



# **RESERVE BANK OF MALAWI**

## **STATEMENT OF THE 2<sup>nd</sup> MONETARY POLICY COMMITTEE MEETING FOR 2017**

The Monetary Policy Committee (MPC) met from 4 to 5 July 2017 to review recent economic developments and decide on the monetary policy stance in order to consolidate the gains made in stabilising the economy.

After taking into account the disinflation process in the recent past and inflation outlook going forward, the MPC decided to reduce the Policy Rate (PR) by 4 percentage points to 18 percent, and maintain Liquidity Reserve Requirement (LRR) at 7.5 percent. Before arriving at this decision, the Committee considered latest developments in the global and domestic economies.

Global economic growth is expected to strengthen marginally to 3.5 percent in 2017, from 3.1 percent in 2016. The pickup in global activity is driven by developments in emerging and developing economies.

On the domestic front, real GDP growth is projected to rebound to 4.5 percent in 2017 from 2.7 percent in 2016, on the backing of favourable

weather conditions and stable macroeconomic environment. The MPC however, recognises that continued economic recovery over the medium to long-term horizon depends on sustained macroeconomic stability and addressing underlying structural constraints, especially on the supply side.

The MPC observed that inflation has continued to decline for the tenth consecutive month. Headline inflation fell to 12.3 percent in May 2017, from 23.5 percent in July 2016. Food inflation dropped to 11.2 percent in May 2017, from 29.2 percent in July 2016, on account of improved supply of food stocks. Non-food inflation decelerated to 13.5 percent in May 2017, from 18.7 percent in July 2016, reflecting lagged effects of tight monetary policy. The outlook for inflation has improved significantly since the last MPC meeting, especially because the May data confirm that disinflationary momentum has strengthened.

Growth in money supply rose to 18 percent year-on-year in May 2017, from 15 percent in December 2016, but was below 26.3 percent recorded in May 2016. The underlying pace of monetary expansion was in line with seasonal patterns and was consistent with the level of economic activity for the year.

Net credit to government from the banking sector expanded to K104.8 billion in May 2017, from K86.0 billion recorded in January 2017.

Private sector credit from the commercial banks increased marginally to K404.8 billion in May 2017, from K398.5 billion in January 2017.

Conditions in the money market remained tight, as evidenced by the interbank rate being kept close to the Policy Rate. The Bank continued to withdraw liquidity injected from government operations. All-type Treasury bill average yield settled at 22.2 percent as at end-May 2017, following convergence of yields across tenure.

The central bank's official reserves increased to US\$678.70 million (3.25 months of imports) in June 2017, from US\$610.25 million (2.92 months of imports) recorded in May 2017 and compared with US\$648.20 million (3.10 months of imports) in June 2016. Supported by low kwacha liquidity and relatively subdued demand for foreign exchange, the exchange rate has been relatively stable during the past twelve months. The MPC noted that the stabilization of the Kwacha augers well for the disinflation process.

### **Members Present**

Dr. Dalitso Kabambe, Governor (**Chairman**)

Dr. Grant Kabango, Deputy Governor, Economics and Regulation

Mr. Ben Botolo, Secretary to the Treasury

Prof. Chinyamata Chipeta, Chancellor College, University of Malawi

Mr. Fredrick Changaya, General Manager, Candlex Malawi Ltd

Ms. Evelyn Mwapasa, Chief Executive Officer, ESCOM, ICAM  
Representative

Dr MacDonald Mwale, Director, Research and Statistics (**Secretary**)

**In Attendance**

Deputy Governor, Corporate Affairs

Director, Financial Markets

Director, Governor's Office

Director, Banking and Currency Management

Director, Bank Supervision

Director, Exchange Control

Principal Economist, Research & Policy

Principal Economist, National Accounts and External Sector

Manager, Governor's Office

Dr Dalitso Kabambe

**CHAIRMAN**