



2024 JANUARY

**ECONOMIC AND
BUSINESS REVIEW**

IN THIS ISSUE

- Commentary
- Real Sector Analysis
- Financial Sector Analysis
- External Sector Analysis
- Upcoming Events
- News Section

ECONOMIC GROWTH PROSPECTS

Commentary

The year 2024 brings in optimism amongst most businesses as the economy is looking to rebound from years of economic shocks and macroeconomic imbalance. The International Monetary Fund (IMF) Executive Board recently approved a \$175 million Extended Credit Facility (ECF) arrangement that aims to support the government's commitment to economic reforms that are designed to jumpstart inclusive and sustainable growth. The IMF initiative is a stamp of approval for Malawi's commitment to creating a conducive business environment, and there is an expectation of increased Foreign Direct Investment (FDI) following the ECF. This will help in achieving a stable environment characterized by a low inflation rate, a stable exchange rate, low interest rates, and increased growth. To that effect, economic growth is projected to pick up to 3.2 percent in 2024, up from 1.5 percent in

2023.

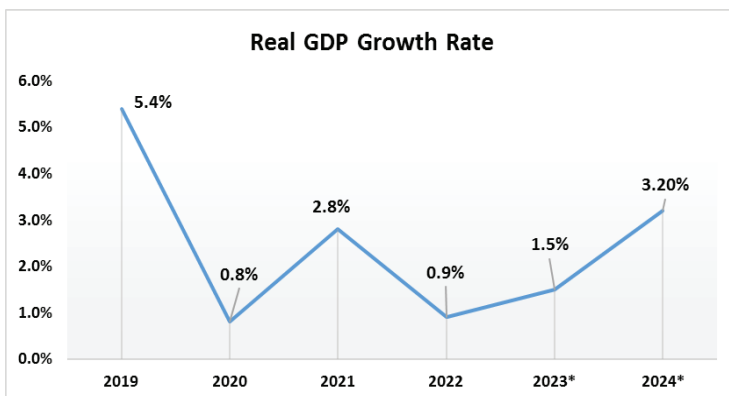
However, this intervention will take time to manifest. We therefore should expect some of the macroeconomic fundamentals to be unfavorable for an extended period. Higher inflation and higher interest rates will persist in 2024 before slowing down. Despite the stability of the foreign exchange rate, following the devaluation, forex is still scarce, and the difficulties of acquiring raw materials and machinery still persist. The outlook for food supply this year faces mixed. On the positive side, there has been improvement in the implementation of the Affordable Inputs Programme (AIP) bringing optimism to agriculture productivity. The positive outlook is, however, clouded by El Niño-induced weather conditions characterized by below-normal rainfall and extended dry periods.

1. REAL SECTOR DEVELOPMENTS:

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

i. Real Economic Activity

Figure 1: Trend of economic growth rate



Source: RBM & Ministry of Finance and Economic Affairs

Note: * means it's a projection

According to Reserve Bank of Malawi and Ministry of Finance and Economic Affairs, Malawi's economic growth is projected to pick up to 3.2 percent in 2024, from 1.5 percent in 2023. The growth is supported by an increase in public investment and recovery in mining and quarrying, manufacturing, information and communication, financial and insurance activities, and education sectors. The IMF supported Extended Credit Facility has brought in optimism of unlocking foreign exchange inflow in the country. The positive outlook is however clouded by El Niño-induced weather conditions; instability of the macroeconomic environment and a highly uncertain global economic and geopolitical environment.

On the other hand, the World Bank has projected Malawi's economic growth rate in 2024 at 2.8 percent. This is due to elevated costs of living, high debt burden and interest rates, heightened financing needs, and the increased frequency and intensity of adverse weather that will hinder growth during the year. Meanwhile, the International Monetary Fund's projection for Malawi's economic growth in 2024 is 3.3 percent, a percent more than the projections of the Ministry of Finance and Economic Affairs.

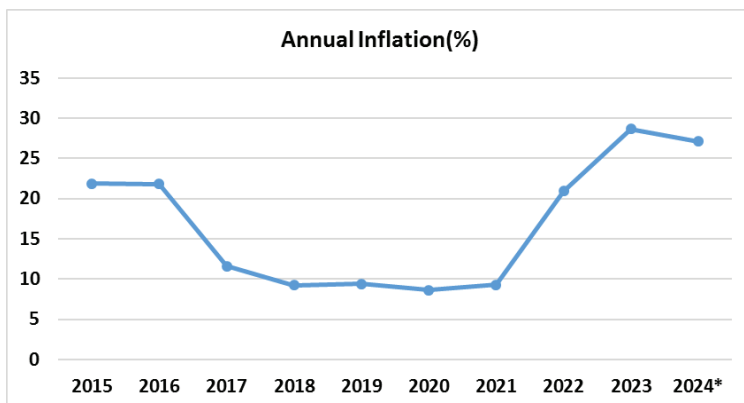
Global economic growth, estimated at 3.1 percent in 2023, is projected to remain unchanged in 2024, according to the January 2024 IMF World Economic Outlook (WEO) update. The 2024 growth forecast remains below the 3.8 percent historical average due to tight monetary and financial conditions, the long-

term effects of the Covid-19 pandemic, and the war in the East.

Growth in advanced economies is projected to decline to 1.5 percent in 2024 from 1.6 percent in 2023. Growth in these economies continues to be adversely affected by weak demand, arising from tight monetary and financial conditions. Growth for emerging markets and developing economies is projected to remain steady at 4.1 percent, the same as estimated for 2023.

ii. Annual Inflation outlook

Figure 2: Trend of annual inflation rate



Source: Reserve Bank of Malawi and Ministry of Finance and Economic Affairs

Note: * means projection

In 2024, the annual inflation rate for Malawi is projected to be at an average of 27.1 percent, according to the Ministry of Finance and Economic Affairs. The annual inflation projection for 2024 is a decline from the 28.68 percent that was recorded in 2023. However, the pressure on inflation is still high due to the low supply of staple foods on the market as well as the lagged effects of the 44 percent devaluation of the Malawian currency that took place in November 2023. Food production for the 2023-2024 agricultural season will play a vital role in stabilizing food prices during the year. The downside risks to food production are El Niño, which might induce unfavorable weather conditions in other parts of the country, as well as a price increase for agricultural inputs during the agricultural farming season.

2. FINANCIAL SECTOR DEVELOPMENTS

This section looks at developments in Interest Rates and the Stock Market.

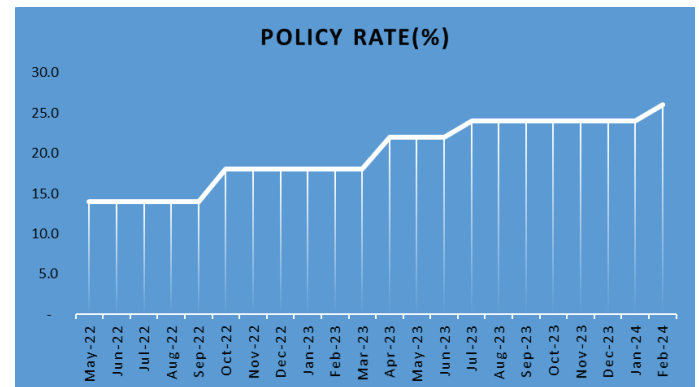
i. Interest rates

In the month of January 2024, the policy rate was maintained at 24 percent and the Lombard rate was 20 basis points above the policy rate as resolved by MPC at the meeting they had in October 2023. The Liquidity Reserve Requirement (LRR) ratio was also maintained at 7.75 percent on domestic currency deposits and 3.75 percent on foreign currency deposits, respectively.

However, the pressure on inflation increased in the month under review as the impact of 44 percent devaluation intensified on to of pressure from the lean season. On

31st January 2024 the Monetary Policy Committee (MPC) met to assess the macroeconomic situation and outlook and the MPC decided to increase the Policy rate by 200 basis points to 26.0 percent effective 5th February 2024. The Committee observed that the high inflation environment is not conducive for growth and therefore resolved that a monetary policy response is required to contain inflationary pressures and restore price stability. Therefore, the MPC resolved to raise the Policy rate by 200 basis points to 26 percent.

Figure 3: Trend of Policy rate

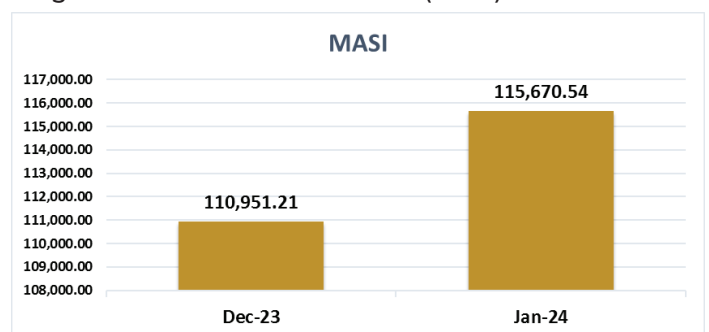


Source: Reserve Bank of Malawi

ii. Capital Market Developments

In the month under review, the stock exchange market performed as following:

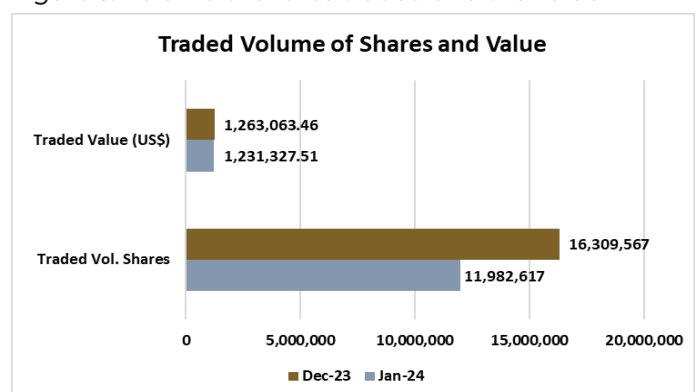
Figure 4: Malawi All Share Index (MASI)



Source: Malawi Stock Exchange

The market registered a positive return on index as reflected in the upward movement of the Malawi All Share Index (MASI) from 110,951.21 points registered in December 2023 to 115,670.54 points registered in January 2024, giving a month-on-month return on index of 4.25 percent in US\$ terms according to Malawi Stock Exchange.

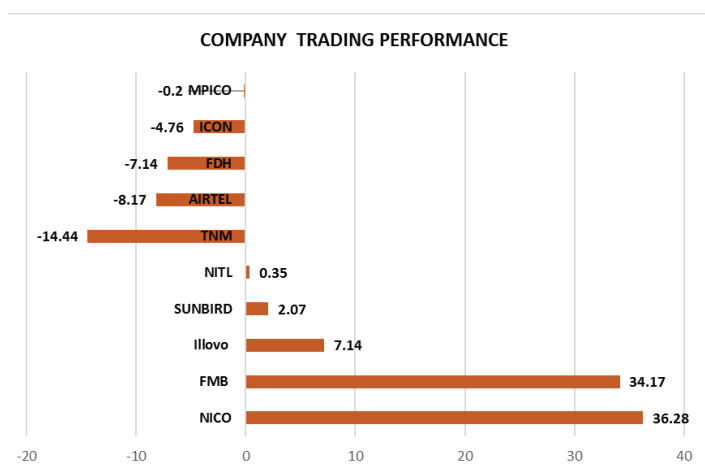
Figure 5: Volume of shares traded and the value



Source: Malawi Stock Exchange

In the month under review, the traded value and number of shares that were traded at the Malawi Stock Exchange decreased comparing with the previous month of December 2023. However, the market registered a positive month-on-month return on index of 4.25 percent in US\$ terms in January 2024. The stock market traded a total of 11,982,617 shares at a total consideration of US\$1,231,327.51 in 870 trades compared to the preceding month of December 2023, where the stock market traded a total of 16,309,567 shares at a total consideration of US\$1,263,063.46 in 615 trades. This represent a 26.53 percent decrease in terms of share volume traded and a 2.51 percent decrease in share value traded. Daily average share trades also exhibited similar trends where the market registered an average daily volume of 570,601 shares in January 2024 compared to 858,398 shares traded in December 2023, reflecting a decrease of 33.53 percent.

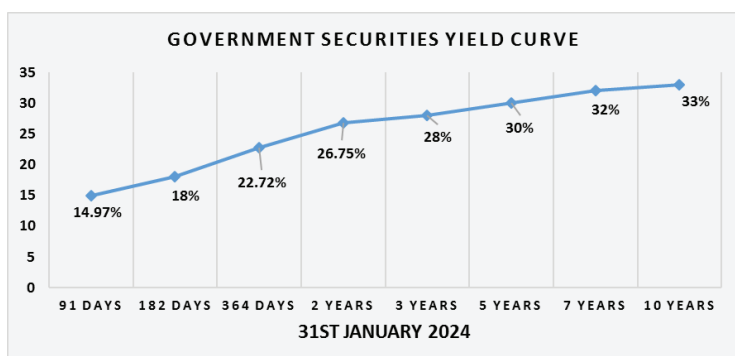
Figure 6: Company Trading Performance



Source: Malawi Stock Exchange

In the month of January 2024, 16 companies were listed on the market and 10 companies registered capital gains on the stock market while six registered losses. NICO registered more gains on the market, followed by FMB while on the other hand, TNM registered more losses followed by Airtel. The top five gains were registered by NICO (36.28 percent), FMBCH (34.17 percent), ILLOVO (7.14 percent), SUNBIRD (2.07 percent) and NITL (0.35 percent). The top five losses registered by TNM (-14.44 percent), AIRTEL (-8.17 percent), FDHB (-7.14 percent), ICON (-4.76 percent), MPICO (-0.20 percent). The difference was positive between gains and losses resulting into an upward movement of the Malawi All Share Index. The Domestic Share and the Foreign Share Indices moved upwards by 0.03 percent to 86,383.46 points and by 33.77 percent to 21,124.59 points respectively.

Figure 7: Treasury bill yields



Source: Reserve Bank of Malawi

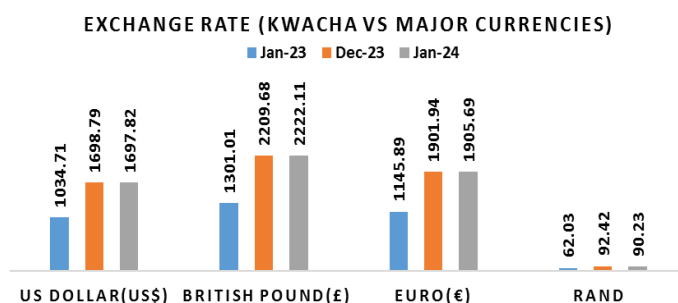
At the end of January 2024, the treasury bill yields to maturity for 91 days, 182 days, 364 days, 2 years, 3 years, 5 years, 7 years, and 10 years were recorded at 14.97 percent, 18 percent, 22.75 percent, 26.75 percent, 28 percent, 30 percent, 32 percent, and 33 percent, respectively. The yields were unchanged from what was recorded at the end of December 2023.

3. EXTERNAL SECTOR DEVELOPMENTS

This section provides a review of developments in global fuel prices, global commodity prices and foreign exchange.

i. Foreign Exchange Rate Market

Figure 8: Average exchange rates trend against Kwacha.



Source: Reserve Bank of Malawi

According to data from the Reserve Bank of Malawi, Kwacha showed some stability in January 2024 against the major trading currencies, the US Dollar, Euro, Pound, and Rand, as well as the Yuan, compared to the previous month. However, compared to the same month in 2023, the Kwacha has depreciated by a great margin, largely due to the 44 percent devaluation in November 2023.

In the month under review, the Kwacha was traded at a monthly average of MK1,697.82 against the US dollar, down from MK1,698.79 against the US dollar recorded in the previous month. This is a 64.1 percent depreciation in a year compared to the monthly average of MK 1,034.71 per US dollar in January 2023. Against the British Pound, the Kwacha depreciated slightly to MK 2,222.11 in January 2024 from MK 2,209.68 recorded in December 2023. Compared with the rate in January 2023, the Kwacha has depreciated by 71.1 percent against the British Pound. The kwacha also depreciated marginally against the euro, from MK 1,901.94 in December 2023 to MK 1,905.69 in January 2024. In a year, the Kwacha has depreciated by 66.3 percent against the euro from the monthly average of MK 1,145.87 recorded in January 2023.

Forward-looking, the Reserve Bank of Malawi conducted two foreign exchange auctions in January 2024 on the 10th and 24th, in which several Authorized Dealer Banks (ADB) participated. These foreign exchange auctions are aimed at determining the prevailing market clearing price of the Malawi Kwacha (MWK) against the United States Dollar (USD) and other major currencies.

Below are the results of the auction conducted on January 24, 2024.

Amount Offered (USD)	200,000.00
Amount Accepted (USD)	200,000.00
Highest Bid Rate Accepted	1,700.00
Lowest Bid Accepted	1,700.00
Weighted Average Rate Accepted	1,700.00

No of Bids	4
No of Participating Banks	4
No. of Successful Banks	4
No. of Unsuccessful Banks	0

Source: Reserve Bank of Malawi

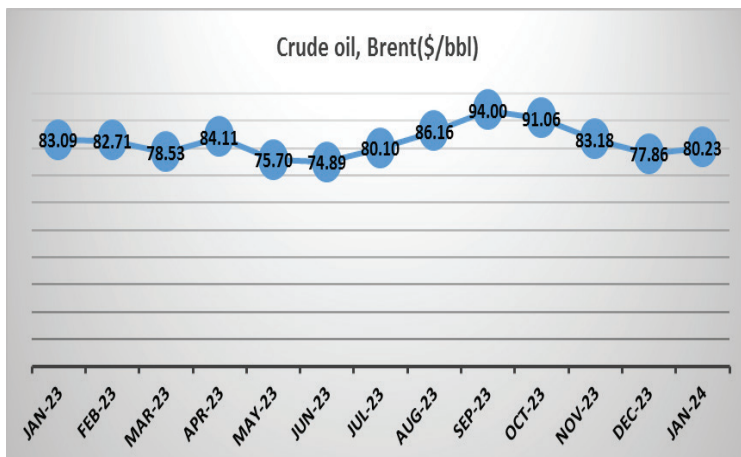
Based on the results of the auction, the market selling price was maintained at MWK1,700.00 per USD effective 24th January 2024.

ii. Global Fuel Prices

In the month of January 2024, according to data from the World Bank, the global monthly average price for Brent crude oil increased after a three-month downward trend. The monthly average price for Brent crude oil was recorded at US\$80.26 per barrel registered in the month of January 2024, up from US\$77.86 in December 2023, representing a 2.9 percent increase. Comparing the global monthly average price of Brent crude oil in January 2024 to the similar month in 2023, the price in January 2024 represents a 3.5 percent decrease from the US\$83.09 recorded in January 2023.

Oil prices will continue to be driven by demand-supply dynamics in 2024 as well. As the current fundamentals remain unsupportive, there are very few chances for a sharp rise in prices barring a major escalation of tensions in the Middle East, which could negatively affect the global oil supply chain. Though the shortage in output from OPEC-plus countries continues to be replaced by higher US production, further surprise production cuts or supply issues due to the escalating tension in the Middle East would be crucial for the market.

Figure 9: Brent Crude oil average prices (US\$/bb/)



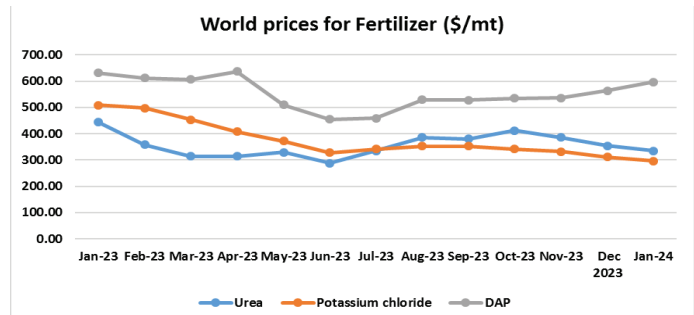
Source: World Bank

iii. Global Commodity Market Developments (Source: World Bank)

The following is the average price of various commodities on the world market:

Commodity	December 2023	January 2024	January 2023
Tea, Mombasa (\$/Kg)	2.19	2.20	2.3
Groundnuts(\$/mt)	2050	2056	1681.25
Soya beans (\$/mt)	547.43	547.38	626.59
Sugar, World(\$/Kg)	0.48	0.48	0.42

Figure: Prices of fertilizer at the world market



NEWS SECTION

BUSINESS OPPORTUNITY

India extends pigeon peas export window:

The Indian Government has extended Malawi's pigeon peas export quota for the 2024/25 marketing season, a development that presents an opportunity for farmers and the country to boost foreign exchange earnings.

Ministry of Trade and Industry spokesperson Mayeso Msokera said this means that pigeon peas farmers will have continued access to the Indian market beyond the end of a similar waiver of export quota extended to Malawi in the 2023/24 farming season. The extension follows the removal of the waiver of a 50 000 metric tonnes (MT) export quota imposed on Malawi by the Indian Government in 2022. Msokera said the move by the Indian Government is a welcome development in the country's trade relations with the Asian country. He said the ministry wishes to urge farmers, producer organizations and traders to take advantage of the unlimited market of pigeon peas offered by India by producing and exporting more of the commodity. The move is in line with Malawi Government's wider diversification plan, which involves the intensification of legumes growing to supplement foreign exchange from tobacco, which is the country's number one forex earner, but its earnings have been dwindling over the past five years.

However, despite the existence of the waiver, Malawian producers and exporters have been failing to utilize the readily available market, putting to question the country's readiness for such a huge market for pigeon peas. Ministry of Trade and Industry data shows that in 2022, for instance, Malawi exported 69 151MT of pigeon peas with a significant portion of the exports going to United Arab Emirates, the country's top export market for the crop. Out of this, India only imported 20 000MT, due to the import restriction imposed by the Indian government in New Delhi.

Since India introduced the trade policy on import of pigeon peas in 2017, Malawi lost 64 percent in export earnings. Indian High Commission data shows that Malawi exports to the Asian country fell from \$39.32 million (about K67 billion) in 2016/17 to \$9.05 million (about K15 billion) in 2020/21.

JANUARY 2024 BUSINESS NEWS (Source: The Nation)

- **IMF visit to Malawi:** International Monetary Fund (IMF) staff team led by Ms. Mika Saito visited Malawi during January 22–26 as part of its regular engagement with the Malawian authorities and other stakeholders. The discussions focused on recent macroeconomic developments and the implementation of macroeconomic adjustment and reforms committed under the Extended Credit Facility (ECF) arrangement approved on November 15, 2023. Discussions were held in Lilongwe and Blantyre. At the conclusion of the visit, Ms. Saito issued the following statement:

“We discussed recent macroeconomic developments. Malawi’s economic position remains challenging, but stabilization efforts continue to get traction. Real GDP growth is projected to increase to 3.3 percent in 2024 from an estimated 1.6 percent last year.” We also discussed the authorities’ progress in implementing macroeconomic adjustment and reforms under the ECF-supported program. These efforts will be formally assessed in the context of the first review of the ECF arrangement, which is expected to take place in the summer. We underscored the importance of staying on course with the program to restore macroeconomic stability, a necessary condition to build a foundation for inclusive and sustainable growth and resilience to climate-related shocks. “The IMF mission held meetings with the Minister of Finance and Economic Affairs, Hon. Simplex Chithyola Banda, the Secretary to the Treasury, Professor Betchani Tchereni, and the Reserve Bank of Malawi Governor, Dr. Wilson T. Banda, as well as other senior government and RBM officials. The team also engaged with representatives of the private sector and Malawi’s development partners. “The IMF staff wishes to express its gratitude to the Malawian authorities and stakeholders for the constructive and open discussions and support during the visit.”

- **Business climate hostile to small businesses:** The African Development Bank (AfDB) says although Malawi’s business environment is improving, it remains highly unfavorable to the growth of micro, small and medium enterprises (MSMEs). In its recent country analysis, AfDB observes that the private sector has a large base of micro and small enterprises and a few large multinational enterprises, resulting in the ‘missing middle’. Reads the analysis in part: “Transformation of the MSME sector, therefore, holds great potential for moving into high value-added production, creating decent jobs and increasing public revenues. Informal sector MSMEs cite the costs of registering a company, transaction costs for tax compliance and no benefits to accessing bank credit as major factors that dissuade them from formalizing their operations.” There are an estimated 1.1 million MSMEs that contribute about 40 percent to the country’s gross domestic product, according to the FinScope study of 2021, and about 90 percent of them operate informally. The overarching policies and regulations for private sector development include the National Trade Policy, National Export Strategy, National Industry Policy, Public Private Partnerships Act, Investment and Promotion Act and the MSME Policy.

The 2022 Global Competitiveness Index ranked Malawi on position 128 out of 140 countries, an improvement by one rank compared to 2021. Major challenges to doing business and requiring attention include the high cost of infrastructure services, limited access to credit, skills shortages and high taxation, all of which constrain investments in high-value products and reduce the country’s competitiveness, according to AfDB.

- **Malawi-Moz power project to add 120 MW:** Construction works for the 218-kilometre (km) 400 kilovolts (kV) high voltage transmission line under the Malawi-Mozambique Power Transmission Interconnection Project is expected to be completed by October this year. The contractor JV Sinohydro health, safety and environment site manager Pattison Muchochoma disclosed this after Malawi Consular General in Tete, Happy Saka, toured the construction works at Matambo substation to appreciate progress. Muchochoma said more than 80 percent of the works has been completed and the contractors are in the final phase before the substation is switched on. The \$154 million project funded by the World Bank, the German Bank, KfW and the European Bank, is aimed at establishing a transmission link between Malawi and Mozambique and is expected to add about 120 megawatts (MW) to the country’s national grid. He said that they are now working on steel structures, thereafter we will go into electrical installation which is the final phase. Once the electrical installation is done we will fix the cables that will connect power from here at Matambo to Phombeya in Malawi.

- **IMF speaks on ECF challenges:** The International Monetary Fund (IMF) says although staying on course with the ECF is key to Malawi’s restoration of macroeconomic stability, risks to the programme remain. IMF resident representative Nelnan Koumtingue said this in an exclusive interview with Business News on 26th January following the conclusion of the IMF staff visit which arrived in the country on Monday to monitor progress of the ECF programme. He said that the main purpose of this visit is to take stock of recent macroeconomic developments and the implementation of macroeconomic adjustments and reforms supported by the ECF.

Risks to the programme include delays and/or weaker-than-expected implementation of policy adjustments, prolonged debt restructuring process, and further weather-related shocks. However, Koumtingue said upside risks, including a faster-than-anticipated impact of policy actions, successful export diversification, and budget over-performance remain. He also indicated that the authorities’ efforts will be formally assessed in the context of the first review, which is expected to take place in the summer.

In November last year, Malawi got the nod of the IMF Executive Board for a four-year ECF worth \$175 million (about K297 billion) expected to stabilise an ailing economy by unlocking directory budget support. Among others, Malawi’s structural benchmarks under the ECF arrangement include repealing of the preferential treatment for motor vehicle and VAT relief for current and former politicians, senior public officials, judges and other similar privileged individuals and groups. Authorities are also expected to repeal VAT relief for building materials, ensure that every supply of a motor vehicle is standard rated for VAT purposes while they comprehensively eliminate VAT exemptions and zero ratings for business inputs.

The policy measures, which are expected to enhance revenue and improve tax and customs compliance culture, are meant to become effective by July 2024. In their 2024/25 Budget proposal, Economics Association of Malawi noted that while the ECF remains critical for Malawi’s economic and financial reforms, there is need to realize limitations of the ECF. During their visit, the IMF mission had discussions with the economic team led by Minister of Finance and Economic Affairs Simplex Chithyola Banda.