

TIMOR-LESTE COUNTRY REPORT

SUMMARY

At constant prices (2015=100), in 2015 the non-Oil GDP increased 4.0%, following the GDP expenditure (e) approach, as the *headline* GDP (GDP (e) = GDP).

For the other, the Oil GDP increased in 46.4%. However, at current prices in 2015 the Oil GDP decreased 42.3%, following to fall in oil prices around 54.7%.

- Volumes extracted in the Oil sector rose by 14.2% (Oil Output) compared with 2014.
- Consumption plus investment, was driven by the Private Sector (+3.9%), while the Public Sector (including Oecusse Special Economic Zone) increased +3.2%. And, Development Partners expenditures fell (-16.6%).
- Exports of goods increased in 133.4%, mainly coffee. The imports of goods raised by 11.6%, basically foods products (+21.8%).
- In quarterly terms, the Non-Oil GDP (e), comparing the same quarters between 2014 and 2015, expanded in Q1 (+9%) and Q2 (+8%), more than Q3 (+2%) and Q4 (+1%).
- From the supply side, the Non-Oil GDP (production approach), increased +4.2%. Led by construction (+26.3%), and transport (+12.7%).
- The Non-Oil GDP per capita, increased by 8.2% in current terms.

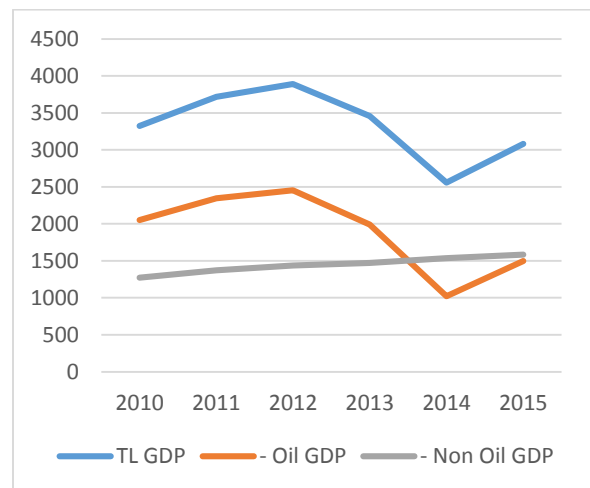
TIMOR-LESTE ECONOMY IN 2015

Table I OVERVIEW OF THE TIMOR-LESTE ECONOMY IN 2015: The basic macroeconomic aggregates.

(Millions of USD)

	2014	2015
(Current)		
Timor-Leste GDP	4042	3102
- Oil GDP	2591	1496
- Non Oil GDP	1451	1606
(Constant 2015=100)		
TL GDP	2566	3102
- Oil GDP	1022	1496
- Non Oil GDP	1544	1606
(Growth Rates. %)		
Timor-Leste GDP	-26.0	20.9
- Oil GDP	-48.6	46.4
- Non Oil GDP	4.3	4.0

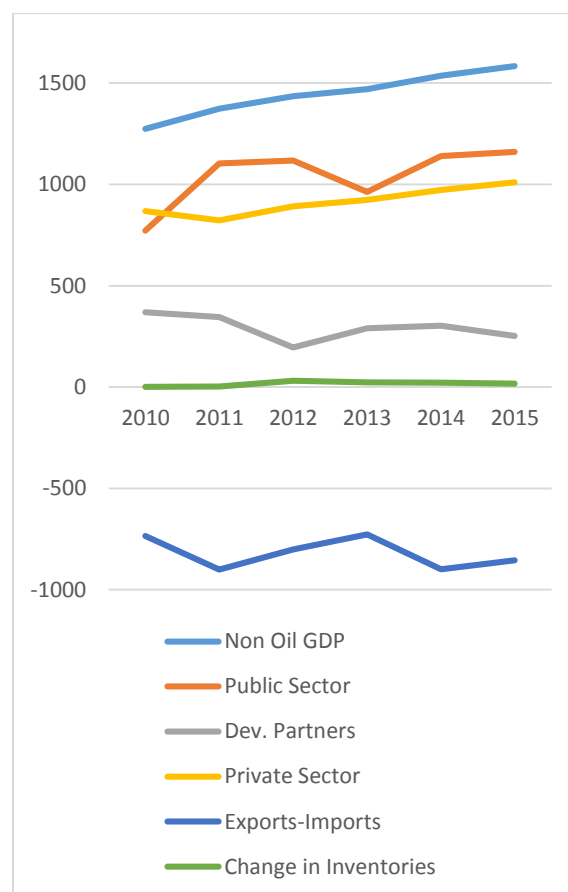
Graph 1: Gross Domestic Product at Constant Prices (2015=100), 2010 to 2015 (millions of US dollars)



Key Points

- Total Gross Domestic Product (GDP) in *current prices* for Timor-Leste in 2015 was \$3,102 million. Of this:
 - The oil industry accounted for \$1,496 million (48.2% of total GDP).
 - The non-oil industry accounted for \$1,607 million (51.8% of total GDP).
- The GDP per capita in current prices was \$2,619 in 2015. Of this:
 - The oil industry provided \$1,262
 - The non-oil industry contributed with \$1,356 (\$1,254 in 2014)
- In *constant prices*, total GDP rose in 2015 by 20.9% (compared with negative growth of 26.0% in 2014) of which:
 - The Oil sector rose by 46.4% in 2015 (in contrast to the negative growth of 48.6% in 2014). Volumes extracted in the Oil sector were considerably higher than those of 2014 (13.8% in Oil Output). The increase in the Oil sector was mainly as a recovery from the fall in 2014 (-26.8%) in a context where intermediate consumption decreased by 19.6%, mainly by the Upstream Operative Costs, in contrast with the big increase in 2014 (+34.1%)
 - The Non-oil sector *grew* by 4.0% in 2015 compared with 4.3%¹ in 2014. This recovery was result of the increase of consumption and investment of the private sector (3.9% in constant terms).

Graph 2: Key Expenditure Components of Non-Oil GDP, Constant Prices (2015=100), 2010 to 2015 (millions of US Dollars)



Graph 2 illustrates a structural strong relation in the economy of Timor-Leste: the net Exports (Exports of goods and services, net of Imports of goods and services) *follow* (with the opposite sign) the public sector expenditure.

The fall, by exogenous reasons, of Development Partners support, in 16.6% during 2015, was off-set with a fall in the imports of services (-17.8%).

¹ Reviewed value, given the benchmarking and rebasing compilation process. See Technical Note.

Non-Oil GDP Components in 2015

Non-Oil GDP in constant prices, **by the expenditure approach**, grew by 4.0% in 2015, compared with a 4.3% growth in 2014.

Non-Oil GDP production approach *at factor cost*, or Gross Value Added², grew +6.0% in 2015 (4.5% in 2014). But, at constant prices, the Non-Oil GDP **production approach**, at market prices, grew +4.2% in 2015, compared to a growth rate of +4.4% in 2014³, according to the reviewed registers. The difference in growth at factor cost and at market prices is due to the fact that the Tax less Subsidies contribution to GDP at market prices declined, given the rise of the Electricity subsidy between 2014 and 2015 at constant prices (2015=100).

Expenditure Approach. Annually

Table II shows the growth rates of the expenditures from the public sector, the private sector, development partners and from the external sector.

Table II Macroeconomic Aggregates

Growth rates %	2014	2015
Non-Oil GDP	4.3	4.0
Public Expenditure	17.5	3.2
... Consumption	24.0	7.1
... Investment	7.8	-3.6
Development partners	4.1	-16.6
... Consumption	3.7	-15.5
... Investment	6.0	-21.6
Private Expenditure	5.5	3.9
... Consumption	6.2	4.0
... Investment	-0.3	3.3
Exports	-20.1	-5.3
... Goods	-41.4	133.4
... Services	-12.1	-39.9
Imports	18.3	-4.8
... Goods	8.1	11.6
... Services	27.9	-17.8
Change in Inventories	-4.9	-21.4

Movements in the major components of Non-Oil GDP, all in constant prices, were as follows, *by sectors*:

PUBLIC SECTOR

- Public sector expenditure had a growth of 3.2%. Public consumption (+7.1%) was driven by the net purchases of goods and services (+8.0%). Public investment fall (-3.6%) was less for public infrastructure (+.9%), than for investment in machinery and equipment (-19.1%)⁴.

DEVELOPMENT PARTNERS

- Development Partners and Technical Assistance expenditure fell in -16.6% (after a rise in +4.1% in 2014). Not only in terms of consumption (-15.5%) but also in terms of investment (-21.6%).

² GDP production less [Taxes less Subsidies on Products]

³ In levels, the difference between the expenditure approach and the production approach is known as the "statistical discrepancy".

⁴ This measures includes ZEESM – Oecusse.

PRIVATE SECTOR

- Private sector expenditure grew by 3.9%. Private consumption increased by 4.0%, and by 3.7% in its domestic concept, mainly in services (+14.7%). In 2015, Private investment increased by 3.3%, less through the private corporation, whose investment virtually have not changed (+0.6%), and more through households increasing their investment in housing, in + 13.4%.

CHANGE IN INVENTORIES

- The Change in Inventories fell from \$21 to \$17 USD million in 2015. Basically for lower inventories in rice, given the fall in local production.

EXPORTS AND IMPORTS

- The Exports of Goods and Services declined - 5.3%, mainly by Services. The exports of goods (+133.4%) increased because Coffee exports rose from 10.1 thousands of tons in 2014 to 23.8 thousands of tons in 2015.
- Finally, imports of goods and services decreased (-5.2%). In the case of goods (+11.6%) the imports were led by mineral products (fuel) with +43.1%, and +34.6 in Electrical Machinery, given the fall in the years 2013 and 2014. The import of services decreased -18.2%, associated with the fall in public investment and development partner's contributions.

Expenditure Approach. Quarterly

The quarterly Non-Oil GDP (qGDPI), expenditure approach, replicates the annual GDP at quarterly temporal frequency using –as possible - the same concepts, sources and methods. However, it is an indicator because, given an annual national accounts variable (for example, Private Consumption) as

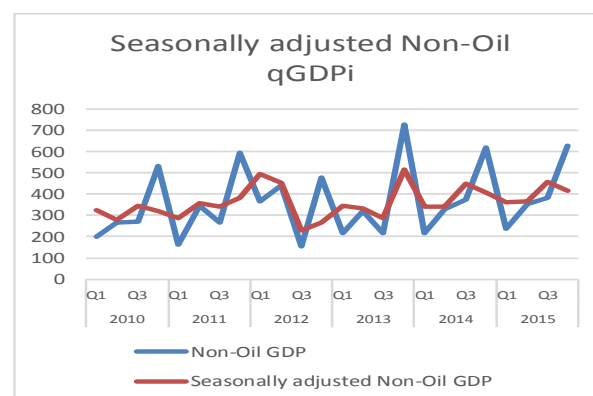
⁵ Given the non-linearities involved, the yearly growth rates are approximately the average of the quarterly growth rates. Better approximation, when the time series are monotonic, as private consumption. Bad

Table III 2015: Quarterly Non-Oil GDP (e)
Indicator (% y/y)⁵

	Q1	Q2	Q3	Q4	2015
Private cons	4	3	4	5	4.0
Private inv	13	55	-11	-30	3.3
Dev Partners	-55	60	-32	-13	-16.6
Gen Gov consn	34	-10	4	12	7.1
Public inv	-69	-18	-2	3	-3.6
Exp goods and ss	15	-59	33	29	-5.3
Imp goods and ss	-8	-15	-5	4	-4.8
Change inv	-14	-22	-25	-24	-21.4
Non-Oil GDP (e)	9	8	2	1	4.0
Seas adjusted	6	8	2	2	4.0

benchmark, this is *temporally disaggregated* using quarterly indicators. Table III shows the quarterly profile of the Non-Oil qGDPI (e) and its components, in terms of growth rate for the same quarter between consecutive years (% y/y). If seasonality (SA) is removed through some procedures based on auto regressions (AR) and moving averages (MA), it is possible to better analyze the movements of the economy in the short term.

Specifically, with seasonal adjustment, it is possible to compare adjacent quarters growth rates unlike in non-seasonally adjusted (NSA) series. Thus, it is possible to examine quarterly changes in the direction of the economy as shown in the following graph:



approximation when the time series are non-monotonic, as Non-Oil GDP (e).

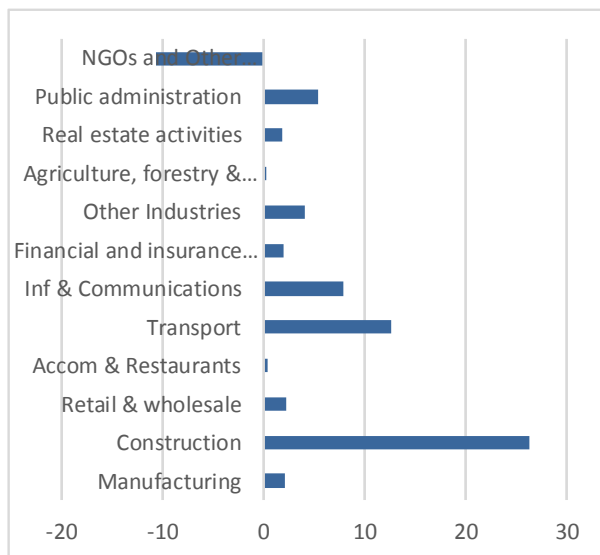
In this case, the difference between the original series and the seasonally adjusted series is due to seasonal factors⁶, and the seasonally adjusted series reflects the trend-cycle and the irregular factors. Given that the seasonal factors are identified inside the year, then the year growth rate (4.0%) does not change. Only the quarterly % q/q growth rates change.

Production Approach

The non-Oil GDP (p) increased 4.2%, after a rise of +4.4% in 2014, reviewed values.

The Graph 5 shows the value added growth rates by industry in constant prices (2015=100) for 2015.

Graph 5: Growth Rates by Industry, Constant Prices, 2015 (per cent)



The growths of the valued added (output less intermediate consumption) for the main industries in 2015 were:

- Agriculture, forestry and fishing (+.30%). Strong fall in rice and maize. Other

⁶ Following a (0,1,1) x (0,1,1) [4] Arima Model, selected by the lowest AIC.

crops, without changes. Forestry, Livestock and Fishing around the trend.

- Construction (+25.8%). The increase is supported by a rise in public construction.
- Transport (+12.7 %). Basically it was a recovery from 2014 (-15.1%). Especially in passenger transport.
- Retail and Wholesale (+2.2%). In line with increase in imported merchandise and trade margins.
- Public Administration (+5.4%). Mainly by the increase of Consumption of Fixed Capital.
- Information and Communications (+7.9%). Value Added increased when the industry became more established.
- Real estate (+1.9%). Actual rents declined and imputed rents increased at demographic rates.
- NGO & Others Industries (-10.7%). Due to the decrease of Development Partners support.

Technical Note:

Benchmarking, Rebasing and Linking

TL-NA 2015 Benchmark Compilation

Regarding the revision policy of the Timor-Leste national accounts, TL-NA 2010-2015 corresponds to a new *compilation cycle* of the national accounts, under the new TL-NA 2015 benchmark compilation.

Normally a benchmark compilation introduces new low frequency data and improves methods, and that allows to

compile the *best level* of GDP. For these reason, a new base year for the measures at constant prices is used (2015=100).

- i) The *new low frequency data* included in the TL-NA 2015 Benchmark Compilation was the Labor Force Survey 2013, used for some informal activities; Living Standard Survey 2014 used to compile private consumption; and the Population Census 2015 used for per capita measures and for some agriculture activities.
- ii) In terms of *methods*, the Development Partners contribution to GDP in the TL-NA 2015 Benchmark Compilation is measured according to Yearly Financial Report of the Ministry of Finance, and not as the sum of quarters from Transparency Aid. The Gross Fixed Capital Formation of the Private Non-Financial Corporations now is fully measured from the Business Activity Survey (BAS). The change of inventories was improved using the BAS and including a full set of supply and use tables for rice.
- iii) Finally, the national accounts were *rebased* from 2010 to 2015, following the best practices.

Therefore, the TL-NA 2000-2014 years are not directly comparable with the year 2015. It is necessary to replicate, as much as possible, the new data and methods used in 2015, in the time series 2000-2014. This process known as *linking* was made from the most detailed level from 2010 until 2014. Then, the values of the 2010 - 2014-time series in this publication are a little bit different than the TL-NA 2000-2014 values disseminated in December 2015. For example, the reviewed non-Oil GDP growth rate for 2014 now is 4.3, before it was 5.9, given the benchmarking (i and ii) and rebasing (iii) mentioned above. Roughly, it is possible to attribute the 40% of the

differences to benchmarking and the 60% to rebasing in 2010-2014 average.

If it is necessary to derive more long time series, the user can employ other methods, *splicing* for example, using the new levels for 2010 from TL-NA 2010-2015, and the old changes for 2000-2009 from TL-NA 2000-2014, in order to obtain data for 2000-2009.

With this publication, the TL National Accounts begin a new compilation cycle 2010 -2019 under the 2015 benchmark compilation, with 2010-2014 as linked compilations, and 2016 -2019 as truly follow-up compilations.