TIMOR-LESTE

Timor-Leste is navigating a fiscal transition while growth remains reliant on public spending. Oil and gas production from Bayu-Undan ended in 2025. The Government is pursuing development of fields but widening fiscal and external deficits increase reliance on the Petroleum Fund. Poverty has declined, but low productivity, limited job creation, and weak diversification persist. Sustainable growth relies on economic transformation, spending efficiency, and revenue mobilization.

Population[1]	Poverty
million	millions living on less than $4.20/day
1.4	..
Life expectancy at birth[2]	**School enrollment[3]**
years	primary (% gross)
67.9	119.7
GDP[4]	**GDP per capita[5]**
current US$, billion	current US$
1.9	1348.4

Sources: WDI, PiP, and official data. 1/ 2025. 2/ 2024. 3/ 2023. 4/ 2024. 5/ 2025.

Key conditions and challenges

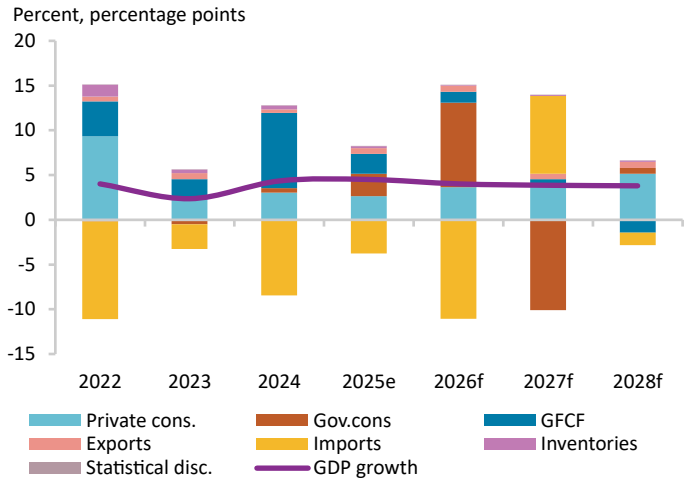
Timor-Leste has reached a critical turning point. Petroleum production ended in 2025, removing the revenues that financed the state and supported growth for much of the past two decades. Although the Petroleum Fund remains a substantial financial buffer, government projections suggest that continued withdrawals could deplete it by 2038 under current spending patterns.

The challenge is therefore to use the remaining fiscal space to support economic transformation before fiscal constraints become more binding. Petroleum-financed public spending improved access to electricity, higher-quality housing, education, water, and sanitation, while the poverty rate declined between 2014 and 2024. However, these gains relied heavily on government spending and foreign remittances. Non-oil GDP per capita fell over the same period, and private investment remained limited. Further progress will depend on improving quality of spending and targeting social transfers and subsidies while creating a more enabling environment for private activity. The Association of Southeast Asian Nations (ASEAN) accession and the World Trade Organization (WTO) membership offer market access and a reform anchor to strengthen competitiveness, improve institutions, attract investment, and expand exports.

Recent developments

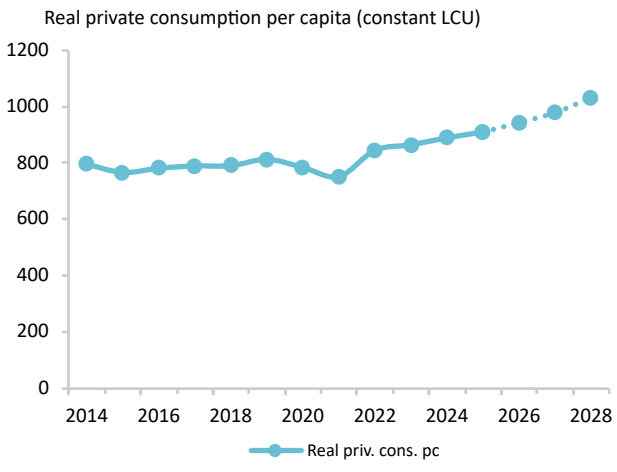
Growth is projected to moderate to 4.1 percent in 2026, from 4.5 percent in 2025, despite a sharp increase in government consumption. Government consumption and investment in public infrastructure support domestic demand, but moderating tourism growth, slower credit expansion, and the end of petroleum production weigh on activity. Non-oil goods exports more than doubled in the first half of 2026, led by coffee from the strong 2025 harvest. However, coffee production has since fallen sharply amid persistent productivity constraints and climate-related volatility. As a result, the recent export surge does not yet signal sustained acceleration in non-oil exports. However, strong domestic demand and stocking of fuel reserves increased imports, which are projected to grow by 17 percent in 2026. Together with declining oil receipts, this is projected to widen the current account deficit by 14 percentage points from last year to 50 percent of GDP in 2026.

FIGURE 1 / Real GDP growth and contributions to real GDP growth



Sources: Timor-Leste's Statistics Office (INETL) and World Bank.

FIGURE 2 / Real private consumption per capita



Sources: Timor-Leste's Statistics Office (INETL) and World Bank. Notes: The Government of Timor-Leste published its national poverty estimate in September, drawing on the 2024 TLSLS. Figures based on international poverty lines are not yet available.

Household welfare has improved over the past decade, fueled by public transfers, employment in low-productivity activities, and remittances. The poverty rate at the national poverty line fell to 37.0 percent in 2024. The employment rate as a percentage of the working-age population increased to 38.3 percent in 2024 (based on TLSLS) from 28.9 percent in 2021 (based on the Labor Force Survey). However, labor productivity remained low, with employment concentrated in retail, agriculture, and public administration. The share of households receiving remittances increased from 17.7 percent in 2014 to 21.1 percent in 2024.

Inflation is projected to increase from 0.5 percent in 2025 to 2.1 percent in 2026 as fuel and transport costs increase. Headline inflation remained contained at 0.48 percent y/y in July 2026, supported by stable food prices and energy subsidies, albeit at a fiscal cost. Nevertheless, transport prices increased by 6.3 percent y/y during the same period.

The fiscal deficit is projected to rise from 51 percent of GDP in 2025 to 61 percent in 2026. Higher spending on infrastructure and strategic fuel reserves has accelerated government spending growth. At the same time, domestic revenue remains small relative to expenditure, at about 13 percent of non-oil GDP in 2026. Consequently, the budget continues to rely heavily on unsustainable Petroleum Fund withdrawals. Combined with lower petroleum receipts following the end of production, this reduced the Fund balance from US$18.75 billion to US$18.43 billion over the year to July 2026.

Outlook

The medium-term outlook depends on how quickly Timor-Leste can shift from public-spending-led growth toward a more diversified and private-sector-driven economy. Growth is projected to moderate to 3.8 percent in 2027–2028 as temporary public spending measures unwind. Meanwhile, stronger tourism and non-oil exports are expected to support export growth, while import demand moderates as fuel-reserve accumulation and temporary spending measures recede. As a result, the current account deficit is projected to narrow gradually over the medium term. Inflation is projected to stabilize to 2.0 percent in 2027–2028 from 2.1 percent in 2026 as temporary disinflationary factors unwind. Poverty should continue to decline with growth and progress will be strongest if the benefits from transfers and remittances are complemented by rising labor incomes from productive employment.

The main risk is that economic transformation proceeds too slowly to replace the Petroleum Fund as a source of revenues. Although government expenditure is expected to moderate after 2026, fiscal deficits are projected to remain large, requiring continued Petroleum Fund withdrawals. Delays in diversification, private investment, and job creation would increase pressure on fiscal buffers and prolong reliance on a public spending and resource-driven growth model. A stronger private sector would broaden the tax base and support domestic revenue mobilization, while more efficient and better targeted public spending would strengthen fiscal sustainability. As a small, undiversified economy, Timor-Leste also remains vulnerable to external shocks, including higher commodity prices, weaker regional demand and, in the next year, a severe El Niño event. Faster reforms and deeper regional integration through ASEAN and the WTO could accelerate investment, exports and private sector job creation. New resource projects also offer upside potential, but durable, job-rich growth ultimately depends on diversification and fiscal sustainability.

Recent history and projections	2023	2024	2025e	2026f	2027f	2028f
Real GDP growth, at constant market prices	2.4	4.3	4.5	4.1	3.8	3.8
Private consumption	3.4	4.1	3.6	5.0	5.2	6.9
Government consumption	-0.8	0.9	4.4	16.6	-15.8	1.2
Gross fixed capital investment	11.5	43.7	8.4	4.4	2.6	-5.3
Exports, goods and services	31.8	13.3	20.1	21.0	14.4	15.3
Imports, goods and services	4.9	14.6	5.9	17.2	-12.0	2.3
Real GDP growth, at constant factor prices	2.7	3.7	4.5	4.1	3.8	3.8
Agriculture	2.9	0.6	0.6	0.7	0.6	0.7
Industry	-22.4	4.4	3.0	3.0	2.9	3.2
Services	3.4	4.4	5.5	4.9	4.5	4.5
Inflation (consumer price index)	8.4	2.1	0.5	2.1	2.0	2.0
Current account balance (% of GDP)	-10.7	-31.1	-36.7	-50.3	-35.5	-31.8
Net foreign direct investment inflow (% of GDP)	10.6	11.2	13.2	4.0	4.0	4.0
Fiscal balance (% of GDP)[1]	-40.9	-46.4	-51.2	-60.6	-47.2	-44.0
Revenues (% of GDP)	41.2	40.4	42.6	40.8	37.8	36.4
Debt (% of GDP)	14.4	14.2	14.0	15.7	15.8	16.9
Primary balance (% of GDP)	-40.6	-45.9	-50.8	-60.2	-46.8	-43.5
GHG emissions growth (mtCO2e)	1.3	1.6	-1.9	-2.8	-2.4	-2.0

Source: World Bank, Fiscal Policy & Growth Department. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast. Data in annual percent change unless indicated otherwise.
1/ The sustainable income from Petroleum Fund (PF) is transferred to Government as annual fiscal revenue (above the line), known as ESI (Estimated Sustainable Income). However, extra withdrawals from the PF are also used as the main source to finance the budget deficit (below the line).