OCTOBER 2024

ECONOMIC AND BUSINESS REVIEW

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ECONOMIC GROWTH PROSPECTS

Commentary

In the month under review, Malawi's economic environment remained challenging, marked by persistent inflation, a tight monetary stance, and ongoing foreign exchange shortages. Headline inflation remained high, fueled largely by escalating food prices due to supply constraints. The Reserve Bank of Malawi (RBM) maintained its policy rate at 26%, emphasizing its commitment to containing inflation. However, increasing the Liquidity Reserve Requirement (LRR) to 10 percent for domestic deposits added pressure on private sector credit, restricting access to much-needed funding for business expansion and operational needs.

The foreign exchange situation has become more severe, as the country's reserves provided only 2.2 months of import cover, unchanged from the previous month of September despite a slight increase in reserve levels. This shortage has impacted essential imports, especially fuel, leading to supply disruptions and logistical challenges for businesses across Malawi.

In the real sector, tea and tobacco production showed promising growth, contributing positively to export earnings. October's tea production slightly increased from September, reflecting a stable seasonal output. Licensed tobacco volumes from growers are demonstrating a positive upward trajectory driven by favorable prices in the 2023/2024 season. Maize prices, however, rose sharply as the country moved closer to the lean season, exacerbated elevated transportation costs from the ongoing fuel shortage.

Looking ahead, Malawi's economic outlook remains cautious as inflationary pressures are expected to persist through the lean season. The high policy rate and raised LRR are likely to keep credit tight, further restricting business investment and growth. As the lean season intensifies, maize prices are anticipated to continue rising, potentially impacting household food security and further eroding purchasing power.

To stabilize the economy, it is essential to focus on measures that can boost foreign exchange inflows, such as supporting export-oriented industries and improving the efficiency of the Agricultural Input Program (AIP) to bolster food production. A coordinated approach between fiscal and monetary policies, coupled with strategic support for key sectors, will be critical to mitigating inflationary pressures, stabilizing the exchange rate, and supporting sustainable growth as Malawi approaches 2025.

1. Real sector developments:

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

i. Real Economic Activity

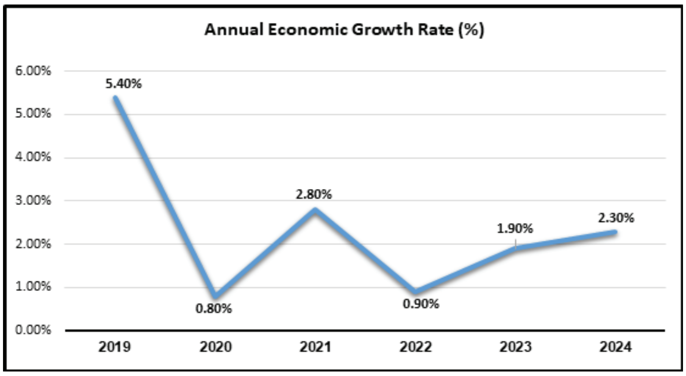
In 2024, the country's Gross Domestic Product (GDP) is projected to grow at a modest rate of 2.3 percent. This anticipated growth represents a significant improvement compared to the 1.9 percent growth recorded in 2023 and the even lower 0.9 percent seen in 2022.

Several factors contribute to this growth outlook, although challenges persist. The adverse effects of El Niño weather patterns on agricultural production have been notable, leading to fluctuations in output across key sectors. Additionally, the ongoing shortages of foreign exchange have deeply impacted business operations, hindering both imports and exports, and creating a challenging environment for local businesses.

The shortage of foreign exchange has become increasingly pronounced end September and October, exacerbating issues like the scarcity of essential fuels, particularly petrol and diesel. These fuel shortages have caused significant disruptions in the logistics and transportation sectors, hampering the movement of raw materials and finished goods across the economy. Industries dealing with perishable goods faced particularly dire challenges; for instance, milk producers struggled to transport their products from farms to processing facilities on time, leading to losses and wastage.

As businesses grapple with these constraints, the ongoing scarcity of foreign exchange continues to pose a substantial risk to the country's economic growth prospects for 2024.

Figure 1: Annual Economic Growth rates



Source: Ministry of Finance and Economic Affairs

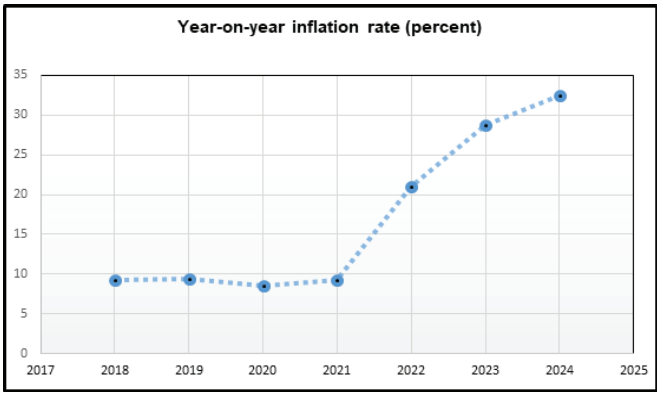
As we look towards 2025, growth is anticipated to rise significantly to 4.3 percent. This optimistic forecast is supported by expectations of favorable weather conditions and the expected benefits from the full operationalization of major agricultural investments.

These developments are likely to strengthen not only the agriculture sector but also related industries that depend on it for essential raw materials. However, inefficiencies within the Agricultural Input Program (AIP) as the country prepares for the 2024/2025 agricultural season present a potential risk.

ii. Inflation Rate

A report from the Monetary Policy Committee (MPC) for fourth quarter indicates that inflation is projected to average 32.5 percent in 2024, up from 28.8 percent in 2023. This latest forecast marks a 1.3 percentage point decrease from the MPC's previous projection of 33.8 percent for 2024 made in the third quarter. Additionally, the market expectation survey conducted by the Reserve Bank of Malawi (RBM) anticipates annual average inflation rate of 33.3 percent for 2024, which is slightly higher than the MPC's revised forecast.

Figure 2: Inflation Rates



Source: Reserve Bank of Malawi

Looking ahead, the RBM expects headline inflation to decline significantly in 2025. This anticipated reduction is attributed to a supportive monetary policy stance, better climatic conditions, and favorable base effects. However, the RBM notes that growth in the money supply remains a key risk to this inflation outlook.

iii. Domestic Production

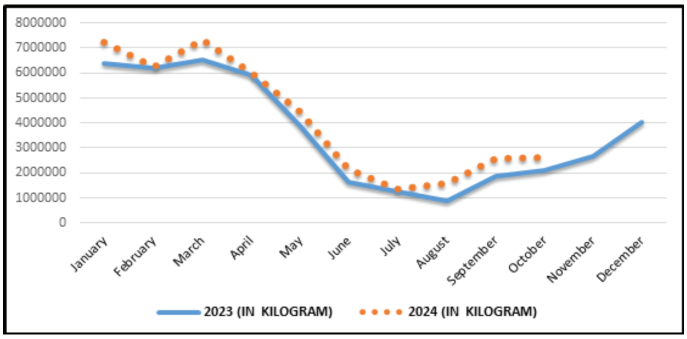
This part of the analysis covers developments in tea, tobacco and maize production.

A. Tea Production

In October 2024, Malawi's tea production reached 2,604,167 kg, showing a modest increase from the 2,566,860 kg recorded in September 2024. This growth of about 1.5 percent reflects a period of stable output as Malawi transitions towards the end of its primary tea production season. Tea production in Malawi follows a distinct seasonal pattern, largely influenced by the country's rainfall cycle. The year typically sees peak production from January through April when the climate is most favorable, with abundant rainfall supporting strong crop yields. However, from June to August, production dips sharply as drier conditions set in, only to stabilize around September and October as the growing season comes to a close.

Comparing production levels year-over-year, 2024 has seen significantly higher output than the previous year. In October 2023, tea production totaled 2,117,347 kg, whereas October 2024 reached 2,604,167 kg, marking an increase of approximately 23 percent. Similarly, September 2024 saw production levels of 2,566,860 kg, up from 1,873,558 kg in September 2023—an impressive 37 percent increase. This boost in 2024 production relative to 2023 may be attributed to improved weather conditions, better agricultural practices, or potentially enhanced resource allocation within the tea sector.

Figure 3: Tea Production statistics



Source: Tea Association of Malawi

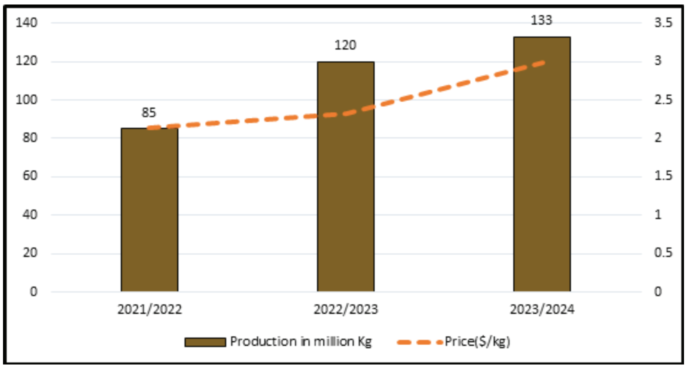
B. Tobacco Production

Licensed tobacco volumes from growers are demonstrating a positive upward trajectory, renewing confidence in the country's commitment to meeting market demand. As of mid-October 2024, licensed tobacco volumes reached an impressive 223 million kilograms, reflecting a significant 24.7 percent increase compared to 178.9 million kilograms licensed during the same period in the 2023/2024 farming season. This surge in interest in tobacco production is largely attributed to the favorable prices offered during the previous selling season, incentivizing more farmers to cultivate the crop.

Throughout the entirety of the 2023/2024 farming and selling season, the Tobacco Commission granted licenses for a total of 265.9 million kilograms. However, actual production figures fell short of this figure, with farmers managing to produce only 133 million kilograms. This production level was noticeably below the trade demand of 190 million kilograms, highlighting a significant gap between what was produced and what the market required.

The current increase in licensed volumes signals a renewed optimism among tobacco growers, reflecting their anticipation of better market conditions and potential profitability. Many farmers are adjusting their strategies and increasing their investments in the crop, hoping to capitalize on the upward price trends that were observed last season.

Figure 4: Tobacco Production

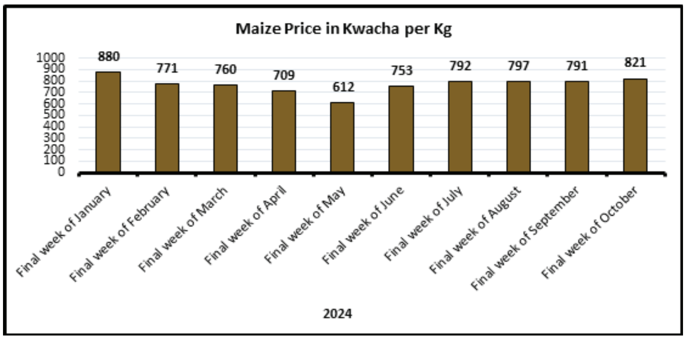


Source: Tobacco Commission of Malawi

C. Maize Production

In October 2024, the average retail price of maize in Malawi experienced a notable increase, reaching K819 per kilogram in the final week. This represents a 4 percent rise from the September closing price of K790 per kilogram. This upward trend in maize prices aligns with national patterns observed across all three regions of the country, although the extent of price changes varied significantly by region.

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

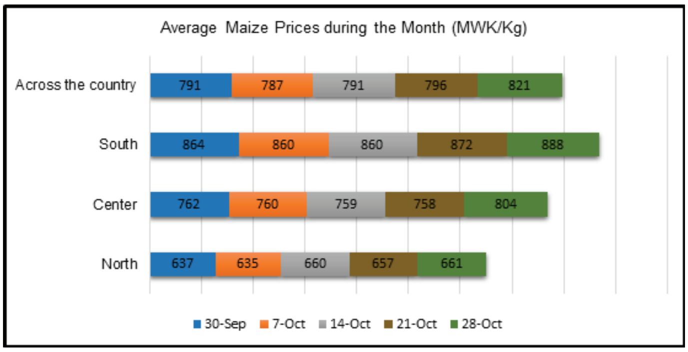


Source: IFPRI

The Southern region consistently reported the highest average maize prices, starting at approximately K865 per kilogram at the beginning of October, and gradually climbing to around K898 per kilogram by the month's end. This region's robust demand and limited supply likely contributed to the sustained upward trajectory in prices. In the Central region, maize prices also followed a steady increase, moving from K771 per kilogram to about K808 per kilogram, reflecting similar market dynamics driven by consumer demand and regional supply factors.

In contrast, the Northern region recorded the lowest prices, exhibiting minor fluctuations within a narrower range, specifically from K619 per kilogram to K640 per kilogram. These price variations in the Northern region may be attributed to its more stable supply of maize and potentially lower demand compared to the other regions.

Figure 6: Average Maize Prices during the Month



Source: IFPRI

This increase in maize prices followed a period of relative stability, largely supported by consistent informal imports of maize from Tanzania. Recent reports indicate that a significant portion of the maize currently available in Malawi is of Tanzanian origin, which has played a crucial role in influencing market prices. However, this influx of imported maize faced challenges as the value of the Malawi Kwacha depreciated significantly. According to IFPRI, the Kwacha price of informally imported maize increased as the Malawi Kwacha lost market value (in the parallel market) from K2,600/$ at the end of September to K2,800/$ a month later, pushing up retail prices across Malawi. This currency depreciation, combined with rising transport costs due to fuel shortages observed throughout the country, has further exacerbated the increase in retail maize prices.

As Malawi looks ahead into the lean season, a time typically characterized by reduced agricultural output, it is anticipated that maize prices will continue to rise even if fuel supply issues stabilize. The ongoing challenges in the agricultural sector, coupled with external market dynamics, suggest that consumers may face higher food costs in the coming months, underscoring the critical need for effective interventions to support both producers and consumers in this vital sector.

Section 2: Finance Sector Developments

This section looks at developments in monetary policy, Stock Markets and credit to private sector

i. Monetary Policy

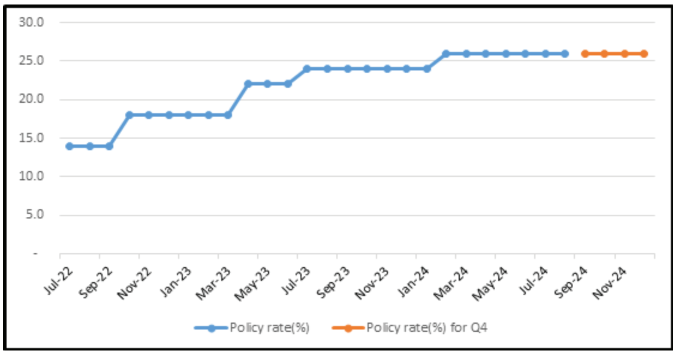
In October 2024, Malawi's policy rate was maintained at 26 percent, consistent with the rate set in July. This reflects the Reserve Bank's ongoing commitment to tight monetary policy in response to persistent inflationary pressures through the third quarter. The high policy rate, along with the Liquidity Reserve Requirement (LRR) ratio, underscores efforts to curb inflation and stabilize the currency by limiting excess liquidity.

As we approach the fourth quarter, the Monetary Policy Committee has decided to implement further tightening measures. The policy rate, Lombard rate, and the LRR for foreign currency deposits will remain unchanged at 26.0 percent, 20 basis points above the policy rate, and 3.75 percent respectively. However, the Committee has increased the LRR for domestic currency deposits by 125 basis points, raising it to 10.0 percent from 8.75 percent in the third quarter. This adjustment is intended to manage money supply growth in response to ongoing inflationary pressures.

The increase in the LRR for domestic currency deposits, while keeping other rates unchanged, could significantly affect the private sector's access to credit, potentially restricting business operations and investment. This concern is especially pressing, given the challenges that the private sector, including SMEs, already faces in accessing credit, which is critical for scaling production and ensuring viability.

To support comprehensive economic stabilization, it is essential for fiscal policy to align with these monetary measures. In particular, prudent government borrowing is crucial to managing inflation effectively and ensuring economic stability as a whole.

Figure 7: Trends of Policy rate



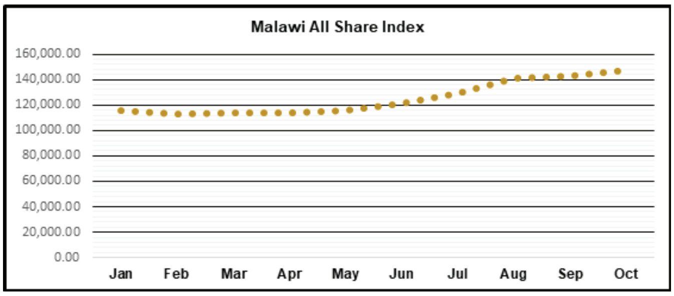
Source: Reserve Bank of Malawi

ii.Stock Market Developments

In October 2024, the market saw a total transaction of 121.12 million shares, valued at US$11.18 million across 1,402 trades. In comparison, September 2024 recorded 115.32 million shares traded, with a total value of US$10.57 million across 1,572 trades. This represents a 5.03 percent increase in share volume and a 5.76 percent increase in share value month-over-month, indicating higher market activity and value despite a slight decline in the number of trades. The daily average share trades exhibited a similar trend, recording an average volume of 5.51 million shares in October, compared to 5.49 million shares in September 2024, which translates to a 0.26 percent increase.

The market experienced a positive return, as evidenced by the increase in the Malawi All Share Index (MASI), which rose from 142,686.97 points in September 2024 to 147,216.86 points in October 2024. This upward movement translates to a month-on-month return of 3.17 percent, consistent with a 3.17 percent return in US dollar terms.

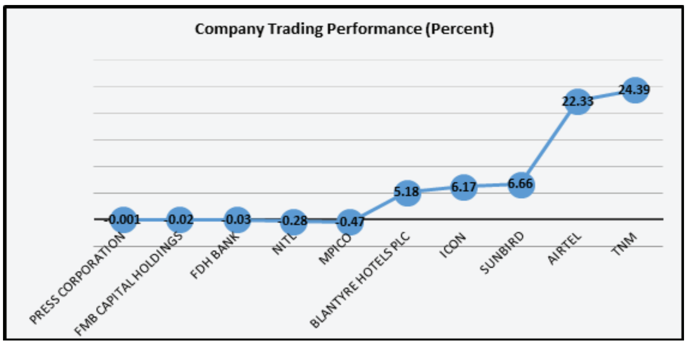
Figure 8: Malawi All Share Index.



Source: Malawi Stock Exchange

The number of companies listed on the Malawi Stock Exchange remained steady at 16 in October, consistent with the previous month. Notable price gains were recorded by TNM (24.39 percent), AIRTEL (22.33 percent), SUNBIRD (6.66 percent), ICON (6.17 percent), BHL (5.18 percent), ILLOVO (4.24 percent), STANDARD (3.00 percent), NICO (0.06 percent), OMU (0.03 percent), NBS (0.02 percent), and NBM (0.002 percent). These gains outweighed share price declines seen in MPICO (-0.47 percent), NITL (-0.28 percent), FDHB (-0.03 percent), FMBCH (-0.02 percent), and PCL (-0.001 percent), resulting in an overall upward movement of the Malawi All Share Index.

Figure 9: Company Trading Performance



Source: Malawi Stock Exchange

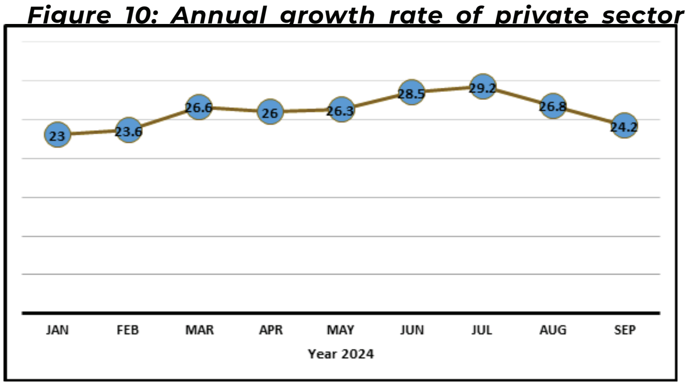
iii. Credit to Private Sector

Analyzing the latest data on annual growth rate of private sector credit in for September and August 2024, it shows a noticeable month on month decline. In August, the growth rate stood at 26.8 percent, which dropped to 24.2 percent in September, indicating a contraction in credit growth of approximately 2.6 percentage points. However, annual rate for September 2024 was higher than 20.4 percent in September 2023.

This downward trend in the month under review, signals a tightening of available funds for the private sector, which can have significant implications. For businesses, especially small and medium-sized enterprises (SMEs) that rely heavily on bank credit for operations and expansion, reduced credit growth limits their ability to invest in inventory, expand capacity, or fund working capital needs. This tightening of credit may slow overall economic activity, as businesses are likely to scale back on production, hiring, and investment.

The recent increase in the Liquidity Reserve Requirement (LRR) for domestic currency deposits by 125 basis points to 10.0 percent is likely to exacerbate this trend. With a higher LRR, banks are required to hold a larger portion of deposits in reserve, leaving them with fewer funds to lend. This contractionary monetary measure is designed to curb inflation by reducing money supply but comes at the cost of restricting credit availability. For the private sector, this increased reserve ratio may result in even slower growth in credit as banks tighten lending criteria and raise interest rates, further limiting access to affordable credit.

Figure 10: Annual growth rate of private sector



Source: Reserve Bank of Malawi

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 for October 2024, the Reserve Bank of Malawi carried out a series of three Foreign Exchange Auctions on the 3rd, 17th, and 31st of the month. The objective of these auctions was to determine the prevailing market clearing price of the Malawi Kwacha (MWK) against the United States Dollar (USD) as well as other major foreign currencies. In the auctions held on both the 3rd and 17th of October, participation was robust, with four Authorized Dealer Banks (ADBs) actively engaging in the bidding process. However, the auction on the 31st saw a slight decrease in participation, with three ADBs contributing to the exercise. This variance in participation may reflect shifts in market dynamics or liquidity conditions during the month. The results are as follows:

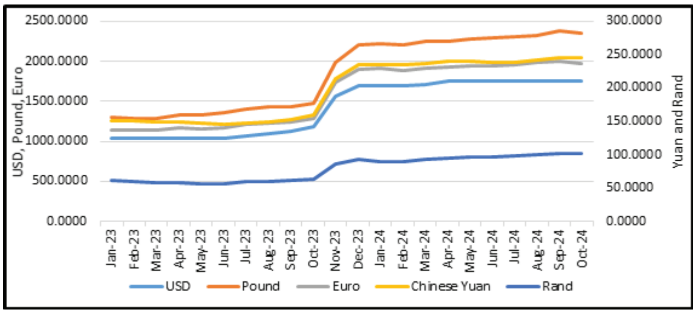
	3 October	17 October	31 October
Amount offered (USD)	200,000.00	200,000.00	150,000.00
Amount Accepted (USD)	200,000.00	200,000.00	150,000.00
Highest Bid rate Accepted	1,751.00	1,751.00	150,000.00
Lowest Bid rate Accepted	1,751.00	1,751.00	1,751.00
Weighted Average Rate Accepted	**1,751.00**	**1,751.00**	**1,751.00**
No. of Participating Banks	4	4	3
No. of Bids	4	4	3
No. of Successful Banks	4	4	3
No. of unsuccessful Banks	0	0	0

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

In October 2024, the Malawi Kwacha experienced varied performance against major trading currencies compared to September 2024. The monthly average official exchange rate against the U.S. dollar remained nearly stable, with a slight decrease from MWK 1750.33 in September to MWK 1750.05 in October. Similarly, the Chinese Yuan and South African Rand saw minimal changes, with the Kwacha trading at monthly average of MWK 244.69 for the Yuan and MWK 102.32 for the Rand, reflecting slight adjustments from the previous month's MWK 245.01 and MWK 101.80, respectively.

However, the Kwacha showed a modest appreciation against the British Pound and the Euro. The exchange rate against the Pound improved from monthly average of MWK 2376.32 in September to MWK 2351.32 in October, and against the Euro, it strengthened from MWK 1998.24 to MWK 1964.03. The widening trade balance continues to exert pressure on the exchange rate.

Figure 9: Kwacha monthly average exchange rate against trading currencies



Source: Reserve Bank of Malawi

ii. Gross Official Reserves

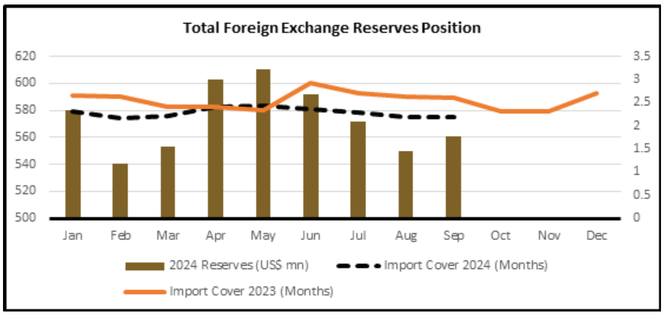
The latest data released in October from RBM indicates that in September 2024, Malawi's total foreign exchange reserves stood at $560.3 million, a slight increase from $549.85 million in August 2024. Despite this minor rise in reserves, the import cover remained unchanged at 2.2 months for both months, reflecting persistent foreign exchange constraints that limited Malawi's ability to meet import needs effectively.

The ongoing scarcity of foreign exchange has led to challenges in securing sufficient imports of these critical fuels, contributing to supply shortages. As a result, fuel scarcity has caused long queues, impacting the movement of goods and disrupting business operations across Malawi. This disruption affects both transportation and production processes, as many businesses rely on diesel and petrol for logistics and energy. Additionally, fuel shortages led to increased operational costs for businesses, creating further inflationary pressures and potentially slowing economic growth due to constrained movement of goods and services.

Looking ahead to November and December 2024, Malawi's forex situation may come under additional strain as the lean season approaches. As an agricultural economy, Malawi typically experiences a decrease in export revenue during this period, as the main crop exports are not yet ready for market. With reduced forex inflows from agricultural exports, pressure on reserves is likely to increase, potentially exacerbating challenges in importing fuel, raw materials, and other essentials.

The lean season, combined with persistent forex shortages, presents risks for businesses and the broader economy. Limited access to imported raw materials and fuel could further constrain production, agricultural preparations, transportation, and overall economic activity. To mitigate these challenges, it will be crucial for Malawi to explore measures to bolster forex reserves and prioritize essential imports, especially as the country awaits the next cycle of agricultural export revenues to stabilize forex inflows.

Figure: Total Foreign Exchange Reserves Position



Source: Reserve Bank of Malawi

iv. Global Fuel and Commodity Prices

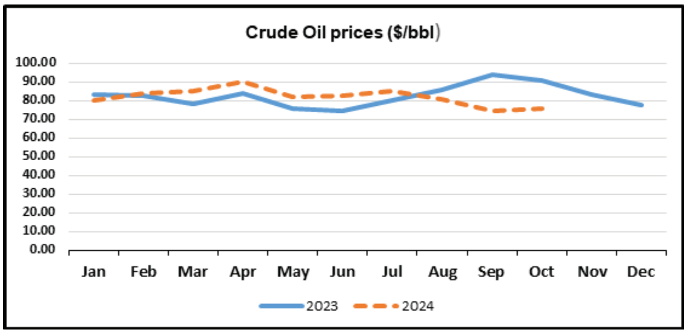
In October 2024, Brent crude oil prices stood at $75.66 per barrel, marking a slight increase from September's $74.29 per barrel. Despite this modest month-to-month rise, the October 2024 price remains significantly lower than October 2023's $91.06 per barrel, reflecting a broader downward trend over the past year.

OPEC+ continued its strategy of production cuts in October to stabilize oil prices amid global market uncertainties. These supply restrictions, particularly from major producers like Saudi Arabia, played a crucial role in preventing a sharper decline in prices despite softer demand projections for Q4 2024. Additionally, geopolitical risks in key oil-producing regions added upward pressure to prices. Instability in parts of the Middle East and new economic sanctions affecting certain countries heightened concerns over supply security, creating a risk premium on oil.

Although the global economic outlook remains uncertain, October experienced a slight uptick in oil demand, driven largely by seasonal factors and stockpiling by countries preparing for winter. This seasonal demand offset some downward pressure on prices, even as growth in major economies like China and the EU has slowed.

Looking ahead to November and December, crude oil prices are expected to remain within a relatively stable range, influenced by rising seasonal demand in the Northern Hemisphere for heating. However, economic challenges, especially in Europe and China, may dampen broader demand growth. Additionally, any changes in OPEC+ policy, such as adjustments to production quotas, could further influence price stability as the year ends.

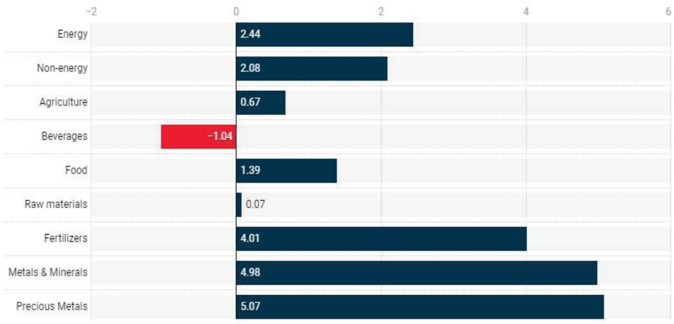
Figure 10: Brent Crude oil average prices (US$/bb/)



Source: World Bank

The World Bank's October 2024 Outlook, highlights key trends in global commodity prices, reflecting a mixed but generally upward movement across various sectors. Rising energy costs, increased demand for metals, and a surge in agricultural input costs signal ongoing pressures that may impact economies worldwide. These price movements underscore the complex interplay of supply constraints, geopolitical factors, and market demand that continue to shape the global commodity landscape.

Figure 11: Global prices changes in sectors (%)



In October, global commodity prices showed a mix of increases across sectors. Energy prices rose by 2.4 percent, with natural gas in Europe experiencing the highest increase at 9.6 percent, reflecting supply and demand dynamics in the region. This uptick in energy costs has implications for industries and households, especially in energy-dependent economies.

Non-energy commodities also saw a 2.1 percent overall increase. Agricultural prices edged up by 0.7 percent, with food prices specifically rising by 1.4 percent. Within the food category, oils and meals led the increase with a significant 5.3 percent gain, likely influenced by supply constraints and growing demand in global markets. In contrast, prices for raw agricultural materials remained stable, while beverages saw a slight decline of 1 percent. Fertilizer prices, crucial for agricultural productivity, increased by 4 percent, which may impact crop costs and potentially drive future food price increases.

The metals market displayed strong growth, with metal prices surging by 5 percent in October. Zinc and iron ore both saw gains exceeding 9 percent, and aluminum rose by 5.9 percent. These increases may be attributed to rising industrial demand and tighter supplies. Precious metals also gained traction, increasing by 5.1 percent overall, led by silver's 7.6 percent rise. This trend suggests growing interest in precious metals, possibly due to economic uncertainties and investor preferences for safe-haven assets.

This broad increase across various commodities reflects a complex interplay of supply chain factors, demand recovery, and ongoing inflationary pressures, highlighting the potential challenges for sectors reliant on these inputs.