



RESERVE BANK OF MALAWI

MINUTES OF THE 3rd MONETARY POLICY COMMITTEE MEETING FOR 2015

The Monetary Policy Committee (MPC) met on 28th July 2015 to review recent economic developments and decide on Monetary Policy stance. The Committee resolved to maintain the Policy Rate at 25 percent and, effective 1st August 2015, reduce the Liquidity Reserve Requirement (LRR) ratio to 7.5 percent to enable banks to lower the spread between the prime lending rate and the policy rate.

The global economy is likely to grow at a slower pace than initially anticipated. Global growth is now forecast at 3.3 percent in 2015, down from the April forecast of 3.5 percent. Oil prices are projected to drop in 2015 and average US\$59.0 per barrel, from US\$96.2 per barrel in 2014, owing to strong increases in production.

On the domestic front, real GDP growth estimate remains unchanged at 5.4 percent in 2015.

Inflation accelerated to 21.3 percent in June 2015, from 19.5 percent in the preceding month and 22.5 percent in June 2014. Looking ahead, inflation is expected to continue to trend upwards largely due to rising food prices and the depreciating Kwacha.

As of May 2015, net government borrowing was at K110.0 billion, from K99.3 billion in March 2015. Gross credit to private sector amounted to K308.7 billion in May 2015 from K298.3 billion in March 2015.

The underlying pace of monetary expansion in the year to May 2015 is below the projected nominal GDP growth of 21.8 percent for 2015, reflecting a sustained tight monetary policy stance. Money supply growth decelerated to 10.3 percent in May 2015, from a high of 32.5 percent in January 2014 and 14.3 percent in January 2015. The slowdown in money growth was explained by a drop in net domestic credit. In the first 5 months of the year 2015, annual money supply growth averaged 12.8 percent against 31.9 percent recorded in a similar period of 2014.

Applying an adjusted monthly foreign exchange requirement of US\$209 million, the central bank's foreign exchange reserves were US\$714.1 million (3.4 months of imports) at end June 2015, from US\$693.4 (3.3 months of imports) in May 2015 and US\$480.7 million (2.3 months of imports) in June 2014. For the country as a whole, foreign exchange reserves amounted to US\$997.5 million (4.8 months of imports) in June 2015, from US\$982.0 million (4.7 months of imports) in May 2015, and US\$744.2 million (3.9 months of import) in June 2014. Despite, the country recording higher foreign exchange reserves than last year, the Kwacha has continued to depreciate sharply.

The banking system's liquidity conditions were relatively tight in June 2015. Daily excess reserves averaged K4.68 billion in June 2015, from K19.1 billion in March 2015. Consequently the interbank market rate rose to 25.3 percent in June 2015 from 5.0 percent observed in March 2015. On the other hand, the all-type Treasury bill yield closed the month of June at 25.2 percent, from 24.9 percent in the previous month.

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;

Dr Ronald Mangani, Secretary to the Treasury;

Dr Exley Silumbu, Senior Lecturer in Economics, Chancellor College

In Attendance

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

Apologies

Mr Godfrey Kalinga, Private Consultant
Mr Chiwemi Chihana, Partner, Ernst and Young, ICAM Representative

Charles S R Chuka
CHAIRMAN