

**TIMOR-LESTE'S ECONOMIC
PERFORMANCE 2025**



TIMOR-LESTE: TOWARD PRIVATE SECTOR-LED ECONOMIC GROWTH



Timor-Leste:

**Toward Private Sector-Led
Economic Growth**

TABLE OF CONTENT



EXECUTIVE SUMMARY	i
KEY RECOMMENDATIONS	iii
KEY HIGHLIGHT	v
PRIVATE SECTOR	viii
01 ECONOMIC ACTIVITY AND INFLATION	01
1.1. Economic Development and Outlook	02
1.2. Composition of Gross Domestic Product by Expenditure Approach	03
1.3. Composition of Gross Domestic Product by Production Approach	04
1.4. Inflation	05
02 PUBLIC FINANCE	07
2.1. Public revenue	08
2.2. Public Expenditure	09
2.2.1. Current expenditure	09
2.2.2. Capital expenditure	10
2.3. Fiscal Balance and Financing Structure	12

03	MONETARY	14
3.1.	Interest Rates	15
3.2.	Exchange rates	16
3.3.	Monetary Base	17
3.4.	Money Supply	18
3.5.	Financial deepening	21
04	BANKING SYSTEM	23
4.1.	Banking Assets	24
4.2.	Bank Liabilities	25
4.3.	Bank Profitability	27
4.4.	International Transfer Services	27
4.4.1.	Commercial Banks	27
4.4.2.	Money Transfers Operators (MTOs)	28
05	EXTERNAL SECTOR	29
5.1.	Current Account	31
5.1.1.	Trade Balance	31
5.1.1.1.	Goods Account	31
5.1.1.2.	Service Account	35
5.1.2.	Primary and Secondary Income	35
5.1.2.1.	Primary Income	35
5.1.2.2.	Secondary Income	36
5.2.	Capital and Financial Accounts	37
5.2.1.	Capital Account	37
5.2.2.	Financial Account	37
06	GLOBAL SPILLOVER TO TIMOR-LESTE	39
6.1.	Imported Inflation	40
6.2.	Energy Markets and Oil Revenues	41
6.3.	Petroleum Fund as a Transmission Channel of Global Financial Markets	42

CHARTS

Chart 0.1	Investment percent % of GDP (in constant terms)	ix
Chart 0.2	Composition of Private Sector Output by Industry in the last Five Year	x
Chart 0.3	Composition of Credit to Private Sector (%)	xi
Chart 0.4	Employment Composition in Formal Economic Sector in the Last Five Year	xii
Chart 1.1	Real GDP Growth	02
Chart 1.2	Expenditures Compositions of GPD : Expenditure Approach (Percent)	04
Chart 1.3	Productions Compositions of GDP (Percent)	04
Chart 1.4.1	Inflation Rate in Timor-Leste	05
Chart 1.4.2	Inflation Rate in Timor-Leste	05
Chart 2.1	TL - Fiscal Revenue - Cash basis in Million USD	08
Chart 2.2	Government Budget vs. Execution in Million USD	09
Chart 2.3	Public Expenditure by Category (Cash Basis) Annual Change (Million USD)	10
Chart 2.4	Public and Private Investment	12
Chart 2.5	Fiscal Balance - Million USD	13
Chart 2.6	Source of Public Expenditure Funding	13
Chart 3.1a	Lending Interest Rate	15
Chart 3.1b	Deposit Interest Rate	15
Chart 3.2a	IDR and CNY vs USD	16
Chart 3.2b	Real Effective Exchange Rate Index	16
Chart 3.3	Monetary Aggregates Credit Growth	18
Chart 3.4a	Deposit by Type of Depositors	19
Chart 3.4b	Loans to Private Sector: Contribution to Growth	20
Chart 3.5	M2 and Credit to the Economy as a Percentage of GDP	21
Chart 4.1	Composition of Deposit	26
Chart 4.2	Development in Deposit Growth	26
Chart 4.4.1a	Inward Transfer, by Purpose (MTOs)	28
Chart 4.4.1b	Outward transfers, by Purpose (MTOs)	28
Chart 5.1	Timor-Leste - Current Account Balance	31
Chart 5.1.1	TL Goods Accounts	32
Chart 5.1.2	TL Services Account	35
Chart 5.1.3	TL Secondary Income Account	36
Chart 5.1.4	TL Secondary Income Account	36
Chart 5.2	Financial Account	37
Chart 6.1	Internal and External Inflation	40

Chart 6.2	Exchange rate of ASEAN 5 and China	41
Chart 6.3	Energy prices – Spot level	41
Chart 6.4	Energy prices - Percent annual change	41
Chart 6.5	Exchange Rate of World Major Economies	42
Chart 6.6	Two-Year Bond Interest Rates	43
Chart 6.7	Ten-Year Bond Interest Rates	43
Chart 6.8	Stock Price of Selected Countries	44

TABLES

Table 0.1.	FDI Inflows by Top Five Industries (\$ Million), 2023-2024	x
Table 0.2.	B-Ready Business Report 2024	xiii
Table 1.4.1.	Inflation Rate by CPI Groups - Percent Annual Average	06
Table 2.1.	Composition of Public Investment	11
Table 2.2.	Assumptions for Illustrative Employment Scenarios	11
Table 2.5.	Sources of Variation in the Money Supply (M2)	21
Table 4.1.	Banking System Assets, Annual Changes, and Composition	25
Table 4.2.	Consolidated Results of the banking System	27
Table 5.1.	Balance of Payment of Timor-Leste	30
Tabel 5.1.1.	Import by Board Economic Category (BEC)	32
Table 5.1.2.	Main Import of Goods by Commodities	33
Table 5.1.3.	Destination of Export	34

EXECUTIVE SUMMARY

Helder Lopes

Governor



Economic growth in Timor-Leste is projected to remain robust at 4.6 percent in 2025, supported by an expansionary fiscal stance, strong government consumption, and elevated public investment. Household consumption has benefited from improved real incomes amid a sharp deceleration in inflation, while public investment, particularly in infrastructure, continues to generate short-term demand and employment effects. Real GDP growth is projected to reach about 5 percent through 2026, underpinned by an expansionary fiscal stance, strengthening absorptive capacity (including improved budget execution and economic absorption), positive spillovers to private consumption and investment, and ongoing structural reforms to catalyse private sector-led growth.

However, the economy remains highly dependent on public expenditure and consumption, with limited contribution from private investment and tradable sectors. Structural bottlenecks, weak absorptive capacity, and narrow export bases continue to translate demand impulses into higher imports, resulting in a persistently large trade and current account deficit. Non-oil exports remain concentrated and small in scale, reflecting long-standing competitiveness and diversification challenges.

Inflation declined markedly in 2025, with average headline inflation falling to 0.5 percent, driven by easing global commodity prices, lower food inflation, and favorable exchange-rate developments. While low inflation has helped restore purchasing power and confidence, it also reflects subdued domestic supply responses and continued reliance on imports in a fully dollarized economy.

Fiscal policy remained expansionary in 2025, with a significant increase in the approved budget and moderate improvements in execution. Public investment continued to focus on infrastructure, particularly roads and bridges, supporting activity but with limited domestic multiplier effects due to high import content. Despite progress in non-oil revenue mobilization, fiscal balances remain structurally dependent on transfers from the Petroleum Fund, including substantial excess withdrawals, raising concerns about long-term fiscal sustainability and intergenerational equity.

Monetary and financial conditions remained broadly stable. Credit to the private sector continued to expand, though allocation remained concentrated in construction and trade-related activities, while productive sectors such as agriculture, manufacturing, and tourism experienced weak or declining credit flows. Lending rates remain elevated, constraining private investment and financial deepening. **Money supply contracted in 2025**, reflecting slower deposit growth and tighter fiscal liquidity rather than changes in policy stance.

Externally, the strong U.S. dollar helped contain imported inflation but further weighed on export competitiveness, reinforcing **structural dependence on imports** and non-tradable activities. In the absence of exchange-rate adjustment mechanisms, medium-term growth prospects hinge critically on accelerating structural reforms to raise productivity, strengthen the private sector, and diversify the economy.

Overall, while near-term growth prospects are favorable, the current growth model poses rising risks to fiscal sustainability, external resilience, and inclusive job creation, underscoring the need for a gradual but decisive rebalancing toward private-sector-led and investment-driven growth.

KEY RECOMMENDATIONS

Near-Term Priorities (1–2 Years)

1. **Maintain Macroeconomic Stability While Improving the Composition of Fiscal Spending**

Fiscal policy should continue to support near-term growth while gradually improving the quality and efficiency of expenditure. Priority should be given to well-targeted public investment and essential services, alongside strengthened project appraisal and execution to enhance domestic value added and reduce import leakages.

2. **Strengthen Non-Oil Revenue Mobilization and Cash Management**

Continued efforts are needed to broaden the non-oil tax base, enhance compliance, and strengthen tax administration to reduce reliance on Petroleum Fund transfers. Improved cash management and coordination between fiscal operations and the financial system would help mitigate liquidity volatility and support credit conditions.

3. **Support Credit Intermediation to Productive Sectors**

Measures to improve access to finance, —particularly for SMEs and productive sectors, —should be advanced, including through credit guarantees, improved collateral frameworks through secure property rights, and strengthened financial infrastructure. Efforts should focus on redirecting existing liquidity toward growth-enhancing activities rather than further credit expansion driven by consumption.

4. Preserve Financial Sector Stability

Continued vigilance is warranted to safeguard banking sector soundness amid moderating profitability. Strengthening supervisory capacity and monitoring credit concentration risks will be important as banks reallocate assets toward private sector lending.

Medium-Term Priorities (3–5 Years)

5. Rebalance the Growth Model Toward Private-Sector-Led and Tradable Activities

Structural reforms should focus on fostering private investment, particularly in agriculture, agro-processing, tourism, and light manufacturing. Improving the business environment, reducing regulatory and logistics costs, and strengthening value chains are essential to enhance competitiveness and employment creation.

6. Enhance Public Investment Efficiency and Institutional Capacity

Strengthening public investment management frameworks, —including project selection, procurement, and monitoring, —will be critical to maximizing returns on infrastructure spending. Greater emphasis on maintenance, rural connectivity, and productivity-enhancing infrastructure would support diversification and inclusive growth.

7. Safeguard Fiscal Sustainability and Petroleum Fund Wealth

A gradual fiscal consolidation path anchored in realistic medium-term frameworks is needed to preserve Petroleum Fund assets. Reducing excess withdrawals and aligning spending with long-term absorptive capacity will help protect intergenerational equity and macroeconomic stability.

8. Address Structural Competitiveness Constraints in a Dollarized Economy

In the absence of exchange-rate policy tools, competitiveness gains must come from productivity improvements. Policies should focus on skills development, labor productivity, infrastructure quality, and institutional reforms to support export-oriented activities and reduce structural dependence on imports.

KEY HIGHLIGHT

Economic Activity and Inflation

Economic growth in 2025 is estimated at 4.6 percent, slightly above the 4.3 percent recorded in 2024. Growth was largely driven by domestic demand. Government consumption increased by 8.6 percent, contributing significantly to GDP growth, while private consumption grew by 3.1 percent, supported by rising wages, public transfers, credit expansion, and lower inflation. Private investment also grew by 8.8 percent, stimulated by the expansion of capital expenditure in previous years. This growth was further supported by increased exports of coffee, which accounted for the majority of non-oil export receipts. However, overall growth was offset by a 2.2 percent decline in public investment and a 4.7 percent rise in imports, reflecting the economy's continued reliance on imported goods.

From a production perspective, economic activity remains highly concentrated. Public administration accounted for approximately one-third of GDP, underscoring the dominance of the public sector. Construction continued to expand, largely driven by public infrastructure projects, while agriculture's share declined to around 19 percent. Manufacturing and financial services remain marginal, highlighting the narrow productive base and limited diversification.

Inflation moderated sharply in 2025. Headline consumer price **inflation averaged 0.5 percent**, down from 2.1 percent in 2024, with food prices, the largest component of the CPI, rising only 1.1 percent. Prices for transport, alcohol, and tobacco declined, reflecting lower fuel costs and subdued domestic demand pressures. Inflation is projected to rise moderately to 1.2 percent in 2026, remaining below historical averages.

Public Finance

Fiscal policy in 2025 remained expansionary. The approved central government **budget increased by 17 percent to USD 2.62 billion**, with total expenditures executed at about 69 percent of the budget, rising to nearly 79 percent when excluding the Contributory Capitalization Scheme. Public investment totaled USD 472 million, largely allocated to infrastructure, with roads and bridges accounting for more than half of executed infrastructure spending. Non-oil revenue increased by 19.7 percent, led by higher income tax collections. Including Petroleum Fund transfers, the fiscal deficit amounted to USD 951 million, highlighting the heavy reliance on oil wealth to finance public expenditures.

Monetary and Financial Conditions

Monetary conditions tightened moderately during 2025. The monetary base declined by 3.4 percent, **while broad money (M2) contracted by 5.3 percent**, reflecting lower deposits. Currency in circulation increased, accounting for a small share of M2. **Credit to the private sector grew by 14.1 percent**, concentrated in construction, while lending to other sectors remained subdued. Interest rates were broadly stable, with a slight narrowing of the spread between lending and deposit rates.

The banking system remained well-capitalized and liquid. **Total assets increased by 7.1 percent**, driven by higher loans, while deposits rose modestly. Capital strengthened significantly, and asset quality remained sound, with a non-performing loan ratio of 2.4 percent. Profitability declined, reflecting lower net income and reduced returns on assets and equity.

External Sector

The current account deficit widened by 16.0 percent to USD 701.4 million in 2025, reflecting large deficits in goods and services, partially offset by primary and secondary income inflows. The U.S. dollar appreciation contributed to a slight real effective exchange rate appreciation, helping contain imported inflation but further constraining export competitiveness.

Outlook and Key Challenges

Timor-Leste's macroeconomic environment remains characterized by stable near-term growth and low inflation, supported by public spending and favorable monetary conditions. **However, structural vulnerabilities persist**, including heavy fiscal reliance on petroleum wealth, limited productive diversification, weak tradable sector performance, and rising external imbalances. Addressing these challenges will be central to sustaining growth and financial stability in the medium term.



Special Focus:

Private Sector

Private Sector Development

Timor-Leste's economy remains predominantly driven by the public sector, with government spending and investment serving as the primary engines of growth. Structural barriers, including limited access to finance, underdeveloped infrastructure, a small domestic market, and regulatory constraints, continue to hinder private sector development. As a result, the private sector remains small, grows only modestly, and is concentrated in a few low-productivity sectors, limiting opportunities for economic diversification, broad-based employment generation, and sustained growth.

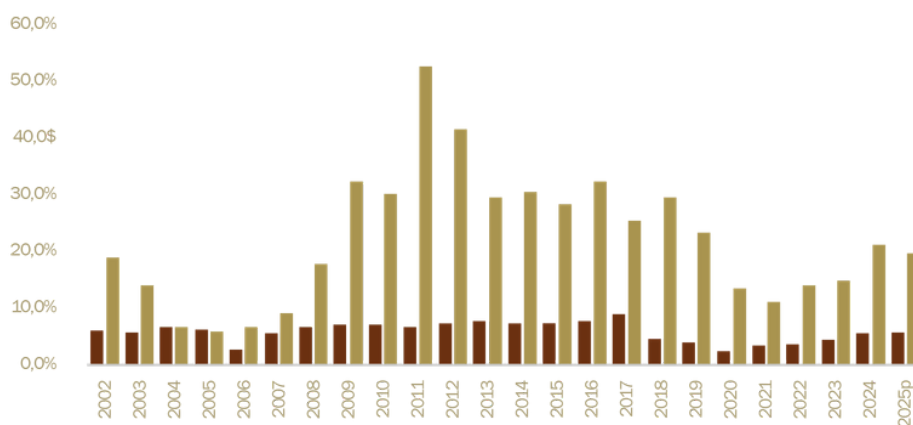
These challenges are compounded by a narrow productive base and weak external competitiveness, which constrains the expansion of the private sector into higher-value and productive activities. Agriculture, despite employing a large share of the population, has experienced stagnant output and productivity, while manufacturing and industrial activity remain negligible.

Trends in Private Investment

The real value of private investment has increased only modestly over the past two decades, rising by USD 47.4 million from USD 54.2 million in 2002 to USD 101.6 million in 2025. As a share of GDP, however, private investment has declined slightly from 6 percent to 5.7 percent over the same period. Investment has been volatile, peaking in 2017 before falling sharply in 2018 amid the political impasse that delayed budget approvals and heightened uncertainty, and declining further to its lowest level in 2020.

Chart 0.1.

Investment percent % of GDP (in constant terms)



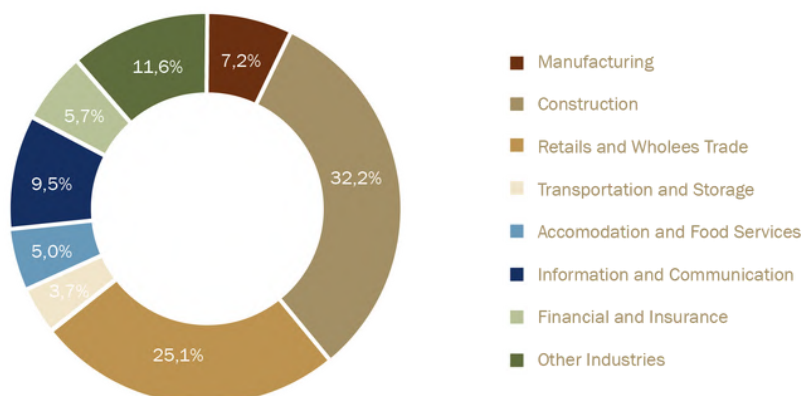
Source: INETL IP-NA 2021 - 2024 & BCTL 2025

The persistently low share of private investment reflects structural constraints, notably the dominance of public investment and a consumption-driven economic structure, which limit private sector dynamism. Private investment remains highly concentrated in construction, which accounted for 32.2 percent of private sector output over the past five years, and wholesale and retail trade (25.1 percent). This concentration indicates that private investment is largely oriented toward activities linked to public spending and domestic demand rather than toward transformative and high-productivity sectors.

Investment in other sectors remains limited. Manufacturing accounts for only 7.2 percent of private investment, underscoring weak industrial development and the absence of a strong industrial base. Transportation and storage (3.7 percent) and accommodation and food services (5.0 percent) remain small, reflecting constrained expansion of tourism-related activities. Information and communication (9.5 percent) and financial and insurance services (5.7 percent) have attracted moderate investment, reflecting gradual growth in modern services but from a low base. The remaining 11.6 percent is distributed across other sectors.

High import dependence further weakens incentives for domestic investment. Imports increased by 5.7 percent in real terms in 2025, subtracting 3 percentage points from GDP growth. The predominance of imported consumer goods, intermediate inputs, and construction materials undermines the competitiveness of local firms, constrains the development of domestic supply chains, and reinforces a consumption-led growth model. Non-oil exports remain narrowly concentrated, primarily in coffee, exposing the economy to external price volatility and limiting private sector foreign exchange earnings.

Chart 0.2.
Composition of Private Sector Output by Industries in the Last Five Years



Source: Business Activity Survey, 2024

Foreign Direct Investment

The sectoral composition of FDI inflows in 2023–2024 reinforces domestic investment patterns. Construction and wholesale and retail trade accounted for nearly 53 percent of total inflows in 2024, while financial and insurance services and information and communication attracted moderate inflows. Manufacturing continues to receive limited foreign investment, reflecting the economy’s weak industrial base and low productive capacity. These patterns suggest that structural constraints, as reflected in low B-READY scores, continue to discourage investment in high-value and export-oriented sectors.

Table 0.1. FDI Inflows by Top five Industries (US\$ million), 2023–2024

Industries	2023	2024
Construction	67.2	59.2
Wholesale and Retail Trades	56.3	63.0
Financial and Insurance Service	28.3	45.8
Information and Communication	28.0	36.0
Manufacturing	11.6	10.8
Others	14.2	13.8
Total Inflows	205.5	228.6

Note: The movements between 2023 and 2024 may not only indicate real economic changes but may also include changes in data availability.

Source: BCTL & INETI, IP, 2024

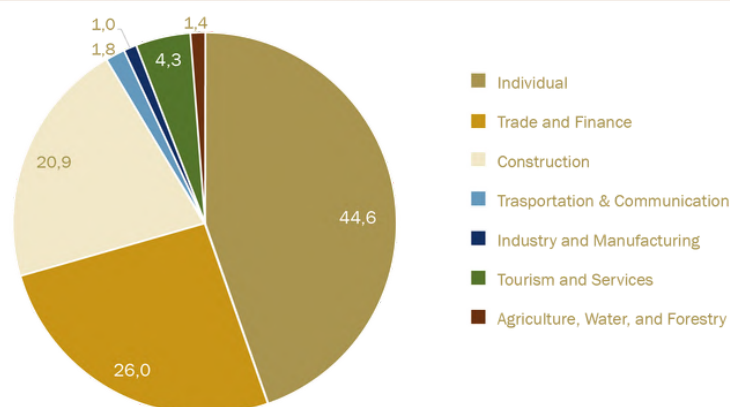
External Competitiveness

Timor-Leste's external competitiveness is constrained by its use of the U.S. dollar. While the strong dollar has helped reduce import costs and contain inflation, it has simultaneously increased the foreign-currency cost of domestic production, weakening export competitiveness. This effect particularly limits private sector development in tradable sectors, such as manufacturing, agriculture, and tourism. Without the ability to adjust the exchange rate, competitiveness must rely on productivity gains and cost reductions. However, these are constrained by infrastructure gaps, skills shortages, high logistics costs, and limited access to finance. Consequently, the strong dollar has reinforced import dependence and discouraged investment in both export-oriented and import-competing activities.

Financial Intermediation

Credit allocation patterns further illustrate structural constraints. Loans to the private sector are predominantly directed at trade and finance (26 percent), construction (20.9 percent), and individual activities largely associated with consumption (44.6 percent). In contrast, productive sectors such as manufacturing (1 percent), agriculture and forestry (1.4 percent), and transportation and communication (1.8 percent) receive minimal financing. This reflects weak financial intermediation, limited collateral frameworks, and high perceived risks, constraining investment in transformative sectors. Timor-Leste's B-READY financial services score of 29.7, the lowest among surveyed economies, underscores these challenges.

Chart 0.3.
Composition of Credit to Private Sector (%)



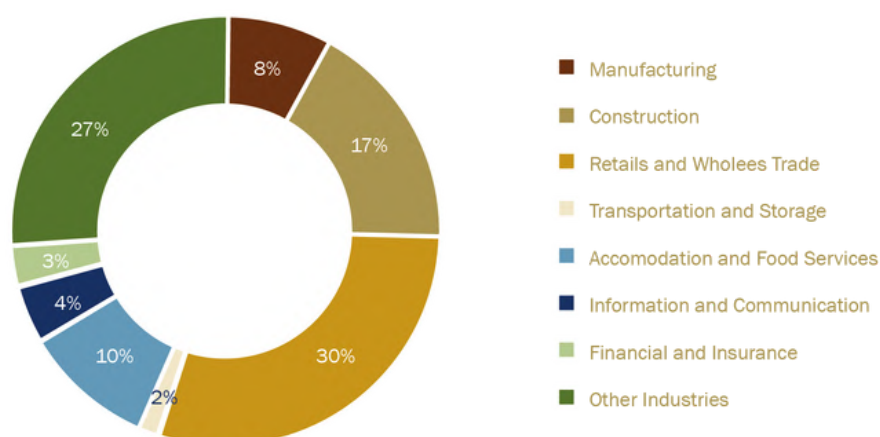
Source: BCTL, 2025

Private Sector Employment Patterns

Employment creation broadly mirrors the sectoral composition of private investment. Wholesale and retail trade account for the largest share of private sector employment (30%), followed by construction (17%), suggesting that job creation is concentrated in sectors with relatively low entry barriers and strong links to domestic demand. Manufacturing employs only 8% of the private sector workforce, reflecting both its low investment share and limited capacity for higher-productivity activities. Accommodation and food services account for 10% of employment, indicating modest tourism-related job creation potential. Employment in transportation and storage (2%), information and communication (4%), and financial and insurance services (3%) remains limited, reflecting both small sector size and higher skill requirements. The remaining 27% of private sector employment is distributed across smaller industries.

The divergence between investment and employment, particularly in construction, highlights the capital-intensive nature of some activities. Construction absorbs a large share of private investment while generating a relatively smaller share of employment, underscoring limited spillovers to other productive sectors. Much of this activity is driven by public sector projects executed by private contractors, making it vulnerable to fiscal delays and political uncertainty. Consequently, the apparent strength of the private sector in construction masks a deeper reliance on government spending and a continuation of a consumption- and public-investment-led growth model.

Chart 0.4.
Employment Composition in Formal Economic Sector in the Last Five Year



Source: Business Activity Survey, 2024

Structural Constraints and B-READY Scores

Domestic structural barriers continue to impede private sector activity and raise the cost of doing business. Weak land tenure and incomplete land titling create uncertainty over property rights, discouraging investment and limiting the use of land as collateral. Limited digital government and business services increase reliance on brokers, raising intermediation fees and transaction costs, particularly for micro, small, and medium businesses. These gaps also slow administrative processes, reduce transparency, and constrain firm formalization and market access.

Infrastructure gaps, particularly in transport, energy, and digital connectivity, further constrain private sector growth and regional integration. While investment in infrastructure has increased, it remains largely oriented toward government projects, with limited spillovers to small export-oriented businesses or broader private sector productivity.

Structural weaknesses are reflected in Timor-Leste's B-READY 2024 scores. Across all three pillars, Regulatory Framework, Public Services, and Operational Efficiency, Timor-Leste ranks in the bottom quintile among selected ASEAN and Pacific economies, with scores of 42.8, 24.2, and 41.6, respectively. These results point to persistent deficiencies in the investment climate, limited quality and coverage of public services, and low operational efficiency, which constrain market-driven private sector activity.

Table 0.2. B-Ready Business Report 2024

Selected Countries in the Region	Pillar 1 Regulatory Framework	Pillar 2 Public Services	Pillar 3 Operational Efficiency
Singapore	77.64	75.27	79.25
Viet Nam	67.03	53.93	70.44
Malaysia	65.61	63.41	67.99
Lao PDR	50.88	35.62	60.06
Indonesia	65.61	62.00	59.01
Samoa	56.77	34.23	58.31
Cambodia	63.06	43.14	56.17
Tonga	45.35	32.34	54.25
Philippines	73.86	57.82	51.45
Vanuatu	55.85	33.64	51.40
Papua New Guinea	55.28	33.46	42.69
Timor-Leste	42.78	24.20	41.58

Source: World Bank B-Ready Report, 2024.

Overall, Timor-Leste's private sector remains small, concentrated, and heavily reliant on public demand. Investment, FDI, employment, and credit focus mainly on construction and trade, while productive sectors, including manufacturing, agriculture, transportation, and modern services, receive limited support. Structural constraints in finance, regulatory quality, infrastructure, and external competitiveness reinforce a consumption- and public-investment-led growth model. Strengthening the investment climate, improving financial intermediation, enhancing productivity, and channeling resources to high-value and tradable sectors will be critical to developing a more inclusive, resilient, and sustainable private sector capable of broad-based growth and higher-productivity employment.

Policy Recommendations for Timor-Leste's Private Sector Development

1. Strengthening the Investment Climate

- Simplify regulations and reduce bureaucratic hurdles to improve Timor-Leste's B-READY scores, particularly in Public Services (24.2) and Regulatory Framework (42.8).
- Promote clear and secure land tenure and property rights to facilitate investment and the use of land as collateral.

2. Enhance Financial Intermediation

- Expand access to affordable credit for productive sectors, including manufacturing, agriculture, and transportation, which currently receive minimal financing (1–1.8%).
- Develop collateral frameworks and risk mitigation mechanisms to encourage private sector borrowing and investment in higher-value activities.

3. Promote Sectoral Diversification

- Incentivize investment in manufacturing, modern services, and export-oriented sectors to reduce reliance on construction and trade (which account for over 50% of private investment).
- Support small and medium enterprises (SMEs) in tradable sectors to expand export capacity beyond coffee and reduce vulnerability to external shocks.

4. Address Infrastructure and Skills Gaps

- Prioritize transport, energy, and digital infrastructure that benefits private sector productivity, not just public projects.
- Invest in workforce development to address skills shortages in high-productivity and modern service sectors.

5. Improve Competitiveness and Reduce Import Dependence

- Support domestic supply chains and local sourcing to reduce the negative impact of imports on GDP (-3.6 percentage points in 2025).
- Promote productivity and cost-reduction measures to counterbalance the constraints of using the U.S. dollar.

6. Leverage FDI Strategically

- Target foreign direct investment toward high-value and export-oriented sectors, instead of primarily construction and wholesale trade, to foster industrial development and job creation in productive sectors.



01 Economic Activity and Inflation

This chapter outlines the recent evolution of Timor-Leste's economy and projections for 2025 and 2026, focusing on key developments in public finance, monetary and financial sectors, and the external sector.

1.1. Economic Development and Outlook

The economic is projected to grow by 4.6 percent in 2025 following five years of moderate economic growth. Growth is driven by consumption and private investment. Despite that, a slight decline in public investment and an expansion of imports, reflecting limited absorptive capacity, partially offsetting the growth.

Final consumption is the main driver of the economic growth in 2025, with government consumption

estimated to rise by 8.6 percent, contributing 4.9 percentage points (pp) to overall growth, led by a moderate increase in purchases of goods and services and wages and salaries. Following the public

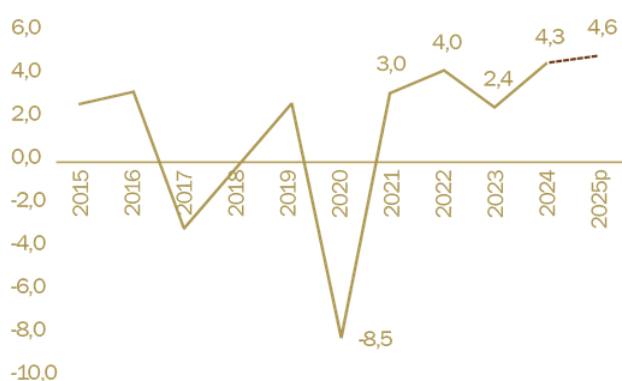
consumption, private consumption is also projected to grow 3.1 percent (2.3 pp), supported by credit expansion, higher wages and salaries, increased transfers, and easing

inflationary pressures. The sharp fall in average inflation for the year has restored confidence and strengthened households' purchasing power, further boosting consumption expenditure.

Private investment is projected to increase by 8.8 percent, supported the crowding-in effect of higher public investment in the last three years. Increased public investment helped improve the investment climate and strengthened conditions for private sector growth. The construction sector stands as the primary beneficiary, particularly through government-funded infrastructure projects such as roads and bridges. These public investments generate significant spillover effects, stimulating private investment across a range of other sectors. Moreover, infrastructure development is fundamental to advancing economic diversification and expanding the country's productive capacity which are essential to ensure long-term sustainable growth.

Despite this, public investment in 2025 declined slightly by 2.2 percent, mainly due to slower spending on minor capital expenditures, partly offset the overall growth.

Chart 1.1.
Real GDP Growth
Percent Annual Changes



Source: BCTL, 2026

In 2025, significant growth in the private sector is expected due to the crowding-in effect.

Timor-Leste continues to face a substantial trade deficit, driven by the growing demand for imported goods and services. In constant terms, total imports are projected to increase by 4.7 percent in 2025, offsetting growth by 3.0 pp. This surge in imports reflects higher domestic demand for foreign consumption, intermediate, and capital goods, while non-oil exports remain largely confined to coffee in modest volumes, underscoring the economy's limited productive capacity to meet internal demand.

Growth is projected at 5.0 percent through 2026, underpinned by an expansionary fiscal stance, strengthening implementation capacity (including budget execution and economic absorptive capacity), positive spillovers to private consumption and investment, and continued structural reforms aimed at improving the business environment and catalysing private sector-led growth. In 2026, activity is expected to remain robust, supported by elevated public spending—particularly on goods and services and capital development. Public investment is projected to stay high, reflecting ongoing construction projects and the launch of new initiatives, with associated spillovers to private investment. Household consumption is expected to moderate but remain supported by public transfers, including payments to veterans registered in 2009. At the same time, rising imports—reflecting limited domestic productive capacity—are projected to partially offset these positive growth contributions.

Beyond the short-term outlook, the consumption-based economy and excessive reliance on the public sector remain key challenges, slowing the transition to a private-sector-led economy and undermining long-term economic sustainability and resilience. This dependence also contributes to persistent trade deficits. Promoting private-sector-driven growth is therefore essential for generating higher-quality, well-paying employment opportunities for the expanding youth population and reducing external dependency, ultimately supporting more resilient and sustainable economic foundation.

1.2 Composition of Gross Domestic Product by Expenditure Approach

The economy remains consumption-driven rather than investment-driven, highlighting its limited capacity to generate new employment.

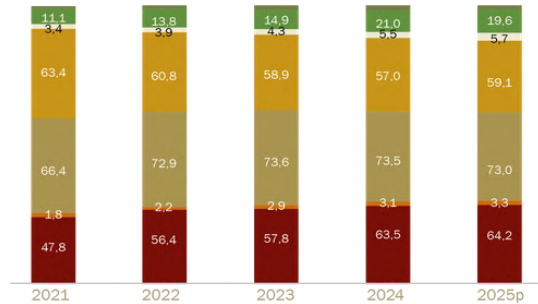
From the perspective of the expenditure approach, the economy remains heavily consumption-driven, with private consumption accounting for 72.4 percent of GDP and public consumption for 59.1 percent. In contrast, the share of total investment remains relatively small, despite the shares of both public and private investment having grown considerably over the past four years.

The reliance on consumption reflects the continued country's weak productive capacity, high dependence on imports, persistent trade deficits, all of which stifle long-term growth potential. As shown in Chart 2, the share of imports is projected to increase in 2025, continuing a trend observed over the past five years. This reflects the country's reliance on imported goods and services to meet rising domestic demand. At the same time, the share of non-oil exports, primarily concentrated in coffee, has grown over the same periods; nevertheless, it remains relatively small.

Chart 1.2.

Expenditures Compositions of GDP : Expenditure Approach (Percent)

Change in Inventories Public Investment Private Investment
Public Consumption Private Consumption Exports
Imports



Source: INETL IP-NA 2021 - 2024 & BCTL

1.3. Composition of Gross Domestic Product by Production Approach

In 2025, public administration continues to hold the dominant share in the economy.

From an industry perspective, public administration continues to dominate the economy, underscoring the limited development of private-sector-led industries. The construction sector has expanded, largely driven by increased public investment in infrastructure.

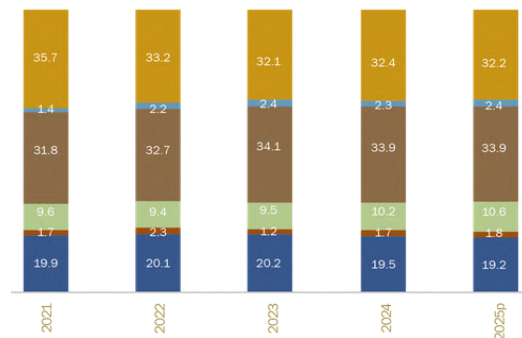
Financial and insurance services are gradually growing although their contribution remains small.

Similarly, Manufacturing has shown slight growth during the year, but its share in the economy remains minimal. Agriculture, while accounting for a moderate share, has shown a minor declining trend in recent years, reflecting stagnation and limited modernization.

Chart 1.3.

Productions Compositions of GDP (Percent)

Agriculture Construction Financial and Ins. Activities
Manufacturing Public Administration Others



Source: INETL IP-NA 2021 - 2024 & BCTL 2025

Meanwhile, other smaller industries collectively contracted in 2025, further reinforcing the concentrating of economic activity only in a few industries. This narrow sectoral base highlights the country's diversification challenge, with

growth heavily reliant on public administration and construction rather than a broad, private-sector-driven expansion.

1.4. Inflation

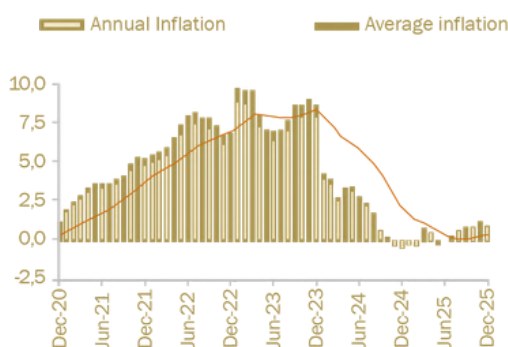
The average annual inflation rate is expected to fall to 0.5% in 2025 and 1.2% in 2026.

The significant disinflation is primarily due to the sharp decline in prices within the food and non-alcoholic beverages category.

The consumer price index of Timor-Leste for 2025, during the last two years, the domestic inflation rate, calculated based on the consumer price index (CPI) has always maintained a low-level 1 percent, registering, in December 2025 from negative 0.4 percent in the previous year. In terms of annual averages, Timor-Leste CPI data shows that the annual inflation rate remained at 2.1 percent and 0.5 percent in 2024 and 2025, respectively. This trend is considered a positive development following a peak inflation rate in 2023 because it reduces inflationary pressure in the domestic market and restores consumer confidence as pressure on purchasing power slowly subsiding. The disinflation has been driven primarily by the gradual reduction in global commodity prices. In the first half of 2025, Timor-Leste recorded an average inflation of just 0.1 percent - lowest semester average in the past eight years.

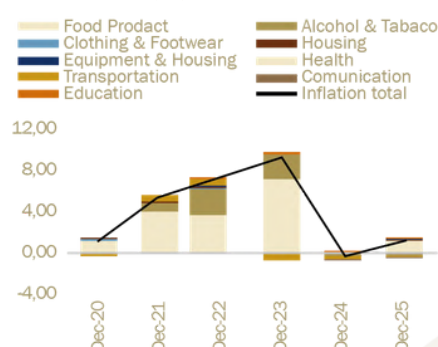
The inflation slowdown was primarily driven by falling prices in the food and non-alcoholic beverages category, which had been a major source of inflationary pressure in recent years. Since this category carries the largest weight in Timor-Leste's consumption basket, price movements within it can significantly influence overall inflation. Over the past 12 months, the average inflation in this category was around 1.1 percent. Other categories, such as alcohol and tobacco as well as transportation which typically strong drivers of headline inflation, also recorded notable declines, as it can be seen from the second chart below. The other reason, the depreciation of regional currencies thus resulted in a decrease in the price of goods and services imported from main trading partners.

Chart 1.4.1
Inflation Rate in Timor-Leste
Percent Annual Change



Source: INE-TL and BCTL calculation

Chart 1.4.2
Inflation Rate in Timor-Leste
Percent Inflation (y-o-y) and its Drivers



Source: INE_TL & BCTL analysis

The substantial reduction in the level of inflation seen as a beneficial development for the national economy and consumers, since it reduces the pressures on the consumer prices of goods and services in the domestic market in the last decade. Other consequences of higher level of inflation including the worsening of the levels of social inequality and poverty. Table 2.1 shows the annual average inflation rate by CPI groups from December 2021 to December 2025. Overall inflation increased sharply from 3.8 percent in 2021 to a peak of 8.4 percent in 2023, before easing significantly to 2.1 percent in 2024 and 0.5 percent in 2025, indicating a strong moderation in price pressures.

Food inflation was the main driver of overall inflation, rising from 5.8 percent in 2021 to 10.2 percent in 2023, reflecting higher global food prices and supply pressures. However, food inflation declined sharply to 4.3 percent in 2024 and further to 1.1 percent in 2025, contributing to the overall disinflation trend.

Alcohol and tobacco prices recorded the highest volatility, surging dramatically to 23.8 percent in 2022 and 32.0 percent in 2023, likely due to tax adjustments or regulatory changes. Prices then contracted in 2024 (-2.3 percent) and 2025 (-2.1 percent), exerting downward pressure on inflation.

Transport inflation also showed strong fluctuations, peaking at 12.1 percent in 2022, before turning negative from 2023 onwards, reflecting declining fuel prices and easing transportation costs.

Table 1.4.1. Inflation Rate by CPI Groups – percent annual average

	Dec-21	Dec-22	Dec-23	Dec-24	Dec-25
Food	5.8	7.5	10.2	4.3	1.1
Alc. & tobacco	7.2	23.8	32.0	-2.3	-2.1
Clo. & foot	0.0	-0.2	1.5	0.4	0.3
Housing	0.4	1.4	0.7	-0.7	0.5
Household eq.	-0.3	2.9	-1.6	-1.6	0.7
Health	0.2	0.8	1.7	0.6	0.2
Transport	2.7	12.1	-0.6	-1.7	-1.3
Communication	0.0	0.0	0.7	-0.4	-0.7
Rec. & cult.	0.1	1.7	-1.0	1.7	0.4
Education	0.0	2.5	6.9	2.0	0.4
Total	3.8	7.0	8.4	2.1	0.5

Source: INE-TL & BCTL

Looking forward, the inflation rate is projected to remain low but edge slightly higher than in 2025. BCTL forecasts an average of 1.2 percent for the year, reflecting lingering global market uncertainties. Despite this slight increase, the rate is still considered positive as it remains well below the government's annual inflation threshold.



02

Public Finance

2.1. Public revenue

Progress has been made on non-oil revenue being accumulated during 2021-2025, reversing the progress being observed during 2017-2021.

Progress has been made on non-oil revenue being accumulated during 2021-2025, reversing the progress being observed during 2017-2021, non-oil revenue increased steadily over the period 2021–2025, reflecting improvements in non-oil economic activity, enhancements in tax administration, or a combination of both factors.

As shown in Chart 2.1, non-oil revenue increased by 112.6 percent between 2021 and 2025, while it declined by 7.2 percent between 2018 and 2021.

Government accumulated an amount of \$313.7 million from non-oil economic activities in 2025.

In 2025, the government collected USD 313.7 million in non-oil revenue, representing an increase of 19.7 percent from USD 261.4 million in 2024. This extended the positive growth trend observed in recent years, following increases of 20.7 percent in 2022, 30.9 percent in 2023, and 14.0 percent in 2024.

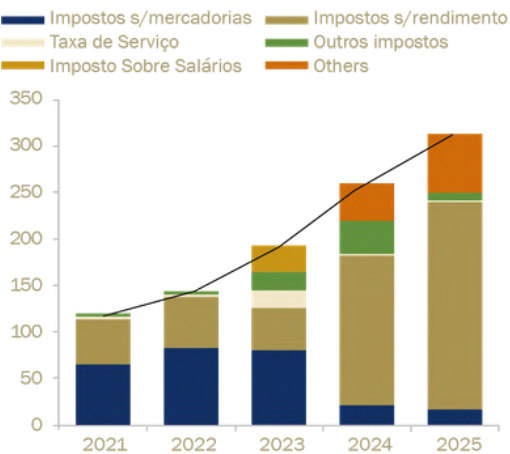
Income tax represented 89% of the total non-oil revenue in 2025.

The increase in non-oil revenue in 2025 was driven entirely by income tax, which rose by 28.8 percent. In contrast, revenues from commodity tax, service tax, and other taxes declined by 2.4 percent, 0.2 percent, and 11.7 percent, respectively, indicating lower collections compared to the previous year. Other taxes include revenues from rent and interest, fees and charges, refunds not deducted from payments, and cash balances.

Government executed 69.4 percent of its approval budget in 2025.

In terms of composition, non-oil revenue in 2025 was dominated by income tax, amounting to USD 223.8 million (88.7 percent), followed by commodity tax at USD 17.1 million (6.8 percent). Service tax and other taxes contributed smaller amounts of USD 3.6 million (1.4 percent) and USD 7.8 million (3.1 percent), respectively. No revenue from tax on salaries was recorded in 2025, compared to a contribution of USD 25.6 million in 2023.

Chart 2.1
TL - Fiscal Revenue - Cash basis in Million USD



Source: TL Transparency Portal and BCTL analysis

2.2. Public Expenditure

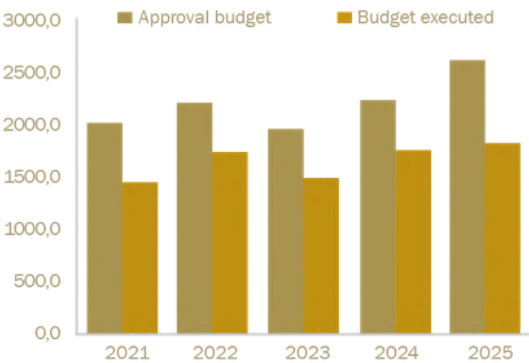
2.2.1. Current expenditure

Government expenditure is a key instrument of fiscal policy, with significant implications for economic activity, employment, and household consumption. Expansionary fiscal policy supports economic growth through increased labor absorption and income generation, while fiscal contraction has the opposite effect, potentially increasing unemployment and dampening consumption.

In 2025, the government adopted an expansionary fiscal stance, increasing its approved budget by 17 percent to USD 2,617 million, up from USD 2,238 million in 2024, thereby extending the expansionary policy initiated in 2024 and reversing the contractionary stance observed in 2023 (Chart 2.2). In 2023, the approved budget declined sharply by 39 percent from USD 3,211 million in 2022.

Government adopted expansionary fiscal policy in 2025 as the budget was increased by 17 percent from \$2.2 billion in 2024.

Chart 2.2
Government Budget vs. Execution in Million USD



Source: TL Transparency Portal and BCTL analysis

In 2025, the approved budget was allocated mainly to: Public transfers: USD 1,246 million, salaries and wages: USD 508 million, capital development: USD 441 million, goods and services: USD 391 million, and minor capital: USD 32 million.

Most of the infrastructure development fund allocated to roads and bridges in 2025.

In terms of execution, 69.4 percent of the approved budget was executed in 2025. Salaries and wages recorded the highest execution rate at 94.1 percent, followed by goods and services (78.4 percent), minor capital (75.0 percent), and capital development (71.6 percent). Execution of public transfers remained relatively low at 55.0 percent, largely reflecting the low execution of the Contributory Capitalization Scheme (CCS) amounting to USD 305.7 million.

Excluding the CCS, the execution rate of public transfers increased to 73.7 percent of the approved budget of USD 940.3 million, raising the overall budget execution rate to 78.6 percent. Compared to 2024, total budget execution in 2025 increased by USD 62.7 million, equivalent to a 3.6 percent

The level of budget executed in 2025 was higher by \$62.7 million than budget executed in 2024.

rise (Chart 2.3). This increase was driven by higher execution of salaries and wages (USD 30.8 million), goods and services (USD 32.5 million), public transfers (USD 7.8 million), and capital development (USD 14.9 million), while execution of minor capital declined by USD 23.3 million.

Chart 2.3
Public Expenditure by Category (Cash Basis)
Annual Change (Million USD)



Source: TL Transparency Portal d BCTL analysis

2.2.2. Capital expenditure

Government allocated 18% of the total approval budget in 2025 on public investment, amounted \$472.5 million.

Public investment accounted for 18 percent of the approved budget in 2025, amounting to USD 472.5 million, of which 93 percent was allocated to capital development and 7 percent to minor capital. The execution rate of public investment reached 72 percent, with similar execution rates for minor capital (75 percent) and capital development (72 percent). Its execution represented 19 percent of total expenditure in 2025, slightly lower than the 20 percent recorded in 2024, but higher than the levels observed in 2021–2023. Most public investment continued to be allocated to capital development (USD 440.8 million), , with Most of the infrastructure development fund allocated to roads and bridges in 2025. USD 31.7 million allocated to minor capital.

Infrastructure investment totaled USD 296 million in 2025, equivalent to 87 percent of public investment execution. As shown in Table 2.1, execution was concentrated in roads and bridges (56 percent), followed by other infrastructure (9 percent) and maintenance and rehabilitation (8 percent). Agriculture accounted for 6 percent, representing a notable increase compared to previous years.

Execution in agriculture, maintenance and rehabilitation, and roads and bridges increased by USD 9 million, USD 2 million, and USD 93 million, respectively, compared to 2024, while execution declined in most of the other infrastructure sectors. Their level of executions was also increasing during 2021-2025.

Table 2.1 Composition of Public Investment

Capita	Millions USD - cash basis					Percent of Public Investment				
	2021	2022	2023	2024	2025	2021	2022	2023	2024	2025
Minor capital	44	46	48	47	24	32	23	21	14	7
Capital development	96	157	183	301	316	68	77	79	86	93
Total infrastructure	91	147	109	206	296	65	73	47	59	87
Total public investment	140	203	231	348	340	10	12	16	20	19
Total expenditure	1442	1741	1488	1754	1817	100	100	100	100	100
Main Investment in Infrastructure Assets										
Infrastructure Projects	Millions USD - cash basis					% of Public Investment				
	2021	2022	2023	2024	2025	2021	2022	2023	2024	2025
Agriculture	2	3	4	12	21	2	1	2	3	6
Rural & urban dev			4	5	5	0	0	2	2	1
Maintenance & Rehabilitation			10	25	27	0	0	4	7	8
Court Services			3	0	2	0	0	1	0	1
Information & Communication Technologies			16	26	11	0	0	7	8	3
Water and Sanitation		2	1	6	1	0	1	0	2	0
Health	8	5	2	3	0	6	3	1	1	0
Airport	2	0	4	0	0	1	0	1		
Education	0	28	1	3	3	0	14	1	1	1
Road and Bridge	3	18	58	98	191	2	9	25	28	56
Other Infrastructure	78	91	8	27	31	56	45	3	8	9
Total Infrastructure	91	147	109	206	296	65	73	47	59	87

Box 2.1: Illustrative Employment Effects of Infrastructure Investment

Public investment generates important spillover effects to the private sector, particularly through labor absorption during project implementation. Infrastructure projects support household income and consumption, thereby contributing positively to overall economic activity.

Table 2.2. Assumptions for Illustrative Employment Scenarios

Assumption	Value
Total infrastructure budget (2025)	USD 296 million
Share allocated to labor costs	1% and 5%
Labor allocation (USD)	USD 3.0 million / USD 14.8 million
Average monthly wage	USD 115
Additional Information	
Employment duration	12 months
Estimated employment	2,147 / 10,735 persons

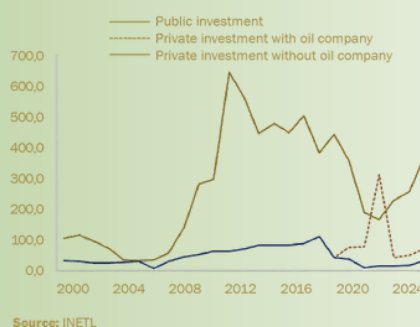
For illustrative purposes only, a simple assumption-based calculation is used to assess the potential employment impact of infrastructure spending in 2025. Assuming that, 1 percent of the USD 296 million infrastructure budget is allocated to labor costs, with an average monthly wage of USD 115 over a one-year period, it is estimated that approximately 2,147 workers could be employed. Under an alternative scenario where 5 percent of the infrastructure budget is allocated to labor costs, employment could reach approximately 10,735 workers, representing an increase of 43.9 percent relative to estimated labor absorption in 2024.

These estimates are indicative only and should not be interpreted as measured or forecast employment outcomes.

Beyond labor absorption, public investment also stimulates demand for construction materials, transport services, and related activities. However, the high import content of construction materials limits the domestic multiplier effect. Moreover, despite higher infrastructure execution in 2025, overall public investment execution declined slightly compared to 2024, suggesting that aggregate labor absorption may have been lower, notwithstanding stronger infrastructure spending.

Although public investment positively correlated to private investment, the gap between them remains wider after the 2007.

Chart 2.4
Public and Private Investment



2.3. Fiscal Balance and Financing Structure

Government continues running on budget deficit without the money from the Petroleum Fund.

Chart 2.5 presents fiscal balances for 2017–2025 under two scenarios: (i) excluding Petroleum Fund (PF) transfers of Estimated Sustainable Income (ESI), and (ii) including ESI. Both scenarios exclude excess withdrawals and external transfers.

Without PF transfers, government finances remained persistently in deficit. In 2025, with non-oil revenue of USD 313.7 million and expenditure of USD 1,817 million, the fiscal deficit amounted to USD 1,503 million. This reflected the limited capacity of non-oil revenues to offset expenditure growth.

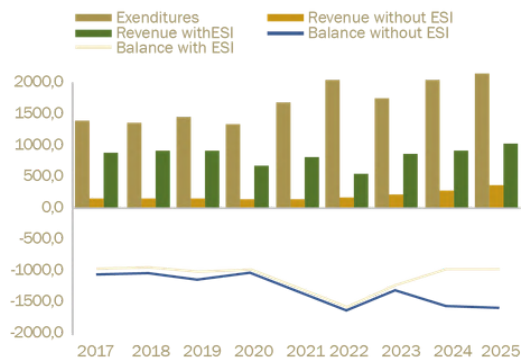
Including ESI as domestic revenue reduced the deficit to USD 951.3 million, as PF transfers amounted to USD 522.1 million, broadly in line with 2024. Nevertheless, additional financing was required, mainly through excess withdrawals from the PF.

Chart 2.6 shows that 80 percent of total government expenditure in 2025 was financed by PF transfers, comprising 30.4 percent from ESI and 49.5 percent from excess withdrawals. Domestic revenue accounted for 17.3 percent, loans for 2.0 percent, and external transfers for 0.1 percent. No financing from cash balances was recorded in 2025.

Overall, government expenditure during 2021–2025 was financed primarily by six sources: domestic revenue, ESI, excess PF withdrawals, loans, external transfers, and cash balances, with PF transfers remaining the dominant financing source.

Chart 2.5

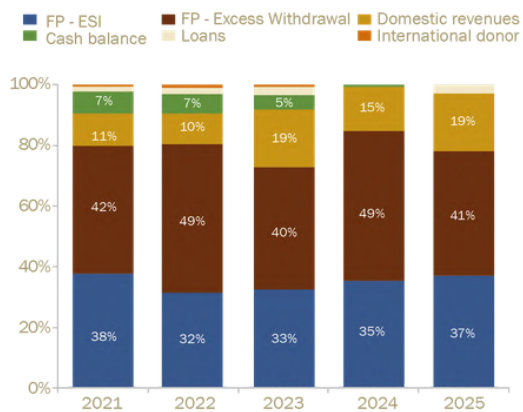
Fiscal Balance - Million USD



Source: Portal Transparency and BCTL calculation
percent of total annual revenues

Chart 2.6

Source of Public Expenditure Funding Percent of Total Annual Revenue



Source: TL Transparency Portal, State Budget, and BCTL analysis



The background of the slide features a close-up, slightly blurred image of several Timorese coins. A prominent silver coin in the foreground shows the text "REPÚBLICA DEMOCRÁTICA DE TIMOR" and the year "2012" along with a rice stalk emblem. Above it, a gold coin displays a sailboat and the year "2013". To the right, another silver coin partially shows the text "REPÚBLICA D". On the left side of the slide, there is a vertical decorative border with a repeating geometric pattern of squares and diamonds in a light beige color.

03 Monetary

3.1. Interest Rates

Interest rates on loans in Timor-Leste are still relatively high when compared to international benchmarks for dollar-based lending. However, there's been a small but encouraging shift. As of December 2025, the average interest rate on loans to the private sector declined slightly—from 10.4 percent a year earlier to 10.4 percent.

Loan interest rates remain considerably high, even with the implementation of a concessional credit program offering lower rates

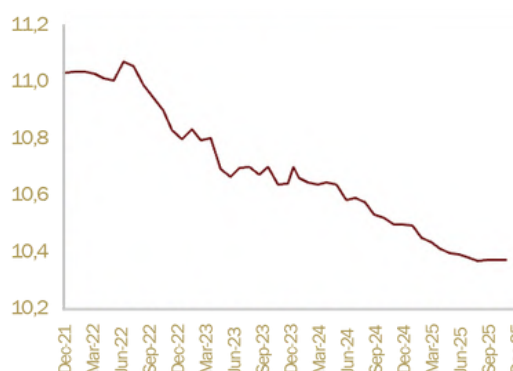
At the same time, the government has stepped in by providing capital to support concessional loans at a much lower rate of 3%. While this initiative is promising, it hasn't yet made a noticeable impact on the overall average lending rates.

Still, even this modest decline in interest rates is a step in the right direction. It's a sign of gradual progress that could bring some relief to businesses and households who depend on credit to support their activities and growth.

At the same time, there was a small uptick in the average interest rate on 12-month deposits. It rose from 0.66 percent in December 2024 to **0.67 percent** in December 2025—a modest increase of **0.01** percentage points over the year.

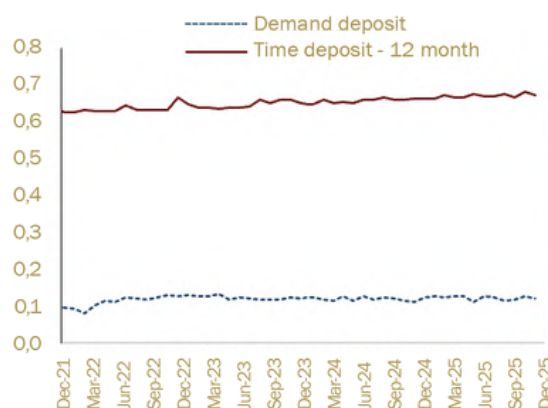
This slight rise in deposit rates, combined with the small drop-in lending rates, helped narrow the interest rate spread. The gap between what banks charge for loans and what they offer for deposits shrank from 9.8 in December 2024 to **9.7 percent** in December 2025, suggesting a gradual move toward more favourable financial conditions for savers and borrowers alike.

Chart 3.1a
Lending Interest Rate



Source: BCTL

Chart 3.1b
Deposit Interest Rate



Source: BCTL

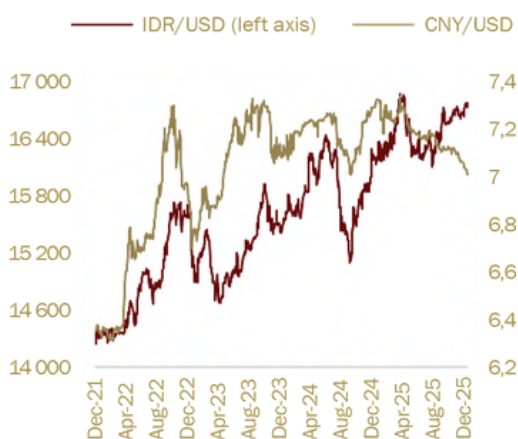
3.2. Exchange rates

In 2025, the U.S. dollar strengthened slightly compared to the same period last year against the currencies of Timor-Leste's main trading partners, particularly Indonesia, while remaining broadly stable against China.

On average, the dollar appreciated by around 3.9 percent against the Indonesian rupiah and was virtually unchanged (0.0 percent) against the Chinese yuan. This performance reflects sustained global demand for U.S. dollar assets, supported by the relative resilience of the U.S. economy, higher-for-longer U.S. interest rates, and greater clarity and stabilization in U.S. trade and economic policies, which together have reinforced the dollar's dominant role in international trade settlement and payments, the depth and liquidity of U.S. foreign exchange and capital markets, and its continued use as the primary reserve currency.

Chart 3.2a

IDR and CNY vs USD (Nominal Exchange Rates)



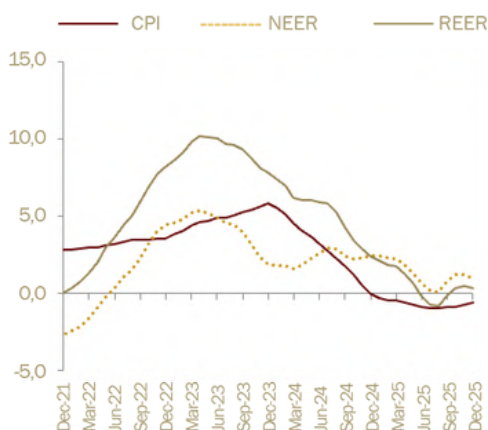
Source: Bloomberg

By December 2025, the appreciation of both the REER (0.4 percent) and the NEER (1.0 percent) pointed to emerging pressures on Timor-Leste's international competitiveness

In December 2025, the annual average real effective exchange rate index (REERI) increased modestly by 0.4 percent, compared to a 2.4 percent appreciation in the same period of 2024. This smaller increase in REERI indicates that Timor-Leste's exports remained relatively competitive in 2025, although slightly less so than in 2024, as the real appreciation of the U.S. dollar against its main trading partners' currencies partially offset price advantages. As shown in Chart 3.2b, the moderate upward trend in the REER suggests that Timor-Leste's international competitiveness remained stable, with limited pressure on export prices.

Chart 3.2b

Real Effective Exchange Rate Index Percent Average Annual Change



Source: Bloomberg and BCTL analysis

The Nominal Effective Exchange Rate (NEER), which measures the U.S. dollar's value against a basket of Timor-Leste's main trading partners' currencies, rose by 1.0 percent by December 2025, reflecting the nominal appreciation of the U.S. dollar. This nominal strength increased Timor-Leste's purchasing power, making imports relatively cheaper while placing some pressure on the competitiveness of its exports.

In Timor-Leste's fully dollarized and import-dependent economy, a strong US dollar lowers the USD price of imported goods, particularly consumer goods, intermediate inputs, and capital equipment sourced from non-USD trading partners. This has helped contain inflation and reduce input costs for firms that rely heavily on imported raw materials, machinery, and construction inputs, thereby supporting short-term business activity and easing cost pressures in sectors such as retail, construction, and services. However, the same exchange-rate dynamics also place pressure on export competitiveness. With the US dollar appreciating against regional currencies, Timor-Leste's non-oil exports—already limited and largely supply-constrained—become relatively more expensive in international markets. This weakens profit margins for exporters and reduces incentives for private investment in tradable sectors such as agriculture, agro-processing, and light manufacturing. As a result, private sector activity remains concentrated in import distribution, commerce, and non-tradable services, reinforcing structural dependence on imports.

Overall, while a strong USD provides short-term benefits through lower import costs and subdued inflation, it also reinforces structural constraints on private sector development by discouraging export-oriented activities. In the absence of exchange rate adjustment, sustained private sector growth will depend less on currency movements and more on structural reforms aimed at improving productivity, reducing logistics and regulatory costs, enhancing access to finance, and strengthening value chains in tradable sectors. This highlights the importance of complementary policies to mitigate the adverse competitiveness effects of a strong USD and support the diversification and resilience of the domestic private sector.

3.3. Monetary Base

In December 2025, the monetary base declined by 3.4 percent, reaching USD 284 million. Of this, currency in circulation accounted for 13.2 percent, while the remaining 86.8 percent comprised banks' deposits with the BCTL.

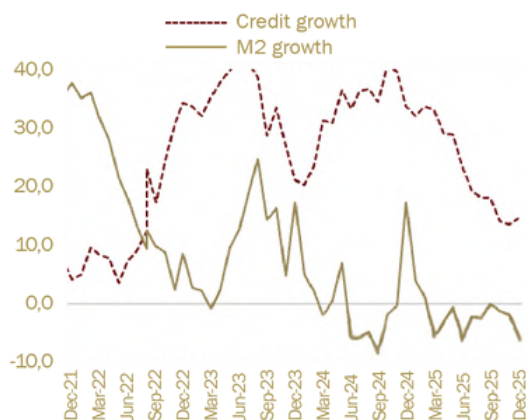
This contraction does not indicate reduced liquidity within the banking system or changes in conventional central bank policy instruments. In Timor-Leste's fully dollarized system, the BCTL cannot control reserves to influence credit, the decline primarily reflects a reduction in banks' settlement account balance within the BCTL.

The contraction in monetary base contributed to a moderation in the overall money supply (M2)

(see Section 3.4). In a dollarized economy, the expansion of credit and deposits is largely driven by the accumulation of private sector deposits rather than central bank reserves. Therefore, the decline in M2 mainly reflects slower deposit growth and moderate credit expansion, highlighting the close link between banking sector liquidity, private sector activity, and money supply dynamics in Timor-Leste.

Chart 3.3

Monetary Aggregates Credit Growth
Percent Annual Change



Source: BCTL

3.4. Money Supply

The money supply declined by 7.3%, reaching \$1,205 million in December 2025.

Following a peak in M2 growth in late 2021, monetary expansion decelerated sharply through 2022, reflecting a normalization of liquidity conditions. M2 growth rebounded temporarily in mid-2023, before moderating again toward the end of the year. Since 2024, M2 growth has remained subdued and volatile, fluctuating around low single digits and turning negative at several points. **By December 2025, M2 growth had weakened further, indicating a contraction in the money supply relative to the previous year.** The stock of M2 declined to USD 1,267.8 million, representing a year-on-year contraction of approximately 5.3 percent compared to December 2024, consistent with the subdued monetary growth observed throughout 2025.

By December 2025 individuals hold 60% of deposits, while private companies hold 40%.

Charts 3.4a and 3.4b illustrate the evolution of monetary aggregates and credit growth from December 2021 to December 2025, highlighting a gradual tightening of liquidity conditions over the period. The contraction in the money supply in 2025 was primarily driven by changes in its components, both transferable (demand) deposits and other deposits.

By December 2025, demand deposits, which accounted for 48.9 percent of M2, had declined by 3.5 percent. Other deposit categories, including time and savings deposits, also fell by 8 percent during the same period, while currency in circulation—representing 3 percent of M2—rose by 12.3 percent.

In terms of deposit ownership by institutional sector, individuals account for 58 percent of total deposits, while private companies hold the remaining 42 percent. Compared to the previous period, the share of deposits held by individuals decreased by 2 percentage point, whereas the share held by private companies increased by the same margin.

Including government deposits, private companies' share drops to 27 percent, and individuals to 37 percent.

When government deposits are included, as illustrated in Graph 3.4b, the distribution shifts

markedly: the share of deposits held by private companies falls to 27 percent, while the share held by individuals declines to 37 percent. Government deposits account for the remaining 35 percent of total deposits.

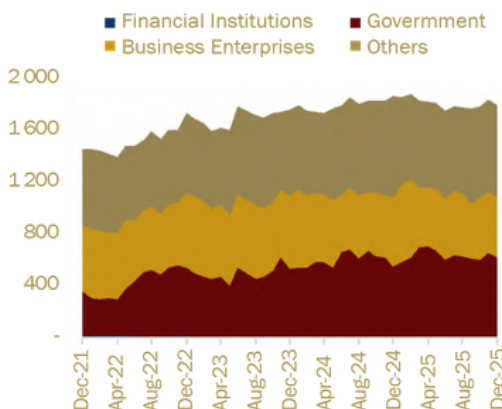
Credit to the private sector continued to expand in December 2025, reflecting gradual progress in private sector development in Timor-Leste, albeit with uneven sectoral performance. After peaking at the middle of 2023, private sector credit growth has remained relatively robust, though moderating, reaching about 14.1 percent year-on-year in December 2025. The total stock of private sector credit increased to USD 724.4 million by the end of the year.

Private sector credit growth peaked in middle 2023 and has remained robust, though moderating, reaching 14.1% in December 2025.

Sectoral contributions to credit growth indicate a pronounced concentration in a limited number of activities. The construction sector accounted for approximately 20.9 percent of total outstanding credit and contributed 5.6 percentage points to overall credit growth. Similarly, the trade and finance sector, representing about 26 percent of total credit, contributed 10.4 percentage points, underscoring its continued role as a principal driver of economic activity.

In contrast, credit to households for consumption purposes, which had previously been the dominant source of credit expansion, declined markedly.

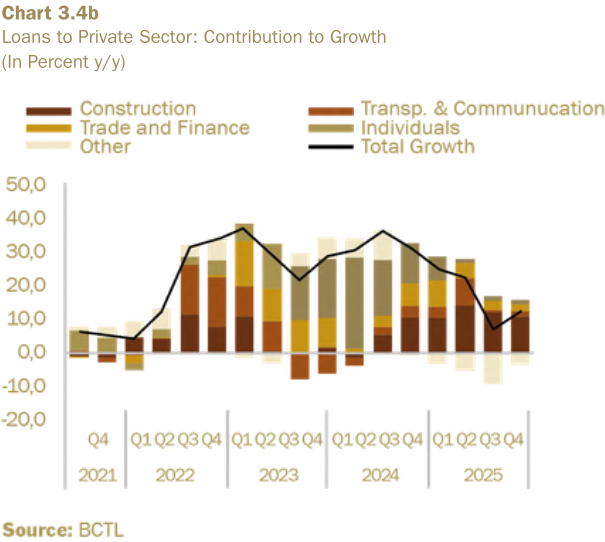
Chart 3.4a
Deposit by Type of Depositors
(In Million of USD)



Source: BCTL

Its contribution to overall credit growth fell to 1.6 percentage points in December 2025, compared with about 11.7 percentage points in the preceding year.

Meanwhile, credit to agriculture and tourism continued to register only marginal contributions, at 0.3 percentage points and 0.4 percentage points, respectively, as of December 2025. Credit to the industry and manufacturing sectors exerted a negative contribution to overall credit growth during the period, highlighting persistent structural constraints affecting productive sectors. Similarly, the transport and communication sector recorded a negative contribution of 3.7 percentage points, further reflecting underlying weaknesses in key productive and infrastructure-related activities.



Notably, these credit developments have occurred alongside a growing accumulation of deposits by the private sector within the financial system, indicating improving financial intermediation and rising confidence in formal banking. However, the divergence between strong deposit growth and more selective credit allocation suggests that financial resources are not yet being fully channeled toward broad-based productive investment. Strengthening the linkage between private sector deposits and credit—particularly toward agriculture, manufacturing, and tourism—remains critical for fostering inclusive and sustainable private sector-led growth in Timor-Leste.

Another perspective on the M2 analysis, as shown in Table 3.4 below, highlights that the contraction in M2 in 2025 reflects a combination of tightening fiscal liquidity and slower private credit growth, despite continued contributions from other banking sector assets. The data suggest that the money supply in Timor-Leste is highly sensitive to government cash management, highlighting the importance of coordinating fiscal and monetary operations to support private sector development.

Table 2.5. Sources of Variation in the Money Supply (M2)

(In million of USD)

	Annual Flows	
	Dec-24	Dec-25
Credit to the Economy	156,6	95,5
Government	101,4	-199,2
Claims on BCTL	-1,3	0,0
Deposits	102,7	-199,2
NFA	-10,0	136,4
Other Net Assets and Liabilities	156,9	103,8
M2	91,1	-71,1

Source: BCTL

3.5. Financial deepening

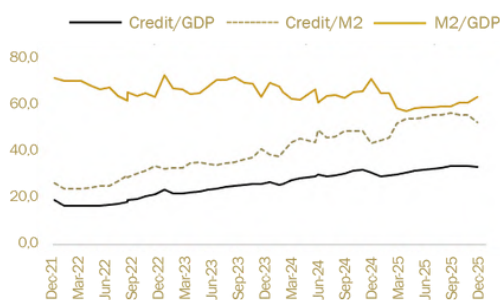
In December 2025, the M2-to-GDP ratio declined to 63.5 percent from 70.9 percent in December 2024

The development of the financial sector plays a critical role in supporting economic growth and poverty reduction. A commonly used measure of financial sector development, or financial deepening, is the ratio of money supply and credit to GDP. In December 2025, the M2-to-GDP ratio declined to 63.5 percent from 70.9 percent in December 2024, reflecting a slowdown and contraction in money supply growth. This represents a notable drop of 7.5 percentage points, indicating volatility within an overall downward trend. Nevertheless, the ratio remains relatively high by historical standards, suggesting that the financial system continues to exhibit a considerable degree of depth.

In contrast, the credit-to-GDP ratio continued its gradual upward trajectory, increasing by 2.9 percentage points year-on-year to reach 36.5 percent in December 2025. While this expansion is a positive sign of improving financial intermediation, the ratio remains relatively low, pointing to limited credit penetration in the economy.

Chart 3.5

M2 and Credit to the Economy as a Percentage of GDP (Percentage)

**Source:** BCTL

This assessment is further reinforced by the credit-to-M2 ratio, which stood at 52.2 percent in December 2025, up from 43.6 percent a year earlier. Although this improvement indicates a better conversion of deposits into credit, it also highlights that a significant share of liquidity in the financial system is not yet being fully channelled toward productive lending.



04 Banking system

Timor-Leste's financial system consists of eight institutions—six commercial banks and two other deposit-taking institutions. This includes the recently authorized Banco do Nosso Futuro, which received approval on 6 August 2025 and was inaugurated on 4 September 2025.

The banking system maintained solid performance throughout 2025, ensuring adequate liquidity and delivering quality services through both digital platforms and over-the-counter channels. Banking sector assets increased slightly by 7.1 percent year-on-year in December 2025, mainly driven by growth in credit and fixed assets, as well as the other assets.

On the liabilities side, total liabilities exclude capital, increased by 3 percent, reflecting higher obligations to commercial banks and customer (deposits), while obligations to the central bank and deposits declined. Deposits increased by 3.2 percent year-on-year; and they remained the dominant source of funding, indicating a broadly stable funding base. The increase was mainly attributable to higher growth in time deposits, including government deposits as well as deposits from enterprises and individuals. While bank transfer services grew compared to the same period in 2024, transfers via Money Transfer Operators (MTOs) declined.

4.1. Banking Assets

Bank system assets slightly increased by 7.1% in 2025 to an amount of \$2,852 million.

In December 2025, total assets of the Timorese banking system reached \$2,852 million, representing an increase of 7.1 percent compared with the same period in 2024 (see Table 4.1).

The expansion in total assets was mainly driven by loans to customers, which increased by 15 percent (\$82 million) and accounted for 23 percent of total assets. This growth reflects stronger credit intermediation and increased financing to the private sector, supporting business activity and household investment. Fixed assets and other assets also recorded increase of 14 percent (\$3 million) and 41 percent (\$9 million), respectively, although together they represented only about 1 percent of total assets. Placements with other banks rose by 8 percent (\$134 million) and, despite already representing the largest share of total assets at 62 percent, remained the largest positive contributor to overall assets growth. By contrast, cash and balances with BCTL fell by 11 percent (-\$36 million), accounting for 10 percent of total assets.

Overall, these developments suggest a reallocation of banks' resources away from low-yield liquid assets toward private sector lending. While this shift supports private sector development, it moderate the pace of growth in total assets.

Table 4.1. Banking System Assets: Levels, Annual Changes, and Composition

in million USD

Items	2024	2025	Change		Weighted percent
			percent	Value	
Cash and BCTL Balance	329	293	-11	-36	10
Placement to other Bank	1,638	1,771	8	134	62
Investment	95	94	-1	-1	3
Loans	560	642	15	82	23
Fixed assets	19	22	14	3	1
Other assets	22	30	41	9	1
Total	2,663	2,852	7.1	189.3	100

Source: BCTL

Bank credit increased by 15% in 2025 to an amount of \$642 million.

Credit granted by banks to the private sector maintained an upward trend, reaching \$642 million in December 2025 compared to \$560 million in December 2024. This represents an annual growth of 15 percent—equivalent to an increase of \$22 million—and accounts for the majority of the \$704 million in total credit to the private sector within the financial system.

Credit quality also improved, with provisions for credit risks declining 28.8 percent to \$19.6 million, driven by better repayment performance. The NPL ratio remained low at 2.4 percent, and strong operating margins continued to safeguard the sector against potential credit risks.

In summary, the growth in total assets was primarily driven by the expansion of loans to customers, partly offset by a decline in cash balances with the BCTL and a slight reduction in investment. The increasing share of loans reflects a stronger emphasis on domestic credit provision, while the contraction in liquid and investment assets indicates a reallocation of resources toward lending activities.

4.2. Bank Liabilities

Total liabilities, excluding capital, increased to USD 2,424.8 million in December 2025, representing a 3.0 percent expansion compared with the previous period. This growth was mainly driven by an increase in deposits, which rose by 3.2 percent and remained the largest source of funding, accounting for 78.8 percent of total liabilities—an increase of 0.2 percentage point. Placements from other banks also contributed positively to liability growth, rising by 9.5 percent and increasing their share to 18.6 percent, up by 1.1 percentage points compared with the previous year. In contrast, other liabilities and liabilities to the BCTL declined by 34.3 percent and 3.1 percent, respectively.

However, their impact on the overall balance sheet remained minimal, given their relatively small shares of 0.3 percent and 2.3 percent of total liabilities.

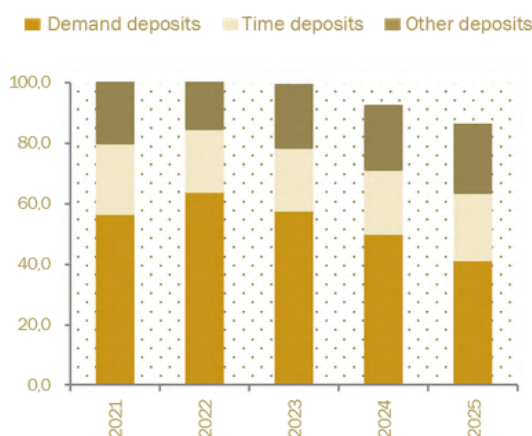
Capital strengthened significantly, rising by 39.4 percent and accounting for 15 percent of the balance-sheet structure. This increase suggests improved solvency and enhanced resilience of the banking sector, and may also reflect the entry of a new bank into the system.

Regarding the composition of deposits, demand deposits have accounted for more than half of total deposits over the past five years. However, by December 2025, their share declined to 41 percent, while the share of time deposits increased to 36 percent, up from 29 percent in the previous year. The remainder consisted of savings deposits (Chart 4.1).

In terms of growth dynamics, demand deposits have exhibited a persistent downward trend in recent years. In December 2025, demand deposits contracted 15.2 percent year-on-year, following consecutive declines of 8.2 percent in 2023 and 7.7 percent in 2024. By contrast, time deposits recorded strong and volatile growth, with pronounced peaks in July 2023 and March 2025, when year-on-year growth reached 91.2 percent and 98.0 percent, respectively. Although growth moderated thereafter, time deposits continued to expand by 30.4 percent in December 2025, following a robust increase of 40.6 percent in December 2024 (Chart 4.2).

Chart 4.1

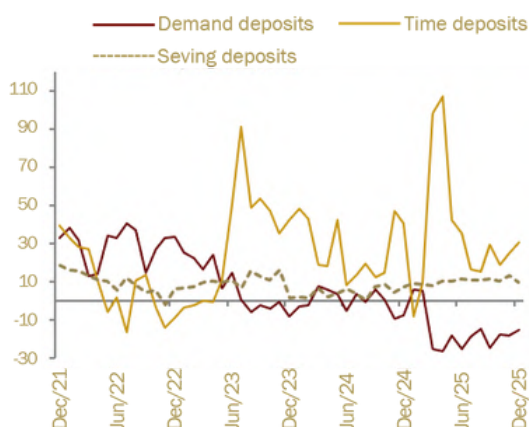
Composition of Deposit
% of Total Deposit



Source: BCTL

Chart 4.2

Development in Deposit Growth
(Percent, Year-on-Year)



Source: BCTL

4.3. Bank Profitability

Despite maintaining adequate liquidity and operational resilience, the banking sector experienced a noticeable weakening in financial performance over the period. Total income declined by 4.6 percent to USD 130.8 million, primarily reflecting a 5.5 percent reduction in interest income, which adversely affected banks' core intermediation activities. As a result, gross operating income fell by 5.4 percent, while net income declined more sharply by 12.7 percent on a year-on-year basis.

The decline in earnings led to a marked deterioration in profitability indicators. Return on Assets (RoA) fell to 1.4 percent from 1.8 percent and Return on Equity (RoE) dropped sharply to 9.6 percent from 15.4 percent in the previous year. This trend indicates a reduced ability of banks to generate returns from both their asset base and capital, notwithstanding their continued liquidity strength.

Overall, these developments point to increasing pressure on the banking sector's intermediation function and raise concerns about the sustainability of profitability in the near term, even as banks remain liquid and operationally sound.

Table 4.2. Consolidated Results of the Banking System

Items	in million of USD		percent year-on-year change	in % Gross Operating Profit	
	2024	2025		2024	2025
Interest income	113.2	107.0	-5.5	115.1	114.9
Commission Income & Transaction Fees	8.8	9.4	6.8	8.9	10.1
Interest expense	-23.2	-22.9	-22.9		
Commissions Supported	-0.4	-0.4	5.3	-0.4	-0.5
Gross Operating Profit	98.4	93.1	-5.4	100.0	100.0
Provision	-1.7	-1.9	11.3	-1.8	-2.1
Operating expense	-42.8	-44.0	2.8	-43.5	-47.2
Net Operating Result	53.9	47.2	-12.4	54.8	50.7
Net income	47.2	41.2	-12.7	48.0	44.3
RoA - Return on Assets	1.8	1.4	-18.5		
RoE - Return on Equity	15.4	9.6	-37.4		

Source: BCTL

4.4. International Transfer Services

4.4.1. Commercial Banks

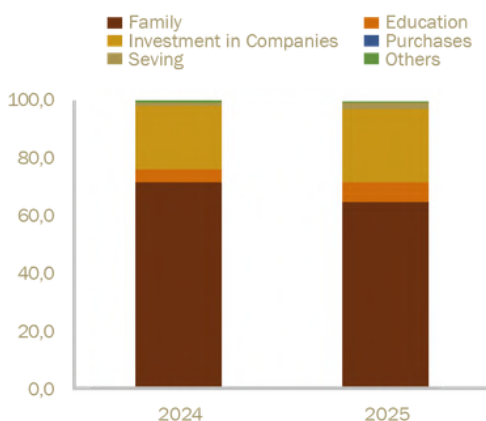
In 2025, commercial banks in Timor-Leste reported outbound transfers totaling \$2,123 million, representing an increase of 8.3 percent compared to 2024.

Inbound transfers grew at a faster pace, rising by 16.3 percent to \$1,059 million. As a result, the net transfer balance posted a deficit of \$1,064 million, slightly wider than the \$1,049 million deficit recorded a year earlier.

4.4.2. Money Transfers Operators (MTOs)

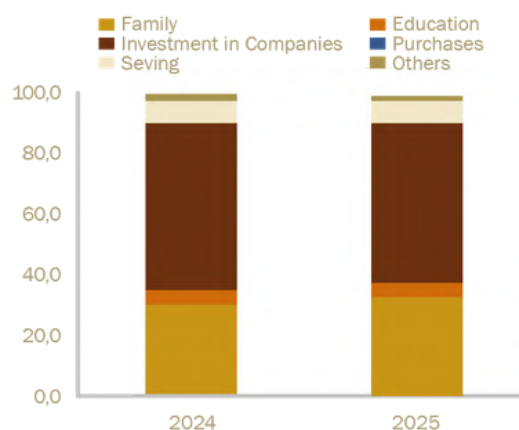
Over the same period, Money Transfer Operators (MTOs) recorded inbound transfers of \$238 million, representing a year-on-year decline of 2.6 percent, while outbound transfers amounted to \$186 million, down slightly by 0.3 percent). By purpose, individual transfers dominated inflows, accounting for 65 percent of total receipts, and represented the second-largest outflow category at 33 percent, after transfer related to enterprises investment. Europe remained the main source of inflows, totaling \$115 million (48 percent of the total incoming transfer), of which 39 percent originated from the United Kingdom. Asia accounted for the majority of outflows, representing 82 percent of the total outbound transfer, largely (75 percent) driven by remittances from Indonesian citizens residing in Timor-Leste. In terms of use, Most inbound transfers were for family-related purposes (71 percent), while half of outbound transfers were for investment purposes, including savings.

Chart 4.4.1.a
Inward Transfer, by Purpose (MTOs)
Percent of Total



Source: BCTL

Chart 4.4.1.b
Outward transfers, by Purpose (MTOs)
Percent of Total



Source: BCTL



05 External Sector

Timor-Leste's external sector continued to experience a significant deficit in 2025. By year-end, the current account balance recorded a deficit of \$701.4 million, driven primarily by shortfalls in the goods (\$715.1 million) and services (\$327.8 million) accounts. This represents a 16.0 percent increase in the deficit compared to 2024, when the current account deficit stood at \$604.7 million (Table 5.1).

Timor-Leste's current account deficit widened to \$701.4 million in 2025 as persistent trade shortfalls and declining remittances outweighed income surpluses, leaving a financing gap of \$182.4 million.

The primary and secondary income accounts maintained surpluses of **\$223.6** million and \$117.9 million, respectively. However, the secondary income surplus decreased significantly by 30.3 percent (approximately \$51.4 million) compared to 2024. This was largely driven by a decline in workers' remittances from abroad – a trend first observed in the first semester of 2025, during which secondary income dropped by 50.1 percent.

Excluding income from oil-related activities, the current account deficit **reached \$733.6 million** by the end of 2025, an increase of **\$67.9** million over the previous year. This deficit trend is expected to persist through 2026.

Furthermore, Timor-Leste's financial account continued to reflect a financing need, recording a net outflow of **\$182.4 million in 2025**. **Notably, this represents a 79.1 percent** improvement over the figures recorded in 2024.

Table 5.1. Balance of Payment of Timor-Leste

	Million USD		
	2024	2025	percent Change
Current account, excluding oil income	-665.6	-733.6	-10.2
Current Account	-604.7	-701.4	-16.0
Goods, FoB	-643.0	-715.1	-11.2
Service	-350.2	-327.8	6.4
Primary Income	219.2	223.6	2.0
Secondary Income	169.3	117.9	-30.3
Capital Account	1.6	0.2	-86.8
Financial Account	-872.6	-182.4	79.1
Direct Investment	-221.0	-253.2	-14.6
Portfolio Investment	-706.6	-77.1	89.1
Other Investment	98.7	80.7	-18.3
Net Errors and Omissions	-269.5	518.8	292.5
Grand Total	-1475.8	-883.5	40.1
Reserve Asset (Change)	-43.8	67.2	253.6

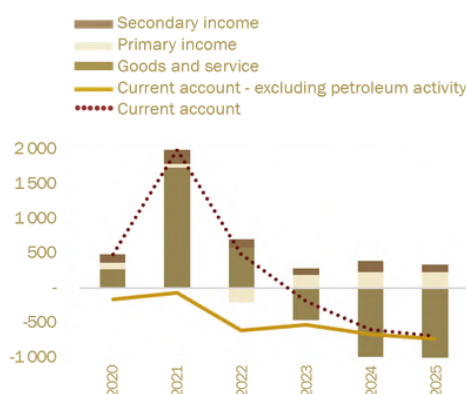
5.1. Current Account

The current account experience a significant deficit. This deficit has been projected in the first semester of 2025 as the cessation of operations at the Bayu-Undan oil and gas field on June 4, 2025, included one of the

factors pushing the deficit in current account. This situation is expected to exacerbate the overall current account deficit until a new production for export surges, since the surpluses from primary and secondary income will not be sufficient to offset the current accounts as shown in chart 5.1.

Chart 5.1

Timor-Leste - Current Account Balance
In Million USD



Source: BCTL

5.1.1. Trade Balance

5.1.1.1. Goods Account

The goods account deficit widened as exports dropped 35.5% to \$126.4 million due to the Bayu-Undan closure, while imports remained high at \$841.5 million.

In 2025, the Goods Account continued to reflect the structural vulnerabilities of a post-petroleum economy. Timor-Leste remains heavily reliant on international markets to sustain domestic demand – a direct consequence of the persistent gap between national consumption and limited domestic supply capacity.

By the end of 2025, total goods imports reached \$841.5 million on a free on board (FOB) basis. After adjusting for cost, insurance, and freight (CIF), this represents a slight 0.3% increase from the \$839.0 million (FOB) recorded in 2024 (chart 5.1.1).

Conversely, overall exports continued their downward trajectory from the 2021 peak of \$2.8 billion. In 2025, total goods exports fell to \$126.4 million, a significant 35.5% contraction compared to 2024. This decline is primarily attributed to the cessation of production at the Bayu-Undan field, underscoring a critical production vacuum.

Non-Oil Merchandise Trade of Goods

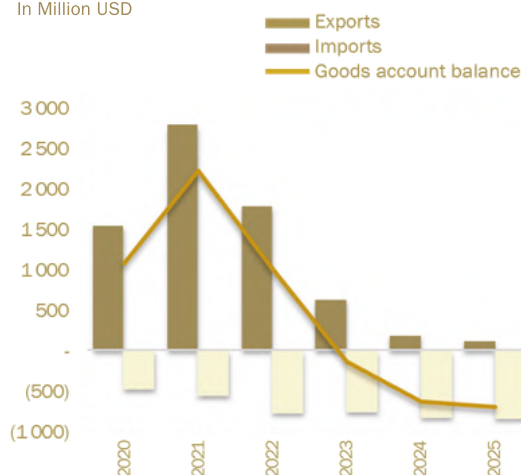
Imports of Goods

2025 imports reached \$960 million as a surge in capital and intermediate goods offset a decline in consumer imports.

Timor-Leste's reliance on imports to meet domestic demand persisted throughout 2025. The 4.0% increase in imports on a Cost, Insurance, and Freight (CIF) basis – totaling approximately \$960.0 million – reflecting an economy in a state of transition. The primary drivers of this growth were intermediate and capital goods, which contributed 15.4 percentage points (pp) and 10.2 pp, respectively, to total import growth. The substantial rise in intermediate goods (70.4 percent) and capital goods (62.8 percent) suggests a retooling phase, indicating that the private sector is increasingly importing machinery and mechanical appliances to bolster domestic capacity (Table 5.1.1).

Chart 5.1.1

TL Goods Accounts
In Million USD



Source: BCTL

Table 5.1.1. Import by Board Economic Category (BEC)

BEC - Category	Nominal		2025 Percentage (percent)		
	2024	2025	Share	Growth	Contribution to Growth
Intermediate goods	202.4	344.8	35.9	70.4	15.4
Consumption goods	380.1	337.0	35.1	-11.4	-4.7
Capital goods	149.4	243.3	25.3	62.8	10.2
Omitted Goods	192.2	34.9	3.6	-81.8	-16.9
Total	923.2	960.0	100.0	4.1	4.1

Source: INETL

While consumption goods account for 35.1% of total imports, this category saw a 11.4% decline compared to 2024. This contraction may reflect an emerging, albeit nascent, contribution from the domestic private sector in substituting certain consumer goods.

Despite these shifts, reliance on basic commodities remains high. The following categories represent the most imported goods in Timor-Leste during 2025, accounting for more than half of total imports (Table 5.1.2):

- **Mineral Fuels:** The largest single import, valued at \$207.8 million (21.6% of total imports). Taiwan was the primary supplier, providing 58.0% of the fuel imported in 2025;

- **Vehicles:** The second-largest category, valued at \$115.0 million (12.0% of total imports). These imports primarily consisted of freight vehicles, passenger cars, and motorcycles, with Indonesia serving as the main source (61.9%);
- **Cereals:** The third-largest import commodity, totaling \$66.3 million (6.9% of total imports). Rice was the dominant item in this category; India alone supplied two-thirds (\$44.6 million) of the total rice imported.
- **Nuclear Reactors, Boilers, Machinery, and Mechanical Appliances:** Ranked as the fourth-largest import category at \$63.6 million (6.6% of total imports). This includes nuclear reactors, boilers, bulldozers, and computers. China was the primary supplier for these goods.
- **Electrical Machinery and Equipment:** Including telephone sets, this was the fifth-largest category, accounting for \$51.1 million (5.3% of the total). China was the dominant partner, providing more than one-third of these commodities.

Table 5.1.2. Main import of goods by commodities

	2024	2025	Annual (percent)	2024	2025
Fuels	199.5	207.8	4.2	21.6	21.6
Vehicles	103.1	115.0	11.5	11.2	12.0
Cereal	95.7	66.3	-30.7	10.4	6.9
Beverages	22.8	23.7	3.9	2.5	2.5
Electrical Machinery	50.6	51.1	0.9	5.5	5.3
Mechanical Machinery	50.4	63.6	26.0	5.5	6.6
Meat & Derivatives	28.1	29.6	5.2	3.0	3.1
Cement & Substitutes	31.1	32.3	4.1	3.4	3.4
Cereal - Refine	29.7	30.2	1.9	3.2	3.2
Iron & Steel - Article	21.8	26.6	22.1	2.4	2.8
Furniture; bedding, & Mattresses	21.1	21.0	-0.2	2.3	2.2
Iron & Steel	20.6	20.9	1.4	2.2	2.2
Others	248.7	271.9	9.3	26.9	28.3
Total	923.2	960.0	4.0	100	100

Source: INE_TL and BCTL Calculation

Exports of Goods

Non-oil exports rose 95.1 percent to \$41.0 million, but remain fragile due to an 87.3 percent dependence on coffee and a massive trade deficit.

The non-oil sector export demonstrated a notable, though narrow, expansion in 2025. Total exports reached \$41.0 million, a 95.1 percent increase from the \$21.0 million recorded the previous year (Table 5.1.3).

However, this growth remains structurally fragile. Coffee continues to dominate the export landscape, accounting for 87.3 percent of the total (\$35.8 million), which represents a 104.3 percent growth from 2024 (\$17.5 million).

This heavy reliance on a single commodity suggests that the private sector is currently capitalizing on global price fluctuations rather than genuine industrial diversification. Exports of other products such as copra, candlenuts, and konjac remain negligible, reflecting a systemic struggle to move up the value chain.

The fact that total exports cover only 4.3 percent of total imports highlights a profound trade deficit. This imbalance underscores the private sector's current inability to compete in international markets due to high domestic production costs and a lack of investment in quality standards (SPS). Without a strategic shift toward diversified manufacturing and value-added agro-processing, the private sector will remain unable to bridge the gap left by the petroleum sector's decline.

By destination, the United States of America (USA) emerged as Timor-Leste's primary export partner in 2025, receiving a significant volume of goods valued at \$13.0 million. These exports consisted predominantly of coffee, underlining the USA's role as a critical market for Timor-Leste's premium agricultural output. This was followed by neighboring regional partners, Indonesia and Australia, with export values of \$9.9 million and \$6.2 million, respectively. Similar to the trade profile with the USA, exports to these neighboring countries were heavily concentrated in the coffee sector.

This geographical concentration highlights the private sector's reliance on a narrow set of established trade corridors. While the strong demand from Indonesia and Australia reflects the benefits of geographic proximity, the overarching dominance of coffee across all three major destinations reinforces the urgent need for the private sector to diversify its export base. Expanding into non-commodity sectors will be essential to mitigating the risks associated with market-specific shocks and global price volatility in the coffee industry.

Table 5.1.3. Destination of Exports

				Share	
	2024	2025	Annual (percent)	2024	2025
United States of America	5.2	13.0	149.6	24.7	31.7
Indonesia	5.4	9.9	82.1	25.8	24.1
Australia	2.3	6.2	169.7	10.9	15.1
Japan	1.6	2.6	58.5	7.8	6.3
Germany	1.4	2.4	71.9	6.6	5.8
Peoples Republic of China	0.7	2.0	187.7	3.4	5.0
Mexico	0.0	1.2	-	0.0	2.9
Outros	4.4	3.8	-14.0	20.8	9.2
Total	21.0	41.0	95.1	100	100

Source: INE-TL and BCTL Calculation

5.1.1.2. Service Account

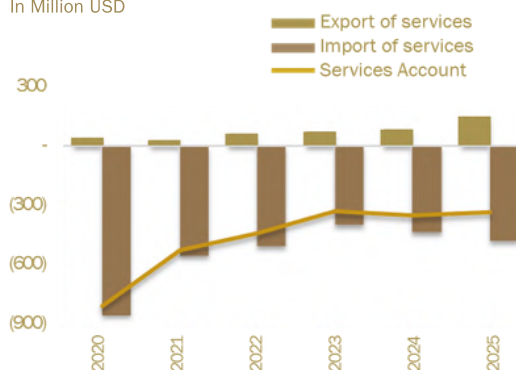
The 2025 services deficit narrowed to \$327.8 million as record tourism exports were offset by high domestic demand for foreign travel and transport.

Following a significant deficit in 2020 due to substantial imports of manufacturing services for oil production, the Services Account has gradually improved. However, it remains unable to fully offset the high volume of service imports. The services account deficit narrowed to \$327.8 million in 2025, marking a 6.4 percent improvement over the \$350.2 million deficit recorded in 2024 (Chart 5.1.2).

This recovery was primarily driven by a surge in the export of services, which rose to \$146.9 million, a 79.0 percent increase from the \$82.1 million reported the previous year. Within this category, the travel and tourism industry was the primary contributor, accounting for \$109.6 million, a 72.3 percent increase from the \$63.6 million recorded in 2024. Conversely, the supply of other services from Timor-Leste to the rest of the world remains limited, as their contribution to total exports is negligible.

However, these export gains were partially offset by the continued rise in the import of services, which climbed to \$474.7 million from \$432.3 million in 2024. This side of the account is primarily driven by a continuous high demand for international travel and tourism services by Timorese citizens (\$203.3 million), followed by transportation services (\$141.8 million).

Chart 5.1.2
TL Services Account
In Million USD



Source: BCTL

Despite the growing supply of domestic travel and tourism services, the local industry is not yet at a scale to satisfy domestic demand. Consequently, the high volume of service imports continues to weigh heavily on the services account balance. This disparity highlights an urgent need to diversify service provision across other sectors to better meet domestic demand and reduce reliance on foreign providers.

5.1.2. Primary and Secondary Income

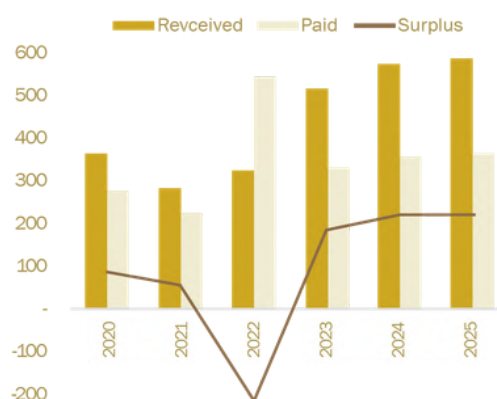
5.1.2.1. Primary Income

The 2025 primary income surplus reached **\$223.6 million**, with high portfolio investment returns offsetting a deficit in compensation of employees.

The primary income account has consistently recorded a surplus since 2023. The primary income account has maintained a consistent surplus since 2023, reaching \$223.6 million in 2025. This represents a 2.0 percent growth from the \$219.2 million recorded in 2024. The surplus is heavily supported by receivable investment income, which totaled \$580.1 million, with the vast majority (\$558.8 million) generated specifically from portfolio investments (chart 5.1.3).

In contrast to the robust investment performance, the compensation of employees recorded a net deficit. With \$14.7 million paid out to non-residents compared to only \$8.0 million received by residents, this segment remains a consistent drain on the primary income balance, though its impact is currently offset by the high volume of incoming investment returns.

Chart 5.1.3
TL Secondary Income Account
In Million USD



Source: BCTL

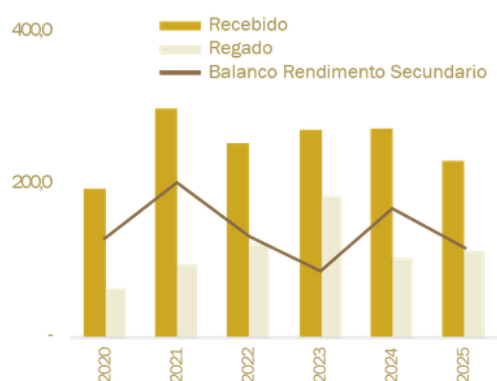
5.1.2.2. Secondary Income

The secondary income surplus dropped 30.3% to **\$117.9 million** in 2025 as a 14% fall in worker remittances and a 20.8% decline in foreign grants squeezed the account.

The secondary income account has maintained a surplus for six consecutive years, though 2025 saw a significant contraction as shown in chart 5.1.4. The estimated surplus of \$117.9 million represents a 30.3% decline from the \$169.3 million surplus in 2024. This downward trend was particularly sharp in the first semester of 2025, which saw a 50.1% drop compared to the same period in the previous year, primarily driven by a general 30.3% decrease in total receivable secondary income.

Worker remittances remain the primary driver of this account. In 2025, Timorese workers abroad generated \$181.9 million in receivable remittances, while expat workers within Timor-Leste sent \$109.1 million abroad. Despite maintaining a positive net flow, the overall balance of worker remittances fell by 14.0% compared to the \$211.6 million recorded in 2024.

Chart 5.1.4
TL Secondary Income Account
In Million USD



Source: BCTL

Foreign grants also experienced a downturn during this period. Total grants received fell to \$48.7 million in 2025, a 20.8% decrease from the \$61.5 million received in 2024. Conversely, the country sent \$3.6 million abroad, consisting mainly of government transfers to international organizations.

5.2. Capital and Financial Accounts

5.2.1. Capital Account

The 2025 capital account plunged 86.8 percent to just **\$211.5 thousand**, reflecting a sharp decline in international infrastructure grants and external aid.

The capital account balance has continued its downward trajectory, falling significantly to \$211.5 thousand by the end of 2025. This marks a sharp 86.8 percent decrease from the \$1.6 million recorded in 2024, extending a decline that has been persistent since 2019. The composition of this account remains almost entirely dependent on capital transfers in the form of grants from international donors.

This contraction in capital account suggests a reduction in large-scale infrastructure funding or project-specific capital grants from external partners. When viewed alongside the decline in the secondary income grants you previously mentioned, it indicates a broader trend of tightening external aid and transfer inflows for the year 2025.

5.2.2. Financial Account

The 2025 financial deficit narrowed 79.1 percent to **\$182.4 million**, as surging Petroleum Fund returns and reduced foreign liabilities helped mitigate persistent investment outflows.

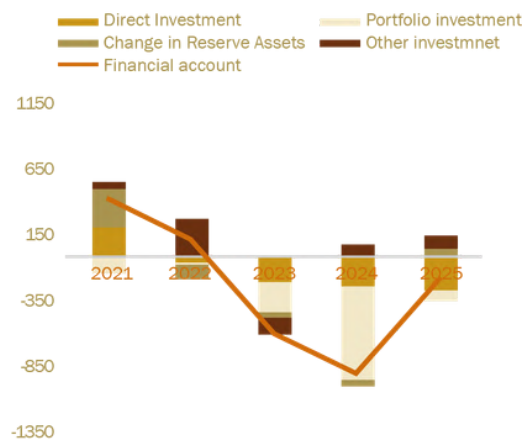
The financial account has remained in a negative balance for the past three years, signaling a persistent need for external financing to cover Timor-Leste's economic activities.

In 2025, this financial need was estimated at \$182.4 million. While still negative, this is a significant 79.1 percent reduction compared to the much larger \$872.6 million financing gap recorded in 2024 as shown in chart 5.2.

Foreign Direct Investment (FDI) remains a challenge for the country's liability profile. In 2025, net FDI was negative at

Chart 5.2

Financial Account



Source: BCTL

\$253.2 million, a 14.6% increase in liabilities compared to the \$221.0 million seen in 2024. This indicates that outflows or the liquidation of foreign-owned assets in Timor-Leste continue to outpace new incoming investments. Portfolio investment, however, showed a significant improvement. The financial need in portfolio investment dropped by 89.1%, falling from \$706.6 million of financial needs in 2024 to just \$77.1 million in 2025. This recovery is almost entirely driven by the Petroleum Fund, which contributes 98.3% of all portfolio activity.

In contrast, other investments provided a "financing capacity" (a surplus) of \$80.7 million in 2025 compared to \$98.7 million in 2024, an 18.3 percent lower than previous year. This was fueled by a higher net acquisition of foreign assets in the second half of the year. Additionally, liabilities in this category saw a capital outflow of \$13.0 million, representing a healthy reduction in the country's debt obligations to foreign entities.

Reserve Assets

Official reserves grew by **\$67.2 million**, reversing the previous year's drawdown to reach a surplus.

In 2025, Timor-Leste's official reserve assets saw a notable turnaround, increasing by \$67.2 million. This recovery is particularly significant when compared with 2024, which saw a depletion of \$43.8 million.

This shift indicates a move from a financing need, where Timor-Leste had to draw down its reserves to settle international obligations to a position of reserve accumulation.

675.93

+4.36

The background of the slide features a map of Southeast Asia. The countries are color-coded with their national flags: Taiwan (blue top, red bottom, white sun), Philippines (blue, white, red horizontal stripes), Indonesia (red top, white bottom horizontal stripes), and Timor-Leste (green, white, yellow, red vertical stripes). A decorative vertical border on the left side consists of repeating geometric patterns in gold and brown. The title '06 Global Spillover to Timor-Leste' is prominently displayed in the center-left.

06

Global Spillover to Timor-Leste

This section outlines the main channels through which international developments affect our economy. It explains how these channels operate, focusing specifically on their impact on domestic inflation, on oil revenues, and the valuation of the Petroleum Fund's investments.

As the economy becomes more integrated with global and regional markets, external developments will play an increasingly significant role in shaping domestic economic performance. Greater interconnection with regional partners will broaden and strengthen the various transmission channels through which international trends influence the national economy.

6.1. Imported Inflation

A key transmission channel for our economy is the influence of international prices on domestic inflation. Given Timor-Leste's high import dependence, changes in global prices for goods and services strongly shape inflation and overall economic conditions.

Foreign inflation tends to influence the inflation trajectory in Timor-Leste.

From 2021 to 2025, about 65% of the country's imports came from the five largest ASEAN economies plus China, while the remaining 35% originated elsewhere. This implies that movements of these countries' inflation can also influence domestic inflation.

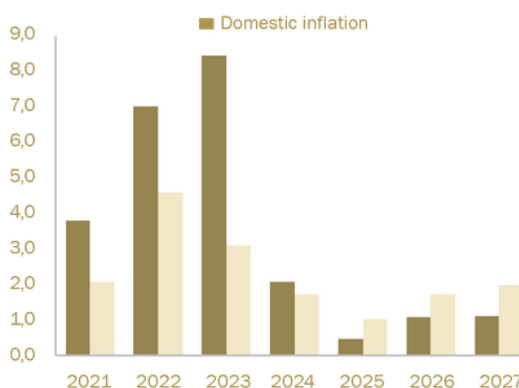
As can be seen on the chart 6.1 that domestic inflation tends to reasonably follow the development of foreign inflation rates. The chart shows that changes in domestic inflation rates tend to follow the shifts in external inflation.

The exchange rate is another key driver of inflation in the country. In 2025, the US dollar weakened by an average of 2 percent against the currencies of our main trading partners (Chart 6.2), reflecting appreciations of the Malaysian ringgit (6.4%), Singapore dollar (2.2%), and Thai baht (7.5%). This depreciation raised imported inflation by eroding households' purchasing power, while improving exporters' competitiveness. Exchange rate shifts among partner currencies significantly influence domestic prices.

The expected stability for regional currencies and

It is expected that regional currencies will remain relatively stable against the dollar, which, together with the maintenance of moderate inflation acceleration rates of trading partners with a fluctuation of 1.3%, leads to

Chart 6.1
Internal and External Inflation
(Percent Annual Average)



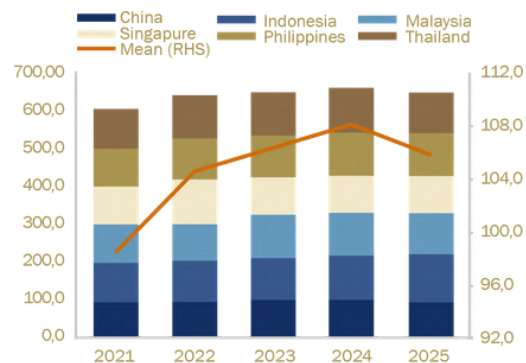
Source: INF-WEO, INE_TL and BCTL

moderate acceleration of external inflation is a relevant assumption of projected acceleration in domestic inflationary pressures.

expect that imported inflation will remain stable in 2026 and 2027, helping us to stabilize inflationary pressures in the country. Therefore, it is expected further that the average domestic inflation rate will slightly accelerate in those two years to 1.1% from 0.5% in 2025.

Chart 6.1

Exchange rate of ASEAN 5 and China



Source: Bloomberg

6.2. Energy Markets and Oil Revenues

Global energy prices remain highly volatile, often changing more than 50% within a year, as seen during 2020–2023. In 2025, most energy commodities declined slightly, with crude oil and coal reaching their lowest levels in three years, reversing the 2021–2022 price highs. In contrast, natural gas prices rose by 23.3%, driven by geopolitical tensions in the Middle East, higher LNG export demand, sanctions on Russia, and global cooling demand.

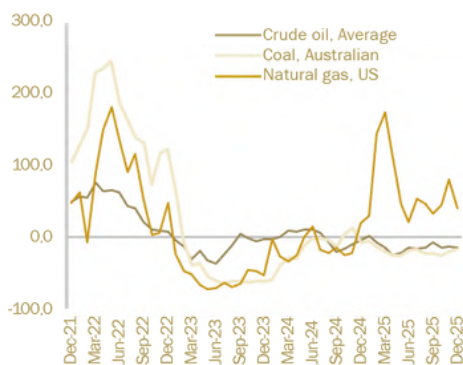
Energy prices recorded fall in 2025, after the sharp increase observed in 2021 and 2022.

Overall, oil prices fell by 14.4% in 2025, reflecting higher OPEC+ production, growing inventories in China, and fading trade optimism between the US and EU, despite temporary supply disruptions. Despite fluctuations, current oil prices remain well below 2011–2014 levels.

The impact of energy prices on Timor-Leste's oil wealth has sharply diminished. Bayu-Undan ceased production in May 2025, leaving only minimal output in early 2025. Gross revenue fell to USD 49.4 million, down

Chart 6.3

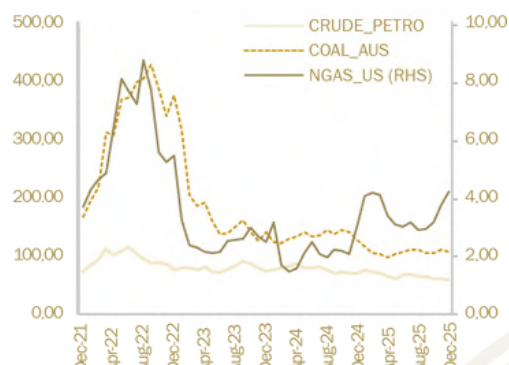
Energy prices – Spot level



Source: Bloomberg

Chart 6.4

Energy prices - Percent annual change



Source: Bloomberg

67.9% from 2024 and 72.8% from 2023, with total production at 0.7 million BOE. Government revenue from petroleum-related taxes and royalties dropped to USD 36.1 million, continuing the sharp decline from USD 85.4 million in 2024 and USD 1.1 billion in 2022, reflecting the ongoing depletion of domestic oil and gas resources.

With the cessation of oil production from Bayu-Undan and uncertainty surrounding future investment in Greater Sunrise, the Petroleum Fund's wealth now relies entirely on returns from financial market investments. While there are reports of potential petroleum resources in onshore areas such as Karau-1, Lafaek-1 and Liurai in Covalima, and Pualaca block, located between Manatuto, Manufahi and Viqueque, these remain untapped and are regarded as prospective assets for the future.

6.3. Petroleum Fund as a Transmission Channel of Global Financial Markets

Financial asset prices in the global markets influence the PF's ESI, in turn, overall funding of the State Budget.

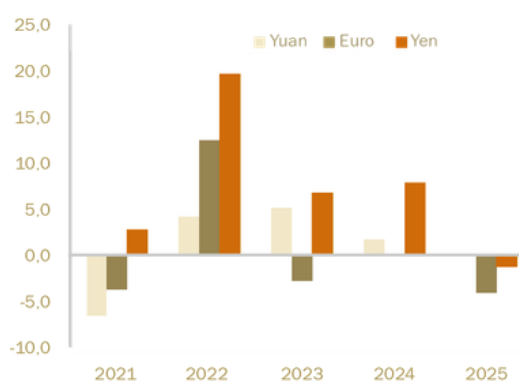
Lastly, we examine an additional channel through which developments in international financial markets are transmitted to the domestic economy—namely through the Petroleum Fund (PF), which was established to manage Timor-Leste's oil wealth efficiently. Like the oil price channel, fluctuations in global financial asset prices directly affect the market value of the PF and, consequently, its Estimated Sustainable Income (ESI). Changes in these components ultimately influence the level of fiscal resources available to finance the state budget, shaping government spending and public investment decisions.

In 2025, the PF reported total net financial assets of USD 18.6 billion, representing an increase of USD 335.1 million compared to 2024 balance of USD 18.3 billion. The Fund's portfolio remains largely conservative, with 67.9 percent invested in fixed-income and liquidity instruments, primarily treasury bonds of developed economies, while 32.1 percent is allocated to equities in

Chart 6.5

Exchange Rate of World Major Economies

Rose = USD appreciation



Source: Bloomberg

developed markets. The Fund recorded gross revenue of USD 1,772.1 million in 2025, extending the positive performance observed in recent years.

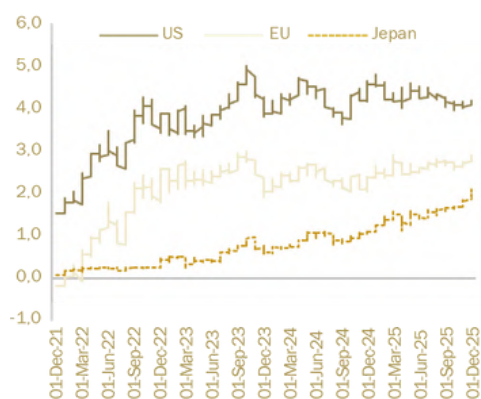
This follows gross revenues of USD 1,223.3 million in 2024 and USD 1,697.6 million in 2023, partly offsetting the significant loss recorded in 2022. The strong performance in 2025 was mainly driven by higher long-term bond yields and rising equity prices, despite declines in short-term bond yields, particularly in the United States and Germany.

Since its inception, the PF has progressively expanded its investment universe—from exclusive holdings of US Treasury securities to a diversified portfolio including global equities and bonds issued by multiple sovereigns. This gradual diversification reflects the Fund's objective of achieving higher expected returns while improving risk diversification across asset classes and markets.

The PF is exposed to market risk arising from fluctuations in bond and equity prices, as well as exchange rate risk, given its investments in currencies other than the US dollar. In 2025, movements in major currencies broadly offset each other, resulting in no significant net currency gains or losses, in contrast to 2023 when currency movements generated gains of USD 31.2 million. While an appreciating US dollar typically reduces the value of non-dollar investments, it can also lower the cost of acquiring foreign-currency assets.

Chart 6.6

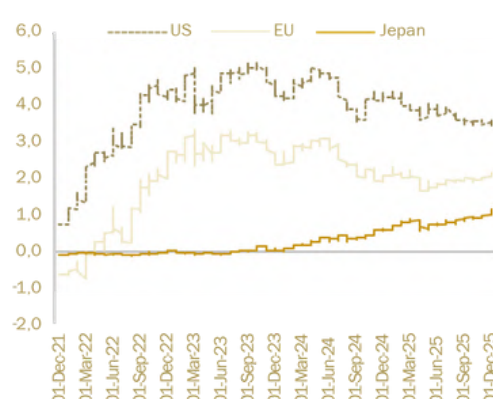
Two-Year Bond Interest Rates



Source: Bloomberg

Chart 6.7

Ten-Year Bond Interest Rates



Source: Bloomberg

Bond investments recorded a net gain in 2025, due to the general rise in 10-year interest rates, prolonging the interest rose in 2024.

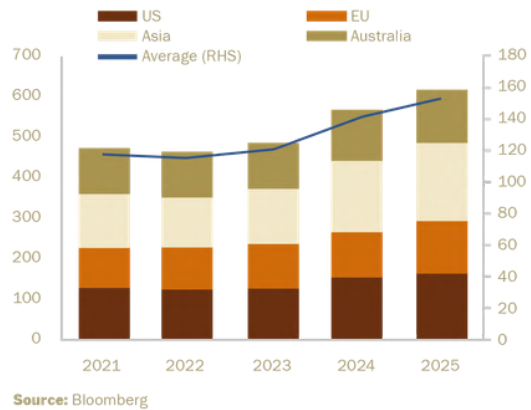
Overall, the Fund delivered a positive estimated return of 9.92 percent in 2025, following gains of 6.80 percent in 2024 and 9.78 percent in 2023, and reversing the sharp loss recorded in 2022. Most returns in 2025 were generated from interest income and net gains on financial assets,

accounting for 94.3 percent of total returns. Rising long-term interest rates—particularly in the United States, which dominates the Fund’s bond holdings—contributed positively to bond portfolio performance, while equity investments also recorded strong gains amid broadly favourable global market conditions.

The value of petroleum fund and its returns continue to depend on the price developments of the global financial assets.

In sum, the PF holds a diversified portfolio across major global bond and equity markets, allowing it to optimize returns while mitigating risk. Nevertheless, its future value and income stream remain sensitive to global financial market developments, exchange rate movements, and unforeseen shocks such as geopolitical tensions or global crises.

Chart 6.8
Stock Price of Selected Countries



Looking ahead, several risks warrant close attention. These include the possibility of a global correction in equity and bond markets amid elevated asset valuations, evolving monetary policy paths across major economies, and emerging structural changes in financial markets, such as the growing role of stablecoins backed by government securities.

At the same time, the complete cessation of oil and gas production from Bayu-Undan in May 2025, coupled with uncertainty surrounding the development timeline of Greater Sunrise, poses a significant challenge to the long-term sustainability of the PF. Rising public expenditure pressures, which require drawdowns from the Fund, further heighten these risks. In this context, the Fund’s objectives and investment strategy will need to be continuously reassessed, while remaining hydrocarbon resources—both offshore and onshore—should be regarded as the country’s remaining strategic capital assets for the future.



BANCO CENTRAL DE TIMOR-LESTE

Av. Xavier do Amaral
No 09 P.O Box 59
Posto Administrativo Nain Feto Suco
Gricenfor, Aldeia Formosa
Dili, Timor-Leste
info@bancocentral.tl
www.bancocentral.tl