



HIGHLIGHTS ON THE MALAWI ECONOMY

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TOBACCO

Tobacco sales statistics for the first three weeks to 30th April 1998 indicate that a total of 13.2 million kilograms of tobacco were sold at an average price of US Cents 119.54 per kilogram. This compares with 14.8 million kilograms at an average price of US Cents 163.42 per kilogram for a comparable period in 1997. The average start up price was therefore lower this year by around 27%. Total proceeds amounted to US Dollars 15.8 million compared to US Dollars 24.2 million realised during a similar period in 1997, recording a 34.8% decrease on account of the lower prices.

Buyers allege that carry over stocks of tobacco world-wide from last season have contributed to excess supply of the crop, hence the relatively unattractive prices. This has led to disagreements between growers and buyers at the auction floors (Limbe, Lilongwe and Mzuzu), leading to suspension of sales at times.

FOREIGN EXCHANGE

As anticipated in Issue No. 12 of this series of our publications, the Malawi Kwacha depreciated further; albeit at a slow pace. As at 8th May 1998, the buying rate for the US Dollar was MK26.3813 at the Commercial Bank of Malawi Limited (CBM), compared to MK26.3333 recorded on 24th April 1998. Due to the excess demand for and inadequate supply of foreign exchange, the pipeline of payments awaiting externalisation was quite significant. The position should start improving with foreign currency inflows, now that tobacco sales have started. In this scenario, we expect the exchange rate for the Malawi Kwacha vis-à-vis other currencies to stabilise somewhat.

The worrying point though is the lower than anticipated value of tobacco, which will most likely result in reduced levels of foreign exchange inflows.

TEA

Tea production during the first two months to February 1998 totalled 13.4 million kilograms compared to 11.8 million kilograms for a similar period in 1997, representing a 13.6% increase. The increase results from favourable weather conditions in the tea growing areas, particularly high precipitation in Mulanje and Thyolo.

A gross total of 9.2 million kilograms of tea was sold during the first four months to 21st April 1998 compared to 7.4 million kilograms auctioned during a comparable period a year earlier. The average price was US Cents 149.90 compared to US Cents 103.36 for a similar period in 1997. The 45.0% price increase is on account of improved quality of leaf as well as firming up of demand for the beverage world-wide within a backdrop of supply shortages which are likely to persist.

INFLATION RATE

During the month of March 1998, inflationary pressures continued to escalate. The rate of inflation for the month as indicated by the annualised percentage change in the all items national composite consumer price index was 20.0% compared to 18.5% in February 1998 (CHART 1). The average rate of inflation for the first quarter of the 1998 calendar year was 18.9% compared to 7.1% for a similar period in 1997. The month on month percentage change in the all items national composite consumer price index between February and March 1998 was 2.2% compared to 2.6% for the preceding month.

The immediate outlook suggests a slowdown in the rate of increase in the general price level before picking up again later in the year. After the maize harvest starting April, there is likely to be plentiful supply of the staple food crop, maize. Since the commodity basket used for measuring changes in the consumer price index is weighted heavily in favour of maize, the chances are that average maize prices will ease a little, and inflation is bound to decline, albeit marginally due to the following among other factors:

- Depreciation of the Malawi Kwacha. With the opening of the tobacco auction floors and anticipated inflows of foreign exchange, the rate of depreciation for the domestic currency should slow down. At best, the exchange rate is expected to stabilise.

- Revenue enhancement measures as spelt out in the supplementary budget that was announced in Parliament on 20th March 1998 amount to taxing the final consumer, and it will not be long before price indices reflect this cost increase. The 10% output surtax on cement for example has resulted in higher prices for cement, which means higher construction costs and consequently an increase in the cost of housing.
- Effect of the recent upward adjustment in the price of petrol and diesel. When these increases feed through the price mechanism starting with higher transportation costs, the end result is bound to be increased prices all round.

All factors considered, the easing of inflationary pressures is likely to be short-lived for the rest of the year. As maize stocks run down towards the end of the year, it is normal for inflationary pressures to rekindle. The only moderating effect has to be significant reduction in central government expenditure. Current indications are that Government is serious about cutting down expenditure. This will definitely go some way towards dampening inflation.

DOMESTIC CREDIT AND MONEY SUPPLY

Total net domestic credit increased by 34.5% (year-on-year) as at February 1998 compared to a decline of 12.7% in February 1997, and a rise of 31.2% for January 1998. A more detailed breakdown shows that credit to central government accounted for the significant rise. Credit to statutory bodies rose by 19.6% in the month of February 1998 compared to 1.2% in the preceding month. Gross credit to the private sector on the other hand increased by 9.4% (CHART 2) in February 1998 compared to 20.3% in January 1998.

The significant rise in credit to central government contributed in part to the increase in broad money. The aggregate money supply (M2) increased by 12.8% (annualised) in February 1998 compared to 14.5% (CHART 3) in January 1998. A more detailed observation shows that the narrow money (M1) component, consisting money outside banks plus demand deposits dictated the trend in M2. This component increased by 23.4% in February 1998 compared to 24.3% in the preceding month. The quasi money component comprising time, savings as well as foreign currency deposits on the other hand increased by 1.8% in February 1998 compared to a rise of 4.2% in January 1998.

SELECTED DEVELOPMENTS ON THE MONEY AND STOCK MARKET

At the last treasury bill (TB) auction held on 17th April 1998, the weighted interest rate for TBs with 91 days maturity rose to 39.69% compared to 19.78% at the first auction of the 1998 calendar year held on 9th January. On the auction held on 17th April 1998 the amount of around K100 million was not allotted. This fact in itself is an indicator that government will not borrow at any price. In addition, it is possibly a sign of the beginning of an improvement in government revenues, resulting from the impact of stringent expenditure controls.

Only SUCOMA shares were traded during the week ended 17th April 1998. A total of 1,556,100 SUCOMA shares were traded for MK5,817,136 (US\$ 229,021) in 7 transactions. During the first four months of the 1998 calendar year to 17th April, a total of 54,641,945 shares have traded through the Malawi Stock Exchange (MSE) for a total value of MK190,101,197 (US\$7,582,899) in 88 transactions. From inception, a total of 58,080,819 shares have traded through the MSE at a value of MK200,205,890 (US\$8,156,791) in 251 transactions. The Malawi All Share index rose to 158.46 on account of the rise in the price of SUCOMA shares from K3.50 to K3.70, representing a 5.1% increase.

TO OUR READERS

There has been no feedback from you, our readers for sometime. Although there are many requests for copies of every issue in this series of our publications, we rely on you to help us improve the content. So write, phone, fax or better still come over to Unit House (6th Floor) and talk to us.

Remember the people to contact are:

Fred Kanjo	Head of Economic Services & Strategic Planning
William Mabulekesi	Economist

CHART 1

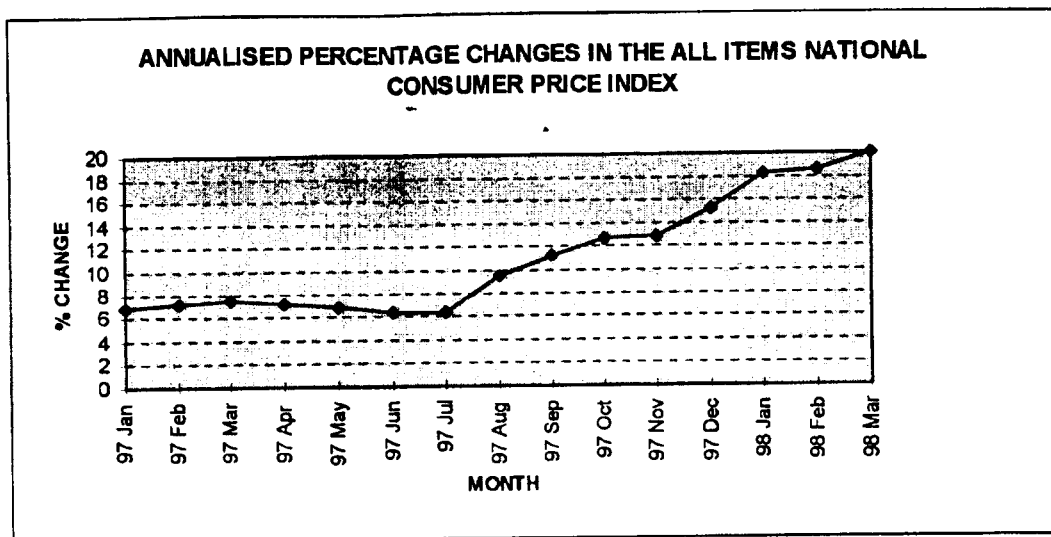


CHART 2

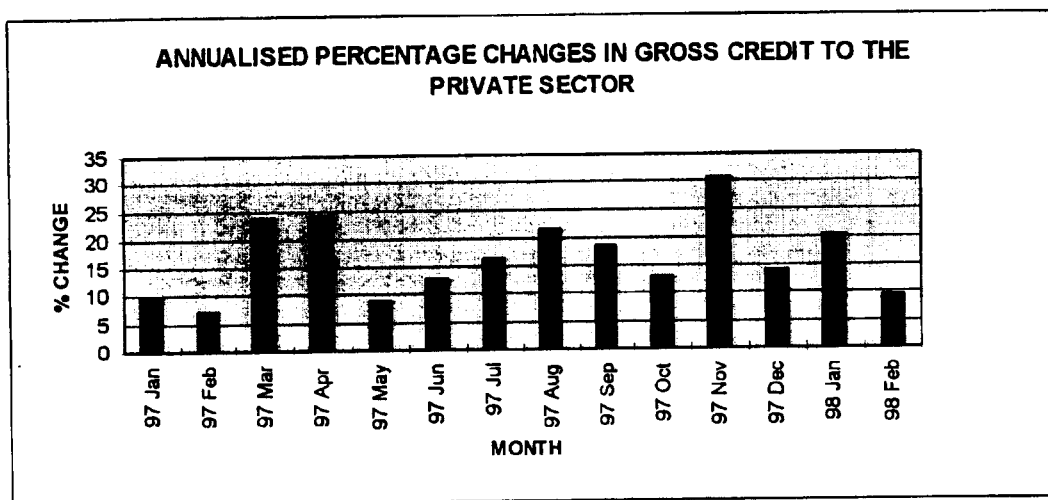


CHART 3

