



PRESIDÊNCIA DA REPÚBLICA

MESSAGE TO THE NATIONAL PARLIAMENT FROM HIS EXCELLENCY, THE PRESIDENT OF THE REPUBLIC OF TIMOR-LESTE, TAUR MATAN RUAK, ON PROMULGATION OF THE AMENDING GENERAL STATE BUDGET FOR 2016

(Decree of the National Parliament No. 29/III, First Amendment to Law No. 1/2016, of 14 January, approving the State Budget for 2016)

Chairman of the Parliament, Dr. Adérito Hugo da Costa, EXCELLENCY,

Honourable Deputies, EXCELLENCIES,

The approval of a law amending the General State Budget [GSB] is one of the most important moments in the normal development of state activities. The stability of budget execution is a guarantee for all development of our country, a fairer redistribution of wealth and improvement of the living conditions for the population. A serious change for all citizens requires careful consideration, decisive reasons and an adequate basis.

I warned when approving the State Budget for 2016 that current investment cannot be made at the expense of future development, especially considering the amount of budget appropriations mobilized for this year, the amounts withdrawn from the Petroleum Fund above the Estimated Sustainable Income (ESI) and the priorities chosen in the GSB. Keeping the same options as the priorities of socio-economic development of our country, so I cannot help but weave the same considerations at the time of promulgating the amendment to the State Budget for 2016.

EXCELLENCIES,

§ 1. At the end of last year, I mentioned that I had viewed with optimism the *fiscal envelope* proposal for 2016, which contemplates a reduction of public spending, to approximately USD \$1.3 billion. With the current rectification the state budget now has total spending of close to two billion dollars, far away from the 11% reduction expected a year ago. The 2016 State Budget, as amended, includes a very considerable increase from previous years, in particular the political priority of reducing the total amount of the state budget, which was recently confirmed for next year, becoming the largest GSB of our young country. It is the credibility of the State's own action that is of concern.

EXCELLENCIES,

§ 2. In a timely warning, the legal framework for the management of revenues from the petroleum fund, in Law No. 9/2005 of 3 August, (the Petroleum Fund Law), sought to ensure the long-term financing of national development from revenues that they knew would not be eternal. This national objective is undermined by permanently exceeding the Estimated Sustainable Income (ESI), this year by more than 100%. The exception can not constitute the rule, as I warned at the time of the original analysis of the 2016 State Budget. The National Parliament and the President are obliged to monitor the reasons given by the Government in the proposed state budget, in accordance with art. 9 of Law No. 9/2005 of 3 August. The grounds provided for in the Law to exceed the ESI limits have to be explained as *"the reasons that it is considered in the long-term interest of Timor-Leste, to transfer an amount greater than the Estimated Sustainable Income"*, which is not seen to have been adequately resolved in rectifying the state budget for 2016. Do not just rely on a basis, always the same basis, but it is necessary to prove how this bases impacts the "long term interest of Timor-Leste."

§ 2.1 The Petroleum Fund is now smaller than a year ago according to independent observers, when a considerably lower GSB was projected than has now been approved. The investments do not have the expected return, exchange rate variations have a negative impact and the price of oil on international markets has come down, not following the projections of successive GSB's. At this time the Petroleum Fund is under so much pressure, turning this year into the year with the largest withdrawal from the Fund is not the right signal. **It is the sustainability of our future development that is concerned.**

§ 2.2 We also still have almost total dependence on financing public spending with revenues from exploiting natural resources and added financing above the ESI. The reports of Parliament Committees A and C warn of this risk, but it is odd that they do not derive any consequences. These revenues are finite and the outlook is that they will end soon. The Committees also warn that these calculations continue to overvalue the price of fossil fuels in the international markets, not featuring the own calculations which underlie the state budget. Non-oil revenues have not grown for a long time, which raises questions about the definition of the policy priorities in the 2016 State Budget.

§ 2.3 This opportunity could have been taken to review the state budget considering the expressed warnings and other factors which are now known. The amendment of the 2016 State Budget does not consider any relevant data which has become known about the development of the global economy, according to Parliament Committee A's report. On the contrary, it worsens the dependence on the Petroleum Fund and its finite revenues when, conversely, the oil revenues are not following the 2016 state budget projections, considering the average prices of petroleum products and derivatives in international markets, the known values of production, and return on the Petroleum Fund's own investments.

EXCELLENCIES,

§ 3. I warned, even during the discussion of the State Budget for 2016, of the necessity, as a community, to better define national priorities for investing our limited resources.

§ 3.1 The parliamentary consensus has met many doubts in civil society about the humanity of this budget review. I have found these resistances in various meetings with the forces of civil society, as in many visits I have made to the districts. Politically, these repeated questions from various quarters of our society cannot be ignored.

§ 3.2 Among the options for rectifying the GSB, it is strange the option to increase the budgetary allocations from the Petroleum Fund when the budget execution for this year is still at very low levels and the forecast of non-execution of pending projects would advise a more conservative revision. These options are more serious when they decrease investment in urban and rural development and in rehabilitation and maintenance to allow increases in megalomaniac projects whose returns are not guaranteed. The autonomous Infrastructural Fund established by the 2016 State Budget is not, therefore, at the end of the year transferred to the Consolidated Fund, adding to the difficulty of controlling the management of public funds, as warns the report of National Parliament Committee C.

§ 3.3 The need to improve the control mechanisms for the execution of the Infrastructure Fund, proposed by the Committees A and C of National Parliament, goes in the right direction, but we hope that the establishment of a new parliamentary ad hoc committee for monitoring the discharge of financial and non-financial state liabilities, in art. 2 of the Law amending the 2016 State Budget does not result in more bureaucracy to the state.

I promulgate National Parliament Decree No. 29/III, First Amendment to Law No. 1/2016, of 14 January, which approves the State Budget for 2016, so as not to paralyze state action, without delay, considering the parliamentary majority for its adoption. The message I am sending now, in accordance with art. 86(e) of the Constitution is the contribution of the President to the best possible governance of our resources for the benefit of our people, not only at the time of adoption of the 2016 State Budget rectification, but also at the moment when we are preparing the Budget for 2017.

Nicolau Lobato Presidential Palace, Dili, 8 August 2016

The President of the Republic,

TAUR MATAN RUAK