

Excerpts of the Report of PN Committee C on the proposed rectification of the 2022 State Budget

NATIONAL LIBERATION FIGHTERS FUND

The PPL creates, through article 4, the National Liberation Combatants Fund, with the nature of an autonomous fund, endowed with administrative, financial and patrimonial autonomy.

Constitutional doubts have been raised in the past about the creation by law of a fund of this nature, which we believe have been fully clarified by the ruling of the Court of Appeal in Case No.

02/Constitutionality/2016/TR, which decided that the creation of the "Infrastructure Fund, as an autonomous fund" through Law No. 1/2016 of January 14, 2016, "does not violate Article 1 of the Principle of the Rule of Law, Article 115.3, regarding the absolute legislative reserve of the Government, Article 145.2, regarding the rule of specification, and Article 69 of the Principle of Separation of Powers all of the Constitution of the Republic of Timor-Leste".

Notwithstanding such declaration of constitutional conformity regarding the creation of the Infrastructure Fund, the PPL, regarding the creation of the National Liberation Combatants Fund provides, in paragraph 7 of said Article 4, that "the member of the Government responsible for finance is authorized to create a budget title relating to the FCLN and transfer to that title the sum of US \$1,000,000,000 from the budget appropriation entered in the category "Public Transfers" of the title "All Government Appropriations", "Program 007: Complementary Budgetary Measures", as well as to make all budgetary amendments necessary to apply this amount in expenditure."

Such a normative solution raises some reservations, considering that, for the sake of transparency, it should be the National Parliament to approve the existence of a title and its allocation.

9.3 AMENDMENT TO ANNEX II OF LAW NO. 8/2008, OF JUNE 20, THE EXCISE TAX LAW

Article 3 of the PPL proposes to approve an amendment to Annex II of Law No. 8/2008, of June 20, the Excise Tax Law. Please refer to the table below to compare the rates currently in effect and those in the PPL for each of the goods:

Table 4: Excise Tax rates currently in force and proposed
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On this point, given that numbers 5, 6, 7 and 8 of article 6 of Law 1/2022, of December 1, 2008, are in force, the rates of excise tax for each of the goods will be the same. On this point, since paragraphs 5, 6, 7 and 8 of article 6 of Law 1/2022 of January 3, State Budget for 2022, approve excise tax rates to be in force only in 2022 for "Beer", "Wine, vermouth and other fermented beverages", "Tobacco" and "Captive-bolt guns for slaughtering animals", during the discussion of the specifics of this law, these paragraphs of the 2022 State Budget Law should be repealed, since the PPL approves new tax rates for the same goods.

Without prejudice, the introduction of new products subject to Excise Tax (the. Sugars and confectionery and Waters containing added sugar or other sweeteners) and the increase in the tax rate for others (Beer with an alcohol content exceeding 4.5%, Wine, vermouth and other fermented beverages, Ethyl alcohol (undenatured) and other alcoholic beverages, Tobacco and other tobacco products, and Passenger cars) is likely to lead to an increase in revenue.

Indeed, in the explanatory memorandum the Government states that it is "changing the rates of Excise Tax for various products harmful to health or luxury, which will help offset the increase in expenditure and possibly reduce the value of the transfer from the Petroleum Fund."

Despite this, the PPL does not present the estimated increase in revenue.

In this context, it is recommended that the elimination of the amendment of Annex II of Law No. 8/2008 of June 20, Tax Law on Selective Consumption Tax be considered in speciality, keeping in force numbers 5, 6, 7 and 8 of Article 6 of Law 1/2022, January 3, State Budget for 2022.

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(ii) INTERNATIONAL ECONOMY AND THE BEHAVIOR OF THE OIL MARKET WORLDWIDE

The impact of the Russian Federation's invasion of the Republic of Ukraine has triggered multiple negative effects impacting the entire global economy. This situation is fostering uncertainty and causing risk aversion in investments.

The sudden and drastic increase in the global oil price including its derivative products is recognized as a direct and major impact of the Russian Federation's invasion of Ukraine. Currently, the Russian Federation is one of the largest oil producing countries in the world, with a production capacity of around 10 million barrels per day, besides continuing to be the largest supplier of natural gas to Europe and being responsible for around 40% of the supplies to the power plants installed in the European continent.

Due to this invasion, major economies worldwide, such as the United States and the European Union, have moved forward with various sanctions against the Russian Federation and are preventing the trading of new Russian government bonds in the market. The United Kingdom is acting similarly, having been the first country to create penalties against five Russian banks and freezing assets of some Russian multi-millionaires. Many other countries have applied similar sanctions.

This situation has caused oil prices to rise in all global markets, including in Timor-Leste, where this increase had already been felt since the beginning of the COVID-19 Pandemic, and has now worsened. Committee C therefore urges the Government to intervene with the objective of stabilizing the price of fuel in the national market.

Global Inflation

The increase in the price of oil and its derivatives and other consequences of the current world crisis have led to an increase in the global inflation rate, something that had already been felt in Timor-Leste since the beginning of the COVID-19 Pandemic.

This situation caused disruptions in the global market as "confinements, falling demand and even a container crisis. Once the pandemic showed signs of slowing down, the consequent increase in consumption caused a mismatch between demand and supply giving rise to a scenario of inflation.

The strong impacts of the rising global inflation rate are threatening to reduce and perhaps even halt the growth rate of the global economy.

The imposition of sanctions against the Russian Federation is hampering the export of goods (other than oil and its derivatives), which is causing further damage to global production chains and consequently putting upward pressure on prices due to limited supply.

According to several international experts, prices may continue to rise to the extent that the conflict remains and lasts, as more time passes without a resolution to the conflict and with countries using their various reserves, the tools and mechanisms to artificially control prices will be exhausted, causing the inflation rate to skyrocket further.

With this scenario, the pressure that has been influencing the rise in prices in world markets will continue to cause a rise in the inflation rate, which will force central banks around the world to raise interest rates in an attempt to reduce inflation.

(iii) MACROECONOMIC SCENARIO FOR 2022

The domestic economy was affected by the severe tropical cyclone Seroja which hit Timor-Leste on April 4, 2021. This event had not only social consequences, but also serious economic consequences at the infrastructure level, as well as causing severe damage to commercial and business establishments. This cyclone had negative consequences on economic activity, lessened by the end of the confinement from the same date.

After this natural disaster the domestic economy is being affected by the conflict between the Russian Federation and the Republic of Ukraine. The various sanctions that have been applied to the Russian Federation and the impossibility of exporting Ukrainian products, especially food and fuel, are causing the

respective prices to rise and inflation to increase, which will have the direct consequence of reducing the purchasing power of the people of Timor-Leste.

According to the data provided by the Ministry of Finance, in page 2 of Book 1, Budget Overview, Timor-Leste's inflation for the first quarter of 2022 registered a year-on-year inflation of 6% in March 2022.

Figure 1: Consumer Price Index (CPI) in Timor-Leste 2014-2021 %.

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In the graph on the Consumer Price Index in Timor-Leste, imported food and non-alcoholic beverages are being affected by the increase in international food prices.

Also according to the Addendum to Book 1, Budget Overview and according to the World Bank, food prices registered an increase of 27% in the first quarter, and it should be noted that the increase in the price of rice, an extremely important food commodity in Timor-Leste, was 6%.

In the capital, Dili, the year-on-year inflation reached 7.0% being a little higher when compared with the other municipalities, which represent an increase of 5.7% in the same period. The price increases of Alcohol and Tobacco, 18.4%, and Transport, 8%, due to the unusual increase in the price of oil of about 54%, should be highlighted.

The Ministry of Finance believes that the inflation outlook should stabilize from 2023 onwards, largely due to the slowdown in the world price of oil.

Thus, the government is presenting the proposal to amend the State Budget for 2022 with 13 budget measures costing approximately \$1.129 billion dollars in order to alleviate this situation in the country's economy.

Given this situation, investment is needed to increase local production, investing heavily in productive sectors in order to improve the country's economy and reduce food imports.

IV. CONCLUSIONS

Under the provisions of Article 170 of the Rules of Procedure of the National Parliament, apply to the draft amending budget law the rules applicable to the discussion of the law approving the budget, with the necessary adaptations.

The content of the draft law under consideration can be organized in three areas, namely, the amendment to the GSB 2022 (the introduction of thirteen new measures detailed in the Addendum to Book 1 - Budget Overview and the corresponding changes introduced in revenue and expenditure), the amendment to the Tax Law and the creation of the National Liberation Fighters Fund.

Further considering that the implementation of single measures with enormous financial impact, resulting from electoral commitments, adopted without a thorough debate on their impact on the national economy, and in particular on the Petroleum Fund, may lead to the squandering of this Fund, compromising the sustainability of public accounts in the short and medium term.

V. RECOMMENDATIONS

TO THE NATIONAL PARLIAMENT (SPECIALTY):

- amend article 7 of Law No. 1/2022, of January 3, approving the General State Budget for 2022, relating to Transfers from the Petroleum Fund, to ensure the conformity of the articles with the amendments made to Table II of the Annex to the Budget Law.
- Delete from the PPL the amendment of Annex II of Law No. 8/2008 of June 20, Tax Law on Selective Consumption Tax, **Or, alternatively**, proceed to amend Table II of the Annex to Law No. 1/2022 of January 3, approving the State Budget for 2022 in the part relating to tax revenues, updating it with the projection of revenues derived from the new tax rates.
- Repeal numbers 5, 6, 7 and 8 of article 6 of Law 1/2022, of January 3, State General Budget for 2022, which approve excise tax rates to be in effect only in 2022 regarding "Beer", "Wine, vermouth and other fermented beverages", "Tobacco" and "Captive plunger guns for slaughtering animals", since the PPL approves new rates to be in effect as soon as it comes into force.

TO GOVERNMENT:

1. That in the future it refrain from the legislative technique used in the present PPL and if it wishes to introduce new programs or change the currently existing ones proceed with the proposal to add new Titles or Programs or proceed with the proposals to change them.
2. That the presentation of new programs to be funded, especially those with a large impact on the amounts to be transferred from the Petroleum Fund, be accompanied by the necessary economic and financial studies demonstrating the sustainability of the same and its reproduced effect on the national economy.
3. That future proposals for changes in fiscal policy be accompanied by the necessary studies demonstrating their impact on tax revenue.

VI. OPINION

It is the opinion of this Committee that, as regards its formal configuration, the PPL no. 32/V (3a) complies, in general terms, with the essential rules of formal legistics, fulfilling the formal requirements for the presentation of draft laws, under the constitutional and regulatory terms and is therefore in a position to be appreciated in Plenary.

The parliamentary benches reserve their positions for the debate on the generality and speciality.

APPROVAL OF THE REPORT AND OPINION

This Report and Opinion was discussed and approved with 7 votes in favor, 3 votes against and 3 abstentions.

Dili, National Parliament, May 9, 2022

The Rapporteur Deputies,

/s/

Deputy Maria Angelina Lopes Sarmiento

/s/

Deputy António Maria Nobre Amaral Tilman (KHUNTO)

The President of the Committee

/s/

Maria Angélica R. da C. dos Reis

ANNEXES:

1. Letter No. 118/VIII/GM-MF/2022, of May 5, from the Minister of Finance, Correction of lapses in the supporting documentation for the draft law on the Supplementary State Budget for 2022;
2. Sectorial Opinion of Committee A - Committee on Constitutional Affairs and Justice;
3. Sectorial Opinion of Committee B - Committee on Foreign Affairs, Defense and Security;
4. Sectorial Opinion of the Committee D - Committee on Economy and Development;
5. Sectorial opinion of the Committee E - Infrastructure Committee;
6. Sectorial opinion of Committee F - Health, Social Security and Gender Equality Committee;
7. Sectorial Opinion of Committee G - Education, Youth, Culture and Citizenship Committee;
8. Opinion of the Consultative Council of the Petroleum Fund;
9. Opinion of the Central Bank of Timor-Leste
10. Opinion of the NGO La'o Hamutuk Institutu Timor-Leste ba Monitor no Analisa Desenvolvimento;
11. Letter No. 215/Minister/MAE/V/2022, of May 4, from the Minister of State Administration
12. Ofício n.º 080/MESCC/Ministro/V/2022, of May 4, from the Minister of Higher Education, Science and Culture;
13. Letter No. 221/GMEJD/V/2022, of May 5, from the Minister of Education, Youth and Sports.