IX Constitutional Government

GSB

General State Budget 2026

Investing in National Transformation, Regional Integration and Inclusive Development

REPORT

VERSION APPROVED

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Projections of the main macroeconomic indicators with influence on the OGE and its evolution	DGPO
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Comparison between the macroeconomic and budget forecasts used and forecasts made by international reference bodies	DGPO
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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
Civil Service Commission	CFP
Consumer Price Index	CPI
Dalan Ba Futuru (Timor-Leste)	DBFTL
Democratic Republic of Timor-Leste	RDTL
Development Partner	DP
Direct Budget Support	DBS
European Union	EU
FALINTIL - Defence Force of East Timor	F-FDTL
Financial Management Information System	FMIS
Social Security Reserve Fund	FRSS
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
National Institute for Social Security	INSS
Integrated Financial Management Information System Unit	IFMISU
Integrated Municipal Development Program	IMDP (PDIM)
National Institute for Health	INS
International Development Agency	IDA
Laboratory National	LABNAT
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 Commerce and Industry	MCI
Ministry of Transport and Communications	MTC
National Communication Agency	ANC
National Development Agency	ADN
General Directorate of Planning and Budgeting	DGPO
National Police of Timor-Leste	PNTL
Organization of the Petroleum Exporting Countries	OPEC
Petroleum Fund	PF
Programme Budgeting	PB
Public Financial Management	PFM
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
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

Your Excellencies,
Madam President of the National Parliament, Honourable Vice-Presidents of the National Parliament

Distinguished Members of Parliament, Honourable Members of Government,

Ladies and Gentlemen,

It is with a profound sense of duty and responsibility that I address this distinguished assembly to present the Draft Law on the General State Budget for 2026.

This is, without doubt, one of the defining moments in the life of a State — to debate an instrument which is, above all, one of financial management, reflecting the strategies and political choices for our nation, and doing so through a democratic exercise of debate and scrutiny.

For this reason, the discussion of the General State Budget goes far beyond the consideration of numbers. **We are here to give meaning to these numbers, to give faces to these investments** — investments that aim to improve the lives of our people, to empower them, and to promote their development in a healthy, educated, entrepreneurial and happy society.

We are here to **implement a strategic plan**, first outlined in 2011, with a vision of policy, project and reform continuity — the only possible path to achieving our national development goals.

We are here to work for all Timorese families — from the farmer in Maliana to the coffee grower in Ermera, from the young graduate in Dili to the artisan in Suai, from the women and men who fish in Ataúro to the entrepreneurs of Baucau, and to the mother who takes her child to school in Oe-Cusse Ambeno.

This Budget is their story. It is the story of Timor-Leste. And it is the building of their future.

Ladies and Gentlemen, People of Timor-Leste,

Twenty-six years after our courageous choice for independence, allow me to take a moment to reflect on some of our recent achievements as a nation.

As a **young, peaceful, stable and promising country**, we have had the privilege, in recent years, of receiving with great dignity and pride Heads of State and Government, the Secretary-General of the United Nations, the President of ITLOS, and other dignitaries — as well as His Holiness Pope Francis,

whose visit brought a historic and unforgettable moment to our nation.

In recent months, Timor-Leste has taken firm steps in advancing its international integration agenda. We formally acceded to the **World Trade Organization** (WTO) in 2024 and, on 26 October last, became a full member of **ASEAN** — a historic and transformative achievement for our country.

Joining the WTO and ASEAN opens doors to new markets and opportunities. Currently, Timor-Leste's non-oil exports amount to around 21 million US dollars per year, mainly from coffee. This fact illustrates both a challenge and an opportunity.

By opening new markets, within the frameworks of the WTO and ASEAN, we can multiply that figure and ensure our presence in the region — a region which, in ASEAN's case, represents some 680 million potential consumers.

But with opportunity always comes responsibility. Our ASEAN eighbours expect Timor-Leste to be a partner they can rely on — a partner that keeps its promises, manages its resources wisely, and strengthens its institutions for better performance.

In this balance between opportunity and responsibility, Timor-Leste can project its voice in the corridors where regional decisions are made — a voice that has chosen peace over conflict and dialogue over division.

On the international stage, in a world troubled by wars, instability and intransigence, Timor-Leste stands as an example of peace, reconciliation and tolerance — both religious and political — and can contribute to building a better world.

Another complex and pressing global challenge is climate instability, with grave implications for the lives of millions. **Timor-Leste has** invested in **climate resilience programs** and remains committed to international sustainability goals and to the promotion and conservation of biodiversity — including through the establishment of the Green Climate Fund, which will receive capital allocation in this State Budget.

Furthermore, the Ninth Constitutional Government has **placed the ocean at the centre of its action**, seeking, as far as possible, to prevent and reduce the impacts of climate change for the benefit of present and future generations of Timor-Leste — and of the planet.

The Blue Economy we envision for our country seeks to harness the economic potential of marine resources for national sustainable development, while simultaneously ensuring the protection and conservation of the sea and its ecosystems.

In June this year, we approved an integrated and inclusive roadmap embodied in the ***Policy and Action Plan for the Promotion of a Resilient and Sustainable Ocean Economy in Timor-Leste (2025–2035)***, which was followed by an extensive period of public consultation, allowing any organisation or citizen to share their views on a matter so vital to our country and to each of us.

The final version, incorporating all contributions — including those from municipal authorities and local leaderships, gathered during a public session held on 21 October that brought together 750 representatives from across the country — will be approved by the end of this year, thereby enabling the alignment of national and international partners with the Government's objectives.

This mission of promoting and implementing the Blue Economy is yet another example of our potential as a responsible, altruistic nation committed to sustainable development. In short: **Timor is TASI — Timor Azul, Sustentável e Inovador — Blue, Sustainable and Innovative**!

As you know, our **national struggle for sovereignty over maritime boundaries** has always been linked to the pursuit of economic development and environmental protection.

The maritime boundary delimitation we achieved with Australia, and the ongoing efforts to delimit our boundaries with Indonesia, signify the full exercise of our sovereign rights — both over our seabed (including rights to the exploration of oil and gas) and over our Exclusive Economic Zone (EEZ), encompassing rights to fisheries within the water column and other entitlements, notably those related to the development of the maritime and tourism sectors.

It is therefore with great satisfaction that I inform you that this year we were able to resume maritime boundary negotiations with Indonesia. The first formal round was held in Dili in August, and the second round will take place next month in Indonesia.

The legal certainty resulting from the maritime boundary delimitation with Indonesia will undoubtedly contribute to our broader development vision, including efforts to combat Illegal, Unreported and Unregulated (IUU) Fishing, which has severely affected both State revenues and our marine environment.

Your Excellencies Ladies and
Gentlemen,

The Government remains firmly committed to economic diversification and job creation, alongside the strengthening of social capital and investment in infrastructure.

To realise this vision, we have been studying financial instruments that can help create long-term financing conditions for national investors.

Last month, we approved the establishment of the **National Development Bank of Timor-Leste** (BNDTL – Banco Nacional de Desenvolvimento de Timor-Leste), which will support productive investment and foster economic growth in the private sector.

This National Development Bank, inspired by international best practices, is intended to finance projects with high economic and social impact, particularly in priority sectors such as agriculture, tourism, manufacturing, infrastructure and social services.

By promoting access to credit, we are not only stimulating productive sectors but also strengthening territorial cohesion and social inclusion. The National Development Bank will become a cornerstone of our country's economic future.

In parallel, digital governance initiatives have been making progress. The introduction of a digital identification system will allow for greater accuracy in verifying beneficiaries, tighter control of payroll systems and reduced leakage in cash transfers, through a modern information system connecting banks and mobile money providers.

This includes data interoperability among tax, customs, pension and civil registration systems, strengthening compliance and expanding the revenue base.

As I mentioned earlier, Timor-Leste's accession to ASEAN is a transformative milestone for our country — not only through expanded access to markets but also through increased investor confidence, reinforced by the regulatory frameworks to which we have adhered.

However, none of these measures can succeed if implemented in isolation. That is why we have invested in the submarine fibre-optic cable project to improve our international connectivity — meaning faster and more affordable internet for citizens and businesses, both in the capital and in remote areas. In 2026, we will continue this investment to operationalise the **National Digital Infrastructure**, integrating submarine cables, terrestrial fibre, and universal digital access.

And, speaking of connectivity, the modernisation and expansion of **Presidente Nicolau Lobato International Airport**, already underway, will enhance regional connectivity, facilitate trade and tourism, and open Timor-Leste to regional markets.

Madam President of the National Parliament, Distinguished Members of arliament,

The Ninth Constitutional Government is committed to pursuing the objectives of sustained economic growth within a modern, transparent and efficient institutional framework, capable of combating corruption and bureaucracy, while promoting integrity, professionalism and public trust in State institutions.

It was with these values and convictions that, upon taking office, we responded to the political situation we found in 2023 — a period of stagnation in the process of State and nation-building.

We felt the need to reform in order to ensure the consolidation of the State. This is what the people chose when they elected this Ninth Government. The Timorese people chose a government determined to correct the irregularities that had persisted from the previous administration.

When we took office, we encountered a financial system that had fostered a lack of accountability, a lack of transparency, and an absence of planning and strategic vision — all of which caused losses and damage to the State's public finances, and to our Petroleum Fund.

We found a public administration that was inert — or worse, mismanaged — generating discontent and distrust, due to the absence of political guidance towards efficiency, transparency and ethics, all of which are essential for the implementation of sound public policies. We were, in short, confronted with a state of disorder, and with a justice system that had failed to earn the people's confidence in nation-building, and had not contributed to sustainable development or to the well-being of the Timorese.

A moment ago, I referred to the importance of continuity in public policies in order for them to be effective. This Government found that the previous administration had not adhered to the Strategic Development Plan 2011–2030 (SDP), resulting in complete stagnation.

We are now returning to the necessary path of continuity of the SDP — giving priority to basic infrastructure, to education and health services, and to the construction and consolidation of State institutions, with the active involvement of all Timorese citizens.

Ladies and Gentlemen,

It is also in this spirit that, starting next year, we will invest in greater support for the micro and small enterprises of our country — to motivate and encourage Timorese citizens to develop their capacities and to become more actively involved in the process of economic development.

This, indeed, is integration — enabling our people to take part in the national and regional markets. There will be no true benefit in Timor-Leste's integration into ASEAN unless our families and entrepreneurs participate in the new economic dynamics that this membership makes possible.

This, indeed, is independence — for otherwise, we would merely become an extension of other Asian countries' economic dominance, rather than a partner sitting at the same table, with equal capacity, dignity and bargaining power.

That is why the General State Budget for 2026 is more than a financial plan. It is our pact with the Timorese people, and our commitment to the region we are joining — as equals!

Madam President of the National Parliament, Distinguished Members of arliament,

Under the theme ***Investing in National Transformation, Regional Integration and Inclusive Development***, the proposed total budget of
2.291 billion US dollars (consolidated total) — representing a 5.2% increase compared to the 2025 Budget — is guided by one underlying principle in the planning of every dollar:

– Will this help a Timorese family live better tomorrow than it does today?

If 2024 was a year to correct the weaknesses found in our institutions, systems and public-sector processes, and 2025 a year to define policies, strategies, and implement reforms and audits, then 2026 will be the year to transform the economy.

Your Excellencies, Ladies and
Gentlemen,

This transformation must, however, be built upon a solid domestic foundation. The budget documents and reports before Your Excellencies detail our macroeconomic outlook and fiscal strategy.
This strategy is based on technical and financial assumptions designed to capitalise on our strengths and mitigate our vulnerabilities.

For example, non-oil GDP grew by 4.3% in 2024 and is projected to accelerate to 4.5% in both 2025 and 2026 — the highest economic growth in Timor-Leste in the past decade. This positive momentum gives us the opportunity to deliver tangible benefits to our people.

We are committed to four key objectives that guide every dollar we spend:

First, job creation, especially for our youth.

Among all Southeast Asian countries, Timor-Leste has the highest annual population growth rate — 1.8% between 2015 and 2022. In addition to being one of the youngest nations in the world, around 65% of our population is under 30 years of age. This presents a challenge, but above all, an opportunity — for we have a large, active workforce, full of energy and ideas.

Many of our brightest and most talented young people feel compelled to leave for Australia or Portugal because they cannot find meaningful work in their own country.

It is a national imperative to give our youth hope within their own nation, so that they need not seek their future abroad.

The 2026 General State Budget will support productive sectors capable of growing rapidly and generating large-scale employment. Indeed, we have increased funding by more than 55% for programs that promote inclusive and sustainable economic growth, and by 62% for infrastructure development, compared with last year.

We are not merely building roads; we are building pathways to employment. We are not only supporting agriculture; we are supporting the farmer's son who wants to add value to his father's harvest and sell it across Southeast Asia. When a young person graduates from university, they must see a future here — in Timor-Leste.

To achieve this, investment in basic infrastructure is essential. From the 223 million US dollars allocated to the Roads and Bridges Program (mainly through the Infrastructure Fund), to the $25.8 million for water and sanitation programs, the Government reaffirms its commitment to expand the Water Infrastructure Expansion Program and to ensure equitable access to safe drinking water across the country.

In this budget, we will allocate 138.5 million US dollars to electricity sector programs aimed at improving the power distribution network, while also investing in projects to diversify energy sources through renewable energy.

In addition, with an investment of 46.3 million US dollars in the airport sector, we are investing not only in connectivity, but in economic diversification — driving growth in tourism, trade and industry, particularly within the framework of regional integration.

For the agricultural sector, we have allocated 43.4 million US dollars to promote food security and job creation, both fundamental conditions for the success of our youth.

And these young people are found not only in Dili, but also throughout the country. Through an allocation of 37.1 million US dollars for decentralisation, which will unlock investment in local infrastructure and promote the development of municipal autonomy, we aim to foster the sustainable development of the entire nation — ensuring better quality of life and inclusive opportunities across all regions of Timor-Leste.

Second, stability through prudent fiscal management.

The Petroleum Fund is not our piggy bank – it belongs to future generations. It is a sacred trust, a pact between generations. The oil and gas beneath our seas do not belong only to us, but also to our children, and to their children.

Today, this Petroleum Fund holds around 18 billion US dollars – an enormous sum, roughly nine times the size of our non-oil GDP, and one of the highest ratios in the world. However, with our main petroleum fields now depleted, this Fund will not last forever. If we continue on the current path, it could be fully exhausted within the next decade.

Every withdrawal must be justified not only to this National Parliament, but also to the child who will inherit what we leave behind. We must expand domestic revenues not by overburdening taxpayers, but by creating a dynamic economy, where more people earn incomes and can contribute their fair share. Consider that, in 2024, the State spent about 1.93 billion US dollars, yet only 230 million of that amount was covered by our domestic revenues – more than $1.3 billion had to come from the Petroleum Fund.

This level of dependence is unsustainable. We must grow our private sector and

broaden our tax base, so that in the future a greater share of our budget is financed by prosperous Timorese businesses and workers, rather than by petroleum money. The 2026 Budget honours this intergenerational pact, while also financing investments in health, education and infrastructure that will raise productivity and create opportunities for all Timorese.

For this reason, we will continue to capitalise on our petroleum and mineral wealth, with an investment of 194.1 million US dollars in this strategic sector, supporting critical projects such as Tasi Mane, Greater Sunrise, and the Bayu-Undan transition, including future exploration and the construction of the gas pipeline to Timor-Leste.

The foundation of success for our growth and diversification lies in our human capital. We will not escape this trap of dependency unless we have a healthy and skilled population.

A substantial portion of the budget must therefore be allocated to investing in the human capital of our nation. With 181.7 million US dollars for

the education sector, $138.3 million for health, and $54 million for social protection and inclusion, we are investing in a healthier, more capable and fairer society – the essential foundations of the social and economic base of a developing nation.

At the same time, we will continue to invest in vocational training, with 12.8 million US dollars allocated to SEFOPE and to technical and training institutes, to encourage entrepreneurship, especially among the younger population. This strategy also foresees an investment of 32.1 million US dollars to support the private sector, particularly small and medium enterprises, cooperatives, and producers driving productivity in agriculture, tourism and manufacturing.

Third, building capable institutions.

When a citizen approaches a public service, they should be received with respect and efficiency. When a business applies for a licence, the process should be transparent and predictable. And when we make promises to our partners in ASEAN, our institutions must be strong enough to keep them.

We cannot be a reliable partner abroad if we are not first a capable government at home. We are strengthening our institutions to meet that standard. Timor-Leste has risen seven places in the Global Corruption Perceptions Index over the past five years, reflecting real progress in transparency and accountability — indeed, only two ASEAN countries (Singapore and Malaysia) rank ahead of us in this index.

We are also harnessing technology to improve governance: the introduction of a new digital identification system will ensure greater accuracy in identifying beneficiaries,

stricter payroll controls, and reduced leakages in public programs.

Moreover, we continue to reform the functioning of Government — strengthening procurement processes, upgrading financial management systems, and aligning our planning and budgeting with clear performance indicators — so that when a teacher awaits her salary or a contractor builds a school, the system functions efficiently and transparently.

On this matter, I can only reaffirm that the Government will continue to implement structural reforms in public financial management, aimed at the modernisation and transparency of the State's financial administration. This will include an investment of 6.2 million US dollars in human resource management, with the goal of consolidating a professional and accountable public administration.

Fourth, ensuring dignity for all our people.

Growth means nothing if it does not reach the grandmother in the mountains who still walks hours to access basic health care, or the child whose potential is limited by a school without proper facilities. Social cohesion is not merely a promise — it is the foundation of everything we are trying to build.

Access to electricity increased from about 38% of the population in 2010 to almost 100% this year, and by 2026, the last remaining 183 villages will have electricity. Access to clean water has also improved — from 70% of our population in 2014 to around 87% in 2024, according to international estimates.

These improvements restore dignity and opportunity in everyday life.
However, we know that there are still many families struggling to survive.

For this reason, the category of public transfers remains predominant in the 2026 General State Budget, as it includes direct social transfers such as pensions, disability allowances, child and social protection programs, as well as transfers to Social Security, the Special Administrative Region of Oe-Cusse Ambeno (RAEOA) and Municipalities, in the context of decentralisation.

In a government under my responsibility, I cannot fail to defend social inclusion and income redistribution in a country that would be nothing today without the sacrifices of its entire population. Every gesture, no matter how small, contributed to our independence; therefore, every small contribution from an independent State now helps to uphold the dignity of the social foundation of our Nation.

Your Excellencies Ladies
and Gentlemen,

Allow me also to be frank about some of our challenges.

The imbalance between imports and exports, the climate events that put pressure on our budget, and the temptation to spend beyond our means are risks we must take into account when preparing the budget.

The 2026 Budget does not conceal these risks — quite the opposite, it confronts them directly.

We have compared our projections with those of international institutions and have been honest about the uncertainties we face, using conservative forecasts and careful planning.

One pressing challenge is our dependence on imported goods. To put this into perspective: last year, Timor-Leste imported around 923 million US dollars in goods, while our non-oil exports amounted to just 21 million US dollars. This means that a large portion of our spending is directed towards the purchase of foreign products, rather than circulating within our domestic economy — a serious challenge for local industry.

At the same time, climate events — droughts, floods, cyclones — can put pressure on public finances, in addition to the suffering they cause to our people. We all remember Cyclone Seroja, which struck the country in 2021 and required over 6.2 million US dollars in unforeseen government expenditure for disaster response.

That is why we make conservative plans, strive for greater quality in expenditure execution, and focus investments on projects that generate real multiplier effects, especially at the municipal level, where people feel the impact most directly.

Finally, we must be realistic about fiscal risks. We know that natural disasters and external economic shocks can affect our budget, so we cannot afford to be unprepared. Our low level of public debt is an asset we will protect — currently at only around 13% of GDP — and our goal is to keep it low and sustainable.

Using the US dollar as our currency shields us from exchange-rate volatility, but it makes it all the more important to safeguard the Petroleum Fund.

As I mentioned earlier, we are modernising our tax system to create a fairer framework — one in which everyone contributes according to their means, rather than overburdening the most vulnerable.

We will introduce Value Added Tax (VAT) only when our systems are ready and our population is prepared. Indeed, our analysts estimate that VAT could eventually increase revenues by about 1% of GDP — a useful boost to our finances — but we will not implement such a measure until we can do so carefully, with proper consultation and

protection for low-income families.

We are improving our financial management, not to achieve bureaucratic perfection, but to ensure that every dollar reaches its intended destination. This means strengthening financial management systems, improving procurement processes, and raising standards of reporting and auditing.

We are aligning our planning, programming and budgeting so that each program includes clear indicators that tell us — and tell you — what every dollar actually achieves.

These may seem like technical reforms, but they matter greatly — to the teacher waiting for her salary, the contractor building a school who deserves to be paid on time, and the citizen who has the right to know how their government invests their money.

When procurement is transparent and competitive, we achieve better value for money and create opportunities for local businesses. When financial management is sound, we can respond quickly to emergencies and to new opportunities. When reports are clear and honest, citizens can hold us accountable for our promises.

Membership in the World Trade Organization (WTO) establishes fair rules for trade, giving our farmers, fishers and small manufacturers predictable access to foreign markets, while providing investors with the certainty they need to build factories and create jobs here in Timor-Leste. Accession to ASEAN will integrate us into regional supply chains, reduce the cost of transporting goods, and open new opportunities in services — from tourism to digital trade.

Indeed, ASEAN membership is already expanding Timor-Leste's international profile and investor confidence. This means greater foreign interest in investing in our industries here in our country, more tourists visiting our shores, and more connections and opportunities for our businesses to seize.

But none of these opportunities will materialise automatically — we must prepare our people and institutions to seize them.

Our task now is to translate these international frameworks into concrete benefits, through practical support.

That is why this budget places equal emphasis on maintenance as well as new construction, on municipal capacity as well as central government programs, and on performance as well as promises. There is no point in building a new school if we cannot maintain it or hire qualified teachers. It makes no sense to build a road only to let it fall into disrepair after two years.

New initiatives, such as the National Development Bank (BNDTL – Banco Nacional de Desenvolvimento de Timor-Leste), designed to mobilise financing for private-sector growth and infrastructure projects, or the prioritisation of strategic investments along our southern coast, particularly in petroleum- and mining-related projects, represent tangible measures that can expand our industrial capacity and unlock new sources of growth.

The Blue Economy, as I have already mentioned, represents both our heritage and our future. Investing in sustainable fisheries, aquaculture and tourism not only feeds our families, but also creates jobs and generates essential income, while at the same time protecting our natural wealth.

Your Excellencies, Ladies
and Gentlemen,

On my travels abroad, I have carried with me the stories of our people. I have told world leaders that small states like ours do not need charity — they need partnership. We have solutions to offer, experiences to share, and contributions to make. But we need fair rules, accessible climate finance, and truly open markets for small exporters. Our engagement with the world reinforces our domestic goals.

In New York, at the United Nations, and in Geneva, at the WTO, we have consistently argued that development and peace go hand in hand. Small states like ours must build resilience at home, while also building solidarity with our neighbours and partners abroad.

We support a multilateral system that listens to the voices of Small Island Developing States (SIDS) and Least Developed Countries (LDCs) — not as cases for charity, but as partners with valuable perspectives and solutions.

This outlook shapes our diplomacy and will shape our trade relations: cooperation that opens markets and creates opportunities without compromising our sovereignty or our values.

This is the spirit we bring to ASEAN: integration with dignity, reform with purpose, and growth that genuinely touches the lives of real people.

We will continue to tell the Timorese story to the world: that there can be peace after struggle, dialogue after division, and that reconciliation after conflict is not an abstract ideal.

And finally, a word to our development partners: We welcome investment that builds

skills and creates lasting value. We appreciate budgetary support that strengthens our systems and institutions, not merely our balance sheets.

We seek alignment with our ambitions for technological and digital development, with the implementation of the Strategic Development Plan (SDP – Plano Estratégico de Desenvolvimento), the Government Program, and the Blue Economy Policy.

But let me return to what matters most — the people of Timor-Leste.
To our private sector: help us train the next generation of Timorese entrepreneurs. Every formal business you create, every young person you train, every export market you develop makes our entire nation stronger. Take advantage of the new opportunities that membership in the WTO and ASEAN will bring. Invest in our youth through training and skills programs.

To our young people: take advantage of every training and employment opportunity available. By investing in yourselves, you are investing in your country. Take pride in contributing to the building of this State, whose future will be in your hands.

To our dedicated public servants: You are the bridge between the Government's promises and citizens' realities. Work with integrity and urgency — our people deserve nothing less. And remember that every form you process, every service you deliver, every decision you make affects real families with real hopes and real needs.

Finally, I would like to make an appeal to our institutions, and above all, to our sovereign bodies: Let us work together — with all sectors, public and private, from north to south, from west to east, from youth to elders. Our strength does not lie in our petroleum reserves or our strategic location, but in our people — in their resilience, their creativity, and their determination to build a better future for their children.

Let us move forward together — with discipline in our finances, ambition in our reforms, and unity in our national purpose — for together we are stronger than any challenge we face.

And so, we stand ready to debate a State Budget that is prudent and balanced, yet one that can be further improved with the valuable contributions of the Honourable Members of Parliament.

The annual democratic debate on the State Budget is a test of the strength of our democracy, where sovereign institutions come together with a common goal: to improve the economic and social life of our nation.

Thank you very much.

Kay rala Xanana Gusmão

Executive Summary

Overview

The General State Budget proposal is governed by the legal requirements set out in the Budget and PFM Framework Law (LEO) (Law 3/2025, of April 23). The theme of the 2026 General State Budget proposal is: ***Investing in National Transformation, Regional Integration, and Inclusive Development***.

The total consolidated budget for 2026, after removing double-counting from transfers between entities, is US$ 2,291million, representing a 5.2% increase compared to the 2025 Budget. Of this amount, US$ 354.6 million (15%) will be allocated directly to citizens through veterans and Social Security benefits. Excluding these transfers, the effective budget available for other purposes is US$ 1,936.5 million.

The budgets for individual components within the Public Administration Sector are as follows:

- US$ 2,215 million for Central Administration, an increase of 7% from the 2025 Budget.
- US$ 170.4 million for Social Security, a decrease of 3% from the 2025 Budget.
- US$ 60 million for the Special Administrative Region of Oe-cusse Ambeno (RAEOA), a decrease of 4% from 2025.

The consolidated budgets for Central Administration and RAEOA are US$ 2,245 million, representing an increase of 6% from the 2025 Budget.

Non-Oil Real Gross Domestic Product (GDP) growth was 4.3% in 2024, marked by strong execution of the budget and increased private sector activity. Economic growth is projected to rise to 4.5% in 2025, driven by continued expansion of private sector and improved execution of government spending.

In 2026, the economy is expected to maintain the growth rate of 4.5%, supported by stronger household consumption, higher government expenditure on goods and services, improved execution of public investment, and greater private sector activity, further reinforced by Timor-Leste's accession to ASEAN and expanded access to credit.

Despite this positive outlook, the fiscal deficit will remain significant at 59.5% of GDP, financed primarily through excess withdrawals from the Petroleum Fund, but partially offset by the use of cash balances, concessional loans, and budget support from international partners. While the Petroleum Fund continues to perform strongly, current projections indicate that it could be depleted by 2037 unless new petroleum revenues are secured or comprehensive tax reforms are introduced. This situation highlights the urgency of pursuing continued fiscal reforms while broadening Timor-Leste's economic base through diversification

The government's fiscal strategy outlines key reform priorities. Procurement and public investment management reforms are designed to improve the implementation of complex multi-purpose projects over the coming years, thereby providing a foundation for sustained future economic growth. By enhancing public investment management mechanisms, the government has the

potential to increase concessional loan financing for capital investments, reducing excessive reliance on the Petroleum Fund. Civil service reforms, including the introduction of mandatory retirement at age 65, aim to bring greater discipline to the management of the public sector wage bill and reduce costs over time.

Institutional and investment reforms are also underway. The establishment of the National Development Bank of Timor-Leste (BDNTL) will play a catalytic role in mobilising financing for private sector growth and infrastructure projects. At the same time, the government is prioritising strategic investments along the south coast, particularly in projects linked to the petroleum and mining sectors, to expand industrial capacity and unlock new sources of growth.

In parallel, digital governance initiatives are being advanced. The introduction of a digital ID will allow for greater accuracy in beneficiary verification, tighter payroll controls, and reduced leakages in cash transfers through modern information systems across banks and mobile money providers. It will also improve data management and interoperability across tax, customs, pensions, and civil registration systems, strengthening compliance and widening the revenue base. Timor-Leste's imminent accession to ASEAN marks a transformative milestone. Membership will expand market access, enhance investor confidence, and embed the country within regional trade and regulatory frameworks. The 2026 Budget aims to facilitate these opportunities by prioritising reforms in land titling, financial inclusion, solvency and accounting standards, as well as investments in fibre-optic connectivity and airport redevelopment. Collectively, these measures aim to make Timor-Leste a more attractive destination for investment while fostering inclusive and sustainable growth.

Table 1: Fiscal and Memorandum Table Budget 2025 and Budget 2026, US$ Million

Expenditure By Subsectors by Public Administration Sector	Note	Approved Budget 2025	Proposed Budget 2026
Central Administration (AC)	1=2+3+4	**2,073.0**	**2,214.7**
Expenditures Net of Transfers to RAEOA and the Social Security	2	1,938.7	2,060.6
Transfer to the Social Security	3	124.3	124.1
Transfer to RAEOA	4	10.0	30.0
Social Security (SS)	5=6+7	**176.3**	**170.4**
Expenditures Financed by SS Revenues	6	52.1	46.3
Expenditures Financed by Transfer from the Central Administration	7	124.3	124.1
Special Administrative Region for Oe-cusse Ambeno (RAEOA)	8=9+10	**62.2**	**60.0**
Expenditures Finance by RAEOA (Non-tax revenues + cash balance)	9	52.2	30.0
Expenditures Financed by Transfer from the Central Administration	10	10.0	30.0
Total Global Expenditure	11=1+5+8	**2,311.5**	**2,445.1**
Total Consolidated Expenditure	12=11-3-4	**2,177.2**	**2,291.0**
Recurrent Expenditure	13=14+15+16	**1,714.5**	1,792.2
Salary and Wages	14	492.8	484.7
Goods and Services	15	416.4	474.8

Expenditure By Subsectors by Public Administration Sector	Note	Approved Budget 2025	Proposed Budget 2026
Public Transfers	*16*	805.3	832.7
Capital Expenditure	**17=1819**	**462.7**	498.8
Minor Capital	*18*	22.6	38.9
Development Capital	*19*	440.1	459.8
Total Revenues	**20=21+22+23**	**862.6**	**848.8**
Domestic Revenues - Central Administration	*21*	257.9	253.3
Non-Tax Revenues collected by RAEOA	*22*	0.7	5.9
Revenues collected by Social Security	*23*	52.1	46.3
Estimated Sustainable Income (ESI) from the Petroleum Fund	*24*	551.9	543.3
Fiscal Balance	**25=20-12**	**(1,314.6)**	**(1,442.2)**
Deficit Financing	**26=27+28+29+30**	**1,314.6**	**1,442.2**
Excess withdrawals from the Petroleum Fund	*27*	1,009.1	1,175.9
Use of Treasury Cash Balance	*28*	251.5	205.8
Loan Disbursement	*29*	45.0	52.6
Direct Budget Support (Grants)	*30*	9.0	7.9

Table 2: Fiscal and Memorandum Central Administration and RAEOA, US$ Million

	Approved Budget 2025	Proposed Budget 2026
Total Expenditure Central Administration (1)	2,073.0	2,214.7
Transfer to RAEOA (1.1)	10.0	30.0
Total Expenditure RAEOA (2)	62.2	60.0
Total Consolidated Expenditure Central Administration + RAEOA (1+2 -1.1)*	**2,125.2**	**2,244.7**
Recurrent	1662.8	1,745.9
Salaries & Wages	490.4	482.7
Goods and Services	414.8	473.3
Public Transfers	757.6	789.9
Capital	462.4	498.8
Minor Capital	22.6	38.9
Capital & Development	439.8	459.8
Revenues	**810.6**	**802.5**
Domestic Revenues	258.6	259.2
Domestic Revenues Central Administration	257.9	*253.3*
Non-Tax Revenues Retained by RAEOA	0.7	*5.9*
Estimated Sustainable Income (ESI)	551.9	543.3
Fiscal Balance	**-1,314.6**	**-1,442.2**
Financing Deficit	**1,314.6**	**1,442.2**

	Approved Budget 2025	Proposed Budget 2026
Excess Withdrawals	1,009.1	1,175.9
Use of Cash Balance	251.5	205.8
Loans	45.0	52.6
Direct Budget Support	9.0	7.9

*Note: * Total Exp. CA + Total Exp RAEOA -Transfer from CA to RAEOA to avoid double counting.*

Table 3: Fiscal and Memorandum Social Security, US$ Million

	Approved Budget 2025	Proposed Budget 2026
Total National Institute of Social Security (INSS)	**176.3**	**170.4**
Recurrent	**176.0**	**170.4**
Salaries & Wages	*2.5*	*2.0*
Goods and Services	*1.5*	*1.5*
Public Transfers	*172.0*	*166.9*
Capital	**0.3**	**-**
Minor Capital	*0.1*	-
Capital & Development	*0.3*	-
Revenues and Financing	**176.3**	**170.4**
Social Security Contributions	*50.5*	*46.3*
*Fines and Penalties**	*0.0*	*0.0*
Income	*0.1*	*0.1*
Transfers from the Central Administration	*124.3*	*124.1*
Recurrent Transfers from FRSS	*0.4*	-
Transfers from 3rd Countries	*0.1*	-
Use of Cash Balance	*1.0*	-

**Amount less than US$ 50,000*

1. Macroeconomic Outlook and Fiscal Strategy

Fiscal Strategy

1.1. Under the theme "*Investing in National Transformation, Regional Integration, and Inclusive Development*", the 2026 Budget prioritises reforms to enhance competitiveness, expand opportunities for the private sector, and safeguard the long-term sustainability of public finances. With ASEAN accession confirmed, the fiscal strategy reflects the government's commitment to positioning Timor-Leste within a dynamic regional economy while continuing to raise living standards at home.

1.2. The fiscal strategy builds on recent progress that has lifted non-oil GDP growth, aligning budget priorities with the Strategic Development Plan (2011–2030) and the IX Constitutional Government Program. Capital allocations remain substantial to sustain the pipeline of priority infrastructure, while budget execution is expected to improve with the implementation of a new procurement law and the gradual adoption of multi-year contracting. This balanced approach, combining infrastructure delivery, economic diversification and social capital development, aims to convert larger budget allocations into faster execution, higher-quality outcomes, and stronger, more inclusive, growth.

1.3. Looking ahead, the fiscal strategy positions Timor-Leste to capture the opportunities of ASEAN integration while strengthening domestic fiscal foundations. The planned introduction of a Value Added Tax (VAT) in 2027 will provide a new and sustainable source of revenue, expected to initially add around 1 percent of GDP. Over time, VAT revenues will expand further as the formal economy grows, and trade and investment flows deepen through ASEAN membership.

1.4. The public wage bill is projected to gradually decline as civil service reform advances. Compulsory retirement and a hiring freeze will generate lasting savings. At the same time, measures such as increased investments in renewable energy and the gradual reduction in public transfers to the *Banco Nacional de Desenvolvimento de Timor-Leste* (BNDTL) will help to reduce future fiscal pressures. In this way, over time, BDNTL will reduce reliance on subsidies and support economic diversification by providing affordable credit and guarantees to priority sectors.

1.5. Capital expenditure will remain steady in the near term, with priority given to the completion of projects already underway. A planned expansion in 2029 and 2030 will follow, as execution rates improve under the new procurement law and multi-year contracting framework. These measures will allow the government to reallocate resources towards high-impact infrastructure, ensuring fiscal policy sustains growth while promoting inclusive development and deeper regional integration.

1.6. Key Macroeconomic and Fiscal Statistics are summarized in Table 4 and elaborated throughout this document. The table provides recent figures and forecasts for GDP growth and inflation as well as figures for the public debt and the fiscal deficit position.

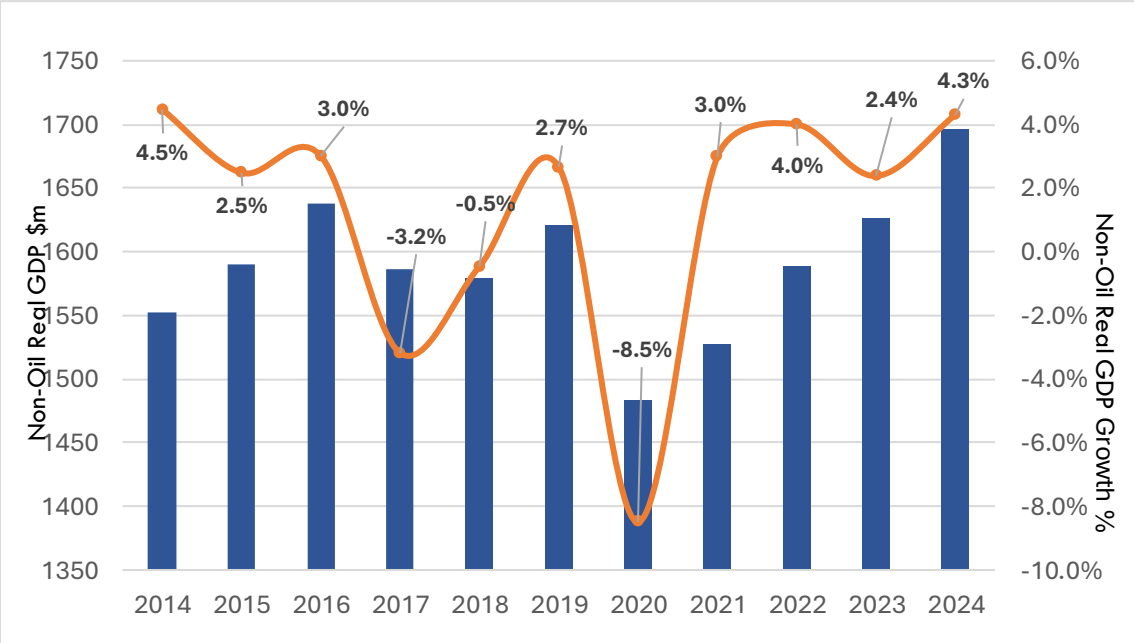
Table 4: Key Macroeconomic and Fiscal Statistics, %

Statistic	Actual					Forecast					
	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Real GDP (non-oil)	**-8.5**	**3.0**	**4.0**	**2.4**	**4.3**	**4.5**	**4.5**	**4.7**	**4.8**	**4.8**	**5.0**
Household Consumption Growth	-1.5	-3.0	14.6	3.8	3.6	3.6	9.0	3.6	3.4	3.4	3.7
Government Consumption Growth	4.9	2.9	-0.3	-0.8	0.9	7.4	1.0	3.0	3.1	3.2	0.7
Investment Growth	-42.3	-14.1	32.5	11.8	39.5	-1.8	5.8	4.8	6.4	6.7	10.4
Export Growth	-47.3	79.3	30.3	31.8	13.3	13.3	6.1	4.9	6.9	5.0	6.2
Import Growth	-7.0	-8.9	22.8	4.9	14.6	3.5	6.8	2.0	2.4	2.6	2.3
Inflation CPI (annual average)	**0.5**	**3.8**	**7.0**	**8.4**	**2.1**	**0.5**	**1.2**	**2.0**	**2.0**	**2.0**	**2.0**
Inflation CPI (end of period)	**1.2**	**5.3**	**6.9**	**8.7**	**-0.4**	**0.5**	**1.2**	**2.0**	**2.0**	**2.0**	**2.0**
Fiscal Deficit* % of GDP	**25.9**	**42.7**	**58.4**	**42.6**	**47.9**	**56.9**	**59.5**	**59.3**	**60.2**	**61.2**	**60.6**
Debt Stock % of GDP	**13.0**	**14.5**	**14.5**	**14.2**	**13.8**	**14.1**	**14.9**	**14.5**	**13.0**	**11.6**	**10.3**

Source: Actual GDP figures from National Accounts, National Statistics Institute, INETL; GDP forecasts and CPI forecast 2025 from the Directorate of Economic Policy DNPE, Ministry of Finance; Actual CPI inflation figures from the National Statistics Institute, INETL; CPI forecasts 2025-26 from BCTL, September 2025, CPI forecasts 2027-2030 from IMF World Economic Outlook, April 2025; 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, September 2025. Note the fiscal deficit is calculated for the Central Administration and RAEOA. This includes transfers to the Social Security Fund but doesn't include expenditures financed by social security contributions or the fund's investment returns. The deficit calculation shows the amounts that the government must finance through loans, grants, cash balances or excess withdrawals from the Petroleum Fund.

Macroeconomic Overview

Figure 1: GDP growth actuals 2014-2024, LHS $US Million, RHS %



Source: National Accounts, National Statistics Institute, INETL, September 2025

Historic Growth

1.7. As an oil producing nation, Timor-Leste's overall GDP is highly volatile, because it depends on both oil production numbers and international prices (both factors that are inherently difficult to predict). However, because the oil sector generates minimal employment as it requires highly skilled and specialized workforce and operates largely offshore, it has limited direct impact on household incomes. For this reason, non-oil GDP better reflects the economic conditions experienced by most of the population. Therefore, all references to GDP growth in this section, refers to non-oil real (inflation-adjusted) GDP growth.

1.8. Between 2014 and 2023, Timor-Leste experienced average real GDP growth of just 1.0% per year. Growth was stronger in the early 2010s, driven by increased government expenditure associated with the Government's economic strategy to build the necessary infrastructure base to allow the private sector to flourish in the long run. Public investment during this period enabled a significant upgrade to road and electricity coverage throughout Timor-Leste, which has helped to improve both living standards and the broader business environment.

1.9. However, this progress was undermined by periods of negative economic growth in 2017, 2018 and 2020. In 2020, GDP growth fell by 8.5% due to the combined effect of the delay in approving the General State Budget, political uncertainty, the COVID-19 pandemic, and the application of a State of Emergency.

1.10. In response, government expenditure surged by around 29% in 2021 as part of an expansionary fiscal strategy to kick-start the economy following the impact of the pandemic. This stimulus supported a recovery in real non-oil GDP growth which bounced back to 3.0%.

1.11. 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. At the same time, imports increased by 23% in real terms, as a result of increasing demand and global prices.

1.12. In 2023, GDP growth slowed to 2.4%. Whilst overall government expenditure on salaries and wages and goods and services increased by 4.6%, a high inflation rate saw government consumption fall by 0.8% in real terms. Despite this, overall growth remained positive, supported by higher government capital spending and a rebound in private investment.

1.13. Household consumption also saw an increase of 3.8%. This reflects an increase in overall economic activity as the economy recovered from lingering effects of the COVID-19 pandemic. Non-oil exports rose sharply by 31.9% in real terms, driven primarily by an increase in service exports, particularly travel services. However, exports of goods (excluding petroleum exports) saw a fall of 20%, highlighting ongoing structural weaknesses in the tradable goods sector. This shows the importance of diversifying Timor-Leste's export base beyond petroleum and services to achieve more balanced and sustainable growth.

GDP 2024

1.14. Non-Oil GDP growth is estimated to have accelerated to 4.3 % in 2024, up from 2.4% in 2023. The higher growth rate was primarily driven by strong growth in investment, both private and public, as reforms in government procurement and investment management improved the execution of public spending, which subsequently supported private sector expansion.

1.15. Overall GDP growth over the last decade is displayed in Figure 1 above. 2024 represents the strongest economic growth in the past decade, reflecting stable government, more effective targeting of the national budget, completion of important reform measures and investments to support the private sector.

1.16. The following section outlines the progression of each of the main components of GDP (Consumption – including government consumption, Investment, Exports and Imports).

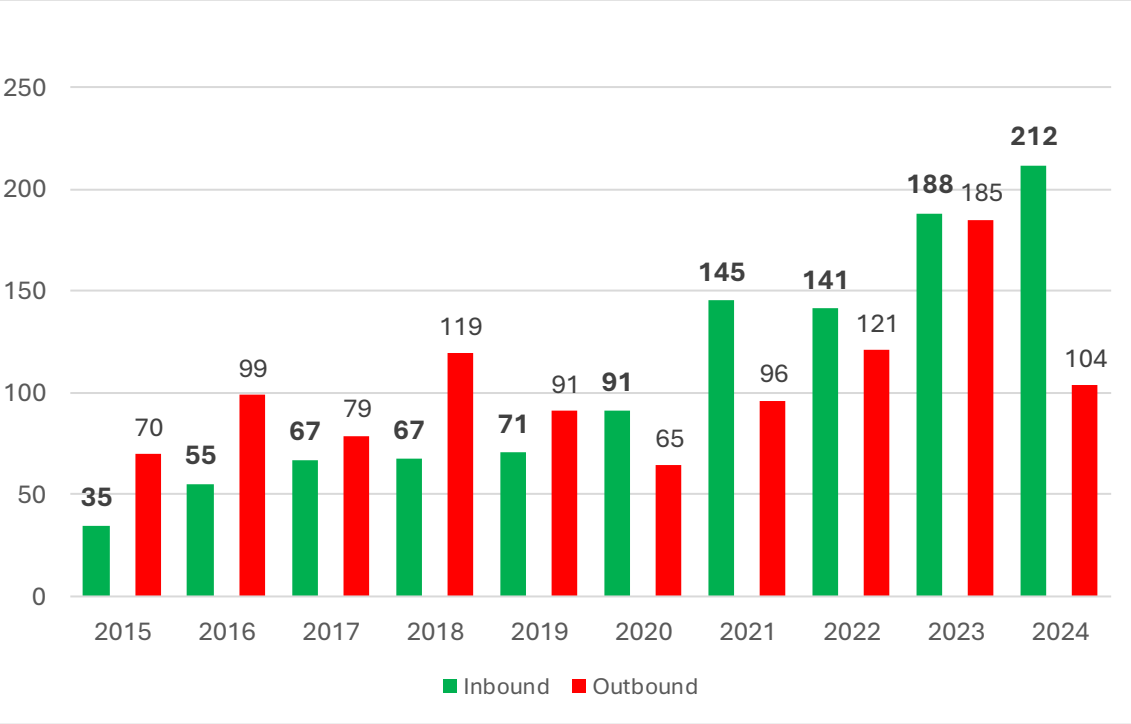
1.17. **Consumption**, which includes both household/private consumption and government expenditure on goods and services as well as salaries and wages (known as general government consumption). Household consumption was one of the largest contributors to GDP growth in 2024, rising by 3.6% in real terms, primarily driven by higher household expenditure on communication, recreation & cultural activities, and the service sector. This suggests that households had more funds available for discretionary spending, indicating improvements in employment and overall living standards.

1.18. Remittances also played a key role in supporting household consumption in Timor-Leste. Net remittances increased by more than US$ 100 million, outward remittances declined by over US$ 80 million while inward remittances rose by US$ 24 million.

1.19. The growth in consumption of communication services coincides with the government's decision to grant licenses for Starlink internet services which is expected to lead to a major increase in internet speeds, a boost to productivity, and the creation of new opportunities in the service sector.

1.20. Expenditure on food and non-alcoholic beverages rose moderately by 0.8%. Despite a reduction in taxes on tobacco, expenditure on tobacco and alcohol fell by 4.4%, suggesting that the excise duty reduction did not generate any negative effects. This aligns with analysis published in previous budgets that suggested that raising tobacco duties in 2023 to US$ 100 per kilogram from US$ 50 per kilogram did not have much effect on reducing consumption as consumers switched to illegal imports of tobacco.

Figure 2: Inward and Outward Remittances to Households, US$ Million

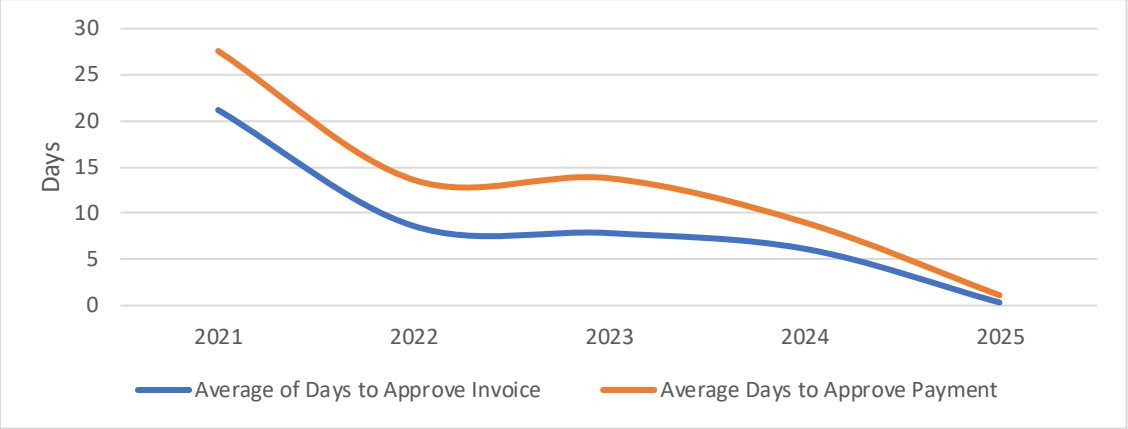


Source: Central Bank of Timor-Leste, BCTL, May 2025

1.21. **General government consumption** grew by 0.9% in real terms, reflecting higher expenditures on both goods and services as well as salary and wages.

1.22. Although the final approved budget for Central Administration and RAEOA for 2024 was only 10% higher compared to 2023, overall expenditure increased by 11%. This was partly the result of improvements in invoice and payment processing times which enhanced overall government performance. As shown by Figure 3, average processing times for payments and invoices were reduced by two days in 2024.

Figure 3: Average Invoice and Payment Approval Times 2020-2025



Source: GRP, Ministry of Finance, September 2025

1.23. **Investment** is estimated to have seen significant growth in 2024. A combination of a strong 54% growth in government investment and 75% growth in private investment.

1.24. Capital and development expenditure for the Central Administration and RAEOA totalled US$ 300 million, up from US$ 187 million in 2023. This reflects a strong focus on long-term infrastructure development, including road rehabilitation, bridge construction, and highway expansion. Additionally, preparations for a historic Papal visit in September 2024 also contributed to higher government investment in public infrastructure.

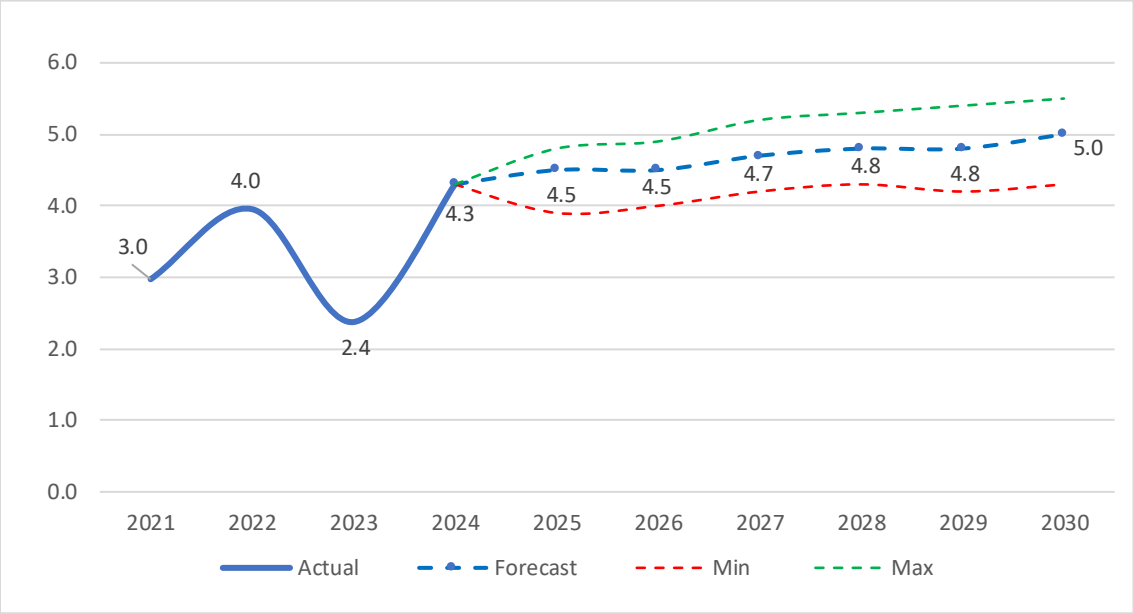
1.25. Timor-Leste also experienced a significant increase in visitor arrivals. Immigration data indicates a 17% rise in foreign arrivals. While the figures may not fully capture tourism activity, since EU nationals are exempt from tourist visas and many professionals initially enter on tourist visas, the increase in foreign arrivals is a strong indicator of higher tourist or business-related activity.

1.26. Non-Oil exports grew by 13.3% in real terms during 2024, driven entirely by strong growth in the service sector. Service sector growth was largely the result of growth demand for travel services, a trend expected to continue in coming years. Growth prospects will be supported by increased flight options to Timor-Leste (through new routes to China and Malaysia with Aero-Dili and Batik air respectively) and the anticipated accession to the ASEAN trading block.

Timor-Leste Growth Outlook

1.27. Figure 4 presents GDP growth forecasts for 2025 to 2030. The blue line in the middle provides the Ministry of Finance's central growth estimates, whereas the red and green lines provide upper and lower bounds, respectively.

Figure 4: GDP growth 2021-2024 and outlook 2025-2030, %



Source: Actuals from National Accounts, INETL, Forecasts from the National Directorate of Economic Policy, Ministry of Finance, September 2025

1.28. **In 2025, Non-Oil GDP is forecast to grow at 4.5%,** which would represent the highest growth rates in over a decade. This forecast is based on expected improvements in budget execution for 2025, latest available trade figures, and analysis of available indicators on GDP. Growth is expected to be driven by growth in government spending, rising household consumption, and private investment. Immigration data up until July 2025 has shown a 17% increase in foreign arrivals, potentially suggesting greater tourism or business activities involving foreign nationals.

1.29. Available indicators suggest that household consumption will continue to grow in 2025, supported by increased household transfers (due to higher social security payments), growth in remittances, and increases in consumption related imports. As such household consumption growth is anticipated to remain close to the level recorded in the previous two years, at around 3.6 to 3.8%.

1.30. In addition, government programs in the agricultural sector are expected to boost domestic crop production, which in turn will contribute further to consumption growth and import substitution. At least 300 hectares of fertile land in Halic have been cultivated with the introduction of new crops under conservation agriculture methods. Government programs have also focussed on irrigation as well as expanded the cultivation of soybean, mung bean, peanut, potatoes and vegetables. These programs will contribute to replacing imported food staples, further boosting economic growth.

1.31. Government consumption is forecast to grow by 7.4% in real terms in 2025. Execution data up until August 2025 indicates that spending on Salary and Wages will reach US$ 497 million, the highest level in the country's history. Expenditure on Goods and Services is also anticipated to rise, allowing the government to achieve an overall execution rate of 90%.

1.32. Public investment, particularly investment in development capital, recorded strong growth in the first half of 2025 compared to 2024. Although spending slowed in August and September, it is anticipated to rise again in the last quarter of the year, reaching around US$ 315 million, representing a moderate increase from the US$ 300 million executed last year. The execution rate for public investment remains one of the largest sources of uncertainty in this year's GDP forecast. Should capital investment in the last quarter of the year fail to accelerate in line with trends observed in 2023 and 2024, GDP growth could fall to 3.9%.

1.33. Similarly, if ongoing improvements in procurement and public investment management raise development capital expenditure to around US$ 350 million, GDP growth could reach 5%. This uncertainty also extends to the private sector. In 2025, private sector lending has increased significantly, particularly in construction, with around US$ 79 million of credit growth between June 2024 and June 2025. Should this credit growth translate into actual private investment, the government could exceed its target of 10% annual credit growth. However, if projects are delayed or fail to materialise, GDP growth is likely to fall closer to the lower end of projections.

1.34. **GDP growth is forecasted to continue to grow at 4.5% in 2026** as the country continues to benefit from government reforms and takes the first steps towards economic integration with the ASEAN trading bloc. Household consumption is projected to grow even faster in 2026, boosted by one-off transfers to pay for pensions to people newly approved as eligible Veterans (a doubling of the number of the number of veterans being paid under the program). These increased payments were budgeted for 2025, with the first payments anticipated to commence in December 2025. Newly eligible veterans will receive 12 months of retroactive payments, providing a substantial boost to household incomes and private consumption, starting from the last few weeks of December 2025 and extending into the first quarter of 2026.

1.35. Government consumption is also forecast to rise in 2026, due to a higher allocation on Goods and Service expenditure to meet policy objectives and improve service delivery. 2026 is forecast to see a continuation of the recent trend of higher government execution on Goods and Services expenditure.

1.36. The government has also taken a crucial step in securing future economic growth by securing agreement for Timor-Leste to become the 11th full member of ASEAN at the October 2025 Summit. Membership is expected to have an immediate impact on several components of GDP. Joining ASEAN increases Timor-Leste's international profile, with the potential to stimulate tourist arrivals and attract greater levels of foreign direct investment (FDI).

1.37. ASEAN membership also changes perceptions among investors. Sectors such as light manufacturing, digital services, and renewable energy, which have been constrained by Timor-Leste's small domestic market and relative isolation, will become more viable as part of a single ASEAN market of over 600 million people. At the same time, ASEAN's frameworks on accounting standards, insolvency laws, and dispute resolution will help reduce investment risks, potentially supporting job creation and new enterprises. With ongoing reforms in land titling, financial inclusion, and modern infrastructure such as fibre-optic connectivity, ASEAN membership multiplies these reforms by signalling stability and regional integration to the global market.

1.38. The central forecast for 2026 assumes that the government will continue to meet its target of securing a 10% annual increase in private sector investment. This should be further supported by establishment of the National Development Bank of Timor-Leste (BNDTL), which is expected to boost existing efforts to stimulate credit growth and support economic diversification. The lower boundary of the projections reflects the likely growth path if these assumptions do not materialise.

1.39. The implementation of the new procurement law will make it easier for the government to implement complex multi-purpose projects. This should improve both the quality and execution rate of public investment, which is forecasted to grow by over 6% in 2026.

1.40. Non-Oil exports are also forecast to grow strongly. As in recent years, growth will be driven by an expansion of service sector exports, supported by the implementation of a fibre-optic internet cable and Timor-Leste's accession to ASEAN. However, given that exports are relatively small in scale, their contribution to the final GDP growth number from export growth is limited.

1.41. Despite potential new trade opportunities through ASEAN, the trade balance is forecast to worsen in the short-term, as a significant share of consumption spending will continue to be directed towards imports. Over time, this imbalance will be reduced through economic diversification.

1.42. In the medium term, Timor-Leste's growth outlook is increasingly positive as the government lays the groundwork for a more dynamic and investment-friendly economy. The central forecasts show GDP growth gradually rising in line with the government's targets. However, these outcomes are dependent on the successful implementation of the government's program and tackling bottlenecks to economic growth. Low execution or inefficiencies in implementation of key policy priorities would prevent the achievement of these important growth objectives.

1.43. Recent trends for investment have been positive, with important steps underway to unlock further future investment. Including government efforts to issue land titles that will expand access to credit and build investors' greater confidence and judicial reforms aimed at ensuring disputes are resolved more quickly and efficiently. The establishment of BNDTL will open up new opportunities for communities and businesses that have previously struggled to secure financing. At the same time, the central bank is advancing financial inclusion initiatives, such as mobile guarantees that allow vehicles and other assets to be used as collateral. Together with financial literacy programs, these measures are widening the reach of the financial system and creating new opportunities for households and small enterprises.

1.44. The government is also aligning financial and regulatory frameworks with international best practices. Reforms to accounting standards and the adoption of a modern solvency law are improving transparency and strengthening business confidence. These measures create a more stable and predictable environment, encourages private investment while supporting growth in key sectors such as agriculture, where improved access to credit and extension services is raising productivity and incomes in rural areas. Collectively, these reforms will allow

the private sector to play a stronger role as the primary driver of economic growth and job creation.

1.45. Alongside these institutional improvements, major infrastructure investments are set to transform Timor-Leste's economic landscape. The fibre optic cable will provide faster and more affordable internet, unlocking opportunities in digital services and enabling businesses to operate efficiently. The planned redevelopment of Dili Airport will improve regional connectivity, facilitate trade and tourism, and open Timor-Leste further to regional markets. Together, these reforms and investments will enhance Timor-Leste's ability to attract investment from across ASEAN, supporting the country's long-term ambition to build a more resilient, inclusive, and diversified economy.

1.46. The upper boundary of forecasts represents a potential pathway that will materialise if ASEAN integration stimulates the emergence of new industries or opportunities. This would lead to increases in consumption, investment and exports beyond current trends and expectations.

1.47. The government's growth ambitions are not only facilitated by the allocations set out in the 2026 Budget but are also reflected in the medium-term expenditure outlook, presented in Section 3. Reforms to procurement and investment management are expected to strengthen the government's absorbative capacity, improving execution rates for both Goods and Services and Development Capital, which have historically been under-executed. At the same time, ongoing work to reform public sector workforce and payroll are anticipated to generate savings in the coming years. Meanwhile, expenditure ceilings for public transfers are frozen over the medium-term reflecting a commitment to greater efficiency in public expending.

1.48. Table 5 presents the contributions to GDP growth from 2021 to 2030. For example, in 2025, GDP growth is forecasted to be 4.5%, derived from the following individual contributions:

- **6.9%** final consumption expenditure (i.e. household and government consumption)
- **-0.6%** Gross fixed capital formation (investment subtract change in inventories)
- **0.1%** change in inventories, and
- **-1.8%** change in trade balance

Table 5: Contributions to GDP Growth, 2021-2030, %

	Actual % Contribution to Growth				Projections (Central Estimate) % Contribution to Growth					
GDP = C (private and government consumption) + I (Investment) + X (Export) – M (Import)	2021	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**
Non Oil GDP Growth	**3.0**	**4.0**	**2.4**	**4.3**	**4.5**	**4.5**	**4.7**	**4.8**	**4.8**	**5.0**
Final consumption Expendtiure	**0.1**	**9.1**	**2.0**	**3.5**	**6.9**	**6.9**	**4.4**	**4.2**	**4.3**	**3.1**
Households FCE	-2.1	9.4	2.7	2.5	2.6	6.3	2.7	2.5	2.5	2.6
NPISHs FCE	0.4	-0.1	-0.2	0.5	0.0	0.0	0.0	0.0	0.0	0.0
General Government FCE	1.8	-0.2	-0.5	0.5	4.2	0.6	1.7	1.7	1.8	0.4

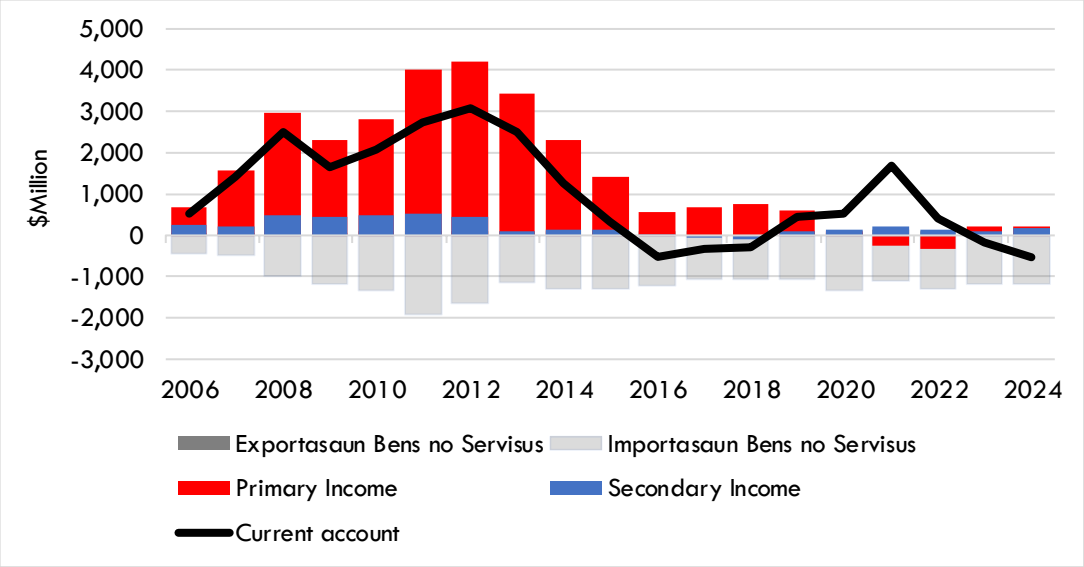
	Actual % Contribution to Growth				Projections (Central Estimate) % Contribution to Growth					
GDP = C (private and government consumption) + I (Investment) + X (Export) – M (Import)	2021	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**
Gross fixed capital formation (GFCF)	**-1.0**	**3.9**	**2.0**	**8.4**	**-0.6**	**1.6**	**1.3**	**1.8**	**1.9**	**3.0**
Change in inventories	**-1.8**	**1.3**	**0.4**	**0.5**	**0.1**	**0.1**	**0.1**	**0.1**	**0.1**	**0.1**
Foreign balance	**5.6**	**-10.4**	**-2.0**	**-8.1**	**-1.8**	**-4.1**	**-1.1**	**-1.2**	**-1.4**	**-1.2**
Non-oil sector Exports	0.8	0.5	0.7	0.4	0.4	0.2	0.2	0.2	0.2	0.2
Non-oil sector Imports	-4.8	10.9	2.7	8.5	2.2	4.3	1.3	1.5	1.6	1.4

Source: Actuals from National Account, INETL; Projections from National Directorate of Economic Policy, DNPE, September 2025

Trade Balance

1.49. As shown in Figure 5, the depletion of oil reserves from the Bayu-Undan field has resulted in in current account deficits over the last two years. This means that Timor-Leste's imports from the rest of the world are higher than its exports, reflecting the economy's growing reliance on external goods and services.

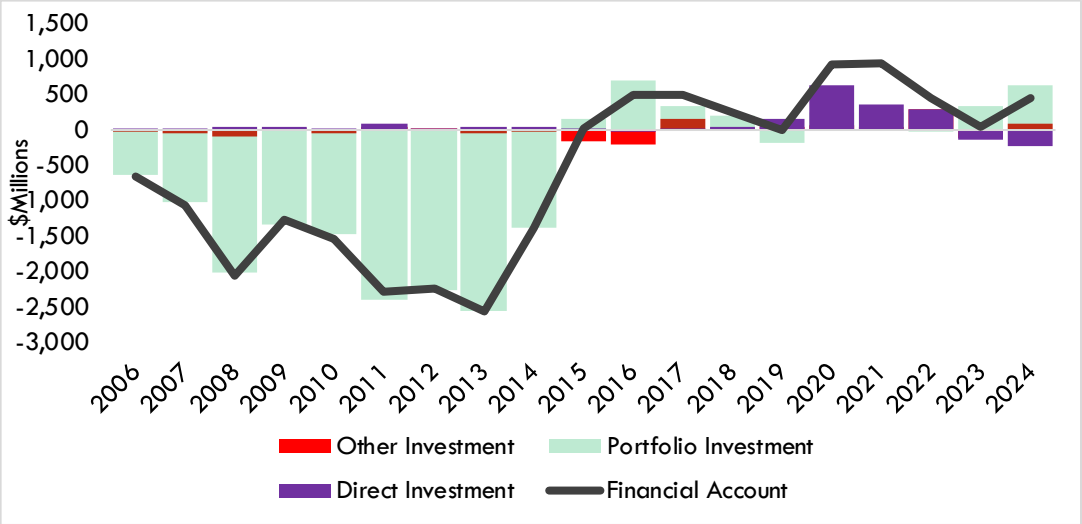
Figure 5: Current Account Balance, $US million



Source: Central Bank of Timor-Leste, BCTL, May 2025

1.50. The current account deficit of US$ 530 million in 2024 was financed by withdrawals from the Petroleum Fund. This is shown by a positive capital and financial account, where the green bar in Figure 6 (Portfolio Investments) represents flows to and from the Petroleum Fund, shown as net revenues when negative and net drawdowns when positive.

Figure 6: Financial Account Balance, US$ Million

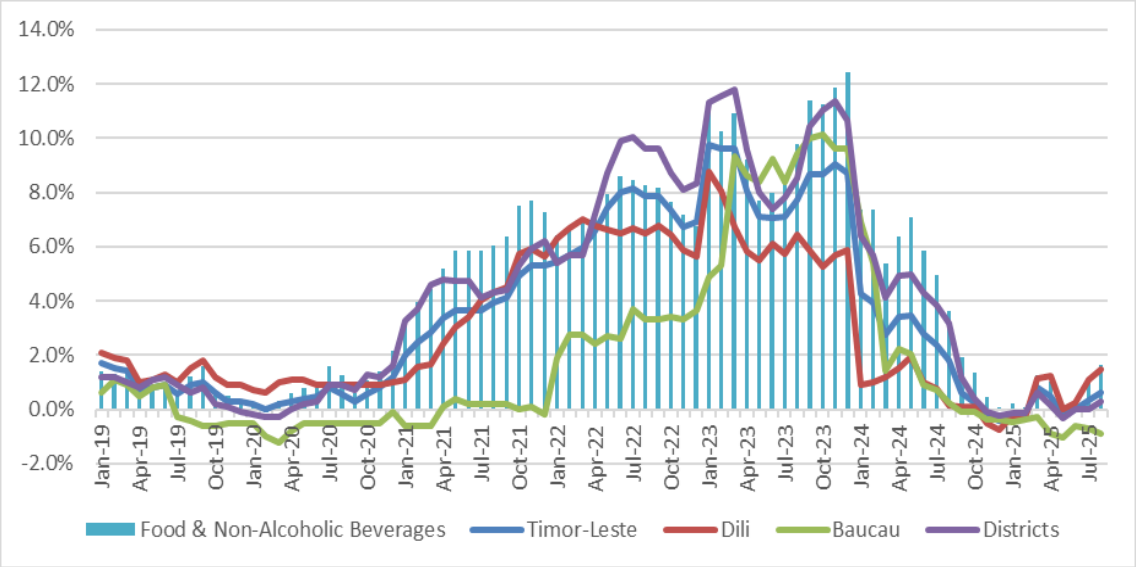


Source: Central Bank of Timor-Leste, BCTL, May 2025

Inflation and Exchange Rates

1.51. Inflation fell sharply in 2024, declining from 8.4% in 2023 to 2.1% in 2024. The significant fall can be attributed to the Government's efforts to reduce import duties from 5% to 2.5% and eliminate the tax on sugar and confectionery products (previously $1 per kilo of sugar).

Figure 7: Recent Change in Year on Year* Consumer Price Index Timor-Leste January 2019-August 2025, %



*Source: CPI data, National Statistics Institute (INETL) https://inetl-ip.gov.tl/, September 2025 * Each month shows the increase in CPI since the previous 12 months, September 2025*

1.52. The inflation rate declined even further in 2025, averaging at 0.2% from January to August, and is projected to average 0.5% for the whole year. The reasons for declining inflation include lower shipping costs and falling global food prices. 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. This means changes in international food prices can have a significant impact on both the rate of inflation and living standards.

1.53. As shown in Table 6, inflation is projected to continue to ease in the coming years, reflecting further expected declines in both shipping costs and commodity prices.

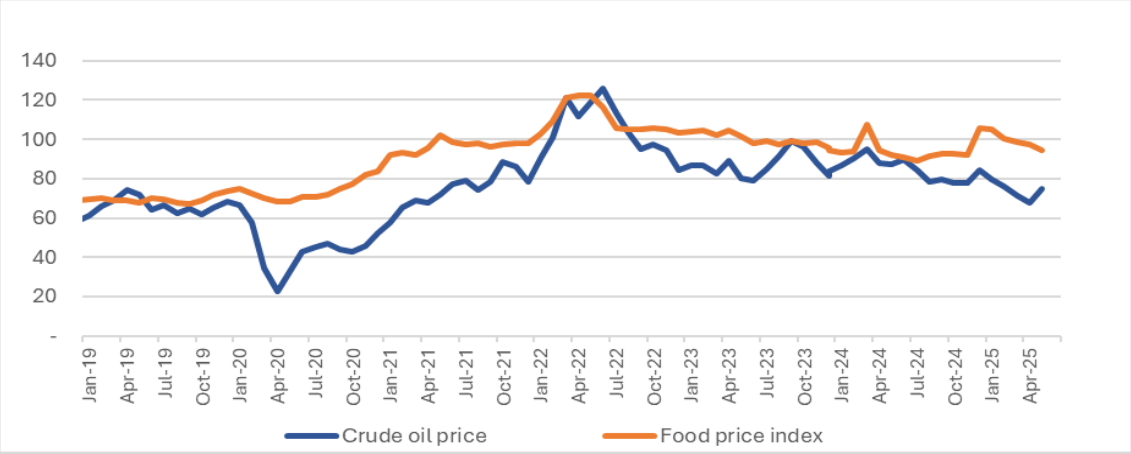
Table 6: Annual Inflation (average year on year) 2024 and forecast 2025-2030, %

Category	2024	2025	2026	2027	2028	2029	2030
Inflation Forecast (Average Consumer Prices)	2.1%	0.5%	1.2%	2.0%	2.0%	2.0%	2.0%

Source: Inflation for 2023 from the National Statistics Institute (INETL) https://inetl-ip.gov.tl/, Ministry of Finance. Inflation Forecasts for 2024 from the National Directorate of Economic Policy, Ministry of Finance. Forecasts 2026 and 2027 from BCTL, Forecasts 2027-2030 from the International Monetary Fund, September 2025

1.54. Crude oil and food prices are also key drivers of inflation in Timor-Leste. Global oil and food prices have been declining since mid-2022, following a period of sharp increases driven by the COVID-19 pandemic, global conflicts, and climate events such as the El-Nino effect in 2024. However, these elements are subject to a high degree of volatility and future trends are dependent on factors that lie outside the Government's control. As such, a high degree of uncertainty is associated with the forecasts in the Table 6. The fiscal risk and contingent liabilities section below describes the risks in more detail and where applicable how the Government might mitigate these risks.

Figure 8: Commodity Price Indices

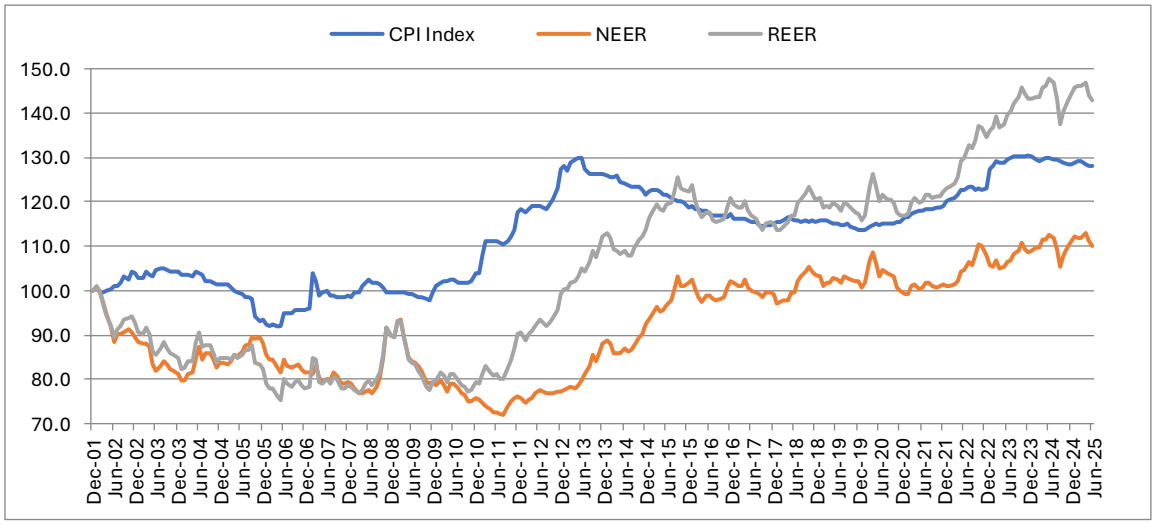


Source: World Bank Commodity Markets Outlook, August 2025

1.55. 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.

Timor-Leste is a dollarized economy, so the real effective exchange rate is based on the US dollar, while applying the rate of inflation in Timor-Leste.

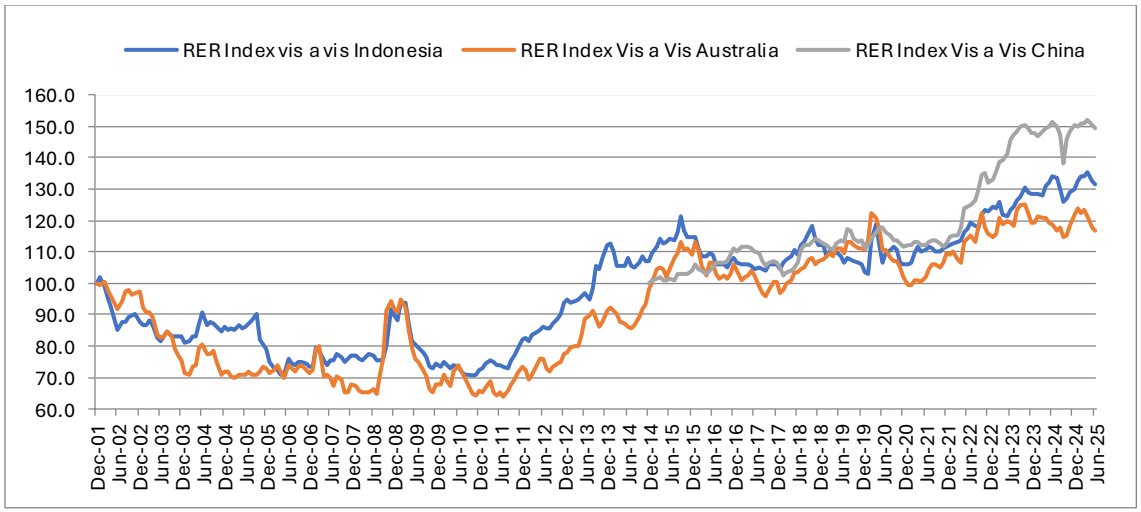
Figure 9: Real Exchange Rates, December 2001 – June 2025, 2001 = 100



Source: Central Bank of Timor-Leste, BCTL, September 2025

1.56. An appreciation in the real exchange rate implies a strengthen of the US dollar against the currency of Timor's largest trading partners in the region. It means that it is relatively cheaper to import and relatively more expensive to export.

Figure 10: REER Vis a Vis Major Trading Partners, December 2001 – June 2025, 2001 = 100

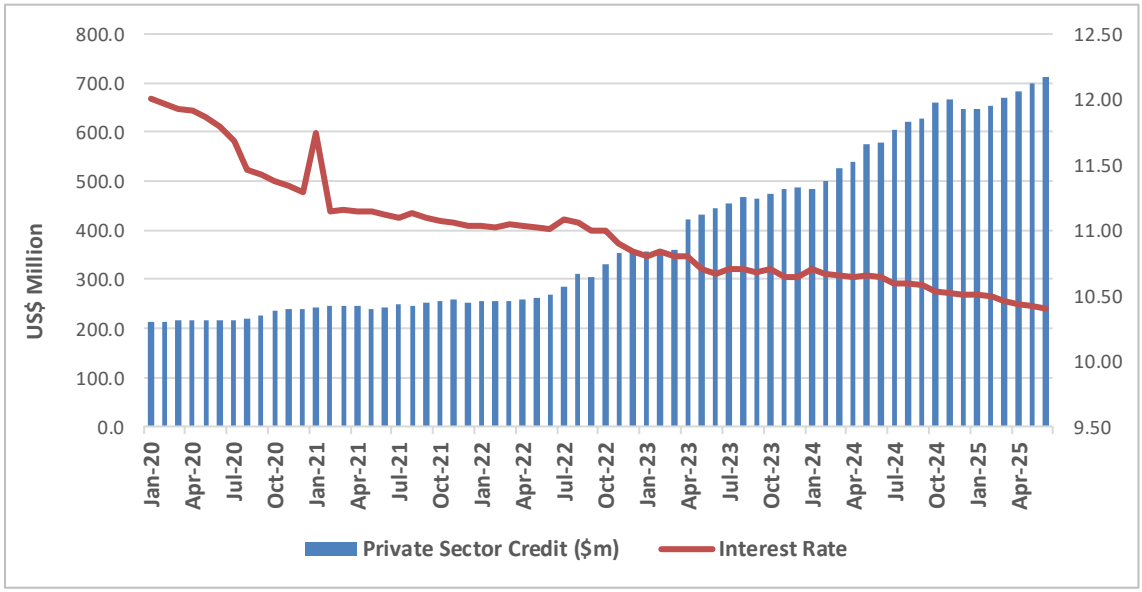


Source: Central Bank of Timor-Leste, BCTL, September 2025

Financial Sector Trends

1.57. The interest rate on loans to private businesses was 10.4% in June 2025, a moderate decrease from 10.64% in June 2025. Credit to the private sector grew strongly, rising from about US$ 540 million to around US$ 670 million, or about 24% growth in one year. This means borrowing became a little cheaper, while more businesses took out loans. The mix of lower interest rates and higher lending points to better access to finance.

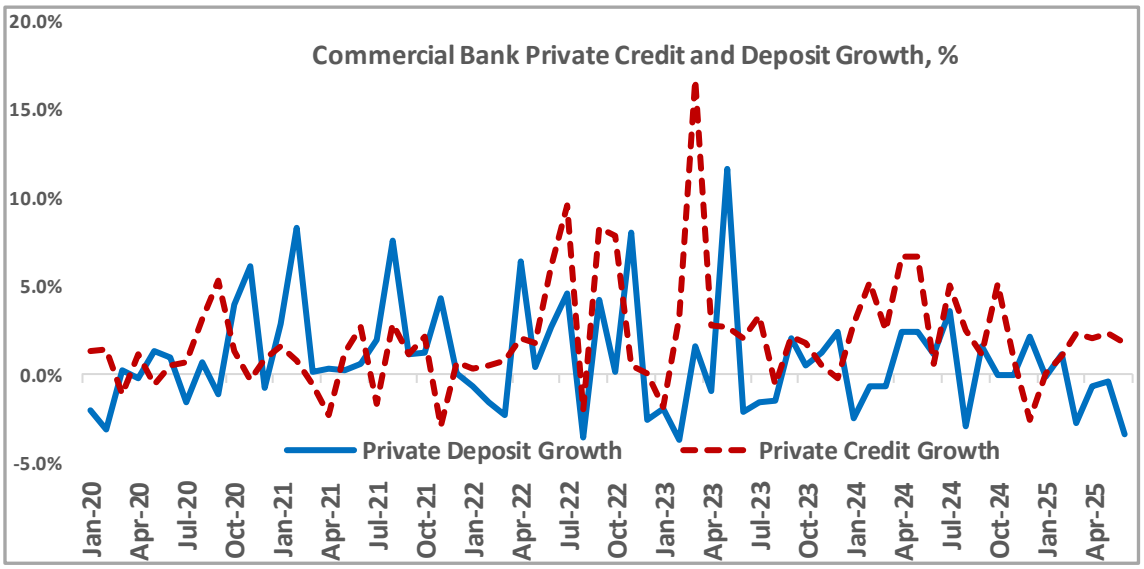
Figure 11: Commercial Interest Rates % (RHS) and Credit to Private Sector US$ Million (LHS)



Source: Central Bank of Timor-Leste (BCTL), September 2025

1.58. The chart below shows the monthly growth of deposits and credit from the private sector. The trend over the last four years suggests a high degree of volatility but also shows that credit and deposit growth roughly go in the same direction.

Figure 12: Commercial Bank Private Credit and Deposit Growth, %



Source: Central Bank of Timor-Leste (BCTL), September 2025

Employment Overview

1.59. The latest available employment statistics in Timor-Leste are from the 2022 Census. Census data shows that the labour force participation rate was 35.9% and the 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 of Timor-Leste (INETL)

1.60. Similar to other ASEAN countries, Timor-Leste's labour market is characterized by high levels of informality. The latest estimation made by the Ministry of Finance, using the 2021 Timor-Leste Labour Force Survey, reveals that of the total number of individuals employed, 71.1% are in informal employment.

1.61. The government has taken active steps to create job opportunities. In 2025, over 42 thousand people have had access to professional training programs set up by the Secretary of State for Professional Training and Employment (SEFOPE). At the time of writing, over 6 thousand have already graduated and many have been able to enter the job market through internships or full-time roles.

Global Growth and Inflation

1.62. As shown in the latest projections, global growth slowed in 2024 and is expected to moderate further in 2025 as heightened trade tensions and widespread tariff measures weigh on economic activity. The IMF's reference forecast places global GDP growth at 2.8 percent in 2025 and 3.0 percent in 2026, well below the historical pre-pandemic average. Growth in advanced economies is projected to slow to 1.4 percent, reflecting weaker momentum in the United States and the euro area, while emerging market and developing economies are expected to grow by 3.7 percent in 2025 and 3.9 percent in 2026. These outcomes represent significant downward revisions from earlier expectations, particularly for economies most exposed to new trade measures, including China.

1.63. The global slowdown reflects both supply-side and demand-side pressures. The rapid escalation of tariffs in early 2025 has disrupted trade flows and dampened investment confidence, with spillover effects through global supply chains. At the same time, persistent uncertainty has tightened financial conditions, reduced credit availability and slowing consumption growth across regions. Inflation is projected to ease more gradually than previously expected, with headline inflation at 4.3 percent in 2025 and 3.6 percent in 2026, as upward price pressures in advanced economies offset some disinflationary momentum in emerging markets.

1.64. Overall, while the global economy continues to demonstrate resilience, the growth outlook is fragile and heavily dependent on policy clarity and international cooperation. The IMF emphasizes that de-escalation of trade tensions and renewed commitments to a rules-based trading system would improve prospects. For now, the divergence between advanced economies, which face modest and slowing growth, and emerging and developing economies, where expansion remains stronger but more vulnerable to external shocks, is expected to persist.

Table 8: Global Growth Indicators, 2022-2025, %

Region/Country	Actual		Forecast	
	2023	2024	2025	2026
World	3.5	3.3	2.8	3.0
Advanced Economies	1.7	1.8	1.4	1.5
Emerging and Developing Economies	4.7	4.3	3.7	3.9
Emerging and Developing Asia	6.1	5.3	4.5	4.6
ASEAN	3.6	4.3	3.6	3.3

Source: IMF World Economic Outlook, April 2025, data downloaded September 2025

1.65. Global inflation is expected to have slowed in 2023, and a further slowdown is projected in 2024. Global inflation is forecast to be 4.0% by the IMF in 2025.

1.66. The reduction in inflation in 2024 and 2025 comes as central banks around the world have raised interest rates.

1.67. Whilst inflation is forecast 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	
	2023	2024	2025	2026
World	6.6	5.7	4.3	3.6
Advanced Economies	4.6	2.6	2.5	2.2
Emerging and Developing Economies	8.0	7.7	5.5	4.6
Emerging and Developing Asia	2.4	2.0	1.7	2.0
ASEAN	8.4	6.8	5.7	4.7

Source: IMF World Economic Outlook, April 2025, data downloaded September 2025

Social and Governance Indicators

1.68. While macroeconomic indicators provide an overview of economic performance, it is also important to use a range of social indicators to assess progress and development. For example, the Human Development Index (HDI) is a composite measure that captures achievements in three fundamental dimensions of human development: health, education and economic progress. According to UNDPs 2025 Human Development Report, Timor-Leste's HDI score in 2023 was 0.634[1], placing the country in the Medium human development category and ranking it at 142nd out of 193 countries. This score reflects the country's average achievements in terms of life expectancy in good health, access to knowledge, and a decent standard of living. Between 2000 and 2023, the country recorded a 26 percent increase in its HDI value[2], accompanied by notable improvements in life expectancy, expected years of schooling, and economic growth.

1.69. The development of human capital is also vital to maximising the nation's potential, especially given that Timor-Leste has one of the youngest populations in the world. The World Bank's Human Capital Index (HCI) measures the potential productivity that a child born today can expect to attain by age 18, relative to a benchmark of complete education and full health. Globally, a child born in 2020 is projected to achieve approximately 56 percent of their potential productivity. In Timor-Leste, the HCI score for 2020 was 0.45, indicating that a child born today can expect to realise only 45 percent of their potential productivity, which is eleven percentage points below the global average. While this underscores significant challenges in health and education, there has been moderate progress with the Human Capital Index improving from 0.43 in 2017.

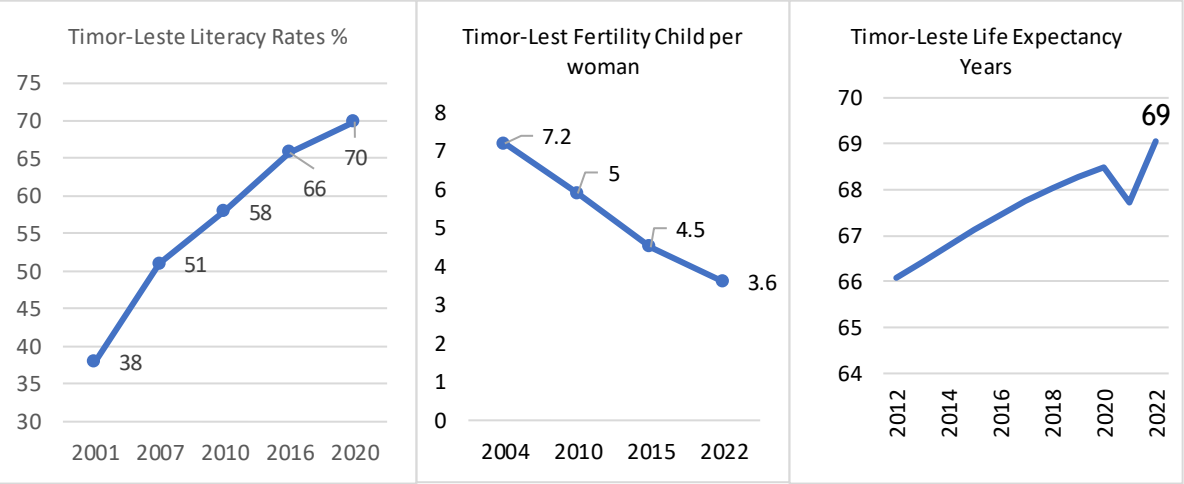
1.70. Progress has also been made on poverty rates. The number of people living below the National Poverty Line fell from 50.3% in 2007 to 41.8% in 2014[3]. Further progress on poverty

[1] Human Development Report 2025, UNDP, 2025
[2] https://www.undp.org/timor-leste/news/timor-growing-progress-unequal-undp-report-says
[3] Timor-Leste Living Standards Survey 2007 and 2014, INETL

reduction will be apparent upon the publication of the 2024 Living Standards Survey[4]. However, available indicators suggest that there has been positive progress over the past decade. For example, access to electricity has increased from 38% of the population in 2010 to 100% in 2021[5]. WHO and UNICEF estimates show that the percentage of the population accessing clean water has risen from 70.2% in 2014 to 87.3% in 2024

1.71. Furthermore, Timor-Leste has witnessed consistent progress across key health and education indicators. For example, fertility rates fell from 7.2 children per woman in 2004 to 4.5 in 2015 (this suggests progress in education, women's rights and lower infant mortality). Investment in the health care system led to an increase in the number of doctors per capita, rising from 0.1 per 1000 people in 2011 to 0.7 per 1,000 in 2015[6]. This has correlated with improvements in life expectancy that has increased by over 10 years in the last decade. As for education, literacy rates rose sharply from 51% in 2007 to 66% in 2016.

Figure 13: Health and Education Indicators



Source: World Bank Development Indicators, WDI, September 2025

1.72. Through the allocations and targets set in Budget 2026, the government demonstrates its commitment to securing further progress in line with the strategic development plan. The budget is not only a further step towards the government's economic policy targets, but budget allocations also aim to improve the country's health and education outcomes as well as improve livelihoods through poverty reduction. Effective governance and administration of policy is crucial in ensuring that budget allocations are translated into progress and policy achievements.

1.73. To achieve these goals the government is also taking measures to address corruption. Over the last five years, Timor-Leste has risen over seven positions in the Corruption Perceptions Index indicating progress on transparency and public sector accountability. There are currently

[4] At the Time of writing the 2024 Living Standards Survey has yet to be published

[5] World Bank Development Indicators, WDI

[6] World Bank Development Indicators, WDI

only two ASEAN countries (Singapore and Malaysia) that are ranked better than Timor-Leste on this index[7].

1.74. 2025 has also seen marked improvements in transparency and public accountability as a result of the new PFM and Budget Framework Law. Reforms have ensured that more economic and financial information is available to parliament in the public. For example, the Conta Geral Do Estado for 2024, published in June 2024 is accompanied by more detailed information and reports than ever before. In 2025, the government has published more detailed reports on execution and performance (such as quarterly performance and execution reports and the Budget Strategy Declaration) that are available on the Ministry of Finance website. These reforms should translate to higher Public Expenditure and Financial Accountability (PEFA) scores in the next assessment (the previous one was carried out in 2020). The *New Developments in PFM* section of this budget contains further details on achievements as well as objectives for the coming years.

1.75. Progress across all national priorities will also depend on the government's ability to create an enabling environment for the private sector. The World's Bank Business Ready (B-Ready) survey assesses the business environment across various economies. Timor-Leste scored highest in Utility Services and Business entry. The high score in Utility services is the result of investments in the electricity and water infrastructure through significant investments in EDTL and Bee-TL. Businesses that set up in Timor-Leste can ensure quality access to water and electricity at a reasonable cost. Furthermore, the country has established regulatory frameworks that allow ease of entry into the market. This provides an opportunity to attract investment from foreign businesses as Timor-Leste enters ASEAN.

1.76. Timor-Leste's lowest scores are in Business Insolvency (0.0), Market Competition (16.7), and Financial Services (24.8). The low performance in market competition reflects the significant share of the economy that relies on state-owned enterprises and government intervention. Meanwhile, the low scores in insolvency and financial services result from ongoing difficulties in establishing adequate accounting standards and an appropriate and functioning judicial framework, notably with regard to land property. The recent improvements in insolvency laws and public financial management are likely to have a positive impact on these indicators.

Table 10: B-Ready 2024, Timor-Leste Scores

	Business Entry	Business Location	Utility Service	Labour	Financial Services	International Trade	Taxation	Dispute Resolution	Market Competition	Business Insolvency
Average Score of three Pilar	**49.9**	**40.3**	**60.2**	**56.9**	**24.8**	**48.6**	**48.9**	**36.5**	**16.7**	**0**
Pilar I Regulatory Framework	85.8	51.1	60.1	68.6	30.2	46.5	37.3	60.4	22.3	0
Pilar II Public Service	23.5	3.2	49	53	5.8	55.1	38.3	7.8	2.3	0

[7] https://timor-leste.gov.tl/?p=35957&lang=en

	Business Entry	Business Location	Utility Service	Labour	Financial Services	Interna-tional Trade	Taxation	Dispute Resolution	Market Compte-tition	Business Insolvency
Pilar III Operational Efeceinecy	40.5	66.6	71.5	49.2	38.4	44.2	71.1	41.6	25.5	0

Source: World Bank B-Ready Survey 2024

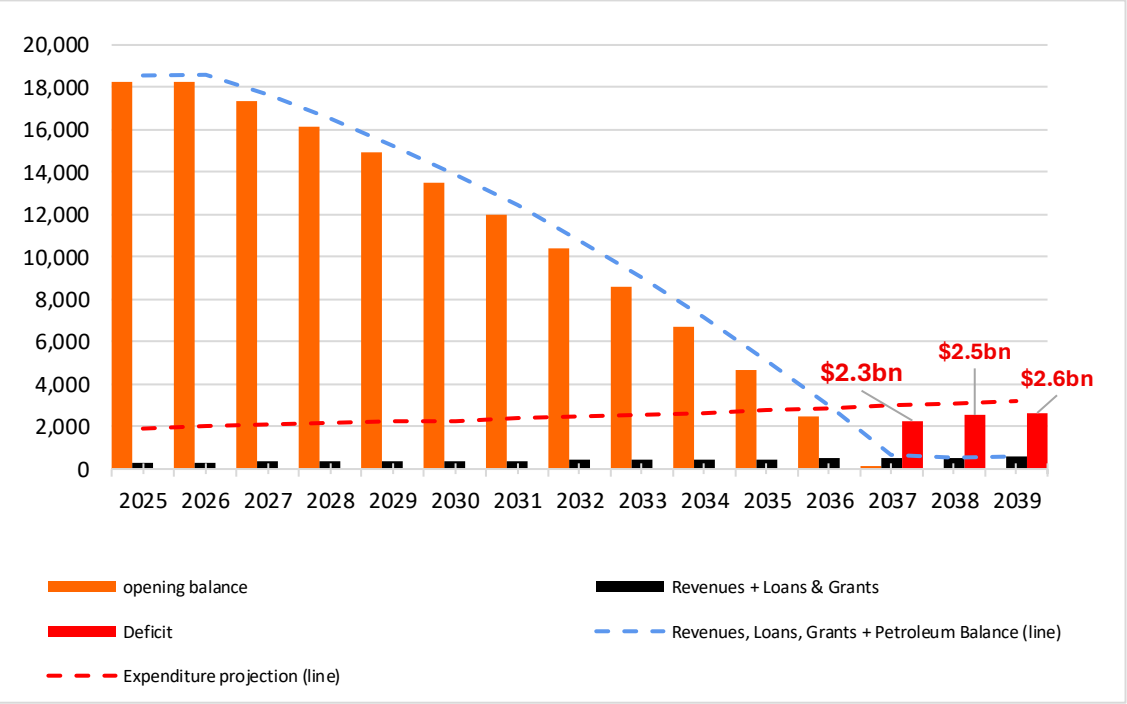
Fiscal Sustainability Analysis

1.77. Over the past decade, the Petroleum Fund has regularly financed over 70% of the budget. As such, a key element of any Fiscal Sustainability Analysis in Timor-Leste is centred on predicting the lifespan of the Petroleum Fund.

1.78. The chart below illustrates the current forecast for the Fund's lifespan. This estimation incorporates the budget ceiling for Budget 2026 and the medium-term expenditure outlook elaborated in section 3. Beyond 2030, expenditure is anticipated to increase in line with inflation and population growth. Under these expenditure assumptions, the Petroleum Fund is projected to fully deplete by 2037.

1.79. It is important to note that this modelling assumes no additional petroleum resources will be discovered and extracted before the Fund fully depletes, and that no new taxes will be introduced. However, the Government is actively advancing negotiations related to the Greater Sunrise field as well as other potential oil and mining opportunities, which will unlock new petroleum and mineral resources for Timor-Leste. Concurrently, the Ministry of Finance is carefully exploring the costs and benefits of introducing taxation reforms. These proactive measures have the potential to delay the depletion of the Petroleum Fund and secure the country's long-term future.

Figure 14: Petroleum Fund Lifespan under current trajectory (US$ MILLION)



Source: National Directorate of Economic Policy, DNPE

Table 11: Forecast Closing Balance for Petroleum Fund, US$ Million

$USm	2026	2027	2028	2029	2030
Closing Balance	**17,146**	**16,198**	**15,143**	**13,924**	**12,588**

Source: National Directorate of Economic Policy, DNPE

1.80. If the Petroleum Fund is depleted before new petroleum revenues are discovered and extracted, significant consequences for government expenditure and the broader economy will arise. In such a scenario, upon the Fund's exhaustion, 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.

1.81. Up until now, the Petroleum Funds' performance has exceeded expectations. The rate of return from inception till 2025 is projected to be 4.57% which exceeds the Estimated Sustainable Income of 3%. This has been the result of prudent management of the Fund. Furthermore, until now the Fund balance has also stayed relatively stable as a result of under-executed budgets and greater than anticipated petroleum revenues in the past.

1.82. The Bayu-Undan field ceased production in June 2025. While some inflows of revenues from current existing PSC licenses and taxes, these are relatively low and no further petroleum revenues are forecasted beyond 2025. Furthermore, government reforms in public financial management will ensure that going forward execution rates will be closer to approved budgets. In this context, it becomes increasingly important to adopt prudent measures in the coming years to safeguard the long-term sustainability of the Petroleum Fund—and, by extension, the fiscal and economic stability of the country.

1.83. The government has implemented measures to rationalise recurrent expenditures, such as introducing compulsory retirement at 65 for civil servants, reducing expenditures on contractors and carrying out a review of payroll and workforce. Further work will include measures to rationalise transfers by reducing the reliance on fuel imports and improving the administration of welfare payments. These steps are important as lower budgets can mean that a higher share of the fund can be allocated towards growth assets with higher rate of returns. Higher expenditure means higher withdrawals, which in turn means a greater portion of the fund must be kept in more liquid accounts with lower investment returns.

1.84. Furthermore, aside from domestic revenue reforms, reforms to Public Investment Management can allow the government to increase financing for investment projects from concessional loans. Given Timor-Leste's relatively low debt to GDP ratio, this can be a key tool to reduce reliance on the Petroleum Fund.

Fiscal Risks and Contingent Liabilities Statement

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

1.86. 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 occurs in the future to trigger it.

1.87. In the case of Timor-Leste, this can lead to further 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.

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

1.89. 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.

1.90. 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.

1.91. Therefore, in order to better manage fiscal risks and contingent liabilities, the Ministry of Finance seeks to take the following steps:

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.*

1.92. The fiscal risks statements published in the budget report outline a key part of the overall risks management strategy. To this regard the following fiscal risk statement provides an outline of macroeconomic and specific risks. As well as an assessment of potential impacts and mitigation measures.

Macroeconomic Risks

1.93. Macroeconomic risks are a category of fiscal risks that arise because of variations in macroeconomic assumptions and forecasts that are used in the Government forecasts. Fiscal risks are likely to arise if GDP is lower than anticipated or if inflation is significantly higher than the forecasts provided in the previous section.

1.94. As explained earlier, inflation in Timor-Leste is largely driven by global factors due to the high proportion of imports in domestic consumption[8]. Key risks to the inflation forecasts in this document are therefore an unanticipated depreciation in the US dollar, as this would increase the cost of imports and therefore increase prices, increases in oil prices and increases in the price of food imports such as rice and other staples. Higher inflation from these factors could

[8] Analysis of trade and consumption data suggests that over 50% of domestic consumption is directly on imports.

lead to higher government spending than currently projected. Increases in the price of imports will lead to a rise in government consumption. Higher oil prices will lead to an increase in the subsidy provided to the state electricity company, EDTL.

1.95. A potential mitigation strategy for inflation related risks would be to boost investment in domestic agriculture and renewable energy. In the last few years EDTL has been among the largest recipients of transfer expenditure as the Government has protected citizens from rising costs of importing fuel by subsidising electricity purchases. To reduce exposure to fluctuations in shipping costs and global oil prices and reduce the fiscal risks that arise from the electricity subsidy, the Government should seek to invest in renewable energy alternatives.

1.96. Increasing domestic agriculture production, particularly rice production, would also reduce the reliance on imports to meet domestic demand and therefore shelter the country from fluctuations in global agricultural markets.

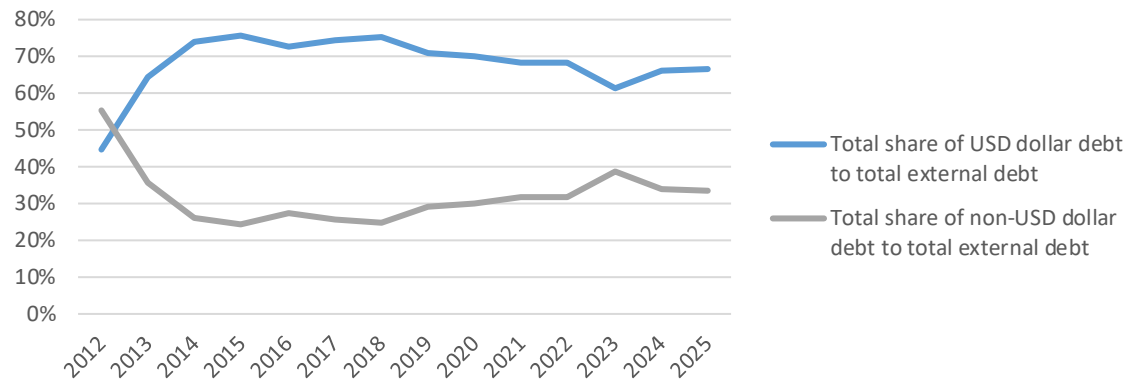
1.97. All things being equal, a fall in GDP is likely to be associated with a fall in domestic revenues. GDP is ultimately a measure of economic activity and - in the absence of changes to tax policy, administration or the size of the tax base - a fall in economic activity will mean lower incomes and therefore lower taxes collected. If nominal GDP is 10% lower than currently forecasted for 2026, domestic revenues could fall by around US$ 20 million.

1.98. As explained earlier, the two main risks to the GDP forecasts are imports and government execution. Given the high reliance on government spending to drive economic growth, if execution falls below expectations, GDP growth will also be impacted. Similarly, a large portion of the Budget 2026 has been assigned to transfers to households. If a higher share of these transfers is spent on imports than suggested by historic trends, GDP growth will be lower than predicted.

1.99. However, the overall risks from this will be partially mitigated by the fact that higher imports will also see an increase in import duties collected. They are also mitigated by the fact that reduced spending also supports long term fiscal sustainability. If government execution falls below the current level, this will also reduce the existing fiscal deficit and potentially extend the lifetime of the Petroleum Fund.

1.100. Macroeconomic risks are also relevant to the current loan portfolio. Foreign exchange rates arise from loans in currencies other than the US dollar. In accordance with the loan policy, the US dollar is intended to remain the predominant currency in the Government's external debt portfolio due to the country's dollarized economy. However, since 2018 the share of US dollar debt has declined to reach 60% before rising again in 2024. The policy to maintain a significant portion of debt in US dollars is expected to continue, at least in the short to medium term.

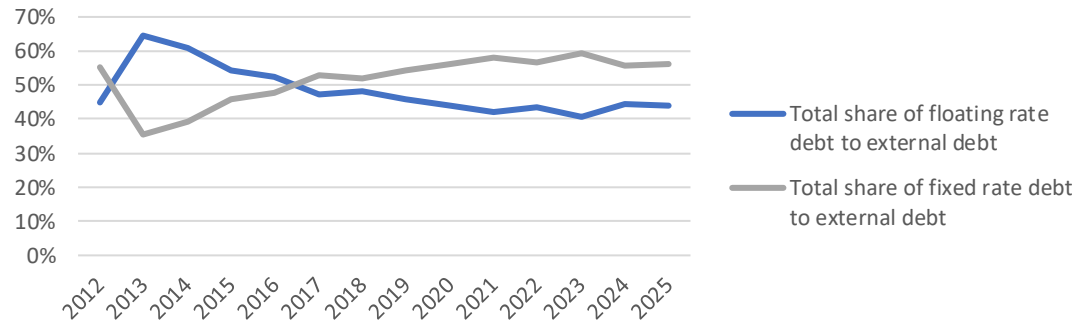
Figure 15: US dollar debt vs non-US dollar Debt, %



Source: DNPME, Ministry of Finance, September 2025

1.101. Interest rates also represent a risk, in the loan portfolio. Starting in 2013, the proportion of fixed-rate debt within the debt portfolio began to increase, eventually comprising the majority share in 2017 and 2018. This shift was due to the Government's ability to manage interest rate risk by prioritizing disbursements from fixed-rate sources. As TL is now classified as a blend country, it is gradually being phased out of concessional financing by its external creditors, leading to an expected rise in borrowing costs.[9] To mitigate the risk of interest rate shocks, it is necessary to expand concessional financing at a fixed interest rate from bilateral loan providers.

Figure 16: Fixed vs Floating Debt, %



Source: DNPME, Ministry of Finance, September 2025.

1.102. In the medium term the Petroleum Fund is the main buffer to the macroeconomic risks. The existing level of the fund provides significant leeway in the coming years. For example, domestic revenues would have to be over 50% lower than the forecasts provided in this document for the Petroleum Fund to deplete one year earlier than currently forecasted.

[9] As a blended country, TL has restricted access to concessional lending at a fixed interest rate.

Explicit Contingent Liabilities recognised by Law or Contract

1.103. 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.

1.104. 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.

1.105. Timor Corp case: Judicial case in the District Court of Dili with a maximum liability of about US$ 2,371,815.36.

1.106. Ensul Engenharia case: Judicial case in the District Court of Dili with a maximum liability of about US$ 1,444,617.83.

1.107. Ong Sun-Jong Eugene case: Judicial case in the District Court of Dili with a maximum liability of approximately US$ 1,783,821.

1.108. Property claim case: Judicial case in the District Court of Dili, with a maximum liability of approximately US$ 2,146,250.00.

1.109. A series of processes that, despite having a reduced value, can generate liabilities for the State in the approximate amount of US$ 500,000.00.

1.110. 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 US$ 150,000. However, this initiative is already 100% budgeted for, so it poses no additional risk if the loans were to default.

1.111. The loan facility *Credit 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, first alteration to the State Budget of 2022. However, this scheme is also 100% budgeted for, so it poses no additional risk if the loans were to default. This scheme, however, was not widely used and has been suspended since 2023, with no additional loans granted since. In total, only 47 loans with a global value of less than US$ 1,000,000 (one million US dollars) were granted. The Government is currently looking at reviving this scheme and make the necessary changes to increase its success.

Public Private Partnerships (PPPs)

1.112. Public-Private–Partnerships (PPP) contracts can involve guarantees or indemnities on particular risk variables, such as traffic demand, political or regulatory changes. These contract provisions allocate risks between the public and private partners, but they also create explicit

contingent liabilities for the Government, as compensation becomes payable if the specified risks materialize.

1.113. Up to this date there is only one PPP in operation, Tibar Bay Port, which finished construction in September 2022. The explicit contingent liabilities associated with Tibar Port arise primarily from compensation obligations related 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.

1.114. The government is also in the process of finalising a US$ 80 million guarantee for the TIM Solar Power Plant. This flagship project will deliver reliable, affordable and clean electricity to households and businesses across Timor-Leste. Combining utility-scale solar generation with a modern battery energy storage system, the project will help stabilise the grid, reduce costly diesel imports, and cut greenhouse-gas emissions in line with the country's climate commitments. It is designed to integrate smoothly with the national system operated by EDTL and to improve service quality, especially during peak demand.

1.115. A government guarantee of US$ 80 million is required to make the project bankable at a low cost. The guarantee is capped at US$ 80 million and designed as a contingent backstop, rather than an upfront cost to the government. It will only apply if the State electricity company, EDTL, fails to meet specific payment obligations. The agreement is paired with strong safeguards: clear reporting, reimbursement undertakings, and time-limited coverage. Therefore, the guarantee protects the public interest by securing affordable, reliable and clean energy, while prudently managing the State's fiscal exposure.

1.116. PPP Decree Law no 42/2012 as altered by Decree Law no 2/2014, Article (6.d) states "the risk of financial unsustainability of the partnership, for reasons not attributable to non-compliance or unilateral modification of the contract by the public partner, or the situation of force majeure, shall be, as far as possible, transferred to the private partner".

Implicit Contingent Liabilities

1.117. 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 the economic welfare of its citizens. Such contingent liabilities in Timor-Leste are likely to occur as a result of environmental, social or economic crises. Any such crisis that leads to loss of livelihoods through damage, displacement or unemployment or other such economic hardships may lead to unexpected costs.

1.118. 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.

1.119. An implicit contingent liability is the support provided to state owned enterprises. Since loans are only issued to the Central Administration, State owned Enterprises in Timor-Leste do not have any debt risks or liabilities. However, several state-owned enterprises receive large transfers from the state annually. Details of transfers are available in the Budget

Performance section of this document. Financial information from public entities is provided in the Annexes to the main budget papers.

1.120. Natural Disasters are another risk 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 volcanic activity in the world. With the onset of climate change, the country is also at increased risk of floods and cyclones.

1.121. 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.

1.122. 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.

1.123. Since independence the COVID-19 health crisis has certainly 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.

1.124. 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.

1.125. 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).

1.126. 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.

1.127. 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.

1.128. Similarly, the debt to GDP ratio is set to remain 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.

1.129. 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.

1.130. 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.

1.131. 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.

1.132. 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.

1.133. For Budget 2026, a total of US$45 million has been allocated for the contingency fund. This therefore fulfils the legal requirement as it is a little over 2% of the consolidated budget for RAEOA and the Central Administration.

1.134. 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 2024, cash balances are as follows:

Table 12: Cash Balances for Public Sector Entities in Timor-Leste, US$ Million

Entity	Cash Balance 31st December 2024
Central Administration	158.2
INSS	235.7
RAEOA	65.0
BNCTL	245.8
TIMOR GAP	90.1
EDTL	89.9
ANP	23.6
ANM	1.2
Bee-TL	34.0
Cash Balance in Commercial Banks	22.0
Murak Rai Timor	4.9

Entity	Cash Balance 31st December 2024
RTTL	2.2
ANATL	5.1
Cash Balance in Escrow Accounts	15.7
Balance payable for the purchase of Timor Telecom Shares, to be deposited in Escrow Accounts	19.0
Millenium Challenge Account (MCA)	0.2
Mineral Sector Royalties and Surface Rents	3.8
Donor Projects	1.9
Total	**1,018.3**

Source: Available Financial Reports as of September 2025.

1.135. 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.

1.136. Furthermore, if the Petroleum Fund depletes before domestic revenues are high enough to support contingency funding, contingent liabilities could pose greater fiscal risks.

1.137. The Ministry of Finance will continue to improve the information provided in the fiscal risks statement as data collection continues to improve.

2. Government Priorities and Reforms

Progress towards Achieving Government Goals

2.1. Timor-Leste has made steady progress in health, education, infrastructure, water, and electricity, advancing the IX Constitutional Government Program and the Strategic Development Plan (2011–2030). These achievements provide a solid foundation for the 2026 State Budget, ensuring that future priorities are guided by evidence and the needs of citizens.

2.2. **Health**: By 2025, the health sector recorded steady progress in expanding access to essential services, particularly for maternal and child health. These improvements reflect the Government's commitment under the IX Constitutional Government Program to strengthen universal and equitable healthcare.

2.3. Health outcomes continued to improve, with skilled birth attendance rising from 62% in 2022 to 67% in 2024, institutional deliveries increasing from 50% to 56.7%, postnatal care coverage reaching nearly 90%, and child immunisation (12–23 months) improving from 41% to 49%, although malnutrition remains high with 47.1% of children under five stunted and 8.6% wasted.

2.4. In the first half of 2025, service delivery was further strengthened with 1.43 million outpatient visits, 982 outreach missions, SISCa in 55% of Sucos, zero malaria cases, and 90% TB case detection. Child health advanced with 97% of severe malnutrition cases treated, under-6 immunisation at 34%, and progress on the rollout of the HPV vaccine. Hospital and emergency capacity improved with investment nationwide in functional equipment, 14 new sub-specialties, 75 ER units, a 24-hour response system, and over 90% bed occupancy. Medicine quality and institutional management were reinforced through stronger testing and the codification of 85% of Ministry assets.

2.5. These results highlight progress toward better health outcomes, yet persistent challenges remain, particularly in rural and underserved areas. Addressing malnutrition, reducing service gaps, and strengthening preventive care will require continued investment in infrastructure, workforce development, and community-level health systems.

2.6. **Education** in Timor-Leste has seen steady gains in access and gradual improvements in teaching and learning quality. Expanded enrolment, better-trained teachers, and wider resource distribution are helping Timor-Leste to move closer to the national goal of inclusive and quality education for all children.

2.7. By 2024, student enrolment reached 389,333. Preschool enrolment rose from 26% to 32%, while primary gross enrolment climbed to 112% and secondary to 111%. Primary school dropout rates fell from 4% in 2021 to 2.7% in 2024. Teacher numbers grew to 15,291, with 46% meeting the legal minimum qualification of Bacharelato. The new third-cycle basic education curriculum was approved, aligned with early education curricula, and learning materials were distributed widely, including 740,000 textbooks. Progress is also visible in learning outcomes: 36% of Grade 5 students achieved intermediate levels in reading and mathematics. WASH access in schools improved, with the share lacking facilities reduced from 41% in 2021 to 35% in 2024.

2.8. In early 2025, progress continued with near-universal primary enrolment (101%) based on updated population data, supported by the distribution of learning materials and training for over 1,200 teachers, including in inclusive education. Grade 9 students were prepared for exams, multilingual education expanded, and blended learning was strengthened with new ICT equipment. School infrastructure improved through classroom construction nationwide, while 292 school leaders were introduced to the new school-feeding policy and 400 pedagogical gardens were established. Governance advanced with new legal instruments, stronger EMIS reporting, and the rollout of parent–student councils, while 14 Community Learning Centres provided IT and language courses to more than 1,300 youth and adults, nearly half of them women.

2.9. Yet challenges remain significant. Nearly 70% of Grade 1 students still cannot read a single word of a simple passage. Teacher capacity is uneven despite ongoing training and coaching, and evidence linking training to classroom practice is limited. Support for school leaders and teachers remains insufficient, with a need to expand the number of qualified mentors and improve the quality of training programs. Rural youth literacy also continues to lag behind urban areas, underscoring the urgency of reforms to strengthen teacher development, ensure curriculum quality, and improve equity in resource allocation.

2.10. **Social protection and social inclusion** advanced steadily in 2024–2025, with programs supporting vulnerable households, expanding social assistance, and promoting community empowerment. These initiatives reflect Timor-Leste's commitment to ensuring that no citizen is left behind, while reinforcing equity and resilience as foundations of national development.

2.11. Notable achievements included assistance to 68,696 Bolsa da Mãe beneficiaries in 2024 and 73,853 in 2025, with transfers ranging from US$8–10 per month per child depending on education level, and an additional US$5 per month for children with disabilities. Humanitarian aid reached 42,990 vulnerable families, while engagement of persons with disabilities expanded through leadership of the National Disability Action Plan (2021–2030) and preparation of Timor-Leste's initial UNCRPD implementation report. Social protection coverage also grew, with more than 52,000 old-age pensions and 5,285 disability pensions delivered covering 56% of the eligible population and over 5,000 contributory and transitional pension benefits provided. In 2024, the Government also established a Minimum Social Pension of US$60 per month, further strengthening the safety net.

2.12. Veterans' services also advanced, with validation of 92,592 combatant names, resolution of 6,340 benefit claims, and implementation of the Veterans' Investment Fund Law across 65 posts. Support included 146 medical cases, 618 funerals, 23 reburials, and 36 hardship grants. Construction of Heroes' Cemeteries also commenced, reaching 3% progress, symbolizing national recognition of the sacrifices of the liberation struggle.

2.13. Despite these gains, important challenges remain, including achieving universal pension coverage, ensuring financial sustainability, and reducing reliance on medical certification for disability benefits. Looking ahead, reforms will focus on digitalizing beneficiary systems, strengthening monitoring and evaluation, and expanding outreach to underserved areas. These measures will enhance accountability and ensure that social protection continues to drive resilience, equity, and inclusive growth.

2.14. **Roads and Bridges**: Timor-Leste has advanced the rehabilitation and expansion of its road and bridge network, demonstrating the Government's commitment to improving national connectivity, lowering transport costs, and fostering inclusive growth.

2.15. By mid-2025, the national road system totalled 1,534 km, with 780 km rehabilitated, alongside 94 km of municipal roads, 308 km of urban roads, 2,359 km of rural roads, and 109 bridges completed. Concessional financing played a vital role, with 570 km of national and 41 km of municipal roads completed through loan support, and an additional 94 km under construction with loan and grant financing.

Table 13: Status of Road and Bridge Infrastructure Development

Category	Total Network (km/units)	Completed by June 2025
National Roads	1,534 km	780 km
Municipal Roads	1,003 km	94 km
Urban Roads	747 km	308 km
Rural Roads	4,702 km	2,359 km
Bridges	238 units	109 units

Source: Ministry of Public Works, September 2025

2.16. These achievements have already improved mobility between municipalities and reduced isolation in rural areas. Continued efforts will focus on embedding climate resilience, ensuring quality standards, and maintaining fiscal discipline, while consolidating progress through long-term rehabilitation plans extending to 2033.

2.17. **Water and Sanitation**: Access to safe water and sanitation has expanded significantly, guided by BTL's Business Plan and aligned with national commitments to public health and equity. Progress in 2025 underscores the Government's effort to reduce disparities in service delivery.

2.18. Key achievements include the completion of Master Plans and feasibility studies in 11 municipal capitals and detailed designs in 5, with construction underway in Lautem and Manufahi. At the administrative post level, 40 DEDs were finalized, 30 systems are under construction, and 4 are already completed. Preparations also began for the development of a wastewater treatment system in Dili, marking an important step toward modernizing urban sanitation.

2.19. These milestones mark important steps toward equitable access, but challenges remain including aging infrastructure, limited financing, widespread illegal connections, and technical workforce shortages. Addressing these constraints will be critical to achieving 24-hour reliable water supply and building a financially sustainable sector that supports inclusive development.

2.20. **Electricity**: Progress in electricity access and infrastructure modernization has accelerated, advancing the Government's goal of universal electrification and energy diversification.

2.21. By 2025, electricity coverage reached 100% of sucos (461) and 87.7% of aldeias (2,050) through the National Electrification Program (PEN) and the Community Electrification Program (PEK). Rural energy programs extended services to remote communities with standalone solar lighting systems. Infrastructure projects advanced, with Comoro Substation reaching 35.5% completion and the Kuluhun–Becora underground cable progressing. Renewable energy efforts gained momentum with the design of a 2 MW hybrid solar project for Atauro and progress on the 72 MW Laleia solar project under the IPP model with EDF and Itochu.

2.22. These achievements demonstrate strong progress toward modernizing the network and reducing reliance on diesel, yet challenges remain with aging infrastructure, manual distribution systems, and financial sustainability. Reforms in metering, billing, and revenue collection will be essential to secure reliable, affordable, and sustainable electricity for all households and businesses.

2.23. **Rural Development and Community Housing**: By mid-2025, the Ministry of Rural Development and Community Housing had advanced two flagship programs, the Community Revitalization Program and the Dignified Community Housing Program. Both initiatives aim to reduce rural urban disparities and provide vulnerable households with safer, more dignified living conditions. Together, they reflect the IX Constitutional Government's broader agenda of strengthening rural communities as a foundation for inclusive national development.

2.24. Key achievements included the registration of 424 beneficiary groups, directly supporting 1,425 women and 2,290 men. Infrastructure works delivered 17 public latrines, with 26 more underway, three multifunctional centres under construction, and rehabilitation of traditional houses in Lautém. Meanwhile, 90 dignified homes were started in four municipalities, 46 traditional houses in Covalima, and procurement began for 52 more homes in Ainaro, Ermera, and Covalima. Complementary projects such as cafeterias and playgrounds also advanced in several communities.

2.25. Challenges persist, particularly uneven progress across municipalities and projects still in early stages. However, the approval of Decree-Laws on Community Revitalization and Housing has created a stronger legal foundation. Going forward, priorities will be to accelerate completion of works, expand dignified housing, and ensure investments deliver tangible improvements in rural well-being, helping reduce territorial inequalities and strengthen community resilience.

2.26. **Agriculture**: By mid-2025, Timor-Leste had made steady progress in agricultural development, focusing on food security, mechanization, irrigation, and youth participation. The sector is gradually moving from subsistence practices toward a more market-oriented and sustainable system, consistent with the Government's goal of reducing rural poverty and achieving greater self-sufficiency in staple crops.

2.27. Significant results were achieved during 2024–2025. Rice production reached 158,274 tons from 37,684 hectares (average 4.2 t/ha), while maize output totalled 90,916 tons from 31,409 hectares (2.9 t/ha). Farmers benefited from seed distribution, organic fertilizers, and new equipment, including 25 medium tractors, 400 hand tractors, and 39 threshers in 2024, followed by 54 rice planters, 42 reapers, and 22 medium tractors in 2025. Spare parts were procured to rehabilitate 160 old tractors, supported by mobile mechanic services. Irrigation and river normalization works were completed at 21 sites nationwide, while soil diagnostic studies covering 1,600 samples across 13 municipalities improved evidence-based land use planning. Youth engagement also expanded, with 637 Timorese trained through the ICAT

program in Israel, 262 of whom formed agricultural groups, alongside 60 youths trained domestically at national training centres.

2.28. Despite this progress, major challenges remain. Yields for maize and rice continue to fall short of potential, irrigation coverage is still limited, and many farming households rely on traditional farming methods. To address these gaps, the Government aims to accelerate the transition to semi-modern, market-oriented agriculture by scaling up irrigation projects, strengthening seed and fertilizer distribution, and investing in soil research and mechanization. Expanding youth training, reinforcing extension services, and promoting sustainable agro-ecological practices will be critical to building resilience and ensuring agriculture contributes more directly to food security, nutrition, and rural incomes.

2.29. **Vocational Training & Employment:** By mid-2025, Timor-Leste made important advances in vocational training and employment, strengthening its commitment to the National Employment Strategy 2017–2030. Technical and vocational programs expanded across the country, while labour mobility schemes created new pathways to overseas jobs. Together, these initiatives linked skills development with access to employment, laying the foundation for a more competitive national workforce.

2.30. Key achievements during the first half of 2025 demonstrate this progress. SEFOPE delivered training in agriculture, fisheries, hospitality, construction, ICT, and entrepreneurship, reaching hundreds of participants through municipal centres, specialized institutes, and international cooperation programs. Labour mobility was a standout, with 2,279 workers placed abroad (1,932 in Australia, 321 in Korea, and 26 in Japan), generating US$ 5.96 million in remittances. Domestically, 3,225 jobseekers received counselling, 1,028 youth joined a national career expo, 21 self-employment groups were launched, and 29 rural public works projects created 667 short-term jobs. Women benefitted strongly, representing 53% of counselling recipients, 536 overseas placements, 48% of self-employment beneficiaries, and 41% of public works roles.

2.31. Despite these gains, challenges remain in aligning training outcomes with labour market demand and ensuring sustainable employment pathways. The next phase of reform will emphasize stronger coordination with employers, modernization of curricula, and expansion of certification systems to guarantee recognition of skills. At the same time, enhanced labour compliance, monitoring, and support services will be critical to ensuring safe and fair employment. These measures will consolidate recent achievements while ensuring training and employment services contribute more directly to job creation, productivity, and inclusive growth.

2.32. For comprehensive information on the results of Progress towards Achieving Government Goals, please refer to the 2024 Program Performance Budget Book – Informative Element, Volume I - *Dezempenho dos Programmas no Exercício Orçamental Anterior*. The updated 2025 edition will be published in due course.

Spending Priorities and Key Measures for 2026

Strategic Alignment and Overview

2.33. In FY 2026, the Government continues to align budget priorities with the Strategic Development Plan (SDP) 2011–2030 and the IX Constitutional Government Program. The Budget reflects a balanced approach, combining infrastructure investment, economic diversification, and social capital development, with the goal of accelerating growth, building human capital, and strengthening resilience to fiscal and climate risks.

2.34. The total allocation for FY 2026 is US$ 2,245 million, a 5.6% increase from 2025. This reflects an on-going focus on fiscal discipline while prioritizing spending that improves service delivery and supports the national development goals.

Health Sector Priorities

2.35. For FY 2026, the Government will allocate US$ 138.3 million to the health sector. This allocation covers the Ministry of Health (US$ 76.8 million), Guido Valadares National Hospital (US$ 20.9 million), the National Institute of Pharmacy and Medical Products (US$17.1 million), the National Ambulance and Emergency Medical Service, the National Institute of Public Health, RAEOA, municipal health services, and Infrastructure Fund (US$ 6.7 million). These resources confirm the Government's commitment to expanding access to quality health services while strengthening institutional capacity and frontline delivery.

2.36. Program priorities in 2026 will focus on both secondary and tertiary healthcare (US$ 58.5 million) and primary healthcare (US$ 55.9 million). Within secondary and tertiary care, US$ 19.3 million is allocated for overseas medical treatment and repayment of debts for specialized services, US$ 18.1 million for salaries of health professionals, and US$ 11.6 million for hospitalization and specialized medical services. Investments will also support rehabilitation and construction of hospitals and health facilities, including a new Paediatric and ICCU Building at Guido Valadares National Hospital (HNGV), valued at over US$ 2.4 million. In parallel, primary healthcare will be expanded through the Comprehensive Primary Health Services Package (US$ 27 million, including US$ 24 million for salaries and wages), along with US$ 2.4 million for nutrition programs and strengthened immunization, reproductive health, and non-communicable disease initiatives. Together, these measures will reinforce the foundation of a stronger preventive health system.

2.37. At the policy level, reforms will continue to strengthen efficiency and accountability in health service delivery. The National Ambulance and Emergency Medical Service will expand with US$3.4 million in land, sea, and air capacity, while the National Institute of Pharmacy and Medical Products (INFPM) will receive US$ 17 million, including US$ 12.7 million for drug and medical supply procurement. These initiatives will modernize medicine supply chains, improve referral systems, and secure sustainable access to essential medicines and vaccines. Collectively, they demonstrate the Government's determination to advance universal and equitable healthcare, ensuring resources reach those most in need while safeguarding long-term sustainability.

Education Sector Priorities

2.38. For FY 2026, the Government will allocate US$ 181.7 million to the education sector. This allocation covers the Ministry of Education (US$ 117.6 million), the Ministry of Higher Education, Science and Culture (US$ 6.3 million), the National University of Timor-Leste (US$15 million), as well as RAEOA, municipal education services, Infrastructure Fund, and other institutions. The 2026 allocation consolidates recent gains while tackling persistent challenges in access, equity, and quality.

2.39. The largest share, US$ 108.9 million, is allocated to Basic Education, confirming it as the Government's top education priority for 2026. These resources will fund teacher salaries and allowances (including nearly 1,000 scholarship trainees), school rehabilitation and construction, and classroom operations across all municipalities. Secondary education receives US$ 21.7 million to strengthen both academic and vocational pathways through new facilities, teacher deployment, and subsidies for vocational schools. Higher education is allocated US$ 13.7 million, mainly for salaries, alongside investments in teaching quality, system improvement, and the Raíz School project at UCT. Pre-school education will benefit from US$ 10.6 million for classroom furniture and teacher salaries, while US$15.7 million supports institutional functioning, including operational systems, school administration, and contracted teachers. Together, these programs will serve tens of thousands of students nationwide, reinforcing the education system from pre-school to secondary levels.

2.40. At the tertiary level, priorities include strengthening UNTL and the Polytechnic Institute of Betano to expand programs in science, technology, and professional fields. MESCC will continue to advance higher education policy, research, and innovation, while ANAAA reinforces accreditation and quality assurance. Complementary reforms will finalize the Grade 8 and 9 curricula for basic education, assess and revise the secondary education curriculum, and expand targeted training in science, ICT, and inclusive education. Partnerships with the Ministry of Health will also provide nationwide student health screening. These combined measures will enhance equitable access, improve learning quality, and build a more relevant and resilient education system, fully aligned with the Strategic Development Plan (2011–2030) and the IX Constitutional Government Program.

Human Capital Development Fund (FDCH) Priorities

2.41. Complementing education investments, the FDCH plays a cross-sectoral role in developing the skills and knowledge required for Timor-Leste's long-term growth and competitiveness.

2.42. For FY 2026, the Government will allocate US$ 20.6 million to the Human Capital Development Fund. This allocation supports scholarship programs and strategic human resource development across sectors, with beneficiaries including students in higher education, specialized training programs, and professional development initiatives. As a cross-sectoral financing mechanism, FDCH complements education and training programs delivered by line ministries, while maintaining its independent governance framework for transparency and accountability.

2.43. The majority of resources in 2026 will fund scholarships for strategic areas of national development. US$ 18.3 million to cover tuition fees, cost-of-living allowances, transport subsidies, didactic materials, research expenses, health coverage, and return costs for scholarship holders. Priority is given to students pursuing studies in areas critical to Timor-Leste's development such as health, engineering, agriculture, education, ICT, petroleum, and

public administration both domestically and abroad. More than 1,000 Timorese students are expected to benefit from these programs in 2026, building a skilled workforce capable of driving national development.

2.44. Reform measures will strengthen the sustainability and impact of FDCH investments. Key actions include closer alignment of scholarship allocation with labour market needs, improved monitoring of student progress, and stronger partnerships with universities and international institutions. Efforts will also focus on expanding digital systems for scholarship management to increase efficiency and transparency. By integrating scholarships into broader human capital and employment strategies, FDCH will continue to play a vital role in building Timor-Leste's knowledge economy, reducing skills gaps, and ensuring that education investments translate into stronger national capacity and inclusive development.

Social Protection and Inclusion Priorities

2.45. In FY 2026, the Government will allocate US$ 54 million to Social Protection and Inclusion. This allocation covers the Ministry of Social Solidarity and Inclusion (US$24.7 million), the National Rehabilitation Centre (CNR), municipal authorities, RAEOA, INDDICA, SEI, INC HIV-SIDA, the Civil Society Support Office (US$ 25.2 million), and related Infrastructure Fund allocations. Excluding Veterans' transfers and Social Security Fund contributions, these allocations underscore the Government's commitment to programs that directly support vulnerable groups and strengthen social cohesion. Key beneficiaries include persons with disabilities, children, and households in need of social assistance

2.46. In 2026, program priorities will include Bolsa da Mãe (US$ 10.3 million), expanded to cover pre-primary students, and the pilot of BdMK SANUTRIO in Covalima, Ermera, and RAEOA, combining cash transfers with nutritious food for pregnant women, breastfeeding mothers, and children under three. Municipal authorities and RAEOA will continue delivering essential services such as public funeral support (US$1.3 million) and humanitarian assistance (US$ 1.6 million). Within the Civil Society Support Office, the largest allocation of US$ 15 million will go to the Timorese Episcopal Conference, while US$ 9.6 million is directed to religious congregations and foundations (Catholic and non-Catholic), alongside broader support for civil society organizations and registered social solidarity institutions. These programs together aim to reduce stunting, improve maternal and child health, expand disability services, and reinforce social cohesion through faith-based and community initiatives.

2.47. Reform measures in 2026 will focus on strengthening efficiency, accountability, and better targeting. Key actions include digitalizing Bolsa da Mãe through a centralized beneficiary database, introducing personalized Tutor Cards, and rolling out a new Social Services Information Management System (IMS). The BdMK SANUTRIO pilot will serve as an entry point for health–nutrition integration within social protection, while the establishment of a Social Registry in three pilot areas will apply Proxy Means Testing (PMT) to define vulnerability and poverty scales. A national household survey in January 2026 will set the baseline for program eligibility. These reforms will improve transparency, reduce errors, and ensure programs are better tailored to household needs, advancing the IX Constitutional Government's vision that no Timorese should be left behind.

Culture & Heritage Priorities

2.48. In FY 2026, the Government will allocate US$ 6.4 million to culture and heritage programs, covering the Archive and Museum of the Resistance (US$ 2.8 million), the Ministry of Youth, Sports, Arts, and Culture (US$ 1.6 million), the National Archive of Timor-Leste, the Chega!

National Center I.P., and related Infrastructure Fund allocations (US$ 1.4 million). This reflects the Government's commitment to preserving Timor-Leste's cultural identity, safeguarding historical memory, and expanding access to arts and heritage.

2.49. Central to this agenda are initiatives to preserve resistance sites, rehabilitate museums, and protect historical documents of national value. Key actions include extending services to safeguard shelters and historical sites of the Timorese Resistance (US$ 1 million), strengthening the Municipal Memorial Museum, and continuing construction of the Garden of the Eternal Flame. Additional efforts will focus on rehabilitating the Aipelu Prison, promoting local art festivals, and supporting participation in international art fairs. Special attention will be given to ensuring rural communities have greater opportunities to access and participate in cultural activities, thereby expanding cultural inclusion beyond Dili.

2.50. Looking forward, the Government will advance the Cultural Heritage Preservation and Transmission Strategy, focusing on oral traditions and heritage sites and museums. Complementary reforms will integrate cultural education into schools and promote nationwide awareness campaigns, ensuring that heritage conservation is embedded in civic life. Together, these measures will safeguard Timor-Leste's cultural legacy while enabling culture and heritage to play a central role in inclusive growth, social cohesion, and nation-building.

Youth and Sports Priorities

2.51. In FY 2026, the Government will allocate US$ 11.6 million to youth and sports programs, including US$ 1 million under the Ministry of Youth, Sports, Arts and Culture (MJDAC) and US$ 1.4 million from the Infrastructure Fund. This allocation underscores the Government's commitment to empowering young people, strengthening civic engagement, and promoting active and healthy lifestyles across the country.

2.52. Central to this agenda are initiatives that support both youth development and sports promotion. Youth programs will fund initiatives by youth groups to foster creativity, civic knowledge, and healthy lifestyles, as well as the operational management of CRAM centers. Sports programs will expand community-based activities, strengthen partnerships with sports organizations, and provide direct support to the Timor-Leste Football League (first and second divisions). Additional resources will be directed toward participation in international sporting events, leadership initiatives, and volunteerism, ensuring that rural youth have greater access to organized sports and civic opportunities.

2.53. Looking forward, reforms will focus on stronger institutional support, closer coordination with municipalities, and improved monitoring systems to ensure inclusiveness and sustainability. These efforts will provide a more solid foundation for youth participation in civic life and sports, advancing social cohesion, national unity, and human capital development.

Roads and Bridges Priorities

2.54. In FY 2026, the Government will allocate US$ 218 million to the Roads and Bridges Program. This allocation covers the Infrastructure Fund (US$ 106.2 million), the Ministry of Public Works (US$ 83.7 million), the Special Fund for the Development of RAEOA (US$ 20.9 million), the Institute for Equipment Management and Infrastructure Development Support (US$ 2 million), and 13 municipal authorities (US$ 5 million). The Infrastructure Fund continues to provide the largest share, financing the construction, rehabilitation, and expansion of key national and

municipal networks, while municipalities and RAEOA remain focused on community-level and regional priorities.

2.55. Completion of ongoing works will remain a central focus in 2026. The Government will finalize 250 km of national roads, 156 km of municipal roads, and 7 bridges that are already under construction. At the same time, procurement processes are advancing for an additional 174 km of national roads, 155 km of municipal roads, 94 km of urban roads, 475 km of rural roads, and 7 bridges, ensuring a strong pipeline of projects for implementation in subsequent years.

2.56. Building climate resilience is also an important priority. Planned investments include the completion of six strategically important bridges and the launch of 13 river protection projects spanning 9,200 meters. These works are designed to safeguard communities against flood risks and guarantee year-round access to essential services.

Table 14: Road and Bridge Priorities 2026

Category	Total Network (km/units)	Completed by June 2025	Ongoing Implementation 2023–2025	Procurement 2025/2026	Remaining for 2028–2033
National Roads	1,534 km	780 km	250 km	174 km	330 km
Municipal Roads	1,003 km	94 km	156 km	155 km	597 km
Urban Roads	747 km	308 km	143 km	94 km	202 km
Rural Roads	4,702 km	2,359 km	640 km	475 km	1,228 km
Bridges	238 units	109 units	7 units	7 units	115 units

Source: Ministry of Public Works, September 2025

2.57. Overall, the 2026 program reflects a balanced approach: consolidating ongoing works, advancing procurement-ready projects, and embedding resilience measures. These investments will create employment, improve private-sector accountability, and strengthen economic linkages across municipalities. By reducing transport costs, enhancing service delivery, and protecting infrastructure from climate-related hazards, the Roads and Bridges Program will continue to be one of the Government's most visible commitments to inclusive national development.

Water and Sanitation Priorities

2.58. In FY 2026, the Government will allocate US$ 25.8 million to water and sanitation programs. Funding comes mainly from the Infrastructure Fund (US$ 10.7 million), the Ministry of Public Works (US$ 6.1 million), transfers to Bee Timor-Leste, E.P. (US$ 6 million), and allocations to RAEOA, Atauro, and municipal authorities (US$ 9.1 million). These resources reaffirm the Government's commitment to scaling up the Water Infrastructure Expansion Program and ensuring equitable access to clean water across the country

2.59. Central to the 2026 agenda is expanding household connections and improving service reliability, particularly in peri-urban and underserved communities. Building on infrastructure already in place in 30 administrative posts, new investments will reduce waterborne diseases, improve household well-being, and strengthen inclusive public health outcomes.

2.60. Looking forward, reforms will prioritize financial and institutional sustainability through the Water Service Financial Sustainability Reform Package. Key actions include nationwide billing meters, improved revenue collection, and deployment of technical staff to strengthen compliance with service standards. By reducing reliance on subsidies and promoting responsible water use, these reforms will reinforce BTL's institutional capacity and position water and sanitation as a cornerstone of public health, resilience, and inclusive national development.

Electricity Priorities

2.61. In FY 2026, the Government will allocate US$ 138.5 million to electricity sector programs. This includes US$ 123.5 million for the Ministry of Public Works, US$ 123.4 million for EDTL, E.P. to ensure nationwide electricity supply, US$ 7.6 million from the Infrastructure Fund, and US$ 7.4 million for the RAEOA special fund to cover electricity in Oe-cusse. The allocation reflects a strategic shift away from subsidy-heavy spending toward investment in grid modernization, renewable energy, and financial reform.

2.62. Program priorities in 2026 will emphasize upgrading distribution and expanding renewable capacity. Infrastructure Fund allocations include the rehabilitation of distribution networks (US$ 1 million), construction of new EDTL offices in Lautem and other municipalities, and rollout of advanced control and automation systems such as the Distribution Control Center (DCC, US$ 1 million) and Distribution Management Information System (DMIS). Major works will advance the Kuluhun–Becora underground line in Dili, new substations in Aileu, and interconnections like Comoro–Camea to strengthen grid reliability. Expansion of medium- and low-voltage lines will extend access to rural sucos. Renewable projects include the 72 MW solar plant in Laleia, a 1–2 MW hybrid facility in Atauro, and feasibility studies for wind power in Bobonaro and Ossu. At the same time, the Timor Naroman rural electrification program will connect 186 additional aldeias, complementing the 50 already underway.

2.63. Looking forward, reforms will focus on improving EDTL's financial sustainability and operational efficiency. Key actions include scaling up metering, modernizing billing and collection systems, introducing facility rental taxes, and enforcing compliance with penalties for non-payment. These measures will reduce system losses, secure revenue, and strengthen sector governance. Together, the 2026 budget aims to deliver reliable, affordable, and sustainable electricity while supporting household welfare, economic diversification, and Timor-Leste's transition to a climate-resilient energy future.

Airport Priorities

2.64. In FY 2026, the Government will allocate US$ 46.3 million including public transfers to the Airport and Navigation Authority. This allocation includes US$ 38.8 million from the Infrastructure Fund and US$ 5.7 million from the Special Fund for the Development of RAEOA. These resources highlight the strategic role of airports in strengthening national connectivity, supporting trade and tourism, and preparing Timor-Leste for ASEAN membership and broader regional integration.

2.65. The largest share will fund the rehabilitation and expansion of Presidente Nicolau Lobato International Airport (PNLIA), the country's primary international gateway. Planned works include a runway extension, terminal upgrades, and modernization of aviation safety systems to meet international standards. Additional resources will support project management, supervision, and compensation for households affected by the expansion. Beyond Dili, allocations under RAEOA fund will finance the management and operation of aircraft, while a subsidy for Aero Dili will ensure continuity of domestic air services, particularly the Dili–Oe-cusse route. Collectively, these initiatives will expand passenger handling capacity, improve aviation safety, and provide more reliable services nationwide.

2.66. Looking ahead, reforms will emphasize modernization, safety compliance, and stronger governance. The PNLIA rehabilitation project is designed to align Timor-Leste with international civil aviation standards, reduce operational inefficiencies, and improve service quality. Partnerships with development partners will further reinforce project implementation and oversight. By modernizing infrastructure and strengthening institutional frameworks, the Government aims to build investor confidence, enhance connectivity, and position air transport as a key driver of economic diversification, regional integration, and sustainable national development.

Transport Priorities

2.67. The 2026 Budget allocates US$ 10.6 million to transport programs. This amount is fully distributed as follows: US$ 2.9 million for road safety under the Ministry of Transport and Communications, US$ 4.5 million for the Port Authority of Timor-Leste, municipalities and RAEOA, and US$ 2.8 million for the Infrastructure Fund. These resources reflect the Government's commitment to modernizing transport systems, improving mobility, and ensuring inclusive access across both urban and rural areas, while strengthening maritime links to Atauro and Oe-cusse.

2.68. Program priorities in 2026 will focus on sustaining maritime services and upgrading urban mobility. Resources will maintain the *Berlin Nakroma* and *Berlin Ramelau* to ensure regular trips to Atauro and Oe-cusse, while public transport investments will support facility construction, rehabilitation of the Akanuno licensing building, and installation of new traffic signals in Dili. Additional works include lighthouses in Atauro, Maubara, and Com (Lautem), improving maritime safety.

2.69. Looking forward, reforms will emphasize sustainability, safety, and inclusiveness. The Urban Mobility Reform Program will introduce structured driver training, modernize service scheduling, and strengthen enforcement of road safety regulations. These efforts aim to reduce congestion, improve reliability, and make transport more accessible for women, youth, and low-income households. By integrating land and maritime investments with policy reforms, the Government seeks to expand access to jobs and services, strengthen territorial cohesion, and advance national goals for productivity, social cohesion, and climate-resilient development

Telecommunications, Postal, Meteorology & Geophysics Priorities

2.70. In FY 2026, the Government will allocate US$ 17.2 million to telecommunications, postal, meteorology, and geophysics programs. This allocation covers the Ministry of Transport and Communications, the National Communications Authority, TIC Timor, E.P., and the Infrastructure Fund. These investments underscore the Government's commitment to expanding digital connectivity, safeguarding communications systems, strengthening postal

services, and modernizing meteorological and geophysical monitoring as critical enablers of competitiveness, resilience, and inclusive development.

2.71. A central priority for 2026 is the operationalization of the National Digital Backbone, integrating submarine cable, terrestrial fibre, and universal digital access. Approximately US$ 6.3 million is allocated to ICT priorities, of which US$ 5.7 million will fund connectivity projects, including National Connectivity Projects VII–IX (US$ 4.7 million), fibre optic backbone payments, submarine cable supervision, and long-term management fees for the Submarine Fiber Optic Project. Additional allocations support data centres and digital identity systems, cybersecurity upgrades such as antivirus and multi-factor authentication for 500 government systems, and feasibility studies for new microwave links and ICT infrastructure. MTC will also double broadband capacity to 2 Gbps and pursue ISO 27001 certification, while the Data Centre is strengthened with new hardware, software, and firewall licenses. Complementary programs will maintain postal services, ensure affordable mobile coverage through the National Communications Authority, and expand meteorological and climatological monitoring systems.

2.72. Looking ahead, reforms will emphasize sustainability, inclusion, and security. The Universal Digital Access Initiative will extend high-speed internet to remote communities through a hybrid fibre–satellite model, enabling schools, health centres, and administrative posts to access e-learning, e-health, and digital public services. Policy measures will strengthen ICT governance, align regulations with international standards, and reinforce institutional capacity to counter cybersecurity threats. By modernizing digital, postal, and meteorological systems, the Government aims to lower internet costs, expand equitable service access, and position telecommunications infrastructure as a foundation for economic diversification, social inclusion, and climate resilience, consistent with the Strategic Development Plan (2011–2030) and the IX Constitutional Government Program.

Environment & Climate Priorities

2.73. In FY 2026, the Government will allocate US$2.5 million to environment and climate programs. The allocation signals a stronger focus on climate resilience, biodiversity conservation, and the blue economy as a key driver of sustainable growth and inclusive development.

2.74. Central to this agenda is the Environmental Protection and Conservation Program, which receives the full US$ 1.6 million allocation. Priority initiatives will include capitalization of the Green Climate Fund, issuance of environmental licenses, expansion of the national campaign *"Hau Nia Tasi, Hau Nia Timor"*, and strengthening of environmental data and monitoring systems. Efforts will also promote Tara Bandu as a community-based mechanism for biodiversity protection, operate the residual oil treatment center to reduce pollution, and prepare the study and detailed engineering design (DED) for the new Center for Conservation of Flora and Fauna Species in Hera-Dili.

2.75. Looking forward, reforms will emphasize stronger environmental regulation, improved coordination among government agencies, and closer alignment with international commitments such as the Paris Agreement and the Sustainable Development Goals (SDGs). Embedding environmental sustainability and blue economy priorities into national planning will safeguard natural resources, strengthen resilience to climate risks, and create new opportunities for communities and the economy.

Rural Development and Community Housing Priorities

2.76. In FY 2026, the Government will allocate US$ 24.1 million to rural development and community housing. This allocation covers the Ministry of Rural Development and Community Housing, RAEOA, State General Appropriation, MOP, ADN, SEFOPE SECOOP and the Infrastructure Fund, underscoring the Government's commitment to narrowing rural–urban disparities, improving access to dignified housing, and promoting inclusive territorial development.

2.77. Central to this agenda are the Community Revitalization Program (US$ 7.6 million) and the Dignified Community Housing Program (US$ 3.2 million). Key actions include constructing and rehabilitating rural infrastructure, creating conditions for productive sector initiatives (US$ 4.9 million), and promoting professional training to empower community groups and family businesses (US$ 1.8 million). An additional US$ 1 million is set aside to ensure an integrated and consistent housing construction model across the territory. Together, these programs will directly benefit vulnerable households and strengthen community resilience.

2.78. Looking forward, reforms will emphasize sustainability, accountability, and stronger community ownership. The recently approved Decree-Laws on Community Revitalization and Housing, along with new subsidy guidelines, provide a more robust legal and institutional framework. Priorities will include accelerating completion of ongoing works, enhanced monitoring and evaluation, and fostering greater community engagement. At the same time, the Government will promote an enabling environment for rural investment, ensuring that rural communities become more resilient, productive, and inclusive contributors to national development.

Agriculture Priorities

2.79. In FY 2026, the Government will allocate US$ 43.7 million to the agriculture sector. This allocation covers the Ministry of Agriculture, Forestry and Fisheries (US$ 22.5 million), municipal programs, the Special Development Fund for RAEOA, the Institute for Research, Development, and Training in Bambu, and the Infrastructure Fund (US$ 13.2 million). The budget highlights agriculture's central role as a driver of food security, rural employment, and inclusive economic growth.

2.80. Central to this agenda is the Agriculture, Horticulture, Coffee, Industrial and Annual Crops program, which will receive US$ 30 million. A major focus is the National Irrigation Rehabilitation Program (US$ 15.7 million), targeting high-potential rice and maize production areas. Additional allocations include US$ 4.5 million for production and productivity of agricultural and horticultural products covering agroecological zone revitalization, machinery use, and feasibility studies for new irrigation schemes (US$ 1.3 million). The Livestock, Veterinary Medicine, and Technology program will receive US$ 1.9 million, supporting animal treatment, strengthening the Tibar National Slaughterhouse, and monitoring livestock markets. Fisheries, aquaculture, and aquatic resource management will benefit from US$ 1.5 million to expand hatcheries, develop aquaculture infrastructure, and modernize artisanal fishing. Sustainable forestry management will receive US$ 1.4 million to operate nurseries in Maubara and other communities, expand mangrove planting, and strengthen wildfire management. Farmers will also gain from expanded access to quality seeds, fertilizers, and mechanization, supported by blended finance and private-sector partnerships. Community-based initiatives will promote cooperative formation, youth training, and value-chain development for cereals, vegetables, fisheries, and livestock.

2.81. Looking forward, reforms will aim to modernize agricultural governance and foster a stronger enabling environment for investment. The Ministry of Agriculture will transition from direct service provision to acting as a facilitator of farmer productivity and agribusiness growth. Key measures will include simplifying licensing for agribusinesses, advancing land registration to secure community tenure, and strengthening research, extension services, and youth engagement. Together, these reforms will support the creation of a more productive, climate-resilient, and inclusive agri-food system, aligned with the IX Constitutional Government Program and the Strategic Development Plan (2011–2030).

Petroleum & Minerals Priorities

2.82. In FY 2026, the Government will allocate US$ 194.1 million to petroleum and mineral sector programs. This covers the Ministry of Petroleum and Mineral Resources, the National Petroleum Authority, the Geosciences Institute, and the Infrastructure Fund. Within this, US$ 128.5 million is directed to the Ministry of Petroleum and Mineral Resources, including US$ 41 million for TIMOR GAP's business and activity plan, US$4.9 million for the National Minerals Authority, and US$ 4.9 million for Murak Rai Timor. These allocations underscore the Government's prioritization of Greater Sunrise negotiations, the Bayu Undan transition, and broader petroleum and mineral development as central drivers of long-term revenue and energy security.

2.83. Central to this agenda is the Tasi Mane Project, which will receive US$ 66.5 million to finance the Suai Supply Base (US$ 20 million), the Zumalai-Betano-Dotic-Natarbora highway (US$ 30 million), and monitoring of project implementation. A further US$ 52.2 million will support the implementation of business and activity plans by TIMOR GAP, ANM, and Murak Rai Timor. Meanwhile, US$ 51.9 million is allocated to Greater Sunrise development, of which US$ 45.6 million is for technical, commercial, legal, and financial studies to advance the project and pipeline to Timor-Leste. Additional funds will support geological studies, exploration, and resource mapping, including hydrogeology, geothermal potential, and risk assessments, to ensure the sector remains attractive to investment and innovation.

2.84. Looking ahead, 2026 will be marked by intensified negotiations with upstream partners under the Greater Sunrise Special Regime, with field development targeted for 2027/2028 and first gas by 2032. Parallel work under the Bayu Undan transition strategy will repurpose existing facilities into a processing hub for nearby gas fields such as Chuditch and Kelp Deep, while extracting remaining hydrocarbons. New offshore and onshore exploration rounds will also move forward to strengthen resource sustainability and attract private sector participation.

2.85. Policy reforms will place strong emphasis on resilience and sustainability. A flagship initiative is the proposed conversion of the depleted Bayu Undan reservoir into a regional Carbon Capture and Storage (CCS) facility with a capacity of 10 million tons per year. This would extend infrastructure use, attract international partnerships, and create new revenue streams. Complementary reforms strengthened regulatory frameworks, enhanced environmental safeguards, and deeper stakeholder engagement will ensure that petroleum and mineral development support fiscal stability, economic diversification, and Timor-Leste's broader energy transition.

Vocational Training & Employment Priorities

2.86. In FY 2026, the Government will allocate US$ 13.1 million to vocational training and employment programs. This covers the Secretary of State for Vocational Training and Employment (SEFOPE, US$ 9.7 million), Instituto Nacional de Desenvolvimento de Mão- de-Obra, the National Center for Professional Training - Becora (US$ 1.1 million), and the National Center for Employment and Professional Training - Tibar (US$ 1.5 million). These allocations reflect the Government's continued commitment to expanding skills development, improving employability, and creating pathways to both domestic and overseas employment, in line with the National Employment Strategy 2017–2030.

2.87. Central to this agenda is the Investment and Economic Diversification program, which will receive US$ 7.4 million to finance worker placement and protection, professional training, entrepreneurship incentives, and career counselling. Resources will also fund a national internship program and regular training activities through SEFOPE's municipal centers and the Becora and Tibar Institutes. Priority programs will focus on key growth sectors such as agriculture, construction, hospitality, ICT, and fisheries, while also expanding entrepreneurship and business incubation initiatives for young people. Special emphasis will be placed on women and rural youth to ensure greater gender inclusion. In parallel, labour mobility programs will scale up under bilateral agreements, opening overseas opportunities for Timorese workers and increasing remittance flows that support households and the wider economy.

2.88. Looking forward, reforms will concentrate on aligning training with labour market demand. Curriculum modernization, stronger certification systems, and closer coordination with employers will ensure that skills are both relevant and recognized nationally and internationally. "Train-the-trainer" programs will continue to raise instructional quality, while investments in modern facilities and equipment will enhance learning outcomes. Collectively, these reforms aim to build a competitive and inclusive workforce, positioning vocational training and employment services as key drivers of economic diversification, productivity, and poverty reduction.

Tourism Priorities

2.89. In FY 2026, the Government will allocate US$ 7.1million to the tourism sector. This allocation covers the Ministry of Tourism and Environment, municipalities, RAEOA fund and Infrastructure Fund. Resources reflect the Government's strategic focus on tourism as a driver of economic diversification, job creation, and small business development, aligned with the IX Constitutional Government Program and the Strategic Development Plan (2011–2030).

2.90. Program priorities for 2026 will combine destination marketing with investment in cultural and natural attractions. The National Destination Marketing Program will target high-potential markets such as Australia, Indonesia, and Singapore through digital campaigns, trade events, and brand strengthening. At the same time, investments will support rehabilitation of tourism facilities and cultural heritage sites, including the Tourist Information Center in Baucau, Marina Square in Dili, Uiacana Hot Water in Venilale, and Totogua Laga Castle. Community-based tourism will be expanded through cultural festivals, the creation of public tourism spaces in Seloi Kraik, and maintenance of Lifau Garden and ANLA facilities. Preparatory studies and public–private partnership (PPP) assessments will be carried out for Lagoa Seloi, Praia Walusere/Jaco, and Marobo Hot Water to unlock new investment opportunities. Together, these initiatives will improve visitor experiences, preserve cultural identity, and extend benefits to rural and coastal communities.

2.91. Looking ahead, reforms will strengthen sector governance and institutional capacity. The Tourism Governance Reform Package will clarify mandates between the Ministry of Tourism and AATL, streamline legislation, and reactivate coordination mechanisms across transport, infrastructure, and immigration. Complementary measures will include building management capacity, development of national service standards, and modernizing business licensing systems. By combining marketing, infrastructure investment, and governance reform, the Government seeks to raise Timor-Leste's international profile, attract private investment, and build a sustainable and inclusive tourism sector that contributes to economic growth and community development.

Private Sector Investment Priorities

2.92. For FY 2026, the Government will allocate US$ 32.3 million to private sector investment and business development programs. This allocation covers the Ministry of Coordinating Economic Affairs, the Ministry of Commerce and Industry (US$ 8.4 million), the Agency for the Promotion of Investment and Export (US$ 1.4 million), the Food and Economic Activity Inspection Authority (US$ 2 million), the Institute for Business Development Support, the State Secretariat for Cooperatives (US$ 3.8 million), the National Logistics Centre (US$ 4.3 million), the Business Registration and Verification Service (US$ 1.6 million), the Institute for Quality of Timor-Leste (US$ 1 million) and the Infrastructure fund (US$ 3.8 million). Together, these institutions form the backbone of Government efforts to diversify the economy, expand trade, and strengthen business capacity.

2.93. Program priorities for 2026 will strengthen productive capacity, expand trade partnerships, and support community enterprises. The Ministry of Commerce and Industry will promote industrial development through feasibility studies, new production facilities, and participation in trade expos, while deepening international engagement via commercial attachés and forums such as ASEAN, WTO, and CPLP. The Investment and Export Promotion Agency will attract investment in strategic sectors, while the National Logistics Centre will purchase local products, stabilize prices, and support farmer incomes. The State Secretariat for Cooperatives will expand cooperative centers and product development, and the Institute for Business Development Support will train and advise MSMEs. Complementary measures include food safety inspections, streamlined business registration and licensing, and new food and beverage laboratories to ensure quality standards.

2.94. Looking ahead, reforms will emphasize competitiveness, sustainability, and stronger private sector engagement. Policy measures will streamline business licensing, modernize regulatory frameworks, and reinforce quality and safety standards to build consumer and investor confidence. At the same time, closer integration of cooperatives, SMEs, and farmer groups into national value chains will promote inclusive growth, while international promotion will enhance Timor-Leste's presence in regional markets. By positioning private sector development as a driver of diversification, employment, and resilience, the 2026 allocation advances the IX Constitutional Government's vision of a more dynamic, competitive, and sustainable economy.

Security Priorities

2.95. In FY 2026, the Government will allocate US$ 69.8 million to security programs. This allocation covers the Ministry of Interior (US$ 11.1 million), the National Police of Timor-Leste (PNTL, US$ 46.2 million), the Civil Protection Authority (US$ 6.4 million), the National

Intelligence Service, municipalities, RAEOA, and the Infrastructure Fund (US$ 3.1 million). These resources underscore the Government's commitment to safeguarding national security, strengthening law enforcement, and enhancing community resilience against crime, violence, and natural disasters.

2.96. Central to the 2026 program are measures to improve border management, reinforce community safety, and build institutional capacity. The Ministry of Interior will enhance oversight of foreign movements and promote participatory citizenship through community dialogue, peaceful conflict resolution, and awareness campaigns on civil rights and duties. The PNTL will expand operational capacity to respond to complex violence and organized crime, supported by investments in modern equipment for the Special Police Unit. The Civil Protection Authority will allocate US$ 1.9 million for emergency response and post-disaster recovery, providing direct assistance to victims of major accidents and natural disasters. Infrastructure Fund resources include US$ 1.5 million for the construction of the new PNTL Headquarters in Caicoli, covering critical works such as perimeter walls, landscaping, and utility systems.

2.97. Looking ahead, reforms will focus on modernization, resilience, and accountability. Key measures include advancing cybersecurity protections, strengthening inter-agency coordination, and reinforcing disaster preparedness systems to improve risk mitigation and response times. By combining stronger law enforcement, deeper community engagement, and investment in modern infrastructure, the Government aims to build a more secure, resilient, and inclusive society. These measures will ensure that security institutions not only safeguard public order but also contribute to stability, national unity, and sustainable development, in line with the IX Constitutional Government Program.

Defence Priorities

2.98. In FY 2026, the Government will allocate US$ 54.1 million to defence programs. This allocation covers the Ministry of Defence (US$ 13.2 million), the FALINTIL–Forças de Defesa de Timor-Leste (F-FDTL) (US$ 14.1 million), National Defence Institute and Infrastructure Fund (US$ 1.6 million). The resources reflect the Government's commitment to safeguarding national sovereignty, modernizing defence infrastructure, and strengthening the operational readiness of the armed forces.

2.99. Central to the 2026 program are investments in the maintenance and modernization of defence assets. The Ministry of Defence will allocate US$ 5.7 million for the repair and maintenance of military infrastructure, equipment, and armaments, including naval vessels. A further US$ 3 million is dedicated to the acquisition of new equipment and materials for the armed forces. Infrastructure Fund resources will support the construction of the Naval Port in Hera and new facilities in Lahane, including barracks and office buildings for F-FDTL units. These initiatives will ensure that the armed forces remain equipped and capable of fulfilling their mission to defend national sovereignty and contribute to internal stability.

2.100. Looking ahead, reforms will focus on strengthening institutional capacity, professionalizing the armed forces, and ensuring the sustainability of defence investments. Priorities include modern training for F-FDTL personnel, improved logistics and maintenance systems, and stronger coordination with regional and international partners. By investing in both infrastructure and human capital, the Government aims to build a more modern, disciplined, and resilient defence force that supports peace, stability, and national development, in line with the IX Constitutional Government Program.

Foreign Affairs Priorities

2.101. In FY 2026, the Government will allocate US$ 61.6 million to foreign affairs programs. This allocation covers the Ministry of Foreign Affairs and Cooperation (US$ 36.3 million) and the General State Appropriation (US$ 25.3 million), supporting bilateral and multilateral representations, contributions to international institutions, and ASEAN accession activities. These resources underscore Timor-Leste's commitment to strengthening its diplomatic presence, advancing ASEAN membership, and deepening international partnerships as enablers of national development and global integration.

2.102. Central to the 2026 agenda is the ASEAN Accession and Integration Program (US$ 3.1 million), which will finance legal harmonization, policy alignment, institutional readiness, and participation in ASEAN mechanisms. Broader diplomatic engagement will be supported through US$ 8 million for bilateral, regional, and multilateral representation, while US$ 18.1 million is dedicated to strengthening the diplomatic career system, including allowances, mobility, and health insurance for diplomats and their families. In addition, Timor-Leste will contribute US$ 10 million in membership quotas to international institutions and provide US$ 10 million in solidarity support, ensuring active participation in global and regional initiatives. Collectively, these measures will enhance Timor-Leste's diplomatic capacity, raise its international profile, and prepare citizens and businesses to benefit from ASEAN integration.

2.103. Looking ahead, reforms will emphasize institutional strengthening, policy alignment, and public awareness. Key measures include building the capacity of civil servants and diplomats to manage ASEAN and international obligations, launching nationwide campaigns to inform citizens about ASEAN membership, and reinforcing coordination with international partners to mobilize technical and financial support. By embedding ASEAN priorities into the broader foreign policy framework and ensuring effective representation abroad, Timor-Leste seeks to secure its place as the 11th ASEAN Member State and contribute meaningfully to regional peace, prosperity, and sustainable development, in line with the Strategic Development Plan (2011–2030) and the IX Constitutional Government Program.

Justice Priorities

2.104. In FY 2026, the Government will allocate US$ 38.8 million to justice programs. This allocation includes the Ministry of Justice (US$ 14.1 million), Courts (US$ 8.1 million), the Office of the Prosecutor General (US$ 7 million), the Public Defender's Office (US$ 2 million), and the Scientific Police for Criminal Investigation (US$ 2.2 million). Additional resources are provided through municipalities, the Infrastructure Fund, RAEOA (US$ 1.4 million), and the General State Appropriation (US$ 1.4 million). These allocations underscore the Government's commitment to strengthening the rule of law, promoting equal access to justice, and modernizing judicial institutions.

2.105. Program priorities for 2026 include professional training for justice actors (US$ 1.3 million) and the development of prison services (US$ 2.8 million). Resources will also support civil and criminal registry services, improved passport issuance, and the nationwide rollout of Unique Identification (ID) cards to extend legal identity coverage, particularly for rural and vulnerable populations. Infrastructure investments will focus on the construction of Weberek Prison and the Youth Rehabilitation Centre in Tibar, including site clearance, design, re-design, and supervision to ensure modern and high-quality facilities. Core justice institutions the Courts, the Office of the Prosecutor General, the Public Defender's Office, and the Scientific Police will continue to deliver their mandates, safeguarding public order and ensuring fair access to justice.

2.106. Looking forward, reforms will prioritize decentralization of judicial services, expansion of the judicial map, and simplification of legal procedures to reduce bottlenecks and enhance access. A comprehensive anti-corruption strategy will reinforce judicial independence and accountability, while gender-sensitive reforms will strengthen responses to gender-based violence and mainstream equality across the justice sector. By embedding modernization, inclusiveness, and integrity at the heart of justice reform, the Government seeks to strengthen democratic institutions and ensure equal access to justice for all citizens, in line with the Strategic Development Plan (2011–2030) and the IX Constitutional Government Program.

Public Administration Reform Priorities

2.107. In FY 2026, the Government will allocate US$ 6.2 million to Reform of Human Resource Management in Public Administration. This allocation covers the Civil Service Commission (US$ 3.1 million), the National Institute of Public Administration (US$ 1.8 million), and the Infrastructure Fund (US$ 1.3 million), supporting the implementation of the Public Administration Reform Plan 2023–2028. These resources reflect the Government's commitment to building a modern, professional, and accountable civil service as a cornerstone of institutional performance and service delivery.

2.108. Program priorities for 2026 include scaling up merit-based and standardized HR practices across at least 60% of institutions, supported by sectoral workforce diagnostics and workforce planning exercises. Investments will expand the rollout of SIGAP-FOUN, including the integration of its retirement management module with the National Institute of Social Security (INSS) and functional linkage with the Government Resource Planning, Financial Management Information System (GRP-FMIS). The Civil Service Commission will oversee professional training, including pre-retirement preparation, while electronic and online testing will be implemented nationwide at national, regional, and municipal levels. Infrastructure investments will include the construction of a new E-Recruitment Building for the Civil Service Commission and a modern Training Centre for the National Institute of Public Administration (INAP), along with supervision of the INAP Training Centre project to ensure quality and timely completion.

2.109. Looking forward, reforms will focus on digital transformation, retirement reform, and accountability. Priorities include full digitalization of HR records with 100% of eligible civil servants integrated into SIGAP-FOUN, institutionalized pre-retirement training, and annual data validation to ensure transparency and efficiency. Compliance and ethics programs will be strengthened, with a target of 60% of institutions operating functional compliance systems by 2026. By embedding modernization, accountability, and inclusiveness at the heart of reform, the Government seeks to build a performance-driven public administration that reinforces democratic governance and delivers quality services to citizens, in line with the Public Administration Reform Plan (2023–2028) and the IX Constitutional Government Program.

Decentralisation Priorities

2.110. In FY 2026, the Government will allocate US$ 56.8 million to decentralisation and local governance programs. This allocation covers the Ministry of State Administration (US$ 22.3 million) and municipalities (US$ 34.6 million). These resources underscore the Government's commitment to expanding local access to public services, strengthening municipal governance, and advancing the national decentralisation agenda.

2.111. Program priorities for 2026 will focus on local government reform and administrative simplification, including the expansion of One-Stop Shops (Balkaun Úniku) to all municipalities, enabling citizens to access civil registration, identity documentation, notary services, and legal certifications through a single service point. Additional priorities include toponymy and urban organization, as well as investments in the establishment, rehabilitation, and operational readiness of facilities, covering equipment, IT systems, and utilities. In parallel, resources will support the National Suco Development Program (PNDS), financing suco-level infrastructure projects including in RAEOA and ensuring effective management, monitoring, and evaluation. Complementary initiatives will address boundary demarcation, administrative post oversight, and further simplification of local government processes, all aimed at improving service efficiency, transparency, and responsiveness to citizen needs.

2.112. Looking forward, reforms will emphasize capacity-building and local administration reform. Priority measures include structured human resource planning, targeted training for municipal and suco-level staff, and continuous mentoring to ensure professional and citizen-oriented service delivery. Technical coordination between the Ministry of State Administration and line ministries will be reinforced to enhance interoperability of digital systems and enable more integrated service provision. By embedding decentralisation and local governance reforms within the broader public sector modernization agenda, the Government seeks to build accessible, efficient, and trusted local institutions, reinforcing inclusive governance and active citizen participation in national development.

Public Financial Management Priorities

2.113. In FY 2026, Public Financial Management (PFM) reforms will be led by the Ministry of Finance, including through the General State Appropriation, with support from the Ministry of Planning and Strategic Investment, the National Procurement Commission, and the Infrastructure Fund. These efforts focus on strengthening revenue mobilization, program-based budgeting, treasury and accounting modernization, petroleum fund management, state asset administration, procurement, and official statistics.

2.114. Priorities include upgrading customs and tax systems to boost non-oil revenues, expanding e-procurement for large contracts, and modernizing treasury functions with automated cash management and payroll integration. Asset management will improve through effective maintenance of the Government's vehicle fleet and upgraded diagnostic systems. Pension provisions and debt servicing will be managed responsibly, while petroleum fund oversight will safeguard returns and fiscal sustainability. Preparatory work will also advance the establishment of the National Development Bank and modernization of the Government Resource Planning (GRP) system.

2.115. Looking forward, reforms will target higher domestic revenue, timely and transparent procurement, adoption of accrual-based accounting, and stronger oversight of public spending. By reinforcing fiscal discipline, accountability, and efficiency, these measures will modernize core PFM systems and support the IX Constitutional Government's vision of sustainable and transparent management of public finances.

Budgetary Policy Measures

2.116. In 2026, the Government will continue to implement budget measures in line with its long-term vision outlined in the Strategic Development Plan (SDP) 2011–2030 and meeting policy commitments outlined in the IX Constitutional Government Program. Some of the key measures are aimed at medium term to long term policy objectives, while others relate to

meeting one off results and achievement. These Budgetary Policy Measures are structured into permanent and temporary categories to differentiate between long-term commitments and short-term, one-off interventions with budgetary implications.

a) Permanent Budgetary Policy Measures

2.117. These are measures that will have budgetary implications in the medium to long term and are aimed at meeting government objectives of sustainable economic growth and improvement in service provisions. Key permanent measures and respective allocations include:

2.118. **Health measures:**

- US$ 55.9 million to finance a comprehensive primary health care system aimed at Strengthening Local Health Systems and Expanding Community-Based Service Delivery by investing in critical health system reforms to expand equitable access to quality health services, particularly in rural and underserved areas.
- US$ 13.8 million for overseas medical treatment.
- US$ 2.8 million on providing Inclusive Health Infrastructure to enhance health service access, through upgrading health facilities to meet universal design standards.
- US$ 11.6 million for hospitalization and specialized medical services as well as financing the rehabilitation and construction of hospitals and health facilities, which includes US$ 4.53 million for the new Paediatric and ICCU Building at Guido Valadares National Hospital (HNGV).
- US$ 0.085 million for management and modernization of the national medical supply and logistics system to ensure the continuous availability of essential medicines and diagnostic supplies. Real-time stock tracking will be introduced at municipal and facility levels, aligned with the national essential medicines list. Additional investments will be made in municipal warehousing and last-mile delivery logistics to reduce stockouts and strengthen the reliability of service delivery.

2.119. **Education:** To improve access and quality of education at the pre-school and basic education levels, government will continue to address structural challenges in the education workforce. Key measures to address this challenge will include:

- US$ 4.4 million towards capital development for basic education to enhancing learning environments through infrastructure investments, targeting the construction and rehabilitation of classrooms, water and sanitation facilities, and inclusive spaces, particularly in rural and peri-urban areas. Gender-sensitive facilities will be built to reduce dropout rates among girls, while accessibility improvements will enable greater participation of children with disabilities.
- US$ 1.7 million for the Advancing Curriculum Reform for Greater Relevance and Inclusion through the nationwide distribution of curriculum-aligned textbooks, learning aids, and early-grade reading materials, as well as standardized furniture and improved library access.
- US$ 0.6 million for providing continuous training for basic education teachers on basic education curriculum content.

- US$ 39 thousand for Scaling up targeted teacher training in science, mathematics, IT, and inclusive education, ensuring alignment with the national curriculum and providing follow-up support through school-based coaching and monitoring.
- US$ 29.1 Million for the continued provision of school meals (Merenda Escolar) at the preschool and elementary levels.

2.120. **Social inclusion:** Government will continue scaling up interventions to improve the lives of vulnerable and marginalized groups as a way of fostering social inclusion. Key measures in 2026 and the medium term will include:

- US$ 170 million for social security in 2026.
- US$ 10.4 million to scale up and improve the implementation of the Bolsa da Mãe Program.
- US$ 22.6 million to support the Catholic episcopal conference (US$ 15 million), sports association and other marginalized and vulnerable groups (US$ 6.6 million).

2.121. **Cultural Access, Artistic Production, and Youth Engagement:** key measures will include:

- US$ 5.7 million to support various sports disciplines and clubs' participation in international competitions.
- US$ 1.22 million to expand access to cultural spaces, supporting Timorese artists, and engaging young people in artistic activities.
- US$ 1.6 million to support documentation of oral historical and traditional knowledge systems, historical assets as well as investments in heritage sites, museums and public archives.
- US$ 3.6 million for Institutional capacity building to improve governance and coordination in the management of the subsector.
- US$ 2.8 million for the operation and maintenance of the Archive and Museum of the Resistance
- US$ 1.4 million for the National Archive of Timor-Leste, the Chega! National Center I.P.

2.122. **Environment:** Key measures to be implemented in 2026 and the medium term will include:

- US$0.172 million in 2026 for environmental protection and conservation.

2.123. **Agriculture:** Key measures to be implemented in the medium term to improve agricultural productivity and ensure food security will include:

- US$ 15.7 million towards transforming Agriculture into a driver of productivity through rehabilitation and expansion of strategic irrigation systems.
- US$4.5 million additional funding to improve production and productivity of agricultural and horticultural products covering agroecological zone revitalization and production mechanization.

2.124. **Energy:** key budgetary measure to enhance energy sustainability and accessibility will include:

- US$ 123.4 million for EDTL to subsidize the delivery of reliable, affordable, and sustainable electricity while supporting household welfare, economic diversification
- US$ 50 million for the technical and financial assessment of the strategic infrastructure projects and downstream petroleum development in Natarbora.
- US$ 50 million additional funding to finance the technical studies for development of the Tasi Mane Project infrastructure.
- US$ 4.7 million for offshore and onshore exploration of petroleum and mineral blocks.

2.125. **Tourism:** Government will continue with the strategy to Boosting Visitor Arrivals Through Strategic Destination Marketing: key measures in this regard will include:

- US$ 5.2 million for the implementation of a National Destination Marketing Program to significantly increase international visitor arrivals and raise the country's global tourism profile. This measure and program will focus on high-potential markets such as Australia, Indonesia, and Singapore through targeted digital campaigns highlighting Timor-Leste's niche offerings in marine and diving tourism, cultural heritage, and eco-adventure travel.

2.126. **Driving Trade, Industrial Growth, and Economic Diversification:** In 2026, US$ 4.3 million has been allocated to support the development of logistics infrastructure, digitization of industrial processes, and the implementation of policies that encourage foreign investment and industrial sustainability.

2.127. **Infrastructure Development and Multi-Year Investments:** Key measures in 2026 will include:

- US$ 436 million towards Capital Development, of which US$ 300 million is for the Infrastructure Fund, US$ 107 for projects delivered by line ministries and US$ 29 million for infrastructure in Municipalities.
- An additional US$ 1.7 million has been allocated for the administration of the infrastructure fund (SGP operational/SFI) to ensure efficient project development and prioritization

2.128. **Foreign Affairs –**

- US$ 12.5 million for the operation of Timorese diplomatic missions abroad.

2.129. US$ 0.155 million to support the completion of procedural and institutional requirements outlined in the ASEAN Roadmap for Full Membership

2.130. **Justice - Strengthening Legal Identity, Land Rights, and Access to Justice for All:** In 2026, the Government will prioritize the development of a modern, accessible, and gender-responsive justice system. Key budgetary measures in 2026 and the medium term will include:

- US$ 16.2 million for enhancing the administration of justice for all.

2.131. **Decentralization – In line with its decentralization policy, government will continue devolving functions of the central government to the municipalities through:**

- US$ 37.1 million for enhancing decentralization through local infrastructure development.

b) Temporary Budgetary Policy Measures

2.132. These are measures that will have one-off implications on the budget and are aimed at resolving government objectives of sustainable economic growth and improvement in service provisions. Key measures and respective allocations for 2026 include:

Measures	Description	Amount (US$ million)
1	Capitalization of BNDTL	55
2	Capitalization of BNCTL	5
3	Geotechnical survey in Natarbora; Pre-FEED study for LNG plant in Natarbora; Pre-FEED study for refinery and petrochemical plant in Natarbora; study for marine facility in Natarbora; survey and supervision of Greater Sunrise and Bayu-Undan pipeline; environmental impact study for hydrocarbon facility in Natarbora; and related studies	44
4	Design and studies for the Dili International Convention Center	5
5	Placement and recruitment of teacher scholarship candidates	16
6	Purchase of 21,180 sets of chairs and tables for Pre-School (EI), Basic Education (EB), General Secondary Education (EMG) and Technical-Vocational Secondary Education (EMTP)	2
7	Overseas hospital debts	6
8	Purchase of equipment for HNGV (National Hospital Guido Valadares)	4
9	Increased transfer to Timor GAP to prepare business plan	25
10	Purchase of heavy equipment for IGEADI	5
11	Projects and activities in urban areas linked to the toponymy policy under the Ministry of Public Works (MOP) and Infrastructure Fund (FI)	20
12	Study of onshore oil and gas potential, metallic minerals, and rocks	1
13	Purchase of spare parts for heavy equipment	1.5
14	Establishment of a heavy machinery office and mechanical training	2
15	Construction of barracks for the IGEADI Brigade in 4 municipalities	1.2
16	Maintenance of military ships *Jaco* and *Betano*	5
17	Acquisition of military uniforms	1.5

Measures	Description	Amount (US$ million)
18	Creation of the OJECTIL/FALINTIL association and the national association of FALINTIL-FDTL military	0.5
19	Acquisition of new model passports and blank registries	1.1
20	Acquisition of agricultural tractors	1.1
21	Acquisition of agricultural equipment	2.5
22	Recruitment/deployment of PNTL (National Police of Timor-Leste) members	1
23	Human resources reform in public administration	7
24	Emergency project in RAEOA (Special Administrative Region of Oe-cusse Ambeno)	7
25	Transfer to the Health and Nutrition Program for pregnant women, lactating mothers, and children up to 3 years old in situations of social vulnerability (conditional subsidy)	0.5
26	Recruitment of new staff for the Customs Authority and Tax Authority	0.6
27	Statistical surveys (Agriculture, Household Consumption, Civil Registration and Vital Statistics)	0.6
28	Preparation for Presidential Elections	4
Total		**225**

Source: DBFTL Ministry of Finance, September 2025

Subsidies to Public Enterprises

2.133. The government of Timor-Leste continues its support for key public enterprises through strategic subsidies, ensuring the delivery of essential services. For Fiscal Year 2026, the following subsidies have been allocated, with several seeing significant increases that impact the total state budget ceiling:

- US$ 123.4 million to EDTL, E.P. to ensure the continuous supply of electricity across the country. It represents a decrease of US$ 40 million compared to the US$ 165.5 million allocated in FY 2025, mostly justified by EDTL's large cash balance of US$ 90 million as of January 2025. Nevertheless, it remains a large allocation reflecting the government's ongoing commitment to improving and expanding energy infrastructure.
- US$ 6 million to BTL, E.P. to support the expansion of water infrastructure across the country, and to provide reliable and clean access to water for all Timorese.
- US$ 1.8 million to ANATL, E.P. to strengthen the operations of the National Civil Aviation Authority. In addition to developing regional airports in Baucau, Suai, and RAEOA, this

amount will contribute to adapting the capacity of Dili Airport in the context of growing international traffic related to Timor-Leste's entry into ASEAN.

- US$ 2.55 million to Rádio e Televisão de Timor-Leste, E.P. (RTTL) to support public broadcasting services aimed at improving access to information and media throughout Timor-Leste. This amount is equivalent to last year's allocation, with an additional US$ 200 Thousand to support the broadcast of the 2026 Football World Cup.
- US$ 41 million to TIMOR GAP, E.P., the national oil company, to support its critical role in energy exploration and production. This represents a significant increase of US$25 million, which will be allocated to the feasibility and implementation studies for the Greater Sunrise project. This project is expected to play a vital role in Timor-Leste's national development and long-term economic growth.
- US$ 4.9 million will go to the Murak-Rai Company, E.P., which contributes to economic diversification efforts, reducing the country's dependency on oil revenues by expanding into other economic sectors.
- US$ 4.9 million earmarked for the National Authority for Minerals (ANM), responsible for regulating and overseeing mineral resources in Timor-Leste, ensuring proper management and sustainability within the sector.

2.134. These subsidies play a crucial role in enabling public enterprises to maintain the delivery of essential services while enhancing their operational capacity. The government will carry out regular evaluations of these enterprises' financial performance and long-term sustainability.

Social Subsidies and Programs

2.135. Timor-Leste has one of the most generous social protection programs in Asia. As a percentage of GDP, expenditure on social protection measures far exceeds the average for ASEAN and Pacific Island States.

2.136. Expenditure on social protection is mainly comprised of subsidies and payments to households and represents a major driver of household consumption in Timor-Leste. Total payments to households have risen under the 9th Constitutional government from around US$ 164 million in 2023 to a projected US$ 266 million in 2025[10].

2.137. The largest and most visible commitments in the past few years include the Veterans Transfer and the transfer to the Social Security Fund. In line with the IX Constitutional Government Program, veterans are recognized as the foundation of independence and nationhood. Supporting them is both a constitutional obligation and a moral duty. These transfers ensure dignity for those who fought for independence while reinforcing social recognition, unity, and stability, thereby safeguarding the legacy of the liberation struggle. Treasury Data shows that over 28 thousand individuals have received individual payments in 2025. This will expand by a further estimated 26 thousand individuals who are set to start receiving payments in December 2025 as part of an expanded list of Veterans payments.

2.138. At the same time, the government ensures the dignity and the security of the elderly through the Social Security Fund. The Social Security consists of a contributory and non-contributory regime. The non-contributory regime provides old-age and disability pensions, offering a

[10] Ministry of Finance Estimates.

minimum income floor for the elderly and persons with disabilities, and reflecting the steady rise in beneficiaries following reforms in 2022 and 2024. In 2025, an increase to the minimum income floor saw the transfer for the Non-Contributory regime increase from US$ 65 million to US$ 112 million. The minimum disability payment is US$ 60 dollars a month. The minimum payment for the elderly sees gradual increases by age starting at US$60 a month for those between the ages of 60 and 69, increasing to US$ 80 a month for those between the ages of 70 and 79 and peaking at US$ 100 a month for those aged 80 and above.

2.139. The INSS estimates that close to 108,000 people received payments under the non-contributory regime in 2025, with a little over 10,000 disability payments and 97,000 elderly payments issued.

2.140. The contributory regime, introduced in 2016, finances pensions and other benefits for formal sector workers. The regime combines a basic defined benefits or *pay-as-you-go* pension model with a public capitalization component in the form of the reserve fund (FRSS). Revenues from social contributions from the formal sector are used to pay the social benefits from the contributory regime. Any annual surplus between contributions received and benefits paid is transferred to the Reserve Fund (FRSS) whose sole purpose is to accumulate and manage the reserves of the contributory regime so that they can be used in the future should annual contributions be insufficient to cover annual expenses.

2.141. Government transfers also top up the contributory regime in order to finance the pensions of government employees who have accumulated several years of service but didn't have the opportunity to accumulate sufficient social contributions to the contributory regime beginning their employment prior to the establishment and implementation of the contributory regime. The INSS estimates that in 2025, over 4,800 individuals have received payments and subsidies as part of the contributory and transitory regimes.

2.142. Out of the total consolidated budget (including both budgetary central government and the Social Security Fund) of US$ 2,291.0 million, US$ 354.6 million or 15% will be allocated directly to citizens through the Veterans Fund and The Social Security Fund. The remaining budget of US$ 1,936.5 million will be allocated to sustaining the cost of the public administration and delivering the governments core objectives as outlined in other sections of this document.

2.143. The breakdown is provided in Table 15 below:

Table 15: Total Consolidated Budget, with and without Transfers to Social Security and Veterans, US$ Million

Component	Salary & Wages	Goods & Services	Public Transfers	Minor Capital	Capital & Development	Total Budget
Total Consolidated (Central Administration + Social Security + RAEOA)	487.42	468.96	839.23	35.56	459.83	2,291.00
Subtract Transfer to MCLAN (Veterans)			187.69			

Component	Salary & Wages	Goods & Services	Public Transfers	Minor Capital	Capital & Development	Total Budget
Subtract Transfer to Social Security			166.90			
Total Consolidated (Central Administration + RAEOA) Excluding Transfers to Veterans and Social Security	487.42	468.96	484.64	35.56	459.83	1,936.41

Source: DBFTL, Ministry of Finance, September 2025

Investment in Municipalities

2.144. The IX Constitutional Government recognizes decentralization as a cornerstone of inclusive development. By empowering municipalities with financial and administrative authority, the Government brings services and investment closer to citizens, ensuring that local priorities are addressed effectively.

2.145. In 2026, the municipal investment framework is reinforced through two channels:

- Direct allocations to Municipal Authorities, covering recurrent operations and program-based investments in key delegated sectors such as education, health, water and sanitation, agriculture, and social inclusion.
- National capital investment programs executed at municipal level, including the National Village Development Program (PNDS), the Municipal Integrated Development Program (PDIM), and large-scale projects funded by the Infrastructure Fund (FI) and the Ministry of Public Works (MOP). These cover schools, health centers, rural roads, irrigation systems, and markets across all municipalities.

Table 16: Comparison of total budget allocations by municipal authority (2024-2026)

No	Municipal Authority	2024 Budget ($)	2025 Budget ($)	Proposed Budget 2026 ($)	% Change (2024 vs 2026)	% Change (2025 vs 2026)
1	AM Aileu	4,305,506	7,523,864	9,497,727	121%	26%
2	AM Ainaro	4,354,025	7,879,212	9,752,205	124%	24%
3	AM Ataúro	2,102,571	2,550,389	2,713,532	29%	6%
4	AM Baucau	9,456,741	12,437,747	13,802,085	46%	11%
5	AM Bobonaro	9,270,244	11,308,414	12,806,671	38%	13%
6	AM Covalima	7,256,651	8,293,634	9,517,979	31%	15%
7	AM Dili	16,169,783	19,234,005	19,502,642	21%	1%

No	Municipal Authority	2024 Budget ($)	2025 Budget ($)	Proposed Budget 2026 ($)	% Change (2024 vs 2026)	% Change (2025 vs 2026)
8	AM Ermera	8,828,787	12,871,246	14,112,994	60%	10%
9	AM Lautém	7,628,912	8,691,721	8,494,839	11%	-2%
10	AM Liquiçá	6,401,407	7,570,984	8,468,045	32%	12%
11	AM Manatuto	6,808,247	7,534,700	9,626,242	41%	28%
12	AM Manufahi	6,401,792	7,701,471	9,661,613	51%	25%
13	AM Viqueque	6,701,423	10,026,540	10,686,240	59%	7%
Total		**95,686,089**	**123,623,927**	**138,642,814**	**45%**	**12%**

Source: DBFTL, Ministry of Finance, September 2025

2.146. Between 2024 and 2026, total municipal allocations increase from US$ 95.7 million to US$ 138.6 million, a 45 percent rise. Compared with 2025, allocations in 2026 will increase by 12 percent, confirming the Government's continued commitment to strengthen decentralization and bring services closer to citizens.

2.147. The largest increases are recorded in Aileu (121%), Ainaro (124%), and Ermera (60%), reflecting targeted investments in rural municipalities where service delivery gaps remain high. Manufahi (51%) and Viqueque (59%) also show strong rates of growth in budget allocations, while increases in Ataúro are 29% (since 2024). In contrast, budget resources allocated to Dili have grown only 21% since 2024 and just 1% in 2026 compared to 2025, demonstrating a deliberate rebalancing of resources toward less developed regions.

2.148. This distribution reflects the Government's policy to reduce regional disparities. Increased municipal budgets are aligned with delegated competencies under Decree-Law No. 84/2023, particularly in education, health, water and sanitation, agriculture, and local infrastructure. By strengthening local capacity and financing, the Government aims to ensure equitable access to essential services and accelerate inclusive growth across all municipalities.

2.149. **School Feeding Program**: A total of US$ 22.1 million is allocated to provide nutritious meals to students in pre-school and basic education. This initiative is essential for improving attendance and retention rates, particularly in rural areas where food security remains a challenge. By addressing child welfare and learning outcomes, the program supports the Government's broader strategy to improve human development. It also promotes equality by prioritizing the most vulnerable children, including girls, boys, and persons with disabilities, ensuring that no one is left behind.

2.150. **School Grants Program**: With an allocation of US$ 6.2 million, the School Grants Program will support the operational needs of pre-school and basic education, including maintenance, supplies, and extracurricular activities. This ensures schools have the resources to improve service quality and respond better to community needs.

2.151. **Investments in Key Sectors**: In 2026, municipal budgets prioritize education, health, water and sanitation, and rural infrastructure. Basic education (Program 521) remains the largest program, complemented by pre-school and recurrent education. Health services (Program 528) are funded across all municipalities, though allocations remain modest. Strong capital allocations to water and sanitation (Program 798) and roads and bridges (Program 026) highlight the priority of improving access and connectivity, while administration programs (025 and 510) sustain governance capacity. Social inclusion (Program 980) and local economic diversification programs (agriculture, livestock, tourism, and forestry) are present but remain underfunded, requiring stronger coordination with national sectoral policies.

2.152. Dili receives the largest allocation (US$ 19.5m) due to population size and urban infrastructure needs. Ermera (US$ 14.1m) and Baucau (US$ 13.8m) follow, both prioritizing education and rural infrastructure. Bobonaro (US$ 12.8m) shows a balanced mix of sectors, while smaller municipalities like Ataúro (US$ 2.7m) and Liquiçá (US$ 8.5m) deliver all core programs but with more limited resources.

2.153. Overall, municipal budgets confirm education and WASH as flagship sectors, while primary health care and local economic programs remain underfunded. Around one-quarter of spending is dedicated to capital investment, with the remainder sustaining operations and administration. To enhance equity, the Municipal Transfers Formula may need adjustment, alongside greater focus on health, economic diversification, and alignment with the IX Government Program and the Strategic Development Plan 2011–2030.

2.154. **National Physical Capital Investment Implemented at Municipal Level**: In addition to municipal allocations, municipalities benefit from national capital investment programs.

- *Clarification: PNDS and PDIM allocations are included under Municipal Authority budgets, while Infrastructure Fund (FI) and Ministry of Public Works (MOP) projects represent nationally financed programs executed at the municipal level. Other line ministry projects not captured under FI or MOP are excluded from this table.*

Table 17: Capital Investment by Municipality and Source of Financing (PNDS, PDIM, FI, MOP)

No	Municipal Authority	PNDS – Infrastructure & Operational (US$)	PDIM (US$)	PDIM Projects (#)	FI Projects (Excl. RAEOA) (US$)	FI Projects (#)	MOP Projects (Excl. RAEOA) (US$)	MOP Projects (#)	Total (US$)
1	AM Aileu	1,218,902	2,663,873	31	6,136,016	37	2,827,980	39	12,846,771
2	AM Ainaro	929,224	2,494,495	20	2,756,002	32	2,429,983	42	8,609,704
3	AM Ataúro	267,031	312,000	5	4,040,068	14	232,341	2	4,851,440
4	AM Baucau	2,790,684	2,310,213	29	12,604,555	59	3,146,242	42	20,851,694
5	AM Bobonaro	2,117,330	2,750,460	27	14,443,950	63	4,564,550	59	23,876,290
6	AM Covalima	1,540,838	2,111,464	12	10,740,969	66	3,117,900	57	17,511,171
7	AM Dili	1,189,955	1,673,949	18	62,797,880	317	23,797,957	134	89,459,741

No	Municipal Authority	PNDS – Infrastructure & Operational (US$)	PDIM (US$)	PDIM Projects (#)	FI Projects (Excl. RAEOA) (US$)	FI Projects (#)	MOP Projects (Excl. RAEOA) (US$)	MOP Projects (#)	Total (US$)
8	AM Ermera	3,084,969	1,629,826	20	23,822,721	40	4,796,290	71	33,333,806
9	AM Lautém	1,002,641	1,009,487	14	12,459,550	49	2,015,822	30	16,487,500
10	AM Liquiçá	1,169,264	1,410,500	17	3,590,882	26	3,696,912	53	6,276,676
11	AM Manatuto	1,084,839	3,061,915	31	5,994,673	42	3,584,683	37	13,726,110
12	AM Manufahi	1,008,852	2,461,800	19	12,958,130	50	3,862,534	48	20,291,316
13	AM Viqueque	1,667,030	2,325,552	19	8,003,701	51	2,938,209	36	14,934,492
Total		**19,071,559**	26,215,534	262 (Projects)	180,349,097	846 (Projects)	61,011,403	650 (Projects)	26,215,534

Source: DBFTL, Ministry of Finance, September 2025

2.155. Capital development expenditures in 2026 total US$ 283.1 million across the 13 municipal authorities. This includes PNDS (US$ 19.1m), PDIM (US$ 26.2m), FI projects (US$ 176.8m), and MOP projects (US$ 61.0m). This financing structure ensures that both community-driven initiatives and large-scale national investments contribute to balanced territorial development.

2.156. Dili receives the largest share (US$ 89.5m), reflecting concentration of national-scale projects such as major road corridors, drainage, and urban services. Significant investments are also directed to Ermera (US$ 33.3m), Bobonaro (US$ 23.9m), Baucau (US$ 20.9m), and Manufahi (US$ 20.3m). These allocations are driven by Infrastructure Fund projects in roads, bridges, education facilities, irrigation, and WASH systems, complemented by PDIM projects that respond to citizen priorities. Smaller allocations to Ataúro (US$ 4.9m) and Liquiçá (US$ 6.3m) remain meaningful given their population size and geographic conditions.

2.157. The composition of spending shows a dual approach: PNDS and PDIM (US$ 45.3m) address grassroots priorities such as community roads, small water systems, and suco-level schools, while Infrastructure Fund and MOP projects (US$ 237.8m) deliver transformative investments in transport, electricity, ports, airports, and large-scale social facilities. This alignment strengthens everyday service delivery while also expanding economic opportunity through improved connectivity and infrastructure networks.

2.158. The 2026 allocations illustrate the Government's strategy to deepen decentralization while leveraging national investments. By combining local planning instruments with national capital budgets, the government ensures that citizens in both urban and rural municipalities benefit from improved services and infrastructure, advancing equity, territorial balance, and long-term development goals.

2.159. **Per Capita Budget Allocations by Municipality,** provide a clearer picture of equity and service delivery orientation. Municipal budget allocations for 2026 on a per capita basis using the official population projections for 2026 published by the Timor-Leste National Institute of Statistics (INETL) are shown in Table 18 below. This approach highlights the relative level of resources available to each citizen across different municipalities.

Table 18: 2026 Municipal Budget Allocation per Capita (including PNDS and PDIM)

No	Municipality	2026 Municipal Budget (US$)	Population Projection 2026	Per Capita Municipal Budget (US$)
1	AM Aileu	9,497,727	59,415	**160**
2	AM Ainaro	9,752,205	76,417	**128**
3	AM Ataúro	2,713,532	10,964	**248**
4	AM Baucau	13,802,085	146,763	**94**
5	AM Bobonaro	12,806,671	115,961	**110**
6	AM Covalima	9,517,979	79,531	**120**
7	AM Dili	19,502,642	359,265	**54**
8	AM Ermera	14,112,994	152,159	**93**
9	AM Lautém	8,494,839	76,182	**112**
10	AM Liquiçá	8,468,045	92,230	**92**
11	AM Manatuto	9,626,242	55,227	**174**
12	AM Manufahi	9,661,613	65,936	**147**
13	AM Viqueque	10,686,240	86,371	**124**
Total		**138,642,814**	**1,330,502**	**104 (average)**

Source: DBFTL and INETL, Ministry of Finance, September 2025

2.160. To complement this analysis, Table 19 presents capital investment expenditure per capita, highlighting the scale and distribution of infrastructure-oriented allocations across municipalities.

Table 19: 2026 Capital Investment Expenditure per Capita

No	Municipality	2026 Capital Development (US$)	Population Projection 2026	Per Capita Capital Development (US$)
1	AM Aileu	12,846,771	59,415	**216**
2	AM Ainaro	8,609,704	76,417	**113**
3	AM Ataúro	4,851,440	10,964	**443**
4	AM Baucau	20,851,694	146,763	**142**
5	AM Bobonaro	23,876,290	115,961	**206**
6	AM Covalima	17,511,171	79,531	**220**
7	AM Dili	89,459,741	359,265	**249**
8	AM Ermera	33,333,806	152,159	**219**

No	Municipality	2026 Capital Development (US$)	Population Projection 2026	Per Capita Capital Development (US$)
9	AM Lautém	16,487,500	76,182	**216**
10	AM Liquiçá	6,276,676	92,230	**68**
11	AM Manatuto	13,726,110	55,227	**249**
12	AM Manufahi	20,291,316	65,936	**308**
13	AM Viqueque	14,934,492	86,371	**173**
Total		**283,056,711**	**1,330,502**	**213 (average)**

Source: DBFTL and INETL, Ministry of Finance, September 2025 Note: Capital investment expenditure includes PNDS, PDIM, Infrastructure Fund (FI), and Ministry of Public Works (MOP) projects executed at municipal level.

2.161. On a per capita basis, municipal budgets in 2026 average US$ 104 per person, while capital development allocations average US$ 213 per person. This reflects the Government's emphasis on infrastructure-led growth while ensuring municipalities retain operational resources for local service delivery.

2.162. Smaller and remote municipalities receive higher per capita allocations, reflecting higher costs of service delivery. Ataúro records the highest per capita allocations (US$ 248 for total budget; US$ 443 for capital), consistent with its island geography and logistics challenges. Manatuto (US$ 174 per capita) and Manufahi (US$ 147 per capita) also benefit from strong allocations relative to their smaller populations.

2.163. Larger municipalities such as Dili (US$ 54 per capita budget; US$ 249 per capita capital) and Baucau (US$ 94 per capita budget; US$ 142 per capita capital) absorb large absolute amounts but show lower per capita values due to population density. This demonstrates a deliberate balancing policy directing high-value infrastructure projects to urban centers while ensuring rural municipalities receive stronger per capita support.

2.164. These results confirm the Government's equity-oriented decentralization policy: combining absolute investment in high-demand urban areas with higher per capita support to rural and remote municipalities. This approach advances the twin goals of service delivery equity and balanced territorial development.

New Developments in Public Financial Management

2.165. The Government is implementing an ambitious programme of Public Financial Management (PFM) reform to improve fiscal discipline, enhance transparency, and support effective service delivery. These efforts are guided by the Ministry of Finance's Five-Year Strategic Plan and the updated PFM Reform Roadmap. Reform actions span legal and institutional frameworks, budgetary and accounting systems, revenue mobilisation, oversight mechanisms, and digital modernisation.

2.166. The foundation of PFM reform in Timor-Leste has been significantly strengthened through the enactment of the new Budget Framework Law (LEO, Law No. 3/2025), which replaces the 2022 law and introduces a comprehensive set of fiscal rules that govern the entire budget cycle,

from strategic planning through to execution, reporting, and audit. The law aims to embed fiscal discipline, predictability, and transparency into the functioning of the state. To operationalise the LEO, a suite of implementing regulations is in the final stages of preparation. These will codify the rules and responsibilities related to planning, budget execution, treasury operations, internal control, and fiscal oversight, ensuring consistent and accountable application of the law across ministries and agencies.

2.167. In tandem with the LEO, the Government has modernised the legal basis for public procurement through Decree-Law No. 1/2025. This new Procurement Law introduces standard competitive procedures and integrates features aligned with the WTO Government Procurement Agreement (GPA), such as non-discrimination and transparency, while preserving a 10% preference margin for local suppliers to stimulate domestic enterprise. Furthermore, flexible-procurement methods will allow the government to procure complex, integrated projects in a single coherent process. This is vital for enabling the effective implementation of multi-purpose projects that cut across sectors, entities and financing sources.

2.168. The Ministry of Finance has also commenced the development of standardised procurement templates and is rolling out a national training programme for procurement officers.

2.169. Additionally, efforts are underway to strengthen institutional architecture through the drafting of a revised Organic Law for the Ministry and the establishment of a Professional Accountancy Organisation (PAO), which will introduce a recognised certification framework for accountants and elevate national accounting and auditing standards. A working group has been established to set up this body and a draft decree law will be presented to the council of Ministers at some point in the next year.

2.170. The government has further strengthened programme-based budgeting to better link public expenditure to results. This approach ensures that budget allocations are tied not merely to inputs but also to outputs and performance indicators, enabling ministries to demonstrate how resources contribute to tangible outcomes. Ministries are receiving technical support to align their budget submissions with performance frameworks, and efforts are ongoing to embed monitoring and evaluation (M&E) principles into annual planning cycles. This is a major shift from the traditional line-item approach and marks a move towards more strategic and accountable public spending.

2.171. Concurrently, the Government has launched the gradual adoption of accrual accounting aligned with International Public Sector Accounting Standards (IPSAS). This reform enhances transparency by recognising assets, liabilities, and expenses in a manner that more accurately reflects the financial position of the public sector. Progress has already been made towards this reform. Financial statements provided by public sector entities have achieved full compliance with IPSAS. As a next step, the Ministry of Finance is working on registering all fixed and movable assets, a key precursor to asset valuation and the calculation of depreciation.

2.172. The rollout of analytical tools, such as Power BI dashboards, is further improving the Government's ability to monitor budget execution and expenditure patterns in real time, allowing for more informed and timely decision-making.

2.173. As part of its medium-term fiscal strategy, the Government of Timor-Leste has finalised a draft Value Added Tax (VAT) Act. This is a pivotal reform that aims to broaden the domestic revenue base and reduce reliance on oil revenues. The introduction of VAT is also strategically aligned with the requirements of ASEAN and WTO membership, ensuring that Timor-Leste's tax system meets international norms. In preparation, legal frameworks are being reviewed, and system upgrades are being designed to accommodate VAT-specific processes such as registration, filing, and refund mechanisms. Stakeholder consultations and taxpayer education campaigns are planned as part of the implementation process.

2.174. IT systems supporting revenue administration are also undergoing significant transformation. The Integrated Tax Administration System (ITAS) and the Government Resource Planning (GRP) platform are being upgraded to support improved taxpayer services, automation of compliance processes, and enhanced data accuracy. These changes are central to building a more responsive and efficient tax administration.

2.175. Robust data is essential for sound policy and fiscal planning, and significant progress has been made on this front. The National Institute of Statistics (INETL) has completed two critical datasets, the Timor-Leste Survey of Living Standards (TLSLS) 2024 (to be published in the coming months) and the 2022 Population and Housing Census. These provide an updated statistical foundation for government decision-making. The TLSLS will provide detailed insights into consumption patterns, income sources, and poverty levels, while the Census provides comprehensive demographic data. Together, they form the empirical backbone for poverty reduction strategies, targeted social transfers, and regional development initiatives.

2.176. As with previous years, budget markets have been employed to enable linkages between spending allocations and government priorities. By tagging allocations to cross-cutting themes, such as gender, disability or climate change, budget markers make it easier for citizens, parliamentarians, and development partners to see where resources are being directed and to hold government accountable for results. Details of markers used for Budget 2026 are available in in the *Budget Markers* chapter under section 3 of this budget book.

2.177. The Government will continue to strengthen outcome data and improve accounting standards to support evidence-based decision-making. Enhancing the frequency and scope of key economic and social indicators will be essential for tracking the progress of public policies and development measures. At the same time, institutional and legislative reforms will be pursued to align both public and private sector accounting practices with international standards. This will not only improve fiscal transparency but also contribute to a better business environment and facilitate private sector development in Timor-Leste.

2.178. To improve institutional performance and accountability, the Ministry of Finance has launched a Performance Assessment Framework that tracks staff and unit performance against key performance indicators (KPIs). The system also links training and professional development to performance outcomes, providing incentives for continuous improvement. Initial implementation has shown promise in reinforcing a culture of results-oriented management within the Ministry.

2.179. Institutional reforms have also included a restructuring of the Ministry's internal operations to improve coordination and delivery. This includes the introduction of clearer reporting lines,

and the appointment of senior managers with strong performance mandates. These changes aim to improve responsiveness, reduce bureaucratic delays, and ensure that policy decisions are executed efficiently. Strengthened leadership and clearer internal accountability have also improved coordination with other ministries, contributing to smoother inter-agency collaboration on cross-cutting reforms.

2.180. Digital transformation is a cornerstone of the current PFM reform agenda. In 2025, the Government launched a broad ICT upgrade programme, beginning with the expansion and modernisation of the national data centre. This investment ensures that government data is stored securely and made available through reliable and resilient infrastructure. The upgraded data centre also serves as the backbone for hosting critical financial management systems, including IFMIS and ITAS. These enhancements will reduce system downtime, improve cybersecurity, and provide a platform for future cloud-based services.

2.181. Significant progress has also been made on system interoperability. A new central integration platform is being developed to enable different public finance systems, such as IFMIS, ITAS, procurement platforms, and human resources databases, to communicate seamlessly. This interoperability will eliminate data duplication, reduce manual reconciliation efforts, and allow for unified dashboards that provide real-time oversight of government finances. The next-generation IFMIS upgrade focuses on improving budget reliability, automating reporting functions, and integrating treasury operations. These efforts are essential to achieving end-to-end digitalisation of public financial processes and enhancing overall governance efficiency.

3. Budgetary Policy

Budget Performance

3.1. This section provides and overview of budget execution for the period 2020 to 2025. The review looks at the budget and execution numbers for the Central Administration and RAEOA, which include transfers from the state to the Social Security Fund. This represents the total amount that the government has financed each year through domestic revenues, cash balances, external resources (loans & grants) and petroleum withdrawals.

3.2. The final annual budget for the Central Administration and RAEOA increased by 43%, rising from US$ 1.5 billion to US$ 2.1 billion. The final annual budget increased from US$1.5 billion in 2020 to a peak of US$ 2.2 billion in 2022. Following the Rectification Budget in 2023, the approved budget was reduced to US$ 1.7 billion, but it increased again by 10% in 2024 and a further 13% in 2025. In addition, the government substantially improved its budget execution rate, from the lowest rate of 72% in 2021 to 86% 2025.

Table 20: Headline Budget Numbers 2020-2025 – Central Administration & RAEOA, US$ Million

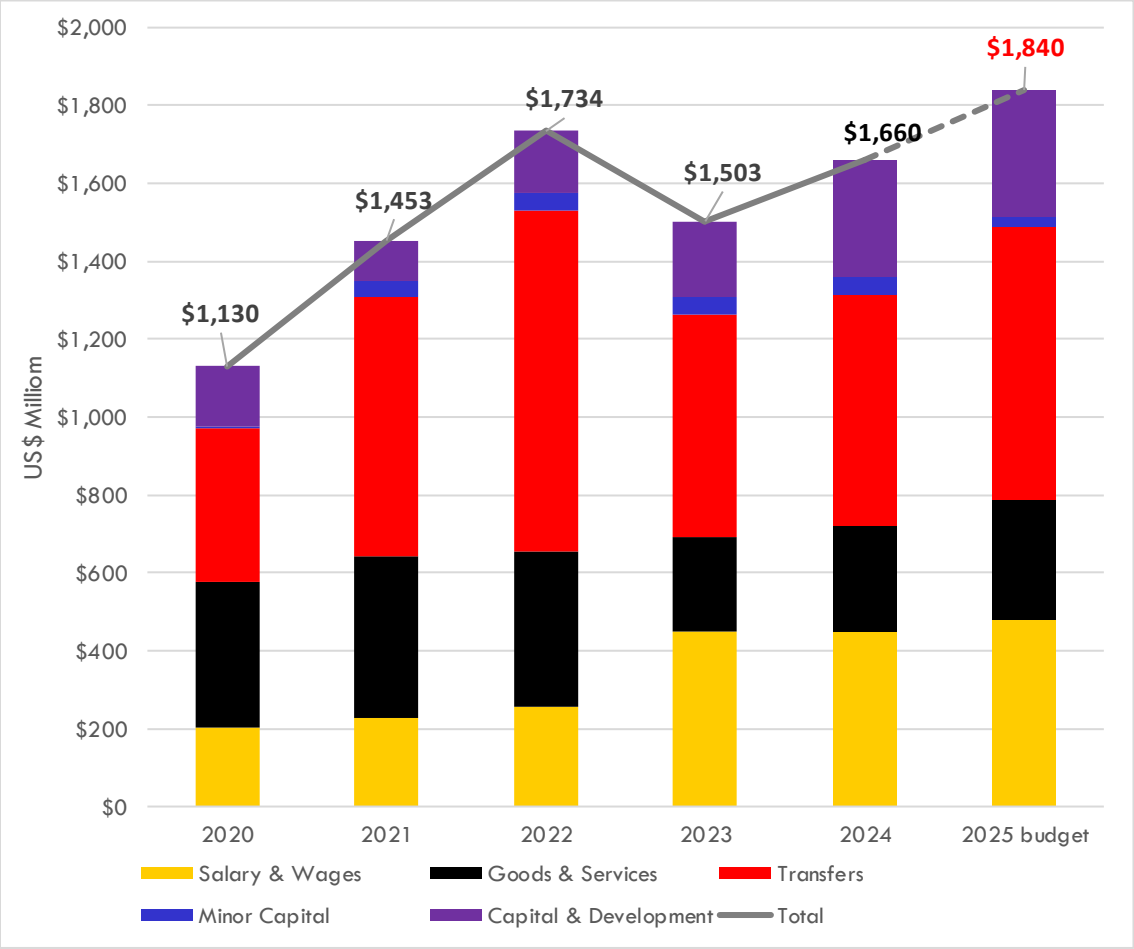
Category	2020	2021	2022	2023	2024	2025
Original Budget	1,497	1,895	1,885	1,920	1,890	2,135
Final Budget	1,497	2,030	2,211	1,717	1,890	2,135
Cash expenditure	1,138	1,462	1,743	1,497	1,660	1,830
Execution Rate%	76%	72%	79%	87%	88%	86%

Source: GRP, Ministry of Finance, January 2026 *Note – figures are unconsolidated amounts for the Central Administration and RAEOA and include transfers from the Central Administration to RAEOA e.g., in 2025 the Central Administration transferred $10m to RAEOA meaning the consolidated budget was $10m lower than stated above.

3.3. Annual government cash expenditure has increased by 63% between 2020 and 2025. Following low execution in 2020 due to the onset of the COVID-19 pandemic, expenditure saw substantial increases of 29% and 19% in 2021 and 2022, respectively. This was primarily driven by increases in transfer spending. The highest government expenditure between 2020 and 2024 was in 2022 at US$1.74 billion. In terms of nominal, expenditure declined in 2023 following expenditure rationalisation efforts by the new government, but increased by 11% in 2024 and by 16% in 2025, reaching the highest level in the country's history.

3.4. As seen in the chart below, expenditure over the last five years has been dominated by recurrent spending, namely, expenditure on Salaries and Wages, Goods and Services and Transfers. Recurrent expenditure represented 86% of total expenditure in 2020 and increased to 90% in 2021, where only 10% of total expenditure was on capital. The share of capital expenditure increased to 16% in 2023 and 21% in 2024 (from 12% in 2022) as the 9th constitutional government attempted to prioritise economic development and growth. Capital expenditure represented 19% of total expenditure in 2025.

Figure 17: Overall Government Expenditure 2020-2025, $US Million



Source: GRP, Ministry of Finance, January 2026. *Note – figures are unconsolidated amounts and therefore include transfers from the Central Administration to RAEOA e.g., in 2025 the Central Administration transferred $10m to RAEOA meaning consolidated expenditure was $10m lower than stated above. 2025 budget numbers include adjustments from January to August 2025

3.5. The figures above are unconsolidated amounts and therefore include transfers from the Central Administration to RAEOA. For example, in 2025, the state transferred US$10 million to RAEOA meaning the consolidated expenditure for the year is US $1,820 million. This is explained more clearly in the table below.

Table 21: Execution Figures Central Administration & RAEOA, $US Million

Expenditure by Category	2020	2021	2022	2023	2024	2025
Salary & Wages	206	226	256	449	447	480
Goods & Services	377	422	405	242	274	307
Total Transfers	394	668	878	571	592	692
Of which Transfers to RAEOA	*0*	*29*	*5*	*0**	*0**	*10*
Minor Capital	5	44	46	48	47	25

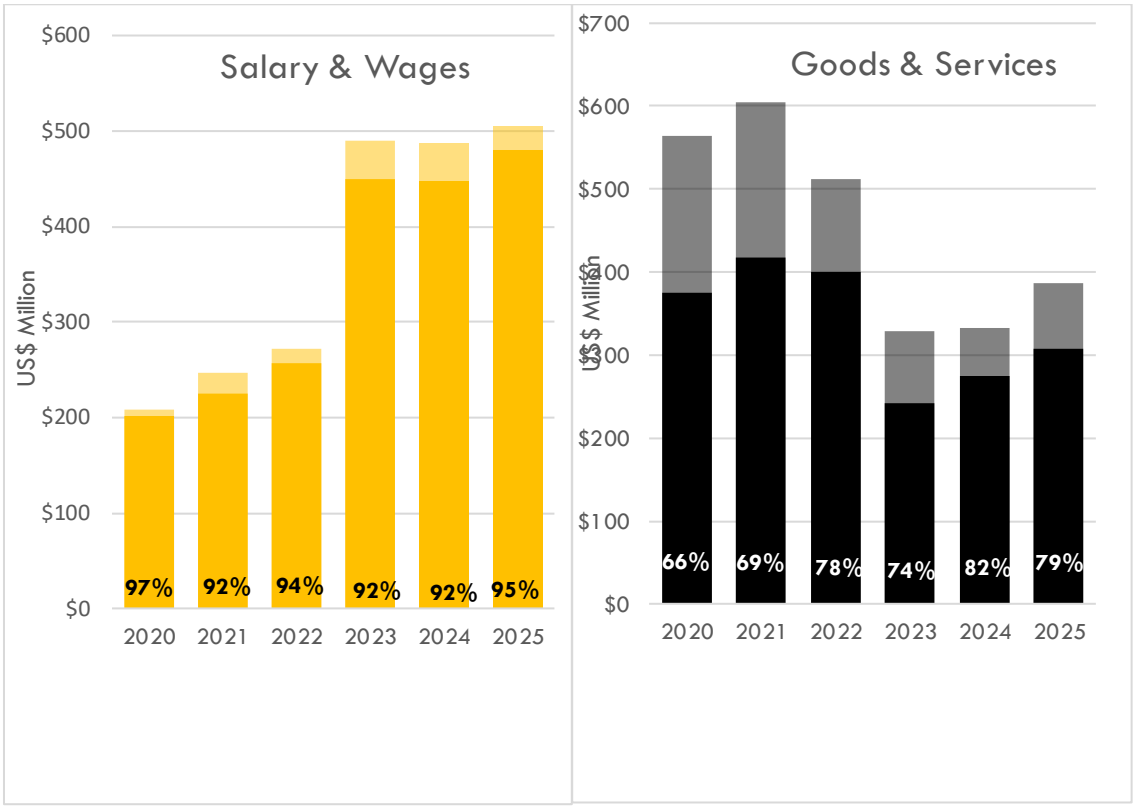
Expenditure by Category	2020	2021	2022	2023	2024	2025
Capital & Development	155	103	158	187	300	326
Total Unconsolidated Expenditure	1,138	1,462	1,743	1,497	1,660	1,830
Consolidated Expenditure (subtract Transfer to RAEOA)	1,138	1,433	1,737	1,497	1,660	1,820

*Source: GRP, Ministry of Finance**, January 2026**. * Transfers of less than US$ 500,000*

3.6. Analysing recurrent expenditure in more detail, the charts below show a relatively high and stable execution rate for Salaries and Wages. On the other hand, execution rates for Goods and Services have seen significant variation over the past five years. The charts also show a large decline in Goods & Services expenditure in 2023, while salary and wages expenditures rose from US$256 million to US$449 million.

3.7. This is partially due to new hiring under the new government while Goods and Services expenditure was reduced under fiscal consolidation efforts under the new government. However, the main driver of this is the reclassification of economic categories that resulted in several items from Goods and Services and Transfers being reclassified to the Salary and Wages Category. Prior to 2023, expenditure on National and International Advisors appeared under the Goods and Services Category. From 2023 onward this expenditure moved to the Salary and Wages Category. Several items related to employee travel and allowances were also moved to the Salary and Wages Category from Goods and Services in 2023. Finally, prior to 2023, the State's contribution as an employer to the Social Security Fund was listed under the transfer category. This moved to the Salary and Wages category in 2023.

Figure 18: Budget and Execution Figures for Salary & Wages and Goods & Services, US$ Million

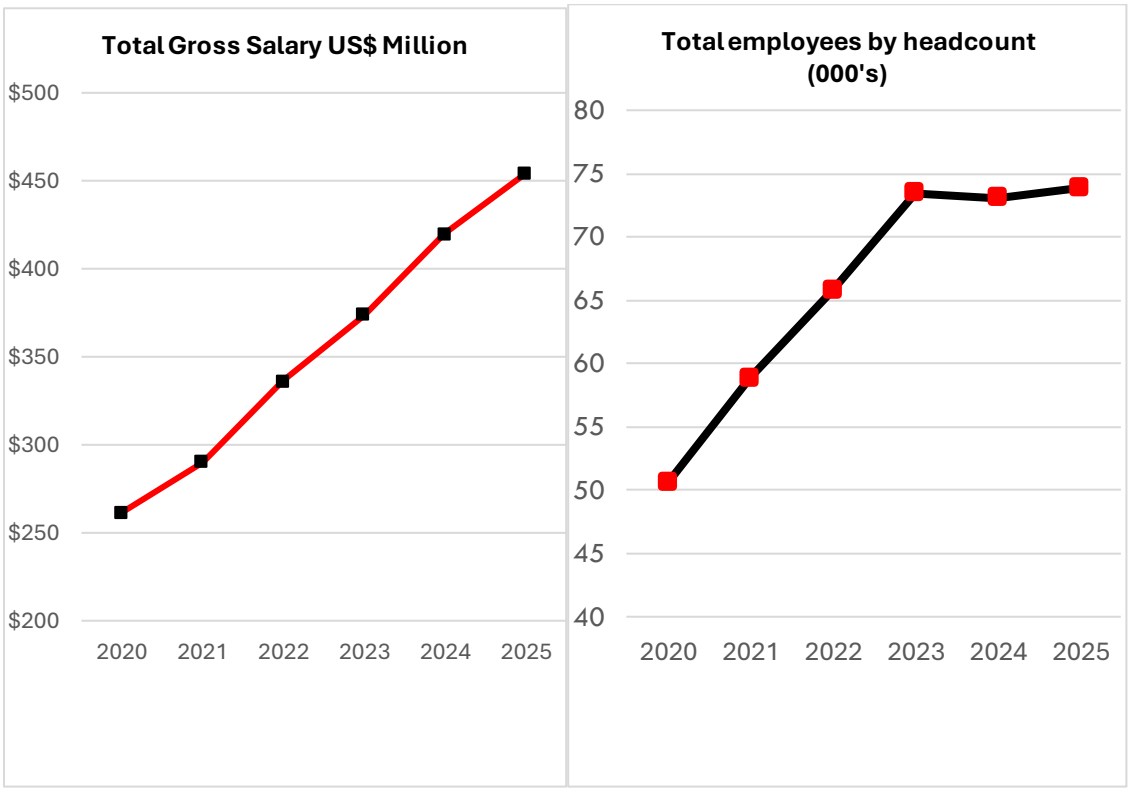


Source: GRP, Ministry of Finance, January 2026,

3.8. Due to the fact that there is no clear mapping at item and line-item level from old to new categories, it is not possible to analyse historic data prior to 2022 under the new classification. Therefore, in order to properly analyse the drivers behind salary expenditure it is important to assess payroll data. Payroll data provides a count of the total number of employees that work for the Central Administration and RAEOA and their total gross wages excluding variable allowances such as travel costs and *per diems*. This excludes employees for extra budgetary entities such as public enterprises. The charts below give the total expenditure on salaries and the total number of government employees according to payroll data from 2020-2024. These numbers don't include the employer contributions to the social security fund (i.e 6% of the employer salary).

3.9. The first chart shows that gross payroll expenditure saw a 60% rise from 2020 to 2024. The largest rise was in 2022, where expenditure rose by 16%. Expenditure on payroll increased by 12% in 2024 and is projected to increase a further 12% in 2025. The chart on the right shows that the rise in payroll expenditure between 2020 and 2023 was mainly driven by hiring with the employee headcount rising by 45% between 2020 and 2023. However, the headcount has remained at around 73,000 employees since 2023. This means a little over 5% of the population work for the public sector.

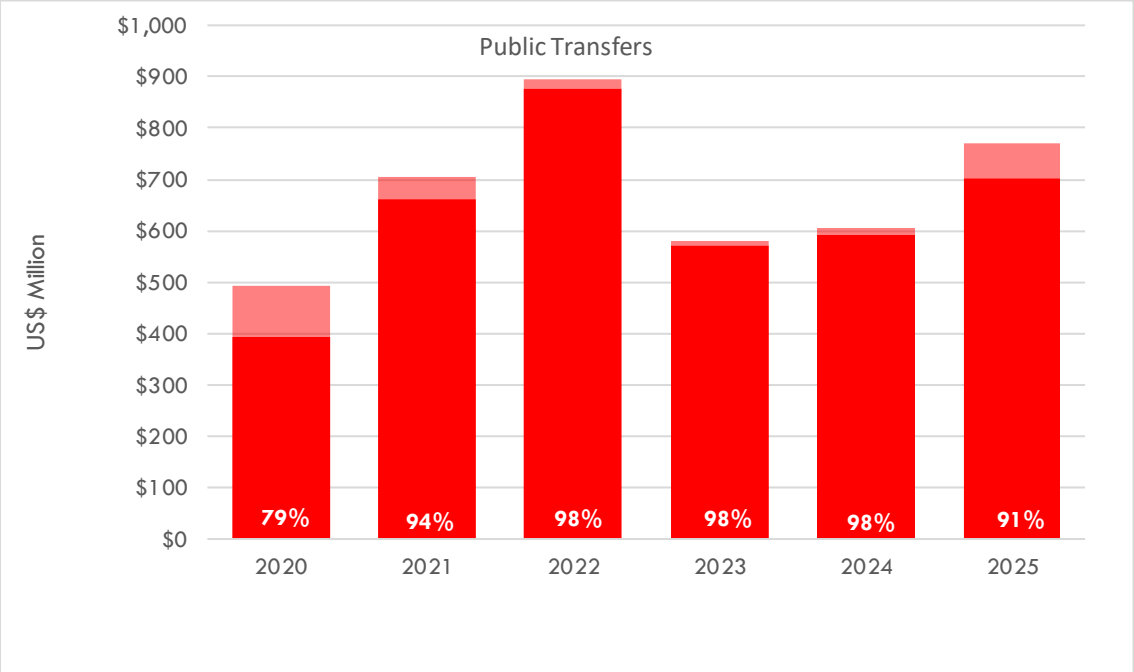
Figure 19: Payroll Data on Expenditure and Employee Count



**Note headcount numbers reflect total hiring throughout the year, as some contractors are only hired for a part of the year, these figures are higher than the snapshot of employees at the end of the year; 2025 headcount numbers could rise due to new hires towards the end of the year. Source: GRP, Ministry of Finance, January2026*

3.10. Generally, expenditures on transfers saw an upward trend, indicating a 123% increase over the 2020-2023 period. This increase was primarily due to welfare programs during the pandemic and transfers to public entities (as a result of the creation of EDTL and BTL in 2020). The rectification budget in 2023 saw a large fall in transfers, which remained relatively low in 2024 but rose again in 2025, mostly due to a large increase in transfers to the veteran fund. In terms of execution, transfers have generally seen high execution over the past five years, except for 2020 where execution was impacted by the onset of the COVID-19 pandemic.

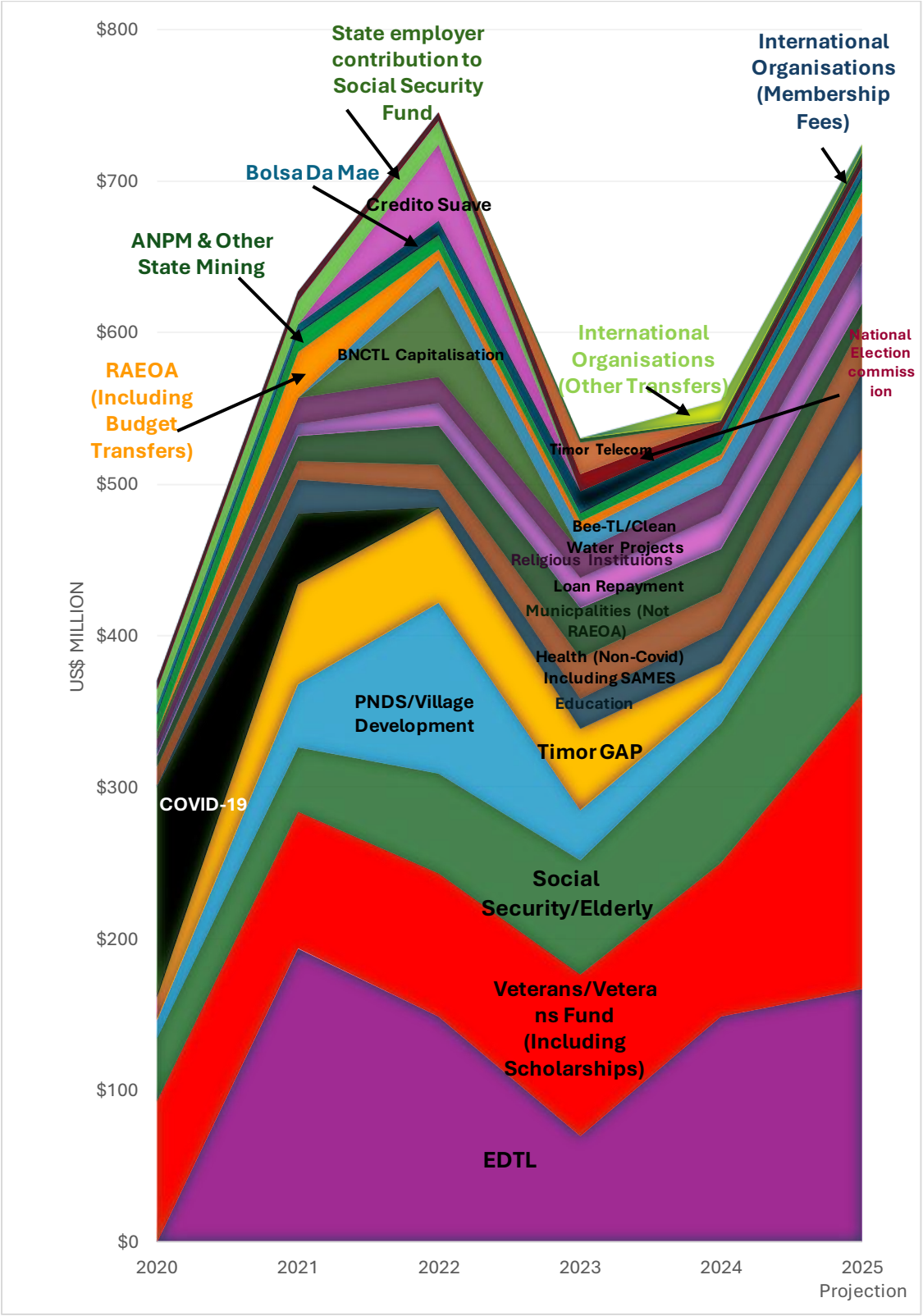
Figure 20: Transfer Budgeted and Execution, US$ Million



Source: GRP, Ministry of Finance, January 2026 *Note – figures are unconsolidated amounts and include transfers from the Central Administration to RAEOA e.g., in 2025 the Central Administration transferred $10m to RAEOA meaning the consolidated budget was $10m lower than stated above. 2025 budget numbers include adjustments from January to August 2025

3.11. The chart below helps to explain the main drivers of transfer expenditure. The chart shows the top transfers from 2020 to 2025, representing around 90% of transfer expenditure each year.

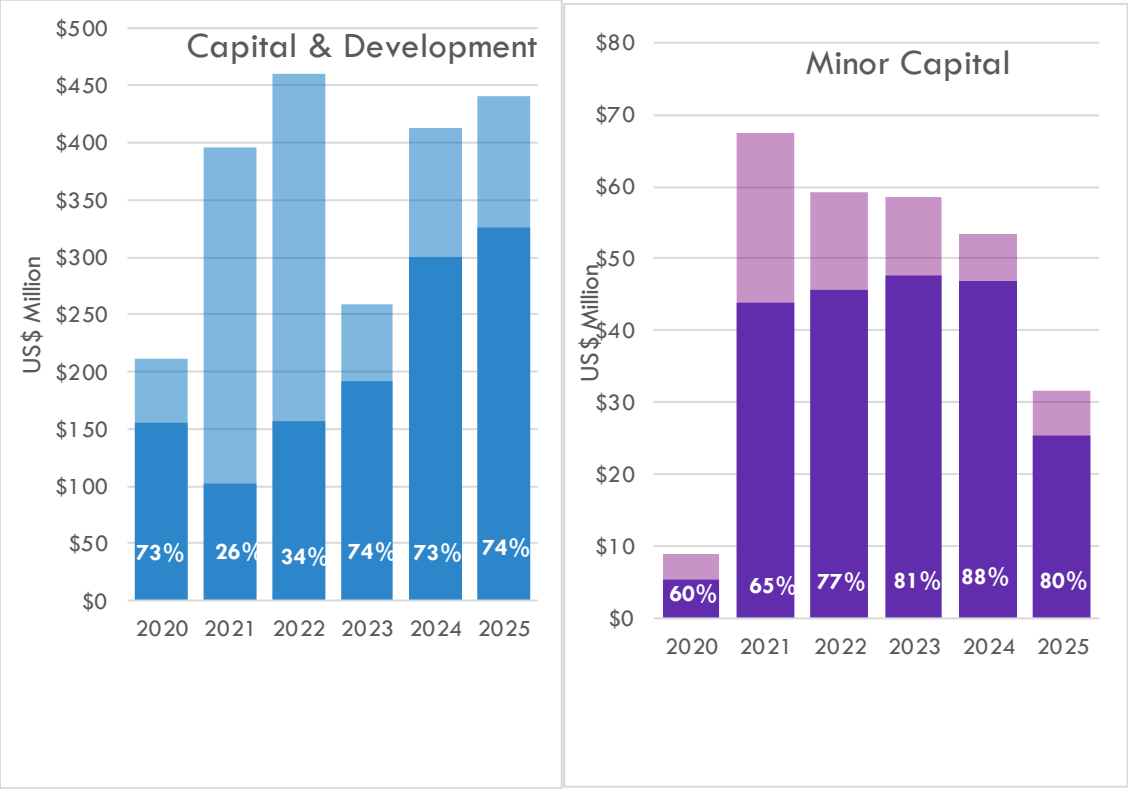
Figure 21: Top 90% of Transfer Expenditure 2020-2025, US$ Million



Source: Analysis from the National Directorate of Economic Policy based on GRP data, Ministry of Finance, September 2025. Figures include transfers from the Central Administration to RAEOA.

3.12. Expenditure and execution on Capital and Development and Minor Capital showed an overall increase in budget allocation and improvement in execution over the 2020 - 2024 period. Development Capital had the weakest and most variable execution rates of all the categories, with an average of 56% between 2020-2024. This suggests weaknesses in project planning and procurement processes. Execution nevertheless increased in 2025 for both types of capital due to improvement in procurement processes.

Figure 22: Budget and Execution for Capital Expenditure, $US Million



*Source: GRP, Ministry of Finance, September 2025; *2025 budget numbers include adjustments from January to August 2025*

3.13. The table below provides an overview of budget performance in 2025 as well as the variation between the original budget and the current budget. Overall, aside from some shifts between goods and services and salary and wages categories, spending allocations have remained relatively unchanged, and total execution has reached the highest level for the last 5 years.

Table 22: Budget and Expenditure, Actual and Forecast as of 31st August 2025, $US Million

Economic Category	Original OGE 2025	Current OGE 2025	Commitments	Obligations	Actual Cash Expenditure
Salary & Wages	490.4	505.5	0.1	0.1	479.9
Goods & Services	414.8	387.2	4.4	8.7	306.9
Transfers*	767.6	770.3	0.5	0.1	692.1
Minor Capital	22.6	31.7	5.5	1.3	25.4
Capital & Development	439.8	440.5	22.6	22.6	325.5
Total Unconsolidated Central Administration & RAEOA	2,135.2	2,135.2	33.1	32.7	1,830
Total Consolidated Central Administration & RAEOA*	2125.2	2125.2	33.1	32.7	1,820

*Source: Actuals from GRP, Ministry of Finance, Projections by the General Directorate of Budget and Policy, DGPO, Ministry of Finance, September 2025, * The consolidated total is the unconsolidated total subtract a US$10 million transfer from the Central Administration to RAEOA*

Budget Strategy for 2026

3.14. This section provides an overview of the Budget Strategy for 2026 for Central Administration and RAEOA. The total allocation for the consolidated budget of 2026 is US$2.245 billion. This represents an increase of 5.6% compared with the original budget of 2025.

3.15. The table below shows the budget for 2025 and 2026 categorized by economic classification. This classification categorizes government spending based on its economic purpose and consists of recurrent and capital expenditures. The largest increase, reaching 72.3%, is for minor capital expenditure, reflecting the need for some ministries to modernize their equipment after a year of relatively low spending in 2025

3.16. Recurrent expenditures cover daily operational costs, including salaries and wages of government employees, procurement of goods and services, and transfer payments such as

social benefits and veterans' benefits. Capital expenditures are allocated for long-term investments such as infrastructure projects and equipment purchases (minor capital).

3.17. The majority of the increase is driven by a 14.1% larger allocation for goods and services, notably resulting from the higher allocation to the Ministry of Petroleum and Mineral Resources to conduct advanced studies on the Greater Sunrise project.

3.18. The allocation to Salary and Wages sees a moderate decrease. This is despite upward pressures on wages from both hiring and salary increases. Upward pressures to wages include the hiring of new PNTL cadets, the recruitment of around 2000 new teachers from a pool of successful candidates and providing permanent contracts to several health workers who were previously on temporary contracts.

3.19. Recognising pay disparities in the public sector, the government will also provide pay rises for permanent civil servants on the general regime. Eligible staff will rise one or two step numbers on the pay scales for the general regime (as define by Decree Law 24/2016). At the same time the government has taken measures to rationalise expenditure on contractors. The introduction of compulsory retirement at age 65 for civil servants has also provided some savings and further savings should be made in the medium term.

Table 23: Comparing Budget 2025 and Budget 2026 by Economic Classification, US$ Million

Economic Classification	Approved Budget 2025	Current Budget 2026	Percentage Change
Salary & Wages	490.4	482.7	-1.6%
Goods & Services	414.8	473.3	14.1%
Transfers	757.6	789.9	4.3%
Minor Capital	22.6	38.9	72.3%
Capital & Development	439.8	459.8	4.6%
Total	2125.2	2244.7	5.6%

Source: DBFTL, Ministry of Finance

3.20. The table below shows the budget for 2025 and 2026 based on the purpose of the spending under the international standard the Classification of the Functions of Government or COFOG. This framework was developed by the Organization for Economic Co-operation and Development and published by the United Nations Statistical Division and can be applied to government expense and the net acquisition of nonfinancial assets COFOG helps with comparative analysis of budget allocations over time or between countries and regions, and enhances the government's ability to analyse the efficiency of resource allocations and effective monitoring and evaluation of government programs.

Table 24: Budget 2025 and 2026 by COFOG

COFOG Category	Approved Budget 2025	Proposed Budget 2026	Percentage Change
Defence	24.8	53.2	114.1%
Economic Affairs	693.9	681.8	-1.7%
Education	164.3	205.2	24.8%
Environmental Protection	6.8	12.2	80.0%
General Public Services	602.0	547.6	-9.0%
Health	100.0	138.3	38.3%
Housing and Community Amenities	68.6	49.8	-27.4%
Public Order and Safety	90.3	121.7	34.8%
Recreation, Culture, and Religion	31.0	28.9	-6.8%
Social Protection	343.3	406.1	18.3%
Total	2125.2	2244.7	5.6%

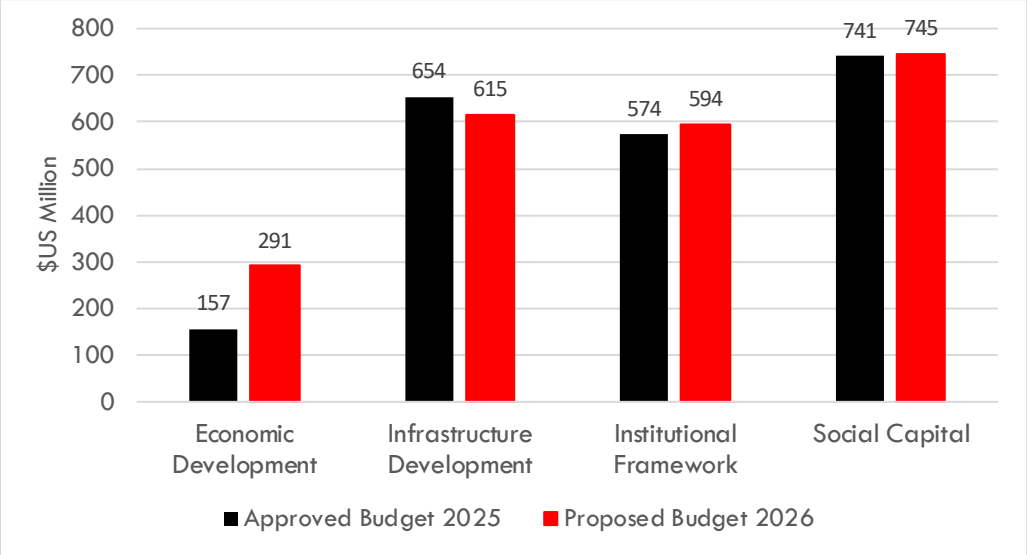
Source: DBFTL, Ministry of Finance

3.21. Another way to present the national budget is by allocations to pillars in accordance with the Timor-Leste National Strategic Development Plan for 2011-2030[11].

3.22. As shown in the graph and table below, the majority of the budget increase between 2025 and 2026 is driven by an additional allocation of US$ 135 million to the Economic Development pillar, including a 132% increase in the petroleum subsector and a 173 % increase in private-sector investment. This corresponds to approximately US$ 65 million for Timor Gap and the Ministry of Petroleum and Mineral Resources to conduct the initial studies required for the Greater Sunrise project (geotechnical survey, pre-FEED study, environmental-impact assessment, etc.) and US$ 55 million for the capitalisation of the National Development Bank. Hence, the most significant increases in the budget are directly targeted at two long-term investments that promote economic growth and prosperity.

[11] https://timor-leste.gov.tl/wp-content/uploads/2011/07/Timor-Leste-Strategic-Plan-2011-20301.pdf

Figure 23: Budget 2025 and Budget 2026 by SDP, US$ Million



Source: DBFTL, Ministry of Finance

Table 25: Budget 2025 and Budget 2026 by SDP and SDP Subsector, US$ Million

Strategic Development Plan Sector	Strategic Development Plan Subsector	Approved Budget 2025	Proposed Budget 2026	Percentage Change
Economic Development	Agriculture	31.2	31.2	-0.03%
	Environment	2.2	1.9	-14.48%
	Petroleum	60.1	139.2	131.63%
	Private Sector Investment	33.4	90.5	171.00%
	Private Sector Investment and Rural Development	13.3	13.5	1.24%
	Rural Development	6.6	4.8	-26.80%
	Tourism	9.8	10.0	1.60%
Infrastructure Development	Agriculture and Fishery	13.9	7.1	-48.95%
	Airports	33.0	44.5	34.76%
	Electricity	182.8	136.5	-25.34%
	Finance	2.1	2.4	13.81%
	Implementation of Major Project (Infrastructure Funds)	4.8	6.3	31.64%
	Institutional Development	24.9	29.5	18.62%
	New Projects Design and Supervision	0.4	0.4	-4.58%
	Public Building	9.4	6.5	-31.33%
	Roads and Bridges	302.3	307.6	1.75%
	Sea Ports	5.0	5.2	3.07%
	Security and Defence	0.0	0.7	-
	Telecommunication	10.2	12.2	19.39%

Strategic Development Plan Sector	Strategic Development Plan Subsector	Approved Budget 2025	Proposed Budget 2026	Percentage Change
	Transportation	0.8	1.0	26.34%
	Urban and Rural Development	37.9	34.7	-8.39%
	Water and Sanitation	26.4	20.1	-23.72%
Institutional Framework	Defence	51.5	59.5	15.50%
	Foreign Affairs	25.9	31.9	23.01%
	Justice	33.1	31.1	-5.96%
	National Development Agency and Economic Policy and Investment Agency (Infrastructure Funds)	0.6	0.2	-62.37%
	Public Sector Management and Good Governance	395.1	400.8	1.45%
	Security	67.5	70.1	3.93%
Social Capital	Culture and Heritage	30.8	33.3	7.98%
	Education and Training	196.8	201.0	2.14%
	Health	115.3	128.1	11.09%
	Social Inclusion	398.1	383.0	-3.78%

Source: DBFTL, Ministry of Finance

3.23. The following table shows the budget allocation based on the SDG goals. SDG goals are 17 global objectives set by United Nations to address challenges like poverty and climate change.

3.24. Compared to the 2025 original budget, the proposed 2026 budget places particular emphasis on long-term economic growth, with a 56% increase in funding for Goal 8 related to inclusive and sustainable growth, and a 62% increase in the allocation for Goal 9 related to infrastructure development. This demonstrates the government's commitment to ensuring that every additional expense is directed towards laying the foundations for more resilient economic development.

Table 26: Budget 2025 and Budget 2026 by SDG, US$ Million

Sustainable Development Goals	Approved Budget 2025	Proposed Budget 2026	Percentage Change
Goal 1. End poverty in all its forms everywhere	2.0	1.9	-2.8%
Goal 2. End hunger, achieve food security and improved nutrition and promote sustainable agriculture	40.0	31.6	-20.9%
Goal 3. Ensure healthy lives and promote well-being for all at all ages	114.6	132.6	15.7%
Goal 4. Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all	195.0	201.7	3.5%
Goal 5. Achieve gender equality and empower all women and girls	389.6	370.2	-5.0%
Goal 6. Ensure availability and sustainable management of water and sanitation for all	22.8	17.3	-23.9%

Sustainable Development Goals	Approved Budget 2025	Proposed Budget 2026	Percentage Change
Goal 7. Ensure access to affordable, reliable, sustainable and modern energy for all	171.7	127.4	-25.8%
Goal 8. Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all	93.7	146.3	56.1%
Goal 9. Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation	194.7	315.9	62.2%
Goal 11. Make cities and human settlements inclusive, safe, resilient and sustainable	192.9	105.9	-45.1%
Goal 12. Ensure sustainable consumption and production patterns	68.4	78.1	14.2%
Goal 13. Take urgent action to combat climate change and its impacts[b]	2.2	2.3	2.7%
Goal 14. Conserve and sustainably use the oceans, seas and marine resources for sustainable development	1.8	0.7	-62.4%
Goal 15. Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss	0.1	0.1	32.9%
Goal 16. Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels	630.5	711.1	12.8%
Goal 17. Strengthen the means of implementation and revitalize the Global Partnership for Sustainable Development	5.1	1.4	-72.4%
Total	2125.2	2244.7	5.6%

Source: DBFTL, Ministry of Finance *The budget does not include an allocation for SDG 10 (reduce inequality within and among countries).

Medium-Term Expenditure Outlook

3.25. The table below provides a summary of the government's Medium Term Budget Framework. This includes the consolidated Budget amounts for the Central Administration and RAEOA as well as forward estimates until 2030 broken down by economic classification.

3.26. Allocations for Salaries and Wages are set to decrease year on year in line with the government's decision to freeze hiring for the public administrative sector pending a Civil Service Commission led review of the public sector workforce and salary regime. Together with the Ministry of Finance, the Civil Service Commission is in the process of evaluating the size and efficiency of the public sector. Analysis is ongoing and future measures will seek to improve the impact and sustainability of government spending by designing a fair and sustainable hiring regime. The allocations below assume that no further increases to salary and wages will be carried out prior to this review. At the same time, the government will introduce compulsory retirement for permanent civil servants at the age of 65 which are projected to lead to annual savings of around US$4-8m from 2027 to 2030.

3.27. Allocations for transfers will be frozen in the medium term. Payments to Veterans and the elderly represent upward pressures on the budget as the population of both groups increases.

Improved health outcomes leading to longer life expectancies mean that transfers to the non-contributory regime are anticipated to rise over the medium term. At the same time, there are upward pressures to the Veterans list as a result of new claims.

3.28. Despite these upwards pressures, the government is taking steps to rationalise transfer expenditure over the medium term. Plans to establish a unique ID will lay the foundations for the potential introduction of a single registry of transfer payments. This would allow the government to better track total payments to individuals and households leading to potential savings through removing any duplicate payments and improving the allocative efficiency of transfer payments. Facilitating public and private sector investment in solar panels will also reduce the reliance on fuel imports for electricity production leading to potential savings in transfers to EDTL, the state electricity company.

3.29. The establishment of the National Development Bank (BNDTL) offers further opportunity to rationalise expenditure on public transfers over the medium term. BNDTL will provide a key source of financing across the country through soft loans, credit guarantees and community-based financing schemes. Not only will this provide key financial support for under-served sectors but will also allow the government to phase out public transfers related to business development and economic diversification schemes.

3.30. The allocation for Goods & Services will be maintained at the same level up until 2029 and then stay constant in real terms (i.e. will be adjusted for inflation each year as required). As shown in the Budget Performance section above, Goods and Services execution has averaged 74% over the past five years (2020-2024). The medium-term outlook assumes that execution of Goods and Services will gradually improve and reach close to 100% by 2029. While the Goods and Services budget allocation will remain frozen till 2029, it is anticipated that overall Goods and Services expenditure will still rise each year until it reaches 100% execution. For individual programs and items, Goods and Service expenditure is anticipated to rise in line with inflation and fuel price rises. Similarly in 2027 and 2028, the overall execution of Goods and Services expenditure is anticipated to increase due to expenditures associated with organising presidential and legislative elections respectively. However, this will not require a rise in the overall budget ceiling as future budgets will aim to reallocate funds from under-executed and under-performing programs.

3.31. In order to ensure improvement of service delivery and improved public investment management, government will in the medium-term focus on completing all ongoing projects. This will not only ensure value for money but also create fiscal space for new projects that will be ready for implementation. An allocation of US$ 436 million has been made to cover implementation of ongoing projects earmarked for completion in 2026 as well as implementation of approved new projects. This allocation includes US$ 26.2 million for projects from municipalities, US$ 300 million for projects finance under the infrastructure fund (FI), and US$ 110.4 million for other projects from line ministries that are planned to be included in the budget.

3.32. In keeping with the government's medium term fiscal policy to contain expenditure and the objectives of the PFM reform of efficient public investment management, capital projects to be considered for budgetary funding are expected to be scrutinised for implementation feasibility as well as implementation readiness.

3.33. Given the government's policy of completing existing projects and enforcing the appraisal and prioritisation framework for projects before inclusion in the budget, the overall outlook for development capital expenditure is stable for the next few years. This expenditure outlook will be driven by the existing volume of projects in the project pipeline, commitments carried over from unexecuted activities in the previous year, the general price increase in materials, restructuring of non-performing projects and improvement in execution rates.

3.34. Additionally, the increases in development capital expenditure in 2029 and 2030 will be driven by the anticipated improvement in execution rates driven by a policy shift to allow for multi-year contracts as well as improved project preparation and scrutiny before project implementation. The allocations for capital expenditure in 2029 and 2030 shown in the table below consider potential new projects that could enter the pipeline in those years. These have not been allocated in the program allocations provided in supplementary budget books and tables, which only provide allocations for projects in the existing pipeline. The gap between the existing pipeline and the numbers stated below represents fiscal space that the government will be able to allocate to new projects.

Table 27: Medium Term Expenditure Outlook, Central Administration & RAEOA, US$ Million

Economic Classification	2026	2027	2028	2029	2030
Salary & Wages	485	481	474	468	460
Goods & Services	467	467	467	477	486
Transfers	796	796	796	796	796
Minor Capital	36	36	37	38	38
Capital & Development	460	460	460	501	544
Total Ceiling	**2,019**	**2,086**	**2,157**	**2,236**	**2,285**

Budget Markers

3.35. The government continues to demonstrate its commitment to budget transparency and accountability as evidenced by its efforts to promote good governance and responsible fiscal management, which are aimed at improving the budget process within the broader context of public financial management.

3.36. As well as maintaining and improving the four existing budget markers used in 2026, namely gender, child, nutrition and climate, two additional markers, disability and blue economy, have been introduced for 2026. This represents a significant shift in the government's commitment to good governance, transparency and responsible fiscal management, while also addressing cross-cutting issues that contribute to economic growth and inclusivity.

a) Gender Marker

3.37. The Gender Marker system consists of three distinct markers, each designed to enable a comprehensive evaluation of budget allocations in terms of their gender responsiveness and alignment with the government's commitment to gender equality and reducing disparities. The definition of each marker is set out in the table below:

No.	Marker	Definition
1	**Principal (P)**	This category applies to activities where the primary expected outcome is the reduction of gender inequality and the promotion of social inclusion. These are interventions explicitly designed to advance gender-related goals
2	**Significant (S)**	This category indicates that an activity was designed after a gender analysis to have a significant and positive impact on the ministry's program and subprogram, contributing to gender equality and social inclusion. These interventions have a clear but secondary gender objective.
3	**Not-Targeted (NT)**	This category applies to activities that were not designed with a gender analysis and whose primary objective does not directly or indirectly address the needs and concerns of vulnerable and marginalized groups.

Table 28:Distribution of State Budget by Gender Marker 2026

Gender Marker	Allocation 2026 (US$)
Principal [P]	220,314,478
Significant [S]	260,777,340
Total	481,091,818

Source: Timor-Leste planning and budgeting system (Dalan Ba Futuru), January 2026

3.38. The 2026 Gender Marker records US$ 481 million in allocations, with US$ 292 million directed to principal interventions that focus directly on gender equality and US$ 192 million to initiatives where gender is an important but secondary objective. These investments cover social protection, reproductive health, peacebuilding, agriculture, infrastructure and youth empowerment, reflecting a strong commitment to advancing women's rights, empowerment and inclusion. While there has been progress, further efforts are needed to strengthen gender equality across all sectors.

b) Nutrition Marker

3.39. For the fiscal year 2025 planning and budgeting cycle, the NBT will be implemented across two distinct categories at the activity level targeting interventions aimed at eradicating malnutrition and stunting within the population.

No.	Marker	Definition
1	**Nutrition-Specific interventions (NE)**	Activities where the primary objective is to improve nutritional outcomes, such as treatment for malnourished children, vitamin supplementation, or nutrition awareness campaigns.

2	**Nutrition-Sensitive interventions (NS)**	Activities not primarily focused on nutrition but with a significant impact on nutrition outcomes, such as school feeding programmes, WASH projects, or agricultural diversification that improves diet quality.

Table 29: Distribution of the General State Budget by Nutrition Marker, 2026

Nutrition Marker	Allocation 2026 (US$)
Nutrition-Specific Interventions (NE)	30,553,177
Nutrition-Sensitive Interventions (NS)	23,066,222
Total	53,619,399

Source: Timor-Leste planning and budgeting system (Dalan Ba Futuru), January 2026

3.40. The 2026 Nutrition Marker records US$ 53.6 million in allocations, with US$ 30.6 million directed to nutrition-specific interventions that deliver direct and measurable improvements in diet quality, child growth, and health. The Ministry of Health leads with core nutrition services, primary healthcare, clinical nutrition, maternal and neonatal health, and community outreach. Nutrition-sensitive spending of US$ 23.1 million supports system-wide activities such as municipal and pre-school feeding programmes, agriculture-based food security initiatives, and health promotion campaigns. Together, these investments strengthen service delivery platforms and amplify nutrition outcomes, contributing to the Government's human capital strategy and safeguarding resources for high-impact nutrition programmes.

c) Child Marker

3.41. The Child Marker consists of three distinct categories, each designed to assess the extent to which children's rights are prioritized at the activity level. These categories serve as a crucial guide for ensuring that budgetary resources are effectively allocated to advance the well-being and rights of children:

No.	Marker	Definition
1	**Specific (E)**	This category applies to activities where the primary objective is to contribute directly to the rights of children, such as vaccinations, early childhood education programs, or child protection services.
2	**Extended (A)**	This category applies to activities that primarily benefit the general population but also provide goods and services that have a significant, measurable impact on children. Examples include public sanitation projects that improve community health, including that of children.
3	**Indirect (I)**	This category refers to activities that have a broad, indirect contribution to the development and well-being of children,

No.	Marker	Definition
		such as national infrastructure projects or general public administration

Table 30 : Distribution of the General State Budget by Child Marker

Child Marker	Allocation 2026 (US$)
Specific [E]	76,528,020
Extended [A]	85,748,959
Total	162,276,979

Source: Timor-Leste planning and budgeting system (Dalan Ba Futuru), January 2026

3.42. The 2026 Child Marker shows a total budget of US$ 162 million, with US$ 76.5 million classified as specific [E] and US$ 85.7 million as extended [A]. This reflects a tighter mapping between programme objectives and tagging, giving greater weight to interventions with direct and measurable impact on child outcomes. Specific allocations prioritise classroom services and social protection schemes such as Bolsa da Mãe, while Expanded activities include major health and WASH programmes that support child wellbeing indirectly. Together, these allocations strengthen alignment with human capital priorities, improve cost-effectiveness, and enhance the credibility of budget reporting on child-focused spending.

d) Climate Marker

3.43. The Climate Marker consists of three distinct categories, each designed to assess the extent to which to climate change mitigation, climate resilience, and the sustainable use of natural resources are prioritized at the activity level.

No.	Marker	Definition
1	**Highly Relevant (H)**	Activities whose primary objective is to deliver measurable climate outcomes—such as reforestation, watershed management, resilient infrastructure, and renewable energy projects.
2	**Relevant Medium (M)**	Activities not primarily designed as climate initiatives but with significant climate co-benefits, for example, drainage works that reduce flood risk, or transport and sanitation projects that embed resilience features.

Table 31: Distribution of the General State Budget by Climate Marker, 2026

Climate Marker	Allocation 2026 (US$)
High Relevance [H]	15,534,067
Medium Relevance [M]	36,299,333
Total	51,833,400

Source: Timor-Leste planning and budgeting system (Dalan Ba Futuru), January 2026

3.44. The 2026 Climate Marker shows a total budget of US$ 51.8 million in allocations, with US$ 15.5 million directed to projects of high relevance and US$ 36.3 million to those with medium relevance. High-relevance spending focuses on water and sanitation systems, emergency road responses, solid waste management, forestry initiatives and biodiversity conservation, all directly linked to climate resilience and risk reduction. Medium-relevance funding supports broader development programmes with climate co-benefits, including flood-control design, municipal drainage and sanitation, soil and water conservation, fisheries and aquaculture. Together, these investments span key sectors such as public works, local administrations, agriculture, environment and civil protection, strengthening adaptation efforts, resource protection and disaster preparedness.

e) Blue Economy marker

3.45. As a new tagging system for 2026 the Blue Economy Marker systematically tracks funding for sustainable management and development of marine and coastal resources, supporting economic diversification, environmental protection, and alignment with national and international development goals. It consists of three distinct categories:

No.	Marker	Definition
1	**Specific [S]:**	Activities where the primary objective is to promote the Blue Economy, such as aquaculture centres, artisanal fisheries support, marine biodiversity protection, or the "Ha'u nia Tasi, Ha'u nia Timor" awareness campaign.
2	**Expanded [E]:**	Activities outside the immediate scope of the Blue Economy but with significant benefits for it, including coastal sanitation projects, eco-tourism infrastructure, biodiversity conservation, and environmental education
3	**Indirect [I]:**	Broader programmes not primarily focused on the Blue Economy but with indirect relevance, such as the Tasi Mane project, port rehabilitation, maritime transport development, and vocational training programmes that benefit coastal communities.

Table 32 Distribution of the General State Budget by Blue Economy Marker

Blue Economy Marker	Allocation (US$)
Specific [S]	1,830,797
Expanded [E]	11,207,976
Indirect [I]	173,817,267
Total	**186,856,040**

Source: Timor-Leste planning and budgeting system (Dalan Ba Futuru), January 2026

3.46. The 2026 Blue Economy Marker identifies US$ 186 million in budget allocations. Although only US$ 1.8 million are dedicated to specific interventions directly advancing fisheries, aquaculture, and marine spatial planning, more than US$ 11 million are allocated to expanded

activities that generate significant climate and community benefits through mangrove restoration, eco-tourism, and coastal sanitation projects. Additionally, indirect funding of US$ 173 million is allocated to support cross-sectoral infrastructure, maritime safety, and vocational training programmes. This distribution highlights the broad scope of the Blue Economy and underscores the need for strong inter-ministerial coordination to align investments with sustainable development and long-term national resilience.

f) Disability marker

3.47. Along with the Blue Economy Marker, the IX Constitutional Government is introducing a Disability Marker in the preparation of the 2026 General State Budget (OGE). This marker systematically identifies and monitors budget allocations promoting disability inclusion in line with national and international frameworks. It consists of two categories:

No.	Marker	Definition
1	**Principal (P):**	The main objective of the activity is to promote the rights and equity of persons with disabilities.
2	**Integrated (I)**:	Disability inclusion is a deliberate and significant objective within the activity, though not its principal focus.

Table 33: Distribution of the General State Budget by Disability Marker

Disability Marker	Allocation 2026 (US$)
Principal [P]	2,073,586
Integrated [I]	209,564,503
Total	211,638,089

Source: Timor-Leste planning and budgeting system (Dalan Ba Futuru), January 2026

3.48. The 2026 Disability Marker identifies a total allocation of US$ 2,073,586 for activities where disability inclusion is the primary focus, with eight separate line ministries involved. The Ministry of Social Solidarity and Inclusion has allocated US$ 476,891 to social inclusion programmes, including socioeconomic empowerment for persons with disabilities, while the Ministry of Health dedicated US$ 53,146 to mental health, epilepsy care, and services for vulnerable communities. Additionally, the marker's integrated category highlights broader disability inclusion across 36 line ministries, including a US$ 340,000 allocation from the Ministry of Youth, Sports and Arts for high-performance athlete development and the integration of accessible sport infrastructure and activities.

4. Revenue and Financing

Domestic Revenue

4.1. Domestic revenues are comprised of tax and non-tax revenues that are collected by the Central Administration and RAEOA. Taxes collected by RAEOA are retained by the Central Administration, whereas non-tax revenues collected by RAEOA are retained by RAEOA.

4.2. Taxes are broken down in Direct and Indirect Taxes. Non-Tax revenues are comprised of Earnings, Fees & Penalties and Sales of Goods & Services. These are broken down as follows:

- **Direct Taxes** include taxes on wage and non-wage income.
- **Indirect Taxes** include import duties, sales taxes, excise duties and service taxes.
- **Earnings** include earnings from rents of government property and interest revenues.
- **Fees & Penalties** comprising of various administrative fees and charges such as charges on social games, parking, passport, visa and transport fees as well as penalties such as transport and court related penalties. A full list of the fees and penalties forecasted for collection in 2025 are provided in the budget tables.
- **Sales of Goods & Services** including printing sales, auctions of cars, and sales of goods and services from public entities such as the Resistance Museum and the Bamboo Institute. A full list of the goods and services forecasted for sale in 2025 are provided in the table 4 of the budget law.
- **Other Current Revenues** consisting of current domestic revenues that are not classified into the other categories. Potential reasons could be that either the revenue lines didn't fit well into existing items and line items. These are relatively small following the change to economic classifications from 2023 and are not projected forward for Budget 2026 and beyond.

4.3. The chart below, provides a breakdown of domestic revenues from 2014 to 2024. Domestic revenues increased from US$ 173.6 million in 2015 to US$ 196.7 million in 2018, before declining in 2019 and 2020. Collections recovered in 2021 to US$ 217.5 million, moderated in 2022, and rose to their highest levels in 2023 and 2024 at US$ 238.7 million and US$ 233.9 million respectively.

4.4. Direct taxes were stable through most of the period. Wage income tax rose gradually from US$ 17.4 million in 2015 to US$ 23.6 million in 2024. Non-wage income tax was more volatile, declining after 2016 but recovering strongly to reach US$ 47.2 million in 2024.

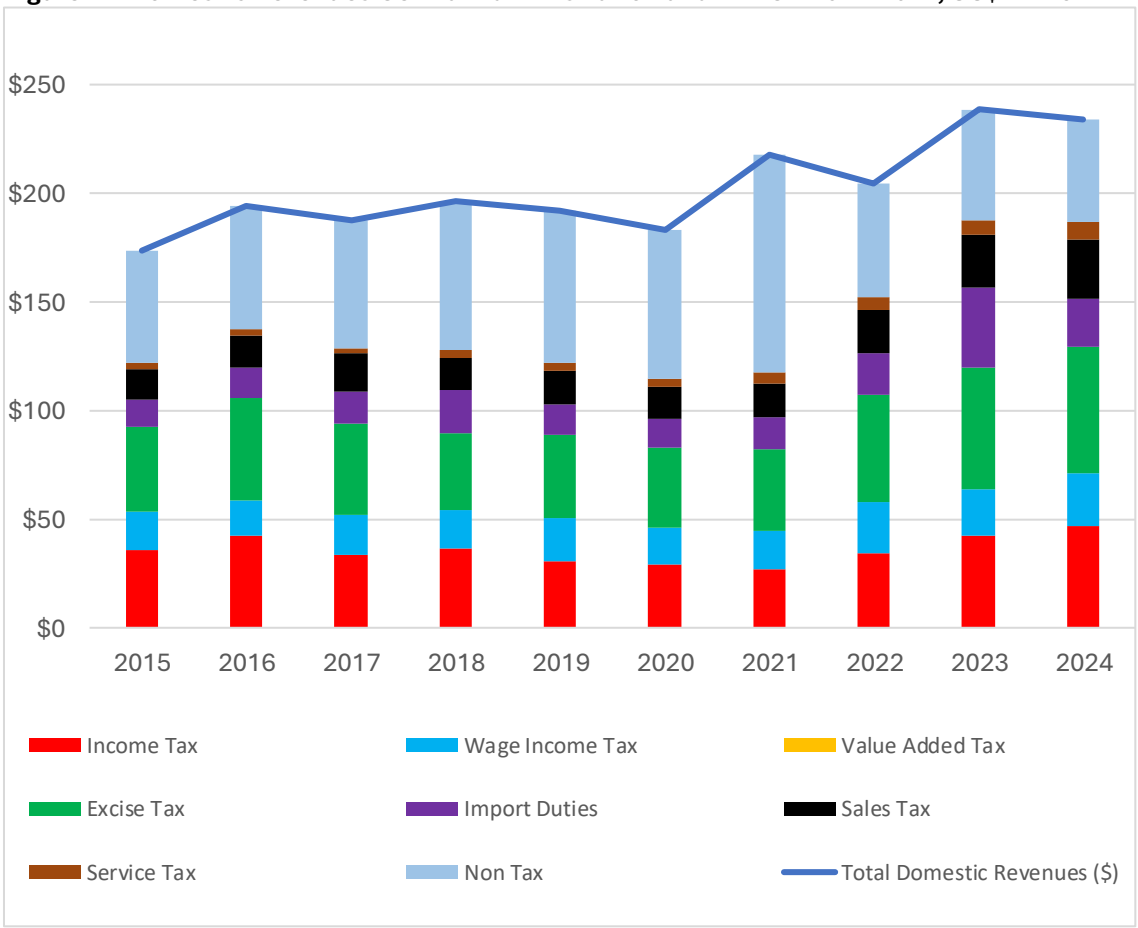
4.5. Indirect taxes grew steadily. Excise duties increased from US$ 39.6 million in 2015 to US$ 58.2 million in 2024, supported by higher rates introduced between 2020 and 2023. Import duties rose until 2018, fluctuated thereafter, and peaked at US$ 36.9 million in 2023. Sales tax

revenues increased consistently, from US$ 13.6 million in 2015 to US$ 27.0 million in 2024. Service tax collections, though small, more than doubled over the same period.

4.6. Non-tax revenues averaged US$ 60–70 million between 2015 and 2019, before falling in 2020 following the establishment of EDTL and Bee-TL as state-owned enterprises. Fees and penalties, which had exceeded US$ 50 million annually before 2020, fell to around half that level in recent years. Earnings and sales of goods and services remained modest, while other current revenues, though sometimes significant, are not clearly classified.

4.7. The overall structure of domestic revenues has shifted. Tax revenues have become the main driver of growth, while non-tax revenues have declined in importance. By 2024, excise duties and income taxes accounted for a larger share of total revenues, reflecting both policy changes and structural reforms.

Figure 24: Domestic Revenues Central Administration and RAEOA 2014-2024, US$ Million



Source: Revenues from the Central Administration are calculations by from the National Directorate of Economic Policy based on Treasury data, Ministry of Finance. Non-Tax Revenue retained by RAEOA from the Consolidated Financial Accounts, Ministry of Finance, September 2025

4.8. Domestic revenues are forecasted to rise moderately in 2025. The projections given below are based on historic patterns and revenue numbers up until August 2025. Both income and wage taxes are forecast to rise based on collections so far this year. This is indicative of greater economic activity and higher earnings in 2024. Customs revenues, on the other hand are

projected to fall based on patterns observed in the first 9 months of the year. Non-Tax revenues are set to remain at similar levels to previous years.

4.9. Non-Tax revenues on aggregate are projected to increase in line with population growth and inflation. Income and Wage taxes are forecasted to rise in line with GDP growth. Customs revenues are projected to rebound in 2026, following an unanticipated fall in in the first half of 2025. The rebound is partially due to expectations of higher import levels due to an increased US$98 million transfer to the veteran's fund that is anticipated to begin in December 2025 and continue in 2026 and beyond.

4.10. The domestic revenue forecasts below also provide indicative projections for revenues that will arise from the implementation of a Value Added Tax (VAT) in 2027. Further details on a VAT will be presented to parliament upon finalisation and submission of a draft VAT law. Whilst the exact policy related to VAT implementation is yet to be confirmed, it will be implemented according to the principle of raising overall revenues but remaining inflation neutral for the poorest citizens. This can be achieved through zero ratings for certain essential goods. The exact zero ratings will be confirmed following careful analysis of the distributional impacts of the policy.

4.11. VAT will replace service and sales taxes. It will also replace import duties, an important step given that in the import duties will no longer be applied to goods from ASEAN countries following a transition period. The exact duration of the transition period is currently subject to negotiations. The forecasts below assume that the transition period is successfully negotiated for 2026, meaning that import duties are not reduced for imports from ASEAN, and that VAT is then successfully implemented by 2027.

4.12. If a VAT is not in place by the time that Timor-Leste is required to remove import duties for ASEAN imports, it would lead to a significant fall in Import Duties from the forecast presented below.

Table 34: Domestic Revenue Actual Projections 2024-2029, US$ Million

	2024 Actual	Proj 2025	Proj 2026	Proj 2027	Proj 2028	Proj 2029	Proj 2030
Domestic Revenue (Central + RAEOA)	**233.9**	**242.9**	**259.2**	**290.0**	**305.3**	**321.9**	**339.2**
Non-Tax Revenues RAEOA	*2.4*	5.6	5.9	2.3	2.5	2.6	2.7
Domestic Revenue (Central Administration)	**231.7**	**237.3**	**253.3**	**287.7**	**302.9**	**319.3**	**336.5**
Tax Revenue	186.7	186.0	200.5	232.8	245.9	260.1	275.1
Value Added Tax				77.8	82.2	87.1	91.9
Excise Tax	58.2	58.0	64.2	67.7	71.5	75.7	80.0
Import Duties	22.5	20.1	22.2				
Sales Tax	27.0	20.7	22.9				
Service Tax	8.2	7.9	8.3				
Income Tax	47.2	55.8	58.3	61.4	64.8	68.4	72.5
Wage Income Tax	23.6	23.6	24.7	26.0	27.4	29.0	30.7

	2024 Actual	Proj 2025	Proj 2026	Proj 2027	Proj 2028	Proj 2029	Proj 2030
Non Tax Revenues (Central Administration)	**45.0**	**51.3**	**52.9**	**54.9**	**57.0**	**59.2**	**61.4**
Fees and Penalties	26.4	25.8	29.9	31.0	32.2	33.4	34.7
Earnings	12.3	14.8	15.2	15.8	16.4	17.1	17.1
Sales of Goods and Services	4.9	7.5	7.7	8.0	8.3	8.7	9.0
*Other Current Revenues**	*1.4*	3.2	-	-	-	-	-

Source: Calculations and forecasts by the National Directorate of Economic Policy based on data from GRP, Ministry of Finance. *No projections for *Other current revenues as we assume that going forward these revenues will be correctly classified into one of the other line items. Figures don't include refunds, cash advances or returned Treasury purchasing orders. These are cash flows that result from unrealised payments from the previous year. These amounts were US$18.1 million in 2024 and are estimated to reach US$14.4 million in 2025. They are not forecasted forward.*

Petroleum Fund

4.13. 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

4.14. 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 35: Estimates for the Petroleum Fund, US$ Million

Item	Value
Beginning balance of the Petroleum Fund in 2025	18,274.1
Estimated petroleum revenue in 2025	28.4
Estimated investment income in 2025	1,369.8
Estimated government withdrawals in 2025	-1,561.1
Estimated ending balance in 2025/ beginning balance in 2026	***18,111.0***
Estimated net present value of future petroleum revenue in 2026	0.0
Estimated Petroleum Wealth 2026	***18,111.0***
2026 ESI (3% of Petroleum Wealth)	543.3
Withdrawals in excess of the ESI	1,175.9
Budgeted withdrawals in 2026	***1,719.2****

Note: * Values may not sum due to rounding.
Source: Petroleum Fund Policy and Management Office, Ministry of Finance, September 2025.

4.15. The beginning balance of the Fund on 1 January 2025 was US$ 18,274.1. Petroleum revenue for 2025 is estimated at US$ 28.4million, with $ 23.4 million already received by August. This is

lower than the Budget 2025 estimate, primarily due to the earlier-than-expected cessation of production at the Bayu Undan field in June 2025.

4.16. The Fund's investment return for 2025 is estimated at 7.82%, equivalent to US$ 1,369.8 million in expected income. This estimate includes actual performance up to July where the Fund earned 5.7%, with 2.7% from the liquidity portfolio (designed to cover projected withdrawals over the next three years) and 6.7% from the growth portfolio. Projections for the remainder of the year are also included, although the final outcome will depend on market movements in Q4.

4.17. In comparison, the Fund earned 6.8% in 2024, generating US$ 1,200 million in investment income, driven by strong equity returns of nearly 18% returns, while the fixed-interest assets in the growth portfolio returned 2.2%, and the liquidity portfolio earned 5.2%.

4.18. In 2024, actual withdrawals from the Fund amounted to US$ 1,300.0 million, slightly below the approved ceiling of US$ 1,377.5 million in the Budget 2024. For 2025, the approved withdrawal is US$ 1.561.1 million. As of August, US$ 851.95 million has already been transferred to the Treasury account. If it is fully withdrawn in 2025, the Petroleum Fund is projected to end the year at US$ 18,111.0 million. Equities and bonds will need to be sold in 2026 to replenish the liquidity portfolio to cover the total withdrawal estimated for 2026 to 2028.

4.19. The Bayu-Undan field, which began production in 2004, has ceased its operation as of June 2025, 1 year earlier than previously projected. The Greater Sunrise field remains under negotiation, and no other petroleum fields currently meet the criteria for inclusion in the ESI. As a result, no future petroleum revenue has been included in the Budget 2026 forecast.

4.20. The Petroleum Wealth as of 1 January 2026 is estimated at US$ 18,111.0 million, resulting in an ESI for 2026 of US$ 543.3 million. This is US$ 15.2 million higher than projected in the 2025 Budget, mainly due to stronger-then-expected investment return in 2025.

4.21. In 2026, total withdrawals are projected at US$ 1,561.1 million, equivalent to 8.5% of the estimated Petroleum Wealth, which exceeds the 2026 ESI by US$ 1,009.1 million.

4.22. Excess withdrawals are consistent 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.

4.23. 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, Debt Limits, PPPs and Grants

Loans

4.24. The Government utilises foreign loans to meet its borrowing requirements. In accordance with the Strategic Development Plan 2011-2030 and Public Debt Regime Law No. 13/2011,

concessional loans are principally designated for the construction of strategic infrastructure essential for national development to support economic diversification. The terms of the loans are described below:

Table 36: Terms of Loans

Lender	Currency	Approved loan US$m	Grace Period (years)	Original Amortization Period (years)	Year Complete	Interest rate FY 2025
ADB	US, SDR	615.65	5	20	2048	4.6%
WB	US, SDR	134.56	7	24	2059	2.5%
JICA	JPY	68.72	10	20	2042	0.60%
AIFFP	US	45	5	20	2048	N/A
Total		**863.93**				
Note: The AIFFP fund for the Airport project is currently under review and has not yet entered the implementation phase. Therefore, has no applicable interest charges.						

Source: Ministry of Finance, June 2025

4.25. On 11 December 2024, the Council of Ministers decided to cancel several agreements with the World Bank, reducing the total loans by US$ 161 million to US$ 864 million.

4.26. Given the substantial weight and high global interest rates, the ADB loan rate is set to rise to 4.6%, with the portfolio interest rate hitting 3.72% in 2025. While this is still lower than the petroleum fund's return of 4.40%, it requires the Government to focus on securing more fixed-rate loans to keep future debt payments manageable.

Table 37: Cost of borrowing vs PF return

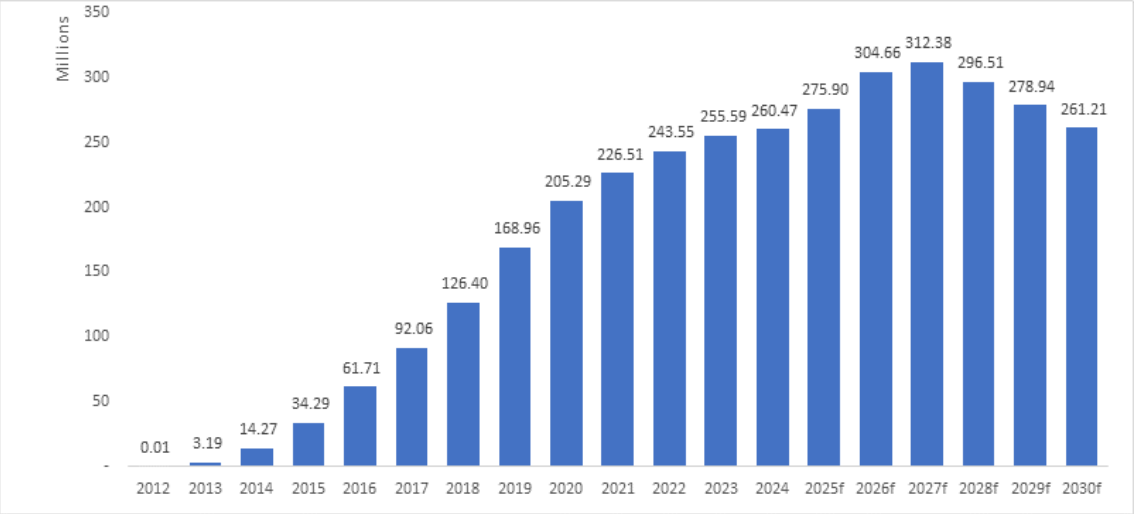
Description	2019	2020	2021	2022	2023	2024	2025f
Cost of borrowing (effective rate)	2.34%	2.03%	1.50%	1.56%	3.25%	3.6%	3.72%
PF historical return (annual since inception)	4.45%	4.81%	4.90%	3.95%	4.27%	4.40%	4.57%

Source: Ministry of Finance, June 2025

4.27. Negotiations with international lending institutions indicate that some loan agreements may be amended, potentially delaying disbursement. Current forecasts suggest that external debt will peak in 2027 before decreasing. The Government is also considering early repayment, which could further reduce debt.

4.28. By the end of fiscal year 2025, external debt is expected to reach around US$276 million. Interest and fees are likely to decrease from US$9.4 million in 2024 to US$8.6 million by the end of 2025 as ongoing projects reach completion. This debt is relatively small compared to the Government's total debt.

Figure 25: Stock of External Debt, US$ Million



Source: Ministry of Finance, June 2025

4.29. In 2026, disbursement is anticipated to remain relatively stable due to the completion of most projects. A moderate loan disbursement of $50 million is projected for that year, bringing the estimated total debt stock to $304.66 million by the end of 2026. During 2025, the government is authorized to contract or issue public debt up to a maximum amount of US$850 million, with a maximum term of 40 years. The government proposes a continuation of this maximum debt limit (US$850 million) for 2026, this is forecasted to represent 42% of GDP.

4.30. The country's debt ratios experienced a marginal increase over the last four years. However, starting in 2023, there has been a slight decrease in these ratios reflecting a fall in loan disbursement.

Table 38: External Debt Indicators for the period 2021-2030, % of GDP and Revenue

	2021	2022	2023	2024	2025f	2026f	2027f	2028f	2029f	2030f
Total External Debt to GDP	14.5%	14.5%	14.2%	13.8%	14.1%	14.9%	14.5%	13.0%	11.6%	10.3%
Total Debt Service to Revenue	4.5%	8.0%	9.6%	10.1%	10.8%	10.4%	12.5%	12.9%	12.4%	11.0%
Total external debt ($M)	226.5	243.6	255.6	260.5	275.9	304.7	312.4	296.5	278.9	261.2
Debt Service	9.8	16.4	22.9	23.7	26.3	26.9	36.2	39.5	39.8	37.4
Revenue (ESI + domestic revenue) ($M)	765.4	758.9	728.8	756.0	794.8	802.5	809.2	790.2	768.6	744.0

Source: Ministry of Finance, June 2025.

4.31. External Debt to GDP - The size of external debt to GDP remains under the 30% threshold set by the debt sustainability frameworks for low-income countries with a moderate risk of default. In 2025, the debt-to-GDP ratio is expected to be 14.1%.

4.32. Debt Service to Revenue (ESI + Domestic Revenue)– Total debt service to revenue ratio is expected to increase from 1.3% in 2021 to 4.7% in 2030, with the highest value expected in 2029.

Table 39: Debt Service Forecasts, US$ Million

Lender	Debt Service	2024	2025f	2026f	2027f	2028f	2029f	2030f
ADB	Principal	11.02	13.48	14.76	24.78	28.75	28.90	27.80
	Interest	7.55	6.89	6.30	5.71	5.11	3.83	3.52
	Charges	0.32	-	-	-	-	-	-
WB	Principal	2.5	2.73	2.73	2.73	2.73	3.58	4.31
	Interest	1.35	1.56	1.54	1.46	1.39	1.28	1.33
	Charges	-	-	-	-	-		-
JICA	Principal	0.76	1.39	1.39	1.39	1.39	3.58	3.42
	Interest	0.15	0.21	0.20	0.19	0.18	1.28	1.15
	Charges	-	-	-	-	-		-

Source: Ministry of Finance, June 2025.

Project Status

4.33. The costs of projects funded by concessional loans are mainly taken from three different sources: Loan, Infrastructure Fund, and Grant. Table 15 indicates that the total investment cost of the total loan-funded projects from 2012-2024 is estimated at US$596,427,690.19 of which US$436,549,931.29 is financed by loans, US$156,945,354.43 by the infrastructure fund, and US$2,932,404.47 by grants.

4.34. Table 15 also shows that the largest component of the investment cost is civil works, which accounts for US$522,483,282.48 or 87.6% of the total. Civil works are mainly financed by loans (71.1%) and the infrastructure fund (28.4%), with a small contribution from grants (0.6%). The second largest component is supervision, which costs US$51,676,661.14 or 8.7% of the total. Supervision is entirely financed by loans. The third component is other, which includes expenses such as resettlement and capitalisation. This component costs US$22,267,746.57 or 3.7% of the total and is financed by loans (61.8%) and the infrastructure fund (38.2%).

4.35. The government is currently in negotiations with lending institutions to secure an additional grant of $10 million to support road infrastructure projects

Table 40: Total Investment Costs, US$

Budget Category	Total (US$)	Loan (USD)	Infrastructure Fund (USD)	Grant (USD)
Civil Works	522,483,282.48	371,105,523.58	148,445,354.43	2,932,404.47
Supervision	51,676,661.14	51,676,661.14	N/A	N/A

Budget Category	Total (US$)	Loan (USD)	Infrastructure Fund (USD)	Grant (USD)
Other	22,267,746.57	13,767,746.57	8,500,000.00	N/A
Total	**596,427,690.19**	**436,549,931.29**	**156,945,354.43**	**2,932,404.47**

Source: Ministry of Finance, June 2025

4.36. The breakdown of financing by sector reveals that the road sector accounts for most of the funding and the contracts, followed by the airport and the energy sectors. Analysis also indicates that most of the road projects have been completed or are close to completion, while the airport and the energy projects are still under review. Two road projects currently under construction are the Baucau to Viqueque Highway Project and the TL Branch Road Project.

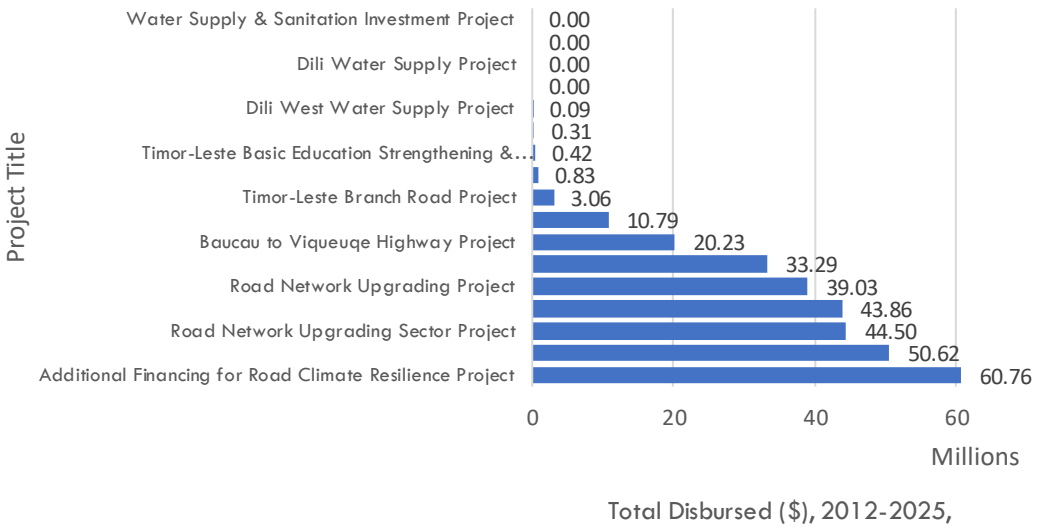
Table 41: Sector Breakdown

Sector	Total Budget (US$)	Number of Civil Works Contracts	Number of Supervision Contracts	Number of Concluded Projects
Road	496,435,584.23	16	7	14
Airport	93,000,000.00	1	1	Under Review
Energy	6,992,105.96	1	1	Under Review
Total	**596,427,690.19**	**18**	**10**	

Source: Ministry of Finance, June 2025

4.37. As shown in the following graph, the projects with the highest disbursement rate are the road network expansion. These projects have contributed to improving the country's connectivity and living conditions for both the urban and rural population. On the other hand, the projects with the lowest disbursement rate are for water supply and sanitation, education sector development, airport upgrades and energy projects. It is important to emphasize that although financing agreements between government and international financing institutions have been executed, these projects are currently under review.

Figure 26: Project Disbursement, US$ Million



Source: Ministry of Finance, June 2025

Acceleration of Debt Repayments

4.38. The Government of Timor-Leste is considering the option of early debt repayments as a key component of its fiscal policy for the year 2026. This strategic move aims to further enhance the country's economic stability and investor confidence. Early debt repayments offer several benefits. Firstly, it ensures economic stability by reducing the reliance on external financing and minimizing the risk of default. Secondly, early debt repayments allow Timor-Leste to avoid prolonged high market interest rates and save significant interest expenses over the long term. This translates into a more favourable debt profile, ultimately contributing to sustainable economic development.

4.39. 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.

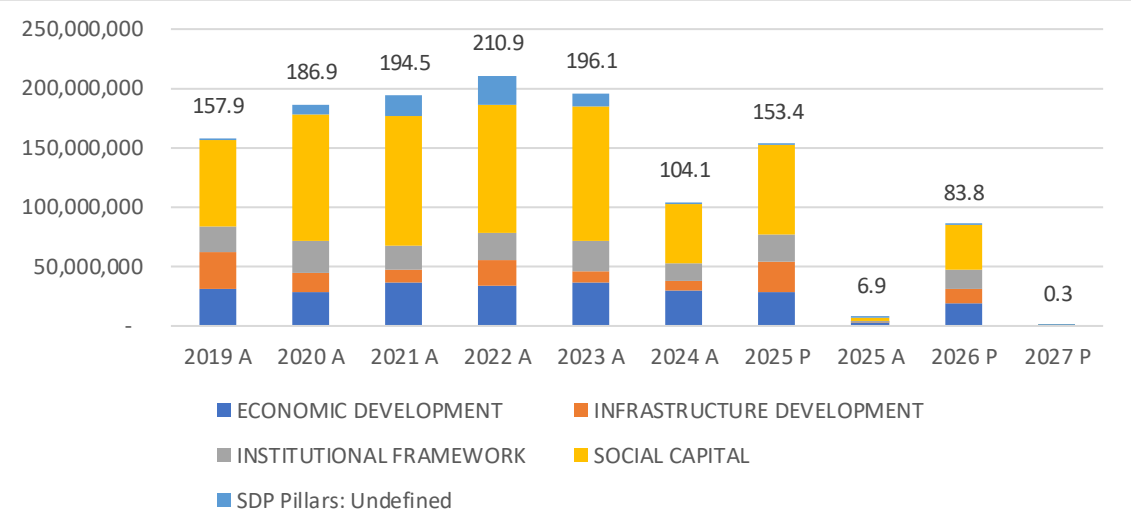
4.40. By 2026, six more agreements may be considered for early repayments, resulting in a total of twelve agreements.

4.41. Budget 2026 presents a forward-thinking approach to financing key petroleum infrastructure development facilities. The Government's loan ceiling of US$850 million aims to facilitate negotiations with potential lenders, opening doors to funding these crucial initiatives. With a relatively low debt-to-GDP ratio of 14.1%, this responsible borrowing plan ensures that debt levels remain sustainable over the medium term. By investing in this strategic sector, the Government aims to generate new or additional sources of income for the state in the medium to long term, further securing Timor-Leste's financial stability and development

Non-Lending Forecasts

4.42. Figure 23 shows the evolution of disbursements of non-Lending development assistance from 2019 onwards. The steep increase in funding from 2019 to 2020 reflects the increase in assistance as a result of the COVID-19 pandemic. 2026 Planned disbursements are currently reported as USD $83.8 million. These figures appear to be low, however planned spending figures are often underreported. Furthermore, reported planned spending is expected to increase as annual budgets become clearer.

Figure 27: 2019-2025 Actual Disbursements and 2025-2027 Planned Disbursements, US$ Millions



Source: Aid Transparency Portal, report generated on 23 June 2025. The data does not include Direct Budget Support figures.

4.43. In addition, there is an increase in the infrastructure pillar, this reflects the upcoming investment in the "Project for the Improvement of Presidente Nicolau Lobato International Airport."

Table 42: Planned Development Partner Disbursements by Fund Source for 2026, US$

Fund Source	2026 Planned US$
Government of Australia	55,710,169
Government of Japan	17,696,036
Korean International Cooperation Agency	2,805,594
World Health Organization	2,776,950
European Union	1,521,072
New Zealand Aid Programme, Ministry of Foreign Affairs and Trade	1,087,904
Green Climate Fund	1,046,485
World Bank	551,757
Asian Development Bank	450,000
UN Women	132,766
TOTALS	**83,778,734**

Figures do not include Direct Budget Support to be provided by Australia (see below). Source: General Directorate for External Resource Mobilisation (DGMRE), Ministry of Finance, June 2025

Table 43: Planned Disbursements by SDP Sub-pillar and Pillar for 2026, US$

SDP	SDP Sub-pillar	2026 Planned
Social Capital	Health	17,304,564
	Education and Training	11,851,660
	Social Inclusion	5,965,969
	Environment	1,391,006
Subtotal		**36,513,199**
Economic Development	Rural Development	10,976,146
	Agriculture	5,946,124
	Private Sector Investment	1,962,355
Subtotal		**18,884,624**
Infrastructure Development	Airports	10,863,811
	Water and Sanitation	732,763
	Electricity	200,000
	Roads and Bridges	50,000
Subtotal		**11,846,575**
Institutional Framework	Public Sector Management and Good Governance	11,692,379
	Security	3,597,650
	Justice	608,872
	National Investment Agency and Economic Policy and Investment Agency	236,881
Subtotal		**16,135,782**
SDP Undefined		398,553
TOTAL		83,778,734

Source: Aid Transparency Portal, Ministry of Finance, June 2025

Direct Budget Support

4.44. 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 2026 State Budget because it uses Government systems (the money is part of the Treasury Single Account) and on-budget, where the funding is used directly by the beneficiary ministries.

4.45. Budget support remains the preferred option for development support for the Government of Timor-Leste as it both recognises and strengthens the institutions of government but at the same time allows for the flexibility and timeliness needed to effect projects on the ground.

4.46. In 2026, Australia will provide budget support for the Ministry of Health's Nutrition program. The European Union will also provide budget support to bolster the Government's efforts in improving PFM and Digitalization. The numbers below are not included in the ODA reporting above as they are reflected in other areas of the Budget documentation.

Table 44: Donor Budget Support 2026

Donor Budget Support	Government program	2026	2027	2028
Government of Australia	Support to Nutrition program	4.5m USD		
European Union	Partnership for Public Financial Management and Digital Transition in Timor-Leste	1m EUR (fixed)	0.5m EUR (fixed)	0.5m EUR (fixed)
		2m EUR (variable)	2m EUR (variable)	2m EUR (variable)

Source: General Directorate for Mobilising External Resources, DGMRE, June 2025

Table 45: Summary of Development Partner Support to Beneficiary Ministry 25-27 Planned, US$ Million

Beneficiary Ministry	2025 Plan	2026 Plan	2027 Plan
Ministry of Health	23.5	14.3	0.0
Ministry of Transportation and Communications	24.5	12.4	0.0
Ministry of Education	15.1	7.8	0.0
Ministry of Agriculture, Livestock, Fisheries and Forestry	15.6	6.5	0.0
Ministry of Public Works	8.0	6.0	0.0
Ministry of State Administration	5.3	5.5	0.0
Ministry of Interior	6.0	4.3	0.0
Presidency of the Council of Ministers	4.3	3.0	0.0
Minister Coordinator of Economic Affairs	3.9	2.9	0.0
RDTL Institution Unspecified	7.8	2.8	0.3
Ministry of Higher Education, Science and Culture	5.4	2.0	0.0
Ministry of Foreign Affairs and Cooperation	2.5	1.3	0.0
Ministry of Social Solidarity and Inclusion	1.6	1.7	0.0
Ministry of Finance	4.5	1.1	0.0
Ministry of Rural Development and Community Housing	1.1	1.1	0.0
Ministry of Youth, Sport, Art, and Culture	5.9	0.3	0.0
Ministry of Planning and Strategic Investment	0.5	0.3	0.0
Ministry of Trade and Industry	1.1	0.2	0.0
Ministry of Tourism and Environment	2.0	0.2	0.0
Ministry of Justice	0.1	0.0	0.0
Office of the Prime Minister	0.2	0.0	0.0
Secretary of State for Professional Training and Employment Policy	1.9	0.0	0.0
Secretary of State for Equality and Inclusion	0.1	0.0	0.0
Non-government sector	12.6	10.1	0.0
Totals	153.4	83.8	0.3

Source: General Directorate for External Resource Mobilisation (DGMRE), Ministry of Finance, June 2025

Public Private Partnerships

4.47. Public Private Partnerships (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 hands of the Government, and the private sector needs to transfer it back in good condition at the end of the contract.

4.48. DL 8/2014 stipulates the formation of a PPP Unit (PPPU), a PPP facilitation agency under the Ministry of Finance to take on the tasks of managing and implementing the PPP Project Cycle in coordination with line ministries and the Council for Administration of Infrastructure Fund (CAFI). An important role of the PPPU is to promote and create an environment for attracting foreign direct investment (FDI) through the PPP modality, while at the same time encouraging local private sector involvement in PPP projects by pursuing policies that will allow for the development of small to medium scale PPPs.

4.49. Currently, one PPP project is in the Implementation and Operation Stage (Tibar Bay Port PPP), one is in the Feasibility Stage (Affordable Housing) and several in in the Initiation stage identified with line ministries and agencies such as Ministry of Tourism and Environment, Ministry of Commerce and Industry, Ministry of Rural Development and Community Housing, APORTIL and Dili Municipal Authority. The latest status of these projects is reported below.

4.50. The PPP modality chosen for Tibar Bay Port was a 30-year concession, including the design, build, finance, operation and transfer (DBFOT) 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 (TPSA) as Concessionaire. The concession agreement was signed on 3rd June 2016 between the GoTL and Concessionaire (TPSA) and the 30-year concession includes a three-year construction period which started on 30 August 2018.

4.51. The construction was concluded on 29 April 2023 with issuance of a Completion Certificate from the Independent Engineer to the Tibar Bay Port Project. The only remaining work is Bluezone Construction, pending attribution of land to the Ministry of Finance and to Timor Port for the construction of the above facility. Upon construction, Bluezone will be equipped with multipurpose facilities for sport and social activities, such as football, basketball, futsal, a media centre and library with full internet access and other community events.

4.52. The Services Commencement date fell on 30th September 2022 (early commencement). Since then up to 30 May 2025 (32 months), 461 vessels have called at Tibar Bay Port. During this period, Tibar Bay Port handled 202,917 TEUs containers include 273 TEUs Containers of the first ever Transhipment handled at Tibar Bay Port which was discharged by Meratus and ANL Darwin Trader in April 2024. In addition, 694,341 Tonnage of breakbulk cargo was also handled at Tibar Bay Port. Meanwhile, the total Grantor revenue during the period from Oct 2022 to May 2025 is US$3,668,931.80

4.53. The Affordable housing PPP is undergoing a feasibility study and transaction structuring phase. The project has benefited from advisory services from the World Bank Group's International Financial Corporation (IFC). In May 2024, the IFC submitted an updated Transaction Structuring Report (TSR).

4.54. The Affordable Housing PPP project is a residential project designed to provide housing units to eligible buyers at an affordable price. This objective is to be achieved through the construction of approximately 500 housing units – about 90 percent at affordable price point while the rest at market rate, all on 200 sq. m of land parcels. Affordable units will be a mix of studio, one bedroom, two bedroom and three-bedroom units while the type of market units will be decided by the winning bidder.

4.55. Affordable housing under a PPP model has been shown to be successful in several countries. For this particular project, the government has selected 20-ha of government owned land in Suco Hera, about 14km east of Dili. Besides the design, finance and construction, the developer will be responsible for the sale of housing units and for certain O&M obligations will be clarified at a later stage such as O&M of utility infrastructure and maintenance of common areas. Target beneficiaries for the project are households with formal employment and incomes in the range of USD 300 to USD 600 per month. The project was authorized to proceed to the next steps by CAFI during a meeting on 23 October 2023. Inter-Ministerial Working Group has been re-enacted and has conducted its first meeting on 21 October 2024. Several critical issues regarding registration of the 20 Ha land and subsequent sub-division of the land into 200 sq. m land parcels were discussed at the meeting. A series of discussions were conducted with Ministry of Justice in Q1 of 2025 resulting in the issuance of MoJ dispatch for the recognition of the project site as state owned land. Currently, awaiting land attribution from MoJ to Ministry of Public Work as the project owner.

4.56. Based on the government decision, the Hybrid Public Private Partnership (PPP) modality that was adopted for the development of the Presidente Nicolau Lobato International Airport project has been revisited, and several administrative issues need to be addressed with the International Finance Corporation (IFC). Therefore, a provisional budget for FY 2026 has been prepared, anticipating administrative costs of the PPP cancellation as reflected in the table below.

4.57. New PPP initiatives are being prepared within the framework of a World Bank grant to support PPP implementation. The grant is a successful collaboration between DGGMRE-DNPPP with the World Bank with objectives for capacity building, preparation of new initiatives as well as improvement to the legal and regulatory environment for PPP project facilitation. So far under this grant program, several basic PPP trainings were conducted with line ministries, culminated with a workshop on PPP project development. A “long list” of fourteen potential projects has been identified with several line ministries and agencies including the Ministry of Tourism and Environment, the Ministry of Commerce and Industry, the Ministry of Rural Development and Community Housing, Dili Municipal Authority and APORTIL. From these fourteen projects, two will be selected to go through a pre-feasibility study to be implemented by a consulting team procured through the grant. Previously identified new initiative with the Ministry of Tourism and Environment will proceed as part of the pre-feasibility study.

4.58. The table below contains actual government expenditure for 2022 to 2024, estimated expenditure for 2025, proposed general budget allocation for 2026 and estimated budget allocation for 2027 onward for PPP projects.

Table 46: Actual Expenditure (2022 – 2024), Estimated Expenditure (2025), Allocation (2026) and Estimated Allocation (2027-2029), US$ Million

	2022 Actual	2023 Actual	2024 Actual	2025 Est.	2026 Est.	2027 Est.	2028 Est.	2029 Est.
Combined Sources Budget (DTG + IF)	**0.67**	**0.17**	**0.00**	**1.18**	**4.61**	**5.78**	**2.65**	**2.05**
Dotação *Todo Governo (DTG)*								
PMU Affordable Housing					0.13	0.13	0.13	0.13
TBP - Audit - TP-OMSU				0.30	0.49	0.02	0.02	0.02
SUB TOTAL	**0.00**	**0.00**	**0.00**	**0.30**	**0.62**	**0.15**	**0.15**	**0.15**
Infrastructure Fund (IF)								
TBP PPP								
Tibar Bay Port PPP O&M stage - Independent Hydrographic Survey				0.09	0.10			
Tibar Bay Port PPP O&M stage - Independent Hydrographic Expert					0.05			
SUB TOTAL	**0**	**0**	**0.00**	**0.085**	**0.15**	**0**	**0**	**0**
President Nicolau Lobato International Airport Hybrid PPP (FASA - FS & TSR - IFC)								
FASA - FS & TSR - IFC	0.67				1.11			
SUB TOTAL	**0.67**	**0**	**0**	**0**	**1.11**	**0**	**0**	**0**

Source: General Directorate for External Resource Mobilisation (DGMRE), Ministry of Finance, June 2025

Treasury Operations and Cash Balances

4.59. The total actual revenue of the General State Budget of Central Administration and RAEOA for 2024 was US$ 1,933.8 million, comprising domestic revenues (tax and non-tax) of US$ 231.7million, transfers from the Petroleum Fund of US$ 1,300.0 million, end of year balance (from the Treasury and RAEOA) of US$ 344.9 million, and loans of US$ 17.7 million.

4.60. During the year ending on December 31, 2024, a total of US$ 1,300.0 million was transferred from the Petroleum Fund to cover the operational needs of the Government. This represents 94% of the transfer forecasted for the year 2024 (US$ 1,377.5 million) and is US$ 748,1 million above the ESI.

4.61. The detail Cash Balances held in Central Administration and RAEOA as of December 31, 2024, is indicated below

Table 47: Central Government and RAEOA cash balance in the end of 2024, US$ Million

Account	Value – US$m
FCTL	66.983
FI	14.279
FDCH	808
Fundo COVID-19	432

Account	Value – US$m
LMs	40.243
Autonomous Agencies	21.916
Municipalities	13.303
FEDA	413
Cash balance at ANP in commercial banks	15.717
Cash balance at ANM in commercial banks	1.216
Total Central Administration	**175.310**
Cash Balance at Commercial Banks (School, Feeding, PNDS, Credito Suave)	**21.972**
RAEOA	**64.968**
Total Central Government + RAEOA	**262.250**

Source: Directorate General of Treasury, Ministry of Finance, September 2024

4.62. By the end of 2024, 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$231.7 million of the total estimation for the year 2024 of US$ $194.5 million.

4.63. By the end of August 2024, a total of US$1,300.0 million (94%) of the total allowable transfers in 2024 of US$1,377.5 million was transferred from the Petroleum fund to the Treasury account to cover the budget execution needs of the state.

Table 48: Central Government and RAEOA cash balance by end of August 2025, US$ Million

Account	Value
FCTL	171.102
FI	20.412
FDCH	627
Fundo COVID-19	432
Autonomous entities	25.712
LMs	65.553
Special Development Fund of Atauro (FEDA)	271
Municipalities	7.681
Total Central Government	**291.790**
RAEOA	11.459
FEDR	8.131
Total RAEOA	**19.590**
Total Central Government + RAEOA	**311.380**

Source: Directorate General of Treasury, Ministry of Finance, September 2025

4.64. By the end of August 2025, a total of US$851.9 million (55% of the total allowable transfers in 2025 of US$1,561.1 million) had been transferred from the Petroleum fund to the Treasury (CFET) account to cover the budget execution needs of the state.

4.65. 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 Central Administration and RAEOA of US$311.4 million at the end of August 2025.

4.66. By the end of 2025, Treasury predicts a total reconciled cash balance for Central Administration of US$ 181.7 million will be carried forward as an opening balance in 2026 (which will be used to finance expenditures in 2026 in addition to other sources of financing permitted by the 2026 Budget Law). The projection for RAEOA cash balance by the end of the year will be around US$ 24.1 million. An additional US$ 700 million is expected to be withdrawn from the PF by the end of the year if budget execution reaches 94% by the end of the 2025.

4.67. Based on Law No. 3/2025, Law No. 3/2025 of 23 April Framework of the General State Budget and management, the Public Administrative Sector Treasury consists of the Central State Treasury, Social Security Treasury, and Treasury of the Special Administrative Region of Oe-Cusse Ambeno.

4.68. Below are the details of the cash balances of the Public Administrative Sector, referring to December 31, 2024, and August 31, 2025.

a) Balance in the Public Administrative Sector at the end of 2024

4.69. By the end of the year 2024, the reconciled cash balances of the General Government Sector were US$ 538.4 million, representing a reduction of about 10% from US$ 600.8 million in 2023.

Table 49: Balance in the Public Administrative Sector at the end of 2024, US$ Million

No	Account	2024	2023
1.	Balance in the Central Administration Cash (at BCTL)	175.312	186.660
2.	Balance in the Social Security Fund (in commercial banks)	235.724	200.040
3.	Balance in the RAEOA Cash Register (in commercial banks)	64.968	102.293
4.	Balance in the ANPM Box (in commercial banks)	-	55.910
5.	Cash Balance School Meals, PNDS and Soft Credit' (at BNCTL)	21.972	31.685
6.	Cash Balance in Escrow Accounts (at BNCTL and Mandiri)	34.716	19.001
7.	Mineral Royalties and Surface Rent (in BCTL)	3.829	2.261
8.	Donor Projects Cash Balance (in BCTL)	1.915	2.987
Total Public Administrative Sector		**538.436**	**600.837**

Source: Directorate General of Treasury, Ministry of Finance, September 2025

b). Balance in the Public Administrative Sector Cash on August 31, 2025

4.70. The total cash balance of the General Administrative Sector, after accounting for different sources of financing and expenses until the end of August 2025, was US$394.4 million, composed of: Central Administration, US$291.8 million, RAEOA US$19.0 million and Social Security US$70.1 million and others US$12.5 million. The following list provides detailed information about the General Government Sector re cash balances as of August 31, 2025. These cash balances are held at the Central Bank of Timor-Leste and the Commercial Banks.

Table 50: Balance in the Public Administrative Sector Cash on August 31, 2025, US$ Million

No.	Account	
1	Cash Balance of LMs (in BCTL)	65.553
2	CFET Cash Balance (at BCTL)	171.102
3	Cash Balance of the IF (in BCTL)	20.412
4	FDCH Cash Balance (at BCTL)	627
5	Cash Balance of Municipalities (in BCTL)	7.681
6	Cash Balance of Autonomous Bodies, Services and Funds in BCTL	25.712
7	Cash Balance of the COVID Fund (in BCTL)	432
8	FEDA Cash Balance (in BCTL)	271
	Total Central Administration Balance in the Central Government Cash (at BCTL)	**291.790**
9	RAEOA Cash Balance (in BCTL)	11.459
10	Balance of the EDRF (in BCTL)	8.131
	Total RAEOA ((in BCTL)	**19.590**
11	Social Security Cash Balance (at BCTL and Commercial Banks)	70.103
12	Cash balance of donor-funded projects (in BCTL)	2.747
13	Cash balance of Higher Education Kualidade+ (at BCTL)	5.014
14	Minerals Tax (in BCTL)	4.786
	Total Public Administrative Sector	**394.030**

Source: Directorate General of Treasury, Ministry of Finance, September 2025

Financing

4.71. The tables below provide financing sources for Budget 2026. The first table provides the financing for the Central Administration and RAEOA (the autonomous region of Oe-Cusee Ambeno). This includes transfers to the Social Security Fund and captures the total expenditure that the government must seek to finance through a combination of tax and non-tax revenues, withdrawals from the Petroleum Fund or through mobilising external resources such as loans and grants.

4.72. The second table shows the financing for the Social Security Fund. The Social Security Fund is financed by a combination of public transfers from budgetary central government, employer and employee contributions to the fund and earnings from interest or investment revenue.

4.73. Expenditure ceilings for the Central Administration and RAEOA were explained in the Medium-Term Outlook section of this document. The moderate reductions in ceilings in 2027 and 2028 reflect the government's commitment to rationalise recurrent expenditures, particularly on the wage bill and on public transfers. However increased withdrawals from the Petroleum Fund reflect anticipated improvements to the execution of Goods and Services and Capital expenditure as a result of reforms to procurement and budgeting.

4.74. Domestic Revenues are anticipated to rise in 2027 with the introduction of a Value Added Tax. Domestic Revenue forecasts for 2026 show an apparent decline from 2025. However, this is due to the fact that refunds and returned treasury purchase orders were counted as domestic revenues last year. Refunds and returned TPO related cash flows to the Treasury that result from unexecuted expenditure in previous years. They represent extra-budgetary operations

rather than revenues. Improvements in public financial management and execution capacity should see these cash flows reduce in future years.

4.75. The accumulation of large cash balances at the beginning of each year will also be reduced with improvements in the execution of government expenditure of the medium term.

Table 51: Financing for the Central Administration and RAEOA 2025-2030, US$ Million

Financing Sources	Original OGE 2025	Proposed OGE 2026	Proj. 2027	Proj. 2028	Proj. 2029	Proj. 2030
Total Petroleum Withdrawals	**1,561.1**	**1,719.2**	**1,662.0**	**1,726.1**	**1,841.1**	**1,903.8**
Estimated Sustainable Income (ESI)	551.9	543.3	514.4	485.9	454.3	417.7
Excess Withdrawals	1,009.1	1,175.9	1,147.6	1,240.1	1,386.8	1,486.1
Domestic Revenues	**258.6**	**259.2**	**290.0**	**305.3**	**321.9**	**339.2**
Central Administration	257.9	253.3	287.7	302.9	319.3	336.5
RAEOA Non-Tax Revenues	0.7	5.9	2.3	2.5	2.6	2.7
Loans	**45.0**	**52.6**	**55.5**	**40.8**	**31.2**	**30.9**
Direct Budget Support*	**9.0**	**7.9**	**7.9**	**7.9**	**7.9**	**7.9**
Cash Balance Financing	**251.5**	**205.8**	**225.3**	**155.1**	**77.9**	**43.8**
Central Administration	200.0	181.7	220.3	150.1	72.9	38.8
RAEOA	51.5	24.1	5.0	5.0	5.0	5.0
Total	**2,125.2**	**2,244.7**	**2,240.6**	**2,235.2**	**2,279.9**	**2,325.5**

Note:* DBS projection from 2027-2030 assume that DBS level will stay constant but are not based on any agreement. Source: National Directorate for Economic Policy, DNPE Ministry of Finance, September 2025.

The table below provides the financing sources for the Social Security Fund for Budget 25 and projections for future years.

Table 52: Financing for the Social Security 2025-2030, US$ Million

	Approved Budget 2025	Proposed Budget 2026	2027	2028	2029	2030
Total National Institute of Social Security (INSS)	***176.3***	***170.4***	***192.9***	***199.1***	***199.1***	***200.0***
Social Security Contributions	*50.5*	*46.3*	*60.6*	*65.1*	*65.1*	*65.4*
*Fines and Penalties**	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
Income	*0.1*	*0.1*	*0.1*	*0.1*	*0.1*	*0.2*
Transfers from the Central Administration	*124.3*	*124.1*	*132.2*	*134.0*	*133.8*	*134.4*
Recurrent Transfers from the Social Security Reserve Fund	*0.4*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
Transfers from 3rd Countries	*0.1*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
Use of Cash Balance	*1.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*

I. Annex 1: Methodological Note

Fiscal Sustainability Model Methodology

1.138. 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.

1.139. 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

1.140. Petroleum Withdrawal in 2025- The withdrawal figure from the Petroleum Fund in 2025 is as set out in the budget proposal for Budget 2025. The withdrawal figure for 2026, is also as set out in this document. Trend analysis suggests that budget execution will reach 90% in 2025. Any surplus from available financing exceeding budget execution is assumed to be added back into the Petroleum Fund.

1.141. Petroleum Fund Data– The model uses data from the Petroleum Fund as of September 2025. This includes the Petroleum Fund balance, information on the asset split of the Petroleum Fund, and latest information on Withdrawals and Estimated Sustainable Income.

1.142. Loans and Direct Budget Support Data – The model incorporates disbursement forecasts for loans and direct budget support mentioned in this document.

Assumptions/Projections

1.143. Government Expenditure – Expenditure ceilings for 2027 to 2030 are outlined in the Medium-Term outlook section of the document. Overall ceilings are set to remain stable for 2027 and 2028 and increase in line with inflation in 2029 and 2030. However, improvements in execution should see expenditure rises of around 2-4% each year. Expenditure is expected to rise in line with inflation and population growth (3.8%) beyond 2030.

1.144. Domestic Revenues – The forecasts for domestic revenues are explained below

1.145. 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 September 2025, we assume that the growth component has an ROI of 4.7% whilst the liquidity component is assumed to have an ROI of 3.0% 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.

1.146. Direct Budget Support (DBS) - Direct Budget Support estimates for 2026 are provided by the general directorate for mobilising external resources. Whilst estimates are not yet available

beyond 2028, we assume that DBS will remain constant till 2030 and increase with inflation beyond that.

1.147. Loan Disbursement- Loan Disbursement forecasts in the medium term are provided by the general directorate for mobilising external resources. Beyond the medium term they are assumed to grow in line with inflation and population growth.

Domestic Revenue Forecast Method

1.148. Domestic revenues for 2025 are based on trend analysis (i.e., taking the first eight months of data and assuming revenue growth is in line with previous years). Revenue forecasts for 2026 and beyond are produced as follows:

1.149. Sales taxes, import duties and excise taxes are assumed to grow in line with import growth. This is because these taxes are collected at the border and there are no changes to policy. Income, Wage and Service taxes are assumed to maintain a constant ratio with Nominal GDP in the absence of changes to the tax base or tax policy. Therefore, as GDP and imports rise, so do tax collections. Non-Tax revenues are assumed to grow in line with population and inflation growth.

1.150. The projections assume that a Value Added Tax is introduced in 2027. Whilst VAT policy is still subject to discussion, preliminary lower bound estimates estimate that VAT will replace import duties, service taxes and sales taxes and see total domestic revenues rise by 1% of GDP. We also assume that the impact of VAT on low-income households will be inflation neutral. This will be achieved through zero-rating on key products such as food and medicine.

Forecasting GDP

1.151. 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).

1.152. The Government's contribution to GDP is estimated by analysing the execution of government spending in 2025 and applying historic execution trends. For 2026 to 2030, we assume that government expenditure rises in line with the expenditure forecasts outlined in the macro-fiscal projections section of this document. We also assume that government execution rates of capital expenditure will see steady improvements as a result of the PFM and procurement improvements mentioned in this document.

1.153. 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 2026 to 2030.

1.154. All assumptions related to oil and commodity price growth, global exchange rates and long-term inflation forecasts are taken from the IMFs World Economic Outlook. The latest publication is April 2025.

1.155. 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. These are also dependent on the successful implementation of the policies mentioned in section 2. Other than this, there is further uncertainty.

1.156. 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.

1.157. Execution rates can differ year on year and are subject to political and economic risks. For example, executed expenditure was impacted in 2017, 2019 and 2020 by political crisis and COVID-19.

1.158. 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.

1.159. 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.

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

1.161. 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.

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

1.162. 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 53: GDP growth rate forecast, %

Institution	2025	2026	2027	2028	2029	2030
Ministry of Finance	4.5	4.5	4.7	4.8	4.8	5.0
IMF	3.9	3.2	3.2	3.1	3.0	3.0
World Bank	4.0	3.4	3.8			
ADB	3.8	3.4				
National Statistics Institute (INETL)	4.5					
Central Bank of Timor-Leste (BCTL)	4.4					

Source: IMF Forecasts: 2025 forecast from the Article IV mission, Forecast for 2026- 2030 from the IMF World Economic Outlook April 2025, World Bank Forecasts: Timor-Leste Economic Report, September 2025; ADB Forecasts: Asian Development Outlook, September 2025, https://www.adb.org/where-we-work/timor-leste/economy

1.163. The table below provides a comparison between the macroeconomic and budget forecasts used in the OGE law for Budget 2025 and the actual evolution observed.

1.164. Growth for 2024 was forecasted to be 3.7% based on an estimate that government expenditure would see 86% execution. Final execution in December 2024 was higher than anticipated leading to a final execution rate of 88%. As a result, preliminary GDP estimates suggest that the economy grew at 4.1% in 2024.

1.165. The growth forecast for 2025 was forecasted at 4.1% in Budget 2025. This forecast has been revised up to 4.5% in light of lower-than-expected inflation, an increase in remittances, increases in foreign arrivals and increases in credit growth.

1.166. The growth forecast for 2026 is similar to the forecast published in last year's budget report (within 0.1 percentage points).

Table 54: Macroeconomic forecasts in 2025 Budget Report vs. 2026 Budget Report, %

Item	2025 Budget Report			2026 Budget Report		
	2024	2025	2026	2024 (actual)	2025	2026
GDP growth %	3.7	4.1	4.4	4.3	4.5	4.5
CPI %	3.0	2.2	2.0	2.1	0.5	1.2

Source: National Directorate of Economic Policy, Ministry of Finance

II. Annex 2: Financial Information from Public Enterprises

This section provides information from revenues and expenditure, where available from SOEs. The amount of detail provided varies according to the individual state-owned enterprise. Each of the following tables provides key operational information from the SOE's financial statements.

Table 55: Bee TL, $US

Operational Information	2021	2022	2023	2024
Revenues	451,805	748,689	1,155,210	1,332,628
Government and Other Grants		5,400,454	6,995,483	5,716,298
Personnel Costs	(1,199,764)	(3,303,301)	(3,802,311)	(3,777,885)
External Supplies and Services	(969,348)	(2,791,104)	(3,349,520)	(3,145,926)
Earnings before interest, taxes and depreciation	**(1,717,307)**	**54,739**	**998,862**	**125,114**
Depreciation and amortization expenses/reversals	(16,333)	(99,157)	(643,871)	(643,827)
Operating Result	**(1,733,640)**	**(44,419)**	**354,991**	**(518,713)**
Similar interest and yields	78,306	172,149	335,038	656,801
Interest and similar expenses	-	-	-	-
Net Financing Costs	**78,306**	**172,149**	**335,038**	656,801
Gains earned on associates net of tax	-	-	-	-
Earnings Before Tax	**(1,655,334)**	**127,730**	**690,029**	**138,088**
Income tax	-	-	-	-
Continuous operating year result	**(1,655,334)**	**127,730**	**690,029**	**138,088**
Net income for the period	**(1,655,334)**	**127,730**	**690,029**	**138,088**
Other Comprehensive income	-	-	-	**-**
Total Comprehensive Income, net of tax	**(1,655,334)**	**127,730**	**690,029**	**138,088**
Cash and Bank Deposits	**31,096,227**	**37,822,429**	**40,765,375**	**33,980,727**

Table 56: EDTL, $US

	Exercise 30/12/2021	Exercise 31/12/2022
Operations in Continuity		
Revenues	41,407,054	47,564,184
Government Grants	157,933,907	148,653,498
Cost of goods sold and materials consumed	-79,765,421	-86,280,104
Personnel Costs	-4,918,695	-6,395,651
External Supplies and Services	-23,500,741	-29,233,596
Earnings before interest, taxes and depreciation	**91,156,105**	**74,308,331**
Depreciation and amortization expenses/reversals	-1,144,277	-2,581,100
Operating Result	**90,011,828**	**71,727,231**
Similar interest and yields	110,599	469,710
Net Financing Costs	110,599	469,710
Earnings Before Tax	**90,122,427**	**72,196,941**
Income tax	-9,012,243	-7,219,694
Result of the year of operations in continuity	**81,110,184**	**64,977,247**
Total Comprehensive Income, Net of Tax	81,110,184	64,977,247
Cash and Bank Deposits	**85,012,256**	**131,702,851**

	Exercise 30/12/2023	Exercise 31/12/2024
Government subsidy	79,784,434	132,439,671
Sales of electricity	52,584,154	60,959,646
Customer connection fees	62,633	97,021
Other revenue	470,059	713,577
Total revenue	**132,901,280**	**194,209,915**
Fuel and lubricants	-106,915,812	-112,217,472
Maintenance	-36,644,077	-14,437,777
Fixed asset depreciation	-25,233,104	-41,407,791
Personnel	-8,278,791	-8,169,920
Agent commission	-1,671,313	-1,718,699
Others	-17,342,599	-22,643,567
Total Operating expenses	**-196,085,696**	**-200,595,627**
Operating profit	-63,184,416	-6,385,712
Finance income	801,742	560,825
Finance costs	-13,777	-8,765
Profit before tax	**-62,396,451**	**-5,833,252**
Income tax expenses	3,709,351	-
Profit for the year	-58,687,100	-5,833,252
Cash and Bank Deposits	**73,585,509**	**89,880,920**

Table 57: ANPM, ANP and ANM, $US

ANPM	2021	2022	2023
Revenue Other Income			
Contract Service Fees	320,000	320,000	325,000
Subsidy	8,735,000	8,500,001	8,500,000
Downstream fees	1,197,683	1,010,899	946,208
Downstream Licenses - trading fees	117,913	123,417	122,039
Interest	70	1,118	3,935
Other income			180,000
Total Income	**10,370,666**	**9,955,435**	**10,077,182**
Expenses			
Employee costs	3,024,473	4,357,393	4,406,929
General And Administration	3,957,287	6,570,227	4,820,286
Depreciation and Amortization	4,074,821	287,092	239,955
Interest Expense	273	689	36
Net Loss in Foreign Exchange	1,551	4,316	-17
Total Expenses	**7,391,065**	**11,219,717**	**9,467,189**
Deficit/Surplus for The Year	**2,979,601**	**-1,264,282**	**609,993**
Cash Balance	**88,570,820**	**383,503,265**	**55,909,871**

ANP *	2024
Revenue Other Income	
Contract Service Fees	320,000
Subsidy	8,002,553
Downstream fees	714,685
Downstream Licenses - trading fees	153,519
Interest	4,483
Other income	-
Total Income	**9,195,240**
Expenses	
Employee costs	3,684,461
General And Administration	5,855,101
Depreciation and Amortization	411,144
Interest Expense	27,696
Net Loss in Foreign Exchange	2,019
Total Expenses	**9,980,421**
Deficit/Surplus for The Year	**(785,182)**
Cash Balance	**23,596,162**

*ANP was created after a separation from ANPM following the Decree-Law No. 62/2023 of 6th September 2023

ANM*	2024 ($)
Revenue Other Income	
Subsidy from Timor-Leste Government	4,000,000
total income	**4,000,000**
EXPENSES	
Employee costs	1,438,200
General and administration	1,121,035
Depreciation and amortization	183,820

ANM*	2024 ($)
Interest expense	12,941
Total expenses	**2,755,996**
Surplus for the year	**1,244,004**
Other comprehensive income/(loss)	**–**
Total comprehensive income for the year	**1,244,004**

*ANM was created after a separation from ANPM following the Decree-Law No. 63/2023 of 6th September 2023

Table 58: Murak Rai Timor, $US

Category	3 months ended 31 December 2023	Year ended 31 December 2024
Revenue		
Revenue from Operations	-	
Government Grants	-	5,893,661
Other Income	529	24,615
Total Revenue	**529**	**5,918,276**
Expense		
Employee Costs	82,944	1,103,290
Legal and Consultancy Fees	24,772	163,647
Travel Expenses	18,606	203,367
Training and Development Expenses	-	181,275
Exploration Costs	-	150,434
Short-term Rental Expense	5,555	20,140
Telephone and Communication	2,966	33,634
Office Expenses	918	54,481
Minor Equipment	567	28,300
Advertising and Promotion	334	27,167
Local Transportation	74	9,842
Interest Expense on Lease Liability	2,062	29,453
Foreign Exchange (Gain)/Loss	-	1,092
Bank Charges	37	4,064
Amortization of Right-of-use	6,609	113,539
Depreciation and Amortization Expense	228	94,170
Other Expenses	705	47,108
Total Expense	**146,377**	**2,265,003**
Profit		
Profit / (Loss) before Tax	(145,848)	3,653,273
Deferred Tax (Expense)/ Write back	788	(73,731)
Income Tax (Expense)/ Write back	13,796	(291,596)
Profit/(Loss) after Tax	**(131,264)**	**3,287,946**
Cash Balance	**1,928,064**	**4,933,013**

Table 59: Timor Gap, US$

Particulars	Year ended 31 Dec'21	Year ended 31 Dec'22	Year ended 31 Dec'23	Year ended 31 Dec'24
Revenue				
Revenue from contract with customers	20,665,059	29,055,843	21,565,926	1,075,428
Other income	17,411,308	16,921,616	26,458,650	27,089,853
Revenue (A)	**38,076,367**	**45,977,459**	**48,024,576**	**28,165,281**
Purchase of Stock of Fuel	20,034,982	30,258,764	22,071,283	237,070
(Increase)/decrease in inventory	57,099	-35,628	3,036	(15,558)
Employee Costs	4,249,097	4,498,389	4,744,772	5,804,976
Finance Cost	31,705,202	33,041,188	34,500,787	36,058,773
Impairment Expense	1,690,632	956,374	1,189,160	5,016,653
Depreciation and amortization expense	904,967	893,131	1,064,952	1,013,317
Exploration and evaluation cost		1,074,800	2,499,549	40,715
Other expenses	5,586,665	9,744,696	19,199,421	13,483,637
Total Expense (B)	**64,228,644**	**80,431,714**	**85,272,960**	**61,639,583**
Profit Before share of Profit/(Loss) of Associates and tax (C) = (A-B)	-26,152,277	-34,454,255	-37,248,384	-33,474,302
Share of Profit/(Loss) of Associates (D)		-	(2,250)	
Profit/(Loss) before tax (E)= (C-D)		-34,454,255	-37,250,634	-33,474,302
Tax expense				
Income tax expense	674,992	19		
Income tax expense (earlier years)	-452,859	-		
Deferred tax charge/(Credit)	35,553	-27,147	63,339	2,642
Total Tax Expense (F)	**257,686**	**-27,128**	**63,339**	**2,642**
Profit/(Loss) after tax (G)= (E-F)	**-26,409,963**	**-34,427,127**	**-37,313,975**	**-33,476,944**
Other Comprehensive Income				
Items that will not be reclassified to profit or loss:				
Remeasurement gain/(loss) on defined benefit plans (net)	**115,715**	**270,231**	(114,367)	111,774

Particulars	Year ended 31 Dec'21	Year ended 31 Dec'22	Year ended 31 Dec'23	Year ended 31 Dec'24
Income tax effect on above	**-11,572**	**-27,023**	11,437	(11,177)
Total Other Comprehensive Income (H)	**104,143**	**243,208**	**-102,930**	**100,597**
Total Comprehensive Profit/(Loss) (I)= (G+H)	**-26,305,820**	**-34,183,919**	**-37,416,905**	**-33,376,347**
Total Profit/(Loss) attributable to:				
Timor GAP, E.P	-26,417,049	-34,427,147	(37,313,887)	(33,476,962)
Non-Controlling Interest	7,086	20	(88)	18
Total Comprehensive Profit/(Loss) attributable to:				
Timor GAP, E.P	-26,312,906	-34,183,939	(37,416,817)	(33,376,365)
Non-Controlling Interest	7,086	20	(88)	18
Cash Balance	**34,503,510**	**79,377,491**	**106,053,463**	**90,123,581**

Table 60: BNCTL, US$

	2021	2022	2023	2024
Operating Income				
Interest Income	14,211,492	21,673,174	40,770,314	44,731,299
Interest Expense	-1,190,059	-2,610,437	-3,473,596	-6,892,305
Net Interest Income	**13,021,433**	**19,062,737**	**37,296,718**	**37,838,994**
Fees and commission income	4,536,326	5,449,262	5,855,948	9,830,576
Fees and commission expense	-170,758	-371,092	-626,863	-1,255,682
Net Fees and commission Income	**4,365,568**	**5,078,170**	**5,229,085**	**8,574,894**
other income	457,698	429,887	264,989	512,325
Total Net Operating Income	**17,844,699**	**24,570,794**	**42,790,792**	**46,926,213**
Operating Expense				
Net Impairment loss on financial assets	1,330,829	3,648,264	9,586,126	-3,564,447
Personnel expenses	4,847,270	6,516,133	7,558,263	12,092,366
General and administrative expenses	2,524,620	3,786,362	4,844,586	6,579,408
Depreciation and amortization	1,695,189	2,148,008	1,959,751	2,343,593
Other expenses	1,389,603	2,339,593	3,235,546	3,985,846

	2021	2022	2023	2024
Depreciation charge for right-of-use assets	121,117	111,241	148,658	472,359
Total Operating Expense	**11,908,628**	**18,549,601**	**27,332,930**	**21,909,125**
Profit Before Income Tax	**5,936,071**	**6,021,193**	**15,457,862**	**25,017,088**
Tax income / (expense)				
Current	-171,962	-671,332	-1,686,655	-2,087,493
Deferred	-421,645	35,229	-133,520	-242,031
Tax income / (expense)	-593,607	-636,103	-1,820,175	-2,329,524
Profit For the Year	**5,342,464**	**5,385,090**	**13,637,687**	**22,687,564**
Other Comprehensive Income/Loss For the Year	-	-	-	-
Total Comprehensive Income for the Year	**5,342,464**	**5,385,090**	**13,637,687**	**22,687,564**
Cash Balance	**308,529,262**	**545,676,326**	**189,310,319**	**245,794,359**

Table 61: RTTL, US$

Category	Amount in 2023	Amount in 2024
Revenues	3,666,481	2,522,934
Transfer from the Budget	1,986,479	2,000,000
Other Revenues	1,680,002	522,934
Expenditure	3,666,481	2,150,587
Cash Balance	497,895	2,209,471

Table 62: ANATL, US$

	2024
REVENUES	
Government Subsidy/OGE 2024	1,634,000
Aeronautical Own Revenue	1,884,827
Non-Aeronautical Own Revenue	979,588
Bank Interest	5,367
Total Revenues	**4,503,782**
EXPENSE	
Regular and Permanent Salaries and Allowances	1,551,198
Variable or Occasional Allowances	90,721
Social Security Contribution	127,965
Clothing and Personal Items	25,055
Public Goods	38,233
Food	15,424
Office Supplies	15,895

	2024
Fuel	59,994
Cleaning and Security	367,476
Maintenance	630,984
Public Services	40,417
Communications	79,801
Transport	46,142
Catering	23,214
Professional Services	5,574
Publishing, Copy and Printing	5,008
Financial Services	3,478
Current Transfers to Families	2,000
Computer Equipment	12,690
Security Equipment	74,441
Security Equipment	15,772
Air Conditioning Equipment	10,170
Other Equipment	15,816
Airports	69,882
Clearing to CFET (Subsidy Balance)	4,800
Total Expenses	**3,332,148**
Cash balance	**5,067,645**

Table 63: Execution of State-Owned Enterprises Expenditure by Economic Classification, $US million

Public Enterprise/SA	Economic Classification	2020		2021		2022		2023		2024	
		Budget	Expenditure	Budget	Expenditure	Budget	Expenditure	Budget	Expenditure	Budget	Expenditure
ANATL E.P	Salary & Wages		1.48		1.50		1.54		0.88	1.83	1.83
	Goods & Services		0.73		0.59		1.17		0.68	1.53	1.53
	Minor Capital		0.05		0.09		0.41		0.00	0.26	0.26
	Development Capital		0.00		0.00		0.14		0.06	0.55	0.55
	Public Transfer (Contingency)		0.00		0.00		0.59		0.00	0.01	0.01
Timor GAP E.P	Salary & Wages		4.75		4.25		4.50		4.74		5.80
	Goods & Services		34.31		57.33		73.04		75.77		49.78
	Minor Capital										
	Development Capital						1.07		2.50		12.27
	Public Transfer										
RTTL E.P	Salary & Wages	1.61	1.12	1.18	0.72	1.29	1.13	1.37	1.33	1.49	1.43
	Goods & Services		0.43	0.67	0.67	0.80	1.06	0.56	0.48	0.49	0.51
	Minor Capital		0.01	0.12	0.01	0.10		0.06	0.04	0.02	0.04
	Development Capital		0.10			0.00	0.00	0.00	0.00		
	Public Transfer		0.00			0.00	0.00	0.00	0.00		
BTL E.P	Salary & Wages	0.71	0.69	2.12	1.08	3.65	3.30	3.98	3.72	3.73	3.68
	Goods & Services	3.24	2.64	1.45	0.59	2.69	2.25	4.68	2.45	1.48	2.61
	Minor Capital			1.05	0.10	0.60	0.65	1.21	1.84	0.78	2.35
	Development Capital			31.39	3.40	10.06	4.69	4.13	4.07	0.00	5.76
	Public Transfer			0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
EDTL E.P	Salary & Wages	1.71	1.67		4.71	6.99	6.42	8.96	7.87	10.55	7.65
	Goods & Services	160.58	121.35		89.22	212.98	137.25	170.54	140.63	185.56	154.28
	Minor Capital				3.46	19.72	4.31	19.31	6.55	18.79	6.02
	Development Capital				0.00	31.05	10.69	44.69	30.06	53.20	15.02
	Public Transfer (Contingency)				0.00	1.50		0.54	0.35		
Murak Rai Timor, E.P	Salary & Wages							0.91	0.08	1.55	1.11
	Goods & Services							0.71	0.05	2.58	1.52
	Minor Capital							0.38	0.12	1.37	1.39
	Development Capital							0.00	0.00	0.00	0.00
	Public Transfer							0.00	0.00	0.00	0.00
BNCTL, S.A	Salary & Wages		4.36		4.85		6.52		7.56		12.09
	Goods & Services		4.97		5.73		6.13		8.08		10.57
	Minor Capital								4.69		3.37
	Development Capital								12.57		1.02
	Public Transfer										

III. Annex 3 – Petroleum Fund Certificate

No.:439/GMdF/IX/2025-09

Díli, 30 de setembro de 2025

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 2026, ano no qual a transferência é feita, bem como para o ano orçamental precedente de 2026.

Estimativa do Rendimento Sustentável para o ano orçamental de 2026	Montante (US Dólares) 543.331.077,00
Estimativa do Rendimento Sustentável para o ano orçamental precedente (2025)	Montante (US Dólares) 551.949.714,00

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 2026.

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 30 de setembro de 2025.

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

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

30 de setembro de 2025

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 de 2005, Lei do Fundo Petrolífero, alterada pela Lei n.º 12/2011, de 28 de setembro de 2011, e pela Lei n.º 2/2022, de 10 de fevereiro de 2022, (“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 I da Lei para o ano a findar em 31 de Dezembro de 2026 (“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 2026 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 2026, com base no trabalho realizado e na evidencia obtida.

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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 20 de setembro de 2024. 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 2026, 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 Firmas que Executem 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.

Também realizamos outros procedimentos que consideramos necessários nas circunstâncias.

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Ênfase - Limitaçõe inerente

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 2026. O cálculo apresenta um Rendimento Sustentável Estimado de 543.331.077 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 20 de setembro de 2024, 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 2026. 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.

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No.:433 /GMdF/IX/2025-09

Díli, 30 de setembro de 2025

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 nº 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 2026, em resultado da inscrição na proposta de lei do Orçamento Geral do Estado para 2026 de uma transferência do Fundo Petrolífero no valor de US$1.719.214.230.00, montante que excede o valor do Rendimento Sustentável Estimado:

Ano orçamental	Valor do RSE nos anos orçamentais subsequentes ao Ano Orçamental, caso em 2026 seja feito um levantamento superior ao RSE	Valor do RSE nos anos orçamentais subsequentes ao Ano Orçamental, caso em 2026 seja feito um levantamento igual ao RSE	Redução do RSE
2027	514.393.934	550.441.992	(36.048.058)
2028	521.126.130	557.645.972	(36.519.842)
2029	527.946.435	564.944.235	(36.997.800)
2030	534.856.001	572.338.015	(37.482.014)
2031	541.855.998	579.828.562	(37.972.564)
2032	548.947.607	587.417.142	(38.469.535)
2033	556.132.029	595.105039	(38.973.010)
2034	563.410.479	602.893553	(39.483.074)
2035	570.784.185	610.783.999	(39.999.814)
2036	578.254.396	618.777.713	(40.523.317)

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 30 de setembro de 2025.

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

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

30 de setembro de 2025

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 a avaliar a exatidão do montante pelo qual o RSE será reduzido, para os anos a findar em 31 de dezembro de 2027 até 31 de dezembro de 2036, em resultado da transferência pelo Fundo Petrolífero de um valor em excesso do RSE para o ano a findar em 31 de dezembro de 2026 em conformidade com a alínea c) do artigo 9.º da Lei n.º 9/2005 do Fundo Petrolífero, de 3 de agosto de 2005, alterada pela Lei n.º 12/2011, de 28 de setembro de 2011, e pela Lei n.º 2/2022, de 10 de fevereiro de 2022, 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.

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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 2027 até 31 de dezembro de 2036, em resultado da transferência pelo Fundo Petrolífero de um valor em excesso do RSE para o ano a findar em 31 de dezembro de 2026.

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 2027 até 31 de dezembro de 2036, em resultado da transferência pelo Fundo Petrolífero de um valor em excesso do RSE para o ano a findar em 31 de dezembro de 2026. Os procedimentos efetuados e as conclusões factuais são como segue:

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Procedimentos efetuados	Conclusões factuais
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 2027 até 31 de dezembro de 2036, em resultado da transferência pelo Fundo Petrolífero de um valor em excesso do RSE para o ano a findar em 31 de dezembro de 2026, os quais suportaram o relatório ao Governo elaborado nos termos da alínea b) do artigo 9.1.º da Lei.	Obtivemos os cálculos subjacentes ao apuramento do montante pelo qual o RSE será reduzido, para os anos a findar em 31 de dezembro de 2027 até 31 de dezembro de 2036, em resultado da transferência pelo Fundo Petrolífero de um valor em excesso do RSE para o ano a findar em 31 de dezembro de 2026, os quais suportaram o relatório ao Governo elaborado nos termos da alínea b) do artigo 9.1.º da Lei.
2. Resumo do montante pelo qual o RSE será reduzido para os anos a findar em 31 de dezembro de 2027 até 31 de dezembro de 2036, será reduzido como resultado da transferência do Fundo Petrolífero de um valor superior ao ESI para o ano com término em 31 de dezembro de 2026, com base nos cálculos obtidos no procedimento 1.	Resumimos, no Apêndice A, o montante pelo qual o RSE será reduzido, para os anos a findar em 31 de dezembro de 2027 até 31 de dezembro de 2036, em resultado da transferência pelo Fundo Petrolífero de um valor em excesso do RSE para o ano a findar em 31 de dezembro de 2026, em resultado dos cálculos obtidos no procedimento 1.
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 2026, 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 30 de setembro de 2025. Reporte de quaisquer exceções encontradas.	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 2026, 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 30 de setembro de 2025. Não foram identificadas quaisquer exceções.
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 2026 e reconciliação do valor com o cálculo obtido no procedimento 1.	Obtivemos do Ministério das Finanças o valor proposto da transferência do Fundo Petrolífero, o qual ascende a 1.719.214.230 de dólares americanos. Conciliámos o valor da transferência proposta, no montante de 1.719.214.230 de dólares americanos, com os cálculos obtidos no procedimento 1.

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Procedimentos efetuados	Conclusões factuais
5. Recálculo do montante da redução no RSE, para os anos a findar em 31 de dezembro de 2027 até 31 de dezembro de 2036, 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 2026.	Efetuámos o recálculo do montante da redução no RSE, para os anos a findar em 31 de dezembro de 2027 até 31 de dezembro de 2036, 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 2026. Não foram identificadas quaisquer exceções.

Note 1 – O RSE para um determinado ano fiscal é calculado em 3% do valor total estimado do Fundo Petrolífero ao final do ano fiscal anterior, acrescido do valor presente líquido das "receitas futuras de receitas petrolíferas", utilizando uma taxa de desconto igual aos retornos futuros de investimentos do Fundo Petrolífero. Com a cessação da produção no campo de Bayu-Undan em 2025, as receitas futuras de receitas petrolíferas após 2025 foram estimadas em zero. O RSE para o ano findo em 31 de dezembro de 2026 é de US$ 543.331.077.

Ernst & Young
Perth
30 de setembro de 2025

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Apêndice A

A tabela abaixo resume a redução ao RSE para os anos a findar em 31 de dezembro de 2027 até 31 de dezembro de 2036, em resultado da proposta transferência pelo Fundo Petrolífero de um valor em excesso do RSE para o ano a findar em 31 de dezembro de 2026.

RSE para os anos fiscais de 2027 a 2036 assumindo:

	A proposta de transferências do Fundo Petrolífero em 2025 no valor de 1.719.214.230 de dólares americanos	A proposta de transferências do Fundo Petrolífero em 2025 no valor de 543.331.077 de dólares americanos	Redução do RSE
Ano fiscal	de dólares americanos	de dólares americanos	de dólares americanos
31 de dezembro de 2027	514.393.934	550.441.992	(36.048.058)
31 de dezembro de 2028	521.126.130	557.645.972	(36.519.842)
31 de dezembro de 2029	527.946.435	564.944.235	(36.997.800)
31 de dezembro de 2030	534.856.001	572.338.015	(37.482.014)
31 de dezembro de 2031	541.855.998	579.828.562	(37.972.564)
31 de dezembro de 2032	548.947.607	587.417.142	(38.469.535)
31 de dezembro de 2033	556.132.029	595.105.039	(38.973.010)
31 de dezembro de 2034	563.410.479	602.893.553	(39.483.074)
31 de dezembro de 2035	570.784.185	610.783.999	(39.999.814)
31 de dezembro de 2036	578.254.396	618.777.713	(40.523.317)

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