



MALAWI GOVERNMENT

# MONTHLY ECONOMIC REPORT

## MAY & JUNE, 2002

National Economic Council

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### 1.0 Introduction

The economic outlook for the period from January to June, 2002 was unfavourable compared to the same period in 2001. Real sector performance was unsatisfactory with mixed outcomes in smallholder crop production. The contraction in the industrial sector continued in the first quarter of 2002. Performance in the external sector showed signs of deterioration. On a positive note, inflation slowed down and the exchange rate showed signs of stability. Similarly, the foreign reserves position improved between April and June due to tobacco sales. The situation would have been better had donors not held up their support. The food security situation improved somewhat. This report reviews performance of the economy over the period under review, in terms of fiscal and monetary performance, real sector developments, the external sector performance, inflation and the food security situation.

### 2.0 The Macroeconomic Situation

The months of May and June 2002 were characterised by aspects of macroeconomic stability. The net foreign assets of the monetary authorities increased during May and the import cover improved largely due to tobacco sales. The exchange rate stabilised at around K76 to the US Dollar.

In general, the performance of major monetary aggregates for May 2002 was not satisfactory as compared to the end-June targets. During the month of May 2002, reserve money amounted to K7,966.8 million compared to K8,081.5 million recorded in April 2002. This represents a decrease of 1.4 per

cent. Net foreign assets of the monetary authorities increased during the month of May 2002 to K7,486.2 million from the K5,854.6 million registered in April 2002, representing a 27.9 per cent increase. This increase was due to an improvement in the reserves position with the Fund from K218.4 million in April 2002 to K220.5 million in May 2002 and an increase in balances with banks abroad from K10,916.7 million in April, 2002, to K12,674.4 million in May, 2002.

Gross credit to Government, as at 24<sup>th</sup> May 2002, was K5,317.0 million from K8,662.7 million recorded in April 2002. The decrease in Government gross credit was mainly attributed to the reduction in the issuance of treasury bills and advances during the month while loans and local registered stocks remained constant during the month. As a result net credit to Government declined from K4,503.2 million recorded in April 2002 to K2,397.0 million by 24<sup>th</sup> May 2002. Net credit to Statutory Bodies was at K286.5 million from K196.1 million in April 2002. This increase was due to a substantial decrease in deposits from the sale of maize by the National Food Reserve Agency (NFRA).

### 3.0 Real Sector Developments

#### 3.1 Agricultural Production

The third round of crop estimates for 2002 indicates yet another depressed performance of the sector. The late onset of the rains in some parts of the country and dry spells as well as the early cessation of rainfall in most areas resulted in a reduction in production. The Crop production estimates for the year 2002 are presented in Table 3.1. Total maize production is estimated at 1.6 million tonnes in 2002 compared to 1.9 million tonnes estimated in 2001. Of the 1.6 million tonnes, 1.3 million tonnes is smallholder farmers' production. The production of pulses fell to 291,143 tonnes in 2002, from 303,800 tonnes produced in 2001, representing a 4.2 percent decrease. However, estimates of crops like rice, groundnuts, tobacco, sorghum and millet indicate marginal increases on the 2001 production level.

A quick survey was conducted by the Ministry of Agriculture and Irrigation on the production of tubers to answer some queries on the accuracy of the production figures. The findings of the survey indicate that the yields of cassava and sweet potatoes were over-estimated by more than 50.0 per cent. As a result of these findings, the estimated production figures of cassava and sweet potatoes for 2002 were revised downwards to 1.5 million tonnes and 1.1 million tonnes, respectively.

**Table 3.1: Final Smallholder Crop Production Estimates for Major Crops (metric tonnes)**

	<u>2001</u>	<u>2002</u>
Maize	1,899,185	1,603,271
Paddy Rice	93,200	94,215

Groundnuts	155,200	157,868
Tobacco	82,500	89,401
Cotton	37,600	39,992
Sorghum	36,900	39,155
Millet	20,400	20,900
Pulses	303,800	291,143
Cassava	3,362,400	1,540,307
Sweet Potatoes	2,586,900	1,082,308

*Note:* Cassava and Sweet Potatoes estimates for 2002 are based on the quick survey commissioned by

Ministry of Agriculture and Irrigation.

*Source:* Smallholder Crop Estimates Committee (SCEC).

Burley tobacco production for 2002 was revised to 126.5 million kilogrammes from an earlier estimate of 130.0 million kilogrammes. Flue-cured tobacco production was revised downwards by 6.2 per cent from 13.0 million kilogrammes in the earlier estimates to 12.2 million kilogrammes. Northern Division Dark Fired (NDDF) tobacco production was revised downwards by 51.6 per cent from 1.1 million kilogrammes in the earlier estimates to 0.5 million kilogrammes. However, Southern Division Dark Fired (SDDF) tobacco production has been revised upwards to 0.4 million kilogrammes from 0.1 million kilogrammes in the earlier estimates (see Table 3.2).

Nonetheless, these production levels represent an overall increase of 11.9 per cent over corresponding levels in 2001. The improvement made in extension services by the Agriculture Research and Extension Trust has contributed positively to the production of tobacco. However, increasing prices of farm inputs against declining sales prices in US dollar terms continue to reduce profitability in the tobacco production industry. The declining profitability is a source of decline in farmers' motivation to grow tobacco.

Sugar production for the month of May amounted to 29,841 tonnes, with Nchalo contributing 69 per cent of total production. Dwangwa production amounted to 9,234 tonnes in May 2002. Domestic sugar consumption amounted to 12,375 tonnes, that is 41.5 per cent of the month's production in May 2002.

**Table 3.2: Tobacco Production, 2001—2002 (Million Kilogrammes)**

	<b>Estimate 2001</b>	<b>Revised 2002</b>	<b>Estimate 2002</b>
Burley	115.3	130.0	126.5
Flue Cured	8.4	13.0	12.2
NDDF	0.9	1.1	0.5
SDDF	0.1	0.1	0.4

*Source:* The Tobacco Control Commission.

Tea production in May increased by 6.5 per cent from 3.1 million kilogrammes produced in May 2001 to 3.3 million kilogrammes. However, a cumulative total (July 2001 to May 2002) of 33.0 million kilogrammes represents a marked decline of 17.7 per cent over the same period in the 2000/2001 season. Cold nights, dry days and pruning have affected the growing cycle of tea.

### **3.2 Agricultural Marketing**

As at 27<sup>th</sup> June 2002, 72.2 million kilogrammes of tobacco was sold at the auction floors at an average price of US\$1.22 per kilogramme. This resulted in a total income of US\$87.9 million, which represented an increase of 3.6 per cent over US\$84.8 million obtained over the same period last year. The volume of tobacco sold, however, reflected a drop of 7.2 per cent from 77.8 million kilogrammes offered at the floors last year. However, this decrease in volume was offset by an 11.6 per cent rise in average tobacco auction prices from US\$1.09 per kilogramme by end-June, 2001 to US\$1.22 per kilogramme this year.

Income obtained from burley tobacco sales rose marginally by 2.4 per cent from US\$77.3 million by end-June last year to US\$79.1 million this year. The increase in income was contributed by an 11.6 per cent improvement in average prices from US\$1.05 per kilogramme last year to US\$1.17 per kilogramme this year. However, burley tobacco sales volumes decreased by 8.2 per cent from 73.4 million kilogrammes by end-June 2001 to 67.3 million kilogrammes by end-June this year, apparently reflecting increased illegal cross-border tobacco sales. The cross-border sales increased due to the general levies imposed on tobacco sales at the auction floors.

Income realized from flue-cured tobacco sales at the auction floors increased by 10.4 per cent from US\$6.9 million by end-June 2001 to US\$7.7 million by end-June this year. This rise in income reflects mainly the large increase in the sales volume. The Sales volume for flue-cured tobacco increased by 8.6 per cent from 4.0 million kilogrammes by end-June 2001 to 4.3 million kilogrammes by end-June 2002.

Income from fire-cured tobacco sales increased substantially from US\$640,000 by end -June last year to US\$1.0 million by end-June 2002. The improvement in income reflected the impressive rises in average prices of about 50 per cent and also a doubling of the volume sold of Southern Division Dark Fired (SDDF) tobacco from 53,529 kilogrammes by end-June last year to 110,327 kilogrammes by end-June 2002.

A cumulative total (January to June, 2002) of 10.8 million kilogrammes of tea at an average price of US86.26 cents was auctioned as of 13<sup>th</sup> June 2002 compared to 10.3 million kilogrammes at an average price of US85.92 cents per kilogramme during the same period in 2001. Despite the marginal improvement in average prices, the picture on the international market remains depressed in terms of prices.

### **3.3 Industrial Sector Performance**

General industrial production declined by 13.9 per cent in the first quarter of 2002 compared to the same period in 2001. The most affected sub-sectors in the industrial sector included clothing and footwear (58.5 per cent), manufactured items for export (20.8 per cent) and building and construction (12.7 per cent). The factors behind this development in the industrial sector continue to be low domestic demand, stiff competition from imported goods and macroeconomic instability.

**Table 3.3: Index of Industrial Production (January-April Average)**

	2001	2002	% Change
Food, Beverages & Tobacco	55.7	56.2	0.9
Clothing & Footwear	68.3	28.3	-58.5
Other	84.8	41.6	-50.9
Total Consumer Goods	73.1	43.2	-40.9
Building & Construction	53.9	47.1	-12.7
Total Domestic	67.6	44.3	-34.5
Export Goods	170.1	159.8	-6.1
Total Manufacturing	95.0	75.2	-20.8
Electricity & Water	208.0	219.9	5.7
Total General Industrial Production	110.9	95.4	-13.9

Source: National Statistical Office

However, the food, beverages and tobacco and the utilities sub-sectors recorded increases in the first quarter of 2002 compared to the same period in 2001. Production in the food, beverages and tobacco subsector increased by a margin of 0.9 per cent and the utilities subsector increased by 5.7 per cent.

Performance in the utilities subsector continued to be impressive largely due to new connections despite a decline in real incomes and business activity. By June 2002, Blantyre Water Board produced 2.3 million cubic metres of water compared to 2.1 million cubic metres produced during the same period in 2001, representing an increase of 7.2 per cent. Lilongwe Water Board water production increased by 3.1 per cent from 1.7 million cubic metres produced in June 2001 to 1.8 million cubic metres in 2002. As regards electricity, ESCOM produced 81.5 GWh of electricity in June 2002 compared to 80.5 GWh produced during the same period in 2001.

#### **4.0 The External Sector's Performance**

For the month of May 2002, tobacco exports (for all varieties) amounted to 1.6 million kilogrammes at a value of US\$2.4 million compared to 4.4 million kilogrammes valued at US\$8.2 million exported in May 2001. Total exports from January to May 2002 declined by 2.0 per cent to 18.9 million kilogrammes from 19.3 million kilogrammes during the same period in 2001. The main export destinations in May 2002 were Germany, Greece, Russia, the Czech Republic, Egypt and the United Kingdom. Exports of burley tobacco amounted to 1.0 million kilogrammes valued at US\$2.1 million. This accounted for 89 per cent of total tobacco exports for the month. Flue Cured

tobacco exports amounted to 510,000 kilogrammes (mostly scraps and stems) at a value of US\$163,044.

During the month of May 2002, sugar was exported to the European Union (EU) and countries in the SADC region. In the EU, sugar was exported to the United Kingdom, Spain and France. Total sugar exports to the EU amounted to 4,481.3 tonnes with France and the United Kingdom being the main export destinations.

Exports of sugar to the SADC region amounted to 510,000 tonnes and the main export destinations were South Africa (140 tonnes) and Zambia (210 tonnes). The export value for South Africa was ZAR377,300 while that for Zambia was US\$123,725.

The external balance deteriorated in the month of April 2002 with total exports amounting to K875.3 million against imports valued at K2,628.5 million during the same month. This compares unfavourably to the exports of K1,087.3 million recorded in April 2001 against imports of K1,486.2 million during the same month. (See Table 4.1).

**Table 4.1: Exports and Imports, 2001—2002 (Million Kwacha)**

<b>Year 2001</b>	<b>January</b>	<b>February</b>	<b>March</b>	<b>April</b>
<b>Exports</b>	<b>2,675.4</b>	<b>969.8</b>	<b>1,800.3</b>	<b>1,087.3</b>
<b>Imports :Total</b>	<b>3,552.5</b>	<b>2,230.9</b>	<b>3,018.7</b>	<b>1,486.2</b>
Fertilizer	47.4	2.9	24.0	14.7
Diesel & Other	347.0	100.3	185.0	134.8
Petrol	280.1	79.0	128.7	12.9
Paraffin	64.5	28.9	25.5	17.0
<b>Year 2001</b>	<b>January</b>	<b>February</b>	<b>March</b>	<b>April</b>
<b>Exports</b>	<b>1,800.4</b>	<b>1,334.9</b>	<b>2,051.6</b>	<b>875.3</b>
<b>Imports :Total</b>	<b>4,110.6</b>	<b>2,309.4</b>	<b>2,820.8</b>	<b>2,628.5</b>
Fertilizer	20.5	0	32.8	0.5
Diesel & Other	317.1	149.9	77.9	90.2
Petrol	194.4	109.1	42.5	72.4
Paraffin	33.7	21.6	9.5	19.6

Source: National Statistical Office.

## 5.0 The Exchange Rate

During this time of the year, the Kwacha is expected to appreciate, especially with the opening of the tobacco auction floors. The Kwacha was fairly stable against the hard currencies during the month of May and June 2002 and the import cover slightly improved by 0.1 months from 2.9 months of imports in April 2002 to 3.0 months of imports in May 2002. This is a result of tobacco

proceeds, although the proceeds were lower than that realized last year in the same month. The Kwacha depreciated slightly between end-April 2002 and June 2002 from K75.85 to US\$1 in April 2002 to K76.00 to US\$1 in June 2002, representing a depreciation of 0.2 per cent, which is above the IMF Programme June 2002 target of K75.1014 to US\$1.

## 6.0 Inflation

Inflation slowed down in May 2002. Annual national inflation rate for May 2002 was 17.1 per cent from 17.5 per cent in April 2002. Urban and rural inflation rates also slowed down to 18.8 per cent and 16.3 per cent from 19.3 per cent and 16.6 per cent in April 2002, respectively. Inflation slowed down further from 17.1 per cent in May to 16.7 per cent in June. Urban and rural inflation rates also slowed down further to 18.3 per cent and 15.9 per cent, respectively. This slow down in inflation is largely explained by seasonal patterns as a result of the slowdown in food prices in most parts of the country (See Table 6.1).

**Table 6.1: Inflation Rates (January—June 2002)**

	January	February	March	April	May	June
National	20.2	18.9	18.0	17.5	17.1	16.7
Urban	24.8	21.7	19.8	19.3	18.8	18.3
Rural	17.7	17.5	17.2	16.6	16.3	15.9

Source: National Statistical Office.

## 7.0 The Food Security Situation

Households started consuming their harvested crops during the 2001/2002 cropping season. As a result, local market maize prices and those of other crops have slowed down with a number of markets reporting maize prices below ADMARC price levels. Cumulatively, maize imports by the National Food Reserve Agency (NFRA) amounted to 139,169 tonnes by end-June 2002. Of this amount, 66.7 per cent was sold in the Southern Region, while 28.8 per cent and 4.5 per cent was sold in the Central and Northern Regions, respectively.

Most suppliers have finished delivering their contracted amounts of maize with an option, on average, of 10 per cent less than the contractual obligation. This could be a result of an upward revision of maize prices. Therefore, by the end of the programme, NFRA expects to receive about 10 per cent less the total contracted quantity of 154,000 tonnes. The programme is expected to close by mid-July 2002. However, there is need to continue with the delivery of maize into the country to avoid starvation.

Government has embarked on the Cash for Work Programme, with a total cost of K113.7 million. Communities work on development projects in return for cash weekly or fortnightly, which they use to buy food. During the month of May alone, expenditure on projects was K13.9 million while K0.2 million was

spent on supervision. However, there is need to continue with this programme beyond the original closure date of 30 June 2002.

Government intends to import about 250,000 tonnes of maize to alleviate the expected food shortage in the country. Tanzania, Kenya, South Africa and the United States of America are the likely sources of this maize. Currently, Government is in the process of identifying US\$70 million to finance the maize imports.

## **8.0 Conclusion**

There were signs of stability in the economy as prices slowed down in May and June 2002. Proceeds from tobacco sales helped to support the exchange rate from further depreciation. However, the economy is still weak and the current picture may not last long. As households deplete their food stocks, prices are expected to increase. Government should speed up efforts to import maize to avoid massive starvation of people. **Unless macroeconomic stability is restored and domestic demand improved the contraction in the industrial sector will continue. The external sector showed a marked deterioration during the period under review. Should this situation persist, there is likely to be pressure on the Kwacha.**