

VIII CONSTITUTIONAL GOVERNMENT

Law No./2022 of Draft State Budget Law for 2023

Explanatory Memorandum

Pursuant to section 97.1(c) of section 115.2(a) of the Constitution of the Democratic Republic of Timor-Leste, the Government proposes to the National Parliament the Proposed Law on the General State Budget for 2023.

The present Proposed Law on the General State Budget for 2023 presents all the revenues and expenses of the organs and services of the Public Administrative Sector for the period between January 1 and December 31, 2023, being composed of the Central Government Budget, the Social Security Budget and the Budget of the Special Administrative Region of Oe-Cusse Ambeno.

The Draft State Budget Law for 2023 is the first to be presented under the new budget rules approved by Law No. 2/2022, of February 10, the Framework for the State Budget and Public Financial Management, which replaced Law no. 13/2009, of October 21, on Budget and Financial Management.

This means that the draft law enshrines the appropriations necessary to meet the priorities identified in Law No. 8/2022, June 15, Major Planning Options for 2023.

The Draft State Budget Law for 2023 presents a fair and equitable distribution of national resources to improve service delivery and economic recovery and resilience, promote sustainable and inclusive economic growth in the medium term, and to ensure that Timor-Leste can become an upper-middle income country by 2030, under the theme “*Productive Investment and Inclusive Growth for Future Generations*”.

The Proposal is formulated based on the Strategic Objectives of the VIII Constitutional Government, aiming to provide all citizens with: 1) The opportunity to have a healthy, safe and long life; 2) Access to knowledge, technology and innovation; and 3) Access to sufficient resources to guarantee a dignified life.

To this end, measures are financed to provide access to quality education, health, water and sanitation, to extend social protection, to develop basic infrastructure, and to make major investments in the productive sector.

Therefore, in the year 2023, the Government will continue to implement an ambitious program of roads and bridges, and of connecting all villages to the national power grid.

Thus, the Government will further invest \$17 million in the construction, rehabilitation, maintenance and conservation of bridges and rural roads, \$15 million in the construction of the Pante Macassar National Road and \$7.8 million in the rehabilitation of 30 km of municipal road between Laga and Bagia, among other initiatives.

\$118 million will be invested to ensure that by 2030 every Timorese household has access to electricity, either through the expansion of the national grid or by promoting local small-scale

renewable energy generation systems, as well as to ensure the supply of affordable electricity throughout the country through EDTL.

In the year 2023, \$21 million will be invested in the agricultural sector to support sustainable increases in production and productivity, which will reduce poverty, increase food security, and promote economic growth in rural areas.

The Government will expand irrigation systems in Laivai (\$3.6 million) and Galata (\$2.6 million), support the extension of agricultural areas and their mechanization (\$2.6 million), and develop integrated agricultural zones in irrigated areas (\$2.1 million).

The Government believes that Timor-Leste has enormous potential to diversify and expand its economy into modern, technology-based sectors. Thus, in 2023, \$25 million will be invested to accelerate economic diversification, investing in the telecommunications sector (\$14.5 million), in promoting domestic production (\$6.4 million), in creating a one-stop-shop for business registration (\$2 million), and in establishing industrial parks (\$1.3 million).

The 2023 State Budget Proposal allocates \$772 million to the social capital sector, which includes health, education, and social protection, meaning that this sector is the largest recipient of funding, reflecting the importance given to universal access to quality education (\$137 million), health (\$92 million), and social protection (\$301 million), especially for vulnerable segments of society.

In particular, the Government plans to apply \$19.2 million to implement the Bolsa da Mãe program. Of this amount, \$5.3 million is for the continuation of the initial program and \$13.7 million is for the expansion of the Bolsa da Mãe-Jerasau Foun measure aimed at supporting pregnant women and improving health and nutrition during the early childhood years, as well as supporting children with chronic illness or disability.

The Proposal also provides an appropriation of \$22.4 million for the expansion of the School Meals program, improving the quality of meals to meet the nutritional needs of children by increasing the spending per child per meal from \$0.25 to \$0.42.

On the revenue side, the Government proposes to change the import tariff rate from the current 2.5% to 5%, which will contribute to increase domestic revenues and will bring Timor-Leste in line with the global average tariff rate.

In addition, changes are introduced in the excise tax rates, specifically, the increase of the tobacco tax from \$50/kilo to \$100/kilo, rates of 10%, 20% and 30% for passenger cars over \$10,000, \$25,000 and \$50,000, a \$1/kilogram rate on sugar, and a \$3/liter rate on sugary drinks.

Thus, in the 2023 State Budget Proposal the revenues of the Public Administrative Sector amount to \$3,156,922,141, while Public Administrative Sector expenses amount to \$3,155,715,306, respecting the value of overall expenditure of the Public Administrative Sector provided for in the multi-year budget programming in the Major Planning Options for 2023.

Revenues from the Central Administration sub-sector amount to \$2,800,000,000 and expenditures amount to \$2,800,000,000.

Revenues for the Social Security sub-sector amount to \$235,715,306 and expenditures amount to \$235,715,306.

Revenues for the Oe-Cusse Ambeno Special Administrative Region subsector amount to \$121,206,835 and expenses amount to \$120,000,000.

The proposal enshrines program budgeting as a means of preparing and organizing the General State Budget, integrating the Budget into the annual planning process.

The structure of the 2023 State Budget Proposal follows the new rules contained in the State Budget and Public Financial Management Framework Law.

Thus, the Proposal has been simplified compared to previous years, taking into account that part of the content that was previously in the Law, such as definitions, financial regimes and budget classifications, are now included in the State Budget and Public Financial Management Framework Law and subsequent regulations.

The budget tables are now clearly defined and include three tables for revenues and expenditures of the Public Administrative Sector, including by functional classification, and three tables for revenues and expenditures of the Central Administration, Social Security and the Special Administrative Region of Oe-Cusse Ambeno, respectively, with the structure by programs, and the organic and economic classifications.

The new economic and functional classifications represent considerable progress towards a more transparent and efficient budget, and are regulated by Government Decree no. 19/2022, of May 11, and allow a detailed organization of revenues and expenses by type and function, following international best practices.

Of note is the functional classification, based on the Classification of Functions of Government (COFOG), developed by the Organization for Economic Cooperation and Development and published by the United Nations Statistical Division as a standard classification of government activities, ensuring the comparability of Timor-Leste's accounts with those of other countries.

The documents accompanying the Proposal have been reorganized into three parts: the Report, the Budgetary Developments and the Informative Elements. The Report presents the budgetary policy and analyzes the main variables that have an impact on the budget. The Budget Developments present the revenues and expenditures of each budget title specified up to the maximum levels of disaggregation, according to the structure by programs and the organic and economic classifications. Finally, the Informative Elements present all the relevant additional information necessary to understand the State Budget Proposal and the financial situation of the Public Administrative Sector.

Approved by the Council of Ministers on 14 September 2022.

The Prime Minister,

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The Minister of Finance,

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