



RESERVE BANK OF MALAWI

STATEMENT OF THE 3rd MONETARY POLICY COMMITTEE MEETING FOR 2017

The Monetary Policy Committee (MPC) met on 27 and 28 September 2017 to review recent global and domestic economic developments, and decided to maintain the Policy Rate (PR) at 18 percent and the Liquidity Reserve Requirement (LRR) at 7.5 percent. In arriving at this decision, the Committee considered latest developments in the economy and the need to keep inflation firmly on a downward path and to remain in single digit.

This policy stance will help to consolidate the gains achieved so far in reducing inflation rate to ensure that it remains in single digit for a longer period to guarantee sustainably low interest rates, thereby enhancing private sector investment and economic growth over a long term horizon. Furthermore, maintaining the tight monetary policy stance will entrench the stability of the Kwacha exchange rate by moderating demand for foreign exchange thereby allowing the central bank to accumulate foreign reserves.

Global growth, estimated at 3.1 percent in 2016, is projected to accelerate to 3.5 percent in 2017. The pickup in global economic activity is driven by developments in emerging and developing economies.

On the domestic front, real GDP growth is projected to rebound to 6.4 percent in 2017 from 2.7 percent in 2016. This remarkable feat is largely on the back of favourable weather conditions and improving macroeconomic environment. The MPC however, recognised that continued economic recovery over the medium to long term horizon, depends on sustained macroeconomic stability and addressing underlying structural constraints to growth.

The MPC observed that inflation rate fell to 9.3 percent in August 2017, the first time it has dropped into single digit since December 2011. Non-food inflation declined from a peak of 42.8 percent in March 2013 to 12.2 percent in August 2017. The remarkable deceleration in non-food inflation reflects effects of a consistently applied tight monetary policy. Concurrently, headline inflation developments have benefited from the drop in food inflation from 38.2 percent in

February 2013 to 6.2 percent in August 2017, driven by improved food availability.

Money supply growth averaged 18.4 percent during the first eight months of 2017, lower than 24.3 percent recorded during the same period in 2016. The underlying pace of monetary expansion is below the projected nominal GDP growth of 22.6 percent for 2017, implying subdued demand pressures.

Net credit to government from the banking sector increased to K493.9 billion in August 2017, from K304.5 billion recorded in January 2017. Meanwhile, private sector credit from the commercial banks declined marginally to K392.1 billion in August 2017, from K398.5 billion in January 2017.

The Bank continued to withdraw excess liquidity from the banking system. Consequently, conditions in the money market remained tight, as evidenced by the interbank rate being kept close to the Policy Rate. The all-type Treasury bill average yield settled at 14.8 percent as at end-August 2017.

Gross official reserves stood at US\$749.9 million (3.6 months of imports) on 26 September 2017, up from US\$655.1 million (3.1 months of imports) recorded a month earlier. The end-August 2017 position was US\$42.4 million higher than the amount of reserves recorded the same month in 2016. The Malawi kwacha-US dollar exchange rate has remained broadly stable during the past 12 months. The MPC noted that the stable Kwacha augurs well with the disinflation process.

Members Present

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

Dr. Grant Kabango, Deputy Governor, Economics and Regulation

Ms. Meg Kajiyanike, Deputy Governor, Corporate Affairs

Mr. Ben Botolo, Secretary to the Treasury

Prof Chinyamata Chipeta, Academia

Mr. Fredrick Changaya, Private Sector Representative

Ms. Evelyn Mwapasa, ICAM Representative

Dr MacDonal Mwale, Director, Economic Policy Research (**Secretary**)

In Attendance

Director, Financial Markets

Director, Communications and Protocol

Director, Banking

Director, Foreign Flows Monitoring

Principal Economist, Research & Policy

Principal Economist, Financial Stability

Chief Examiner, Bank Supervision

Senior Economist, Research & Policy

Dr. Dalitso Kabambe
CHAIRMAN