RESERVE BANK OF MALAWI

MINUTES OF THE 6th MONETARY POLICY COMMITTEE MEETING FOR 2013

1. The sixth meeting of the Monetary Policy Committee (MPC) was held on 10th December 2013. Based on an analysis of prospects for global output, domestic growth, inflation, money supply, fiscal developments, foreign exchange reserves, financial stability concerns, developments in the money and capital markets as well as ramifications from the recent "cash-gate" scandal, members resolved to tighten monetary policy further. In this regard members agreed to introduce the following measures effective 1st January 2014:

    1.1 Strengthen the Liquidity Reserve Ratio (LRR) instrument by changing its composition. In this regard, while the LRR will be maintained at 15.5 percent, vault cash will no longer count as part of LRR, and furthermore, eligible financial institutions will be required to maintain with the central bank a minimum of 12.0 percent of the revised composition of the LRR at all times.

    1.2 Introduce a Lombard Facility to assist banks to manage their liquidity better than hitherto. The Lombard rate will be set at a spread of 2 percentage points above the Bank Rate. This means that authorized dealer banks with appropriate collateral will be borrowing at the Bank Rate plus 2 percentage points. With the Lombard Rate, the commercial banks will be assured of access to funds.

    1.3 Manage money market operations with a view to keeping money market rates around the Bank Rate.

    These policy measures are aimed at containing eminent risks to inflation outturn envisaged in the near term.

2. The MPC decided on these measures based on the following observations:

2.1 The outlook for the global economy remains weak and for the first time, the economies of the emerging markets have slowed down.

2.2 On the domestic front, although real GDP growth for 2013 is estimated at 5.0 percent there are downward risks emanating from agriculture and mining. Nonetheless all sectors of the economy are expected to register positive growth rates in 2013; and in particular, a significant rebound in growth is expected in manufacturing.

2.3 The economy is facing constraints emanating from the recent public finance management scandal which has resulted in the postponement of donor aid disbursements.

2.4 The inflation rate rose to 22.2 percent in October 2013 from 21.7 percent in September. The acceleration in inflation reflected several factors including the depreciation of the kwacha, a weak fiscal balance and an increase in food prices, reversing the disinflation trend observed since April 2013.

2.5 In October 2013, money supply grew on annual basis by 31.8 percent compared to 25.7 percent recorded in June 2013. This outturn was largely explained by fiscal pressures especially in the first quarter of FY2013/14. In fact Government net domestic borrowing increased by K45 billion between July and November 2013. In this regard, the expenditure control measures recently announced by Government to reduce borrowing and bring fiscal operations back to a sustainable path represent a major step in restoring conditions for macroeconomic stability.

2.7 Private sector credit growth accelerated to 15.2 percent in October from 13.4 percent in June 2013. The increase was noticeable in agriculture, manufacturing and wholesale and retail sectors. The bulk of the borrowing was for purchasing farm inputs and working capital.

2.8 As at mid November 2013, gross official reserves stood at US$406.2 million or 2.2 months of imports and this position is expected to be sustained up to end-March 2014. The RBM will continue to ensure uninterrupted supply of fuel and other essential imports.

2.9 Money market liquidity was tight during the month of October 2013 on account of contractionary monetary operations by the RBM in September 2013. The liquidity conditions slightly improved in November 2013 following net injection from government and foreign exchange swap operations.

2.10 Reflecting the tight liquidity situation in October 2013, the interbank rate rose to 24.83 percent in November from 19.27 percent in September. The all type Treasury Bill yield closed the month of November at 31.15 percent compared to 18.74 percent recorded in September. The yields are expected to come down once government domestic borrowing requirements are reduced by fiscal expenditure controls.

2.11 Malawi's financial system remained broadly sound between the third and fourth quarters of 2013, though risks remain on account of high lending rates.

2.12 It was observed that despite the current level of official reserves being much higher than last year, the sharp Kwacha depreciation reflected largely the loss of donor support which constrained the central bank's ability to defend the Kwacha. To contain the Kwacha depreciation, the Committee underscored the need for further tightening of monetary policy and full implementation of the fiscal measures announced recently and as agreed with the IMF.

3.0 MPC members agreed to observe closely developments in the national economy; in particular developments in the public finance management issues as well as aid disbursement and meet again in the next few weeks to review the monetary policy stance.

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
Dr Regson Chaweza, Lecturer, Economics Department, Chancellor College
Mr Ben Botolo, Principal Secretary, Ministry of Economic Planning and Development

Also in attendance were:
Director, Research and Statistics (Secretary);
Director, Financial Markets;
Acting Director, Governor’s Office;
Manager, National Payment System
Chief Examiner, Bank Supervision
Principal Economist, Financial and Fiscal Affairs
Principal Economist, National Accounts and the External Sector
Manager, Market Development.

Apologies:
Mr. Newby Kumwembe, Secretary to the Treasury
Mr Ted Sitima-wina, Principal Secretary, Ministry of Economic Planning and Development

Charles Chuka
Chairman