

Statement of Reasons

Draft General State Budget Law for 2027

Pursuant to Article 97.1(c) and Article 115.2(a) of the Constitution of the Democratic Republic of Timor-Leste, the Government submits to the National Parliament the Draft Law on the General State Budget for 2027.

This proposal is prepared under Law No. 3/2025, of April 23, Framework of the General State Budget and Public Financial Management, amended by Law No. 8/2026, of June 8, and presents the revenue and expenditure forecasts of the services and entities of the Public Administrative Sector for the period between January 1 and December 31, 2027. The Budget includes the subsectors of Central Administration, Social Security and the Special Administrative Region of Oe-Cusse Ambeno.

Under the motto "Strengthening Resilience through Transformation: Diversifying the Economy for a Sustainable Future," the 2027 Budget continues the priorities of the IX Constitutional Government's Program and the 2011-2030 Strategic Development Plan. The proposal combines the continuity of essential public services with investments and reforms aimed at expanding productive capacity, creating jobs, improving living conditions, and reducing the economy's vulnerability to external shocks.

The preparation of this Budget introduces a planning approach based on estimates for the period 2027 to 2031. Identifying the continuity costs of existing policies, services and commitments allows for the establishment of a baseline to separately assess new government priorities, efficiency measures and additional spending needs. This approach strengthens the link between policy decisions, available resources and expected results.

Medium-term estimates allow us to understand the future costs of decisions made in 2027 and improve the predictability of public programs. However, they do not replace the annual authorization of expenditure by the National Parliament, nor do they exempt compliance with the legal requirements applicable to multi-year commitments. The organization of expenditure by program and information on performance should support the monitoring of implementation and the evaluation of results.

The budgetary strategy seeks to reconcile the investment necessary for economic transformation with the sustainability of public finances. Dependence on the Petroleum Fund continues to demand a rigorous selection of investments, control of permanent expenses, and strengthening of domestic revenues. Improving tax administration, treasury management, and project execution is therefore essential to preserve resources and ensure the continuity of service provision to future generations.

Regional integration presents an opportunity to expand markets, attract investment, and increase private sector participation in the economy. The proposal promotes improvements in infrastructure, skills, and conditions for conducting economic activity, seeking to transform these opportunities into jobs and income. Trade policy and tax reform measures should be accompanied by an assessment of their effects on revenue, prices, and the most vulnerable households.

The Central Administration Budget forecasts revenues and expenditures of \$2,487,425,696. The Budget of the Special Administrative Region of Oe-Cusse Ambeno amounts to \$56,106,818, including a transfer from the Central Administration of \$37,830,535, own

revenues of approximately \$1,276,283, and the use of \$17,000,000 from management balances. Excluding the transfer between these two subsectors, the respective total is \$2,505,701,979.

Within the perimeter of the Central Administration and the Special Administrative Region of Oe-Cusse Ambeno, expenditure comprises approximately \$520.7 million in salaries and wages, \$548.5 million in goods and services, \$939 million in public transfers, \$29.5 million in minor capital, and \$505.8 million in development capital. The composition of expenditure reflects the importance of public services, social protection mechanisms, and infrastructure investment for national development.

The Infrastructure Fund receives a budget allocation of \$326.5 million. To reinforce budgetary discipline and control of commitments, the proposed law establishes, for 2027, limits on the total accumulated value of contracts undertaken using financing from the funds covered by Article 6: \$3.7 billion for the Infrastructure Fund, \$32 million for the Special Development Fund of the Special Administrative Region of Oe-Cusse Ambeno, and \$2 million for the Special Fund for the Development of Ataúro.

It also stipulates that public expenditure in the category of salaries and wages may not exceed, in each subsector, the limits defined in paragraph 2 of the aforementioned article: \$11,200,756 for the Central Administration, \$9,531,887 for the Special Administrative Region of Oe-Cusse Ambeno and \$2,022,633 for Social Security, with the exception of the National Elections Commission and the Technical Secretariat of the Electoral Administration.

These measures aim to contain the accumulation of future expenses and the growth of the wage bill, reconciling the continuity of public investment and the functioning of services with the sustainability of public finances.

The Social Security Budget foresees a consolidated expenditure of \$186,205,423, after the elimination of the internal transfer of \$348,807 between the INSS and the FRSS. \$123,756,209 is transferred to the Central Administration to finance the non-contributory and transitional schemes and the administration of the INSS. The State's contribution, amounting to \$21 million, constitutes a separate expense, included in salaries and wages.

For 2027, the proposal maintains the social security contribution rate at 10%, split between 6% paid by the employer and 4% paid by the employee. Temporary reductions or exemptions of the private employer's share, intended to support adherence to the contributory scheme, remain possible under the law. The transfer of the positive balance from the previous year to the Social Security Reserve Fund is also foreseen, in accordance with Article 52, paragraph 2, of Law No. 3/2025, of April 23, amended by Law No. 8/2026, of June 8.

The financing of the Central Administration and the Special Administrative Region of Oe-Cusse Ambeno is based on revenues of approximately \$298.6 million, transfers from the Petroleum Fund, external financing, and the use of balances. The Central Administration anticipates \$11,237,719 in external transfers, \$75 million in loan disbursements, and \$213 million in management balances. These latter amounts, added to the \$17 million from the Region, total \$230 million in management balances for financing, subject to verification and treasury availability.

The proposal authorizes transfers from the Petroleum Fund up to \$1,890,879,049, of which \$540,507,778 corresponds to the Estimated Sustainable Income and \$1,350,371,271 to

withdrawals exceeding that income. The requirements of Articles 7 to 9 of Law No. 9/2005, of August 3, the Petroleum Fund Law, as amended by Laws No. 12/2011, of September 28, and No. 2/2022, of February 10, remain in effect. The proposal also conditions withdrawals exceeding the Estimated Sustainable Income on the existence of a Treasury account balance of less than \$200 million and notification to the National Parliament at least 10 days in advance.

The scale of the proposed withdrawals demonstrates the need to continue consolidating public finances. Use of the Fund must be accompanied by a demonstration of the long-term interest of the investments, an assessment of their impact on future sustainable income, and a strengthening of the mobilization of domestic revenues. Economic diversification and improved spending quality are essential conditions for reducing this dependence.

The proposal maintains the tax exemptions provided for in the legislation for public acquisitions of weapons and ammunition, medical assistance abroad, certain donations, and income of cooperation agents. It also defines selective consumption tax rates applicable to certain non-alcoholic beverages, beer, wine and other fermented beverages, tobacco, passenger cars, and captive-piston pistols for animal slaughter. The application of these measures must be monitored by the tax and customs administration to ensure collection and uniformity of treatment.

The preparation for consumption tax reform is part of the medium-term strategy. Fiscal policy estimates consider the introduction of VAT at a rate of 5% from 2028, dependent on specific legislation and the conditions necessary for its implementation. The definition of the regime must consider the effects on income and households, in conjunction with trade commitments and the capacity of tax administration.

In the area of public debt, it is proposed to authorize the Government to contract or issue debt up to a maximum amount of \$1.6 billion, with a maximum term of 40 years. In addition to strategic infrastructure, the authorization covers the exploration, refining, and transportation of oil and gas, associated investments, and water security. The contracting limit is distinct from the \$75 million in disbursements planned for 2027, and each operation must comply with legal requirements and be assessed for sustainability, costs, and risks.

The proposal also establishes a limit of \$50 million for state guarantees associated with the National Development Bank of Timor-Leste, under the terms set out therein and with reference to Article 7 of Decree-Law No. 32/2025 of October 10. The regime includes the registration of liabilities, the conditions for the execution of the guarantee, the subrogation of the State in the rights of the creditor, and the quarterly communication of information, to be integrated into the analysis of budgetary risks and the General State Account.

The management of budgetary risks is also supported by a contingency allocation of \$62,565,776, to be used under the conditions set out in the framework law. Monitoring guarantees, contractual commitments, public companies and liabilities for investment projects should allow for the early identification of pressures on expenditure and the adoption of appropriate measures.

The main measures of the General State Budget for 2027 include, among others:

- The development of the petroleum and mineral resources sectors, with an additional allocation of \$244.8 million for the policy priorities approved for 2027;

- Strengthening education and health services, with allocations of \$194.2 million and \$182.6 million, respectively, in the Central Administration and RAEOA, according to the functional classification of expenditure;
- The continuity of electricity supply, through a transfer of \$127.4 million to EDTL, E.P., which also supports the expansion of production capacity in Oe-Cusse Ambeno and the solar power plant in Ataúro;
- Maintaining support for National Liberation Fighters and vulnerable families, including \$156.2 million for recognition and support for veterans, fighters and martyrs, and \$11.7 million for mothers and children, primarily through the Bolsa da Mãe;
- Funding for school meals through municipal authorities, with an allocation of \$24.7 million, covering primary and preschool education;
- Strengthening fiscal equity and subnational administration, with an additional allocation of \$17.3 million, supporting decentralization and the provision of public services within the territory;
- Funding for election-related needs and ASEAN-related commitments, with an additional allocation of \$27.5 million;
- Strengthening public order and security, with an additional allocation of \$13.6 million;
- Promoting economic diversification through initial funding of priorities for niche tourism, with \$8.8 million, and for fisheries, with \$6.0 million, supporting the preparation of interventions and capacity building in these sectors;
- Strengthening the domestic revenue system with an additional allocation of \$5.0 million, as part of measures to improve revenue mobilization;
- Reducing inefficiencies in public spending, with projected savings of \$53.6 million across 62 entities, and reorienting the Infrastructure Fund, with projected savings of \$51.6 million by 2027.

Approved by the Council of Ministers on September 30, 2026.

The Prime Minister,

Kay Rala Xanana Gusmão

The Minister of Finance

Santina JRF Viegas Cardoso