



RESERVE BANK OF MALAWI

STATEMENT OF THE 4th MONETARY POLICY COMMITTEE MEETING FOR 2015

The Monetary Policy Committee (MPC) met on 4th November 2015 and examined the external and domestic economic developments and decided to raise the Policy rate to 27 percent and maintain the Liquidity Reserve Requirement (LRR) at 7.5 percent. The meeting took place against a backdrop of persistently high inflation, depreciating exchange rate, as well as uncertainties on food prices and wage demands.

On the global scene, the IMF has revised downwards 2015 GDP growth to 3.1 percent, from an earlier projection of 3.3 percent due to a weak recovery in advanced economies and a slowdown in emerging and developing economies. The developing economies are being affected by low commodity prices, weak demand in major trading partners' economies and the appreciating dollar.

On the domestic front, Government revised 2015 real GDP growth to 3.0 percent from an earlier projection of 5.4 percent. The downward revision was necessitated mainly by a contraction in agriculture due to late on-set of rains, floods and early cessation of the rains.

Annual growth in money supply during the first 9 months of 2015 averaged 18.2 percent, which was below the estimated nominal GDP growth rate for 2015 of 21.1 percent. However, money supply growth accelerated to 30.7 percent from 13.8 percent in June 2015, implying rising demand pressures.

Inflationary pressures continued in September 2015 as headline inflation reached 24.1 percent, from 23.0 percent in the previous month. The pressures rose mainly from non-food inflation, which picked up by 1.4 percentage points reflecting continued depreciation of the kwacha and second round effects from increases in

food prices. Food inflation also increased, albeit marginally by 0.5 percentage points due to the after effects of the decline in agricultural production for the 2014/15 season.

Despite a relatively healthy foreign reserves position compared to last year and continued inflows from the tobacco auction floor, the kwacha depreciated sharply during the months of July and August due to excess demand, speculative behaviour by market agents, and an appreciating dollar. In the event, gross official reserves declined from US\$737.1 million in July to US\$664.4 million in September 2015 following interventions in the market to smoothen exchange rate movements.

The banking system liquidity increased from K4.7 billion in June to K17.4 billion in October 2015. Subsequently, the interbank rate which was at 25.3 percent in June dropped to 11.2 percent in October 2015. Average Treasury bill yields declined over the same period due to increased liquidity in the market.

Members Present

Mr Charles S.R. Chuka, Governor; (**Chairman**)
Dr Naomi Ngwira, Deputy Governor, Economics;
Dr Grant P. Kabango, Deputy Governor, Supervision
Mr. Godfrey Kalinga, Consultant
Mr Chiwemi Chihana, Partner, Ernst and Young, ICAM Representative
Dr Exley Silumbu, Senior Lecture Economics, Chancellor College

In Attendance

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

Apologies

Ms Meg Kajiyani, Deputy Governor, Operations
Dr Ronald Mangani, Secretary to Treasury

Charles S R Chuka

CHAIRMAN