



## **RESERVE BANK OF MALAWI**

### **STATEMENT OF THE MONETARY POLICY COMMITTEE**

#### **FIRST MEETING OF 2020**

**JANUARY 30<sup>th</sup>, 2020**

#### ***Monetary Policy Committee Maintains Policy Rate at 13.5 percent***

*The Monetary Policy Committee (MPC), at its first meeting for 2020 held on 29<sup>th</sup> and 30<sup>th</sup> January, decided to maintain the Policy Rate at 13.5 percent and the Lombard Rate at 0.4 percentage points above the Policy Rate. The Committee also maintained the Liquidity Reserve Requirement (LRR) on local currency deposits at 5 percent, and the LRR on foreign currency deposits at 3.75 percent. In arriving at the decision, the Committee observed that although rising maize prices are likely to continue pushing up headline inflation in the first quarter of 2020, the elevation is deemed temporary and does not pose significant risks to the medium-term inflation outlook.*

#### ***Real output increased in 2019 and projected to increase further in 2020***

Real GDP is estimated to have grown by 5.0 percent in 2019 from 4.0 percent in 2018, largely driven by recovery in the agriculture sector. Real GDP growth is projected between 5.0 and 6.0 percent in 2020 owing to further recovery in the agriculture sector as well as favourable macroeconomic conditions.

### ***Inflation averaged 9.4 percent in 2019 and projected to slow down in 2020***

Annual headline inflation for 2019 averaged 9.4 percent, marginally higher than 9.2 percent recorded in 2018 and the projection by the Reserve Bank of Malawi. The outturn largely reflected rising food prices as non-food prices largely remained muted.

Food inflation remained in double digit throughout 2019 and averaged 14.3 percent compared to 9.8 percent in 2018. The rise in food inflation was mainly driven by increase in maize prices. Non-food inflation remarkably decreased, averaging 5.4 percent in 2019 from an average of 9.0 percent in 2018. The decrease in non-food inflation is on account of relatively tight monetary conditions.

### ***Exchange rate stability projected to continue in 2020***

The Kwacha exchange rate has been broadly stable during the past three years and was trading at an average of K738.8731 per US dollar in December 2019. The stability of the Kwacha is expected to continue in 2020 on the back of adequate foreign exchange reserves which stood at 4.1 months of imports at the end of December 2019.

### ***Private sector credit continues to expand***

Private sector credit grew by 21.3 percent in 2019 compared to 11.5 percent in 2018. This development was supported by reduction in interest rates. A part from the tradition borrowers, notable expansions were observed in energy and mining sectors.

### ***Global growth marked down***

The global economic growth for 2019 and 2020 have been marked down by 0.1 percentage points to 2.9 percent and 3.3 percent from the October 2019

projections of 3.0 percent and 3.4 percent, respectively. The downward revision is on account of surprises to economic activity in some emerging market economies, notably India and social unrest in few other economies.

***Oil prices to remain broadly stable in 2020***

Brent crude oil prices are projected to average US\$58.0 per barrel in 2020 lower than US\$60.2 per barrel registered in 2019. In 2021, oil prices are projected to decline further to US\$55.3 per barrel, despite mounting geopolitical tensions.

***Inflation projected at 8.8 percent in 2020***

Inflation is projected to average 8.8 percent in 2020, premised on favourable weather conditions and continued exchange rate stability. Going forward, the RBM remains committed to a 5.0 percent inflation objective in the medium term. In line with international best practice, RBM has adopted a symmetric band of 2.0 percentage points around the point target.

***MPC maintains the Policy stance***

In view of the above developments, MPC decided to maintain the policy rate at 13.5 percent, the LRR on domestic currency deposits at 5 percent and the LRR on foreign currency deposits at 3.75 percent. The adopted policy stance is deemed adequately tight to deal with emerging risks while also aiding the growth momentum.

Dalitso Kabambe, PhD

**CHAIRMAN, MPC**

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***Information Note:***

A. The composition of the Monetary Policy Committee is as follows:

- Dr. Dalitso Kabambe, Governor (**Chairman**)
- Dr. Grant Kabango, Deputy Governor
- Mr. Henry Mathanga, Executive Director, Corporate Affairs
- Dr. Levison Chiwaula, Academia
- Ms. Audrey Mwala, Private Sector
- Dr. Betty Chinyamunyamu, Private Sector
- Dr. Kisu Simwaka, Director, Economic Policy Research (**Secretary**)

B. The next date of the MPC meeting is 29<sup>th</sup> and 30<sup>th</sup> April 2020. The decision will be announced on 30<sup>th</sup> April 2020 during a news conference.