



IX CONSTITUTIONAL GOVERNMENT
DEMOCRATIC REPUBLIC OF TIMOR-LESTE

BUDGET STRATEGY STATEMENT 2027

**Strengthening Resilience
through Transformation:**
**Diversifying the economy,
securing a sustainable future**



STRONGER
FISCAL
FOUNDATIONS



ECONOMIC
DIVERSIFICATION
AND PRODUCTIVITY



INCLUSIVE
DEVELOPMENT
AND HUMAN CAPITAL



RESILIENT
INSTITUTIONS AND
SUSTAINABLE FUTURE

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Technical Disclaimer

Pursuant to Article 23 of the Budget and Public Financial Management Framework Law (Law No. 3/2025, 23rd April 2025)¹, and Article 10.º of the Regulations of the Law on Budget and Public Financial Management Framework (Decree-Law n.º 42/2025, 15th of December) this document provides an overview of the latest macro-economic and fiscal projections, along with a declaration of the Government's fiscal strategy ahead of the budget proposal for 2027 General State Budget.

This declaration of the government's intentions for Budget 2027 and the medium-term comes ahead of the Budget Review Committee, during which the government will have the opportunity to evaluate economic concerns, policy priorities and available financing in greater details. As such, the budget ceiling and macroeconomic projections outlined in this document are subject to alterations and revisions ahead of the budget proposal submission on the first of October.

All numbers are also subject to review ahead of the budget proposal as new data and information becomes available to the Ministry of Finance. Therefore, the numbers outlined in the document below should be treated as indicative and for the purpose of facilitating greater transparency and understanding of the country's economic and fiscal position ahead of the budget proposal and subsequent debates. The opportunity for further analysis and data availability during the budget setting process has the potential to change the Ministry of Finance's understanding of the outlook for economic growth and revenues in both 2026 and beyond.

In addition, this year is the second time that the Ministry of Finance has published a Budget Strategy Document. The Ministry will continue to strive for improvements in the detail and quality of analysis provided in future documents.

¹ https://www.mj.gov.tl/jornal/public/docs/2025/serie_1/SERIE_I_NO_17.pdf

Acronym

ASEAN	Association of Southeast Asian Nations
BNCTL	Banco Nacional de Comércio de Timor-Leste
BNDTL	Banco Nacional de Desenvolvimento de Timor-Leste
BoP	Balance of Payment
CA	Central Administration
CAFI	Council for Administration of Infrastructure Fund
DBFOT	Design, Build, Finance, Operation and Transfer
DBS	Direct Budget Support
DGMRE	General Directorate for the Management of External Resource
DNPE	National Directorate of Economic Policy
EDTL	Eletricidade de Timor-Leste
ESI	Estimated Sustainable Income
FDI	Foreign Direct Investment
FE	Forward Estimates
GDP	Gross Domestic Product
GPP	Government Policy Priorities
IFC	International Finance Corporation
IMF	International Monetary Fund
INETL, IP	National Institute of Statistics of Timor-Leste, I.P.
INSS	National Institute of Social Security
MCI	Ministry of Commerce and Industry
MSME	Micro, Small and Medium Enterprises
MTE	Ministry of Tourism and Environment
NEER	Nominal Effective Exchange Rate
PF	Petroleum Fund

PFM	Public Financial Management
PPP	Public Private Partnership
PPPU	PPP Unit
PRC	Policy Review Committee
RAEOA	Special Administrative Region of Oe-Cusse Ambeno
REER	Real Effective Exchange Rate
RTTL, EP	Rádio e Televisão de Timor-Leste, E.P.
TP-OMSU	Tibar Port-Operation and Management Service Unit
TPSA	Timor Port SA
VAT	Value Added Tax
WTO	World Trade Organization

Executive Summary

The 2027 Budget Strategy, **“Strengthening Resilience through Transformation: Diversifying the Economy for a Sustainable Future,”** sets out the Government’s fiscal and economic strategy to respond to Timor-Leste’s evolving development challenges. It recognizes that long-term prosperity depends on gradually reducing reliance on petroleum revenues, strengthening economic resilience, and creating new sources of sustainable growth and employment.

The macroeconomic outlook remains broadly favorable, supported by continued economic growth and moderate inflation. However, the economy continues to face structural challenges, including high reliance on public expenditure and Petroleum Fund financing, limited diversification of productive sectors, and vulnerability to external shocks such as global commodity price volatility. These challenges highlight the importance of strengthening fiscal sustainability while accelerating economic transformation.

General State Budget 2027 therefore marks the beginning of a gradual transition towards a more sustainable fiscal path. The Government proposes a consolidated expenditure ceiling of \$2,100.0 million, representing a shift towards greater fiscal discipline while protecting essential public services and priority investments that support long-term development. This transition will be supported by measures to contain recurrent expenditure growth, improve spending efficiency, and strengthen the quality and effectiveness of public expenditure.

At the center of this strategy is a stronger focus on policy prioritization and improving the allocation and impact of public resources. General State Budget 2027 seeks to ensure that available fiscal resources are directed towards the Government’s highest priorities. The Budget is guided by nine high-level strategic priority areas, which will be operationalized through 28 GPPs. These GPPs provide a framework for translating the Government’s strategic agenda into specific policy measures and budget interventions, while ensuring alignment with fiscal capacity and medium-term fiscal sustainability. The final list of 28 GPPs will be determined through the final deliberation of the PRC in August.

Following this process, the selected GPPs will undergo a structured policy review to ensure that they are strategically aligned, affordable, implementable, and consistent with medium-term fiscal sustainability before being considered for inclusion in the proposed General State Budget 2027.

The GPPs translate the Government’s strategic priorities into targeted policy measures aimed at accelerating economic diversification, strengthening productive capacity,

improving public service delivery, and enhancing resilience to economic and climate-related shocks. They also support efforts to strengthen human capital, promote private sector development and employment creation, improve governance and institutional effectiveness, and advance fiscal sustainability through stronger revenue mobilization and public sector reforms. These priorities reflect the outcomes of public consultations, which highlighted continued demand for improved infrastructure, better public services, and expanded economic opportunities.

Looking ahead, the planned implementation of VAT in 2027 will be a key component of the Government's revenue mobilization strategy. The reform is expected to broaden the tax base, strengthen domestic revenue generation, and support medium-term fiscal sustainability.

General State Budget 2027 also introduces important reforms to strengthen public financial management. Medium-term fiscal planning, rolling forward estimates, policy-based budgeting, enhanced performance monitoring, and improved fiscal reporting will strengthen budget planning, promote fiscal discipline, and ensure that Government resources are allocated more strategically and transparently.

Together, these measures establish the foundation for a gradual transition towards a more diversified, competitive, and resilient economy, supported by stronger institutions, more sustainable public finances, and improved economic and social outcomes.

1. Budget Strategy and Macro-Fiscal Outlook

1.1. Budget Strategy

The Government's 2027 budget strategy, under the theme ***“Strengthening Resilience through Transformation: Diversifying the Economy for a Sustainable Future,”*** provides the strategic framework for Budget 2027 and the medium term. Building on the 2026 General State Budget, the strategy remains aligned with the Strategic Development Plan and the Programme of the IX Constitutional Government. It aims to strengthen economic resilience by accelerating economic diversification, promoting private sector-led growth, improving public service delivery, and ensuring the sustainable management of public finances.

General State Budget 2027 is guided by nine high-level strategic priority areas: (i) economic diversification and productive sector development; (ii) rural infrastructure, connectivity, and basic services; (iii) human capital and service delivery; (iv) quality and delivery of public investment; (v) resilience to shocks, food security, and climate adaptation; (vi) major national and international commitments; (vii) private sector development, employment creation, and digital transformation; (viii) fiscal sustainability, revenue mobilization, and public sector reform; and (ix) justice, governance, and accountability.

Macroeconomic development remains closely linked to fiscal policy. Economic growth² is expected to continue in 2026 at a more moderate pace, reflecting external adverse conditions, including fuel price volatility and its transmission to domestic demand. Given the economy's continued dependence on public expenditure, fiscal policy will remain the principal driver of economic activity in 2027. Capital investment will continue to support infrastructure development and enhance productive capacity, while transfer spending – including social benefits, veterans' payments, and subsidies for essential public services – will support household incomes, domestic demand, and service delivery. Over the medium term, the Government's strategy is to gradually shift the composition of expenditure towards productive investments that strengthen private sector development, economic diversification, and sustainable growth.

Despite continued economic growth, fiscal challenges remain significant. Petroleum Fund financing continues to underpin the General State Budget, accounting for approximately 72 percent of the approved 2026 Budget. While the Petroleum Fund has played a critical role in financing national development, continued reliance on excess withdrawals presents increasing fiscal sustainability risks. Under current trends, the

² Detail growth analysis is provided in the macroeconomic section below

Petroleum Fund could face significant depletion pressures over the medium to long term, reinforcing the need for prudent fiscal management, stronger domestic revenue mobilization, and more efficient public expenditure.

To support this transition, the Government proposes an indicative consolidated expenditure ceiling³ of \$2,100.0 million for 2027, representing a 10.5 percent reduction relative to the 2026 Rectification Budget. This adjustment is partly supported by efficiency and structural measures, including the discontinuation of selected one-off payments, the mandatory retirement of staff at age 65, and a freeze on recruitment of permanent staff⁴. These measures are intended to contain recurrent expenditure and strengthen fiscal sustainability over the medium term.

The 2027 General State Budget introduces an enhanced budget formulation framework anchored in FE baselines and aligned with the Ninth Constitutional Government's strategic priorities. Baseline expenditure projections provide a stable and rules-based expenditure anchor, while new policy measures accommodated annually within the available fiscal space. To operationalize the Government's strategic agenda, the nine high-level strategic priority areas have been translated into 28 GPP, grouped under three broad categories: (i) Fiscal Space Creation; (ii) Central Government Policy Pressures; and (iii) Sectoral Policy Opportunities and Pressures. This framework is intended to strengthen policy prioritization, improve the allocation of public resources, and enhance fiscal discipline over the medium term.

Forward estimates will be updated annually to reflect macroeconomic developments, policy priorities, and implementation performance. This medium-term approach strengthens fiscal discipline by improving expenditure prioritization, transparency, predictability, and alignment with a sustainable resource envelope.

A key pillar of the consolidation strategy is economic diversification through the development of productive sectors, private sector expansion, and improvements in the business environment. These reforms are intended to broaden the tax base, increase non-oil revenues, and reduce dependence on petroleum-based financing.

The 2027 General State Budget marks the start of a gradual fiscal consolidation path designed to preserve Petroleum Fund sustainability, gradually reduce reliance on excess withdrawals, and rebuild fiscal buffers, while continuing to support priority investments in infrastructure, human capital development, and productivity-enhancing sectors.

³ Consisting of CA and RAE OA

⁴ This excludes recruitment for essential services.

The medium-term fiscal strategy (2028–2031) envisages a gradual transition from a public expenditure-led growth model toward a more balanced, private sector-driven economy. This transition is supported by continued investment in infrastructure and human capital, institutional reforms, stronger domestic revenue mobilization, and measures to promote private investment, innovation, and productivity growth.

1.2. Review of Recent Macroeconomic Developments

1.2.1. Historic GDP Growth

Timor-Leste recorded an average annual non-oil real GDP growth of 3.5 percent over the past two decades. Growth was particularly strong between 2008 and 2011, driven by expansionary public spending, including significant investments in the electricity sector. This expenditure formed part of the Government’s strategy to address critical infrastructure gaps and create the conditions for long-term private sector development. Public investment contributed to substantial improvements in road infrastructure and electricity coverage across the country, helping enhance living standards and improve the business environment since independence.

However, economic growth slowed substantially over the past decade. Between 2015 and 2025, non-oil real GDP grew by an average of only 1.3 percent per year. This reflects the impact of economic contractions in 2017, 2018, and 2020, which eroded some of the gains achieved in earlier years. In particular, non-oil real GDP declined by 8.5 percent in 2020 due to the combined effects of delays in the approval of the General State Budget, political uncertainty, the COVID-19 pandemic, and the State of Emergency, all of which led to a contraction in economic activity driven by lower consumption and investment.

In 2021, growth rebounded to 3.0 percent, supported by a significant increase in government expenditure, which rose by around 26 percent and was driven by a 32 percent increase in recurrent spending, helping to support the recovery following the impact of the COVID-19 pandemic.

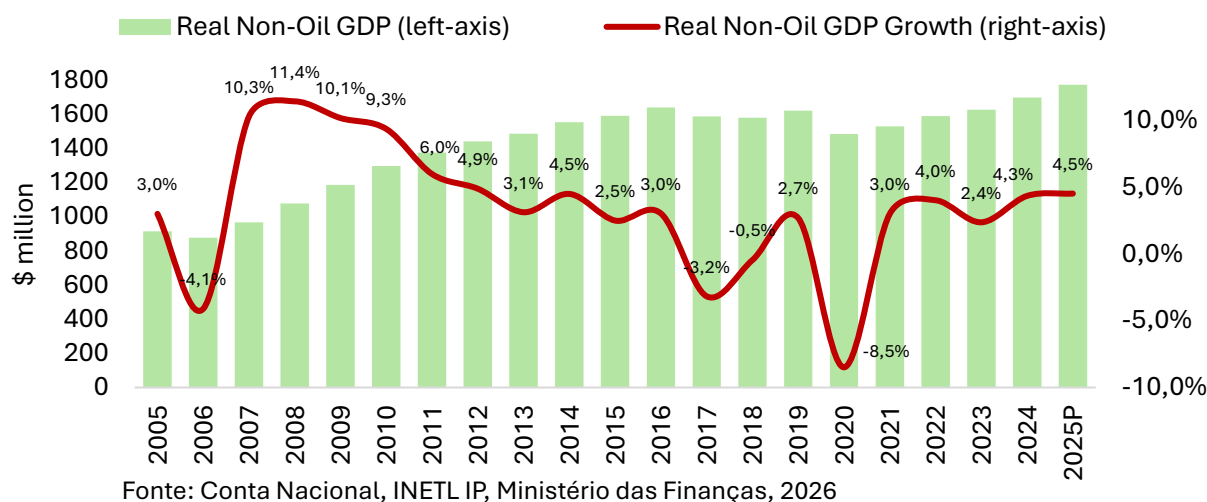
In 2022, GDP grew by 4.0 percent, mainly driven by increases in both public and private investment. Government transfers and the continued recovery from the COVID-19 pandemic supported a strong expansion in private consumption, which rose by 14 percent in real terms, reflecting the impact of higher transfers to households. Consequently, Government spending reached a historical high of \$1.74 billion in 2022. At the same time, imports increased by 22.8 percent in real terms, reflecting stronger domestic demand as well as higher global prices.

GDP growth slowed to 2.4 percent in 2023. While nominal government expenditure on salaries and wages and goods and services increased by 1.6 percent, high inflation resulted in a decline in government consumption of 0.8 percent in real terms. Despite this, overall growth remained positive, supported by increases in government capital spending and private investment.

Household consumption increased by 3.8 percent, reflecting higher overall economic activity as the economy continued to recover from the lingering effects of the COVID-19 pandemic. Non-oil exports rose by 31.8 percent in real terms, driven primarily by growth in services exports, particularly travel services. In contrast, exports of goods (excluding petroleum exports) declined by 20 percent in real terms.

Growth rebounded in 2024, reaching 4.3 percent in real terms, driven mainly by higher capital and development expenditure (+47 percent) and private investment (+33 percent). Household and government consumption also contributed, increasing by 3.6 percent and 0.9 percent, respectively, while exports recorded positive growth. However, imports rose by 14.6 percent, partially offsetting the growth contribution of domestic demand and exports, and underscoring persistent structural constraints on domestic productive capacity.

Figure 1. Non-Oil Real GDP level and Growth between 2005 and 2025



1.2.2. GDP Growth 2025

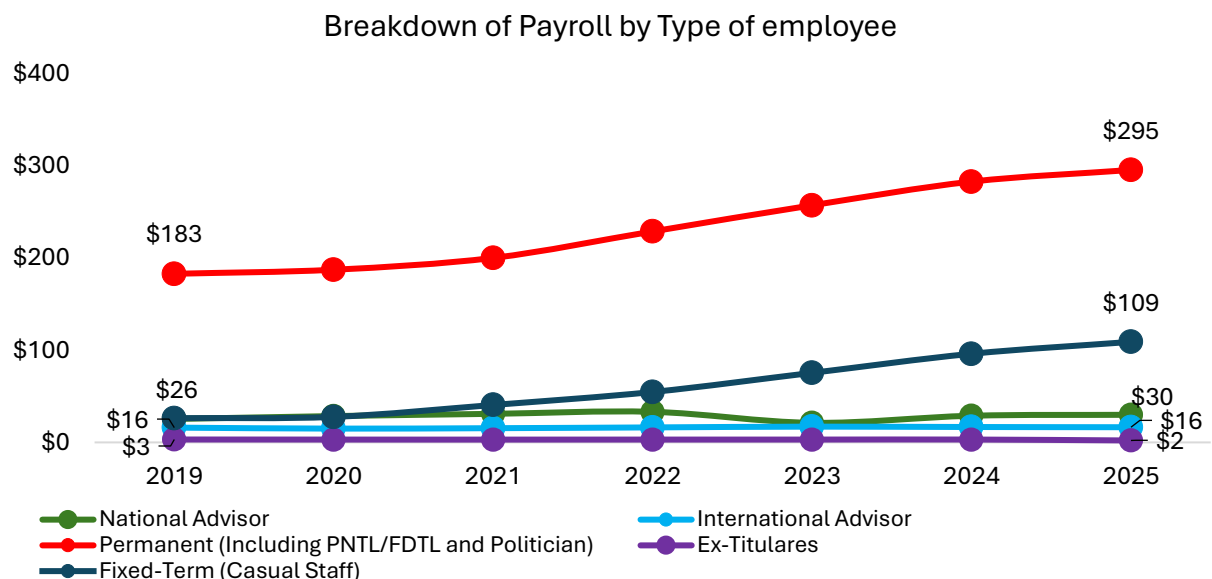
The economy is estimated to grow by 4.5 percent in 2025, marking one of the strongest growth rates in the past decade. This continued growth momentum reflects a sustained positive growth trajectory since 2020 contraction. Growth in 2025 is supported by strong household consumption, higher public expenditure, and rising private investment.

This preliminary growth estimate is slightly higher than the 4.3 percent projected in the previous Budget Strategy Report, by 0.2 percentage points. The upward revision is driven by stronger growth in both consumption and investment. Lower average inflation in 2025 has also played a significant role in supporting this development, as stable prices help preserve purchasing power and encourage investment activity.

Final consumption was the key driver of growth, led by private consumption which grew by 3.6 percent and contributed 2.6 percentage points to GDP growth. This was supported by government transfers, including veteran benefits, expanded bank credit, and higher household disposable income. Nearly half of outstanding credit is extended to individuals for consumption purposes, thereby supporting household spending. Further details on credit developments are provided in the Financial Sector section.

Government consumption also increased by 4.4 percent, contributing a further 2.2 percentage points, reflecting higher spending on wages and salaries and goods and services. A significant driver of government spending has been the allocation for salary and wages for casual and permanent civil servants that nearly double since 2019.

Figure 2. Breakdown of Government Payroll Data by Employment Type (\$ million)



Source: GRP, Ministry of Finance, June 2026

Investment also played an important role in shaping growth outcomes. Public investment grew by 8.1 percent, contributing 1.6 percentage points to growth, driven by increased infrastructure spending on roads and bridges. Private investment rose by 9.7 percent, adding 0.5 percentage points, supported by improved infrastructure, stronger

credit growth, and a gradually improving business environment that continues to encourage private sector participation.

On the external side, exports remained robust, increasing by 20.1 percent and contributing 0.6 percentage point to GDP growth, supported by agricultural products such as coffee and inbound travel services. However, overall growth was partly offset by a 5.9 percent increase in imports, which subtracted 3.8 percentage points from GDP growth. This reflected higher imports of services, particularly outbound travel services, which reduced growth by 2.6 percentage points, and imports of goods, which deducted a further 1.2 percentage points, mainly driven by increased demand for capital and intermediate goods to support investment activities.

1.2.3. Inflation and Exchange Rate

Average annual inflation decelerated to 0.5 percent in 2025, down from 2.1 percent in 2024. This reflects the continued easing of inflationary pressures following the post-pandemic peak of 8.4 percent in 2023. The moderation was supported by lower global commodity prices, including a decline in Brent crude oil prices of around 14 percent and a fall in global grain prices of approximately 10 percent in 2025.

Compared with the previous projection, the actual average annual inflation rate in 2025 was lower than the 1.8 percent forecast reported in the previous Budget Strategy submission, mainly reflecting lower global commodity prices. Since 2024, inflation has remained well contained, staying below the Government's 4 percent threshold and helping to preserve household purchasing power while supporting a stable macroeconomic environment.

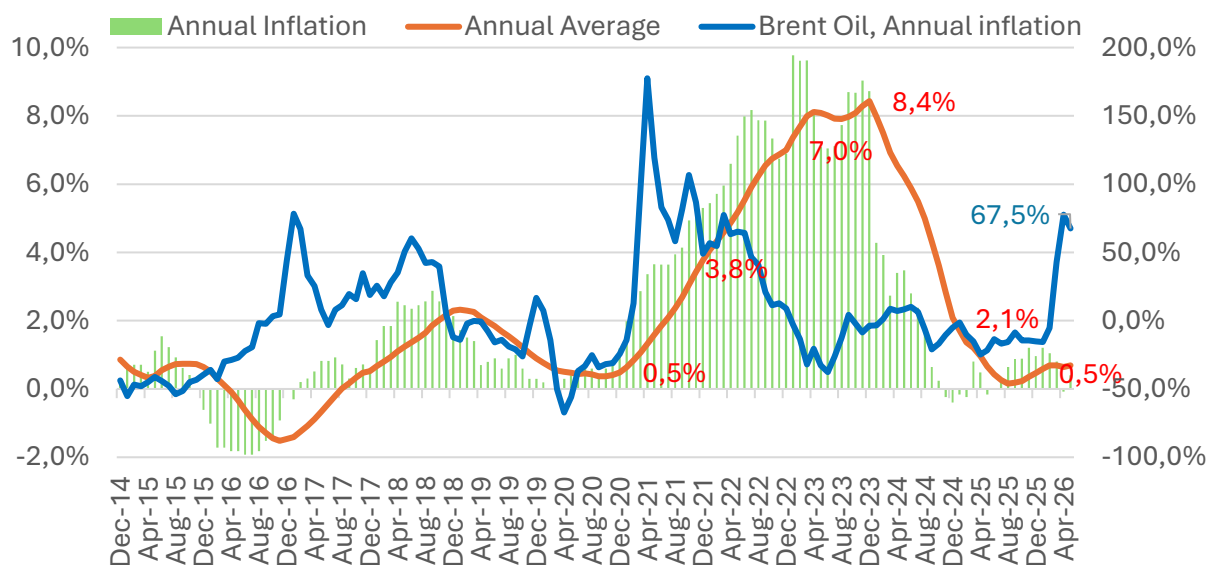
Nevertheless, the outlook remains vulnerable to external price shocks. Given Timor-Leste's heavy reliance on imported fuel and food, domestic inflation remains highly sensitive to developments in global commodity markets. In 2026, global Brent crude oil prices increased by approximately 61.1 percent between January and May (and by 67.5 percent year-on-year in May), leading to a rapid pass-through to domestic fuel prices. Domestic retail prices of gasoline and diesel rose by around 27 percent in March 2026 compared with the previous month, illustrating the strong transmission of global oil price shocks to domestic inflation and household costs.

Despite these pressures, the impact has been partially contained through prudent fuel price controls and targeted subsidies introduced under the 2026 Rectification Budget. As a result, food inflation remained relatively low at 0.5 percent in May compared to the previous month. Prices of rice and personal transport costs increased just moderately by 1.6 percent and 2.6 percent, respectively, over the same period, and would likely have

been higher in the absence of Government's policy interventions. Hence, average annual inflation in 2026 is projected to increase moderately to 2.2 percent, remaining below the Government's threshold.

Historically, Brent oil price has been a key leading indicator of domestic inflation. The increase in global fuel prices between early 2017 and 2018 was followed by a corresponding rise in domestic inflation, as shown in Figure 3. Similarly, the sharp spike in global fuel prices between 2021 and 2022 was partly responsible for a significant increase in annual inflation in subsequent periods. This relationship is expected, as fuel prices affect domestic inflation not only through direct pass-through effects via imported fuel costs, but also indirectly through production costs. Fuel serves as a key input in the production and distribution of various goods, including food products, thereby contributing to broader increases in consumer prices.

Figure 3. Annual Domestic Inflation and Global Brent Oil Inflation

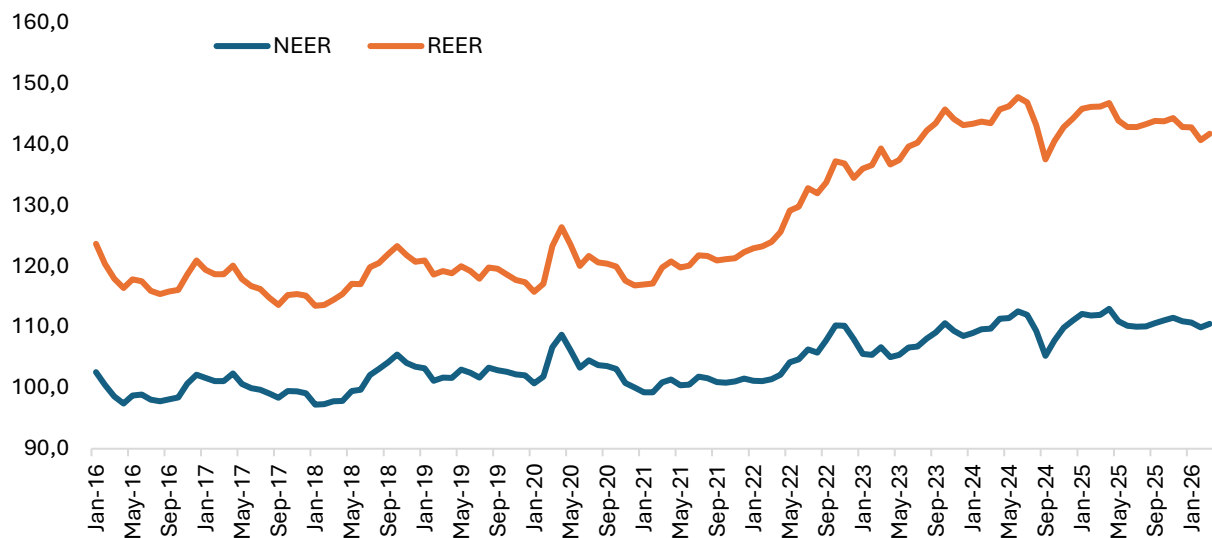


Source: INETL IP-MoF & World Bank Commodity Price, 2026

The REER⁵ appreciated markedly while the NEER remained broadly stable, indicating that domestic prices increased relative to those of trading partners rather than through nominal exchange rate movements. This suggests a deterioration in price competitiveness, which may reduce the competitiveness of domestically produced goods and services in international markets and encourage imports if sustained.

⁵ REER is the NEER adjusted for relative price levels between Timor-Leste and its major trading partners. It is a key indicator of external price competitiveness, with an appreciation indicating a loss of competitiveness and a depreciation indicating an improvement in competitiveness.

Figure 4. Exchange Rate Development (NEER & REER)

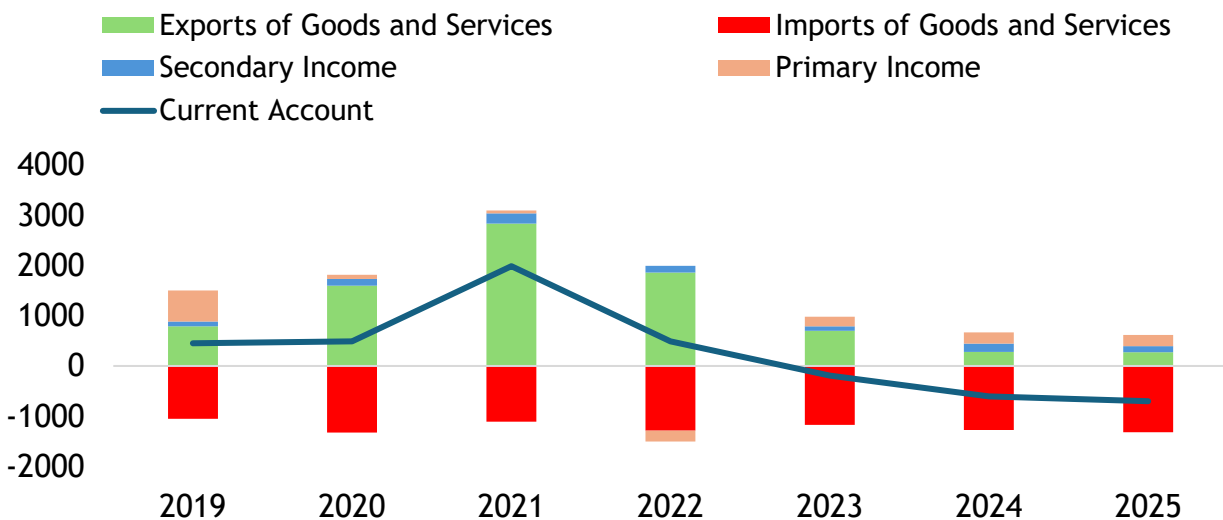


Source: Central Bank of Timor-Leste, 2026

1.2.4. External Sector

As shown in Figure 5, following the depletion of oil reserves from the Bayu-Undan oil field, Timor-Leste has recorded current account deficits over the past three years. This implies that imports of goods and services from the rest of the world have exceeded total exports of goods and services⁶. The current account deficit of \$733.6 million in 2025 was financed by withdrawals from the PF.

Figure 5. Current Account Balance (\$ million)



Source: Balance of Payment, Central Bank of Timor-Leste, 2026

⁶ Including the oil sector.

The current account surplus recorded between 2019 and 2022 was primarily driven by oil exports, while non-oil exports of goods remained limited consisting largely of coffee. Total exports declined sharply in 2023 as production from the Bayu-Undan oil field came to an end, leaving coffee as the country's main export commodity.

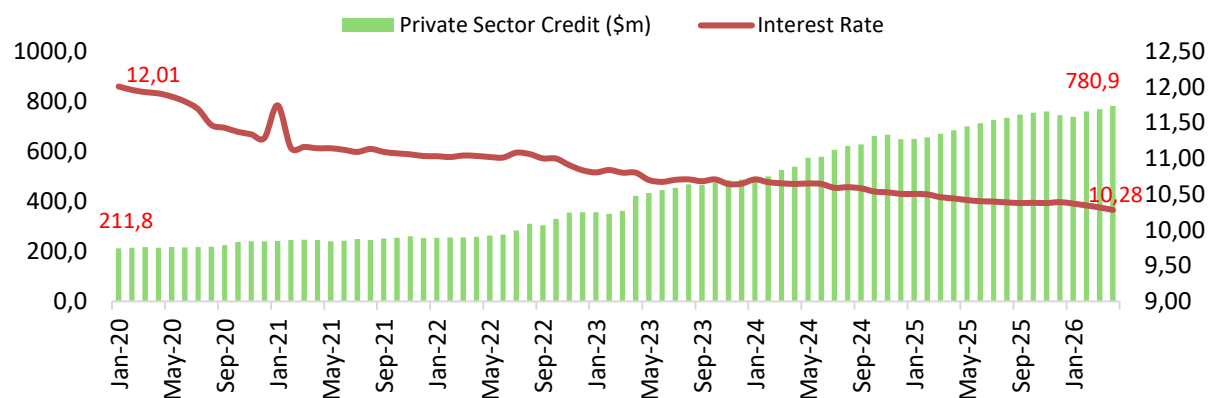
Imports of goods and services remained persistently high, resulting in a substantial trade deficit and causing the current account to shift into deficit post Bayu-Undan. In addition, primary and secondary income inflows remained insufficient to offset the trade deficit. As a result, the current account has remained in deficit, increasing the country's vulnerability to external shocks.

1.2.5. Financial Sector

Recent financial sector reforms have contributed to improved access to finance, particularly for the private sector. Total credit outstanding increased by more than 269 percent between 2023 and 2026, reflecting a significant deepening of financial intermediation.

The credit growth is supported by enhancements to the collateral regime, which allow banks to accept legally enforceable employment contracts and government project contracts as collateral. These measures have helped ease borrowing constraints and expand access to financing for households and businesses, particularly construction. Nevertheless, despite a modest decline in average banking lending rate, borrowing costs remain elevated at 10.28 percent, limiting broader financial inclusion and private sector investment.

Figure 6. Loans⁷ (\$ million) and Banking Interest Rate (percent)



Note: Interest Rate (right-hand side, percent), Credit (left-hand side)

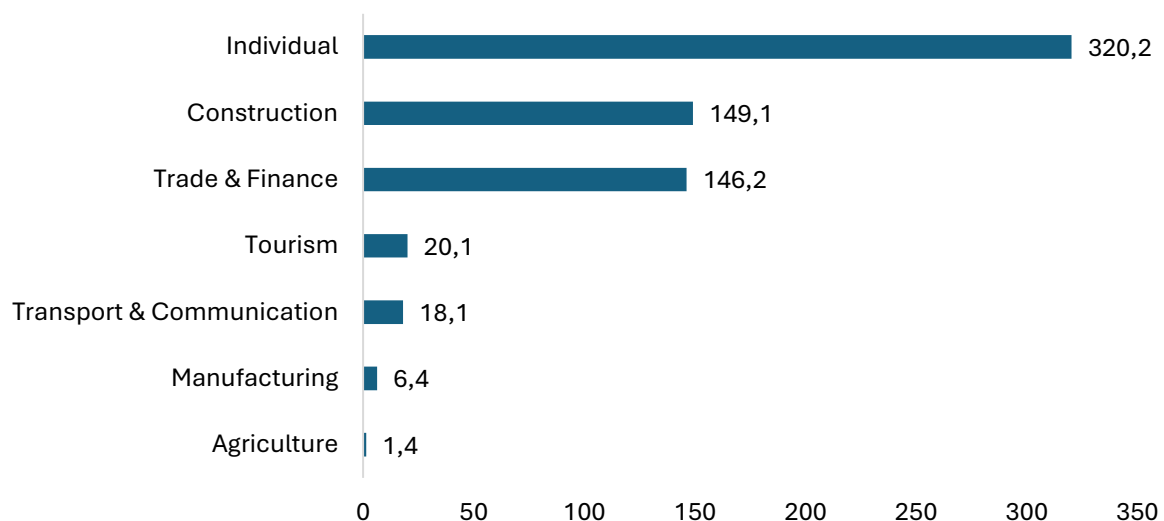
Source: Central Bank of Timor-Leste, 2026

⁷ Total loans from commercial banks and microfinances; The interest rate presented here is the average rate set by commercial banks.

Despite the substantial growth in credit to the economy, nearly half of total outstanding loans were extended to individuals, primarily for consumption purposes. Credit to the private sector for investment remains concentrated in construction activities (\$149.1 million) and trade and finance (\$146.2 million), particularly wholesale and retail businesses. By contrast, lending to productive sectors such as agriculture, manufacturing, and tourism remains limited.

Agriculture, in particular, accounted for only \$1.4 million in outstanding loans, while manufacturing received just \$6.4 million. This suggests that credit allocation remains insufficient to support sectors with significant potential to expand domestic productive capacity. Greater investment in agriculture and manufacturing is particularly important to increase domestic production, reduce reliance on imports, especially food imports, and support economic diversification and long-term growth.

Figure 7. Loans by Sector from Commercial Banks, until March 2026, (\$ million)



Source: Central Bank of Timor-Leste, 2026

1.2.6. Employment

The latest available labor market statistics are drawn from the 2022 Population and Housing Census. According to the census, the labor force participation rate stood at 35.9 percent, while the unemployment rate was 2.9 percent in 2022. Table 1 presents a breakdown of the labor force as reported in the census.

As in many ASEAN economies, Timor-Leste's labor market is characterized by a high prevalence of informality, with the large majority of employed individuals engaged in informal employment, underscoring the dominance of informal sector activities in the labor market structure.

Table 1. Main labour force status categories and indicators, by sex

a. Categories (in thousands)			
Category	Total	Male	Female
Working-age population 15+	874	441.6	432.4
Labour Force	313.7	185	128.7
of whom employed	304.7	180	124.8
of whom unemployed	9	5.1	3.9
Outside the labor force	560.3	256.6	303.7
b. Categories (in percentage)			
Indicator	Total	Male	Female
Labor Force participation rate	35.9	41.9	29.8
Employment-to-population ratio	34.9	40.8	28.9
Unemployment rate	2.9	2.7	3

Note: Numbers may not sum exactly due to rounding. This applies for all numbers throughout the document.

Source: Census 2022, INETL IP-MoF

Looking specifically at the formal sector, the latest Business Activity Survey indicates that formal private sector employment increased to 66.6 thousand workers in 2024, representing growth of 27.3 percent since 2021. Employment growth was stronger among women, whose employment increased by 43 percent, compared with 21 percent for men.

Formal private sector employment remains concentrated in Wholesale and Retail Trade (19.3 thousand workers) and Construction (11.9 thousand workers), while Manufacturing employed only 4.8 thousand workers. The relatively small contribution of Manufacturing underscores the limited development of productive sectors that are critical for economic diversification and structural transformation.

Moreover, employment growth in Construction has been largely supported by public investment projects, making it highly dependent on government spending and therefore less sustainable as a long-term source of job creation.

Despite this, the finding is consistent with the pattern of credit allocation to the private sector, suggesting that sectors with greater access to credit tend to generate more employment than those with limited access. This provides useful evidence that improving access to finance is crucial for business growth and job creation.

Given the limited employment contribution from other private sector businesses, the public sector continues to play a dominant role in formal employment. Public sector employment is estimated at approximately 76 thousand workers, exceeding total formal

employment in the private sector. This reflects the broader structure of the economy, where government expenditure remains the main driver of economic activity and employment creation.

While public spending has been instrumental in supporting development, long-term economic sustainability will require a stronger contribution from the private sector, particularly in productive sectors that can generate higher-value employment and reduce dependence on public resources. In this context, the 2027 General State Budget priorities are designed to support the transition towards a more diversified and private-sector-led economy, fostering sustainable job creation, higher productivity, and more resilient economic growth.

1.3. Macroeconomic, Fiscal and Medium-Term Projections (2027–2031)

1.3.1. Expenditure Allocations

The following table presents indicative expenditure baseline for 2027 General State Budget and the medium-term period (2028–2031). Based on the expenditure review until mid-June 2026, total consolidated actual expenditure for the CA and RAEOA is projected to reach approximately \$2.02 billion in 2026, providing the baseline for medium-term fiscal planning.

Compared with the previous Budget Strategy Report, the total approved allocation for the 2026 Rectification Budget is significantly higher. This increase is driven by higher allocations to recurrent expenditure, including the procurement of strategic fuel reserves, support for government subsidy programs, and other essential public services. Capital development expenditure also increased relative to the initial projection, primarily to support key infrastructure priorities such as the rehabilitation and construction of roads and bridges.

Against the revised budget 2026, budget execution is expected to accelerate in the second half of 2026, consistent with historical implementation patterns. In particular, capital and development expenditure is projected to rise in the final quarter, reflecting the timing of project implementation and associated payment schedules. A detailed assessment of expenditure execution up to June 2026 is presented in the section titled “Expenditure Review of the 2026 Budget.”

The 2026 expenditure projections by category are presented in the following table. Expenditure execution up to June 2026 has exceeded the level recorded during the same period in 2025. However, if execution in the remaining months falls short of expectations,

total spending could be lower than projected, which may result in weaker-than-expected GDP growth in 2026.

For 2027, the consolidated ceiling proposal is \$2,100.0 million, representing a 10.5 percent reduction compared with the consolidated allocation under the 2026 Rectification Budget. The adjustment aims to better align expenditure plans with the Government's implementation capacity while supporting fiscal consolidation objectives. This approach is also applied within the medium-term budget framework. The proposed ceiling comprises two components: (i) an indicative baseline expenditure of \$1,943.5 million for CA and RAE OA, derived through the FE process; and (ii) an indicative amount of \$156.5 million⁸ available to accommodate new policy priorities from selected GPPs⁹.

Table 2. Expenditure Projection for 2026 and Proposed Allocation for 2027-2031, \$ million

	2026 Rectified Budget	2027 Baseline	2028 FE1	2029 FE2	2030 FE3	2031 FE4
Salary & Wages	486.3	482.1	428.7	411.9	400.8	398.1
Goods & Services	703.2	396.9	397.4	398.0	398.5	406.5
Public Transfers	713.7	687.2	703.8	713.0	712.6	712.3
Minor Capital	41.8	0.0	0.0	0.0	0.0	0.0
Capital & Development	400.8	377.4	323.2	323.2	323.2	323.2
Total	2,345.8	1,943.5	1,853.0	1,846.1	1,835.1	1,840.1
Proposed Ceiling 2027		2,100.0				
Space (Ceiling – Baseline)		156.5				

Note: (i) Figures for 2027–2031 represent the 2027 baseline expenditure and the FEs for 2028–2031, and exclude any potential allocations for the new GPPs; (ii) The indicative expenditure ceiling is shown only for 2027, while expenditure ceilings for subsequent years will be determined through the annual budget process; (iii) Space represents the difference between the expenditure ceiling and the baseline expenditure from FE, available to accommodate new policy priorities; and (iv) the 2026 budget allocations by expenditure category shown in this table may differ from the approved budget, as they reflect expenditure adjustments based on data downloaded on 16 June 2026.

Source: DGPO \$ GRP, Ministry of Finance, 2026

Expenditure on salaries and wages under the indicative baseline is projected to decline by \$4.3 million in 2027 compared with the 2026 Rectification Budget, followed by an average annual reduction of approximately \$21.0 million over the subsequent four years. These projections are indicative baseline only and are based on the 2026 expenditure

⁸ The consolidated baseline expenditure amounts to \$1,989.8 million for CA, RAE OA, and INSS.

⁹ The 28 GPPs have been approved by the PRC and endorsed by the Council of Ministers for the preparation of detailed proposals, including cost estimates. The final selection of GPPs to be accommodated within the available fiscal space will be determined during the final PRC review meeting.

allocation, with future budget allocations subject to annual budget decisions and policy adjustments.

The projected trajectory of salaries and wages expenditure is consistent with the Government's fiscal consolidation strategy and supports the gradual containment of recurrent spending over the medium term. The 2027 allocation is based on May 2026 payroll data and assumes no new recruitment within the baseline budget unless approved through a GPP submission. Consequently, any expansion of the wage bill beyond the baseline requires explicit policy justification and Cabinet approval.

The projected reduction in salaries and wages is driven primarily by the introduction of a mandatory retirement age of 65 for civil servants, which is expected to generate savings over the medium term. The Ministry of Finance estimates that savings from mandatory retirement alone range between \$2.0 million and \$2.5 million in 2027.

The Government also intends to finance national and international advisors through development partners as well as fixing a cap on the salary of advisor financed through the state budget, reducing personnel costs while strengthening transparency and accountability in advisor recruitment and performance management. Advisors in frontline service-delivery sectors, including health, education, and the military, will be exempted from this measure to avoid disruptions to essential public services.

These savings measures are expected to partially offset upward pressures on the wage bill arising from the recruitment of staff for the Customs and Tax Authority to support the implementation of VAT, as well as the planned recruitment of new police cadets. The net fiscal impact of these offsetting factors will be further assessed during the PRC process prior to the finalization of the 2027 Budget Proposal. Together, these measures are expected to place salaries and wages expenditure on a gradual downward trajectory, while improving the efficiency, sustainability, and strategic allocation of public sector employment over the medium term.

The proposed allocation for goods and services in 2027 is projected to decline by 43.6 percent (\$306.3 million) to \$396.9 million relative to the 2026 Rectification Budget, as shown in the table above. The reduction largely reflects the discontinuation of one-off expenditures and temporary subsidy measures included in the 2026 rectification budget. These include fuel subsidies and the establishment of a seven-month fuel reserve in response to elevated global fuel prices. As these temporary measures are not expected to continue in 2027, goods and services expenditure is projected to return to a more normalized and fiscally sustainable level.

The Goods and Services allocation strengthens expenditure discipline by requiring detailed justification of operational spending and removing unjustified expenditure estimates from forward estimates. This measure is taken with the aim of improving efficiency, transparency, and value for money.

Over the medium term, allocations for goods and services are assumed to grow broadly in line with inflation, in order to preserve the real value of operational spending while maintaining fiscal sustainability. However, this category remains subject to review and may be adjusted through the PRC process during budget formulation.

Transfers are projected to decline by 3.7 percent to \$687.2 million in 2027 compared with the 2026 Rectification Budget, mainly reflecting the cessation of one-off transfers in 2026. As these payments are not expected to be repeated, transfer expenditure is projected to decrease in 2027.

Transfer allocations are assumed to grow broadly in line with inflation and population growth over the medium term, although they remain subject to review during the budget formulation process. In addition, transfers to non-government and private sector entities are expected to be reduced and gradually replaced by loans and grants through the National Development Bank.

As shown in Section 3, transfers are primarily directed to social protection and State-Owned Enterprises, notably EDTL. The company relies on government subsidies to maintain relatively low electricity prices, with a large share of its costs driven by diesel imports for power generation. An accelerated transition to renewable energy, including solar panel, could reduce EDTL's operating costs and lower transfer expenditure over the medium term.

The Government will also pursue efficiency savings in household transfers by reducing duplicate payments, supported by the planned rollout of a unique national identification system to strengthen the tracking and management of social protection payments. As a result, indicative transfer allocations are assumed to be broadly contained over the medium term.

The indicative allocation for capital and development is projected at \$377.4 million in 2027, representing a 5.8 percent reduction compared with the 2026 Rectification Budget. However, this amount represents only an indicative baseline, and the final allocation for this category will depend on the final decisions on the selection of GPPs to be financed from the available fiscal space, which may increase capital and development expenditure. The comparison with the 2026 allocation takes into account the

reallocation of \$60 million from the Infrastructure Fund in 2026 for the procurement of fuel reserves¹⁰.

The indicative baseline allocation for minor capital is set at zero to avoid unintended spending and ensure that any future allocations are aligned with clearly identified policy priorities. Any allocation under this category will depend on new policy priorities identified by the Government through the GPP process. The GPP proposals are currently under development and will be subject to review and approval by PRC members. This approach forms part of the Government's broader expenditure efficiency measures.

Over the medium term, baseline capital allocations are assumed to remain broadly unchanged, reflecting currently limited implementation capacity, with execution estimated at between \$300 million and \$450 million relative to available budget resources. Any adjustments to capital allocations will depend on the GPPs approved in each corresponding budget year. As implementation capacity is expected to improve gradually, supported by ongoing PFM and other structural reforms, actual execution is projected to converge more closely with allocated levels. The macroeconomic implications of this public expenditure path, including its impact on GDP, are discussed in the following section.

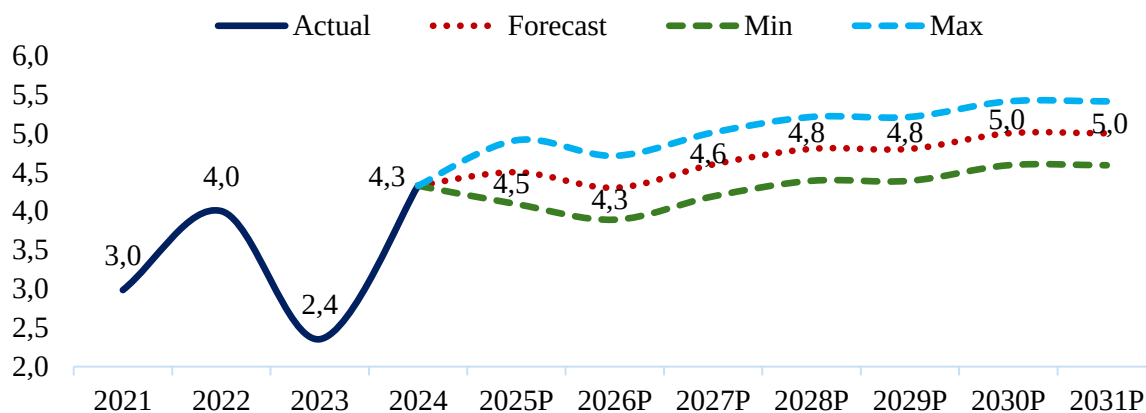
1.3.2. GDP Projections

Although economic growth is projected to moderate in 2026 relative to the previous year, the medium-term outlook remains broadly resilient and consistent with the Government's growth objectives. However, Timor-Leste's high dependence on imported fuel and food continues to expose the economy to external shocks.

GDP growth in 2026 is projected at 4.3 percent, slightly below the estimated growth for 2025. This outlook is broadly consistent with the World Bank's projection of 4.1 percent. The moderation in growth relative to the previous year is mainly driven by higher global prices, which are transmitted through increased costs of imported goods, transport, production, and distribution, leading to higher inflation and weakening business and household confidence in investment and consumption.

¹⁰ Detail breakdown and explanation can be accessed in the Rectification Budget 2026 report.

Figure 8. GDP Growth 2021-2024 and Projections for 2025-2031

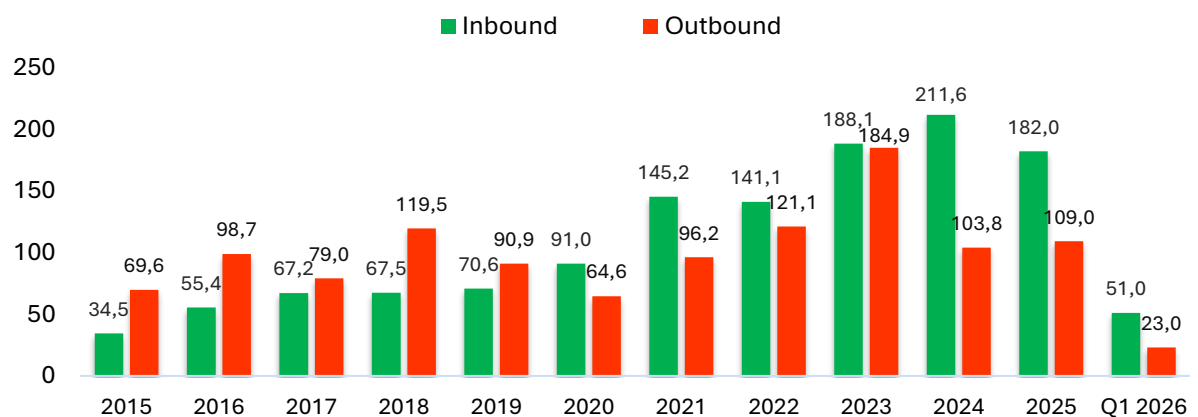


Source: Actual and Preliminary GDP Growth 2021-2025 from National Accounts, INETL IP, Forecasts 2026-2031 from the National Directorate of economic Policy, Ministry of Finance, 2026

Fiscal measures introduced under the Rectification Budget, including fuel-related and food security support, are expected to partially mitigate these pressures by supporting household consumption and ensuring continuity of essential services. However, they are not expected to fully offset the impact of higher global prices on economic activity.

External vulnerabilities are further amplified by declining remittance inflows, which fell from \$211.6 million in 2024 to \$182 million in 2025 and are expected to remain subdued in 2026 amid weaker saving capacity among migrant workers due to higher living costs in host economies. This could weigh on household consumption and broader economic activity.

Figure 9. Inbound and Outbound Worker Remittances to Families, \$ million



Note: Inbound remittances refer to money sent by Timorese living abroad to households in Timor-Leste, while outbound remittances refer to money transferred from Timor-Leste to recipients overseas.

Source: Central Bank of Timor-Leste, 2026

Despite this, final consumption expenditure is projected to grow by 4.9 percent, making it the main driver of growth in 2026. This expansion is supported by both government

consumption (6.2 percent) and household consumption (3.8 percent). Although household consumption may be partially affected by inflation driven by higher global energy prices, it is expected to remain resilient, supported by government subsidies and transfer payments to families, particularly veterans.

The actual amount of Government expenditure on goods and services, as well as salaries and wages, is projected to rise and drive public consumption in 2026 compared to the previous year, reflecting continued fiscal support to the economy.

Investment growth is projected to moderate to 4.1 percent in 2026, down from 8.1 percent in 2025, reflecting higher costs, uncertainty, and a temporary reallocation of around \$60 million from infrastructure spending to stabilization measures under the rectification budget, which may affect the timing and composition of selected projects.

The impact of the reallocation amount on actual investment outcomes is expected to be limited, as public investment execution has historically remained below budget allocations, with the reallocated amount broadly comparable to typical unexecuted capital spending. Nevertheless, the reallocation may still affect the timing and composition of selected public investment projects, with some lower-readiness or less urgent activities deferred or re-phased. Further details are provided in the expenditure review section of this report.

Exports are projected to grow by 22.4 percent in 2026 in real terms, up from 20.1 percent in 2025. The increase in exports is estimated to be driven primarily by both export of goods, particularly coffee, and export of services.

Imports are expected to increase in nominal terms due to higher global fuel and food prices, while real import growth is projected at 6.3 percent. Demand for final consumption goods and intermediate consumption goods, which are used in production and investment activities, is expected to rise, reflecting limited domestic productive capacity amid external shocks.

In the medium term, growth is projected to remain robust and aligned with the Government's growth objectives. This outlook is supported by a reform agenda aimed at strengthening key economic fundamentals. Priority measures include accelerating land titling, improving tax administration including the planned introduction of VAT, expanding financial inclusion, and establishing the BNDTL. Ongoing efforts to strengthen financial regulation and enhance transparency are also expected to improve investor confidence and support more efficient resource allocation.

Public investment in critical infrastructure will further support medium-term growth. Key projects, including the deployment of the fiber optic cable, the redevelopment of Dili Airport, and continued road construction and rehabilitation, are expected to improve connectivity, reduce transport and communication costs, and strengthen domestic and regional integration. These improvements should facilitate trade, improve access to regional markets, and help attract investment, particularly from ASEAN economies.

Together with opportunities arising from ASEAN accession and WTO integration, these reforms are expected to support private sector expansion and gradual economic diversification. Improved digital and physical connectivity is likely to facilitate the development of sectors such as tourism, agribusiness, and digital services. However, realizing these benefits will depend on effective policy implementation, strong public sector execution capacity, and sustained coordination across institutions. Weak implementation would limit the impact of reforms and public investment on private investment, exports, employment creation, and overall economic growth.

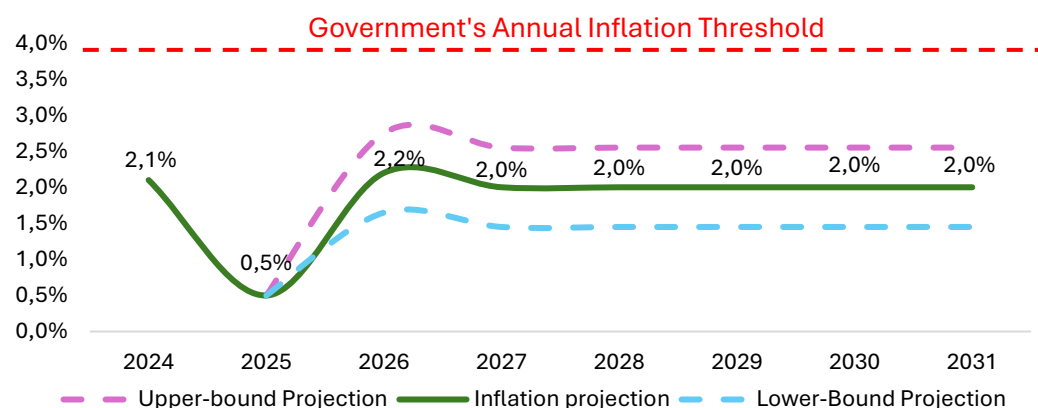
Given the economy's continued reliance on public expenditure, growth remains sensitive to fiscal policy and the pace of public investment execution. Over the medium term, economic performance will depend on progress in economic diversification, private sector development, and employment creation. In the absence of major external shocks, successful implementation of the Government's reform agenda is expected to support stronger private investment and higher growth outcomes, while implementation delays and institutional constraints could weigh on economic performance.

1.3.3. Inflation Projection

Although global uncertainty continues to exert pressure on domestic prices, inflation is projected to remain broadly contained over the medium term, averaging around 2 percent between 2027 and 2031, which remains lower than the threshold set by Government, as presented in the chart below. Stable and low inflation helps preserve household purchasing power, supporting consumer confidence and sustaining private consumption. Over time, this contributes to a more stable macroeconomic environment that is conducive to investment and supports economic growth.

The inflation projections are broadly consistent with the World Bank's forecasts, which estimated inflation at 2.3 percent in 2026, 2.1 percent in 2027, and 2.0 percent in 2028. This alignment suggests a relatively stable medium-term inflation outlook, with gradual moderation over time, reflecting contained global price pressures and a broadly stable domestic price environment.

Figure 10. Medium-Term Domestic Inflation Projections



Source: INETL IP & DNPE-MoF, 2026

However, the projections are subject to uncertainty and may vary within a 90 percent confidence interval around the baseline, implying that inflation outcomes could fluctuate above or below the central path depending on the magnitude of domestic and external shocks.

1.3.4. Revenue and ESI Projections

The following table presents domestic revenue and ESI for the previous year and projections for the current year and the medium term. Actual domestic revenue collection in 2025 reached \$272 million, driven mainly by tax revenue. This amount is significantly higher than was initially projected in 2025 Budget Strategy at \$258 million.

Domestic revenue in 2026 is projected at \$271.6 million, broadly in line with the previous year. Revenue performance is supported by higher indirect tax collections, projected to reach \$129.9 million, reflecting increased import values associated with higher global fuel prices.

Looking ahead, the planned implementation of VAT in 2027 will be a key component of the Government's revenue mobilization strategy. The reform is expected to broaden the tax base, strengthen domestic revenue generation, and support medium-term fiscal sustainability. When complemented by stronger tax administration, enhanced compliance and enforcement mechanisms, and greater digitalization of revenue systems, VAT is expected to contribute to higher domestic tax collections, with initial revenue gains estimated at between 1 and 1.5 percent of GDP, subject to compliance performance and administrative capacity. Over time, VAT revenue potential is expected to increase as the reform encourages greater business formalization and strengthens the overall tax compliance environment.

Tax revenue projections for the medium term do not include the potential impact of ASEAN accession, which may require the removal of certain trade-related taxes, as the fiscal implications remain subject to ongoing negotiations and will be reflected in future budget submissions.

Table 3. Domestic Revenue and ESI projections (\$ million)

	2025P	2025 Actual	2026P	2027P	2028P	2029P	2030P	2031P
Tax Revenue	210	206	212.9	232.8	245.9	260.1	275.1	285.6
Non-Tax Revenue*	48	66	58.7	57.2	59.4	61.7	64.1	66.7
Domestic Revenue**	258	272	271.6	290.0	305.3	321.9	339.2	352.2
ESI***	552	552	543.3	533.7	531.8	529.3	523.7	523.3
Total	810	824	815.0	823.7	837.1	851.2	862.9	875.5

*Combining Non-Tax Revenue from CA and RAEOA.

**This value excludes values from suspended accounts and rebates from the previous year.

***ESI estimation is based on the current projection of PF balance.

Note: These values are based on information as of 24 June 2026. Final numbers of both ESI and domestic revenue for 2027 will be published in the 2027 budget report.

Source: DGPO and GRP, MoF, 2026

1.3.5. Deficit Financing

Additional financing sources for government spending include excess withdrawals from the PF, loan disbursements, and grants. The table below presents projections for these financing items over the medium term.

The following table excludes financing from cash balances; however, to ensure liquidity for core payments in the early months of the year, the Treasury typically maintains cash balances of around \$200 million. In previous years, lower budget execution rates have allowed balances to remain at or above this level. In future years, if government execution approaches 100 percent, the Ministry of Finance will need to reassess its cash balance management and financing framework.

Table 4. Projection of Deficit Financing Sources (\$ million)

	2026P	2027P	2028P	2029P	2030P	2031P
Excess Withdrawal	1,175.9	1,155.1	1,151.0	1,145.5	1,133.4	1,132.5
Loans*	50	45	57	67	78	51
Direct Budget Support**	7.9	9	9	9	9	9
Total	1,211.9	1,182.6	1,171.1	1,165.6	1,153.5	1,152.6

*Projections of loan disbursements are preliminary, by early July 2026. **DNPE assumes that direct budget support will amount to \$9 million annually during 2027–2031, but are not based on any agreement. The figure for 2026 comes from the budget book 2026. The final amount of direct budget support and other external financing will be confirmed and incorporated in the 2027 Budget submission.

Note: Cash balance is another deficit financing that is not included in the above table.

Source: GRP and DGMRE, MoF, 2026

1.4. Fiscal Sustainability Analysis

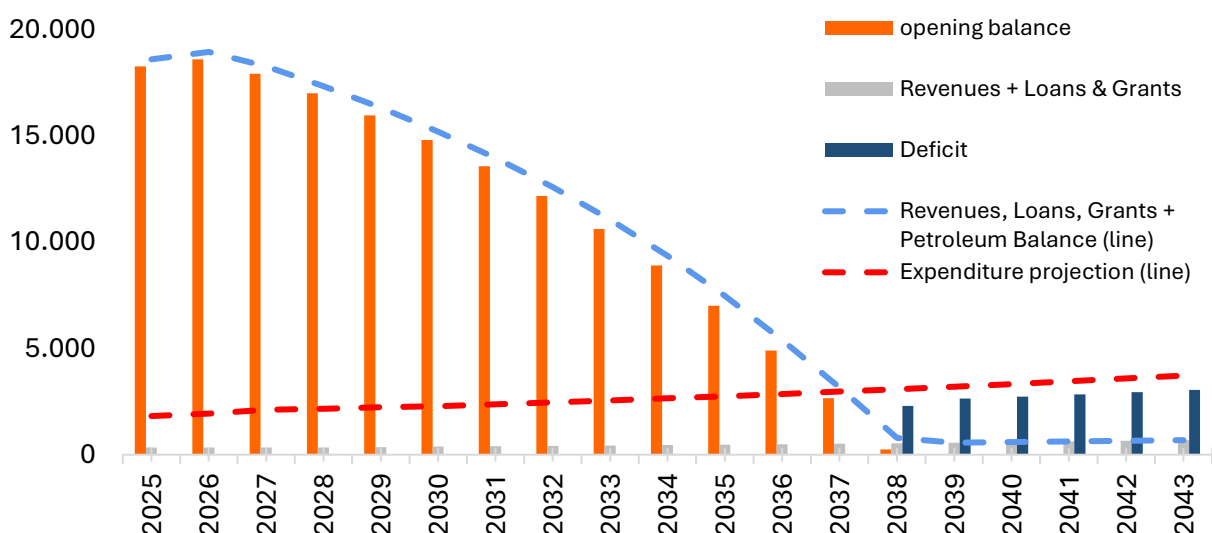
Timor-Leste continues to face a large structural fiscal deficit, reflecting substantial development spending needs and a narrow domestic revenue base. Under the 2027 budget ceiling, total expenditure will remain significantly above the combined level of domestic revenue and the ESI, necessitating continued excess withdrawal from the PF.

The overall fiscal deficit is projected at 59.9 percent of non-oil GDP in 2027, to be financed by DBS, loans, cash balance and excess withdrawal. This deficit is due to the required spending to support infrastructure development, social protection, and provision of essential public services.

The PF remains the principal source of fiscal financing and a critical buffer supporting macroeconomic stability and development objectives. Nevertheless, continued withdrawals above the ESI underscore the need to strengthen domestic revenue mobilization, improve expenditure efficiency, and promote private sector-led growth to reduce long-term fiscal dependence on petroleum wealth.

Updated fiscal sustainability projections indicate that, under current policy assumptions, the PF could be depleted by 2038. The projection incorporates updated information on domestic revenue, withdrawal patterns, budget execution, and assumes that expenditure growth beyond 2031 broadly follows inflation and population growth. While the projected depletion date has been extended by one year relative to previous estimates, the outlook remains highly sensitive to future fiscal policy decisions, investment returns, global market conditions, and the pace of economic diversification.

Figure 11. Petroleum Fund Lifespan under Current Trajectory (\$ million)



Source: DGPO-National Directorate of Economic Policy (DNPE)

Maintaining fiscal sustainability will require a gradual and balanced reform strategy focused on enhancing domestic revenue mobilization, improving the quality and efficiency of public expenditure, and strengthening the role of the private sector as a driver of growth. Continued progress in these areas will be essential to preserving the PF, supporting long-term fiscal resilience, and ensuring sustainable economic development.

2. Government Priorities and Reforms

The Government of Timor-Leste is committed to strengthening national resilience through transformation. General State Budget 2027 is being prepared at a defining moment in the country's fiscal history. The Petroleum Fund peaked at approximately \$19.6 billion in 2021 and is now declining in real terms, with updated projections indicating potential depletion by 2038. This fiscal reality makes a more strategic, evidence-based, and disciplined approach to public expenditure not merely desirable but necessary.

General State Budget 2027 is the first budget prepared under the complete framework established by both the Public Financial Management Law No. 3/2025 and its implementing regulation, Decree-Law No. 42/2025, published in December 2025. Together, these instruments introduce a strengthened system for policy-based budgeting, medium-term fiscal planning, and accountability across the Public Administrative Sector. This framework places greater emphasis on fiscal sustainability, prioritization, and measurable results.

The Government's strategic intent is to deliver better public services, support economic diversification, and direct public resources toward the areas of greatest national importance with greater discipline and accountability. This requires protecting the fiscal base through stronger domestic revenues, reduced expenditure inefficiencies, and prudent management of Petroleum Fund withdrawals. Available fiscal space must also be directed toward investments that generate the greatest long-term national impact.

This strategic approach is grounded in three mutually reinforcing sources of evidence and policy direction. The Programme of the IX Constitutional Government and the Strategic Development Plan 2011-2030 provide the long-term national development framework. The 2027 nationwide public consultation provides direct evidence of citizen priorities and development expectations. The Prime Minister's guidance for Budget 2027 establishes the framework for identifying and assessing GPP.

Together, these three sources inform a budget preparation process that gives greater emphasis than any previous cycle to medium-term fiscal planning, policy-based prioritization, and performance. They ensure that budget decisions are aligned with national priorities, responsive to citizen needs, and supported by a realistic assessment of available resources and long-term development obligations.

This chapter presents the evidence, decisions, and institutional reforms that underpin General State Budget 2027. Section 2.1 sets out the key results of the 2027 public consultation and their strategic implications for budget priorities. Section 2.2 presents

the Government's nine strategic priority areas and the framework of 28 GPP options accepted by the Council of Ministers as the basis for General State Budget 2027 policy development. Section 2.3 describes the principal public financial management reforms shaping the new budget approach.

2.1. Citizen Consultation Key Results

Consistent with the requirements of the Public Financial Management Law No. 3/2025, the Government conducted a nationwide public consultation as an integral component of the preparation of the 2027 General State Budget. The consultation was designed to ensure that citizens' priorities, development expectations, and experiences of public service delivery informed the identification of Government priorities and supported evidence-based policy development and budget decision-making.

Consultations were conducted across all Municipal Authorities, including Ataúro and the Special Administrative Region of Oecusse-Ambeno (RAEOA). The process included dedicated engagement with social partners, civil society organizations, organizations of people with disabilities, academic institutions, workers' organizations, private sector representatives, and development partners, ensuring that a broad range of institutional and community perspectives informed Budget 2027.

Consultation Coverage and Participation: The 2027 Public Consultation achieved extensive national coverage. A total of 1,214 citizens participated in the survey component, while 40 representatives from social partner organizations engaged through a dedicated stakeholder consultation. The process combined focus group discussions and structured surveys to capture perspectives from diverse demographic and geographic groups across the country.

Table 5. Coverage and Participation in the 2027 Public Consultation

Participant Group	Engagement Format	Coverage
Citizens (Citizen Representatives)	Focus groups discussions and surveys	All Municipal Authorities, including Ataúro and RAEOA
Social Partners (Civil Society Organisations and Private Sector Representatives)	Focus groups discussions and surveys	National Coverage (40 representatives)

Source: Ministry of Finance, 2027 General State Budget Public Consultation Report (2026).

Of the 1,214 citizen respondents, 72.7 percent were male, 22.9 percent were female, and 4.4 percent did not disclose their gender. Persons with disabilities accounted for 4.5 percent of respondents, reflecting efforts to incorporate the perspectives of traditionally

underrepresented groups. Continued and targeted efforts will be required in future cycles to strengthen the participation of women and other underrepresented groups.

The consultation achieved comprehensive geographic coverage across all municipalities and territories, providing a sufficiently representative evidence base for the identification of national development priorities. The findings presented in this section reflect the priorities and concerns of a nationally representative cross-section of the population and provide a sound and credible foundation for informing Budget 2027 decisions.

Finding 1 - Infrastructure Remains the Highest National Priority: Infrastructure is the highest national development priority emerging from the 2027 consultation. When asked to identify the development pillar that should receive the greatest emphasis in preparing the 2027 General State Budget, 60.3 percent of respondents selected infrastructure, compared with 20.2 percent who prioritized economic development, 15.2 percent social capital, and 4.2 percent governance and institutional development.

Within the infrastructure pillar, roads and bridges were identified as the highest priority by 69.5 percent of respondents, followed by water supply and sanitation. Citizens do not view infrastructure as an isolated sector, it is widely understood as the enabling foundation for healthcare, education, employment, agricultural productivity, and broader economic participation, particularly in rural and remote communities.

Table 6. Citizen Priorities by Development Pillar

Development Pillar	Citizen Priority (percent respondents)	Key Issues Identified
Infrastructure	60.3% (highest national priority)	Roads and bridges (69.5%), water supply and sanitation
Economic Development	20.2% (highest priority for social partners)	Employment, skills, agricultural productivity, market access
Social Capital	15.2%	Health services, education quality, teacher training
Governance and Institutions	4.2%	Transparency, accountability, service delivery performance

Source: Ministry of Finance, 2027 General State Budget Public Consultation Report (2026).

Finding 2 - Employment and Economic Opportunity Are Growing Concerns: Economic development emerged as the second most important development pillar nationally and the highest priority identified by social partners. Social partners comprising employers, trade unions, private sector associations, and civil society organizations ranked economic development ahead of infrastructure, reflecting a heightened awareness of

structural economic challenges that are likely to become more prominent as development needs evolve.

Citizens consistently highlighted youth employment, technical and vocational education, support for productive sectors, and income generation as priorities for Government action. Social partners went further, identifying a persistent skills-market mismatch, limited private sector investment, and regulatory complexity as the main structural barriers to job creation. Together, these findings signal a growing public expectation that economic development must generate tangible employment outcomes, not merely expand productive sector capacity.

Finding 3 - Public Expectations Are Shifting from Access to Quality: One of the most significant findings from the 2027 consultation is a noticeable shift in public expectations. While access to services remains an important concern, citizens are increasingly assessing Government performance on the basis of service quality, reliability, and effectiveness rather than availability alone. In health, respondents prioritized medicines, equipment, and qualified personnel over facility availability. In education, teacher quality and learning outcomes were rated above enrolment expansion.

Across infrastructure services, respondents emphasized maintenance, reliability, and functionality rather than investment levels. These evolving expectations have direct implications for how the Government designs programs, allocates resources, and measures success. Investments in quality assurance, workforce development, asset maintenance, and monitoring systems are becoming as important as the capital investments they are intended to support.

Finding 4 - Implementation Performance and Accountability Are Critical: The strongest and most consistent message from the 2027 consultation concerns implementation performance and accountability. Nationally, 75.4 percent of respondents identified project delays as a significant concern, 61.1 percent highlighted weak contractor performance, and 52.6 percent identified insufficient supervision and monitoring as key factors undermining project delivery.

Table 7. Key Implementation Concerns Identified by Citizens

Implementation Concern	Respondents Identifying Issue
Project delays	75.4%
Weak contractor performance	61.1%
Insufficient supervision and monitoring	52.6%

Source: Ministry of Finance, 2027 General State Budget Public Consultation Report (2026).

These concerns were mirrored by social partners, indicating broad agreement that implementation effectiveness has become as important as the level of public investment. Government financial management data confirms the citizen evidence: while competitive procurement improved to 79 percent of contract value in 2024, municipalities, the Ministry of Public Works, and RAEOA continue to record the most persistent problems with contract execution and delivery.

This finding has direct implications for General State Budget 2027. Citizens judge Government not by what is announced but by what is delivered. Strengthening project readiness, contractor accountability, effective supervision, and results-based monitoring are therefore integral components of the Government's expenditure framework for General State Budget 2027.

Finding 5 - Territorial Differences Require Differentiated Responses: The consultation demonstrates that development challenges and priorities vary considerably across municipalities and territories. Highland municipalities such as Aileu, Ainaro, and Ermera emphasized road connectivity, agricultural productivity, and market access. Urban areas, particularly Dili, prioritized employment, youth development, and vocational training. Coastal municipalities highlighted irrigation, livelihoods, and market access. Isolated territories such as Ataúro and RAEOA emphasized connectivity and access to essential services.

These findings reinforce the importance of complementing national investment priorities with place-based approaches that respond to the distinct opportunities and constraints of different municipalities and territories. They also underscore the value of the consultation process itself as a mechanism for surfacing needs that aggregate national data would otherwise obscure.

Key Implications: The 2027 consultation findings provide a clear and evidence-based foundation for the Government's strategic response. Across the five findings, a coherent picture emerges: citizens support continued infrastructure investment but expect it to be implemented effectively, maintained reliably, and complemented by economic policies that generate employment and strengthen livelihoods.

The consultation also reveals a significant evolution in public expectations from service expansion to service quality, performance, and outcomes. Implementation of accountability has become a central measure of Government performance, confirmed by both citizen evidence and documented financial management records. The nine

strategic priority areas and the GPP framework described in the following section have been designed to respond directly and deliberately to these findings.

2.2. Government Priorities and Measures for General State Budget 2027

The Fiscal Space Framework: The GPP process is built on a structured assessment of Timor-Leste's fiscal space, defined as the Government's capacity to finance new higher-priority policies without compromising fiscal, economic, social, or political stability. Ministry of Finance analysis identifies four principal sources of fiscal space for Budget 2027: responsible Petroleum Fund management; stronger domestic revenue through tax reform and the introduction of VAT; improved expenditure efficiency; and more effective use of development assistance through Government systems.

Preliminary Ministry of Finance analysis, drawing on the GPP Options Paper, suggests that systemic inefficiencies across the public sector including weak procurement practices, non-productive staffing, subsidy leakage, and fragmented program implementation represent a significant and addressable source of fiscal improvement, on the order of \$384 million annually, equivalent to approximately 14 percent of total GDP inclusive of petroleum sector activity. This figure is indicative and order-of-magnitude in nature, it is presented to illustrate the scale of the efficiency opportunity rather than as a confirmed audit finding. The approved GPP measures targeting expenditure efficiency address the most tractable near-term components of this opportunity, with further gains expected as institutional reforms take effect over the medium term.

Timor-Leste's non-grant tax revenue remains approximately 5 percent of GDP, one of the lowest ratios in the ASEAN region. International evidence consistently indicates that improvements in tax administration can increase revenue by between 1.8 and 3 percentage points of GDP over the medium term. The planned introduction of VAT in 2027, together with stronger tax and customs compliance and cross-agency data sharing, represents a critical step toward broadening the domestic revenue base.

A fifth dimension of fiscal space strategic borrowing has been identified for consideration. Timor-Leste holds approximately \$0.8 billion in concessional debt, with a debt-to-GDP ratio among the lowest in the region. A medium-term strategic borrowing framework could help smooth expenditure over time, reduce pressure on Petroleum Fund withdrawals, and diversify financing sources, provided it is guided by policy priorities and managed within sustainable limits.

The GPP Process: A defining feature of Budget 2027 is the introduction of the GPP process. The Ministry of Finance developed a structured portfolio of 28 policy options covering three broad domains: fiscal space creation, central government policy

pressures, and sectoral policy opportunities. These options were assessed by the Policy Review Committee and the resulting framework was accepted by the Council of Ministers as the analytical basis for Budget 2027 policy development.

The 28 options are analytical in nature. They represent policy directions identified through rigorous Ministry of Finance analysis, not confirmed budget allocations or policy decisions. For each option, the Council of Ministers directed responsible lead agencies to prepare detailed policy submissions including credible costing, implementation arrangements, and expected outcomes for assessment by the Policy Review Committee and final consideration in the August 2026 budget decision round.

The approved framework is comprehensive in scope. On the fiscal side, it includes measures to protect the Petroleum Fund, strengthen domestic revenue, improve expenditure efficiency, and make better use of development assistance. On the expenditure side, it addresses civil service management, infrastructure investment quality, procurement, and key pressures. On the sectoral side, it covers fisheries, tourism, agriculture, digital employment, water, energy, education, health, justice, land rights, financial sovereignty, and sub-national financing.

This breadth reflects the Government's determination to use Budget 2027 as a genuine instrument of national transformation. All policy proposals must be reviewed and endorsed by the relevant portfolio minister before submission to the Ministry of Finance, strengthening policy coherence and budget discipline throughout the process.

Strategic Priority Areas for General State Budget 2027: The Prime Minister has identified nine strategic priority areas to guide the development and assessment of policy proposals for General State Budget 2027. These priorities reflect the Government's long-term development objectives, the findings of the 2027 Public Consultation, and the fiscal realities facing Timor-Leste. The 28 GPP options accepted by the Council of Ministers are organized within these nine priority areas, ensuring that policy development and analytical work are focused on the issues of greatest national importance.

To translate these nine priority areas into operational budget decisions, each priority area will be mapped to the program and sub-program structure through which it must be funded and delivered. This mapping will be communicated to line ministries through Budget Preparation Circular, which will identify the programs contributing to each strategic priority area and provide the framework for ministries to align their Annual Action Plans and expenditure proposals accordingly.

Table 8. Strategic Priority Areas for Budget 2027

Strategic Priority Area	Strategic Focus
Economic Diversification and Strategic Productive Sectors	Promote sustainable economic growth through investment in agriculture, fisheries, tourism, trade, services, the Blue Economy, and other productive sectors that support job creation and reduce dependence on petroleum revenues.
Rural Infrastructure, Connectivity and Access to Basic Services	Improve connectivity, access to public services, and economic opportunities through investment in roads, bridges, water supply, sanitation, electricity, telecommunications, schools, and health facilities, particularly in rural and remote areas.
Human Capital Development and Service Delivery	Strengthen education, health, nutrition, skills development, and workforce readiness to improve human development outcomes and support long-term economic transformation.
Quality and Delivery of Public Investment	Improve project selection, planning, implementation, maintenance, monitoring, and value for money to ensure that public investment delivers timely, effective, and sustainable results.
National Resilience, Food Security and Climate Adaptation	Strengthen resilience to economic shocks, disasters, climate risks, and external pressures through investment in food security, energy security, disaster preparedness, climate adaptation, and sustainable resource management.
Private Sector Growth, Employment and Digital Transformation	Support entrepreneurship, investment, innovation, digital transformation, and private sector development to expand economic opportunities and employment creation.
Fiscal Sustainability, Institutional Reform and Public Sector Effectiveness	Strengthen fiscal discipline, expenditure efficiency, domestic revenue mobilisation, public sector performance, and institutional effectiveness to support sustainable public finances.
Justice, Governance and Accountability	Strengthen the rule of law, access to justice, transparency, accountability, and governance institutions that support public confidence and economic development.
Major National and International Events	Support the successful preparation and delivery of major national and international commitments, including CPLP 2027, national elections, and Timor-Leste's preparations for ASEAN leadership responsibilities.

Source: Prime Minister's Letter No. 105/PM-GPM/VI/2026 on the Preparation of the 2027 General State Budget.

Economic Diversification and Strategic Productive Sectors: Reducing Timor-Leste's dependence on petroleum revenues requires building productive, employment-generating sectors over the medium to long term. The Government's priorities under this area focus on developing fisheries and Blue Economy potential, building a competitive niche tourism industry, and transforming agricultural productivity through a long-term national strategy. A clear Government commitment to the petroleum and mineral

development, the most consequential long-term fiscal decision facing Timor-Leste is also addressed under this priority area.

Rural Infrastructure, Connectivity and Access to Basic Services: Infrastructure investment remains the highest priority identified by citizens in the 2027 consultation. The Government's priorities under this area focus on reorienting the Infrastructure Fund pipeline toward investments with the strongest contribution to productivity, growth, and long-term development. They also include a national program to improve water security and basic sanitation, the second highest infrastructure priority in the consultation and a strategy to reduce the high and growing costs of electricity, roads, and bridges through improved cost recovery and disciplined multi-year investment planning.

Human Capital Development and Service Delivery: Citizens participating in the 2027 consultation increasingly expect quality services, not simply access to facilities. The Government's priorities under this area include a strategy to strengthen national tertiary health care capacity, aiming to reduce the cost, risk, equality and social burden associated with overseas medical treatment. They also include investment in education quality and the development of a competitive multilingual school system to improve students' access to regional and global opportunities. Strengthening the efficiency, targeting, and transparency of support programs for gender equality, children, and people with disabilities is also prioritized.

Quality and Delivery of Public Investment: Capital development execution has averaged only 56 percent over the past five years. The Government's priorities under this area focus on strengthening procurement and contract management across the Infrastructure Fund, Ministry of Public Works, RAEOA, and municipalities. They also include a review of the Infrastructure Fund strategy to ensure the pipeline is focused on projects that are well-designed, ready for implementation, and aligned with the Government's highest priority objectives. Improving the visibility of mandatory expenditures will also strengthen Parliament's oversight of the budget.

National Resilience, Food Security and Climate Adaptation: Timor-Leste faces significant and growing risks from climate change, natural disasters, food insecurity, and economic shocks. The Government's priorities under this area are closely linked to agriculture, water, and energy strategies, recognizing that food security, water access, and climate resilience are interdependent challenges requiring integrated and sustained investment. Strengthening rules-based mechanisms for risk management and long-term planning ensures that resilience investments remain protected and strategically targeted.

Private Sector Growth, Employment and Digital Transformation: Creating employment for young Timorese is one of the most urgent economic and social challenges facing the country. The arrival of the Timor-Leste South Submarine Cable System creates a historic opportunity to develop a digital economy and generate employment through digital services and entrepreneurship. Establishing secure and enforceable private property rights through a national land titling strategy is a fundamental prerequisite for private investment and agricultural transformation. Building foundations for greater financial sovereignty is a longer-term complementary priority.

Fiscal Sustainability, Institutional Reform and Public Sector Effectiveness: Protecting Timor-Leste's long-term fiscal foundations is the essential precondition for all other priorities. The Government's priorities under this area address the full range of fiscal sustainability challenges: protecting the Petroleum Fund through strengthened fiscal rules; developing a medium-term strategic borrowing framework; implementing VAT and strengthening tax administration; curbing expenditure inefficiencies; improving the use of development assistance; controlling the civil service wage bill; improving administrative expenditure discipline; strengthening social protection transparency and sustainability; and establishing a fairer framework for sub-national government financing.

Justice, Governance and Accountability: A functioning justice system, clear property rights, and effective institutions are fundamental to public confidence, investor trust, and long-term economic development. The Government's priorities under this area focus on completing the establishment of the four higher courts that remain to be fully constituted the Constitutional Court, Supreme Justice Court, Administrative and Tax Court, and Court of Accounts through a phased multi-year program. Strengthening private property rights through land titling reform and a broader public order and safety strategy are also priorities under this area.

Major National and International Events: Timor-Leste faces a significant program of national and international events in the coming years. The Government's priorities under this area ensure that these commitments are properly planned, transparently costed, and fiscally provided for. They include the 2027 Municipal and Presidential Elections, the 2028 Parliamentary Election, CPLP 2027 commitments, and preparations for the 2029 ASEAN Summit. Managing associated expenditure pressures through discipline, rules-based mechanisms will protect budget integrity and ensure development expenditure is not crowded out.

Mutual Reinforcement and Next Steps: These nine priority areas are designed to be mutually reinforced. Investments in economic diversification depend on enabling

infrastructure and a skilled workforce. A strong digital economy requires connectivity, land security, and capable institutions. Fiscal sustainability reforms protect the revenue base that makes all other investments possible. Improved implementation quality strengthens the return on investment across every priority area. The Government will sequence investments to maximize their combined impact on growth, employment, services, and fiscal resilience.

Consistent with Article 23 of the Public Financial Management Law No. 3/2025, which requires the Government to submit the Budget Strategy Statement to the National Parliament by end of June, this document is prepared ahead of the completion of final policy submissions and budget decisions. The Council of Ministers has accepted the nine strategic priority areas and the framework of 28 policy options as the analytical basis for Budget 2027 policy development. Lead agencies are now preparing detailed submissions for final consideration in the August 2026 budget decision round.

The final set of GPP, once approved through the Policy Review Committee process, including specific policy measures, responsible lead entities, expected outcomes, and indicative resource requirements for each priority area will be fully incorporated into the General State Budget 2027 proposal to be submitted to the National Parliament by 1 October 2026. Together with the public financial management reforms outlined in the following section, these priorities establish the strategic foundation for a more disciplined, transparent, and results-oriented approach to the management of public resources in Timor-Leste.

Costed Policy Measures and Medium-Term Budget Impact: In accordance with Article 23 of the Public Financial Management Law No. 3/2025, the Budget Strategy Statement is required to include a description of the main policy measures planned by the Government for the following budget year. The Government's nine strategic priority areas and the framework of 28 policy options, set out in the preceding section, fulfil this requirement at the current stage of the budget preparation process. Each option has been developed by the Ministry of Finance and assessed against strategic relevance, affordability, implementation readiness, and expected results.

Detailed policy submissions including specific measures, multi-year cost estimates, funding sources, implementation arrangements, and expected outcomes are currently being finalized by responsible lead agencies for submission to the Policy Review Committee in August 2026.

The complete set of approved GPP, together with their fiscal impacts over the 2027-2031 period, will be fully incorporated into the 2027 General State Budget proposal submitted to the National Parliament by 1 October 2026.

2.3. Key Developments in Public Financial Management and the New Budget Approach

General State Budget 2027 is the first budget prepared under both the Public Financial Management Law No.3/2025 and its implementing regulation, Decree-Law No.42/2025, published in December 2025. Together, these instruments introduce a more integrated framework for fiscal governance, planning, budgeting, execution, reporting, and accountability across the Public Administrative Sector.

These reforms respond to longstanding weaknesses in annual, input-focused budgeting. Previous budget processes provided limited visibility of medium-term fiscal pressures, weakened the connection between expenditure and policy objectives, and constrained the Government’s ability to assess the long-term implications of new spending commitments. The new framework addresses these limitations through six interconnected budget reforms and a broader institutional modernization program.

The reforms also respond to an urgent fiscal and performance reality. Ministry of Finance analysis estimates that inefficiencies across the public sector currently cost approximately \$384 million annually around 14 percent of GDP. Capital development execution has averaged only 56 percent over the past five years, with agriculture, tourism, and rural development recording particularly poor implementation rates. Strengthening public financial management is therefore essential for fiscal sustainability, better public investment, and improved service delivery.

General State Budget 2027 addresses these challenges through a comprehensive package of reforms strengthening budget process, accounting standards, revenue administration, treasury operations, procurement performance, and institutional capacity. Table 9 summarizes the six principal budget process reforms introduced for General State Budget 2027, which represent the core institutional changes underpinning the Government’s new approach to planning, budgeting, and resource allocation.

Table 9. Key PFM Reforms Shaping Budget 2027

Reform	Purpose and Expected Impact
Medium-Term Fiscal Planning	Establishes a five-year fiscal planning framework that links annual budget decisions with medium-term fiscal sustainability and Government priorities.

Forward Estimates	Introduces multi-year expenditure projections for existing policies and services, creating a transparent baseline for budget preparation and identifying available fiscal space.
GPP Process	Establishes a structured process for assessing strategic policy proposals before budget decisions, ensuring alignment with national priorities and available fiscal resources.
Policy-Based Budgeting and Costing	Requires new policy proposals to include clear objectives, implementation arrangements, multi-year costing, and performance indicators before funding is considered.
Fiscal Discipline and Affordability Assessment	Strengthens assessment of affordability, recurrent expenditure implications, and fiscal sustainability for all new policy commitments within the medium-term fiscal framework.
Results-Based Planning and Performance	Strengthens integration between planning, budgeting, implementation, monitoring, and performance reporting to improve accountability and public sector results.

Budget Process Reforms: Medium-Term Fiscal Planning. The foundation of the new budget approach is the transition from single-year budget preparation to a five-year fiscal planning framework. All major budget decisions must now be assessed within a medium-term fiscal and policy horizon, strengthening the link between annual allocations and long-term development objectives. This reform is particularly important given that the Petroleum Fund is projected to be depleted by 2038 and the proposed 2027 indicative expenditure baseline reflects the Government's commitment to a gradual fiscal consolidation path over the medium term.

Introduction of Forward Estimates. General State Budget 2027 introduces Forward Estimates as a central feature of the new budget framework. Forward Estimates provide multi-year expenditure projections for existing Government policies, programs, and services over the budget year and the following four years, establishing a transparent baseline from which budget preparation begins. Rather than rebuilding budgets from a zero base each year, ministries will use approved Forward Estimates as their starting point, enabling the Government to identify fiscal space and assess affordability before new commitments are made.

GPP Process. The 28 options approved by the Council of Ministers represent the most significant change in how new expenditure proposals are developed and assessed. Instead of large volumes of unprioritized annual budget requests, ministries now develop strategic policy proposals assessed through a structured process before funding decisions are taken. The Ministry of Finance has presented these options to the Policy Review Committee covering fiscal space creation, central government policy pressures, and sectoral policy opportunities, with final submissions due in August 2026.

Policy-Based Budgeting and Costing. All proposals for new expenditure must be supported by clear policy objectives, evidence of need, credible cost estimates, and measurable results. Ministries must define the policy problem, explain the rationale for Government intervention, identify intended beneficiaries, and provide implementation arrangements, performance indicators, risk assessments, and multi-year costing. This represents an important shift from incremental budgeting toward a more strategic and results-oriented model of resource allocation.

Fiscal Discipline and Affordability Assessment. General State Budget 2027 places greater emphasis on affordability, recurrent expenditure implications, and long-term fiscal sustainability when assessing new proposals. All new initiatives must demonstrate how they can be accommodated within the medium-term fiscal framework. Key expenditure pressures requiring active management include the civil service wage bill, electricity subsidies, social protection expenditure, and the Infrastructure Fund pipeline all of which must be managed carefully to preserve fiscal space for strategic priorities.

Results-Based Planning and Performance. The Government continues to strengthen integration between planning, budgeting, implementation, monitoring, and performance management. Budget proposals must demonstrate clear links between Government priorities, programs, outputs, outcomes, and performance indicators. Together with program-based budgeting and strengthened performance reporting, these reforms improve accountability, support evidence-based decision-making, and strengthen the Government's capacity to assess whether public expenditure is delivering the intended results.

Broader PFM Reform Programme: The six budget-process reforms outlined above form part of a wider public financial management reform programme being implemented across Government. Building on the legal and institutional foundations established by Law No.3/2025 and Decree-Law No.42/2025, the programme is intended to strengthen the systems, institutions and governance arrangements that underpin fiscal strategy, budget preparation, revenue mobilisation, expenditure control, financial reporting, public investment and accountability across the Public Administrative Sector.

Legal and Regulatory Framework: Law No.3/2025 and Decree-Law No.42/2025 establish a common framework for budget planning, treasury management, accounting, reporting, internal control and performance monitoring across CA, Social Security and RAEOA. The framework clarifies institutional responsibilities, financial regimes and delegated authorities, while strengthening requirements for transparency, fiscal reporting and the use of Government financial-management systems.

Implementation of the new framework includes the mandatory use of approved financial, asset, debt and contract-management systems; clearer controls over commitments and payments; improved registration of public assets and contractual obligations; and more consistent reporting across Government entities. These reforms are intended to reduce fragmented practices, improve the reliability of fiscal information and strengthen accountability for the use of public resources.

Fiscal Strategy and Fiscal Risk Management: The reform programme is strengthening the Government's capacity to manage public finances within a medium-term fiscal framework. This includes the use of Forward Estimates, medium-term expenditure ceilings, debt analysis, fiscal-sustainability projections and improved identification of fiscal risks.

Further work is being undertaken to strengthen the monitoring of State-owned enterprises, public-private partnerships, guarantees, contingent liabilities and other potential calls on the Budget. These reforms are particularly important in the context of Timor-Leste's continued dependence on Petroleum Fund financing, as they provide a stronger basis for assessing affordability, controlling long-term commitments and protecting fiscal space.

Procurement and Contract Management Reform: Decree-Law No. 1/2025 modernises the public procurement and contracts framework through stronger competition, clearer procurement procedures, improved value-for-money requirements and a 10 percent preference for eligible local suppliers. The legal reforms are being supported by standard procurement documents, templates, guidance, training and the continued development of electronic procurement.

Between 2015 and 2025, contracts with a total recorded value of approximately \$1.9 billion were tracked through Government systems. Competitive procurement accounted for approximately 79 percent of recorded contract value in 2024, while the average time required to process invoices fell to approximately 14 days. These improvements are significant, although further reform remains necessary in procurement planning, contractor assessment, contract administration and implementation monitoring. This is directly relevant to the citizen consultation findings, under which 61.1 percent of respondents identified weak contractor performance as a significant concern.

The next phase of reform will therefore place greater emphasis on operational implementation, including professionalisation of procurement staff, stronger complaints and review arrangements, improved contract-management information and

closer integration between procurement, commitments, payments and project monitoring.

Public Investment and Asset Management: Public investment management is being strengthened to improve the quality, readiness and delivery of capital projects. The reforms cover project appraisal and selection, costing, procurement readiness, multi-year budgeting, implementation monitoring and the management of the Infrastructure Fund pipeline.

Improved public asset management is also being introduced through more complete asset registers, clearer institutional responsibility for asset information and stronger links between physical assets and the Government's financial records. Over time, improved valuation, depreciation and impairment information will support more reliable balance-sheet reporting and better planning for the maintenance and replacement of public infrastructure and equipment.

Treasury Management and Financial Reporting: The principle of treasury unity strengthens Government control over public resources by consolidating financial management through the Central State Treasury. Supported by the Government Resource Planning system, improved cash forecasting, regular bank reconciliation and the continued expansion of electronic payments, the reforms are intended to improve liquidity management, expenditure control and the timeliness of payments.

The reform program also includes the continued decentralization of selected Treasury functions to municipalities, supported by clearer legal arrangements, system access, training, reporting and central oversight. This is intended to improve service delivery while maintaining consistent national controls.

An improved Chart of Accounts and strengthened fiscal-reporting arrangements will support more reliable information on revenue, expenditure, financing, assets and liabilities. Further work is required to ensure that budgetary classifications, Treasury reports and consolidated financial statements use consistent definitions and are supported by accurate data from the underlying systems.

Public Sector Accounting Reform: The Government is continuing the transition towards International Public Sector Accounting Standards through a dual accounting framework. Budgetary accounting will continue on a modified cash basis, while financial accounting will progressively move towards an accrual basis.

The Conselho Contabilístico de Timor-Leste, established under Decree-Law No. 42/2025, is responsible for supporting the normalisation and harmonisation of public-

sector accounting standards. Implementation will require continued work on accounting policies, the Chart of Accounts, asset and liability recognition, consolidation, staff capacity and system configuration.

Strengthened asset registration will support depreciation calculations, financial-statement preparation and balance-sheet reporting. While the legal basis for the reform has been established, full accrual implementation will necessarily be phased, given the scale of the institutional, technical and data requirements involved.

Domestic Revenue Mobilisation and Revenue Administration: Strengthening domestic revenue is central to the Government's long-term fiscal strategy. The planned introduction of VAT in 2027 is expected to broaden the revenue base and support a gradual reduction in reliance on Petroleum Fund withdrawals. Its successful implementation will depend on the completion of the necessary legal, administrative, institutional and information-system arrangements.

Revenue-administration reform includes the development of an integrated tax-administration system, improved taxpayer registration, electronic filing and payment, compliance management, audit, arrears management and stronger data exchange between tax, customs, Treasury, banking and other Government systems. International experience suggests that stronger tax administration can generate substantial revenue gains, although the actual fiscal impact in Timor-Leste will depend on policy design, compliance, implementation capacity and the size of the formal tax base.

Customs administration and trade-facilitation reforms are also being advanced through ASYCUDA, the National Single Window and stronger integration of customs-revenue information with the wider fiscal system. In parallel, the Government will continue to seek a larger share of development assistance through national planning, budgeting, Treasury and reporting systems, thereby improving predictability, reducing fragmentation and strengthening the overall public-resource envelope.

Digital Transformation and Information Systems: Digital transformation is a central enabling component of the PFM reform programme. The arrival of the Timor-Leste South Submarine Cable System represents a significant improvement in national digital connectivity and creates an opportunity to strengthen Government systems, institutional resilience and access to public services.

A proposed three-year programme will seek to convert this expanded connectivity into stronger operational capability across the Ministries of Finance, Education, Health and Agriculture. Within the Ministry of Finance, continued modernisation of the GRP system, Invoice Tracking, Advance Payment Tracking, e-Procurement and related reporting tools

will strengthen commitment control, payment processing, contract management and fiscal oversight.

The reform programme also includes improved interoperability between GRP, tax, customs, procurement, payroll and other Government systems. This should reduce manual reconciliation, improve data consistency and allow decision-makers to obtain a more complete and timely picture of public finances. Investment in system security, data-centre capacity, business continuity and user support will remain necessary to ensure that these reforms are sustainable.

Internal Control, Audit and External Oversight: The broader reform programme includes the strengthening of internal control and internal audit across Government. This involves clearer management responsibilities, improved risk-based audit, stronger oversight of high-risk expenditure and more systematic follow-up of audit findings.

External scrutiny is also being strengthened through the role of the Chamber of Accounts, parliamentary oversight and the publication of fiscal and performance information. Over time, stronger financial and performance audit, combined with more consistent institutional responses to audit recommendations, should improve accountability and provide a stronger feedback loop between budget execution, evaluation and future resource allocation.

Institutional Capacity and Reform Governance: The sustainability of the reform programme will depend on the capacity of institutions and staff to operate the new systems and processes. The Government is therefore strengthening reform coordination, performance management and professional development within the Ministry of Finance and across budget entities.

This includes the integration of Annual Action Plans into DBFTL, the use of institutional indicators and the Common Results Framework, and the development of PFM competencies and training. Stronger reform governance will also be required to coordinate legal reform, system implementation, organisational change and development-partner support, while reducing dependence on fragmented or stand-alone technical assistance.

Cross-Cutting Budget Markers and the Statistical Foundation: The Government is strengthening cross-cutting budget markers for gender equality, disability inclusion and climate change. These markers are intended to improve the identification and tracking of expenditure against national priorities and cross-cutting commitments, while supporting more informed analysis of who benefits from public programmes.

The Timor-Leste Survey of Living Standards 2024 and the 2022 Population and Housing Census provide an updated statistical foundation for policy design, targeting and performance monitoring. These datasets, together with improved administrative information from budget, revenue and service-delivery systems, will support more evidence-based allocation decisions and more credible assessment of results across sectors.

A More Strategic Budget Process: Collectively, the reforms described in this section represent one of the most significant transformations of Timor-Leste’s public financial management framework since independence. General State Budget 2027 is the first budget to bring together citizen-consultation evidence, Council of Ministers-approved policy priorities, Forward Estimates, medium-term fiscal planning, structured policy review, procurement reform, revenue-administration reform and the progressive introduction of accrual accounting within a more integrated budget-preparation process.

The new approach establishes a clearer relationship between planning, policy, budgeting, execution, reporting and performance. By combining citizen priorities, Government policy direction and strengthened PFM systems, General State Budget 2027 provides a more coherent framework for allocating limited public resources with greater discipline, transparency and accountability.

The significance of the reform will ultimately depend on implementation. If the Government is able to apply the new framework consistently, protect the Petroleum Fund, mobilise stronger domestic revenues, improve expenditure efficiency and direct available fiscal space towards the highest-priority policies and investments, Budget 2027 will mark the beginning of a more strategic, transparent and sustainable approach to public finance. This, in turn, will provide a stronger institutional foundation for the non-oil economic growth, improved public services and long-term prosperity required by the people of Timor-Leste.

3. Expenditure Review and Ceiling

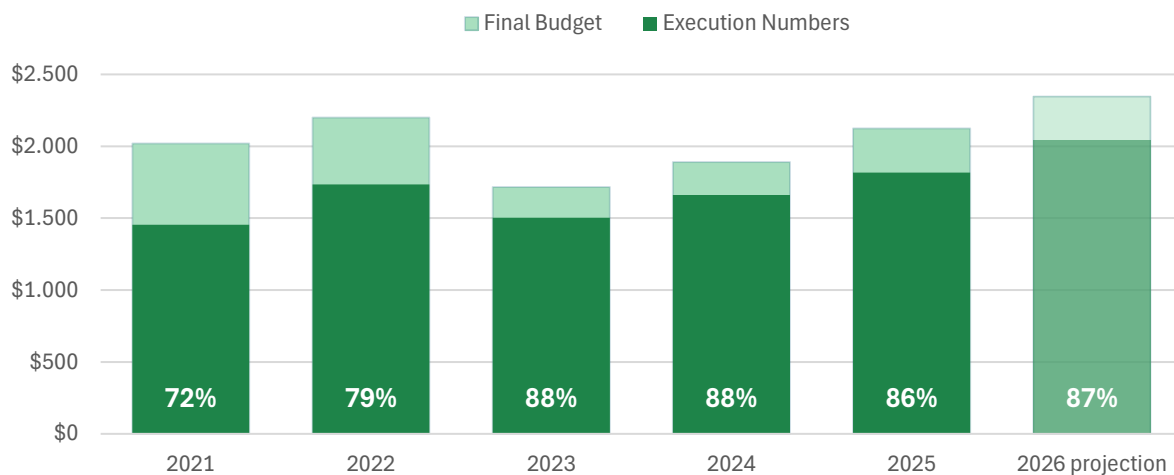
3.1. Recent Expenditure Development

This section reviews budget allocation and execution trends for the period 2021 to 2026. The analysis covers the Central Administration and RAEOA, including transfers from the State to the Social Security Fund. It provides an overview of recent expenditure developments, changes in the composition of spending, execution performance, and the implications for the preparation of General State Budget 2027.

Between 2021 and 2026, the final approved budget increased from approximately \$2.0 billion to \$2.3 billion, representing an increase of around 16 percent. The budget reached an initial historical high of \$2.2 billion in 2022. Following expenditure rationalisation through the 2023 Rectification Budget, the approved budget was reduced to \$1.7 billion. However, between 2024 and 2026, the budget increased again by approximately 37 percent.

Budget execution also improved during this period. Based on GRP data, the execution rate increased from 72 percent in 2021 to 88 percent in 2024, and fell slightly to 86 percent in 2025. For 2026, the execution rate is projected to reach approximately 87 percent. If achieved, this would represent the highest nominal levels of annual cash expenditure recorded by the Government.

Figure 12. Final Budget and Spending 2021-2026 (CA and RAEOA), \$ Million



Source: GRP, Ministry of Finance, June 2026 *Note – figures are unconsolidated amounts and include transfers from the Central Administration to RAEOA e.g., in 2025 the Central Administration transferred \$10m to RAEOA meaning the consolidated budget was \$10m lower than stated above.

Table 10 presents the main budget figures from 2021 to 2025 such as original and final allocations, cash expenditure and pending obligations and commitments. Over this

period, pending commitments averaged \$35 million per year, while end-of-year pending obligations averaged \$60 million per year. These figures suggest that, although execution has improved, the management of commitments and obligations remains an important area for continued monitoring.

Table 10. Headline Budget Numbers 2021-2025, \$ Million

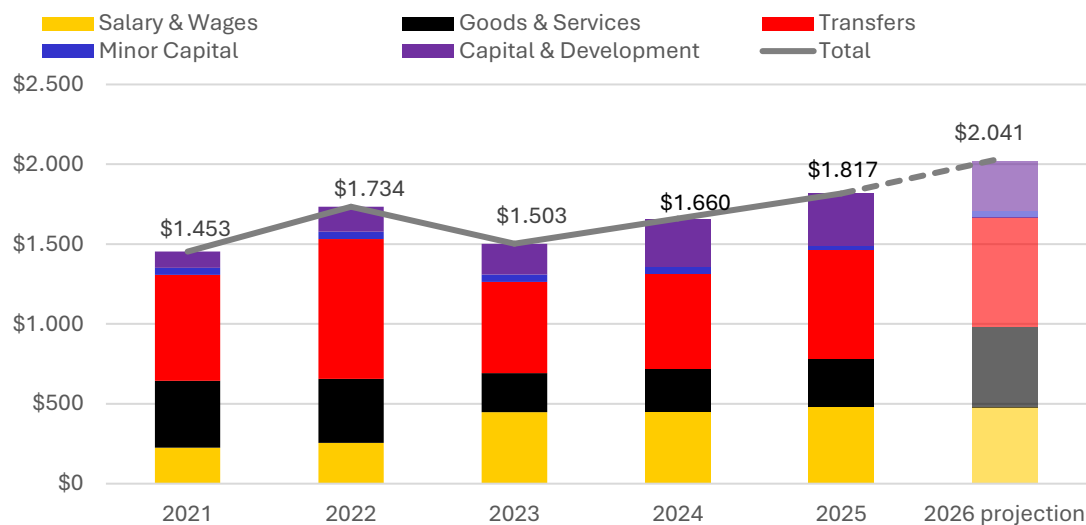
Category	2021	2022	2023	2024	2025
Original	1,895	1,885	1,920	1,890	2,125
Current	2,030	2,211	1,717	1,890	2,125
Cash expenditure	1,462	1,743	1,503	1,660	1,817
Pending commitment	54	45	34	8	34
Pending obligation	84	90	46	49	31
Execution Rate (%)	72	79	88	88	88
Unexecuted Contracts (%)	3.4	2.4	2.1	0.4	1.6
Pending Payment Rate (%)	5.4	4.9	3.0	2.6	1.5

Source: GRP, Ministry of Finance, June 2026

Annual cash expenditure increased by 25 percent between 2021 and 2025. Following low execution in 2020 due to the onset of the COVID-19 pandemic, expenditure increased significantly by 29 percent and 19 percent in 2021 and 2022, respectively. This was primarily driven by higher transfer spending. Expenditure declined in 2023 following expenditure rationalisation by the new Government but increased again by 21 percent in between 2023 and 2025. It is projected to increase further in 2026, by approximately 12.3 percent, which is above the combined rates of inflation and population growth.

The composition of expenditure over the last five years has been dominated by recurrent spending, namely expenditure on Salaries and Wages, Goods and Services and Transfers. Recurrent expenditure represented 86 percent of total expenditure in 2020 and increased to 90 percent in 2021, leaving only 10 percent of total expenditure for capital spending. The share of capital expenditure increased to 16 percent in 2023 and 21 percent in 2024 as the IX Constitutional Government placed greater emphasis on economic development and growth. However, the capital share declined to 19 percent in 2025, mainly due to the significant increase in transfers related to veteran benefits. It is projected to decline further to 17 percent in 2026, partly because the Infrastructure Fund allocation was reduced to finance emergency measures under the Rectification Budget 2026.

Figure 13. Overall Government Expenditure 2021-2026, \$US Million



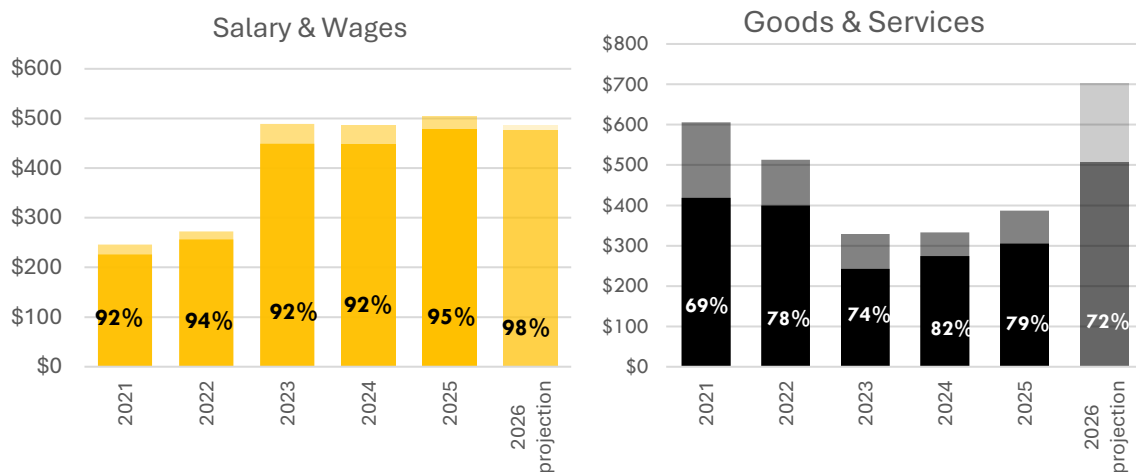
Source: GRP, Ministry of Finance, June 2026

A closer review of recurrent expenditure shows that Salary and Wages have had relatively high and stable execution rates. By contrast, execution rates for Goods and Services have varied significantly over the past five years. The charts also show a large decline in Goods & Services expenditure in 2023, while Salary and Wages expenditures rise from \$256 million to \$449 million (see Figure 14).

This increase in Salary and Wages was partly due to new hiring of teachers under the IX Government. However, a significant part of the increase reflects changes in expenditure classification. Prior to 2023, expenditures on National and International Advisors were recorded under the Goods and Services. From 2023 onwards, this expenditure was reclassified under Salary and Wages. Several items related to employee travel and allowances were also moved from Goods and Services to Salary and Wages. In addition, the State's contribution to the Social Security Fund, which had previously been listed under Public Transfer, moved to the Salary and Wages in 2023. As a result, the increase in Salaries and Wages after 2023 should be interpreted carefully, as it reflects both genuine expenditure growth and classification changes (see Figure 15).

After 2023, Goods and Services expenditure continued to increase, particularly in the 2026 budget. The allocation rose by more than 81 percent compared with 2025. Part of this increase can be explained by new expenditure related to the PNTL, ASEAN accession, and other operational needs. However, part of the increase may also reflect over-budgeting and may not be fully executed during the fiscal year.

Figure 14. Budget and Execution Figures for Salary & Wages and Goods & Services, \$ Million



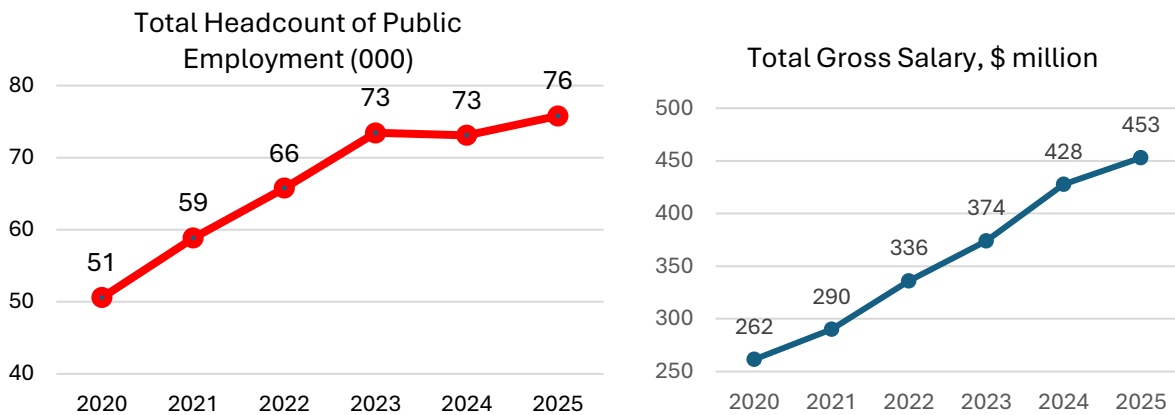
Source: GRP, Ministry of Finance, June 2026

Due to the lack of a clear item-level and line-item mapping from old to new categories, it is not possible to fully analyse historical expenditure prior to 2023 under the new classification. For this reason, payroll data provide an important additional source for analyzing the drivers of salary expenditure.

Payroll data record the total number of employees working for the CA and RAEOA and their total gross wages. These figures exclude variable allowances such as flight tickets and per diems and do not include employees of extra budgetary entities such as public enterprises. Figure 15 below show total salary expenditure and the total number of Government employees according to payroll data from 2020 to 2025.

The first chart shows that salary expenditure increase by approximately 73 percent between 2020 and 2025. The largest annual increase occurred in 2023, when salary expenditure rose by 16 percent. The chart on the right shows that the increase was partly driven by higher employee numbers. Payroll headcount increased by 51 percent between 2020 and 2025, with the largest period of hiring taking place in 2021 when headcount rose by 16 percent.

Figure 15. Payroll Data on Expenditure and Employee Headcount



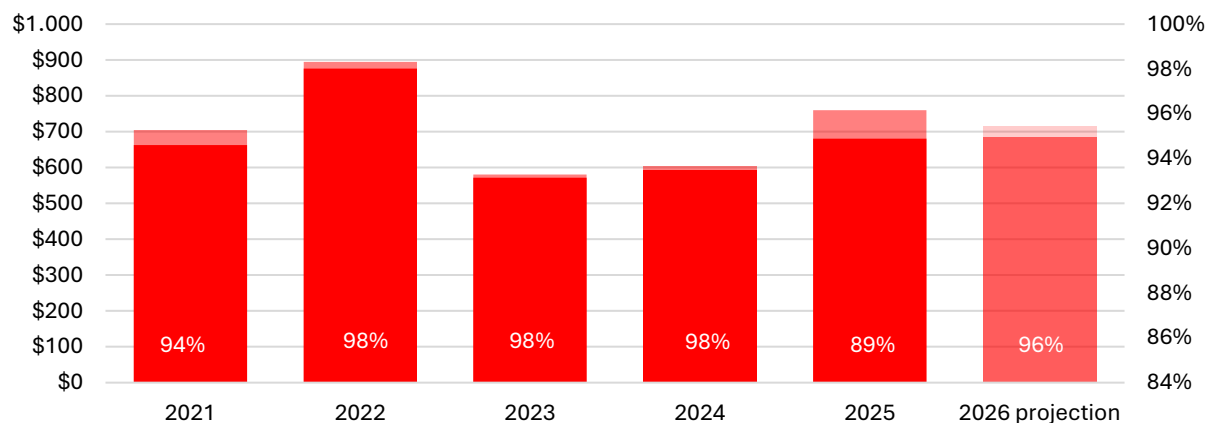
Note headcount numbers reflect total hiring throughout the year, as some contractors are only hired for a part of the year, these figures are higher than the snapshot of employees at the end of the year.

Source: GRP, Ministry of Finance, June 2026

Transfers increased significantly during the COVID-19 period, reaching nearly \$900 million in 2023. This increase was primarily due to welfare programs introduced during the pandemic and transfers to public entities, including the creation of EDTL and BTL in 2020.

The Rectification Budget 2023 reduced transfers expenditures significantly. Transfer remained relatively low in 2024 but rose again in 2025, mostly due to a large increase in transfers to the Veterans. The Rectified Budget 2026 reduced the allocation compared with 2025, although the level remains substantially higher than 2024. In terms of execution, Transfers have generally recorded high execution over the past five years, except in 2020 where execution was impacted by the COVID-19 pandemic, and in 2025 when execution was affected by administrative issue related to the veterans' list.

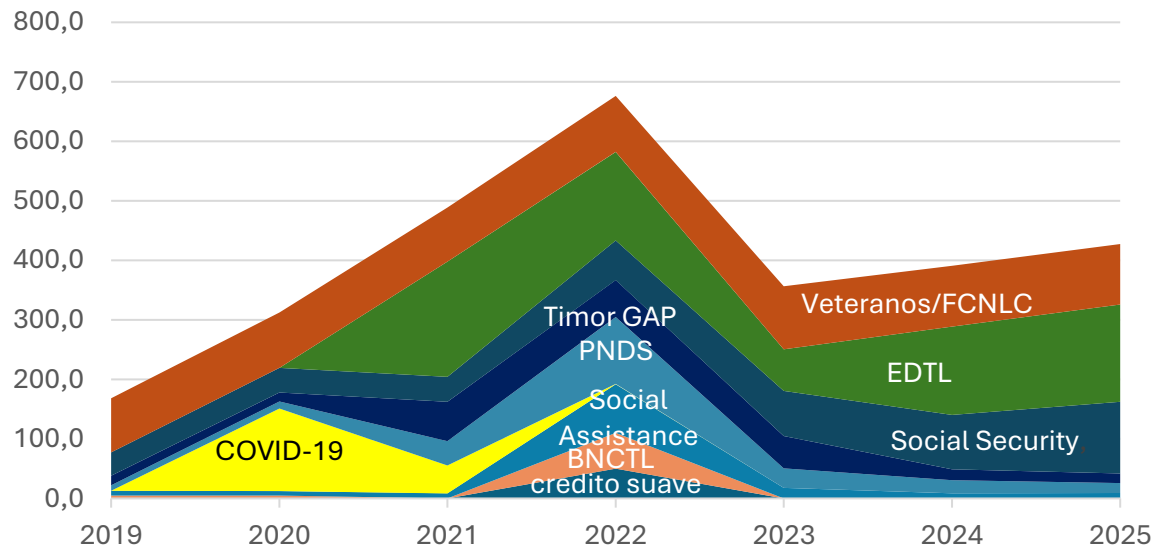
Figure 16. Transfer Budgeted and Execution, \$ Million



Source: GRP, Ministry of Finance, June 2026

Figure 17 shows the main drivers of transfer expenditure. The largest transfer items represented more than 60 percent of total transfer expenditure in each year from 2020 to 2025. This concentration indicates that a relatively small number of transfer programs have a major influence on overall expenditure trends.

Figure 17. Largest Transfer Expenditure 2019-2025, \$ million

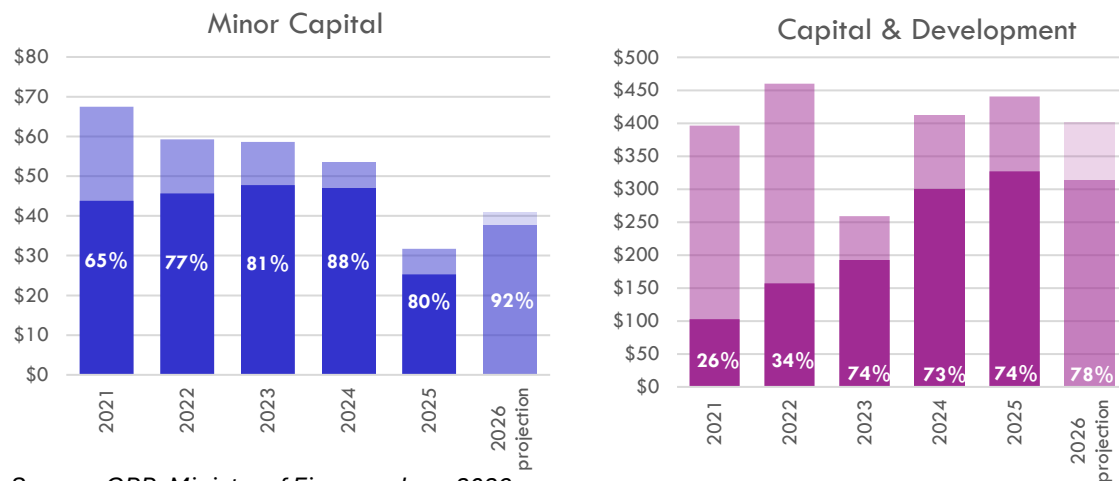


Source: Analysis from the DGPO based on GRP data, Ministry of Finance, June 2026

Capital and Development expenditure increased overall between 2021 and 2025, both in terms of allocation and actual spending. However, Development Capital continued to record the weakest and most variable execution rates among all economic categories, with an average execution rate of 56 percent between 2021 and 2025. This suggests persistent weaknesses in project preparation, procurement, implementation planning, and contract management.

Nevertheless, actual expenditure has increased consistently every year since 2021. In 2026, capital expenditure is projected to be lower due to the reduced allocation for the Infrastructure Fund after the Rectification Budget. However, the execution rate is expected to improve and may reach the highest level recorded over the past six years.

Figure 18. Budget and Execution for Capital Expenditure, \$ Million



Source: GRP, Ministry of Finance, June 2026

3.2. Expenditure Review Budget 2026

This section reviews budget execution in 2026 as of first of July and compares it with execution at a similar point in 2025.

The overall execution rate in 2026 is higher than in 2025 at the same stage of the fiscal year. This is partly due to the execution of large fuel subsidy payments. A positive development is the higher execution rate for Capital and Development expenditure. Although capital execution remained low at 19 percent by the end of June, this represented a 5 percentage point improvement and an increase of approximately \$28 million in actual expenditure compared with the same period in 2025. This may reflect improvements in procurement and project implementation processes.

Table 11. Comparison between execution rate of General State Budget 2026 and 2025 at the same period last year, \$ million

Economic Category	Original GSB 2025	Current GSB 2025 as of 1st July	Cash Exp. GSB 2025 as of 1st July	Execution rate GSB 2025 as of 1st July %	Original GSB 2026	Current GSB 2026 as of 1st July	Cash Exp. GSB 2026 as of 1st July	Execution rate GSB 2026 as of 1st July %
Salary & Wages	490	506	220	44%	483	486	226	47%
Goods & Services	415	387	100	26%	473	703	261	37%
Transfers	758	760	299	39%	790	714	296	41%
Minor Capital	23	32	2	6%	39	42	1	3%
Capital & Development	440	441	48	11%	460	401	76	19%

Total	2,125	2,125	668	31%	2.245	2.346	859	37%
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Note: General State Budget (GSB)

Source: Ministry of Finance, 1st July 2026

Table 12 shows the current execution rate of all programs with allocation above \$1 million in the 2026 budget. Execution performance varies significantly across programs. Among larger programs with allocations above \$100 million, Roads and Bridges, investment in economic diversification and electricity programs recorded some of the lowest execution rate.

As of June 1st, the Government has spent 19 percent of Roads and Bridges allocation, 10 percent of the investment and economic diversification allocation, and 8 percent of electricity allocation. By comparison, several other major programs had execution rate above 30 percent. The low execution rate for Roads and Bridges reflects the capital-intensive nature of the program, which depends on procurement, project readiness, contractor mobilisation, and weather conditions. Implementation was also affected by reduced contractor activity during the wet season in the first half of the year.

The low execution for the electricity program is related to the transfer to EDTL, that was temporarily delayed during the Rectification Budget process but is expected to be executed before the end of the year. Finally, the low execution for investment and economic diversification is explained by the inclusion of two major rectification measures, the food security and the energy security measures, which had not yet been executed by mid-June.

Programs that rely more heavily on transfers or salaries, such as Social Inclusion and Basic Education, generally recorded higher execution rates. This reflects the fact that recurrent spending and transfer-based programs are usually easier to execute than capital-intensive programs.

For programs with allocations between \$10 million and \$100 million, the execution rate was particularly low for some programs, such as the Tasi Mane and Rural and Urban development. This is partly because of their reliance on capital development expenditure, but it also reflects the fact that these programs are relatively new and may still be undergoing through procurement processes, project preparation, or implementation arrangements.

On the other hand, well-established programs like Foreign Policy and National Security have relatively stronger execution rates of 47 percent and 35 percent, respectively. However, several productive sector programs continued to record weak execution. Agriculture, despite being a well-established national priority program and only partially

dependent on capital development, displays a particularly poor execution rate of 14 percent. Related smaller programs like Fisheries, Aquaculture and Aquatic Resources Management, and Livestock, Veterinary and Technology, also recorded low execution rates of 18 percent and 9 percent, respectively. For Tourism, another priority sector, has a notably poor execution rate of 20 percent (see Table below).

These results have important implications for Budget 2027. They suggest that priority sectors should not only receive budget allocations but also require stronger implementation planning, procurement readiness, technical capacity, and monitoring. Weak execution in agriculture, fisheries, livestock, tourism, and economic diversification can reduce the effectiveness of the Government's broader transformation agenda.

Table 12. Execution rate of program with allocation over \$1 million by June 16th (in \$ million)

No	Program	Orig. Budget	Rect. budget	Actual, June	Ex. rate, June
1	Social Inclusion	392.0	391.0	154.4	39%
2	Functioning and Institutional Development	372.3	366.0	108.6	30%
3	Developing the Greater Sunrise gas field	52.0	231.4	173.5	75%
4	Roads and Bridges	217.8	192.6	36.8	19%
5	Electricity	138.6	129.3	10.8	8%
6	Investment and Economic Diversification	97.0	114.8	11.8	10%
7	Basic Education	108.9	109.0	45.2	41%
8	National Security	69.8	72.1	25.4	35%
9	Public Financial Management	69.8	68.2	16.5	24%
10	Implementation of the Tasi Mane Project	66.6	63.7	1.2	2%
11	Secondary and tertiary health care	58.5	58.6	15.9	27%
12	Primary Health Care	55.9	55.4	17.1	31%
13	Contingency	45.0	52.3	-	0%
14	Timor-Leste Foreign Policy	54.1	47.6	22.5	47%
15	Administrative Decentralization and Local Authority	37.1	37.2	14.3	39%
16	Airport	44.5	36.3	10.6	29%
17	National Defence	30.1	28.7	8.9	31%

18	Agriculture, Horticulture, Coffee and Industrial and Annual Plants	30.1	27.4	3.8	14%
19	Developing policies and best practices in the industry	52.2	27.2	5.4	20%
20	Water and Sanitation	25.8	23.5	9.4	40%
21	Secondary Education	21.8	21.8	6.9	31%
22	Scholarship	19.2	19.2	6.5	34%
23	Access to Justice	19.3	18.5	5.7	31%
24	Higher Education	13.7	13.6	4.8	35%
25	Preschool Education	10.6	10.6	3.2	30%
26	Integridade, administração e supervisão eleitorais	6.2	10.2	0.1	1%
27	Guarantee the exercise of the parliament	10.1	10.1	4.6	45%
28	Bringing the Services of the Population Courts	9.4	9.4	2.3	24%
29	Response to the Structures Damaged by Calamity	17.6	9.3	4.5	49%
30	Rural and Urban Development	10.6	8.5	0.5	6%
31	Transports	8.0	7.9	1.4	17%
32	Revitalização Comunitaria	7.6	7.4	0.9	12%
33	Exploration petroleum exploration blocks onshore and offshore	6.1	5.3	2.0	38%
34	Information and Communications Technology	9.8	4.9	0.7	14%
35	Desenvolvimento do Setor da Comunicação Social	4.8	4.8	1.4	30%
36	Culture and Heritage	5.0	4.8	0.9	20%
37	Política Estratégica Nacional	2.1	4.6	0.7	16%
38	Tourism	5.6	4.1	0.8	20%
39	Areas with Special Administrative and Economic Treatment	4.0	4.0	0.0	0%
40	Implementação da Habitação comunitária digna	3.3	3.2	0.3	9%
41	Controlar a qualidade de projetos públicos	3.2	3.2	1.1	34%
42	Reforma da Gestão de Recursos Humanos na Administração	2.3	2.3	0.7	31%
43	Livestock, Veterinary and Technology	2.0	2.0	0.2	9%
44	International Relations and Cooperation of the Parliament	1.9	1.9	0.2	11%

45	Infrastructure connectivity	1.7	1.7	-	0%
46	Protection and Conservation of Environment	1.7	1.7	0.3	16%
47	Fisheries, Aquaculture and Aquatic Resources Management	1.5	1.5	0.3	18%
48	Develop a system for Institutional Communication	1.4	1.4	0.4	29%
49	Reforma Administração Local e Simplificação Administrativo	1.3	1.3	0.4	26%
50	Iniciativas de Desenvolvimento do Presidente da República	1.3	1.3	0.7	52%
51	Sustainable Management of Forest Resources	1.4	1.3	0.3	22%
52	Ensuring Freedom of Expression and Access to Information	1.1	1.1	0.3	23%
53	Territorial Ordering	1.1	1.1	0.3	23%
54	Ports	1.0	0.9	-	0%

Source: GRP, Ministry of Finance, June 2026

3.3. Obligatory Expenditure 2027

Obligatory spending for Budget 2027 is estimated at approximately \$1.41 billion. This category includes public expenditures that must be incurred according to the law, binding agreements, contractual commitments, memoranda of understanding, or the essential nature of the service being provided. It includes legal obligations, contractual payments, critical recurrent expenditure, and ongoing capital commitments.

The largest portion of obligatory expenditure is Public Transfers, estimated at approximately \$624 million. This includes around \$287 million for social transfer, largely related to the veterans' benefits. Other major transfer items include loan repayments and interest, transfers to municipalities, and transfers to public enterprises. Transfers to public enterprises are estimated at around \$180 million, mostly for EDTL.

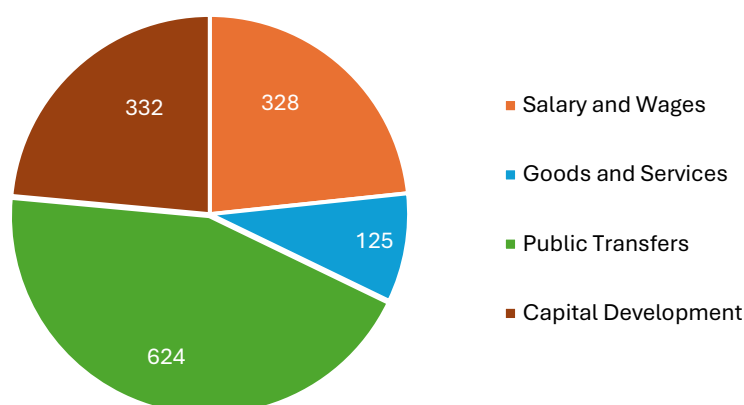
Salaries and Wages are another major component of obligatory expenditure. The Government is required to meet salary obligations for civil servants under permanent and special regimes, as well as for political office holders. Salaries and Wages are estimated at around \$328 million in 2027.

Capital and development obligations are estimated at approximately \$332 million. This includes ongoing Infrastructure Fund projects and infrastructure projects implemented by other public entities. These commitments reflect the need to complete existing

projects and meet contractual obligations before creating additional capital commitments.

Essential Goods and Services are estimated at approximately \$125 million. These include fuel, public goods, essential equipment, and other operational expenditures considered necessary to maintain core Government functions.

Figure 19. Obligatory Expenditure Amounting to \$1.41 billion by categories (\$ million)



Source: DGPO & GRP data, Ministry of Finance, June 2026

The obligatory expenditures in 2027 are driven up by inflation and population growth, but the overall amount is partly moderated by a slightly lower salary and wages allocation. Overall, the obligatory expenditure in 2027 is projected to remain broadly similar to the estimated level in 2025, at around \$1.41 billion.

This significant level of obligatory expenditure has important implications for Budget 2027. It places greater pressure on available fiscal space for new policy measures and reinforces the need for careful expenditure prioritisation. It also highlights the importance of reviewing the efficiency, affordability, and long-term sustainability of existing commitments, particularly in transfers, subsidies, wages, and capital projects.

3.4. Expenditure Ceilings for the Administrative Public Sector

Table 13 presents proposed expenditure ceilings for the Public Administrative Sector. These ceilings cover the CA, RAE OA, and the Social Security Fund. A more detailed explanation of the total expenditure ceilings is provided in the macro-fiscal projections section of this document. The table below provides an indicative split between the CA, RAE OA, and the Social Security Fund. Final decisions on these ceilings will be made through the Policy Review Committee process.

These numbers correspond to the indicative forward estimates as announced in the first circular sent to the ministries in May. They reflect the cost of maintaining existing policy

over the next six years, accounting for parameters such as inflation, population growth, compulsory retirement of civil servants, and specific government policies, which may push estimates either upward or downward.

Since ministries' new policy proposals haven't been approved yet for the 2027 fiscal year, these figures are based on a no-policy-change assumption. This means that they estimate the cost of continuing existing policies and services, rather than the cost of new measures.

The approval of new policy measures would place upward pressure on budgeted figures. However, given the Government's limited execution capacity, actual expenditure may remain broadly aligned with current estimates even if some new policies are approved. This reinforces the importance of assessing not only the affordability of new policy proposals, but also their implementation readiness and expected execution profile.

Table 13. Consolidated Expenditure baseline for Public Administrative Sector, \$ million

Public Administration Sector	2026 Rectified Budget	2027 Baseline	2028 FE1	2029 FE2	2030 FE3	2031 FE4
CA	2,157.8	1,762.3	1,672.0	1,665.1	1,654.3	1,658.9
RAEOA	63.9	57.0	56.8	56.8	56.7	56.9
INSS	170.4	170.4	170.4	170.5	170.5	170.5
Total	2,392.1	1,989.8	1,899.3	1,892.4	1,881.4	1,886.4

Source: Ministry of Finance, June 2026

The indicative expenditure baseline for the Public Administrative Sector is projected to be at \$1,989.8 million in 2027 to \$1,886.4 million in 2031. For 2027, the available fiscal space for new policy measures remains moderate¹¹, particularly given the size of obligatory expenditure and the continued need to preserve fiscal sustainability.

The ceilings therefore provide a disciplined starting point for General State Budget 2027. They allow the Government to distinguish between the cost of maintaining existing services and the cost of new policy decisions. They also support a more transparent assessment of fiscal trade-offs, helping ensure that new initiatives are affordable, strategically aligned, and capable of being implemented effectively.

¹¹ Further explanation provided in sub-section 1.3.1.

4. Fiscal Risks and Methodology

4.1. External Resource and Debt Limits

4.1.1. Loans

The Government utilizes foreign loans to meet its borrowing requirements. In accordance with the Strategic Development Plan 2011-2030 and Public Debt Regime Law No. 13/2011, concessional loans are principally designated for the construction of strategic infrastructure essential for national development to support economic diversification. The terms of the loans are described below:

Table 14. Terms of Loans

Lender	Currency	Approved loan \$m	Grace Period (years)	Original Amortization Period (years)	Year Complete	Interest rate 2026f
ADB	US, SDR	556.95	6	21	2065	3.74%
WB	US, SDR	134.18	7	23	2059	2.56%
JICA	JPY	68.72	10	20	2042	0.60%
AIFFP	US	45	5	20	2048	N/A
Total		804.85				

Note: The AIFFP fund for the Airport project is currently under review and has not yet entered the implementation phase. Therefore, it has no applicable interest charges.

Source: Ministry of Finance, June 2026

On 11 December 2024, the Council of Ministers decided to cancel several agreements with the World Bank and ADB, reducing the total loans by \$428.17 million to \$804.85 million.

Due to its large share and persistently high global interest rates, the ADB lending rate is expected to remain elevated at 3.74 percent. Meanwhile, the overall portfolio interest rate is projected to decline to 3.2 percent in 2026, following the cancellation of several market-based loans. Although still below the Petroleum Fund's projected return of 3.3

percent in 2026, this highlights the need for the Government to prioritize fixed-rate borrowing to maintain manageable debt servicing costs.

Table 15. Cost of borrowing vs PF return

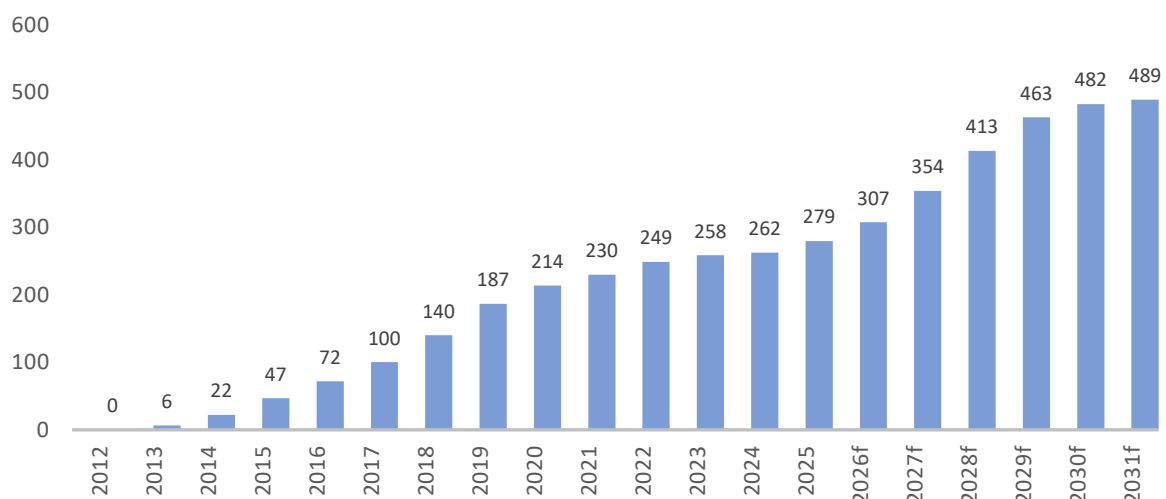
Description	2020	2021	2022	2023	2024	2025	2026f
Cost of borrowing (effective rate)	2.03%	1.50%	1.56%	3.25%	3.6%	3.3%	3.2%
PF historical return (annual since inception)	4.81%	4.90%	3.95%	4.27%	4.4%	4.4%	3.3%

Source: Ministry of Finance, June 2026

Negotiations with international lending institutions indicate that some loan agreements may be amended, potentially delaying disbursement. Current forecasts suggest that external debt will peak in 2030 before decreasing. The Government is also considering early repayment, which could further reduce debt.

By the end of fiscal year 2026, external debt is projected to reach approximately \$307.21 million. Interest and related fees are expected to rise from \$8.9 million in 2025 to about \$9.4 million in 2026, driven by the implementation of newly loan-funded projects. Despite this increase, the external debt remains relatively low compared to the Government's overall debt.

Figure 20. Stock of External Debt, \$ million



Source: Ministry of Finance, June 2026

In 2027, disbursements are expected to rise as several construction and supervision contracts for new projects are executed. Loan disbursements are projected at a moderate level of \$45 million, bringing the total debt stock to an estimated \$354.05 million by the end of the year. For 2026, the government is authorized to contract or issue public debt up to a ceiling of \$850 million, with a maximum maturity of 40 years. The government proposes to maintain this ceiling at \$850 million in 2027, which is projected to account for approximately 40 percent of GDP.

The country's debt ratios experienced a marginal increase over the last four years. However, starting in 2023, there has been a slight decrease in these ratios reflecting a fall in loan disbursement.

Table 16. External Debt Indicators for the period 2021-2030, percent of GDP and Revenue

	2025	2026f	2027f	2028f	2029f	2030f	2031f
Total External Debt to GDP	14.0%	15.2%	16.6%	18.3%	19.5%	19.2%	18.5%
Total Debt Service to Revenue	3.0%	3.1%	3.8%	4.5%	5.1%	5.5%	5.4%
Total external debt	279.5	307.2	354.1	412.9	462.6	482.4	488.6
Debt Service	24.6	25.3	31.4	37.9	43.5	47.6	47.4
Revenue (ESI + domestic revenue)	824	815	823.7	837.1	851.2	862.9	875.5

Note: All information presented in this table as of June 2026

Source: Ministry of Finance, June 2026.

External Debt to GDP - The size of external debt to GDP remains under the 30 percent threshold set by the debt sustainability frameworks for low-income countries with a moderate risk of default. In 2026, the debt-to-GDP ratio is expected to be 15.2 percent.

Debt Service to Revenue (ESI + Domestic Revenue) – Total debt service to revenue ratio is expected to increase from 3.0 percent in 2025 to 5.4 percent in 2031, with the highest value expected in 2029. Despite the upward trajectory, the values remain below the 14 percent.

Table 17. Debt Service Forecasts, \$m

Lender	Debt Service	2025	2026f	2027f	2028f	2029f	2030f	2031f
ADB	Principal	11.48	11.73	16.22	20.22	22.41	23.71	23.97

Lender	Debt Service	2025	2026f	2027f	2028f	2029f	2030f	2031f
	Interest	7.06	7.49	9.07	10.24	11.28	11.47	10.63
	Charges	-	-	-	-	-	-	
WB	Principal	2.81	2.81	2.81	2.81	3.66	4.87	4.87
	Interest	1.65	1.67	1.68	1.76	1.79	1.75	1.77
	Charges	-	-	-	-		-	
JICA	Principal	1.39	1.39	1.39	1.39	1.39	1.39	1.39
	Interest	0.22	0.25	0.19	0.18	0.17	0.16	0.15
	Charges	-	-	-	-		-	

Source: Ministry of Finance, June 2026

4.1.2. Project Status

The costs of projects funded by concessional loans are mainly taken from three different sources: Loan, Infrastructure Fund, and Grant. Table 18 indicates that the total investment cost of the total loan-funded projects from 2012-2026 is estimated at \$633.9 million of which \$474 million is financed by loans, \$156.9 million by the infrastructure fund, and \$2.9 million by grants.

Table 18 also shows that the largest component of the investment cost is civil works, which accounts for \$555.3 million of the total. Civil works are mainly financed by loans (72.7 percent) and the infrastructure fund (26.7 percent), with a small contribution from grants (0.6 percent). The second largest component is supervision, which costs \$56.3 million of the total. Supervision is entirely financed by loans. The third component is other, which includes expenses such as resettlement and capitalization. This component costs \$ 22.3 million of the total and is financed by loans (61.9 percent) and the infrastructure fund (38.1 percent). Government has secured an additional grant of \$10 million to support road and water infrastructure projects.

Table 18. Total Investment Costs, \$ million

Budget Category	Total	Loan	Infrastructure Fund	Grant
Civil Works	555.3	403.9	148.4	8.9
Supervision	56.3	56.3	N/A	N/A
Other	22.3	13.8	8.5	N/A
Total	633.9	474	156.9	2.9

Source: Ministry of Finance, June 2026

Additionally, the breakdown of the sector reveals that the road sector accounts for most of the funding and the contracts, followed by the airport and the water sectors. The table also indicates that most of the road projects have been completed or are close to completion, while the airport and the water projects are still under construction. Two road projects currently under construction are the routes from Baucau to Viqueque Highway Project and TL Branch Road Project.

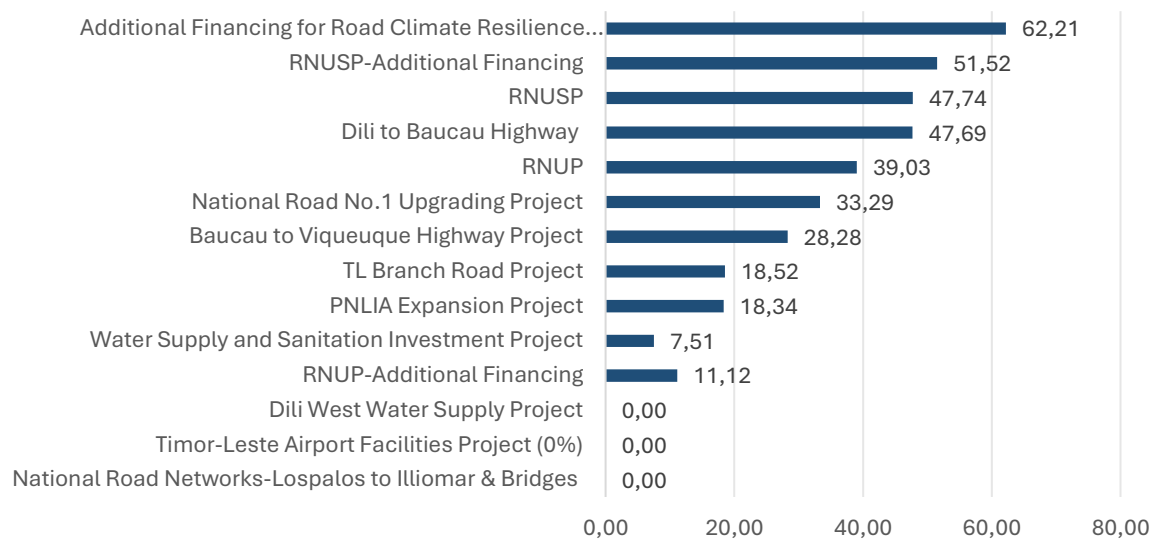
Table 19. Sectoral Breakdown

Sector	Total Budget (\$ million)	Number of Civil Works Contracts	Number of Supervision Contracts	Number of Concluded Projects
Road	496.4	16	7	14
Airport	93.0	1	1	Under construction
Water	37.5	2	1	Under Construction
Total	626.9	19	9	

Source: Ministry of Finance, June 2026

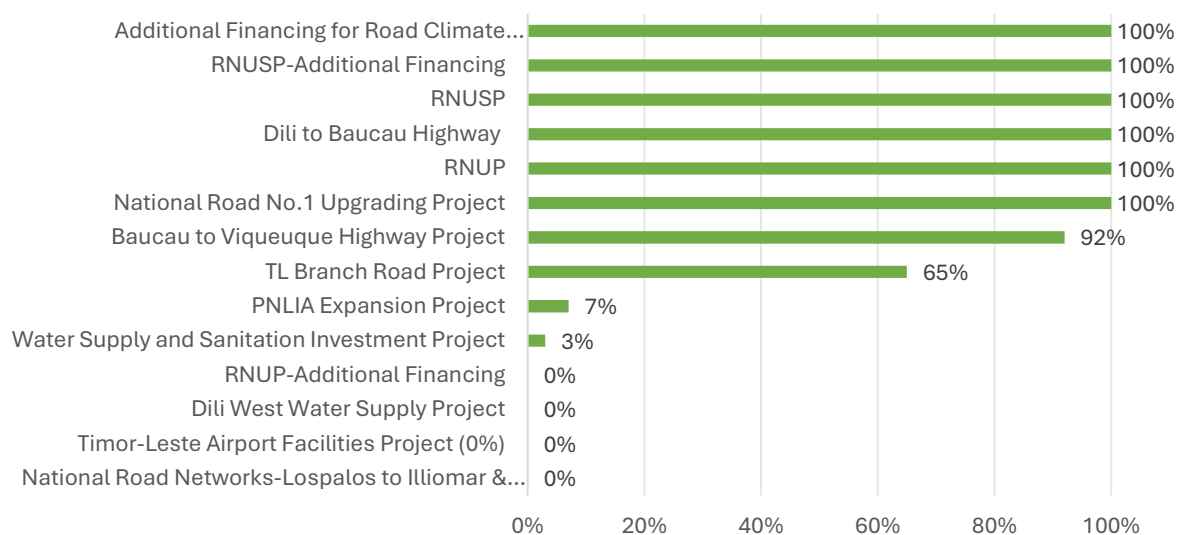
As shown in the following graph, the projects with the highest disbursement rate are the road network expansion. These projects have contributed to improving the country's connectivity and living conditions for both the urban and rural population. On the other hand, the projects with the lowest disbursement rate are the water supply and sanitation and airport projects. It is important to emphasize that although financing agreements between government and international financing institutions have been executed, these projects are suffering delays in implementation due to technical and financial restructuring.

Figure 21. Project Disbursement, \$ Million



Source: Ministry of Finance, June 2026

Figure 22. Progress by Projects



Source: Ministry of Finance, June 2026

4.1.3. Acceleration of Debt Repayments

The Government of Timor-Leste is considering the option of early debt repayments as a key component of its fiscal policy for the year 2027. This strategic move aims to further enhance the country's economic stability and investor confidence. Early debt repayments offer several benefits to the economy of Timor-Leste. Firstly, it ensures economic stability by reducing the reliance on external financing and minimizing the risk of default. Secondly, early debt repayments allow Timor-Leste to take advantage of prolonged high market interest rates by saving significant interest expenses over the long term. This translates into a more favorable debt profile, ultimately contributing to sustainable economic development.

In line with these considerations, Government has formally notified and engaged with key lending agencies regarding its intention to pursue early debt repayments.

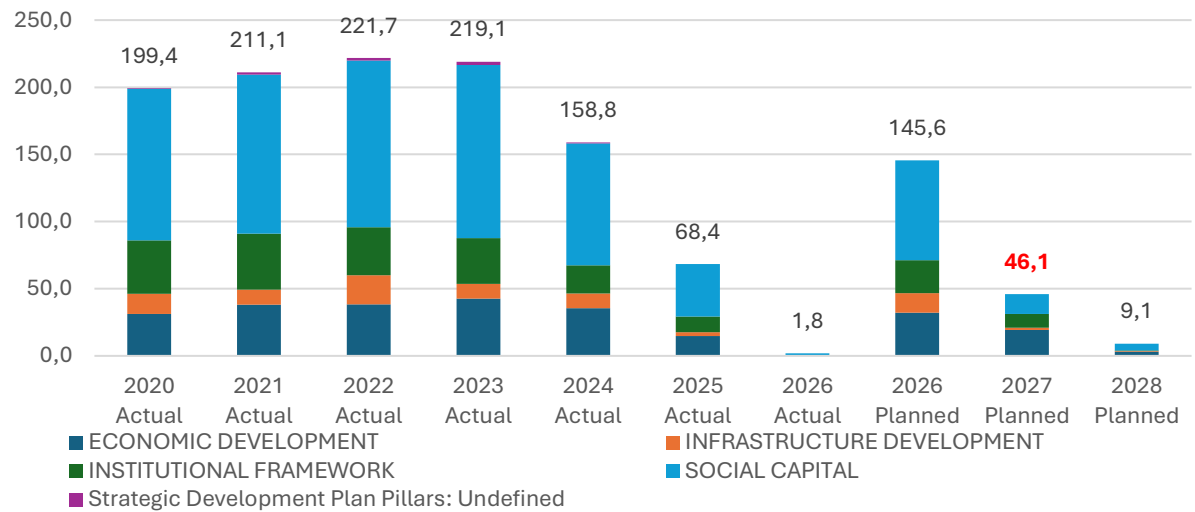
By 2027, twelve loan agreements may be eligible for early repayment, including disbursed amounts under agreements that have since been cancelled.

Budget 2027 presents a forward-thinking approach to financing key petroleum infrastructure development facilities. The Government's loan ceiling of \$850 million aims to facilitate negotiations with potential lenders, opening doors to funding these crucial initiatives. With a relatively low debt-to-GDP ratio of 15.2 percent, this responsible borrowing plan ensures that debt levels remain sustainable over the medium term. By investing in this strategic sector, the Government aims to generate new or additional sources of income for the state in the medium to long term, further securing Timor-Leste's financial stability and development.

4.1.4. Non-Lending Forecasts

Figure 23 shows the evolution of disbursements of non-Lending development assistance from 2020 onwards. 2027 Planned disbursements are currently reported as \$46.1 million. These figures appear to be low, however planned spending figures are often underreported. Furthermore, reported planned spending is expected to increase as annual development partner budgets become clearer.

Figure 23. 2020-2025 Actual Disbursements and 2026-2028 Planned Disbursements, \$ millions



Source: Aid Transparency Portal, report generated on 29 June 2026. The data does not include Direct Budget Support figures. Figures are being updated and thus should be considered preliminary.

Table 20 shows the data that has been included into the Aid Transparency Portal as of 29 June 2026. This information is incomplete and should *only be considered preliminary*. Updated figures to be included at a later stage in the budget process.

Table 20. Preliminary Planned Development Partner Disbursements by Fund Source for 2027, \$ millions

Fund Source	2027 Planned \$
Australia	27.8
European Commission	9.5
Global Environmental Facility	5.0
Asian Development Bank Group	1.4
United Nations	0.9
World Bank Group	0.8
Japan	0.7
TOTALS	46.1

*Figures do not include Direct Budget Support to be provided by the European Union (see below). Source: General Directorate for External Resource Mobilisation (DGMRE), Ministry of Finance, 29 June 2026.

Table 21. Preliminary Planned Disbursements by SDP Sub-pillar and Pillar for 2027, \$ millions

SDP	SDP Sub-pillar	2027 Planned
Social Capital	Health	3.0
	Education and Training	0.1

SDP	SDP Sub-pillar	2027 Planned
	Environment	0.9
	Social Inclusion	6.8
	Sub-pillar undefined	4.0
Subtotal		14.8
Economic Development	Rural Development	10.5
	Agriculture	5.7
	Private Sector Investment	2.1
	Sub-pillar undefined	1.0
Subtotal		19.2
Infrastructure Development	Water and Sanitation	1.7
Subtotal		1.7
Institutional Framework	Public Sector Management and Good Governance	2.6
	Security	3.8
	Justice	0.6
	National Investment Agency and Economic Policy and Investment Agency	0.2
	Sub-pillar undefined	4.0
Subtotal		14.8
TOTAL		46.1

Source: Aid Transparency Portal, Ministry of Finance, 29 June 2026

4.1.5. Direct Budget Support

Timor-Leste has previously received direct budget support from the European Union, the Government of Australia and the International Labor Organization (one-off support in 2020). DBS is considered as revenue for 2027 State Budget because it uses Government systems (financing is placed into Treasury) and on-budget, where the funding is used directly by the beneficiary ministries.

In 2027, the European Union will be making use of this method of delivery of support to support PFM and Digitalization. The numbers below are not included in the reporting above since these will be reflected in other areas of the Budget information.

Table 22. Donor Budget Support 2027

Source	Government program	2027	2028
European Union	Partnership for Public Financial Management and Digital Transition in Timor-Leste	0.5 m EUR (fixed)	0.5 m EUR (fixed)
		2 m EUR (variable)	2 m EUR (variable)

Source: General Directorate for Mobilising External Resources, DGMRE, 29 June 2026

Table 23. Summary of Preliminary Planned Development Partner Support to Beneficiary Ministry 26-28, \$ millions

Beneficiary Ministry	2026 Plan	2027 Plan	2028 Plan
Ministry of Public Works	9.4	5.6	0.5
Ministry of Agriculture, Livestock, Fisheries and Forestry	14.2	5.4	2.1
Ministry of State Administration	6.1	4.5	0.0
Ministry of Interior	6.5	4.3	0.0
RDTL Institution Unspecified	7.4	3.1	0.5
Ministry of Social Solidarity and Inclusion	2.4	2.4	0.5
Ministry of Health	29.4	2.4	1.9
Presidency of the Council of Ministers	7.5	1.9	0.0
Ministry of Tourism and Environment	4.9	1.4	0.5
Ministry of Finance	2.4	1.2	0.0
Ministry of Rural Development and Community Housing	0.2	1.2	2.4
Secretary of State for Equality and Inclusion	2.6	0.7	0.0
Ministry of Foreign Affairs and Cooperation	1.6	0.4	0.0
Minister Coordinator of Economic Affairs	1.6	0.4	0.7
Ministry of Trade and Industry	0.9	0.4	0.0
Central Bank Timor-Leste	0.2	0.2	0.0
Coordinating Ministry for Social Affairs	0.8	0.0	0.0
Court of Appeal	0.2	0.0	0.0
Ministry of Education	13.0	0.0	0.0
Ministry of Higher Education, Science and Culture	2.6	0.0	0.0
Ministry of Justice	0.1	0.0	0.0
Ministry of Planning and Strategic Investment	0.9	0.0	0.0
Ministry of Transportation and Communications	12.4	0.0	0.0
Ministry of Youth, Sport, Art, and Culture	4.5	0.0	0.0
National Parliament	0.0	0.0	0.0
Non-government sector	14.0	10.6	0.0
Totals	145.6	46.1	9.1

Source: Mobilization DGMRE, Ministry of Finance, 29 June 2026

4.1.6. Public Private Partnerships

In general terms, PPP refers to long term arrangements in which the private sector build infrastructure assets and provides services that traditionally have been provided by the State. Ownership of the infrastructure asset remains in the hand of the Government and the private sector needs to transfer it back in good condition at the end of the contract.

DL 8/2014 stipulates the formation of the PPPU, a PPP facilitation agency under the Ministry of Finance to take on the tasks of managing and implementing the PPP Project Cycle in coordination with line ministries and CAFI. An important role of the PPPU is to promote and create environment for attracting FDI through PPP modality, while at the same time looking for ways of encouraging local private sector involvement in PPP projects by pursuing policies that will allow for development of small to medium scale PPPs.

Currently, one PPP project is in the Implementation and Operation Stage (Tibar Bay Port PPP), one is in the Feasibility Stage (Affordable Housing) and three in the Initiation stage identified with MTE MCI and Baucau Municipal Authority as well as Ministry of Agriculture, Livestock, Fishery and Forestry. The latest status of these projects is reported below.

The PPP modality chosen for Tibar Bay Port was a 30-year concession, including DBFOT of the port infrastructure. The project was awarded to a consortium comprised by Bolloré Africa Logistics and SDV East Timor through an international competitive bidding which formed TPSA as Concessionaire. The concession agreement was signed on 3rd June 2016 between the GoTL and Concessionaire (TPSA) and the 30-year concession includes a three year construction period which started on 30 August 2018.

The construction was concluded on 29 April 2023 with issuance of Completion Certificate from Independent Engineer to the Tibar Bay Port Project. The only remaining work is Bluezone Construction, pending attribution of land to the Ministry of Finance and to Timor Port for the construction of the above facility. Upon construction, Bluezone will be equipped with multipurpose facilities for sport and social activities, such as football, basketball, futsal, media centre and library with full internet access and other community events.

The Services Commencement date fell on 30th September 2022 (early commencement). Since then up to 30 April 2026 (37 months), 668 vessels had called at Tibar Bay Port. During this period, Tibar Bay Port handled 265,677 TEUs. Meanwhile, the total Grantor revenue during the period from Oct 2022 to May 2026 is \$5,513,496.16.

Since the current PMU's role and responsibilities were set to focus on the construction and oversee the implementation of the Tibar Bay Port PPP project. The construction works was completed and started operation in September 2022. Therefore, the Grantor is in the process of establishing a new entity, TP-OMSU, to be composed by public servants to oversee the operation and compliance of the Concession Agreement by all involved parties. It is expected that the new agency is fully function before end of 2026.

In accordance with the Concession Agreement, the Grantor is performing its first international audit of the Tibar Bay Port covering financial, management, operation, and

compliance audits. The timeframe for this audit service is 120 working days counted from 15 June 2026 and shall be completed by 13 December 2026. The Concession Agreement also underscored the importance of keeping the water depth of the access channel and the harbor areas at -15.0m CD and shall be deepened to -16.0 m CD when container liner services make at least 26 calls per year at the port facility requiring this depth.

In this connection, an independent hydrographic surveyor has been hired to undertake a hydrographic survey of the available water depth of the access channel and the harbor to assess the maintenance dredging requirements of the minimum design depth as mentioned above. Additional budget has also been included for an independent expert confirmation that adequate dredging has been completed in anticipation that maintenance dredging is required to be performed next year.

The Affordable housing PPP is undergoing a feasibility study and transaction structuring phase. The project has benefited from advisory services from the World Bank Group's IFC. Following revision conducted by PET, the IFC submitted an updated Transaction Structuring Report (TSR) in January 2026. Upon final revision by PET, it is ready for presentation to CAFI to secure CAFI approval for the next stage within PPP project cycle.

The Affordable Housing PPP project is a residential project designed to provide housing units to eligible buyers at an affordable price. This objective is to be achieved through the construction of approximately 500 housing units – about 90 percent at affordable price point while the rest at market rate. Affordable units will be a mix of studio, one bedroom, two bedroom and three bedroom units while the type of market units will be decided by the winning bidder.

Affordable housing under a PPP model has been proven to be successful in several countries. For this particular project, the Government has selected a 20 ha government-owned land in Suco Hera, about 14 km east of Dili. Besides the design, finance, and construction, the developer will be responsible for the sale of housing units, while the entity responsible for certain O&M obligations, such as O&M of utility infrastructure and maintenance of common areas, will be clarified at a later stage. Target beneficiaries for the project are households with formal employment and incomes in the range of \$300 to \$600 per month. The indicated affordability range is preliminary and will be subject to further assessment following the Government's determination of the policy approach for the land component of the project, which will influence the final housing pricing structure and beneficiary profile.

The project was authorized to proceed to the next steps by CAFI during a meeting on 23 October 2023. The Inter-Ministerial Working Group has been re-enacted and conducted its first meeting on 21 October 2024. Several critical issues regarding the registration of the 20 ha land and subsequent subdivision of the land into 200 sq. m land parcels were

discussed at the meeting. A series of discussions were conducted with the Ministry of Justice in Q1 of 2025, resulting in the issuance of a MoJ dispatch recognizing the project site as state-owned land. In March 2026, the MoJ finally issued the certificate of ownership right (Certidão do Direito de Propriedade) for the 20 ha Government land.

Based on the Government decision, the Hybrid PPP modality that was opted for the development of the Presidente Nicolau Lobato International Airport project has been revisited, and several administrative issues need to be addressed with the IFC. Therefore, a provisional budget for FY 2026 has been prepared, anticipating administrative costs of the PPP cancellation as reflected in the table below.

New PPP initiatives are being prepared within the framework of World Bank technical assistance (TA) implementation. The grant is a collaboration between DGGMRE-DNPPP and the World Bank with three main objectives: (i) capacity building, (ii) preparation of new initiatives, and (iii) improvement of the legal and regulatory environment for PPP project facilitation. Between 2025 and 2026, under this grant program, several basic PPP trainings were conducted with line ministries, culminating in a workshop on PPP project development. A “long list” of sixteen potential projects has been identified with several line ministries and agencies, including the Ministry of Tourism and Environment, Ministry of Commerce and Industry, Ministry of Rural Development and Community Housing, Dili Municipal Authority, and APORTIL.

From these sixteen projects, two have been selected by both the World Bank team and DGGMRE to undergo pre-feasibility studies, to be implemented by a consulting team procured through Phase One of the grant. The two potential PPP projects are: (i) Ramelau Tourist Zone Expansion under MTE; and (ii) Baucau Municipal Market Operation and Maintenance under the MCI and the Municipality of Baucau. Results from the pre-feasibility studies were presented during the third and final mission of the World Bank TA in mid-2026 and will be presented to CAFI for approval to proceed with feasibility studies. Additionally, a pre-feasibility study has also been planned for the fisheries sector; however, this new initiative will be deferred to the next phase of Technical Assistance.

An important part of the World Bank Technical Assistance is the hands-on capacity building program on PPP modality. This program is implemented for DNPPP staff members, MPIE and select government officials from line ministries. The program starts with presentation on what PPP modalities are and how they are being used for infrastructure and service development in different countries. Participants then develop PPP project concepts in their respective sectors. The potential projects and subsequent project concepts form the long list of potential PPP projects which then go through screening process to come up with a short list of projects. Projects from the short list are then presented to CAFI for approval to go through the feasibility stage with involvement of MPIE and relevant line ministries.

The following table contains actual government expenditure for 2023 to 2025, estimated expenditure for 2026, proposed general budget allocation for 2027 and estimated budget allocation for 2028 onward for PPP projects.

Table 24. Actual Expenditure (2023 – 2025), Estimated Expenditure (2026), Allocation (2027) and Estimated Allocation (2028-2030), \$ Million

	2023 Actual	2024 Actual	2025 Actual	2026 Est Exp.	2027 Alloc.	2028 Est.	2029 Est.	2030 Est.
Combined Sources Budget (DTG + IF)	0	0	0	0.78	1.28	0.35	0.15	0.15
Dotação Todo Governo (DTG)								
PMU Affordable Housing					0.13	0.13	0.13	0.13
TBP - Audit - TP-OMSU			0	0.3	0.49	0.02	0.02	0.02
SUB TOTAL	0	0	0	0.3	0.62	0.15	0.15	0.15
Infrastructure Fund (IF)								
TBP PPP								
Tibar Bay Port PPP O&M stage - Independent Hydrographic Survey			0	0.09	0.11			
Tibar Bay Port PPP O&M stage - Independent Expert for Dredging Confirmation					0.11			
SUB TOTAL	0	0	0	0.09	0.22	0	0	0
New Initiatives								
Mount Ramelau Tourism Expansion PPP (PPP preparatory work, design & FS studies, TSR, Preparation of tender documents and site clearance)				0	0.06	0.05		
Baucau Market O & M (PPP preparatory work, design & FS studies, TSR, Preparation of tender documents and site clearance)				0	0.06	0.05		
Fishing Port PPP (PPP preparatory work, design & studies, TSR, Preparation of tender documents and site clearance)				0	0.06	0.1		
SUB TOTAL				0	0.17	0.2	0	0
Affordable Housing (FASA - FS & TSR - IFC)								
FASA - FS & TSR - IFC				0.11	0.28			
SUB TOTAL				0.11	0.28	0	0	0

President Nicolau Lobato International Airport Hybrid PPP (FASA - FS & TSR - IFC)								
FASA - FS & TSR - IFC				0.28	0			
SUB TOTAL	0	0	0	0.28	0	0	0	0

Source: Ministry of Finance, * PMU = Project Management Unit, TP-OMSU = Tibar Port-Operation & Management Service Unit, FS = Feasibility Study, TSR = Transaction Structuring Report, IFC = International Finance Corporation, FASA = Financial Advisory Service Agreement and PT = Post Transaction.

4.2. Fiscal Risks and Contingent Liabilities Statement

Fiscal risks are factors that may cause fiscal outcomes to deviate from expectations or forecasts. Fiscal risks can arise from macroeconomic shocks or the realization of contingent liabilities - that is obligations triggered by an unexpected event or whose realization during the financial year is uncertain.

Contingent liabilities are a type of fiscal risk that involve obligations for governments to pay out but that do not arise unless a particular event occurs in the future to trigger it.

In the case of Timor-Leste, this can lead to further excess withdrawals, depleting the Petroleum Fund, and are detrimental to fiscal sustainability and macroeconomic stability. Countries with stronger institutions can better control and manage the underlying risks so that they are less exposed to contingent liabilities being triggered.

The Government is committed to improving the disclosure, analysis and management of Fiscal Risks and Contingent Liabilities.

Aside from this legal requirement, Timor-Leste has also committed to “Development of a Fiscal Risks Statement and Risk Management Strategy” within the PFM Reform Strategy 2022-2027.

According to the IMF, international best practices surrounding fiscal risk and contingent liabilities management involves a more complete understanding of potential risks, steps to quantify risks and steps to mitigate or provision for risks.

Therefore, in order to better manage fiscal risks and contingent liabilities, the Ministry of Finance seeks to take the following steps:

1. *Disclosure: outlining explicit and potential risks and commitment to manage them.*
2. *Collect: data from LMs and SOEs on their stock of risks.*
3. *Analysis: of concentration and correlation of risks.*

4. *Manage, mitigation and monitor: take steps to manage existing stock of risks and prevent from increasing; provision for contingencies; monitor crystallizations or changes in risk.*

The fiscal risks statements published in the budget report outline a key part of the overall risks management strategy. To this regard the following fiscal risk statement provides an outline of macroeconomic and specific risks. As well an assessment of potential impacts and mitigation measures.

4.2.1. Macroeconomic Risks

Macroeconomic risks are a category of fiscal risks that arise because of variations in macroeconomic assumptions and forecasts that are used in the Government forecasts. Fiscal risks are likely to arise if GDP is lower than anticipated or if inflation is significantly higher than the forecasts provided in the previous section.

As explained earlier, inflation in Timor-Leste is largely driven by global factors due to the high proportion of imports in domestic consumption¹². Key risks to the inflation forecasts in this document are therefore an unanticipated depreciation in the US dollar, as this would increase the cost of imports and therefore increase prices, increases in oil prices and increases in the price of food imports such as rice and other staples. Higher inflation from these factors could lead to higher government spending than currently projected. Increases in the price of imports will lead to a rise in government consumption. Higher oil prices will lead to an increase in the subsidy provided to the state electricity company, EDTL.

A potential mitigation strategy for inflation related risks would be to boost investment in domestic agriculture and renewable energy. In the last few years EDTL has been among the largest recipients of transfer expenditure as the Government has protected citizens from rising costs of importing fuel by subsidizing electricity purchases. To reduce exposure to fluctuations in shipping costs and global oil prices and reduce the fiscal risks that arise from the electricity subsidy, the Government should seek to invest in renewable energy alternatives.

Increasing domestic agriculture production, particularly rice production, would also reduce the reliance on imports to meet domestic demand and therefore shelter the country from fluctuations in global agricultural markets.

Geopolitical conflict can also pose a distinct macroeconomic risk. The 2026 Middle East escalation illustrates this mechanism, as disruptions to shipping through the Strait of

¹² Analysis of trade and consumption data suggests that over 50 percent of domestic consumption is directly on imports.

Hormuz led to a sharp increase in global oil prices. Along with the need to purchase emergency fuel reserves at elevated costs to sustain electricity production, the Government faced direct inflationary pressures from higher fuel and imported food prices. This necessitated unbudgeted relief measures for food and energy security under the Rectification Budget, deviating from the initially projected macroeconomic path.

Although global fuel prices have eased since June and are expected to return towards pre-conflict levels, the risk of renewed conflict-driven energy shocks remains. Such developments could again require unbudgeted expenditure at short notice. This reinforces the importance of planned investments in agriculture and renewable energy as key mitigation measures against external volatility.

All things being equal, a fall in GDP is likely to be associated with a fall in domestic revenues. GDP is ultimately a measure of economic activity and - in the absence of changes to tax policy, administration or the size of the tax base - a fall in economic activity will mean lower incomes and therefore lower taxes collected. If nominal GDP is 10 percent lower than currently forecasted for 2026, domestic revenues could fall by around \$20 million.

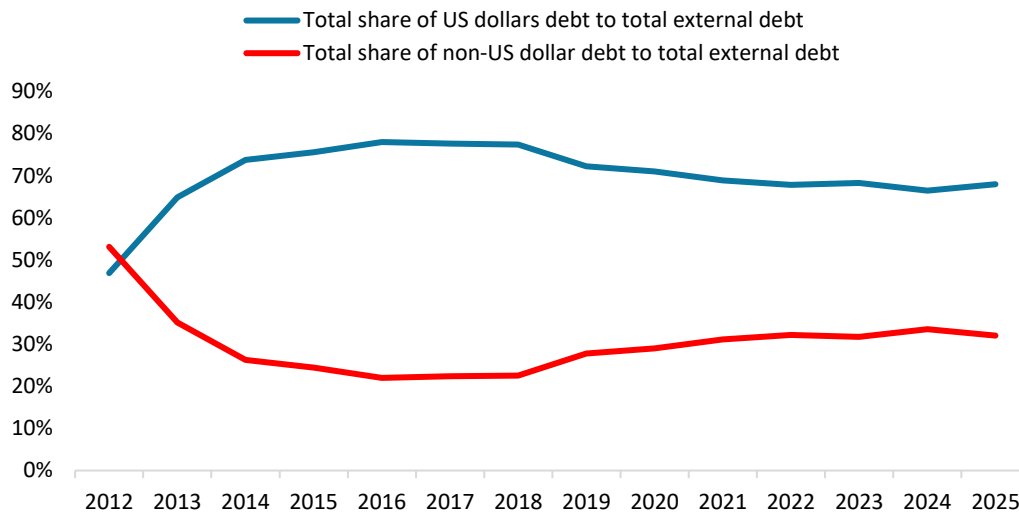
As explained earlier, the two main risks to the GDP forecasts are imports and government execution. Given the high reliance on government spending to drive economic growth, if execution falls below expectations, GDP growth will also be impacted. Similarly, a large portion of the Budget 2025 has been assigned to transfers to households. If a higher share of these transfers is spent on imports than suggested by historic trends, GDP growth will be lower than predicted.

However, the overall risks from this will be partially mitigated by the fact that higher imports will also see an increase in import duties collected. They are also mitigated by the fact that reduced spending also supports long term fiscal sustainability. If government execution falls below the current level, this will also reduce the existing fiscal deficit and potentially extend the lifetime of the Petroleum Fund.

Macroeconomic risks are also relevant to the current loan portfolio, particularly where changes in exchange rates can affect future debt-service costs. Figure 24 presents the currency composition of the Government's external debt portfolio, separating US dollar-denominated debt from debt in other currencies. This mix is a key fiscal risk because liabilities held outside the US dollar may become more costly when exchange rates move unfavorably. In line with the Government's loan policy and Timor-Leste's dollarized economy, US dollar debt remains the largest share of the portfolio.

While this share declined gradually after 2018, the updated data show a reversal from 2024, with US dollar debt increasing to nearly 70%. This trend reduces foreign exchange exposure and improves predictability in debt-service planning. From a fiscal risk management perspective, maintaining a high share of US dollar debt should remain a priority, while the currency composition of new borrowing should continue to be closely monitored.

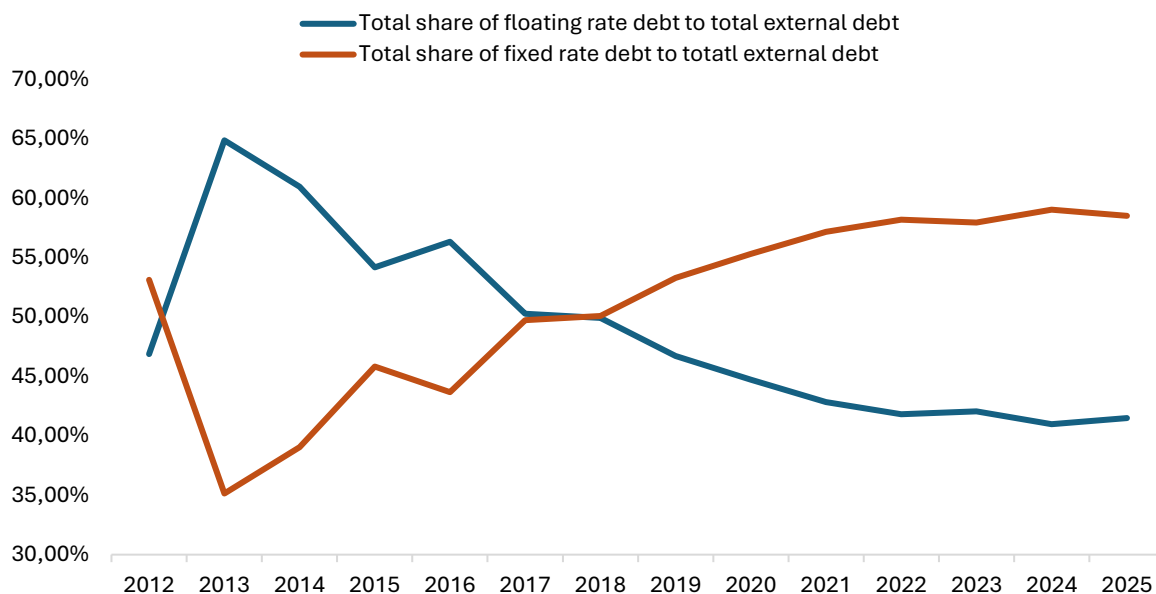
Figure 24. US dollar debt vs non-US dollar Debt, percent



Source: DNPME, Ministry of Finance, June 2026

The following graph illustrates the interest-rate structure of the debt portfolio and shows the Government's exposure to interest rate risk. Since 2013, the share of fixed-rate debt has increased and became the majority of the portfolio in 2017 and 2018. This shift reduces fiscal risk because fixed-rate loans provide greater certainty over future debt-service obligations and protect the budget from sudden increases in global interest rates. However, as Timor-Leste gradually loses access to highly concessional financing as a blend country, borrowing costs may rise over time. The graph therefore reinforces the importance of maintaining a prudent balance between cost and risk by prioritizing concessional and fixed-rate financing where possible, while carefully managing exposure to floating-rate debt.

Figure 25. Fixed vs Floating Debt, percent



Source: DNPME, Ministry of Finance, June 2026.

In the medium term the Petroleum Fund is the main buffer to the macroeconomic risks. The existing level of the fund provides significant leeway in the coming years. For example, domestic revenues would have to be over 50 percent lower than the forecasts provided in this document for the Petroleum Fund to deplete one year earlier than currently forecasted.

4.2.2. Explicit Contingent Liabilities recognized by Law or Contract

Judicial litigation is an important source of contingent liabilities and the cost for the State is dependent on the outcome of the litigation that is still pending.

Below are the current litigation cases against the Democratic Republic of Timor-Leste, and their maximum potential cost if the case was to be decided in favour of the claimant.

Timor Corp case: Judicial case in the District Court of Dili with a maximum liability of about \$2,371,815.36.

Bolloré Logistic Timor case: Judicial case in the Appeals Court with a maximum liability of about \$254,901.70.

Ensul Engenharia case: Judicial case in the District Court of Dili with a maximum liability of about \$1,444,617.8

The Credit guarantee system for Micro, Small and Medium Enterprises (MSME) is an initiative aimed at supporting businesses starting out, whereby a government guarantee

covers up to 70 percent of the value of the business loan to MSME in order to encourage the development of the private sector in the country with the total guarantee of \$4 million. The Central Bank of Timor-Leste works with banks to share the risk and manage risks. The maximum size of the individual loan is \$150,000. However, this initiative is already 100 percent budgeted for, so it poses no additional risk if the loans were to default.

The Fasilidade Garantia Crédito Suave (FGCS) is a Government-backed loan guarantee scheme designed to provide access to low-interest financing for companies and individuals. Loans are provided by participating financial institutions that have agreements with the Government (currently only BNCTL), with repayment obligations guaranteed by the Government. The scheme was initially allocated a budget of \$1.38 million and was subsequently reinforced by an additional \$50 million through Law No. 6/2022, Primeira alteração ao Orçamento Geral do Estado para 2022.

However, as part of the financing measures for the 2026 Rectification Budget, the Government decided to reallocate \$45 million from the scheme, leaving a remaining capital allocation of \$5 million. The scheme is fully budgeted, meaning that potential losses arising from loan defaults are already covered within the approved allocation and do not create additional fiscal risks beyond the existing budget provision.

4.2.3. Public Private Partnerships (PPPs)

Public-Private-Partnerships contracts can involve guarantees or indemnities on particular risk variables, where the Government could be asked to compensate the private sector for loss of revenues from these risks.

Up to this date there is only one PPP in operation Tibar Port, which finished construction last year. The contingent liabilities associated with Tibar Port relate to currency fluctuations, occurrence of Force Majeure or acts of God i.e., events for which no party can be held account, unforeseen political circumstances and settlements related to different termination events.

4.2.4. Implicit Contingent Liabilities

Aside from the explicit contingent liabilities that are stated above, the Government must also consider implicit contingent liabilities. These are contingent liabilities where there isn't a legal obligation for the Government to intervene. Despite this, government intervention may be necessary to protect the economic welfare of its citizens. Such contingent liabilities in Timor-Leste are likely to occur as a result of environmental, social or economic crises. Any such crisis that leads to loss of livelihoods through damage,

displacement or unemployment or other such economic hardships may lead to unexpected costs.

These costs would arise if the Government intervened through social assistance schemes and fiscal stimulus packages. Below we describe some of these contingent liabilities and explain how the Government can mitigate for them.

An implicit contingent liability is the support provided to state owned enterprises. Since loans are only issued to the CA, State owned Enterprises in Timor-Leste do not have any debt risks or liabilities. However, several state-owned enterprises receive large transfers from the state annually. Details of transfers are available in the Budget Performance section of this document. The annex also provides available financial information from public entities.

Natural Disasters are another risk main risks faced by Timor-Leste. The country is situated close to the so called “Pacific Ring of Fire”, an area which has some of the most volatile earthquake and volcanic activity in the world. With the onset of climate change, the country is also at increased risk of floods and cyclones.

Over the past decade, the largest expenditure on environmental disasters occurred in 2021, where the Government was required to spend \$6.2 million, primarily as a result of Cyclone Seroja.

External economic shocks are another source of implicit Contingent Liabilities. As demonstrated by the COVID-19 crisis, health and economic crises can also be a major source of fiscal risks in Timor-Leste. Whilst pandemics are infrequent events, as a small open economy that is heavily reliant on imports, Timor-Leste is highly exposed to economic events in other countries.

Since independence the COVID-19 health crisis has certainly been the largest external shock to hit the Timorese Economy. The crisis had the largest impact on government spending in 2021 during which the Government spent \$201 million on measures to protect citizens from the health and economic impacts of COVID-19.

Political crises have also been a source of fiscal risks in recent years. Delays to budget approvals in 2017, 2018 and 2020 contributed to negative economic growth in those years. Negative economic growth can mean that there is a general fall in incomes among businesses and individuals. In the short term this leads to lower tax revenues. In the long run it slows down progress in economic diversification that is needed to help the country guarantee its long-term fiscal sustainability.

Some contingent liabilities that pose major fiscal risks in other countries have a lower probability of materializing in Timor. Many developing countries are exposed to risks through volatile exchange rate movements. Since Timor-Leste uses the US Dollar, which is among the most stable currencies in the world, such risks are less likely (although not completely unforeseeable).

However, it should be noted that Timor-Leste is only able to maintain a regular supply of dollars as a result of the Petroleum Fund. This means that this could materialize as a greater risk over the next decade as explained in the Fiscal Sustainability section of this report.

Given the infancy of the banking system, and the fact that several of the banks that operate in Timor are State Owned Enterprises in their respective countries and are subject to foreign lenders of last resort, there is also lower risk of a domestic financial crisis occurring in Timor-Leste as compared to other low- or middle-income countries.

Similarly, the debt to GDP ratio is set to remain relatively low meaning there is a low risk of a debt crisis in the medium term. A contingent liability that is unique to Timor-Leste is the risk to Petroleum Fund Revenues from volatility in financial markets. Factors that would affect the performance of the Petroleum Fund could be considered as contingent liabilities as losses in the Fund's investment portfolio could lead to the Fund depleting sooner than anticipated. As described earlier, this would mean greater exposure to fiscal risks.

However, the investment horizon of the Fund has shortened given that the petroleum inflows from Bayu-Undan are ending and expenditure and withdrawals are expected to follow the current trend. Investment returns are not expected to fill the gap.

To adjust for the expected depletion of the Fund, a liquidity portfolio of low-risk investments was created in 2021 to finance the withdrawals over the next three years. This provides some protection against being forced to sell equities and bonds following a loss but is less effective when withdrawals significantly exceed projections. In addition, a prolonged period of poor investment performance would further shorten the Fund's expected life. As well as financial markets, the Fund is exposed to the future of the Greater Sunrise project.

In 2019, the Government decided on the Petroleum Fund lending \$650 million to Timor Gap E.P. and its subsidiaries to finance the acquisition of participating interests in the Greater Sunrise development project. These loans are independently valued each year for the Fund's audited financial statements. The repayments of the loans are linked to

Timor Gap E.P.'s revenues from the petroleum project, meaning that the Fund is exposed to the success of the development project.

To guarantee that the contingency fund has enough allocation to cover any materializing fiscal risks, the new Budget and PFM Framework Law enshrined a minimum threshold for the contingency fund, which must amount to a minimum of 2 percent of total expenditure of the Budget and a maximum of 5 percent of total expenditure.

For Rectification Budget 2026, a total of \$52.3 million has been allocated for the contingency fund. This therefore fulfils the legal requirement as it is a little over 2 percent of the consolidated budget for RAEOA and the CA. General State Budget 2027 will also ensure that at least 2 percent of proposed allocations for the consolidated budget are for the contingency fund.

Aside from contingency funding, the Government and State-Owned Enterprises are able to draw upon cash balances in case of unexpected losses. As of 31 December 2025, cash balances are as follows, except for BNCTL and RTTL, EP, for which the latest available cash balance information is as of 2024:

Table 25. Cash Balances for Public Sector Entities in Timor-Leste, \$ million

Entities	Cash Balance (\$ million)	Latest year available
TIMOR GAP, EP	78.7	2025
ANM, IP	1.0	2025
Murak Rai Timor, EP	4.4	2025
ANATL, EP	5.8	2025
BTL, EP	32.3	2025
CA	214	2025
RAEOA	37.7	2025
EDTL, EP	153.6	2025
ANP, IP*	0.0	2025
INSS	36.8	2025
BNCTL	245.8	2024
RTTL, EP	2.21	2024
Total	812.3	

**Amount less than \$100 thousand*

Source: Available Financial Reports as at 31st December 2025

The cash balances stated above is based on the latest publicly available information. Actual cash balances at the time the budget was approved may differ from these

estimates. These numbers are awaiting updates following the publication of the financial reports of State-Owned Enterprises. The 2027 General State Budget proposal, which will be submitted to Parliament on the first of October, will contain updated numbers.

Major economic shocks may require the Government to step in with much higher levels of economic support. If such a response requires spending levels that go beyond the contingency fund, the Government can rely on withdrawals from the Petroleum Fund. However, this comes at a cost as consistent unforeseen withdrawals from the Petroleum Fund will mean that the fund depletes sooner. This also demonstrates the importance of ensuring that fiscal policy can maximize the longevity of the Petroleum Fund.

Furthermore, if the Petroleum Fund depletes before domestic revenues are high enough to support contingency funding, contingent liabilities could pose greater fiscal risks.

The Ministry of Finance will continue to improve the information provided in the fiscal risks statement as data collection continues to improve.

4.3. Methodology and Assumptions

4.3.1. Fiscal Sustainability Model Methodology

The Ministry of Finance conducts fiscal sustainability analysis for the budget ceiling in each budget cycle. Using modelling, the impact of the selected budget ceiling on the long-term sustainability of Timor-Leste can be estimated, specifically the overall balance of the Petroleum Fund.

In order to produce the analysis, we need to project expenditure, domestic revenues and the performance of the Petroleum Fund. Below we summarize the main data and assumptions in the model that are used to achieve this.

4.3.1.1. Actual Data

Petroleum Withdrawal in 2026 - The withdrawal figure from the FT in 2026 is as set out in the budget proposal for Budget 2026. The withdrawal figure for 2027, is also as set out in this document. Trend analysis suggests that budget execution will reach 87 percent in 2026. Any surplus from available financing exceeding budget execution is assumed to be added back into the Petroleum Fund.

PF Data – The model uses data from the PF as of May 2026. This includes the PF balance, information on the asset split of the PF, and latest information on Withdrawals and Estimated Sustainable Income.

Loans and Direct Budget Support Data – The model incorporates disbursement forecasts for loans and direct budget support mentioned in this document.

4.3.1.2. Assumptions/Projections

Government Expenditure - Government expenditure between 2028 and 2038 is assumed to change in line with the levels outlined in the fiscal projections and expenditure ceilings sections above. A proposal for the level and breakdown of the expenditure is provided in the fiscal projections part of section 1 of this document. Beyond 2031, expenditure levels are assumed to increase with long run inflation and population growth (roughly 4 percent a year).

Domestic Revenues – The forecasts for domestic revenues are explained below

Petroleum Fund ROI - The model also uses up-to-date assumptions on the estimated rate of return on petroleum fund from the PF Unit in the Ministry of Finance. The Petroleum Fund is segmented into a growth and liquidity component. As per assumptions from the Petroleum Fund Unit as of March 2026, it is assumed that the growth component has an ROI of 4.2 percent whilst the liquidity component is assumed to have an ROI of 2.7 percent. The liquidity component of the fund is assumed to be sufficient to finance three years of withdrawals. To model this, we assume that the liquidity component each year is three times the amount of the withdrawal.

Direct Budget Support - Direct Budget Support estimates for 2027 are provided by the general directorate for mobilizing external resources. Whilst estimates are not yet available beyond 2028, we assume that DBS will remain constant till 2030 and increase with inflation beyond that.

Loan Disbursement- Loan Disbursement forecasts in the medium term are provided by the general directorate for mobilizing external resources. Beyond the medium term they are assumed to grow in line with inflation and population growth.

4.3.2. Domestic Revenue Forecast Method

Domestic revenues for 2026 are based on trend analysis (i.e., taking the first five months of data and assuming revenue growth is in line with previous years). Revenue forecasts for 2027 and beyond are produced as follows:

Sales taxes, import duties and excise taxes are assumed to grow in line with import growth. This is because these taxes are collected at the border and there are no changes to policy. Income, Wage and Service taxes are assumed to maintain a constant ratio with Nominal GDP in the absence of changes to the tax base or tax policy. Therefore, as GDP and imports rise, so do tax collections. Non-Tax revenues are assumed to grow in line with population and inflation growth.

As stated in section 1 of this document, domestic revenue forecasts have not yet considered revenue impacts from ASEAN accession. This analysis will be carried out in time for the General State Budget 2027 proposal.

The projections assume that a Value Added Tax is introduced in 2027. Whilst VAT policy is still subject to discussion, preliminary estimates are based on the assumption that the VAT rate will be 10 percent, will replace import duties, services taxes and sales taxes. We also assume that the impact of VAT on low-income households will be inflation neutral. This will be achieved through zero-rating on key products such as food and medicine.

4.3.3. Forecasting GDP

GDP forecasts in this document have been produced using a macroeconomic modelling framework developed through technical assistance from the IMF's Singapore Training Institute (STI) and Pacific Financial Technical Assistance Centre (PFTAC).

The Government's contribution to GDP is estimated by analyzing the execution of government spending in 2026 and applying historic execution trends. For 2027 to 2031, we assume that government expenditure rises in line with the expenditure forecasts outlined in the macro-fiscal projections section of this document. We also assume that government execution rates of capital expenditure will see steady improvements as a result of the PFM and procurement improvements mentioned in this document.

Forecasts for private sector consumption and investment activity are informed by analysis of historical trends in consumption, investment, remittance information from the Balance of Payments and private sector credit. The private sector is assumed to see strong consistent growth from 2027 to 2031.

All assumptions related to oil and commodity price growth, global exchange rates and long-term inflation forecasts are taken from the IMF's World Economic Outlook and World Bank Commodity Prices.

Economic forecasts in this document aim to predict annual GDP growth rates over the next five years. Whilst this is important to support government planning decisions, it should be noted that these predictions are dependent on assumptions and therefore include an element of uncertainty. These are also dependent on the successful implementation of the policies mentioned in section 2. Other than this, there is further uncertainty.

The key sources of uncertainties in the budget forecasts provided above are as follows:

- Execution of Budgets
- Allocation and quality of government expenditure

- Volume of Imports.

Execution rates can differ year on year and are subject to political and economic risks. For example, executed expenditure was impacted in 2017, 2019 and 2020 by political crisis and COVID-19.

Execution rates will also depend on the absorptive capacity of different line ministries. This is the amount that line ministries are able to spend regardless of their budget. For example, line ministries that see a large increase in their budgets might not have the capacity to execute the higher spending due to resource constraints. If execution rates fall below expected (forecasts assume historic execution rates are maintained) then GDP forecasts presented in this document are likely to be overestimates.

Similarly, the forecasts presented above make assumptions on the allocation and quality of expenditure. The above forecasts assume that there will be a large shift towards capital expenditure as the Government looks to target higher growth rates. It also assumes that this expenditure will be spent on high quality investments that lead to improvements in the country's capital stock.

If higher budgets are instead allocated towards unproductive transfer spending or on inefficient projects, the GDP forecasts will not be attained.

Another major uncertainty arises from imports. If government spending is particularly import-dependent, meaning that much of the new spending goes to goods and services from outside Timor-Leste, the GDP forecasts for future years may be reduced downwards as imports have a negative effect on final GDP. The combination of quality of government expenditure and level of imports means that higher government expenditure in Timor-Leste has not been correlated with higher GDP growth.

However, large spikes in government expenditure growth have not been correlated with large spikes in economic growth. This could be because increases in government expenditure do not necessarily correspond to improvements in quality expenditure. At the same time, lower budgets with more efficient and higher quality expenditure can potentially lead to higher economic growth and help preserve the Petroleum Fund.

4.3.4. Comparison between the macroeconomic and budget forecasts used and forecasts made by international reference bodies

A comparison of Ministry of Finance forecasts with forecasts from other institutions is provided below. All institutions use different assumptions or data sources when making their forecasts and therefore there are often differences in projections between

institutions. Often the Ministry of Finance will have more timely information related to public spending plans than other institutions.

Table 26. GDP growth rate forecast (percent)

Institution	2025	2026	2027	2028	2029	2030	2031
Ministry of Finance	4.5	4.3	4.6	4.8	4.8	5.0	5.0
IMF (Article IV 2025)	3.9	3.3	3.2	3.2	3.2	3.2	
World Bank	4.5	4.1	4.0	4.0			
INETL, IP	4.5						

Source: IMF Forecasts: IMF Article IV 2025, World Bank Forecasts: World Bank's Timor-Leste Economic Report, April 2026, <https://www.worldbank.org/en/publication/global-economic-prospects>; INETL, IP, Preliminary 2025.

The table below provides a comparison between the macroeconomic and budget forecasts used in the 2026 Rectification Budget and the actual evolution observed.

Growth for 2025 was estimated to be 4.5 percent based on an estimate that government expenditure would see 90 percent execution. Final execution in December 2025 was lower than anticipated with a final execution rate of 86 percent. Despite this, the actual amount was higher than the it was in the previous year, hence preliminary GDP estimates suggest that the economy grew at 4.5 percent in 2025.

The growth forecast for 2026 was forecasted at 4.5 percent in the Original 2026 General State Budget Proposal. The global fuel price shock caused by the Middle-East conflict since February this year has led to slightly downward revision to 4.3 percent, down by 0.2 percentage points.

The growth forecast for 2027 has been revised down also in this document. The original forecast for 2027 assumed strong growth in government expenditure. However, as explained in the macroeconomic and fiscal projections above, whilst lower government spending is likely to lead to lower growth, more efficient spending can actually improve living standards.

Table 27. Macroeconomic forecasts in original 2026 Budget report vs. 2027 Budget Strategy Statement (percent)

Item	2026 Original Budget Report			2027 Budget Strategy Statement		
	2025	2026	2027	2025	2026	2027
GDP growth %	4.5	4.5	4.7	4.5	4.3	4.6
Average Annual Inflation	0.5	1.2	2.0	0.5	2.2	2.0

Source: National Directorate of Economic Policy, Ministry of Finance



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