenario of escalating global trade tensions could weaken performance of PF financial assets in the unlikely event of a prolonged global market downturn, which could lead to earlier PF depletion than in the baseline. On the upside, potential investment diversion to Timor-Leste could boost growth, to the extent that it remains one of the region's economies facing the lowest US tariff rates.

36. The country now faces a unique challenge of transforming its substantial financial assets into a productive economy. The sizable balance in the sovereign Petroleum Fund reflects the accumulation of savings during a two-decade long commodity boom, which have been well managed. But large fiscal deficits have created an excessive dependence on the public sector, give rise to a large external imbalance, and have not delivered the desired pace of economic growth and development. In the absence of significant reforms, these are expected to fully deplete the PF by the end of the 2030s, risking substantial hardship that would set back the country's development.

37. To support growth and macroeconomic stability, a medium-term reform agenda is needed. Staff propose an ambitious but gradual path of fiscal consolidation over 10 years that would preserve debt sustainability and strengthen the external sector position, while boosting private sector growth through structural reforms. Its feasibility underpins the assessment that Timor-Leste remains at moderate risk of debt distress, but prompt implementation is crucial to avoid a disorderly adjustment.

38. Fiscal policy should be recalibrated to spend Timor-Leste's substantial savings better and more prudently. To support growth, the composition and quality of public spending must be improved by prioritizing investment in physical and human capital, while reducing spending on recurrent expenditure that do not contribute significantly to growth. At the same time, containing overall spending is needed to preserve fiscal sustainability, with a focus on spending efficiency that would be supported by PFM reforms. Domestic revenue mobilization should proceed gradually, starting with the prompt implementation of VAT.

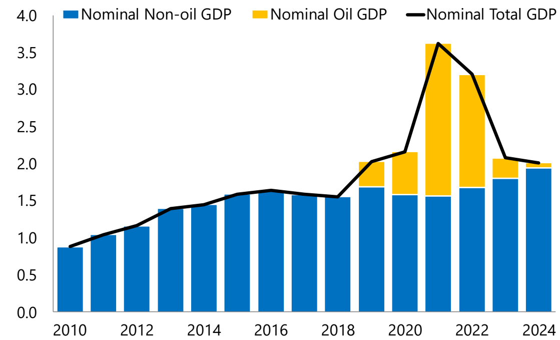
39. Advancing structural reforms is key to boosting private sector development. The implementation of the government's ongoing legal reforms in the financial sector should facilitate bank lending to the private sector and enhance financial inclusion. Accelerating the issuance of land titles and developing a national digital ID scheme are key reforms that would address clear structural bottlenecks in the economy. The quality and frequency of macroeconomic statistics should continue to be enhanced, including by boosting technical capacity. The authorities should promptly address AML/CFT framework deficiencies based on the recommendations of the Asia Pacific Group's Mutual Evaluation Report.

40. It is proposed that the next Article IV consultation with Timor-Leste take place on the standard 12-month cycle.

Figure 1. Timor-Leste: Real Sector Developments

Oil production has been part of total GDP since 2019, but oil production ceased in 2025.

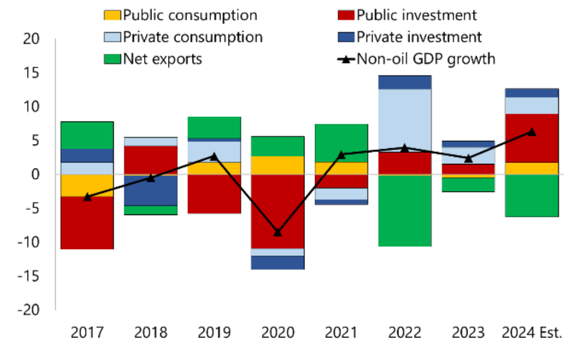
Nominal GDP: Total, Oil, and Non-Oil
(In Billions of US Dollars)



Sources: National Institute of Statistics Timor-Leste; and IMF Staff Estimates.

Growth in 2024 accelerated, mainly driven by higher-than-expected public investment.

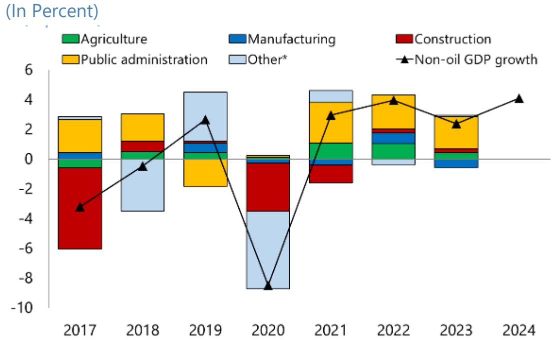
Real Non-Oil GDP Expenditure: Contributions to Growth
(In Percent)



Sources: National Institute of Statistics Timor-Leste; and IMF Staff Estimates.

Public administration continues to play an outsized role in production.

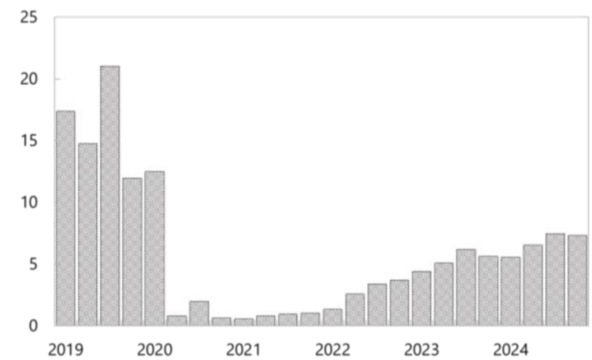
Real Non-Oil GDP Production: Contributions to Growth
(In Percent)



Source: National Institute of Statistics Timor-Leste.
* Other includes wholesale and retail trade, real estate services, and other acitvities.

Tourist arrivals are growing slowly but remain well below the pre-pandemic level.

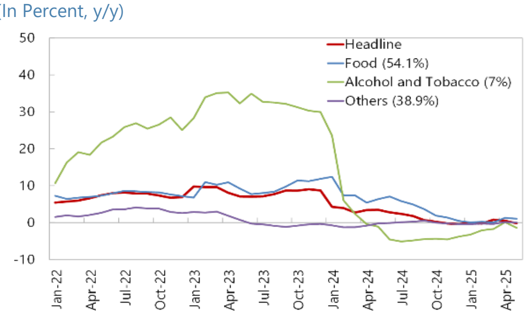
Tourist Arrivals
(In Thousands of People, Quarterly)



Source: Central Bank of Timor-Leste.

Food and Alcohol/tobacco have been the primary contributor to the recent low inflation…

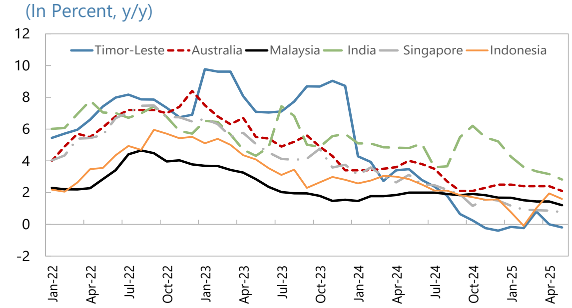
Headline CPI by Category
(In Percent, y/y)



Source: National Institute of Statistics Timor-Leste.
Notes: The percentage in parenthese indicates the weight of the category.

….and the declining trend aligns with the experience of Timor-Leste's main trading partners.

Headline CPI in Main Trade Partners
(In Percent, y/y)



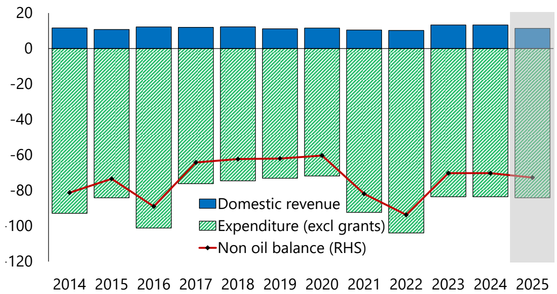
Sources: CEIC Data Company Ltd; and IMF Staff Calculations.

Figure 2. Timor-Leste: Fiscal Sector Developments

Non-oil domestic revenue has been financing a small fraction of government spending.

Non-Oil Balance

(Percent of Non-Oil GDP)

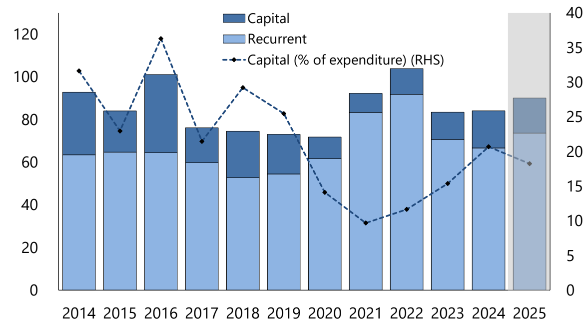


Sources: Ministry of Finance of Timor-Leste; and IMF Staff Estimates.

Despite recent improvement, the share of capital spending remains small…

Expenditure Shares

(Percent of Non-Oil GDP, Excluding Donor Projects)

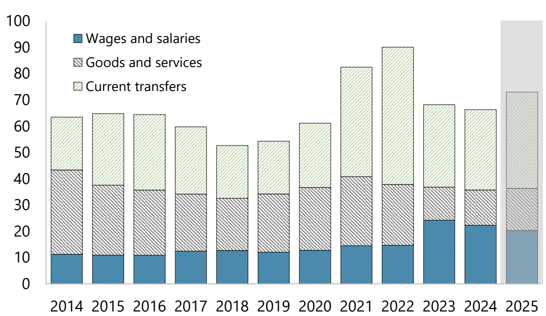


Sources: Ministry of Finance of Timor-Leste; and IMF Staff Estimates.

…recurrent spending moderated in recent years following a large partly Covid-related spike in 2021-22.

Recurrent Spending

(In Percent of Non-Oil GDP)

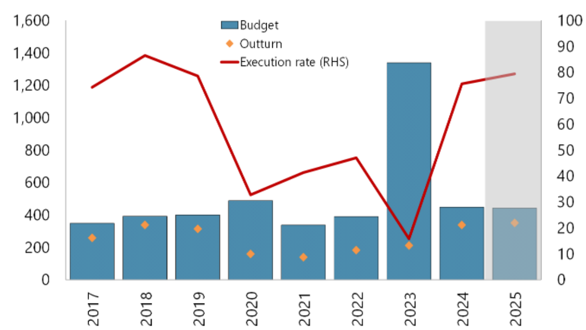


Sources: Ministry of Finance of Timor-Leste; and IMF Staff Estimates.

The execution rate for capital spending picked up in 2024.

Capital Expenditure: Budget and Execution [1]

(In Millions of US Dollars, Percent)

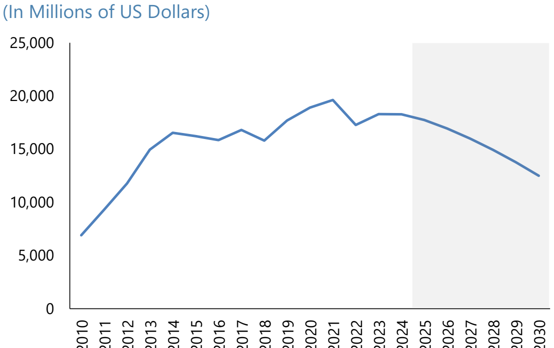


Sources: Ministry of Finance of Timor-Leste; and IMF Staff Estimates.
[1] Budget and execution rate for 2023 are based on the original budget.

As oil and gas production ceased, the PF balance is projected to decline…

Petroleum Fund Balance

(In Millions of US Dollars)

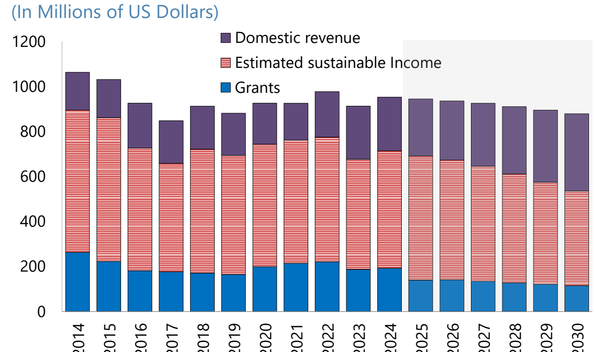


Sources: Ministry of Finance of Timor-Leste; and IMF Staff Estimates.

…reducing government revenues from the PF's Estimated Sustainable Income.

Revenue Sources

(In Millions of US Dollars)

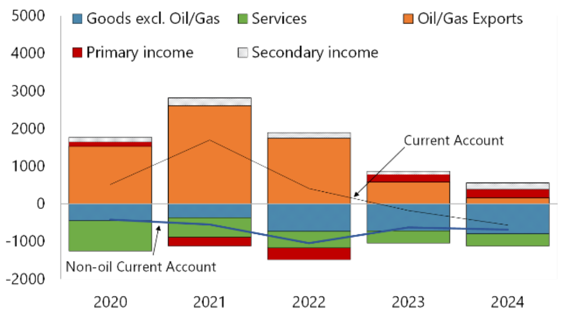


Sources: Ministry of Finance of Timor-Leste; and IMF Staff Estimates.

Figure 3. Timor-Leste: External Sector Developments

Dwindling oil/gas exports have led to a deterioration of the overall current account.

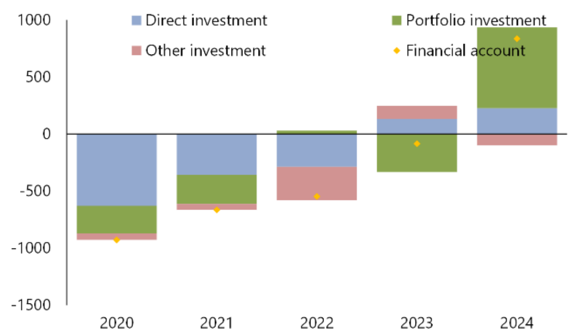
Current Account Balance
(In Millions of US Dollars)



Sources: Central Bank of Timor-Leste; and IMF Staff Calculations.
Notes: Oil/Gas revenue used for oil/gas exports prior to MBT.

Large direct investment outflows subsided in 2023-24 as the Bayu-Undan natural gas field was decommissioned.

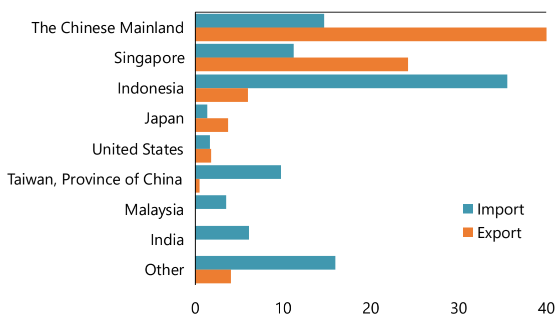
Financial Account Balance
(In Millions of US Dollars)



Sources: Central Bank of Timor-Leste; and IMF Staff Calculations.

China and ASEAN countries are main trading partners, with small exposure to the US.

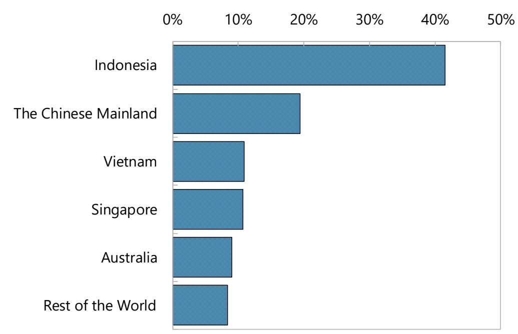
Trade Composition by Economy in 2023
(In Percent of Total)



Source: National Institute of Statistics Timor-Leste.

Indonesia and China are among the largest source of foreign direct investment inflows in Timor-Leste.

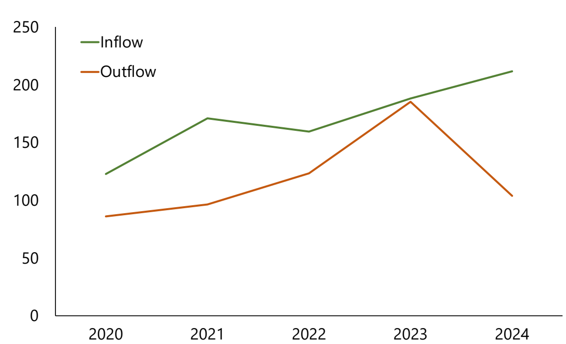
FDI Inflows in 2023
(In Percent of Total)



Source: Central Bank of Timor-Leste

Net remittance flows increased in 2024, owing mostly to a decline in outflows.

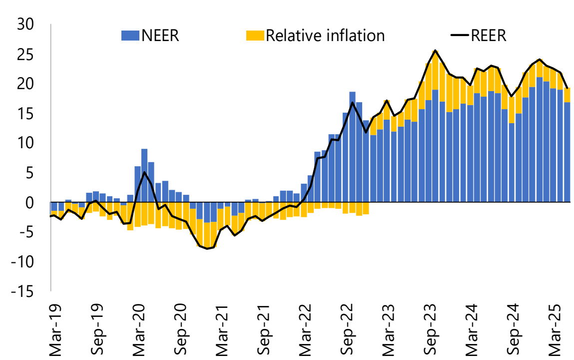
Remittance Flows
(In Millions of US Dollars)



Source: Central Bank of Timor-Leste.

Following a pronounced appreciation, the REER depreciated in 2025H1, driven by the weakening of the US dollar.

Real Effective Exchange Rate: Cumulative Change
(In Percent, y/y)

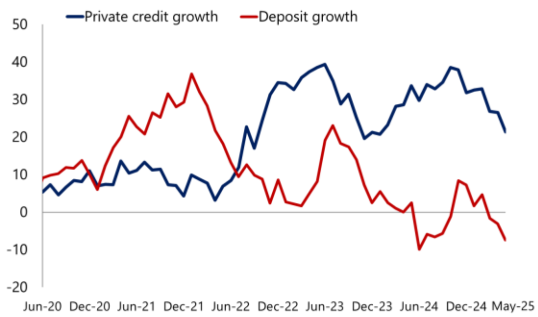


Sources: Information Notice System (INS); and IMF Staff Calculations.

Figure 4. Timor-Leste: Monetary and Financial Sector Developments

Private sector credit continues to grow at elevated rates (27 percent in 2025Q1)…

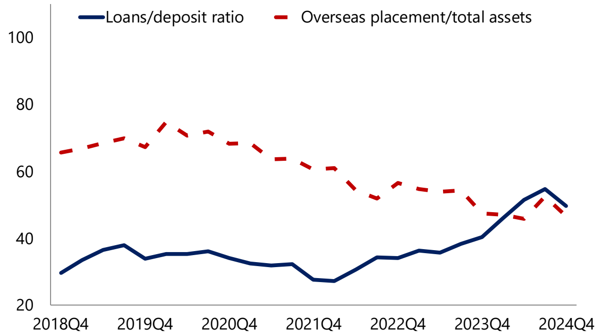
Credit and Deposit Growth
(In Percent, Year-on-Year)



Source: Central Bank of Timor-Leste.

…with the loan-to-deposit ratio increasing to 50 percent in 2024Q4.

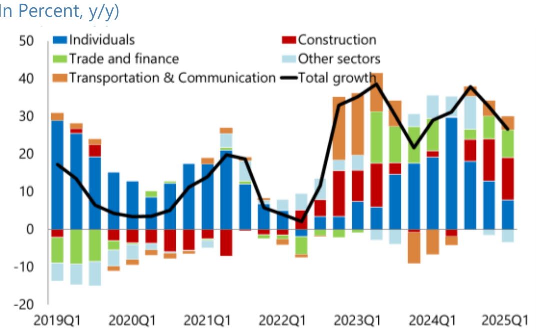
Liquidity Ratios
(In Percent)



Source: Central Bank of Timor-Leste.

Strong private sector credit growth was supported by rising contributions of loans to businesses.

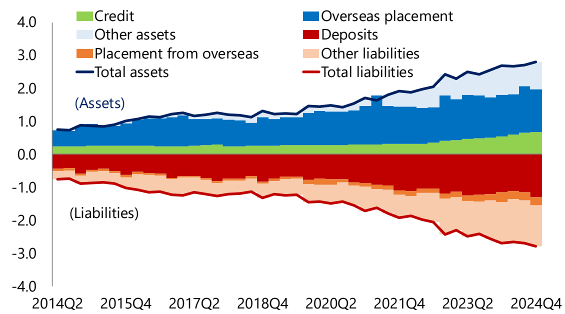
Loans to Private Sector: Contribution to Growth
(In Percent, y/y)



Source: Central Bank of Timor-Leste.

Credit outstanding represents a growing share of the assets of the banking sector.

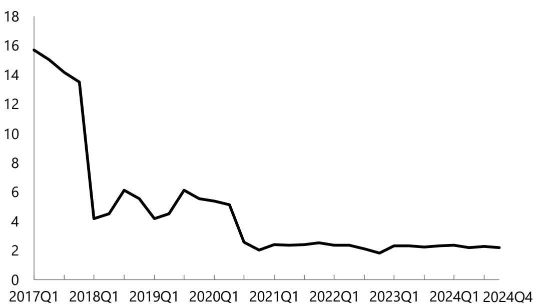
Banking Sector Balance Sheet
(In Billions of US Dollars)



Source: Central Bank of Timor-Leste.

Despite continued strong credit growth, NPLs remained low through 2024Q4.

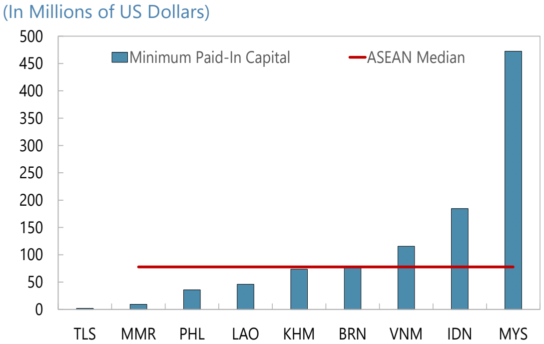
NPL Ratio
(In Percent)



Source: Central Bank of Timor-Leste.

Minimum capital requirements for commercial banks are low relative to ASEAN countries.

Minimum Paid-In Capital [1, 2]
(In Millions of US Dollars)



Source: IMF Staff Calculations.

[1] Minimum paid-in capital requirement for domestic commercial banks.

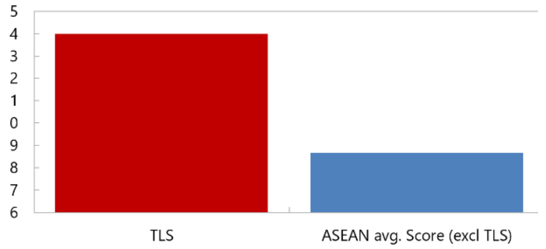
[2] ASEAN median includes Singapore (not shown).

Figure 5. Timor-Leste: Business Environment and Governance

Corruption is perceived to be less of a concern compared with other ASEAN economies.

Corruption Perception Index

(Lower Scores Indicate Weaker Governance, 2024)



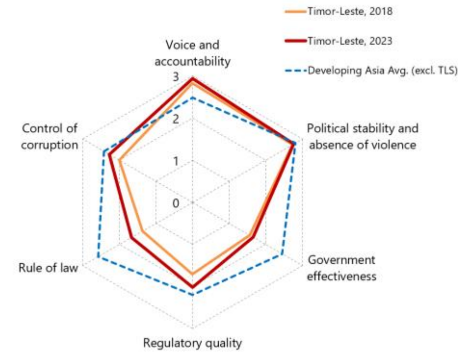
Source: Transparency International's Corruption Perceptions Index.

Notes: BRN is not included in the right bar because the data is unavailable. The index incoporates expert assessments and may therefore be subject to bias. It does not represent the IMF's assessment of the level of corruption in Timor-Leste.

While governance of the public sector is improving, vital areas of weakness still exist.

Governance Indicators

(Index Rescaled: 0 = Worst, 5 = Best)

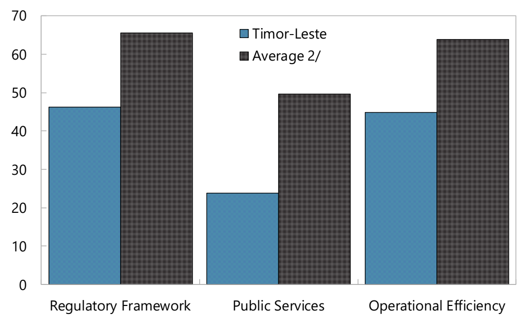


Source: Worldwide Governance Indicators, 2024 Update, World Bank.

The regulatory framework for the business environment lags behind peer countries.

Business Environment, by Pillar 1/

(In Scores of 100, 2024)



Source: World Bank B-READY Dataset.

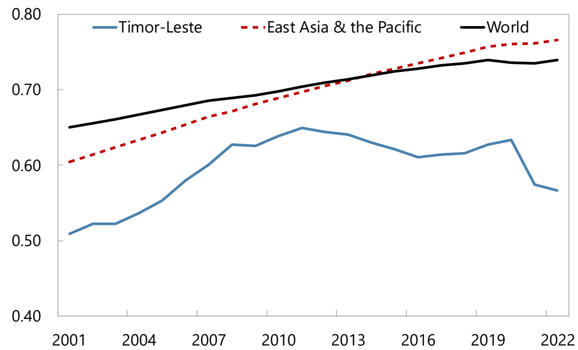
1/ B-READY pillar scores reflect the average rating for each pillar across 10 topics, evaluating an economy's business environment through expert input and firm surveys. Higher scores mean a more favorable environment. These scores do not represent the IMF's assessment of Timor-Leste's business environment.

2/ Average is calculated from all 50 economies present in the 2024 B-READY dataset.

Timor-Leste's human development had improved steadily until mid-2010s but has stagnated for the past decade…

Human Development Index (HDI)

(Higher is Better)

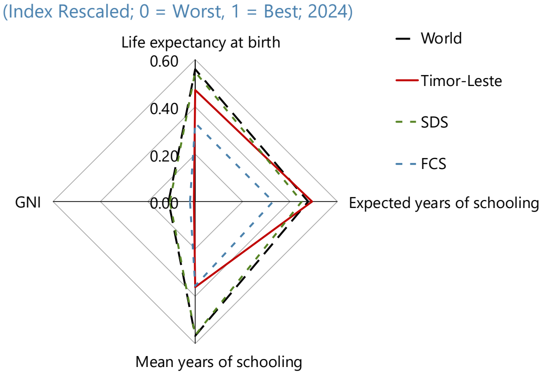


Source: United Nations Human Development Report, 2024.

…reflecting low educational attainment compared to peers.

HDI Components

(Index Rescaled; 0 = Worst, 1 = Best; 2024)

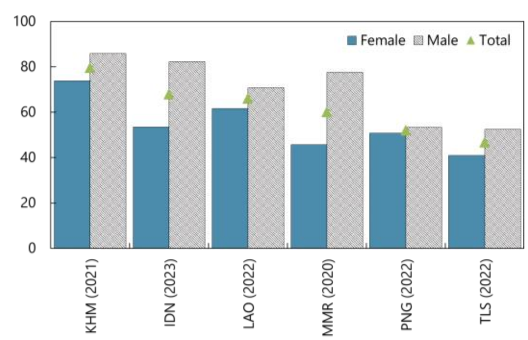


Source: United Nations Human Development Report, 2024.

Labor force participation is the lowest among peers, with participation among women lower than men.

Labor Force Participation

(In Percent, 15+ Years Old)

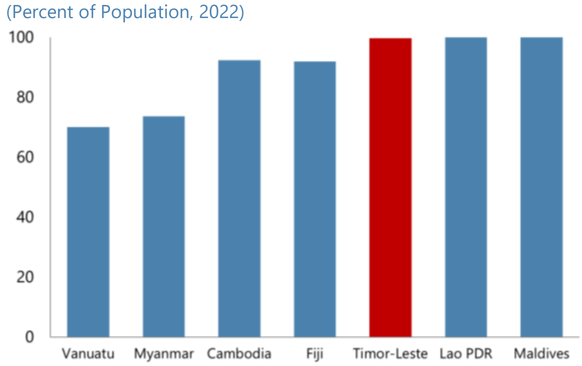


Source: International Labour Organization.

Figure 6. Timor-Leste: Challenges to Growth

Access to electricity is nearly universal and aligned with Asian EMDEs ...

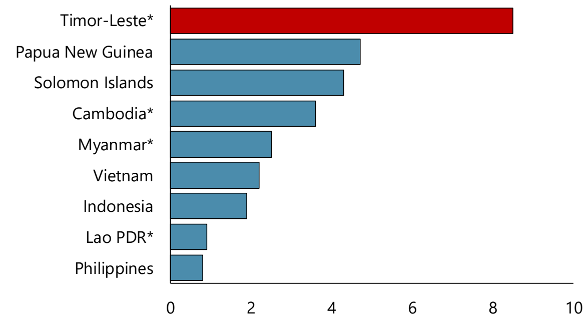
Access to Electricity
(Percent of Population, 2022)



Source: World Development Indicators, World Bank.

...but losses due to electrical outages are high.

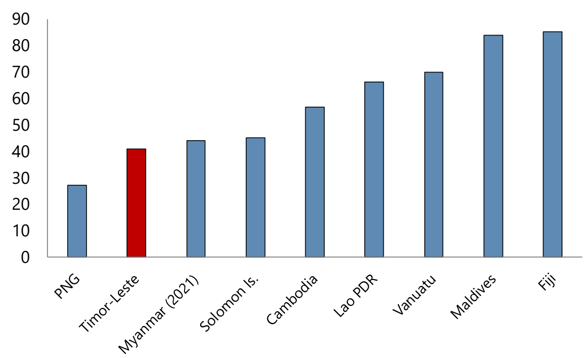
Value of Loss due to Electrical Outage
(Percent of Sales of Affected Firms, 2021)



Source: World Development Indicators, World Bank.
* 2021 data for Timor-Leste, 2018 data for Lao PDR, 2016 data for Cambodia and Myanmar, and 2015 data for the rest of the countries.

Access to the internet is low...

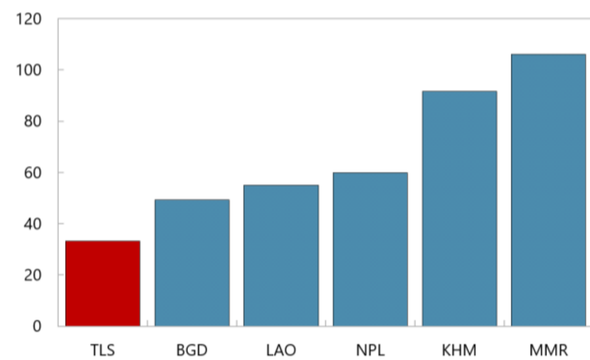
Individuals Using the Internet
(Percent of Population, 2022)



Source: World Development Indicators, World Bank.

...and broadband connection is still limited.

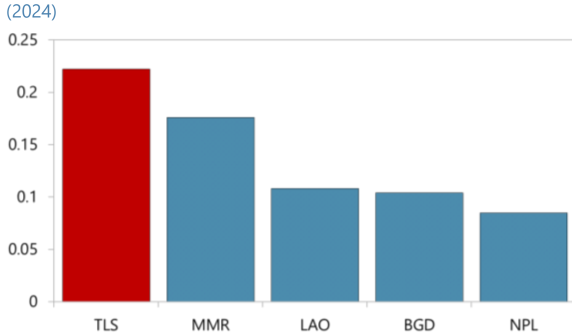
Mobile Broadband Connections per 100 Inhabitants
(Latest Available in 2025)



Source: Digital Development.org.

Poverty is thought to be among the highest in the region...

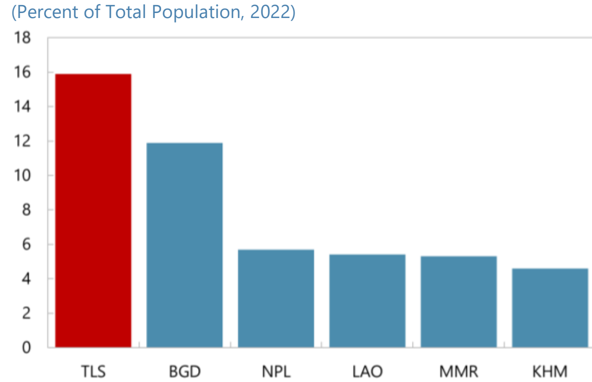
Global Multidimensional Poverty Index
(2024)



Sources: UNDP; and OPHI.
Notes: Global Multidimensional Poverty Index captures poverty by measuring deprivations in health, education, and living standards across ten indicators. The index is based on the ICF Macro Demographic and Health Survey (DHS) and UNICEF's Multiple Indicators Cluster Survey.

...with under-nourishment particularly high.

Prevalence of Undernourishment
(Percent of Total Population, 2022)



Source: World Bank.

Table 1. Timor-Leste: Selected Economic and Financial Indicators, 2022–30

Non-oil GDP at current prices (2024): US$1.947 billion
Population (2024): 1.392 million

Non-oil GDP per capita (2024): US$1,399
Quota: SDR 25.6 million

	2022	2023	2024	2025	2026	2027	2028	2029	2030
			Est.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
(Annual percent change)									
Real sector									
Real Non-oil GDP 1/	4.0	2.4	4.1	3.9	3.3	3.2	3.2	3.2	3.2
Real Non-oil GDP per capita	2.2	1.3	3.0	2.6	2.0	1.9	1.8	1.7	1.7
CPI (annual average)	7.0	8.4	2.1	0.9	1.8	2.0	2.0	2.0	2.0
CPI (end-period)	6.9	8.7	-0.4	1.9	1.7	2.0	2.0	2.0	2.0
(In percent of Non-oil GDP, unless otherwise indicated) 1/									
Central government operations									
Revenue	58.3	50.7	48.9	45.4	42.4	39.5	36.6	33.9	31.4
Domestic revenue	12.0	13.1	12.2	12.2	11.9	12.0	12.0	12.1	12.3
Estimated Sustainable Income (ESI)	33.1	27.2	26.8	26.5	24.1	21.8	19.5	17.2	15.0
Grants	13.2	10.4	9.9	6.7	6.4	5.7	5.1	4.6	4.1
Expenditure	114.7	90.8	94.0	97.0	92.5	90.1	87.9	85.5	83.3
Recurrent	90.6	68.6	66.7	73.3	69.6	67.9	66.2	64.6	63.0
Net acquisition of nonfinancial assets	10.9	11.8	17.4	16.9	16.5	16.5	16.5	16.3	16.1
Donor project	13.2	10.4	9.9	6.7	6.4	5.7	5.1	4.6	4.1
Net lending/borrowing	-56.4	-40.1	-45.0	-51.5	-50.1	-50.6	-51.2	-51.6	-51.8
(Annual percent change, unless otherwise indicated) 1/									
Money and credit									
Deposits	8.6	2.5	7.3	6.8	6.2	6.1	6.1	6.1	6.1
Credit to the private sector	34.5	20.6	31.8	22.6	12.3	6.1	6.1	6.1	6.1
Lending interest rate (percent, end of period)	11.0	10.7	10.5	...	...	...	...	...	...
(In percent of Non-oil GDP, unless otherwise indicated) 1/									
Balance of payments									
Current account balance	24.3	-9.8	-29.0	-31.8	-32.3	-32.7	-33.3	-33.7	-33.9
Trade of Goods	60.4	-7.8	-33.0	-40.9	-40.1	-40.2	-39.4	-38.4	-37.5
Exports of goods	107.3	35.1	10.1	4.8	3.7	3.0	3.2	3.4	3.6
Imports of goods	46.9	42.9	43.1	45.8	43.8	43.2	42.6	41.8	41.1
Trade of Services	-26.3	-18.1	-16.6	-16.7	-16.5	-16.4	-15.5	-14.5	-13.6
Primary Income	-18.7	11.2	11.9	14.1	12.8	12.9	11.0	9.1	7.4
Secondary Income	8.9	4.9	8.7	11.8	11.5	11.0	10.5	10.1	9.8
Overall balance	-6.1	-2.7	-2.2	4.1	1.2	2.0	1.6	1.5	1.5
Public foreign assets (in months of imports) 2/	169.0	195.7	183.5	160.7	150.1	135.3	122.3	109.6	96.9
Exchange rates									
NEER (2010=100, period average)	156.2	161.0	163.5	...	...	...	...	...	...
REER (2010=100, period average)	159.3	170.3	172.7	...	...	...	...	...	...
Memorandum items									
Fiscal impulse (percentage point of non-oil GDP) 3/	-7.4	22.1	-4.6	-6.2	3.8	1.8	1.7	1.9	1.9
Nominal Non-oil GDP (in millions of U.S. dollars)	1,676	1,802	1,947	2,079	2,208	2,343	2,485	2,637	2,797
Nominal Non-oil GDP per capita (in U.S. dollars)	1,231	1,309	1,399	1,475	1,547	1,620	1,695	1,773	1,854
(Annual percent change)	5.4	6.3	6.9	5.5	4.9	4.7	4.6	4.6	4.6
Petroleum Fund balance (in millions of U.S. dollars) 4/	17,273	18,288	18,274	17,746	17,054	16,145	15,133	14,022	12,807
(In percent of Non-oil GDP)	1,031	1,015	939	853	772	689	609	532	458
Public debt (In percent of Non-oil GDP)	15.1	14.4	13.8	14.2	14.7	14.7	14.6	14.6	14.7
Population growth (annual percent change)	1.7	1.1	1.1	1.3	1.3	1.3	1.4	1.4	1.4

Sources: Timor-Leste Authorities; IMF Staff Estimations and Projections.
1/ Non-oil and Total GDP are equal from 2026 onwards.
2/ Includes Petroleum Fund balance and the central bank's official reserves.
3/ Change in net lending/borrowing (excluding ESI and interest payment).
4/ Closing balance.

Table 2. Timor-Leste: Summary Operations of the Central Government, 2022–30 1/

	2022	2023	2024 Est.	2025 Proj.	2026 Proj.	2027 Proj.	2028 Proj.	2029 Proj.	2030 Proj.
			(In millions of U.S. dollars)						
Revenue	**977**	**913**	**953**	**944**	**936**	**926**	**911**	**895**	**879**
Domestic revenue	202	236	238	253	262	280	299	320	343
Taxes	152	188	195	206	213	228	244	261	280
Non-tax revenue	50	48	43	46	49	52	55	59	63
Estimated Sustainable Income	554	490	522	552	532	512	484	454	421
Donor Projects	221	187	192	140	141	134	127	121	115
Expenditure	**1,922**	**1,635**	**1,829**	**2,016**	**2,042**	**2,111**	**2,184**	**2,255**	**2,329**
Expenditure exluding donor projects	1,701	1,448	1,637	1,876	1,901	1,977	2,056	2,134	2,214
Expense	1,739	1,423	1,490	1,665	1,678	1,725	1,774	1,825	1,878
Recurrent	1,518	1,236	1,298	1,525	1,537	1,591	1,646	1,704	1,764
Compensation of employees	246	436	434	421	421	445	461	477	494
Goods and services	388	226	261	334	337	341	353	366	379
Current transfers	875	565	595	761	770	795	823	852	882
Interest payment	9	8	8	9	9	9	9	9	9
Donor projects	221	187	192	140	141	134	127	121	115
Net acquisition of NFA	184	212	339	351	364	387	410	430	450
Gross operating balance	**-762**	**-510**	**-538**	**-721**	**-742**	**-799**	**-863**	**-930**	**-1,000**
Net lending/borrowing	**-946**	**-722**	**-877**	**-1,072**	**-1,107**	**-1,186**	**-1,273**	**-1,360**	**-1,450**
Statistical discrepancy	0	0	0	0	0	0	-1	-2	-2
Net financial transactions	-945	-722	-877	-1,072	-1,107	-1,186	-1,272	-1,358	-1,448
Net acquisition of FA	-927	-712	-873	-1,044	-1,078	-1,165	-1,253	-1,336	-1,424
Foreign	0	0	0	0	0	0	0	0	0
Domestic (net)	-927	-712	-873	-1,044	-1,078	-1,165	-1,253	-1,336	-1,424
Equity	-850	-600	-778	-844	-978	-1,165	-1,254	-1,338	-1,426
of which, Excess withdrawal from PF	-850	-600	-778	-844	-978	-1,165	-1,254	-1,338	-1,426
Change in cash/deposit	-77	-112	-95	-200	-100	0	0	0	0
Net incurrence of liabilities	18	10	4	27	28	20	19	22	24
Foreign	31	25	17	45	47	49	52	56	60
Domestic	0	0	0	0	0	0	0	0	0
Amortization	12.5	14.7	13.6	17.6	18.9	28.9	32.9	33.9	35.2
			(in percent of nominal non-oil GDP) 2/						
Revenue	**58.3**	**50.7**	**48.9**	**45.4**	**42.4**	**39.5**	**36.6**	**33.9**	**31.4**
Domestic revenue	12.0	13.1	12.2	12.2	11.9	12.0	12.0	12.1	12.3
Taxes	9.1	10.4	10.0	9.9	9.7	9.7	9.8	9.9	10.0
Non-tax revenue	3.0	2.7	2.2	2.2	2.2	2.2	2.2	2.2	2.3
Estimated Sustainable Income	33.1	27.2	26.8	26.5	24.1	21.8	19.5	17.2	15.0
Expenditure	**114.7**	**90.8**	**94.0**	**97.0**	**92.5**	**90.1**	**87.9**	**85.5**	**83.3**
Expenditure exluding donor projects	101.5	80.4	84.1	90.2	86.1	84.4	82.7	80.9	79.1
Expense	103.8	79.0	76.6	80.1	76.0	73.6	71.4	69.2	67.2
Recurrent	90.6	68.6	66.7	73.3	69.6	67.9	66.2	64.6	63.0
Compensation of employees	14.7	24.2	22.3	20.3	19.1	19.0	18.5	18.1	17.7
Goods and services	23.2	12.6	13.4	16.1	15.3	14.6	14.2	13.9	13.5
Current transfers	52.2	31.4	30.6	36.6	34.8	33.9	33.1	32.3	31.5
Donor projects	13.2	10.4	9.9	6.7	6.4	5.7	5.1	4.6	4.1
Net acquisition of NFA	10.9	11.8	17.4	16.9	16.5	16.5	16.5	16.3	16.1
Gross operating balance	**-45.5**	**-28.3**	**-27.6**	**-34.7**	**-33.6**	**-34.1**	**-34.7**	**-35.3**	**-35.7**
Net lending/borrowing	**-56.4**	**-40.1**	**-45.0**	**-51.5**	**-50.1**	**-50.6**	**-51.2**	**-51.6**	**-51.8**
Statistical discrepancy	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.1	-0.1
Net financial transactions	-56.4	-40.1	-45.0	-51.5	-50.1	-50.6	-51.2	-51.5	-51.8
Net acquisition of FA	-55.3	-39.5	-44.8	-50.2	-48.8	-49.7	-50.4	-50.7	-50.9
Domestic (net)	-55.3	-39.5	-44.8	-50.2	-48.8	-49.7	-50.4	-50.7	-50.9
Equity	-50.7	-33.3	-40.0	-40.6	-44.3	-49.7	-50.4	-50.7	-51.0
of which, Excess withdrawal from PF	-50.7	-33.3	-40.0	-40.6	-44.3	-49.7	-50.4	-50.7	-51.0
Change in cash/deposit	-4.6	-6.2	-4.9	-9.6	-4.5	0.0	0.0	0.0	0.0
Net incurrence of liabilities	1.1	0.6	0.2	1.3	1.3	0.9	0.8	0.8	0.9
Memorandum item									
Nominal Non-oil GDP	1,676	1,802	1,947	2,079	2,208	2,343	2,485	2,637	2,797
Petroleum Fund									
Opening balance	19,621	17,273	18,288	18,274	17,746	17,054	16,145	15,133	14,022
Comprehensive investment income	-931	2,105	1,286	868	819	767	727	681	631
Oil and gas receipts	1,106	427	85	46	20	0	0	0	0
Investment returns incl. valuation gain/ loss	307	464	518	457	444	426	404	378	351
(*Minus*) Expenses and withholding tax	0	0	0	0	0	0	0	0	0
Withdrawal	1,404	1,090	1,300	1,396	1,511	1,677	1,738	1,792	1,846
Estimated Sustainable Income (ESI)	554	490	522	552	532	512	484	454	421
Excess withdrawal	850	600	778	844	978	1,165	1,254	1,338	1,426
Closing balance	17,273	18,288	18,274	17,746	17,054	16,145	15,133	14,022	12,807
(In percent of non-oil GDP)	1,031	1,015	939	853	772	689	609	532	458

Sources: Timor-Leste Authorities; IMF Staff Estimations and Projections.

1/This table is in accordance with the GFS format, with some modifications, to facilitate policy discussion and analysis.

2/Non-oil and Total GDP are equal from 2026 onwards.

Table 3. Timor-Leste: Monetary Developments, 2022–25 1/

	2022	2023	2024 Est.	2025 Proj.
Banking system 1/	(in millions of U.S. dollars)			
Net foreign assets 2/	**2,242**	**2,069**	**2,059**	**2,240**
Gross reserves	831	782	737	825
Other foreign assets	1,614	1,537	1,629	1,740
Foreign liabilities	203	250	307	325
Net domestic assets	**-1,028**	**-821**	**-720**	**-741**
Net credit to central government	-979	-846	-744	-744
Net credit to state and local government	-4	-12	-14	0
Net credit to public nonfinancial corporations	-52	-6	-1	0
Credit to private sector	408	493	649	796
Other items (net)	-402	-450	-610	-793
Broad money	**1,215**	**1,248**	**1,339**	**1,500**
Narrow money	679	678	676	757
Currency in circulation 2/	28	31	33	37
Transferable deposits	651	647	643	720
Central Bank				
Net foreign assets	**788**	**739**	**695**	**783**
Gross reserves	831	782	737	825
Foreign liabilities	43	43	42	42
Net domestic assets	**-615**	**-456**	**-401**	**-201**
Net credit to central government	-457	-324	-206	-6
Net credit to other depository corporations	46	14	8	8
Other items (net)	-204	-146	-203	-203
Monetary Base	**172**	**283**	**294**	**583**
Currency in circulation	28	31	33	37
Other liabilities to depositary corporations	145	252	261	545
Others 2/	0	0	0	0
	(12-month percentage change)			
Broad money growth	8.6	2.7	7.3	12.0
Reserve money growth	-45.7	64.1	3.9	98.1
Credit to the private sector growth	34.5	20.6	31.8	22.6
Memorandum items				
Credit/GDP	24.4	27.3	33.3	38.3
Broad money/GDP	72.5	69.3	68.8	72.1
Credit/deposits 3/	34.4	40.5	49.7	57.1
Amounts of non-perfoming loans (in millions of U.S. dollars)	6.8	8.8	12.3	...
Non-performing loans/total loans	2.3	2.2	2.3	...
Loan rate 4/	11.0	10.7	10.5	...
Deposit rate 5/	0.6	0.6	0.6	...

Sources: Timor-Leste Authorities; IMF Staff Estimations and Projections.

1/ Includes the Central Bank, five commercial banks (including four branches of foreign banks).

2/ Includes only coinage issued by the Central Bank. No data is available for notes due to dollarization of the financial system.

3/ Excludes government deposits.

4/ Rate charged by other depository corporations on loans in U.S. dollars. The rate is weighted by loan amounts.

5/ Rate offered by other depository corporations on three-month time deposits in U.S. dollars. The rate is weighted by deposit amounts.

Table 4. Timor-Leste: Balance of Payments, 2022–30

	2022	2023	2024	2025	2026	2027	2028	2029	2030
			Est.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
(In millions of U.S. dollars)									
Current account balance	408	-177	-565	-660	-713	-767	-829	-889	-949
Trade of Goods	1,012	-140	-643	-851	-886	-942	-979	-1,013	-1,048
Exports of goods	1,798	632	196	100	82	70	80	90	101
non-oil exports	53	55	39	54	62	70	80	90	101
oil exports	1,745	577	157	46	20	0	0	0	0
Imports of goods	-785	-773	-839	-952	-968	-1,012	-1,058	-1,103	-1,149
Trade of Services	-440	-327	-323	-348	-364	-384	-384	-384	-381
Receipts	60	69	82	87	99	115	134	156	181
Payments	-500	-396	-405	-436	-463	-499	-519	-540	-563
of which: Manufacturing and repair	-291	-126	-37	-19	-9	-5	-2	-1	-1
Primary Income	-313	202	231	293	283	302	272	241	206
of which: Non-oil investment income repatriatio	-52	-57	-63	-145	-141	-104	-110	-115	-120
Oil investment income repatriation	-586	-259	-267	0	0	0	0	0	0
Interest from Petroleum Fund	307	464	518	457	444	426	404	378	351
Secondary Income	149	88	169	246	254	257	262	267	274
of which: Remittance inflows	160	188	203	217	231	245	260	275	292
Capital and financial accounts	-530	-80	837	746	740	815	868	928	990
Official capital transfers	17	4	2	10	9	8	7	7	8
Financial account	-547	-85	836	736	731	806	861	921	982
Direct investment	-287	131	228	79	84	89	95	101	107
of which: Oil FDI	-318	11	29	0	0	0	0	0	0
Non-oil FDI	48	53	203	83	88	94	99	105	112
Portfolio investment	31	-332	707	761	731	792	827	864	905
Petroleum Fund excess withdrawal	1,404	1,090	1,300	1,396	1,511	1,677	1,738	1,792	1,846
Oil/Gas Revenue	-1,106	-427	-85	-46	-20	0	0	0	0
Banking Sector	-416	124	-34	-93	-90	-94	-100	-106	-113
Other	149	-1,120	-474	-496	-670	-790	-811	-821	-829
Other investment	-290	116	-99	-104	-84	-75	-61	-45	-30
Assets	-368	56	-152	-131	-112	-96	-80	-67	-54
Liabilities	78	60	53	27	28	20	19	22	24
Government Debt	65	46	40	27	28	20	19	22	24
Errors and omissions (net)	20	208	-316	0	0	0	0	0	0
Overall balance	-102	-49	-44	85	26	48	39	39	41
Financing									
Change in reserves	102	49	44	-85	-26	-48	-39	-39	-41
(In percent of Non-oil GDP) 1/									
Current account balance	24.3	-9.8	-29.0	-31.8	-32.3	-32.7	-33.3	-33.7	-33.9
Trade of Goods	60.4	-7.8	-33.0	-40.9	-40.1	-40.2	-39.4	-38.4	-37.5
Exports of goods	107.3	35.1	10.1	4.8	3.7	3.0	3.2	3.4	3.6
Imports of goods	-46.9	-42.9	-43.1	-45.8	-43.8	-43.2	-42.6	-41.8	-41.1
Trade of Services	-26.3	-18.1	-16.6	-16.7	-16.5	-16.4	-15.5	-14.5	-13.6
Primary Income	-18.7	11.2	11.9	14.1	12.8	12.9	11.0	9.1	7.4
Secondary Income	8.9	4.9	8.7	11.8	11.5	11.0	10.5	10.1	9.8
Capital and financial accounts	-31.6	-4.5	43.0	35.9	33.5	34.8	34.9	35.2	35.4
Overall balance	-6.1	-2.7	-2.2	4.1	1.2	2.0	1.6	1.5	1.5
(In millions of U.S. dollars, unless otherwise indicated)									
Memorandum items:									
Public foreign assets (end-period)	18,106	19,072	19,014	18,572	17,906	17,044	16,072	15,000	13,826
(In months of imports of G&S)	169	196	183	161	150	135	122	110	97
(In percent of Total GDP)	564	917	944	874	811	728	647	569	494
of which: Central bank reserves	833	784	740	825	852	899	938	977	1,019
Petroleum Fund balance 2/	17,273	18,288	18,274	17,746	17,054	16,145	15,133	14,022	12,807
(In percent of Non-oil GDP)	1,031	1,015	939	853	772	689	609	532	458
Petroleum Fund change	-2,348	1,015	-14	-528	-692	-909	-1,011	-1,111	-1,215
Of which: Market Revaluation	-2,345	1,215	682	365	355	341	323	303	280
NIIP	17,732	18,496	20,041	18,572	17,906	17,044	16,072	15,000	13,826
(In percent of Non-oil GDP)	1,058	1,027	1,029	893	811	728	647	569	494
Nominal Non-oil GDP	1,676	1,802	1,947	2,079	2,208	2,343	2,485	2,637	2,797
Nominal Total GDP	3,209	2,080	2,015	2,125	2,208	2,343	2,485	2,637	2,797

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

1/ Non-oil and Total GDP are equal from 2026 onwards.

2/ Closing balance.

Table 5. Timor-Leste: Sustainable Development Goals Monitoring

Goals	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Poverty											
Income share held by lowest 20%	9.4										
Poverty gap at $1.90 a day (2011 PPP) (%)	5.1										
Poverty headcount ratio at $1.90 a day (2011 PPP) (% of population)	24.4										
Poverty headcount ratio at national poverty lines (% of population)	41.8										
Women Business and the Law Index Score (scale 1-100)											
Prevalence of overweight, weight for height (% of children under 5)	2.1	1.9	1.8	1.7	1.6	1.5	1.4	1.3	1.3	1.2	1.2
Prevalence of stunting, height for age (% of children under 5)	50.9	50.0	49.1	48.1	47.3	46.4	45.8	45.5	45.4	45.2	45.4
Prevalence of undernourishment (% of population)	12.3	12.2	12.4	13.2	13.4	14.5	15.4	16.0	15.9		
Prevalence of moderate or severe food insecurity (% of population)						53.7	53.7	53.7	53.7		
Prevalence of severe food insecurity (% of population)						8.9	8.9	8.9	8.9		
Good Health and Well-being											
Mortality rate, under-5 (per 1,000 live births)	62.3	60.6	59.1	57.8	56.6	55.5	54.2	52.8	51.4	50.0	
Mortality rate, neonatal (per 1,000 live births)	25.4	25.0	24.7	24.4	24.1	23.8	23.4	23.0	22.6	22.2	
Adolescent fertility rate (births per 1,000 women ages 15-19)	38.9	36.8	34.9	33.2	31.7	30.5	29.4	28.3	27.9	27.4	
Quality of Education											
School enrollment, primary (%, gross)	128.0	126.8	123.9	118.0	113.8	111.5	110.7	124.2	120.8	123.3	
School enrollment, tertiary (%, gross)										30.8	
Gender Equity											
Proportion of Seats Held by Women in National Parliaments	38.5	38.5	38.5	32.3	33.8	38.5	38.5	38.5	40.0	36.9	35.4
Women Business and the Law Index Score (scale 1-100)	80.6	80.6	80.6	80.6	86.3	86.3	86.3	86.3	86.3	86.3	
Clean Water and Sanitation											
People using at least basic drinking water services (% of population)	72.1	74.2	76.4	78.6	80.8	82.4	84.0	85.6	87.0		
People using at least basic sanitation services (% of population)	49.7	50.8	51.9	53.0	54.1	55.2	56.3	57.3	58.4		
Affordable and Clean Energy											
Access to electricity (% of population)	62.4	67.3	76.5	79.5	85.2	90.6	96.0	100.0	99.7	100.0	
Access to clean fuels and technologies for cooking (% of population)	8.0	9.0	10.2	11.2	12.4	13.7	14.9	16.4	17.7		
Decent Work and Economic Growth											
Real Non-oil GDP per capita growth	2.4	0.5	1.0	-5.0	-2.3	0.7	-10.3	1.1	2.2	1.3	3.0
Peace, Justice and Strong Institutions											
Government Effectiveness (-2.5 =low to 2.5 = high)	-1.2	-1.1	-1.0	-1.0	-0.9	-0.9	-0.8	-0.8	-0.8	-0.8	
Regulatory Quality (-2.5 =low to 2.5 = high)	-0.9	-1.0	-1.0	-0.7	-0.8	-0.8	-0.8	-0.8	-0.5	-0.5	
Rule of Law (-2.5 =low to 2.5 = high)	-1.1	-1.1	-1.2	-1.2	-1.1	-1.1	-1.2	-1.0	-0.9	-0.8	
Control of Corruption (-2.5 =low to 2.5 = high)	-0.5	-0.5	-0.5	-0.6	-0.5	-0.4	-0.3	-0.1	-0.3	-0.2	
Global Partnerships for the Sustainable Development											
Individuals using the Internet (% of population)	17.5	18.6	21.2	24.2	27.6	28.0	32.0	35.0	34.5	34.0	

Sources: IMF Staff Calculations; and World Bank.

Annex I. Risk Assessment Matrix[1]

Risks	Likelihood	Impact	Policy Response
External Risks			
Deepening geoeconomic fragmentation. Protectionism could lead to higher trade barriers and disruptions to FDI and supply chains. Financial market risks may be compounded by future corporate earnings failing to meet expectations, large and unpredictable policy shifts, or renewed geopolitical risks. Deeper financial market correction could be triggered by weaker-than-expected US growth.	High	**Medium.** Weaker performance in financial markets due to elevated uncertainty could reduce returns on the PF, which can constrain fiscal policy. Slowdown of trading partners (China and ASEAN) can lead to lower exports, though the impact on growth through the trade channel would be limited given the small size of exports relative to the economy. On the upside, the relatively low US tariff rate of 10 percent could encourage investment diversification to Timor-Leste.	Mobilize domestic revenue to reduce the reliance on the PF to finance government spending. Promote private sector development to enhance domestic demand and to position Timor-Leste well for benefits from possible trade diversification.
Commodity price volatility. Supply and demand volatility (due to conflicts, trade restrictions, OPEC+ decisions, AE energy policies, or green transition) increases commodity price volatility, external and fiscal pressures, social discontent, and economic instability.	Medium	**Medium.** Commodity price volatility creates both upside and downside risks to inflation. Higher food prices would worsen food security as the food supply largely relies on imports. Higher oil prices would exert greater inflationary pressure and worsen the current account.	Support vulnerable households with targeted transfers to offset rising consumer prices. Improve agricultural productivity with higher investment on human capital and infrastructure.
Global growth acceleration. Easing of conflicts, positive supply-side surprises (e.g., oil production shocks), or structural reforms raise global demand and trade.	Low	**Medium.** As Timor-Leste advances its accession to ASEAN and WTO, the economic impact is expected to increase over time, although the current export base remains limited. In addition, reduced uncertainty could improve returns on the PF and support higher public spending.	Advance structural reform agenda leveraging ASEAN and WTO accession. Develop medium-term fiscal framework to maintain countercyclical fiscal policies.
Domestic Risks			
Development of major oil projects, including Greater Sunrise. Negotiations remain ongoing among the relevant stakeholders of Greater Sunrise, which is one of the major potential oil projects.	Medium	**Large**. The development of Greater Sunrise could boost long-term export receipts and public revenue. While its development would boost growth in the development phase, the financing could pose fiscal risks.	Risks associated with the development of Greater Sunrise need to be carefully managed. Initiating fiscal adjustment plans through implementation of staff's recommended reform scenario would significantly mitigate the fiscal risks.
Extreme climate and weather shocks. Drought associated with El Niño is estimated to result in lower agricultural production. New events, including natural disasters triggered by climate change related to El Niño, could cause severe damage to the economy.	Medium	**Medium.** Food insecurity, which is more severe than in peer Asian countries, would worsen further. Inflation will accelerate, as food accounts for 54 percent of the CPI basket. The limited climate resilience of infrastructure will exacerbate the impact.	Develop a pipeline of projects to build climate-proof infrastructure. Given Timor-Leste's limited fiscal space, accommodate this spending within a prudent fiscal envelope such as the proposed reform scenario, and finance investments with concessional resources where possible.
Higher-than-expected growth in private sectors. Private sector development could advance, particularly with progress in regulatory reforms. A substantial increase in credit growth and remittances would also support stronger economic growth.	Medium	**Medium.** Since structural impediments have constrained private sector development, addressing them will contribute to higher potential growth.	Prioritize reforms to support inclusive growth, improve the business environment, diversify the economy, and achieve fiscal sustainability, coordinated with developing partners.

[1] The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood of risks listed is the staff's subjective assessment of the risks surrounding the baseline ("Low" is meant to indicate a probability below 10 percent, "Medium" a probability between 10 and 30 percent, and "High" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly. The PF denotes the Petroleum Fund.

Annex II. External Sector Assessment

Overall Assessment: *The external position of Timor-Leste in 2024 was substantially weaker than the level implied by fundamentals and desirable policies. This weak external sector position reflects large fiscal imbalances and the underdevelopment of the non-oil economy.*

Potential Policy Responses: *Fiscal consolidation, improving the quality of expenditure, and implementing structural and governance reforms to promote private sector development and strengthen budget discipline will be critical for narrowing the current account gap.*

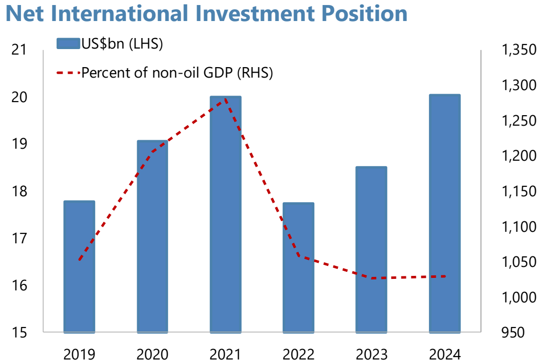
Foreign Assets and Liabilities: Position and Trajectory

Background. At end-2024, Timor-Leste's net international investment position was $20.0 billion (1,029 percent of non-oil GDP), representing an increase of $1.5 billion from end-2023.[1] This improvement partly reflected valuation gains in the Petroleum Fund's foreign asset holdings and the repatriation of oil-related FDI liabilities, which reduced the stock of external obligations. Total external assets and liabilities amounted to $20.8 billion (1,068 percent of non-oil GDP) and $0.8 billion (39 percent of non-oil GDP), respectively. The external asset position primarily comprised of $18.3 billion (939 percent of non-oil GDP) in portfolio investment held by the Petroleum Fund, as well as by $0.7 billion (38 percent of non-oil GDP) in central bank reserves held in foreign currency deposits. On the liabilities side, foreign direct investment liabilities were $232 million (11.9 percent of non-oil GDP, while loans totaled 357 million (18 percent of non-oil GDP). The Petroleum Fund's asset allocations consisted of 32 percent in stocks, 14 percent in cash and cash equivalents, and 54 percent in debt instruments.

Assessment. Under current policies, the net international investment position is projected to gradually deteriorate in 2025 and over the medium term, as sustained large current account deficits continue to weigh on the external balance.

End-2024 (% non-oil GDP)	NIIP: 1,029	Gross Assets: 1,068	Debt Assets: 629	Gross Liab.: 39	Debt Liab.: 18

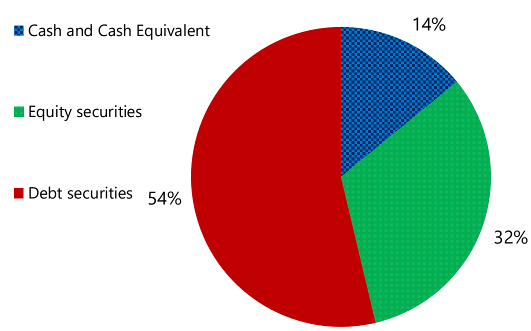
Net International Investment Position



Source: Central Bank of Timor-Leste.

Petroleum Fund Asset Composition

(End-2024; Percent of Total Assets in Financial Market)

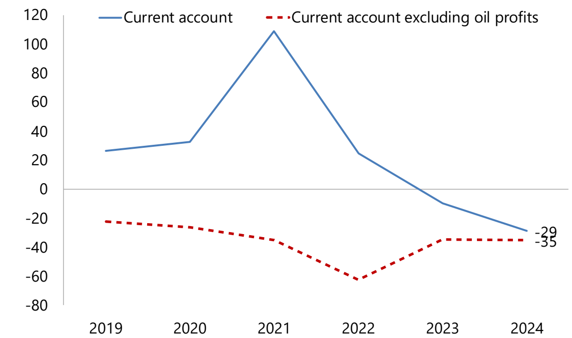


Source: Central Bank of Timor-Leste.

Current Account

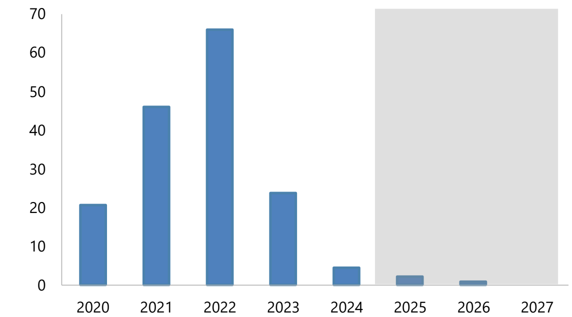
Background. The current account balance deteriorated from 109 percent of non-oil GDP in 2021 to -29 percent in 2024, primarily reflecting a sharp decline in oil exports. The non-oil current account balance remained consistently negative, averaging -36 percent of non-oil GDP in 2019-23.[2] With oil revenues expected to cease by 2026, the current account is anticipated to remain persistently in deficits.

External Accounts
(In Percent of Non-Oil GDP)



Source: Central Bank of Timor-Leste.

Oil Revenue
(In Percent of Non-Oil GDP)



Sources: Central Bank of Timor-Leste; and IMF Staff Estimates (Projections for 2025-2027).

Assessment. Given that Timor-Leste's significant sovereign wealth holdings are not adequately captured by EBA-Lite regression model, the model fits the CA data for Timor-Leste over 2006-24 very poorly (model's mean squared error is 176 percent of non-oil GDP). As such, we utilize an alternative approach to assess the current account using the annuity of consumption wealth.

The annuity approach estimates a sustainable stream of consumption from total wealth, which comprises net foreign assets and the discounted value of remaining oil proceeds. At end-2024, estimated net foreign assets were $20 billion, while the present value of future oil proceeds in 2025-26 (discounted at 3 percent) are expected to be $0.1 billion. Applying an assumed implicit return on total wealth of 3 percent yields an annuity value of -31 percent of non-oil GDP in 2024.

We estimate the CA norm by setting the non-oil CA equal to zero in equilibrium, as this stabilizes the NIIP. The estimated current account norm in 2024 is equal to $0.12 billion (6.2 percent of non-oil GDP), which is the contribution of oil-related activities to the current account.

The adjusted CA isolates the structural contributors to external balance and is calculated by adjusting for cyclical influences on the primary income. This is approximated by the difference between the estimated annuity value (31 percent) and the realized Petroleum Fund interest income in 2024 (26.6 percent). Correcting for these cyclical influences (4.3 percent of non-oil GDP) yields an adjusted CA of -24.6% of non-oil GDP.

The CA gap is the difference between the adjusted CA (-24.6 percent) and the CA norm (6.2 percent) and was estimated at -30.8 percent of non-oil GDP in 2024. This indicates that the external sector position was substantially weaker than implied by fundamentals and desirable settings. This weakness largely reflects persistent fiscal imbalances and the limited development of the non-oil economy. Fiscal consolidation, improving the quality of expenditure, and implementing structural and governance reforms to promote private sector development and strengthen budget discipline will be critical to narrowing the current account gap.

Although not the basis for the present assessment, the EBA-Lite CA and REER models similarly suggest that the external sector position was substantially weaker than implied by fundamentals and desirable policy settings.

Timor-Leste: EBA-lite Model Results, 2024

	CA model 1/	REER model 1/	Annuity approach
	(in percent of non-oil GDP)		
CA-Actual	**-29.0**		**-29.0**
Cyclical contributions (from model) (-)	0.5		
Natural disasters and conflicts (-)	0.0		
Adjusted CA	**-29.5**		**-24.6**
CA Norm (from model) 2/	**6.4**		**6.2**
Adjustments to the norm (+)	0.0		
Adjusted CA Norm	**6.4**		
CA Gap	**-35.9**	**-9.8**	**-30.8**
o/w Relative policy gap	-6.7		
Elasticity	-0.3		
REER Gap (in percent)	**120.2**	**33.0**	**103.1**

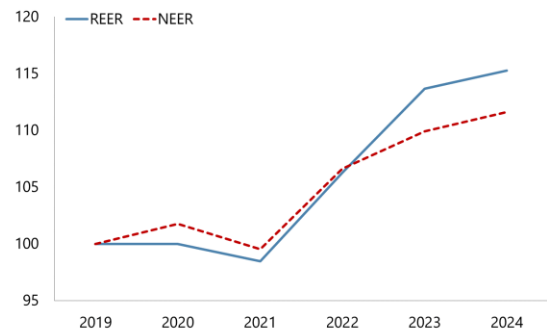
1/ Based on the EBA-lite 3.0 methodology
2/ Cyclically adjusted, including multilateral consistency adjustments.

Real Exchange Rate

Background. The real effective exchange rate (REER) and nominal effective exchange rate (NEER) remained relatively stable over 2019-21. However, during 2021-24, the REER appreciated by 17.1 percent and the NEER by 12.1 percent. This appreciation reflects the global strengthening of the U.S. dollar and higher domestic inflation relative to that of trading partners.

Assessment. Applying a trade elasticity of -0.3, the estimated current account gap of -30.8 percent of non-oil GDP implies a REER gap of 103.1 percent.

Effective Exchange Rates
(2019=100)



Sources: IMF Statistics Department, Information Notice System (INS).

Capital and Financial Accounts: Flows and Policy Measures

Background. Portfolio inflows are the main source of financing current account deficits in Timor-Leste. They primarily consist of withdrawals from the Petroleum Fund. FDI outflows during 2019-22 have been large, accounted for by the repatriation of profits by foreign oil companies reducing the value of their equity positions in domestic investments. Since 2022, this has been gradually rebalanced by an increase in non-oil FDI inflows. FDI averaged net outflow of 22 percent of non-oil GDP from 2019 to 2022 but shifted to an average net inflow of 9.5 percent of non-oil GDP between 2023 and 2024.

Assessment. No major vulnerabilities exist related to capital flows in the short and medium term, given the large size of the Petroleum Fund.

FX Intervention and Reserves Level

Background. Gross international reserves were at $0.7 billion at end-2024, amounting to about 7.1 months of imports of goods and services, 55 percent of broad money, 276 percent of external debt, and 38 percent of non-oil GDP.

Assessment. Reserves are much higher than the traditional metric of 3 months of imports for credit constrained economies (LICs). In addition to the significant official reserves held by the Central Bank of Timor-Leste, the government also has a sovereign wealth fund (the "Petroleum Fund") worth 176 months of imports. While the PF is not readily usable by the central bank for balance of payments needs, it constitutes an important fiscal and external financing source for the government and thus provides a substantial buffer against shocks.
[1] Non-oil GDP was $1.9 billion in 2024. [2] The non-oil current account is estimated by excluding revenue from oil/gas exports in goods exports and manufacturing and repair services in services imports.

Annex III. Data Issues

Annex III. Table 1. Timor-Leste: Data Adequacy Assessment Rating 1/

B							
Questionnaire Results 2/							
Assessment	National Accounts	Prices	Government Finance Statistics	External Sector Statistics	Monetary and Financial Statistics	Inter-sectoral Consistency	Median Rating
	B	B	B	C	B	C	B
Detailed Questionnaire Results							
Data Quality Characteristics							
Coverage	B	B	C	C	B		
Granularity 3/	B		C	B	B		
			B		C		
Consistency			B	C		C	
Frequency and Timeliness	C	A	B	B	B		

Note: When the questionnaire does not include a question on a specific dimension of data quality for a sector, the corresponding cell is blank.
1/ The overall data adequacy assessment is based on staff's assessment of the adequacy of the country's data for conducting analysis and formulating policy advice, and takes into consideration country-specific characteristics.
2/ The overall questionnaire assessment and the assessments for individual sectors reported in the heatmap are based on a standardized questionnaire and scoring system (see IMF *Review of the Framework for Data Adequacy Assessment for Surveillance*, January 2024, Appendix I).
3/ The top cell for "Granularity" of Government Finance Statistics shows staff's assessment of the granularity of the reported government operations data, while the bottom cell shows that of public debt statistics. The top cell for "Granularity" of Monetary and Financial Statistics shows staff's assessment of the granularity of the reported Monetary and Financial Statistics data, while the bottom cell shows that of the Financial Soundness indicators.

A	The data provided to the Fund are adequate for surveillance.
B	The data provided to the Fund have some shortcomings but are broadly adequate for surveillance.
C	The data provided to the Fund have some shortcomings that somewhat hamper surveillance.
D	The data provided to the Fund have serious shortcomings that significantly hamper surveillance.

Rationale for staff assessment. The data provided to the Fund have some shortcomings but are broadly adequate for surveillance. Notable progress has been made in improving macro statistics in the external, fiscal, and financial sectors. With the support of IMF Capacity Development (CD), the authorities have made efforts to compile the Financial Soundness Indicators (FSI) and Government Financial Statistics (GFS). Inter-sector inconsistencies remain, for example in the national account statistics and other sectoral statistics (e.g., BOP, government financial statistics). Further improvements are also needed along several dimensions: developing quarterly national accounts statistics, rebasing of the national accounts, updating the CPI basket and weights, addressing the large errors and omissions in the Balance of Payments, implementing a timely dissemination of FSIs.

Changes since the last Article IV consultation. Commendable efforts and progress in several areas were observed. In the real sector, the Living Standards Survey (LSS), a key input for rebasing the national accounts and updating CPI weights and basket, was recently completed. Data sources and methods for compiling GDP(P) and GDP(E) estimates have also been reviewed and updated. In the financial sector, authorities have started compiling FSIs with a target of reporting FSIs to STA by September 2025. In the fiscal sector, efforts have been made to improve GFS, including compiling Social Security Funds and nonfinancial public corporations data with a target of reporting to STA by 2025Q4.

Corrective actions and capacity development priorities. Enhancement of coordination between the authorities should be prioritized, as it is paramount for compiling and disseminating comprehensive statistics that will enhance surveillance capabilities. Adequate staffing and resource allocation for data compilation and analysis should complement ongoing CD efforts. These include coordination with the IMF to enhance existing data compilation and improving IT infrastructure for data collection and reporting. Timely reporting of FSIs, including data on liquidity, credit exposures, and capital adequacy, is encouraged and will enhance the surveillance capabilities of the central bank.

Use of data and/or estimates in Article IV consultations in lieu of official statistics available to staff. The team relies on publicly available financial statements of local banks.

Other data gaps. Data on labor markets needs to be improved. This includes the timeliness of aggregate labor market data and improving data for assessing distributional concerns and informal sector employment. The enhancement would provide a better understanding of income, generational and gender inequality, and the impact of digitization on the workforce. Additionally, better data on financial inclusion measures would strengthen staff analysis and support more granular policy recommendations.

Annex III. Table 2. Timor-Leste: Data Standards Initiatives

Timor-Leste participates in the Enhanced General Data Dissemination System (e-GDDS) and publishes the data on its National Summary Data Page since February 2019.

Annex III. Table 3. Timor-Leste: Table of Common Indicators Required for Surveillance

As of July 15, 2025

	Data Provision to the Fund				Publication under the Data Standards Initiatives through the National Summary Data Page			
	Date of Latest Observation	Date Received	Frequency of Data[6]	Frequency of Reporting[6]	Expected Frequency[6,7]	Timor-Leste[8]	Expected Timeliness[6,7]	Timor-Leste[8]
Exchange Rates	Jun-25	Jul-25	M	M	D	M	...	1M
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	Dec-24	Mar-25	M	M	M	M	1M	2M
Reserve/Base Money	Dec-24	Apr-25	M	M	M	M	2M	2M
Broad Money	Dec-24	Apr-25	M	M	M	M	1Q	2M
Central Bank Balance Sheet	Dec-24	Apr-25	M	M	M	M	2M	2M
Consolidated Balance Sheet of the Banking System	Dec-24	Apr-25	M	M	M	M	1Q	2M
Interest Rates[2]	May-25	Jul-25	M	M	M	M	...	2M
Consumer Price Index	May-25	Jun-25	M	M	M	M	2M	2M
Revenue, Expenditure, Balance and Composition of Financing[3]–General Government[4]	Dec-24	Mar-25	A	A	A	A	3Q	3Q
Revenue, Expenditure, Balance and Composition of Financing[3]–Central Government	Dec-24	Mar-25	A	A	Q	Q	1Q	2Q
Stocks of Central Government and Central Government-Guaranteed Debt[5]	Dec-24	Mar-25	A	A	Q	Q	2Q	2Q
External Current Account Balance	Mar-25	Jun-25	Q	Q	Q	Q	1Q	1Q
Exports and Imports of Goods and Services	Mar-25	Jun-25	Q	Q	M	Q	12W	1Q
GDP/GNP	Dec-24	Mar-25	A	A	Q	A	1Q	16M
Gross External Debt	Mar-25	Jun-25	Q	Q	Q	Q	2Q	2Q
International Investment Position	Mar-25	Jun-25	Q	Q	A	Q	3Q	1Q

[1] Includes reserve assets pledged or otherwise encumbered, as well as net derivative positions.

[2] Both market-based and officially determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

[3] Foreign, domestic bank, and domestic nonbank financing.

[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

[5] Including currency and maturity composition.

[6] Frequency and timeliness: (“D”) daily; (“W”) weekly or with a lag of no more than one week after the reference date; (“M”) monthly or with lag of no more than one month after the reference date; (“Q”) quarterly or with lag of no more than one quarter after the reference date; (“A”) annual.; ("SA") semiannual; ("I") irregular; ("NA") not available or not applicable; and ("NLT") not later than.

[7] Encouraged frequency of data and timeliness of reporting under the e-GDDS and required frequency of data and timeliness of reporting under the SDDS and SDDS Plus. Any flexibility options or transition plans used under the SDDS or SDDS Plus are not reflected. For those countries that do not participate in the IMF Data Standards Initiatives, the required frequency and timeliness under the SDDS are shown for New Zealand, and the encouraged frequency and timeliness under the e-GDDS are shown for Eritrea, Nauru, South Sudan, and Turkmenistan.

[8] Based on the information from the Summary of Observance for SDDS and SDDS Plus participants, and the Summary of Dissemination Practices for e-GDDS participants, available from the IMF Dissemination Standards Bulletin Board (https://dsbb.imf.org/). For those countries that do not participate in the Data Standards Initiatives, as well as those that do have a National Data Summary Page, the entries are shown as "..."

Annex IV. Integration of Capacity Development and Surveillance

Area	Surveillance Recommendations	Capacity Development Recent Actions/Plans
Tax Administration	Strengthen tax administration to improve tax compliance.	PFTAC has been supporting the establishment of a taxpayer service function, with the Timor-Leste Tax Authority (TLTA) aiming to launch it in September 2025.
Revenue Mobilization	Introduce the VAT promptly.	PFTAC has been supporting re-drafting the current VAT law and finalizing the organization structure of the tax authority.
Macroeconomic Forecasting and Analysis, Fiscal Framework and PFM	Advance PFM reforms, including development of a medium-term fiscal framework, to improve budget discipline and spending efficiency.	Since 2021, ICD has been supporting the development and use of a macro-framework, which has led to improvements in macroeconomic forecasting and policy analysis. FAD supported designing the PFM law that contains elements of an indicative medium-term fiscal framework, currently awaiting Parliament approval. MCM is running CD to enhance capacity for debt management strategy formulation and implementation.
Governance and AML/CFT	More governance reforms are needed in the domain of rule of law and regulatory frameworks. Address deficiencies in the AML/CFT frameworks in a timely manner.	While there is no CD request, the authorities committed to implement recommendations from Timor-Leste's Mutual Evaluation Report adopted by APG in September 2024.
Banking Sector Regulation and Financial Supervision	Enhance prudential standards and risk assessment methodologies to capture emerging risks in the financial sector.	MCM and LEG have assisted with reviewing the draft of the banking law that will be submitted to the parliament, which is expected to be approved this year. PFTAC began providing CD to analyze BCTL's regulatory and supervisory frameworks for the banking sector, with IFRS training completed last year. PFTAC and STI staff held two training courses for BCTL staff in May and September 2025 on fundamentals of central banking and financial inclusion.
Macroeconomic statistics	Improve the quality and frequency of macroeconomic statistics.	PFTAC has been working on rebasing the national accounts in collaboration with the Australian statistical authorities, as well as updating the CPI basket. STA is providing CD to improve key statistics (GFS, BOP, and FSI) on regular basis. The compilation of FSI was completed in April 2025, with implementation targeted for September 2025.

Annex V. Response to Past Fund Advice

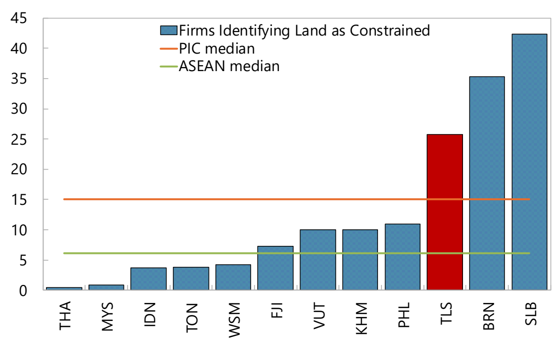
Fund Recommendation	Policy Actions
Fiscal Policy	
• Fiscal consolidation and gradual elimination of PF excess withdrawals	The fiscal balance is expected to deteriorate in 2025. Notwithstanding, strong market returns have kept the PF balance from falling. The Budget Strategy Statement for 2026 includes a tighter indicative budget ceiling for 2026 and signals slower expansion of public spending over the medium term.
• Revenue mobilization and expenditure rationalization	The authorities committed to VAT implementation by January 2027. The introduction of a hiring freeze and mandatory retirement age in May 2025 should help contain the wage bill.
• Fully implement upgraded PFM and procurement laws and develop medium-term fiscal framework.	A new PFM law was promulgated in April 2025 and a new procurement decree law is expected to take effect in early 2026. Training CD missions on the medium-term projection tool finalized in May 2025, and the tool was used to prepare the 2026 Budget Strategy Statement.
Financial and Monetary Policies	
• Upgrade the financial sector regulatory and supervisory framework	The secure transactions law was approved by Parliament in June 2025, and a new banking law and the draft insolvency framework are expected to be considered by Parliament this year. Efforts are underway to establish a national accounting standard through a consultative process with the private sector. There has been no further increase in the LDR floor.
• Financial deepening and inclusion, including strengthening digital financial services.	Authorities are prioritizing the implementation of a retail fast-payment network that will allow for mobile-based transactions via QR code.
• Address imbalances and advance structural reforms to improve competitiveness under dollarization	A tighter fiscal stance has been signaled for 2026, but fiscal and external imbalances are expected to remain large. The reform agenda is progressing, supported by trade integration. The depreciation of the US dollar with respect to Timor-Leste's trading partners has depreciated the REER to some extent.
Structural Reforms	
• Investment in human capital, and build a supportive business environment including simplified licensing requirements and land registration, stronger governance, better enforcement of contracts, investment in digital infrastructure.	The authorities are advancing financial sector reforms (above) which would also help improve business environment. On AML/CFT, the Asia-Pacific Group adopted the Mutual Evaluation Report in September 2024, and the recommendations are planned to be implemented. Other reform areas lack progress.
Statistics	
• Improve the quality of data for informed policy making.	PFTAC has been working on rebasing the national accounts in collaboration with the Australian statistical authorities, as well as updating the CPI basket. STA is providing CD to improve key statistics (GFS, BOP, and FSI) on regular basis. However, progress remains slow in part due to limited staffing.

Annex VI. Land Title Reforms for Timor-Leste: Unlocking Private-Sector Growth[1]

1. Property rights in Timor-Leste remain underdeveloped, reflecting a legacy of conflict-related displacement and dispossession. Fewer than one quarter of the country's land parcels were formally registered at the end of the 1999 conflict (East Timor Land Law Program, 2004). In the absence of a functioning land administration system, customary tenure arrangements continue to govern roughly 90 percent of land, with local leaders exercising authority over land allocation and use (UN, 2019). Household surveys confirm that formal land titles remain limited: only 54 percent of residents in Dili and just 16-18 percent in rural districts report holding a legal title, implying that more than four-fifths of rural households remain outside of the formal system (Almeida and Wasel, 2016).

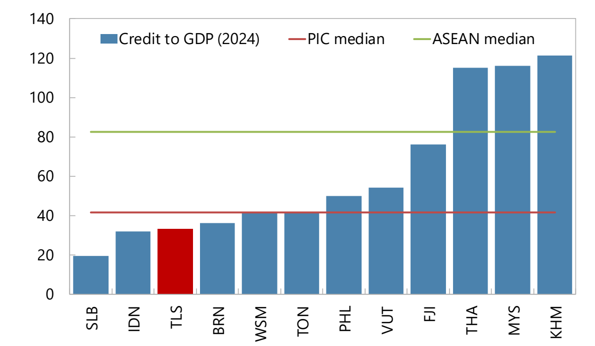
2. Successive land administration initiatives have made progress but have not yet closed the gap (World Bank, 2025). The USAID-financed *Ita Nia Rai* project, which ran from 2008 to 2012, mapped more than 50,000 land parcels in urban centers. Building on that experience, the government launched the National Cadaster System (SNC) in 2014 with an ambitious agenda of registering roughly 326,000 parcels nationwide by 2019 and integrating the earlier records into a unified digital cadaster (Correia and others, 2021). Yet the issuance of legally enforceable titles lagged until Parliament approved the Land Law in 2017. Moreover, impact assessments highlight ongoing inconsistencies between SNC procedures and the new legal requirements—most notably limited recognition of community land claims—which limits the utility of land titles (Rede ba Rai, 2019). Issuance of titles has made limited progress in recent years, with roughly 55,000 parcels under dispute and no clear data on the total number of valid certificates outstanding.

Share of Firms Reporting Land Access Constraints
(In Percent)



Source: World Bank Enterprise Survey.

Credit-to-GDP
(In Percent, as of 2024)



Source: IMF International Financial Statistics.

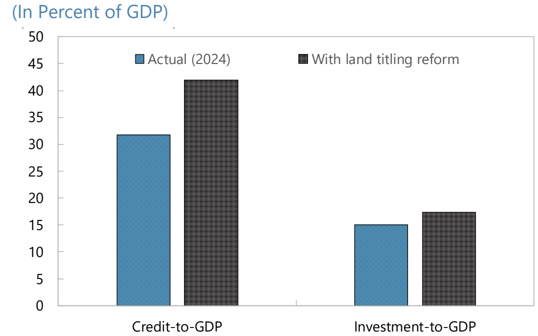
[1] Prepared by Ken Teoh (APD).

3. Formal property rights facilitate private credit and investment through several channels, including asset collateralization, legal enforcement, and investment incentives. Land titles enhance asset tangibility, enabling firms and households to use land as collateral and expand their borrowing capacity (Campello and Giambona, 2012). Formal registries also reduce information asymmetry and improve contract enforcement by facilitating efficient repossession in cases of default (Choudhary and Jain, 2014). Finally, tenure security encourages long-term private investment by reducing the perceived risks of expropriation or dispute (Deininger and Jin, 2006). Evidence from country case studies reinforces these channels. Vietnam's rollout of Land-Use-Rights Certificates (LURCs) in the 1990s boosted rural borrowing by about 30 percent and increased agricultural investment (Deininger and Jin, 2008). In Rwanda, land tenure regularization doubled land-conservation investments (Ali, Deininger, and Goldstein, 2019).

4. Cross-country analysis underscores the link between land access and financial development and investments. A regression using data from 156 countries over 2013-2023 shows that one percentage point reduction in the share of firms identifying land access as a major or very severe constraint is associated with a 0.5 percentage point increase in credit-to-GDP and a 0.1 percentage point increase in investment-to-GDP, controlling for per-capita income. In Timor-Leste, where 26 percent of firms report severe land access constraints—significantly above the ASEAN median of 6 percent—reducing land access constraints to those of its regional peers could potentially raise Timor-Leste's credit-to-GDP ratio by 10 percentage points and its investment-to-GDP ratio by roughly 2 percentage points.

Land Titling Reform, Credit, and Investments

(In Percent of GDP)



Source: IMF Staff Calculations.

Note: This figure shows the level of credit-to-GDP and investment-to-GDP for Timor-Leste in 2024 if the share of firms reporting land access as a major or very severe constraint falls from 26 percent to 6 percent (ASEAN median). Estimates based on elasticities reported in Annex Table 1.

5. International experience highlights three themes relevant for Timor-Leste (Annex VI. Box 1). First, local community participation in government-led land surveys can accelerate coverage. Rwanda's Land Tenure Regularization Program registered around 10 million parcels at a low cost, by combining para-surveyors with local adjudication committees. Second, legal recognition of customary land is necessary but not sufficient. Liberia's 2018 Land Rights Act granted formal status to customary ownership yet overlaps with mining and forestry concessions have generated costly disputes, illustrating the need for coherent governance and spatial planning. Third, the ability to transfer and mortgage land titles are important to unlocking their economic value. Vietnam's LURC framework explicitly allowed households to lease, transfer, and mortgage land-use rights, spurring both rural and urban credit growth. These cases suggest that Timor-Leste could realize significant gains from comprehensive land title reforms.

Annex VI. Table 1. Timor-Leste: Land Access Constraints, Financing, and Investments

	Credit-to-GDP		Investment-to-GDP		Financing Access Constrained		Unfavorable Collateral	
Land Access Constrained (% firms)	-0.514	**	-0.119	**	0.580	***	0.271	***
	(0.202)		(0.046)		(0.087)		(0.079)	
Log GDP per capita	18.045	***	-1.010	**	-4.072	***	-7.419	***
	(2.029)		(0.460)		(0.864)		(0.785)	
Number of observations	156		143		159		159	
R^2	0.46		0.06		0.43		0.50	

Sources: World Bank Enterprise Survey; World Bank Development Indicators; IMF Staff Calculations

Notes: Credit-to-GDP and Investment-to-GDP are country averages from 2013-2023 (in percent), land constrained, financing constrained are the share of firms (in percent) reporting access to land and financing as a major or very severe constraint, respectively, unfavorable collateral refers to the share of firms (in percent) reporting unfavorable rates, collateral, or credit procedures. *** p<0.01, ** p<0.05, * p<0.1.

Annex VI. Box 1. Timor-Leste: Case Studies of Land Title Reforms

Rwanda's experience illustrates the potential for low-cost, nation-wide land titling in post-conflict settings. The 2004 National Land Policy and the 2005 Organic Land Law provided a strong legal foundation, enabling the ambitious Land-Tenure Regularization Program (LTRP) from 2007–2013, which registered approximately 10 million parcels and issued over 7 million titles. By leveraging community-based mapping through para-surveyors and village committees, Rwanda significantly reduced costs, averaging only US$ 5–7 per title. Impact evaluation shows a doubling of on-farm investment in soil conservation, gains in women's recorded ownership, and lower incidence of land disputes (Ali, Deininger, and Goldstein 2019).

Liberia's experience with customary land recognition highlights the complexities arising from overlapping land claims. The Land Rights Act (LRA) of 2018 granted full legal status to customary lands and established community-managed land governance. However, pre-existing large-scale concessions in mining, logging, and agriculture, covering approximately 20 percent of Liberia's land area, have complicated implementation (Sustainable Development Institute, 2019). Institutional weaknesses, including unclear regulations and slow judicial confirmation, have exacerbated disputes and heightened risks of elite capture.

Vietnam's successful introduction of transferable land-use rights provides insights into linking land titling with rural credit expansion. The 1988 Land Law established long-term use rights, which the 1993 reforms enhanced by introducing Land-Use Rights Certificates (LURCs) that could be legally transferred or mortgaged. Systematic registration significantly increased rural households' participation in formal credit markets by almost 30 percent (Kemper and others 2011). Robust institutional frameworks, such as a national digital cadaster and enforceable foreclosure processes, have maintained the value and credibility of these rights.

Cambodia's land registration initiative highlights both the opportunities and challenges associated with mass titling efforts. The 2001 Land Law and subsequent Land Management and Administration Project (LMAP) resulted in over 3.5 million titles by 2014, covering roughly half the country's landowning households (Ironside, 2017). While these reforms have provided many households with formal recognition of their land rights, independent assessments suggest systematic biases that excluded high-value urban and peri-urban areas, while forced evictions and economic-land concessions persisted. These challenges underscore the importance of transparent adjudication processes, functional grievance mechanisms, and clear social safeguard benchmarks to ensure that the benefits of land reforms are equitably distributed.

INTERNATIONAL MONETARY FUND

DEMOCRATIC REPUBLIC OF TIMOR-LESTE

STAFF REPORT FOR THE 2025 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

August 25, 2025

Prepared By

Asia and Pacific Department
(In Consultation with Other Departments)

CONTENTS

FUND RELATIONS

(As of June 30, 2025)

Membership Status: Joined July 23, 2002; Article VIII.

General Resources Account

	SDR Million	% Quota
Quota	25.60	100.00
IMF Holdings of Currency (Holdings rate)	21.25	83.01
Reserve Tranche Position	4.35	17.00

SDR Department

	SDR Million	% Allocation
Net Cumulative Allocation	32.26	100.00
Holdings	27.88	86.42

Outstanding Purchases and Loans: None

Latest Financial Commitments: None

Projected Payments to Fund

(SDR Million; Based on Existing Use of Resources and Present Holdings of SDRs)

	2025	2026	2027	2028	2029	2030
Principal						
Charges/Interest	0.07	0.13	0.13	0.13	0.13	0.13
Total	0.07	0.13	0.13	0.13	0.13	0.13

Exchange Rate Arrangements

1. The exchange rate arrangement (de jure and de facto) is an exchange arrangement with no separate legal tender. On January 24, 2000, the U.S. dollar was adopted as the official currency of then East Timor by the United Nations Transitional Administration in East Timor (UNTAET). This arrangement has been maintained after Timor-Leste's independence on May 20, 2002. At present, the monetary authority does not undertake foreign exchange transactions; they are handled by commercial banks on the basis of rates quoted in the international markets. Timor-Leste has accepted the obligations under Article VIII, Sections 2(a), 3 and 4 of the IMF's Articles of Agreement, and maintains an exchange system free of multiple currency practices and restrictions on the making of payments and transfers for current international transactions.

Article IV Consultations:

2. The previous Article IV consultation was concluded on December 10, 2024. The associated Executive Board assessment is available at IMF Executive Board Concludes 2024 Article IV Consultation with Timor-Leste. Timor-Leste is on the standard 12-month consultation cycle.

Resident Representative:

3. The resident representative office in Dili, established in August 2000, closed at end-June 2009.

RELATIONS WITH OTHER INTERNATIONAL FINANCIAL INSTITUTIONS

- World Bank: https://www.worldbank.org/en/country/timor-leste
- Asian Development Bank: https://www.adb.org/where-we-work/timor-leste

DEMOCRATIC REPUBLIC OF TIMOR-LESTE

August 25, 2025

STAFF REPORT FOR THE 2025 ARTICLE IV CONSULTATION—DEBT SUSTAINABILITY ANALYSIS

Approved By
Nada Choueiri (IMF), Stefania Fabrizio (IMF), Lalita Moorty (IDA), and Manuela Francisco (IDA)

Prepared by Staff of the International Monetary Fund and the International Development Association

Timor-Leste: Joint Bank-Fund Debt Sustainability Analysis	
Risk of external debt distress	Moderate
Overall risk of debt distress	Moderate
Granularity in the risk rating	Limited space to absorb shocks
Application of judgement	Yes. Petroleum sovereign wealth fund is a strong mitigating factor for the country's debt sustainability in the next 10 years.

Timor-Leste remains at moderate risk of overall and external debt distress, with application of judgement, unchanged from the 2024 Article IV debt sustainability analysis. The present value of the debt service-to-exports ratio under the baseline is projected to breach the indicative threshold in the medium term, triggering a mechanical rating of high risk of overall and external debt distress. In the medium term, however, the Petroleum Fund (PF) remains large relative to projected debt levels and debt service requirements, and its assets are liquid and accessible, thus acting as a mitigating factor, prompting the use of judgement to upgrade the risk assessment. Long-term risks to debt sustainability remain broadly the same as in the 2024 Article IV debt sustainability analysis—while the deficits are larger over the projection horizon, debt carrying capacity has been upgraded. Staff projects that the PF, which is the main source of funding of fiscal deficits, would be fully depleted in 2038 under the baseline scenario, triggering a breach of all debt indicators towards the end of the twenty-year projection horizon. However, there is time to adopt necessary policy adjustments—staff's reform scenario illustrates how fiscal consolidation and structural reforms can ensure both fiscal and debt sustainability in the long term.

PUBLIC DEBT COVERAGE

1. **The coverage of public sector debt used in this report is public and publicly guaranteed debt**. Timor-Leste's public and publicly guaranteed external debt is owed entirely by the central government. The public sector only borrows externally, given a lack of domestic financing sources.[1] While guarantees by the state to state-owned enterprises are included in the coverage, there are currently no guarantees granted. The debt coverage does not include debt issued by the Social Security Fund, state and local government, extra budgetary funds, the central bank, and SOEs, all of which are thought to be zero due to legal restrictions on borrowing by these entities.[2] The data coverage is broadly comprehensive for Timor-Leste, given the dominant role of the central government in incurring debt obligations.

2. **The contingent liability stress test reflects risks not captured in the baseline (Text Table 1).** To assess potential residual risks from unreported SOE liabilities or arrears, the default shock to SOE's debt (2 percent of GDP) and explicit contingent liabilities related to judicial litigations (0.5 percent of GDP, as reported in the 2025 Budget) are used.[3] Contingent liabilities from public private partnerships are negligible. Public transfers to SOEs have risen sharply, increasing the fiscal deficit, with many SOEs generating persistent operating losses (World Bank 2025). As part of the World Bank's Sustainable Development Finance Policy, the government made progress toward greater fiscal transparency and risk management by publishing standardized financial statements for all major SOEs in the 2025 Budget and introducing a strengthened fiscal risk statement (highlighting macroeconomic vulnerabilities, and other contingent liabilities). Additionally, the government in FY25 committed to refrain from contracting non-concessional external debt.

Text Table 1. Timor-Leste: Coverage of Public Debt and Contingent Liability Stress Test

	Subsectors of the public sector	Check box
1	Central government	X
2	State and local government	
3	Other elements in the general government	
4	o/w: Social security fund	
5	o/w: Extra budgetary funds (EBFs)	
6	Guarantees (to other entities in the public and private sector, including to SOEs)	X
7	Central bank (borrowed on behalf of the government)	
8	Non-guaranteed SOE debt	

1	The country's coverage of public debt	The central government, government-guaranteed debt		
		Default	Used for the analysis	Reasons for deviations from the default settings
2	Other elements of the general government not captured in 1.	0 percent of GDP	0.5	
3	SoE's debt (guaranteed and not guaranteed by the government) 1/	2 percent of GDP	2	
4	PPP	35 percent of PPP stock	0.00	Negligible PPP stock
5	Financial market (the default value of 5 percent of GDP is the minimum value)	5 percent of GDP	5	
	Total (2+3+4+5) (in percent of GDP)		7.5	

1/ The default shock of 2% of GDP will be triggered for countries whose government-guaranteed debt is not fully captured under the country's public debt definition (1.). If it is already included in the government debt (1.) and risks associated with SoE's debt not guaranteed by the government is assessed to be negligible, a country team may reduce this to 0%.

[1] Timor-Leste's legal tender is the US dollar, so the external debt definition is residency-based.

[2] Under the Public Debt Regime Law No. 13/2011, the Government of Timor-Leste (in particular, the Ministry of Finance) is the only entity that may engage in borrowing, which must be motivated by financing needs generated by the state's priority tasks relating to the building of strategic infrastructure for the country's development. SOEs are not allowed to borrow for themselves and can only obtain financing via on-lending from the Ministry of Finance. Given lack of comprehensive SOE data, there may be residual risks from unreported SOE liabilities or arrears.

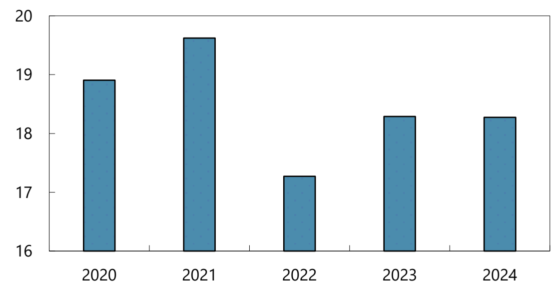
[3] The explicit contingent liability is added to "other elements of the general government not captured in 1" (Text Table 1).

BACKGROUND ON DEBT

3. Timor-Leste's net public asset position is currently strong due to savings accumulated in the Petroleum Fund (PF) and a low level of public debt.

- The PF balance at end-2024 stood at $18.3 billion (939 percent of non-oil GDP), covering 183 months of prospective goods and services imports. The PF balance remained broadly unchanged from 2023, as favorable market revaluations ($0.7 billion; 3.7 percent), interest and dividend income ($0.5 billion), and petroleum receipts ($0.1 billion) offset withdrawals to finance the budget ($1.3 billion, of which $0.8 billion was excess withdrawal).[4] The average nominal return on Petroleum Fund assets during 2020–24 was 4.4 percent.

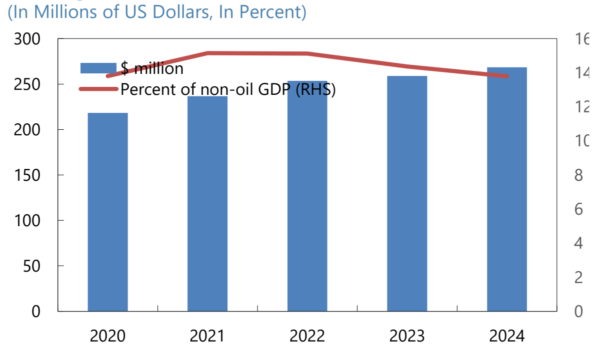
Text Figure 1. Petroleum Fund Balance
(In Billions of US Dollars)



Source: Central Bank of Timor-Leste.

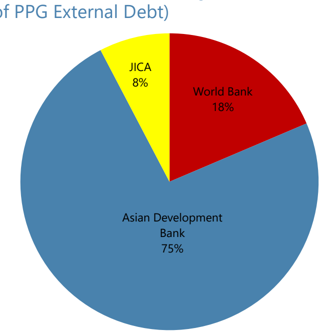
- Outstanding public external debt was $269 million at end-2024, corresponding to 13.8 percent of non-oil GDP (down from 14.4 percent in 2023). All external debt signed since 2012 has consisted of concessional loans from the Asian Development Bank, the World Bank Group, and the Japan International Cooperation Agency.[5] These have financed mainly road infrastructure projects, water supply and sanitation, and development of the airport. The Asian Development Bank is the largest creditor, comprising nearly 75 percent of total external debt at end-2024. The average maturity of existing loans is 25.5 years, with grace periods ranging from 5 to 10 years. Debt service payments on existing debt average $28 million annually (close to 1.1 percent of GDP) in the medium term.

Text Figure 2. PPG External Debt
(In Millions of US Dollars, In Percent)



Sources: Central Bank of Timor-Leste; and IMF Staff Estimates.

Text Figure 3. External Debt by Creditors, 2024
(In Percent of PPG External Debt)



Sources: Central Bank of Timor-Leste; Ministry of Finance of Timor-Leste; and IMF Staff Estimates.

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[4] The PF constitutes the main financing source for the budget. The PF's estimated sustainable income (ESI) is 3 percent of total petroleum wealth (sum of the PF balance and the net present value of expected future petroleum revenue). The revenue rule—enshrined in the PF Law—limits the withdrawal for budget purpose from the Petroleum Fund up to the ESI. Withdrawals exceeding the ESI can be made with the approval of Parliament.

[5] The PF Law's debt rule sets a ceiling on the cost of external borrowing at 3 percent and requires the government to benchmark the costs of external borrowing with the PF's average rate of investment returns.

BACKGROUND ON MACRO FORECASTS

4. **Timor-Leste faces large and pressing development challenges**. Despite notable socio-economic achievements since gaining independence in 2002, Timor-Leste remains a fragile post-conflict state with weak human and institutional capacity, large infrastructure gaps, and high dependence on revenues from the PF. GNI per capita in current USD (Atlas method) was $1,560 in 2024, classified by the World Bank as lower middle-income, and well below the threshold of $4,496 to be classified as an upper-middle income country. While the poverty rate (based on the national poverty line) declined from 50.4 percent in 2007 to 41.8 percent in 2014, it is thought to be among the highest in the region, and acute food insecurity continues to affect a quarter of the population (World Food Program 2024). Timor-Leste is vulnerable to natural disasters including floods, whose frequency and severity are expected to increase with climate change (IMF 2022). Timor-Leste joined the WTO in August 2024 and has been accepted to join ASEAN as a full member in October 2025.

5. **This debt sustainability analysis is based on the macroeconomic projections underlying the 2025 Article IV consultation.** Recent macro-fiscal developments have been mixed compared to the 2024 Article IV debt sustainability analysis (Text Table 2). The following revisions were made to reflect recent developments and the latest data:

- The outturn of the Petroleum Fund's outstanding balance at end-2024 is higher than the estimate in the previous DSA, mainly due to stronger-than-estimated valuation gains.

- The estimate of non-oil GDP growth in 2024 (4.1 percent) was higher than the estimate in the previous DSA (3.5 percent), driven by higher-than-expected public capital spending towards the end of 2024, with an execution rate outturn of 76 percent (relative to 60 percent assumed in the previous DSA).

- The fiscal deficit in 2024 (45 percent of non-oil GDP) was somewhat larger than previously estimated due to the larger-than-expected public spending.

Text Table 2. Timor-Leste: Macroeconomic and Fiscal Assumptions: Current and 2024 Article IV

	Current (2025 Article IV)				Previous (2024 Article IV)			
	2024	2025	2030	2044	2024	2025	2030	2044
Real non-oil GDP growth (in percent)	4.1	3.9	3.2	3.2	3.5	3.4	3.0	3.0
CPI inflation	2.1	0.9	2.0	2.0	2.2	1.5	2.0	2.0
Revenue (excl. grants, percent of non-oil GDP)	39.0	38.7	27.3	13.2	39.7	37.6	26.1	12.5
Government expenditure (percent of non-oil GDP)	84.1	90.2	79.1	70.4	83.1	86.8	76.4	53.3
Recurrent	66.7	73.3	63.0	56.9	69.8	73.6	62.5	41.3
Capital	17.4	16.9	16.1	13.6	13.3	13.2	13.9	12.0
Net lending/borrowing (percent of non-oil GDP)	45.0	51.5	51.8	57.3	43.3	49.2	50.2	39.9
Net incurrence of liabilities (percent of non-oil GDP)	0.2	1.3	0.7	57.1	0.4	1.3	1.1	39.9
Petroleum Fund balance (USD million)	18,274	17,746	12,807	0	18,078	17,402	12,436	0
Current account balance (percent of non-oil GDP)	-29.0	-31.8	-33.9	-34.0	-10.1	-24.9	-33.7	-28.0

Sources: Timor-Leste Authorities; and IMF Staff Estimates and Projections.

Text Table 3. Timor-Leste: Main Macroeconomic Projections, 2022-30

	2022	2023	2024 Est.	2025 Proj.	2026 Proj.	2027 Proj.	2028 Proj.	2029 Proj.	2030 Proj.
	(Annual percent change)								
Real sector									
Real Non-oil GDP 1/	4.0	2.4	4.1	3.9	3.3	3.2	3.2	3.2	3.2
Real Non-oil GDP per capita	2.2	1.3	3.0	2.6	2.0	1.9	1.8	1.7	1.7
CPI (annual average)	7.0	8.4	2.1	0.9	1.8	2.0	2.0	2.0	2.0
CPI (end-period)	6.9	8.7	-0.4	1.9	1.7	2.0	2.0	2.0	2.0
	(In percent of Non-oil GDP, unless otherwise indicated) 1/								
Central government operations									
Revenue	58.3	50.7	48.9	45.4	42.4	39.5	36.6	33.9	31.4
Domestic revenue	12.0	13.1	12.2	12.2	11.9	12.0	12.0	12.1	12.3
Estimated Sustainable Income (ESI)	33.1	27.2	26.8	26.5	24.1	21.8	19.5	17.2	15.0
Grants	13.2	10.4	9.9	6.7	6.4	5.7	5.1	4.6	4.1
Expenditure	114.7	90.8	94.0	97.0	92.5	90.1	87.9	85.5	83.3
Recurrent	90.6	68.6	66.7	73.3	69.6	67.9	66.2	64.6	63.0
Net acquisition of nonfinancial assets	10.9	11.8	17.4	16.9	16.5	16.5	16.5	16.3	16.1
Donor project	13.2	10.4	9.9	6.7	6.4	5.7	5.1	4.6	4.1
Net lending/borrowing	-56.4	-40.1	-45.0	-51.5	-50.1	-50.6	-51.2	-51.6	-51.8
	(Annual percent change, unless otherwise indicated) 1/								
Money and credit									
Deposits	8.6	2.5	7.3	6.8	6.2	6.1	6.1	6.1	6.1
Credit to the private sector	34.5	20.6	31.8	22.6	12.3	6.1	6.1	6.1	6.1
Lending interest rate (percent, end of period)	11.0	10.7	10.5	...	...	...	...	...	...
	(In percent of Non-oil GDP, unless otherwise indicated) 1/								
Balance of payments									
Current account balance	24.3	-9.8	-29.0	-31.8	-32.3	-32.7	-33.3	-33.7	-33.9
Trade of Goods	60.4	-7.8	-33.0	-40.9	-40.1	-40.2	-39.4	-38.4	-37.5
Exports of goods	107.3	35.1	10.1	4.8	3.7	3.0	3.2	3.4	3.6
Imports of goods	46.9	42.9	43.1	45.8	43.8	43.2	42.6	41.8	41.1
Trade of Services	-26.3	-18.1	-16.6	-16.7	-16.5	-16.4	-15.5	-14.5	-13.6
Primary Income	-18.7	11.2	11.9	14.1	12.8	12.9	11.0	9.1	7.4
Secondary Income	8.9	4.9	8.7	11.8	11.5	11.0	10.5	10.1	9.8
Overall balance	-6.1	-2.7	-2.2	4.1	1.2	2.0	1.6	1.5	1.5
Public foreign assets (in months of imports) 2/	169.0	195.7	183.5	160.7	150.1	135.3	122.3	109.6	96.9
Exchange rates									
NEER (2010=100, period average)	156.2	161.0	163.5	...	...	...	...	...	...
REER (2010=100, period average)	159.3	170.3	172.7	...	...	...	...	...	...
Memorandum items									
Fiscal impulse (percentage point of non-oil GDP) 3/	-7.4	22.1	-4.6	-6.2	3.8	1.8	1.7	1.9	1.9
Nominal Non-oil GDP (in millions of U.S. dollars)	1,676	1,802	1,947	2,079	2,208	2,343	2,485	2,637	2,797
Nominal Non-oil GDP per capita (in U.S. dollars)	1,231	1,309	1,399	1,475	1,547	1,620	1,695	1,773	1,854
(Annual percent change)	5.4	6.3	6.9	5.5	4.9	4.7	4.6	4.6	4.6
Petroleum Fund balance (in millions of U.S. dollars) 4/	17,273	18,288	18,274	17,746	17,054	16,145	15,133	14,022	12,807
(In percent of Non-oil GDP)	1,031	1,015	939	853	772	689	609	532	458
Public debt (In percent of Non-oil GDP)	15.1	14.4	13.8	14.2	14.7	14.7	14.6	14.6	14.7
Population growth (annual percent change)	1.7	1.1	1.1	1.3	1.3	1.3	1.4	1.4	1.4

Sources: Timor-Leste Authorities; and IMF Staff Estimates and Projections.
1/ Non-oil and Total GDP are equal from 2026 onwards.
2/ Includes Petroleum Fund balance and the central bank's official reserves.
3/ Change in net lending/borrowing (excluding ESI and interest payment).
4/ Closing balance.

6. The baseline macroeconomic projections and assumptions are as follows:

- ***Real non-oil GDP growth*** is estimated to have risen to 4.1 percent in 2024, supported by fiscal expansion and strong credit growth (Text Table 3). Growth will remain strong but moderate to

3.9 percent in 2025, with a large expansionary fiscal impulse providing a smaller boost to growth because the additional spending is mainly driven by transfers with a low fiscal multiplier. Relative to the previous DSA, projected growth in 2025 is revised higher to reflect the more growth-friendly fiscal composition from higher capital expenditure and stronger credit growth. The adverse impact from US tariffs (10 percent on imports from Timor-Leste) is expected to be small given the scale of Timorese exports, while the reduction in USAID spending will have a modest negative impact on growth in 2025.[6] The ASEAN accession is expected to provide a modest boost to growth starting in 2026 through stronger FDI inflows and non-oil exports. This positive effect will be more than offset by an expected drag from fiscal policy, such that growth is expected to moderate to 3.3 percent in 2026. Growth is expected to converge to 3.2 percent over the medium term, supported by favorable demographics, and without incorporating the impact of future reforms. Oil production ceased in May 2025.[7]

- ***Inflation*** fell in 2024 and remains low in 2025. From an average of 8.4 percent in 2023, inflation declined to 2.1 percent in 2024, driven by moderating global food prices and the rollback of take hikes. The moderating trend continued in 2025, with inflation reaching -0.2 percent (y/y) in May. A moderate pickup in inflation is expected during the remainder of 2025 and into 2026 as global food prices rise and the effects of a large fall in rice prices last year fade. Inflation is expected to average 0.9 percent in 2025 and to rise to 1.8 percent in 2026, before converging to 2 percent over the medium term. Over the medium to long term, growth in the GDP deflator is revised down (2¾ percent) relative to the previous DSA (3½ percent) to better align with underlying nominal wage dynamics. This results in a downward revision of nominal GDP relative to the previous DSA.

- ***The fiscal deficit*** is projected to increase from 45 percent of non-oil GDP in 2024 to 51½ percent in 2025, driven by large permanent increases in transfers to veterans and pensioners approved in the 2025 budget. For 2026, recently-approved measures such as a mandatory retirement age and civil service hiring freeze will allow for some moderation in the growth of recurrent spending. Staff expect revenue to decline moderately, reflecting a lower estimated sustainable income (ESI)—included in government revenues—as the PF balance is eroded and a reduction in import duties following ASEAN accession. Taken together, the fiscal deficit in 2026 is expected to moderate to 50 percent of GDP. Over the medium term, staff assume that public expenditures will grow around 4 percent annually in nominal terms, which is broadly aligned with recent fiscal outturns and with medium-term expenditure projections included in the 2026 Budget Strategy Statement. After a temporary dip in 2026, the fiscal deficit will edge up gradually, reaching 52 percent of GDP by 2030, as the PF's ESI declines. Over the medium and

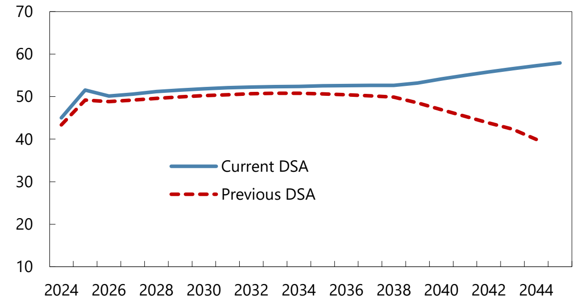
[6] Non-oil goods exports account for only 3 percent of non-oil GDP, and exports to the US make up just 1.6 percent of total exports. Timor-Leste had been among the largest recipients of USAID programs in Asia-Pacific as a share of GDP (around 1.2 percent).

[7] Non-oil and total GDP are equal from 2026 onwards. As in the 2024 DSA, the baseline does not include the development of the Greater Sunrise fields as development plans are not yet approved.

long term, the projected deficits are larger than in the previous DSA: spending ratios are now higher as the nominal GDP levels are revised down and capital spending is revised up.[8]

- ***The current account deficit*** is expected to remain around 31 percent of non-oil GDP in 2025 and will deteriorate moderately, reflecting the projected fiscal path, dwindling oil revenues, strong imports of goods and services, and limited exports.[9] Remittances are assumed to grow in line with non-oil GDP.

Text Figure 4. Fiscal Deficit
(In Percent of Non-Oil GDP)



Source: IMF Staff Estimates.

- ***External financing*** consists of concessional loans from official creditors throughout most of the projection horizon. Concessional borrowing in 2025 is estimated around 2.2 percent of non-oil GDP after which it will decline modestly, in line with updated borrowing plans shared by the authorities. The depletion of the PF in 2038 opens a sizable financing gap as access to concessional loans is limited. A technical assumption is made such that the remaining financing gap is closed by external non-concessional loans.[10] No private external borrowing is assumed, in line with existing data. Timor-Leste does not have exceptional financing such as accumulation of arrears. There is no domestic financing assumed in the baseline, though the government has expressed an interest in developing an issuance program for government bills in the local market.

- ***The grant element of loans*** is assumed to decline moderately in the medium term as the economy develops. The average maturity and grace periods of the new external loans are broadly similar to existing loans, though the baseline incorporates access to IDA Shorter Maturity Loans (SMLs) during 2023-25.[11] Other assumptions include that no off-budget debt is accumulated, including by state-owned enterprises in line with existing legislation.

- ***Natural disasters and climate change vulnerability.*** By assuming medium-to-long-term growth of 3.2 percent that is broadly consistent with past performance, the baseline assumes that Timor-Leste will be impacted by a similar frequency and intensity of natural disasters as in

[8] In the long term, the larger deficit is also due to higher interest payments from loans to close the financing gap once the PF depletes.

[9] Following a downturn in 2024, non-oil exports in 2025 are expected to revert back to around levels observed during 2022-23. Over the medium to long terms, there would be additional boost coming from the ASEAN accession. Imports are assumed to grow in the medium and long-term following trends that are consistent with historical outturn and also with the path of fiscal deficits.

[10] The terms of the external non-concessional loans are: 5 percent interest rate, 20-year grace period, and 40-year maturity.

[11] For FY25, SMLs comprise approximately 24 percent of Timor-Leste's IDA country allocation. SMLs have a 12-year final maturity, a 6-year grace period, and zero interest or service charge.

the recent past.[12] Since 2001, the country has been affected by 14 natural disasters (EM-DAT database). Increased frequency and severity of natural disasters due to climate change (¶4) pose a downside risk to long-term growth.[13]

7. **The baseline fiscal scenario assumes lower spending than approved under the 2025 budget, reflecting recent rates of budget execution.** Recurrent spending during 2025 is assumed to be around 94 percent of the budgeted amount. The execution rate of capital expenditure is expected to be lower (around 79 percent, which is higher than 62 percent assumed in the previous DSA). The execution rate for capital expenditure is assumed to rise gradually over the medium term as PFM reforms advance. An annual nominal investment return on the PF of around 4.5 percent is assumed during 2025-30—in line with its average returns over 2005–24—after which a smaller return of 4 percent is assumed to reflect a shift into more liquid investments as the PF balance falls.

- Government revenues (which include the ESI from the PF) are projected to decline from 39 percent of non-oil GDP in 2024 to about 27 percent in 2030, and further to about 13 percent by 2045. In the baseline, there is a gradual erosion in the balance of the PF that reduces its estimated sustainable income. The baseline assumes the domestic revenue ratio rises by around 1 percentage point by 2035 as tax administration improves.

- After slowing in 2026 (¶6), recurrent spending is projected to increase by 3.5 percent each year until around the end of 2030s, broadly in line with projected population growth and inflation. Subsequently, it is expected to grow at a faster pace as interest payments rise from loans to close the financing gap once the PF depletes. Capital spending is projected to increase at an average annual rate of around 5 percent over the medium to long term, reflecting the government's prioritization of public investment.

- As the government relies on withdrawals from the PF to meet its financing needs, the PF balance falls to $12¾ billion by 2030. The PF is fully depleted by 2038—unchanged from the previous DSA—after which it is assumed that the government relies on external debt to finance fiscal deficits.[14]

- Outstanding external debt as a share of GDP is projected to average 14½ percent over the medium term. Once the PF fully depletes in 2038, external borrowing is assumed to be the main source of financing of the fiscal deficit, with the stock of external debt rising to around 365 percent of GDP by 2045 under the baseline.

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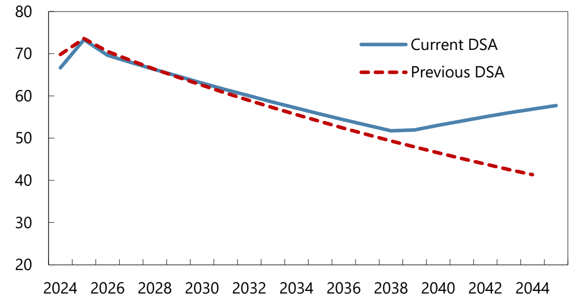
[12] Non-oil real GDP growth averaged around 3.2 percent during 2010-19.

[13] There are, however, potential upsides with larger growth from: ASEAN accession as the reforms are fully implemented, investment diversion to Timor-Leste in the context of deepening geoeconomic fragmentation, and the development of Greater Sunrise,

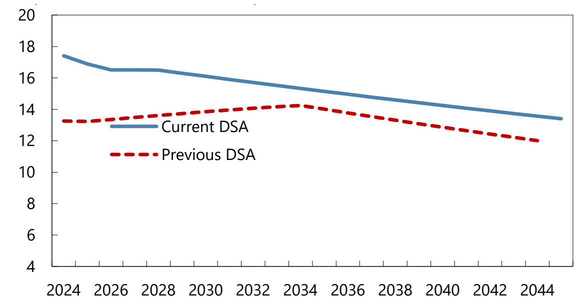
[14] According to the Budget Strategy Statement for 2026, the Ministry of Finance estimates the Petroleum Fund to be fully depleted by 2038 (aligned with staff's assessment).

Text Figure 5. Recurrent Spending
(In Percent of Non-Oil GDP)



Source: IMF Staff Estimates.

Text Figure 6. Capital Spending
(In Percent of Non-Oil GDP)



Source: IMF Staff Estimates.

8. **While the baseline growth forecast is identified as potentially pessimistic, there are plausible and relevant factors that suggest it does not warrant adjustments.** A deterioration of the primary balance by -5½ percentage points of GDP between 2024 and 2027 is mainly driven by higher transfers included in the 2025 budget. The relatively modest growth—despite the large expansionary impulse—in 2025 reflects a low growth multiplier associated with these transfer schemes because much of their proceeds are spent on imports. In addition, US tariffs and the reduction in US development assistance are expected to have a modest negative impact on growth. Growth in public investment is expected to contribute about one-third of GDP growth over the medium term, which is somewhat larger relative to the previous DSA.

9. **Under staff's reform scenario—which is broadly consistent with the scenario that has been presented in previous DSAs—the following policy actions are adopted to safeguard long-term fiscal sustainability:**

- ***A plan to achieve a sustainable fiscal position by 2035.*** More moderate levels of spending coupled with higher domestic revenue gradually unwind fiscal imbalances and align withdrawals from the PF with its sustainable income. A growth-friendly fiscal composition and structural reforms would boost growth in the reform scenario, helping to reduce deficit and debt ratios. Relative to the previous DSA, the consolidation effort is more evenly spread over the 10-year horizon for greater realism. Fiscal deficits in the medium-term (2030) would be around 27 percent of GDP, compared to 51 percent under the baseline. The reform scenario preserves the PF from 2036 onwards, generating a permanent flow of investment income to support government expenditures that puts fiscal and debt sustainability on a solid footing.

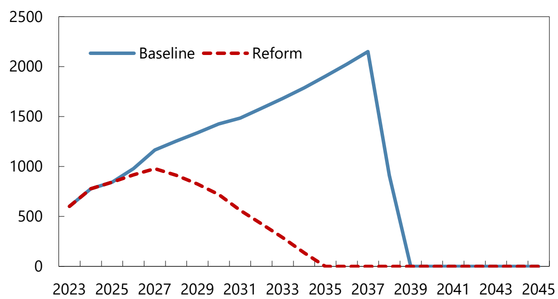
- ***Domestic revenue mobilization.*** Staff calls for urgent implementation of VAT by January 2027 (in line with the government's timeline) which would generate additional revenues of about 2½ percentage points of GDP by 2035.[15] Other tax policies over the medium term—strengthening of tax compliance through tax administration reforms and further tax policy measures (e.g., increase corporate income tax rates, adopting a property tax) would yield an additional 2½

[15] This assumes that a 10 percent VAT rate is applied to a tax base corresponding to 10 percent of household consumption in 2027. The tax base is assumed to gradually rise with 45 percent of household consumption subject to the 10 percent VAT rate by the mid-2030s.

percentage points of revenues. Taken together, domestic revenue would increase to the ASEAN average of 17 percent of GDP by 2035. Along with these initiatives, structural reforms (¶10) are estimated to yield additional revenue growth of about 3½ percent (annualized average) during 2026-45 relative to the baseline.

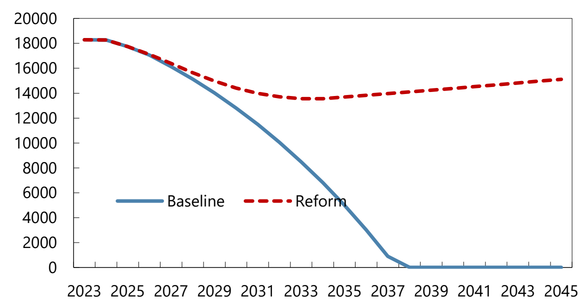
- ***Expenditure moderation.*** Recurrent spending (wages and salaries; transfers) declines gradually to around pre-pandemic levels by 2035. The quality of government spending is improved by allocating more spending towards human capital development and a strengthened social safety net. Capital expenditure grows at an average annual rate of around 4 percent (considering the absorptive capacity of the economy) and its growth dividend is boosted through rigorous cost-benefit analysis.

Text Figure 7. PF Excess Withdrawal
(In Millions of US Dollars)



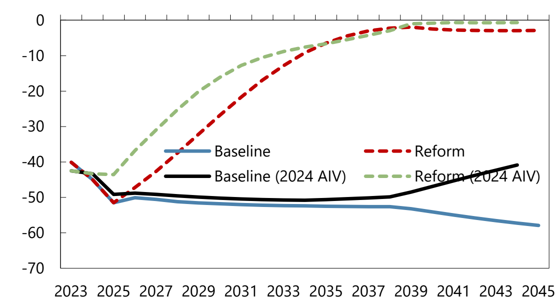
Source: IMF Staff Estimates.

Text Figure 8. PF Balance
(In Millions of US Dollars)



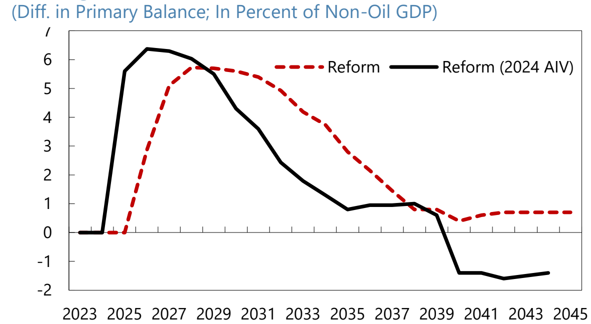
Source: IMF Staff Estimates.

Text Figure 9. Fiscal Balance
(In Percent of Non-Oil GDP)



Source: IMF Staff Estimates.

Text Figure 10. Added Fiscal Effort for Reforms
(Diff. in Primary Balance; In Percent of Non-Oil GDP)



Source: IMF Staff Estimates.

- ***Public external borrowing via concessional loans*** is raised to finance public investment in infrastructure projects and to preserve the PF balance. With the fiscal position improved and the PF balance stabilized by 2035, the baseline's increase in external borrowing over 2038–45 does not materialize.

- ***Structural reforms*** are implemented to improve the business environment, raise productivity, and promote private sector development. These include: (i) improving the business environment by advancing land titling and adopting corporate accounting standards; (ii) financial sector reforms to encourage lending, including a new banking law, insolvency regime, and framework for collateralization of loans using movable property; (iii) further progress in regional integration;

(iv) boosting human capital by improving education quality and strengthening vocational education and training; and (v) strengthening governance and enforcement of contracts.

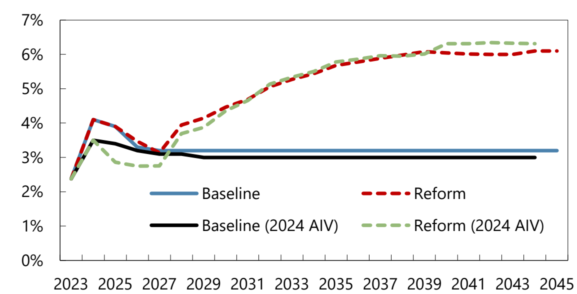
Text Table 4. Timor-Leste: Macroeconomic Assumptions: Baseline and Reform Scenarios

			Baseline				Reform			
	2024	2025	2026	2030	2035	2045	2026	2030	2035	2045
	Percent of non-oil GDP (unless noted otherwise)									
Real non-oil GDP growth (in percent)	4.1	3.9	3.3	3.2	3.2	3.2	3.5	4.5	5.7	6.1
Revenue (excl. grants)	39.0	38.7	36.0	27.3	18.3	13.2	36.4	31.1	26.6	21.5
Domestic revenue	12.2	12.2	11.9	12.3	12.9	13.2	12.3	15.4	17.0	17.0
Estimated Sustainable Income	26.8	26.5	24.1	15.0	5.4	0.0	24.1	15.6	9.6	4.5
Expenditure	84.1	90.2	86.1	79.1	70.9	71.1	83.6	57.9	33.0	24.4
Recurrent	66.7	73.3	69.6	63.0	55.7	57.7	67.1	43.1	20.8	16.1
Capital	17.4	16.9	16.5	16.1	15.1	13.4	16.5	14.8	12.2	8.3
Fiscal balance	-45.0	-51.5	-50.1	-51.8	-52.5	-57.9	-47.2	-26.8	-6.5	-2.9
PF excess withdrawals	40.0	40.6	44.3	51.0	50.6	0.0	41.4	25.0	0.0	0.0
PF closing balance										
$ million	18,274	17,746	17,054	12,807	4,991	0	17,116	14,407	13,687	15,118
Percent of non-oil GDP	939	853	772	458	133	0	774	501	322	152
Current account balance	-29.0	-31.8	-32.3	-33.9	-31.9	-34.0	-30.5	-21.0	-5.3	0.0

Source: IMF Staff Estimates.

10. The macro-fiscal outlook is significantly stronger under the reform scenario (Text Table 4):

Text Figure 11. Real Non-Oil GDP Growth
(In Percent)



Source: IMF Staff Estimates.

- ***Real non-oil GDP*** is somewhat lower than in the baseline in the short run owing to the output costs of fiscal consolidation.[16] However, these are mitigated by the improvement in the composition and quality of public spending, and by structural reforms to promote the expansion of the private sector.[17] With sustained improvement in productivity and competitiveness, the economic impact of structural reforms is higher over the long term, where growth is projected to reach around 6 percent by 2045—significantly higher than under the baseline.

- ***The current account deficit*** over the medium and long term is projected to be considerably smaller in comparison to the baseline scenario. This reflects both higher exports (in line with economic diversification) and lower imports of goods and services (in line with lower fiscal

[16] Fiscal multiplier in Timor-Leste is thought to be low, with estimates of around 0.1 (2022 Article IV staff report) and 0.2 (World Bank 2021). For a detailed discussion, see Box 1 in the 2023 Article IV staff report.

[17] The positive impact of structural reforms often takes time to materialize and could entail short-term costs. This is consistent with the macroeconomic impact of structural reforms seen across various IMF-supported programs (see Andritzky and others 2021). Structural reforms are estimated to have a positive impact on real GDP growth of around 0.3 percentage points in the medium-term, and 2½ percentage points over the long run.

spending), though the improvement would be partially offset by higher capital imports related to physical investment.

COUNTRY CLASSIFICATION AND DETERMINATION OF SCENARIO STRESS TESTS

11. The assessment of debt-carrying capacity has been upgraded to medium (Text Table 5). The Composite Indicator (CI) index of 2.73 is now above the 2.69 threshold across two consecutive vintages. Thus, the final debt carrying capacity has been upgraded to medium from weak in the previous DSA.[18] Accordingly, the debt sustainability analysis thresholds applicable for Timor-Leste are now: 40 percent for the present value of the external debt-to-GDP ratio, 180 percent for the present value of the external debt-to-exports ratio, 15 percent for the external debt service to-exports ratio, 18 percent for the external debt service-to-revenue ratio, and 55 percent for the present value of the public debt-to-GDP ratio.

12. The size of the shocks to non-debt creating flows (foreign direct investment; FDI) and to export growth was customized to account for temporary and structural factors. First, there are large outflows in foreign direct investment during 2019-22, mainly reflecting Timor Gap's purchasing an increased stake in the Greater Sunrise joint venture.[19] To prevent these temporary flows from inflating the FDI-to-GDP ratio shock, the historical average and standard deviation correspond to 2014–24 (excluding 2019-22). Second, to account for the fact that petroleum production is stalling, the export stress test was customized to reflect a non-fuel export structure that is now expected in the baseline projection.

13. A tailored stress test on natural disasters is added to the sensitivity analysis given that Timor-Leste is prone to natural disasters.[20] The default setting (10 percent of GDP increase in debt stock, 1.5 percent decline in real GDP growth, and 3 percent decline in exports growth) was modified so that the stress test reflects Timor-Leste's most recent experience.[21] The tailored stress test assumes that a natural disaster occurs in 2026 and that new debt is contracted to finance repairs, increasing the public debt-to-GDP ratio by 14 percent in 2025, which is equivalent to the

[18] In the previous DSA, the CI score of 2.71 signaled a potential upgrade to 'medium' debt-carrying capacity but the final assessment remained 'weak' because the CI in the previous vintage was below the 2.69 threshold. The final debt-carrying capacity is revised only if two consecutive signals suggest the need for an upgrade or downgrade. The Composite Indicator is based on a weighted average of the country's real GDP growth, remittances, international reserves, world growth, and the Country Policy and Institutional Assessment score. The assessment is calculated based on the April 2025 World Economic Outlook and the 2022 Country Policy and Institutional Assessment.

[19] Timor Gap is an autonomous government agency with the mandate to conduct oil and gas business on behalf of the Timor-Leste government. The FDI outflows mainly reflects Timor Gap's buy-out of the combined interests in Greater Sunrise held by Shell and ConocoPhillips.

[20] In terms of assessing the impact of natural disasters, the stress test is over and above the baseline which implicitly has incorporated the historical incidence of natural disasters.

[21] See Selected Issues Paper for the 2022 Article IV consultation.

estimated damages from the April 2021 cyclone and floods.[22] Real GDP and exports growth decline by 3 percent and 4 percent in 2025, respectively, relative to the baseline.[23]

Text Table 5. Timor-Leste: Timor-Leste Debt Carrying Capacity and Thresholds

Debt Carrying Capacity and Thresholds

Country	Timor-Leste
Country Code	537

Debt Carrying Capacity	Medium

Final	Classification based on current vintage	Classification based on the previous vintage	Classification based on the two previous vintage
Medium	Medium 2.73	Medium 2.71	Medium 2.71

APPLICABLE THRESHOLDS	
EXTERNAL debt burden thresholds	
PV of debt in % of	
Exports	180
GDP	40
Debt service in % of	
Exports	15
Revenue	18

APPLICABLE THRESHOLDS	
TOTAL public debt benchmark	
PV of total public debt in percent of GDP	55

14. **The stress test on commodity price shocks is not triggered.** As petroleum production has ceased and fuel exports have come to a halt, commodity exports will predominantly comprise coffee going forward. Commodities would comprise, on average, only about 20 percent of total exports of goods and services in the projection horizon, while services exports dominate. This is less than the 50 percent threshold that would trigger the commodity price stress test.

ASSESSMENT

External Debt Sustainability Analysis

15. **Under the baseline scenario, one of Timor-Leste's external debt indicators breaches the respective debt sustainability analysis threshold in the medium-term (Figure 1).**[24] Despite the

[22] See World Bank (2021) report on "Learning from Tropical Cyclone Seroja: Building Disaster and Climate Resilience in Timor-Leste."

[23] The damages from Tropical Cyclone Seroja in April 2021 are estimated at US$245 million, which is the largest of any storm in the historical record. According to the International Disaster Database, the economic damages from previous natural disasters in Timor-Leste range from US$4 million to US$20 million.

[24] Negative values in the historical scenario in Figures 1 and 2 are omitted and are due to large negative residuals, mainly from Petroleum Fund withdrawals.

higher threshold (relative to the previous DSA), the debt service to exports ratio breaches the indicative threshold of 15 percent during 2027-30. The breach reflects large debt servicing during 2027-30 as amortization and interest payments are brought forward according to the authorities' latest debt management plans. All other indicators remain well below their relevant thresholds until the PF's full depletion in 2038. Over the medium term, the present value of external debt is projected to remain broadly stable around 8 percent but will increase sharply once the PF is depleted.

16. **Debt dynamics show vulnerability to shocks from non-debt flows.** Standardized stress tests show that a shock to non-debt flows (reflecting outflows of FDI and current transfers) are the most extreme shocks to the debt trajectory, also causing breaches of the thresholds for debt service to exports and the present value of debt to exports. Debt dynamics show vulnerability to shocks from natural disasters, and limited vulnerabilities from the contingent liabilities (¶12). Timor-Leste's high vulnerability to shocks reflects its very small exports and revenue bases.

Public Debt Sustainability Analysis

17. **Under the baseline scenario, the present value of the public debt-to-GDP ratio remains below the threshold level until around when the PF is fully depleted** (Figure 2). The PF is depleted towards the end of the twenty-year projection horizon, leading to all debt indicators breaching their respective debt sustainability analysis thresholds (Figure 1). This is projected to lead to a substantial jump in external borrowing resulting in a breach of all debt thresholds beyond 2038. Public debt (as share of GDP and revenue) is vulnerable to growth shocks, with the expected breach of the threshold occurring a few years earlier under the lower-growth scenario than under the baseline. Debt servicing (as share of revenue) is vulnerable to shocks to non-debt flows (calibrated based on historical FDI outflows ¶12).

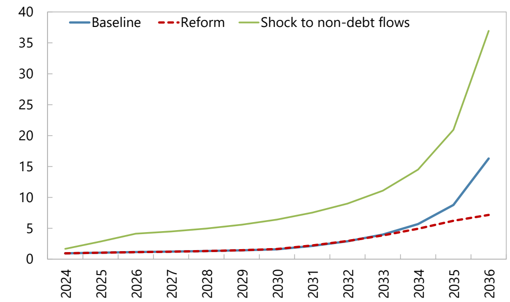
Reform Scenario

18. **Staff's reform scenario illustrates how fiscal consolidation coupled with structural reforms can ensure long-term fiscal and debt sustainability.** The introduction of reforms significantly improves debt dynamics—the paths of debt burden indicators are better—over the next twenty years. The duration of the breach of the debt service-to-exports ratio in the medium-term is also smaller compared to the baseline. Importantly, the PF is stabilized and generates a sustainable stream of resources to finance the budget.

RISK RATING AND VULNERABILITIES

19. **While the debt sustainability analysis assigns Timor-Leste a mechanical rating of high risk of debt distress, judgement is applied to upgrade the rating to moderate.** Under the baseline scenario, the present value of debt service to exports breaches the benchmark over 2027-29, generating a mechanical rating of high risk of debt distress. The use of judgement invokes the country's large, liquid, and accessible net foreign assets saved in the PF, which serves as a strong mitigating factor allowing Timor-Leste to carry and service debt until the PF is depleted, even under

Text Figure 12. Petroleum Fund Buffer
(Present Value of Public External Debt-to-Petroleum Fund Balance Ratio, in Percent)



Source: IMF Staff Calculations.

the scenario of the most extreme shock case (i.e., shock to non-debt flows). The present value of debt remains under 20 percent of the projected value of the PF until 2036 under the baseline (Text Figure 12). Under the scenario of the most extreme shock (i.e., shock to non-debt flows), the present value of debt-to-PF assets is less than 40 percent by 2036. There is still time for the authorities to undertake the necessary policy adjustment to stabilize the Petroleum Fund balance (see ¶9). Conditional on the implementation of these reforms, the debt is sustainable. With this, the risk of debt distress—both external and overall—is assessed as "moderate" with limited space to absorb shocks (see Figure 5), which is unchanged from the 2024 DSA rating.

20. The projected depletion of the Petroleum Fund within the 20-year horizon under current policies makes the case for gradual fiscal consolidation and implementation of important structural reforms. The projection horizon displays the next 20 years which reflects long-term considerations related to the expected depletion of the Petroleum Fund. Although the Petroleum Fund is projected to be depleted by 2038 under the baseline, it could be depleted much faster—for instance, with a lower nominal investment return of 2.5 percent, it would be depleted by 2036. Fiscal consolidation aiming to achieve a sustainable fiscal position by 2035, supported by expenditure rationalization and domestic revenue mobilization, would allow decreasing withdrawals from the Petroleum Fund until they reach a level consistent with preserving the Petroleum Fund. This process should go hand in hand with structural reforms to improve the business environment and governance, enhance competitiveness, and strengthen the external sector position. Political consensus is a crucial element that is needed to implement the reform scenario on a sustained basis.

21. Resilience to natural disasters and climate change should be enhanced, including by prioritizing climate adaptation investment. Rationalizing and prioritizing public spending towards capital spending should encompass building climate-proof infrastructure, which will require developing a pipeline of projects. Given Timor-Leste's limited fiscal space, it would be important to accommodate this spending within the fiscal envelope as in the reform scenario, and to finance investments with concessional resources.

22. The IMF and the World Bank stand ready to support the authorities in their efforts to ensure fiscal and debt sustainability. Staff welcomes the increased fiscal transparency in the 2025 budget that features more granular information on recurrent spending, including transfer programs and the public sector wage bill. This should be supplemented by ongoing initiatives to improve reporting by line ministries, including the establishment of government accounting standards. Ongoing technical assistance on public financial management reforms by the IMF Fiscal Affairs Department and on revenue administration by the IMF Pacific Financial Technical Assistance Center will support the authorities in ensuring fiscal and debt sustainability. Full implementation of the PFM law (promulgated in April 2025) and the new procurement decree law (expected to take effect in early 2026) should improve budget planning and execution as well as project selection. Moreover, the World Bank, IMF, and the International Finance Corporation (IFC) are providing technical assistance to improve the financial sector and prospects for private sector development.

23. While there is some progress, public debt management needs to be strengthened. In February 2024, with TA support from the IMF Statistics Department, the authorities for the first time began reporting Public Sector Debt Statistics (PSDS) data to the joint IMF-World Bank Quarterly Public Sector Debt statistics (QPSD) database. There is, however, scope for strengthening public debt management. External borrowing should be embedded in the debt management framework, supported by best practice debt management policies and procedures. The monitoring and reporting of fiscal risks—such as contingent liabilities related to credit guarantees, pensions, public corporations, and public-private partnerships—should also be improved.

AUTHORITIES' VIEWS

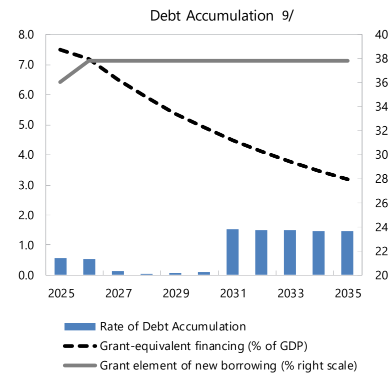
24. The authorities broadly agreed with staff's debt sustainability analysis and underscored their commitment towards long-term sustainability. Under tighter spending plans as proposed in the Budget Strategy for 2026, they estimated the Petroleum Fund to be fully depleted by 2038. They agreed that there was scope to reduce recurrent spending, noting measures they have recently introduced (mandatory retirement age, civil service hiring freeze) and are contemplating (reduced public transfers to SOEs with healthy cash balance positions, better targeting of transfers through a digital ID). Their fiscal strategy focuses on executing high-impact investment projects, improving budget execution, and strengthening private sector participation. To this end, they remain committed to the full implementation of ongoing fiscal reforms in procurement and PFM. They agreed that mobilizing domestic revenues would also help and are committed to implementing a VAT by January 2027. The authorities are confident that risks associated with Greater Sunrise can be prudently managed by all stakeholders, allowing for the timely development of a project that will bring broad benefits to the Timorese economy including substantial fiscal revenue.

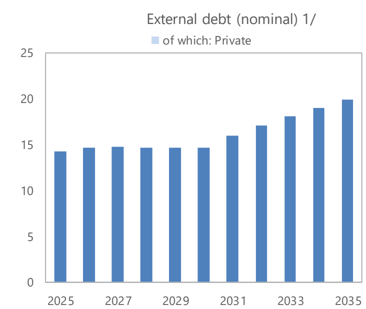
Table 1. Timor-Leste: External Debt Sustainability Framework, Baseline Scenario, 2022-2045

(In Percent of Non-Oil GDP, unless otherwise Indicated)

	Actual			Projections								Average 8/	
	2022	2023	2024	2025	2026	2027	2028	2029	2030	2035	2045	Historical	Projections
External debt (nominal) 1/	**15.1**	**14.4**	**13.8**	**14.2**	**14.7**	**14.7**	**14.6**	**14.6**	**14.7**	**19.9**	**364.5**	**10.7**	**16.1**
of which: public and publicly guaranteed (PPG)	**15.1**	**14.4**	**13.8**	**14.2**	**14.7**	**14.7**	**14.6**	**14.6**	**14.7**	**19.9**	**364.5**	**10.7**	**16.1**
Change in external debt	0.0	-0.8	-0.6	0.4	0.4	0.0	-0.1	0.0	0.0	0.9	39.2		
Identified net debt-creating flows	**-8.2**	**1.5**	**16.3**	**49.4**	**28.6**	**29.0**	**29.6**	**29.9**	**30.1**	**27.9**	**20.2**	**-4.0**	**31.1**
Non-interest current account deficit	**-24.6**	**9.4**	**28.6**	**53.3**	**32.4**	**32.9**	**33.5**	**33.8**	**34.1**	**32.1**	**19.4**	**-10.4**	**35.1**
Deficit in balance of goods and services	-48.8	7.8	30.4	39.8	44.9	44.5	42.0	38.4	38.2	31.8	-33.8	**-2.8**	**38.2**
Exports	110.9	39.0	14.3	9.0	8.2	7.9	8.6	9.3	10.1	15.6	33.8		
Imports	62.1	46.8	44.6	48.8	53.0	52.5	50.6	47.8	48.3	47.4	0.0		
Net current transfers (negative = inflow)	-8.9	-4.9	-8.7	-11.8	-11.5	-11.0	-10.5	-10.1	-9.8	-8.7	-8.2	**-4.8**	**-10.0**
of which: official	-13.2	-10.4	-9.9	-6.7	-6.4	-5.7	-5.1	-4.6	-4.1	-2.4	-0.8		
Other current account flows (negative = net inflow)	33.1	6.4	6.9	25.3	-0.9	-0.7	2.0	5.5	5.7	9.0	61.4	**-2.8**	**6.9**
Net FDI (negative = inflow)	**17.1**	**-7.3**	**-11.7**	**-3.8**	**-3.8**	**-3.8**	**-3.8**	**-3.8**	**-3.8**	**-3.9**	**-3.9**	**6.5**	**-3.8**
Endogenous debt dynamics 2/	**-0.8**	**-0.6**	**-0.6**	**-0.1**	**0.0**	**-0.1**	**-0.1**	**-0.1**	**-0.1**	**-0.3**	**4.8**		
Contribution from nominal interest rate	0.3	0.5	0.4	0.4	0.4	0.4	0.4	0.4	0.3	0.3	14.6		
Contribution from real GDP growth	-0.6	-0.3	-0.5	-0.5	-0.4	-0.4	-0.4	-0.4	-0.4	-0.6	-9.8		
Contribution from price and exchange rate changes	-0.5	-0.7	-0.5	...	...	...	...	...	...	...	...		
Residual 3/	**8.2**	**-2.2**	**-16.8**	**-49.0**	**-28.1**	**-29.0**	**-29.6**	**-29.9**	**-30.1**	**-27.1**	**19.0**	**5.3**	**-30.6**
of which: exceptional financing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Sustainability indicators													
PV of PPG external debt-to-GDP ratio	**...**	**...**	**9.0**	**8.9**	**8.9**	**8.5**	**8.0**	**7.6**	**7.3**	**11.7**	**356.2**		
PV of PPG external debt-to-exports ratio	**...**	**...**	**62.8**	**99.2**	**108.9**	**107.6**	**93.6**	**82.0**	**72.4**	**74.9**	**1053.3**		
PPG debt service-to-exports ratio	**0.6**	**3.0**	**7.9**	**14.0**	**15.3**	**20.4**	**19.6**	**17.5**	**15.8**	**3.4**	**45.0**		
PPG debt service-to-revenue ratio	**1.4**	**2.9**	**2.9**	**3.3**	**3.5**	**4.8**	**5.4**	**5.6**	**5.8**	**2.9**	**115.6**		
Gross external financing need (Million of U.S. dollars)	-114.4	58.4	350.8	1056.2	659.8	718.3	779.1	834.5	890.5	1080.7	2083.9		
Key macroeconomic assumptions													
Real GDP growth (in percent)	4.0	2.4	4.1	3.9	3.3	3.2	3.2	3.2	3.2	3.2	3.2	**0.9**	**3.3**
GDP deflator in US dollar terms (change in percent)	3.2	5.0	3.8	2.8	2.8	2.8	2.8	2.8	2.8	2.8	2.8	**2.2**	**2.8**
Effective interest rate (percent) 4/	1.9	3.5	3.3	3.2	3.0	2.7	2.6	2.5	2.4	1.4	4.8	**1.5**	**2.1**
Growth of exports of G&S (US dollar terms, in percent)	-34.4	-62.2	-60.4	-32.6	-3.6	2.6	15.3	15.0	14.8	15.8	14.8	**1.5**	**8.2**
Growth of imports of G&S (US dollar terms, in percent)	-1.9	-19.0	3.2	16.8	15.4	4.9	2.4	0.1	7.2	5.7	-100.0	**-3.4**	**6.8**
Grant element of new public sector borrowing (in percent)	...	...	...	36.1	37.8	37.8	37.8	37.8	37.8	37.8	1.4	**...**	**37.6**
Government revenues (excluding grants, in percent of GDP)	45.1	40.3	39.0	38.7	36.0	33.8	31.5	29.4	27.3	18.3	13.2	**44.5**	**27.8**
Aid flows (in Million of US dollars) 5/	221.0	186.8	192.4	149.6	152.1	145.5	139.5	134.0	128.9	108.4	86.7		
Grant-equivalent financing (in percent of GDP) 6/	...	...	...	7.5	7.2	6.5	5.9	5.4	4.9	3.2	1.6	**...**	**5.1**
Grant-equivalent financing (in percent of external financing) 6/	...	...	...	84.4	84.4	83.3	81.9	80.3	78.7	70.0	2.7	**...**	**78.3**
Nominal GDP (Million of US dollars)	1,676	1,802	1,947	2,079	2,208	2,343	2,485	2,637	2,797	3,759	6,789		
Nominal dollar GDP growth	7.3	7.5	8.1	6.8	6.2	6.1	6.1	6.1	6.1	6.1	6.1	**3.2**	**6.2**
Memorandum items:													
PV of external debt 7/	...	...	9.0	8.9	8.9	8.5	8.0	7.6	7.3	11.7	356.2		
In percent of exports	...	...	62.8	99.2	108.9	107.6	93.6	82.0	72.4	74.9	1053.3		
Total external debt service-to-exports ratio	0.6	3.0	7.9	14.0	15.3	20.4	19.6	17.5	15.8	3.4	45.0		
PV of PPG external debt (in Million of US dollars)			174.6	185.8	196.8	199.5	200.0	201.6	204.2	438.2	24186.2		
(PVt-PVt-1)/GDPt-1 (in percent)				0.6	0.5	0.1	0.0	0.1	0.1	1.4	61.0		
Non-interest current account deficit that stabilizes debt ratio	-24.6	10.1	29.2	52.9	32.0	32.8	33.5	33.8	34.0	31.3	-19.8		

Definition of external/domestic debt	**Residency-based**
Is there a material difference between the two criteria?	**No**





Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

local currency, and α= share of local currency-denominated external debt in total external debt.

3/ The residual in debt-creating flows is financed through excess withdrawals from the Petroleum Fund. Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate changes.

4/ Current-year interest payments divided by previous period debt stock.

5/ Defined as grants, concessional loans, and debt relief.

6/ Grant-equivalent financing includes grants provided directly to the government and through new borrowing (difference between the face value and the PV of new debt).

7/ Assumes that PV of private sector debt is equivalent to its face value.

8/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

9/ The grant element may be overestimated due to debt projections.

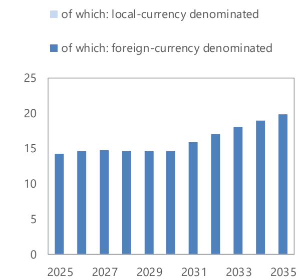
Table 2. Timor-Leste: Public Sector Debt Sustainability Framework, Baseline Scenario, 2022-2045

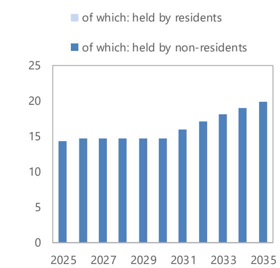
(In Percent of Non-Oil GDP, unless otherwise Indicated)

	Actual			Projections								Average 7/	
	2022	2023	2024	2025	2026	2027	2028	2029	2030	2035	2045	Historical	Projections
Public sector debt 1/	15.1	14.4	13.8	14.2	14.7	14.7	14.6	14.6	14.7	19.9	364.5	10.7	16.1
of which: external debt	15.1	14.4	13.8	14.2	14.7	14.7	14.6	14.6	14.7	19.9	364.5	10.7	16.1
of which: local-currency denominated													
Change in public sector debt	0.0	-0.8	-0.6	0.4	0.4	0.0	-0.1	0.0	0.0	0.9	39.2		
Identified debt-creating flows	55.1	39.1	44.0	50.7	49.3	49.8	50.4	50.7	51.0	51.4	39.3	39.1	50.8
Primary deficit	55.9	39.6	44.6	51.1	49.7	50.2	50.9	51.2	51.5	52.3	43.4	39.2	51.4
Revenue and grants	58.3	50.7	48.9	45.4	42.4	39.5	36.6	33.9	31.4	20.7	13.9	56.1	32.1
of which: grants	13.2	10.4	9.9	6.7	6.4	5.7	5.1	4.6	4.1	2.4	0.8		
Primary (noninterest) expenditure	114.2	90.3	93.6	96.5	92.1	89.7	87.5	85.2	82.9	73.0	57.3	95.4	83.5
Automatic debt dynamics	-0.8	-0.6	-0.6	-0.5	-0.4	-0.5	-0.5	-0.5	-0.5	-0.8	-4.1		
Contribution from interest rate/growth differential	-0.5	0.0	-0.7	-1.0	-0.5	-0.4	-0.5	-0.4	-0.4	-0.7	-1.2		
of which: contribution from average real interest rate	0.0	0.3	-0.2	-0.5	-0.1	0.0	0.0	0.0	0.1	-0.1	8.9		
of which: contribution from real GDP growth	-0.6	-0.4	-0.6	-0.5	-0.5	-0.5	-0.5	-0.5	-0.5	-0.6	-10.1		
Contribution from real exchange rate depreciation	-0.2	-0.5	0.1	...	...	...	...	...	...	...	...		
Other identified debt-creating flows	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Privatization receipts (negative)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Recognition of contingent liabilities (e.g., bank recapitalization)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Debt relief (HIPC and other)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Other debt creating or reducing flow (please specify)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Residual 2/	-55.2	-39.8	-44.6	-49.7	-48.7	-49.8	-50.5	-50.8	-51.1	-50.8	-3.0	-37.9	-50.3
Sustainability indicators													
PV of public debt-to-GDP ratio 3/	...	...	9.0	8.9	8.9	8.5	8.0	7.6	7.3	11.7	356.2		
PV of public debt-to-revenue and grants ratio	...	...	18.3	19.7	21.0	21.5	22.0	22.5	23.2	56.3	2554.1		
Debt service-to-revenue and grants ratio 4/	1.1	2.3	2.3	2.8	3.0	4.1	4.6	4.8	5.1	2.5	109.1		
Gross financing need 5/	56.3	40.3	45.8	52.4	51.0	51.8	52.5	52.9	53.1	52.8	58.6		
Key macroeconomic and fiscal assumptions													
Real GDP growth (in percent)	4.0	2.4	4.1	3.9	3.3	3.2	3.2	3.2	3.2	3.2	3.2	0.9	3.3
Average nominal interest rate on external debt (in percent)	1.9	3.5	3.3	3.2	3.0	2.7	2.6	2.5	2.4	1.4	4.8	1.5	2.1
Average real interest rate on domestic debt (in percent)	-1.3	-1.5	-0.5	0.4	0.2	-0.1	-0.2	-0.3	-0.3	-1.3	1.9	-0.6	-0.7
Real exchange rate depreciation (in percent, + indicates depreciation)	-1.5	-3.5	0.7	...	...	...	...	...	...	...	...	-0.2	...
Inflation rate (GDP deflator, in percent)	3.2	5.0	3.8	2.8	2.8	2.8	2.8	2.8	2.8	2.8	2.8	2.2	2.8
Growth of real primary spending (deflated by GDP deflator, in percent)	12.3	-19.0	7.9	7.2	-1.5	0.6	0.6	0.4	0.5	0.6	0.8	0.4	1.0
Primary deficit that stabilizes the debt-to-GDP ratio 6/	55.9	40.4	45.2	50.7	49.3	50.2	50.9	51.2	51.5	51.4	4.1	47.2	50.8
PV of contingent liabilities (not included in public sector debt)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		

Definition of external/domestic debt	**Residency-based**
Is there a material difference between the two criteria?	**No**

Public sector debt 1/





Sources: Country authorities; and staff estimates and projections.

1/ Coverage of debt: The central government, government-guaranteed debt. Definition of external debt is Residency-based.

2/ The residual in debt-creating flows is financed through excess withdrawals from the Petroleum Fund.

3/ The underlying PV of external debt-to-GDP ratio under the public DSA differs from the external DSA with the size of differences depending on exchange rates projections.

4/ Debt service is defined as the sum of interest and amortization of medium and long-term, and short-term debt.

5/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period and other debt creating/reducing flows.

6/ Defined as a primary deficit minus a change in the public debt-to-GDP ratio ((-): a primary surplus), which would stabilizes the debt ratio only in the year in question.

7/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

Table 3. Timor-Leste: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2025-2045

(In Percent)

	Projections 1/																				
	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040	2041	2042	2043	2044	2045
	PV of debt-to GDP ratio																				
Baseline	9	9	9	8	8	7	8	9	10	11	12	12	13	**44**	**94**	**142**	**189**	**233**	**276**	**317**	**356**
A. Alternative Scenarios																					
A1. Key variables at their historical averages in 2025-2045 2/	9	-18	-46	-75	-104	-134	-162	-191	-218	-243	-267	-289	-309	-292	-248	-202	-154	-104	-51	5	**64**
B. Bound Tests																					
B1. Real GDP growth	9	10	10	10	9	9	10	11	12	13	14	15	16	**54**	**115**	**174**	**231**	**285**	**337**	**387**	**435**
B2. Primary balance	9	16	23	22	21	21	21	22	22	23	23	23	24	**54**	**104**	**152**	**198**	**242**	**284**	**325**	**364**
B3. Exports	9	9	10	9	9	8	9	10	11	12	13	13	14	**45**	**96**	**144**	**191**	**236**	**279**	**321**	**360**
B4. Other flows 3/	9	20	30	29	28	28	28	29	29	28	28	27	27	**57**	**106**	**153**	**198**	**242**	**284**	**324**	**363**
B5. Depreciation	9	11	1	1	1	0	2	3	5	6	8	9	10	**50**	**113**	**174**	**233**	**289**	**343**	**395**	**445**
B6. Combination of B1-B5	9	19	22	21	20	20	21	22	22	22	23	23	23	**60**	**119**	**176**	**231**	**284**	**335**	**384**	**431**
C. Tailored Tests																					
C1. Combined contingent liabilities	9	14	13	13	12	12	13	14	14	15	16	16	17	**48**	**98**	**146**	**192**	**237**	**279**	**320**	**360**
C2. Natural disaster	9	19	19	19	19	19	20	21	22	23	24	25	26	**58**	**109**	**159**	**207**	**253**	**297**	**339**	**379**
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	40	40	40	40	40	40	40	40	40	40	40	40	40	40	40	40	40	40	40	40	40
	PV of debt-to-exports ratio																				
Baseline	99	109	108	94	82	72	76	77	77	77	75	74	72	**226**	**447**	**624**	**765**	**874**	**955**	**1014**	**1053**
A. Alternative Scenarios																					
A1. Key variables at their historical averages in 2025-2045 2/	99	-222	-584	-871	-1117	-1325	-1474	-1590	-1665	-1705	-1715	-1732	-1714	-1496	-1176	-887	-625	-389	-176	16	**190**
B. Bound Tests																					
B1. Real GDP growth	99	109	108	94	82	72	76	77	77	77	75	74	72	**226**	**447**	**624**	**765**	**874**	**955**	**1014**	**1053**
B2. Primary balance	99	**195**	**284**	**253**	**226**	**203**	**194**	**183**	172	160	148	140	131	**279**	**493**	**666**	**802**	**906**	**985**	**1040**	**1076**
B3. Exports	99	123	141	123	108	96	99	99	98	96	93	91	88	**267**	**522**	**728**	**891**	**1017**	**1112**	**1180**	**1225**
B4. Other flows 3/	99	**243**	**378**	**338**	**303**	**273**	**256**	**240**	**220**	**197**	177	162	147	**290**	**501**	**670**	**804**	**906**	**983**	**1037**	**1072**
B5. Depreciation	99	109	15	10	6	4	14	22	27	34	39	43	45	**204**	**428**	**608**	**751**	**862**	**946**	**1006**	**1047**
B6. Combination of B1-B5	99	**215**	**230**	**220**	**196**	176	169	162	151	140	130	122	114	**274**	**507**	**694**	**842**	**956**	**1041**	**1102**	**1143**
C. Tailored Tests																					
C1. Combined contingent liabilities	99	167	167	147	130	116	115	113	109	105	101	98	93	**246**	**465**	**640**	**780**	**887**	**968**	**1025**	**1063**
C2. Natural disaster	99	**232**	**241**	**221**	**203**	**187**	**184**	179	172	165	157	151	144	**300**	**525**	**706**	**849**	**959**	**1041**	**1099**	**1137**
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	180	180	180	180	180	180	180	180	180	180	180	180	180	180	180	180	180	180	180	180	180
	Debt service-to-exports ratio																				
Baseline	14	**15**	**20**	**20**	**18**	**16**	2	3	3	3	3	4	4	4	10	**20**	**28**	**34**	**39**	**42**	**45**
A. Alternative Scenarios																					
A1. Key variables at their historical averages in 2025-2045 2/	14	**16**	13	5	-3	-10	-30	-32	-46	-57	-65	-73	-78	-82	-75	-63	-52	-41	-31	-22	-15
B. Bound Tests																					
B1. Real GDP growth	14	**15**	**20**	**20**	**18**	**16**	2	3	3	3	3	4	4	4	10	**20**	**28**	**34**	**39**	**42**	**45**
B2. Primary balance	14	**15**	**23**	**24**	**21**	**19**	5	5	8	10	9	9	8	8	14	**23**	**31**	**37**	**41**	**45**	**47**
B3. Exports	14	**17**	**24**	**23**	**21**	**19**	3	3	4	4	4	5	5	5	12	**24**	**33**	**40**	**45**	**49**	**52**
B4. Other flows 3/	14	**15**	**24**	**26**	**23**	**21**	6	6	10	13	12	11	10	9	**16**	**25**	**32**	**38**	**42**	**45**	**47**
B5. Depreciation	14	**15**	**20**	**17**	**16**	14	1	1	2	0	0	1	1	2	9	**19**	**27**	**33**	**38**	**42**	**44**
B6. Combination of B1-B5	14	**16**	**25**	**24**	**22**	**19**	4	5	8	8	8	7	7	7	14	**24**	**32**	**38**	**43**	**47**	**50**
C. Tailored Tests																					
C1. Combined contingent liabilities	14	**15**	**22**	**21**	**19**	**17**	3	4	4	4	4	4	4	4	11	**20**	**28**	**34**	**39**	**43**	**45**
C2. Natural disaster	14	**16**	**24**	**23**	**21**	**19**	5	5	5	5	5	5	5	5	12	**22**	**30**	**36**	**41**	**45**	**48**
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	15	15	15	15	15	15	15	15	15	15	15	15	15	15	15	15	15	15	15	15	15
	Debt service-to-revenue ratio																				
Baseline	3	3	5	5	6	6	1	1	2	2	3	4	4	5	17	**35**	**52**	**69**	**85**	**101**	**116**
A. Alternative Scenarios																					
A1. Key variables at their historical averages in 2025-2045 2/	3	4	3	1	-1	-4	-13	-16	-28	-40	-56	-73	-93	-117	-121	-110	-97	-83	-68	-52	-39
B. Bound Tests																					
B1. Real GDP growth	3	4	6	7	7	7	1	2	2	3	3	4	5	6	**20**	**43**	**64**	**85**	**104**	**123**	**141**
B2. Primary balance	3	3	5	6	7	7	2	3	5	7	8	9	10	11	**22**	**41**	**58**	**75**	**91**	**106**	**121**
B3. Exports	3	4	5	5	6	6	1	2	2	3	3	4	5	6	17	**36**	**53**	**70**	**87**	**102**	**117**
B4. Other flows 3/	3	3	6	7	7	8	3	3	6	9	10	11	12	13	**25**	**43**	**60**	**76**	**92**	**107**	**121**
B5. Depreciation	3	4	6	6	6	7	0	1	1	0	0	1	2	3	18	**41**	**63**	**84**	**104**	**124**	**143**
B6. Combination of B1-B5	3	4	6	7	8	8	2	3	5	7	7	8	9	11	**25**	**46**	**67**	**87**	**106**	**124**	**142**
C. Tailored Tests																					
C1. Combined contingent liabilities	3	3	5	6	6	6	1	2	2	3	3	4	5	6	17	**36**	**53**	**70**	**86**	**101**	**116**
C2. Natural disaster	3	3	5	6	6	7	2	2	3	4	4	5	6	7	**19**	**37**	**54**	**71**	**87**	**103**	**117**
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	18	18	18	18	18	18	18	18	18	18	18	18	18	18	18	18	18	18	18	18	18

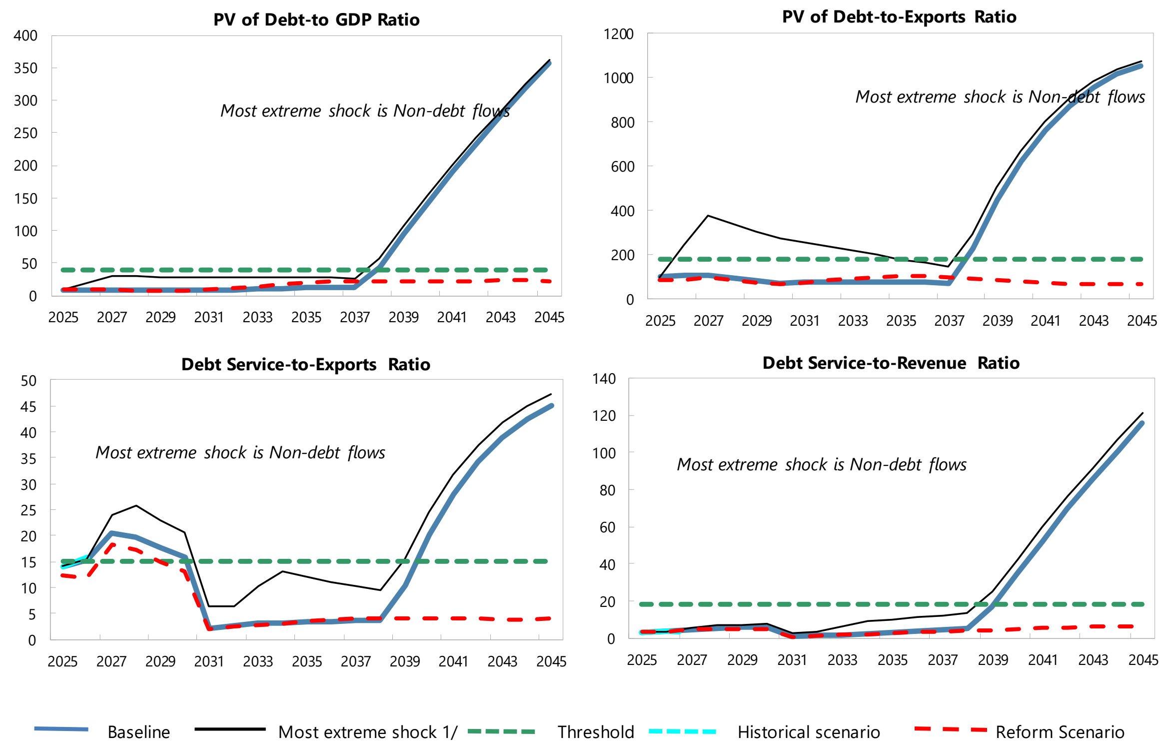
Sources: Country authorities; and staff estimates and projections.
1/ A bold value indicates a breach of the threshold.
2/ Variables include real GDP growth, GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.
3/ Includes official and private transfers and FDI.

Table 4. Timor-Leste: Sensitivity Analysis for Key Indicators of Public Debt, 2025-2035
(In Percent)

	Projections 1/										
	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
PV of Debt-to-GDP Ratio											
Baseline	9	9	9	8	8	7	8	9	10	11	12
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2025-2045 2/	9	2	-8	-18	-30	-43	-57	-71	-87	-104	-122
B. Bound Tests											
B1. Real GDP growth	9	12	18	22	25	28	33	37	40	43	46
B2. Primary balance	9	16	23	22	21	21	21	22	22	23	23
B3. Exports	9	9	10	9	9	8	9	10	11	12	12
B4. Other flows 3/	9	20	30	29	28	28	28	29	29	28	28
B5. Depreciation	9	10	8	5	3	1	1	1	1	1	0
B6. Combination of B1-B5	9	14	12	10	9	9	10	11	11	12	13
C. Tailored Tests											
C1. Combined contingent liabilities	9	14	13	13	12	12	13	14	14	15	16
C2. Natural disaster	9	19	19	19	19	19	20	21	22	23	24
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Public debt benchmark	55	55	55	55	55	55	55	55	55	55	55
PV of Debt-to-Revenue Ratio											
Baseline	20	21	22	22	23	23	29	35	41	48	56
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2025-2045 2/	20	4	-19	-49	-87	-136	-191	-259	-343	-444	-570
B. Bound Tests											
B1. Real GDP growth	20	29	44	57	71	87	109	133	159	186	217
B2. Primary balance	20	38	57	59	62	65	73	82	91	101	112
B3. Exports	20	22	24	25	26	26	32	38	45	52	60
B4. Other flows 3/	20	47	76	79	83	88	97	107	117	124	134
B5. Depreciation	20	24	20	15	10	4	4	3	3	2	2
B6. Combination of B1-B5	20	34	31	26	27	28	34	40	46	54	62
C. Tailored Tests											
C1. Combined contingent liabilities	20	32	33	34	36	37	44	50	58	66	76
C2. Natural disaster	20	44	47	51	55	59	69	79	90	102	116
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Debt Service-to-Revenue Ratio											
Baseline	2.8	3.0	4.1	4.6	4.8	5.1	0.8	1.2	1.6	2.0	2.5
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2025-2045 2/	2.8	3.0	3.8	3.8	3.3	2.7	-3.4	-4.6	-7.7	-11.9	-17.2
B. Bound Tests											
B1. Real GDP growth	2.8	3.2	5.0	5.9	6.5	7.2	2.5	3.4	4.8	6.7	8.9
B2. Primary balance	2.8	3.0	4.5	5.6	5.8	6.1	1.9	2.3	4.1	6.1	6.8
B3. Exports	2.8	3.0	4.1	4.7	4.9	5.2	0.9	1.3	1.8	2.4	2.9
B4. Other flows 3/	2.8	3.0	4.8	6.1	6.3	6.7	2.4	2.9	5.5	8.3	9.0
B5. Depreciation	2.8	3.3	5.3	5.8	6.0	6.2	0.4	0.7	0.5	0.5	0.4
B6. Combination of B1-B5	2.8	3.0	4.2	4.8	5.0	5.3	0.8	1.3	1.7	2.1	2.6
C. Tailored Tests											
C1. Combined contingent liabilities	2.8	3.0	4.4	4.9	5.1	5.4	1.2	1.6	2.0	2.4	2.9
C2. Natural disaster	2.8	3.0	4.8	5.4	5.7	6.0	1.7	2.2	2.7	3.2	3.9
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

Sources: Country authorities; and staff estimates and projections.
1/ A bold value indicates a breach of the benchmark.
2/ Variables include real GDP growth, GDP deflator and primary deficit in percent of GDP.
3/ Includes official and private transfers and FDI.

Figure 1. Timor-Leste: Indicators of Public and Publicly Guaranteed External Debt under Alternative Scenarios, 2025-2045



Customization of Default Settings		
	Size	Interactions
Tailored Tests		
Combined CLs	Yes	
Natural Disasters	Yes	Yes
Commodity Prices 2/	n.a.	n.a.
Market Financing	n.a.	n.a.

Note: "Yes" indicates any change to the size or interactions of the default settings for the stress tests. "n.a." indicates that the stress test does not apply.

Borrowing Assumptions for Stress Tests*		
	Default	User defined
Shares of marginal debt		
External PPG MLT debt	100%	
Terms of marginal debt		
Avg. nominal interest rate on new borrowing in USD	1.7%	1.7%
USD Discount rate	5.0%	5.0%
Avg. maturity (incl. grace period)	28	28
Avg. grace period	6	6

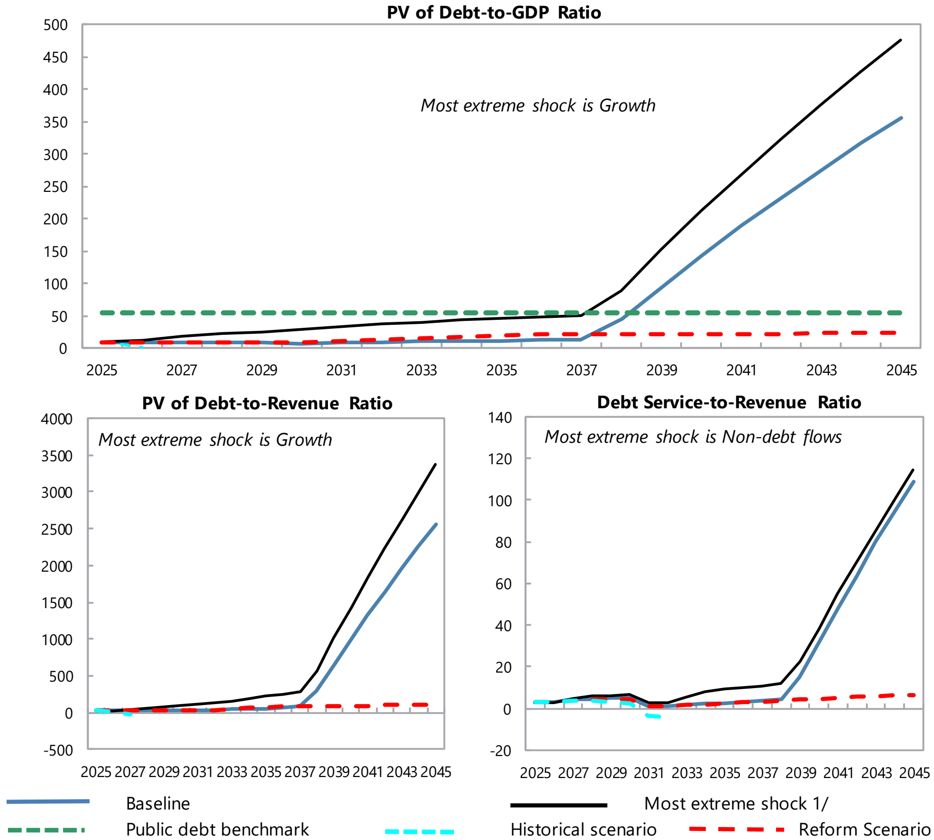
* Note: All the additional financing needs generated by the shocks under the stress tests are assumed to be covered by PPG external MLT debt in the external DSA. Default terms of marginal debt are based on baseline 10-year projections.

Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2035. Stress tests with one-off breaches are also presented (if any), while these one-off breaches are deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

2/ The magnitude of shocks used for the commodity price shock stress test are based on the commodity prices outlook prepared by the IMF research department.

Figure 2. Timor-Leste: Indicators of Public Debt under Alternative Scenarios, 2025-2045



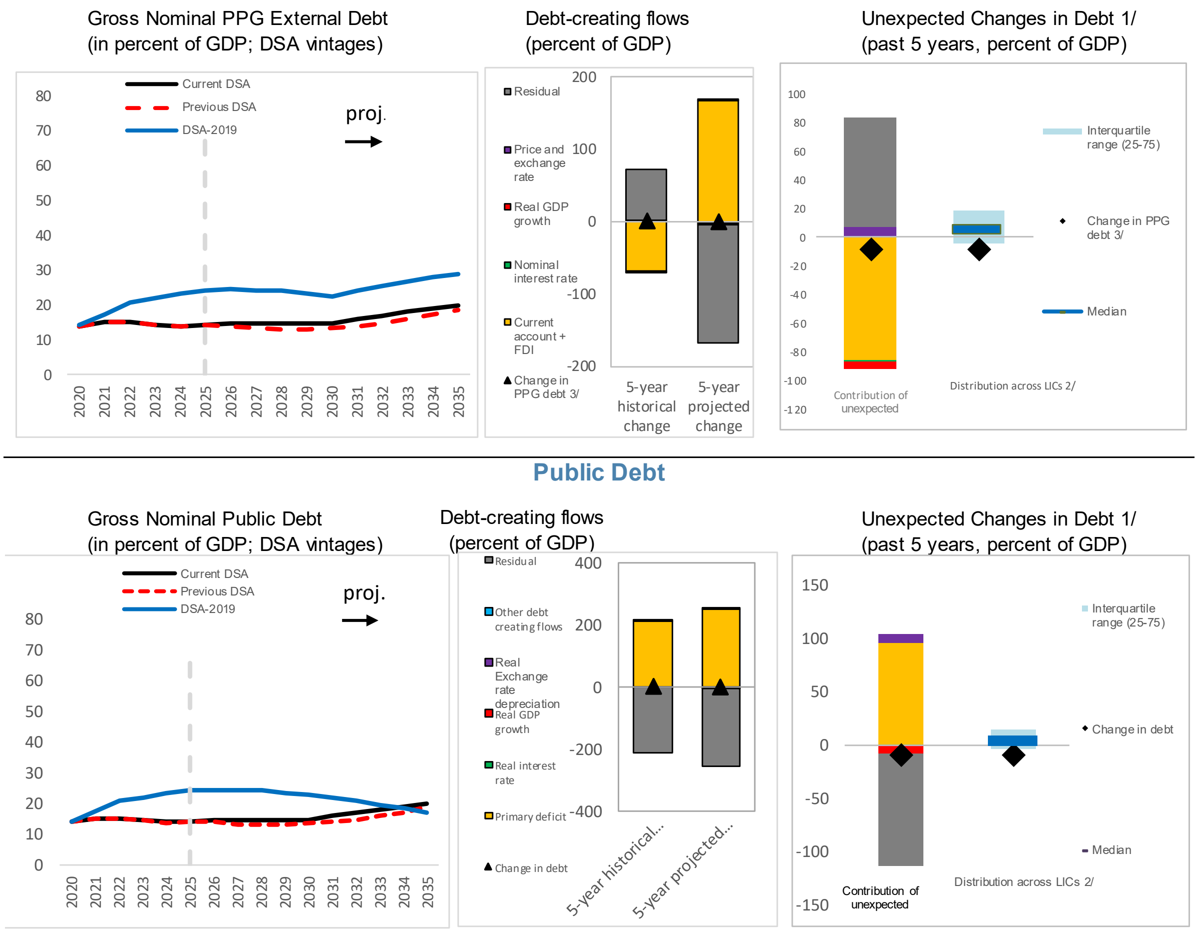
Borrowing Assumptions for Stress Tests*	Default	User defined
Shares of marginal debt		
External PPG medium and long-term	100%	100%
Domestic medium and long-term	0%	0%
Domestic short-term	0%	0%
Terms of marginal debt		
External MLT debt		
Avg. nominal interest rate on new borrowing in USD	1.7%	1.7%
Avg. maturity (incl. grace period)	28	28
Avg. grace period	6	6
Domestic MLT debt		
Avg. real interest rate on new borrowing	0.0%	0.0%
Avg. maturity (incl. grace period)	1	1
Avg. grace period	0	0
Domestic short-term debt		
Avg. real interest rate	0%	0.0%

* Note: The public DSA allows for domestic financing to cover the additional financing needs generated by the shocks under the stress tests in the public DSA. Default terms of marginal debt are based on baseline 10-year projections.

Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2035. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

Figure 3. Timor-Leste: Drivers of Debt Dynamics – Baseline Scenario



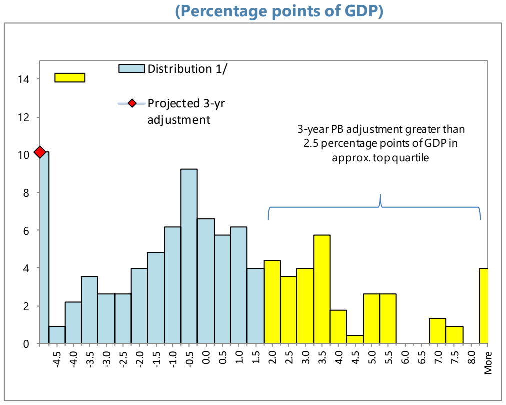
1/ Difference betw een anticipated and actual contributions on debt ratios. The residual in debt creating flow s is financed through excess w ithdraw als from the PF.

2/ Distribution across LICs for w hich LIC DSAs w ere produced.

3/ Given the relatively low private external debt for average low-income countries, a ppt change in PPG external debt should be largely explained by the drivers of the external debt dynamics equation.

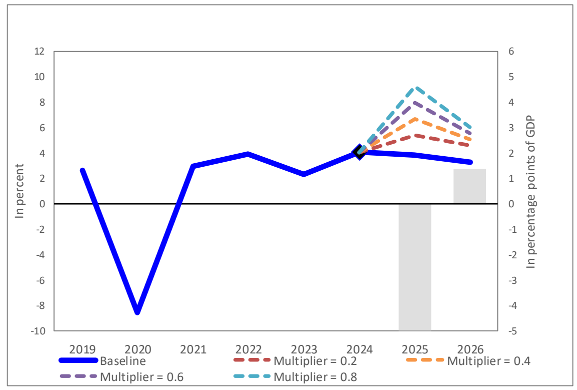
Figure 4. Timor-Leste: Realism Tools

3-Year Adjustment in Primary Balance
(Percentage points of GDP)



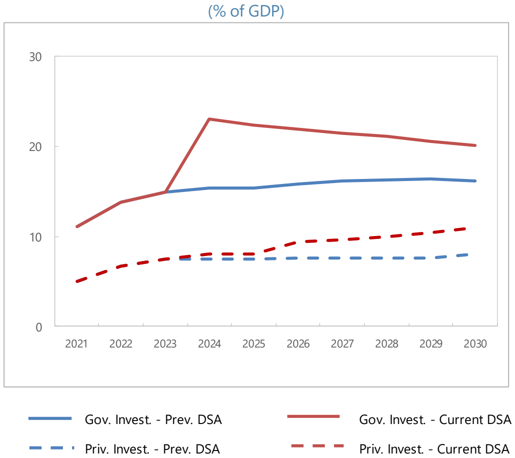
1/ Data cover Fund-supported programs for LICs (excluding emergency financing) approved since 1990. The size of 3-year adjustment from program inception is found on the horizontal axis; the percent of sample is found on the vertical axis.

Fiscal Adjustment and Possible Growth Paths 1/



1/ Bars refer to annual projected fiscal adjustment (right-hand side scale) and lines show possible real GDP growth paths under different fiscal multipliers (left-hand side scale).

Public and Private Investment Rates
(% of GDP)



Contribution to Real GDP Growth
(percent, 5 year average)

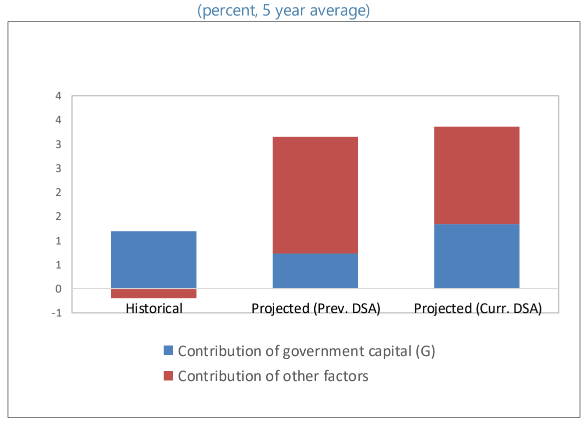


Figure 5. Timor-Leste: Qualifications of the Moderate Category, 2025-2035 [1/]

Sources: Country authorities; and staff estimates and projections.

1/ For the PV debt/GDP and PV debt/exports thresholds, x is 20 percent and y is 40 percent. For debt service/Exports and debt service/revenue thresholds, x is 12 percent and y is 35 percent.

Statement by Mr. Roncaglia, Executive Director for the Democratic Republic of Timor-Leste, and Mr. Costa Filho, Advisor to Executive Director
September 19, 2025

On behalf of our Timorese authorities, we thank Mr. Carriere-Swallow and his team for their constructive engagement and insightful discussion. The authorities greatly value the candid dialogue and policy advice provided by the Fund.

Just over two decades ago, Timor-Leste emerged from conflict as one of the world's youngest nations. Since then, it has built a vibrant democracy, held peaceful elections, and established strong institutions. Yet challenges remain. Timor-Leste must diversify its economy, create jobs for its youth, and reduce its dependence on oil.

The authorities' reform agenda is aligned with staff recommendations, reflecting a commitment to fiscal sustainability, improved budget discipline, and the implementation of structural reforms to foster diversification and long-term growth. International cooperation, particularly with the IMF, is essential to complement and reinforce these domestic efforts.

Outlook and Recent Economic Developments

Growth is expected to accelerate in 2025, supported by stronger execution of capital spending and continued robust credit growth. Following the political transition that weighed on investment in 2023, execution of public investment improved in 2024 and is projected to strengthen further in 2025. Indeed, the administration has prioritized capital expenditure focusing on infrastructure, social protection, and key development programs. Credit growth has remained strong, with lending to the private sector expanding rapidly - particularly in the construction sector. The authorities project growth of around 4.3 percent in 2025, somewhat above staff's forecast of 3.9 percent, reflecting expectations of stronger capital spending execution. Growth, however, remains heavily dependent on public spending, and is projected to moderate to 2.7 percent in 2026 provided the fiscal impulse is reduced to safeguard long-term sustainability.

Fiscal and external developments reflected the authorities' continued efforts to support growth while taking initial steps toward greater fiscal sustainability. Higher public investment and increased transfers kept fiscal policy expansionary in 2024 and continue to shape the 2025 budget. Fiscal deficits continue to require excess withdrawals from the Petroleum Fund, but the adoption of the 2026 Budget Strategy -with a lower expenditure envelope - signals a turn toward consolidation. On the external side, the current account is supported by Petroleum Fund investment income, while the economy continues to run a non-oil current account deficit owing to high import dependence.

Inflation has eased and is expected to remain subdued in the near term. It fell sharply from 8.4 percent in 2023 to 2.1 percent in 2024, driven by moderating global food prices and the rollback of earlier tax hikes. The trend continued into 2025, with inflation falling to 0.3 percent year-on-year in July.

Inflation is expected to remain around 2 percent in 2026 as global food and shipping costs stabilize. While the near-term outlook suggests inflation will remain well contained - supporting real incomes and macroeconomic stability - high dependence on imported food leaves the economy vulnerable to external shocks. While there are no immediate plans to introduce a national currency, the central bank continues to study its long-term feasibility as reforms advance.

The authorities agree that the balance of risks is broadly balanced. A sustained downturn in global asset prices could adversely affect Petroleum Fund returns, while commodity price volatility could heighten inflation, worsen the current account, and increase fiscal pressures. Climate shocks could further impact food security and infrastructure, given the country's reliance on imports and limited climate resilience. On the upside, stronger execution of capital spending and accelerated reforms in fiscal, financial, and structural areas - alongside the authorities' commitment to improving spending quality and advancing global integration - could boost investor confidence, support private sector development, and foster diversification to reduce imbalances. The prudent management of the Petroleum Fund's foreign asset portfolio continues to provide a substantial buffer against external shocks and helps mitigate downside risks to fiscal and external sustainability.

Medium-Term Development Prospects

The authorities are firmly committed to safeguarding fiscal sustainability and strengthening budget credibility. In this context, they have proposed a 13 percent reduction in the consolidated budget ceiling for 2026 as part of their Budget Strategy Statement and are focusing on high-impact capital projects. To contain recurrent spending, measures have been introduced including a mandatory retirement age and a freeze on new civil service hiring. Better targeting of social transfers through the rollout of a digital ID system will also help create fiscal space for priority spending. At the same time, the administration remains committed to fully implementing legislative reforms to procurement and Public Financial Management (PFM) to strengthen fiscal discipline, enhance transparency, and improve service delivery. These reforms, alongside ASEAN and WTO accession, are seen as crucial to reducing imbalances, ensuring long-term sustainability and fostering diversification.

A central medium-term challenge is the risk of Petroleum Fund depletion and the need to avoid a sharp fiscal adjustment. Under current spending plans, the Fund is projected to be fully depleted by around 2038, underscoring the urgency of a gradual and orderly adjustment. Efficient use of PF savings is essential to promote diversification, strengthen the private sector, and raise long-term growth. The development of the Greater Sunrise gas field is seen as a potential fiscal lifeline for Timor-Leste. With reserves far larger than Bayu-Undan, the project could deliver substantial fiscal revenues and support investment over the medium term. With prudent management by all stakeholders, risks can be contained, and the project could bring broad benefits to the economy.

The broader fiscal strategy aims to raise efficiency while gradually strengthening domestic revenue mobilization. The authorities remain committed to introducing VAT by January 2027, with preparatory work well underway, and to implementing legislative reforms to strengthen fiscal transparency and budget credibility. These efforts are consistent with staff recommendations to further modernize tax and customs administration, strengthen tax compliance, and broaden the revenue base.

Reform Agenda

An ambitious structural reform agenda aims at boosting private sector development and deepening integration into regional and global markets. ASEAN and WTO accession are catalysts for advancing legislative reforms that improve the business environment and competitiveness. Human capital is a central priority, with increased allocations for education planned in the 2026 budget. The authorities recognize that unlocking Timor-Leste's demographic dividend will require raising labor force participation and productivity, and are prioritizing investments in vocational training, agricultural modernization, and digital skills. Institutional reforms are progressing, including the rollout of e-procurement systems to enhance transparency and improvements to the AML/CFT framework in line with international recommendations. Strengthening governance remains a priority, with work underway on a national risk assessment and strategic plan to meet international standards.

Financial sector reforms are advancing to support private sector development and enhance inclusion. Progress continues on the legislative agenda, including the secure transactions law, a new banking law, and the development of national accounting standards. Land titling is being accelerated to expand financial collateral. Digitalization is a key driver of financial inclusion, with work underway on the development of fast payment systems. Strengthening supervision also remains a priority, with banks implementing IFRS-9 and the compilation of FSIs expected by end-2025.

Building institutional capacity across government agencies and public administration is a key priority. Limited technical resources and staffing continue to pose challenges, underscoring the importance of sustained support from the IMF and other international partners to overcome capacity constraints. Continued investment in human capital and institutions is viewed as essential to ensure that reforms are both impactful and sustainable. IMF support in improving the quality and timeliness of macroeconomic statistics is highly valued.