



RESERVE BANK OF MALAWI

MINUTES OF THE 5TH MONETARY POLICY COMMITTEE MEETING FOR 2012

1. The Monetary Policy Committee (MPC) met on, 3rd December 2012 to review recent economic developments and decide on the monetary policy stance necessary to contribute to government's efforts to realize the objectives of the economic recovery plan (ERP).
2. After an exhaustive discussion of recent economic developments, and the urgent need to stabilize the Kwacha in order to anchor inflation expectations, the MPC resolved to raise the Bank rate by 400 basis points to 25.0 percent with immediate effect and to maintain the Liquidity Reserve Requirement (LRR) at 15.5 percent. The new Bank rate is in line with developments in both non-food inflation and the Treasury bill yield which the MPC considers one of the important indicators of market expectations.
3. In coming to this conclusion, the MPC took into account developments in the global economy, latest movements in macroeconomic aggregates, as well as emerging financial market risks.
4. Global economic recovery has been weaker than was anticipated at the preceding MPC meeting, with fresh setbacks in systematically important economies making the outlook more uncertain. Forces pulling down growth in the advanced economies include fiscal consolidation and weak financial systems. The crisis in the Euro area remains the most obvious threat to global recovery.
5. Driven by increases in food and fuel prices, the rate of inflation rose to 30.6 percent in October 2012, up from 28.3 percent during the preceding month and 9.8 percent at the beginning of the year. The Committee noted that food price increases contributed 83.4 percent of the increase in inflation, highlighting the need for expediting food redistribution.

6. The year-on-year growth in money supply rose to 22.7 percent from 19.9 percent recorded in September 2012 underpinned largely by private sector credit which contributed 13.8 percentage points to the 22.7 percent monetary expansion.

7. Net credit to government from the banking contracted further in October 2012 to K125.6 billion from K169.4 billion in June 2012 as a result of continued improvements in revenue performance. Private sector credit from the commercial banks, at K208.2 billion in October 2012, remained substantially strong. Growth in private sector credit averaged 27.8 percent since June 2012. This was not only putting pressure on domestic prices but also on foreign exchange reserves and the exchange rate.

8. The central bank's foreign exchange reserves have been falling since July 2012 to US\$142.7 million (about 0.8 months of import cover) as at end-October 2012. The Reserve Bank continued to support the foreign exchange market through foreign exchange sales that amounted to US\$258.4 million between May and October 2012.

9. Preliminary assessments showed that risks in the financial system heightened because of deteriorating macroeconomic environment. The ratio of non-performing loans increased to 7.8 percent in October 2012 from 6.8 percent in the preceding month. Some banks continued to face liquidity problems in October 2012 and relied on the central bank to make up for their liquidity shortfalls through the discount window lending.

10. Reflecting the decreasing foreign exchange reserves and the increasing inflationary expectations, the Kwacha continued to depreciate faster than anticipated. At the same time the average Treasury bill yield rose to 22.00 percent from 21.34 percent in the previous month with average yield on the 364 days tenor at 24.62 percent in October 2012, way above the 21.0 percent RBM policy rate. These developments pointed to an accommodative monetary policy stance and the need for corrective measures.

The following members of the Committee were present:

Mr Charles S.R. Chuka, Governor;

Mrs. Mary C. Nkosi, Deputy Governor, Operations;

Dr Naomi Ngwira, Deputy Governor, Economics;

Mr Ted Sitimawina, Principal Secretary, Ministry of Economic Planning and Development; and

Dr Regson Chaweza, Senior Lecturer, University of Malawi, Chancellor College.

Also in attendance were:

Director, Research and Statistics (Secretary);

Director, Financial Markets;

Director, National Payment System;

Director, Bank Supervision;

Manager, Governor's Office and Public Relations;

Manager, Banking and Currency Management;

Principal Economist, Financial Stability;

Principal Economist, National Accounts and the External Sector.

Apologies:

Dr Grant P. Kabango, Deputy Governor, Supervision; and

Mr Randson Mwadiwa, Secretary to the Treasury.

Charles S R Chuka

CHAIRMAN