



RESERVE BANK OF MALAWI

STATEMENT OF THE MONETARY POLICY COMMITTEE

2ND MPC MEETING

JULY 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 3rd and 4th July 2018 to review recent global and domestic economic developments and decided to maintain the Policy Rate at 16 percent. The Committee observed that despite a recent reduction in inflation to 8.9 percent in May 2018, risks to inflation outlook persist. The Committee also decided to maintain the Liquidity Reserve Requirement (LRR) at 7.5 percent and the Lombard rate at 200 basis points above the Policy Rate. The decision by the Committee is aimed at managing risks to the inflation outlook and support disinflation towards the medium term objective of 5 percent.

Recent Inflation Developments

Average headline inflation increased to 8.6 percent in the first quarter of 2018 from 7.7 percent recorded in the last quarter of 2017. Inflation peaked at 9.9 percent in March 2018 but has since slowed down to 8.9 percent in May 2018. Annual average inflation for 2018 is currently projected at around 9.0 percent.

Developments in Global and Domestic Output

Global economic activity continues to strengthen, with global growth projected to rise to 3.9 percent in 2018 and 2019 from 3.6 percent in 2017. The uptick in global economic activity is on the back of benign financial conditions, expansionary fiscal policy in the United States and partial recovery in export commodities. Further, there is a rebound in global trade and investment in emerging and developing economies.

On the domestic front, real gross domestic product (GDP) growth is expected to slow down to 4.0 percent in 2018 from 5.1 percent in 2017, primarily due to weak agricultural production. The agriculture output has been affected by fall army worms and irregular rainfall pattern. Non-agriculture sector is expected to remain strong in 2018.

Gross official reserves continue to rise

The exchange rate continues to be stable, trading at around K734 against the United States dollar. The stability occurs on the back of a build-up in international reserves. International reserves edged up to US\$760.2 million, equivalent to 3.6 months of imports as at 3rd July 2018 from US\$682.9 million (3.2 months of imports) recorded in a same period in 2017. This accumulation of reserves reflects purchases from the market. Meanwhile, the foreign exchange market has remained liquid during the period. Going forward, the foreign exchange market is expected to remain liquid hence support stability in the exchange rate.

Maintaining policy stance to support disinflation in the medium term

The Committee observed that inflation during the first half of 2018 remained somewhat elevated due to rebasing effects of the Consumer Price Index (CPI), electricity tariff adjustment in May 2018, a jump in maize prices in January and February 2018 on account of speculation, and fiscal pressures. Going forward, these risks coupled with rising global oil market prices are expected to persist in the near-term. The Committee therefore opined that maintaining the current monetary policy stance will help in containing the risks and directing inflation towards the medium-term objective of 5 percent. This policy stance will be complemented by consistent mop-up operations to maintain tight liquidity conditions in the market.

Consequently, the Committee resolved to maintain the monetary policy rate at 16 percent and keep the Liquidity Reserve Requirement (LRR) ratio at 7.5 percent.

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CHAIRMAN, MPC

Information note

The next scheduled date of the MPC meeting is on 26th and 27th September 2018. The MPC decision will be announced on 27th September 2018, and the announcement will be accompanied by a news conference.