



**RESERVE BANK OF MALAWI**  
**STATEMENT OF THE MONETARY POLICY COMMITTEE**  
**FOURTH MEETING OF 2019**  
**OCTOBER 30, 2019**

***Monetary Policy Committee Maintains Policy Rate at 13.5 percent***

*The Monetary Policy Committee (MPC), at its 4<sup>th</sup> meeting for 2019 held on 29<sup>th</sup> and 30<sup>th</sup> October, decided to maintain the Policy Rate at 13.5 percent and the Lombard Rate at 0.4 percent above the Policy Rate. The Committee also maintained the Liquidity Reserve Requirement (LRR) on local currency deposits at 5 percent, and the LRR on foreign currency deposits at 3.75 percent. In arriving at this decision, the Committee observed that although rising maize prices may marginally push up headline inflation in the near term, this elevation is deemed temporary and does not pose a risk to the medium-term inflation objective of 5 percent by 2021.*

***The economy remains resilient***

The economy has displayed notable resilience despite the adverse effects of Cyclone Idai and the weak performance of tobacco exports in 2019. Real Gross Domestic Product (GDP) continues to recover and is projected to grow by 5 percent in 2019; inflation has remained in single digit, and was recorded at 9.3 percent in the third quarter of 2019; the exchange rate remains remarkably firm, currently trading at around K740 per US dollar; lending rates continue to decline,

with the base lending rate (now the reference rate) recorded at a historically low level of 12 percent; and private sector credit continued to expand, having grown by an average of 19.1 percent in the third quarter of 2019 up from 15.1 percent in the preceding quarter and 9.9 percent in the corresponding quarter of 2018. The Committee therefore observed that the positive macroeconomic outlook envisaged during its first meeting of 2019 remains firm.

***Inflation is projected to average 9.0 percent in 2019***

Inflation increased in the third quarter of 2019 to 9.3 percent from 9.0 percent in the second quarter of 2019. The increase was on account of food inflation which rose to 14.2 percent from 13.5 percent in the second quarter of 2019, and 9.9 percent in the corresponding quarter of 2018. Food inflation has largely been driven by maize prices which rose to K227 per Kg in October 2019 from K130 per Kg in October 2018. Food prices pressure may marginally intensify during the lean period, but is expected to substantially decline at the onset of the next harvest season. Non-food inflation, on the other hand, has remained remarkably low as it declined further to an average of 5.4 percent in the third quarter of 2019 from 5.5 percent in the previous quarter, largely owing to stability in the exchange rate.

***Credit growth remains strong and money supply growth is not expansionary***

Private sector credit has maintained a strong growth momentum, with the third quarter of 2019 registering a growth rate of 19.2 percent compared to 15.1 percent in the preceding quarter and 9.9 percent in the corresponding quarter of 2018. Recovery in private sector credit follows recent declines in interest rates as well as a generally improved macroeconomic environment. The annual growth rate of money supply has been remarkably contained and was recorded at 12.4 percent in August 2019, compared to 10.8 percent and 11.0 percent recorded in July 2019 and August 2018, respectively. The nominal growth of money supply has been

consistently lower than the nominal GDP growth for 2019 which is currently estimated at 13.4 percent, signifying subdued demand pressures.

### ***Global economic growth prospects downgraded***

The global growth forecast has been revised downwards further by 0.3 percentage points to 3.0 percent in 2019. Growth in advanced economies is projected at 1.7 percent due to lower growth prospects in the United States and Euro area. Emerging market and developing economies are expected to grow by 3.9 percent in 2019. In sub-Saharan Africa, growth is projected at 3.2 percent in 2019 and 3.6 percent in 2020. In South Africa, growth will be weaker in 2019 than earlier projected, reflecting a larger-than-anticipated impact of labour strikes and energy supply issues in mining, together with weak agricultural production. Oil prices have been relatively stable, trading within a narrow range in 2019 despite heightened geopolitical uncertainty. In September 2019, oil prices averaged \$60 per barrel. Annual prices are expected to average \$61.8 per barrel in 2019, a decrease of 9.6 percent from the 2018 average.

### ***MPC maintains the Policy rate***

The MPC noted the general improvement in macroeconomic conditions in 2019, which provided room to reduce the policy rate by 250 basis points in the first two sittings of the Committee, from 16 percent in December 2018 to 13.5 percent in May 2019. Inflation is projected to average 9 percent in 2019 and to gradually decline to 5 percent in 2021, contingent on favourable weather pattern in the next two growing seasons as well as prudent fiscal management. Meanwhile, rising food prices may slightly push up inflation in the fourth quarter leading to a marginally higher outcome than projected. The Committee considers this to be temporary. However, due to second round effects, the Committee considers that a gradual disinflation process is necessary and hence the decision to hold monetary policy unchanged. The Policy rate has thus been maintained at 13.5

percent, the LRR on domestic currency deposits at 5 percent and the LRR on foreign currency deposits at 3.75 percent.

Dalitso Kabambe, PhD

**CHAIRMAN, MPC.**

---

*Information Note:* The next date of the MPC meeting is 29<sup>th</sup> and 30<sup>th</sup> January 2020. The decision will be announced on 30<sup>th</sup> January 2020 during a news conference.