



RESERVE BANK OF MALAWI

REMARKS

BY

DALITSO KABAMBE, PhD

GOVERNOR

AT THE INSTITUTE OF BANKERS

3RD ANNUAL CONFERENCE

HELD AT SUNBIRD NKOPOLA LODGE

MANGOCHI, MALAWI

23 - 25 AUGUST 2018

- ❖ The Director of Ceremonies, **Mr. Takula Kapalamula;**
- ❖ The Country Manager for the World Bank Group, **Mr Greg Toulmin;**
- ❖ The Chairman of the Institute of Bankers in Malawi, **Mr. Eric Outtara,** and all Board Members of the IOB here present;
- ❖ The President of Bankers Association of Malawi, **Mr Paul Guta** and all other CEOs of Commercial Banks here present;
- ❖ Board Members of the Institute of Bankers in Malawi here present;
- ❖ The CEO of Institute of Bankers in Malawi, **Mrs Lyness Nkungula**
- ❖ Distinguished Speakers at this Conference;
- ❖ Members of the Press;
- ❖ Distinguished Delegates;
- ❖ Ladies and Gentlemen

Good Morning,

To begin with, let me join speakers before me to congratulate the Institute of Bankers in Malawi and the Bankers Association of Malawi for yet again organising this annual conference to reflect on the direction of the economy and the performance of the Banking Sector the country and discuss a particular topic of importance. The Central Bank considers these meetings valuable and the topics discussed quite relevant and contributory to the development of our country. This year's theme *“Financial Sector Synergies: A Catalyst for Financial Inclusion”* is an example of this tradition.

As I begin my address this morning, let us first reflect on the global, regional and domestic economic developments and thereafter zero in on the outlook of the Banking Sector in mid-2018 in Malawi.

GLOBAL ECONOMY

(Clip by IMF Managing Director Christine Lagarde)

- Global economic activity has improved. Economic growth is projected to pick-up to 3.9 percent in both 2018 and 2019 from 3.7 percent in 2017.
 - Pick up in global growth is supported by momentum in advanced economies and emerging markets, accommodative financial

conditions, partial recovery in commodity exporting countries and increased demand in the US resulting from the expansionary fiscal policy.

- Concerns in the medium-term outlook include the build-up of trade tensions among major economies, greater uncertainty about the path of monetary policy adjustment in developed economies, high and rising debt in developing economies, and rising international oil prices.
- In advanced economies, growth is projected to strengthen further to 2.5 percent in 2018 from the estimated growth of 2.3 percent in 2017. This is largely driven by stronger growth in the United States, euro area and Japan, supported by domestic and spillover effects of expansionary fiscal policy in the USA; stronger-than-expected domestic demand across the Euro currency area; supportive monetary policy; and improved external demand prospects.
- Growth in emerging markets and developing economies is expected to increase from 4.8 percent in 2017 to 4.9 percent in 2018 and 5.1 percent in 2019. Growth projection in the region is mainly driven by stronger economic performance in emerging Asia, particularly in India, and improved

prospects for commodity exporters following a rise in commodity prices.

REGIONAL ECONOMY

(Clip by Abebe Aemro Selassie, Director African Department, IMF)

- Growth in Sub-Saharan Africa (SSA) was projected to pick up to 3.4 percent in 2018 from 2.8 percent in 2017 (April 2018 WEO). The increase in economic activity in the region is expected to be bolstered by a more supportive external environment and a recovery in some large economies in the region, following an increase in commodity prices.
- Meanwhile, growth in South Africa is expected to strengthen due to improvement in business confidence as political uncertainty continues to diminish.

On the domestic front,

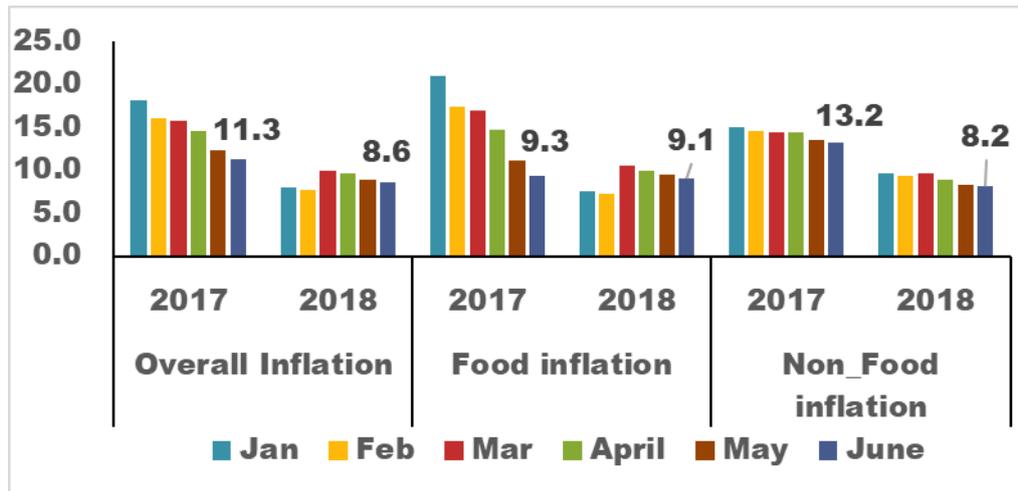
- The economy is expected to sustain solid growth, in 2018 though not as much as 2017.
 - The economy is expected to grow by 4 percent down from 5.1 percent in 2017 and is expected to rebound to 6 percent in 2019. Growth in 2018 is largely be underpinned by growth in

the non-agricultural sector, particularly the service sector.

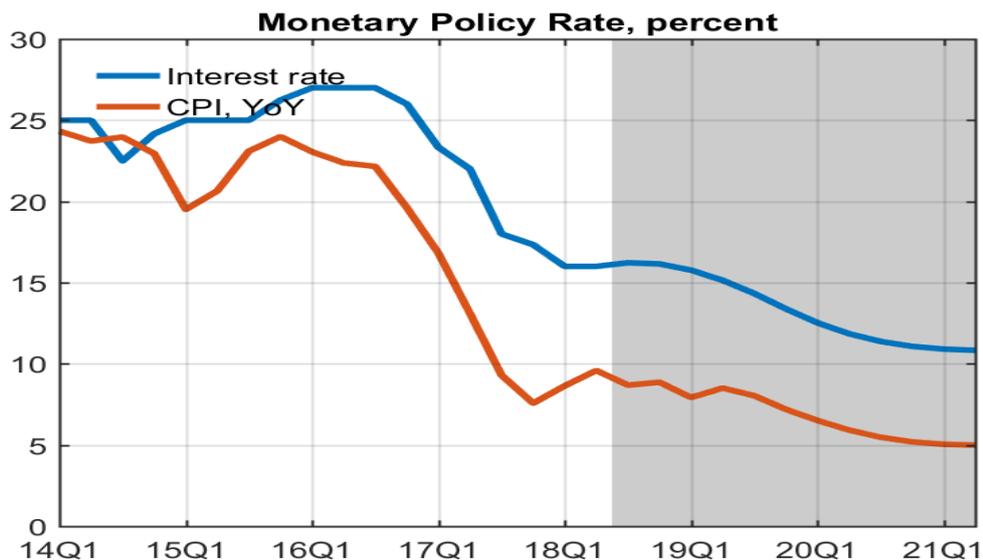
- A fairly accommodative fiscal policy is also expected to support this growth in the medium term.



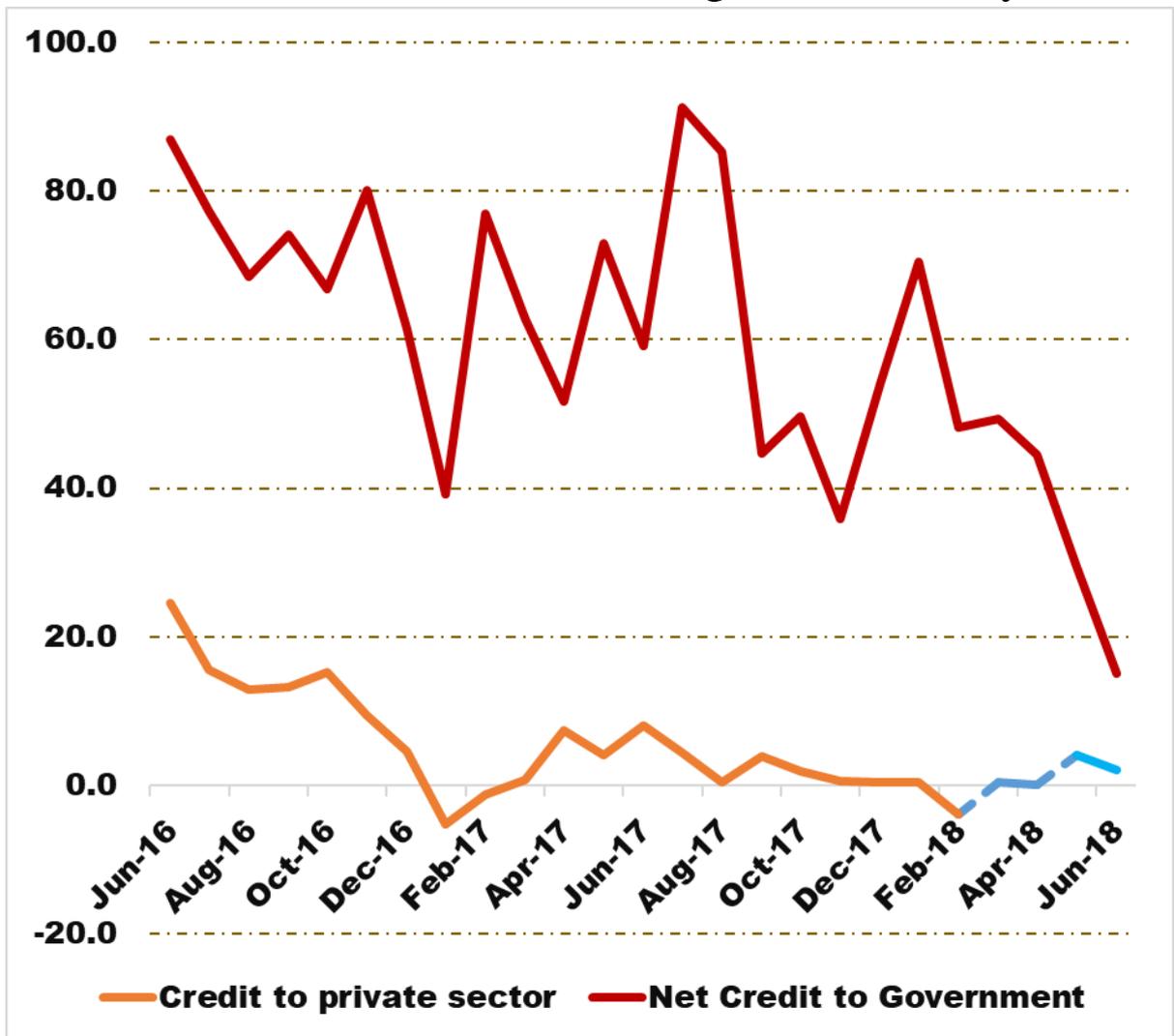
-
- Inflationary pressures, though slightly elevated were broadly contained in the first half of the year, as inflation rate remained in single digits.



- However, risks to inflation outlook remain in the horizon, largely stemming from the rising global oil prices, upward adjustments in utility tariffs, and normalization of food prices following lower than expected harvest in the last growing season.
- Monetary policy is kept relatively tight contain inflationary pressures. Stable exchange rate is also supportive of these efforts.



- **With regard to Monetary developments,**
 - Money supply is contracting as credit extended to government shrinks at the same time
 - Private sector credit shows signs of recovery



On the Regulatory Front,

- To align our financial system with global standards and best practices, the Malawian banking system fully adopted the International Financial Reporting Standard (IFRS) 9 in January 2018 replacing the

Incurred Credit Loss (ICL) model, as guided by the International Accounting Standards Board (IASB). Further, the regulatory liquidity ratio benchmark was reviewed from 30.0 percent to 25.0 percent in the new Directive (Prudential Liquidity Requirement for Banks) effective June 2018.

- To ensure markets were buoyant with liquidity and that funding is readily available at low cost, the Prudential Liquidity Requirement for banks was revised downwards to 25.0 percent from 30.0 percent, effective June 2018.

On the Health of the Banking system, in response to the global environment and supportive domestic macroeconomic conditions, the Banking sector remained sound and stable. The sector was;

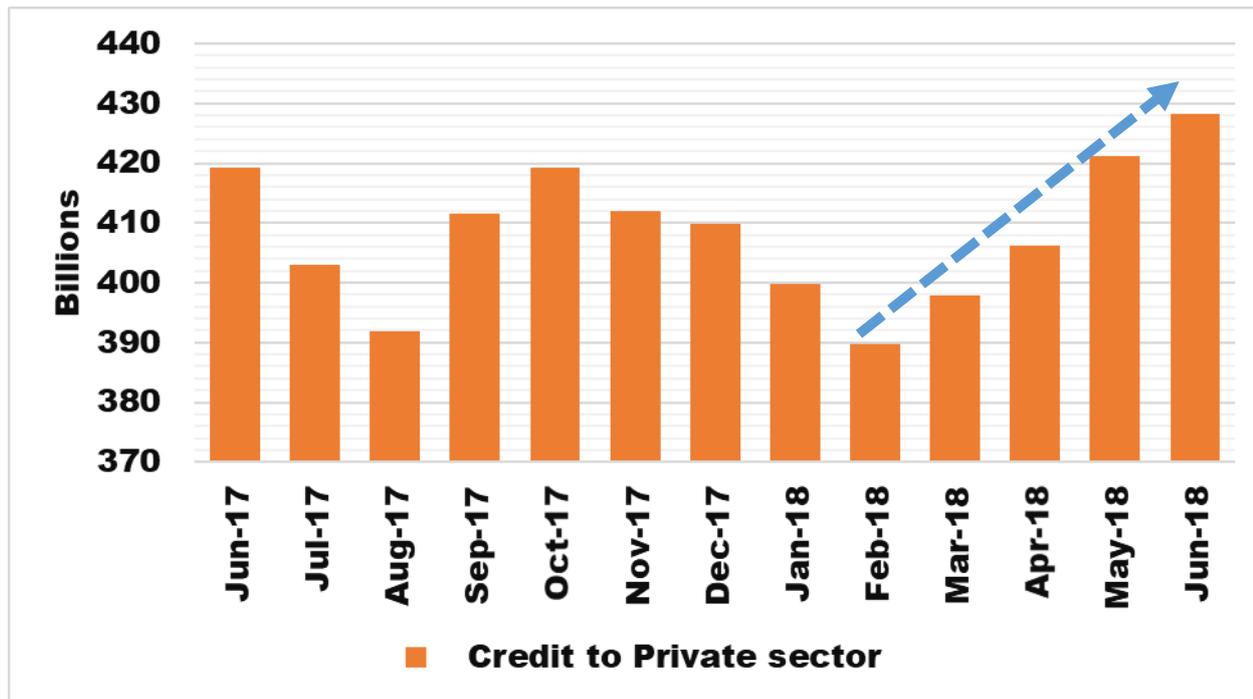
- Adequately capitalized, as at end June 2018 with both core and total capital ratios at 15.5 percent and 19.2 percent respectively, above the minimum regulatory benchmarks of 10.0 percent and 15.0 percent.
 - Banks also registered an aggregate profit after tax of K21.3 billion in June 2018 from K21.1 billion registered in June 2017. The increase in profit after tax was largely anchored by a growth of non-interest income, while interest income declined.

- Asset quality also improved as characterized by a decline in levels of non-performing loans (NPLs) to 12.1 percent in July 2018 from 15.7 percent in December 2017. The target is to bring these down to minimum regulatory levels of 5 percent by December 2018.

The Improved Role of Banks in Intermediation

- Reflecting an improved market confidence and perceived positive macroeconomic outlook by both the commercial banks and their clients, gross loans were at K486.5 billion. Representing a nominal growth of 8.4 percent from December 2018. Banks largely supported the agriculture and industrial sectors. Going forward, this is an area where banks ought to do more. We have known all along that key sectors like Agriculture and value addition, mining, tourism and manufacturing and the key sources of growth in the economy. We need to continue finding innovative ways of how these potentials can be unlocked.





We are already happy that number of bank accounts have surged from 1.3 million in January this year to 2.15 million by end June. This implies that more people are now banked. We also appreciate the role banks are in pushing for the digital financial services agenda. Already we are seeing that as much as K102 billion is transacted on daily basis through the various digital financial services platform and that with the collaboration of the mobile network operators, up to 4.7 million are able to transact as much as 6,7 billion monthly on this platform. Use of POS and internet banking is also on the rise and it is through all these that we are able to push the agenda of financial inclusion in this country. Outside the banking sector efforts are also being made to ensure that numbers of Malawians on

pensions also increase from the current 397,000, those with life insurance policies from the current 333,000 those with shares from the Malawi Stock Exchange from 49,200, in SACCOS from the current 107,667. But also those financially literate from the current 29 percent. All these are important aspects of financial inclusion and we thank the World Bank for the partnership we have in many of these areas.

I therefore look to fruitful deliberation in this conference and I thank you all for your kind attention.