

**The Secretary of State for the Council of Ministers and
Official Spokesperson for the Government of Timor-Leste
Ágio Pereira**

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Díli, Timor-Leste



Timor-Leste modernizes fiscal regime for better economic management

The Government of Timor-Leste reached a milestone last week with initiatives to establish a more prudent fiscal regime for best practice economic management of Timor-Leste's sovereign wealth.

Firstly, the Council of Ministers approved revisions to the Petroleum Fund (PF) Law to ensure better Fund management aligned with global best practice. The Law will be put forward to National Parliament for consensus. The revisions allow for greater diversification in the investment portfolio which minimizes risk and maximizes revenue over the long term horizon. As the law stands now, the investment strategy with 90% invested in US treasury bonds and 10% in different asset classes, delivers a lower return than the yearly estimated sustainable income (ESI), considered by experts neither a prudent or sustainable strategy. Since 2007, better management of the fund has seen successful outcomes with the 10% global equity mandate now invested in more than 700 companies in 23 countries worldwide.

The Government aims to further diversify the portfolio with up to 50% invested in a range of assets, currencies and regions for greater economic returns. Mitigating risk post the Global Financial Crisis was considered a mandatory step in best practice management of the Fund. The decision was made after four years of research and analysis, and involved the completion of reforms in addition to constructive consultations through domestic forums and consensus building exercises.

Also approved was the law on borrowing with prohibitive restrictions only allowing borrowing to finance strategic investment into major infrastructure projects to rebuild the nation. Borrowing will also only be considered for those projects which will deliver a larger economic return than the cost of the loan itself. Debt, when managed prudently over the term of loans, is a very effective and strategic financing tool to manage sovereign capital and build sovereign trusts and credibility in international markets.

Lastly, the **Timor-Leste Investment Corporation (TLIC)** was born to attract foreign direct investment by providing commercial incentive, through which the Government and the People have ownership. Similar to Singapore's Temasek Holdings, a domestic, Government owned Investment Corporation, **TLIC** will target sector investment aligned to need and return and invest accordingly on a strictly commercial basis to accelerate development. **TLIC** can partner to build hotels, factories or other commercial pursuits. The TLIC mandate, unlike the Petroleum Fund, is to invest in Timor-Leste, in this phase of development.

Secretary of State Pereira noted "The State has made many reforms, built capacity and set foundations to ensure the future of our Nation as an epicenter of productivity. Our job is to ensure we maximize our income with best practice strategies that are globally accepted. I believe we have achieved that with these important initiatives. Our challenge now is to focus on education. We must ensure our People and future generations can manage all aspects of a modernized economy with a well educated workforce."

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