



RESERVE BANK OF MALAWI

MONETARY POLICY COMMITTEE STATEMENT
OF THE 1ST MPC MEETING

MARCH 2018

The Reserve Bank of Malawi Maintains the Policy Rate Unchanged at 16 Percent

At its meeting held on 27th and 28th March 2018, the Monetary Policy Committee of the Reserve Bank of Malawi decided to maintain the Policy Rate unchanged at 16 percent. In coming up with this decision, the Committee observed that despite sustained decelerations in inflation in 2017, upside risks to inflation outlook still persist, requiring a cautious monetary policy stance. Furthermore, the Committee decided to maintain the Liquidity Reserve Requirement (LRR) at 7.5 percent and the Lombard rate at 200 basis points above the Policy Rate. Maintaining the current monetary stance is appropriate to consolidate the gains made so far especially the achievement of a single digit inflation and ensure that it converges to the medium term objective of 5 percent.

Recent Inflation Developments

Headline inflation dropped to 7.8 percent in February 2018, after an uptick to 8.1 percent in January 2018 due to revision of Consumer Price Index (CPI) basket, increase in food prices and upward adjustment in electricity tariffs. The slowdown in February 2018 was primarily driven by weaker pressures on food and non-food prices. **Headline inflation rate is projected to remain in single digits throughout 2018.**

Economic Growth

Malawi's economy grew by an estimated 5.1 percent in 2017 on the back of a bumper harvest, recovering from a subdued growth of 2.7 percent in 2016. In 2018, economic activity is projected to moderate to around 4 percent on account of irregular rainfall pattern during the growing season and the spread of fall army worms. Meanwhile, potential inflationary pressures stemming from non-food items will be muted due to the expected stability in the exchange rate and international oil prices. In addition, money supply growth slowed down in January 2018. Going forward, money supply is expected to remain broadly consistent with attaining the RBM's near and medium-term inflation objectives. In this regard, the Reserve Bank of Malawi will continue to manage liquidity in the banking system to ensure that the interbank rate is kept within a band of +200/-400 basis points around the Policy Rate.

Build-up of International Reserves to Continue

Global economic activity remained strong in 2017 and the stronger growth momentum is expected to be carried forward in 2018 and 2019 with global growth estimated at 3.9 percent in both years. Growth in Sub-Saharan Africa region is expected to remain strong in the next two years while South African growth is expected to weaken because of sluggish consumer confidence and slower investments. Overall, the external demand for Malawian products is expected to increase moderately over the coming years.

Gross official reserves, as at 15th March 2018, stood at US\$654 million (3.1 months of imports) compared to US\$576 million (2.8 months of imports) recorded in the same period in 2017. The foreign exchange market has remained broadly stable for more than a year, supported by high levels of both official and private sector foreign exchange reserves. The expected inflows of foreign currency connected with the start of the agriculture marketing season will foster a further build-up of the international reserves. As such, international reserves will be maintained at a minimum of 3 months of import cover, thereby maintaining confidence in the foreign exchange market.

Maintaining Policy Stance to Anchor Inflation Expectations in Single Digit Levels

The RBM projects that inflation will remain in single digit in 2018. The projected outturn in inflation will come on the back of tight monetary policy and improved food supply. However, a possible further increase in utility tariffs and potentially unchanged fiscal policy stance pose upside risks to this inflation outlook. Therefore, the MPC resolved to maintain the current monetary policy stance in order to consolidate pre-empt possible build-up of inflation risks and ensure that inflation remains in single digit, and subsides towards 5 percent in the medium term.

Dalitso Kabambe, PhD
CHAIRMAN, MPC

Information Note

The next scheduled date of the MPC meeting is on 27th and 28th June 2018. The MPC decision will be announced on 28th June 2018 at a press conference from 14:00 hrs.