Mary C Nkosi: Reflections on Malawi's economy

Speech by Mrs Mary C Nkosi, Deputy Governor of the Reserve Bank of Malawi, at the business breakfast organized by Sunbird Malawi, Blantyre, 29 June 2012.

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- ***The CEO of Sunbird Malawi, Mr Roger Gardner***
- ***The Director of Finance for Sunbird Malawi, Mr Patrick Lisilira***
- ***The Chairman of the Malawi Confederation of Chamber of Commerce and Industry (MCCCI), Mr Chikankheni***
- ***Chief Executive Officers of various organisations represented here***
- ***Distinguished Guests;***
- ***Ladies and Gentlemen***

I am delighted to be here this morning at this important Business Breakfast organized by Sunbird Malawi. Let me start by applauding the management of Sunbird Malawi for their foresight in fostering discussions and debate on issues that affect our economy through such an interaction. It is through such fora that the intellectuals and business community in this country make enormous contribution to the policy making process. I am aware of your active participation in Ministry of Finance pre-budget sessions and other brainstorming and consultative sessions on the economy. We do not take that for granted. It shows your commitment to seeing positive change in our economy.

At the mention of a business breakfast, my expectation was that it was going to be a time to enjoy breakfast while listening to business people discussing. But when I learnt of what was expected of me, I was able to understand the importance if this occasion to the business community and the valuable opportunity it provides in enabling us to interact and share ideas on issues that affect our day to day life, especially things that affect the economy and lives of many Malawians.

I deem the theme "Think Global, Act Local" as a very important one especially at this juncture when tremendous will and effort is being applied to fight the numerous challenges facing us. There is renewed optimism amongst Malawians, especially the business community; reflecting the desire of every Malawian to see that the economy is doing well and that most people have sufficient income for essentials and perhaps a little extra. We would want to see that businesses are hiring and jobs are relatively easy to get. We may, not have a job for everyone but we would like to see that everyone is well off.

Distinguished guests, ladies and gentlemen,

The economic problems we have been facing in recent years reflect, to a large extent the sources of our growth. The Malawi economy, prior to 2011, performed well, supported by macroeconomic stability. However, this growth led to a rapid rise in imports, which outpaced the growth of exports and contributed to the widening of the external current account deficit, and to falling international reserves.

Distinguished guests, ladies and gentlemen,

Malawi's economic growth slowed down significantly to 4.3 percent in 2011 after enjoying growth rates above the needed 6 percent since 2005. Actually growth averaged 8 percent between 2007 and 2010 with agriculture taking the lead and other sectors benefiting from the growth in agriculture. The recent underperformance is largely registered by sectors that heavily depend on imports – manufacturing, transportation, construction and wholesale and retail trade sectors – reflecting unavailability of foreign exchange in the domestic market. Growth is expected to stagnate in 2012 and remain at 4.3 percent but will pick up in 2013 with a projected growth rate of 5.7 percent.

The rate of inflation has trended upwards since early January 2012 reaching 17.3 percent in May 2012 (12.4 percent in April), largely explained by rising import costs, as imports have been priced at a much depreciated rate. Gross official reserves have declined from slightly over $218 million (1.7 months of prospective imports) in June last year to just over $120 million (one month of import cover) by end-April 2012. Money supply has been growing at unprecedented levels, an average of over 30 percent since early 2011 owing to expanded net credit to government as government revenue performance was negatively affected by the underperformance of businesses in recent years.

Ladies and gentlemen

The results of all that we were going through started manifesting in November 2009 when we started having queues for forex. After our suppliers cut our lines of credit, we did not adjust accordingly although we are a price taker and with worsening terms of trade there seemed to be no end to the woes.

Whereas Malawi escaped the first round effects of the Global Financial Crisis, we were caught up in the second and third round effects in 2009/10. Our foreign markets started to adjust their demand for our commodities and at the same time global financiers started to look cautiously at their balance sheets resulting in locking up the financing facilities. As you might be aware, the tap of foreign aid at that same time was closed due to political and economic governance issues.

Revitalising the economy remains our biggest challenge but it can be done. The good thing is that we know where things went wrong and if that were corrected, it is not too late to get back on a positive trajectory. Recent policy changes, including the 49 percent devaluation of the official Malawi kwacha exchange rate against the US dollar, and the subsequent floatation of the kwacha exchange rate are some of the policies that are being put in place to create a better Malawi. There will be short term costs, but the long-term gains more than compensate for the losses.

Ladies and gentlemen

We made it clear at the onset that the adjustment we have taken will have a price that we all, Malawians have to pay in order to have a long lasting solution. Waiting any longer would have been worse. At the Bank we do not envisage a reversal on the position that we have taken.

The results in the short term have been exceptional. Forex is now available; the queues at the bank for forex and fuel have dissipated. Tobacco prices are good and we anticipate a reversal in the tobacco production this coming season. There is an immediate pass-through to price increases and we anticipate the full effect of the devaluation in the next six months with inflation going up from the March level of 12% to an average of 18.4% in 2012. However we anticipate an amelioration of inflation to average 16.1% in 2013 and returning to a single digit average in 2014.

The most frequently asked question is: “How will the Reserve Bank ensure sustainability of foreign exchange?” I am proud to report that the Bank has put tremendous efforts to address the supply side of foreign exchange. You may be aware that the Bank has taken a lead in the Export Development Fund (EDF) initiative to promote exports in the country.

Consequently the Government has developed the National Export Strategy (NES) to be implemented through participatory process to transform Malawi from a predominantly importing and consuming nation to becoming a producing and exporting nation. The NES will prioritise investment incentives to develop productive capacity, encourage foreign and domestic investment and ultimately create sustainable export capacity.

Ladies and gentlemen

You will agree with me that Malawi has lagged behind its neighbours in the sub-Saharan Africa with its share of regional exports to the world declining sharply over time in terms of the business environment indicators such as transaction costs and infrastructure. Adjusting the exchange rate regime was one of the measures to enhance Malawi's international competitiveness. The bank recognises that further steps still remain to be undertaken, such as removal of structural bottlenecks that are retarding growth and diversification of the economy, e.g. reliable and adequate supply of energy.

The Bank believes that the private sector is an engine of growth in any economy. But for the private sector to make any impact the Bank would encourage that they should improve on their efficiency in both resource mobilisation and allocation.

Ladies and gentlemen

Why do we think that the steps we have taken are plausible and will work for Malawi? Malawi has actually come late in responding to problems we were facing. There is a lot to learn from our neighbours who went through similar situations and had responded. We are far behind some of the countries such as Zambia, Uganda, Tanzania and to some extent Mozambique who liberalised their financial sectors some time ago. It was also painful for each one of those countries but the pain did not last.

Mr. Chairman, ladies and gentlemen

I thank you for your attention and God bless you.