RESERVE BANK OF MALAWI

MINUTES OF THE 5TH

MONETARY POLICY COMMITTEE MEETING

FOR 2014

The Monetary Policy Committee (MPC) met on 30th October 2014 to review recent economic developments and decide on the monetary policy stance. The Committee observed that inflation outcomes for the second half of 2014 have generally been higher than during the second half of 2013.

Looking ahead, inflation is expected to accelerate to 25.4 percent in December 2014, largely due to rising food prices and the depreciating Kwacha. Thereafter, inflation is expected to begin decelerating in March as a result of the expected seasonal appreciation of the Kwacha and improvements in the food supply situation. In view of the foregoing, the Committee decided to increase the Policy Rate back to 25 percent and to review the position at the next meeting.

The global economy is likely to grow at a slower pace than initially anticipated. Global growth is now forecast at 3.3 percent in 2014, down from the July forecast of 3.4 percent. Oil prices are projected to drop slightly in 2014, averaging US$102.8 per barrel, from US$109 per barrel, and drop further to US$99.4 per barrel in 2015, owing to strong increases in non-OPEC production.

On the domestic front, real GDP growth is estimated to pick up to 6.3 percent in 2014, largely driven by the agricultural sector. Growth is expected to slow down to 5.8 percent in 2015.

Supported by slowdowns in both food and non-food prices, the rate of inflation decelerated to 23.7 percent in September 2014 from 24.5 percent in the preceding month.

Money supply growth decelerated from a high of 32.5 percent in January 2014 to 14.3 percent in August 2014. The slowdown in money growth was explained by a drop in net foreign assets and net domestic credit. In the first 8 months of the year 2014, annual money supply growth averaged 25.5 percent against 29.5 percent recorded in a similar period of 2013. The underlying pace of monetary expansion in the year to August 2014 is below the projected nominal GDP growth of 30.3 percent for 2014, reflecting a sustained tight monetary policy stance.

Government net domestic borrowing rose to K228.5 billion in August 2014 from K208.5 billion recorded in July 2014. The outturn was on account of a K16.2 billion increase in credit from the monetary authorities and a K3.8 billion rise in government borrowing from the commercial banks.

Reflecting effects of the recent reduction in commercial banks' lending rates, private sector credit from the commercial banks grew by K1.4 billion to K273.6 billion in August 2014 from K272.3 billion in July 2014. However, at 34.3 percent, the average prime lending rates in the money market are significantly positive in real terms.

The Committed noted, however, that the return to financial assets and the bulk of bank deposits have become negative, creating significant arbitrage opportunities for banks while at the same time increasing demand for available foreign exchange.

The central bank's foreign exchange reserves dropped to US$463.4 million or 2.4 months of import cover in September 2014, from US$478.9 million or 2.5 months of import cover in August 2014 and US$447.3 million in September 2013 or 2.3 months of import cover. The country's foreign exchange reserves in September 2014 slightly dropped to US$760.2 million or 4.0 months of import cover from US$780.6 million or 4.1 months of import cover in August 2014. However, the reserves are higher than US$744.2 million or 3.9 months of import cover recorded in September 2013.

Despite, the country recording higher foreign exchange reserves that last year, the Kwacha continued to depreciate faster than anticipated, largely reflecting continuing uncertainty regarding the resumption of donor flows, the increasing liquidity from government borrowing from the central bank and the recent negative returns to Kwacha holdings.

The banking system liquidity improved in September 2014. Daily excess reserves averaged K8.65 billion from K5.02 billion per day recorded in August 2014. Consequently the interbank market rate fell to 7.08 percent in September 2014 from 10.00 percent observed in the previous month. On the other hand, the all-type Treasury bill yield edged up to 20.00 percent, from 18.78 percent in the previous month. At those rates, the Treasury Bill yield is negative in real terms, thereby undermining efforts to contain inflationary pressures.

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;

Prof. Ronald Mangani, Secretary to the Treasury

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

In Attendance

Director, Research and Statistics (Secretary);

Director, Financial Markets;

Director, Banking and Currency Management;

Director, Governor's Office and Public Relations;

Director, Economic Affairs, Ministry of Finance, Economic Planning & Development

Chief Examiner, Bank Supervision;

Principal Economist, Research and Policy Analysis;

Principal Economist, Financial and Fiscal Affairs;

Principal Economist, National Accounts and the External Sector

Manager, Governor's Office

Manager, Exchange Control

Apologies

Ms. Meg Kajiyanike, Deputy Governor, Operations

Charles S R Chuka

CHAIRMAN