

La'o Hamutuk

Timor-Leste Institute for Development Monitoring and Analysis

Rua Salmão, Marconi, Fatuhada, Dili, Timor-Leste

Tel: +670-3321040 or +670-77234330 (mobile) email: laohamutuk@gmail.com

Website: www.laohamutuk.org



Submission from La'o Hamutuk to National Parliament regarding the Proposed General State Budget for 2027 21 October 2026

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Introduction

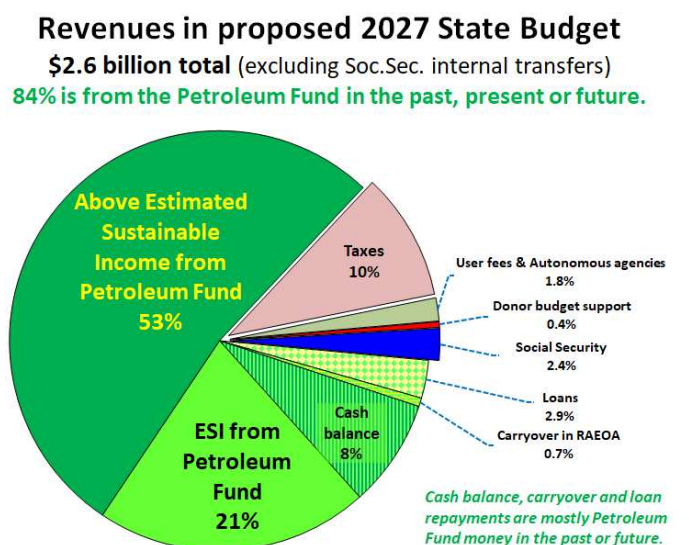
La'o Hamutuk would like to express our appreciation for the Government's efforts, including Citizen Consultations in each municipality. However we note that the consultations should get more participation and avoid repeating the “shopping list” that has happened for many years.

We would also like to thank the Government for the discussion in the *Jornada Orsamentál* and for publishing documents, although for documents related to the Proposed 2027 Budget Law, as well as other documents essential to help civil society propose significant ideas and perspectives to improve the 2027 budget unfortunately faces setbacks; the Government tends to hide documents to reduce citizens’ participation. The Ministry of Finance and the National Parliament do not yet make budget documents accessible from their main web pages. La'o Hamutuk is also concerned about inconsistencies in the 2027 Budget books on projected withdrawals from the Petroleum Fund: table 60 in the Report and table 5 in Informative Elements Volume I are different. In addition, expenditure from the Infrastructure Fund is \$326 million in 2027 and is projected to swell to \$1.806 billion in 2028.

La'o Hamutuk continues to encourage the Government and National Parliament to improve transparency through consistent functioning of websites and publishing essential documents, so that the public has access to complete and accurate information, which will help public awareness, including civil society, to encourage participation and contribute to budgetary processes. We also want to open more opportunities during the discussion of the 2027 Budget Proposal to improve and define the urgent needs of the nation and the people to ensure state financing for current and future generations in accordance with the Petroleum Fund Law.

Fiscal Sustainability

As the Petroleum Fund Law clearly describes, withdrawals must be secured and guaranteed financial return. Investments over two decades still have not ensured that the annual budget deficit is covered. Therefore, we feel that withdrawals from the Petroleum Fund must be seen not only as a source of immediate budget needs, but also the sustainability of investment, the capacity of the domestic economy to provide revenue and the impact on long-term financial stability. The 2027 state revenue graph below shows the continuing dominance of the Petroleum Fund. La'o Hamutuk is concerned that the Government consistently exceeds the Estimated Sustainable Income (3%) and, after almost two decades, Timor-Leste has not yet overcome its dependence on the Petroleum Fund and on imported products. We believe that the future of the state and fiscal sustainability require consistent policies and investment in productive sectors.



Graph by La'o Hamutuk based on the proposed State Budget for 2027. October 2026.

Government Programs and Planning in the 2027 budget proposal claim to strengthen fiscal sustainability, but in the tendency to orient the state's future towards risk, the Government has failed to design a budget policy that will ensure future fiscal security. Thus expenditure is still dominated by Petroleum Fund revenues of almost 74%, including 53% in excess of the ESI. La'o Hamutuk notes that current budget policy does not ensure long-term fiscal sustainability; the structural risk of withdrawals above ESI risks that the Petroleum Fund will be rapidly emptied.

Planning and identification of programs is not based on state needs and ensuring future financial sustainability. Of the \$957 million appropriated to the functional Economic Sector, only 5% is allocated to agricultural issues.

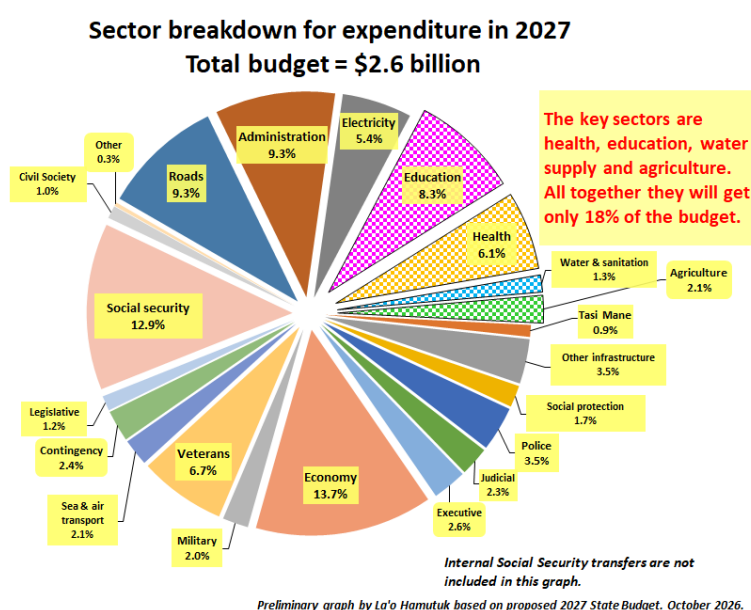
Investment through the annual budget is still insufficient to cover the state machinery and official. Domestic revenues contributed only 14% to the state budget, while salaries and wages increased by 7% from \$487 million to \$523 million, while total expenditures allocated for 2027 increased 12% from 2026.

Related to fiscal sustainability, La'o Hamutuk is very concerned that in the 2027 Budget Proposal, Article 5 on Public Debt authorizes the Government to borrow \$1.6 billion for financing infrastructure, as well as oil and gas exploration. Although the debt term is 40 years, we see that these policies continue to pose a greater risk to the Petroleum Fund's balance making future generations responsible, rather than preparing a strong and sustainable economic base.

Economic Growth and Diversification

Although statistical GDP growth projected in 2026 and 2027 is 4.3% and 4.6%, the growth of this number is not enough to make the national economy productive and sustainable. In the Timor-Leste context, GDP is dominated by public expenditure. We also need to examine other indicators such as job creation, private sector productivity, poverty, foreign trade balance, inflation, and population growth, as well as the purchasing capacity of families, because although GDP growth projections show a positive value, there is no benefit for most people.

The 2025 External Trade Report shows the country continues to depend on imported products. The goods trade deficit is more than \$900 million, showing a structural imbalance between imports and exports. Meanwhile, the unemployment rate was 1.6%-1.8% in 2025, but the labor force participation rate is only 30%: most informal sector workers are not included in unemployment statistics. There is limited formal employment, especially opportunities for young people.



Government policy in the 2027 Budget Proposal continues to affirm that investment through economic diversification is the way to ensure a sustainable future, but the most economic sector expenditure shown in the graph is to finance Greater Sunrise and other Petroleum Activity, which is not a sustainable and diversified investment. However, expenditure on productive sectors to ensure a resilient and sustainable economy does not happen. Although in next year's proposed budget, the Government is strongly committed to the Blue Economy in the budget markers and increases expenditure by 264% for \$492 million, only about 3% of that is allocated to the blue economy program, while petroleum and gas activity expenditure accounts for almost 55% of 'blue economy' expenditure even though the petroleum sector is not part of the blue economy.

La'o Hamutuk feels that the blue economy should create concrete opportunities for sustainable fisheries, aquaculture, marine product processing and trade, maritime tourism, marine ecosystem conservation and sustainable community development. The same goes for expenditures in the key sectors of agriculture, education, health and clean water, which receive only 18% as the graph above shows. Although Timor-Leste has the potential to develop productive sectors, but policies continue only to repeat rhetoric, with little action or commitment, so Timor-Leste continues to depend on the foreign economy. Timor-Leste has many opportunities for policies to diversify the economy, as research by La'o Hamutuk shows.¹ However, the Government prioritizes non-renewable sectors over renewable ones.

Policy on State Revenues and Selective Taxation

La'o Hamutuk appreciates Government policy to reform the national tax system with the intention of reducing dependence on the Petroleum Fund. This fiscal policy reform is important to improve the country's capacity to finance public services and respond to development needs through sustainable sources of revenue. But the VAT that the Government will introduce could impose greater risks and consequences on vulnerable communities than on rich people, so there needs to be a thorough analysis before applying it. At the same time, tax reform must be accompanied by a comprehensive review of public expenditure to ensure fiscal sustainability, if public expenditure continues to be high with unnecessary expenditures in the 2027 Budget Proposal, such as the Tasi Mane Project and Greater Sunrise, subsidies to EDTL, subsidies to Timor Gap, costs to pay for professional services, fuel for state bodies and renting premises, then next year's expenditure will almost certainly increase. Tax law reform in a way which the government proposes will exacerbate burdens on vulnerable communities.

Therefore, we believe that the selective tax on products through VAT is important and needs to be defined and to weigh the consequences of not affecting vulnerable communities disproportionately, especially low-income households that need to have food with good nutrition with protein, vitamins and minerals. Other nutritious foods are also important, because statistics show that 45% of families suffer from malnutrition. Therefore, La'o Hamutuk calls on Committee C to ask the Government to independently monitor prices and access to nutritious food, and to publish results to ensure that tax reform promotes fiscal justice, food security and people's nutrition.

Food Security and Climate Change

The 2027 Budget Proposal for the agricultural sector continues to raise concerns about the Government's commitment to economic diversification to strengthen food security, but the budget proposal still shows an economic situation based on international markets. The agricultural sector is not considered important enough to merit large investment, in the budget proposal it receives only 2.1% of state expenditure, an increase of only 0.2% compared to the 2026 budget. This allocation is not sufficient to address the structural challenges facing the agricultural sector or to establish a resilient domestic food production system.

¹ Invest in Productive Sectors to Strengthen Economic Diversification in Timor-Leste, August 2026.
<https://www.laohamutuk.org/econ/2608DIVERSIFICATION%20ECONOMIAen.pdf>

There are many studies that expose food production problems, including La'o Hamutuk's research² that shows problematic conditions and inadequate facilities, including those caused by climate change, although the 2027 budget to respond to the climate crisis is 1.7% lower than last year.

Agricultural problems still do not get priority in the 2027 Budget proposal, although the Government is aware of them, but they are not reflected in the programs. The government often responds to emerging crises with subsidies rather than by designing programs, such as for the COVID-19 pandemic. The current war in the Middle East, including its potential consequence of rising food prices, highlights the vulnerability of Timor-Leste's food supply and its dependence on international markets. These experiences should encourage the Government to develop stronger policies for domestic food production, agricultural infrastructure, market access, irrigation, and support for farmers. Such measures will help reduce exposure to external shocks while strengthening agricultural incomes and national food security.

The Government warns that Timor-Leste may face climate-related challenges associated with El Niño in the current and future years. However, public alerts and community awareness campaigns must be accompanied by concrete preventive measures and adequate funding programs within the 2027 State Budget.

Project Tasi Mane and Investment Risk

After nearly a decade of spending on the Tasi Mane Project, La'o Hamutuk remains concerned that the project has not demonstrated sufficient certainty in terms of its economic viability, return on investment or contribution to sustainable national development. The highway, airport, repeated studies, and relocation of the LNG plant add to ongoing risks to the balance of the PF.

In the 2027 budget proposal, the Government continues to show a tendency to repeat expenditures for continuing uncertain activities. In 2026, the Wood study showed the potential for great economic benefits for Timor-Leste when the Greater Sunrise (GS) pipeline goes to Natarbora, but in the 2027 MPRM Budget Proposal allocates \$38.3 more to conduct a technical study which we believe brings risk and expenditure which should respond to productive sectors rather than prolonging the petroleum sector.

In addition, \$4.3 million was allocated to study and negotiate extending the life of Bayu-Undan and other fields. Not to mention \$193.5 million to negotiate and develop studies -- we suspect that some of this money is to buy out the 10% stake of Osaka Gas in Greater Sunrise, whose cost Timor Gap has not revealed.

Some examples of proposals that MPRM wants to implement in 2027:

Activity – Ministry of Petroleum and Mineral Resources	EXPENDITURE (millions)
Negotiate and develop a study to guarantee that the GS pipeline comes to Timor-Leste, including other fields such as Kuda Tasi/Jahal, and development of GS	\$193.5
GS Pipeline technical study for Natarbora	\$38.4
Monitoring implementation of the Tasi Mane Project	\$8.7
Negotiation costs for the Petroleum Exploration Code, Tax Regime, PSC and laws for the GS Project.	\$5.0
Negotiation costs on extending production life of BU and other offshore fields in the Timor Sea.	\$4.4
Capacity building for young people to prepare for the Tasi Mane Project.	\$2.1
Inspection of SSB and the Highway from Suai to Natarbora.	\$1.0

² Impact of Climate Change on Agricultural Sector and Social Problems, May 2026
https://www.laohamutuk.org/Env/Climate/2605SummaryLHImpaktuMKAgriTeEn_Optimized.pdf

La'o Hamutuk concludes that these expenditure proposals require greater transparency, rigorous economic evaluation, and clear justification before committing additional public resources. The Government should publish relevant technical studies, feasibility assessments, risks, sustainability, capital and operating costs for each design, financing arrangements, and financial return.

La'o Hamutuk is worried that investment in large projects continues to pose a risk to the Petroleum Fund balance so that investment opportunities in smaller productive sectors will not be considered. The Government projects that the balance of the Petroleum Fund can finance state needs for up to a decade, although this could be shorter or longer, depending on international investment markets. In addition, the Government is also committed to mining, which we believe is more likely to inflict economic, social and environmental costs greater than the financial returns which the Government will receive. These concerns of La'o Hamutuk underline the importance of strengthening regulatory oversight, public consultation, transparency, environmental protection, and legal accountability before projects are approved or implemented because there are indications³ of violation of the basic rights of communities in mining project implementation areas.

Infrastructure Fund Spending should be Realistic

For many years, La'o Hamutuk has been concerned when the Government withdrew money from the Petroleum Fund but failed reflect priorities and realities in the lives of the entire population, especially for large projects that tend to only spend money with no certainty of return or long-term benefits. The Infrastructure Fund (IF) has spent almost \$3.9 billion with little effect on the socio-economic situation of the people. In the 2027 Budget, Government proposes \$327 million for the IF, and projects expenditure in 2028 to increase to \$1.807 billion, of which 80% will finance the Tasi Mane Project, which undermines the sustainability of the PF, when these expenditures have no socio-economic returns, but focus on operational costs and maintenance.

With the continued high IF expenditure projections, we ask Members of Parliament to consider the capacity of relevant entities to assess each project's needs, feasibility and priorities, and to design and implement many projects in a short time. Is it realistic to plan to spend a lot of money every year, but not with ways that can ensure quality, maintenance, and compliance with environmental and social rules? We are also concerned about the procurement process, public consultation and results orientation. Do not forget that important processes of ensuring transparency, accountability and public participation may be sacrificed to time pressure; we need to make sure that we do not try to spend more than we can manage well and respond to the needs of all our people, not just some individuals or groups.

Recommendations

Based on the analysis of the 2027 Budget proposal, La'o Hamutuk recommends that the Government of Timor-Leste and the National Parliament, especially Committee C, take the following measures to ensure that the state budget responds to the urgent needs of our people, including present and future generations;

1. La'o Hamutuk calls on the Government to adopt a credible and measurable fiscal sustainability strategy. Such a strategy should set clear targets to reduce dependence on petroleum, increase domestic revenues by strengthening productive sectors, and ensure that current public expenditure does not undermine economic security for future generations.
2. In relation to Fiscal Sustainability, the Government must reduce its structural dependence on the Petroleum Fund and ensure that withdrawals are made in accordance with the Petroleum

³ LH Open Letter to PDHJ, July 2026
<https://www.laohamutuk.org/Oil/Mining/2026/260730Open%20Letter%20to%20PDHJ.pdf>

Fund Law and ESI principles, and justified by long-term economic and financial returns and fiscal risks.

3. We ask Parliament Committee C to reject the Government's proposal for \$1.6 billion in public debt for infrastructure financing including activity financing petroleum activities, so as not to burden the Petroleum Fund and endanger future generations.
4. La'o Hamutuk asks the Government to implement its commitments to economic diversification with concrete budget measures. This requires adequate resources for agriculture, fisheries, tourism, small and medium-sized businesses, manufacturing industries, and other productive sectors that have the capacity to create employment, increase domestic revenue, reduce dependence on imports, improve household purchasing power and expand economic opportunities for young people.
5. La'o Hamutuk calls on the Government to increase investment in climate-resilient agriculture, water management, irrigation systems, agricultural research, and disaster preparedness. Strengthening these areas is essential to protect livelihoods, maintain food availability, and reduce the long-term economic costs of climate change.
6. La'o Hamutuk calls on the Government to reassess the economic justification for continuing to invest in the Tasi Mane Project and other high-risk extractive industry initiatives. Public investment decisions should be based on transparent feasibility studies, credible financial projections, compliance with applicable laws, and clear demonstration of long-term benefits for the people of Timor-Leste.
7. La'o Hamutuk wishes to ask the Government and the PN to evaluate and study the consequences and risks of VAT for vulnerable, low-income communities and rigorously classify items subject to VAT.
8. La'o Hamutuk also wishes to recommend to the National Parliament and the Government to strengthen deep public participation and transparency in the general state budget, because there are indications that the Government and the PN are not serious about the public taking part in analyzing the documents of the proposed 2027 budget because the documents are almost hidden, published late, and the inconsistency of numbers between one book and another.

Finally, we would like to express our appreciation and thank you very much for your cooperation.

Sincerely,



Marta da Silva



Celestino Gusmão



Charles Scheiner



Mariano Ferreira



Jonathan Gonsalves



Elia da Costa Araujo



Elivania Alves Correia