Reserve Bank of Malawi

KEY NOTE ADDRESS BY

THE GOVERNOR,

DR WILSON T. BANDA,

FINANCIAL MARKET DEALERS ASSOCIATION ANNUAL LAKESHORE CONFERENCE

ON

28TH NOVEMBER 2020

AT

SUN 'N' SAND HOLIDAY RESORT, MANGOCHI

- Dr Neil Nyirongo, Board Chairperson of the Export Development Fund;
- Mr Ralph Tseka, Director of Financial Markets at the Reserve Bank of Malawi;
- Mr Tasokwa Mchawe, Head of Trade Finance at MyBucks Banking Corporation;
- Ms Patricia Hamisi, President of Financial Market Dealers Association (FIMDA)
- Distinguished members of FIMDA gathered here today;
- Distinguished Guests;
- Members of the Media;

- Ladies and Gentlemen.

It is an honour for me to be with you this morning, and to address the 2020 Annual Financial Market Dealers Association (FIMDA) conference on the theme ***'Financial Markets: Unleashing Malawi's Potential Amidst Rising Negative Balance of Payment'.*** I must say that I find the topic to be very timely as we continue to weather the storm but at the same time prepare for recovery.

Ladies and gentlemen,

the Covid-19 pandemic has negatively affected our economy. The pandemic and its related containment measures have caused a sharp decline in output in the non-agriculture sectors. Some of the worst affected sectors include manufacturing, tourism and accommodation, health services, wholesale and retail trade, financial services, real estate, and construction sectors.

Apart from the health toll the pandemic has caused, the economic wellbeing of Malawians has been affected by wage cuts, delays in salary payments and, in some worst cases, company closures and job losses. Disruption to supply chains has also affected production and availability of goods and service.

As such, the 2020 projections for real GDP growth been revised down further to 1.2 percent reflecting larger-than-anticipated disruptions to economic activity.

Faced with this unfamiliar shock to the financial system, the Authorities and commercial banks acted quickly to alleviate the effects of the pandemic on the banking system. With the aim of keeping credit flowing to businesses and households, immediate responses to the crisis included policy rate cuts, review of liquidity requirements, loan restructuring, and review of fees on digital platforms.

Ladies and gentlemen,

so far, the interventions have had the intended effect of limiting the negative impact of the pandemic on the financial system. For instance, the banking sector remains sound, liquid, and stable; as seen by an increase of the industry balance sheet from the previous year's position. Credit continues to grow although it has been subdued when compared to last year. This reflects cautious lending by banks as credit risk is high but stable.

The pandemic has affected the supply of foreign exchange in the country. Imports and exports declined during the period from January to September 2020. Exports amounted to US$500 million against imports worth US$2 billion, resulting in a trade deficit of US$1.5 billion. In addition, the 2020 tobacco marketing season recorded a significant drop in sales volume and earnings.

The sharp decline of foreign exchange supply has put pressure on the country's foreign exchange reserves. Official reserves remain above the targeted floor of 3 months of import cover allowing the central bank to intervene in the foreign exchange market and ensure availability of foreign exchange for importation of critical goods.

Low supply of foreign exchange in the market, exacerbated by the impact of Covid-19, is also putting the Malawi Kwacha under pressure, since the third quarter. From the time when the pandemic started, the local currency has lost about 2 percent of its value against the US dollar.

Overall, our financial system remains resilient and is coping with the adverse impact of the pandemic. I am proud to note that this is the result of the exceptional collaboration between the Authorities, commercial banks, mobile phone companies and other financial institutions, who willingly set aside some of their conventional modes of doing business for the good of the financial sector and the economy.

Ladies and gentlemen,

if 2020 is a year of despair, 2021 could be an opportunity to put our financial markets on a better path toward a sustainable future. Others have called the Covid-19 pandemic a transformative crisis. It has exposed our vulnerabilities, as a consequence, giving us an opportunity to transform the way we do things going forward.

Our expectation is that the crisis will prompt financial markets to think beyond necessary crisis-management measures and re-invent their business models for the long term. The COVID-19 crisis has accelerated some existing trends and is likely to drive structural reforms that in many cases are overdue. For instance, there has been a general increase in usage of digital platforms by consumers in the wake of Covid-19 in support of the social distancing measure. Financial institutions, especially banks, should quickly adapt to this shift in consumer behavior and scale-up digitization of financial services. Add value to banking services by helping consumers, especially small businesses, to adopt digital finance.

Distinguished members of FIMDA,

you are pivotal in driving economic recovery and securing future stability in the financial sector. I implore you to work diligently in your vital role of channeling the scarce financial resources to productive sectors of the economy to enable future growth.

Expand your product offerings to support sectors that generate foreign exchange. Endevour to finance industrialization, not consumption, by focusing on export sectors such agriculture, tourism development, just to mention a few. These sectors, and others that I have not mentioned, have potential to raise productivity and increase the country's capacity to export as well as create employment.

As I wind up, let me assure you that the Reserve Bank remains committed to ensuring macroeconomic stability in order to make the country more attractive to inward foreign investment. The Reserve Bank will continue targeting a medium term inflation objective of 5 percent and implementing monetary policy measures aimed at supporting the recovery process. The recent cut of the policy rate from 13.5

percent to 12 percent is one of such measures.

With these remarks, I wish you fruitful learning and discussions and I thank you for your attention. **May God Bless Us All.**