



RESERVE BANK OF MALAWI

STATEMENT

BY

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GOVERNOR

AT THE MALAWI STOCK EXCHANGE

SYMPOSIUM

AT SUNBIRD MOUNT SOCHE HOTEL

BLANTYRE

26 JULY, 2017

- ❖ **The Board Chairperson, of the Malawi Stock Exchange Mr Augustine Chithenga and all other Board Members here Present;**
- ❖ **The Chief Executive Officer of the Malawi Stock Exchange, Mr John Kamanga, and entire Management Team and staff of the Malawi Stock Exchange;**
- ❖ **Honourable Members of Parliament here present;**
- ❖ **The Deputy Governor, Economics and Regulations, Reserve Bank of Malawi Dr. Grant Kabango;**
- ❖ **Chief Executive Officers of the various companies here present;**
- ❖ **Chief Executive Officers of Commercial Banks and Financial Institutions;**
- ❖ **Heads of Statutory Corporations;**
- ❖ **Members of the Press;**
- ❖ **Invited Guests;**
- ❖ **Distinguished Delegates;**
- ❖ **Ladies and Gentlemen**

It gives me great pleasure and delight to be part of this important symposium organized by the Malawi Stock Exchange under the theme “*Creating Wealth and Value through Listing*”. I am particularly pleased to note that there is a diversity of participation, ranging from business captains from the private sector, the financial sector, Government ministries and departments, parastatal agencies, the National Assembly, the general public, the academia, the media and many others. This Ladies and Gentlemen, is clear testimony of the significance of this agenda to our economy.

Distinguished Delegates, Ladies and Gentlemen, in the past five years, our economy has weathered off a period of great difficulty. First, was the historic devaluation in 2012 which triggered a fall in value of our currency by more than 150%. Second, was the

cashgate episode in 2013 which led the eventual withdrawal of general budget support by our cooperating partners. Third, were the worst forms of flooding and drought in 2015 and 2016, respectively. All these had devastating effects on the country's production system, culminating into macroeconomic instability which was manifested through the persistent high levels of inflation, volatile and depreciated exchange rate, intermittent water and power supply, build-up in public debt (both domestic and foreign), and subdued economic growth. The devaluation in particular, triggered a surge in inflation to a record high of 37.9 percent in February 2013. To deal with this problem, interest rates were kept high; and, though somehow moderating, they are still relatively high. This has resulted into sluggish economic growth.

Distinguished delegates, Ladies and Gentlemen, you will however, agree with me that it is not an overstatement to say that in the past three quarters, the economy has and continues to register signs of economic recovery and stabilization. Real Gross Domestic Product is expected to grow by 4.5% in 2017 compared to 2.7% registered last year. Inflation rate at 11.3% in May 2017 is at its lowest point for the past 7 years and is expected to decelerate further to a single digit. Interest rates are dropping, consistent with declining rate of inflation. Gross official reserves are now above 3 months of import cover and our expectation is to maintain reserves at that level into the foreseeable future on the backdrop of donor inflows as well as improved domestic exports. Consequently, the exchange rate has remained stable over the past 9 months and is expected to sustain on this level going forward. These developments,

Distinguished Ladies and Gentlemen, are all hallmarks of a steadily recovering economy.

The question at this stage now becomes what's next? How can we sustain the hard earned stability? What role can each one of us play and indeed what role can the Malawi Stock Exchange play to help Malawi turn the corner and register economic growth on a sustainable basis? What should be done to make the Malawi Stock Exchange play its rightful role in the country's economic growth and development? This is what has brought us together today.

Distinguished Ladies and Gentlemen, as you are all aware, 21 years ago in 1996, the Reserve Bank of Malawi, acting within its mandate of promoting economic growth through the development of a vibrant capital market, as enshrined in the Reserve

Bank of Malawi Act, championed the establishment of the Malawi Stock Exchange. On the one hand, the aim was to offer the business community an alternative platform to raise capital for their businesses. On the other hand, the Bank aimed at providing Malawians with a chance to participate in ownership of businesses through purchase of shares.

At the time, **Distinguished Ladies and Gentlemen**, it was hoped that once the market fully develops, businesses in the country would take advantage and list on the Malawi Stock Exchange to source capital for their businesses and that more Malawians would also find an alternative investment avenue for their savings.

The road is half travelled. Since the first company got listed in 1996, a total of 15 companies got listed by

2008. However, one of them de-listed in 2011 and another in 2016. As a result, there are currently only 13 businesses listed on the Malawi Stock Exchange, 12 of which are domestic with only one that is dual listed. No initial public offer listing has been made since 2008. Three Government Bonds were listed in 2014 but they all matured without registering a single secondary trade. Notably, Corporate bonds are yet to be listed. The Alternative Capital Market for Small and Medium Scale Enterprises (SMEs) which was introduced in the Stock Exchange is also yet to attract any listing.

Our meeting today therefore, **Distinguished Ladies and Gentlemen**, is coming at such a critical juncture that we must do a deep and honest soul searching as to what can be done to revamp the Malawi Stock Exchange, and in so doing revamp the economy too.

Businesses are now in dire need of capital for expansion in order to raise output, create wealth and employment for a growing population.

Worth noting, **Distinguished Ladies and Gentlemen**, funds are also growing rapidly outside the stock exchange especially for pension and life insurance funds. It is estimated that, by next year, 2018, the country will have a combined total of Pension Funds and Life Insurance funds to the tune of K1.4 trillion, against a total equity at the Malawi Stock Exchange of K762 billion. This, if not addressed by listing more companies on the Malawi Stock Exchange, will likely cause sub-optimal asset allocation, liquidity issues and an asset bubble. We have to avoid this at all cost, and the development of a stock market is a sure way of meeting the objective.

Distinguished Ladies and Gentlemen, It is a fact, that treasury securities are high yielding and attractive to investors compared to stocks especially in times of unfavourable economic conditions when companies perform dismally. However, with the tight fiscal policy in place in Government and the improving macroeconomic environment, time can never be more appropriate for pushing and promoting investments in stocks and bonds. It is in this regard that the Reserve Bank proudly wishes to associate itself with these efforts.

As a Regulator, we have teamed up with the World Bank and the Ministry of Finance to upgrade and automate the Malawi Stock Exchange trading system infrastructure for effective and efficient transactions. We are bringing in the state of the art technology, the Automated Trading System (ATS) and Centralised

Securities Depository (CSD) System which will be up and running by February 2018.

Through this investment, **Distinguished Ladies and Gentlemen**, we intend to enhance confidence of both local and international investors in the Malawi Stock Exchange. This investment will competitively benchmark the Exchange to its peers in the region. It is therefore timely that potential issuers should join the market by issuing shares and bonds as it will also help in marketing their businesses on the international market. I, therefore, urge businesses in the country to take advantage of this development and list on the Malawi Stock Exchange. In the same vein, let me urge the general public to positively look at the Malawi Stock Exchange as an alternative and viable investment opportunity.

The other advantage is that by expanding the Stock market, we may also make it compete with other investment avenues such as deposits in banks and this has the potential of reducing lending rates in banks.

The Reserve Bank as a regulator will also strive to make the capital markets more competitive by refining the regulatory framework. We will endeavour to create an enabling environment where issuers are able to raise the much needed capital without hurdles that could otherwise inflate the cost of raising capital. Our vision is to ensure that the private sector thrives and should finance economic growth at the lowest cost possible. The Reserve Bank will therefore support efforts by the Malawi Stock Exchange to broaden the understanding and the appeal to the general public to take part in this market either as investors or businesses securing equity.

Distinguished Delegates, Ladies and Gentlemen, it is also our hope that listed companies and capital markets intermediaries will be goodwill ambassadors of the Malawi Stock Exchange. As such, through these efforts, we expect to witness more capital being raised in the primary market and increased trading activity in the secondary market.

May I also propose to the capital market intermediaries present here, to organise yourselves into a strong association, which will collectively advocate for the advancement of the capital market in Malawi. I am aware of strong capital markets associations around the world that do not only engage in lobbying and advocacy, but also support development of the markets by complementing the regulators' efforts, through development of relevant

skills, and embracing and enforcing international industry ethics and standards.

In conclusion, **Distinguished Delegates, Ladies and Gentlemen**, it is our wish at the Reserve Bank of Malawi, to see, a vibrant financial sector in Malawi of which, a progressive capital market would be an integral part, markedly contributing to the growth and development of our country. Let's make this happen, let's create wealth. Let's make businesses access capital for their growth and let's make more Malawians invest in stocks, thereby placing the country on a more sustained growth trajectory.

I thank you all for your kind attention and may God bless our country.