



**Democratic Republic of Timor-Leste**

## **General State Budget for 2021**

### **Budget Overview**

#### **Book 1**

#### **Supplement - March 2021**

##### **Introduction**

The 2021 State General Budget was approved by Law No 14/2020, of 29 December.

At the time of preparing the draft law for the 2021 State General Budget, the COVID-19 pandemic in Timor-Leste was in a stabilized situation, with a total of 26 positive cases detected between 21 March and 20 August 2020.

The state of emergency that was initially declared on 28 March was still in effect at the end of the year, but it was mainly directed at controlling the external borders, and the measures of stay-at-home and closure of commercial activity had already been lifted.

Thus, the economic outlook pointed to recovery, with real non-oil GDP growth in 2021 of 3.9%, after a 6% contraction in 2020.

Contributing to this was the increase in economic activity and the circulation of money at the end of 2020, as a result of the approval of the General State Budget for 2020 and the support measures approved by the Government, namely the allocation of a subsidy to households (which covered 298,495 families), the allocation of support to companies and workers to protect employment, the institution of a credit moratorium, the allocation of electricity and internet *pulsa*, the suspension of water bills and public property rents, the creation of an incentive to resume business activity and the allocation of a basket with basic food and hygiene products to the entire population.

This positive outlook was confirmed by international financial institutions, in particular the International Monetary Fund, which in its October 2020 World Economic Outlook estimated a 4% growth in Timor-Leste's GDP in 2021.

However, the beginning of 2021 saw a worsening of the COVID-19 pandemic worldwide and the readoption of restrictive measures applied throughout 2020.

Similarly, Timor-Leste saw a surge in the number of positive cases of COVID-19 at the beginning of the year and the appearance of the first signs of community transmission in Dili, Covalima and Baucau, which led to the adoption of measures to close external borders, stay-at-home and closure of non-essential business.

These measures, similar to those adopted at the end of March 2020, should have a substantial impact on economic activity and employment.

## Economic overview

The revised economic forecasts indicate that the reduction in GDP in 2020 was greater than expected, with real non-oil GDP contracting by 7.6% due to the combined effect of the delay in approving the General State Budget, political uncertainty, the COVID-19 pandemic and the state of emergency.

In 2021 GDP is expected to grow again, but more slowly than initially forecast, with a rate of 2.0%, supported by an increase in public expenditure. This figure is a downward revision from the previous forecast of 3.5% due to the continued economic impact of Covid-19 and the stay-at-home measures.

**Table 1: Economic indicators, 2020-2022, %**

Indicator	Forecast					
	2020*	2020**	2021*	2021**	2022*	2022**
Real GDP (non-oil)	-0.6%	-7.6%	3.9%	2.0%	2.5%	2.9%
CPI Inflation	0.7%	0.1%	2.1%	0.5%	2.7%	1.1%

Source: Ministry of Finance \*Forecast OGE2021 (October 2020) \*\*Updated forecast (March 2021)

However, GDP is expected to accelerate in 2022 with a growth rate of 2.9%, four-tenths above the October 2020 forecast.

GDP growth in 2021 will be driven by the increase in public expenditure, supported by the investments included in the Economic Recovery Program, as well as by the support measures included in the proposal to amend the General State Budget for 2021.

However, confirmation of the forecasts will depend on the progression of the COVID-19 pandemic in the national territory and the duration of the stay-at-home measures.

**Figure 1: Real non-oil GDP growth rate (%) and gross value (million USD)**



Source: Timor-Leste National Accounts between 2000 and 2018, Ministry of Finance, 2021

Inflation is expected to remain low and stable in 2021 with a rate of 0.5%. This will contribute positively to increase Timor-Leste's competitiveness, with expected inflation being lower than the regional average, and also to increase household consumption.

## New measures

The proposal to amend the General State Budget for 2021 provides for budget expenditures to increase capacity to prevent and combat COVIDS-19, as well as to finance a set of measures to mitigate the effects of the economic impact of the pandemic.

Therefore:

- \$34.5 million aims to purchase vaccines, personal protective equipment, more material for testing and treatment of hospitalized patients, as well as the construction and leasing of new isolation and quarantine sites and increasing the capacity of existing sites;
- \$45.3 million aims to finance the employment support measure that seeks to avoid a substantial and abrupt reduction in workers' incomes, granting an extraordinary subsidy to employees, self-employed workers, sole proprietors, domestic service workers and managers and directors, as well as to workers registered with Social Security who have already made contributions but have, in the meantime, lost their jobs. It also provides for the exemption of workers and employers from the obligation to pay social contributions, as well as extraordinary subsidies to share the costs of electricity and rents;
- \$5 million aims to finance the credit moratorium to relieve debtors of the costs of loan repayment, deferring for nine months the maturity of principal repayment obligations, and establishing the State's share in interest payments;
- \$16.7 million aims to finance the Integrated Crisis Management Centre (CIGC), as well as the COVID-19 prevention and mitigation operations it coordinates;
- \$12 million aims to enable the National Logistics Centre to purchase food products from national producers and distribute them to the neediest people and families, through existing support structures;
- \$5.4 million aims to finance the allocation of internet *pulsa* to students affected by the stay-at-home measures, so that they can benefit from distance learning for as long as the measures continue;
- \$51.9 million aims to finance the supplement for front-line workers;
- \$32.4 million aims to complete payments related to the Basic Basket program.

The increase in expenditure provided for in the proposed amendment to the General State Budget for 2021 is \$135.3 million.

The increase in expenditure is concentrated in increase to the appropriation of the COVID-19 Fund, which was created by the National Parliament, through Law No. 2/2020, of 6 April, Authorization for the Realization of an Extraordinary Transfer from the Petroleum Fund, for the purpose of financing the expenses related to the prevention and combat of the disease COVID-19.

The appropriation for the COVID-19 Fund in the General State Budget for 2021 is \$31.0 million, distributed among Goods and Services with \$23.9 million, Public Transfers with \$3.5 million, and Capital Development with \$3.6 million.

The proposed amendment to the 2021 General State Budget increases the appropriation to the COVID-19 Fund by \$223.8 million.

Note that the budgetary appropriation for the COVID-19 Fund had already been increased in 2021 by budgetary amendments with the Government's powers as a result of reallocations between titles originating in various ministries, amounting to \$39.1 million, changes that are incorporated in the proposal, since they have an impact on the allocation for the COVID-19 Fund.

Thus, the budgetary appropriation to the COVID-19 Fund presented in this proposal amounts to \$293.9 million.

## **Financing**

The increase in the appropriation for the COVID-19 Fund is financed by the reallocation of budget appropriations between titles from the Whole-of-Government Appropriations and the Infrastructure Fund, as well as by the inclusion of management balances not included in the General State Budget for 2021, but determined at the end of the 2020 budget year, after the approval of the Budget. Regarding the reallocation of budget appropriations, a total of \$83.5 million is transferred to the COVID-19 Fund:

- \$62 million is transferred from the Infrastructure Fund relating to a number of projects programmed for this year, but whose implementation was affected by the measures to prevent and combat COVID-19, as well as reductions in maintenance costs, with emphasis on the reduction in ICT Equipment, amounting to \$29.5 million, and in Roads, Airports and Tasi Mane, valued at \$10.0 million, \$6.3 million and \$5 million, respectively.
- \$26.5 million are transferred from Whole of Government Appropriations in respect of reductions in Overseas Travel, in the sum of \$1.5 million, and in appropriations for the capitalization of BNCTL and BCTL, in the sum of \$22 million, \$5 million, respectively.

Regarding the inclusion of management balances not included in the General State Budget for 2021, but determined at the end of the 2020 budget year, after the approval of the Budget, a total of \$135.3 million is transferred to COVID-19 Fund:

- Is included in "Balance for Expenditure financing" \$88.8 million that had been entered as Central Government Revenue but entered in "Balance no used in 2021", thus allowing its use;
- Also included under "Treasury Account Balance" is \$7.5 million returned to the Treasury by the National Institute of Social Security regarding the balance of transfers from the Central Administration Budget for payment of the Old Age Pension in previous years but not used (due to the death of the beneficiary, data errors, failure to claim the pension, etc.).
- Also included under "Treasury Account Balance" is \$39 million from the COVID-19 Fund balance relating to amounts to finance employment support measures (\$35 million) and the credit moratorium (\$4 million) in 2020, but not used, and returned by the National Institute of Social Security and the BCTL, respectively.

Thus, it is not necessary to increase the amount of the transfer from the Petroleum Fund to the General State Budget, so no change to that amount is planned.

**Table 2: 2021 State Budget revenue and expenditure (thousand US dollars)**

	<b>2021 State Budget</b>	<b>Proposed Amendment</b>	<b>Amended 2021 State Budget</b>
<b>EXPENSES*</b>	<b>2,029,820</b>	<b>225,900</b>	<b>2,165,120</b>
<b>Central Administration</b>	1,797,243	135,300	1,932,543
<i>Salaries and wages</i>	229,668	-	229,668
<i>Goods and services</i>	395,032	178,171	573,204
<i>Public Transfers</i>	695,932	20,242	716,174
<i>Minor Capital</i>	58,718	(3,663)	55,054
<i>Development Capital</i>	417,894	(59,450)	358,444
<b>RAEOA</b>	127,000	-	127,000
<b>Social Security</b>	177,579	-	177,579
<b>REVENUE*</b>	<b>2,199,055</b>		<b>2,245,555</b>
<b>Central Administration</b>			
Revenue	1,886,043	46,500	1,932,543
Revenue to finance expenditure	1,797,243	135,300	1,932,543
Transfers from the Petroleum Fund	1,377,568	-	
<i>Estimated Sustainable Income</i>	547,873	-	547,873
<i>Transfer in excess of the Estimated Sustainable Income</i>	829,685	-	829,695
Tax Revenues	173,176	-	173,176
Own Revenues	8,072	-	8,072
Donations, inheritances and legacies	9,100	-	9,100
Income	8,628	-	8,628
Cash Balances	238,800	46,500	285,300
<i>Balance in the Treasury Account</i>	238,800	46,500	285,300
<i>Balance for financing expenditure</i>	150,000	135,300	285,300
<i>Balance not used in 2021</i>	88,800	(88,800)	0
Loans	70,700		70,700
Other	0		0
<b>RAEOA</b>	207,430		207,430
<b>Social Security</b>	177,579		177,579

Source: Ministry of Finance 2021 \*Consolidated values