



3 Key Recommendations

1. Strengthen the commitment to maintaining macroeconomic stability

- Macroeconomic stability provides the foundation for social and economic development.
- The Petroleum Fund provides a large fiscal buffer and unmet needs mean there is a strong case for spending now. But, it's important to provide reassurance about future stability.
- This means developing a clearer framework for fiscal policy
- Without this, uncertainty about the future of the Petroleum Fund may undermine efforts to attract investment and diversify the economy.

2. Reinforce efforts to improve the efficiency of public spending

- The 2027 State Budget marks a major shift in how the budget is prepared, with a shift to Forward Estimates and GPPs.
- If sustained, this can improve the efficiency of public spending. But, pressure to increase spending is always there.
- So, it is important to sustain and reinforce initiatives to improve efficiency in terms of allocation and implementation.

3. Optimize financing for development while managing risks

- Historical model of reliance on public sector and PF has clear limits
- Important to optimize public sector financing and reduce pressure on PF
- Also important to strengthen private capital mobilization while managing risks.

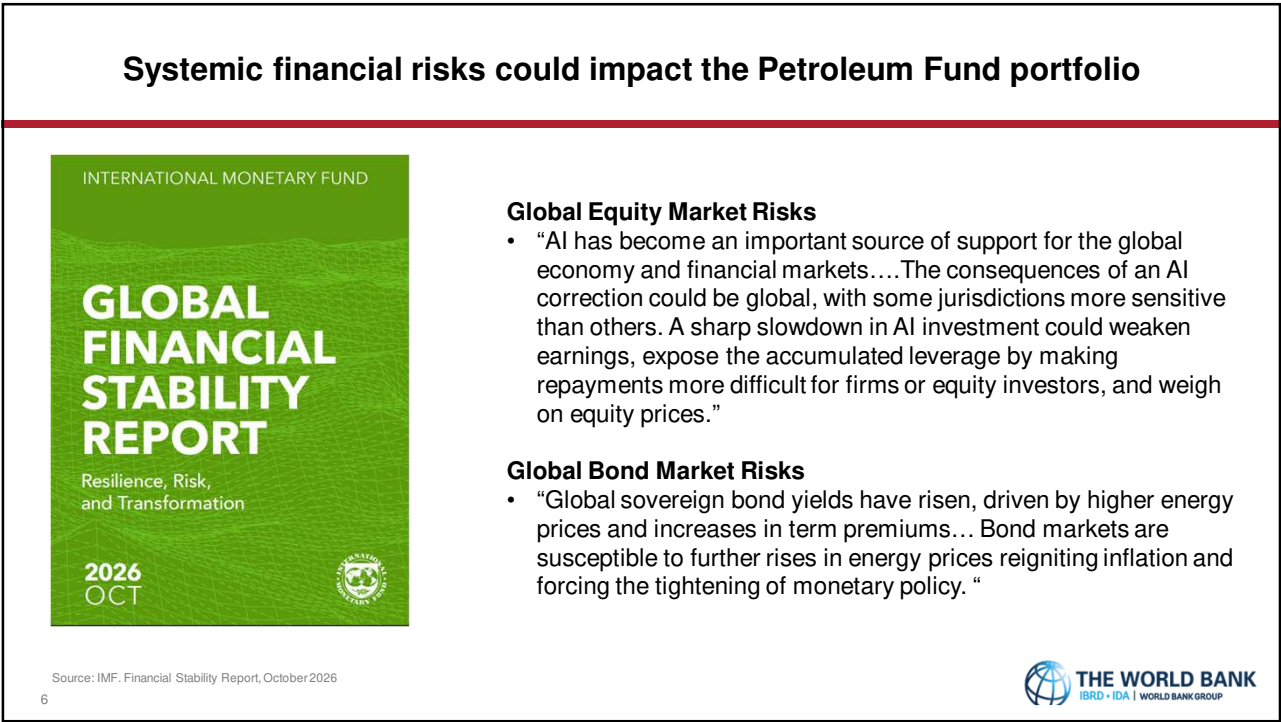
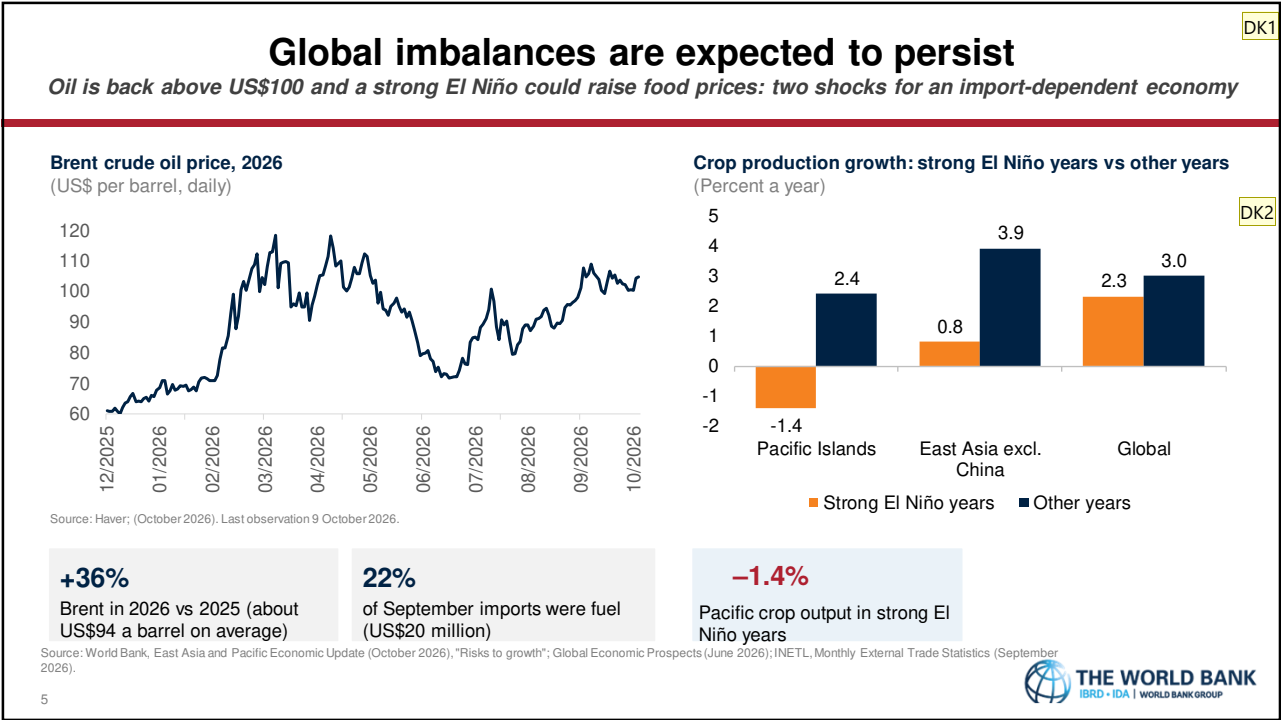


Today's presentation

1. Budget Context
2. Safeguarding macro-economic stability
3. Improving the efficiency of public spending
4. Optimizing financing for development
5. Conclusions



2. Budget Context



Slide 5

DK1 Let's add reference to global interest rates here as well to broaden it to 'imbalances' in line with David's comment.

David Stephen Knight, 2026-10-14T01:50:50.206

DK2 Do you have the MFMod impact estimates for TL and other countries? You could put it here instead.

David Stephen Knight, 2026-10-14T01:54:38.442

AC2 0 No estimate for Timor-Leste but for other countries.

Amina Coulibaly, 2026-10-14T02:30:43.049

Regional growth remains resilient, with China slowing but the rest of the region picking up pace

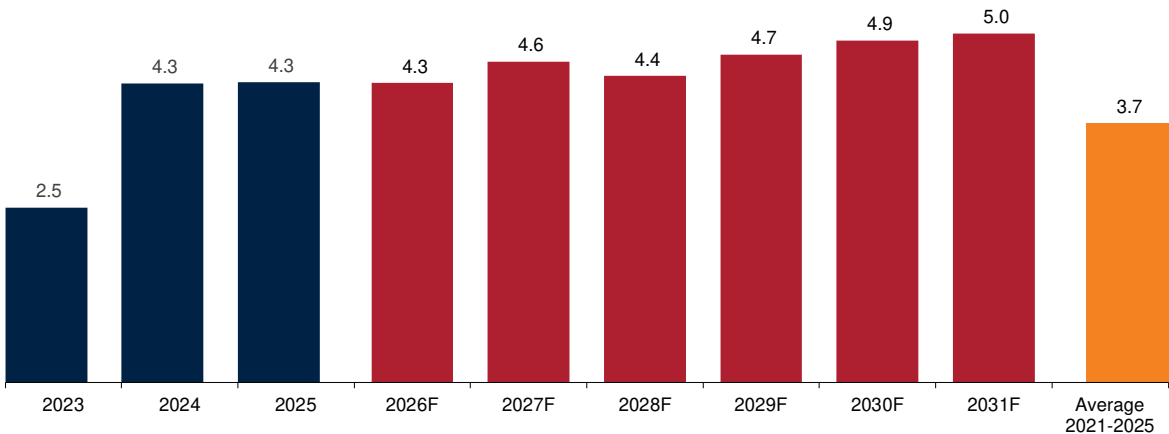
	2025	2026 (f)	2027 (f)	2028 (f)
East Asia and Pacific	5.0	4.5	4.4	4.3
China	5.0	4.5	4.3	4.2
East Asia and Pacific (excl. China)	4.9	4.7	4.9	5.0
Indonesia	5.1	5.2	5.2	5.3
Malaysia	5.2	5.1	4.7	4.5
Philippines	4.4	3.7	5.2	5.5
Viet Nam	8.0	7.4	7.3	7.3
Cambodia	5.3	3.5	4.2	5.0
Lao PDR	4.8	4.1	3.7	3.7
Timor-Leste	4.3	4.1	3.8	3.8



Source: World Bank, East Asia and Pacific Economic Update, October 2026; Macro Poverty Outlook. GDP in average 2010–19 prices and market exchange rates.

The Government projects growth of 5 percent by 2031, supported by investment and exports

Non-oil GDP growth, % (Budget projection)



Source: Ministry of Finance, 2027 Budget Report (Table 4); BCTL 2023–25 actuals , 2026–31 projections. (f) = forecast.

Despite genuine progress in improving living standards many households still struggle to meet their basic needs

Clear Progress During 2014-2024

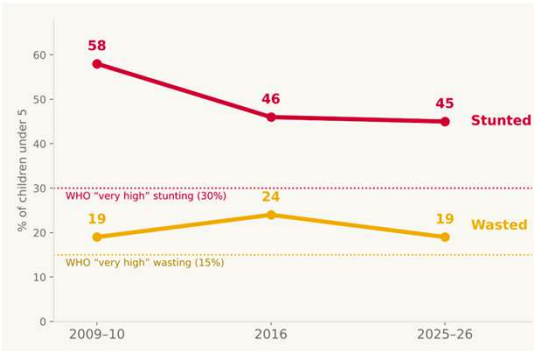
- ↑ access to electricity
- ↑ access to improved water
- ↑ access to sanitation
- ↑ access to good quality housing



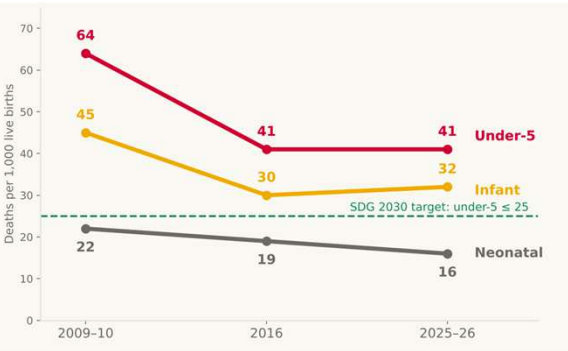
- **Near-term poverty reduction:** ↑ employment opportunities; targeted social transfers; rural development & services
- **Medium/long term transformation:** improved human capital through health, education, and employment

Despite improvements in coverage of health services, progress in reducing child mortality and malnutrition slowed over the last decade

Share of children aged under-5 with reported malnutrition (%)



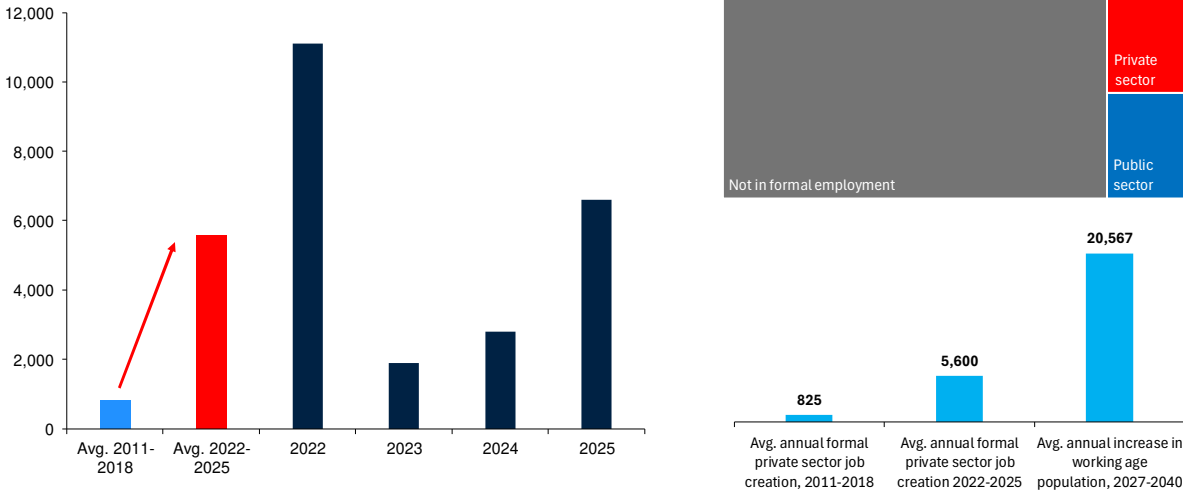
Infant and neo-natal mortality, per 1,000 live births



Sources: INETL I.P. Demographic and Health Survey, 2009-2010; Demographic and Health Survey, 2016; Demographic and Health Survey, 2025-2026

Private sector job creation has increased but opportunities remain limited

Annual net increase in formal private sector employment

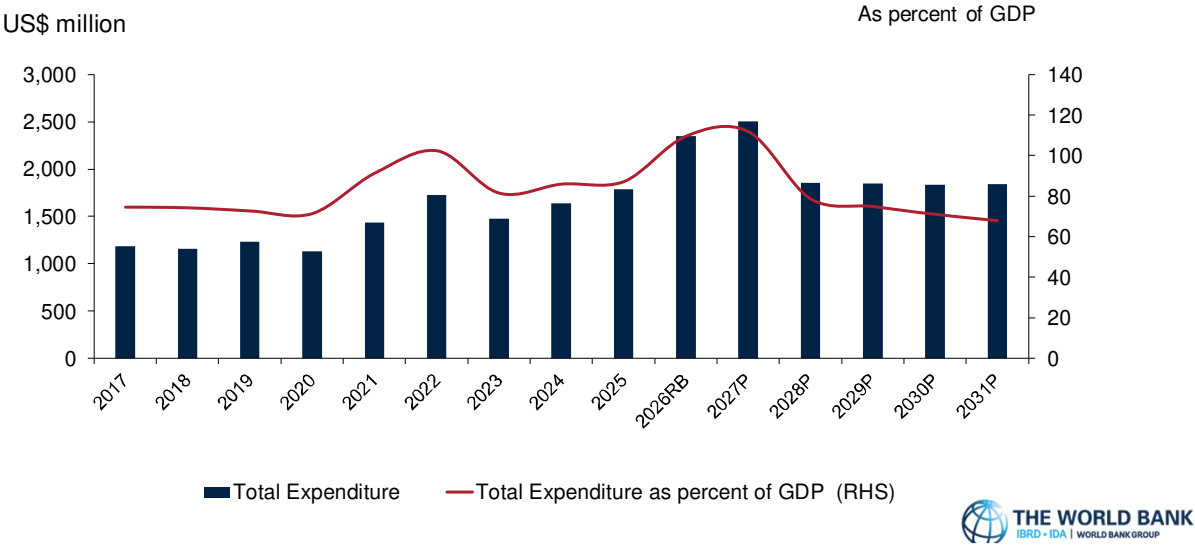


Sources: INETL I.P., Business Activity Survey 2010-2021; Business Activity Survey 2025; Population and Housing Census, 2022; Government of Timor-Leste, 2027 State Budget, Volume IX.

Timor-Leste’s new Medium Term Development Plan, 2027-2030 has ambitious plans to accelerate progress in human development

Indicator	Latest	Source	MTP 2030 target
Stunting, children under 5	45% (2025–26)	TLDHS 2025–26	≤35%
Under-five mortality, per 1,000	41, unchanged since 2016	TLDHS 2025–26	—
Maternal mortality, per 100,000	195	MTP 2027–30 baseline (TLDHS)	≤90
Grade-3 minimum literacy	≈30%	MTP 2027–30 baseline	>50%
Youth not in employment, education or training	29.3% (2022)	Census 2022	≤22%
Human Capital Index	0.45	World Bank HCI 2020	0.55
Social protection coverage	27%	MTP 2027–30 baseline	40%

The proposed 2027 Budget continues recent spending growth and defers rebalancing of the economy towards the private sector

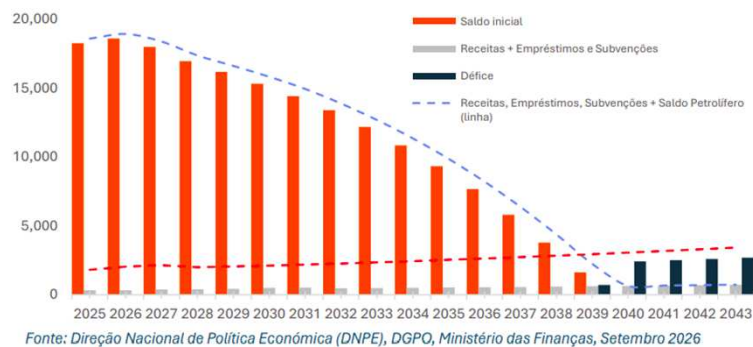


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2. Safeguarding macro-economic stability

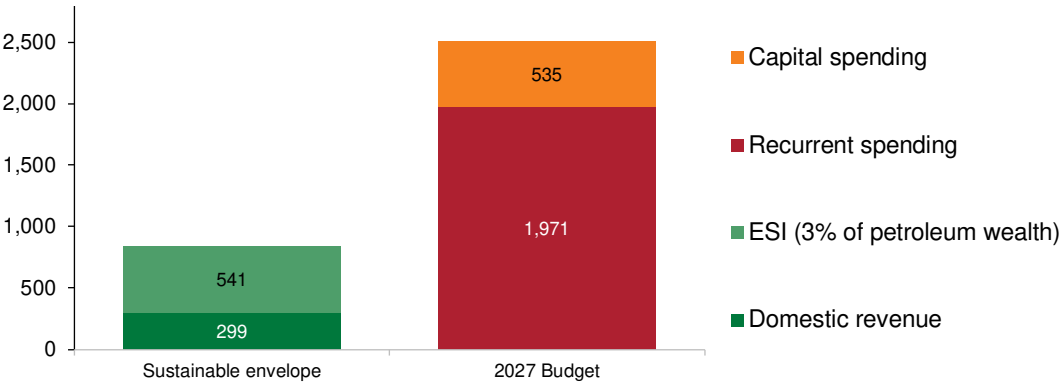
The 2027 State Budget projects depletion of the Petroleum Fund by 2039



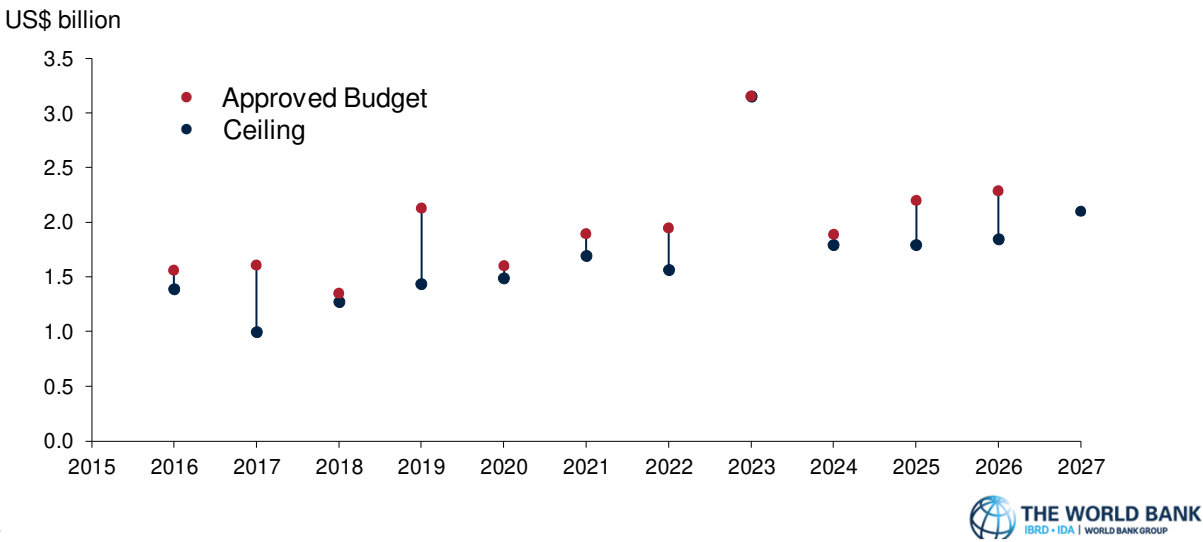
“A projeção incorpora informação atualizada sobre as receitas domésticas, os padrões de levantamento e a execução orçamental, e pressupõe que o crescimento da despesa após 2031 acompanha, em linhas gerais, a inflação e o crescimento populacional. Embora a data prevista para o esgotamento tenha sido adiada em um ano em relação às estimativas anteriores, as perspectivas continuam a ser altamente sensíveis às futuras decisões de política orçamental, aos retornos dos investimentos, às condições do mercado global e ao ritmo da diversificação económica.”

The structural increase in recurrent expenditures means that ESI / RSE is not a realistic fiscal rule when budgeting future spending

ESI-based budget envelope vs the 2027 Budget
(US\$ million)



At the same time, experience from previous years highlights the challenge of limiting budgeted spending to the agreed ceiling



There is a clear need to continue strengthening the fiscal framework to ensure that fiscal policy supports macroeconomic stability and growth

- The Petroleum Fund Law has helped to ensure that Petroleum revenues are managed transparently. But, with the end of production from Bayu-Undan, pressure on the Fund is increasing.
- Management of the Petroleum Fund will be a defining issue for Timor-Leste over the next-decade.
 - Maintain public confidence
 - Ensure continued financing of key development priorities
 - Manage the transition to a new generation of natural resource projects
- Fiscal Rules and Frameworks can only work if they are embedded within capable institutions and supported by a strong national consensus.
- It may now be time to initiate a more formal and broad-based process to review and strengthen the frameworks for determining future expenditure ceilings and PF withdrawals.



Recent reforms

The 2027 Budget builds on progress in public financial management and the business environment

1

New PFM framework

Law 3/2025 in force; State Accounts and quarterly execution reports published.

2

Medium-term budgeting

First budget with Forward Estimates 2027–31; 27 Policy Priorities reviewed, 19 funded.

3

Shock response

US\$271 million 2026 rectification financed by reallocation, with no extra Petroleum Fund withdrawal.

4

Workforce and transfers

Retirement at 65; recruitment paused pending a pay review; beneficiary verification tightened.

5

Social protection

Bolsa da Mãe extended to preschool and secondary; household registry under development.

6

Institutions and markets

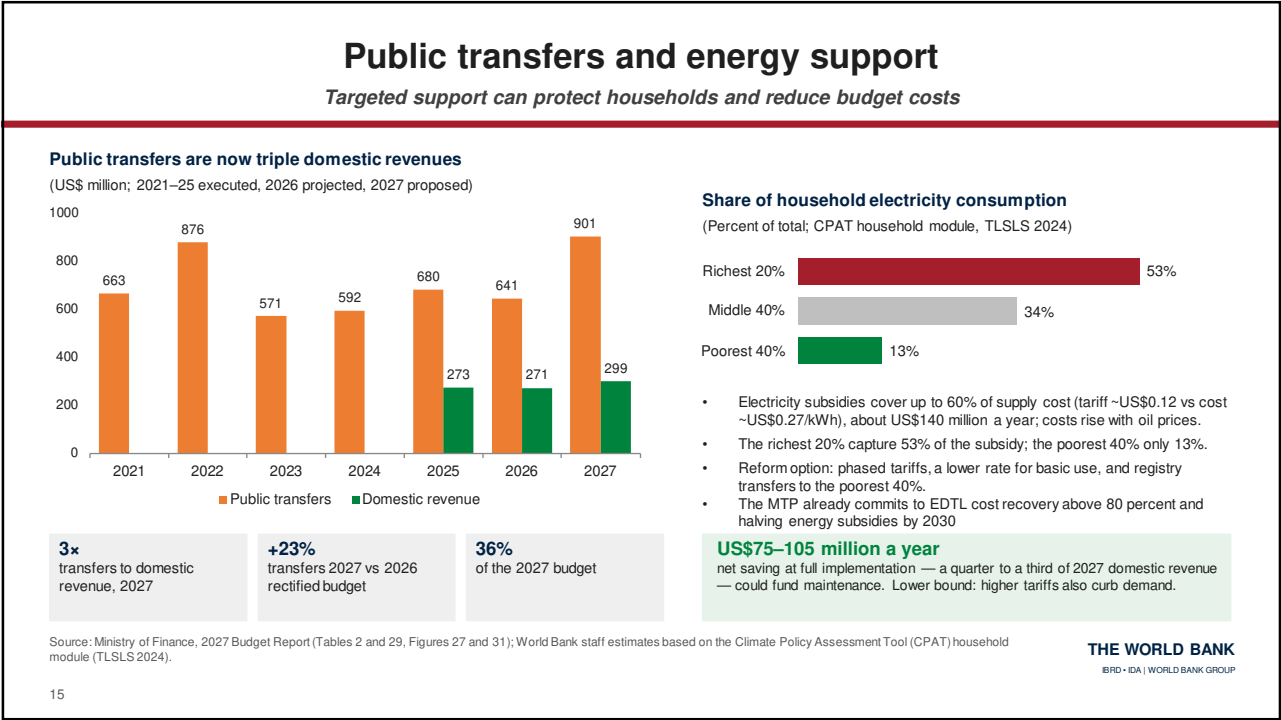
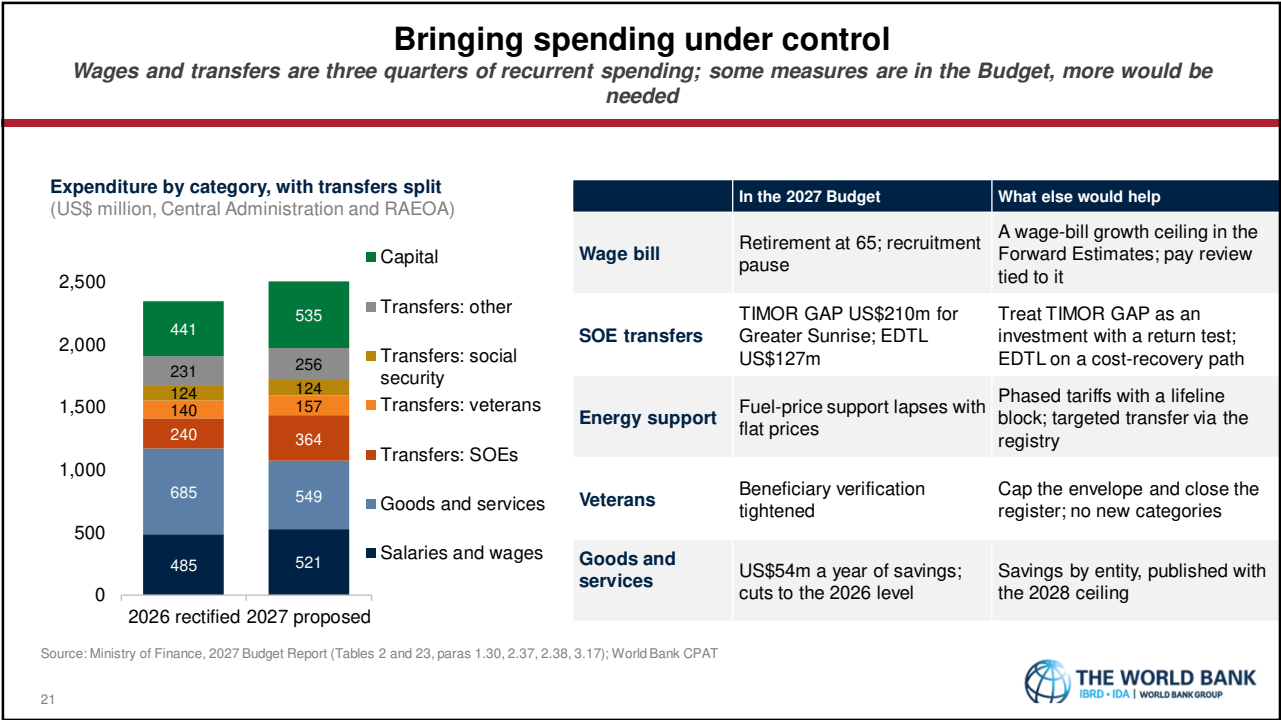
New competition law; new banking law; Secured Transactions Law and Collateral Registry; independent Accounting Council.

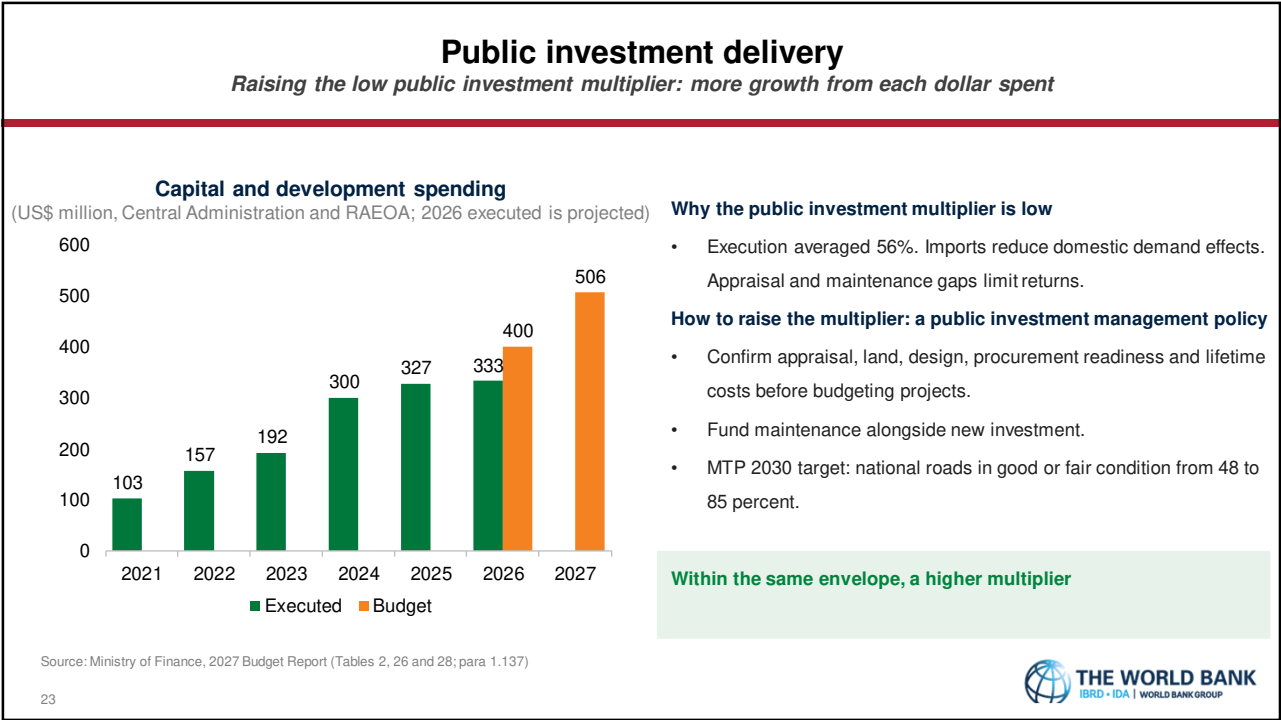
These reforms provide a foundation for more predictable budgets, better service delivery and private investment.

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Private investment and jobs

Ongoing reforms can help firms contribute to the growth plan

5% of GDP

private investment in 2025;
public investment 19% (INETL)

6% of GDP

non-oil exports of goods and services, 2025, from 4% in 2024 (INETL)

10.1 % points

lending–deposit spread: credit is costly

36/100

B-Ready average score compared to **61/100** global average

Land

Stronger administration and tenure documentation could support investment and collateral use.

Credit

Secured Transactions Law and Collateral Registry (2026); BNDTL; credit information.

Competition and licensing

Implement new competition law; continue business licensing and customs procedures streamlining.

Connectivity

Airport expansion, Tibar Bay Port, submarine cable; ASEAN and WTO integration.

• Reliable roads, ports and power can encourage private investment. Strong project preparation and delivery help public spending achieve these benefits.

Source: Ministry of Finance, 2027 Budget Report (Table 4); BCTL; World Bank Country Private Sector Diagnostic and B-READY 2025; Timor-Leste Economic Report



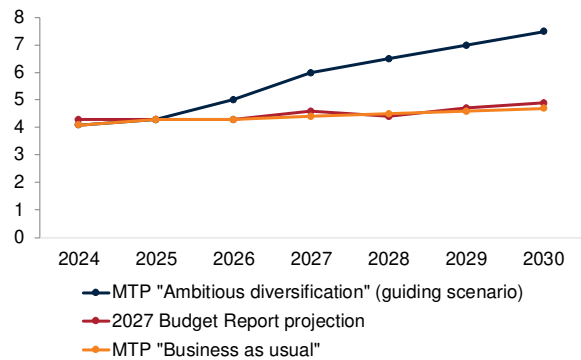
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Growth targets and projections

Reform implementation can support the Medium-Term Plan's growth targets

Non-oil GDP growth: Medium-Term Plan scenarios, 2027 Budget projection and World Bank forecast

(Percent)



Year	MTP "Ambitious diversification" (guiding scenario)	2027 Budget Report projection	MTP "Business as usual"
2024	4.5	4.5	4.0
2025	4.8	4.5	4.2
2026	5.2	4.5	4.3
2027	6.0	4.8	4.5
2028	6.5	4.8	4.6
2029	7.0	4.9	4.7
2030	7.5	5.0	4.8

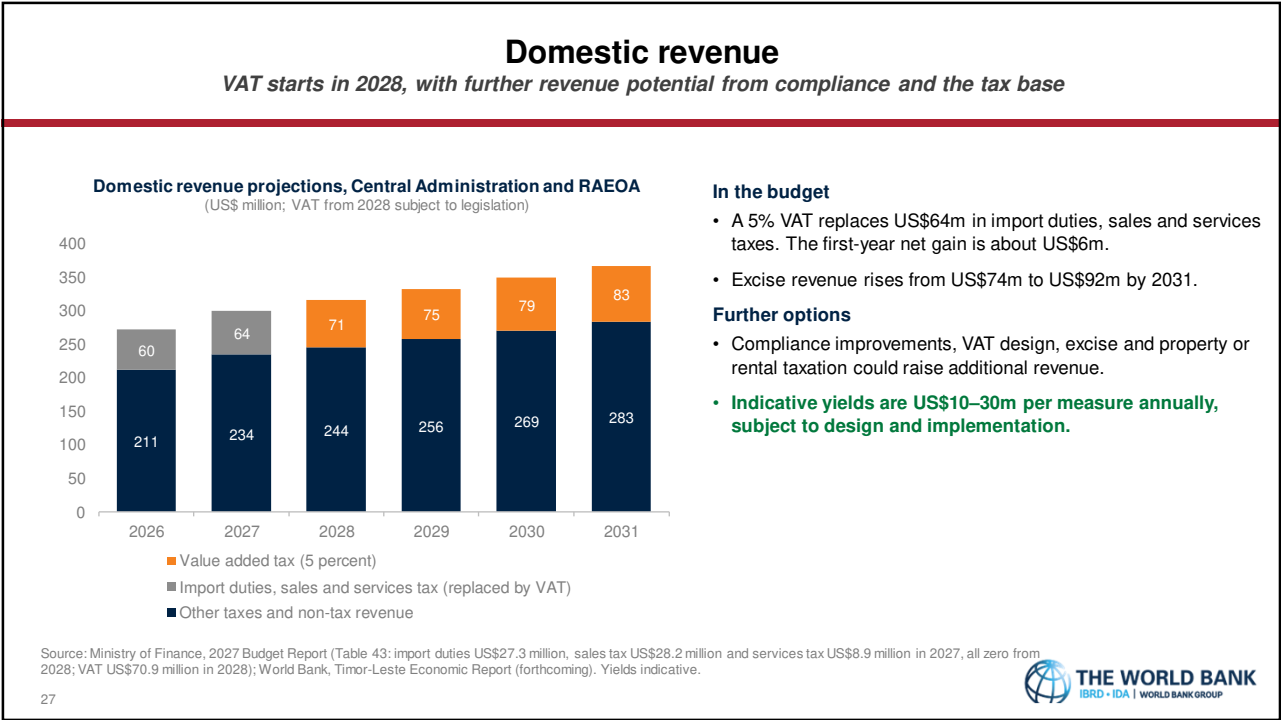
- The MTP targets 6–7.5% growth. The Budget projects about 4–5%. The World Bank projects 3.8% for 2027–28.
- The MTP assumes private investment of 15–20% of non-oil GDP, exports rising two to three times, and 5,000–7,000 new formal jobs annually.
- Achieving these targets will require faster project delivery and effective implementation of planned reforms.
- Parliament could track milestones and results through budget oversight.

Source: Ministry of Planning and Strategic Investment, SDP Monitoring Report 2024 and Medium-Term Plan 2027–2030, Ministry of Finance, 2027 Budget Report (Table 4); World Bank, East Asia and Pacific Economic Update (October 2026).



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5. Conclusions

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