



ORÇAMENTO GERAL DO ESTADO 2024

**BRIDGING FOR TOMORROW:
INVESTING IN THE PRODUCTIVE SECTORS AND SOCIAL CAPITAL**



REPORT

Table of Contents

Prime Minister’s Speech	8
Executive Summary	9
1. Macroeconomic Outlook and Fiscal Strategy	12
Macroeconomic Overview	14
Fiscal Sustainability Analysis	22
Fiscal Risks and Contingent Liabilities Statement	24
2. Reform and Priorities	29
Government Priorities and Measures for 2024	29
Strategic Investments for Sustainable Growth	31
PFM Reform Strategy	33
Enhancing Program Budgeting	35
3. Budgetary Policy	37
Budget Performance	37
Budget Strategy for 2024	40
Budget Transparency and Accountability	43
4. Revenue and Financing	49
Domestic Revenue	49
Petroleum Fund	51
Loans and PPP	53
Development Partners	60
Cash Balances	63
Financing	64
I. Annex 1: Methodological	67
II. Annex 2 – Petroleum Fund Certificate	71

Elements of the Budget Report by entity responsible

Elements	Entity
Budget strategy	GMF
Projections of the main macroeconomic indicators with influence on the OGE and its evolution	DGPO
Evolution of the financial situation of the General Government and its subsectors	DGT
Budget execution performance of the previous budget year	DGT
Evolution and sustainability of the Petroleum Fund	DGGMRE
Evolution and sustainability of public debt	GPRCGFP
Status of treasury operations and accounts of the treasury	DGT
Forecast of tax revenue and lost tax revenue	DGPO/AT
General lines of budget policy and programs	DGPO
Budget management rationalization measures	DGPO
Temporary and permanent fiscal policy measures	DGPO
Fiscal risk analysis	DGPO
Information on contingent liabilities of the General Government	DGPO
Annual and multi-annual expenses with public-private partnerships and the respective global indebtedness situation	DGGMRE
Information on late payments of the General Government	DGPO/DGT
Comparison between the macroeconomic and budget forecasts used and forecasts made by international reference bodies	DGPO

Abbreviations

Asian Development Bank	ADB
Autonomous Agencies	AA
Autonomous Service of Medicines and Health Equipment	SAMES
Capital Development	CD
Classification of the Functions of Government	COFOG
Council of Administration for the Infrastructure Fund	CAFI
Consolidated Fund of Timor-Leste	CFTL
Consumer Price Index	CPI
Dalan Ba Futuru (Timor-Leste)	DBF(TL)
Democratic Republic of Timor-Leste	RDTL
Development Partner	DP
Direct Budget Support	DBS
Timor-Leste National Police	ETNP
European Union	EU
FALINTIL - Defence Force of East Timor	F-FDTL
Financial Management Information System	FMIS

General State Budget/ Orsamentu Jerál Estadu	GSB/ OJE
Government of Timor-Leste	GoTL / GovTL
Gross Domestic Product	GDP
Human Capital Development Fund	FDCH
Infrastructure Fund	IF / FI
Integrated Financial Management Information System Unit	IFMISU
Integrated Municipal Development Program	IMDP (PDIM)
National Institute for Health	INS
International Development Agency	IDA
Laboratory National	LABNAS
Line Ministries	LM
Micro, Small and Medium Enterprises	MSME
Ministry of Agriculture and Fisheries	MAP
Ministry of Defence	MD
Minor Capital	MC
Ministry of Education including SEJD	MEJD
Ministry of Finance	MoF
Ministry of Health	MoH
Ministry of Interior	MI

Ministry of National Liberation Combatant Affairs	MACLAN
Ministry of Public Works	MoP
Ministry of Social Solidarity and Inclusion	MSSI
Ministry of Tourism, Commerce and Industry	MTCI
Ministry of Transport and Communications	MTC
National Communication Agency	ANC
National Development Agency	ADN
General Directorate of Planning and Budgeting	DGPO
National Intelligence Agency	SNI
National Police of Timor-Leste	PNTL
Organization of the Petroleum Exporting Countries	OPEC
Petroleum Fund	PF
Programme Budgeting	PB
Public Financial Management	PFM
Public Service Commission	PSC/CFP
Public Private Partnerships Unit	PPPU
Public Transfers	TP
Quarter 1	Q1
Quarter 2	Q2
Real Effective Exchange Rate	REER

Self-Funded Agency	SFA
Salaries and Wages	SW
Secretariat of State for Art and Culture	SEAC
Secretariat of State for Environment	SSE/SEA
Secretariat of State for Youth and Sport	SEJD
Social Security Fund	SSF
Special Administrative Region of Oe-Cusse Ambeno	RAEOA
Strategic Development Plan	SDP/PED
United Nations Development Program	UNDP
World Bank	WB

Prime Minister's Speech

Executive Summary

Overview

The theme of the 2024 General State Budget proposal is: ***“Bridging for Tomorrow: Investing in the Productive Sectors and Social Capital”***.

The Ninth Constitutional Government is committed to continuing economic development, eradicating poverty, and providing higher-quality public services (more effectively and efficiently) to the entire population of Timor-Leste.

To fulfil this commitment, the formulation of the 2024 budget is centered on the development of human resources, infrastructure development, and improving and strengthening the public services of government institutions.

The government program for the next five years is oriented towards six main principles, namely:

1. Affirm the Democratic State of Law
2. Develop Social Capital and Justice
3. Improve Infrastructure Development
4. Stimulate Economic Growth
5. Strengthen Government Consolidation
6. Promote Good Governance and Combat Corruption

Therefore, the budget for the years 2024-2028 will seek to improve social, economic, and infrastructure development to support the enhancement of the standard of living of the people of Timor-Leste. The targets include a 10% reduction in poverty, an average economic growth rate of 5%, creation of 50,000 jobs and improvements in public financial management and sustainability.

In order to meet the objectives set for the next five years, the government is dedicated to prioritizing the development of productive sectors, such as: infrastructure, education, health and the petroleum sector.

Non-Oil Real GDP growth is predicted to have slowed down to 2.2% in 2023, due to a fall in the execution of government spending following the election. However, a large increase of spending is anticipated in 2024 with a US\$1.89 billion ceiling approved for the Central Administration and RAEOA. As a result of this growth is expected to bounce back to 4.1%.

Large spending increases are also anticipated in future years as the government looks to maximise the chances of meeting its growth targets. As a result, the Petroleum Fund is predicted to deplete by 2034.

Resource and Financing

The total budget for the year 2024 is US\$2,237.6 million, divided into allocations for the Central Administration of US\$1,830 million, RAEOA of US\$60 million, and Social Security of US\$347.6 million.

The budget allocation of the Central Administration by economic classification, is the following: salary and wages of US\$453.86 million, Recurrent Goods and Services of US\$365.31 million, Minor Capital of US\$33.85 million, Development Capital of US\$394.50 million, and Transfers of US\$582.48 million.

The fiscal table and memorandum indicate a budget allocation for the year 2024 that has decreased by 8.3% compared to the budget for the year 2023.

Central Administration, compared to the same year, shows an increase of 1.7% (more than US\$30 million), RAEOA decreases by 50% (down US\$60 million), and social security increases by 8.1% (increased by US\$19.1 million).

The sources of revenue and financing for the budget in 2024 come from domestic revenue for the Central Administration of US\$192.24 million, and ESI (Estimated Sustainable Income) of US\$522.09 million. Domestic revenue is not sufficient to finance the budget, with budget deficit of US\$1,115.67 million, therefore, the financing of the budget deficit comes from the treasury balance of US\$220 million, loans of US\$25 million, direct budget support of US\$15.22 million, and excess withdrawal from the petroleum fund of US\$855.45 million.

Table 1: Fiscal and Memorandum, US\$m

	Original 2023 Budget	Rectification 2023 Budget	Budget 2024
Total Expenditure by Sector	2,155.72	1,960.48	1,976.71
Central Government	1,800.00	1,633.00	1,830.00
RAEOA	120	83.76	60.00
Social Security	235.72	243.72	254.80
Central Government Total expenditure by appropriation category (Public Administration)	1,800.00	1,633.00	1,830.00
Central Government Total expenditure by appropriation category (Excl. loan)	1,725.89	1,598.00	1,805.00
Recurrent	1,470.31	1,351.91	1,401.65
Salary and Wages	427.22	432.63	453.86
Goods and Services	388.98	349.74	365.31
Transfers	654.11	569.54	582.48
Capital	329.69	281.09	428.35
Minor Capital	53.37	49.57	33.85
Development Capital (inc. loans)	276.32	231.52	394.50
Revenues	665.05	669.56	714.33
Domestic Revenue	174.9	179.41	192.24
Estimated Sustainable Income (ESI)	490.15	490.15	522.09
Fiscal Balance	-1,134.95	-963.44	(1,115.67)
Financing Deficit	1,134.95	963.45	1,115.67

	Original 2023 Budget	Rectification 2023 Budget	Budget 2024
Excess Withdrawals	855.94	718.05	855.45
Use of Cash Balance	200	200	220.00
Loans	74.11	35	25.00
Direct Budget Support	4.9	10.4	15.22

Source: Directorate of Economic Policy DNPE, Ministry of Finance.

Table 2: Fiscal and Memorandum RAEOA, US\$m

	Original 2023 Budget	Rectification 2023 Budget	Budget 2024
Total RAEOA Expenditure	120.00	83.76	60.00
RAEOA Financing	121.21	120.04	80.29
RAEOA Fees and Charges	2.51	1.34	2.29
Use of RAEOA Cash Balance	117.49	82.42	57.71
Unused Cash Balance	1.21	36.28	20.29

Source: Directorate of Economic Policy DNPE, Ministry of Finance

Table 3: Fiscal and Memorandum Social Security, US\$m

	Original 2023 Budget	Rectification 2023 Budget	Budget 2024
National Social Security Institute (INSS)	122.97	282.96	142.62
Social Security Contributions	55.06	55.06	55.86
Income	0.05	0.05	0.05
Current Transfers from the Central Administration	67.86	75.86	86.71
Cash Balance	0.00	152.00	0.00
Social Security Reserve Fund (FRSS)	162.01	203.41	254.80
Income	2.75	2.75	5.00
Capital Transfers from the INSS contributory scheme	49.26	200.66	49.80
Financial Assets	110.00	0.00	200.00
Total	284.97	486.37	397.41
Consolidated Total	235.72	285.71	347.62

Source: Directorate of Economic Policy DNPE, Ministry of Finance.

1. Macroeconomic Outlook and Fiscal Strategy

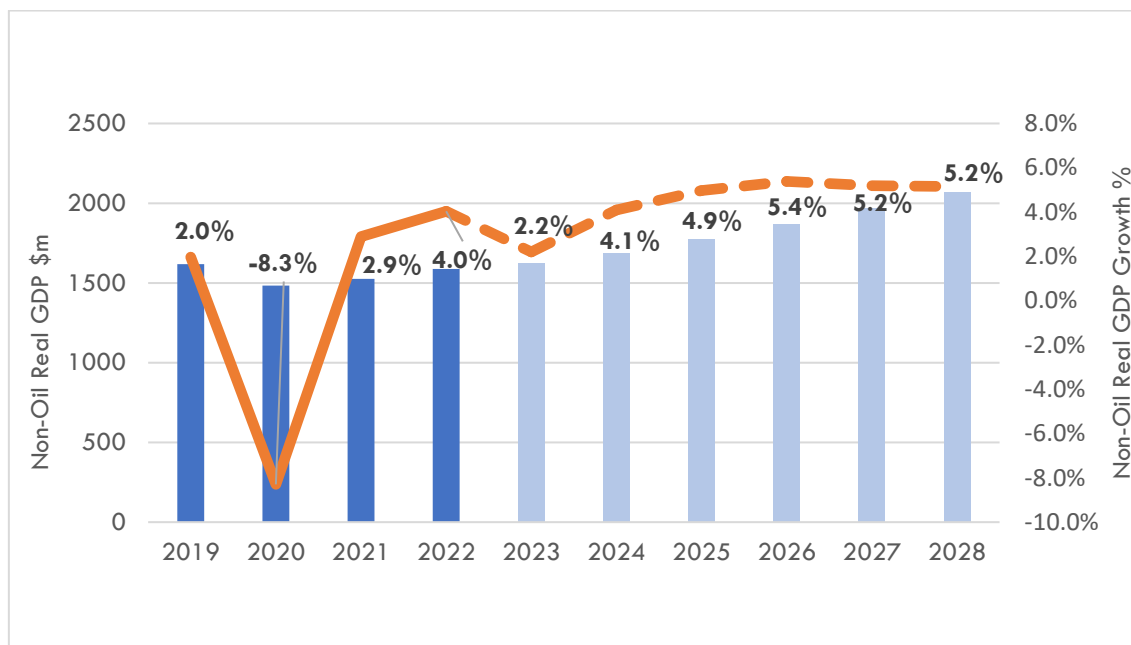
- 1.1. Budget 2024 marks the first full Budget of the IX Constitutional Government. As such this budget will lay the foundations for achieving the government's economic targets over the next five years.
- 1.2. Therefore the theme of the 2024 General State Budget proposal is: *"Bridging for Tomorrow: Investing in the Productive Sectors and Social Capital"*.
- 1.3. The government's fiscal strategy for Budget 2024 is based around achieving key economic targets including:
 - i. Achieving a real non-oil GDP growth rate of 5% in the next five years.
 - ii. Creating 50,000 jobs over the next five years.
 - iii. Creating the conditions for economic diversification and private sector growth.
 - iv. Securing the long term fiscal sustainability of the country by securing key public finance reforms.
- 1.4. Through identifying efficiency savings in the rectified Budget 2023, the government created the fiscal space necessary to prioritise key investments in Budget 2024.
- 1.5. Budget 2024 therefore sets a ceiling of US\$1.89 billion for the Central Administration and RAEOA (not including the social security reserve fund – FRSS). This represents a US\$173 million increase from Rectification Budget 2023 for the Central Administration and RAEOA.
- 1.6. This increased ceiling allows the government to increase capital and development investment expenditure by US\$144 million, therefore setting the foundations for greater economic growth. It also provides fiscal space to allocate funds to the key priorities and measures outlined in Section 2 of this report.
- 1.7. At the same time the government has proposed a lower budget ceiling (for the Central Administration and RAEOA) than Budget 2022 and the original Budget 2023, but with a greater focus on capital investment. As such, the IX constitutional government has signalled its intent to secure the country's long term fiscal sustainability. Furthermore, given that previous budget ceilings have been far above the highest expenditure in the country's history (US\$1.74 billion in 2022), the reduced ceiling is closer to government's true absorptive or spending capacity. This allows for greater focus on efficiency and effectiveness of executed expenditure in 2024.
- 1.8. Key Macroeconomic and Fiscal Data is provided in the table below and expanded upon in the rest of the document. The table provides recent figures and forecasts for GDP growth and inflation as well as figures for the debt and fiscal deficit position.

Table 4: Key Macroeconomic and Fiscal Statistics, %

Statistic	Actual				Forecast					
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Real GDP (non-oil)	2.0	-8.3	2.9	4.0	2.2	4.1	4.9	5.4	5.2	5.2
Household Consumption Growth	3.7	-1.2	-3.3	14.6	3.8	0.6	3.1	4.2	4.2	4.2
Government Consumption Growth	3.2	4.9	2.9	-0.2	-6.2	3.5	5.1	3.9	4.0	4.0
Investment Growth	-14.7	-42.3	-14.1	32.5	1.2	37.1	7.8	5.8	6.1	6.3
Export Growth	-23.2	-47.3	79.3	30.3	-0.5	32.9	13.5	14.5	8.4	8.5
Import Growth	-6.5	-7.0	-9.0	22.8	-5.3	12.6	4.3	3.1	3.2	3.4
Inflation CPI (annual average)	0.9	0.5	3.8	7.0	8.3	2.5	2.0	2.0	2.0	2.0
Inflation CPI (end of period)	0.3	1.2	5.3	6.9	8.7	2.5	2.0	2.0	2.0	2.0
Fiscal Deficit % of GDP	30.7	25.8	46.7	60.6	48.9	67.6	67.8	71.4	75.1	78.7
Debt Stock % of GDP	11.4	13.8	15.0	15.1	16.6	16.5	16.6	16.1	14.9	14.1

Source: Actual GDP figures from National Accounts, National Statistics Institute, INETL; GDP forecasts from the Directorate of Economic Policy DNPE, Ministry of Finance; Actual CPI inflation figures from the National Statistics Institute, INETL; CPI forecasts from the IMF World Economic Outlook, October 2023; Fiscal Deficit Calculation and Debt stock from the National Directorate of Economic Policy DNPE, Ministry of Finance; Debt Stock data and forecasts from the General Directorate for Mobilising External Resources DGMRE, Ministry of Finance.

Figure 1: GDP growth actuals and forecast 2019-2028



Source: Actual GDP figures from National Accounts, National Statistics Institute, INETL; GDP forecasts from the Directorate of Economic Policy DNPE, Ministry of Finance

Historic Growth

- 1.9. Given the relatively low level of employment in the oil sector, total GDP is not the best measure of economic performance for Timor-Leste. Instead, it is more useful to monitor economic performance using non-oil GDP together with a wide variety of other indicators relating to the non-oil economy. This approach provides a more accurate indication of the real impact of changes in the economy on the people of Timor-Leste.
- 1.10. Timor-Leste experienced real GDP growth averaging 1.1% per year over 2013-2022 (past 10 years). These growth rates were higher in the early 2010s and were driven by increases in government expenditure associated with the government’s economic strategy to ensure that Timor-Leste has the necessary infrastructure to allow the private sector to flourish in the long-run. Government investment has enabled a significant upgrade to road and electricity coverage throughout Timor-Leste, which has helped to improve both living standards and the business environment.
- 1.11. However, negative economic growth rates in 2017, 2018 and 2020 have undermined the progress made. In 2020 GDP growth fell by 8.3% due to the combined effect of the delay in approving the General State Budget, political uncertainty, the COVID-19 pandemic and the application of the State of Emergency.
- 1.12. 2021 saw a large increase in government expenditure of around 27% as the government looked to kick-start the economy following the impact of the pandemic. As a result, real non-oil GDP growth in 2021 bounced back to 2.9%.
- 1.13. In 2022 GDP grew at 4.0%, primarily due to an increase in public and private investment. Government transfers and a recovery from the COVID-19 pandemic also fuelled a large increase in private consumption (which rose by 14.6% in real terms). Government spending in 2022 reached the highest level in the history of the country at US\$1.74 billion including expenditure from RAEOA. At the same time, however, imports also increased by 23% in real terms, which was a result of increasing demand and global prices.

Timor-Leste Growth Outlook

- 1.14.** GDP growth is expected to decline to 2.2% in 2023. This is primarily a result of low budget execution following the election. As of 15th November 2023, executed expenditure was US\$1.09 billion. Informed by historic execution rates for November and December, execution is expected to reach a maximum of around US\$1.45 billion by the end of the year.
- 1.15.** As a result, there is likely to be a substantial fall in government consumption, which is estimated to fall by 6.2%, leading to downward pressures on GDP growth.
- 1.16.** Despite the large anticipated fall in government expenditure, which is set to decline around 17% compared to the previous year, GDP growth is expected to remain positive in 2023.
- 1.17.** This is in partly due to the fact that through the rectification budget, the government substantially cut transfer spending (budgeted to reduce by 34% compared by 2022). Analysis suggests that much of transfer spending in 2022 did not directly contribute to GDP growth.
- 1.18.** Therefore, through improving the efficiency of spending in rectified budget for 2023, the IX constitutional government has managed to maintain positive growth despite a large fall in expected expenditure. At the same time, the growth outlook for 2023 could be higher than forecasted if the execution of capital and government spending is higher than currently estimated. For example, if capital expenditure is 10% higher than currently estimated in the modelling, GDP growth for 2023 could reach 3%.
- 1.19.** The second factor that is likely to lead to positive growth in 2023 is the fact that private consumption growth is expected to remain strong and grow at 3.8%. This is indicative of the continued economic recovery following the COVID-19 pandemic. It may also suggest strong growth in remittances from Timorese nationals working abroad.
- 1.20.** Similarly 2023 has seen an increase in the number of visitors to Timor-Leste with data from immigration services suggesting a 129% increase in the number of tourist visas issued during the first 6 months of the year. The increase in tourism is a positive factor for the private sector growth and investment outlook in 2023.
- 1.21.** In 2024, GDP is forecasted to grow at 4.1%. This is driven by an expected large increase in government expenditure as the government has approved a budget ceiling that is 10% higher (for the Central Administration and RAEOA) than the ceiling approved during the rectification budget.
- 1.22.** Budget 2024 has an increased focus on government investment and building physical infrastructure, with US\$411 million allocated for Development Capital spending. Improvements to roads, public utility networks and other such public infrastructure will also lay the foundations for future growth in the private sector in the medium term. As such, real investment spending is forecasted to see an increase of 37.1%.
- 1.23.** 2024 is also expected to see a recovery in government consumption, forecasted to increase by 3.5%. Household consumption growth, on the other hand, is expected to face downwards pressures in light of recent increases in inflation that are expected to continue in the early parts of next year.
- 1.24.** Inflation in recent months has seen rises due to increases in global rice and oil prices. While these pressures could continue in the first few months of next year, as we explain in the next section, the government's decision to repeal the sugar tax and reverse the rise in import duties introduced in Budget 2023 should see reductions in inflationary pressures in the medium term (once markets have had time to adjust).
- 1.25.** The main sources of uncertainty in the GDP forecast for 2024, is budget execution and the level of imports in the economy. The GDP forecasts provided are informed by analysis of historic execution rates. If executed expenditure, particularly capital execution, is higher than expected, actual GDP will be higher than forecasted. On the other hand, poor execution would mean that the forecasts are an overestimate.

1.26. At the same time, we assume that the ratio of imports to other components of GDP will remain at the same level in 2024 as in 2022 (due to the fact that executed expenditure is expected to be closer to the level in 2022). Higher than expected imports would lead to a lower GDP growth than estimated and vice versa if imports are lower than expected.

1.27. The GDP forecasts for 2025-2028 assume that the government will meet its target of an average 5% GDP growth rate. They are based on the expenditure allocations provided in the table below. These expenditure allocations forecast the increase in expenditure that will be required to achieve the government's target.

1.28. The forecasts propose a reduction in transfer expenditure in 2025 in addition to proposing substantial increases to Development Capital spending during each year of the forecast period. This is because achieving the government's growth target will require large increases in government expenditure with a greater focus on investment in both physical infrastructure and human capital.

Table 5: Budget 2024 (Central Administration and RAEOA) by economic classification and Budget allocation proposals for 2025 -2028, US\$m

Economic Classification	2024	2025	2026	2027	2028
Development Capital	411	541	640	751	874
Goods & Services	386	367	382	397	413
Minor Capital	34	36	37	38	40
Salary & Wages	469	488	507	527	548
Public Transfers	590	560	582	605	630
Total	1,890	1,991	2,149	2,320	2,506

Source: National Directorate of Economic Policy, Ministry of Finance

1.29. Increased government expenditure alone will not be sufficient to meet the government's target. From 2011 to 2016 (the five years prior to multiple years of low growth due to the pandemic and political crisis) average non-oil real GDP growth was 4.1%.

1.30. Going above this level and reaching 5% will require targeted expenditure in high quality investments as well as government policies that help boost private sector growth. The GDP forecasts provided in this document are based on the assumption that government policies enacted in 2024 will create the conditions required to strengthen the private sector, increase opportunities for exports and achieve moderate but consistent import substitution year on year.

1.31. The following pre-conditions are therefore required to meet the government's growth target:

1.32. **Doubling Agricultural growth.** – The Agriculture, Forestry and Fishing sector grew by 5% in 2022. In order to create greater opportunities for exports and reduce the reliance on food imports, government policies and expenditure should aim to double this growth rate to 10% in the years ahead.

1.33. **Improving Internet connectivity.** The government has committed to ensuring the implementation of a Fibre Optic cable that will ensure high speed Internet is available to citizens by the end of 2024. This

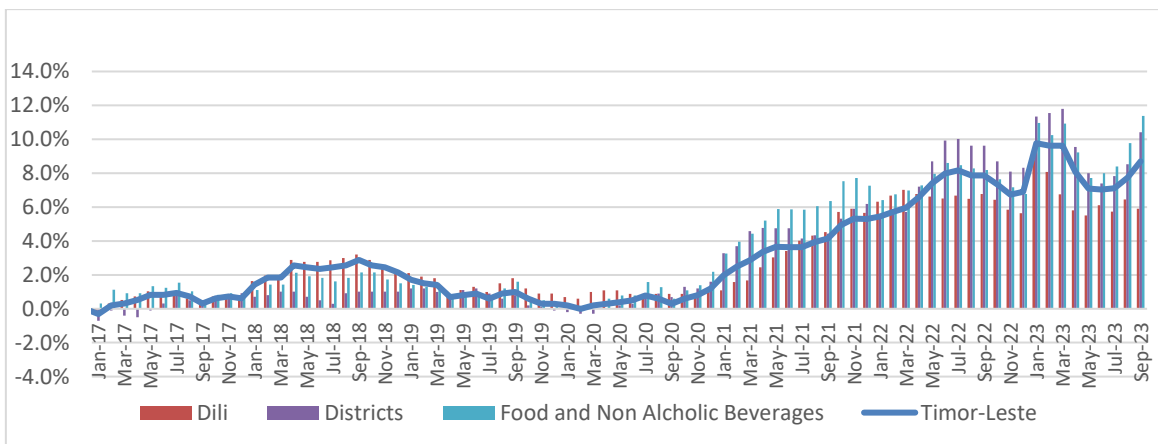
should result in major improvements in productivity in the years to come. It can facilitate the expansion of the private sector by providing opportunities for new online industries.

- 1.34. Investment in tourism related infrastructure.** In addition to improvements to virtual connectivity, government investment should focus on measures to boost growth in the tourism sector. This includes investments aimed at improving physical connectivity to and within Timor-Leste in order to facilitate domestic and international tourism.
- 1.35. Accession to ASEAN.** Accession to the ASEAN trading block can provide new markets for Timorese exporters.
- 1.36. Growth in the Private Sector.** By introducing policies that facilitate private sector growth, the government can reduce the reliance on government spending to drive GDP growth.
- 1.37. Reduction in Government Transfers.** Higher transfer spending reduces the prospects for economic growth. Analysis of government expenditure suggests that a significant portion of government transfer spending in recent years has not contributed to GDP growth as the expenditure has only been partially disbursed by the receiving entity. Expenditure analysis suggests that the government has space to reallocate at least US\$30 million of transfer spending in future budgets to a more productive category (such as Capital and Development). It is assumed that this reallocation will not come from transfers that directly contribute to household consumption such as Veteran or Social Security payments or key welfare programs.
- 1.38. Greater focus on Development Capital.** In order to fulfil the government’s growth targets, any additional spending after adjusting for inflation and population growth should be allocated to capital investment.
- 1.39.** The forecasts for GDP growth from 2025-2028 are based on the assumption that the aforementioned pre-conditions will be met. In the absence of this, the government’s growth target may not achievable.

Inflation and Exchange Rates

- 1.40.** Recent inflation rates in Timor-Leste have been relatively high. Overall CPI inflation has averaged 8.3% in 2023. In September 2023 year on year inflation was estimated at 8.7%. This means that a basket of goods and services that cost US\$100 in September 2022 cost US\$108.7 in September 2023.
- 1.41.** The high level of inflation is in line with global trends. Due to the significant weight of food and non-alcoholic beverages in the CPI basket and the high proportion of food imported into Timor-Leste every year, international food prices remain one of the key drivers of the overall CPI rate. Therefore, changes in international food prices can have a significant impact on both the rate of inflation and living standards.

Figure 2: Recent Change in Year on Year* Consumer Price Index Timor-Leste January 2017-September 2023, %



Source: National Accounts Data, National Statistics Institute (INETL) <https://inetl-ip.gov.tl/>, September 2023 * Each month shows the increase in CPI since the previous 12 months

1.42. Inflation is expected to remain high for the rest of the year and is projected to average 8.3% in 2023. However, as shown by the table below, IMF forecasts for Timor-Leste suggest that inflation will fall in the coming years. This is mainly due to an expected decline in oil and commodity price rises.

Table 6: Annual Inflation forecast 2023-2028

Category	2023	2024	2025	2026	2027	2028
Inflation Forecast (Average Consumer Prices)	8.3%	2.5%	2.0%	2.0%	2.0%	2.0%

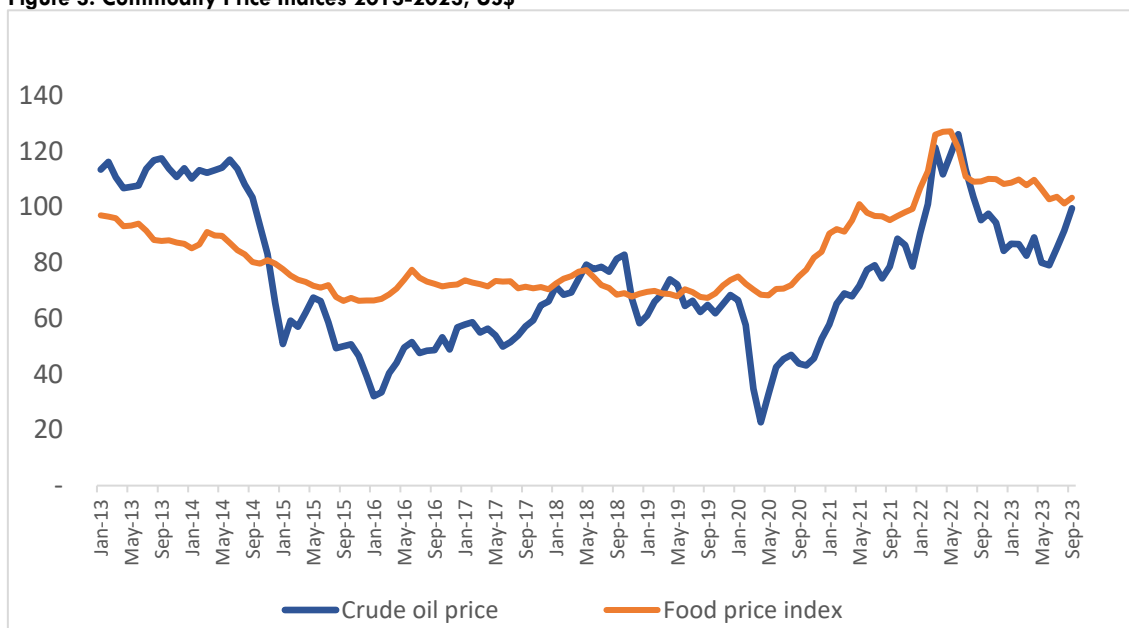
Source: Inflation Forecasts for 2023 from the National Directorate of Economic Policy, Ministry of Finance. Inflation Forecasts for 2024-2028 from the International Monetary Fund, IMF

1.43. Oil prices are also a key driver of inflation. They are important to Timor-Leste both for consumers, and as an oil exporting country. Oil prices fell at the onset of the Coronavirus pandemic down to \$21.0 per barrel in April 2020 but then started to rise sharply and reached US\$95.97 per barrel in August 2022 due to the war in Ukraine. Oil prices declined to US\$80.4 per barrel in January 2023 but have since risen to US\$92.22 in September 2023. The outlook for oil prices for the remainder of the year remains uncertain and could rise further with the recent escalation of conflict in the Middle East.

1.44. Year on year food and non-alcoholic beverage inflation in September 2023 was 11.4%. Oil prices and international commodity prices remain unstable due to political and climate related events around the world. However Food and non-alcoholic beverage inflation in particular should decline as a result of the government’s decision to reduce import duties from 5% to 2.5% and eliminate the tax on sugar and confectionary products (previously \$1 per kilo of sugar).

1.45. With the end of the COVID-19 pandemic, community activities have started to return to normal and restrictions on activities have been relaxed. This condition causes public demand for various goods to continue to increase. The increase in public demand for various commodities has resulted in global commodity prices continuing to creep up. Thailand and Vietnam, in particular, who are among key commodity producers that Timor imports from, have also seen large price rises in key commodities such as rice.

Figure 3: Commodity Price Indices 2013-2023, US\$

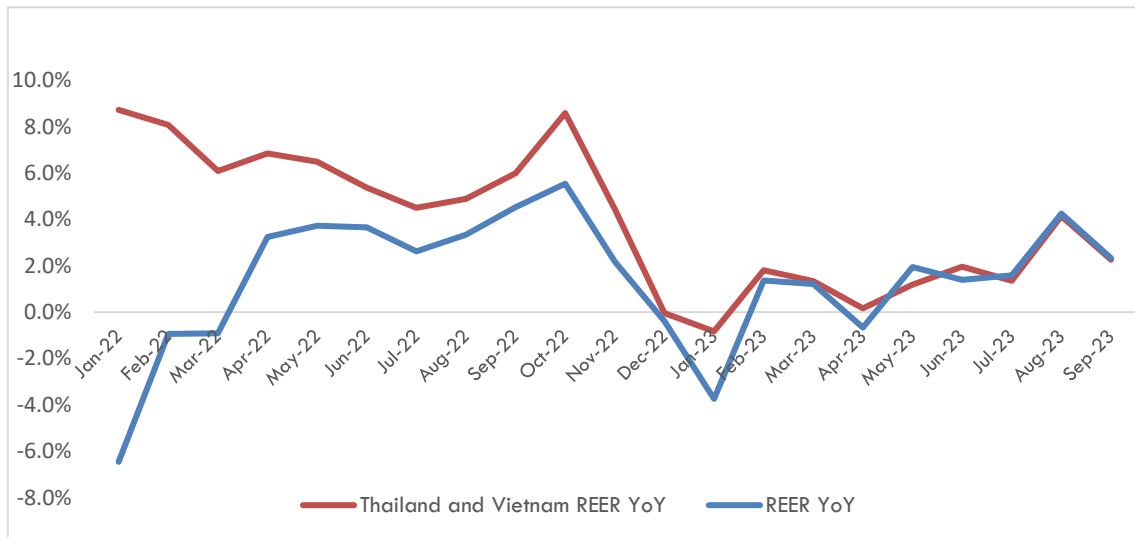


Source: World Bank Commodity Markets Outlook, April 2023

1.46. The effective exchange rate is the exchange rate of a country's currency, measured as the weighted sum of the exchange rates with its commercial partners. The real effective exchange rate (REER) is adjusted for the effects of inflation and is a better measure of competitiveness.

1.47. Between September 2022 and September 2023, the REER appreciated 2.3%. Over this period the REER also appreciated by 2.3% against a weighted Thai Baht and Vietnamese Dong basket. This real appreciation places a downward pressure on rice prices and inflation in Timor-Leste (as Thailand and Vietnam export large quantities of rice to Timor-Leste).

Figure 4: Commodity Price Indices 2013-2023

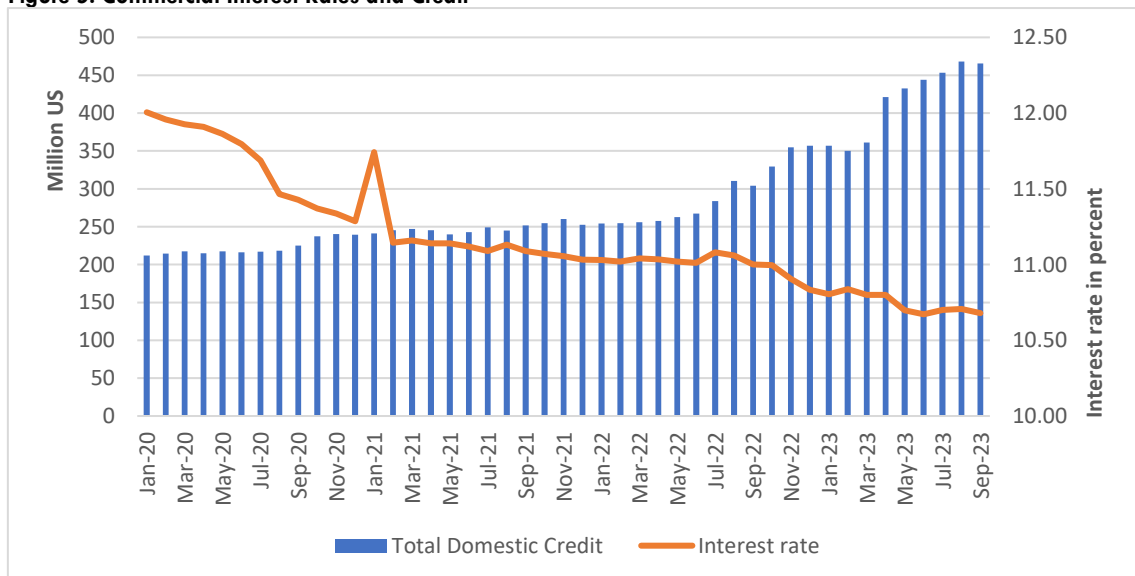


Source: Forex Exchange rates and Directorate of National Economic Policy Calculations

Financial Sector Trends

1.48. The year on year interest rate on loans to private businesses was 10.68% in September 2023, this is a fall of 0.32% from the previous year. The fall in interest rates has been accompanied by an increase in domestic credit which indicates that the private sector is showing signs of growth.

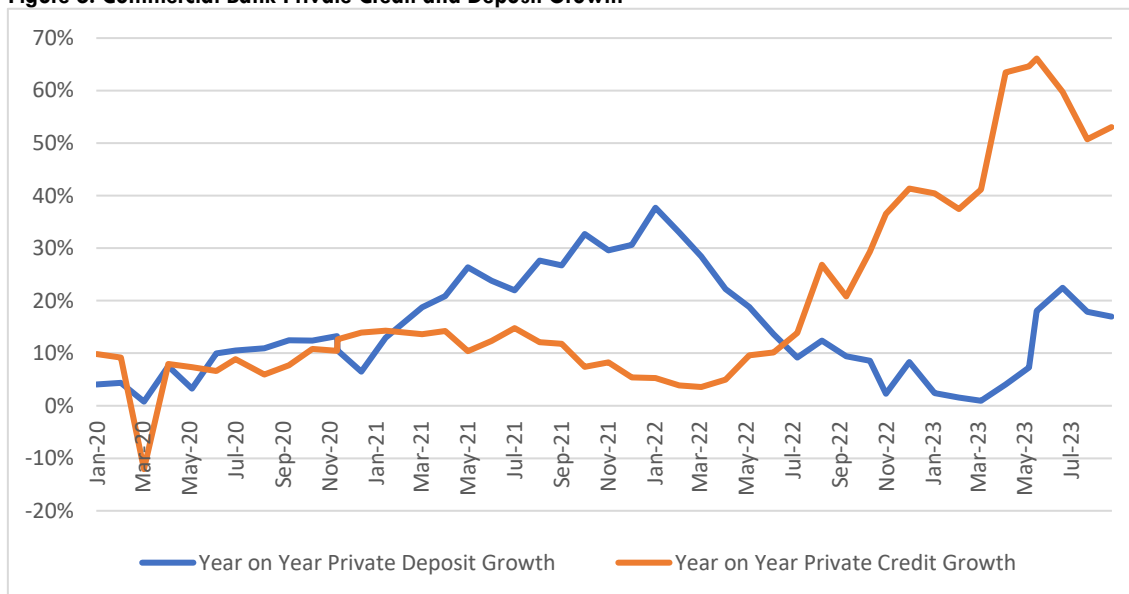
Figure 5: Commercial Interest Rates and Credit



Source: Central Bank of Timor-Leste, November 2023. Interest Rate (RHS, %), Credit (LHS, \$m), August 2023.

1.49. The chart below shows quarterly growth rates of private sector deposits and private sector credit. Both growth rates show a high degree of volatility.

Figure 6: Commercial Bank Private Credit and Deposit Growth



Source: Central Bank of Timor-Leste, November 2023.

Employment Overview

1.50. The latest available employment statistics in Timor Leste are reported in the 2022 census publication. Census data shows that the labour force participation rate was 35.9% and unemployment rate was 2.9% in 2022. The table below shows the breakdown of the labour force as reported in the census.

Table 7: Main labour force status categories and indicators, by sex

a. Categories (in thousands)

Category	Total	Male	Female
Working-age population 15+	874.0	441.6	432.4
Labour Force	313.7	185	128.7
of whom employed	304.7	180	124.8
of whom unemployed	9.0	5.1	3.9
Outside the labour force	560.3	256.6	303.7

b. Categories (in percentage)

Indicator	Total	Male	Female
Labour Force participation rate	35.9	41.9	29.8
Employment-to-population ratio	34.9	40.8	28.9
Unemployment rate	2.9	2.7	3.0

Source: Census 2022, National Statistics Institute INETL

Global Growth and Inflation

- 1.51.** As shown in the table below, global GDP growth is expected to have slowed down in 2023. The slowdown is primarily driven by reduced growth expectations among advanced economies, particularly the euro area which is reporting weaker than expected growth. Lower GDP growth is also expected among the strongest ASEAN economies, however emerging and developing Asian countries are expected to see an increased GDP growth rate in 2023.
- 1.52.** Global GDP growth is projected to decline further in 2024. Whilst emerging and developing economies are expected to see the same growth rate as 2023, the IMF projects a moderate decline for emerging and developing Asian economies. On the other hand, the strongest economies in the ASEAN bloc are anticipated to see a moderate increase in GDP growth.

Table 8: Global Growth Indicators, 2021-2024, %

Region/Country	Actual		Forecast	
	2021	2022	2023	2024
World	6.3	3.5	3.0	2.9
Advanced Economies	5.6	2.6	1.5	1.4
Emerging and Developing Economies	6.9	4.1	4.0	4.0
Emerging and Developing Asia	7.5	4.5	5.2	4.8
ASEAN-5*	4.0	5.5	4.2	4.5

Source: IMF World Economic Outlook, October 2023.

*Composed of Indonesia, Malaysia, Philippines, Thailand and Singapore

- 1.53.** Global inflation is expected to have slowed down in 2023 and a further slowdown is projected in 2024. However the projection remains high, with global inflation forecast at 6.9% by the IMF in 2023 and 5.8% in 2024.
- 1.54.** High inflation in 2022 reflected the impact of higher demand and lower supply due to the war in Ukraine and sanctions on Russia in addition to higher oil prices.
- 1.55.** The forecasted reduction in inflation in 2023 and 2024 comes as central banks around the world have raised interest rates. However global inflation rates could rise again if prolonged conflict in the Middle East leads to higher oil prices.
- 1.56.** Whilst inflation is forecasted to remain high in emerging and developing countries, it is projected to reach close to target levels in emerging and developing Asian countries and in the largest ASEAN economies.

Table 9: Global and Regional Inflation Rates, %

Region/Country	Actual		Forecast	
	2021	2022	2023	2024
World	4.7	8.7	6.9	5.8
Advanced Economies	3.1	7.3	4.6	3.0
Emerging and Developing Economies	5.9	9.8	8.5	7.8
Emerging and Developing Asia	2.2	3.8	2.6	2.7
ASEAN-5*	2.0	4.8	3.6	2.5

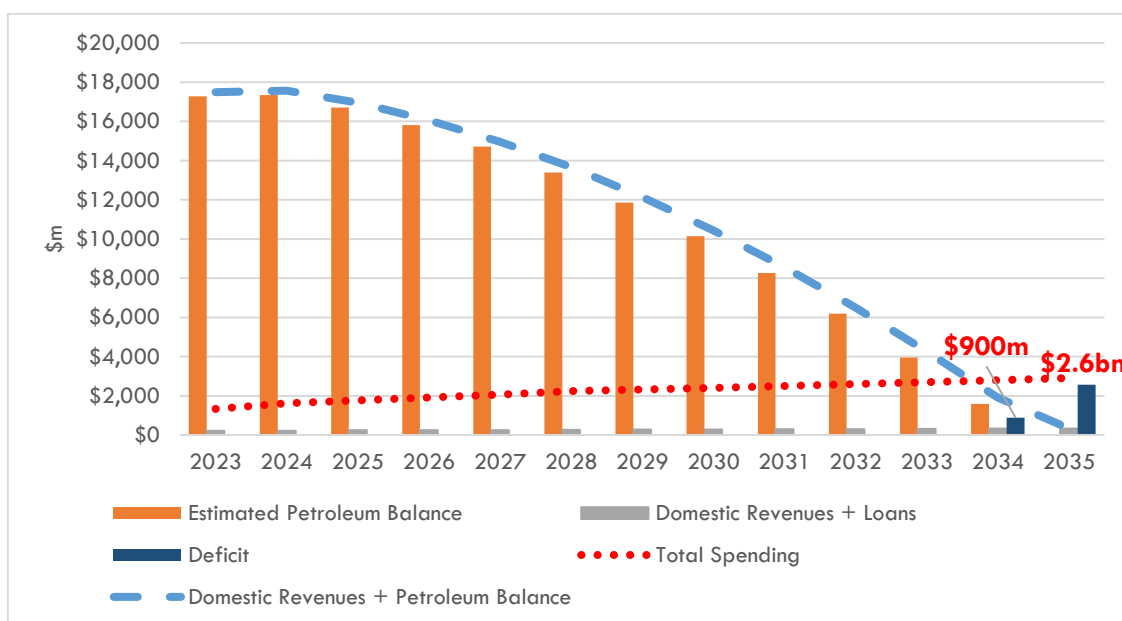
Source: IMF World Economic Outlook, October 2023.

*Composed of Indonesia, Malaysia, Philippines, Thailand and Singapore

Fiscal Sustainability Analysis

- 1.57.** In 2022 Timor-Leste had a fiscal deficit of 61% to non-oil GDP. This fiscal deficit is the difference between the government's executed expenditure and combined revenue sources of domestic revenues and Estimated Sustainable Income (ESI) from the Petroleum Fund.
- 1.58.** The fiscal deficit is projected to remain high at 49% of non-oil GDP in 2023 and 68% in 2024.
- 1.59.** Fiscal Deficits in Timor-Leste are financed by cash balances, loans, direct budgetary support from donors and excess withdrawals (above ESI) from the Petroleum Fund, with the last one contributing with the largest share.
- 1.60.** In fact over the past decade the Petroleum Fund has regularly financed over 70% of the budget. This was also the case for Rectification Budget 2023, where Petroleum Fund withdrawals financed 74% of the budget for the Central Administration. In Budget 2024, Petroleum Fund withdrawals are projected to finance 75% of the budget for the Central Administration.
- 1.61.** As such, the key focus of any Fiscal Sustainability Analysis in Timor-Leste is centred on predicting the lifespan of the Petroleum Fund. Under the current expenditure trend the Petroleum Fund is set to fully deplete by 2034.
- 1.62.** This is shown in the chart below. This estimation is based on the budget ceiling for Budget 2024. The projections also assume that government expenditure between 2025 and 2028 will be in line with the levels required to achieve the government's growth targets of 5% GDP growth. Government expenditure beyond 2028 is projected to increase in line with inflation and population growth.
- 1.63.** At the same time, the modelling is based on the assumption that no additional petroleum resources will be discovered and extracted before the fund fully depletes. Further details of the modelling is provided in the methodological annex.

Figure 7: Petroleum Fund Lifespan under current trajectory



Source: Estimates from the Directorate of National Economic Policy DNPE, Ministry of Finance

- 1.64.** If the Petroleum Fund is depleted before new petroleum revenues are discovered and extracted, there are major consequences for government expenditure and for the economy. In this scenario, at the point that the Petroleum Fund depletes, the government will not have sufficient revenues to carry out its most basic functions such as paying salaries to public sector workers, providing social security payments to the elderly, continuing payments to veterans and paying back loans.
- 1.65.** Under the 2024 Budget proposal, the Petroleum Fund will be set to deplete in 2034. In 2022 spending from the Central Administration on loan repayments, salaries, professional services, payments to veterans and social security was US\$590 million. Assuming that these obligations rise in line with population growth and long run inflation, this figure could reach US\$925 million by 2035. Under the current trend domestic revenues are expected to be around US\$300 million at that stage leading to a US\$625 million deficit in fulfilling the government’s obligations to public sector employees, elderly, veterans and international organizations.
- 1.66.** This does not include additional legal and political spending commitments such as spending and investments on health, education, social protection and key investment areas such as agriculture, tourism and infrastructure.
- 1.67.** Depleting the Petroleum Fund will also require large spending cuts that would result in a large shock to GDP. This would lead to large rises in unemployment and large falls in incomes, the provision of public services and ultimately living standards.
- 1.68.** This eventuality also has implications for the country’s ability to continue importing to the same scale and circulate currency internally. The country is currently able to sustain a dollarized economy since Petroleum Fund revenues guarantee a regular supply of US dollars. A large non-oil trade deficit is only possible with a dollarized economy because inflows of US dollars from the Petroleum Fund can replace the large outflow of dollars that are spent on imports.
- 1.69.** If a currency alternative is not in place well in advance of the point that the Petroleum Fund depletes, persistent trade deficits could spark a liquidity crisis. Without the use of Petroleum Fund inflows to finance the outflow of US Dollars from expenditure on imports, individuals and businesses could find themselves without the currency needed to finance day to day transactions.
- 1.70.** Extending the lifespan of the Petroleum Fund would allow the country to have more time to build up alternative revenue sources and prepare for implementing a new currency.

1.71. In the absence of new Petroleum revenues the government has three main options for extending the life-span of the Petroleum Fund:

- Reforms to increase domestic revenues
- Measures to reduce government expenditure
- Increasing alternative revenue sources such as loans and grants

1.72. Debt to GDP in Timor-Leste is projected to be around 17% in 2024, which means that there is some, however limited, scope for the government to increase debt financing. However, together with grants, this is an uncertain source of revenue as without the capability to issue Treasury Bills or Bonds the government must rely on loans from international financing institutions or development partners.

1.73. Further options include measures to reduce government expenditure and increase domestic revenues. Domestic revenues can be increased with new taxes or reforms to existing taxes, as well as measures to increase the tax base by achieving higher levels of economic growth.

1.74. The government has set out proposals for tax reforms through a draft of a new Tax Law. This draft proposal includes plans to implement VAT and introduce progressive income taxes. Lower bound estimates from an ADB study suggest that introducing VAT at a 10% rate could raise up to 4.5% of nominal GDP.

1.75. Ministry of Finance estimates suggest that if implemented these tax reform proposals could delay the fiscal cliff by another year under the current expenditure trend. However, combined with moderate fiscal consolidation, revenue reforms could have a greater impact. For example, a combination of limiting expenditure to US\$1.6 billion a year and introducing VAT in the next five years could see the Petroleum Fund extended to beyond 2040.

Fiscal Risks and Contingent Liabilities Statement

1.76. Fiscal risks are factors that may cause fiscal outcomes to deviate from expectations or forecasts.

1.77. Fiscal risks can arise from macroeconomic shocks or the realization of contingent liabilities - that is obligations triggered by an unexpected event or whose realization during the financial year is uncertain.

1.78. Contingent liabilities are a type of fiscal risk that involve obligations for governments to pay out but that do not arise unless a particular event occur in the future to trigger it.

1.79. In the case of Timor-Leste this can lead to excess withdrawals, depleting the Petroleum Fund, and are detrimental to fiscal sustainability and macroeconomic stability. Countries with stronger institutions can better control and manage the underlying risks so that they are less exposed to contingent liabilities being triggered.

1.80. Timor-Leste's 2019 PEFA assessment highlighted some areas for improvement surrounding Timor-Leste's Fiscal Risk Reporting and Contingent Liabilities Disclosure.

1.81. The Government is committed to improving its disclosure, analysis and management of Fiscal Risks and Contingent Liabilities.

1.82. Budget Book 1 of the draft Budget 2022 included for the first time a statement on Contingent Liabilities, and Law No. 9/2011, de 17 de agosto, Orgânica da Câmara de Contas do Tribunal Superior Administrativo, Fiscal e de Contas already required the "Disclosure of responsibilities of the state (direct & indirect) arising from assumption of liabilities namely, guarantees..." [Art 29, 1f), g)].

1.83. However, with the approval of Law 2/2022, of February 10, Budget and PFM Framework Law (LEO) it is now required for the draft budget report to present an analysis of fiscal risks and disclosure of the General Government contingent liabilities.

- 1.84.** Aside from this legal requirement, Timor-Leste has also committed to “Development of a Fiscal Risks Statement and Risk Management Strategy” within the PFM Reform Strategy 2022-2027.
- 1.85.** According to the IMF, international best practices surrounding fiscal risk and contingent liabilities management involves a more complete understanding of potential risks, steps to quantify risks and steps to mitigate or provision for risks.
- 1.86.** Below is an overview of Timor-Leste’s action plan to better manage fiscal risks and contingent liabilities, with this statement being the first step:
1. *Disclosure: outlining explicit and potential risks and commitment to manage them.*
 2. *Collect: data from LMs and SOEs on their stock of risks.*
 3. *Analysis: of concentration and correlation of risks.*
 4. *Manage, mitigation and monitor: take steps to manage existing stock of risks and prevent from increasing; provision for contingencies; monitor crystallizations or changes in risk.*

Explicit Contingent Liabilities recognised by Law or Contract

- 1.87.** Judicial litigation is an important source of contingent liabilities and the cost for the State is dependent on the outcome of the litigation that is still pending.
- 1.88.** Below are the current litigation cases against the Democratic Republic of Timor-Leste, and their maximum potential cost if the case was to be decided in favour of the claimant.
- 1.89.** Eastlog Projects Limited: Litigation case in the Hong Kong Arbitration Court related to the alleged breach of the Suai Supply Base construction contract, with a maximum liability of US\$5,305,338.08.
- 1.90.** Vinod Patel case: Judicial case in the District Court of Dili related to tax collection, with a maximum liability of about US\$106,003.36.
- 1.91.** Global Equipment Trading case: Judicial case in the District Court of Dili related to tax collection, with a maximum liability of about US\$267,432.74.
- 1.92.** Timor Corp case: Judicial case in the District Court of Dili with a maximum liability of about US\$2,371,815.36.
- 1.93.** Bolloré Logistic Timor case: Judicial case in the Appeals Court with a maximum liability of about US\$254,901.70.
- 1.94.** Ensul Engenharia case: Judicial case in the District Court of Dili with a maximum liability of about US\$1,444,617.83.
- 1.95.** The Credit guarantee system for Micro, Small and Medium Enterprises (MSME) is an initiative aimed at supporting businesses starting out, whereby a government guarantee covers up to 70% of the value of the business loan to MSME in order to encourage the development of the private sector in the country with the total guarantee of US 4 million. The Central Bank of Timor-Leste works with banks to share the risk and manage risks. The maximum size of the individual loan is \$150,000. However, this initiative is already 100% budgeted for, so it poses no additional risk if the loans were to default.
- 1.96.** *Fasilidade Garantia Crédito Suave* is a loan guarantee scheme to provide low interest loans for companies and individuals. The loans are awarded by financial institutions which contract with the Government (currently only BNCTL) to provide low interest loans that are guaranteed by the Government. The scheme had an initial budget of US\$1,379,990, but that was reinforced with an additional US\$50,000,000 by the Law No. 6/2022, *Primeira alteração ao Orçamento Geral do Estado para 2022*. However, this scheme is also 100% budgeted for, so it poses no additional risk if the loans were to default.

Public Private Partnerships (PPPs)

- 1.97.** Public-Private–Partnerships contracts can involve guarantees or indemnities on particular risk variables, where the government could be asked to compensate the private sector for loss of revenues from these risks.
- 1.98.** Up to this date there is only one PPP in operation Tibar Port, which finished construction last year. The contingent liabilities associated with Tibar Port relate to currency fluctuations, occurrence of Force Majeure or acts of God i.e. events for which no party can be held account, unforeseen political circumstances and settlements related to different termination events.

Implicit Contingent Liabilities

- 1.99.** Aside from the explicit contingent liabilities that are stated above, the Government must also consider implicit contingent liabilities. These are contingent liabilities where there isn't a legal obligation for the government to intervene. Despite this, government intervention may be necessary to protect economic welfare of citizens. Such contingent liabilities in Timor-Leste are likely to occur as a result of environmental, social or economic crisis. Any such crisis that leads to loss of livelihoods through damage, displacement or unemployment or other such economic hardships may lead to unexpected costs.
- 1.100.** These costs would arise if the government intervened through social assistance schemes and fiscal stimulus packages. Below we describe some of these contingent liabilities and explain how the government can mitigate for them.
- 1.101.** Natural Disasters are one of the main risks faced by Timor-Leste. The country is situated close to the so called "Pacific Ring of Fire", an area which has some of the most volatile earthquake and volcano activity in the world. With the onset of climate change, the country is also at increased risk of floods and cyclones.
- 1.102.** Over the past decade, the largest expenditure on environmental disasters occurred in 2021, where the government was required to spend US\$6.2 million, primarily as a result of Cyclone Seroja.
- 1.103.** External economic shocks are another source of implicit Contingent Liabilities. As demonstrated by the COVID-19 crisis, health and economic crises can also be a major source of fiscal risks in Timor-Leste. Whilst pandemics are infrequent events, as a small open economy that is heavily reliant on imports, Timor-Leste is highly exposed to economic events in other countries.
- 1.104.** Since independence the COVID-19 health crisis has inevitably been the largest external shock to hit the Timorese Economy. The crisis had the largest impact on government spending in 2021 during which the government spent US\$201 million on measures to protect citizens from the health and economic impacts of COVID-19.
- 1.105.** Political crises have also been a source of fiscal risks in recent years. Delays to budget approvals in 2017, 2018 and 2020 contributed to negative economic growth in those years. Negative economic growth can mean that there is a general fall in incomes among businesses and individuals. In the short term this leads to lower tax revenues. In the long run it slows down progress in economic diversification that is needed to help the country guarantee its long-term fiscal sustainability.
- 1.106.** Some contingent liabilities that pose major fiscal risks in other countries have a lower probability of materializing in Timor. Many developing countries are exposed to risks through volatile exchange rate movements. Since Timor-Leste uses the US Dollar, which is among the most stable currencies in the world, such risks are less likely (although not completely unforeseeable).
- 1.107.** However, it should be noted that Timor-Leste is only able to maintain a regular supply of dollars as a result of the Petroleum Fund. This means that this could materialize as a greater risk over the next decade as explained in the Fiscal Sustainability section of this report.
- 1.108.** Given the infancy of the banking system, and the fact that several of the banks that operate in Timor are State Owned Enterprises in their respective countries and are subject to foreign lenders of last

resort, there is also lower risk of a domestic financial crisis occurring in Timor-Leste as compared to other low- or middle-income countries.

- 1.109.** Similarly, the debt to GDP ratio (forecasted to be approximately 17% in 2024) remains relatively low meaning there is a low risk of a debt crisis in the medium term. A contingent liability that is unique to Timor-Leste is the risk to Petroleum Fund Revenues from volatility in financial markets. Factors that would affect the performance of the Petroleum Fund could be considered as contingent liabilities as losses in the Fund's investment portfolio could lead to the Fund depleting sooner than anticipated. As described earlier, this would mean greater exposure to fiscal risks.
- 1.110.** However, the investment horizon of the Fund has shortened given that the petroleum inflows from Bayu-Undan are ending and expenditure and withdrawals are expected to follow the current trend. Investment returns are not expected to fill the gap.
- 1.111.** To adjust for the expected depletion of the Fund, a liquidity portfolio of low-risk investments was created in 2021 to finance the withdrawals over the next three years. This provides some protection against being forced to sell equities and bonds following a loss but is less effective when withdrawals significantly exceed projections. In addition, a prolonged period of poor investment performance would further shorten the Fund's expected life. As well as financial markets, the Fund is exposed to the future of the Greater Sunrise project.
- 1.112.** In 2019, the Government decided on the Petroleum Fund lending US\$650 million to Timor Gap E.P. and its subsidiaries to finance the acquisition of participating interests in the Greater Sunrise development project. These loans are independently valued each year for the Fund's audited financial statements. The repayments of the loans are linked to Timor Gap E.P.'s revenues from the petroleum project, meaning that the Fund is exposed to the success of the development project.
- 1.113.** To guarantee that the contingency fund has enough allocation to cover any materializing fiscal risks, the new Budget and PFM Framework Law enshrined a minimum threshold for the contingency fund, which must amount to a minimum of 2% of total expenditure of the Budget and a maximum of 5% of total expenditure.
- 1.114.** For Budget 2024, a total of US\$44.9 million has been allocated for the contingency fund. This therefore fulfils the legal requirement.
- 1.115.** Aside from contingency funding, the government and State Owned Enterprises are able to draw upon cash balances in case of unexpected losses. As of 31st December 2022, cash balances are as follows:

Table 10: Cash Balances for Public Sector Entities in Timor-Leste, US\$m

Entity	Cash Balance 31 st December 2022
BNCTL	546
ANPM	333
Central Administration	207
RAEOA	162
EDTL	132
Timor GAP	79
Bee-TL	38
Tibar Port Escrow Account	9
ANATL	3
Total	1,719

Source: Available Financial Reports

- 1.116.** However, in relation to entities included in the budget, the cash balances can only be used if the expenditure is appropriate, and therefore the use of cash balances might require the approval of a rectifying budget.
- 1.117.** Major economic shocks may require the government to step in with much higher levels of economic support. If such a response requires spending levels that go beyond the contingency fund, the government can rely on withdrawals from the Petroleum Fund. However, this comes at a cost as consistent unforeseen withdrawals from the Petroleum Fund will mean that the fund depletes sooner. This also demonstrates the importance of ensuring that fiscal policy can maximize the longevity of the Petroleum Fund.
- 1.118.** Furthermore, if the Petroleum Fund depletes before domestic revenues are high enough to support contingency funding, contingent liabilities could pose greater fiscal risks.

2. Reform and Priorities

Government Priorities and Measures for 2024

- 2.1.** A central pillar of the government's five-year (2023-2028) mandate is the diversification of the economy and the enhancement of service delivery. Equitable and inclusive growth throughout all regions will also be a priority during the tenure of the IX Constitutional Government.
- 2.2.** In the pursuit of the objectives as laid out in the five-year program (2023-2028), the government continues to concentrate on three pivotal strategic areas for the fiscal year 2024¹:
 - 1) Promoting economic diversification by cultivating a favourable environment that fosters sustainable economic growth;
 - 2) Enhancing social capital investments to guarantee the present and future welfare of the Timorese people; and
 - 3) Restoring the democratic rule of law and the fundamental principles of good governance, inclusivity and fairness.
- 2.3.** Guided by these strategic imperatives, the government's vision for inclusive development aspires to nurture the holistic well-being of its citizens. It seeks to create an environment where individuals can actively engage and contribute to the nation's economic advancement. These endeavours are underpinned by the core beliefs of good governance, with a focus on combatting corruption, reducing bureaucratic hurdles, and promoting competence, professionalism, honesty, and transparency.
- 2.4.** Essentially, Budget 2024 will prioritize fundamental infrastructure development with a particular focus on enhancing the healthcare and education sectors.
- 2.5.** Additionally, it will place significant emphasis on economic growth as the central and key driver of national development. This economic revitalization will encompass various sectors, such as agriculture, fisheries, animal husbandry, tourism, and the fostering of small and medium-sized industries. The overarching goal is to systematically reduce our reliance on imported goods and products that can be manufactured domestically.
- 2.6.** The government will also continue to ensure the efficiency of public administration, which provides effective services to the people while remaining accountable to the state.
- 2.7.** A gender mainstreaming approach will also be institutionalized in the overall planning and budgeting process recognizing the differences in outcomes for all citizens, thus requiring potentially tailored approaches in key areas such as gender-based violence, the rights of Persons with Disabilities, social protection, health, and education programs. Through these strategic measures, the government aims to elevate the nation's prosperity and well-being, ensuring that progress is shared across all regions, benefiting every member of society.
- 2.8.** Furthermore, all activities being implemented in 2024 have been aligned with the Government priorities. An exercise was undertaken during the planning phase of budget 2024 to align all existing and new activities in the investment programs domain to the government five-year program.
- 2.9.** In alignment with the mandate entrusted by the Timorese people, the government is committed to undertaking the following initiatives for the first year of its tenure as stated during the Swearing-In Ceremony of the IX Constitutional Government:

¹ Source: PM's Speech at the Swearing-In Ceremony of the IX Constitutional Government

- 1) **Reform the Justice Sector:** This includes the establishment of the Supreme Court of Justice and the comprehensive training of Judges and Prosecutors.
- 2) **Revise the Strategic Development Plan 2011-2030:** This revision will focus on aligning the plan with the current needs and priorities of the country, in consultation with Civil Society. This process will take into account current national and global developments, accentuating Timor-Leste's competitive advantages in strategic sectors, thus leading to effective progress.
- 3) **Initiate the South Coast's Development:** Establishing a supply base, a refinery and a pipeline in this region of the country is a necessary investment for creating our own petroleum industry and for creating jobs for the Timorese.
- 4) **Ensure the Greater Sunrise Pipeline Reaches Timor-Leste:** As a national priority, work towards securing the Greater Sunrise pipeline for the benefit of Timor-Leste.
- 5) **Finalize Land and Maritime Boundaries with Indonesia:** Address and resolve national land and maritime boundary issues with Indonesia, strictly in accordance with international law.
- 6) **Begin the Decentralisation process:** Initiate the process of local government, including the gradual decentralization of Government functions and the establishment of Municipal Assemblies. This will be done after creating the necessary infrastructure and technical conditions.
- 7) **Establish a Commission for Coordinating Universities and Higher Education Institutes:** Create a commission dedicated to developing a collective strategy for enhanced state support and the improvement of educational quality in these institutions.
- 8) **Revise the Assistance Act for Elderly and Disabled People:** Ensure that the state recognizes and provides appropriate support to the elderly, who played a vital role in the nation's history.
- 9) **Support Timorese Arts and Culture:** Establish and provide support for a Timorese Association of Arts and Culture to promote and empower talented young individuals in various artistic and cultural fields, promoting Timorese identity on international platforms.
- 10) **Double the Number of Scholarships:** Award scholarships based on merit and national needs, with the goal of doubling the current number.
- 11) **Complete Fibre-Optic Cable Installation:** Finish the construction and installation of the Fibre-Optic Cable network to ensure high-quality internet access for every citizen across the country.
- 12) **Significantly Increase Employment:** Work towards a substantial increase in the number of employed individuals in the country including paying special attention to investment and, in this regard, foreign businesses will be very welcome, with a view to helping develop the country and create jobs for the Timorese.
- 13) **Conduct Asset Survey:** Undertake a comprehensive survey of both movable and immovable State assets, including homes and lands.
- 14) **Establish CAFE Schools:** Initiate the establishment of one CAFE school (*Centros de Aprendizagem e Formação Escolar*) in every Administrative Post.
- 15) **Complete Electrification Program:** Achieve the goal of electrifying the entire country, targeting the 20% of the population that currently lacks access to electricity.
- 16) **Create Seasonal Worker Programs:** Develop new seasonal worker programs in collaboration with friendly countries.
- 17) **Implement One-Stop Shops:** Introduce One-Stop Shop facilities in every municipality head office to facilitate access to central administration services throughout the country.

Strategic Investments for Sustainable Growth

- 2.10.** This section outlines key government initiatives for sustainable and inclusive growth and their respective budgetary implications. As shown on the table below, a comprehensive set of 32 initiatives, supported by a total budgetary allocation of US\$151 million, has been earmarked for the realization of these objectives.
- 2.11.** Within the 32 initiatives, US\$74 million has been allocated to implement initiatives contributing to the Social Inclusion, Social Protection, and Social Solidarity. Subsequently, US\$15 million has been directed towards health objectives, followed by US\$5 million for the Education and Training objectives.
- 2.12.** In the health sector, initiatives include a US\$0.3 million allocation for the creation of a Mission Unit for Combating Stunting (Decree Law no. 91/2022). This unit will be responsible for formulating and implementing the National Plan, managing public investment for policy advocacy to combat stunting. A substantial amount of US\$2.3 million has been allocated for the procurement of medical equipment, CT-Scan machines, and the establishment of an advanced operating block. Additionally, addressing shortages of doctors, health personnel, and ambulances, US\$1.8 million has been designated for recruitment, US\$5.3 million for building residences for doctors, and US\$5 million for the purchase of multifunctional ambulances, respectively.
- 2.13.** In the Education and Training sector, US\$5 million is dedicated to subsidizing private universities.
- 2.14.** In line with the government's dedication to fostering fair and inclusive growth across all regions, US\$4 million has been designated for the development of new neighbourhoods, with an additional US\$1.6 million allocated for the Municipal Integrated Development Program. Furthermore, US\$3 million has been earmarked for the establishment of a One-Stop Shop and village-level development in 13 locations. The execution of these initiatives will be overseen by the Ministry of Rural Development and Community Habitation (MDRHC) and the Ministry of State Administration (MAE), respectively.
- 2.15.** An investment of US\$1.6 million is allocated to the fisheries sector to procure improved boats and equipment for deep-sea fishing, enhancing the overall production of the fisheries sector.

Table 11: Key Strategic Initiatives with Budgetary Implications

Nu.	Subsectors	Entity	Policy Initiatives	Allocation (US\$)
1.	Health	Unit for Combating Stunting	Stunting	300,000
2.		MS/SNAEM	Purchase of multifunctional ambulances	5,000,000
3.		MS/FI	Residency for doctors in various municipalities	5,350,000
4.		MS	Recruitment of Health Personnel and Doctors	1,800,000
5.		MS	Acquisition of medical equipment, CT-Scan machines, and the setup of an operating block	2,377,133
6.	Education and Training	MESCC	Subsidies for Private Universities	5,000,000
7.	Social Inclusion, Social Protection, and Social Solidarity	PDHJ	Voice of the voiceless	1,289,370
8.		MSSI	Policy to support the elderly	73,455,685
9.				
10.	Agriculture, Livestock, Fisheries, and Forestry	MAP	Purchase of boats and nets for fishermen	1,620,000
11.	Rural Development	MDRHC	Creation of new neighborhoods	4,000,000
12.	Water and Basic Sanitation	12 Municipalities	Purchase of water tank cars	195,000

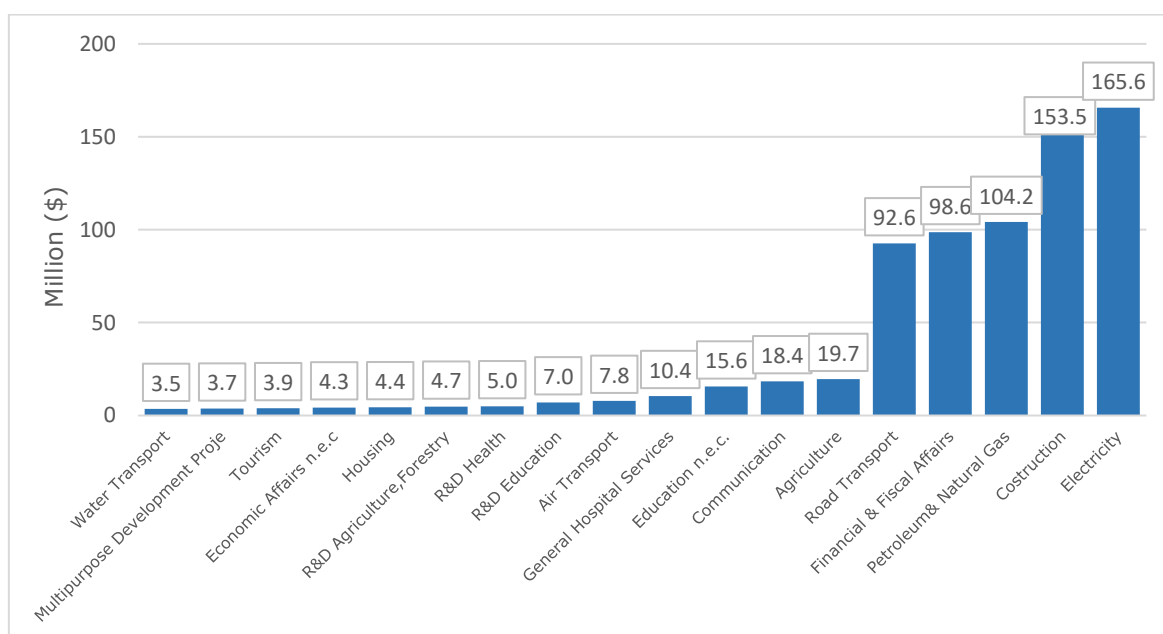
13.		Millenium Challenge Accounts of TL	Water (Wastewater), Sanitation and Drainage Program	11,000,000
14.	Justice	MoJ	Strengthening the Justice Sector	1,200,000
15.		MoJ	Purchase of servers for passport data	227,750
16.		MoJ/Land and Property	Data Server for Land (Our Land)	2,277,374
17.		PGR	Residency for Municipal prosecutor's office and defender	65,000
18.	Public Finance	MF-FI	Establishment of a Data Center for the Ministry of Finance	11,000,000
19.		MF	Standard of Living Census and dissemination of the 2022 census results	118,884
20.	Financial Sector	MF	Creation of Development Bank of Timor-Leste	162,000
21.	Defense and Security	F-FDTL	Purchase of tactical cars	288,000
22.		PNTL	Recruitment of new PNTL members (National Police of Timor-Leste)	1,288,450
23.	Decentralization	All municipalities	Recruitment of Secretary of the President, Authority, and Municipal Administrator	256,482
24.		MAE	Subsidies for local authorities or village council members	8,832,240
25.		MAE	Municipal Integrated Development Program	1,638,875
26.		MAE	Procurement of motorcycles for local chiefs and local administration in 13 municipalities (each receives 2 motorcycles)	1,986,600
27.		MAE	Establishment of a One-Stop Shop and village-level development in 13 locations	3,030,960
28.	Delimitation of Land and Maritime Borders	GPM	Land Border and Negotiation of Maritime Border with Indonesia	974,196
29.	Electoral Administration	MAE-STAE	Electoral Card Digitization for Biometrics or Biometric Voter Registration	679,487
30.	International Relations and Foreign Policy	MNEC	Establishment of a New Embassy in India and a Consulate in Northern Ireland	1,308,184
31.	Petroleum and Mineral Resources	ANM	Establishment of the National Mineral Authority	4,000,000
32.	Culture and Heritage	MoF/DGE	Cultural Exchange of Portuguese Community Influence	250,000
TOTAL				150,971,670

Source: Ministry of Finance.

2.16. Furthermore, the government is steadfast in its commitment to bolster the real economy, striving to create robust economic opportunities for the citizens of Timor-Leste. The primary focus is on fortifying local production, aiming to diminish economic reliance on imports and simultaneously fostering increased employment opportunities.

- 2.17.** To realize this overarching goal, the government has identified three pivotal areas for substantial investments within the realm of the real economy and productive infrastructure. Foremost among these is the Electricity sector, with an allocation of US\$165.6 million, reflecting the strategic importance of ensuring a reliable and accessible power supply for economic activities. Following closely is the Construction sector, earmarked for US\$153.5 million, underscoring the significance of infrastructure development in promoting economic growth. Additionally, the Petroleum and Natural Gas sector receives attention with an investment of US\$104.2 million, emphasizing the government's dedication to harnessing and optimizing these resources for sustainable economic development.
- 2.18.** Complementary to these key sectors, a noteworthy investment of US\$92.6 million is allocated to Road & Transport. This strategic allocation aimed to enhance nationwide connectivity, playing a pivotal role in fostering inclusive growth and economic development by facilitating the efficient movement of goods and people across the country. This multifaceted approach reflects the government's holistic strategy to stimulate the real economy and create a more resilient and self-sufficient economic landscape for the citizens of Timor-Leste.

Figure 8: Government spending on the real economy and productive infrastructure in 2024 by Function class



Source: Timor-Leste planning and budgeting system (Dalan Ba Futuru)

PFM Reform Strategy

- 2.19.** The process of Public Financial Management (PFM) reform effectively began in 2007 with the VI Constitutional Government.
- 2.20.** Various situation analysis were undertaken at the time that showed that the system of PFM in Timor-Leste was drastically underdeveloped in both a technical and administrative sense. It was highly centralised within the Ministry of Finance (MoF), the technology was outdated and insufficient to achieve greater transparency and accountability and there was a very heavy reliance in international advisers to undertake the most basic of tasks such as commitment and payment entry checking.
- 2.21.** Therefore, the earliest reforms were focussed around empowering the national officials within MoF to understand, own, lead and manage the necessary PFM reforms. In this regard key management reforms were undertaken that created a new Executive Management structure (the Coordinating Council of Financial Management or CCFM) that was led by, and reported regularly to, the Minister. This executive group then led the process to re-organise the Ministry of Finance, draft the new PFM Law (approved in 2009) and recommend the necessary changes to begin the process of decentralisation and de-concentration of PFM processes to the line Ministries – allowing MoF to focus on oversight,

accountability and transparency. The CCFM was then able to devise a more detailed five year set of actions and reforms for PFM which were fully incorporated within their own internal planning structures.

2.22. In terms of de-concentration, critical functions such as creation of commitments (CPVs), purchase orders (POs) and also procurement were gradually devolved to line Ministries. This involved several years of extensive training of over 400 individuals.

2.23. This was done whilst simultaneously upgrading and enhancing the incumbent Integrated Financial Management Information System (IFMIS) to allow for a far greater degree of accountability, transparency and control.

2.24. Major PFM improvements included:

- Harmonising the chart of accounts (one in budget and one in general ledger into one single COA).
- Upgrading the general ledger software to a multi-annual, multi-period web-based version with greater cash management and reporting flexibility.
- Reconciling and harmonising historical data into one data-mart and then developing a customisable set of analytical tools to enable easier and more detailed analysis.
- Introducing new multi-annual flexible budgeting software.
- Introducing new aid management software.
- Developing a range of portals to enhance transparency in terms of budgeting, procurement, results and aid (www.transparency.gov.tl).
- Completing the first bank reconciliation in several years and then introducing processes to enable regular bank reconciliation from there on in.
- Outsourcing external audit and oversight to international specialists (Deloitte).

2.25. The current PFM Reform Strategy has been constructed from more recently identified gaps identified through internal consultations with PFM practitioners in the country and in multiple PFM assessments, including the 2021 Public Expenditure Review (PER) and the 2019 Public Expenditure and Financial Accountability (PEFA) assessment. The reform strategy provides an opportunity for Timor-Leste to build a country-wide PFM framework that is comprehensive, sustainable and result oriented. Coverage and benefits from its implementation will extend to all budget entities rather than being restricted to the Ministry of Finance or with select entities.

2.26. These assessments suggest that currently in 2023 there are still many aspects of the PFM system that could be improved upon, including recent reforms undertaken in 2022 and before.

2.27. Hence the revised PFM reform strategy seeks to complement the Government of Timor-Leste's determination to strengthen Public Finance Management at all levels of government. This will ensure efficient, effective and responsible use of public resources as the basis for better service delivery in line with the Strategic Development Plan 2011-2030 (SDP), as well as with the 9th Constitutional Government's priorities. The SDP defines the long-term development objectives of the country and sets the roadmap for socioeconomic transformation of the country into middle-upper income status.

2.28. The SDP recognized PFM as a priority area with three objectives: (i) improving financial administration of the public sector; (ii) increasing accountability of public sector delivery and spending; and (iii) ensuring proper public financial reporting. The SDP also places a high priority on financial transparency to improve outcomes, promote investment and economic development and strengthen trust in the State.

- 2.29. Therefore, PFM reforms will be a key component for improving governance and accountability in Timor-Leste. The vision of the PFM reforms is to have an efficient, effective, transparent and sustainable PFM system that will deliver services to enable socio-economic transformation in line with the SDP.
- 2.30. The PFM Reform Strategy contains sets of initiatives that will improve the allocative efficiency of public spending in the social, human capital and economic growth sectors while ensuring that the effectiveness of public capital spending is achieved through a sound Public Investment Management framework.
- 2.31. The strategy is still being finalised in light of more recent reviews of the PFM systems and will eventually form a central part of the updated five year strategy of the Ministry of Finance. This Strategy will incorporate the PFM reforms as well as other elements of institutional support envisaged to enable the Ministry to meet the requirements of the programme of the IX Government.

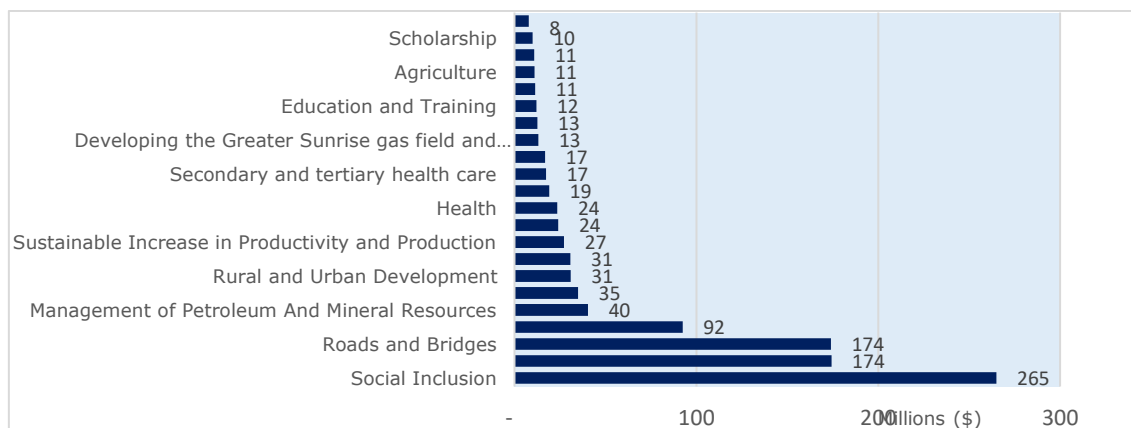
Enhancing Program Budgeting

- 2.32. Strengthening the implementation of program budgeting continues to remain part of the government's broader Public Finance Management Reform initiative.
- 2.33. The initiative encompasses explicit objectives, precise targets, and far-reaching societal outcomes associated with public services deliveries as well as vigilant monitoring and comprehensive evaluation mechanisms, ensuring continuous assessment and enhancement of the harmonious relationship between planning and budgeting.
- 2.34. The legal framework for the advancement of program-based budgeting is firmly established through Law No. 2/2022, enacted on February 10, which outlines the Framework for the State Budget and Public Financial Management (LEO). Article 11 of the LEO underscores the necessity for the State Budget to provide a detailed specification of both revenue and expenditure.
- 2.35. This specification incorporates various dimensions, including the organic classifier and economic classifier for revenue and the organic classifier, program classification, economic classifier, and functional classifier for expenditure.
- 2.36. Program-based budgeting represents a structured approach to budget formulation that bridges the allocation of appropriations in the State Budget with the programs, sub-programs, and activities defined in the annual and medium-term plans of public administrative entities.
- 2.37. Its primary objective is to group expenditures according to predefined objectives, with a strong focus on achieving tangible outcomes. For the fiscal year 2024, the budget programs are organized into three hierarchical levels:
- a) **Programs:** At the highest level, programs present overarching objectives (outcomes) aimed at producing desired results. The number of programs has increased to **80** in 2024 from 52 in 2023. This increment in the total number of programs has been rationalized and realigned with the new five-year government program (2023-2028). Each entity's program structure will consist of at least two programs; one focusing on the operational aspect of the entity, and the other on core/investment functions. The common and mandatory program across all entities is *Program 510: Institutional Operational and Development*. The core/investment program can include up to four programs. For instance, the Ministry of Education has three core/investment programs, namely, *Preschool Education, Basic Education, Secondary Education, and Recurrent Teaching program*.
 - b) **Sub-Programs:** At the intermediate level, sub-programs outline specific objectives (outputs) geared towards achieving targeted outcomes. In 2024, the total number of sub-programs in place is **556**, representing an increase from 256 sub-programs in 2023.
 - c) **Activities:** The lowest level of the program structure comprises of activities, representing a set of actions designed to directly contribute to the realization of results. In 2024, a total of **2,728** activities will be implemented, contrasting with 2,510 activities in 2023. These activities will mainly consist of three types: operational, core-routine, and investment activities. Furthermore, the core-routine and investment activities have been aligned with measures from the government's five-year program (2023-2028).

2.38. Within this framework, government entities may have two distinct types of expenditure, each necessitating a unique approach:

- 1) **Operating Expenditure:** This category pertains to expenses associated with the day-to-day operation of public services, including salaries, facilities, and consumable resources.
- 2) **Investment Expenditure:** In contrast, investment expenditure is directed towards fulfilling the core mission of public entities and benefiting citizens. It encompasses the acquisition of goods and services, execution of infrastructure projects, disbursement of subsidies, and financial investments.

Figure 9: Flagship programs to promote equitable and inclusive growth in 2024



Source: Timor-Leste planning and budgeting system (Dalan Ba Futuru)

2.39. As shown on the graph above, in the fiscal year 2024, the government has strategically directed its financial allocations to programs, placing significant emphasis on enhancing social inclusion through targeted investments. With a total budget of **US\$265 million**, constituting 13% of the state budget, these investments are designed to address key societal needs and promote inclusivity.

2.40. Simultaneously, substantial financial commitments have been allocated to bolster infrastructure development, particularly focusing on the enhancement of roads and bridges. This allocation amounts to **US\$174 million**, representing 9% of the state budget. The objective is to improve connectivity and accessibility, thereby fostering economic growth and facilitating smoother transportation across the country.

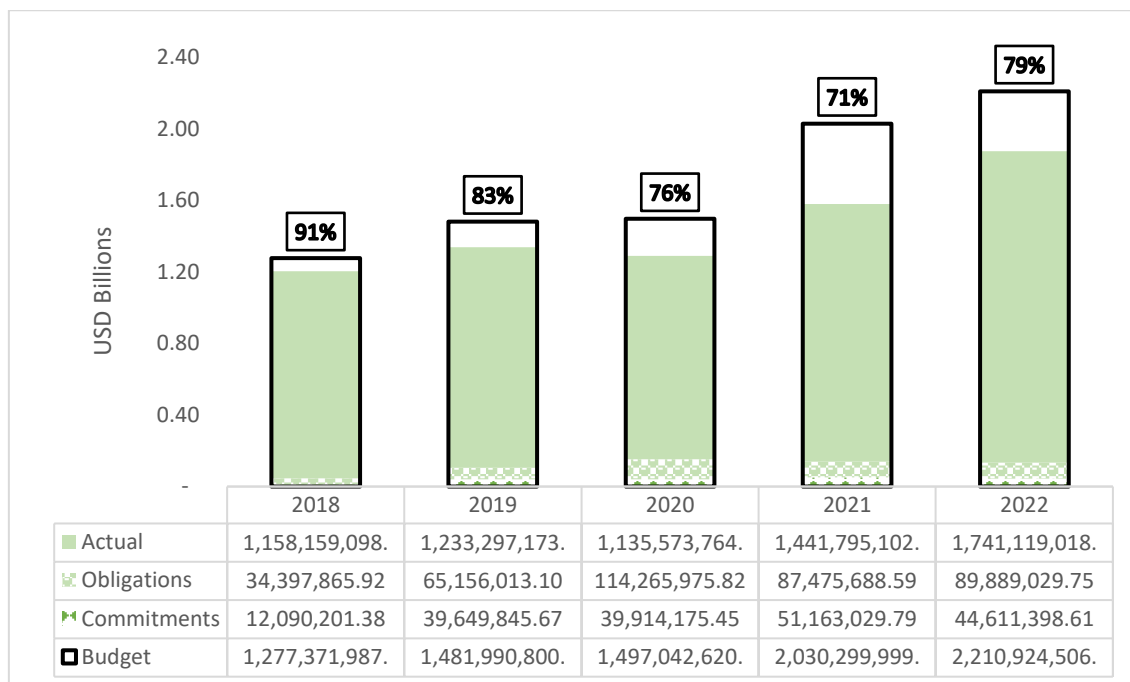
2.41. A noteworthy portion of the budget, totalling **US\$174 million** (9% of the state budget), has been specifically earmarked for the electricity sector. This allocation underscores the government's dedication to advancing the nationwide complete electrification agenda.

3. Budgetary Policy

Budget Performance

3.1. Between 2018 and 2022 the final annual budget has increased by 70 percent, passing from US\$1.3 to US\$2.2 billion. As the OGE grew, execution rates² progressively fell from 91% in 2018 down to 71% in 2021. Only in 2022 the OGE's execution rate rebounded up to 79%, partially due to the end of the Covid-19 crisis and the slow scale up of State's capacity.

Figure 10: Budget Execution



Source: Ministry of Finance

3.2. The level of obligations and commitments at the end of each budget cycle has been relatively low during the period of analysis. In 2018-2022 commitments averaged US\$37.5 million by the end of the year, while the share of unexecuted contracts³ varied between 1% and 3%. Similarly, the average end-of-year obligations equalled US\$78.2 million, with the pending payment rate⁴ oscillating between 3% and 9%. All metrics show improvement in 2022.

3.3. The highest government expenditure in the last five-year period was in 2022 at US\$1.74 billion, despite a very low execution rate of 34% in the Capital and Development category. The Covid-19 lockdown restrictions hindered the implementation of infrastructure projects, resulting in a drop of execution rates under the Capital and Development category in 2021 and 2022. Nevertheless, it is expected that in the upcoming years Capital and Development execution rates will be above the 90% again following the fade-off of the Covid-19 pandemic, the increasing awareness about the role of Capital and Development to foster economic growth, and the commitment enshrined in the IX government programme to relaunch the development of social infrastructures (for example, mental and disability rehabilitation spaces, nurseries for children and the elderly, basic infrastructure meeting accessibility standards).

² Execution rate = Cash Expenditure/Final Budget

³ Unexecuted contracts share = Commitments/(Commitments + Obligation+Cash expenditure)

⁴ Pending payments rate = Obligation/(Obligation + Cash expenditure)

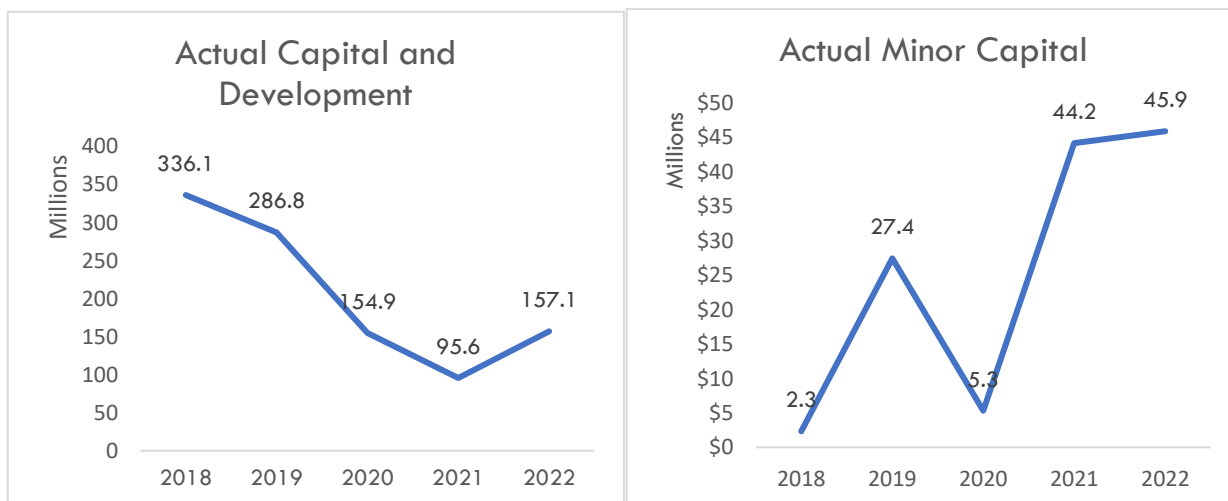
Table 12: Budget Execution by Economic Category

Economic Category	2018 Execution	2019 Execution	2020 Execution	2021 Execution	2022 Execution
Capital & Development	85%	72%	73%	24%	34%
Goods & Services	90%	82%	67%	68%	77%
Minor Capital	43%	74%	59%	65%	77%
Salary & Wages	96%	94%	97%	92%	94%
Transfers	95%	92%	79%	93%	98%

Source: Ministry of Finance

- 3.4.** The public expenditure in some categories have been less responsive to budget increases than others, explaining the differences in the trend followed by their execution rates. This is clearly related to differences in implementation capacity, the duality between automatic and discretionary expenditures, and the stringent regulation limiting expenditures in some categories.
- 3.5.** The execution rates under the Salary and Wages category stayed stable around 92% to 97% in the last five years. Public transfers also present execution rates above 90%, with the exception of 2020, and their stability can be explained because of their nature; namely, automatic payments arising from binding legal obligations. The execution rates of Good and Services and Capital and Development had decreased during the period, falling from 90% to 77% in the case of the former and from 85% to 34% in the case of the latter. Finally, the execution rate of Minor Capital had been erratic, oscillating between 43% and 77% in the period under analysis.
- 3.6.** The charts below show execution of capital expenditure, divided between expenditure on Capital and Development and expenditure on Minor Capital. Minor Capital includes expenditure on capital equipment such as furniture, vehicles and other moveable assets.

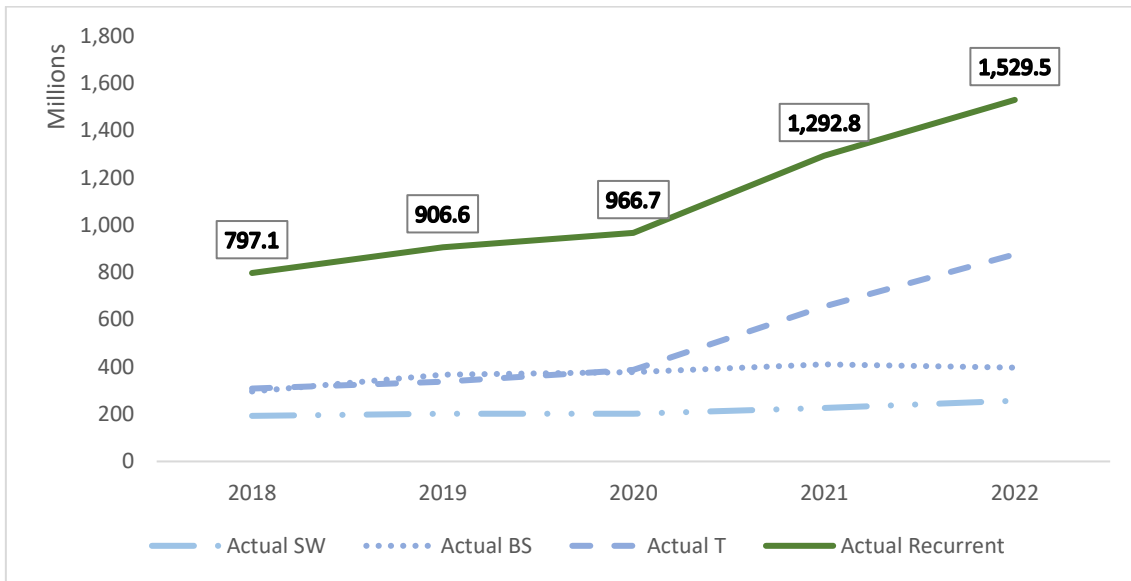
Figure 11: Capital and Minor Capital execution



Source: Ministry of Finance, September 2023

- 3.7.** The recurrent expenditure encompasses Salary and Wages, Goods and Services, and Public Transfers and its allocated budget oscillated between 69% and 85% during the period 2018-2022. In 2022, US\$1.5 billion were allocated to recurrent expenditure, almost the same level of resources that was actually spent. Indeed, before the Supreme Court declared null and void the creation of the Veteran Fund, the final recurrent budget - including amendments and reallocations – amounted to US\$2.5 billion.

Figure 12: Recurrent expenditure, 2018-2022



Sources: Ministry of Finance, September 2023

3.8. What follows is an introduction to the budget performance in 2023, presenting actual figures at 15th November and a forecast until the end of the year. On the 24th of August, the National Parliament amended the original OGE to accommodate it to the will of Timorese citizens as expressed in the elections held in May. Thus, the total OGE ceiling (including the social security reserve fund FRSS) was decreased by 9.1%, passing from US\$2,155 million to US\$1,956 million. At 15th, November, the government has committed US\$106 million, spent but still not paid⁵ US\$114 million, and actually paid US\$1,077 million. The Ministry of Finance forecasts that by the end of the year actual cash expenditure will at maximum reach US\$1,476 million.⁶

Table 13: Budget and Execution data, US\$

Approved OGE (RAEOA + Central)	Commitment	Obligation	Actual Cash	Forecasted Cash Expenditure	Final (RAEOA + Central)
1,920,000,000	105,957,464	114,629,467	1,077,169,562	1,452,400,479	1,716,762,112

Source: Ministry of Finance

3.9. Currently the execution rate is as low as 63%, although we forecast it to increase up to 85% by the end of the year. The execution assumptions are informed by a combination of historic execution patterns and an overview of pending and unexecuted contracts. The table below provides the budget and execution figures for 2023 broken down by economic classification.

⁵ Obligations are expenditure for which payments are still pending.

⁶ Estimated considering that 319 days have passed since the beginning of the year.

Table 14: Budget and Execution data, US\$m

Economic Category	Original OJE 23	Commitment	Obligation	Actual Cash Expenditure	Forecasted Cash Expenditure	Rectification Budget	Actual Execution Rate	Forecasted Execution Rate
Salary and Wages	444	1	2	339	431	449	76%	96%
Goods and Services	426	27	48	149	239	374	40%	64%
Minor Capital	56	19	20	12	52	52	24%	100%
Capital Development	333	30	32	87	155	267	32%	58%
Public Transfers	661	30	14	499	576	576	87%	100%
Total	1,920	106	115	1,087	1,452	1,717	63%	85%

Source: Ministry of Finance

3.10. In 2023, there is a transition from the eighth government to the ninth government. This transition also includes adjustments to policies and government expenditures. The change is commonly accompanied by a realignment of budgetary policies to conform to the structure and objectives outlined in the government's five-year plan.

3.11. In 2023 the implementation of budgets occurred under two governments during two distinct periods: January 1 to June 30 for the eighth government and July 1 to October 31 for the ninth government.

3.12. The table below describes the expenditures of both governments during the transitional period:

Table 15: Comparing Execution between the 8th and 9th Transitional Governments, US\$m

	Original Budget 2023	Rectified Budget 2023	Execution 1 Jan - 30 June	Execution 1 July - 31 Oct	Total Execution 1 Jan - 31 Oct	% Execution 1 Jan - 30 June	% Execution 1 July - 31 Oct	% Total Execution 1 Jan - 31 Oct
Salary & Wages	443.61	448.74	194.04	143.98	338.02	44%	32%	75%
Goods & Services	425.62	373.77	71.45	69.32	140.77	17%	19%	33%
Minor Capital	56.39	51.78	1.93	9.65	11.58	3%	19%	21%
Capital & Development	333.32	266.74	24.29	56.73	81.02	7%	21%	24%
Transfer	661.06	575.75	268.94	208.44	477.39	41%	36%	72%
Total	1,920.00	1,716.76	560.66	488.11	1,048.77	29%	28%	55%

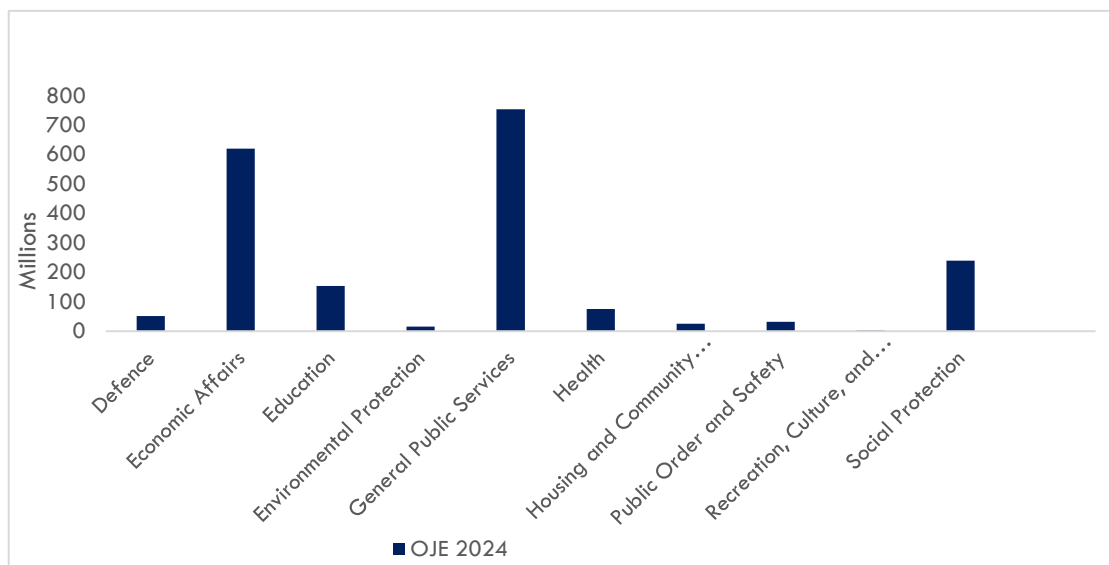
Source: Ministry of Finance

Budget Strategy for 2024

3.13. In alignment with the international Classification of the Functions of Government (COFOG) framework developed by the OECD, the first-level COFOG data for the 2024 budget of Timor-Leste reveals the three largest allocations as follows: General Public Services account for the largest share at 38%, followed by Economic Affairs with 31%, and Social Protection with 12%.

3.14. This distribution signifies the government's prioritization of critical functions, including administrative services, economic development initiatives, and social welfare programs, in its budgetary allocations for the fiscal year 2024.

Figure 13: Budget 2024 by COFOG



Source: Timor-Leste planning and budgeting system (Dalan Ba Futuru)

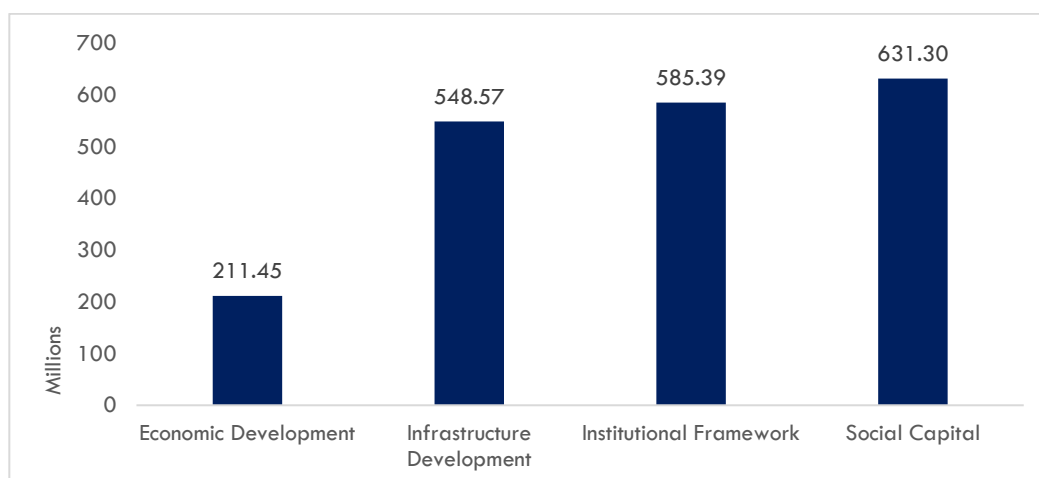
3.15. Furthermore, as per the Strategic Development Plan (SDP) classification, the Social Capital sector claims the largest share with 31%, underlining the government's commitment to investing in social welfare, education, and healthcare.

3.16. Following closely is the Institutional Framework sector, allocated 29%, emphasizing the importance placed on strengthening governance structures and institutions.

3.17. In the 2024 budget, the Infrastructure Development sector secures a significant allocation of 27%, reflecting a substantial investment in building and enhancing essential physical structures.

3.18. Finally, the Economic Development sector receives a 10% allocation, indicating a targeted effort to stimulate economic growth and development initiatives.

Figure 14: Budget 2024 by Strategic Development Plan



Source: Timor-Leste planning and budgeting system (Dalan Ba Futuru)

Municipality Allocation

- 3.19.** In the municipalities, there are increases and decreases in the budget for the year 2024 compared to the 2023 original and rectified budget. In 2024, there is a reduction of 26% in the municipality budget compared to 2023, and a 7% decrease compared to the rectified budget.
- 3.20.** Dili municipal saw the most significant increase, with a rise of 48%, followed by Bobonaro municipal at 38%, Lautem district at 31%, Liquica municipal at 30%, Covalima municipal at 26%, Baucau municipal at 25%, and Ermera and Manatuto municipals at 19%.
- 3.21.** There are also reductions in the budget for several municipalities, namely a 52% decrease for RAEOA, an 11% decrease for Ainaro municipality, a 7% decrease for Atauro municipality, a 5% decrease for Aileu municipality, and a 3% decrease for Viqueque municipal.

Table 16: Budget Allocation by Municipal Authority, US\$

Municipal Authority	2023 Original Budget	2023 Rectification Budget	Budget 2024	% Change (2023 Rectify vs 2024)	% Change (2023 vs 2024)
Autoridade Municipal de Baucau	7,564,824	7,564,824	9,456,741	25%	25%
Autoridade Municipal de Bobonaro	6,733,806	6,737,419	9,270,244	38%	38%
Autoridade Municipal de Dili	10,231,640	13,777,314	15,169,783	10%	48%
Autoridade Municipal de Ermera	7,417,275	7,420,888	8,828,787	19%	19%
Administração Municipal de Aileu	4,509,206	4,509,206	4,305,506	-5%	-5%
Administração Municipal de Ainaro	4,894,112	4,898,470	4,354,025	-11%	-11%
Administração Municipal de Atauro	2,257,645	2,257,645	2,102,571	-7%	-7%
Fundo Especial de Desenvolvimento Atauro	13,400,000	3,400,000	2,723,605	-20%	-80%
Administração Municipal de Covalima	5,738,515	5,738,515	7,256,651	26%	26%
Administração Municipal de Lautém	5,826,107	5,826,107	7,628,912	31%	31%
Administração Municipal de Liquiçá	4,942,552	4,948,728	6,401,407	29%	30%
Administração Municipal de Manatuto	5,727,621	5,731,979	6,808,247	19%	19%
Administração Municipal de Manufahi	5,167,358	5,187,556	6,401,792	23%	24%
Administração Municipal de Viqueque	6,925,794	6,925,794	6,701,423	-3%	-3%
Autoridade RAEOA ZEESM	84,000,000	53,262,112	40,000,000	-25%	-52%
FED - RAEOA	36,000,000	30,500,000	20,000,000	-34%	-44%
Total	211,336,455	168,686,555	157,409,694	-7%	-26%

Source: Ministry of Finance

- 3.22.** Municipal expenditures have reached 61% of the total rectified budget and 48% of the original 2023 budget as of November 17, 2023.

Specific and permanent budgetary policy measures

3.23. Ensuring better sustainability of public finances requires caution when deciding on the adoption of new budgetary policy measures. Therefore, it is important to differentiate between new temporary and permanent budgetary policy measures.

3.24. In particular, the expansion of permanent budgetary policies, as a result of political decisions, can deplete the available resources to respond to shocks and unforeseen needs in the future. This is especially applicable to a country with significant exposure to natural disasters like Timor-Leste, which is still building the foundations of its economy and public administration system.

3.25. The 2024 General State Budget has been formulated to pool resources and ensure the adequate financing required for the implementation of all permanent budgetary policies during the year. Among the most important policy measures falling under the permanent category:

- Personnel costs for the Public Administration for Central Government and RAEOA: US\$468.2 million
- Ensuring social protection for veterans: US\$99.7 million
- Contingency Reserve: US\$44.9 million
- School feeding program (Merenda Escolar): US\$22.2 million
- Subsidy for community leadership and suco administration: US\$13.6 million
- Human Capital Development Fund: US\$16.4 million
- Annual subsidy to the Episcopal Conference: US\$15 million
- Mother-Conditional Scholarship Program: US\$6.6 million
- Stunting Program: US\$0.3 million
- Support for non-Catholic religions: US\$7.2 million
- Scholarships for Children of Combatants and Martyrs of National Liberation: US\$1.1 million
- Support for social integration and rehabilitation of persons with disabilities: US\$1.4 million

3.26. Some subsidies granted by the government to public enterprises, despite being discretionary in nature, may persist over time as they are necessary to finance the operational costs of these companies. However, if these enterprises achieve financial sustainability, the government may consider reducing or eliminating these subsidies in the future. Subsidies to public enterprises include:

- Subsidy to EDTL: US\$148.4 million
- Subsidy to TIMOR GAP: US\$18 million
- Subsidy to BTL: US\$6 million
- Subsidy to RTTL: US\$2.3 million
- Establishment and Operationalization of the Murak-Rai Company of Timor-Leste: US\$4.5 million

3.27. Other activities funded by the General State Budget for 2024 are of a transient nature, representing one-time expenses that do not burden future budgets. Those with the most significant impact on the General State Budget for 2024 include:

- Standard of living research: US\$1.2 million
- Dissemination of Census 2022 results: US\$0.91 million

Budget Transparency and Accountability

3.28. The budgetary markers for the year 2024 represent a significant leap forward in the Government's commitment to good governance, transparency, and responsible fiscal management, as well as addressing crucial crosscutting issues that shape the nation's development.

3.29. These markers serve as essential tools to not only track and measure progress but also to hold the government accountable for its promises and objectives. By incorporating these four distinct markers into the 2024 budget proposal, the Government demonstrates its dedication to a multifaceted approach that spans gender equality, social inclusion, nutrition, and climate action.

3.30. Each marker is designed to shed light on specific areas of Government expenditure and priorities, ensuring that resources are allocated in alignment with the nation's core values and aspirations.

a) Gender Marker

3.31. To systematically monitor the allocation of the State Budget dedicated to advancing gender equality and fulfilling commitments to rectify existing disparities, the Government has introduced a Gender Marker within the budget and planning system.

3.32. Throughout the preparatory phase of the General State Budget, it is mandatory for all Government entities to conduct gender analysis as an integral part of Gender Responsive Budgeting when formulating their programs, subprograms, and activities.

3.33. In order to determine the appropriate classification of a subprogram using the Gender Marker, government entities are expected to assess the degree to which the gender perspective is integrated. This assessment involves an analysis of the subprogram's contextual relevance to its associated activities, the anticipated outputs, and the corresponding budget allocation.

3.34. The Gender Marker serves as an obligatory tool, and it is incumbent upon all Line Ministries (LMs) and Autonomous Agencies (AAs) to incorporate it into their Annual Action Plans, applying it rigorously at the subprogram level. It is imperative that subprograms are not left unmarked in terms of their gender classification.

3.35. The aforementioned Gender Marker comprises three distinct markers, each designed to facilitate a comprehensive evaluation of the gender responsiveness of budget allocations and their alignment with the government's commitment to promoting gender equality and reducing disparities.

3.36. These markers play a vital role in ensuring that gender considerations are integrated effectively throughout the budgeting and planning processes:

Nu.	Marker	Definition
1	Principal (P)	The principal expected result of the subprogram is to reduce gender inequalities. The subprogram would not have been undertaken without this gender equality and social inclusion objective.
2	Significant (S)	Gender equality and social inclusion aspect is an important and deliberate expected result, but not the principal reason for undertaking the subprogram. The subprogram, in addition to other expected results, is designed to have a positive impact on inclusivity and advancing gender equality and/or the empowerment of women and girls (gender mainstreaming). For a subprogram to be considered "Significant" by the Gender Marker, there must be at least one of the criteria below: <ul style="list-style-type: none"> • There is at least one activity focused on gender issues in the subprogram; • At least one of the outputs is indicated the expected result to achieve equality between men and women;

		<ul style="list-style-type: none"> Objectives, baselines, targets, and performance indicators are clearly defined to address gender inequalities, and data are disaggregated by sex.
3	Not-Targeted (NT)	The subprogram does not intend to reduce gender inequalities nor address the needs and concerns of vulnerable and marginalized groups.

3.37. The table below demonstrates the 2024 General State Budget distribution by Gender Marker.

Table 17: Distribution of State Budget by Gender Marker

Gender Marker	Allocation (US\$)
Principal (P)	11,349,136.00
Significant (S)	214,176,220.00
Total	225,525,356.00

Source: Timor-Leste planning and budgeting system (Dalan Ba Futuru)

3.38. As indicated above, a total of US\$11.3 million has been distributed to subprograms classified as “Principal” in the application of the Gender Marker, whereas US\$214.2 million has been allocated for subprograms considered as “Significant” (gender mainstreaming strategy) in the application of the Gender Marker. (see Informative Elements for lists of activities and implementing entities identified for the gender marker)

3.39. Notably, of the US\$11.3 million, substantial funds have been earmarked for the implementation of three key national gender policies. The National Action Plan against Gender-Based Violence receives allocation of US\$213,219, emphasizing the government’s dedication to combatting gender-based violence. Alongside this, the National Action Plan on Women, Peace, and Security is allocated US\$207,138, reflecting a commitment to promoting the active participation of women in peacebuilding and security initiatives. Additionally, the government has allocated US\$40,480 to address women’s economic empowerment issues, as outlined in the Maubisse Declaration.

3.40. The adoption of gender-responsive budgeting extends beyond the implementation of a specific social inclusion program (Program 980) and encompasses all public policies funded through the General State Budget, incorporating gender tagging at the sub-program level.

3.41. Nevertheless, there remains room for improvement, as a considerable portion of state funding does not currently consider gender perspectives. It is crucial to note that gender equality is a primary or significant goal in numerous activities across all government programs. This is particularly noteworthy in functions with a strong social component, such as social protection, education, sports, nutrition and health, as well as water and sanitation.

b) Nutritional Budget Tagging

3.42. The government is firmly committed to the institutionalization nutritional budget tagging (NBT) within the framework of its planning and budgeting system.

3.43. The primary objective of NBT is to systematically identify, categorize, and designate expenditures related to nutrition within the public finance management system.

3.44. This initiative enables the estimation, ongoing monitoring, and meticulous tracking of vital nutritional expenditures across various government entities. Moreover, it facilitates a comprehensive analysis of the allocation composition within the state budget, specifically targeting interventions aimed at eradicating malnutrition within the population.

3.45. The incorporation of Nutritional Budget Tagging for the fiscal year 2024 planning and budgeting cycle will involve two distinct categories of tagging, implemented at the activity level:

Nu.	Marker	Definition
1	Nutrition-Specific interventions (NE)	This category applies to activities that address the immediate causes of malnutrition and deficiencies in the physiological development of the population, such as those that provide for the provision of vitamin A supplements, deworming, or dietary diversification among pregnant mothers.
2	Nutrition-Sensitive interventions (NS)	This category refers to activities that address the underlying causes of malnutrition such as improving agriculture and food security, social protection, early childhood development and education, sanitation and water hygiene, etc.

3.46. In the year 2024, the application of nutritional budget markers will persist across seven key Government entities serving as implementing partners for the the National Action Plan for Food Security and Nutrition (CNAP FNS 2022). These entities, namely the Ministry of Health (MS), Ministry of Education (ME), Ministry of Social Solidarity and Inclusion (MSSI), Ministry of Agriculture and Fisheries (MAP), Ministry of Commerce and Industry (MCI), Ministry of Public Works (MOP), and the Secretary of State for Equality and Inclusion (SEII), play crucial roles in leading initiatives to address malnutrition.

3.47. Moreover, the annual plans of the Unit for Combating Stunting, in conjunction with the efforts of 13 municipalities and RAEOA, underline the collective commitment to combating malnutrition at various levels. (see Informative Elements for lists of activities and implementing entities identified for the nutritional budget marker)

3.48. As part of the Annual Action Plan for 2024, these entities are mandated to undertake a comprehensive analysis, planning, and budgeting process for nutrition-related interventions. They are required to clearly categorize each activity as either nutrition-specific (NE) or nutrition-sensitive (NS).

3.49. This crucial step underscores the government's commitment to address malnutrition, particularly focusing on combating stunting in Timor-Leste. It is an integral component of the broader development agenda, highlighting the government's dedication to enhancing the well-being and nutritional health of the population as a fundamental aspect of overall national progress.

3.50. The table presented below outlines the distribution of the 2024 General State Budget categorized by Nutritional Marker. Specifically, an allocation of US\$0.49 million is directed towards initiatives that directly address the immediate causes of malnutrition and deficiencies in physiological development among the population. Additionally, a substantial portion of US\$46 million has been allocated to activities aimed at bolstering agriculture and food security, enhancing social protection, supporting early childhood development and education, and implementing initiatives focused on sanitation and water hygiene.

3.51. Within the dedicated US\$0.49 million funds, a focused allocation is designated for pivotal initiatives, including maternal and neonatal health, immunization and child health, along with the implementation of a feeding program tailored for pregnant women and children (0-12 years).

3.52. Simultaneously, a significant share of the US\$46 million are directed towards critical activities. These include advocacy efforts for disseminating information on best practices in food safety and nutrition, improvements to the school feeding program, the continuation of the Mother's Grant (Bolsa da Mãe) program, promotion of fish consumption for dietary improvement, and the construction, maintenance, and repair of drinking water supply systems.

Table 18: Distribution of State Budget by Nutritional Marker

Nutritional Marker	Allocation (US\$)
Nutrition-Specific interventions (NE)	491,540
Nutrition-Sensitive interventions (NS)	46,471,256
Total	46,962,796

Source: Timor-Leste planning and budgeting system (Dalan Ba Futuru)

c) Child Marker

3.53. To facilitate the effective identification and ongoing monitoring of budgeted activities aimed at promoting and safeguarding the rights of children, a child marker has been integrated into the Government's online planning, monitoring, and evaluation system, known as Dalan Ba Futuru Timor-Leste (DBFT).

3.54. This integration is a fundamental component of the overarching public financial management framework, signifying the government's resolute commitment to prioritizing the welfare and rights of children within its fiscal policies.

3.55. This significant initiative encompasses all government entities that receive allocations from the General State Budget, offering transparency and accountability by clearly defining which activities, along with their corresponding budget allocations, are specifically tailored to address the rights of children spanning the age group of 0 to 18 years.

3.56. The Child Marker comprises three distinct categories, each designed to assess the extent of emphasis placed on the realization of children's rights, with application at the activity level. These categories serve as a reliable guidepost for ensuring that budgetary resources are effectively allocated to advance the well-being and rights of children:

Nu.	Marker	Definition
1	Specific (E)	This category applies to activities that specifically aim to address children's rights (survival, development, protection, and participation).
2	Extended (A)	The 'Extended (A)' category applies to activities that provide goods and services that directly benefit people, including children.
3	Indirect (I)	This category refers to activities that only have an indirect contribution to children's development and well-being.

d) Climate Budget Tagging

3.57. The government remains committed to introduce the Climate Budget Tagging (CBT) system within the public finance management framework. This strategic move aims to ensure the nation's readiness in addressing and mitigating the complex impacts of climate change effectively.

3.58. The CBT serves as a vital instrument for systematically identifying, categorizing, evaluating, and marking budgetary allocations related to climate change mitigation and nature conservation within the government's financial system.

3.59. This initiative not only facilitates the estimation, monitoring, and meticulous tracking of climate-related expenditures but also fosters transparency and accountability in these critical areas.

3.60. Within the CBT framework, two distinct Climate Budget Markers are integrated in the government's planning and budgeting system for the year 2024, and applied at the activity level:

Nu.	Marker	Definition
1	Highly Relevant (H)	This category applies to activities with a clear primary objective of producing specific results that improve climate resilience or contribute to climate change mitigation and the sustainable use of natural resources. Examples are expenditures aimed at reducing the risk of natural disasters, supporting the energy transition, preventing the over-exploitation of fisheries resources, etc.
2	Relevant Medium (M)	This category applies to activities with secondary objectives related to building climate resilience or contributing to climate change mitigation and sustainable use of natural resources. An example is the irrigation extension activities that, despite being implemented to improve livelihoods, also result in greater protection against droughts.

3.61. In 2024, Climate Budget Tagging is expanding its application from the original three government entities (Ministry of Public Works, Ministry of Tourism and Environment, and Ministry of Agriculture and Fisheries) to include all the Administration and Authorities of Municipalities.

3.62. As part of the meticulous planning process for the Annual Action Plan of 2024, these entities are mandated to undertake a comprehensive analysis of their activities. This analysis will distinguish the extent to which their respective activities align with climate resilience, assessing whether they effectively correspond to the challenges posed by climate change.

3.63. This proactive approach underscores the government's unwavering dedication to climate adaptation and mitigation, ensuring that Timor-Leste is well-prepared to address the pressing climate challenges.

4. Revenue and Financing

Domestic Revenue

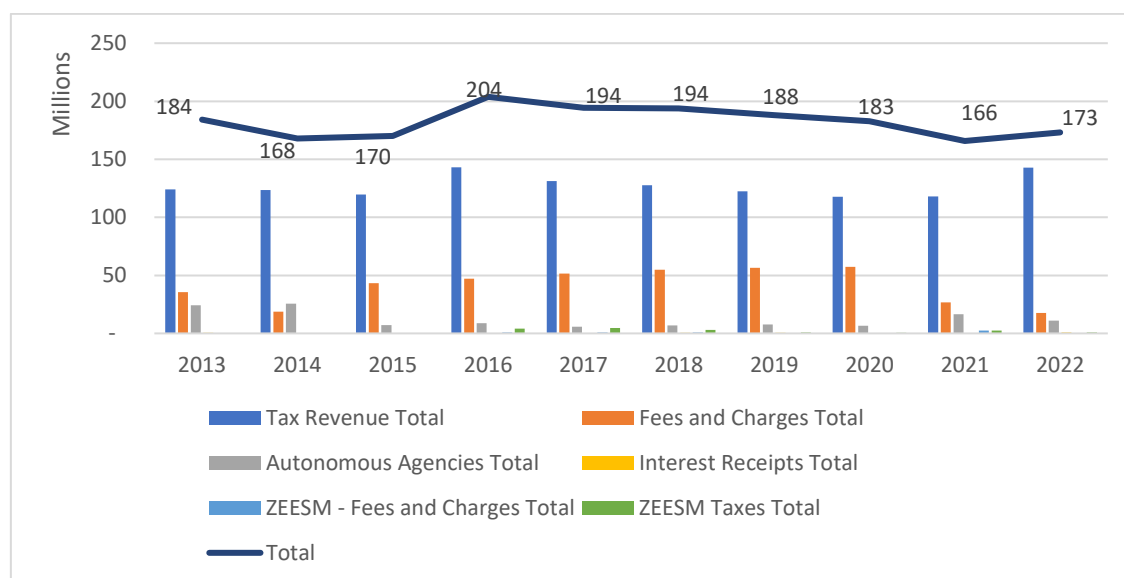
4.1. Domestic revenues in Timor-Leste comprise of the following:

- Tax Revenues collected by the Central Government
- Fees and Charges collected by the Central Government
- Revenue From Autonomous Agencies
- Tax Revenues collected by RAEOA (and transferred to the Central Government)
- Fees and Charges that are collected by and retained by RAEOA

4.2. Over the past decade, domestic revenues have not followed a consistent growth pattern. They fell slightly from US\$184 million to US\$170 million between 2013 and 2015 and rose by US\$ 34 million in 2016. 2016 is the year where domestic revenues reached their peak at US\$204 million. The increase was contributed mainly by three big items in tax revenue including excise tax, withholding tax and corporate tax. They then declined moderately from 2017 to 2021. Revenues declined in 2021 due to the combined effect of the pandemic and the fact that water and electricity companies (Be'e TL and EDTL) became public entities. Revenues saw their lowest point during the pandemic at US\$166 million in 2021.

4.3. As the economy recovered after the pandemic, the country was able to collect in 2022 US\$7 million more in domestic revenues than the previous year. The biggest contribution to this increase was due to a substantial increase in tax revenue which mainly came from excise tax, sales tax, and corporate tax. The increase in excise taxes was a result of the government's decision to introduce higher duties on Tobacco and Alcohol.

Figure 15: Domestic Revenues Central Administration and RAEOA (US m), 2013-2022



Source: National Directorate of Economic Policy, Ministry of Finance, September 2023.

4.4. Domestic revenues are predicted to rise to US\$182 million in 2023 based on the latest available information from line ministries. Forecasts from 2024 to 2028 are provided in the

chart below. The main driver of higher domestic revenues this year is a higher than anticipated increase in Fees and Charges.

Table 19: Domestic Revenue Projections 2023-2028, US\$m

	2022 Actual	Proj 2023	Proj 2024	Proj 2025	Proj 2026	Proj 2027	Proj 2028
Total Domestic Revenue	173	182	195	203	213	223	234
<i>Zeesm Fees and Charges*</i>	0	2	2	2	2	3	3
Total Domestic Revenue (Central Administration)	173	180	192	201	211	221	232
Taxes (excluding ZEEMS)	143	146	157	165	173	181	191
<i>ZEESM Taxes*</i>	1	0	0	0	1	1	1
Fees and Charges	18	24	25	25	26	27	29
Interest	1	1	1	1	1	1	1
Autonomous Agencies	11	8	9	10	10	10	11

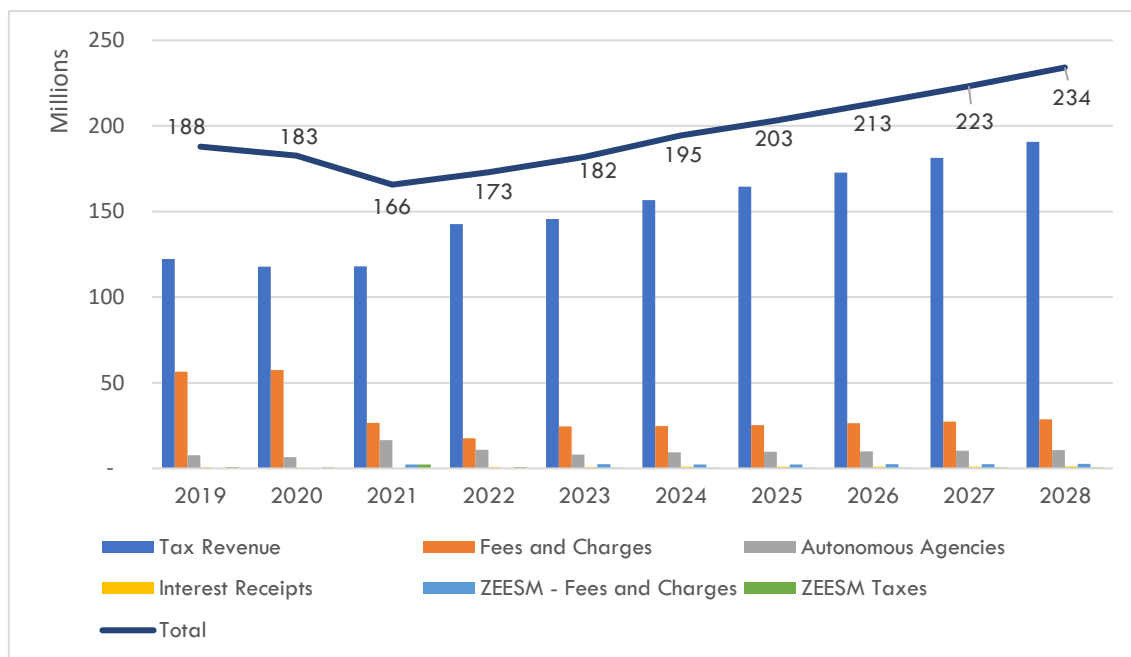
*0's appear due to rounding and represent values lower than 500,000. Source: Directorate of National Economic Policy, Ministry of Finance

- 4.5.** Tax revenues for the Central Administration are also projected to rise in 2023 to US\$145.7 million, up from a collection of US\$142.7 million in 2022.
- 4.6.** This is driven by expected rises of around 31% and 93% in sales tax and import duties respectively. The increase in sales taxes is reflective of higher imports in 2023, as sales taxes are collected at the border. Meanwhile, higher import duties are also explained by the fact that import duties were doubled from 2.5% to 5% as part of the original Budget 2023 (this was later reversed in August with Rectification Budget 2023).
- 4.7.** The increase in tax revenues in 2023 is partially offset by a combination of moderate falls in Withholding and Corporate tax collection, and a US\$11 million reduction in expected collections of excise duties. Excise duties are projected to have fallen this year, despite the introduction of a sugar tax (US\$1 per kilo of sugar) and taxes on sugary drinks (US 3 per litre) as well as a US\$50 per kilo rise in tobacco taxes in the original Budget 2023. This is because information from the customs authority suggests there was a large decrease in tobacco duties this year in spite of higher taxes. This suggests that smokers either reduced their consumption or switched to illegal cigarettes in response to the higher taxes.
- 4.8.** Indeed, anecdotal evidence collected by the Directorate of National Economic Policy suggests that the price of legal cigarettes rose above the price of several illegal brands as a result of the higher excise taxes.
- 4.9.** In the Rectification Budget, parliament voted to reduce tobacco taxes back to US\$50 per kilo. It is expected that this could result in a moderate fall in tobacco tax collections in the remaining months of 2023 as importers may need time to adjust down their prices, until which smokers could continue to prefer illegal cigarette brands. It is anticipated that tobacco tax revenues will increase significantly in 2024 due to the decision taken by parliament during the Rectification Budget.
- 4.10.** Import duties are projected to decline in 2024 due to the decision to reverse the import duty rise in the original Budget 2023 (which saw import duties increase from 2.5% to 5.0%). However, due to expected increases in imports with higher government expenditure in the years to come, import duties and sales taxes (which are also charged only imports) are expected to see steady increases from 2025 to 2028.

4.11. As a result tax collections are expected to rise to US\$157 million in 2024 and see steady increases of around 5% a year beyond then. Tax revenues could reduce if Timor-Leste joins the ASEAN economic group in the next few years as at that point import duties and sales taxes on imports from ASEAN member states will have to be removed.

4.12. Information from Autonomous Agencies suggests a moderate decrease in revenues this year from US\$10.9 million in 2022 to US\$8.1 million in 2023. Revenues from Autonomous Agencies are projected to increase to US\$9.4 million in 2024, largely driven by anticipated increases to port revenues collected by APORTIL. Autonomous Agency revenues are projected to see moderate increases of around 3% a year between 2025 and 2028.

Figure 16: Domestic Revenues (Central + RAEOA) Actual and Forecasts, 2019-2028



Source: National Directorate of Economic Policy, Ministry of Finance, September 2023.

4.13. The forecasts do not consider any potential changes that might arise from adopting the draft Tax and Duties Act (yet to be presented to parliament). These include the potential adoption of VAT and the progressive income taxes.

Petroleum Fund

4.14. The Government's General State Budget is largely financed from the Petroleum Fund. The amount withdrawn is divided between the Estimated Sustainable Income (ESI) amount and any excess withdrawal that is justified by the Government to be in the long-term interests of Timor-Leste.

4.15. Calculating the ESI requires projecting the Fund's value at the beginning of the budget year, along with the present value of future petroleum revenue.

Table 20: Estimates for the Petroleum Fund, US\$m

Item	Value
Beginning balance of the Petroleum Fund in 2023	17,273.0
Estimated petroleum revenue in 2023	441.2
Estimated investment income in 2023	845.3
Estimated government withdrawals in 2023	-1,208.2
Estimated ending balance in 2023/ beginning balance in 2024	17,351.3
Estimated net present value of future petroleum revenue in 2024	51.8
Estimated Petroleum Wealth 2024	17,403.1
2024 ESI (3% of Petroleum Wealth)	522.1
Withdrawals in excess of the ESI	855.5
Budgeted withdrawals in 2024	1,377.5*

Note: * Values may not sum due to rounding.

Source: Petroleum Fund Policy and Management Office, Ministry of Finance, October 2023.

4.16. The beginning balance for the Fund in 2023 is US\$17,273.0 million.

4.17. For 2023, petroleum revenue is estimated to be US\$441.2 million, most of which has already been received. This was much higher than the projections in the Budget 2023 because of higher oil and gas prices and it also includes payment of petroleum revenues from FY 2022 that were transferred to the Fund in FY 2023.

4.18. The Fund's investment return is estimated to be 5.01% in 2023, which translates to an annual income of US\$845.3 million. This takes into account the actual investment return until September and the expected returns from the Fund's portfolios for the remainder of the year. Note that the actual outcome depends on the market movement in quarter 4. In 2022, the Fund registered a negative annual investment income of US\$2,050.4 million (-10.36%) as both equity and bonds fell in value when central banks sharply raised interest rates to curb persistently high inflation.

4.19. If the full US\$ 1,208.2 million in the Rectification Budget 2023 is withdrawn in 2023, the Petroleum Fund is projected to end the year at US\$17,351.3 million. Equities and bonds will need to be sold in 2024 to top-up the balance of the liquidity portfolio to cover the total of withdrawal projections for 2024 to 2026.

4.20. The Bayu-Undan field is expected to end production this year so petroleum revenue beyond 2023 is limited to a present value of US\$51.8 million (the estimated petroleum revenue is US\$52.9 million in 2024).

4.21. Therefore, total Petroleum Wealth is estimated to be US 17,403.1 million on 1 January 2024, resulting in an ESI for 2024 of US\$522.1 million. This is US 51.2 million higher than the projection in the 2023 Budget.

4.22. Estimated Petroleum Wealth increased in 2024 relative to 2023 as a result of higher-than-expected actual inflows, while the withdrawals were lower. However, the Fund value is expected to continue to decline in the future due to no inflows, volatile investment returns, and withdrawal will still be above the ESI level.

4.23. Withdrawals to fund the 2024 Budget are projected to be US\$1,377.5 million or 7.9% of Petroleum Wealth at the beginning of the year, exceeding the 2024 ESI by US\$855.5 million.

4.24. Excess withdrawals are in line with the Government's frontloading policy, as these withdrawals are being used to finance core infrastructure and human capital, which is necessary for long-term growth.

4.25. The Informative Elements of the Budget Proposal describe the key information about the Petroleum Fund and provides detailed information on the ESI calculation and the underlying assumptions.

Loans and PPP

Loans

4.26. The Government currently still depends on foreign loans to meet its borrowing needs. As established in the Strategic Development Plan 2011-2030 and regulated by public debt regime law No.13/2011, the primary objective of taking concessional loans should be related to the construction of strategic infrastructure for the development of the country.

Table 21: Terms of Loans

Lender	Currency	Approved loan US m	Grace Period (year)	Initial Amortization (year)	Year Complete	Interest rate FY 2021
ADB	US, SDR	615.65	5.3	20	2044	1.30%
WB	US, SDR	295.20	8	20	2060	2.69%
JICA	JPY	68.72	10	20	2042	0.60%
AIFFP	US	45.00	10	40	2062	1.23%
Total		1,024.57				

Source: Ministry of Finance, September 2023

4.27. These are loans that have a considerable degree of concessionality and compare favourably to the opportunity cost of withdrawing funds from the petroleum fund. A key advantage is that the financial cost of borrowing (1.45 %) is currently lower than the return on the Fund's Investments. Therefore borrowing can help delay the depletion of the Petroleum Fund.

Table 22: Cost of borrowing vs PF return

Description	2015	2016	2017	2018	2019	2020	2021	2022
Cost of borrowing (effective rate)	1.02%	1.42%	1.68%	2.06%	2.34%	2.03%	1.50%	1.45%

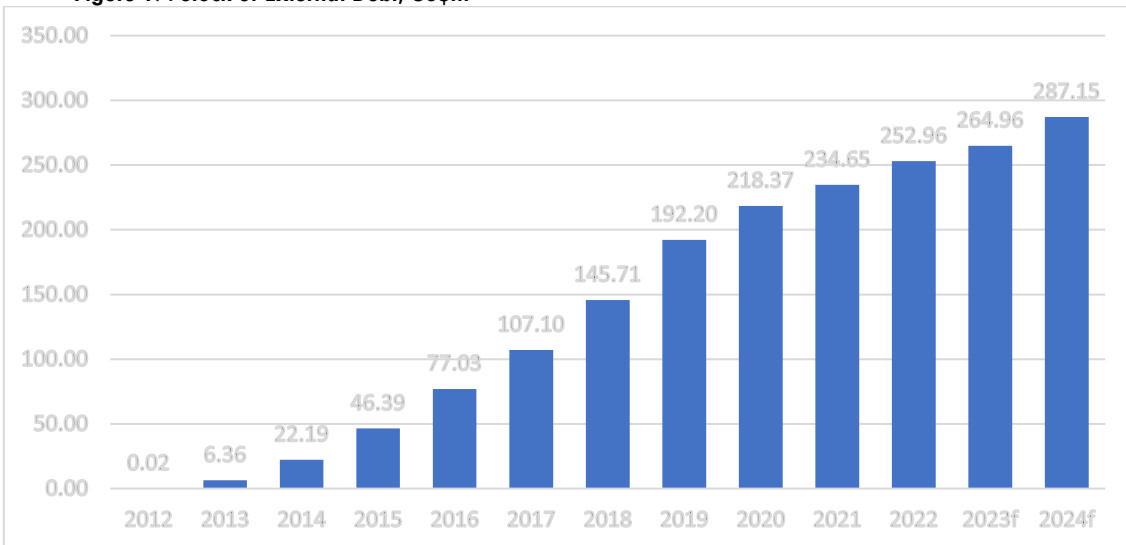
Description	2015	2016	2017	2018	2019	2020	2021	2022
PF historical return (annual since inception)	3.82%	3.84%	4.36%	3.82%	4.45%	4.81%	4.90%	3.95%

Source: Ministry of Finance, September 2023

4.28. The management of public debt plays a critical role in determining the sustainability of fiscal policy. Due to a poor macro-fiscal outlook, TL's debt carrying capacity is now rated lower than the previous year by the IMF article IV mission in 2022. The IMF revised down the rating from medium to weak, leading to lower debt burden thresholds. Similarly, external debt distress was also increased from low to moderate.

4.29. As end of the fiscal year, the stock of external debt increased to US\$252.97 million in 2022 from US\$234.66 million at the end of 2021. The 8% increase is attributable to the total new disbursement of US\$12.5 million from multilateral and bilateral institutions including ADB, WB and JICA for ongoing and new projects. Interest and other fee related payments increased from US\$3.40 million in 2021 to US\$3.96 million as at end of 2022, as projects' execution are increased. This amount is relatively small compared to the amount the government currently owes to these lenders.

Figure 17: Stock of External Debt, US\$m



Source: Ministry of Finance, September 2023

4.30. Disbursement in 2023 is not going to increase by a significant amount as most projects have been completed. A modest loan disbursement of US\$25 million is expected in 2024, leading to an estimated total debt stock of US\$287.15 million by the end of 2024.

4.31. The country's debt ratios have marginally increased over the last five years. Despite this, total public debt remained sustainable over the year reflecting the Government's prudent management of the debt.

Table 23: External Debt Indicators for the period 2018-2023, % of GDP and Revenue

	2019	2020	2021	2022	2023f	2024f
Total External Debt to GDP	11.4%	13.8%	15.0%	15.1%	16.6%	16.5%
Total Debt Service to Revenue	1.00%	1.07%	1.38%	2.26%	3.72%	3.59%
Memorandum items:						
Total external debt	192	218	235	253	265	287
Debt Service	7.2	7.8	9.8	16.4	25.0	25.7
GDP (nominal) m	1683	1581	1560	1672	1595	1747
Revenue (ESI + domestic revenue) m	717	727	714	727	672	717

Source: Ministry of Finance, September 2023.

4.32. External Debt to GDP - The size of external debt to GDP during the period was relatively small when compared to the debt burden threshold and benchmarks as established under the debt sustainability frameworks for low income countries. While the ratio has consistently increased from 11% in 2019 to 15% in 2022, the values are far below the 30% threshold. This marginal increase was due to an increase in disbursement and a downward trend in GDP growth. While there was a slight recovery between 2018 and 2019, the percentage increase in external debt was still higher than GDP growth, leading to a higher external debt to GDP ratio.

4.33. Debt Service to Revenue – The debt service to revenue ratio is expected to increase from 1.07% in 2020 to 3.59% in 2024. This was primarily due to an increase in debt service payments. Principal repayment started in September 2017. Despite the increase, this percentage of debt service to revenue is still well-under the 14% threshold.

4.34. Debt Service Forecast – Annual debt service is calculated on each loan to cover the repayments.

Table 24: Debt Service Forecasts, US\$m

Lender	Debt Service	2022	2023f	2024f	2025f	2026f	2027f
ADB	Principal	8.84	10.22	9.84	11.22	11.33	11.45
	Interest	3.38	8.72	9.02	7.10	7.08	6.90
	Charges	0.10	0.60	0.30	0.25	0.10	0.50
WB	Principal	2.19	2.74	2.74	2.74	2.74	2.74
	Interest	1.19	1.92	1.87	1.35	1.30	1.33
	Charges	0.10	1.09	1.2	1.11	1.12	0.55
JICA	Principal	2.34	1.49	1.49	1.49	1.49	1.49
	Interest	0.29	0.18	0.20	0.17	0.16	0.15
	Charges	0.01	0.00	-	-	-	-

Source: Ministry of Finance, September 2023.

4.35. The Government of Timor-Leste is considering the option of early debt repayments as a key component of its fiscal policy for the year 2024. This strategic move aims to further enhance the country's economic stability and investor confidence. Early debt repayments offer several benefits to the economy of Timor-Leste. Firstly, it ensures economic stability by reducing the reliance on external financing and minimizing the risk of default. This display of fiscal responsibility is likely to instill confidence among domestic and international investors, leading to increased private investment opportunities and growth prospects for the country. Secondly, early debt repayments allow Timor-Leste to take advantage of prolonged high market interest rates by saving significant interest expenses over the long term. This translates into a more favorable debt profile, ultimately contributing to sustainable economic development.

In line with these considerations, the Government has proactively notified key lending agencies, namely the Japan International Cooperation Agency (JICA), the World Bank, and the Asian Development Bank (ADB), about its plans to accelerate debt repayments. In response, it has been affirmed that there are currently six loan agreements that are eligible for early debt repayments.

Public Private Partnerships

4.36. In general terms, the Public Private Partnership (PPP) refers to long term arrangements in which the private sector build infrastructure assets and provides services that traditionally have been provided by the State. Ownership of the infrastructure asset remains in the hand of the Government and the private sector needs to transfer it back in good condition at the end of the contract.

4.37. Currently, one PPP project is in **Implementation and Operation Stage** (Tibar Bay Port PPP) while others are in the **Feasibility Stage** (Affordable Housing, Cristo Rei, Dili Port PPP and Presidente Nicolau Lobato International Airport. Several of these are on-hold or have been discontinued pending review. The Medical Diagnostics PPP, previously in the **Procurement and Negotiation Stage** is also on hold pending review. The latest status of these projects are reported below).

4.38. The PPP modality chosen for Tibar Bay Port was a 30-year concession, including the design, partial financing, construction, operation and maintenance of the port infrastructure. The project was awarded to a consortium comprised by Bolloré Africa Logistics and SDV East Timor through an international competitive bidding which formed Timor Port SA as Concessionaire.

4.39. The concession agreement was signed on 3rd June 2016 between the GoTL and TPSA and the 30-year concession includes a three year construction period which started on 30 August 2018. The construction

period itself was concluded on 29 April 2023 with issuance of Completion Certificate from Independent Engineer to Tibar Bay Port Project. The remaining works are Bluezone Construction and Import Scanner.

- 4.40.** The Services Commencement date fell on 30th September 2022 (early commencement). Since then up to 31st July 2023, 127 vessels have called at Tibar Bay Port and the revenue share for GoTL amounted to US\$973,575.33.
- 4.41.** The aim of the Medicals diagnostic project is to upgrade the infrastructure and improve the delivery of health diagnostic services in the entire public healthcare system with private sector participation.
- 4.42.** The Ministry of Finance decided in July and August 2023 to put this project on hold as it has been in the PPP Portfolio for more than 8 years. Discontinuation of the project was approved at CAFI's meeting on 23 October 2023. Therefore the current 2024 Budget contains only termination fees under the Infrastructure Fund, and no concession fee payments was budgeted.
- 4.43.** With the signing of Financial Advisory Service Agreement (FASA) between the Government and IFC in December 2020, the Affordable Housing PPP is now undergoing the Feasibility Study and Transaction Structuring phase. As of March 2021, a kick off meeting was conducted with IFC and its consultants. In April 2021, the Prime Minister signed the dispatch for the creation of Inter-Ministerial Working Group (IMWG) to take on land and property acquisition for the project. The IMWG is overseen by an Inter-Ministerial Commission (IMC) which is chaired by the Minister of Planning and Territory.
- 4.44.** Affordable housing under a PPP model has been proven to be successful in several countries. Under a PPP modality, the Government is usually responsible for the provision of land and trunk infrastructure while a private developer takes the responsibilities of the design, finance and construction of the housing project. For this project, the Government has selected a 20 hectare government owned land in Suco Hera, about 14km east of Dili. The developer will be responsible for design, finance, construction and sale of housing units and certain O&M obligations pertaining to utility infrastructure on site and maintenance of common areas. Different site layouts and density options have been assessed and the Ministry of Public Works endorsed a site layout that comprises 1,024 units (664 single story family homes and 360 G+2 apartments). On the other hand, IFC recommends a lower number of units at 715 solely single family homes under a more fiscally sustainable model. Target beneficiaries for the project are households with formal employment and incomes in the range of US 400 to US\$600 per month. The project was authorized to proceed to the next steps by CAFI during a meeting on 23 October 2023.
- 4.45.** During the Budget Review Commission (BRC) meeting on 3 August 2023 for the preparation of the 2023 rectification budget, the Government decided to not continue with the Cristo Rei PPP project, and this decision was formalised by CAFI when it met on 23 October 2023. No fiscal impacts is foreseen from this cancellation as the studies were financed through grant allocation.
- 4.46.** During the preparation of 2024 budget, the government decided to discontinue the Dili Port PPP project through a CAFI decision during an October meeting attended by all CAFI members. As a result, no new allocation has been put in the budget table for FY 2024 onward. There are no financial implications due to the use of grant to finance the studies.
- 4.47.** The President Nicolau Lobato International Airport is the primary gateway to Timor-Leste with regular connections to Darwin, Denpasar and Singapore. Due to its short runway length and width, however, the airport is currently limited in its infrastructures and capability to accommodate larger aircrafts. The Government is committed to develop the Airport in all aspects and comply with International Civil Aviation Organization requirements for safety and service standards. The project is on-hold for a final decision by the Government. A provisional budget for FY 2024 has been prepared as reflected in the table below.
- 4.48.** New initiatives will be prepared technically with relevant line ministries, in this case the Ministry of Tourism and Environment.
- 4.49.** The following table contains actual government expenditure for 2019 to 2022, estimated expenditure for 2023, proposed general budget allocation for 2024 and estimated budget allocation for 2025 onward for PPP projects.

Table 25: Actual Expenditure (2019 – 2022), Estimated Expenditure (2023), Allocation (2024) and Estimated Allocation (2025-2026), US m

	2019 Actual	2020 Actual	2021 Actual	2022 Actual	2023 Est.	2024 Est.	2025 Est.	2026 Est.
Combined Sources Budget (DTG + IF)	0.52	0.44	1.17	7.54	10.36	25.20	21.82	22.61
Dotação Todo Governo (DTG)								
PMU Cristo Rei Project (to be cancelled)			0	0	0	0	0	0
PMU Dili Airport Project			0.65	1.93	1.85	1.88	1.88	1.88
Medical Diag. – Service Payment (to be cancelled)			0	0	0	0	0	0
PMU Affordable Housing					0	0.18	0.18	0.18
PMU Dili Port (to be cancelled)						0	0	0
Port Commission for TBP						0.4	0.4	0.32
SUB TOTAL	0	0	0.65	1.93	1.85	2.46	2.46	2.38
Infrastructure Fund (IF)								
TBP PPP								
PT FASA								
IE payment	0.32	0.32	0.43	0.3	0.57			
Roundabout - Resettlement					0.2	0.2		
SUB TOTAL	0.32	0.32	0.43	0.3	0.77	0.2	0	0
Medical Diagnostic PPP								
FS FASA & PT FASA*	0.2	0	0.09	0.48	0.66	0.33	0	0
IM* payment				0.3	0	0	0	0
SUB TOTAL	0.2	0	0.09	0.78	0.66	0.33	0	0
Affordable Housing PPP								
FS FASA & PT FASA*		0.12	0	0	0.17	1.4		
Resettlement – Site Clearance						2		
Construction (VGF, Infra., E&S cost)						4	6	6
SUB TOTAL	0	0.12	0	0	0.17	7.4	6	6

	2019 Actual	2020 Actual	2021 Actual	2022 Actual	2023 Est.	2024 Est.	2025 Est.	2026 Est.
Tourism PPP								
Tourism and relevant infrastructure [PPP – preparatory works, design and studies, TSR and preparation of tender documents]		0	0	0	0	0	0	0
Tourism and relevant infrastructure [PPP – preparatory works – land and property acquisition/site clearance].		0	0	0	0	0	0	0
Tourism and relevant infrastructure [Cristo Rei PPP Capex]		0	0	0	0	0	0	0
SUB TOTAL	0	0	0	0	0	0	0	0
President Nicolau Lobato International Airport Hybrid PPP **								
AIFF-Australia Loan				0	0	0	0	3.47
Counterpart funding to ADB Loan (Civil works runway, apron, control tower, taxiway etc.)				0	1.15	3.3	2.64	4.00
Counterpart funding to DFAT				0	0.25	1	0	3.5
Parallel/Co-financing with JICA				0	0.25	3.56	3.5	3.47
FASA (IFC) FS & TSR				0.67	0.90	0.47	0	0
LACSP				3.87	3.20	8.5	0	0
Sudy, design and construction - VIP Terminal				0	0.25	1.25	1.8	1.8
PMC				0	0.63	1.26	1.5	2.2
Electricity Sub-Station				0	0.25	0.75	0.75	0.5
Demolition				0	0.04	0.3	0.29	0.29
Recurrent Cost - counterpartida emprestimo ADB				0	0	0.7	0.7	0.7
SUB TOTAL	0	0	0	4.53	6.91	21.09	11.18	16.46
Dili Port PPP								

	2019 Actual	2020 Actual	2021 Actual	2022 Actual	2023 Est.	2024 Est.	2025 Est.	2026 Est.
Restructuring and commercialization of Dili Port [PPP – preparatory works – design and studies, TSR and preparation of tender documents]			0	0	0	0	0	0
Restructuring and commercialization of Dili Port [PPP – preparatory works - land and property acquisition/site clearance]			0	0	0	0	0	0
Dili Port PPP – Restructuring and commercialization of Dili Port – Capex.			0	0	0	0	0	0
SUB TOTAL	0	0	0	0	0	0	0	0
New Initiatives								
Estudu preparativus (Pre-FS)			0	0	0	0.00	0.44	0.56
SUB TOTAL	0	0	0	0	0	0.11	0.44	0.56

* FS = feasibility study, FASA = financial advisory service agreement, PT = post transaction, IE = independent engineer, IM = independent monitoring, TSR = transaction structuring report, LACSP = land acquisition and compensation support plan.

**For PNLIA, this budget proposal is subject to decision of the Government on the continuation or discontinuation of the referred project.

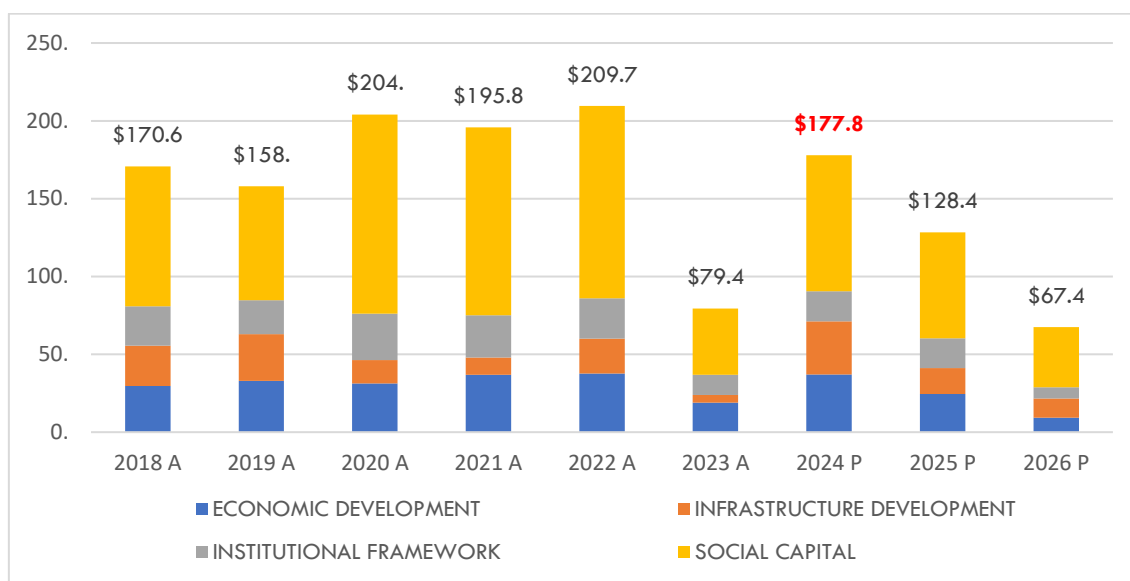
Source: Ministry of Finance

Development Partners

Non-Lending Forecasts

4.50. The chart below shows a steep increase in funding from 2019 to 2020. This reflects the increase in assistance as a result of the COVID-19 pandemic. 2024 Planned disbursements are currently reported as US\$177.8 million. 2024 will see an adherence to the trend of donor assistance supporting the social capital pillar (49.0%), which contains education and training and health.

Figure 18: 2018-2026 Non-lending Donor Disbursements, Millions



Source: Aid Transparency Portal, report generated on 25 October 2023. The data does not include Direct Budget Support figures.

- 4.51.** In addition we see an increase in the infrastructure pillar, which reflects the upcoming investment in the “Project for the Improvement of Presidente Nicolau Lobato International Airport.”
- 4.52.** In addition, forward year estimates show a sharp decline in development partner non-lending assistance, however, two important points should be noted: (i) historically, development partner multi-year indicative future spending tends to be underreported; (ii) the Aid Transparency Portal collects information at the project level, meaning that if funds have not yet been committed to a project they will not be included in the analysis.

Table 26: Planned Development Partner Disbursements by Fund Source for 2024, US\$

GROUP	2024 Planned
Australia	53,069,769
Japan	35,456,058
United Nations	22,370,629
United States	11,206,913
Korea	10,504,770
World Bank Group	10,257,768
New Zealand	9,162,296
Green Climate Fund	7,133,431
European Union	5,825,864
The Global Fund to Fight AIDS, Tuberculosis and Malaria	5,198,202
Asian Development Bank Group	4,957,300
Portugal	2,561,685

GROUP	2024 Planned
Global Environment Facility Trust Fund	117,882
TOTALS	177,822,566

*Figures do not include Budget Support and Direct Budget Support to be provided by the EU and Australia (see below).

Source: Ministry of Finance.

Budget Support

4.53. Timor-Leste has previously received direct budget support from the European Union, the Government of Australia and the International Labour Organization (one-off support in 2020). DBS is considered as financing for 2024 State Budget because it uses Government systems (the money is into Treasury) and on-budget, where the funding is used directly by the beneficiary ministries.

Table 27: Donor Budget Support 2024, US\$

Donor Budget Support	Government program	Amount
Australia	Bolsa de Mae Jerasaun Foun	6,935,250
	PNDS	4,695,660
	Labour Mobility Program	890,240
Australia total		12,521,150
European Union ¹	Decentralization	2,700,00
Total		15,221,150

¹ This figure reflects the potential EUR 2.5 million that will be released to Government following the evaluation of attainment of Key Performance Indicators. The figure has been converted to US for comparability.

Source: Ministry of Finance.

European Union

4.54. The total amount of DBS that the EU has committed for 2024 General State Budget, provided all Key Performance Indicators are achieved as agreed, is Euro 2.5m to support the Ministry of State Administration in its efforts towards continuing the government's Decentralization program.

4.55. However, the disbursement of the budget support is subject to the fulfilment of certain conditions assessed by independent evaluators that are contracted by the EU. The disbursement for a variable tranche, for example, depends on the attainment of specific Key Performance Indicators (KPIs) agreed upon by the Ministry of State Administration and the EU.

Government of Australia

4.56. In 2021, the Government of Australia committed to US\$8.2 million in Budget Support to be allocated over the next two years. The funding is linked to the National Village Development Program (PNDS) and the expansion of the Bolsa Da Mae social assistance programme to include pregnant women and

early childhood (Bolsa Da Mae Jersaun Foun) as approved in the Council of Ministers in February 2021.

- 4.57. The PNDS investment will focus on funding new community investment programmes, particularly those focused on improved sanitation, draining and irrigation channels and local road rehabilitation.
- 4.58. The Bolsa Da Mae Jersaun Foun investment will concentrate on directly funding cash transfers as well as supporting the operational costs of the programme delivery.
- 4.59. Most recently, the Government of Australia has committed to expand their budget support program towards funding a Labour Mobility activity within SEFOPE's work program. In 2024 the Government of Timor-Leste will make use of US\$6.9 million in Budget Support provided to the Bolsa de Mae program, US\$4.7 million provided to PNDS, and US\$0.9 million towards Labour Mobility.

Cash Balances

- 4.60. The total actual revenue of the General State Budget for 2022 was US\$2,105.1 million, comprising domestic revenues of US\$205.6 million, transfers from the Petroleum Fund of US\$1,404.0 million, end of year balance (from the Treasury and RAEOA) of US\$454.2 million, and loans of US\$29.5 million.
- 4.61. During the year ending on December 31, 2022, a total of US\$1,404.0 million was transferred from the Petroleum Fund in order to cover the operational needs of the Government. This represents 90% of the transfer forecasted for the year 2022 (US\$1,552.6 million) and is US\$849.9 million above the ESI.
- 4.62. After accounting for 2022 expenses and other equity adjustments, the total cash balance available, both in the Treasury Account and RAEOA-ZEESM, amounted to US\$50.5 million) at the end of 2022.
- 4.63. The Cash Balance held in Treasury and RAEOA as at December 31, 2022, is indicated below.

Table 28: Central Government and RAEOA cash balance in the end of 2022, US\$m

Account	Value
FCTL	94.535
FI	51.672
FDCH	-
Fundo COVID-19	13.518
Autonomous Agencies	31.290
Municipalities	3.112
FEDA	13.027
Total Central Government	207.154
RAEOA	162.384
Total Central Government + RAEOA	369.538

Source: Directorate General of Treasury, Ministry of Finance, September 2022

- 4.64. By the end of October 2023, the total domestic revenue collected and deposited in the Consolidated Fund of Timor-Leste (FCTL) and other accounts of the Central Bank of Timor-Leste was US\$190.6 million. This is 5% more than the total estimate for the year 2023 (US\$180.7 million).

Table 29: Central Government and RAEOA cash balance in 31 October 2023, US\$m

Account	Value
FCTL	59.506
FI	58.321
FDCH	3.405
Fundo COVID-19	8.034
Autonomous entities (which includes 11 LMs with Financial Autonomy)	146.788
Special Development Fund of Atauro	2.731
Municipalities	19.098
Total Central Government	297.884
Cash Balance of RAEOA with Central Bank	5.868
Cash Balance of RAEOA with Commercial Banks	113.801
Grand Total	417.553

Source: Directorate General of Treasury, Ministry of Finance, November 2023

- 4.65.** As of October 31, 2023, a total of US\$790.0 million (65% of the total allowable transfers in 2023 of US\$1,208.2 million) had been transferred from the Petroleum fund to the Treasury account to cover the budget execution needs of the state.
- 4.66.** Subtracting total expenditure from the revenue derived from Petroleum Fund transfers, the end of year cash balance, external loans and domestic revenue, results in a total cash balance of US\$303.8 million at the end of October 2023. This amount does not include cash balance of RAEOA in Commercial Banks.
- 4.67.** Treasury predicts a total reconciled cash balance for Central Administration of US\$220.0 million and RAEOA of US\$78.0 million by 31 December 2023.

Financing

- 4.68.** The table below provides the financing sources for the Central Administration and RAEOA for Budget 2024 and projections for financing in future years. The total expenditure projected in future years is in line with the expenditure levels required to achieve the government's growth target. A proposed allocation for this expenditure is available in the Macroeconomic Overview section of the document.

Table 30: Financing for the Central Administration and RAEOA 2023-2028, (US\$m)

Figures US m	Original OGE 2023	Rectified OGE 2023	Proposed OGE 24	Proj. 2025	Proj. 2026	Proj. 2027	Proj. 2028
Total Petroleum Withdrawals	1,346.1	1,207.1	1,377.5	1,508.2	1,674.8	1,835.5	1,985.3
Estimated Sustainable Income (ESI)	490.2	490.2	522.1	502.6	478.3	447.8	411.1
Excess Withdrawals	855.9	716.9	855.5	1,005.5	1,196.5	1,387.7	1,574.2
Domestic Revenues	174.9	179.4	192.2	200.9	210.7	220.7	231.5
Loans	74.1	35.0	25.0	45.0	32.0	26.5	34.5
Direct Budget Support	4.9	10.4	15.2	9.7	9.7	9.7	9.7
Australia	3.3	7.1	12.5	6.9	6.9	6.9	6.9
European Union	1.6	3.3	2.7	2.8	2.8	2.8	2.8
Cash Balance Financing	317.5	396.8	277.7	224.7	219.0	224.9	242.0
Central Administration	200.0	200.0	220.0	204.7	209.0	214.9	232.0
RAEOA	117.5	196.8	57.7	20.0	10.0	10.0	10.0
RAEOA fees and charges	2.5	1.3	2.3	2.3	2.4	2.6	2.7
Total	1,920.0	1,716.8	1,890.0	1,990.8	2,148.7	2,319.9	2,505.7

Source: Ministry of Finance

4.69. The table below provides the financing sources for the Social Security Fund for Budget 24 and projections for future years.

Table 31: Financing for the Social Security 2023-2028, (US\$m)

	Original OJE 2023	Rectified OJE 2023	Proposed OJE 24	Proj. 2025	Proj. 2026	Proj. 2027	Proj. 2028
National Social Security Institute (INSS)	123.0	283.0	142.6	187.7	174.3	178.2	179.3
Social Security Contributions	55.1	55.1	55.9	64.2	64.2	75.2	75.2
Income	0.1	0.1	0.1	0.1	0.1	0.1	0.1

	Original OJE 2023	Rectified OJE 2023	Proposed OJE 24	Proj. 2025	Proj. 2026	Proj. 2027	Proj. 2028
Current Transfers from the Central Administration	67.9	75.9	86.7	123.4	109.9	102.8	104.0
Cash Balance	0.0	152.0	0.0	0.0	0.0	0.0	0.0
Social Security Reserve Fund (FRSS)	162.0	203.4	254.8	311.7	361.9	418.4	466.8
Income	2.8	2.8	5.0	6.3	7.5	8.8	10.0
Capital Transfers from the INSS contributory scheme	49.3	200.7	49.8	55.5	54.4	59.6	56.8
Financial Assets	110.0	0.0	200.0	250.0	300.0	350.0	400.0
Total	285.0	486.4	397.4	499.4	536.2	596.6	646.1
Consolidated Total	235.7	285.7	347.6	444.0	481.8	536.9	589.3

Source: Ministry of Finance

I. Annex 1: Methodological

Fiscal Sustainability Model Methodology

The Ministry of Finance conducts fiscal sustainability analysis for the budget ceiling chosen each budget cycle. Using modelling, the impact of the selected budget ceiling on the long-term sustainability of Timor-Leste can be estimated, specifically the overall balance of the Petroleum Fund.

In order to produce the analysis, we need to project expenditure, domestic revenues and the performance of the Petroleum Fund. Below we summarize the main data and assumptions in the model that are used to achieve this.

Actual Data

Petroleum Withdrawal in 2024- The withdrawal figure from the Petroleum Fund in 2024 is as set out in the budget proposal for Budget 2024.

Petroleum Fund Data– The model uses data from the Petroleum Fund as of September 2023. This includes the Petroleum Fund balance, information on the asset split of the Petroleum Fund, and latest information on Withdrawals and Estimated Sustainable Income.

Loans and Direct Budget Support Data – The model incorporates disbursement forecasts for loans and direct budget support.

Assumptions/Projections

Due to uncertainty of future variables in the model, e.g., the budget of future years, the model uses a few assumptions.

Government Expenditure - Government expenditure between 2025 and 2028 is assumed to increase in line with the levels required to meet the government's economic growth targets (ie expenditure rises of 5-8% a year). A proposal for the level and breakdown of the expenditure is provided in the Macroeconomic Overview part of section 1 of this document. Beyond 2028, expenditure levels are assumed to increase with long run inflation and population growth (roughly 4% a year).

Domestic Revenues- Unless specifically stated for an individual scenario, the model predicts that between 2024 and 2028 domestic revenues will rise in line with forecasts from the National Directorate of Economic Policy at the Ministry of Finance as published in this document. Details on how these forecasts were produced are available under the revenue section of the methodology annex.

Beyond 2028, domestic revenues are assumed to increase in line with long run inflation and population growth assumptions⁷.

Petroleum Fund ROI - The model also uses up to date assumptions on the estimated rate of return on petroleum fund from the Petroleum Fund Unit in the Ministry of Finance. The Petroleum Fund is segmented into a growth and liquidity component. As per assumptions from the Petroleum Fund Unit as of November 2023, we assume that the growth component has an ROI of 4.7% whilst the liquidity component is assumed to have an ROI of 2.5%. The liquidity component of the fund is assumed to be sufficient to finance three years of withdrawals. To model this we assume that the liquidity component each year is three times the amount of the withdrawal.

Loans and Direct Budget Support Beyond 2028 - The model doesn't account for revenue direct budget support beyond 2028. Since direct budget support is a very small part of the government budget, including it is not likely to have any impact on the results. Loan disbursement beyond 2028 is estimated as the average disbursement between 2024 and 2028.

Petroleum Revenues – The modelling assumes that no additional petroleum resources are extracted once revenues from existing oil fields are fully depleted.

⁷ Long run population growth is assumed to be 2% Long run inflation is assumed to be 2% as well.

Domestic Revenue Forecast Method

Revenue forecasts are produced using one of the methods described below:

Where there is a change in legislation, revenue forecasts are based on calculations from the Directorate of Economic Policy DNPE, at the Ministry of Finance.

For other cases, forecasts from collection agencies are used where these are reasonable and justifiable.

If the above process isn't feasible, revenues are forecasted in line with historic trends, provided that these trends are consistent and a reliable indicator of future performance. If reliable information is unavailable to ascertain this, or if past trends are highly volatile, we assume that domestic revenues grow in line with economic growth.

If above options are not feasible or justifiable, it is assumed that revenues grow in line with inflation and population growth.

Forecasting GDP

The GDP forecasts in this document have been produced using a macroeconomic modelling framework developed through technical assistance from the IMF's Singapore Training Institute (STI) and Pacific Financial Technical Assistance Centre (PFTAC).

The Government's contribution to GDP is estimated by analysing the execution of government spending in 2023 and applying historic execution trends to the government's budget proposal for 2024. For 2025 to 2028, we assume that government spending rises in line with amounts and allocations required to reach the government's growth targets.

In-year exports and imports are forecasted through analysis of monthly export and import data. For future years it is assumed that the import to demand ratio remains consistent with historical trends. Exports in 2024 are assumed to bounce back strongly and attain the 2022 growth rate due to an assumption that strong execution of government spending will stimulate private sector development and therefore export growth following a decline in 2023.

Forecasts for private sector consumption and investment activity are informed by analysis of historical trends in consumption, investment, remittance information from the Balance of Payments and private sector credit. The private sector is assumed to see strong consistent growth from 2025 to 2028 as we assume that the economic pre-conditions outlined in the Macroeconomic Outlook and Fiscal Strategy section in this document will be fulfilled.

Economic forecasts in this document aim to predict annual GDP growth rates over the next five years. Whilst this is important to support government planning decisions, it should be noted that these predictions are dependent on assumptions and therefore include an element of uncertainty. The previous section outlined certain pre-conditions, based on government plans, which had to be fulfilled for the longer term forecasts to be realised. Other than this, there is further uncertainty.

The key sources of uncertainties in the budget forecasts provided above are as follows:

- Execution of Budgets
- Allocation and quality of government expenditure
- Volume of Imports.

Execution rates can differ year on year and are subject to political and economic risks. For example, executed expenditure is expected to see a large fall this year due to the election. Similarly executed expenditure was impacted in 2017, 2019 and 2020 by political crisis and COVID-19.

Execution rates will also depend on the absorptive capacity of different line ministries. This is the amount that line ministries are able to spend regardless of their budget. For example, line ministries that see a large increase in their budgets might not have the capacity to execute the higher spending due to resource constraints. If execution rates fall below expected (forecasts assume historic execution rates are maintained) then GDP forecasts presented in this document are likely to be overestimates.

Similarly, the forecasts presented above make assumptions on the allocation and quality of expenditure. The above forecasts assume that there will be a large shift towards capital expenditure as the government looks to target higher growth rates. It also assumes that this expenditure will be spent on high quality investments that lead to improvements in the country's capital stock.

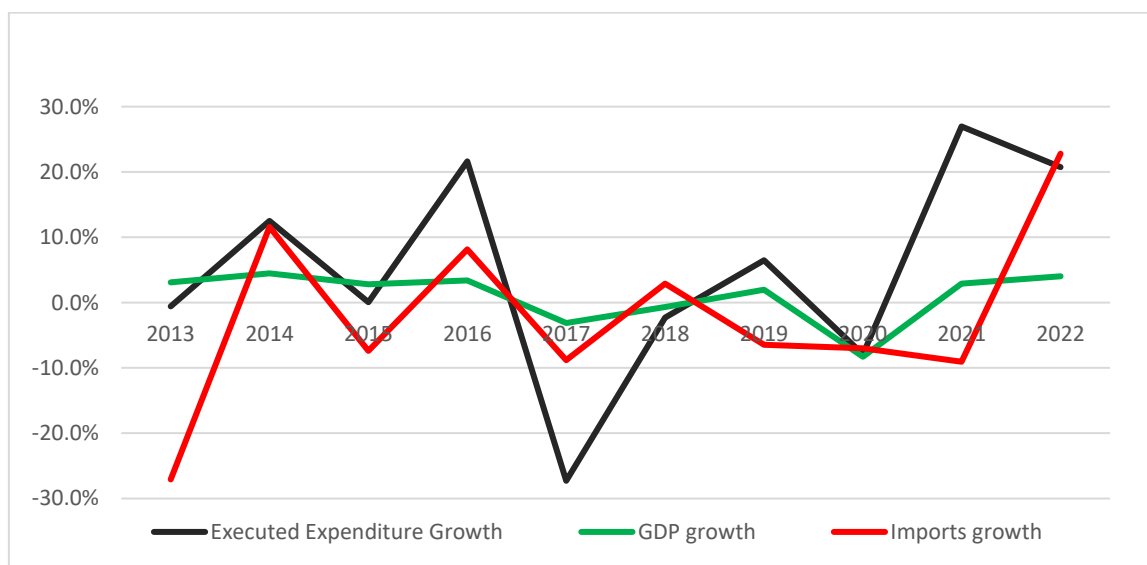
If higher budgets are instead allocated towards unproductive transfer spending or on inefficient projects, the GDP forecasts will not be attained.

Another major uncertainty arises from imports. If government spending is particularly import-dependent, meaning that much of the new spending goes to goods and services from outside Timor-Leste, the GDP forecasts for future years may be reduced downwards as imports have a negative effect on final GDP.

The combination of quality of government expenditure and level of imports means that higher government expenditure in Timor-Leste has not been correlated with higher GDP growth. In the graph below, there appears to be some correlation between growth in government expenditure and growth in imports.

However, large spikes in government expenditure growth have not been correlated with large spikes in economic growth. This could be because increases in government expenditure do not necessarily correspond to improvements in quality expenditure. At the same time, lower budgets with more efficient and higher quality expenditure can potentially lead to higher economic growth and help preserve the Petroleum Fund.

GDP growth compared with expenditure and imports growth



Source: Analysis National Directorate of Economic Policy, Ministry of Finance, September 2023 based on National Accounts Data from INETL and Fiscal Data, Ministry of Finance

Comparison between the macroeconomic and budget forecasts used and forecasts made by international reference bodies

A comparison of Ministry of Finance forecasts with forecasts from other institutions is provided below. All institutions use different assumptions or data sources when making their forecasts and therefore there are often differences in projections between institutions. Often the Ministry of Finance will have more timely information related to public spending plans than other institutions.

Table 31: GDP growth rate forecast %

Institution	2023	2024	2025	2026	2027	2028
Ministry of Finance	2.2	4.1	4.9	5.4	5.2	5.2
IMF	1.5	3.1	3.1	3.0	3.0	3.0

Institution	2023	2024	2025	2026	2027	2028
World Bank	2.4	3.5	4.3			
ADB	2.8	2.9				
National Statistics Institute (INETL)	2.3					

Source: IMF World Economic Outlook October 2023, World Bank Macro poverty outlook indicators October 2023, ADB Forecasts September 2023, National Institute of Statistics Timor-Leste, INTEL

The table below provides a comparison between the macroeconomic and budget forecasts used in the OGE law for the previous budget year and the actual evolution observed.

GDP growth was originally forecasted at 3.3% for 2022 based on the budget execution observed during the Budget 2023 preparation process. However actual growth for 2022 exceeded forecasts due to a combination of stronger than expected execution in November and December 2022 and stronger than expected recovery in the private sector following the COVID-19 pandemic.

The growth outlook for 2023 is lower in Budget 2024, than was forecasted in 2023 due to the fact that the election led to lower than expected execution last year. Budget 2023 mentioned the election as a key uncertainty in the GDP forecast and explained that the forecasts would be an overestimate if the election disrupted the execution of government spending. Finally we forecast higher growth for 2024 than was forecasted in Budget 2023 due to an anticipated recovery in government execution and stronger focus on capital spending in 2024.

Table 32: Macroeconomic and budget forecasts in 2023 draft budget report vs. 2024 draft budget report %

Item	2023 draft budget report			2024 draft budget report		
	2022	2023	2024	2022	2023	2024
GDP growth %	3.3	3.5	3.6	4.0	2.2	4.1
CPI %	7.2	5.5	3.3	7.0	8.3	2.5

II. Annex 2 – Petroleum Fund Certificate



República Democrática de Timor-Leste
Ministério das Finanças
Gabinete Ministerial



No.: 177/GMdF/IX/2023-11

Díli, 17 de novembro de 2023

Excelentíssimo

Senhor Primeiro-Ministro

Kay Rala Xanana Gusmão

Excelência,

Nos termos previstos nas alíneas a) e b) do artigo 8.º da Lei do Fundo Petrolífero, aprovada pela Lei n.º 9/2005, de 3 de agosto, alterada pela Lei n.º 12/2011, de 28 de setembro, e pela Lei n.º 2/2022, de 10 de fevereiro, apresenta-se *infra* o cálculo do Rendimento Sustentável Estimado para o ano orçamental de 2024, ano no qual a transferência é feita, bem como para o ano orçamental precedente de 2023.

Estimativa do Rendimento Sustentável para o ano orçamental de 2024	Montante (US Dólares) 522.092.899,00
Estimativa do Rendimento Sustentável para o ano orçamental precedente (2023)	Montante (US Dólares) 490.146.398,00

O Rendimento Sustentável Estimado é calculado segundo as regras definidas no Anexo I da Lei do Fundo Petrolífero.

A análise da metodologia na qual se baseiam os cálculos do Rendimento Sustentável Estimado é incluída no Relatório da proposta de lei do Orçamento Geral do Estado para 2024.

De acordo com a alínea c) do artigo 8.º da Lei do Fundo Petrolífero, o Auditor Independente deverá certificar o montante do Rendimento Sustentável Estimado, pelo que se junta, em anexo, o relatório de certificação emitido em 17 de novembro de 2023.

Sem mais assunto de momento, aceite os protestos da minha mais elevada estima e consideração.

Com os melhores cumprimentos,

A Ministra das Finanças

Santina J. R. F. Viegas Cardoso



República Democrática de Timor-Leste
Ministério das Finanças
Gabinete Ministerial



No.: 178/GMdF/IX/2023-11

Díli, 17 de novembro de 2023

Excelentíssimo

Senhor Primeiro-Ministro

Kay Rala Xanana Gusmão

Assunto: **Estimativa do montante em que ficará reduzido o Rendimento Sustentável Estimado nos exercícios orçamentais subsequentes**

Excelência,

Nos termos previstos na alínea b) do artigo 9.º da Lei do Fundo Petrolífero, aprovada pela Lei n.º 9/2005, de 3 de agosto, e alterada pela Lei n.º 12/2011, de 28 de setembro, e pela Lei n.º 2/2022, de 10 de fevereiro, apresenta-se *infra* a redução do Rendimento Sustentável Estimado para os anos orçamentais a partir de 2024, em resultado da inscrição na proposta de lei do Orçamento Geral do Estado para 2024 de uma transferência do Fundo Petrolífero no valor de US\$1.377.543.005, montante que excede o valor do Rendimento Sustentável Estimado:

Ano orçamental	Valor do RSE nos anos orçamentais subsequentes ao Ano Orçamental, caso em 2024 seja feito um levantamento superior ao RSE	Valor do RSE nos anos orçamentais subsequentes ao Ano Orçamental, caso em 2024 seja feito um levantamento igual ao RSE	Redução do RSE
2025	502.629.315	528.852.283	(26.222.968)
2026	509.136.354	535.698.805	(26.562.450)
2027	515.727.634	542.633.961	(26.906.327)
2028	522.404.244	549.658.901	(27.254.657)
2029	529.167.289	556.774.785	(27.607.496)
2030	536.017.889	563.982.791	(27.964.902)
2031	542.957.176	571.284.112	(28.326.936)
2032	549.986.300	578.679.956	(28.693.656)
2033	557.106.423	586.171.547	(29.065.124)
2034	564.318.722	593.760.24	(29.441.402)

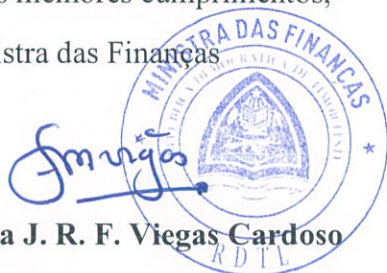
Os cálculos foram realizados por técnicos especialistas do Ministério das Finanças, com base nas regras definidas no Anexo 1 à Lei do Fundo Petrolífero.

De acordo com a alínea c) do n.º 1 artigo 9.º da Lei do Fundo Petrolífero, o Auditor Independente deverá certificar as estimativas da redução do Rendimento Sustentável Estimado, pelo que se junta, em anexo, o relatório de certificação emitido em 17 de novembro de 2023.

Sem mais assunto de momento, aceite os protestos da minha mais elevada estima e consideração.

Com os melhores cumprimentos,

A Ministra das Finanças



The image shows a circular official seal of the Ministry of Finance (Ministria das Finanças) of the Republic of Angola. The seal features a central emblem with a sun and a gear, surrounded by the text 'MINISTRIA DAS FINANÇAS' and 'REPÚBLICA DE ANGOLA'. Overlaid on the seal is a handwritten signature in blue ink that reads 'Santana J. R. F. Viegas Cardoso'.

Santina J. R. F. Viegas Cardoso



**Building a better
working world**

Ernst & Young
11 Mounts Bay Road
Perth WA 6000 Australia
GPO Box M939 Perth WA 6843

Tel: +61 8 9429 2222
Fax: +61 8 9429 2436
ey.com/au

Ms. Santana J.R.F. Viegas Cardoso
Minister of Finance
10th Floor, Ministry of Finance Tower
Aitarak Laran
Dili, Democratic Republic of Timor-Leste

17 November 2023

Agreed-Upon Procedures Report to the Ministry of Finance of the Democratic Republic of Timor-Leste on the estimated reduction in the Estimated Sustainable Income (“ESI”)

Scope and purpose

We have performed the procedures enumerated below, which were agreed to by the Ministry of Finance of the Democratic Republic of Timor-Leste (“the Ministry of Finance”) (the “Engaging Party”), solely to assist you in assessing the accuracy of the amount by which the ESI for the years ending 31 December 2025 to 31 December 2034 will be reduced as a result of the transfer from the Petroleum Fund of an amount in excess of the ESI for year ending 31 December 2024 in accordance with Article 9(c) of the Petroleum Fund Law No. 9/2005 of 3 August, as amended by Law No. 12/2011 of 28 September and Law No. 2/2022, of 10 February, the General State Budget and Public Financial Management Framework (“the Law”). Our agreed-upon procedures report may not be suitable for another purpose.

Restricted use

This agreed-upon procedures report (“AUP Report”) is intended solely for the information and use of the Engaging Party and is not intended to be and should not be used by anyone else.

We disclaim all responsibility to any other party for any loss or liability that the other party may suffer or incur arising from or relating to or in any way connected with the contents of our report, the provision of our report to the other party or the reliance upon our report by the other party.

Responsibilities of the Engaging Party

The Engaging Party has acknowledged that the agreed-upon procedures are appropriate for the purpose of the engagement.



Responsibilities of the Practitioner

We have conducted the agreed-upon procedures engagement in accordance with the International Standard on Related Services (ISRS) 4400 (Revised), *Agreed-Upon Procedures Engagements*. An agreed-upon procedures engagement involves our performing the procedures that have been agreed with Engaging Party, and reporting the findings, which are the factual results of the agreed-upon procedures performed. We make no representation regarding the appropriateness or the sufficiency of the agreed-upon procedures described below either for the purpose for which this AUP Report has been requested or for any other purpose.

This agreed-upon procedures engagement is not an assurance engagement. Accordingly, we do not express an opinion or an assurance conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported.

Our independence and quality management

In performing the Agreed-Upon Procedures engagement, we complied with the ethical requirements in the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants (IESBA). We are not required to be independent for the purpose of this engagement. We have however complied with the independence requirements of the IESBA Code that apply to assurance engagements other than financial audit or review engagements.

EY applies International Standard on Quality Management 1, which requires us to design, implement and operate a system of quality management including policies or procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Description of procedures performed

We have performed the procedures described below, which were agreed upon with Engaging Party on the amount by which the ESI for the years ending 31 December 2025 to 31 December 2034 will be reduced as a result of the transfer from the Petroleum Fund of an amount in excess of the ESI for year ending 31 December 2024.

Our procedures and findings included

The agreed upon procedures were performed solely to assist the Ministry of Finance in evaluating the accuracy of the amount by which the ESI for the years ending 31 December 2025 to 31 December 2034 will be reduced as a result of the transfer from the Petroleum Fund of an amount in excess of the ESI for year ending 31 December 2024. The procedures performed and the factual findings obtained are as follows:



**Building a better
working world**

Procedures Performed	Factual Findings
<p>1. Obtain the calculations of the amount by which the ESI^(Note 1) for the years ending 31 December 2025 to 31 December 2034 will be reduced as a result of the transfer from the Petroleum Fund of an amount in excess of the ESI for year ending 31 December 2024, which support the report to the Government prepared pursuant to Article 9.1(b) of the Law.</p>	<p>We obtained the calculations of the amount by which the ESI for the years ending 31 December 2025 to 31 December 2034 will be reduced as a result of the transfer from the Petroleum Fund of an amount in excess of the ESI for year ending 31 December 2024, which support the report to the Government prepared pursuant to Article 9.1(b) of the Law.</p>
<p>2. Summarise the amount by which the ESI for the years ending 31 December 2025 to 31 December 2034 will be reduced as a result of the transfer from the Petroleum Fund of an amount in excess of the ESI for year ending 31 December 2024 from the calculations obtained at procedure 1.</p>	<p>We have summarised in Appendix A the amount by which the ESI for the years ending 31 December 2025 to 31 December 2034 will be reduced as a result of the transfer from the Petroleum Fund of an amount in excess of the ESI for year ending 31 December 2024 from the calculations obtained at procedure 1.</p>
<p>3. Agree the calculation methodology in the underlying calculations obtained at procedure 1 to the methodology adopted in the ESI calculation for the year ending 31 December 2024 in accordance with paragraphs II and III of Schedule 1 of the Law as previously obtained by Ernst & Young as part of the reasonable assurance engagement, the report on which was issued on 17 November 2023. Report on any exceptions identified.</p>	<p>The calculation methodology in the underlying calculations obtained at procedure 1 agreed to the methodology adopted in the ESI calculation for the year ending 31 December 2024 in accordance with paragraphs II and III of Schedule 1 of the Law as previously obtained by Ernst & Young as part of the reasonable assurance engagement, the report on which was issued on 17 November 2023. No exceptions were noted.</p>
<p>4. Obtain the value of the proposed transfer from the Petroleum Fund, being an amount in excess of the ESI determined by the Ministry of Finance for the purposes of the Fiscal Year Budget 2024 and agree the value of the proposed transfer from the Petroleum Fund to the calculations obtained at procedure 1.</p>	<p>We obtained the value of the proposed transfer from the Petroleum Fund, being US\$ 1,377,543,005 from the Ministry of Finance. We agreed the value of the proposed transfer from the Petroleum Fund of US\$ 1,377,543,005 to the calculations at procedure 1.</p>
<p>5. Reperform the calculation of the reduction in ESI for the years ending 31 December 2025 to 31 December 2034 as a result of the proposed transfer from the Petroleum Fund of an amount in excess of the ESI for year ending 31 December 2024.</p>	<p>We reperformed the calculation of the reduction in ESI for the years ending 31 December 2025 to 31 December 2034 as a result of the proposed transfer from the Petroleum Fund of an amount in excess of the ESI for year ending 31 December 2024. No exceptions were noted.</p>



**Building a better
working world**

Note 1 - ESI for a particular fiscal year is calculated at 3% of the total of the estimated value of the Petroleum Fund at the end of the previous fiscal year plus the net present value of the "future petroleum revenue receipts" using a discount rate equal to the future investment returns of the Petroleum Fund. With the expiry of the Production Sharing Contract for the Bayu-Undan field, future petroleum revenue receipts have been estimated to be US\$52.9 million for the year ending 31 December 2024. Petroleum revenue receipts are estimated to be nil for the years thereafter. The ESI for the year ending 31 December 2024 is US\$ 522,092,899.

Ernst & Young

Ernst & Young
Perth
17 November 2023

Appendix A

The table below set out the reduction in ESI for the years ending 31 December 2025 to 31 December 2034 as a result of the proposed transfer from the Petroleum Fund of an amount in excess of the ESI for the year ending 31 December 2024.

ESI for 2025 to 2034 fiscal years assuming:

	The proposed withdrawal from the Petroleum Fund in 2024 of US\$ 1,377,543,005	The proposed withdrawal from the Petroleum Fund in 2024 of US\$ 522,092,899	Reduction in ESI
Fiscal year	US\$	US\$	US\$
31 December 2025	502,629,315	528,852,283	(26,222,968)
31 December 2026	509,136,354	535,698,805	(26,562,451)
31 December 2027	515,727,634	542,633,961	(26,906,327)
31 December 2028	522,404,244	549,658,901	(27,254,657)
31 December 2029	529,167,289	556,774,785	(27,607,496)
31 December 2030	536,017,889	563,982,791	(27,964,902)
31 December 2031	542,957,176	571,284,112	(28,326,936)
31 December 2032	549,986,300	578,679,956	(28,693,656)
31 December 2033	557,106,423	586,171,547	(29,065,124)
31 December 2034	564,318,722	593,760,124	(29,441,402)



**Building a better
working world**

Ernst & Young
11 Mounts Bay Road
Perth WA 6000 Australia
GPO Box M939 Perth WA 6843

Tel: +61 8 9429 2222
Fax: +61 8 9429 2436
ey.com/au

Ms. Santana J.R.F. Viegas Cardoso
Ministro das Finanças
Torre do Ministério das Finanças, 10.º andar
Aitarak Laran
Dili, República Democrática de Timor-Leste

17 de Novembro de 2023

Relatório de Conclusões Factuais para o Ministro das Finanças da República Democrática de Timor-Leste relativas à redução estimada no Rendimento Sustentável Estimado (RSE)

Escopo e propósito

Efetuámos os procedimentos descritos abaixo, que foram acordados com o Ministério das Finanças da República Democrática de Timor-Leste (“Ministério das Finanças”) (a “Parte Contratante”), com o objetivo de auxiliar o Ministério das Finanças e o Governo da República Democrática de Timor-Leste (“Governo”) a avaliar a exatidão do montante pelo qual o RSE será reduzido, para os anos a findar em 31 de dezembro de 2025 até 31 de dezembro de 2034, em resultado da transferência pelo Fundo Petrolífero de um valor em excesso do RSE para o ano a findar em 31 de dezembro de 2024 em conformidade com a alínea c) do artigo 9.º da Lei n.º 9/2005 do Fundo Petrolífero, de 3 de agosto, alterada pela Lei n.º 12/2011, de 28 de setembro, e pela Lei n.º 2/2022, de 10 de fevereiro, o Orçamento Geral do Estado e o Regime de Gestão das Finanças Públicas (“Lei”). Os relatório de conclusões factuais pode não ser adequado para outro propósito.

Restrições ao uso

O presente relatório destina-se exclusivamente ao uso da parte contratante e não se destina a ser e não deve ser usado por outras partes.

Renunciamos a qualquer responsabilidade perante terceiros, por qualquer perda ou responsabilidade que esses terceiros possam sofrer ou incorrer, decorrente de ou relacionada com ou de qualquer forma ligada com o conteúdo do nosso relatório, da entrega do nosso relatório a terceiros ou a confiança que terceiros depositem no nosso relatório

Responsabilidades da parte contratante

A parte contratante reconheceu que os procedimentos acordados são apropriados para o propósito do nosso trabalho.

Responsabilidades do EY

Nós executamos os procedimentos acordados em conformidade com a Norma Internacional de Serviços Relacionados (ISRS) 4400, Trabalhos para Executar Procedimentos Acordados com Respeito a Informação Financeira. Um trabalho de procedimentos acordados consiste em executar os procedimentos acordados com a parte contratante, e reportar as conclusões, que são os resultados factuais dos procedimentos acordados. Não expressamos qualquer representação sobre a adequação ou a suficiência dos procedimentos acordados descritos abaixo seja para o propósito para o qual este relatório foi solicitado ou para qualquer outro propósito.

O presente trabalho de procedimentos acordados não é uma auditoria. Portanto, não expressamos uma opinião ou uma conclusão de segurança razoável. Caso tivéssemos efetuado procedimentos adicionais, outras matérias poderiam ter chegado ao nosso conhecimento que seriam reportadas a V. Exas.

Nossa independência e gestão de qualidade

Ao realizar o trabalho de procedimentos acordados, cumprimos com os requisitos de ética no Código de Ética para Contadores Profissionais emitido pelo Conselho Internacional de Normas de Ética para Contadores (Código de Ética). Não precisamos ser independentes para os fins deste trabalho. No entanto, cumprimos os requisitos de independência do Código de Ética que se aplicam a trabalhos de garantia de fiabilidade que não sejam auditoria financeira ou trabalhos de revisão.

A EY aplica a Norma Internacional de Gestão da Qualidade 1, que exige que concebamos, implementemos e operemos um sistema de gestão da qualidade, incluindo políticas ou procedimentos relativos ao cumprimento de requisitos éticos, padrões profissionais e requisitos legais e regulamentares aplicáveis.

Descrição dos procedimentos realizados.

Executamos os procedimentos descritos abaixo, que foram acordados com a parte contratante sobre o montante pelo qual o RSE será reduzido, para os anos a findar em 31 de dezembro de 2025 até 31 de dezembro de 2034, em resultado da transferência pelo Fundo Petrolífero de um valor em excesso do RSE para o ano a findar em 31 de dezembro de 2024.

Nossos procedimentos e conclusões factuais

Os procedimentos foram efetuados exclusivamente com o objetivo de auxiliar o Ministério das Finanças a avaliar a exatidão do montante pelo qual o RSE será reduzido, para os anos a findar em 31 de dezembro de 2025 até 31 de dezembro de 2034, em resultado da transferência pelo Fundo Petrolífero de um valor em excesso do RSE para o ano a findar em 31 de dezembro de 2024. Os procedimentos efetuados e as conclusões factuais são como segue:



Building a better
working world

Procedimentos efetuados	Conclusões factuais
<p>1. Obtenção dos cálculos subjacentes ao apuramento do montante pelo qual o RSE^(Nota 1) será reduzido, para os anos a findar em 31 de dezembro de 2025 até 31 de dezembro de 2034, em resultado da transferência pelo Fundo Petrolífero de um valor em excesso do RSE para o ano a findar em 31 de dezembro de 2024, os quais suportaram o relatório ao Governo elaborado nos termos da alínea b) do artigo 9.1.º da Lei.</p>	<p>Obtivemos os cálculos subjacentes ao apuramento do montante pelo qual o RSE será reduzido, para os anos a findar em 31 de dezembro de 2025 até 31 de dezembro de 2034, em resultado da transferência pelo Fundo Petrolífero de um valor em excesso do RSE para o ano a findar em 31 de dezembro de 2024, os quais suportaram o relatório ao Governo elaborado nos termos da alínea b) do artigo 9.1.º da Lei.</p>
<p>2. Resumo do montante pelo qual o RSE será reduzido para os anos a findar em 31 de dezembro de 2025 até 31 de dezembro de 2034, em resultado da transferência pelo Fundo Petrolífero, em resultado dos cálculos obtidos no procedimento 1.</p>	<p>Resumimos, no Apêndice A, o montante pelo qual o RSE será reduzido, para os anos a findar em 31 de dezembro de 2025 até 31 de dezembro de 2034, em resultado da transferência pelo Fundo Petrolífero de um valor em excesso do RSE para o ano a findar em 31 de dezembro de 2024, em resultado dos cálculos obtidos no procedimento 1.</p>
<p>3. Conciliação da metodologia subjacente aos cálculos obtidos no procedimento 1 com a metodologia adotada no cálculo do RSE para o ano a findar em 31 de dezembro de 2024, de acordo como os parágrafos II e III do Anexo I da Lei previamente obtido pela EY como parte do trabalho de garantia de fiabilidade cujo respetivo relatório foi emitido em 17 de novembro de 2023. Reporte de quaisquer exceções encontradas.</p>	<p>A metodologia de cálculo subjacente aos cálculos obtidos no procedimento 1 estão em conformidade com a metodologia adotada no cálculo do RSE para o ano a findar em 31 de dezembro de 2024, de acordo como os parágrafos II e III do Anexo I da Lei previamente obtido pela EY como parte do trabalho de garantia de fiabilidade cujo respetivo relatório foi emitido em 17 de novembro de 2023. Não foram identificadas quaisquer exceções.</p>
<p>4. Obtenção do valor proposto da transferência do Fundo Petrolífero, que consiste num valor em excesso do RSE calculado pelo Ministério das Finanças para efeitos do Orçamento do Ano Fiscal de 2024 e reconciliação do valor com o cálculo obtido no procedimento 1.</p>	<p>Obtivemos do Ministério das Finanças o valor proposto da transferência do Fundo Petrolífero, o qual ascende a 1.377.543.005 de dólares americanos. Conciliámos o valor da transferência proposta, no montante de 1.377.543.005 de dólares americanos, com os cálculos obtidos no procedimento 1.</p>



Building a better
working world

Procedimentos efetuados	Conclusões factuais
5. Recálculo do montante da redução no RSE, para os anos a findar em 31 de dezembro de 2025 até 31 de dezembro de 2034, em resultado da transferência proposta pelo Fundo Petrolífero de um valor em excesso do RSE para o ano a findar em 31 de dezembro de 2024.	Efetuámos o recálculo do montante da redução no RSE, para os anos a findar em 31 de dezembro de 2025 até 31 de dezembro de 2034, em resultado da transferência proposta pelo Fundo Petrolífero de um valor em excesso do RSE para o ano a findar em 31 de dezembro de 2024. Não foram identificadas quaisquer exceções

Note 1 - o RSE para um determinado ano fiscal é calculado como 3% do valor total estimado do Fundo Petrolífero no final do ano fiscal anterior adicionado do valor presente dos "recebimentos das futuras receitas de petróleo" com base numa taxa de desconto igual à taxa de retorno do investimento futuro do Fundo Petrolífero. Com a término do Acordo de Partilha de Produção do campo Bayu-Undan, os recebimentos das futuras receitas de petróleo foram estimados em 52.9 milhões de dólares americanos para o ano findo em 31 de dezembro de 2024. Os recebimentos das receitas de petróleo foram estimados como sendo nulos nos anos subsequentes. O ESI apurado para o período que terminará a 31 de dezembro de 2024 ascende a 522.092.899 dólares americanos.

Ernst & Young

Ernst & Young
Perth
17 de Novembro de 2023



**Building a better
working world**

Apêndice A

A tabela abaixo resume a redução ao RSE para os anos a findar em 31 de dezembro de 2025 até 31 de dezembro de 2034, em resultado da transferência pelo Fundo Petrolífero de um valor em excesso do RSE para o ano a findar em 31 de dezembro de 2024.

RSE para os anos fiscais de 2025 a 2034 assumindo:

	A proposta de transferências do Fundo Petrolífero em 2024 no valor de 1.377.543.005 de dólares americanos	A proposta de transferências do Fundo Petrolífero em 2024 no valor de 522.092.899 de dólares americanos	Redução do RSE
Ano fiscal	de dólares americanos	de dólares americanos	de dólares americanos
31 de dezembro de 2025	502.629.315	528.852.283	(26.222.968)
31 de dezembro de 2026	509.136.354	535.698.805	(26.562.451)
31 de dezembro de 2027	515.727.634	542.633.961	(26.906.327)
31 de dezembro de 2028	522.404.244	549.658.901	(27.254.657)
31 de dezembro de 2029	529.167.289	556.774.785	(27.607.496)
31 de dezembro de 2030	536.017.889	563.982.791	(27.964.902)
31 de dezembro de 2031	542.957.176	571.284.112	(28.326.936)
31 de dezembro de 2032	549.986.300	578.679.956	(28.693.656)
31 de dezembro de 2033	557.106.423	586.171.547	(29.065.124)
31 de dezembro de 2034	564.318.722	593,760.124	(29,441.402)



**Building a better
working world**

Ernst & Young
11 Mounts Bay Road
Perth WA 6000 Australia
GPO Box M939 Perth WA 6843

Tel: +61 8 9429 2222
Fax: +61 8 9429 2436
ey.com/au

Ms. Santina J.R.F. Viegas Cardoso
Ministro das Finanças
Torre do Ministério das Finanças, 10.º andar
Aitarak Laran
Dili, Timor-Leste

17 de novembro de 2023

RELATÓRIO INDEPENDENTE DE GARANTIA DE FIABILIDADE SOBRE O CÁLCULO DO RENDIMENTO SUSTENTÁVEL ESTIMADO (“RSE”)

Âmbito

Fomos contratados pelo Ministro das Finanças da Republica Democrática de Timor Leste (“Ministério das Finanças”) em conformidade com a alínea c) do Artigo 8.º da Lei n.º 9/2005, de 3 de agosto, Lei do Fundo Petrolífero, alterada pela Lei n.º 12/2011, de 28 de setembro, e pela Lei n.º 2/2022, de 10 de fevereiro, (“a Lei”) para a realização de um trabalho de segurança razoável conforme definido nas Normas Internacionais de Trabalhos de Garantia de Fiabilidade, de ora em diante referido como o trabalho, em relação ao cumprimento pelo Ministério das Finanças, em todos os aspetos materiais, com os requisitos para o cálculo do Rendimento Sustentável Estimado (“RSE”), de acordo com os parágrafos II e III do Anexo da Lei para o ano a findar em 31 de Dezembro de 2024 (“Anexo I”).

Responsabilidades do Ministério das Finanças

O Ministério das Finanças é responsável pelo:

- ▶ Cálculo do RSE para o ano fiscal a findar em 31 de dezembro de 2024 em cumprimento com os requisitos estipulados no Anexo I da Lei.
- ▶ Confirmar que a mensuração e avaliação dos pressupostos subjacentes que suportam o cálculo cumprem com os requisitos dos parágrafos IV e V do Anexo I da Lei e que todas as matérias relevantes são refletidas no cálculo do RSE.
- ▶ Desenho, implementação e manutenção de um sistema de controlo interno apropriado, manutenção de registos e efetuar as estimativas que sejam relevantes para o cálculo do RSE de acordo com o Anexo I da Lei, livre de distorções materiais devido a fraude ou erro.

Responsabilidades da EY

A nossa responsabilidade consiste em expressar uma opinião se o Ministério das Finanças cumpriu, em todos os aspetos materiais, com os requisitos dos parágrafos II e III do Anexo I da Lei no cálculo do RSE para o ano a findar em 31 de dezembro de 2024, com base no trabalho realizado e na evidência obtida.

O nosso trabalho foi realizado de acordo com a Norma Internacional de Trabalhos de Garantia de Fiabilidade (ISAE) 3000 (Revista) "Trabalhos de Garantia de Fiabilidade que Não Sejam Auditorias ou Revisões de Informação Financeira Histórica", e pelos termos de referência acordados com o Ministério das Finanças para a realização deste trabalho em 16 de abril de 2021. Esta Norma exige que o trabalho seja planeado e executado para obter uma garantia razoável de fiabilidade de que o Ministério das Finanças cumpriu, em todos os aspetos materiais, com os requisitos dos parágrafos II e III do Anexo I da Lei, no cálculo do cálculo do Rendimento Sustentável Estimado ("RSE") para o exercício a findar em 31 de dezembro de 2024, e para emitir o nosso relatório. A natureza, o tempo e a extensão dos procedimentos selecionados dependem do nosso julgamento profissional, incluindo a avaliação dos riscos de distorção material no cálculo do RSE, quer devido a fraude ou a erro.

Entendemos que a prova obtida é suficiente e apropriada para proporcionar uma base razoável para a nossa opinião.

Gestão de Qualidade e independência

Mantivemos a nossa independência e confirmamos que cumprimos com os requisitos do Código de Ética do *International Ethics Standards Board for Accountants* (IESBA) e que temos as competências e a experiência necessárias para executar este trabalho.

Aplicamos igualmente a Norma Internacional de Gestão de Qualidade 1, Gestão da Qualidade para Firms que Executam Auditorias ou Revisões de Demonstrações Financeiras, ou Outros Trabalhos de Garantia de Fiabilidade ou Serviços Relacionados e, como tal, projetamos, implementamos e operamos um sistema de gestão da qualidade incluindo políticas ou procedimentos documentados relativos ao cumprimento com requisitos éticos, normas profissionais e requisitos legais e regulatórios aplicáveis.

Descrição dos procedimentos realizados

Os nossos procedimentos incluíram:

- ▶ A realização de entrevistas ao pessoal-chave para entendimento do processo de reporte do RSE, incluindo o processo de obter e preparar a informação para o cálculo do RSE.
- ▶ A verificação se os critérios de cálculo foram corretamente aplicados de acordo com as metodologias descritas nos parágrafos II e III do Anexo 1 da Lei;

- ▶ A confirmação, com base numa amostra, que os dados usados para o cálculo do RSE estão de acordo com os da base de dados (ver limitação);
- ▶ A verificação das fórmulas usadas no cálculo do RSE e dos mapas de suporte;
- ▶ A realização de procedimentos de revisão analítica para apoiar na verificação da razoabilidade dos dados usados para calcular o RSE.

Ênfase

O Ministério das Finanças prepara o cálculo do RSE com base nos pressupostos subjacentes de acordo com as disposições dos parágrafos IV e V do Anexo I da Lei. Alguns desses pressupostos têm por base informação previsional fornecida ou obtida junto de terceiros (por exemplo, produção real e prevista e custos reais e orçamentados, através da informação fornecida pelo operador de joint ventures Bayu-Undan field através da Autoridade Nacional do Petróleo de Timor-Leste e a taxa de retorno de longo prazo do Fundo Petrolífero, fornecida por consultores de investimentos independentes) e o nosso trabalho não inclui a verificação da exatidão, plenitude ou validade das informações obtidas de terceiras entidades.

Segurança razoável significa um nível de segurança elevado, mas não absoluto. A segurança absoluta é raramente alcançável como resultado de fatores tais como: o uso de testes seletivos, as limitações inerentes ao controlo interno, o facto de que muitas das evidências que nos foram disponibilizadas serem persuasivas e não conclusivas, e o uso de julgamento profissional na recolha e avaliação de provas e na formação das nossas conclusões com base nessas provas.

Opinião

Em nossa opinião, o Ministério das Finanças cumpriu, em todos os aspetos materiais, com os requisitos dos parágrafos II e III do Anexo I da Lei no cálculo do Rendimento Sustentável Estimado para o ano a findar em 31 de dezembro de 2024. O cálculo apresenta um Rendimento Sustentável Estimado de 522.092.899 de dólares americanos.

Restrições de uso

A informação contida neste relatório é unicamente para uso do Ministério das Finanças, de acordo com a carta compromisso datada de 16 de abril de 2021, com o objetivo de expressar uma opinião se o Ministério das Finanças cumpriu, em todos os aspetos materiais, com os requisitos dos parágrafos II e III do Anexo I da Lei no cálculo do Rendimento Sustentável Estimado para o ano a findar em 31 de dezembro de 2024. Renunciamos a qualquer responsabilidade perante terceiros, para além do Ministério das Finanças, por qualquer fiabilidade neste relatório, ou para qualquer propósito diferente daquele para o qual foi preparado.

Ernst & Young

Ernst & Young
Perth
Australia

