

Democratic Republic of Timor-Leste: Selected Issues and Statistical Appendix

This Selected Issues paper and Statistical Appendix for the Democratic Republic of Timor-Leste was prepared by a staff team of the International Monetary Fund as background documentation for the periodic consultation with the member country. It is based on the information available at the time it was completed on June 10, 2008. The views expressed in this document are those of the staff team and do not necessarily reflect the views of the government of the Democratic Republic of Timor-Leste or the Executive Board of the IMF.

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DEMOCRATIC REPUBLIC OF TIMOR-LESTE

Selected Issues and Statistical Appendix

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Approved by the Asia and Pacific Department

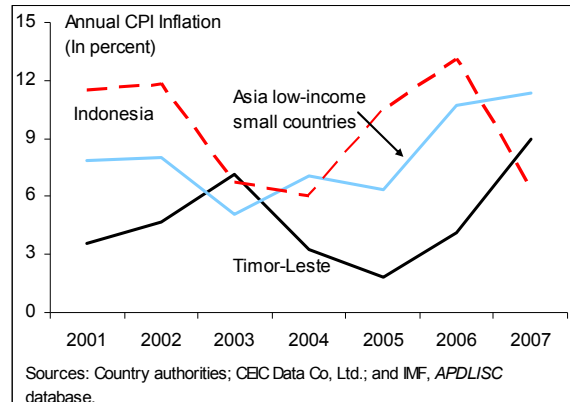
June 10, 2008

	Page
I. Inflation Trends and Outlook.....	2
Statistical Appendix	
1. Selected Social Indicators.....	10
2. Selected Economic Indicators, 2002–07.....	11
3. Non-Oil Gross Domestic Product by Sectoral Origin, 2002–07.....	12
4. Non-Oil Gross Domestic Product by Expenditure, 2002–07.....	13
5. Consumer Price Index, 2001–07.....	14
6. Monetary Survey, 2002–07.....	15
7. Balance Sheet of the Banking and Payments Authority, 2002–07.....	16
8. Consolidated Balance Sheet of Financial Institutions, 2002–07.....	17
9. Central Government Budget Operations, Cash Basis, 2002/03–2007.....	18
10. Central Government Domestic Non-Oil Revenues, 2002/03–2007.....	19
11. Oil/Gas Revenues, 2001/02–2007.....	20
12. Whole of Government Expenditure Composition, 2002/03–2007.....	21
13. Public Sector Employment and Wages, 2002/03–2008.....	22
14. Autonomous Agencies Operations, 2002/03–2006/07.....	23
15. Operations of the Power Authority, 2001/02–2006/07.....	24
16. Combined Sources of Fiscal Operations, 2002/03–2007.....	25
17. Balance of Payments, 2002–07.....	26
18. Banking Indicators, 2004–07.....	27
19. Summary of the Non-Petroleum Tax System.....	28

I. TIMOR-LESTE: INFLATION TRENDS AND OUTLOOK¹

A. Introduction

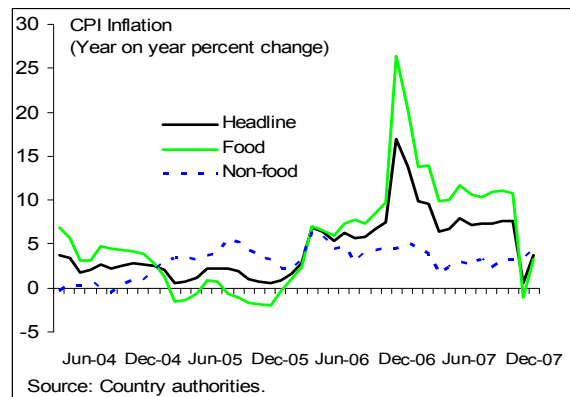
1. **The recent rise in inflation in Timor-Leste has raised concerns about international competitiveness and the cost of living.** Over the period 2001–06, average annual inflation in Timor-Leste remained mainly in the low single digits, well below that of comparator countries.² However, prices began rising in mid-2006, and by 2007 the average annual inflation rate reached 9 percent. These higher inflation rates have fueled domestic concerns about their possible impact on competitiveness and non-oil economic growth, and on the erosion of living standards, especially for the poor.



2. **This chapter examines recent price developments in Timor-Leste.**³ The results show that the higher inflation rates seen over the past two years mainly reflect supply-side international trends, in particular the global increases in food prices. Aside from food and fuel items, inflation has remained relatively low, a result that may in large part be attributed to the adoption of the U.S. dollar in early 2000. Going forward, however, an important challenge will be to maintain price stability given a prospective rapid rise in government expenditure and a related sharp increase in domestic demand pressure.

B. Inflation Trends, 2001–08

3. **After remaining relatively subdued for several years, inflation in Timor-Leste rose decisively over the past two years.** In the early years, the adoption of the U.S. dollar as the official currency in 2000 established an effective nominal anchor. The drawdown of the initial UN peacekeeping mission and decline in donor assistance after 2002 further mitigated the emergence of price pressures by softening aggregate demand, despite slowly



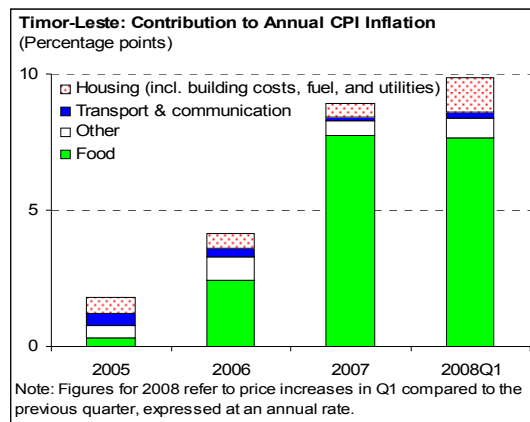
¹ Prepared by Tobias Rasmussen (APD). This chapter is based on a note prepared for the authorities in Spring, 2008.

² Compilation of official CPI data in Timor-Leste began in late 2001.

³ Timor-Leste's poor data quality and short history preclude econometric analysis.

increasing spending by the central government. However, civil disturbances that erupted in mid-2006 led to widespread supply disruptions and a jump in transportation costs, as many businesses and government agencies closed down for extended periods. Higher global food prices beginning in 2006 and domestic supply-side shocks in Timor-Leste also added to inflation. In early 2007, a failure to secure normal imported rice levels led to a shortage and price spike. Subsequently, a poor harvest further contributed to higher food prices, in addition to increasing domestic reliance on food imports. The higher food prices have hit the poor hard, especially in urban areas (about 25 percent of the population), where unemployment is the highest and the countervailing positive impact experienced by agricultural producers is absent.

4. **Higher food prices account for most of the increase in CPI in 2006–07.** Food prices rose by 13.1 percent in 2007 (period average), explaining most of the 8.9 percent increase in the overall CPI in 2007 (the weight of food in the consumption basket is 58 percent). About half of food items in the CPI basket are imported in Timor-Leste.



5. **In contrast, the pace of non-food CPI inflation decelerated slightly in 2007, to under 3.5 percent on average.** While higher fossil fuel prices have also contributed to CPI inflation, especially in 2004–06 and again in recent months, fuel (gas and kerosene) has a low weight of about 3 percent in the CPI basket, limiting its impact. In addition, as electricity prices are fixed, one consequence of higher global fuel prices has been sharply higher subsidies to the state-owned and diesel-based power company (from under 2 percent of non-oil GDP in 2005 to over 5 percent in 2007). Further, as central government spending has picked up sharply, inflation pressures have also started to appear where bottle necks have emerged, such as in construction materials.

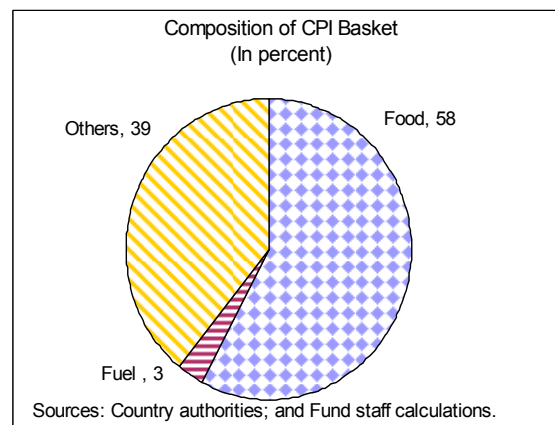
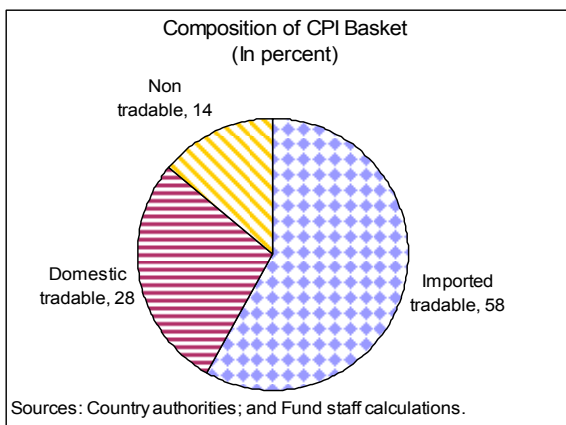
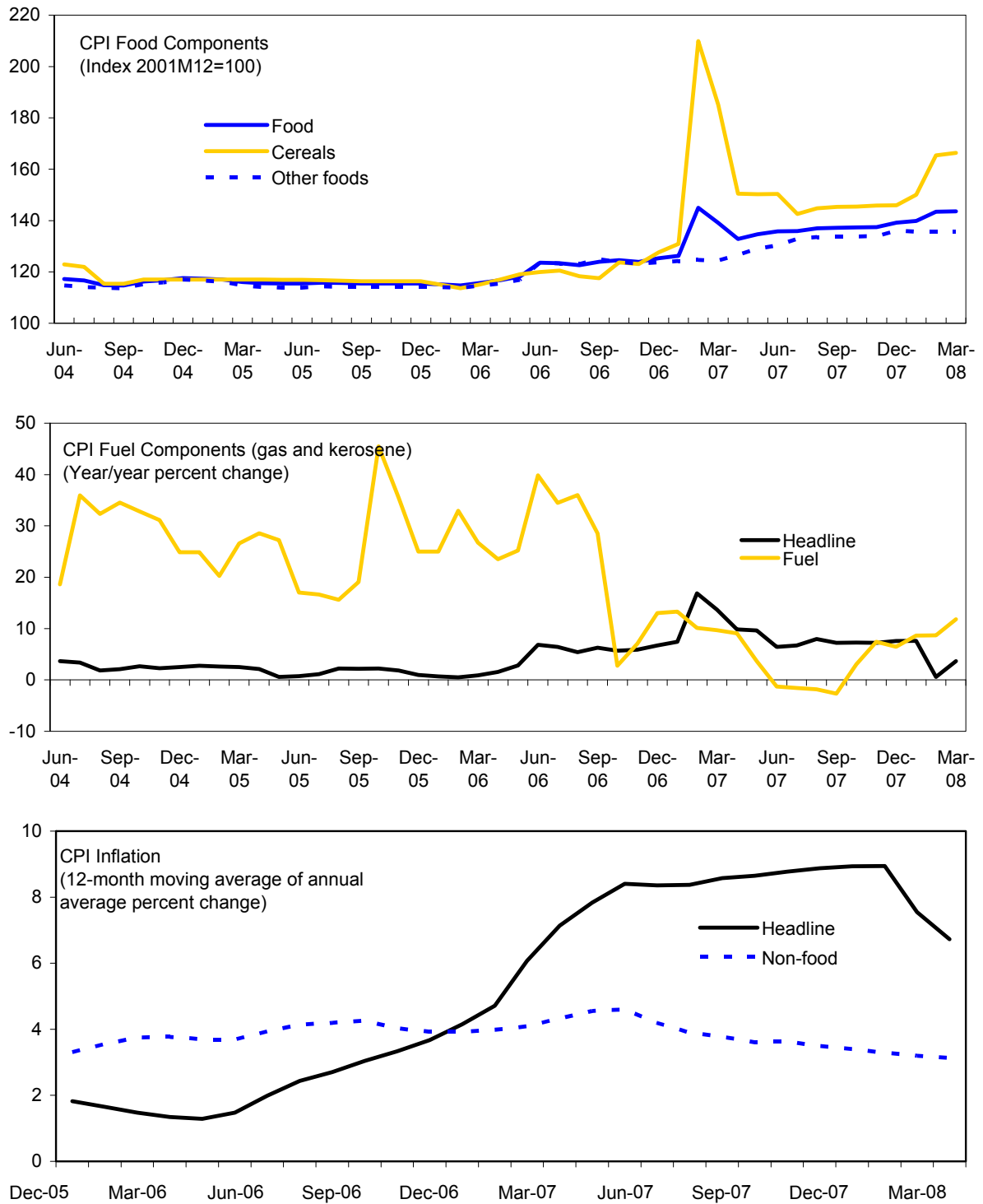


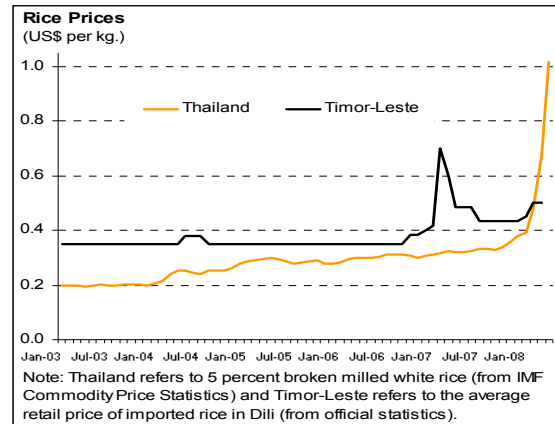
Figure 1. Timor Leste: Inflation Indicators, 2004-08



Sources: Country authorities; and Fund staff calculations.

6. **Further, based on Q1 2008 data, the second-round impact of oil price increases on inflation is emerging.** Prices in the retail fuel market in Timor-Leste are market-determined, with pass-through from global price changes close to 100 percent. Increases in the price of transportation suggest that the indirect impact is already in play through spillovers to other components of the CPI basket.

7. **Despite the increase in food inflation, the recent surge in international rice prices has been muted to date in Timor-Leste, as government subsidies limited the pass-through to consumers.** The price of the benchmark Thai rice increased by 200 percent in the past six months, as several regional countries limited availability through export bans. However, in response to rice shortages and related rioting in early 2007, the Timor-Leste government began importing rice for resale to local retailers at subsidized prices. As rice represents 13 percent of the Timor-Leste consumption basket, inflation would be much

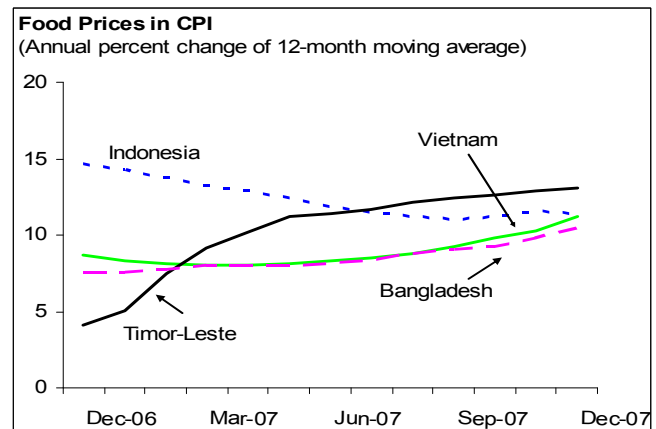


higher if there had been full pass through of price increases. Staff estimates that, with full pass-through of international rice prices, the 12-month inflation rate in March 2008 would have been 17 percent, rather than the 3.7 percent reported. As stocks of rice imported before the most recent price spike have now been depleted, the government faces a sharp increase in the subsidy cost.⁴ Even so, if import prices remain at current levels, this may not be enough to prevent retail prices from rising.

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C. Inflation: Timor-Leste and Regional Comparisons

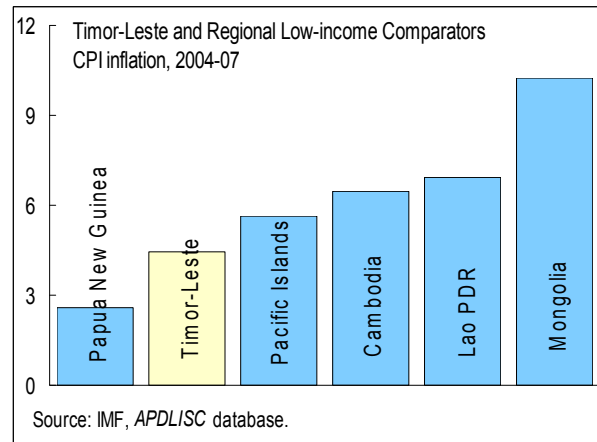
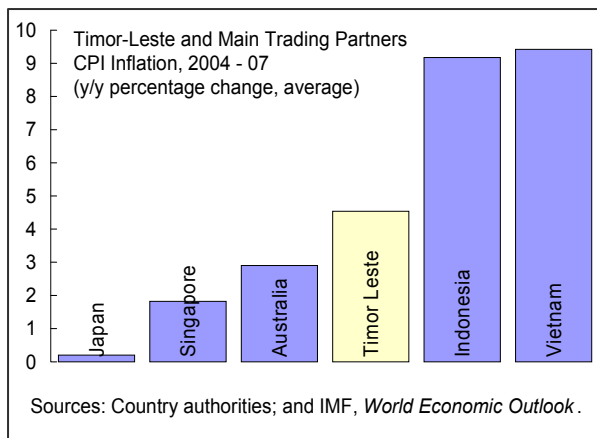
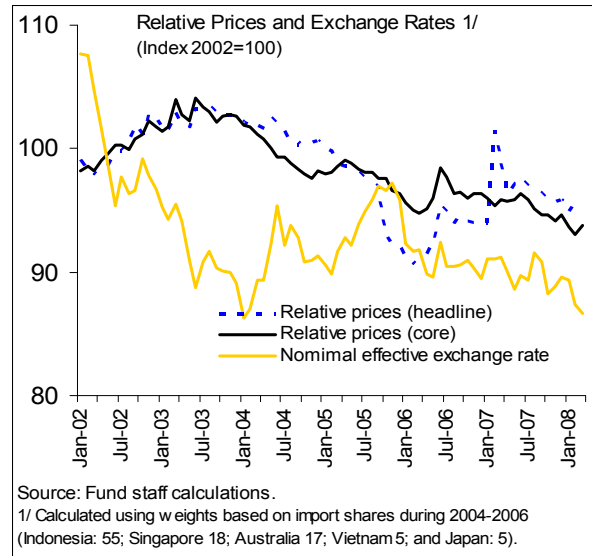
8. **The rise of inflation in Timor-Leste follows global and regional developments.** Over the past year, world food prices have increased by about 15 percent on average (World Bank and IMF, 2008); with the IMF's US\$-based food commodity price index rising by 50 percent since end-2006. Food prices have increased as a result of both



⁴ The preliminary 2008 mid-year budget update includes \$64 million (13.5 percent of non-oil GDP) for rice purchases, with the net subsidy after resale to retailers of about \$20 million (4.3 percent of non-oil GDP), and \$7 million for rice distribution to civil servants (for a total subsidy of about 6 percent of non-oil GDP).

permanent and temporary factors, including strong demand from emerging economies, expansion of biofuel production, and trade restrictions and drought conditions in some countries. Higher non-food inflation in recent months is also a wider phenomenon, as an initial rise in headline inflation driven by higher commodity prices is now starting to become more broad based and clearly visible in many ASEAN economies.

9. **Nonetheless, compared to regional low-income comparators or its trading partners, inflation in Timor-Leste remains relatively low.** When weighing countries by their share in imports and excluding food items, the price level in Timor-Leste compared to that of its trading partners has fallen by about 8 percent since early 2004. When including food items, the relative price level has increased since early 2006, but is still lower than during 2002-05. Given Timor-Leste's trade weights, overall developments in relative prices largely mirror those relative to Indonesia.

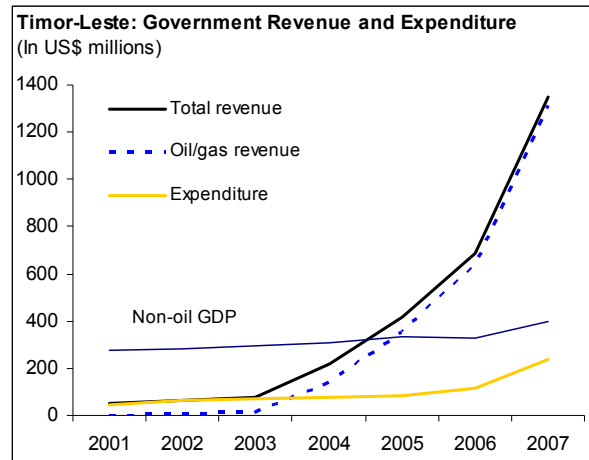


D. Looking Ahead

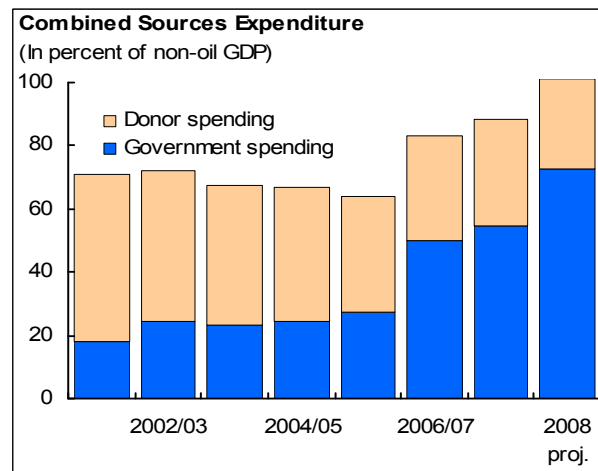
10. **While inflation in Timor-Leste so far has been driven by supply-side developments, domestic demand pressures are increasingly a concern.** The general expectation is that global oil and food prices will stay high and only ease gradually over the medium term. However, second round effects are emerging, as inflation pressures are already spreading into other areas. In addition, in Timor-Leste, the prospect of higher demand

pressures reflecting accelerated petroleum-financed government spending has emerged as the dominant threat to future inflation.

11. **Looking forward, the expected large step increase in petroleum-financed government spending could pose new problems.** Since revenue took off in 2004, the government has received about \$3 billion in taxes and royalties from off-shore fields in the Timor Sea. Most of the revenue has been saved and \$2.6 billion accumulated in the country's Petroleum Fund by end-March 2008. Despite putting aside most of the proceeds, during this period the government also tripled the rate of spending. To date this does not appear to have had a significant inflationary impact, reflecting the large import content of public spending, unused labor resources, and below potential GDP growth. However, given the sharp expenditure increases and signs of emerging bottlenecks, higher inflation is a risk.



12. **The outcome for inflation will depend on the composition and level of future government spending.** The 2008 mid-year budget update is expected to include spending above the sustainable level, and although past performance suggests that budgeted appropriations are unlikely to be fully realized, expenditure is still likely to increase sharply. Staff's projected government cash spending in 2008 is twice that in FY2006/07 and 60 percent higher than the annual rate in the second half of 2007.



Demand pressures, already visible in housing, port capacity, and building materials, are likely to intensify as spending continues to grow. And, in the absence of links to performance, the plan to increase public sector wages by over 20 percent this year is likely to contribute to inflation. In general, given the limited absorption capacity of the domestic economy, the price impact of rapid increases in government spending will depend on the import content. Spending on capital programs or imported goods and services would likely be less inflationary than increasing wages or transfers payments, where the import content is lower. The impact will also depend on the ability to manage the process and adjust to emerging bottlenecks. Over time, results will depend on whether the government adheres to the sustainable spending limit and the extent

that spending successfully raises productivity by channeling funds into investments with a high rate of return.

E. Conclusions

13. **Sharply higher commodity prices over the past two years have had a large impact on Timor-Leste's economy.** The rising cost of food hurt the urban poor and exacerbated poverty. As the government sought to contain the pass-through to consumers, price increases have also been associated with increased subsidies for rice and electricity. However, the impact of higher prices has not only been negative. The record high international oil price has led to a surge in government revenue. Moreover, higher food prices will also have had a positive effect on the agricultural sector, although limited by the prevalence of subsistence-based farming. As a large oil exporter, the overall impact on the country will have been substantially positive.

14. **Following international trends, the rise in consumer prices has been driven by food; however, relative to comparators, inflation has remained low.** The scale of food price increases has been broadly similar to what other developing countries have experienced and accounts for most of the 20 percent jump in the consumer price index since early 2006. At the same time, and also in line with global trends, non-food inflation has stayed low, although with emerging pressures.

15. **The outlook for inflation will depend on how the country's large petroleum wealth is managed.** In the near term, the challenge will be to phase in a higher level of expenditure without setting off inflationary pressures that could erode gains in external competitiveness. Given the open economy and a high import content of government spending, this should be possible if the process is carefully managed. Over time, the main task will be to ensure that government spending is invested productively to support sustainable growth.

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Table 1. Timor-Leste: Selected Social Indicators 1/

	Timor-Leste	East Asia and Pacific Island countries	Low income countries
Gross national income per capita (US\$) 2/	1,647	1,856	649
GDP per capita (US\$) 2/	378	4,363	1,884
Area (in thousands of square kilometers)	15		
Demography			
Total population (in millions)	1.015	1,899	2,420
Population growth (in percent) 3/	4.0	0.9	1.9
Life expectancy and mortality			
Life expectancy at birth (years)	57	71	60
Male	56	69	59
Female	58	73	62
Infant mortality (per thousand live births)	47	24	74
Under 5 mortality rate (per thousand live births)	55	29	112
Education 4/			
Literacy rate (in percent) 5/	50	91	61
Male	54	95	72
Female	45	87	50
Gross primary school enrollment rate (in percent)	99	111	102
Health			
Immunization rate (in percent of children aged 12 to 23 months)			
Measles	64	89	69
DPT	67	89	68
Other indicators 6/			
The population below the poverty line	40 7/	...	...
Households with access to electricity	26 7/	...	...
Population with access to improved water source 8/	58	79	75

Sources: World Bank, *World Development Indicators*; and Country authorities.

1/ Data are for 2006, unless otherwise indicated.

2/ Timor Leste figures are for 2007. GDP refers to non-oil GDP at market prices. For comparators, GNI is calculated using Atlas method and GDP using PPP exchange rate.

3/ Average growth over 2000-2006.

4/ Figures are for 2005.

5/ For ages 15 and above.

6/ In percentage share of the total.

7/ Figures are for 2001.

8/ Figures are for 2004.

Table 2: Timor-Leste: Selected Economic Indicators 2002–07

	2002	2003	2004	2005	2006	2007 Est.
Output and prices						
GNI at current prices (US\$ million)	300	318	459	696	974	1,725
Non-oil GDP at current prices (US\$ million)	284	298	309	332	327	396
Real non-oil GDP growth (percentage change)	2.4	0.1	4.2	6.2	-5.8	7.8
Including United Nations 1/	-6.7	-6.2	0.4	2.3	-3.4	16.2
Inflation (percentage change, end-period) 2/	9.5	4.2	2.5	1.0	6.7	7.6
Inflation (percentage change, period average) 2/	4.7	7.2	3.2	1.8	4.1	8.9
(In percent of non-oil GDP)						
Investment-saving balance						
Gross investment 3/	38	29	21	21	21	28
Gross national savings	19	22	29	103	183	323
External savings	19	8	-9	-82	-162	-295
Central government budget 4/						
Revenues	28	35	105	157	289	350
Domestic revenues	7	10	12	10	11	10
Oil/gas revenues	10	14	83	146	275	340
Grants	11	11	11	0	3	0
Expenditure (cash basis)	23	21	22	21	48	53
Recurrent expenditure	19	20	19	21	39	41
Capital expenditure	4	1	3	0	9	12
Overall balance	5	14	83	136	242	297
Non-oil fiscal balance	-5	0	0	-11	-33	-43
Public debt	0	0	0	0	0	0
Stock of oil/gas savings	3	4	5	112	310	527
Combined sources fiscal operations 4/ 5/						
Domestic revenue and budget grants	20	23	25	13	16	12
Expenditure	72	68	67	64	83	88
Recurrent expenditure	52	52	50	47	64	66
Capital expenditure	21	16	16	17	20	22
Overall balance	-53	-45	-42	-51	-67	-77
Money and credit						
Broad money (end-period) 6/	15	21	21	23	31	36
Net domestic assets (end-period)	-9	-15	-38	-24	-3	-44
(In millions of U.S. dollars)						
External sector						
Current account excl. international assistance	-642	-479	-321	34	295	771
Current account incl. international assistance	-53	-23	26	273	531	1168
Merchandise exports 7/	7	8	8	9	9	8
Merchandise imports	-125	-130	-129	-125	-123	-200
Overall balance	20	18	121	-29	-70	147
(In percent of non-oil GDP)						
Current account excl. international assistance	-226	-161	-104	10	90	195
Current account incl. international assistance	-19	-8	9	82	162	295
Overall balance	7	6	39	-9	-21	37

Sources: Data provided by the Timor-Leste authorities; and Fund staff estimates.

1/ Includes locally paid compensation of UN peacekeeping mission staff.

2/ Whole of the country CPI from 2003.

3/ Excludes oil/gas sector investment.

4/ Fiscal years (July-June) up to FY2006/07 (in column for 2006); half-year to end 2007.

5/ Includes autonomous agencies and quasi-fiscal expenditure programs undertaken by bilaterals and multilaterals outside the central government budget.

The revenue decline in 2005 reflects the creation of the petroleum fund, to which oil revenue now accrues. Income from the fund and donor grants finance the fiscal deficit.

6/ Excludes currency holdings by the public, for which no data are available.

7/ Excludes oil/gas revenue, which is recorded as income, and re-exports, which primarily relate to repatriation of UN peacekeeping equipment.

Table 3. Timor-Leste: Non-Oil Gross Domestic Product by Sectoral Origin, 2002–07 1/

	2002	2003	2004	2005	2006	2007
	Estimates					
At current market prices (In millions of U.S. dollars)						
Agriculture, forestry, and fishery	91.2	97.4	103.7	111.3	116.6	124.7
Food sector	72.9	70.7	75.7	81.6	84.3	90.7
Commercial Agriculture, Forestry, Fisheries	18.3	26.7	27.9	29.7	32.3	34.0
Industry and Services	110.7	114.8	113.0	116.8	105.1	126.8
Mining & quarrying (non-oil)	3.3	2.7	2.7	2.9	1.9	2.2
Manufacturing	11.4	12.1	11.6	11.8	8.7	10.2
Private construction	15.5	14.9	14.5	15.0	14.9	19.0
Transport & communications	28.3	31.2	31.9	33.8	25.4	31.0
Wholesale & retail trade	24.5	25.1	24.5	24.9	25.4	31.0
Financial & other services	27.7	28.8	27.7	28.3	28.8	33.6
Public Sector	141.4	123.7	122.0	121.8	130.8	201.8
Government services	57.1	66.1	74.1	80.5	85.2	112.6
Public utilities	2.7	3.3	4.1	5.0	5.0	6.0
Public construction	22.4	16.2	14.5	18.4	14.9	25.4
United Nations 2/	59.2	38.1	29.3	18.0	25.6	57.7
Total	343.3	335.9	338.6	349.9	352.5	453.3
Non-oil GDP, excluding UN	284.1	297.8	309.3	331.9	326.8	395.5
At constant 2000 market prices (In millions of U.S. dollars)						
Agriculture, forestry, and fishery	93.9	93.5	99.1	105.3	105.6	99.7
Food sector	73.0	67.9	72.4	77.2	76.4	72.6
Commercial Agriculture, Forestry, Fisheries	20.9	25.6	26.7	28.1	29.2	27.2
Industry and Services	107.5	106.1	108.0	110.5	95.2	108.4
Mining & quarrying (non-oil)	3.2	2.5	2.6	2.7	1.7	1.9
Manufacturing	11.0	11.0	11.1	11.2	7.9	8.7
Private construction	15.1	13.8	13.9	14.2	13.5	16.2
Transport & communications	27.5	29.2	30.5	32.0	23.0	26.5
Wholesale & retail trade	23.9	23.3	23.4	23.6	23.0	26.5
Financial & other services	26.8	26.3	26.5	26.8	26.1	28.7
Public Sector	142.5	122.9	116.6	115.3	119.0	163.6
Government services	57.7	65.9	70.8	76.2	77.2	85.0
Public utilities	2.7	3.4	3.9	4.7	4.5	5.2
Public construction	21.8	15.0	13.9	17.4	13.5	20.9
United Nations 2/	60.3	38.6	28.0	17.0	23.8	52.5
Total	343.9	322.5	323.7	331.1	319.8	371.7
Non-oil GDP, excluding UN	283.6	283.9	295.7	314.1	296.0	319.2

Sources: Data provided by the Timor Leste authorities; and Fund staff estimates.

1/ Data on oil/gas value added are not available. Figures for 2000–2003 are estimates made by BIDE consultants under a World Bank-supported technical assistance project.

2/ Includes locally paid compensation of UN peacekeeping mission staff.

Table 4. Timor-Leste: Non-oil Gross Domestic Product by Expenditure, 2002–07 1/

	2002	2003	2004	2005	2006	2007
			Estimates			
(In millions of U.S. dollars)						
Non-oil GDP at current prices	284.1	297.8	309.3	331.9	326.8	395.5
Consumption	446.3	479.8	503.4	487.4	477.6	611.2
Private	310.4	325.9	344.0	329.5	301.6	352.2
Public 2/ 3/	135.9	153.9	159.4	157.8	175.9	259.0
Investment	108.0	87.4	63.6	68.7	67.8	111.2
Gross fixed capital formation	96.1	76.9	57.6	61.9	61.0	103.0
Public	68.5	53.9	50.1	54.4	53.5	91.1
Private	27.6	23.0	7.5	7.5	7.5	11.9
Changes in inventories	11.9	10.5	6.0	6.8	6.8	8.2
Net Trade	-270.2	-269.4	-257.7	-224.2	-218.6	-326.8
Exports	32.4	35.9	36.9	38.3	39.4	43.4
Imports	-302.6	-305.3	-294.6	-262.5	-258.0	-370.3
GNI at current prices	300.4	318.0	458.7	696.4	973.8	1725.2
GDP (non-oil)	284.1	297.8	309.3	331.9	326.8	395.5
Oil income	8.9	13.1	141.1	356.2	637.0	1309.2
Other current income	7.4	7.1	8.3	8.3	10.0	20.5
Gross national savings	55.1	64.0	89.9	342.1	598.4	1278.7
Private	-13.4	4.7	-101.4	-45.7	-28.0	63.5
Public 2/	68.5	59.3	191.3	387.8	626.4	1215.2
External savings	52.9	23.4	-26.4	-273.4	-530.6	-1167.5
(In percent of non-oil GDP)						
GDP at current prices	100.0	100.0	100.0	100.0	100.0	100.0
Consumption	157.1	161.1	162.8	146.8	146.1	154.5
Private	109.3	109.4	111.2	99.3	92.3	89.0
Public 2/ 3/	47.8	51.7	51.5	47.5	53.8	65.5
Gross investment	38.0	29.4	20.5	20.7	20.7	28.1
Private	13.9	11.2	4.4	4.3	4.4	5.1
Public 2/	24.1	18.1	16.2	16.4	16.4	23.0
Exports	11.4	12.0	11.9	11.5	12.1	11.0
Imports	-106.5	-102.5	-95.2	-79.1	-78.9	-93.6
GNI at current prices	105.7	106.8	148.3	209.8	298.0	436.2
non-oil GDP	100.0	100.0	100.0	100.0	100.0	100.0
Oil income	3.1	4.4	45.6	107.3	194.9	331.0
Other current income	2.6	2.4	2.7	2.5	3.1	5.2
Gross national savings	19.4	21.5	29.1	103.1	183.1	323.3
Private	-4.7	1.6	-32.8	-13.8	-8.6	16.1
Public 2/	24.1	19.9	61.9	116.8	191.7	307.2
External savings	18.6	7.9	-8.5	-82.4	-162.3	-295.2

Sources: Data provided by the Timor-Leste authorities; and Fund staff estimates.

1/ Excludes UN. For 2000–2003 the estimates are partially based on provisional national account data prepared by BIDE under a World Bank grant. Data from 2004 are Fund staff estimates.

2/ Includes fiscal and quasi-fiscal activities undertaken by multinational institutions and bilateral donors.

3/ Does not correspond to recurrent expenditures shown in Table 16 due to differences in the coverage of data (particularly relating to technical assistance).

Table 5. Timor-Leste: Consumer Price Index, 2001–07
(April 2000 = 100.0)

	Jan.	Feb.	March	April	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Annual average
2001													
Index	113.6	114.1	112.7	111.4	111.9	115.8	115.6	113.0	112.9	113.4	113.9	114.2	113.5
Month-to-month percentage change	-0.8	0.4	-1.2	-1.2	0.4	3.6	-0.2	-2.2	-0.2	0.5	0.5	0.3	...
Year-on-year percentage change	...	...	...	11.4	3.2	4.9	3.9	2.4	2.4	2.1	3.3	-0.3	3.6
2002													
Index	115.3	115.3	115.0	115.6	116.5	117.8	118.7	119.7	121.8	121.3	124.7	125.1	118.9
Month-to-month percentage change	0.9	0.0	-0.3	0.6	0.7	1.2	0.7	0.8	1.8	-0.4	2.8	0.3	...
Year-on-year percentage change	1.5	1.1	2.0	3.8	4.1	1.7	2.7	5.9	7.9	6.9	9.4	9.5	4.7
2003													
Index	124.9	125.0	126.8	125.8	125.6	127.5	127.7	128.4	128.1	128.3	129.1	129.9	127.3
Month-to-month percentage change	-0.2	0.1	1.4	-0.7	-0.2	1.5	0.1	0.6	-0.3	0.2	0.6	0.6	...
Year-on-year percentage change	8.3	8.4	10.3	8.8	7.8	8.2	7.6	7.3	5.2	5.8	3.5	3.9	7.0
2004													
Index	129.7	129.8	130.0	130.7	132.6	132.2	132.0	130.8	130.7	131.7	132.0	133.2	131.3
Month-to-month percentage change	-0.2	0.0	0.2	0.5	1.5	-0.3	-0.2	-0.9	0.0	0.8	0.2	0.9	...
Year-on-year percentage change	3.9	3.8	2.5	3.8	5.6	3.7	3.4	1.8	2.1	2.7	2.3	2.5	3.2
2005													
Index	133.2	133.2	133.2	133.4	133.4	133.2	133.4	133.7	133.6	134.7	134.5	134.5	133.7
Month-to-month percentage change	0.0	-0.1	0.1	0.1	0.0	-0.2	0.2	0.2	-0.1	0.8	-0.1	0.0	...
Year-on-year percentage change	2.7	2.6	2.5	2.1	0.6	0.7	1.1	2.2	2.2	2.2	1.8	1.0	1.8
2006													
Index	134.2	133.8	134.4	135.5	137.1	142.3	142.0	140.9	142.0	142.3	142.4	143.5	139.2
Month-to-month percentage change	-0.3	-0.3	0.4	0.8	1.2	3.8	-0.2	-0.8	0.8	0.2	0.0	0.8	...
Year-on-year percentage change	0.7	0.5	0.9	1.5	2.8	6.9	6.4	5.4	6.3	5.7	5.9	6.7	4.1
2007													
Index	144.2	156.4	152.8	148.8	150.3	151.5	151.6	152.1	152.3	152.7	152.7	154.4	151.7
Month-to-month percentage change	0.4	8.5	-2.3	-2.6	1.0	0.8	0.1	0.4	0.1	0.3	0.0	1.1	...
Year-on-year percentage change	7.4	16.9	13.7	9.9	9.6	6.4	6.7	7.9	7.2	7.3	7.3	7.6	8.9

Source: Data provided by the Timor-Leste authorities.

Table 6. Timor-Leste: Monetary Survey, 2002–07 1/

	2002	2003	2004	2005	2006	2007
	(In millions of U.S. dollars)					
Banking System						
Net foreign assets	70	108	184	159	113	318
Assets 2/	75	142	227	206	144	356
Gross reserves	43	61	182	153	84	230
Liabilities	5	34	43	47	31	38
Net domestic assets	-25	-45	-116	-80	-11	-172
Claims on government (net)	-45	-61	-187	-151	-83	-219
Claims on private sector	6	26	88	106	111	101
Other ("net other assets")	0	0	0	0	0	0
Other items, net (inc capital account)	14	-10	-18	-35	-40	-54
Broad money 3/	44	62	66	78	100	144
Narrow money	38	33	32	39	54	75
Currency in circulation	0	1	1	2	2	2
Demand deposits	38	32	31	38	52	73
Other deposits	6	29	34	38	46	68
Nonliquid liabilities	2	1	2	1	2	2
	(In percent of non-oil GDP)					
Net foreign assets 2/	24.7	36.3	59.4	47.9	34.6	80.4
Net domestic assets	-8.7	-15.1	-37.5	-24.1	-3.4	-43.5
Broad money 3/	15.4	20.7	21.3	23.5	30.6	36.3
Demand deposits	13.2	10.8	10.1	11.4	15.8	18.5
Memorandum items						
Petroleum Fund balance (millions) 2/	...	...	...	370	1,012	2,086
Net foreign assets (annual percentage change)	...	54.0	70.0	-13.4	-28.8	181.1
Bank loan/broad money ratio (in percent)	14.6	42.8	134.1	135.9	111.6	69.9
Credit/non-oil GDP	2.2	8.9	28.6	31.9	34.1	25.4
Deposits/non-oil GDP ratio	15.4	20.7	21.3	23.5	30.6	36.3

Sources: Banking and Payments Authority; and Fund staff estimates.

1/ Includes 3 commercial banks (branches of foreign banks) and a micro-finance institution.

2/ An oil fund was created in September 2005 and the deposits were moved off-shore and onto the Government balance sheet.

3/ Includes only coinage issued by the BPA as no data is available for notes due to official dollarization of the financial system.

Table 7. Timor-Leste: Balance Sheet of the Banking and Payments Authority, 2002–07
(In millions of U.S. dollars; end of period)

	2002	2003	2004	2005	2006	2007
Banking and Payments Authority						
Net foreign assets 1/	44	61	182	153	84	230
Assets	44	61	182	153	84	230
Gross reserves	43	61	182	153	84	230
Others	0	0	0	0	0	0
Liabilities	0	0	0	0	0	0
Net domestic assets 2/	-38	-54	-175	-147	-74	-210
Central government (net position)	-34	-50	-169	-129	-56	-190
Claims on domestic banks and other claims	-4	-4	-7	-18	-18	-19
Other Items, net	1	1	1	1	1	1
Liabilities	6	7	7	6	9	21
Currency in circulation 3/	0	1	1	2	2	2
Financial institutions	4	6	5	5	6	18
Other deposits and liquid liabilities	0	0	0	0	0	0
Nonliquid liabilities	1	0	1	0	1	0
Memorandum items						
Petroleum Fund balance (millions) 1/	...	...	...	370	1,012	2,086
Net foreign assets (annual percentage change)	...	-29.1	-66.4	19.0	83.0	-63.6

Sources: Banking and Payments Authority; and Fund staff estimates.

1/ An oil fund was created in September 2005 and the deposits were moved off-shore and onto the government balance sheet.

2/ The large decrease in 2004 reflects the build up of oil-related government deposits.

3/ Includes only coinage issued by the BPA as no data is available for notes due to dollarization of the financial system.

Table 8. Timor-Leste: Consolidated Balance Sheet of Financial Institutions, 2002–07 1/
(In millions of U.S. dollars; end of period)

	2002	2003	2004	2005	2006	2007
Net foreign assets	27	47	1	6	29	88
Assets	31	80	44	52	61	126
Liabilities	5	34	43	47	31	38
Net domestic assets	18	15	65	71	70	55
Deposits with BPA	2	7	5	3	5	16
Claims on government (net)	-11	-11	-18	-23	-27	-28
Claims on private sector	6	26	88	106	111	100
Other ("net other assets")	0	0	0	0	0	0
Other items (net)	22	2	4	1	-43	-52
Deposit liabilities	44	62	66	77	99	143
Demand deposits	38	32	31	38	52	73
Time and Savings Deposits	6	29	34	38	46	68
Deposits Excluded from Broad Money	0	1	1	1	1	2

Source: Data provided by the Banking and Payments Authority.

1/ Comprises three commercial banks and a microfinance institution.

Table 9. Timor-Leste: Central Government Budget Operations, Cash Basis, 2002/03–2007 1/

	2002/03	2003/04	2004/05	2005/06	2006/07	2007H2 Prel.
(In millions of U.S. dollars)						
Revenue	81.3	105.4	336.6	516.7	1044.8	692.5
Domestic revenues	19.3	29.2	36.9	33.9	40.5	20.2
Direct taxes	5.3	6.6	10.7	8.8	11.8	7.0
Indirect taxes	11.7	18.1	19.0	16.0	19.3	7.5
Non-tax revenues and other	2.3	4.5	7.1	9.1	9.3	5.7
Oil/gas revenues	29.5	41.4	265.5	481.8	993.1	672.3
Tax revenues	26.4	38.0	209.4	345.3	498.5	184.4
Royalties and interest	3.1	3.4	56.2	136.5	494.6	487.9
Royalties	3.0	3.3	55.6	123.3	457.7	455.7
Interest	0.1	0.1	0.6	13.3	36.9	32.3
Grants	32.5	34.8	34.2	1.0	11.3	0.0
Expenditure	68.5	64.4	70.4	92.7	172.5	105.1
Recurrent expenditure	53.3	53.1	56.4	66.1	133.9	60.0
Wages and salaries	21.6	23.8	25.1	25.7	40.3	23.6
Goods and services	25.3	22.8	26.0	34.4	64.5	16.1
Transfers	0.0	0.0	0.0	0.0	11.8	8.4
Subsidies to agencies	6.4	6.6	5.3	6.0	17.4	11.9
Capital expenditure	4.7	2.4	2.8	15.6	20.8	1.4
Previous year spending	10.5	8.9	11.3	11.0	17.9	43.7
Overall balance	12.8	40.9	266.2	424.0	872.3	587.4
Financing	-12.8	-40.9	-266.2	-424.0	-872.3	-587.4
(In percent of non-oil GDP)						
Revenue	27.9	34.7	105.0	156.9	289.3	175.1
Domestic revenues	6.6	9.6	11.5	10.3	11.2	5.1
Direct taxes	1.8	2.2	3.3	2.7	3.3	1.8
Indirect taxes	4.0	6.0	5.9	4.9	5.3	1.9
Non-tax revenues and other	0.8	1.5	2.2	2.8	2.6	1.4
Oil/gas revenues	10.1	13.6	82.8	146.3	275.0	170.0
Of which: Tax revenues	9.1	12.5	65.3	104.8	138.0	46.6
Expenditure	23.6	21.2	22.0	28.2	47.8	26.6
Recurrent expenditure	18.3	17.5	17.6	20.1	37.1	15.2
Wages and salaries	7.4	7.8	7.8	7.8	11.2	6.0
Goods and services	8.7	7.5	8.1	10.4	17.8	4.1
Capital expenditure	1.6	0.8	0.9	4.8	5.7	0.4
Overall balance	4.4	13.5	83.0	128.7	241.5	148.5
(In millions of U.S. dollars unless otherwise indicated)						
Memorandum items:						
Cumulative oil/gas savings (end-period)	10.5	13.9	70.1	649.8	1394.2	2086.2
(In percent of GDP)	3.6	4.6	21.9	197.3	386.0	527.4
(In percent of recurrent expenditure)	19.8	26.2	124.3	982.6	1041.0	3475.7
Non-oil overall fiscal balance	-16.7	-0.4	0.7	-57.8	-120.8	-84.9
(In percent of non-oil GDP)	-5.7	-0.1	0.2	-17.6	-33.4	-21.5

Sources: Data provided by the Timor-Leste authorities; and Fund staff estimates.

1/ Fiscal year: July-June. Expenditure actuals are reported on a cash basis.

Table 10. Timor-Leste: Central Government Domestic Non-oil Revenues, 2002/03–2007 1/

	2002/03	2003/04	2004/05	2005/06	2006/07	2007H2 Prel.
(In millions of U.S. dollars)						
Total domestic non-oil revenue	19.3	29.2	36.9	33.9	40.5	20.2
Tax revenue	17.0	24.8	29.7	24.9	31.1	14.5
Direct tax	5.3	6.6	10.7	8.8	11.8	7.0
Wage tax	2.7	2.9	3.3	2.8	3.1	1.6
Government	0.5	0.6	0.6	0.6	0.8	0.4
Other	2.2	2.3	2.7	2.2	2.3	1.2
Corporate income tax	1.7	1.8	4.3	4.7	3.8	2.8
Special withholding tax	0.9	1.9	3.1	1.3	4.9	2.6
Indirect tax	11.7	18.1	19.0	16.0	19.3	7.5
Tax on goods and services	8.7	14.2	15.0	12.7	15.0	6.4
Sales tax 2/	3.4	4.3	4.4	3.3	4.0	1.3
Excise duty 2/	3.4	7.2	8.1	6.8	7.3	2.8
Service tax 3/	1.9	2.6	2.4	2.5	3.6	2.3
Tax on international trade	3.0	3.9	4.1	3.3	4.3	1.1
Import duty	3.0	3.9	4.1	3.3	4.3	1.1
Non-tax revenue	2.3	4.5	7.1	9.1	9.3	5.7
Fees and charges	2.1	4.1	4.3	3.7	2.9	1.7
O/w: Property rental	1.1	1.3	1.5	1.5	1.4	0.7
Interest receipts and other	0.2	0.4	2.8	5.3	6.4	4.0
(In percent of non-oil GDP)						
Total domestic non-oil revenue	6.6	9.6	11.5	10.3	11.2	5.1
Tax revenue	5.8	8.2	9.3	7.5	8.6	3.7
Direct tax	1.8	2.2	3.3	2.7	3.3	1.8
Wage tax	0.9	1.0	1.0	0.9	0.9	0.4
Corporate income tax	0.6	0.6	1.3	1.4	1.1	0.7
Special withholding tax	0.3	0.6	1.0	0.4	1.4	0.6
Indirect tax	4.0	6.0	5.9	4.9	5.3	1.9
Tax on goods and services	3.0	4.7	4.7	3.9	4.2	1.6
Sales tax 2/	1.2	1.4	1.4	1.0	1.1	0.3
Excise duty 2/	1.2	2.4	2.5	2.1	2.0	0.7
Service tax 3/	0.7	0.9	0.8	0.8	1.0	0.6
Tax on international trade	1.0	1.3	1.3	1.0	1.2	0.3
Non-tax revenue	0.8	1.5	2.2	2.8	2.6	1.4
Memorandum items:						
Taxes collected at the border (US dollar millions)	9.8	15.5	16.6	13.5	15.7	5.2
(In percent of non-oil GDP)	3.4	5.1	5.2	4.1	4.3	1.3

Sources: Data provided by the Timor-Leste authorities; and Fund staff calculations.

1/ Fiscal year: July-June to 2006/07. Calendar year started in 2008, after half year to end-2007

2/ Collected only at the border.

3/ Turnover tax on hotel, restaurant, and transportation rental services.

Table 11. Timor-Leste: Oil/gas Revenues, 2001/02–2007 1/

	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007H2 Prel.
(In millions of U.S. dollars)							
Total oil/gas revenues	10.8	29.5	41.4	265.0	481.8	993.1	672.3
Tax revenues	6.5	26.4	38.0	209.4	345.3	498.5	184.4
Royalties and interest	4.3	3.1	3.4	56.2	136.5	494.6	487.9
Royalties	4.2	3.0	3.3	55.6	123.3	457.7	455.7
Interest income	0.1	0.1	0.1	0.6	13.3	36.9	32.3
(In percent of non-oil GDP)							
Total oil/gas revenues	3.8	10.1	13.6	82.6	146.3	275.0	170.0
Tax revenues	2.3	9.1	12.5	65.3	104.8	138.0	46.6
Royalties and interest	1.5	1.1	1.1	17.5	41.4	136.9	123.4
Royalties	1.5	1.0	1.1	17.3	37.4	126.7	115.2
Interest income	0.0	0.0	0.0	0.2	4.0	10.2	8.2

Sources: Data provided by the Timor-Leste authorities; and Fund staff estimates and calculations.

1/ Fiscal year: July-June to 2006/07. Calendar year started in 2008, after half year to end-2007

Table 12. Timor-Leste: Whole of Government Expenditure Composition, 2002/03–2007 1/

	2002/03	2003/04	2004/05	2005/06	2006/07	2007H2 Prel.
(In millions of U.S. dollars)						
Total expenditure (cash basis)	70.1	70.8	77.8	99.8	180.5	108.0
Wages and salaries	22.1	24.2	25.6	26.3	41.1	24.0
Goods and services	32.2	32.5	37.3	46.3	98.4	38.9
Travel	1.7	1.7	1.9	2.8	3.5	0.7
Training/workshops	0.7	0.5	0.8	1.3	2.3	1.1
Utilities	1.7	1.9	2.1	2.4	3.1	1.3
Fuel for generators	7.8	7.9	9.2	11.1	20.7	7.7
Vehicle operation	4.6	4.7	4.3	5.2	8.7	2.9
Current transfers to BPA	0.2	0.2	0.6	0.0	0.0	0.0
Operational material and supplies	5.0	4.0	3.6	4.7	15.2	2.6
Other operational expenses	1.1	1.2	1.5	3.2	5.3	3.9
Refund of Revenue	0.0	0.0	1.4	0.0	0.0	0.0
Current transfers to NGOs and individuals	0.0	0.0	0.0	0.5	11.7	8.4
Others	9.4	10.3	12.0	15.1	27.7	10.3
Capital expenditure	5.3	2.6	3.0	15.9	21.0	1.4
Infrastructure investment	2.4	0.9	1.7	2.6	14.1	0.7
Purchase of equipment	2.4	1.3	1.1	2.3	6.4	0.7
Other	0.5	0.4	0.2	10.9	0.5	0.0
Payments from carried over commitments	10.5	11.4	11.9	11.3	20.1	43.7
Outstanding carry-over commitments (end-period)	14.9	16.5	19.5	46.3	118.8	95.7
(In percent of non-oil GDP)						
Total expenditure (cash basis)	24.1	23.3	24.3	30.3	50.0	54.6
Wages and salaries	7.6	8.0	8.0	8.0	11.4	12.1
Goods and services	11.1	10.7	11.6	14.1	27.2	19.7
Capital expenditure	1.8	0.9	0.9	4.8	5.8	0.7
Carry-over expenditures	3.6	3.8	3.7	3.4	5.6	22.1
Outstanding carry-over commitments	5.1	5.4	6.1	14.1	32.9	48.4

Source: Data provided by the Timor-Leste Authorities.

1/ Fiscal year: July-June to 2006/07. Calendar year started in 2008, after half year to end-2007. Includes transactions of central government (Table 9) as well as those of the autonomous agencies.

Table 13. Timor-Leste: Public Sector Employment and Wages, 2002/03–2008

(In number of employees unless otherwise specified) 1/

	2002/03		2003/04		2004/05	2005/06	2006/07	2008	Monthly wage 2/ 3/
	Budget	Act.	Budget	Act.	Budget	Budget	Budget	Budget	
Total government employees 4/	16,387	13,170	17,150	14,300	17,175	18,161	21,176	24,123	
L1	3,440	2,601	2,696	1,385	1,518	1,306	1,584	2,927	85
L2	2,024	2,018	3,228	3,472	4,180	4,348	4,657	5,238	110
L3	6,793	5,187	6,698	5,862	6,825	7,265	8,850	8,866	123
L4	3,357	2,920	3,658	2,972	3,741	3,958	4,148	5,273	155
L5	549	320	622	454	666	903	1,379	1,279	201
L6	201	112	225	128	223	314	458	468	266
L7	23	12	23	27	22	67	100	72	361
Total non-police/defense 4/	12,139	9,474	12,442	10,087	12,489	13,454	16,220	19,565	
L1	839	562	669	304	667	730	1006	2,167	85
L2	970	688	1,074	794	1,105	1,231	1465	2,073	110
L3	6,380	5,164	6,516	5,680	6,483	6,728	8135	8,605	123
L4	3,222	2,630	3,367	2,739	3,384	3,566	3761	4,949	155
L5	513	309	584	418	611	828	1305	1,233	201
L6	194	110	213	126	219	307	451	467	266
L7	21	11	19	26	20	64	97	71	361
Police (PNTL) 5/	2,855	2,581	3,362	3,033	3,251	3,251	3,503	3,541	
L1	1,400	1,126	1,082	267	221	0	2	334	85
L2	1,000	1,207	1,887	2,549	2,665	2793	2869	2970	110
L3	370	2	100	5	90	141	319	3	123
L4	55	245	250	189	240	270	267	210	155
L5	24	0	30	22	31	43	42	24	201
L6	5	1	10	1	3	3	3	0	266
L7	1	0	3	0	1	1	1	0	361
Defense (FDTL) 5/	1,393	1,115	1,346	1,180	1,435	1,456	1,453	1,017	
L1 Recruit/ DEF01-02	1,201	913	945	814	630	576	576	426	85
L2 DEF03-05	54	123	267	129	410	324	323	195	110
L3 DEF06-08	43	21	82	177	252	396	396	258	123
L4 DEF09-10	80	45	41	44	117	122	120	114	155
L5 DEF11-12	12	11	8	14	24	32	32	22	201
L6 DEF13	2	1	2	1	1	4	4	1	266
L7 DEF14	1	1	1	1	1	2	2	1	361
Memorandum item:									
Average monthly wage (in US\$)									
Total employee	125	139	126	149	137	131	133	130	...
Total non-police/defense	134	133	135	...	135	137	139	135	...
Police	101	103	107	...	113	116	116	111	...
Defense	93	93	96	...	107	110	110	110	...

Sources: Data provided by the Timor-Leste authorities; and Fund staff estimates and calculations.

1/ Includes permanent and temporary staff. Excludes casual staff, which have been included in the 2006/07 budget documents.

2/ Figures relate to the average wage for permanent staff in each grade in U.S. dollars.

3/ The public sector pay-scale has not been changed since 2000/01. Excludes the cost of living allowance awarded in 2006/07.

4/ Includes autonomous agency staff, judges, university staff and other categories not classified as civil servants.

5/ Taken from ministry staffing records, which includes some administrative functions.

Table 14. Timor-Leste: Autonomous Agencies Operations, 2002/03–2006/07 1/

	2002/03	2003/04	2004/05	2005/06	2006/07
(In millions of U.S. dollars)					
Total retained revenues	4.9	5.7	8.1	7.3	7.0
Aviation	1.0	1.1	0.9	0.7	0.6
Port	1.1	1.1	1.0	0.8	0.9
Power	2.9	3.5	6.2	5.8	5.5
Other 2/	...	...	...	0.0	0.0
Total expenditures	12.6	10.4	12.3	12.4	24.3
Aviation	0.8	0.5	0.7	0.5	0.5
Port	0.6	0.2	0.2	0.2	0.5
Power	11.2	9.7	11.5	11.7	23.3
Other	...	...	...	0.3	1.0
Wages and salaries	0.5	0.4	0.5	0.5	0.5
Aviation	0.1	0.1	0.1	0.1	0.1
Port	0.0	0.1	0.1	0.1	0.1
Power	0.3	0.3	0.3	0.3	0.3
Other	...	...	...	0.1	0.2
Goods and services	9.6	9.7	11.3	11.7	22.9
Aviation	0.5	0.3	0.4	0.3	0.3
Port	0.2	0.1	0.1	0.1	0.4
Power	8.8	9.3	10.9	11.3	22.3
Other	...	...	...	0.2	0.6
Capital	2.5	0.3	0.5	0.2	0.8
Aviation	0.2	0.1	0.2	0.1	0.1
Port	0.3	0.1	0.0	0.0	0.0
Power	2.0	0.1	0.3	0.0	0.7
Other	...	...	...	0.0	0.1
Overall balance	-7.7	-4.8	-4.2	-5.1	-17.3
Aviation	0.2	0.6	0.2	0.2	0.1
Port	0.5	0.8	0.9	0.6	0.4
Power	-8.3	-6.2	-5.2	-5.9	-17.9
Other	...	...	...	-0.3	-1.0
Financing	7.7	4.8	4.2	5.1	17.3
Transfers from the budget	8.5	6.6	5.5	6.0	17.4
Aviation	0.0	0.0	0.0	0.0	0.0
Port	0.0	0.0	0.0	0.0	0.0
Power	8.4	6.6	5.5	6.0	17.4
Other	...	...	...	0.0	0.0
Other (Increase -)	-0.8	-1.8	-1.3	-0.9	-0.1
Aviation	-0.2	-0.6	-0.2	-0.2	-0.1
Port	-0.5	-0.8	-0.9	-0.6	-0.4
Power	-0.1	-0.4	-0.3	-0.2	0.5
Other	...	...	...	0.3	1.0
(In percent of non-oil GDP)					
Total retained revenues	1.7	1.9	2.5	2.2	1.9
Aviation	0.3	0.4	0.3	0.2	0.2
Port	0.4	0.3	0.3	0.2	0.2
Power	1.0	1.2	1.9	1.8	1.5
Total expenditures	4.3	3.4	3.8	3.8	6.7
Aviation	0.3	0.2	0.2	0.2	0.1
Port	0.2	0.1	0.0	0.1	0.1
Power	3.9	3.2	3.6	3.6	6.5

Sources: Data provided by the Timor-Leste authorities, and Fund staff estimates and calculations.

1/ The Institute of Equipment Management and SAMES were created in 2005/06.

Table 15. Timor-Leste: Operations of the Power Authority, 2001/02–2006/07 1/

	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07
(In thousands of U.S. dollars)						
Revenue collection	1,997	2,871	3,528	6,223	5,840	5,468
Expenditure	8,749	11,201	9,717	11,454	11,699	21,213
Wages and salaries	309	309	269	315	329	338
Goods and services	7,618	8,843	9,307	10,873	11,329	20,857
Fuel	5,596	7,950	7,732	8,631	9,547	...
Maintenance	145	386	756	1,274	954	...
Other	1,877	508	819	968	828	...
Capital expenditure	822	2,049	142	266	41	17
<i>Of which</i> : Prepayment meter project 2/	0	1,900	0	...	...	...
Operating balance	-5,929	-6,281	-6,048	-4,965	-5,817	-15,728
Overall balance	-6,751	-8,330	-6,190	-5,231	-5,859	-15,745
Financing	6,751	8,330	6,190	5,231	5,859	15,745
Budget transfers	6,751	8,442	6,557	5,511	6,039	17,367
External assistance	0	0	0	0	0	0
Other	0	-112	-367	-280	-181	-1,622
(In percent of GDP)						
Revenue collection	0.7	1.0	1.2	1.9	1.8	1.5
Expenditure	3.1	3.9	3.2	3.6	3.6	5.9
Wages and salaries	0.1	0.1	0.1	0.1	0.1	0.1
Goods and services	2.7	3.0	3.1	3.4	3.4	5.8
Capital expenditure	0.3	0.7	0.0	0.1	0.0	0.0
Budget transfers	2.4	2.9	2.2	1.7	1.8	4.8
(In percent of total central government expenditure)						
Budget transfers	13.5	12.3	10.2	7.8	6.5	10.1
(In thousands of U.S. dollars)						
Memorandum item:						
Average monthly revenue collection	166	239	294	519	487	456

Sources: Data provided by the Timor-Leste authorities, and Fund staff estimates and calculations.

1/ Fiscal year: July-June. Figures are presented on a cash basis and expenditure does not include disbursements on carry-over commitments.

2/ The total cost of prepayment meter project was \$2.7 million, of which \$1.9 million was provided from the budget, with the remainder financed by Norad and TFET.

Table 16. Timor-Leste: Combined Sources Fiscal Operations, 2002/03–2007 1/

	2002/03	2003/04	2004/05	2005/06	2006/07	2007H2
	Estimates 2/					
	(In millions of U.S. dollars)					
Revenue	56.8	69.7	79.2	42.2	58.7	23.2
Domestic revenue 3/	19.3	29.2	36.9	33.9	40.5	20.2
Autonomous agencies own revenue	4.9	5.7	8.1	7.3	7.0	3.0
Grant financing (budget support)	32.5	34.8	34.2	1.0	11.3	0.0
Expenditure (cash basis)	210.4	205.3	213.6	210.9	300.5	174.6
Recurrent expenditure	150.7	157.2	161.6	154.0	229.4	131.4
Central government budget (incl. autonomous agencies)	59.7	63.1	68.1	76.3	145.4	84.8
Donor projects	91.0	94.0	93.5	77.8	84.0	46.6
Capital expenditure	59.7	48.1	52.0	56.9	71.1	43.2
Central government budget (incl. autonomous agencies)	11.4	7.5	9.7	13.1	35.1	23.3
Donor projects	48.3	40.6	42.3	43.8	36.0	20.0
Overall balance non-oil balance	-153.7	-135.6	-134.4	-168.7	-241.7	-151.4
Financing	153.7	135.6	134.4	168.7	241.7	151.4
Oil fund financing of non-oil fiscal deficit	26.4	38.0	209.4	0.0	260.0	40.0
Project financing by donors	139.3	134.6	135.8	121.6	120.0	66.6
Changes in treasury cash-balances (increase -)	-12.0	-37.0	-210.8	47.1	-138.2	44.8
	(In percent of non-oil GDP)					
Revenue	19.5	23.0	24.7	12.8	16.3	11.8
Domestic revenue	6.6	9.6	11.5	10.3	11.2	10.2
Autonomous agencies own revenue	1.7	1.9	2.5	2.2	1.9	1.5
Grant financing (budget support)	11.2	11.5	10.7	0.3	3.1	0.0
Expenditure	72.3	67.6	66.6	64.0	83.2	88.3
Recurrent expenditure	51.8	51.8	50.4	46.8	63.5	66.4
Capital expenditure	20.5	15.8	16.2	17.3	19.7	21.9
Overall balance non-oil balance	-52.8	-44.7	-41.9	-51.2	-66.9	-76.5
Financing	52.8	44.7	41.9	51.2	66.9	76.5
Oil fund financing of non-oil fiscal deficit	9.1	12.5	65.3	0.0	72.0	20.2
Committed project financing by donors	47.9	44.4	42.4	36.9	33.2	33.7
Changes in treasury cash-balances (increase -)	-4.1	-12.2	-65.8	14.3	-38.3	22.6

Sources: Data provided by the Timor-Leste authorities; and Fund staff estimates.

1/ Fiscal year: July-June to 2006/07. Calendar year started in 2008, after half year to end-2007. Includes general government cash expenditure and expenditure programs undertaken by bilateral and international financial institutions outside the central government budget, but excludes externally funded military expenditures (e.g., UN peacekeeping operations).

2/ On the basis of data collected in the register for external assistance of the Ministry of Planning and Finance.

3/ Oil and gas revenue is not included and transfers from the Petroleum Fund are shown as financing.

Table 17. Timor-Leste: Balance of Payments 2002–07

	2002	2003	2004	2005	2006	2007
	Estimates					
	(In millions of U.S. dollars)					
Current account excl. international assistance	-642	-479	-321	34	295	771
Current account incl. international assistance	-53	-23	26	273	531	1,168
Trade balance	-119	-121	-121	-117	-114	-192
Exports of goods 1/	7	8	8	9	9	8
O/w: coffee	5	7	7	8	8	7
Imports of goods	-125	-130	-129	-125	-123	-200
Services (net)	-478	-330	-302	-159	-183	-324
Income (net)	16	20	149	365	647	1,330
O/w: oil/gas revenue and interest	9	13	141	354	637	1,312
Current transfers (net)	528	408	300	185	181	354
O/w: international assistance	527	408	299	184	180	354
Capital and financial accounts	73	41	95	-303	-600	-1,021
Official capital transfers	62	47	47	55	56	42
Financial account	11	-6	47	-357	-656	-1,063
O/w: oil/gas savings	0	-3	-3	-358	-637	-1,012
Overall balance	20	18	121	-29	-70	147
Changes in foreign assets (increase -)	-20	-18	-121	29	70	-147
	(In percent of non-oil GDP)					
Current account excl. international assistance	-226	-161	-104	10	90	195
Current account incl. international assistance	-19	-8	9	82	162	295
Current account excl. oil and gas revenue	-22	-12	-37	-24	-32	-37
Trade balance	-42	-41	-39	-35	-35	-49
Memorandum items:						
Stock of oil/gas savings	7	11	14	370	1,012	2,086
Public foreign assets (end-period)	51	72	196	524	1,096	2,316

Sources: Data provided by the Timor-Leste authorities, and Fund staff estimates.

1/ Exclude oil/gas revenues, which are recorded under the income (royalties) and transfers (tax revenues) because of lack of detailed data on the oil/gas sector (including production, exports, service payments, and profit remittances).

Table 18. Timor-Leste: Banking Indicators, 2004–07 (In percent)

	2004				2005				2006				2007					
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Capital adequacy ratio 1/	277.8	226.5	188.1	140.3	125.5	121.2	119.1	140.3	176.1	189.8	189.0	167.1	134.8	107.0	189.0	167.1	134.8	107.0
Loan growth (q/q)	24.1	6.3	7.3	4.3	4.8	2.6	3.4	-2.0	-9.9	-41.1	4.4	-1.8	10.0	-10.2	4.4	-1.8	10.0	-10.2
Equity/assets 1/	66.4	73.8	74.5	72.0	70.3	71.8	67.7	77.1	74.1	70.1	71.7	69.3	66.9	62.0	71.7	69.3	66.9	62.0
NPLs/total loans	3.2	5.4	6.9	7.8	9.6	12.5	15.7	20.7	24.9	27.8	29.9	32.7	30.4	30.2	29.9	32.7	30.4	30.2
Total provisions/NPLs	7.9	5.8	14.4	20.2	22.5	23.2	24.1	24.2	64.8	181.6	169.6	158.7	165.9	178.9	169.6	158.7	165.9	178.9
Liquid assets/total assets	47.6	36.0	31.6	33.5	32.7	34.8	35.2	36.3	41.7	47.9	55.4	61.4	63.0	71.3	55.4	61.4	63.0	71.3

Sources: Data provided by the Timor-Leste authorities, and Fund staff estimates.

1/ Applies to IMFTL only as other banking institutions are branches of foreign banks.

Table 19. Timor-Leste: Summary of the Non-Petroleum Tax System (as of Taxes and Duties Act 2008) 1 / 2/

Tax	Nature of Tax	Exemptions and Deductions	Rates
1. Direct Taxes			
1.1. Income tax	Timor-Leste had originally inherited the Indonesian income tax system with some modifications. Additional changes to simplify the system and reduce rates were introduced in July 2008.	<u>Depreciation</u> Business building - straight line depreciation at 100 percent	Resident natural person Income brackets and tax rates: 0 - \$6,000 0% \$6,000 - 10%
	The income tax applies to all taxable income other than that subject to wage income tax (1.2) or withholding taxes (1.3).	Depreciable assets – at 100 percent If pooling applies, all depreciable assets are included in a single pool.	Non-resident natural person: Income tax rate: 10%
	In the case of a legal person, income from interest, royalties and rent is included in the taxable income, with a credit for withholding tax.	<u>Amortization of intangibles</u> –at 100 percent	Legal person Income tax rate: 10%
		<u>Deductible expenses include:</u> bad debts, foreign exchange losses, salary and wages, contractor expenses, R&D expenses, and losses from sale/ transfer of property.	
1.2. Wage income tax	The wage income tax is withheld by the employer.	Exempt wages include: (a) wages received for official duties by diplomatic staff of a foreign government's representative office (b) wages of a public servant of a foreign government (c) wages of an employee of the UN or its agencies	<i>Resident</i> <u>Monthly wage income</u> <u>Tax rate</u> \$0 to \$500 0% above \$500 10% <i>Non-resident</i> 10%

Table 19. Timor-Leste: Summary of the Non-Petroleum Tax System (as of Taxes and Duties Act 2008) 1 / 2/

Tax	Nature of Tax	Exemptions and Deductions	Rates																				
1.3. Withholding taxes	<p>Income earned from designated sources (including royalty and rent) is subject to withholding tax at a variety of rates.</p> <p>Who is required to withhold is dependent on the type of income payment and the status of the person making the payment. In some instances the payer is required to withhold at the time of making the payment. In other instances the recipient is required to “self-withhold” at the time the payment is received.</p> <p>The withholding taxes are final, except for royalties and rent paid to a legal person.</p>	<p>Tax rates vary according to the source of income:</p> <p><i>Payable to residents and non-residents with permanent establishment:</i></p> <table border="1"> <thead> <tr> <th data-bbox="495 388 519 556"><u>Type of income</u></th> <th data-bbox="495 157 519 241"><u>Tax rate</u></th> </tr> </thead> <tbody> <tr> <td data-bbox="535 451 560 556">Royalties</td> <td data-bbox="535 157 560 220">10%</td> </tr> <tr> <td data-bbox="576 304 600 556">rent from land/ building income from:</td> <td data-bbox="576 157 600 220">10%</td> </tr> <tr> <td data-bbox="617 336 641 556">prizes and lotteries</td> <td data-bbox="617 157 641 220">10%</td> </tr> <tr> <td data-bbox="657 304 682 556">construction activities</td> <td data-bbox="657 157 682 220">2%</td> </tr> <tr> <td data-bbox="698 283 722 556">construction consulting</td> <td data-bbox="698 157 722 220">4%</td> </tr> <tr> <td data-bbox="738 283 763 556">provision of air and sea transportation services</td> <td data-bbox="738 157 763 241">2.64%</td> </tr> <tr> <td data-bbox="779 241 803 556">mining and mining support services</td> <td data-bbox="779 157 803 220">4.5%</td> </tr> <tr> <td data-bbox="820 157 844 556">provision of selected services</td> <td data-bbox="820 157 844 220">0%</td> </tr> </tbody> </table> <p><i>Payable to non-resident without permanent establishment:</i></p> <table border="1"> <tbody> <tr> <td data-bbox="925 441 950 556">all income</td> <td data-bbox="925 157 950 220">10%</td> </tr> </tbody> </table>	<u>Type of income</u>	<u>Tax rate</u>	Royalties	10%	rent from land/ building income from:	10%	prizes and lotteries	10%	construction activities	2%	construction consulting	4%	provision of air and sea transportation services	2.64%	mining and mining support services	4.5%	provision of selected services	0%	all income	10%	
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all income	10%																						

Tax	Nature of Tax	Exemptions and Deductions	Rates																		
2. Indirect Taxes																					
2.1 Border Taxes	All taxes in this category are levied at the border.																				
2.1.1. Import duty	Applicable to all imports at an ad-valorem rate except for selected import items.	<p>Imported goods that are exempt include:</p> <p>(a) when accompanying an arriving person</p> <ul style="list-style-type: none"> - 200 cigarettes and 2.5 liters of excisable beverages - non-commercial goods for personal use up to \$300 - household effects (returning former residents) <p>(b) imports by diplomats, UN and specialized agencies.</p> <p>(c) re-imported goods in the same condition they were exported</p> <p>(d) goods for which import duty is less than \$10.</p>	<p>2.5 percent of the customs value.</p> <p>“customs value” means the fair market value of the goods including cost, insurance and freight as determined in accordance with article VII of GATT</p>																		
2.1.2. Excise tax	<p>Excise tax is levied on designated goods at specific or ad-valorem rates.</p> <p>Excise taxes on imported goods are levied on the excise value, or the customs value plus the import duty payable.</p> <p>Excise tax is also applicable to designated goods produced domestically, but is not collected currently because of the absence of domestic production.</p>	<p>Exemption is given to:</p> <p>(a) Goods exported from Timor-Leste within 28 days of importation.</p> <p>(b) Goods that are exempt from import duty.</p>	<p>Rates for major excisable goods:</p> <p><i>Specific rates on quantity</i></p> <table border="0"> <tr> <td>Beer</td> <td>\$ 1.90 per liter</td> </tr> <tr> <td>Wine</td> <td>\$ 2.50 per liter</td> </tr> <tr> <td>Alcoholic beverages</td> <td>\$ 8.90 per liter</td> </tr> <tr> <td>Tobacco</td> <td>\$ 25.00 per kg</td> </tr> <tr> <td>Gasoline, diesel fuel</td> <td>\$ 0.06 per liter</td> </tr> </table> <p><i>Ad-valorem rates of the excise value</i></p> <table border="0"> <tr> <td>cigarette lighter, smoking pipe</td> <td>12%</td> </tr> <tr> <td>arms/ ammunition</td> <td>200%</td> </tr> <tr> <td>private yachts /aircraft</td> <td>20%</td> </tr> <tr> <td>motor cars</td> <td>35%</td> </tr> </table> <p>of amount in excess of \$70,000</p>	Beer	\$ 1.90 per liter	Wine	\$ 2.50 per liter	Alcoholic beverages	\$ 8.90 per liter	Tobacco	\$ 25.00 per kg	Gasoline, diesel fuel	\$ 0.06 per liter	cigarette lighter, smoking pipe	12%	arms/ ammunition	200%	private yachts /aircraft	20%	motor cars	35%
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Tax	Nature of Tax	Exemptions and Deductions	Rates
2.2. Service tax	<p>The service tax applies to designated services, which comprise:</p> <ul style="list-style-type: none"> (a) hotel services (b) restaurant and bar services (c) telecommunications services 	<p>Service tax is payable by providers of services, with monthly turnover of \$500 or more.</p>	<p>A uniform 5 percent.</p>

Source: Information provided by the Timor-Leste authorities.

1/ The tax system of Timor-Leste was established by UNTAET Regulation (No. 2000/18 June 30, 2000), modifying then applicable Indonesian Law on Income Tax. After independence, the tax system was amended by the Revenue System Amendment Act (applicable on July 1, 2002). The *Taxes and Duties Act 2008*, passed by Parliament on June 4, 2008, introduced additional changes to simplify the system and reduce rates and will be in effect from July 1, 2008 (pending promulgation). Laws on external and domestic investment, adopted in 2005, contain incentives that provide tax relief, however there have been no tax rulings issued to clarify the implementation of provisions of the two laws.

At present, Timor-Leste has no double taxation treaties with its trading partners.

2/ These taxes are not applicable to oil/gas activities in the Timor Sea.