



BANKING ON KNOWLEDGE

Emerging economies cautiously optimistic amidst surging Covid-19, inflation risks

By Dr R Seetharaman

According to IMF April 2021, the Chinese economy is expected to grow by 8.4% in 2021 and 5.6% in 2022 respectively. The Chinese producer price index rose 1.7% from a year earlier stronger than the forecast in February 2021. The Chinese stock market had fallen by more than 2% YTD. The Chinese bond issuances were at \$625bn in first quarter 2021 as against \$587.2bn in first quarter 2020. Chinese yuan is at 6.5 levels against the US dollar and is flat this year. In April 2021, People's Bank of China warned of financial risks in the country that have accumulated over the years, as well as shocks from overseas uncertainties. The coronavirus pandemic and high volatility in international capital flows have also



shocked the domestic financial markets. People's Bank of China maintained that monetary policy would remain stable and supportive. According to IMF April 2021, the Brazil

economy is expected to grow by 3.7% in 2021 and 2.6% in 2022 respectively. The Brazilian capital market is flat this year. The bond issuances in Brazil exceeded \$4.12bn in first quarter 2021 as against \$2.1bn in first quarter 2020. The Brazilian real is at 5.58 against the US dollar and has weakened by close to 7% YTD. Brazil's producer price inflation jumped to 28.6% in February 2021. The central bank raised interest rates by 75 basis points to 2.75% in March 2021 - the first increase in six years and the biggest in over a decade. The bank's monetary policy committee suggested as much, saying it would boost rates by the same amount again at its next meeting in May 2021 "unless there is a significant change in inflation projections or in the balance of risks". According to IMF April 2021, Russian economy is expected to grow by 3.8% in 2021 and 3.8% in 2022 respectively. The



Russian capital market is flat this year. In February 2021, the annual consumer price growth rate rose to 5.7%. In March 2021, the central bank decided to increase the key rate by 25 basis points to 4.5% per annum. The Russian rouble is at 76.25 against the US dollar and has weakened by more than 2% YTD. The South African economy is expected to grow by 3.1% in 2021 and 2% in 2022 respectively. The annual inflation rate in South Africa eased to 2.9% in February of 2021 from 3.2% in January, below market expectations of 3.1% and the South African reserve bank's target range of 3-6%. South Africa reserve bank kept the repo rate steady at

3.5% in March 2021. The bond issuance was \$4.12bn in first quarter of 2021 as against \$2.1bn in first quarter of 2020. The capital market is up by close to 8%. The South African rand is below 14 against the US dollar and has strengthened by more than 3% YTD. According to IMF, the Indian economy is expected to grow by 12.5% in 2021 and 6.9% in 2022 respectively. The Consumer Price Index (CPI) or retail inflation spiked to 5.52% in March 2021 compared to 5.03% of the previous month. Amidst surge in Covid-19 in India, the RBI voted unanimously to leave the policy repo rate unchanged at 4%. It also 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 Covid-19 on the economy, while ensuring that inflation remains within the target going forward. The Indian rupee is at near 75 levels against the US dollar and has fallen by more than 2% YTD. The Indian bond issuances were close to \$29.35bn in first quarter 2021 as against \$30.94bn in first quarter 2020. All the emerging economies growth have been revised recently in the recent IMF April 2021 growth forecast. However, the Covid-19 has surged recently in emerging economies namely India and Brazil significantly. A cautious optimism prevails in emerging economies amidst the current wave of Covid-19 and surging inflation.

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