

TIMOR-LESTE

Key conditions and challenges

Table 1	2020
Population, million	1.3
GDP, current US\$ billion	1.6
GDP per capita, current US\$	1230.8
International poverty rate (\$ 19) ^a	22.0
Lower middle-income poverty rate (\$ 3.2) ^a	65.9
Gini index ^a	28.6
School enrollment, primary (% gross) ^b	112.5
Life expectancy at birth, years ^b	69.5
Total GHG Emissions (mtCO ₂ e)	6.4

Source: WDI, Macro Poverty Outlook, and official data.
 (a) Most recent value (2014), 2011 PPPs.
 (b) Most recent WDI value (2019).

An unprecedented surge of COVID cases in the first half of 2021 raised hurdles to economic recovery. The impact on livelihoods has been severe, exacerbated further by the devastating effects of tropical cyclone Seroja. Uncertainty on the future path of the pandemic remains high. GDP is projected to grow at 1.9 percent in 2021, but potential growth will continue to be hampered by a nascent private sector, limited productive capabilities, and the lasting effects of the recent economic recessions. COVID-19, climate change and natural disasters, as well as the post-election uncertainty remain the key risks to the outlook.

Timor-Leste is a resource-rich country that has saved much of its hydrocarbon-related proceeds in a Petroleum Fund. By the end of July 2021, the Fund's financial assets exceeded USD 19 billion (nearly 10 times the total GDP in 2019). Nevertheless, petroleum production from Bayu-Undan, the remaining field in operation, is expected to cease in 2022.

The fundamental challenge facing the country is the transformation of its petroleum wealth into prosperity for the entire population. Large public spending has failed to sustain economic growth and only marginally improved living standards. Given the very large fiscal deficits and the finite nature of petroleum resources, Timor-Leste faces the risks of a fiscal cliff as, under the current spending trajectories, the Petroleum Fund may be fully exhausted in about ten years.

Timor-Leste suffers from limited economic integration and high market concentration of its exported merchandise. Tourism is the main export on the services side, but its contribution to the overall economy is constrained by weak connectivity. The country will also need to foster a private sector that can create jobs for its young and rapidly growing population.

Timor-Leste is vulnerable to natural hazards, including floods, landslides, tropical cyclones, droughts, earthquakes, and tsunami, and is ranked 20th amongst

countries with the highest disaster risk. Climate change is expected to exacerbate natural disaster risk, potentially resulting in heavier and more frequent rainfall and longer drought conditions.

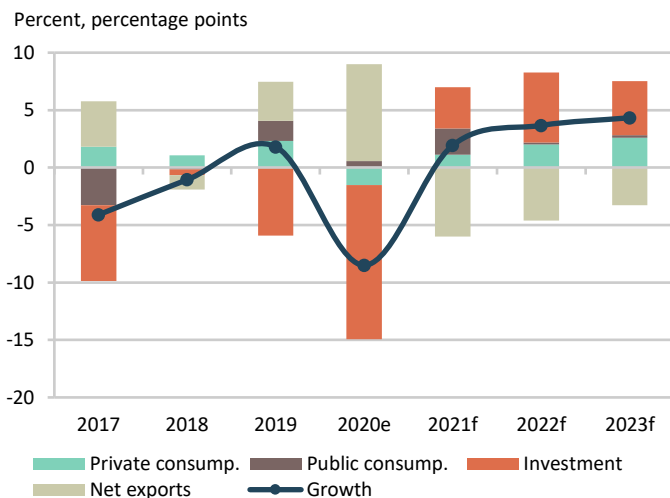
Recent developments

Despite early successes in containing the virus, COVID-19 cases have increased rapidly since early March 2021. More than 16,000 cases and 62 deaths have been reported as of 29 August 2021. A State of Emergency has been declared several times since March 2020 (for periods of 30 days), enabling the government to adopt extraordinary measures.

Tropical Cyclone Seroja in April triggered the most severe flash floods and landslides seen in Timor-Leste in a long time. They affected nearly 14 percent of the total population across all 13 municipalities of Timor-Leste. The floods caused severe damage to critical infrastructure such as roads, bridges, water supply infrastructure, schools, and health facilities, with the latter resulting in a loss of medicine, medical supplies, and personal protective equipment.

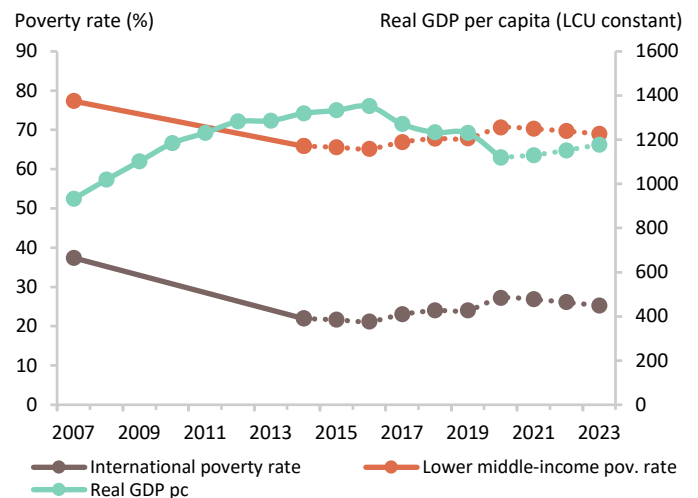
Despite a substantial fiscal package to mitigate the impact of COVID-19, the economy contracted sharply in 2020. Non-oil GDP declined by 8.5 percent in 2020. Public investment contracted by nearly 50 percent following long delays in passing the 2020 budget. Low production of coffee and international trade disruptions led to a 41 percent drop in exports and hurt the

FIGURE 1 Timor-Leste / Real GDP growth and contributions to real GDP growth



Sources: Ministry of Finance and World Bank staff estimates.

FIGURE 2 Timor-Leste / Actual and projected poverty rates and real GDP per capita



Source: World Bank. Notes: see Table 2.

agricultural sector. Private investment shrank by 38.8 percent. The construction sector suffered following considerable decline in the public investment.

Poverty is estimated to have increased. Measured by an international poverty line of US\$1.90 per day per capita (2011 PPP), poverty increased by about three percentage points between 2019 and 2020. It is difficult to capture the impact of COVID-19 at the household level due to very limited data. A small-scale UN socio-economic survey conducted in June-July 2020 indicates that almost 60 percent of people lost their income during the state of emergency period and about 22.6 percent of households had someone who lost their job because of the COVID-19 pandemic.

Fiscal authorities took strong measures to support the health response, households, and firms. The revised 2021 budget approved in late April includes a considerable fiscal package to address the pandemic and the natural disaster. The COVID-19 Fund was enlarged to 17.7 percent of non-oil GDP while the fund to respond against natural disasters was upped to 4 percent of non-oil GDP.

By the end of August 2021, nearly 600,000 COVID-19 vaccine doses had been administered, comprising more than 380,000 first doses (coverage 50.4 percent) and 187,610 second doses (coverage 24.9 percent).

Outlook

The economy is projected to grow by 1.9 percent in 2021, hampered by the direct and indirect impacts of COVID-19 and the heavy floods that affected many parts of the country. Private consumption is expected to grow modestly in 2021. Government consumption will be supported by the recent promulgation of a revised budget for 2021. Some public projects will be postponed, while businesses will delay investment decisions. A rebound in the information and communications, construction, and agricultural sectors may drive the growth from the supply side.

International travel restrictions will affect exports of travel services, but imports will be supported by growing domestic demand. A new package of economic relief

measures will provide some support to households and businesses, but economic activity is still predicted to grow modestly in the short term.

The economy is expected to recover in the medium term, but structural constraints will remain an impediment to faster growth. GDP is projected to increase by 3.7 percent in 2022 before accelerating to 4.3 percent in 2023. Potential growth will continue to be hampered by a nascent private sector, limited productive capabilities, and the lasting effects of recent economic recessions.

The economy has experienced three recessions in the past four years – 2017, 2018 and 2020. Although GDP growth is still projected to be positive in 2021, GDP per capita is expected to decline – since the population is growing at about 2 percent per year.

COVID-19 remains the key risk to the outlook, as it may require prolonged containment measures to avoid human losses. A swift vaccination rollout is therefore critical than ever. Greater preparedness remains critical to minimize the impacts of COVID-19 and future pandemics.

TABLE 2 Timor-Leste / Macro poverty outlook indicators

(annual percent change unless indicated otherwise)

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	-1.1	1.8	-8.5	1.9	3.7	4.3
Private Consumption	1.7	3.6	-2.3	1.6	2.9	3.7
Government Consumption	-0.3	3.2	1.0	3.6	0.2	0.4
Gross Fixed Capital Investment	-1.5	-17.2	-48.1	22.7	32.0	19.3
Exports, Goods and Services	16.6	-17.2	-41.4	13.1	11.8	13.8
Imports, Goods and Services	2.8	-6.5	-17.1	12.6	8.8	6.1
Real GDP growth, at constant factor prices	-0.6	2.1	-7.8	1.9	3.7	4.3
Agriculture	2.9	2.5	1.2	2.6	2.9	2.9
Industry	5.3	-4.7	-9.3	1.1	2.4	2.4
Services	-2.7	3.6	-9.9	1.9	4.2	5.2
Inflation (Consumer Price Index)	2.2	0.9	0.5	1.6	2.1	2.5
Current Account Balance (% of GDP)	-12.3	7.9	-20.3	-31.1	-39.3	-44.9
Fiscal Balance (% of GDP)^a	-29.1	-30.5	-26.2	-29.7	-32.4	-33.5
International poverty rate (\$1.9 in 2011 PPP)^{b,c}	24.0	24.1	27.2	26.8	26.1	25.3
Lower middle-income poverty rate (\$3.2 in 2011 PPP)^{b,c}	67.8	67.8	70.6	70.3	69.7	69.0
GHG emissions growth (mtCO₂e)	-2.9	1.5	-5.7	1.8	3.2	3.8
Energy related GHG emissions (% of total)	9.7	9.7	9.5	9.6	9.7	9.7

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.

Notes: e = estimate, f = forecast.

(a) The ESI is part of total revenue, while excess withdrawals from the PF is a financing item.

(b) Calculations based on EAPPOV harmonization, using 2007-TLSLS and 2014-TLSLS. Actual data: 2014. Nowcast: 2015-2020. Forecast are from 2021 to 2023.

(c) Projection using annualized elasticity (2007-2014) with pass-through = 1 based on GDP per capita in constant LCU.