

**INFORMATION NOTE ON THE MESSAGE OF HIS EXCELLENCY  
THE PRESIDENT OF THE REPUBLIC, DR. FRANCISCO GUTERRES LÚ OLO WITH  
REFERENCE TO THE PROMULGATION OF THE DECREE OF THE NATIONAL  
PARLIAMENT N°5 /V GENERAL STATE BUDGET FOR 2019**

**Presidential Palace Nicolau Lobato, 11<sup>th</sup> february 2019**

On February 7<sup>th</sup>, His Excellency the President of the Republic, Dr. Francisco Guterres Lú Olo, promulgated the new Decree of the National Parliament on the General State Budget for 2019 based on the competence assigned to him by Article 85, paragraph a) of the Constitution of the Republic. The Decree, after being published in the Official Gazette, is converted into a Law, which becomes the General State Budget Law for 2019.

The promulgation of this new Decree was preceded by a veto of the previous Decree, through the Message addressed to the National Parliament on January 23rd, 2019, in which His Excellency the President of the Republic based the exercise of the veto, on the articles 85, c) and 88, paragraph 1 of the Constitution. The veto focused of the first version of the General State Budget for 2019, then approved by the National Parliament and sent to the President of the Republic for promulgation or veto, on December 23rd, 2018.

The veto of the President of the Republic was based on political reasons, especially in what concerns the need to ensure a sustainable development centered on the human person and on an economy based on productive activities that can generate permanent income for citizens and generate employment. These include economic and social activities such as agriculture and tourism, education and health. The activities based on non-renewable resources, such as oil, are necessary to ensure that the revenues that the State invests are profitable and that with the capital accumulated in the Fund is sufficient to finance the State Budget. Public investment must be carried out through budget appropriations, according to the principles of the budget unit, specifying it in revenue and expenditure, and efficient, effective and transparent management of the allocated resources.

A very large budget does not necessarily generate economic growth. The quality of public policies and priorities of budgetary allocations and fiscal management are conducive to economic growth and social development. For example, we do not generate economic growth or improve human development indicators if higher allocations go to current expenditures rather than to development capital, human capital and employment-generating activities, as well as the diversification of the non-oil economy.

The same fundamental reasons conveyed, by His Excellency the President of the Republic, in his previous Message to the National Parliament on the occasion of the exercise of his veto to the Decree of that time, apply to this new Decree.

It should be noted, however, that the enactment of the General State Budget for 2019, according to the new Decree, contains an amendment that should be considered in the short term, ie., for the period of 2019.

This amendment consists a reduction in the total amount of the Budget, from US \$ 2,132 million to US \$ 1,482 million.

This led to a reduction in the amount of the authorized transfer limit from the Petroleum Fund, which amounted to 1,196.4 million US dollars. This means that the budget deficit is largely financed through the transfer of the Petroleum Fund, with only US \$ 529 million falling within its Estimated Sustainable Income (ESI).

Despite this reduction in the nominal value of the budget deficit, the withdrawal for its coverage through the transfer of the Petroleum Fund stands at 126.2% above the ESI. Although less than in the Decree vetoed, where the percentage was 249% above ESI, the tendency to withdraw from the Petroleum Fund is still well above the ESI. Thus, in general, the trend of 2012, 2015, 2016 and 2017 of withdrawals above the ESI prevails. The dependence on the Petroleum Fund has been accentuated as domestic revenues have remained at low levels, declining since 2016.

His Excellency the President of the Republic considered that one should act in the opposite direction to that referred to, that is to adopt a medium and long-term fiscal sustainability strategy in the upcoming Budgets. Fiscal reform and its implementation are fundamental, and should start in the short term. We should be aware of with the Government's forecast that in 2023 the final balance of the Petroleum Fund will be approximately US \$ 12 billion and the current net worth of the oil wealth will be US \$ 96 million.

His Excellency the President of the Republic considers that, ***“contrary to what has been the prevailing tendency, the Government should:– be pragmatic in the proper and profitable use of receipts, with greater benefit to the Timorese people;– prepare and implement policies that substantially reduce the risks of long-term fiscal sustainability, given the expected dry out of the fields of the Bayu Undan in 2022.”***

His Excellency the President of the Republic is taking into account that ***“the National Parliament and the Government do not improve the economic and financial situation of our country, nor serve the people of East Timor better, if they facilitate direct applications of the Petroleum Fund in ineligible investments, even if in Petroleum Operations. What is important is that the Petroleum Fund applications are made under the eligibility and profitability criteria established by the Petroleum Fund Law. Let us not doubt that it is critical that we act realistically in the sense of protecting the assets of the Petroleum Fund.”***

In the opinion of His Excellency the President of the Republic, the following points should also be considered: Investments from public funds, except for what is strictly understood by direct applications under the Petroleum Fund Law, must be carried out through the State Budget. The State must ensure the unity and specification of the Budget, which are rules derived from the Constitution of the Republic and the Law of Budget and Financial Management.

The State should ensure greater transparency and promote administrative judicial oversight of public revenues and expenditures, including investment using financial resources from the Petroleum Fund.

In the present circumstances of a near-stagnant national economy, which urgently needs public funding, the enactment of the General State Budget for 2019 turns out to be a short-term national need, ie., for the financial year of 2019.

Indeed, the State Budget is now the only comprehensive public financial policy instrument available to the State annually to pursue policies and channel financial resources from oil revenues and non-oil domestic revenues.

It is up to the Government to manage these resources, in an effective and efficient manner.

But for the achievement of the objectives of economic growth and national development, it is indispensable that the National Parliament and the Government adopt more adequate public policies. It is also necessary to execute them more rigorously. In essence, it is always important that they be sensitive to the principles and rules deriving from the Constitution of the Republic and the relevant Laws, and that they observe it on a daily basis in the parliamentary and governance practices.

It was with the purpose of providing conditions to the VIII Constitutional Government in a near-stagnant national economy, so that it effectively promotes the improvement of the essential conditions for the well-being of our people, that His Excellency the President of the Republic considered to promulgate the new Decree of the National Parliament on the General State Budget for 2019.

It was also thinking on the elderly, the beneficiaries of the mother’s subsidy and school feeding, veterans and other citizens who benefit from the public transfers that His Excellency the President of the Republic eventually decided to promulgate the new Decree of the General State Budget for 2019. It was also thinking of the need to ensure payment to the private sector of the debts contracted by the State, that His Excellency the President of the Republic promulgated the General State Budget for 2019. The State has a duty to honor its commitments.

These are the immediate and short-term reasons for the decision to promulgate, although His Excellency the President of the Republic will continue to have the reservations already expressed regarding the General State Budget for 2019. These reservations are not only short-term, they are mainly medium and long-term concerns. His Excellency the President of the Republic is convinced that ***“we all need to prepare the future today, starting now to look at whether what we are actually building is what we want for the future, for us and the generations to come, our children and grandchildren. Let us gain a deeper collective consciousness about our present reality and our future as a Nation.”***

His Excellency the President of the Republic renews in this Message his appeal that:

1. The General State Budget for 2020 be prepared in accordance with a more sustainable orientation, relying on renewable resources and diversification of the economy, to ensure social well-being and to develop our society.
2. That there will be a greater budgetary balance in the next State Budgets, including an equitable distribution between human development versus physical development.
3. That the investments made using the State Budget are based on criteria of high social and economic return, with priority for human capital, education and health, productive activities and employment.
4. That the assets of the Petroleum Fund be protected within the framework of a strategy for strengthening the criteria for eligible investment and a higher budget financing ratio based on internal tax revenues, long term fiscal sustainability and a concessional lending strategy.