



RESERVE BANK OF MALAWI

STATEMENT OF THE 2nd MONETARY POLICY COMMITTEE MEETING FOR 2014

1. The 2nd meeting of the Monetary Policy Committee (MPC) was held on 30 April 2014. Based on 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, the Committee resolved to maintain the policy rate at 25 percent.
2. Global economic activity improved during the second half of 2013. Activities in advanced economies were driven by growth in final demand, while emerging market economies benefited mainly from a rebound in exports. The outlook for 2014-15 remains positive, with further improvements in global economic activity expected to be driven mainly by a recovery in the advanced economies.
3. On the domestic front, real GDP growth for 2014 is estimated at 6.1 percent. All sectors of the economy are forecasted to register positive growth rates in 2014 except the mining sector.
4. Inflation pressures eased during the first quarter of 2014 on account of a deceleration in both food and non-food prices. Thus inflation slowed down from 25.9 percent in January to 24.0 percent in March. The Committee noted that inflation will continue to trend downwards and is expected to be about 16 percent in December 2014.
5. Money supply growth decelerated from a high of 35.2 percent in December 2013 to 30.5 percent in March this year. The slowdown in money growth was explained by a drop in net foreign assets and net domestic credit.

6. In the quarter ended March 2014, government net domestic borrowing was reduced by K7 billion, representing a substantial turnaround in fiscal operations. However, the committee forecasts this position to reverse by end June because of uncertainty in donor funding and likely financing pressures associated with elections. Based on the highlighted pressures, the Committee observed that risks to inflation remain.

7. Applying an adjusted monthly foreign exchange requirement of US\$191 million, official reserves increased from 2.1 months in December 2013 to 2.4 months of imports in March 2014. For the banking system as a whole, foreign exchange reserves amounted to US\$754 million or 3.9 months of imports from 3.4 months at end December 2013. The process of building up international reserves will continue in order to smoothen seasonal volatility in the exchange rate while building a buffer for the lean season.

8. Money market liquidity remained high resulting in a reduction in the interbank rate to 8.4 percent in April 2014 from 25.2 percent in December 2013. The committee noted that this calls for intensification of monetary operations which could lead to a reversal of both the Treasury Bill yields and the interbank rates.

9. The Committee noted that the financial system continued to be sound, although risks remained on account of increasing non-performing loans. Furthermore, lending rates remained high despite the outlook for inflation.

10. The committee noted that measures that were implemented in 2013 have impacted positively on inflation outlook this year and have enabled the build-up in reserves. In order to balance the impact of the ongoing foreign exchange operations on liquidity and the anticipated fiscal risks, the MPC made a deliberate decision to review the policy rate at the next meeting.

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, ICAM Representative;
Mr Ted Sitima-wina, Principal Secretary, Ministry of Economic Planning and Development;
Dr Regson Chaweza, Lecturer, Economics Department, Chancellor College.

Also in attendance were:

Director, Research and Statistics (**Secretary**);
Director, Exchange Control;
Director, Banking and Currency Management;
Director, Governor's Office;
Principal Economist, Research and Policy Analysis;
Principal Economist, Financial Stability;
Principal Economist, Financial and Fiscal Affairs;
Manager, National Payments System;
Manager, Markets Development.

Apologies:

Mr. Newby Kumwembe, Secretary to the Treasury
Mr Godfrey Kalinga, Private Consultant

Charles Chuka
Chairman