



Timor-Leste Basic Economic Facts

In mid-November, the Council of Ministers will propose the General State Budget for Timor-Leste for 2011, which may be close to a billion dollars, to the National Parliament. In preparation for that discussion, La'o Hamutuk has made three graphs of fundamental economic realities in Timor-Leste. Unless these underlying facts are understood, next year's budget is likely to be even more unsustainable and unwise than the mid-year budget adjustment passed four months ago.

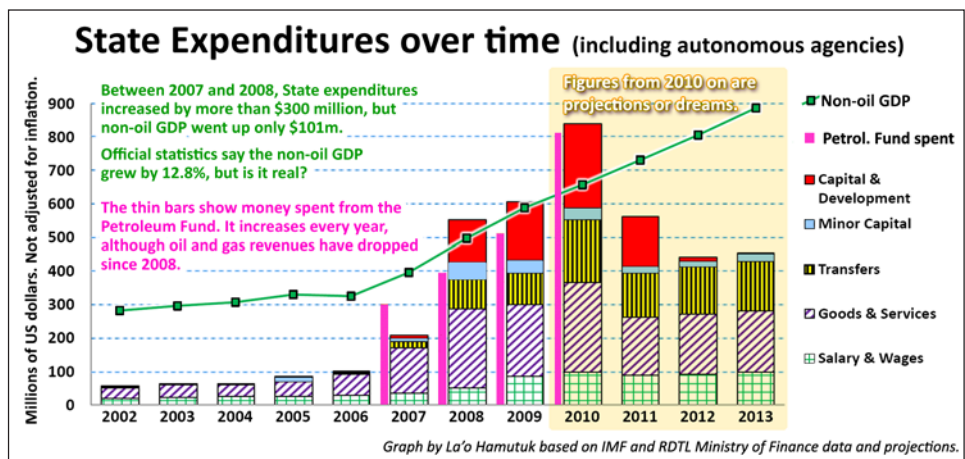
Dependency on imports is unhealthy and unsustainable.

Today, agriculture and industry in Timor-Leste cannot provide for our daily needs. This graph is based on official statistics; **in reality, imports are probably 50% higher than the \$283 million reported for 2009**, while exports are less than \$10 million. If we cannot produce our own food, water, cement, and other basic necessities, how will we survive when we have no oil money to pay for buying them from overseas?



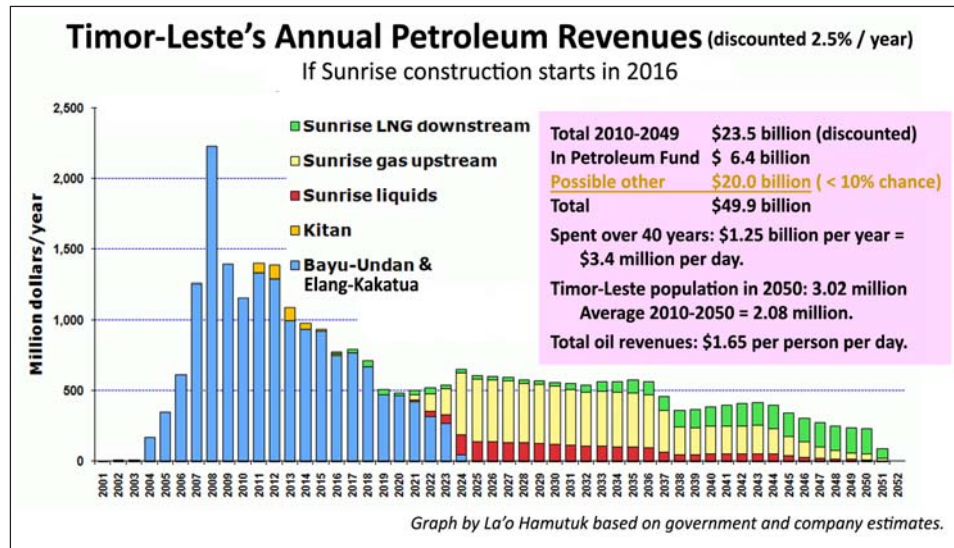
State spending is growing faster than the domestic economy.

If you subtract out state expenditures, Timor-Leste's non-oil economy is stagnant and probably shrinking. With about **95% of state revenues coming from oil and gas**, what economy will we have after the oil and gas is used up?



Our petroleum reserves are small and finite.

Even if we succeed in bringing the Sunrise gas pipeline to Timor-Leste, and even if current exploration finds new oil or gas reserves, our total oil revenues are likely to be less than \$50 billion. If we spend them all as they come in, averaged over our population and 40 years of production, this averages



about **\$1.65 per citizen per day**, or less than twice the 2010 State Budget. If the oil revenues are squandered on ill-considered infrastructure projects, avoidable imports, or handouts to troublesome groups, most people will not benefit.

The previous paragraph does not consider the sustainable spending limits in the Petroleum Fund, as they are largely being ignored. If some money is saved for the future, we could continue to draw on our petroleum wealth for longer than 40 years, but at an even lower level than \$1.65/citizen/day. If the Petroleum Fund Law is revised and money is invested at higher risk, both the level and the duration could be less or more.

The Prime Minister's draft National Strategic Development Plan envisions massive expenditures in physical infrastructure but ignores human resources, especially health and education. If we do not use our own people to develop our nation, we will have nothing left when the expensive projects built by foreign companies deteriorate or become white elephants. And if the Plan's intention to borrow billions of dollars is carried out, we will still have to make payments on the debt.

Timor-Leste's economy is weak, but we are fortunate enough to have some oil wealth which could improve people's lives and develop our economy for the day, less than a generation from now, when our only producing oil and gas field will run dry. If it is not done, our children and their children will still live in poverty, wondering what their parents were thinking when they spent the nation's entire nonrenewable resource birthright without creating an economy to replace it.

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