I- OVERALL FISCAL

- Growth projections depend on different assumptions on government and private demand
- Projected growth is being lowered
I- OVERALL FISCAL

- Strong dollar and lower international oil and food prices are the main reasons for Timor Leste’s low inflation rate.

- Inflation stays within (below) SDP target range.
I- OVERALL FISCAL

The overall fiscal position has become increasingly negative.

And the budget ceiling is becoming tighter.
II-FISCAL RESOURCES

- **Lower oil Production and Prices – petroleum revenues are declining**

  ![Graph showing total petroleum revenues (US$ 1,000)](image1)

  - Projections:
    - 2013
    - 2014
    - 2015
    - 2016
    - 2017

II-FISCAL RESOURCES

- **Overall fiscal ceiling is expected to drop as the PF balance deplete**

  ![Graph showing projected petroleum fund balance ($000)](image2)

  - PF Balance (actual)
  - PF Balance (projected)
  - WB estimates
II-FISCAL RESOURCES

- As a result, ESI is being revised down

Estimated Sustainable Income 2008-2021 (US$ million)

Projections:
- 2014
- 2015
- 2016
- 2017

II-FISCAL RESOURCES

- ESI forecasts declining – Large excess withdrawals from the Petroleum Fund are planned
- By 2019, 72.5% of the budget will be financed through excess withdrawal and loans
II-FISCAL RESOURCES

- Petroleum Fund returns have been volatile

Petroleum Fund performance (US$ million)

Petroleum Fund - Investment Returns %

II-FISCAL RESOURCES

- Domestic revenues are expected to grow, which will be critical to building a sustainable budget

Domestic Revenue (US$ million)

Domestic Revenue - 2013-2021
II-FISCAL RESOURCES

1. **Macro observations.**
   - Declining oil price and production.
   - Stable domestic price.
   - Weaker revenue collection.

2. **Government Strategy.**
   - Limit Fiscal Envelop to US$ 1.4 billion in 2017
   - Front loading investments in big infrastructures.
   - Prioritizing: Fiscal, Economic and Public Administration Reform.
   - Prioritizing Education, Health, Water and Sanitation, Agriculture, Basic Infrastructure, and Elections.
   - Engage into Programme Budgeting (expenditure mapping to programme areas)
   - Decentralization
   - Continue to give more autonomy to public bodies (autonomous agencies)

III-EXPENDITURE

- **2017 budget has been lowered by front loading additional expenses (budget rectification) on 2016 budget (+ US$ 390 million)**
- **Medium term budget forecasts have been increased**
III-EXPENDITURE

- **Allocation to all appropriation category will decrease except for ‘Salary and Wages’**

![Appropriation Category - trends 2010-2021 (US$ million)](image)

- **Recurrent expenditure is becoming less sustainable**

![Recurrent vs. Revenues 2008-2021 (US$ million)](image)
World Bank Preliminary Analysis of FY17 budget

III-EXPENDITURE

- **Capital and Development** will peak in Medium Term and will be increasingly concentrated in few sectors (Tasi Mane, Roads, Electricity)
- IF includes a small allocation for ‘maintenance and rehabilitation’ of US$ 9.6 million

Capital and Development - 2011-2021 (US$ million)

- **8 Municipal Administrations** (US$ 23.5 million) and **4 Municipal Authorities** (US$ 18.5 million) will manage their own budget in 2017.
- Biggest contributors are: Municipal Secretariat (40-45%), Education (30-35%), Agriculture (13-8%) and Health (11-7%)
- Municipalities will need support to deliver public services and execute budget
- Allocation should be in line with Municipality needs and Government priorities

Municipal budget per Capita vs. Poverty rate
**III-EXPENDITURE**

- Overall budget for Social Sector increases (Health benefits most) while Government’s priority sectors are differently impacted (Line Ministry + Municipal Services):

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<tbody>
<tr>
<td>Agriculture</td>
<td>22,343</td>
<td>24,976</td>
<td>16,192</td>
<td>4,658</td>
<td>25,609</td>
<td>+2.5%</td>
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<td>Education</td>
<td>100,613</td>
<td>122,914</td>
<td>86,074</td>
<td>12,939</td>
<td>123,287</td>
<td>+0.3%</td>
</tr>
<tr>
<td>Health</td>
<td>42,387</td>
<td>61,056</td>
<td>43,715</td>
<td>3,736</td>
<td>70,977</td>
<td>+16.2%</td>
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* Total Sector includes CFTL, HCDF, IF and autonomous agencies
** Figures - US$ ,000

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**III-EXPENDITURE**

- Absorptive capacity varies – still relatively low in some sectors.

**Execution rate * 2015-2016 (08/11/2016) - Actual**

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<td>50.0%</td>
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75%

* Actual - source: Budget Transparency portal

**Execution rate**

- 2015
- 2016
IV - PRIORITIES

- High-priority spending should not be avoided, but it is critical that GoTL gets value for money, i.e. subjecting all substantial spending to rigorous and transparent processes of due diligence.
- Domestic revenue reform is very timely, and is needed to develop a framework for government resourcing going forward.
- Prioritized and well-targeted PFM reforms can help to boost both budget execution rates and value-for-money.
2017 BUDGET - PUBLIC TRANSFERS

Overall reduction in Public transfers (ZEESM allocation reduced) – budget allocations have been redistributed.
- Public transfers driven by ZEESM and MoSS
- PNDS will not operate new grants in 2017