Fiscal Policy: Is it Sustainable?

Presentation to Fulan Naroman discussion
by Charles Scheiner, La’o Hamutuk
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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.
Quarterly oil and gas receipts
(million US dollars every three months)

- Taxes
- Royalties
- Investment return

Revenues have been falling since 2012

Timor-Leste’s Petroleum Receipts 2010-2014

- Taxpayer income
- BU profit oil paid for previous month
- Kitan profit oil
- Kitan royalty
- Bayu-Undan LNG FTP
- Bayu-Undan LPG FTP
- Bayu-Undan condensate FTP
But we don’t have very much oil.

<table>
<thead>
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<th>Timor-Leste</th>
<th>TL without Sunrise</th>
<th>Australia</th>
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</thead>
<tbody>
<tr>
<td>Known oil and gas reserves per person</td>
<td>700 barrels</td>
<td>230 barrels</td>
<td>1,140 barrels+</td>
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<tr>
<td>How long reserves will last at 2012 production rates</td>
<td>14 years</td>
<td>5 years</td>
<td>64 years+</td>
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Production began to drop after 2012.

Production and TL’s share of royalties from the JPDA

Graph by Liz Amato based on information from RDTL, National Petroleum Authority, and US EIA (Brent price). January 2015.
Timor-Leste has already received 70% of the revenues from Bayu-Undan and Kitan, and they could end in six years.

From Ministry of Finance’s 2015 State Budget, calculated in mid-2014.

What is the ‘natural’ price of oil?

Brent crude oil price (USD/Barrel)
The rising dollar reduces the cost of imports.

Rupiah equivalent to one USD

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

Euro equivalent to one USD
These predictions were made before the price of oil dropped.
Oil prices crashed after the 2015 budget was prepared in mid-2014

- 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.

Gov’t Balance in Treasury Account with BCTL

Revenues in the 2015 State Budget.

Total: $1,570 million.
88% comes from oil and gas wealth.
The 2015 Budget will neglect farmers, students, and health care.

Allocation of the enacted 2015 State Budget (US $1,570 million)

Infrastructure $589 million 38%  
Tasi Mane $122  
Other ports & airports $44  
Water & Sanitation $15  
Other Infrastruct. $62  
Security $28  
PDID & PIND $20  
ADN $42  

governance $271 17%  
Executive $53  
Legislative $27  
Judicial $55  
Veteran $37  
Education $310  
Health $74  
Social security $36  
Other social protection $77  
Administration $33  

services $219 14%  
Mortending $8  
Economy $47  
ZESIM Occuss $38  
Other $4  

benefits $257 16%  
E-FTDL $33  
PNL $47  
Other Security $9  
Other $5  
continuing $19


Domestic revenues increase 13.1%/yr now and 14.0%/yr after 2015. During 2011-2014, these revenues (without EDFL or taxes from the state) increased 13%/yr. EDFL recover 25% of fuel cost from users, it recovered 15% in 2012-13.

Petroleum Fund investments return 4.5%/yr nominal. During 2012-13 the fund earned 4.5%/yr.

Asumsion in GSB 2015, without megaprojects
Fiscal Policy

Updated with new oil price reality, Feb. 2015

Management of spending is still weak

Graph by Lu'U Hamutuk based on RTTL Ministry of Finance Transparency Portal. 5 February 2015
The graph shows legal goods trade only. About 89% of donor spending and more than 70% of state spending leaves the country.

Thank you.

You will find more and updated information at

- La’o Hamutuk’s website
  [http://www.laohamutuk.org](http://www.laohamutuk.org)
- La’o Hamutuk’s blog
  [http://laohamutuk.blogspot.com/](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