RESERVE BANK OF MALAWI

PRESS RELEASE

FOREIGN EXCHANGE SITUATION IN THE COUNTRY

The Reserve Bank of Malawi (RBM), under the RBM Act of 2018, is mandated to manage foreign exchange transactions in the country. The RBM is aware of foreign exchange liquidity challenges the country is currently facing. The problem is largely structural, emanating from imbalances between the country's limited capacity in generating foreign exchange against insatiable appetite for imports. The situation has recently been exacerbated by deteriorating export earnings and increased import bills, due to supply chain disruptions induced by the COVID-19 pandemic. Furthermore, the rising commodity prices following escalation of Russia-Ukraine geo-political tensions has worsened the situation.

The supply-demand imbalance has manifested in the domestic foreign exchange market in a number of ways, including low foreign exchange supply, declining official foreign reserves, and widening spread between ADBs TT and Bureaux Cash exchange rates.

In response to the foreign exchange liquidity challenges and its effects on exchange rate developments, the RBM has instituted several short-term measures including: interventions in the foreign exchange market to support importation of strategic commodities and the temporary re-introduction of the mandatory sale of 30 percent of export proceeds, among others.

Going forward, authorities will continue to undertake a number of measures aimed at improving the foreign exchange supply situation in the market. Some of the measures are that:

- The RBM will allow the exchange rate to adjust to a market clearing position with the view of endorsing a flexible exchange rate "managed float" regime that allows the exchange rate developments to reflect market fundamentals;
- The government will continue to meet its financing needs from the market and continue to work on initiatives that are aimed at widening the export base through diversification of the exports to the mining sector, establishment of structured markets for exports to increase receipts through formal channels; and implementation of policies that aim at improving the value of the exports.
- The Bank will aim to become a net buyer of foreign exchange in the market in order increase official foreign reserves.

Although the Kwacha exchange rate adjustment process may add pressure on inflation in the short term, the RBM is committed to prudent monetary and fiscal policies in order to contain all inflationary pressures within manageable limits. Moreover, prices in the shops already reflect to a large extent the Bureaux Cash Rate. To that extent, aligning the ADB's TT rate with the Bureaux Cash Rate should not lead to further price increases.

In the short term, this move to a unified, market-clearing exchange rate should make it easier for companies to manage their businesses and therefore strengthen the economy. In the medium to long term, it is expected that the economy's structure of production and consumption will change towards increased exports and reduced imports, resulting into favorable current account balance and hence, increased foreign exchange reserves. This, together with the RBM's commitment to prudent monetary policy conduct should stabilize the Kwacha exchange rate and inflation in the medium term.

The public can rest assured that despite the challenges in the foreign exchange market, the RBM remains committed to its mandate of price and financial stability.

Dr. Wilson T. Banda

<u>GOVERNOR</u>

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