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GLOBAL GROWTH

Global growth outlook is projected to contract by –3.0 percent in 2020. Advanced economies are forecast to shrink the most by -6.1 percent, while growth for emerging markets and developing economies is forecast to fall -1.1 percent. The fall in global growth was driven mostly by the outbreak of the novel Corona Virus. The U.S. economy is projected to contract this year by 5.9 percent, however, China will maintain positive growth of 1.2% in 2020.

Table 1: Global and Regional Growth Rates (%)

Country	Actual		Forecast	
	2018	2019	2020	2021
World	3.6%	2.9%	-3.0%	5.8%
Advanced Economies	2.2%	1.7%	-6.1%	4.5%
Emerging and Developing Economies	4.5%	3.7%	-1.1%	6.6%
Emerging and Developing Asia	6.3%	5.5%	1.0%	8.5%
China	6.8%	6.1%	1.2%	9.2%

Sources: IMF World Economic Outlook April 2020.

Global growth is expected to rebound to 5.8 percent in 2021, the advanced economy group is forecast to grow at 4.5 percent, while growth for the emerging market and developing economy group is forecast at 6.6 percent. However, the rebound in 2021 is uncertain and depends on how fast the pandemic will fade. A lot of effort have been done in accommodating the public health requirements around the world to prevent the spread of the virus, nonetheless this policy limited the economic activity and the financial system which is contributed to the decline in growth in 2020. The projected recovery assumes that these policy actions are effective in preventing widespread firm bankruptcies, extended job losses, and system-wide financial strains.

GLOBAL INFLATION

Table 2: Global and Regional Inflation Rates (%)

Country	Actual		Forecast	
	2018	2019	2020	2021
World	3.6%	3.6%	3.0%	3.3%
Advanced Economies	2.0%	1.4%	0.5%	1.5%
Emerging and Developing Economies	4.8%	5.0%	4.6%	4.5%
Emerging and Developing Asia	2.6%	3.2%	3.0%	2.9%
Timor-Leste*	2.3%	0.9%	0.9%	2.1%

Sources: IMF World Economic Outlook April 2020. *Ministry of Finance forecast.

Consumer price inflation is set to remain favourable, with global inflation forecast at 3.0% by the IMF in 2020. The decline in oil prices, have contributed to the sharp fall in consumer price inflation in the advanced economies, however this is projected to recover in the coming years. In 2019, for emerging market economies, inflation had risen reflecting the impact of currency depreciation and higher commodity prices, but it is projected to moderate as the impact of tighter monetary policy and recent declines in oil prices. Inflationary pressures have already fallen sharply in China as activity has moderated. Low inflation in Timor-Leste in this context will help to improve competitiveness.

OIL PRICES

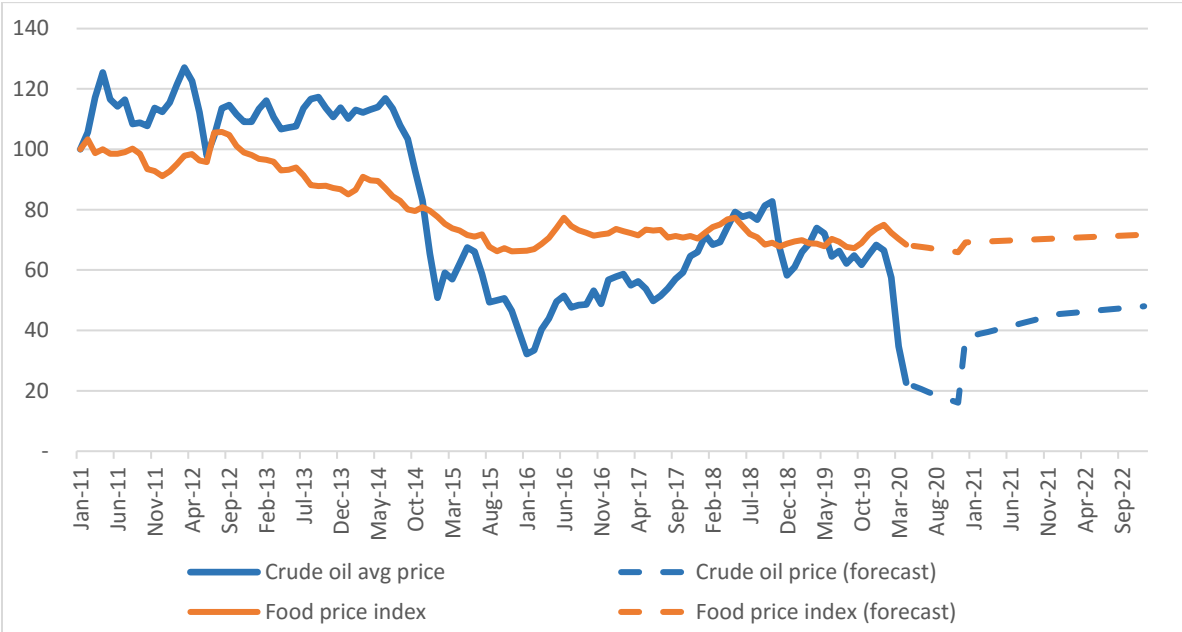
Oil prices are important to Timor-Leste both for consumers, through consumer prices, and as an oil exporting country. The average international price of crude oil has witnessed dramatic declines since June 2014 from highs of \$108.4 per barrel to lows of \$29.8 per barrel in January 2016. The decline in oil prices was driven by the increased global supply during a period of low global demand. Following this prices had started to recover with oil prices for 2019 averaging at \$61 per barrel. However, global demand for oil has drastically declined since the onset of the Coronavirus pandemic. Since the beginning of January 2020, many governments' around the world imposed restrictions on travel and temporary business closures to stem outbreak. Oil prices fell to \$21/barrel in April 2020, however, the average is expected to be \$35/barrel for 2020, down 43% from 2019. Prices are expected to rise to \$42/b in 2021.

AGRICULTURAL COMMODITY PRICES

A significant portion of the food consumed in Timor-Leste is imported and thus changes in international food prices can have a significant impact on both the rate of inflation and standard

of living. According to the World Bank Commodities Price Index (2011=100), international food prices have continued to decline from a high of 105.8 in August 2012, though prices had been stable averaging at 73 and 70 in 2018 and 2019 respectively. The World Bank is forecasting that food prices will fall marginally in 2020 and then recover in 2021 and 2022, however the increase is small, and overall food prices are expected to remain stable. Rice specifically is a staple part of the Timorese diet. The benchmark Thai 5% is expected to increase 8% in between 2019 and 2020, this will have a negative effect on poorer households where basic foods make up the majority of their spending and this will leave them with less disposable income. Coffee prices (both Arabica and Robusta) are expected to decrease 3% and 7% respectively in 2020, p this will negatively those families who rely on coffee production in Timor-Leste.

Figure 1: Commodity Price Indices



Source: World Bank Commodity Markets Outlook April 2020

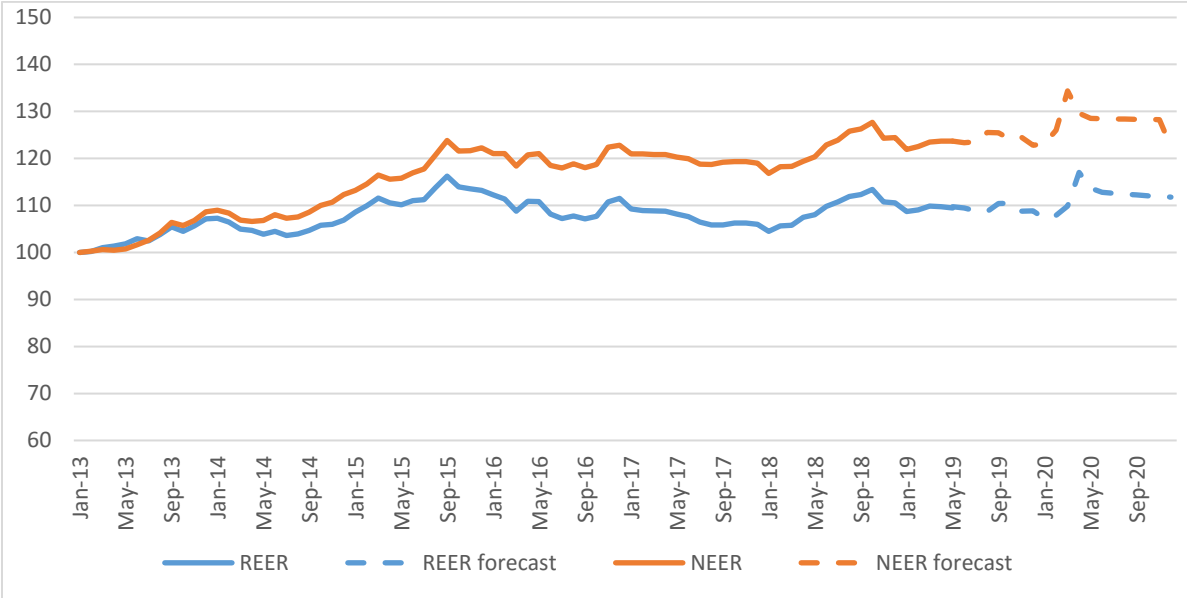
EXCHANGE RATES AND COMPETITIVENESS

Between (May) 2019 and (May) 2020 the US dollar appreciated by 4.6% against a weighted basket of currencies of Timor-Leste’s trading partners (the nominal effective exchange rate, NEER). There has been a small overall appreciation in the last few years which has reduced the price of imports, placing downward pressure on domestic inflation, benefiting Timorese consumers. However, this appreciation makes Timorese non-oil exports more expensive in international markets constraining the development of the country’s exports sector.

An inflation-adjusted measure of the exchange rate, the real effective exchange rate (REER), is a better measure of competitiveness. If inflation in Timor-Leste is lower than in other countries, this can help mitigate exchange rate appreciation. The REER has appreciated slightly less than the NEER, the former appreciated by 2.8% between (May) 2019 and (May) 2020, this difference is driven by the exchange rate changes captured in the NEER and lower inflation in Timor-Leste compared to its neighbours over the last year.

The inflation rate in Timor-Leste is expected to be lower than its neighbours in the near future as Southeast Asia is expected to have an average inflation rate of 1.8% in 2020, and so Timor-Leste can expect an improvement in competitiveness. This will help the Timorese export market be well-placed in the international market. While this is to be welcomed, the government is not complacent about the issue of competitiveness. A key priority is improving the business environment to encourage improved competitiveness, and the inflation target policy is a part of meeting the priority.

Figure 2: Exchange Rate Indices



Source: National Directorate of Economic Policy and Statistics Directorate, Ministry of Finance, 2020.

OVERALL IMPACT ON TIMOR-LESTE

The Global economic uncertainty will inevitably have a negative impact on the Timorese economy. As an oil exporting country, Timor-Leste heavily relies on revenue coming from oil,

therefore the fall in oil prices will result in a negative impact on the Petroleum Fund. However, the strong U.S. dollar is good for Timor-Leste as an import-dependent country, cheaper imports can be used for investments and development for the country. The stable commodity market has resulted in low and stable inflation in Timor-Leste with CPI reaching 0.2% year-on-year in March 2020. Although a low general price level is generally good for consumers, the rise in rice prices and fall in coffee prices in particular may negatively affect poorer households and those who rely on coffee production. Significant changes in prices will feed through to the living standards of Timorese consumers and are therefore being monitored closely.

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