IMF Staff Complete 2025 Article IV Mission to Timor-Leste

July 2, 2025

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.

- Timor-Leste's growth is expected to remain robust at 3.9 percent in 2025, supported by fiscal expansion and strong credit growth. Inflation has fallen sharply but is expected to increase moderately in the remainder of 2025.
- To support growth and macroeconomic stability, Timor-Leste's substantial savings in the Petroleum Fund should be spent better and more prudently. This would deliver higher living standards and preserve fiscal sustainability.
- The implementation of financial and fiscal reforms would accelerate private sector development and make public expenditure more efficient.

Washington, DC – July 2, 2025: An International Monetary Fund (IMF) team led by Mr. Yan Carrière-Swallow visited Dili during June 19-July 2 to conduct discussions for the 2025 Article IV consultation with Timor-Leste. At the conclusion of the discussions, Mr. Carrière-Swallow issued the following statement:

"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, and fiscal and external imbalances are large. We welcome Timor-Leste's efforts for greater economic integration in the global and regional economies through World Trade Organization (WTO) membership and prospective ASEAN accession, which will boost growth and is providing a positive impulse to the government's reform agenda.

"Growth is expected to remain robust at 3.9 percent in 2025, supported by fiscal expansion and strong credit growth, and to moderate to 3.3 percent in 2026. Inflation, which had fallen sharply last year as global food and energy prices declined but is expected to increase moderately as global food prices rise. Inflation is expected to average 0.9 percent in 2025 and to rise to 1.8 percent in 2026. Risks to the outlook are balanced.

"The 2026 budget should prioritize high-quality spending on physical and human capital, including health and education, while containing recurrent expenditure. The government is rightly focused on identifying measures to contain the public sector wage bill, which has grown sharply in recent years, and on implementing a Value Added Tax by January 2027.

"Absent further reforms, deficits are projected to remain large over the medium term, which would lead to a full depletion of the Petroleum Fund by the end of the 2030s. We recommend a 10-year reform agenda of structural and fiscal reforms, allowing the Timorese government to support private sector development while gradually reducing fiscal deficits to preserve debt sustainability. For 2026, our proposed reforms would be consistent with an expenditure envelope of around US$1.85 billion for central government.

"We welcome continued progress in the government's financial sector reforms—including an insolvency framework, a secure transactions law, development of corporate accounting standards, and a new law on banking activities—whose implementation would support private sector development. We also recommend accelerating the issuance of land titles and establishing a national digital ID system, which are crucial reforms to boost access to credit, diversify the private sector, and improve the efficiency of public spending.

"The team had fruitful discussions with Minister of Finance Santina Cardoso, Central Bank Governor Hélder Lopes, other senior officials, the private sector, civil society, and development partners. On behalf of the IMF team, I would like to thank the Timorese authorities for their hospitality and excellent cooperation. The IMF stands ready to continue providing capacity development to assist the government's operations and reform efforts."

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