Oil, Debt and Sustainability:

Timor-Leste's borrowing plans

and their implications for the future

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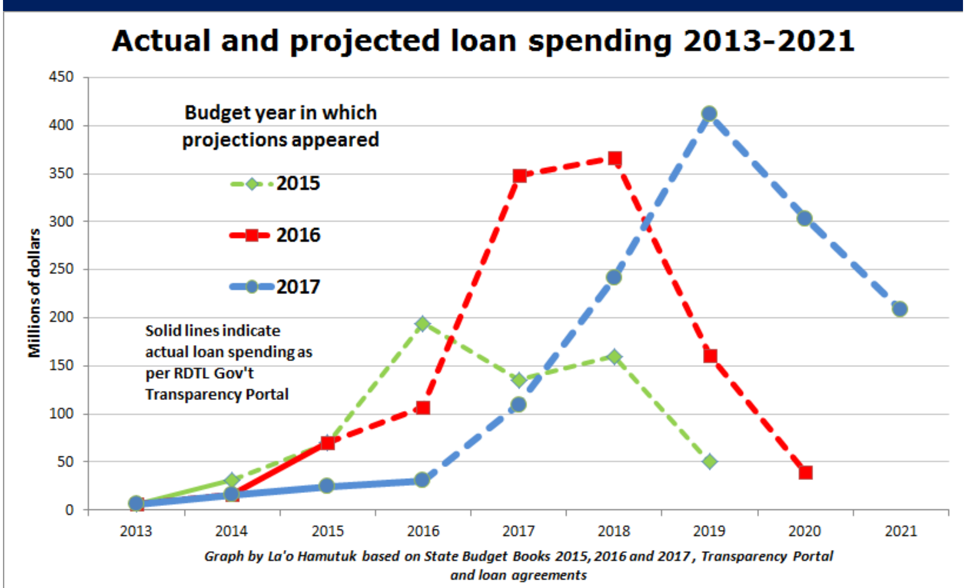
TL's borrowing is accelerating

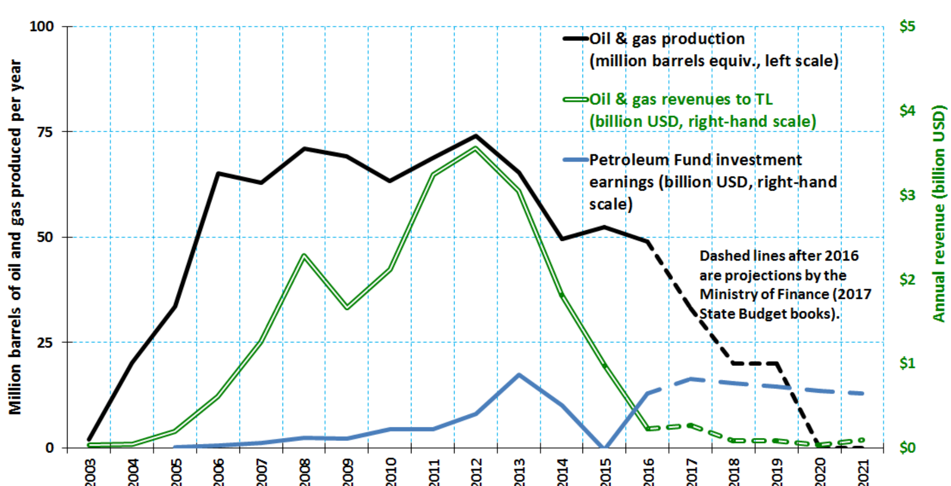


Arguments for borrowing

- Loans are 'cheaper' than withdrawing same amount from PF
- Frontloading infrastructure requires increased spending, but financial resources are limited
- Projects' social and economic benefits outweigh costs
- Loans come with TA from development partners

Oil and gas revenues will end soon

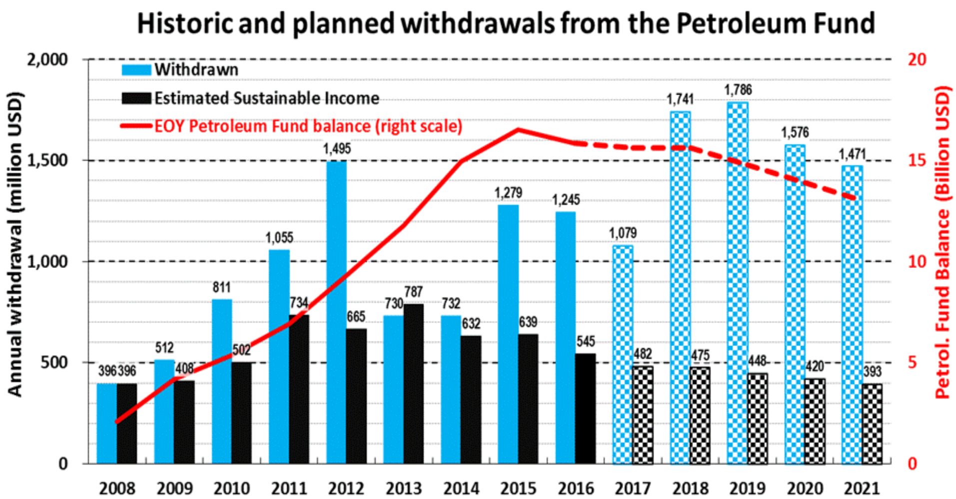
- Peaked in 2012; TL has received 98% of revenues from proven fields (excluding Sunrise)



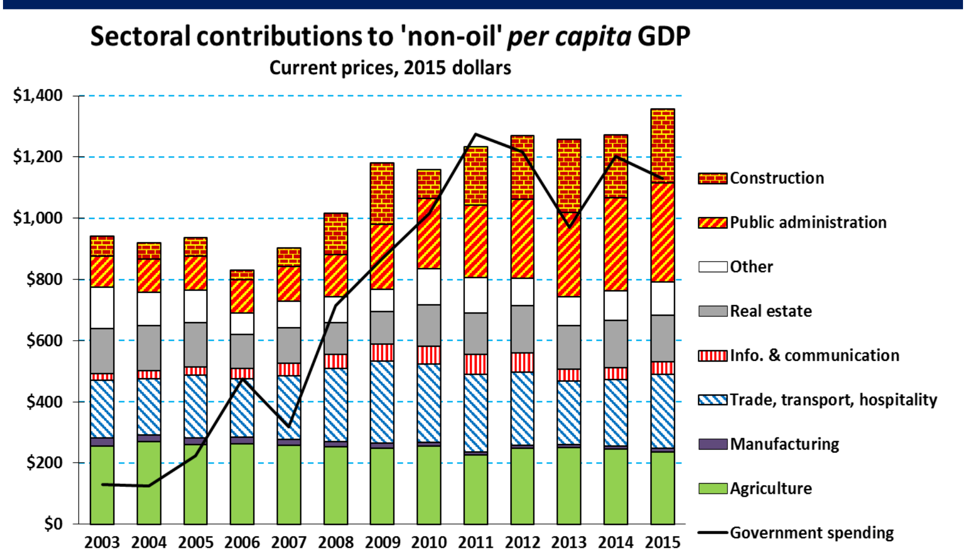
Graph by La'o Hamutuk based on data from RDTL ANPM, Ministry of Finance and Central Bank. June 2017

PF balance will continue to fall

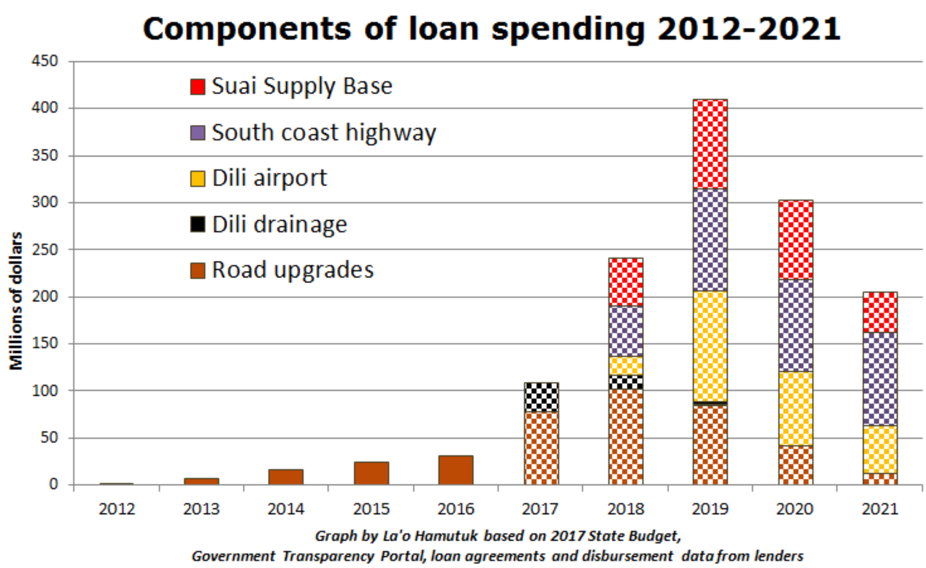
- 2017 State Budget plans to withdraw almost 4xESI from 2018-2021
- PF balance to fall to $13 billion in 2021



The non-oil, non-state economy is not improving



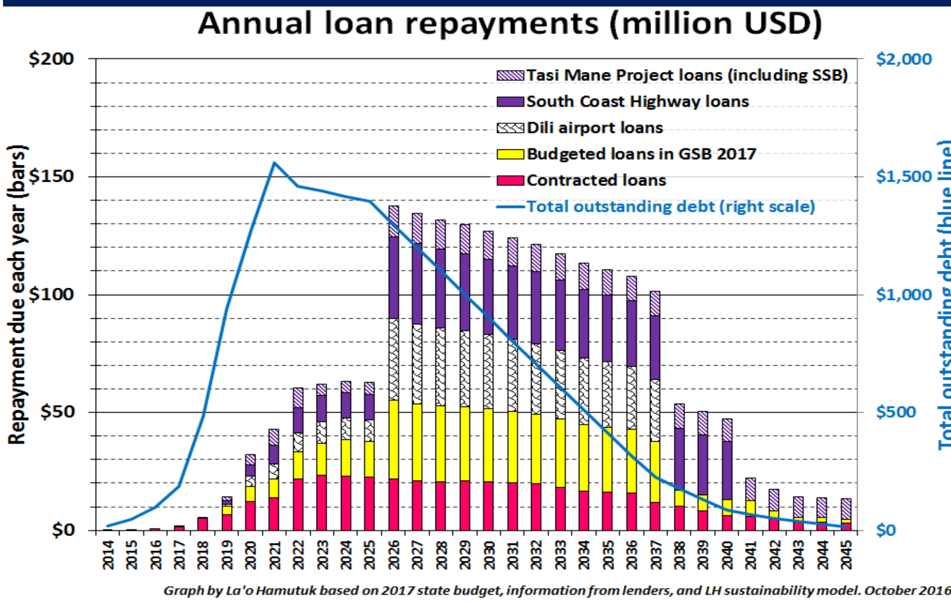
Loans are mostly for national roads and megaprojects



Building large infrastructure isn't enough to achieve sustainability

- **Largest loan projects lack viability, take over valuable land and destroy local livelihoods**
- **Without improved domestic productivity, loan-funded road upgrades will mostly facilitate movement of imports**
- **Local producers will struggle to compete, further limiting domestic productivity**

Loan repayments will put even more pressure on TL's limited finances



TL should learn from other countries

- Link between non-renewable resources and debt crises – Mexico, Nigeria, Ecuador, Congo, Nauru
- Countries lose sovereignty when they default; creditors take over decision-making
- Conditions on bailout loans have crippled attempts to reduce poverty
- TL will face austerity regardless of whether it takes on more debt – better for gov't to decide what to cut, or IMF?

- Austerity cuts to public spending and tax increases has caused widespread suffering and social unrest

- Major protests against austerity in Korea, Greece, UK Philippines, Nigeria, Ireland, Argentina, Canada, Brazil

Conclusion

- Loans being used to continue unsustainable megaprojects, which also require excess PF withdrawals
- Repaying currently-signed loans will already divert tens of $millions from state budget
- If all planned projects and loans are carried out, sovereign default is likely
- Austerity will be even more severe
- Timor-Leste's next generation will suffer consequences of today's decisions