RESERVE BANK OF MALAWI

MINUTES OF THE 4TH MONETARY POLICY COMMITTEE MEETING FOR 2013

1. The Monetary Policy Committee (MPC) met on 6th August 2013 to review recent economic developments and decide on the monetary policy stance.

2. MPC resolved to maintain the Bank rate at 25.0 percent. The decision was premised on the fact that inflationary risks at this point in time remain on the upside. The Committee decided to observe inflationary developments in the next two months.

3. In coming to this conclusion, the MPC took into account developments in the global economy, the food situation in the country and latest movements in macroeconomic aggregates, as well as emerging financial market risks.

4. Global economic activity remains subdued largely due to weaker demand in key emerging market economies and the protracted recession in the euro area. However, international oil prices are expected to remain stable in the next few months.

5. Driven by slowdown in both food and non-food prices, the rate of inflation decelerated to 27.9 percent in June 2013 from 31.0 percent in May 2013. The Committee noted that a seasonal increase in food stocks across the country contributed to the slowdown in inflation, although the reduction was not as marked as expected. Non-food inflation dropped significantly on account of lagged effect of tight monetary policy and appreciation of the kwacha.

6. Net credit to government from the banking system marginally decreased by K1.3 billion in June 2013 to K151.9 billion from K153.2 billion in March 2013. Despite the high interest rates, private sector credit from the commercial banks continued to grow year-on-year above 20 percent since January but dropped to

10 percent and 11 percent, in May and June, respectively. The MPC recognized the need to further analyse credit growth to the private sector.

7. The year-on-year growth in money supply dropped to 25.7 percent in June 2013 and was below the projected nominal GDP growth of 32.1 percent for 2013, reflecting a sustained tight monetary policy stance.

8. The country's foreign exchange reserves in June 2013 increased to US$651.44 million (3.5 months of import cover) from US$393.8 million reported in April 2013. The bulk of foreign exchange reserves was accounted for by a jump in official reserves from US$218.5 million (1.2 months of imports) in April 2013 to US$452.8 million (2.4 months of imports) in June 2013. The accumulation in foreign exchange reserves benefited significantly from tobacco proceeds.

9. As a result of the prudent monetary and fiscal policies coupled with tobacco auction sales, the kwacha appreciated to around K335.52 per US dollar in June 2013 from K405.18 per US dollar in March 2013.

10. MPC noted that commercial banks raised their interest rates in April due to liquidity pressures and rising Treasury bill yields. Following improvements in the liquidity situation the Treasury bill yields have dropped accordingly to 34.35 percent in June 2013 from 42.29 percent in March 2013. The Committee welcomed the trend in commercial rates towards realignment with the Bank Rate which continues to be negative in real terms.

11. The next MPC meeting will be held on 26th September 2013.

The following members of the Committee were present:
Mr Charles S.R. Chuka, Governor; (**Chairman**)
Dr Naomi Ngwira, Deputy Governor, Economics;
Dr Grant P. Kabango, Deputy Governor, Supervision;
Ms Meg Kajiyanike, Deputy Governor, Operations
Mr Chiwemi Chihana, SOCAM Representative
Mr Godfrey Kalinga, Private Consultant

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

Also in attendance were:
Director, Research and Statistics (Secretary);
Director, Financial Markets;
Director, National Payment System;
Director, Exchange Control
Acting Director, Banking and Currency Management
Acting Director, Governor's Office;
Mr Francis Zhuwao, Acting Director, Economic Affairs
Chief Examiner, Bank Supervision
Principal Economist, Research and Policy Analysis
Principal Economist, National Accounts and the External Sector.

Apologies:
Mr Regson Chaweza, Lecturer, Economics Department, Chancellor College

Charles S R Chuka
CHAIRMAN