



RESERVE BANK OF MALAWI

STATEMENT OF THE MONETARY POLICY COMMITTEE

FOURTH MEETING OF 2020

NOVEMBER 6, 2020

Monetary Policy Committee Reduces Policy Rate to 12.0 percent

The Monetary Policy Committee (MPC), at its fourth meeting of 2020 held on 5th and 6th November 2020, decided to reduce the Policy rate to 12.0 percent. Meanwhile, the MPC maintained 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. In arriving at this decision, the Committee noted that headline inflation has been declining since January 2020 and the inflation outlook appears favourable. This decision is aimed at supporting economic recovery and job creation.

Global economic activity still subdued

Global economic activity remains subdued, but is slowly recovering from the impact of the COVID-19 pandemic. The International Monetary Fund's (IMF) recent projections released in October 2020 indicate that the global economy will contract by 4.4 percent in 2020 compared to a contraction of 4.9 percent projected in June 2020. The

revision reflects better-than-anticipated growth outcomes in the second quarter of 2020, especially in advanced economies. However, the resurgence in infections and the re-introduction of strict containment measures, particularly in Europe, pose a threat to the recovery process. Meanwhile, the Sub-Saharan Africa is projected to contract by 3.0 percent, lower than a contraction of 3.2 percent projected in June 2020.

International oil prices broadly stable

Brent crude oil prices averaged US\$42.7 per barrel since July 2020. The IMF projections suggest that petroleum prices will average US\$41.7 per barrel in 2020 and \$46.7 per barrel in 2021.

Domestic economic growth remains low

Real GDP growth is projected at 1.2 percent in 2020 from 5.1 percent in 2019, reflecting adverse impact of the pandemic. The hard-hit sectors include manufacturing, tourism and accommodation, health services and wholesale and retail trade sectors.

Trade Balance continues to weaken

During the first nine months of 2020, trade deficit stood at US\$1.5 billion, compared to a deficit of US\$1.1 billion recorded in the corresponding period of 2019. Cumulatively, from January to September 2020, exports amounted to US\$0.5 billion against imports of US\$2.0 billion. Meanwhile, inward remittances, more particularly from South Africa, have picked up in recent months to US\$52.5 million in the third quarter of 2020 from US\$32.1 million in the second quarter of 2020, largely on account of easing lock-down restriction measures.

Inflation projection for 2020 revised downwards

Headline inflation has declined from a peak of 11.5 percent in January 2020 to 7.1 percent in September 2020, due to relatively lower food prices compared to 2019. Meanwhile, non-food inflation has been low and stable, anchored by relatively stable exchange rate and energy prices. Inflation is now projected to average 8.6 percent in 2020 from 9.8 percent projected during the Third MPC Meeting of 2020. In 2021, it is anticipated that inflation will continue to decline.

MPC reduces the Policy Rate by 150 basis points

The MPC observed that inflation is projected to average 8.6 percent in 2020 and is expected to decline further in 2021. The MPC, therefore, resolved to reduce the Policy rate to 12.0 percent. Meanwhile, the committee also resolved to maintain the LRR ratio on domestic and foreign deposits at 3.75 percent and the Lombard rate at 20 basis points above the policy rate. This decision is aimed at supporting economic recovery and job creation.

Dr. Wilson T. Banda

CHAIRMAN, MPC.

Information Note: The next MPC meeting is scheduled for 28th and 29th January 2021. The decision will be announced on 29th January 2021 during a news conference.