RESERVE BANK OF MALAWI

STATEMENT OF THE 1ST MONETARY POLICY COMMITTEE MEETING FOR 2017

The Monetary Policy Committee (MPC) met from 23 to 24 March 2017 to review recent global and domestic economic developments. After taking into account the disinflation process in the recent past and inflation outlook, the MPC decided to reduce the Policy Rate (PR) by 2 percentage points to 22 percent, and maintain Liquidity Reserve Requirement (LRR) at 7.5 percent.

Global economic growth, estimated at 3.1 percent in 2016, is projected to reach 3.4 percent in 2017. The pickup in global activity is driven by developments in emerging and developing economies.

On the domestic front, economic growth is projected to rebound to between 4 and 5 percent in 2017 from 2.7 percent in 2016, on the back of favourable weather conditions, and stable macroeconomic environment. The MPC however, recognizes that continued economic recovery over the medium to long term horizon depends on sustained macroeconomic stability and addressing underlying structural constraints.

The MPC observed that inflation has been declining since August 2016. Headline inflation fell to 16.1 percent in February 2017 from 37.9 percent in February 2013 and compared with 23.4 percent in February 2016. The sustained deceleration in non-food inflation from a peak of 42.8 percent in March 2013 to 14.6 percent in February 2017, reflected a consistent tight monetary policy stance. Concurrently, inflation developments benefited from the drop in food inflation from 38.2 percent in February 2013 to 17.5 percent in February 2017, driven by timely response to the recent humanitarian crisis and the improved outlook for food supply in 2017. Given the sharp drop in inflation, our projections have now been adjusted downwards from 16.1 percent to 14.2 percent by June 2017, reflecting seasonal improvement in food supply, stability of the exchange rate, and low international oil prices. The outlook for inflation in the second half of the year will depend on fiscal outturn for 2016/17 and developments in the foreign exchange market.

The Reserve Bank of Malawi (the Bank) has continued to implement a tight monetary policy stance, resulting in money supply growth slowing down from 30 percent in June 2016 to 15 percent in December 2016. This kept monetary expansion in line with nominal GDP growth in 2016 of about 19 percent, an indication that inflationary pressures are under control.

Net government domestic borrowing as at end December 2016 amounted to K565.7 billion (13.3 percent of GDP), compared to K448.5 billion (12.8 percent of GDP) recorded during the similar month last fiscal year.

Liquidity conditions in the banking system 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 25.0 percent as at end-February 2017, following convergence of yields across tenure.

Official foreign exchange reserves in February 2017 stood at US$593.01 million, or US$44.11 million above the same month last year. The Bank maintained foreign exchange reserves around 3 months of imports over the period.

Members Present
Mr. Charles S.R. Chuka, Governor (**Chairman**)
Dr. Naomi Ngwira, Deputy Governor, Economics
Dr. Grant P. Kabango, Deputy Governor, Supervision
Mr. Godfrey Kalinga, Consultant
Dr. Exley Silumbu, Senior Lecturer in Economics, Chancellor College
Dr. MacDonald Mwale, Director, Research and Statistics **(Secretary)**

Apologies
Mr. Chiwemi Chihana, Partner, Ernst and Young, ICAM Representative
Mr. Ben Botolo, Secretary to the Treasury

In Attendance
Director, Banking and Currency Management
Director, Governor's Office
Principal Economist, Research & Policy
Principal Economist, Financial Stability
Manager, Governor's Office

Charles S R Chuka
CHAIRMAN