2025

MID-TERM ECONOMIC REVIEW

We are proud to present the 2025 mid-term economic review as a reflection of our commitment to transparency, evidence-based policymaking, and sustainable growth.

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Table of Contents

Executive Summary 01

Key Recommendations 03

01 Fiscal Consolidation 03
02 Financial Intermediation 03
03 Economic Diversification 03
04 External Stability 03

Technical Abstract 04

01 Economic Activity and Inflation 07

1.1 Economic Activity and Inflation 07
1.2 Composition of Gross Domestic Product 08
1.3 Inflation 10

03 MONETARY 14

3.1 Interest Rates 14
3.2 Exchange rates 15
3.3 Monetary Base 16
3.4 Money Supply 16
3.5 Financial Deepening 18

05 External Sector 24

5.1 Current Account 25
5.1.1 Trade Balance 25
5.1.1.1 Goods Account 25
5.1.1.2 Service Account 27
5.1.2 Primary and Secondary Income 28
5.1.2.1 Primary Income 28
5.1.2.2 Secondary Income 28
5.2 Capital and Financial Accounts 28
5.2.1 Capital Account 28
5.2.2 Financial Account 28

02 Public Finance 11

2.1 Revenue 11
2.2 Expenditure 08
2.2.1 Current expenditure 12
2.2.2 Capital Expenditure 13

04 Banking system 19

4.1 Banking Assets 20
4.2 Bank Liabilities 21
4.3 Bank Profitability 22
4.4 International Transfer Services 22
4.4.1 Commercial Banks 22
4.4.1 Money Transfers Operators (MTOs) 23

06 Global Spillover to Timor-Leste 30

6.1 Imported Inflation 30
6.2 Energy Markets and Oil Revenues 31
6.3 Financial Markets and the Petroleum Fund 33

Charts

01

1.1 Real GDP Growth 07
1.2a Expenditures' Compositions of Real GDP 09
1.2b Industries' Compositions of Real GDP 09
1.3a Inflation Rate in Timor-Leste 10
1.3b Inflation Contribution in Timor-Leste 10

02

2.1 Domestic Revenues, excluding ESI 11
2.2 Public Expenditure by Categories 12

03

3.1a Lending Interest Rate 14
3.1b Deposit Interest Rate 15
3.2a Nominal Exchange Rate vs USD 15
3.2b Real Effective Exchange Rate Index 16
3.4a The Growth Rate of Monetary Aggregate and Credit 16
3.4b Deposit by Type of Depositors 17
3.4c Loans to Private Sector: Contribution to Growth 17
3.5 M2 and Credit in Percentage of GDP 18

04

4.2a Composition of Deposit 21
4.2b Deposit Growth 21
4.4.2a Inward Transfers, by Purpose (MTOs) 23
4.4.2b Outward Transfers, by Purpose (MTOs) 23

05

5.1.1.1. Timor-Leste – Current Account Balance 26
5.2.2 Financial Account 29

06

6.1a Internal External Inflation 30
6.1b Exchange Rate of ASEAN 5 and China 31
6.2a Energy Prices – Spot Level 32
6.2b Energy Prices - % Annual Change 32
6.3a Exchange Rate of World Major Economies 34
6.3b Two-Year Bond Interest Rates 34
6.3c 10-Year Interest Rates 34
6.3d Stock Price of Selected Countries 35

Tables

02

Table 2.2.2 Composition of Public Investment 13

03

Table 3.5 Main Factor of Variation in the Money Supply (M2) 18

04

Table 4.1. Banking System Asset Development 20

05

Table 5. Balance of Payment of Timor-Leste 25

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EXECUTIVE SUMMARY

Timor-Leste's economy in 2025 is expanding at a moderate pace, supported by strong public spending, household consumption, and private investment. Non-oil GDP growth is projected at **4.4%**, with public consumption and public infrastructure projects as key drivers. Average inflation has eased to **0.5%**, restoring purchasing power and supporting consumer confidence.

Fiscal performance improved in the first half of 2025, with domestic revenues up 36% year-on-year due to stronger tax collection. However, the budget remains heavily dependent on Petroleum Fund transfers, raising long-term fiscal sustainability concerns. Government expenditure is expanding rapidly, with consumption and capital projects providing near-term stimulus but reinforcing structural dependence on oil revenues.

The financial sector shows gradual deepening. Credit to the economy expanded by **23.5%**, lifting the credit-to-GDP ratio to 34.6%.

Banking sector fundamentals remain sound, with stable profitability, low non-performing loans (2.5%),and continued deposit dominance. Nonetheless, the loan interest rate remains high, reflecting structural bottlenecks in monetary transmission.

Externally, vulnerabilities persist. **The current account deficit widened to USD 279.1 million**, mainly due to rising imports and the closure of the Bayu-Undan gas field. Petroleum Fund assets, at over USD 18.7 billion, continue to provide a critical buffer, though withdrawals at current levels risk eroding sustainability beyond the 2030s.

Global conditions present both opportunities and challenges. Disinflation has reduced imported inflation, but volatility in energy and commodity prices, along with U.S. monetary policy shifts, continues to affect Timor-Leste through trade, investment, and Petroleum Fund returns.

Overall, the midterm outlook is stable but constrained by structural weaknesses. Strong public investment, low inflation, and a resilient banking system provide short-term support, but fiscal sustainability, diversification, and external balance remain pressing challenges. Addressing these vulnerabilities is essential not only for long-term growth but also for laying credible foundations for economic resilience and sustainability.

KEY RECOMMENDATIONS

In light of the findings presented in this Midterm Economic Review, a number of policy priorities emerge. The following recommendations are intended to support near-term stability while laying the foundations for long-term resilience and sustainability. They are framed as broad guidance for policymakers, emphasizing fiscal discipline, financial deepening, diversification, external stability, and institutional readiness.

01 Fiscal Consolidation

Fiscal performance improved in the first half of 2025, with domestic revenues up 36% year-on-year due to stronger tax collection. However, the budget remains heavily dependent on Petroleum Fund transfers, raising long-term fiscal sustainability concerns. Government expenditure is expanding rapidly, with consumption and capital projects providing near-term stimulus but reinforcing structural dependence on oil revenues.

02 Financial Intermediation

The authorities may consider further measures to deepen financial intermediation, such as expanding digital finance, strengthening credit infrastructure, including by addressing land title issues, and promoting competition in banking services. Such steps could help reduce high lending rates and improve access to credit for households and businesses.

03 Economic Diversification

To reduce structural dependence on oil revenues, priority may be given to supporting non-oil sectors such as agriculture, tourism, and small-scale manufacturing. Infrastructure investment could be increasingly directed toward projects that enhance private-sector productivity and export competitiveness.

04 External Stability

Given the widening current account deficit, it is advisable to closely monitor external balances and implement contingency measures, including prudent reserve management and policies aimed at reducing import dependence by promoting domestic production.

TECHNICAL ABSTRACT

Economic Activity and Inflation

Timor-Leste's economy is expanding at a moderate pace. **Non-oil GDP is projected to grow by 4.4% in 2025**, up from 4.1% in 2024, driven by public expenditure, household consumption, and modest private investment. Government consumption is forecast to rise by 11.9%, adding 6.9 percentage points to growth, while public investment is set to increase 14.5%, reflecting infrastructure projects such as roads and bridges. Household consumption is growing at 3.6%, supported by rising wages, public transfers, and remittances, and credits.

Private investment is showing signs of recovery, largely through the "crowding-in" effect of public investment. Construction is the primary beneficiary, with positive spillovers into related industries. However, growth remains constrained by weak absorptive capacity, which has pushed imports up by nearly 12%, widening the trade deficit and subtracting 7.4 percentage points from growth.

Inflation has eased significantly, averaging around 0.1% by mid-2025, well below the government's threshold. Lower inflation has restored purchasing power and improved household confidence. For the full year 2025, inflation is expected to average around 0.5% before rising to 1.2% in 2026.

Public Finance

Domestic revenue reached **USD 124.7 million in the first half of 2025**, 36% higher than the same period in 2024, largely from improved tax collection. However, revenues declined compared to late 2024 due to seasonality. Petroleum Fund transfers remain the main budgetary anchor, with Estimated Sustainable Income (ESI) collections of USD 500 million, slightly down from 2024.

Public spending continues to expand strongly, with capital outlays (road and bridge infrastructures) complementing rising current expenditure. This fiscal push supports growth but reinforces dependence on petroleum revenues, raising long-term sustainability concerns.

Monetary and Financial Sector

Timor-Leste's monetary aggregates show mixed trends. The money supply (M2) fell slightly as deposits declined, but credit to the economy increased, reflecting rising domestic demand. By June 2025, **total credit to the economy expanded by 22.8% year-on-year, reaching USD 694 million**. The credit-to-GDP ratio rose to **34.6%**, though still low by regional standards, suggesting that financial deepening is progressing.

Interest rates remain relatively high and only loosely aligned with U.S. benchmarks, reflecting structural bottlenecks and weak monetary transmission. The real effective exchange rate appreciated due to dollar strength, potentially affecting external competitiveness.

Banking System

The banking sector remains sound, with seven licensed institutions soon to expand to eight following the authorization of Banco do Nosso Futuro in August 2025. Total banking assets declined slightly by 2.2% to **USD 2.48 billion**, mainly from reduced foreign placements and central bank balances. Conversely, **banking loans to customers grew by 23.1%**, now representing one-quarter of banking assets, showing a shift towards domestic credit intermediation.

On the liabilities side, deposits contracted modestly by 2.5% but continue to dominate funding. Credit quality improved, with non-performing loans at 2.5%, supported by stronger repayment and provisioning. Bank profitability remains adequate, underpinned by wide operating margins.

External Sector

The **current account deficit widened to USD 279.1 million** in the first half of 2025, up 66.2% from 2024, reflecting rising imports and the closure of the Bayu-Undan oil and gas field in June 2025. Non-oil exports remain limited, and surpluses in income and remittances were insufficient to offset deficits in goods and services.

The financial account also posted a **net outflow of USD 404.2 million,** indicating a financing need in the first semester of 2025. Reserve assets declined slightly but remain adequate given petroleum revenues. Persistent deficits underscore structural vulnerability and reinforce the urgency of diversifying the economy beyond hydrocarbons.

Global Spillovers

Global dynamics continue to shape Timor-Leste's outlook. Imported inflation remains a risk, particularly from energy and food prices, though global disinflation has eased pressures in 2025. Energy markets are critical as oil revenues remain the primary fiscal and external buffer, however, currently it does not affect the country's wealth anymore as no oil and gas were being produced since May 2025. International financial market shifts, especially U.S. interest rate policy, influence Petroleum Fund returns and indirectly affect lending conditions.

Overall Assessment

Timor-Leste's economy in 2025 shows resilience, supported by strong public spending, consumption, and a growing credit market. Inflation is subdued, and the banking system is stable with deepening domestic lending. Yet the country continues to face **persistent external deficits, dependence on petroleum revenues, and limited private-sector dynamism.** Addressing these structural issues – by increasing domestic production, diversification, strengthening financial intermediation, and enforcing fiscal sustainability – remains vital for long-term stability and for laying the foundations for economic resilience and sustainability.

1. ECONOMIC ACTIVITY AND INFLATION

This chapter outlines the recent evolution of Timor-Leste's economy and projections for 2024 and 2025, focusing on key developments in public finance, monetary and financial sectors, and the external sector.

1.1 Economic Development and Outlook

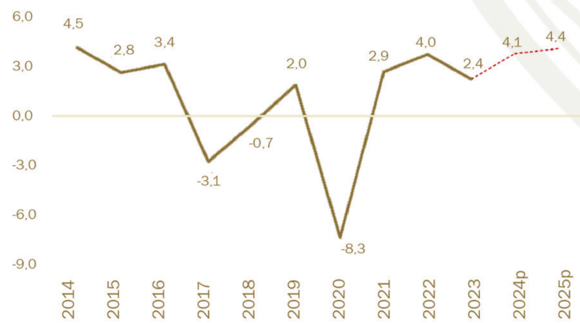
In 2025, real non-oil GDP grew by 4.4%, up from 4.1% in 2024.

Timor-Leste is experiencing a moderate economic growth in the last five years, with the non-oil real GDP is projected to grow 4.4%, up from 4.1% in 2024. Growth is driven by public spending, household consumption, and modest private investment. Despite that, limited absorptive capacity pushes up imports, partially offsetting growth.

Final consumption is the main driver of the economic growth in 2025, with government consumption estimated to rise by 11.9%, contributing 6.9 percentage points (pp) to overall growth, led by a sharp increase in purchases of goods and services. Public investment is also projected to grow 14.5% (2.7 pp), driven by expanded capital expenditure.

Chart 1.1 Real GDP Growth

(% Annual changes)



Source: INETL - NA 2022 & 2023:and BCTL rev.projection, 2024 &2025

In 2025, significant growth in the private sector is expected due to the crowding-in effect.

Global dynamics continue to shape Timor-Leste's outlook. Imported inflation remains a risk, particularly from energy and food prices, though global disinflation has eased pressures in 2025. Energy markets are critical as oil revenues remain the primary fiscal and external buffer, however, currently it does not affect the country's wealth anymore as no oil and gas were being produced since May 2025. International financial market shifts, especially U.S. interest rate policy, influence Petroleum Fund returns and indirectly affect lending conditions.

Despite the positive contributions from consumption and investment, Timor-Leste continues to face a substantial trade deficit, driven by the growing demand for imported goods and services. In constant terms, total imports are projected to increase by 11.9% in 2025, offsetting growth by 7.4 pp. This surge in imports reflects higher domestic demand for foreign consumption, intermediate, and capital goods, while non-oil exports remain largely confined to coffee in modest volumes, underscoring the economy's limited productive capacity to meet internal demand.

Beyond the short-term outlook, the consumption-based economy and excessive reliance on the public sector remain key challenges, slowing the transition to a private-sector-led economy and undermining long-term economic sustainability and resilience. This dependence also contributes to persistent trade deficits.

Promoting private-sector-driven growth is therefore essential for generating higher-quality, well-paying employment opportunities for the expanding youth population and reducing external dependency, ultimately supporting more resilient and sustainable economic foundation.

1.2 Composition of Gross Domestic Product

The economy remains consumption driven.

From the perspective of expenditure, the economy remains heavily consumption-driven, with private consumption accounting for 75.6% of GDP and public consumption for 57.8%. In contrast, the share of total investment remains relatively small, despite the shares of both public and private investment having grown considerably over the past four years. This reliance on consumption reflects the continued country's weak productive capacity, high dependence on imports, persistent trade deficits, all of which stifle long-term growth potential.

Public Investment rose significantly in 2025, driven by a higher capital development spending.

The share of imports is projected to expand over the past four years, despite a minor decline compared to the previous year. Imports continue to rise as the country remains dependent on them to meet growing domestic demand. In contrast, the share of exports – primarily concentrated in coffee - increased in the last four years; however, growth is estimated to have slowed in the most recent year.

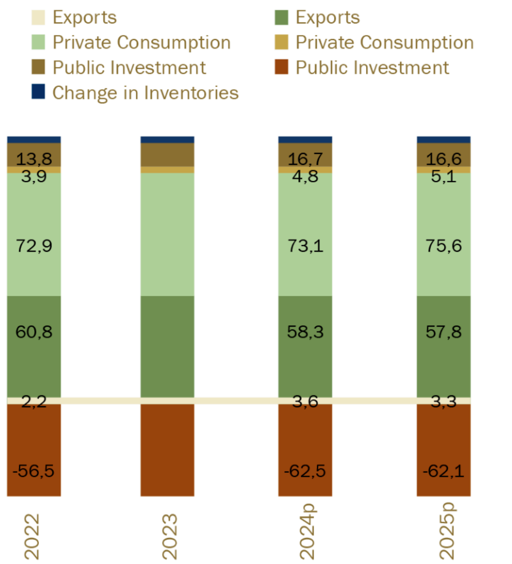
In 2025, public administration continues to hold the dominant share in the economy.

From an industry perspective, public administration continues to dominate the economy, underscoring the limited development of private-sector-led industries. The construction sector has expanded, largely driven by increased public investment in infrastructure.

Financial and insurance services are gradually growing, although their contribution remains small. Similarly, Manufacturing has shown slight growth during the year, but its share in the economy is still minimal. Agriculture, while accounting for a moderate share, has shown a minor declining trend in recent years, reflecting stagnation and limited modernization.

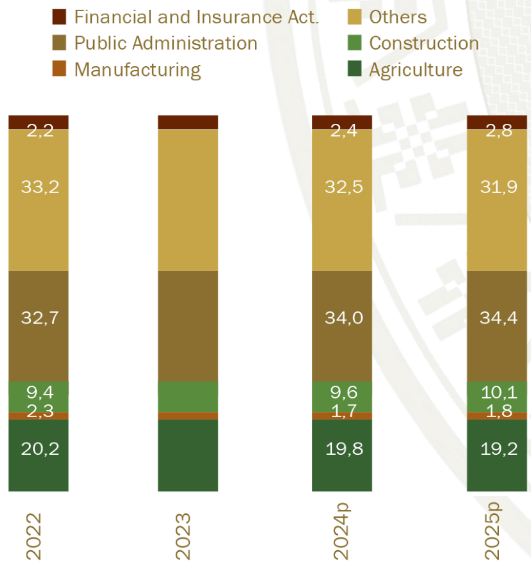
Meanwhile, the share of other smaller industries collectively declined in 2025, further reinforcing the concentrating of economic activity only in a few industries. This narrow sectoral base highlights the country's diversification challenge, with growth heavily reliant on public administration and construction rather than a broad, private-sector-driven expansion.

Chart 1.2a Expenditures' Compositions of Real GDP



Source: INETL - NA 2022 & 2023; and BCTL rev.projection, 2024 & 2025

Chart 1.2b Industries' Compositions of Real GPD



Source: INETL - NA 2022 & 2023; and BCTL rev.projection, 2024 & 2025

1.3 Inflation

The average annual inflation rate is expected to fall to 0.5% in 2025 and 1.2% in 2026.

Domestic inflation is projected to further decelerate to 0.5% in 2025 from 2.1% in the previous year. This trend is considered a positive development following a peak inflation rate in 2023 because it reduces inflationary pressure in the domestic market and restores consumer confidence as pressure on purchasing power slowly subsiding.

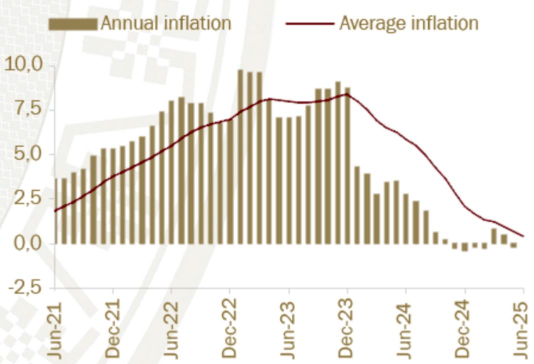
The disinflation has been driven primarily by the gradual reduction in global commodity prices. In the first half of 2025, Timor-Leste recorded an average inflation of just 0.1% - lowest semester average in the past eight years.

The inflation slowdown was primarily driven by falling prices in the food and non-alcoholic beverages category, which had been a major source of inflationary pressure in recent years. Since this category carries the largest weight in Timor-Leste's consumption basket, price movements within it can significantly influence overall inflation. Over the past 12 months, the average inflation in this category was almost 0%, contributing substantially to the decline in the headline rate. Other categories, such as alcohol and tobacco as well as transportation which typically strong drivers of headline inflation, also recorded notable declines, as it can be seen from the second chart below.

The significant disinflation is primarily due to the sharp decline in prices within the food and non-alcoholic beverages category.

Chart 1.3a Inflation Rate in Timor-Leste

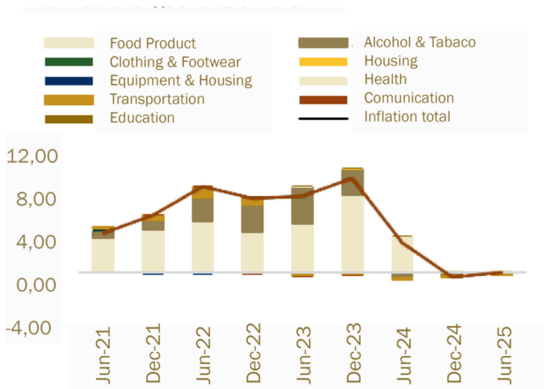
(% Annual change)



Source: INETL and BCTL calculation

Chart 1.3b Inflation Contribution in Timor-Leste

(% Annual change and its drivers)



Source: INETL & BCTL analysis

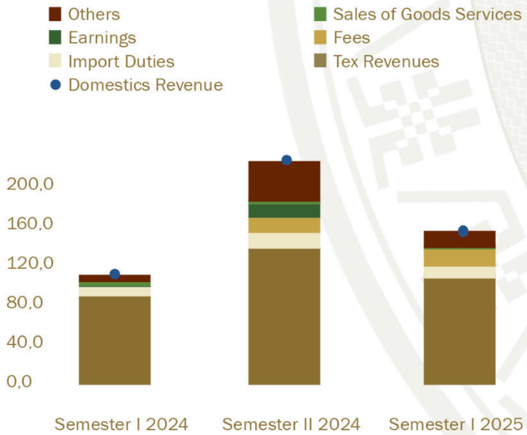
Looking forward, the inflation rate is projected to remain low but edge slightly higher than in 2025. BCTL forecasts an average of 1.2% for the year 2026, reflecting lingering global market uncertainties. Despite this slight increase, the rate is still considered positive as it remains well below the government's annual inflation threshold.

2. PUBLIC FINANCE

2.1. Revenue

Domestic revenue in the first semester of 2025 reached USD124.7 million, representing a 36% increase compared to the same period last year. This growth was mainly driven by higher tax collections and an increase in other revenue sources. However, compared to the second semester of the previous year, revenue actually contracted by 28%. This decline is largely explained by the seasonal pattern of tax collection, which typically intensifies towards the end of the year, resulting in higher tax revenue as well as stronger sales and other revenues during the last semester.

Chart 2.1 TL Domestic Revenues, excluding ESI (in USD million)



Source: TL Transparency Portal and BCTL Calculation, 2025

UntilJune 2025, non-oil revenues totalled USD 124.7 million, which represented an increase of 36% compared to the same semester last year 2024.

The domestic revenue reported here excludes the collection of Estimated Sustainable Income (ESI) and excess withdrawals from the Petroleum Fund. Typically, The ESI is collected in the first half, while excess withdrawal, if any, are made in the second half. Until June 2025, ESI collections amounted to USD 500 million, a slight decrease from USD 522.1 million in the same period last year. Although no excess withdrawals were recorded in this semester, they are expected to occur in the second half of the year.

2.2. Expenditure

By June 2025, government actual expenditure recorded an overall increase of 11.8% compared to the same period last year. Despite the increase, the execution rate for the first semester of 2025 reached 26%, lower than the 27% observed in 2024. During this semester, both public consumption and investment rose substantially, by 21% and 22%, respectively.

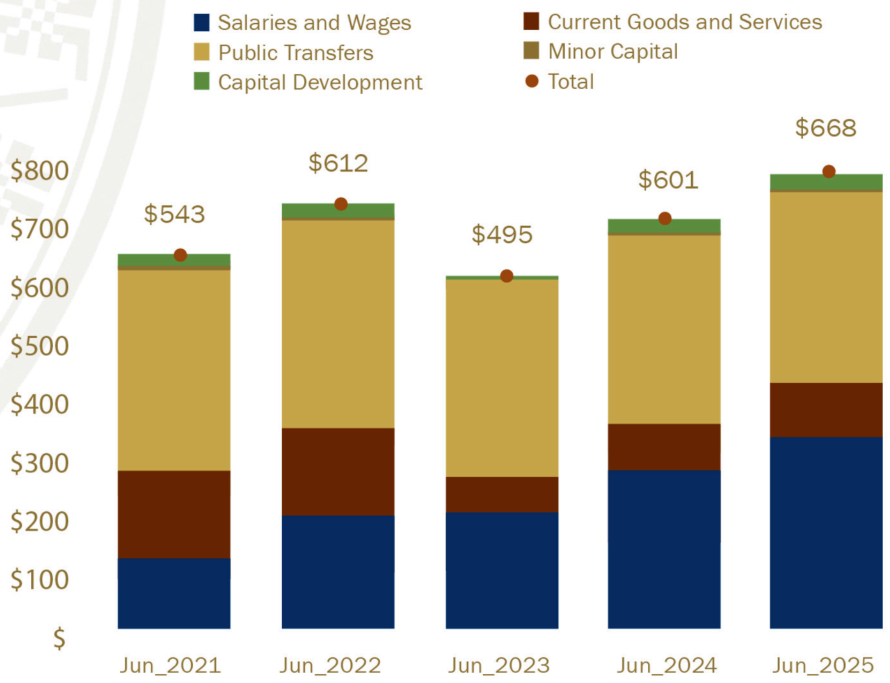
The increase in consumption was driven by higher spending on goods and services as well as salaries and wages, while the growth in investment reflected a significant expansion in capital development. Despite a significant decline in the minor capital category in the first semester of 2025, its small relative share means it did not sinficantly affect overall public investment.

2.2.1 Current expenditure

The current expenditure, which comprises public consumption and public transfers, increased due to higher spending on goods and services (up 34.4% or USD 25.5 million), salaries and wages (up 15.3% or USD 29.04 million), and public transfers (up 2.4% or USD 7.14 million). This expenditure is expected to rise further toward the end of the year, particularly with the expected payments to 2009-registered veterans in the last quarter, which will substantially boost total expenditure.

The significant disinflation is primarily due to the sharp decline in prices within the food and non-alcoholic beverages category.

Chart 2.2 Public Expenditure by Categories (in USD Million)



Source: Ministry of Finance Timor-Leste

2.2.2 Capital Expenditure

In the 2025 budget, the government allocated approximately USD 440.5 million for capital development, an increase of about USD 140.4 million from the executed amount in 2024, representing a 47% rise from USD 300.1 million. Despite this higher allocation, the actual execution rate by June 2025 stood at 10.9%, compared to 7.3% in the same period of 2024. As a result, total public investment executed in June 2025 amounted to USD 49 million, reflecting an increase of USD 9 million from June 2024.

The majority of capital development expenditure by June 2025 was directed towards infrastructure programs, which accounted for 62% of total public investment – a decline of 23 percentage points compared to the same semester last year. Within this, expenditure on construction and bridges represented about 24%, down from 40% in the previous year.

Table 2.2.2 provides detailed information on the key components of the public investment program, highlighting the highest priorities within the infrastructure program.

Table 2.2.2. Composition of Public Investment

	Million USD-cash basisi			% Public Investment		
	Jun-24	Dec-24	Jun-25	Jun-24	Dec-24	Jun-25
Capital Menor	6	41	1	15%	13%	3%
Capital Desenvolivmento	34	266	48	85%	87%	97%
Total Infrastructure	34	266	30	85%	87%	62%
Total Public Investment	40	307	49	7%	27%	7%
Despesa TotaL	597	1150	668			
Main Investment in Infrastructure Assets						
	Million USD-cash basis			% Public Investment		
	Jun-24	Dec-24	Jun-25	Jun-24	Dec-24	Jun-25
Agriculture	2	10	5	5%	3%	10%
Rural and Urban Development	0	5	2	0%	2%	5%
Maintenance Rehabilitation	2	24	2	4%	8%	5%
Aproximar os Serviços de Tribunais	0	0	0	0%	0%	0%
Information and Communications Technology	7	20	2	17%	6%	5%
Water and Sanitation	0	0	0	0%	0%	0%
Health	0	3	0	0%	1%	0%
Airport	0	0	2	0%	0%	4%
Ports	1	2	0	1%	1%	0%
Roads and Bridges	16	100	12	40%	32%	24%
Others Infrastructure	5	49	5	11%	16%	10%
Total Infrastructure	31	213	30	78%	69%	61%

3. MONETARY

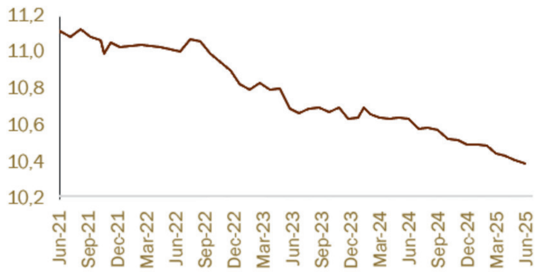
3.1. Interest Rates

Interest rates on loans in Timor-Leste are still relatively high when compared to international benchmarks for dollar-based lending. However, there's been a small but encouraging shift. As of June 2025, the average interest rate on loans to the private sector declined slightly—from 10.6% a year earlier to 10.4%.

Loan interest rates remain considerably high, even with the implementation of a concessional credit program offering lower rates

At the same time, the government has stepped in by providing capital to support concessional loans at a much lower rate of 3%. While this initiative is promising, it hasn't yet made a noticeable impact on the overall average lending rates.

Chart 3.1a Lending Interest Rate



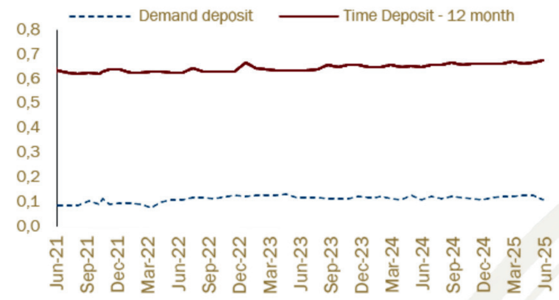
Source: BCTL

Still, even this modest decline in interest rates is a step in the right direction. It's a sign of gradual progress that could bring some relief to businesses and households who depend on credit to support their activities and growth.

On the other hand, there was a small uptick in the average interest rate on 12-month deposits. It rose from 0.65% in June 2024 to 0.67% in June 2025—a modest increase of 0.02 percentage points over the year.

This slight rise in deposit rates, combined with the small drop-in lending rates, helped narrow the interest rate spread. The gap between what banks charge for loans and what they offer for deposits shrank from 10% in June 2024 to 9.7% in June 2025, suggesting a gradual move toward more favourable financial conditions for savers and borrowers alike.

Chart 3.1b Deposit Interest Rate



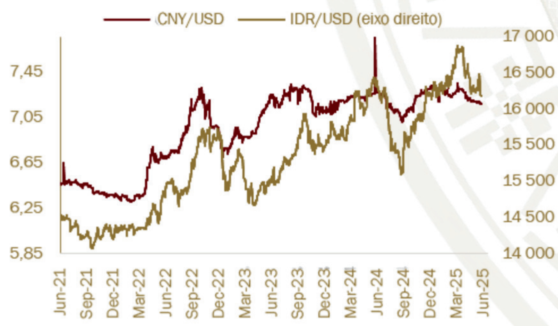
Source: BCTL

3.2. Exchange rates

In June 2025, the U.S. dollar weakened slightly compared to the same period last year against the currencies of Timor-Leste's two main trading partners—Indonesia and China. On average, it depreciated by around 0.2% against the Indonesian rupiah and by 1.6% against the Chinese yuan. This trend may be partly attributed to recent U.S. trade policies, which have led to a decline in global demand for the dollar.

The Real Effective Exchange Rate Index (REERI) fell by 3.3% in June 2025, compared to a 5.8% depreciation in the same period of 2024. This decline indicates that Timor-Leste's exports became relatively more affordable to international buyers, while imports grew more expensive. As shown in Chart 3.2b, the downward trend in the REER suggests an improvement in the country's international competitiveness, driven by the increase in price advantage of its exports.

Chart 3.2a Nominal Exchange Rate vs USD



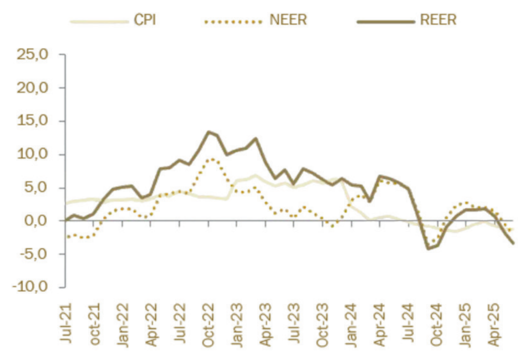
Source: Bloomberg

The Nominal Effective Exchange Rate (NEER), which measures the value of Timor-Leste's currency (the U.S. dollar) against a basket of its main trading partners' currencies, showed some fluctuations between 2021 and 2025. By June 2025, the NEER had declined by 2.1%, reflecting a depreciation of the U.S. dollar relative to those currencies. This depreciation, in turn, reduced Timor-Leste's purchasing power, making foreign goods and services relatively more expensive, while improving the competitiveness of its exports.

3.3. Monetary Base

In June 2025, the monetary base declined by 7.1%, reaching USD 266 million. Of this total, USD 35 million was in currency circulating outside the banking system, while the remaining USD 231 million was held as bank deposits with BCTL. The overall decrease was mainly due to a drop in bank deposits held at the central bank.

Chart 3.2b Real Effective Exchange Rate Index (% Annual changes)



Source: Bloomberg and BCTL analysis

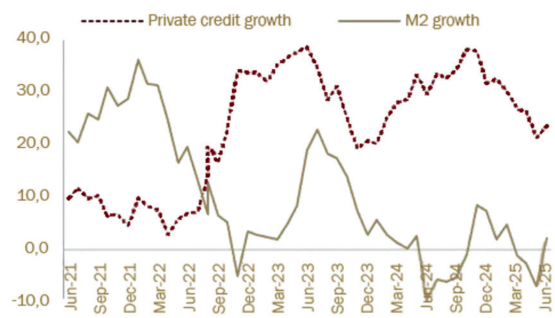
3.4. Money Supply

After reaching a peak in the money supply (M2) in 2021, growth slowed but experienced another surge in mid-2023. Since then, it has remained relatively stable, moderating throughout 2024 and into 2025.

Charts 3.4a and 3.4b illustrate the progression of M2 from June 2021 to June 2025. By June 2025, M2 had increased by approximately 2%, reaching a total of USD 1,175 million. This marked an expansion of USD 23.6 million compared to June 2024, continuing the growth trend observed over the years. However, this growth was accompanied by a 12% decline compared to December 2024.

The money supply grew by 2%, reaching USD 1,175 million in June 2025.

Chart 3.4a The Growth Rate of Monetary Aggregate and Credit



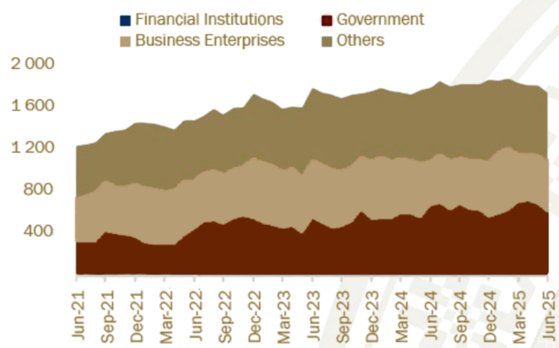
Source: BCTL

The evolution of the components of the money supply, particularly transferable or demand deposits and currency in circulation (centavos), were pivotal in the expansion of the money supply. By June 2025, these components increased by 7% and 11%, respectively, reaching USD 556 million and USD 35 million. In contrast, other types of deposits, including time and savings deposits, saw a decline of 3%, totaling USD 585 million during the same period.

By June 2025 individuals hold 59% of deposits, while private companies hold 41%.

In terms of deposit ownership by institutional sector, individuals hold 59% of deposits, while private companies account for 41%. These figures represent a slight decrease of 2 percentage points in the share held by individuals, while the share held by private companies increased by the same amount. Despite this modest rise, private companies' share remains below the 45% recorded in June 2021, underscoring the continued growth in business-owned deposits. When government deposits are included, as shown in Graph 3.4b, the share held by private companies drops to 27%, while individuals' share decreases to 39%. The government now holds 34% of the total deposit share.

Chart 3.4b Deposit by Type Depositors
(In millions of USD)

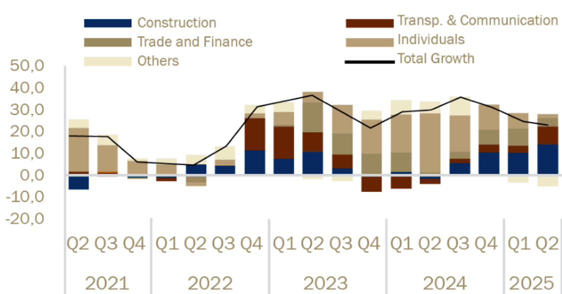


Source: BCTL

Private sector credit growth peaked in mid-2023 and has remained strong, reaching 22.8% in June 2025, with credit totalling USD 694 million.

Private sector credit growth in the financial system peaked in the second semester of 2023 and has remained robust, with moderate evolution, reaching around 22.8% by June 2025. By the end of June 2025, credit had grown to USD 694 million, with the construction sector accounting for about 14% of this growth. The transport and communication, as well as trade and finance sectors, contributed 8.4% and and 4.1%, respectively. Credit for consumption (individuals), which had previously made up a larger share, now only accounted for 1.4% in June 2025, a significant drop from 27.2% the previous year. Meanwhile, sectors like agriculture, industry and manufacturing, and tourism all contributed negatively (-5.1%) to credit growth in June 2025.

Chart 3.4c Loans to Private Sector: Contribution to Growth
(In percent y/y)



Note: Loans including provision
Source: BCTL

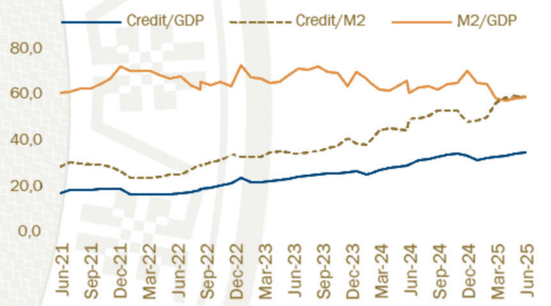
Another perspective on the M2 analysis, as shown in Table 3.5 below, highlights that the increase in credit, government deposits, and other net assets and liabilities were the primary drivers of the money supply expansion. However, this growth was partially offset by a reduction in net external assets.

3.5. Financial Deepening

The M2-to-GDP ratio dropped by 11.4 percentage points in June 2025 compared to December 2024, while the credit-to-GDP ratio increased, reaching 34.6%.

The development of the financial sector is crucial for driving economic growth and reducing poverty. One key indicator of financial sector development, or financial deepening, is the ratio of money supply and credit to GDP. In June 2025, the M2-to-GDP ratio slightly decreased to 58.5%, down from 60.2% in June 2024. Compared to December 2024, it saw a more significant drop of 11.4 percentage points, reflecting some fluctuations within a generally downward trend. Despite this, the ratio remains relatively high, signalling a strong level of financial deepening in the country.

Chart 3.5. M2 and Credit in percentage of GDP



Source: BCTL

Table 3.5 Main Factors of Variation in the money Supply (M2)

In million USD

	Annual Flows	
	Jun-24	Jun-25
Claim to the Economy	131,9	135,9
Government	-47,1	73,9
Claims on BCTL	-0,8	0,0
Deposits	-46,3	73,9
NFA	-105,4	-68,1
Other Net Assets and Liabilities	100,1	118,2
M2	-120,8	23,6

Source: BCTL

Another important indicator is the credit-to-GDP ratio, which continued to rise, increasing by 5 percentage points from June 2024 and 1.4 percentage points from December 2024, reaching 34.6% in June 2025. While this growth is positive, it still suggests relatively low credit penetration, indicating that financial deepening is not yet fully realized.

4. BANKING SYSTEM

Timor-Leste's financial system comprises seven institutions—five commercial banks and two other deposit-taking institutions—and will soon expand with the addition of Banco do Nosso Futuro, authorized on August 6, 2025, and set for inauguration on September 4, 2025.

The banking system maintained solid performance in the first semester of 2025, ensuring adequate liquidity and delivering quality services both digitally and at service counters. Banking sector assets fell slightly by 2.2% year-on-year in June 2025, mainly due to reduced balances with commercial banks, the central bank, and lower investments, though credit and fixed assets continued to grow. On the liabilities side, deposits declined by 2.5%, though they remained the dominant source of funding, reflecting a stable funding base for the system. The reduction was driven by lower obligations to commercial banks and the central bank. While bank transfer services grew compared to the same period in 2024, transfers via Money Transfer Operators (MTOs) declined.

4.1. Banking Assets

Bank credit increased by 23% in June 2025 to an amount of USD 639.7 million.

In June 2025, total assets of the Timorese banking system stood at USD 2,478.5 million, down 2.2% or USD 56.8 million from the same period in 2024 (see Table 4.1).

The main causes of the decline include cash and BCTL balances, which fell sharply by 18.9% (-USD 57.8 million). Followed by placements to other banks, which dropped by 6.2% (-USD 99.2 million), representing the largest share of total assets (60.1%), making it the biggest contributor to the overall decline, and the investments, which decreased significantly by 31% (-USD 31.7 million), though they make up only 2.8% of total assets. By contrast, loans to customers contributed positively, rose by 24.5% (+ USD 121.8 million), now accounting for 24.9% of total assets, indicating a shift toward more credit activity. Fixed assets and other assets grew by 29.7% and 19.9%, respectively, but their combined share remains small (about 2.1%).

Table 4.1 Banking System Asset Development

In million USD

Items	Million USD		Change		Weighted %
	Jun-24	Jun-25	%	Value	
Cash and BCTL Balance	305,5	247,7	-18,9	-57,8	10,0
Placement to other Bank	1589,1	1489,9	-6,2	-99,2	60,1
Investment	102,1	70,4	-31,0	-31-7	2,8
Loan*	496,5	618,3	24,5	121,8	24,9
Fixed assets	16,5	21,4	29,7	4,9	0,9
Other assets	25,6	30,7	19,9	5,1	1,2
Total	2535,3	2478,4	-2,2	-56,9	100

*This Loan excludes provision, 639.7 if includes provision
Source: BCTL

Credit granted by banks to the private sector maintained an upward trend, reaching USD 639.7 million in June 2025 compared to USD 519.5 million in June 2024. This represents an annual growth of 23% – equivalent to an increase of USD 120.2 million – and accounts for the majority of the USD 694 million in total credit to the private sector within the financial system.

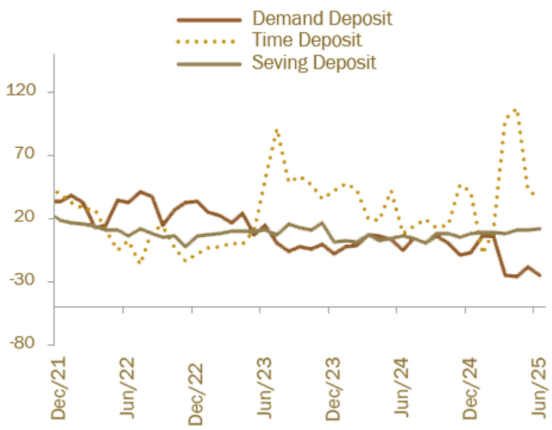
Credit quality also improved, with provisions for credit risks declining to USD 21.4 million from USD 23.0 million, driven by better repayment performance. The NPL ratio remained low at 2.5%, and strong operating margins continued to safeguard the sector against potential credit risks.

In summary, the decline in total assets was primarily driven by reduced liquid balances and placements with other banks, partially offset by robust loan growth. The growing share of loans suggests a greater focus on domestic credit provision, while the drop in liquid and investment assets could be an indication of reallocation of resources toward lending activities.

4.2. Bank Liabilities

Total liabilities declined with the same amount of assets to USD 2,478.5 million in June 2025, which mainly drove by due to commercial banks, which fell sharply by 32% (-USD 137.7 million), reducing their share to 11.8% of total liabilities. Deposits, which remain the largest funding source (70% of total liabilities), decreased by 2.5% (-USD 43.7 million), and due to BCTL dropped by 45.8% (-USD 5.2 million), but its weight in the balance sheet is minimal (0.2%). On the other side, capital and other liabilities contributed positively to the growth of total liabilities, rising by 44.5% (+ USD 122.4 million) and 18.6% (+ USD 7.5 million), respectively. Capital now makes up 16% of the liabilities structure, suggesting strengthened solvency and resilience, while the share of other liabilities remains low at 1.9%.

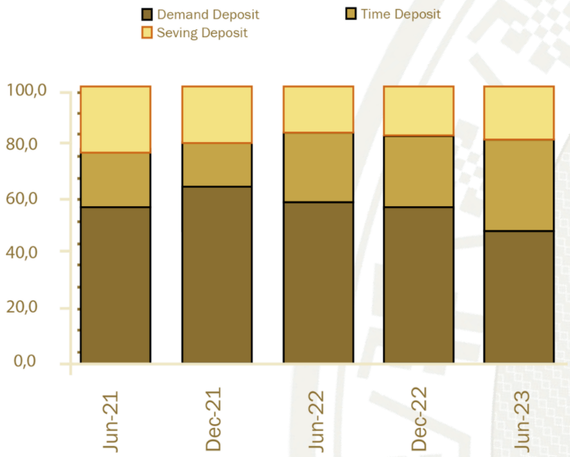
Chart 4.2b. Deposit Growth
(% Annual growth rate)



Source: BCTL

In terms of the composition of deposits, over the past five years, demand deposits have consistently accounted for more than half of total liabilities. By June 2025, however, their share declined to 41.8%, while time deposits rose to 34.3%, with the remainder comprised of savings deposits (Chart 4.2a).

Chart 4.2a. Composition of Deposit
(% of total deposit)



Source: BCTL

The annual growth in types of deposits has generally shown small fluctuations, except for time deposits, which experienced a significant peak in July 2023 and March 2025, with a year-on-year growth of 91.2% and 98% respectively. In June 2025, time deposits maintained strong growth of 35.5%, or equivalent to USD 155.6 million (Chart 4.2b).

Demand deposits fell sharply in the first half of 2025, declining by 25.5% in March and 25% in June. In contrast, savings deposits have sustained growth over the past five years, rising by 11.6% in June 2025 compared to a year earlier – an increase of about USD 43.2 million.

4.3. Bank Profitability

Despite maintaining adequate liquidity and operational resilience, the banking sector's financial performance weakened considerably during the same period. Total revenues declined by 8.4% to USD 53.1 million, largely driven by a 6.3% fall in interest income. Gross operating income contracted to 25.9%, while net income fell by 30.9% (USD 8.9 million) year-on-year. This deterioration in earnings translated into a marked reduction in profitability, with RoA declining to 0.8% from 1.1% and RoE plunging to 0.5% from 10.5% a year earlier, underscoring the sector's diminished capacity to generate returns relative to assets and equity. These developments signal rising pressures on banks' intermediation role and highlight potential challenges to sustaining profitability in the near term, notwithstanding the sector's adequate liquidity and continued service provision.

4.4. International Transfer Services

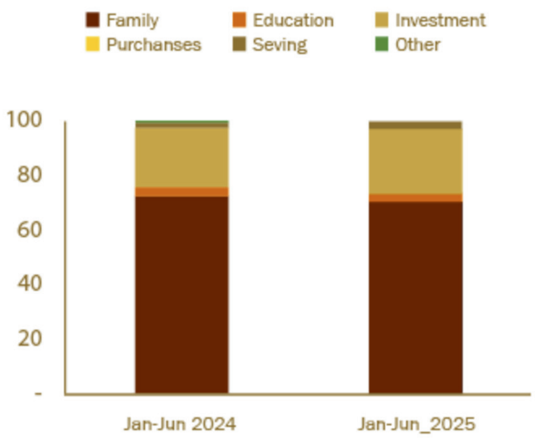
4.4.1 Commercial Banks

In the first half of 2025, commercial banks in Timor-Leste reported outbound transfers totaling USD 1,014.1 million, up 0.4% from the same period in 2024. Inbound transfers rose more sharply, increasing by 17.1% to USD 488 million. As a result, the net transfer balance showed a deficit of USD 525.1 million, improving from the USD 592 million deficit recorded a year earlier.

4.4.1 Money Transfers Operators (MTOs)

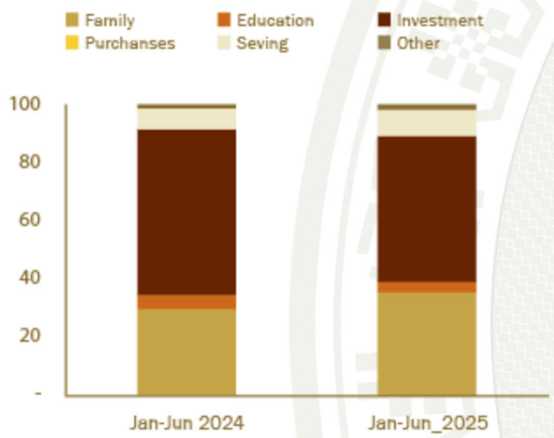
Over the same period Money Transfer Operators (MTOs) recorded outbound transfers of USD 93 million (down 1% year-on-year) and inbound transfers of USD 95.5 million (down 19.4%). Individual transfers dominated inflows (65%) and were the second-largest outflow category (48%). Europe remained the main source of inflows at USD 44.1 million (46% of total), while Asia—particularly Indonesia—accounted for most outflows, with USD 72 million (78%), driven largely by remittances from Indonesian citizens in Timor-Leste. Most inbound transfers were for family purposes (71%), while half of outbound transfers were for investment, including savings.

Chart 4.4.2a Inward Transfers, by purpose (MTOs) (% of total)



Source: BCTL

Chart 4.4.2b Outward Transfers, by purpose (MTOs) (% of total)



Source: BCTL

5. EXTERNAL SECTOR

Timor-Leste's external sector continued to experience a significant deficit in 2025. By the first semester of 2025, the overall current account balance showed a deficit of USD 279.1 million, driven primarily by deficits in the goods and services accounts. This represents a 66.2% increase from the USD 167.9 million deficit recorded during the same period in 2024. The primary and secondary revenue accounts were insufficient to counterbalance the current account deficit.

The external sector deficit deepened in the first half of 2025, driven by significant shortfalls in both its goods and services accounts

On the other hand, the current account, excluding income from oil-related activities, also continued to show a deficit, reaching USD 311.9 million by the first semester of 2025. This is USD 90.7 million higher than the deficit in the first semester of 2024. The deficit is expected to remain consistent without oil activity for the remainder of 2025, assuming no new oil operations begin by year-end.

Furthermore, Timor-Leste's financial account continued to reflect a financing need, recording a net outflow of USD 404.2 million in the first semester of 2025. This figure is 26.6% higher than the USD 319.3 million financing need in the first semester of 2024.

Table 5. Balance of Payment of Timor-Leste

	Million USD		
	2024Q2	2025Q2	% Change
Current account, Excluding oil income	-221.2	-311.9	-41.0
Current Account	-167.9	-279.1	-66.2
Good, FoB	-267.1	-305.2	-14.3
Service	-147.2	-174.0	-18.2
Primary Income	145.3	149.7	3.0
Secondary Income	101.1	50.4	-50.1
Capital Account	0.9	0.2	-76.4
Financial Account	-319.3	-404.2	-26.6
Direct Invesment	-83.5	-98.5	-17.9
Portfolio Investment	-204.1	-235.6	-15.4
Other Investment	-1.4	-55.5	-3,981.8
Net Errors and Omissions	-152.2	-125.3	17.7
Grand Total	-486.3	-683.1	-40.5
Reserve Asset (Change)	-30.2	-14.6	51.8

Source: BCTL

5.1. Current Account

The current account deficit is projected to widen by the end of 2025, largely due to the cessation of operations at the Bayu-Undan oil and gas field on June 4, 2025. This situation is expected to exacerbate the overall current account deficit, as the surpluses from primary and secondary income will not be sufficient to offset it.

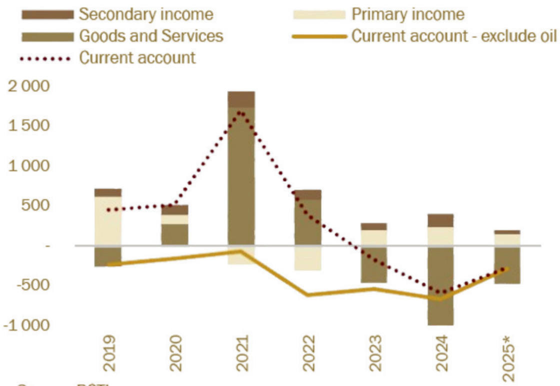
5.1.1 Trade Balance

5.1.1.1 Goods Account

Timor-Leste continues to import a significant amount of goods to meet domestic demand, reflecting a high reliance on international products. In the first semester of 2025, imports totaled USD 377.4 million Free on Board (FoB), a 0.7% decrease from the USD 380.3 million FoB recorded in the first semester of 2024.

Conversely, the export of goods continued to decline after reaching a peak in 2021 at USD 2.8 billion. During the first semester of 2025, goods exports dropped to USD 72.3 million, a 36.1% decrease compared to USD 113.2 million from the same period in 2024. This is attributed to the depletion of oil production at the Bayu-Undan field, and exports are expected to decrease further in the second half of 2025 following the field's closure.

Chart 5.1.1.1 Timor-Leste Current Account Balance (In millions USD)



Source: BCTL
* First Semester

Non-Oil Merchandise Trade of Goods

Imports of Goods

In the first half of 2025, Timor-Leste's economic vulnerability deepened as its dependence on imports to meet domestic demand persisted. Imports on a Cost, Insurance, and Freight (c.i.f.) basis were estimated at USD 436.3 million, an 8.8% increase from the USD 401.0 million recorded in the first semester of 2024.

Below, the top five imported commodities represented the majority of the country's imports, making up a significant 51.9% of the total imports, of which indicating that a relatively small number of goods are responsible for over half of all imported products:

Mineral Fuels:
Made up the largest single import, valued at USD 87.6 million, or 20.1% of total imports. Taiwan was the primary supplier, providing over half (54%) of the fuel imported in the first semester of 2025.

Vehicles:
The second-largest imported commodity, valued at USD 54.2 million, which represented 12.4% of total imports. The majority of these imports were vehicles for transporting goods, passenger vehicles, and motorcycles. Indonesia was the main source of imported vehicles, accounting for 62.9% of the total.

Nuclear Reactors, Boilers, Machinery, and Mechanical Appliances:
These commodities ranked as the third-largest import, with a value of USD 30.0 million, representing 6.9% of total imports. This included items such as bulldozers, computers, and various other machinery. China was the primary source for these goods.

Cereals:
The fourth-largest import commodity amounted to USD 29.9 million and made up 6.9% of total imports. Rice was the main cereal imported, with India alone supplying more than two-thirds (69.3% or USD 20.7 million) of the total imported rice.

Electrical Machinery and Equipment:
Including telephone sets, this category was the fifth largest import, accounting for USD 24.8 million, or 5.7% of the total. China was the dominant importer, providing more than one-third of these commodities.

In addition to the top five, Timor-Leste also imported a significant amount of meat and edible meats, valued at approximately USD 15.4 million, which accounted for 3.5% of total goods imports. These products were predominantly frozen chicken from the United States and Brazil, as well as frozen pork belly from Brazil and the Netherlands.

Consumption goods, particularly food items like rice and frozen chicken, made up one-third of Timor-Leste's total imports in the first half of 2025.

By Broad Economic Category (BEC), consumption goods were the dominant import, accounting for one-third of the total. This highlights Timor-Leste's dependency on foreign products over domestic production. The top five imported consumption goods – cereals (predominantly rice), meats (especially frozen chicken), cereal preparations (especially instant noodles), alcohol and beverages, and tobacco – constituted approximately 60% of consumption goods imports in the first semester of 2025.

Exports of Goods

Total goods exports were estimated at USD 6.4 million in the first semester of 2025. This represents a 5.7% decline from the USD 6.8 million recorded during the same period in 2024. Non-oil exports are dominated by coffee, which made up 59.4% of total exports, or approximately USD 3.8 million.

Total Export decline by 5.7% in the first of 2025, primarily due to a sharp drop in coffee exports.

This marks a 28.9% drop from the USD 5.3 million in coffee exports during the first semester of 2024. Besides coffee, Timor-Leste exports negligible amounts of other products such as copra, candlenuts, and konjac.

Therefore, the country's exports are only equivalent to 1.5% of its imports, indicating a high dependency on foreign goods with very little export in return.

5.1.1.2 Service Account

The services account deficit, which saw a significant increase in 2020 due to substantial imports of manufacturing services for oil production, has since shown signs of improvement. However, by the first semester of 2025, the deficit reached USD 174.0 million, an 18.2% increase compared to the USD 147.2 million deficit in the same period of 2024. This figure represents nearly half of the total annual deficit from 2024.

The deficit is primarily due to higher demand for international travel and tourism services by Timorese citizens (USD 112.3 million), followed by transportation services (USD 65.4 million). Meanwhile, service exports remain unstable. In the first semester of 2025, service exports amounted to USD 58.7 million, with the highest contribution from travel and tourism services (USD 32.7 million). Despite the dominance of export of travel and tourism services, they are insufficient to offset the significant import demand in the same sector.

Travel and tourism esports cannot offset significant import demand

5.1.2. Primary and Secondary Income

5.1.2.1 Primary Income

The primary income account has consistently recorded a surplus since 2023. This surplus is mainly driven by receivable income from portfolio investments. By the first semester of 2025, the primary income surplus reached USD 149.7 million, a 3% increase from USD 145.3 million in the first semester of 2024. This is largely due to a rise in receivable investment income, totaling USD 153.1 million, of which USD 284.8 million came from received income on portfolio investments.

Conversely, compensation of employees remains a challenge, as income received is lower than income paid. In the first semester of 2025, income paid was an estimated USD 7.4 million, while income received was only USD 4 million.

5.1.2.2 Secondary Income

The secondary income account has been in surplus for the past six years. By the first semester of 2025, the surplus was estimated at USD 50.4 million. However, this represents a 50.1% decline compared to the first semester of 2024, due to a 28% decrease in secondary income received.

Worker remittances are the main driver of secondary income. In the first semester of 2025, remittances from Timorese workers abroad totaled USD 80.4 million, compared to

USD 57.1 million in remittances sent abroad. Although receivable remittances are higher than payable ones, the balance of worker remittances declined by 58.1% compared to the first semester of 2024 (USD 23.3 million surplus compared to USD 55.6 million surplus).

Grants are another key component of secondary income. In the first semester of 2025, Timor-Leste received USD 27.1 million in grants, a 40.4% decrease from USD 45.4 million in 2024. Meanwhile, USD 1.5 million in grants were sent abroad.

5.2. Capital and Financial Accounts

5.2.1 Capital Account

The overall capital account balance has been on a downward trend since 2019, reaching USD 211.5 thousand by the first semester of 2025. This represents a 76.4% decrease from the USD 897.4 thousand recorded in the first semester of 2024. The capital account balance primarily consists of capital transfers from ongoing donors through grants.

5.2.2. Financial Account

Since 2023, the financial account balance has shown a negative balance, reflecting negative flows related to Timor-Leste's external financing sources, which indicates a financing need. By the first semester of 2025, Timor-Leste continued to record a financing need, reaching USD 404.2 million, which was 26.6 percent higher than in the first semester of 2024 (a financing need of USD 319.3 million).

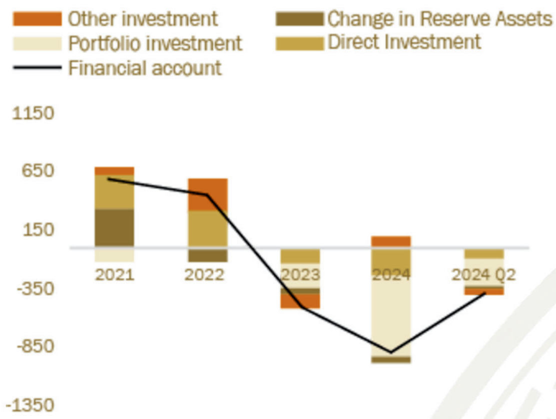
Foreign direct investment in Timor-Leste continued to be negative, representing the country's liabilities abroad of USD 98.5 million by the first semester of 2025. Moreover, portfolio investment also experienced a financing need of USD 235.6 million, which shows a financing need from the Petroleum Fund investment of USD 140.3 million.

By the first semester of 2025, other investments registered a financing need of $55.5 million. This was a result of a notable capital outflow of USD 94.4 million in assets, indicating an increase in claims on non-residents by resident financial corporations. At the same time, the liabilities also registered a financing need of USD 38.9 million, showing a decrease in foreign claims in Timor-Leste, which was mainly due to the repayment of loans and withdrawals of deposits from local commercial banks.

Reserve Assets

During the first semester of 2025, Timor-Leste's official reserve assets decreased by USD 14.6 million, a significant reduction in depletion compared to the USD 43.8 million decrease observed during the same period in 2024.

Chart 5.2.2. Financial Account



Source: BCTL

6. GLOBAL SPILLOVER TO TIMOR-LESTE

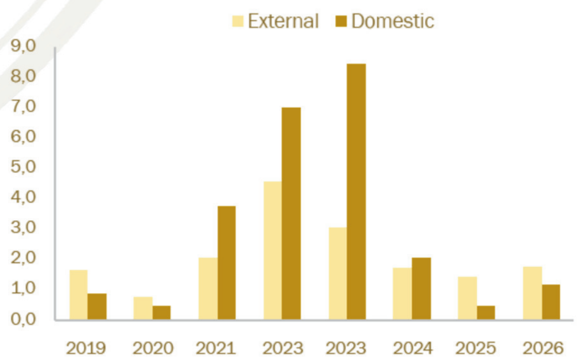
This section outlines the main channels through which international developments affect our economy. It explains how these channels operate, focusing specifically on their impact on domestic inflation, on oil revenues, and the valuation of the Petroleum Fund's investments.

As the economy becomes more integrated with global and regional markets, external developments will play an increasingly significant role in shaping domestic economic performance. Greater interconnection with regional partners will broaden and strengthen the various transmission channels through which international trends influence the national economy.

6.1. Imported Inflation

A key transmission channel for our economy is the influence of international prices on domestic inflation. Given Timor-Leste's high import dependence, changes in global prices for goods and services strongly shape inflation and overall economic conditions.

Chart 6.1a Internal and External inflation (Annual Average in %)



Source: IMF-WEO,INE-TL, and BCTL

Foreign inflation tends to influence the inflation trajectory in Timor-Leste.

From 2021 to mid-2025, about 65% of the country's imports came from the five largest ASEAN economies plus China, while the remaining 35% originated elsewhere. This implies that movements of these countries' inflation can also influence domestic inflation.

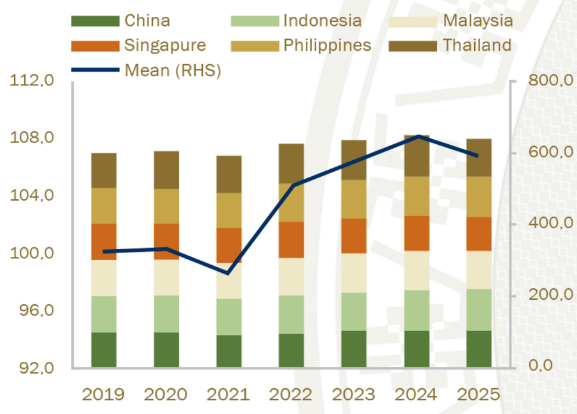
As can be seen on the chart 6.1a that domestic inflation tends to reasonably follow the development of foreign inflation rates. The chart shows that changes in domestic inflation rates tend to follow the shifts in external inflation.

The exchange rate is another key driver of inflation in the country. In mid-2025, the US dollar weakened by an average of 1.2% against the currencies of our main trading partners in the ASEAN Five plus China (Chart 6.1b), reflecting appreciations of the Malaysian ringgit (4.7%), Singapore dollar (1.1%), Philippine peso (0.3%), and Thai baht (5.2%). This depreciation raised imported inflation by eroding households' purchasing power, while improving exporters' competitiveness. Exchange rate shifts among partner currencies significantly influence domestic prices, with analysis indicating that a 1% appreciation of the US dollar can lower CPI inflation by 0.4%–0.9%. Given the importance of this channel, external inflation —closely tied to exchange rate movements— will remain a major factor shaping domestic inflation trends.

The expected stability for regional currencies in 2025 and 2026 is a relevant assumption of projected slowdown in domestic inflationary pressures.

It is expected that regional currencies will remain relatively stable against the dollar in 2026, which, together with the maintenance of moderate inflation deceleration rates of trading partners, leads us to expect that imported inflation will remain stable over the same time horizon, helping to stabilize inflationary pressures in Timor-Leste. Therefore, it is further expected that the average domestic inflation rate will slow down this year but accelerating next year.

Chart 6.1b Exchange rate of ASEAN 5 and China



Source: Bloomberg

6.2. Energy Markets and Oil Revenues

Global energy prices for oil, natural gas, and coal are highly volatile, often fluctuation by more than 50% within a year, as seen in 2016–2017 and 2020–2022. The sharp decline in oil prices since mid-2022 erased all nominal gains made since April 2020.

Oil and most commodities' prices recorded fall in 2025, after the sharp increase recorded during April 2020-June 2022.

In 2025, there was a loss of practically, in all energy resources, with particular emphasis on crude oil and coal. As shown in charts 6.2a and 6.2b that crude oil and coal are now at their record lowest of the last three years. Unlike oil and coal, the overall price of gas increased by 14.8% in June 2025 compared to the same month in 2024, due to increase in demand for LNG for exports, sanctions related to Russia's 2022 actions and rising global cooling demand. Compared to its price in April 2025, overall gas price in June 2025 declined by 1%, due to gas price decreased in the US and Japan by a respective of 11% and 3%, while the price of gas in the EU increased by 7% during the same period.

Oil price - in overall – fell in June 2025, and was fallen by 14.8%, supported by the fallen of brent oil price (-13.5%), Dubai oil (-16.6%) and WTI oil (-14.5%), caused by fear of economic slowdown amid the hope faded for trade deal between the US and the European Union because of the tariff war, and due to increase in global oils supply. Oil price increased in June 2025 compared to its prices in April and May 2025, was associated with the Iran and Israel war, caused disruption of oil transportation in Strait of Hormuz and in the middle east in general.

Chart 6.2a. Energy prices – spot level

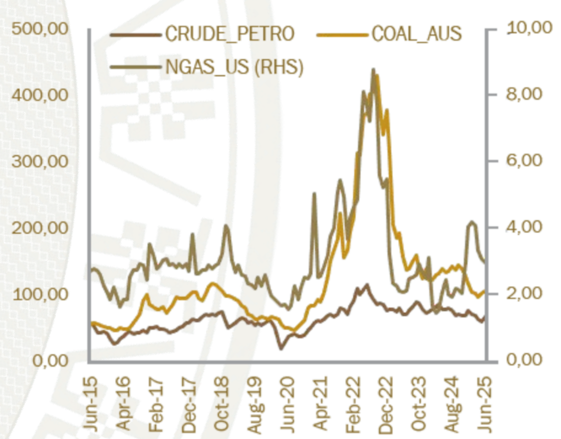
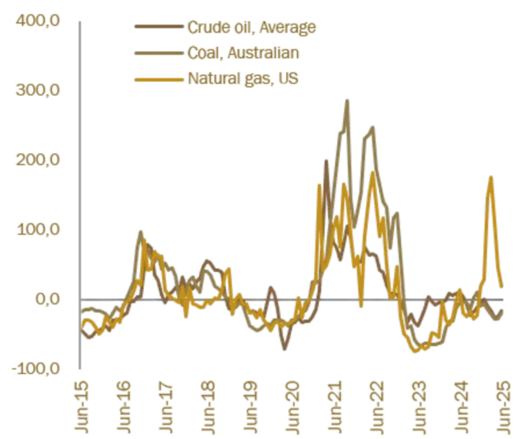


Chart 6.2b. Energy prices – % annual change



The country's oil revenues are now zero as it had ceased to operate completely in May 2025.

It should be noted that fluctuations in energy prices no longer affect the country's oil wealth as they did in previous years. Production from the Bayu-Undan fields, which were still active in early 2025, ceased entirely in May, with only small volumes of oil and gas extracted between January and April 2025. Estimated gross revenue in 2025 amounted USD 49.4 million, a renew decreased of 67.9% from USD 159.3 million recorded in 2024, prolonging a decrease of 72.8% from the 2023's expected gross revenue of USD 565.1 million. Consequently, government revenue from taxes, royalties, and fees dropped to USD 12.12 million in the second quarter of 2025 from USD 85.4 million in 2024 and from USD 428 million in 2023. This marks a significant decline compared to 2022, when revenue reached USD 1.1 billion.

With the cessation of oil production from Bayu-Undan and uncertainty surrounding future investment in Greater Sunrise, the Petroleum Fund's wealth now relies entirely on returns from financial market investments. While there are reports of potential petroleum resources in onshore areas such as Covalima, these remain untapped and are regarded as prospective assets for the future.

6.3. Financial Markets and the Petroleum Fund

Financial asset prices in the global markets influence the PF's ESI, in turn, overall funding of the State Budget.

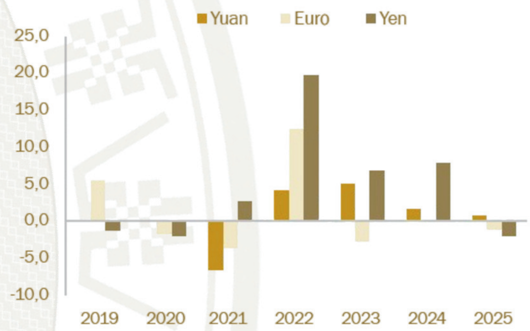
Another important transmission channel is the impact of international financial market developments on the economy, particularly through the management of the Petroleum Fund (PF). Fluctuations in global financial asset prices affect the value of the PF and, consequently, its Estimated Sustainable Income (ESI). This, in turn, influences the revenue available to finance the state budget, shaping the scale and direction of public spending and investment policies.

The PF reported in the mid of 2025 recording a total net financial assets of USD 18.74 billion, which represents a renewed increase of USD 0.49 billion and USD 0.47 billion against March 2025's and 2024's closing balance of USD 18.25 billion and USD 18.27 billion, respectively. The Fund is mainly invested in treasury bonds of developed countries as marked with liquidity and fixed income portfolios (71.2%) and less than a third (28.8%) of the fund invested in shares of developed markets' companies.

In the mid of 2025, the Fund recorded an overall gross revenue of USD 962.5 million with a net revenue of USD 950.9 million, prolonging gross revenue and net revenue of USD 664.0 million and USD 650.1 million it recorded in the mid of 2024, cancelled out part of the gross revenue of -USD 2,050.4 million recorded in 2022. This performance was practically due to the rise in 10-year bond interest rate and the rise in equity prices as 2-year bond portfolio especially in the US and Germany, which recorded a global fall in the mid of 2025.

The performance of the fund is crucially driven by price changes in global bonds and equities markets.

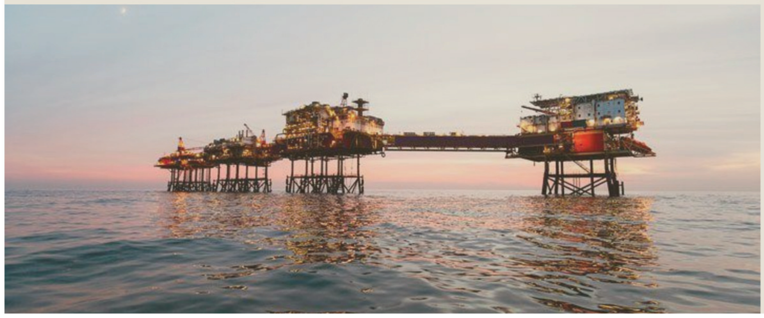
Chart 6.3a. Exchange rate of world major economies
Rose = USD appreciation



Source: Bloomberg

Foreign exchange fluctuations also affect the fund, which has invested in markets other than in the USD.

In addition, since the fund invests in several markets denominated currencies other than the US dollar, it is exposed to exchange rate risks. By mid-2025, the dollar had depreciated by 1.2% against the euro and 2% against the yen, while appreciating 0.8% against the Chinese yuan. Over the period from 2019 to mid-2025, the dollar appreciated by 1.2% against the euro, 4.6% against the yen, and 0.7% against the yuan (Chart 6.3a)



Like 2024, the fund recorded no gains or losses from currency fluctuations by mid-2025. In 2023, however, it realized gains of USD 31.2 million from investments across various currencies.

In terms of returns, it saw a positive performance for the fund, with an estimated return of 5.31% based on its financial year to date's value. This follows a gain of 6.80% in 2024 and 9.60% in 2023, reversing the loss of -10.36% recorded in 2022. Most of the fund's gains in the mid of 2025 came from net gain on financial assets at fair value, which contributed 70.6% of the total returns.

In the mid of 2025, the fund recorded a positive performance, mostly due to the gains on financial assets at fair value.

Chart 6.3b. Two-year bond interest rates

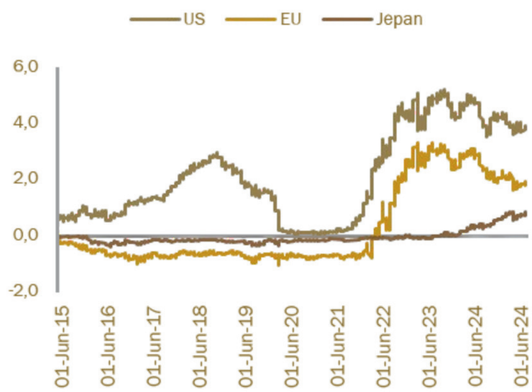
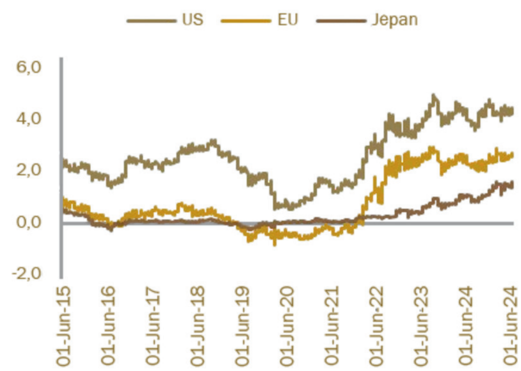


Chart 6.3c. Ten-year bond interest rates

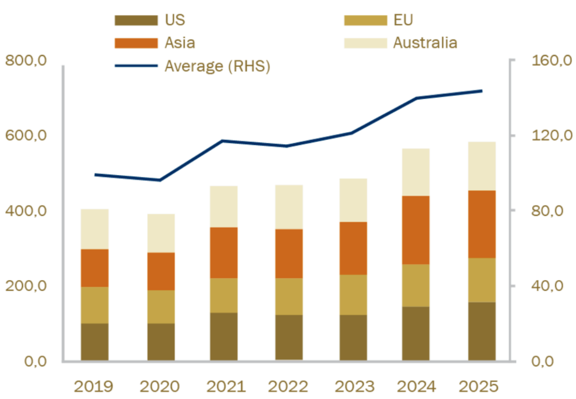


The fund investments in shares have again benefited from the robust performance of practically all global equity markets, led by the US and EU markets.

Unlike short-term rates (Chart 6.3b), long-term interest rates (Chart 6.3c) rose in mid-2025 and remained positive, continuing the upward trend from 2024, particularly in Germany and Japan, where rates have stayed above zero since 2019. This general increase, especially in the US—which accounts for most of the Fund's bond holdings—boosted Fund returns. The bond portfolio yielded 10.5% in mid-2025, adding to the 7.33% return in 2024, partially offsetting losses of 7.09% in 2022 and 2.25% in 2021. The Japanese market mirrored the US trend, with long-term rates rising 0.6 percentage points from 0.8% in mid-2024.

Bond investments recorded a net gain in the first semester of 2025, due to the general rise in 10-year interest rates, prolonging the interest rose in 2024.

Chart 6.3d. Stock price of selected countries



Source: Bloomberg

In contrast, two-year bond rates in the US and Germany fell by 0.7 and 0.9 percentage points, resulting in an overall decline of 0.3 percentage points in June 2025.

In terms of equity markets, the fund recorded accumulated gains in the mid of 2025. The gains in the equity portfolios were associated with stock price increased in the US market and upward trend in most of the global equity markets (Chart 6.3d). The PF investments in equities recorded a gain of 10.04% in the mid of 2025, prolonging the substantial gains of 17.79%, 23.67% and 22.72% recorded in 2024, 2023 and 2021, respectively, and reversing the substantial loss of -16.84% recorded in 2022.

With significant holdings in global bonds and equities, the future value and returns of the Petroleum Fund remain sensitive to changes in asset prices, movements of the US dollar against investment currencies, and unforeseen shocks such as the ongoing conflict between Iran and Israel or elevated US tariffs.

The value of petroleum fund and its returns continues to depend on the price developments of the global financial assets.

The Fund's long-term investment strategy and institutional framework were designed to manage market fluctuations through disciplined asset allocation. However, the complete cessation of Bayu-Undan production in May 2025 and uncertainties around Greater Sunrise exploration pose significant challenges, as the Fund now relies entirely on returns from global financial markets. Rising public expenditure, which draws down the Fund's capital, adds further pressure. Consequently, the Fund's objectives and strategies need to be reassessed, while unexplored resources in Greater Sunrise and onshore areas remain important future national assets.

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