



RESERVE BANK OF MALAWI

STATEMENT OF THE 4TH MONETARY POLICY COMMITTEE MEETING FOR 2014

1. The Monetary Policy Committee (MPC) met on 9 September 2014 to review recent economic developments and decide on the monetary policy stance. Based on the economic and monetary outcomes and outlook for the year, the MPC decided to maintain the Policy rate at 22.5 percent, the Lombard rate at 24.5 percent and the Liquidity Reserve Requirement (LRR) and the daily observable LRR at 15.5 percent and 12.0 percent, respectively.
2. Global economic activity was projected to expand by 3.4 percent in 2014 owing to moderating fiscal consolidation and highly accommodative monetary policies in advanced economies. However, growth is expected to decline in emerging markets following slowdowns in frontier markets such as China, Brazil and Russia. Growth will remain strong in Sub-Saharan Africa resulting from investment in the resource sectors, infrastructure and agriculture. Oil prices in 2014 are expected to remain largely stable on account of expected stable supply, notwithstanding the current geopolitical tensions.
3. The MPC noted that the domestic economy which grew by 6.1 percent in 2013 is expected to grow by 6.3 percent in 2014 and 5.8 percent in 2015, driven mainly by the agriculture sector.
4. Pressures on inflation continued to subside in July 2014 as headline inflation decelerated to 22.3 percent from 22.5 percent in June 2014 on account of a deceleration in non-food prices. The MPC noted that food inflation had started picking up earlier than expected on account of uncertainties about the food situation in the country.
5. The MPC observed that the trend of money supply growth has been decelerating from January to July 2014 and stood at 18.9 percent in July 2014. Further money supply growth which has averaged 27.1 percent in 2014 was below the projected nominal GDP growth of 28.0 percent. Reserve money which grew by 35.4 percent in May 2014 moderated to 18.30 percent in July 2014.

6. Real private sector credit contribution to monetary developments continues to be modest. However, the meeting observed that the non-performing loans have remained high due to high lending rates prevailing in the economy.
7. The official international reserves increased from 2.1 months of imports in January 2014 to 2.6 months of imports in July 2014. With this level of foreign exchange reserves the RBM should be able to smoothen fluctuations during the lean season.
8. The MPC noted that despite the positive developments to date, some risks still remain to the inflation outlook. Among the risks are the uncertainty in the food situation and fiscal budget implementation. The committee therefore noted that fiscal consolidation will be crucial to ensuring that inflationary pressures are contained.
9. Having considered the developments and outlook for the economy, in particular the uncertain inflation outlook, the MPC resolved to maintain the policy rate at 22.5 percent. The MPC will continue to monitor developments in inflation and fiscal operations in the next few months and will review the situation 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;
Mr. Godfrey Kalinga, Private Consultant
Mr Chiwemi Chihana, ICAM Representative
Mr Ted Sitima-wina, Principal Secretary, Economic Planning and Development;
Dr Regson Chaweza, Lecturer, Economics Department, Chancellor College

Also in attendance were:

Director, Research and Statistics (Secretary);
Director, Financial Markets
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
Chief Examiner, Bank Supervision
Manager, Governor's Office

Apologies:

Ms Meg Kajiyanike, Deputy Governor, Operations

Mr Newby Kumwembe, Secretary to the Treasury, Ministry of Finance

Charles S. R. Chuka
Chairman