



DEMOCRATIC REPUBLIC OF TIMOR-LESTE

**ADDRESS BY
HIS EXCELLENCY THE PRIME MINISTER
KAY RALA XANANA GUSMÃO
ON OCCASION OF THE PRESENTATION OF THE
LEGISLATIVE PROPOSAL CONCERNING THE
2012 STATE BUDGET**

NATIONAL PARLIAMENT

9 November 2011

Your Excellency, the Speaker of Parliament
Distinguished Members of Parliament
Distinguished Government Members
Representatives from Civil Society
Ladies and Gentlemen,

Today we are here to present the State General Budget for 2012, the last budget of the legislature of the Fourth Constitutional Government, and as such one that fulfils the commitments made by this Government.

When this Government entered into office it adopted an ambitious agenda based on the Program approved by this Parliament. Acknowledging the many priorities, the Government set out a clear program for each year in order to achieve the necessary and desired outcomes.

Importantly we had the political will to improve the state of the Nation and viewed our economic, social and security difficulties as challenges we had to stand ready to overcome. The government team that has been with me for four years has responded with hard work and responsibility to the call for reform that was made by our people and succeeded in bringing about change.

As such, reform is the legacy this Government leaves for the future!

With bold reforms we succeeded in consolidating stability and security and beginning an effective process towards sustainable development, which in turn will provide Timorese with more jobs and more opportunities.

Your Excellencies
Ladies and Gentlemen,

Because we are in the last year of the mandate of the AMP Government, a pioneering 5-party coalition, it is apt to recall that it is the Constitution of Timor-Leste that dictates that the government is to consist of the party, or the alliance of parties, that hold a parliamentary majority.

In August 2007 when we came to government, our Nation was experiencing a delicate situation of fragility, with frequent episodes of instability and violence. It appeared as if we were on our way to becoming a failed State.

At this time, the AMP provided the necessary governing stability, which was a necessary prerequisite for serving the best interests of the People and of the Country.

We are aware that we did not do everything. Furthermore, we know that we were not alone in doing the things we did. The Government has also relied on the active participation of His Excellency the President of the Republic and the dynamic and vital collaboration of Parliament – both from the AMP and the opposition, which has been a strong and informed opposition – to find solutions for critical problems faced by the State in its process of consolidation.

We have sought to govern in dialogue with all State Agencies. We have sought to listen to Civil Society and to engage all Timorese citizens.

Therefore, it must be said that if today we are living in a more stable situation, and in a climate of greater confidence in the future, it is primarily due to our People. If we succeeded in conveying a constructive policy message to the Country, then our People succeeded in interpreting this message and embracing it to change the image of Timor-Leste.

In very brief summary, the change we have made in the Country is a result of the following measures that were implemented:

1. Thorough reforms to State administration and public sector management;
2. Vital reforms in the defence and security sector including capacity building and the professionalising of the Defence and Police Forces;
3. Establishment of systems and structures to ensure good governance and transparency, including the capacity building of Justice agencies and their officers;
4. Development of key policies in the areas of education, health and agriculture;
5. Recognition of the veterans and the elderly, as well as other victims who directly or indirectly suffered physical, moral or psychological damage from our struggle for Independence, by way of more just welfare policies and the provision of financial support to address hardship;
6. Beginning implementing a plan of integrated basic infrastructure to enable the development of the Country's productive sectors;
7. Promotion of a coherent policy in regard to the development of the fledgling national private sector.

It was in this atmosphere of change that we concluded the year of 2009 with the motto 'Goodbye Conflict, Welcome Development'. We then concluded 2010 with growing confidence and optimism as a result of our 'unprecedented economic growth'. Now, as we approach the end of 2011, I can say that we have a clear vision of what we can be in 20 years: a strong and prosperous Nation, as set out in the 'Strategic Development Plan' that belongs to and was welcomed by our People, since it reflects their aspirations.

Your Excellency, The Speaker of Parliament
Distinguished Members of Parliament

Ladies and Gentlemen,

The year of 2012 will be very important for our young democracy and for our consolidation as a sovereign, tolerant and developing Nation.

Next year we will be celebrating important dates that connect us with the more recent past of the struggle for independence as well as with our older roots that make us unique within both the region and the world. In addition to celebrating the **10th anniversary of the Restoration of Independence**, in 2012 we will also be celebrating the 100th anniversary of the Manufahi Revolt and the 500th anniversary of the arrival of the first Portuguese in Timor-Leste.

Further, **in 2012 we will hold presidential and parliamentary elections**. These will be the third democratic elections in our Country.

In January 2011, when presenting the 2011 State General Budget, I urged everyone to ‘socialise the values of moral policy and to build on the confidence of the People in the future, to consolidate social harmony and democratic tolerance’. Today, in this National Parliament, I urge all the people, and the youth in particular, as well as those who are responsible for the future of this Country, to show the world that we can exert our rights with responsibility, and that together, we will ensure that the electoral processes take place in an atmosphere of peace and social and political harmony.

Also in 2012, after the elections, and with our heartfelt thanks for their invaluable assistance, we will witness the departure of the International Stabilisation Forces (ISF) and of the United Nations Integrated Mission in Timor-Leste (UNMIT). Regarding the latter, we have already endorsed the Joint Transition Plan, which means that at last we will regain full responsibility for our future.

We have many reasons to be proud of our Nation and to be Timorese. Now that we are living in an atmosphere of peace and tranquillity, it is heartening to see how tolerant and peaceful our people are by nature.

We are living in harmony with our cultural and social diversity. Every day in our institutions, streets and our homes we live alongside people with different languages, cultures and social habits, coming from all corners of the world, who add to our diversity. We accept, welcome and have learned to live with this diversity, although unfortunately some countries still issue “travel warnings” that discourage their citizens from visiting Timor-Leste, as if we were Pakistan, Iraq or Afghanistan.

Speaking of foreign countries, allow me to say a few words on our **international policy**.

During these past few years we have consolidated our privileged relations with the CPLP Countries.

In 2011 we have also been busy with the process for formally joining ASEAN, and we hope that soon we can access this important Regional Forum.

We have been an active Observer in the Pacific Islands Forum, having already explored opportunities to cooperate. We believe that in the future there will be more areas of shared interests. We are also a founding member of the South-West Pacific Dialogue and enjoy positive relations African, Caribbean and Pacific States and the European Union.

As you all know, I have recently been to Juba, the capital of South Sudan. On the day we arrived, the South Sudanese were celebrating 100 days as an independent State, pleased with the fact that they were so soon able to host an international event, the g7+ Ministerial Retreat.

At the g7+ meeting we were pleased to approve the entry of two more countries, Equatorial Guinea and Togo, bringing to 19 the countries represented in this group. Guinea-Bissau requested to host one of the next meetings of this group, so that the g7+ can assist them in better addressing their challenges.

The Retreat also discussed the proposal for a New Aid Deal, which seeks to improve the effectiveness of international aid. In July 2010, Dili held an International Dialogue on “Peacebuilding and Statebuilding” and a preliminary g7+ meeting. At the end of this month, Busan, in South Korea, will host the Fourth International Forum on Aid Effectiveness, and the g7+, chaired by Timor-Leste, will also be present.

Ladies and Gentlemen,

From 2007 to 2011, Timor-Leste made significant advances towards good governance and transparency in the public sector which included:

- Establishing the **Civil Service Commission**.
- Establishing the **Anti-Corruption Commission**.
- Strengthening the powers of the **Office of the Inspector-General** and the capacity of the Office of the Prosecutor-General.
- Establishing the **Chamber of Accounts** as the precursor to the Higher Administrative, Tax and Audit Court.
- Establishing an integrated financial system so as to better monitor budget execution and procurement processes and enabling public access through the **Transparency Portal and the Procurement Portal**.
- Moving up 19 positions from 2009 and 2010 in Transparency International’s world ranking, measured by the **Corruption Perceptions Index**.
- Receiving full compliance status with the **Extractive Industries Transparency Initiative**, becoming only the third country in the world to achieve this status. This international recognition enabled us to be elected for a **second term as Members of the EITI International Board**.
- Being acknowledged in the first ever Revenue Watch index as a Government with **Comprehensive Revenue Transparency**.
- Improving **petroleum revenues** by 38% from 2009 to 2010.
- Achieving **strong budget execution rates**, which have been increasing considerably since 2007. Budget execution in the capital development category alone, from 2006/07 to 2011, increased by 3,413%. **The budget execution rate was 89% in 2009 and 91% in 2010**. It is estimated that the budget execution rate in 2011 will be at least 95%.

These reforms, together with the increase in public investment, enabled Timor-Leste to have **the highest economic growth rates not only in the region but also in the entire world**, with 12.7% in 2008 and 12.9% in 2009, despite the world’s serious financial crisis.

Economic growth is only a valid sign of progress if it results in real improvements in the living conditions of the people. There are indicators that measure these improvements, such as:

- The scope of the Millennium Development Goals regarding the mortality rates for infants and children under five. **Health indicators** are improving fast, with 78% of children currently receiving treatment for basic illnesses and 86% of mothers receiving pre-birth care – a 41% increase.
- The United Nations' 2010 Human Development Index shows that Timor-Leste moved up 11 positions since 2005, being currently situated in the category of **medium human development**.
- UNDP's 2011 Human Development Report shows that Timor-Leste increased once more its Human Development Index, with a 22% improvement from 2001 to 2011. The report highlights the positive and sustainable growth and development of Timor-Leste, including key indicators such as the **increase in the average life expectancy**.
- The United Nations' Report on Human Rights in Timor-Leste showed advances in the justice sector, with Timor-Leste having the potential to become a **regional and global leader in terms of human rights**.

I must also mention other achievements made in the recent past that contribute to make Timor-Leste a more developed society, such as:

I know there are some doubts about the implementation of the **MDG-Sucos Programme**, with an investment of \$65 million in 2011. In May we promoted a general assembly with the heads of Suco from the entire territory to explain precisely the rationale of this program.

I would also like to take this opportunity to explain to the general public that housing under the MDG-Sucos Program cannot be built like the social housing built for poor families.

MDG-Sucos' housing meets the Millennium Goals (which involves decent homes with water, sanitation, electricity and access to health, education and markets). It is precisely because of this that during discussions with communities we set the following criteria: a permanent water source as the number one criterion; land that is sufficient and accepted by the entire community; and good road access.

Land has been ascertained to be the primary obstacle, and as a result we decided to begin pilot projects to motivate communities to find collective solutions to problems. We believe that, by the end of 2012, and after presenting the outcomes of pilot projects, we will be able to witness positive changes in communities throughout the Country.

- The **Decentralised Development Program I and II**, with an investment of \$44.3 million in 2011, funded the development of small-scale infrastructure and nurtured the growth of construction companies in the districts, sub-districts, sucos and villages of the Country.

In relation to this program, we have also heard concerns regarding the quality of the works. The NDA is involved in a process with small business people to demand greater responsibility from them. It should be noted that these local business people have agreed to undertake corrections and in doing so demonstrating their seriousness and a good attitude.

By the end of the year, the Government will have awarding certificates to the best companies, so as to create healthy competition in the fledgling private sector.

I would also like to mention that the program “Sensus Fo Fila Fali” is currently taking place, to socialise the results of the 2010 Census, at local and community level. This data will contribute to providing sucos with greater knowledge about their own future needs, and to enable them to measure their relative development every year. As well, communities will also be better equipped to make their own choices and to set their own collective priorities.

- In terms of **access to education**, we now have 90% of school-aged children enrolled in basic education, fulfilling the goal set for 2015. Additionally, in 2011 alone we have built and rehabilitated around 35 basic and secondary education schools and over 250 classrooms.
- In 2011, the **national literacy campaign** made considerable progress, with the eradication of illiteracy in the districts of Manatuto, Manufahi, Lautém, Aileu and Covalima by the end of the year.
- Agricultural **production and productivity increased substantially** in regard to rice and corn with a cultivation of around 28,000 hectares producing 64,000 tonnes of rice (productivity of 2.97/ha) and cultivating around 27,000 hectares producing 30,600 tonnes of corn (productivity of 1.41/ha).
- To promote **food security**, we developed the integrated information system database and the regular collection of information on food security through the communities of the 13 districts.
- **We trained over 1,200 groups of farmers** on improved agricultural techniques and we distributed over 12,000 information manuals for agricultural extension workers.
- We continued to pay **Bolsas de Mãe** to over 15,000 beneficiaries and strengthened the attendance and assistance to **women who are the victims of abuse and to children at risk**. In addition, we have been paying pensions to **National Liberation Combatants** and we have awarded around 98 scholarships to the children of martyrs.
- We have started to build the 20 Monuments to the National Heroes and the 12 mausoleums, and on 20 August we conducted the **Demobilisation Ceremony for 236 National Liberation Combatants**.

- We have integrated the **668 medicine students** who returned from Cuba into the National Health System and we held the ceremony declaring Timor-Leste **Free from Leprosy**.
- The Vice Minister for Health currently holds and will for the next two years, the position of Vice President of the Executive Board of the **World Health Organization**.
- The transformation of the Banking and Payments Authority into a **Central Bank**, with specific responsibilities in the development of the financial sector, constitutes another important stride towards the consolidation of State Agencies.
- This Government has also invested in the largest infrastructure project ever in the Country, the **creation of an electric energy production, transmission and distribution system**, which is currently in an advanced stage of construction.

This project includes the Hera Generation Plant, with 119.5 MW capacity, as well as the Betano Generation Plant, with a capacity of around 137 MW. These projects also include transmission lines to establish a ring around Timor-Leste, to enable all Timorese, even those residing in the more remote areas, to have access to electricity.

The entire National Power Grid will be completed by the end of next year. Already this month, Hera can supply Dili, Aileu, Manatuto, Liquiçá and Gleno. It is hoped that before Christmas, and upon completion of the Baucau sub-station, Baucau, Lospalos and Viqueque will also be supplied by Hera. The Generation Plant, which is starting its operations, as well as the Bobonaro, Suai and Cassa sub-stations, may be operational before late 2012.

The importance of this project is unquestionable. In addition to generating direct and indirect employment, it will create numerous business opportunities and attract foreign investment. The regular supply of electricity through the National Power Grid is one of the key achievements of this Government, and its impact will start to be realised between late 2011 and mid-2012.

Your Excellencies
Ladies and Gentlemen,

In January 2011 I came here to defend the 2011 State General Budget. Today I want to repeat what I said in January 2011 word for word.

It is important to highlight the following:

1. This budget execution rate will be higher still, because according to the applicable international standards the closing of accounts is only fully recorded two months after the end of the financial year in question;
2. The Government no longer includes commitments in the financial execution reports. I should clarify that there are differences between obligations and commitments;
3. All funds not used revert to the State at the end of the year, in a transparent manner;

4. Expenditure is monitored through the FreeBalance system, in view of the expenditure approved by Parliament, thus ensuring greater transparency and real time adjustment to the contingencies of the Country, making public spending more efficient.’

There is a methodology, which may be archaic but is still very useful, to monitor any development process. The current development stage of the Country requires all actors, inside and outside the State, to understand the parts in order to be able to have a realistic perspective of the whole.

Those development stages can be international, regional and national.

Your Excellency the Speaker of Parliament
Distinguished Members of Parliament

Ladies and Gentlemen,

The 2012 State General Budget was programmed in order to establish a launching pad to transform Timor-Leste into a medium-high income country within the next 20 years.

Once again following the legal framework to the letter and using proper planning instruments, we have a **budget program that is sound, transparent and displays vision.**

As the Distinguished Members of Parliament will recall, on Friday, 4 November, the Government referred to the meetings that took place on 1-2 August at the Dili Convention Centre to demonstrate that it is committed to improving management practises and correcting mentalities in Public Administration, as well as implementing a better budget methodology. I stated here last January that the Government wants to reformulate the Budget into two major divisions: recurring expenses and development expenses. We are on the right path when we view the recurring expenses we want to stabilise, thus focusing more on capital development.

In a stage when we are building and consolidating the institutions of our State, having a numerical methodology with set figures would only serve to show our inability to adjust, both mentally and critically, to the realities of the Country.

The international budgeting standards are probably not the best. When every day I see TV coverage showing the German Chancellor Angela Merkel, French President Nicolas Sarkozy and British Prime Minister David Cameron trying to give advice, the Italian Prime Minister Silvio Berlusconi looking scared and waving the white flag to the IMF a few days ago, and the Greek nation in an unprecedented political crisis, I find myself thinking that the Member States of the European Community have not been paying too much attention to the international standards. Perhaps that was the reason why President Obama accused the European countries of not having been able to solve their own problems since 2008. Similarly, the G20 held last week in Cannes failed to deliver the sign of hope that so many were longing for. Today, many commentators say that Italy may become the next Greece.

Within this global context of economic and financial crisis, forgetting that we are part of the great region that is Asia, with strong and emerging economies, is failing to place ourselves in space and time.

Your Excellencies,

The 2012 State General Budget will be the first to reflect the development goals set out in the **Strategic Development Plan** launched in July. The Strategic Development Plan covers three vital areas for the development of the Nation: **capital, infrastructure and economic development**. It has been informed by the valuable data from the 2010 Census, which captured the actual and objective situation of the population, and now uses this data to create sustainable development policies.

Investing in development in 2012 means **investing \$1,763.4 billion in sustainable policies for the Country**, which will build on the achievements so far and place Timor-Leste on the right path.

This investment is designated particularly for the construction and maintenance of essential and productive infrastructure, to the building of the petroleum sector on the South Coast, to decentralised development at district and local level and, also to the development of our human capital.

Knowing that three quarters of our population reside in rural areas, we will continue to invest in agriculture projects so as to increase the productivity of the sector. Together with DDPs I and II and with the LDP, these projects will promote employment creation for young people and adults living in rural areas.

Ladies and Gentlemen, I will now describe the key budget guidelines for 2012:

1. We intend to invest **\$1,054.4 million in Capital Development**, increasing investment in this category by 209% against the year 2011. This amount includes:
 - \$746.2 million for the Infrastructure Fund;
 - \$52 million for Decentralised Development Programmes I and II; and
 - \$200 million for the Capitalisation of the Timor-Leste Investment Company.

The **Infrastructure Development Fund**, created in 2011 with an initial allocation of \$599 million, and dedicated to multiyear projects, to support a modern and productive country that is able to generate employment opportunities, will continue in 2012.

If the Infrastructure Fund and the DDPs are not new, as they continue this Government's focus on infrastructure and rehabilitating more and better roads, bridges and ports, irrigation systems, schools, clinics and hospitals, power grids, monuments, houses and police and military facilities, as well as the important development of Tasi Mane and other basic infrastructure at national and district level, the capitalisation of the **Timor-Leste Investment Company (CITL)** is an innovative measure for the new fiscal year.

This Company will promote investment and economic growth opportunities, by focusing on commercial strategic projects. This will be the privileged instrument by the Government to transform our petroleum wealth into a non-petroleum economy. In other words, we will be diversifying our economy and promoting the creation of industries and services, instead of relying on petroleum and natural gas.

With an initial capitalization of \$200 million, this company will start its activity with an autonomous management, similar to Singapore's Temasek. The creation of this company is a strategic decision by the Government, with a political and economic nature, that is foreseen in the Constitution. The State, as the sole stockholder, acts as an economic agent, supporting the market and enabling investment in certain economic areas.

Potentially, CITL will be dedicated to the following projects:

- An underwater cable providing internet connection to the rest of the world, using the best available technology and substantially improving internet access in Timor-Leste.
- Reference projects in the areas of tourism, particularly concerning hotel building and manufacturing parks producing quality products at competitive prices, through the exploration of partnerships with advantages for the development of the tourism sector;
- Building commercial offices to allow the provision of high quality services;
- Other strategic investments, such as supporting access by passengers and freight at fair prices.

2. We intend to invest **\$344.7 million in Goods and Services**, including:

- \$30 million for the Human Capital Development Fund;
- \$87 million for the fuel required to supply electricity to the entire Country;
- \$2.4 million for the professional training of teachers, to improve the skills and professionalism of teachers, which in turn will result in better education for the students;
- \$6.5 million for the operational services of the Ministry of Education, to support primarily the school meals programme;
- \$14.5 million for the operational costs of the presidential and parliamentary elections;
- \$9 million for the Food Security Fund, so as to ensure national reserves of corn and rice;
- \$1.6 million for the National Development Agency;
- \$2.1 million for the National Procurement Commission.

The National Development Agency and the National Procurement Commission, also created in 2011 by Decree-Law, along with the Timor-Leste Investment Company, will contribute to a better implementation of the major strategic projects, ensuring proper management, monitoring and cost-efficiency of infrastructure works and assuring that the implementation of the Strategic Plan, in regard to capital works, is a success.

On the other hand, I would like to highlight in this expense category the considerable investment made in education and technical and professional training, including the **Human Capital Development Fund**, which foresees around \$11.8 million in scholarships alone for key development areas such as the petroleum sector, public finance and management, and education.

The Human Capital Development Fund, created in 2011 with a total of \$25 million, to be increased up to \$175 million during the first 5 years, is developing the necessary

competences – in the fields of education, professional training and technical capacity – for Timor-Leste to have the labour required for the social and economic progress of the nation, particularly in strategic areas such as natural resources, agriculture, tourism, infrastructure, education and health.

Lastly, in this expense category we would like to note the expenses required to ensure that the 2012 elections take place in a fair, democratic, participative and safe atmosphere. For this purpose we have allocated \$8 million to STAE, \$1.5 million to CNE, \$4 million to PNLT, \$0.5 million to F-FDTL and \$0.5 million to RTTL.

3. We will invest **\$194.2 million** in the category of **Transfers**, including:

- \$69.9 million for payments to National Liberation Combatants;
- \$32 million for payments to elderly citizens over 60 years old, covering around 89,000 beneficiaries;
- \$6.3 million to continue to implement the Local Development Program, supporting rural communities; and
- \$20 million for rural-based community projects, seeking to improve rural roads and to create employment in rural areas.

To invest in people is to invest in the future of the Country. This has been one of the mottos of our government. For this reason, we will continue with our public transfers program, including the payment of benefits to National Liberation Combatants, the elderly and other vulnerable groups.

Our governing experience has shown that this type of justice and social stability programs provide an invaluable return for the country. Additionally, removing our people from poverty, either directly or indirectly, is a moral obligation for any Timorese leader, since it is to our People that we owe the Independence of Timor-Leste. This is a debt that can never be paid in full.

4. The 2012 Budget also includes **\$30 million for Minor Capital**, particularly for purchasing multipurpose vehicles for health centres and for purchasing medical and hospital equipment.

5. Finally, we have allocated **\$140.1 million for Salaries and Wages**. In addition to the recurring expenses in this category, we decided to:

- Increase salaries in the area of education, in order to implement the teacher career regime, with an investment of \$2.6 million;
- Strengthen higher education, through UNTL, with an investment of \$3.5 million;
- Implement special careers for health professionals, with an investment of \$3.4 million; and
- Convert temporary public servants to permanent staff, with an investment of \$23.2 million in 2012.

Your Excellency the Speaker of Parliament
Distinguished Members of Parliament

Ladies and Gentlemen,

The impact of the investment we have been making during these past few years on the living situation of the Timorese, and on the operation of the State institutions, is the best indicator of budget execution and encourages us to be even bolder when developing the country.

For the first time, Timor-Leste will incur public debt, based on the **Public Debt Regime** approved by Parliament. Consequently this Budget presents **the maximum borrowing threshold of \$33.1 million** for building strategic infrastructure for the Country.

Nevertheless the Government vows to manage public debt in a sound and sustainable manner, identifying from the start the projects to be funded in this manner and listed in the SDP:

- Construction and supervision of the roads linking Dili-Manatuto-Baucau; Manatuto-Natarbora; Dili-Liquiça-Tibar-Ermera; and Maubisse-Ainaro/Same.
- Construction and supervision of the motorway in the South Coast, so as to support the development of this region.
- Construction and supervision of the development of the Dili drainage system, resulting in a cleaner city that is less subject to floods.

We have started to fulfil the goal set in the Strategic Plan of developing an extensive road network linking communities, promoting rural development, industry and tourism and providing access to markets, as well as improving basic sanitation and drainage systems, by 2015.

In 2012 the Government may use **Public-Private Partnerships** (PPPs) to support projects included in the SDP, namely the construction of large projects such as Ports and Airports. The legal and political framework for this is being developed. However we know that these processes are very complex and consequently should only be used in cases where it is necessary to share risks and to have access to international expertise.

Ladies and Gentlemen,

These large infrastructure projects should be associated with the development of our banking and financial services, so as to maintain an environment that is attractive to national and foreign investment. For this reason, in 2012 we will continue to invest in long-term credit and funding systems, with accessible rates, in order to encourage the development of our private sector.

We will also continue to invest in the **Commercial Bank of Timor-Leste**, formerly the Microfinance Institute of Timor-Leste, focusing on providing micro and small loans. It is estimated that the number of clients in the portfolio will increase in 2012, as well as the number of deposits and loans, particularly at district level.

Your Excellency the Speaker of Parliament
Distinguished Members of Parliament,

Domestic revenues have been increasing gradually and should increase even more as the economy grows and public administration improves. For 2012 we are estimating an amount of **\$136.1 million** in domestic revenues. This represents a 23.6% increase against 2011.

As such we continue to rely on petroleum revenues to fund our budget, but it is precisely to curb this trend that we programmed the 2012 budget with the priorities we have set out.

Up to 1 January 2012, we estimate that the total petroleum wealth that encompasses the actual net total from the future petroleum revenue is \$22.2 billion. According to the latest Bank Payments Authority report the balance as of 30 September 2011 is \$8.9 billion, and it is estimated that by the end of 2011 we will have \$9.4 billion and by the end of 2012 \$11 billion.

The revenue deficit is **\$1,627.3 billion**. It is financed through the Petroleum Fund (**\$1,594.2 billion**) and through public debt (**\$33.1 million**). The withdrawal exceeding the 3% of the Estimated Sustainable Income Budget is justified because the policies integrated in 2012 concern the long-term sustainable development of the Nation.

One of the conditions required for the ESI to be truly sustainable is that the real return rate of the Fund is 3%. Because of this, and in order to protect future generations, the legislation proposal approved by Parliament changes the Fund's investment policy, so as to diversify its portfolio.

This reform proposed by the Government will enable **increasing the medium and long term investment returns from our Petroleum Fund**, in order to achieve 3% or more, against our present return of 2%. Consequently, the changes made to the Petroleum Fund Law state that the purpose of the investment policy is to maximize the return adjusted to risk, using the principle of diversifying the Fund's investment portfolio.

Changing the law also enables investing at least 50% of the Fund's assets in Treasury Bonds and no more than 50% in equities. The economic models estimate that this will give a reasonable probability of achieving a real return of 3% over time, with a level of risk that is acceptable to the Government. This will align the Petroleum Fund's investment policy with the budget expenditure guidelines on the ESI.

Lastly, we will be able to present 10% of the value of the Fund as collateral for borrowing money that can only be used **to build strategic infrastructure for developing the Country**. This enables us to negotiate borrowings under more favourable conditions and with greater security.

The Government continues to argue that the only way for us not to be eternally dependent from the Fund is by diversifying the economy. This is fundamental for us to achieve sustainable economic growth. The Government also considers that the responsibility to create jobs is part of the prudent and sound management of the Fund.

Consequently, we cannot let our human capital go to waste. Human capital is the key factor for growing our economy. As such, we have been creating the conditions to generate

employment. Still, the driving force for this employment creation should be the Private Sector, rather than the State alone.

This is precisely the change we want to make in the Country. It is here that the Government assumes its responsibility to **create the necessary conditions for facilitating private initiative** and of making our economy stronger and more competitive.

The Government must take on an increasingly regulatory and oversight role, creating an environment that is conducive to investment and inducing our Country's business people to be more participative in the development process.

As such, the first obstacle to the development of the business and industrial sector has already been removed. By ensuring security and stability in the Country, the Government has given the private sector more confidence to invest.

Now, through the Strategic Development Plan, the Human Capital and Infrastructure Development Funds, the Decentralised Development Plans, the development of banks that provide credit to the Private Sector, and many other initiatives, we are creating the necessary conditions for multiplying economic development opportunities in the Country.

Your Excellency the Speaker of Parliament
Distinguished Members of Parliament

Ladies and Gentlemen,

The year that lies ahead will be important for Timor-Leste. It will be a year for reaffirming the democracy we have earned, a year for consolidating the development we have achieved, and a year for celebrating historical dates that make the Timorese identity unique in the entire world.

For next year we have **big dreams and large challenges, as well as the start of a stage of major national investments.** The implementation of the Strategic Development Plan entails the need for considerable investment, at least during the first five years of execution. Still, we know that making the dreams and aspirations of our people come true is an investment with a return that cannot be expressed in words.

I would like to conclude by reminding everyone that in 2012 we will receive guests from all over the world to take part in our celebrations. I know that these senior representatives have great expectations in relation to Timor-Leste, although it has only been 10 years since we have emerged from the debris of destruction and started to build our Nation. Many other young democracies that were created in post-conflict situations such as Timor-Leste cannot yet claim the same successes that we have achieved. Presently we are a success case at a global level!

As such, let us welcome 2012 with hope, optimism and the will to build a better Timor-Leste for our children.

It is in this spirit that I ask your collaboration and commitment, Distinguished Members of Parliament, so that we can make this State Budget a Budget for the future, a Budget for every Timorese citizen.

Thank you very much.

Kay Rala Xanana Gusmão
9 November 2011