



## RESERVE BANK OF MALAWI

### STATEMENT OF THE 1<sup>st</sup> MONETARY POLICY COMMITTEE MEETING FOR 2016

The Monetary Policy Committee (MPC) met from 17 to 18 February 2016 to review recent global and domestic economic developments and decided to maintain the Policy rate at 27.0 percent and the Liquidity Reserve Requirement (LRR) at 7.5 percent.

Global growth, estimated at 3.1 percent in 2015, is projected at 3.4 percent in 2016 and 3.6 percent in 2017. The pickup in global activity is projected to be more gradual, especially in emerging and developing economies. International oil prices are projected to remain low and stable in 2016 due to an increase in production. As at 1<sup>st</sup> February 2016, international crude oil prices averaged US\$33.09 per barrel.

On the domestic front, economic growth is projected to rebound to 5.6 percent in 2016 from 3.0 percent in 2015. However, the growth is likely to be revised downwards considering the dry spells reported in some parts of the country due to El Nino.

The Committee observed that inflationary pressures remained high in 2015 but is on a declining trend. Headline inflation averaged 21.9 percent in 2015 compared to an average of 23.9 percent in 2014 and 27.3 percent in 2013. Headline inflation remained virtually unchanged at 24.9 percent in December 2015, from 24.6 percent in November 2015. The Committee welcomed the slowdown in inflation in January 2016 to 23.5 percent. Looking ahead, however, inflationary developments remain seasonally uncertain in the next two months in view of food situation and depreciation of the kwacha in the last few months.

Reflecting the generally tight monetary policy stance, money supply growth continued to moderate to 19.1 percent, in 2015 from 24.6 percent in 2014, and was

considerably lower than the projected growth in nominal GDP. Thus inflationary pressures were under control.

Central bank's foreign exchange reserves in December 2015 increased to US\$667 million (3.19 months of imports) from US\$617 million (2.95 months of import cover) recorded at end-November 2015. The end-December 2015 position was US\$75 million higher than the amount of reserves observed at the end of December 2014, despite market interventions amounting to US\$202 million during the year.

Government domestic borrowing during the first six months of 2015/16 fiscal year amounted to K4.3 billion, compared to K36.2 billion recorded during a similar period of last fiscal year. The Committee looked forward to this being sustained over the medium term to anchor inflation expectations.

Conditions in the money market tightened in November 2015 compared to October 2015 before easing somewhat in December 2015. Daily average access on the Lombard Facility in November at K6.47 billion was second highest in the year 2015, behind volumes that were recorded in May 2015. Subsequently, the interbank rate increased to 26.67 percent in November 2015 from its October 2015 position of 15.69 percent, before losing 7.98 percentage points to 18.69 percent in December 2015. Efforts are underway to align the interbank market rate with the policy rate to enhance the effectiveness of monetary policy.

Despite depreciating sharply against currencies of major trading partners since July 2015, the Kwacha is expected to stabilize due to the opening of the new agricultural marketing season.

Therefore, the Committee decided to maintain the Policy Rate at 27 percent and the Liquidity Reserve Requirement (LRR) at 7.5 percent.

### **Members Present**

Mr Charles S.R. Chuka, Governor; (**Chairman**)

Dr Naomi Ngwira, Deputy Governor, Economics;

Dr. Ronald Mangani, Secretary to the Treasury;

Dr Grant P. Kabango, Deputy Governor, Supervision;

Mr. Godfrey Kalinga, Consultant;

Mr. Chiwemi Chihana, Partner, Ernst and Young, ICAM Representative;

Dr. Exley Silumbu, Senior Lecturer, Economics, Chancellor College

**In Attendance**

Director, Research and Statistics (**Secretary**);  
Director, Banking and Currency Management;  
Director, Exchange Control;  
Director, Bank Supervision;  
Manager, Financial Markets;  
Manager, Governor's Office;  
Principal Economist, Research and Policy Analysis;  
Principal Economist, Financial and Fiscal Affairs.

**Apologies:**

Ms. Meg Kajiyani, Deputy Governor, Operations

Charles S R Chuka  
**CHAIRMAN**