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

Presentation by Niall Almond
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TL’s borrowing is accelerating

Actual and projected loan spending 2013-2021

Budget year in which projections appeared
- 2015
- 2016
- 2017

Millions of dollars

Solid lines indicate actual loan spending as per RDTL Gov’t Transparency Portal

Graph by La’a Hamutuk based on State Budget Books 2015, 2016 and 2017, Transparency Portal and loan agreements
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)
PF balance will continue to fall

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

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

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Sectoral contributions to 'non-oil' per capita GDP

Current prices, 2015 dollars
Loans are mostly for national roads and megaprojects

Components of loan spending 2012-2021

- Suai Supply Base
- South coast highway
- Dili airport
- Dili drainage
- Road upgrades

Graph by Lea Hamutuk based on 2017 State Budget, Government Transparency Portal, loan agreements and disbursement data from lenders

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

Annual loan repayments (million USD)

Graph by Fao Hamutuk based on 2017 state budget, information from lenders, and LH sustainability model. October 2016

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