

## *Democratic Republic of Timor Leste*

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Timor-Leste became independent on May 20, 2002, following 25 years of conflict, a violent transition from Indonesian rule in September 1999 and two and half years of United Nations administration. The country now faces the challenges of nation-building with very limited human resources, embryonic institutions, a stagnant economy, high levels of poverty and unemployment.

The gradual winding down of the international presence following independence and slow-down in reconstruction programs has led to some contraction in economic activity, particularly in urban areas and in services that catered to expatriates. Data deficiencies preclude accurate quantification of the decline in output.

Non-oil exports, amounted to just \$7 million in 2003 of which \$6 million consisted of coffee, while "Timor Sea revenue" accruing to the budget in FY03 amounted to just under \$30 million. Imports are estimated to have fallen to \$168 million in 2003 from a peak of \$248 million in 2001 reflecting the falling presence of expatriates. Inflationary pressures have abated: inflation remained at 8-10 percent through mid-2003 due to a drought induced scarcity of agricultural goods, but by January 2004 was reported at 4 percent.

Private sector wages have started to fall—one of the largest employers reduced pay for unskilled workers by 25% to \$80 dollars a month. Nevertheless, the overall wage level remains relatively high in comparison with neighboring countries, undermining competitiveness. A fifth of the working age population in Dili/Baucau was unemployed in late 2001. Unemployment is highest among the youth and declines sharply with age. While some interest has been shown in concessions for exploitation of natural resources, such as fisheries and forestry so far there has been little new investment. During 2003, bank deposits increased from \$55 million to \$72 million, and domestic bank lending increased from \$5 million to \$22 million, but the bulk of deposits continue to be invested abroad.

Ratification of the Timor Sea Treaty in March 2003 provides assurance that the planned development of the Bayu-Undan oil and gas field will proceed. Production of liquids at this field began in February 2004 and is expected to reach its design daily production rate during the third quarter of 2004. The second phase, scheduled to begin in 2006, entails piping of dry gas to Darwin, Australia, for recovery as liquefied natural gas.

Although there may be some opportunities for service activities in Timor, the principal benefit will be from the \$3 billion in revenues that the project is expected to generate over a twenty-year period beginning in 2004.

The National Development Plan, prepared shortly before Independence, outlines Government's development and poverty reduction objectives. A Stability Program announced by Government in January 2003, in the aftermath of the December 2002 riots, focuses on three areas of the longer-term program where Government intends to have immediate impact: governance, job creation and service delivery for poverty reduction, particularly in education and health.