

NATIONAL DIRECTORATE FOR ECONOMIC POLICY

QUARTERLY INFLATION REVIEW

JANUARY -MARCH 2023

N.44

KEY STATISTICS

- In March 2023 (Year on Year, **YoY**) inflation in Timor-Leste rose to 9.6%. This is a large increase considering inflation at the same point last year was only 6.0%
- During the first quarter of 2023 (Quarter on Quarter, **QoQ**) inflation in the whole country was 4.9%. It was 2.3% the same time last year.
- Inflation in Dili (QoQ) was higher than in the municipalities outside of Dili (5.3% in Dili, while it was 6.1% outside of Dili).
- In March 2023, core inflation which excludes volatile categories such as food, was 6.8% when compared to the last year (YoY).
- The CPI category with biggest increase over the first quarter of the year was alcohol and tobacco at 21.2% (QoQ).
- Recreation and Culture and Education fell during the first quarter, falling 1.7% and 1.0% respectively (QoQ).
- The World Bank (WB) food price index decreased by 14% between March 2022 and March 2023 (YoY).
- In Timor-Leste food prices increased despite the fall in the global food price index, increasing in March by 10.9% (YoY) and 5.8% (QoQ).
- Rice is a main staple in Timor and the world price of rice rose by 13% in March 2023 (YoY) by 2% over the last 3 months.
- Coffee is Timor's most important non-oil export. The world price of coffee (Arabica) has decreased - 14% from March 2022 to March 23 (standing at \$4.90/kg).
- High inflation in the US and in Europe have led to increases in the central bank interest rates.
- The price of has decrease 32% from the same time last year, indicating a return to normality after disruption in global oil supply caused by the war Ukraine –World oil price is usually influenced by supply. A reduction or disruption in supply of oil

Normally increases the price, whereas an increase in the supply normally decreases the price. Oil is an important component of everyday products and involved in the supply chain of nearly all goods, so the increase in oil prices over the last year is a key reason behind higher inflation in Timor-Leste.

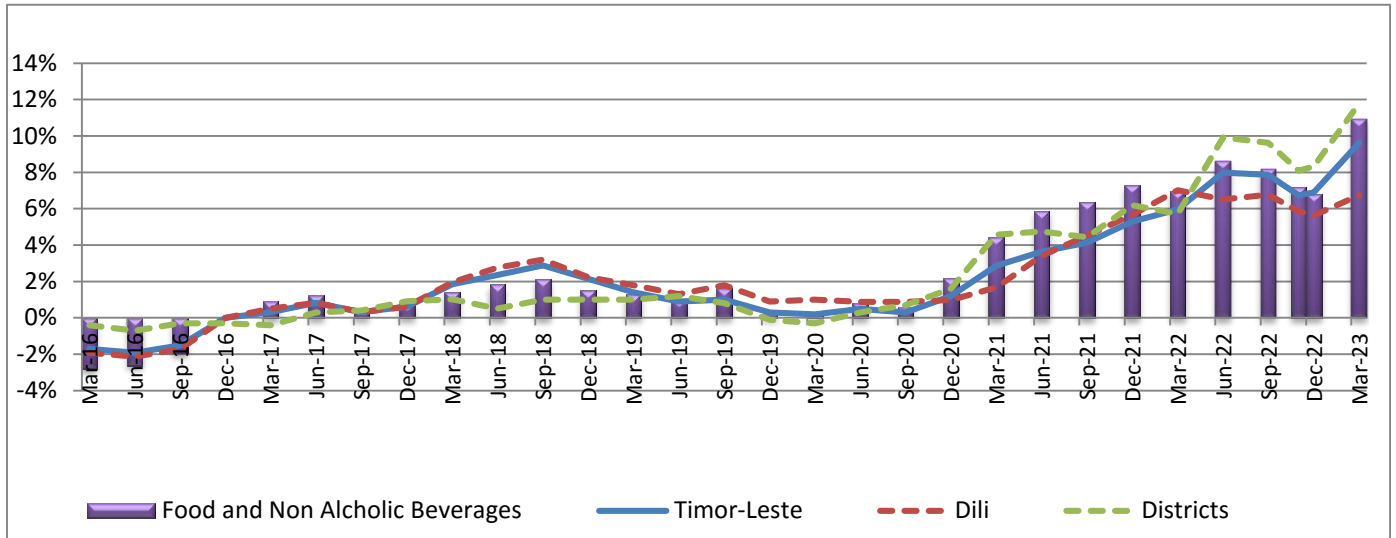
- Total government spending in Q1 2023 increased 26% compared to the same time last year.
- Money Supply in March 2023 increased by 1.9% compared to the previous year. However in a small open economy such as TimorLeste, without local currency: money supply does not have any systematic and plausible effect over inflation in Timor Leste.
- As a small open economy, the current level of inflation witnessed in Timor-Leste is largely a result of international markets.

Inflation Outlook	2018	2019	2020	2021	2022	2023*	2024*
Timor-Leste	2.3%	0.9%	0.5%	3.8%	7.0%	6.3%	5.0%

TRENDS IN INFLATION OVER TIME

In March 2023 YoY inflation in Timor-Leste was 9.6%; this means that a basket of goods and services that cost \$100.00 in March 2021 cost \$109.6 in March 2023— on average, prices are up compared to one year ago. Timor-Leste experienced deflation (average price level falling) during 2016 but then experience low stable inflation between 2017 and 2020. Since December 2020 there has seen a sustained increase in inflation due to a combination of Covid-19 and the war in Ukraine increasing world oil prices and disrupting supply chains. Due to the significant weight of food and non-alcoholic beverages in the CPI basket and the high proportion of food imported into Timor-Leste every year, international food prices remain one of the key drivers of the overall CPI rate. Inflation outside of Dili was 11.8% (YoY) which is slightly more than inflation in Dili which rose by 5.6% over the same period.

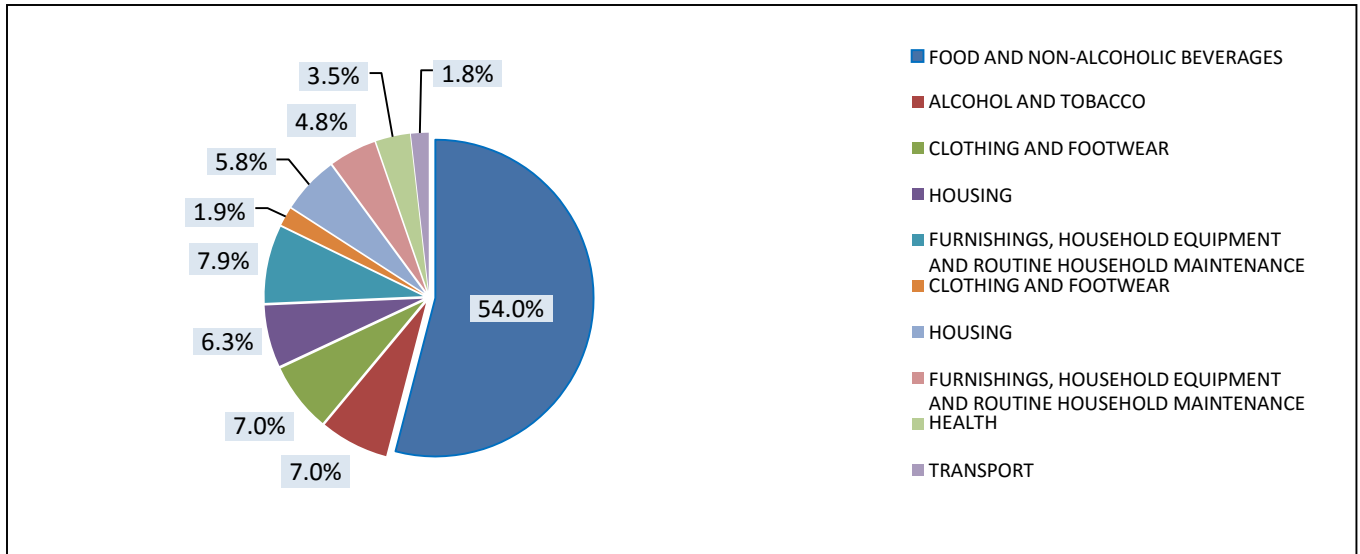
Figure 1: Year-on-Year Inflation in Timor-Leste over the last 5 years



TIMOR LESTE'S CPI BASKET

The Consumer Price Index (CPI)¹ is used to measure consumer price inflation. To understand CPI think of a large basket containing the goods and services bought by households, the CPI estimates the change to the total cost of the basket on a monthly basis. Food and non-alcoholic beverages represent 54% of Timor-Leste's CPI basket² as more than half of Timorese household expenditure is spent on this group. Thus price movements in this group will have a significant impact on the overall rate of inflation and the purchasing power of Timorese citizens.

Figure 2: Timor Leste's CPI Weights



Over the 12 months from March 2022 to March 2023 there have been significant *price changes* in the following spending classes³ :

¹ The CPI is a weighted index meaning that the influence on the CPI index of a given item is dependent on the item's share in total household consumption.

² Timor-Leste's CPI basket is made up of the ten expenditure groupings seen in Figure Two.

³ Expenditure classes are the sub-categories within an expenditure group in a CPI index

- Alcohol and Tobacco (+35.3%)- *biggest increase (this is largely due to government policy, an increase in taxes to deter consumption)*
- Food and non-alcoholic beverages (+10.9%)- *second biggest increase*
- Transport (+6.3%)- *third biggest increase*
- Recreation and Culture and Furnishing and Household Equipment decreased (1% and .2% respectively)

Despite these price changes for the groups mentioned above, contribution to overall inflation can be very different. **Contribution to inflation rate** measures the contribution to the overall rate of inflation of a grouping of goods and services, eg, the combination of its *price change and weight* within the series⁴. Therefore a small change in the growth rate of Food and Non Alcoholic Beverages can still have a big contribution to overall inflation due to it being the most important category as we can see below.

CAUSES OF INFLATION⁵

International Factors

Commodity Prices

As mentioned, due to the significant weight of food and non-alcoholic beverages in the CPI basket and the high proportion of food imported into Timor-Leste every year, international food prices remain one of the key drivers of the overall CPI rate. International food prices have increased significantly over the last year with the World Bank (WB) food price index decreasing 14% between March 2022 and March 2023. Domestic food prices have also been seeing an increase of 10.9% in the same time frame.

Rice specifically is a staple part of the Timorese diet. The international benchmark for rice prices increased 13% in March 2023 over the last year, this will have a positive effect on poorer households where basic foods make up the majority of their spending and this will leave them with more disposable income. Coffee prices (both Arabica and Robusta) Decreased 14% in March 2023 year on year. This will negatively affect those families who rely on coffee production in Timor-Leste.

Oil is an important component of everyday products and involved in the supply chain of nearly all goods, so the increase in oil prices over the last year is a key reason behind higher inflation in Timor-Leste. The price of oil decreased 32% from the same time last year, possibly indicating a return to normalcy after the disruption in global oil supply caused by the Ukraine-Russia War.

⁴ The contributions of each grouping will sum to give the overall rate of inflation

⁵ Within this section inflation refers to YoY inflation

Domestic Factors

Government Spending

Year on year total government expenditure increased in Q1 2022 by 26% indicating stronger execution in the run up to the election. However, the current rise in big inflation in Timor-Leste is likely the result of a combination of international factors for example, as a result the war in Ukraine, oil prices have increased and these have spread to all sectors.

Money Supply

Money supply increased by 2% from March 2022 to March 2023. However is a small open economy such as Timor-Leste, without local currency: money supply does not have any systematic and plausible effect over inflation in Timor-Leste.

Tradable vs Non-tradable (International vs Domestic pressures)

Tradable goods and services refer to those whose prices are largely determined on the world market, and all other goods and services are non-tradable. This enables splitting out the inflationary (or deflationary) pressures coming from international or domestic sources. In March 2023 non-tradeable (domestic) prices have been lower than the tradeable (international) prices, with non-tradeable prices growing at 3.0% vs tradeable prices growing 12.3% (YoY) in March 2023. This backs up the idea that the current level of inflation in Timor-Leste is largely determined by international markets.

CONSEQUENCES OF INFLATION

Inflation can cause households' purchasing power to fall. **Purchasing power** measures the quantity of goods and services which can be purchased with a unit of currency. Therefore inflation decreases the amount of goods and services a consumer is able to purchase with their monthly salary which can reduce living standards and may increase poverty.

INFLATION OUTLOOK

Inflation Outlook	2018	2019	2020	2021	2022	2023*	2024*
Timor-Leste	2.3%	0.9%	0.5%	3.8%	7.0%	6.3%	5.0%

⁶ Taking the average change in money supply for the last 12 months compared to the previous 12 months.

World food prices are due to fall in the short term which will ease the pressure on domestic inflation.

ANNEX 1: CONCEPTS AND TERMINOLOGY

Year-on-year (YoY) inflation is the most commonly used measure and is calculated by comparing the price index from a given period with the same month in the previous year. For example, the year-on-year inflation in March 2023 measures the percentage change in prices between March 2022 and March 2023.

Quarter-on-quarter inflation (QoQ) is calculated by comparing the price index from the last month of a given quarter (March, June, September or December) with the last month of the previous quarter. Eg QoQ inflation in March 2022 measures the percentage change in prices between January 2023 and March 2023.

Month-on-month inflation (MoM) is calculated by comparing the price index from the latest month to the previous month. Eg, MoM inflation in March 2023 measures the percentage change in prices between February 2023 and March 2023. Timor-Leste's Consumer Price Index is published monthly by General Directorate of Statistics (MPF)⁷.

ANNEX 2: NOTES

This bulletin is produced by the National Directorate for Economic Policy, Ministry of Finance, on a quarterly basis. Please refer any queries to the below contacts:

1. Epifanio Martins, *Director of NDEP*
Email: epmartins@mof.gov.tl
2. Nelio Francisco B.S. Mesquita, *Analyst*
Email: nmesquita@mof.gov.tl
3. Madhav Lala, *Advisor*
Email: mlala@mof.gov.tl

⁷ See for latest CPI data from the General Directorate of Statistics (<http://www.statistics.gov.tl/category/survey-indicators/consumer-price-index/?lang=en>)