Observations about Sustainability of State Finances and the Economy

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Topics to be discussed

1. State financial dependence on the Petroleum Fund (PF)
2. Dominance of the PF
3. State revenues (including PF)
4. Projections show risks to the sustainability of state finances
5. Current conditions which need to be considered, and opportunities
6. Human resources still aren’t prioritized
7. Imports continue without efforts to develop the local economy and products
8. There are only small changes to improve
9. Alternative paths
The PF finances the state budget every year

Revenues in approved 2022 State Budget
$1,945 million total
82% is from the Petroleum Fund in the past, present or future.

Domestic (non-oil) revenues still have not improved, and much of them come from state spending.

As it has for many years, the 2022 budget continues to depend on withdrawals from the Petroleum Fund above the Estimated Sustainable Income (ESI).

From 2009-2020, total ESI was $7 billion, but withdrawals totalled nearly $12 billion, 68% more than ESI.

In 2022-2026, total ESI will be $2.3 billion, but total withdrawals are projected to be $9.2 billion, 294% more than ESI.

Dominated by the Petroleum Fund

- Withdrawals are unsustainable. Since 2010, withdrawals have been 154% ESI, and paid for more than 85% of state spending.
- High investment returns have helped the PF, but slowly. It reached $16 billion in 2015, but stayed there for about four years.
- Economic disparity increased, with the growth of the Dili middle class but little change for the impoverished rural majority.

Although the PF balance rose to $19 billion in 2021, this balance will fall rapidly as stock prices fall and high withdrawals are made.
State income (including the PF)

Projections reveal huge risks

- “Assuming spending follows these historic growth rates (with some small adjustments for categories with excessively high changes), the model estimates that the Petroleum Fund would run out in 2032, 11 years away.” (OJE 2022 final book 1, p.60).

- Book 1 offers two models; the second one assumes “spending follows these historic growth rates”, and concludes that “this would mean a 77% fall in expenditure over two years (2030-32), falling from $2.6 billion to $0.6 billion (when expenditure must equal domestic revenue).”

- The World Bank recently estimated that when the Petroleum Fund is empty in 2033, “Expenditure would then be exclusively financed by domestic (tax and non-tax) revenues and borrowing, at about $400 million per year. The delivery of basic public services would be jeopardized and social cohesion would be at risk.” (Public Expenditure Review 9/21, p. 15)
Timor-Leste’s current condition needs consideration and opportunities

Although these figures are correct, they need to be updated to better understand the real conditions, (including Census, DHS, poverty and others.)

Timor-Leste’s working-age population increases by about 24,000 every year. In 2018, total private sector employment was 53,000, 9,200 less than in 2014.
What do 850,000 Timorese people age 15-64 do for work?

Unemployed, unpaid household, informal, retired or not seeking work: 28%
Subsistence farmers & fisherpeople: 27%
Students: 21%
Employed by TL government: 6%
Petroleum sector: 0.1%
Private sector (incl. gov't contractors): 9%
Int'l agencies; local and Int'l NOOs: 1%
Self-employed (market, taxi, kiosk, etc.): 6%
Work or study outside TL: 2%

Import Dependency

Timor-Leste Balance of Goods Trade

This graph only shows legal trade in goods.
Three-fourths of donor money and two-thirds of state spending goes overseas.
We have only a few opportunities to recover.

- Timor-Leste’s trade deficit is about a million dollars every year, including many imported things that could have been made locally.
- Private sector employment has been falling since 2014. The productive economy is smaller than it was at the time of independence in 2002.
- Public spending on education and health remain far below international standards. Children under five still have one of the highest malnutrition rates in the world.
- It’s easier to pay for something from abroad – an overseas scholarship or a foreign contractor – than it is to develop universities or businesses.
- Timor-Leste’s Human Development Index ranking fell from 128th in 2010 to 141st in 2020.
- Most local companies and workers look to get rents from petroleum money (through public contracting), rather than developing the local productive economy.
- We cannot control volatile world oil and stock market prices, which go down as well as up.
What are the alternatives?

• Invest in human resources: education, health and nutrition. This is essential for everything.

• Build infrastructure which addresses people’s needs: rural roads, water supply, local schools and clinics, and renewable, decentralized electricity. (Include maintenance costs.)

• Don’t forget people who live outside the formal economy.

• Reinforce sectors which use Timor-Leste’s renewable wealth: agriculture, community-based tourism, small industries to produce things to use in the country.

• Follow policies based on evidence and objective analysis, not fantasies, partisan interests, or dreams.

We all need current data.

The UN can help the Government update important data, which will improve analysis and lead to more realistic programming.

• Demographics and Health Survey was last done in 2016
• Household Income and Expenditure Survey was done in 2011
• Living Standards Survey was done in 2014
• Full Labour Force Survey was done in 2013

How can anyone develop evidence-based policies when we don’t have evidence?
Thank you.

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