



## **RESERVE BANK OF MALAWI**

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

#### **SECOND MEETING OF 2021**

**APRIL 29, 2021**

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

*The Monetary Policy Committee (MPC), at its second meeting of 2021 held on 28<sup>th</sup> and 29<sup>th</sup> April, 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 MPC considered the need to support and sustain economic recovery, whilst at the same time managing upside risks to the inflation outlook.*

#### ***Global economy projected to grow by 6.0 percent in 2021***

According to the World Economic Outlook Report of April 2021 by the International Monetary Fund (IMF), a stronger-than-earlier projected global real economic growth is expected in 2021. Specifically, the global economy is projected to grow by 6.0 percent in 2021, following an estimated contraction of 3.3 percent in 2020. The upward revision reflects the impact of additional fiscal support in a few advanced economies and the anticipated vaccine-driven recovery during the second half of 2021. Nevertheless, some countries are experiencing a surge in the number of cases of coronavirus infections, owing to the outbreak of

the third wave of the COVID-19 pandemic, which poses a risk to the growth prospects.

### ***International oil prices to increase in 2021***

Global oil prices averaged US\$60.6 per barrel in 2021Q1, up from US\$44.5 per barrel in 2020Q4. Prospects for the rest of the year indicate that oil prices will average US\$58.5 per barrel in 2021, representing an annual increase of 42.0 percent. The rise in global oil prices reflects the impact of restrained production by the Organization of the Petroleum Exporting Countries (OPEC+) including Russia. According to the US Energy Information Administration, Brent crude oil prices are projected to average US\$65.0 per barrel in 2021Q2 as the rebound of economic activity during the quarter, upon easing of the COVID-19 lockdown restrictions, is expected to induce rising global demand for the commodity. In 2022, oil prices are expected to moderate to an annual average of US\$54.8 per barrel and remain unchanged, in real terms, over the medium term.

### ***Domestic economic activity to moderately pick up in 2021***

The COVID-19 pandemic continues to weigh heavily on economic activity in Malawi. Nevertheless, the ongoing vaccination campaign, coupled with the above average agricultural production during the 2020/21 season as well as the recovery of the global economy, provide optimism for economic turnaround. As such, domestic real economic growth is projected to strengthen to 3.8 percent in 2021, from an estimated growth rate of 0.9 percent in 2020.

### ***Trade balance moderately improves***

The external position improved slightly during 2021Q1. The values for both exports and imports declined during the period, with imports declining more than exports, leading to the narrowing of the trade deficit. Specifically, import outlays declined by US\$60.0 million to US\$693.1 million in 2021Q1 while exports dropped by US\$2.7 million to US\$201.6 million in the same period. Thus, the trade deficit improved to US\$491.5 million in 2021Q1 from US\$548.8 million in

2020Q4. Prospects for the near-term suggest that the trade balance could improve, mainly due to increase in exports following the opening of the agricultural marketing season and a seasonal decline in imports of agricultural inputs.

### ***Exchange Rate Pressures to Moderate***

The Malawi kwacha marginally depreciated by 2.2 percent against the US dollar in the first quarter of 2021. However, in the period ahead, exchange rate pressures are expected to moderate, on account of the realisation of export proceeds during the agricultural marketing season.

### ***Headline inflation projections for 2021***

Headline inflation rose to an average of 8.5 percent in 2021Q1 from 7.5 percent in the fourth quarter of 2020. The increase was driven by non-food inflation, which accelerated to 6.3 percent in 2021Q1 from 4.6 percent in 2020Q4. This development largely reflects the lagged effects of the upward adjustment in domestic fuel pump prices effected in December 2020, a further increase in domestic pump fuel prices implemented on 9<sup>th</sup> March 2021, as well as the continued depreciation of the kwacha. In contrast, food inflation remained unchanged at the 2020Q4 average of 10.6 percent. Headline inflation rose to 9.4 percent in March 2021, from 7.6 percent in December 2020, mostly on the back of rising food and fuel prices. Meanwhile, the forecasts suggest an elevated inflation path in the period ahead compared to the First 2021 MPC forecasting round, as headline inflation is currently projected to average 8.4 percent in 2021, up from 7.6 percent projected during the previous MPC meeting. The revision has, among others, taken into account the impact of the lagged effects of the upward adjustments of fuel prices implemented on 9<sup>th</sup> March 2021 and an increase in electricity tariffs effected on 31<sup>st</sup> March 2021.

### ***MPC maintains Policy rate at 12.0 percent***

The MPC noted that the upward risks to inflation that were envisioned during the First 2021 MPC meeting materialised, but were stronger than anticipated.

Consequently, the inflation outturn during the first quarter of 2021 was higher than projected.

The MPC also noted that pressures to non-food inflation could persist in the near term as the impact of the recent adjustments to fuel prices and electricity tariffs is yet to be transmitted fully to inflation. However, low food prices, owing to an improved maize harvest during the 2020/21 agricultural season, could somewhat ease inflationary pressures in the short term, particularly during 2021Q2.

The meeting considered the need to support and sustain economic recovery, while at the same time managing upside risks to the inflation. Therefore, the MPC agreed 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.

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> July 2021. The decision will be announced on 30<sup>th</sup> July 2021 during a press conference.