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The Economic Stabilization Fund

The Government plans to establish a $240 million Economic Stabilization Fund to ensure that the price of food, fuel and construction materials does not spiral out of control. The money allocated for this is nearly as much as the original budget for 2008, but Parliament has not been told what it will do, how it will be managed, and by whom it will be managed. A, so far undisclosed, decree law has been passed to establish this Fund rather than a more consultative parliamentary law. Although we understand the Government wants to reduce prices of imported goods, the Fund will make the State pay for imports.

Using data from the budget document "Orçamento Rectificativo 2008" (OR2008), as presented to members of Parliament, we can work out the following:

Goods worth $182 million dollar will be imported

Outside of the money allocated to this Fund, the Ministry of Finance will pay $4.6 million in import taxes for rice[1] acquired under this Fund (explained on page 36 and 83 of the OR2008). We do not know why this expense shows up as a separate Ministry of Finance increase. Using 2.5% import tax according to the new law, when we calculate back the value of imports for this $4.6 million it comes to $184 million in imports through this fund alone over the next six months.

Goods sold against 25% of import price

The receipt out of sales of subsidized rice and other goods is anticipated to reach $39.4 million (table 4.4, OR2008). Selling imported goods worth $184 million for less than $40 million is like subsidizing 75 centavos of every dollar. Next to subsidizing rice, the Government plans to subsidize other goods like construction materials but the Mid-Year Budget Update does not talk about it. Assuming that 50% of this $184 million is used to buy rice[2], against the current subsidized price of $16 per 35-kilo bag, this comes to over 43,000 tons (43 million kg) of rice for a period of six months, or more than seven thousand tons per month. If more than 50% is used to buy rice this number only goes up.

The Fund imports twice as much as regular channels

The Government anticipates import taxes for 2008 to be $6.5 million (page 22, table 4.3, OR2008). But $4.6 million in import tax on this Fund is equal to more than 70% of total tax income. The same table hides the fact that income on import tax will actually decrease over the next years, due to lower import tariffs, even when import volumes might increase. Table 4.2 shows not only an active Fund **this** year but also $49.4 million in sales of rice for **each** year starting 2009 until 2011. That is a lot of imports. It is actually twice as much as the average yearly merchandise imports for this country over the years 2003 to 2006 (table 2, IMF Country Report June 2008). Who will manage import administration, quarantine guarantees, warehousing, transport to districts, and storage in districts? The Ministry of Tourism, Industry and Commerce is supposed to spend $3 million to build silos to store

[1] The Orçamento Rektifikativo 2008 literally states "rice". Page 83 and 85 of the document hint at other essential goods too.
[2] And food equivalent to milled rice

40,000 tons of food (page 40 and 106, OR2008); where and when will they be placed, and who will manage them?

Effects of the Fund

The Fund is big, both in money it uses and in volumes it imports. We cannot say what the exact impact of the Fund will be as we do not know the mechanism behind the Fund. However, there is significant danger that buying and selling of goods through the Economic Stabilization Fund will:

- Compete with existing import channels; the Fund imports volumes of rice equivalent to more than the expected[3] shortfall. All channels through which rice was normally imported (private business and food aid) will cease to exist and be replaced with a government-owned import and wholesale structure.
- Compete unevenly with local markets; the uneven competition in pricing and availability will destroy any progress made in making this country more food secure.
- Overwhelm local infrastructure capacity; importing volumes three times as much as normal will put a strain on existing port, customs, warehousing and administration mechanisms. Capacity for warehousing, transportation to districts and storage at district level is insufficient to manage this amount of goods. Currently, about 30,000 tons of local food production per year is lost due to pests and bad storage conditions.
- Create increased import dependency and increased future budget deficits; as the budget document shows, there are anticipated sales through this Fund for future years until 2011 worth $50 million each year. Calculating back this is equal to over $200 million of new money into the Fund every year **on top of total expenditure for those years** (page 28, table 5.2, OR2008).

This press statement has been prepared by the members of the Core Group on Transparency. Electronic copies of this statement can be obtained from the Secretariat, redetransparensia@gmail.com, or from www.laohamutuk.org/econ/MYBU08/RDTLMYBU08.htm.

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[3] Latest figures, still mostly based on existing private sector import volumes, estimate a shortfall of 80,000 tons over the whole of 2008. (Source: Ministry of Agriculture Food Security Department. *"Assessment of Main Food Crops Production, And of Consumption Requirements In Timor-Leste, Season 2007 – 2008"* , second draft, July 2008)