



## V CONSTITUTIONAL GOVERNMENT

### Explanatory Memorandum

#### Proposed Law on the State Budget for 2013

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*Scanned and roughly translated from Portuguese by La'o Hamutuk. For more information and documents on the proposed 2013 Timor-Leste State Budget, see*

*<http://www.laohamutuk.org/econ/OGE13/12OGE13.htm>*

#### Introduction

Under Articles 97.1(c) and 115.2(a) of the Constitution of the Democratic Republic of Timor-Leste, the Government proposes to the National Parliament this Proposed General State Budget Law (GSB) for 2013.

This draft State Budget Law for 2013 includes all revenues and expenditures of the State of Timor-Leste and covers the period from 1 January to 31 December 2013.

#### Continuity of successful programs

The Fifth Constitutional Government will continue the successful programs already initiated by the previous government and is determined to transform Timor-Leste, by 2030, into an upper-middle-income country, with a healthy, educated population and living in a climate of safety. The V Constitutional Government Program outlines policies to achieve this goal and this proposed state budget contains allocations for the budget to finance these policies and take decisions.

#### The Infrastructure Fund

This fund was established under Article 32 of Law no. 13/2009 of 21 October on Budget and Financial Management and Article 9 of Law no. 1/2011 of February 14, approving the state budget for 2011 and was regulated by Decree-Law no. 8/2011 of 16 March and by Ministerial Diploma no. 9/2011 of 18 May.

This funding mechanism will continue to assist the Government to overcome many of the difficulties we have faced so far in the construction of infrastructure in the country and is a unique tool that allows execution of multi-year contracts in a safe, efficient and transparent manner.

#### The Human Capital Development Fund

The Government, in 2011, regulated by Decree-Law no. 12/2011 of 23 March, the Human Capital Development Fund, established under Article 32 of Law no. 13/2009 of 21 October on Budget and Financial Management, and Article 9 of Law no. 1/2011, of 14 February, which approves the state budget for 2011.

This instrument allows the Government to ensure a form of multi-annual project financing for training of human resources, increasing the capacity and training of professionals in strategic sectors of development, such as justice, health, education, infrastructure, agriculture, tourism, management oil and finance, among others.

#### Petroleum Revenues

Total Petroleum Wealth, which corresponds to the Petroleum Fund balance plus the net present value of future petroleum revenues, is estimated at \$26,231.7 million as of 1 January 2013. According to the Petroleum Fund Law, the Estimated Sustainable Income (ESI) is 3% of Petroleum Wealth. Thus, the ESI for the financial year 2013 is \$787 million.

A necessary condition for that is truly sustainable ESI is that the real rate of return on the fund is 3%. For this reason, the Petroleum Fund Law, with the latest amendment by Law no. 12/2011 of 28 September, diversified investment portfolio compared to oil revenues, to provide increased return on our Petroleum Fund in the medium and long term.

### **Non-Petroleum Revenue**

It is estimated that of non-oil revenues are \$146.3 million in 2013, representing an increase over last year, which were \$136.1 million.

The increase of \$10.2 million, or 7.5% compared to last year, is mainly driven by the increase in the assessment and collection of certain taxes - income, consumption and retention - being partially offset by a decrease due to the rice program.

The 2008 tax reform, which reduced tax rates to one-third, not only created conditions more attractive to private investment, such as increasing the limit of tax-free income free (up to \$500/month), allowing greater disposable income. Since then, there was a trend towards a gradual growth in tax revenues.

### **Public debt**

Article 20 of Law no. 13/2009 of 21 October on Budget and Financial Management, and Law no. 13/2011 of 21 February on the Regime of the Public Debt, give the Government the ability to borrow.

It is with this legal basis that the Government is presenting a proposal to the National Parliament for the ceiling that the Government is authorized to obtain loans for which legal obligation must be intended only to build strategic infrastructure for the country's development .

### **Budgeted expenditures in the State Budget for 2013**

#### **Salaries and Wages**

The total budget for wages and salaries, is \$160.257 million in 2013.

The main measures in this category are:

- Implementation of new career regime of health professionals – More than \$21.1 million compared to 2012;
- Increase of salaries of PNTL and F-FDTL - More than \$13.6 and \$7.9 million respectively than in 2012;
- Salaries associated with establishing new embassies - More than \$9.1 million above the previous year;
- Implementation of new career regime of higher education professionals - More than \$7.6 million compared to 2012.

#### **Goods and Services**

The total budget for this category is \$461.744 million in 2013, of which \$42.448 million corresponds to Human Capital Development Fund.

The main measures in this category include, among others:

- Fuel for EDTL generators \$117.8 million;
- Operation and maintenance of the Hera Power Station - \$10 million;
- Contingency Reserve - \$29 million;
- Purchase of medicines by the Ministry of Health \$7 million.

#### **Public Transfers**

The total budget for this category is \$236.473 million in 2013.

The main measures in this category are:

- Payments to veterans by the Ministry of Social Solidarity - \$92.1 million;
- Payments to beneficiaries over age 60 and disabled beneficiaries unable to work - \$32.3 million;
- Support to Non-Governmental Organizations, Religious Organizations and national and international civil society by the Office of the Prime Minister - \$18 million;
- “Cash for Work” program of the Secretariat of State for Vocational Training and Employment - \$10.5 million;
- National Suco Development Program - \$8 million;
- Payment of pensions to public employees - \$3.7 million.

### **Minor Capital**

The total budget for this category is \$47.150 million in 2013. The main measures in this category include, among others:

- Purchase of medical equipment for the Ministry of Health - \$5 million;
- Purchase of water and sanitation equipment of the Ministry of Public Works - \$3 million.

### **Capital Development**

The Government proposes \$891.895 million for this category in 2013, of which \$752.877 million is allocated to the Infrastructure Fund.

The main measures in this category, in the Consolidated Fund of Timor-Leste is:

- Integrated District Development Program (PDID) - \$68.2 million.

The main measures in the Infrastructure Fund are:

- Electricity Program - \$173.9 million (excluding loans);
- Program Tasi Mane - \$139.4 million (excluding loans);
- Roads Program - \$115.97 million (excluding loans);
- Loan Program - \$43.58 million.

Approved by the Council of Ministers on December 10, 2012.

The Prime Minister,

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Kay Rala Xanana Gusmão