



RESERVE BANK OF MALAWI

STATEMENT OF THE MONETARY POLICY COMMITTEE

THIRD MEETING OF 2019

JULY 26, 2019

Monetary Policy Committee Maintains the Policy Rate at 13.5 percent

The Monetary Policy Committee (MPC), at its 3rd meeting for 2019 held on 25th and 26th July, decided to maintain the Policy Rate at 13.5 percent and the Lombard Rate at 0.4 percentage points 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 inflation is projected to remain broadly stable and within the medium-term target range, as emerging risks are deemed temporary. By maintaining the Policy rate at 13.5 percent, monetary policy is also intended to support diversification and higher economic growth.

Inflation is projected to slow down to 9.0 percent in 2019

The positive macroeconomic outlook envisaged during the second MPC of 2019 remains firm. Annual inflation is projected to slow down to 9.0 percent in 2019, from 9.2 percent in 2018. Non-Food inflation remains well anchored in single digit and averaged 5.5 percent in the second quarter of 2019, down from 5.8 percent in the preceding quarter and 8.5 percent in the similar quarter in 2018. Non-food inflation averaged 5.7 percent during the first half of 2019, significantly lower than the average of 9.0 percent during the same period in 2018. Going forward, non-food inflation is expected to remain low, supported by relatively tight monetary policy as well as continued stability of the exchange rate.

Seasonal food price pressures are key threat to inflation during the second half of 2019.

Food inflation remains elevated and rose to an average of 13.5 percent in 2019Q2, from 11.9 percent and 9.5 percent recorded in 2019Q1 and 2018Q2, respectively. The average food inflation for the first half of 2019 is recorded at 12.7 percent which is higher than 9.0 percent recorded in the first half of 2018. Despite an increase in maize production in the current year, maize prices remain elevated.

Global economic growth prospects remain subdued

Global economic growth is projected to slow down from 3.6 percent in 2018 to 3.3 percent in 2019, before returning to 3.6 percent in 2020. In sub-Saharan Africa, growth is expected to pick up to 3.5 percent in 2019 and 3.7 percent in 2020 (from 3.0 percent in 2018), mainly driven by Nigeria while prospects for South Africa remain modest. The slowdown in global economic growth may affect demand for domestic exports and consequently export earnings. Brent crude oil prices have continued to oscillate between \$60 and \$70 per barrel since May 2019 and prices are expected to be lower in 2019 and 2020, averaging \$66 and \$65 a barrel, respectively.

The domestic economy is projected to recover in 2019

Gross Domestic Product growth for 2019 is estimated at 5.0 percent, an improvement from the growth rate of 4.0 percent in 2018. The rebound in growth is expected to be supported by the agriculture sector which is expected to grow by 3.9 percent in 2019, improved power supply, continued macroeconomic stability as well as the easing of monetary policy.

Exchange rate stability to continue

At the end of June 2019, total reserves amounted to US\$1,105.6 million (5.3 months of imports) which was higher than US\$1,095 million (5.2 months of imports) recorded at the end of June 2018. Total official reserves stood at US\$765.4 million (3.66 months of imports) higher than US\$728.9 million (3.48 months of imports) recorded at the end of June 2018. Private sector reserves amounted to US\$343.3 million (1.64 months of imports) in June 2019, a marginal drop from US\$383.8 in June 2018. In the first quarter of 2019, the kwacha was relatively stable, with marginal depreciation of 0.7 percent trading at K738.7942 per US dollar at end March 2019. In the subsequent quarter, the Kwacha depreciated moderately by 7.6 percent between April and June 2019 and traded at K785.2228 per US dollar. Against healthy foreign exchange reserves, the depreciation was primarily driven by speculation amidst perceptions of lower

export proceeds. Meanwhile, the depreciation has largely been contained and the Kwacha has recouped some losses and was trading at K763.8595 per US dollar by 22 July 2019.

Interbank rate maintained within the Policy rate corridor

The banking system liquidity was tight during the second quarter of 2019. Consistent with the monetary policy stance, the interbank rate has since April 2019 been contained within the Policy rate corridor.

Credit growth picks up as money supply slows down

Annual growth in credit to the private sector has been steadily picking up on account of easing monetary policy. Private sector credit grew by 17.1 percent year-on-year in June 2019, from 11.8 percent in March 2019 and 2.1 percent in June 2018. Money supply growth averaged 12.3 percent during the first five months of the year. At that level, monetary growth was below the expected nominal Gross Domestic Product (GDP) growth for 2019 of 13.4 percent, reflecting subdued demand pressures.

MPC maintains the Policy rate

The 2019 annual inflation projection has been revised upwards from 8 percent in the previous MPC meeting to 9 percent currently due to elevated maize prices. MPC observed that this is temporary and will likely unwind in the near term. Meanwhile, non-food inflation remains well anchored. The Monetary Policy Committee therefore decided to maintain the Policy rate at 13.5 percent, the LRR on domestic deposits at 5 percent and the LRR on foreign deposits at 3.75. This policy stance will allow the recent monetary policy easing decisions to filter through the market while further supporting expansion in private sector credit.

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Information Note: The next MPC meeting is scheduled for 29th-30th October 2019. The decision will be announced on 30th October 2019 during a news conference.