Oil, Debt and Sustainability: 
Timor-Leste’s borrowing plans and their implications for the future

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14 November 2017

History of borrowing in TL

• Gov’t approved Law in 2009 paving the way for borrowing
• Gov’t began signing loan contracts in 2012
  – JICA, ADB, World Bank, China’s EXIM Bank
• TL has signed contracts for 7 projects
  – 6 road upgrades + Dili drainage system
• Total value of contracted loans: $400 million
• TL has already spent $97 million
Those who support TL borrowing say that:
- ‘Loans are cheaper than withdrawing the same amount from the Petroleum Fund’
- TL needs infrastructure, but financial resources are limited
- Loan projects bring many social and economic benefits
- TL receives technical assistance when it borrows from international agencies
Timor-Leste’s oil and gas revenues have nearly ended
• Bayu-Undan will stop producing in 2020-21; revenues will be less than $100 per year from 2018 onwards
• Sunrise could start... but we don’t know when, or how much TL will receive; Sunrise also may never start

TL State depends heavily on the Petroleum Fund
• 78% of 2017 State Budget will be withdrawn directly from the PF
• Only 15% from domestic revenues
PF’s sustainability is uncertain

- 2017 Budget plans to withdraw almost 4 times ESI between 2018-2021
- PF balance expected to fall to $12.3 billion in 2022

‘Theoretical’ future PF returns vs loans interest

- PF returns often fail to achieve target
  - Only in 2008, 2013 and 2017
- If Gov’t continues to violate ESI
  - PF returns will fall because of reduced balance
- PF could be gone in 10-15 years
  - PF will earn zero returns if it’s empty
- Concessional loans have low interest rates, but commercial loan interest rates are much higher
TL needs infrastructure... but what kind of infrastructure?

- Gov’t has allocated a lot of money to large infrastructure – ‘frontloading’ policy
- TL’s finances are limited, loans are seen as another ‘resource’ that TL can use
- However, what will the borrowed money be spent on?
These projects threaten people’s lives and TL’s future

- Mega-projects lack economic viability and bring many negative impacts
  - Taking community homes and agricultural land
  - Damage communities’ livelihoods and the environment
  - Create poverty and social conflict
  - Use most of TL’s resources

- If Gov’t spends PF and borrowed money on projects which fail to earn returns, TL will face serious problems in the future

How much will TL have to pay back?

Annual loan repayments (million USD)
Debt will put a heavy burden on TL’s people in the future

- Petroleum Fund could be empty, and TL may not receive more revenues from other fields
- TL population will increase by around 20%
- TL will have to use part of limited domestic revenues to pay back debt in the future
- Domestic revenues alone will not cover TL people’s needs

What if TL cannot or will not pay its debts?

- Countries often ‘default’ when they cannot pay their debts
- IMF may give a ‘bailout’ – a large new loan to pay back the previous debt
- However, countries then lose sovereignty – creditors control fiscal, economic policies
- ‘Austerity’ makes it difficult for smaller countries to develop themselves
- TL has to learn from other countries which experienced debt crises – South Korea, Philippines, Argentina
Austerity policies which cut public spending and increased taxes caused much suffering and anger

Many demonstrations against austerity in Korea, Greece, UK, Philippines, Nigeria, Ireland, Argentina, Canada, Brazil

Conclusion

• TL cannot continue to spend and borrow billions of dollars – unsustainable
• Gov’t must evaluate major projects
• Building large infrastructure alone will not improve people’s lives
• TL will face austerity in the future because the Petroleum Fund will shrink
  – Better not to borrow more so that TL’s leaders can decide what to cut, rather than outside creditors
Obrigado.

You can find more 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/)