

NINTH CONSTITUTIONAL GOVERNMENT

Law no./2024 of of

Draft Law on the General State Budget for 2025

Explanatory Memorandum

Pursuant to Article 97(1)(c) and Article 115(2)(a) of the Constitution of the Democratic Republic of Timor-Leste, the Government proposes to the National Parliament the Draft Law on the General State Budget for 2025.

This Draft Law on the General State Budget for 2025 presents all the revenue and expenditure of the bodies and services of the Public Administrative Sector for the period from January 1 to December 31, 2025, and is made up of the Central Administration Budget, the Social Security Budget and the Budget of the Special Administrative Region of Oe-Cusse Ambeno.

The 2025 State Budget Bill pursues the strategy of implementing the priorities set out in the Government Program, under the slogan *“Investment in strategic infrastructure, strengthening the economy and improving the well-being of citizens”*.

The Proposal is formulated on the basis of the Strategic Objectives of the Ninth Constitutional Government, with a view to promoting the socio-economic development of the Nation through targeted investments in strategic infrastructures, economic strengthening and initiatives aimed at improving the well-being of citizens.

The Proposal reflects a clear strategy to stimulate sustainable economic growth, improve the provision of public services and ensure that the benefits of development reach all Timorese citizens. In order to achieve these strategic objectives, the Government has identified three crucial areas where substantial investments will be made in the field of productive infrastructure.

Within the scope of strategic infrastructure, US\$227.3 million is earmarked for building, expanding, rehabilitating and maintaining the main road and bridges networks, as well as protecting against the impacts of natural disasters, in particular floods, strengthening connectivity and boosting economic growth across the country, and protecting communities from the effects of climate change.

The budget proposal also provides appropriations for the projects to rehabilitate the Presidente Nicolau Lobato International Airport in Dili, and to complete the submarine fiber optic cable that will connect Timor-Leste to Australia and rehabilitate the internal fiber optic network, which will enable the provision of high-speed internet throughout the country by 2025.

Finally, a major investment will be made in the expansion of the national electricity grid, with a special focus on rural and remote areas, and the amount of the subsidy to the public electricity company EDTL, E.P. will be increased, to ensure the stability and increase of the continuous supply of electricity throughout the country.

In the area of economic strengthening, the bill allocates around US\$40 million to the Petroleum and Mineral Resources Management program, to improve access to industrial and mineral resource extraction zones on the south coast.

In addition, the appropriation will also contribute to the development of the Suai Supply Base, a crucial project designed to strengthen Timor-Leste's logistics and storage capacity for petroleum products.

Finally, a Geoscience Development Laboratory will be built, which will play a vital role in advancing research and promoting sustainable resource management.

A similar allocation will be made to the agriculture, fisheries, livestock and forestry sector, covering several key initiatives designed to increase productivity, sustainability and access to markets for farmers and producers in these sectors, namely the development of infrastructure such as irrigation systems and road access to remote agricultural areas, as well as advanced research and development programs focused on improving crop productivity, livestock health and sustainable fishing practices.

The bill also reinforces the development of human capital as the driving force behind economic growth and improved public service delivery, with an allocation of US\$17.2 million for vocational/professional training, technical training for the Public Sector and the awarding of scholarships.

In terms of improving the well-being of citizens, the bill provides for a series of inclusive and transformative initiatives to strengthen social protection systems, health services, education and public services with a view to empowering communities, supporting vulnerable groups and developing human capital, contributing to a more equitable and resilient society.

These programs aim not only to respond to immediate social needs, but also to promote long-term inclusive growth, ensuring that no one is left behind.

The bill allocates a significant portion of the spending, about US\$406 million, to support civil society, health, and social services.

Of this, US\$145.8 million will go to education, including construction and rehabilitation of school buildings, teacher training, and strengthening of the Education Management Information System to optimize the use of data in education planning.

In the health sector, US\$99.2 million will focus on improving and expanding health services throughout the country. This includes improvements to the Guido Valadares National Hospital and referral hospitals, as well as the construction and rehabilitation of health posts and community health centers.

In addition, US\$14.2 million will be used to purchase, store and distribute essential medicines and medical supplies to ensure that health facilities are adequately equipped.

Initiatives to promote sustainable management of water resources, reduce public health risks and protect the environment will also be funded, particularly in densely populated urban centers such as Dili and surrounding municipalities. In this regard, US\$26 million is earmarked for water, sanitation and hygiene projects in various municipalities, with a focus on infrastructure development and maintenance, which includes a transfer to the public company BTL, E.P.

The bill also promotes support for vulnerable groups, including victims of domestic violence, people with disabilities and women. The Bolsa da Mãe program will be strengthened with an additional US\$7 million, and an additional US\$2.86 million will be allocated for a conditional health and nutrition grant for pregnant women and children.

The draft Law on the General State Budget for 2025 includes a number of budgetary measures carefully designed to ensure the sustainability of public finances while addressing Timor-Leste's current and immediate needs:

- An appropriation of \$310.8 million for the Infrastructure Fund, an increase of \$10.8 million from 2024, demonstrating the Government's continued commitment to infrastructure development and the associated budgetary pressures.
- An appropriation of US\$190.0 million for veterans' payments, an increase of US\$98.0 million from 2024, as a result of updating the number of veterans.
- A transfer of US\$124.1 million to the Social Security budget, an increase of US\$37.4 million over 2024, reflecting the expansion of the Social Security system and the value of the Social Security Old Age and Disability Pension.
- An allocation of US\$35.5 million for the payment of municipal employees' salaries and management bonuses, an increase of US\$11.5 million from 2024, due to the implementation of Decree-Law 84/2023, which underscores the government's commitment to ensuring fair compensation and capacity building at the local level.
- An allocation of US\$18 million to settle EDTL, E.P.'s debts from previous years, reflecting the government's commitment to stabilize the energy sector.
- An allocation of US\$10 million to settle hospital debts resulting from treatment abroad, ensuring that citizens who have received medical care abroad are financially supported and that outstanding obligations are settled.
- A US\$10 million transfer to the Special Administrative Region of Oe-Cusse Ambeno (RAEOA) to provide critical support for road infrastructure and the provision of primary health care services.
- A US\$5 million allocation for the capitalization of the Bank of Timor-Leste (BCTL), a critical step in strengthening the stability and resilience of the country's financial sector.
- A US\$5 million allocation for the establishment of a Fiber Optic Management Authority, which is critical to overseeing the expansion of Timor-Leste's digital infrastructure and improving connectivity across the country.

In the 2025 budget year, it is proposed, as provided for in the Law that created the Social Security system, to transfer the balance of the Social Security budget calculated in the previous budget year to the Social Security Reserve Fund.

This proposal includes a set of tax exemptions and special tax rates in 2025 in relation to excise duties, which remain unchanged from the tax rates established by Law no. 21/2023, of December 27, the General State Budget for 2024.

It is proposed to authorize the government to contract or issue up to US\$850 million in new public debt. On the other hand, it also authorizes the contracting of loans to finance expenditure other than expenditure on strategic infrastructure, namely expenditure in the areas of exploration, refining and transport of oil and gas and associated investments, and in the areas of education, health, training, agriculture, transport, tourism and renewable energies.

The ceiling for contracting and issuing new public debt is intended to allow for the development of infrastructure on the south coast related to the exploitation of mineral resources, as well as possible projects related to water security and management.

It is also proposed to authorize the government to issue guarantees of up to US\$80 million for the development of the solar energy project.