

# Preliminary Comments

## 2010 State Budget

*English translation of presentation in Tetum to*

**Committee C, RDTL National Parliament**

**By La'ó Hamutuk**

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# Sources of the Resource Curse

- **Timor-Leste is very dependent on converting its oil resources to cash:**
  - 98% of state revenues, 83% of the total economy
- **Our oil and gas will be exhausted by 2024**
  - Bayu-Undan and Kitan. (If Sunrise, 30 years more.)
- **The world market oil price fluctuates wildly**
  - TL cannot control or know future oil prices
- **When money comes easily, nobody watches how it is spent**
  - Don't give priority to non-oil sectors
  - Depend greatly on importing things from abroad
- **Spending is high when income is high**
  - when income falls, cannot maintain levels

# Consequences of the Resource Curse

- Corruption
- No thinking about the future
  - Our grandchildren may ask **"Why did you spend all our non-renewable resources?"**
- Poverty increases
  - When petroleum is gone, where will money come from?
- Agriculture and other sectors don't develop
- Inflation
- Debt
- Level of expenditure tends to follow each year's receipts
  - when receipts fall to zero, what will happen?

# Goals of the Petroleum Fund

- Stabilize government revenues when oil prices vary
- Create sustainability after Petroleum is used up in 15 years (if Sunrise isn't developed by then)
- Reduce temptation to spend more when income is high



# Issues to consider

- **Does the budget serve the state or the people?**
  - We look for ways to increase domestic revenues, not to increase the local economy and improve people's lives?
- **Long-term vision?**
  - Can the economy grow?
  - How can we repay debts when oil resources are gone?
- **Subsidy for EDTL?**
  - when electricity production increases, the subsidy will too.
- **Can the economy grow when the budget is unchanged?**
  - The private sector is about 8% of the total economy; to increase the economy 8% the private sector has to double!

# Heavy Oil: Continuing or not?

Ministry of Infrastructure Capital Plans in State Budgets 2008-2011 (excerpt, thousands of USD)							
Ministry	Project	2008	2009	2010	2011	2012	Total
<b>Mid-Year Budget for 2008 (passed July 2008)</b>							
Infrastructure	Construction of Electricity Generating Centers	5,000	35,000	35,000	30,000	0	105,000
Infrastructure	Construction of national distribution grid	5,000	95,000	95,000	90,000	0	285,000
<b>General State Budget for 2009 (passed January 2009)</b>							
Infrastructure	Construction of generators and national grid		85,000	160,000	120,000	0	365,000
		10,000					375,000
Infrastructure	Oversee project		2,000	2,000	2,000	0	6,000
Infrastructure	All capital & development			117,183	179,100	136,300	15,905
Entire 2009 Budget	All capital & development			205,334	233,871	154,066	22,648
<b>General State Budget for 2010 (proposed October 2009, not yet enacted)</b>							
Infrastructure	Construction of generators and national grid		guess	48,000	0	0	48,000
		10,000	15,000				73,000
Infrastructure	Oversee project		2,000	2,000	0	0	4,000
Infrastructure	All capital & development		?	136,894	119,224	11,163	
Entire 2010 Budget	All capital & development		?	216,920	146,932	12,650	

2009 funding used for "Pakote Referendum".

2010 funding cut from \$162m to \$50m.

2011-2012 funding already cancelled.

# Summary of Financing in 2010 GSB

	2009 Budget	2010 Budget	2011 Projection	2012 Projection	2013 Projection
<b>Income</b>	<b>1344</b>	<b>1481</b>	<b>1734</b>	<b>1761</b>	<b>1504</b>
<i>Domestic revenue</i>	84	77	78	85	94
<i>Oil and gas revenue</i>	1253	1393	1643	1659	1390
Tax revenues	1057	1144	1359	1349	1069
Royalties and interest	196	249	284	310	321
<i>Autonomous agencies own revenue</i>	7	11	13	16	20
<i>Budget support from donors</i>	0	0	0	0	0
<b>Expenditure*</b>	<b>902</b>	<b>766</b>	<b>652</b>	<b>460</b>	<b>438</b>
<i>Recurrent expenditure</i>	640	513	454	434	436
Salary and wages	93	98	100	103	105
Goods and services	248	208	216	225	234
Transfers	96	86	89	93	97
Donor projects	203	122	48	13	0
<i>Capital expenditure</i>	261	252	198	26	3
Capital minor	38	29	48	13	0
Capital major	205	217	147	13	3
Donor projects	18	7	2	1	0
<b>Overall balance</b>	<b>442</b>	<b>715</b>	<b>1082</b>	<b>1300</b>	<b>1065</b>
Non-oil balance	-811	-678	-561	-358	-325
Financing of non-oil balance	811	678	561	358	325
Oil fund financing	589	502	499	497	495
Project financing by donors	221	129	51	14	0
Changes in treasury cash-balances	0.7	47.7	11.7	-152.4	-170.3

\*Including autonomous agencies

Are these balance changes carry-over, or borrowing when negative?

# We need to know more before borrowing

## Borrowing has to be part of the state budget? (p51)

In addition to these projects, the Government is exploring the possibility of undertaking external financing to allow further development to take place. The Government of Portugal has signed a Memorandum of Understanding under which a loan facility could be developed. The Government of Portugal would arrange and pay for agreed infrastructure projects, and the loan would be repaid at a later date and at concessional interest rates. These projects would not be part of the General Budget of the State, but loan repayments, once commenced, would. It is important to note that no final agreement on this arrangement has yet been reached.

## Borrowing requires another law? (p.35)

The National Parliament recently passed a law on Budget and Financial Management that provides legal framework for Timor-Leste to borrow. Nevertheless, to enable the Government to borrow, the law requires that the Government produce a directive on borrowing.

## Parliament can approve repayment and conditions?

Nevertheless, the Government will seek approval of the National Parliament when an amount of borrowing at the appropriate time, however, for now the Government is seeking more information so that any presentation to Parliament is done so with the full range of documentation and information necessary.

At this stage it is envisaged that loans will be used to finance infrastructure projects which are national priorities. The value of these projects is likely to be around \$3bn over the term of the project life, which will be several years.



# Before borrowing, need to know

- What will the money be used for?
- How much has to be repaid? when?
- Does the money have to be used to buy from the country which gave the loan?
- If TL can't repay, what are the consequences?
- Do we have to repay the loan before paying for people's necessities?.

In many countries, money from borrowing benefits only rich people, but the impact of repaying falls heaviest on the poor.

# Oil prices and ESI calculations

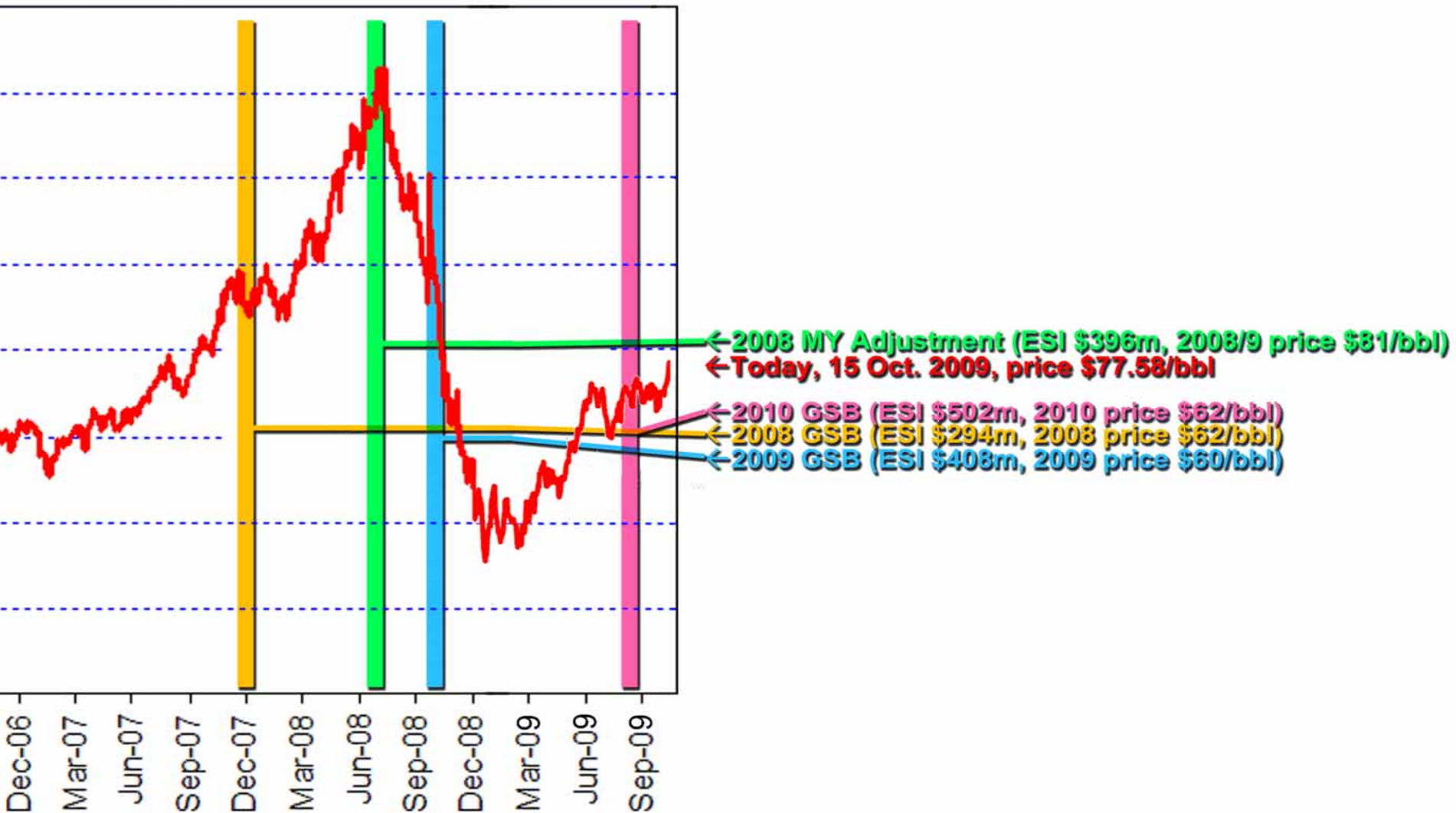
## *Prudent or not?*

**Spot price of West Texas (WTI) crude oil since Timor-Leste restored independence**  
**Showing when recent state budgets were calculated, and assumed oil prices for the next year**

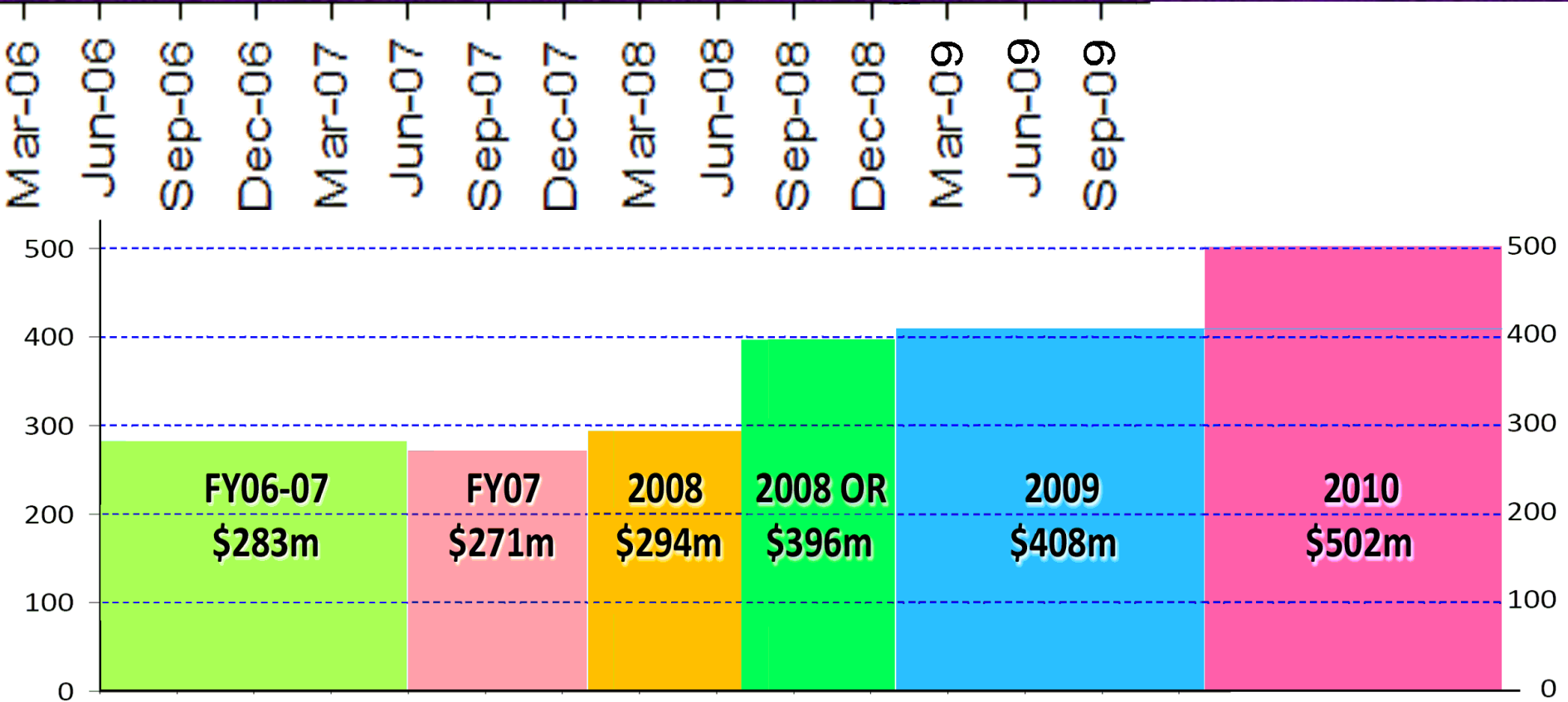


Estimating the Sustainable Income -- can it keep growing indefinitely?

# Estimating the Sustainable Income



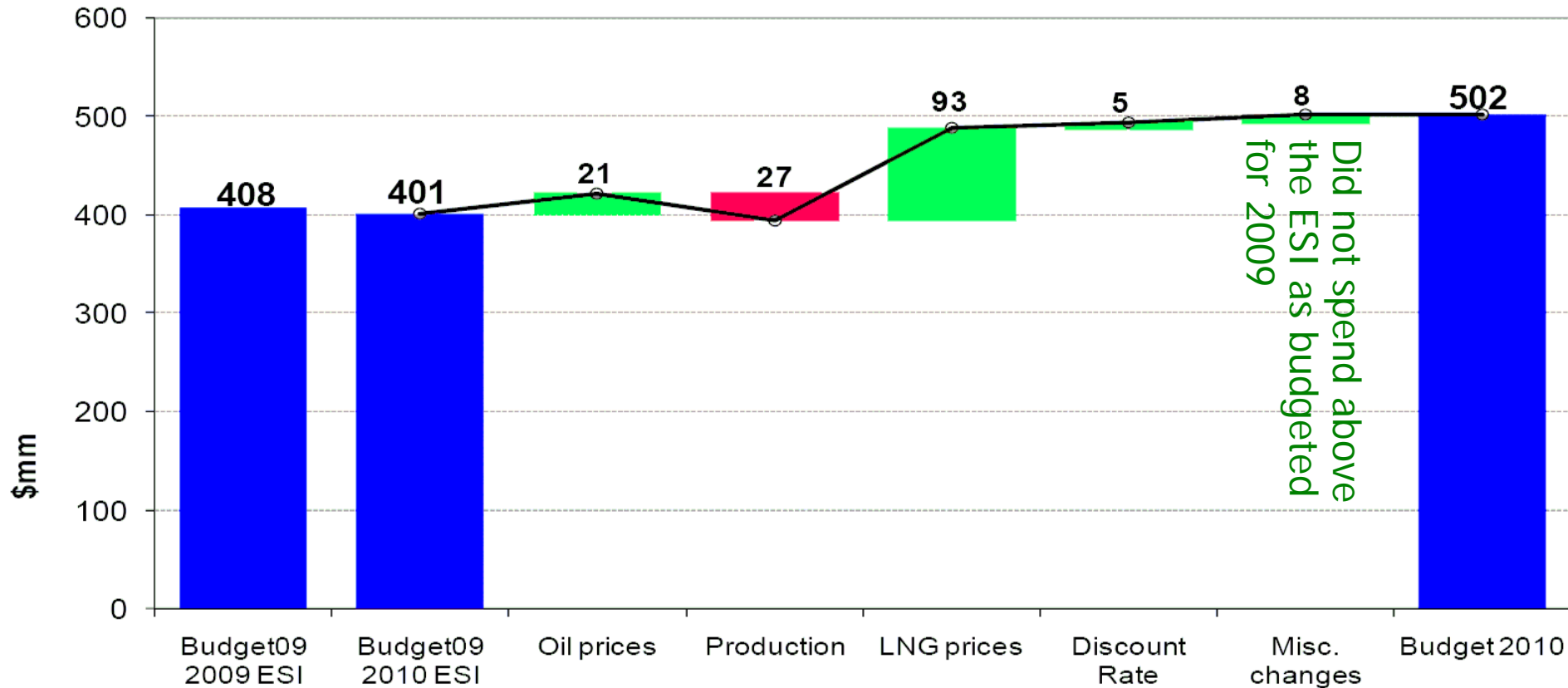
# Will ESI continue to grow every year?



Estimating the Sustainable Income -- can it keep growing indefinitely?



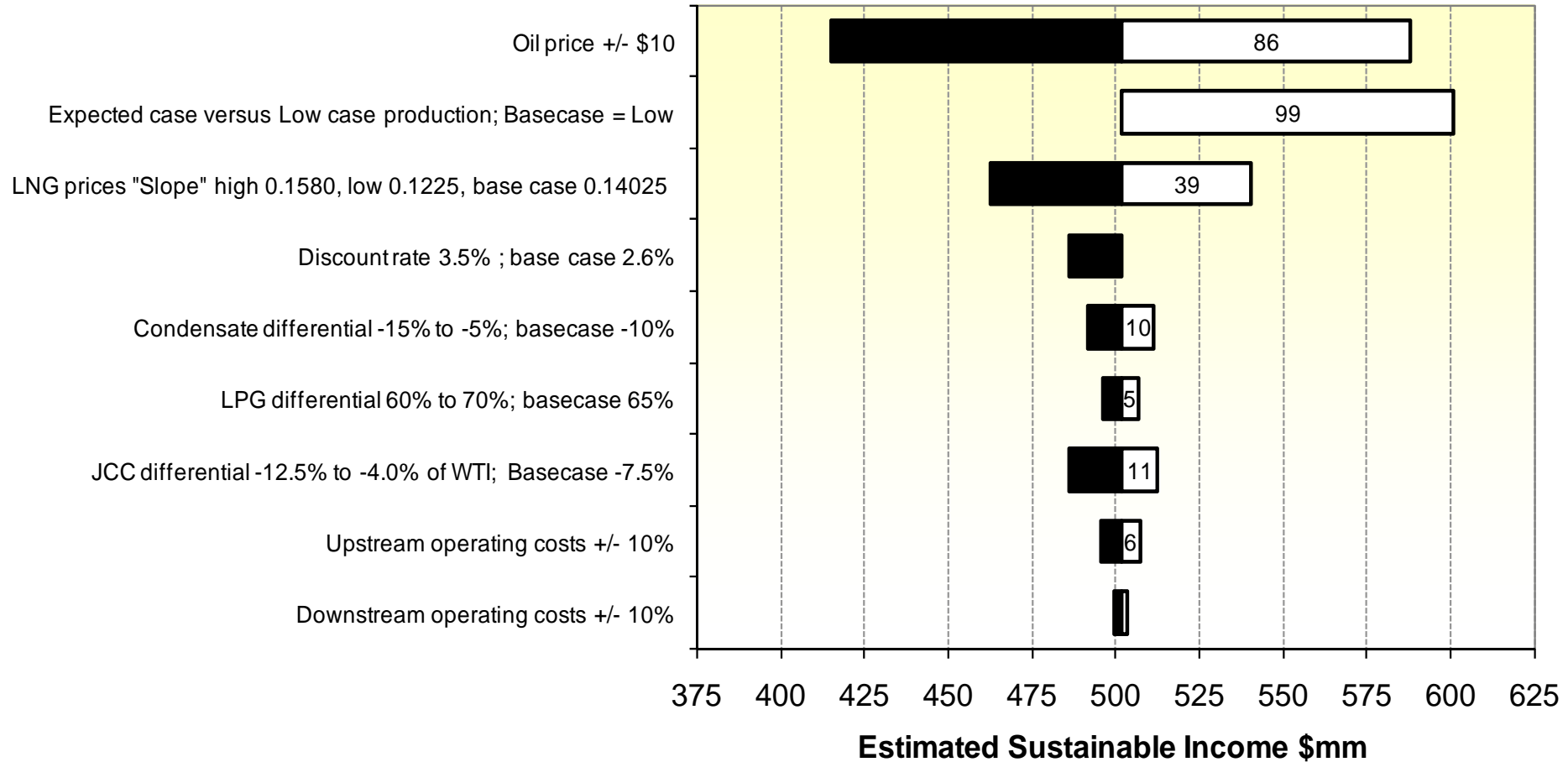
## Changes in the ESI (Budget 2009 to Budget 2010)



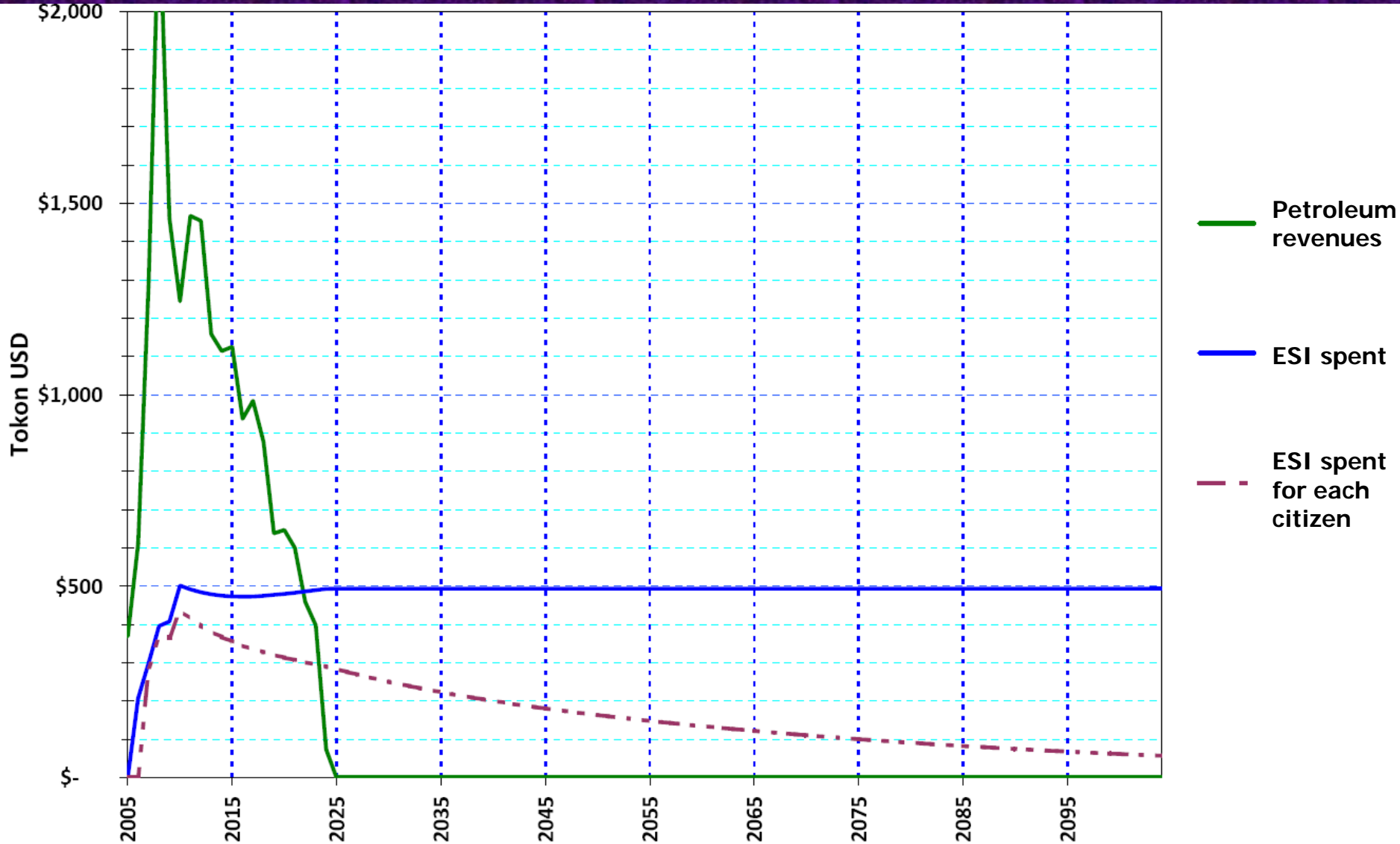
If the discount rate is lowered (from 3% to 2.6%), shouldn't the expected interest level also drop?

Is it prudent to expect to receive interest from investing the Petroleum Fund at 3% above inflation in the long term? This level has never been achieved so far.

# ESI Sensitivity Analysis

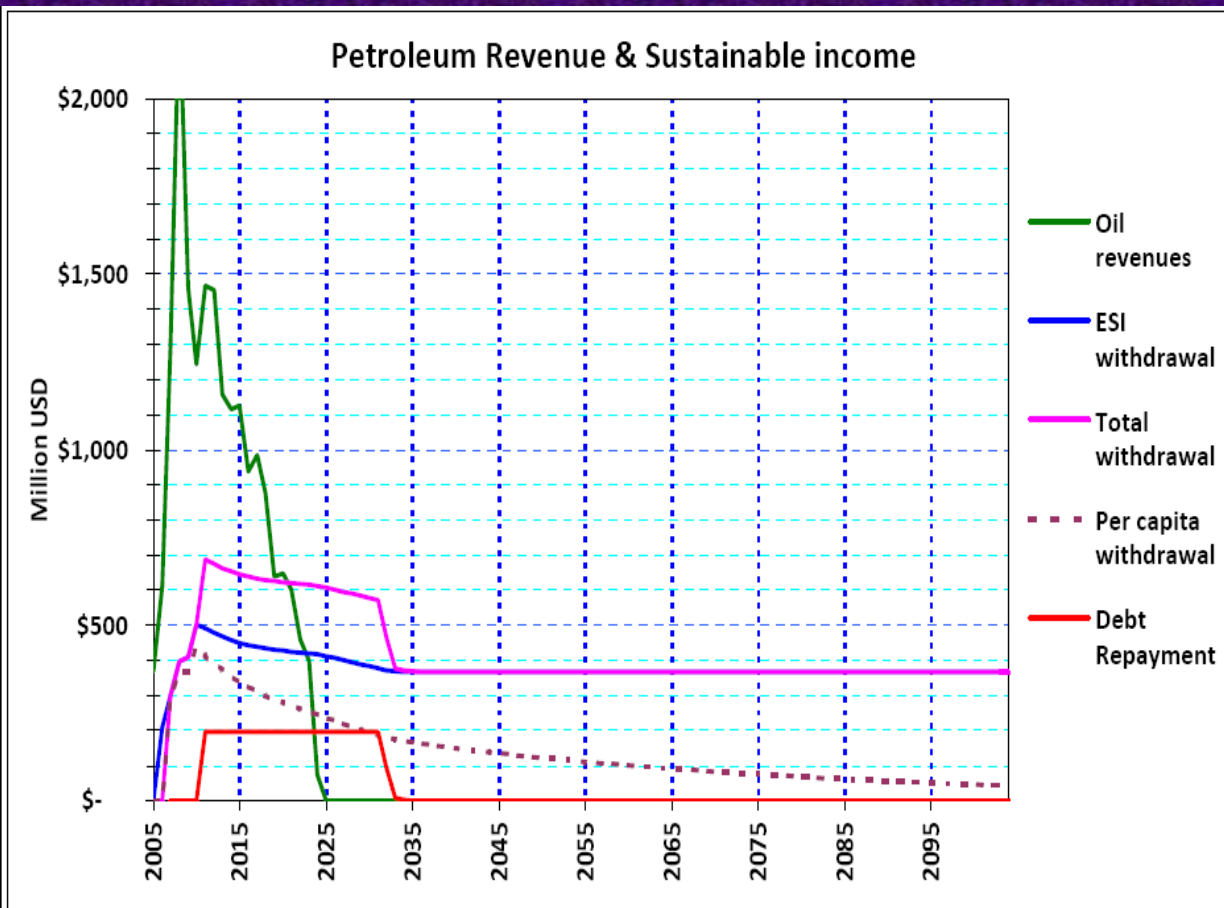


# Petroleum Revenue and Sustainable Income



# Model to explore the impact on ESI from oil prices, investment return, borrowing, spending above the ESI, etc.

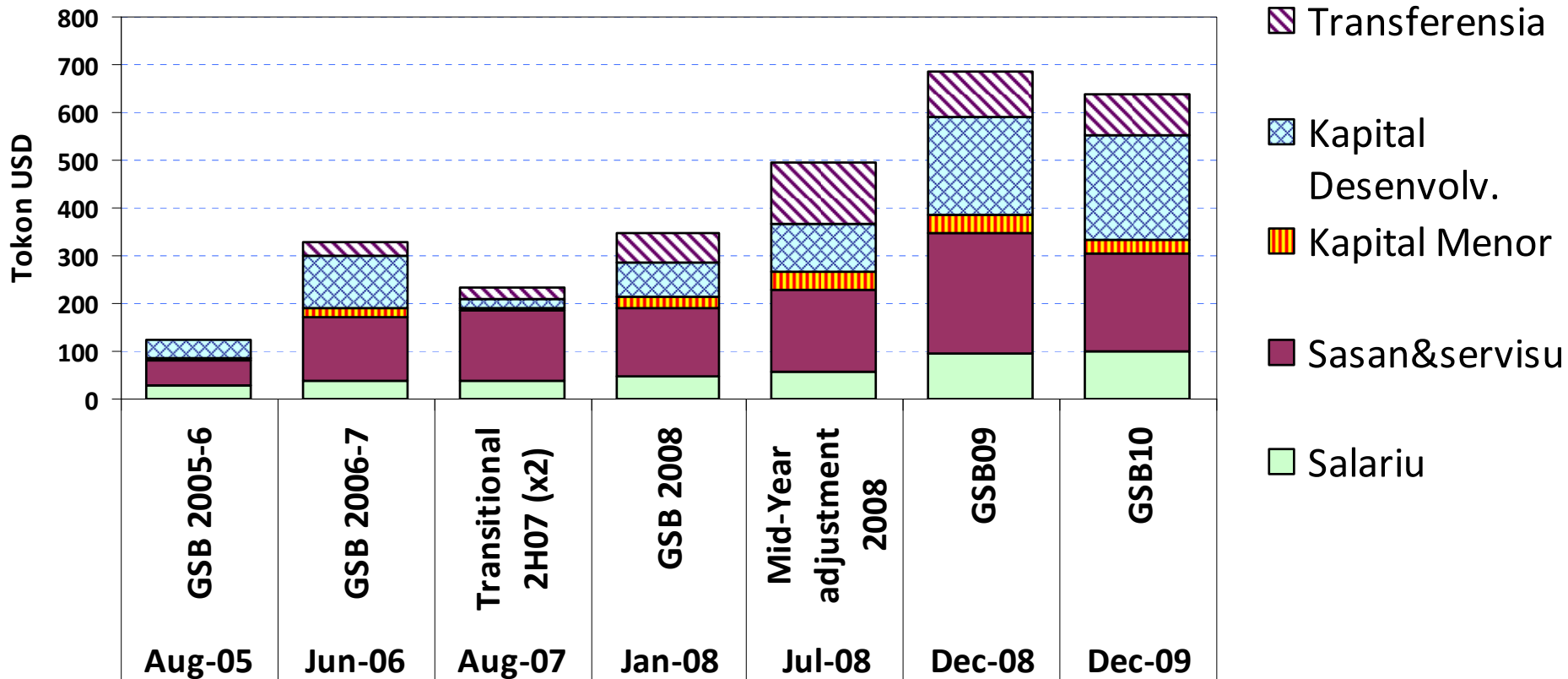
Assumptions	Value	Unit	Base case
Interest	3.0% above inflation		3.0%
Oil Price	\$ 60	dollar/barrel	\$ 60
Oil price increment	\$ 1	\$/bbl/yr after 2023	\$ 1
Oil price multiplier	1.7	TL rev. magnifies price	1.7
Discount rate	2.6%		2.6%
ESI	3.0%		3.0%
Spend beyond ESI	\$ -	MM\$/yr tot. withdrwl	\$ -
Years over ESI	0	yrs excess withdrwl	0
Includes Kitan?	0	1=yes, 0=no	0
Borrowed	\$ 3,000	token	0
Dent interest	3.0%	pct/year	0
Years to repay	20	years	0
Repayment from ESI?	1	1=yes, 0=no	0
<b>Results:</b>			
Petroleum wealth	\$ 16,719	billion (calc. 1/10)	\$ 16,718
ESI in 2009	\$ 502	million USD / year	\$ 502
ESI in 2105	\$ 368	million USD / year	\$ 494
Total withdrawal	\$ 41,607	million USD	\$ 47,833
Total disc. withdrawal	\$ 18,687	million USD	\$ 18,743
Total debt repayment	\$ 4,202	million USD	\$ -





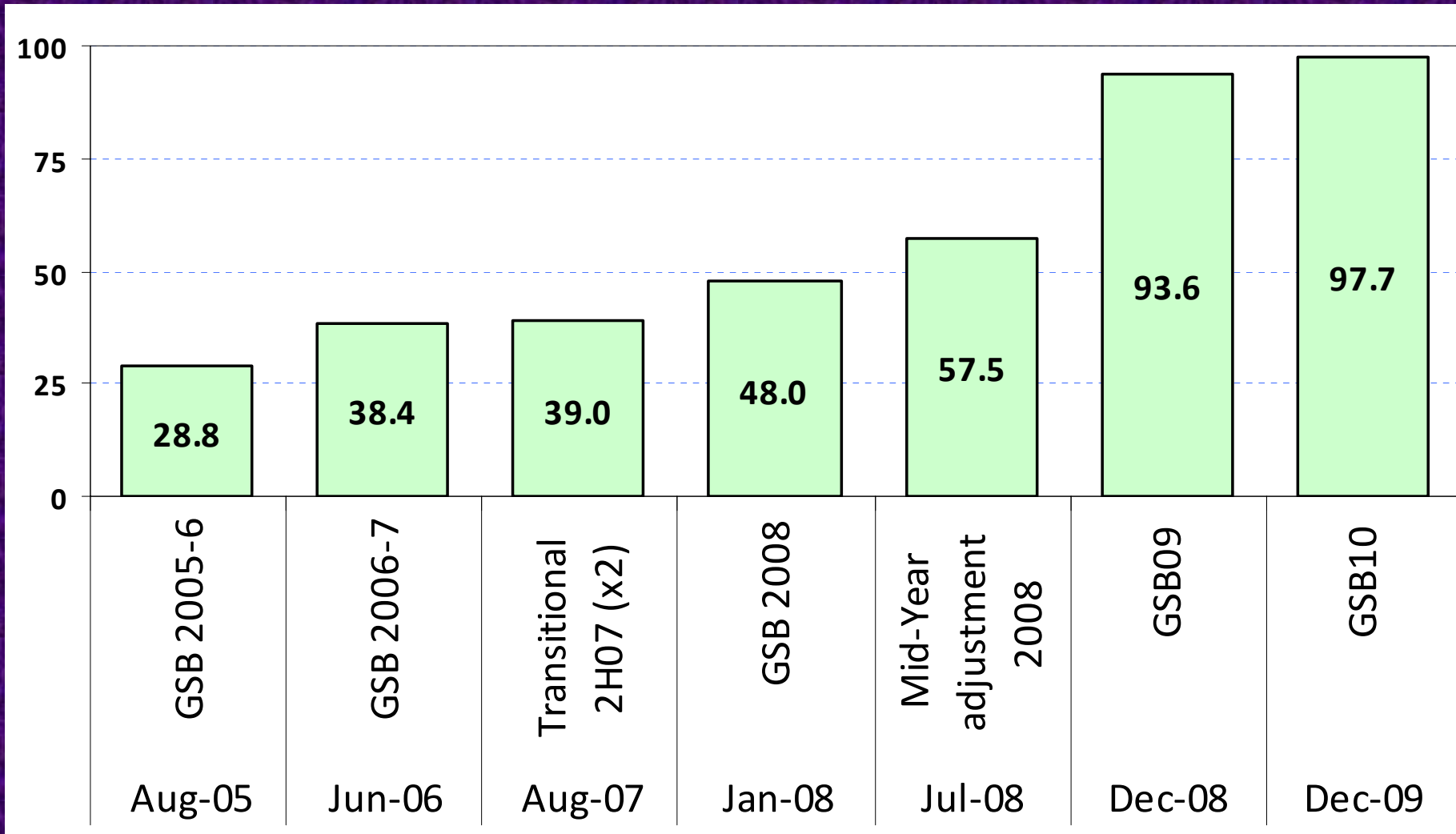
# Spending in the 2010 budget

## Despesas iha orsamento



# Salaries in the State Budget

(millions of US dollars)



# Thank you.

**La'ó Hamutuk is always ready to help the National Parliament.**

**Please contact us if you need more information:**

- **Visit our office in Farol, Dili.**
- **Tel.: 3325013**
- **Email: [info@laohamutuk.org](mailto:info@laohamutuk.org)**
- **Website: [www.laohamutuk.org](http://www.laohamutuk.org)**