

**ECONOMICS ASSOCIATION OF MALAWI**



***Monthly Statistical Bulletin***

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## 1.0 ECONOMIC HIGHLIGHTS

- Amid Coronavirus disease (COVID-19) pandemic concerns, global oil prices continued with a downward trajectory on the world's two benchmark; Brent crude oil and West Texas Intermediate (WTI) declining to US\$23.34 and US\$16.52 per barrel, respectively in April 2020.
- Gross official reserves stood at US\$579.40 (2.8 months of import cover) in April 2020 from US\$699.93 (3.3 months of import cover) in March 2020.
- The Malawi Kwacha remained relatively stable against the US dollar, trading at MK741. per US dollar at the end of April 2020 unchanged relative to the preceding month.
- Inflation continued on a downward trajectory and in single digit to settle at 9.4 percent in April 2020, from 9.8 percent in March 2020.
- Petrol and diesel ruling pump prices declined for a second consecutive month in April 2020 by 16.1 percent and 13.8 percent, respectively; following recent global trends in petroleum products and changes in other domestic macroeconomic fundamentals.
- Retail national average maize prices declined further to MK177.00 per kilogram during the month under review from K301.34 per kilogram in March 2020.
- The Policy rate remained unchanged at 13.5 percent since May 2019. The reference rate for commercial banks was recorded at 13.20 percent at the end April 2020 relative to 14.90 percent recorded in April 2019.
- Credit to the private sector increased marginally by MK5.4 billion to MK553.0 billion. Wholesale and retail trade, agriculture and manufacturing continued to

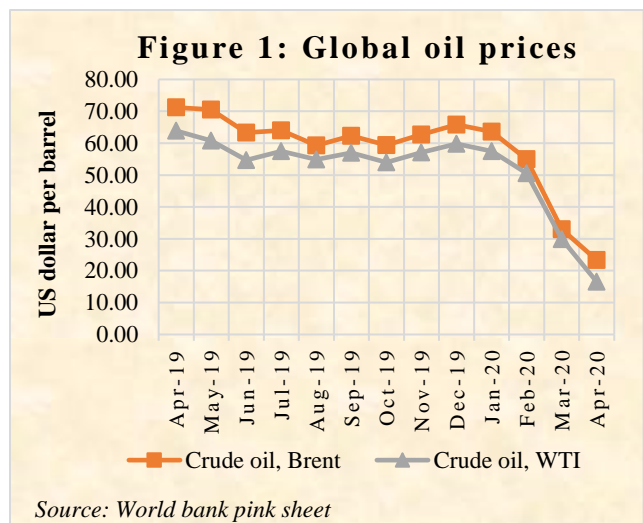
account for large proportions of the total private sector credit.

## 2.0 GLOBAL ECONOMY

### 2.1 Global Commodity Prices

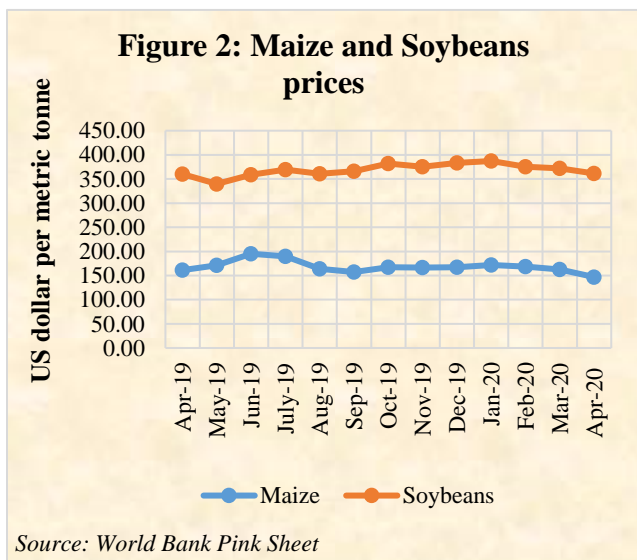
#### 2.1.1 Oil prices

International oil prices have been falling sharply since December 2019 on account of unprecedented reduction in demand as a result of the COVID-19 pandemic and in-fighting amongst oil producers. Both Brent crude and the US benchmark West Texas Intermediate (WTI) oil continued with a downward trajectory in April 2020 (**Figure 1**). Brent crude oil declined by 29.0 percent and traded at US\$23.34 per barrel in April 2020; whereas WTI crude oil plunged to US\$16.52 per barrel in April 2020. A modest pickup in oil prices has been observed since early May 2020 following production cuts agreements among Organization of Petroleum Exporting Countries (OPEC). It is, however argued that production cuts alone are not enough to support energy prices in the medium term. Thus, despite the recent pick-up in oil prices, downward risks still remain.



### 2.1.2 Maize prices

The International Grains Council (GOI) maize sub-index fell for a third successive month to 170.5 in April 2020 relative to 179.5 recorded during the preceding month on account of worries about coronavirus-related slump in consumption and seasonal increases in supplies in some parts of the world. According to **Figure 2**, the price for benchmark US maize (No. 2, Yellow, f.o.b.) fell to US\$146.91 per metric tonne in April 2020 from US\$162.42 per metric tonne recorded in March 2020.



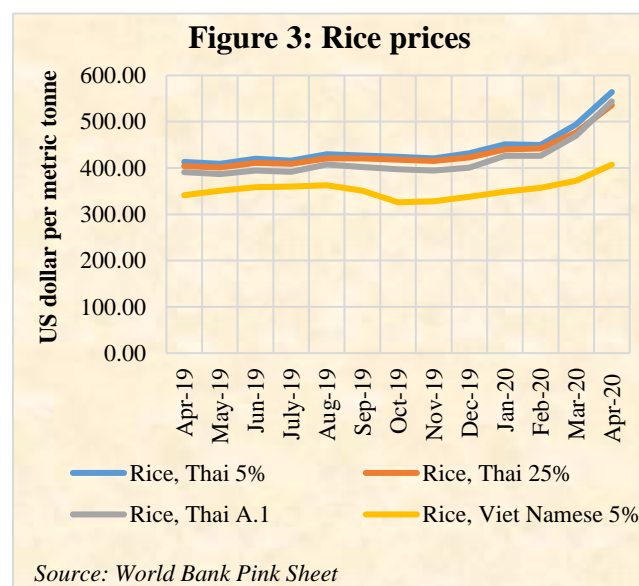
### 2.1.3 Soybeans Prices

Weaker soybean prices were recorded at major origins in April 2020. The market turned lower on heightened worries about the impact of COVID-19 on global economic activity. Despite recent purchases by China, pressure on US values was linked to generally thin international demand. Although shipments continued to progress at a record pace on bigger dispatches to China, quotations in Brazil were weighed by increasing new crop supplies and a softer domestic currency. US (No. 2, Yellow meal) soy

beans retreated by 3 percent to US\$361.26 per metric tonne in April 2020 (**Figure 2**).

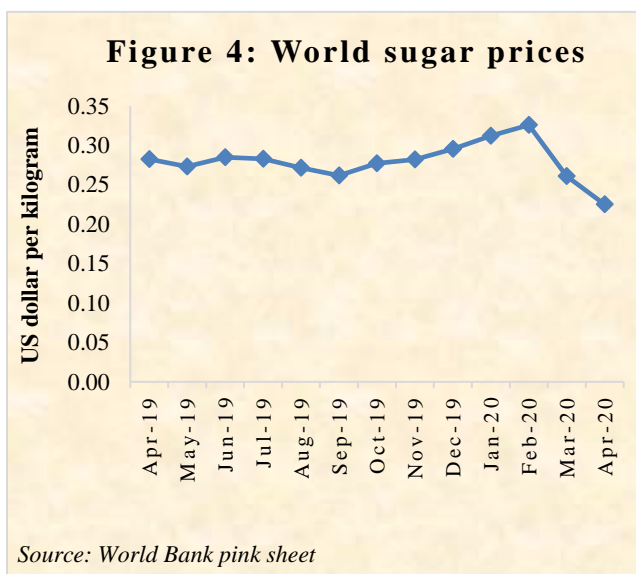
### 2.1.4 Rice prices

Rice prices posted heavy gains (**Figure 3**) in April 2020 against the backdrop of COVID-19, as some key exporters, imposed export restrictions in efforts to contain local price increases, including in Viet Nam where shipments in April were limited by a government quota. Logistical constraints amid broader quarantine measures also restricted dispatches from several key exporters, including India and Pakistan, with many turning to Thailand to cover requirements, where tight nearby paddy availabilities continued to underpin. However, values softened towards the end of the month on confirmation that Viet Nam's exports would resume in full by May, while logistical constraints also began to ease. Thai white rice 5 percent, 25 percent, A1 and Viet Nameese 5 percent prices increased by 14 percent, 12 percent, 16 percent, and 9 percent respectively to US\$654.00, US\$536.00, US\$543.70 and US\$407.14 per metric tonne in April 2020.



### 2.1.5 Sugar prices

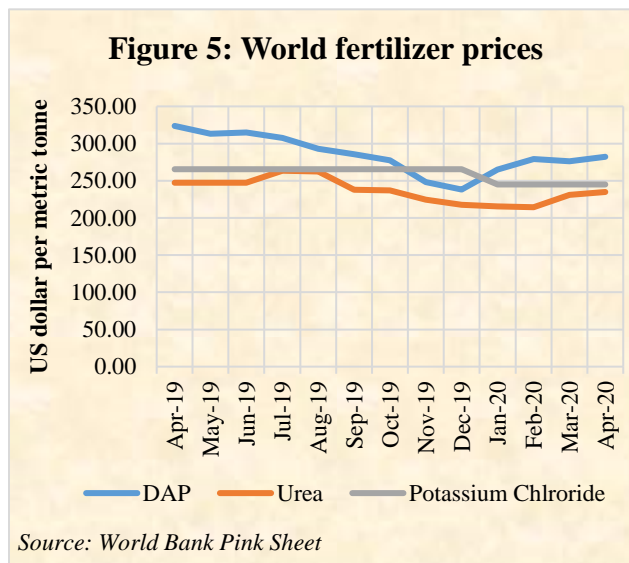
The world sugar prices declined by 14 percent to US\$0.23 per kilogram in April 2020, marking the second consecutive monthly decrease (Figure 4). This latest drop was mostly attributed to a collapse in international crude oil prices. Falling energy prices means that sugar mills divert more sugarcane for the production of sugar instead of ethanol, a substitute for gasoline, hence expanding sugar export availabilities. In addition, a contraction in sugar demand arising from the confinement measures imposed in a number of countries to contain the spread of COVID-19 spawned additional downward pressure on world sugar prices.



### 2.1.6 Fertilizer prices

The COVID-19 pandemic also limited international shipping and pushed countries to rely on existing fertilizer stocks and domestic supply, with varying effects on prices worldwide. The start of the planting season in the US pushed domestic prices of urea upwards to US\$235.00 per metric tonne in April 2020 from US\$231.13 recorded during the preceding month. DAP prices remain 12 percent below one year ago

levels. High inventories are keeping prices low worldwide. Potash prices remained unchanged from March at US\$245.00 per metric tonne (Figure 5) and near 12-month lows due to reduced planting and a wet spring in the US combined with a tighter supply.

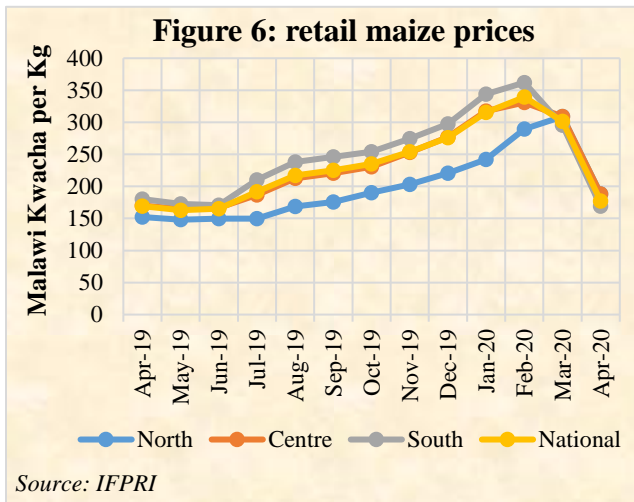


## 3.0 DOMESTIC ECONOMY

### 3.1 Administered Prices

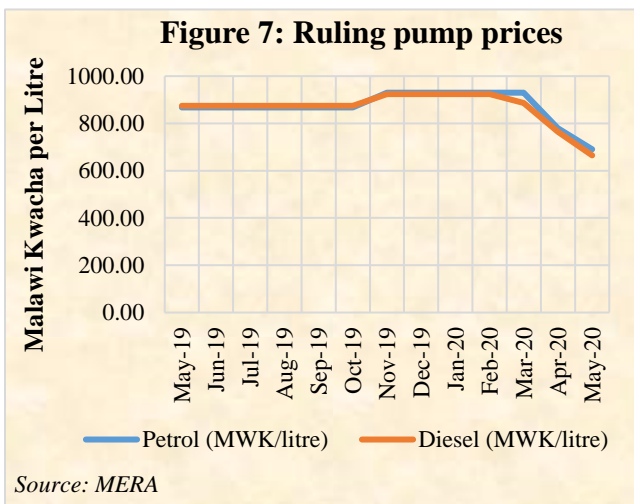
#### 3.1.1 Maize Prices

Retail maize prices declined to a national average of MK177.00 per kilogram during the month under review, 41 percent lower than the national average price recorded in March, 2020 and 5.0 percent higher than what was recorded during a similar period in 2019 (Figure 6). The price decrease mirrors harvest seasonal patterns. Thus, the decline was expected as the harvest season continues. Price differentials among the three regions in the country did not conform to the usual pattern; lower prices were recorded in the south a pattern that was last recorded three years ago.



### 3.1.2 Domestic Pump Prices

Petrol and diesel ruling pump prices declined for a second consecutive month by 16.10 percent and 13.80 percent to MK780.00 and MK765.00 per litre respectively in April 2020 (Figure 7). The reduction in domestic pump prices reflects global price trends in petroleum products and changes in other domestic macroeconomic fundamentals and their impact on energy prices.

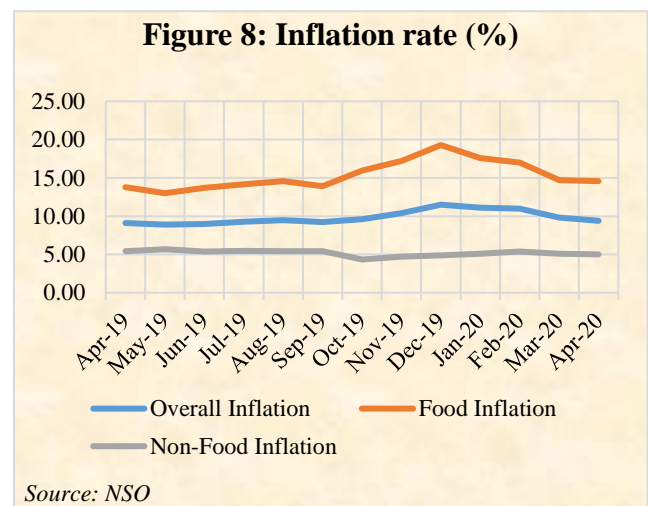


### 3.1.3 Electricity tariffs

Electricity tariffs remained at an average of MK88.02 per kilowatt-hour (KwH), unchanged since October 2018.

## 3.2 Inflation

Overall inflation continued on a downward trajectory and in single digit to settle at 9.4 percent in April 2020, from 9.8 percent in March 2020 on account of further reduction in food prices especially maize. The April 2020 overall inflation is 0.3 percentage higher compared to that of similar period in 2019. Both food and non-food inflation declined slightly by 0.1 percentage point each to 14.60 percent and 5.0 percent during the month under review (Figure 8). Going forward risks to inflation remain the impending fresh elections as well as disruptions in supply chains of goods caused by the COVID-19 pandemic.



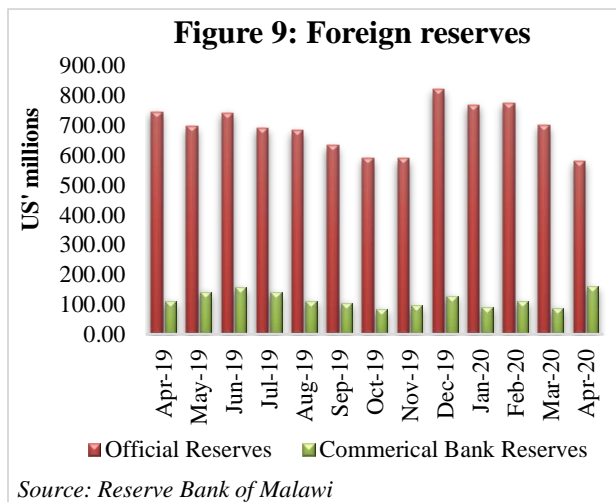
## 3.3 Interest rate structure

The policy rate stood at 13.5 percent during the month under review, unchanged since May 2019. As a result, interest rates have been relatively stable during the last quarter of 2019 through the first quarter of 2020. Banks charged a minimum of 13.20 percent on average and a maximum of 24.5 percent in April 2020 relatively unchanged since February 2020.



### 3.4 Foreign reserves

The country's foreign reserves dropped further in April 2020 relative to March 2020, mainly due to reduced foreign exchange flows in the market. This is despite the tobacco season being in progress. Gross official reserves stood at US\$579.40 (2.8 months of import cover) in April 2020 from US\$699.93 (3.3 months of import cover) in March 2020 (**Figure 9**). Commercial bank reserves increased to US\$160.14 (0.7 months of import cover) in April 2020 from US\$86.53 (0.5 of import cover) in March 2020. This outturn may likely be a result of inflows of donor-funded project funds.

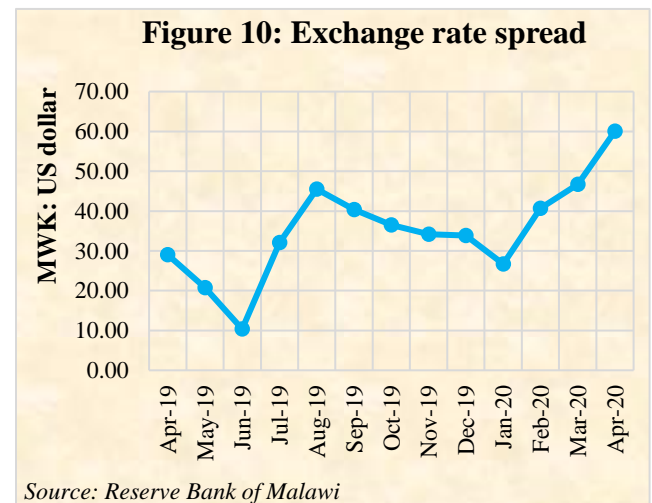


### 3.5 Exchange Rates

The Malawi Kwacha remained stable against the US dollar during the month under review. It traded at MK741.02 per US dollar at the end of April, virtually unchanged from March 2020. It also appreciated against the Euro and traded at MK809.87 per Euro at the end of April from MK819.92 per Euro at the end of the previous month. However, the kwacha weakened against the Pound sterling and the South African rand, trading at MK928.53 per pound and MK41.64 per rand at the end of April 2020 from MK916.16

per pound and MK41.62 recorded at the end of the previous month. These developments are attributed to the impacts of the COVID-19 pandemic which forced other currencies to weaken thereby enabling the Malawi Kwacha to maintain its ground.

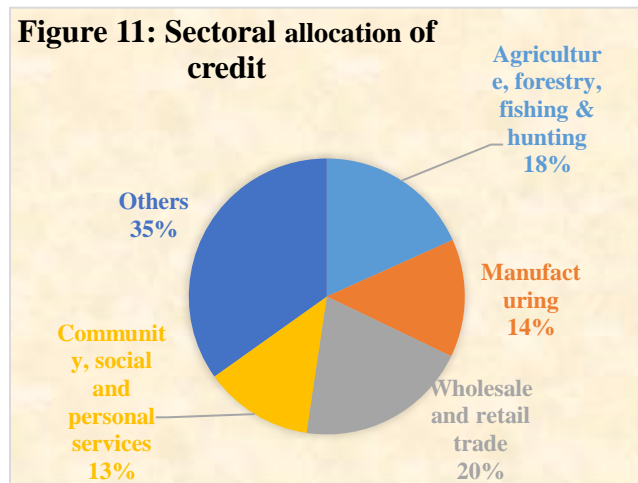
The exchange rate margins between the official exchange rate and the bureau exchange rate have been widening since January 2020 (**Figure 10**). This could imply that the Kwacha is not being correctly priced and is deviating from the market equilibrium.



### 3.6 Credit Developments

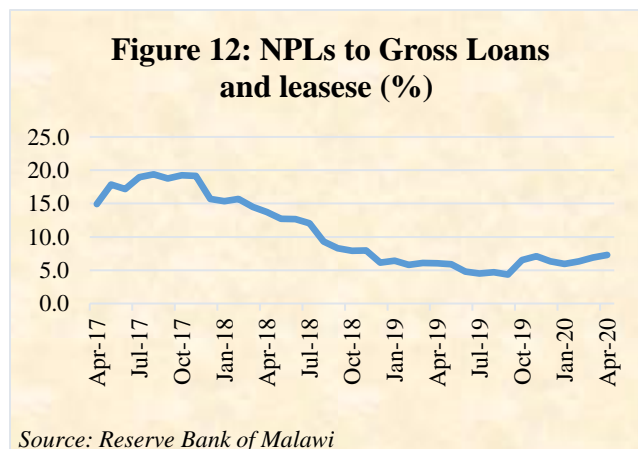
Domestic credit stood at MK1,411.5 billion during the month under review up from MK1,337.5 billion in March 2020. Out of which MK797.3 was net credit to government, MK61.2 billion to statutory bodies and MK553.0 billion was credit to the private sector. Net credit to the government has been spiking since December 2019. This outturn is worrisome as it has the potential to exert pressure on interest rates and increase government debt burden. The wholesale and retail; manufacturing; and agriculture sectors are projected to account for 20 percent (K129.81 billion), 14 percent (K88.84 billion) and 18 percent (K117.37) of the total private sector

credit, respectively in April 2020 (**Figure 11**). During the month under review, credit to the private sector expanded marginally by MK5.4 billion mirroring a modest pick of economic activity following seasonal slowdown in the country during the preceding months.



### 3.7 Financial Sector Risks

Credit risk as measured by level of non-performing loans (NPLs) marginally increased as NPLs to gross loans and leases rose to 7.3 percent in April 2020 from 6.9 percent in March 2020 and 6.3 percent recorded in February 2020 (**Figure 12**). NPLs have remained elevated, at more than 5.0 percent prudential benchmark. The 3 months' moratorium on interest rate and principal payments to Small and Medium Enterprises (SMEs), effected in April 2020 is likely to reduce pressure on NPLs.



## 4.0 ECONOMIC OUTLOOK

- ✓ Global oil prices are expected to pick up in the near future as countries have begun to ease corona-virus related lockdowns and restrictions.
- ✓ Maize prices are expected to continue declining in the short term as harvesting season continues.
- ✓ Inflation is expected to remain subdued in the near term on account of declining food prices.
- ✓ The Kwacha is expected to remain stable against its major trading currencies due to the opening of the tobacco season which will improve forex supply conditions.
- ✓ Domestic pump prices are expected to remain unchanged in the near future.
- ✓ The cost of borrowing is expected to be lower in the short term.
- ✓ Government borrowing is expected to increase on account of disruption of economic activity amid COVID-19 pandemic concerns.