

Inflation developments Newspaper Article

Inflation figures released by the National Statistics Office (NSO) showed that inflation rate continued to decline, a trend that has been observed since January 2016. The rate of inflation declined to 20.9 percent in April 2016 from its most recent highest point, recorded in December 2015 at 24.9 percent. The declining trend is expected to continue and that the RBM inflation projection of 19.3 percent for June 2016 as presented in its 3rd Monetary Policy Statement, published on the RBM website in January 2016 is achievable.

The drop in inflation during April is largely on account of increased availability of food items following the rollout of the harvesting period. This was however complemented by the consistent application of a tight monetary policy stance by the Reserve Bank of Malawi, which has effectively minimised second round inflationary effects from food to non-food inflation.

Inflationary pressures in Malawi are known to be dependent on developments in food prices, international oil prices and in the Malawi Kwacha exchange rate. With declining food prices and subdued international oil prices, inflationary pressures should in the short to medium term – up to August 2016 continue to diminish. The RBM will maintain the tight monetary policy stance through its open market operations in order to manage excess liquidity in the money market that could otherwise exert pressure on the exchange rate, thereby undoing the current positive developments in inflation.

Beyond August 2016, inflation rate seasonally follows an upward trend because food prices and the exchange rate experience pressure due to limited supply in their respective markets. However, following Government's announcement of a state of disaster in April 2016, Government's efforts and those of donors to close the estimated 1.3 million metric tonnes food gap should have a dampening effect on food prices hence on inflation in the long term.

The RBM therefore expects inflation to remain on the downward trend until it reaches the targeted single digit in 2017.

Reserve Bank of Malawi