

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

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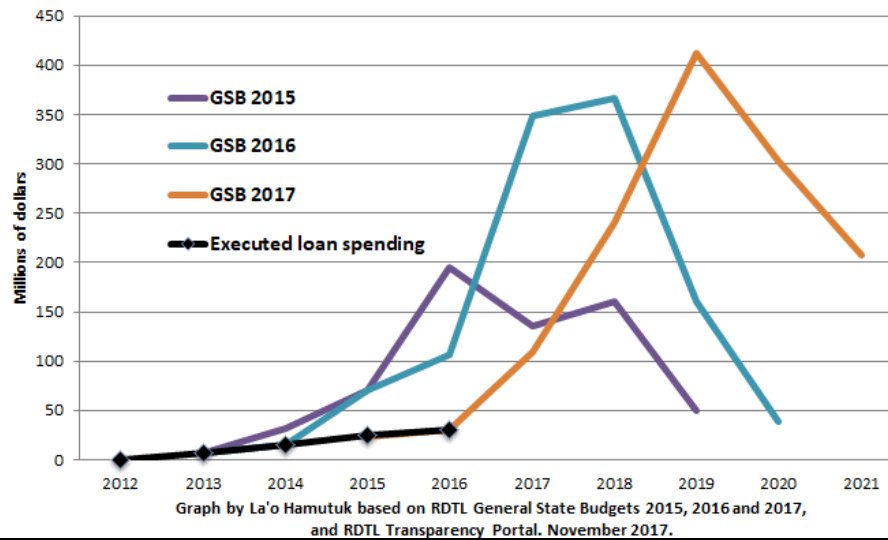


History of borrowing in TL

- **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**

Gov't borrowing plans have accelerated

Projected loan spending in State Budgets 2015-2017

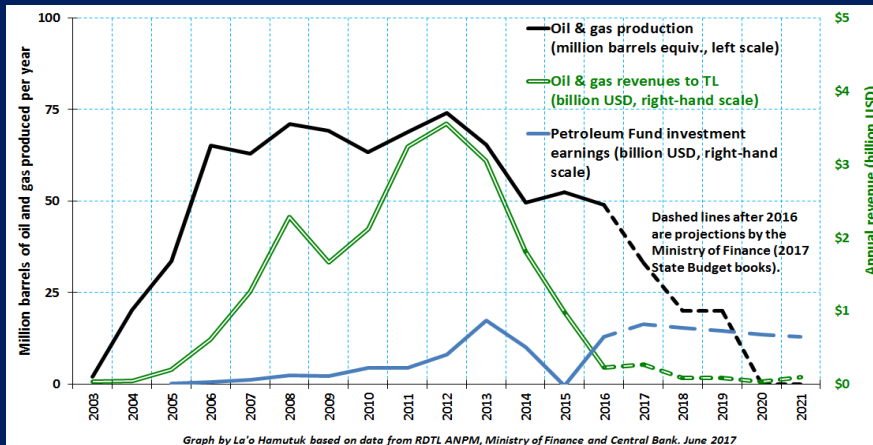


Justifications for borrowing

- **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

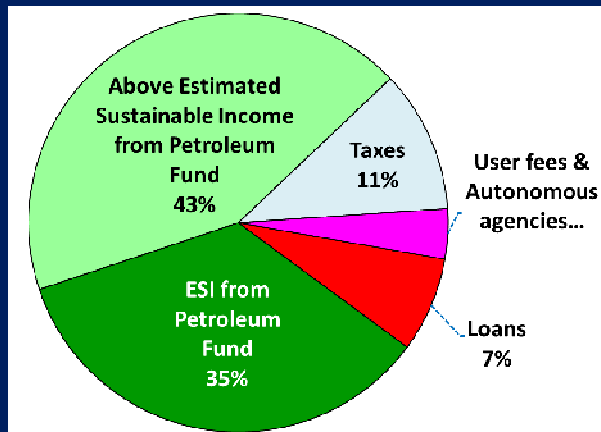
Timor-Leste's oil and gas revenues have nearly ended

- 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



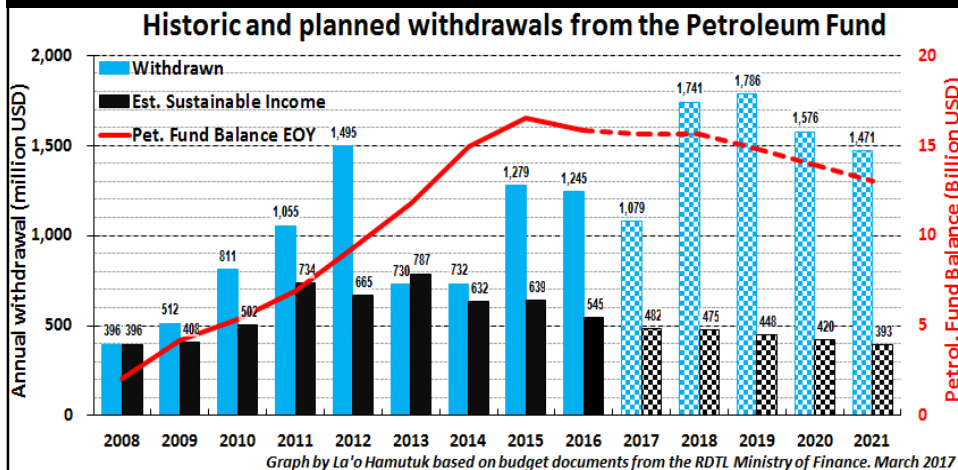
TL State depends heavily on the Petroleum Fund

- 78% of 2017 State Budget will be withdrawn directly from the PF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

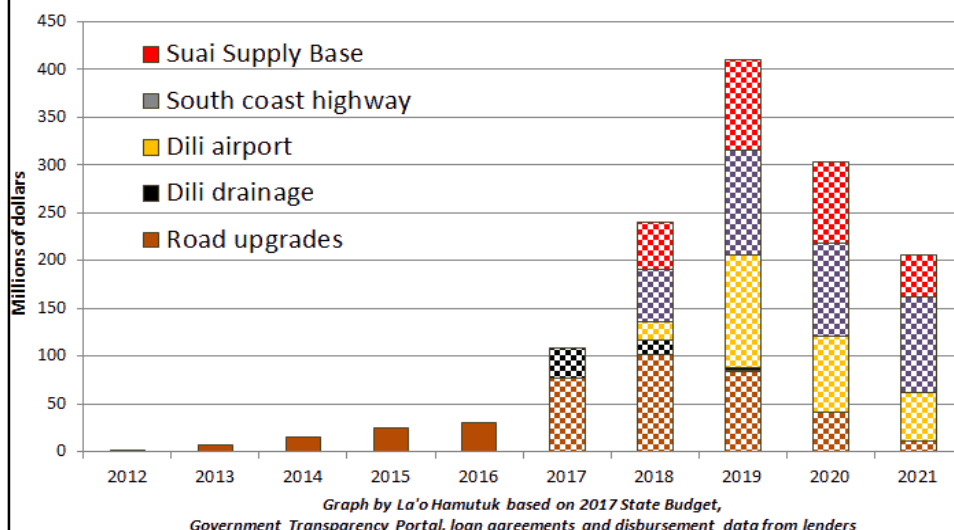
- PF returns often fail to achieve target
 - Only in 2008, 2013 and 2017
- If Gov't continues to violate ESI
 - PF returns will fall because of reduced balance
- PF could be gone in 10-15 years
 - PF will earn zero returns if it's empty
- Concessional loans have low interest rates, but commercial loan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

Largest loans are for mega-projects

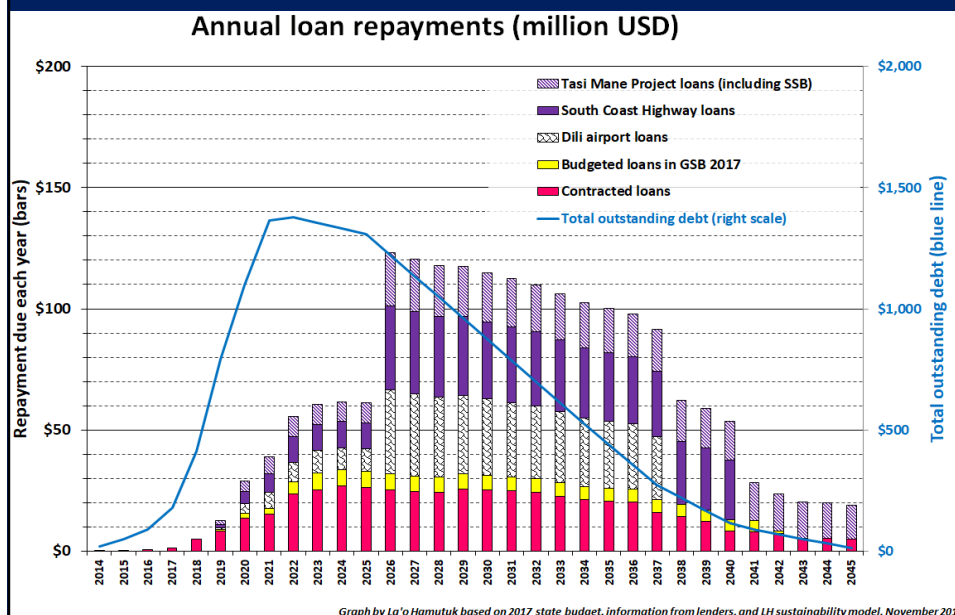
Components of loan spending 2012-2021



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?



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'ó Hamutuk's website
<http://www.laohamutuk.org>
- La'ó Hamutuk's blog
<http://laohamutuk.blogspot.com/>