

Perks M Ligoya: Safeguarding Malawi's foreign exchange reserves

Speech by Dr Perks M Ligoya, Governor of the Reserve Bank of Malawi, at the official launch of the Exchange Control Manual, Blantyre, 29 December 2009.

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President, Bankers' Association of Malawi

Chief Executives of commercial banks

Distinguished guests

Ladies and Gentlemen

Compliments of the season.

It gives me great pleasure to officially launch the Exchange Control Manual. On behalf of Reserve Bank of Malawi and indeed on my own behalf, I welcome you all to this memorable event.

Distinguished guests, ladies and gentlemen, the objectives of the official launch of the Exchange Control Manual are three-fold:

- a) To present the Exchange Control Manual to its ultimate users-authorized dealer banks and the business community.
- b) To assure exporters and importers that the Reserve Bank of Malawi is fully committed to economic liberalization that it embarked upon some fifteen (15) years ago.
- c) To garner support and cooperation of banks and the business community in ensuring prudent use of foreign exchange reserves.

In order to achieve these objectives, let me start by mentioning that the main challenge (and particularly so in recent times) for Malawi as an emerging economy is the generation of sufficient foreign exchange reserves to meet the economy's growing import demand.

Malawi's foreign exchange reserves are volatile due to the economy's over-reliance on primary commodity exports and in particular a few agriculture exports. This reliance will continue to undermine the country's foreign reserves position unless significant progress is made in growth and diversification of exports.

While export diversification on its own may not be a panacea for an improvement in foreign exchange reserves, the principle that export diversification can contribute to reducing instability of export earnings is widely accepted. Thus, Government in its quest to mitigate Malawi's external vulnerability and, more generally, the country's overall economic performance and welfare, continues to take initiatives to promote export diversification.

The generation of adequate foreign exchange reserves is key to Malawi's growth prospects. Apart from supporting the Malawi Kwacha exchange rate, reserves are also essential in supporting economic growth through imports of industrial raw materials, agricultural inputs, medicines and other basic necessities.

Government, in this regard, continues to undertake initiatives to boost and preserve the country's foreign exchange reserves. One such initiative is the computerization of export proceeds tracking system. We are all aware that in November 2008, the Bank rolled out the Foreign Exchange Statistical Database System, which is now being used to monitor and enforce repatriation of export proceeds to Malawi.

Imports have grown phenomenally in the past three years due to increased demand for machinery and industrial raw materials, and most importantly, agricultural inputs particularly fertilizer. Other imports have also registered a significant growth both in volume and value terms. This largely explains the depletion in the country's foreign exchange reserves.

These developments have necessitated a review of the Exchange Control regime. You will recall, Ladies and Gentlemen, that Exchange Controls in Malawi pre-date our independence i.e. we had exchange controls before 1964 when Malawi became independent. The Exchange Control Act has, thus, undergone several reviews and repeals over the years to re-align it with dynamic macroeconomic developments and hence make it more relevant.

Ladies and Gentlemen, let me mention that the Exchange Control Manual being launched today, has been prepared to act as a guide to authorized dealer banks in dealing with exchange control issues. The Manual also addresses the issue of completing relevant exchange control forms. These forms have been reviewed to conform to the 5th Edition of International Monetary Fund's Balance of Payments Manual. Bankers, importers and exporters will recall that we had numerous forms. These have now been harmonized and we are now talking of three only.

The manual contains instructions on how authorized dealer banks should process Exchange Control applications for, among other things, advance payment for imports: You will recall ladies and gentlemen, that these have always been referred to Reserve Bank of Malawi for approval. The Reserve Bank is now delegating this authority to banks to handle advance payment applications of up to \$20,000. Anything in excess of that value will however be referred to the Reserve Bank of Malawi for approval.

Authorized dealer banks will find the manual to be useful not only in distinguishing between current and capital and financial account transactions but also in determining the minimum that is required in support of Exchange Control applications.

The Manual also reflects a commitment by Authorities to move from controls to a more liberal regime. You will note, Ladies and Gentlemen, that most Exchange Control transactions that hitherto required prior Central Bank approval no longer requires such action from the Reserve Bank of Malawi.

The Manual also recognizes recent developments in the management of exports and export proceeds in Malawi.

It is, therefore, important that authorised dealer banks exercise due diligence in processing Exchange Control applications. Authorized dealer banks should also ensure consistency and uniformity of policy implementation in carrying out duties entrusted to them through strict and impartial application of Exchange Control instructions.

Banks are therefore encouraged to consult the Reserve Bank of Malawi whenever in doubt with regard to the interpretation and implementation of exchange controls.

Trade liberalization ushers in new challenges in terms of Exchange Control administration. In order to deal with these challenges, Government is working on further amendments to the Exchange Control Act which will enhance penalties for offenders but, at the same time, allow for more transparency and easier implementation of the Act. In order to effectively manage the process, the Bank needs the cooperation and active participation of all institutions and individuals gathered here.

Ladies and Gentlemen, I now have the singular honour to declare the Exchange Control Manual officially launched for full application by authorized dealer banks effective 1st January, 2010.

I thank you all for your attention.