



RESERVE BANK OF MALAWI

MINUTES OF THE 4TH MONETARY POLICY COMMITTEE MEETING FOR 2012

1. At the fourth meeting of the Monetary Policy Committee (MPC) meeting held on 3rd October 2012, members resolved to maintain the Bank rate at 21 percent and the Liquidity Reserve Requirement at 15.5 percent.
2. The policy resolution was preceded by an analysis of the prospects for global output, domestic growth, inflation, money supply, fiscal developments, foreign exchange reserves, and money and capital markets developments.
3. Recent data continued to suggest a weak near-term outlook for global economic activity as weak demand and the euro region's fiscal crisis eroded recovery efforts. This is notwithstanding significant policy initiatives by the United States Federal Reserve, the European Central Bank, Bank of Japan and the Bank of China to address the weak growth prospects.
4. Domestic real GDP growth is estimated to slowdown to 1.6 percent in 2012 attributed largely to negative growth in agriculture and manufacturing sectors. Recovery is however, expected in service sectors underpinned by improved foreign exchange and fuel availability. Growth is expected to rebound in 2013. The impetus for this is expected to come from further improvements in foreign exchange availability and recovery of the agricultural sector.
5. Headline inflation accelerated to 25.5 percent in August 2012 from 21.7 percent in July 2012, shored up largely by both food and non-food costs. This outturn was explained by a pick up in maize prices in some parts of the country as well as pass-through of fuel price hikes and the further depreciation of the kwacha.
6. Net credit to Government declined in August 2012 following a buoyant domestic and external revenue performance. Revenue collections averaged K20 billion in the first two months of the new fiscal year whilst budget support and project funds bolstered the external resource envelope.

7. Reflective of the tight monetary stance adopted since May 2012, gross credit to the private sector declined by K1.7 billion to K208.6 billion in August 2012 following broad recoveries in the key sectors.
8. Gross official reserves declined to US\$180.5 million or 0.9 months of import cover in August 2012 from US\$192.5 million or 1.0 months of import cover in July 2012. This development was on account of higher outflows of US\$55.3 million that outpaced supply by US\$13.2 million.
9. As a result of the above factors, money supply growth slowed down to 22.4 percent in August 2012 from 30.7 percent in July 2012.
10. Liquidity conditions remained critical in August 2012 albeit some banks' positions improving considerably. Accommodation on the discount window averaged K15.8 billion a day in August 2012 from K23.8 billion a day in July 2012. Concurrently, interbank market trading increased with the rate edging upwards to 31.2 percent in August 2012. Money market operations injected K6.2 billion in August 2012.
11. Symptomatic of the somewhat improved liquidity conditions, investors offered K35.5 billion on the primary market for Treasury bills against an announced target of K11.2 billion representing an oversubscription of 317.7 percent. Meanwhile, the all type Treasury bill yield leapt to 20.4 percent in August 2012 as bidders attempted to maximise returns against inflation expectations and comparable high deposit rates.
12. Activity on the stock exchange remained dismal attributed to massive selloffs in a number of counters in the wake of mid-year financial results. As a result, the Malawi All Share Index declined by 0.4 percent to 5,991.88 points in August 2012. Meanwhile, the Foreign Share Index rose to 653.57 points in August 2012. Total market capitalization rose by 4.3 percent to K2.9 trillion in August 2012.
13. According to financial stability assessments, macroeconomic risks have increased following the lower growth prospects for 2012. The risks have been reinforced by higher inflation expectations. The high lending rates, averaging 31.4 percent, have also heightened credit risks as some portfolios run the risk of being non-performing. Monetary and financial conditions remained tight as some banks remained short. Finally, the low trading on the stock exchange reflected lower returns compared to high rates fetched on the money market.

The following members of the Committee were present:

Mr Charles S.R. Chuka, Governor

Mrs Mary C. Nkosi, Deputy Governor, Operations

Dr Grant P. Kabango, Deputy Governor, Supervision
Mr Randson Mwadiwa, Secretary to the Treasury
Mr Ben Botolo, Principal Secretary, Economic Planning and Development
Dr Regson Chaweza, University of Malawi, Chancellor College

Also in attendance were:

Director, Research and Statistics (Secretary)
Director, Financial Markets
Director, Exchange Control
Director, Banking and Currency Management
Director, National Payment System
Director, Governor's Office and Public Relations
Chief Examiner, Bank Supervision
Principal Economist, National Accounts and the External Sector
Principal Economist, Financial Sector and Fiscal Affairs

Apologies

Dr Naomi Ngwira, Deputy Governor, Economics
Mr Ted Sitimawina, Principal Secretary, Economic Planning and Development

Charles Chuka
Chairman