

**MESSAGE TO THE NATIONAL PARLIAMENT FROM THE PRESIDENT OF THE DEMOCRATIC  
REPUBLIC OF TIMOR-LESTE, TAUR MATAN RUAK, WITH THE GROUNDS FOR THE VETO OF THE  
2016 GENERAL STATE BUDGET**

(National Parliament Decree no. 20/III, 2016 General State Budget)

Your EXCELLENCY Mr President of the National Parliament, Vicente Guterres;  
Honourable Members of Parliament, EXCELLENCIES,

The General State Budget is the most important management instrument of State institutions to promote the development of our country, a fairer distribution of public resources, and the improvement of living conditions of the population. This is an effort that requires the participation of all. I conveyed, in due time, the thrust of this intervention during the discussion and approval procedures of the 2016 General State Budget (2016 GSB), to avoid that it were only taken into consideration at the moment of enactment or veto.

EXCELLENCIES,

**§ 1. I have warned against current investment being made at the expense of future development.**

§ 1.1 I was, therefore, optimistic about the *tax package* proposal for 2016, which included a reduction of public expenditure by approximately 17%, to about US\$1,300,000,000 (one billion, three hundred million US dollars). I especially welcomed the proposals to cut recurrent expenditure of the State by about 18%. This was not, however, the final outcome of the 2016 SGB sent for enactment, which includes an insignificant decrease (-0.51%) of public expenditure compared to last year's General State Budget.

At the Office of the President of the Republic, there was prudence and moderation in view of the negative oil price forecasts for 2016, conducting its work with a significant budget reduction of over US\$1,000,000 (one million US dollars) across all budget headings. However, not all State institutions within the scope of the budget did the same.

§ 1.2 Macroeconomic indicators advise caution in the use of revenues from the exploration of our natural resources. In particular, we must consider the international context of the constant drop in price of fossil fuels, which is expected to continue in 2016. The forecast by the International Monetary Fund in last October's *World Economic Outlook*, for example, points to US\$50.30 as the average price per barrel of the various crude oil benchmarks in 2016. These revenues are in a downward trend, and the end of some of them is already in sight. I also alert to the fact that these calculations continue to overvalue the price of fossil fuels in the international markets, invalidating the very calculations on which the General State Budget is based. According to most observers, oil prices will not rise above US\$50 (fifty US dollars) in the international markets during 2016, contrary to the values used by the Government in the proposal presented to the National Parliament, based on a reference price of US\$64.70 (sixty-four US dollars and seventy cents) per barrel.

§ 1.3 The level of dependence also remains almost untouched, with 82% of public expenditure financed by the Petroleum Fund. Non-oil revenues have long been low and are nearly stagnant, which throws doubt on the definition of the political priorities of the 2016 GSB.

EXCELLENCIES,

**§ 2. It is the sustainability of our future that is at stake.**

§ 2.1 The legal definition of the management of petroleum fund revenues, with Law no. 9/2005, of the 3<sup>rd</sup> of August (Petroleum Fund Law), sought to ensure the long-term financing of national development by revenues that are known to not be eternal. However, the constant overrunning of the Estimated Sustainable Income (ESI), this year by over 100%, in what represented the largest percentage ever, undermines this national objective.

§ 2.2 To date, I avoided calling into question the reasons invoked by the Government in the Budget proposal, in accordance with Art. 9 of Law no. 9/2005, of the 3<sup>rd</sup> of August. The terms provided for under the Law to justify going above the Estimated Sustainable Income limits must explain the "grounds to consider it in the long-term interest of Timor-Leste to transfer an amount exceeding the Estimated Sustainable Income". In the 2016 General State Budget, the financing of recurrent expenditure is, in itself, above the ESI – which means that any and all investment is financed above the ESI. This fact turns this scheme, which under the terms of the Petroleum Fund Law should be extraordinary, into an annual norm.

**A GSB in which:**

- a) **recurrent expenditure of the State corresponds to over two thirds of total expenditure, and**
- b) **about half (47%) of the overall financing is made above the ESI,**

**means that the mechanism for withdrawals above the ESI is not intended to safeguard the future interests of Timor-Leste and the Timorese people, but to finance the current operation of the machinery of government.**

§ 2.3 Public expenditure has been increasing with subsidies and other expenses. It is essential to properly estimate these measures to ensure the long-term sustainability of our expenditure. It is essential to properly identify the beneficiaries of social expenditures, namely in the case of the Veterans. It is also essential to better identify the expenditures that need to be estimated, namely in the case of fair compensation of citizens who suffer losses because of major infrastructure projects, especially in the Oecusse-Ambeno enclave.

EXCELLENCIES,

**§ 3. During the discussion of the 2016 General State Budget, I drew attention to our need, as a community, to better define the national priorities in which we should invest our limited resources.**

§ 3.1 I drew attention to the need to allocate more resources to key sectors, namely health, education, water and sanitation, and agriculture. It is about striking a better balance between the investment in

"things" and in "people". Poverty still affects many of our fellow citizens, especially in rural areas, with high rates of child mortality, malnourishment, and low human development indexes. The promotion of public health requires urgent intervention in the water distribution and sanitation systems throughout the country.

When I took office, I promised to visit every suco in the country, and to this day I have visited more than 370 sucos. During these official visits, I was able to witness a high level of precariousness in rural areas. It is, therefore, also essential to strike a balance between the development of urban and rural areas, where 71.8% of our population live (2015 Census). The investment in rural areas and in the agricultural economy promotes the improvement of living conditions for our citizens and decreases our economic dependence on imports for all Timorese people, by promoting national products.

§ 3.2 This warning was not sufficiently addressed. On the one hand, there is an increase of 24% in expenditures with infrastructure, to the clear detriment of significant cuts in the sectors of health (-37.2%), education (-2.3%), and agriculture, which is dropping by about 18% in comparison to 2015. It should be noted that expenditures with health have been in a downward trend and, in this GSB, the resources allocated to this sector represent only 2.7% of the GSB. Timor-Leste is the country that spends the least amount of money on health as a share of its gross domestic product (GDP), negatively putting the country on the map even when compared to the countries of the Asia-Pacific Region. The same happens in the sector of education: Timor-Leste spends little more than 6% on education, compared to the countries in the Region. Conversely, the budget allocated to the Oecusse-Ambeno and Ataúro Special Social Market Economy Zone (Zona Especial de Economia Social de Mercado – ZEESM) increased 63% to US\$217,000,000 (two hundred and seventeen million US dollars), and doubled for the Tasi Mane projects. It is essential to properly evaluate the return of these investments. The investment in the ZEESM projects has been getting financed by the GSB without any assurance of return. In the Tasi Mane project, the return of investment is also not assured, taking into consideration that the existing oil fields are nearing their end and that the development plan for the *Greater Sunrise* fields is not yet defined (nor will it be any time soon).

§ 3.3 The definition of priorities for public investment is, in times of peace, the most important result of the national policy-making processes. These processes must include all citizens in the exercise of political duties, especially through their elected representatives. The President of the Republic, over the years, has participated in these political processes within the limits of its constitutional powers. National consensus is not, however, an end in itself, if it does not result in the improvement of living conditions for all Timorese people. Thirteen years after the restoration of national independence, nevertheless, it is important to improve the results of public investment – which has been considerable, but with little result.

## EXCELLENCIES,

§4. The General State Budget sent for enactment includes a proposal to extinguish the "Infrastructure Fund", established in accordance with Art. 32 of Law no. 13/2009, of the 21<sup>st</sup> of October (Law on Budget and Financial Management), and the establishment of a new "Infrastructure Fund". In the absence of other information, this fund is created outside the legal framework that defines the rules for the transparent functioning of special funds.

§ 4.1 Law no. 13/2009, of the 21<sup>st</sup> of October, only provides for Special Funds created in accordance with Art. 32, and cannot be derogated by any other law, including the GSB. Otherwise, it brings to question the effectiveness of a law that defines the rules for the drafting, approval, and implementation of the budget, which may have not been the objective of the National Parliament when approving this law.

§ 4.2 Therefore, the creation of special funds in the General State Budget, not included in the consolidated fund and outside the provisions of Art. 32 of Law no. 13/2009, of the 21<sup>st</sup> of October, raises many questions on the functioning of this new "Infrastructure Fund". The rules established by the Law on Budget and Financial Management seek to ensure the transparent functioning of special funds, which cannot be ensured by mere legal provision under the GSB.

§ 4.3 Likewise, the provision under the Law on Budget and Financial Management offers greater assurances than could be offered by referring the definition of the rules on the new "Infrastructure Fund" to government regulation – which, given the dignity of the issue, would necessarily take the form of a Decree-Law.

EXCELLENCIES,

§ 5. The definition of priorities in the investment of natural resources, always too few to address all public needs, is the most important moment in the life of a political community, which is renewed annually in the GSB. This policy-making process requires the participation of all and must include all.

§ 5.1 The grounds presented here represent the contribution of the President of the Republic to the drafting of the 2016 General State Budget. It is crucial to ensure that our resources are used towards the sustainable development of our country and towards the improvement of living conditions for our population. The natural resources will be drained faster than we hope for, and it is imperative to invest in people.

§ 5.2 It is essential to invest more in the Timorese people, namely in education and health, as tools in the service of well-being. It is crucial to ensure the improvement of their living conditions, promoting public health and the supply of drinkable water. We must also correct the inequalities between rural and urban areas, promoting national agricultural production, improving conditions for our farmers and, little by little, achieving our food sovereignty.

§ 5.3 After thirteen years since the restoration of independence, we can do better working as one, and therefore, in accordance with Art. 88 §1 of the Constitution, I request that Your Excellencies re-examine National Parliament Decree no. 20/III, 2016 General State Budget, sent for enactment.

Nicolau Lobato Presidential Palace, the 28<sup>th</sup> of December, 2015

The President of the Republic,

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TAUR MATAN RUAK