

NATIONAL DIRECTORATE FOR ECONOMIC POLICY

INTERNATIONAL ECONOMIC UPDATE: APRIL 2021

EXECUTIVE SUMMARY

Global growth is projected to recover to 6 percent in 2021 following negative growth in 2020 and moderating to 4.4 percent in 2022. Growth for emerging and developing economies is projected to experience a stronger rebound than advanced economies growing at 6.7 percent and 5.1% in 2021 respectively. For Emerging and developing Asia growth is projected at 8.6 percent in 2021, this is the strongest expected recovery. The strong growth in 2021 mainly due to additional fiscal support by large economies and rapid vaccine rollout in the second half of 2021. However, the projected growth for 2021 is still uncertain and varies across countries depending on the degree of the health crisis, the extent of domestic disruptions to activity and the effectiveness of policy support to limit persistent damage. IMF projected that, the emerging and developing country especially for the tourism based-economies and commodity-dependent developing countries will not return to its pre-pandemic level until 2023. The disruptions of global commodity-based supply chains, falling commodity prices, and the travel restriction due to covid-19 are contributed to the decline growth projection for these countries. The rapid vaccine distribution is needed to prevent the spread of the virus and to recover the economy.

Table 1: Global and Regional Growth Rates (%)

Country	Actual		Forecast	
	2019	2020	2021	2022
World	2.8%	-3.3%	6.0%	4.4%
Advanced Economies	1.6%	-4.7%	5.1%	3.6%
Emerging and Developing Economies	3.6%	-2.2%	6.7%	5.0%
Emerging and Developing Asia	5.3%	-1.0%	8.6%	6.0%
China	5.8%	2.3%	8.4%	5.6%

Sources: IMF World Economic Outlook April 2021.

Advanced Economies. In advanced economies growth is projected at 5.1 percent in 2021 and to moderate to 3.6 percent in 2022 with the United States experiencing strong expansion of 6.4% in 2021.

- In the United States, growth is projected to grow at 6.4% in 2021 and 3.5% in 2022. The high expected growth in 2021 as the impact of the supportive fiscal stimulus and the progress on the rapid vaccine rollout.

Emerging and Developing Economies. Growth for Emerging and developing economy is projected to grow at 6.7% in 2021 and 5.0% in 2022. Among this group, China’s economy is already returned to pre-Covid level. Tourism based-economies within this group face a particularly difficult prospect considering the expected slow normalization of cross-border travel.

- Growth in China is expected to accelerate to 8.4 percent in 2021 and slow to 5.6 percent in 2022 reflecting global economic normalisation and China’s long term slowing economic trajectory due to structural and demographic changes.

Emerging and Developing Asia. Growth for this group is projected to grow at 8.6% in 2021 and 6.0 % in 2022 reflecting a stronger recovery than initially expected.

- Growth in India was projected to grow at 12.5 percent in 2021 and 2020. This projection is due to the strong private consumption and a stronger fiscal position that allows more government investment. However this is likely to be hampered by the recent explosion Covid cases.

GLOBAL INFLATION

Table 2: Global and Regional Inflation Rates (%)

Country	Actual		Forecast	
	2019	2020	2021	2022
World	3.5%	3.2%	3.5%	3.2%
Advanced Economies	1.4%	0.7%	1.6%	1.7%
Emerging and Developing Economies	5.1%	5.1%	4.9%	4.4%
Emerging and Developing Asia	3.3%	3.1%	2.3%	2.7%
Timor-Leste*	0.9%	0.5%	1.6%	1.7%

Sources: IMF World Economic Outlook April 2021. *Ministry of Finance forecast.

Consumer price inflation is projected to increase in 2021, with global inflation forecast at 3.5% by the IMF in 2021 compared to 3.2% in 2020. The increase in commodity prices, especially

rebound in oil prices following the fall in 2020, has contributed to the increase of consumer price inflation expectations in 2021.

In the advanced economies, inflation is projected to soften in the coming years. For emerging market economies, inflation has fallen reflecting the impact of currency appreciation making imports cheaper. Lower inflation in Timor-Leste than in the rest of Emerging and Developing Asia will help to improve competitiveness as Timor-Leste's exports are relatively cheaper.

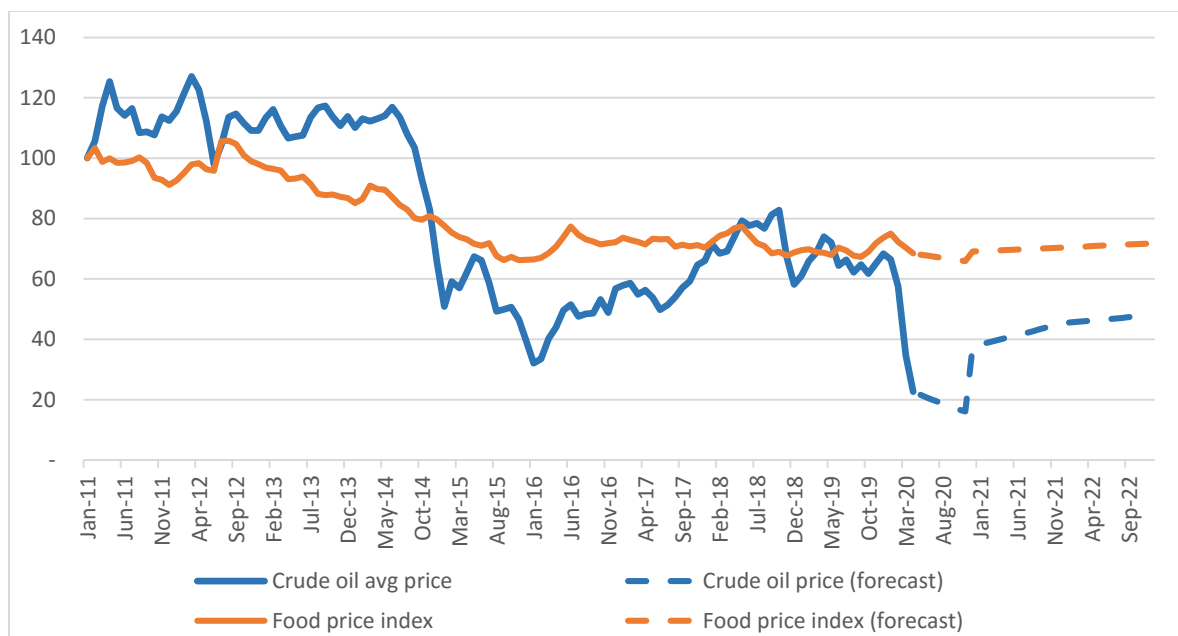
OIL PRICES

Oil prices are important to Timor-Leste both for consumers, through general import prices, and as an oil exporting country. The international price of Brent oil has witnessed dramatic declines since June 2014 from highs of \$112 per barrel. The decline in oil prices was driven by the increased global supply during a period of low global demand. The price of oil halved in the 1st quarter of 2020 year due to the fall in global demand during the height of the Covid-19 crisis, bottoming out at \$21.04 per barrel in April 2020, but prices have recovered since, increasing to \$63.83 per barrel in March 2021. The price of oil is now higher than it was before the start of the Covid-19 crisis in Dec 2019. This is also like to have a upward effect on general inflation in the near future. . This strengthening recovery has been driven by tight demand-supply balanced this year and the production cut by OPEC+, including Russia and other non-OPEC oil exporters. The oil price is projected to increase only moderately in the near future.

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 Prices Forecast, international food prices have continued to decline from 2011, though prices started to increase from of 96.8 in June 2016, reaching an average of 114.1 May 2021. The disappointing crop harvest and precautionary stockpiling due to Covid sent the food prices higher. The World Bank is forecasting that food prices will rise moderately throughout the rest of 2021 and 2022, however the increase is small. Coffee Prices (both Arabica and Robusta) are expected to increase to average of 5% in 2021, providing a solid basis for coffee exporters in Timor-Leste.

Figure 1: Commodity Price Indices



Source: National Directorate of Economic Policy and Statistics Directorate, Ministry of Finance, 2021

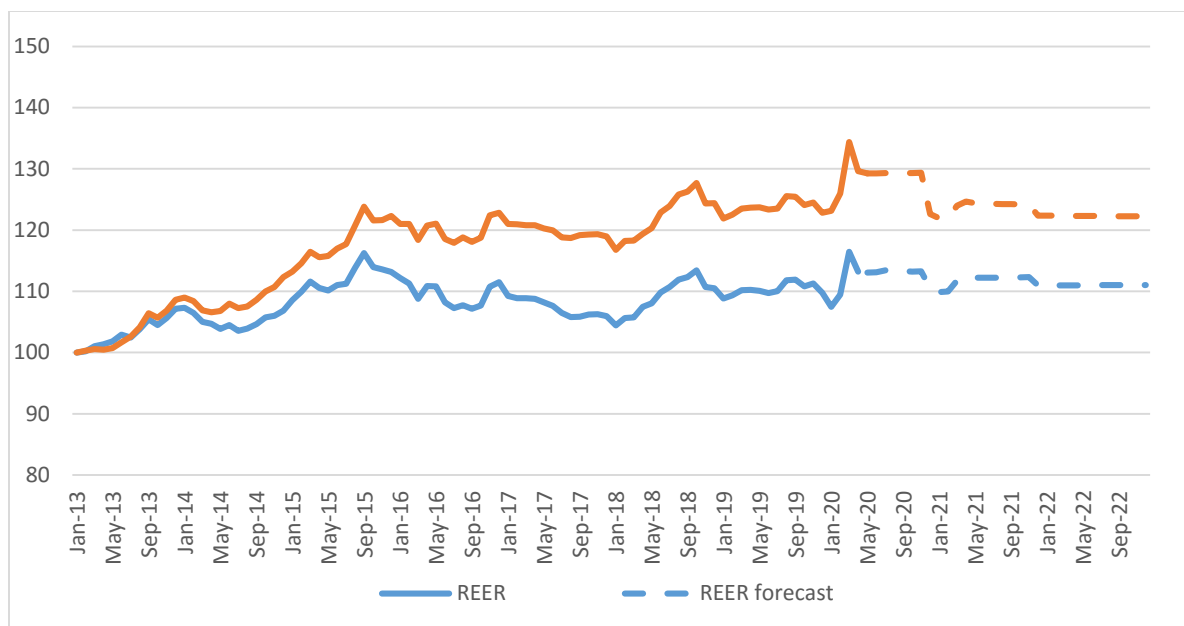
EXCHANGE RATES AND COMPETITIVENESS

Between April 2020 and April 2021 the US dollar depreciated by 3.8% 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. This depreciation makes Timorese non-oil exports eg coffee, cheaper in international markets help 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 depreciated by 3.5% between April 2020 and April 2021, 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, and so Timor-Leste can expect an improvement in competitiveness. This will help the Timorese export market be well-placed in the international market. A key priority is improving the business environment to encourage improved competitiveness.

Figure 2: Exchange Rate Indices



Source: National Directorate of Economic Policy and Statistics Directorate, Ministry of Finance, 2021.

OVERALL IMPACT ON TIMOR-LESTE

The overall global growth environment remains good for the Timorese economy: a rebound in global oil prices is positive for the Petroleum Fund; the prospect of medium term increases in coffee prices is welcome to Timorese coffee exporters; the stable commodity market has resulted in low and stable inflation in Timor-Leste with CPI reaching 0.3% year-on-year in April 2021 which is lower than neighbouring countries, this coupled with a small depreciation of currency should boost international competitiveness. Significant changes in prices will feed through to the living standards of Timorese consumers and are therefore being monitored closely.

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