



RESERVE BANK OF MALAWI

STATEMENT OF THE MONETARY POLICY COMMITTEE

THIRD MEETING OF 2024

25TH JULY 2024

Monetary Policy Committee Maintains the Policy Rate at 26.0 Percent

The Monetary Policy Committee (MPC) met on 24th and 25th July 2024 to review recent economic developments and resolved 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) ratios at 3.75 percent for foreign currency deposits and 8.75 percent for domestic currency deposits. In arriving at this decision, the MPC considered that the current monetary policy stance has stabilised non-food inflation and sufficiently contained the spill-over effects of food inflation to non-food inflation. The Committee further noted that maintaining the current policy stance will help in containing inflationary pressures and ensure that inflation declines towards the medium-term objective of 5 percent.

Global Economy to Grow by 3.2 Percent in 2024

The MPC noted that the July 2024 World Economic Outlook (WEO) update has maintained the 2024 growth for global output at 3.2 percent, down from a growth of 3.3 percent in 2023. The slowdown reflects the impact of tight monetary policy, withdrawal of fiscal support, and weak growth in productivity. The outlook remains uncertain due to, among other factors, an anticipated increase in international oil prices, following the extension of voluntary oil production cuts by OPEC+ member states. Growth of global output is projected to rebound to 3.3 percent in 2025.

The MPC observed that Advanced Economies are expected to grow by 1.7 percent, virtually the same as in 2023. This is expected to be supported by strong momentum in services and higher-than-expected net exports within the Eurozone, along with a boost in private consumption in Japan. Meanwhile, growth in Emerging Markets and Developing Economies is projected at 4.3 percent, down from 4.4 percent in 2023. Growth in the Sub-Saharan Africa region is estimated to accelerate to 3.7 percent in 2024 from 3.4 percent in 2023 and further to 4.1 percent in 2025. The outlook is due to the dissipation of global supply chain bottlenecks and weather shocks.

International Commodity Prices

The Monetary Policy Committee noted that crude oil prices were recorded at US\$84.6 per barrel in the second quarter of 2024, higher than US\$83.0 per barrel in the preceding quarter. However, the Committee also noted that oil prices dropped temporarily in June 2024 to US\$82.25 per barrel from US\$89.9 per barrel in April 2024 owing to a slump in demand in the month. Nevertheless, the price decrease is not expected to be sustained due to a recent announcement by OPEC+ member states to extend production cuts into the second half of 2024.

Urea fertilizer prices declined to an average of US\$313.68 per metric tonne in 2024Q2 from US\$338.88 per metric tonne recorded in the previous quarter and US\$314.85 per metric tonne in the corresponding quarter of 2023. The outturn was on account of a resumption of full-scale production by Arabian Gulf producers amid relatively suppressed global demand. Furthermore, prices are projected to maintain the downward trend in 2024Q3 due to declining natural gas prices.

Developments in the Domestic Economy

The MPC noted that economic growth is projected at 2.3 percent in 2024, a downward revision from an earlier projection of 3.2 percent, but higher than 1.9 percent recorded in 2023. The downward revision reflects the adverse effect of the El Nino-induced drop in agricultural output. Meanwhile, the anticipated growth is supported by positive performance in the construction, manufacturing, wholesale and retail trade, mining and quarrying, and real estate sectors.

External Sector Performance

The Committee noted that the import bill remains higher than export earnings. Preliminary statistics show that the current account balance for the second quarter of 2024 recorded a deficit of US\$742.7 million, up from a deficit of US\$576.0 million in the first quarter. The outturn is partly attributed to a deterioration in both the goods and services accounts.

Exchange Rate Developments

The MPC observed that the Kwacha stood at K1,749.51 per US Dollar as at end June 2024 after gaining K0.87 during the second quarter of 2024. The stability of the Kwacha was supported by improved supply of foreign exchange during the agricultural marketing season. The Committee also noted that the spread between the Kwacha-US Dollar TT exchange rate and Bureaux cash exchange rate marginally widened to 11.1 percent as at the end of the second quarter of 2024.

Developments in Domestic Prices

The MPC noted that headline inflation for the second quarter of 2024 averaged 32.8 percent, 0.6 percentage points lower than 33.4 percent observed during the previous quarter. The development followed easing pressures on food inflation which declined to an average of 40.7 percent, having averaged 41.9 percent during the first quarter of 2024. However, the Committee observed that within the second quarter of 2024, headline inflation accelerated to 33.3 percent in June 2024 from 32.3 percent in April 2024, reflecting rising food inflation, while non-food inflation remained relatively low and stable at around 22 percent over the same period. The 2024 annual inflation projection has been revised upwards from 30 percent in the previous MPC meeting to 33.5 percent primarily due to elevated food prices.

The MPC resolution

The MPC noted that the domestic economy has encountered persistent inflationary pressures triggered by the low crop harvest in the 2023/24 season. The Committee further noted that non-food inflation has responded well to the prevailing tight monetary policy stance. The Committee considered that maintaining the current

*policy stance will help in containing pressures and ensure that inflation declines towards the medium-term objective of 5 percent. Therefore, the Committee, **resolved to maintain the Policy rate at 26.0 percent, and the Lombard rate at 20 basis points above the Policy rate. The Committee also resolved to maintain the LRR ratios at 3.75 percent for foreign currency deposits and 8.75 percent for domestic currency deposits.***



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ALTERNATE CHAIRPERSON, MPC

Information Note: *The next MPC meeting is scheduled for 6th and 7th November 2024. The decision will be announced on 7th November 2024.*