A CALL FOR ACTION

THE URGENT CASE FOR EXCHANGE RATE UNIFICATION

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1.0 CURRENT STATUS AND CONTEXT

Malawi currently operates a de facto multiple exchange-rate system comprising the official Reserve Bank of Malawi (RBM) rate, authorized dealer bank rates, forex bureau rates, and a parallel market rate. While the official exchange rate has remained around MWK 1,750 per US dollar, the parallel market rate has at times exceeded MWK 4,000 per US dollar, reflecting significant foreign exchange shortages and market segmentation.

The IMF has identified these arrangements as multiple currency practices (MCPs), indicating the existence of substantial divergences in exchange rates across different segments of the foreign exchange market.

The countries exchange-rate system has become increasingly fragmented over the past five years. While the official exchange rate depreciated from approximately MWK 806 per US dollar in 2021 to around MWK 1,750 per US dollar by 2025, the parallel market rate depreciated much more rapidly, reaching between MWK 3,500 and MWK 4,500 per US dollar.

Year	Official Exchange Rate (MWK/US$)	Parallel Market Rate (MWK/US$)	Parallel Market Premium (%)
2021	806	900–1,000	12–24
2022	950	1,300–1,600	37–68%
2023	~1,161 (annual average); 1,700 after Nov devaluation	2,200–3,000	29–76%
2024	1,750	3,000–4,000	71–129%
2025	1,750	3,500–4,500	100–157%

Consequently, the premium between the official and parallel market rates widened from less than 25 percent in 2021 to over 100 percent by 2025. The IMF estimates that the informal market premium peaked at around 150 percent in March 2025, reflecting severe foreign exchange shortages and growing segmentation of the foreign exchange market. These trends suggest that the current multiple exchange-rate system is becoming increasingly difficult to sustain and is generating significant economic distortions.

“The current exchange-rate arrangement effectively operates as a tax on exporters and a subsidy for privileged access to foreign exchange”.

2.0 THE ECONOMIC COST OF THE MULTIPLE CURRENT SYSTEM AMID FOREX SHORTAGE

These exchange-rate misalignment and large parallel-market premiums increase uncertainty for investors, reduce the predictability of returns, and discourage foreign direct investment. Investors in mining, tourism, agro-processing, and manufacturing must ultimately recover profits in foreign currency; when conversion occurs at an overvalued official rate, project profitability can be significantly reduced. This is one reason why countries with persistent parallel exchange markets tend to experience lower growth and weaker investment outcomes. Specifically the current status has the following implications and consequences;

2.1 Investors are being discouraged

The IMF argues that large and persistent divergences between official and parallel exchange rates create significant economic distortions and are associated with weaker economic performance. According to Gray (2021)[1], when the official exchange rate is maintained at a level substantially stronger than the market-clearing rate, foreign exchange shortages emerge, businesses face difficulties accessing foreign currency, and economic activity is adversely affected. Such distortions reduce investor confidence and undermine the efficient allocation of resources.

2.2 Exporters are being penalized: A disincentive to export growth

Exporters earn foreign currency at market value but are required to surrender a portion of proceeds at the official rate. When the market rate exceeds MK4, 000/US$ while the official rate remains around K1, 750/US$, exporters lose more than half the local currency value of their earnings. This significantly reduces incentives and negates the countries efforts grow the priority sectors[2]

“The result is lower export production and lower foreign exchange inflows”.

2.3 The parallel market has become the real market: Cementing informal economy

The World Bank equally weighs in and estimates that the current (150%) premium between official and parallel rates exceeded 150 percent has a number of implications such as; Importers sourcing forex outside the banking system; ii) Exporters under-invoicing exports; ii0Importers over-invoice imports; iii) Smuggling increases and a iv)decline formal financial intermediation. Unfortunately this undermines both monetary policy and tax collection.

2.4 Multiple exchange rates are eroding the tax Base: Worsening fiscal imbalances

A large gap between the official and market exchange rates results in significant revenue leakages by understating the local currency value of imports, thereby reducing customs duties and VAT collections. It also encourages informal transactions and smuggling, weakening tax compliance and domestic revenue mobilization. By aligning the exchange rate with market conditions, exchange-rate unification can help broaden the effective tax base, improve revenue collection, and support fiscal consolidation.

2.5 Malawi's growth crisis

The foreign-exchange shortage is not merely a financial challenge; it is a major constraint on economic growth and job creation. According to the World Bank, Malawi's economy is projected to grow by only 1.9 percent in 2025, marking the fourth consecutive year of declining GDP per capita. At the same time, the country generates only about 40,000 formal jobs annually, far below the approximately 270,000 young people entering the labour market each year.

Without adequate access to foreign currency, businesses are unable to import essential inputs, expand production, invest in new capacity, or compete in export markets. As a result, Malawi cannot achieve the rapid growth of export-oriented industries needed to create jobs, raise incomes, and absorb its growing workforce.

“The country cannot generate sufficient jobs without rapid expansion of export-oriented sectors”.

3.0 LESSONS FROM INTERNATIONAL EXPERIENCE

International experience demonstrates that exchange-rate unification, combined with a flexible exchange-rate regime, can play a critical role in restoring the effective functioning of foreign-exchange markets. However, successful reforms have typically been accompanied by complementary measures to expand exports, attract foreign investment, and rebuild international reserves.

Countries such as Egypt, Zambia, Ethiopia, Ghana, and Uganda have shown that aligning official exchange rates with market fundamentals helps reduce parallel-market activity, improve foreign-currency availability, encourage exporters and remitters to use formal channels, and strengthen investor confidence. While the transition can involve short-term adjustment costs, these experiences suggest that exchange-rate reform is often a necessary foundation for achieving external stability, sustainable growth, and private-sector-led economic development.

[1]Gray, Simon (2021). "Recognizing Reality—Unification of Official and Parallel Market Exchange Rates." IMF Working Paper No. 2021/025.
[2] Tobacco, Tea , Macadamia, Mining ,Tourism, Manufacturing exports

Malawi cannot achieve sustained economic recovery, attract investment, or create jobs at scale while maintaining a foreign-exchange system that prices forex administratively rather than according to market realities."

While initial adjustment costs occur, countries that combine exchange-rate reform with fiscal discipline typically experience stronger growth and improved external balances within a few years.

3.1 Debunking the Inflation Argument

The most common objection to exchange-rate unification is that it will fuel inflation. However, much of the inflationary impact has already been absorbed, as businesses are increasingly sourcing foreign currency at parallel-market rates and price goods accordingly. The reality is;

3.2 Prices already reflect the parallel rate

Many imported goods are already priced using parallel-market exchange rates because businesses cannot access foreign currency through official channels. Consumers therefore pay prices based on the market rate while exporters receive revenues based on the official rate. This is economically inefficient and inequitable.

3.3 Fuel prices have already adjusted

Recent fuel price adjustments have substantially incorporated the market cost of foreign exchange. The major price shock has therefore already been partially absorbed by households and businesses.

3.3 Inflation is primarily a monetary problem

Inflation is fundamentally a monetary and fiscal challenge rather than simply an exchange-rate issue. The IMF has consistently noted that persistent inflation is driven primarily by large fiscal deficits, rapid growth in the money supply, and weak policy credibility. While exchange-rate adjustments can have a temporary impact on prices, sustained inflation occurs when these underlying macroeconomic imbalances remain unaddressed. Therefore, exchange-rate reform should be accompanied by prudent fiscal and monetary policies to achieve lasting price stability.

The private sector is a major contributor to government revenue and could accelerate fiscal recovery if businesses had timely access to foreign exchange at predictable and budgeted rates.

4.0 OUR CALL TO ACTION TO EFFECT EXCHANGE RATE UNIFICATION

The business community strongly proposes Exchange rate unification which is the process of replacing multiple exchange rates with a single, transparent, market-responsive exchange rate that applies to all foreign currency transactions, thereby eliminating distortions, improving foreign exchange allocation, and restoring confidence in the economy.

The businesses community performs and would contribute even better to the National economic recovery reforms with market-determined rates at which foreign currency is accessible rather than a lower official rate that is largely unavailable. A unified exchange rate can improve access to forex, reduce uncertainty, support business planning, and strengthen investor confidence.

In the context of Malawi, the strongest argument for unification is not that it will immediately solve the forex crisis, but that it will help restore price signals, attract forex back into formal channels, and create conditions for a more efficient allocation of scarce foreign currency. However, it would need to be accompanied by fiscal discipline, monetary restraint, export promotion, and reserve accumulation; otherwise, the benefits could be short-lived. A successful reform requires careful sequencing.

4.1 How should the exchange-rate unification be implemented?

As local Malawian business leaders, employers, and producers, we can no longer remain silent while a broken policy chokes the life out of our economy. One-off devaluations followed by "business as usual" have failed. We need a permanent, credible, and transparent switch to a flexible exchange rate regime paired with immediate complementary steps. We suggest a three-step plan to restore competitiveness and macroeconomic Stability. In extension a detailed implementation phased approach has been suggested to smoothen implementation in table 2.

- Unify the exchange rate in the shortest period possible: Transition permanently to a flexible, market-driven exchange rate to eliminate the parallel market premium and let the market clear naturally.
- Phase out Market Distortions: Eliminate mandatory export surrender requirements and capital controls that actively deter investors and NGOs from bringing foreign currency into the formal banking system.
- Enforce Fiscal Discipline: Tighten monetary and fiscal policies to halt the rapid growth of the domestic money supply and drastically reduce government demand for FX by limiting state vehicle purchases and foreign travel.

4.2 Detailed Phased approach implementation for unification

Understanding Malawi's foreign-exchange challenges, exchange-rate unification should be implemented through a phased and well-coordinated reform programme. This would help manage adjustment costs, build confidence, and support a smooth transition to a market-based foreign-exchange system while maintaining macroeconomic stability.

Phase	Timeline	Key Actions	Objective
Phase 1: Policy Announcement	Month 1	a) Announce commitment to exchange-rate unification. b) Transition to a market-clearing exchange rate. c) Publish a clear reform schedule. d) Re-enforce complementary fiscal and monetary measures.	Establish credibility, build confidence, and signal commitment to reform.
Phase 2: Foreign Exchange Auction System	Months 1–3	a) Establish a transparent interbank forex market. b) Allow banks and forex bureaus to trade competitively by submit bids. c) Require exporters to sell forex through the market. d) Allow the exchange rate to be determined by supply and demand. e) Limit RBM intervention to smoothing excessive volatility.	Improve price discovery, increase forex availability, and eliminate distortions.
Phase 3: Gradual Removal of Administrative Controls	Months 2–6	a) Remove export surrender requirements. b) Phase out administrative forex allocation. c) Relax restrictions on forex transactions. d) Eliminate multiple exchange-rate practices.	Encourage foreign currency to return to formal market channels.
Phase 4 Fiscal Consolidation	Months 1–24	a) Reduce non-priority expenditure. b) Limit foreign travel and luxury imports. c) Rationalize losses of state-owned enterprises. d) Strengthen revenue administration. e) Improve public procurement controls.	Support macroeconomic stability and reinforce exchange-rate reforms.

Phase 5: Tight Monetary Policy	Months 1–12	a) Maintain positive real interest rates. b) Control money-supply growth. c) Strengthen inflation-targeting mechanisms. d) Limit monetization of fiscal deficits.	Contain inflation, stabilize expectation and restore confidence.
Phase 6: Protect Vulnerable Households	Through out Reform Period	a) Implement targeted cash transfers b) Expand school feeding programs. c) Provide fertilizer support to vulnerable farmers. d) Scale up public works programs.	Cushion vulnerable households from short-term adjustment costs and sustain public support for reforms.

We call upon the Administration to accept economic reality. Unify the exchange rate. Give our mining, manufacturing, and agricultural sectors a fighting chance to rebuild Malawi.