



RESERVE BANK OF MALAWI

STATEMENT OF THE MONETARY POLICY COMMITTEE

31st JULY 2020

Monetary Policy Committee maintains Policy Rate at 13.5 percent

The Monetary Policy Committee (MPC), at its third meeting of 2020 held on 30th and 31st July, decided to maintain the Policy Rate at 13.5 percent and the Lombard Rate at 0.2 percentage points above the Policy Rate. The Committee also maintained the Liquidity Reserve Requirement (LRR) ratio on both local currency and foreign currency deposits at 3.75 percent. In arriving at this decision, MPC noted that although inflation developments were favourable in the first half of the year, there are emerging upward risks to the medium-term inflation path. Meanwhile, economic activities have slowed down leading to a lower projection of GDP for 2020, reflecting the effects of COVID-19 pandemic on various sectors of the economy. The adopted policy stance is therefore considered appropriate to contain the impending inflationary pressures whilst at the same time providing space for supporting recovery of the economy, in the wake of the COVID-19 pandemic.

Global growth marked down further

According to the June 2020 World Economic Outlook Update of the International Monetary Fund, global growth for 2020 has been further revised downwards to minus 4.9 percent, from an earlier projection of minus 3.0 percent released in April 2020. The COVID-19 pandemic had a more than anticipated negative impact on global economic

activity in the first half of 2020, hence the downward revision in the growth prospects for 2020.

International Oil prices recovering

Brent crude oil prices rose to around US\$43 per barrel by mid-July 2020 from US\$22.40 per barrel at the end of March 2020. The rise in prices follows easing up of travel restrictions in some economies across the globe. Meanwhile, Brent crude oil price is projected to average US\$40 per barrel in 2020 and US\$45 per barrel in 2021, before rising to US\$50 per barrel in 2022.

Domestic growth to slow down

Growth is projected to fall to 1.9 percent, 3.6 percentage points lower than the earlier forecast of 5.5 percent. The downward revision was on account of the impact of protracted political uncertainty in the first half of the year and the COVID-19 pandemic including the associated containment measures. The pandemic has significantly affected most sectors of the economy such as the manufacturing, tourism and accommodation, health, wholesale and retail trade, financial services, real estate and construction sectors.

Current account balance deteriorates

The COVID-19 pandemic has increased pressure on the balance of payments fundamentals. On one hand, it has raised imports through the importation of COVID-19 related materials. On the other hand, the country's traditional exports have slowed down, due to reduced global demand and border closures. This, coupled with declining transfers, has resulted into worsening of the current account balance and therefore, progressively declining foreign exchange supply. This notwithstanding, the RBM will continue to manage excess volatility of the exchange rate on the foreign exchange market.

Inflation projected at 9.8 percent in 2020

Headline inflation declined to an average of 8.9 percent in the second quarter of 2020 from an average of 10.6 percent in the first quarter, on the back of weakening food and domestic pump fuel prices. However, there are impending significant inflationary pressures emanating from a gradual pick-up in food prices (largely maize), increased short term pressure on the exchange rate, increase in global oil prices and increased public sector financing requirements. Annual inflation for 2020 is thus projected at 9.8 percent, 0.4 percentage points higher than the 9.4 percent obtained in 2019.

MPC maintains the Policy Rate

The MPC decided to maintain the Policy Rate at 13.5 percent and the Lombard Rate at 0.2 percentage points above the Policy Rate. The MPC also maintained the Liquidity Reserve Requirement (LRR) ratio on both local currency and foreign currency deposits at 3.75 percent. In arriving at this decision, the MPC noted that economic outlook points to low growth prospects in 2020. However, the magnitude of the decline remains indeterminate on account of uncertainty regarding the prevalence and duration of the COVID-19 pandemic. Although inflation developments were favourable in the first half of the year, risks going forward remain elevated. This coupled with domestic and external sector imbalances will weigh negatively in the short to medium term. Inflation is thus projected at 9.8 percent which is higher than the medium-term inflation target of 5 ± 2 percent. The MPC therefore, decided that a cautious approach, which would support economic activity amid the raging pandemic while safeguarding the economy against the risks ahead, is necessary. The MPC continues to be committed to ensuring that the medium-term inflation target is achieved.

Dr. Wilson T. Banda

CHAIRPERSON, MPC

Information Note: The next MPC meeting is scheduled for 29th and 30th October 2020. The decision will be announced on 30th October 2020 during a news conference.