

**Statement by the IMF Staff Representative
June 25, 2008**

1. This statement provides information that has become available since the circulation of the staff report. The new information does not alter the thrust of the staff appraisal.

2. **The 2008 mid-year budget update (MYBU) was approved by the Council of Ministers on June 18 and will shortly be sent to Parliament for consideration.** Revenue estimates are expected to be close to staff's projections of 424 percent of non-oil GDP.

However, there is a sharp increase in spending appropriations relative to the figures discussed during the consultation mission and set out in the staff report. The Government proposes to increase spending by more than double that in the original 2008 budget, and about 50 percentage points higher than previously expected for the MYBU. The bulk of the increase is reportedly for a new Economic Stabilization Fund (ESF) to stabilize the price of rice and other foods, fuel, and construction materials. To finance the higher appropriations, the MYBU implies an additional withdrawal from the Petroleum Fund of 61 percent of non-oil GDP above the estimated sustainable level, which requires special approval from Parliament.

Central Government Budget (In percent of non-oil GDP)					
	2007H2		2008		
	Budget	Act.	Budget	MYBU Est.	
				SM/08/165 1/	MYBU 2/
Revenue	291	350	291	423	418
<i>of which oil and gas</i>	281	340	287	417	410
Expenditure (commitments)	55	52	72	105	154
Current	52	44	53	76	121
Capital	3	8	19	29	33
Expenditure (cash) 3/	...	31
Current	...	30
Capital	...	1
Memorandum items:					
Cash opening balance 4/	115	115	38	38	38
Carry-over opening balance 3/ 4/	59	59	20	20	20
Carry-over spending 5/	59	22	20	20	20
Total cash spending 5/	114	53	92	125	174
'Sustainable' spending	77	...	66	90	92
Sources: Timor-Leste authorities; and Fund staff estimates					
1/ Preliminary, as of mid-May. Cost of rice subsidies (5.8 percent of non-oil GDP) is included in current expenditure on a net basis.					
2/ Approved by Council of Ministers June 18. Includes 51 percent of non-oil GDP for an economic stabilization fund.					
3/ Cash spending of current budget.					
4/ Figures for 2007H2 are higher because of comparing to half-year GDP.					
5/ Figures in budget columns assume full cash execution, also of carry-over.					

3. **The proposed MYBU reinforces concerns raised in the staff appraisal, including the need for well planned and managed spending to guard against waste.** While the proposal reflects the government's desire to respond to rising commodity prices, the scope is considerably larger than earlier plans for the rice subsidy. Given still undefined operational details, weak administrative capacity, and the timing, it is not expected that much of the ESF appropriation could be spent in the remaining half of the fiscal year. In addition, initial public reaction suggests the MYBU proposal will encounter significant opposition in Parliament.