TIMOR-LESTE MID TERM ECONOMIC REVIEW 2026

BANCO CENTRAL DE TIMOR-LESTE

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CORE TAKEAWAYS

Timor-Leste's near-term economic outlook remains favorable, although structural constraints continue to weigh on the sustainability and breadth of growth. Real non-oil GDP growth is projected to strengthen from **4.5 percent in 2025 to 5.0 percent in 2026**, supported by public expenditure, household consumption, and a gradual recovery in private investment. Public investment, particularly in infrastructure, remains an important source of domestic demand. However, limited domestic productive capacity and absorptive constraints continue to constrain the supply response. High import dependence further limits domestic value added from demand expansion and contributes to persistent external imbalances.

Inflation remains contained. Headline inflation declined from **1.0 percent at end-2025 to 0.5 percent in June 2026**, reflecting lower food prices and subdued domestic price pressures. Inflation is projected to average around **1 percent in 2026.** The outlook remains subject to upside risks from higher transport and energy costs. Given the economy's high import dependence and full dollarization, external price shocks could pass through to domestic prices, underscoring the importance of maintaining price stability and strengthening domestic supply capacity.

Fiscal policy remains supportive of activity, while the end of Bayu-Undan production has materially altered the fiscal and external environment. The decline in petroleum-related revenues increases the urgency of strengthening domestic revenue mobilization, improving expenditure efficiency, and maintaining prudent management of Petroleum Fund resources. Fiscal policy will need to balance near-term development objectives with medium-term fiscal sustainability. Stronger prioritization and efficiency of public investment will be essential to preserve fiscal space and ensure that public spending contributes to productive capacity and diversification.

Financial conditions remain characterized by ample liquidity, but financial intermediation remains limited. Broad money expanded strongly during the first half of 2026, while private-sector credit continued to recover.

In June 2026, banking-system assets increased by **19.5 percent year-on-year,** with placements with other banks accounting for **60 percent** of the increase, compared with **23 percent for loans.** The composition of balance-sheet expansion therefore suggests that the principal constraint is increasingly the transmission of liquidity into domestic credit rather than liquidity availability itself. Strengthening financial infrastructure and access to finance will be important to support private investment.

The external position weakened significantly in the first half of 2026. The current account deficit widened to **USD 374.1 million**, mainly reflecting a larger goods deficit. Imports remained elevated, while non-oil exports, despite strong growth, remained small relative to import demand. A narrower services deficit and stronger secondary income provided some offset but were insufficient to reverse the deterioration in the trade balance. The financial account recorded a substantial net outflow of **USD 705.9 million,** driven mainly by higher portfolio and other investment outflows, further underscoring external vulnerability.

Overall, the near-term outlook remains supported by domestic demand and low inflation, but medium-term vulnerabilities remain significant. High import dependence, limited productive capacity, weak export diversification, declining petroleum revenues, and shallow financial intermediation constrain the economy's adjustment capacity. Under full dollarization, policy space is more limited, placing greater emphasis on **fiscal prudence, productivity-enhancing reforms, domestic revenue mobilization, export diversification, and deeper financial intermediation.** These reforms are essential to strengthen external resilience, support private-sector-led growth, and preserve intergenerational wealth.

EXECUTIVE SUMMARIES

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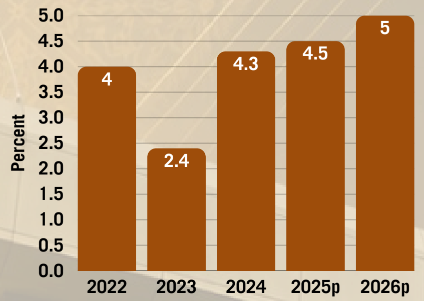
KEY MACRO ECONOMIC INDICATORS

ECONOMIC GROWTH

GROWTH EVOLUTION



SHARE OF CONSUMPTION REAL GDP GROWTH IN 2026

- FINAL CONSUMPTION 128 %
- PUBLIC CONSUMPTION 57 %
- PRIVATE CONSUMPTION 71 %

SHARE OF INVESTMENT REAL GDP GROWTH IN 2026

- TOTAL INVESTMENT 22 %
- PUBLIC INVESTMENT 16 %
- PRIVATE INVESTMENT 5 %

PRIMARY DRIVER OF REAL GDP GROWTH IN 2026 (Contribuition to growth-pp)

PUBLIC CONSUMPTION ▲	5.4% (3.1 pp)
PRIVATE CONSUMPTION ▲	3.4 % (2.4 pp)
PUBLIC INVESTMENT ▲	5.5 % (1.2 pp)
PRIVATE INVESTMENT ▲	4.5 % (0.3 pp)
IMPORT ▲	2.9 % (1.9 pp)
EXPORT ▲	1.7 % (0.1 pp)

- Timor-Leste's non-oil Real GDP growth is set to accelerate to 5.0% in 2026,
- Total investment accounts for 22% of Real GDP growth, heavily skewed toward Public Investment (16%) over Private Investment (5%).
- Final consumption remained the dominant component of domestic expenditure, equivalent to 128 percent of real GDP, with private and public consumption accounting for 71 percent and 57 percent, respectively.

DOMESTIC INFLATION

ANNUAL AVERAGE INFLATION

0.7%

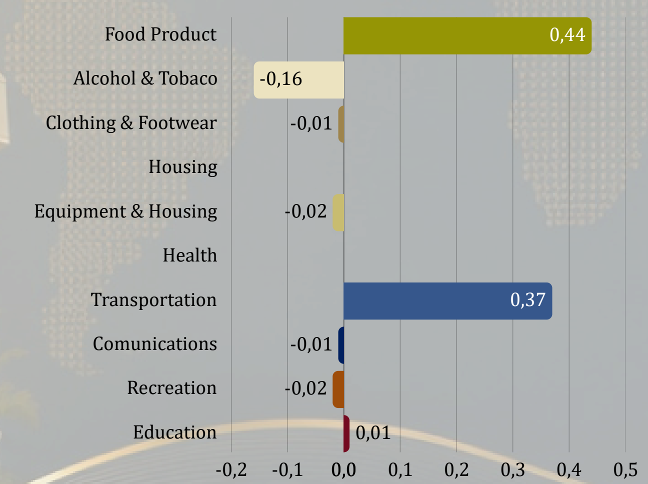
MIDTERM AVERAGE INFLATION

0.6%

ANNUAL TOTAL INFLATION (YOY)

0.5%

MAIN CONTRIBUTOR TOF ANNUAL INFLATION



- Annual inflation fell to 0.5% in June 2026 (down from 1.0% in Dec 2025), with a first semester average of 0.6% which reflecting strong disinflation following a 2023 peak of 8.7%.
- Transportation saw a sharp increase to 7.0% inflation, acting as the primary positive growth contributor (+3.2) due to rising fuel and transport costs.

CURRENT ACCOUNT

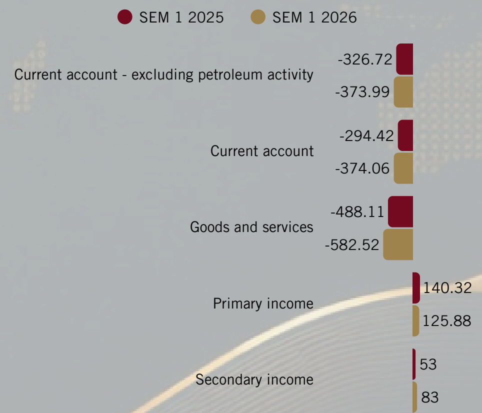
TOTAL CURRENT ACCOUNT

USD 374.0 (million)

NON-OIL CURRENT ACCOUNT

USD 374.0 (million)

TIMOR-LESTE CURRENT ACCOUNT BALANCE



- Timor-Leste's external sector position weakened in first half of 2026, with the current account deficit expanding 27.0% year-on-year from $294.4 million to $374.06 million
- Driven primarily by a 19.2% expansion in the goods and services trade deficit to -$582.5M and a 10.3% drop in primary income to $125.9M, though a doubling of secondary income to $82.6M helped cushion the decline.

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NON-OIL TRADE OF GOODS-FIRST HALF OF 2026

TOTAL IMPORTS OF GOODS (CIF)

USD 580.0 million

NON-OIL IMPORTS BY TOP COMMODITIES

Fuel	Vehicle	Machinery	Cereals	Electrical Equp.
USD 175 million	USD 59 million	USD 26 million	USD 32 million	USD 19 million

MERCHANDISE IMPORTS (CIF)

USD 565.6 million

MOST SOURCES FROM

Indoneisa	Taiwan	China	Singapore	India
177.9 million	131.2 million	72.1 million	33.3 million	31.8 million

TOTAL NON-OIL EXPORT INLUDE RE-EXPORT

USD 19.7 million

TOP EXPORT MARKETS

Indonesia	Australia	Japan	China	USA
USD 5.5 million	USD 4.1 million	USD 1.3 million	USD 1.3 million	USD 0.8 million

NON-OIL DOMESTIC EXPORT

USD 15.5 million

MOST PRODUCTS EXPORT

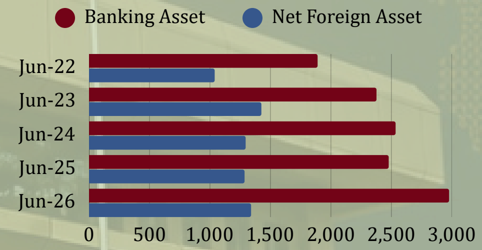
Coffee decaffeinated	Copra	Conjac	Candlenuts	Palm Seed
USD 8,9 million	USD 0.6 million	USD 0.4 million	USD 0.2 million	USD 0.2 million

- A substantial trade gap persist: imports reached USD 565.6M versus exports USD 15.5M.
- **Fuel (USD 175M) and vehicles (USD 59M) accounted for the largest share of import spending.**
- **Indonesia (USD 177.9M) and Taiwan (USD 131.2M) were the leading suppliers.**
- Indonesia (USD 5.5M) and Australia (USD 4.1M) were the main export destinations.
- Decaffeinated coffee remained the dominant exports product, generating nearly USD 9M.

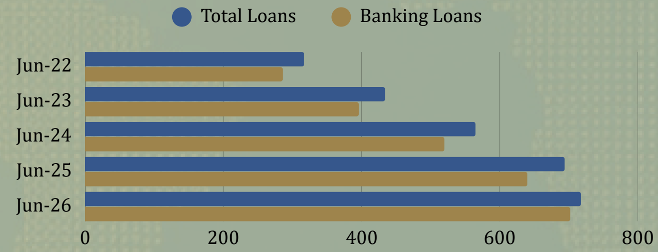
MONETARY AND FINANCIAL SECTOR

TOTAL DEEPOSIT BY JUNE 2026	TOTAL CREDIT BY JUNE 2026	LOAN TO GDP RATIO	LOAN INTEREST RATE	TOTAL ASSET BY JUNE 2026	TOTAL FOREIGN ASSET BY JUNE 2026
USD 1,911 million	USD 768 million	36.6 %	10.3 %	USD 3,046 million	USD 1,701 million

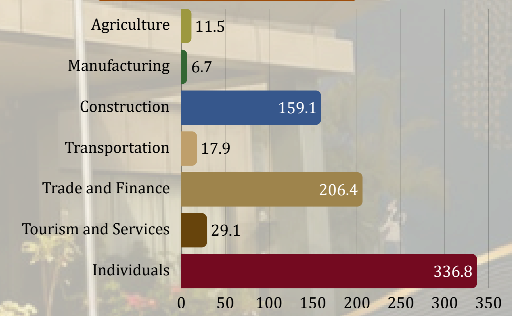
TOTAL ASSET FINANCIAL SYSTEM



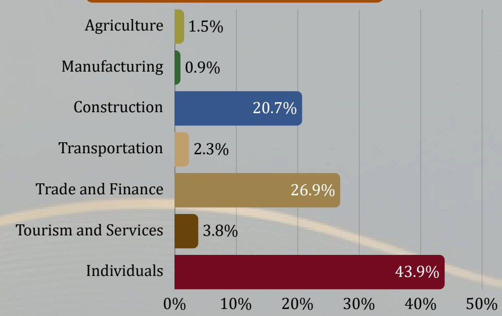
EVOLUTION OF TOTAL CREDIT



TOTAL CREDIT BY SECTOR



SHARE OF CREDIT BY SECTOR



- **Total assets continued to expand steadily through June 2026.**
- **Total lending maintained a sustained upward trend over 2022–2026.**
- **Lending was concentrated in individuals (43.9%), trade and finance (26.9%), and construction (20.7%).**
- **Manufacturing, tourism, and transport together accounted for less than 7% of total lending.**
- **Lending interest rates remained elevated at 10.3 percent.**

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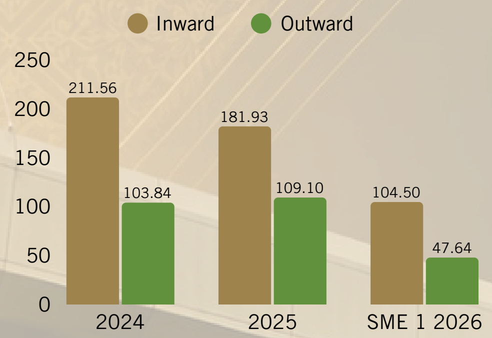
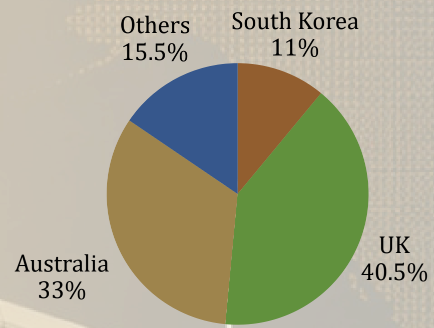
WORKER REMITANCE-FIRST HALF OF 2026

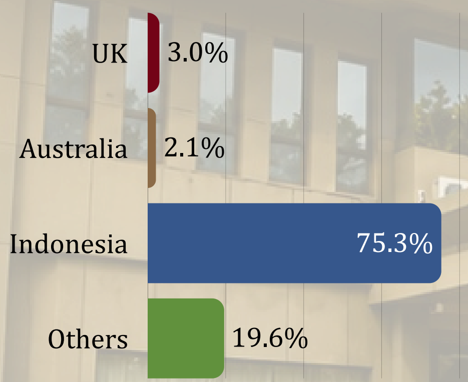
WORKER REMITANCE BY FLOWS



INWARD BY COUNTRIES



OUTWARD BY COUNTRIES



NET REMITTANCE FLOW

USD +56.86 million

PETROLEUM FUND

TOTAL BALANCE
2025: 18.6 billion
2026*: 18.4 billion

PETROLEUM REVENUE
2025: 36.1 million
2026*: 14.1 million

PF INVESTMENT REVENUE
2025: 1,772 million
2026*: 621 million

ANNUAL INVESTMENT RETURN
2025: 9.9%
2026*: 7.9%

WITHDRAWALS
2025: 1,4511 million
2026*: 800 million

PETROLEUM FUND SINCE 2005 INCEPTION

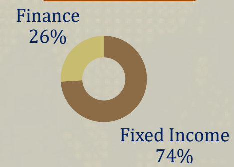
TOTAL PETROLEUM REVENUE
USD 25.3 billion

TOTAL PF INEVESTMENT RETURN
USD 12.6 billion

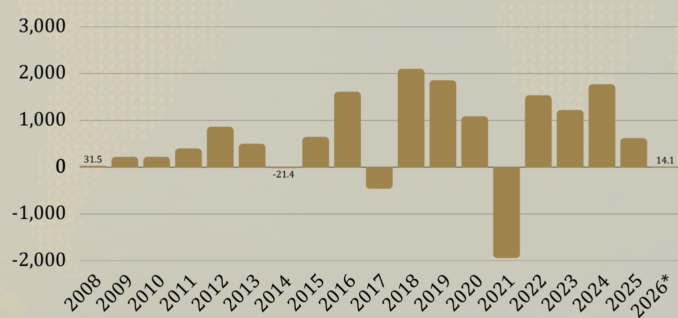
AVERAGE INVENSTMENT RETURN
4.24%

TOTAL WITHDRAWALS
USD 19.6 billion

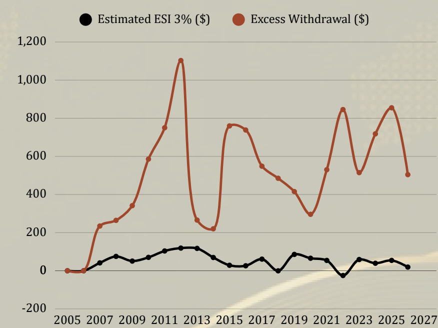
CONTRIBUTION TO RETURN SINCE INCEPTION



ANNUAL PF INVESTMENT REVENUE (USD MILLION)



ANNUAL PF WITHDRAWALS (USD MILLION)



- **Inward remittances continuously exceed outward flows across all periods.**
- Inward and outward flows reached USD 104.5 million and USD 47.6 million, respectively, in H1 2026.
- **The UK (40.5%) and Australia (33.0%) contribute over 73% of incoming funds.**
- **South Korea accounts for 11%, with 15.5% coming from other countries.**
- **Indonesia overwhelmingly dominates outward remittance transfers. Otherwise, the UK, Australia, and other countries account for minor outward flows.**
- **The net worker remittance balance remains positive at first semester of 2026 (USD 56.86 million)**

- **Capital of the Fund eroded by $0.2B due to withdrawals outpacing income.**
- **Direct resource receipts collapsed by 61%, signaling field depletion.**
- **Strong market yields, well above historical averages.**
- **Outflows slightly reduced, but stay structurally elevated.**
- **The fund achieved a 4.24% average return, historically driven by Fixed Income (74%) over Equities (26%), though equities now power recent gains**
- **Sustained depletion of the Petroleum Fund principal reflects cumulative state withdrawals exceeding investment earnings, compounded by the cessation of direct oil revenues.**