

## **MINISTERIAL STATEMENT ON THE KWACHA EXCHANGE RATE BY HONOURABLE ALEXANDER BWALYA CHIKWANDA, MP – MINISTER OF FINANCE, ISSUED TO PARLIAMENT ON TUESDAY, 26<sup>TH</sup> FEBRUARY, 2013**

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Mr. Speaker, you very rightly directed that I issue a statement following concerns expressed by the Member of Parliament for Monze Central Hon. Jack Mwiimbu on the continued downward slippages in the Kwacha parity vis-à-vis major currencies. I start by thanking Honourable Mwiimbu for bringing the issue of the Kwacha exchange rate to the fore because it is a matter of profound public interest. The exchange rate of the Kwacha affects our lives and our economy in many ways.

Exchange rates are prices of currencies in terms of other currencies. They are a function of many composite factors including the state of an economy. Exchange rates are never and cannot be price neutral. To some extent and only to some extent they are determined by supply and demand conditions. There are also unquantifiable factors such as market sentiments and perceptions.

In our particular situation there is an element of supply of hard currencies being lower than the demand for those currencies. In Zambia one would be overstressing things to say the exchange rates are strictly a market determined function. The rates are determined by inter-bank arrangements and since the banks are, few and a cartel, there is quite clearly a pronounced element of manipulation. It is a profitable undertaking and the banks are obviously led into temptation. There is quite clearly inadequate surveillance and supervision of the banking system to induce the banks to act a bit more responsibly.

Last year we took a step to increase the levels of foreign exchange when through Statutory Instrument Number 33 we required all domestic transactions to be settled in the country's legal tender, the kwacha. For a month or two there was significant increase in foreign exchange availabilities. But soon, the companies especially the major players, detected a weakness in our compliance mechanisms and breaches have become quite rampant. There is need to strengthen compliance arrangements so that those caught in the act can face the stiff sanctions stipulated in the law. Government has reinforced its position including activating the Financial Intelligence Centre. We need to operationalize things to protect public interest from the enemies of open society without draconian measures which roll back democracy and Zambia as a liberal economy which stand us in good stead in the international community and the global market place.

Mr. Speaker, there is currently before this House, the Bank of Zambia Amendment Bill which will enable government to regulate the foreign exchange system and monitor the balance of payments.

Once the Bill is passed it will enable the Government to issue detailed regulations, including the requirement for export earnings to be repatriated. It is important to note, however, that companies will retain unfettered recourse to their foreign currency deposits through commercial banks.

Mr. Speaker, Zambia's major earner of foreign exchange is the mining industry. Even on the basis of the current tax arrangements the country could earn enhanced revenues if the assessments were based on correct volumes of production. It is in this context that Zambia Revenue Authority is refining the monitoring systems of production in our mining industry. My colleague the Minister of Mines, Energy and Water Development has also taken a welcome initiative to put together a broadly based technical committee to assist with the monitoring of operations on the mines. We want to do things in responsible ways and still maintain Zambia as a credible investment destination which has policy consistence and predictability.

Mr. Speaker, a weak Kwacha raises the costs of all imports and transactions in foreign currencies for citizens who have to pay education bills, medical expenses and even legitimate foreign travel. Inevitably a continually weakening Kwacha induces inflationary spirals which impinge negatively on our economy. It erodes the purchasing power of citizens since imports are a very large segment of the economy.

The President and indeed Government have been concerned with this all important issue of the Kwacha parity while a reasonable price of Kwacha in terms of other currencies helps our exports especially in the agricultural sector, it is vital that we maintain a reasonable and the right balance. Even exporters are hurt by unrestrained cost of inputs and the inflationary spirals engendered by an inordinately weak local currency.

As custodian of public interest, the government will take all conceivable measures to put matters right. It is a delicate exercise and balance but we will not renege on our duties.

Mr. Speaker, once again I thank Hon. Mwiimbu for raising the matter of the price of the Kwacha in this August House.

**I thank you Mr. Speaker.**