

Economic

Review



THIRD QUARTER, July – September, 2018

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COMMENTARY

Economic Gains threatened by Rising Prices

Economic Summary

Economic gains made during the year are being threatened by rising prices emanating from upward revisions of fuel pump prices, electricity tariffs and water tariffs in the third quarter. Policy rate has been maintained at 16 percent whilst high interest spread remain with base lending rate at 25 percent and average deposit rates at 8 percent. However, the Malawi Kwacha has remained stable with most of its trading partners anchored by sufficient foreign exchange reserves. In particular, Malawi kwacha strengthened against Chinese Yuan and South African Rand due to escalating trade war between China and United States of America and depreciation of the rand respectively.

Economic Growth

The latest World Economic Outlook by International Monetary Fund (IMF) has revised Malawi's 2018 GDP growth downwards to 3.3 percent from earlier projected 4 percent and 4.7 percent for 2019. Contrary to this, the government estimates GDP growth estimates of

4.1 % in 2018 and forecasts of 6 % growth in 2019. The economy's growth is threatened by rising prices emanating from upward revisions of energy prices and lower agricultural production. Malawi Confederation of Chambers of Commerce and Industry maintain a lower estimate of GDP growth for 2018 to slow down to 3.6 % due to the

dry spells and fall army worms encountered in 2017/18 season, among other factors. Our forecast for 2019 continues to be cautious due to anticipation of continuous intermittent power supply compounded by the challenges and weakened performance of the industry sector.

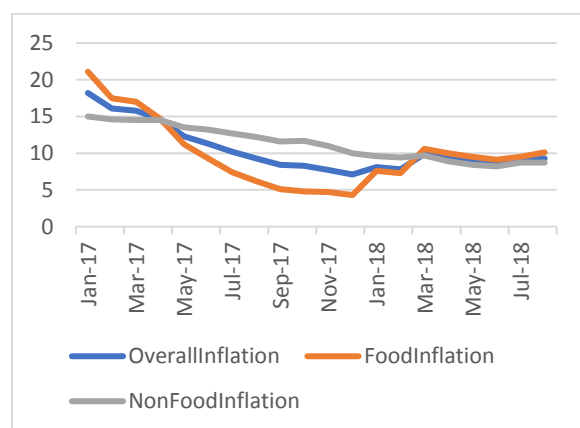
Real Sector Performance	2016	2017	2017 July	2018 July
Rising Population(million)	16.8	17.4	17.4	17.9
Low Income GDP at Current Prices(K'Trillion)-	3.8	4.6	4.6	5.1
Real GDP Growth	2.7	5.1	5.1	4.0
Low Income People GDP Per Capita(US\$)	318.1	365.1	365.1	393.9
Inflation Rates	21.7	11.5	10.2	9
Fiscal Sector Performance	2016	2017	2017 July	2018 July
Deficit/GDP Ratio including Grants (No strong fiscal consolidation measures)	-4.0	-4.1	-0.6	0.3

The third quarter of 2018 (July- September) has experienced a rising trend in Inflation with inflation rate for July at 9%, 9.3% for August and an even higher rate for September at 9.5%. The increase was mainly attributed to food inflation which rose from 9.5 percent to 10.1 percent whilst non-food inflation remained pegged at 8.7 percent. The central bank maintains that risks to inflation have already been accounted for in their analysis and forecasts single digit inflation to the end of the year. However, economic agents in the country are concerned since risks to inflation still exist.

The Malawi Vulnerability Assessment Committed established that due to late on-set of rains, erratic rainfall, and fall armyworms, the 2017/2018 harvest season will reap lower yields for 2018 compared to the 2017 maize harvest season. These factors have influenced farmers to hoard maize in anticipation of a rise in prices and this in turn continues to drive up the food inflation. Whilst non-food inflation maintains its stance, it faces rising threats due to the October fuel and 31.8% electricity tariff hike from ESCOM.

According to the Reserve Bank of Malawi, September inflation expectations for quarter 4 has shifted from the June expectation of 10.2% to 10.9%. This has been the case on account of the upward revision of pump fuel prices, electricity tariffs, water tariffs and imminent pressure on food prices. In addition, it is expected that the annual average inflation for 2018 will be at 9.5 percent which is higher than the earlier expectation of 8.9%. RBM forecasts a temporary double-digit inflation for the fourth quarter of about 10.1% as food prices are expected to move up due to the expected rise in maize prices as the government has announced that it will be purchasing maize at a price which is higher than the prevailing price on the market. Currently prevailing maize prices are around K140/kg.

Inflation Developments



Source: Reserve Bank of Malawi

Credit Developments

At the beginning of the third quarter, credit to the private sector and to statutory bodies increased by K10.2 billion and K9.1 billion to K438.5 billion and K21.1 billion, respectively. At the same time, credit to the public sector (government and statutory bodies) totaled K523.7 billion from

K521.9 billion and K440.4 billion recorded during 2018Q2.

As of August 2018, credit to the private sector grew by MK1 billion to MK439.5 billion from MK392 billion in August 2017. Distribution of credit is largely concentrated in the Wholesale and Retail trade which accounts for 28.2 percent of the portfolio. The share of credit to the agriculture sector declined significantly to 19.8 percent from 23.5 percent recorded in July 2018.

Non-Performing Loans (NPL) ratio stood at 12.1 percent in July; a decline from 19.0 percent in the corresponding period of 2017. This was mainly on account of write offs by the banks and not necessarily due to the improvements in economic fundamentals.

Gross Official Foreign Reserves Position: Monthly reserves stood at USD748.1 million (3.6 months of import cover) in July 2018 compared with USD752.9 million (3.6 months of import cover) recorded in the previous month. In August, the reserves slightly increased and closed at USD753.62 million (3.61 months of imports) as at August 30th. Just like the previous quarter, these monthly reserves have been enough to cover not less than three months of imports. As at 28th September 2018, gross official reserves stood at USD727.63 million (3.48 months of imports).

Exchange Rate Movements: The Malawi kwacha has been relatively stable against major trading currencies throughout the 3rd quarter. However, towards the end of the month of July and first weeks of August it gained value against the British Pound and the Euro and then marginally depreciated again. The Kwacha has as well been gaining value against the South African Rand since the beginning of the month of August despite depreciating against the same in July; owing to the recession of South African economy. As at 28th September 2018, the kwacha depreciated against the US Dollar and EURO selling from MK726.16 to MK732.51 and EUR848.45 to EUR852.15 and respectively. The currency appreciated against the GBP and ZAR selling at 952.85 from 961.05 and R52.2 from R49.35 respectively.

Interest Rates

During the month of August, the yields on the 91 days T-bill, the 182 days T-bill and the 364 days T-bill were steady at 14 percent, 14.5 percent and 15 percent respectively. The Reserve Bank of Malawi maintained the policy rate at 16 percent. As a result, the interest rate structure for banks also remained unchanged, with the average base lending and the average savings rates positions of 24.78 percent and 8.39 percent, respectively.

Capital Markets Developments

Stock Market: The market was marginally bullish as it registered a positive return of 2.22% in August and an increase in total value and volume traded. A total of 43,722,958 shares were transacted at a total consideration of MK3,009,473,246.19 (US\$4,147,251.90) in 173 trades. In the previous month of July 2018, the market transacted a total of 13,787,978 shares at a total consideration of MK590,259,713.23 (US\$813,416.67) in 97 trades. This reflects a 217.11% increase in terms of share volume and a 409.86% (409.86% in US Dollar terms) increase in share value. Market capitalization increased in both Malawi Kwacha and United States Dollar terms from MK1,385,750.21 million (US\$1,909.65 million) in July 2018 to MK1,416,446.92 million (US\$1,951.96 million) in August 2018.

Tobacco Market Developments

Improved competition on Burley auction sale in week 25 had a positive effect on Burley average price as shown by the positive variance in the graph below. The decrease of total volume of tobacco sold from 3.5 million kilograms in week 24 to 1 million kilograms in week 25 resulted in the decrease of the weekly earnings from USD4.1 million to USD1.1 million. The Limbe auction floor closed end of July and Mzuzu floors are expected to close 3rd October.

WEEK 25 SALE SUMMARY				
Tobacco Type	Volume (kgs)	Proceeds (USD)	Avg. (USD/KG)	Variance
BURLEY	494,512.00	547,567.29	1.11	14%
FLUE CURED	504,073.00	435,854.84	0.86	-48%
DARK FIRED	45,137.00	67,069.19	1.49	-31%
TOTAL	1,043,722.00	1,050,491.32	1.01	-17%

2018 TOBACCO SEASON CUMULATIVE SALES FIGURES UP TO 28-09-2018			
Tobacco Type	Volume (kgs)	Proceeds (USD)	Avg. (USD/KG)
BURLEY	163,865,982.00	255,417,754.10	1.56
FLUE CURED	32,158,655.00	72,620,942.24	2.29
DARK FIRED	5,742,012.00	9,304,783.79	1.62
TOTAL	201,766,649.00	337,343,480.13	1.67

According to export statistics by TCC, the country has realized a total of \$67,304,297.16 (higher than the previous year's \$6,748,280) from 15,115,372 kilograms of tobacco exports. Tobacco for 2017 crop year was being exported at an average price of \$4.45 per KG. There have been improvements in terms of both export prices and volumes as compared to those realized from 2016 crop year. A total of 9,195,408 KGS of burley were exported at an average price of \$3.68 per KG compared to 506,836 KGs from the previous year that was being exported at an average unit price of \$3.13. Whereas 4,671,994 and 1,247,970 KGS of Flue cured tobacco and Northern Division Dark Fired (NDDF) tobacco were being exported at an average unit price of \$6.32 and \$3.11 respectively. However, for the previous crop year, Flue cured and NDDF tobacco was being exported at an average unit price of \$6.19 and \$0.70 per KG respectively and a total of 831,600 kgs and 19,800 KGs of each type were exported respectively.

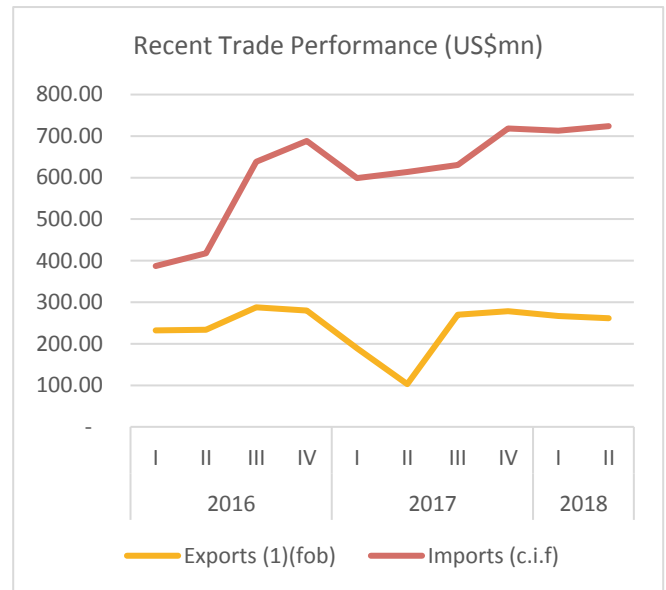
Trade Performance

In the past five years, total trade (exports plus imports) for Malawi has declined by 7.9 percent from US\$2,783.972 million in 2013 to US\$2,562.017 million in 2017. This is despite recording a positive growth of 107.5%, 73.5% and 37.7% over 2001/5, 2005/9, and 2009/13 periods respectively. This decline in exports is attributed to the decline in the value of exports of all the major exports for the country.

Over the same time period, tobacco exports have declined by 3.9 %, sugar and sugar confectionary by 68.5 %, coffee, tea, mate and spices by 16.2%, oil seeds by 46.2 % and cotton by 85.9 %.

However, other products have emerged among top exports. Residues and waste from the food industries; Edible fruit and nuts; Edible vegetables and certain roots and tubers. Exports of residuals and wastes from food industries grew by 976% and 506% over the 2009-13 and 2013-17 time periods respectively and in 2017, US\$64.242 million was realized from the exports of the same.

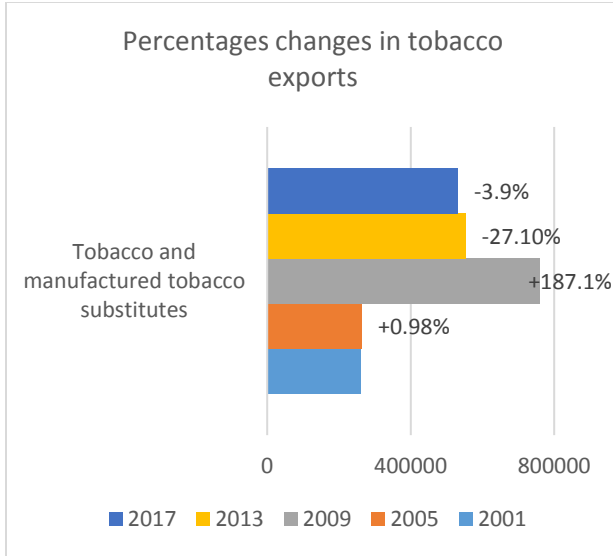
The following graphs shows Malawi's Trade Competiveness



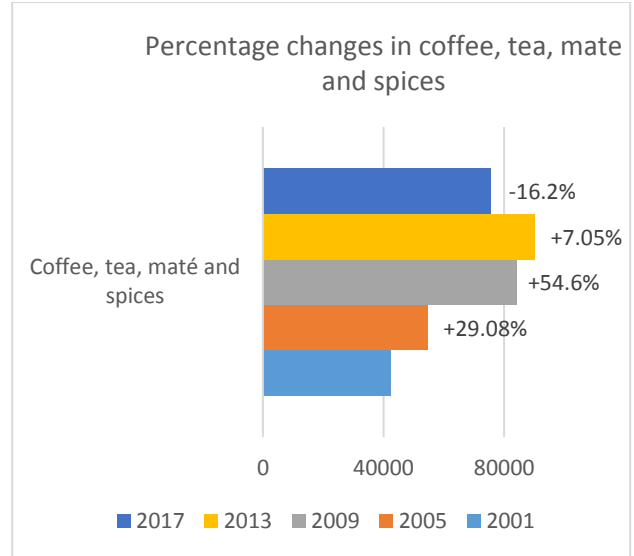
Source: RBM

Evolution of Top Five Exports (US\$'000)

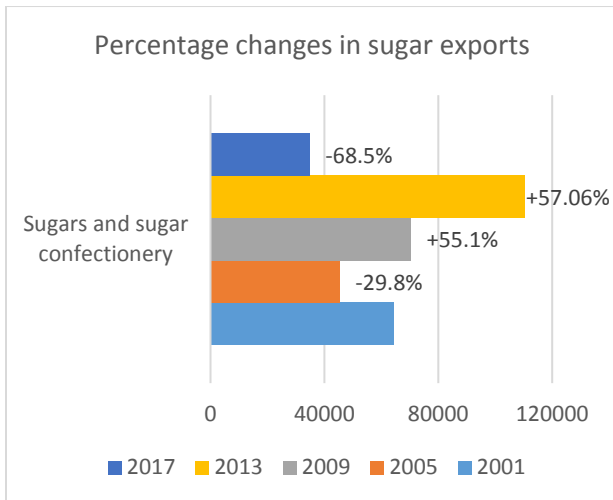
The figures below show evolution of top five export products for Malawi over five year periods (2001 – 2005); (2005 – 2009); (2009 – 2013); (2013 – 2017).



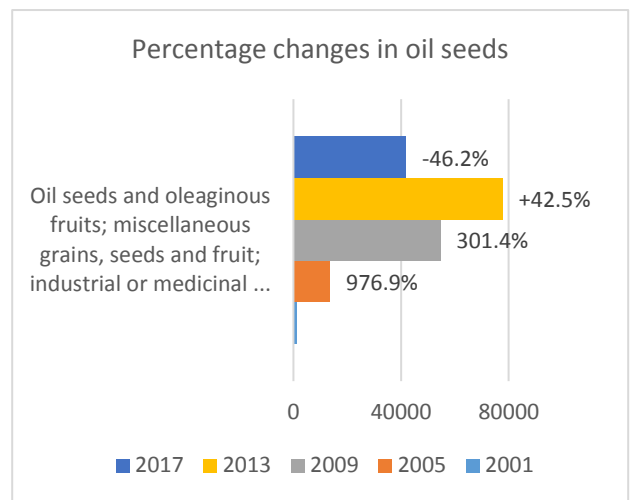
Source: ITC



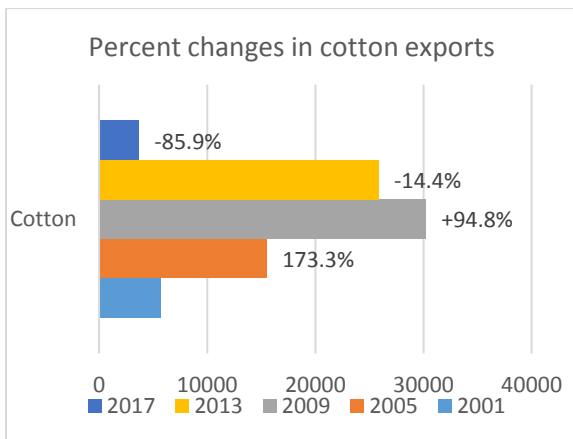
Source: ITC



Source: ITC



Source: ITC



Source: ITC

Electricity Generation and Supply

The energy compact that was being implemented by Millennium Challenge Account Malawi (MCA-M) wrapped up in September 2018. MCA-M compact was a grant provided by the United States Government Agency Millennium Challenge Corporation (MCC) to revamp the energy sector of Malawi. It included the rehabilitation of Nkula A and modernization of transmission and distribution lines to enhance electricity capacity.

The project included the addition of 12 MW to Nkula A from 24 MW, work on Ntonda substation in Blantyre, expansion of David Whitehead distribution substation for new customers to be connected, construction of 173 km 400 Kilowatts transmission lines, construction of Phombeya substation in Balaka and interconnector with Mozambique to connect Malawi to the Southern Africa power pool as well as the construction of Nkhoma sub-station which will connect Malawi to Zambia and the Bwengu that will connect the country to Tanzania.

International Economic Environment Context

Global Economic Growth Outlook

Global growth for 2017 slowed down to 2.4 percent and is projected to reach 3.9 percent in 2018 and 2019 in line with the April World Economic Outlook (WEO). However, growth has become less synchronized across countries and risks to the outlook are mounting. Among advanced economies, pace of growth is strengthening while growth projections for Europe, United Kingdom and Japan have been revised downwards. As a result, the 2018 growth forecast for advanced economies is expected to be at 2.4 percent.

Likewise, growth is becoming uneven among emerging markets and developing economies reflecting the combined influences of rising oil prices, higher yields in the United States, dollar appreciation, trade tensions, and domestic political and policy uncertainty. Economic outlook for these regions thus vary depending on the interaction between these global forces and domestic idiosyncratic factors. Growth projections have been revised down for Argentina, Brazil, and India, while the outlook for some oil exporters in the Middle East, North Africa, Afghanistan, and Pakistan has strengthened.

Regional Economic Growth Outlook

Growth for the Sub-Saharan African region is expected to increase from 2.8 percent in 2017 to 3.4 percent in 2018, rising further to 3.8 percent in 2019. The upgraded 2019 forecast which is higher than that projected in April reflects improved prospects for Nigeria's economy whose growth is set to increase from 0.8 percent in 2017 to 2.1 percent in 2018 and 2.3 percent in 2019 on the back of an improved outlook for oil prices.

Between February 2018 and early June 2018, global oil prices increased by 16 %. Consequently, headline inflation in advanced and emerging market economies has been lifted. Core inflation has strengthened in the United States as the labor market has tightened further, and inched up in the euro area. Core inflation in emerging markets has also increased, reflecting effects from currency depreciation in some cases and effects of higher fuel prices in others.

SPECIAL FEATURE

Amended Control of Goods Act still ineffective

Introduction

Parliament passed the long-awaited Control of Goods Amendment Bill in May 2018 which was under review for years. Several stakeholders provided inputs into the Bill including representatives from the private sector, farmers, and other Non-State Actors in Agriculture.

The Control of Goods Act (1958) has for a long time created a lot of uncertainties in the agriculture sector particularly because it has been responsible for unpredictable export and import controls. Several studies such as Annual Malawi Business Climate Survey and other independent surveys have cited Control of Goods Act as one of the laws that has significantly contributed to the poor ratings to doing business in Malawi. Outdated economic and regulatory policies is cited as one of the main obstacles to doing business in Malawi. Businesses have expressed difficulty in their operations due to frequently changing regulatory policies without prior consultations with private sector. Market uncertainties appear more pronounced among commodities that periodically experience government interventions with serious consequences on how farmers, traders and the private sector react to them over time.

Implementation of the Control of Goods Act has been based on a prescribed list of commodities which regularly changes. The law applies to all imports into and exports out of Malawi and stipulates that “The Minister shall, by notice published in the Gazette, make orders to regulate the import or export of goods in Malawi”. The Act prescribes that goods of a specific class may not be imported or exported from Malawi for a specific duration except under the authority of a license.

Relevance of the (1958) Act

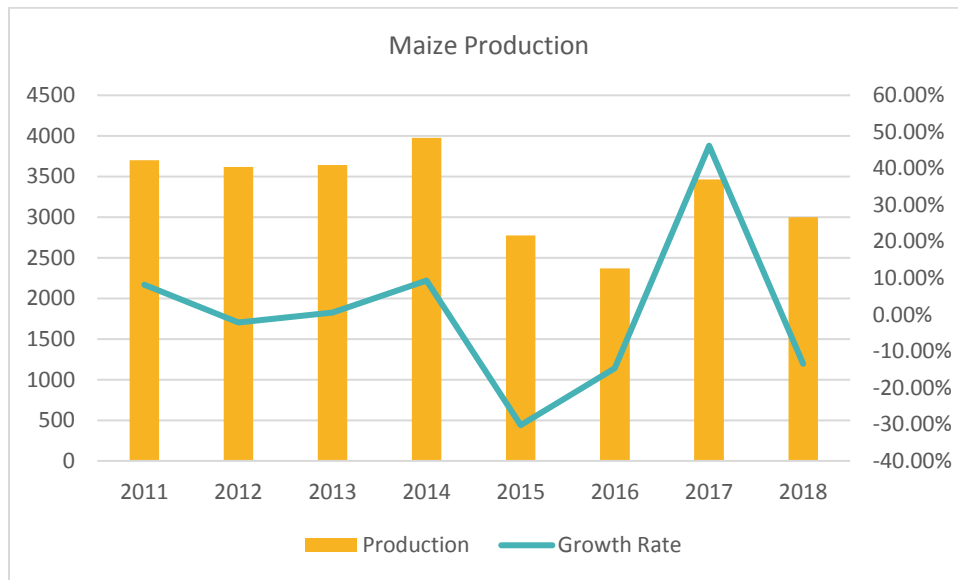
This Act was set in order to address issues of public interest such as prevention or relief to critical shortage of foodstuffs where the minister has the authority to ban exports and imports. The Act also provides protection of domestic industry from serious injury imposed by import surges and protection of consumers in cases of high prices of goods due to low supply. In cases of spread of contagious human, animal or plant disease, a ban on the commodities affected can be called by the minister. The Act also sets out to support infant industries where the government is trying to encourage commercial farming of a particular crop and protection of environment and prevention of criminal activity.

Impact of the Implementation of the (1958) Act

Although the Act sought to protect smallholder farmers and consumers in the short run, there have been several long-term effects that hindered commercialization in the different sectors of the agriculture industry. For example, an uninterrupted maize export ban was put in place by government from 2011/12 until the end of 2017 whose aim was to maintain food sufficiency as well as protection of the Farm Input Subsidy Program (FISP). This export ban was exercised under “The Control of Goods Act” as a way of regulating strategic crops. According to a study done by International Food Policy Research Institute (IFPRI), the export ban increased food security due to availability of maize at low prices and consumption of the crop increased.

However, the country lost out on potential revenue obtained when local farmers export to countries such as Rwanda, Tanzania and Kenya whose markets were buying the crop at relatively higher prices compared

to the local prices. Small scale farmers suffered lower disposable income which then encouraged them to produce less of the crop as they engaged in farming of other cash crops.



Source: Index Mundi

As shown in the graph, the export ban on maize in 2011 saw a decline in the production of maize with 2016 seeing the lowest production of maize at 2369MT. Although weather patterns played a part in the decline we can see a downward trend after the ban was enacted.

The financial sector has not been keen in supporting products which are under the list of restricted products due to the uncertainties that come with investing in such products. Furthermore, support to agriculture sector has been considered risky by the commercial sector and therefore associated with higher interest rates in the absence of specialized development funding for the sector. The performance of the sector has largely been attributed to donor financing and public financing for food security with a focus on smallholder agriculture. This has contributed to lack of sustainable commercial agriculture for export as farmers assign more land to subsistence farming.

What has changed in the Amended Act and what is the current status

The enacted Bill relaxes the power of the Minister of Industry, Trade and Tourism who will now have to consult relevant authorities before banning goods from being imported or exported. The bill has given a specified period of two executive years which shall not be exceeded as the threshold of any intervention by the minister. The bill also allows interested parties to make an application to the minister to consider institutional measures or petition the Minister for variation, continuation or revocation of an order. Persons who commit an offence, and on conviction, shall be liable to a fine of K25,000,000 and to imprisonment for ten years.

The importance of the Act cannot be appreciated as it has not been assented to by the President and the regulations are still in process which makes new Act ineffective. The delay in finalizing this process will still empower the Minister to implement the old regulations when the agriculture market is open at the moment.

The implementation of the revised bill has proved hostile to well-meaning entrepreneurs due to decisions made to impose restrictive trade practices such as export bans made at the whims of those in authority. These restrictions scare away commercial institutions from lending to the agriculture sector due to the fact

that government is not able to purchase all the produce within the restricted market hence farmers lose money that would have been used to repay loans.

Recommendations on the Implementation of the Amended Act

The amended act which was assented is ineffective since regulations have not been finalized. Doing this will provide clear guidelines and rules that should be followed before any final decisions are made. The Control of goods act should not be politically driven but rather protect the interests of farmers at large in order for them to participate in commercial farming through laws that bring access to loans. The act should go through continuous reviews to match the needs of the farmer as the country's economy grows and more factors get involved.

Persistent uncertainty and in particular incoherent agricultural policies encourage farmers to disinvest in commercial farming which in turn can hinder the development of markets. For Malawi to transform into an industrious country through value added agricultural commodities, there is need to put in place policies that do not create uncertainties for investors to invest in commercial farming.

NEWS HIGHLIGHTS

Oct 2018	MERA approves 20% tariff hike for ESCOM 2018/19 on effective 1 st October 2018 and Fuel pump price hike beginning 6 th October	Malawi Energy Regulatory Authority (MERA) has denied the Electricity Supply Commission of Malawi (ESCOM) proposed 60 percent tariff hike and instead approved only 31.8 percent to be spread across the next four years. The 31.8 percent increase will translate to an average tariff of K95.15/kWh against K117.64/kWh which ESCOM requested. In the first year of application, the hike is at 20 percent then 7 percent in second year, 3 percent in third year and 10 percent in final year. MERA also revised wholesale and pump prices upwards for petrol, diesel and paraffin. Effective 6 th October 2018 maximum wholesale piece per 1000 litres for Petrol, Diesel and Paraffin is K866,650, K869,750 and K689,450 respectively. Maximum retail prices for Petrol, Diesel and Paraffin are K932.50, K935.60 and K755.30 respectively.
Sept 2018	South Africa slips into recession	During the second quarter, the republic of South Africa fell into recession for the first time since 2009 financial crisis. According to statistics, the economy contracted by 0.7 percent quarter-on-quarter. This followed declines in the agricultural, transport as well as retail sectors. Agricultural and transport sectors shrank by 29.2 percent and 4.9 percent respectively. In addition, Government activity decreased by 0.5 percent, while manufacturing by 0.3 percent. However, Mining output grew by 4.9 percent and finance by 1.9 percent yet not significant enough to lift economic growth out of the negative territory. The implication of the recession was the weakening of the rand against the kwacha, resulting in cheaper imports from Malawi's major trading partner.
September 4 th	Ministry of Industry, Trade and Tourism launches the tourism month	This year's tourism month was launched under the theme: Tourism & digital transformation. The month of September is dubbed as "National Tourism Month" as Malawi joins the United Nations World Tourism Organization (UNWTO) members states and the rest of the world to commemorate World Tourism Day which falls on September 27, every year. Tourism sector is one of the sectors which significantly contribute to the growth of the Malawian economy and this month assists in promoting various activities in the sector.
September 12 th	MCCCI holds the 15 th National Agriculture Fair (NAF)	The Malawi Confederation of Chambers of Commerce and Industry (MCCCI) in collaboration with the Ministry of Agriculture, Irrigation and Water Development held the 15th NAF from 12 th to 15 th September 2018, at the

		Chichiri Trade Fair Grounds in Blantyre. The fair was held under the theme: access to finance, value addition and markets: key to agri-based industrialization. Such fairs are organized with the aim of creating a platform for information sharing on best practices and for business linkages by stakeholders in the Agriculture sector, as well as letting the general public appreciate the evolving developments in the sector. This years' theme emphasizes the need for players in the sector to focus on value addition to products for economic acceleration and transformation.
September,13th	Electricity Supply Corporation Of Malawi (ESCOM) signs a new Power Purchasing Agreements (PPAs)	ESCOM on September 13 th signed PPAs with Canada-based JCM Matswani Solar Limited which will be producing 60 MW and 20 MW of solar power in Nanjoka, Salima and Golomoti in Dedza, respectively as well as with Mulanje Hydro Limited that will add 8MW of hydro power to the national grid. The Salima and Dedza projects are expected to start in March 2019 and August 2019, respectively while the Mulanje project will roll out in December 2019.
December 2018	African to hold Intra-African trade fair in December	The first ever Intra-Africa Trade Fair (IATF) will be held in December in Cairo, Egypt. The IATF will be convened by the African Export and Import Bank (AFRIXIMBANK) in collaboration with the African Union as a way of driving intra-African trade and to support the implementation of the African Continental Free Trade Area (AfCFTA).The trade show will provide a platform for sharing of trade, investment and market information/opportunities and will enable buyers and sellers, investors and countries to conclude business deals.