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Sources and application of forex for Malawian imported services

By

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Abstract

Malawi suffers from massive trade imbalance as it is a net importer of goods and this causes acute forex shortage. The situation is further exacerbated by the fact that imported services which greatly outweigh exported services appear not to be included in the trade deficit figure and therefore source of financing for the imported services is not known. There is a possibility of huge parallel forex market thriving in Malawi and this should be a cause of concern for monetary authorities and the general citizenry. It is recommended that monetary authorities should undertake further investigations in this regard.

Type of Paper: Practitioner's View Point

Key words: Sources; Application; Malawi; Forex, Service

1.0 Introduction

It appears that Malawian fiscal and monetary policies are

tilted towards the trade balance – export and import of goods. The services are somehow ignored when calculating the perpetual trade deficit and therefore a better picture is portrayed when Malawi might actually be worse off.

2.0 Inadequate data on balance of payment (BOP)

There is inadequate data regarding import and export of services in Malawi's balance of payment figures and this has the ability to affect decision making of the policy makers and other stakeholders. The National Statics Office data primarily shows trade figures for import and export of specific goods to come up with the Malawi In Figures (2020:13) trade balances. This is true of Trade Statistics Brief Release (2020) which does not provide figures for services procured from abroad or rendered to other countries. The value of services is however shown in the balance of payments in Malawi In Figures (2020) as mere totals without breakdown per sector. Scarcity of sectorial data inhibits timely interventions because Malawi might have capacity to produce certain services or opt for cheaper options thereby protect its scarce forex. The available detailed Balance of Payment document covering subsectors of imported and exported services is the one between 2010 and 2014 reflected in the local currency and has some gaps too. Unavailability of latest information prevents meaningful analysis of Malawian economy.

There are also inconsistencies in the figures of balance of payments presented in for 2018 and 2019 when compared to Reserve Bank of Malawi (2021:48) for the same period under review. The Net Service Position (difference between service exports and imports) was lower in Malawi In Figures (2020:13) by -15.7% and -31.4% for 2018 and 2019 respectively when compared with Reserve Bank of Malawi (2021:48). The Current Account for Malawi In Figures (2020:13) is -19.4% and -36.7% lower than Reserve Bank of Malawi (2021:48). Reserve Bank of Malawi (2021:48). The variances are quite material and therefore compromise the quality of any decisions which can be made exclusively from one set of document of either of the two.

3.0 Scrutinising exported and imported services

Malawi being part of the global village is connected to the international gateways of various services which we might take for granted but surely make lives easier and better by each day and some of them are discussed below:

3.1 Imported services

There is no latest publicly available data provided by National Statistics Office and therefore mere observations are made on certain services as follows:

3.1.1 Inbound logistics services

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The imported goods reflected in the Balance of Payment as per the Reserve Bank of Malawi (2022:55) are Free On Board (FOB) and therefore the insurance and freight charges are quite material. This is particularly true of petroleum products imported into Malawi through Dare salaam which have proved to be more expensive than the same products imported through rail using the Nacala Port. Substantial amount of forex is lost to transport petroleum products by road instead of rail. It would be ideal to disclose the forex used for haulage of this product. Separate disclosures for inorganic fertilisers, plastic products, machinery and others ought to be disclosed separately in USD as well for analysis so that alternative arrangements could be explored.

3.1.2 Telecommunication services

Data services (through bandwidth) from international service providers need to be disclosed. There are several optic fibre cables bringing data into Malawi. The cost in USD is not readily available. Could there be alternative arrangements with neighbouring countries to reduce the tariffs and import bills?

Interconnection fees and other charges for the cellphones do attract foreign charges including the tower services and these have to be properly scrutinised as well.

3.1.3 Education and professional services

Kampanje (2012) noted that Malawi spends substantial amount of forex on tuition and examination fees, annual subscriptions and other related charges for courses of about USD7.5 million. The figure must be higher in 2022 considering that so many people are now pursuing courses offered by international bodies and universities. It is therefore important to critically analyse those courses not accredited in Malawi and ban externalisation of forex for the blacklisted ones.

3.1.4 Air transport, travel and accommodation

National Statistics Office (2015) made considerable effort of providing totals for the above items but these were in local currency and lack substantial details. There is need to provide such data in USD to evaluate whether the country benefits from such as expenses as they were the biggest chunk of the imported services but perhaps restricted to some fewer individuals of the Malawian society.

3.1.5 Dividend, management fees

Substantial forex is channelled towards payment of dividend especially in the banking and telecommunication sector. Management fees are also quite high and some quarters believe that these are part of the transfer pricing schemes. There appears to be no formal rules or guidance on this subject matter.

3.1.6 Outward remittances

Kampanje (2012) estimated that outward remittances were about USD120,000,000.00 per annum. There are no official figures for this service but the numbers of migrant workers entering Malawi especially from India and Pakistan has increased substantially between 2012 and 2022. Some expatriates overstay in Malawi others being in Malawi for over twenty years instead of maximum of four years thereby fleecing Malawi of its scarce forex.

3.2 Exported services

Like with imports above, there is no latest publicly available data provided by National Statistics Office and therefore mere observations are made on certain services as follows:

3.2.1 Outbound logistics services

Malawian transporters lack capacity to haul goods from Malawi to various destinations and sometimes the exporters are the ones who must bear the costs depending on the nature of the contract. Data for such transport costs are not publicly available. For few local transporters who are able to secure international haulage routes, they are required to pay substantial sums of toll fees in USD in the neighbouring countries.

4.0 Conclusion and recommendations

Malawi consume substantial imported services which must be scrutinised whether they add value to the country or not so that undesirable services are either subjected to higher taxes or are banned altogether to protect the scarce forex to contain possible cost-push inflation. It is also difficult to verify services as they are perishable and intangible so that unscrupulous people can claim to have accessed them when in actual fact have not and therefore externalise substantial amount of forex out of Malawi.

It also appears that there is parallel economy in the country to sponsor the imported services as the trade deficit figures are primarily concerned with the goods and not the services. The black market feeds the service industry where forex cash transactions are pumped into the formal economy through forex bureaus and bills for services already consumed.

It is recommended that both fiscal and monetary authorities should take considerable effort in scrutinising the service industry and put appropriate safeguards to the scarce forex.

References

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