

(Translation from Portuguese original)

NATIONAL PARLIAMENT OF THE DEMOCRATIC REPUBLIC OF TIMOR-LESTE

SPEECH ON OPENING OF THE DEBATE ON THE 2013 STATE BUDGET LAW

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BEHALF OF THE FRETILIN PARLIAMENTARY BENCH**

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“FIGHTING POVERTY AND REDUCING INFLATION

TOUCH STONE TOWARDS DEVELOPMENT”

President of the National Parliament!

Mr. Prime Minister!

Distinguished Members of the Board!

Ladies and gentlemen!

Ladies and gentlemen of the Government!

Excellencies!

Ladies and gentlemen!

With your permission, before going on to address issues relating to Annual Budgets of State and, in particular, the proposed State Budget Law of 2013, I think it is important to make clear what FRETILIN's stance will be during the upcoming Third Legislature here in this Noble Chamber and elsewhere. FRETILIN has proved to be a Political Force always interested in defending the interests of all our people, whether in government or not.

It is our concern with the situation in Timor-Leste, which determines our whole political stance. As such, we seek all possible ways to make our contribution. We do so with the honesty, forthrightness and objectivity that has always been our characteristic. When siting problems and in presenting proposals we have always fundamentally aimed to contribute positively in the search for solutions. Often, we aim to provoke deep and structural changes in the life of our state. Consequently, not everyone is pleased with us. But we do so as not to mortgage the opportunities and advantages that our country still enjoys, though increasingly in a more relative.

We all know that our economy is essentially an importation economy and with high dependence on oil revenues. Because we import almost everything, at speculative prices, we drain our resources that come mainly from non-renewable sources. At the same time, we open up channels for uncontrolled inflation to enter. Immediate action is needed, of a bold macro-economic and fiscal nature to combat this.

Excellency Mr. Prime Minister. Both of us have now lived the experience of governance. We know that there were two differing situations, and certainly they were two different ways of governing. This reality is no secret to anyone. But our experience has taught us over the last ten years that good governance is not compatible with deregulation, with experimentalism and easy solutions sought through public expenditure, involving “friendship-ism” and exclusivist in trend. In a short time, ten years, we are now ready to reflect together on the governance of the country, look at it objectively and together move towards a commonly agreed solution.

There are factors that influence our posture when we are in government. Some are exogenous others are endogenous. On these, no invisible hand replaces us and imposes the rules of the game. When this happens, it is only because we have lost confidence in ourselves, coming to believe in others. Often we try to demonstrate the opposite, to feed our pride, our self-esteem. But in the end, the good and bad results depend heavily on the macro-policy defined by us, macro-faceted fiscal, economic, financial, social, cultural policies, in short, a development that is both integrated and integral. The key is to find balanced, inclusive and transparent fiscal, economic and social policies and ensure competent management of public finances. Good governance basically.

It is important to remember that the real economy means rational management of resources that are always scarce. The economy is compromised when we think that the solution to our problems lays in the immediate use in abundance and very rampant way our revenues and other resources. **So we embarked on policies to increase spending without looking at the ability of our economy to absorb and of our individual and collective capabilities to execute our plans.**

This also applies to human resources. Wanting to solve everything in a short time, we become victims of our own desire to respond to the problems of the people. **Because we often do so at a speed of light, we simply overlook the stage of development of our society and the subjective ability for intervention of our human capital. I am however referring to its quality and not the quantity.**

With this, we create an economy that is a real balloon. We produce hot air balloons that, yes, at the speed of light, disappear from our horizon to faraway stops. They do not need wings to fly because of the waves from Tasi Mane (the South Coast) and the winds from Tasi Feto (North Coast) that help drive out of our control.

Inflating the allocation of resources, coupled with the lack of efficiency and effectiveness in its use in the short, and perhaps medium term, can result in an enviable economic growth.

But we should have no doubt that this form of political, social and economic intervention also carries with it the flip side, that is:

- I. inflation;
- II. an increasing marginalization of Timorese;
- III. an asymmetry in development between urban and rural areas;
- IV. the distortion of our economic and social system;
- V. the abuse of power;
- VI. corruption.

When the economy is import dependent, we also buy inflation. All precautions are necessary when we inject financial resources in an economy that is still small in nature. If we do so in an excessive way, exceeding the absorptive capacity of the economy itself, we run the risk of causing serious distortions in the market. The most dangerous is when this distortion affects the labor market. As a result labor becomes increasingly expensive and poorer in quality. Productivity and quality are lost.

As a result we have the following: i. Domestically, growth of the economy to the detriment of the most needy, those with lower income, with lower purchasing power than the majority. (This is called growth without quality, economic growth without economic and social development. The medium term, the ranks of the poor will thicken. With the middle class still

succumbing and in a precarious existence, the country will be economically dominated by so-called foreign economic agents); ii. In terms of our relations with the regional and global market, our super-inflated economy, with the distorted market (in particular the labor market) becomes less and less competitive, or rather, becomes uncompetitive. (A sporadic inflation rate of 11-12% in an economy traditionally competitive and highly productive is already severe. It is extremely more serious when it occurs in an economy with our characteristics where the manufacturing sector is experiencing an almost total slump, the trade balance is overwhelmingly negative, and there are no domestic revenues to guarantee payment of wages and salaries of the public sector.

President of the National Parliament!

Prime Minister!

Excellencies!

The task of governance is complex. We know this from experience. When there is lack of resources we do everything to acquire them. When there seems to be plenty of resources, we can inadvertently become victims of them. To prevent this, it is necessary to take all care to protect ourselves, and exercise all prudence in the management of our public finances.

As undisputed advocates of the cause to better the quality of life for all our people, we who dared to dream of independence and realize our dreams, must now, today, reflect together on what we've done in the last ten years to be able to grow with our needs and depending on our individual and collective capacity to intervene towards the transformation of mentalities.

The resources we possess are not eternal. We can and must make them perpetual. The key lies in using them rationally in favor of a more inclusive, balanced, fair and sustainable development for the good of all generations.

The major challenge that we face in these conditions is always to choose what path to follow. We want to walk fast, to run. But how do we accelerate the process? What kind of catalysts do we use?

There is no doubt that the development process is a marathon. Within the limits of our capacities and energies, accepting social, cultural, political, economic and financial challenges. Therefore, from the start until reaching the target we must know to control the speed conserving energy, but never stopping, so as not to exhausting the energy and break down before reaching our target. **Everything has its time of ripeness.**

It is necessary to mature the process through a policy of rationalization of resource use and clear definition of priorities in terms of our ability to execute plans, programs and projects.

President of the National Parliament!

Prime Minister!

Excellencies!

In the last five years East Timor was endowed in luck with the sharp rise in oil prices. In these last five or six years we have embarked on bold fiscal and macro-financial policies aimed at solving the problems of our people. At least that was and is the intention of many of us. We defined several priorities to be met. We rampantly increased public spending. We spent a total of over five billion dollars. We thought that these measures would reduce poverty. The

Millennium Development Goals (MDG) became part of our framework of concerns and plans. But what did we achieve? And why?

Actually, we got double-digit growth (12.5%). On the other hand, we also produced average inflation rates of up to 13.5% in 2011 and 11.8% in 2012. (I did not invent these indicators were). The reduction in the inflation rate in 2012 was due mainly to the Market's own laws - the workings of demand and supply. What happened was that the nominal value of a particular salary or income lost, more or less, $\frac{1}{4}$ of its real value. So with the same nominal value fewer products, fewer services, fewer goods could be bought. The purchasing power of mostly the lower-income people, the most dependent, decreased.

President of the National Parliament!

Prime Minister!

Members and Distinguished Members of the Government!

Excellencies!

When we speak of an average rate, we are admitting that there is a minimum and maximum rate.

A macro-economic and fiscal policy designed to combat poverty must be positioned so that the basic commodities - the basic commodity basket - do not incur the highest rates of inflation. Thus, people with lower income will not suffer depreciation in their nominal income and not feel their purchasing power being too affected.

What happens in Timor-Leste is precisely the opposite. The average annual inflation rate for 2012 was 11.8%. But the rate of inflation on food was 12.5%. Of these, cereals (rice and other things), roots and their products reached 20.9% inflation and vegetables reached 14.1%.

We all know that the poor, the lower income primarily consume these products with higher than average inflation rates. The poor are doubly disadvantaged: they have lower incomes and suffer the higher rates of inflation. Result: the poor become poorer. Poverty increases.

So here, we can objectively conclude without much effort that the distribution of income between different social groups in our society tends to worsen to the detriment of the disadvantaged. This urges us to adopt that measures to restore social and economic justice so as to prevent potential social tensions.

President of the National Parliament!

Prime Minister!

Excellencies!

As earlier stated our economy is becoming less competitive, or is even already uncompetitive. We often think that because we still benefit from the oil and gas revenues, to concern ourselves too much with the competitiveness of our economy is slowing down development. We understand the priority focus on the level of overall infrastructure development and rapid industrialization of the country, particularly the South Coast (Tasi Mane). We have put all our people looking out towards the sea, convinced that the wealth will come from there. In this way, the fertile soil of Timor-Leste ceases to have importance.

Reading the Active Population Study (APS) of 2010, we can conclude that the table of data presented therein is very worrying. It concerns us when we say that the official unemployment rate is 4%, and at the same time it is claimed that the percentage of employed individuals in rural areas is 72.1%, and 27.9% in urban areas. Moreover, it is also recognized that the

percentage of inactive individuals older than 15 years is 58.3%. The data presented objectively leaves us worried. 72.1% of people in rural areas are employed? What jobs are these?

It is important to mention here that a 2010 study by the Central Bank concluded that the number of youths aged 15 or more totaled 366,000. Of these 58% are inactive or unemployed. How do we face this stark reality?

What comprises the base of our economy must be spelt out clearly and well defined at this crucial stage of any discussion. And what is the enabling factor?

We are a half-island situated between highly economically competitive sub-regions. We need to integrate in our region and compete. To do so it is not just a matter of saying that we are a country with the fastest growing economy in this region. But ultimately, what do we produce? What else has contributed to our Gross Domestic Product (GDP)? What is the state of our Labor Market? How are we doing on the human development index? What is our real rate of poverty?

In fact, if we continue with the domination by oil-mania on our whole policy making, the day will come when we will be unable to find a way out without mortgaging the country.

In a country of just over one million inhabitants where more than 60% of the population suffers privations of every sort and another 18% are also vulnerable to multiple deprivations, to believe in the official unemployment rate is at least unacceptable, showing little responsibility.

We urgently need appropriate macro-economic and fiscal policies to combat poverty. The approach taken in recent years, however well intended it might have been, proved to be inadequate, inefficient, and ineffective.

We need a fiscal policy that:

1. Promotes and ensures greater efficiency in public spending in order to maintain economic growth and at the same time ensuring the welfare for the people;
2. Meets the objectives of equitable distribution of wealth and poverty reduction;
3. Stabilizes the economy;

For this we must rationally manage our oil revenues in order to:

4. Produce more wealth for all the people of both the present and future generations;
5. Secure healthy economic growth;
6. Allow an increase in public spending and investment to ensure quality service delivery, the development of good priority infrastructure and institutional strengthening and capacity building of human capital;

Prime Minister!
Excellence!

We all know that public expenditure, I stress, public expenditure, increased exponentially in the last five years. The economic growth that Timor-Leste has experienced has been a point of pride for your government. However, we are all aware of the other economic indicators. Can it be said that double-digit economic growth brought to the same extent, an improvement in the quality of life and more welfare of all our people? I sincerely believe that the answer is not all in the positive.

So where does that leave us now? Are we going to inject more and more resources into our economy, even though the results still do not meet our expectations? Or are we going to focus on efficiency and effectiveness in the execution of our programs?

HERE IS THE SECRET MR. PRIME MINISTER.

Timor-Leste is now a victim of excessive public spending. We face the phenomenon of inflation. We have already let ourselves be afflicted by the virus of "Dutch disease". In an act of faith the government has clearly stated that it wants to fight inflation. I believe that this is the case on your part.

But, what tools will be used to make this fight effective and efficient? How will that be possible without manifesting positive changes in fiscal policy and public finance management and translate them into the structure of the budget? We can not believe, Mr. Prime Minister, while the structure of the Budget, 2013 Budget reflects a policies and options in the fiscal area and in the management of public finance that are at the very a least a continuity of the recent past.

Consider this:

From the structure of the State Budget for 2013, we can only conclude that there is no fiscal and economic policy consistent with the concern of combating inflation and poverty. (Nor is consistent with the PED Strategic Development Plan) and the Government Program).

Is it really possible to reduce inflation to levels of between 4-5% within 2-3 years? But it is necessary to make this fight a priority in economic policy of Timor-Leste and make it reflect in the state budget. It is absolutely wrong to think that this can come from the side effects of our macro-policy. There is no other way forward but to go to the root causes, Mr. Prime Minister. Attempted treatment based on the symptoms alone with medication is not enough. We run the risk of the phenomenon of "over dose".

The solution lies in the revision of expenditure policy or spending. We must have the courage of behaving in a more technically bolder and responsible way. There is no other way than to compress the size of the expenditures and alter the General State Budget proposed to us. It is perfectly possible to reduce spending, adopt new priorities and strengthen those institutions responsible for implementing the budget. We also have equip the Government to the needs of the country.

The over-billing, waste and drainage of resources to benefit a minority have been one of the causes of the exponential increase in spending. We have to fight this screaming reality.

We must emphasize efficiency, effectiveness and quality (of works, services, etc.).

In the area of demographic organization, new development poles with set a clear policy of bringing the city to the countryside are urgently needed. The quality of city life, but with more work and more efficiency, more production and higher productivity should be the characteristics of the new development poles.

The whole of the country cannot continue to only look out to the southern seas. The "Tasi Mane" project itself should be reconsidered, taking into account the postponement of exploitation of the Greater Sunrise field. The South Coast, extended to the central areas of the country, has the privileged position to become the breadbasket of the country.

Moving onto the budget structure we spoke of above.

As an example we show for consideration the case of the Ministry of Health.

One can draw the following from Books 4B, 5 and 6 of the proposed GBS:

It is proposed as the total budget for current expenditure for the Ministry of Health US\$61.5 million. This corresponds to 7.5% of the recurrent expenditure of the state budget. Donors provide US\$31.8 million (15%) of the total of development partner support to the Government.

It is important to stress that the proposed appropriation in the state budget for the Ministry of Health includes the following: hospitals: 29.4%; Districts: 30.2%. Together these two items total 59.6%. US\$7 million (11.3%) is the amount reserved for drugs and US\$5 million (8.1%) intended for the purchase of medical equipment.

If we add all the above data we can conclude the following: approximately 79.1% of the state budget allocated to the Ministry of Health is reserved to direct services and only 20% of recurrent costs are allocated to indirect costs, ie: administration.

Moreover, only \$ 2.6 million (0.32%) the infrastructure fund goes to the Ministry of Health. Of this, US\$1.28 million is already earmarked for the construction of the Hospital of Baucau, US\$1 million to the "Palace of Ashes" and US\$326,000 for the installation of an Intensive Care Cardiac Unit at HNGV (National Hospital in Dili).

Moreover, only US\$4.372 million (12.8%) are destined for scholarships for the Ministry of Health from the US\$38 million Human Capital Development Fund.

It must be stressed that there is also, among other issues of the same gravity, clear imbalance in the internal distribution of the budget in the Ministry, namely, between the hospital services and the primary care services, as well as lack of fairness in the distribution of the budget between hospitals and also between district health service centers. These distributions are made without regard to the number of beds or even population that will seek access to the services.

Public Finance Management has been mentioned earlier.

In this domain we have to stress the following: In the last two months of the fiscal year 2012 the Government withdrew about \$ 500 million from the Petroleum Fund. The Government already knew that it would be impossible to spend this entire amount. Why then did it withdraw it? In terms of income, keeping this money in the Consolidated Fund of Timor-Leste, given that the Federal Reserve of the US pays higher interest rates, only contributes to lower yields of these same revenues. Therefore, we ask: What public sort of finance management is this?

The same government that rushed to make revisions to the Petroleum Fund Act to allow up to 50% investor in the financial markets or other more profitable investments now makes a one hundred and eighty degrees turn and withdraws about US\$500 million from the Petroleum Fund which could yield about 3% to put in the Consolidated Fund of Timor-Leste to earning an interest rate below 0.5%. What is the logic behind this? All that is missing is for the US\$500 million to be presented as domestic revenue to then justify less money was withdrawn from the Petroleum Fund for the 2013 Budget. I have no doubt that all this manipulation in the management of public finances was intended only to deceive the public and parliament and bypass the Petroleum Fund Law.

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Prime Minister!

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Excellencies!

I do not want to abuse the patience of your Excellencies. But I have no doubt that the fight against poverty must begin with the elimination of disparities between town and country. By this I mean that we should give priority to areas outside Dili and start with integrated regional development. In 2005, this policy was initiated with the appointment of members of the Government responsible for the District groups plus Oé-Cusse. It was an attempt to bring the government closer to the population. It was a way of provoking changes in the structure of governance. Maybe there are other better ways, before going into the much-touted decentralization. But we want structured forms, systemic, consistent, attractive, competitive and integrated. At a minimum, the Referendum Package (PR), the PDD1 the PDD2, etc. do not fulfill the requirements demanded for integrate regional development.

The private sector should have a responsible attitude towards promoting entrepreneurship, and creativity. The budget should reflect the concern with incentives for the creation of micro, small and medium enterprises and empower those in the area of agro-industry, which includes the development of agriculture and industrial transformation of its surplus production.

Apart from oil, we have only just coffee as an export product. We have to improve and increase production and productivity of coffee. For this reason, urgent intervention is required towards the renewal of already aged stock.

Prime Minister!

I know that it is your responsibility to set up and define of structure of your government. But looking at the current Government, I have no doubt that in itself it is a means of draining public resources in a very inefficient way. Government is too big, huge, for the size of our country. Furthermore, I almost venture to say that within them lives a conflict of powers, an overlap of roles when it comes to program implementation. All this slows down the process.

We will then begin to reflect together on all this, Prime Minister. Let us together ensure the necessary transition, formatting an inheritance will perpetuate through time and space to sustain that which is our Timor-Leste.

Hamutuk ITA BELE (Together WE CAN)

Having said what I intended,

I thank you.

Mari Alkatiri