

OFFICE OF THE PRIME MINISTER

Your Honor
Mr President of the National Parliament
Honorable Deputy Arão Noé da Costa Amaral
National Parliament
Formosa Street
Dili, Timor-Leste

Ref. No. 2023 / GPM / X / 2019

Date: Dili, December 19, 2019

Subject: Presentation of the draft State Budget 2020

Excellency,

In compliance with the provisions of paragraph 1 of article 30 of Law no. 13/2009 of 21 October, on Budget and Financial Management, as amended by Law No. 9/2011 of 17 August, and Law No. 3/2013 of September 11, was presented by the Government to Parliament National Law, on October 15, 2019, Proposal for a Law of the State General Budget for 2020. That proposal was withdrawn pursuant to Rule 95 (2) of the Rules of Procedure of the National Parliament, taking into account recommendation made by the National Parliament itself in its opinion on the draft law, I hereby, in accordance with the above-mentioned rules, present to you, with a request for priority and urgency, a new draft General State Budget for 2020 as well as the supporting documents for the proposal, as follows:

- 1) Proposed Law of the General State Budget for 2020;
- 2) Explanatory Statement of the State Budget Proposal for 2020;
- 3) Justification of a transfer from the Petroleum Fund above the Estimated Sustainable Income;

transfer from the Petroleum Fund of the amount exceeding the Estimated Sustainable Income;

I also protest to present to you, by December 30, 2019, Books 1, 3A-BC, 4A-B, 5 and 6, which have not yet been completed, but which we do not believe should prevent the submission of the remaining documentation, as well as, by January 14, 2020, the Independent Auditor's report certifying estimates of the Estimated Sustainable Income reduction.

Aware of the attention, merit, and acceptance of Your Excellency, Mr. President, I take the opportunity to express the assurances of my highest consideration.

/s/

Taur Matan Ruak
Prime Minister

PRIME MINISTER'S OFFICE

Your Honor

Mr President of the National Parliament

Honorable Deputy Arão Noé da Costa Amaral

National Parliament

Formosa Street

Dili, Timor-Leste

Ref: 2024 / GPM / X / 2019

Date: Dili, December 19, 2019

Subject: Justification for transfer of Petroleum Fund over Estimated Sustainable Income

Excellency,

In compliance with the provisions of paragraph d) of article 9 of Law No. 9/2005, of August 3, Petroleum Fund Law, as amended by Law No. 12/2011, of September 28, I am hereby submitting to your excellency a justification of why we consider it to be in the long-term interest of Timor-Leste to make a transfer in excess of the Estimated Sustainable Income of the Petroleum Fund.

I also present to you, for consideration and approval by the National Parliament, the Bill on the General State Budget for 2020.

The 8th Constitutional Government remains committed to conducting government action responsibly and transparently and to continuing to work to implement the policies set by the Government, which emanate from our vision for Timor-Leste by 2030, and which are embodied in the Strategic Development Plan and Government Program.

Our main focus remains on transforming Timor-Leste into a high-income country where human development indices are met fairly and inclusively so that peace, stability, prosperity, health and education enjoyed by our entire population.

The creation of the Petroleum Fund, in which must be deposited all revenues related to oil exploration in Timor-Leste, and the cautious and transparent rules provided for in the law for its management and use, including the definition of an Estimated Sustainable Income, demonstrate, precisely the commitment of all national governments to the process of building our nation.

Transfers from the Petroleum Fund to the State General Budget have over the years allowed the country to promote sustainable economic growth and reduce poverty in all its dimensions.

However, considering the development plan we have endorsed and defined as the most appropriate for our country, a transfer above Estimated Sustainable Income is necessary to ensure that national development in its four pillars, social, infrastructure, good governance, is a reality.

In this regard, I would like to emphasize that the transfer of the amount exceeding the Estimated Sustainable Income is not intended to support current expenses related to the functioning of the State administration. Rather, it is intended to meet the investment-related expenses of the country by fulfilling the criteria required by the Petroleum Fund Law to apply it to meet the needs of the present and future generations.

Excellency,

Transferring more than 3% of the Estimated Sustainable Income of the Petroleum Fund, which is under consideration, aims above all to continue the implementation of infrastructures through the Infrastructure Fund, but also the implementation of social and economic development policies so that our country can aim for sustainable and inclusive development that covers the entire population, from cities to remote areas.

Unsurprisingly, the national development project necessarily has to go through the creation of road access in all municipalities, which represents a challenge. We cannot slow the pace of ongoing projects because they are key to improving public service delivery, boosting private sector initiatives and promoting economic transactions,

Accordingly, the bulk of expenditure financed by withdrawing above 3% of the Petroleum Fund's Estimated Sustainable Income refers to expenditure on roads, ships and investments in the categories development capital, minor capital and transfers.

It is essential to continue with the expansion and restoration projects of the national road network, as well as the distribution of drinking water and electricity throughout the country, namely in the purchase of fuel and maintenance of electricity generators in Hera and Betano, and at the same time continue the Tasi Mane project, the construction and rehabilitation of airports and ports, and the acquisition of the Nakroma II and patrol vessels for the south coast, among other projects.

It is also essential to continue the training effort of Timorese workers and young people through the organization of vocational training actions and the awarding of scholarships by the Human Capital Development Fund, which is essential for the creation of a qualified workforce and for the economic development of the country.

Finally, it is necessary to strengthen the Timor Gap public company so that it can manage public investments in petroleum activities, thereby providing an increase in petroleum income and ensuring Timor-Leste's effective sovereignty over its mineral wealth.

Excellency,

The Government recognizes that withdrawing above the Estimated Sustainable Income to finance the State Budget should be done as a last resort, so a number of strategic reforms are being implemented (Public Finance Management Reform, Public Administration Reform, among others) which, on the one hand, will help to reduce current expenditure and, on the other hand, will increase domestic revenues and thereby the sources of budget financing.

The above grounds, as well as the investments made under the frontloading policy, will make it possible to achieve a sustainable level of development in the medium to long term, and for this reason, the approval of the National Parliament of a withdrawal that exceeds 3% of Estimated Sustainable Income.

Finally, together with the "Report on the estimated amount of the Estimated Sustainable Income for subsequent fiscal years, by transfer from the Petroleum Fund of more than the Estimated Sustainable Income", thus fulfilling the legal requirement set forth in Article 9(b) of the Petroleum Fund Law, as well as the "Report of the Independent Auditor certifying estimates of Estimated Sustainable Income reduction" as provided for in paragraph c) of that article.

Aware of the attention, merit, and acceptance of Your Excellency, Mr. President, take the opportunity to express my assurances of my highest consideration.

/s/

Taur Matan Ruak
Prime Minister

VIII CONSTITUTIONAL GOVERNMENT

Bill approving the State General Budget for 2020

Reason Exposure

Introduction

Pursuant to Article 97 (1) (e) and Article 115 (2) (a) of the Constitution of the Democratic Republic of Timor-Leste, the Government proposes to the National Parliament the present Proposal of the State Budget (2020).

The present 2020 State Budget Law encompasses all revenues and expenses of the organs and services of the Administrative Public Sector of the Democratic Republic of Timor-Leste, including the Central Administration and the Social Security Sector, for the period from 1 January to 31 December 2020.

Grounds for the proposal

The State General Budget (OGE) is the main instrument of Timor-Leste's economic and financial policy, providing for the income and expenses that will create the conditions for the country's economic development.

The State Budget is also the main instrument for implementing the measures proposed by the VIII Constitutional Government and set out in its Program, which aim to prepare the country for the short, medium and long term challenges expressed in the Strategic Development Plan 2011-2030 and the Sustainable Development Goals.

Currently, the state remains the main driver and driver of development promotion in Timor-Leste. This is not surprising given the level of economic development in our country, in which the foundations for the development of an active and resilient private sector are still being laid.

To this end, the VIII Constitutional Government proposes to make profound improvements in the various sectors of governance, with particular focus on the implementation of activities that enable the development of basic infrastructure, as well as in the areas of tourism, health, education, agriculture, drinking water, investment, human capital, institutional strengthening, administrative deconcentration and decentralization and promotion of private sector investment.

In particular, the impact arising from the entry into force of the Treaty between the Democratic Republic of Timor-Leste and Australia establishing the respective Maritime Borders in the Timor Sea creates a stable legal framework for the exploitation of the oil and gas resources industry in the Timor Sea. We will therefore continue, as a major national goal, with the development of the Tasi Mane project, which includes the Suai supply base, a Betano refinery and the Liquefied Natural Gas (LNG) plant in Beço, creating the following: conditions necessary for exploration of the Greater Sunrise fields and to benefit from the opportunities offered by the development of the oil and gas sector.

Also noteworthy is the purchase of the Nakroma II ferry, which will substantially improve passenger and freight connections between Dili and the other municipalities, and will naturally have a positive impact on domestic economic activity.

The present GSB Bill contains the budget allocations required to implement the above policies, which should be done through demanding, efficient and effective public financial management.

Macroeconomic scenario

At the end of 2019, the world economy is approaching a period of uncertainty after several years of substantial growth, which is halting, in particular, the threats that hover over international trade. Timor-Leste should, however, after an unfavorable economic period, return to robust growth, and should be relatively immune to the global slowdown.

Real non-oil GDP growth is expected to accelerate, with an increase of 5.1% in 2019 and 6% in 2020. This return to growth is driven by political stability and substantial increases in public spending. Living standards are expected to improve, household consumption to grow 3.4% by 2020, and private sector investment to increase. These investments are consistent with the Manager's economic strategy to attract investors and create domestic employment, coupled with ongoing public investments in human capital and education.

Consistent growth in consumption is driven by a low inflationary environment. Inflation is expected to remain low and stable at 1.1% in 2019 and 2.7% in 2020. This will contribute positively to Timor-Leste's competitiveness, with inflation expected to be below the regional average.

Petroleum Revenue

In the preparation of the General State Budget for 2020, oil wealth was estimated at \$17,891.8 million. Therefore, the Estimated Sustainable Income (ESI) of 3% is estimated at 536.8 million. This amount is 7.8 million higher than estimated in last year's budget.

Petroleum Fund revenues for 2020 are estimated at 1,236 million. The return on investment is 3.8%, which translates into an investment result of 641 million.

The balance of the Fund is expected to be 17,307.3 million by the end of 2020 after deducting the 996.5 million withdrawal in 2020 to be approved by the National Parliament. The transfer of the Petroleum Fund takes place during the year 2020 and is \$ 459.7 million higher than its ESI.

The Petroleum Fund's investment policy is based on an asset allocation and risk limits as defined in the Petroleum Fund Law as revised August 2011. Currently the Petroleum Fund portfolio is applied at around 35% in shares, about 55% in public debt securities and 5% in oil operations, with 5% available in cash.

The Human Capital Development Fund

The Human Capital Development Fund established under Article 32 of Law No. 13/2009 of 21 October on Budget and Financial Management, and Article 9.O of Law No. 1/2011, of February 14, which approved the State Budget for 2011, is regulated by Decree-Law No. 12/2011, of March 23.

The Fund allows the State to invest in the qualification of our people, through a specific and targeted instrument, with budgetary and accounting autonomy, providing greater transparency and easier accountability.

The revision of Decree-Law no. 12/2011 of 23 March is underway to revise the Fund's management model and to develop and deepen the rules for the financing of programs and projects. Fund's activity in the financing of technical and / or vocational training programs and scholarships and by expressly establishing the preferential criteria which the programs must meet.

Investments made by the fund are expected to have a substantial impact on the country's economic development, as it depends on the technical and academic qualifications of national human resources.

Non-Oil Revenue

Non-oil revenues are projected to increase by 2020, with an estimated collection of US \$ 433.96 million, with taxes reaching US \$ 133.4 million. This forecast stems from the improved macroeconomic outlook and the improvement of private sector conditions.

Nonetheless, there is a diverging trend between direct and indirect taxes, with the former declining from last year to \$ 50.4 million and the latter increasing by \$ 33 million.

Domestic revenues remain only a small part of global revenues and their percentage weight in total revenues should be slightly below last year.

However, recent legal changes to the Organic of the Ministry of Finance, the Tax Authority and the Customs Authority should allow for an improvement in public revenue collection, which should be

complemented with the revision of the Tax Law in the short term to match the Timor-Leste's fiscal framework to international best practice.

Donations

GSB revenues include a US \$ 7.5 million grant from the European Union for budget support.

Public debt

Article 20 of Law No. 13/2009 of 21 October on Budget and Financial Management, as well as Law No. 13/2011 of 21 February on the Public Debt Regime provide for the possibility of borrowing by the state.

It is on this legal basis that the Government submits to the National Parliament a proposal to authorize the granting of additional concessional loans of up to US \$750 million with a maximum maturity of 40 years, as well as mobilization and disbursements of up to \$73 million, and this legal obligation should only be for the construction of strategic infrastructures for the development of the country.

Still, Timor-Leste's level of public debt is likely to remain very low, not substantially encumbering the State Budget.

Treasury Account Balance

In accordance with best international accounting practices, unused 2019 OGE funds are carried over to the 2020 OGE as revenue from the source of funding "Treasury Account Balance" to finance budget appropriations in this year's OGE.

A carry-over balance of US \$ 254.3 million is foreseen for 2020, which is a significant increase from the year 2019, when no amount was entered for this source of funding.

Expenditure entered in the general state budget for 2020

Salaries and Salaries

The total budget for salaries and salaries is \$ 235.610 million. This amount increased by 10% in the State General Budget for 2020 compared to the allocation for 2019. This is due to the increased costs caused by changes in the governance structure and the payment structure.

Key measures in this category include, but are not limited to:

- \$13.8 million for changes in remuneration structures as a result of the approval of new organic laws, which underwent internal restructuring and created new positions that will be filled through the State General Budget for 2020.
- \$3 million to fill positions in the structures of Municipal Authorities and Administrations.
- \$0.9 million for the recruitment of 600 new F-FDTL members.
- \$0.7 million for promotions of civil servants determined by the Civil Service Commission.
- \$0.7 million earmarked for compensation payments to workers in new special regime careers of the Ministry of Finance.

Goods and services

The total budget for the Goods and Services category is \$582.3 million, which represents a 23% increase in 2020 compared to the allocation in the 2019 State General Budget. These funds will be used to properly implement ministerial line plans, including performing the maintenance required to ensure the continued best use of infrastructure assets resulting from past investments.

Key measures in this category include, but are not limited to:

- \$ 166.4 million to the Ministry of Public Works to pay for fuel and maintenance for the electric generators in Hera and Betano. This includes the maintenance of the electrical transmission towers (150KW) and Substations (20KW) in seven essential locations (N117, N31, N71, N72,

Unofficial translation by La'o Hamutuk. For more information on the 2020 State Budget, see <http://www.laohamutuk.org/econ/OGE20/19OGE20.htm>

N15, N24, N34 and N76). Electricity supply throughout the country is essential for generating growth and development in the country.

- \$ 31.1 million for Whole of Government for the counterpart fund, including expenses for the purchase of ships to patrol the sea and the purchase of the Nakroma II ferry.
- \$ 8.0 million for Whole of Government for legal services. This money will allow the state to defend itself in various lawsuits.
- \$ 4.9 million for SAMES to purchase medicines to improve the quality of health services provided in the country.
- \$ 3.0 million for Whole of Government for new civil aviation provisions.
- \$ 2.8 million for Whole of Government to pay dues to international institutions. This will ensure Timor-Leste's continued participation in regional and international activities.
- \$ 2.5 million for Whole of Government for population and housing census. This will help to define the terms of future socio-economic development programs.
- \$ 2.1 million to the Prime Minister's Office for Timor-Leste's participation in the Dubai Expo.
- \$ 1 million for Whole of Government for the International Event (CPLP) and the twelfth edition of the CPLP Sports Games to be held in 2020 in Timor-Leste.

Public Transfers

The total budgeted for Public Transfers category is \$329.706 million, which represents a 9% decrease compared to the 2019 State General Budget.

The main budgeted measures in this category are as follows:

- \$ 91.4 million for the Ministry of National Liberation Combatants Affairs, to pay pensions and build housing for veterans.
- \$ 63.3 million for the Ministry of Petroleum and Minerals to invest in the development of Timor Gap.
- \$ 41.3 million to the National Institute of Social Security (INSS), to cover the State's responsibilities under the contributory and non-contributory regime.
- \$ 22.6 million to the Ministry of Petroleum and Minerals to support the National Petroleum and Minerals Authority (ANPM), Timor Gap and the Institute of Petroleum and Geology (IPG) to ensure that Timor- East benefits the most from its natural resources.
- \$ 15.2 million for Whole of Government to provide pensions for permanent civil servants under the contributory scheme.
- \$ 10 million for Whole of Government to cover loan repayments.
- \$ 8 million for Whole of Government to support the activities of the Catholic Church in Timor-Leste through the Episcopal Conference.
- \$ 6.0 million to the National Election Commission, intended to subsidize political parties and thus continue to strengthen the democratic process in Timor-Leste.
- \$ 5.5 million for the entire Government for lifetime pension payments to former holders and former members of sovereign bodies.
- \$ 4.3 million to the Ministry of Education, Youth and Sport to support various sporting events and youth activities throughout the year.
- \$ 4.0 million for the entire government to recapitalize the Central Bank of Timor-Leste (BCTL) and pay service fees.

Unofficial translation by La'o Hamutuk. For more information on the 2020 State Budget, see <http://www.laohamutuk.org/econ/OGE20/19OGE20.htm>

- \$ 4.0 million for the Prime Minister's Office for the construction of Becora and Aimutin Churches, as well as Protestant churches, as well as support for Non-Governmental Organizations (NGOs).
- \$ 1.7 million for the Secretary of State for the Media to subsidize Timor-Leste Radiotelevision (RTTL) and Tatoli - Timor-Leste News Agency.
- \$ 1.5 million for the entire government for the g7 + secretariat. The work of this secretariat ensures that the voice of fragile states (including Timor-Leste) is heard by the international community.
- \$ 1 million for the entire government for the recapitalization of the Timor-Leste National Bank of Commerce
- \$ 1 million to the Secretary of State for Cooperatives to subsidize groups of cooperatives.
- US \$ 0.8 million for the entire government for international financial support, which will increase Timor-Leste's influence in the international community.
- \$ 0.8 million for the Ministry of Education, Youth and Sports, for grants to private schools and C.A.F.E.
- \$ 0.5 million for the Secretary of State for Vocational Training and Employment (SEFOPE) for employment programs, which will help to promote job creation and economic growth.
- \$ 0.25 million to the Secretariat for Equality and Inclusion to provide capital to rural women to promote female entrepreneurship.
- \$ 0.2 million to the Ministry of Higher Education, Science and Culture, for the program to preserve the cultural identity and heritage of the Timorese people.

Minor Capital

The total budgeted for this expense category is \$ 31.548 million, an increase of 0.2% over the 2019 State Budget. Expenditure under the smaller capital category is used to purchase capital equipment, such as vehicles and machines, which are expected to last several years and do not need to be bought back in the near future.

The main measures in this expense category are as follows:

- \$ 4 million to the Ministry of Finance to buy computer equipment for a data back-up center, X-ray equipment and metal detectors.
- \$ 3.4 million to the Ministry of Public Works for the purchase of heavy vehicles.
- \$ 3.2 million to the Ministry of Education, Youth and Sport for the purchase of school desks, chairs and computers.
- \$ 1.8 million to the Ministry of Defense for the purchase of protective and communications equipment.
- \$ 1.7 million to the Ministry of Health, for the purchase of multi-purpose vehicle ambulances and operational vehicles for monitoring and evaluation actions.
- \$ 1.3 million to the Ministry of State Administration for the purchase of computer equipment to be used in elections and in the PNDS.
- \$ 0.8 million to the Timor-Leste National Police (PNTL) for the purchase of protective equipment.

Development Capital

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The budgeted amount for the development capital expenditure category (excluding loans) amounts to \$ 488.837 million. This amount represents an increase of 22% compared to the allocation to 20i9.

The main measures in this expense category are as follows:

- \$ 238.3 million for the Infrastructure Fund, including the construction of a training center of excellence.
- \$ 100 million for the RAEOA Authority and ZEESM for various projects.
- \$ 61 million for the construction of health clinics and clinics.
- \$ 9.4 million to Municipal Authorities and Administrations for various projects.

From here down has not been proofed or translated. It discusses social security

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Approved by the Council of Ministers on 19 December 2019.