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Press Release

The Proposed 2027 Budget Does Not Ensure Fiscal Sustainability or Economic Resilience

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La'o Hamutuk appreciates the Government's efforts to elaboration the 2027 budget proposal, from the Citizens' Consultation in all municipalities to the presentation of the budget proposal to the National Parliament, and the Budget Day seminar. However, the consultation process needs to be improved to ensure effective public participation and reflect the priorities of the people.

The publication of the 2027 Proposed budget law and books does not guarantee complete and easy public access, as some documents are hard to find and have inconsistencies. The Ministry of Finance and the National Parliament must ensure that budget documents are published in sufficient time and easily accessible, so that citizens and civil society can analyze and contribute.

La'o Hamutuk is concerned about the difference in projected Petroleum Fund withdrawals between Table 60, in the Budget Report Book, and Table 5, in the Informative Elements Book, Volume I. The Government needs to explain and resolve this difference to ensure consistent and reliable budget information. Our other main concerns regarding the 2027 Budget Bill are as follows:

Fiscal Sustainability and the Petroleum Fund

In the 2027 Budget Proposal, budget revenues will depend heavily on the Petroleum Fund, while domestic revenues contribute only a small part. However, state expenditure continues to increase, including salaries and wages, which increased from $487 million to $523 million, and total expenditure is projected to increase by 12% compared to 2026. This shows that fiscal consolidation has not solved structural problems.

La'o Hamutuk is also concerned with Article 5 in the Budget Bill on Public Debt, which authorizes the Government to contract up to $1.6 billion in loans to finance infrastructure, oil and gas activities and other activities to support economic security. Large amounts of long-term debt increase fiscal risk and burden future generations if investments do not produce clear economic returns.

Growth and Economic Diversification

Although the projected GDP growth is 4.3% in 2026 and will rise to 4.6% in 2027, this growth has not indicated a productive, inclusive and sustainable national economy. The

government needs to look at other indicators such as; job creation, private sector productivity, poverty, inflation, trade balance and household purchasing power. La'o Hamutuk considers that Timor-Leste's GDP growth is not enough when other socio-economic indicators do not show progress.

The 2025 External Trade Statistics Report shows a goods trade deficit of more than $900 billion, reflecting a heavy reliance on imported products. Meanwhile, the unemployment rate is 1.6%-1.8% in 2025, but the labor force participation is only 30.5%; most workers are in the informal sector and are not included in unemployment statistics There is limited formal employment, especially opportunities for young people.

La'o Hamutuk is concerned that budgetary priorities continue to be oriented to petroleum activities and Greater Sunrise, while productive sectors such as agriculture, fisheries, tourism, manufacturing, and small and medium enterprises do not yet receive adequate investment. Although state expenditure on investment in the Blue Economy increased to $492 million, the specific program for the Blue Economy only grew 3%, and almost 55% was allocated to oil and gas even though oil and gas activities are not part of the Blue Economy.

State Revenue, Food Security and Strategic Investment

La'o Hamutuk appreciates the Government's efforts to reform the tax system to increase domestic revenue. However, the introduction of Value Added Tax (VAT) and selective taxation need to be thoroughly evaluated to avoid burdening vulnerable low-income families.

We are concerned that in the proposed 2027 budget, strategic sectors that can contribute to economic diversification total only 18%; more data is in our submission. These strategic sectors should get financial opportunities from the Petroleum Fund to transform the current economy into a sustainable direction.

In the proposed 2027 Budget, agriculture receives only 2.1% of the budgetary allocation, while climate change response funding is also limited. Although the Government recognizes the importance of agriculture, it has not prioritized concrete actions. Responses to structural problems should not be limited to temporary subsidies.

The COVID-19 pandemic and 2026 conflict in the Middle East in, leading to rising food prices, show Timor-Leste's vulnerability to dependence on the international market.

Tasi Mane Project, Greater Sunrise and the Infrastructure Fund

La'o Hamutuk is concerned about the economic viability, financial return and impact of the Tasi Mane Project and other petroleum activities. Although the Government has already spent some money, the sustainable benefits to the economy and the people are not yet clear.

In the 2027 Budget Proposal, MPRM proposes significant allocations for activities related to Greater Sunrise, including $193.5 million for negotiations and development studies, $38.35 million for a Natarbora pipeline technical study, and other amounts for Bayu-Undan and Tasi Mane Project studies, as well as other programs.

The Infrastructure Fund also requires realistic planning. The proposed expenditure for 2027 is $327 million, and the projection for 2028 increases greatly significantly to $1.807 Billion. La'o Hamutuk is concerned that large amounts may be risked if institutions do not have the capacity to plan, execute and monitor projects with quality, transparency and accountability.

Recommendations

Based on the above concerns, La'o Hamutuk recommends that the Government and the National Parliament consider and implement the following measures:

1. Improve transparency and public participation, Publish all budget documents in a timely, complete, consistent and easy-to-access manner, and ensure sufficient opportunity for the public and civil society to analyze and contribute before final approval.
2. Strengthen fiscal sustainability and management of the Petroleum Fund. Establish a clear and measurable fiscal strategy to reduce dependence on the Petroleum Fund, increase domestic revenues and ensure that State expenditure is in line with the country's long-term financial capacity.
3. Rigorously review public debt proposals up to $1.6 billion before authorizing them, assess the State's capacity to repay loans, financial costs, economic and social risks and returns, especially for oil and gas activities, to avoid fiscal risks and burdens on future generations.
4. Condition expenditure on strategic projects with independent evaluations. Before making large public expenditures on the Tasi Mane Project, Greater Sunrise and extractive activities, especially in 2027 and 2028, the Government should publish a feasibility study including total costs, sources of financing, investors, expected return and environmental and social risks. Investment decisions should be based on transparent evidence and compared with alternatives that can provide sustainable benefits to the people.
5. Ensure fair tax reform. Before introducing a Value Added Tax (VAT) and selective taxation, assess the impact on vulnerable families, especially low-income families, and prepare measures to protect their access to nutritious food and basic necessities.
6. Prioritize food security and resilience to climate change. Increase investment in local food production, irrigation, water management, agricultural research, infrastructure and support to farmers, to reduce vulnerability to international markets and food price changes.
7. Redirect investment towards economic diversification and sustainable employment. Strengthen agriculture, fisheries, tourism, manufacturing and small and medium enterprises, to increase local production, create jobs, reduce dependence on imports and build a more sustainable economic base.

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