

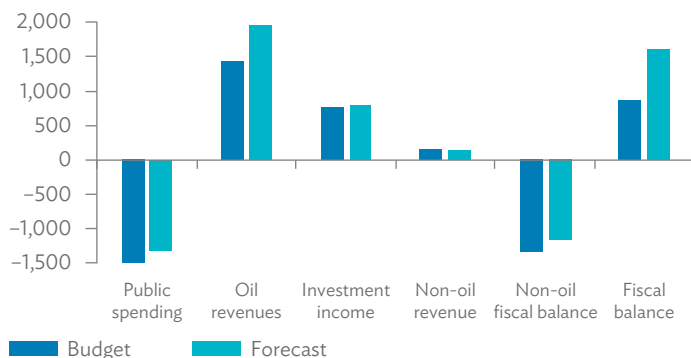
Pacific Economic Monitor

TIMOR-LESTE BUDGET 2015

BUDGET 2014 OUTCOME

The budget projection for a fiscal surplus equivalent to 50% of non-oil gross domestic product (GDP) is likely to be exceeded in 2014.

Budget and forecast* outturns (\$ million)

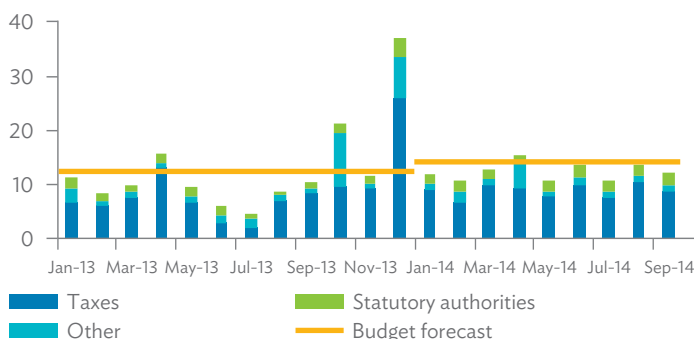


* Forecasts are based on government projections for Infrastructure Fund execution and the author's estimates.

Sources: Budget documents (various years), Transparency Portal, Petroleum Fund Monthly Reports, author's calculation.

Domestic revenues have been less volatile but were below forecast levels during the first three quarters.

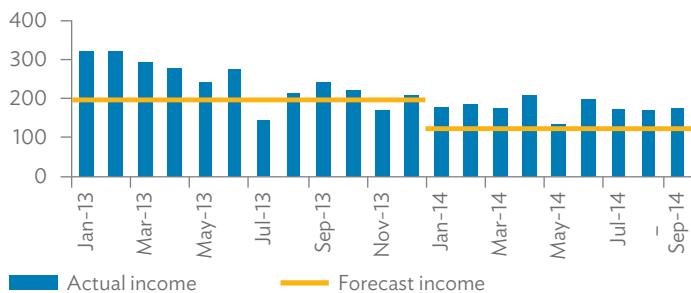
Domestic revenue collection (\$ million)



Source: Budget documents (various years), Transparency Portal.

Petroleum revenues have exceeded expectations with the budget forecast* achieved in the first 9 months of 2014...

Actual and forecast petroleum revenues (\$ million)

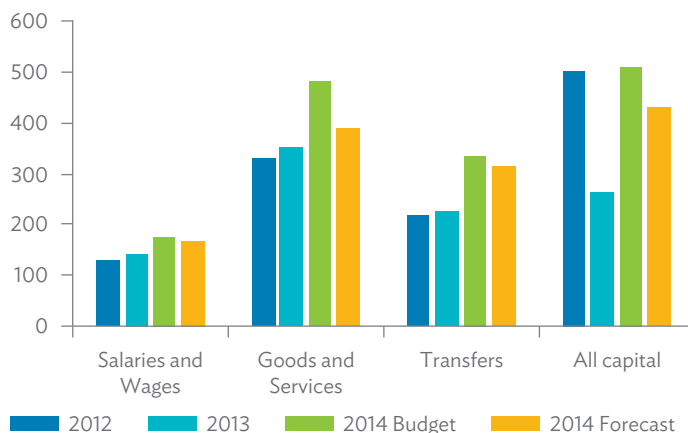


* A relatively conservative forecasting methodology is used.

Source: Petroleum Fund Monthly Reports, Budget Book 1, 2013, 2014.

Increased public spending has provided an economic stimulus in 2014, reversing the fiscal contraction seen in 2013.

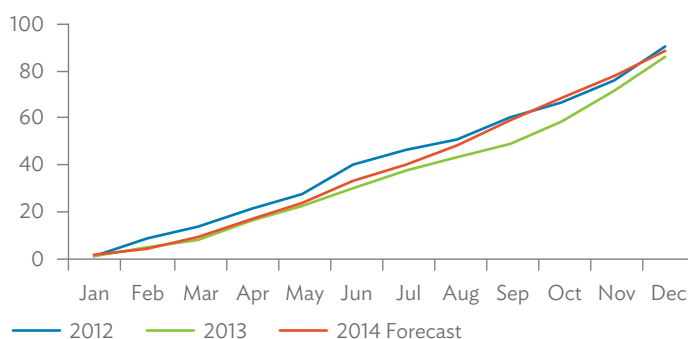
Own-funded expenditure by category (\$ million)



Source: Budget documents (various years), author's calculation.

Budget execution for recurrent expenditures has remained consistent in 2014.

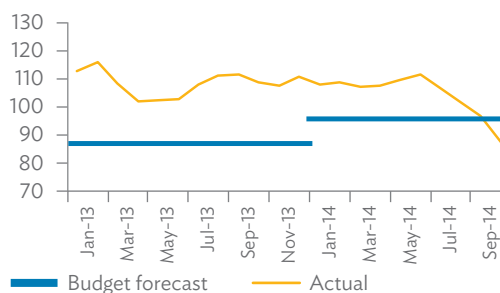
Cumulative execution of budget for recurrent spending (%)



Source: Transparency Portal, author's calculation.

...due to higher-than-expected production, and favorable international prices during the first three quarters of 2014.

Budget forecast and actual oil prices (\$ per barrel)

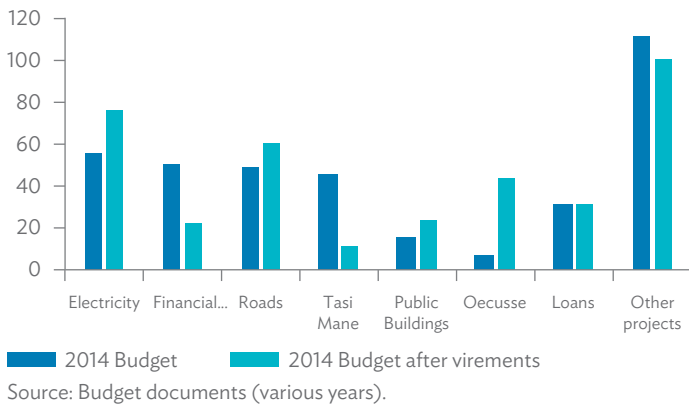


Source: Budget documents (various years), Energy Information Administration.

Timor-Leste Budget 2015

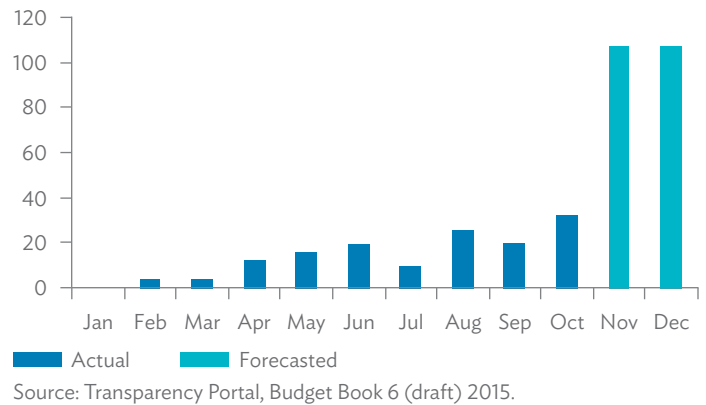
Budgets for major infrastructure projects were adjusted to reflect changing priorities and progress in implementation...

2014 Infrastructure Fund Budget (\$ million)



...but actual execution has been slow, and a large surge is needed to achieve the government's forecast of full execution of the 2014 Infrastructure Fund Budget.

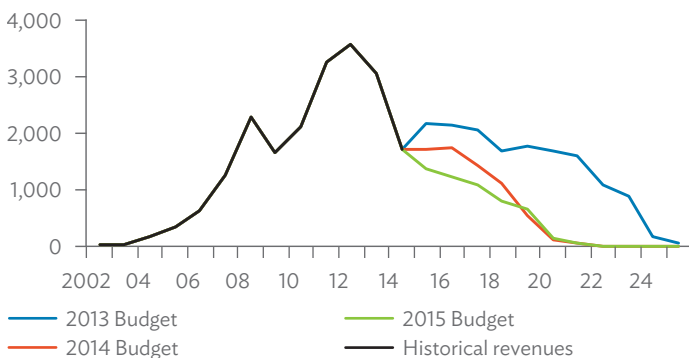
Monthly expenditure from the Infrastructure Fund (\$ million)



BUDGET 2015 ANALYSIS

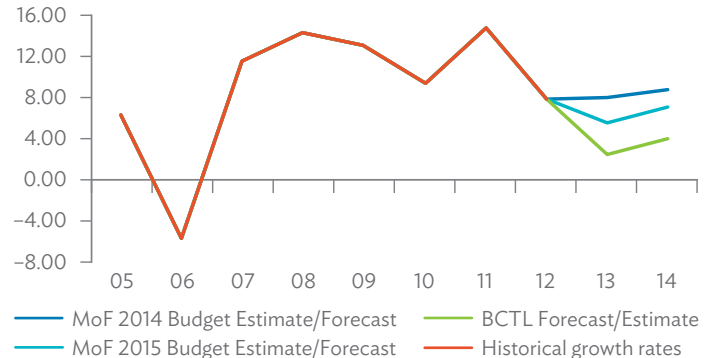
The 2015 Budget is framed by declining revenues from existing offshore oil and gas fields...

Historical and forecast* petroleum revenues (\$ million)



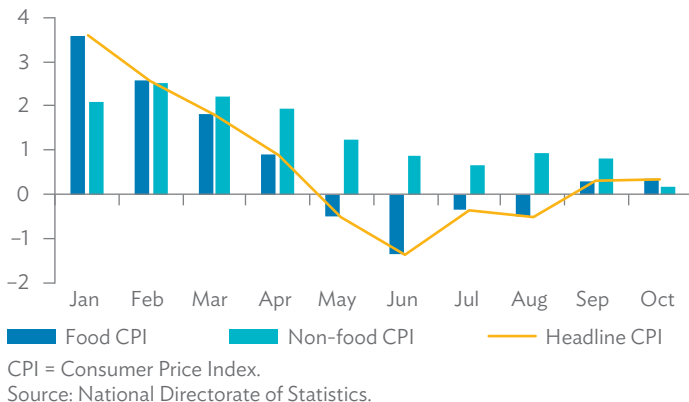
...a less optimistic view about non-oil GDP growth from 2013–2014...

Actual and forecast non-oil GDP growth (%)



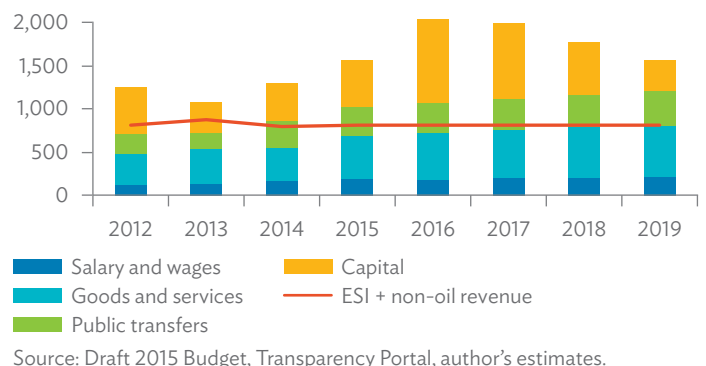
...and the low inflation seen during 2014.

Changes in the Timor-Leste Consumer Price Index (% y-on-y)



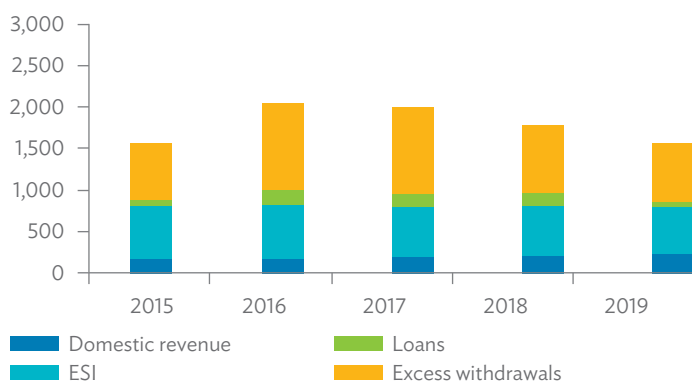
The budget continues the government's frontloading investment strategy.

Actual, forecast, and budgeted spending (\$ million)



Spending above 'sustainable' levels will be financed with loans and excess withdrawals from the Petroleum Fund.

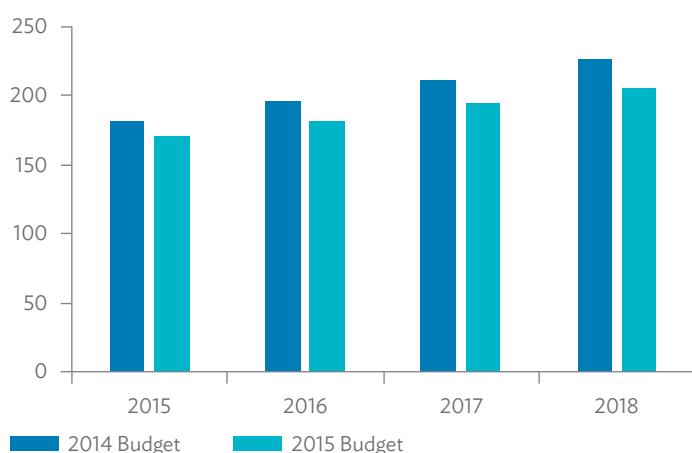
Budget financing (\$ million)



Source: 2015 Draft Budget, author's estimates.

Projections for non-oil revenues have been revised downwards in line with slower non-oil GDP growth, and lower inflation...

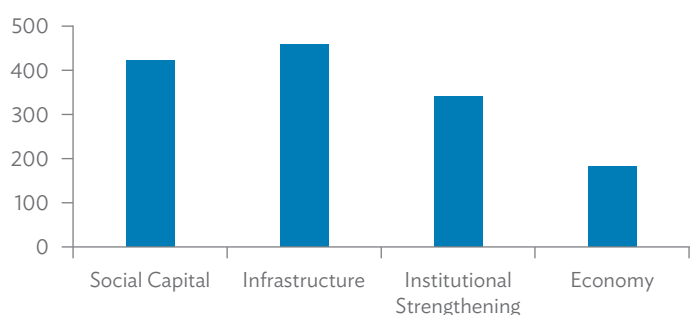
Domestic revenue projections (\$ million)



Source: 2014 Budget, Draft 2015 Budget.

Budgeted spending is aligned to the four priority areas under phase one of the Strategic Development Plan, 2011–2030...

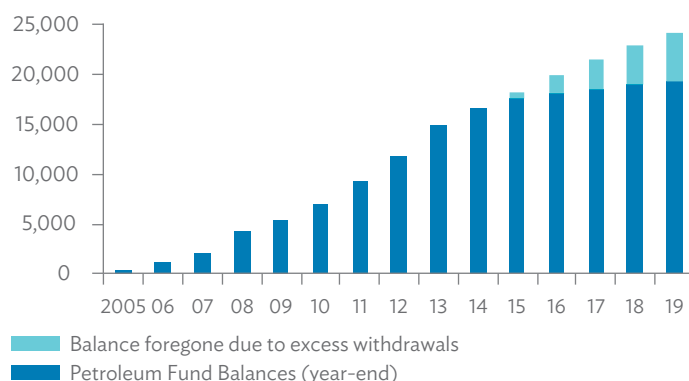
Thematic allocations (\$ million)



Source: Ministry of Finance.

These excess withdrawals will reduce the future balance of the Petroleum Fund.

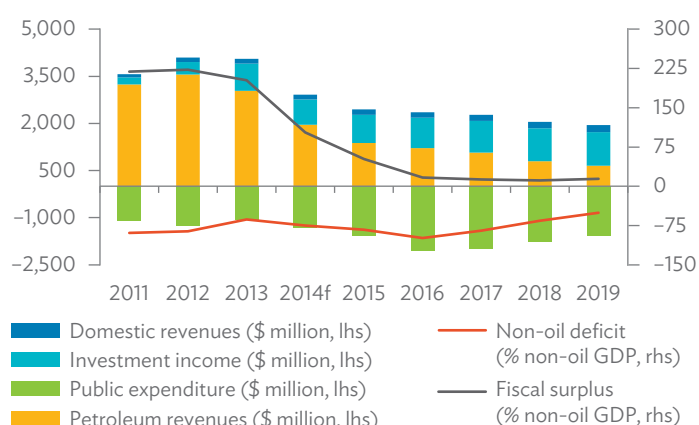
Petroleum Fund balances (\$ billion)



Source: 2015 Draft Budget, author's estimates.

...while rising spending and declining oil revenues will bring an end to the large fiscal surpluses seen in recent years.

Fiscal balances (\$ million, and as % of nominal non-oil GDP)

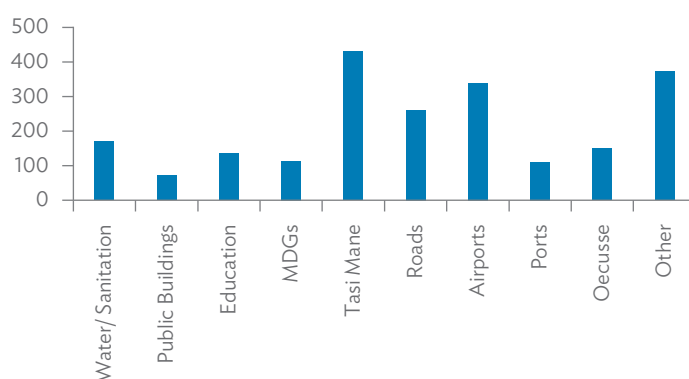


lhs = left-hand scale, rhs = right-hand scale.

Source: 2015 Draft Budget, author's estimates.

The Infrastructure Fund Budget for 2015–2019 highlights the medium term priorities for infrastructure development...

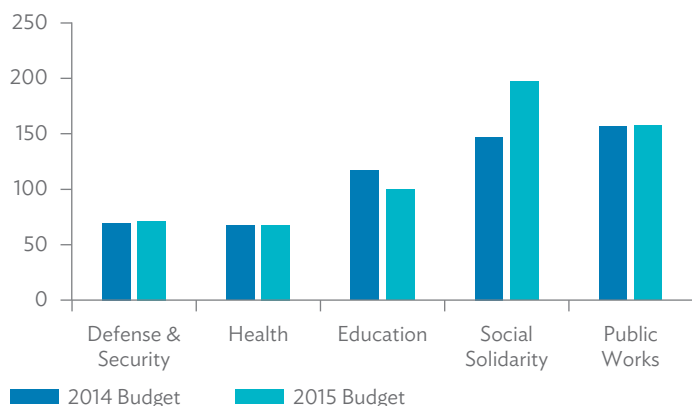
Infrastructure Fund Budget, 2015–2019 (\$ million)



Source: Draft 2015 Budget.

...while recurrent budget allocations to the five largest line ministries highlight key budget trends...

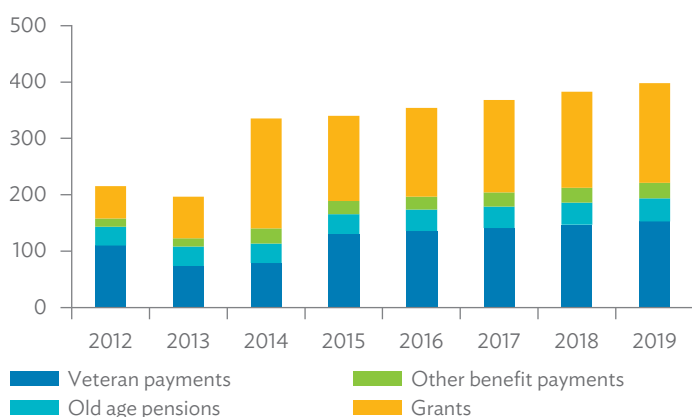
Budget allocations excluding special funds



Source: 2014 Budget, 2015 Draft Budget.

Budgeted spending on grants and transfers is maintained with adjustments in the composition of the budget due to commitments to newly registered veterans.

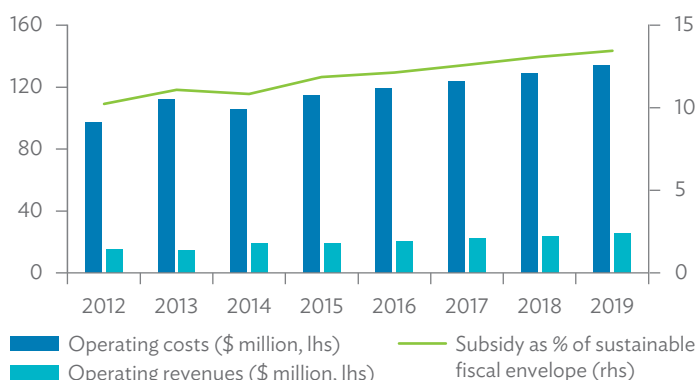
Actual and budgeted transfer payments (\$ million)



Source: Budget documents (various years), Transparency Portal.

...while large subsidies to the electricity sector continue...

Revenues and operating costs for state-owned electricity generation

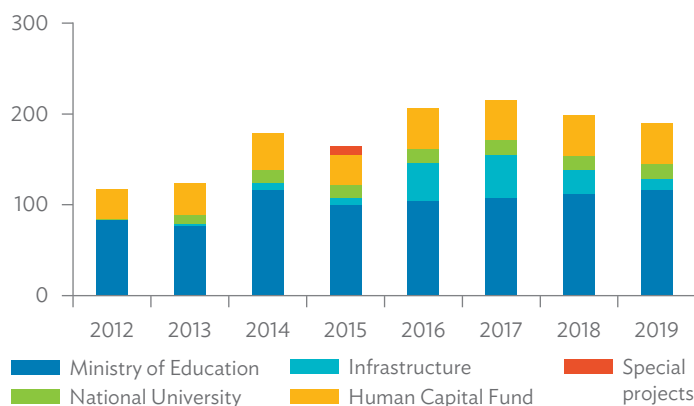


lhs = left-hand scale, rhs = right-hand scale.

Source: Budget documents (various years), Transparency Portal.

There is a small reduction in the budget for education, although it remains well above spending in recent years.

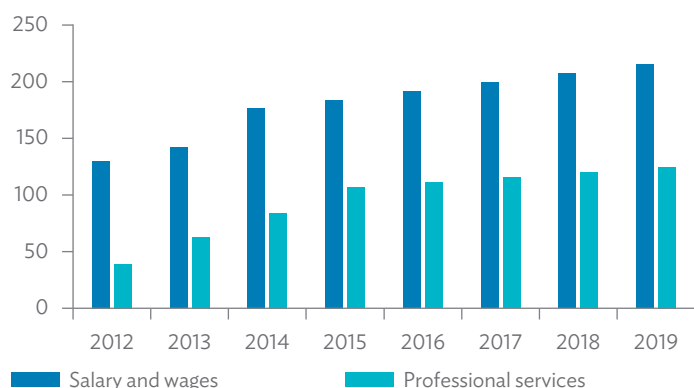
Actual and budgeted education expenditure (\$ million)



Source: Budget documents (various years), Transparency Portal.

Restraint in public sector wage growth is offset by an increased budget for professional services...

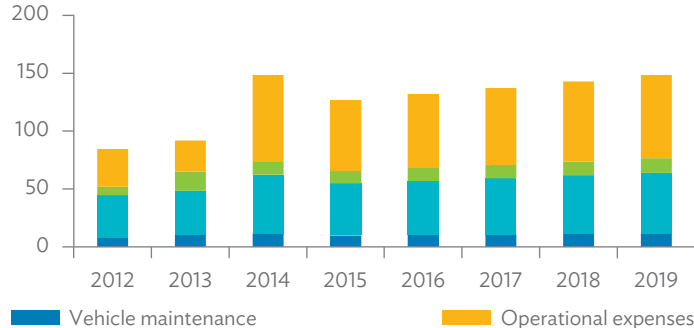
Actual and budgeted spending on salaries and professional services (\$ million)



Source: 2014 Budget, 2015 Draft Budget.

...and budgets for operations and maintenance are reduced compared to 2014.

Operations and maintenance budgets, excluding electricity (\$ million)

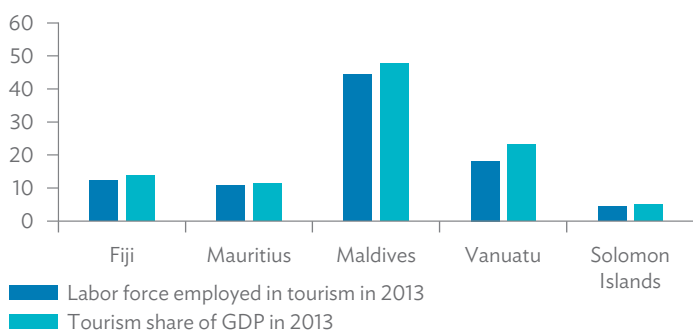


Source: 2014 Budget, 2015 Draft Budget.

SECTOR IN FOCUS – TOURISM

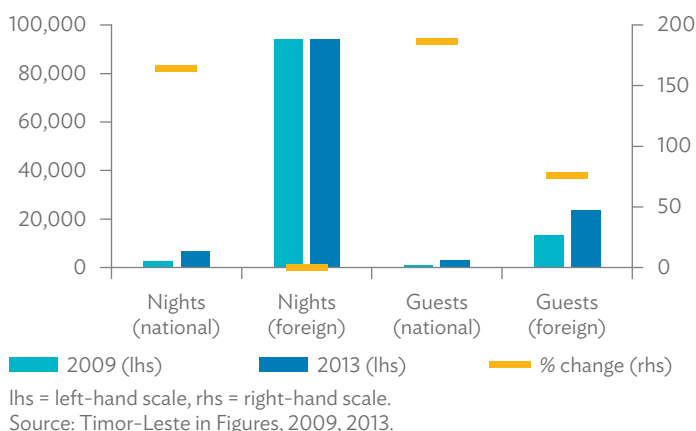
The potential for tourism in Timor-Leste can be seen by looking at other small island nations.

Share of tourism in GDP and employment (%)



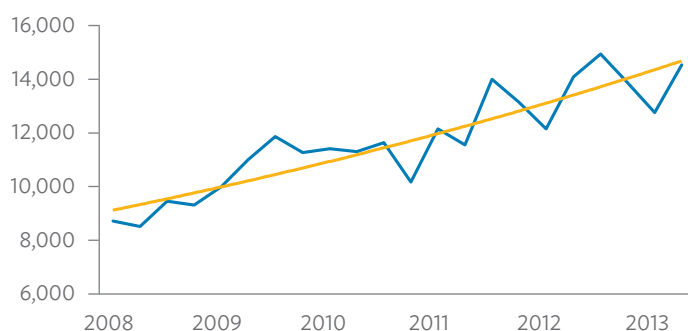
Surveys of large hotels suggest shorter average visits by foreign guests, and more use of hotels by Timorese citizens...

Occupancy data for hotels with 20 or more rooms



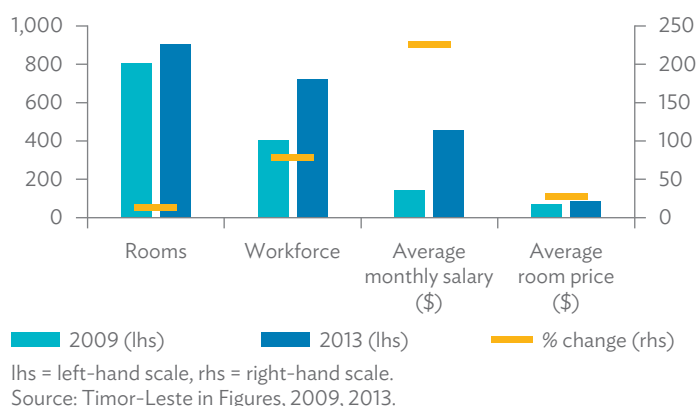
The number of international visitors to Timor-Leste has been increasing, but the numbers of tourists is not known.

Foreign citizens arriving at Dili airport per quarter



...and while capacity has grown modestly, labor costs and room rates have risen sharply.

Room capacity, employment, prices, and wages costs for large hotels (20 or more rooms)



This Update is produced as an addendum to the December 2014 edition of ADB's Pacific Economic Monitor, a biannual update on Pacific economic and fiscal conditions. The commentary provided is intended to provide a quick reference for key trends and data to stimulate economic policy discussions. All due care has been taken in data compilation, which comes from a range of sources, however any mistakes are the author's own. Questions and comments are welcome and can be e-mailed to dfreedman.consultant@adb.org

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Asian Development Bank

ADB's vision is an Asia and Pacific region free of poverty. Its mission is to help its developing member countries reduce poverty and improve the quality of life of their people. Despite the region's many successes, it remains home to approximately two-thirds of the world's poor: 1.6 billion people who live on less than \$2 a day, with 733 million struggling on less than \$1.25 a day. ADB is committed to reducing poverty through inclusive economic growth, environmentally sustainable growth, and regional integration.

Based in Manila, ADB is owned by 67 members, including 48 from the region. Its main instruments for helping its developing member countries are policy dialogue, loans, equity investments, guarantees, grants, and technical assistance.

In this publication, "\$" refers to US dollars.

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