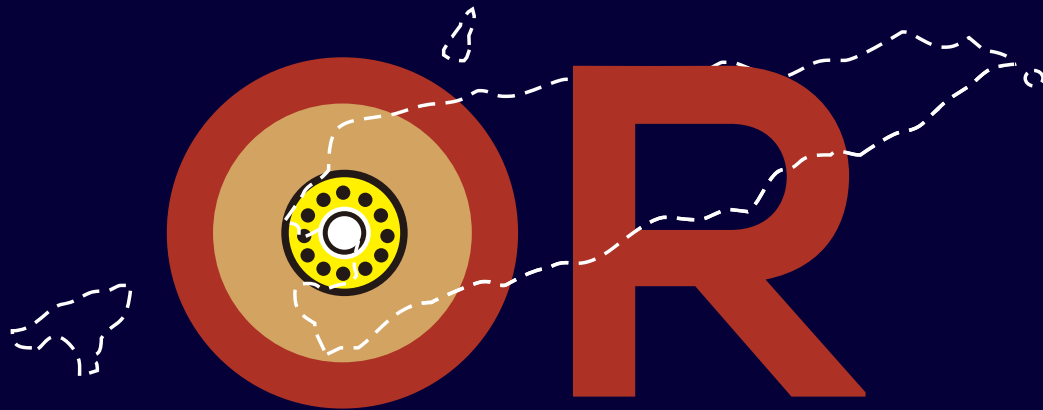




IX GOVERNO CONSTITUCIONAL



ORÇAMENTO RETIFICATIVO 2023

**CONSOLIDATING AND TRANSFORMING SERVICE DELIVERY
THROUGH ENHANCING GOVERNANCE SYSTEM AND
INVESTMENT STRATEGIES**



Contents

2.1: Executive Summary	4
2.2: Fiscal Policy and Macroeconomic Overview	6
2.2.1 Fiscal Policy	6
2.2.2 Macroeconomic Overview	8
2.3: Budgetary Policy and Government Priorities	14
2.3.1 Government Priorities and Measures for 120 Days.....	14
2.3.2 Comparative Analysis of the 2023 Rectified Budget	18
2.3.3 2023 Budget allocations for Municipalities	20
2.4: Expenditure	22
2.4.1 Expenditure Analysis for the first semester of 2023 budget.....	22
2.4.2 Justification for the Rectification Budget	25
2.4.3 Changes to Structure of Government	26
2.4.4 Budgetary strategy for the amended 2023 OGE.....	27
2.5: Revenues and Petroleum Wealth	32
2.5.1 Domestic Revenues	32
2.5.2 Petroleum Revenues and the Petroleum Fund	33
2.5.3 Petroleum Wealth and ESI calculation	35
2.6: Financing	36

Part 1: Speech of the Prime Minister

Part 2: Description and Analysis of the Rectification Budget

2.1: Executive Summary

The IX constitutional government of Timor-Leste is committed to continuing high-quality and sustainable economic growth, reducing poverty, and providing services with efficiency and effectiveness for all citizens.

To fulfil these objectives, the five-year program (2023-2028) is guided by six key principles namely:

1. Reaffirming the Democratic Rule of Law
2. Further Developing Social Capital
3. Advancing Infrastructure Development
4. Enhancing Economic Growth
5. Strengthening Government Consolidation
6. Promoting Good Governance and Combating Corruption

This Rectification Budget will support these objectives through improving the efficiency of public expenditure, ensuring that the budget is better aligned with the government’s objectives and ensuring that the government’s fiscal policy supports economic prosperity and improves living standards. It also allows for adjustments in budget appropriations, resulting from the alteration of the government’s structure, which requires legal authorization from parliament.

Table 2.1.1 shows the fiscal table for the 2023 State Rectification Budget. This Rectification Budget reduces overall level of spending to \$1.96¹ billion from \$2.16 billion in the original 2023 State Budget. The expenditure section of this Rectification Budget Book provides details on the functions and finances of all new ministries and units. It also provides a full list of all secretaries of state, units and ministries that have been dissolved, merged, or undergone other significant alterations.

Table 2.1.1: Fiscal Table with Memorandum Items, (\$m)

	2023 Original Budget	2023 Rectification Budget
Total Expenditure by Subsector	2,155.72	1,960.48
Central Administration	1,800.00	1,633.00
RAEOA	120.00	83.76
Social Security	235.72	243.72
Total Expenditure by Appropriation Category (incl. loans) - Central Administration	1,800.00	1,633.00

¹ The figures, as with all other budget numbers relating to government revenues and expenditures in this document, are presented in United States Dollars.

	2023 Original Budget	2023 Rectification Budget
Total Expenditure by Appropriation Category (excl. loans) - Central Administration	1,725.89	1,598.00
Recurrent	1,470.31	1,351.91
Salary and Wages	427.22	432.63
Goods and Services (inc. HCDF)	388.98	349.74
Public Transfers	654.11	569.54
Capital	329.69	281.09
Minor Capital	\$53.37	49.57
Capital and Development (inc. Infrastructure & loans)	276.32	231.52
Revenue	665.05	669.55
Domestic Revenue	174.90	179.41
Estimated Sustainable Income (ESI)	490.15	490.15
Fiscal balance	(1,134.95)	(963.45)
Deficit Financing	1,134.95	963.45
Excess Withdrawals from the PF	855.94	718.05
Use of Cash Balance	200.00	200.00
Borrowing/Loans	74.11	35.00
Direct Budget Support	4.90	10.40

Sources: National Directorate of Budget, National Directorate of Economic Policy, Petroleum Fund Policy and Management Office, Ministry of Finance and Ministry of Development and Institutional Reform 2023

The table below provides the ceiling for the 2023 rectification budget broken down by individual subsectors. The table also provides the share of Central Administration spending that is to be financed by Petroleum and Non Petroleum Revenues. Compared to the original 2023 budget there is a \$195m reduction in the total budget ceiling with a \$36m reduction in the budget for RAE OA and a \$167m reduction in the budget for the Central Administration. The aggregated total includes a \$75.9m transfer from the Central Administration to the Social Security Fund. This amount is included within the \$1.63bn expenditure that is budgeted for the Central Administration. The consolidated figure therefore excludes this amount.

Table 2.1.2: Rectification Budget by subsector, (\$)

Subsectors	Ceiling (USD)
Central Administration	1,633,000,000
Petroleum Revenues	1,208,194,890
Non Petroleum Revenues	424,805,111
Social Security	243,715,306
Transfer from the Central Administration	75,860,306
Social Security Fund Revenues	167,855,000
RAEOA	83,762,112
Aggregated Total (Central Administration + RAE OA + Social Security)	1,960,477,418
Consolidated Total (Aggregated total - Social Security Transfer)	1,884,617,112

2.2: Fiscal Policy and Macroeconomic Overview

2.2.1 Fiscal Policy

Rectification Budget Policies

The Rectification Budget for 2023 marks the first economic and fiscal policy decisions taken by the IX constitutional government. The IX constitutional government has set ambitious targets for reform over the next 5 years. These include key economic policy targets such as:

- Attaining a GDP growth rate of at least 5%
- Creating 50,000 new jobs
- Attaining a 10% reduction in the poverty rate
- Increasing domestic revenue collection to 16% of GDP
- Improving the management and sustainability of public finances

To this end, the Rectification Budget begins to lay some of the groundwork to allow the government to achieve these aims in the years to come. The government has looked to improve the efficacy of government spending by reallocating some of the unexecuted expenditure to new projects. The rectification budget also introduces a reversal to the rise in import duties from the original budget and removes the tax on sugar and confectionary products. This will reduce inflationary pressures and therefore improve living standards.

Budget policies described in later sections of this document are also aimed at improving public transparency and accountability as well as creating the conditions required to improve economic growth in the following years.

Revenue and Financing

The total budgeted expenditure for 2023 is higher than ESI and domestic revenue that will be collected over the same period. This results in a deficit (domestic revenue and ESI minus expenditure). This deficit is financed through several sources: excess withdrawals from the Petroleum Fund, loans, the use of the cash balances (from many sources) and Direct Budget Support from the European Union and Government of Australia.

Budget 2023 originally forecasted that domestic revenues for the Central Administration would be reach \$174.9m in 2023. The latest available collection data suggests that domestic revenues for the Central Administration this year will be \$179.4m. This is due to stronger than expected revenue collection. This is also despite reductions to import duties, from 5% to 2.5%, and the elimination of the tax on sugar and confectionary products, previously \$1 per kilo of sugar, that are presented in the Rectification Budget.

This amount does not include fees and charges to be collected by RAOEA, which are projected at \$1.3m, as this does not get transferred to the Central Administration. This amount has been revised down from the \$2.5m forecasted by RAOEA in the original budget based on the latest available information provided by the authority.

As ever these forecasts are subject to uncertainty due to the unpredictability of most revenue line items (particularly fees and charges and revenues from Autonomous Agencies). Revenue forecasts provided in this document will be revised ahead of the publication of Budget 2024 to take in to account the latest available data and information.

The Estimated Sustainable Income (ESI) of the Petroleum Fund is estimated to be \$490.1 million in 2023. The Government plans to withdraw \$718 million in excess of the ESI for the annual budget of 2023.

Fiscal Sustainability

Timor-Leste is highly dependent on the Petroleum Fund to finance the fiscal deficit; therefore, this is the main focus of any fiscal sustainability analysis. The long-term sustainability of the Petroleum Fund is dependent not only on this year's choice of budget, but also the choices made for subsequent years.

Analysis in the Budget Book Report for Budget 2023 shows that under the current expenditure trend, the Petroleum Fund will deplete in 2034. At this point the gap between non-petroleum revenues and government spending could be as high as \$1.6bn.

Budget 2023 also proposes a path to fiscal sustainability through a combination of moderate spending cuts and the introduction of new taxes. Further improvements to fiscal sustainability can also be ensured if the projects laid out in the Rectification Budget are successful in leading to economic growth and prosperity.

Further details on the Ministry's fiscal sustainability analysis can be found in the 2023 Budget Book Report².

Fiscal Risks and Contingent Liabilities Statement

The 2023 Budget Book Report contained the country's flagship fiscal risk statement. Fiscal risks are fiscal outcomes that deviate from expectations or forecasts. They can arise from macroeconomic shocks or as result of contingent liabilities. Contingent liabilities are spending obligations that arise when a particular event occurs to trigger them. For example, a natural disaster might lead to government spending obligations such as social assistance programs.

Timor-Leste has a few contingent liabilities including those stipulated by law such as contracts, PPPs, government backed guarantee schemes and legal awards and claims. These contingent liabilities could lead to legal obligations on the government to spend more than anticipated if they are realised. There are also contingent liabilities such as natural disasters where, the government may not have a legal obligation to increase spending but may face a moral obligation to do so.

Budget 2023 allocated \$66m for the purpose of contingency funding. This has been revised down to \$31m in light of the lower budget ceiling and the fact that the contingency funding has so far remained unspent. If fiscal risks lead to government spending increasing beyond the level provided for by the Contingency Fund the government can rely on withdrawals from the Petroleum Fund.

Public Private Partnerships

In general terms, the Public Private Partnership (PPP) refers to arrangements in which the private sector builds infrastructure assets and provides services that traditionally have been provided by the State. The underlying rationale for PPPs in Timor-Leste stems from the fact that, this arrangement may potentially allow the government to benefit from the private sector's expertise, experience and financing, which then results in higher quality and efficiency, as well as lower risk borne by the government.

Timor-Leste began exploring PPPs as a modality for project implementation over the last 8 years and started out by establishing a PPP Policy, PPP legislation and a dedicated PPP Unit under the Directorate General for External Resource Mobilization and Management, Ministry of Finance.

Further details on PPP projects that are currently being implemented or are anticipated over the next few years can be found in the 2023 Budget Book Report.

² Budget Book Report, Ministry of Finance <https://www.mof.gov.tl/publicationdetails/budget-proposal>

2.2.2 Macroeconomic Overview

Table 2.2.1: Macroeconomic Indicators, 2020-2027

Summary	Actual			Forecast				
	2020	2021	2022	2023	2024	2025	2026	2027
Real GDP (non-oil) %	-8.3	2.9	3.9*	2.0	3.9	5.2	5.0	5.0
Inflation CPI %	0.5	3.8	7.0	6.0	2.5	2.0	2.0	2.0

*2022 GDP numbers are provisional and subject to revision. Source: 2020 to 2022 figures from the National Statistics Institute INETL. GDP Forecasts 2023 to 2027 and Inflation projection 2023 from the National Directorate of Economic Policy, Ministry of Finance, August 2023. Inflation projections 2024-2027 from the IMF World Economic Outlook April 2023.

GDP Growth

Average growth in Real³ non-oil Gross Domestic Product (GDP) was 1.1% from 2012 to 2021. Growth rates were higher during the beginning of the last decade, however negative growth in 2017, 2018 and 2020 undermined much of the progress achieved.

In 2020 non-oil GDP growth fell by 8.3% due to the combined effect of the delay in approving the General State Budget, political uncertainty, the COVID-19 pandemic and the application of the State of Emergency.

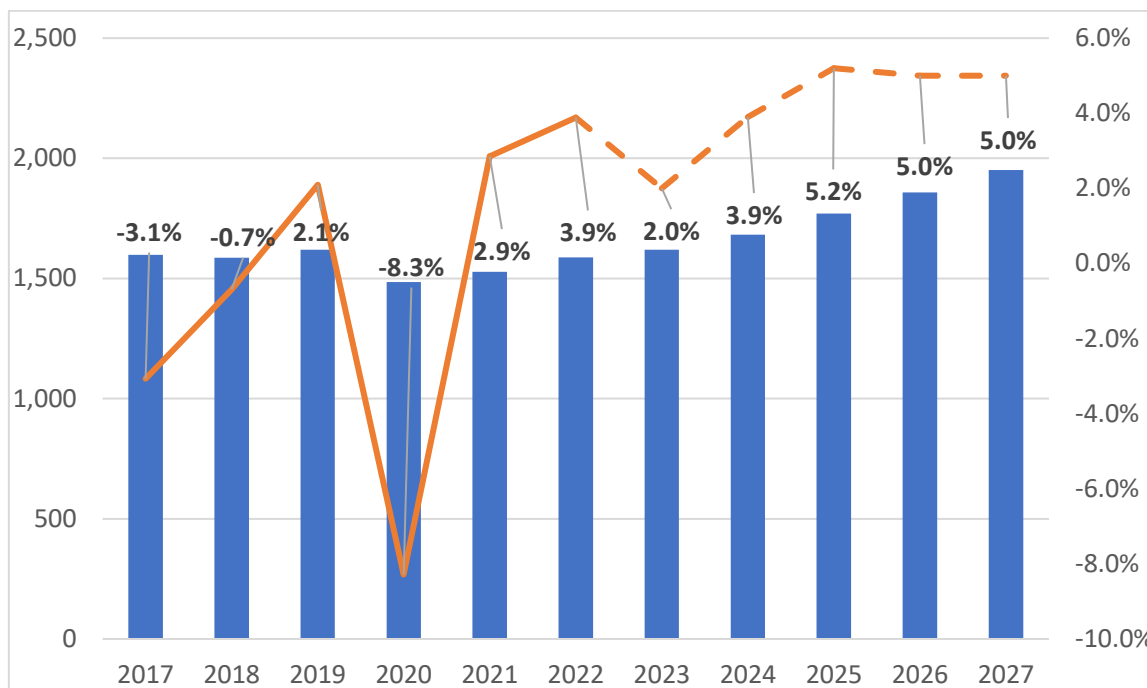
In 2021, which is the last year for which National Accounts data are available, non-oil GDP bounced back to 2.9% as the government's support measures for businesses and citizens led to a recovery in economic activity. This growth was driven by a 3.5% real terms increase in government consumption as government spending grew by 27%⁴. 2021 also saw strong growth in non-oil exports as COVID related restrictions around the world began to ease, towards the second half of the year, allowing for trade to recover.

In 2022 GDP is expected to grow by 3.9%, primarily due to an increase in public and private investment. Government spending in 2022 reached the highest level in the history of the country at \$1.74bn including expenditure from RAEOA.

³ Real GDP means GDP after adjusting for inflation. All GDP figures reported here take in to account impact of inflation on general price levels.

⁴ Ministry of Finance GRP data July 2023

Figure 2.2.1: Real non-oil GDP growth rate (RHS, %) and levels (LHS, \$m)



Source: 2017 to 2022 figures from the National Statistics Institute INETL. GDP Forecasts 2023 to 2027 from National Directorate of Economic Policy, Ministry of Finance, August 2023

GDP growth is expected to fall to 2.0% in 2023 due to a combination of high inflation and low budget execution following the election. High inflation means that the level of investment and consumption required to achieve the same growth outcomes must also be higher. Inflation is projected to average 6% in 2023, which means the total spending contribution of the private, government and external sectors to the economy must, on average, be at least 6% higher to attain the same level of real or inflation adjusted GDP.

Economic growth is projected to recover in 2024 as higher execution of government spending is expected in the first full year of the new government. It is also expected that, following the reversal of the rise in import duties and the elimination of taxes on sugar and confectionary, inflation will start to fall.

Consistent positive growth is expected in the medium term (2025-2027). GDP growth is expected to be higher in 2025 with the expected implementation of a Fibre Optic cable from Australia towards the end of next year. This should increase internet speeds and contribute to increases in productivity. In the years that follow, economic growth should remain strong and will be further boosted by key PPP projects such as the redevelopment of Cristo Rei and the expansion of the runway at Dili airport. Combined with further investment in the tourism sector and the opening of new hotel resorts such as *Pelican Paradise*, the expansion of Dili Airport has the potential to increase international tourism and lead to stronger GDP growth.

The government has targeted 5% GDP growth. The aforementioned factors should lead to improvements in the private sector and will therefore support this aim. Aside from these improvements and economic developments, achieving the government's aim will require substantial increases in government spending (particularly investment spending) in future budgets. The Ministry of Finance estimates that the government's growth targets can be met by 2025 and expenditure forecasts provided in the financing sections of this document target the level of expenditure needed to realise this goal.

Inflation

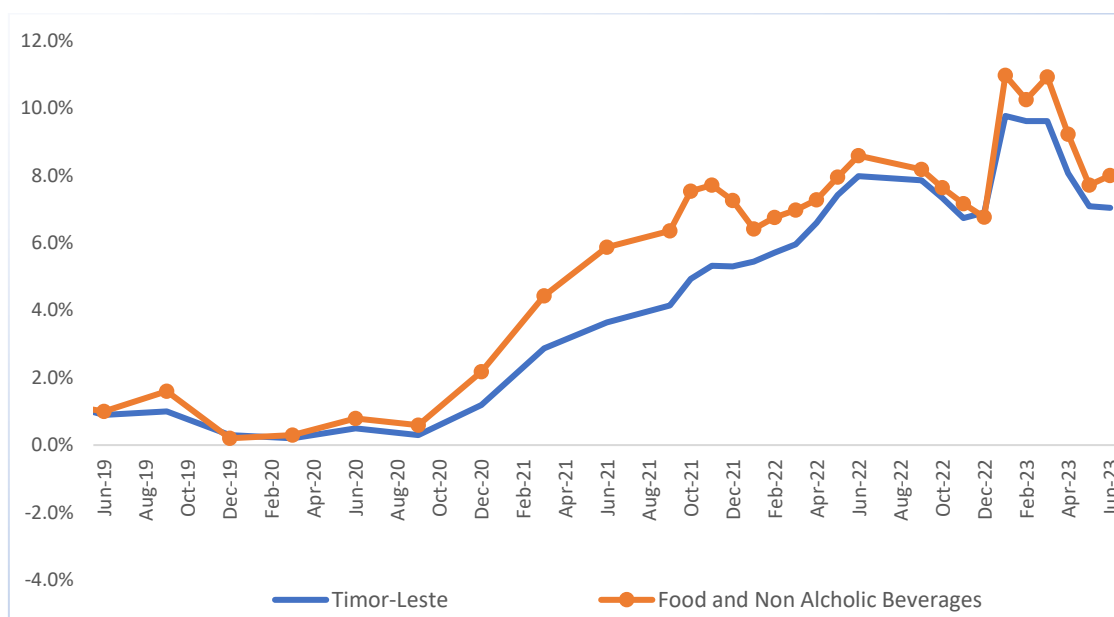
Recent inflation rates in Timor-Leste have been relatively high. Overall CPI inflation reached 7% in 2022 and has remained at or above this level so far in 2023. In June 2023 year on year inflation was estimated at 7%. This means that a basket of goods and services that cost \$100 in June 2022 cost \$107 in June 2023.

The high level of inflation is in line with global trends. Due to the significant weight of food and non-alcoholic beverages in the CPI basket and the high proportion of food imported into Timor-Leste every year, international food prices remain one of the key drivers of the overall CPI rate. Therefore, changes in international food prices can have a significant impact on both the rate of inflation and living standards.

Oil prices are also a key driver of inflation. They are important to Timor-Leste both for consumers, and as an oil exporting country. Oil prices fell at onset of the Coronavirus pandemic down to \$21.0 per barrel in April 2020 but then started to rise sharply and reached \$116.8 per barrel in June 2022 due to the war in Ukraine. Prices are expected to slowdown in the near future and have already seen some moderation. At the start 2023 oil prices declined to \$80.4 per barrel in January 2023 and have declined further in June slightly to \$73.3 per barrel.

Year on year food and non-alcoholic beverage inflation in June 2023 was 8.0%. It is expected that the recent decline in oil prices will lead to a fall in the inflation rate in the coming months, particularly in the transport sector but also for imports of food and beverages. Food and non-alcoholic beverage inflation in particular should also decline as a result of the government's decision to reduce import duties from 5% to 2.5% and eliminate the tax on sugar and confectionary products (previously \$1 per kilo of sugar).

Figure 2.2.2: Recent Change in Consumer Price Index Timor-Leste June 2019-June 2023 (%)



Source: National Statistics Institute INETL

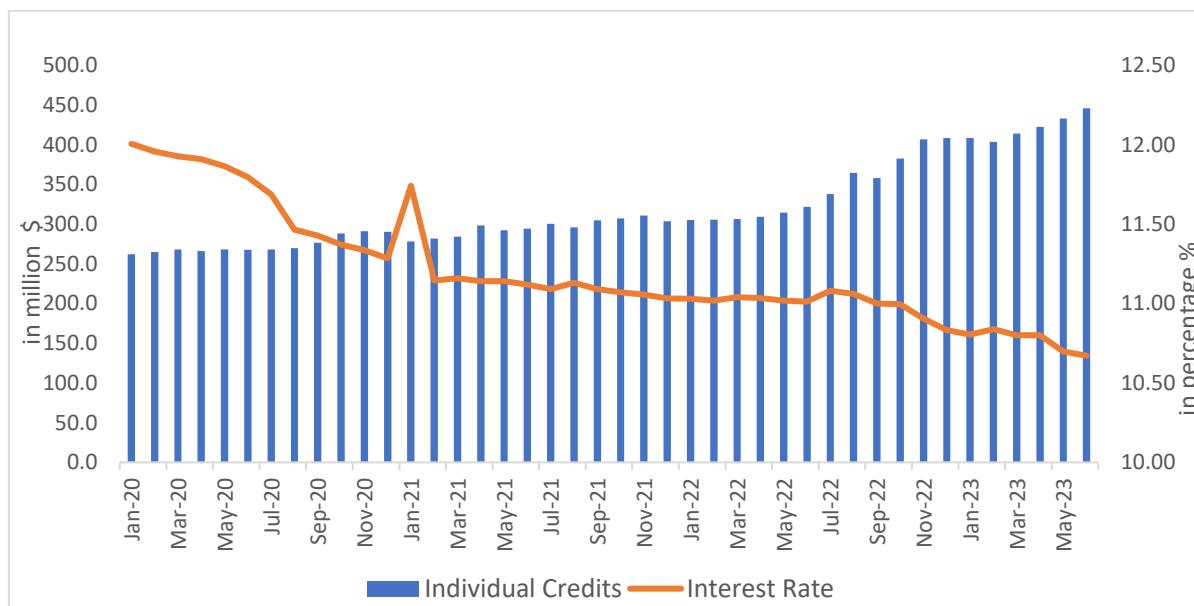
Financial Markets

The amount and cost of credit to the private sector is an important indicator for private sector development.

The year on year interest rate on loans to private businesses has fallen by 0.34 percentage points in June 2023 to 10.67%. From January 2022 to October 2022 interest rates averaged at

11.03%; and have since declined to an average of 10.79% from November 2022 to June 2023. As a result, since November 2022 loans to private individuals started to increase from \$382.5 million in October 2022 to \$406.7 million in November 22 and loans have been steadily increasing since then, reaching a peak in June 2023 of \$445.7 million. This indicates that the private sector is showing signs of growth.

Figure 2.2.3: Commercial Interest Rates and Credit



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

Employment

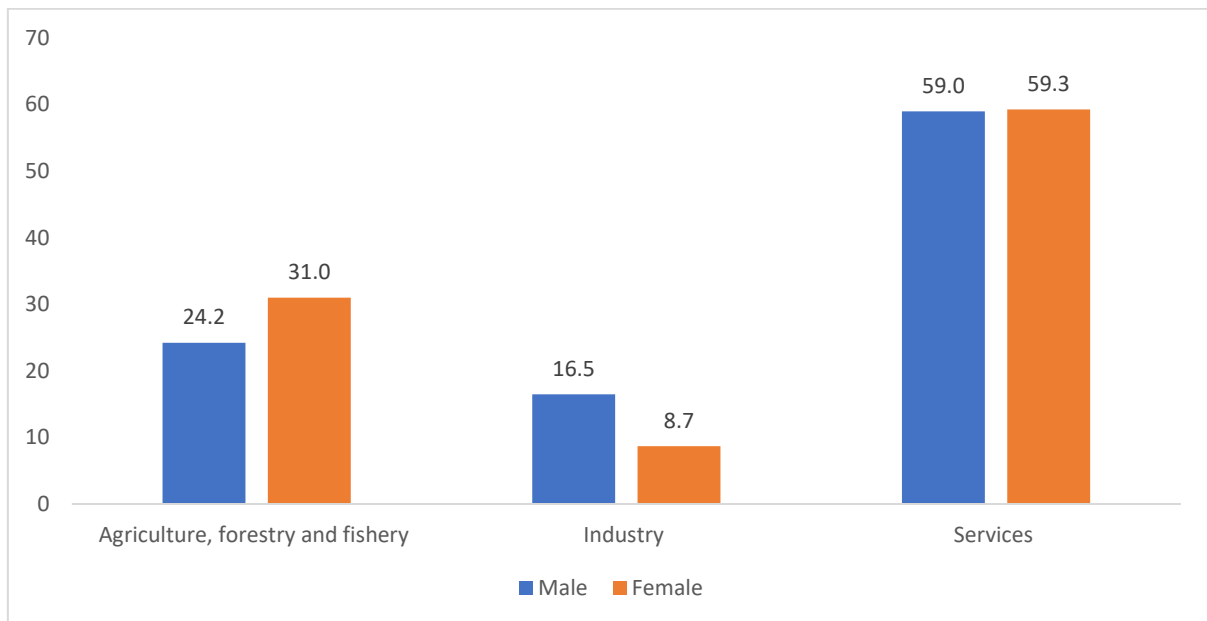
The most up to date source for analysis of the labour market in Timor-Leste is the 2021 Labour Force Survey. The survey reports that the working age population (aged 15 years and above) in 2021 was 809,300 which comprised of 405,800 women and 403,600 men. However, only about 31% (247,000 people) of the working age population participated in the labour market (meaning they had or were looking for jobs). Of this number, nearly 95% (234,300 people) were employed, of which 92,300 were women and 142,000 were men. On the other hand, the unemployment rate was 5.1%, and that consisted of a female unemployment rate of 5.9% and a male unemployment rate of 4.6% (6,800 male unemployed vs 5,800 female unemployed).

Table 2.2.2: Employment indicators in 2021

	Male (000's)	Female (000's)	Total (000's)
Population	668.3	618.4	1,286.7
Working-age population, aged 15+	403.6	405.8	809.3
Labour force	148.9	98.1	247.0
Employment	142.0	92.3	234.3
Unemployment	6.8	5.8	12.7
Outside labour force	254.7	307.7	562.4
of which: Subsistence foodstuff producer	75.9	86.4	162.4
Manufacture employment as a proportion of total employment in %	5.3	8.4	6.5
Labour force participation rate	36.9	24.2	30.5
Unemployment rate (%)	4.6	5.9	5.1

Source: Timor-Leste Labour Force Survey 2021

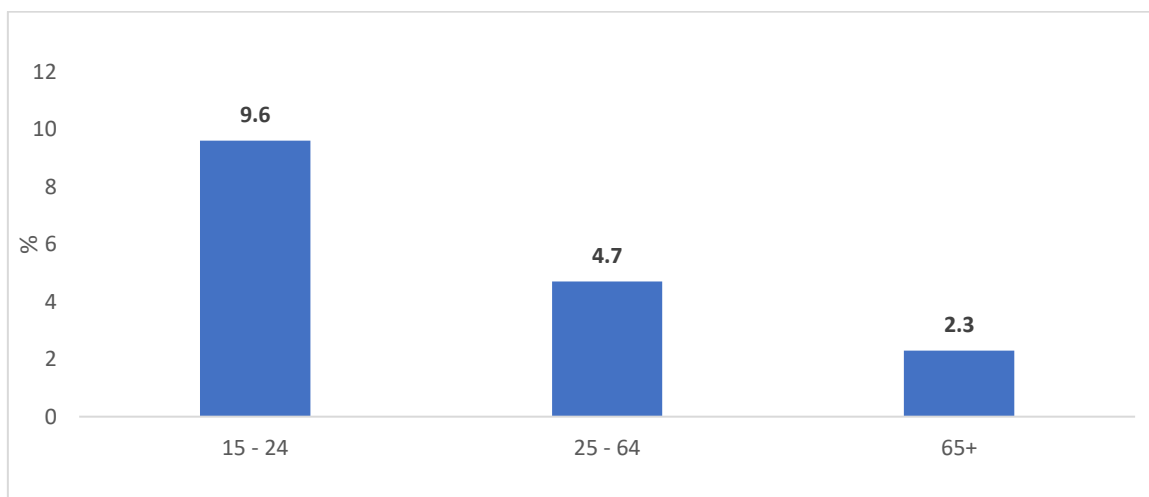
Figure 2.2.4: Employment by economic activity and sex in 2021 in (% distribution)



Source: Timor-Leste Labour Force Survey 2021

The graph above shows the main sectors where people were employed in 2021. More than half of employment is in the services sector which accounted for 59.1% of total employment. This is followed by employment in Agriculture, Forestry, and Fishery that represented 26.9% of total employment. Finally, 13.5% of employees were employed in Industry. On average, the proportion of men and women employed in the services sector as share of total male and female employment were relatively similar (59% of male vs 59.3% of female). A higher share of men's employment is in the Industry sector compared to women (16.5% of men as compared to 8.7% of women). Conversely a higher share of women compared to men are employed in Agriculture, Forestry and Fishery.

Figure 2.2.5: Unemployment by age group 2021 in (%)



Source: Timor-Leste Labour Force Survey 2021.

The unemployment rate in 2021 was 5.1%, the unemployment rate among young people aged 15-24 years was 9.6%, and it was relatively higher compared to adults aged 25-64, whose unemployment was 4.7%. The rate of unemployment of people aged 65 above was even lower at a rate of 2.3%.

Global Economic Indicators

Table 2.2.3: Global GDP Growth, 2021-2024, %

Region/Country	Actual GDP Growth		Forecast GDP growth	
	2021	2022	2023	2024
World	6.3	3.5	3.0	3.0
Advanced Economies	5.4	2.7	1.5	1.4
Emerging and Developing Economies	6.8	4.0	4.0	4.1
Emerging and Developing Asia	7.5	4.5	5.3	5.0
China	8.4	3.0	5.2	4.5

Source: IMF World Economic Outlook Update, July 2023.

The global growth outlook is projected to decrease slightly from 3.5% in 2022 to 3.0% in 2023. Advanced Economies and emerging and developing economies are forecast to grow at 1.5% and 4.0% respectively in 2023. The war in Ukraine and the pandemic are the main factors that contributed to the projected slowdown in growth in 2023.

Consumer Prices are expected to increase, with global inflation forecast at 7.0% by the IMF in 2023. Increases in oil prices, have contributed to the rise in inflation in advanced economies, however this is projected to recover in the coming years.

For emerging market economies, inflation has risen, reflecting the impact of currency depreciation and higher commodity prices which has led to increases in the price of imported goods. It is expected that inflation rates will begin to reduce this year compared to 2022 and further reduce in 2024.

Table 2.2.4: Global and Regional Inflation Rates (%)

Country	Actual		Forecast	
	2021	2022	2023	2024
World	4.7	8.7	7.0	4.9
Advanced Economies	3.1	7.3	4.7	2.6
Emerging and Developing Economies	5.9	9.8	8.6	6.5
Timor-Leste	3.8	7.0	6.0*	2.5

Source: IMF World Economic Outlook August 2023. *2023 Timor-Leste figure Ministry of Finance forecast, August 2023.

2.3: Budgetary Policy and Government Priorities

The IX constitutional government envisions a prosperous and thriving Timor-Leste, where the well-being of all citizens is prioritized with access to essential goods and services, while fostering a healthy, educated, skilled, innovative, and dynamic population. A fundamental cornerstone of the government's five-year mandate is diversifying the economy and enhancing service delivery, aiming to align employment and production across all sectors with the characteristics of an emerging economy. Equitable and inclusive growth across all regions is also a key priority during the government's mandate. To achieve this, the decentralization process, will be emphasized, maximizing the potential of every municipality and enhancing the well-being of its residents.

The primary objectives and priorities of the IX constitutional government are built upon the progress achieved in economic, social, and political development by the IV, V, and VI constitutional governments. The goal is to continue this progress, restore the advancements made up to 2017, and ensure efficient public administration that provides effective services to the people and remains accountable to the State.

The five-year program (2023-2028) serves as a strategic political instrument to guide Timor-Leste towards accomplishing the United Nations' 2030 Agenda for Sustainable Development, aligning with the national Strategic Development Plan (2011-2030). To ensure its relevance, the IX constitutional government will conduct a thorough review of the Strategic Development Plan, in consultation with Civil Society. This process will incorporate current national and global changes, accentuating Timor-Leste's competitive advantages in strategic sectors, leading to effective progress.

To fulfil these objectives, the five-year program (2023-2028) is guided by six key principles namely:

1. Reaffirming the Democratic Rule of Law
2. Further Developing Social Capital
3. Advancing Infrastructure Development
4. Enhancing Economic Growth
5. Strengthening Government Consolidation
6. Promoting Good Governance and Combating Corruption

By adhering to these principles, the IX constitutional government is steadfast in its commitment to realizing a brighter and sustainable future for Timor-Leste, fostering an inclusive and thriving society for all its citizens. Through these strategic measures, the government aims to elevate the nation's prosperity and well-being, ensuring that progress is shared across all regions and benefiting every member of society.

2.3.1 Government Priorities and Measures for 120 Days

To achieve the goals outlined in the five-year program, the government plans to concentrate on three key strategic areas in the initial 120 days:

- 1) Promoting economic diversification by cultivating a favourable environment that fosters sustainable economic growth;
- 2) Enhancing social capital investments to guarantee the present and future welfare of the Timorese people;
- 3) Restoring the democratic rule of law as fundamental principles of good governance, inclusivity, and fairness.

With these strategic objectives in mind, the government's agenda for inclusive development aspires to promote the holistic well-being of its people and foster an environment where citizens can actively participate and contribute to the country's economic development. These efforts will be underpinned by the fundamental principles of good governance, aiming to combat corruption and excessive bureaucracy while fostering competence, professionalism, honesty, and transparency.

Indeed, such an ambitious effort necessitates the creation of liveable communities. This entails ensuring access to quality education, healthcare, water, and sanitation, as well as establishing robust social protection systems and basic infrastructures. Additionally, significant investments in the productive sector are essential to diversify the economy and generate employment opportunities.

1) Promoting economic diversification by cultivating a favourable environment that fosters sustainable economic growth

Over the next five years, the government's primary focus will be on comprehensive infrastructure development, encompassing roads, bridges, ports, airports, and access to clean water and sanitation throughout the country. Recognizing the critical role of a strong economy, the government aims to enhance it through various sectors, including agriculture, fisheries, livestock, tourism, and commerce. This strategic approach aims to reduce dependency on imports by promoting domestic production.

In the initial 120 days, the government is dedicated to refurbishing its legal frameworks to create an enabling environment that attracts both domestic and global investors. Through meticulous revisions and updates, the government seeks to streamline business processes, minimize bureaucracy, and enhance the overall ease of doing business. This transformation, combined with an investor-friendly environment, has been instrumental in stimulating significant economic growth and establishing Timor-Leste as an attractive destination for investment and business expansion. This positive trajectory has not only boosted economic prosperity but also improved living standards and the well-being of citizens.

In the forthcoming months, the government is taking significant steps in promoting economic growth and financial stability. With a distribution of \$1.960 billion, the groundwork is being laid to establish two crucial institutions - the Timor-Leste Investment Cooperation (TLIC), a state-owned investment company, and the Development Bank of Timor-Leste (BDTL). The TLIC will serve as a catalyst for investment opportunities, while the BDTL will provide accessible and favourable long-term financing options. Additionally, part of the allocated budget will be utilized to review and enhance the national Strategic Development Plan (SDP), ensuring it aligns with the nation's current goals and aspirations. Through these strategic initiatives, the government aims to bolster economic development, foster a conducive investment climate, and pave the way for a prosperous and sustainable future for Timor-Leste.

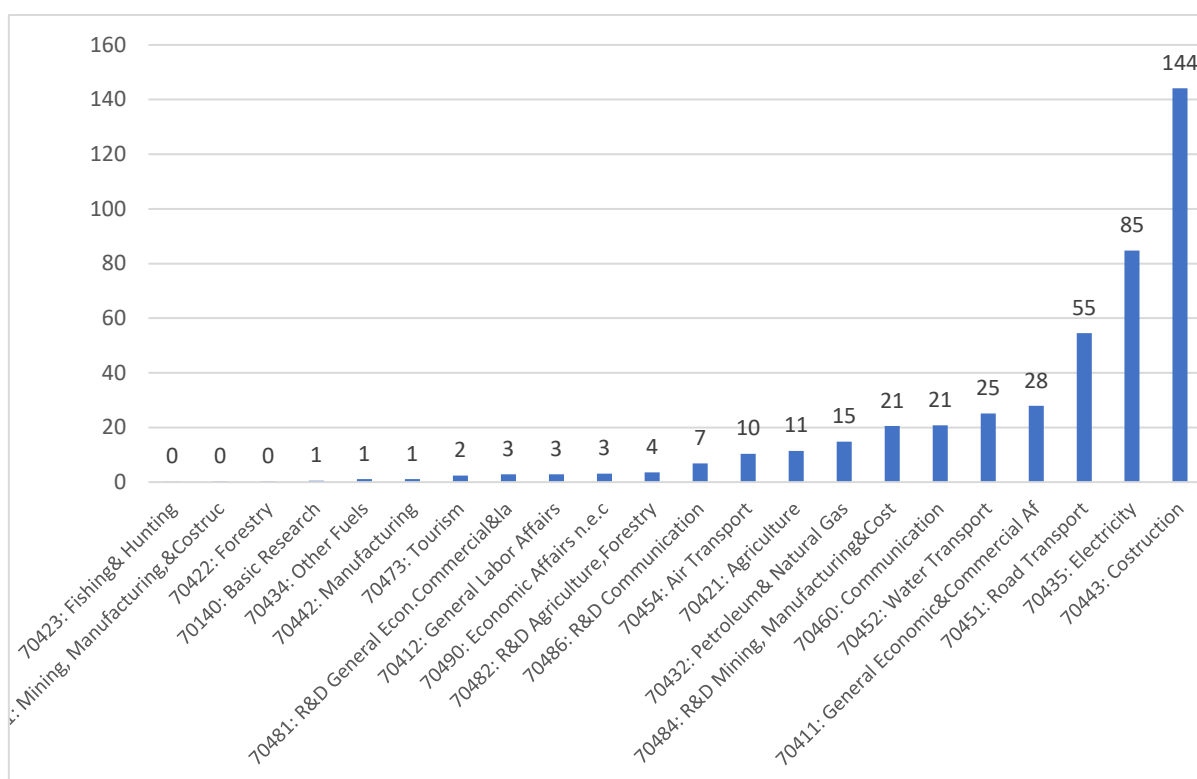
Furthermore, immediate action is required to restructure the boards of TIMOR GAP and the National Petroleum and Minerals Authority (ANPM) to guarantee the efficient execution of oil and gas sector strategies, which holds immense significance in the nation's overall developmental trajectory.

Recognizing the critical importance of roads, bridges, schools, hospitals, water supply systems, and power grids in upholding communities, the government has allocated a significant budget of \$ 512 million for comprehensive recovery efforts following natural disasters. Notably, this allocation will be dedicated to conducting surveys and assessments to identify primary requirements for road maintenance and the stabilization of riverbeds across the nation. These assessments are intended to initiate essential rehabilitation projects in the upcoming years, with a primary objective of enhancing the resilience, adaptability, and disaster resistance of the restored infrastructures.

Ensuring affordable electricity reaches every household and business nationwide is also a fundamental aspect of the government's strategy to foster economic growth that benefits all. In pursuit of this goal, the government has set aside a substantial budget of \$84.3 million for 2023, with a clear focus on reaching the 20% of the population currently without electricity access.

Lastly, the government is steadfast in its commitment to completing the construction and installation of a *fibre-optic cable*, providing high-quality internet connectivity to every citizen across the country. To expedite economic diversification, \$19.2 million has been allocated to bolster the telecommunications sector. These combined efforts demonstrate the government's commitment to driving progress, fostering a vibrant and resilient future for Timor-Leste. By ensuring widespread access to reliable and fast internet services, the government seeks to empower citizens, boost digital innovation, and unlock new opportunities for economic growth and social development.

Figure 2.3.1: State budget distribution on the real economy and productive infrastructure in 2023, in \$ Millions



Source: Timor-Leste planning and budgeting system (Dalan Ba Futuru), August 2023

2) Enhancing social capital investments to guarantee the present and future welfare of the Timorese people

Investing in social capital, specifically in the social protection, health, and education sectors, is a fundamental cornerstone of the government's five-year mandate. The government recognises the intrinsic value of human capital as the backbone of a prosperous nation and thus, during its five-year mandate, it will prioritize the social capital investments directed towards nurturing a healthy and educated society to overcome challenges, adapt to changes, and seize opportunities.

Recognizing the utmost significance of healthcare and the vital need for access to essential medications, the government, within the first 120 days, demonstrates an unwavering commitment to ensure hospitals and health centres are fully stocked and equipped. With a dedicated budget

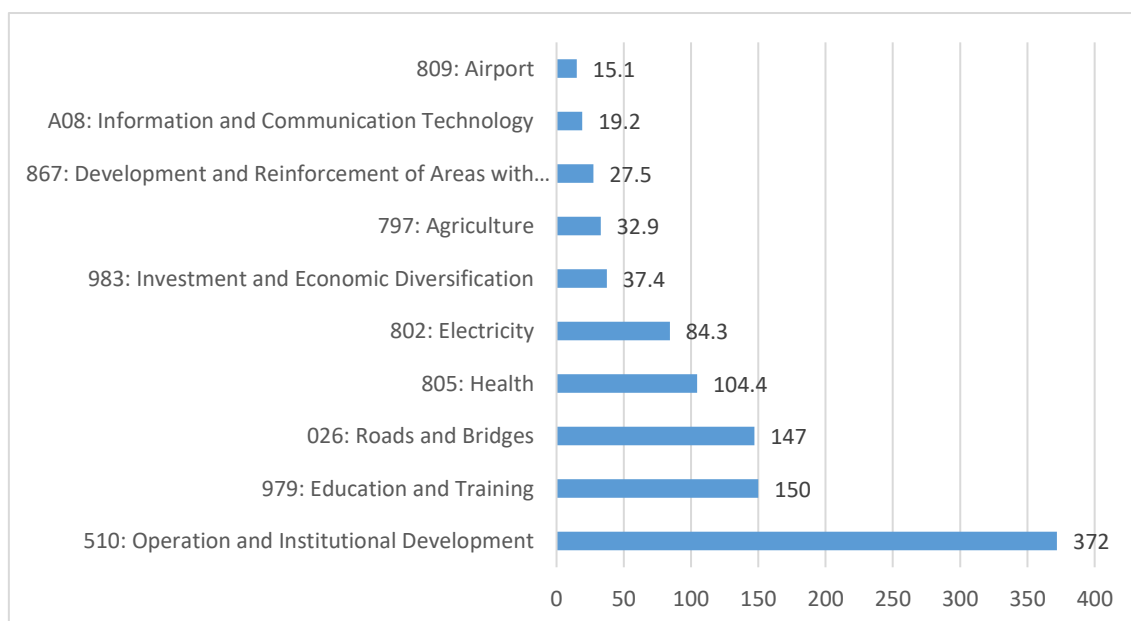
of \$ 6 million, robust mechanisms and strategies are being put in place to promptly replenish and maintain immediate availability of crucial medicines across the nation. Close monitoring of medication stocks and consumption patterns will be conducted to prevent any disruptions in the supply chain to healthcare facilities. In the upcoming months, the government will prioritize the enhancement and advancement of medical services at the National Hospital Guido Valadares (HNGV). A budget of \$4.9 million has also been allocated to settle outstanding international hospital debts as part of the fiscal responsibility and international accountability. Through these comprehensive measures, the government reaffirms its dedication to bolstering healthcare infrastructure, ensuring accessibility to essential medications, and investing in the well-being of its citizens. These initiatives are poised to have a transformative impact on the nation's healthcare system, fostering a healthier, more sustainable future for all.

The government is also strongly committed to improving the passport issuance procedures, recognizing the significance of passports as essential travel documents and identification. To achieve this, the government has earmarked a budget of \$ 0.46 million to expedite and modernize administrative systems, eliminate bureaucratic obstacles, and enhance overall efficiency.

The government is also dedicated in its efforts to enhance the conditions of care and treatment for persons with disabilities, demonstrating a profound commitment to promoting their dignity and well-being. A budget of \$1.4 million has been assigned to the National Rehabilitation Centre in Becora, aiming to bolster facilities, acquire specialized medical equipment, and provide training for healthcare professionals to deliver personalized care. This investment reflects the government's determination to offer comprehensive and tailored support to persons with disabilities. Looking ahead, the government envisions extending this program by establishing similar centres in every municipality throughout its five-year mandate.

This holistic approach sends a powerful message of solidarity and support to both the elderly and persons with disabilities communities, underscoring the value and appreciation the nation places on their contributions. By empowering these vulnerable groups with financial assistance and improved healthcare services, the government is laying the foundation for a more equitable and compassionate future, where the well-being and dignity of all citizens are prioritized. This transformative initiative serves as a beacon of progress, fostering a society where everyone can thrive, regardless of age or ability.

Figure 2.3.2: State budget distribution for social capital investments in 2023 to promote equitable and inclusive growth, in \$ Millions.



Source: Timor-Leste planning and budgeting system (Dalan Ba Futuru), August 2023

3) Reinforcing the democratic rule of law as fundamental principles of good governance, inclusivity, and fairness

Reaffirmation of the democratic rule of law in Timor-Leste constitutes a fundamental basis for the government's five-year mandate focused on achieving stability and development. As a young democracy, Timor-Leste has faced challenges in consolidating its institutions and ensuring adherence to the rule of law. By ensuring equal treatment and impartiality in the legal system and public administration, the government can safeguard citizens' rights and promote social justice. This, in turn, engenders trust between the government and its citizens, and paves the way for sustainable development and a more equitable and prosperous future for all its citizens.

During the initial 120 days, the government of Timor-Leste has taken a crucial step in promoting transparency and accountability through conducting audits. This comprehensive initiative aims to conduct thorough audits of several key institutions, including the Court of Auditors, the Anti-Corruption Commission, and the Public Prosecution Office. These audits will focus on evaluating the implementation of various programs and identifying any irregularities in the procurement processes of numerous projects. Additionally, the Public Service Commission and Office of the Inspector General of the State.

Furthermore, the government is committed to consolidating peace and security, recognizing their vital role in driving national development and safeguarding the rights, freedoms, and guarantees of every citizen. To achieve these objectives, the government plans to undertake security reforms to ensure that the rights and dignity of Timorese citizens.

By taking these decisive steps, the government demonstrates its unwavering commitment to fostering an environment of peace, security, and respect for fundamental rights. Such measures not only enhance the effectiveness of law enforcement but also contribute significantly to the nation's overall development and prosperity, providing a solid foundation for a just, inclusive, and stable society.

The IX Constitutional Government demonstrates its commitment to responsible governance and the efficient allocation of resources to address critical concerns, fostering a path towards a more inclusive and prosperous future for the nation. And as such a decision has been taken to revoke Law No. 3/2014 and Law No. Law no. 4/2022 to bring back RAEOA-ZEEMS and Atauro under Central Administration.

2.3.2 Comparative Analysis of the 2023 Rectified Budget

The 2023 Rectified Budget sets out a comprehensive approach to strengthen the four pillars of the Strategic Development Plan (PED2011-2030); **Institutional Framework** by reaffirming the Democratic Rule of Law, Good Governance, and Anti-Corruption; promotion of **Social Capital** through the development of Share Capital; foster **Economic Development** by streamlining Government Consolidation; and prioritization of **Infrastructure Development** encompassing vital aspects such as road network, Water & Basic Sanitation, Energy, Telecommunications, Transportation, and more.

The IX constitutional government, through the Budget Review Committee (BRC) undertook consultative deliberation with all line ministries and entities and identified areas that qualify for budgetary reallocation. The BRC identified a total of \$195 million to be returned back to the state's account and has submitted a revised budget Of \$1.96 billion to the National Parliament.

The Rectified State Budget 2023 is responsible for the implementation of 52 programs (compared with 50 programs in the original 2023 budget). The two new programs introduced in the Rectified

Budget 2023 are; Rural Development and Dignified Community Housing Program \$ 0.1 million) and National Policy Reform in the Social Sector Program (\$ 0.09 million).

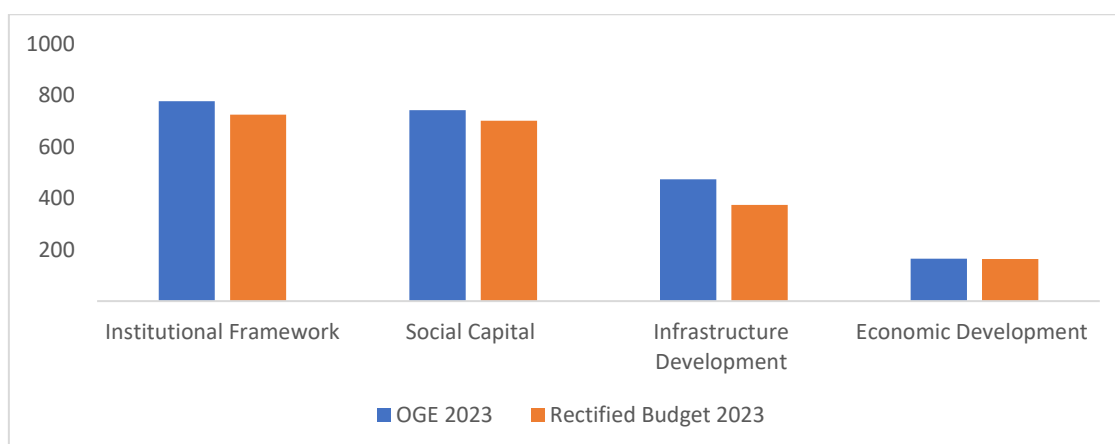
Further, two programs, from the Approved GSB 2023, have been renamed as follows in the Rectified Budget 2023 to align them with other programs under the respective sub-sectors in the Strategic Development Plan (SDP 2011-2030); i). Program 510, Good Governance and institutional Management is now known as Functional and Institutional Development Program and ii). Program 980, Gender Equality and Social Protection is now known as Social Inclusion Program.

The IX constitutional government is committed to implementing priority reforms within their first 120 days to meet the expectations of the Timorese people through a review of existing legislations, conducting audits, improving service delivery and undertaking a review of the Strategic Development Plan 2011-2030, to ensure it aligns with the nation's current goals and aspirations. Further, a number of new measures have been introduced in the Rectified Budget 2023, to enhance basic service delivery in all four areas of the PED 2011-2030:

1. Establishment of a state owned investment company (TLIC) and the Development Bank of Timor-Leste (BDTL) - \$1 million
2. Restocking of medicines in all hospitals and health centers - \$6 million
3. Improve Passport issuance service - \$0.46 million
4. Strengthen emergency response in the event of a natural disaster and calamity – \$1.1 million.

The budgetary re-allocation from the Rectified Budget 2023 shows the highest share of expenditure allocated to Institutional Framework (37%), followed by Social Capital (36%), Infrastructure Development (19%) and Economic Development (8%).

Figure 2.3.3: Comparison of Approved GSB 2023 (OGE 2023) and Rectified Budget 2023 by PED, in \$ Millions.

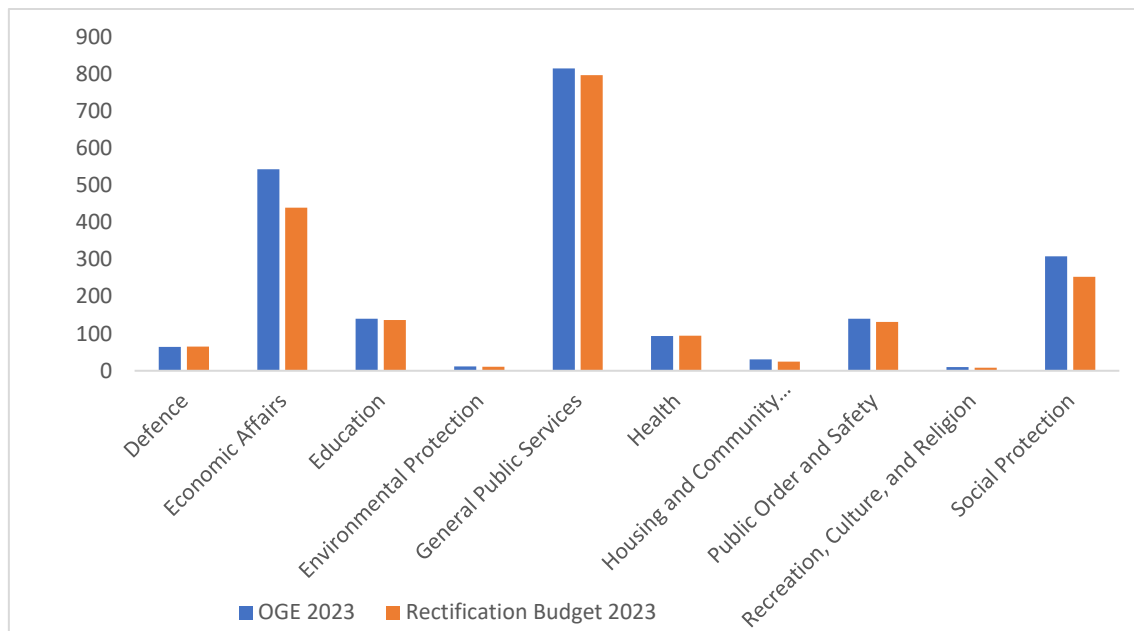


Source: Timor-Leste planning and budgeting system (Dalan Ba Futuru), August 2023

Following the international COFOG (Classification of the Functions of Government) classification developed by the OECD, the First level COFOG data for Timor-Leste suggests that General Public

Services function has the largest allocation (in line with the Approved GSB 2023) followed by the Economic Affairs function in the 2023 Rectified budget.

Figure 2.3.4: Comparison of Approved GSB 2023 (OGE 2023) and Rectified Budget 2023 according to COFOG classification, in \$ Millions.



Source: Timor-Leste planning and budgeting system (Dalan Ba Futuru), August 2023

2.3.3 2023 Budget allocations for Municipalities

Based on the IX constitutional government’s first 120 days’ reform agenda, law No. 3/2014 will be revoked, thereby bringing RAEOA and ZEEMS under the direct administration of the Central Government. Further, Atauro will be restored to its previous composition of an *administrative post* (sub-municipality) within Dili municipality and therefore, will no longer be classified as a separate municipality (the legal and budgetary implication of this change are likely to take effect from 2024 onwards).⁵

The IX constitutional government continues to strengthen the on-going decentralization process by continued transfer of functions and responsibilities from the central administration to local administrations/municipalities (yet to be delegated) and to enhance the capacity of municipal administration through public administration modernization. Through the policies of Administrative Decentralization and Local Autonomy, the IX Constitutional Government will ensure sustainable development for an equitable nation.

The individual municipality budget has remained the same from the approved 2023 budget. The two exceptions to this are the Autoridade RAEOA-ZEESM (and FED RAEOA) and the municipality of Atauro with a decrease in their overall budget equivalent to \$35.73 million and \$10 million respectively.

⁵ Programa Do IX Governo Constitucional (2023).

Table 2.3.2: 2023 Rectified Budget Allocation to Municipal Authorities, \$

Municipal Authority	Actual 2022	Approved 2023	Rectified 2023	Change from Approved 2023
Autoridade RAEOA	84,436,784	84,000,000	53,262,112	30,737,888
AM Dili	10,231,640	13,362,483	13,362,483	0
AM Baucau	4,931,124	7,564,824	7,564,824	0
AM Bobonaro	4,727,883	6,733,806	6,733,806	0
AM Ermera	4,662,818	7,417,275	7,417,275	0
AM Aileu	3,034,303	4,509,206	4,509,206	0
AM Ainaro	3,243,066	4,894,112	4,894,112	0
AM Ataúro	2,574,860	2,257,645	2,257,645	0
AM Covalima	3,990,360	5,738,515	5,738,515	0
AM Lautém	4,056,049	5,826,107	5,826,107	0
AM Liquiçá	3,186,810	4,942,552	4,942,552	0
AM Manatuto	3,815,911	5,727,621	5,727,621	0
AM Manufahi	3,666,128	5,167,358	5,167,358	0
AM Viqueque	4,005,625	6,925,794	6,925,794	0
FED Ataúro	-	13,400,000	3,400,000	10,000,000
FED RAEOA	-	36,000,000	31,000,000	5,000,000

Source: Timor-Leste planning and budgeting system (Dalan Ba Futuru), August 2023.

The municipality allocation in the Rectified Budget 2023 remains largely unchanged (with the exception of Municipality of Atauro and the authority of RAEOA-ZEESM). Additional funding of \$1.1 million, facilitated through Civil Protection Authority's (APC) budget, will be implemented at municipality level, to tackle challenges arising from climate change and natural disaster

2.4: Expenditure

2.4.1 Expenditure Analysis for the first semester of 2023 budget

\$561,347,674 were spent out of the \$1,920,022,116 allocated by the original 2023 budget to the Central Administration and RAEOA. 80% of the actual expenditure was undertaken by only 8 programmes⁶. Nevertheless, these 8 programmes only absorbed 61% of the 2023 original budget. The remaining 38 programmes included in the 2023 budget undertook only 20% of the total actual expenditure, despite absorbing 38% of the budget. The 8 programmes absorbing most of the expenditure had an execution rate of 38%, 9 percentage points above the 2023 budget execution rate, while those absorbing only 20% of the expenditure had an execution rate 14 percentage points below the 2023 budget execution rate⁷.

Only 35 Services and Entities with Enlarged Financial Autonomy (SEAFAs) out of the 106 included in the 2023 budget presented execution rates of 40% or above by the end of the second semester. These SEAFAs absorbed 79% of the budgetary resources in 2023 but they only executed 25% of the funds consigned to them, pushing down the overall execution rate. On the other hand, 13 SEAFAs had an execution rate above 50%, while absorbing only 4% of the budgetary resources. These 13 SEAFAs executed 59% of the funds allocated to them.

Within the Strategic Development Plan (SDP), the Social Capital sector ranks first in terms of public expenditure with more than \$222.4 million. The sector had an execution rate of 35%, close to its share of the 2023 budget, 33%. The Institutional sector ranks the first in budget allocations, receiving 34% of the 2023 budget, but the second in terms of expenditure, with \$193.4 million and an execution rate of 29%. The Economic Development sector received the smallest budget allocation in the 2023 budget, 8%. Only \$47.8 million were spent in this sector, although its execution rate, 30%, is slightly above the overall execution rate. The Infrastructure Development sector presents the lowest execution rate among the four, 21%. 24% of the 2023 budget was allocated to infrastructure development but by the end of the first semester only \$97.5 million were spent.

⁶ These programmes are Good Governance and Institutional Management, Gender Equality and Social Inclusion, Education and Training, Electricity, Health, Management of Petroleum and Mineral Resources, National Security and Public Financial Management.

⁷ Execution rates are calculated as the sum of actual expenditure for each group of programmes divided by the total budget allocated to them.

Table 2.4.1: Budget 2023 Allocation and Execution by SDP, \$

SDP Sector	Budget	Actual	% Budget	% Execution
Economic Development	160,918,486	47,818,490	8%	30%
Infrastructure Development	464,422,022	97,582,719	24%	21%
Institutional	661,094,162	193,459,899	34%	29%
Social Capital	633,587,445	222,486,567	33%	35%
Total	1,920,022,116	561,347,674	100%	29%

2023 OGE allocated most of the resources to current transfers (32%), employee costs (24%), capital goods (20%), and current services (14%). Nevertheless, as the table below shows the execution rate for capital goods is quite below, only 7%, compared to the share of the budget allocated to it. This pushes down the overall 2023 OGE execution rate.

Other economic inputs were expected to absorb a smaller share of public resources in 2023 and, hence, the OGE allocated to each one of them budget shares at or below 5%. The government has followed the original plan regarding expenditures in financial liabilities, interest, and fines. The 57% execution rate for interest might indicate that additional resources might be needed by the end of the year. Nevertheless, this does not pose any risk to meeting the government public debt obligations since the current regulation has made budget reallocations more flexible and no expenditure has been charged to the contingency program, which has a total budget of \$64,278,935.

Another economic input that deserves attention is current goods. Although execution rate of this input is low, 26%, and its budget share only 5%, the procurement of goods is important for the delivery of many programs. Nevertheless, bottlenecks created by the weakness of the private sector in Timor-Leste and difficulties to deal with procurement processes limit the capacity of SEAFAs to execute their budget within this category. Moreover, the elections and transition of executives has reduced the time available to complete some of the procurements processes required to purchase current goods.

Table 2.4.2: Budget 2023 Allocation and Expenditure by Economic Classification, \$

Category	Budget	Actual	% Budget	% Execution
Current Transfer	609,974,845	258,523,315	32%	42%
Employee Costs	468,506,074	194,084,187	24%	41%
Capital Goods	388,485,704	26,803,590	20%	7%

Category	Budget	Actual	% Budget	% Execution
Current Services	273,009,144	41,466,459	14%	15%
Current Goods	101,441,371	26,458,717	5%	26%
Rents	27,062,002	3,540,969	1%	13%
Financial Assets	21,111,111	-	1%	0%
Financial Liabilities	14,923,136	7,554,280	1%	51%
Other Current Expenditures	6,157,441	441,284	0%	7%
Capital Transfers	4,458,668	-	0%	0%
Interest	3,576,864	2,039,372	0%	57%
Fines	720,390	384,993	0%	53%
Capital Services	595,364	50,507	0%	8%
Total	1,920,022,116	561,347,674	100%	29%

The functions of General Public Services, Economic Affairs, and Social Protection absorbed 71% of the budgetary resources. Nevertheless, only General Public Services presented an execution rate over the overall 2023 OGE execution rate. Indeed, expenditure concentrated under this function by large, reaching the \$201.8 million. Although General Public Services are essential for the operationalization of government programmes and activities, they mainly represent operational costs that contribute only partially to the delivery of goods and services to citizens.

The function of government with the second largest expenditure is Economic Affairs, with \$99.8 million, while the third is Social Protection, with \$64.1 million. Nevertheless, these two functions had execution rates quite below the overall 2023 OGE, 20% and 26% respectively. These two functions are crucial to promote inclusive economic growth but lower than expected expenditure within them is pushing down the overall OGE execution rate. Thus, enhancing implementation capacities and solving bottlenecks affecting Economic Affairs and Social Protection will determine the effectiveness of public policy in the future.

The functions of Education, Health, Housing, and Environmental Protection had execution rates above the overall 2023 OGE execution rate but they absorbed a relatively small share of the total budgetary resources, 16%. Reallocating funding towards these functions is justified on two grounds. First, their financial performance is above the overall 2023 OGE execution rate, pushing it up. Secondly, they directly deliver public goods and services to citizens contributing to raising their standards of living.

Table 2.4.3: Budget 2023 Allocation and Expenditure by Functional Classification, \$

Function	Budget	Actual	% Budget	% Execution
General Public Services	617,312,402	201,838,216	32%	33%
Economic Affairs	497,236,201	99,837,250	26%	20%
Social Protection	245,516,439	64,075,183	13%	26%
Public Order and Safety	175,420,945	61,424,665	9%	35%
Education	163,448,111	61,807,519	9%	38%
Health	110,892,094	39,632,861	6%	36%
Defence	62,354,137	18,081,952	3%	29%
Housing and Community Amenities	28,444,036	11,379,272	1%	40%
Recreation, Culture, and Religion	12,201,098	722,176	1%	6%
Environmental Protection	7,196,652	2,548,580	0%	35%
Total	1,920,022,116	561,347,674	100%	29%

2.4.2 Justification for the Rectification Budget

The IX constitutional government of Timor-Leste is committed to achieving the objectives of the Strategic Development Plan and delivering a high-quality, cost-effective program to the people of Timor-Leste.

As a result, the Government proposes to implement a new development model that optimizes investment in human capital, as well as economic and social infrastructures, and promotes the improvement of institutions, while safeguarding the sustainability of public finances. To guarantee the prosperity of Timorese citizens, this strategy will create the essential conditions to accelerate and ensure sustainable economic growth.

Since at the end of the first semester of 2023 the OGE execution rate was only 29.2%, the budget has been amended to reduce the originally approved amount from USD \$2,155,715,306 to \$1,960,477,418. Moreover, a total of 10.1% of the original 2023 OGE has been reallocated considering the expenditure analysis previously introduced. This way the 2023 amended OGE provides the resources required by the IX constitutional government to implement its political

program, while undertaking the path of fiscal consolidation to ensure the medium and long-term sustainability of the public finances.

The Rectification Budget is also a tool to reallocate resources across extinct, newly created, merged, and split SEAFAs. To minimize the overall cost of the new structure of Government, savings from entities that have been dissolved have been reallocated to newly created entities, based on their needs for the remaining few months of the year. In addition, some savings have been recouped from Ministries who are forecasted to underspend budgets. Revised allocations are presented in the section below. The reduction in the overall budget amount will be compensated with an equivalent reduction in the funding withdraw from the Petroleum Fund in excess of the ESI.

2.4.3 Changes to Structure of Government

The IX Constitutional Government has undergone various structural changes to strengthen state institutions in order to improve the formulation of public policies and their implementation across the Government. The changes to the government organigram are as follows:

- The Ministry of Tourism and Environment has merged together the Secretary of State of Environment and the relevant units responsible for the tourism sector at the previously named Ministry of Tourism, Commerce and Industry. The IX government will build the Timorese touristic industry on the basis of sustainable economic development and environmental protection to leverage the country natural wealth.
- The Coordinating Ministry for Social Affairs has been created to strengthen the coordination between public entities operating within the social sector, ensuring the effective and efficient establishment of social protection floors for all Timorese.
- The Ministry of Education has been split from Ministry of Education, Youth and Sport, preserving all competencies related to the educational policy in pre-school, primary, vocational secondary and general secondary areas.
- The Secretary of State of Youth and Sports and most of the competencies of the Ministry of Higher Education, Science and Culture in the area of culture have been merged into the Ministry of Youth, Sports, Art and Culture with the aim of providing a coordinated response to the needs of these sectors.
- The Ministry of Tourism, Commerce and Industry has been split into the previously mentioned Ministry of Tourism and Environment and the Ministry of Commerce and Industry to better address the differentiated and particular needs that the development of the commercial and industrial activities require.
- The Ministry of Agriculture, Livestock, Fisheries and Forestry has been created to provide an integrated approach to the development of the primary sector, enlarging and giving more visibility to the government interventions in the areas of livestock and forestry as they are also crucial for the economic growth of Timor-Leste.
- The Ministry of Planning and Strategic Investment has been created to ensure that the government policies are coherent with the long-term social and economic planning envisioned for Timor-Leste in the 2011-2030 Strategic Development Plan and the 2030 Agenda for the Sustainable Development Goals. The IX government wants to reinforce the role of private national and foreign direct investment in the achievement of the SDGs.
- The Ministry for Rural Development and Community Housing has been created to address the needs of the majority of Timorese people who live in rural areas and have the right to enjoy decent quality housing. The historical comparative experience shows that the transition to market economies is preceded by the modernization of rural economies.

- The National Agency for Academic Evaluation and Accreditation has been extinct, but its services will be integrated within the Ministry of Finance.
- The National Authority for Water and Sanitation and the National Authority for Electricity has been extinct, but its budget and services will be integrated within the Ministry of Public Works in the Secretary of State of Electricity, Water and Sanitation.
- The Secretary of State of Timorese Communities Overseas has been extinct, but its budget and services will be integrated within the Ministry of Foreign Affairs and Cooperation.

2.4.4 Budgetary strategy for the amended 2023 OGE

Fiscal consolidation measures to achieve long-term sustainability of public finances

As a result of the elections and the subsequent process to hand over the executive to the IX constitutional government, time has become scarce to implement the 2023 budget as initially designed. The time required to set up the new executive and realign with its programmatic priorities has led to a halt in procurement processes. Thus, some projects have been postponed to the next year.

The historical trend analysis of execution rates shows that Timor-Leste does not have the capacity to implement budgets over \$1.8-1.9 billion. Based on the fact that by the end of the second semester only 29.2% of the 2023 OGE had been implemented, that commitment and obligations amounts up to \$292,666,636.06 and that execution speeds up in the fourth quarter, the maximum implementation capacity for RAEOA and central administration has been estimated to be \$1,716,762,112. Therefore, the 2023 amended OGE sets a ceiling of \$1,960,477,418 of which \$1,716,762,112 is central administration plus RAEOA.

Reallocation of budgetary resources to enhance inclusive economic growth in line with the IX constitutional government programme

The majority of the new government's structural adjustments do not require additional budget for 2023, as many of the changes simply entail the realignment of budget allocations between SEAFAs. The amended 2023 OGE sets the institutional framework on which the IX government will rely to implement its programme effectively, efficiently, and under the principles of good governance and economy. The amended budget has created new Line Ministries and Secretaries of State with a view of prioritizing new policy areas reallocating funds to them from other SEAFAs: Coordinating Ministry for Social Affairs (\$111,000), Ministry of Agriculture, Livestock, Fisheries and Forestry (\$29,355,619), Ministry of Planning and Strategic Investment (\$7,721,187), and Ministry for Rural Development and Community Housing (\$2,400,000).

The amended budget has also divided some SEAFAs to provide more autonomy to the implementation of policy areas that are of the utter importance for the development of the country and possess particularities that deserve a differentiated approach in their regulation and the intervention of the government. Thus, Ministry of Tourism, Commerce and Industry (\$15,002,853) has been split between Ministry of Tourism and Environment (\$8,842,594) and Ministry of Commerce and Industry (\$9,306,495), and the Ministry of Education, Youth and Sport (\$122,249,822) has been split between Ministry of Education (\$122,457,994) and Ministry of Youth, Sports, Art and Culture (\$7,528,779), etc.

Finally, after a meticulous analysis, the government has decided to merge or re-integrate some SEAFAs to reduce operational costs, achieve economies of scale, and rationalise the government structure where competences overlapped. Thus, the National Agency for Water and Sanitation (\$1,166,000) and the National Agency for Electricity (\$445,260) have been integrated into the Ministry of Public Works - Secretary of State of Electricity, Water and Sanitation (\$2,061,260), the Secretary of State for Timorese Communities in Foreign Countries (\$1,000,000) has been integrated into the Public Service Commission, the Secretary of State of Environment (\$3,578,236)

has been integrated into the Ministry of Tourism and Environment, and the Secretary of State of Youth and Sports (\$5,102,489) has been integrated into the Ministry of Youth, Sports, Art and Culture - Directorate-General for Youth and Sports (\$5,536,325).

Table 2.4.4: 2023 Budget allocation for new SEAFAs, \$

Entity/Category	CD	GS	MC	PT	SW	Total
110: MTA	1,474,575	2,612,748	87,000	1,110,250	3,558,021	8,842,594
111: MCAS	0	0	4,000	0	107,000	111,000
112: ME	3,469,717	27,393,904	3,568,631	17,513,578	70,512,164	122,457,994
113: MCI	0	3,399,891	162,330	1,315,000	4,429,274	9,306,495
114: MAPPF	3,079,586	7,711,525	3,306,050	3,662,075	11,596,383	29,355,619
115: MJDAC	165,000	753,660	10,296	3,874,309	2,725,514	7,528,779
116: MPIE	386,904	2,256,602	643,061	100,000	4,334,620	7,721,187
117: MDRHC	300,000	84,625	40,000	0	1,975,375	2,400,000
Total	8,875,782	44,212,955	7,821,368	27,575,212	99,238,351	187,723,668

Source: National Directorate Budget, Ministry of Finance, 2023

The amended 2023 OGE aims at increasing the quality of the budget and boosting execution rates. Timor-Leste has invested substantial resources to enhance its planning system through the adoption of Planning Programming Budgeting (PPB). Nevertheless, no investment produces returns overnight and SEAFAs are still adapting to the PPB logic.

At the beginning of 2023 SEAFAs allocated their budget envelopes to economic inputs without considering their implementation capacity. By the end of the first semester, execution rates were below 25% for Capital Development, Goods and Services, and Minor Capital. The following table shows the pre-amendment and post-amendment distribution of budgetary resources by category.

Table 2.4.5: Original and Rectified Budget by Economic Classification, \$

Category	Original Budget	Actual	% Original Budget	% Execution	Amended Budget	% Amended Budget
CD	333,369,618	24,978,853	17%	7%	266,735,464	16%
GS	401,512,518	71,466,146	21%	18%	373,766,854	22%
MC	55,711,451	1,875,245	3%	3%	51,776,700	3%
PT	660,922,455	268,943,245	34%	41%	575,747,808	34%
SW	468,506,074	194,084,187	24%	41%	448,735,286	26%
Total	1,920,022,116	561,347,674	100%	29%	1,716,762,112	100%

The amended 2023 OGE has reduced the allocations for Capital Development from a budget share of 17% to 16% and an increased the allocations for Goods and Services from 21% to 22%,

and for Salary and Wages from 24% to 26%. The budget share allocated to Public Transfers and Minor Capital has stayed the same at 34% and 3% respectively.

In the last elections, the Timorese people has expressed its willingness to shift the policy priorities that were until then shaping the budget allocation. The IX government is committed to maintain the PPB as the main tool for budgetary policy abiding by the principle that public monies are entrusted by the Parliament with the mandate of delivering specific public goods and services to the people and contribute to the socio-economic development of the country. The PPB is flexible to accommodate the policy agenda and development priorities that deserved the confidence of the Timorese people in the last elections.

To align the 2023 OGE with the IX government programme funding has been reallocated across programmes. Among the programmes absorbing the largest shares of the Amended OGE, the budget ceiling has increased less than 1% for the Functioning and Institutional Development programme (\$371,764,728), 3% for the Social Inclusion programme (\$265,602,391), 2% for the Health programme (\$104,422,776), 5% for the Public Financial Management programme (\$46,139,468), and 4% for the National Defence programme (\$37,189,781). Among those with the lowest execution rates, funding has been mobilized from Other Types of Training programme (-\$1,584), Contingency programme (-\$33,212,177), Infrastructure connectivity programme (-\$6,758,000), and Development and Strengthening of Areas with Special Administrative and Economic Treatment programme (-\$23,830,520).

Table 2.4.6: Prioritized and Funding Programmes Original and Rectified Budget, \$

Prioritized Programmes					
Programme	Original OGE	% Original OGE	Execution	Amended OGE	% Amended Budget
National Defense	35,784,881	2%	23%	37,189,781	2%
Public Financial Management	44,026,214	2%	33%	46,139,468	3%
Health	102,196,214	5%	38%	104,422,776	6%
Social Inclusion	257,056,982	13%	42%	265,602,391	15%
Functioning and Institutional Development	370,734,476	19%	31%	371,806,028	22%
Funding Programmes					
Programme	Original OGE	% Original OGE	Execution	Amended OGE	% Amended Budget
Other Types of Training	213,584	0%	0%	212,000	0%
Contingency	64,278,935	3%	0%	31,066,758	2%
Infrastructure connectivity	8,175,000	0%	1%	1,417,000	0%
Development and Strengthening of Areas with Special Administrative and Economic Treatment	51,311,325	3%	4%	27,480,805	2%

Taking into consideration the new government priorities but also the difference in implementation capacity across different sectors, the IX government has decided to reallocate funding across the sectors of the SDP. The IX government is committed to deliver the 2011-2030 SDP as aligned with

the 2030 Agenda for Sustainable Development, focusing on the Social Capital sector and strengthening Institutions. The amended 2023 OGE allocates to those sectors 3 and 2 percentage points more of the budget share, respectively, than the original budget.

Table 2.4.7: Original and Amended Budget by SDP, \$

SDP Sector	Original Budget	% Original Budget	% Execution	Amended Budget	% Amended Budget
Economic Development	160,918,486	8%	30%	163,597,442	10%
Infrastructure Development	464,422,022	24%	21%	373,128,591	22%
Institutional	661,094,162	34%	29%	557,598,379	32%
Social Capital	633,587,445	33%	35%	622,437,700	36%
Total	1,920,022,116	100%	29%	1,716,762,112	100%

The new conceptualisation of the State that the IX government is bringing forward translate into a different allocation of financial resources across functions of government. The IX government will ensure the delivery of essential public goods and services by increasing the share of the amended 2023 OGE allocated to General Public Services from 32% to 37%, while cutting on duplicated and redundant expenditure within others functions of government to ensure fiscal sustainability.

Table 2.4.8: Original and Amended Budget by Functional Classification, \$

Function	Original Budget	% Original Budget	% Execution	Amended Budget	% Amended Budget
General Public Services	617,312,402	32%	33%	634,174,702	37%
Economic Affairs	497,236,201	26%	20%	439,019,644	26%
Social Protection	245,516,439	13%	26%	171,681,629	10%
Public Order and Safety	175,420,945	9%	35%	131,267,026	8%
Education	163,448,111	9%	38%	136,974,446	8%
Health	110,892,094	6%	36%	94,411,189	5%
Defence	62,354,137	3%	29%	64,853,247	4%
Housing and Community Amenities	28,444,036	1%	40%	24,965,254	1%

Function	Original Budget	% Original Budget	% Execution	Amended Budget	% Amended Budget
Recreation, Culture, and Religion	12,201,098	1%	6%	8,300,331	0%
Environmental Protection	7,196,652	0%	35%	11,114,644	1%
Total	1,920,022,116	100%	29%	1,716,762,112	100%

2.5: Revenues and Petroleum Wealth

2.5.1 Domestic Revenues

Domestic revenues in Timor-Leste are composed of tax revenues, fees and charges, interest, revenues from autonomous agencies and revenues from RAEOA. Table 2.5.1 breaks down domestic revenues into these categories showing actual 2022 data and the projected amounts for 2023 as per the original budget and the Rectification Budget. The table also presents domestic revenue forecasts for the following years 2024-2027. The forecasts will be revised prior to the publication of Budget 2024 based on up-to-date data collection.

Domestic revenue collections for the Central Administration in 2022 are estimated to have reached \$172.9m. In addition to this data from RAEOA suggests that they collected \$0.1m in fees and charges. This amount does not get transferred to the Central Administration and is used to finance spending by RAEOA.

Budget 2023 originally forecasted that domestic revenues for the Central Administration would reach \$174.9m in 2023. The latest available collection data suggests that domestic revenues for the Central Administration this year will be \$179.4m. This is due to stronger than expected revenue collection. This is also despite reductions to import duties, from 5% to 2.5%, and the elimination of the tax on sugar and confectionary products, previously \$1 per kilo of sugar, that are presented in the rectification budget.

The reduction in import duties and the elimination of the tax on sugar and confectionary products is expected to contribute to reducing inflationary pressures. As a result, the tax changes are likely to contribute to a reduction in the cost of living and therefore improve living standards in the short term.

Separately Budget 2023 projected fees and charges of \$2.5m to be collected by RAEOA to finance their expenditure. This amount has been revised down to \$1.3m based on the latest available information provided by the authority.

Domestic revenue collections are projected to fall in 2024 and then rise steadily in the following years. This is because tax collections are projected to be lower in 2024 as a result of the reduction in import duties and the elimination of the tax on sugar and confectionary. This reduction will take affect from the point that the Rectification Budget is passed, however the higher taxes have already contributed to more than 7 months of revenue collections in 2023. This therefore means that tax revenues are predicted to fall in 2024 compared to 2023.

Based on Line Ministry information, 2023 is estimated to see a substantial increase in fees and charges collections. This is primarily driven by higher than anticipated revenues from Auctions and Social Games. The Ministry of Finance estimates that revenues from Auctions will return to the historic trend in 2024. As a result, we anticipate a moderate decline in fees and charges revenue in 2024 followed by moderate increases in the following years.

Revenues from Autonomous Agencies are highly variable year on year and therefore difficult to predict. The latest available information suggests that these revenues will be lower than the level projected in Budget 2023. However, they are expected to rise gradually in the following years in line with population growth and inflation.

Table 2.5.1: Domestic Revenue Projections, (\$m)

	2022 Actual	2023 Budget	2023 Budget Rectification	2024	2025	2026	2027
Total Domestic Revenue (A + B)	173.0	177.4	180.7	163.1	168.7	174.4	180.8
A. ZEESM Fees and Charges	0.1	2.5	1.3	1.5	1.5	1.6	1.7
B. Domestic Revenue Central Administration	172.9	174.9	179.4	161.6	167.1	172.8	179.1
Taxes	143.5	139.5	145.2	128.9	132.8	137.1	141.4
Taxes (Central Government)	142.7	136.6	143.9	127.6	131.6	135.7	140.0
Taxes (ZEESM)	0.7	2.9	1.4	1.3	1.3	1.3	1.4
Fees and Charges	17.7	16.8	25.5	23.9	25.1	26.3	27.9
Autonomous Agencies	10.9	18.6	7.7	7.9	8.2	8.4	8.7
Interest	0.9	0.0	0.9	0.9	1.0	1.0	1.1

*0 due to rounding. Source: 2022 figure from ProClarity, July 2023, Ministry of Finance, Projections from National Directorate of Economic Policy, Ministry of Finance, 2023

2.5.2 Petroleum Revenues and the Petroleum Fund

The Petroleum Fund remains the main source of funding for the State Budget each year. The balance of the Fund depends on petroleum revenues, investment income, and government withdrawals. New information is available since the original 2023 Budget was submitted in October 2022, and this is reflected the table below.

Firstly, actual data is available for the full 2022 year, rather than the projections in the original budget. The difference is shown in the second and third columns of the table below.

Actual petroleum revenues received in 2022 were \$1,106 million, compared to the budget's estimate of \$631.1 million. This was largely because the Russia-Ukraine war pushed oil and gas prices significantly higher than the projections in the original budget, which were based on the EIA's projected Brent price as at February 2022.

On the other hand, actual investment income in 2022 was lower than projected in the budget. The Petroleum Fund registered an investment return of -10.36%, which translates to a loss after expenses of \$2,050 million, compared to the \$1,418.5 million loss forecast in the original budget. The liquidity portfolio had a total return of -0.65%, which was in line with its low risk, while the growth portfolio had a total return of -11.81%. Both equities and fixed interest decreased in value in 2022 due to central banks raising interest rates to combat persistent inflation. The loan from the Petroleum Fund to Timor Gap E.P. had a return of -20.05% based on the latest independent valuation. This negative return for the Fund came after three years of strong performance.

Actual government withdrawals in 2022 were less than projected in the budget. This was largely because the \$1 billion transfer to the Combatants for National Liberation (FCLN) was ruled to be unconstitutional and not made.

In addition, the Fund's starting balance for 2022 was higher than reported in the budget following the late release of the valuation of the loan to Timor Gap E.P. as at December 2021.⁸ Accounting for these changes, the Fund's actual balance finished 2022 at \$17,273 million, about \$1 billion higher than the original budget's projection of \$16,225.1 million.

Table 2.5.2: Petroleum Fund Balance 2022-2023, (\$m)

	2022 Estimate	2022 Actual	2023 Original Budget	2023 Rectification Budget
Opening PF Balance	19,565.0	19,621.0*	16,225.1	17,273.0***
Petroleum Revenues	631.1	1,106.4	115.2	408.7
Investment Return	(1,418.5)	(2,050.4)	561.9	1,273.9
Total Withdrawal (A+B)	(2,552.6)**	(1,404.0)	(1,346.1)	(1,208.2)
A. ESI	(554.1)	(554.1)	(490.1)	(490.1)
B. Excess withdrawal	(1,998.5)	(849.9)	(855.9)	(718.0)
Closing PF Balance	16,225.1	17,273.0	15,556.1	17,747.5

Note: *Incorporating the value of Fund's loans to Timor GAP at 31 December 2021. **Approved withdrawals in Rectification Budget 2022, including a \$1 billion transfer to capitalize FCLN. The transfer did not take place. *** Actual PF opening balance for 2023, including 2022 valuation of the loan.

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

Secondly, the projections for 2023 in this Rectification Budget account for actual data for the year until June on petroleum revenue, investment income, and withdrawals. This is shown in the last two columns of the above table.

The 2023 State Budget projected total petroleum revenue of \$115.2 million from sales of oil and gas. As of June 2023, receipts from the sale of oil and gas already amounted to \$353.4 million. The higher receipts are predominantly the delayed payments of profit oil and gas for Q2 and Q3 2022, which totalled \$305.7 million. The Bayu-Undan field production has significantly declined recently and is expected to cease in 2023. Production was 37.2 million barrel of oil equivalent (BOE) in 2021, 17.3 million BOE in 2022, and only 3 million BOE as of May 2023. Oil prices were higher than estimated, averaging at \$79.3 per barrel year to date. Based on the current available data, we estimate petroleum revenues to reach slightly more than \$400 million by the end of 2023.

Investment income net of costs amounts to \$939 million as at June 2023, recovering some of the falls in 2022. Equities have been the main contributor to returns. Based on the Fund's performance until June and using the long-term expected petroleum fund return under the current asset

⁸ Please refer to Petroleum Fund Annual Report for Financial Year 31 December 2021 for a detailed discussion.

allocation, the investment return for 2023 is projected to be \$1,273.9 million or 7.5%. The final return for 2023 will be determined by market movements in the upcoming months. It is important to note that a market downturn will reduce the investment income. Returns can vary greatly over short periods, and for long-term investors like the Petroleum Fund, it is more appropriate to consider returns over longer time frames than just one year.

The proposed withdrawal for the 2023 Rectification Budget is now \$1,208.2 million. This is a reduction of \$137.9 million (-10.2%) compared to the approved Budget 2023 of \$1,346.1 million. Up until June, \$490 million has been transferred to the State Budget. Incorporating the actual Fund's opening balance as of January 2023 and the revised estimates for petroleum revenue, investment income and withdrawals, the Fund is estimated to finish this year at \$17,747.5 million.

2.5.3 Petroleum Wealth and ESI calculation

The Petroleum Wealth is the sum of the balance in the Fund in the beginning of the fiscal year with the estimated net present value of proven oil and gas revenues. The ESI is set to be 3 percent of the Petroleum Wealth. According to the Petroleum Fund Law, the Estimated Sustainable Income (ESI) is the maximum amount that can be withdrawn from the Petroleum Fund in a fiscal year and leave a sufficient balance in the Fund for an amount of equal real value to be withdrawn annually in perpetuity. However, the Government can withdraw in excess of the 3 percent ESI where it explains that is in the long-term interest of Timor-Leste and that is approved by the National Parliament.

The ESI is only formally updated once a year as part of the main budget process. Consequently, the ESI of \$490.1 million in the 2023 Budget is again adopted for this Rectification Budget. The table below shows the estimated Petroleum Wealth and the ESI from 2022 and 2023 in each respective fiscal year.

Table 2.5.3: Petroleum Wealth and the Estimated Sustainable Income (ESI), \$m

	2022 Rectification Budget	2023 Original Budget
Opening PF Balance	18,323.8	16,225.1
Net Present Value of Future Revenues	145.5	113.1
Total Petroleum Wealth (PW)	18,469.3	16,338.2
Estimated Sustainable Income (PWx3%)	554.1	490.1

Note: ESI as in 2022 and 2023 budget.

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

The sustainable withdrawals for 2023 can be re-estimated accounting for the Fund's actual balance at the start of 2023 and the revised future oil and gas revenues. The balance of the Fund at the beginning of 2023 was over \$1.0 billion higher than estimated in the 2023 Budget at \$16,225.1 million. As noted the expected oil and gas revenue in 2023 is also higher than originally budgeted. This results in a higher NPV of future petroleum revenues of \$401.6 million compared to \$113.1 million in the 2023 Budget. Incorporating these changes, the estimate of sustainable withdrawals would be revised up from the ESI of \$490.1 million to \$530.2 million.

2.6: Financing

The tables in this section show the revenue sources for the 2023 budget broken down by subsector. Since the ceiling for the rectification budget will be lower than the original budget, there are no requirements for additional financing. As a result there is a reduction in Excess Withdrawals from the Petroleum Fund.

The table below provides an overview of financing for expenditure from the Central Administration. There is a small change to the domestic revenue projections in the Rectification Budget. The projection for loan disbursements has also been updated as disbursements have been lower than the original amount of loans signed due to issues around project implementation. \$35 million of projected disbursements in the table below includes the advanced payment for the President Nicolau Lobato International Airport expansion project.

Forecasts for future years provide an indication of expected collections of domestic revenues as well as projected Direct Budget Support and loan disbursements. ESI and excess withdrawals have been projected based on the levels of expenditure that are estimated to realize the government's macroeconomic policy goals.

Table 2.6.1: Revenues for the Central Administration (\$m)

	2023 Original Budget	2023 Rectified Budget	2024	2025	2026	2027
Total Withdrawals from Petroleum Fund	1,346.09	1,208.19	1,324.01	1,434.55	1,556.49	1,681.49
Estimated Sustainable Income (ESI)	490.15	490.15	526.77	501.74	470.14	432.43
Excess Withdrawals	855.94	718.05	797.23	932.81	1,086.35	1,249.06
Domestic Revenue	174.90	179.41	161.64	167.11	172.82	179.06
Loans	74.11	35.00	57.20	45.00	32.00	26.50
Direct Budget Support (DBS)	4.90	10.40	9.70	9.70	9.70	9.70
Australia	3.30	7.10	6.90	6.90	6.90	6.90
European Union	1.60	3.30	2.80	2.80	2.80	2.80
Treasury Cash Balance	200.00	200.00	163.30	205.90	223.47	239.34
Total	1,800.00	1,633.00	1,715.84	1,862.26	1,994.48	2,136.09

The table below provides an overview of revenues available to finance RAEOA's expenditure. There are small changes from the original budget due to a revised forecast for fees and charges.

Table 2.6.2: Revenues for RAEOA (\$m)

	2023 Original Budget	2023 Rectification Budget	2024	2025	2026	2027
<i>Fees and Charges</i>	2.51	1.34	1.47	1.54	1.62	1.70
<i>Cash Balance</i>	118.70	118.70	78.51	81.65	84.92	88.31
Total	121.21	120.04	79.98	83.20	86.54	90.01

The table below provides an overview of financing for the Social Security Fund. There is an increase of \$8 million in transfer from the Central Administration in the Rectified Budget.

Table 2.6.3: Revenues for the Social Security Fund (\$m) 2023

	2023 Original Budget	2023 Rectified Budget	2024	2025	2026	2027
<i>Social Security Contributions</i>	55.06	55.06	57.26	59.55	61.93	64.41
<i>Earnings</i>	2.80	2.80	2.91	3.03	3.15	3.28
<i>Interest</i>	0.05	0.05	0.05	0.05	0.06	0.06
<i>Other Earnings</i>	2.75	2.75	2.86	2.97	3.09	3.22
<i>Transfer from the Central Administration</i>	67.86	75.86	78.37	79.44	82.83	82.88
<i>Financial Assets</i>	110.00	110.00	114.40	118.98	123.74	128.68
Total	235.72	243.72	252.94	260.99	271.64	279.24

Part 3: 2023 Rectification General State Budget Law

Part 4: Supporting Documents

4.1: Petroleum Fund Law Article 8

4.1.1: Requirement for Transfers from the Petroleum Fund

4.1.2: Independent Reassurance Report to the Ministry Finance



República Democrática de Timor-Leste
Ministério das Finanças
Gabinete da Ministra



No.: 34/GMdf/IX/2023-08

Díli, 09 de agosto de 2023

Excelentíssimo

Senhor Ministro da Presidência do Conselho de Ministros

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 2023 no qual a transferência é feita e para o ano orçamental precedente de 2022.

Estimativa do Rendimento Sustentável para o ano orçamental de 2023	Montante (US Dólares) \$490.146.398,00
Estimativa do Rendimento Sustentável para o ano orçamental precedente (2022)	Montante (US Dólares) \$554.077.576,00

Estes montantes mantêm-se inalterados na proposta de lei de alteração do Orçamento Geral do Estado para 2023 (Orçamento Retificativo).

O Rendimento Sustentável Estimado é calculado segundo as regras definidas no Anexo 1 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 2023.

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 27 de setembro de 2022.

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

Com os melhores cumprimentos,

Santina



Santina J. R. F. Viegas Cardoso

Ministra das Finanças



**Building a better
working world**

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

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

Mr. Rui A. Gomes
Ministro das Finanças
Torre do Ministério das Finanças, 10.º andar
Aitarak Laran
Dili, Timor-Leste

27 de setembro de 2022

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

Âmbito

Fomos contratados pelo Ministro das Finanças da República Democrática de Timor Leste (“Ministério das Finanças”) em conformidade com o Artigo 8(c) 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 (“a Lei”) para a realização de um trabalho de segurança razoável conforme tal como definido nas Normas Internacionais de Trabalhos de Garantia de Fiabilidade, de ora em diante referido como o trabalho, em relação ao cumprimento pelo Ministério das Finanças, em todos os aspetos materiais, com os requisitos para o cálculo do Rendimento Sustentável Estimado (“RSE”), de acordo com os parágrafos II e III do Anexo da Lei para o ano a findar em 31 de Dezembro de 2023 (“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 2023 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 2023, com base no trabalho realizado e na evidência obtida.

O nosso trabalho foi realizado de acordo com a Norma Internacional de Trabalhos de Garantia de Fiabilidade (ISAE) 3000 (Revista) "Trabalhos de Garantia de Fiabilidade que Não Sejam Auditorias ou Revisões de Informação Financeira Histórica", e pelos termos de referência acordados com o Ministério das Finanças para a realização deste trabalho em 16 de abril de 2021. Esta Norma exige que o trabalho seja planeado e executado para obter uma garantia razoável de fiabilidade de que o Ministério das Finanças cumpriu, em todos os aspetos materiais, com os requisitos dos parágrafos II e III do Anexo I da Lei, no cálculo do cálculo do Rendimento Sustentável Estimado ("RSE") para o exercício a findar em 31 de dezembro de 2023, 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.

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 Controlo de Qualidade 1 (ISQC1) *Controlo de Qualidade para Firmas que Executem Auditorias e Revisões de Demonstrações Financeiras, e Outros Trabalhos de Garantia de Fiabilidade e Serviços Relacionados* e, como tal, mantemos um sistema de controlo de qualidade incluindo políticas e procedimentos documentados relativos ao cumprimento com requisitos éticos, normas profissionais e requisitos legais e regulatórios aplicáveis.

Descrição dos procedimentos realizados

Os nossos procedimentos incluíram:

- ▶ A realização de entrevistas ao pessoal-chave para entendimento do processo de reporte do RSE, incluindo o processo de obter e preparar a informação para o cálculo do RSE.
- ▶ A verificação se os critérios de cálculo foram corretamente aplicados de acordo com as metodologias descritas nos parágrafos II e III do Anexo 1 da Lei;
- ▶ A confirmação, com base numa amostra, que os dados usados para o cálculo do RSE estão de acordo com os da base de dados (ver limitação);

- ▶ A verificação das fórmulas usadas no cálculo do RSE e dos mapas de suporte;
- ▶ A realização de procedimentos de revisão analítica para apoiar na verificação da razoabilidade dos dados usados para calcular o RSE.

Ênfase

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

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

Opinião

Em nossa opinião, o Ministério das Finanças cumpriu, em todos os aspetos materiais, com os requisitos dos parágrafos II e III do Anexo I da Lei no cálculo do Rendimento Sustentável Estimado para o ano a findar em 31 de dezembro de 2023. O cálculo apresenta um Rendimento Sustentável Estimado de 490.146.398 de dólares americanos.

Restrições de uso

A informação contida neste relatório é unicamente para uso do Ministério das Finanças, de acordo com a carta compromisso datada de 16 de abril de 2021, com o objetivo de expressar uma opinião se o Ministério das Finanças cumpriu, em todos os aspetos materiais, com os requisitos dos parágrafos II e III do Anexo I da Lei no cálculo do Rendimento Sustentável Estimado para o ano a findar em 31 de dezembro de 2023. Renunciamos a qualquer responsabilidade perante terceiros, para além do Ministério das Finanças, por qualquer fiabilidade neste relatório, ou para qualquer propósito diferente daquele para o qual foi preparado.



Ernst & Young
Perth
Australia



**Building a better
working world**

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

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

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

9 de agosto de 2023

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

Escopo e propósito

Efetuámos os procedimentos descritos abaixo, que foram acordados com o Ministério das Finanças da República Democrática de Timor-Leste ("Ministério das Finanças") (a "Parte Contratante"), com o objetivo de auxiliar o Ministério das Finanças e o Governo da República Democrática de Timor-Leste ("Governo") a avaliar a exatidão do montante pelo qual o RSE será reduzido, para os anos a findar em 31 de dezembro de 2024 até 31 de dezembro de 2033, em resultado da transferência pelo Fundo Petrolífero de um valor em excesso do RSE para o ano a findar em 31 de dezembro de 2023 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.

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 controle 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 sobre Controle de Qualidade 1, Controle de Qualidade para Empresas que Realizam Auditorias e Revisões de Demonstrações Financeiras e Outros Compromissos de Garantia de Fiabilidade e Serviços Relacionados e, portanto, mantém um sistema abrangente de controle de qualidade, incluindo políticas e procedimentos documentados em relação ao cumprimento de requisitos éticos, normas 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 2024 até 31 de dezembro de 2033, em resultado da transferência pelo Fundo Petrolífero de um valor em excesso do RSE para o ano a findar em 31 de dezembro de 2023.

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 2024 até 31 de dezembro de 2033, em resultado da transferência pelo Fundo Petrolífero de um valor em excesso do RSE para o ano a findar em 31 de dezembro de 2023. Os procedimentos efetuados e as conclusões factuais são como segue:



Building a better
working world

Procedimentos efetuados	Conclusões factuais
<p>1. Obtenção dos cálculos subjacentes ao apuramento do montante pelo qual o RSE^(Nota 1) será reduzido, para os anos a findar em 31 de dezembro de 2024 até 31 de dezembro de 2033, em resultado da transferência pelo Fundo Petrolífero de um valor em excesso do RSE para o ano a findar em 31 de dezembro de 2023, os quais suportaram o relatório ao Governo elaborado nos termos da alínea b) do artigo 9.1.º da Lei.</p>	<p>Obtivemos os cálculos subjacentes ao apuramento do montante pelo qual o RSE será reduzido, para os anos a findar em 31 de dezembro de 2024 até 31 de dezembro de 2033, em resultado da transferência pelo Fundo Petrolífero de um valor em excesso do RSE para o ano a findar em 31 de dezembro de 2023, os quais suportaram o relatório ao Governo elaborado nos termos da alínea b) do artigo 9.1.º da Lei.</p>
<p>2. Resumo do montante pelo qual o RSE será reduzido para os anos a findar em 31 de dezembro de 2024 até 31 de dezembro de 2033, em resultado da transferência pelo Fundo Petrolífero, em resultado dos cálculos obtidos no procedimento 1.</p>	<p>Resumimos, no Apêndice A, o montante pelo qual o RSE será reduzido, para os anos a findar em 31 de dezembro de 2024 até 31 de dezembro de 2033, em resultado da transferência pelo Fundo Petrolífero de um valor em excesso do RSE para o ano a findar em 31 de dezembro de 2023, em resultado dos cálculos obtidos no procedimento 1.</p>
<p>3. Conciliação da metodologia subjacente aos cálculos obtidos no procedimento 1 com a metodologia adotada no cálculo do RSE para o ano a findar em 31 de dezembro de 2023, 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 27 de setembro de 2022. Reporte de quaisquer exceções encontradas.</p>	<p>A metodologia de cálculo subjacente aos cálculos obtidos no procedimento 1 estão em conformidade com a metodologia adotada no cálculo do RSE para o ano a findar em 31 de dezembro de 2023, 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 27 de setembro de 2022. Não foram identificadas quaisquer exceções.</p>
<p>4. Obtenção do valor proposto da transferência do Fundo Petrolífero, que consiste num valor em excesso do RSE calculado pelo Ministério das Finanças para efeitos do Orçamento do Ano Fiscal de 2023 e reconciliação do valor com o cálculo obtido no procedimento 1.</p>	<p>Obtivemos do Ministério das Finanças o valor proposto da transferência do Fundo Petrolífero, o qual ascende a 1.208.194.889 de dólares americanos. Conciliámos o valor da transferência proposta, no montante de 1.208.194.889 de dólares americanos, com os cálculos obtidos no procedimento 1.</p>



Building a better
working world

Procedimentos efetuados	Conclusões factuais
5. Recálculo do montante da redução no RSE, para os anos a findar em 31 de dezembro de 2024 até 31 de dezembro de 2033, 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 2023.	Efetuámos o recálculo do montante da redução no RSE, para os anos a findar em 31 de dezembro de 2024 até 31 de dezembro de 2033, 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 2023. Não foram identificadas quaisquer exceções

Note 1 - o RSE para um determinado ano fiscal é calculado como 3% do valor total estimado do Fundo Petrolífero no final do ano fiscal anterior adicionado do valor presente dos "recebimentos das futuras receitas de petróleo" com base numa taxa de desconto igual à taxa de retorno do investimento futuro do Fundo Petrolífero. Com a término do Acordo de Partilha de Produção do campo Bayu-Undan, os recebimentos das futuras receitas de petróleo foram estimados em 115.2 milhões de dólares americanos para o ano findo em 31 de dezembro de 2023. Os recebimentos das receitas de petróleo foram estimados como sendo nulos nos anos subsequentes. O ESI apurado para o período que terminará a 31 de dezembro de 2023 ascende a 490.146.398 dólares americanos.

Ernst & Young
Perth
9 de agosto de 2023

Apêndice A

A tabela abaixo resume a redução ao RSE para os anos a findar em 31 de dezembro de 2024 até 31 de dezembro de 2033, em resultado da transferência pelo Fundo Petrolífero de um valor em excesso do RSE para o ano a findar em 31 de dezembro de 2023.

RSE para os anos fiscais de 2024 a 2033 assumindo:

	A proposta de transferências do Fundo Petrolífero em 2023 no valor de 1.208.194.889 de dólares americanos	A proposta de transferências do Fundo Petrolífero em 2023 no valor de 490.146.398 de dólares americanos	Redução do RSE
Ano fiscal	de dólares americanos	de dólares americanos	de dólares americanos
31 de dezembro de 2024	470.893.947	492.823.148	(21.929.201)
31 de dezembro de 2025	473.465.028	495.513.962	(22.048.934)
31 de dezembro de 2026	476.050.147	498.219.468	(22.169.321)
31 de dezembro de 2027	478.649.380	500.939.746	(22.290.366)
31 de dezembro de 2028	481.262.806	503.674.877	(22.412.071)
31 de dezembro de 2029	483.890.501	506.424.942	(22.534.441)
31 de dezembro de 2030	486.532.543	509.190.022	(22.657.479)
31 de dezembro de 2031	489.189.011	511.970.200	(22.781.189)
31 de dezembro de 2032	491.859.983	514.765.557	(22.905.574)
31 de dezembro de 2033	494.545.538	517.576.177	(23.030.639)

