

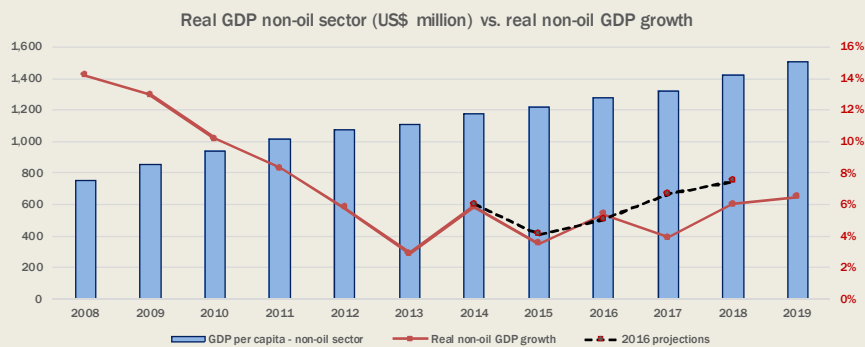
PRELIMINARY ANALYSIS OF THE FY17 BUDGET

Parliamentary Commission C



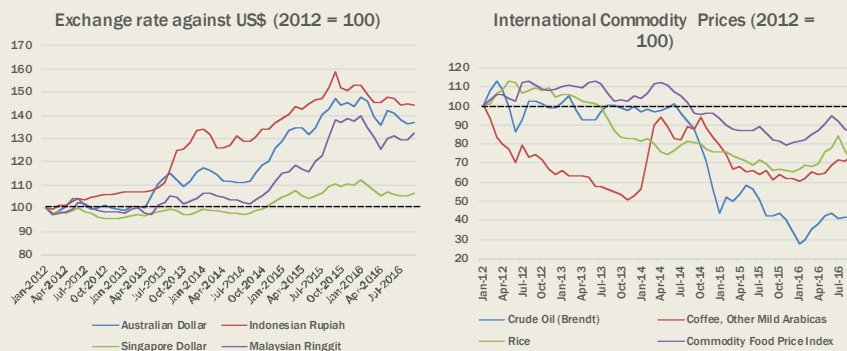
I- OVERALL FISCAL

- Growth projections depend on different assumptions on government and private demand
- Projected growth is being lowered



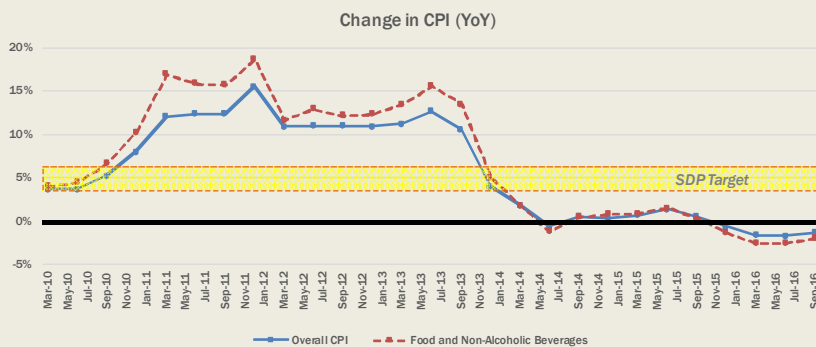
I- OVERALL FISCAL

- Strong dollar and lower international oil and food prices are the main reasons for Timor Leste's low inflation rate.



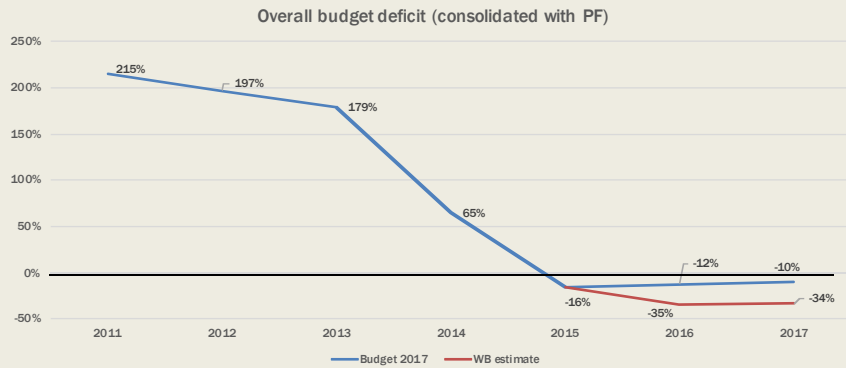
I- OVERALL FISCAL

- Inflation stays within (below) SDP target range.



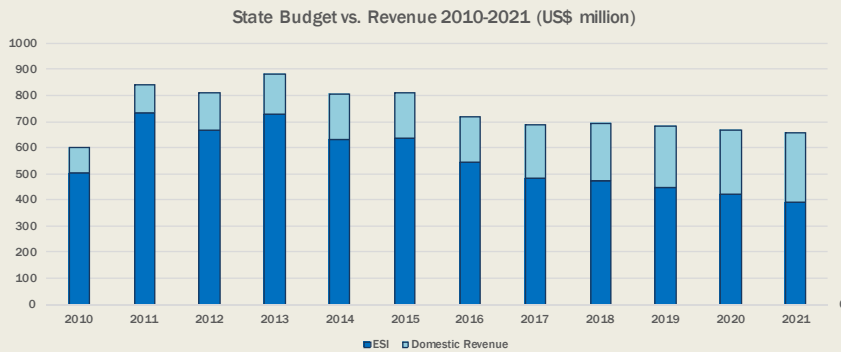
I- OVERALL FISCAL

■ The overall fiscal position has become increasingly negative



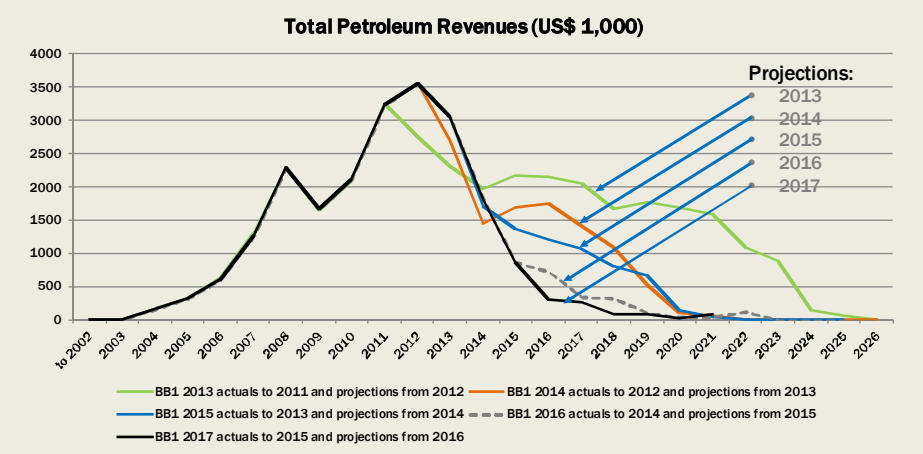
I- OVERALL FISCAL

■ And the budget ceiling is becoming tighter.



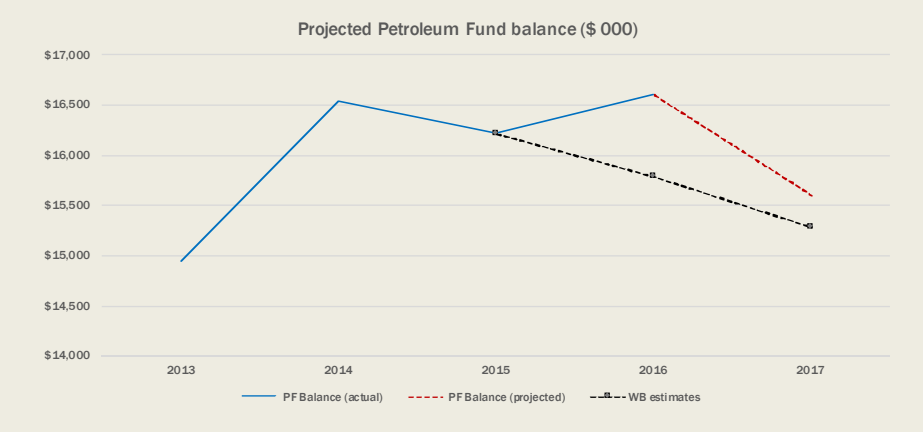
II-FISCAL RESOURCES

- Lower oil Production and Prices – petroleum revenues are declining



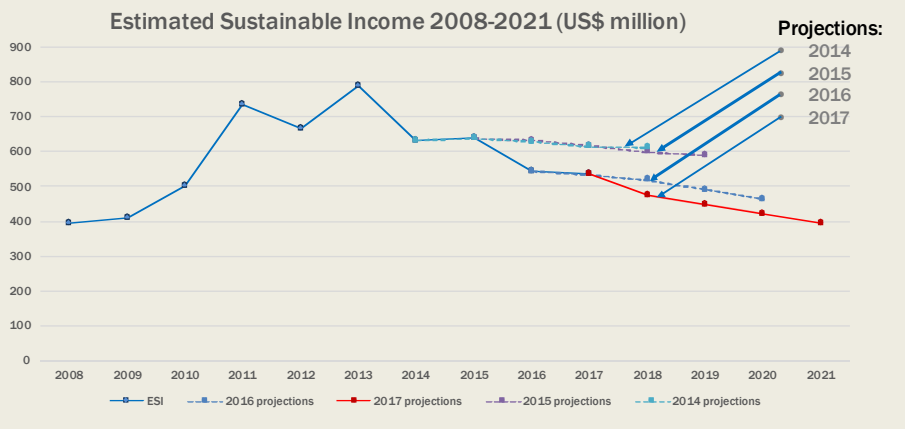
II-FISCAL RESOURCES

- Overall fiscal ceiling is expected to drop as the PF balance deplete



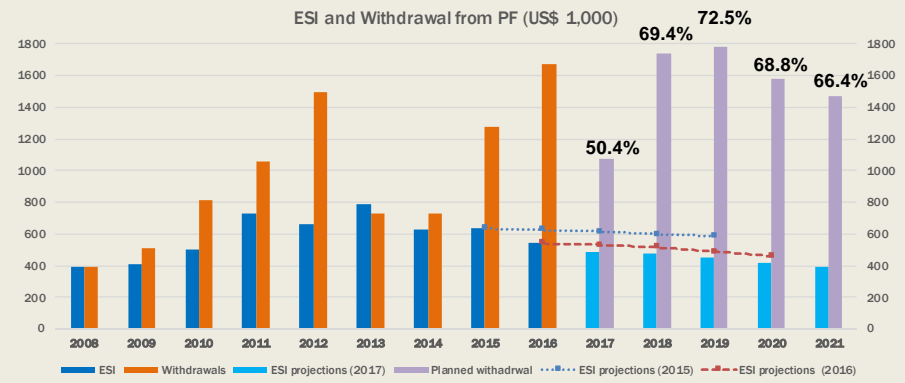
II-FISCAL RESOURCES

- As a result, ESI is being revised down



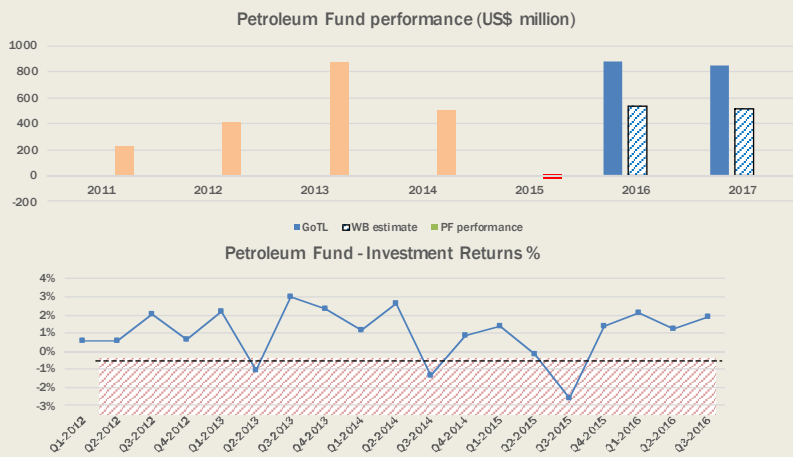
II-FISCAL RESOURCES

- ESI forecasts declining - Large excess withdrawals from the Petroleum Fund are planned
- By 2019, 72,5% of the budget will be financed through excess withdrawal and loans



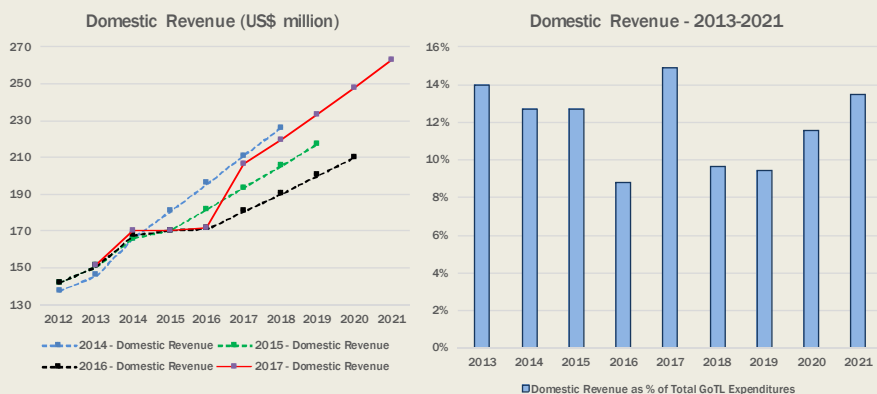
II-FISCAL RESOURCES

- Petroleum Fund returns have been volatile



II-FISCAL RESOURCES

- Domestic revenues are expected to grow, which will be critical to building a sustainable budget





II-FISCAL RESOURCES

1. Macro observations.

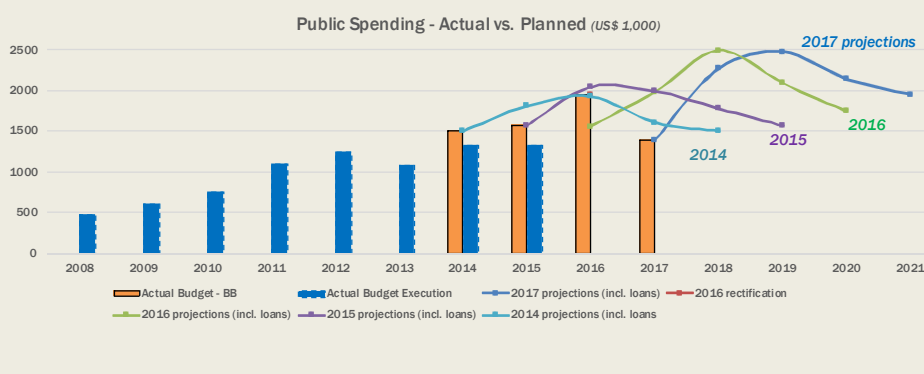
- Declining oil price and production.
- Stable domestic price.
- Weaker revenue collection.

2. Government Strategy.

- Limit Fiscal Envelop to US\$ 1.4 billion in 2017
- Front loading investments in big infrastructures.
- Prioritizing: Fiscal, Economic and Public Administration Reform.
- Prioritizing Education, Health, Water and Sanitation, Agriculture, Basic Infrastructure, and Elections.
- Engage into Programme Budgeting (expenditure mapping to programme areas)
- Decentralization
- Continue to give more autonomy to public bodies (autonomous agencies)

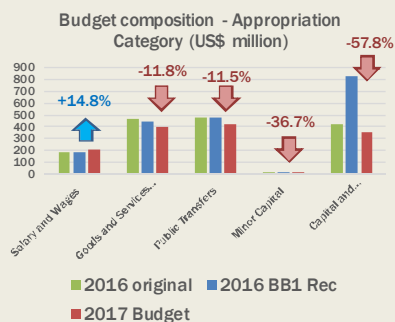
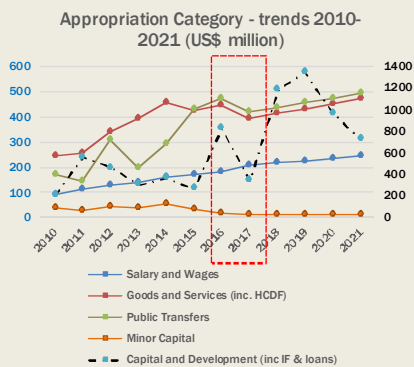
III-EXPENDITURE

- 2017 budget has been lowered by front loading additional expenses (budget rectification) on 2016 budget (+ US\$ 390 million)
- Medium term budget forecasts have been increased



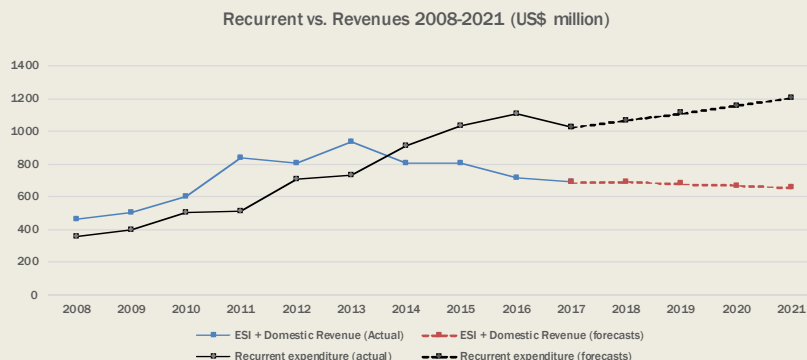
III-EXPENDITURE

- Allocation to all appropriation category will decrease except for 'Salary and Wages'



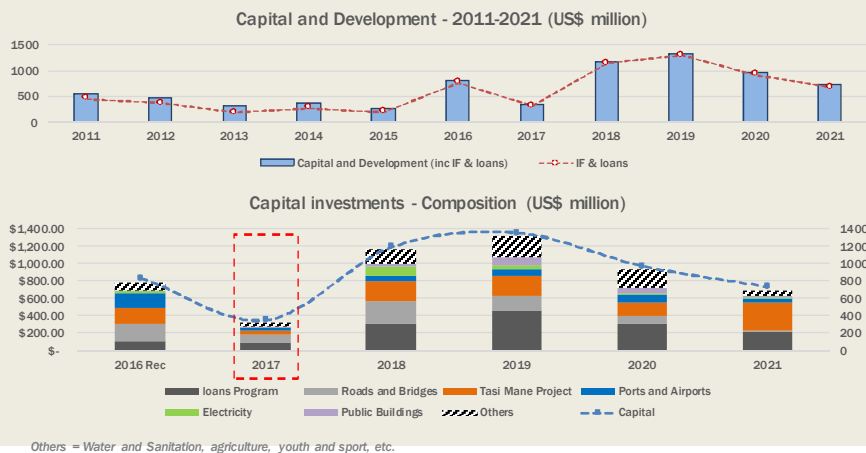
III-EXPENDITURE

- Recurrent expenditure is becoming less sustainable



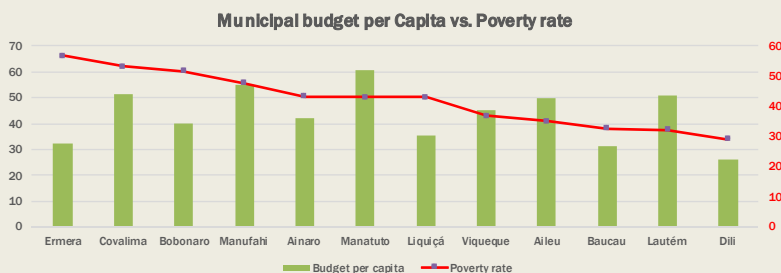
III-EXPENDITURE

- Capital and Development will peak on Medium Term and will be increasingly concentrated in few sectors (Tasi Mane, Roads, Electricity)
- IF includes a small allocation for 'maintenance and rehabilitation' of US\$ 9.6 million



III-EXPENDITURE

- 8 Municipal Administrations (US\$ 23.5 million) and 4 Municipal Authorities (US\$ 18.5 million) will manage their own budget in 2017.
- Biggest contributor are : Muicipal Secretariat (40-45%), Education (30-35%), Agriculture (13-8%) and Health (11-7%)
- Municipalities will need support to deliver public services and execute budget
- Allocation should be in line with Municipality needs and Government priorities



III-EXPENDITURE

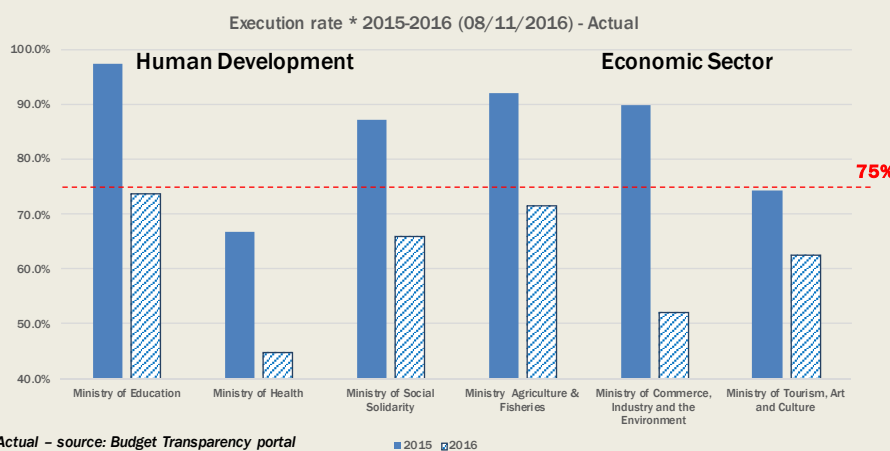
- Overall budget for Social Sector increases (Health benefits most) while Government's priority sectors are differently impacted (Line Ministry + Municipal Services):

Sector	2016 CFTL – LM	2016 Total sector*	2017 CFTL - LM	2017 Municipality's budget	2017 Total sector*	Change 2016-2017
Agriculture	22,343	24,976	16,192	4,658	25,609	+2.5%
Education	100,613	122,914	86,074	12,939	123,287	+0.3%
Health	42,387	61,056	43,715	3,736	70,977	+16.2%

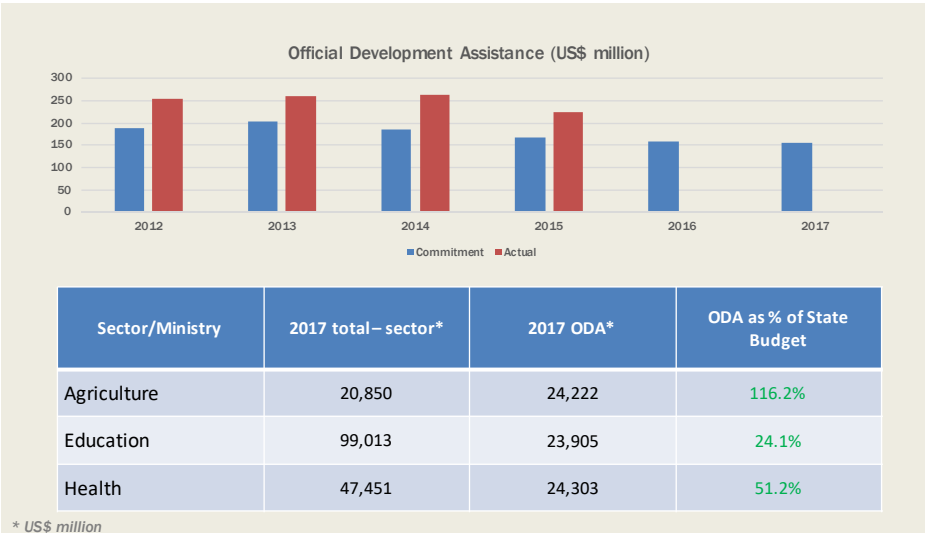
* Total Sector includes CFTL, HCDF, IF and autonomous agencies
 ** Figures - US\$,000

III-EXPENDITURE

- Absorptive capacity varies – still relatively low in some sectors.



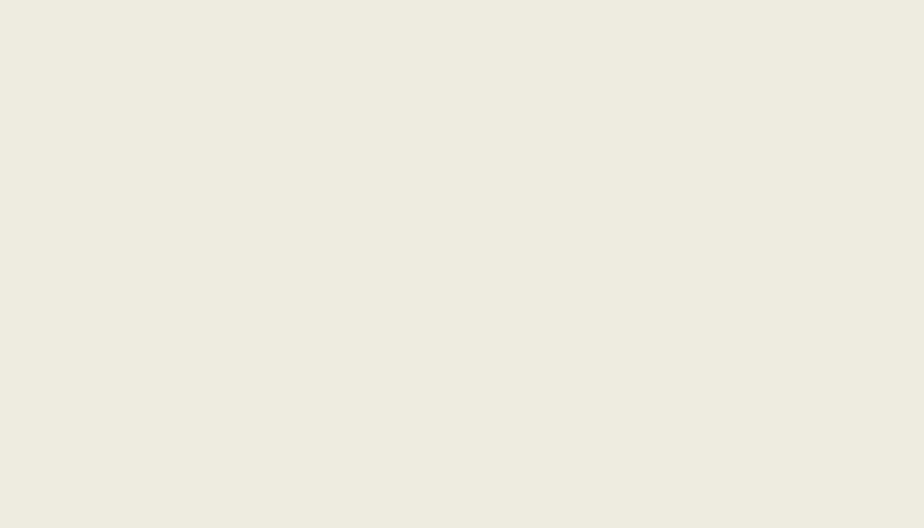
OFFICIAL DEVELOPMENT ASSISTANCE TO TIMOR LESTE



IV - PRIORITIES

- High-priority spending should not be avoided, but it is critical that GoTL gets value for money, i.e. subjecting all substantial spending to rigorous and transparent processes of due diligence.
- Domestic revenue reform is very timely, and is needed to develop a framework for government resourcing going forward.
- Prioritized and well-targeted PFM reforms can help to boost both budget execution rates and value-for-money.

ANNEX



2017 BUDGET - PUBLIC TRANSFERS

Overall reduction in Public transfers (ZEESM allocation reduced) – budget allocations have been redistributed.

- Public transfers driven by ZEESM and MoSS
- PNDS will not operate new grants in 2017

