

## PART 2. EXECUTIVE SUMMARY

### Budget Outlook

The Combined Source Budget for Timor-Leste in 2011 is \$1.18 billion comprising the General State Budget in the amount of \$985 million, and \$195 million from Development Partners, as shown in Table 2.1.

*Table 2.1. Combined Sources Budget 2011 - 2015 (\$ million, prelim)*

Budget	2010	2011	2012	2013	2014	2015
CFTL	837.9	642.7	653.4	679.6	706.7	734.9
Infrastructure Fund		317.3	597	620.9	645.8	671.6
HCDF		25.0	30	35	40	45
<b>General State Budget</b>	<b>837.9</b>	<b>985.0</b>	<b>1,280.4</b>	<b>1,335.5</b>	<b>1,392.5</b>	<b>1,451.5</b>
Development Partners	256.8	195.0	112.7	75.2	32.7	0
<b>Combined State Budget</b>	<b>1,094.7</b>	<b>1,180</b>	<b>1,393.1</b>	<b>1,410.7</b>	<b>1,425.2</b>	<b>1,451.5</b>

Source: Budget and Aid Effectiveness directorates, Ministry of Finance, 2010

Table 2.2 shows Consolidated Fund of Timor-Leste (CFTL) by categories of expense, divided between recurrent and capital.

*Table 2.2. CFTL by Category, 2011 - 2015 (5 million, prelim)*

Budget	2010	2011	2012	2013	2014	2015
<b>Recurrent</b>						
Salary and Wages	99.3	115.9	120.6	125.4	130.4	135.6
Goods and Services	260.6	245.5	255.3	265.5	276.1	287.1
Public Transfers	184.4	164.5	171.0	177.9	184.9	192.4
<b>Capital</b>						
Minor Capital	39.9	28.2	29.3	30.6	31.8	33.0
Capital & Development	253.7	88.6	77.2	80.2	83.5	86.8
<b>CFTL Total</b>	<b>837.9</b>	<b>642.7</b>	<b>653.4</b>	<b>679.6</b>	<b>706.7</b>	<b>734.9</b>

Source: Budget Directorate, Ministry of Finance, 2010.

### Economy

The international economy has begun to recover from the financial crisis that plunged major advanced economies into recession and impacted adversely on the majority of emerging and developing countries. Timor-Leste was relatively sheltered from the crisis and its economic growth remained strong throughout, as result of limited exposure to international trade and no financial industry. Overall real economic growth in Timor-Leste in 2009 is estimated at 13%, with Public Sector contributing 5.6% of this growth, Agriculture contributing 3.9% of growth and industry and Services contributing the remaining 3.5%. Going forward, it is projected that the economy will continue its double digit economic trajectory from 2011 through 2015 driven primarily by public expenditures.

Since the 2008 financial crisis, oil prices have risen and stabilized at around \$70-\$80 per barrel. Oil demand has risen in the first half of 2010, particularly in China, on the back of a rebound in global activity. Timor-Leste's petroleum revenues, including interest, were \$1.84 billion in 2009. It is estimated that the petroleum revenues will reach \$2.02 billion in 2010, primarily due to an increase in the average oil price from \$62 per barrel in 2009 to an estimated average of \$76 per barrel in 2010.

Headline inflation year-on-year in 2009 in Timor-Leste and Dili was 0.1% and 0.7% respectively.<sup>1</sup> This represents a drop in inflation rates from 2007 and 2008. Global food prices are expected to rise as a result of bad weather leading to poor harvests, and consequently inflation is projected to increase to 4%.

## **Expenditure**

For 2011, the Government has determined the following expenditure priorities:

- **PN1: Infrastructure:** electricity, roads and bridges, water and sanitation.
- **PN2: Rural development:** agricultural productivity, livestock, access to microcredit and environmental protection.
- **PN3: Accelerated development of human resources:**
  - Professional and technical training;
  - Justice, health and teachers training;
  - Specialist training in the finance, management and administration areas.
- **PN4: Access to justice.**
- **PN5: Delivery of Public Services:**
  - Assistance to Vulnerable groups, health and education;
  - Improve public service and access.
- **PN6: Good Governance**
  - Focus in the transparency, accountability, coordination between ministries and user services and training of inspectors and auditors.
- **PN7: Public Security and Stability**

This year's Budget Review Committee, led by the Prime Minister reviewed the budget submissions based on a careful assessment of prior years budgets, and redirected savings to national priorities identified in the Strategic Development Plan process.

Expenditure in the Budget is constructed on the framework of the Strategic Development Plan. The SDP has two main objectives; to transform Timor-Leste:

- from a low-income country to an upper-middle income country by 2030, and
- by reducing its dependence on oil.

Public investment will constitute a major driver of growth in the immediate phase of this plan and provide a catalyst for private investment to supplant government expenditure. Two Special Funds, the Infrastructure Fund (FI) and the Human Capital Development Fund (HCDF), will be established

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<sup>1</sup> National Directorate of Statistics (DNE), Ministry of Finance

to manage the SDP expenditure under the stewardship of the Prime Minister and relevant line ministers. The Ministries/Agencies will implement the projects under the Special Funds.

The Government will create the National Development Agency (ADN) in 2011 to provide technical assistance for the implementation of the SDP. In addition, a Procurement Commission will manage procurement.

The centralization of decision making of the projects within the Special Funds will ensure projects are better coordinated between line ministries and integrated within the SDP.

## **Revenues**

In 2010, Domestic Revenues are expected to achieve a milestone when in excess of \$100 million is expected to be received, despite a reduction in revenues from rice. Domestic Revenues will continue its growth trajectory and reach \$163.3 million by 2015. These are conservative estimates as further regulatory reforms, improved tax administration, and increased compliance may result in additional revenues.

The Petroleum Revenues are expected to remain high in 2011 and 2012 due to stable production and higher average oil prices. The estimated Petroleum Revenues for 2011 and 2012 are \$2.23 billion and \$2.4 billion respectively. The Petroleum Fund balance is expected to be \$6.62 billion at the beginning of 2011 representing an increase of \$1.24 billion from year on year.

The Estimated Sustainable Income (ESI) for 2011 is calculated at \$734 million. This is an increase of \$232 million from ESI 2010, and results basically from a change of methodology for the oil price forecast.

The Government in the last three years has fully implemented its investment strategy, and fully utilized the scope of the Petroleum Fund Law. The Petroleum Fund now invests not only in US bonds but also in other foreign Government bonds, and Supranational Organizations. An equity mandate has been added to its portfolio in October 2010.

The Government's strategy to further diversify the Petroleum Fund portfolio will necessitate amendments to the Petroleum Fund Law and will require approval by Parliament. Diversification will manifest in an increase exposure to equities.

Development partners will contribute \$194.8 million in 2011 to the Combined Source Budget of Timor-Leste. Development partner's contribution will reduce disproportionately from 2010 onwards. This reduction is based on actual information to date and therefore does not reflect an absence of future international support and commitment.

## **Financing**

Aside from traditional funding sources, a deficit will arise between desired development and domestic available resources over the medium and long term. Accordingly, the Government is exploring alternative funding options to finance strategic public investment.

A Debt Management Unit (DMU) has been established within the Ministry of Finance to ensure effective and efficient management of public debt should it arise. The Government is assessing the benefits of borrowing as opposed to relying exclusively on the Petroleum Funds revenue, including the financing options of Private Public Partnerships (PPP).