



ECONOMIC POLICY AND RESEARCH DEPARTMENT

MARKET INTELLIGENCE REPORT FOR MAY 2021

1. OVERVIEW

- In May 2021, the cross-country developments in key economic indicators remained mixed. All the selected industrialised and emerging market economies namely: the United Kingdom (UK), the Eurozone, the United States of America (USA), China and India, recorded higher inflation rates than in April 2021 following the gradual easing of the COVID-19 pandemic lockdown measures. However, within the Sub-Saharan Africa (SSA) region, few of the selected countries, including Malawi, experienced moderate inflation.
- With respect to exchange rate developments, currencies of all the selected countries in the industrialised and emerging market economies group appreciated against the US dollar, while the SSA region depicted mixed trends.
- On the domestic front, inflation decelerated in May 2021, while the exchange rate continued to weaken against currencies of most major trading partners.

2. DEVELOPMENTS IN SELECTED INDUSTRIALISED AND EMERGING MARKET ECONOMIES

2.1 Inflation Developments

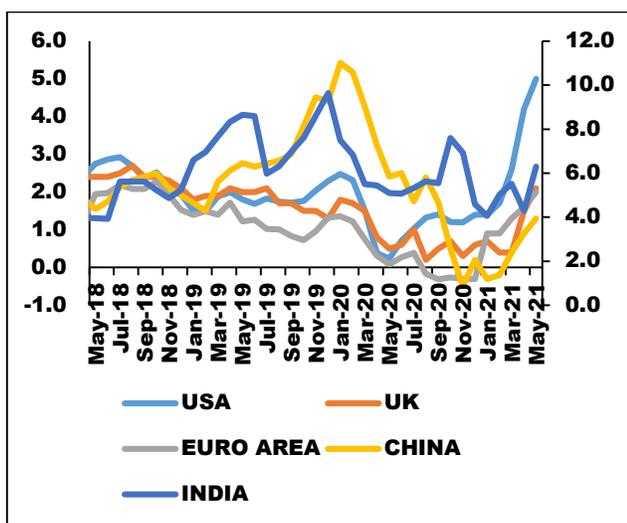
- The UK's inflation rate increased to 2.1 percent in May 2021 from 1.5 percent in the previous month and was above the market forecast of 1.8 percent. The May outturn was the highest rate since July 2019. The upturn reflected the impact of the ongoing economic recovery and reopening efforts after the national

lockdown to contain the spread of the COVID-19 pandemic.

- In the USA, inflation rate also accelerated to 5.0 percent in May 2021 from the preceding month's position of 4.2 percent, and was the highest reading since August 2008. At the May level, the rate of inflation was also above the market forecast of 4.7 percent. The surge was a result of growing consumer demand as the economy continued to reopen, thereby pushing up commodity prices. Furthermore, there was a rise in prices of gasoline of 56.2 percent in May 2021 following another increase of 49.6 percent in April 2021.
- The Euro Area also recorded a higher inflation rate of 2.0 percent in May 2021 than 1.6 percent recorded in the preceding month. The May 2021 level was the highest since October 2018. The upturn was equally due to a sharp rebound in consumer demand following the reopening of member states, which induced price increases in various commodities. For instance, energy prices rose by 13.1 percent in May 2021 compared to 10.4 percent in the previous month.
- Similarly, in the emerging market economies the Indian economy experienced an upsurge in the rate of inflation to 6.3 percent in May from 4.2 percent in April 2021. The May outturn was also above the market forecast of 5.3 percent. The surge was attributed to the impact of increased global commodity prices including crude oil, edible oils and gold.

- China's inflation rate also rose to 1.3 percent in May 2021 from 0.9 percent in the preceding month, but was below the market consensus of 1.6 percent. At the May 2021 position, the Chinese inflation rate was also the highest reading since September 2020. The upturn was driven by a faster increase in costs of non-food goods (1.6 percent in May 2021 from 1.3 percent in April 2021) which, in turn, was a result of a surge in inflation rate for the transportation and communication sector, to 5.5 percent in May 2021 from 4.9 percent in the preceding month.

Chart 1: Inflation Rates for Selected Industrialised and Emerging Market Economies (in percent)

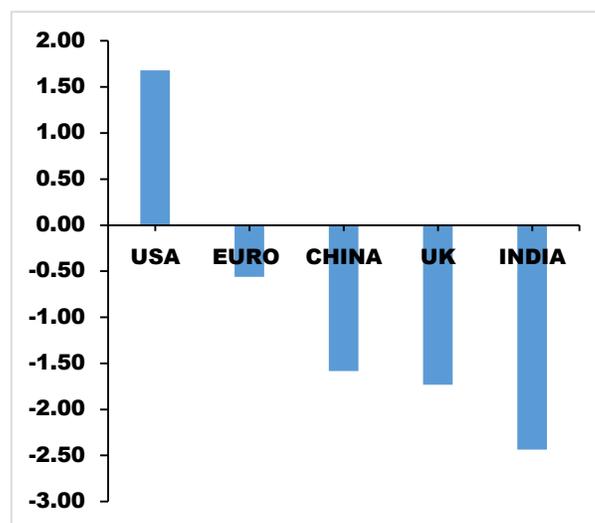


2.2 Exchange Rate Developments

- Currencies of all the selected industrialised and emerging market economies recorded monthly appreciations against the US dollar during May 2021 (see Chart 2).¹
- The Indian rupee appreciated by 2.4 percent, the British pound sterling gained 1.7 percent, while the Chinese yuan and the euro strengthened by 1.6 percent and 0.6 percent in May 2021, respectively.

¹ Unlike all countries whose exchange rates have been expressed in terms of the US Dollar, the US exchange rate was expressed in

Chart 2: Monthly Percentage Changes in Exchange Rates for Selected Advanced and Emerging Market Economies as of end-May 2021



- Similarly, the year-on-year exchange rate movements indicate that all the selected advanced and emerging market economies had their currencies appreciating against the US dollar during May 2021. Specifically, the British pound sterling gained 13.3 percent, the Chinese yuan strengthened by 10.3 percent while the euro and Indian rupee appreciated by 8.9 percent and 4.5 percent, respectively. Meanwhile, the US dollar recorded an annual depreciation of 15.3 percent against the British pound sterling during the period under review.

3. DEVELOPMENTS IN SELECTED SUB-SAHARAN AFRICAN ECONOMIES

3.1 Inflation Developments

- Within the SSA region, most of the selected countries also experienced heightened inflationary pressures during the month under review. For example, the Zambian economy saw its inflation rate rising to 23.2 percent in May 2021 from 22.7 percent in the previous month, the highest inflation rate since March 2005. This development was partly attributed to the effects of the exchange rate depreciation and rising food prices that raised food inflation rate to 28.5 percent in May from 27.2 percent in April 2021. Zambia's inflation rate has been above the upper

terms of the British sterling, which was chosen considering that it is the strongest currency globally.

bound of the central bank's target range of 6.0 percent to 8.0 percent for more than two years, and is expected to stay above the target range until at least the first quarter of 2023.

- Mozambique's inflation rate also rose to 5.5 percent in May 2021 from the preceding month's position of 5.2 percent. The outturn reflected elevated prices mostly for food and non-alcoholic beverages, as severe food shortages persist in the country.
- In Angola, inflation rate increased in May 2021, albeit marginally, to 24.9 percent from 24.8 percent in April 2021.
- The inflation rate in Kenya also rose marginally to 5.9 percent in May 2021 from 5.8 percent in the preceding month. The development was mainly attributed to an increase prices under the transport, food and non-alcoholic beverages components.
- Similarly, Botswana's inflation rate surged to 6.2 percent during the month under review, from 5.6 percent in April 2021. The May 2021 rate was the highest since April 2013. The upsurge was driven by an increase in inflation rate for the transport category to 8.9 percent from 7.4 percent in April 2021.
- In South Africa, inflation rate soared to 5.2 percent in May 2021 from 4.4 percent in the preceding month and matched the market expectations. The May 2021 rate was above the 4.5 percent midpoint of the South African Reserve Bank's monetary policy target range of 3.0 percent to 6.0 percent. The increase in inflation rate during the review month was influenced by rising prices for items under the transport component that saw its inflation rate rising to 15.3 percent in May 2021 from 10.6 percent in the previous month. Notable among them was fuel which increased by 37.4 percent compared to 21.4 percent in April 2021.
- Meanwhile, the May 2021 inflation rate for the Tanzanian economy remained unchanged at the April 2021 position of 3.3 percent.
- The above notwithstanding, some SSA countries saw their rate of inflation moderating in May 2021. Notably, Nigeria's inflation rate eased for the second straight month to 17.9 percent from 18.1 percent in April 2021. The outturn was a result of subdued price pressures for items under the food and non-alcoholic beverages and tobacco category which, in turn,

resulted in a lower inflation rate for this group to 22.3 percent in May 2021 than 22.7 percent recorded in April 2021.

- Inflation in Ghana fell to 7.5 percent in May 2021, from 8.5 percent in the previous month, due to an on-going decline in food inflation. Food inflation decelerated to 5.4 percent in May 2021, from 6.5 percent in April 2021. Non-food inflation was at 9.2 percent, from 10.2 percent record in the previous month.
- Similarly, in Namibia, inflation rate decreased, albeit marginally, to 3.8 percent in May 2021 from 3.9 percent in the previous month. The decline was supported by relatively low prices for items under the alcoholic beverages and tobacco components.
- Inflation rate in Uganda also dropped to 1.9 percent in May 2021 from 2.1 percent in April 2021. The downturn was explained by a slowdown in food prices.
- Rwanda's inflation rate decelerated sharply to 0.4 percent in May 2021 from 2.7 percent in the previous month. The May rate was the lowest level since May 2019. The downturn was largely influenced by deflations observed under the transport, and food and non-alcoholic beverages components. In particular, the transport category recorded a deflation of 15.5 percent in May 2021 compared to an inflation rate of 2.3 percent in April 2021. This was complemented by a deflation in the food and non-alcoholic beverages component of 1.0 percent in May 2021, from an inflation rate of 0.4 percent in the preceding month.

3.2 Exchange Rate Developments

- Regarding the exchange rates, currencies of the Nigerian, Zambian and Kenyan economies weakened against the US dollar during May 2021, while the rest of the reviewed economies recorded either appreciations or trivial changes compared to the April 2021 positions. The most depreciated currency was the Nigerian naira which lost 8.0 percent between April and May 2021, followed by the Zambian kwacha at 1.2 percent.
- However, as noted from Chart 4, the South African rand and Namibian dollar recorded the most gain of 3.6 percent each, against the US dollar followed by the Mozambican metical at 2.4 percent; the Angolan

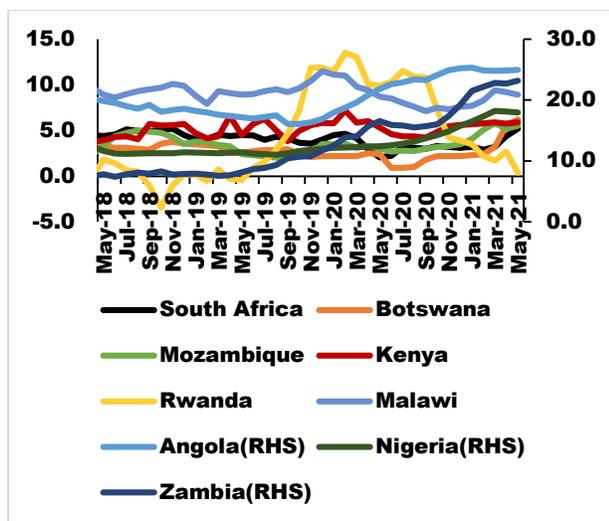
kwanza at 2.1 percent; the Botswana pula at 1.3 percent; and the Ugandan shilling at 1.1 percent.

4. DOMESTIC DEVELOPMENTS

4.1 Inflation Developments

- Domestically, inflation rate decelerated for the second straight month to 8.9 percent in May 2021 from 9.2 percent in the previous month. The downturn was attributed to subdued food inflation, owing to increased food supplies from the 2020/21 harvest.
- Chart 3 compares Malawi’s headline inflation rate to those of selected SSA countries. It is noted from this Chart that Malawi’s inflation performance was better than that of Angola, Nigeria (read from right scale) and Zambia, but underperformed when compared to Mozambique, Botswana, Kenya, Rwanda, and South Africa.

Chart 3: Inflation Rates for Selected SSA Countries (in Percent)

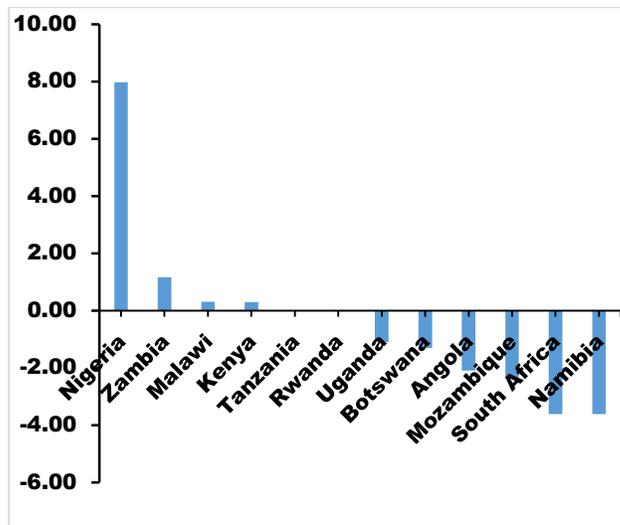


4.2 Exchange Rate Developments

- Like currencies of some of the reviewed countries, the Malawi kwacha continued to depreciate against most of its trading partners’ currencies during May 2021. The kwacha lost 0.3 percent against the US dollar in May 2021.
- Annually, the kwacha lost 7.8 percent against the US dollar between May 2020 and May 2021. The year on-year exchange rate developments for countries in the SSA region indicate that some countries also experienced depreciations between May 2020 and

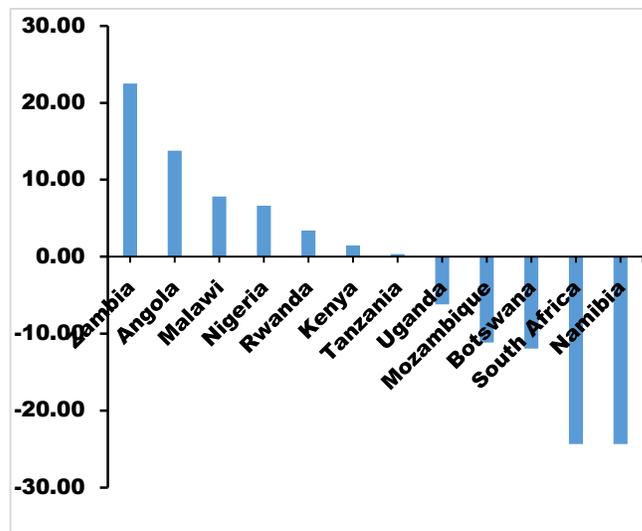
May 2021, as follows: the Zambian Kwacha by 22.5 percent, the Angolan kwanza by 13.8 percent; the Nigerian naira by 6.6 percent; the Rwandan franc by 3.4 percent; the Kenyan shilling by 1.4 percent and the Tanzanian shilling by 0.3 percent.

Chart 4: Monthly Percentage Changes in Local Currency per US dollar as of end-May 2021



- The rest of the selected SSA countries experienced annual appreciation rates of 24.4 percent each for South Africa and Namibia; 11.9 percent for Botswana; 11.2 percent for Mozambique and 6.2 percent for Uganda (see Chart 5).

Chart 5: Annual Changes in Movements of Local Currency Price of US Dollar as of end-May 2021



5. CONCLUSION

- During the month of May 2021, there were mixed performance in key economic indicators across the selected countries.
- All the selected 5 countries in the industrialised and emerging market economies group recorded high inflation rates due to a pick-up in economic activities upon the reopening of their economies from the COVID-19-induced restrictions. However, 4 of the 5 countries experienced gains in their local currency price of a US dollar.
- On the other hand, the SSA region had some of its countries recording moderate inflation rate due to easing food prices, as others experienced heightened inflationary pressures on account of rising transport costs.
- Domestically, the rate of inflation eased during the month under review but, just like most countries in the region, the exchange rate continues to be under pressure.
- The outlook for the domestic economy mainly hinges on the impact of the looming third wave of the COVID-19 pandemic. The number of COVID-19 infections continues to increase, which may force the government to reinstate restrictions for COVID-19 prevention, thereby affecting economic activities. Therefore, availability and access of COVID-19 vaccines is key for ensuring sustained economic recovery.