RESERVE BANK OF MALAWI

STATEMENT OF THE 4th MONETARY POLICY COMMITTEE MEETING FOR 2016

The Monetary Policy Committee (MPC) met on 23 and 24 November 2016 to assess recent global and domestic economic developments and near to medium term outlook. The Committee noted that consistent implementation of a tight monetary policy stance, and actions taken by government to reduce fiscal pressures including from FISP operations and from ADMARC's maize operations, have combined to reduce inflationary expectations. Consequently, the Kwacha exchange rate has been stable, and despite the drop in exports, the country's official foreign exchange reserves remain at about 3 months of imports.

Looking ahead, the factor that is unknown is whether or not the exchange rate would behave better than last year and much depends on fiscal operations. On balance, the exchange rate outlook is far much better than last year, implying a much less inflationary impact from the exchange rate. While utility rates might go up, the increase might be relatively less. Thus, year on year, inflation will generally continue to slowdown.

In the current policy framework, the Policy Rate is forward looking in order to contain inflation and to protect reserves. Headline inflation has slowed down to 20.1 percent in October 2016 compared to 24.7 percent recorded in October last year. Inflation is projected at 22.2 percent in December 2016, but to edge up slightly to 22.7 percent in February 2017 before decelerating to 18.6 percent in June 2017. Thus, at 27 percent the Policy Rate is 4 percentage points above the estimated February peak of 23 percent. In view of this scenario, but with a need to remain cautious, MPC decided to reduce the Policy rate by 3 percentage points to 24 percent, maintain the Liquidity Reserve Requirement (LRR) ratio at 7.5 percent and to review the position at the next MPC meeting in March 2017.

Global economic growth is projected to slow down to 3.1 percent in 2016 from an earlier projection of 3.2 percent. The slowdown reflects subdued prospects for advanced economies, following the UK vote to leave the European Union and weaker than expected growth in United States. In 2017 growth is projected to rebound at 3.4 percent driven by developments in emerging and developing economies. Subdued global growth would potentially reduce Malawi's export proceeds.

On the domestic front, Real Gross Domestic Product (GDP) growth in 2016 was revised downwards to 2.9 percent from an earlier estimate of 5.1 percent. The sluggish growth is a reflection of continued adverse effects of weather related shocks that the country experienced during the 2015 and 2016 agricultural seasons. Notwithstanding this, a rebound in growth is expected in 2017 to 5.6 percent on the assumption of favourable weather conditions and stable macroeconomic environment. The Reserve Bank of Malawi however, recognizes that continued economic recovery over the medium to long term horizon will be achieved when some structural problems in the economy are resolved.

The slowdown in headline inflation rate emanated from both food and non-food inflation components. Food inflation dropped to 25.4 percent in October 2016 from 29.2 percent in July 2016, on account of improved supply of maize following increased efforts by government and development partners to close the food gap. Non-food inflation slowed down to 15.2 percent from 18.7 percent recorded in July 2016, largely owing to a stable exchange rate.

Monetary aggregates remained on a downward trend since July 2016 as typified by a money supply growth which averaged 17.4 percent between July 2016 and September 2016 from an average of 27.5 percent between April 2016 and June 2016. At that level monetary growth was below the expected nominal Gross Domestic Product (GDP) growth for 2016 of 18.9 percent, reflecting subdued demand pressures.

Liquidity conditions remained tight in the banking system. The Reserve Bank of Malawi continued to intensify mop up operations to withdraw liquidity injected from expansionary government operations. In line with the liquidity levels the interbank market rate remained above the monetary policy rate since July 2016. Meanwhile, the All-type Treasury bill average yield settled at 29.0 percent as at end-September 2016, following convergence of yields across tenure.

Gross official reserves closed the month of October 2016 at US$609.77 million (2.92 months of imports) from US$613.70 million (2.94 months of imports) recorded at end-June 2016. Consequently, the Kwacha marginally depreciated to K726.5845 in October 2016 from K719.1778 per US dollar in June 2016. In the near term, the Kwacha is expected to remain relatively stable during the lean period as monetary conditions remain tight.

Members Present
Mr Charles S.R. Chuka, Governor; (**Chairman**)
Dr Naomi Ngwira, Deputy Governor, Economics;
Dr Grant P. Kabango, Deputy Governor, Supervision;
Dr Ronald Mangani, Secretary to the Treasury
Mr Godfrey Kalinga, Private Consultant
Mr Chiwemi Chihana, Partner, Ernst and Young, ICAM Representative
Dr MacDonald Mwale, Director, Research and Statistics **(Secretary)**

In Attendance
Director, Exchange Control;
Director, Bank Supervision;
Director, Banking and Currency Management;
Director, Governor's Office;
Principal Economist, Financial Stability;
Principal Economist, National Accounts and External Sector;

Apologies

Ms. Meg Kajiyanike, Deputy Governor, Operations
Dr Exley Silumbu, Senior Lecture, Economics, Chancellor College
Director, Economic Affairs, Ministry of Finance, Economic Planning & Development;

Charles S R Chuka
CHAIRMAN
24 November 2016