



2025

EXECUTIVE SUMMARY

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.

Prepared By :

Banco Central de Timor-Leste



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.



HELDER LOPES
GOVERNOR OF BCTL

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

It is recommended that fiscal policy continue to be guided by long-term sustainability and quality of expenditure. Authorities need to strengthen fiscal rules to keep Petroleum Fund withdrawals consistent with Estimated Sustainable Income (ESI) and to improve quality and efficiency of public spending while gradually mobilizing non-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. 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.







2025

SUMÁRIO EZEKUTIVU

Ami orgullu atu apresenta Revizaun Ekonómika Médiu Termu 2025, hanesan reflexaun ba ami nia kompromisu ba transparénsia, política bazeia ba evidénsia, no kresimentu sustentável.

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SUMÁRIU EZEKUTIVU



Timor-Leste nia ekonomia iha 2025 espande ho ritmu ne'ebé moderadu, apoiu husi gastu públiku ne'ebé maka'as, konsumu uma-kain, no investimentu privadu. PIB naun-petrolíferu projeta sei krese 4.4%, ho konsumu públiku no desenvolvimentu infraestrutura pública sai hanesan motor prinsipal. Inflasaun média tun ba 0.5%, restaura poder sosa no apoia konfiansa konsumidór.

Dezempeñu fiskál mellora iha semestre dahuluk 2025, ho reseita doméstika sa'e 36% iha komparasaun omológa tanba kobransa impostu ne'ebé forte. Maski nune'e, orsamentu nafatin depende maka'as ba transferénsia husi Fundu Petrolíferu, hamosu preokupasaun kona-ba sustentabilidade fiskál ba tempu naruk. Despeza Governu espande lalais, ho konsumu no investimentu kapitál sira fó estímulo iha tempu badak maibé reforça dependénsia estrutural ba reseita minarai nian.

Setór finanseiru hatudu aprofundamentu graduál. Kréditu ba ekonomia aumenta 23.5%, hodi hasa'e rásiu kréditu-ba-PIB ba 34.6%. Fundamentu setór bankáriu saudavel nafatin, ho lukru ne'ebé estável, empréstimu malparadu (non-performing loans) ho nível ne'ebé ki'ik (2.5%), no depóziitu ne'ebé continua domina. Maski nune'e, taxa juru empréstimu nian aas nafatin, reflete obstáku estrutural sira iha transmisaun monetária.



HELDER LOPES
GOVERNOR OF BCTL

Iha parte setor esterna, vulnerabilidade persiste. Défisit konta korrente aumenta ba millaun \$279.1, prinsipalmente tanba aumenta importasaun no atividade kampu gás Bayu-Undan ne'ebé taká dadaunk ona. Ativu Fundu Petrolíferu nian, liu biliaun \$18.7, continua fornese rezerva crítica ida, maski levantamentu sira iha nível atual iha risku ba sustentabilidade iha tinan 2030 ba oin.

Kondisaun global apresenta oportunidade no dezafiu. Dezinflasaun hamenus ona inflasaun importada, maibé volatilidade iha folin enerjia no matéria-prima, hamutuk ho mudansa política monetária EUA nian, continua afeta Timor-Leste liuhusi komérsiu, investimentu no retornu Fundu Petrolíferu.

Jeralmente, perspectiva ba tempu médiu estável maibé hetan limitasaun husi frakeza estrutural sira. Investimentu públiku ne'ebé maka'as, inflasaun ne'ebé ki'ik, no sistema bankáriu ne'ebé resiliente fornese apoiu ba tempu badak, maibé sustentabilidade fiskál, diversifikasaun, no ekilíbriu esternu sai nafatin dezafiu urgente. Hasoru vulnerabilidade sira-ne'e esensial la'ós de'it ba kreximentu ba tempu naruk maibé mós atu harii fundasaun sira ne'ebé kredível ba reziliénsia ekonómika no sustentabilidade.



REKOMENDASAUN XAVE

Tuir konkluzaun sira ne'ebé apresenta iha Revizaun Ekonómika Interkalar ou Médiu Prazu ida-ne'e, mosu prioridade polítika lubuk ida. Rekomendasaun sira tuirmai ne'e ho intensaun atu apoia estabilidade iha tempu badak enkuantu tau fundasaun sira ba reziliénsia no sustentabilidade iha tempu naruk. Tau sira hanesan orientasaun luan ba dezizor polítika sira, hodi fó énfaze ba dixiplina fiskál, aprofundamentu finanseiru, diversifikasaun, estabilidade esterna no prontidaun institusionál.

01 Konsolidasaun Fiskál

Rekomenda atu polítika fiskál kontinua hetan orienta husi sustentabilidade ba tempu naruk no qualidade iha despeza. Autoridade sira presiza hametin regra fiskál sira hodi mantein levantamentu sira hosi Fundu Petrolíferu consistente ho Rendimentu Sustentável Estimadu (RSE), nomos mellora qualidade no efisiénsia hosi gastu públiku enkuantu mobiliza gradualmente reseita naun-petrolíferu.

02 Intermediasaun Finanseira

Autoridade sira bele konsidera medida foun atu aprofunda intermediasaun finanseira, hanesan espansaun finansiamentu dijitál, hametin infraestrutura kréditu, inklui rezolve kestaun sira títulu rai nian, no promove kompetisaun iha servisu bankáriu sira. Etapa sira hanesan ne'e bele ajuda hamenus taxa juru empréstimu ne'ebé aas no hadi'a asesu ba kréditu ba uma-kain no negósiu sira.

03 Diversifikasaun Ekonómika

Atu hamenus dependénsia estrutural ba reseita petrolífera, bele fó prioridade ba apoiu setór naun-petrolíferu sira hanesan agrikultura, turizmu no manufatura ho eskala ki'ik. Investimentu iha infraestrutura nafatin diriji ba projetu sira ne'ebé bele hasa'e produtividade setór privadu no kompetitividade esportasaun nian.

04 Estabilidade Esterna

Haree ba défisit konta korrente ne'ebé aumenta, maka akonsellavel atu monitoriza didiak balansa esterna sira no implementa medida kontinjénsia sira, inklui jestaun rezerva ne'ebé prudente no polítika sira ne'ebé ho objetivu atu hamenus dependénsia ba importasaun liuhusi promove produsaun doméstika.



ABSTRATU TÉKNIKU



Atividade Ekonómika no Inflasaun

Timor-Leste nia ekonomia espande ho ritmu ne'ebé moderadu. PIB naun-petrolíferu prevee atu aumenta 4.4% iha 2025, sa'e husi 4.1% iha 2024, ne'ebé impulsiona husi gastu públiku, konsumu uma-kain no investimentu privadu ne'ebé modestu. Konsumu Governu prevee atu kontribui 11.9%, aumenta 6.9 pontu persentuál ba kreximentu ekonómiku, enkuantu investimentu públiku sei aumenta 14.5%, reflete projetu infraestrutura sira hanesan estrada no ponte. Konsumu uma-kain nian aumenta ho 3.6%, suportahusi aumentu iha saláriu no vensimentu, transferénsia pública, remessas no kréditu ba uma-kain.

Investimentu privadu hatudu sinál recuperasaun, enkuantu hare husi efeitu "crowding-in" husi investimentu públiku. Konstrusaun hanesan benefisiáriu prinsipál, ho impaktu pozitivu ba indústriia sira ne'ebé iha relasaun. Maibé, kreximentu hetan nafatin limitasaun husi kapasidade absoritiva ne'ebé fraku, ne'ebé dudu ona importasaun sa'e besik 12%, aumenta défisit komersiál no hamenus 7.4 pontu persentajen husi kreximentu.

Inflasaun tun maka'as, ho média besik 0.1% iha meadu 2025, ki'ik liu targetu governu nian. Inflasaun ne'ebé ki'ik restaura poder sosa no hadi'a konfiansa uma-kain nian. Ba tinan 2025 tomak, inflasaun estima ba média besik 0.5% molok sa'e ba 1.2% iha 2026.

Finansas Públikas

Reseita doméstika atinji millaun \$124.7 iha semestre dahuluk tinan 2025, 36% aas liu husi períodu omóloga iha tinan 2024, barak liu husi kobransa impostu ne'ebé di'ak. Maibé, reseita sira tun kompara ho finál 2024 tanba kestaun sazonalidade. Transferénsia husi Fundu Petrolíferu nian sai nafatin hanesan ânkora orsamentál prinsipál, ho kobransa sira husi Rendimentu Sustentável Estimadu (RSE) hamutuk millaun \$500, tun uitoan kompara ho valor iha 2024.

Despeza pública continua espande maka'as, ho despeza kapitál (infraestrutura estrada no ponte sira) ne'ebé komplementa despeza korrente ne'ebé aumenta. Espansaun fiskál ne'e apoia kreximentu maibé reforsa dependénsia ba reseita petrolífera, no ida ne'e hamosu preokupasaun sira kona-ba sustentabilidade ba tempu naruk.

Setór Monetáriu no Finanseiru

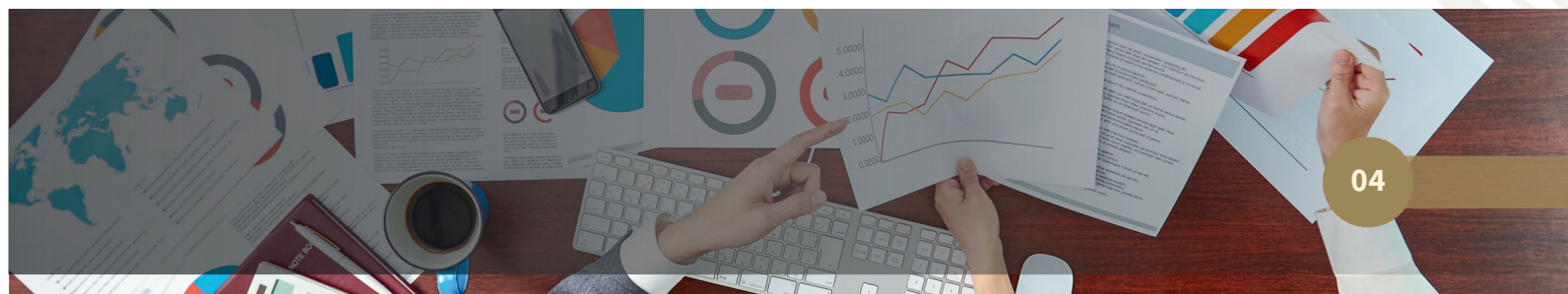
Timor-Leste nia agregadu monetáriu hatudu tendénsia mista. Massa Monetária (M2) tun uitoan tanba impulsiona husi depóztu ne'ebé tun, maibé kréditu ba ekonomia aumenta, reflete aumenta iha demanda doméstika. To'o Juñu 2025, kréditu total ba ekonomia aumenta 22.8% iha komparaun omóloga, atinji millaun \$694. Rasio kréditu-ba-PIB sa'e ba 34.6%, maski ki'ik nafatin tuir padraun rejional, sujere katak aprofundamentu finanseiru la'o hela.

Taxa juru continua relativamente aas nafatin no aliña de'it ho referénsia sira EUA nian, ne'ebé reflete obstáculu estrutural no transmisaun monetária ne'ebé fraku. Taxa kambiál efetivu real hetan apresiasaun tanba dolar EUA ne'ebé forte, no potencialmente afeta kompetitividade esterna.

Sistema Bankáriu

Setór bankáriu nafatin sólidu, ho instituisaun lisensiadu hitu ne'ebé lakleur tan sei espande ba ualu, ho autorizasaun fo ba Banco do Nosso Futuro iha Agostu 2025. Total ativu bankáriu sira tun uitoan ho 2.2% ba billoens \$2.48, impulsiona principalmente husi redusaun iha kolokasaun estranjeiru no saldu sira banku sentral nian. Inversamente, empréstimu bankáriu ba kliente sira aumenta 23.1%, ne'ebé representa 1/4 husi ativu bankáriu sira, hatudu mudansa ida ba intermediasaun kréditu doméstiku.

Iha parte pasivu, depóztu tun ho modestu ho 2.5%, maibé continua domina finansiamentu. Kualidade kréditu nian mellora, ho empréstimu malparadu situa iha 2.5%, ida ne'e hetan apoiu husi pagamentu iha kreditu no aprovizionamentu ne'ebé forte. Rendimentu banku nian adekuaudu nafatin, ho marjen operasionál ne'ebé luan.



Setór Esternu

Défisit konta korrente nian aumenta ba millaun \$279.1 iha semestre dahuluk 2025, sa'e 46% 66.2% husi 2024, ne'ebé refleto aumentu importasaun no enserramentu kampu mina-rai no gás Bayu-Undan nian iha Juñu 2025. Esportasaun la'ós-petrolíferu sei limitadu nafatin no exedente iha rendimentu sei nafatin insuficiente atu kompensa défiat iha sasán no servisu.

Konta finanseira mós hatudu saída líkidu ho montante millaun \$404,2, ne'ebé indika nesesidade finansiamentu iha semestre dahuluk 2025. Ativu reserva tun uitoan maibé nafatin adekuaudu haree ba reseita petrolíferu. Défisit persistente sira subliña vulnerabilidade estruturál no reforsa urjénsia atu diversifika ekonomia alén-de idrokarbonetu.

Spillovers Globál

Dinámika globál kontinua forma Timor-Leste nia perspetiva. Inflasaun importada sai nafatin risku ida, partikularmente husi folin enerjia no ai-han nian, maski dezinflasaun globál hamenus ona presaun sira iha 2025. Merkadu enerjia nian maka sei krítiku tanba reseita mina-rai nian sai nafatin hanesan prinsipál buffer fiskál no esternu. Mudansa sira iha merkadu finanseiru internasionál, especialmente política taxa juru Estados Unidos nian, influencia retornu Fundu Petrolíferu nian no indiretamente afeta kondisaun sira empréstimu nian.

Avaliasaun Jerál

Timor-Leste nia ekonomia iha 2025 hatudu reziliénsia, ne'ebé hetan apoiu husi gastu públiku ne'ebé maka'as, konsumu, no merkadu kréditu ne'ebé buras daudaun. Inflasaun tun, no sistema bankáriu estavel ho empréstimu doméstiku ne'ebé maka kontinua aumenta. Maibé nasaun ne'e kontinua hasoru défisit esternu ne'ebé persistente, dependénsia ba reseita petrolíferu no dinamizmu setór privadu nian ne'ebé limitadu. Haree ba kestaun estruturál sira-ne'e – liuhusi hasa'e produsaun doméstika, diversifikasaun, hametin intermediasaun finanseira, no haforsa sustentabilidade fiskál – sai nafatin importante ba estabilidade iha tempu naruk no estabelese baze ba reziliénsia no sustentabilidade ekonómika.





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