2024 FEBRUARY

ECONOMIC AND BUSINESS REVIEW

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ECONOMIC GROWTH PROSPECTS

Commentary

February provided insights into the potential trajectory of the economy for 2024. With the unveiling of the 2024/25 National Budget, we gained clarity not only on the microeconomic landscape but also on the likely government policy direction for the year ahead. While the macroeconomic environment is anticipated to remain challenging, there are signs of potential improvement as the year unfolds.

Projections indicate that the inflation rate will average 23.4 percent, a decrease that offers hope for a relaxation of tightening policies by the government, potentially stimulating growth. The current growth forecast stands at 3.6 percent, a significant increase from the 1.5 percent recorded the previous year.

The approval of the Extended Credit Facility (ECF) by the International Monetary Fund (IMF) offers reassurance regarding the availability of essential commodities such as fuel and fertilizer. However, challenges persist regarding forex availability for the importation of raw materials and machinery, posing hurdles for many businesses. On a positive note, the budget outlines various interventions aimed at enhancing forex earning capacity, including initiatives such as Mega Farms, Labour Export, Carbon Credits Trading, Mining Discounted Projects, and Cannabis Biomass Projects for export diversification. Additionally, the introduction of the Golden Visa Programme, Diaspora Cities, and efforts to enhance diaspora remittances hold promise for both short-term and long-term improvements in forex earnings.

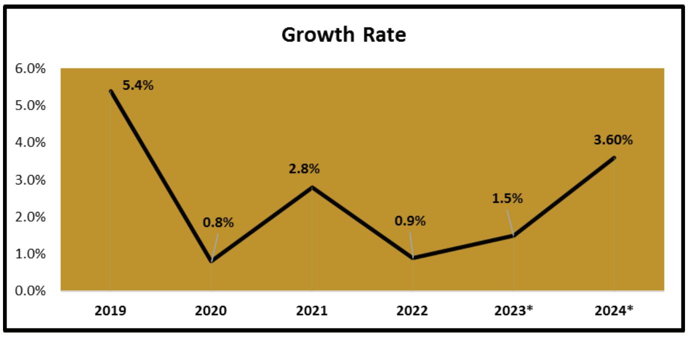
Nevertheless, certain tax measures introduced may deter forex inflows from existing and potential investors. For instance, extending the application of an additional 10 percent corporate income tax on profits exceeding K10 billion to all businesses is likely to dissuade capital-intensive investors.

1. REAL SECTOR DEVELOPMENTS:

This section provides an analysis of Real GDP and Domestic Production.

i. Real Economic Activity

Figure 1: Trend of economic growth rate



Source: Ministry of Finance and Economic Affairs
Note: * is a projection

Malawi's economic growth is projected to pick up to 3.6 percent in 2024 as assumed in the 2024/2025 National Budget, from 1.5 percent in 2023. This is according to Reserve Bank of Malawi and Ministry of Finance and Economic Affairs. The growth, according to the authorities is premised on an increase in public investment and recovery in mining and quarrying, manufacturing, information and communication, financial and insurance activities, and education sectors. Furthermore, the expected improvement in the foreign exchange situation following the resumption of the IMF's ECF program, and the commencement of mass production in Mega farms during the 2023/2024 farming season, is expected to bolster growth.

The IMF supported ECF has brought in optimism of unlocking foreign exchange inflows in the country. The positive outlook is however clouded with El Niño-induced weather conditions; instability of the macroeconomic environment, a highly uncertain global economic outlook and geopolitical environment. The availability of foreign exchange also remains a risk to the economic growth in 2024.

ii. Domestic Production

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

(a) Maize Prices

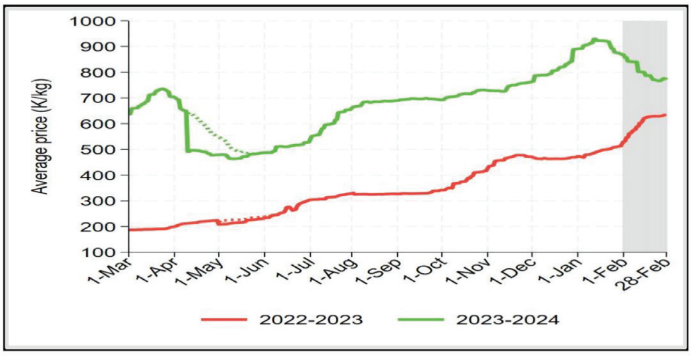
According to IFPRI, during the month of February, average daily maize prices continued to decline, with markets experiencing a decrease for the first time in 2024. Weekly average maize prices dropped from K880 per kg in the final week of January to K771 per kg in the final week of February, representing a 12 percent decline.

The largest decline in prices, amounting to 24 percent, was recorded in the Mwanza market.

Maize prices declined in all three regions of Malawi during the month under review. The Southern Region reported the highest monthly average retail price of K870 per kg in February 2024, down from K991 per kg in the previous month, representing a 12 percent decrease. The market with the highest weekly average price in the Southern Region was recorded at Mpondabwino market in Zomba, where maize was sold at K1005 per kg in the first week of February 2024.

The Central Region recorded the highest decline in monthly average retail maize prices in February 2024. Prices in the region decreased by 16 percent, dropping from K911 per kg in January 2024 to K769 per kg in February 2024. This decline is attributed to the start of garden maize harvesting by some farmers in the region, leading to increased availability of maize to traders. The Northern Region reported the lowest monthly average price of maize at K643 per kg in February 2024, down from K710 per kg in January 2024. Chitipa market, located in the Northern Region, recorded the lowest weekly average price of K574 per kg in the third week of February 2024.

Figure 2: Trend for maize prices



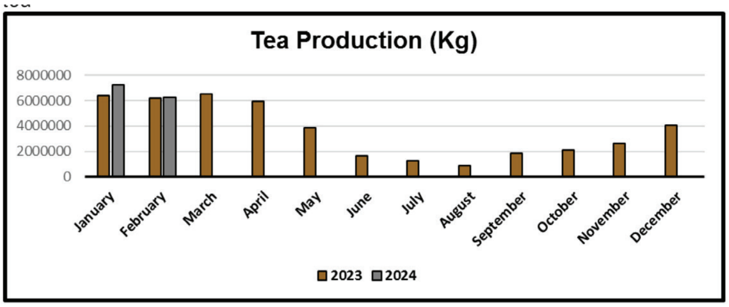
Source: IFPRI

In the month under review, ADMARC sales were reported in 22 of the 26 monitored markets: 5 in the Northern Region, 4 in the Central Region, and 13 in the Southern Region. This is 3 markets more compared to ADMARC sales recorded in January 2024, where ADMARC sales were recorded in 19 of the 26 markets: 3 in the Northern Region, 3 in the Central region, and 13 in the Southern Region. No ADMARC purchases were reported in any of the 26 markets in February 2024.

(b) Tea Production

In the month under review, tea production declined to 6,246,913 kg in February 2024 from 7,250,108 kg produced in January 2024, representing 16.1 percent. In comparison with the previous year, tea production in February 2024 amounted to 6,191,443 kg, which is a 0.9 percent decrease from production in February 2023.

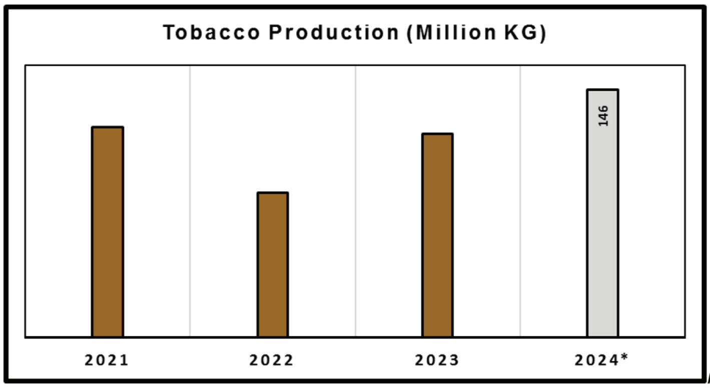
Figure 3: Monthly production of tea



Source: Tea Association of Malawi

(c)Tobacco Production

Figure 4: Tobacco production



Note: * means projection **Source: Tobacco Commission**

In the month under review, the Tobacco Commission finalized the first round survey of tobacco production in Malawi for the 2023–2024 farming season. A report of the first round of tobacco production estimates for the 2023–2024 farming season has projected a 21 percent increase in 2024 compared to production in 2023. The report projects a production of 146 million kilograms of leaf tobacco in 2024 from 120 million kilograms of tobacco sold in 2023. The increase of projected production is attributed to the projected improved production and increased hectarage due to the good prices offered in 2023, an increased number of growers, increased sponsorship, and the availability of inputs. However, the dry spells remain a major risk in some areas and can have a significant negative impact on tobacco production this year.

Nevertheless, the second round of a nation-wide tobacco estimates survey for the 2023-2024 farming season rolled out on Monday, February 26, three weeks after the first round.

2. FINANCE SECTOR DEVELOPMENTS

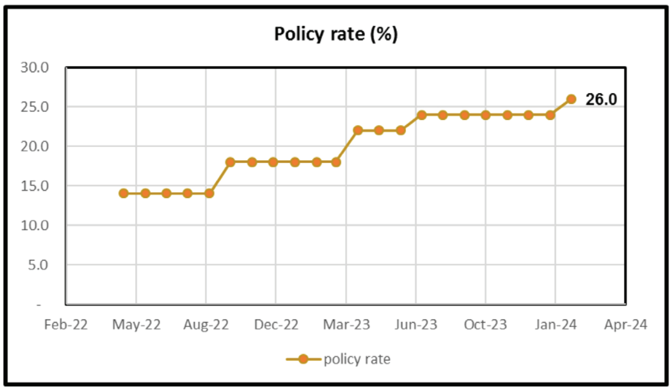
This section will look at developments in Interest Rates and Stock Markets.

i. Policy Rate

In the month of February 2024, the policy rate was 26 percent, up from 24 percent in January 2024. The increment came after the Monetary Policy Committee (MPC) met on January 31 and February 1, 2024. Based on an assessment of the macroeconomic situation and outlook, the MPC decided to increase the policy rate by 200 basis points to 26.0 percent. Meanwhile, the Committee resolved to maintain the Lombard rate at 20 basis points above the policy rate and the Liquidity Reserve Requirement (LRR) ratio at 7.75 percent for domestic currency deposits and 3.75 percent for foreign currency deposits.

In arriving at this decision, the MPC observed that inflationary pressures have intensified, such that inflation is projected to persist before it starts to decline. The decision is, therefore, intended to counter inflationary pressures and restore price stability.

Figure 5: Trend of policy rate

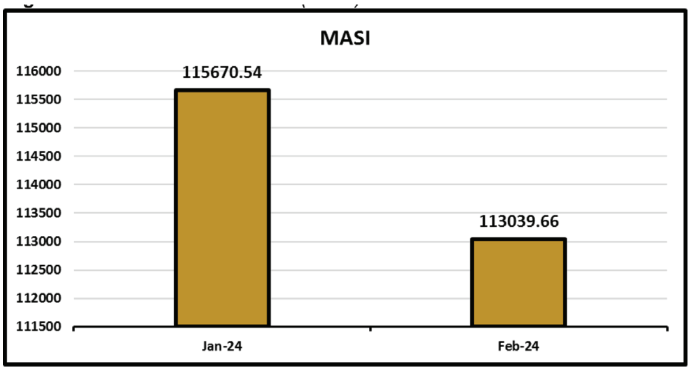


Source: Reserve Bank of Malawi

ii. Capital Market Developments

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

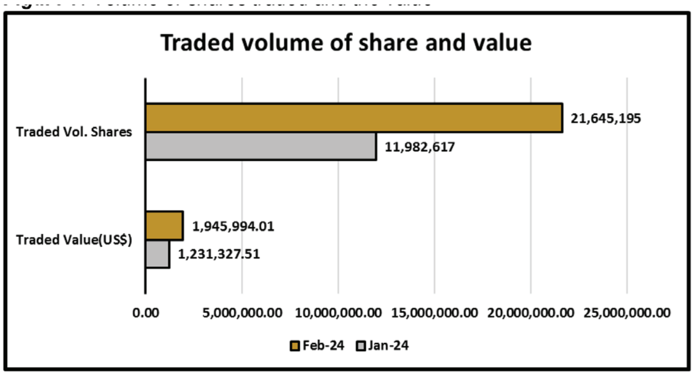
Figure 6: Malawi All Share Index (MASI)



Source: Malawi Stock Exchange

In the month of February 2024, the Malawi All Share Index (MASI) registered 113, 039.66 points from 115, 670.54 reflecting a negative month-on-month return on index of –2.27 percent in US$ terms, 1.88 percent YTD. The market however, registered an increase in both total traded value and volume of shares.

Figure 7: Volume of shares traded and the value

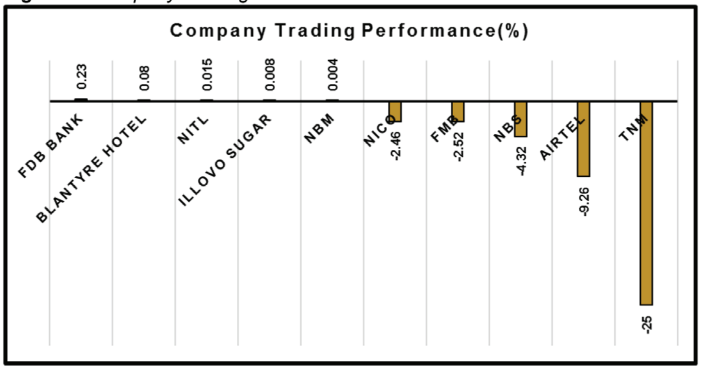


Source: Malawi Stock Exchange

In the month under review, the traded value and number of shares that were traded at the Malawi Stock Exchange increased comparing with the previous month of January 2024. The stock market traded a total of 21,645,195 shares at a total consideration of US$1,945,994.01 in 893 trades in the month of February 2024. In the previous month of January 2024, the market traded a total of 11,982,617 shares at a total consideration of US$1,231,327.51 in 870 trades. This reflects an 80.64 percent increase in terms of share volume traded and a 58.04 percent increase in share value traded.

Daily average share trades exhibited similar trends where the market registered an average daily volume of 1,030,724 shares in February 2024 compared to 570,601 shares traded in January 2024, reflecting an increase of 80.64 percent.

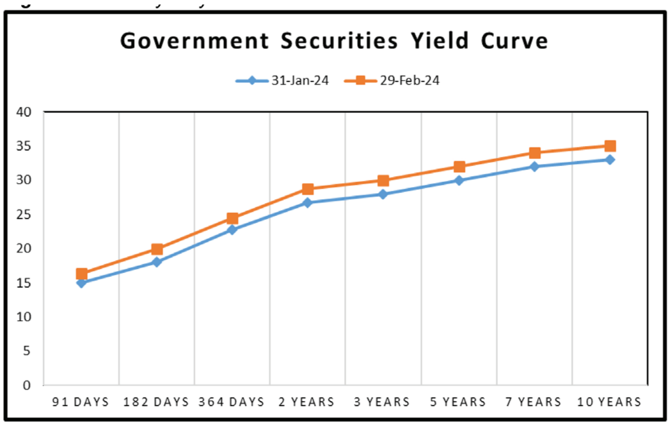
Figure 8: Company Trading Performance



Source: Malawi Stock Exchange

In January 2024, 16 companies were listed on the market, eight companies registered capital gains on the stock market, and seven companies registered losses. FDH Bank was the top gainer on the market, while TNM registered more losses in February 2024. The top five gains were registered by FDH Bank (0.23 percent), Blantyre Hotels Limited (0.08 percent), NITL (0.015 percent), ILLOVO (0.008 percent), and NBM (0.004 percent). The top five losses were registered by TNM (-25.00 percent), AIRTEL (-9.26 percent), NBS (-4.32 percent), FMBCH (-2.52 percent), and NICO (-2.46 percent). The total gains registered on the stock market were not enough to offset the share price losses registered, resulting in a downward movement of the Malawi All Share Index.

Figure 9: Treasury bill yields



Source: Reserve Bank of Malawi

At the end of February 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 16.32 percent, 20 percent, 24.51 percent, 28.75 percent, 30 percent, 32 percent, 34 percent, and 35 percent, respectively. This shows the upward shift, as 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.

Comparing end February 2024 to end January 2024, the change in yield was as follows:

Tenor	91 day	182 days	364 days	2 years	3 years	5 years	7 years	10 years
31[ST] Jan 2024	14.97	18	22.75	26.75	28	30	32	33
29[th] Feb 2024	16.32	20	24.51	28.75	30	32	34	35
Change in yield (Basis Point)	135	200	176	200	200	200	200	200

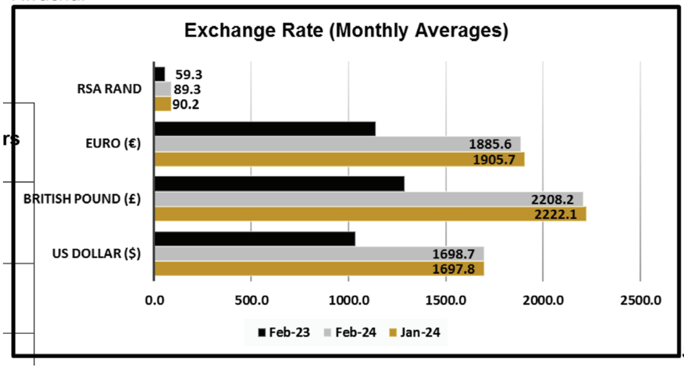
NOTE: The 91-day, 182-day and 364-day Treasury bill yields converted to semi-annual bond basis.
Source: Reserve Bank of Malawi

3. EXTERNAL SECTOR DEVELOPMENT

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

i. Foreign Exchange Rate Market

Figure 10: Average exchange rates trend against Kwacha.



Source: Reserve Bank of Malawi
According to data from the Reserve Bank of Malawi (monthly middle averages), the Malawi Kwacha generally appreciated against the other currencies of the country's major trading partners in the month under review, except against the US Dollar.

The Malawi Kwacha depreciated slightly against the US dollar to K1, 698.7 in February 2024 from K1, 697.8 in the previous month. This represents a 0.05 percent monthly depreciation. Comparing it to the identical month in 2023, the kwacha has depreciated by 64.2 percent against the dollar.

The Malawi Kwacha appreciated against both the British Pound and the Euro. The pound recorded a monthly average of K2,208.2 in February 2024, up from K2,222.1 in January 2024, while the Euro was traded at K1,885.6 during the month under, up from K1905.7 in January 2024, representing 0.6 percent and 1.06 percent appreciation, respectively. However, the Kwacha has depreciated massively in a 12-month time span due to the 44 percent devaluation in November 2023. Compared to an identical month in 2023, the kwacha has depreciated by 71.6 percent against the pound and 65.5 percent against the euro.

The Malawi Kwacha also appreciated against the two major trading currencies, the Japanese yen and the Chinese yuan. The Malawi Kwacha appreciated to a monthly average of K11.27 in February 2024, up from K11.52 in January 2024, representing 2.23 percent. The yuan traded at a monthly average of K234.04 in February 2024, up from K234.75 in January 2024, representing a 0.31 percent appreciation. However, the Kwacha depreciated by 0.2 percent against the Indian Rupee, from K20.25 in January 2024 to K20.29 in the month of February 2024. In the last 12 months, the Kwacha has depreciated by 45.8 percent against the yen, 55.8 percent against the rupee, and 55.8 percent against the yuan.

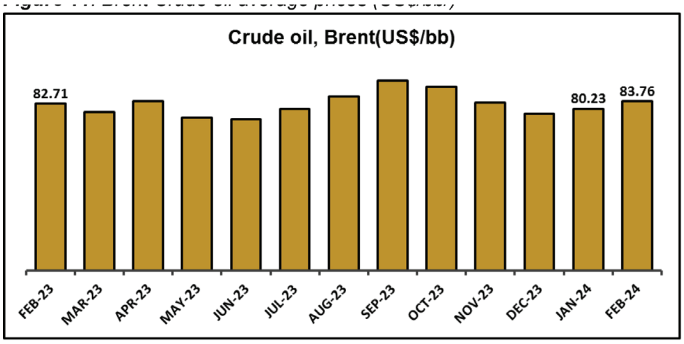
The Malawi Kwacha appreciated by 1.06 percent against the Rand, with a monthly average of K89.3 recorded in February 2024, from a monthly average of K90.20 on January 2024. However, the Malawi Kwacha depreciated by 4.58 percent against the Zambian kwacha with a monthly average of K67.05 in February 2024, from the monthly average of K64.11 in the month of January 2024.

ii. Global Fuel Prices

In the month of February 2024, according to data from the World Bank, the global monthly average price for Brent crude oil was recorded at US$83.76 per barrel, a 4.4 percent increase from the US$80.2 recorded in January 2024. Prices rose in February in part due to continuing uncertainty and increased risk around the attacks targeting commercial ships transiting the Red Sea shipping channel, as well as an anticipated extension to voluntary OPEC+ production cuts, which were officially announced on March 4, 2024. The OPEC+ voluntary production cuts are an extension of the existing production cuts that were announced on November 30, 2023, and are now extended through the second quarter of 2024 (2Q24). The announcement also included an additional voluntary production cut from Russia.

According to the U.S. Energy Information Administration, it is expected that the tighter oil market balance during 2024 will keep the Brent price above current levels, averaging $88/b in the second quarter of 2024. It will remain relatively flat for the rest of the year before increasing inventories (when OPEC+ supply cuts).

Figure 11: Brent Crude oil average prices (US$/bb/)



Source: World Bank

KEYNOTES FROM 2024/2025 NATIONAL BUDGET STATEMENT

The 2024/2025 National Budget Theme

"From economic recovery to resilience through accelerating production and enhancing the legal and regulatory environment to protect the economy."

Budget Assumption

The 2024/2025 National budget has been formulated with the following underlying assumptions:

i. Real GDP growth rate of 3.6 percent
ii. Average Inflation rate of 23.4 percent
iii. Tax refunds of 3.0 percent of total tax collection

• The total revenue and grants for the 2024/2025 fiscal year are estimated at K4.55 trillion, representing 24.3 percent of GDP.

• Domestic Revenues are estimated at K3.38 trillion, representing 18.1 percent of GDP, of which, Tax Revenues are estimated at K3.26 trillion and Other Revenues have been projected at K126.54 billion.

• Grants are estimated at K1.17 trillion, of which K1.10 trillion will come from International Organizations and K72.69 billion from Foreign Governments.

• Total expenditure for the 2024/2025 fiscal year is programmed at K5.98 trillion, representing 31.9 percent of GDP.

• Of the total expenditure, recurrent expenses are estimated at K4.21 trillion, representing 22.5 percent of GDP and 70.4 percent of total expenditure.

•Develo pment Expenditure for the 2024/2025 Financial Year is estimated at K1.77 trillion, of which K1.39 trillion is for foreign financed projects (Part 1) and K383.6 billion is for domestic financed projects (Part II), representing the proportion of 30 percent to the total budget of development expenditure from the 24 percent in the 2023/24 Financial Year.

•The 2024/2025 Financial Year's overall balance is estimated at a deficit of K1.43 trillion, which is 7.6 percent of GDP. This deficit will be financed through domestic borrowing amounting to K1.28 trillion, representing 6.0 percent of GDP and K150 billion foreign borrowing.

• Public debt interest is projected at K1.46 trillion which is 7.8 percent and 43 percent of GDP and Domestic revenues, respectively. Interest for Foreign debt is estimated at K79.75 billion while Interest for domestic debt is estimated at K1.38 trillion.

SOME TAX POLICY MEASURES IN THE 2024/2025 BUDGET

To encourage value addition and promoting local manufacturing, the Government is

• Allowing the Malawi Army, Malawi Police Service and Malawi Prisons to import duty-free fabrics and accessories for making uniforms under the Customs Procedure Code (CPC) 421.

• Increasing import duty on finished iron sheets of tariff subheading 7210.49.90 from 15 percent to 25 percent.

• Increasing import duty for sacks of tariff subheading 6305.33.00 from 20 percent to 25 percent; and

• Introducing a surcharge of 10 percent on sacks for cement packaging.

• Introducing legislation to allow for the use and transmission of electronic certificates of origin. This is to align with international best practice.

• Increasing import duty from 20 percent to 25 percent and introducing 10 percent import excise duty on automotive lubricants to align with the taxation of other petroleum products such as petrol, paraffin, and diesel.

• Restricting the duty-free importation of building materials under CPC 442 for the tourism sector to 3 years, subject to an extension of 2 years at 50 percent rate of the normally applied Import Duty and Excise Duty while VAT will be paid at the normal rate of 16.5 percent.

• Reducing excise tax on clear beer made from sorghum and maize from 40 percent to 20 percent as one way of promoting the use of locally sourced raw materials for production and promote our farmers.

• Reducing the withholding tax (WHT) for mobile money agents from 20 percent to 1 percent.

• Extending the application of the additional 10 percent corporate income tax on profits above K10 billion to all businesses that make such profits to ensure equal and fair treatment of super normal profits.

• Introducing a note to the Fourteenth Schedule defining foodstuff as "edible farm produces in their raw state" in order to distinguish the 3 percent withholding tax rate for the supply of foodstuff from the 20 percent withholding tax for the supply of prepared or processed food, which is a service.

• Reducing the withholding tax on interest realized from investments of life assurance from 20 percent to 15 percent.

• The Electronic Fiscal Devices will be phased out to allow for the introduction of a new electronic billing system for the effective implementation of the VAT Act.

NEWS SECTION

AS AT 13 MARCH 2024 BUSINESS NEWS
(Source: National News)

• Manufacturing sector output drops: Industrial output has jumped by 8.8 percent, but some manufacturing firms have witnessed a declines in some segments, figures from the Ministry of Finance and Economic Affairs show. The Malawi Government Annual Economic Report 2024 compiled by the Ministry of Finance and Economic Affairs shows that industrial output grew by 8.8 percent between 2021 and 2022 while output for the manufacturing sector rose by 5.9 percent. However, there was a general decline in output in three out of five segments of the manufacturing sector, according to the report.

Reads the report in part: "A 72.9 percent increase was registered for the manufacture of tobacco products and the manufacturing of rubber and plastic products increased by 7.8 percent. "The manufacturing of tobacco products alone contributed 65.3 percentage points to the annual growth rate and volume of production in Malawi." Meanwhile, output in the manufacture of food products dropped by 14 percent from the 2021 levels while the manufacture of beverages and chemicals and chemical products dropped by 35.6 percent and 29.3 percent, respectively. The drop in output, attributed to the scarcity of foreign exchange and fuel, threatened to derail the country's efforts to spur economic transformation through industrialization.

Reacting to the report, economist Bond Mtembezeka said the limited access to credit extended to the private sector, which has historically been skewed against the manufacturing sector, might have prevented the manufacturing sector from accessing credit during acute forex scarcity. He said: "Manufacturers import raw materials and to do that they also rely on the lines of credit. "If foreign exchange is scarce, they can't import as much and by implication, cannot acquire as much credit." On the manufacturing sector's capacity to boost economic growth, Mtembezeka said it is hard to achieve that goal when some of the segments in the manufacturing sector are in a state of decline. On his part, economic analyst Dalitso Kubalasa urged local authorities to ensure that there is more financing going to the manufacturing and agricultural sectors to revitalize the ailing economy. The Ministry of Finance and Economic Affairs is in the process of developing Special Economic Zones to attract investors to critical sectors of the economy having enacted Special Economic Zones Bill last year. The manufacturing sector is to grow in 2024 and 2025 at 4.4 percent and 4.6 percent, respectively.

• **AfDB cautions on monetary policy:** Raising interest rates in African countries such as Malawi may have limited success in containing or reducing inflation because most countries on the continent face supply-side shocks, a report from the African Development Bank (AfDB) shows. In the January 2024 issue of Africa's Macroeconomic Performance and Outlook, the continental bank noted that inflation remained elevated in some African countries despite central banks imposing high interest rates.

Since April 2022, the Reserve Bank of Malawi (RBM) has raised the policy rate by 1 200 basis points from 12 percent to 24 percent, representing an upward adjustment of 100 percent. However, over the same period, inflation has risen by 123 percent from 15.7 percent to 35 percent. AfDB said it is important to note although the policy rate has more than doubled in the past two years, real interest rates remain negative, meaning they are higher than the inflation rate. The bank cautions this would further counteract the effects of monetary policy instruments.

Reads the report: "Low and negative real interest rates disincentivise domestic savings, and with national currencies weakening, households could use alternative assets, including foreign currency, as store of value, further undermining the efficacy of monetary policy transmission to combat inflation." AfDB, thus, urged member countries like Malawi to explore more innovative instruments to deal with the supply side factors driving the current wave of inflation amid concerns that "further upward adjustment in interest rates could increase the cost of credit disproportionately and impose a tax on growth".

Reacting to the report, market analyst Bond Mtembezeka said the contractionary monetary policy adopted by the central bank has not worked because inflation in Malawi is largely driven by the exchange rate and the country's heavy dependence on imports. He said: "Exchange rates drive up the cost of production which has a strong pass through effect on the price of goods and services. Further, being a net importer, we import inflation further as well."

RBM spokesperson Mark Lungu in an interview said acknowledged that supply-side constraints dampens the effectiveness of the central bank's contractionary monetary policy, as such, called for collaboration between different stakeholders to bring down inflation to a manageable level. He said: "RBM does its part to manage inflation from the demand side, there is a need for other key players on the supply side to play their meaningful role to unlock the structural issues that hinder the economy from boosting its supply." The RBM spokesperson further expressed optimism that the measures that the government has undertaken to improve agricultural production and diversify the economy will help bring down inflation in the medium to long term.

• **Low credit to private sector, misplaced priority:** Economics Association of Malawi acting president Bertha Bangara-Chikadza urged the government to prioritise borrowing for investment and limit imports of goods that can be produced locally."

In the Monetary Policy Report released on Friday, Reserve Bank of Malawi (RBM) data shows that private sector credit dropped 2.5 percentage points from 20.4 percent in the third quarter of 2023 to 20.4 percent in the fourth quarter of the same year. The data further shows that that credit remains concentrated in four main sectors, namely community, social and personal services accounting for 34.7 percent, wholesale and retail trade taking up 16.2 percent, agriculture, forestry, fishing and hunting at 15.9 percent and manufacturing at 10.6 percent.

In an interview, Bangara-Chikadza urged the private sector to "reorder the credit concentration and increase investment in the agriculture and mining sectors which are the driving force in the country's development trajectory and anchor the Malawi 2063. She: "This should be followed by a reduction in non-performing loans unlike the community, social and personal services and wholesale and retail trade sectors which are the first two top recipients of credit, but are also top in non-performing loans."

Private sector credit slumped 6.1 percentage points from 26.5 percent recorded at the end of 2022, according to available data. The drop follows concerns from economic experts that excessive government borrowing from the domestic market is crowding out the private sector and that low investment in critical sectors such as agriculture and mining could undermine the country's development aspirations. The Malawi 2063, the country's long-term development agenda, has set increasing agricultural productivity and commercialization and industrialization as the key pillars to anchor Malawi's ambition of becoming a middle-income country by 2030.

• **Economic activity below potential:** Malawi's economic activity has remained below potential for years, an indication that fighting poverty and improving people's welfare is but a dream.

For instance, Reserve Bank of Malawi (RBM) data which Business News has seen shows that for six years running, the country's output gap, an economic measure of the difference between the actual output of an economy and its potential output, has been in the negative. The data shows that the country's output gap has worsened from negative 0.6 percent in the first quarter of 2019 to negative 3.8 percent in the last quarter of 2023. According to economists, this is an indication that the country does not use its full potential and that it will have a hard time growing its middle class and ending poverty.

In an interview, economist Gilbert Kachamba said a negative output gap means that the country is underutilizing the factors of production such as land, capital and labour. He said: "This has negative implications to the economy such as increase in unemployment, worsening inequality and increased government expenditure coupled with reduced government revenues. "All these will make the fight against poverty more difficult."

In a separate interview, Scotland-based Malawian economist Velli Nyirongo said the negative output gap has jeorpadised the growth of the economy. He said the output gap could happen because of unstable economy, climate shocks and policy inconsistencies, among others. Said Nyirongo: "The output gap is bad for Malawi and its people. It means the country is not growing as fast as it could, which means fewer jobs and more poverty. “It also means the government has more debt, which means less money for things such as schools and hospitals.”

For instance, in the past two years, economic growth has remained below two percent of the gross domestic product (GDP), translating to a real per capita contraction and poverty has stagnated at above 70 percent, which is an equivalent of $2.15 (about K3 655), according to the World Bank. “Persistent climate volatility disrupting the production process, long-standing macroeconomic imbalances emanating from sustained high fiscal and external deficits and a series of exogenous shocks have contributed to this trajectory,” reads the recent World Bank country analysis. In July last year, the World Bank warned that the number of people living below the international poverty line of $2.15 per day in Malawi could increase if the country continues to face climate or external shocks.

Meanwhile, it has emerged that Malawi’s 2023/24 GDP growth could contract by between four and 8.6 percent due to adverse climatic conditions influenced by the current El Nino weather pattern. The Malawi First 10-Year Implementation Plan for Malawi 2063 development strategy targets to graduate Malawi into a middle-income economy and achieve most of the Sustainable Development Goals (SDGs) and grow the economy by at least six percent.

- **RBM struggles to boost forex buffer:** The Reserve Bank of Malawi (RBM) has admitted facing struggles to secure foreign exchange to boost its reserves with data indicating that gross official reserves are now equivalent to one month of import cover.

Speaking in an interview in Blantyre, RBM director of economic policy and research Kisu Simwaka said while the outlook is positive following the International Monetary Fund (IMF) four-year Extended Credit Facility (ECF), the central bank is facing challenges due to reduced foreign direct investment inflows and import-bill mismatch. He said: “This is temporary and we should be looking at where we are going and we believe that the outlook is positive, given the policies we are implementing. “We are struggling and it is understandable, looking at what we have passed through as an economy, experiencing multiple shocks since 2020.” Simwaka said the central bank hopes that once the economy stabilizes and economic activity starts picking up, foreign exchange reserves will build up, the kwacha will stabilize and the inflation rate, currently at 34.5 percent, will come down. He said the central bank’s desire is to build reserves at around three months of import cover to support the economy to grow sustainably and ensure uninterrupted importation of critical imports such as fuel.

In a statement approving Malawi’s $175 million (about K295 billion) ECF, the IMF said “rebuilding international reserve buffers and allowing for greater flexibility in the exchange rate” are important to reduce vulnerability to external shocks. RBM data shows that gross official reserves expanded by $83.6 million to $239.3 million or one month of import cover in November 2023 from $155.7 million or 0.6 months of import cover recorded during the previous month, which was before the ECF programme. The surge was due to budget support inflows amounting to $81.4 million (about K138 billion). On the other hand, private sector reserves that include foreign currency denominated accounts and authorized dealer banks’ own position stood at $433 million or 1.73 months of import cover. However, three months after RBM devalued the kwacha by 44 percent, the kwacha has remained stable at K1 700 against the dollar, but foreign reserves have continued to drop.