



**TIMOR-LESTE  
ECONOMIC REPORT**

APRIL 2020

**A NATION  
UNDER PRESSURE**



**WORLD BANK GROUP**

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**Timor-Leste Economic Report: A National Under Pressure**  
April 2020

World Bank Group

Cover Photo by Timor Skyview

# TIMOR-LESTE ECONOMIC REPORT

A Nation Under Pressure

April 2020



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#### KEY INDICATORS

Population (million)	1.3
GDP (USD billion)	1.6
GDP per capita (USD)	1,237
Poverty headcount ratio – national poverty line (% population)	41.8
Poverty headcount ratio – \$1.90 a day (2011 PPP, % population)	30.3
Poverty headcount ratio – \$3.20 a day (2011 PPP, % population)	73.2
GINI index	28.7

Notes: Population and GDP data are for 2018. Poverty and inequality data are for 2014.

#### ACKNOWLEDGEMENTS

We would like to acknowledge the Ministry of Finance and the Central Bank of Timor-Leste (BCTL) as the producers and compilers of most of the data used in this report. The report also benefited from information provided by other official sources and feedback from internal and external peer reviewers. This Special Focus incorporates inputs provided by staff of the World Bank and other organisations, and earlier versions were shared with Government counterparts in March and April.

# SUMMARY

## RECENT DEVELOPMENTS

- Failure to approve a 2020 state budget has triggered significant political uncertainty. The Prime Minister offered his resignation in February, but later withdrew it. Divisions within the Government coalition have become evident. Meanwhile, the novel coronavirus (COVID-19) pandemic arrived in Timor-Leste, with the President subsequently declaring a State of Emergency. As of 30 April, there were 24 confirmed cases.
- GDP is estimated to have expanded by 3.4 percent in 2019 – a recovery from the 2017-2018 economic recession – mainly supported by (public and private) consumption. Despite a low budget execution rate (84 percent), total public spending increased by 5 percent when compared to 2018. Goods & services and public transfers were the key drivers, while capital expenditure declined by 8 percent.
- Inflation slowed to 0.9 percent in 2019, which has contributed to ease appreciation pressures on the real exchange rate. The current account turned a surplus for the first time since 2015, owing to a significant increase in primary income – which mainly includes petroleum-related revenues.

## OUTLOOK AND RISKS

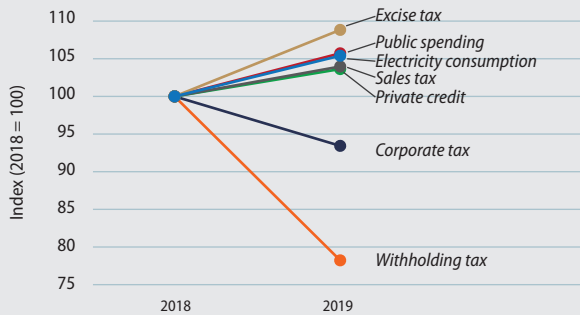
- Economic prospects for 2020 have been considerably weighed down by the lack of a state budget for 2020, renewed political uncertainty, and the global COVID-19 outbreak. GDP is currently forecast to contract by nearly 5 percent in 2020, although this projection remains highly uncertain.
- Public spending is likely to be constrained for most of the year, due to the duodecimal regime in place and execution delays owing to COVID-19. Meanwhile, a \$250 million withdrawal from the Petroleum Fund was recently approved, 60 percent of which allocated to prepare and respond to the COVID-19 pandemic.
- The global COVID-19 outbreak will produce considerable negative economic effects. International travel restrictions, trade disruptions, and public health measures to contain the spread of COVID-19 will all hamper domestic economic activity. An effective economic response plan can provide vital relief to households and businesses.

## SPECIAL FOCUS: ENHANCING PRIVATE SECTOR DEVELOPMENT

- COVID-19 is a contagious disease that presents a significant health risk for populations. With epidemiological simulation models suggesting unprecedented levels of mortality and morbidity, most countries have taken bold steps to try to avert the most catastrophic scenarios.
- Timor-Leste has implemented several public health measures to help contain the spread of the virus, including: restrictions on international travel, school closures, rules on access to commercial premises (e.g. use of facemasks and handwashing), mandatory confinement of those infected or entering the country, ban on public gatherings, and minimum services for the public administration.
- The COVID-19 pandemic and measures to contain it have considerable economic repercussions. A COVID-19 outbreak impacts an economy through three main transmission channels: (i) the direct cost from the disease (i.e. mortality and temporary absence from work); (ii) the cost of health-related measures, which lower both the demand and supply of goods and services; and (iii) behavioural change, as consumers delay spending and firms postpone investments. These effects can lead to irreversible job losses and firm closures, and thus permanent economic scarring (hysteresis).
- An effective response to COVID-19 will require measures to contain the virus and strengthen the capacity of the health system, protect vulnerable households, support affected businesses, and ensure the continuity of public services. This Special Focus provides some economic policy recommendations with a view to: secure a minimum level of transport services, minimise disruptions to key supply chains, ensure continued access to telecommunication services, ease payments for utilities and rent, anticipate and top up existing cash transfers programs, facilitate credit and encourage bank forbearance, defer tax obligations of specific taxes, and support wages in key economic sectors.

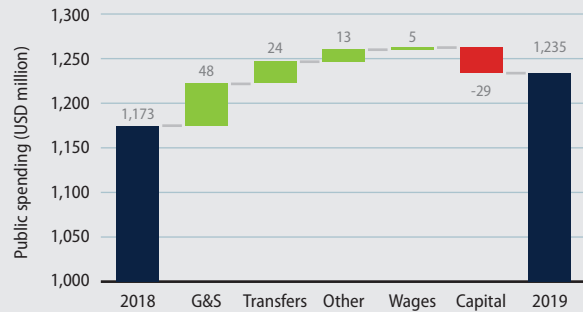
# SNAPSHOTS OF 2019

## Economic activity improved, although mainly driven by (public and private) consumption



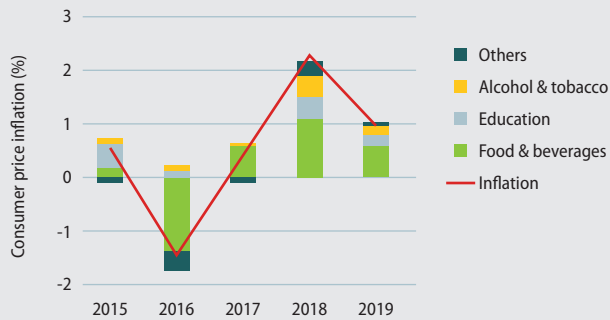
Source: Ministry of Finance and Central Bank

## Public expenditure grew by 5 percent, even as lower capital outlays offset higher recurrent spending



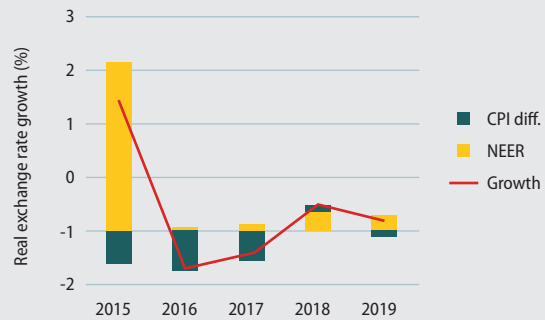
Source: Ministry of Finance

## Consumer price inflation declined to 0.9 percent, due to reductions across most goods and services



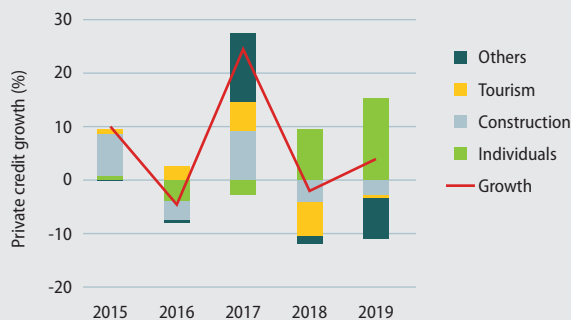
Source: Ministry of Finance

## The real effective exchange rate was stable, benefiting from low inflation and a steady US dollar



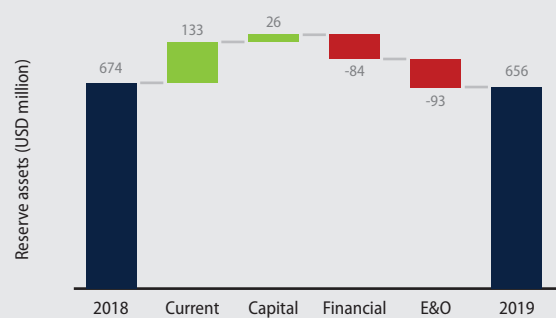
Source: Ministry of Finance

## Credit growth was fuelled by households, which compensated for declines in the productive sectors



Source: Central Bank

## The current account turned a surplus, but (unrecorded) financial outflows were large



Source: Central Bank

**Note:** With the ratification of the Maritime Boundary Treaty in August 2019, oil and gas fields previously shared between Australia and Timor-Leste in the Joint Petroleum Development Area (JPDA) transitioned to Timor-Leste's exclusive jurisdiction. With this change, offshore petroleum production is now considered to be part of Timor-Leste's gross domestic product (GDP), and therefore trade statistics. However, official statistics do not yet reflect these changes, which require detailed technical work. Therefore, the data produced and presented in this report – namely, national accounts estimates for 2019 and projections for 2020-2022, as well as primary income from JPDA – continues to follow the previous convention.

# CONTENTS

<b>Summary</b> .....	<b>i</b>
<b>Snapshots of 2019</b> .....	<b>ii</b>
<b>1. Recent Economic Developments</b> .....	<b>1</b>
Real Sector .....	1
Fiscal Sector.....	2
Monetary and Financial Sector.....	7
External Sector .....	8
<b>2. Outlook and risks</b> .....	<b>11</b>
<b>3. Special Focus: Supporting the economy during COVID-19</b> .....	<b>15</b>
Overview .....	15
Health Threat.....	17
Economic Impacts.....	18
Key Considerations .....	19
An Economic Response Plan .....	21
Concluding Remarks .....	33
<b>Annex 1: Key Indicators</b> .....	<b>34</b>

## LIST OF FIGURES

Figure 1.	Proxies of economic activity (index) .....	1
Figure 2.	Contribution to GDP growth (percentage points) .....	1
Figure 3.	Government expenditure (USD million) .....	2
Figure 4.	Government expenditure (USD million) .....	2
Figure 5.	Public spending by economic classification (% , 2019) .....	3
Figure 6.	Spending (USD million) and execution (%) .....	4
Figure 7.	Spending (USD million) and execution (%) .....	4
Figure 8.	Petroleum Fund flows (USD million) .....	5
Figure 9.	Petroleum Fund balance (USD million) .....	5
Figure 10.	Revenue (USD million) .....	6
Figure 12.	Fiscal balance (% GDP) .....	6
Figure 11.	Revenue (USD million) and execution (%) .....	6
Figure 13.	Deficit financing (USD million) .....	6
Figure 14.	Contribution to inflation (%) .....	7
Figure 15.	Contribution to REER changes (%) .....	7
Figure 16.	Private credit growth (%) .....	8
Figure 18.	Trade balance (USD million) .....	8
Figure 17.	Private credit by sector (%) .....	8
Figure 19.	Merchandise imports (2019, %) .....	8
Figure 20.	Current account balance (USD million) .....	9
Figure 21.	Current account balance (USD million) .....	9
Figure 22.	Financial account balance (USD million) .....	10
Figure 24.	Central Bank reserve assets (USD million) .....	10
Figure 23.	Financial account balance (USD million) .....	10
Figure 25.	External debt (USD million) .....	10
Figure 26.	Flattening the pandemic curve .....	19
Figure 27.	Flattening the recession curve .....	19
Figure 28.	Circular flow of the economy .....	20

## LIST OF TABLES

Table 1.	Summary of policy interventions .....	23
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## LIST OF BOXES

Box 1.	East Asia and Pacific in the Time of COVID-19 .....	13
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## PART 1.

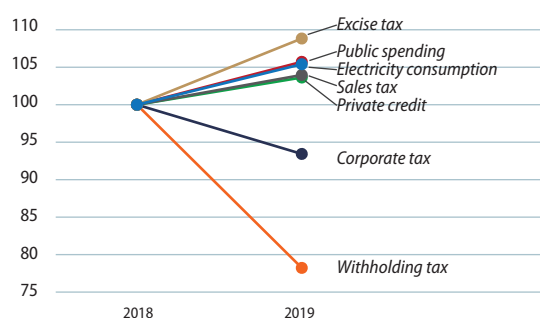
# RECENT ECONOMIC DEVELOPMENTS

**This section mostly covers economic developments in 2019, while the rest of the report provides insights for 2020 and beyond.** Given existing data limitations – relating to frequency, coverage and publication lags – there is little information about the first three months of 2020 that can be analysed. In fact, the April releases of the Timor-Leste Economic Report (TLER) are typically focused on the previous year (using yearly data), while the October releases often delve into the first six months of the year (using quarterly data). Nonetheless, the Special Focus included in this report provides some insights on the likely economic impacts of the novel coronavirus (COVID-19) pandemic in Timor-Leste. This report was mostly written in March and early April.

## REAL SECTOR

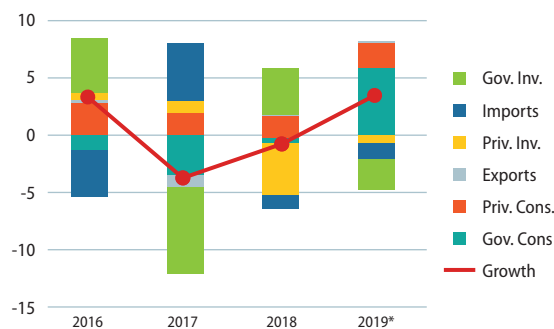
**Economic activity recovered in 2019, despite lingering concerns on the corporate sector.** Total public expenditure increased by 5 percent in 2019, which contributed to accelerate economic activity (Figure 1). However, indicators proxying for private sector activity provide mixed evidence. For instance, the collection of consumption-related taxes (such as excise and sales taxes) increased by 7 percent and commercial credit grew by 4 percent – which was predominantly driven by lending to individuals. However, other indicators have deteriorated, such as the amounts collected from corporate and withholding taxes. This suggests that private consumption increased, while private investment was subdued. Since private investment has a low weight in the gross domestic product (GDP), the implication is that economic activity improved in 2019. This is the first time GDP increased since 2016.

Figure 1. Proxies of economic activity (index)



Source: Ministry of Finance

Figure 2. Contribution to GDP growth (percentage points)



Source: Ministry of Finance and World Bank staff estimates

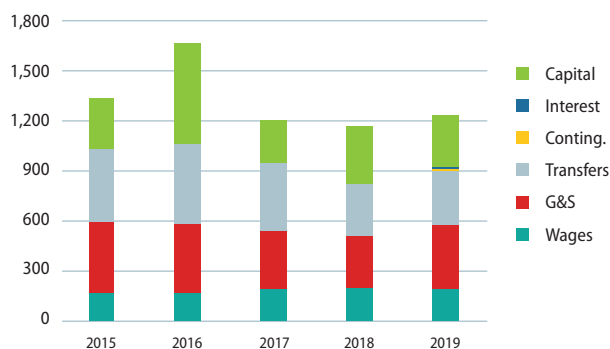
**Final consumption expenditure was the key driver of economic activity in 2019.** The economy contracted by 3.8 percent in 2017 due to a sharp decline in public expenditure – especially public investment (Figure 2). In 2018, economic activity declined by a further 0.8 percent as private investment weakened, in part due to political and economic uncertainty. The public investment hike in late 2018 was insufficient to offset public spending constraints experienced during the first 9 months of the year – caused by the lack of an approved state budget. In 2019, GDP is estimated to have increased by 3.4 percent on account of larger final consumption expenditure. Both private and government consumption are thought to have increased considerably, supporting a much-needed economic recovery – even if some of this demand ‘leaked’ into imports of goods and services. Public and private investment likely declined, which undermined a faster economic recovery. The economy remains largely driven by public spending and consumption expenditure, which raises concerns over medium-term growth potential.<sup>1</sup>

## FISCAL SECTOR

**Notwithstanding a fall in capital spending, total public expenditure increased due to goods & services outlays.**

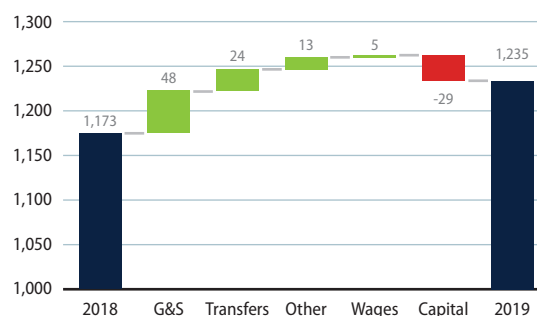
Total government expenditure increased by 5 percent to reach \$1.24 billion in 2019 – which was somewhat above the levels recorded in both 2017 and 2018 (Figure 3).<sup>2</sup> Spending on goods & services increased by 15 percent (to \$368 million) when compared to 2018. In particular, fuel for generators increased from \$56 to \$78 million (a 38 percent increase) and professional services grew from \$76 to \$86 million. Public transfers increased by 8 percent, with public grants increasing to \$187 million and personal benefit transfers remaining at around \$147 million.<sup>3</sup> Expenditure on salary & wages grew by 2 percent, to \$202 million. Interest payments (and loan repayments) were negligible, partly because most loans are still in their grace period. Finally, capital spending declined by 8 percent – to \$315 million – mainly due to the Tasi Mane program, which saw expenditures dropping from \$98 to \$38 million.<sup>4</sup> Nonetheless, the fall in capital outlays was more than compensated by increases in recurrent spending (Figure 4).

**Figure 3. Government expenditure (USD million)**



Source: Ministry of Finance

**Figure 4. Government expenditure (USD million)**



Source: Ministry of Finance

<sup>1</sup> The previous TLER projected GDP growth at about 5 percent during 2020-2021 – lower than the 7 percent government target – and argued that medium-term growth prospects are hampered by a weak private sector.

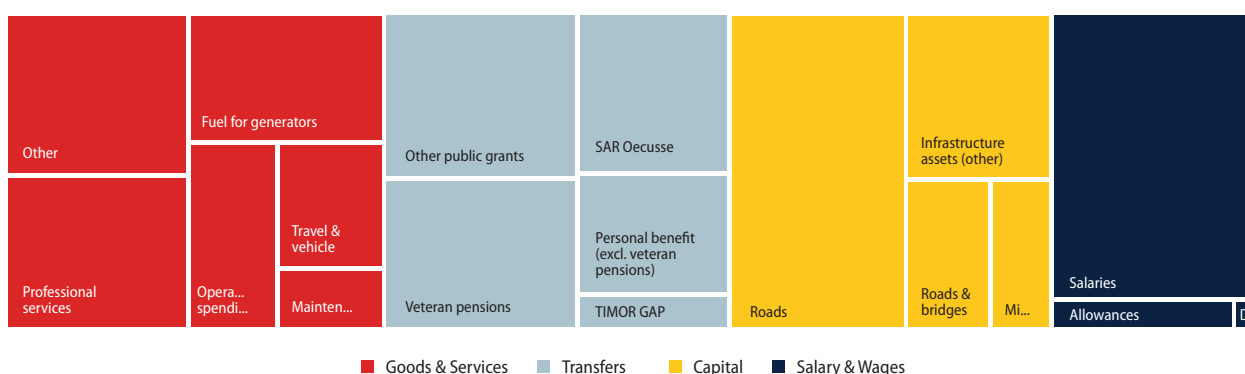
<sup>2</sup> Most fiscal data were accessed from the Budget Transparency Portal at the end of March. Revisions may have been made since then.

<sup>3</sup> The increase in public grants was partly due to a larger allocation to the RAEOA-ZEESM (by \$48 million) and a \$16 million disbursement to TIMOR GAP. The National Electoral Commission received \$6 million in both 2018 and 2019. In 2018, there was a \$50 million one-off allocation to TL Cement.

<sup>4</sup> Capital spending comprises capital & development (mainly major infrastructure projects) and minor capital. The Tasi Mane project envisages the development of a petroleum industry in the south coast of Timor-Leste. The decline in expenditure partly relates to delays in the completion of the Suai-Beaço highway.

**Despite a declared policy of frontloading capital investment, most spending relates to goods & services and public transfers.** Recurrent expenditure represented about three-quarters of total spending in 2019, mainly comprising goods & services (30 percent), public transfers (27 percent), and salary & wages (16 percent). Nearly 40 percent of the expenditure on good & services was accounted by professional services and fuel for generators – 22 and 17 percent, respectively.<sup>5</sup> Other important spending categories included operations, travel, maintenance, training & workshops, and utilities. Public transfers were dominated by veteran pensions (\$91 million), and allocations for the Special Administrative Region of Oecusse (\$75 million).<sup>6</sup> There was also an allocation of \$16 million to TIMOR GAP – the state-owned oil & gas company. Salary & wages, which also includes allowances and overtime, accounted for 16 percent of total spending. Three ministries accounted for more than half of the total expenditure on salary & wages – namely, Ministry of Education (30 percent), Ministry of Health (11 percent) and Ministry of Interior (11 percent) – essentially paying for teachers, health professionals, and police officers. Capital outlays represented 26 percent of total expenditure, mostly infrastructure assets associated with road construction and rehabilitation.<sup>7</sup> Most spending on the Tasi Mane program comprised the Suai-Beaço highway.

**Figure 5. Public spending by economic classification (% , 2019)**



Source: Ministry of Finance

**Only 84 percent of the 2019 state budget was spent, the lowest level since 2013, partly due to low execution of the capital & development budget.** The budget execution rate reveals the proportion of the state budget that was actually spent – and is often used as a measure of absorptive capacity.<sup>8</sup> Budget execution varied significantly within the year. For instance, only 10 percent of the 2019 state budget was used by the end of the first quarter, partly due to its delayed approval – although execution is typically low in the first quarter of the year. About 23 percent was spent in the second quarter, but execution declined in the subsequent quarter – to 17 percent. By the end of September, only half of the budget had been utilised. Overall execution eventually reached 84 percent, but this was still the lowest level since 2013. The execution of the capital & development budget was particularly low at 73 percent, while that of goods & services was also below 80 percent (Figure 6). These rates underscore key difficulties in planning (e.g. anticipate needs), budgeting (e.g. estimate costs), and execution (e.g. procuring). The execution rate for maintenance of equipment & buildings was particularly low, with only 42 percent of the \$46 million budget allocation actually spent. The execution rates of salary & wages and public transfers tend to be high, as they are easier to plan, budget and execute.<sup>9</sup> As expected, these were relatively high – above 90 percent. The budget for minor capital has been reduced in recent times, partly to address low execution in past years.<sup>10</sup>

<sup>5</sup> 'Professional services' includes both individual consultants/advisors and corporations, while 'fuel for generators' relates to the diesel fuel purchased to operate the Hera and Betano power stations.

<sup>6</sup> Personal benefit transfers include veteran pensions, pensions for the elderly and disabled, pensions for ex-politicians, and Bolsa da Mae.

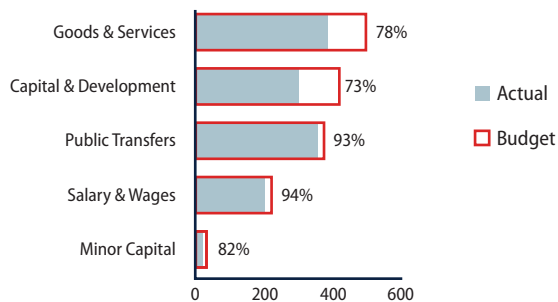
<sup>7</sup> This includes a road rehabilitation package of 135 projects – approved by the Administrative Council of the Infrastructure Fund (CAFI) in July 2017 – worth \$75 million.

<sup>8</sup> In practice, it may reflect both public financial management bottlenecks and political decisions (or uncertainty).

<sup>9</sup> Some transfers are made to public institutions (e.g. RAEQA-ZEESM) and thus may not reflect actual spending.

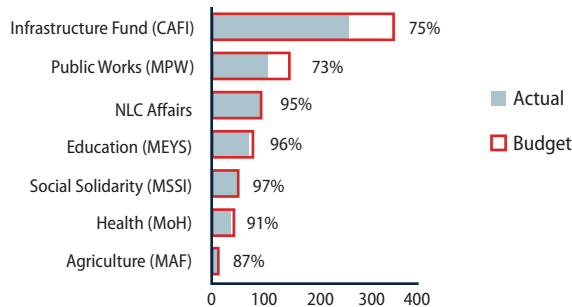
<sup>10</sup> Minor capital is mainly used to purchase vehicles, furniture, electronic equipment, and other movable assets.

**Figure 6. Spending (USD million) and execution (%)**



Source: Ministry of Finance

**Figure 7. Spending (USD million) and execution (%)**



Note: NLC means National Liberation Combatants  
Source: Ministry of Finance

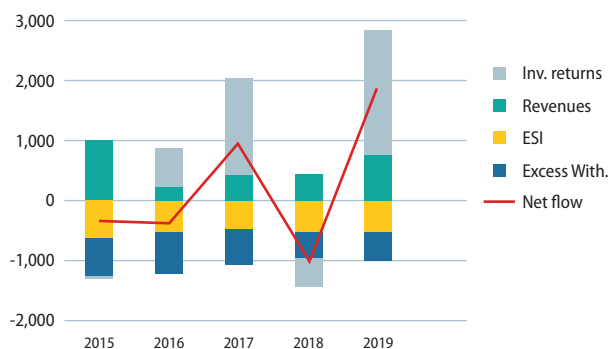
**Infrastructure-related institutions had low execution rates, which underscores challenges in public investment management.** Infrastructure projects – i.e. capital & development – are mostly implemented by the Infrastructure Fund and the Ministry of Public Works. In 2019, these two institutions had execution rates of 75 and 73 percent, respectively (Figure 6). This exposes difficulties in adequately planning, budgeting and implementing public investment projects. As expected, line ministries with a high proportion of salary & wages – such as the Ministry of Education and the Ministry of Health – showed high execution rates. The Ministry for the Affairs of National Liberation Combatants and the Ministry of Social Solidarity & Inclusion also performed according to expectations, in part due to the high share of public transfers in their budgets. Some of the lowest execution rates were found in ministries tasked with economic development: Ministry of Tourism, Commerce and Industry (69 percent), Ministry of Planning & Strategic Investment (73 percent), and Ministry of Transport & Communications (76 percent). Although these ministries have relatively small budgets, low execution rates may be indicative of inefficiencies and thus scope for performance improvement – to fulfil their mandates. The budget appropriation ‘whole of government’ (\$179 million) – which includes expenditures that cannot be allocated to a particular public institution – had an execution rate of 82 percent.

**Low execution rates were also found in some autonomous public agencies, while most municipalities were on par with the national average.** The National Centre for Employment and Professional Training, the National Logistics Centre, and the National Hospital Guido Valadares were some of the autonomous public agencies with low execution rates – 63, 77 and 78 percent, respectively. This is perhaps unexpected, since the main rationale for the recent proliferation of autonomous agencies is that they can be more agile in executing their budgets and therefore their mandates. Budget execution in municipalities averaged about 85 percent, ranging from 91 percent in Dili to 78 percent in Liquiça. Pursuing critical public financial management (PFM) reforms and building relevant skills can significantly improve planning, budgeting and execution across public institutions – with a view to improve efficiency and effectiveness of public spending.

**The Petroleum Fund was worth \$17.7 billion at the end of 2019, a record high largely enabled by investment returns.** Petroleum revenues mainly comprise taxes and royalties related to offshore production from the Bayu-Undan field. These revenues have fallen considerably, from a peak of \$3.6 billion in 2012, due to lower production and oil prices (Figure 8). In recent years, a key factor influencing the market value of the Petroleum Fund has been investment returns – mainly (unrealised) asset revaluations. Interest and dividend income are comparatively smaller. The volatility in international equity markets has strongly influenced the value of the Petroleum Fund. Positive asset revaluations in 2017 and 2019 pushed its value to new highs, while equity market downturns have produced considerable losses. This was the case in 2018 and in the first quarter of 2020 – due to the impact of COVID-19 on global stock markets. Petroleum Fund withdrawals have been less volatile, but remain very high at around \$1 billion per year. With petroleum

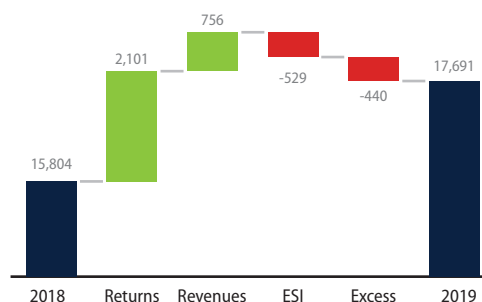
revenues expected to cease in a couple of years, it is critical to manage the Petroleum Fund prudently – by slowing the pace of withdrawals and possibly reassessing its investment strategy. Protecting the value of the Petroleum Fund is critical to support medium-term fiscal sustainability and transfer resources to future generations. The Petroleum Fund was valued at \$17.7 billion in December 2019, but withdrawals have been outpacing revenues since 2015 (Figure 9).<sup>11</sup>

**Figure 8. Petroleum Fund flows (USD million)**



Source: Central Bank

**Figure 9. Petroleum Fund balance (USD million)**



Source: Central Bank

**The Estimated Sustainable Income for 2020 increased because of the performance of the Petroleum Fund.** The Estimated Sustainable Income (ESI) is calculated as 3 percent of the total petroleum wealth, which is the Petroleum Fund balance plus the ‘net present value’ of future Petroleum Fund revenues.<sup>12</sup> The ESI for 2020 was set at \$537 million, about \$8 million higher than that for 2019. This was mostly due to a higher (projected) Petroleum Fund balance at the end of 2019. However, these funds have not been readily available due to the lack of a 2020 state budget. Access to the Petroleum Fund is usually granted by Parliament through the regular budget approval process. In its absence, a separate request needs to be made to, and approved by, Parliament to unlock these resources.<sup>13</sup> The outlook for 2020 is highly uncertain, so the ESI for 2021 will be significantly lower if international stock markets do not recover from the losses suffered in the first quarter of 2020.

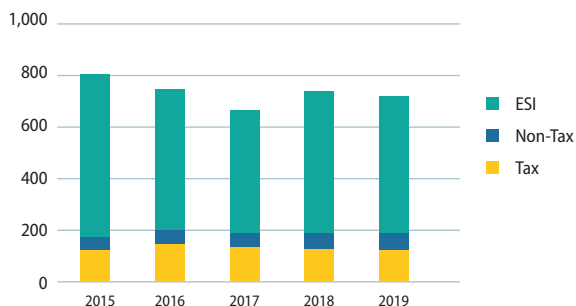
**Domestic revenue declined to its lowest level since 2015, as tax collection continued to deteriorate.** The ESI is classified as government revenue because of its recurrent nature, while Petroleum Fund withdrawals above the ESI are accounted as budget financing. The ESI for 2019 declined by more than \$20 million when compared to the previous year (Figure 10). Domestic revenue, which includes both tax and non-tax sources, declined to \$186 million in 2019. The 2017-2018 economic contraction weakened domestic revenue collection, but an economic recovery was expected to support an improved performance. However, a decline in capital spending and a hesitant private sector seem to have affected withholding tax collection. In fact, the \$21 million accrued from the withholding tax were the lowest level since 2012. Revenues from the corporate income tax also declined, by 7 percent. The collection of consumption-related taxes (such as excise and sales) improved, as mentioned earlier. Overall, tax revenue collection dropped by 4 percent in 2019 – the third consecutive year of decline. Non-tax revenues were broadly stagnant and mainly comprised electricity fees & charges.

<sup>11</sup> At the end of March 2020, its valued had dropped to \$17.0 billion due to the impact of the COVID-19 pandemic on global financial markets.

<sup>12</sup> The undeveloped Greater Sunrise fields are not included in the calculations – neither are Chuditch or Buffalo.

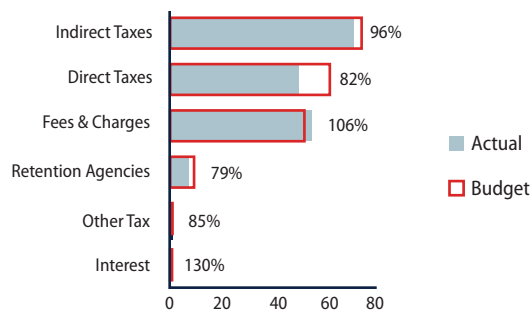
<sup>13</sup> In early April 2020, a transfer of \$250 million was approved by Parliament and promulgated by the President.

Figure 10. Revenue (USD million)



Source: Ministry of Finance

Figure 11. Revenue (USD million) and execution (%)

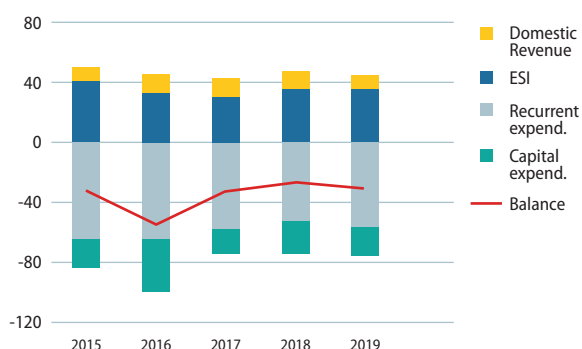


Source: Ministry of Finance

**The collection of direct taxes and the performance of revenue retention agencies was significantly lower than expected.** While the 2019 state budget projected domestic revenue at \$199 million, actual revenue collection fell short of that target by 5 percent. The collection of indirect taxes proceeded as expected, owing to a solid performance of consumption-related taxes (Figure 11). The collection of fees & charges was even above expectations, in part due to electricity payments. However, the collection of direct taxes was disappointing, partly because of lower public capital spending – which accounts for a significant proportion of the income withholding tax. Withholding taxes were lagging by mid-year, but they were expected to recover as most of the capital spending usually takes place later in the year. Although revenue collection from autonomous agencies recovered from the 25 percent executed at mid-year, overall collection was still 20 percent lower than projections.

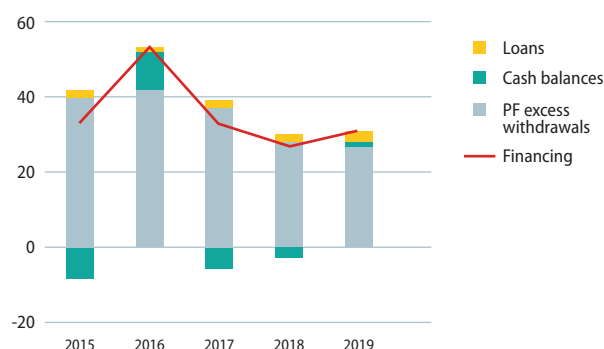
**The fiscal deficit increased in 2019, as a result of both higher spending and lower revenue.** The government budget balance is computed as the difference between total revenue and total expenditure. While the ESI is included in total revenues, excess withdrawals from the Petroleum Fund are part of deficit financing – thus offering a consistent insight on medium-term fiscal sustainability. Public spending was supported by the approval of the 2019 state budget, even if its late approval and execution challenges contributed to a low execution rate. With total government revenues declining – both through the ESI and domestic revenues – and thus compounding the effect of higher expenditures, the deficit grew to 31 percent of GDP in 2019 (Figure 12). The fiscal deficit was predominately financed by excess withdrawals from the Petroleum Fund – which are the amounts withdrawn above the ESI rule (Figure 13).<sup>14</sup>

Figure 12. Fiscal balance (% GDP)



Source: Ministry of Finance

Figure 13. Deficit financing (USD million)



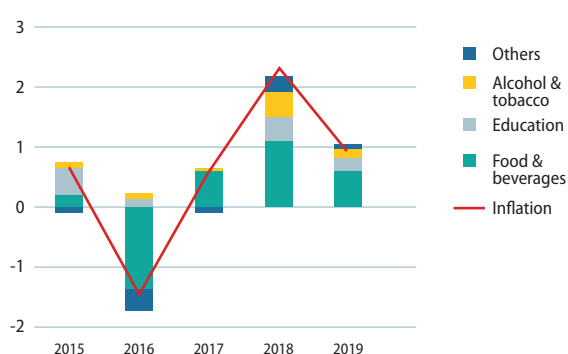
Source: Ministry of Finance

<sup>14</sup>Fiscal accounting and reporting could be improved. For example, in the latest Budget Book 1 the fiscal deficit measured “below the line” (i.e. deficit financing) is not consistent with the fiscal deficit measured “above the line” (revenue minus expenditure). For this report, values were adjusted based on additional sources of information.

## MONETARY AND FINANCIAL SECTOR

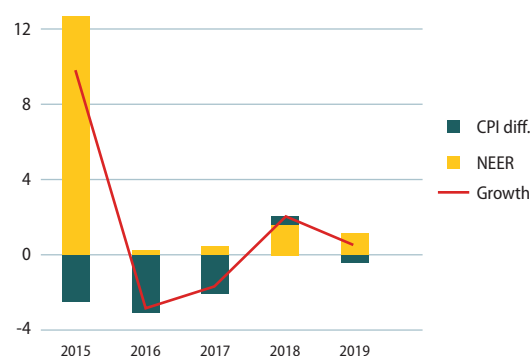
**Consumer prices increased by less than 1 percent in 2019, partly due to relatively stable food prices.** There was a broad-based deceleration in price inflation across most product categories, especially those with the largest weights in the representative consumption basket (Figure 14). Average prices for food & non-alcoholic beverages, which accounts for over half of consumption, increased by 0.9 percent in 2019 – lower than the 1.7 percent growth recorded in the previous year. This is partly explained by subdued international food prices (e.g. rice), which are a key driver of domestic inflation owing to the country’s low level of food self-sufficiency. Transport prices were also relatively stable – increasing by 0.8 percent – benefiting from lower international oil prices. Alcohol & tobacco prices also grew at a slower pace – 3.5 percent in 2019, compared to 8.3 percent in 2018. Education costs increased by 9 percent, but this item only accounts for 2 percent of total spending – and is mainly linked to private education.

**Figure 14. Contribution to inflation (%)**



Note: Values may not add up to the total due to rounding.  
Source: Ministry of Finance.

**Figure 15. Contribution to REER changes (%)**



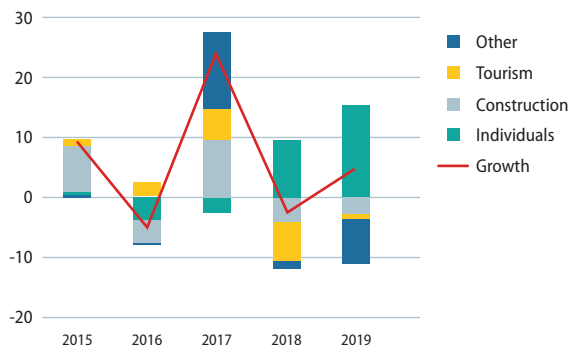
Note: Positive value indicates an appreciation (YoY).  
Source: Central Bank.

**The real effective exchange rate remained broadly stable, despite a small appreciation in 2019.** Timor-Leste uses the US dollar as its the legal tender, which has bestowed a certain level of macroeconomic stability. In order to assess the impact of exchange rate fluctuations on Timor-Leste’s external competitiveness, a trade-weighted average of bilateral exchange rates is often calculated. This measure, known as the nominal effective exchange rate (NEER), shows that the US dollar has strengthened against the currencies of Timor-Leste’s main trading partners. In fact, the NEER appreciated by 1 percent in 2019 (Figure 15). However, the real effective exchange rate (REER) provides a more accurate measure of international competitiveness, since it takes into account price differentials across countries. The REER appreciated by less than the NEER because price increases were comparatively lower in Timor-Leste. Although the REER is likely to be overvalued – potentially affecting export competitiveness – the current exchange rate regime has been generally beneficial to the economy, especially by stemming currency volatility.

**Private sector credit grew by 4 percent in 2019, as a result of sizeable lending to individuals.** Commercial credit to individuals grew remarkably in both 2018 and 2019 – above 30 percent in each year (Figure 16). Individuals were the predominant driver of credit expansion, even though partly offset by declines in the productive sectors. Total lending to the private sector amounted to \$231 million at the end of 2019, with individuals accounting for more than half of this value. Construction and trade & finance lagged significantly behind – with 21 and 16 percent, respectively.<sup>15</sup> Although overall credit has grown, the changing composition of lending is concerning (Figure 17). This is because loans to individuals are likely to fuel consumption spending (e.g. car purchases or house renovations) rather than support the accumulation of physical capital through investment – a typical driver of economic growth in the medium-term. Productive sectors that are often seen as having significant potential to help diversify the economy – such as agriculture, industry and tourism – accounted for only 8 percent of total lending.

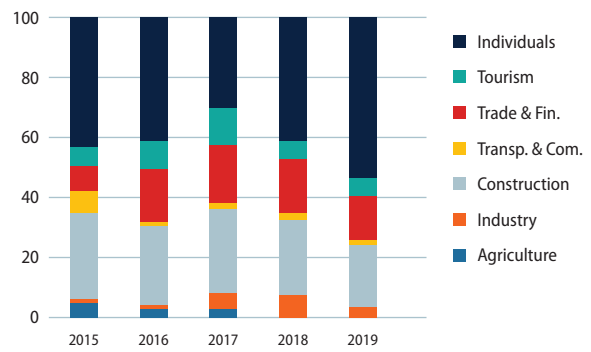
<sup>15</sup> Commercial banks are more likely to lend to individuals with secure jobs (e.g. civil servants) and companies with government contracts.

Figure 16. Private credit growth (%)



Source: Central Bank

Figure 17. Private credit by sector (%)

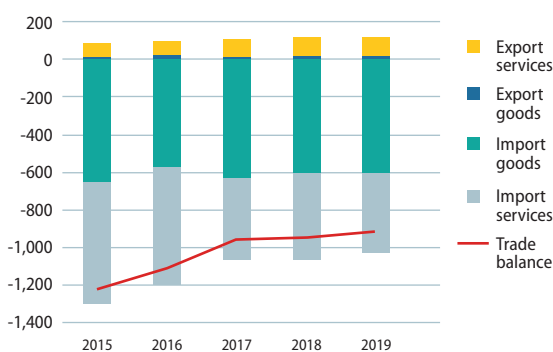


Source: Central Bank

## EXTERNAL SECTOR

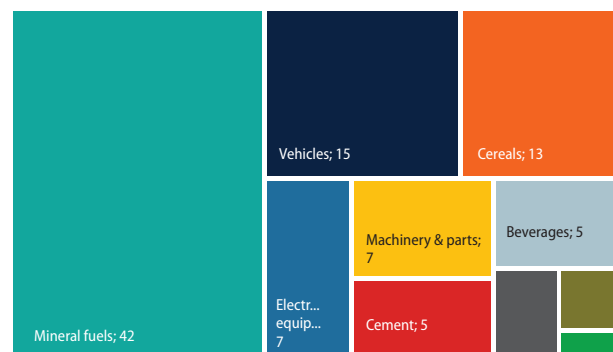
**The trade balance improved marginally, on account of lower imports of goods.** The trade balance registered a deficit of \$923 million in 2019 – equivalent to 57 percent of GDP – despite a 2 percent improvement over the previous year (Figure 18). Total imports declined by 2 percent, as imports of goods fell by 3 percent while imports of services were virtually unchanged. Imports of travel and construction services fell considerably, but they were partly offset by imports of other services (including government services). Exports of goods and services deteriorated by 4 percent, but this only had a marginal impact on the trade balance given its low levels.<sup>16</sup> In fact, total exports only covered 11 percent of imports in 2019. Exports of travel services were particularly affected in 2019 – with a 9 percent decline – while merchandise exports (predominantly coffee) increased from a very low base. In terms of the composition of merchandise imports, mineral fuels accounted for 42 percent of the total, followed by vehicles and cereals – 15 and 13 percent, respectively (Figure 19). Compared to 2018, imports of mineral fuels and cereals increased their weight by a couple of percentage points, while beverages declined. Imports of cement increased, but iron & steel products declined by a larger amount. Overall, lower levels of public capital spending partially account for trends in total imports (e.g. declines in construction services and certain capital goods).

Figure 18. Trade balance (USD million)



Source: Central Bank

Figure 19. Merchandise imports (2019, %)



Source: Ministry of Finance

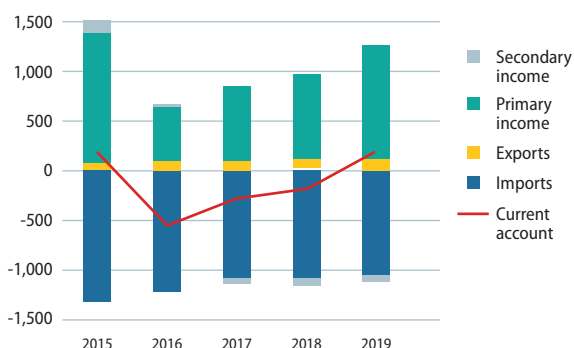
<sup>16</sup> Official data on merchandise exports and primary income still do not reflect the changes introduced by the Maritime Boundary Treaty between Australia and Timor-Leste – with regard to the jurisdiction of the Joint Petroleum Development Area (JPDA).



**The current account balance was in surplus for the first time since 2015, as a result of higher primary income.**

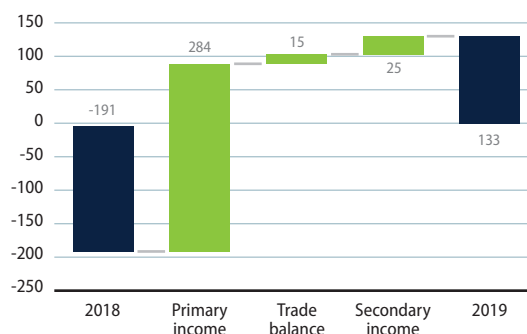
The steady increase in primary income since 2016 has been the foundation of current account improvements in recent years (Figure 20). In 2019, the current account recorded a surplus – the first since 2015 – as primary income net earnings outweighed (net) outflows associated with imports and secondary income. The trade balance only recovered slightly in 2019, but primary income increased by 34 percent and approached the levels recorded in 2015. In terms of the composition of primary income, income from the Joint Petroleum Development Area (JPDA) increased by 48 percent, while investment income increased by 13 percent.<sup>17</sup> However, it is unclear what has been driving the rise in JPDA income, since production and international prices do not seem to (fully) explain this trend. Petroleum production has steadily declined from 52 to 38 million barrels of oil equivalent between 2015 and 2019, while prices have fluctuated considerably during this period – and declined in 2019.<sup>18</sup> Secondary income, which comprises foreign grants and net workers’ remittances, remained a net outflow. Overall, the current account moved from a deficit of \$191 million in 2018 to a surplus of \$133 million in 2019 (Figure 21).

**Figure 20. Current account balance (USD million)**



Source: Central Bank

**Figure 21. Current account balance (USD million)**



Source: Central Bank

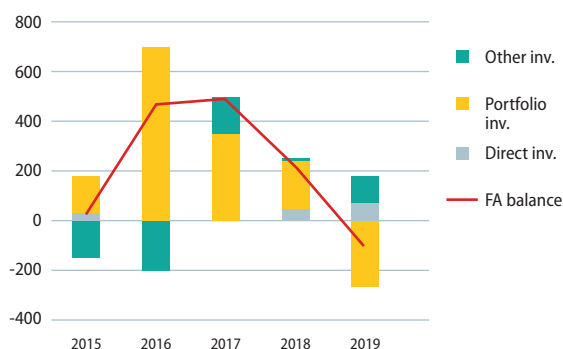
**The financial account balance declined further in 2019 due to portfolio investment outflows.**

Portfolio investment outflows predominantly relate to new Petroleum Fund investments in foreign assets – such as equities and debt securities. These are usually offset by portfolio investment inflows resulting from Petroleum Fund withdrawals to finance the state budget. Although these transfers totalled almost \$1 billion in 2019 – similar to 2018 levels – new portfolio investments led to a net outflow for the first time since 2014 (Figure 22). Direct investment increased from \$48 million to \$75 million in 2019, although these were mostly reinvested earnings – as it had been the case in 2018. Other investments increased by more than \$100 million, owing to public external debt disbursements and currency & deposits from the commercial banking sector. In sum, the financial account balance turned negative in 2019 because of net portfolio investment outflows (Figure 23).

<sup>17</sup>Income from the Joint Petroleum Development Area (JPDA) essentially comprises taxes and royalties on petroleum activities, while investment income mainly includes interest and dividends accrued from Petroleum Fund assets.

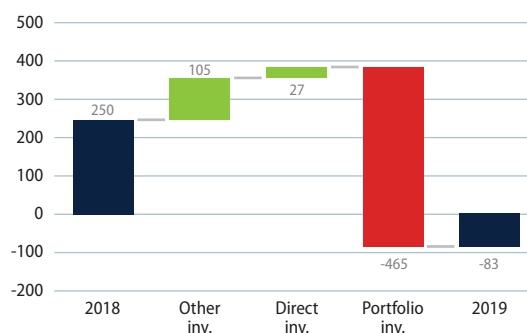
<sup>18</sup>This might be partly due to additional capital expenditures (capex) in 2017-2018 for drilling infill wells – lowering revenues in those years.

Figure 22. Financial account balance (USD million)



Source: Central Bank

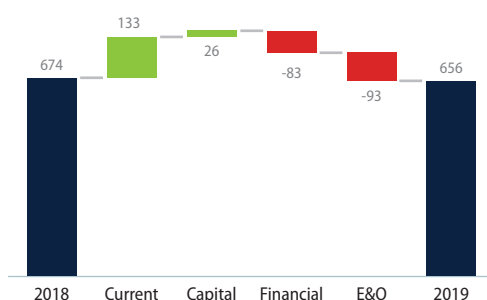
Figure 23. Financial account balance (USD million)



Source: Central Bank

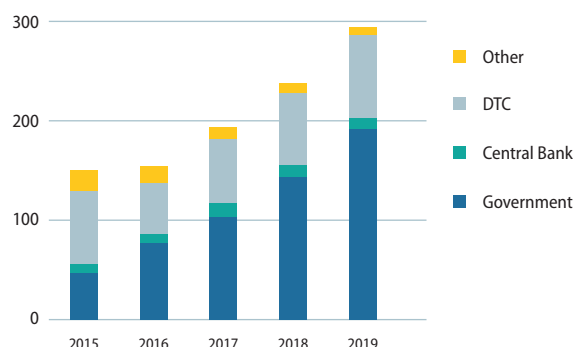
**Official reserve assets declined by 3 percent, in part due to (unrecorded) financial outflows.** The improvement in the current account balance was partly offset by financial account outflows, even if the latter represent positive investments for the country (Figure 24).<sup>19</sup> The recent current account surplus eases pressures on the financial account, which had recently funded large current account (and fiscal) deficits. However, large error & omissions contributed to a decline in official reserve assets. Error & omissions are a residual item that measures unrecorded transactions with the rest of the world, which in this case suggests a net outflow. The value for the first quarter of 2019 (over \$200 million) was the largest ever recorded since official quarterly data started in 2009.

Figure 24. Central Bank reserve assets (USD million)



Source: Central Bank

Figure 25. External debt (USD million)



Note: DTC means deposit-taking corporations.  
Source: Central Bank

**External debt has continued to grow, but remains at manageable levels.** Gross external debt grew by 24 percent in 2019, reaching \$296 million (Figure 25). This expansion is mostly accounted by an increase in long-term government liabilities, which rose by one-third. However, the general government public debt stock only represents 12 percent of GDP. The debt stock of deposit-taking corporations (i.e. commercial banks) increased by 13 percent, although mostly due to (short term) currency and deposits. The international debt position of the central bank and other sectors was broadly unchanged.

<sup>19</sup>The balance of payments (BoP) records economic transactions between a country's residents and the rest of the world in three key accounts: capital (which is typically very small), current, and financial.

## PART 2.


# OUTLOOK AND RISKS

**Economic activity is expected to contract in 2020, owing to political uncertainty and the impact of the novel coronavirus (COVID-19).** Despite a return to economic growth in 2019, failure to approve a state budget for 2020, renewed political uncertainty, and the global COVID-19 outbreak have all considerably weighed down prospects for 2020. In addition, recent heavy rains caused floods that affected thousands of people and many businesses. Given these mutually reinforcing negative effects, the GDP growth forecast for 2020 has been lowered from 4.6 percent (as projected in the October 2019 report) to -4.8 percent. However, this projection is still subject to much uncertainty. In particular, the economic impacts of COVID-19 will largely depend on the direct impact of the virus, the scope and duration of the public health measures adopted, as well as the economic policy response.<sup>20</sup> The Special Focus discusses some of the economic transmission channels and puts forward a set of policy interventions that may help cushion the impact on businesses and people's livelihoods.



**Public spending is constrained by the absence of a 2020 state budget.** In the absence of a state budget, the budget and financial management law provides for a duodecimal regime (with temporary budget appropriations for the same purpose foreseen in the budget law of the previous year) to ensure the continuation of activities. The duodecimal regime has been in place since January, which allows monthly appropriations of up to one-twelfth of the 2019 state budget. Nevertheless, access to Petroleum Fund resources requires parliamentary approval, which is usually obtained through the annual state budget process. A \$250 million withdrawal from the Petroleum Fund was recently approved, allocating \$100 million to support the treasury with regular spending needs and \$150 million for emergency expenditures relating to the COVID-19 response. The latter was allocated to a new autonomous COVID-19 fund, to overcome the constraints of the duodecimal regime and accelerate the execution of vital (health-related) expenditures. However, the execution of the regular budget might be hindered by the current circumstances.

<sup>20</sup> A downside GDP growth projection of -9.3 percent reflects less optimistic assumptions for the rest of 2020.



**The failure to approve a 2020 state budget has triggered significant political uncertainty.** In the 2018 parliamentary elections, the Alliance for Change and Progress (AMP) coalition – comprising the National Congress for the Reconstruction of Timor-Leste (CNRT), the People's Liberation Party (PLP) and KHUNTO – won a majority of seats in Parliament. The AMP coalition formed the VIII Constitutional Government and prepared the 2018 and 2019 state budgets within 6 months. However, the 2020 budget preparation process revealed tensions within the coalition. The first proposal submitted to Parliament was higher than any of the scenarios presented at the *'jornadas orçamentais'* and faced considerable criticism from CNRT's members of Parliament.<sup>21</sup> This proposal was withdrawn from Parliament before a vote could be held, and a revised proposal (with a lower budget) was resubmitted in late December 2019. In January 2020, CNRT abstained in the parliamentary vote which, together with the votes against from the opposition, led to a defeat of the proposal. The President subsequently asked all political parties to attempt to form a new coalition in order to avoid early elections. The Prime Minister offered his resignation in February, but withdrew it nearly two months later – before the President had made a decision. While there is still no clear political solution to the impasse, the (next) Government will have to prepare two state budgets by the end of the year, a situation reminiscent of 2018.

**The global COVID-19 outbreak will have a significant effect on economic activity.** The economic impact of the COVID-19 pandemic on the domestic economy started to be felt through international restrictions to the movement of people and goods. Stringent travel restrictions affect business operations and the nascent tourism sector, while trade disruptions affect imports as well as exports. Moreover, public health measures to contain the spread of COVID-19 also weigh down on economic activity. The Special Focus provides an assessment of some of these issues and a potential economic policy response.

**A lack of preparedness for health emergencies and climatic shocks could undermine human development achievements.** In an interconnected world, failure to prepare for (and respond to) the spread of communicable diseases can lead to significant human and economic costs. While COVID-19 is a key example, other viruses (e.g. dengue and measles) and diseases also present considerable challenges. Natural disasters (e.g. floods and earthquakes) are another type of unpredictable external shock that can derail hard-won progress. Extreme weather events, such as droughts and heavy rains, can have a significant impact on agricultural yields (and thus living standards), dwellings and sanitation (potentially leading to cholera outbreaks), and connective infrastructure (by damaging roads). Enhancing preparedness will be crucial to improve resilience and address future pandemics and climatic shocks – e.g. through investments in healthcare, early-warning systems, and climate-resilient infrastructure.

**A stable political environment and a strong policy commitment to support the private sector are crucial to avert a large economic contraction.** The intermittent political uncertainty observed since 2017 has weakened the economy. A volatile spending pattern has undermined consumer and business confidence, and contributed to a two-year economic recession. It is also likely that the quality of public spending has suffered during this period because of inadequate planning, delayed budget decisions, and spending constraints. While a political solution might be eventually found to avoid a third parliamentary election since 2017, political tensions remain elevated. Against this backdrop, it is crucial to find a political consensus to help the country withstand the current pandemic. These are challenging times for policymakers, who must act swiftly and decisively in a collaborative and coordinated manner to protect the population from COVID-19 and limit its impact on the economy.

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<sup>21</sup> This suggests that the basics principles for budget formulation still need to be improved before considering more advanced public financial management reforms – such as program budgeting.

### Box 1. East Asia and Pacific in the Time of COVID-19

**The virus that triggered a supply and demand shock in China has now caused a global shock.** Developing economies in East Asia and the Pacific (EAP), recovering from trade tensions and struggling with a viral disease, now face a global financial shock and recession. The region's relative resilience, demonstrated during recent crises, is being tested again. Have the recent trade and health shocks sapped its ability to deal with this third shock? Steady growth, sound macroeconomic policies, and prudent financial regulation have equipped many EAP countries to deal with normal tremors. But we are witnessing an unusual combination of disruptive and mutually reinforcing events. Significant economic pain seems unavoidable in all countries and the risk of financial instability is high, especially in countries with excessive indebtedness. This exceptional situation needs an exceptional response: bold national action, deeper regional and global cooperation, and significant external assistance.

**The pandemic is profoundly affecting the region's economies, but the depth and duration of the shock are unusually uncertain.** Growth in China is projected to decelerate considerably in 2020, as so is growth in the rest of the developing EAP region. Containment of the pandemic would allow recovery, but the risk of durable financial stress is high even beyond 2020. Most vulnerable are countries that have poor disease control and prevention systems; that rely heavily on trade, tourism, and commodities; that are heavily indebted; and that rely on volatile financial flows.

**The COVID-19 shock will also have a serious impact on poverty and welfare, through illness, death, and lost incomes.** Several million fewer people are estimated to escape poverty across developing EAP in 2020 than would have in the absence of the pandemic. Households linked to affected sectors will suffer disproportionately. For example, poverty rates could double among households in Vietnam linked to manufacturing reliant on imported inputs, and in some Pacific Islands where tourism is an important source of employment. While these estimates for GDP and poverty are projections, they reveal the magnitude of potential economic distress and the need for urgent action.

**This unprecedented shock requires a powerful response by countries with strong support from the international community.** On policy, six main conclusions emerge from the analysis:

1. **Countries need to adjust both health policies and macroeconomic policies.** To prevent the spread of infection, many governments are taking transmission control measures like lockdowns and travel bans to "flatten the pandemic curve." In parallel, to mitigate the resulting adverse economic impact, governments are taking monetary, fiscal and structural measures to "flatten the recession curve." But better health and economic outcomes may be achieved through combining policies. Early investments in infectious disease surveillance and response capacity can reduce the need to take costly suppression measures. The sooner countries create such containment capacity, the sooner they can end the economic pain caused by stringent suppression measures. That could shorten the time to recovery, but could be a challenge particularly for the poorest countries in the region.
2. **Health capacity needs to be urgently augmented because of the risk of the potentially overwhelming demand for a sustained period.** Testing capacity has already been found wanting even in some industrial countries. The number of infected needing treatment is projected to far exceed hospital capacity in the 18 months before a vaccine is likely to become available. Apart from expanding conventional health care facilities and medical equipment factories, innovative measures are being considered and need to be expanded: preparing ordinary hospital beds for potential ICU use; using car factories to manufacture medical equipment; and training people unable to pursue their normal occupations (e.g., employees of restaurants, hotels, and airlines) to work in basic healthcare. Ensuring adequate access for the poor may require the provision of free or subsidized testing and treatment.

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3. **Fiscal and monetary policy must be recast in a COVID-19 mold.** Initially, fiscal measures should provide social protection to cushion against shocks, especially for the most economically vulnerable. For example, subsidies for sick pay and expenditure on health care could alleviate distress and help support containment. Expanded safety nets could provide temporary relief to families whose earnings have been adversely affected by the outbreak. Transfers in cash or in kind are particularly important for those who work in EAP countries' large informal sectors, as they fall outside the reach of traditional social insurance programs. School feeding and other support to students, as well as employment support to help workers reintegrate into the economy after the outbreak has abated, would ensure that temporary deprivation does not translate into long-term losses of human capital. Firms, especially small and medium enterprises, will need liquidity injections to help them stay in business and maintain beneficial links to Global Value Chains (GVCs). The optimal economic policy response too will change over time and depend on the precise nature and evolution of the shock—to labor supply, aggregate demand or finance. The goal of policy should be to prevent a temporary shock from having permanent effects.
  4. **In the financial sector, it is urgent to help households to smooth consumption through easier access to credit and firms to survive the disruption through easier access to liquidity.** Easing financial conditions and exercising regulatory forbearance are necessary while conditions remain difficult. But regulators must ensure risk disclosure and clearly communicate supervisory expectations to avoid financial instability, especially in economies with high levels of private indebtedness. For poorer countries, debt relief will be essential, so that critical resources can be focused on managing the economic and health impacts of the pandemic.
  5. **Trade policy must stay open.** To retain the production of essential supplies for domestic consumers, several countries have imposed restrictions on exports of medical products. Economics and recent experience show that these measures ultimately hurt all countries, particularly the more fragile. World Trade Organization (WTO) members – or at least the G20 countries – must agree not to restrict exports of coronavirus-related medical products. Consuming countries could do their part too by liberalizing imports.
  6. **International organizations have a critical role to play in supporting the region's governments in combating the pandemic and in mitigating its health and economic consequences.** Providing low-cost access to essential supplies like test kits may require international organizations to procure at scale from suppliers and also to ensure efficient and equitable distribution. More generally, to support both relief and recovery, the World Bank Group and the International Monetary Fund (IMF) are making available financing, policy advice, and technical assistance. The World Bank Group has already rolled out a \$14 billion fast-track package to strengthen the COVID-19 response in developing countries and shorten the time to recovery. As countries need broader support, the World Bank Group is prepared to deploy up to \$160 billion over 15 months to protect the poor and vulnerable, support businesses, and bolster economic recovery.

In each of these areas, containment, health, macroeconomic policy, finance, trade, and aid, there are self-evident gains from internationally coordinated action that takes an integrated view of policy. But some nations are resorting to unilateral measures and succumbing to scarcity nationalism. All countries in the East Asia and Pacific region and beyond must recognize that, in addition to bold national actions, deeper international cooperation is the most effective vaccine against this virulent threat.

*Source: Adapted and updated from East Asia and Pacific Economic Update (April 2020)*

## PART 3.

# SPECIAL FOCUS: SUPPORTING THE ECONOMY DURING COVID-19

## OVERVIEW



**The novel coronavirus (COVID-19) pandemic is a global public health emergency with considerable economic repercussions.**

The COVID-19 disease has rapidly taken hold of the world. The global spread of the virus has been inflicting considerable damage on human health and socio-economic wellbeing. With epidemiological simulation models suggesting unprecedented levels of mortality and morbidity, countries have taken bold steps to try to avert the most catastrophic scenarios. In the absence of a vaccine and in-depth knowledge about the disease – especially regarding transmission and immunity – non-pharmaceutical public health

measures are the most viable (if not the only) response currently available.<sup>22</sup> These often comprise advice and rules on travel (e.g. passenger screening and travel restrictions), on hygiene (e.g. handwashing and surface decontamination), and on social distancing (e.g. school and workplace closures, quarantine, isolation, and bans on gatherings). Their main objective is to delay the introduction of the virus into a population, lower and delay the peak of the pandemic (i.e. ‘flattening the curve’), and minimise infections and deaths – especially by ‘buying time’ until a vaccine and/or treatment can be developed. However, many of these public health measures will dramatically (albeit unintentionally) reduce economic activity and thus jeopardise livelihoods.

**An agonising compromise needs to be struck between minimising health risks and protecting livelihoods.** Without any type of action, COVID-19 would lead to unacceptably high human costs. However, stringent public health measures can potentially create a socio-economic and humanitarian crisis. The harrowing task facing policymakers is to minimise health risks while protecting people’s livelihoods. For that purpose, it is important to carefully assess how appropriate and effective some policies are. Overly strict measures, such as a lockdown stopping people from leaving their homes, would likely be ineffective in overcrowded dwellings and neighbourhoods, while producing large negative socio-economic consequences, such as job losses and firm bankruptcies, food insecurity, crime (including domestic violence), spread of other diseases, and deteriorating public service provision.<sup>23</sup> A focus on improving personal and public hygiene,

<sup>22</sup> The COVID-19 disease appears to be highly transmissible, but many issues remain unclear. For instance, it is difficult to assess the full extent of infection because many cases will remain undetected – due to mild or no symptoms, or lack of testing. Moreover, it has not been fully established if asymptomatic cases can transmit the virus, and whether recovered cases develop immunity (and for how long).

<sup>23</sup> Some potential health costs unrelated to COVID-19 may include missed immunisations and limited resources for treating other diseases (e.g. tuberculosis and dengue), which could lead to a secondary health crisis that adds to mortality.

protecting the most vulnerable to the disease, isolating people (potentially) infected, and scaling up testing could be the most appropriate response for developing countries.<sup>24</sup> This is particularly important due to the uncertain duration of the health pandemic, since most people cannot afford to be in self-isolation for an extended period.

**Health and economic policy choices need to be carefully balanced and reflect the specific context of Timor-Leste.** Compared to other countries in the region, Timor-Leste has a weaker health system but significant financial resources (in relatively terms) to support a health and economic response. However, poorer health outcomes (e.g. malnutrition and tuberculosis) suggest higher vulnerability – even if the population is relatively younger – lower levels of education may enable the spread of misinformation, larger and multigenerational households increase the likelihood of transmission, and lack of alternatives to cash payments make physical transactions unavoidable.<sup>25</sup> As much as possible, policy choices should be based on existing evidence and tailored to the circumstances (and risks) at any given time. Indeed, some common health and economic measures are likely to be less effective than in developed countries (e.g. owing to crowded housing and inability to work remotely).

**This section focuses on the potential economic impacts and policy responses to the COVID-19 pandemic.** The first and foremost concern in any public health emergency is to protect populations by enhancing preparedness and swiftly responding to the specific health threat. Monitoring and containment measures are essential to slow the spread of the virus and reduce pressures on health systems. Meanwhile, providing timely and accurate information to the population will help reassure concerns and guarantee compliance with policy actions. However, the health response needs to consider the effectiveness of specific public health measures in minimising health risks, as well as their unintended socio-economic costs. Ensuring that these costs do not exceed their benefits is an extremely difficult task for national authorities. While not delving into the COVID-19 health response, this Special Focus offers an economic perspective that aims to support and complement ongoing actions.

**The proposed policy recommendations take into consideration the specific characteristics of the economy.** Most countries around the world are grappling with the health and economic effects of the COVID-19 pandemic. Many countries have adopted bold and unparalleled policy interventions, since the consequences are likely to be unprecedented. Although the impact of the pandemic is clearer for developed countries at this stage – especially in Europe and North America – human, social and economic costs can be larger for developing countries. Owing to the late arrival of COVID-19 in Timor-Leste, policymaking can benefit from the experience of other countries, especially those with similar structural characteristics. In fact, it is crucial to tailor economic policy responses to the specific context of Timor-Leste – which has relatively low levels of human capital, a large informal sector, underdeveloped financial markets, and weak institutional capacities. This section presents a set of options for consideration by policymakers. These have benefited from several inputs provided by staff of the World Bank and other organisations, and earlier drafts were shared with Government counterparts in March and April.<sup>26</sup>



<sup>24</sup> See the World Bank blog “Smart containment and mitigation measures to confront the COVID-19 pandemic”.

<sup>25</sup> According to the Demographic Health Surveys, Timor-Leste has one of the lowest shares of households where a place for handwashing was observed with water and soap, and a high average number of household members.

<sup>26</sup> Some recommendations may have been already implemented at the time of printing. This report was mostly written in March and early April, and subsequently followed an internal quality control process that included formal peer reviewing.



## HEALTH THREAT



**COVID-19 is a contagious disease that presents a significant health risk for the population.** The current pandemic is impacting human health and socio-economic wellbeing around the world. As of 30 April 2020, over three million cases have been reported and more than 200,000 people have died as a direct consequence. Without public health measures in place, it is thought that the COVID-19 infection rate could range between 10 and 40 percent.<sup>27</sup> While most people infected do not develop significant symptoms, some experience shortness of breath (potentially requiring oxygen therapy) and even develop acute respiratory failure (requiring intubation and mechanical ventilation). Data suggests that 20 percent of those infected are likely to

develop a severe or critical infection that requires hospitalisation.<sup>28</sup> The mortality rate is therefore highly dependent on access to quality healthcare.<sup>29</sup> In Timor-Leste, 24 cases have been confirmed and reported by the health authorities – as of 30 April 2020. As a rough calculation, even if only 1 percent of the Timorese population contract the virus, this would translate into about 13,000 people infected. While most would not report any symptoms, about 2,600 people could require medical attention.<sup>30</sup> Such a scenario would overwhelm the already weak health system, which only had six intensive-care unit (ICU) beds before the pandemic.

**A State of Emergency has been declared and several public health measures have been adopted.** The Ministry of Health, the Integrated Crisis Management Centre, and the World Health Organisation (WHO) in Timor-Leste have been regularly monitoring the situation and providing information and advice. Given the worrying scenarios on the evolution and impact of the disease, a set of public health measures were approved to reduce and delay transmission. Following a request from Government and approval by Parliament, the President declared a State of Emergency from 28 March to 26 April – later extended for another 30 days – while Government decree 3/2020 listed several measures for implementation, including: suspension of collective transport activities (e.g. mini buses and taxis); new rules on access to commercial and services premises (e.g. requirement to wear a protective mask, clean hands, and maintain a safe distance from other people); closure of schools and training facilities; restrictions on international travel (e.g. prohibition of entry of foreigners into national territory); mandatory confinement of those (suspected to be) infected or entering the national territory; prohibition of gatherings and demonstrations of more than five people; and a regime of minimum services for the public administration.<sup>31</sup> Some of these measures have been subsequently amended, including an extension of the prohibition to enter the country to national citizens and the end of the suspension of public transport. While most of these measures are reasonable in scope, there have been some misunderstandings regarding their application in practice, suggesting that further efforts to raise public awareness are needed – even within the implementing authorities.

<sup>27</sup> The WHO estimates that the seasonal influenza affects 5-10 percent of adults and 20-30 percent of children at the global scale (even with a vaccination). However, COVID-19 is thought to be more contagious than the seasonal flu.

<sup>28</sup> The WHO Situation Report 46 states that “For COVID-19, data to date suggest that 80% of infections are mild or asymptomatic, 15% are severe infection, requiring oxygen and 5% are critical infections, requiring ventilation.”

<sup>29</sup> Several factors may influence the risk profile of a country, such as exposure to the disease (likely impacted by access to water and sanitation facilities, and average household size), the disease burden (such as the prevalence of tuberculosis and malnutrition), access to information (influenced by literacy levels and mobile phone coverage), access to good quality healthcare, and overall vulnerability (as social cohesion and food security are critical to avoid social unrest).

<sup>30</sup> The model developed by the Imperial College of London suggests a similar level of hospitalisations in Timor-Leste under a ‘suppression’ scenario, but many more under a (perhaps more realistic) ‘mitigation’ scenario – up to 25,000. However, simulation models are often based on (uncertain) international parameters that may not fully capture specific country characteristic.

<sup>31</sup> See the IMF policy tracker “Policy responses to COVID-19” for regular updates.

## ECONOMIC IMPACTS

**The economy was not in the best shape to deal with an external shock – be it health-related, environmental, or economic.**

Although economic activity is estimated to have expanded by 3.4 percent in 2019, that was a relatively small rebound from the politically-induced 2017-2018 economic recession. With population growth at about 2 percent per year, GDP per capita is expected to have grown by only 1.4 percent in 2019. At the start of 2020, the failure to approve a 2020 state budget and re-emerging political uncertainty had already jeopardised a sustained economic recovery. Meanwhile, heavy rains in mid-March caused floods and considerable damage in several parts of the country – including Dili, where most



of the economic activity takes place. Internal politics have added to Timor-Leste's vulnerability to external shocks, with the economy ill-prepared to deal with a public health, economic, and humanitarian crisis – partly because it is still recovering from a self-inflicted 2017-2018 recession. The COVID-19 pandemic, with its associated health and economic impacts, has created a 'perfect storm' that requires bold policy action and (importantly) a political consensus to avert the deepest economic shock in Timor-Leste's history since independence.

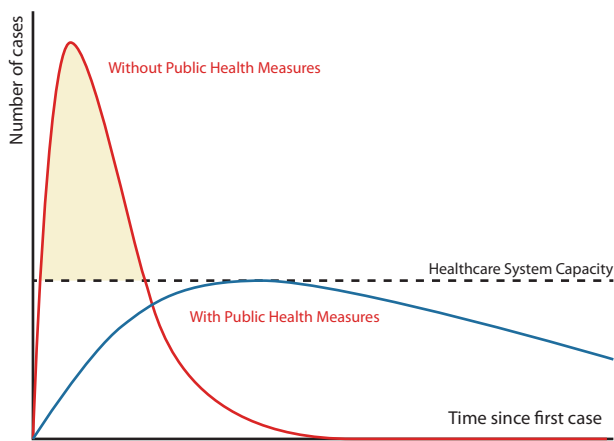
**Even in the absence of a COVID-19 outbreak in Timor-Leste, the economy would still endure significant (indirect) economic impacts.**

The COVID-19 pandemic will impact the economy through several indirect channels, including stringent international travel restrictions, disruptions to global supply chains, and panic in global financial markets. Travel restrictions affect the movement of persons, reducing foreign income (due to an absence of tourists and departing expatriates), delaying project implementation and business processes (due to a lack of foreign workers), and potentially undermining the provision of basic public services. International trade (and value chain) disruptions affect the movement of goods (especially imports), which are vital to satisfy domestic demand. There is a large reliance on imported consumable goods (particularly food) and fuel, while disruptions may also lower export demand. Remittance flows are also likely to be reduced. Finally, losses in international equity and bond markets (and the sharp fall in oil prices) negatively impact the value of the Petroleum Fund. While this does not immediately affect the real economy, it can have significant medium-term consequences by permanently reducing the resources available to invest in future generations. Changes in the global economic outlook (including oil prices) may also entail a re-thinking of Timor-Leste's economic growth strategy.

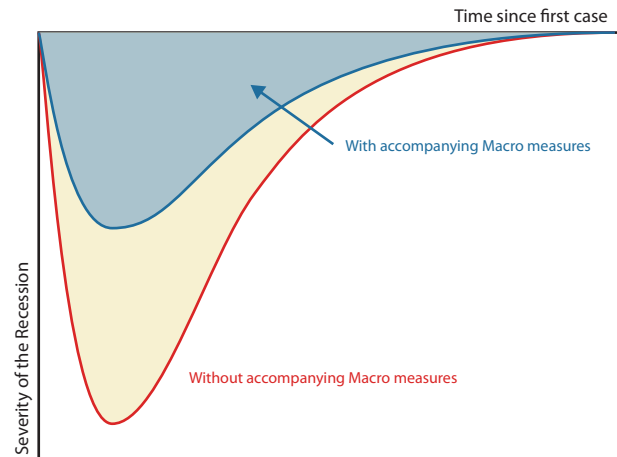
**Public health measures adopted to shield the population from the virus (and people's preventative behaviour) can yield an even larger economic impact.**

Countries all over the world have implemented a wide range of public health measures to contain COVID-19 outbreaks, such as restricting the movement of people, enforcing quarantines, prohibiting large gatherings, and closing schools – among others. International evidence suggests that social-distancing measures can be effective in slowing COVID-19 transmission. Their key objective is to 'flatten the curve', by delaying contagion and thus helping national health systems cope with the number of severe and critical cases (Figure 26). However, some public health measures can cause considerable economic and social disruption, which in turn can also affect health outcomes. For instance, social-distancing measures reduce economic activity and lead to loss of livelihoods, pushing many people into poverty. Isolation may lead to mental health problems and heighten domestic violence, while a lack of physical activity may contribute to heart disease. Hence, public health measures to protect the population from a COVID-19 outbreak may also induce considerable human costs, some of which can have long-term consequences. It is thus important to devise appropriate policy responses that help contain the virus while supporting people's livelihoods (Figure 27).

**Figure 26. Flattening the pandemic curve**



**Figure 27. Flattening the recession curve**



## KEY CONSIDERATIONS

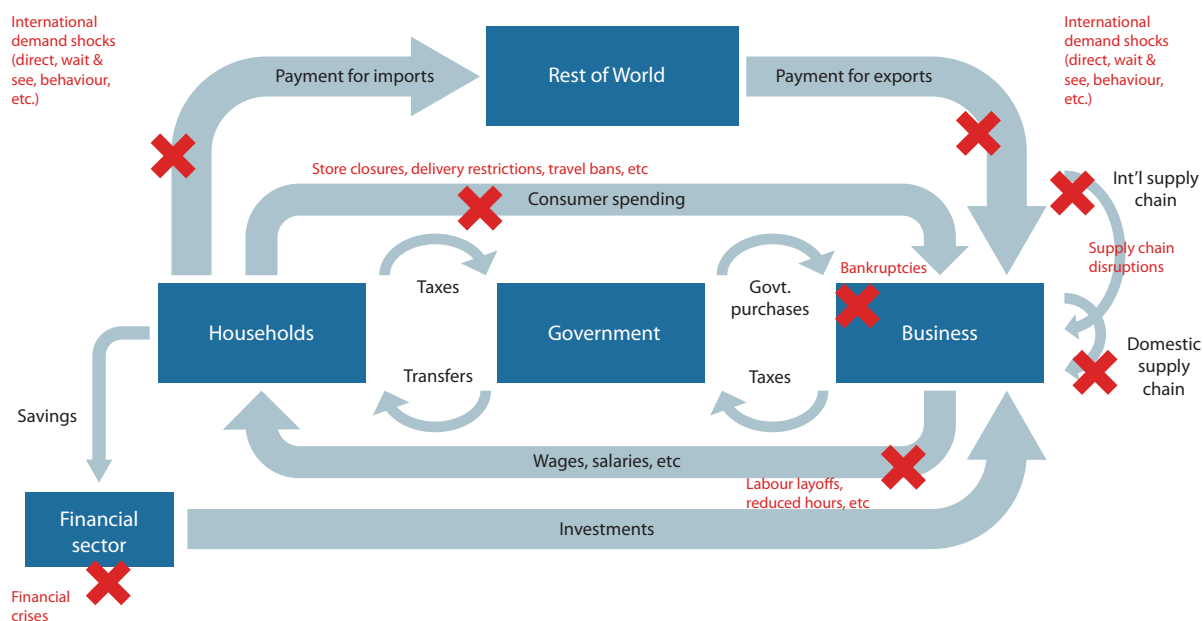
**Timor-Leste can learn from the experience of countries trying to mitigate the impact of COVID-19.** Many countries have experienced an outbreak in infections and have consequently adopted a wide range of health and economic measures to address its main impacts. For instance, several governments have designed and implemented large fiscal relief packages to protect those directly and indirectly affected. Although Timor-Leste still has a relatively low number of recorded and suspected cases of COVID-19, it must act with urgency. Nonetheless, policy responses should be tailored to the country’s specific characteristics and needs. Timor-Leste is a small open economy with a high dependence on imports of goods and services, while both institutional capacities and human capital levels are low. While many of the policy instruments adopted in more advanced economies are unlikely to be effective (or even feasible), the Petroleum Fund holds considerable resources to enable a bold and meaningful response to avert a deep economic recession. However, there is still a need to prioritise interventions and maximise effectiveness.

**An effective policy response needs to tackle the main economic transmission channels.** A COVID-19 outbreak impacts an economy through three main transmission channels. First, there is the direct cost from the disease. Mortality and temporary absence from work (due to sickness, quarantine, and perhaps fear) will significantly impact economic activity. The human losses directly caused by COVID-19 will affect families, society, and the economy, while sick people may lose their livelihoods. This will raise income poverty levels, deplete scarce assets (e.g. livestock and financial savings), and increase personal debt levels. Second, there is the cost of health-related measures. Global and domestic public health measures to protect the population (such as travel bans, quarantines, business closures, etc.) will impact the economy by lowering both the demand and supply of goods and services. Finally, there is the issue of behavioural change (through expectations), since consumer choices and firm decisions in response to an outbreak can also be significant. Consumers will delay spending and firms will postpone investment decisions (and even slow production to avoid building up excessive stocks). Personal and corporate bankruptcy could ensue, while banks could accumulate a large volume of non-performing loans.

**While the health shock is likely temporary, the economic impact can be persistent.** The discussion on the health side of the COVID-19 pandemic is mostly concentrated on ‘flattening the curve’. The successful implementation of public health measures will slow the rate of infection, but likely lead to a longer duration of the health threat. Nonetheless, it is expected that sooner or later the curve will drop to insignificant levels – when a vaccine or effective treatment is discovered. However, the economic impacts are likely to last much longer – owing to irreversible jobs losses, firm closures, and accumulation of (personal and corporate) debt. In the short term, a decline in personal and corporate incomes would lead to poverty and bankruptcy. In the long term, considerable human capital would be

lost through mortality and unemployment, while physical capital could also deteriorate – owing to low investment and poor maintenance. Moreover, poor people are likely to be the hardest hit by both the disease and the economic consequences – as they lack access to healthcare and social distancing is harder to implement in their context – which will reinforce existing inequalities. In terms of businesses, the main sectors affected will likely be wholesale and retail trade (e.g. supermarkets, street vendors, and market sellers), manufacturing (due to social distancing), hotels and restaurants, transport (owing to restrictions or bans), construction, and even agriculture (e.g. owing to limited access to inputs and markets). It is therefore necessary to stop the vicious cycle of lower demand (caused by a decline in consumption) that contributes to lower supply (and eventually business closures), which in turn leads to job losses and a further drop in consumption (Figure 28).<sup>32</sup>


**Figure 28. Circular flow of the economy**



**Policy responses need to tackle the health threat while supporting people’s livelihoods.** The policy priority should be to mobilise available financial and human resources to tackle the health threat, which is likely to cause considerable human loss. Public health measures will play a key role in mitigating health risks, although they will also have economic and social effects. Averting an economic crisis – which would also entail significant human costs – should also be a key consideration. ‘Keeping the lights on’ through costly but quick measures would sustain the circular flow of money in the economy to prevent long-term negative effects (e.g. losses in the labour force, productivity, human capital, etc).<sup>33</sup> An economic response package would help subsidise social distancing, thus making public health measures more effective – by mitigating the disincentives to quarantine and/or disclose potential infection (e.g. income loss). The economic response needs to be designed according to local circumstances and existing institutional arrangements with a view to sustain consumption and private sector activity. Unlike in developed countries, most people in Timor-Leste cannot draw on bank savings (or credit cards) and rely on e-commerce to support social distancing for an extended period. Therefore, the policy strategy should be based on several considerations – such as timing, scale, pace, duration, existing systems, and capacity constraints – while it should also be dynamic (adjusting to evolving needs) and persistent.

<sup>32</sup> See the CEPR e-book “COVID-19 economic crisis: Act fast and do whatever it takes” and the CGD blog “The Economic Impact of COVID-19 in Low- and Middle-Income Countries”.

<sup>33</sup> See VOXEU blog “Keeping the lights on: Economic medicine for a medical shock”.



**An economic plan should follow a small set of core principles, while averting basic mistakes.** Countries are in uncharted waters and should therefore consider innovative (yet pragmatic) policies. Given the unprecedented nature of the current situation, immediate economic measures should adhere to the following five key guiding principles: (i) do ‘too much’ rather than ‘too little’ (within reason); (ii) utilise existing mechanisms to reach people and businesses; (iii) adopt multiple policies to achieve a desired result; (iv) implement broad-based interventions that ensure comprehensive coverage; and (v) work collaboratively with all stakeholders (e.g. the private sector and development partners).<sup>34</sup> At the same time, common pitfalls should be avoided, including: (i) waiting until there is clear evidence of an economic crisis; (ii) piloting new systems (due to implementation challenges in this unusual environment); (iii) worrying too much about duplication of efforts or unintended ‘winners’; (iv) overly targeting actions (making them difficult to administer, delaying its implementation, and perhaps reducing its effectiveness); and (v) working in isolation. With time, monitoring mechanisms can be strengthened (or even set up) to collect relevant data, which would enable a better understanding of how households and firms are being impacted. This would then allow for a more tailored response (e.g. by geography, sector, etc.).

**The policy response will be shaped by institutional, administrative and technical constraints.** Timor-Leste is a young country that has achieved considerable progress in rebuilding institutions and improving human development outcomes. However, institutional capacities remain weak, while education and health outcomes are low – especially when compared to regional peers. For instance, the incidence of malnutrition and tuberculosis is very high, which is relevant in the context of the COVID-19 disease. These existing constraints are compounded by new challenges that are a direct consequence of the current health emergency. For instance, absenteeism levels within the public sector could increase – due to sickness, fear, school closures, and/or mourning. Overall, key workers may not (be able to) perform their duties, affecting critical sectors such as: health (doctors, nurses, midwives), education (teachers), core government, food services (production, processing, distribution, and sale), public safety and national security (police, army, and firefighters), transport, utilities, telecommunication, and financial services. Hence, it is important to consider how absenteeism may influence the capacity to implement some of the proposed policy interventions, and develop appropriate responses (e.g. by defining a list of core functions and enforcing attendance).

## AN ECONOMIC RESPONSE PLAN

**The proposed economic policies should be seen as a complement to the ongoing health response.** An effective response to COVID-19 will require measures to contain the virus and strengthen the capacity of the health system, protect households, support businesses, and ensure the continuity of public services. Significant work has been undertaken by the Ministry of Health, WHO and other development partners to enhance health preparedness and mitigate health risks. This section is predominantly focused on policy measures to alleviate economic hardship through temporary support to vulnerable households and affected businesses. However, there are clear synergies in terms of the need to prioritise public spending on health and ensure continuity of public services.<sup>35</sup>

**Boosting health spending will enhance the capacity of the health system to deal with emerging needs.** Concerted efforts to enable timely access to medical supplies, personnel and equipment will strengthen the ability of the health system to cope with upcoming health emergencies – including a potential COVID-19 outbreak. The priorities and costings have been established (and are regularly updated) by the Ministry of Health, with the support of the World Health Organisation (WHO) in Timor-Leste, although international stock availability (due to competition

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<sup>34</sup> Fiscal costs can be sizeable, partly due to the unknown magnitude and duration of the pandemic. Hence, it will be important to “keep the receipts”, by adequately costing, accounting for, and monitoring each economic policy measure, while also taking action to mitigate risks (e.g. moral hazard and adverse selection).

<sup>35</sup> Monetary incentives for civil servants should only be considered for key workers in critical services, such as COVID-19 frontline response (e.g. doctors, nurses, and other health personnel). However, salary advances could be provided to support public sector employees and boost overall consumption.

for limited supplies) and transport restrictions may present considerable challenges to their delivery. Urgent medical supplies required for a COVID-19 response include personal protective equipment (e.g. masks, gloves, gowns, and scrubs), test kits, and other goods. Purchases of (good-quality) equipment – such as oxygen support, portable ventilators, and dialysis equipment – would need to be accompanied by increases in human resources and training.<sup>36</sup> Moreover, it is also important to accelerate the purchase of non-COVID-19 essential medicines, consumables and equipment. Overall, it is vital to allocate adequate financial resources in a timely way, make purchases through a fast procurement method (e.g. single source), allow use of alternative payment methods (e.g. advance payment), secure rapid delivery (e.g. by air transport), and exempt essential goods from customs duties, taxes and procedures.

**Budget flexibility is needed to reprioritise spending, especially to finance health and economic measures.** It is crucial to provide adequate funding for the health sector and for economic response measures. Without a 2020 state budget, public spending is currently following the duodecimal regime – which does not grant much flexibility in terms of spending reallocations. The National Parliament plays a crucial role, since any withdrawals from the Petroleum Fund and required legislation amendments need to be approved by a majority. In early April, a transfer of \$250 million was authorised to cover immediate treasury needs (\$100 million) and create an autonomous COVID-19 fund (\$150 million). The latter will cover expenditures related to the prevention and combat of the pandemic, as well as some economic measures. The spending priorities on health should include support to COVID-19 prevention and testing (e.g. awareness campaigns and test kits), purchase of health equipment, financing for mandatory quarantine, improvements in surveillance systems (with support of communities), temporary hiring of additional health professionals, intensive training of frontline staff, incentives for key health workers (e.g. salary bonus), and expansion of clinical facilities – though the construction or repurposing of facilities for quarantine, isolation and treatment (e.g. hotels, classrooms, and military garrisons). Temporary changes to public financial management processes may be required to ensure a timely execution of spending, but existing accountability mechanisms and fiduciary controls should be improved whenever possible – e.g. competitive and non-competitive procurement should be published in the eProcurement Portal. Moreover, significant funds need to be made available for the economic response.<sup>37</sup>

**The economic policy response should be timely and proportional to the expected impacts.** The Petroleum Fund can (and should) be used to cushion the impact of COVID-19 on people's livelihoods and affected businesses, but it is also important to avoid foregoing a disproportionate amount of public resources.<sup>38</sup> In this context, timing, method and scale are critical elements that should be considered. The main policy areas that would warrant specific public interventions include measures to temporarily support affected businesses and to protect vulnerable households (Table 1). It would be advisable to adopt a consistent timeframe across interventions (e.g. 3 months), which could be reviewed on a regular basis. Moreover, measures could be framed in two distinct phases: relief (to cushion the impact in the short term) and recovery (to stimulate the economy in the medium term). The initial policy response would focus on providing emergency support to vulnerable households and affected businesses, with the objective of avoiding irreversible job losses and firm insolvency. In a subsequent phase, the focus would be shifted to stimulating the economy.<sup>39</sup> The recommendations presented here are focused on the first phase.

<sup>36</sup> Countries with shortages of qualified medical staff could prioritise resources for basic hospital care and oxygen therapy (which most patients will require) instead of advanced medical care that requires invasive ventilation in ICUs.

<sup>37</sup> A general frontloading of public spending (to stimulate the economy) could be difficult to execute due to the current duodecimal regime (and lack of regular access to the Petroleum Fund), as well as implementation challenges (e.g. absenteeism, travel restrictions, and public health measures). However, some areas could be prioritized, such as the purchase of some goods & services (especially if health related), advances on salary & wages, and public transfers (particularly social protection schemes and funds to municipalities).

<sup>38</sup> In addition to government resources, financing from international organisations and development partners could also play a key role. For example, the World Bank Group, the Asian Development Bank, and the International Monetary Fund have all announced financing facilities to support their member countries.

<sup>39</sup> In Timor-Leste, monetary policy is constrained by the exchange rate regime, while fiscal multipliers are relatively low – suggesting that structural reforms would be needed. See the World Bank policy brief 'Macroeconomic Policy in the Time of COVID-19: A Primer for Developing Countries'.

**Table 1. Summary of policy interventions**

Area	Focus of intervention
Transport connectivity	Secure a minimum level of air, sea and road transport services
Supply and distribution of essential goods	Minimise disruptions to key supply chains (especially food)
Telecommunication services	Ensure continued access to telecommunication services
Utility and rent payments	Ease payments for electricity, water and rent
Social protection	Anticipate and top up payment for existing cash transfers programs
Bank credit	Facilitate credit and encourage bank forbearance on repayments
Tax policy	Defer tax obligations of specific taxes
Wage subsidy	Support wages in key economic sectors

## TRANSPORT CONNECTIVITY

**The provision of air and sea transport services has been severely disrupted by the COVID-19 pandemic.** Stringent international air travel restrictions and quarantine requirements have considerably affected the number of people able or willing to travel worldwide. Consequently, airlines have reduced the number of (or even stopped) flights and routes, with some countries losing air connectivity to international destinations. Regarding sea shipping services, disruptions include delays at ports (due to social-distancing requirements and labour shortages) and supply chain delays due to reduced shipping frequency. These disruptions lead to higher transport and storage costs, which increase the prices of traded goods – including food and health supplies.

**Ensuring a minimum level of international and domestic transport services is critical to enable the movement of essential goods and personnel.** In late March, Timorese borders were closed to foreign nationals – with very few exceptions.<sup>40</sup> On 4 April, Timor-Leste suspended all commercial flights to avoid the spread of COVID-19. On 8 April, borders also closed to Timorese citizens due to the health risk posed by returning students from Indonesia – mainly through the land border. Domestic flights and ferry services were suspended, thus isolating Oecusse and Atauro. Collective transport services were also suspended – which inadvertently affects the poorest – although this restriction has been recently lifted. Some of these measures might unduly restrict the movement of goods and people. Ensuring the timely movement of essential goods (e.g. medical supplies, food, etc.) and critical workers (such as health professionals, engineers, etc.) will require a minimum level of transport services to help tackle pressing health needs and protect people’s livelihoods. For instance, as the disease subsides in some parts of the world, trained health professionals could come to Timor-Leste to boost the capacity of the health system (e.g. Australian, Chinese and Cuban doctors), as well as equipment (e.g. oxygen support and portable ventilators).

**Maintaining regular scheduled flights could support the health and economic response, despite existing travel and quarantine restrictions.** Maintaining a minimum level of (scheduled) international air transport services would facilitate the movement of essential goods and personnel without the need for emergency (ad hoc) arrangements. Through discussions with commercial airlines, a temporary subsidy could be provided in line with cost recovery, which could be offset by revenues (passenger and cargo) as well as co-funding (e.g. destination governments).<sup>41</sup> Moreover,

<sup>40</sup> This affects imports of food supplies and agricultural inputs from Indonesia, since truck drivers are not allowed to enter the country.

<sup>41</sup> An agreement has recently been reached with Airnorth for the provision of three flights a week to and from Darwin. This facilitates the importation of medical equipment and supplies, as well as the dispatch of blood samples to Darwin to confirm COVID-19 test results. Also, US dollar banknotes need to be imported from abroad – which is particularly important in view of the recommendation to regularly replace old paper banknotes due to the COVID-19 risk of transmission.

smaller airplanes could be deployed to reduce costs. Travel restrictions, quarantine requirements, and supply constraints will limit the ability to move essential goods and personnel, but self-imposed international isolation can be detrimental. In terms of domestic air transport services, it would be advisable to enter a chartering arrangement with existing operators for emergency response.

**Sea transport services are key to ensure that existing supply chains remain operational.** Most imports arrive in Timor-Leste through container ships. Given current transport disruptions, it may be pertinent to consider chartering vessels (by negotiating with shipping lines, ports of origin, and bilateral trading partners), developing storage facilities (including cold storage), strengthening quarantine facilities, and supporting services for stakeholders. Additional measures to facilitate international sea transport services could include waiving port charges (e.g. handling, storage, etc.) to minimise the impact on shippers and vessel operators. Regarding domestic sea transport services, the continuous operation of a ferry service (e.g. Berlin Nakroma) would enable connectivity to Atauro and Oecusse – at least for the movement of essential goods and key personnel. However, it would be crucial to develop clear guidelines to ensure compliance with social-distancing requirements (e.g. maximum passenger levels), as well as to help prioritise cargo and passengers.

**The circulation of goods and people within the country is predominately done by road.** Road transport within the country and across the border (with Indonesia) should be smooth, especially for the transport of essential goods and medical supplies. Discussions with transport operators may be required to avoid bottlenecks in the logistics chain. Limitations on road transport affect how people can move, including those undertaking critical jobs in health and food-related businesses. Moreover, it is crucial to ensure that people living in remote areas can still access basic goods and services (e.g. food and healthcare). Producers (including farmers) may also struggle to access (domestic) markets and agricultural inputs, while retailers may not have access to produced goods. Therefore, it may be pertinent to consider how transport services can operate safely and perhaps issue 'priority passes' for critical workers and essential goods.


## SUPPLY AND DISTRIBUTION OF ESSENTIAL GOODS

**Disruptions in global supply chains can lead to shortages of essential goods and price hikes.** At the start of the year, global markets for staple foods were relatively well supplied and international prices were broadly stable. However, some Asian countries have banned rice exports and prices have risen substantially in March. Moreover, the global production and availability of medical supplies is under pressure, with some products facing shortages and price increases (e.g. face masks). While Timor-Leste cannot influence international markets, it is important to act early to anticipate future market developments – as it may become increasingly difficult to source some essential goods.



**Domestic supply chains are important to ensure that essential goods reach those in need.** In addition to global developments, domestic factors also strongly influence the availability of essential goods and their price levels. For instance, significant crop losses are expected due to the fall armyworm pest and insufficient rainfall in some parts of the country. In the short term, the main risk for food security stems from disruptions to domestic supply chains (due to logistics challenges and labour shortages), food price hikes (due to trade restrictions and/or hoarding), and a sharp fall in incomes. Poor households are likely to be particularly affected as they spend most of their income on food. In the medium term, key risks include disruptions in input supply chains (affecting the next crop), labour shortages (due to mortality, sickness or movement restrictions), low investment in agriculture, and insolvency of important agents in the food supply chain.





**Public health measures can unintentionally cause significant disruption to supply chains.** International air, sea and road transport services are significantly restricted – as mentioned earlier. Moreover, the current State of Emergency measures are bound to restrict the flow of essential goods. For example, trucks originating from Indonesia must stop at the land border and cannot continue further – since foreigners are no longer allowed to enter the country. This means that Timorese buyers have to rent trucks, meet at the border, physically transfer goods across trucks, and return to the area where they operate.<sup>42</sup> Also, there have been reports of incorrect interpretations of the public health measures by the enforcing authorities, which in some cases hindered the transport of food within the country, led to temporary shops closures, and contributed to delays in clearing goods at the ports of entry (especially sea and land). Therefore, greater clarity and additional measures will be required to support the flow of essential goods (especially food and medical supplies) into and within the country. For instance, large trucks transporting food from Indonesia could be escorted to their final destination (and back) by suitably-trained customs staff to ensure that social distancing measures are observed.

**Minimising disruptions to key supply chains is crucial to support wellbeing and social stability.** Facilitating the supply and distribution of essential goods – such as food products, medicines and soap – is key for tackling the health threat, sustaining incomes (including the livelihoods of subsistence farmers and coffee producers), and maintaining social stability. The suggestions below mainly pertain to food – due to the importance of the private sector in these supply chains – but some would also apply to health products.

**Engaging with relevant stakeholders in key supply chains will enable the timely identification of critical blockages.** Businesses involved in import supply chains and food distribution within the country are a vital source of information. Holding regular discussions with major importers, producers, distributors, and retailers will enable a timely assessment of current food stocks and the identification of emerging challenges (e.g. liquidity constraints, transport bottlenecks, etc.). It will also be important to monitor price gouging and undertake measures when appropriate. However, food distribution depends on many small businesses – such as street vendors, kiosks, and market sellers – which should be encouraged to continue operating.<sup>43</sup> In fact, safe markets could be created for a range of informal workers, which would respect social-distancing and hygiene requirements and could be monitored by local authorities (e.g. *chefe de suco* and community police). The National Logistics Centre could also support food supply and distribution by complementing the efforts of the private sector.

**Facilitating the transportation of food commodities is key to avert a humanitarian crisis.** Timor-Leste has a low level of food self-sufficiency, relying on considerable imports of staple foods – especially rice and other cereals. Moreover, nutritious foods – such as vegetables, fruits, and foods rich in protein and iron – are crucial to avoid malnutrition in young children. Keeping the borders open for essential goods, building up domestic food stocks, and allowing their transportation throughout the country – especially across municipalities and between urban centres and rural areas – is critical for protecting food security.<sup>44</sup> It is important to ensure that the transport and sale of food commodities are not impeded by the misinterpretation of the existing public health measures. Socialisation of existing rules is critical to encourage the continuation of essential economic activities.


**Ensuring the availability of agriculture inputs will be determinant for the next crop.** Enabling the transportation (including through imports) and sale of agriculture inputs – such as seeds, fertilisers, and equipment – is critical to bolster domestic food production and sustain farmers' livelihoods. The current public health measures do not affect the operation of businesses (apart from shorter business hours), provided that they adhere to the recommended social

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<sup>42</sup> The land border is only open for two hours per week (every Wednesday), but it often takes several hours to complete all administrative procedures to clear goods. Longer opening hours would avoid delays and facilitate the circulation of goods.

<sup>43</sup> Markets in some municipalities have not been fully operational, and some even closed.

<sup>44</sup> Food security entails assess (physical and economic) to sufficient, safe, and nutritious food.



distancing and hygiene measures. However, many shops have closed as a precaution, due to fear or misunderstanding of the measures. It is important that essential commercial establishments continue to operate, in order to avoid further economic impacts. This may also require a stronger socialisation of existing public health measures.

**International trade processes should be streamlined to support key supply chains.** Customs (and quarantine) regulations, policies and procedures for both imports and exports should be temporarily eased to facilitate the movement of essential goods. This may include expediting trade procedures and documentation (e.g. pre-shipment inspections and quarantine measures) for essential food commodities, agriculture inputs, and medical supplies. Waiving non-critical checks for trusted importers could also be considered – based on historical records. Special attention should be paid to seeds, rice, cooking oil, fish, chicken, and animal feed, as well as essential medicines, medical equipment, and health products. Moreover, waiving import duties, taxes and charges on essential goods would not only improve clearance times but would also help keep prices low – provided that the savings would be passed on to consumers.

**If supply chains do not operate effectively, then the distribution of free staple foods may be required.** The private sector plays a key role in all parts of the food supply chain – including import, distribution, and sale – which involves international and domestic suppliers, transport and logistics services, wholesalers, and local retailers (including food markets). If there are significant disruptions that cannot be addressed, the State may have to secure the purchase and distribution of staple foods to avert a major food crisis.<sup>45</sup> This could include the distribution of rice, salt and cooking oil to households. However, it would be crucial to establish a transparent system to avoid corruption and food waste (e.g. due to poor planning and storage). There would be a need to coordinate with existing economic agents to deliver these to each village (*suco*) and use existing structures (e.g. *chefe de suco*) to distribute foods – while respecting social-distancing requirements.

## TELECOMMUNICATION SERVICES

**Telecommunication services can support several areas of intervention, from the dissemination of health information to the targeting of social programs.** Many countries have relied on e-commerce, mobile payments, and videoconferencing to sustain economic activity levels – in a context of strong public health measures. However, the feasibility and benefits of these technologies are limited in a cash economy – where most transactions require a physical exchange of money. Timor-Leste has near universal basic mobile and SMS capability, which could be harnessed to broadcast public health information, enable self-registration in some of the policy measures (e.g. electricity credit and an expanded social protection program), and seek feedback on living conditions and impact on business. However, Timor-Leste has the lowest rate of broadband internet access in the region.<sup>46</sup> A critical bottleneck to internet access is the lack of submarine cable connectivity. Most telecom companies rely on satellite for international connectivity, which is relatively expensive and has limited bandwidth. This affects the availability and quality of data traffic.

**Continued access to telecommunication services would ensure an adequate and timely flow of information.** Having enough credit to receive (and send) information through mobile phones would support the most vulnerable and avoid unnecessary gatherings and meetings. A special (concessional) tariff arrangement could be agreed with the three telecom operators (perhaps providing a certain number of free call minutes and free SMS per day). A subsidy could be provided (e.g. a flat credit per registered number), with telecommunication companies asked to match that

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<sup>45</sup> Price subsidies have significant disadvantages (in addition to implementation challenges) and may not be appropriate to the current situation. Price controls could be effective if there is price gauging. The Government has recently purchased rice from abroad as a preventative measure.

<sup>46</sup> Mobile broadband penetration (mostly 3G, some 4G) is around 32 percent, while fixed broadband penetration is very low (around 1 percent).

amount as a goodwill gesture.<sup>47</sup> However, subsidising data access (e.g. for entertainment) could lead to network congestion and affect critical communications. Access to specific health, education and social websites could be subsidised (through 'whitelisting'), although the speed of certain services may have to be slowed down.

**The regular dissemination of updated health and public information is key for both health and economic responses.** A well-coordinated public awareness campaign is crucial to avoid misconceptions about the COVID-19 disease and general misinformation that can raise fear levels and/or lead to inappropriate responses. The dissemination of clear, consistent and accurate information on both the virus and policy measures can support the operation of essential economic activities while minimising health risks. In discussion with the telecom operators, bulk SMS arrangements could be established to communicate daily updates (e.g. from the Ministry of Health) and reinforce behavioural advice on social distancing. It may be also feasible to target communications (per municipality or *suco*) for specific purposes and even support contact tracing. Local village leaders (*chefe de suco*) should play a vital role in ensuring compliance with existing measures while supporting people's livelihoods (e.g. monitoring hygiene and social-distancing practices in open markets).

**Improving connectivity in health facilities and investing in contact tracing could yield significant benefits.** Enhancing internet access for critical health facilities using mobile broadband (4G) or fixed broadband (if feasible) would enable faster communications, data transfer, and potentially enable remote diagnostics and testing. A framework contract could be negotiated or selected through competitive bidding for the highest available data package for all health facilities (with specific minimum service standards). Moreover, developing a contact tracing protocol could facilitate the identification of those who had close contact with infected patients – by tracking people's movements. This would be critical to contain an outbreak, although its development may require time, face technical constraints, and raise privacy concerns. Alternatively, teams could be deployed to interview patients and reaching out to close contacts.

## UTILITY AND RENT PAYMENTS

**Utility and rent payments account for an important proportion of household spending and business costs.** According to the compilation of the consumer price index (CPI), food & non-alcoholic beverages account for more than half of total household consumption. While housing costs – including rent, electricity, gas, etc. – only account for about 6 percent of consumption, these are basic expenditures that can seldom be reduced or delayed – unlike alcohol & tobacco (7 percent), clothing & footwear (7 percent), recreation & culture (4 percent), among other less critical expenditures. Electricity (pre-paid) meters are mostly found in urban areas (especially in Dili), with many rural households having free access to electricity, while very few people pay for water. However, small (informal) businesses can also benefit from a temporary electricity and water subsidy. Businesses face fixed costs – such as rents and utilities – that are generally independent of demand levels. For instance, lighting, fridges and freezers, and air conditioners may be required to operate even in the absence of customers.<sup>48</sup>

**Postponing or partly waiving utility fees could support households and small businesses.** Easing electricity and water tariff payments could help sustain household consumption and ease cash-flow constraints of businesses. However, fully waiving utility payments could lead to resources being wasted – if people leave lights on or water taps open – while inducing large foregone revenues. If clearly communicated, a payment deferral could minimise waste and give the Government the option (later on) to either forego those amounts or try to collect them. However, the recovery of deferred payments could be technically complex and time consuming. An alternative to a full waiver or deferral is to offer a flat credit to all clients with pre-paid meters. If the credit amount is set at an adequate level it would be a progressive – from an equity perspective – and cost-efficient measure, as it provides meaningful support

<sup>47</sup> Some operators are offering free call minutes within their network for the duration of the State of Emergency.

<sup>48</sup> Even then, perishable inventories may still be lost – especially in food-related businesses.

to the poorest households and small businesses, while avoiding wasteful usage and limiting revenue losses.<sup>49</sup> For post-paid clients (mostly large businesses), bill payments could be deferred with a moratorium printed on the bill – extending the payment deadline.

**With utility consumption likely to increase in households, it is vital to maintain the reliability of service delivery.**

With many people staying at home, it is likely that their electricity and water consumption will increase. However, it is important to ensure that the quality of supply is not impacted by additional service delivery constraints – e.g. system overburden or worker absenteeism. The same may apply to firms and, more critically, health facilities. For instance, the 2015 Enterprise Survey highlighted that electricity outages caused significant losses to firms.

**Deferring or reducing rental payments on government-leased properties could also provide temporary relief for affected businesses.** A rent deferral for businesses leasing State property would ease immediate cash flow constraints. A discount on rental costs (i.e. partial waiver) could be considered, although a deferral would enable policymakers to gather more information (on economic impacts) and then make a more evidence-based decision.<sup>50</sup> Clear communication will be vital. There may be instances of subletting, in which case it will be important to ensure that this benefit is passed on to sub-lessees. A list of tenants (and the associated monthly/yearly rents) should be produced to better understand who would benefit (the most) from this measure – e.g. which sectors.

## SOCIAL PROTECTION

**Public health measures will have a considerable impact on economic activity, which will lead to welfare losses.**

The economic impacts will be felt across the economy, affecting the formal and informal sectors alike. However, formal firms and employees will be easier to reach through specific policy measures, since administrative records can be used to identify, assess eligibility, and tailor support to economic agents. For informal firms – many of which are small household firms – and those in vulnerable (or out of) employment, options are much more limited.<sup>51</sup> Informal economic agents require a regular (often daily) customer flow and face-to-face interactions. A (prolonged) period of low economic activity will put at risk their livelihoods. Hence, social distancing creates a heavy burden for the most vulnerable segments of society – reinforcing existing inequalities. In this context, social protection offers an opportunity to reach those in greater need. Cash transfers are likely to be the most effective method.<sup>52</sup> Meanwhile, the school feeding program could be delivered through alternative mechanisms.

**There are several issues that would warrant careful consideration, from benefit coverage to delivery method.**

Social protection will undoubtedly be the most important policy intervention for households, so it is crucial to carefully consider the options available. For instance, social protection payments could be brought forward and topped up. Beneficiary coverage could be expanded, especially if there are concerns that a significant proportion of vulnerable households will not be reached. However, it will be difficult to enrol new (eligible) beneficiaries under the current circumstances and given the current rudimentary and fragmented information systems. Cash transfer conditionality could be temporary waived, especially if schools are closed and to avoid unnecessary gatherings in health centres. In-kind transfers could be considered, but the logistics required to distribute food across the territory could be challenging.

<sup>49</sup>It may not be possible to easily override the current metered system. In that case, vouchers could be printed and then distributed to households – although not ideal from a virus containment perspective. Another option would be to promote the registration of meters through an SMS-based service and then codes (with a certain amount of free credit) could be generated centrally and sent back by text. A \$15 credit has been recently implemented through this means in coordination with telecom companies.

<sup>50</sup>Government revenue from property rentals amounted to \$4.2 million in 2019.

<sup>51</sup>Vulnerable employment often includes informal self-employment, casual labour, temporary work. These precarious forms of employment are typically associated with low earnings and a lack of benefits (such as health insurance and social protection).

<sup>52</sup>A (food) voucher scheme and a public works program could also be considered – although perhaps not suitable to the current context.

**Existing cash transfers programs should be used to provide initial relief to vulnerable households.** Safety nets, such as cash transfers, can mitigate anticipated welfare losses of people living below or just above the poverty line, which often rely on informal employment. Payments relating to existing cash transfers programs – such as Bolsa da Mae and the old-age & disability pension (SAII) – can be anticipated to provide a relatively quick disbursement to address immediate vulnerabilities. Some payments were originally scheduled for later in the year, so bringing them forward would not have significant cost implications. Different schemes could be consolidated into one payment to simplify the process. Administrative data indicates that about two-thirds of households received either Bolsa da Mae or SAI, which suggest good coverage. Moreover, current values could be increased (topped up), since they are currently low for the most vulnerable groups. For instance, Bolsa da Mae grants a monthly payment of \$5 per child with a \$15 ceiling, while the old age & disability pension (SAII) provides a monthly income of \$30 per person – the latter is almost universal in coverage among the elderly. The benefit level should be sufficient to maintain a basic level of income at the household level. A temporary suspension of (existing) conditionality would be warranted.

**Traditional payment methods need to be adjusted to meet social-distancing requirements.** Benefit payments are typically transferred to BNCTL branches, where they can be cashed in by beneficiaries. Since few poor households have bank accounts, cash-out sessions are also organised throughout the country by BNCTL representatives. Cash payments usually involve large gatherings of people – both at bank branches and *suco* offices – which carry a high risk of COVID-19 transmission. Public health measures (social distancing), transport constraints, and civil servant absenteeism may all constrain delivery, while bank charges (per transaction) are also very high – though these could be waived by BNCTL. In view of these challenges, the payment process could follow a staggered approach to avoid large gatherings of people. For instance, it could prioritise specific population groups (e.g. by geography) and/or be scheduled according to the information included in electoral cards (e.g. last digit, first name letter, year of birth).<sup>53</sup> These schedules could be communicated through bulk SMS sent to all mobile phones, requesting selected beneficiaries to collect their payments at a location during a certain period of time (e.g. between 8-10am of a given day). Assigning people based on a clear identification marker (e.g. year of birth) would enable them to safely queue to receive their payments – by managing crowd numbers. Using existing systems would be critical to maintain the fiduciary controls of the implementing payment service provider. Minimising the number of payments by beneficiary would be also advisable – by delivering cash to cover several months' worth of benefit entitlements.<sup>54</sup>


**At a second stage, the coverage of existing programs could be (temporarily) broadened to minimise exclusion errors.** Since the current list of beneficiaries may not include all vulnerable households, an inclusion mechanism could be developed to allow additional households to receive support.<sup>55</sup> An opt-in mechanism (through self-enrolment) could be considered, but its design should be carefully considered and supported via a national information campaign. Such a mechanism may involve a registration with the village authorities (*chefe de suco*) or through an SMS sent out to all registered and active mobile phone numbers asking for a response to a core set of variables.<sup>56</sup> Households that do not have a phone number could be made aware of the mechanism to 'opt in' via registration at designated bank branches through official national media channels and the involvement of village leaders (*chefe de suco*) and MSSI staff. Throughout this process, direct outreach should be kept to a minimum to reduce the risk of COVID transmission.

<sup>53</sup> Geographic targeting could be based on recent *suco*-level poverty maps produced by the World Bank.

<sup>54</sup> Although mobile ownership is thought to be high, e-money systems remain underdeveloped. This means that it is difficult to avoid a physical exchange of cash. Door-to-door delivery would require an unprecedented logistical operation and may not be effective – e.g. due to lack of accurate location of all dwellings.

<sup>55</sup> In future, a universal (digitised) citizen ID system, integrated socio-economic databases (that combine tax records, social benefits, etc.), and digital cash delivery systems would facilitate government-to-private (G2P) transfers.

<sup>56</sup> With this information (e.g. names, electoral ID, family composition, etc.), commercial banks could generate (temporary) bank accounts that could be verified (in person) and accessed at bank branches – provided that know-your-customer (KYC) requirements can be lowered for these low-risk accounts.



**Social distancing requirements and technical challenges need to be carefully considered.** In terms of beneficiary enrolment, self-registration by SMS could be feasible, although it is not without technical challenges – including possible user errors. This also relies on the quality of national ID systems and existing registries. Beneficiary identification could be checked by matching the electoral registry to SIM card registration – which is mandatory and requires an identification document. However, many people have more than one SIM card. Assessing beneficiary eligibility would be challenging, although key groups could be excluded – such as active civil servants or those already receiving significant support from the government. Payments would need to be mostly processed through the physical delivery of cash. Although mobile money would reduce costs, fraud and leakages, these systems are not yet sufficiently developed – and may require regulatory scrutiny. Cash-out locations need to be selected and equipped to ensure that the payment process fulfils the recommended hygiene and social distancing measures. Trained staff should also take the opportunity to provide important health-related information to beneficiaries.

**Deferring social security contributions could also provide some support to (formal) firms and employees.** Another measure that could be considered is a deferral of social insurance contributions for employers and employees. This could provide temporary relief for firms facing cash flow difficulties, although it should be considered in tandem with a potential wage subsidy. However, a waiver of contributions would not be advisable, since it could have significant fiscal implications if future liabilities remain unchanged. Moreover, its coverage suggests that it could have negative distributional impacts – as the poorest and most vulnerable are often not covered by social insurance.

## **BANK CREDIT**

**Many firms will face liquidity constraints and struggle to meet loan payments.** Several businesses will suffer a temporary loss of demand, mainly stemming from lower household consumption, lower demand from other local firms, and/or lower export demand. They may be also affected by a supply shock, owing to labour shortages, limited inputs, and tightening credit conditions. Lower productivity may ensue, while uncertainty will reduce willingness to invest. Overall, these shocks will severely affect their ability to conduct business, which can lead to considerable declines in income. Despite its temporary nature, limited sales can cause severe liquidity constraints (to pay workers, banks, suppliers, etc.) that can lead to voluntary closures and even insolvency – thus threatening jobs. Without timely support, viable businesses may have to permanently close – which would break valuable relationships (e.g. with workers, suppliers, customers, creditors, etc.) and undermine the economic recovery. Hence, securing access to finance – by renegotiating debts (e.g. relaxing credit requirements for rolling over debt) and providing additional liquidity – would avert unnecessary business closures.<sup>57</sup> However, commercial banks are perhaps more reluctant to lend during the current circumstances – due to fear of large defaults.

**A moratorium on interest payments and principal repayments could be critical for current borrowers.** Businesses (and households) with existing bank loans could significantly benefit from payment deferrals and maturity extensions. Hence, it would be pertinent to encourage commercial banks to provide temporary relief on interest and loan repayments – e.g. by extending loan repayment schedules. Bank forbearance on loan-related payments would ease financial burdens and could be critical for otherwise profitable businesses that are struggling with temporary cash flow problems. Restructuring could include reducing interest rates, increasing debt rollovers, and renewing loans. Reducing fees and penalties (e.g. on overdraft facilities) could also be valuable for clients. However, the restructuring of current credits should remain a business decision for banks, while existing loan classification and provisioning rules should be maintained.

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<sup>57</sup>The overall cost of supporting debt rollovers is unlikely to be high, due to low credit levels. As of 31 December 2019, domestic lending to the private sector amounted to \$231 million, which accounted for less than 14 percent of GDP. Credit to individuals accounted for over half of this value.

**A special credit line could help businesses keep their staff and pay their wages.** Encouraging commercial banks to inject temporary liquidity in businesses – thus easing cash-flow constraints – could enable them to keep workers and pay their salaries. Banks may not be willing to extend their credit exposure in the current context, but could be incentivised to do so. Providing partial credit guarantees could stimulate additional commercial bank lending by absorbing part of firms’ increased credit risk. The creation of a special credit line could build on the existing credit guarantee scheme, albeit distinguished from the original arrangement.<sup>58</sup> Lending would be timebound, whereby repayments would be due within a short timeframe (e.g. one year). In addition, loan application and approval processes could be accelerated, collateral requirements reduced, and existing fees waived.<sup>59</sup> Administrative data (including historical tax records on turnover and profits) and the Business Activity Surveys could be used to determine viable businesses. However, it is important to clearly define eligibility and avoid moral hazard (i.e. providing new loans to unviable businesses). An option would be to target the most affected or most strategic sectors (e.g. accommodation and food services, private health services, etc.). Borrowers should also commit not to dismiss workers and continue paying their salaries. Given the limited influence on foreign bank branches, some of the measures may require a recapitalisation of the state-owned bank BNCTL.<sup>60</sup>

## TAX POLICY

**Public health measures will considerably reduce economic activity and thus tax revenue.** Tax revenue collection is very low by international standards (at about 7 percent of GDP), partly because of low tax rates and narrow tax bases – owing to informality and exemptions. Moreover, as economic activity and related incomes decline, so do associated tax liabilities. Given this, there is probably limited scope to use taxation as a key instrument to provide economic relief. For example, businesses making losses would not be liable to pay income taxes. Also, the personal income tax threshold is relatively high – at \$500 per month it is over four times higher than the minimum wage – which means that any changes would not benefit the most vulnerable. Nonetheless, there could be some scope to implement simple (administrative) changes that could ease the impact on some businesses.

**A temporary deferral (or exemption) of tax obligations could ease the burden on businesses.** Tax deferrals could help the cash flow of businesses, while having limited impact on revenue collection. Several taxes are currently levied on businesses. For example, the services tax is levied on designated services – comprising hotel, restaurant & bar, and telecommunications services – at a rate of 5 percent of total receipts. Some of these services are expected to be the most affected by the current situation, except perhaps for telecoms. The withholding income tax is levied on a range of income payments, including those relating to construction and transport – two sectors expected to bear a significant burden of economic inactivity. Import duties and sales taxes are levied on imported goods at a rate of 2.5 percent each. Temporary deferrals (or even exemptions) on consumption and trade taxes could also support household consumption, assuming that savings would be passed on to consumers. Tax exemptions should be a priority for essential goods (such as food and medical supplies) for the reasons mentioned earlier.

<sup>58</sup> However, telling clients that their loans are partially guaranteed by the Government may create moral hazard and lead to a build-up of non-performing loans.

<sup>59</sup> Given the currently high commercial interest rates, interest rates could potentially be subsidised to provide lending on easier terms to businesses. This could be offered for loans up to a certain threshold to help small businesses tackle cash flow needs. However, this would need to be carefully designed to avoid mismanagement and favouritism.

<sup>60</sup> As a state-owned bank, BNCTL can fulfil a socio-economic mandate during these difficult times, rather than strictly pursue revenue maximisation. This could entail providing countercyclical lending and reaching out to remote areas and poor households. Nonetheless, it is important to ensure effectiveness, transparency and accountability in the use of public resources. Assessing and disclosing fiscal risks (e.g. guarantees) is critical to limit future fiscal losses.

**Tax deferrals may be difficult to recover, while tax exemptions could be costly and difficult to reverse.** Despite the potential benefits of deferring or exempting tax obligations, they may present some challenges. For instance, blanket tax exemptions could entail non-trivial fiscal losses and could be burdensome to administer – unless they are a full waiver.<sup>61</sup> This is particularly important in the current political context, where there is no state budget for 2020 and withdrawals from the Petroleum Fund have to be negotiated with a fragmented Parliament. Moreover, it is unclear how long the current situation would last, which would make it difficult to reverse decisions on tax exemptions – unless they are timebound and clearly communicated. Deferring payments of (some) taxes could provide temporary relief for corporations, which could be done either as a blanket deferral or by enabling taxpayers to opt-in by request. However, deferred tax obligations may be difficult to recover for some taxes. For instance, it may not be feasible to defer withholding taxes if the tax subject is not registered for annual income tax returns.<sup>62</sup>

**Additional tax administration measures implemented elsewhere may not be relevant in Timor-Leste.** Some countries have extended tax filing deadlines. The tax return filing deadline in Timor-Leste has recently passed (it was 31 March), while filled tax returns can be a valuable source of information on the level of economic activity and business viability – especially in a context of limited data. Moreover, the existing tax legislation already includes favourable provisions such as a 100 percent depreciation deduction (i.e. immediate expensing of all assets) and unlimited tax loss carry-forward – enabling taxpayers to carry over tax losses to future years to offset a profit.

## WAGE SUBSIDY (FORMAL SECTOR)

**Public grants to businesses could prevent unnecessary firm closures and job losses.** During these exceptionally difficult times, temporary direct financial support to businesses could provide valuable relief. Many countries have resorted to bold policy measures – not even considered during the Great Recession – to avoid considerable declines in employment. This is partly because of the nature of the current economic shock, which is temporary in nature but which can have lasting impacts – even for those firms that were considered viable. Only a fraction of businesses and jobs that will be lost in the coming months are likely to return once economic activity bounces back. Hence, public grants to business could be cost-effective from a socioeconomic perspective – even if costly at face value. However, a wage subsidy would have benefits over a blanket grant to businesses – which would have to be well targeted and could be prone to mismanagement.


**Subsidising (formal sector) wages can help avoid some job losses.** With many businesses facing limited demand and others temporarily closed, managers will be keen to reduce costs. This is likely to involve significant layoffs, with many workers losing their livelihoods. In this context, a direct subsidy could be provided as a contribution towards the payment of salaries – with a focus on the most affected economic sectors. In order to ensure equity, the subsidy should be provided as a flat amount rather than as a percentage. For instance, it could be capped at the minimum wage – which is \$115.<sup>63</sup> However, firms would have to commit to retain workers for a certain period after the subsidy and pay the remaining salary entitlement. The number of formal sector workers has been declining since 2014, while average wages have been increasing – suggesting that those losing jobs are at the bottom of the salary scale. In this context, it would be particularly important to cushion further formal employment reductions by providing a strong support to those near the minimum wage rather than disperse the (fiscal) effort across the entire spectrum.

<sup>61</sup> A tax waiver usually entails the elimination of the entire tax liability, while a tax exemption is a broader term that often comprises a reduction or elimination of the tax liability.

<sup>62</sup> Incomes not covered by a final withholding tax must be lodged in an annual income tax return. Businesses are required to pay income tax instalments – either monthly or quarterly, depending on their annual turnover – which are calculated as 0.5 percent of total turnover over the period. Deferring these payment (by extending the deadline) could provide some cash-flow relief.

<sup>63</sup> One option would be to subsidise salaries for all registered formal workers (but with a ceiling), or only for workers with salaries below a certain threshold. Either way, support should be timely, targeted and temporary to preserve jobs and employer-employee relationships.





**While implementation may be straightforward, strong monitoring and enforcement are key to ensure effectiveness and deter abuses.** Many formal sector workers are now registered in the contributory social security scheme managed by INSS, which was introduced in 2017. This presents an opportunity to target workers in the private sector, even if private formal employment only accounts for a small proportion of overall employment. In terms of implementation, existing data on social contributions can be used to confirm firm and employee eligibility. However, the scheme should be carefully monitored and enforced to avoid abuses (e.g. firms not passing on the subsidy to workers).

## CONCLUDING REMARKS

**The effectiveness of existing public health measures should be regularly assessed and, if needed, amendments should be made.** It is important to judiciously evaluate if each public health measure adopted is having its intended impact – in terms of controlling the spread of the virus – while also carefully scrutinising its collateral effects. This will help fine-tune policy responses to improve their efficiency and effectiveness while minimising unintended socio-economic impacts. However, revoking effective public health measures too early could lead to a second wave of infections. Hence, it is crucial to assess the timing and sequencing of any action. The WHO has recently proposed a six-point criteria to support policymakers decide if a country is ready to lift existing restrictions, including (i) confirm that virus transmission has been controlled, (ii) ensure that health systems are capable of detecting, testing, isolating and treating every case of COVID-19, as well as tracing every contact; (iii) ensure that outbreak risks are minimised (especially in health facilities), (iv) establish preventive measures in workplaces, schools and other essential places, (v) manage importation risks, and (vi) educate, engage and empower communities to adjust to the ‘new norm’ of everyday life. However, policymakers may have to tailor this criteria to the specific circumstances of Timor-Leste and emerging evidence on socio-economic impacts. Since it is yet unclear how long the current pandemic will last – and countries are at different stages – some public health measures are likely to stay in place until risks have clearly subsided.

**An effective response to COVID-19 requires measures to support the health system, protect households, support businesses, and ensure public service continuity.** This Special Focus proposes some interventions to provide immediate relief to the economy, especially with a view to supporting vulnerable households and affected businesses. Overall, the proposals aimed to: secure a minimum level of transport services, minimise disruptions to key supply chains, ensure continued access to telecommunication services, ease payments for utilities and rent, anticipate and top up existing cash transfers programs, facilitate credit and encourage bank forbearance, defer tax obligations of specific taxes, and support wages in key economic sectors. Their implementation will need to be carefully scrutinised in order to fine-tune measures if needed – even if narrowing targeting and scaling back support could be politically challenging. The next Timor-Leste Economic Report (October 2020) may provide some insights on medium-term policy responses to support the recovery of the economy.

## ANNEX 1: KEY INDICATORS

	2015	2016	2017	2018	2019
<b>REAL SECTOR</b>	<i>(annual percentage change, constant)</i>				
Gross domestic product	3.1	3.6	-3.8	-0.8	3.4
Final consumption expenditure	1.2	1.9	-1.0	0.9	6.7
Gross fixed capital formation	-3.6	15.3	-16.7	-1.8	-10.1
Consumer price index, period average	0.6	-1.5	0.5	2.3	0.9
<b>FISCAL SECTOR</b>	<i>(percentage of non-oil GDP)</i>				
Total Revenue	51	45	42	47	43
Domestic revenue	11	12	12	12	11
Estimated Sustainable Income	40	33	30	35	32
Total expenditure	84	100	75	75	74
Recurrent expenditure	64	64	59	53	55
Capital expenditure	19	36	16	22	19
Fiscal balance	-33	-55	-33	-28	-31
Financing	33	53	54	49	31
Cash balances	-9	9	15	19	2
Excess PF withdrawals	40	42	37	28	26
Loans	2	2	2	2	3
<b>MONETARY AND FINANCIAL SECTOR</b>	<i>(as stated)</i>				
Credit to the private sector (% growth)	9.1	-5.3	24.5	-2.4	4.3
Lending interest rate (%)	13.9	14.5	12.5	14.5	16.3
Nominal effective exchange rate (index)	94.1	94.4	94.8	96.3	97.4
Real effective exchange rate (index)	114.0	110.9	109.0	111.2	112.0
<b>EXTERNAL SECTOR</b>	<i>(percentage of non-oil GDP)</i>				
Current account	13	-33	-18	-12	8
Goods and services	-76	-67	-60	-60	-55
Primary income	81	33	46	54	67
Secondary income	8	2	-4	-6	-4
Capital account	2	3	2	3	2
Financial account	2	29	31	16	-5
Direct investment	2	0	0	3	4
Portfolio investment	9	42	21	12	-16
Other investment	-9	-12	9	0	7
Net errors and omissions	-3	-9	1	1	-6
Change in reserves	-14	9	-16	-8	1
<b>MEMORANDUM ITEMS</b>	<i>(as stated)</i>				
Oil production (million BOE)	52	47	42	39	38
Petroleum Fund, closing balance (USD million)	16,218	15,844	16,799	15,804	17,692



