

# Executive Summary

The development of global economies remained slow in 2023, growing by 3.1% after the remarkable recovery in 2021 from the global COVID-19 pandemic. Although positive, global economic development in 2023 remained sluggish and on a decelerating trajectory following the strong recovery in 2021 and still fell below the historical 20-year average growth rate (2000-2019) of 3.8%.

Looking ahead to 2024 and 2025, the IMF forecasts stable growth for the global economy and the economies of some countries and regions in 2024, before a new increase in 2025. Specifically, the IMF estimates that the global economy will grow by 3.1% in 2024 and 3.2% in 2025.

Global inflationary pressures were notably high in 2023, although they slowed, with greater evidence in the economies of the US, the euro area, Japan, and ASEAN, reaching historical values in recent decades. In the US and the euro area, average inflation rates were 4.1% and 5.6%, respectively. The IMF expects inflation rates to begin converging to 3% and 2% in 2024 and 2025.

In the money and bond markets, a sharp decline in two-year interest rates stood out, especially in the US and the euro area. In the currency markets, the dollar continued to register a slight appreciation against major international currencies. On the other hand, global stock markets accumulated substantial gains. Meanwhile, the global commodity market ended up with modest losses, in line with the slowdown in global economic progress.

The Petroleum Fund investments performed positively due to rising stock market prices and falling two-year interest rates. However, global oil and gas prices declined, affecting related sector revenues.

Asian economies once again experienced more pronounced economic activity growth than others in 2023. The IMF expects the region to maintain substantial and widespread economic recovery in 2024.

Within the national framework, Timor-Leste's economy experienced a slowdown in growth in 2023 compared to 2022, mainly due to difficulties in public spending execution during the election year. The projected economic growth rate of 2.3% in 2023 marked a deceleration of 1.7 percentage points from the GDP growth observed in 2022.

For 2024, BCTL projects a significantly positive economic growth rate of 4.2%, in line with the Government's forecast plan of 5% for the next five years.

In fiscal policy terms, 2023 was marked by a significant reduction in expenditure, down by \$248 million (-14%), mainly due to a decrease in current expenditure (-13.8%), in line with the reduced budget after the revised budget.

Contrary to global trends, there was a notable increase in domestic inflationary pressures in 2023, with the average inflation rate reaching 8.4%, up from 7% in 2022 and 3.8% in 2021.

Timor-Leste continued to record a significant increase in the external current account deficit in 2023, reaching -\$601 million, primarily due to a sharp increase in goods imports and a reduction in petroleum product exports.

Despite the challenging macroeconomic context, the financial sector remained robust and dynamic in terms of activity growth, assets, and resources captured. It is notable that bank credit continued to grow in 2023, as did deposits and resources captured by banks operating in the country.

