

La'ó Hamutuk

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Press release

La'ó Hamutuk Considers that the Proposed 2023 State Budget Ignores the State's Actual Financial Situation

Yesterday 18 October 2022, the NGO La'ó Hamutuk sent a submission¹ to the Deputies in National Parliament about the proposed General State Budget Law for 2023. With this submission, La'ó Hamutuk wants to contribute to the debate on the 2023 budget so that it will be more sustainable and responsive to people's needs.

The annual Parliamentary debate about the budget is an opportunity for Members of Parliament, Government and the public to evaluate, discuss and design plans which are strategic and necessary to address the problems which have confronted our people and nation for years.

La'ó Hamutuk's submission includes the following main points:

➤ Sustainability

The real situation of state finances is already precarious, as La'ó Hamutuk has advised for many years. In the proposed 2023 budget, Government presented one scenario to extend the life of the Petroleum Fund until 2045. This would provide more time for the government to diversify the economy to delay the crisis which will come when we encounter a fiscal cliff because the Petroleum Fund is empty, which the Ministry of Finance projects will happen in 2034. According to the most sustainable model presented in the Government's *Report* on proposed 2023 budget, to prolong the Petroleum Fund to 2045, spending needs to be reduced by 3% each year through 2034. But tables in the budget books show spending, including withdrawals from the Petroleum Fund, increasing every year through 2027 (with no information after that). Therefore we think that even though Government is aware that this nation is in danger of falling over a fiscal cliff, it continues not to see it as important, and fails to respond to this reality. La'ó Hamutuk feels that there's no value in discussing a sustainable model if it is not implemented.

La'ó Hamutuk also observes that projections given by Government are inconsistent, and suggests that they provide Parliament and the public with more accurate projections of total spending and the cost of each program for the next four years, to help each Deputy make wise decisions.

➤ Petroleum Dependency

In its submission to Parliament, La'ó Hamutuk notes that Timor-Leste now depends mainly on the investment of the Petroleum Fund in international financial markets, which have lost more than \$2 billion already this year. Unfortunately, the budget books fail to describe this risk accurately, and their

¹ An English translation of the submission is at <https://www.laohamutuk.org/econ/OJE23/221017LHSubPNOGE2023en.pdf> and the Tetum original is at <https://www.laohamutuk.org/econ/OJE23/221017LHSubPNOGE2023te.pdf>

scenarios about the Petroleum Fund continue to assume returns of 4.1%/year in the future, and fail to consider the possibility of lower or negative returns.

Although the Petroleum Fund has financed state programs and activities for many years, unfortunately we did not seize the opportunity to build an economy which is productive, sustainable and diversified. Government continues to dream that revenues from the oil and gas industry will support the nation's economy in the long term, while ignoring the development of sustainable and productive sectors. Therefore, La'o Hamutuk's submission asks the Deputies to recognize that the petroleum sector will not resolve the problems which we confront, and will fail to bring benefits to our people.

➤ **Transparency and Accountability**

La'o Hamutuk believes that transparency and accountability should continue to be governance priorities for this country. Unfortunately, La'o Hamutuk observes weaknesses in implementing transparency in this budget process.

For example, Parliament's website does not function, and 'public' hearings are not open to the public. La'o Hamutuk also suggests to maintain past good practices, such as producing budget books in Tetun and English, not only in Portuguese.

As civil society, we were very disappointed not to get the opportunity to testify in a hearing of Parliament Committee C. We believe that the budget process is stronger with the participation of civil society, and encourage Parliament to improve the space for us and the public to provide analysis which can further enrich ideas before the debate with the Government.

La'o Hamutuk also suggests that the Ministry of Finance should clarify the budget of the National Liberation Combatants Fund (FCLN), and realize that the repetition of the appropriation to FCLN in both the 2022 and 2023 budgets causes public confusion.

➤ **Priority and Strategy**

La'o Hamutuk doubts the Government is capable of carrying out 275 measures with quality, considering past execution levels and that next year many Government members and staff will be engaged in political campaigns. It would be better to give priority to programs which are realistic, according to abilities and human resources, which can really deliver execution and quality.

La'o Hamutuk points out that the sectors directly linked to development of human resources – education, health, clean water and agriculture – receive only 16% of the allocations in the entire budget. Therefore, we encourage the Deputies to discuss these in-depth with Government during the budget debate.

To create an efficient budget, La'o Hamutuk suggests that Parliament tighten evaluation processes for new programs to ensure that they really benefit the people, and reassess budget allocations which have not yet proven their benefits.

La'o Hamutuk's submission made seven specific recommendations to Parliament and Government to improve the 2023 budget and the budgeting process.

We from La'o Hamutuk are always ready to offer our analytic commentary to help media report accurately, and to facilitate debate and discussion based on data. Thank you for your attention and consideration.

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