



AUGUST 2024

**ECONOMIC AND
BUSINESS REVIEW**

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ECONOMIC GROWTH PROSPECTS

Commentary

The business environment in Malawi remained challenging in the month August, primarily due to ongoing macroeconomic imbalances evidenced by persistent inflation, high interest rates, and foreign exchange scarcity. Headline inflation edged up to 33.9 percent in August from 33.7 percent in August, driven largely by rising food prices, which increased from 41.9 percent to 42 percent. These inflationary pressures, compounded by supply chain disruptions, have continued to erode consumer purchasing power, placing significant strain on both household and businesses' budget.

Despite these difficulties, the stock market performed strongly, with a 74.71 percent increase in the value of traded shares, reflecting positive investor sentiment. Additionally,

tea and tobacco production saw a substantial year-on-year growth, providing a welcome boost to Malawi's export earnings and foreign exchange reserves, though not enough to fully offset the challenge of foreign exchange scarcity in the country.

To address these issues, immediate actions should focus on stabilizing food prices by increasing food availability in the market, which would help alleviate supply chain constraints.

Looking ahead, inflationary pressures are expected to persist, particularly as the lean season approaches. As a result, monetary policy is likely to remain tight for the remainder of the year, as authorities work to curb inflation and stabilize the economy.

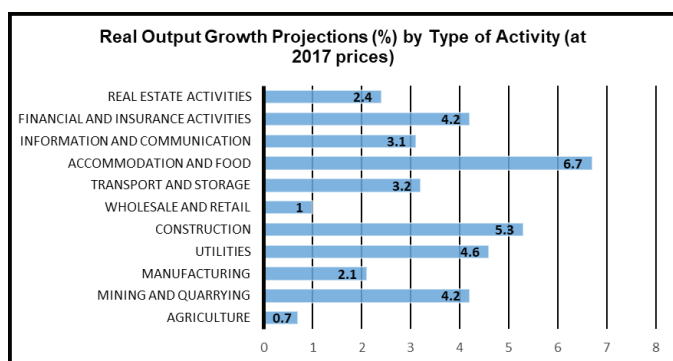
1. Real Sector Developments:

This section provides an analysis of Real GDP, Inflation as well as Domestic Production.

i. Real Economic Activity

In 2024, the country's GDP is anticipated to grow at a modest rate of 2.3 percent as indicated in the previous month, marking an improvement over the 1.9 percent growth recorded in 2023 and the 0.9 percent seen in 2022. This positive outlook for 2024 is driven by robust performance across several key sectors, including manufacturing, wholesale and retail trade, mining and quarrying, real estate, accommodation and food services, financial services, and education. Availability of foreign exchange for business operation continue to be crucial for performance of various sectors. Looking ahead to 2025, growth is projected to increase significantly to 4.3 percent. This forecast is buoyed by expectations of favorable weather conditions and the anticipated benefits from the full operationalization of major agricultural investments, which are expected to bolster not only the agriculture sector but also all related industries reliant on it for essential raw materials.

Figure 1: Real Output Growth projections by Type of Activity (at 2017 prices)



Source: NSO & Ministry of Economic Planning and Development and Public Sector Reforms

According to the Reserve Bank of Malawi, the agriculture, forestry, and fishing sector is projected to maintain steady growth at 0.7 percent in 2024, reflecting a challenging 2023/24 agricultural season impacted by El Niño weather conditions and low input uptake, which adversely affected crop yields. Despite these hurdles, positive growth is anticipated, driven by increased investment in irrigation and mega farming initiatives, alongside improved performance in forestry and livestock production.

The mining and quarrying sector is expected to witness a robust growth of 4.2 percent in 2024, up from 3.3 percent in 2023. This growth is largely supported by advancements in the energy sector, which are vital for mining operations that depend on reliable electricity. The sector's outlook is further enhanced by the formalization of the Artisanal and Small-scale Miners (ASMs) Act, anticipated to bolster the production of gemstones and other minerals through 2024 and into 2025, fostering optimism for sustained sector growth.

In the manufacturing sector, growth is projected at 2.1 percent in 2024, significantly improving from a mere 0.3 percent in 2023. This positive trajectory is attributed to enhanced electricity supply, improved accessibility to foreign currency, and better fuel availability. However, the sector continues to face challenges stemming from the agricultural sector's weak performance, which impacts input availability, as well as ongoing foreign currency shortages.

Growth in the utilities sub-sector is forecasted at 4.6 percent for 2024, following an impressive 8.0 percent growth in 2023. This decline is attributable to the maturation of previous investments, though governmental initiatives aimed at expanding national electricity generation capacity to 1,000 MW by 2025 are expected to sustain growth. Additional support comes from various projects underway, including the Bwengu Solar Power Station and a new 50-megawatt solar power plant, along with the commissioning of the Nkhunzi Bay Scheme by the Southern Region Water Board.

The construction sector is projected to grow by 5.3 percent in 2024, a slight decrease from the 5.8 percent growth recorded

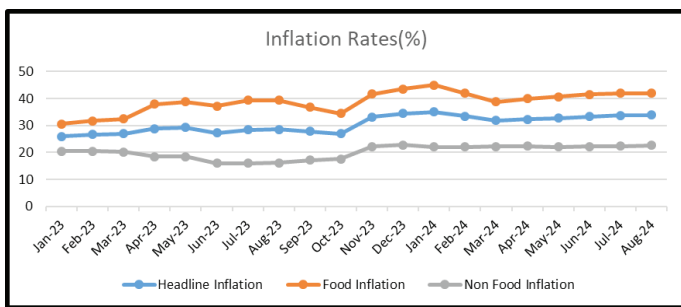
in 2023. This slowdown is primarily due to foreign currency shortages, which have impacted the availability of raw materials. Nevertheless, growth prospects remain positive, bolstered by the government's commitment to completing ongoing infrastructure projects.

In the transport and storage sector, growth is anticipated to rise to 3.2 percent in 2024, up from 3.0 percent in the previous year. This improvement is expected to be driven by rehabilitated railway transport and the anticipated resumption of train operations between Nkaya and Lilongwe.

Finally, the financial and insurance services sector is projected to grow by 4.2 percent in 2024, compared to 3.4 percent in 2023. This growth is largely fueled by an increase in the adoption of digital banking and insurance services, reflecting a shift towards more modern financial solutions among consumers.

ii. Inflation Rate

Figure 2: Inflation Rates



Source: NSO

In July 2024, the headline inflation rate reached 33.7 percent, experiencing a slight uptick to 33.9 percent in August 2024. This modest increase of 0.2 percentage points underscores persistent inflationary pressures that, while stable, continue to warrant attention. The gradual rise suggests that economic factors contributing to inflation, such as the increasing costs of goods and services, are significant but not escalating at an alarming pace. This stability might be indicative of temporary relief from external shocks or seasonal price variations, yet it still highlights inflation as a pressing concern for the economy.

Food inflation remains a primary driver of overall inflation in Malawi. In July 2024, the food inflation rate stood at 41.9 percent, which edged up to 42 percent in August. This marginal increase reflects ongoing challenges within the food supply chain, including potential disruptions from seasonal fluctuations and production inefficiencies. Considering that food constitutes a substantial share of household expenditure in Malawi, this rise directly affects the cost of living, particularly for low-income families. The persistently high level of food inflation raises alarms as it signals supply-side pressures, such as elevated agricultural input costs and suboptimal harvests.

Non-food inflation also saw a slight increase, climbing from 22.4 percent in July to 22.7 percent in August 2024. This change suggests a gradual rise in the prices of goods and services outside the food sector. Although the uptick in non-food inflation is modest, it indicates underlying cost-push factors emerging in sectors, which can create ripple effects throughout overall price levels.

The inflation trends observed between July and August 2024 reveal a persistent inflationary landscape in Malawi, characterized by gradual but consistent increases across all categories. Headline inflation remains notably elevated, predominantly propelled by soaring food prices that exert substantial pressure on household finances.

Looking ahead, the inflation outlook remains uncertain and potentially concerning, especially with the lean season approaching. During this period, agricultural production typically slows, and food stocks dwindle, leading to heightened pressure on food prices. As food inflation is already a significant driver of overall inflation in Malawi, the lean season is expected to exacerbate the situation, further pushing up prices of staple foods like maize, which forms a large part of household consumption. To mitigate these pressures, there is an urgent need to address the supply side of the economy by increasing food availability in the market.

ii. Domestic Production

This part of the analysis covers developments in tea and maize production.

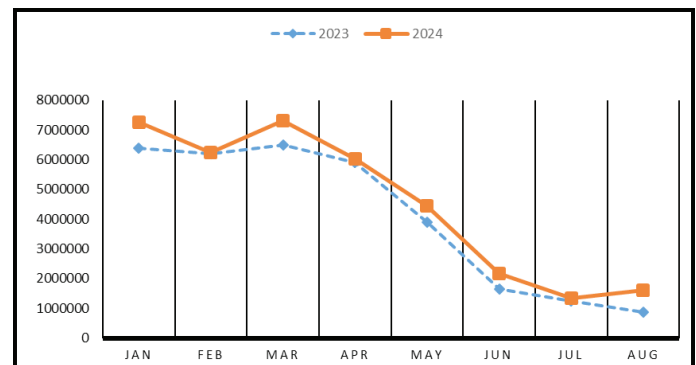
A. Tea Production

In comparing tea production between July and August 2024, there was a significant increase. Tea production grew from 1,341,508 kg in July 2024 to 1,598,787 kg in August 2024, marking an increase of about 19 percent. This contrasts with the production trend in the same period in 2023, where production decreased from 1,260,296 kg in July 2023 to 882,941 kg in August 2023—a reduction of approximately 30 percent.

When comparing August 2024 with August 2023, there is a remarkable year-on-year increase. In August 2024, production was 1,598,787 kg, nearly double the 882,941 kg produced in August 2023, representing an increase of approximately 81 percent.

A seasonal pattern is evident in these numbers. The data suggests that production tends to be lower in July and August, with August often marking one of the lowest production months. However, the growth seen in August 2024 might indicate a shift in this pattern, possibly due to favorable climatic conditions or improved agricultural practices in 2024.

Figure 3: Tea Production statistics (Kg)



Source: Tea Association of Malawi

B. Tobacco Production

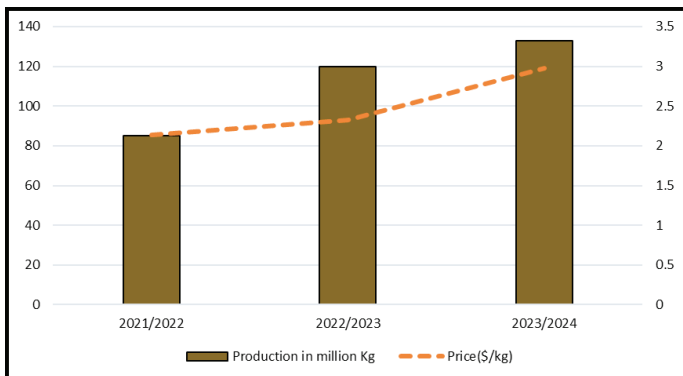
According to the Tobacco Commission of Malawi, the tobacco market officially closed for the 2023/2024 season on August 2, 2024, in Mzuzu, with Lilongwe and Limbe floors closing earlier, on July 12 and July 19, respectively. A report from the first round of crop estimates for the 2023/2024 farming season projected a 21% increase in tobacco production compared to 2023. The initial projection estimated a production of 146 million kilograms of tobacco in 2024, up from the 120 million kilograms sold in 2023.

However, by the close of the market season in August, the actual figure came in lower than the projection, with 133 million kilograms of tobacco of all types sold. This was valued at \$395,313,551.68, with an average price of \$2.98 per

kilogram. In comparison, during the 2022/2023 farming season, 120 million kilograms of tobacco were sold, valued at \$282.6 million, with an average price of \$2.35 per kilogram.

In terms of production growth, the increase from 120 million kilograms in 2023 to 133 million kilograms in 2024 represents a 9.8% growth in actual production. Despite falling short of the initial 21% projection, the 2023/2024 season still saw a significant improvement in both volume and price. The average price per kilogram also rose from \$2.35 in 2023 to \$2.98 in 2024, reflecting a 26.8% increase in price, which contributed to the overall increase in revenue.

Figure 4: tobacco production and price



Source: Tobacco Commission of Malawi

C. Maize Production

In August 2024, maize retail prices in Malawi exhibited a slight upward trend, reflecting a 1 percent increase compared to both the previous month and the corresponding period in July 2024. Specifically, the weekly average price rose from K792 per kilogram at the end of July to K797 per kilogram by the final week of August. This increase continues a pattern observed in the previous month, suggesting a degree of stabilization in the market.

Geographically, the price variations remained consistent with historical trends. Throughout August, maize retail prices were highest in the Southern region, where the average was K870 per kilogram. This price point is 14 percent higher than the Central region’s average of K760 per kilogram and 37 percent higher than the Northern region’s average price of K636 per kilogram. Such disparities highlight the regional imbalances in maize pricing that continue to persist in Malawi.

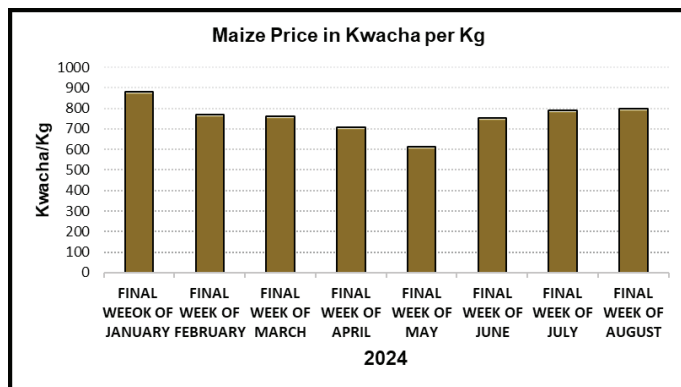
When assessing maize prices in a broader regional context, Malawi’s retail prices exceeded those found in neighboring countries such as Mozambique, Zambia, and South Africa when evaluated at the official exchange rate of K1,751 to the US dollar. However, this trend reverses when using the market exchange rate of K2,400 to the US dollar, which is more commonly utilized in trade. Notably, Tanzania continues to report the lowest maize prices across both exchange rates, emphasizing the potential for regional price adjustments.

To mitigate the high local prices and enhance food security, there is a pressing need for Malawi to reconsider trade barriers. Facilitating access for small-scale traders to regional markets, particularly in surplus-producing nations like Tanzania, could lower local maize prices and improve overall food availability.

In terms of government intervention, August saw the Agricultural Development and Marketing Corporation (ADMARC) active in purchasing maize across three markets—Karonga and Rumphu in the Northern region, along with Mitundu in the Central region. However, it is worth noting that there were no recorded ADMARC sales in any of the 26 markets monitored by the International Food Policy Research Institute (IFPRI) during this period, highlighting a potential gap in distribution or supply management that

may need to be addressed.

Figure 5: Maize retail prices for final week of the months



Source: IFPRI

Section 2: Finance Sector Developments

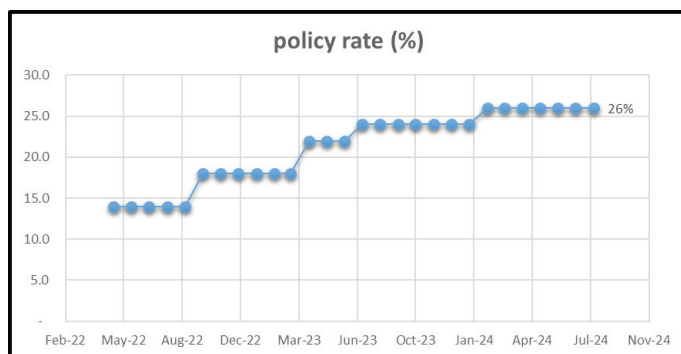
This section looks at developments in Interest Rates and Stock Markets.

i. Interest rates

In August 2024, Malawi’s policy rate was maintained at 26 percent, consistent with the rate set in July 2024. This reflects the Reserve Bank’s continued commitment to a tight monetary policy in response to persistent inflationary pressures. The high policy rate signals efforts to curb inflation and stabilize the currency by restricting excess liquidity in the economy.

By maintaining such a high rate, the Reserve Bank aims to reduce demand-driven inflation and control price volatility, though it may also increase the cost of borrowing for businesses and consumers. This tight monetary environment, characterized by high-interest rates, limits access to affordable credit and can slow down economic growth, particularly for small and medium-sized enterprises (SMEs) that rely heavily on loans for expansion. Nonetheless, the policy reflects the central bank’s prioritization of macroeconomic stability in the face of external shocks and rising domestic prices.

Figure 6: Trends of Policy rates



Source: Reserve Bank of Malawi

ii. Stock Market Developments

In August 2024, the market saw a notable increase in activity, with a total of 41.97 million shares traded across 1,507 transactions, reaching a total value of US\$3.96 million. This represents an 18.85 percent rise in share volume compared to the 35.32 million shares traded in July 2024, which had a total value of US\$2.27 million. The value of shares traded surged by 74.71 percent from the previous month.

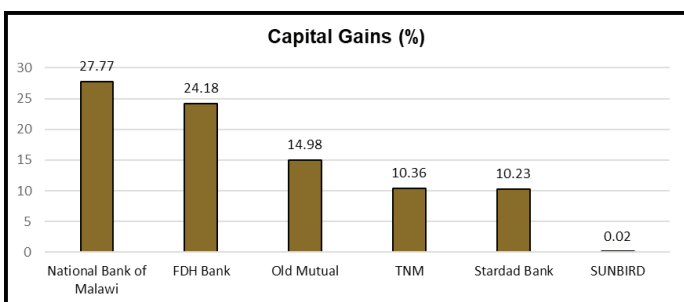
The Malawi All Share Index (MASI) experienced a significant uplift, climbing from 128,996.65 points in July to 141,275.06 points in August, reflecting a robust 9.52 percent month-on-

month gain. This increase in the MASI highlights the overall positive performance of the market during the period.

The number of companies listed on the Malawi Stock Exchange remained steady at 16 throughout August, consistent with July. Key contributors to the MASI's rise included substantial price gains from NBM (27.77 percent), FDHB (24.18 percent), OMU (14.98 percent), TNM (10.36 percent), STANDARD (10.23 percent), and SUNBIRD (0.02 percent). These gains more than offset declines seen in stocks such as ICON (-5.49 percent), NBS (-1.67 percent), FMBCH (-0.38 percent), MPICO (-0.33 percent), NICO (-0.15 percent), AIRTEL (-0.07 percent), NITL (-0.04 percent), and PCL (-0.004 percent).

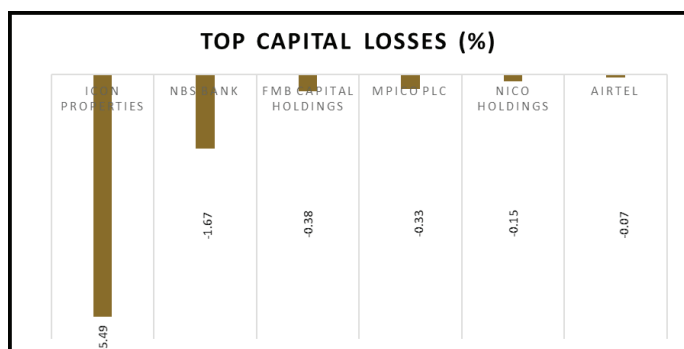
Additionally, the Domestic Share Index increased by 11.06 percent, rising from 99,107.18 to 110,067.28 points, while the Foreign Share Index saw a slight decline of 0.22 percent, decreasing from 20,018.57 to 19,974.30 points.

Figure 7: Top capital gainers on the Malawi Stock Exchange



Source: Malawi Stock Exchange

Figure 8: Companies with capital losses



Source: Malawi Stock Exchange

Section 3: External Sector Developments

This section provides an analysis of developments in the merchandise trade, foreign exchange market, gross official reserves, global fuel prices and global commodity prices.

i. Malawi Kwacha Exchange Rate

During the month-end review, the Reserve Bank of Malawi conducted a Foreign Exchange Auction on August 22, 2024, to ascertain the prevailing market clearing price of the Malawi Kwacha (MWK) against the United States Dollar (USD) and other major currencies. Seven Authorized Dealer Banks (ADB) participated in this auction. The results are as follows:

Amount Offered (USD)	350,000.00
Amount Accepted (USD)	350,000.00
Highest Bid Rate Accepted	1,751.00
Lowest Bid Rate Accepted	1,751.00

Weighted Average Rate Accepted	1,751.00
No. Of Participating Banks	7
No. of Bids	7
No. Of successful Banks	7
No. Of unsuccessful Banks	0

Based on the results of the auction, the market selling price remained at MWK1,751.00 per US Dollar.

Between July and August 2024, the Malawian Kwacha generally continued its weakening trend against major global currencies, with the most significant depreciation occurring against the Euro and Yuan. While the changes against the USD were minimal, indicating some stability, the faster depreciation against other currencies suggests ongoing economic pressures that may affect Malawi's trade and financial stability.

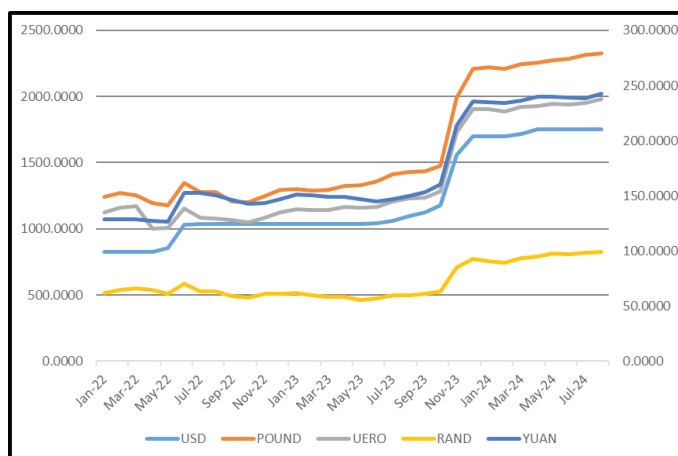
In July 2024, the exchange rate for the Kwacha was MWK 1,749.49 per USD, and it increased slightly to MWK 1,750.33 per USD in August 2024. This represents a marginal depreciation of 0.05 percent. The change is minimal, indicating relative stability of the Kwacha against the USD during this period, though the overall trend for the year shows consistent weakening.

The Kwacha depreciated more significantly against the British Pound. The exchange rate moved from MWK 2,311.98 per GBP in July to MWK 2,328.13 in August, reflecting a depreciation of about 0.7 percent. The faster depreciation compared to the USD suggests that external factors such as the strength of the Pound or domestic financial pressures were more pronounced during this time.

Against the Euro, the Kwacha continued to weaken, with the exchange rate moving from MWK 1,951.02 in July to MWK 1,981.77 in August 2024. This depreciation of approximately 1.6 percent is relatively larger compared to the changes against the USD and GBP. The Euro's strength or Malawi's trade relationship with the Eurozone might be influencing this more noticeable depreciation.

The Kwacha depreciated against the South African Rand as well, with the exchange rate increasing from MWK 98.30 Rand in July to MWK 99.26 per Rand in August 2024. This 1 percent depreciation is in line with the trend of weakening against regional currencies, potentially driven by trade imbalances or fluctuations in the Rand itself, as South Africa is a key trading partner for Malawi.

Figure 9: Average exchange rate against major trading currencies



Source: Reserve Bank of Malawi

iv. Global Fuel Prices

In July 2024, the average price of Brent crude oil stood at \$85.30 per barrel but fell to \$80.86 per barrel in August 2024, marking a decline of approximately 5.2 percent over the month. This decrease was largely attributed to changing

global supply and demand dynamics. A notable increase in oil supply, driven by production boosts from several major oil producers, contributed to stabilizing the market and subsequently lowering prices. In August, OPEC+ countries notably stepped up production, enhancing global supply levels. Key producers such as Saudi Arabia and Russia maintained steady output, while the U.S. shale oil sector also ramped up production, capitalizing on favorable market conditions.

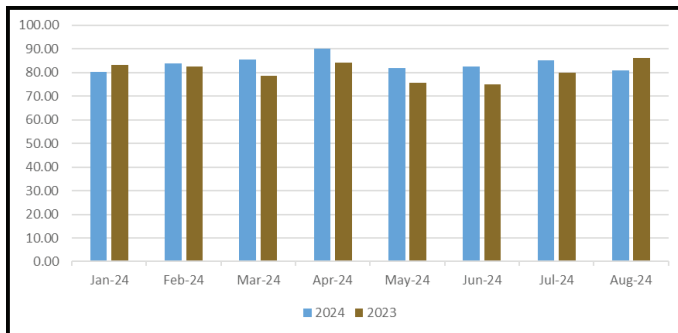
Simultaneously, weaker-than-expected demand in critical markets such as China played a significant role in suppressing prices. An economic slowdown in China, coupled with diminished industrial activity, led to a reduction in oil consumption, further exerting downward pressure on prices. During this period, geopolitical stability in major oil-producing regions contributed to the market's equilibrium. The absence of significant supply disruptions, particularly in the Middle East, facilitated the stabilization and decline of oil prices.

The price drop in August appears to be a short-term correction influenced by temporary factors, including increased supply and softening demand. However, if global demand rebounds as anticipated, Brent crude oil prices could recover in September, potentially nearing levels observed in the earlier months of 2024.

Looking ahead to September 2024, the outlook for crude oil prices presents a mixed picture. With the arrival of colder months in the Northern Hemisphere, demand for heating oil is expected to rise, which may lead to upward pressure on prices. Furthermore, industrial activity typically increases during early autumn, further bolstering demand

for crude oil.

Figure 10: Brent Crude oil average prices (US\$/bb/)



Source: World Bank

UPCOMING BUSINESS EVENTS

The following are the business events that MCCI is facilitating in the third quarter of 2024, respectively:

<p>Zomba SME Fair and Farmer Market</p>	<p>27th-28th September 2024</p> <p>For Registration Please Contact Linda Pete on 0888 361 132 or email: lpete@mccci.org</p>
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