



GFS Vol. 6

DEMOCRATIC REPUBLIC OF TIMOR - LESTE

Ministry of Finance

GFS

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Executive Summary

The General Government of Timor-Leste (GGoTL), including the Petroleum Fund (PF) ran a net operating balance of \$1,057.5 million and had a net lending capacity of \$972.2 million at the close of the second quarter of 2014. Although this is a strong fiscal position, the GGoTL is still reliant on the PF and cash balance to sustain its current level of operations, as without the PF required a total net borrowing of \$312.5 million.

**GENERAL DIRECTORATE STATE FINANCE
ECONOMY POLICY – FISCAL CLUSTER
DILI - 2014**

1. Revenues

At the end of the second quarter of 2014, total revenues for the GGoTL including the PF and DF amounted to \$1,400.7 million. \$75.7 million was received from non-oil revenues, \$1,291.7 million from oil revenues and \$33.4 million from Donor revenues.

1.1 Non-oil Revenues

Non-oil revenues are composed of taxes, grants and other revenues. Non-oil revenues amounted to \$75.7 million at the close of the second quarter of 2014 and were composed of non-oil taxes and other revenues, as no withdrawals were made from the PF by the 30th June 2014.

Non-oil taxes composed 71% of total non-oil revenues, reaching \$53.8 million at the end of the second quarter of 2014. These are divided into:

Taxes on income, profits and capital gains totalled \$19.3 million by the 30th June 2014. This was 8.2% higher that was collected for the same period of 2013.

Taxes on goods and services amounted to \$27.7 million at the end of the second quarter of 2014 and were thus the largest source of tax revenue. This collection was 15.4% higher than the \$24.0million collected in 2013. The increase was mostly due to greater excise tax collection, which increased by 22.5% compared to the same period of 2013.

Taxes on international trade and transactions reached \$6.8 million at the end of the second quarter of 2014, 16.9% higher than in the second quarter of 2013 and solely due to increased import duties.

Other revenue collected reached \$21.8 million at the end of June 2014, 26.4% higher than the total collection for the second quarter of 2013. This increase was mostly due to unusually high other non-tax revenue collected in the second quarter of 2014.

1.2 Oil Revenues

Oil revenues represented 92% of total revenues in Timor-Leste at the end of June 2014. These are divided into:

Taxes in the second quarter of 2014 totalled \$415.0 million composed of taxes on income, profits and capital gains and taxes on goods and services.

Other revenue totalled \$876.7 million by 30th June 2014 and included profit from oil, second tranche petroleum, interest, trust and dividend income. The largest of these categories was first tranche petroleum, which reached \$538.8 million at the end of June 2014.

1.3 Donor Fund Revenues

Revenues for the Donor Fund amounted to \$33.4 million in grants towards Donor projects at the end of June 2014.

2. Expenses

Expenses totalled \$343.2 million at the end of the second quarter of 2014 and were composed of expenditures in GGoTL, the PF and the DF. The majority of these expenditures were incurred by the GGoTL, which spent \$307.4 million, \$7.0 million were expenditures in the PF and \$28.8 were expenses in the DF.

2.1 General Government Expenditures

Expenditure categories for GGoTL are composed of:

Compensation of Employees totalled \$75.1 million at the close of the second quarter of 2014, 14.9% higher than the \$65.4 million spent by the same date of 2013.

Use of Goods & Services was the largest expenditure category to date, totalling \$128.1 million by the end of the second quarter of 2014, 48.7% higher than expenditures recorded by the end of June 2013. This was mostly due to strong increases in expenditures on main generator sets, other support and assistance, bank charges and R&M Communication Equipment.

Social benefits reached \$53.5 million at the end of the second quarter of 2014, 3.5% lower than the \$55.5 million recorded during the same period of 2013. This was due to a reduction of current transfers of personal benefits during the second quarter of 2014.

Other expenses more than double the amount recorded by the same date in 2013 and totalled \$50.6 million by the 30th June 2014. This was mostly due to a strong increase in current transfer of public grants, which amounted to \$36.7 million during the second quarter of 2014.

2.2 PF Expenditures

PF expenses are composed solely of management costs and totalled \$7.0 million in the second quarter of 2014.

2.3 DF Expenditures

DF expenditures reached \$28.8 million by the 30th June 2014. This was composed of \$3.5 million for compensation of employees, \$14.2 million for use of goods and services and \$11.1 million for other expenses.

3. Net Operating Balance

The net operating balance shows the Government's ability to sustain its current level operations, given revenues and expense and it is calculated as revenues minus expenses.¹

At the end of the second quarter of 2014, the GGoTL, the PF and the DF were running a joint net operating surplus of \$1,057.5 million. This surplus is mostly due to petroleum revenues, as without the PF, PF Grants and the DF, the net operating balance for the GGoTL was -\$231.8 million² by the 30th June 2014.

¹ In Timor-Leste, Gross and Net Operating Balance are the same, as there is no inventory for depreciation of fixed capital to date.

² This number is obtained from the GGoTL net operating balance but excluding grants.

4. Net Acquisition of Non-Financial Assets

Net Acquisition of Non-Financial Assets is broadly equivalent to capital expenditure as recorded in the Chart of Accounts in Timor-Leste. It records transactions that change GGoTL's holdings of non-financial assets, broken down into buildings and structures and machinery and equipment.

At the close of the second quarter of 2014, net acquisition of non-financial assets for the GGoTL including the PF and DF stood at \$85.3 million. This was mostly incurred by the GGoTL. Expenditures on irrigation and flood control more than doubled, in the second quarter of 2014, compared to the expenditure in this category in the first two quarters of 2013, together with a greater investment in other infrastructure assets. Furthermore investment in other machinery and equipment strongly increased in the second quarter of 2014 compared to the second quarter of 2013.

Net acquisition of non-financial assets in the DF was much more modest, composed only of \$4.6 million by the end of the second quarter of 2014.

5. Net Lending/Borrowing

Net lending for the GGoTL with the PF and the DF was \$972.2 million at the end of the second quarter of 2014. This is calculated as total expenditures (including investment in non-financial assets) minus revenues. The positive net lending/borrowing in GGoTL with the PF and DF was invested in financial assets.

6. Net Acquisition of Financial Assets

The increase in the Government's holdings of financial assets is recorded under net acquisition of financial asset. This is equal to the net lending capacity of the GGoTL including PF and DF. In the case of Timor-Leste, the net lending capacity is being invested, mostly through the PF, in a range of financial assets including shares, securities, deposits, cash and other equities.

At the end of the second quarter of 2014, net acquisition of financial assets was \$977.9 million. This was divided between currency and deposits, securities, shares and other equities, other accounts receivable and loans. The amount of currency and deposits held across all government accounts decreased by \$164.9 million. This was the result of a \$141.9 million increase in currency and deposits in the PF and \$306.8 million being withdrawn from CFTL cash balance to partly finance the gap between expenses and revenues in the GGoTL (as seen in Table 2 of the annex). Net acquisition of securities other than shares, shares and other equity and other accounts receivable were \$662.8 million, \$423.7 million and \$56.3 million respectively.

Loans received by the 30th June 2014 amounted to \$5.7 million, recorded under liabilities for the GGoTL³.

Finally, as noted under Other Economic Flows in table 5 of the annex, the change in the unrealized market value of financial assets is recorded and totalled \$311.6 million by the end of June 2014. The net acquisition of financial assets and the change in the value of these assets during the second quarter of 2014 meant that the PF net wealth increased from \$15,670.7 million at the 1st April 2014 to \$16,633.7 million by the 30th June 2014.

³ Loans were recorded in GFS 2001 for the first time in 2014.

7. Final Conclusion

At the closing of the second quarter of 2014, the GGoTL including the PF and DF had a strong fiscal position. Although the GGoTL on its own is not in such a strong fiscal position, as it would need to borrow \$312.5 million to maintain its current level of operations; the GGoTL with the PF with the DF ran a net operating balance of \$1,057.5 million and had a net lending capacity of \$972.2 million⁴.

⁴ It must be noted that all data provided in this work is accurately recorded until the 19th August 2014, subject to change.

Annex: Statement of Total Government Operations

Figure 1. Accumulated Statement of Government Operations Q1 2014 (GGoTL, PF and DF)

Data for 2014, in millions of US dollars.		Total Quarter 1	Total Quarter 2	Total Quarter 3	Total Quarter 4	Accumulated Total
Revenue	1	688.3	712.4	-	-	1,400.7
Taxes	11	257.2	211.6	-	-	468.8
Taxes on income, profits, and capital gains	111	233.2	184.5	-	-	417.7
Taxes on goods & services	114	20.8	23.5	-	-	44.3
Taxes on international trade & transactions	115	3.2	3.6	-	-	6.8
Other taxes	116	-	-	-	-	-
Grants	13	21.9	11.5	-	-	33.4
Other revenue	14	409.3	489.3	-	-	898.6
Property income	141	400.8	478.3	-	-	879.1
Other	142-145	8.5	11.0	-	-	19.5
Expense	2	103.7	239.5	-	-	343.2
Compensation of employees	21	39.3	39.4	-	-	78.7
Use of goods & services	22	36.6	112.7	-	-	149.3
Consumption of fixed capital	23	-	-	-	-	-
Interest	24	-	-	-	-	-
Grants	26	-	-	-	-	-
Social benefits	27	16.5	37.0	-	-	53.5
Other expense	28	11.3	50.4	-	-	61.7
Gross operating balance [1-2+23]	GOB	584.6	472.9	-	-	1,057.5
Net operating balance [1-2]	NOB	584.6	472.9	-	-	1,057.5
Net acquisition of nonfinancial assets	31	18.6	66.7	-	-	85.3
Acquisition of nonfinancial assets	311	18.6	66.7	-	-	85.3
Buildings & Structures	3111	18.6	62.1	-	-	80.7
Machinery & Equipment	3112	0.0	4.6	-	-	4.6
Consumption of fixed capital [=23]	313	-	-	-	-	-
Net lending / borrowing [1-2-31 = 1-2M]	NLB	566.0	406.2	-	-	972.2
Net acquisition of financial assets	32	569.0	408.9	-	-	977.9
<i>by instrument</i>		-	-	-	-	-
Currency and deposits	3202	20.3	(185.2)	-	-	(164.9)
Securities other than shares	3203	319.2	343.6	-	-	662.8
Loans	3204	-	-	-	-	-
Shares and other equity	3205	194.6	229.1	-	-	423.7
Other accounts receivable	3208	34.9	21.4	-	-	56.3
Net incurrence of liabilities	33	3.0	2.7	-	-	5.7
Loans	3304	3.0	2.7	-	-	5.7
Other accounts payable	3308	-	-	-	-	-
Statistical discrepancy [32 - 33 - NLB-]	NLBz	-	-	-	-	-
Memorandum item:						
Total expenditure [2+31]	2M	122.3	306.2	-	-	428.5

Note: Statistical Discrepancy should be zero.

Consumption of fixed capital will have to be calculated from inventory

Figure 2. Accumulated statement of Government operation (GGoTL)

Data for 2014, in millions of US dollars.		Total Quarter 1	Total Quarter 2	Total Quarter 3	Total Quarter 4	Accumulated Total
Revenue	1	35.5	40.1	-	-	75.7
Taxes	11	26.0	27.8	-	-	53.8
Taxes on income, profits, and capital gains	111	10.0	9.4	-	-	19.3
Taxes on goods & services	114	12.9	14.8	-	-	27.7
Taxes on international trade & transactions	115	3.2	3.6	-	-	6.8
Other taxes	116	-	-	-	-	-
Grants	13	-	-	-	-	-
Other revenue	14	9.5	12.4	-	-	21.8
Property income	141	1.0	1.4	-	-	2.3
Other	142-145	8.5	11.0	-	-	19.5
Expense	2	83.0	224.4	-	-	307.4
Compensation of employees	21	36.0	39.1	-	-	75.1
Use of goods & services	22	24.7	103.5	-	-	128.1
Consumption of fixed capital	23	-	-	-	-	-
Interest	24	-	-	-	-	-
Grants	26	-	-	-	-	-
Social benefits	27	16.5	37.0	-	-	53.5
Other expense	28	5.9	44.8	-	-	50.6
Gross operating balance [1-2+23]	GOB	(47.5)	(184.2)	-	-	(231.8)
Net operating balance [1-2]	NOB	(47.5)	(184.2)	-	-	(231.8)
Net acquisition of nonfinancial assets	31	14.3	66.4	-	-	80.7
Acquisition of nonfinancial assets	311	14.3	66.4	-	-	80.7
Buildings & Structures	3111	14.3	61.8	-	-	76.1
Machinery & Equipment	3112	0.0	4.6	-	-	4.6
Consumption of fixed capital [=23]	313	-	-	-	-	-
Net lending / borrowing [1-2-31 = 1-2M]	NLB	(61.8)	(250.7)	-	-	(312.5)
Net acquisition of financial assets	32	(58.8)	(248.0)	-	-	(306.8)
<i>by instrument</i>		-	-	-	-	-
Currency and deposits	3202	(58.8)	(248.0)	-	-	(306.8)
Securities other than shares	3203	-	-	-	-	-
Loans	3204	-	-	-	-	-
Shares and other equity	3205	-	-	-	-	-
Other accounts receivable	3208	-	-	-	-	-
Net incurrence of liabilities	33	3.0	2.7	-	-	5.7
Loans	3304	3.0	2.7	-	-	5.7
Other accounts payable	3308	-	-	-	-	-
<i>Statistical discrepancy [32 - 33 - NLB-]</i>	<i>NLBz</i>	-	-	-	-	-
<i>Memorandum item:</i>		-	-	-	-	-
Total expenditure [2+31]	2M	97.3	290.8	-	-	388.1

Note: Statistical Discrepancy should be zero.

Consumption of fixed capital will have to be calculated from inventory

Figure 3. Accumulated statement of government operation for the DF

Data for 2014, in millions of US dollars.		Total Quarter	Total Quarter	Total Quarter	Total Quarter	Accumulated
		1	2	3	4	Total
Revenue	1	21.9	11.5	-	-	33.4
Taxes	11	-	-	-	-	-
Taxes on income, profits, and capital gains	111	-	-	-	-	-
Taxes on goods & services	114	-	-	-	-	-
Taxes on international trade & transactions	115	-	-	-	-	-
Other taxes	116	-	-	-	-	-
Grants	13	21.9	11.5	-	-	33.4
Other revenue	14	-	-	-	-	-
Property income	141	-	-	-	-	-
Other	142-145	-	-	-	-	-
Expense	2	17.6	11.2	-	-	28.8
Compensation of employees	21	3.3	0.2	-	-	3.5
Use of goods & services	22	8.8	5.4	-	-	14.2
Consumption of fixed capital	23	-	-	-	-	-
Interest	24	-	-	-	-	-
Grants	26	-	-	-	-	-
Social benefits	27	-	-	-	-	-
Other expense	28	5.5	5.6	-	-	11.1
Gross operating balance [1-2+23]	GOB	4.3	0.3	-	-	4.6
Net operating balance [1-2]	NOB	4.3	0.3	-	-	4.6
Net acquisition of nonfinancial assets	31	4.3	0.3	-	-	4.6
Acquisition of nonfinancial assets	311	4.3	0.3	-	-	4.6
Buildings & Structures	3111	4.3	0.3	-	-	4.6
Machinery & Equipment	3112	-	-	-	-	-
Consumption of fixed capital [=23]	313	-	-	-	-	-
Net lending / borrowing [1-2-31 = 1-2M]	NLB	-	-	-	-	-
Net acquisition of financial assets	32	-	-	-	-	-
<i>by instrument</i>		-	-	-	-	-
Currency and deposits	3202	-	-	-	-	-
Securities other than shares	3203	-	-	-	-	-
Loans	3204	-	-	-	-	-
Shares and other equity	3205	-	-	-	-	-
Other accounts receivable	3208	-	-	-	-	-
Net incurrence of liabilities	33	-	-	-	-	-
Loans	3304	-	-	-	-	-
Other accounts payable	3308	-	-	-	-	-
<i>Statistical discrepancy [32 - 33 - NLB]</i>	NLBz	-	-	-	-	-
<u>Memorandum item:</u>		-	-	-	-	-
Total expenditure [2+31]	2M	21.8	11.5	-	-	33.4

Note: Statistical Discrepancy should be zero.

Consumption of fixed capital will have to be calculated from inventory

Figure 4. Accumulated statement of government operation for the PF

Data for 2014, in millions of US dollars.		Total Quarter 1	Total Quarter 2	Total Quarter 3	Total Quarter 4	Accumulated Total
Revenue	1	631.0	660.8	-	-	1,291.7
Taxes	11	231.2	183.8	-	-	415.0
Taxes on income, profits, and capital gain	111	223.3	175.1	-	-	398.4
Taxes on goods & services	114	7.9	8.7	-	-	16.6
Taxes on international trade & transactio	115	-	-	-	-	-
Other taxes	116	-	-	-	-	-
Grants	13	-	-	-	-	-
Other revenue	14	399.8	476.9	-	-	876.7
Property income	141	399.8	476.9	-	-	876.8
Other	142-145	-	-	-	-	-
Expense	2	3.1	3.9	-	-	7.0
Compensation of employees	21	-	-	-	-	-
Use of goods & services	22	3.1	3.9	-	-	7.0
Consumption of fixed capital	23	-	-	-	-	-
Interest	24	-	-	-	-	-
Grants	26	-	-	-	-	-
Social benefits	27	-	-	-	-	-
Other expense	28	-	-	-	-	-
Gross operating balance [1-2+23]	GOB	627.8	656.9	-	-	1,284.7
Net operating balance [1-2]	NOB	627.8	656.9	-	-	1,284.7
Net acquisition of nonfinancial assets	31	-	-	-	-	-
Acquisition of nonfinancial assets	311	-	-	-	-	-
Buildings & Structures	3111	-	-	-	-	-
Machinery & Equipment	3112	-	-	-	-	-
Consumption of fixed capital [=23]	313	-	-	-	-	-
Net lending / borrowing [1-2-31 = 1-2M]	NLB	627.8	656.9	-	-	1,284.7
Net acquisition of financial assets	32	627.8	656.9	-	-	1,284.7
<i>by instrument</i>		-	-	-	-	-
Currency and deposits	3202	79.1	62.8	-	-	141.9
Securities other than shares	3203	319.2	343.6	-	-	662.8
Loans	3204	-	-	-	-	-
Shares and other equity	3205	194.6	229.1	-	-	423.7
Other accounts receivable	3208	34.9	21.4	-	-	56.3
Net incurrence of liabilities	33	-	-	-	-	-
Loans	3304	-	-	-	-	-
Other accounts payable	3308	-	-	-	-	-
Statistical discrepancy [32 - 33 - NLB-]	NLBz	-	-	-	-	-
Memorandum item:		-	-	-	-	-
Total expenditure [2+31]	2M	3.1	3.9	-	-	7.0

Note: Statistical Discrepancy should be zero.

Consumption of fixed capital will have to be calculated from inventory

Figure5. Analytical Framework for the PF

GFS Analytical Framework for the Petroleum Fund	2013				2014	
	Q1	Q2	Q3	Q4	Q1	Q2
Opening Balance	11,775.4	12,977.9	13,624.0	14,558.1	14,952.1	15,670.7
Net Acquisition of Financial Assets	994.6	861.2	582.6	119.9	627.9	656.9
Other Economic Flows	208.8	(215.1)	351.9	247.8	92.4	311.6
Closing Balance	12,977.9	13,624.0	14,558.1	14,952.1	15,670.7	16,633.7
<i>Statistical discrepancy</i>	<i>(0.9)</i>	<i>0.0</i>	<i>(0.5)</i>	<i>26.4</i>	<i>(1.7)</i>	<i>(5.5)</i>

Key Terminology

Compensation of employees are remuneration in cash or kind, payable to an employee in return for work done and social insurance contributions made by a general government unit on behalf of its employees. Compensation of employees is incurred on a monthly basis in Timor-Leste.

Expenses include all transactions that decrease the net worth of the general government sector. Expenditures are financed from the ESI, excess withdrawals from the PF, loans or the use of cash balance.

General Government of Timor-Leste is the combination of the Consolidated Fund (CFTL), Human Capital and Development Fund (HCDF) and the Infrastructure Fund in Timor-Leste.

Grants: are non-compulsory current or capital transfers from one government unit to another government unit or an international organization. These are divided into estimated sustainable income (ESI) and excess withdrawals.

Gross Operating Balance is the revenue minus expenses other than consumption of fixed capital. It indicates whether the government is able to sustain its current level of operations and ideally should portray a surplus. However consumption of fixed capital is not measured in Timor-Leste, therefore Gross Operating Balance is equal to Net Operating Balance.

Net lending/borrowing is a balancing item defined as the net acquisition of all financial assets less the net incurrence of all liabilities from transactions. It is thus a summary measure indicating the extent to which GGoTL is either putting financial resources at the disposal of other sectors in the economy or utilizing the financial resources generated by other sectors.

Net Operating Balance is equal to revenue minus expenses and indicates whether the government is able to sustain its current level of operations.

Other Revenue includes a variety of forms of revenue earned by GGoTL including property income, sales of goods, fines & penalties and other miscellaneous revenue.

Revenues are all transactions that increase the net worth of general government sector and exclude domestic and external borrowing. Revenues tend to increase during the last period of the year, due to the collection of accumulated taxes.

Social benefits are current transfers to households to provide for needs arising from events such as sickness, unemployment, retirement, housing or family circumstances.

Taxes on goods & services are taxes levied on the production, extraction, sale, transfer, leasing or delivery of goods and rendering of services.

Taxes on income, profits, and capital gains are composed of corporate taxes in Timor-Leste.

Taxes on international trade & transactions include sales tax and other import duties in Timor-Leste.

Transactions in financial assets and liabilities record financial transactions. I.e. they record transactions that change a government's holdings of financial assets and liabilities. In Timor-Leste financial assets are all composed of currency and deposit.

Transactions in nonfinancial assets and liabilities record transactions that change a government's holdings of nonfinancial assets. In Timor-Leste these assets are classified as Buildings & Structures and Machinery & Equipment.

Use of goods & services includes total value of goods and services purchased by the general government sector for use in a production process or acquired for resale less the net change in inventories of those goods and services.