Timor-Leste Petroleum Fund

Full Member

The Petroleum Fund of Timor-Leste is the cornerstone of the Government´s economic policy.

Legal Framework

The Petroleum Fund was established to fulfil the constitutional requirement set by Article 139 of the Constitution of the Republic that mandates a fair and equitable use of the natural resources in accordance with national interests, and that the income derived from the exploitation of these resources should lead to the establishment of a mandatory financial reserve.

The Government, therefore, created the Petroleum Fund in 2005, under the provision of the Petroleum Fund Law No.9/2005 (3 August 2005) as amended by the Law No.12/2011 (28 September 2011).

Purpose

The preamble of the Petroleum Fund Law clearly states that the purpose of establishing the Petroleum Fund is to contribute to the wise management of Timor-Leste’s petroleum resources for the benefit of both current and future generations. The Fund is also a tool that contributes to sound fiscal policy, where appropriate consideration and weight is given to the long-term interest of Timor-Leste’s citizens.

Key Features

The Petroleum Fund Law provides mechanisms that assist Timor-Leste to sustainably manage its petroleum revenues, details parameters for operating and managing the Petroleum Fund, defines asset allocation guidelines and risk limits, governs collection and management of the receipts, regulates transfers to the State

Budget, defines clear roles and responsibilities of entities involved in the management of the Fund and provides for government accountability and oversight of these activities.

The Petroleum Fund is formed as an account of the Ministry of Finance held in the Central Bank of Timor-Leste (BCTL). The Fund separates the inflow of petroleum revenues from government spending. All petroleum income initially enters the Fund before any transfers are made to the State Budget. The amount of the transfers is guided by the Estimated Sustainable Income (ESI), set at 3% of total Petroleum Wealth. Petroleum Wealth comprises the balance of the Petroleum Fund and the Net Present Value of expected future petroleum revenue. The rationale behind using the ESI is to smooth the spending of temporarily high petroleum income and shield against the volatility of petroleum inflows and safeguard the sustainable use of public finances.

The Fund is invested only in international financial assets. The investment objective is to achieve a 3% real return over the long-run to contribute to the sustainability of the fiscal policy. The Government recognizes that pursuing this investment return objective involves accepting risk in terms of short-term investment return volatility. It requires the Fund to have a long-term horizon to ride through short-term fluctuations in order to achieve an average long-term higher expected return.

More information can be found here: www.mof.gov.tl/budget-spending/petroleum-fund/?lang=en

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