

# Fiscal Policy: Is it Sustainable?

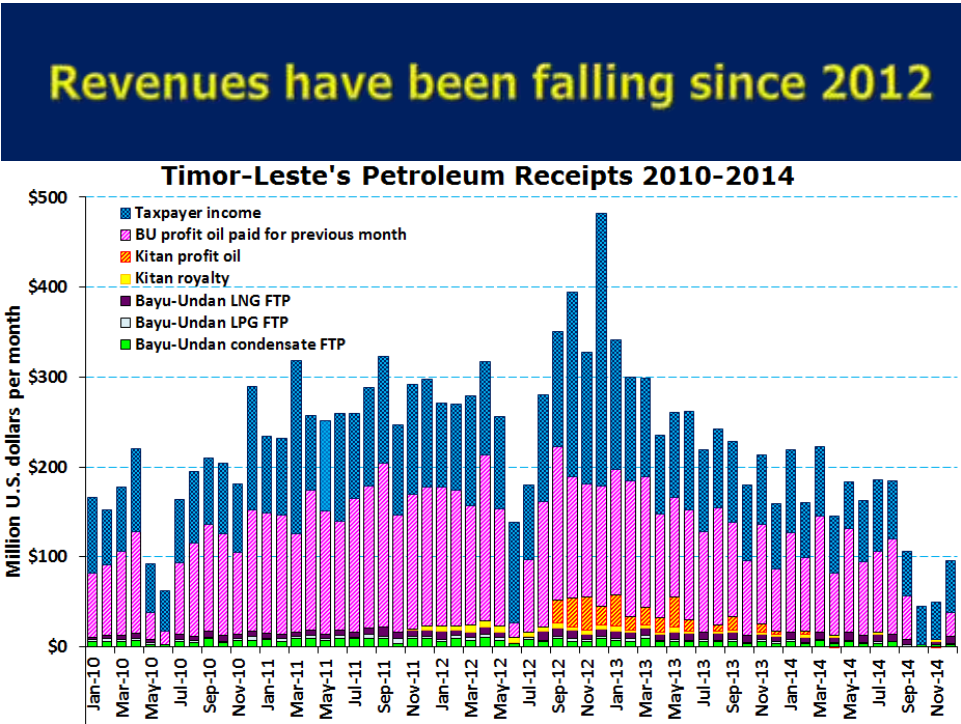
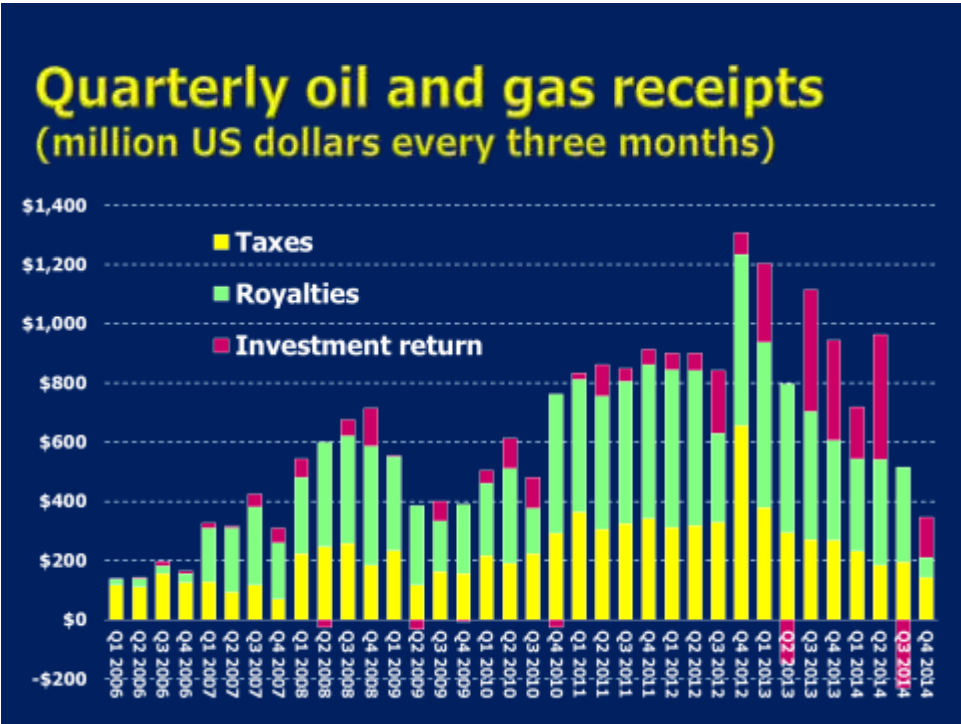
Presentation to Fulan Naroman discussion  
by Charles Scheiner, La’o Hamutuk  
5 March 2015



## Petroleum Dependency

- Petroleum GDP in 2012:..... \$4,309 million (78%)  
Non-oil GDP in 2012:..... \$1,246 million (22%)  
    Productive sectors (agric. & manufacturing)     \$ 247 million (4%)
- Projected state revenues in 2015:..... \$2,530 million  
    \$2,290 million (91%) will be from oil (incl. \$916m investment return)  
    \$ 170 million ( 7%) will be from non-petroleum sources  
    \$ 70 million ( 3%) will be from borrowed from international lenders
- 2015 State Budget:..... \$1,570 million  
    \$1,328 million (85%) will come from the Petroleum Fund in 2015.  
    \$ 72 million (4%) more is from the Petrol. Fund in the past and future.
- State activities, paid for with oil money, are about half of the “non-oil” economy, because some of this money circulates in the local economy.
- Balance of non-oil goods trade (2014): \$526m imports  
  \$ 14m exports (95% coffee)
- Petroleum “income” goes to the government, not the people.

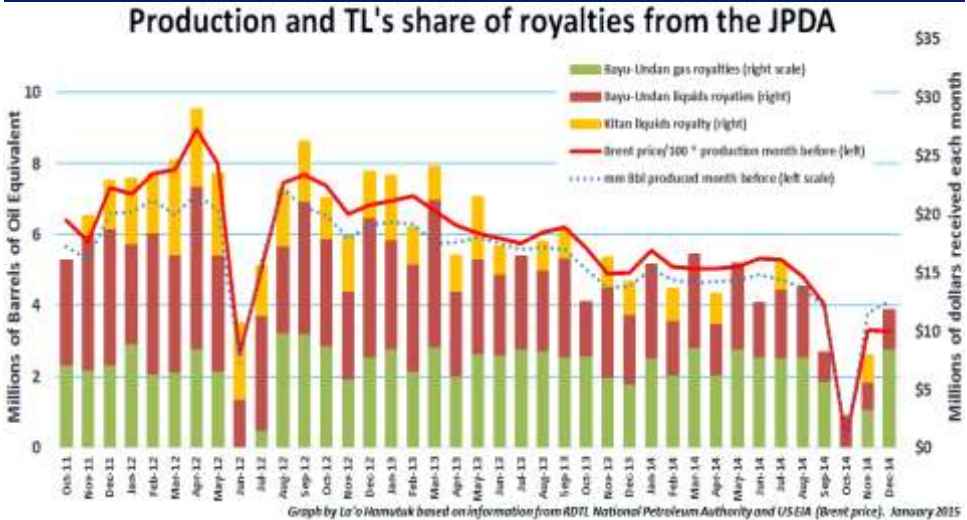
Only South Sudan, Libya (and Equatorial Guinea?) are more dependent on oil and gas exports than Timor-Leste.

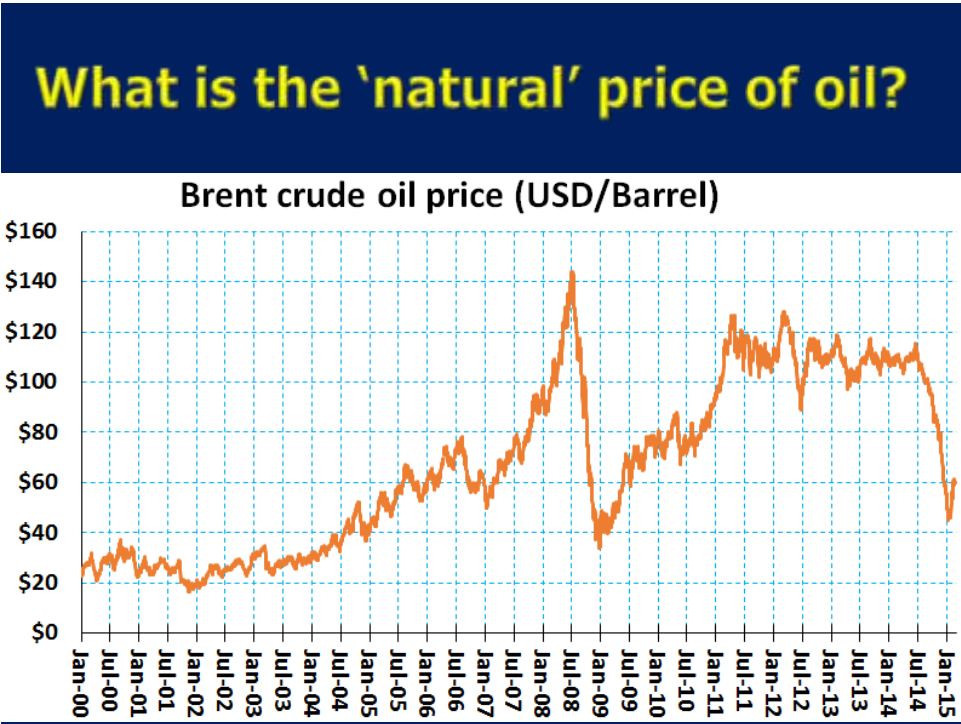
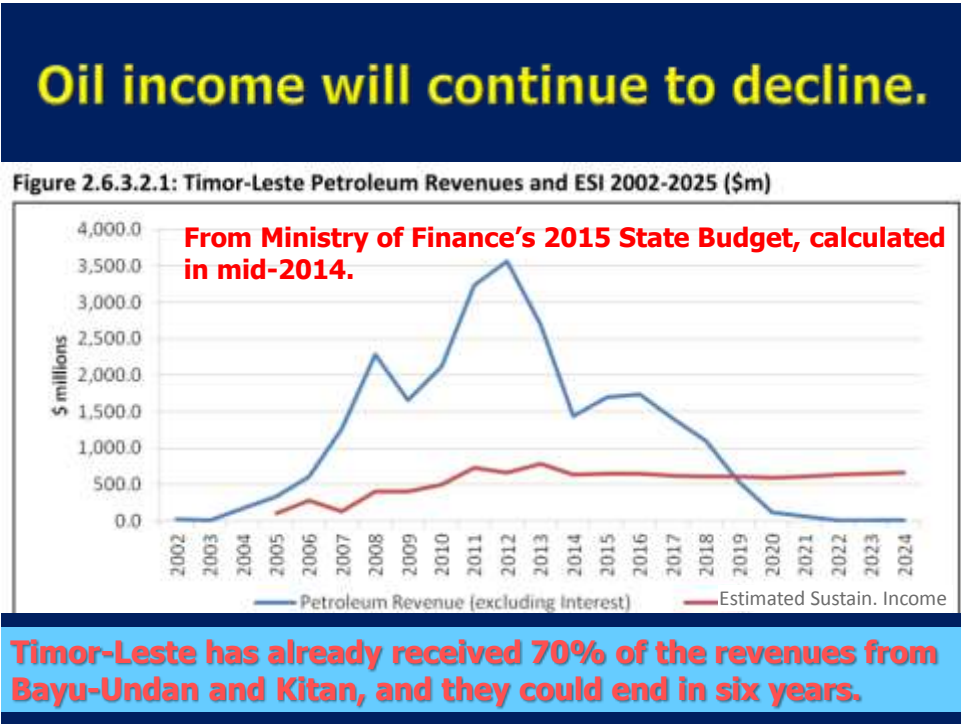


But we don't have very much oil.

	Timor-Leste	TL without Sunrise	Australia
Known oil and gas reserves per person	700 barrels	230 barrels	1,140 barrels+
How long reserves will last at 2012 production rates	14 years	5 years	64 years+

Production began to drop after 2012.

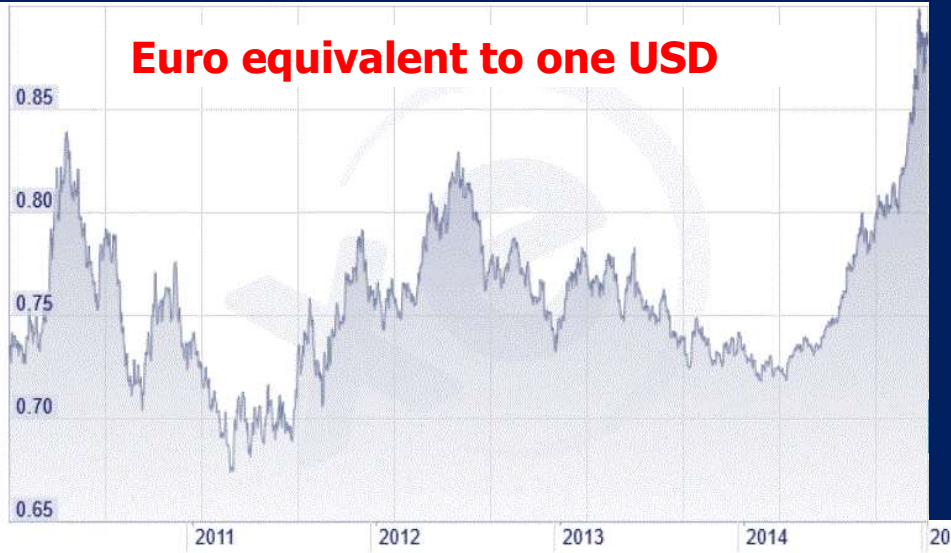




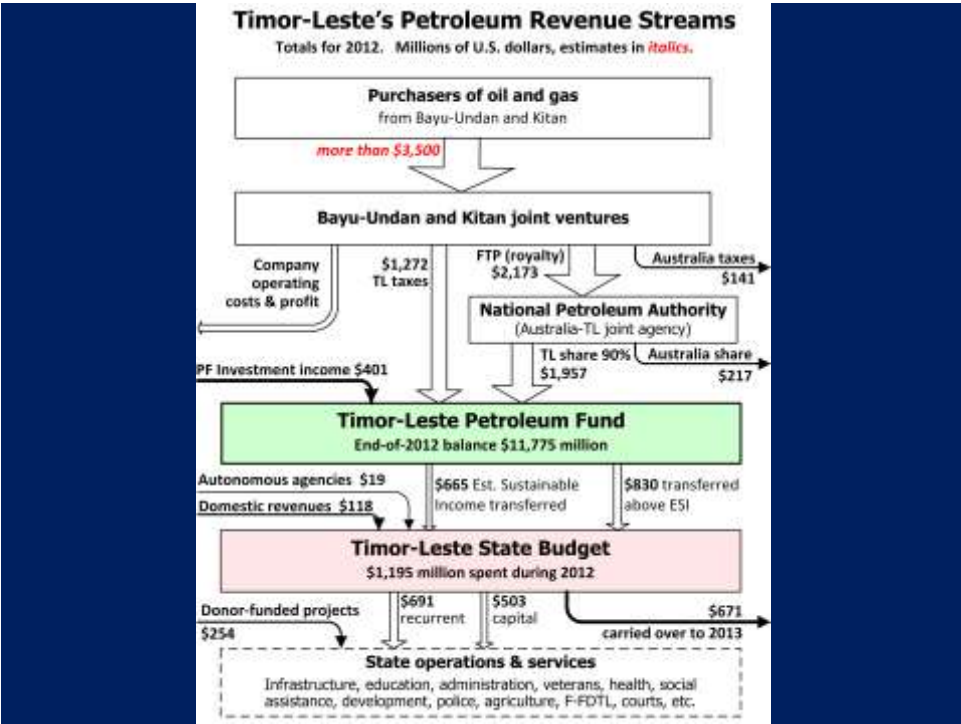
The rising dollar reduces the cost of imports.



The rising dollar lowers the value of investments in other currencies.







## Oil is running out quickly!

Table 2.5.3.2.2: Petroleum Wealth and the Estimated Sustainable Income (ESI), \$ millions

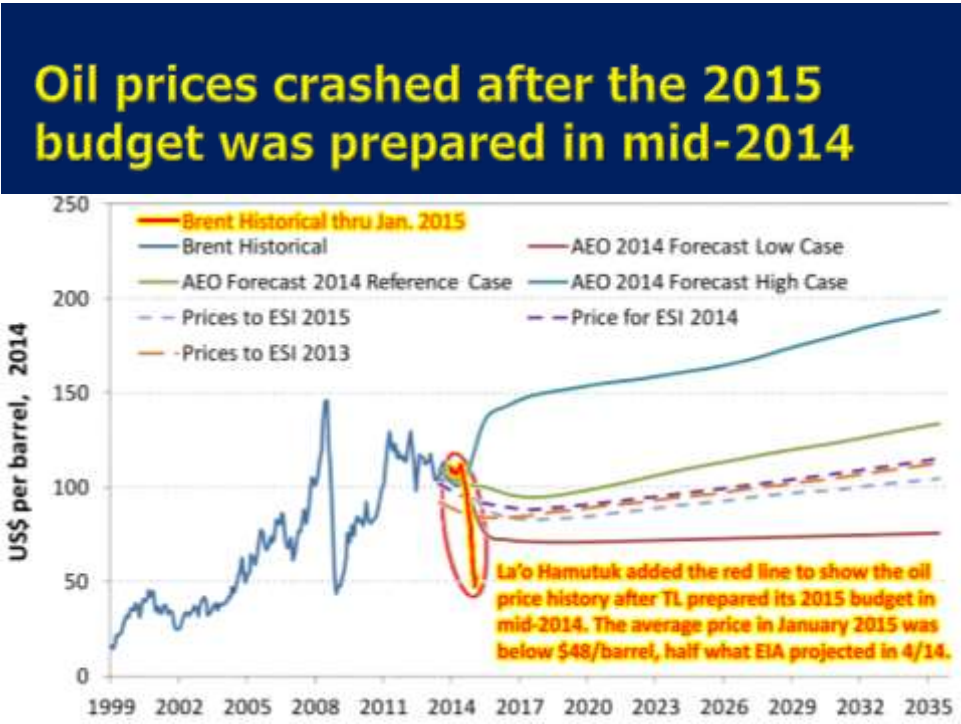
	2013 BB1	2014 Budget	2015	2016	2017	2018
Estimated Sustainable Income (PWx3%)	787.0	632.3	638.7	625.8	610.8	604.9
Total Petroleum Wealth (PW)	26,231.7	21,076.3	21,291.0	20,860.7	20,358.4	20,162.3
Opening PF Balance	10,776.7	14,058.5	15,369.0	16,344.4	17,372.0	18,460.3
Net Present Value of Future Revenues	15,455.0	7,017.8	5,922.0	4,516.3	2,986.4	1,702.0

2014 State Budget (2/14)

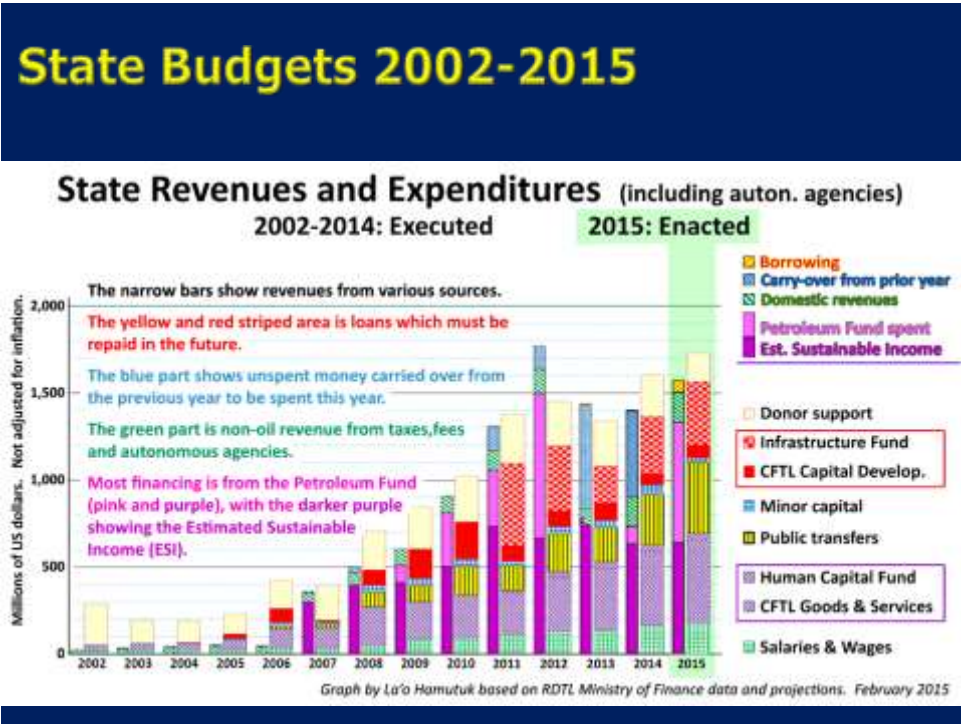
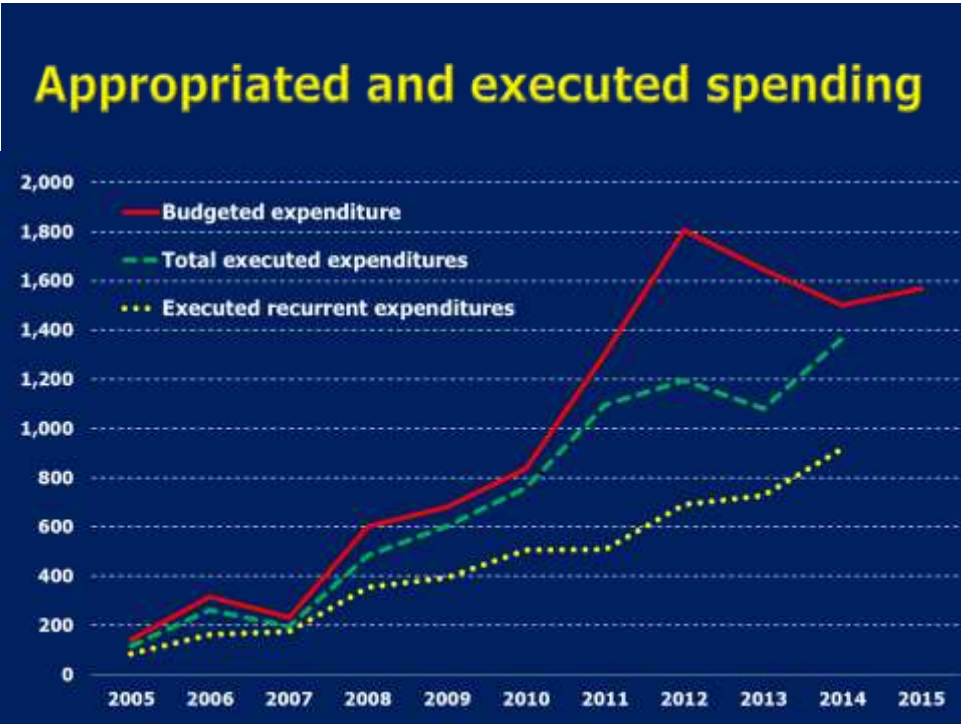
	2014 BB1	2015 Budget	2016	2017	2018	2019
Estimated Sustainable Income (PWx3%)	632.3	638.5	632.4	616.3	600.0	590.9
Total Petroleum Wealth (PW)	21,076.3	21,283.3	21,078.4	20,542.1	19,999.3	19,696.0
Opening PF Balance	14,058.5	16,567.2	17,534.7	18,023.8	18,441.2	18,871.2
Net Present Value of Future Revenues	7,017.8	4,716.1	3,563.7	2,518.3	1,558.1	824.8

2015 State Budget (6/14)

These predictions were made before the price of oil dropped.

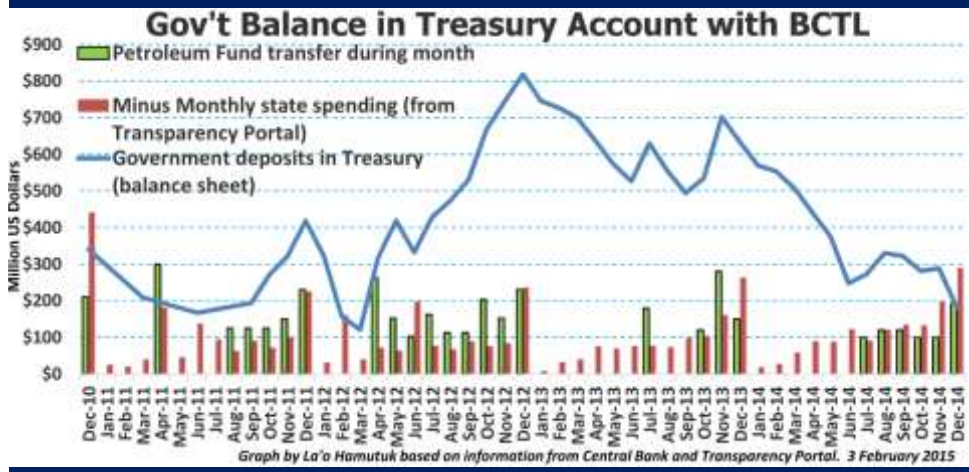


- ### Oil prices fell from \$108 to \$48 per barrel, impacting the state budget:
- Petroleum revenues will fall – losing more than \$2 billion.
  - The quantity of oil and gas reserves which can be profitably exploited will be smaller at lower prices.
  - Companies are less motivated to invest in new projects – Sunrise, Kuda Tasi, etc. – because profits are uncertain and they have less money.
  - The value of Petroleum Fund investments in other currencies drops – TL lost \$426m in 2014 from currency exchange losses.
  - Buying fuel is cheaper – the state can reduce costs by \$58m.
  - Importing goods is cheaper – the state can save \$52m more.
- Estimated Sustainable Income (ESI) drops from \$638m to \$500m.**
- LH suggests reducing the 2015 state budget from \$1.57b to \$1.14b.**

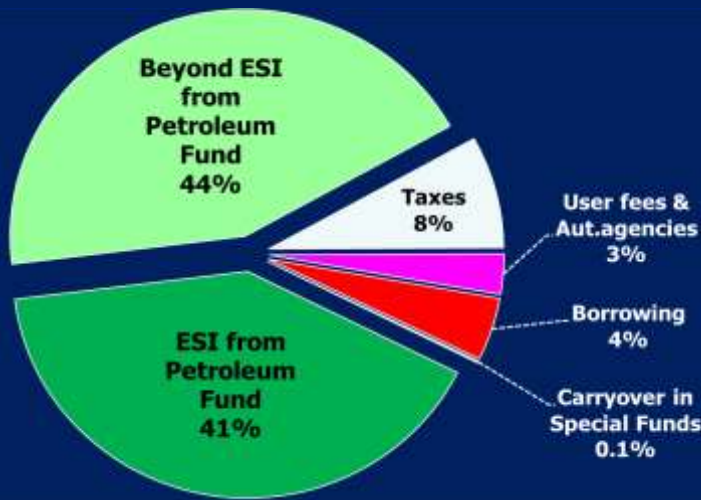




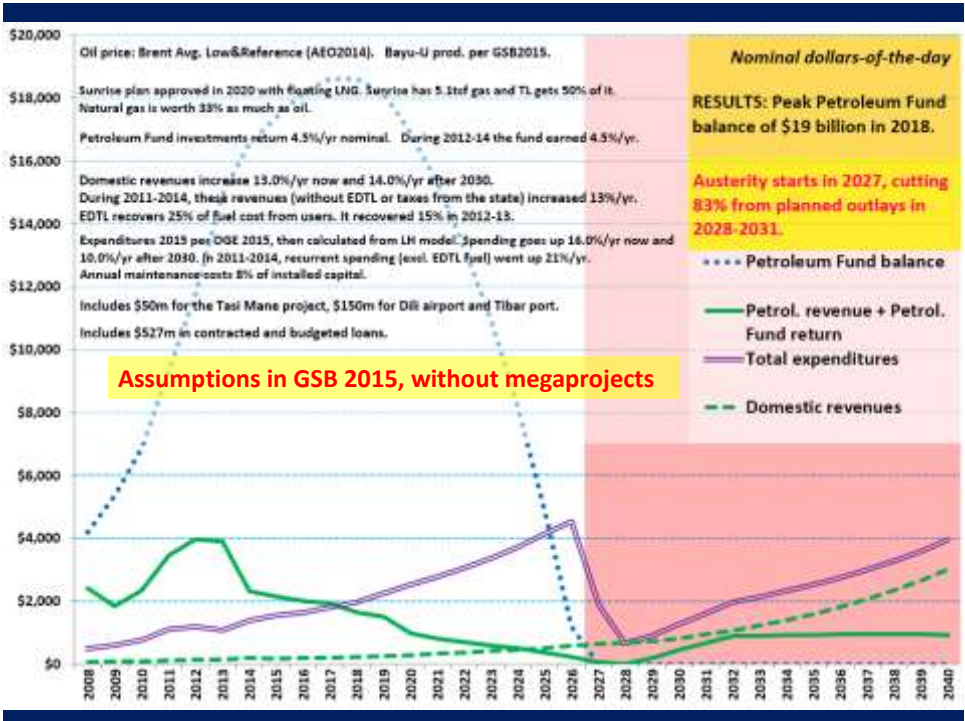
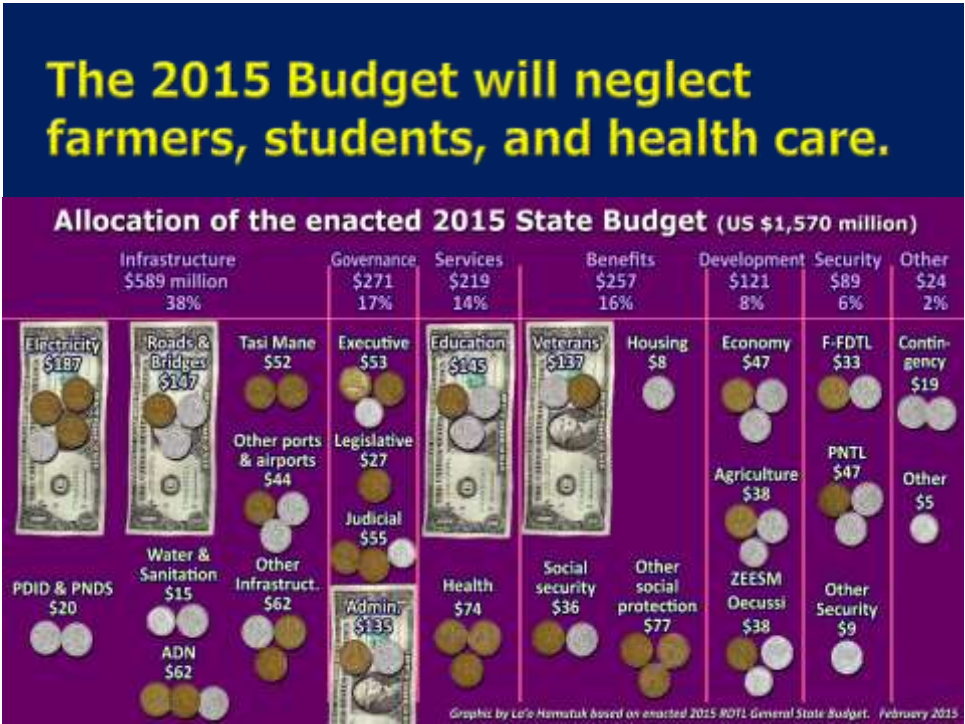
The cash balance is used up –  
expenditures from now on will come  
from the Petroleum Fund.

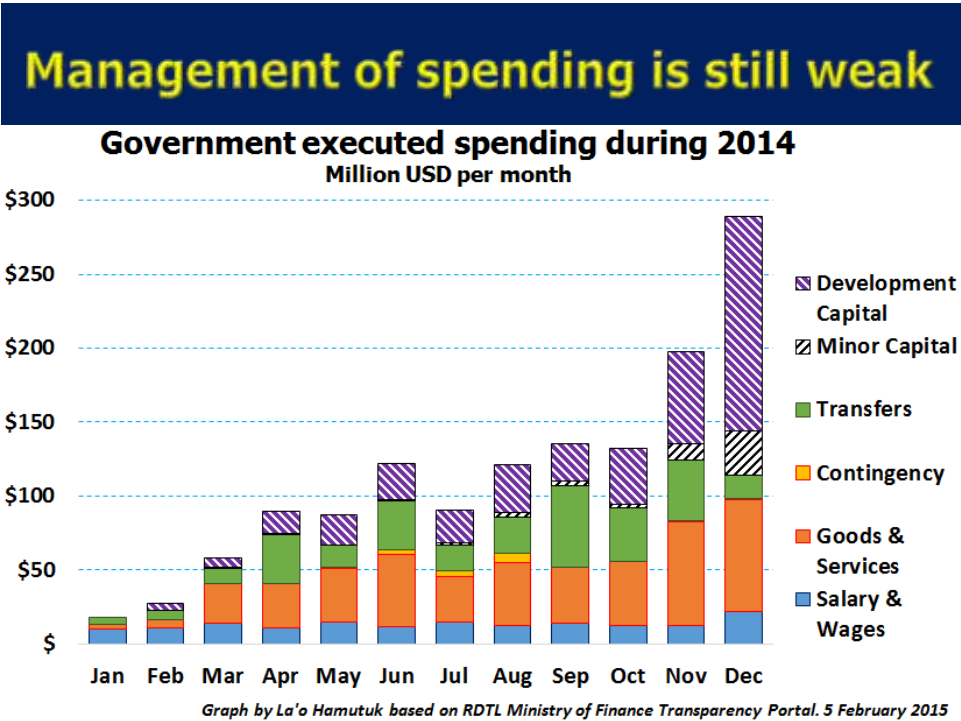
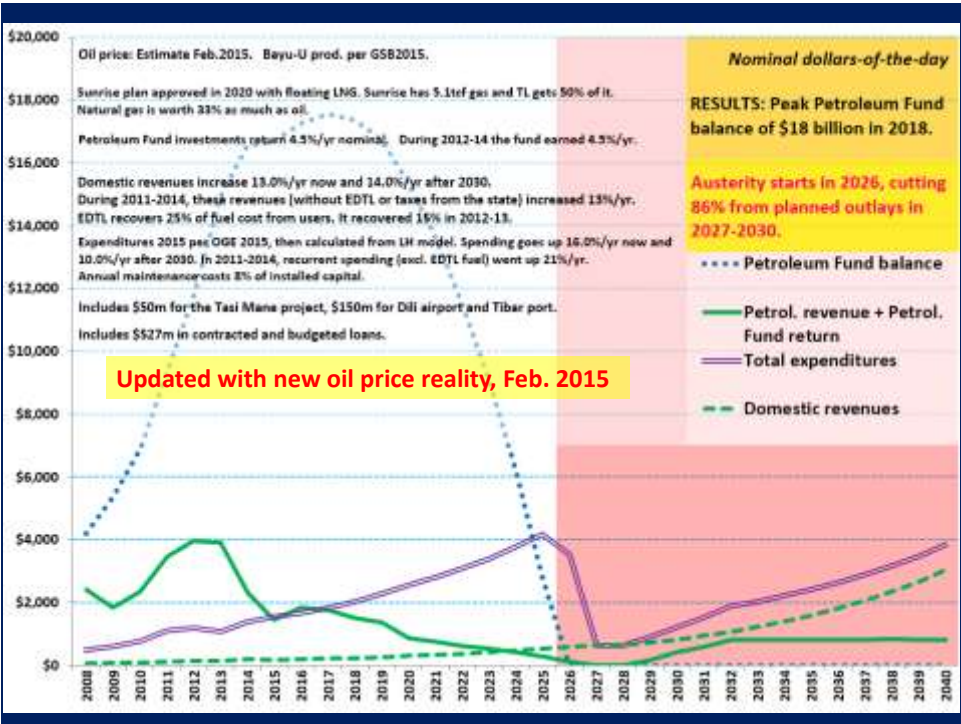


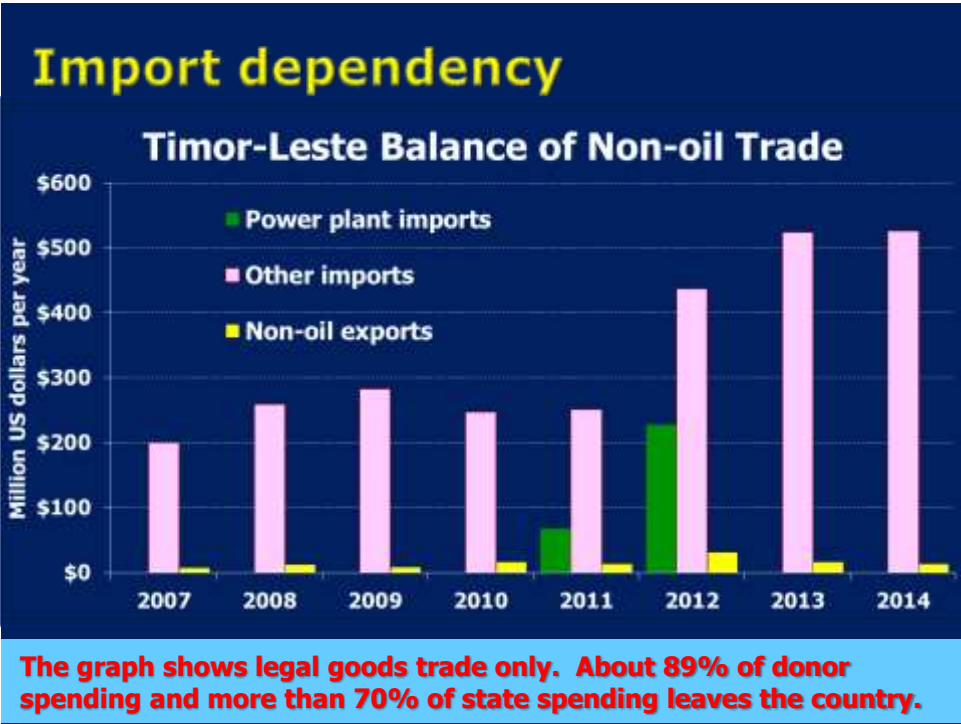
Revenues in the 2015 State Budget.



Total: \$1,570 million.  
88% comes from oil and gas wealth.







Thank you.

You will find more and updated information at

- La’o Hamutuk’s website  
<http://www.laohamutuk.org>
- La’o Hamutuk’s blog  
<http://laohamutuk.blogspot.com/>

Timor-Leste Institute for Development Monitoring and Analysis

Rua Martires do Patria, Bebora, Dili, Timor-Leste

Mailing address: P.O. Box 340, Dili, Timor-Leste

Telephone: +670 77234330 (mobile) +670 3321040 (landline)

Email: [info@laohamutuk.org](mailto:info@laohamutuk.org)