IX Constitutional Government

GSB

GENERAL STATE BUDGET 2025

INVESTMENT IN STRATEGIC INFRASTRUCTURE, STRENGTHENING THE ECONOMY AND IMPROVING CITIZENS' WELFARE

Report

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Abbreviations

Asian Development Bank	ADB
Autonomous Agencies	AA
Autonomous Service of Medicines and Health Equipment	SAMES
Capital Development	CD
Classification of the Functions of Government	COFOG
Council of Administration for the Infrastructure Fund	CAFI
Consolidated Fund of Timor-Leste	CFTL

Consumer Price Index	CPI
Dalan Ba Futuru (Timor-Leste)	DBFTL
Democratic Republic of Timor-Leste	RDTL
Development Partner	DP
Direct Budget Support	DBS
Timor-Leste National Police	ETNP
European Union	EU
FALINTIL - Defence Force of East Timor	F-FDTL
Financial Management Information System	FMIS
General State Budget/ Orsamentu Jerál Estadu	GSB/ OJE
Government of Timor-Leste	GoTL / GovTL
Gross Domestic Product	GDP
Human Capital Development Fund	FDCH
Infrastructure Fund	IF / FI
Integrated Financial Management Information System Unit	IFMISU
Integrated Municipal Development Program	IMDP (PDIM)
National Institute for Health	INS
International Development Agency	IDA
Laboratory National	LABNAS
Line Ministries	LM
Micro, Small and Medium Enterprises	MSME
Ministry of Agriculture and Fisheries	MAP
Ministry of Defence	MD
Minor Capital	MC
Ministry of Education including SEJD	MEJD
Ministry of Finance	MoF
Ministry of Health	MoH
Ministry of Interior	MI
Ministry of National Liberation Combatant Affairs	MACLAN
Ministry of Public Works	MoP
Ministry of Social Solidarity and Inclusion	MSSI
Ministry of Tourism, Commerce and Industry	MTCI
Ministry of Transport and Communications	MTC
National Communication Agency	ANC

National Development Agency	ADN
General Directorate of Planning and Budgeting	DGPO
National Intelligence Agency	SNI
National Police of Timor-Leste	PNTL
Organization of the Petroleum Exporting Countries	OPEC
Petroleum Fund	PF
Programme Budgeting	PB
Public Financial Management	PFM
Public Service Commission	PSC/CFP
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Quarter 1	Q1
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Salaries and Wages	SW
Secretariat of State for Art and Culture	SEAC
Secretariat of State for Environment	SSE/SEA
Secretariat of State for Youth and Sport	SEJD
Social Security Fund	SSF
Special Administrative Region of Oe-Cusse Ambeno	RAEOA
Strategic Development Plan	SDP/PED
United Nations Development Program	UNDP
World Bank	WB

Prime Minister’s Speech

Executive Summary

Overview

The General State Budget proposal is governed by the legal requirements set out in Law 2/2022, of February 10, Budget and PFM Framework Law (LEO). The theme of the 2025 General State Budget proposal is: ***"Investment in Strategic Infrastructure, Strengthening the Economy and Improving Citizen Welfare".***

The IX Constitutional Government is committed to continuing economic development, eradicating poverty, and providing higher-quality public services (more effectively and efficiently) to the entire population of Timor-Leste.

As Timor-Leste embarks on the 2025 fiscal year, the Government remains committed to advancing the nation's socio-economic development through targeted investments in strategic infrastructure, economic diversification and initiatives aimed at improving citizen welfare.

The Government program is oriented towards six main principles, namely:

1. Affirm the Democratic State of Law
2. Develop Social Capital and Justice
3. Improve Infrastructure Development
4. Stimulate Economic Growth
5. Strengthen Government Consolidation
6. Promote Good Governance and Combat Corruption

Therefore, the budget for the years 2025-2029 will seek to improve social, economic, and infrastructure development to support the enhancement of the standard of living of the people of Timor-Leste.

In order to meet the objectives set for the next five years, the Government is dedicated to prioritizing the development of productive sectors, such as: infrastructure, education, health and the petroleum sector.

Non-Oil Real GDP growth is predicted to have risen to 3.7% in 2024 driven by continued growth of the private sector and improved execution of government spending. Government expenditure is anticipated to see a further rise in 2025 with a with a US$2.125 billion ceiling approved for the Central Administration and the Autonomous Region of Oecusse-Ambeno (RAEOA). As a result of this, GDP growth is projected to reach 4.1% in 2025.

Large spending increases are also anticipated in future years as the Government looks to maximise the chances of meeting its growth targets. As a result, the fiscal deficit is forecasted to rise to 52% in 2025. Under this trajectory the Petroleum Fund will deplete in 2035, however significant progress in the negotiations for the Greater Sunrise Oil Field are likely to delay this.

Resource and Financing

The total budget for the year 2025 is US$2,617.2 million, divided into allocations for the Central Administration of US$2,073.0 million, RAEOA of US$62.2 million, and Social Security of US$482.0 million. The Social Security Fund is divided in to the National Institute for Social Security, INSS and the Reserve Fund, FRSS. INSS has a budget of US$176.3 million and FRSS has a budget of US$305.7 million.

The budget allocation for the Central Administration includes a US$10 million transfer to RAEOA and a US$124.3 million transfer to the INSS. Therefore, the total consolidated spending (ie removing any double counting from transfers) is US$2,482.9 million; the total consolidated spending excluding the FRSS is US$2,177.2 million and finally the total consolidated spending for the Central Administration and RAEOA is $2,125.2 million.

The fiscal and memorandum table below indicates that the consolidated ceiling for the Central Administration and RAEOA has increased by 12.4% compared to the budget for 2024.

Table 1: Fiscal and Memorandum Central Administration and RAEOA, US$m

	Approved Budget 2024	**Proposed Budget 2025**
Total Expenditure Central Administration (1)	1830.0	2073.0
Transfer to RAEOA (1.1)		10.0
Total Expenditure RAEOA (2)	60.0	62.2
Total Consolidated Expenditure Central Administration + RAEOA (1+2 -1.1)	**1890.0**	**2,125.2**
Recurrent	1443.8	1662.8
Salaries & Wages	470.1	490.4
Goods and Services	384.0	414.1
Public Transfers	589.7	758.3
Capital	446.2	462.4
Minor Capital	35.2	22.6
Capital & Development	411.0	439.8
Revenues	**716.6**	**810.6**
Domestic Revenues	194.5	258.6
Domestic Revenues Central Administration	192.2	257.9
Non-Tax Revenues Retained by RAEOA	2.3	0.7
Estimated Sustainable Income (ESI)	522.1	551.9
Fiscal Balance	**-1,173.4**	**-1,314.6**
Financing Deficit	**1,173.4**	**1,314.6**
Excess Withdrawals	855.5	1,009.1
Use of Cash Balance	277.7	251.5
Loans	25.0	45.0
Direct Budget Support	15.2	9.0

Source: Directorate of Economic Policy DNPE, Ministry of Finance, September 2024.

Table 2: Fiscal and Memorandum Social Security, US$m

	Approved Budget 2024	Proposed Budget 2025
National Institute of Social Security (INSS)	**142.6**	**176.3**
Social Security Contributions	*55.9*	*50.5*
Fines and Penalties	*0.0*	*0.0*
Income	*0.1*	*0.1*
Transfers from the Central Administration	*86.7*	*124.3*
Recurrent Transfers from the Social Security Reserve Fund	*0.0*	*0.4*
Transfers from 3rd Countries	*0.0*	*0.1*
Cash Balance	*0.0*	*1.3*
Social Security Reserve Fund (FRSS)	**254.8**	**305.7**
Income	*5.0*	*12.6*
Recurrent Transfers From INSS	*0.0*	*2.0*
Capital Transfers from INSS	*49.8*	*45.2*
Financial Assets	*200.0*	*244.9*
Cash Balance	*0.0*	*1.0*
Total	**397.4**	**482.0**

Source: INSS, September 2024.

1. Macroeconomic Outlook and Fiscal Strategy

Fiscal Strategy

1.1. Budget 2025 represents a further step towards achieving the aim's set out by the country's Strategic Development plan as well as the program of the 9th Constitutional Government. With an increased budget ceiling and enhanced social protection measures, the budget is set to boost GDP growth, strengthen public infrastructure and increase living standards. Therefore, the theme of the 2025 General State Budget proposal is: ***"Investment in Strategic Infrastructure, Strengthening the Economy and Improving Citizen Welfare".***

1.2. Budget 2025 therefore sets a consolidated budget ceiling of US$2.125 billion for the Central Administration and RAEOA. This represents a US$235 million or 12% increase from the consolidated budget ceiling for Budget 2025.

1.3. The Government's fiscal strategy is centred on realising the aims set out in the Strategic Development plan and further building towards targets for growth, reform and poverty reduction.

1.4. The Strategic Development Plan is divided up into 4 main pillars:

i. Social Capital – which consists of health, education, environmental and social sectors
ii. Infrastructure Development – which is focused on developing physical infrastructure including transport, electricity, water and telecommunications networks.
iii. Economic development – which focuses on economic diversification and rural development
iv. Institutional Frameworks – which reinforces the security and governance frameworks of the country.

1.5. In line with the theme of improving Citizen Welfare, US$741 million or 35% of the consolidated budget is allocated to the Social Capital Sector. This includes a US$187 million transfer to National Combatants Liberation Fund, FCLN and a US$124 million transfer to the Social Security Fund. Health and Education also remain key priorities as the Government seeks to improve living standards and reduce the poverty rate. Health care related programs are allocated US$96 million whereas programs related to education, scholarships and professional training are allocated US$163 million.

1.6. Infrastructure Development follows close behind with an allocation of US$654 million, or 31% of the consolidated budget. This includes a US$167 million transfer to the state electricity company, EDTL. The budget also includes a US$440 million allocation to development capital, an increase of US$29 million from the approved budget for 2024. This highlights the Government's continued commitment to economic growth and job creation.

1.7. Economic Development and Institutional Frameworks also receive significant allocations of US$157 million (7% of the consolidated budget) and US$574 million (27% of the consolidated budget) respectively. This includes US$81 million on programs aimed at improving the management of public finances, US$89 million on programs on National Security and Defence and US$39 million on programs related to investment and economic diversification. The Government Priorities and Reforms section of this document provides further details on the budget proposal and how it aligns with the Government's aims.

1.8. Primarily driven by a large increase in government execution, economic growth is expected to rise to 4.1% 2025. Government spending continues to be the main driver of growth; however the anticipated implementation of a high-speed fibre optic cable should also boost opportunities for private sector development.

1.9. The Government's fiscal strategy continues to prioritize economic growth and development, expenditure efficiency and job creation. As such the allocation for development capital, in other words infrastructure projects such as improvements to public buildings and transport networks, has increased by 7%.

1.10. The increased budget ceiling is mainly driven by a 29% increase in the budget for public transfers, including the aforementioned transfers that contribute to social capital. This is expected to lead to an increase in household consumption in 2025 and therefore contribute to higher GDP growth.

1.11. Other factors that contribute to the large transfer expenditure include transfers to key public entities such as Timor GAP and EDTL; as well as transfers to municipalities for local development projects. A US$16 million transfer to Timor Gap allows them to continue to support resource exploration activities that will ultimately contribute to long term economic success. The continued financial support to EDTL subsidizes electricity protection and protects consumers from anticipated rises in fuel prices.

1.12. Moreover, transfers to municipalities are intended to support the Government's aims of decentralisation and improved service delivery at local level. This in turn should improve expenditure efficiency and ensure that budget allocations align with local development needs.

1.13. The fiscal strategy will continue with these aims over the medium term. The macroeconomic outlook section sets out expected budget ceiling increases and proposed allocations up until 2029. These medium-term expenditure proposals are informed by the Government's economic targets and also allow for the Government to adhere to its political and contractual liabilities. These include signed construction contracts, staffing and salary commitments and welfare pledges.

1.14. To maximise the opportunities for job creation, development and economic growth, the allocations propose a large annual increase in capital expenditure, particularly development capital. Meanwhile, expenditure increases in other categories are expected to be limited to a maximum of inflation and population growth.

1.15. As a result, the medium term allocations envisage that the share of the total budget on development capital will increase from the current level of 21% of the total budget to 32% of the total budget. These medium-term expenditure proposals are informed by the Government's growth targets and take in to account contractual and political liabilities.

1.16. As such, under the current trend, in the absence of new resources, the Petroleum Fund is set to deplete in 2035. The depletion of the Fund can be delayed if the Government adopts reform options listed in the fiscal sustainability section of this document. Furthermore the existing forecasts are predicated on a scenario where there are no further revenues from sales of Petroleum and Mineral Resources. However, the Government has been actively exploring opportunities for extracting mineral resources. Significant progress has also been achieved in negotiations pertaining to the Greater Sunrise oil field. Budget 2025 is also set to allocate US$12 million for the development of the oilfield and pipeline.

1.17. Key Macroeconomic and Fiscal Data is provided in the table below and expanded upon in the rest of the document. The table provides recent figures and forecasts for GDP growth and inflation as well as figures for the debt and fiscal deficit position.

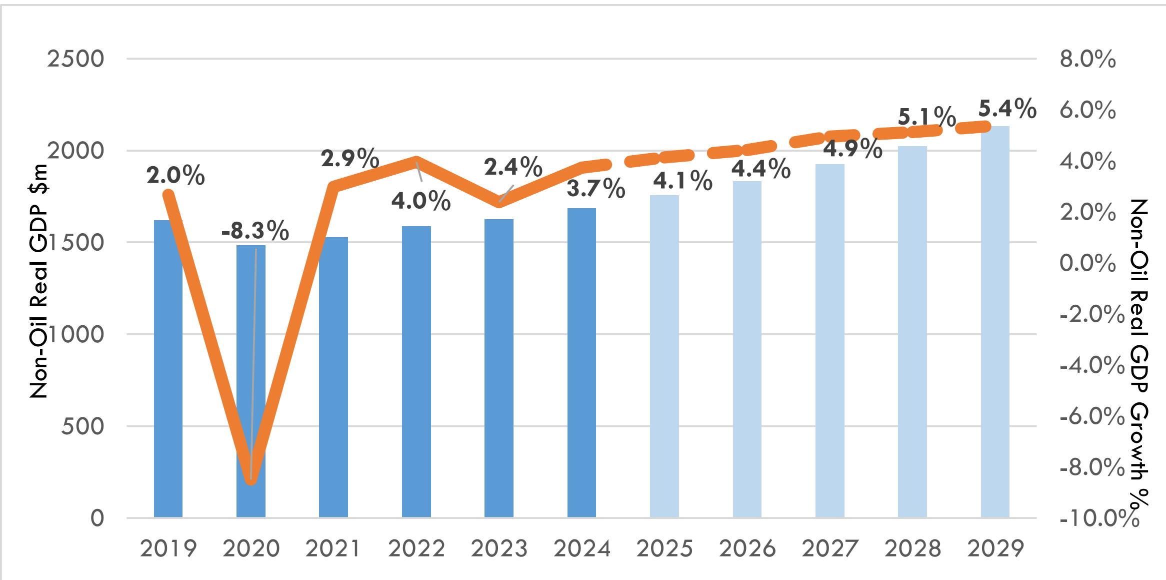
Table 3: Key Macroeconomic and Fiscal Statistics, %

Statistic	Actual					Forecast					
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
Real GDP (non-oil)	2.0	-8.3	2.9	4.0	2.4	3.7	4.1	4.4	4.9	5.1	5.4
Household Consumption Growth	3.7	-1.2	-3.3	14.6	3.8	4.0	11.0	2.0	2.9	3.0	3.1
Government Consumption Growth	3.2	4.9	2.9	-0.2	-0.8	2.3	2.7	1.8	1.8	1.8	1.8
Investment Growth	-14.7	-42.3	-14.1	32.5	11.8	16.9	1.5	11.0	11.8	12.4	13.0
Export Growth	-23.2	-47.3	79.3	30.3	31.9	-2.2	13.0	7.4	10.0	10.0	10.0
Import Growth	-6.5	-7.0	-9.0	22.8	4.9	7.3	10.2	1.8	2.7	3.0	3.4
Inflation CPI (annual average)	0.9	0.5	3.8	7.0	8.4	3.0	2.2	2.0	2.0	2.0	2.0
Inflation CPI (end of period)	0.3	1.2	5.3	6.9	8.7	2.5	2.0	2.0	2.0	2.0	2.0
Fiscal Deficit % of GDP	31.0	25.8	48.2	60.5	42.0	46.1	51.8	55.6	59.3	63.1	67.2
Debt Stock % of GDP	11.4	13.8	15.0	15.1	14.4	13.7	14.5	14.1	12.6	11.1	9.6

Source: Actual GDP figures from National Accounts, National Statistics Institute, INETL; GDP forecasts and CPI forecast 2025 from the Directorate of Economic Policy DNPE, Ministry of Finance; Actual CPI inflation figures from the National Statistics Institute, INETL; CPI forecasts 2026-29 from the IMF World Economic Outlook, October 2023; Fiscal Deficit Calculation and Debt stock from the National Directorate of Economic Policy DNPE, Ministry of Finance; Debt Stock data and forecasts from the General Directorate for Mobilising External Resources DGMRE, Ministry of Finance, September 2024.

Macroeconomic Overview

Figure 1: GDP growth actuals and forecast Central Scenario 2019-2029, LHS $US Million, RHS %



Source: Actual GDP figures from National Accounts, National Statistics Institute, INETL; GDP forecasts from the Directorate of Economic Policy DNPE, Ministry of Finance

Historic Growth

1.18. Given the relatively low level of employment in the oil sector, total GDP is not the best measure of economic performance for Timor-Leste. Instead, it is more useful to monitor economic performance using non-oil GDP together with a wide variety of other indicators relating to the non-oil economy. This approach provides a more accurate indication of the real impact of changes in the economy on the people of Timor-Leste.

1.19. Timor-Leste experienced real GDP growth averaging 1.0% per year over 2014-2023 (past 10 years). These growth rates were higher in the early 2010s and were driven by increases in government expenditure associated with the Government's economic strategy to ensure that Timor-Leste has the necessary infrastructure to allow the private sector to flourish in the long run. Government investment enabled a significant upgrade to road and electricity coverage throughout Timor-Leste, which has helped to improve both living standards and the business environment.

1.20. However, negative economic growth rates in 2017, 2018 and 2020 have undermined the progress made. In 2020 GDP growth fell by 8.3% due to the combined effect of the delay in approving the General State Budget, political uncertainty, the COVID-19 pandemic and the application of the State of Emergency.

1.21. 2021 saw a large increase in government expenditure of around 27% as the Government looked to kick-start the economy following the impact of the pandemic. As a result, real non-oil GDP growth in 2021 bounced back to 2.9%.

1.22. In 2022, GDP grew at 4.0%, primarily due to an increase in public and private investment. Government transfers and a recovery from the COVID-19 pandemic also fuelled a large increase in private consumption (which rose by 14.6% in real terms). Government spending in 2022 reached the highest level in the history of the country at US$1.74 billion. At the same time, however, imports also increased by 23% in real terms, which was a result of increasing demand and global prices.

1.23. GDP growth fell to 2.4% in 2023. Whilst overall government expenditure on salaries and wages and goods and services increased by 4.7%, a high inflation rate saw government consumption fall by 0.8% in real terms. Despite this, overall growth remained positive as government capital spending and private investment rose.

1.24. Household consumption also saw an increase of 3.8%. This reflects an increase in overall economic activity as the economy recovered from lingering effects of the COVID-19 pandemic. Non-oil exports rose by 31.9% in real terms, however this was driven by an increase in service exports, particularly travel services, as exports of goods (excluding petroleum exports) saw a fall of 16%.

Timor-Leste Growth Outlook

1.25. In 2024, GDP is forecasted to rise to 3.7%. This forecast assumes strong execution of government spending in the last quarter of the year and continued development in the private sector driven by increased government activity and tourism arrivals. The first half of 2024 has seen a 27% increase in the number of foreign tourists. Although these numbers do not include the arrivals due to a historic visit from the His Holiness Pope Francis between the 9th and 11th of September, migration data suggests that there were less than 2000 arrivals to Timor-Leste, during the Pope's visit.

1.26. Government execution was fairly subdued during the first 6 months of 2024. Overall execution reached 32% of the consolidated budget by the end of June 2024. Execution of development capital expenditure was particularly poor reaching only US$35 million. However, the last few months have seen a seen a large increase in development capital as Timor-Leste prepared for a historic visit by Pope Francis. As a result, government execution was US$994 million as of 15th September or 53%.

Government execution is expected to see further increases in the last quarter of the year, in line with trends from 2022 and 2023 and reach US$1,627 million or 86% by the 31st of December 2024, which would be an increase of 9% from 2023. Further details on this estimation are available in the Budget Performance section under chapter 3 of this document.

1.27. A rise in consumption related imports during the first two quarters of the year suggest that household consumption will increase by 4% (in real terms) in 2024. This represents a further increase from the 3.8% rise in 2023. Other factors likely to contribute to household consumption in 2024 include the increase in tourist arrivals as well as strong government budget execution in 2024. Nevertheless, a lack of survey data means that household consumption is one of the main sources of uncertainty in the growth projection. All other components being equal, if household consumption is one percentage point lower than the current forecast, GDP growth could in 2024 fall to 3.0%.

1.28. In 2025, GDP is forecasted to grow at 4.1%. This is driven by an expected large increase in government expenditure as the Government has approved a budget ceiling that is 12% higher (for the Central Administration and RAEOA) than the ceiling approved for Budget 2024.

1.29. Household consumption is forecasted grow significantly following a 30% increase in transfers spending which includes significant increases to key welfare programs. An increased transfer to the social security fund means that social security transfers to families are predicted to increase by US$44 million. This is a result of increased social security payments and a commitment to ensure that pension payments align with minimum wage. In addition, Budget 2025 sees an additional US$97 million transfer to the FCLN, a consequence of an expansion in the list of Veterans. Bolsa da Mãe is also forecasted to increase by close to US$1 million.

1.30. These transfers represent a significant increase to the disposable income of beneficiaries, which is likely to drive up household consumption. However, the overall impact on economic growth will be limited by the fact that a large proportion of the excess consumption spending will be spent on imports, therefore representing a significant leakage from the economy.

1.31. Analysis of import and consumption data suggests that a little over 50% of household consumption spending is directly on imports. However, the import share of consumption will be higher for the additional transfer expenditure if the beneficiaries spend the money on luxury items rather than on locally produced goods and domestic agriculture. If the spending on imports is higher than anticipated, GDP growth will be closer to the 3.7% level forecasted for 2024.

1.32. The anticipated implementation of a fibre optic internet cable later this year should also boost economic growth in 2025. In previous years, the internet connection in Timor-Leste has scored among the worst in the world[1]. By resolving this problem, the Government will enable all sectors of the economy to function more efficiently and allow for new industries to develop that were previously not possible.

1.33. Capital expenditure is also anticipated to increase due in 2025 to a proposed US$440m allocation to development capital. Execution in development capital is anticipated to increase further and this should lay the foundations for future growth in the private sector in the medium term. Higher execution will be facilitated by planned changes in procurement procedures. The Government will seek to implement changes in the procurement system that introduce special procedures for development partners and ensure that tenders in key strategic areas (such as healthcare or financial services) are awarded to suppliers that meet stricter standards and qualifying criteria. This will improve both the efficiency and efficacy of capital spending and should manifest itself through an improvement in execution.

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[1] https://www.abc.net.au/news/2024-01-23/timor-leste-internet-fourth-slowest-in-world/103364508

1.34. The main sources of uncertainty in the GDP forecast for 2025 are budget execution and the level of imports in the economy. The GDP forecasted for 2025 is informed by analysis of historic execution rates. If executed expenditure, particularly capital execution, is higher than expected, actual GDP will be higher than forecasted. On the other hand, poor execution would mean that the forecasts are an overestimate.

1.35. While the central GDP forecast for 2025 is 4.1%, all things being equal, this could fall as low as 3.7% if execution of development capital does not exceed the level expected for 2024 (currently projected at US$267 million, see the budget performance section for details).

1.36. Another key uncertainty is the efficacy of expenditure, particularly transfer expenditure. As mentioned earlier, if a higher proportion of transfers to households are spent on imports than indicated by historic trends, the GDP forecast will not be met.

1.37. In addition, 2025 sees a significant increase in transfers to municipalities, projected to increase by over US$40 million. These transfers are intended to support the Government's decentralisation strategy (see further details in chapter 2) and if successful can stimulate local economic growth and development. The impact of these transfers is uncertain. In a pessimistic scenario, the transfers are not effectively disbursed by local authorities and will have little impact on the real economy meaning that GDP growth is lower than currently forecasted. In an optimistic scenario the transfers will stimulate rural development and boost economic growth. This would mean GDP growth could be as high as 4.5%.

1.38. Finally, a lack of consumption data also provides a challenge to forecasting accuracy. This is particularly relevant for this year's forecasts with the anticipated release of an update to the Timor-Leste Living Standards Survey in 2025. If survey results suggest radical changes to consumption patterns since the last survey (2014), this could require significant recalculations of historic GDP data which would also impact forecasts.

1.39. The GDP forecasts for 2026-2029 assume that GDP growth will progressively increase and attain the Government's target level. They are based on the proposed medium term budget allocations provided in the table below and the pre-conditions written in the narrative below. The growth forecasts also assume that high speed internet from the installation of a new fibre optic internet cable continues to boost economic growth.

1.40. These forecasts reflect the Government's efforts to enable economic diversification. These include increased investments in vocational training programs in both Budget 2024 and Budget 2025. Investment to improve the quality of higher education and policies aimed at strengthening the financial sector are expected to contribute to private sector expansion. Access to credit has been a key challenge in Timor-Leste, with a relatively low loans to deposit ratio of 36%[2]. However, efforts are under way to improve access to credit for business investment and to improve financial inclusion. Initial signs are positive and the last year has seen a significant increase in the stock of private credit (see the financial sector trends section of this document).

1.41. The proposed budget allocations in the table below forecast the increase in expenditure that will be required to achieve the Government's target. Reaching the growth target will initially require large increases in expenditure due to the high reliance on the Government sector for economic growth. The allocations propose large increases to development capital and minor capital to maximise the possibilities for economic growth. Adopting these allocations will see the proportion of development capital in the budget increase from the 21% number in the proposal for Budget 2025, to 32% by

[2] IMF estimates, Article IV report for Timor-Leste 2023, https://www.imf.org/en/Publications/CR/Issues/2024/02/27/Democratic-Republic-of-Timor-Leste-2023-Article-IV-Consultation-Press-Release-Staff-Report-545474

Budget 2029. It is assumed that expenditure increases in other categories will be limited to inflation and population growth.

1.42. Government execution is also expected to progressively improve from the forecasted level of 86% in 2025 to 90% by 2027 as a result of public financial management reforms listed in this document. As a result, the budget proposals below appear to show stagnant, or even declining allocations in some categories even though actual expenditure is assumed to increase across all categories each year.

1.43. The spending projections also consider existing policy commitments such as the Government wage bill, signed capital projects and transfers to public utility companies, the social security fund and the FCLN.

Table 4: Budget 2025 (Central Administration and RAEOA) by economic classification and Budget allocation proposals for 2026-2029, US$m

Economic Classification	2025	2026	2027	2028	2029
Salary & Wages	490	490	505	524	544
Goods & Services	414	414	399	405	406
Public Transfers	758	762	791	822	853
Minor Capital	23	27	33	40	48
Capital & Development	440	520	612	720	860
Total	**2,125**	**2,214**	**2,340**	**2,511**	**2,712**

Source: National Directorate of Economic Policy, Ministry of Finance, September 2024

1.44. Increased Government expenditure alone will not be sufficient to meet the Government's target. Despite an anticipated expenditure increase of 9% in 2024, economic growth is forecasted to reach 3.7%. Similar trends have been observed in the past, as due to low levels of domestic production, increases to expenditure have been associated with large increases in imports.

1.45. Going above the current level of growth will therefore require targeted expenditure in high quality investments as well as government policies that help boost private sector growth and increase domestic production.

1.46. The following pre-conditions are therefore required to meet the Government's growth target:

1.47. **Increasing Agricultural Growth** – The Agriculture, Forestry and Fishing sector grew by 5.5% in 2022 and a further 5.8% in 2023 (in nominal terms). To create greater opportunities for exports and reduce the reliance on food imports, government policies and expenditure should aim to further increase this growth rate to 10% in the years ahead.

1.48. **Ensuring that expenditure is allocated to programs that support economic growth.** Analysis of historic government expenditure suggests a significant portion of government transfer spending in recent years has not contributed to GDP growth as the expenditure has only been partially disbursed by the receiving entity. An example of this is the *Crédito Suave* program, a program of soft loans that was intended to be delivered through a US$50 million transfer to the state commercial bank in 2022. Whilst the cash was transferred, performance reports suggested that very few loans were actually disbursed meaning the majority of the expenditure did not contribute to growth or economic development. Maximising the chances of reaching growth targets will require efforts to reduce transfers in areas that do not directly contribute to GDP in future budgets. A potential strategy to achieve this would be greater scrutiny of the allocations and expenditures of entities that receive large transfers year on year. To facilitate this scrutiny, an analysis of the main drivers of transfer expenditure from 2019 to 2024 is available in the Budget Performance section of this document. The annex also contains financial information on public entities that receive large transfers year on year.

1.49. **Further Reforms to Public Financial Management.** The government is in the process of adopting significant reforms to Public Financial Management. These include reforms to the budget law to strengthen the budget cycle, an amendment to the decree law on procurement and improvements to data analytics and expenditure management. These reforms are explained in more detail in Chapter 2. They are expected to contribute to improvements in the efficiency and efficacy of government expenditure in future years.

1.50. **Investment in tourism related infrastructure**. Investment in measures to boost growth in the tourism sector can improve exports and boost foreign direct investment. This includes investments aimed at improving physical connectivity to and within Timor-Leste in order to facilitate domestic and international tourism.

1.51. **Accession to ASEAN.** Accession to the ASEAN trading block can provide new markets for Timorese exporters.

1.52. **Growth in the Private Sector.** By introducing policies that facilitate private sector growth, the Government can reduce the reliance on government spending to drive GDP growth as well as reduce the import to demand ratio in the economy, thereby ensuring that a higher proportion of government spending contributes to GDP growth.

1.53. **Export growth.** Non-oil exports of goods have consistently declined and almost halved since 2021. In order to achieve a higher rate of growth, the Government will need to reverse this trend and see a progressive increase in non-oil goods exports in the medium term.

1.54. The forecasts for GDP growth from 2026-2029 are based on the assumption that the aforementioned pre-conditions will be met. In the absence of this, the Government's growth target may not be achievable.

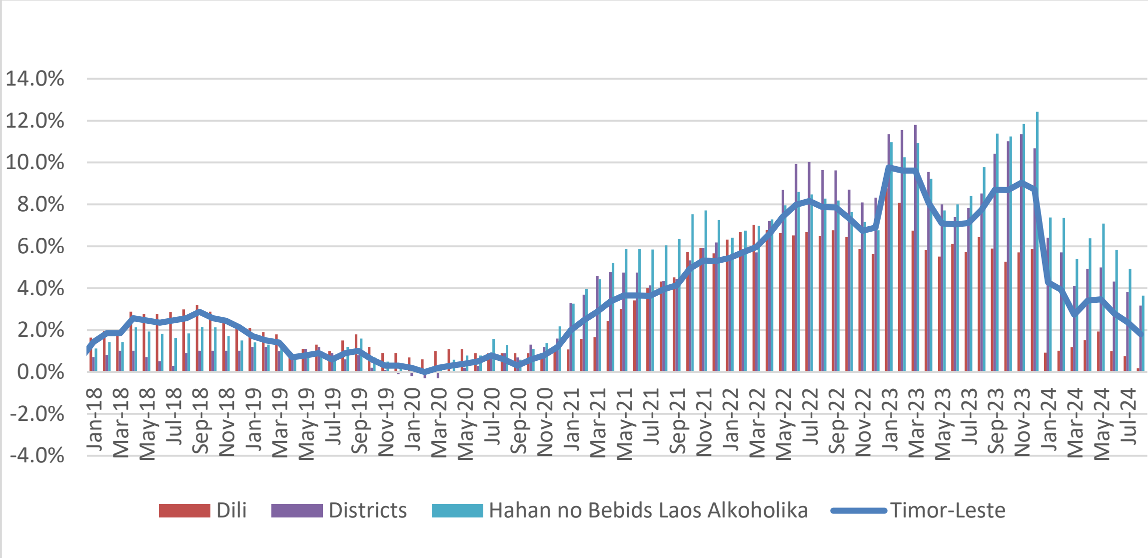
Inflation and Exchange Rates

1.55. Inflation has fallen significantly in 2024. Overall CPI inflation has averaged 3.1% in 2024, a reduction of over 5 percentage points from average inflation rate in 2023. Average inflation is forecasted to be 3% in 2024. In August 2024 year on year inflation was at 1.8%. This means that a basket of goods and services that cost US$100 in August 2023 cost US$101.8 in August 2024.

1.56. The significant fall in inflation this year, can be attributed to the Government's to reduce import duties from 5% to 2.5% and eliminate the tax on sugar and confectionary products (previously $1 per kilo of sugar).

1.57. Further reasons for declining inflation include a reduction in shipping costs and a fall in the global food prices. Due to the significant weight of food and non-alcoholic beverages in the CPI basket and the high proportion of food imported into Timor-Leste every year, international food prices remain one of the key drivers of the overall CPI rate. Therefore, changes in international food prices can have a significant impact on both the rate of inflation and living standards.

Figure 2: Recent Change in Year on Year* Consumer Price Index Timor-Leste January 2018-August 2024, %



*Source: CPI data, National Statistics Institute (INETL) https://inetl-ip.gov.tl/, September 2024 * Each month shows the increase in CPI since the previous 12 months, September 2024*

1.58. As shown by the table below, inflation is projected to fall further in the coming years. This is mainly due to an expected decline in shipping costs as well as commodity prices.

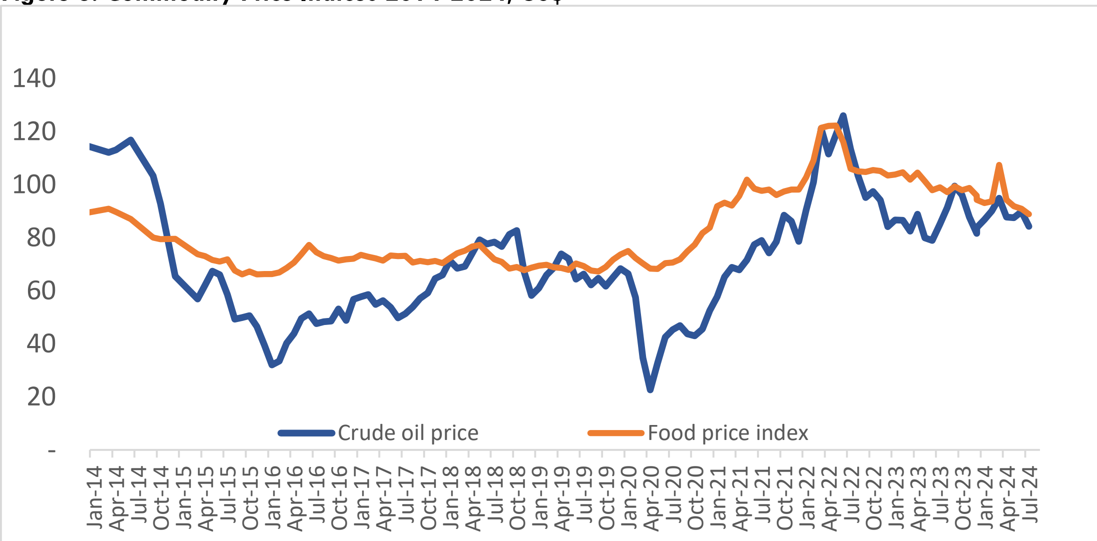
Table 5: Annual Inflation (average year on year) 2023 and forecast 2023-2029, %

Category	2023	2024	2025	2026	2027	2028	2029
Inflation Forecast (Average Consumer Prices)	8.4%	3.0%	2.2%	2.0%	2.0%	2.0%	2.0%

Source: Inflation for 2023 from the National Statistics Institute (INETL) https://inetl-ip.gov.tl/, Ministry of Finance. Inflation Forecasts for 2024 from the National Directorate of Economic Policy, Ministry of Finance. Forecasts 2026-2029 from the International Monetary Fund, September 2024

1.59. Crude Oil and Food prices are key drivers of inflation in Timor-Leste. Global oil and food prices are starting to decline since mid-2022 following a period of increases due to the COVID-19 pandemic, global conflicts and climate events such as the El-Nino effect in 2024. However, these elements are subject to a high degree of volatility and future trends are dependent on factors that lie outside the Government's control. As such, a high degree of uncertainty is associated with the forecasts in the above table. The fiscal risk and contingent liabilities section of this document describes how the Government might mitigate for these risks.

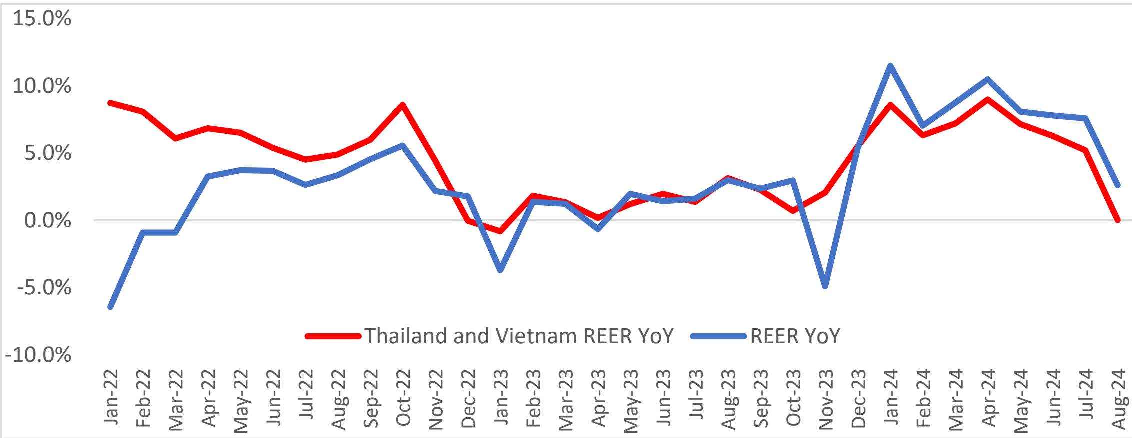
Figure 3: Commodity Price Indices 2014-2024, US$



Source: World Bank Commodity Markets Outlook, August 2024

1.60. The effective exchange rate is the exchange rate of a country's currency, measured as the weighted sum of the exchange rates with its commercial partners. The real effective exchange rate (REER) is adjusted for the effects of inflation and is a better measure of competitiveness. Timor-Leste is a dollarized economy, so the real effective exchange rate is based on the US dollar, while applying the rate of inflation in Timor-Leste.

Figure 4: Real Exchange Rates January 2022 – September 2023

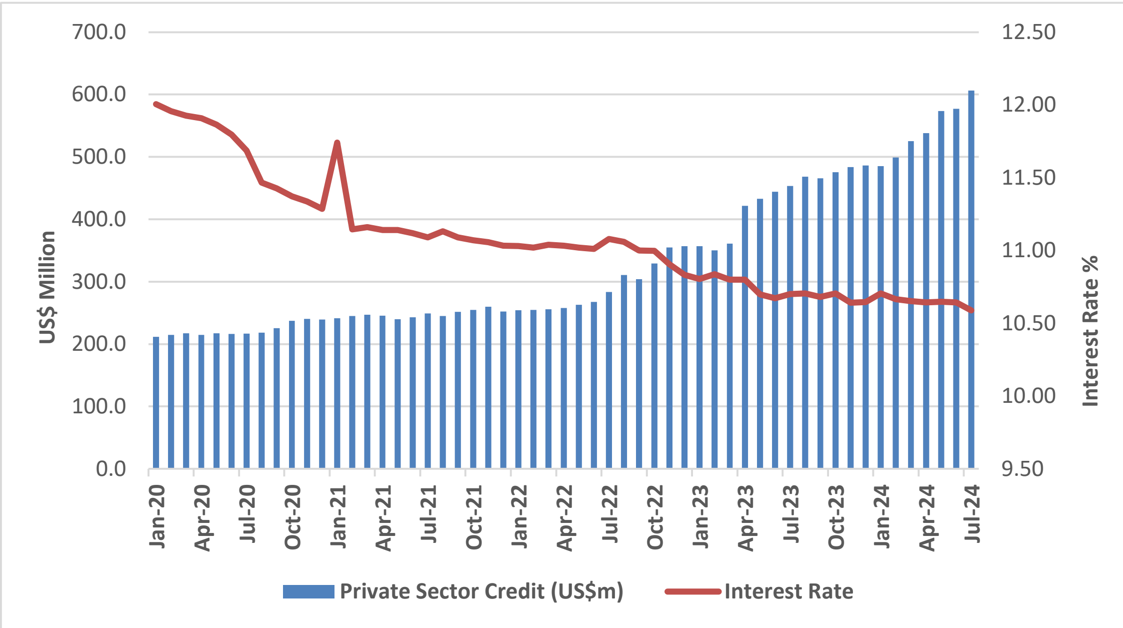


Source: Forex Exchange rates and Directorate of National Economic Policy Calculations

Financial Sector Trends

1.61. The interest rate on loans to private businesses was 10.59% in July 2024, which is a fall of 1.1% from the previous year. The fall in interest rates has been accompanied by an increase in domestic credit which indicates that the private sector is showing signs of growth.

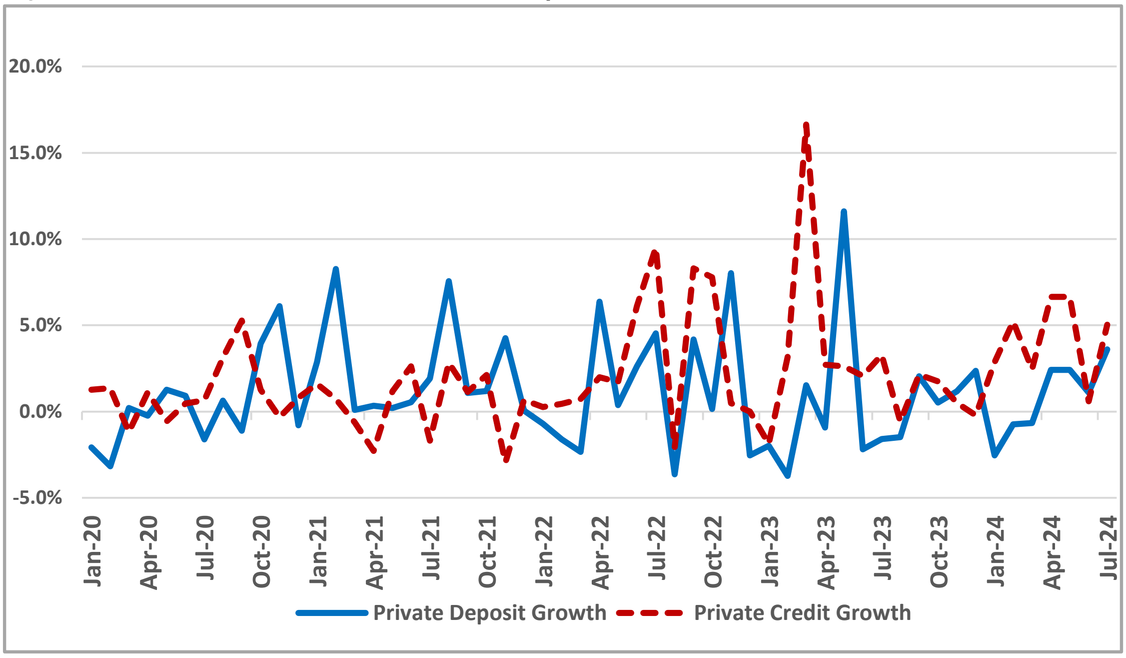
Figure 5: Commercial Interest Rates % (RHS) and Credit to Private Sector US$ Million (LHS)



Source: Central Bank of Timor Leste, BCTL, July 2024

1.62. The chart below shows the monthly growth of deposits and credit from the private sector. The trend over the last four years suggests a high degree of volatility but also shows that credit and deposit growth roughly go in the same direction.

Figure 6: Commercial Bank Private Credit and Deposit Growth, %



Source: Central Bank of Timor Leste BCTL, July 2024

Employment Overview

1.63. The latest available employment statistics in Timor-Leste are from the 2022 census publication. Census data shows that the labour force participation rate was 35.9% and unemployment rate was 2.9% in 2022. The table below shows the breakdown of the labour force as reported in the census.

Table 6: Main labour force status categories and indicators, by sex

a. Categories (in thousands)

Category	Total	Male	Female
Working-age population 15+	874.0	441.6	432.4
Labour Force	313.7	185	128.7
of whom employed	304.7	180	124.8
of whom unemployed	9.0	5.1	3.9
Outside the labour force	560.3	256.6	303.7

b. Categories (in percentage)

Indicator	Total	Male	Female
Labour Force participation rate	35.9	41.9	29.8
Employment-to-population ratio	34.9	40.8	28.9
Unemployment rate	2.9	2.7	3.0

Source: Census 2022, National Statistics Institute INETL

1.64. As with other ASEAN countries, Timor-Leste's labour market is characterized by high levels of informality. The latest estimation made by the Ministry of Finance, using the 2021 Timor-Leste Labour Force Survey, reveals that from the individuals employed above, 71.1% are in informal employment.

Global Growth and Inflation

1.65. As shown in the table below, global GDP growth in 2024 is expected to be similar to 2023. The stable growth is mainly driven by a decline in inflation and an increase private sector confidence in advanced economies, especially the United States, and emerging economies. Strong and stable GDP growth is expected for emerging and developing economies as well as the ASEAN-5. Growth in the advanced economies group is expected to be stable, although is much lower relative to developing and emerging economies.

Table 7: Global Growth Indicators, 2022-2025, %

Region/Country	Actual		Forecast	
	2022	2023	2024	2025
World	3.5	3.3	3.2	3.3
Advanced Economies	2.6	1.7	1.7	1.8
Emerging and Developing Economies	4.1	4.4	4.3	4.3
Emerging and Developing Asia	4.4	5.7	5.4	5.1
ASEAN-5*	5.5	4.1	4.5	4.6

Source: IMF World Economic Outlook, July 2024, data downloaded September 2024
**Composed of Indonesia, Malaysia, Philippines, Thailand and Singapore*

1.66. Global inflation is expected to have slowed in 2023 and a further slowdown is projected in 2024. Global inflation is forecast to be 4.5% by the IMF in 2025.

1.67. High inflation in 2022 reflected the impact of higher demand and lower supply due to the war in Ukraine and sanctions on Russia, in addition to higher oil prices.

1.68. The reduction in inflation in 2023 and 2024 comes as central banks around the world have raised interest rates.

1.69. Whilst inflation is forecasted to remain high in emerging and developing countries, it is projected to reach close to target levels in emerging and developing Asian countries and in the largest ASEAN economies.

Table 8: Global and Regional Inflation Rates, %

Region/Country	Actual		Forecast	
	2022	2023	2024	2025
World	8.7	6.8	5.9	4.5
Advanced Economies	7.3	4.6	2.6	2.0
Emerging and Developing Economies	9.8	8.3	8.3	6.2
Emerging and Developing Asia	3.9	2.4	2.4	2.8
ASEAN-5*	4.8	3.5	2.5	2.4

Source: IMF World Economic Outlook, April 2024.
**Composed of Indonesia, Malaysia, Philippines, Thailand and Singapore*

Fiscal Sustainability Analysis

1.70. In 2023 Timor-Leste had a fiscal deficit of 42% to non-oil GDP. This fiscal deficit is the difference between the Governments' executed expenditure and combined revenue sources of domestic revenues and Estimated Sustainable Income (ESI) from the Petroleum Fund.

1.71. The fiscal deficit is projected to remain high at 46% of non-oil GDP in 2024 and 52% in 2025.

1.72. Fiscal Deficits in Timor-Leste are financed by cash balances, loans, direct budgetary support from donors and excess withdrawals (above ESI) from the Petroleum Fund, with the latter contributing with the largest share.

1.73. In fact, over the past decade the Petroleum Fund has regularly financed over 70% of the budget. This was also the case for Budget 2024, where Petroleum Fund withdrawals financed 75% of the budget for the Central Administration. In Budget 2025, Petroleum Fund withdrawals are projected to finance 73% of the consolidated budget for the Central Administration and RAEOA.

1.74. As such, the key focus of any Fiscal Sustainability Analysis in Timor-Leste is centred on predicting the lifespan of the Petroleum Fund. Under the current expenditure trend the Petroleum Fund is set to fully deplete by 2035.

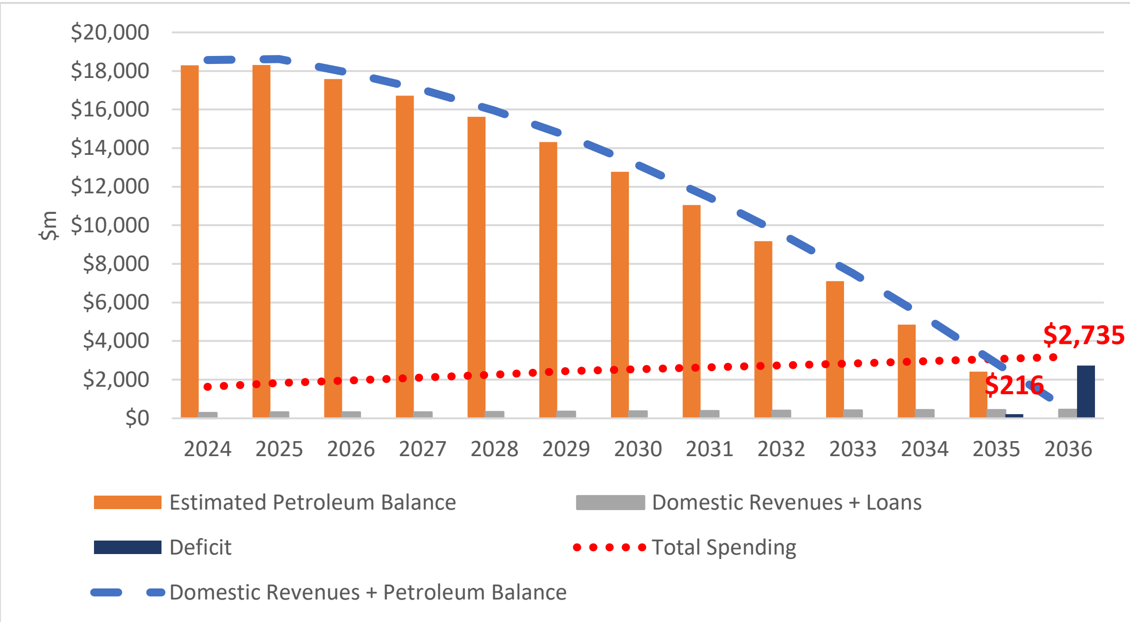
1.75. Despite the increase in expenditure forecasted for this budget, this is one year later than the depletion date forecasted in Budget 2024. The reasons for this are a higher than expected rate of return from fund investments, a lower than expected execution rate in 2024 and a significant increase in domestic revenue collections in 2023. It should be noted that future returns are subject to the performance of global financial markets. This is largely beyond the Government's control. Whilst the Government has pursued a relatively low risk investment strategy, the Petroleum Fund has not been immune to losses in previous years (most notably in 2022 where the fund lost US$2 billion as a result of a downturn in global financial markets). Similar events in the future will lead to the Fund depleting earlier than forecasted.

1.76. The current forecast for the Fund's lifespan is shown in the chart below. This estimation is based on the budget ceiling for Budget 2025. The projections also assume that government expenditure between 2026 and 2029 will be in line with the levels required to achieve the Government's growth targets. Government expenditure beyond 2029 is projected to increase in line with inflation and population growth.

1.77. At the same time, the modelling is based on the assumption that no additional petroleum resources will be discovered and extracted before the fund fully depletes and that no further new taxes will be introduced. The Government has advanced negotiations related to the Greater Sunrise oilfield, which will unlock new petroleum resources for Timor-Leste. The Ministry of Finance is also carefully exploring the costs and benefits of introducing reforms to taxation. These factors have the potential to delay the depletion of the Petroleum Fund and secure the country's long term future.

1.78. Further details of the modelling are provided in the methodological annex.

Figure 7: Petroleum Fund Lifespan under current trajectory



Source: Estimates from the Directorate of National Economic Policy DNPE, Ministry of Finance

1.79. If the Petroleum Fund is depleted before new petroleum revenues are discovered and extracted, there are major consequences for government expenditure and for the economy. In this scenario, at the point that the Petroleum Fund depletes, the Government will not have sufficient revenues to carry out its most basic functions such as paying salaries to public sector workers, providing social security payments to the elderly, continuing payments to veterans and paying back loans.

1.80. Under the 2025 Budget proposal, the Petroleum Fund will be set to deplete in 2035. In 2025 spending from the Central Administration on loan repayments, salaries, transfers related to veterans and the elderly is forecasted to reach around US$825 million. Under the current trend, this figure could exceed $1bn by 2035. At that stage, domestic revenues are expected to be around US$410 million with a potential US$635 million deficit in fulfilling the Government's obligations to public sector employees, elderly, veterans and international organizations.

1.81. This does not include additional legal and political spending commitments such as spending and investments on health, education, social protection and key investment areas such as agriculture, tourism and infrastructure.

1.82. Depleting the Petroleum Fund will also require large spending cuts that would result in a large shock to GDP. This would lead to large rises in unemployment and large falls in incomes, the provision of public services and ultimately living standards.

1.83. This eventuality also has implications for the country's ability to continue importing to the same scale and circulate currency internally. The country is able to sustain a dollarized economy since petroleum revenues saved in the Petroleum Fund guarantee a regular supply of US dollars. A large non-oil trade deficit is only possible with a dollarized economy because US dollars from the Petroleum Fund can replace the large outflow of dollars that are spent on imports.

1.84. If a currency alternative is not in place well in advance of the point that the Petroleum Fund depletes, persistent trade deficits could spark a liquidity crisis. Without the use of the Petroleum Fund savings to finance the outflow of US Dollars from expenditure on imports, individuals and businesses could find themselves without the currency needed to finance day to day transactions.

1.85. Extending the lifespan of the Petroleum Fund would allow the country to have more time to build up alternative revenue sources and prepare for implementing a new currency.

1.86. In the absence of new petroleum revenues, the government has three main options for extending the life-span of the Petroleum Fund:

- Reforms to increase domestic revenues
- Measures to reduce government expenditure
- Increasing alternative revenue sources such as loans and grants

1.87. Debt to GDP in Timor-Leste is projected to be around 14% in 2024, which means that there is some, however limited, scope for the Government to increase debt financing. However, together with grants, this is an uncertain source of revenue as the government must rely on loans from international financing institutions or development partners. The potential to issue Treasury Bills or Bonds needs to account for the interest paid on government debt versus the expected return from the Petroleum Fund.

1.88. Further options include measures to reduce government expenditure and increase domestic revenues. Domestic revenues can be increased with new taxes or reforms to existing taxes, as well as measures to increase the tax base by achieving higher levels of economic growth.

Fiscal Risks and Contingent Liabilities Statement

1.89. Fiscal risks are factors that may cause fiscal outcomes to deviate from expectations or forecasts. Fiscal risks can arise from macroeconomic shocks or the realization of contingent liabilities - that is obligations triggered by an unexpected event or whose realization during the financial year is uncertain.

1.90. Contingent liabilities are a type of fiscal risk that involve obligations for governments to pay out but that do not arise unless a particular event occurs in the future to trigger it.

1.91. In the case of Timor-Leste, this can lead to further excess withdrawals, depleting the Petroleum Fund, and are detrimental to fiscal sustainability and macroeconomic stability. Countries with stronger institutions can better control and manage the underlying risks so that they are less exposed to contingent liabilities being triggered.

1.92. The Government is committed to improving the disclosure, analysis and management of Fiscal Risks and Contingent Liabilities.

1.93. Aside from this legal requirement, Timor-Leste has also committed to "Development of a Fiscal Risks Statement and Risk Management Strategy" within the PFM Reform Strategy 2022-2027.

1.94. According to the IMF, international best practices surrounding fiscal risk and contingent liabilities management involves a more complete understanding of potential risks, steps to quantify risks and steps to mitigate or provision for risks.

1.95. Therefore, in order to better manage fiscal risks and contingent liabilities, the Ministry of Finance seeks to take the following steps:

1. *Disclosure: outlining explicit and potential risks and commitment to manage them.*
2. *Collect: data from LMs and SOEs on their stock of risks.*
3. *Analysis: of concentration and correlation of risks.*
4. *Manage, mitigation and monitor: take steps to manage existing stock of risks and prevent from increasing; provision for contingencies; monitor crystallizations or changes in risk.*

1.96. The fiscal risks statements published in the budget report outline a key part of the overall risks management strategy. To this regard the following fiscal risk statement provides an outline of macroeconomic and specific risks. As well an assessment of potential impacts and mitigation measures.

Macroeconomic Risks

1.97. Macroeconomic risks are a category of fiscal risks that arise because of variations in macroeconomic assumptions and forecasts that are used in the Government forecasts. Fiscal risks are likely to arise if GDP is lower than anticipated or if inflation is significantly higher than the forecasts provided in the previous section.

1.98. As explained earlier, inflation in Timor-Leste is largely driven by global factors due to the high proportion of imports in domestic consumption[3]. Key risks to the inflation forecasts in this document are therefore an unanticipated depreciation in the US dollar, as this would increase the cost of imports and therefore increase prices, increases in oil prices and increases in the price of food imports such as rice and other staples. Higher inflation from these factors could lead to higher government spending than currently projected. Increases in the price of imports will lead to a rise in government consumption. Higher oil prices will lead to an increase in the subsidy provided to the state electricity company, EDTL.

1.99. A potential mitigation strategy for inflation related risks would be to boost investment in domestic agriculture and renewable energy. In the last few years EDTL has been among the largest recipients of transfer expenditure as the Government has protected citizens from rising costs of importing fuel by subsidising electricity purchases. To reduce exposure to fluctuations in shipping costs and global oil prices and reduce the fiscal risks that arise from the electricity subsidy, the Government should seek to invest in renewable energy alternatives.

[3] Analysis of trade and consumption data suggests that over 50% of domestic consumption is directly on imports.

1.100. Increasing domestic agriculture production, particularly rice production, would also reduce the reliance on imports to meet domestic demand and therefore shelter the country from fluctuations in global agricultural markets.

1.101. All things being equal, a fall in GDP is likely to be associated with a fall in domestic revenues. GDP is ultimately a measure of economic activity and - in the absence of changes to tax policy, administration or the size of the tax base - a fall in economic activity will mean lower incomes and therefore lower taxes collected. The revenue forecasts, in chapter 4 of this document show that the domestic revenue to GDP ratio is forecasted to reach 14% in 2024 and projected to remain close to this number in the forecast period. If nominal GDP is 10% lower than currently forecasted for 2025, domestic revenues could fall by around US$20 million.

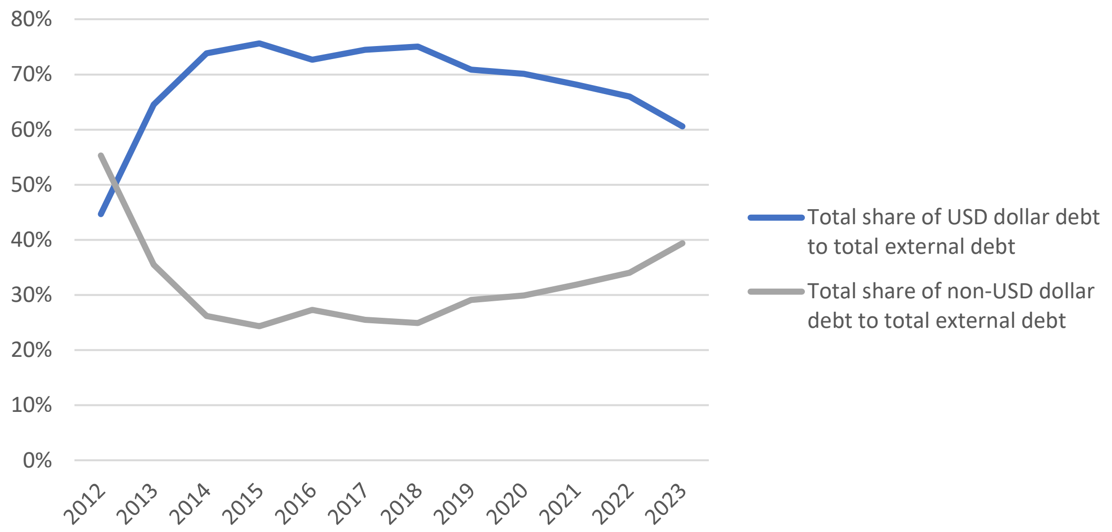
1.102. As explained earlier, the two main risks to the GDP forecasts are imports and government execution. Given the high reliance on government spending to drive economic growth, if execution falls below expectations, GDP growth will also be impacted. Similarly, a large portion of the Budget 2025 has been assigned to transfers to households. If a higher share of these transfers is spent on imports than suggested by historic trends, GDP growth will be lower than predicted.

1.103. However, the overall risks from this will be partially mitigated by the fact that higher imports will also see an increase in import duties collected. They are also mitigated by the fact that reduced spending also supports long term fiscal sustainability. If government execution falls below the current level, this will also reduce the existing fiscal deficit and potentially extend the lifetime of the Petroleum Fund. This was observed in Budget 2024.

1.104. The original Budget 2024 report forecasted GDP to reach 4.0% in 2024 and assumed that government execution would be around 89%. The latest forecasts in this document project that GDP in 2024 will reach 3.7% and that government execution this year will reach 86%, an increase from 2022, but 1% lower than the execution rate for the Rectification Budget in 2023 (further details in the Budget Performance section of Chapter 4). As mentioned earlier, the fall in expected execution is one of the factors that contribute to the fact that the Petroleum Fund is projected to deplete in 2035 instead of 2034 as was predicted last year.

1.105. Macroeconomic risks are also relevant to the current loan portfolio. Foreign exchange rates arise from loans in currencies other than the US dollar. In accordance with the loan policy, the US dollar is intended to remain the predominant currency in the Government's external debt portfolio due to the country's dollarized economy. However, since 2018 the share of US dollar debt has declined to reach 60%. The policy to maintain a significant portion of debt in US dollars is expected to continue, at least in the short to medium term.

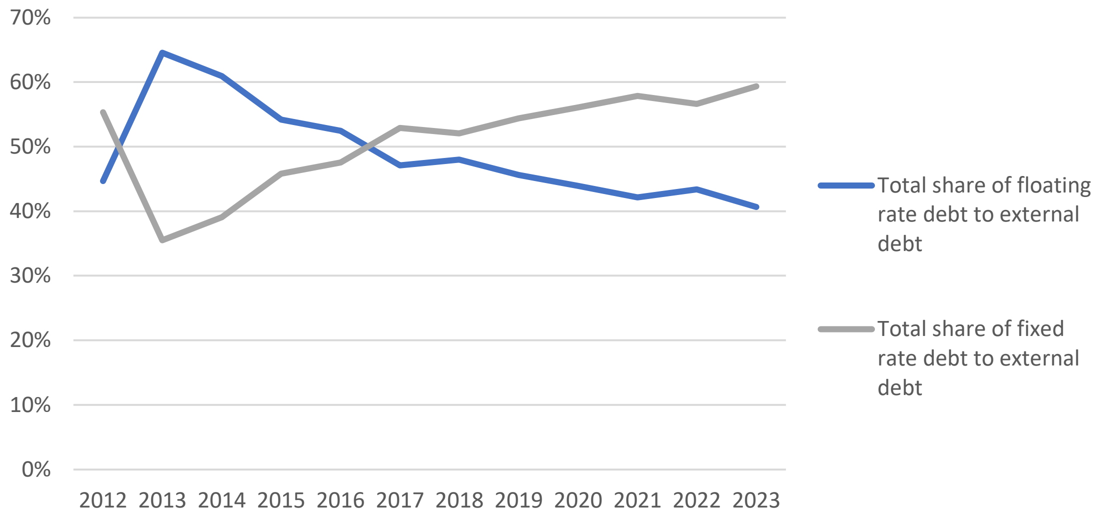
Figure 8: US dollar debt vs non-US dollar Debt, %



Source: DNPME, Ministry of Finance, September 2024

1.106. Interest rates also represent a risk, in the loan portfolio. Starting in 2013, the proportion of fixed-rate debt within the debt portfolio began to increase, eventually comprising the majority share in 2017 and 2018. This shift was due to the Government's ability to manage interest rate risk by prioritizing disbursements from fixed-rate sources. As TL is now classified as a blend country, it is gradually being phased out of concessional financing by its external creditors, leading to an expected rise in borrowing costs.[4] To mitigate the risk of interest rate shocks, it is necessary to expand concessional financing at a fixed interest rate from bilateral loan providers.

Figure 9: Fixed vs Floating Debt, %



Source: DNPME, Ministry of Finance, September 2024.

[4] As a blended country, TL has restricted access to concessional lending at a fixed interest rate.

1.107. In the medium term the Petroleum Fund is the main buffer to the macroeconomic risks. The existing level of the fund provides significant leeway in the coming years. For example, domestic revenues would have to be over 50% lower than the forecasts provided in this document for the Petroleum Fund to deplete one year earlier than currently forecasted.

Explicit Contingent Liabilities recognised by Law or Contract

1.108. Judicial litigation is an important source of contingent liabilities and the cost for the State is dependent on the outcome of the litigation that is still pending.

1.109. Below are the current litigation cases against the Democratic Republic of Timor-Leste, and their maximum potential cost if the case was to be decided in favour of the claimant.

1.110. Eastlog Projects Limited: Litigation case in the Hong Kong Arbitration Court related to the alleged breach of the Suai Supply Base construction contract, with a maximum liability of US$5,305,338.08.

1.111. Timor Corp case: Judicial case in the District Court of Dili with a maximum liability of about US$2,371,815.36.

1.112. Bolloré Logistic Timor case: Judicial case in the Appeals Court with a maximum liability of about US$254,901.70.

1.113. Ensul Engenharia case: Judicial case in the District Court of Dili with a maximum liability of about US$1,444,617.83.

1.114. The Credit guarantee system for Micro, Small and Medium Enterprises (MSME) is an initiative aimed at supporting businesses starting out, whereby a government guarantee covers up to 70% of the value of the business loan to MSME in order to encourage the development of the private sector in the country with the total guarantee of US$4 million. The Central Bank of Timor-Leste works with banks to share the risk and manage risks. The maximum size of the individual loan is $150,000. However, this initiative is already 100% budgeted for, so it poses no additional risk if the loans were to default.

1.115. Fasilidade Garantia Crédito Suave is a loan guarantee scheme to provide low interest loans for companies and individuals. The loans are awarded by financial institutions which contract with the Government (currently only BNCTL) to provide low interest loans that are guaranteed by the Government. The scheme had an initial budget of US$1,379,990, but that was reinforced with an additional US$50,000,000 by the Law No. 6/2022, Primeira alteração ao Orçamento Geral do Estado para 2022. However, this scheme is also 100% budgeted for, so it poses no additional risk if the loans were to default.

Public Private Partnerships (PPPs)

1.116. Public-Private–Partnerships contracts can involve guarantees or indemnities on particular risk variables, where the Government could be asked to compensate the private sector for loss of revenues from these risks.

1.117. Up to this date there is only one PPP in operation Tibar Port, which finished construction last year. The contingent liabilities associated with Tibar Port relate to currency fluctuations, occurrence of Force Majeure or acts of God i.e. events for which no party can be held account, unforeseen political circumstances and settlements related to different termination events.

Implicit Contingent Liabilities

1.118. Aside from the explicit contingent liabilities that are stated above, the Government must also consider implicit contingent liabilities. These are contingent liabilities where there isn't a legal obligation for the Government to intervene. Despite this, government intervention may be necessary to protect the economic welfare of its citizens. Such contingent liabilities in Timor-Leste are likely to occur as a result of environmental, social or economic crises. Any such crisis that leads to loss of livelihoods through damage, displacement or unemployment or other such economic hardships may lead to unexpected costs.

1.119. These costs would arise if the Government intervened through social assistance schemes and fiscal stimulus packages. Below we describe some of these contingent liabilities and explain how the Government can mitigate for them.

1.120. An implicit contingent liability is the support provided to state owned enterprises. Since loans are only issued to the Central Administration, State owned Enterprises in Timor-Leste do not have any debt risks or liabilities. However, several state-owned enterprises receive large transfers from the state annually. Details of transfers are available in the Budget Performance section of this document. The annex also provides available financial information from public entities.

1.121. Natural Disasters are another risk main risks faced by Timor-Leste. The country is situated close to the so called "Pacific Ring of Fire", an area which has some of the most volatile earthquake and volcanic activity in the world. With the onset of climate change, the country is also at increased risk of floods and cyclones.

1.122. Over the past decade, the largest expenditure on environmental disasters occurred in 2021, where the Government was required to spend US$6.2 million, primarily as a result of Cyclone Seroja.

1.123. External economic shocks are another source of implicit Contingent Liabilities. As demonstrated by the COVID-19 crisis, health and economic crises can also be a major source of fiscal risks in Timor-Leste. Whilst pandemics are infrequent events, as a small open economy that is heavily reliant on imports, Timor-Leste is highly exposed to economic events in other countries.

1.124. Since independence the COVID-19 health crisis has certainly been the largest external shock to hit the Timorese Economy. The crisis had the largest impact on government spending in 2021 during which the Government spent US$201 million on measures to protect citizens from the health and economic impacts of COVID-19.

1.125. Political crises have also been a source of fiscal risks in recent years. Delays to budget approvals in 2017, 2018 and 2020 contributed to negative economic growth in those years. Negative economic growth can mean that there is a general fall in incomes among businesses and individuals. In the short term this leads to lower tax revenues. In the long run it slows down progress in economic diversification that is needed to help the country guarantee its long-term fiscal sustainability.

1.126. Some contingent liabilities that pose major fiscal risks in other countries have a lower probability of materializing in Timor. Many developing countries are exposed to risks through volatile exchange rate movements. Since Timor-Leste uses the US Dollar, which is among the most stable currencies in the world, such risks are less likely (although not completely unforeseeable).

1.127. However, it should be noted that Timor-Leste is only able to maintain a regular supply of dollars as a result of the Petroleum Fund. This means that this could materialize as a greater risk over the next decade as explained in the Fiscal Sustainability section of this report.

1.128. Given the infancy of the banking system, and the fact that several of the banks that operate in Timor are State Owned Enterprises in their respective countries and are subject to foreign lenders of last resort, there is also lower risk of a domestic financial crisis occurring in Timor-Leste as compared to other low- or middle-income countries.

1.129. Similarly, the debt to GDP ratio (forecasted to be approximately 14% in 2024) is set to remain relatively low meaning there is a low risk of a debt crisis in the medium term. A contingent liability that is unique to Timor-Leste is the risk to Petroleum Fund Revenues from volatility in financial markets. Factors that would affect the performance of the Petroleum Fund could be considered as contingent liabilities as losses in the Fund's investment portfolio could lead to the Fund depleting sooner than anticipated. As described earlier, this would mean greater exposure to fiscal risks.

1.130. However, the investment horizon of the Fund has shortened given that the petroleum inflows from Bayu-Undan are ending and expenditure and withdrawals are expected to follow the current trend. Investment returns are not expected to fill the gap.

1.131. To adjust for the expected depletion of the Fund, a liquidity portfolio of low-risk investments was created in 2021 to finance the withdrawals over the next three years. This provides some protection against being forced to sell equities and bonds following a loss but is less effective when withdrawals significantly exceed projections. In addition, a prolonged period of poor investment performance would further shorten the Fund's expected life. As well as financial markets, the Fund is exposed to the future of the Greater Sunrise project.

1.132. In 2019, the Government decided on the Petroleum Fund lending US$650 million to Timor Gap E.P. and its subsidiaries to finance the acquisition of participating interests in the Greater Sunrise development project. These loans are independently valued each year for the Fund's audited financial statements. The repayments of the loans are linked to Timor Gap E.P.'s revenues from the petroleum project, meaning that the Fund is exposed to the success of the development project.

1.133. To guarantee that the contingency fund has enough allocation to cover any materializing fiscal risks, the new Budget and PFM Framework Law enshrined a minimum threshold for the contingency fund, which must amount to a minimum of 2% of total expenditure of the Budget and a maximum of 5% of total expenditure.

1.134. For Budget 2025, a total of US$42.6 million has been allocated for the contingency fund. This therefore fulfils the legal requirement as it is a little over 2% of the consolidated budget for RAEOA and the Central Administration.

1.135. Aside from contingency funding, the Government and State-Owned Enterprises are able to draw upon cash balances in case of unexpected losses. As of 31st December 2023, cash balances are as follows:

Table 9: Cash Balances for Public Sector Entities in Timor-Leste, US$m

Entity	Cash Balance 31st December 2023
BNCTL	443.3
INSS	200.0
Central Administration	186.7
TIMOR GAP	106.1
RAEOA	92.2

Entity	Cash Balance 31st December 2023
EDTL	73.7
ANPM	55.9
Bee-TL	40.8
Cash Balance in Commercial Banks	31.7
Murak Rai Timor	1.9
RTTL	0.5
ANATL	0.0*
Total	**1,233**

Source: Available Financial Reports *Amount less than US$100k

1.136. The cash balances stated above is based on the latest publicly available information. Actual cash balances at the time the budget was approved may differ from these estimates.

1.137. Major economic shocks may require the Government to step in with much higher levels of economic support. If such a response requires spending levels that go beyond the contingency fund, the Government can rely on withdrawals from the Petroleum Fund. However, this comes at a cost as consistent unforeseen withdrawals from the Petroleum Fund will mean that the fund depletes sooner. This also demonstrates the importance of ensuring that fiscal policy can maximize the longevity of the Petroleum Fund.

1.138. Furthermore, if the Petroleum Fund depletes before domestic revenues are high enough to support contingency funding, contingent liabilities could pose greater fiscal risks.

1.139. The Ministry of Finance will continue to improve the information provided in the fiscal risks statement as data collection continues to improve.

2. Government Priorities and Reforms

Spending Priorities and Key Measures for 2025

2.1. As Timor-Leste embarks on the 2025 fiscal year, the government remains committed to advancing the nation's socio-economic development through targeted investments in strategic infrastructure, economic strengthening, and initiatives aimed at improving citizen welfare. This year's budget reflects a clear strategy to stimulate sustainable economic growth, enhance public service delivery, and ensure that the benefits of development reach all Timorese citizens.

I. Strategic Infrastructure: A Foundation for Growth

2.2. The Government continues to make strategic infrastructure investments a central pillar of its long-term development agenda. Recognizing the importance of robust infrastructure as a catalyst for economic growth, social cohesion, and national resilience, the government is committed to building a well-connected and modernized network of roads, bridges, airports, telecommunications, and energy systems. These key investments are designed to facilitate regional integration, improve access to essential services, and create an enabling environment for economic diversification and inclusive growth.

2.3. The infrastructure initiatives outlined across various sectors ranging from road and bridge rehabilitation to expanding the national fiber optic network and improving electricity access are critical to unlocking the country's growth potential. These projects, while requiring significant budgetary commitments, will yield long-term benefits by enhancing connectivity, reducing regional disparities, and improving living standards across the nation.

Roads and Bridges

2.4. The 2025 fiscal year continues the Government's strong emphasis on strategic infrastructure development, aimed at enhancing national connectivity, fostering economic growth, improving access to markets and essential services, and ensuring that the benefits of development reach all regions of the country.

2.5. A key focus for the 2025 FY will be the rehabilitation and expansion of national, municipal, urban, and rural roads. These efforts are designed to reduce travel times, improve access to local markets and services, and facilitate the efficient movement of goods across Timor-Leste.

2.6. For the FY 2025, the Roads and Bridges Program receives a substantial budget allocation of **US$227.3 million**, strategically distributed across national and municipal administrative bodies. Of this total, the Infrastructure Fund receives the largest share US$140.6 million to finance the construction, rehabilitation, and expansion of key road networks and bridges, strengthening connectivity and driving economic growth across the country.

2.7. Additionally, from the total allocation for the Roads and Bridges Program, the Ministry of Public Works receives US$73.8 million to oversee and implement road and bridge construction, rehabilitation, and maintenance projects. A further US$9.8 million is earmarked for the Special Fund for the Development of RAEOA (FED-RAEOA), specifically targeting infrastructure improvements in the Oecusse-Ambeno region. Substantial funding is also allocated to municipalities across Timor-Leste to enhance local road networks and bridge development.

2.8. To further protect infrastructure, **US$24 million** from the Infrastructure Fund has been set aside for the Maintenance, Rehabilitation, and Response to Structures Damaged by Calamity Program. This allocation will mitigate the impacts of natural disasters, particularly flooding, and protect vulnerable communities by ensuring swift responses and timely repairs.

2.9. Moreover, **US$14 million** has been earmarked by the Ministry of Public Works for emergency response, ensuring that adequate funds are available for unforeseen events such as natural disasters. An additional **US$10 million** from the Infrastructure Fund will support rapid recovery efforts, reinforcing the government's commitment to maintaining and restoring essential infrastructure when faced with unexpected challenges.

2.10. Detailed information on the current state of national, municipal, urban, and rural roads, as well as the status of bridge construction, is provided below.

Table 10: Status of Road and Bridge Infrastructure Development and 2025 Proposed Budget Allocation

Category	Total Distance (Km)	Total Distance completed (Km)	Total Distance for rehabilitation (Km)	Rehabilitation plan for 2024-2028 (Km)	Rehabilitation plan for 2029-2034 (Km)	Ongoing (Km)
National Roads	1379.19	668.08	711.11	410.64	300.47	65.74
Municipal Roads	908.39	61.49	846.90	349.96	496.94	211.00
Urban Roads	674.73	231.15	443.58	221.52	222.06	79.00
Rural Roads	3335.80	2133.38	1202.42	236.36	966.06	236.36
Bridges	210.00	165.00	45.00	18.00	27.00	18.00

Source: Ministry of Public Works, September 2024

2.11. While notable progress has been made in completing sections of national and rural roads, significant rehabilitation work remains, particularly with municipal and urban roads. The planned rehabilitation phases for 2024-2028 and 2029-2034 emphasize the government's long-term infrastructure development strategy.

2.12. These investments will not only enhance transportation efficiency but also support inclusive economic growth, ensuring that all regions including remote and underserved areas are better connected and more resilient to environmental challenges.

Airports

2.13. In FY 2025, the Government has allocated **US$29.6 million** from the Infrastructure Fund for airport infrastructure development, emphasizing the importance of enhancing national connectivity and supporting economic growth through strategic investments in key transport hubs. A major focus is on upgrading Nicolau Lobato International Airport in Dili, the country's primary gateway. The budget includes projects like the runway extension, apron and taxiway expansions, ground lighting, and the construction of a new control tower, supported by an Asian Development Bank (ADB) loan and US$2.6 million in government co-financing. These upgrades are essential for increasing the airport's capacity to handle larger aircraft and meeting international safety standards.

2.14. The runway extension project has an additional US$3 million allocated for compensation to those affected by the development, ensuring a fair resettlement process. The runway extension itself, with a budget of US$11.9 million, is a key initiative that will boost tourism and trade by accommodating more air traffic. Another US$1.25 million is allocated for project management to ensure the upgrades are implemented efficiently, while US$7.5 million, in partnership with the Japan International Cooperation Agency (JICA), will co-finance a new terminal building, showcasing the value of international cooperation.

2.15. Beyond Dili, the Government is investing US$1.6 million to upgrade Suai Airport in the southern region, improving regional connectivity and access to remote areas. These investments reflect the government's ongoing commitment to modernizing transportation infrastructure, which will support economic diversification and enhance Timor-Leste's access to international markets.

Telecommunications

2.16. The Government is making significant strides in expanding its telecommunications infrastructure to support the country's digital transformation. In FY 2025, a substantial investment will be made to enhance fiber optic networks and ensure improved internet connectivity, especially in underserved rural areas. A total of US$2.5 million from the Infrastructure Fund is allocated towards the Fiber Optic Installation Project, with US$2.37 million directed to extending fiber optic connectivity nationwide.

2.17. In addition to these efforts, US$100,000 has been allocated for Project Management Services to oversee the submarine fiber optic cable project from 2025 to 2041, ensuring smooth implementation and integration with global networks. A further US$10,000 is earmarked for the supervision of the installation process, ensuring adherence to technical standards, while another US$10,000 will be used to protect key infrastructure, such as the landing cable station, from environmental risks. Moreover, the government has approved licences for Starlink satellite internet services, improving connectivity in remote areas where fiber optics may not reach.

2.18. Alongside these investments, US$5 million has been allocated in the general state appropriation for the creation of a fiber optic management authority, ensuring efficient oversight and future-proofing the country's digital infrastructure.

2.19. These strategic investments reflect the government's commitment to improving digital infrastructure, promoting socio-economic development, and positioning Timor-Leste as a digitally connected nation integrated into the global economy.

Energy

2.20. Access to electricity is essential for improving living standards, driving economic growth, and ensuring access to vital services such as healthcare, education, and communication. Recognizing its importance, the government remains committed to expanding the national electricity network, with a particular focus on rural and remote areas.

2.21. Significant progress has been made in expanding electricity access across the 13 municipalities of Timor-Leste. According to data from the Ministry of Public Works, 99.54% of sucos (villages) and 90.60% of aldeias (hamlets) are now connected to the national grid. However, disparities persist, particularly in municipalities such as Viqueque and Ainaro, where a higher proportion of aldeias still lack access to electricity.

2.22. For the FY 2025, the Government has allocated US$12.2 million to continue expanding the electricity network, focusing on areas that remain disconnected from the national grid.

2.23. Additionally, US$8.5 million from the Infrastructure Fund is dedicated to electricity projects in FY 2025. This funding will support the construction of new EDTL offices, substations, and extensive improvements to both rural and urban electricity distribution networks.

2.24. Furthermore, the Government has committed US$166.5 million in subsidies (an increase of US$18 million compared to the FY 2024) to support the operations of EDTL, E.P, ensuring the continuous supply of electricity nationwide, maintaining service stability, and promoting growth in essential sectors that rely on a stable power supply.

II. Strengthening the Economy: Building Resilience and Opportunity

2.25. In FY 2025, the Government is committed to strengthening its economic foundation through strategic investments across critical sectors such as petroleum and minerals, agriculture, commerce and industry, employment, tourism, and human capital development.

2.26. These initiatives aim to build resilience, diversify the economy, and create new opportunities for sustainable growth. The government's focus on infrastructure development, market expansion, and skill-building is expected to drive GDP growth while promoting long-term economic stability.

2.27. The initiatives outlined below, while requiring significant budgetary allocations, are designed to yield positive returns by stimulating economic activity across the country. Investments in infrastructure, employment programs, industrial parks, and agriculture will drive growth, while tourism and human capital development efforts will further diversify the economy and equip Timorese citizens with the skills needed to compete in the global market.

Petroleum and Minerals

2.28. In FY 2025, the Government has committed **US$40.5 million** from the Infrastructure Fund to the Management of Petroleum and Mineral Resources program, reinforcing its goal of building resilience and creating opportunities for sustainable economic growth. Central to this strategy is enhancing infrastructure in the oil, gas, and mineral sectors, which are critical drivers of the nation's economy. US$4 million has been allocated for the development of the Dotic-Natarbora and Betano-Dotic highways, aimed at improving transportation and connectivity to key industrial areas. The largest portion, US$14 million, is dedicated to the Zumalai-Betano highway, strengthening access to the southern region, a major hub for resource extraction and economic activity.

2.29. In line with building resilience, the Government has allocated US$14 million to the Suai Supply Base, a crucial project designed to bolster Timor-Leste's logistics and storage capacity for petroleum products. This investment will ensure that ongoing oil and gas exploration efforts are well-supported, with efficient transport and resource management systems that contribute to long-term economic stability.

2.30. Complementing these initiatives, US$500,000 has been allocated for the construction of a Geoscience Development Laboratory, which will play a vital role in advancing research and fostering sustainable resource management. Additionally, US$4 million will be used to rehabilitate existing highways, maintaining critical transport routes that underpin economic activity. These investments are a testament to the government's focus on enhancing the petroleum and mineral sectors to drive economic growth, create new opportunities, and build a more resilient economic foundation for the future.

Agriculture, Fisheries, Livestock, and Forestry

2.31. In FY 2025, the Government has strategically allocated a total of **US$40.8 million** to invigorate the agriculture, fisheries, livestock, and forestry sectors. This substantial budget, comprising US$16.7 million from the Infrastructure Fund for the construction, maintenance, and supervision of multiple irrigation projects, and US$970,000 from the Special Development Fund for RAEOA (FED-RAEOA), is aimed at strengthening the economic foundation of these vital sectors. The disbursement and implementation of these funds will be carried out by the Ministry of Agriculture, the Institute of Research, Development, Training of Bambu, 13 municipalities, and the Regional Authority of the Special Administrative Region of Oecusse-Ambeno (RAEOA), ensuring a widespread impact across the nation.

2.32. This comprehensive investment plan targets several key initiatives designed to enhance productivity, sustainability, and market access for farmers and producers within these sectors. The allocated funds will support a range of projects from infrastructure development such as irrigation systems and road access to remote farming areas, to advanced research and development programs focused on improving crop yields, livestock health, and sustainable fishing practices. Additionally, part of the funding will aid in forestry conservation efforts, promoting environmental sustainability and the responsible management of natural resources.

Commerce and Industry

2.33. In FY 2025, the Government has allocated **US$4.6 million** from the Infrastructure Fund under the Investment and Economic Diversification program to strengthen the Commerce and Industry sector by focusing on critical infrastructure investments that will bolster the economic foundation. This includes the construction of new markets in Ainaro, Maliana, Loes, and Manatuto, with US$100,000 earmarked for enhancing local trade and commerce. Significant funding is also directed toward the upgrading of municipal markets in Baucau (US$1.62 million) and Ermera (US$1.95 million), modernizing these essential economic hubs to stimulate local business growth, create jobs, and improve economic resilience.

A strategic investment in the National Business Incubation Center in Dili with US$50,000 for construction and US$116,080 for supervision aims to nurture entrepreneurship and support the growth of small and medium-sized enterprises (SMEs), crucial for economic diversification.

2.34. In addition to market development, the government is advancing industrial growth through feasibility studies and detailed engineering designs for a new industrial park in Vatuvou, Liquiça (US$203,963), and commercial centers in Manleuana and Taibesi. These initiatives are designed to attract investment, stimulate economic activity, and generate employment opportunities, further strengthening Timor-Leste's long-term economic resilience and growth.

2.35. Beyond the Infrastructure Fund, an additional US$202,195 from the Special Fund for the Development of RAEOA (FED-RAEOA) will fund the construction of Numbey Market in Costa, Pante Macassar, and Usitaco Market in Laescote, Nitibe, supporting economic growth in RAEOA.

2.36. Furthermore, the Ministry of Commerce and Industry (MCI) will continue to implement key initiatives under this program, focusing on the development of SMEs, social business promotion through MSME credit soft loans, and export value chain promotion to foster entrepreneurship and economic diversification. The MCI also emphasizes the collection of industry data for informed policy-making, commercial certification, and licensing, and the regulation of industrial and informal commercial activities to maintain sustainability and promote domestic and international collaboration in trade.

Employment

2.37. In FY 2025, the Government has allocated **US$23.3 million** under the Investment and Economic Diversification program (excluding US$4.5 million from the Infrastructure Fund, US$14.6 million from the General State Appropriation, and US$202,195 from FED-RAEOA), with a focus on strengthening the labor market and promoting sustainable economic growth. The program prioritizes job creation through entrepreneurship, enhancing employee placement and protection, and implementing a national internship program to provide young professionals with practical experience through professional development centers. Investments in training centers and the construction of new facilities in Lautem, Covalima, and Aileu will ensure that the workforce is equipped to meet the country's growing economic demands. This program will be implemented at both the national and municipality levels, including RAEOA, to maximize its impact.

2.38. The budget also emphasizes the reintegration of overseas workers, supporting their transition back into the domestic labor market, and the promotion and protection of Timorese workers abroad through the services of Attachés and Labor Assistants. The government is also focusing on resolving labor disputes and fostering social dialogue between labor stakeholders. Additionally, funding for research and studies on the labor market will help monitor and evaluate the effectiveness of vocational training and employment programs.

2.39. Further key initiatives include Business Incubation Support and the development of Start-up Businesses, both critical for fostering entrepreneurship and creating new economic opportunities. The government is also committed to ensuring a fair and sustainable labor market through the implementation of fair price policies, market interventions, and market studies aimed at increasing labor market demand. There is a strong emphasis on preventing and resolving labor disputes, as well as addressing pressing issues such as child labor and forced labor through prevention efforts and public awareness campaigns.

2.40. These initiatives are aimed at promoting economic resilience, improving local productivity, and creating employment opportunities, all of which contribute to the long-term prosperity of Timor-Leste.

Tourism

2.41. In FY 2025, the Government has allocated **US$1.98 million** from the Infrastructure Fund to strengthen the tourism sector, positioning it as a key driver of economic diversification. A primary focus is on upgrading tourism infrastructure to attract both local and international visitors. Key projects include the construction of the Marina Square Building in Dili, with US$900,000 allocated, and the Tourism Information Center in Baucau, supported by US$240,000 for construction and US$33,100 for supervision. These pivotal projects aim to establish world-class tourism facilities, enhancing the overall visitor experience and boosting the tourism industry's growth.

2.42. The government's dedication to preserving Timor-Leste's rich cultural heritage and natural beauty is demonstrated through additional investments in key rehabilitation projects. US$100,000 has been allocated for the restoration of Cristo Rei, the Old Castle of Totogua Laga, and the Uiacana Hot Springs in Venilale, ensuring these iconic landmarks remain integral to Timor-Leste's tourism appeal. Furthermore, the government is promoting sustainable tourism by funding the development of Maubara Lagoon and conducting preparatory studies for public-private partnerships (PPP) in Lagoa Seloi (Aileu), Be'e Manas Marobo (Bobonaro), and Walusere/Jaco Beach (Lautem). These projects are designed to create new tourism opportunities while fostering sustainable development practices.

2.43. Beyond the Infrastructure Fund, the government has allocated an additional **US$4.8 million** for the Tourism Program, which will be implemented at both the national and municipal levels, as well as in RAEOA, to further support the development of the tourism sector.

2.44. These strategic investments are expected to generate employment, foster community-based tourism, enhance visitor experiences, and contribute to the diversification of Timor-Leste's economy, reinforcing the sector's role as a vital engine for sustainable growth.

Human Capital Development

2.45. The 2025 FY places a strong emphasis on human capital development as a driving force behind economic growth and the enhancement of public service delivery. The government's commitment to building a skilled and competitive workforce is evident in the allocation of **US$17.2 million** through the Human Capital Development Fund (FDCH). This investment is strategically focused on three core programs: Vocational/Professional Training, Technical Training for the Public Sector, and Scholarship Programs.

2.46. A total of US$1.22 million will be directed towards vocational and professional training programs in 2025, with a particular focus on English Preparatory Training for Australia and Language Courses under the Korea Study Language Program (KSLP). These programs will benefit 3,315 participants (1,530 female and 1,785 male), preparing them for opportunities in emerging industries and foreign labor markets, such as Australia. The funding also supports accredited training centers across Timor-Leste, ensuring participants receive high-quality education that equips them with the skills needed to compete in the global marketplace.

2.47. These vocational and professional training programs are crucial for enabling Timorese youth to access international employment opportunities, thereby increasing remittances and improving the living standards of families. The emphasis on language training (English and Japanese) aligns with the growing demand for multilingual skills in the global economy, enhancing the employability of Timorese workers.

2.48. In parallel, US$2.05 million will be allocated for technical training targeting 986 public servants (403 female and 583 male) across key sectors. This initiative aims to strengthen internal capacities within the public sector, enhancing the management of public resources and improving service delivery to meet the growing needs of Timor-Leste's citizens. By building the skills of public servants, this investment ensures that the public sector can operate more efficiently and effectively.

2.49. The government also continues to prioritize access to higher education through its scholarship programs. In 2025, US$13.9 million will be allocated to support students pursuing degrees in critical fields such as science, technology, engineering, medicine, and law. A total of 4,794 students (2,541 female and 2,253 male) will benefit from these scholarships, which are designed to nurture future leaders and professionals who will contribute to the development of Timor-Leste's key sectors. This program also promotes gender equity, with an almost equal distribution of opportunities between male and female students, reflecting the government's commitment to inclusive education and development.

III. Improving Citizen Welfare: Ensuring Inclusive Growth

2.50. The Government is making substantial investments in improving citizen welfare through a range of inclusive and transformative initiatives. These efforts focus on strengthening social protection systems, healthcare services, education, and public services. Key initiatives across these sectors emphasize community empowerment, support for vulnerable groups, and the development of human capital, contributing to a more equitable and resilient society. These programs not only aim to address immediate social needs but also to foster long-term inclusive growth, ensuring that no one is left behind.

2.51. While these initiatives require significant financial resources, they are investments in the country's future, designed to improve living standards, enhance access to essential services, and promote social cohesion. By funding programs like Bolsa da Mãe, healthcare infrastructure, and expanding education and sanitation services, the government is creating a solid foundation for sustainable and inclusive growth that will positively impact the welfare of all citizens.

Social Protection and Inclusion

2.52. In FY 2025, the government has allocated a significant portion of the national budget around **US$406 million** towards supporting civil society, healthcare, and social services. Through the Office Support Civil Society and various municipal initiatives, the government is focusing on community empowerment, humanitarian assistance, and protection for vulnerable groups, including victims of domestic violence, persons with disabilities, and women. Of this, US$21.7 million is directed toward bolstering civil society organizations (NGOs and community-based groups), ensuring they can effectively contribute to social protection and advocacy.

2.53. A significant portion of the budget is allocated to social protection and welfare through the Ministry of Social Solidarity and Inclusion, which plays a crucial role in delivering vital services. Notably, the *Bolsa da Mãe* program, a conditional support allowance, receives over US$7 million, and an additional US$2.86 million is allocated to a conditional health and nutrition allowance for pregnant women and children, aiming to improve maternal and child health outcomes. Furthermore, the ministry delivers essential services for social reintegration, focusing on supporting victims of violence, children in conflict with the law, and individuals with disabilities, ensuring their inclusion and protection within society.

2.54. Municipal authorities and RAEOA are also instrumental in delivering essential social services. Local initiatives focus on public funeral services, raising awareness about domestic violence, and providing food and non-food assistance to vulnerable populations.

2.55. These combined efforts illustrate the Government’s holistic approach to improving citizen welfare, with targeted, inclusive programs aimed at elevating the living conditions of marginalized groups and fostering social cohesion.

Education and Training

2.56. The education and training sector is a cornerstone of Timor-Leste's national development agenda, with the government allocating **US$145.8 million** for FY 2025. This significant investment is distributed across multiple agencies, including the Ministry of Education, Ministry of Higher Education, Science and Culture, Municipal Authorities, RAEOA, and the Infrastructure Fund, reflecting the government's strong commitment to enhancing educational quality, accessibility, and infrastructure throughout the country.

2.57. A substantial portion of the budget US$94.77 million has been allocated to the Ministry of Education, tasked with improving the quality of education, teacher training, and infrastructure development at all levels of the education system. Key initiatives include the strengthening of the Education Management Information System (EMIS) to optimize data usage in educational planning, the implementation of the National Pre-School Core Curriculum, and extensive training programs for teachers in basic, secondary, and vocational education. The government also emphasizes student well-being through the provision of school meals at both elementary and preschool levels, ensuring that proper nutrition supports student learning.

2.58. The Infrastructure Fund has allocated US$2.71 million to support the construction of new educational facilities, including schools in Baucau, Liquiçá, Lospalos, and Suai, as well as the redevelopment of key technical-vocational institutions. These infrastructure projects are vital to creating a conducive learning environment and improving access to education in remote areas.

2.59. In addition to a focus on pre-school, basic, and secondary education, the Government is making strategic investments in higher education and vocational training. The Ministry of Higher Education, Science, and Culture has received US$4.86 million to support university-level education and scientific research, with specific emphasis on promoting activities in science and technology and establishing polytechnic institutes. Furthermore, the National University of Timor-Leste is allocated US$8.69 million to enhance teaching, research, and learning across disciplines, including agriculture, health sciences, and engineering.

2.60. This comprehensive investment in education and research aims to equip Timor-Leste's workforce with the skills and knowledge needed to drive sustainable economic growth and social progress, ultimately fostering a more educated and skilled population prepared for future challenges.

Healthcare Services

2.61. The Government has placed significant emphasis on strengthening its healthcare sector in FY 2025, with an allocated budget of approximately **US$99.2 million**. A significant portion of this investment, US$59.7 million is directed toward the Ministry of Health, focused on enhancing and expanding healthcare services nationwide. Key priorities include the provision of comprehensive healthcare, with US$26.5 million earmarked for essential services at primary healthcare units. These services cover curative and preventive care, maternal and neonatal health, immunization, and addressing both communicable and non-communicable diseases. Additionally, US$6.2 million is dedicated to nutrition services, specifically tackling malnutrition, while investments in emergency medical services, mental health, and reproductive health programs further enhance the health system's capacity.

2.62. Infrastructure development remains crucial for expanding access to healthcare. The Government has allocated US$7.6 million from the Infrastructure Fund for the construction of new health posts and community health centers (CHCs) in municipalities like Aileu, Baucau, Lautem, Manatuto, and others. One of the flagship projects is the construction of the Pediatric and Intensive Care Unit (ICCU) building at Guido Valadares National Hospital (HNGV), with US$2.8 million allocated. Additionally, US$2 million is allocated for constructing and rehabilitating healthcare facilities across the country's 13 municipalities, ensuring citizens especially in remote areas have improved access to quality healthcare services.

2.63. A critical component of the healthcare strategy is the management of pharmaceuticals and medical supplies, which has received US$14.2 million through the Instituto Nacional de Farmácia e Produtos Médicos (INFPM). This funding supports the acquisition, storage, and distribution of essential medicines and medical supplies, ensuring healthcare facilities are fully equipped. Cold chain management, quality assurance, and logistical support will ensure that medications and medical products remain accessible and effective across all regions.

2.64. To further boost healthcare resilience, the National Service for Ambulance and Medical Emergency has been allocated over US$2 million. This funding is aimed at enhancing the country's emergency response capabilities, including equipping land, sea, and air ambulance services. These investments ensure that Timor-Leste's emergency medical services are well-prepared to respond to accidents, disasters, and urgent medical situations, strengthening public health security and overall resilience.

Water, Sanitation and and Hygiene (WASH)

2.65. In FY 2025, the Government has committed a total of **US$26 million** towards Water, Sanitation, and Hygiene (WASH) initiatives across various municipalities, with a focus on infrastructure development and maintenance. These investments aim to enhance the well-being of citizens, particularly in underserved communities, by improving access to clean water and sanitation infrastructure.

2.66. The largest contributions come from the Infrastructure Fund (US$3.8 million), the Ministry of Public Works (US$10.3 million, including a US$10 million transfer to BTL, E.P), and the Millennium Challenge Accounts de Timor-Leste (US$5 million).

2.67. Significant projects under the Infrastructure Fund include the construction and maintenance of clean water systems in key municipalities such as Baucau, Lautem, and Viqueque, which have historically faced water shortages and sanitation challenges. These initiatives encompass water supply expansion, sanitation infrastructure development, and urban drainage projects aimed at mitigating flooding and enhancing waste management. The BTL, E.P will implement nationwide programs that prioritize the equitable delivery of clean water and sanitation services, ensuring that rural and urban areas alike benefit from these essential services.

2.68. These initiatives are part of a broader effort to promote sustainable water resource management, reduce public health risks, and protect the environment, especially in densely populated urban centers like Dili and its surrounding municipalities.

Rural and Urban Development

2.69. In FY 2025, the Timor-Leste government has allocated a total of **US$10.6 million** to the Rural and Urban Development program, highlighting its commitment to enhancing living conditions, improving infrastructure, and fostering inclusive growth across both rural and urban areas.

2.70. The largest portion of this budget, US$4.28 million, comes from the Infrastructure Fund, which supports a range of key projects aimed at improving municipal spatial planning and solid waste management. Notably, US$2.1 million has been dedicated to the design, build, and remediation of landfill operations, ensuring sustainable waste management in Dili. Additionally, US$691,000 is allocated for resettlement and site clearance programs, which are crucial for the continued development of rural and urban areas, facilitating the growth of housing and public facilities.

2.71. The Ministry of Public Works, with an allocation of US$2.56 million, will spearhead a range of projects that contribute to both the beautification and functionality of urban spaces. These include the construction and rehabilitation of public gardens, green corridors, and vital monuments such as the Monumento Presidente Nicolau Lobatu.

2.72. The Secretary of State for the Cooperative, with a budget of US$2.54 million, will play a key role in fostering economic resilience through the consolidation and establishment of cooperatives across the country. This includes the design, construction, and supervision of communal cooperative center facilities, with US$865,000 allocated to these efforts. Additionally, US$1 million has been earmarked to support integrated cooperative production, which will strengthen the capacity of local producers and contribute to sustainable economic development.

2.73. These investments reflect the government's focus on improving living conditions, enhancing urban and rural infrastructure, and fostering economic growth through cooperative development, ultimately contributing to a more inclusive and resilient Timor-Leste.

Decentralization and Local Development

Investment in Municipalities

2.74. **Commitment to Decentralization:** The Government will continue to focus on and prioritize decentralization policies. After just over a year in office, several actions including the improvement in regulatory framework of decentralisation have already been implemented for supporting the decentralization process.

2.75. The main objectives of decentralization are to strengthen the presence of state institutions across the country, create opportunities for democratic participation, improve the quality and quantity of public goods and services, and foster private sector development to reduce poverty and promote economic growth.

2.76. Timor-Leste's decentralization strategy is being implemented in three phases: administrative decentralization, institutional administrative decentralization, and territorial administrative decentralization.

2.77. Currently, the country is in the second phase (institutional administrative decentralization), focusing on deepening the autonomy of Municipal Authorities, enhancing their capacity in financial, asset, and human resource management, and enabling them to generate revenues.

2.78. The sectoral competencies delegated to the municipalities remain consistent with Decree Law No. 84/2023 of 23 November 2023, Article 6.2. The following competencies have been delegated to municipalities: education; health; food security; public works and transport; water, sanitation, and environment; agriculture; market management and tourism; social action; civil protection; natural disaster management; registry, notary, and cadastral services; support to NGOs and community organisations.

2.79. The establishment of 12 Municipal Authorities in Timor-Leste represents a critical step in the ongoing efforts to create a foundation for future local governance that is responsive and uses a participatory public administration system.

2.80. Recognizing the unique geography of Ataúro Island, the Government decided to establish the Ataúro Administrative Authority. This entity has been created as a legal person under public law that defines its fundamental organization and is based on a model that closely follows some of the normative solutions already implemented in other territorial administrations (Decree Law No. 82/2023 of 23 November 2023).

2.81. To enhance the efficiency and impact of public investments in local development, the Ministry of State Administration has delegated additional powers under the National Village Development Program (Programa Nasional Dezenvolvimentu Suku / PNDS) to all municipalities, including the Ataúro Administrative Authority.

2.82. Recently, the Government has increased the autonomy of municipalities, empowering them to manage public funds, execute basic infrastructure projects, and deliver social services. This deeper level of decentralization aims to promote inclusive growth and enable local governments to respond more effectively to the unique needs of their communities.

2.83. This approach also ensures that decisions regarding service delivery and development are more reflective of local needs, contributing to a more responsive and equitable distribution of resources across all municipalities.

2.84. To further support this vision, US$123.6 million has been allocated for municipal spending in 2025, funding local infrastructure projects and empowering municipalities to better serve their populations. Below is a comparison of the total budget allocations for each municipality over the past three years:

Table 11: Comparison of total budget allocations by municipal authority (2023-2025)

No	Municipal Authority	2023 Rectification Budget ($)	2024 Original Budget ($)	Budget Proposal 2025 ($)	% Change (2023 Rectify vs Budget 2025)	% Change (2024 vs 2025)
1	AM Aileu	4,509,206	4,305,506	7,523,864	67%	75%
2	AM Ainaro	4,894,112	4,354,025	7,879,212	61%	81%
3	AM Ataúro	2,257,645	2,102,571	2,550,389	13%	21%
4	AM Baucau	7,564,824	9,456,741	12,437,747	64%	32%
5	AM Bobonaro	6,733,806	9,270,244	11,308,414	68%	22%

No	Municipal Authority	2023 Rectification Budget ($)	2024 Original Budget ($)	Budget Proposal 2025 ($)	% Change (2023 Rectify vs Budget 2025)	% Change (2024 vs 2025)
6	AM Covalima	5,738,515	7,256,651	8,293,634	45%	14%
7	AM Dili	13,362,483	16,169,783	19,234,005	44%	19%
8	AM Ermera	7,417,275	8,828,787	12,871,246	74%	46%
9	AM Lautém	5,826,107	7,628,912	8,691,721	49%	14%
10	AM Liquiçá	4,942,552	6,401,407	7,570,984	53%	18%
11	AM Manatuto	5,727,621	6,808,247	7,534,700	32%	11%
12	AM Manufahi	5,167,358	6,401,792	7,701,471	49%	20%
13	AM Viqueque	6,925,794	6,701,423	10,026,540	45%	50%
Total		**81,067,298**	**95,686,089**	**123,623,927**	**52%**	**29%**

Source: DBFTL, Ministry of Finance, September 2024

2.85. The total budget has seen a substantial increase over the period from 2023 to 2025. In 2023, the budget was $81,067,298, which increased to $95,686,089 in 2024 and has further increased to $123,623,937 in 2025. This represents a 52% increase from the 2023 Rectification Budget to the 2025 Budget. The 29% increase from the 2024 Original Budget to the 2025 Budget indicates a consistent upward trend in budget allocations for the municipalities.

2.86. Among the municipalities, AM Ermera has the highest growth in budget allocations, with a 74% increase in budget from 2023 to 2025. Followed closely by AM Bobonaro and AM Aileu that saw significant increases of 68% and 67%, respectively. The budget increase underscores the prioritization of budget allocations to these municipalities.

2.87. Conversely, some municipalities exhibited lower growth rates. AM Ataúro has the lowest increase, with only a 13% rise in budget from 2023 to 2025. AM Manatuto and AM Covalima also showed relatively modest increases of 32% and 45%, respectively.

2.88. Examining the year-on-year changes, AM Ainaro stands out with the highest increase in budget from 2024 to 2025 at 81%. On the other hand, AM Manatuto has the lowest year-on-year increase at just 11% from the budget of 2024 and 2025. These variations highlight the dynamic and responsive nature of the budget allocations across different municipalities.

2.89. To boost economic activity and support potential opportunities for future economic growth, the Government created the Ataúro Special Development Fund (*Fundo Especial de Desenvolvimento Atauro/FEDA*) two years ago. By improving infrastructure like transportation, roads, bridges, and communication systems, and investing in education, training, and healthcare, the Government aims to foster economic growth leading to higher tourism, better job opportunities, and an improved quality of life for the people of Ataúro.

Table 12: Comparison of total budget allocations of the FEDA

Entity	2023 Rectification Budget	2024 Original Budget	Budget Proposal 2025	% Change (2023 Rectify vs Budget 2025)	% Change (2024 vs 2025)
Fundo Especial de Desenvolvimento Atauro (FEDA)	3,400,000	2,723,605	2,988,058	-12%	10%

Source: DBFTL, Ministry of Finance, September 2024

2.90. The FEDA has undergone notable changes in its budget allocations over the past few years. In 2023, the rectified budget was set at $3,400,000 and the budget for 2025 has been assigned at $2,988,058. However, for the year 2024, the original budget saw a notable reduction, dropping to $2,723,605. This budget allocation reflects the Government's commitment to ensuring the continuity and completion of approved project activities for the development of Atauro.

2.91. Looking ahead to 2025, the budget proposal indicates a slight recovery, with the allocation increasing to $2,988,058. This proposed budget represents a 10% increase from the 2024 original budget, suggesting a renewed focus on development initiatives for Ataúro.

Strengthening Subnational Governance and Program Alignment

2.92. Following the successful refinement of the program structure at the central level, municipalities and RAEOA have adapted their 2025 annual plans to align with the national programs of key central ministries, including those in agriculture, education, health, and tourism. This alignment fosters greater coherence between central and local governments, ensuring the seamless execution of policies and programs across the nation. The table below contains the 2025 budget allocation in municipalities based on programs.

Table 13: 2025 Budget Allocation in Municipalities based on programs (US$)

No	Programs	Aileu	Ainaro	Atauro	Baucau	Bobonaro	Covalima	Dili	Ermera	Lautem	Liquiçá	Manatuto	Manufahi	Viqueque	Total
1	Program 025: Administrative Decentralization and Local Power	2,332,155	1,595,379	665,000	4,495,324	3,823,962	2,747,929	2,120,317	4,061,102	2,183,709	2,323,914	2,074,552	2,136,768	3,128,366	**33,688,477**
2	Program 026: Roads and Bridges	103,517	395,136	22,485	121,634	118,685	87,061	434,573	128,041	105,743	91,225	18,444	172,943	202,571	**2,002,058**
3	Program 028: Rural and Urban Development	-	-	-	-	-	-	153,473	-	396,731	-	-	-	-	**550,204**
4	Program 366: National Security	77,732	113,438	6,500	64,405	74,260	111,965	103,879	102,824	58,620	73,428	54,645	40,240	88,436	**970,372**
5	Program 392: Access to Justice	47,446	37,694	7,152	49,358	49,125	56,991	-	61,614	50,611	39,605	8,340	34,266	79,190	**521,392**
6	Program 502: Transport	-	-	-	-	9,577	-	40,000	5,943	13,220	-	-	-	-	**68,740**
7	Program 510: Institutional Operation and Development	2,292,093	2,656,538	1,005,274	3,489,466	3,225,343	2,318,105	3,005,443	3,168,023	2,361,580	2,249,553	4,036,782	2,535,673	3,812,911	**36,156,784**
8	Program 520: Pre-school Education	118,335	302,823	43,509	135,656	519,356	315,245	560,794	180,013	262,107	148,429	91,801	414,020	507,344	**3,599,432**
9	Program 521: Basic Education	1,604,041	1,911,730	308,015	2,911,904	2,074,841	1,685,201	6,630,415	3,944,969	2,041,828	1,729,161	1,002,215	1,224,547	1,079,501	**28,148,368**
10	Program 523: Recurrent Education	100	25,392	23,730	1,237	19,271	1,000	63,830	15,200	-	17,680	-	-	-	**167,440**
11	Program 528: Primary Health Care	252,243	107,290	82,190	325,896	302,409	225,464	759,916	445,572	295,314	248,243	36,000	378,052	227,863	**3,686,452**
12	Program 798: Water and Sanitation	142,357	160,583	215,453	143,692	308,690	188,729	4,229,898	229,101	156,080	149,487	39,866	129,866	142,897	**6,236,699**
13	Program 805: Health	-	78,421	-	-	-	-	-	-	-	-	-	-	-	**78,421**
14	Program 980: Social Inclusion	108,914	55,502	64,175	118,417	111,770	133,156	172,685	86,032	89,320	102,741	91,350	81,789	110,316	**1,326,167**
15	Program 982: Tourism	2,000	60,205	106,906	41,453	7,832	44,785	5,000	30,861	50,437	47,471	1,666	107,226	65,355	**571,197**

No	Programs	Aileu	Ainaro	Atauro	Baucau	Bobonaro	Covalima	Dili	Ermera	Lautem	Liquiçá	Manatuto	Manufahi	Viqueque	Total
16	Program 983: Investment and Economic Diversification	62,050	10,000	-	2,650	28,439	11,682	648,459	36,941	-	1,565	19,000	-	4,900	**825,686**
17	Programa A39: Agriculture, Horticulture, Coffee and Industrial and Annual Plants	368,381	347,237	-	528,855	620,874	355,029	301,323	313,817	625,671	341,582	60,039	446,081	553,070	**4,861,959**
18	Programa A40: Livestock, Veterinary and Technology	12,500	18,844	-	7,800	13,980	11,292	4,000	3,100	750	6,900	-	-	19,820	**98,986**
19	Programa A42: Sustainable Management of Forest Resources	-	3,000	-	-	-	-	-	58,093	-	-	-	-	4,000	**65,093**
Total		**7,523,864**	**7,879,212**	**2,550,389**	**12,437,747**	**11,308,414**	**8,293,634**	**19,234,005**	**12,871,246**	**8,691,721**	**7,570,984**	**7,534,700**	**7,701,471**	**10,026,540**	**123,623,927**

Source: DBFTL, Ministry of Finance, September 2024

2.93. On an average, each municipality allocated their budget to approximately 15 programs. This indicates a broad distribution of funds across various initiatives, reflecting the function or service delivery areas delegated to the municipalities and highlighting the diverse local development needs and priorities

2.94. Dili, the bustling capital city, stands out with significant allocations in most programs which can be attributed to its larger population. For example, Dili received the highest budget for its Basic Education Program, with over $6.6 million allocations. The majority of this amount (almost $6 million) was directed towards school feeding programs and school grants. Similarly, the Water and Sanitation program received a substantial investment of over $4.2 million, underscoring the importance of availability of clean water and sanitation facilities. This investment will support activities related to protection of drinking water sources and supply systems, as well as the management and treatment of urban solid waste.

2.95. In contrast, Atauro, a smaller municipality, often receives the lowest allocation for some programs. This disparity suggests different priorities or perhaps requirement for a smaller population. For example, Atauro's allocation for the Administrative Decentralization and Local Power Program, which includes the implementation of Municipal Integrated Development Planning (PDIM) and the National Program of Suco Development (PNDS) at the village level, is $665,000, much lower than Baucau's $4.5 million, reflecting its smaller administrative needs.

2.96. Baucau and Manatuto also emerge as the main beneficiaries in some programs. Baucau, with its strategic importance, received the highest allocation for the Administrative Decentralization and Local Power Program at $4.5 million, which includes the implementation of the Municipal Integrated Development Planning (PDIM) and the National Program of Suco Development (PNDS) at the village level. Manatuto, on the other hand is allocating over $4 million of its budget into the Operations and Institutional Development Program, primarily covering salaries and subsidies for community leaders.

2.97. As of 2025, Timor-Leste is in an advanced stage of decentralization, with municipalities actively managing key programs such as School Grants for Basic Schools and the National Program for Village Development (PNDS). These programs are pivotal in improving education access, child welfare, and local infrastructure, while also supporting economic development at the grassroots level.

2.98. Several key programs have been assigned substantial budget allocations to strengthen local development, notably:

2.99. **School Feeding Program**: A total of US$22.52 million will be allocated to provide nutritious meals to students in pre-school and basic education. This initiative is crucial for improving student attendance and retention rates, particularly in rural areas where food security remains a significant challenge. By addressing child welfare and educational attainment, the program aligns with the Government's broader strategy for improving the well-being of populations. Additionally, it promotes equality by prioritizing support for the most vulnerable children, including boys, girls, and person with disabilities, ensuring that no ones are left behind.

2.100. **School Grants Program**: With an allocation of US$6.14 million, the School Grants Program will support the operational needs of pre-school and basic education schools, including maintenance, supplies, and extracurricular activities. This program ensures that schools have the necessary resources to enhance the quality of education and to better serve the needs of children in their communities.

2.101. **National Program for Village Development (PNDS)**: The PNDS will receive US$14.96 million to improve local infrastructure, including rural roads, bridges, water systems, and sanitation facilities. This program empowers communities to identify and implement projects that directly impact their daily lives, promoting greater local participation in development planning and decision-making. By upgrading basic infrastructure in underserved areas, the PNDS plays a critical role in ensuring that essential services are delivered effectively, contributing to improved socio-economic conditions for people living in rural areas.

Table 14: 2025 Budget allocation for key programs at the municipality level

No	Municipal Authority	School Feeding Program				School Grants		PNDS
		Number of Pre-School students 2025	Total Budget Pre-School (US$)	Number of Basic Education students 2025	Total Budget Basic Education (US$)	Total Budget Pre-School (US$)	Total Budget Basic Education (US$)	Total Budget Infrastructure and operational (US$)
1	AM Aileu	1,349	108,217	13,676	1,097,089	10,118	273,523	918,902
2	AM Ainaro	2,017	160,957	18,802	1,500,400	38,874	401,852	629,224
3	AM Ataúro	496	39,789	2,289	183,624	3,720	45,780	216,807
4	AM Baucau	1,970	121,271	32,627	2,054,791	14,385	652,280	2,432,412
5	AM Bobonaro	2,865	208,955	27,329	1,574,381	17,468	500,460	1,817,330
6	AM Covalima	1,778	110,520	16,026	1,278,029	16,002	384,624	1,045,713
7	AM Dili	6,393	512,846	59,076	4,739,077	47,948	1,181,520	740,955
8	AM Ermera	2,383	154,504	37,265	2,942,480	14,445	745,300	2,221,969
9	AM Lautém	2,988	239,697	17,986	1,442,837	22,410	359,720	1,002,641
10	AM Liquiçá	2,118	132,544	18,835	1,178,694	15,885	376,700	853,616
11	AM Manatuto	1,354	79,615	11,941	702,131	12,186	286,584	1,087,652
12	AM Manufahi	2,206	134,346	14,895	907,288	16,545	297,960	908,552
13	AM Viqueque	2,538	95,936	21,682	819,580	17,132	390,276	1,082,030
Total		**30,455**	**2,099,197**	**292,429**	**20,420,401**	**247,118**	**5,896,579**	**14,957,803**

Source: DBFTL, Ministry of Finance, September 2024

2.102. **Integrated Municipal Development Planning (PDIM)**: The PDIM was established to prioritize investments at the municipal level through the Municipal Investment Plans. It emphasizes the participation of local communities in identifying and implementing development projects that respond to their real needs and priorities. With an allocation of US$13.26 million, municipalities will implement significant investments in infrastructure, such as the construction and rehabilitation of health and education facilities, housing for health personnel and teachers, public buildings (including administrative post buildings), rehabilitation of small irrigation systems, construction of municipal markets, and water and sanitation projects. These improvements are crucial for enhancing connectivity and access to essential services.

2.103. **Strengthening Suco**: Improving the provision of public goods and services to citizens is one of the objectives of decentralization. This improvement must be accompanied by strengthening community organizations (suco) by providing financial resources to 434 sucos, excluding 18 sucos in RAEOA. To achieve this, municipalities have allocated $11.82 million to subsidize 8,246 suco council members or community leaders (excluding 261 in RAEOA) and support suco administration in 434 sucos (excluding 18 sucos in RAEOA).

Table 15: 2025 Budget allocation for PDIM and support to Suco

No	Municipal Authority	PDIM	Support to Suco	
		Construction, rehabilitation and retention (US$)	Subsidies for community leaders (US$)	Total budget: Suco administration
1	AM Aileu	958,240	595,720	258,241
2	AM Ainaro	924,023	645,536	32,100
3	AM Ataúro	485,023	107,600	15,985
4	AM Baucau	1,407,212	1,075,470	89,400
5	AM Bobonaro	1,285,782	1,144,190	95,100
6	AM Covalima	846,874	804,280	60,390
7	AM Dili	859,554	879,440	65,153
8	AM Ermera	1,303,211	1,449,640	113,484
9	AM Lautém	953,093	734,059	72,180
10	AM Liquiçá	976,151	654,300	48,749
11	AM Manatuto	928,900	715,850	58,553
12	AM Manufahi	937,102	809,766	57,756
13	AM Viqueque	1,391,577	1,146,491	86,657
Total		**13,256,742**	**10,762,342**	**1,053,748**

Source: DBFTL, Ministry of Finance, September 2024

2.104. Analyzing per capita budget allocation for municipalities is essential for promoting equitable resource distribution, efficient fund utilization, transparency, and improved service delivery. This analysis is particularly important in the context of the decentralization process, as it empowers municipal authorities to manage resources effectively. The table below presents the 2025 budget allocation per capita for municipalities.

Table 16: 2025 Budget allocation per capita for municipalities

No	Municipalities	Total Budget including Capital Development / CD (US$)	Total Budget excluding Capital Development / CD (US$)	Population Projection 2025	Budget per capita including CD (US$)	Budget per capita excluding CD (US$)
1	AM Aileu	7,523,864	6,565,624	57,404	131.07	114.38
2	AM Ainaro	7,879,212	6,955,189	74,637	105.57	93.19
3	AM Ataúro	2,550,389	939,473	10,714	238.04	87.69
4	AM Baucau	12,437,747	11,030,535	140,902	88.27	78.29
5	AM Bobonaro	11,308,414	10,022,632	112,542	100.48	89.06
6	AM Covalima	8,293,634	7,446,760	77,335	107.24	96.29
7	AM Dili	19,234,005	18,374,451	344,719	55.80	53.30
8	AM Ermera	12,871,246	11,568,035	149,032	86.37	77.62
9	AM Lautém	8,691,721	7,738,628	73,655	118.01	105.07
10	AM Liquiçá	7,570,984	6,594,833	88,749	85.31	74.31
11	AM Manatuto	7,534,700	6,605,800	53,386	141.14	123.74
12	AM Manufahi	7,701,471	6,764,369	63,697	120.91	106.20

No	Municipalities	Total Budget including Capital Development / CD (US$)	Total Budget excluding Capital Development / CD (US$)	Population Projection 2025	Budget per capita including CD (US$)	Budget per capita excluding CD (US$)
13	AM Viqueque	10,026,540	8,634,963	83,730	119.75	103.13
Total		**123,623,927**	**109,241,292**	**1,330,502**	**92.92**	**82.11**

Source: DBFTL, Ministry of Finance

2.105. Ataúro, a smallest municipality, stands out with the highest budget allocation per capita, amounting to $238.04 with capital development projects included. This substantial investment reflects the Government's commitment to enhancing infrastructure and services in less populated areas, ensuring that even the smallest communities receive adequate attention. Without capital development, Ataúro's per capita allocation drops significantly to $87.69, indicating the critical role of these projects in boosting local development.

2.106. In contrast, Dili, the bustling capital city, has the lowest budget allocation per capita at $55.81 with capital development and $53.31without capital development. Despite its large population of 344,719, the per capita allocation is relatively low, suggesting that existing infrastructure and resources are being utilized efficiently. The lower allocation per capita in Dili may also reflect the availability and utilisation of private investment to support its development.

2.107. Manatuto and Aileu also receive high per capita allocations, with $141.12 and $131.07 respectively, when capital development is included. These figures drop to $123.75 and $114.38 without capital development, still indicating a strong focus on these municipalities.

2.108. On the other hand, Baucau and Ermera, despite having significant populations, receive lower per capita allocations. Baucau's allocation stands at $88.27 with capital development and $78.29 without, while Ermera's is $86.39 with and $77.63 without.

2.109. Lautém, Liquiçá, and Viqueque show moderate per capita allocations, reflecting a balanced approach to development. Lautém, for instance, receives $118.00 per capita with capital development and $105.06 without, indicating a steady investment in its infrastructure and services.

Investment in RAEOA

2.110. Based on Law No. 18/2023, the third amendment to Law No. 3/2014, the Special Administrative Region of Oe-Cusse Ambeno (RAEOA) has been granted unique status and budgetary autonomy to drive regional development in Timor-Leste.

2.111. The RAEOA authority serves as a tool for economic management, with the Central Government delegating several functions including education, health, agriculture, land, and property management. This delegation empowers RAEOA to make independent decisions regarding investment, policy, regulations, and executive orders.

2.112. To ensure inclusive development, RAEOA prioritizes socioeconomic activities that enhance the quality of life of its residents. The Special Development Fund of the RAEOA (FED RAEOA) was established to support these efforts, financing projects in areas such as roads, bridges, electricity, and airports.

2.113. In 2025, the RAEOA Authority received a budget allocation of $36 million, while the FED RAEOA received $26.18 million. The following table compares the total budget allocations for the RAEOA Authority and the FED RAEOA over the past three years

Table 17: Comparison of total budget allocations of the RAEOA and FED RAEOA

No	RAEOA	2023 Rectification Budget (US$)	2024 Original Budget (US$)	Budget Proposal 2025 (US$)	% Change (2023 Rectify vs Budget 2025)	% Change (2024 vs 2025)
1	RAEOA Authority	53,262,112	40,000,000	36,001,473	-32%	-10%
2	FED RAEOA	30,500,000	20,000,000	26,179,527	-14%	31%
Total		**83,762,112**	**60,000,000**	**62,181,000**	**-26%**	**4%**

Source: DBFTL, Ministry of Finance, September 2024

2.114. RAEOA Authority: The RAEOA Authority's budget has experienced a significant decline from 2023 to 2025. In 2023, the rectified budget was $53,262,112. However, this figure was reduced to $40,000,000 in the 2024 original budget, marking a substantial decrease. The downward trend continued into 2025, with the budget proposal further dropping to $36,001,473.

2.115. Overall, this represents a 32.4% decrease from the 2023 rectified budget to the 2025 proposal, and a 10% decrease from the 2024 original budget to the 2025 proposal. These reductions may reflect a strategic shift by the IX Government in response to changing priorities.

2.116. FED RAEOA: In contrast, the FED RAEOA's budget trajectory is somewhat different. The 2023 rectified budget was $30,500,000, which was then reduced to $20,000,000 in the 2024 original budget. However, unlike the FED RAEOA's budget proposal for 2025 shows an increase to $26,179,527.

2.117. Overall, this represents a 14.2% decrease from the 2023 rectified budget to the 2025 proposal, but a significant 30.9% increase from the 2024 original budget to the 2025 proposal. The increase in 2025 may indicate an enhanced focus on development projects under the FED RAEOA, potentially aiming to boost economic growth or infrastructure development, such as roads and bridges.

Budgetary Policy Measures

2.118. The State Budget for Fiscal Year 2025 includes a set of carefully designed budgetary policy measures that ensure the sustainability of public finances while addressing the ongoing and immediate needs of Timor-Leste. These measures are structured into permanent and temporary categories to differentiate between long-term commitments and short-term, one-off interventions with budgetary implications.

a) Permanent Budgetary Policy Measures

2.119. To ensure long-term fiscal stability and the continuity of public services, the government has implemented several permanent budgetary policy measures. These measures are crucial for maintaining essential services and supporting vulnerable populations. Importantly, the increased allocations in these areas have substantial budgetary implications for FY 2025, directly impacting the overall state budget ceiling. Key permanent allocations include:

- US$7.07 million is allocated to the Bolsa da Mãe Program, a conditional cash transfer initiative that supports vulnerable mothers, promoting gender equity and poverty alleviation. Additionally, US$2.86 million is dedicated to a conditional health and nutrition allowance for pregnant women and children, enhancing maternal and child health outcomes.

- US$23.7 million has been allocated for the provision of school meals (Merenda Escolar) at the preschool and elementary levels, marking an increase of US$2.5 million from FY 2024's allocation of US$21.2 million. This program is designed to ensure that students nationwide receive nutritious meals, with the dual aim of improving student health and enhancing educational outcomes. The increased funding also reflects a growing investment in social welfare, contributing to the overall rise in budgetary demands for FY 2025.

- US$124.1 million, an increase of US$37.4 million from US$86.7 million in FY 2024, is transferred to the Social Security Budget, reflecting the expanding social security system and its growing fiscal impact on the state budget.
- US$310.8 million, an increase of US$10.8 million from US$300.0 million in FY 2024, is allocated to projects in the Infrastructure Fund, demonstrating the government's ongoing commitment to infrastructure development and the associated budgetary pressures.
- US$190.0 million, an increase of US$98.0 million from US$92.0 million in FY 2024, has been allocated for the provision of payment to veterans (including the second registration in 2009) and their medical treatment, highlighting the fiscal responsibility of supporting veterans.
- US$14.0 million, an increase of US$4.1 million from US$9.9 million in FY 2024, is allocated to FDCH study scholarships, highlighting the government's focus on human capital development while placing additional demands on the education budget.
- US$42.6 million has been set aside for the Contingency Reserve, designed to cover unforeseen natural disasters and economic shocks, addressing the financial risks posed by Timor-Leste's vulnerability to such events.
- US$15 million has been allocated as an annual subsidy to the Episcopal Conference, ensuring continued financial support for key religious institutions.
- US$1.0 million has been allocated for non-Catholic religious institutions, ensuring inclusivity in religious support across diverse communities, while contributing to the overall budget requirements.
- US$1.1 million has been set aside for scholarships for the Children of Combatants and Martyrs of National Liberation, recognizing their parents' contributions to the nation's independence, with a notable fiscal commitment.

2.120. The substantial increases in allocations, particularly for veterans' benefits, social security, education, and infrastructure projects, underscore the state's priority to address both immediate and future needs. These permanent allocations not only aim to strengthen social welfare and improve public service delivery but also have significant budgetary implications, directly influencing the overall state budget ceiling.

b) Temporary Budgetary Policy Measures

2.121. In addition to the permanent measures, the FY 2025 budget introduces several temporary budgetary policy measures aimed at addressing immediate national priorities without creating long-term financial obligations. These one-time allocations focus on institutional strengthening and addressing urgent infrastructure and development needs. Some of these measures have significantly impacted the total state budget ceiling in FY 2025. Key temporary allocations include:

- US$5 million for the capitalization of the *Banco Central de* Timor-Leste (BCTL), a crucial step towards reinforcing the stability and resilience of the country's financial sector, ensuring sustainable economic management.
- US$10 million for the Special Administrative Region of Oecusse-Ambeno (RAEOA), providing critical support for infrastructure and local development in the Region.
- US$4.2 million allocated for the purchase of new vehicles for National Parliament members, reflecting the Government's effort to enhance legislative operations.

- US$35.5 million for the payment of salaries for municipal officials, representing an increase of US$11.5 million from the FY 2024 allocation of US$24.0 million. This increase is due to the implementation of Decree-Law No. 84/2023, highlighting the government's commitment to ensuring fair compensation and capacity building at the local level.

- US$18 million allocated to settle debts owed by EDTL, E.P. from the 2023 period and earlier, reflecting the government's commitment to stabilizing the energy sector.

- US$10 million for settling hospital debts for treatment abroad, ensuring that citizens who have received medical care abroad are financially supported and that outstanding obligations are cleared.

- A notable increase of US$2.1 million for the provision of healthcare treatment abroad, rising from US$6.0 million in FY 2024 to US$8.1 million in FY 2025. This reflects the growing demand for international medical treatment services.

- US$1.5 million for the recruitment of health specialists for HNGV and Referral Hospital 4, maintaining the same budget allocation as in FY 2024, supporting improvements in the country's healthcare system.

- A significant increase in the budget for the purchase of medicines and reagents, rising from US$5.8 million in FY 2024 to US$14.0 million in FY 2025, marking a US$8.1 million increase aimed at strengthening the healthcare supply chain.

- The budget for training professors has doubled from US$0.7 million in FY 2024 to US$1.4 million in FY 2025, signalling the government's emphasis on improving the quality of education.

- The subsidy for CAFÉ School and the Pro-Portuguese program has seen a slight increase of US$0.3 million, rising from US$2.4 million in FY 2024 to US$2.7 million in FY 2025, further supporting education initiatives.

- US$0.80 million for the Timor-Leste Demographic and Health Survey 2025, which is essential for gathering updated data to guide national health policies and ensure equitable resource distribution.

- US$0.30 million for the Timor-Leste Labour Force Survey 2025, a key initiative for monitoring employment trends and informing labor market policies.

- US$0.25 million in financial support for AERO Dili, provided by the central government (DGE), to support the development of the aviation sector, accompanied by an additional US$0.6 million in funding from FED-RAEOA.

- US$5 million for the establishment of a Fiber optic management authority, vital for overseeing the expansion of Timor-Leste's digital infrastructure and improving connectivity across the country.

- US$0.7 million for the issuance of land titles, facilitating secure land ownership and boosting economic stability.

- US$0.5 million for the production of passport prints with IT equipment specific to passports, enhancing national identity security.

- US$0.3 million for the purchase of ambulance vehicles, supporting healthcare services in remote areas and enhancing emergency response capabilities.

2.122. These temporary measures have been carefully designed to address pressing development needs, including healthcare, infrastructure, education, and economic resilience. Several key measures such as the increased funding for municipal salaries, the purchase of medicines and reagents, and the settlement of EDTL debts have significantly impacted the state budget ceiling for FY 2025, reflecting the government's strategic priorities for addressing immediate challenges while safeguarding long-term fiscal sustainability.

Subsidies to Public Enterprises

2.123. The government of Timor-Leste continues its support for key public enterprises through strategic subsidies, ensuring the delivery of essential services while working towards long-term financial sustainability. For Fiscal Year 2025, the following subsidies have been allocated, with several seeing significant increases that impact the total state budget ceiling:

- US$166.5 million has been allocated to EDTL, E.P. to ensure the continuous supply of electricity across the country. This represents an increase of US$18.0 million compared to the US$148.5 million allocated in FY 2024, reflecting the government's ongoing commitment to improving and expanding energy infrastructure.
- US$16 million has been allocated to TIMOR GAP, E.P., the national oil company, supporting its critical role in energy exploration and production, a key sector for Timor-Leste's national development and economic growth.
- US$4.5 million will go to the Murak-Rai Company, E.P., which contributes to economic diversification efforts, reducing the country's dependency on oil revenues by expanding into other economic sectors.
- US$4.5 million is earmarked for the National Authority for Minerals (ANM), responsible for regulating and overseeing mineral resources in Timor-Leste, ensuring proper management and sustainability within the sector.
- US$10 million is allocated to BTL, E.P., to support the expansion of digital infrastructure across the country, crucial for improving Timor-Leste's connectivity and driving the nation's digital transformation agenda.
- US$1.8 million will be allocated to ANATL, E.P., strengthening the operations of the National Civil Aviation Authority. Of this amount, US$0.8 million is specifically earmarked to support the operationalization of the Baucau, Suai, and RAEOA airports, enhancing aviation infrastructure and connectivity across Timor-Leste.
- US$2 million is allocated to RTTL, E.P., supporting public broadcasting services to improve access to information and media services across Timor-Leste.

2.124. These subsidies are pivotal in ensuring that public enterprises can continue to deliver vital services while strengthening their operational capacity. The government will conduct periodic assessments of the financial performance and sustainability of these enterprises.

New Developments in PFM

2.125. PFM reforms are essential to maintaining fiscal discipline and ensuring that Timor-Leste's public resources are used efficiently to maximize their impact. The 2025 budget reflects the government's commitment to enhancing the PFM framework, addressing both systemic inefficiencies and new challenges in managing public finances.

2.126. A 5-year PFM Reform Strategy was adopted in early 2023. It was constructed from more recently identified gaps identified through internal consultations with PFM practitioners in the country and in multiple PFM assessments, including the 2021 Public Expenditure Review (PER) and the 2019 Public Expenditure and Financial Accountability (PEFA) assessment.

2.127. A summary review of the status of reforms was taken up during the second half of 2023 which identified that there are still many aspects of the PFM system that could be improved upon, including recent reforms undertaken in 2022 and before. Consequently, a revised PFM Reform Roadmap was structured from the earlier reform strategy and has been amalgamated within the 5-year Strategic Plan of the MoF.

2.128. The MoF's 5-year Strategic Plan complements the Government of Timor-Leste's determination to strengthen Public Finance Management at all levels of government. It will ensure efficient, effective and responsible use of public resources as the basis for better service delivery in line with the Strategic Development Plan 2011-2030 (SDP), as well as with the IX Constitutional Government's priorities.

a) Key developments in PFM for the fiscal year 2025

2.129. **Improving fiscal risk management.** To safeguard against future shocks and ensure sustainable development, the government is committed to effective fiscal risk management. This includes tightening controls on new permanent budgetary measures, as described earlier, and building up the Contingency Reserve to US$42.6 million, ensuring Timor-Leste is better prepared for natural disasters or economic downturns.

2.130. The government has also made further improvements to fiscal risk reporting that are evidenced by a more detailed fiscal risk statement and publishing financial information for public enterprises in the annex of this document.

2.131. **An Amendment to the Decree Law on Procurement.** Through an amendment to the Procurement Decree-Law, MoF will seek to create a regime with clear and flexible rules that address all procurement needs, avoiding procedural abuses and the proliferation of special regimes, whilst also strengthening national businesses, enhancing the transparency and accountability of the entities responsible for procurement, and shortening procedural deadlines.

2.132. **A revision of the Budget Law.** The government will aim to further strengthen existing legal frameworks and ensure that the budgetary cycle (ie the cycle of planning, setting budget ceilings and budget negotiations) better aligns with international best practices. An example of a proposed revision is the simplification and enhancement of the planning process through the introduction of a budget strategy statement to be presented by the Government to the National Parliament. This document is vital for budget planning as it outlines medium-term budgetary objectives and priorities, resource allocation, risk management, expenditure and revenue analysis, and budget ceilings.

2.133. **Automation and Digitalization of Financial System.** In 2025, the Government will accelerate the digital transformation of financial management through updates to all key modules of the Integrated Financial Management Information System (IFMIS). This will improve real-time tracking of public expenditures, enhance budget control, and reduce inefficiencies while minimizing risks of corruption.

2.134. A pivotal aspect of this digital transformation is the integration of Timor-Leste's Fiscal Intelligence System (TiFIS), a comprehensive Business Analytics platform powered by Power BI. TiFIS consolidates data from various sources, such as the GRP (Accounts, Procurement, Contracts, Payroll), the DBFTL, World Development Indicators (WDI), and the Strategic Development Plan (SDP). This will improve access to data and allow decision makers to have enhanced access to key budgetary and financial metrics.

2.135. Key functionalities of TiFIS include financial performance reporting for central and general government, real-time multidimensional views, automated PEFA indicators, and monthly financial reports across critical dimensions. The system also features in-year and multi-year forecasting, procurement and contract management, and non-financial performance tracking.

2.136. By enabling custom report generation on demand, the Ministry of Finance (MoF) can focus more effectively on policies and performance when allocating resources through the annual budget process. Digital financial tools will also modernize procurement processes, ensuring more transparent and competitive tendering for public contracts. This is particularly relevant for infrastructure projects, where transparency can reduce costs and increase value for money.

2.137. Capacity Building and Decentralization of Financial Management. A key reform in 2025 focuses on building capacity at the subnational level, as part of the broader decentralization agenda. Municipalities are receiving training to take greater responsibility for managing public funds, ensuring that local authorities can handle budgets with the same rigor and accountability as central government agencies.

2.138. Additionally, new fiscal decentralization policies are being introduced to give municipalities more flexibility in allocating budgets to locally prioritized programs. This will empower local leaders to respond swiftly to community needs and improve the overall efficiency of public service delivery at the local level.

2.139. Improved Debt Management Practices. The government has a continued to commitment to only borrow from concessional loans. The Debt to GDP ratio is also forecasted to fall over the medium term. The aforementioned reform to the budget law will also seek to streamline public debt discipline, reduce the number of entities authorized to contract loans, and enforce prior consultation with the Ministry of Finance before incurring public debt. This will improve budgetary discipline and long term debt management.

2.140. Public-Private Partnerships (PPPs). Recognizing the need for greater private sector involvement in large-scale infrastructure projects, the government has introduced new regulations for Public-Private Partnerships (PPPs). These frameworks are designed to attract private investment while maintaining public oversight, particularly in sectors such as energy, transportation, and telecommunications. By leveraging private sector expertise and resources, PPPs are expected to improve project delivery while reducing the financial burden on the government.

b) Enhancing Program Budgeting

2.141. As Timor-Leste continues to evolve in its fiscal management processes, the 2025 General State Budget places a strong emphasis on improving program budgeting and advancing public financial management (PFM) systems.

2.142. These reforms aim to drive efficiency, transparency, and accountability in the allocation, monitoring, and spending of public funds, ensuring that resources are focused on the country's highest priorities and aligned with its sustainable development goals.

2.143. Program budgeting serves as a critical tool for linking public spending to the government's strategic objectives, moving away from traditional line-item budgeting toward a more outcome-driven approach. By focusing on specific outcomes and measurable results, this initiative ensures that financial resources are spent efficiently and effectively.

2.144. The 2025 budget incorporates explicit objectives, precise targets, and comprehensive monitoring and evaluation mechanisms, fostering continuous assessment and improvement of the relationship between planning and budgeting.

2.145. In the 2025 fiscal year, the government has strengthened its approach to program budgeting, ensuring that each ministry's and municipality's expenditures are tied to clearly defined objectives and measurable results. The key initiatives for 2025 include:

1) Outcome-Oriented Planning

2.146. The 2025 budget prioritizes outcome-oriented planning, requiring each ministry to define key performance indicators (KPIs) for major programs to ensure that public spending delivers tangible results for citizens.

2.147. To achieve this, the government has conducted a thorough program structure refinement across key ministries, autonomous agencies, and municipalities, aligning them with national priorities and organizational goals. For example, the Ministry of Health has set specific targets to reduce child mortality rates and improve maternal health services, directly reflecting improved healthcare outcomes.

2.148. As part of this reform, capacity-building sessions were conducted in 2024 for staff from 13 municipalities and key ministries, ensuring that they have a solid understanding of program-based budgeting (PBB) principles. These sessions enhanced staff capabilities to plan, implement, and monitor programs based on clear performance metrics, improving service delivery and accountability.

2) Greater Accountability and Transparency

2.149. The integration of program budgeting has created a system where each ministry's budget is reviewed in alignment with anticipated outcomes, enabling better program performance tracking. This approach helps identify underperforming initiatives early during the Budget Review Committee (BRC) session, allowing for reallocating funds to high-impact programs.

2.150. At the core of this effort are the four budget markers: the gender marker, child marker, nutritional marker, and climate marker. These markers reflect the government's commitment to addressing critical cross-cutting issues such as gender equality, social inclusion, nutrition, and climate change adaptation. By tagging budget allocations to these areas, the government can effectively monitor progress and ensure resources are used to meet national and international commitments.

2.151. To complement this system, the Quarterly Performance Evaluation reports are being refined to improve the monitoring and evaluation (M&E) framework. The Ministry of Finance is enhancing the M&E matrix, ensuring more robust tracking of program performance through these budget markers. This enables ministries and municipalities to assess progress more accurately, supporting informed decision-making and allowing for timely adjustments to maximize impact.

3) Citizen-Focused Programs

2.152. The shift to program budgeting has also introduced a more citizen-centered approach to service delivery, ensuring that resources are directed toward initiatives that improve the well-being of Timorese citizens.

2.153. This approach was evident in the 2025 State Budget consultations, which spanned 13 municipalities and involved citizen participation in defining national priorities. These consultations focused on areas such as health, education, agriculture, and public works (including water and sanitation). They were conducted by the Ministry of Finance in collaboration with the Ministry of State Administration and municipal authorities.

2.154. Through a participatory approach involving Local Consultative Councils, the government ensured that local communities played a direct role in shaping national policies and action plans. This engagement fosters inclusive development by aligning the budget with the real needs and priorities of citizens, ensuring that public investments lead to tangible improvements in quality of life and support sustainable development across the country.

2.155. The 2025 fiscal year represents a pivotal moment in the evolution of Timor-Leste's PFM systems. The government is ensuring that public funds are managed more efficiently, transparently, and effectively through the integration of program budgeting, digital financial management tools, and enhanced decentralization policies. These reforms are designed not only to improve the allocation of resources but also to strengthen fiscal discipline, ensuring that the country remains on a path of sustainable growth while preparing for future challenges.

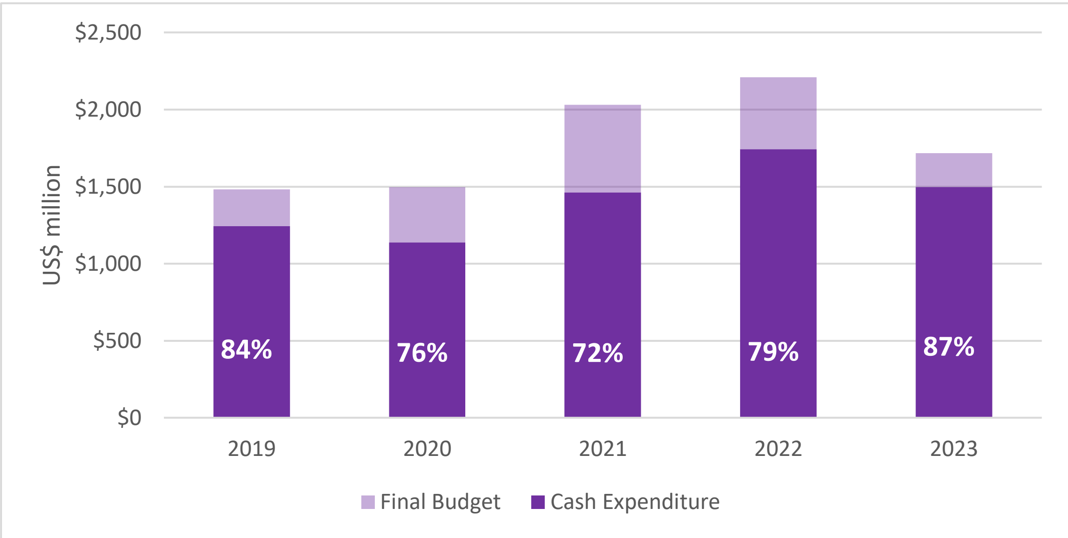
2.156. The improvements in PFM and program budgeting will also foster greater trust and accountability between the government, citizens, and international partners. Timor-Leste is reinforcing its commitment to prudent fiscal management, improving service delivery, and advancing the country's overall development goals by enhancing financial management practices.

3. Budgetary Policy

Budget Performance

3.1. The chart below shows the overall execution of the budget between 2019 and 2023. All figures below show the budget and execution numbers for the Central Administration and RAEOA, which includes the transfer from the state to the social security fund. The final budget figures below show the budgets after any adjustments or rectification. Between 2019 and 2022 the final annual budget increased by 49%, increasing from US$1.5 to US$2.2 billion. Following the Rectification Budget in 2023, the approved budget reduced to US$1.7 billion. Subsequently, 2023 saw a substantial improvement in budget execution from 79% to 87%.

Figure 10: Final Budget and Spending 2019-2023 (Central Administration and RAEOA), US$ Million



Source: GRP, Ministry of Finance, September 2024

3.2. The table below provides headline numbers for budgets from 2019 to 2023 such as original and final allocations, cash expenditure and pending obligations and commitments. Between 2019-2023 pending commitments averaged US$39.7 million, similarly, the average end-of-year pending obligations equalled US$80.2 million.

Table 18: Headline Budget Numbers 2019-2023, US$ Million

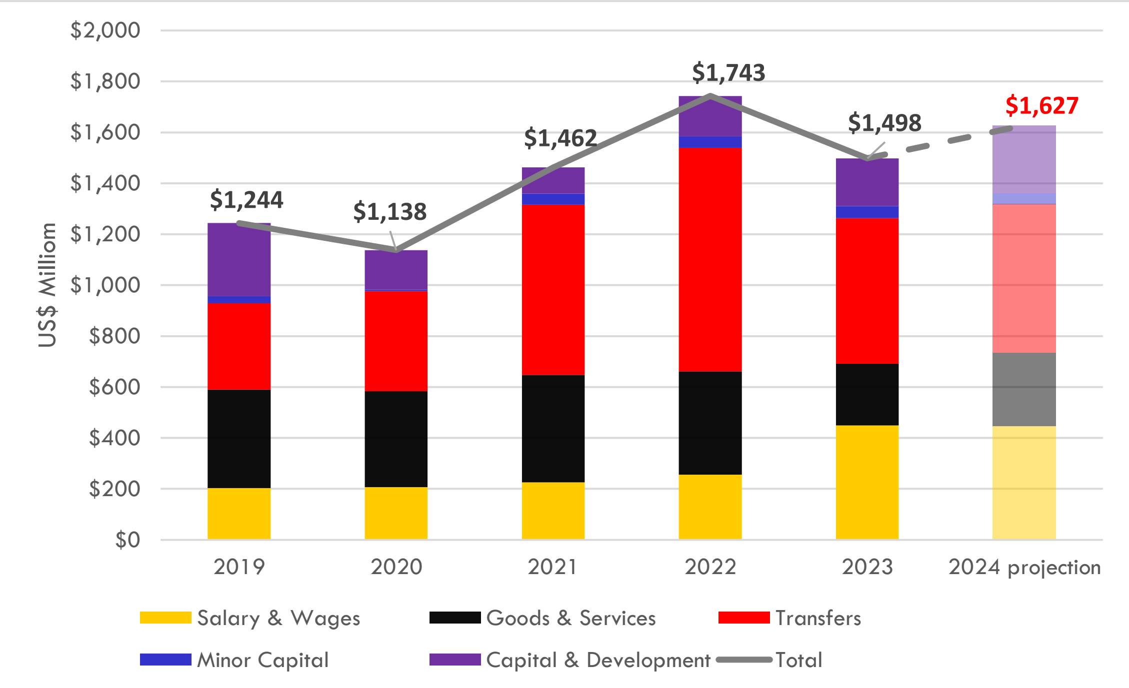
	2019	2020	2021	2022	2023
Original Budget	$1,482	$1,497	$1,895	$1,885	$1,920
Final Budget	$1,482	$1,497	$2,030	$2,211	$1,717
Cash Expenditure	$1,244	$1,138	$1,462	$1,743	$1,498
Pending Commitments	$33	$34	$54	$45	$34

	2019	2020	2021	2022	2023
Pending Obligations	$67	$114	$84	$90	$46
Execution Rate[5] %	84%	76%	72%	79%	87%
Unexecuted Contracts[6] %	2.4%	2.6%	3.4%	2.4%	2.1%
Pending payment rate[7] %	5.1%	9.1%	5.4%	4.9%	3.0%

Source: GRP, Ministry of Finance, September 2024

3.3. Annual government expenditure has increased by 20% in 2023 relative to 2019. This is roughly in line with the average increase in CPI inflation during the same period (21%). Following a decline due to political deadlock and low execution at the onset of the COVID-19 pandemic in 2020, expenditure saw substantial increases of 29% and 19% in 2021 and 2022 respectively. This was primarily driven by increases in transfer spending. The highest government expenditure in the last five-year period was in 2022 at US$1.74 billion. Expenditure declined in 2023 following expenditure rationalisation efforts by the new government. Government expenditure is anticipated to increase by 9% in 2024, which is above inflation and population growth[8] combined.

Figure 11: Overall Government Expenditure 2019-2023, $US Million



Source: GRP, Ministry of Finance, September 2024

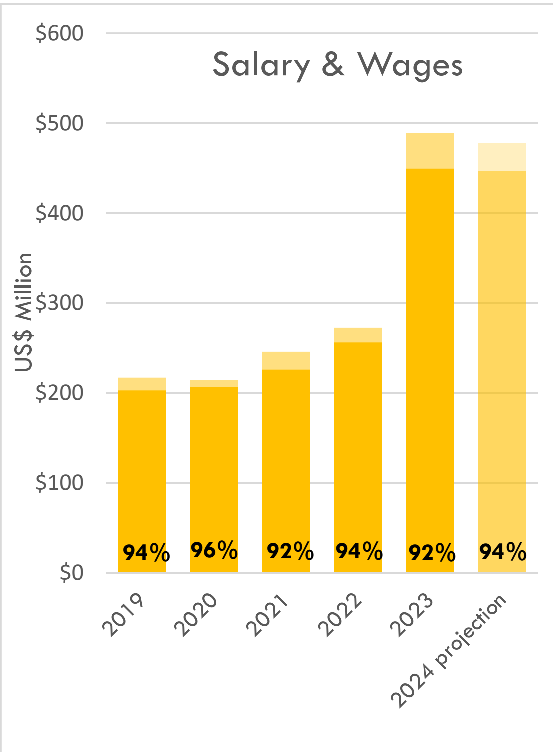
[5] Execution Rate = Cash Expenditure/Final Budget
[6] Unexecuted Contracts = Pending Commitments/ (Cash Expenditure + Pending Commitments + Pending Obligations)
[7] Pending Payment Rate = Pending Obligations/ (Cash Expenditure + Pending Obligations)
[8] The latest census estimates population growth to average 1.8% a year and inflation is forecasted at 3%

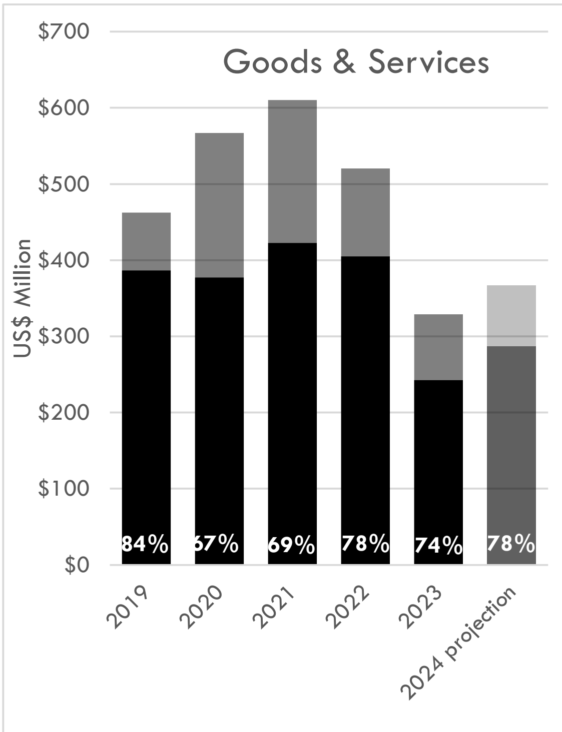
3.4. As seen in the chart above, expenditure over the last five years has been dominated by recurrent spending, namely, expenditure on Salaries and Wages, Goods and Services and Transfers). Recurrent expenditure represented 75% of total expenditure in 2019 and gradually increased to 90% in 2021, where only 10% of total expenditure was on capital. In 2023, the share of capital expenditure increased to 16% (from 12% in 2022) as the 9th constitutional government attempted to prioritise economic development and growth. However, despite an increased share of capital expenditure in budget 2024, the overall share of capital is not expected to increase in final government expenditure due to subdued execution.

3.5. Analysing recurrent expenditure in more detail, the charts below show a relatively stable execution rate for Salaries and Wages. On the other hand, execution rates for Goods and Services have seen significant variation over the past five years. The charts also show a large decline in Goods & Services expenditure in 2023, at the same time that salary and wages expenditures rise from US$272 million to US$489 million.

3.6. This is partially due to new hiring under the new government while Goods and Services expenditure was reduced under fiscal consolidation efforts under the new government. However, the main driver of this is the reclassification of economic categories that resulted in several items from Goods and Services and Transfers being reclassified to the Salary and Wages Category. Prior to 2023, expenditure on National and International Advisors appeared under the Goods and Services Category. From 2023 onward this expenditure moved to the Salary and Wages Category. Several items related to employee travel and allowances were also moved to the Salary and Wages Category from Goods and Services in 2023. Finally, prior to 2023, the State's contribution as an employer to the Social Security Fund was listed under the transfer category. This moved to the Salary and Wages category in 2023.

Figure 12: Budget and Execution Figures for Salary & Wages and Goods & Services, US$ Million

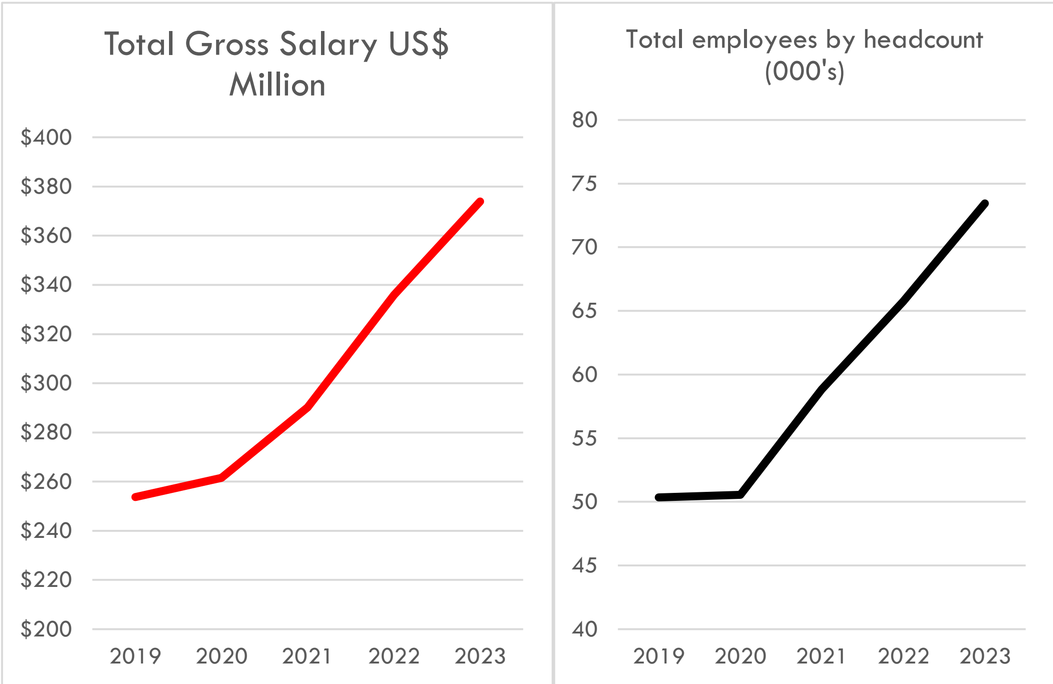




Source: GRP, Ministry of Finance, September 2024

3.7. Due to the fact that there is no clear mapping at item and line-item level from old to new categories, it is not possible to analyse historic data prior to 2022 under the new classification. Therefore, in order to properly analyse the driver's behind salary expenditure it is important to assess payroll data. Payroll data give a count of the total number of employees that work for the Central Administration and RAEOA and their total gross wages excluding variable allowances such as flight tickets and per diems. This excludes employees for extra budgetary entities such as public enterprises. The charts below give the total expenditure on salaries and the total number of government employees according to payroll data from 2019-2023.

Figure 13: Payroll Data on Expenditure and Employee Count



Source: GRP, Ministry of Finance, September 2024

3.8. The first chart show that salary expenditure saw a 47% rise from 2019 to 2023. The largest rise was in 2022, where expenditure rose by 16%. The chart on the right shows that the rise in salary has been driven by hiring, with employee headcount according to the payroll data rising by 46% between 2019 and 2023. The largest period of hiring took place in 2021 where headcount increased by 16%.

3.9. As shown by the chart below, the largest expenditure on government employees in 2023 was on permanent civil servants which represented 29% of total salary expenditure in 2023. Casual and temporary hires represented 20% of the payroll expenditure. 6% of the expenditure was on National Advisors and 5% on International Advisors.

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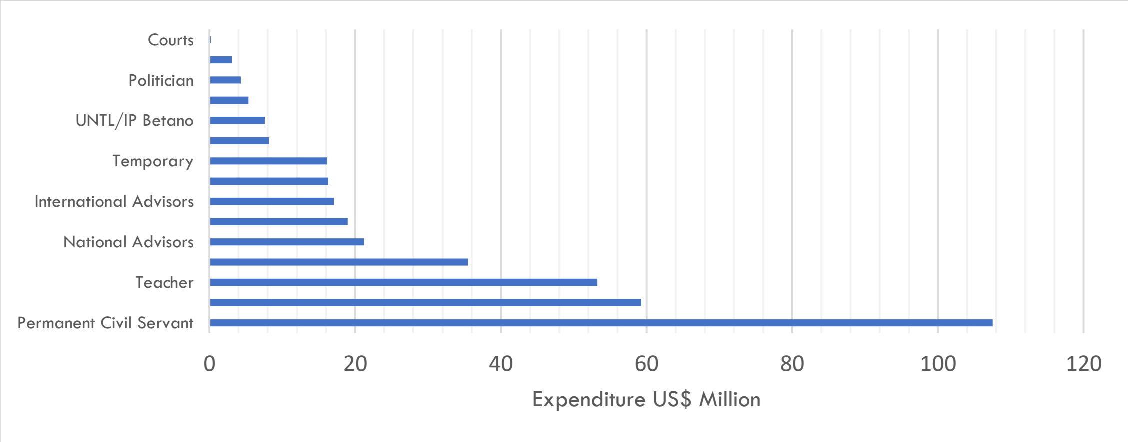
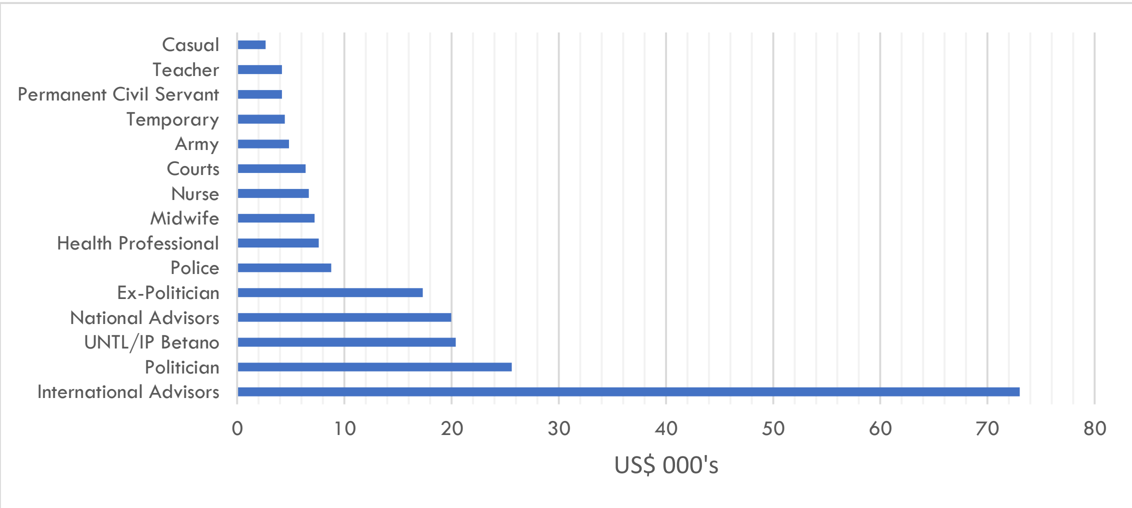
Figure 14: Total Salary Expenditure by type of Government employee, US$m



Source: GRP, Ministry of Finance, September 2024

3.10. Average (mean) annual salaries for most government employees in 2023 were under US$10,000 a year. Permanent Civil Servants, representing the biggest salary expenditure earned around US$4000 a year on average. International Advisors earned an average of US$73,000 a year whilst National Advisors earned an average of US$20,000 a year. Employees in categories earning less than US$10,000 a year on average represented 86% of total salary expenditure. This means, that removing employees on high salaries will not be sufficient to reduce salary expenses.

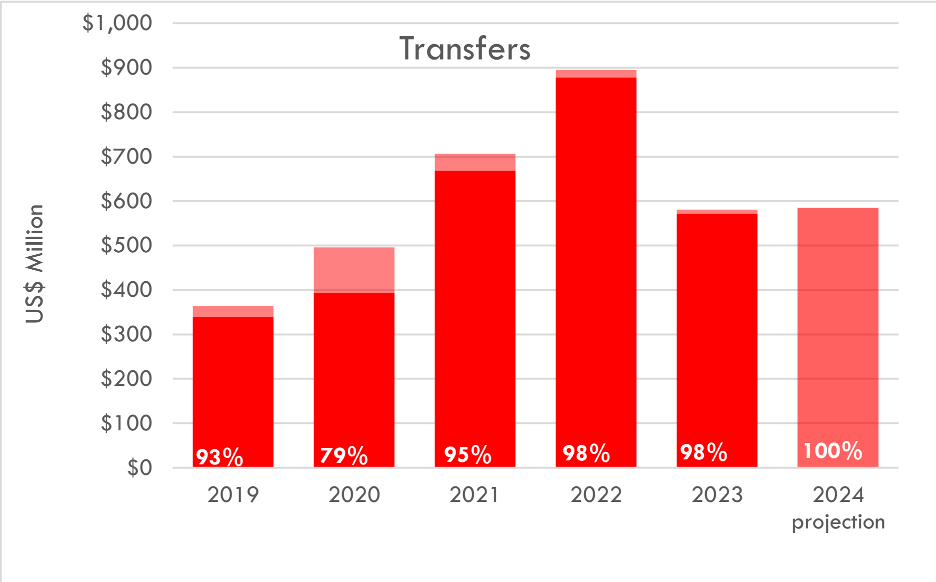
Figure 15: Average Salary by type of Government employee, US$(000's)



Source: GRP, Ministry of Finance, September 2024

3.11. Transfers have generally seen high execution over the past five years, except for 2020 where execution was impacted by the onset of the COVID-19 pandemic. Transfer expenditure rose by 97% from 2019-2021 and a further 31% in 2022. These rises were primarily due to welfare programs during the pandemic and transfers to public entities (as a result of the creation of EDTL and Bee-TL in 2020. The Rectification budget saw a large fall in Transfer expenditure and spending on transfers in 2024 are expected to rise slightly below the inflation rate.

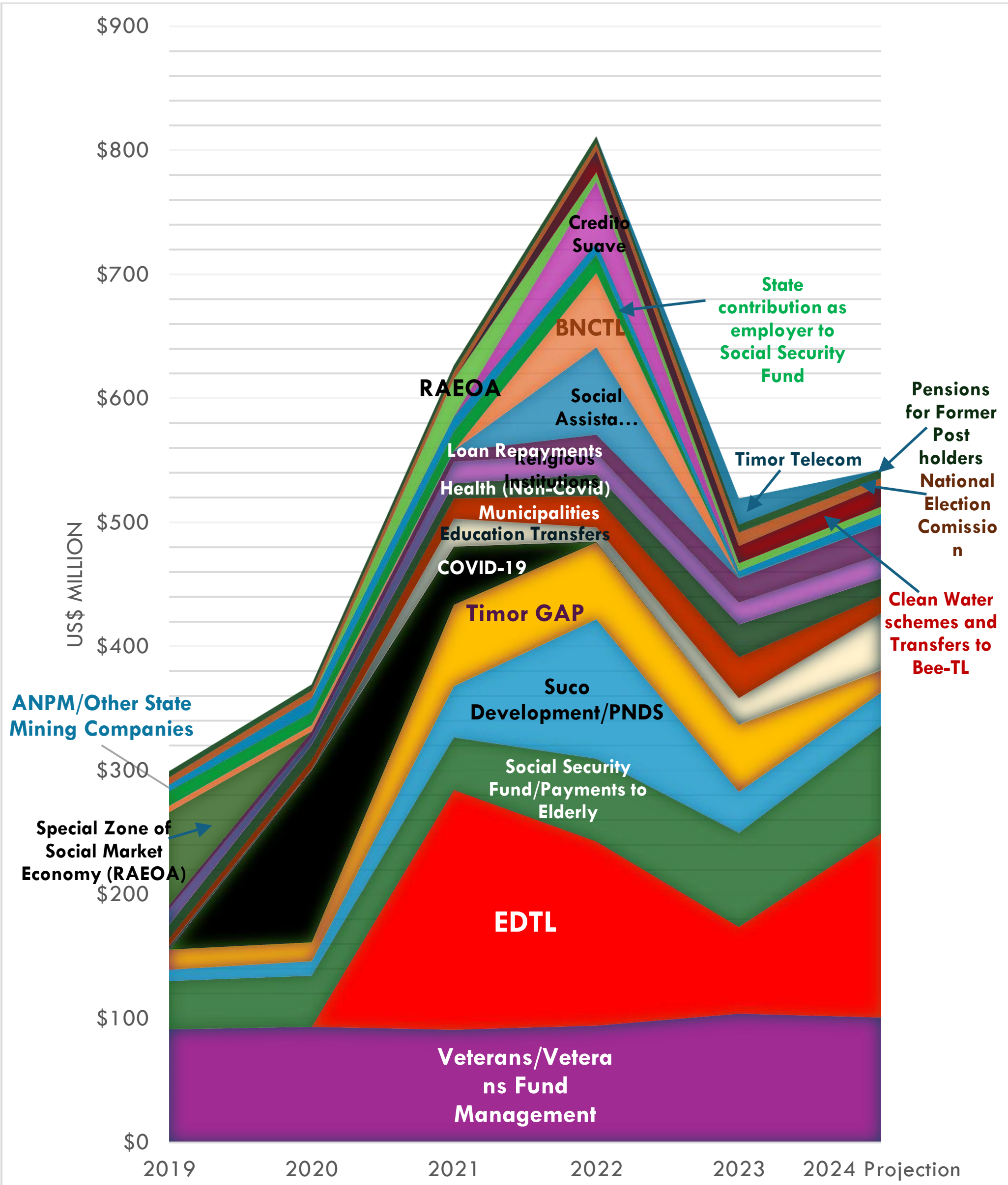
Figure 16: Transfer Budgeted and Execution, US$ Million



Source: GRP, Ministry of Finance, September 2024

3.12. The chart below helps to explain the main drivers of transfer expenditure. The chart shows the top transfers from 2019 to 2024, representing around 90% of transfer expenditure each year.

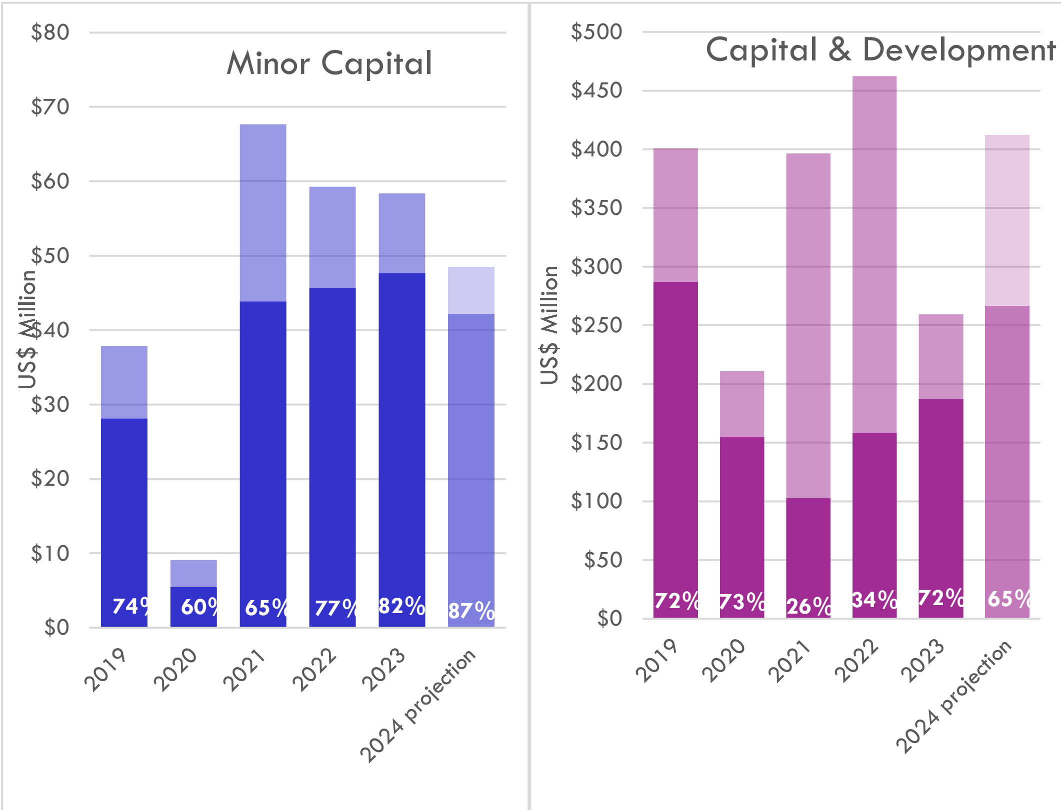
Figure 17: Top 90% of Transfers Annually



Source: GRP, Ministry of Finance, September 2024

3.13. Expenditure and execution on Capital and Development and Minor Capital are show below. Development Capital has the weakest and most variable execution rates of all the categories between 2019-2023. This suggests weaknesses in project planning and procurement processes.

Figure 18: Budget and Execution for Capital Expenditure, $US Million



Source: GRP, Ministry of Finance, September 2024

3.14. The table below provides an overview of budget performance in 2024 as of 15th September 2024. The table also provides a projection for execution by economic classification up until 31st December. The 2024 execution forecasts are informed by a combination of historic patterns and an overview of pending and unexecuted contracts. This approach has proven to be fairly accurate in the past. For example, final execution for 2023 was only 2 percentage points higher than the projection in the 2024 budget proposal.

Table 19: Budget and Expenditure, Actual and Forecast as of 15th September, $US Million

Economic Category	Original OGE 24	Current OGE 24 as of 15th September	Commitment as of 15th September	Obligation as of 15th September	Actual Cash Expenditure 15th September	Forecast Cash Expenditure December 31st	Execution Rate as of 15th September	Forecast execution Rate December 31st
Salary & Wages	470	478	1	2	273	447	57%	94%
Goods & Services	384	367	31	46	142	287	39%	78%
Transfers	590	584	18	5	464	584	79%	100%
Minor Capital	35	49	17	14	11	42	22%	87%
Capital & Development	411	412	40	59	104	267	25%	65%
Total	**1,890**	**1,890**	**107**	**127**	**994**	**1,627**	**53%**	**86%**

*Source: Ministry of Finance, *At 15th September 2024*

Budget Strategy for 2025

3.15. The table below shows the budget for 2024 and 2025 categorized by economic classification. This classification categorizes government spending based on its economic purpose and consists of recurrent and capital expenditures. Recurrent expenditures cover daily operational costs, including salaries and wages of government employees, procurement of goods and services, and transfer payments such as social benefits and veterans' benefits. Capital expenditures are allocated for long-term investments such as infrastructure projects and equipment purchases (minor capital).

Table 20: Comparing Budget 2024 and Budget 2025 by Economic Classification, US$ Million

Economic Classification	Approved Budget 2024	Proposed Budget 2025	Percentage Change
Salary & Wages	470.1	490.4	4.3%
Goods & Services	384.0	414.1	7.8%
Transfers	589.7	758.3	28.6%
Minor Capital	35.2	22.6	-36.0%
Capital & Development	411.0	439.8	7.0%
Total	1890.0	2125.2	12.4%

Source: DBFTL, Ministry of Finance

3.16. The table below shows the budget for 2024 and 2025 based on the COFOG classification. This framework organizes government expenditure by specific functions, promoting transparency and accountability in public finances. Additionally, COFOG facilitate comparative analysis of budget allocations over time or between region, enhancing resource efficiency and enabling effective monitoring and evaluation of government programs.

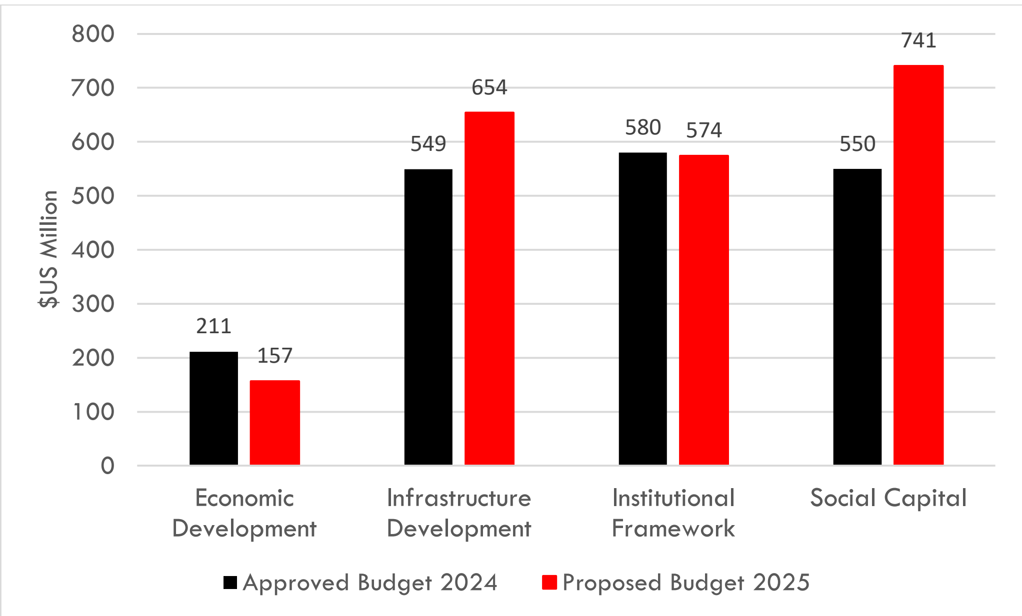
Table 21: Budget 2024 and 2025 by COFOG

COFOG Category	Approved Budget 2024	Proposed Budget 2025	Percentage Change
Defence	34.9	24.8	-28.9%
Economic Affairs	788.2	693.9	-12.0%
Education	140.9	164.3	16.6%
Environmental Protection	0.4	6.8	1642.2%
General Public Services	462.9	602.4	30.1%
Health	66.2	100.0	51.1%
Housing and Community Amenities	45.2	68.6	51.7%
Public Order and Safety	55.4	90.0	62.5%
Recreation, Culture, and Religion	9.4	31.0	231.3%
Social Protection	286.5	343.3	19.8%
Total	1,890.0	2,125.2	12.4%

Source: DBFTL, Ministry of Finance

3.17. The graph and table below illustrate the government budget allocation in accordance with the Timor -Leste National Strategic Development Plan for 2011-2030[9].

Figure 19: Budget 2024 and Budget 2025 by SDP, US$ Million



Source: DBFTL, Ministry of Finance

[9] https://timor-leste.gov.tl/wp-content/uploads/2011/07/Timor-Leste-Strategic-Plan-2011-20301.pdf

Table 22: Budget 2024 and Budget 2025 by SDP and SDP Subsector, US$ Million

Strategic Development Plan Sector	Strategic Development Plan Subsector	Approved Budget 2024	Proposed Budget 2025	Percentage Change
Economic Development	Agriculture	43.7	31.2	-29%
	Environment	2.5	2.2	-13%
	Petroleum	109.0	60.1	-45%
	Private Sector Investment	30.4	33.4	10%
	Private Sector Investment and Rural Development	10.3	13.3	29%
	Rural Development	7.0	6.6	-6%
	Tourism	8.4	9.8	17%
Infrastructure Development	Agriculture and Fishery	0.8	13.9	1689%
	Airports	8.5	33.0	288%
	Electricity	174.7	182.8	5%
	Finance	3.0	2.1	-30%
	Implementation of Major Project (Infrastructure Funds)	23.6	4.8	-80%
	Institutional Development	22.2	24.9	12%
	New Projects Design and Supervision	0.2	0.4	93%
	Public Building	18.6	9.4	-49%
	Roads and Bridges	171.2	302.3	77%
	Sea Ports	4.5	5.0	10%
	Security and Defense	0.0	0.0	N/A
	Telecommunication	38.8	10.2	-74%
	Transportation	1.7	0.8	-53%
	Urban and Rural Development	54.2	37.9	-30%
	Water and Sanitation	27.3	26.4	-3%
Institutional Framework	Defense	49.5	50.7	3%
	Foreign Affairs	25.0	26.9	8%
	Justice	33.9	32.7	-4%
	National Development Agency and Economic Policy and Investment Agency (Infrastructure Funds)	0.9	0.6	-34%
	Public Sector Management and Good Governance	400.4	395.4	-1%
	Security	70.0	67.5	-4%
Social Capital	Culture and Heritage	11.0	30.8	179%
	Education and Training	190.0	196.6	3%
	Health	67.5	115.3	71%
	Social Inclusion	281.0	398.1	42%

Source: DBFTL, Ministry of Finance

3.18. The following table shows the budget allocation based on the SDG goals. SDG goals are 17 global objectives set by United Nations to address challenges like poverty and climate change.

Table 23: Budget 2024 and Budget 2025 by SDG, US$ Million

Sustainable Development Goals	Approved Budget 2024	Proposed Budget 2025	Percentage Change
Goal 1. End poverty in all its forms everywhere	0.0	2.0	N/A
Goal 2. End hunger, achieve food security and improved nutrition and promote sustainable agriculture	40.4	40.0	-1%
Goal 3. Ensure healthy lives and promote well-being for all at all ages	67.6	114.6	69%
Goal 4. Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all	190.1	194.8	2%
Goal 5. Achieve gender equality and empower all women and girls	251.5	388.2	54%
Goal 6. Ensure availability and sustainable management of water and sanitation for all	27.2	22.8	-16%
Goal 7. Ensure access to affordable, reliable, sustainable and modern energy for all	155.1	171.7	11%
Goal 8. Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all	93.8	93.7	0%
Goal 9. Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation	261.4	194.7	-26%
Goal 11. Make cities and human settlements inclusive, safe, resilient and sustainable	165.6	192.9	17%
Goal 12. Ensure sustainable consumption and production patterns	8.9	68.4	667%
Goal 13. Take urgent action to combat climate change and its impacts[b]	2.5	2.2	-12%
Goal 14. Conserve and sustainably use the oceans, seas and marine resources for sustainable development	0.0	1.8	N/A
Goal 15. Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss	0.2	0.1	-26%
Goal 16. Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels	625.5	632.2	1%
Goal 17. Strengthen the means of implementation and revitalize the Global Partnership for Sustainable Development	0.1	5.1	3367%
Total	1890.0	2125.2	12%

Source: DBFTL, Ministry of Finance *The budget does not include an allocation for SDG 10 (reduce inequality within and among countries).

Budget Transparency and Accountability

3.19. The government continues to demonstrate its commitment to budgetary transparency and accountability as evidenced by its efforts to promote good governance and responsible fiscal management, which are aimed at improving the budgetary process within public financial management.

3.20. These efforts ensure that public finances are managed with true integrity, meaning that citizens will have access to detailed information about government spending and expenditures and that the nation's resources will be used effectively and efficiently to promote sustainable development and the well-being of the people.

3.21. The four budget markers namely Gender, child, nutrition, and climate for the year 2025 continue to represent a significant shift in the government's commitment to good governance, transparency, and responsible fiscal management, while also addressing crosscutting issues that contribute to economic growth and national development.

3.22. These budget markers are essential tools that the government uses to identify budget proposals allocated to crosscutting issues, track budget execution and performance progress, and ensure that the government is accountable for its national and international commitments aimed at achieving gender equality, social inclusion, nutrition, and climate change adaptation. The four detailed markers are as follows:

a) Gender Marker

3.23. For the 2025 fiscal year State Budget, the Gender Marker has been applied at the activity level using rigorous criteria to ensure the collection of accurate data and information. This allows for effective monitoring of budget execution and performance progress related to gender equality initiatives.

3.24. The Gender Marker is a mandatory tool for monitoring and accountability, utilized by the government to identify budget proposals that allocate and spend funds specifically aimed at promoting gender equality, empowering women and girls, supporting people with disabilities, and addressing the needs of marginalized groups. This applies to both direct and indirect interventions.

3.25. The purpose of the Gender Marker is to systematically track the portion of the State Budget dedicated to advancing gender equality, ensuring that the government fulfils its commitments to redress existing disparities in these areas.

3.26. As part of the preparation for the General State Budget, all government entities are required to integrate gender analysis into their program, subprograms, and activity planning. This is a key aspect of Gender Responsive Budgeting (GRB), ensuring that gender considerations are embedded throughout the budgeting process.

3.27. Gender analysis involves a detailed socioeconomic assessment, generating essential data and insights to incorporate a gender perspective into policies, plans, programs, and projects. It identifies disparities between women and men in terms of their societal positions, access to resources, opportunities, constraints, and decision-making power. This analysis informs and guides political, programmatic, and intervention measures to address inequalities and respond to the specific needs of women, men, girls, boys, and vulnerable groups.

3.28. Following the completion of the gender analysis, each entity must classify its activities according to the appropriate Gender Marker category. This classification ensures that the degree to which gender equality objectives are being addressed is clearly identified and can be monitored throughout the budget cycle.

3.29. The Secretary of State for Equality (SEI) is responsible for providing coordination and technical support to government entities during the classification process. Once the entities have completed their Gender Marker classifications, the SEI and the Ministry of Finance will jointly review these classifications to ensure accuracy and consistency. This review will be reflected in the government's annual plans and the final production of the 2025 State Budget Book.

3.30. The Gender Marker system consists of three distinct markers, each designed to enable a comprehensive evaluation of budget allocations in terms of their gender responsiveness and alignment with the government's commitment to promoting gender equality and reducing disparities. For details, please see below for the definition of each marker:

No.	Marker	Definition
1	**Principal (P)**	This category indicates that the primary expected result of the activity is to reduce gender inequality and promote social inclusion (direct contribution).

2	**Significant (S)**	This category indicates that the activity has been designed after conducting a gender analysis to have a positive impact on the ministry's program and subprogram, contributing to gender equality and social inclusion, empowering women and girls, and supporting vulnerable and marginalized groups (gender mainstreaming strategy).
3	**Not-Targeted (NT)**	This category indicates that the activity is designed without gender analysis to address the needs and concerns of vulnerable and marginalized groups.

3.31. The table below demonstrates the 2025 General State Budget distribution by Gender Marker.

3.32. The table below demonstrates the 2025 General State Budget distribution by Gender Marker.

Table 24: Distribution of State Budget by Gender Marker

Gender Marker	Allocation (US$)
Principal (P)	**30,430,083**
Significant (S)	**195,425,328**

Note: see Informative Elements for lists of activities and implementing entities identified for the gender marker
Source: Timor-Leste planning and budgeting system (Dalan Ba Futuru), September 2024

3.33. As indicated above, a total of **US$30.4 million** has been allocated to activities classified as "Principal" under the Gender Marker, signifying that gender equality is the main objective of these activities. The top three allocations in this category are directed toward social protection programs, reproductive health services, and the implementation of gender policies reflecting the government's commitment to addressing gender disparities in these critical areas. These investments focus on providing equitable access to resources and opportunities for women and girls while ensuring their safety and well-being through targeted support services.

3.34. Additionally, **US$195.4 million** has been assigned to activities classified as "Significant", where gender equality is important, though not the primary objective—following the gender mainstreaming strategy. The top three allocations in this category include water and sanitation projects, economic empowerment programs, and youth empowerment, demonstrating a broader integration of gender perspectives across diverse sectors. These initiatives help ensure that gender considerations are incorporated into the design and implementation of programs, reducing disparities and promoting sustainable and inclusive development.

3.35. Despite these advancements, there remains significant room for improvement, as a considerable portion of state funding still does not fully integrate gender perspectives. It is important to acknowledge that gender equality continues to be a primary or significant objective in many government activities, particularly in social focus sectors such as social protection, education, sports, nutrition, health, and water and sanitation. Additionally, key focus sectors like infrastructure, economic development, and agriculture also provide opportunities for integrating gender considerations. Together, these sectors offer substantial opportunities for further advance gender equality and address the specific needs of marginalized groups.

b) Nutritional Budget Tagging (NBT)

3.36. The government remains firmly committed to the institutionalization of Nutritional Budget Tagging (NBT) within the framework of its planning and budgeting system. This reflects the national priority to improve nutrition as a critical element of public health and sustainable development.

3.37. The primary objective of NBT is to systematically identify, categorize, and assign expenditures related to nutrition within the public financial management system. This allows for a precise understanding of how public resources are being utilized to address malnutrition.

3.38. This initiative enables the estimation, ongoing monitoring, and thorough tracking of vital nutritional expenditures across various government entities. It facilitates a comprehensive analysis of the allocation composition within the state budget, specifically targeting interventions aimed at eradicating malnutrition and stunting within the population.

3.39. For the fiscal year 2025 planning and budgeting cycle, the NBT will be implemented across two distinct categories at the activity level:

No.	Marker	Definition
1	**Nutrition-Specific interventions (NE)**	This category applies to activities that address the immediate causes of malnutrition and deficiencies in the physiological development of the population. Examples include the provision of vitamin A supplements, deworming, and dietary diversification for pregnant mothers.
2	**Nutrition-Sensitive interventions (NS)**	This category refers to activities that address the underlying causes of malnutrition, such as improving agriculture and food security, social protection, early childhood development and education, sanitation and water hygiene (WASH).

3.40. In 2025, the application of nutritional budget markers has been expanded to encompass a broad range of entities, including the Ministry of Health, Ministry of Education, Ministry of Agriculture, Fisheries, Livestock, and Forestry, Ministry of Public Works, Ministry of Commerce and Industry, Ministry of Social Solidarity and Inclusion, Secretary of State for Equality, the Stunting Unit, and the 13 Municipalities and RAEOA. These entities play pivotal roles in implementing initiatives to address malnutrition.

3.41. As part of their Annual Action Plans for 2025, these entities are mandated to undertake a comprehensive analysis, planning, and budgeting process for nutrition-related interventions. Each activity must be clearly categorized as either nutrition-specific (NE) or nutrition-sensitive (NS).

3.42. This critical step underscores the government's commitment to addressing malnutrition, particularly focusing on combatting stunting in Timor-Leste. It is a vital component of the broader development agenda, reaffirming the government's dedication to enhancing the nutritional health and well-being of the population as a core aspect of national progress.

3.43. As illustrated in the table below, **US$11.6 million** has been allocated to Nutrition-Specific (NE) interventions, which directly address the immediate causes of malnutrition and deficiencies in physiological development. The highest investment within this category is in maternal and child nutrition programs, focusing on providing essential micronutrient supplements such as Vitamin A, iron, and folic acid to reduce malnutrition and support early childhood development. The second-largest allocation goes to therapeutic feeding programs, targeting children suffering from severe acute malnutrition through the distribution of Ready-to-Use Therapeutic Foods (RUTF). The third major investment is dedicated to exclusive breastfeeding promotion and support services, which include vitamin supplementation and dietary diversification for pregnant women and children (0-12 years old), alongside educational campaigns and the establishment of breastfeeding support groups aimed at improving infant nutrition and health outcomes.

3.44. Additionally, a significant portion of **US$36.1 million** has been allocated to Nutrition-Sensitive (NS) interventions, which address the broader, underlying causes of malnutrition. The largest investment in this category is directed toward agricultural development programs, promoting the cultivation of nutrient-rich crops such as fruits, vegetables, and legumes, along with small-scale livestock farming to diversify diets and enhance food security. The second-largest allocation supports school feeding programs, ensuring that children receive nutritious meals, which not only improve their health but also boost their learning capacity. Lastly, a key investment has been made in Water, Sanitation, and Hygiene (WASH) initiatives, aimed at improving access to clean drinking water and sanitation facilities, which play a crucial role in preventing waterborne diseases and enhancing overall community health and nutrition.

Table 25: Distribution of State Budget by Nutritional Marker

Nutritional Marker	Allocation (US$)
Nutrition-Specific interventions (NE)	**11,610,880**
Nutrition-Sensitive interventions (NS)	**36,162,204**

Note: See Informative Elements for lists of activities and implementing entities identified for the Nutritional Budget Marker
Source: Timor-Leste planning and budgeting system (Dalan Ba Futuru), September 2024

c) Child Marker

3.45. To facilitate the effective identification and ongoing monitoring of budgeted activities aimed at promoting and safeguarding the rights of children, a Child Marker has been integrated into the Government's online planning, monitoring, and evaluation system, known as Dalan Ba Futuru Timor-Leste (DBFT).

3.46. This integration is a fundamental component of the overarching **Public Financial Management** framework, underscoring the government's unwavering commitment to prioritizing the welfare and rights of children within its fiscal policies.

3.47. This important initiative involves all government entities receiving allocations from the State Budget, ensuring transparency and accountability by clearly identifying activities and their corresponding budget allocations that are specifically tailored to promote and protect the rights of children aged 0 to 17 years.

3.48. The Child Marker consists of three distinct categories, each designed to assess the extent to which children's rights are prioritized at the activity level. These categories serve as a crucial guide for ensuring that budgetary resources are effectively allocated to advance the well-being and rights of children:

No.	Marker	Definition
1	**Specific (E)**	This category applies to activities that specifically aim to address children's rights (survival, development, protection, and participation).
2	**Extended (A)**	The 'Extended (A)' category applies to activities that provide goods and services that directly benefit people, including children.
3	**Indirect (I)**	This category refers to activities that only have an indirect contribution to children's development and well-being.

3.49. As outlined in the table below, a total of **US$118.5 million** has been allocated to child-specific interventions (E), which directly address the needs and rights of children. Of this total, the top three programs receiving the highest allocations are Basic Education services, reflecting the government's strong commitment to improving educational quality and ensuring that all children have access to essential learning opportunities. This is followed by school feeding programs, which emphasize the crucial role of nutrition in enhancing learning outcomes and meeting the dietary needs of children. Lastly, the child protection services initiative ensures children's safety and well-being, particularly for those at risk of abuse, neglect, or exploitation.

3.50. In addition, **US$301.6 million** has been allocated to child-extended interventions (A), which address broader factors that contribute to children's well-being. Of this total, the largest investment within this category is allocated to social protection programs, such as the Bolsa da Mãe program, which provides conditional cash transfers to support vulnerable families and improve children's overall living conditions. The second-largest allocation is directed toward maternal and child health services, focusing on providing access to essential healthcare for mothers and children, thereby improving physical, emotional, and developmental outcomes. Finally, a significant investment has been made in Water, Sanitation, and Hygiene (WASH) initiatives, which play a critical role in preventing diseases and promoting a healthy living environment, essential for children's overall well-being.

Table 26: Distribution of State Budget by Child Marker

Child Marker	Allocation (US$)
Specific (E)	**118,581,842**
Extended (A)	**301,678,815**

Note: See Informative Elements for lists of activities and implementing entities identified for the Child Marker Source: Timor-Leste planning and budgeting system (Dalan Ba Futuru), September 2024

d) Climate Budget Tagging (CBT)

3.51. The government remains committed to integrating the Climate Budget Tagging (CBT) system within the public finance management framework. This strategic initiative aims to ensure that the nation is prepared to effectively address and mitigate the complex impacts of climate change.

3.52. The CBT serves as a vital tool for systematically identifying, categorizing, evaluating, and tagging budgetary allocations related to climate change mitigation, climate resilience, and the sustainable use of natural resources within the government's financial system.

3.53. This initiative facilitates the estimation, monitoring, and meticulous tracking of climate-related expenditures, while also promoting transparency and accountability in these crucial areas.

3.54. In 2025, the scope of CBT has expanded beyond the initial three key government entities—the Ministry of Public Works (MOP), the Ministry of Tourism and Environment (MTA), and the Ministry of Agriculture, Livestock, Fisheries, and Forestry (MAPPF). This expansion now includes the Civil Protection Authorities, 13 Municipalities, and RAEOA, ensuring a broader implementation of the climate budget marker across various governmental levels.

3.55. Within the CBT framework, two distinct markers are integrated into the government's planning and budgeting system for the fiscal year 2025, applied at the activity level:

No.	Marker	Definition
1	**Highly Relevant (H)**	This category applies to activities with a clear primary objective of producing specific results that improve climate resilience or contribute to climate change mitigation and the sustainable use of natural resources. Examples include expenditures aimed at reducing the risk of natural disasters, supporting the energy transition, and preventing the over-exploitation of fisheries resources.

2	**Relevant Medium (M)**	This category applies to activities with secondary objectives related to building climate resilience or contributing to climate change mitigation and sustainable use of natural resources. An example would be irrigation extension activities, which, while implemented to improve livelihoods, also result in greater protection against droughts.

3.56. As part of the comprehensive planning process for the Annual Action Plan of 2025, these entities are required to undertake an in-depth analysis of their activities to determine the extent to which they align with climate resilience and climate change mitigation. This analysis will ensure that their activities address the challenges posed by climate change effectively.

3.57. This proactive approach demonstrates the government's strong commitment to climate adaptation and mitigation, ensuring that Timor-Leste is well-prepared to tackle the pressing challenges of climate change.

3.58. As outlined in the table below, **US$226.3 million** has been allocated to activities classified as Highly Relevant, which have a clear primary objective of improving climate resilience, mitigating climate change, or promoting the sustainable use of natural resources. Meanwhile, **US$115.7 million** has been allocated to activities categorized as Relevant Medium, which contribute to these objectives as secondary benefits.

3.59. The largest investments for activities classified as Highly Relevant include expanding renewable energy infrastructure, supporting the country's transition to sustainable energy sources, and reducing carbon emissions. The second-highest investment focuses on disaster risk reduction programs, aimed at enhancing community resilience to natural disasters such as floods and landslides. The third major investment targets reforestation and biodiversity conservation efforts, ensuring the preservation of ecosystems that are critical for climate resilience.

3.60. Meanwhile, for activities categorized as Relevant Medium, the top investment is directed toward agricultural modernization and irrigation systems, which improve food security while simultaneously increasing resilience to droughts and other climate-related challenges. The second-largest allocation supports urban planning and infrastructure development, incorporating climate-smart design to better manage heat, flooding, and other urban environmental impacts. Finally, significant investment has been made in waste management and recycling initiatives, contributing to reducing environmental degradation and supporting sustainable resource management.

Table 27: Distribution of State Budget by Climate Marker

Climate Marker	Allocation (US$)
Highly Relevant (H)	**226,337,188**
Medium Relevance (M)	**115,702,074**

Note: See Informative Elements for lists of activities and implementing entities identified for the Climate Marker
Source: Timor-Leste planning and budgeting system (Dalan Ba Futuru), September 2024

4. Revenue and Financing

Domestic Revenue

4.1. Domestic revenues in Timor-Leste comprise of tax and non-tax revenues that are collected by the Central Administration and RAEOA. Taxes collected by RAEOA are retained by the Central Administration, whereas non-tax revenues collected by RAEOA are retained by RAEOA.

4.2. Taxes are broken down in Direct and Indirect Taxes. Non-Tax revenues are comprised of Earnings, Fees & Penalties and Sales of Goods & Services. These are broken down as follows:

- **Direct Taxes** include taxes on wage and non-wage income.
- **Indirect Taxes** include import duties, sales taxes, excise duties and service taxes.
- **Earnings** include earnings from rents of government property and interest revenues.
- **Fees & Penalties** comprising of various administrative fees and charges such as: charges on social games, parking, passport, visa and transport fees as well as penalties such as transport and court related penalties. A full list of the fees and penalties forecasted for collection in 2025 are provided in the budget tables.
- **Sales of Goods & Services** including printing sales, auctions of cars, and sales of goods and services from public entities such as the Resistance Museum and the Bamboo Institute. A full list of the goods and services forecasted for sale in 2025 are provided in the budget tables.

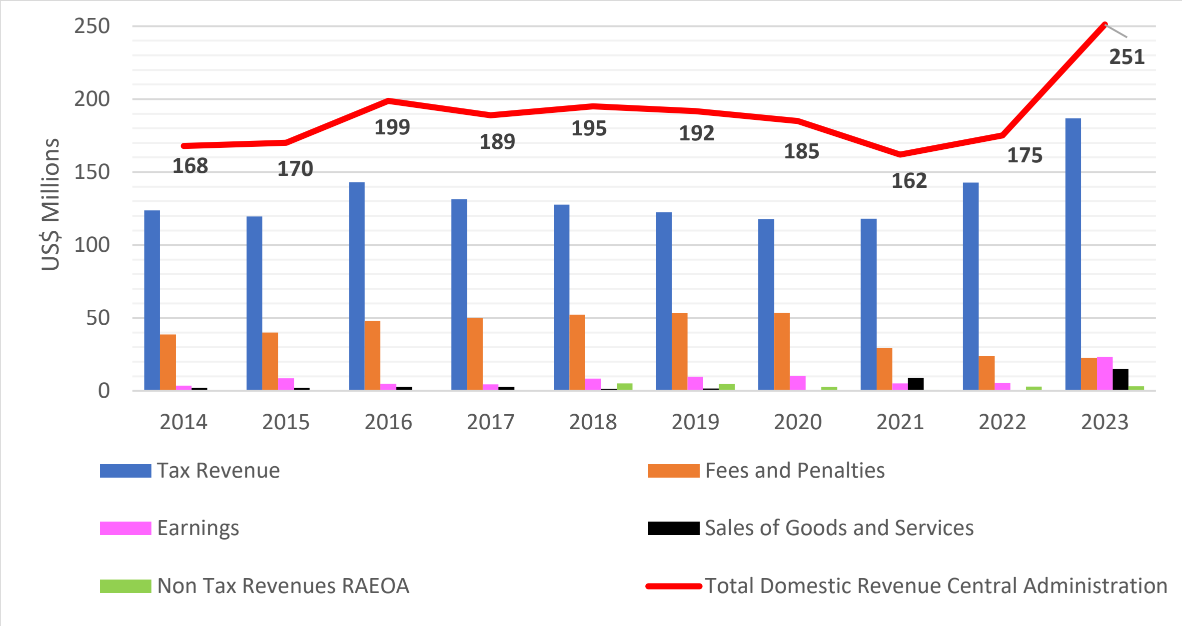
4.3. As shown in the chart below, over the past decade, domestic revenues have not followed a consistent growth pattern. They rose consistently until 2016. The increase was contributed mainly by three big items in tax revenue including excise tax, withholding tax and corporate tax. They then declined moderately from 2017 to 2021. Revenues declined in 2021 due to the combined effect of the pandemic and the fact that water and electricity companies (Be'e TL and EDTL) became public entities. Revenues saw their lowest point during the pandemic at US$162 million in 2021.

4.4. As the economy recovered after the pandemic, the country was able to see a moderate increase in revenue collection. The biggest contribution to this increase was due to a substantial increase in tax revenue which mainly came from excise tax, sales tax, and corporate tax. The increase in excise taxes was a result of the Government's decision to introduce higher duties on Tobacco and Alcohol.

4.5. Revenues saw a dramatic increase in 2023 as both tax and non-tax revenues saw significant rises. A US$5 million increase in sales tax collections was as a result of an increase to imports. A combined US$ 10.5 million increase in income and wage tax collections combined reflected was a reflection of higher government spending on salaries and wages as well as private sector growth in 2023. Import Duties saw a 117% increase due to a combination of higher imports in 2023 and an increase in import duties from 2.5% to 5% during the first 8 months of the year.

4.6. Non-Tax revenues also saw a dramatic rise of US$32 million following a US$15 million increase in the sales of goods and services and an US$18 million rise in earnings. Fees, fines and other penalties saw a moderate fall, partially due to delays in passport renewals. The increase in sales of goods and services were due to vehicle auctions, health care activities, printing revenue and sales of agricultural and fishery products. Earnings saw a dramatic rise due to US$17 million earned in interest revenues due to interest earned from various escrow accounts. In previous years, interest revenues have not exceeded US$1 million and the dramatic rise in 2023 is considered to be an anomaly rather than reflective of a new trend.

Figure 20: Domestic Revenues Central Administration and RAEOA 2014-2023, US$m



Source: Revenues from the Central Administration are calculations by from the National Directorate of Economic Policy based on Treasury data, Ministry of Finance. Non-Tax Revenue retained by RAEOA from the Consolidated Financial Accounts, Ministry of Finance, September 2024

4.7. Domestic revenues are predicted to fall to US$237 million in 2024 based on the latest available data. Forecasts from 2024 to 2028 are provided in the Table 28 below. This due a fall in tax revenues following a reduction in Import Duties and the cancellation of the tax on sugar and sugary product's Rectification Budget 2023 that was maintained in Budget 2024. Last year's budget predicted an increase in tobacco tax revenues in 2024 following the decision to half tobacco taxes[10]. Analysis of the first 6 months of data from the customs authority appears to show that this prediction will be proved right. This suggests that tobacco tax revenues fell in 2023 as the price of legally sold cigarettes rose above the price cigarettes sold on the black market. This suggests that in order for future tax rises to be effective, the Government needs to strengthen border controls and reduce the possibilities for smuggling. Other tax revenues are predicted to rise in 2024.

4.8. Non-tax revenues are predicted to fall in 2024 as earnings from interest return to a trend level. Sales of goods and services are also anticipated to fall based on data up until august 2024. However, since revenues from government auctions are unpredictable, these revenues could rise above the current projection in the coming months. The domestic revenue to GDP ratio is forecasted to be 12.6% in 2024, a moderate fall from 13.9% in 2023.

[10] Import Duties were increased from 2.5% to 5% in the original Budget 2023, a US$1 per kilogram tax was also introduced on sugar and confectionary and tobacco taxes were increased from US$50 per kilogram to US$100 per kilogram. However, these rises were reversed in the Rectification Budget for 2023.

4.9. Tax revenues are forecasted to increase in in 2025 to $US 212 million, a 10% increase from the projection for 2024. As a result, domestic revenues as a percentage of GDP are projected to rise to 13.1%.

4.10. The increase is driven by large, expected increases (15%) in taxes related to imports such as excise taxes, sales taxes[11] and import duties. This is due to the projected rise in imports following a large increase in consumption related transfers in Budget 2025. Other taxes are projected to rise 5% as strong economic growth leads to higher incomes and an increase in government salaries will also lead to higher wage tax collection. Wage and Income tax will also be boosted by an anticipated expansion in mining activities which has the potential to expand the tax base. Non-Tax revenues are forecasted to increase in line with inflation and population growth. Similar trends are observed up to 2029, however in the absence of new policies to increase taxes or the tax base the ratio of domestic revenues to GDP will remain around 13%.

4.11. As mentioned above, the forecasts do not consider any potential changes that might arise from adopting the draft Tax and Duties Act (yet to be presented to parliament). These include the potential adoption of VAT and the progressive income taxes. However, prior to any introduction, these tax changes would be subject to further analysis, discussion and debate.

4.12. These forecasts are also dependent the accuracy of GDP projections and are therefore subject to the same uncertainties. The potential impact of this is discussed in the fiscal risk and contingent liabilities section above. Further details on the estimation are provided in the methodological annex.

Table 28: Domestic Revenue Actual Projections 2024-2029, US$m

	2023 Actual	Proj 2024	Proj 2025	Proj 2026	Proj 2027	Proj 2028	Proj 2029
Domestic Revenue (Central + RAEOA)	**251.1**	**237.6**	**258.6**	**272.2**	**288.1**	**305.6**	**325.0**
Non Tax Revenues RAEOA	*3.2*	*1.3*	*0.7*	*0.8*	*0.8*	*0.8*	*0.9*
Domestic Revenue (Central Administration)	**247.9**	**236.3**	**257.9**	**271.5**	**287.3**	**304.8**	**324.1**
Tax Revenue	**186.9**	**192.3**	**212.0**	**223.8**	**237.9**	**253.4**	**270.8**
Sales Tax	*24.6*	*26.8*	*30.9*	*32.6*	*34.6*	*36.9*	*39.4*
Excise Tax	*56.0*	*53.4*	*61.5*	*64.9*	*69.0*	*73.5*	*78.5*
Import Duties	*36.0*	*23.1*	*26.6*	*28.1*	*29.8*	*31.8*	*34.0*
Wage Income Tax	*21.4*	*32.0*	*33.5*	*35.3*	*37.5*	*40.0*	*42.7*
Income Tax	*42.3*	*47.8*	*50.0*	*52.8*	*56.1*	*f59.8*	*63.9*
Service Tax	*6.6*	*9.2*	*9.6*	*10.2*	*10.8*	*11.5*	*12.3*
Non Tax Revenues	**61.0**	**44.1**	**45.9**	**47.6**	**49.5**	**51.4**	**53.3**
Fees and Penalties	*22.6*	*27.8*	*28.9*	*30.0*	*31.2*	*32.4*	*33.6*
Earnings	*23.4*	*7.0*	*7.3*	*7.5*	*7.8*	*8.1*	*8.4*
Sales of Goods and Services	*15.0*	*9.3*	*9.7*	*10.1*	*10.4*	*10.8*	*11.3*

Source: Calculations and forecasts by the National Directorate of Economic Policy based on data from GRP, Ministry of Finance.

[11] Whilst in theory sales taxes are taxes on goods and services sold, in Timor-Leste they are collected on the border and therefore the incidence is largely on imported goods and services.

Petroleum Fund

4.13. The Government's General State Budget is largely financed from the Petroleum Fund. The amount withdrawn is divided between the Estimated Sustainable Income (ESI) amount and any excess withdrawal that is justified by the Government to be in the long-term interests of Timor-Leste.

4.14. Calculating the ESI requires projecting the Fund's value at the beginning of the budget year, along with the present value of future petroleum revenue.

Table 29: Estimates for the Petroleum Fund, US$m

Item	Value
Beginning balance of the Petroleum Fund in 2024	18,288.4
Estimated petroleum revenue in 2024	78.2
Estimated investment income in 2024	1,317.8
Estimated government withdrawals in 2024	-1,377.5
Estimated ending balance in 2024/ beginning balance in 2025	***18,306.8***
Estimated net present value of future petroleum revenue in 2025	91.5
Estimated Petroleum Wealth 2025	***18,398.3***
2025 ESI (3% of Petroleum Wealth)	551.9
Withdrawals in excess of the ESI	1009.1
Budgeted withdrawals in 2025	***1,561.1****

Note: * Values may not sum due to rounding.
Source: Petroleum Fund Policy and Management Office, Ministry of Finance, September 2024.

4.15. The beginning balance of the Fund on 1 January 2024 was US$18,288.4.

4.16. Petroleum revenue for 2024 is estimated at US$78.2million, with $70.5 million already received by July. This figure exceeds the projection in the Budget 2024 due to extended production, albeit at lower volumes, and higher oil and gas prices.

4.17. The Fund's investment return for 2024 is estimated at 7.5%, generating an expected annual income of US$1,317.8 million. This estimate considers actual returns up to July and projected returns for the remainder of the year, therefore the final outcome will depend on market movements in Q4. In 2023, the Fund achieved a 9.99% return, yielding US$1,678.7 million in investment income. Equities performed exceptionally well, delivering nearly 24% returns, while the fixed-interest assets in the growth portfolio returned 4.9%. The liquidity portfolio, aimed at covering withdrawals over the next three years, earned 4.25%.

4.18. In 2023, actual withdrawals amounted to US$1,090.0 million out of the approved US$1,208.2 million in the Rectification Budget. The approved withdrawal for 2024 is US$1,377.5 million. As of July, US$650 million has been transferred to Treasury account. If it is fully withdrawn in 2024, the Petroleum Fund is projected to end the year at US$18,306.8 million. Equities and bonds will need to be sold in

2025 to top-up the balance of the liquidity portfolio to cover the total of withdrawal projections for 2025 to 2027.

4.19. The Bayu-Undan field, which began production in 2004, continues to produce natural gas and liquids at a viable but low rate. In September 2024, the *Authoridade Nacional do Petroléo* (ANP) has extended the Production Sharing Contract, with TIMOR GAP E.P. acquiring a 16% of participating interest in the Bayu-Undan projects. This allows production to continue to mid-2026. The estimated net present value of petroleum revenue beyond 2024 is at US$91.5 million.

4.20. Therefore, total Petroleum Wealth is estimated to be US$ 18,398.3 million on 1 January 2025, resulting in an ESI for 2025 of US$551.9 million. This is US$ 49.3 million higher than the projection in the 2024 Budget. This estimate does not account for the potential revenues from the Greater Sunrise project or the ongoing exploration activities within Timor-Leste's exclusive onshore and offshore areas.

4.21. Estimated Petroleum Wealth increased in 2025 relative to 2024 as a result of higher-than-expected actual inflows, lower than expected withdrawals, and higher projection of the investment income. However, the Fund's value is expected to decline in the future. The limited petroleum inflows from Bayu-Undan end in mid-2026, while withdrawals are projected to exceed investment return and be above the ESI level.

4.22. Withdrawals to fund the 2025 Budget are projected to be US$1,561.1 million or 8.5% of the estimated Petroleum Wealth at the beginning of the year, exceeding the 2025 ESI by US$1,009.1 million.

4.23. Excess withdrawals are consistent with the Government's frontloading policy, as these withdrawals are being used to finance core infrastructure and human capital, which is necessary for long-term growth.

4.24. The Informative Elements of the Budget Proposal describe the key information about the Petroleum Fund and provides detailed information on the ESI calculation and the underlying assumptions.

Loans and PPP

Loans

4.25. The Government currently still depends on foreign loans to meet its borrowing needs. As established in the Strategic Development Plan 2011-2030 and regulated by public debt regime law No.13/2011, the primary objective of taking concessional loans should be related to the construction of strategic infrastructure for the development of the country. Terms of loans are described below:

Table 30: Terms of Loans

Lender	Currency	Approved loan US$m	Grace Period (years)	Original Amortization Period (years)	Year Complete	Interest rate FY 2024
ADB	US, SDR	615.65	5	20	2048	4.16%
WB	US, SDR	295.20	8	20	2062	2.58%
JICA	JPY	68.72	10	20	2042	0.60%
AIFFP	US	45	5	20	2048	N/A
Total		**1,024.57**				

Source: Ministry of Finance, September 2024

4.26. Given the substantial weight and high global interest rates, the ADB loan rate is set to rise to 4.16%, with the portfolio interest rate hitting 3.33% in 2024. While this is still lower than the petroleum fund's return of 4.37%, it requires the Government to focus on securing more fixed-rate loans to keep future debt payments manageable.

Table 31: Cost of borrowing vs PF return

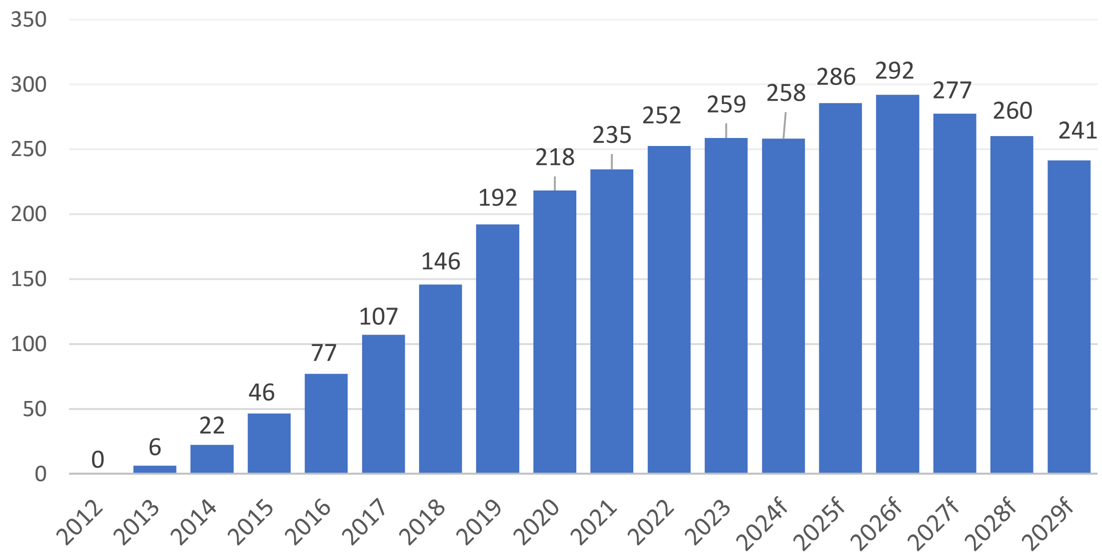
Description	2019	2020	2021	2022	2023	2024f
Cost of borrowing (effective rate)	2.34%	2.03%	1.50%	1.56%	3.25%	3.33%
PF historical return (annual since inception)	4.45%	4.81%	4.90%	3.95%	4.27%	4.37%

Source: Ministry of Finance, September 2024

4.27. Some of the loans agreements mentioned above are under due diligence review, which may delay their disbursement. As a result, existing forecasts suggest that the external debt stock will reach its highest level in 2026 before beginning to decline. The Government is also exploring early repayment, which may also contribute to a further decline in debt stock.

4.28. By the end of the fiscal year 2024, the external debt is estimated to stay steady at around US$258 million. A small decrease from 2023 to 2024 is due to higher principal repayments, which exceed an estimated US$16 million in disbursements from the ADB and WB for ongoing projects. Additionally, interest and other fees are expected to increase from US$8.3 million in 2023 to US$8.60 million by the end of 2024 as these projects near completion. The debt owed to these lenders remains relatively small in comparison to the Government's total debt.

Figure 21: Stock of External Debt, US$m



Source: Ministry of Finance, September 2024

4.29. In 2025, disbursement is anticipated to remain relatively stable due to the completion of most projects. A moderate loan disbursement of $45 million is projected for that year, bringing the estimated total debt stock to $285.59 million by the end of 2025.

4.30. The country's debt ratios experienced a marginal increase over the last four years. However, starting in 2023, there has been a slight decrease in these ratios reflecting a fall in loan disbursement

Table 32: External Debt Indicators for the period 2019-2029, % of GDP and Revenue

	2019	2020	2021	2022	2023	2024f	2025f	2026f	2027f	2028f	2029f
Total External Debt to GDP	11.4%	13.8%	15.0%	15.1%	14.4%	13.7%	14.5%	14.1%	12.6%	11.1%	9.6%
Total Debt Service to Revenue	3.8%	4.2%	6.1%	9.4%	9.1%	10.5%	10.2%	9.9%	12.6%	12.9%	12.2%
Total external debt	192.2	218.4	234.6	252.9	258.7	258.2	285.6	291.7	278.8	251.0	219.1
Debt Service	7.2	7.8	9.8	16.4	22.9	25.0	26.3	26.9	36.2	39.5	39.8
GDP (nominal) m	1,688	1,581	1,563	1,676	1,802	1,880	1,968	2,077	2,208	2,352	2,513
Revenue (ESI + domestic revenue)	721	729	710	729	741	760	811	800	790	775	756

Source: Ministry of Finance, September 2024.

4.31. External Debt to GDP - The size of external debt to GDP remains under the 30% threshold set by the debt sustainability frameworks for low income countries with a moderate risk of default. Although it has risen from 11.4% in 2019 to 15.1% in 2022, the ratio is expected to decrease in the medium term due to a projected decline in disbursements. In 2024, the debt-to-GDP ratio is expected to be 13.7%.

4.32. Debt Service to Revenue – Total debt service to revenue ratio is expected to increase from 3.8% in 2019 to 12.20% in 2029, with the highest value expected in 2028. Despite the upward trajectory, the values remain below the 14% benchmark.

Table 33: Debt Service Forecasts, US$m

Lender	Debt Service	2023	2024f	2025f	2026f	2027f	2028f	2029f
ADB	Principal	8.84	9.61	13.48	14.76	24.78	28.75	28.90
	Interest	3.38	7.66	6.89	6.30	5.71	5.11	3.83
	Charges	0.10	-	-	-	-	-	
WB	Principal	2.19	2.71	2.73	2.73	2.73	2.73	3.58
	Interest	1.19	1.26	1.56	1.54	1.46	1.39	1.28
	Charges	0.10	-	-	-	-	-	
JICA	Principal	2.34	1.38	1.39	1.39	1.39	1.39	3.58
	Interest	0.29	0.15	0.21	0.20	0.19	0.18	1.28
	Charges	0.01	-	-	-	-	-	

Source: Ministry of Finance, September 2024.

Project Status

4.33. The costs of projects funded by concessional loans are mainly taken from three different sources: Loan, Infrastructure Fund, and Grant. The table indicates that the total investment cost of the total loan-funded projects from 2012-2024 is estimated at US$596,427,690.19 of which US$436,549,931.29 is financed by loans, US$156,945,354.43 by the infrastructure fund, and US$2,932,404.47 by grants.

4.34. The table also shows that the largest component of the investment cost is civil works, which accounts for US$522,483,282.48 or 87.6% of the total. Civil works are mainly financed by loans (71.1%) and the infrastructure fund (28.4%), with a small contribution from grants (0.6%). The second largest component is supervision, which costs US$51,676,661.14 or 8.7% of the total. Supervision is entirely financed by loans. The third component is other, which includes expenses such as resettlement and capitalisation. This component costs US$22,267,746.57 or 3.7% of the total and is financed by loans (61.8%) and the infrastructure fund (38.2%).

Table 34: Total Investment Costs, US$

Budget Category	Total (US$)	Loan (USD)	Infrastructure Fund (USD)	Grant (USD)
Civil Works	522,483,282.48	371,105,523.58	148,445,354.43	2,932,404.47
Supervision	51,676,661.14	51,676,661.14	N/A	N/A
Other	22,267,746.57	13,767,746.57	8,500,000.00	N/A
Total	**596,427,690.19**	**436,549,931.29**	**156,945,354.43**	**2,932,404.47**

Source: Ministry of Finance, September 2024

4.35. Additionally, the breakdown of the sector reveals that the road sector accounts for most of the funding and the contracts, followed by the airport and the energy sectors. The table also indicates that most of the road projects have been completed or are close to completion, while the airport and the energy projects are still under review. Two road projects currently under construction are the routes from Baucau to Viqueque Highway Project and TL Branch Road Project.

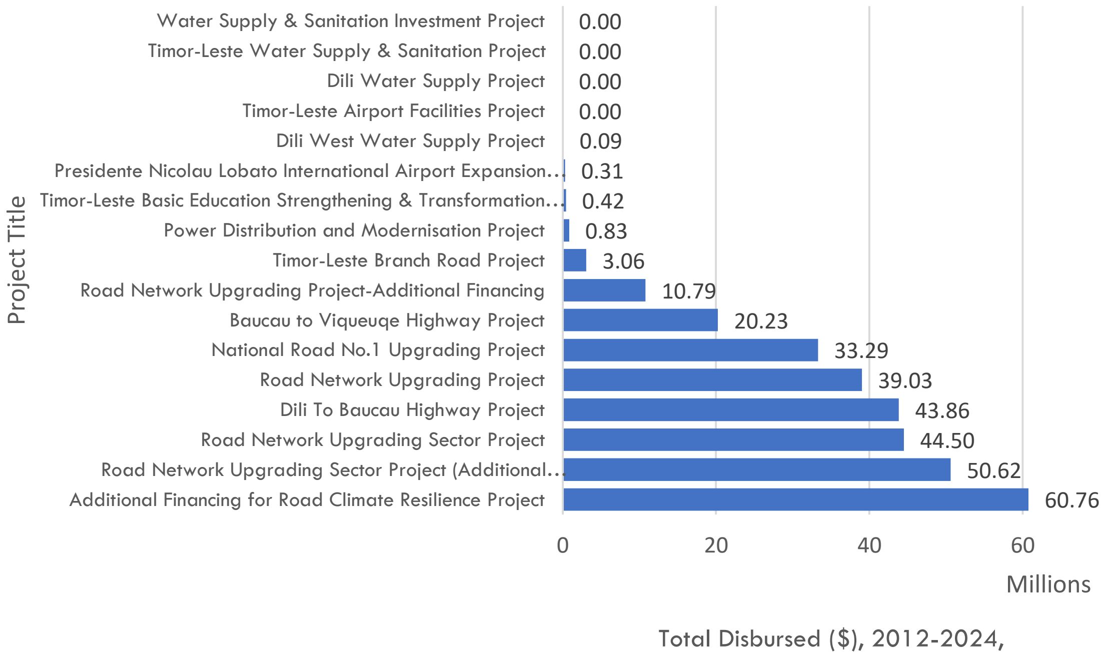
Table 35: Sector Breakdown

Sector	Total Budget (US$)	Number of Civil Works Contracts	Number of Supervision Contracts	Number of Concluded Projects
Road	496,435,584.23	16	7	14
Airport	93,000,000.00	1	1	Under Review
Energy	6,992,105.96	1	1	Under Review
Total	**596,427,690.19**	**18**	**10**	

Source: Ministry of Finance, June 2024

4.36. As shown in the following graph, the projects with the highest disbursement rate are the road network expansion. These projects have contributed to improving the country's connectivity and living conditions for both the urban and rural population. On the other hand, the projects with the lowest disbursement rate are the water supply and sanitation, the education sector development, Airport as well as energy projects. It is important to emphasize that although financing agreements between government and international financing institutions have been executed, these projects are currently under review.

Figure 22: Project Disbursement, US$ Million



Source: Ministry of Finance, September 2024

Acceleration of Debt Repayments

4.37. The Government of Timor-Leste is considering the option of early debt repayments as a key component of its fiscal policy for the year 2025. This strategic move aims to further enhance the country's economic stability and investor confidence. Early debt repayments offer several benefits to the economy of Timor-Leste. Firstly, it ensures economic stability by reducing the reliance on external financing and minimizing the risk of default. Secondly, early debt repayments allow Timor-Leste to take advantage of prolonged high market interest rates by saving significant interest expenses over the long term. This translates into a more favourable debt profile, ultimately contributing to sustainable economic development.

4.38. In line with these considerations, the Government has proactively notified key lending agencies, namely the Japan International Cooperation Agency (JICA), the World Bank, and the Asian Development Bank (ADB), about its plans to accelerate debt repayments. In response, it has been affirmed that there are currently six loan agreements that are eligible for early debt repayments.

4.39. Budget 2025 presents a forward-thinking approach to financing key petroleum infrastructure development facilities. The Government's proposal to the Parliament for a new loan ceiling of US$850 million aims to facilitate negotiations with potential lenders, opening doors to funding these crucial initiatives. With a relatively low debt-to-GDP ratio of 13.7%, this responsible borrowing plan ensures that debt levels remain sustainable over the medium term. By investing in this strategic sector, the Government aims to generate new or additional sources of income for the state in the medium to long term, further securing Timor-Leste's financial stability and development.

Public Private Partnerships

4.40. In general terms, the Public Private Partnerships (PPP) refers to long term arrangements in which the private sector build infrastructure assets and provides services that traditionally have been provided by the State. Ownership of the infrastructure asset remains in the hand of the Government and the private sector needs to transfer it back in good condition at the end of the contract.

4.41. DL 8/2014 stipulates the formation of PPP Unit (PPPU), a PPP facilitation agency under the Ministry of Finance to take on the tasks of managing and implementing the PPP Project Cycle in coordination with line ministries and Council for Administration of Infrastructure Fund (CAFI). An important role of the PPPU is to promote and create environment for attracting foreign direct investment (FDI) through PPP modality, while at the same time looking for ways of encouraging local private sector involvement in PPP projects by pursuing policies that will allow for development of small to medium scale PPPs.

4.42. Currently, one PPP project is in the Implementation and Operation Stage (Tibar Bay Port PPP), one is in the Feasibility Stage (Affordable Housing) and three in the Initiation stage (Lagoa Seloi Kraik, Marobo Hot Spring & Valusere/Jaco Beach). The latest status of these projects is reported below.

4.43. The PPP modality chosen for Tibar Bay Port was a 30-year concession, including the design, build, finance, operation and transfer (DBFOT) of the port infrastructure. The project was awarded to a consortium comprised by Bolloré Africa Logistics and SDV East Timor through an international competitive bidding which formed Timor Port SA (TPSA) as Concessionaire.

4.44. The concession agreement was signed on 3rd June 2016 between the GoTL and Concessionaire (TPSA) and the 30-year concession includes a three year construction period which started on 30 August 2018. The construction period was concluded on 29 April 2023 with issuance of Completion Certificate from Independent Engineer to Tibar Bay Port Project. The only remaining work is Bluezone Construction. Grantor requested TPSA to install Import Scanner and a shelter for export mobile scanner as a variation to the Concession Agreement, though minor balance works are in progress, import scanner and shelter was already commissioned in May 2024.

4.45. The Services Commencement date fell on 30th September 2022 (early commencement). Since then up to 30 April 2024, 316 vessels had called at Tibar Bay Port during the first 23 months of operations. During this period, Tibar Bay Port handled 142,000 TEU containers and 459,240 mtons of breakbulk cargo excluding several vehicles. In April 2024, Meratus and ANL Darwin Trader discharged 106 and 61 containers which was the first transhipment from Tibar Bay Port. Meanwhile, the total direct Grantor revenue during the period amounts US$2,485,042.90.

4.46. The Affordable housing PPP is undergoing a feasibility study and transaction structuring phase. The project has benefited from advisory services from the World Bank Group's International Financial Corporation (IFC). In May 2024, the IFC submitted an updated Transaction Structuring Report (TSR).

4.47. Affordable housing under a PPP model has been proven to be successful in several countries. Under a PPP modality, the Government is usually responsible for the provision of land and trunk infrastructure while a private developer takes the responsibilities of the design, finance and construction of the housing project. For this project, the Government has selected a 20 hectare government owned land in Suco Hera, about 14km east of Dili. The developer will be responsible for design, finance, construction and sale of housing units and certain O&M obligations pertaining to utility infrastructure on site and maintenance of common areas. The project was authorized to proceed to the next steps by CAFI during a meeting on 23 October 2023. A series of high level discussions were conducted with relevant ministers in Q1 and Q2 of 2024 resulting in changes to the plot size of the housing leading to the total number of units to be built to be around 500 housing units.

4.48. The President Nicolau Lobato International Airport is the primary gateway to Timor-Leste with regular connections to Darwin, Denpasar and Singapore. Due to its short runway length and width, however, the airport is currently limited in its infrastructures and capability to accommodate larger aircrafts. The Government is committed to develop the Airport in all aspects and comply with International Civil Aviation Organization requirements for safety and service standards. The project is on-hold for a final decision by the Government. However, a provisional budget for FY 2025 has been prepared, anticipating administrative costs of the PPP arrangement, this is reflected in the table below.

4.49. The Lagoa Seloi Kraik is being prepared with Ministry of Tourism and Environment where site visits have been conducted and discussion is progressing with the World Bank for a PPP feasibility study technical assistance. Potential new initiatives (Marobo Hot Spring and/or Valusere-Jaco) will be re-assessed technically with relevant line ministries, in this case, especially the Ministry of Tourism and Environment

4.50. The following table contains actual government expenditure for 2021 to 2023, estimated expenditure for 2024, proposed general budget allocation for 2025 and estimated budget allocation for 2026 onward for PPP projects.

Table 36: Actual Expenditure (2019 – 2023), Estimated Expenditure (2024), Allocation (2025) and Estimated Allocation (2026-2029), US$ Million

	2021 Actual	2022 Actual	2023 Actual	2024 Est.	2025 Est.	2026 Est.	2027 Est.	2028 Est.	2029 Est.
Combined Sources Budget (DTG + IF)	**0.64**	**0.74**	**0.44**	**1.95**	**4.73**	**6.72**	**3.18**	**2.58**	**0.68**
Dotação *Todo Governo (DTG)*									
IPMU Dili Airport Project		0.08	0.27	0.06	0	0	0	0	0
PMU Affordable Housing				0.18	0.0	0.13	0.13	0.13	0.13
TP-OMA for TBP				0.34	0.40	0.40	0.40	0.40	0.40
President Nicolau Lobato International Airport Hybrid PPP (FASA FS & TSR - IFC & Cultural Representation Design Competition)				0.0	0.01	0.0	0.0	0.0	0.0
SUB TOTAL	**0**	**0.08**	**0.27**	**0.57**	**0.41**	**0.53**	**0.53**	**0.53**	**0.53**
Infrastructure Fund (IF)									
TBP PPP									
Tibar Bay Port PPP O&M stage - Independent Hydrographic Survey				0.09	0.1	0.1	0.1	0.1	0.1
Tibar Bay Port PPP O&M stage - Independent Hydrographic Expert					0.05	0.05	0.05	0.05	0.05
SUB TOTAL	**0**	**0**	**0**	**0.09**	**0.15**	**0.15**	**0.15**	**0.15**	**0.15**
Medical Diagnostic PPP									
FS FASA & PT FASA*	0.09	0.66	0	0.34	0.34	0	0	0	0
IM* payment		0	0	0	0	0	0	0	0
SUB TOTAL	**0.09**	**0.66**	**0**	**0.34**	**0.34**	**0**	**0**	**0**	**0**
Affordable Housing PPP									
FS FASA & PT FASA*	0.11	0	0.17	0.73	0.28	0.34	0	0	0
Resettlement – Site Clearance					2.0	0	0	0	0
Construction (Infra., E&S cost)						5.7	2.5	1.9	0
SUB TOTAL	**0.11**	**0**	**0.17**	**0.73**	**2.28**	**6.04**	**2.5**	**1.9**	
Tourism PPP									
Tourism and relevant infrastructure [PPP – preparatory works, design and studies, TSR and preparation of tender documents] - **Lagoa Seloi Kraik**				0.22	0.22	0	0	0	0

	2021 Actual	2022 Actual	2023 Actual	2024 Est.	2025 Est.	2026 Est.	2027 Est.	2028 Est.	2029 Est.
Tourism and relevant infrastructure [PPP – preparatory works, design and studies, TSR and preparation of tender documents] - **Marobo Hot Spring**					0.22	0	0	0	0
Tourism and relevant infrastructure [PPP – preparatory works, design and studies, TSR and preparation of tender documents] - **Valusere/Jaco Beach**					0.22	0	0	0	0
Tourism and relevant infrastructure [**Site Clearance**]					0.33	0	0	0	0
SUB TOTAL	**0**	**0**	**0**	**0.22**	**1.00**	**0**	**0.00**	**0**	**0**

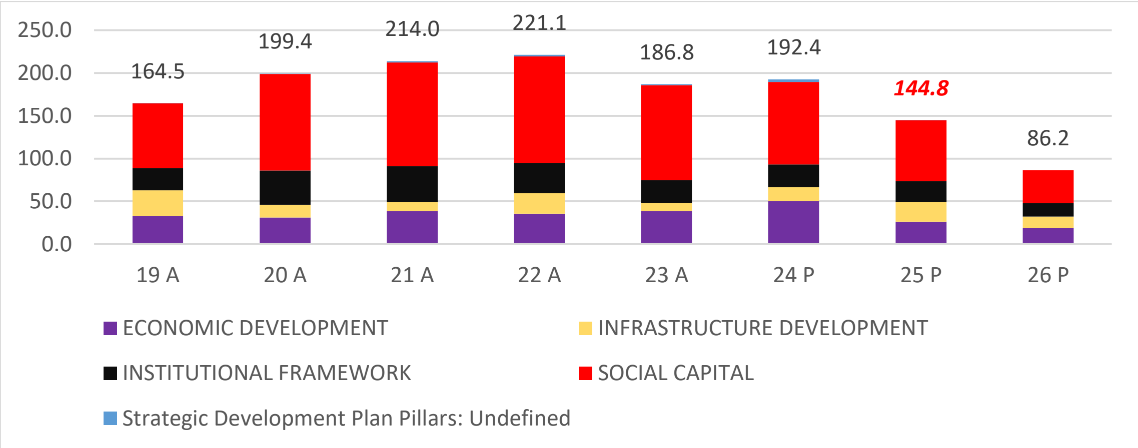
Source: Ministry of Finance, * FS = Feasibility Study, FASA = Financial Advisory Service Agreement, PT = Post Transaction, IE = Independent Engineer, IM = Independent Monitoring, TSR = Transaction Structuring Report, LACSP = Land Acquisition and Compensation Support Plan.

Development Partners

Non-Lending Forecasts

4.51. The chart below shows the evolution of disbursements of Non-Lending development assistance from 2019 onwards. The steep increase in funding from 2019 to 2020 reflects the increase in assistance as a result of the COVID-19 pandemic. The steep decrease in 2023 is as a result of uncertainty in government projects and development assistance following the election. 2025 Planned disbursements are currently reported as USD $144.8 million. 2025 will see an adherence to the trend of donor assistance supporting the social capital pillar which contains education and training and health.

Figure 23: 2019-2023 Actual Disbursements and 2024-2026 Planned Disbursements, US$ millions



Source: Aid Transparency Portal, report generated on 20 September 2024. The data does not include Direct Budget Support figures.

4.52. In addition we see an increase in the infrastructure pillar, this reflects the upcoming investment in the "Project for the Improvement of Presidente Nicolau Lobato International Airport." Forward year estimates show a sharp decline in development partner non-lending assistance, however, two important points should be noted: (i) historically, development partner multi-year indicative future spending tends to be underreported; (ii) the Aid Transparency Portal collects information at the project level, meaning that if funds have not yet been committed to a fully designed project they will not be included in the analysis.

4.53. The tables below provide expenditure by fund source and SDP sub-pillar.

Table 37: Planned Development Partner Disbursements by Fund Source for 2024, US$

Fund Source	2025 Planned US$
Government of Australia	55,658,880
Government Of Japan	35,869,633
Korean International Cooperation Agency	8,724,177
World Bank	7,168,974
The Global Fund to Fight AIDS, Tuberculosis and Malaria	5,805,180
European Union	5,576,443
United States Agency for International Development	5,029,465
United Nations Population Fund	4,180,000
World Food Program	3,909,602
UNICEF	2,738,833
World Health Organization	2,524,500
New Zealand Aid Programme	2,483,306
Green Climate Fund	2,146,485
Portugal	1,504,436
Asian Development Bank	1,047,000
Global Environment Facility Trust Fund	341,100
UNESCO	61,600
Swedish International Development Cooperation Agency	8,200
TOTALS	144,777,815

*Figures do not include Direct Budget Support to be provided by Australia (see below). Source: General Directorate for External Resource Mobilisation (DGMRE), Ministry of Finance, September 2024

Table 38: Planned Disbursements by SDP Sub-pillar and Pillar for 2025, US$

SDP	SDP Sub-pillar	2025 Planned
Social Capital	Health	30,761,797
	Education and Training	24,922,632
	Social Inclusion	11,215,956
	Environment	3,866,538
	Culture and Heritage	180,383
Subtotal		**71,029,496**
Economic Development	Rural Development	12,081,702
	Agriculture	12,440,899
	Private Sector Investment	1,426,895
	Tourism	16,072

SDP	SDP Sub-pillar	2025 Planned
	SDP Sub- Undefined	311,548
Subtotal		**26,277,117**
Infrastructure Development	Airports	20,669,980
	Roads and Bridges	722,795
	Water and Sanitation	878,827
	Sea Ports	166,177
	Electricity	150,000
	SDP sub undefined	391,884
Subtotal		**22,979,663**
Institutional Framework	Public Sector Management and Good Governance	19,925,009
	Security	3,647,466
	National Investment Agency and Economic Policy and Investment Agency	256,468
	Justice	656,358
Subtotal		**24,485,301**
SDP Undefined		6,238
TOTAL		144,777,815

Source: Aid Transparency Portal, Ministry of Finance, 20 September 2024.

Direct Budget Support

4.54. Timor-Leste has previously received direct budget support from the European Union, the Government of Australia and the International Labour Organization (one-off support in 2020). DBS is considered as financing for 2025 State Budget because it uses Government systems (the money is into Treasury) and on-budget, where the funding is used directly by the beneficiary ministries.

4.55. In 2025, only Australia will be making use of this method of delivery of support through three government programs. The figures below are not included in the reporting above since these will be reflected in other areas of the Budget information.

Table 39: Donor Budget Support 2025, US$m

Donor Budget Support	Government program	Amount $USm
Australia	New Health Program	5.9
	Labour Mobility Program	2.1
	PNDS	1.0
Australia Direct Budget Support Total		***9.0***

Source: Aid Transparency Portal, Ministry of Finance, 20 September 2024.

Table 40: Summary of Development Partner Support to Beneficiary Ministry 24-26 Planned, US$m

Beneficiary Ministry	2024 Plan		2025 Plan	2026 Plan
Ministry of Health	33.8		25.8	14.2
Ministry of Transportation and Communications	6.2		23.2	13.7
Ministry of Education	17.1		15.5	8.2
Ministry of Agriculture, Livestock, Fisheries and Forestry	29.3		15.4	7.
Ministry of State Administration	8.7		8.1	5.5

Beneficiary Ministry	2024 Plan		2025 Plan	2026 Plan
RDTL Institution Unspecified	10.1		6.6	2.5
Ministry of Public Works	20.9		6.3	6.1
Ministry of Interior	7.3		5.1	4.3
Ministry of Finance	3.4		4.6	1.1
Presidency of the Council of Ministers	5.4		4.4	3.4
Ministry of Youth, Sport, Art, and Culture	12.3		4.3	0.7
Ministry of Higher Education and Science	5.7		3.7	2.1
Minister Coordinator of Economic Affairs	5.5		3.5	2.8
Ministry of Foreign Affairs and Cooperation	2.1		2.8	1.8
Ministry of Social Solidarity and Inclusion	3.		1.9	1.7
Ministry of Trade and Industry	1.2		1.2	0.
Ministry of Rural Development and Community Housing	0.8		1.1	1.1
Coordinating Ministry for Social Affairs	5.2		0.8	0.
Ministry of Planning and Strategic Investment	0.4		0.4	0.3
Ministry of Tourism and Environment	1.6		0.4	0.2
Office of the Prime Minister	1.		0.2	0.
Ministry of Justice	0.7		0.1	0.
National Election Commission	0.3		0.	0.
National Parliament	0.5		0.	0.
Non-government sector	9.7		9.5	9.5
Totals	**192.4**		***144.8***	**86.2**

Source: General Directorate for External Resource Mobilisation (DGMRE), Ministry of Finance, September 2024

Cash Balances

4.56. The total actual revenue of the General State Budget for 2023 was US$1,798.5 million, comprising domestic revenues of US$239.5 million, transfers from the Petroleum Fund of US$1,090.0 million, end of year balance (from the Treasury and RAEOA) of US$368.4 million, and loans of US$25.4 million.

4.57. During the year ending on December 31, 2023, a total of US$1,090.0 million was transferred from the Petroleum Fund to cover the operational needs of the Government. This represents 90% of the transfer forecasted for the year 2023 (US$1,208.2 million) and is US$599.9 million above the ESI.

4.58. After accounting for 2023 expenses and other equity adjustments, the total cash balance available, both in the Treasury Account and RAEOA-ZEESM, amounted to US$$278.8 million at the end of 2023 (to be carried forward to 2024).

4.59. The Cash Balance held in Treasury and RAEOA as of December 31, 2023, is indicated below

Table 41: Central Government and RAEOA cash balance in the end of 2023, US$m

Account	Value – US$m
FCTL	68,766
FI	34,273
FDCH	3,088
Fundo COVID-19	6,570
LMs with Financial Autonomy (11LMs in 2023)	19,183
Autonomous Agencies	41,859
Municipalities	10,382
FEDA	2,538
Total Central Administration	**186,659**

Account	Value – US$m
+ Cash Balance (School Feeding and PNDS Program) at Commercial Bank	31,686
RAEOA	**92,177**
Total Central Government + RAEOA	**310,522**

Source: Directorate General of Treasury, Ministry of Finance, September 2024

4.60. By the end of August 2024, the total domestic revenue collected and deposited in the Consolidated Fund of Timor-Leste (FCTL) and other accounts of the Central Bank of Timor-Leste was US$133.8 million, which represents 69% of total estimation for the year 2024 (of US$194.5 million).

Table 42: Central Government and RAEOA cash balance by end of August 2024, US$

Account	Value
FCTL	1,349
FI	12,197
FDCH	3,632
Fundo COVID-19	432
Autonomous entities	41,069
LMs	117,836
Special Development Fund of Atauro	2,335
Municipalities	19,872
Total Central Government	**198,722**
RAEOA	**11,361**
FEDR	**17,828**
Grand Total	**227,911**

Source: Directorate General of Treasury, Ministry of Finance, September 2024

4.61. By the end of July 2024, a total of US$650.0 million (47% of the total allowable transfers in 2024 of US$1,377.5 million) had been transferred from the Petroleum fund to the Treasury account to cover the budget execution needs of the state.

4.62. Subtracting total expenditure from the revenue derived from Petroleum Fund transfers, the end of year cash balance, external loans and domestic revenue, results in a total cash balance of US$227.9 million at the end of August 2024.

4.63. Treasury predicts a total reconciled cash balance for Central Administration of US$200.0 million. This amount will be used to finance expenditure in 2025 as described in the table below. RAEOA predict that their cash balance will be US$52.2 million by the end of the year. From, RAEOA's cash balance, US$51.5 million will be used to finance expenditure by the authority.

Financing

4.64. The table below provides the financing sources for the Central Administration and RAEOA for Budget 2025 and projections for financing in future years.

4.65. The total expenditure projected in future years is in line with the expenditure levels required to achieve the Government's growth target. A proposed allocation for this expenditure is available in the Macroeconomic Overview section of the document.

Table 43: Financing for the Central Administration and RAEOA 2023-2028, US$m

Financing Sources	Original OGE 2024	Proposed OGE 2025	Proj. 2026	Proj. 2027	Proj. 2028	Proj. 2029
Total Petroleum Withdrawals	**1,377.5**	**1,561.1**	**1,612.8**	**1,766.5**	**1,938.9**	**2,112.3**
Estimated Sustainable Income (ESI)	522.1	551.9	528.1	501.8	469.5	430.6
Excess Withdrawals	855.5	1,009.1	1,084.7	1,264.7	1,469.4	1,681.7
Domestic Revenues	**194.5**	**258.6**	**272.2**	**288.1**	**305.6**	**325.0**
Central Administration	192.2	257.9	271.5	287.3	304.8	324.1
RAEOA Non-Tax Revenues	2.3	0.7	0.8	0.8	0.8	0.9
Loans	**25.0**	**45.0**	**25.3**	**18.2**	**15.8**	**15.0**
Direct Budget Support*	**15.2**	**9.0**	**9.0**	**9.0**	**9.0**	**9.0**
Cash Balance Financing	**277.7**	**251.5**	**294.7**	**257.8**	**241.2**	**250.3**
Central Administration	220.0	200.0	285.1	252.8	236.2	245.3
RAEOA	57.7	51.5	9.6	5.0	5.0	5.0
Total	**1,890.0**	**2,125.2**	**2,214.0**	**2,339.6**	**2,510.5**	**2,711.7**

Note:* DBS projection from 2026-2029 assume that DBS level will stay constant but are not based on any agreement. Source: National Directorate for Economic Policy, DNPE Ministry of Finance, September 2024.

4.66. The table below provides the financing sources for the Social Security Fund for Budget 25 and projections for future years.

Table 44: Financing for the Social Security 2023-2028, US$m

	Approved Budget 2024	Proposed Budget 2025	Proj. 2026	Proj. 2027	Proj. 2028	Proj. 2029
National Instiute of Social Security (INSS)	**142.6**	**176.3**	**200.3**	**200.6**	**199.0**	**199.7**
Social Security Contributions	*55.9*	*50.5*	*64.7*	*65.1*	*65.1*	*65.4*
Fines and Penalties	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
Income	*0.1*	*0.1*	*0.1*	*0.1*	*0.1*	*0.1*
Transfers from the Central Administration	*86.7*	*124.3*	*133.9*	*133.8*	*132.1*	*132.4*

	Approved Budget 2024	Proposed Budget 2025	Proj. 2026	Proj. 2027	Proj. 2028	Proj. 2029
Recurrent Transfers from the Social Security Reserve Fund	*0.0*	*0.4*	*0.6*	*0.6*	*0.7*	*0.8*
Transfers from 3rd Countries	*0.0*	*0.1*	*0.1*	*0.1*	*0.1*	*0.1*
Cash Balance	*0.0*	*1.3*	*1.0*	*1.0*	*1.0*	*1.0*
Social Security Reserve Fund (FRSS)	**254.8**	**305.7**	**376.9**	**448.5**	**522.5**	**599.9**
Income	*5.0*	*12.6*	*13.2*	*16.4*	*20.4*	*24.9*
Recurrent Transfers From INSS	*0.0*	*2.0*	*2.5*	*3.0*	*3.0*	*3.0*
Capital Transfers from INSS	*49.8*	*45.2*	*56.5*	*53.8*	*52.5*	*51.5*
Financial Assets	*200.0*	*244.9*	*303.7*	*374.4*	*445.5*	*519.5*
Cash Balance	*0.0*	*1.0*	*1.0*	*1.0*	*1.0*	*1.0*
Total	**397.4**	**482.0**	**577.2**	**649.2**	**721.5**	**799.6**
Consolidated Total	**347.6**	**434.4**	**517.7**	**591.8**	**665.3**	**744.3**

Source: *Source: INSS, September 2024.*

I. Annex 1: Methodological Note

Fiscal Sustainability Model Methodology

The Ministry of Finance conducts fiscal sustainability analysis for the budget ceiling chosen each budget cycle. Using modelling, the impact of the selected budget ceiling on the long-term sustainability of Timor-Leste can be estimated, specifically the overall balance of the Petroleum Fund.

In order to produce the analysis, we need to project expenditure, domestic revenues and the performance of the Petroleum Fund. Below we summarize the main data and assumptions in the model that are used to achieve this.

Actual Data

Petroleum Withdrawal in 2024- The withdrawal figure from the Petroleum Fund in 2024 is as set out in the budget proposal for Budget 2024. The withdrawal figure for 2025, is also as set out in this document. Trend analysis suggests that budget execution will reach 86% in 2024. The budget assumes that this execution rate will remain similar in 2025. Any surplus from available financing exceeding budget execution is assumed to be added back into the Petroleum Fund.

Petroleum Fund Data– The model uses data from the Petroleum Fund as of September 2024. This includes the Petroleum Fund balance, information on the asset split of the Petroleum Fund, and latest information on Withdrawals and Estimated Sustainable Income.

Loans and Direct Budget Support Data – The model incorporates disbursement forecasts for loans and direct budget support mentioned in this document.

Assumptions/Projections

Due to uncertainty of future variables in the model, e.g., the budget of future years, the model uses a few assumptions.

Government Expenditure - Government expenditure between 2025 and 2028 is assumed to increase in line with the levels required to meet the Government's economic growth targets (ie expenditure rises of 5-8% a year). A proposal for the level and breakdown of the expenditure is provided in the Macroeconomic Overview part of section 1 of this document. Beyond 2028, expenditure levels are assumed to increase with long run inflation and population growth (roughly 4% a year).

Domestic Revenues- Unless specifically stated for an individual scenario, the model predicts that between 2024 and 2028 domestic revenues will rise in line with forecasts from the National Directorate of Economic Policy at the Ministry of Finance as published in this document. Details on how these forecasts were produced are available under the revenue section of the methodology annex.

Beyond 2028, domestic revenues are assumed to increase in line with long run inflation and population growth assumptions[12].

Petroleum Fund ROI - The model also uses up to date assumptions on the estimated rate of return on petroleum fund from the Petroleum Fund Unit in the Ministry of Finance. The Petroleum Fund is segmented into a growth and liquidity component. As per assumptions from the Petroleum Fund Unit as of November 2023, we assume that the growth component has an ROI of 4.7% whilst the liquidity component is assumed to have an ROI of 2.5%. The liquidity component of the fund is assumed to be sufficient to finance three

[12] Long run population growth is assumed to be 2% Long run inflation is assumed to be 2% as well.

years of withdrawals. To model this we assume that the liquidity component each year is three times the amount of the withdrawal.

Loans and Direct Budget Support Beyond 2028 - The model doesn't account for revenue direct budget support beyond 2029. Since direct budget support is a very small part of the Government budget, including it is not likely to have a significant impact on the results. Loan disbursement beyond 2029 is estimated as the average disbursement between 2024 and 2029.

Petroleum Revenues – The modelling assumes that no additional petroleum resources are extracted once revenues from existing oil fields are fully depleted.

Domestic Revenue Forecast Method

Revenue forecasts are produced as below:

Sales taxes, import duties and excise taxes are assumed to grow in line with import growth. This is because these taxes are collected at the border and there are no changes to policy.

Income, Wage and Service taxes are assumed to maintain a constant ratio with Nominal GDP in the absence of changes to the tax base or tax policy.

Therefore as GDP and imports rise, so do tax collections.

Non-Tax revenues are assumed to grow in line with population and inflation growth.

Forecasting GDP

The GDP forecasts in this document have been produced using a macroeconomic modelling framework developed through technical assistance from the IMF's Singapore Training Institute (STI) and Pacific Financial Technical Assistance Centre (PFTAC).

The Government's contribution to GDP is estimated by analysing the execution of government spending in 2024 and applying historic execution trends to the Government's budget proposal for 2025. For 2026 to 2029, we assume that government recurrent expenditure rises with population growth and inflation and that capital expenditure rises with amounts and allocations required to reach the Government's growth targets. We also assume that government execution rates will see steady improvements as a result of the PFM and procurement improvements mentioned in this document. As a result the proposed medium term budget allocations displayed in the Macroeconomic Overview section appear to growth at different rates to the aforementioned assumptions.

Forecasts for private sector consumption and investment activity are informed by analysis of historical trends in consumption, investment, remittance information from the Balance of Payments and private sector credit. The private sector is assumed to see strong consistent growth from 2026 to 2029 as we assume that the economic pre-conditions outlined in the Macroeconomic Outlook and Fiscal Strategy section in this document will be fulfilled.

Economic forecasts in this document aim to predict annual GDP growth rates over the next five years. Whilst this is important to support government planning decisions, it should be noted that these predictions are dependent on assumptions and therefore include an element of uncertainty. The previous section outlined certain pre-conditions, based on government plans, which had to be fulfilled for the longer term forecasts to be realised. Other than this, there is further uncertainty.

The key sources of uncertainties in the budget forecasts provided above are as follows:

- Execution of Budgets
- Allocation and quality of government expenditure

- Volume of Imports.

Execution rates can differ year on year and are subject to political and economic risks. For example, executed expenditure is expected to see a large fall this year due to the election. Similarly executed expenditure was impacted in 2017, 2019 and 2020 by political crisis and COVID-19.

Execution rates will also depend on the absorptive capacity of different line ministries. This is the amount that line ministries are able to spend regardless of their budget. For example, line ministries that see a large increase in their budgets might not have the capacity to execute the higher spending due to resource constraints. If execution rates fall below expected (forecasts assume historic execution rates are maintained) then GDP forecasts presented in this document are likely to be overestimates.

Similarly, the forecasts presented above make assumptions on the allocation and quality of expenditure. The above forecasts assume that there will be a large shift towards capital expenditure as the Government looks to target higher growth rates. It also assumes that this expenditure will be spent on high quality investments that lead to improvements in the country's capital stock.

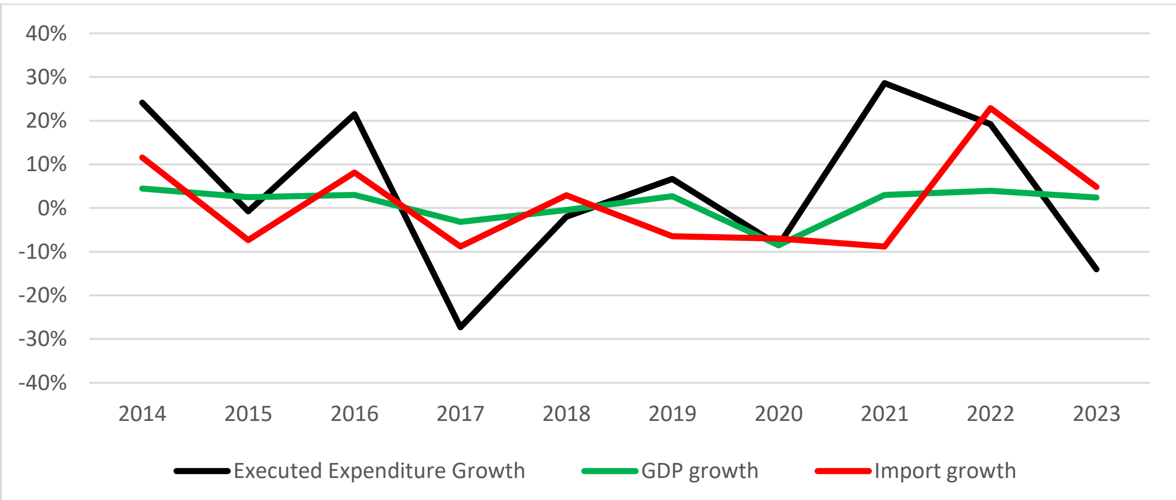
If higher budgets are instead allocated towards unproductive transfer spending or on inefficient projects, the GDP forecasts will not be attained.

Another major uncertainty arises from imports. If government spending is particularly import-dependent, meaning that much of the new spending goes to goods and services from outside Timor-Leste, the GDP forecasts for future years may be reduced downwards as imports have a negative effect on final GDP.

The combination of quality of government expenditure and level of imports means that higher government expenditure in Timor-Leste has not been correlated with higher GDP growth. In the graph below, there appears to be some correlation between growth in government expenditure and growth in imports.

However, large spikes in government expenditure growth have not been correlated with large spikes in economic growth. This could be because increases in government expenditure do not necessarily correspond to improvements in quality expenditure. At the same time, lower budgets with more efficient and higher quality expenditure can potentially lead to higher economic growth and help preserve the Petroleum Fund.

Figure 24: GDP growth compared with expenditure and Imports growth, %



Source: Analysis National Directorate of Economic Policy, Ministry of Finance, September 2024 based on National Accounts Data from INETL and Fiscal Data, Ministry of Finance

Comparison between the macroeconomic and budget forecasts used and forecasts made by international reference bodies

A comparison of Ministry of Finance forecasts with forecasts from other institutions is provided below. All institutions use different assumptions or data sources when making their forecasts and therefore there are often differences in projections between institutions. Often the Ministry of Finance will have more timely information related to public spending plans than other institutions.

Table 45: GDP growth rate forecast, %

Institution	2024	2025	2026	2027	2028	2029
Ministry of Finance	3.7	4.1	4.4	4.9	5.1	5.4
IMF*	3.5	3.2	3.1	3.0	3.0	3.0
World Bank	3.0	4.0	3.8			
ADB	3.1	3.9				
National Statistics Institute (INETL	3.7					

Source: IMF World Economic Outlook April 2024 *IMF numbers are likely to change in the November update to the World Economic Outlook, World Bank Timor-Leste Economic Report July 2024, ADB Forecasts September 2024, National Institute of Statistics Timor-Leste, INETL.

The table below provides a comparison between the macroeconomic and budget forecasts used in the OGE law for the previous budget year and the actual evolution observed.

GDP growth for 2023 was originally forecasted at 2.2% last year. The final growth figure was 2.4%. Growth for 2024 was originally forecasted at 4.1%. Our revised forecast this year suggests 3.7% due to lower than anticipated execution, particularly in the first 6 months of the year.

The growth forecast for 2025 was originally forecasted at 4.9% on based on proposed budget allocations last year that had a substantially higher allocation for capital expenditure. Based on the budget allocations in the budget proposal, GDP growth is now forecasted to reach 4.1% in 2025.

Table 46: Macroeconomic forecasts in 2024 draft budget report vs. 2025 draft budget report, %

Item	2024 draft budget report			2025 draft budget report		
	2023	2024	2025	2023	2024	2025
GDP growth %	2.2	4.1	4.9	2.4	3.7	4.1
CPI %	8.4	2.5	2.0	8.4	3.0	2.2

Source: National Directorate of Economic Policy, Ministry of Finance

II. Annex 2: Financial Information from Public Enterprises

This section provides information from revenues and expenditure, where available from SOEs. The amount of detail provided varies according to the individual state-owned enterprise.

Table 47: Bee TL, $US

Operational Information	**2021**	**2022**	**2023**
Revenues	451,805	748,689	1,155,210
Government and Other Grants		5,400,454	6,995,483
Personnel Costs	(1,199,764)	(3,303,301)	(3,802,311)
External Supplies and Services	(969,348)	(2,791,104)	(3,349,520)
Earnings before interest, taxes and depreciation	**(1,717,307)**	**54,739**	**998,862**
Depreciation and amortization expenses/reversals	(16,333)	(99,157)	(643,871)
Operating Result	**(1,733,640)**	**(44,419)**	**354,991**
Similar interest and yields	78,306	172,149	335,038
Interest and similar expenses	-	-	-
Net Financing Costs	**78,306**	**172,149**	**335,038**
Gains earned on associates net of tax	-	-	-
Earnings Before Tax	**(1,655,334)**	**127,730**	**690,029**
Income tax		-	-
Continuous operating year result	**(1,655,334)**	**127,730**	**690,029**
Net income for the period	**(1,655,334)**	**127,730**	**690,029**
Other Comprehensive income		-	-
Total Comprehensive Income, net of tax	**(1,655,334)**	**127,730**	**690,029**
Cash and Bank Deposits	**31,096,227**	**37,822,429**	**40,765,375**

Table 48: EDTL, $US

	Exercise 30/12/2021	**Exercise 31/12/2022**	**Exercise 31/12/2023**
Operations in Continuity			
Revenues	41,407,054	47,564,184	53,518,704
Government Grants	157,933,907	148,653,498	70,000,000

	Exercise 30/12/2021	Exercise 31/12/2022	Exercise 31/12/2023
Cost of goods sold and materials consumed	- 79,765,421	- 86,280,104	- 117,203,429
Personnel Costs	- 4,918,695	- 6,395,651	- 7,868,827
External Supplies and Services	- 23,500,741	- 29,233,596	- 44,171,465
Earnings before interest, taxes and depreciation	**91,156,105**	**74,308,331**	**- 45,725,017**
Depreciation and amortization expenses/reversals	- 1,144,277	- 2,581,100	- 5,251,070
Operating Result	**90,011,828**	**71,727,231**	**- 50,976,087**
Similar interest and yields	110,599	469,710	625,114
Net Financing Costs	110,599	469,710	625,114
Earnings Before Tax	**90,122,427**	**72,196,941**	**- 50,350,972**
Income tax	- 9,012,243	- 7,219,694	-
Result of the year of operations in continuity	**81,110,184**	**64,977,247**	**- 50,350,972**
Total Comprehensive Income, Net of Tax	81,110,184	64,977,247	- 50,350,972
Cash and Bank Deposits	**85,012,256**	**131,702,851**	**73,669,127**

Table 49: ANPM, $US

	2021	2022	2023
Revenue Other Income			
Contract Service Fees	320,000	320,000	325,000
Subsidy	8,735,000	8,500,001	8,500,000
Downstream fees	1,197,683	1,010,899	946,208
Downstream Licenses - trading fees	117,913	123,417	122,039
Interest	70	1,118	3,935
Other income			180,000
Total Income	**10,370,666**	**9,955,435**	**10,077,182**
Expenses			
Employee costs	3,024,473	4,357,393	4,406,929
General And Administration	3,957,287	6,570,227	4,820,286
Depreciation and Amortization	4,074,821	287,092	239,955
Interest Expense	273	689	36
Net Loss in Foreign Exchange	1,551	4,316	-17
Total Expenses	**7,391,065**	**11,219,717**	**9,467,189**

	2021	2022	2023
Deficit/Surplus for The Year	**2,979,601**	**-1,264,282**	**609,993**
Cash Balance	**88,570,820**	**383,503,265**	**55,909,871**

Table 50: Murak Rai Timor, $US

Category	Amount in 2023
Total Revenues 2023	**2,000,528**
Transfer from Government	*2,000,000*
Bank Interest	*529*
Total Expenses 2023	**66,766**
Salary & Wages	*53,791*
Travel & Expense	*4,697*
Motor Vehicle Expenses	*74*
Telephone & Communications	*51*
Misc General Costs	*599*
Organisation/ Directorate Promotion	*282*
Minor Equipment	*85*
Consultants	*2,000*
Others Capital Items	*475*
Misc General Costs	*4,370*
Printing & Copying	*306*
Bank charges	*37*
Net Income (Loss)	**1,933,762**
Cash Balance December 31st 2023	**1,927,296**

Table 51: Timor Gap, US$

Particulars	Year ended 31 Dec'21	Year ended 31 Dec'22	Year ended 31 Dec'23
Revenue			
Revenue from contract with customers	20,665,059	29,055,843	21,565,926
Other income	17,411,308	16,921,616	26,458,650
Revenue (A)	**38,076,367**	**45,977,459**	**48,024,576**
Purchase of Stock of Fuel	20,034,982	30,258,764	22,071,283
(Increase)/decrease in inventory	57,099	(35,628)	3,036
Employee Costs	4,249,097	4,498,389	4,744,772
Finance Cost	31,705,202	33,041,188	34,500,787
Impairment Expense	1,690,632	956,374	1,189,160
Depreciation and amortization expense	904,967	893,131	1,064,952
Exploration and evaluation cost		1,074,800	2,499,549
Other expenses	5,586,665	9,744,696	19,199,421

Particulars	Year ended 31 Dec'21	Year ended 31 Dec'22	Year ended 31 Dec'23
Total Expense (B)	**64,228,644**	**80,431,714**	**85,272,960**
Profit Before share of Profit/(Loss) of Associates and tax (C) = (A-B)	(26,152,277)	(34,454,255)	(37,248,384)
Share of Profit/(Loss) of Associates (D)		**-**	(2,250)
Profit/(Loss) before tax (E)= (C-D)		(34,454,255)	(37,250,634)
Tax expense			
Income tax expense	674,992	19	-
Income tax expense (earlier years)	(452,859)	-	-
Deferred tax charge/(Credit)	35,553	(27,147)	63,339
Total Tax Expense (F)	**257,686**	**(27,128)**	**63,339**
Profit/(Loss) after tax (G)= (E-F)	**(26,409,963)**	**(34,427,127)**	**(37,313,975)**
Other Comprehensive Income			
Items that will not be reclassified to profit or loss:			
Remeasurement gain/(loss) on defined benefit plans (net)	**115,715**	**270,231**	**(114,367)**
Income tax effect on above	**(11,572)**	**(27,023)**	11,437
Total Other Comprehensive Income (H)	**104,143**	**243,208**	**(102,930)**
Total Comprehensive Profit/(Loss) (I)= (G+H)	**(26,305,820)**	**(34,183,919)**	**(37,416,905)**
Total Profit/(Loss) attributable to :			
Timor GAP, E.P	(26,417,049)	(34,427,147)	(37,313,887)
Non-Controlling Interest	7,086	20	(88)
Total Comprehensive Profit/(Loss) attributable to :			
Timor GAP, E.P	(26,312,906)	(34,183,939)	(37,416,817)
Non-Controlling Interest	7,086	20	(88)
Cash Balance	**34,503,510**	**79,377,491**	**106,053,463**

Table 52: BNCTL, US$

	2021	2022	2023
Operating Income			
Interest Expense	14,211,492	21,673,174	40,770,314

	2021	2022	2023
Net Interest Income	-1,190,059	-2,610,437	-3,473,596
Net Interest Income	**13,021,433**	**19,062,737**	**37,296,718**
Fees and commission income	4,536,326	5,449,262	5,855,948
Fees and commission income	-170,758	-371,092	-626,863
Net Fees and commission Income	**4,365,568**	**5,078,170**	**5,229,085**
other income	457,698	429,887	264,989
Total Net Operating Income	**17,844,699**	**24,570,794**	**42,790,792**
Operating Expense			
Net Impairment loss on financial assets	1,330,829	3,648,264	9,586,126
Personel expenses	4,847,270	6,516,133	7,558,263
General and administrative expenses	2,524,620	3,786,362	4,844,586
Depreciation and amortization	1,695,189	2,148,008	1,959,751
Other expenses	1,389,603	2,339,593	3,235,546
Depreciation charge for right-of-use assets	121,117	111,241	148,658
Total Operating Expense	**11,908,628**	**18,549,601**	**27,332,930**
Profit Before Income Tax	**5,936,071**	**6,021,193**	**15,457,862**
Tax income / (expense)			
Current	-171,962	-671,332	-1,686,655
Defferred	-421,645	35,229	-133,520
Tax income / (expense)	-593,607	-636,103	-1,820,175
Profit For the Year	**5,342,464**	**5,385,090**	**13,637,687**
Other Comprehensive Income/Loss For the Year		-	
Total Comprehensive Income for the Year	**5,342,464**	**5,385,090**	**13,637,687**
Cash Balance	**308,529,262**	**545,676,326**	**443,272,481**

Table 53: RTTL, US$

Category	Amount in 2023
Revenues	3,666,481
Transfer from the Budget	1,986,479
Other Revenues	1,680,002
Expenditure	3,666,481
Cash Balance	497,895

Table 54: ANATL, US$

Information From 2023	Total
INITIAL BALANCE (Balance tp 2022)	366,058
Revenues	
Government Subsidy/State Budget 2023	1,634,000
Other Receivables/Redeposit	50
Bank Interest	327
Total Revenues	1,634,377
GRAND TOTAL	2,000,435
Regular and permanent salary and allowances	754,941
Individual Tax 10%	22,432
Variable or occasional allowances	36,838
Social security contribution	59,994
Clothing and personal items	-
Public Goods	7,097
Feeding	925
Office Supplies	14,648
Combustible	20,000
Maintenance, cleaning and safety	440,595
Communications	48,164
Transport	22,287
Catering	13,500
Professional Services	93,106
Publishing, copying and printing	8,215
Current Transfers	1,500
Other Current Expenses	12,009
Real estate	63,399
Kliring to CFET (Balansu Subvensaun 2022)	366,058
Grand Total	1,985,708
FINAL BALANCE AT THE COMMERCIAL BANK	14,727

III. Annex 3 – Petroleum Fund Certificate

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