ECONOMIC POLICY AND RESEARCH DEPARTMENT

MARKET INTELLIGENCE REPORT

GLOBAL AND DOMESTIC ECONOMIC DEVELOPMENTS AND MONETARY POLICY DECISIONS DURING THE FIRST QUARTER OF 2021

1. OVERVIEW

- During the quarter ending March 2021, the Monetary Policy Committees (MPC) across the globe met to discuss the state of their respective economies and determine the corresponding policy actions considering the prevailing developments. In the industrialised and emerging market economies, for example, the United Kingdom (UK), the United States of America (USA), the Eurozone, China and India decided to maintain their previous policy decisions in March 2021. However, the key economic indicators, particularly inflation and exchange rates, continued to portray different trends across these economies.
- Similarly, most of the reviewed countries within the Sub-Saharan African (SSA) region resolved to adopt a cautious monetary policy stance by maintaining their Policy rates despite the mixed performances in both inflation and exchange rates.
- In the domestic economy, the rate of inflation remained in single digit over the review period. However, the domestic currency continued to weaken against most of the major trading partners' currencies. Meanwhile, the MPC is scheduled to meet from 29th to 30th April, 2021 to decide on the next appropriate course of monetary policy, having maintained the Policy rate at its previous meeting in January 2021.

2. DEVELOPMENTS IN SELECTED INDUSTRIALISED AND EMERGING MARKETS ECONOMIES

2.1 Monetary Policy Decisions

- The **Bank of England (BoE):** At its meeting held on 17th March 2021, the BoE's MPC unanimously voted to maintain the Bank rate at 0.1 percent, similar to what was agreed during their December 2020 meeting. The Committee does not intend to tighten monetary policy until there is clear evidence that significant progress is being made in achieving the 2.0 percent inflation target sustainably.

- The **Federal Monetary Committee (FMC)**: The FMC also met from 16th to 17th March 2021 and decided to maintain their December 2020 policy decision of keeping the federal funds rate between 0 to 0.25 percent. The FMC kept the target range unchanged due to the economic fallout caused by the ongoing public health crisis. Despite economic activity gaining momentum in recent months and the approval of a third stimulus package in March 2021, employment levels are expected to remain below their pre-pandemic levels in the short term and the sectors mostly affected by the COVID-19 pandemic restrictions remain depressed. Moreover, price pressures are seen to remain muted in the near term, with inflation coming in below the Fed's 2.0 percent target rate in February 2021.

- The **European Central Bank (ECB)**: The MPC members of the ECB agreed to leave the interest rate on the main refinancing operations, marginal lending facility and the deposit facility unchanged at 0.00 per cent, 0.25 per cent and negative 0.50 per cent, respectively, as decided at their December 2020 meeting. This decision was made in order to reconfirm the current configuration of existing monetary policy instruments. The Governing Council expects the key ECB interest rates to remain at their present or lower levels until it has seen the inflation outlook robustly converging to a level sufficiently close to, but below, 2.0 percent within its projection horizon.

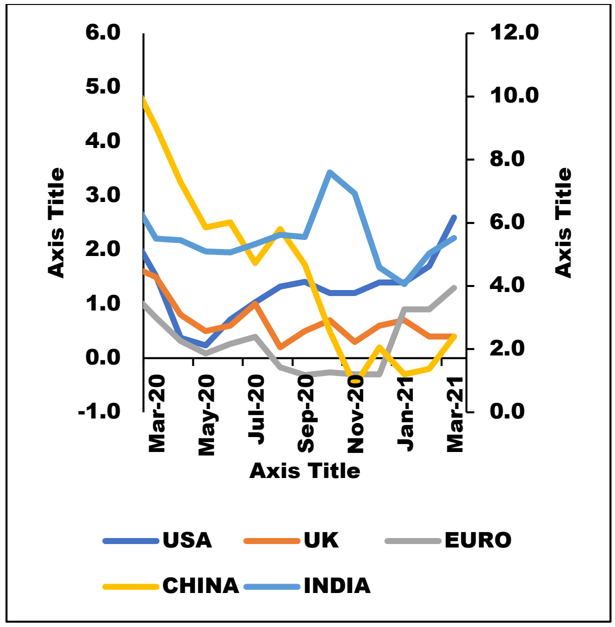
- **The Norges Bank** (NB): The NB's Monetary Policy and Financial Stability Committee unanimously voted to keep the Policy rate unchanged at zero percent in March 2021, similar to its December 2020 meeting's decision. In the Committee's current assessment of the outlook and balance of risks, it is indicated that the Policy rate will most likely be raised in the latter half of 2021 because economic activity is slowly picking up since spring 2020 and a large portion of the adult population in Norway will have been vaccinated before the end of summer in 2021, thereby leading to easing of the COVID-19 pandemic containment measures. At the same time, global economic developments are better than expected. This may result in a faster pick-up in economic activity than previously projected.

- **Reserve Bank of India**: The Indian MPC met from 5th to7th April 2021 and also agreed to maintain their December 2020 decision by keeping the Policy repo rate under the Liquidity Adjustment Facility (LAF) unchanged at 4.0 percent. The MPC unanimously decided to continue with the accommodative stance as long as necessary, to sustain growth on a durable basis and continue to mitigate the impact of the COVID-19 pandemic on the economy, while ensuring that inflation remains within the target going forward.

2.2 Inflation Developments

- In the Eurozone, inflation rate surged to 1.3 percent in March 2021 from 0.3 percent in December 2020. The March 2021 outturn was influenced by increased costs of energy and non-energy industrial goods, food, alcohol and tobacco.
- Similarly, the March 2021 inflation rate for the USA economy edged up to 2.6 percent from the December 2020 position of 1.4 percent. The upsurge largely reflected rising prices of energy, used cars and trucks, shelter and new vehicles.
- The Indian economy recorded a higher inflation rate of 5.5 percent in March 2021 than 4.6 percent in December 2020. This development was a result of high commodity prices and economic recovery.
- China's inflation rate also rose to 0.4 percent in March 2021 from 0.2 percent in December 2020. The increase was induced by a sharp rebound in costs of non-food goods including transportation and communication.

Chart 1: Inflation Rates in Selected Industrialised and Emerging Market Economies



- On the contrary, the UK recorded a slight decrease in inflation rate to 0.4 percent in February 2021 from 0.6 percent in December 2020. Easing pressures emanated from a fall in prices for clothing and footwear and second-hand cars. However, the Bank of England expects inflation to rise towards the BoE's 2.0 percent target during the first half of 2021, mainly due to a combination of high energy prices, economic recovery and Brexit-related supply-chain challenges.

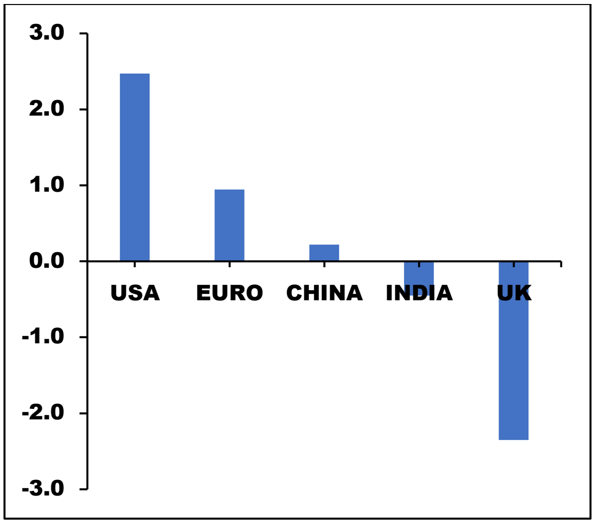
2.3 Exchange Rate Developments

- Exchange rate developments in industrialised and emerging market economies were also mixed (see Chart 2).[1]
- The British Pound sterling and Indian Rupee appreciated against the US Dollar, implying that the US Dollar depreciated against these currencies. Specifically, the British Pound Sterling and Indian Rupee recorded respective appreciations of 2.4 percent and 0.5 percent while the Euro and the Chinese Yuan lost 0.9 percent and 0.2 percent in

[1] Unlike all countries whose exchange rates have been expressed in terms of the US Dollar, the US exchange rate was expressed in terms of the British sterling, which was chosen considering that it is the strongest currency globally.

March 2021 on the end-December 2020 levels, respectively.

Chart 2: Exchange Rates in Selected Advanced Economies in March 2021 Against December 2020



- Regarding the year-on-year movements, the British Pound Sterling, Indian Rupee, Chinese Yuan and the Euro appreciated by 10.0 percent, 7.6 percent, 5.7 percent and 2.4 percent, respectively, against the US Dollar.

3. DEVELOPMENTS IN SELECTED SUB-SAHARAN AFRICAN ECONOMIES

3.1 Monetary Policy Decisions

- The **Bank of Uganda (BoU)**: At its MPC meeting held on 14th April 2021, the BoU maintained the central bank rate at 7.0 percent as decided in December 2020. The decision was made against the backdrop that there was still considerable uncertainty surrounding current and expected macroeconomic developments facing the economy, which warrant keeping the monetary stance accommodative.

- The **South African Reserve Bank (SARB)**: The SARB MPC also agreed to maintain its December 2020 decisions by keeping the Repo rate at 3.50 percent in March 2021. The Committee decided to continue with accommodative monetary policy and keep financial conditions supportive of credit demand to support the economy as it recovers from the COVID-19 pandemic-related recession.

- **The Central Bank of Nigeria (CBN)**: The CBN's MPC met from 22nd to 23rd March 2021 through which it maintained the Policy rate at the December 2020 decision of 11.5 percent. In arriving at this conclusion, the Committee was of the view that this would allow for the use of various intervention mechanisms to deploy liquidity into employment creation and output stimulating sectors of the economy, to induce the country's recovery process from effects of the COVID-19 pandemic.

- **Bank of Tanzania (BOT)**: The BOT's MPC was held on 6th April 2021 and it also decided to maintain the Policy rate at 7.0 percent, as was during its December 2020 meeting. The decision to continue with the accommodative policy stance was taken to facilitate a fast-economic growth through increased lending to the private sector. This development was also in line with BOT's objective of achieving an inflation rate of the range 3.0 to 5.0 percent in 2020/21.

- The **Central Bank of Kenya (CBK)**: Similarly, the MPC of the CBK decided to retain the central bank rate at 7.0 percent during its meeting held on 29th March 2021, just as it had agreed during its meeting in November 2020. The Committee noted that the package of policy measures implemented over the last year had protected the economy from a substantial contraction, and supported the most vulnerable citizens. Thus, the MPC concluded that the current accommodative monetary policy stance remained appropriate.

- **Bank of Mozambique:** The Mozambican MPC met in March 2021 and decided to maintain the Policy rate at 13.25 percent, after raising it by 300 basis points in January 2021 (from 10.25 percent in December 2020). This decision was taken to address domestic risks and uncertainty regarding the evolution of the COVID-19 pandemic, the impact of natural disasters and the duration of military instability affecting the northern part of the country. Meanwhile, the Mozambican economy is expected to recover slightly in 2021, mainly supported by expectations of a resumption in external demand as a result of progress in vaccinations; the adoption of fiscal stimulus packages; and the progressive easing of the COVID-19 restrictions.

- **Bank of Namibia.** On the 13th of April 2021, the MPC of the Bank of Namibia held its bi-monthly meeting and decided to preserve its previous made in December 2020 by keeping the REPO rate at

3.75 percent. The decision was taken following a review of global, regional and domestic economic and financial developments. The MPC was of the view that at 3.75 percent, the Repo rate remained appropriate to continue supporting the weak domestic economy while at the same time safeguarding the one-to-one link between the Namibia Dollar and the South African Rand.

- The **Bank of Zambia (BoZ)**: The MPC of BoZ, at its meetings held from 15th to 16th February 2021, agreed to adjust the Monetary Policy Rate upwards by 50 basis points to 8.5 percent, from a hold position of 8.0 percent in November 2020. The decision was necessitated by the escalation in inflationary pressures, which are pushing inflation further away from the upper bound of the 6.0 to 8.0 percent target range. This decision balanced the need to contain rising inflation and anchor inflation expectations against the effort made to support financial system stability and growth. The BoZ's MPC members were of the view that ensuring that inflation remained well anchored in the medium-term was essential to moderate fragilities in the financial sector and support economic recovery.

3.2 Inflation Developments

- Zambia's inflation rate continued to rise and stood at 22.8 percent in March 2021 from 19.2 percent in December 2020, the highest since February 2016. Both food and non-food inflation contributed to the increase.
- Similarly, Mozambique's inflation rate rose to 5.8 percent in March 2021 from 3.6 percent in December 2020. The upsurge was attributed to a continued escalation in costs of food and non-alcoholic beverages, as the northern regions of the country continue to face a military and humanitarian crisis, in addition to the restraints caused by the global COVID-19 pandemic with respect to food availability.
- In Angola, inflation rate also edged up to 27.3 percent in March 2021 from 25.1 percent in December 2020. The March 2021 level marked the sharpest increase in prices since September 2018. The main source of the upward pressure was rising prices of food and non-alcoholic beverages, health, transport and leisure.
- Kenya's inflation rate rose to 5.9 percent in March 2021 from 5.6 percent recorded in December 2020. The outturn was attributed to an increase in transport prices amid a recent hike in fuel prices owing to the rising cost of importing oil products.
- The Nigerian economy also experienced a higher inflation rate in March 2021 of 18.2 percent than 15.8 percent recorded in December 2020. The acceleration in inflation was attributed to the continued negative impact of the COVID-19 pandemic which has induced a slump in oil prices and weakened the Naira currency, thereby fueling non-food inflation pressures.
- Botswana recorded an increase in inflation rate to 3.2 percent in March 2021 from 2.2 percent in December 2020. This was influenced by an upsurge in food prices. The March 2021 level was the highest since March 2019.
- Similarly, the inflation rate for the Namibian economy rose to 3.1 percent in March 2021 from 2.4 percent in December 2020. The main upside pressures emanated from prices of items under the food and non-alcoholic beverages component.
- Uganda's inflation rate also increased to 4.1 percent in March 2021 from 3.6 percent in December 2020. The outturn was on account of rising prices for transport services, food and non-alcoholic beverages.
- In South Africa, inflation rate marginally increased to 3.2 percent in March 2021 from 3.1 percent in December 2020. Pressures emanated from food and non-alcoholic beverages; housing and utilities; transport; and miscellaneous goods and services.
- On the contrary, inflation rate for the Ghanaian economy decreased, albeit marginally, to 10.3 percent in March 2021 from 10.4 percent in December 2020. This development reflected largely a slowdown in food inflation.
- Similarly, the Rwandan economy recorded a lower inflation rate in March 2021 of 1.7 percent than 3.9 percent reported in December 2020. The March 2021 rate was Rwanda's lowest since July 2019. The decrease was attributed to a decline in prices for goods under the food and non-alcoholic beverages component.
- Meanwhile, the March 2021 inflation rate for Tanzania remained unchanged as in December 2020, at 3.2 percent.

3.3 ***Exchange Rate Developments***

- Exchange rate developments showed that currencies of some SSA member countries appreciated against the US Dollar in March 2021 while others experienced depreciations.
- The most hit currency was the Zambian Kwacha, which depreciated by 2.1 percent due to widening of demand and supply imbalances. This was followed by the Rwandan Franc at 0.6 percent.
- However, as shown in chart 4 some countries saw their currencies appreciating against the US Dollar in March 2021: notably Angola (3.0 percent), South Africa (2.8 percent), Namibia (1.1 percent), Botswana (0.7 percent), and Uganda (0.6 percent).

4. DOMESTIC DEVELOPMENTS

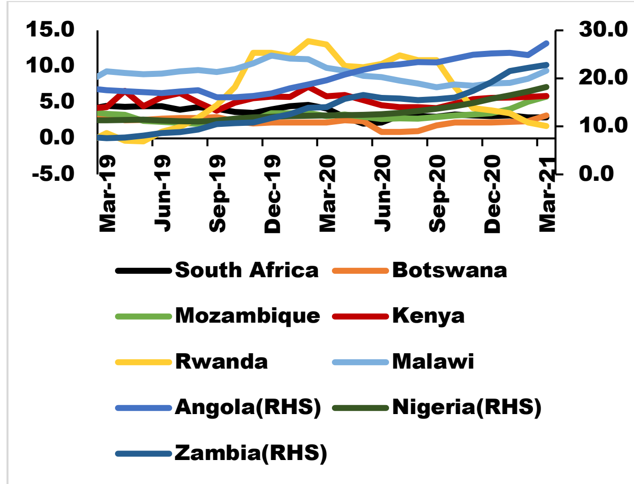
4.1 Monetary Policy Decisions

- Like most of the reviewed countries, the RBM's MPC also decided to maintain the Policy rate at 12.0 percent; the Liquidity Reserve Requirement (LRR) ratio on domestic and foreign deposits at 3.75 percent; and the Lombard rate at 20 basis points above the Policy rate during their recent meeting held on 28th and 29th April 2021. The MPC decided to continue with accommodative monetary policy in order to support and sustain economic recovery which is taking its course, whilst at the same time managing risks to the inflation outlook.

4.2 Inflation Developments

- Headline inflation rate increased to 9.4 percent in March 2021 from 7.6 percent in December 2020. The upsurge was attributed to an increase in non-food inflation which, in turn, reflected largely the upward adjustments in fuel pump prices effected on 17th December 2020 and 9th March 2021 and the continued depreciation of the kwacha.
- As shown in chart 3, Malawi continues to perform relatively well on maintain inflation in single digits than Angola, Nigeria and Zambia, but the performance remains poor when compared to countries like Mozambique, Botswana, Kenya and South Africa.

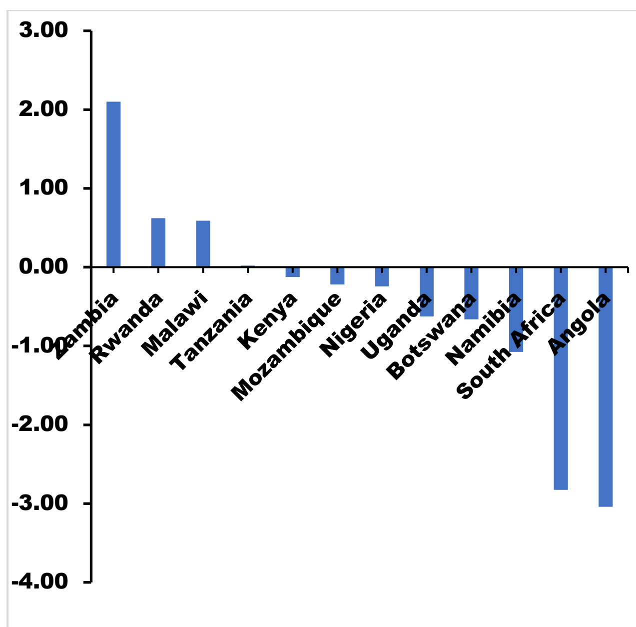
Chart 3: Inflation Rates in Selected SSA Countries



4.3 Exchange Rate Developments

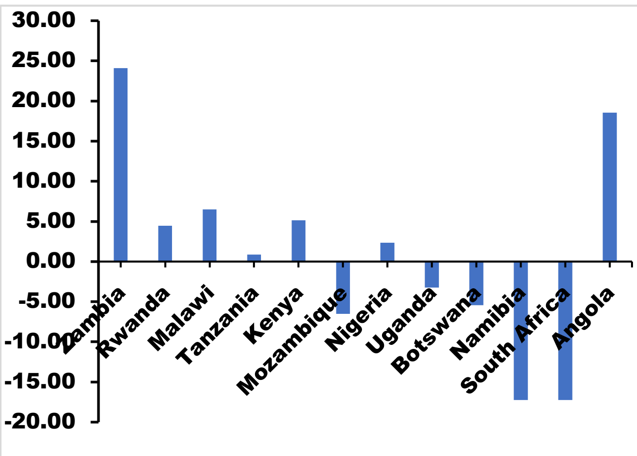
- The Malawi kwacha was also among the regional currencies which continued to be under pressure during the review period, as supply of foreign exchange remained insufficient to satisfy the prevailing demand. Specifically, the local unit lost 2.69 percent in value against the US dollar between December 2020 and March 2021, compared to a loss of 2.09 percent between September and December 2020.

Chart 4: Monthly changes in Local Currency per US Dollar in March 2021 Against December 2020



- Annually, the kwacha lost 6.5 percent against the USD between March 2020 and March 2021. However, as revealed by Chat 5, the pressures being experienced by the kwacha are fairly more subdued than those of currencies of most of the selected SSA countries. For example, the year-on-year exchange rate developments for the period under review indicated that the South African rand and Namibian dollar appreciated by 17.2 percent each, while the Mozambican Metical, Botswana pula and the Ugandan shilling appreciated by 6.5 percent, 5.4 percent and 3.2 percent, respectively.
- Meanwhile, the Zambian kwacha, the Angolan kwanza, Kenyan shilling, Rwandan franc, the Nigerian naira and the Tanzanian shilling registered year-on-year depreciations of 24.1 percent, 18.6 percent, 5.2 percent, 4.5 percent, 2.3 percent, and 0.9 percent in March 2021, respectively (see chart 5).

Chart 5: Annual changes in Local Currency per US Dollar as of end-March 2021



CONCLUSION

During the period under review, majority of the economies, both globally and regionally, resolved to maintain their Policy rates in order to allow the economies to recover from the impacts of the COVID-19 pandemic.

The cross-country analyses suggest mixed inflation performance during the quarter ending March 2021 in both industrialised, emerging markets and regional economies as some experienced a decline in inflation rate while others recorded an increase. Similarly, exchange rate developments for the reviewed countries showed varied performance as countries were still wavering the impact of the COVID-19 pandemic.

Domestically, the outlook suggests that rising fuel prices will be the primary source of upside risks to inflation as easing of the COVID-19 restrictions is expected to induce global demand for this commodity. This could be exacerbated by persistent depreciation of the kwacha given that, despite the commencement of tobacco sales, the outstanding foreign exchange demand could take time to be cleared. However, the onset of the 2020/21 food crop harvest in 2021Q2 could somewhat suppress the anticipated upside pressures. According to the second round agricultural crop estimates, maize crop production is estimated to increase, annually, by 18.3 percent to 4.5 metric tonnes during 2020/21.