



RESERVE BANK OF MALAWI

STATEMENT OF THE 3RD MONETARY POLICY COMMITTEE MEETING FOR 2016

The Monetary Policy Committee (MPC) met on 28th July and 29th July 2016 to assess current economic conditions and near to medium term economic outlook. After deliberating the global and domestic economic developments the MPC decided to maintain the Policy Rate at 27 percent and Liquidity Reserve Requirement (LRR) at 7.5 percent.

The MPC observed that global recovery was fragile and the outlook remained weak. According to the July 2016 World Economic Outlook update, growth for 2016 has been revised downwards to 3.1 percent from 3.2 percent forecasted in April 2016. The revision was based on projected weak demand and narrowing output gap which were expected to weigh negatively on economic activities in advanced economies. In addition, the outcome of the BREXIT vote is expected to increase political and institutional uncertainty in major economies. Oil prices are projected to remain steady at US\$48.0 per barrel in 2016 and gradually rise to around US\$50-US\$60 per barrel in 2017.

On the domestic front, growth is expected to remain subdued following two consecutive years of below par agriculture production due to unfavourable climatic conditions.

After a steady decline from 24.9 percent in December 2015 to 20.9 percent in April 2016, the rate of inflation increased to 21.5 percent in May and further up to 22.6 percent in June 2016. This unseasonal reversal was largely on account of an increase in prices of food items that were compounded by exchange rate depreciation. The MPC however observed that the underlying inflationary pressures could be mitigated if the maize supply situation improved in the months ahead.

Money supply growth averaged 26.3 percent during the first five months of 2016, slightly above the estimated nominal GDP growth for 2016, reflecting heightened demand pressures. Money supply growth was largely driven by credit to government partly for maize purchases. Net credit to government contributed 15.6 percent to the increase in money supply.

Liquidity conditions were tight in the banking system, especially between May and July 2016. Net government injections into the banking system amounted K165.07 billion. During the same period, the Reserve Bank of Malawi intensified mop up operations to withdraw liquidity injected from the expansionary government operations. The central bank withdrew K129.09 billion from the banking system resulting into a net injection of K35.98 billion. Consequently the interbank market rate rose to 26.7 percent in July 2016 from 14.8 percent observed in April 2015. Access to the Lombard facility on daily basis averaged K10.5 billion.

Gross official reserves closed the month of June at US\$648.20 million (3.1 months of imports) from US\$541.1 million (2.6 months of imports) in February 2016. Despite the reasonable level of reserves, the Kwacha depreciated by 6.1 percent between April 2016 and July 2016 to K726.0598. The depreciation was due to lower tobacco outcome and unfounded expectations for a continued depreciation, leading to increased FCDA balances and holdings of long positions in foreign exchange by banks. The Committee noted, however, that the volatility in the exchange rate had largely been contained in the last few months.

In line with the foregoing economic conditions and the near term outlook, the MPC resolved to maintain the Policy Rate at 27.0 percent. The decision is aimed at achieving price stability in the medium term.

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, Private Consultant;

Dr. Exley Silumbu, Senior Lecturer in Economics, University of Malawi, Chancellor College;

Dr. MacDonald Mwale, Director Research and Statistics (**Secretary**).

In Attendance

Director, Financial Markets;

Director, Bank Supervision;

Director, Banking and Currency Management;

Director, Governor's Office;

Principal Economist, National Account and External Sector;

Principal Economist, Financial and Fiscal Affairs.

Apologies

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

Dr. Ronald Mangani, Secretary to the Treasury.

Charles S R Chuka

CHAIRMAN