

# NATIONAL DIRECTORATE FOR ECONOMIC POLICY

## INTERNATIONAL ECONOMIC UPDATE

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OCT 2021

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### GLOBAL GROWTH

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Global growth outlook is projected to grow at 5.9% in 2021. Advanced economies and emerging and developing economies are forecast to grow at 5.2% and 6.4% respectively in 2021. Vaccines access and early policy support are the principal drivers for growth. However, the rebound in 2021 is uncertain and depends on how fast the pandemic will fade. China is projected to grow at 8.0% in 2021 compared to last year which was 2.3%.

**Table 1: Global and Regional Growth Rates (%)**

Country	Actual		Forecast	
	2019	2020	2021	2022
World	2.8%	-3.1%	5.9%	4.9%
Advanced Economies	1.7%	-4.5%	5.2%	4.5%
Emerging and Developing Economies	3.7%	-2.1%	6.4%	5.1%
Emerging and Developing Asia	5.4%	-0.9%	7.2%	6.3%
China	6.0%	2.3%	8.0%	5.6%

Sources: IMF World Economic Outlook October 2021.

Global growth is projected to moderate at 4.9% in 2022, the advanced economy group is forecast to grow at 4.5%, while growth for the emerging market and developing economy group is forecast at 5.1%. The factors contributed to the slowdown growth in 2022 are the pandemic outbreak in low – income country, slower vaccines rollout and less policy support in emerging and developing economies as well as supply disruption in some advanced economy. These factors have contributed to the lower manufacturing activity in several countries that lead to increase in consumer price inflation. In spite of fact that, a lot of effort have been done in accommodating the public health requirement to prevent the spread of the virus, but some countries especially low income country are still struggling to overcome it. The projected recovery assumes that these policy actions are effective in preventing widespread firm bankruptcies, extended job losses, and system-wide financial strains.

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## GLOBAL INFLATION

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**Table 2: Global and Regional Inflation Rates (%)**

Country	Actual		Forecast	
	2019	2020	2021	2022
World	3.5%	3.2%	4.3%	3.8%
Advanced Economies	1.4%	0.7%	2.8%	2.3%
Emerging and Developing Economies	5.1%	5.1%	5.5%	4.9%
Emerging and Developing Asia	3.3%	3.1%	2.3%	2.7%
Timor-Leste*	0.9%	0.5%	2.9%	2.0%

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

Consumer price inflation is expected to increase, with global inflation forecast at 4.3% by the IMF in 2021. Rising inflation reflects the impact of higher demand and lower supply due to pandemic outbreak, supply disruption and weather disruption. The increase in oil prices, have contributed to the rise in consumer price inflation in the advanced economies, however this is projected to recover in the coming years. For emerging market economies, inflation has risen reflecting the impact of currency depreciation and higher commodity prices that lifting the prices of imported goods, but it is projected to moderate as the impact of tighter monetary policy. Inflation in Timor-Leste in 2021 is expected to rise at 2.9% compare to previous year at 0.5%- this is mainly due to the rebound in world oil prices pushing up import prices. Rising inflation in Timor-Leste can reduce the purchasing power of citizen, Timor-Leste's international competitiveness and investment.

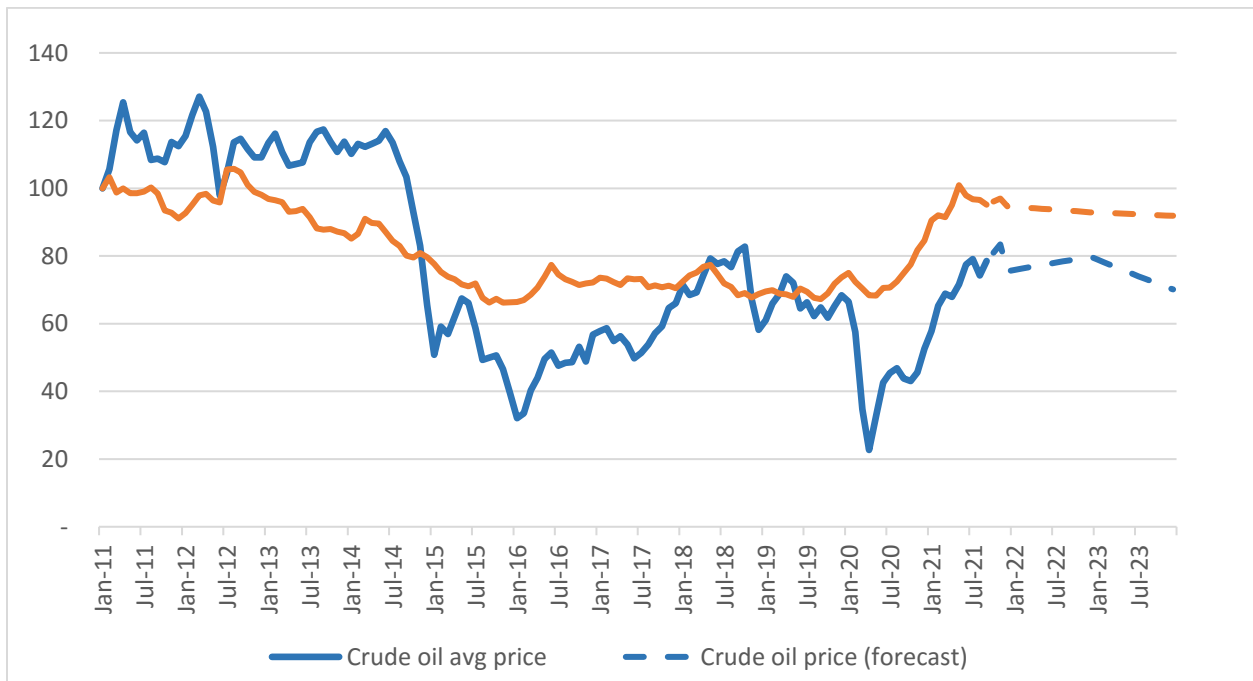
## OIL PRICES

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 \$116.9 per barrel to lows of \$32.1 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 \$22.7/barrel in April 2020, however, in July 2021 the prices of oil started to recover at \$79 per barrel. Prices are expected to slowdown 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 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 to 100.9 in July 2021. The increase in commodity prices in line with the supply disruption, pandemic outbreak and the weather disruption. Rice specifically is a staple part of the Timorese diet. The benchmark Thai 5% is expected to decrease to 21% in between Sept 2020 and Sept 2021, this will have a positive effect on poorer households where basic foods make up the majority of their spending. Coffee prices (Arabica) are expected to increase 35% in September 2021, this will positively benefited those families who rely on coffee production in Timor-Leste.

**Figure 1: Commodity Price Indices**



Source: World Bank Commodity Markets Outlook October 2021

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## EXCHANGE RATES AND COMPETITIVENESS

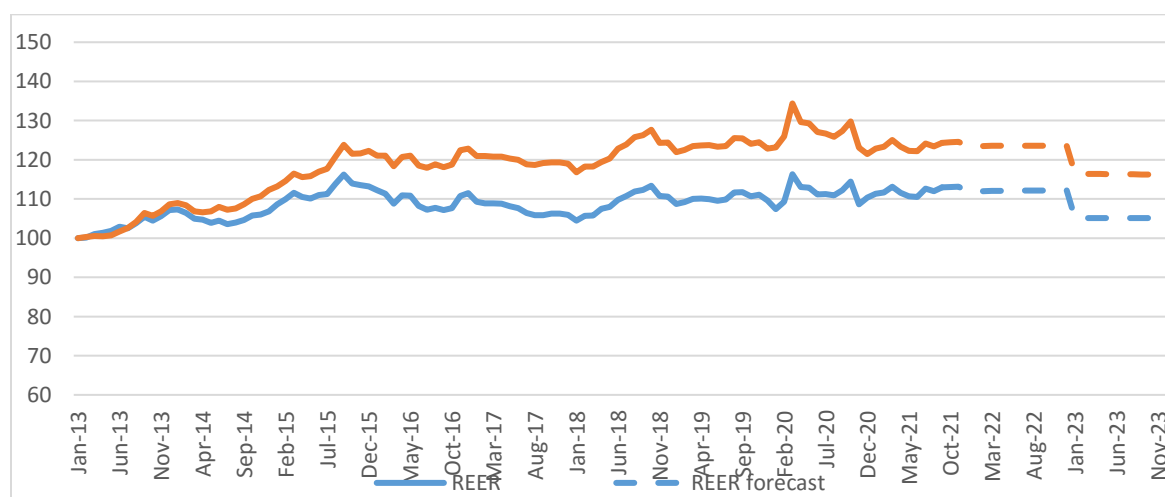
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Between (Sept) 2020 and (Sept) 2021 the US dollar depreciated by 3% against a weighted basket of currencies of Timor-Leste's trading partners (the nominal effective exchange rate, NEER). This depreciation increase the price of imports, increase the domestic inflation and not benefiting Timorese consumers. However, this depreciation also makes Timorese non-oil exports cheaper 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 than NEER, appreciated by 51% between (Sept) 2020 and (Sept) 2021, this difference is driven by the exchange rate changes captured in the NEER and higher inflation in Timor-Leste compared to its neighbours over the last year.

The inflation rate in Timor-Leste is expected to be slightly higher than its neighbours in emerging and Developing Asia in 2021 but expected to reverse in 2022. 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, 2021.

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## OVERALL IMPACT ON TIMOR-LESTE

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The Global economic uncertainty will inevitably have a negative impact on the Timorese economy. The rebound in oil prices is good for Timor-Leste as an oil exporting country, however this will have inflationary pressure through consumer import prices. However, the strong U.S. dollar is good for Timor-Leste as import-dependent country as 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 in recent years with only a recent uptick in CPI of 2.9% year-on-year in 2021. The decrease in rice prices and increase in coffee prices in particular may positively affect poorer households and those who spend the majority of their income on rice and who may 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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## CONTACT DETAILS

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