



PRIME MINISTER

**SPEECH BY
HIS EXCELLENCY THE PRIME MINISTER
KAY RALA XANANA GUSMÃO
ON THE OCCASION OF THE PRESENTATION OF THE
2023 AMENDING BUDGET LAW PROPOSAL**

National Parliament
Dili, August 22nd, 2023



Your Excellency

Madam President of the National Parliament

Your Excellencies

Vice Presidents of the National Parliament

Your Excellencies

Honourable Members of the Parliament

Ladies and gentlemen, Members of the Government

Ladies and gentlemen,

Dear Timorese

First of all, I would like to present the greetings of the members of the 9th Constitutional Government, thanking you for the opportunity to present, in this Parliament, our Law Proposal for the Amending Budget for the year 2023.

We were here just last month to present the five-year Government Programme, through which we will seek to improve and force ourselves to strengthen the development of our beloved land, Timor-Leste.

We apologise for taking a while to make the right decisions about this budget, which will only be used until December 31st.

Honourable Members of the Parliament,
Dear Timorese

There's no need to remind this National Parliament why the people chose the 9th Constitutional Government. The answer is straightforward... because, in recent years, people felt something was going wrong.

It was with great sadness that I, as Chairman of the Committee for the Preparation and Review of the Budget, could observe, with my own eyes, what the beloved Timorese have been experiencing daily over the last few years.

I have to say that I'm sad because the financial system that existed previously established during the mandate of the 4th Constitutional Government, which the international financial institutions held in high esteem and asked to be strengthened a little more, this financial system has undergone significant changes, thus violating the sound principles of public finance management. What was good, was spoilt.

During the week we worked on the budget review, I could see the violations that have taken place over the last five years, which happened because deviations were originating from the changes made to the national financial system.

As an outsider, I was always surprised by the billions of dollars that went into the state budget yearly. The people also heard this information. And because people didn't see results showing they could finally hope to improve their lives, they chose the 9th Constitutional Government.

Honourable Members of the Parliament,
Dear Timorese

I need to make these initial remarks so that the Honourable Members of the Parliament can understand better why we are bringing in this amending budget and the proposed amendments.

1 - The Transparency Portal doesn't provide complete information on the budget and planning and often doesn't work;

2 - The 'Programme Budgeting' principle was eliminated to create the 'Major Planning Options', with their implementation failing to follow the 'Programme Budgeting' principle. This allowed all the institutions to act randomly and at will and to act outside their competences;

3 - The Principle of the 'Annuality' of the Budget, which regulates expenditure until December 31st of each year, is no longer valid and has given way to a new 'disease', called 'Income' for the Institutions, no longer called the Management Balance, which, correctly, should return to the State Coffers;

4 - The Principle governing transfers of funds from one category to another was eliminated, allowing Ministries and other Institutions to freely make transfers between categories ('Viroment'), from the 'Salaries' category to the 'Goods and Services' category and to the 'Minor Capital' category, and from the 'Minor Capital' category back to the 'Salaries and Wages' category;

5 - The Principle of Transparency can manifest itself in practice in situations where an institution depends on other institutions so that it can be demanded that everything follows the norms and rules that are established in the System. However, the powers of the CNA and ADN have been eliminated, and many projects that were simply handed over did not follow the Procurement or Tenderisation procedures, leading to the fact that we now do not have correct data on the cost of each of the projects that are still in progress or those that have already finished;

6 - In light of all this, the 9th Constitutional Government decided to suspend the contracts that the previous Government signed close to the end of its term in office, above all because we realised that there was no detailed analysis of the actual cost of these projects, which are very expensive and which did not follow procurement procedures.

7 - Due to the emergence of this type of environment, violations of the Civil Service Rules have also taken place, with the merit and experience of employees no longer being taken into account, resulting in uncritical dismissals and hiring people with no experience whatsoever.

8 - Due to the Civil Service Commission's failure to act, a policy of recruiting thousands of casual workers who had no work to do because there was nothing for them to do also emerged in election years.

Honourable Members of the Parliament

Dear Timorese

Based on all these facts, the 9th Constitutional Government decided to correct the situation by returning to the old rules, with only five categories: Wages and Salaries, Goods and Services, Minor Capital, Public Transfers and Development Capital.

Despite this, and even starting with this Amending Budget, the 9th Constitutional Government will continue implementing the already underway sub-programmes, as it is very difficult to change everything simultaneously.

Next year, through the 2024 General State Budget, the Government will be able to restore the old Financial System, which is very good.

Honourable Members of the Parliament

Dear Timorese

So, Honourable Members of the Parliament, I would now like to present what will be included in this Amending Budget based on the following five aspects:

Firstly, to make the new Government structure viable, with the creation or change of some ministries. For this reason, some adjustments will be made to the titles of the organisational classification of the 2023 General State Budget.

This includes the creation of the Ministry of Tourism and Environment, the Ministry of Rural Development and Community Housing, the Ministry of Youth, Sports, Art and Culture and the Ministry of Planning and Strategic Investment, which replaces the Ministry of Planning and Territory.

Still, on this subject, I would like to clarify that the 9th Constitutional Government will begin a policy of reducing the Public Institutes created by the previous Government, which are only used to house party members, without any

administrative or economic rationality. The approach I have just mentioned will continue in future budgets, with the aim of extinguishing (or eliminating) the National Agency for Planning, Monitoring and Evaluation (ANAPMA), as well as the National Authority for Water and Sanitation (ANAS, I.P.) and the National Authority for Electricity (ANE, I.P.).

Secondly, we all want public accounts to be contained. That's why, having analysed the execution of the budget to date, the 9th Constitutional Government is proposing a reduction in the expenditure provided for in the General State Budget, and thus also a reduction in the amount of transfers from the Petroleum Fund.

This reduction can be achieved because it results from an already carried out evaluation, which has identified savings in a group of services and various entities of the Public Administrative Sector. A review of expenditure and responsible management, which can constantly (or frequently) correct deviations and superfluous spending, will not just be a method (or a good way) but will effectively be the "Philosophy" of this Government.

Thirdly, the high inflation rate in Timor-Leste has been causing significant difficulties in the living conditions of our people, punishing mainly disadvantaged families. The 9th Constitutional Government is committed to reducing this inflationary pressure, and we propose, in this amending budget, to reduce the rates of excise duty on sugar and customs duties on imports that will apply in 2023.

Fourthly, since good governance requires rigour and transparency in the execution of the General State Budget and the management of public accounts, we also propose amending the Law no. 2/2022 of February 10th on the

"Framework of the General State Budget and Public Financial Management", to allow the 2024 Budget to be prepared following the new rules.

Still, on this subject, we believe that what has been called "***presentation by programmes***" in the State Budgets since 2017 has caused a lack of control and transparency in public accounts. Therefore, we will gradually return to the organisation of the State Budget into five categories (wages and salaries, goods and services, public transfers, minor capital and development capital) to increase the level of detail in the information that will be presented to the National Parliament, increasing its comprehensibility and facilitating future scrutiny.

I say gradually because we must wait for the 2024 General State Budget.

Furthermore, to guarantee greater stability in the approved General State Budget, we will repeal the "Major Planning Options" Law and create an Annual Strategic Investment Plan to pave the way for a multi-annual vision of the Budget in line with international best practice.

All these changes will guarantee sustainability, rigour and transparency in public accounts.

Fifthly, and lastly, we propose an amendment to Law no. 8/2008, of June 30th, the "Tax Law", as amended by Law no. 5/2019, of August 27th, so that we can have adequate clarification on the concept of permanent establishment, provided for in the Tax Law, and thus put an end to doubts about the tax regime applicable to these situations, giving greater legal certainty and fiscal stability to foreign investment in Timor-Leste.

Madam President of the Parliament

Vice Presidents

Honourable Members of the Parliament,

Dear Timorese people

With this Amending Budget Law Proposal, total consolidated expenditure will be US\$ 1,771,867,112, financed by domestic revenues, the Estimated Sustainable Income (ESI) and withdrawals in addition to the ESI. In this way, we have also reduced the amount of authorised transfers from the Petroleum Fund from US\$ 1,346,090,000 to US\$ 1,208,194,889.

The central administration now has an estimated expenditure of US\$ 1,633,000,000. Social Security, not including the Social Security Reserve Fund, is increased to US\$ 130,965,306 (the total consolidated figure does not include US\$ 75,860,306 from central Government transfers to avoid double counting). The Special Administrative Region of Oe-Cússe Ambeno (RAEOA) will receive an estimated figure of US\$ 83,762,112.

From a technical point of view, Your Excellencies can already see changes to the structure of the General State Budget tables. These changes are aimed at greater transparency and better understanding of the information. In particular, tables I and II of the General State Budget also show which revenues and expenditures are financed by the Central Administration, including transfers from the Central Administration to the Social Security Budget and the Budget of the Special Administrative Region of Oe-Cússe Ambeno and others that are financed by each subsector's revenues, so that they do not become a burden for the Central Administration or the Petroleum Fund.

We present the totals in three different ways: "with and without" income and expenditure from the Social Security Reserve Fund and the total consolidated, so that it became clearer which expenditure will actually be realised this year so that there is no duplication and also which expenditure is not real, since it is invested from this Reserve Fund.

On the other hand, tables V and VI, VIII and IX, XI and XII will be presented as part of the economic classification, already with the five new categories mentioned, so that the 19 previous categories will become second-level subcategories, thus increasing the level of detail of the information we present to the National Parliament.

The 9th Constitutional Government is firmly committed to a fiscal policy that will lead to the country's economic development and will manage our expenditure and revenue scrupulously and efficiently, once again fostering the confidence of citizens and investors.

We hope that with the approval of this Amending Budget Law Proposal, as well as the amendments to the Laws mentioned above, we will not only be able to guarantee more outstanding and better execution of the 2023 budget to tackle the inflation that is currently affecting the living conditions of the Timorese but also to immediately start preparing the 2024 General State Budget, whose budgetary process will already follow the philosophy of the 9th Constitutional Government.

The approval of this budget will also allow the new Government structure to fulfil its mission, namely in implementing the measures we committed to for the first 120 days of our term.

For this reason, and because our people cannot wait any longer to be able to feel the benefits of the policies that the Government intends to implement, we have presented this Law Proposal with a request for priority and urgency. Therefore, I would like to thank the President of the National Parliament and all the Honourable Members of Parliament for listening to our request and scheduling this debate at such short notice.

The 9th Constitutional Government is fully aware of the significant challenges and realises that implementing a sustainable fiscal policy and rational public spending in response to planning will only be the first important step towards consolidating and transforming the provision of services by improving the management system and through investment strategies.

And this Government, as we all know, will not travel this road alone. The constructive and democratic debate we will be engaged in over the next few days will be the key to achieving the sustainable and inclusive national development we all want.

Thank you very much, and my compliments to all the honourable Members of the Parliament.

Kay Rala Xanana Gusmão