



RESERVE BANK OF MALAWI

# **DIRECTIVE**

NO. DO2-97/FXLR

## **FOREIGN CURRENCY LENDING RATIO**

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1. Effective Date

# DIRECTIVE NO. DO2-97/FXLR

## FOREIGN CURRENCY LENDING RATIO

### **PART I: PRELIMINARY**

#### **Section**

1. **Short Title** - Foreign Currency Lending Ratio
2. **Authorisation** - Section 38 of the Banking Act of 1989, CAP 44:01, and Section 30, 36 and 48 of the Reserve Bank of Malawi Act, 1989, CAP 44:02.
3. **Application** - All depository institutions operating in Malawi and coming under the scope of the Banking Act 1989 and which accept foreign currency demand, savings or time deposits.
4. **Definitions** - The following terms shall be defined as specified below, unless the context in which such term is used requires otherwise:-
  - 1) "depository institution" - any financial institution licensed under the Banking Act of 1989 which accepts currency demand, savings, or time deposits.
  - 2) "foreign currency deposit" - any deposit of a customer which is denominated in a currency other than the Malawi Kwacha.
  - 3) "FCDA" - means Foreign Currency Denominated Account

### **PART II: STATEMENT OF POLICY**

#### **Sec. 1: Objectives**

The purpose of this directive is to provide a consistent and uniform mechanism whereby the Reserve Bank may:

- 1) implement monetary policy objectives to protect the external value of national currency and maintain monetary equilibrium.
- 2) ensure adherence to prudential liquidity standards by individual depository institutions
- 3) ensure adherence to prudential liquidity standards by individual depository institutions.

## **PART III: IMPLEMENTATION AND SPECIFIC REQUIREMENTS**

### **Sec. 1: Foreign Currency Lending Ratio**

Each depository institution shall lend up to a maximum of 65 percent of the preceding months average FCDA balances.

### **Sec. 2: Basis for Computing The Lending Ratio**

The basis for computing the required lending ratio shall be the daily averages of daily balances of FCDA liabilities. Such averages are to be computed using totals as of close of business for each working day of the month. A sample form for such computation is attached as Appendix I.

### **Sec. 3: Deadline for Meeting the Lending Ratio**

Each depository institution shall, ensure that it has met the prescribed ratio as specified in Section 1 above. Failure to oblige on this requirement may result in imposition of remedial and administrative sanctions as specified below.

### **Sec. 4: Monthly Submission of Computations**

Each depository institution shall, on the first business day of the following month submit to the Reserve Bank information showing the details of loans used in arriving at its lending ratio. At the same time the depository institution should also submit details of its lending in foreign exchange in the format as specified in Appendix 1. Records shall also be maintained at the Head Office of such depository institution to enable verification at any time by on-site inspection.

### **Sec. 5: Exceptions to the Foreign Currency Lending Ratio**

The Reserve Bank of Malawi, in its sole discretion, may exempt a given depository institution from observing the lending ratio after such institution has shown good cause necessitating the exemption. The Bank shall determine the duration for the exemption.

### **Sec. 6: Penalty for Non-compliance**

Failure to comply with the requirements of this directive may result in the imposition of remedial measures and administrative sanctions as specified below.

## **PART IV: REMEDIAL MEASURES AND ADMINISTRATIVE SANCTIONS**

### **Sec. 1: Remedial Measures**

If the Reserve Bank determines that a depository institution is not in compliance with this directive:-

- 1) remedial measures may be imposed in accordance with Section 39 of the Banking Act 1989 and;
- 2) if such non-compliance has resulted or threatens to result in an unsafe or unsound operating conditions, then remedial measures as provided under Section 32 of the Banking Act 1989 may also be applied.

### **Sec. 2: Administrative Sanctions**

In addition to the remedial measures available for use as provided in Section 1 above, the Reserve Bank may impose any or all of the following administrative sanctions upon a depository institution or its board of directors and managing executive officers for non-compliance with this directive:-

- 1) Prohibition from declaring and/or paying dividends;
- 2) Prohibition from establishing new branches or facilities;
- 3) Prohibition from engaging in new services or activities or expanding existing services or activities;
- 4) Suspension of access to Reserve Bank credit facilities;
- 5) Suspension of lending, investment, and credit extension operations;
- 6) Prohibition from acquiring additional fixed assets;
- 7) Prohibition from accepting further deposit liabilities;
- 8) Prohibition from declaring and/or paying bonuses, salary incentives, severance packages, management fees, or other discretionary compensation schemes to directors or managing executive officers.

**PART V: EFFECTIVE DATE**

**Sec. 1: Effective Date**

The effective date of this directive shall be August 1, 1997.

**Questions relating to this directive should be addressed to the Director of the Bank Supervision Department of the Reserve Bank of Malawi.**

**Dr. E.E. Ngalande**  
**GOVERNOR**