



## **RESERVE BANK OF MALAWI**

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

#### **FIRST MEETING OF 2021**

**JANUARY 26, 2021**

#### ***Monetary Policy Committee Maintains the Policy Rate at 12.0 percent***

*The Monetary Policy Committee (MPC), at its first meeting of 2021 held on 25<sup>th</sup> and 26<sup>th</sup> January, decided to maintain the Policy rate at 12.0 percent; 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 the inflation outlook has remained broadly unchanged from what was envisaged during the Fourth 2020 MPC. Further, the MPC noted that there is need to allow the impact of the November 2020 Policy rate reduction to transmit through the economy. The decision was also deemed necessary to contain the impending inflationary pressures whilst at the same time providing space for supporting recovery of the economy in the wake of the second-wave of the COVID-19 pandemic.*

#### ***Global Economy Projected to Recover in 2021***

Global economic output is projected to recover from the collapse triggered by the COVID-19 pandemic in 2020. The International Monetary Fund (IMF), in its January 2021 World Economic Outlook (WEO) Update, indicate that the global economy will expand by 5.5 percent in 2021 from an estimated contraction of 3.5 percent in 2020. The recovery is premised on limited impact of the COVID-19

pandemic as most countries get access to vaccination as well as continued policy support in some large economies. This notwithstanding, there are significant downside risks to the projection, including a prolonged second-wave of the COVID-19 pandemic.

### ***International Oil Prices to Increase in 2021***

The average petroleum spot prices are projected at US\$48.5 per barrel in 2021 from US\$41.4 per barrel in 2020, following an agreement by OPEC member countries to reduce production in 2021. In the first quarter of 2021, oil prices are projected at US\$47.0 per barrel and are expected to rise to US\$50.0 per barrel by the year end. However, the upward pressures on prices will be partly offset by high global oil inventory levels and subdued demand due to the COVID-19 pandemic containment measures.

### ***Domestic Economic Growth Prospects Remain Uncertain in 2021***

Since the beginning of 2021, the COVID-19 infections and fatalities have increased sharply and this has compelled the Government to re-impose strict containment measures. Consequently, domestic economic activity, which started to rebound in the second half of 2020, has moderated. Economic growth for 2021 will, therefore, depend on how fast the second wave of the pandemic dissipates. In general, domestic economic growth could remain subdued in 2021.

### ***Trade Balance Continues to Weaken***

The external sector continued to underperform in the fourth quarter of 2020. The trade deficit widened further to US\$566.7 million in the fourth quarter from US\$532.0 million in the previous quarter and compared to US\$352.8 million recorded in the corresponding period of 2019. The outturn was attributed to a larger increase in imports than the growth in exports receipts.

### ***Inflation Projection for 2021 Remains Unchanged***

Headline inflation decelerated to an average of 7.5 percent in the fourth quarter of 2020 from 7.6 percent in the third quarter, driven by a decline in food inflation. In contrast, non-food inflation increased in the quarter, albeit marginally, due to effects of the upward adjustment in domestic fuel pump prices effected in mid-December 2020. Meanwhile, headline inflation is projected to average 7.8 percent in 2021.

### ***MPC Maintains Policy Rate at 12.0 Percent***

The MPC noted that the downward trajectory in headline inflation observed since January 2020 reversed during the fourth quarter. However, the annual average headline inflation, at 8.6 percent for 2020, was lower than the 9.4 percent recorded in 2019. The Committee also noted that the inflation outlook in the medium-term remained broadly unchanged from what was envisaged during the Fourth 2020 MPC. Therefore, the Committee decided to maintain the Policy rate at 12.0 percent, 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. This decision will allow the impact of the November 2020 Policy rate reduction to transmit and permeate through the economy. This position is also meant to support economic recovery.

Dr. Wilson T. Banda

**CHAIRMAN, MPC.**

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***Information Note:*** The next MPC meeting is scheduled for 29<sup>th</sup> and 30<sup>th</sup> April 2021. The decision will be announced on 30<sup>th</sup> April 2021 during a press conference.