



RESERVE BANK OF MALAWI
STATEMENT OF THE MONETARY POLICY COMMITTEE
3RD MPC MEETING
SEPTEMBER 2018

The Reserve Bank of Malawi Maintains the Policy Rate at 16 percent

The Monetary Policy Committee (MPC) of the Reserve Bank of Malawi met on 25th and 26th September 2018, to review the global and domestic economic developments and resolved to keep the Policy rate unchanged at 16.0 percent and Liquidity Reserve Requirement (LRR) at 7.5 percent. In arriving at this decision, the Committee observed that inflation edged up to 9.1 percent during 2018Q2, 0.5 percentage points higher than in 2018Q1, on account of rising food and utility prices. The Committee noted that risks to the inflation outlook still persist on account of further increases in administered prices, higher food and global oil prices, and increased public sector financing requirements. Inflation in the remainder of 2018 is projected to remain above the medium term objective on account of these perceived risks. The MPC therefore considered that maintaining the Policy rate at 16.0 percent will ensure that the policy stance remains adequately tight to manage these risks and ensure that inflation declines gradually towards the medium-term inflation objective of 5.0 percent.

Headline Inflation Still In Single Digit but Risks Persist

Headline inflation averaged 9.1 percent during the second quarter of 2018, 0.5 percentage points higher than what was reported during the first quarter of 2018. During the third quarter, inflation is expected to pick up to 9.3 percent on account of materialized upside risks that were foreseen during the second MPC of 2018. The impact of these risks has, however, been subdued by the tight stance of monetary policy. Inflation edged up to 9.3 percent in August 2018 from 8.6 percent in June 2018. In the short term, inflation is expected to remain slightly elevated, albeit transitory, on account of seasonal factors, utility tariff shocks, pump fuel price pressures as well as rising public sector financing requirements. This notwithstanding, average inflation for 2018 and 2019 is projected at 9.3 percent and 9.6 percent, respectively.

Global and Domestic Output Developments

Prospects for global economy remain robust with output expected to grow by 3.9 percent in 2018 and 2019. Advanced economies' growth is expected to remain at 2.4 percent in 2018 before slowing down to 2.2 percent in 2019. Recovery in the Sub-Saharan Africa is set to continue, supported by the rise in commodity prices. Global oil prices have moderated slightly, but remain elevated. Turning to the domestic front, the economy is expected to grow by 4.0 percent in 2018, 1.2 percentage points lower than 5.2 percent growth registered in 2017, on account of weak agricultural performance. The unsatisfactory agricultural performance has affected availability of maize and other food items which is likely to exert upward pressure on food prices.

Exchange Rate to Remain Stable

Nominal exchange rate continues to be stable supported by adequate foreign exchange reserves coupled with tight liquidity conditions. Gross official reserves remained above the targeted 3 months of import cover. As at end August 2018, the gross official reserves were at 3.6 months of imports. The stable exchange rate is expected to anchor inflation expectations in the short to medium term

Maintaining policy rate at 16.0 percent is expected to reduce the impact of upside risks

Inflation is projected to remain elevated in the coming months before falling back gradually. The Committee decided that maintaining the current policy stance will help in containing pressures and directing inflation towards the medium term objective of 5 percent. The policy stance will be complemented by mop-up operations to maintain the liquidity conditions at required levels. The Committee also resolved to keep the liquidity reserve requirement ratio at 7.5 percent.

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CHAIRMAN, MPC.

Information Note

The next scheduled date of the MPC meeting is on 12th and 13th December 2018. The decision will be announced on 13th December 2018 and the announcement will be accompanied by a news conference.