



RESERVE BANK OF MALAWI

PRESS RELEASE

MALAWI KWACHA DEVALUED

The Reserve Bank of Malawi (the Bank) has today 7 May 2012 devalued the Malawi kwacha exchange rate from K168 to K250 per United States dollar. At K250 per dollar the Kwacha exchange rate is fully adjusted. The Bank believes that the black market rate must be substantially undervalued given the extent of the scarcity of foreign exchange.

In anticipation of this devaluation, the Bank has taken steps aimed at allowing the Kwacha exchange rate to be determined by market forces as well as improving the availability of foreign exchange in the market. In this respect, all United States dollars earned at the tobacco auction floors will now be transferred to the sellers' commercial banks rather than to the Bank. Second, tourists can now settle their local bills in any convertible foreign currency or in Malawi kwacha after selling foreign exchange in the market.

The devaluation of the Kwacha and the liberalisation of foreign exchange market are expected to contribute to government's efforts to reach early agreement with the IMF. Such an agreement is needed to unlock donor flows in the next few months. The currency adjustment is further expected to have the effect of reducing demand for imports of consumer goods in favour of domestically produced goods.

Existing exporters, including sellers of tobacco at the auction floors, are expected to benefit from the devaluation through increased Kwacha earnings. Furthermore, the smuggling of products (including tobacco) across the borders is likely to be reduced substantially as a result of the devaluation.

The impact of the devaluation on general prices is anticipated to be muted because most prices already reflected the black market rate at which most suppliers have been sourcing foreign exchanges for quite a while.

Admittedly, the devaluation should have awaited the clearance of external payments arrears to avoid adverse impacts on the corporate sector. However, this was not possible as efforts to source foreign exchange for the purpose were unsuccessful.

