

International Economic Update

NDEP

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EXECUTIVE SUMMARY

Overall global economic growth was stable in 2016 and is projected to increase in 2017 and 2018, led by improvement in countries that are currently experiencing economic distress and a more diverse economy in emerging and developing economies. International commodity prices are expected to increase with rises in the oil price due to OPEC countries agreement to limit oil production. For Timor-Leste, as a net-importer of goods, the high commodity price environment is not beneficial for Timorese consumers. However, the appreciation of the US dollar is beneficial for Timor-Leste, making imports cheaper for both consumers and businesses.

GROWTH TRENDS IN THE GLOBAL ECONOMY

WORLD GROWTH PERFORMANCE AND FORECASTS

According to IMF, global growth is projected at 3.1% in 2016 before picking up to 3.4 % in 2017 and 3.6% in 2018. Growth in emerging and developing economies is driving this trend due to a gradual normalisation of macroeconomic conditions; however, growth in the region remains diverse. Despite the downward trend, China's growth rate is expected to remain high due to continued policy support by the Government, while Latin America continues to face difficulties, notably in Argentina and Brazil. Advanced economies are expected to witness a modest recovery, driven by the United States and the change in policy stance under the new administration; many international commentators expect a fiscal stimulus, which could result in higher growth levels for the United States, with varying global spillovers.

<i>IMF Growth Projections</i>	2016	2017	2018
World	3.1	3.4	3.6
Advanced Economies	1.6	1.9	2.0
Emerging and Developing Economies	4.1	4.5	4.8
Emerging and Developing Asia	6.3	6.4	6.3
Middle East and North Africa	3.8	3.1	3.5
China	6.7	6.5	6.0

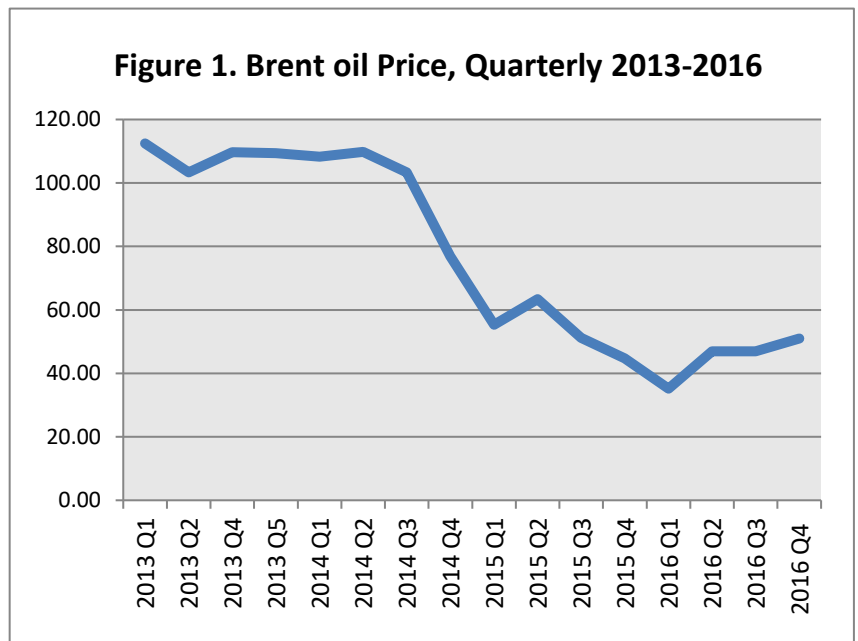
GLOBAL COMMODITY PRICES

Overall commodity prices have been falling significantly since 2011. However, prices have begun to increase again driven by price increases in crude oil, food and agricultural material. Agricultural prices are projected to increase modestly by 1.5% in 2017 due to weather variability. The economic transition in China from manufacturing to services has led to weaker investment in the manufacturing

sector and therefore lower demand for commodities, affecting the activities of commodity-exporting emerging markets and developing economies.

OIL

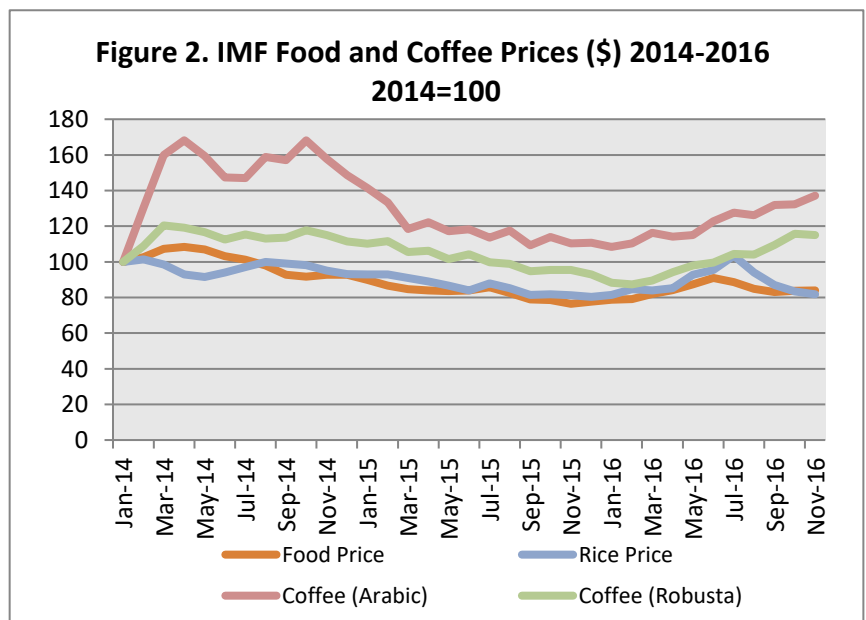
Oil and related petroleum products are important for Timor-Leste in two ways, first as an exporter, with crude oil exports being the largest source of foreign exchange, and second as a driver of inflation, with refined import prices affecting the cost of transport and hence most other goods. As shown in the figure 1, the international price of Brent oil has witnessed dramatic declines since June 2014 from highs of



\$112¹ per barrel to lows of \$34.7 per barrel in January 2016 as a result of increased global supply, while global demand has decreased. However, the oil market began to recover from around April 2016 and prices have bounced back, to an average of \$55.72 per barrel in December 2016. The declines in excess oil supply, due to the agreement between OPEC and other oil producers to limit crude oil production, has helped to bring up price levels.

COFFEE

As shown in the figure 2, overall international coffee prices have decreased in recent years. Between Oct 2014 and March 2015 the price of “Other Mild Arabica’s” coffee fell by 46.3%. The price of ‘Robusta’ coffee fell by 28.2% between March 2014 and Jan 2016. However, the price of coffee started to increase modestly between Jan 2016 and Nov 2016; the price of Robusta coffee increased by 30.5% and Arabica coffee increased by 26.5%. This increase in coffee prices is due to unfavourable weather conditions in Brazil and Vietnam and concerns over 2017 crop levels due to low water supplies. Increased demand from the US, China, Japan and India is also helping push prices up.



¹ Bloomberg data

FOOD

The price of food is very important for Timor-Leste; around 65% of average household spending is on food, and so changes in food prices can have large impacts on household welfare. According to the International Monetary Fund's (IMF) Food Price Index, international food prices decreased by 23.5% between Jan 2014 and Nov 2015, however the prices started to increase slightly by 6.6% between Jan 2016 and Nov 2016, mainly supported by rise in prices of sugar and pork. The IMF is forecasting that food prices will continue to rise marginally in 2017 before stabilizing well below the highs witnessed in 2014.

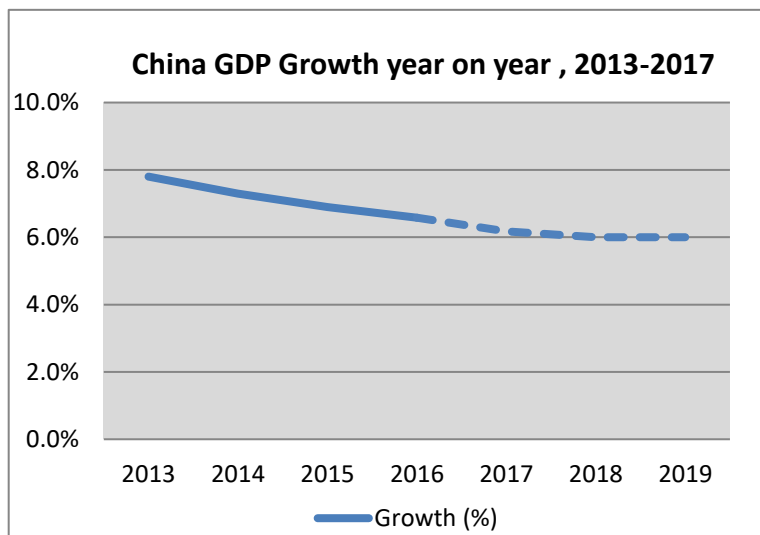
EAST AND SOUTH-EAST ASIA

SOUTH-EAST ASIA

Growth remained stable in 2016, and the near term outlook for Asia remains strong supported by a growing global economy and accommodative policies and financial conditions. Consumption and investment (private and public) have remained strong in 2016. Growth is projected to rise modestly in 2017. Strong credit and household income growth and relatively low interest rates support the domestic demand.

CHINA

China is an important trading partner for Timor-Leste, many manufactured goods are imported from China, and China is a potential source of investment in the future. China's economy grew by 6.7% in 2016 a bit stronger than expected, supported by the government policy stimulus. Services and consumption was the main driver for the growth. Growth in 2017 is expected to slow to 6.2% due to nonfinancial debt that is projected to continue rising due to a rapid increase of credit and slow progress in addressing the debt issue.



INDONESIA

There are close trading ties between Indonesia and Timor-Leste, with Indonesia being Timor's largest source of imports. As seen in the figure 4, overall growth in Indonesia remain strong at 5.0% in 2016 and is projected to rise slightly to 5.3% in 2017; this increase is mainly supported by the government



reforms to improve investment sector and the strong household consumption due to low inflation and a stronger rupiah.

EURO AREA

Despite Britain's referendum decision to leave the EU and the election of Donald Trump in the US, the Eurozone economy performed better than expected in 2016 growing at 1.7% compared with 1.6% for 2015. However, there are concerns that growth levels may dampen in 2017 due to the rising energy prices and uncertainty ahead from a series of key elections and the withdrawal of the UK from the EU.

OVERALL IMPACT ON TIMOR-LESTE

Food is particularly important for Timorese consumers as it has a high weight in the CPI basket; changes in commodity prices will impact the standard of living of the people of TL. Across 2016, Timor has benefitted from low international prices, reflected through the deflationary environment (-1.3% on average). As commodity prices are expected to increase marginally in 2017, this is likely to have an impact on the consumers of TL, reducing purchasing power due to the reliance on imports. However, the increase in oil and coffee prices will provide a boost to Timor's export position, since oil and coffee are TL's biggest export. The strong dollar will, however, make Timor-Leste's exports more expensive compared to other Asian countries.

CONTACT DETAILS

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