Timor-Leste

Growth forecasts for 2018 and 2019 are revised down as continued political uncertainty stymies government spending and private investment. Possible rejection of the budget for 2019 and further political instability pose downside risks to the forecast.

Delays in resolving a political impasse that began in 2017 have sharply curtailed economic activity. Official estimates show the economy outside of the large offshore petroleum sector contracting by 5.3% in 2017 as public expenditure plunged by 25.6%. Public spending continued to decline in 2018, by 27.9% year on year in the first 7 months, with reductions of 25.7% in purchases of goods and services, 57.5% in transfer payments, and 6.8% in spending on salaries and wages. The reduction in transfer payments reflected a scaling back of development in the Special Administrative Region of Oe-Cusse Ambeno and some deferral of personal benefit payments, which were down by 26.4% year on year.

The slowdown in public spending brought more challenging business conditions and reduced private consumption. International air passenger arrivals declined by 30.1% year on year in the first quarter, while vehicle registrations were down by 23.9% and electricity use by businesses slipped by 6.8%. The merchandise trade deficit narrowed in the first half of the year with imports down by 9.8% year on year, with large reductions for vehicles, construction materials, and other equipment and machinery. Fuel imports rose by 11.4%, reflecting higher oil prices. Food imports were unchanged.

No budget was approved for 2018 before national elections in May. This forced the government to operate under a budget regime in which monthly expenditure was capped at one-twelfth of the appropriation for the previous fiscal year. The elections gave a three-party coalition a clear parliamentary majority, but the formation of a new government has proceeded more slowly than expected, leaving several key positions vacant.

Parliament approved in early September a $1.3 billion budget for 2018, of which 40% had been spent from January to August. The President is expected to promulgate this budget. Although it raises public spending by 6.9% over 2017, the likely stimulus is now seen to be lower than predicted in *ADO 2018*.

The 2018 budget includes indicative expenditure for 2019–2022. However, a separate budget must be prepared for 2019. Its preparation is under way but with significant uncertainty about how much spending it will propose and its prospects for approval from Parliament and the President. Construction on the Tibar Bay port project began in August and will provide some stimulus. However, other major private investments remain contingent on government support and a conclusive resolution to recent political instability.

3.5.4 Selected economic indicators, Timor-Leste (%)

	2018		2019	
	ADO 2018	*Update*	*ADO 2018*	*Update*
GDP growth	3.0	0.6	5.5	4.5
Inflation	2.0	2.0	3.0	3.0
Current acct. bal. (share of GDP)	–15.2	–1.6	–22.0	–17.1

Source: ADB estimates.

Inflation forecasts for 2018 and 2019 are maintained. Higher prices for tradable items such as rice, tobacco, and petroleum products saw inflation rise to 2.2% year on year in the first half of 2018. Prices for non-tradable items such as education also increased moderately. Revised projections for smaller current account deficits, in both 2018 and 2019, reflect expected narrowing of the trade deficit and an improved outlook for petroleum income. Income from petroleum production has improved significantly on higher oil prices and improved extraction with infill drilling on an existing field. Petroleum taxes and royalties were up by 25.9% year on year in the first half of 2018 and are likely to exceed official forecasts.

Petroleum Fund investments were lackluster in the first half of 2018, but the fund still posted a gain to reach a balance of $16.9 billion at the end of June. Official projections for taxes and royalties during 2019–2022 have been revised upward. This has increased Petroleum Fund estimated sustainable income—the amount that can be withdrawn each year without depleting it—by 14.3% to $550.4 million. The development of new petroleum resources such as the Greater Sunrise field could yield significant increases in petroleum wealth but are not reflected in current estimates.