

IMF Staff Completes 2017 Article IV Consultation Mission to Timor-Leste

October 6, 2017

End-of-Mission press releases include statements of IMF staff teams that convey preliminary findings after a visit to a country. The views expressed in this statement are those of the IMF staff and do not necessarily represent the views of the IMF's Executive Board. Based on the preliminary findings of this mission, staff will prepare a report that, subject to management approval, will be presented to the IMF's Executive Board for discussion and decision.

- Non-oil GDP growth is projected to moderate to 3 percent in 2017 due to lower government expenditure and a slowdown of economic activity.
- The IMF team underscored the importance of putting in place a fiscal reform strategy to ensure long-term fiscal sustainability.
- Structural policy reforms to improve basic infrastructure, financial access, labor competitiveness and the ease of doing business are needed to support economic diversification.

An International Monetary Fund (IMF) staff team led by Ms. Yu Ching Wong visited Timor-Leste from September 25-October 6 to conduct the 2017 Article IV Consultation discussions. The discussions covered recent developments and current economic policies, as well as the medium-term economic outlook. At the conclusion of the mission, Ms. Wong issued the following statement:

“Non-oil GDP growth is projected to moderate to 3 percent in 2017 due to lower government expenditure and a slowdown of economic activity accompanying parliamentary elections. Inflationary pressures remain low, albeit inflation has returned to positive territory reflecting rising global food and fuel prices. Lower government spending is expected to narrow both the fiscal and external current account deficits in 2017. The Petroleum Fund closing balance for 2016 declined to US\$15.8 billion (about 570 percent GDP), a second year of net reduction.

“The medium-term outlook for Timor-Leste depends critically on economic diversification, as its oil field in production will be depleted by around 2022. Significant frontloading of public investment poses considerable downside risks to fiscal sustainability, due to the envisaged large Petroleum Fund withdrawals required for financing this investment spending. Risks also lie in whether these large public investment projects will generate sufficient social and economic returns to achieve more inclusive growth that would translate into greater fiscal revenues and thereby enhance fiscal sustainability.

“The IMF team underscored the importance of putting in place a fiscal reform strategy to ensure long-term fiscal sustainability. Recurrent spending should also be rationalized. At the same time, health and education spending should be protected and the efficiency of public spending

improved. Essentially, more could be done to ensure greater “bang for the fiscal buck.” While recognizing the need to close Timor-Leste’s large infrastructure gap, any frontloading of capital spending should be limited and prioritized, in line with the country’s scarce resources and capacity constraints.

“The team stressed that domestic revenue mobilization remains critical. In this regard, the establishment of the customs authority and tax authority, and the formulation of an action plan to increase tax compliance are welcome. Passing the VAT legislation and introducing a VAT by 2020 that further mobilizes domestic revenue would also be critical.

“Concessional borrowing should continue to be effectively utilized to finance infrastructure projects, and thereby reduce the size of Petroleum Fund withdrawals. In addition, priority should be given to projects that impart significant knowledge transfers in project appraisal and implementation.

“Structural policy reforms are needed to support economic diversification. These reforms should aim to improve basic infrastructure, financial access, labor competitiveness and the ease of doing business. Expanding financial inclusion is a priority and the team welcomes the adoption of the national financial inclusion strategy 2017-22. At the same time, safeguarding financial stability requires continued vigilance through further strengthening of supervisory and regulatory capacity.

“The team met with Planning and Finance Minister Rui Gomes, Central Bank Governor Abraão de Vasconcelos, Minister of State and Minister of Agriculture and Fisheries Estanislau da Silva, and other senior officials. The team also held discussions with development partners as well as representatives of the private sector and civil society.

“The team would like to thank the government of Timor-Leste for their hospitality and wishes them every success in their ongoing efforts to raise economic growth, and reduce poverty and unemployment.”

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