

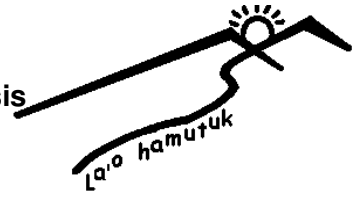
La'ó Hamutuk

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09 December 2022

Open Letter to His Excellency, President of the Republic Dr. José Manuel Ramos-Horta

Re: La'ó Hamutuk asks His Excellency, President of the Republic, to deliberate carefully before promulgating the General State Budget law for 2023

Introduction

In relation to the proposed State Budget Law for 2023 which National Parliament has submitted to Your Excellency to assess before deciding whether to veto or promulgate it in the period provided by the Constitution, La'ó Hamutuk writes to ask Your Excellency not to promulgate this proposed law because the contents of the proposed budget law do not include a strategy to prevent Timor-Leste from falling down a fiscal cliff, which has become a public concern during the last few months.

Last week, the Audit Chamber (Câmara da Contas) expressed this worry in its opinion on the General State Account for 2021: *"[I]f expenditures and withdrawals from the Petroleum Fund continue to grow at the current rate without significant new petroleum revenues being collected, the Fund will be exhausted in about 10 to 13 years. ... [T]he Petroleum Fund could be exhausted if excessive withdrawals continue. The sustainability of public finances is at stake here, so it is urgent to manage petroleum revenues prudently for the benefit of current and future generations, and to evaluate recently achieved results and impacts on the development of Timor-Leste by transfers from the Petroleum Fund above the Estimated Sustainable Income."* The Court emphasized *"Non-compliance with the provisions of the Petroleum Fund Law regarding the use of transfers above the ESI, which should be made in the long-term interest of Timor-Leste."*

La'ó Hamutuk is a civil society institution which has been involved with Timor-Leste's development process for many years, through research, analysis and advocacy for more democracy and a sustainable and diversified economy. La'ó Hamutuk always bases our actions on facts and evidence, to help national leaders find alternative information, to open discussions and to make decisions appropriate for the long-term interests of Timor-Leste's people.

Although we have not yet had the chance to meet with Your Excellency to offer our congratulations – through this opportunity we would like to offer congratulations and appreciate Your Excellency’s willingness to once again lead our beloved land so that together we can confront the structural challenges we all face as a People and a State.

Fortunately, the new Budget Framework Law opens many spaces to discuss our socio-economic situation, to recognize reality and choose a more appropriate, equitable and sustainable economic direction. The opportunity was used by the Government in proposing the Major Planning Options Law to Parliament for discussion of programmatic planning. The Government convened two workshops before the Council of Ministers and National Parliament discussed and approved the proposed 2023 State Budget.

Although La’o Hamutuk had no chance to testify at hearings organized by Parliament Committee C, La’o Hamutuk submitted our written analysis to every Member of Parliament. We are grateful that Committee C included some of our recommendations in its report and opinion to the Parliamentary plenary.

Fiscal sustainability for Timor-Leste

The issue of fiscal sustainability often arose in the discussions mentioned above. Presentations, official documents and speeches from the Ministry of Finance raised concern about a fiscal cliff, coming at the time when our Petroleum Fund no longer receives revenues from petroleum activities – the large Bayu-Undan field which has contributed the most to the Petroleum Fund will be empty in 2022. Petroleum Fund investments are also hurting. Between January and October of this year, the Petroleum Fund balance dropped from \$19.7 billion to \$16.9 billion, and it may continue to fall.

We would like to share our trepidation with Your Excellency about this reality, a worry that later we will not have adequate financing to sustain State activities and programs. We appreciate that the Government has described the fiscal cliff situation and offered some scenarios, but they have not managed to define a budget strategy in the 2023 proposal, or in projections for following years, which deals with this fiscal challenge.

The fiscal cliff was not discussed in National Parliament during the debate on the proposed 2023 budget law; they only proposed additions and shifts in spending plans, but not to reduce spending or move in a diversified and sustainable direction which could prevent our country from falling over the fiscal cliff, into a serious crisis. When we fall over the fiscal cliff, we will have to cut spending in many areas necessary for people’s daily lives. When Timor-Leste doesn’t have money to maintain public services, schools, health centers and hospitals will close; teachers will be fired; doctors, police and military will lose their contracts; there will not be enough money to keep the Hera and Betano power plants running to provide energy for the whole country, as there is now.

We suggest that you veto the proposed General State Budget Law for 2023

Because of the above concerns, we suggest that Your Excellency use your Constitutional power to veto this General State Budget Law to provide another opportunity for Government and National Parliament to have a deeper discussion to define strong and serious plans which will help Timor-Leste avoid falling off this fiscal cliff, and to define investments and programs which can help build people's economic resilience and a public service system which is powerful enough to carry our country for the long term.

We also encourage Your Excellency to give Government and Parliament another chance to suspend large projects whose economic and financial returns remain uncertain, and to focus our brief time and limited finances in the Petroleum Fund on productive sectors and human resources, and to prioritize investments justified by cost/benefit/risk analyses to provide more assurance that they will empower our people and lead to a strong and sustainable economy.

In closing,

We write to share our concerns and suggestions as an act of responsible citizenship, coming together in the civil society organization La'ó Hamutuk. We strongly believe that our request to veto the proposed State Budget Law is an analytic contribution, which does not obligate Your Excellency to make a particular decision.

We believe that Your Excellency, President of the Republic, has the power to help Government and National Parliament re-discuss the proposed 2023 budget law and important issues about the future of state finances.

We have already expressed concerns to the National Parliament and Government through submissions on the 2022 Budget Rectification and proposed 2023 budget laws, which we have attached to this letter.

Sincerely,



Marta da Silva
Coordination team, La'ó Hamutuk



Celestino Gusmão Pereira