



## RESERVE BANK OF MALAWI

### STATEMENT OF THE 2<sup>nd</sup> MONETARY POLICY COMMITTEE MEETING FOR 2016

The Monetary Policy Committee (MPC) met from the 28<sup>th</sup> to 29<sup>th</sup> April 2016 to review recent global and domestic economic developments as well as the stance of monetary policy. Taking into account upside risks in the next few months, the Committee resolved to maintain the Policy Rate at 27.0 percent and the Liquidity Reserve Requirement at 7.5 percent.

Global economic growth is projected at 3.2 percent for 2016 from 3.1 percent in 2015. The global activity is expected to be driven by relatively stronger growth in emerging and developing economies. International oil prices are projected to gradually edge up but still remain low in 2016. As at 19<sup>th</sup> April 2016, international crude oil prices averaged US\$35.75 per barrel.

On the domestic front, the Government forecasted GDP growth of 5.1 percent for 2016. This GDP growth may be revised in light of the final crop estimates for the year.

The Committee observed that inflation has been declining since January 2016. Headline inflation was recorded at 22.1 percent in March 2016 from 23.5 percent in December 2015. This slowdown emanated largely from non-food inflation which dropped from 20.7 percent in December 2015 to 17.8 percent in March 2016. Food inflation slowed down to 26.6 percent in March 2016 from 28.9

percent December 2015. Headline inflation is expected to decelerate further to 19.3 percent by June 2016 reflecting a seasonal improvement in food supply, stability in the exchange rate and low international oil prices. Upside risks to the inflation outlook are however expected beyond June 2016. The outlook on inflation is premised on the current food situation as announced by Government and much will depend on the response to the crisis. Against this backdrop, the Committee resolved to maintain a tight monetary policy stance and to review the situation after the 2016/2017 budget presentation.

Money supply growth during the first two months of 2016 averaged 27.0 percent. This growth rate is above the projected nominal GDP growth for 2016 of 24.9 percent, implying that demand side inflationary pressures still persist.

Following action taken to stabilize the exchange rate, gross official reserves in March 2016 dropped to US\$622.06 million (2.98 months of imports) from US\$666.69 million (3.19 months of imports) at end- December 2015. The end-March 2016 position was US\$51.42 million lower than the amount of reserves observed at the end of March 2015.

Net government borrowing from the central bank during the first eight months of the 2015/16 fiscal year amounted to K91.7 billion. Government debt stock with the private sector declined by K68.1 billion. As such, net government domestic borrowing during the period amounted to K23.6 billion against the ceiling of K25.0 billion.

Interbank rates were fairly stable in March. The banking system was fairly liquid in March 2016. Daily access on the Lombard Facility in March 2016 averaged K2.62 billion.

The MPC noted the stabilization of the Kwacha which augers well for the disinflation process.

**Members Present**

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

Dr Naomi Ngwira, Deputy Governor, Economics;

Dr Grant P. Kabango, Deputy Governor, Supervision;

Ms. Meg Kajiyani, Deputy Governor, Operations;

Mr. Godfrey Kalinga, Consultant;

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

**In Attendance**

Director, Research and Statistics (Secretary);

Director, Banking and Currency Management;

Director, Governor's Office;

Director, Bank Supervision;

Manager, Market Developments;

Principal Economist, Research and Policy Analysis;

Principal Economist, National Accounts and External Sector;

Manager, Governor's Office.

**Apologies:**

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

Dr Ronald Mangani, Secretary to Treasury.

Charles S R Chuka

**CHAIRMAN**