

## **The New Building Society - Malawi**

### **Chairman's Report for 1999**

The year which has just passed has been characterized by high inflation, high interest rates and a weak Malawi Kwacha. During the year we had two major devaluations of the Malawi Kwacha, one in August 1998 and again, shortly thereafter in October, 1998. The exchange rate has moved from MK 15.30 to US \$1 at the beginning of the year to MK45 to US\$1 at the close of the financial year. The Reserve Bank of Malawi Lending rate has also moved from an average of 24 percent per annum to 47 percent per annum, whilst the annualized inflation has moved from 18.2 percent per annum to 56.0 percent per annum.

#### **Performance**

Net operating profit for the year declined by 67 percent on the previous year; that is, from K187 million in the previous year to K6.9 million in the year under review. The reason for this dismal performance is that a larger than normal provision for losses was made: K26 million in contrast to only K6.9 million in the previous year because the Society's mortgage portfolio did not perform very well due to adverse economic conditions and also due to the adoption of conservative accounting policies as we prepare the society to operate under the Banking Act. The high levels of interest rates and inflation affected the affordability of borrowers to service their loans.

#### **Future Outlook**

We expect the deposits level to continue to grow as external factors influencing the level of deposits appear to become favorable. A bumper harvest of maize is expected to to the favorable rains which the country received and the free maize seed and fertilizer (starter packs), which the Malawi Government provided to smallholder farmers. This is expected to improve the income per capita of the average Malawian and, consequently, their ability to save. On the negative side, however, inflation and interest rates are likely to remain high and the Kwacha appears to increasingly become over valued.

The Society, for its part, will continue to improve the quality of its deposit products and the delivery system to the customer in order to remain competitive.

**R.P. Dzanjalimodzi**

**Chairman**