



## RESERVE BANK OF MALAWI

### STATEMENT OF THE 1<sup>ST</sup> MONETARY POLICY COMMITTEE MEETING FOR 2015

The Monetary Policy Committee (MPC) met on 4<sup>th</sup> February 2015 to review recent global and domestic economic developments, and decided to maintain the Policy Rate at 25 percent and Liquidity Reserve Requirement (LRR) at 15.5 percent.

The global economy is expected to grow by 3.5 percent in 2015 and further pick up to 3.7 percent in 2016. Oil prices reached a five year low of US\$46.0 per barrel in January 2015, representing a 55.0 percent drop since June 2014, following excess supply on the market.

On the domestic front, real GDP growth is estimated at 6.3 percent in 2014, largely driven by the agricultural sector. For 2015, economic growth was earlier projected at 5.8 percent, but may be revised downwards due to late on-set of rains and floods.

The Committee observed that inflation outcomes for the second half of 2014 were generally higher than during the second half of 2013, largely on account of the sharp depreciation of the kwacha and increases in non-food prices. The rate of inflation closed the year 2014 at 24.2 percent. Looking ahead, inflation is expected to trend downwards to around 15.0 percent by June 2015 on account of the appreciation of the Kwacha and reductions in fuel prices.

Monetary policy was tighter in 2014 compared to 2013. Consequently, money supply growth fell to 18.0 percent in December 2014 from a high of 32.5 percent in January 2014, largely due to decline in net domestic credit. The Committee

noted that average annual money supply growth for the year 2014 was at 22.2 percent against 31.3 percent in the year 2013.

Government performance during the first half of the 2014/15 fiscal year recorded a deficit of K78.52 billion. Borrowing from RBM closed the month of December 2014 at K77.53 billion against the statutory limit of K105.06 billion. However, further pressures on the fiscal budget may arise from extra-budgetary expenditures.

Gross official reserves stood at US\$597.91 million or 3.13 months of imports as at end December 2014 compared to US\$403.16 million or 2.11 months of imports recorded in December 2013. The increase was due to both purchases from the market and sale of government debt to external institutional investors. Consequently, the Kwacha appreciated against major currencies in December 2014.

The banking system liquidity increased in December 2014. Daily excess reserves averaged K10.94 billion from K2.75 billion recorded in October 2014. On the other hand, the interbank market rate increased to 23.64 percent in December 2014 from 15.64 observed in October 2014. The all-type Treasury bill yield also edged up to 26.79 percent, from 23.37 percent in October in line with the upward adjustment in the Policy rate.

### **Members Present**

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

Dr Naomi Ngwira, Deputy Governor, Economics;

Mr Godfrey Kalinga, Private Consultant

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

### **In Attendance**

Acting Director, Research and Statistics (Secretary);

Director, Financial Markets;

Director, Banking and Currency Management;

Director, Governor's Office and Public Relations;

Director, Bank Supervision;

Principal Economist, Research and Policy Analysis;

Principal Economist, National Accounts and the External Sector

Manager, Governor's Office

Manager, Financial Markets

**Apologies**

Dr Grant P. Kabango, Deputy Governor, Supervision;

Ms Meg Kajiyanike, Deputy Governor, Operations

Prof. Ronald Mangani, Secretary to the Treasury

Mr Ted Sitima-wina, Principal Secretary, Ministry of Economic Planning and Development.

Charles S R Chuka

**CHAIRMAN**