



RESERVE BANK OF MALAWI

MINUTES OF THE 1ST MONETARY POLICY COMMITTEE MEETING FOR 2014

The Monetary Policy Committee (MPC) met on 13th February 2014 to review recent economic developments and decide on the monetary policy stance.

Based on economic and monetary outcomes and forecasts, the MPC decided to keep the Policy rate unchanged at 25.0 percent.

Global economic activity is expected to improve further in 2014 on account of recovery in advanced economies. Global growth is now projected at 3.7 percent in 2014 against 3.9 percent in 2015. Oil prices are projected to drop slightly in 2014, averaging US\$103.1 per barrel, from US\$109 per barrel.

On the domestic front, inflation accelerated to 23.5 percent in December from 22.2 percent in October. This brought average inflation for 2013 to 28.6 percent, from 21.3 percent in 2012. The relatively higher average inflation in 2013 was largely due to rising food prices coupled with the rapid depreciation of the Kwacha in the aftermath of cashgate and suspension of donor flows. It should also be noted that the high rates of inflation during the first half of 2013 reflected the low base in 2012.

Broad money supply (M2) grew at 35.1 percent in December 2013 from 31.8 percent in October. This monetary expansion reflected both accumulation of reserves and increased credit to private sector which rose annually by 15.7 percent in December 2013 from 15.2 percent in October.

Notwithstanding seasonal factors and withdrawal of donor budget support, the build-up of gross official reserves continued and stood at US\$402.4 million (2.1 months of import) in December 2013, the highest end-December outcome since 2005. This outcome was on account of generally consistent monetary policies since the May 2012 economic reforms.

The sharp depreciation of the Kwacha which started in September, 2013, stabilized somewhat in December as demand for foreign exchange was contained by tight monetary conditions. Indeed, the Kwacha started appreciating especially in February, much earlier than anticipated.

The MPC welcomed developments in the exchange rate, noting that the appreciation of the Kwacha will dampen inflationary pressures especially if fiscal discipline is sustained over the next few months. Members further noted the decline in Treasury bill yields as a result of improved liquidity conditions in the interbank market. However, they recognized that intensified fiscal discipline is necessary to keep TB yields down, thereby strengthening the effectiveness of the Policy rate.

Looking ahead, inflation is expected to peak at 25.6 percent in February largely due to rising food prices and lagged impact of the Kwacha depreciation. Thereafter, inflation is expected to begin a deceleration in March as a result of the expected seasonal appreciation of the Kwacha and improvements in the food supply situation.

However, members noted risks to inflation emanating from fiscal pressures during the election period. In light of the foregoing, and the need to allow more time for the recent monetary policy measures to work through the economy, the MPC resolved to keep its monetary policy stance unchanged.

The next meeting of the MPC will be in April, 2014 at a date to be announced.

Members Present

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

Dr Naomi Ngwira, Deputy Governor, Economics

Dr Grant P. Kabango, Deputy Governor, Supervision

Mr Godfrey Kalinga, Private Consultant

Mr Chiwemi Chihana, Partner, Ernst and Young, ICAM Representative

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

Mr Newby Kumwembe, Secretary to the Treasury

In Attendance

Director, Research and Statistics (Secretary)

Director, Financial Markets

Director, Governor's Office

Director, Banking and Currency Management

Principal Economist, Financial and Fiscal Affairs

Principal Economist, Research and Policy Analysis

Principal Economist, Financial Stability

Apologies

Ms Meg Kajiyanike, Deputy Governor, Operations

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

Charles S R Chuka

CHAIRMAN