

If you spend four hundred million dollars, you don't have it any more.

Analysis by La'o Hamutuk, 1 March 2012

A version of this article, with links, is at

<http://laohamutuk.blogspot.com/2012/03/if-you-spend-400-million-you-dont-have.html>

In late January, Timor-Leste's Ministry of Finance published the "final" Budget Books for the 2012 State Budget, which document the budget as amended and approved by Parliament, and promulgated by the President. However, these books show projected spending for 2013-2016 of about \$100 million per year more than the Government told Parliament when they submitted the budget last September, but do not show the Petroleum Fund withdrawals that will finance that spending.

The Ministry told La'o Hamutuk that the increased spending comes from Parliament's amendments to the budget, which removed \$200 million for the Timor-Leste Investment Corporation but added \$111 million in 2012 expenditures and earlier implementation of projects planned for future years. According to the Ministry's projection model, Parliament unconsciously increased expenditures in 2013-2016, although these cannot be executed until Government and Parliament enact the budgets for each year.

Compared with the 2012 Budget as presented to Parliament, the "final" budget shows larger future Estimates of Sustainable Income due to Parliament's reduction of 2012 spending by \$89 million, but it does not show reduced ESI due to a projected \$397 million increase in spending in 2013-2016.

In countries where most revenue comes from converting nonrenewable resource wealth into cash, policymakers often forget that spending costs money. This happens here, as demonstrated by an inconsistency in the "final" 2012 Budget Book 1. Although the additional \$397 million in spending will be financed by withdrawals from the Petroleum Fund, the balance in the fund does not reflect this, so the ESI (Estimate Sustainable Income) is unrevised. In other words, the larger withdrawals in tables 2.2 and 4.2 of Book 1 are not reflected in tables 5.8 and 5.10 of the same book, which attempt to show how much money will be in the Petroleum Fund.

The Ministry made a similar mistake when they proposed the 2011 State Budget to Parliament in late 2010, but corrected it in the final 2011 budget after La'o Hamutuk pointed out the error.

After La'o Hamutuk sent a draft of this article to the Ministry on 22 February 2012, they quickly and quietly revised 2012 Budget Book 1 on their website. We appreciate the prompt response, and hope that this is an indication of future collaboration and good will in preventing Timor-Leste from falling further into the resource curse.

More details, including several versions of the tables, are in the following pages.

For more information on the 2012 State Budget, see <http://www.laohamutuk.org/econ/OGE12/100JE2012En.htm> (English) or <http://www.laohamutuk.org/econ/OGE12/100JE2012Te.htm> (Tetum).

The following tables are from the “final” budget book 1:

Table 2.2 Fiscal Table

(\$millions)	2008 actual	2009 actual	2010 actual	2011 budget	2012 budget	2013 budget	2014 budget	2015 budget	2016 budget
Total Expenditure by Appropriation Category	483.9	603.6	758.7	1,306.0	1,674.1	1,896.9	1,952.1	1,606.7	1,669.2
<i>Recurrent</i>	356.0	394.3	505.0	588.4	716.0	748.5	782.0	816.6	847.5
Salary and Wages	50.3	87.3	91.5	116.8	140.1	145.7	151.5	157.6	163.9
Goods and Services (including HCDF)	221.4	212.8	245.1	294.1	376.3	395.2	414.6	434.5	450.1
Public Transfers	84.3	94.2	168.4	177.5	199.6	207.6	215.9	224.5	233.5
<i>Capital</i>	127.9	209.3	253.7	717.6	958.2	1,148.4	1,170.1	790.1	821.7
Minor Capital	41.4	38.5	38.1	29.3	42.9	44.6	46.4	48.3	50.2
Capital and Development (including Infrastructure Fund)	86.5	170.8	215.6	688.3	915.3	1,103.8	1,123.7	741.8	771.5
Financing	483.9	603.6	758.7	1,306.0	1,674.1	1,896.9	1,952.1	1,606.7	1,669.2
Domestic Revenue	69.4	90.8	96.4	110.7	136.1	158.7	185.5	217.8	256.3
Estimated Sustainable Income (ESI)	396.0	408.4	502.0	734.0	665.3	644.2	620.2	594.7	580.5
Excess Withdrawals from the PF	0	103.6	309.0	321.0	829.6	1,013.8	1,065.3	691.4	725.4
Use of Cash Balance	18.5	0.8	-148.7	140.3	0.0	0.0	0.0	0.0	0.0
Borrowing	0.0	0.0	0.0	0.0	43.1	80.2	81.1	102.8	107.0
Selected Economic Indicators									
Non-Oil Fiscal Balance	-414.5	-512.8	-662.3	-1,195.3	-1,538.0	-1,738.2	-1,766.6	-1,388.9	-1,412.9
Nominal Non-Oil GDP Excl UN (\$m)	459.7	578.5	653.8	788.3	929.7	1,097.1	1,282.3	1,500.4	1,767.8
Non-Oil Fiscal Deficit / Non-Oil GDP	90%	89%	101%	152%	165%	158%	138%	93%	80%

Source: Ministry of Finance, 2011.

Table 4.2 Consolidated Fiscal Table in \$ millions

	2010 actual	2011 budget	2012 budget	2013 budget	2014 budget	2015 budget	2016 budget
Total Expenditure	758.7	1,306.0	1,674.1	1,896.9	1,952.1	1,606.7	1,669.2
Recurrent Expenditure	505.0	588.4	716.0	748.5	782.0	816.6	847.5
Capital Expenditure	253.7	717.6	958.2	1148.4	1170.1	790.1	821.7
Financing	758.7	1,306.0	1,674.1	1,896.9	1,952.1	1,606.7	1,669.2
Domestic Revenue	96.4	110.7	136.1	158.7	185.5	217.8	256.3
Est. Sustainable Income (ESI)	502.0	734.0	665.3	644.2	620.2	594.7	580.5
Excess Withdrawals from PF	309.0	321.0	829.6	1,013.8	1,065.3	691.4	652.4
Use of Cash Balance	-148.7	140.3	0.0	0.0	0.0	0.0	0.0
Borrowing	0.0	0.0	43.1	80.2	81.1	102.8	180.0
Non-oil Fiscal Balance	-662.3	-1,195.3	-1,538.0	-1,738.2	-1,766.6	-1,388.9	-1,412.9

Source: Ministry of Finance, 2011. Note: Non-oil fiscal balance is domestic revenue minus total expenditure.

For example, for 2013 budget tables 2.2 and 4.2 say

ESI \$644.2m + excess withdrawal \$1,013.8m = total Petroleum Fund withdrawal \$1,658m

[These two tables are inconsistent for borrowing and excess withdrawals in 2016. We believe table 2.2 is right.]

But table 5.8 (below) says only \$1,565m will be withdrawn from the Fund in 2013.

	2010 Actual	2011 Estimate	2012 Budget	2013 Projection	2014 Projection	2015 Projection	2016 Projection
Opening Balance	5,377	6,904	8,679	9,276	9,619	9,794	10,535
Petroleum Revenue excluding PF Interest	2,117	2,547	1,766	1,565	1,410	1,557	1,597
Petroleum Fund Interest, Net*	221	283	326	343	353	369	398
Withdrawal	-811	-1,055	-1,495	-1,565	-1,588	-1,185	-1,128
Closing Balance	6,904	8,679	9,276	9,619	9,794	10,535	11,402

*) net of management and market revaluation

The Petroleum Fund balances derived from the incorrect \$1,565 million figure are used in table 5.10 to estimate future ESI; in this case, ESI for 2014 is calculated at \$620.2 million. But if the \$1,658 million shown in tables 2.2 and 4.2 was withdrawn in 2013, Total Petroleum Wealth at the end of 2013 would be \$93 million less, so that the ESI for 2014 should be \$617.4 million.

US\$ million	2011 Budget	2012 Budget	2013 Budget	2014 Budget	2015 Budget	2016 Budget
Petroleum Fund balance	6,617	8,679	9,276	9,619	9,794	10,535
+ Net Present Value of future revenues	17,847	13,496	12,197	11,055	10,028	8,814
Total Petroleum Wealth (PW)	24,465	22,175	21,473	20,675	19,822	19,349
Estimated Sustainable Income (PWx3%)	734	665.3	644.2	620.2	594.7	580.5

Source: Petroleum Fund Directorate, Ministry of Finance, 2011

The difference gets larger in future years, and by the end of 2016 the balance in the Petroleum Fund will be a half-billion dollars less than Tables 5.8 and 5.10 says, and the 2017 ESI will be \$14.7 million lower.

Here is how La'o Hamutuk calculates tables 5.8 and 5.10 based on the withdrawal amounts given in tables 2.2 and 4.2.

Tables as included in Final edition, Book 1, OGE 2012

	2010	2011	2012	2013	2014	2015	2016
	actual	actual	budget	budget	budget	budget	budget
ESI	502.0	734.0	665.3	644.2	620.2	594.7	580.5
Excess withdrawals from PF	309.0	321.0	829.6	1013.8	1065.3	691.4	725.4
Total withdrawal from PF	811.0	1055.0	1494.9	1658.0	1685.5	1286.1	1305.9

	2010	2011	2012	2013	2014	2015	2016
	Actual	Estimate	Budget	Projection	Projection	Projection	Projection
Opening Balance	5,377	6,904	8,679	9,276	9,619	9,794	10,535
Petroleum Revenue excluding PF Interest	2,117	2,547	1,766	1,565	1,410	1,557	1,597
Petroleum Fund Interest, Net	221	283	326	343	353	369	398
Withdrawal	(811)	(1,055)	(1,495)	(1,565)	(1,588)	(1,185)	(1,128)
Closing Balance	6,904	8,679	9,276	9,619	9,794	10,535	11,402

US\$ million	2011	2012	2013	2014	2015	2016
	Budget	Budget	Budget	Budget	Budget	Budget
Petroleum Fund balance	6,617	8,679	9,276	9,619	9,794	10,535
+ Net Present Value of future revenues	17,847	13,496	12,197	11,055	10,028	8,814
Total Petroleum Wealth (PW)	24,465	22,175	21,473	20,675	19,822	19,349
Estimated Sustainable Income (PWx3%)	734	665.3	644.2	620.2	594.7	580.5

Tables as recalculated by La'o Hamutuk (changed cells have tan background)

	2010	2011	2012	2013	2014	2015	2016
	Actual	Estimate	Budget	Projection	Projection	Projection	Projection
Opening Balance	5,377	6,904	8,679	9,276	9,526	9,600	10,233
Petroleum Revenue excluding PF Interest	2,117	2,547	1,766	1,565	1,410	1,557	1,597
Petroleum Fund Interest, Net	221	283	326	343	350	362	387
Withdrawal	(811)	(1,055)	(1,495)	(1,658)	(1,686)	(1,286)	(1,306)
Closing Balance	6,904	8,679	9,276	9,526	9,600	10,233	10,910

US\$ million	2011	2012	2013	2014	2015	2016
	Budget	Budget	Budget	Budget	Budget	Budget
Petroleum Fund balance	6,617	8,679	9,276	9,526	9,600	10,233
+ Net Present Value of future revenues	17,847	13,496	12,197	11,055	10,028	8,814
Total Petroleum Wealth (PW)	24,465	22,175	21,473	20,581	19,628	19,047
Estimated Sustainable Income (PWx3%)	734	665.3	644.2	617.4	588.8	571.4

Differences between original table and recalculated ones

	2010	2011	2012	2013	2014	2015	2016
	Actual	Estimate	Budget	Projection	Projection	Projection	Projection
Opening Balance	0	0	0	0	(93)	(194)	(302)
Petroleum Revenue excluding PF Interest	0	0	0	0	0	0	0
Petroleum Fund Interest, Net	0	0	0	0	(3)	(7)	(11)
Withdrawal	0	0	0	(93)	(98)	(101)	(178)
Closing Balance	-	-	0	(93)	(194)	(302)	(492)

US\$ million	2011	2012	2013	2014	2015	2016	2017
	Budget	Budget	Budget	Budget	Budget	Budget	LH proj.
Petroleum Fund balance	0	0	0	(93)	(194)	(302)	(492)
+ Net Present Value of future revenues	-	0	0	0	0	0	0
Total Petroleum Wealth (PW)	0	0	0	(93)	(194)	(302)	(492)
Estimated Sustainable Income (PWx3%)	0.0	0.0	0.0	(2.8)	(5.8)	(9.1)	(14.7)

The Ministry published a corrected version on 29 February 2012 with the following tables, which are almost the same as La'o Hamutuk calculated. We believe that the slight difference in PF interest is because we assumed the additional withdrawals were at the end of each year (consistent with current practice) while the Ministry distributed them across 12 months.

Table 4.2 Consolidated Fiscal Table in \$ millions

	2010 actual	2011 budget	2012 budget	2013 budget	2014 budget	2015 budget	2016 budget
Total Expenditure	758.7	1,306.0	1,674.1	1,896.9	1,952.1	1,606.7	1,669.2
Recurrent Expenditure	505.0	588.4	716.0	748.5	782.0	816.6	847.5
Capital Expenditure	253.7	717.6	958.2	1148.4	1170.1	790.1	821.7
Financing	758.7	1,306.0	1,674.1	1,896.9	1,952.1	1,606.7	1,669.2
Domestic Revenue	96.4	110.7	136.1	158.7	185.5	217.8	256.3
Est. Sustainable Income (ESI)	502.0	734.0	665.3	644.2	617.4	588.7	571.2
Excess Withdrawals from PF	309.0	321.0	829.6	1,013.8	1,068.1	697.4	734.7
Use of Cash Balance	-148.7	140.3	0.0	0.0	0.0	0.0	0.0
Borrowing	0.0	0.0	43.1	80.2	81.1	102.8	107.0
Non-oil Fiscal Balance	-662.3	-1,195.3	-1,538.0	-1738.2	-1766.6	-1388.9	-1412.9

Source: Ministry of Finance, 2011. Note: Non-oil fiscal balance is domestic revenue minus total expenditure.

Table 5.8 Estimated Petroleum Fund Savings 2011 - 2016 (\$millions)

	2010 Actual	2011 Estimate	2012 Budget	2013 Projection	2014 Projection	2015 Projection	2016 Projection
Opening Balance	5,377	6,904	8,679	9,276	9,524	9,596	10,227
Petroleum Revenue excluding PF Interest	2,117	2,547	1,766	1,565	1,410	1,557	1,597
Petroleum Fund Interest, Net*	221	283	326	341	347	360	384
Withdrawal	-811	-1,055	-1,495	-1,658	-1,686	-1,286	-1,306
Closing Balance	6,904	8,679	9,276	9,524	9,596	10,227	10,901

**) net of management and market revaluation*

Table 5.10 ESI as of 1 January 2011 compared to figures in Budget 2010

US\$ million	2011 Budget	2012 Budget	2013 Budget	2014 Budget	2015 Budget	2016 Budget
Petroleum Fund balance	6,617	8,679	9,276	9,524	9,596	10,227
+ Net Present Value of future revenues	17,847	13,496	12,197	11,055	10,028	8,814
Total Petroleum Wealth (PW)	24,465	22,175	21,473	20,579	19,624	19,041
Estimated Sustainable Income (PWx3%)	734	665.3	644.2	617.1	588.7	571.2

Source: Petroleum Fund Directorate, Ministry of Finance, 2011

For reference, the tables from Budget Book 1 as presented to Parliament in September 2011 do not include the error in the January 2012 version, although they spend more in 2012 and less in 2013-2016.

Table 2.2 Fiscal Table

(\$millions)	2008 actual	2009 actual	2010 actual	2011 budget	2012 budget	2013 budget	2014 budget	2015 budget	2016 budget
Total Expenditure by Appropriation Category	483.9	603.6	758.7	1,306.0	1,763.4	1,803.4	1,854.8	1,505.7	1,564.1
<i>Recurrent</i>	356.0	394.3	505.0	588.4	679.0	709.9	741.9	775.0	804.2
Salary and Wages	50.3	87.3	91.5	116.8	140.1	145.7	151.5	157.6	163.9
Goods and Services (including HCDF)	221.4	212.8	245.1	294.1	344.7	362.3	380.4	399.0	413.2
Public Transfers	84.3	94.2	168.4	177.5	194.2	202.0	210.0	218.4	227.2
<i>Capital</i>	127.9	209.3	253.7	717.6	1,084.4	1,093.5	1,112.9	730.7	759.9
Minor Capital	41.4	38.5	38.1	29.3	30.0	31.2	32.4	33.7	35.1
Capital and Development (including Infrastructure Fund)	86.5	170.8	215.6	688.3	1,054.4	1,062.3	1,080.5	696.9	724.8
Financing	483.9	603.6	758.7	1,306.0	1,763.4	1,803.4	1,854.8	1,505.7	1,564.1
Domestic Revenue	69.4	90.8	96.4	110.7	136.1	158.7	185.5	217.8	256.3
Estimated Sustainable Income (ESI)	396.0	408.4	502.0	734.0	665.3	641.2	617.1	591.4	577.1
Excess Withdrawals from the PF	0	103.6	309.0	321.0	928.9	923.3	971.2	593.6	550.7
Use of Cash Balance	18.5	0.8	-148.7	140.3	0.0	0.0	0.0	0.0	0.0
Borrowing	0.0	0.0	0.0	0.0	33.1	80.2	81.1	102.8	180.0
Selected Economic Indicators									
Non-Oil Fiscal Balance	-414.5	-512.8	-662.3	-1,195.3	-1,627.3	-1,644.7	-1,669.4	-1,287.9	-1,307.8
Nominal Non-Oil GDP Excl UN (\$m)	459.7	578.5	653.8	788.3	929.7	1,097.1	1,282.3	1,500.4	1,767.8
Non-Oil Fiscal Deficit / Non-Oil GDP	90%	89%	101%	152%	175%	150%	130%	86%	74%

Source: Ministry of Finance, 2011.

Table 5.8 Estimated Petroleum Fund Savings 2011 - 2016 (\$millions)

	2010 Actual	2011 Estimate	2012 Budget	2013 Projection	2014 Projection	2015 Projection	2016 Projection
Opening Balance	5,377	6,904	8,679	9,175	9,515	9,685	10,422
Petroleum Revenue excluding PF Interest	2,117	2,547	1,766	1,565	1,410	1,557	1,597
Petroleum Fund Interest, Net*	221	283	324	339	349	365	394
Withdrawal	-811	-1,055	-1,594	-1,564	-1,588	-1,185	-1,128
Closing Balance	6,904	8,679	9,175	9,515	9,685	10,422	11,285

**) net of management and market revaluation*

Table 5.10 ESI as of 1 January 2011 compared to figures in Budget 2010

US\$ million	2011 Budget	2012 Budget	2013 Budget	2014 Budget	2015 Budget	2016 Budget
Petroleum Fund balance	6,617	8,679	9,175	9,515	9,685	10,422
+ Net Present Value of future revenues	17,847	13,496	12,197	11,055	10,028	8,814
Total Petroleum Wealth (PW)	24,465	22,175	21,372	20,570	19,713	19,236
Estimated Sustainable Income (PWx3%)	734	665.3	641.2	617.1	591.4	577.1

Source: Petroleum Fund Directorate, Ministry of Finance, 2011