



## PRESS RELEASE NO. 19/15

# IMF Staff Concludes 2019 Article IV Consultation Mission to Timor-Leste

January 25, 2019

End-of-Mission press releases include statements of IMF staff teams that convey preliminary findings after a visit to a country. The views expressed in this statement are those of the IMF staff and do not necessarily represent the views of the IMF's Executive Board. Based on the preliminary findings of this mission, staff will prepare a report that, subject to management approval, will be presented to the IMF's Executive Board for discussion and decision.

- Non-oil GDP growth is projected to recover to about 5 percent in 2019 as government spending regains momentum following a prolonged period of political uncertainty.
- A fiscal strategy is needed to ensure long-run fiscal sustainability and protect the assets in the Petroleum Fund. Continued investment in infrastructure, education, and health should be prioritized.
- Accelerating structural reforms is vital to foster economic diversification and job creation.

An International Monetary Fund (IMF) team led by Mr. Niklas Westelius visited Timor-Leste from January 14-25 to conduct the 2019 Article IV Consultation discussions. The discussions covered recent developments and current economic policies, as well as the medium-term economic outlook.

At the conclusion of the visit, Mr. Westelius made the following statement:

“Political uncertainty adversely affected Timor-Leste's economic activity in 2017 and for most of 2018. However, with government spending expected to regain momentum in 2019, non-oil GDP growth is projected to recover to around 5 percent in 2019. Inflation rose in 2018 and is expected to reach around 3 percent by end-2019, below the government's target of 4 percent. Fiscal spending will continue to rely on withdrawals from the Petroleum Fund as domestic revenue sources remain low. The external current account deficit improved in 2017-18 amid lower fiscal spending.

“Political uncertainty constitutes the main downside risk to the near-term outlook, with the potential to reduce public spending and slow reform efforts. Over the medium-term, insufficient progress to diversify the economy and create private-sector jobs could worsen labor market outcomes. Moreover, with oil revenue from active fields expected to end in 2022, continued drawdowns of the Petroleum Fund could pose risks to long-run fiscal sustainability. Beyond the medium-term, the development of the Greater Sunrise fields represents an upside risk, provided that the project is technically and economically viable and that proper safeguards are taken to minimize funding risks.

“In light of these challenges, the IMF team stressed that a fiscal strategy is needed to ensure long-term fiscal sustainability and safeguard the assets of the Petroleum Fund. The strategy should focus on strengthening control and

efficiency of spending, mobilizing domestic revenue by increasing tax compliance and implementing a value added tax, and making effective use of concessional borrowing.

“Furthermore, the team emphasized that boosting private sector growth and job opportunities for a rapidly-growing working force should be a priority. To this end, it will be crucial to improve quality and access to education and healthcare, reduce existing and emerging skill-shortages, and address gender and rural-urban inequalities. In addition, improving the business environment should help encourage business formation, promote private investment, and generate employment opportunities.

“The team recognized the progress made so far in the development of the payments system and the implementation of the financial inclusion agenda. Continued efforts to develop the financial sector should help channel domestic savings to productive investments, while expanding access to financial services will be essential to facilitate diversification and promote inclusive growth. Ensuring a strong and effective regulatory and supervisory framework will be important to safeguard financial stability as the financial sector develops.”

The IMF team met with Prime Minister Taur Matan Ruak, Acting Finance Minister Sara Lobo Brites, Central Bank Governor Abraão de Vasconcelos, Minister of Legislative Reform and Parliamentary Affairs Fidelis Manuel Leite Magalhães, Minister of Public Works Salvador Soares dos Reis Pires, and other senior officials. The team also held discussions with development partners as well as representatives of the private sector and civil society.

The IMF team would like to thank the government and the people of Timor-Leste for their hospitality and wishes them every success in their ongoing efforts to raise economic growth and reduce poverty and unemployment.

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