

# Malawi devalues national currency

 By [Gregory Gondwe](#)

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The President of Malawi, Bingu wa Mutharika's government which had been adamant on devaluing the national currency, the Malawi Kwacha (MK), has finally succumbed to the pressure.

On Monday 8 August 2011, the Reserve Bank of Malawi devalued the Kwacha by about 10% against the U.S. dollar to 165.

When a correspondent visited some commercial banks yesterday 9 August 2011, the MK was trading around US\$1= 167.5374 and £1= 272.8346.

For months, the Malawian Kwacha had been trading at MK 151 to the for US\$ while the black market had been trading at 195 MK to the US\$1

Local economist and the International Monetary Fund (IMF) have been pressurising President Mutharika to devalue the Kwacha so that it resonates with the market reality.

Malawi last devalued its currency in 2009 from MK142 to the current MK151.80 to the US\$.

## Mutharika's argument

"I have been arguing with the IMF to tell me how I am going to protect poor Malawians if prices for essential products go up if I devalue the Kwacha," said Mutharika on state radio in June this year.

He claimed that IMF was not telling him anything.

"All they say is that we will find a way," Mutharika said.

Mutharika was reacting to the IMF announcement that Malawi had stalled over policy disagreements on its current IMF chaperoned programme.

The IMF announced in June 2011 that the government had failed to conduct the second review of the US\$79.4 million (55.3 million euro) Extended Credit Facility approved last year to cushion foreign exchange shortages.

Mutharika then argued, in what he called a special address to the nation, that unless the IMF tells him how to protect his poor people, he would not allow devaluation of the Kwacha.

The IMF was not happy that Malawi had suffered from forex shortage months on end and should use its central bank to control some \$400 million foreign exchange receipts from tobacco.

Although government had devalued the Kwacha, the business community and the IMF were "pressuring the government" to devalue the Kwacha to K180 to a dollar, something Mutharika acknowledged in his speech and trashed.

"If we do that, prices of essential products and services will go up including transport. Who will win?" challenged Mutharika then.

"Businesses had been among those who had snatched most of the foreign currency from commercial banks and were hoarding it hoping to make more money the minute we devalue the Kwacha," Mutharika had insisted.

## **Economists agree**

Economists had also agreed with Mutharika on the aspect that some business people were hoarding forex in readiness for a kill once it gets devalued, but said government has delayed too much.

The country's forex shortage woes compounded availability of fuel as the recurrent fuel crisis that has hit Malawi in September 2010, which has never been seen before in the history of the country.

Fuel importers have always been saying that they were unable to purchase the commodity from outside countries.

## **Outbreak of inflation**

In his June speech, Mutharika dismissed the arguing that the devaluation would not help exporters and lead to an outbreak of inflation because the economy is dependent on international economic assistance.

"Devaluating the Kwacha will result in a lot of problems for the ordinary Malawian because this will result in a rise in prices of all goods and services," said Mutharika a former World Bank economist, only to devalue it a couple of months later.

Sensing that things might get out of hand after succumbing to pressure, government, through the Central Bank called a press briefing in July 2011 where it announced new measures to control inflation in the country after devaluing the currency.

## **Measures to be taken**

Reserve Bank of Malawi Governor Perks Ligoya, said businesses should not raise the cost of essential goods as the government tries to contain price increases.

Amongst the measures to help the country contain the devaluation is the maximizing on forex base.

Ligoya said, tourists will now be required to pay their bills in foreign exchange as the government battles a shortage of hard currency.

Even when government decided to devalue the Kwacha, the IMF has said a review on possible reversal of the IMF's decision on Malawi would still need a lot of scrutiny.

Local radio station Zodiak Broadcasting Station (ZBS) reported that Washington-based IMF Mission Chief for Malawi, Janet Stotsky said the IMF will first have to examine the decision taken by Malawi on its currency.

ABOUT GREGORY GONDWE

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