

TIMOR-LESTE

Table 1	2021
Population, million	1.3
GDP, current US\$ billion	1.7
GDP per capita, current US\$	1283.8
International poverty rate (\$1.9) ^a	22.0
Lower middle-income poverty rate (\$3.2) ^a	65.9
Gini index ^a	28.6
School enrollment, primary (% gross) ^b	112.5
Life expectancy at birth, years ^b	69.5
Total GHG Emissions (mtCO2e)	6.5

Source: WDI, Macro Poverty Outlook, and official data.

a/ Most recent value (2014), 2011 PPPs.

b/ Most recent WDI value (2019).

The economy is showing signs of moderate recovery from the dual COVID-19 and natural disaster shocks in 2021. The economy is projected to grow by 2.4 percent in 2022 on the back of public spending and a strong COVID-19 vaccination campaign. Risks to the outlook include the recurrence of COVID-19 outbreaks and political uncertainty due to the upcoming Presidential election. Long-term growth prospects remain contingent on the ability of the Government to promote private sector growth and to build a more climate-resilient economy.

Key conditions and challenges

Economic growth driven by public spending has generated low returns in the past and is fiscally unsustainable going forward. Between 2013 and 2020, GDP growth averaged 0.3 percent per year, well below the EAP average of 6.0 percent. Public spending skyrocketed in 2007-2016 and remained one of the highest in the world (71.2 percent of GDP in 2020). But high public spending did not boost growth as expected and led to a large fiscal deficit of 18.2 percent of GDP in 2020. The fiscal deficit can be financed using the Petroleum Fund (about 19 times 2021 GDP) in the short to medium term. However, the Petroleum Fund will be depleted by 2032 under current spending trajectories. Timor-Leste has had eight different governments since independence twenty years ago. Recent political instabilities, particularly in 2018 and 2020, have caused considerable delays in the approval, promulgation, and execution of the state budgets. Public investment declined by 17.9 percent and 49.1 percent in 2019 and 2020, respectively. A political consensus around key policy and regulatory reforms to support economic recovery and overcome socio-economic challenges is urgently needed. Timor-Leste is vulnerable to natural hazards and ranked 20th amongst countries with the highest disaster risks. The April 2021 natural disasters and related recovery costs have eroded fiscal space and undermined macroeconomic stability. The

structural reform agenda includes creating a more supportive environment for private-sector-led growth and building a more climate-resilient economy.

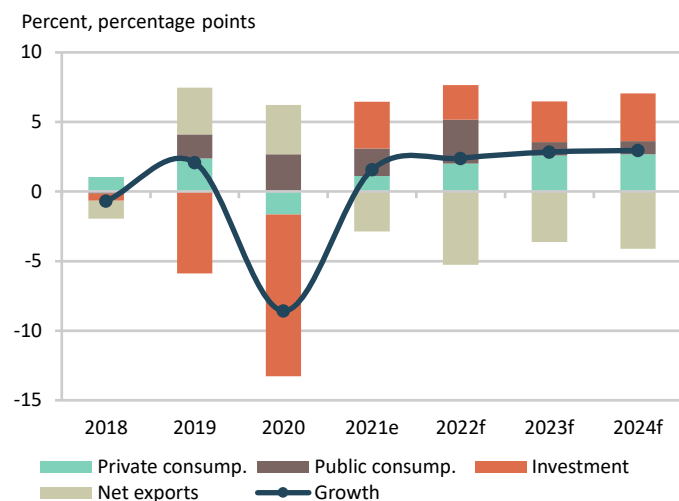
Recent developments

After a relatively slow start, the vaccination campaign has accelerated rapidly. As of March, 21, 2022, 72.5 percent of eligible adults are fully vaccinated while more than 85 percent adults have received at least one dose. The government has started vaccinating children and adolescents aged between 12 and 18 years old. Booster shots have been made available since early this year. Timor-Leste is in the early phase of the third wave of transmission primarily driven by Omicron. Also, of concern is the surge of Dengue cases. There have been some 20 deaths and more than 3 000 reported cases of dengue fever since January 2022.

The country had a challenging year in 2021 as the economy was adversely impacted by the surge of COVID-19 cases and major flooding caused by Tropical Cyclone Seroja. High spending to respond these shocks has led to a budget deficit of 44.2 percent of GDP in 2021, but authorities were only able to execute 71 percent of the allocated budget. The 2022 budget was opportunely approved and promulgated on time in December 2021 and January 2022, respectively.

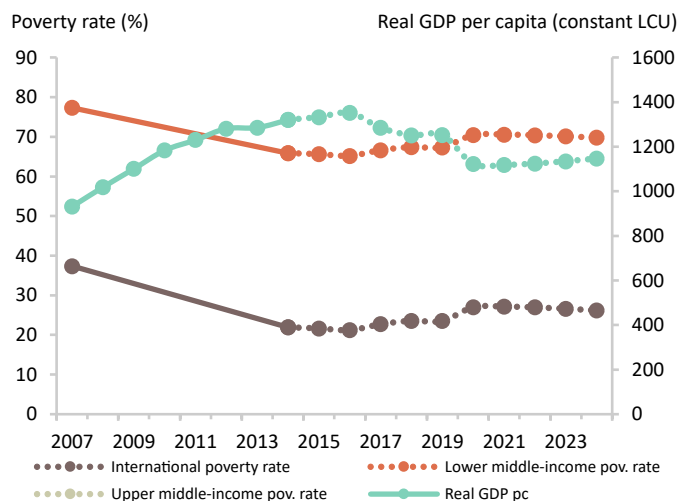
The dual shocks in 2021 might also increase poverty. Measured by an international poverty line of US\$1.90 per day per capita (2011 PPP), poverty was estimated to have increased from 24 to 27 percent between

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



Sources: Ministry of Finance and World Bank staff estimates.

FIGURE 2 Timor-Leste / Actual and projected poverty rates and real GDP per capita



Source: World Bank. Notes: see Table 2.

2019 and 2021. It is difficult to capture the impact of COVID-19 at the household level due to very limited data as the latest Timor-Leste Survey of Living Standard was in 2014. According to the nationally representative Socio-Economic Impact Assessment (SEIA) 2.0 survey conducted by the General Directorate of Statistics, Ministry of Finance and the UNDP in July-August 2021, around 40 percent of the employed population lost their jobs since the COVID-19 pandemic outbreak in March 2020. As of March 2021, 90 percent of them reported that they were back in employment. But this is characterized by informal work arrangements with unstable earnings and low productivity.

Outlook

The economy is projected to expand by 2.4 percent in 2022 with the decline of

COVID-19 infection rates. On the demand side, a gradual rebound in private consumption, supported by public sector wages and personal benefit transfer, and higher execution of Government expenditure will drive economic growth. Yet, it is concerning to note that the sustainable sources of revenue for the 2022 budget are set considerably below what is required to cover even the recurrent spending. Without major revenue reforms, fiscal deficit is projected to hover at around 40 percent of GDP in the medium term. Net exports will continue to be a drag on growth due to structural external sector imbalances (lack of diversified exports and high import demand).

External pressures will persist in the short term, owing in part to import-intensive infrastructure projects. Border re-openings, if carefully managed, will gradually support the tourism sector. High oil prices and slightly higher oil and gas production

should help narrow the current account deficit. The financial account surplus will expand, although mainly due to divestments of the Petroleum Fund used to cover both the fiscal and current account deficits. Consumer price inflation is projected to gradually pick up, reflecting the increase in higher Government spending and the global energy prices.

The presidential vote is scheduled on March 19 with a potential runoff for the two top candidates on April 19. There is also a possibility of an early Parliamentary elections in case the elected President is from the opposition. As the country moves into an electoral period, policymaking and reform processes can be stalled.

Risks to the forecast are skewed to the downside. Worsening of the political environment, new waves of COVID-19, and impact of climate changes and natural disaster events could slow the recovery.

TABLE 2 Timor-Leste / Macro poverty outlook indicators

(annual percent change unless indicated otherwise)

	2019	2020	2021e	2022f	2023f	2024f
Real GDP growth, at constant market prices	2.1	-8.6	1.6	2.4	2.8	3.0
Private Consumption	3.7	-2.5	1.6	2.9	3.7	3.8
Government Consumption	3.2	4.9	3.1	4.9	1.5	1.5
Gross Fixed Capital Investment	-17.4	-42.5	19.5	12.3	13.1	14.0
Exports, Goods and Services	-17.2	-51.1	13.1	11.8	13.8	14.0
Imports, Goods and Services	-6.5	-8.5	5.6	9.8	6.4	7.0
Real GDP growth, at constant factor prices	2.0	-8.3	1.6	2.4	2.8	3.2
Agriculture	2.5	5.1	2.9	2.9	2.9	-1.2
Industry	4.8	-28.5	2.4	2.4	2.4	16.7
Services	1.2	-7.1	1.1	2.2	2.9	2.0
Inflation (Consumer Price Index)	0.9	0.5	3.8	2.5	2.6	2.3
Current Account Balance (% of GDP)	7.8	-19.3	-33.5	-42.7	-49.1	-55.4
Fiscal Balance (% of GDP)^a	-29.9	-26.1	-44.2	-46.2	-47.6	-51.6
International poverty rate (\$1.9 in 2011 PPP)^{b,c}	23.6	27.0	27.2	27.0	26.6	26.2
Lower middle-income poverty rate (\$3.2 in 2011 PPP)^{b,c}	67.4	70.5	70.6	70.4	70.1	69.8
GHG emissions growth (mtCO₂e)	1.5	-5.7	1.8	3.2	3.8	3.9
Energy related GHG emissions (% of total)	9.7	9.5	9.6	9.7	9.7	9.7

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

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

b/ Calculations based on EAPPOV harmonization, using 2007-TLSLS and 2014-TLSLS. Actual data: 2014. Nowcast: 2015-2021. Forecasts are from 2022 to 2024.

c/ Projection using annualized elasticity (2007-2014) with pass-through = 1 based on GDP per capita in constant LCU.

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SELECTED INDICATORS*	Avg. '00-15	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021 E	2022 F
INCOME AND ECONOMIC GROWTH															
GDP growth (annual %)	9.1	10.0	9.5	5.8	6.0	2.1	4.6	2.8	3.4	-3.1	-0.7	2.1	-8.6	1.6	2.4
GDP per capita growth (annual %, real)	7.0	8.1	7.5	3.9	4.2	0.3	2.7	0.9	1.4	-4.9	-2.6	0.1	-10.3	-0.4	0.5
GDP per capita (US\$, nominal)	730.8	676.6	806.4	947.5	1013.1	1210.0	1232.5	1332.8	1353.8	1299.5	1249.1	1317.9	1210.5	1232.2	1264.6
Private Consumption growth (annual %)	1.7	13.1	3.8	1.2	3.2	5.1	5.6	-1.3	4.5	3.1	1.7	3.7	-2.5	1.6	2.9
Gross Investment (% of nominal GDP)	34.3	48.7	42.7	69.3	58.2	40.2	41.1	35.5	38.0	32.3	32.3	25.0	15.4	18.2	19.9
Gross Investment - Public (% of nominal GDP) ²	26.3	38.6	33.8	61.2	49.4	32.0	32.9	28.2	30.6	23.7	28.0	21.1	11.9	14.7	16.4
MONEY AND PRICES															
Inflation, consumer prices (annual %, EOP or MRV) ^{1,3}	6.0	1.7	9.0	17.2	11.5	3.9	0.3	-0.5	0.0	0.8	2.3	..	..	..	..
Inflation, consumer prices (annual %, period average) ³	3.8	-0.2	5.2	13.2	10.9	9.5	0.8	0.6	-1.5	0.5	2.3	0.9	0.5	3.8	2.5
Broad Money (% of GDP) ²	28.8	34.3	33.5	30.6	35.5	35.8	41.4	40.3	44.5	50.9	53.6	46.3	54.5	67.5	87.1
Domestic Credit to the Private Sector (% of GDP) ²	14.4	14.2	12.4	12.7	13.8	13.0	13.2	13.3	12.6	16.1	15.8	12.9	15.3	..	..
10 year interest rate (annual average) ³	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Nominal Exchange Rate (local currency per USD)	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Real Exchange Rate Index (2015=100)	71.7	65.7	73.8	78.3	86.6	91.3	89.7	100.0	99.1	97.8	94.9	98.0	97.0	95.5	95.9
FISCAL															
Revenue (% of GDP)	55.6	65.9	66.4	79.7	69.5	67.2	55.3	50.7	45.1	41.5	46.8	42.7	45.1	42.8	40.9
Expenditure (% of GDP)	63.7	83.1	86.2	104.8	108.7	77.5	92.8	83.8	98.8	74.8	75.5	72.6	71.2	87.1	87.1
Interest Payments (% of GDP)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.2	0.2
Non-Interest Expenditure (% of GDP)	63.7	83.1	86.2	104.8	108.7	77.5	92.8	83.8	98.8	74.8	75.5	72.6	71.1	86.9	86.8
Overall Fiscal Balance (% of GDP)	-11.7	-17.2	-19.8	-25.0	-39.1	-10.3	-37.6	-33.1	-53.7	-33.3	-28.7	-29.9	-26.1	-44.2	-46.2
Primary Fiscal Balance (% of GDP)	-11.7	-17.2	-19.8	-25.0	-39.1	-10.3	-37.6	-33.1	-53.7	-33.3	-28.7	-29.9	-26.0	-44.1	-46.0
General Government Debt (% of GDP)	0.4	0.0	0.0	0.0	0.0	0.5	1.5	2.9	4.7	6.6	10.6	12.1	12.9	25.4	34.0
External Public Debt (% of GDP) ²	1.2	..	..	..	0.0	0.5	1.5	2.9	4.3	6.8	9.1	9.3	11.6	..	..
EXTERNAL ACCOUNTS															
Export growth, G&S (nominal US\$, annual %)	8.5	13.8	54.6	4.6	-4.1	-14.4	1.6	2.6	5.7	13.3	11.1	-3.9	-51.2	0.6	14.0
Import growth, G&S (nominal US\$, annual %)	10.3	19.2	14.5	42.3	-12.4	-31.4	13.0	1.8	-7.5	-11.9	-0.8	-1.9	-19.0	16.6	12.0
Merchandise exports (% of GDP)	2.0	2.0	3.1	2.7	2.9	1.3	1.1	1.1	1.2	1.0	1.6	1.5	1.1	1.3	1.4
Merchandise imports (% of GDP)	31.9	46.4	34.9	38.1	58.5	45.7	42.7	41.0	34.3	39.1	38.7	34.8	33.1	36.0	38.6
Services, net (% of GDP)	-86.4	-106.5	-107.7	-134.3	-80.1	-30.9	-41.0	-36.5	-34.4	-21.2	-22.1	-20.9	-17.3	-21.2	-22.7
Current account balance (current US\$ millions)	944.8	1195.4	1588.9	2218.8	2647.9	2391.7	1093.8	203.6	-544.5	-283.5	-191.2	132.9	-308.0	-554.5	-738.5
Current account balance (% of GDP)	106.5	164.5	180.2	210.4	230.7	171.4	75.6	12.8	-33.0	-17.5	-12.1	7.8	-19.3	-33.5	-42.7
Foreign Direct Investment, net inflows (% of GDP)	3.4	6.9	0.3	7.6	2.3	2.6	2.5	1.9	-0.4	0.4	3.0	4.4	4.5	0.5	0.8
External debt, total (% of GDP) ²	6.9	..	..	..	6.6	6.4	7.2	7.3	4.9	7.7	10.0	9.9	12.2	..	..
Multilateral debt (% of total external debt) ²	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Debt service ratio (% of exports goods and non-factor services) ²	0.0	0.0	0.0	0.0	0.1	0.1	0.2	0.3	0.5	1.1

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SELECTED INDICATORS*	Avg. '00-15	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021 E	2022 F
POPULATION, EMPLOYMENT AND POVERTY															
Population, total (millions)	1.0	1.1	1.1	1.1	1.1	1.2	1.2	1.2	1.2	1.2	1.3	1.3	1.3	1.3	1.4
Population Growth (annual %)	2.0	1.8	1.8	1.8	1.8	1.8	1.8	1.9	1.9	2.0	2.0	2.0	1.9	2.0	1.9
Unemployment Rate ²	3.6	3.3	3.3	3.5	3.8	4.0	4.2	4.4	4.7	4.8	4.7	4.5	4.9	..	..
International poverty rate (\$1.9 in 2011 PPP) ⁴	..	..	..	..	..	..	22.0	..	..	..	23.6	23.6	27.0	27.2	27.0
Lower middle-income poverty rate (\$3.2 in 2011 PPP) ⁴	..	..	..	..	..	..	65.9	..	..	..	67.4	67.4	70.5	70.6	70.4
OTHER															
GDP (current LCU, millions)	787.6	726.9	881.8	1054.7	1147.8	1395.5	1447.3	1594.4	1650.6	1615.6	1583.9	1704.2	1595.5	1656.1	1731.2
GDP (current US\$, millions)	787.6	726.9	881.8	1054.7	1147.8	1395.5	1447.3	1594.4	1650.6	1615.6	1583.9	1704.2	1595.5	1656.1	1731.2
GDP per capita LCU (real)	1081.9	1101.2	1184.1	1230.8	1282.0	1286.2	1321.2	1332.8	1351.9	1285.1	1251.4	1252.5	1123.5	1119.1	1124.9
Human Development Index Ranking ⁵	128.8	126	126	123	126	127	129	134	137	140	141	141	..	..	..
CPIA (overall rating) ²	2.9	2.9	3.0	3.0	3.0	3.1	3.1	3.0	3.0	2.9	2.8	2.8	2.8	..	..
Economic Management ²	3.5	3.3	3.5	3.8	3.8	3.8	3.8	3.7	3.5	3.2	3.0	3.0	3.0	..	..
Structural Policies ²	2.8	2.8	2.8	2.8	2.8	3.0	3.0	3.0	3.0	2.8	2.8	2.8	2.8	..	..
Policies for Social Inclusion and Equity ²	2.8	2.8	2.9	2.9	2.9	2.9	2.9	2.9	2.9	2.9	2.9	2.9	2.9	..	..
Public Sector Management and Institutions ²	2.6	2.7	2.7	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.6	2.6	..	..

Notes: ".." indicates not available. E = estimate, F = forecast. Data from MFMOD unless otherwise noted

1/ Used latest month available.

2/ World Development Indicators Database and World Bank Staff Estimates

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

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

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

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