

# Sustainability of Timor-Leste's State Finances

Presentation by Charles Scheiner  
ANU Timor-Leste Update  
21 June 2018



## What is La'o Hamutuk?

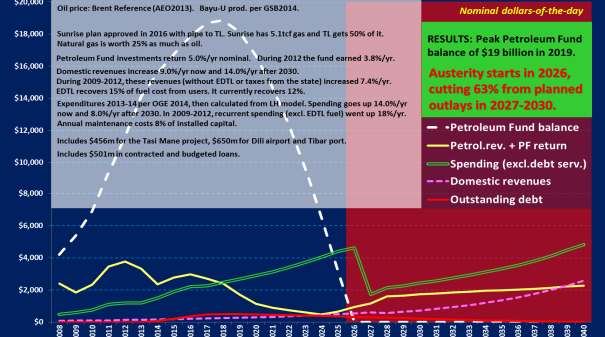
- The Timor-Leste Institute for Development Monitoring and Analysis, founded in 2000.
- Timorese and international people "walking together" on the journey to create a new Nation.
- An independent, Timorese, non-governmental organization which does research, policy analysis, public education and advocacy.
- A force for participatory, equitable, sustainable and evidence-based policies and practices.

### Imminent fiscal cliff? Or intrinsically unsustainable economy dependent on government spending of limited petroleum wealth.

**WORLD BANK EAST ASIA AND PACIFIC ECONOMIC UPDATE APRIL 2018**

GDP growth is expected to have fallen sharply in 2017 to -1.8 percent, driven by a decline in public spending as the government has not been able to secure a legislative mandate. To resolve the ongoing political impasse, new elections will be held in May 2018 and, following the formation of a new government, public spending is expected to moderate upwards again later in 2018. The budget continues to consume more resources that can be sustainably drawn from the Petroleum Fund, with the risk of a damaging fiscal cliff in the medium-term when state resources are depleted.

### I made this prediction in 2013. Oil prices and state spending have been lower than expected.



**Oil price: Brent Reference (AEO2013), Bayu-U prod. per GSR2014.**

**Nominal dollars-of-the-day**

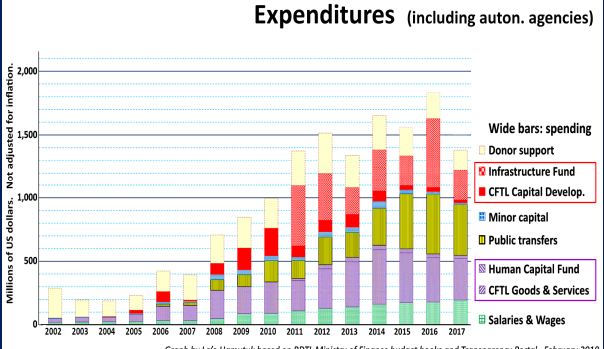
**RESULTS: Peak Petroleum Fund balance of \$19 billion in 2019.**

**Austerity starts in 2026, cutting 63% from planned outlays in 2027-2030.**

Legend: Petroleum Fund balance, Petrol. rev. + PF return, Spending (excl. debt serv.), Domestic revenues, Outstanding debt.

### Executed State Budgets 2002-2017

#### Expenditures (including auton. agencies)

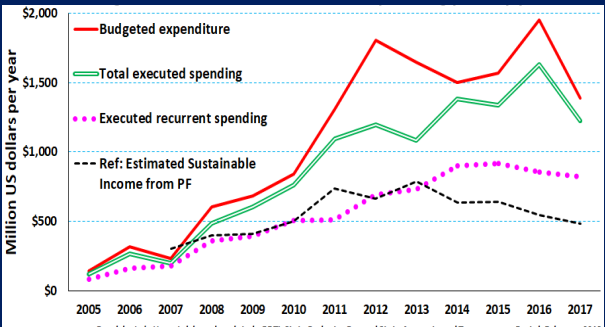


Wide bars: spending

- Donor support
- Infrastructure Fund
- CTFL Capital Develop.
- Minor capital
- Public transfers
- Human Capital Fund
- CTFL Goods & Services
- Salaries & Wages

Graph by La'o Hamutuk based on RDTL Ministry of Finance budget books and Transparency Portal. February 2018

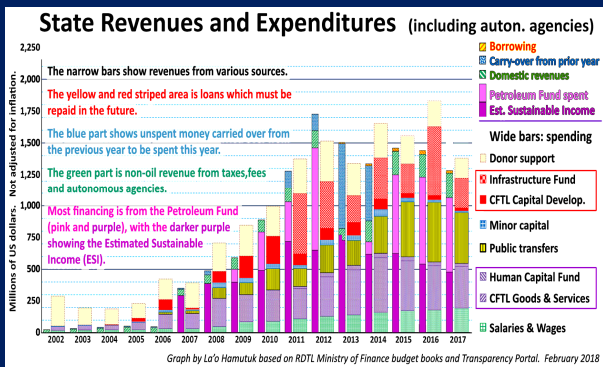
### Budgeted & executed spending



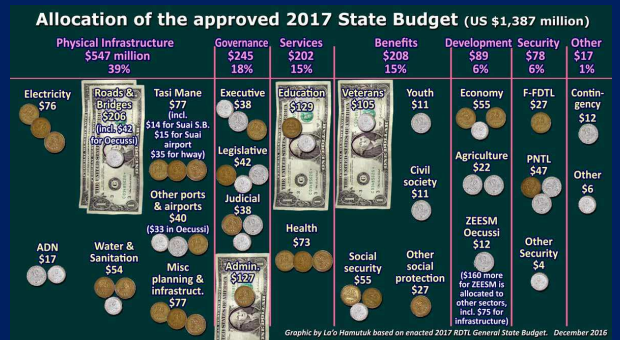
Legend: Budgeted expenditure, Total executed spending, Executed recurrent spending, Ref: Estimated Sustainable Income from PF

Graph by La'o Hamutuk based on data in RDTL State Budgets, General State Accounts and Transparency Portal. February 2018

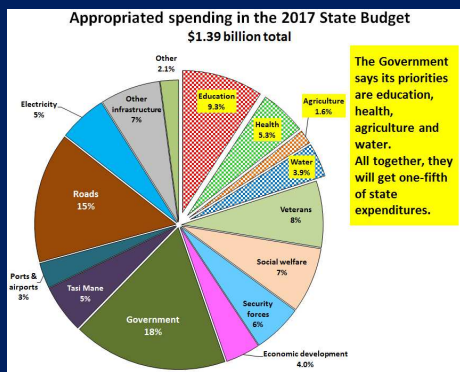
### Executed State Budgets 2002-2017



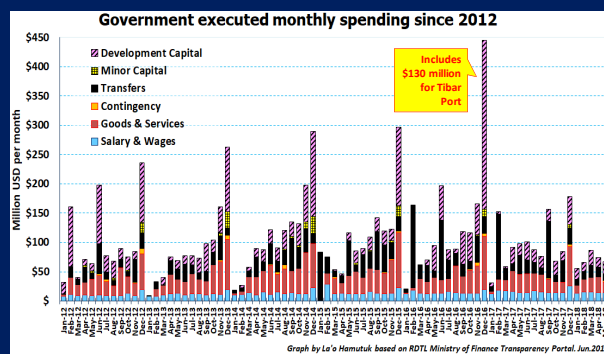
### The 2017 Budget still neglects farmers, students, and health care.



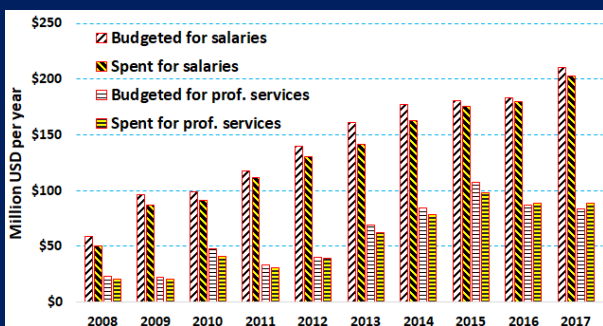
### The money doesn't match the promises.



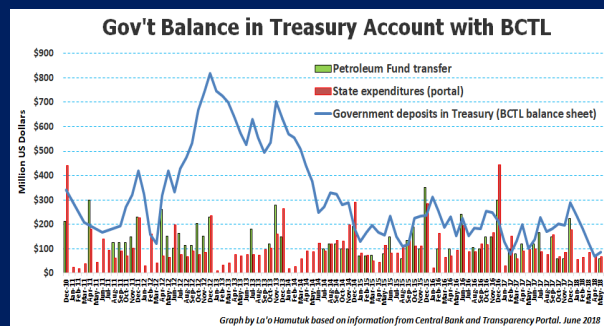
### Recent budget execution



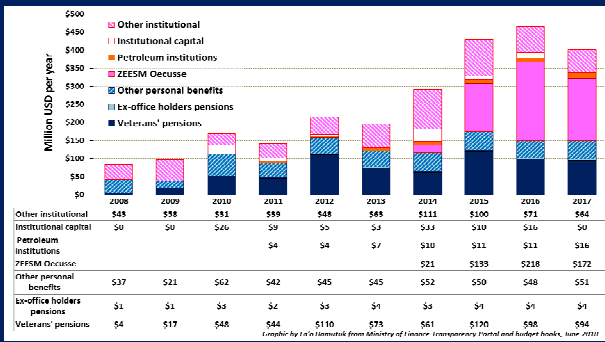
### Personnel spending – civil servants and consultants



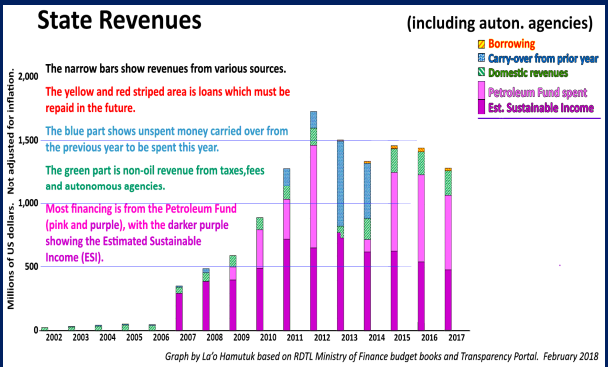
### The treasury balance is the lowest in eight years, due to minority government.



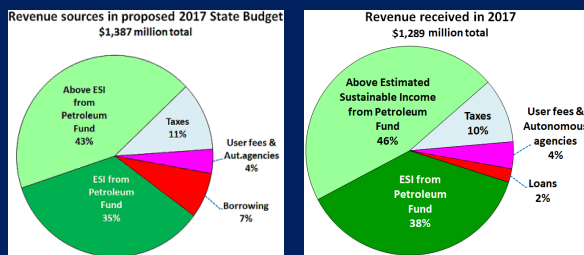
### Executed spending by Public Transfer in 2017



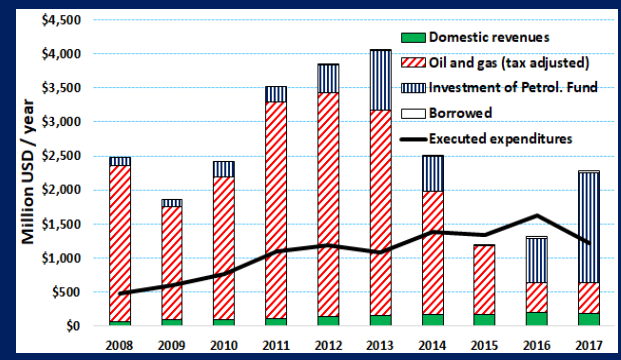
### Executed State Budgets 2002-2017



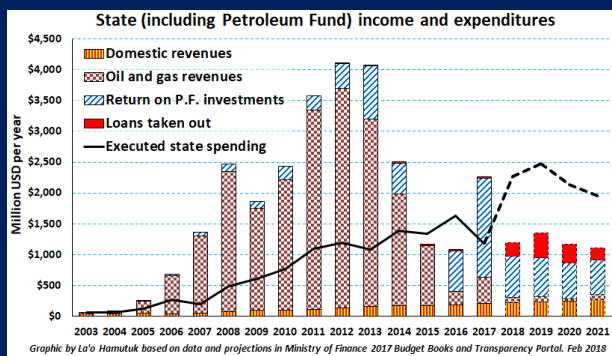
### Income in the 2017 state budget



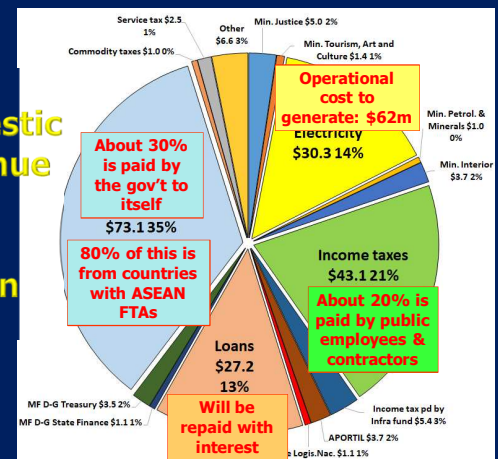
### Sources of Government Revenue



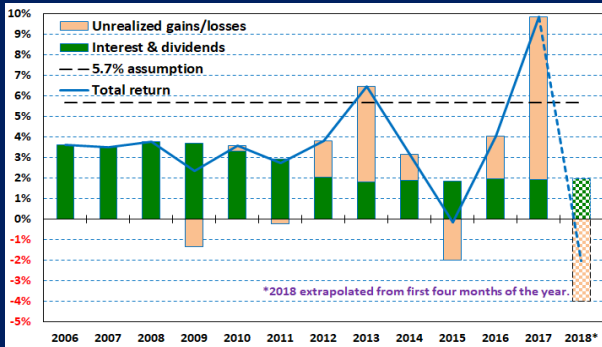
### Spending exceeds income.



### 2017 Domestic Revenue \$210 million USD



### Nominal annual return on Petroleum Fund investments



### Petroleum Dependency

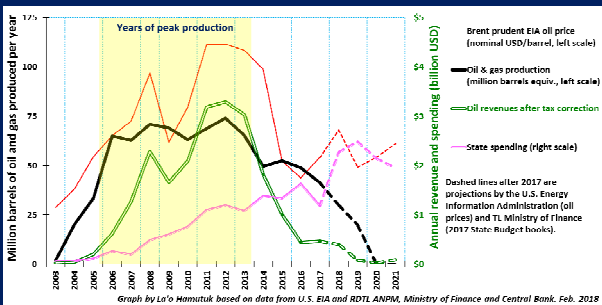
(million current US dollars)	2013	2014	2015	2016
<b>Petroleum GDP</b>	\$4,234 (75%)	\$2,591 (64%)	\$1,496 (48%)	\$820 (33%)
<b>Non-oil GDP</b>	\$1,415 (25%)	\$1,454 (36%)	\$1,609 (52%)	\$1,702 (67%)
<b>Productive (agric &amp; manuf)</b>	\$306	\$310	\$294	\$305

- State revenues in 2017:..... \$2,217 million  
 \$1,612 million (73%) was from investing the Petroleum Fund (\$1,295m unrealized)  
 \$ 422 million (19%) was from oil and gas revenues  
 \$ 183 million ( 8%) was from non-petroleum sources
- Executed 2017 State Budget:..... \$1,289 million (\$1,387m appropriated)  
 \$1,079 million transferred from the Petroleum Fund  
 \$ 183 million from non-petroleum (domestic) revenues  
 \$ 27 million from loans which will have to be repaid (\$102m planned)
- State activities, paid for with oil money, are nearly half of the "non-oil" economy because some of this money circulates in the local economy.
- Petroleum and investment "income" goes to the state, not the people.

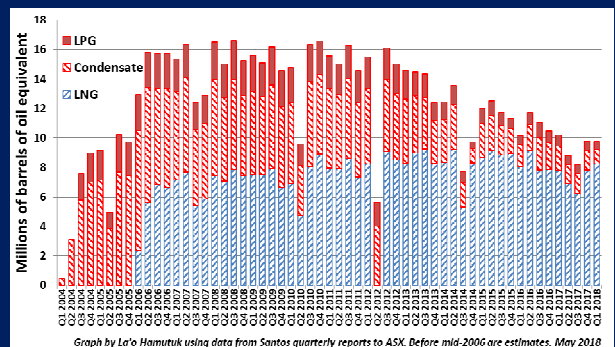
Only South Sudan, Libya (and Equatorial Guinea?) are more dependent on oil and gas exports than Timor-Leste was.

### Oil and gas income has been falling since 2012.

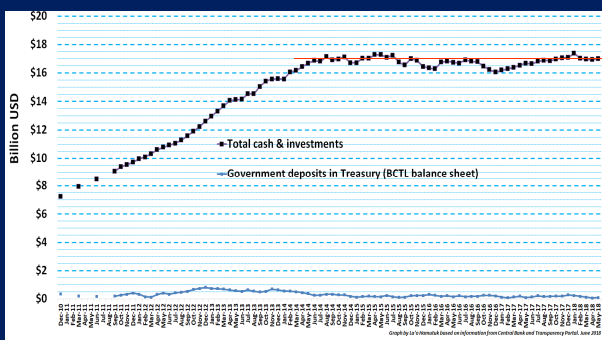
Production is dropping faster than prices, and will not go back up. The price will be irrelevant when we have nothing left to sell.



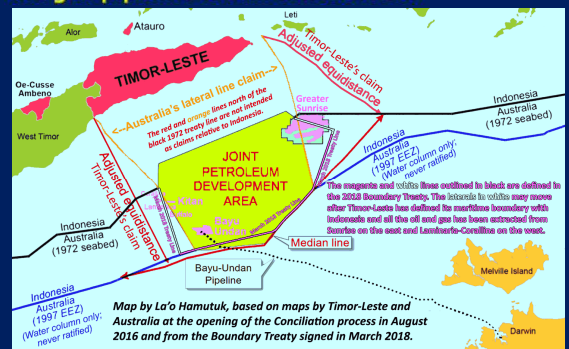
### Bayu-Undan quarterly production. Liquids are almost done; gas will continue for 1-2 years.



### Financial Assets (Treasury + PF) (Billion USD nominal - unchanged in four years)



### Australia and Timor-Leste have agreed on a boundary and on Sunrise revenue split - but the gas pipeline is still unresolved.



## Oil revenues still to come in

### Already received

- \$21.6bn from B-U, Kitan and EKKN
- \$ 4.6bn from return on PF investments

### Expected

- \$ 1.0bn Bayu-Undan dregs (90% under Timor Sea Treaty)
- \$ 0.1bn Bayu-Undan dregs (10% under boundary treaty)
- \$ 0.7bn Buffalo second life

### Eventually

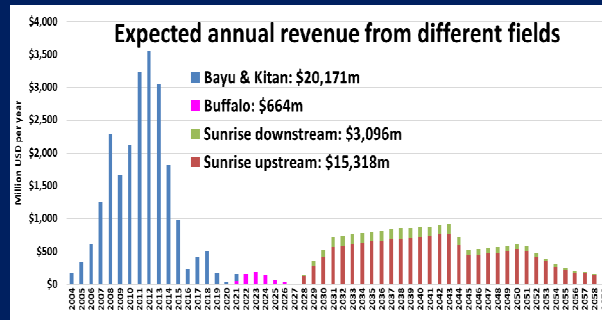
- \$ 8-20bn Greater Sunrise upstream (estimate)

Total about the same as what has already been received

### Possible someday

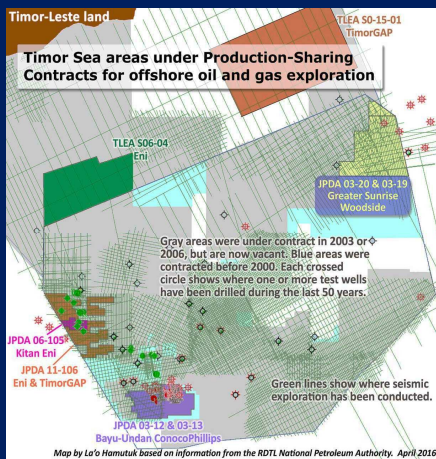
- New offshore or onshore oil discoveries?
- Other minerals or extractives?

## Possible revenues under new treaty

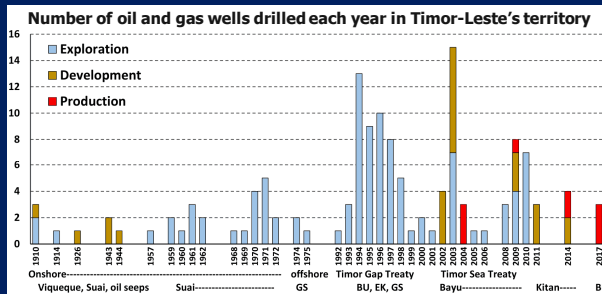


Our seas have been explored for half a century.

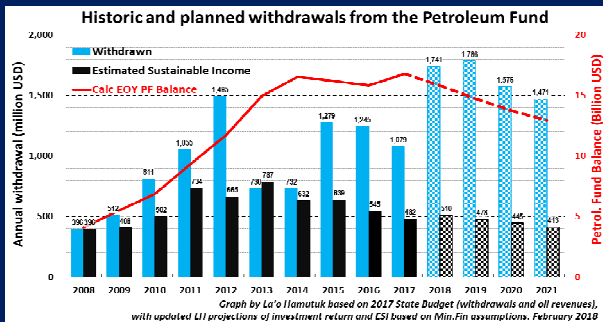
There may be no other fields.



Since 1910, oil companies have drilled 95 exploration wells here. They found eight commercially viable reserves. Kitan is the only one discovered in the last 20 years.

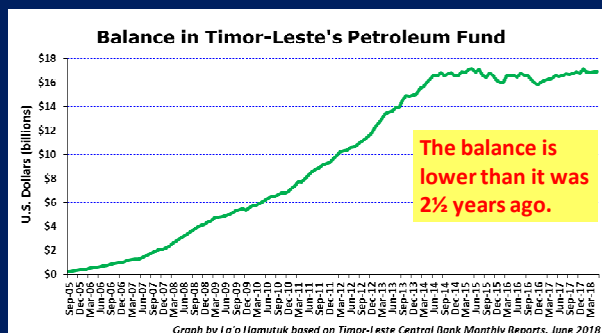


## We're spending down our birthright.

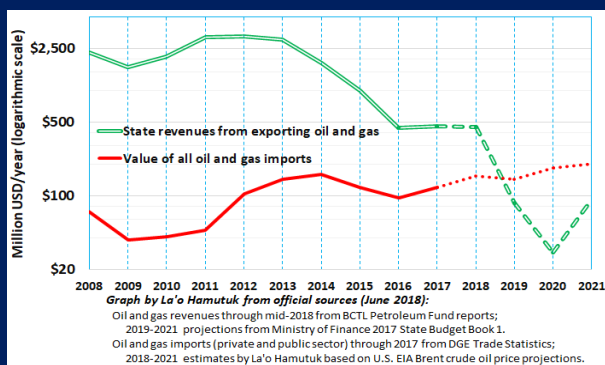


The Petroleum Fund peaked at \$17.1 billion in mid-2015. At the end of March 2018, it was \$16.8b.

We've moved from oil dependence to relying on our declining savings.

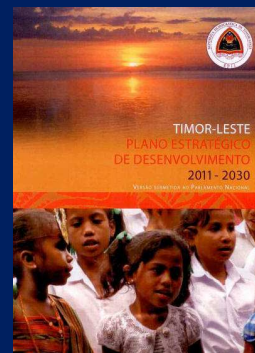


## TL will soon be a net oil importer



## The Strategic Development Plan

- Issued July 2011, hopes to make TL an Upper Middle Income Country by 2030.
- A vision and dream, not a realistic plan.
- Focuses on physical infrastructure, not sustainable development.
- Will require loans and spending beyond TL's means
- Promised reviews are not being done.



## Tasi Mane petroleum infrastructure project

- In 2010, TL began the South Coast Petroleum Corridor.
- During 2011-2017, Timor-Leste spent \$373 million on it.
- The 2017 budget anticipates \$1.62 billion more in 2018-2021, but leaves out the most costly items.
- Total project costs could be \$15 billion (more if Timor-Leste pays for the refinery, pipeline or LNG plant). No investors are interested.

The largest contract in TL history was signed in 2015: \$719 million to build the Suai Supply Base. A court rejected it in 2015 but was reversed in 2017. It's not clear if the company is still interested.



The Tasi Mane Project includes the Suai supply base, Betano refinery, Beacu LNG plant, 156-km highway, onshore and offshore pipelines, 2 airports and 2 seaports.



## Problems with the Tasi Mane project

- It makes TL more dependent on the oil and gas sector.
- Dubious concepts and planning; it is unlikely to provide a reasonable return on investment.
- It neglects sustainable development (agriculture, tourism, small industries etc.), exemplifying the obsession with oil.
- Nearly all the billions spent will go to foreign companies, providing hardly any local jobs or subcontracts.
- It will create social conflict, take up land, displace people, worsen health and degrade and endanger the environment.
- Cost projections leave out most expenditures, including nearly all of the highway, LNG plant and refinery.
- What if Sunrise gas doesn't come to Timor-Leste?

The Government has made many unrealistic promises to local communities about profit-sharing, jobs and other benefits.

## Special Market Zone in Oecusse

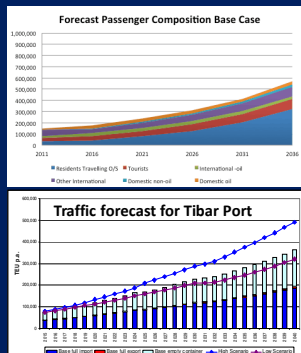


- In 2014-17, RDTL spent \$544 million on ZEESM with no accountability. Oecusse has 6% of Timor-Leste's population.
- What are Oecusse's competitive advantages?
- Can ZEESM justify a \$4 billion investment?

Who benefits: residents of Oecusse or Fretilin leadership?

## Overbuilding ports and airports

- Oecusse and Suai have new, virtually unused, "international" airports.
- Timor-Leste hopes to expand Tibar port and Dili airport far beyond realistic traffic projections.
- How will the country pay for a \$6 billion annual trade deficit after the oil is gone?

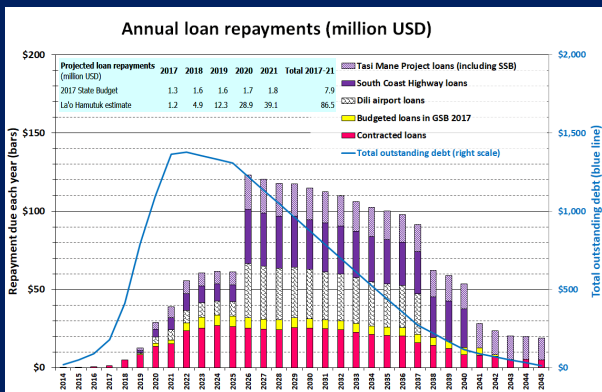


## Timor-Leste is going deeper into debt.

- Laws in 2009 opened the door to foreign loans.
- In 2012, Timor-Leste signed contracts to borrow \$107 million from Japan and from the ADB.
- In 2013, TL signed for \$90m more from ADB and World Bank. In 2015, TL signed for \$12m more from ADB. In December 2015, TL borrowed \$50m from China's Ex-Im bank. (pending court approval) In March 2016, TL signed for another \$76m from the ADB. In December 2016, TL signed for \$50m more from the ADB. In June 2017, TL signed for \$35m more from the World Bank.

Year	2016	2017	2018	2019	2020	2021	Total
Amount	\$31m	\$22m	\$213m	\$386m	\$290m	\$198m	\$1.24bn

## Loans will have to be paid back.

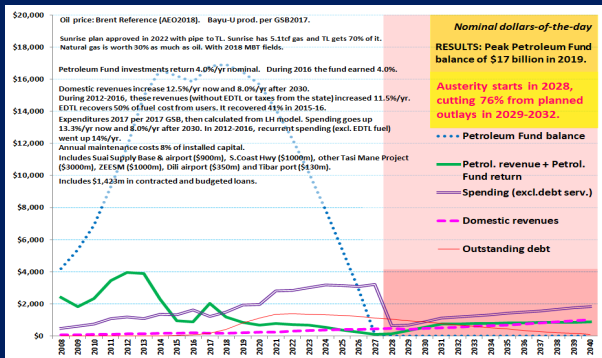


## Important to consider

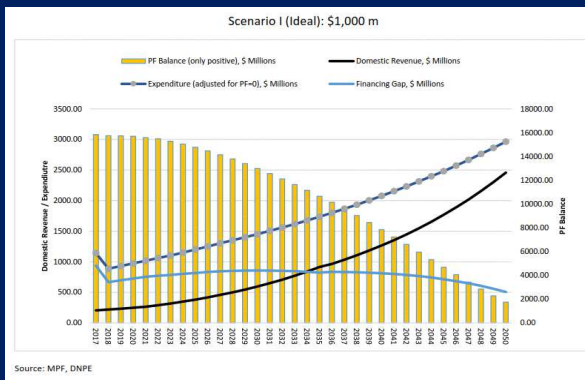


- Implementing the SDP will require billions of dollars in loans, probably at commercial rates.
- Even at concessional rates, repaying a loan will permanently reduce money in the Petroleum Fund.
- TL's oil and gas reserves are limited, non-renewable, and 98% depleted already.
- TL will have to prioritize repaying loans above spending on people's needs or developing other sectors.
- Our children and grandchildren will inherit the debt after the oil wells have run dry.

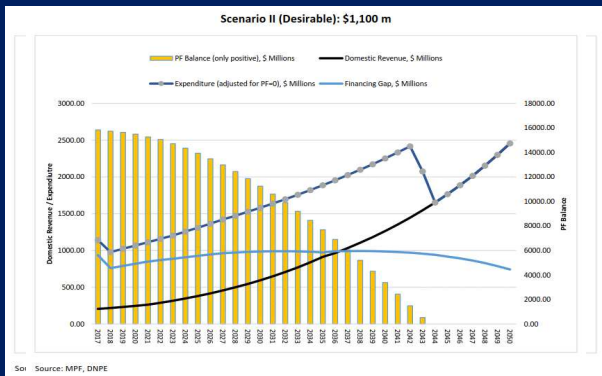
## If current plans continue, TL may be unable to finance its budget in a decade. The Boundary Treaty and Sunrise help a little, but not enough.



## Scenarios from outgoing Finance Minister

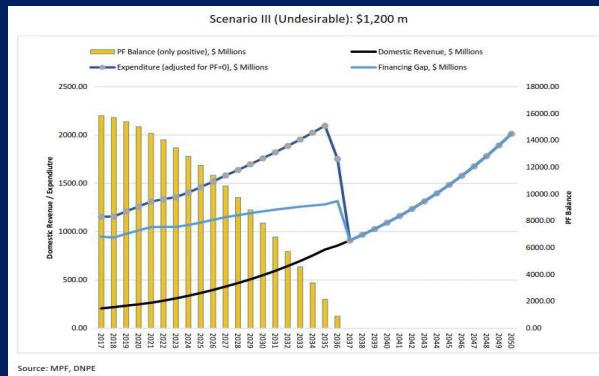


### Scenarios from outgoing Finance Minister



Source: MPF, DNPE

### Scenarios from outgoing Finance Minister



Source: MPF, DNPE

### What is to be done?

- Forego spending on expensive, dangerous white elephant projects.
- Invest in people – the country’s most valuable resource – by improving education, nutrition and health care.
- Diversify the economy, focusing on productive sectors which replace imports.
- Stop imagining that new resource extraction will bring in more easy money.
- Plan and budget for reality, not fantasies.

### Thank you.

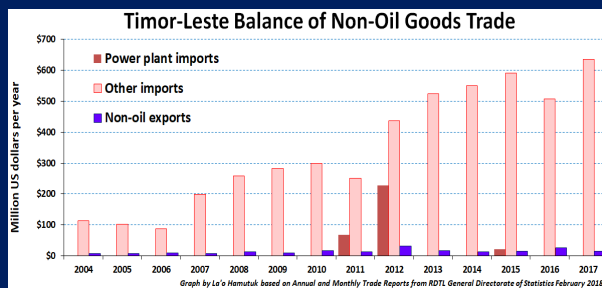
You can find more and updated information, including this presentation at

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

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

### Economic anecdotes

### Import Dependency



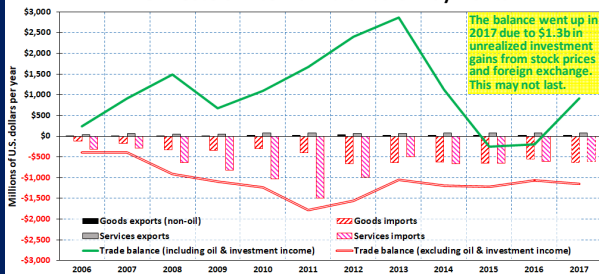
The graph shows legal goods trade only. Three-fourths of donor spending and two-thirds of state spending leaves the country.



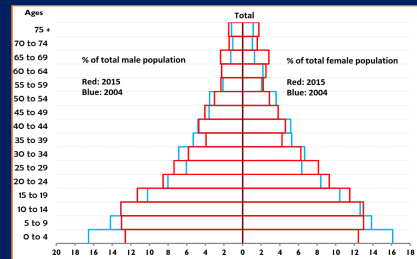
**In 2015-16, more money went out than came in.**

2016 trade:	services	non-oil goods	total
Imports	\$603m	\$559m	\$1,162m
Exports	\$ 77m	\$ 20m (99% coffee)	\$ 99m
Deficit	-\$526m	-\$539m	-\$1,063m

**Timor-Leste's External Balance of Payments**



**Many children have become youth.**



**Timor-Leste is struggling to find jobs for around 20,000 people who enter the work force every year.**

**In 2016, total private sector employment was 58,200, 7% lower than it had been in 2014.**

**Dili is very different from the districts.**

**Table 2.6 Wealth quintiles**

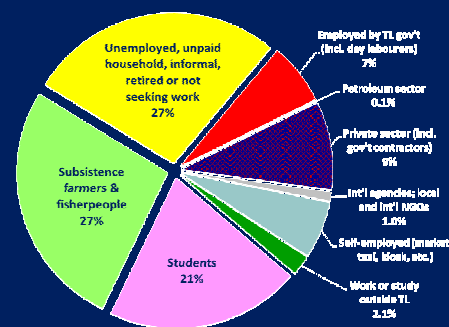
Percent distribution of the de jure population by wealth quintiles, and the Gini Coefficient, according to residence and municipality, Timor-Leste DHS 2016

Residence/region	Wealth quintile					Total	Number of persons	Gini coefficient
	Lowest	Second	Middle	Fourth	Highest			
<b>Residence</b>								
Urban	1.5	3.4	8.8	30.0	56.2	100.0	16,539	0.11
Rural	26.9	26.2	24.2	16.3	6.4	100.0	44,030	0.25
<b>Municipality</b>								
Aileu	16.6	33.3	27.2	17.1	5.9	100.0	2,357	0.21
Ainaro	35.0	27.1	20.6	13.5	3.7	100.0	3,076	0.15
Baucau	20.0	22.4	22.5	22.6	12.6	100.0	6,994	0.23
Bobonaro	15.6	22.0	29.8	22.5	10.0	100.0	4,797	0.23
Covaleima	24.4	18.9	24.8	20.8	11.1	100.0	3,569	0.15
Dili	2.9	4.4	6.8	26.0	59.8	100.0	12,625	0.18
Ermera	30.0	32.8	21.9	11.2	4.1	100.0	5,818	0.27
Lautem	15.1	20.9	25.4	26.5	12.2	100.0	3,374	0.21
Liquiçá	17.0	28.3	24.1	18.8	11.9	100.0	3,966	0.28
Manatuto	18.7	19.3	25.5	21.7	14.9	100.0	2,795	0.26
Manufahi	24.2	22.7	20.2	21.6	11.3	100.0	3,201	0.27
SAR of Oecussi	45.7	18.7	16.8	10.6	8.2	100.0	3,985	0.25
Viqueque	30.3	22.0	24.3	15.0	8.3	100.0	4,012	0.27
Total	20.0	20.0	20.0	20.0	20.0	100.0	60,569	0.16

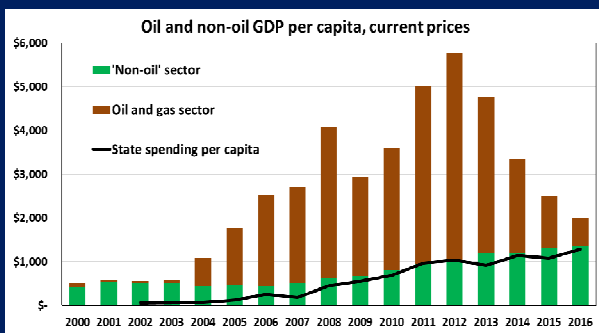
**60% of Dili's population are among the wealthiest 20% of Timorese, while only 7% are below the poverty line.**

**More than half of families outside Dili live in poverty.**

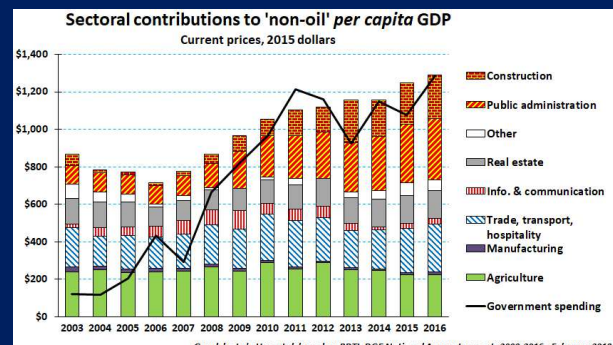
**What do 672,000 Timorese people aged 15-64 do for work?**



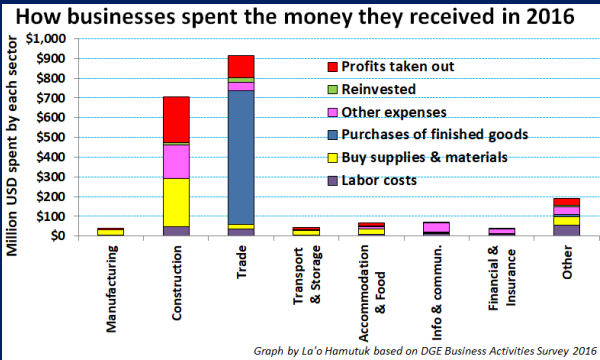
**Oil GDP fell 85% between 2012 and 2016, and will continue to fall.**



**The non-oil, non-state GDP per capita is stagnant.**



### Businesses don't invest in themselves.



### Use www.laohamutuk.org

**La'o Hamutuk**  
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 Institut Perencanaan dan Analisis Pembangunan Timor-Leste

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- Dec 2017: Information on the proposed reclassification budget for 2012
- Nov 2017: Formation and program of 7th Constitutional Government (Eng/Tet)
- Nov 2017: Quarterly budgetary dispute with Australia with documents, articles and photos. Index of events this year
- Oct 2017: 1st Mid-Year Report, January-June 2017
- Oct 2017: Public Agriculture / Agriculture Policy in Timor-Leste
- Oct 2017: Attainment process papers La'o Ha Rai Iha Timor-Leste
- Sep 2017: Statement of Solidarity for Rohingya Community from Timor-Leste (mde Tasmu)
- Sep 2017 Blog: Copenhagen Agreement: Permanent Boundary or CMATS redux? Indonesian, Combragan, Timor-Leste, and New CMATS
- August 2017: Parliamentary elections with pamphlet, laws, party lists, Relatorio Observatorio, LH Letter to new MPs and other materials