



Statement of the Governor

Mr Charles Chuka

at the

Economic Symposium

**Commemorating 50th Anniversary of
the Reserve Bank of Malawi**

**Bingu International Conference
Center**

November 23, 2015

The Guest of Honour, Minister of Finance and of
Economic Planning and Development, Hon.
Goodall Gondwe, MP

Honourable Ministers

Members of the Diplomatic Community

Senior Government Officials

Our Presenters:

Prof. Njuguna Ndung'u, Immediate Past
Governor of the Bank of Kenya; and

Dr Ellias Ngalande, Former Governor of Reserve
Bank of Malawi

Former Governors and Senior Officials of RBM

Members of the Board of Directors of RBM

Colleagues, Ladies and Gentlemen

Theme: 50 Years of Central Banking

I want to start my remarks with a quote from a speech made by the State President at this year's ECAMA Conference: "When spiders unite, they can tie up a lion." The lion in the room is inflation. It is the greatest enemy of the people of Malawi. Inflation robs the people of the fruits of their hard labour as well as jobs for their children.

The task of taming inflation was given to the Reserve Bank of Malawi(RBM). And so as we commemorate 50 years of central banking in Malawi, our celebratory mood is rather muted.

How can we celebrate in song and dance when basic commodity prices keep on rising? And when interest rates are as high as 42%?

The question at this symposium is whether in the past 50 years the “spiders” were united in their efforts to tie up the “lion”. While the answer would seem obvious, it is important to identify the spiders that should have united. As you can decipher, the Governor of the Reserve Bank of Malawi is by law the big spider tasked to tame the lion. But some of you are saying, no way, there must be another very big spider; otherwise how could RBM, which boasts of over 180 well schooled economists fail in its mandate.

What is often forgotten in our discourse is that monetary policy - as the big rope to be used in

taming the lion – was designed on the assumption that any well-meaning and prudent government would spend no more than taxes collected from the citizenry. It was and still is assumed today that governments cannot afford to undermine their own electability by pursuing fiscal adventurism. It is in the interest of governments to avoid giving central bank's an excuse for failure to achieve low and stable inflation.

Let me quickly state my case, during the last 50 years, any successes and failures with regard to inflation trends, are almost entirely attributed to fiscal prudence or lack of it. Factors such as droughts, floods, commodity prices, and similar catastrophes, may increase the price level, but persistent inflation is a monetary phenomenon.

Inflation cannot persist if it's not financed either by the central bank or central government or both.

In terms of the country's growth prospects, it's essential to be clear on what monetary policy can and cannot achieve. And here I want to quote Bernanke – the immediate past Chairman of the Fed: “The Fed has little or no control over long-term economic fundamentals....What the Fed can do is two things: First, by mitigating recessions, monetary policy can try to ensure that the economy makes full use of its resources..... Second, by keeping inflation low and stable, the Fed can help the market-based system function better and make it easier for people to plan for the future.”

The economic reforms that began in 2012 averted a deep recession, and Malawi is still registering positive growth rates. The Reserve Bank of Malawi recognizes that our greatest contribution to improving the future of Malawians is by doing all we can to bring inflation and keep it low. It is taking a bit longer but we will deliver on our mandate.

I very much hope that the people of Malawi realize that the next 50 years can only be better than the last only if we can achieve and sustain macroeconomic stability – basically defined as low and stable inflation. And to achieve that we, the people, must demand of our governments to spend on us only what we have given in the form of taxes. We must demand low and stable inflation. When our Parliamentarians ask for a

bridge in our constituency, they also must know that we are not asking them to print money or to borrow without prudence. Allow me to quote the State President again “It is time to make the people trust their government. “

That is why it should matter a lot to all Malawians as to who is the Minister of Finance and Governor of RBM.

And on that note, it is now my honour and privilege to ask our Guest of Honour, the Minister of Finance and of Economic Planning and Development, Hon. Goodall Gondwe, MP, to address us.

Honourable Minister, Sir