



RESERVE BANK OF MALAWI

STATEMENT OF THE MONETARY POLICY COMMITTEE SECOND MEETING OF 2024

3RD MAY 2024

Monetary Policy Committee Maintains the Policy Rate at 26.0 Percent

The Monetary Policy Committee (MPC) met on 2nd and 3rd May 2024 to review recent economic developments and decided to maintain the Policy rate at 26.0 percent. The Committee also resolved to maintain the Lombard rate at 20 basis points above the Policy rate and the Liquidity Reserve Requirement (LRR) ratio for foreign currency deposits at 3.75 percent. The Committee, however, raised the LRR ratio for domestic currency deposits by 100 basis points to 8.75 percent. In making this decision, the MPC took into account the recent deceleration in inflation and its continued downward projected trend in the near term. However, the Committee noted that there are upside risks to the inflation outlook, including the projected lower crop harvest, high money supply growth and higher global oil prices.

Global Economy to Grow By 3.2 Percent in 2024

The MPC noted that according to the update from the April 2024 World Economic Outlook (WEO), the global economy is projected to grow by 3.2 percent in 2024, unchanged from 2023. The Committee observed that the global economy has been resilient despite the tight monetary and financial conditions, as global central banks were largely pre-occupied with fighting inflation in 2023.

The MPC further noted that growth in advanced economies is expected to slightly rise to 1.7 percent in 2024 from a growth of 1.6 percent in 2023, mainly reflecting a recovery in the euro area. Meanwhile, growth for emerging markets and developing economies is projected to moderately slow down to 4.2 percent in 2024 from 4.3 percent in 2023.

Growth in the Sub-Saharan Africa region is estimated to accelerate to 3.8 percent in 2024 from 3.4 percent in 2023. The outturn is supported in part by a modest easing of global financial conditions which is expected to induce demand in the continent.

International Commodity Prices Modestly Declined

The Committee noted that there was a modest decline in international commodity prices during the first quarter of 2024. For example, Brent crude oil prices averaged US\$83.15 per barrel in the first three months of 2024 from US\$84.03 per barrel registered in the fourth quarter of 2023 despite a surge in February 2024 influenced by the ongoing concerns of voluntary OPEC+ countries production cuts. This is expected to reverse the trend in Brent crude oil prices, so far observed.

Urea fertilizer prices recorded a strong decline to an average of US\$338.88 per metric tonne in the first quarter of 2024 from US\$383.63 per metric tonne in the preceding quarter and US\$371.60 per metric tonne in the corresponding period of 2023. The outlook suggests that Urea prices will decline to about US\$315.00 per metric tonne during the second quarter of 2024.

The Domestic Economy Continues to Recover

The Monetary Policy Committee noted that economic growth is projected to pick up to 3.2 percent in 2024 from an estimated 1.5 percent in 2023, supported by strong growth in construction and manufacturing. However, the MPC observed that the projected growth is subject to downward adjustment, due to the impact of the El Nino weather conditions on agricultural production, and underperformance of the export sector.

Merchandise Trade Deficit to Persist

The Committee noted that external sustainability remains a pressing challenge in the country, reflecting rising import bill and limited import substitution. Specifically, merchandise trade deficit further widened to US\$507.4 million in the first quarter of 2024 from a deficit of US\$495.8 million in the preceding quarter and US\$598.0 million recorded during the first quarter of 2023. The outturn was on account of a wider drop in exports which outweighed a decline in imports.

Exchange rate developments

The MPC observed that the Kwacha per US dollar exchange rate weakened by 3.1 percent, to trade at K1,750.38 per US dollar as at end-March 2024, from K1,697.98 per US dollar as at the end of the preceding quarter. The Committee further noted that the Kwacha lost 2.0 percent against the British Pound Sterling, 1.7 percent against the Euro, and 0.7 percent against the South African Rand. This was on account of excess demand for foreign exchange, mainly for importation of fuel, pharmaceuticals and agricultural inputs. Meanwhile, the Bureau US dollar cash exchange rate stood at K1,915.29 per US dollar at end-March 2024 after remaining relatively steady from the end-December 2023 position of K1,915.21 per US dollar.

Money supply growth remains high

The Committee was concerned with the sharp growth in money supply, recorded at 47.8 percent during the first quarter of 2024 from 32.2 percent in the fourth quarter of 2023 and 31.6 percent in the first quarter of 2023.

Inflation slows down

The MPC welcomed the recent deceleration in headline inflation from 34.5 percent in December 2023 to 31.8 percent in March 2024. The outturn was driven by moderation in both food and non-food inflation. Food inflation declined to 38.8 percent in March 2024, from 43.5 percent in December 2023. Similarly, non-food inflation edged down to 22.2 percent in March 2024, from 22.8 percent in December 2023.

The Committee noted high money supply growth, underperformance of the export sector and higher global oil prices as major risks to the inflation outlook. Headline inflation is, therefore, projected to average 30.0 percent in 2024.

The MPC resolution

The MPC noted that inflation is on a downward trend but remains high. Therefore, the Committee resolved to maintain the Policy rate at 26.0 percent. The Committee also decided to maintain the LRR ratio for foreign currency deposits at 3.75 percent and the Lombard rate at 20 basis points above the Policy rate. However, the MPC resolved to increase the LRR ratio for domestic currency deposits by 100 basis points from 7.75 percent to 8.75 percent to address the rapid expansion in money supply.

Dr Wilson T. Banda

CHAIRPERSON, MPC.

Information Note: *The next MPC meeting is scheduled for 24th and 25th July 2024. The decision will be announced on 25th July 2024.*