



RESERVE BANK OF MALAWI

MINUTES OF THE MONETARY POLICY COMMITTEE MEETING HELD ON 12TH MARCH 2013

In pursuit of the objectives espoused in the Economic Recovery Plan (ERP), the Monetary Policy Committee (MPC) convened on 12th March 2013 to review recent economic developments. Based on regular economic and monetary analyses, the MPC decided to keep the policy rate and the Liquidity Reserve Requirement (LRR) unchanged at 25.0 percent and 15.5 percent, respectively.

The decision was based on the fact that the information available since the last MPC meeting, broadly confirmed the previous assessment. Secondly, the Authorities had just embarked on the National Accounts and Balance of Payments Survey whose results should inform the next course of action.

Before arriving at the policy decision, the MPC discussed developments in the global economy, latest activities in the domestic macro-economy as well as emerging financial stability risks.

Global growth is projected to strengthen marginally to 3.5 percent in 2013 from 3.2 percent in 2012 as the factors underlying soft global activity are expected to subside. As a result most commodity prices are expected to ease due to insufficient demand to keep pace with raw-material production.

On the domestic front, real GDP growth is projected to rebound in 2013 as confirmed by the capacity utilization survey conducted by the Reserve Bank of Malawi (RBM) in February 2013. The survey indicated that industrial activity is expected to improve to 66.7 percent in 2013 from 55.8 percent in 2012. Risks to output are expected to emanate from the prevailing tight credit conditions.

Over the policy-relevant horizon, at 35.1 percent in January 2013, the rebased inflation figure was lower than the previous projection of 35.6 percent. Inflation is expected to peak in March 2013 before decelerating in subsequent months to December 2013. This is in line with the findings of the inflation expectations survey conducted in February 2013.

The underlying pace of monetary expansion in January 2013 at 25.4 percent was largely in line with seasonal patterns and was consistent with economic activity for the year. Commercial banks' financing of private sector activities remained strong year-on-year at 23.6 percent in January 2013.

Following unanticipated redemptions of securities, the liquidity situation improved in the first two months of 2013 as evidenced by excess reserves which doubled to about K8 billion in February 2013.

The inter-bank money market rate gained 300 basis points to 25.23 percent whilst the average Treasury bill yield rose to 35.44 percent following an increase in Treasury bills on offer.

As the RBM continued to support the importation of strategic commodities such as fuel and fertilizers, foreign exchange reserves dropped to 0.9 months of import cover. The continuing low level of reserves combined with increased seasonal pressures, resulted in the kwacha depreciating further by 7 percent to K377.5009 per US dollar in February 2013.

Risks to the stability of the financial system continued largely due to rising inflation, high interest rates and the continued depreciation of the kwacha. Credit

risks also remain elevated as the ratio of non-performing loans edged upwards to 10.7 percent in January 2013.

Based on the foregoing outlook, the balance of risks as well as the need to await the results of the National Accounts and Balance of Payments Survey, the MPC resolved to keep the monetary policy stance unchanged.

The next MPC meeting will be held on 7th May 2013.

Members Present

Mr Charles S.R. Chuka, Governor; (Chairman)
Dr Grant P. Kabango, Deputy Governor, Supervision;
Dr Naomi A. Ngwira, Deputy Governor, Economics;
Mr Francis Zhuwao, Acting Director, Economic Affairs;
Dr. Regson Chaweza, Lecturer, University of Malawi, Chancellor College.

In Attendance

Director, Financial Markets;
Director, Banking and Currency Management;
Director, Bank Supervision;
Principal Economist, Research and Policy Analysis;
Principal Economist, Financial and Fiscal Affairs;
Manager, Governor's Office.

Apologies

Mrs. Mary C. Nkosi, Deputy Governor, Operations;
Mr. Randson Mwadiwa, Secretary to the Treasury;
Mr Ted Sitima-wina, Principal Secretary, Ministry of Economic Planning and Development;
Director, Research and Statistics;
Director, National Payment System;
Director, Exchange Control;
Director, Governor's Office.