



RESERVE BANK OF MALAWI

STATEMENT OF THE 3rd MONETARY POLICY COMMITTEE MEETING FOR 2014

1. The 3rd meeting of the Monetary Policy Committee (MPC) was held on 8th July 2014. Based on analysis of recent economic developments and outlook 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 adjust the policy rate downwards by 2.5 percentage points to 22.5 percent effective 9th July 2014. This means that the Lombard rate which currently stands at 27.0 percent will decrease to 24.5 percent. The MPC maintained the Liquidity Reserve Requirement (LRR) and the daily observable LRR at 15.5 percent and 12.0 percent, respectively.
2. Global real output is projected to grow by 3.6 percent in 2014 and strengthen to 3.9 percent in 2015 from 3.0 percent in 2013. However, unemployment remains high for many countries while the sustained growth in many low income countries has not translated into poverty reduction and job creation. Furthermore, inflation in advanced economies continues to remain low. Restoring resilience is therefore crucial to secure the gains so far made.
3. The MPC observed that domestic growth has strengthened and is expected to remain robust due to expansions in agriculture, utilities, information and communication, construction, transport and storage and financial services sectors. Real GDP growth for 2014 is estimated at 6.3 percent up from 6.1 percent in 2013.
4. Pressures on inflation subsided during May 2014 as headline inflation decelerated to 22.6 percent from 23.9 percent in April on account of a deceleration in both non-food and food prices. Based on this trend inflation is expected at 20.5 percent in December 2014. The Committee noted that the deceleration in inflation could have been faster had the Automatic Pricing Mechanism for fuel (APM) been implemented consistently. This notwithstanding food inflation is expected to continue declining in the near future on account of sufficient food stocks. Furthermore, the projected relative stability in the exchange rate and consistent

application of the APM are expected to augment the favourable outlook for inflation.

5. The MPC observed that money supply growth at 26.5 percent in May 2014 has moderated to levels consistent with projected nominal GDP growth for 2014 and has been declining for the past five months. Reserve money which had been growing at an average of 55.0 percent in the first quarter of 2014 moderated to 35.0 percent in April and May 2014.
6. Net credit to government was the major determinant of monetary growth in May 2014 as the impacts of credit to the private sector and net foreign assets were subdued. Thus, the contribution of net credit to government from the banking system to monetary growth rose to 25.7 percent in May 2014, up from 5.0 percent in January 2014. On the other hand, real private sector credit contribution to monetary developments has steadily declined compared to a similar period in 2013 signaling the effects of tight monetary policy over the period. The MPC also observed that the non-performing loans have been increasing due to high lending rates prevailing in the economy.
7. The kwacha is expected to remain stable owing to sufficient build up of official reserves which were recorded at 2.5 months of imports in June 2014. In the medium term, the RBM aims at building official foreign exchange reserves equivalent to at least 3.0 months of imports.
8. The MPC noted that despite the positive prospects, risks to the outlook remain. The risks are associated with prospective increase in reserve money arising from the implementation of the government budget. The Committee noted that fiscal prudence and management of food supply situation will be critical to mitigating inflationary pressures.
9. Having considered the developments and outlook for the economy, the Committee observed that a larger policy rate reduction was possible. However a measured reduction was considered appropriate at this time in view of the need to await the outcome of the budget process. The MPC will therefore continue to monitor developments in the economy and take appropriate action to contain emerging inflationary pressures.

The following members of the Committee were present:

Mr Charles S.R. Chuka, Governor; (**Chairman**)
Dr Naomi Ngwira, Deputy Governor, Economics
Ms Meg Kajiyanike, Deputy Governor, Operations
Mr. Godfrey Kalinga, Private Consultant
Mr Chiwemi Chihana, ICAM Representative
Dr Regson Chaweza, Lecturer, Economics Department, Chancellor College

Also in attendance were:

Director, Research and Statistics (Secretary)
Director, Banking and Currency Management
Director, Bank Supervision
Director, Governor's Office
Principal Economist, Research and Policy Analysis
Principal Economist, Financial and Fiscal Affairs
Manager, Governor's Office
Manager, Markets Development
Manager, Exchange Control

Apologies:

Dr Grant P. Kabango, Deputy Governor, Supervision
Mr Newby Kumwembe, Secretary to the Treasury
Mr Ted Sitima-wina, Principal Secretary, Economic Planning and Development

Charles Chuka
Chairman