

Timor-Leste's Economy and the State Budget

UNTL - VU Conference on
Knowledge, Attitudes & Skills

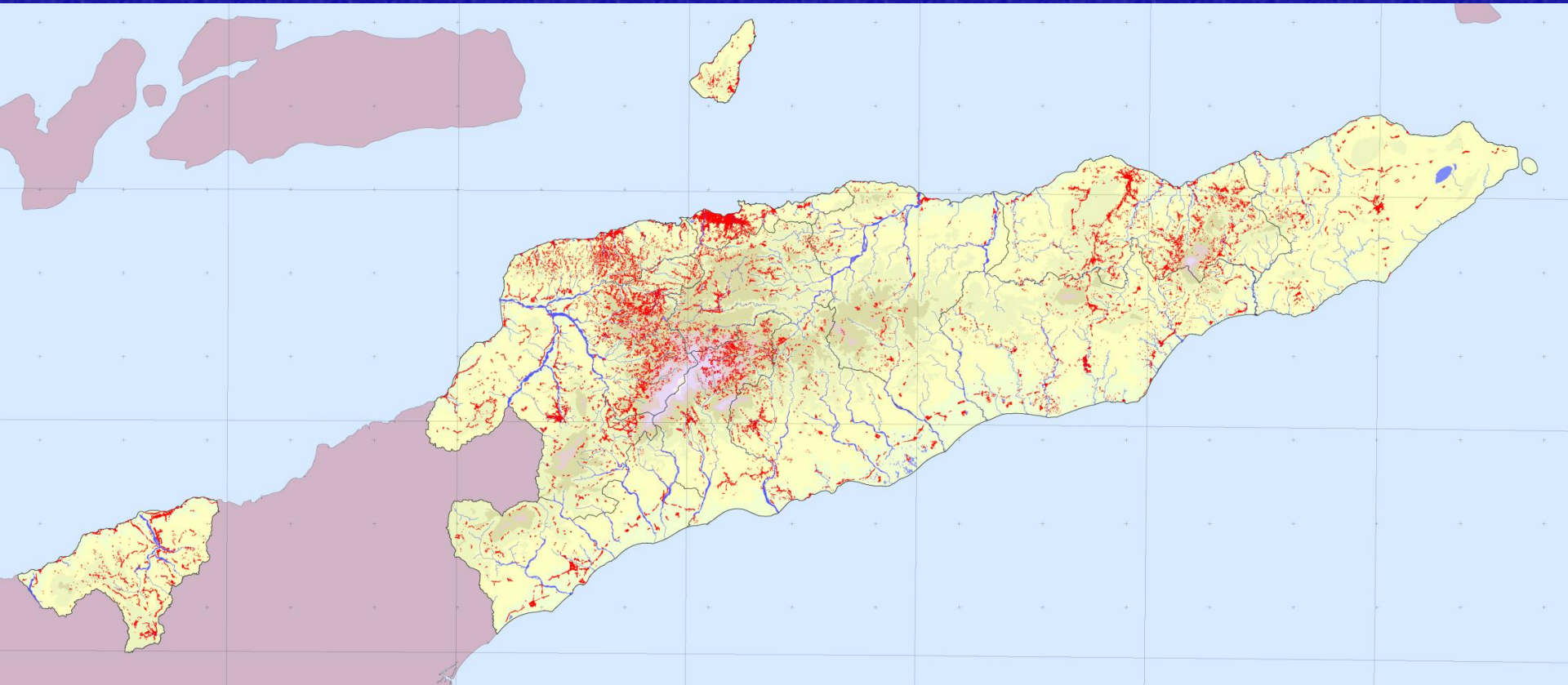
By La'ó Hamutuk 5 July 2011



Budget and Economy

- **State expenditures in 2011: \$1,306 million**
- **Non-oil GDP in 2011: \$708 million**
- **GNI in 2011: \$3,019 million**
(\$2,290 million comes from exporting oil and gas)
- **Therefore: State activities dominate Timor-Leste's entire economy.**
- **Money from oil dominates everything.**

Most people live in rural areas by subsistence agriculture.



Basic Statistics

- **41-50% of the people live below the World Bank poverty line of 88c/person/day.**
- **80% of the people live in rural areas, largely by subsistence farming.**
- **More children die of diarrhea than malaria.**
- **In 2010, TL exported \$16 million (coffee).**
- **In 2010, TL imported \$288 million (everything).**
- **Extracting oil supplies 95% of state revenues, more than 80% of GNI. They will stop in 2023.**

Basic Statistics

By 2024, 400,000 babies will have been born, and the only producing oil and gas field will be used up.

How will they survive?

Funds (million USD)

- **Combined Sources Budget** **\$1,501**
- **Development partners** **\$195**
- **RDTL General State Budget:** **\$1,306**
 - **Infrastructure Fund** **\$599**
 - **Human Capital Development Fund** **\$25**
 - **Consolidated Fund** **\$682**
 - Government (ministries) **\$593**
 - Other organs: President, Parliament, courts **\$39**
 - Autonomous agencies **\$50**

Timor-Leste lives by selling oil.

- **Petroleum revenues pay for 95% of state activities.**
- **They're four times larger than the local economy.**
- **Our oil and gas reserves will run dry in only 12 years.**
- **Petroleum doesn't give jobs or money to the people – it all goes to the State.**
- **The Petroleum Fund can help justice between generations, but it cannot guarantee good governance or prevent corruption.**

Signs of the “resource curse” (1)

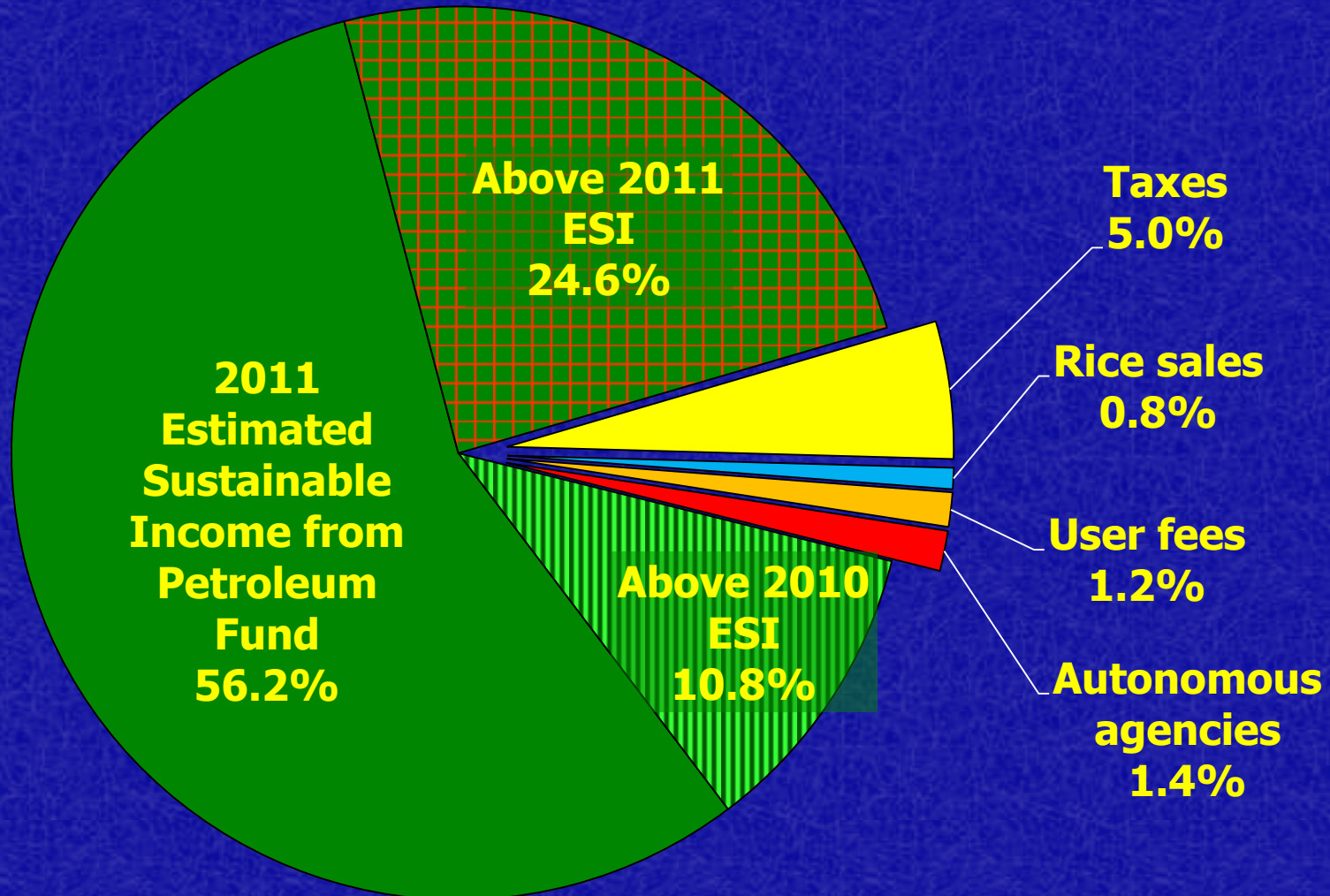
- **Seeing money as the solution to every problem**
- **Spending without thinking, spending high when revenues are high**
- **Lack of long-term planning**
- **Import dependency**
- **“Dutch Disease” inflation from little local productive capacity**
- **Borrowing today, to repay tomorrow**

Signs of the “resource curse” (2)

- **Neglecting non-oil economic development and revenue sources**
- **Ignoring that oil will run out**
- **Wealth goes mainly to urban elite, while “povo” doesn’t benefit now, suffers later.**
- **Companies “capture” regulators.**
- **The petroleum sector “captures” the political system**

Income in the 2011 state budget

Total revenue: \$1,306 million (Including \$141 million from 2010)



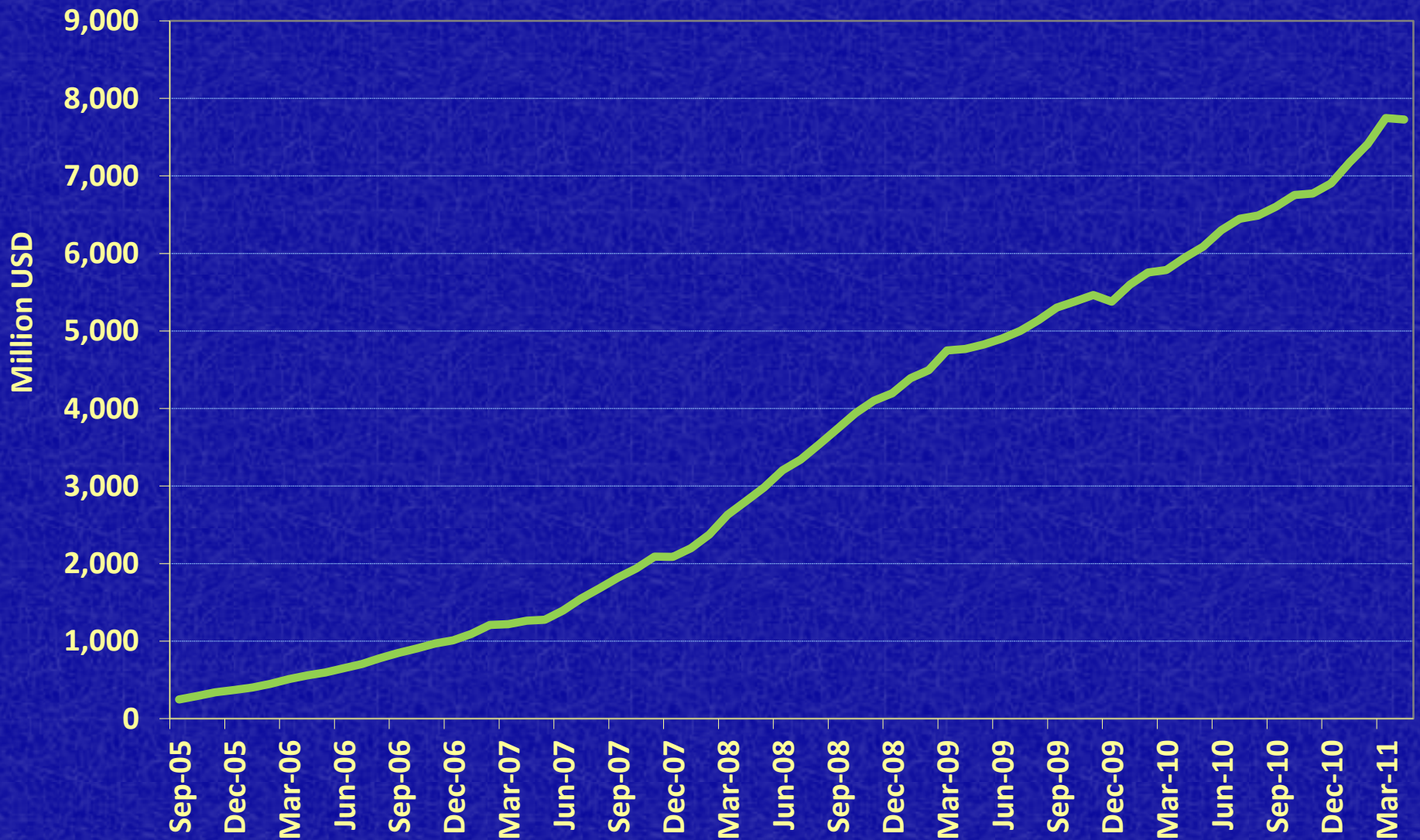
Petroleum Fund Objectives

- **Stabilize state revenues from oil price fluctuations.**
- **Provide sustainability after petroleum runs dry in 2023 (if Sunrise isn't developed).**
- **Reduce the temptation to spend a lot when revenues are temporarily high.**

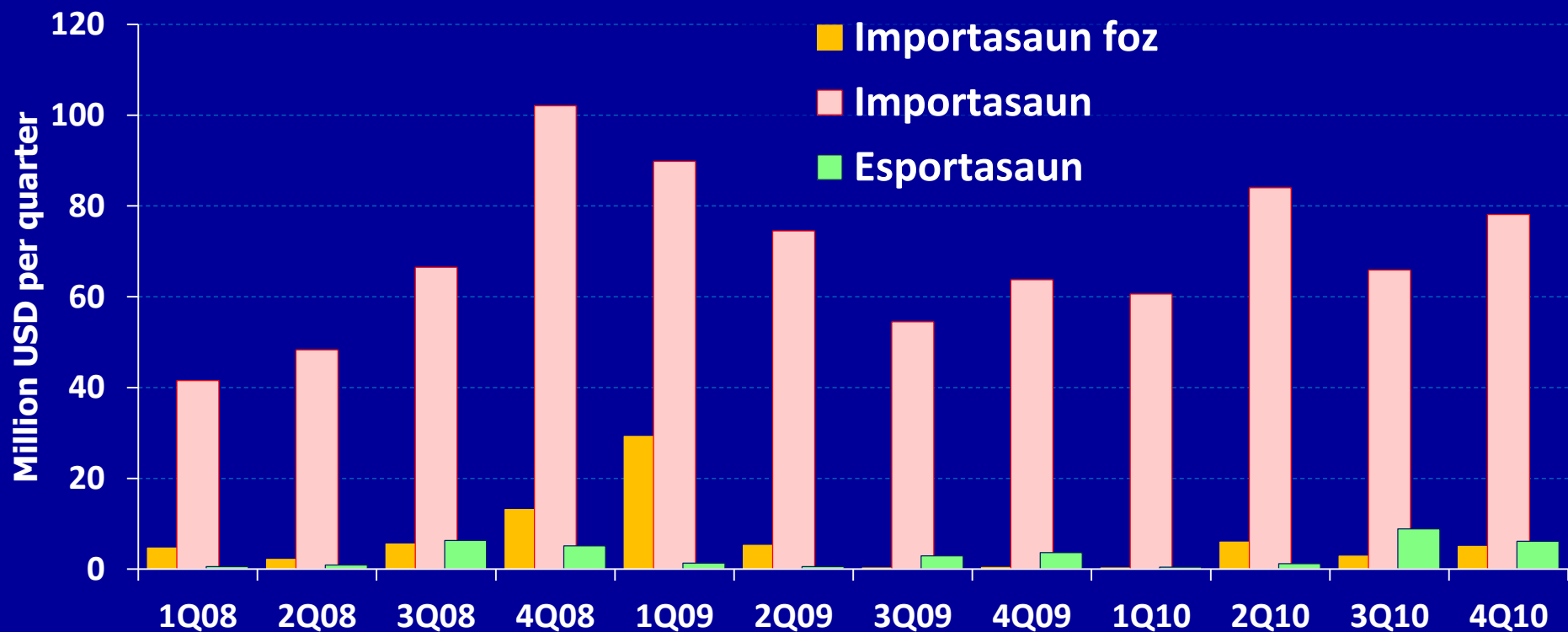
World Market Price of Crude Oil



Balance in the Petroleum Fund



Timor-Leste's Balance of Trade



The graph shows legal goods trade only.

Coffee is 96% of non-oil exports in 2010.

89% of donor spending, and 70% of state spending, goes overseas.

Timor-Leste balance of trade 2010

(million USD)

| Category | Imports | Exports | Balance |
|---|----------------------------------|---|----------------|
| Goods | \$289 (DNE reports) | \$17 (96% coffee) | -\$272 |
| Other goods (extra-legal) | \$200 (LH est.) | \$0.3 (LH est.) | -\$200 |
| Services | \$505 (2009, from BPA) | \$3 (LH est. remittances) | -\$502 |
| Total excluding oil and gas | \$994 | \$20 | -\$974 |
| Petroleum receipts (to state) | -- | \$2,016 (incl. \$294 Petrol. Fund interest) | \$2,016 |
| Total | \$994 | \$2,036 | \$1,042 |

Timor-Leste changes every year.

- **Population**

will increase 2.4% per year, doubling in less than 29 years (the post-war “baby boom” will become parents).

- **Inflation**

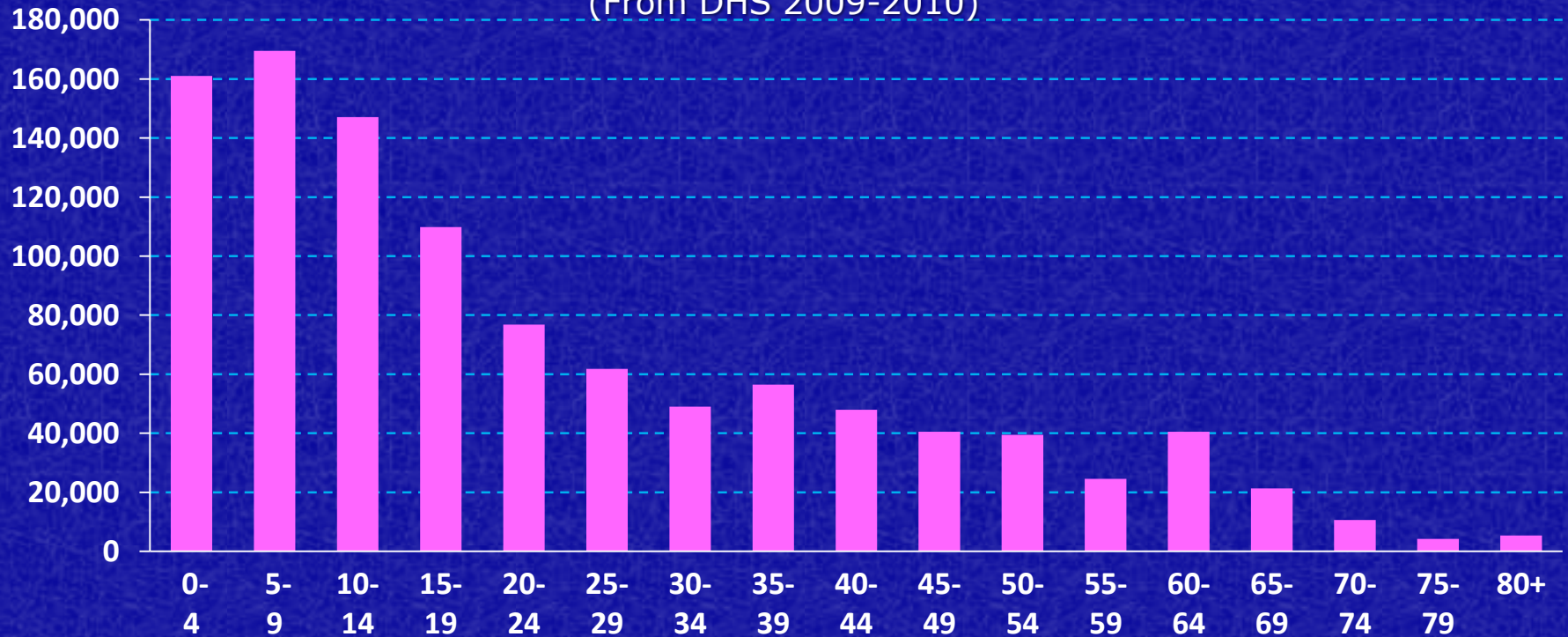
The IMF estimates 4.5% in 2010, and 6% in 2011 and beyond. According to the National Statistics Department, Consumer Prices in Dili increased 13.7% from April 2010 to April 2011. We’ve already caught “Dutch Disease.”

In addition, people’s needs will increase along with development.

Many children will become youth.

Timor-Leste Population by Age

(From DHS 2009-2010)



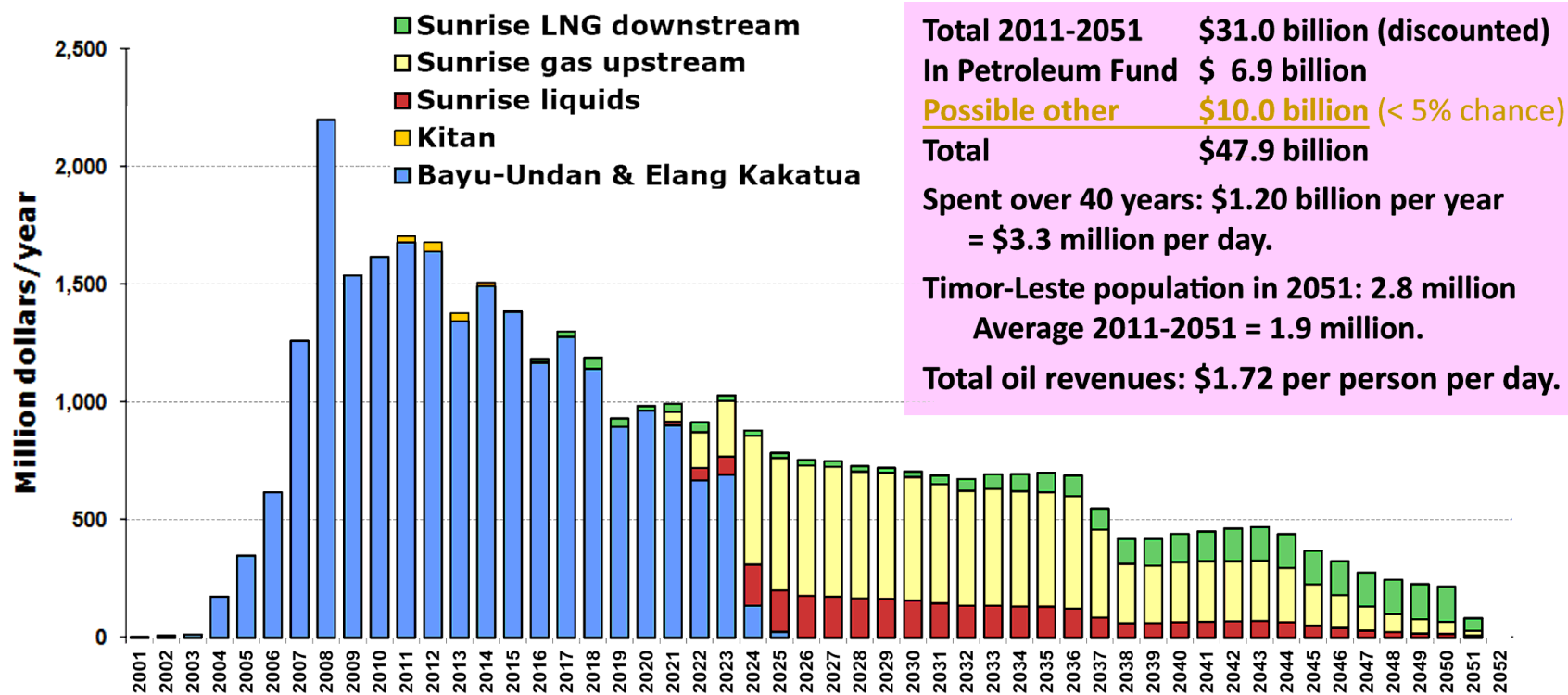
Timor-Leste is struggling to find jobs for 15,000 people who will enter the work force this year.

**In 2023, it will be 34,000, and the oil will be used up.
Today's youth will have children of their own.**

Our oil and gas wealth is very limited.

Timor-Leste's Annual Petroleum Revenues (discounted 4.0% / year)

If Sunrise construction starts in 2016.



- This graph uses imprudently optimistic assumptions.
- If we spend only the ESI from Petroleum Fund: \$1.41/person/day.
- The 2011 state budget will spend \$3.11/person/day.

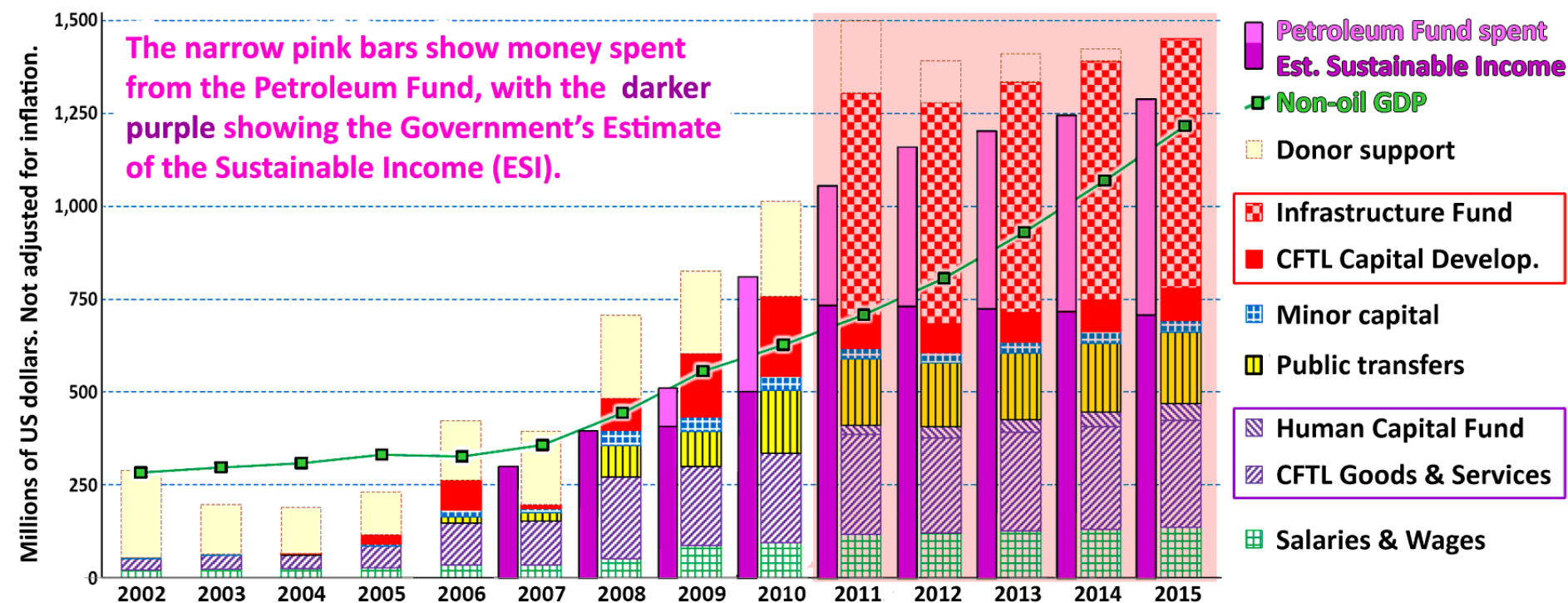
State Budgets 2002-2015

Showing Non-oil GDP Growth

State Expenditures over Time (including autonomous agencies)

2002-2010: Executed budget.

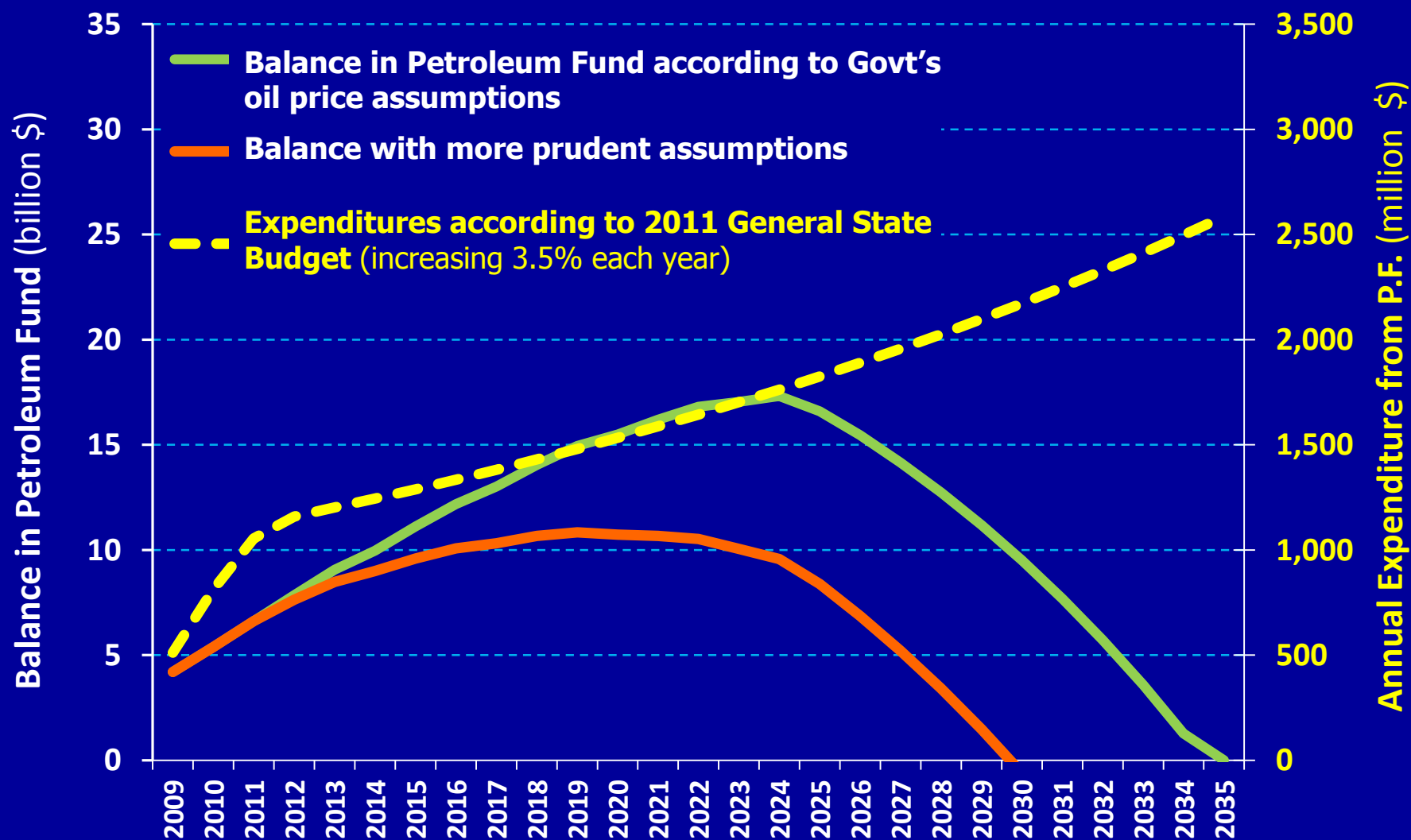
2011-2015: Planned budget.



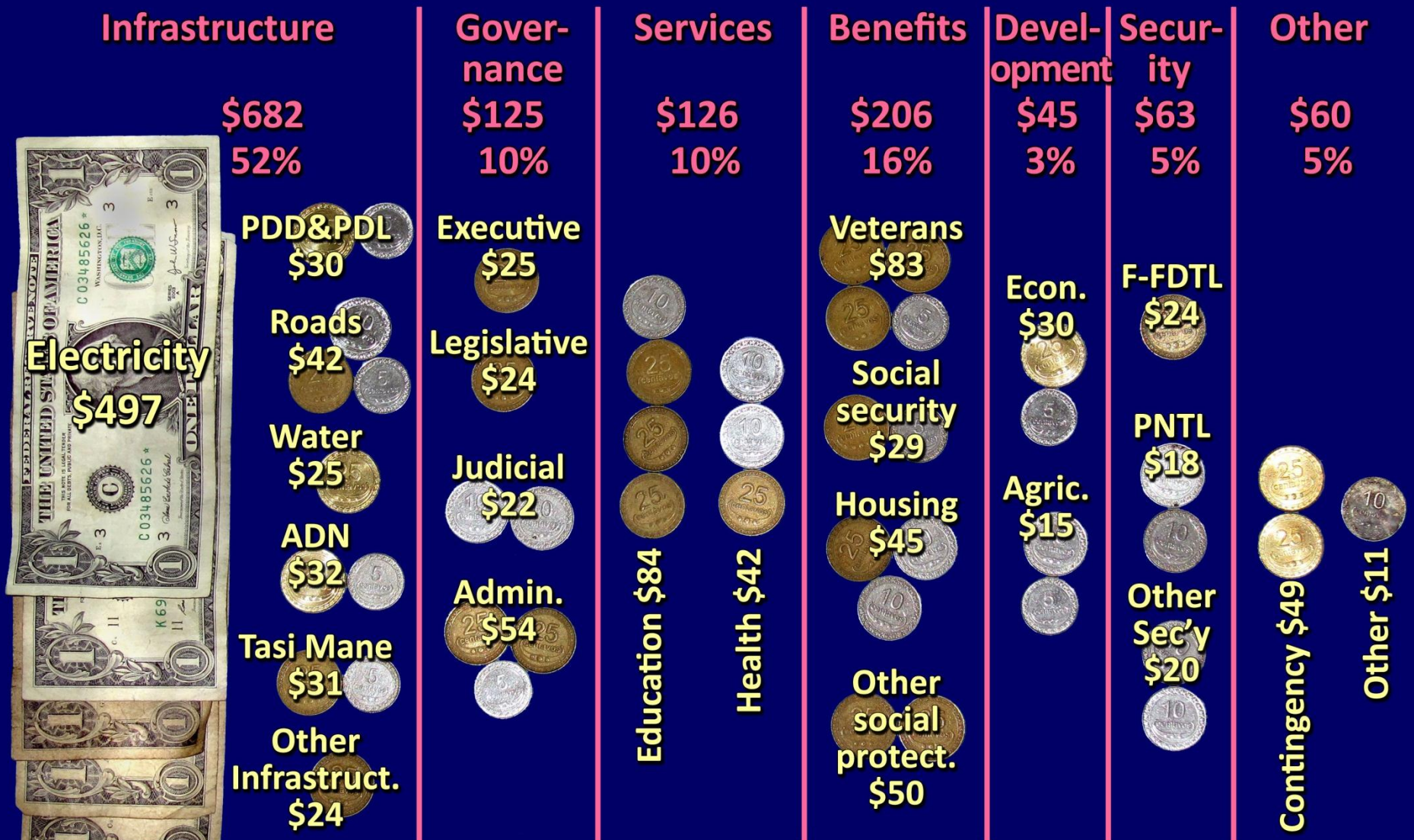
Graph by La'o Hamutuk based on IMF forecasts and RDTL Ministry of Finance data and projections.

The State Budget is growing much faster than the economy.

Petroleum Fund balance in the future

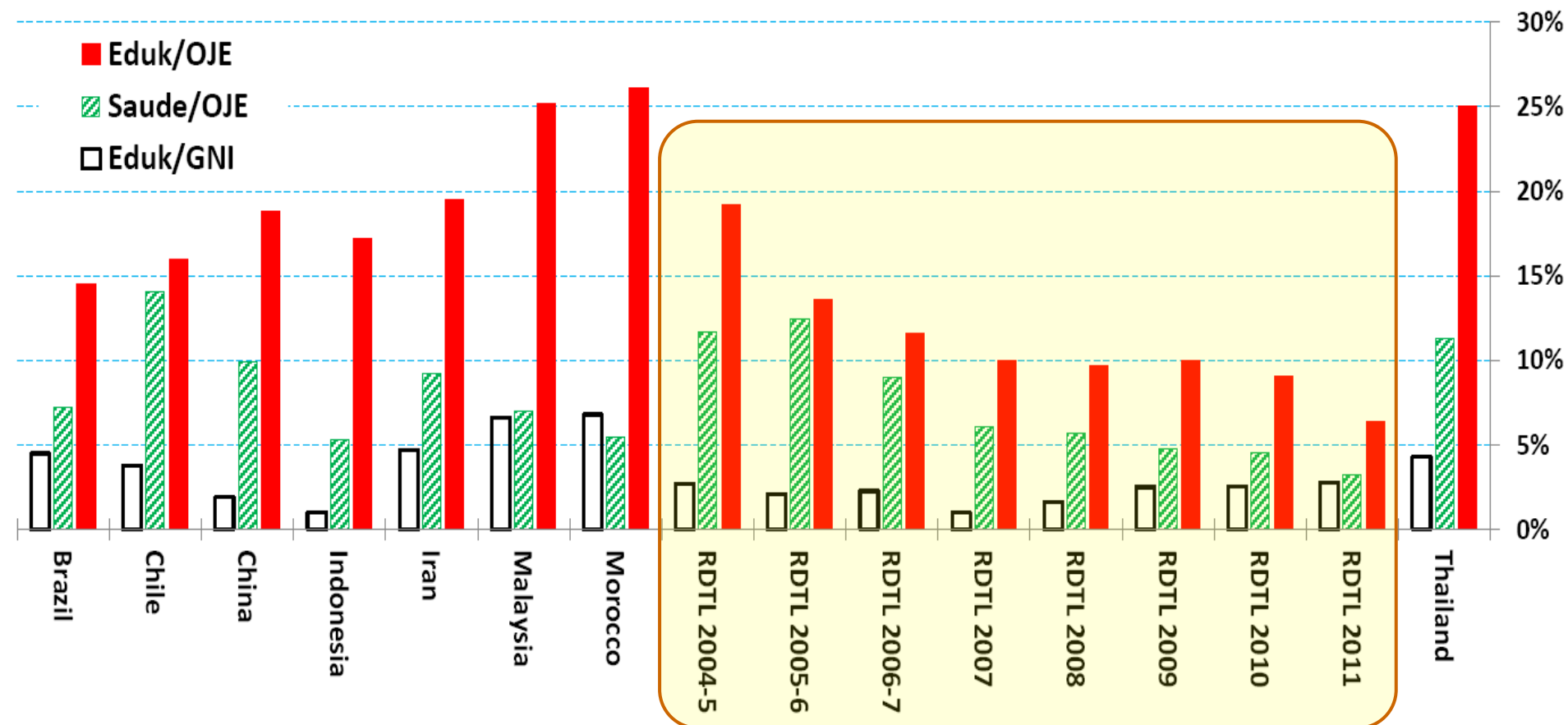


The 2011 Budget is for infrastructure.



We spend less on human resources.

Allocation for Education and Health in RDTL and other countries



Countries on track to meet the MDGs spend 28% of their budgets on health and education. Timor-Leste will spend 9.6% in 2011.

Dili is very different from the districts.

From Timor-Leste Demographic and Health Survey 2009-2010

Table 2.11 Wealth quintiles

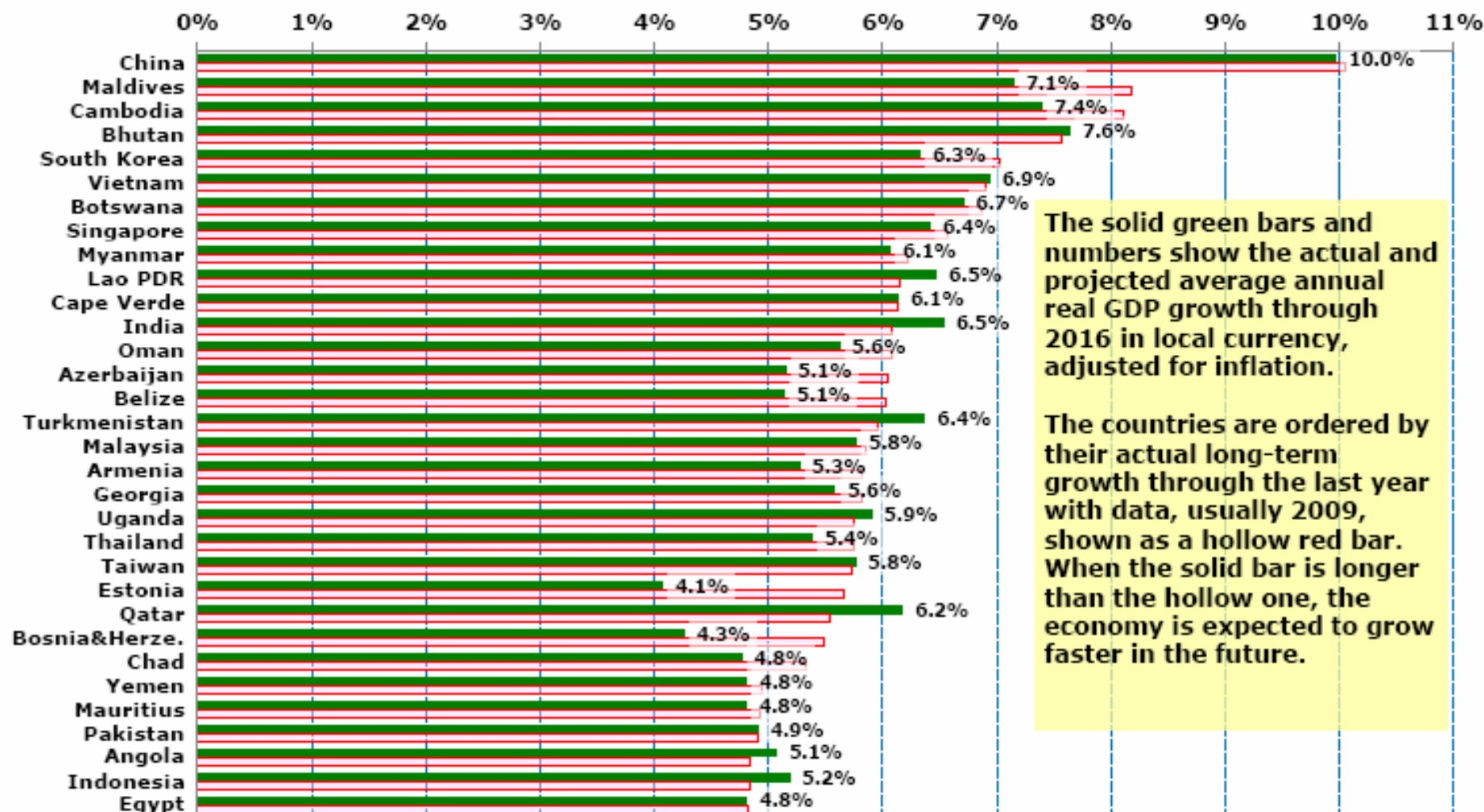
Percent distribution of the de jure population by wealth quintiles, according to residence and region, Timor-Leste 2009-10

| Residence/ region | Wealth quintile | | | | | Total | Number of population |
|----------------------|-----------------|------------|------------|-------------|-------------|--------------|-------------------------|
| | Lowest | Second | Middle | Fourth | Highest | | |
| Residence | | | | | | | |
| Urban | 4.5 | 6.1 | 9.3 | 22.2 | 57.8 | 100.0 | 15,852 |
| Rural | 24.6 | 24.2 | 23.3 | 19.2 | 8.7 | 100.0 | 51,134 |
| District | | | | | | | |
| Aileu | 20.6 | 27.9 | 25.1 | 18.2 | 8.2 | 100.0 | 2,785 |
| Ainaro | 30.9 | 32.2 | 19.7 | 12.1 | 5.2 | 100.0 | 3,830 |
| Baucau | 26.9 | 28.9 | 19.3 | 13.4 | 11.5 | 100.0 | 7,590 |
| Bobonaro | 15.2 | 19.7 | 26.1 | 27.8 | 11.1 | 100.0 | 6,323 |
| Covalima | 17.2 | 17.7 | 23.1 | 25.1 | 16.8 | 100.0 | 3,993 |
| Dili | 0.4 | 2.1 | 6.5 | 20.1 | 71.0 | 100.0 | 10,905 |
| Ermera | 9.8 | 30.2 | 31.9 | 21.5 | 6.6 | 100.0 | 8,132 |
| Lautem | 28.0 | 16.7 | 20.4 | 24.5 | 10.4 | 100.0 | 4,547 |
| Liquiçá | 15.7 | 18.8 | 25.3 | 25.1 | 15.2 | 100.0 | 4,082 |
| Manatuto | 22.2 | 10.9 | 22.5 | 27.7 | 16.8 | 100.0 | 3,088 |
| Manufahi | 28.3 | 25.1 | 18.1 | 16.6 | 12.0 | 100.0 | 2,699 |
| Oecussi | 46.6 | 17.1 | 14.4 | 14.2 | 7.6 | 100.0 | 4,281 |
| Viqueque | 35.3 | 25.5 | 17.4 | 13.0 | 8.7 | 100.0 | 4,730 |
| Total | 19.9 | 19.9 | 20.0 | 19.9 | 20.3 | 100.0 | 66,985 |

More than 70% of Dili's population are among the wealthiest 20% of Timorese, while only 2.5% are below the poverty line. About 48% of Timorese families outside Dili live in poverty.

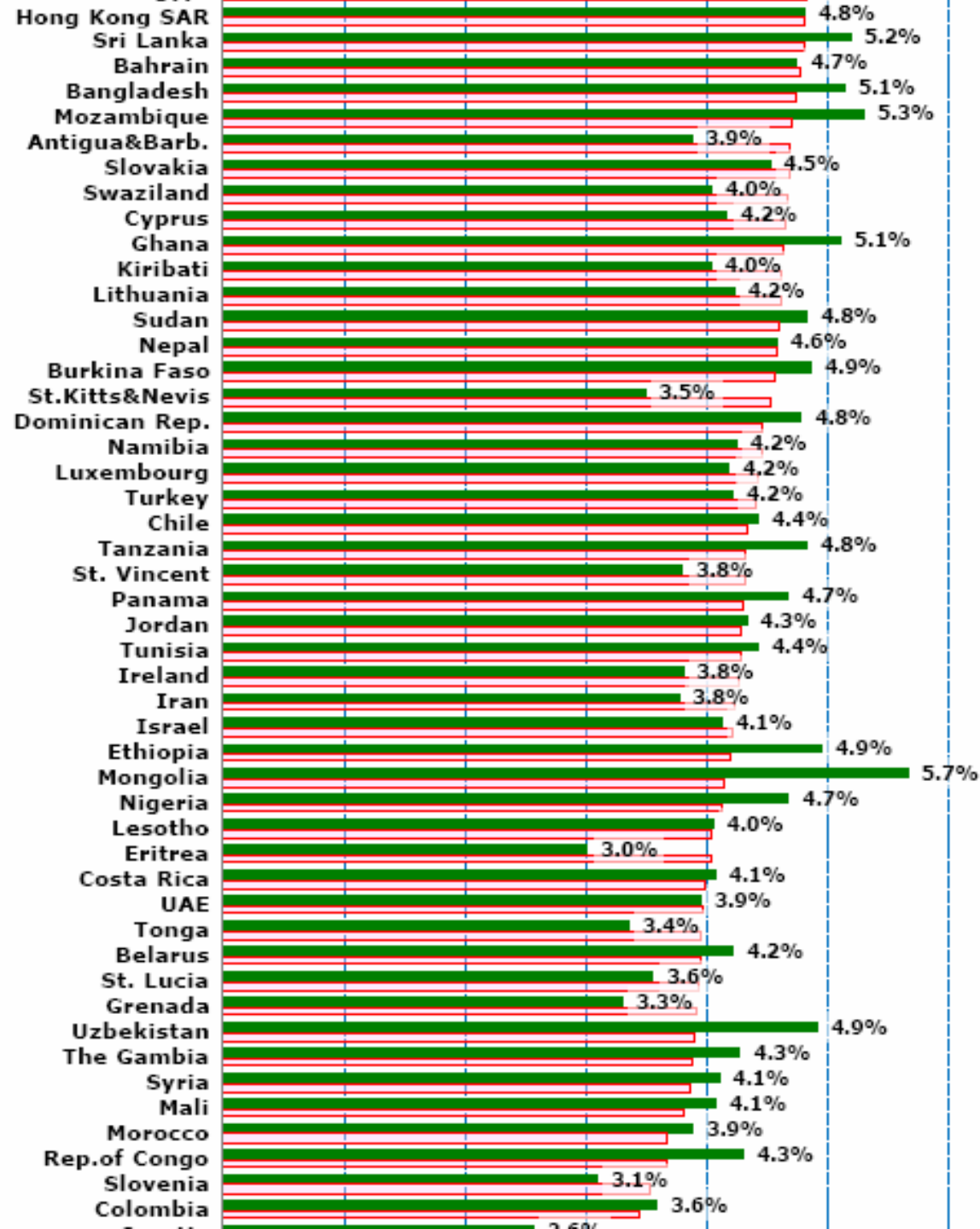
Can Timor-Leste achieve the highest economic growth in the world?

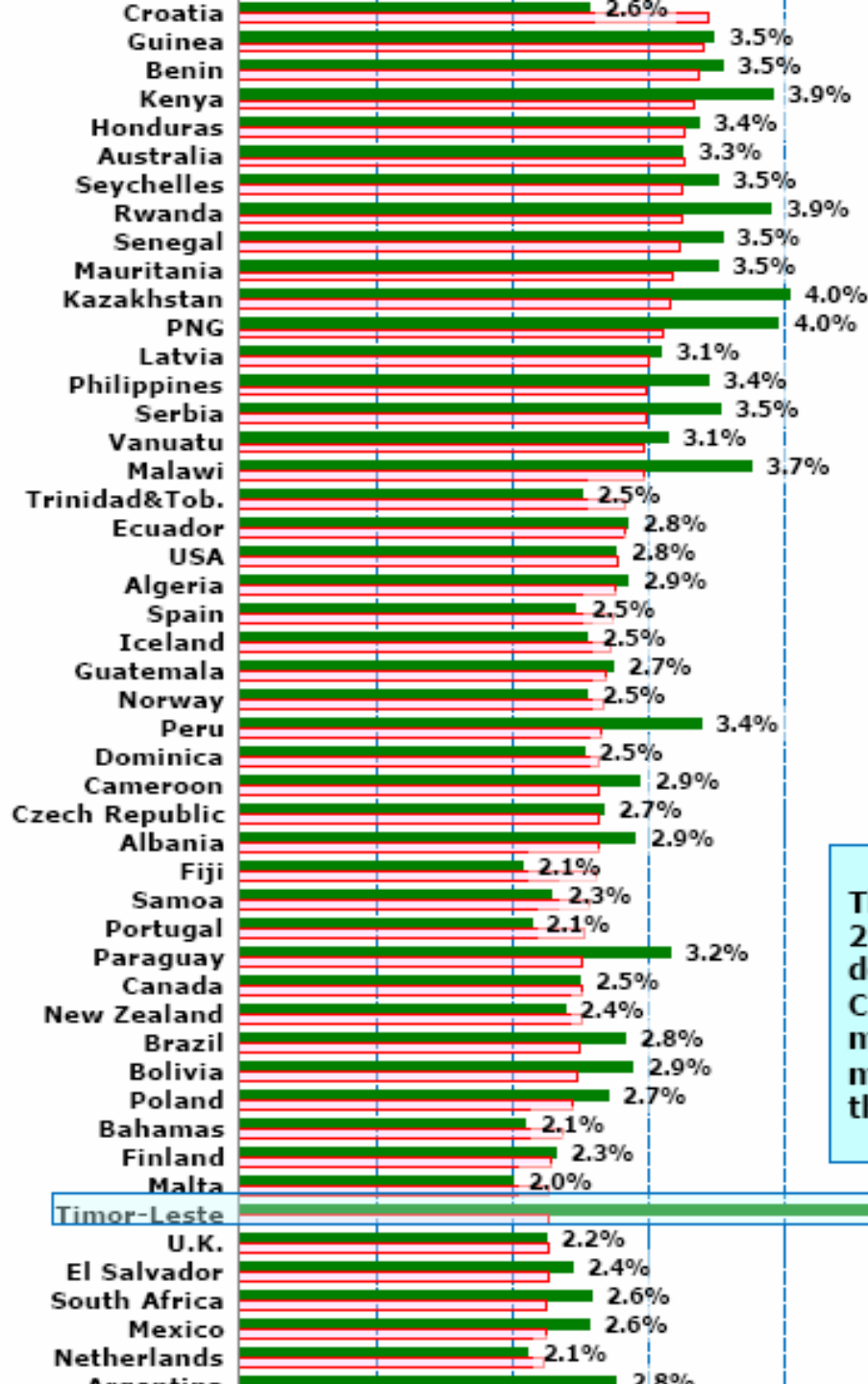
Long-term average annual real GDP growth (1980 or available data - 2016)



The solid green bars and numbers show the actual and projected average annual real GDP growth through 2016 in local currency, adjusted for inflation.

The countries are ordered by their actual long-term growth through the last year with data, usually 2009, shown as a hollow red bar. When the solid bar is longer than the hollow one, the economy is expected to grow faster in the future.





The IMF projects Timor-Leste to grow faster than the 2.3% annual GDP growth seen from 1999-2006, but does not envision double-digit levels, which only China has achieved over the long term. If Timor-Leste matches the fastest-growing comparable countries, it might achieve 6-7% annual long-term growth, but the 8.3% modelled in the HDR is probably impossible.

Borrowing

- Borrow now, pay back in the future.
- Cannot yet use the Petroleum Fund as collateral.
- Draft Strategic Development Plan borrows \$6,000 million during six years.
- Portugal agreed in 2009 to lend \$800 million, but their economy collapsed, so they can't.
- Japan recommends borrowing \$200 million over 5 years.
- IMF/World Bank assumes total borrowing of \$900 million during 2011-2030.
- The Council of Ministers just sent Parliament a proposed law for a Public Debt Regime.
- IMF/WB suggests *"A gradual approach to borrowing to allow time for building up debt management capacity from scratch."*

Before borrowing, we should know

- **What will the money be used for?**
- **How much needs to be repaid? When?**
- **Do we have to use the money to buy things from the country which gave the loan?**
- **If we can't repay, what are the consequences?**
- **Do we have to make payments before meeting our people's needs?**
- **In many countries, money from borrowing gives benefits mainly to rich people, but the repayments impact on the poor.**

Long-term sustainability

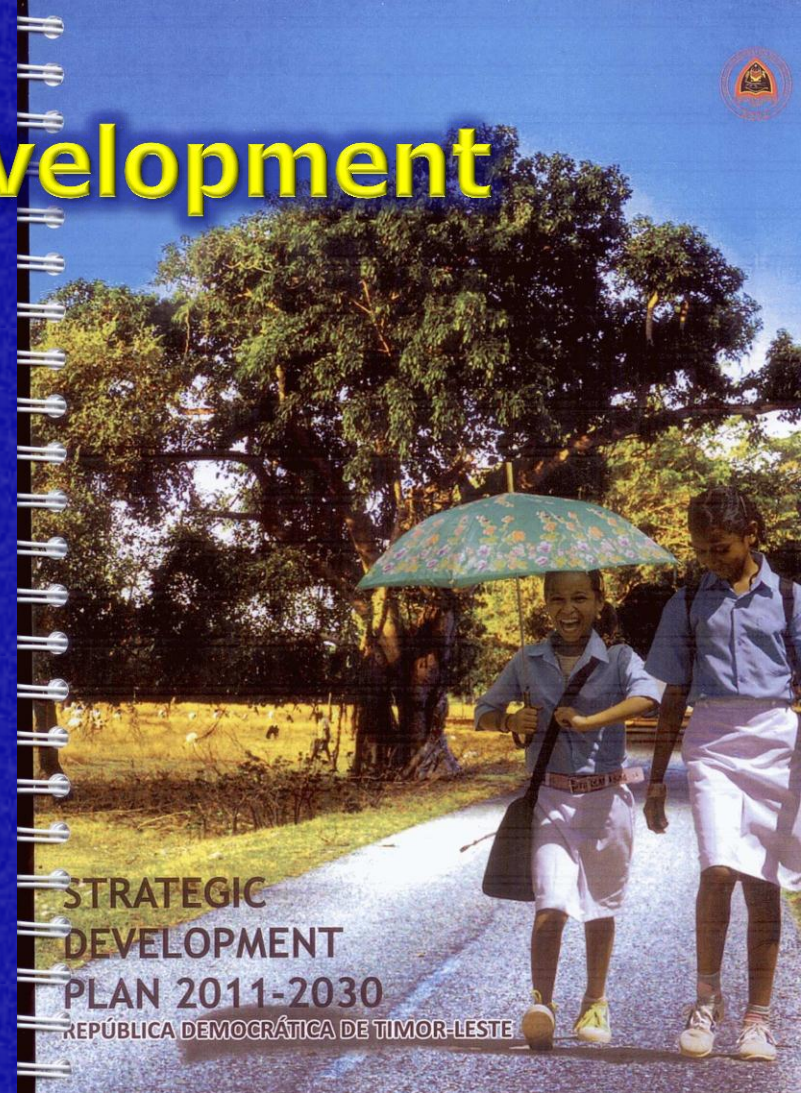
- **Our non-renewable resources are very limited.**
- **Must reduce dependency on the petroleum sector.**
- **The Tasi Mane project doesn't help the non-oil sector, and could become a white elephant if the Sunrise pipeline doesn't come and we don't find more oil fields.**
- **We don't yet have a private sector; small industries can make and sell local products.**
- **The Government reacted strongly against the UNDP report which suggested developing the non-oil economy.**

National Strategic Development Plan

- No details yet, but Parliament will get it soon.
- Beautiful dreams, but no clear steps to achieve them.
- Need to consider its implications for the State Budget today and tomorrow.

Informasaun:

<http://www.laohamutuk.org/econ/SDP/10SDPindexTe.htm>



Thank you.

- Any questions or comments?
- You can find more information at
- La'o Hamutuk's website
<http://www.laohamutuk.org>
- La'o Hamutuk's blog
<http://laohamutuk.blogspot.com/>