Committee on Public Finances

Your Excellency,

President of the National Parliament

Dr. Aniceto Longuinhos Guterres Lopes

Date: June 02, 2022

No. Reference: 100/V/4ª/Committee C

Subject: Report and opinion of PPL No. 40/V (4ª)

Mr. President,

The Public Finance Committee has the honor of sending you the Report and Opinion of the PPL no. 40/V (4ª) - Major Planning Options for 2023.

The document of the Report and Opinion of Committee C and the sectoral reports and opinions are attached.

Please accept, Your Excellency, the assurance of my highest esteem,

The President of the Committee,

/s/

Deputy Maria Angelica Rangel da Cruz dos Reis

NATIONAL PARLIAMENT, DEMOCRATIC REPUBLIC OF TIMOR-LESTE
Committee on Budget and Finances

Report and Opinion

Rapporteurs:
Deputy António da Conceição (PD)
Deputy António de Sá Benevides (PUDD)

Proposed Law no. 40/ V (4ª) - Major Planning Options for 2023

Voted and approved on June 2, 2022

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I. CONSIDERATIONS

Admission of the Bill

1. **Constitutional, legal and regimental formal requirements (Constitution, Law of Publication of Acts and Rules of Procedure of the National Parliament)**

The legislative initiative under consideration, Draft Law No. 40/V/(4ª) -- "Major Planning Options for 2023", hereinafter referred to as "PPL", was approved by the Government on May 9, 2022, and submitted to the National Parliament on the following day at 5pm.

In accordance with what is established in Article 97.1 of the Constitution of the Democratic Republic of Timor-Leste (CRDTL), the initiative of the law belongs to the Members of Parliament, to the Parliamentary Benches and to the Government, the latter also having the competence to propose the legislative initiative in question, in accordance with paragraphs 1(d) and paragraph a) of Article 115.

The legislative initiative entered the Bureau of the National Parliament on May 10, 2022, under the provisions of Article 97.1(c) and Article 115.2, both of the CRDTL, and was referred to the Division of Support to the Plenary (DIPLEN) for registration, numbering and preparation of technical note, under the provisions of paragraphs f) and i) of Article 4 of the Rules of Divisions of the General Secretariat of the National Parliament.

The legislative initiative takes the form of a draft law (PPL), is signed by the Prime Minister and by the Minister of Finance, and contains a mention of its approval by the Council of Ministers on May 9, 2022. It complies with the form for legislative proposals as determined by Article 11.1 and 11.3 of Law 11/2002, of June 29, the Law for the Publication of Acts (LPA), and with the provisions of Articles 90.1, 91.2, and 96 of the RPN regarding the power of initiative.

2. **Documents presented by the Government to the National Parliament**

The Government presented only the legislative initiative under consideration to the National Parliament.

Public Finance Committee

The Public Finance Committee is, by reason of the matter, the competent committee to appreciate the referred legislative initiative, under the Deliberation of the National Parliament 2/2018, of June 26, and article 3 of its Regulation, which attributed to it, among others, competencies in budgetary matters.

By virtue of article 164 paragraphs 1 and 2 of the Rules of Procedure of the National Parliament, it falls to the Public Finance Committee to prepare a report and reasoned opinion, which must take into account the sectoral opinions produced by the other Specialized Permanent Committees.

It was based on the draft law and the respective explanatory memorandum, the technical note dated 16 May 2022, the supporting documents subsequently submitted by the Government at the request of the Committee C, the information gathered from the entities heard at a public hearing and the sectoral opinions of the other specialized standing committees that this analysis was developed and the conclusions and recommendations contained in this report and opinion were supported.

It is recommended that the sectoral opinions of the specialized standing committees A, B, D, E, F, and G be read and, where referenced, these opinions have informed the present report and opinion.

In the preparation of this report and opinion, the provisions of Article 34 of the Rules of Procedure of the National Parliament were observed, with the necessary adaptations.

Rapporteurs

In preparing this Report and Opinion observed the provisions of Article 32 and 34 of the Rules of Procedure of the National Parliament, and the Committee of Budget and Finance, appointed Mr. António da Conceição and Mr. António Sá Benevides, Rapporteurs of its Report and Opinion.

Public Hearings

As part of the initial consideration of the PPL of the MPO for 2023, and observing the provisions of Article 80 of the Rules of Procedure, Committee "C" conducted public hearings with various entities of the Public Administrative Sector, the Central Bank of Timor-Leste and the Consultative Council of the Petroleum Fund. The public hearings took place between May 25 and 27, all in the Plenary Room of the National Parliament and according to the following schedule:

Data	Hora	Entidade	Comissões	Local
25 de maio	9h00	Ministro das Finanças Banco Central de Timor-Leste Conselho Consultivo do Fundo Petrolífero	Todas as Comissões	Sala do Plenário
25 de maio	15H00	Ministro das Finanças GPM/ANAPMA Autoridade da RAEOA Ministra da Solidariedade Social e Inclusão	Todas as Comissões	Sala do Plenário
26 e 27 de maio	Todo o dia	Ministro das Finanças GPM/ANAPMA Ministro do Plano e Ordenamento Ministra da Solidariedade Social e Inclusão Ministro Coordenador dos Assuntos Económicos Ministro do Turismo Ministro da Administração Estatal Ministro do Petróleo e Minerais Ministro das Obras Públicas Ministério dos Transportes e Comunicações Ministério da Educação Juventude e Desporto Ministério da Saúde Ministro da Agricultura e Pescas Ministro do Ensino Superior, Ciência e Cultura Ministro da Defesa Ministra dos Negócios Estrangeiros e Cooperação Ministro do Interior	Todas as Comissões	Sala do Plenário

To this end, Committee C invited all other specialized standing committees to participate, however, Committees A and B did not attend, allegedly because they had other legislative processes running simultaneously.

Committee C regrets this decision of the President of Parliament to authorize the absence of Committees A and B during the special legislative process related to the budget process and emphasizes that the Rules of Procedure of the National Parliament gives precedence to the budget process over all other legislative initiatives to be processed under the ordinary legislative process. Since the Major Planning Options are the first stage of the annual planning and budget process, its processing within the National Parliament is normally treated as a priority.

On May 25 the Minister of Health did not attend the hearing to which she had been summoned, citing schedule reasons, and on her behalf, the Deputy Minister appeared only on the morning of May 27. Also the Minister of Petroleum and Minerals was unable to attend the hearings on May 26 and 27 due to having to travel to Suai on an emergency basis, and was represented by the Minister of Tourism, Trade and Industry.

In the course of the hearings, the public entities heard had the opportunity to clarify the doubts of the Deputies and to convey their opinions and recommendations on the budget proposal.

All written documents related to Bill No. 40/V(4ª) received by Committee C support services up to the time of voting on this Report and Opinion have been attached to the document.

It should be noted that of the six Sectoral Opinions on the MPO 2023 draft law delivered to Committee C, three Committees made no recommendations and one Committee contained no Conclusions or Recommendations.

II. LEGAL FRAMEWORK

Law No. 2/2022, of February 10, on the State Budget Framework and Public Management (LEO), made significant changes to the budget process, enshrining for the first time in Timor-Leste's legal system, the Law on Major Planning Options (MPO), in which the Government's main priority measures to be executed in the following budget year are set out, as well as the multi-year budget programming for the next four years.

As stated in paragraphs 1, 9 and 10 of Article 47 of the aforementioned law, the draft MPO is submitted to the National Parliament by May 10 of each year, and is discussed and voted on under the provisions of the CRDTL, the LEO itself, and the RPN, within 20 days of submission.

The legislative initiative submitted to the National Parliament must be processed in compliance with the provisions of the RPN for the special legislative process applicable to the legislative process concerning the Plan, the General State Budget, the budget execution and the General State Account, even though the regulations, in their current version, do not yet contemplate the legislative process and the processing of the State's multi-year plan, i.e. the plan for more than one year.

In fact, Chapter VII of the RPN governs the stages of the legislative process applicable to the draft laws for the (annual) Plan and the GSB, with article 162 stating that *"The draft laws for the Plan and the State Budget for each economic year shall be submitted to Parliament by October 15"*.[1]

Under the terms of n.º 9, n.º 10 and n.º 11 of article 47, of Law n.º 2/2022, of February 10th, "*State Budget and Public Financial Management Framework*" (LEO), it is evidenced that:

- the Major Planning Options bill is discussed and voted on under the terms of the CRDTL, the LEO, and the RPN;
- the final global vote on the Major Planning Options bill takes place within 20 days of its submission to the National Parliament;
- the non-approval of a Major Planning Options Law does not prevent the presentation and discussion of a GSB bill for the budget year in question.

Unless we understand better, the reference to the "Plan" in the aforementioned legal precept refers to the annual planning and budgeting and not to the multi-year planning that is the object of the legislative initiative in question, since the concept of "multi-year planning" was only introduced into the legal system of Timor-Leste with the entry into force of the LEO last February, after the last amendment made to the RPN.

III. UPDATE TO THE DRAFT LAW OF THE MAJOR PLANNING OPTIONS FOR 2023

On June 2, 2022, Committee C received a letter from the Government alerting it to the need to update Annex I to the PPL, in accordance with what was discussed in public hearings, since:

[1] The deadline for the presentation of the State Budget bill has recently been brought forward to October 1, under the terms of article 52.1 of Law 2/2022 of February 10, State Budget Framework and Public Financial Management.

1. On May 11, 2022, the National Parliament approved the first amendment to Law no. 1/2022, of January 3, which includes a set of measures that imply an increase in public spending, with an influence on inflation, and an increase in the transfer from the Petroleum Fund,

2. The aforementioned law also approved the creation of the National Liberation Fighters Fund, with an initial endowment of $1,000,000,000 which will be invested with a view to generating income.

Thus, according to the accounting rules the Fund's capital invested in financial assets has to be entered into revenue and expenditure;

3. The tax increases proposed by the Government when PPL 38/V (4ª) was submitted were not approved by the National Parliament, having, however, been assumed in the wording of the PPL now under consideration.

Thus, the Government requests the update of the PPL with regard to:

i. Table 1 - Economic indicators, 2020 - 2027, in %;

ii. Table 2 - Petroleum Fund Balance, 2023 - 2027, in millions of US$;

iii. Table 3 - Total Domestic Revenues, 2021 - 2027, in millions of dollars;

iv. Deletion of the first paragraph on page 14, of Annex I, since the National Parliament did not approve the increase of some "selective consumption" tax rates;

v. Amendment to Annex III - Multi-Year Budget Programming for 2023, to contemplate in the Budget Programming for 2023 and the following four years, annual increases of $1 billion to contemplate the balance of the National Liberation Combatants Fund

III. LEVELS OF GOVERNMENT PLANNING

According to information provided in person by ANAPMA to Committee C in the context of the public hearings held in the scope of the draft law on Major Planning Options for 2023, the State's integrated planning system currently contemplates three interconnected and interdependent planning levels, the long term planning level (which takes place over five years), the medium term planning level (covering a five-year time period corresponding to the Government's mandate) and the short term planning level (which covers the period of one fiscal year and materializes annually in the GSB).

In the framework of the multi-year planning introduced in the public finance management system of Timor-Leste by the VIII Constitutional Government, the diplomas that approved the organizational structure and defined the competencies of the Ministry of Planning and Organization, the Ministry of Finance, and the National Agency for Planning, Monitoring and Evaluation (ANAPMA), subordinated to the Prime Minister, allocate among these three governmental services, the responsibilities for the conception, coordination and supervision of the short, medium and long term planning system.

Thus, according to the law, the coordination of the long-term planning process is the responsibility of the government entity responsible for designing, coordinating and evaluating the policy for the areas of promoting the country's economic and social development through integrated strategic planning - currently the Ministry of Planning and Organization - and it is its responsibility to coordinate the process of revision and regular update of the long-term plan.

In turn, it follows from the diploma that established ANAPMA, Decree-Law 24/2021, November 1, that the medium-term planning process is coordinated by the Prime Minister, through the National Agency for Planning, Monitoring, and Evaluation (ANAPMA), which is also responsible for verification, validation, and final alignment between the annual plan and the national medium-term plan.

Finally, according to the decree-law that approved the organic structure of the Ministry of Finance (MF), the short-term planning process is coordinated by the MF, as the government entity responsible for the area of public finances, and it is responsible for coordinating and preparing the annual proposal for the State Budget (GSB).

It was based on the aforementioned legal framework that Committee C decided to invite the Ministry of Finance and ANAPMA to attend the two consecutive days of hearings it held with the Government as part of its consideration of the MPO for 2023.

IV. STRUCTURE AND CONTENT OF THE PPL

(i) Government priorities in terms of medium-term planning, for 2023 and the next four years

Law No. 2/2022 of 10 February - Framework of the State Budget and Public Financial Management, presents a major innovation in relation to the budget structure, the budgeting by programs, which changes the logic of defining budget appropriations, in order to link them to national results and measures defined in the annual plans and medium-term services and entities of the Public Administrative Sector, which, in the Government's opinion, will allow a better assessment of the performance of their functions. Budgeting will also be carried out in a multi-annual perspective, through the approval of the multi-annual budget programming, which presents revenue and expenditure forecasts for the following budget year and for the following four years, in this case the years 2023 to 2027.

The present draft law aims to approve the annual and multi-annual options in terms of planning with an impact on the State Budget and also the multi-annual budget programming for another four consecutive years. In this sense and according to the provisions of Article 3.1 of the draft law, the following are defined0 of the draft law, 28 national results are defined and presented by the Government to the National Parliament, to be achieved through the introduction and implementation of 263 measures, organized around 16 strategic areas, namely (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.

In turn, the 28 results established in the Major Planning Options for 2023 are: a) All citizens have access to safe and quality health services; b) All citizens are free from hunger and malnutrition; c) Friendly, trusting and safe communities; d) Timor-Leste is a country that enforces the rule of law and equal access to justice is guaranteed for all citizens; e) All citizens have access to clean water and quality sanitation; f) Protect the environment and safeguard 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) Creating more inclusive, sustainable, and quality employment in Timor-Leste m) A modern and diverse economy with thriving innovative industries driven by private sector development; n) A sustainable and thriving agricultural sector that meets the demand of domestic and international markets; o) An original environmentally friendly tourism industry that focuses on our people, our culture and our heritage; p) Increased consumption of arts 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 and well-maintained roads, ports and airports that promote development and market access; t) Spatial planning, urban and rural development; u) Sensitive, accountable, effective and efficient local government; v) Increased public participation in policy making and decision making by the 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 combat 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.

The draft law on Major Planning Options (MPO) identifies 16 strategic areas for government intervention, with 263 measures to be implemented by 2023 and, according to the information provided in Annex II to the draft law, there is a direct relationship between national results and the strategic areas of the Major Planning Options, but the strategic measures are not adequately indexed to each of the 28 national results.

(ii) Multi-year budget programming

The Government presents in an annex to the draft law, a Table that provides the multi-year budget programming for the year 2023 and the four subsequent years, establishing the total expenditure limit for the Public Administrative Sector, the revenue projections for the Public Administrative Sector, the expenditure limits in the various sub-sectors and the public debt limit, in absolute values and as a percentage of Gross Domestic Product, also for the years 2023 to 2027, in accordance with the provisions of Article 4.1 of the draft law.

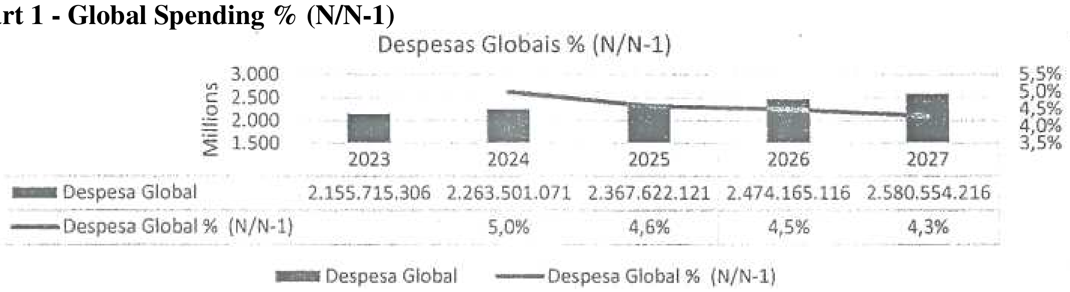
The draft law of the State General Budget for 2023, which under the new budget framework law will have to be submitted by the Government to the National Parliament by October 1, 2022, should respect the overall expenditure ceiling of the Public Administrative Sector for 2023 to be fixed by Parliament in the context of multi-year budget programming of the State, as prescribed in the law on Budgetary Framework and Public Financial Management. In fact, the value of the overall expenditure of the Administrative Public Sector to be included in the General State Budget for 2023 should be fixed at $3,155,715,306, in this, the initial phase of the budget process for next year, if the National Parliament votes in favor of the draft law of the MPO for 2023 in the same terms as were presented to it.

Annex III of the draft law includes, as mentioned above, the forecast of revenues to be collected by the Government next year, which seem to equal expenses, thus ensuring a balanced budget. The revenues are broken down by Central Government (Petroleum Revenues and Non-Petroleum Revenues), the Special Administrative Region of Oe-cussi-Ambeno and Social Security.

The Annex also includes information about the total public debt for the period 2023 to 2027, in value and as a percentage of GDP.

The increase in **Global Expenditure** projected for the four years after 2023, especially 2024 to 2027, vary positively between 4.3% and 5%, with a tendency for constant increase on the part of the Central Administration and Social Security Sector, while in the same period, the RAEOA points to a substantial decrease in expenditure between 2023 and 2024 of about 32%, to be followed by a constant increase of 4% per year. The causes of this situation are unknown and only the RAEOA will be able to clarify them.

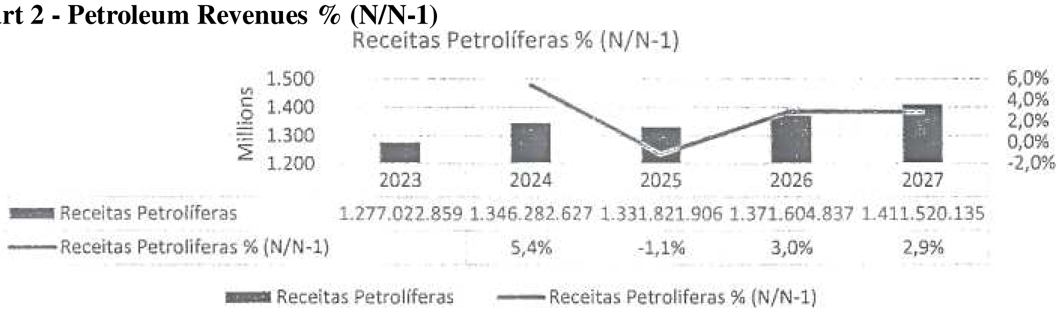
Chart 1 - Global Spending % (N/N-1)



Source: Ministry of Finance, May 2022.

The estimate of **Petroleum Revenues** for the next five years, according to the same Annex III, shows relatively similar values throughout the years, with an upward trend from 2026 onwards of around 2.6%, with growth varying between 5.4% (between 2023 and 2024), and -1.1% (between 2024 and 2025).

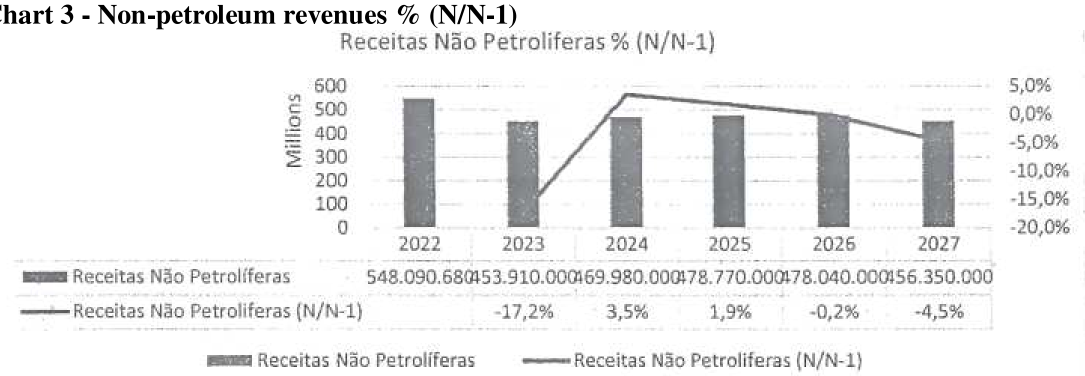
Chart 2 - Petroleum Revenues % (N/N-1)



Source: Ministry of Finance, May 2022.

Non-petroleum revenues, tax and others, present for 2023 values well below the estimate calculated by the Ministry of Finance for the 2022 State Budget, a reduction of about $94 million. The years after 2023 show very small percentage differences in this category, from an increase of 3.5% between 2023 and 2024, then tending always to decrease in the following years, registering in 2027 a reduction of -4.5%.

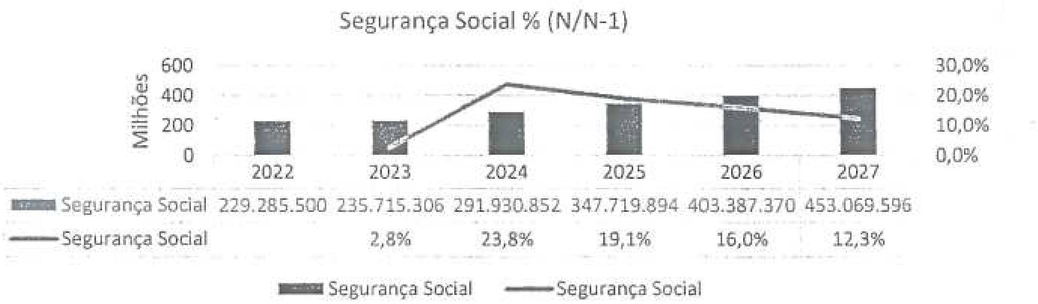
Chart 3 - Non-petroleum revenues % (N/N-1)



Source: Ministry of Finance, May 2022.

Revenues in the Social Security Budget, all of which are earmarked to fund Social Security expenditures, are estimated to range from $235 million in 2023 to $453 million in 2027. The largest increase in revenues over the next five years is expected in 2024, with increases in the following years expected to contract until 2027 (see chart 4 below). The reasons for this occurrence remain to be seen, because the Government has not provided any justification for this behavior of Social Security revenue.

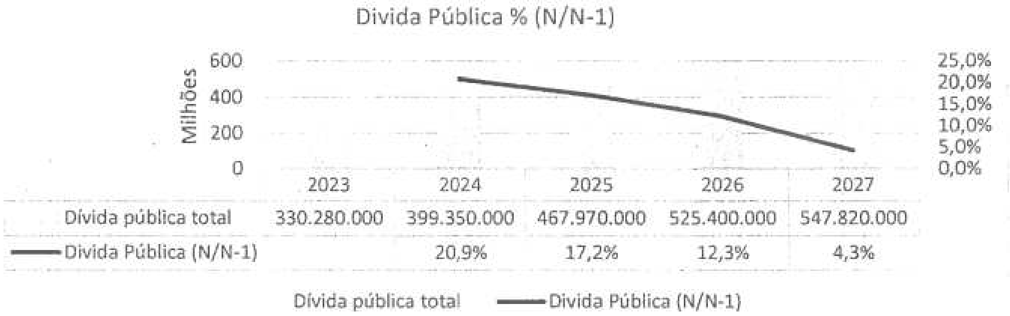
Chart 4 - Social Security Revenues % (N/N-1)



Source: Ministry of Finance, May 2022.

Regarding **Public Debt**, for 2022 the Government was authorized by the National Parliament to contract or subscribe new public debt up to a maximum value of $410 million. Over the next five years, the Government expects accumulated public debt to reach $330 million in 2023 and to grow to $548 million in 2027. Comparing the amount of public debt announced for 2023 with the estimated amount for 2027, the percentage increase will be 66%. We conclude that the government proposes to substantially increase the use of public debt over the next few years, maintaining the trend at least until 2027.

Chart 5 - Public Debt % (N/N-1)



Source: Ministry of Finance, May 2022.

(iii) Projection of the main macroeconomic indicators for the year 2023 and the four subsequent years

Based on information provided by the Ministry of Finance as part of the MPO for 2023, in the period between 2010 and 2020, Timor-Leste's **Gross Domestic Product (GDP)** benefited from an average growth of 2.1%. The higher GDP growth rates at the beginning of this decade were offset by negative growth rates in the years 2017, 2018 and 2020, in part caused by the climate of uncertainty, the slowdown in the world economy and, in particular, the threats that then hovered over international trade, which in the opinion of the Government justifies the poor performance and progress achieved.

It is retained from the table below that in essence replicates the one presented by the Ministry of Finance, real GDP growth in the year 2020 was quite negative, reaching -8.6% as a result of the COVID-19 Pandemic, the political instability experienced that year, the delay observed in the approval of the State Budget and the application of the state of emergency, as highlighted in the macroeconomic analysis presented in Annex I to the draft law of the MPO 2023.

Only in 2021 did the GDP recover from the negative trend it had registered consecutively in recent years, to +1.5%, and this despite the negative impact on the economy caused by the public calamity of April 4th of that year. For 2022 the government is projecting GDP growth of almost 3%, an annual growth rate that should remain stable until 2027.

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

	Real	Previsão						
	2020	2021	2022	2023	2024	2025	2026	2027
PIB real (não petrolífero)	-8,6%	1,5%	2,9%	3,1%	3,4%	3,5%	3,1%	3,0%
Inflação CPI	0,5%	3,8%	6,7%	3,0%	3,0%	2,6%	2,5%	2,3%

Source: Ministry of Finance, May 2022, MPO 2023

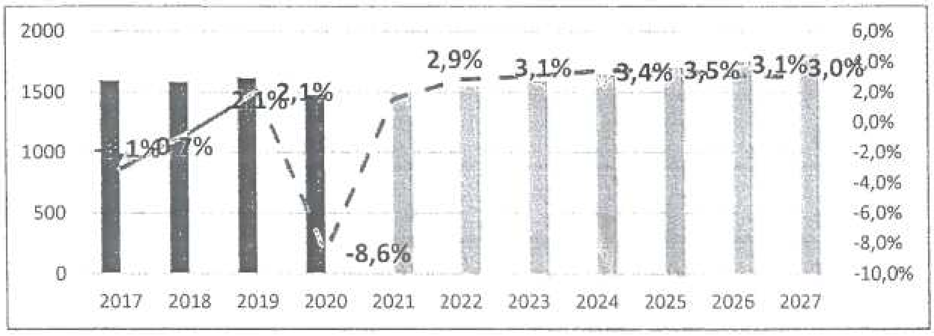
In the draft law now under consideration, the Government also recognizes that the Petroleum Fund is heavily dependent on international financial markets, which are prone to fluctuations, although their evolution has been generally favorable and mostly positive for the sovereign wealth fund of Timor-Leste. However, the Quarterly Report of the Petroleum Fund reveals that as of March 31, 2022, the Fund had net losses on its financial assets of almost $1 billion (-$971.8 million) accumulated in the first quarter of the year. If it is true that the Petroleum Fund on January 1, 2022 was valued at $19.65 billion, after only three months, its capital had depreciated to $19.12 billion.

The 2022 State Budget Rectification Law increased the ceiling of public spending for this year by an additional $1.24 billion, bringing the overall state expenditure to $3.42 billion. The largest slice of the increase went to the creation of a Fund for National Liberation Combatants with an initial allocation of $1 billion, a Fund that is intended to be capitalized.

Moreover, several government measures included in the 2022 Rectification, focus mainly on consumption, which will result in increased imports, which will necessarily have a negative impact on **national GDP**, although the effect will be very positive for household income.

The **non-petroleum economic growth projection for the 2024-2027 period**, still with relatively modest values compared to the pre-COVID-19 period, is based on the Government's expectation of an increase in arrivals in the country, as a result of the resumption of commercial flights and the Government's tourism development strategy, strong growth in public services and public-private partnerships, growth in infrastructure financing using public debt, and private sector growth, encouraged by political stability. The following graph shows the evolution of GDP until 2027:

Chart 6 - Non-petroleum GDP real growth until 2027 (millions of dollars)



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

With regard to inflation, the data provided by the Ministry of Finance, confirm that it has remained quite pronounced especially from September 2020, with the year-on-year rate of 6.0% measured in March 2022, following the global inflationary behavior. The International Monetary Fund (IMF) forecasts that global inflation will increase by 6.1% in 2022 and 4.1% the following year, so the increase in domestic consumer spending could contribute to a further increase in the inflation rate, a not very reassuring scenario.

In fact, due to the significant proportion of food that is imported annually by Timor-Leste, it is mainly international food prices that continue to drive the Consumer Price Index (CPI). In turn, the World Bank's world food price index rose by 27% in the first quarter of 2022 alone, with rice rising by 6% in that period, which will have a negative impact on the poorest households where staple foods make up the bulk of their spending, as the Ministry of Finance anticipates.

In Dili alone, year-on-year inflation reached 7.0%, while in the other municipalities it worsened 5.7%. The largest price increases were registered in alcohol and tobacco, which rose 18.4% due to the increase in the excise tax rate approved by the National Parliament in the State Budget 2022 law, while transport increased 8.0% largely due to the increase in international oil prices, whose increases were around 54% in the first quarter of this year, largely as a result of the armed conflict between the Russian Federation and Ukraine.

In short, such high inflation implies lower purchasing power for consumers, a phenomenon that can be observed throughout the country.

The Government is silent on the current **unemployment rate** in Timor-Leste, as well as on the expected impact on this macroeconomic indicator of the measures the Government wants to implement for 2023.

On the Revenue side, the Government estimates that domestic non-petroleum revenues will see a modest increase in 2022, after the sharp decline they suffered in 2021, explained by the Government by the fact that the conversion of EDTL into a public company implies the exclusion of its revenues from GSB revenues, as public companies are not part of the Public Administrative Sector. Government forecasts point to a moderate improvement in non-petroleum revenue collection as the country begins to recover from the economic slowdown resulting from the impact of the COVID-19 pandemic. The draft MPO law for 2023 presents a table on page 13 with a projection of total revenues through 2027, but they provide data that are not shown to be based on real evidence. The value of the Estimated Sustainable Income, which in that table is estimated to decrease between 2021 and 2025, suddenly reverses its downward trajectory to increase significantly in 2026 and 2027 (see Table 2 of Annex I to the draft law). The increase in the Estimated Sustainable Income from 2026 onwards recommended by the Government is based on what assumptions?

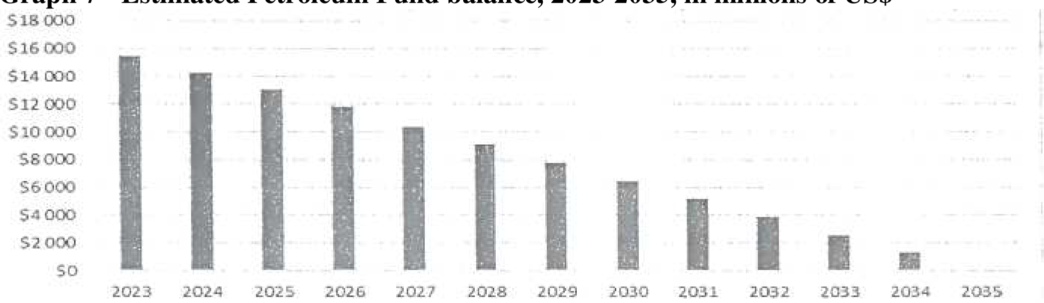
It is important to note that the revenue estimates presented in the context of the Major Planning Options for 2023 do not show additional revenues that may result from the announced tax reform, especially the introduction of VAT, a tax measure announced several years ago by the Government. Given that in 2021 the petroleum revenues still represented 78% of the total revenues of the GSB, Timor-Leste remains highly dependent on this revenue, which has a tendency to decrease dramatically, as the production in the petroleum field still in operation approaches the end and the withdrawals from the Petroleum Fund to finance the expenses of the GSB increase more and more with each passing year.

Timor-Leste must necessarily prioritize much-needed Tax Reform and make concrete efforts to optimize the collection of tax and non-tax revenues as the Petroleum Fund's wealth comes to an end and its sustainability is put into question in the medium term if the pace of massive withdrawals such as those approved for the year 2022 is maintained.

The Government has made available to the National Parliament a summary of the country's financial situation in the Chapter of Annex I to the draft law of the MPO 2023, dedicated to the topic of **fiscal sustainability**; in this regard, the Ministry of Finance anticipates a catastrophic scenario for the country until the year 2034, which it calls "fiscal cliff".

Assuming that the budget ceiling for 2023 will be set at $ 3,155,715,306 and that in the coming years the withdrawals of the Petroleum Fund will remain relatively constant, the Petroleum Fund will be exhausted in 2035 (see graph 8 *sic, actually 7*), only allowing financing for 12 more General State Budgets. If the Government itself now recognizes that Timor-Leste faces an extremely difficult situation of a "fiscal cliff" with respect to public finances, why propose a budget of $ 3,155,715,306 for 2023 and project the same value annually until the Petroleum Fund is completely exhausted without, however, finding credible alternative funding solutions? Government projections from April 2022 indicate that if the current pace of withdrawals continues, there will be no more than $10.4 billion left in the Petroleum Fund in 2027.

Graph 7 - Estimated Petroleum Fund balance, 2023-2035, in millions of US$



Sources: Ministry of Finance. April 2022.

Timor-Leste still does not have access to the international debt markets, so the only loans contracted by the government to date take the form of concessional loans subscribed with international financial institutions. The volume of loans contracted by Timor-Leste has been growing substantially over the years, with the government estimating to reach a debt stock of about $330 million, or 21% of GDP, by 2023, and to disburse up to $74.1 million of loans next year. It is observed that the level of disbursements has always been below the contracted value, due to the difficulty felt by the Government in executing the Capital Development projects financed by these loans in a timely manner, which negatively affects the grace period, besides bringing in other direct costs.

Timor-Leste has obtained Direct Budget Support from the European Union (EU) since 2014 and, more recently, also from Australia as of 2021, which means in practice that the financial resources granted are delivered directly to the country and enter directly into the State Budget, to be applied in the implementation of internal policies defined by the Government itself, without prejudice to regular consultations with both these partners. The Government estimates that the EU will provide direct budget support of about $3.3 million for the 2023 State Budget, of which $2.2 million will go to the Ministry of Health and $1.1 million to the Ministry of State Administration. The Government of Australia has committed $8.2 million in direct budget support in 2021, to be allocated in the years 2022 and 2023. The funding is tied to the National Sucos Development Program (PNDS) and the expansion of the Mother's Purse-*Jerasaun Foun* social welfare program. Australia's total GBS 2023 support in the Direct Budget Support modality is expected to reach $4.9 million.

Excluding the Direct Budget Support mentioned above, the support from Development Partners to Timor-Leste, systematically excluded from the overall expenses included in the State Budget, has always exceeded $160 million/year, since 2017. However, starting in 2023, the Government expects that these disbursements will begin to decrease sharply, estimating a drop to $116 million in 2023, to $85 million in 2024, and to $4.5 million in 2025, with Australia continuing to lead this type of funding next year with $33 million, followed by Portugal with $18.7 million, the United Nations with $18.1 million, Japan with

$9.0 million and the United States of America with $6.6 million, where, all together, these partners total $85.4 million.

One of the other sources of funding for the State Budget that the Government usually uses is the Treasury Balance, which includes public revenues collected under the previous year's State Budget that for some reason were not executed. The Government estimates that the Treasury Balance that carries over to 2023 will not exceed $200 million, and that it will maintain a similar level for the following four years.

VI. SOURCES OF INFORMATION USED AND CONTRIBUTIONS RECEIVED

In addition to the information collected in the context of hearings held with members of the Government and the sectoral opinions prepared by the various specialized standing committees, also served as reference for the production of this report and opinion on the Major Planning Options draft law for 2023, the information provided by other external entities also invited by the Committee C to share their views on the legislative initiative now subject to parliamentary scrutiny, the Petroleum Fund Consultative Council (CCFP) and the Central Bank of Timor-Leste (BCTL).

VII. CONCLUSIONS

I. In compliance with the provisions of Article 47.1 of Law No. 2/2022 of February 10, which Frames the State Budget and Public Financial Management, the Government submitted to the National Parliament the draft law on Major Planning Options for 2023.

II. With the entry into force of Law 2/2022, of February 10, the budgetary process in Timor-Leste was substantially altered, with the annual approval by the National Parliament of the law on the Major Planning Options for the following year and the following four years (Article 47), starting with the budgetary process relating to the GSB for 2023, which is now underway.

III. In turn, article 47.1 of the Budgetary Framework Law imposes on the National Parliament that the final overall vote on the draft law on the Major Planning Options must take place within 20 days[2] of its submission to the National Parliament.

IV. The Rules of Procedure of the National Parliament, the diploma that regulates the internal functioning of the National Parliament, the legislative process and the parliamentary procedure to which the different types of legislative initiatives are subject after being admitted by the National Parliament dates from 2016, and does not yet contemplate the procedure to be adopted for the legislative process of Major Planning Options, the first initiative that frames the multi-year planning of the State, because the new law that frames the management of public finances in a medium-term logic in Timor-Leste is very recent and has only been in force in the national legal system for a little over three months.

V. The Major Planning Options law lists and identifies the main new and/or continuing measures to be implemented by the Public Administrative Sector in the year 2023, which the Government intends to finance through the General State Budget (GSB). In fact, according to Article 2 of the draft law, "the Major Planning Options for 2023 present the main annual and multi-annual options in terms of planning with an impact on the General State Budget for 2023".

VI. Bill no. 40/V (4^{th}) is accompanied by the Explanatory Memorandum and essentially meets the legal and constitutional requirements necessary for its admission and to be considered by the National Parliament.

VII. His Excellency the President of the National Parliament has given Committee C a maximum of ten days to present its report and opinion on Bill No. 40/V/4^{th}, and has given only eight days to the other specialized standing committees to prepare their sectoral opinions.

VIII. The Major Planning Options for 2023 establish 28 National Results to be achieved through 263 measures organized around the 16 strategic areas identified by the Government for next year, some of which extend to the following four years. In addition, the Major Planning Options (MPO) present the multi-annual budget programming until 2027, with the Government proposing

[2] 20 calendar or working days

to the National Parliament to approve the maximum ceiling for total expenditure and by subsector of the Public Administrative Sector, as well as the revenue and public debt projections, in absolute values and as a percentage of Gross Domestic Product, for 2023 and the four subsequent years.

IX. This Committee notes that of the 263 measures that the Government announces in the Major Planning Options for 2023 as being new, in fact many of them date back to the beginning of the VIII Government's mandate, or even before 2018.

X. Committee C also notes that the overwhelming majority of the Government's priority measures for 2023 are concentrated mainly on the expenditure side, with the Government almost completely omitting to refer to measures to strengthen the revenue side or to quantify the policies it describes in the chapter of the draft law dedicated to the macroeconomic scenario, leading Committee C to question to what extent the Government considers increasing non-petroleum revenue as a national priority in the near future. The Timor-Leste Economic Report published in December 2021 by the World Bank, leaves important clues to the critical path that the Timorese state needs to follow, on the Government's initiative, in the near future, in order to collect more revenue, and, among the measures suggested by the WB, the highlight goes to improving the process of revenue collection, the collection of rents, the creation of new fees and taxes.

XI. In turn, the Report of the Central Bank of Timor-Leste for the first quarter of 2022, states that between January and March of this year alone, the Petroleum Fund has already recorded net losses of almost a billion dollars (more precisely $970 million) and that only last April, the Fund lost $443 million, due to losses in the stock market, and the decline is expected to continue during the month of May.

XII. Committee C also considers that the Government has been hasty in submitting a five-year budget programming to the National Parliament without first finalizing the national medium-term plan resulting from the application of law no. 2/2022 of 10 February and without all the entities and services of the Public Administrative Sector fully understanding their role in the planning process of the State for the next five years and being able to feel that they have a role to play in the State planning process for the next five years and being able to feel truly responsible for the pursuit of priority measures and strategies included in the draft law presented to the National Parliament, a lack of understanding detected in the public hearings conducted by the Committee with members of the Government following the legislative elections, which may determine the introduction of some relevant changes to the budget programming from 2024 onwards, which will now be approved by the National Parliament.

XIII. It is unusual that a bill for Major Planning Options does not make any reference to programs and refers only to programming, always doing so in a budgetary context, never framed within a planning logic that is based on programs, as set out in Law no. 2/2022, of 10 February. Considering the Government's efforts in recent years to embark on a budgetary logic structured in programs, sub-programs and activities, it is incomprehensible that the Major Planning Options for the next five years do not present the budgetary information structured in programs established by this law approved by the National Parliament just over three months ago. Committee C does not see any correlation between budgetary programming and budgetary programs.

XIV. As of May 31, the Petroleum Fund Consultative Council has not submitted to the National Parliament its opinion on the proposed additional withdrawals from the PF by the MPO law for 2023 for the next 5 years.

XV. Finally, Committee C cannot fail to express here its displeasure at the fact that His Excellency the President of the National Parliament has authorized Committees A and B to take on other external parliamentary commitments superimposed on the legislative process of the MPO for 2023. Being at stake the approval of the budget ceiling for next year as well as policy measures that will affect all sub-sectors without exception, it is inconceivable that both committees have not attended any of the hearings held with members of the Government. Furthermore, the Rules of Procedure of the National Parliament gives priority to the processing of legislative initiatives framed within the special legislative process, as is the case of the Plan and Budget.

VIII. RECOMMENDATIONS

1. After a thorough analysis of the draft law No. 40/V/4ª and based on the conclusions and recommendations of the sectoral opinions issued by the other specialized standing committees, the written contributions collected in the meantime and the public hearings held with members of the Government and the Central Bank of Timor-Leste and the Consultative Council of the Petroleum Fund of Timor-Leste, it is the understanding of Committee C to recommend to the National Parliament and the Government the following:

To the National Parliament:

1. That it seriously debates the worrisome financial scenario that the country will face in the coming years and which the Government for the first time characterizes as being one of "fiscal cliff" in the debate on the government's priorities for the next five years and on its financing, and that it prudently weighs the options that have been presented to it and on which it must decide.
2. That it considers approving an amendment proposal that aims to distribute the expenditure ceiling for the 2023 to 2027 period not only by the three subsectors, but to distribute the relative weight of expenditure for the next five years by the four pillars on which the national Strategic Development Plan is based, the Institutional, Economic, Social and Infrastructure pillars.
3. That in the future the National Parliament includes civil society and the development partners in a debate as wide as possible, as already foreseen in Law 2/2022, of February 10, the Budget Framework and Public Financial Management Law.
4. Urgently amend the Rules of Procedure of the National Parliament to include in them the legislative process and the internal processing of the bill for the Major Planning Options, a legislative initiative that covers more than one fiscal year and should not be confused with the annual Action Plan to be presented by the Government in the form of programs.
5. Revising Article 3.1 as the 263 measures are not achievable in one year and are not sufficient by themselves to achieve the 28 broad national outcomes.
   Suggested wording: The following 28 national outcomes are established, **to be achieved in the medium term**, and to be realized in 2023 through the 263 measures..."
6. Link measure 2.1.9 to measure 2.3.5 as we believe that they repeat (improving the services provided by SERVE).
7. Specify to what extent it is planned to continue with the capitalization of BNCTL (2.3.10).
8. Specify to what extent it is planned to continue with the capitalization of BCTL (2.3.11).
9. Introduce in 3. tourism, the implementation of a measure that foresees "supporting and guaranteeing regular air transportation with different issuing markets for tourism".
10. Articulate measure 3.1.11 and 5.1.5 since they seem repetitive to us.
11. Clarify if the Tibar terminal construction project foreseen in 8.4.4 is not included in 8.2.1.
12. Annex I, Macroeconomic Scenario - update the value of the global expenditure resulting from the proposal of the supplementary State Budget for 2022, according to the Official Government Letter;
13. Annex I, Macroeconomic Scenario, Domestic Revenues - Remove the reference to the increase in excise tax rates by the law that amends the State Budget for 2022, since this increase, which was in the initial proposal presented by the Government, was removed from the articles during the discussion and vote on the specifics; verify, accordingly, the possible impact on the revenue tables, as per the Official Government Letter

Government:

1. Although Article 48.3 of the Budgetary Framework law provides that the definition of the total amount of expenditure for each budget title to be proposed by the Government in the Budget proposal is defined during the Budget Days, it is recommended that next year the Government presents, even if only indicatively and as additional information to the MPO, the amount of money

that it intends to allocate to each of the Major Planning Options, to each of the strategies and measures presented, so that the National Parliament can assess the budget priorities for each year.

2. That next year, in the event that a measure presents an increase in expenditure with repercussions in subsequent years, it should present to the National Parliament an indication of its financial impact in that year and in subsequent years.

IX. OPINION

It is the opinion of this Committee that, with regard to its formal configuration, the PPL no. 40/V (4th) - Major Planning Options 2023 complies in general with the essential rules of formal legalese, fulfilling the formal requirements for the presentation of bills, under the constitutional and regimental terms, and is therefore in a position to be considered in Plenary.

X. VOTING ON THE REPORT OPINION

This Report and Opinion was discussed and approved on June 2, 2022, with 7 votes for, 3 votes against, and 3 abstentions.

Dili, National Parliament, June 2, 2022

The Reporter Members,

/s/	/s/
Deputy António da Conceição	Deputy António de Sá Benevides

The President of the Committee,
/s/
Deputy Maria Angelica a C. dos Reis

ANNEXES

- Opinions of the other specialized standing committees and other written contributions received - Update of the Major Planning Options Bill for 2023

i) Committee A

ii) Committee B

iii) Committee D

iv) Committee E

v) Committee F

vi) Committee G

vii) Technical Note No. 81/2022/DIPLEN

viii) Letter No 149/VIII/GM-MF/2021-05 from the Finance Minister's Office about the Report and Opinion on the Law Proposal of the Major Planning Options 2023