



RESERVE BANK OF MALAWI

MINUTES OF THE 5TH MONETARY POLICY COMMITTEE MEETING FOR 2013

1. At the fifth meeting of the Monetary Policy Committee (MPC) meeting held on 26th September 2013, members resolved to maintain the Bank rate at 25.0 percent to sustain the tight monetary policy stance against the backdrop of emerging risks to inflation.
2. The policy decision was preceded by an analysis of the prospects for global output, domestic growth, inflation, money supply, fiscal developments, foreign exchange reserves, financial stability concerns as well as developments in money and capital markets.
3. Recent data continued to suggest a weak near-term outlook for global economic activity in emerging economies due to slower external demand growth and lower commodity prices.
4. On the domestic front, estimates of real GDP growth remained unchanged at 5.0 percent in 2013.
5. The Committee welcomed the deceleration in inflation to 23.3 percent in August 2013 from 25.2 percent in the preceding month. This outcome was explained by a sharp slowdown in food prices coupled with the appreciation of the Kwacha.

Looking ahead, inflation is expected to be higher than earlier forecasted as prices of food, fuel and utility tariffs pick up.

6. Annual money supply growth increased to 39.6 percent in August 2013 from 25.4 percent in January 2013. The bulk of the increase emanated from government operations. In the coming months, money supply growth is expected to slow down to levels consistent with the growth in nominal GDP due to seasonal factors and monetary operations.
7. During the first two months of the first quarter of the 2013/14 budget, government net domestic borrowing increased by K57.1 billion due to advanced funding for some expenditures. The expectation is that regardless of this borrowing, government will adhere to its stated fiscal rule of zero net domestic borrowing by the end of the second quarter. Members underscored the importance of the fiscal rule in ensuring appropriate coordination with monetary policy towards attainment of macroeconomic stability.
8. Gross credit to the private sector has been declining as annual growth dropped to 8.5 percent in August 2013 compared to an annual increase of 29.9 percent registered in August 2012. The slowdown in growth reflected the tight monetary policy stance needed to stabilise the exchange rate and bring down inflation.
9. Gross official reserves in August 2013 remained high at US\$442.6 million or 2.4 months of imports on account of the more than expected tobacco auction proceeds and the continuing tight monetary policy stance. Going forward, official reserves should remain above two months of imports.

10. Money market liquidity has increased substantially, as a result of the central bank's intervention to build up reserves and recent government borrowing. Reflecting this development, the interbank market rate declined to 16.54 percent in August 2013 from 37.4 percent in March 2013 and the average Treasury bill yield dropped from a peak of 45.0 percent in March 2013 to 19.37 percent in August 2013. To contain the inflationary impact of this liquidity, the Committee underlined the need for intensified monetary operations.

11. Financial system stability has improved following the deceleration in the inflation rate and recent stability in the exchange rate, although risks remain due to the continuing high interest rates. This calls for up-scaled supervisory oversight.

The following members of the Committee were present:

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

Dr Naomi Ngwira, Deputy Governor, Economics

Ms Meg Kajiyani, Deputy Governor, Operations

Mr Godfrey Kalinga, Private Consultant

Dr Regson Chaweza, Lecturer, Economics Department, Chancellor College

Mr Randson P. Mwadiwa, Secretary to the Treasury

In attendance were:

Director, Research and Statistics (Secretary)

Director, Bank Supervision

Director, Exchange Control

Acting Director, Banking and Currency Management

Acting Director, Governor's Office

Director, Economic Affairs, Ministry of Finance

Principal Economist, Research and Policy Analysis

Principal Economist, Financial and Fiscal Affairs

Principal Economist, Financial Stability

Manager, Market Development, Financial Markets

Manager, Policy and Settlements, National Payments System

Apologies:

Dr Grant P. Kabango, Deputy Governor, Supervision

Mr Chiwemi Chihana, SOCAM Representative

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

Charles S R Chuka

CHAIRMAN