



RESERVE BANK OF MALAWI

STATEMENT OF THE 4th MONETARY POLICY COMMITTEE MEETING FOR 2017

The Monetary Policy Committee (MPC) met on 19th and 20th December 2017 to review the recent global and domestic economic developments and decide on the monetary policy stance.

The MPC decided to reduce the Policy Rate by 200 basis points to 16 percent, maintain the Liquidity Reserve Requirement (LRR) at 7.5 percent, and keep the Lombard rate at 200 basis points above the Policy Rate. In arriving at this decision, the Committee took into account the recent disinflation, inflation outlook and the desire to consolidate the gains made in stabilizing the economy.

On global economic developments, the Committee noted that economic activity is strengthening, and that growth is projected to rise from 3.1 percent in 2016 to 3.6 percent in 2017. The pickup is largely driven by developments in emerging and developing economies.

On the domestic economy, growth in 2017 is projected to rebound to around 5 to 6 percent, up from a subdued growth of 2.7 percent in 2016, on the back of favourable weather conditions and improving macroeconomic environment. However, the MPC stressed the need for sustained macroeconomic stability and addressing underlying structural constraints to growth as prerequisites for continued economic growth over the medium to long-term horizon.

The MPC observed with satisfaction that headline inflation fell from 23.5 percent in July 2016 to 7.7 percent in November 2017, mainly due to a consistently applied tight monetary policy by the Reserve Bank, favourable base effects, improved food availability, and a stable kwacha. Non-food inflation declined from 18.7 percent in July 2016 to 11.0 percent in November 2017. Concurrently, food inflation dropped from 29.2 percent in July 2016 to 4.7 percent in November 2017.

Furthermore, the Committee noted with appreciation that money supply growth had been contained at an average of 17.9 percent during the first 11 months of 2017, lower than 23.5 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.

The Committee also noted that the Reserve Bank of Malawi 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 within a band of ± 200 basis points around the Policy Rate.

Gross official reserves, as at 15th December 2017 stood at US\$763.34 million (3.7 months of imports) compared to US\$581.02 million (2.8 months of imports) recorded in the same period in 2016. Similarly, private sector reserves stood at US\$431.54 million (2.1 months of imports) compared to US\$330.22 million (1.6 months of imports). Consequently, the Malawi kwacha-US dollar exchange rate has remained broadly stable for more than a year. The MPC noted that the stable Kwacha augurs well with the sufficiency of the reserves and the disinflation process.

Members Present

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

Prof. Chinyamata Chipeta, Academia

Mr. Fredrick Changaya, Private Sector Representative

Ms. Evelyn Mwapasa, ICAM Representative

Dr. MacDonald Mwale, Director, Economic Policy Research (**Secretary**)

Apologies

Dr. Grant Kabango, Deputy Governor, Economics and Regulation

Mr. Ben Botolo, Secretary to the Treasury

In Attendance

Deputy Governor, Corporate Affairs

Director, Financial Markets

Director, Communications and Protocol

Director, Banking

Chief Examiner, Bank Supervision

Principal Economist, Research & Policy

Principal Economist, National Accounts & External Sector

Senior Economist, Research & Policy

Dr. Dalitso Kabambe

CHAIRMAN