

VIII CONSTITUTIONAL GOVERNMENT

Law Proposal n.º /V

Major Planning Options for 2023

Explanatory Memorandum

Law no. 2/2022 of February 10, Framework for the General State Budget and Public Financial Management, profoundly altered the budget process, and now provides for the existence of the Major Planning Options Law.

The Major Planning Options Law, which fulfills the provisions of articles 95.3(d) and 115.1(d) of the Constitution of the Republic, aims to approve the annual and multi-year planning options that impact the State Budget and the multi-year budget programming.

With the creation of the Major Planning Options Law, a direct link between the planning process and the budget process is finally provided, which allows for the full implementation of program budgeting.

Law 2/2022 of February 10 established a two-stage budget process, the first stage centered on the Major Planning Options Law, where the main measures to be implemented in the following budget year are discussed and set, and the second stage centered on the State Budget Law, where the appropriations to finance these measures are discussed and set. This will make it possible to define in greater detail the concrete measures to be implemented by the Government, which is essential for the success of program budgeting, but it will also make it possible to raise the quality of parliamentary debates, because there will be a clear distinction between the discussion of the measures and the discussion of the financing.

The Major Planning Options Law means a substantial strengthening of the National Parliament's power over the budget process. According to the Constitution of the Republic, it is up to the National Parliament to approve the State Budget. Therefore, in addition to approving or disapproving the draft law presented by the Government, the National Parliament should have an active role in defining the annual priorities to be financed with the appropriations provided in the General State Budget. Moreover, by establishing in a law of the National Parliament the maximum value of the expenditure that should be included in the draft law on the State General Budget, as well as the measures that should be financed by it, the risk of rejection of the draft law on the State General Budget presented by the Government in October of each year is reduced.

The proposed Major Planning Options Law for 2023 defines 28 National Results to be achieved through 263 measures organized around 16 strategic areas, defined by the Government (a) agriculture, livestock, fisheries and forestry; (b) economy and employment; (c) tourism; (d) territorial development and housing; (e) environment; (f) petroleum and minerals; (g) electricity and renewable energy; (h) national connectivity; (i) water and sanitation; (j) education and training; (k) health; (l) social inclusion and protection; (m) culture and heritage; (n) state reform; (o) defense and national security; (p) international relations and foreign policy.

These measures, annual and multi-year, will be implemented in 2023, with some continuing for the following four years.

As stated in Law no. 2/2022, February 10, the measures presented are based on the Strategic Development Plan for 2011-2030, the Program of the VIII Constitutional Government and the medium-term plans and annual plans of the services and entities of the Public Administrative Sector, as well as other political and strategic documents of the Government, such as the Economic Recovery Plan of August 2020.

The multi-year budget programming, presented in an annex to this proposal, establishes the limit of total expenditure of the Public Sector, the revenue projections of the Public Sector, the expenditure limits in the various subsectors and the public debt limit, in absolute values and as a percentage of gross domestic product, for 2023 and the following four years.

The value of the overall expenditure of the Public Administrative Sector in the General State Budget for 2023 is set at US\$ 2,155,715,306.

Thus, the Government presents to the National Parliament, under paragraph c) of paragraph 1 of Article 97 and paragraph a) of paragraph 2 of Article 115 of the Constitution of the Republic, the following draft law:

Law no. /2022

Of of

Major Planning Options for 2023

Under the terms of Article 95.3(d) of the Constitution of the Republic, it is the responsibility of the National Parliament to deliberate on the Plan.

Law No. 2/2022 of February 10, Framework for the State Budget and Public Financial Management, has profoundly changed the budget process, providing for the existence of the Law on Major Planning Options and thus enshrining the intervention of the National Parliament in defining the main measures to be implemented in the following budget year and which will be funded by the appropriations entered in the State Budget.

The Major Planning Options for 2023 present, in accordance with Article 47 of Law No. 2/2022 of 10 February, the identification of the budgetary strategy and the main options in terms of planning with an impact on the State Budget for the next budget year and for the following four years, the multi-year budget programming and the analysis of the projections of the main macroeconomic indicators with influence on the State Budget and their evolution.

The multi-year budget programming establishes, in accordance with the same article, the limit on the total expenditure of the Public Administrative Sector, the revenue projections of the Public Administrative Sector, the expenditure limits in the various sub-sectors and the public debt limit for the budget year, in absolute values and as a percentage of gross domestic product, for 2023 and the four subsequent years.

The value of the overall expenditure of the Public Administrative Sector is defined in the multi-year budget programming, in the amount of US\$ 2,155,715,306, which must be respected by the Government in the draft law of the General State Budget for 2023.

Thus, the National Parliament decrees, pursuant to Article 95(3)(d) of the Constitution of the Republic, to be valid as law, the following:

Article 1 Object

The present diploma establishes the Major Planning Options for 2023.

Article 2 Framework

The Major Planning Options Law for 2023 presents the main annual and multi-year options in terms of planning with an impact on the General State Budget for 2023, in implementation of the 2011-2030 Strategic Development Plan, the Government Program and the medium-term plans and annual plans of the services and entities of the Public Administrative Sector.

Article 3 Major Planning Options

1. The following 28 national results are established, to be achieved through the 263 measures identified in the Major Planning Options Law for 2023, whose fulfillment shall be assessed through the process of monitoring and evaluation of the activity of the Public Administrative Sector.
 - a) All citizens have access to safe and quality health services;
 - b) All citizens are free of hunger and malnutrition;
 - c) Friendly, confident and safe communities;
 - d) Timor-Leste is a country that applies the rule of law and equal access to justice is guaranteed to all citizens;
 - e) All citizens have access to clean water and quality sanitation;
 - f) Protecting the environment and safeguarding the country's sustainable development for future generations;

- g) Disaster preparedness for effective responses for all citizens at all levels;
 - h) All citizens should have access to quality education and training for lifelong learning;
 - i) Building a modern telecommunications network to connect all people;
 - j) A national petroleum industry with qualified national people leading and managing the industry;
 - k) An e-government that provides faster, more effective, efficient and transparent services to citizens;
 - l) More inclusive, sustainable, and quality employment in Timor-Leste;
 - m) A modern, diversified economy with thriving innovative industries driven by private sector development
 - n) A sustainable and prosperous agricultural sector that meets the demand of domestic and international markets;
 - o) An environmentally friendly original tourism industry that focuses on our people, our culture and our heritage;
 - p) Greater consumption of art and culture in the country and conservation of cultural heritage;
 - q) A diverse, socially inclusive and equitable society that supports and protects the most vulnerable;
 - r) Everyone in Timor-Leste has access to reliable and affordable electricity 24 hours a day;
 - s) An extensive network of quality, well-maintained roads, ports, and airports that promote development and market access;
 - t) Spatial planning, urban and rural development;
 - u) Sensible, responsible, effective and efficient local government;
 - v) Greater public participation in policy making and decision making by Government, leading to more accountable Government;
 - w) Sustainability and sound financial and budgetary management;
 - x) An efficient and effective public administration that citizens trust;
 - y) Development of sustainable and environmentally friendly infrastructure for all generations;
 - z) Our defense and security sector will defend the nation, supporting civil society and contributing to countering regional and global threats;
 - aa) Strong bilateral and multilateral relations that promote Timor-Leste and contribute to a better Asia and a better world;
 - bb) The interests of the Timorese people are protected and promoted, nationally and internationally.
2. The Major Planning Options Law for 2023 are organized around the following 16 strategic areas:
- a) Agriculture, livestock, fisheries and forestry;
 - b) Economy and employment
 - c) Tourism
 - d) Territorial development and housing
 - e) Environment
 - f) Petroleum and minerals;
 - g) Electricity and renewable energy;
 - h) National connectivity;
 - i) Water and sanitation;
 - j) Education and training;
 - k) Health
 - l) Social inclusion and protection;
 - m) Culture and heritage;
 - n) State reform;
 - o) Defense and national security;
 - p) International relations and foreign policy.
3. The Major Planning Options for 2023 are presented in Annex I to this law, of which they are an integral part.

4. The correlation between the strategic areas of the Major Planning Options and the national results is presented in Annex II to this law, of which it is an integral part.
5. The appropriations to finance the options in terms of planning contained in the Major Planning Options for 2023 shall be included in the General State Budget for 2023.

Article 4 **Multiannual budgetary programming**

1. The multi-annual budgetary programming establishes:
 - a) The limit of the total expenditure of the Public Administrative Sector for the budget year 2023 and for the four subsequent years;
 - b) The revenue projections for the Public Administrative Sector for the 2023 budget year and the four subsequent years;
 - c) The sectorial expenditure limits for the 2023 budget year and for the four subsequent years;
 - d) The public debt limit for the budget year 2023 and for the four subsequent years, in absolute values and as a percentage of gross domestic product.
2. The multi-annual budget programming is presented in Annex III to this law, of which it is an integral part.
3. The draft State Budget law for 2023 to be presented by the Government shall respect the value of the overall expenditure of the Public Administrative Sector for 2023 provided for in the multi-year budget programming.

Article 5 **Coming into force**

The present diploma enters into force on the day after its publication.

Approved on

The President of the National Parliament,

Promulgated on

To be published.

The President of the Republic,

Annex I (referred to in Article 3.3)

Major Planning Options for 2023

Introduction

The Major Planning Options for 2023 present the budgetary policy for the year 2023 and for the following four years, directed toward the consolidation of economic growth and the improvement of the population's income and social conditions, but guaranteeing the preservation of our Nation's petroleum wealth.

The stimulation of economic activity and the revival of employment, the recovery of confidence and the stability of public finances are the basis for long term fiscal sustainability that will enable us to achieve the goals set out in the Strategic Development Plan 2011-2030 and make Timor-Leste an upper middle income country in that period.

The Major Planning Options for 2023 are organized around 16 strategic areas:

- a) Agriculture, livestock, fisheries and forestry;
- b) Economy and employment
- c) Tourism
- d) Territorial development and housing
- e) Environment
- f) Petroleum and minerals;
- g) Electricity and renewable energy;
- h) National connectivity;
- i) Water and sanitation;
- j) Education and training;
- k) Health
- l) Social inclusion and protection;
- m) Culture and heritage;
- n) State reform;
- o) Defense and national security;
- p) International relations and foreign policy.

Macroeconomic Scenario

Timor-Leste's average gross domestic product (GDP) growth was 2.1% per year over the period 2010-2020. These growth rates were higher at the beginning of the decade, but negative growth rates in 2017, 2018, and 2020 undermined the progress made.

The year 2020 is the last for which National Accounts data are available for real non-oil GDP. Growth was negative 8.6% due to the combined effect of the delayed approval of the State Budget, political uncertainty, the COVID-19 pandemic, and the application of the state of emergency.

In 2021, GDP should return to positive growth, with an increase of 1.5%, although this has been revised downward due to the confinement by the COVID- 19 pandemic, the April floods, and the difficulties in implementing the State General Budget, particularly regarding Capital Development expenditures.

Table 1 - Economic Indicators, 2020-2027, in %.

	Actual	Forecast						
	2020	2021	2022	2023	2024	2025	2026	2027
Real GDP (non-oil)	-8.6%	1.5%	2.9%	3.1%	3.4%	3.5%	3.1%	3.0%
CPI inflation	0.5%	3.8%	6.7%	3.0%	3.0%	2.6%	2.5%	2.3%

Source: Ministry of Finance, May 2022.

The proposed Supplemental State Budget for 2022 will put the overall budget expenditure at about \$3,309 million. This \$1,130 million increase in the budget ceiling is expected to result in only an extra 0.2% increase in GDP over previous forecasts based on the approved budget (from 2.7% to 2.9%).

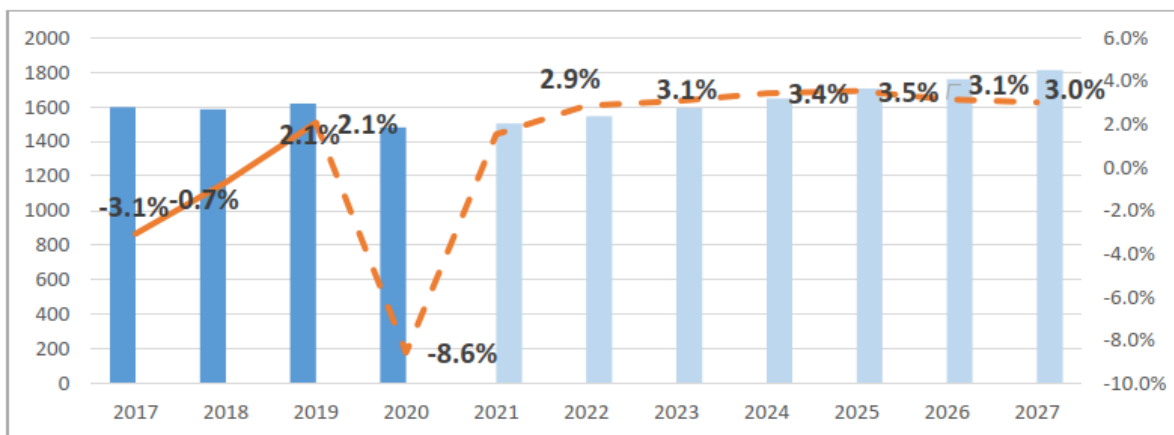
This is because about \$1 billion of the spending is intended to be put into a fund for the National Liberation Fighters and therefore much of it will not be immediately disbursed and will not impact the economy. However, this large withdrawal will affect the current balance of the Petroleum Fund and projections of its life.

In addition, as execution tends to be lower for higher budgets, the assumptions around budget execution have been adjusted downwards, and as several measures in the supplementary budget are consumption measures that will imply increased imports and these have a negative impact on GDP, they will have a reduced contribution on GDP growth, even though they will have a relevant impact on household income.

For 2023, taking into account the implemented measures, a growth of 3.1% is expected, as investment in infrastructure and human capital, unlike consumption expenditure, have a positive impact on economic growth and a strategy of adjustments in measures and procedures to optimize the execution of expenditure is expected, namely as a result of the approval of the General State Budget Framework Law and public financial management and the new Legal Regime for Procurement, Public Contracts and Related Infringements.

In the medium term (2024-2027), consistent positive growth is expected, assuming an increase in arrivals due to the resumption of commercial flights and the tourism development strategy, strong growth in public services, public-private partnerships, growth in infrastructure financing through loans, and private sector growth encouraged by political stability.

Chart 1 - Real Non-oil GDP growth rate (right, in %) and levels (left, in millions of US\$) 2000



Source: National Accounts of Timor-Leste 2017-2020, Economic Forecasts 2021-2027, Ministry of Finance, May 2022.

Inflation

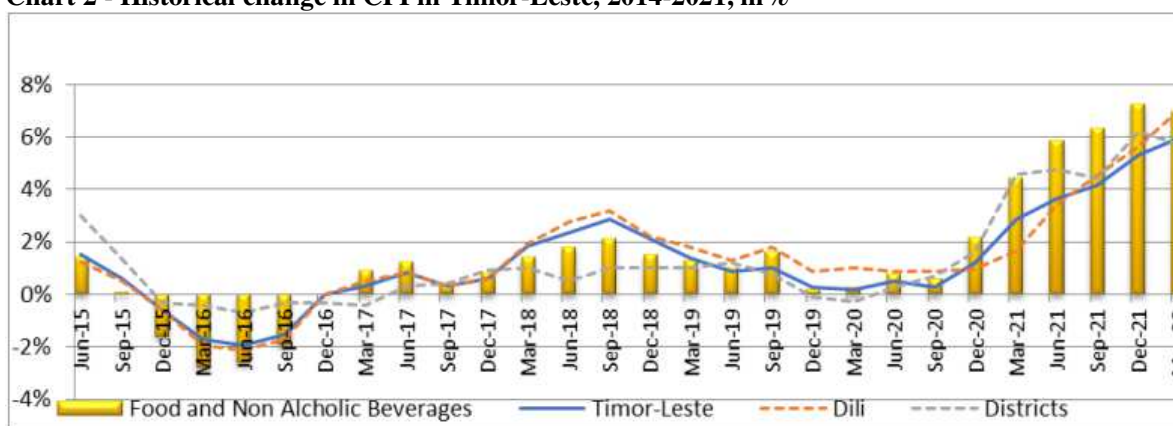
The level of inflation growth in Timor-Leste has been quite pronounced, with a year-on-year rate in March 2022 of 6.0%. This is in line with global trends.

IMF estimates are that global inflation will rise by 6.1% and 4.1% in 2022 and 2023. Increased household consumer spending could lead inflation to rise further.

Due to the weight of food and beverages in the CPI (Consumer Price Index) basket and the significant proportion of food imported by Timor-Leste each year, international food prices remain a major driver of the overall CPI rate. The World Bank's World Food Price Index rose 27% in the first quarter of 2022, with rice rising 6% in the same period. This will have a negative effect on the neediest households, where staple foods make up the bulk of their spending.

Year-on-year inflation in Dili was 7.0%, which is slightly higher than inflation in the other municipalities, which increased by 5.7% over the same period. The CPI categories with the largest increases were "Alcohol and Tobacco" which rose 18.4% and "Transportation" which rose 8.0%, probably due to the recent increase in excise taxes and international petroleum prices, respectively. Petroleum prices increased 54% in the first quarter of 2022 as a result of the conflict in Ukraine.

Chart 2 - Historical change in CPI in Timor-Leste, 2014-2021, in %

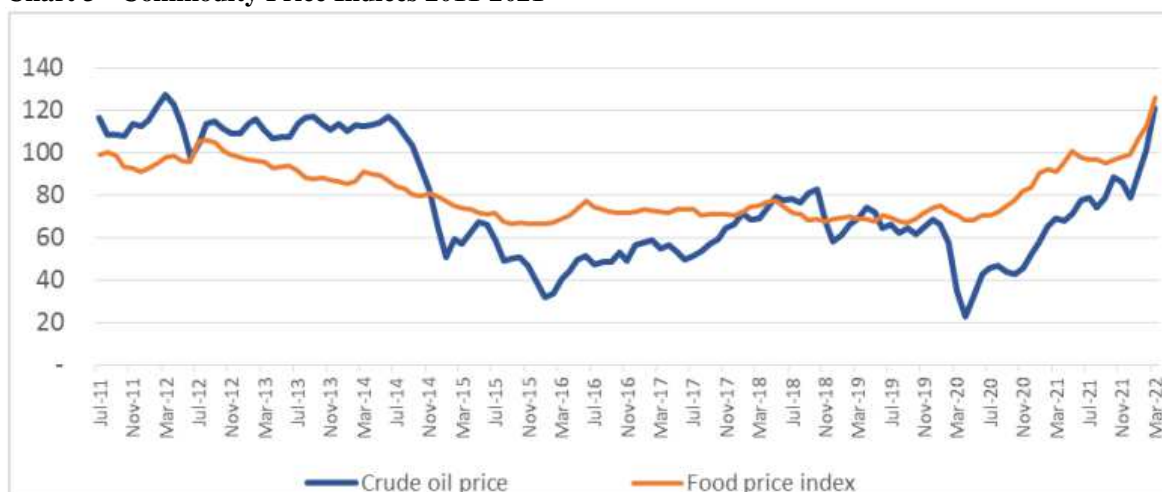


Source: Ministry of Finance, April 2022.

A slight depreciation of -0.7% in the real effective exchange rate (REER), a weighted average of a country’s currency against an index or basket of other major currencies, will make imports slightly more expensive and increase inflationary pressures.

The inflation outlook should stabilize after 2023, as world petroleum prices should calm down.

Chart 3 - Commodity Price Indices 2011-2021



Source: Ministry of Finance, April 2022.

Domestic Revenues

Non-oil domestic revenues are expected to have a modest increase in 2022 compared to the sharp drop in 2021. In 2021, there was a significant drop in domestic revenues which was mainly due to the creation of the public companies EDTL and BTL which, due to their nature, are not part of the State Budget, which led to the exclusion of revenues from these entities from the budget.

Forecasts for 2022 point to a moderate improvement in Domestic Revenues and that 2023 as the country begins to recover from the economic slowdown associated with the COVID-19 pandemic.

Non-oil Domestic Revenues are projected to grow positively over the previous year. Increased private sector activity, political stability, and continued government capital projects will also help promote revenue growth. The positive trend is expected to continue until 2027, given current economic growth expectations.

Domestic revenues are expected to return to pre-COVID-19 levels (the amount collected in 2019) by 2027. It is important to note that the current estimates do not include additional revenues from some of the potential reforms under discussion, such as the introduction of VAT, as these still lack parliamentary approval.

Table 2 - Petroleum Fund Balance, 2023-2027, in millions of US\$

	Forecast

Year	2023	2024	2025	2026	2027
Value	15,469.7	14,313.3	13,105.1	11,798.6	10,397.1

Sources: Ministry of Finance, April 2022.

Timor-Leste is highly dependent on petroleum revenues which accounted for 78% of total revenues in 2021. However, petroleum revenues are expected to decline as production in the existing petroleum field comes to an end. This makes Tax and Public Finance Management Reform a priority for the country going forward. Improving revenue collection capacity by introducing new tax instruments as well as revising existing ones, and revisiting tax policies and investment promotion legislation can help increase revenue collection, improving both tax and non-tax revenues considerably.

Table 3 - Total Domestic Revenues, 2021-2027, in millions of US\$

	Actual	Forecast					
	2021	2022	2023	2024	2025	2026	2027
Total Revenues	649.1	620.2	604.3	576.3	545.6	694.5	674.2
Domestic non-oil revenues	155.3	156.1	174.9	183.1	191.6	200.7	210.1
Estimated Sustainable Income from the Petroleum Fund	493.8	464.1	429.4	393.2	354.0	493.8	464.1

Sources: Ministry of Finance, April 2022.

Domestic non-oil revenues are composed of tax revenues, income and own revenues. To these are added non-domestic non-oil revenues, such as partner grants and international loans.

Table 4 - Domestic Revenues by Type, 2021-2027, in millions of US\$

	Real	Previsão					
	2021	2022	2023	2024	2025	2026	2027
Receita doméstica total	155,3	156,1	174,9	183,1	191,6	200,7	210,1
Impostos (excluindo RAEOA)	118,0	117,1	122,6	128,4	134,5	140,8	147,5
Novas Propostas de Imposto Seletivo de Consumo	0,0	0,0	11,4	12,0	12,6	13,2	13,8
Novas propostas como percentagem da receita doméstica total	-	-	7%	7%	7%	7%	7%
Impostos cobrados pela RAEOA	2,6	2,8	2,9	3,1	3,2	3,4	3,5
Taxas e Encargos	15,3	16,1	16,8	17,6	18,4	19,3	20,2
Juros	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Receitas próprias	17,1	17,8	18,6	19,4	20,3	21,2	22,2
Receitas próprias da RAEOA	2,3	2,4	2,5	2,6	2,7	2,8	2,9

Sources: Ministry of Finance, March 2022. Projection based on 2020 figure for RAEOA, taxes and Fees and Charges.
* Interest revenues appear as 0 due to rounding.

The proposed 2022 state budget amendment provides for the increase of some excise tax rates and the application of that tax to new tariff lines. This includes increasing the rate applicable to tobacco and tobacco products from \$50/kg to \$80/kg, the rate applicable to malt beer with equal or higher alcohol content and wine, vermouth and other fermented beverages from \$4.5/liter to \$5/liter, the rate applicable to ethyl alcohol (undenatured) and other alcoholic beverages from \$8.9/liter to \$12/liter, the application of the tax to automobiles starting at \$10.000 and to two new tariff lines, "Sugars and sugar confectionery" and "Waters, including mineral waters and aerated waters, containing added sugar or other sweetening matter or flavoured, and other non-alcoholic beverages, not including fruit or vegetable juices of heading 20.09."

The extent of these increases depends on how they will affect the consumption of these products. In the limit, the drop in consumption may be so large that it will offset any increase in tax revenue. However, since the

increase is largely driven by concerns about the health impact of these products, a reduction in tax revenue accompanied by a reduction in consumption of these unhealthy products is still a positive scenario.

Table 5 -Revenues from tax increases, 2023-2027, in millions of US\$

	Forecast				
	2023	2024	2025	2026	2027
Revenue - Minimum range	11.44	11.99	12.57	13.18	13.83
Revenue - Maximum range	19.56	20.51	21.51	22.55	23.65

Sources: Ministry of Finance, April 2022.

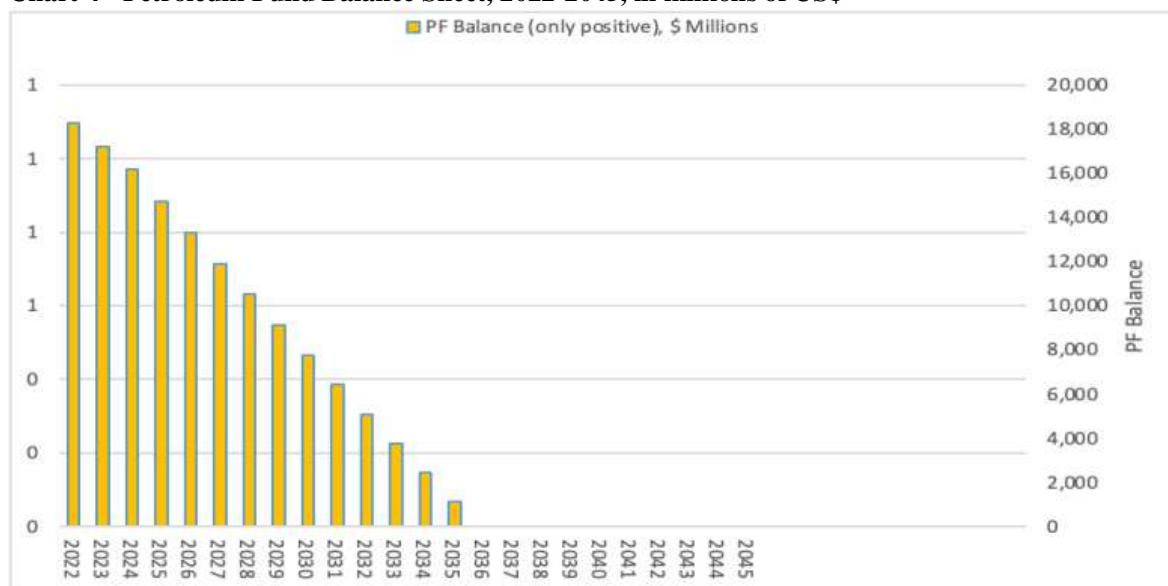
Fiscal Sustainability

Assuming that the 2023 budget ceiling will be \$2,153 million and that over the next few years the Petroleum Fund withdrawals will be the same each year, rather than increasing or decreasing, the Petroleum Fund will end in 2035, i.e. it will only allow for funding 12 more General State Budgets.

If withdrawals from the Petroleum Fund grow from year to year, then the fund will run out even faster.

There are also other variables that have an influence on the balance of the Petroleum Fund, such as the execution rate of the General State Budget and consequently the overall amount of annual withdrawals, and the rate of return on investments, which due to its volatility is not possible to calculate exactly. However, even if these variables have a positive impact, they can hardly add more than a few years to the duration of the Petroleum Fund.

Chart 4 - Petroleum Fund Balance Sheet, 2022-2045, in millions of US\$



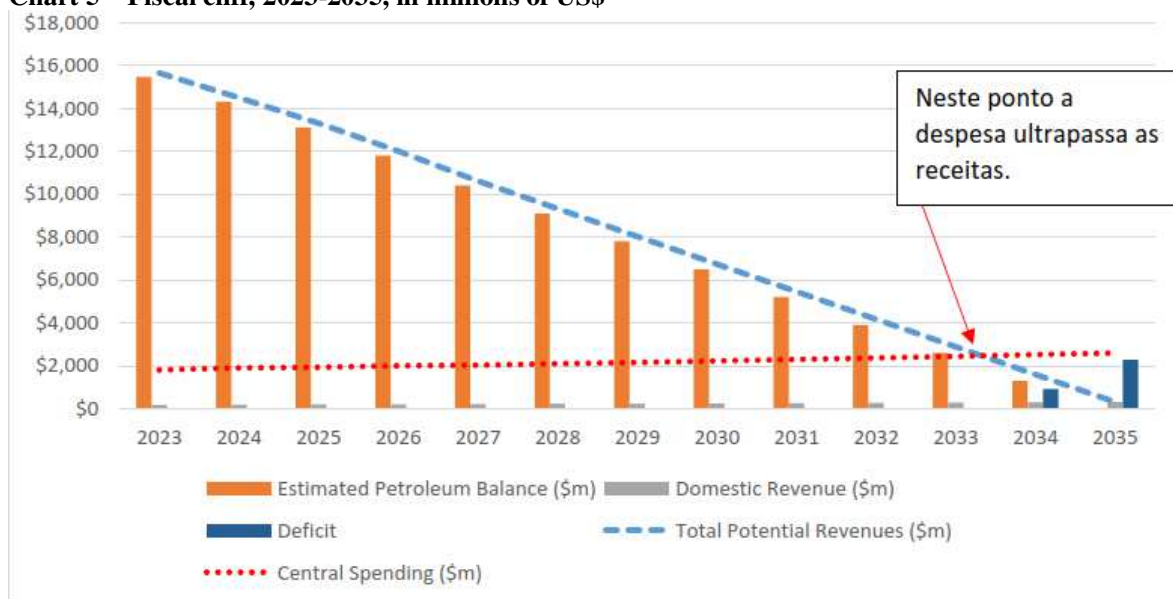
Sources: Ministry of Finance, April 2022.

Timor-Leste's fiscal cliff

- **Timor-Leste will reach a fiscal cliff by 2034.** The latest revenue and expenditure projections suggest that by 2034 projected expenditures will exceed the total revenue base.
- **This implies a deficit of \$2.3 billion by 2035.** By the time Petroleum Fund revenues are fully exhausted, overall expenditures are projected to exceed overall revenues by \$2.3 billion.
- **The Government must look for options to finance this deficit.** The Government will have to respond to this deficit by: 1) making spending cuts; 2) increasing debt; or 3) finding new revenue.
- **Non-Oil Revenue would have to increase by 640% to finance the shortfall.** Without major borrowing or drastic spending cuts, non-oil revenue would have to increase by 640% to fund the **\$2.3 billion** spending gap in 2035.

- **Options for spending cuts are limited.** In 2022, about 70% of total planned budget expenditures are to finance legal obligations of the state. 30% of total planned spending is in key areas such as Wages and Salaries, Education, Health, Defense and support for National Liberation Fighters. These large spending commitments leave little room for cuts.
- **Increasing external debt to finance the deficit, besides being illegal under the Public Debt Law, would cause Timor-Leste to face a situation similar to Sri Lanka.** If the \$2.3 billion gap is financed by borrowing, this would lead to a debt-to-GDP ratio of more than 100%, which would cause Timor-Leste to face a situation similar to the current economic crisis in Sri Lanka.

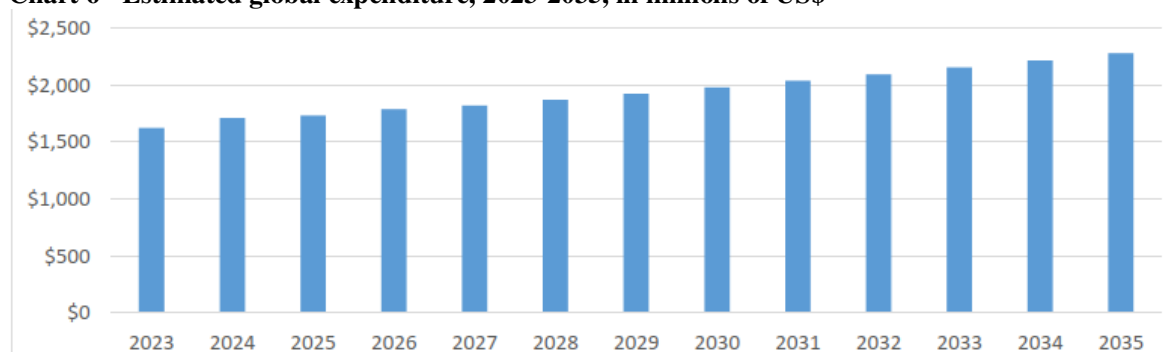
Chart 5 – Fiscal cliff, 2023-2035, in millions of US\$



Sources: Ministry of Finance, April 2022.

- 1) **Timor-Leste is heavily dependent on petroleum Revenues to finance public expenditures.** Asian Development Bank figures suggest that Timor-Leste has one of the highest public expenditures as a proportion of GDP in the world. Between 2008 and 2020, public expenditure as a proportion of GDP averaged about 86%. A large share is financed by Petroleum Revenues. By 2023, global spending is expected to exceed non-oil revenues by more than **\$1.6 billion**. This figure is expected to increase further to \$2.3 billion in 2035.

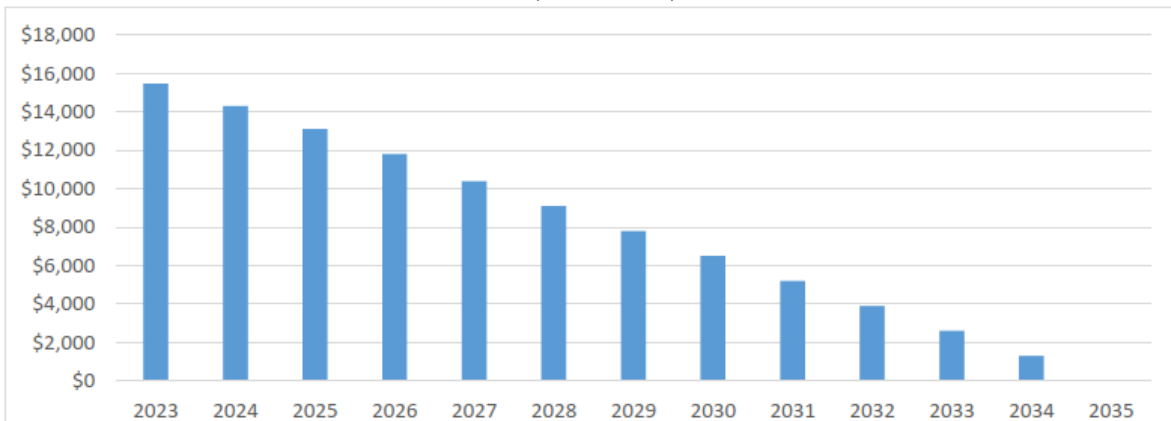
Chart 6 - Estimated global expenditure, 2023-2035, in millions of US\$



Sources: Ministry of Finance, April 2022.

- 2) **However, according to current spending plans, the estimated petroleum balance is projected to decline rapidly and be depleted by 2035.** The graph below shows the decline in the Petroleum Fund balance estimated in the Major Planning Options.

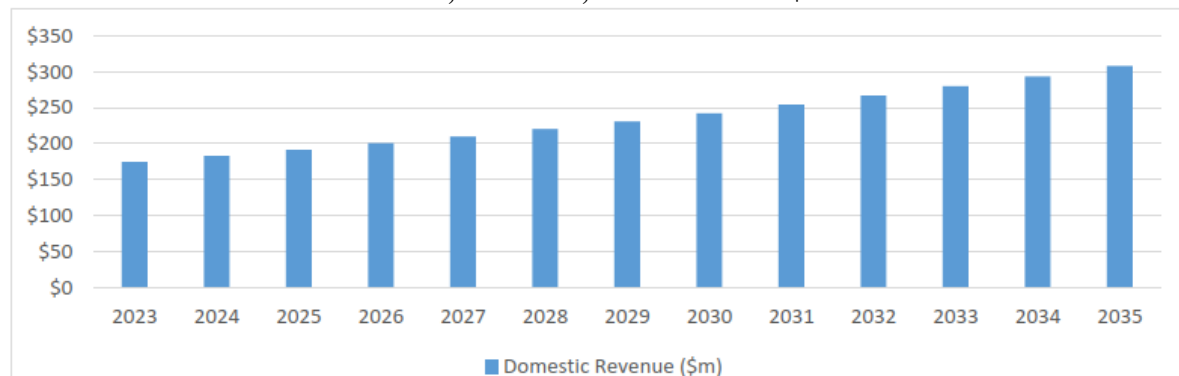
Chart 7 - Estimated Petroleum Fund Balance, 2023-2035, in millions of US\$



Sources: Ministry of Finance, April 2022.

3) **According to current projections, petroleum revenue will not replace the Petroleum Fund.** By 2035, non-oil revenues are expected to reach about US\$310 million¹. This represents only about 10% of the projected expenditure for 2035. Comparing the chart below with the chart above it is clear that domestic revenues are much lower than the estimated petroleum balance.

Chart 8 - Estimated domestic revenue, 2023-2035, in millions of US\$



Sources: Ministry of Finance, April 2022.

4) **The difference between projected overall spending and projected non-oil revenues results in a fiscal cliff.** Expenditure projections begin to exceed total revenue projections starting in 2034.² This leads to spending deficits that will grow to \$2.3 billion in 2035 and continue to increase thereafter.

5) **The fiscal cliff will force a radical cut in all spending or the concentration of almost all spending in current categories to pay legal obligations.** A large proportion of government spending is on commitments arising from legal obligations. If we assume that spending in these key areas will continue to be about 30 percent of Government spending in 2035, that would imply that Government spending in these areas could reach **\$780 million**. That would be about **\$470 million above** the amount in the domestic revenue projections for 2035. In the State Budget for 2022, Salaries and Wages account for about \$245 million. Even assuming that this figure did not increase, **in 2035, with the projected amount of domestic revenues only a little over \$50 million would remain for expenses other than Salaries and Wages**, when currently the State Budget for 2022 provides about \$1,933 million for such expenses. Alternatively, it would be necessary to cut all expenditures evenly, which in that case would lead to a **reduction in the salaries of all public office holders and employees of about 85%**, as well as in Education and Health expenditures.

¹ The Domestic Revenue projections beyond 2027 assume that revenue will grow at the average rate of growth during the past 5 years. The same assumption is applied to the spending projections.

² Domestic revenue and spending projections beyond 2027 assume that revenue and spending will grow at the average rate of growth over the past 5 years

- 6) **Relying on borrowing can lead to unsustainable budget outcomes.** The projected revenue deficit of \$2.3 billion in 2035 is larger than the projections for non-oil GDP in that year. This means that if the financing gap is financed by borrowing, the debt-to-GDP ratio could exceed 100%. This would put Timor-Leste at risk of ending up in a situation similar to countries like Venezuela and Sri Lanka. These countries have experienced very high inflation, food shortages and civil unrest as a direct result of coming into a debt crisis.

Risks and uncertainties

Economic forecasts or projections aim to predict annual GDP growth rates and high-level macroeconomic variables. Making these forecasts is important to help the government make informed decisions regarding policy, planning and investments. However, it is important to understand that in order to make these forecasts we have to make some assumptions about future conditions. Therefore, all projections always include an element of uncertainty. The main uncertainties in the forecast come from imports and the rate of budget execution. If budget expenditure is particularly dependent on imports, i.e. if much of the new expenditure is for goods and services from outside Timor-Leste, the GDP forecast for the coming years may be reduced downwards, as imports have a negative effect on final GDP.

Furthermore, if there is a large change in execution rates, this can have a noticeable impact on the economy, especially since the General State Budget represents a significant part of Timor-Leste's GDP. Execution rates differ each year for different reasons and also depend on the absorptive capacity of the Timor-Leste economy. Absorptive capacity represents the ability to incur expenditure by the services and entities of the Public Administrative Sector, regardless of the amount of budget appropriations at their disposal. For example, even if the budget has increased a lot, the services and entities may not be able to spend all that money, for example, because they have to carry out procurement procedures that take months to complete, because they have to recruit new employees who have to be trained, or because the spending requires regulations that have to be approved. As with all forecasts, the more time there is and the more accurate the data, the fewer assumptions we have to make and the closer we get to the true value.

Inflation forecasts use historical domestic inflation trends and forecasts of world commodity prices from the International Monetary Fund. Unforeseen events can change supply and demand and hence the price of key commodities such as petroleum or food.

Other financing sources

Loans

According to the Public Debt Law, the contracting of loans is intended only to finance the construction of infrastructure that is strategic for the country's development.

Timor-Leste does not yet have access to the international debt markets, nor does the national legislation foresee the issuance of treasury bonds (which is currently under study), so the contracted loans take the form of concessional loans from International Financial Institutions, such as the World Bank and the Asian Development Bank, or partners such as the Japan International Cooperation Agency (JICA).

The volume of loans contracted by Timor-Leste has grown substantially over the years, and is expected to reach a debt stock of about US\$ 330 million or 21% of GDP by 2023.

However, the level of disbursements has been below the contracted amount, probably related to some difficulty in executing Capital Development projects financed by loans.

Table 6 - Annual loan disbursements, 2022-2027, in millions of US\$

	2022	Forecast				
		2023	2024	2025	2026	2027
Value	50.81	74.11	86.88	87.17	77.34	46.25

Sources: Ministry of Finance, April 2022.

The loans contracted have a considerable degree of concessionality and compare favorably with the opportunity cost of drawing down money from the Petroleum Fund, as the average financial cost of borrowing (2.03%) is currently lower than the return on the Petroleum Fund (4.84%), ensuring that future debt repayments remain within the country's ability to repay.

Direct Budget Support

Timor-Leste has received Direct Budget Support (DBS) from the European Union since 2014 and from Australia since 2021. In this context, the resources are delivered directly to the country to be applied in domestic policies defined by the country, without prejudice to regular consultations with these partners.

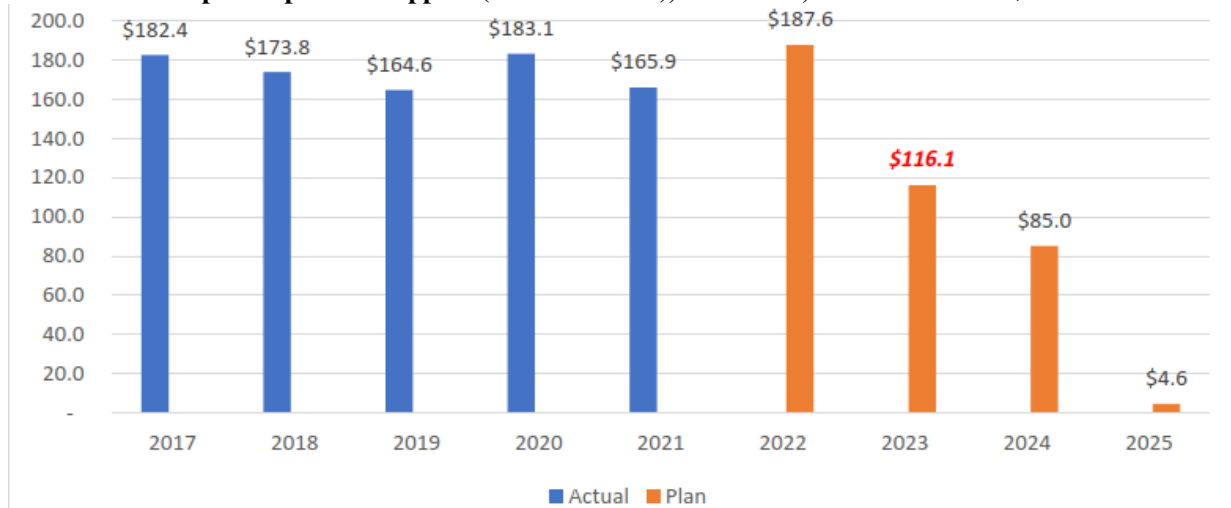
The total amount of the EU DBS for the State Budget for 2023 is expected to be about \$3.3 million, of which \$2.2 million is for the Ministry of Health and \$1.1 million for the Ministry of State Administration.

In 2021, the Government of Australia has committed \$8.2 million in Direct Budget Support to be allocated over the next two years. The funding is linked to the National Sucos Development Program (PNDS) and the expansion of the *Bolsa da Mãe-Jersaun Foun* social assistance program. Support for the *Bolsa da Mãe-Jersaun Foun* program in the State Budget for 2022 is \$1.6 million, while the total DBS for 2023 is \$4.9 million

Development Partners

The amount of development partner support to Timor-Leste exceeded \$150 million as of 2017. The analyses presented here do not include the programs of Direct Budget Support from the European Union or Australia. Unlike those supports, the amounts presented here do not go directly into the State Budget and are therefore not included in overall expenditures.

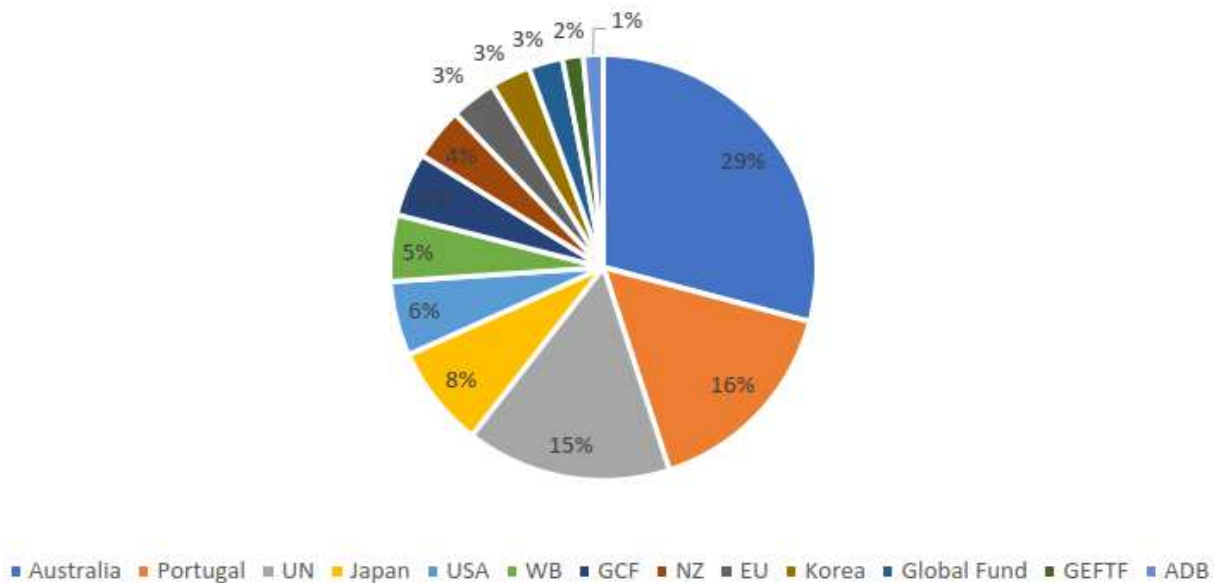
Chart 9 - Development partner support (disbursements), 2017-2025, in millions of US\$



Sources: Aid Transparency Portal, 20 April 2022. (This includes only confirmed plans and therefore are not forecasts)

The development partners that will disburse the largest amounts of funding in 2023 are expected to be as follows: Australia (\$33.0 million, 29% of the total), Portugal (\$18.7 million, 16%), United Nations (\$18.1 million, 15%), Japan (\$9.0 million, 8%) and United States of America (\$6.6 million, 6%).

Chart 10 - Development partner support by partner, 2023, in %



Sources: Ministry of Finance, April 2022.

Treasury Balance

The Treasury Balance category is composed of the General State Budget’s management balance, which includes the appropriations foreseen in the previous year’s budget but not executed. For the 2023 Budget, the Treasury Balance is estimated to reach \$200 million, which corresponds to the financial cushion that is permanently maintained by the Treasury, and is projected to remain at a similar level for the next four years.

Budget Strategy

The budget strategy sets out the strategic priorities in budgetary matters, the objectives in terms of public revenue and expenditure and public debt, as well as fiscal policy.

Timor-Leste’s development strategy is defined in key documents such as the Strategic Development Plan 2011-2030 and the Program of the VIII Constitutional Government and foresees strong public investment focused on infrastructure construction and rehabilitation and human capital formation.

The fiscal strategy is naturally determined, in part, by the development strategy. However, because the fiscal strategy has to guarantee the financing of the state and its investments, it must also adapt to the capacity of revenue mobilization.

Given the considerable petroleum revenues that Timor-Leste has enjoyed in recent decades, the fiscal strategy has been quite flexible, with substantial increases in public expenditure from year to year, financed by withdrawals from the Petroleum Fund above the Estimated Sustainable Income.

However, the stagnation of the economy as a result of political instability, followed by the economic crisis provoked by the COVID-19 pandemic, combined with the drastic reduction in petroleum revenues, requires a revision of the budgetary strategy followed until now.

The General State Budget is financed in more than 60% by the Petroleum Fund and no longer benefits from inputs originating from petroleum revenues, and now depends on the income generated by its investments.

Successive withdrawals above the Estimated Sustainable Income have put increasing pressure on the Petroleum Fund, with forecasts indicating an ever shorter life for the Fund, which is expected to end between less than 10 years or up to 20 years.

Timor-Leste’s fiscal strategy has been refocused on efforts to diversify the economy, reducing dependence on natural resources, and on job creation, poverty reduction, and economic growth.

The intended diversification should also apply to the sources of financing of the General State Budget, with the increase of tax revenues. To this end a tax reform has been pursued which, due to political instability, has

progressed more slowly than desired. The objective of the reform is to increase the tax base, to adopt more modern taxes, and to review tax rates in order to achieve progressivity of the tax burden.

Given that Timor-Leste has been withdrawing above the Estimated Sustainable Income since 2009, a sound budget plan is crucial to avoid a fiscal cliff, i.e. a dramatic fall in revenues and consequently in public expenditures, if alternative sources of financing fail to fill the gap left by the end of the Petroleum Fund.

Thus, the Government needs to prioritize a set of policies: 1) mobilize domestic revenues and introduce new fiscal initiatives; 2) make increasing use of alternative sources of financing, such as concessional loans; 3) ensure that Government spending focuses on productive activities and privileges quality over quantity, by changing the organization of the State Budget from a structure of items based on economic categories to a structure by programs based on projects and evaluated against pre-defined objectives, and by changing the budget process to emphasize annual and medium-term planning, of which the Major Planning Options Law is an example.

The measures embodying this change in budgetary strategy are already underway and are enshrined in Law No. 2/2022 of February 10, State Budget and Public Financial Management Framework, and have been gradually implemented in the State Budget laws since 2020.

Major Planning Options

1. Agriculture, Livestock, Fisheries and Forestry

Agriculture, livestock and fisheries are strategic areas for the settlement of rural populations and for the economic development of the country. Recent statistics show that 2/3 of the Timorese of working age are engaged in agricultural activities and people who depend on subsistence agriculture represent about 15% of the working population.

Thus, the Government intends to consolidate measures and significantly strengthen investment in this sector.

1.1 Agriculture

To improve farming practices and agricultural productivity and accelerate the transition from subsistence agriculture to a modern, market-oriented model of agriculture that ensures food security, diversification and the strengthening of domestic consumption, the Government has defined the following measures for 2023:

- 1.1.1. Support the planting of coffee to increase crop yields and allow an improvement in the condition of farmers of this national reference product.
- 1.1.2. Encourage national production, particularly of rice, by offering seeds and guaranteeing a market and support for the flow of production (program for purchase and distribution of production by the State).
- 1.1.3. Intensify the use of power tillers (but not tractors) in rice growing.
- 1.1.4. Create productive “seed banks” and make them available to farmers.
- 1.1.5. Mobilize and support farmer groups or associations to multiply certified and commercial seeds of food crops (rice, corn, vegetables and tubers).
- 1.1.6. Promote and support agricultural associations, namely through direct support for institutions that promote micro-credit in rural communities.
- 1.1.7. Continue to identify and support initiatives by groups of young people in the agricultural area.
- 1.1.8. Continue to improve the implementation of integrated agriculture in potential irrigation areas.
- 1.1.9. Continue to provide subsidies to farmers for rice, maize and vegetable production, promoting good agricultural practices.
- 1.1.10. Continue to improve community horticulture crops.
- 1.1.11. Continue to support the cultivation of other food crops to diversify agricultural production.
- 1.1.12. Construct, maintain and rehabilitate water retention infrastructure and irrigation system protection walls.

1.2 Livestock

The livestock sector in the country has the great potential to contribute to improving the nutrition of the Timorese people, either through access to and consumption of fresh meat or dairy products. To improve this sector, it is necessary to invest in affordable, quality feed and ensure the vaccination and deworming of animals.

The measures to be achieved for livestock development are:

- 1.2.1. Support the private sector in increasing meat production with confinement of animals and sanitary control.
- 1.2.2. Continue to organize massive campaigns of vaccination of animals and provision of free vaccines and expand these programs to the whole country.
- 1.2.3. Provide cattle raisers with seeds of forage plants.
- 1.2.4. Support the establishment of certified slaughterhouses throughout the country with technical and technological capacity, as well as the provision of slaughter and distribution services for butchers and other private individuals, in addition to the National Slaughterhouse in Tibar.
- 1.2.5. Build water points for livestock in the villages, using public labor-intensive rural employment programs.
- 1.2.6. Continue to invest in traditional, semi-intensive and intensive animal husbandry systems, and in capacity building for livestock technicians and farmers.
- 1.2.7. Carry out demonstration campaigns for the processing and transformation of animal waste into organic fertilizer.

1.3 Fisheries

The Government intends to improve investment in the fisheries sector and expand the sector in order to combat food insecurity and malnutrition and contribute to economic growth, improved livelihoods and job creation. The main measures to be implemented in 2023 related to promotion, development and maintenance of sustainable fisheries resources are:

- 1.3.1. Continue to invest in aquaculture as a way to improve food and nutrition security, and diversify livelihoods.
- 1.3.2. Train women in seaweed cultivation and invest in expanding cultivation areas and increasing production for export.
- 1.3.3. Invest in the improvement of the fishery sector in partnership with World Fish for the expansion of aquaculture tanks, provision of tools and teaching of techniques to fishermen and fish farmers, creation of fresh and dried fish processing capacity, linking producers to the market, increasing fish consumption by the public and development of scientific research in the fishery sector.
- 1.3.4. Invest in the maintenance and expansion of the PesKAAS system, an innovative system of national monitoring, almost in real time, of small-scale fishing, to generate an analytical summary of fishing based on real data with a view to improving the productivity of fishing activity, in partnership with World Fish.
- 1.3.5. Continue the recruitment and training of qualified technicians to support the operation of the PeskAAS system and the collection of data on national fishing activity.
- 1.3.6. Establish links to markets and export, through the creation of transport systems and refrigeration centers between fishing areas and points of sale and export.
- 1.3.7. Promote supervision and sanitary control in the processing, treatment and conservation of fish products.
- 1.3.8. Promote and encourage the creation of fishing cooperatives.
- 1.3.9. Promote the consumption of fish in the country, in a sustainable way, through awareness campaigns about its nutritional value, with the aim of increasing its consumption to 10kg/person/year.
- 1.3.10. Reinforce legislation that reduces illegal fishing, especially by foreign boats, and the definition of monitored areas, including the regulation and control of fishing, namely the definition of minimum

mesh sizes for nets, fences, protected species and other ways of protecting species and avoiding the capture of animals before they can reproduce, promoting natural repopulation.

1.4 Forests

Timor-Leste has already lost much of its native forest, consisting of teak, mahogany and sandalwood, which has harmed the country's wildlife and biodiversity. Therefore, it is urgent to act to protect the forest area, which represents about 50% of the national territory, to make this sector economically profitable but also sustainable. In this context, the following measures are planned:

- 1.4.1. Encourage the planting of trees for firewood to avoid indiscriminate felling of trees.
- 1.4.2. Promote investment in the forestry sector through the planting of at least 150 hectares of sandalwood in Ahik Suco, Lacluta, Viqueque and the creation of sandalwood and ai-turi nurseries in Atabae and Zulo.
- 1.4.3. Conduct demarcation and measurement of potential areas for development of commercial sandalwood plantations.
- 1.4.4. Establish integrated management of forest and watershed resources.

2. Economy and employment

The creation of new businesses and industries and investment in the private sector are the engine of growth, innovation and job creation for the Timorese people and will enable the transition to a non-oil economy. The Government is committed to diversifying the economy and creating the fiscal and bureaucratic conditions that will allow a greater predisposition for national and international investors to invest in the country.

In this regard, the Government proposes the following measures in five key areas, trade, industry, private sector, employment, and cooperatives, to improve the business and investment environment, create conditions for entrepreneurship, stimulate active participation in the national economic system, and increase the export of goods, which ultimately contributes to increased state revenue through tax collection.

2.1 Trade

- 2.1.1. Build quality municipal markets in Lautem and Baucau and designing and starting the construction of other national and municipal markets
- 2.1.2. Strengthen the capacity of the National Logistics Center in the execution of social policies for intervention in public supply, acquisition of local products, price stabilization, stock maintenance and distribution of essential goods for civil protection in case of natural disasters and other emergencies.
- 2.1.3. Strengthen the role of the commercial private sector through technical support and training to improve national and international competitiveness.
- 2.1.4. Develop mechanisms for the promotion, publicizing, marketing and physical distribution of national products.
- 2.1.5. Finalize the process of joining, as a full member, ASEAN and the World Trade Organization.
- 2.1.6. Reinforcing inspection and supervision of commercial activities.
- 2.1.7. Strengthen the capacity of the Economic, Sanitary and Food Inspection and Supervision Authority (AIFAESA) for quality control of food products, transport conditions and the healthiness of foodstuffs and places of production and marketing, and the quality control of economic activities, including the introduction of the "complaints book" in commercial establishments, as well as the management of administrative offences.
- 2.1.8. Build the capacity of the services of the Investment and Export Promotion Agency of Timor-Leste I.P (TradeInvest), to strengthen its intervention in the promotion of Investment in Timor-Leste and the export of national products.
- 2.1.9. Strengthen and build the capacity of the Serviços de Registo e Verificação Empresarial (SERVE) to facilitate the registration of companies and economic activities and the issuing of certificates.

2.2 Industry

- 2.2.1. Continue the support and the granting of subsidies to small industrial projects for the production of salt, coconut petroleum and soap, spices and bottled water, among others.
- 2.2.2. Support the development of business and technical training for micro, small and medium enterprises.
- 2.2.3. Support industrial diversification, namely the transformation of watermelon, manioc and banana into various products, and technical capacity building, namely the construction of machines and prototype tools, such as coconut petroleum presses.
- 2.2.4. Carry out a diagnostic and feasibility study for the establishment of industrial parks in Ulmera and Vatu-Vou.
- 2.2.5. Develop campaigns with farmers and agricultural producers for the introduction of new technologies for the transition from primary activities to industrial activities (agro-industry), ensuring their involvement and motivation.
- 2.2.6. Finalize the rehabilitation of the facilities of the business incubator of Timor-Leste (BITL) and acquire equipment in collaboration with UNDP.
- 2.2.7. Continue to promote the development and production of industrial products for the domestic market and the substitution of imports.
- 2.2.8. Implement a register of industrial property.
- 2.2.9. Strengthen the production and implementation of legislation that takes into account environmental protection in the growth of the industrial sector.
- 2.2.10. Strengthen the capacity of the Institute for Quality in Timor-Leste.

2.3 Private Sector

- 2.3.1. Enhance national entrepreneurship policies, to include appreciation and education for entrepreneurship, removal of obstacles and support for entrepreneurship, including access to information and know-how.
- 2.3.2. Availability of soft loans for private sector development.
- 2.3.3. Develop studies for the allocation of incentives to the private sector, namely to support the creation and growth of small companies.
- 2.3.4. Expand and strengthen the capacities of the Institute for Support for Business Development (IADE).
- 2.3.5. Expand and strengthen the capacities of SERVE and ensuring that the services it provides are updated and improved, including through its website.
- 2.3.6. Expand and strengthen the capacities of TradeInvest and ensure the updating and improvement of the services provided to potential investors and exporters.
- 2.3.7. Support and assist large investors to expand their operations and establish more links with the local economy, as these large investments contribute to the creation of more skilled and well-paid jobs.
- 2.3.8. Develop a national brand, projecting an image of an investment destination that is in line with the UN's Sustainable Development Goals.
- 2.3.9. Prepare and pass an export law to regulate the promotion and development of export activities.
- 2.3.10. Continue the capitalization of the National Bank of Commerce of Timor-Leste.
- 2.3.11. Continue the capitalization of the Central Bank of Timor-Leste.
- 2.3.12. Strengthen cooperation with the Chamber of Commerce and Industry of Timor-Leste.

2.4 Employment

- 2.4.1. Invest in the National Institute for Manpower Development to accommodate 10,000 students a year and improve their employability
- 2.4.2. Increase the minimum wage to US\$135/month

- 2.4.3. Create mechanisms to combat precarious work, namely by monitoring employers and ensuring the implementation of labor legislation and social protection mechanisms.
- 2.4.4. Expand the number of workers working abroad, reinforcing cooperation protocols and improving the monitoring of these processes and the follow-up of workers.
- 2.4.5. Regulate the Labor Law and strengthening the mechanisms for dialogue to increase productivity.
- 2.4.6. Improve the mechanisms for resolving conflicts at work, namely through mediation and conciliation mechanisms.
- 2.4.7. Raise the qualifications of workers, especially younger workers, with the aim of increasing their competitiveness in the international job market.
- 2.4.8. Review, approve and implement the 2017-2030 National Employment Strategy.

2.5 Cooperatives

- 2.5.1. Support and grant subsidies to cooperatives that develop activities in the area of agriculture, fisheries, livestock, trade and credit concession.
- 2.5.2. Facilitate access to credit by the cooperatives.
- 2.5.3. Strengthen youth cooperatives.
- 2.5.4. Promote cooperation and exchanges between cooperatives.
- 2.5.5. Promote the marketing of products produced by cooperatives through acquisition by processing companies and the National Logistics Centre or direct sale to the public.
- 2.5.6. Promote the purchase of foodstuffs and other goods produced by cooperatives for school meals, by hospitals and prisons.
- 2.5.7. Strengthen the capacity of cooperatives by promoting professional training for their members.
- 2.5.8. Encourage cooperative, associative and mutualist movements to ensure community participation and benefit from the dynamics of the third sector in the fight against social and economic inequality.

3. Tourism

Tourism is an important engine for the development of the national economy due to its impact on the creation of employment and income, while also contributing to the safeguarding of Timor-Leste's natural and cultural heritage. With incomparable natural beauty, a rich history and a unique cultural heritage, Timor-Leste has all the conditions to develop an original tourism sector, which involves above all its people, religion and culture.

In this sense, for 2023, priority will be given to the implementation of the following measures:

- 3.1.1. Develop historical sites in the eastern part of Timor-Leste such as "Fatin kontaktu dame - Larigutu, Foho Matebian and Foho Paichau".
- 3.1.2. Develop suco level tourism sites as part of the Community Tourism program and empower communities to develop and manage the sites.
- 3.1.3. Finalize the installation of the game scanning system.
- 3.1.4. Develop advertising and marketing campaigns about Timor-Leste, to be disseminated abroad, highlighting the natural wealth of the country's seas and mountains.
- 3.1.5. Increase the number of tourists by increasing the number of cruise ships docking at national ports.
- 3.1.6. Implement the legal system for games and create the legal system for casinos to control and regulate these activities and increase public revenue.
- 3.1.7. Promote the gastronomy of Timor-Leste through culinary competitions.
- 3.1.8. Support private companies that develop activities in the tourism sector.
- 3.1.9. Complete the construction of the Nino Konis Santana Garden in Leo Laco, Bobonaro.
- 3.1.10. Promote ecotourism, combining accommodation with coffee or rice plantations.
- 3.1.11. Control and eradicate the crocodile population on the north coast to make the beaches safe.

- 3.1.12. Recover the former residences of administrators and “tranqueiras” to preserve our heritage and support tourism, possibly with the support of Development Partners and UNESCO.

4. Territorial development and housing

The Government aims to promote the quality of life for all Timorese, especially those living in remote and hard-to-reach areas, through various incentives ranging from the county level to the village level, in order to create local jobs and raise the standard of living and well-being of the population.

In this sense, for 2023, the Government has established the following measures as priorities:

- 4.1.1. Promote the articulation of the National Spatial Planning Plan, a document that establishes the major options for the organization and development of the national territory, the guidelines for the coordination of spatial planning policies and sectoral policies with spatial translation and the orientation of territorial policies at lower scales, with sectoral plans and plans of municipal scope.
- 4.1.2. Continue the development of Municipal Plans for Territorial Planning which establish the strategy for territorial development and the municipal policy for territorial planning and urbanism, integrating and articulating the other municipal policies with territorial expression and fixing the municipal territorial planning model, based on the local development strategy and on the guidelines established in the territorial planning instruments of national scope.
- 4.1.3. Continue the development of Urban Plans which, as land use plans, develop and specify the terms of occupation of urban areas in accordance with the directives in the Municipal Land Management Plan, establishing, namely, the spatial organisation of uses based on soil classification, the location and concrete forms of implantation of infrastructures and the main collective equipment, including their urban design and urban insertion, as well as the form of building and the discipline of their integration into the landscape.
- 4.1.4. Continue with the installation and boosting of the National Center for Geospatial Information, an entity responsible for collecting, organizing, managing, producing and disseminating basic geospatial and thematic data on the national territory.
- 4.1.5. Continue and conclude the process of readjustment of the Strategic Development Plan, with the aim of updating the country’s major strategic options, so that the national development process can be renewed, developing a strategic document, structuring and driving national prosperity, through an integrated, inclusive and resilient strategy, which enables the articulation and growth of various aspects: social, economic and environmental, for a fairer, more inclusive and sustainable society.
- 4.1.6. Continue to implement the Municipal Integrated Development Planning program (PDIM) for new projects, such as the construction, requalification, repair or conservation of drinking water supply systems, rainwater drainage systems, flood protection and control barriers, small bridges, gardens and markets in communities, of solid waste disposal sites, public wash-houses, recreational or tourism centers, buildings for the installation of territorial delegations of the Ministry of State Administration, rural roads, function residences as part of the administrative decentralization process, media libraries, function residences for the directors of educational establishments of elementary schools, of municipal hospitals, of health centers or posts, of function residences for health personnel, of buildings intended to serve as function residences for public administration employees and agents of agricultural services, of Portuguese, Indonesian or other architectural heritage of sanitary facilities and green spaces and school grounds, of agricultural irrigation systems, of buildings destined for the storage of agricultural products, the creation of nurseries for agricultural, fruit or forestry species, the reforestation of deforested or deforested areas and the setting up of agricultural, livestock, forestry or fishermen’s cooperatives.
- 4.1.7. Promote and develop community economic activities through the Administrative Manpower Program (PMOPA).
- 4.1.8. Promote and develop community economic activities through the Village Hafoun Movement Program (PMOHA). The amount of money to be received by each village in the first year of implementation of the Hafoun Village Movement Program is between \$20,000 and \$30,000, this being the maximum limit.
- 4.1.9. Continue to regularly implement in all sucos the National Sucos Development Program (PNDS).

- 4.1.10. Initiate the project to build 2,000 units of affordable housing in Hera through a Public-Private Partnership.
- 4.1.11. Continue to implement the R4D project in collaboration with the Australian Government.

5. Environment

Rising sea levels, the risk of more extreme weather conditions and changing rainfall patterns and river flows as a result of climate change are serious environmental challenges for Timor-Leste. Air pollution has grown substantially, especially in Dili, as a result of automobile and motorcycle emissions, as well as smoke from households and forest fires.

The Program of the VIII Constitutional Government gives special emphasis to the need to promote and implement an environmental policy, to ensure the protection and conservation of nature and biodiversity, to control pollution, to combat climate change, and to strengthen environmental licensing services and environmental education, as well as to monitor activities potentially harmful to flora and fauna and to ensure national development in an environmentally sustainable way.

In this context, the following measures are planned:

- 5.1.1. Elaborate and approve the law on environmental fees to increase revenue collection.
- 5.1.2. Promote the identification of plants for inclusion in the carbon market.
- 5.1.3. Improve the system of plastic use and identify innovative and sustainable solutions.
- 5.1.4. Elaborate the framework for financing the blue economy and the action plan for the growth of the blue economy.
- 5.1.5. Promote a control system of the crocodile population in order to minimize threats and attacks.
- 5.1.6. Continue the identification and survey of biodiversity data, including the mapping of ecosystems of the different areas of terrestrial, marine, lacustrine, wetland and other ecosystems at risk.
- 5.1.7. Promote and strengthen good cultural practices, such as “Tara Bandu”, aimed at environmental protection, nature conservation and protection of relevant biodiversity sites.
- 5.1.8. Encouraging greater knowledge about environmental protection and environmental principles in formal education curricula, as well as promoting campaigns and actions through non-formal education.
- 5.1.9. Creation of programs for the protection of specific ecosystems, namely turtles and corals.
- 5.1.10. Continue to capitalize on the Green Climate Fund to implement multilateral environmental agreements related to climate change and to control substances harmful to the ozone layer ratified by Timor-Leste.

6. Petroleum and minerals

The petroleum sector has been the main source of revenue for the State Budget to provide public services to the population and to build and maintain our Nation’s infrastructure. The Government remains committed to enhancing petroleum and mineral revenues and to achieving a balanced Petroleum Fund to ensure its sustainability for future generations. The following measures will be carried out in 2023 to maximize investment in the petroleum and mining sectors:

- 6.1.1. Prepare for the construction and development of infrastructure on the south coast (Refinery and Petrochemical Industry supply base), including land acquisition and population resettlement.
- 6.1.2. Initiate negotiations with the petroleum companies on the development of the Greater Sunrise field and seek to secure the construction of gas processing facilities on the south coast of Timor-Leste.
- 6.1.3. Develop feasibility and sustainability studies on the use of natural gas for electricity production, making efforts to use energy that is less expensive and takes into account environmental issues.
- 6.1.4. Establish and operationalize the National Mining Company and a Mineral Fund to ensure better administration of revenues collected from mining activities in the country.
- 6.1.5. Increase study and research activities through the continued promotion of onshore and offshore blocks for exploration to maximize investment in the petroleum and mining sectors.

7. Electricity and Renewable Energy

Access to a regular and reliable supply of electricity is a fundamental right and the basis for economic growth in Timor-Leste. The Government therefore intends to continue to invest in upgrading and improving the transmission and distribution of electricity, while investing in the expansion of renewable energy. Investing in renewable energy sources can contribute to a less polluted environment and to mitigate the impacts of climate change in accordance with the commitments made in international conventions. The following measures will be carried out in 2023:

- 7.1.1. Approve and implement a tariff policy that includes differentiated tariffs for different consumers, both private, commercial and industrial.
- 7.1.2. Establish a Renewable Natural Resources Office, which coordinates actions at the intersectoral level, conducts analysis and feasibility studies relevant to this sector and is responsible for the implementation of renewable energy projects, including management, monitoring and evaluation.
- 7.1.3. Continue to invest in the rural electrification program, including technical and financial support to communities for the production and use of renewable energy sources.
- 7.1.4. Ensure that half of the electricity needs are generated through renewable energy sources.
- 7.1.5. Take the initial steps for the construction of the Lariguto and Bobonaro wind power plants.
- 7.1.6. Develop the potential of solar energy through the Dili Solar Center.
- 7.1.7. Develop a feasibility study for the construction of a thermoelectric plant to generate energy from household and industrial waste in Dili.
- 7.1.8. Continue to carry out maintenance of generation centers and the electricity grid throughout the territory.

8. National Connectivity

The Government is committed to improving national connectivity through the construction, rehabilitation and maintenance of central and productive infrastructure to connect and create conditions for the movement of people and goods, economic growth, job creation and private sector development. The Government has defined three priority areas for investment in this sector: a) infrastructure (ports, airports, roads and bridges); b) logistics (the land, sea and air transport system); and c) telecommunications (maritime and land-based fiber optics).

8.1 Roads and bridges

Roads and bridges have a strong economic and social impact because they provide access to remote and isolated areas and reduce transportation time and cost. Good and well-maintained bridges and road systems that are resilient to weather and climate conditions are crucial for ensuring reliable access to markets, education and health services, and for social security and stability. The Government remains committed to rehabilitating and repairing existing roads to sustainable standards. The main measures that have been established for 2023 are as follows:

- 8.1.1. Adapt the national road system to international standards of quality and safety, including widening where technically feasible.
- 8.1.2. Carry out a comprehensive program of maintenance and rehabilitation of existing roads, including flood prevention and control measures.
- 8.1.3. Rehabilitate rural roads of special tourist interest, using labor-intensive public programs.
- 8.1.4. Rehabilitate and maintain national, municipal and rural roads for a total of 8,448.64 km, divided into rehabilitation of 1,250.17 km, maintenance of 936.14 km of national roads, maintenance of 859.33 km of municipal roads, maintenance of 4,702 km of rural roads and maintenance of 701 km of urban roads.
- 8.1.5. Build, rehabilitate and maintain 156 km of highway.
- 8.1.6. Conduct condition monitoring studies of all rehabilitated roads and all existing bridges in the country to determine maintenance needs, construction of retaining walls and gabions for flood control, and construction of new bridges in key areas of the country.

8.2 Ports

The development of port infrastructure is essential to enable Timor-Leste to import essential goods and equipment, with a view to strengthening and diversifying the national economy, as well as increasing exports. In this sense, for 2023, the Government has established the following measures as priorities:

- 8.2.1. Initiate the commercial operation of the Tibar Bay Port and replacement of the Port of Dili, facilitating Timor-Leste's maritime connectivity in the Asian region and the movement of imported and exported goods.
- 8.2.2. Start the project to convert the Port of Dili into a marina and cruise port.
- 8.2.3. Rehabilitate the passenger terminal at the Port of Dili
- 8.2.4. Start the projects to develop regional ports of Com, Caravela, Beaco, Suai and Atauro.

8.3 Airports

Air transport is the main service for transporting people and goods to and from Timor-Leste, and is essential for the development of tourism, trade and industry. The rehabilitation and expansion of the Presidente Nicolau Lobato Airport in Dili will prepare this airport for the air traffic expected in the coming decades and thus promote economic growth in the country. The following measures will be carried out in 2023:

- 8.3.1. Complete the feasibility study for the expansion of Presidente Nicolau Lobato International Airport in Dili and the creation and rehabilitation of regional airports in Lospalos, Viqueque, Manufahi and Maliana.
- 8.3.2. Begin rehabilitation works at the Presidente Nicolau Lobato International Airport in Dili.
- 8.3.3. Conversion of the Baucau Aerodrome into the Baucau International Airport, with the objective of starting the construction of infrastructures and strategic collective equipment, as a foundation for development and economic diversification.

8.4. Transportation, Telecommunications and Innovation

Connecting people through transportation and telecommunications is an important means of enabling economic growth and promoting good governance. The creation of an innovative telecommunications network that connects Timor-Leste to the world, as well as the use of innovative monitoring technologies to improve traffic management and promote passenger safety, is a priority. In this sense, for 2023, the Government has defined the following measures in the area of transport, telecommunications and innovation as priorities:

- 8.4.1. Start the installation of fiber optic through submarine cable connecting Timor-Leste to Darwin and Port Hedland in Australia.
- 8.4.2. Approve the Integrated Transport Plan.
- 8.4.3. Improve the public transport security system, with the use of innovative transport systems to record, analyze and report transport related activities that may cause injury, death, loss or damage to property.
- 8.4.4. Promote the Tibar terminal construction project.
- 8.4.5. Ensure the maintenance of the ships Berlin Nakroma and Berlin Ramelau.
- 8.4.6. Carry out the study and detailed engineering project for the construction of the Hera and Manleuana bus terminals.
- 8.4.7. Promote the construction of 12 RTTL broadcast towers in Atauro, Naunil and Codo in Lautém, Mundo Perdido in Viqueque, Hobonaro in Ainaro, Lalimlau in Ermera, Tapo Tas in Bobonaro, Oe-Cusse Ambeno, Manatuto, Manufahi, Balibó in Bobonaro and Covalima.

9. Water and Sanitation

Access to clean, potable water and modern sanitation services is critical to protecting the health of all Timorese. Improving water quality, sanitation, and drainage in Timor-Leste will help create the resilience needed for the country to meet future health challenges and grow the economy. The key measures for 2023 in this area are as follows:

- 9.1.1. Initiate the project to upgrade the water treatment, sanitation and drainage system in Dili in collaboration with the Millennium Challenge Corporation (MCC), which includes the construction of a factory to produce chemical disinfectant for the city's water supply, the construction of the country's first central wastewater system, and the improvement of the drainage network in Dili and four neighboring municipalities.
- 9.1.2. Increase the coverage area of the drinking water supply service and improve the institutional capacity of BTL, E.P., with financing through the World Bank, which is expected to benefit a total of 82,300 people in the municipality of Dili.
- 9.1.3. Completion of the emergency rehabilitation of damaged clean and drinking water facilities.

10. Education and Training

The offer of quality education and training is essential to shape the personality, create conditions of employability and competitiveness of people of working age and ensure the economic development of the country, being a fundamental instrument to get out of poverty. The Government proposes to continue its efforts to invest significantly in the rehabilitation of basic educational infrastructures, in strengthening the quality of the national curriculum for formal education, in improving opportunities for continuous training and professional development for current teachers and school leaders, in improving the quality of the school feeding program, and in financial support for the best students. In this regard, it is envisaged that by 2023 the following measures will be undertaken to ensure that all children and young people have access to the learning and qualifications essential for success in society:

- 10.1.1. Introduce a reform of the School Meals program by increasing the expenditure per child per meal from \$0.25 to \$0.42, which is half the food poverty line.
- 10.1.2. Rehabilitate educational infrastructure by building and rehabilitating 400 elementary school classrooms, building and rehabilitating 60 secondary school classrooms and reference schools.
- 10.1.3. Start the implementation of the project to create a University City in Aileu that can accommodate up to 10,000 people.
- 10.1.4. Review the National Curriculum for General Secondary Education to promote a better match with regional and international education standards, ensuring the acquisition of practical and laboratory skills, cultural, artistic, sports, life skills and transversal entrepreneurial skills.
- 10.1.5. Review the National Curriculum for Technical-Vocational Secondary Education, adapting it to the demands of the labor market nationally, regionally and internationally, namely in the areas of agriculture, industry, mechanics, electronics, construction and service provision, with a focus on the development of rural areas.
- 10.1.6. Improve training programs for teachers at the various levels of education and teaching, with emphasis on strengthening teaching in the Portuguese language, through the creation of the Root School for training teachers at the various levels of education.
- 10.1.7. Establish an agreement with Portugal and Brazil and use funding from development partners to enable the phased expansion of CAFE schools and the restoration of school and professional training buildings.
- 10.1.8. Carry out feasibility studies for construction of new schools.
- 10.1.9. Develop instruments for strategic educational planning, making use of the Educational Cards produced in the recent past.
- 10.1.10. Strengthen the quality of Recurrent Education through access to teaching materials with concrete and easily understood content.
- 10.1.11. Conduct a design study to improve education by developing a center of excellence that will provide pre-service training for future secondary school teachers and school leaders, and by providing ongoing and professional training for current teachers and school leaders, in collaboration with the Millennium Challenge Corporation (MCC).
- 10.1.12. Provide scholarships to the best elementary and secondary school students.
- 10.1.13. Implement a recruitment program for the best students in national universities.
- 10.1.14. Guarantee internet in all schools and universities.

10.1.15. Continue to support the development of home schooling.

11. Health

Equal access to essential, quality health services that are well equipped and staffed by competent health professionals is a fundamental goal. Thus, for 2023, the Government's intervention is geared towards rehabilitating basic health infrastructure at both the national and municipal levels, introducing public-private partnerships in Diagnostic Health Services, and improving the quality of health service delivery through innovation in primary health care systems, promoting steady improvement in human resource development and deployment, strengthening efforts to combat malnutrition, and improving the national response to outbreaks and emergencies of dengue, cholera, and other diseases. In this regard, the Government proposes the following measures to safeguard the health of the population and contribute to improved service delivery:

- 11.1.1. Initiate the design and construction project of the pediatric building and intensive care unit of the Guido Valadares National Hospital (HNGV) in Dili, with five floors and an area of about 4,000 m², which will provide adequate facilities to meet the growing number of patients of the HNGV, promoting the improvement of the quality of health services in the country.
- 11.1.2. Start the process of rehabilitation and construction of Dr. Antonio Carvalho Hospital in Lahane, Dili.
- 11.1.3. Develop the Public-Private Partnership for Health Diagnostic Services project with the support of the World Bank (International Finance Corporation - IFC).
- 11.1.4. Promote universal health coverage through an integrated approach to health care.
- 11.1.5. Strengthen the number of general practitioners in the community at the primary health care level (500 new doctors).
- 11.1.6. Take initial steps to establish cardiology and oncology clinics at the National Hospital by acquiring cardiology equipment and hiring two specialists in oncological medicine.
- 11.1.7. Raise the promptness of maternal health services and health care in all health centers in all administrative posts, through the acquisition of 240 medical equipment to support childbirth.
- 11.1.8. Improve the national response to outbreaks and emergencies of dengue, cholera and other diseases that have a major impact on public health, especially for infants, children and adolescents, by hiring 100 health professionals.
- 11.1.9. Build 25 new health posts and health professional residences in sucos that do not yet have a health post.
- 11.1.10. Design the health sector's training policy and develop instruments to control health training.
- 11.1.11. Strengthen public investment in the training of specialized doctors (40 people by 2023) and promote constant improvement in the training of health personnel (through agreements with the World Health Organization and development partners), whether on a scientific level, a technical level (for example for handling equipment) or on a pedagogical level.
- 11.1.12. Accelerate the implementation of the National Commitment to Fight Tuberculosis.
- 11.1.13. Improve the detection of HIV/AIDS cases and strengthen the treatment strategy of HIV/AIDS patients.
- 11.1.14. Improve the management of the Electronic Health Record for all levels of health service delivery through the acquisition of new registration software.
- 11.1.15. Take initial steps to establish a drug quality testing laboratory in Timor-Leste.

12. Social Inclusion and Protection

The Government is continually committed to assisting the poorest and most vulnerable citizens of Timorese society. In this area, a set of reforms are foreseen, aimed at consolidating a policy of social cohesion and of guaranteeing human dignity to all Timorese, both by improving the sustainability of the Social Security System and by reinforcing social assistance to the most disadvantaged. In this context, the following measures are foreseen to ensure that women and children, youths, as well as the elderly and other vulnerable citizens, have access to the satisfaction of their fundamental needs and well-being, as well as access to opportunities to leave their fragile state.

12.1 Social inclusion

Women

- 12.1.1. Renew and approve the 3rd phase of the National Action Plan against Gender-Based Violence.
- 12.1.2. Renew and approve the 2nd phase of the National Action Plan on Women, Peace and Security (PAN-1325).
- 12.1.3. Continue to implement the gender sensitive budgeting policy in the Public Finance Management Reform.
- 12.1.4. Strengthen campaigns against domestic violence.
- 12.1.5. Encourage the creation of self-sustainable businesses for women heads of households and for women victims of domestic violence and gender-based violence, with the aim of ensuring their economic independence.
- 12.1.6. Revise school curricula to make them gender-sensitive and ensure that they are effectively and quality implemented in education systems.

Children

- 12.1.7. Ensure that 75% of girls of school age complete basic education.
- 12.1.8. Approve and implement the Law for the Protection of Children in Danger.
- 12.1.9. Renew and approve the 2nd phase of the Children's National Action Plan.
- 12.1.10. Continue to implement programs of prevention, protection and assistance to child victims of violence, abandonment, incest and sexual abuse, namely through a secure hotline for reporting these cases.
- 12.1.11. Improve the monitoring and treatment by the Police, Public Prosecutor's Office and Courts of cases of violence and abuse against children.

Youth

- 12.1.12. Improve existing youth centers to provide training in languages, technology, art, music, sports and civic education.
- 12.1.13. Continue to promote the Youth Parliament, "Parliament Foin Sa'e", to empower youth in the areas of leadership, critical thinking, debating skills and social analysis.
- 12.1.14. Develop leadership training camps to promote physical fitness, administrative skills, conflict resolution and civic values.
- 12.1.15. Continue to fund, promote and support sports activities in all communities in the country, in order to promote competitions of various sports at the national level.
- 12.1.16. Rehabilitate sports infrastructure, including multi-purpose gyms, and rehabilitate the stadium and the sports complex in Dili.
- 12.1.17. Build the martial arts headquarters, providing conditions for this sporting and social activity to develop in a healthy and safe environment.

Other Vulnerable Groups

- 12.1.18. Stimulate the creation of self-sustainable businesses through credit cooperatives for citizens with disabilities.
- 12.1.19. Develop support programs for families and communities that have people with disabilities in their care.
- 12.1.20. Implement rehabilitation programs for prisoners and ex-prisoners, with a view to their integration into society.
- 12.1.21. Invest in food assistance programs to support victims of natural disasters and vulnerable individuals and families.

- 12.1.22. Improve relief and assistance mechanisms for victims of natural disasters, including the construction of infrastructure and distribution of construction materials and materials for storage.
- 12.1.23. Support the National Commission to Combat HIV-AIDS, continue to conduct prevention campaigns on HIV-AIDS transmission and provide support to patients at the Tibar Health Recovery House, as well as improve assistance in terms of food, health care and treatment of HIV-AIDS patients and develop integration campaigns and occupational therapy.

12.2 Social Protection

Social Protection plays a very important role in human but also economic development, not only for the direct support it provides to citizens, but for the multiplier effect it produces, increasing household incomes, fostering productivity and human development. In this area, a set of reforms are foreseen which seek to consolidate a policy of social cohesion and of guaranteeing human dignity to all Timorese through the improvement of the sustainability of the Social Security System and the strengthening of social assistance to the most disadvantaged.

- 12.2.1. Introduce the Bolsa da Mãe-Jerasaun Foun program in four municipalities in 2023, Covalima, Liquiça, Manatuto and Viqueque. The municipalities of Manufahi, Ermera, Baucau, Aileu and Lautém will be included in the program in 2024 and the municipality of Dili will be covered in 2025. The program started in 2022 covering the municipalities of Ainaro and Bobonaro and the RAEOA and will be progressively extended to the whole national territory over 4 years. The Bolsa da Mãe configures a subsidy of US\$ 15 per month for pregnant women, US\$ 20 per month for each child up to 6 years old, and an additional US\$ 10 for children with disabilities.
- 12.2.2. Continue to introduce targeted incentives for mothers to go for prenatal and postpartum consultations. The incentives will be \$5 per visit for up to a maximum of four prenatal visits and \$10 per visit for up to two postpartum visits. In total, each mother will receive a maximum of \$40 if she benefits from the total of six consultations during that period.
- 12.2.3. Continue to pay cash benefits to the elderly through the Support Subsidy for the Elderly and Invalids (SAII) of US\$50 per month.
- 12.2.4. Operationalize the Disability Verification Service.
- 12.2.5. Creation and operationalization of deconcentrated INSS services all over the country.
- 12.2.6. Construction of a new head office building for the INSS and FRSS.
- 12.2.7. Construction and operationalization of the Social Security information system.
- 12.2.8. Creation of protection in illness (temporary incapacity), family protection (family allowance), in accidents at work and professional illnesses and in unemployment under the contributory social security system.
- 12.2.9. Creation of protection in the event of death within the scope of the non-contributory social security system.
- 12.2.10. Extension of the coverage of the social security system.
- 12.2.11. Implement the Legal Regime for the Protection of Maternity, Paternity and Adoption, along with other measures to support vulnerable children.
- 12.2.12. Develop campaigns on the rights of the elderly and promote their integration and special care in families and communities.
- 12.2.13. Complete the payment of End of Year allowance to all national families in the amount of US\$200.
- 12.2.14. Implement and invest the National Liberation Fighters Fund.

13. Culture and Heritage

The Government is committed to the development and promotion of cultural activities, actions and practices, in particular the establishment of creative industries that generate income and employment, and at the same time defend and enhance cultural heritage, which has unique characteristics and great interest. The following measures will be carried out in 2023 for the conservation, protection and preservation of historical-cultural heritage and the development of arts and culture, as well as the protection of rights relating to artistic and literary creation:

- 13.1.1. Continue to support the activities of cultural groups and the creative arts and industries.
- 13.1.2. Preserve, conserve and promote the tangible and intangible cultural heritage of Timor-Leste through the rehabilitation and preservation of 22 “Uma Lulik” each year.
- 13.1.3. Take initial steps towards the establishment of the Academy of Arts and Creative Industries, which will focus on traditional Timorese art forms such as music, dance, art, crafts and designs, celebrating these art forms.
- 13.1.4. Take initial steps for the implementation of the National Library.
- 13.1.5. Proceed with the identification of artifacts to constitute the National Museum in the future.
- 13.1.6. Begin construction of the “Garden of the Eternal Flame”, a highly symbolic memorial, which is designed to concentrate the recognition of all those who perished in the National Liberation struggle
- 13.1.7. Promote professional training and cultural and artistic education in schools.

14. State Reform

State Reform is divided into four major institutional reforms underway - Public Administration Reform, Fiscal Reform and Public Finance Management, Judicial Reform and the Administrative Decentralization Process. These four reforms are interconnected and have the common goal of improving the management and functioning of the public sector, as well as ensuring that the State operates within a framework of legality and effective legal security and in a more efficient and effective manner.

14.1 Reform of Public Administration

The Government continues to advance Public Administration Reform with the aim of providing better services to citizens and companies and making the Public Administration more competent, efficient, innovative, sensitive, transparent, accountable and oriented towards satisfying its users. The reform will be implemented by various ministries and autonomous entities. Below are the main measures for 2023:

- 14.1.1. Improve service delivery processes to reduce bureaucracy and stimulate innovation through:
 - a) Establish a Central Delivery and Transformation Unit in the Prime Minister’s Office.
 - b) Continue the phased implementation of the Unique ID Cards program.
 - c) Widespread adoption of information technology in the civil service and the pursuit of e-Government initiatives.
 - d) Establish One-Stop-Service Centers.
- 14.1.2. Strengthen performance through better incentives and greater compliance and accountability for results:
 - a) Prepare publicly available annual performance reports by all ministries.
 - b) Prepare publicly available strategic plans by eight ministries.
 - c) Collection, monitoring and analysis of service delivery indicators against targets at a facility or service delivery point level or eight ministries.
 - d) Increase the use of better problem-solving and feedback mechanisms.
- 14.1.3. Better manage human resources, promote strong leaders and capable civil servants, and strengthen the merit system to ensure that the right people are in the right place through:
 - a) Adopt measures to promote meritocracy.
 - b) Increase the use of computerization to manage human resource processes, including recruitment, and reducing the time and increasing the efficiency of recruitment.
 - c) Carry out promotion in the careers under the General Civil Service Regime with a total of 866 vacancies, of which 41 will be for Superior Technician - Grade A, 122 for Superior Technician - Grade B, 190 for Professional Technician - Grade C, 250 for Professional Technician - Grade D, 164 for Administrative Technician - Grade E and 99 for Auxiliary - Grade F.

- 14.1.4. Ensuring value for money and efficiency in the functions and structures of the Public Administration through:
 - a) Implement policies of decentralization of service delivery functions to municipalities and community service providers.
 - b) Implement policies of separation of functions, controlling the formation of autonomous entities and subcontracting the provision of non-essential functions to the private sector.
- 14.1.5. Improve the efficiency of administrative services provided to businesses, reducing delays and transaction costs by:
 - a) Reduce the time limits for starting businesses from 13 to 7 days.
 - b) Establish alternative dispute resolution and arbitration mechanisms and commercial sections in the courts.
 - c) Improve the ranking of doing business in Timor-Leste by improving from rank 181 to at least rank 150.

14.2 Tax Reform and Public Finance Management

Budget consolidation, increasing tax revenues, containing public debt and controlling inflation are essential to keep the country on the path to economic growth. This reform should ensure an improvement in financial management and the provision of services, decentralize procurement and financial and asset management and improve the mobilization and collection of revenue. In this framework, the Government proposes to proceed with the following measures of the reform plan for 2023:

- 14.2.1. Implement and regulate the new Framework Law for the State Budget and Public Financial Management.
- 14.2.2. Implement and regulate the new Legal Regime for Procurement, Public Contracts and Related Infringements, which creates a clearer, simpler, objective, rigorous and transparent legal regime to promote the country's economic and social development.
- 14.2.3. Continue to improve the implementation of program budgeting in all public institutions.
- 14.2.4. Undertake a diagnostic study for the Medium Term Expenditure Framework (MTEF) to ensure that budgets reflect the Government's social and economic priorities and give substance to the Government's reconstruction and development commitments.
- 14.2.5. Proceed with the review of the Public Debt Law and the regulation of Treasury bonds.
- 14.2.6. Establish a dedicated institution to coordinate with relevant public institutions and manage all assets, movable and immovable, as well as a central database of all State assets, to ascertain the value and depreciation of assets and improve their management.
- 14.2.7. Proceed with Tax Reform, through the approval of a new Tax Law and a Code of Tax Procedure and the introduction of Value Added Tax.
- 14.2.8. Implement the interconnection of the computer system used by the relevant institutions in the public sector with the financial computer system.
- 14.2.9. Create the National Institute of Statistics.

14.3 Judicial Reform

Judicial Reform aims to strengthen the judicial system and other institutions involved in the provision of justice. In this context, the following measures are planned for 2023:

- 14.3.1. Implement the Judicial Organization Law with the installation of the Supreme Court of Justice, the High Administrative, Tax and Audit Court and military courts, and the creation of specialized judgeships in Municipal Courts.
- 14.3.2. Study the review of the judicial map.
- 14.3.3. Approve the law creating the Bar Association and altering the Legal Regime of Private Law Practice and the Training of Lawyers.

14.3.4. Implement the Land Registry Code and starting the issue of land certificates.

14.4 Administrative Decentralization

The Decentralization Process aims to strengthen local and municipal political responsibility and good governance, transfer functions and responsibilities from the central administration to the subnational administrations, develop mechanisms for fiscal decentralization and revenue collection from own sources and improve the management and administration of municipalities. In this area, it is intended to implement the following measures:

- 14.4.1. Implement the Atauro Special Development Fund (FEDA) which is intended to finance programs and projects, annual and multi-year, of a socio-economic and environmentally sustainable nature, aimed at the development of the territory and population of the Municipality of Atauro.
- 14.4.2. Implement territorial administrative decentralization, through the creation and installation of municipal local authorities endowed with representative bodies.
- 14.4.3. Continue the process of transferring material and human resources to the Municipal Authorities and Administrations.
- 14.4.4. Continue implementation of the delegation of powers from central government to municipal authorities and administrations.
- 14.4.5. Finalize the legal framework necessary for the implementation and functioning of Local Government.

15. Defense and national security

The development of transparent, efficient, competent and professional defense and security institutions is fundamental to the maintenance of democracy and the consolidation of stability and peace at the national and international levels. Key measures are proposed to strengthen coordination and close cooperation between defense forces (F- FDTL) and security forces (PNTL) and ensure clarity and commitment in accordance with their respective responsibilities and missions, as well as guarantee territorial integrity, the normal functioning of democratic institutions, freedom and the protection of State property and citizens.

15.1 National Defense

- 15.1.1. Continue to pay the remuneration resulting from the new salary scheme for the FALINTIL-Timorese Defense Forces.
- 15.1.2. Carry out the process of military and staff recruitment for the Ministry of Defense.
- 15.1.3. Promote the construction, acquisition, repair and maintenance of infrastructure, equipment, armament, vehicles and military boats.
- 15.1.4. Carry out the feasibility study and design of the Military College, the armory and armory for the Land Component (CT), the Naval Support Points of the South Coast, the National Lighthouse System and military quarters.
- 15.1.5. Continue Civil-Military cooperation in the area of humanitarian support and participate in Peacekeeping missions.
- 15.1.6. Pay housing subsidies to the FALINTIL-Timorese Defense Forces.

15.2 National Security

- 15.2.1. Continue to pay remuneration resulting from the new salary scheme for the National Police of Timor-Leste.
- 15.2.2. Carry out career promotion for members of the civil protection.
- 15.2.3. Prevent and combat the crime of human trafficking, and ensure the protection of victims of human trafficking and the investigation of human trafficking situations.
- 15.2.4. Strengthen the service of prevention and rapid response to emergency situations.
- 15.2.5. Acquire new weapons to replace the weapons of the Border Police Unit and the Maritime Police Unit.

- 15.2.6. Pay housing allowances to the National Police of Timor-Leste
- 15.2.7. Acquisition and construction of houses for the migration service

16. International Relations and Foreign Policy

Foreign policy actions are crucial to support national development and improve Timor-Leste's participation in the international arena and its insertion in regional and international economies. The Government continues to conduct a foreign policy that fosters bilateral and multilateral cooperation, promoting cultural, economic and commercial partnerships with other countries, which are essential for attracting investment. In this context, the following measures have been defined for 2023:

- 16.1.1. Improve Timor-Leste's representation at bilateral, regional and multilateral levels.
- 16.1.2. Strengthen consular protection for national citizens living abroad, namely through a Secretary of State for Workers Abroad.
- 16.1.3. Carry out external promotion of investment in Timor-Leste.
- 16.1.4. Promote friendly relations and partnerships of an economic, social and cultural nature that represent the strategic interests of Timor-Leste abroad, namely for the purposes of attracting foreign investment to our country with a view to job creation.
- 16.1.5. Promote and mobilize humanitarian cooperation and assistance.
- 16.1.6. Continue to promote efforts so that Timor-Leste becomes a full member of ASEAN and the World Trade Organization.
- 16.1.7. Continue to promote the definitive delimitation of land and sea borders.

**Annex II
(referred to in Article 3.4)**

**Correlation between national results and the strategic areas of
the Major Planning Options**

National results	Strategic areas of Major Planning Options
1. All citizens have access to safe and quality health services	11. Health
2. All citizens are free of hunger and malnutrition	1. Agriculture, livestock, fisheries and forestry 10. Education and training
3. Friendly, confident, safe communities	4. Land development and housing
4. Timor-Leste is a country that enforces the rule of law and equal access to justice is guaranteed for all citizens	14. State reform
5. All citizens have access to clean water and quality sanitation	9. Water and sanitation
6. Protect the environment and safeguard the country's sustainable development for future generations	1. Agriculture, livestock, fisheries, and forestry 5. Environment
7. Disaster preparedness for effective responses for all citizens at all levels	11. Health 15. Defense and national security
8. All citizens should have access to quality education and training for lifelong learning	10. Education and training
9. Build a modern telecommunications network to connect all people	8. National connectivity
10. A national petroleum industry with qualified national people leading and managing the industry	6. Petroleum and minerals
11. An e-government that provides faster, more effective, efficient and transparent services to citizens	14. State reform
12. Create more inclusive, sustainable and quality employment in Timor-Leste	2. Economy and employment
13. A modern, diversified economy with thriving innovative industries driven by private sector development	2. Economy and Employment
14. A sustainable and prosperous agricultural sector that meets the demand of domestic and international markets	1. Agriculture, livestock, fisheries, and forestry
15. An original, environmentally friendly tourism industry that focuses on our people, our culture and our heritage	3. Tourism
16. Greater consumption of art and culture in the country and conservation of cultural heritage	13. Culture and heritage 14. State reform
17. A diverse, socially inclusive and equitable society that supports and protects the most vulnerable	12. Social inclusion and protection
18. Everyone in Timor-Leste has access to reliable and affordable electricity 24 hours a day	7. Electricity and renewable energy
19. An extensive network of quality, well-maintained roads, ports and airports that promote development and market access	8. National connectivity
20. Spatial planning, urban and rural development	4. Land development and housing
21. Sensible, responsible, effective and efficient local government	4. Territorial development and housing 14. State reform
22. Greater public participation in policy making and decision making by Government, leading to more accountable Government	14. State Reform
23. Sustainability and sound financial and budgetary management	14. State Reform
24. An efficient and effective public administration that citizens trust	14. State Reform
25. Develop sustainable and environmentally friendly infrastructure for all generations	5. Environment
26. Our defense and security sector will defend the nation, supporting civil society and helping to combat regional and global threats	15. Defense and social security
27. Strong bilateral and multilateral relations that promote Timor-Leste and contribute to a better Asia and a better world	16. International relations and foreign policy
28. The interests of the Timorese people are protected and promoted, nationally and internationally	13. Culture and heritage 16. International relations and foreign policy

**Annex III
(referred to in Article 4.2)**

Multi-annual budget programming for 2023

	2023	2024	2025	2026	2027
Overall Expenditure	2 155 715 306	2 263 501 071	2 367 622 121	2 474 165 116	2 580 554 216
Consolidated Global Expenditure	2 087 855 000	2 189 313 479	2 242 676 600	2 340 771 599	2 412 188 698
Central Government	1 800 000 000	1 896 369 852	1 927 020 000	1 992 540 000	2 031 600 000
Oe-Cusse Ambeno Special Administrative Region	120 000 000	81 120 000	84 364 800	87 739 392	91 248 968
Social Security	235 715 306	291 930 852	347 719 894	403 387 370	453 069 596
Overall Revenue	2 155 715 306	2 263 501 071	2 367 622 121	2 474 165 116	2 580 554 216
Consolidated Global Revenue	2 087 855 000	2 189 313 479	2 242 676 600	2 340 771 599	2 412 188 698
Central Administration	1 730 932 859	1 816 262 627	1 810 591 906	1 849 644 837	1 867 870 135
Petroleum revenues	1 277 022 859	1 346 282 627	1 331 821 906	1 371 604 837	1 411 520 135
Non-oil revenues	453 910 000	469 980 000	478 770 000	478 040 000	456 350 000
Oe-Cusse Ambeno Special Administrative Region	121 206 835	81 120 000	84 364 800	87 739 392	91 248 968
Social Security	235 715 306	291 930 852	347 719 894	403 387 370	453 069 596
Total public debt	330,280,000	399,350,000	467,970,000	525,400,000	547,820,000
Public debt as % of GDP	21.0%	24.7%	28.0%	30.5%	30.9%

Approved by the Council of Ministers on 9 May 2022.

The Prime Minister,

Taur Matan Ruak

The Minister of Finance,

Rui Augusto Gomes