

Caleb M Fundanga: Repatriation of bank notes between Zambia and Mozambique

Speech by Dr Caleb M Fundanga, Governor of the Bank of Zambia, at the signing ceremony of the Agreement on Repatriation of Bank Notes between the Bank of Mozambique and the Bank of Zambia, Lusaka, 4 February 2009.

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- Your Excellency, the High Commissioner;
- Governor Ernesto Gouveia Gove, Governor of the Bank of Mozambique;
- Members of the Mozambican delegation;
- Bank of Zambia staff present;
- Distinguished Invited Guests;
- Ladies and gentlemen:

May I begin by extending a warm welcome to Governor Gove and members of the Mozambique delegation to Zambia in general and to this signing ceremony of the Agreement on the Repatriation of Bank Notes between the Bank of Mozambique and the Bank of Zambia, in particular.

Governor, the existence of an extensive border between Mozambique and Zambia has resulted in significant cross-border trade as evidenced by the movement of people, goods and currencies across the border thereby strengthening our shared identity and background as Africans. I must however, hasten to mention that, the cross border trade has hitherto been hindered by the need for traders from both sides of the border to convert funds into United States Dollars and then convert funds back into the other currency when purchasing goods or services. By so doing, cross-border traders incur foreign exchange losses as well as other conversion costs in the process.

Further, the issue of a parallel currency market existing among the cross border traders between the two countries point to the need to strengthen bilateral trade between our countries and put in place payment systems that should promote this trade based on the exchange of the two local currencies. In this regard, this agreement is critical to facilitate better trade between our sister countries.

Your Excellency, there are, however, challenges associated with the currency of one country circulating in another country and these need careful scrutiny and handling. These include vices such as counterfeiting and facilitating illegal trade as well as enhancing cross border money laundering activities. Moreover, to us as monetary authorities, cross-border local currency circulation creates the potential of complicating the conduct of monetary policy, especially if a significant amount of the country's domestic currency is being used outside the jurisdiction. For us who target monetary aggregates, this may lead to implementation of inappropriate monetary policy decisions which may adversely affect the real economy.

Currency repatriation is critical as it will allow us adjust the currency in circulation, a key component of reserve money, which is the intermediate target in our monetary policy operations. We are therefore looking forward to the implementation of the agreement we are signing today to facilitate currency repatriation between our two Central Banks.

I am therefore, very pleased that the long months of discussions between the Banco de Mozambique and the Bank of Zambia have resulted in the mutual agreement to repatriate both the Meticals and Kwacha. This achievement should be saluted as citizens of both

countries will now be able to pay for goods originating from the other country with the currency of that country, hence eliminating the need for currency conversions by citizens.

Distinguished Ladies and Gentlemen, this agreement is also a step towards further strengthening trade and financial cooperation between the two countries. It provides the legal basis for commercial banks, bureaux de change and other financial institutions to freely accept each country's currency and repatriate it through the banking system with full accountability. The agreement will not only enhance trade cooperation but will also increase cooperation between our two central banks. Furthermore, the agreement provides a platform for sharing information on the bank notes in use by the two central banks. This information exchange initiative should not only end at central banks, but be extended to all economic entities that will use and benefit from this development, especially our hard working farmers who should be paid genuine currencies when they sell their produce.

Once again, Governor, let me thank you most sincerely for initiating this agreement. Indeed, the signing of this agreement is a testament of the cordial relationship that has existed between Mozambique and Zambia since the days of the liberation struggle. I must add here that, for us, it marks a key milestone towards enhancing regional integration and macroeconomic convergence. As you are aware, Governor, this is our main goal as member countries of the Southern Africa Development Community.

I thank you.