



2024 QUARTER 3

**ECONOMIC AND  
BUSINESS REVIEW**

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## ECONOMIC GROWTH PROSPECTS

### Commentary

Malawi's journey to rebalancing its economy and establish an enabling and more inclusive environment continues amidst myriad impediments. In the third quarter of 2024, a number of developments took place that will have impacts in the short to long term span.

The macroeconomic environment still remains challenging as such the economic growth projection is still pegged at 2.3 percent in 2024. Inflationary pressure remains sustained reaching 33.9 percent in August. On the other hand, forex scarcity still remain the key challenge evidenced by a lower

than required import cover and a growing spread between the official and the parallel markets.

Despite the macroeconomic challenges faced in the quarter, a number of developments took place with potential of boosting economic activity. The passing of the new Macro, Small and Medium Enterprise provide a new landscape for MSMEs with an upside potential for their growth. In addition to this, the finalization of discussion of the Simplified Trade Regime (STR) with Mozambique is also another development worth mentioning.

#### 1. Real sector developments:

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

##### i. Real Economic Activity

Malawi's economic growth prospects remain at 2.3 percent as revised by the Ministry of Finance in the second quarter of 2024. Despite the projected growth being an improvement from the 1.9 percent growth in 2023, it remains below the 6.0 percent requirement as indicated in the Malawi Vision 2063 MIP-1. With average population growth at 2.6 percent, GDP is expected to decline in per capita terms.

In the quarter under review, a number of events transpired that will affect Economic performance both positively and negatively.

##### Current Economic Risks

The domestic economy is currently facing several significant risks that limit the country's potential for growth in 2024. Some of them are as follows;

- Macroeconomic instability still persists, particularly scarcity of foreign exchange, rising inflation, elevated interest rates and volatile exchange rate.
- During the quarter, there was re-emergence of electricity load shedding. If prolonged, economic activities including manufacturing might be affected,
- On the global scale, the events in the Middle East (Israel and Iran) have raised political temperatures and catalyzed a new and dangerous phase of brinkmanship, with potentially grave consequences for the global political economy. The tension will likely put multiple critical shipping routes under siege which might trigger a global recession.

##### Positive Developments in the Quarter

Despite a number of risks and impediments during the quarter, a number of positive developments transpired with the potential of boosting economic activity especially in the medium and long term. The following are some of the notable positives:

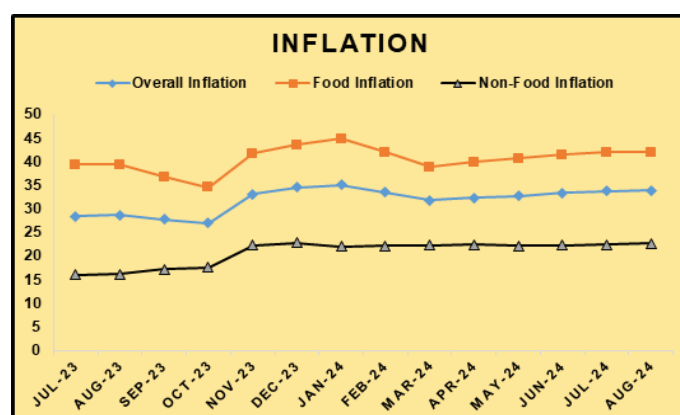
- The passing of the new Macro, Small and Medium Enterprise bill (2024). This Bill seeks to create a conducive legal, institutional and regulatory framework for the micro, small and medium enterprises sector in Malawi. This bill will help in boosting economic contribution from MSMEs through growth and establishment of

new businesses.

- During the period under review, Malawi and Mozambique finalized discussions for the Simplified Trade Regime initiative between the two countries. If fully utilized, the initiative will help to boost trade between the countries.
- The Malawi Government managed to secure a 99-year lease agreement with Mozambique to develop a terminal at Nacala Port. The Nacala Corridor is estimated to have cost advantages over the Beira Corridor, Dar es Salaam Corridor and the Durban Corridor. If fully developed, the port will help to reduce landing cost for Malawian businesses which at the moment is one of the factors making Malawian goods uncompetitive.

#### ii. Inflation Rate

Figure 1: trends of inflation rates



Source: NSO

Inflation took an upward trajectory in the quarter under discussion, from 33.3 percent in June 2024 to 33.7 percent in July 2024 and inched further to 33.9 in August. The higher levels of inflation can be attributed to higher food prices. Recently, food prices have remained high due to reduced agricultural productivity that the country experienced in the previous season as a result of El Niño-induced drought.

In the quarter under review, food inflation was recorded at 42 percent in August and 41.9 percent in July, an increase from the 41.5 percent recorded at the end of

the previous quarter (June 2024). On the other hand, non-food inflation was recorded at 22.7 percent and 22.4 percent in August and July respectively.

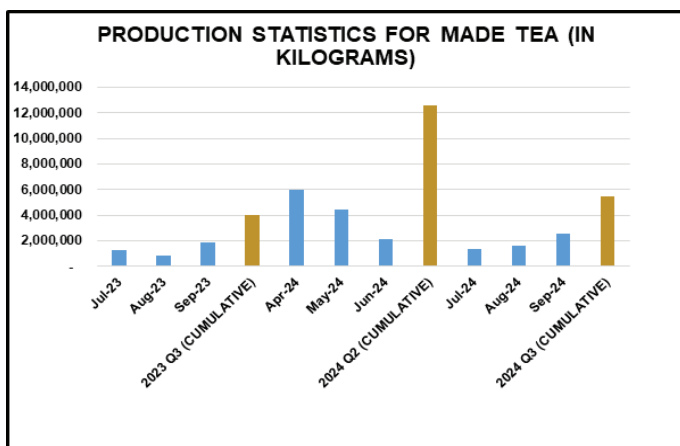
### iii. Domestic Production

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

#### A. Tea Production

In the quarter under review, total tea production amounted to 5,507,155 KGs of which 1,341,508 KGs, 1,598,787 KGs, and 2,566,860 KGs were produced in July, August and September 2024 respectively. This represents a 56.4 percentage decline from 12,617,408 KGs recorded in the previous quarter (2024 Q2). However, productivity increased in the quarter by 37.1 percent from 4,016,795 KGs recorded in the identical quarter in the previous year (2023 Q3).

**Figure 2: Tea Production statistics**



Source: Tea Association of Malawi

#### B. Maize Prices

At the end of the quarter under review, Maize prices increased slightly compared to the last week of the previous quarter (last week of June 2024) according to the International Food Policy Research Institution (FPRI).

After a sharp increase in June and early July, daily average retail prices of maize stabilized in the second half of July, resulting in only a 4% increase in the weekly average prices between the final week of June and the final week of July. Despite the stability, the weekly average price of maize in July 2024 was K792/kg, which is 22 percent higher than the price observed in the final week of July 2023 (K650/kg).

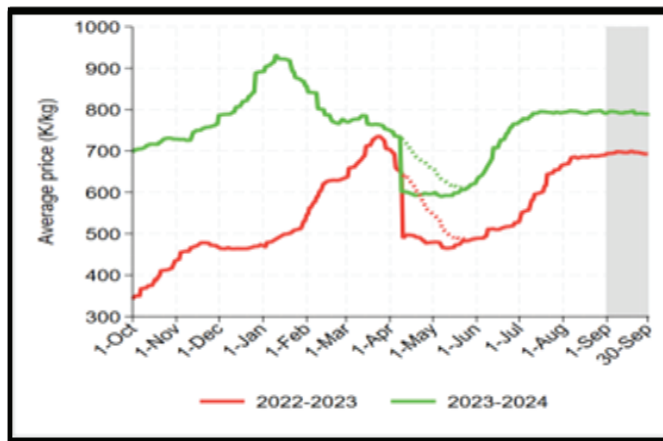
Building on the trends observed in July, maize retail prices continued to stabilize in August, with a slight 1 percent increase. The weekly average price of maize rose from K792/kg in the last week of July to K797/kg in the final week of August.

Retail prices of maize remained stable in September, continuing a trend which began in mid-July. The weekly average price dropped from K796/kg in the last week of August to K790/kg in the final week of September, representing a slight 1 percent decrease. Prices remained stable thanks to steady supply of maize from Tanzania and, to a lesser extent, from Zambia. In fact, most of the maize currently traded in Malawi is reportedly of Tanzanian origin.

As per the usual pattern, maize retail prices during the quarter were lowest in the Northern region ending the month of September with a monthly average of K617/kg. The prices were somewhat higher in the Central region ending the quarter at K771/kg and prices were highest in the Southern region with a monthly average of K866/kg in September.9

Retail maize prices in Malawi were higher than in Mozambique, Zambia, South Africa, and Tanzania at the official exchange rate. Meanwhile, neighboring Tanzania continues to report the lowest maize prices at both the market exchange rate and the official exchange rate.

**Figure 3: Long-run trends in average maize retail prices**



Source: IFPRI

## Section 2: Finance Sector Developments

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

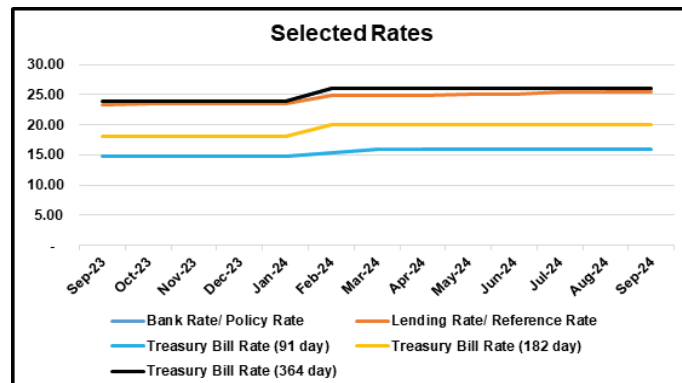
### i. Interest Rates

The Monetary Policy Committee (MPC) met on 24th and 25th July 2024 to review recent economic developments and resolved to maintain the policy rate at 26.0 percent. The Committee also resolved to maintain the Lombard rate at 20 basis points above the policy rate and the Liquidity Reserve Requirement (LRR) ratios at 3.75 percent for foreign currency deposits and 8.75 percent for domestic currency deposits.

In arriving at this decision, the MPC considered that the current monetary policy stance has stabilized non-food inflation and sufficiently contained the spillover effects of food inflation to non-food inflation. The Committee further noted that maintaining the current policy stance will help in containing inflationary pressures and ensure that inflation declines towards the medium-term objective of 5 percent.

Elevated interest rates remain one of the key challenges affecting the private sector in Malawi. High interest rates coupled with high levels of public debt, has not only increased the cost of financing but also put restraint on the availability of medium and long term financing solutions especially for Macro Small and Medium Enterprises (MSMEs).

**Figure 4: Trends of interest rates**



Source: Reserve Bank of Malawi

## ii. Stock Market Developments

According to the Malawi Stock Exchange (MSE), the market transacted a total of 192.61 million shares at a total consideration of MK29.13 billion (US\$16.80 million) in 4,378 trades. In the corresponding period 2023, the market transacted a total of 156.94 million shares at a total consideration of MK23.79 billion (US\$21.82 million) in 3,334 trades. This reflects a 22.73 percent increase in terms of share volume traded and a 22.47 percent (-23.01 percent decrease in US Dollar terms) increase in share value traded. The decrease in US Dollar terms traded value is as a result of the depreciation of the Malawi Kwacha.

Of the shares traded 10 million FDHB, 4 million NBS and 397 thousand PCL traded as negotiated deals at a total consideration of MK2.77 billion. Daily average share trades exhibited similar trends where the market registered an average daily volume of 2.96 million shares compared to 2.45 million shares traded in the corresponding third quarter of 2023 (2023 Q3) reflecting an increase of 20.84 percent.

The average daily turnover for the third quarter 2024 was MK448.16 million (US\$258.45 thousand) compared with MK371.66 million (US\$340.94 thousand) for the corresponding third quarter 2023, reflecting an increase of 20.58 percent (-24.19 percent decrease in US Dollar terms)

The market registered a positive return on index as reflected in the upward movement of the Malawi All Share Index (MASI) from 121,101.77 points registered on 1 July 2024 to 142,686.97 points registered on 30 September 2024, giving a return on index of 17.82 percent, compared to 8.99 percent, (2.90 percent in US\$ terms) registered in Q3 of 2023. The Domestic Share and the Foreign Share Indices inched upwards by 19.76 percent (19.75 percent in US\$ terms) from 92,949.19 to 111,316.63 points and by 5.67 percent (5.66 percent in US\$ terms) from 18,911.41 to 19,983.22 points respectively

The price gains registered on FDHB, NBS, NBM, OMU, STANDARD, TNM, FMBCH, BHL and SUNBIRD were enough to offset share price losses registered by AIRTEL, ICON, ILLOVO, MPICO, NICO, PCL and NITL resulting into an upward movement of the Malawi All Share Index. Equity market capitalization increased in both Kwacha and US dollar terms from MK6.45 trillion (US\$3.78 billion) on 01 July 2024 to MK7.71 trillion (US\$4.44 billion) as at 30 September 2024.

The turnover velocity, an indicator of the liquidity of assets traded on the market, in the quarter under review was recorded at 0.51 percent, higher than 0.49 percent registered in the third quarter 2023.

The ratio of Total Value of Trades to Gross Domestic Product recorded a liquidity level of 0.21 percent in the review period while during the corresponding period of 2023 liquidity was at 0.22 percent. Market capitalization as a percentage of GDP was at 41.10 percent in Q3 2024 from 43.95 percent in Q3 2023.

### Company performance on the Malawi Stock Exchange in Q3 2024.

COMPANY	CAPITAL GAIN/LOSS
FDH Bank plc	75.47 ▲
NBS Bank plc	65.23▲
National Bank of Malawi plc	27.78 ▲
Old Mutual Limited	24.4▲
Standard Bank Malawi plc	21.25▲
TNM	15.13 ▲

FMBCH	5.48 ▲
BHL	3.52 ▲
Sunbird	0.46▲
PCL	-0.28
NITL	-0.09
NICO Holdings Plc	-0.33
MPICO plc	-0.6
Illovo Sugar Malawi plc	-4.07
ICON Properties plc	-6.76
Airtel Malawi plc	-10

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

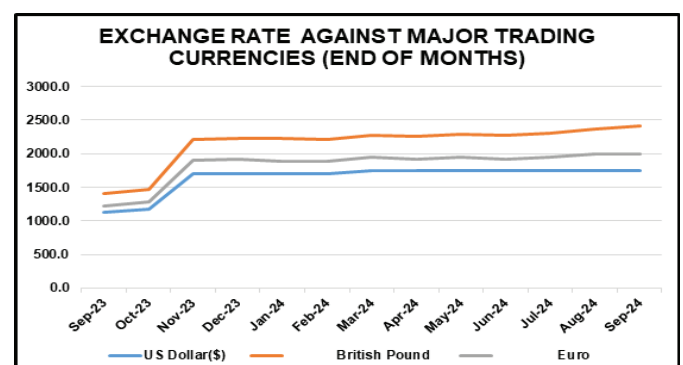
According to the Reserve Bank of Malawi (RBM), the Kwacha continues to lose value against major trading currencies. In the quarter in discussion, the kwacha weakened slightly by 0.05 percent against the US Dollar to end the quarter at 1750.37 MK/\$ from 1749.51 MK/\$ recorded at the end of the previous quarter (2024 Q2). The Kwacha was however worse off against the Euro and British Pound with a quarterly depreciation of 4.2 percent and 6 percent respectively to end the quarter at 2003.14 MK/€ and 2411.29MK/£.

Against the major trading countries within the region, the kwacha exhibited a mixed performance. On the positive side, it gained value by 2.7 percent and 3.9 percent against the Zambian Kwacha and the Tanzanian Shilling respectively. However, the kwacha lost value to the South African Rand by 9.1 percent and 0.3 percent against the Mozambiquan metical.

In the Asia region, the Kwacha lost value by 13.4 percent and 3.6 percent against the Japanese Yen and the Chinese Yuan respectively to close the quarter at 12.2 MK/Yen and 247.2MK/Yuan. The Kwacha however gained value by 0.36 percent against the Indian Rupee to end the quarter at 20.7MK/Rupee.

The supply and demand dynamics remains a chief factor in the currency depreciation as such tension has become more profound evidenced by the widening spread between the official and parallel exchange. At the parallel market, the Kwacha is losing value faster and during the quarter under review, it is observed that the dollar was fetching as high as MK 2500.

Figure 6: Average exchange rate against US Dollar, Pound and Euro

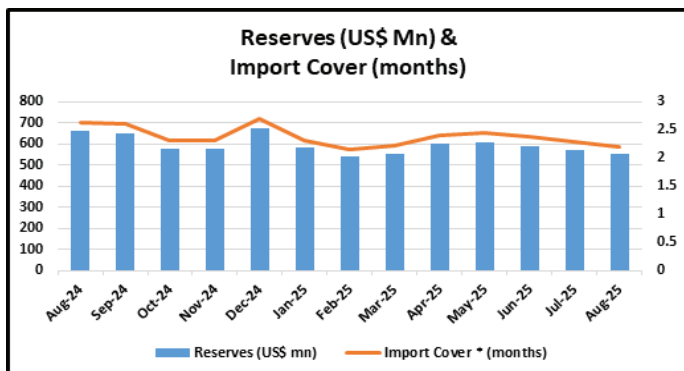


Source: Reserve Bank of Malawi

**ii. Gross Official Reserves**

In the quarter under review, the country continued to experience shortage of foreign exchange. The economy's overall foreign exchange reserves declined to US\$572.02 million (2.29 months of imports) at the end of July 2024, from US\$591.51 million (2.37 months of imports) reported at the end of June 2024. The reserves declined further in August to a US\$ 549.85 million, the lowest in the past 12 months, enough to cover 2.2 months of import cover.

**Figure 7: Trends of Forex Reserves**



Source: Reserve Bank of Malawi

**iii. Global Fuel Prices**

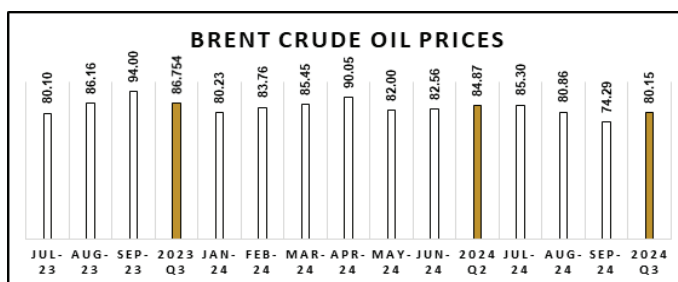
The Global Brent oil prices took a downward trajectory in the quarter under review, as evidenced by monthly average prices of 85.30 (\$/bbl), 80.86 (\$/bbl), and 74.29(\$/bbl) in the months of July, August and September 2024 respectively. The trend resulted in a decline of the

quarterly average price to 80.1 (\$/bbl), from 84.87(\$/ bbl) in the previous quarter, 2024 Q2, representing a 5.56 percent drop. However, compared to the identical quarter in 2023 (2023 Q3), monthly average prices declined by 7.6% from 86.75(\$/bbl).

According to the International Oil Agency (IOA), global oil demand growth continues to decelerate, the chief driver of this downturn is a rapidly slowing China, where consumption contracted for a fourth straight month in July. In addition to this, Surging Electric Vehicles sales are reducing road fuel demand while the development of a vast national high-speed rail network is restricting growth in domestic air travel.

However, there is expectation that oil prices will rise in the coming months, driven by ongoing withdrawals from global oil inventories as a result of OPEC+ production cuts. The OPEC+ production cuts will continue to cause less oil to be produced globally than that is demanded.

**Figure 8: Brent Crude oil monthly average prices (US\$/bb/)**



Source: World Bank