



## **RESERVE BANK OF MALAWI**

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

**1<sup>ST</sup> APRIL 2020**

#### ***Monetary Policy Committee Reduces LRR and Lombard Rate***

*In view of the Coronavirus (Covid-19) pandemic, the Monetary Policy Committee (MPC) decided to advance its meeting scheduled for 29<sup>th</sup> and 30<sup>th</sup> April 2020. The Committee met on 1<sup>st</sup> April 2020, and decided to cut the Liquidity Reserve Requirement (LRR) on domestic currency deposits by 125 basis points to 3.75 percent; reduce the Lombard Rate by 50 percent to 0.2 percentage points above the Policy Rate; and maintain the Policy Rate at 13.5 percent. In arriving at this decision, the Committee considered macroeconomic risks emanating from the Covid-19 pandemic and sought to mitigate potential liquidity challenges that might ensue in the banking system.*

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

Global economic growth for 2020 has been revised downwards to 2.4 percent, from an earlier projection of 2.9 percent. The downward revision reflects the slowdown in global economic activity following the coronavirus pandemic. In 2021, global growth is projected to rebound to 3.3 percent with the recovery from the Coronavirus pandemic.

***Domestic economic growth to strengthen to 6-7 percent in the medium-term***

The recent strong agricultural harvests have boosted growth, but the growth path for the remainder of the year will depend on the impact of COVID-19 on the rest of the sectors following the disruption of global and regional economic links. This notwithstanding, economic growth may rise further to 6-7 percent in the medium term, backed by infrastructure that is more resilient to shocks from climate change, improved access to finance, crop diversification, and an improved business climate.

***Medium-term inflation objective remains 5±2 percent***

Headline inflation decelerated by 0.5 percentage points to 11.0 percent in February 2020 from 11.5 percent in December 2019. The outturn reflects weakening food prices. Non-food inflation remained low and stood at 5.4 percent in February 2020.

Inflation at the end of year 2020 is projected at 9.3 percent from 11.5 percent at the end of 2019. Food inflation is projected to continue declining in the near term, owing to improved maize harvest. The continued exchange rate stability together with the decline in global oil prices will assist to contain non-food inflation. However, uncertainties surrounding the evolution of the COVID-19 pandemic is the key upward risk. This notwithstanding, RBM remains committed to the 5±2 percent inflation objective in the medium term.

***Exchange rate projected to remain stable in 2020***

The kwacha traded at K741.01 per United States dollar as at end March 2020 and is projected to remain broadly stable in the year. The stability of the kwacha will be anchored by adequate foreign exchange reserves, supported by impending opening of the agriculture marketing season.

### ***Oil prices decline to lowest levels in 18 years***

Brent crude oil prices dropped to US\$22.40 per barrel at the end of March 2020 from an average of US\$60.20 per barrel registered in 2019. The decline in prices is on account of reduced demand following a slack in global economic activity amidst the Covid-19 outbreak as well as the price war between Saudi Arabia and Russia.

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

Private sector credit continued to increase and recorded a year-on-year growth of 24.4 percent in February 2020. The expansion was supported by relatively lower interest rates and prevailing macroeconomic stability. Going forward, the unfolding COVID-19 will likely lead to tightening of liquidity conditions in the banking system.

### ***MPC cuts LRR on domestic currency deposits; Lombard Rate; but maintains the Policy Rate and LRR on foreign currency deposits***

The Committee resolved to cut the Liquidity Reserve Requirement (LRR) on domestic deposits by 125 basis points to 3.75 percent from 5.0 percent. This reduction will immediately release primary liquidity of about K12 billion uniformly across the banking system in proportion to liabilities of the banks. The MPC further resolved to reduce the Lombard Rate by 50 percent to 0.2 percentage points above the Policy Rate. This will reduce the cost of accessing funds from the Central Bank and therefore will enable commercial banks to pass on the benefits to borrowers. These decisions were deemed necessary to ease banking system liquidity constraints and incentivise commercial banks to adequately support the sectors that are hit by the COVID-19 pandemic.

The MPC however, decided to maintain the Policy Rate at 13.5 percent to mitigate against potential upward risks from the pandemic while monitoring developments as they evolve and act as and when necessary.

Dalitso Kabambe, PhD

**CHAIRPERSON, MPC**

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**Information Note:**

The next dates of the MPC meeting are 29<sup>th</sup> and 30<sup>th</sup> July 2020. The decision will be announced on 30<sup>th</sup> July 2020 during a news conference.