

# **MALAWI STOCK EXCHANGE**

## **HOW HAS THE ECONOMY PERFORMED**

### **INTRODUCTION**

This is the question we have been asked from the majority of economic players in Malawi on the performance of the economy, as the effects to the economy whether positive or negative do not spare anyone. A lot of things have happened during the year 2000 hence instead of giving a detailed analysis of the performance of the economy we focus our attention on the major economic events and how they have affected the stock market and the economy in general.

### **EXCHANGE RATE**

During the year under review, the Malawi Kwacha dropped in its value against the US Dollar and other major trading currencies. At the beginning of the year, the Kwacha was trading at K46.425 per US Dollar and currently it is trading at K80.008 to the Dollar representing a 41.97 percent depreciation. The loss of value of the Kwacha is as a result of the market fundamentals which among others is the slump in tobacco revenue resulting from low prices in the current tobacco selling season. The decrease in the price led to a decrease in foreign exchange earnings originating from tobacco. Although other commercial products such as tea and sugar contribute to foreign exchange income, the aggregate proceeds from exports, however, fell far short of what was expected. This has, therefore, created a shortfall in the availability of foreign currency hence putting pressure on the Malawi Kwacha.

The strengthening of the American and British economies which are reflected in the appreciation of their currencies have also contributed to the depreciation of the Malawi Kwacha.

The effect of depreciation of the Kwacha on the stock market is neither instantaneous nor direct since its effects are through foreign investment portfolio. The continuous instability of the Kwacha deters foreign investors since it erodes the initial investment at the time when an investor wants to sell off his or her portfolio. Sadly in year 2000, we have not seen a single US\$ foreign investment on the stock market but instead we have seen massive sell offs by foreign investors due to the deteriorating exchange situation.

### **INFLATION**

The rate of inflation as measured by the year-on-year percentage changes in the consumer price index is projected to close at 39.8 percent for the month of December, but currently stands at 35 percent for the month of November. The December end inflation rate is 11.50 points higher than the previous year's close at 28.30 percent. The increase could be attributable to frequent upward revision of the price of

petroleum products as well as depreciation of the Kwacha. The exhibited trend of inflation rate towards the end of the year predicts an increase in the annualised national inflation rate although it will be less than the 44.7 percent registered in 1999. The increase in the inflation rate has in some way negatively affected the performance of the stock market since high rates of inflation reduce real income hence reducing the marginal propensity to save. Investing on the stock market is about savings and it is investment, which suffers in a high inflationary environment as income is mostly spent on consumption.

## **INTEREST RATES**

Base lending rates at the major commercial banks were registered at 47.50 percent at the beginning of the year and increased to 48.0 percent in June 2000. In August 2000 the rate was adjusted downwards to 45 percent from 48 percent in response to a decline in the Reserve Bank Rate from 47 percent to 44.5 percent per annum. The rate however, went up once again towards the end of year in December ranging from 51 to 53 percent also in response to an increase in the Reserve Bank Rate which has been increased to 50.23 percent per annum. The increase in Bank rate has also led to an increase in the time and savings deposits rates thereby increasing the returns on these products. The increase in returns resulted in the reallocation of investment portfolio from other investment ventures to the said products. This simply means that the stock market has in some way been affected especially in those stocks where price movement has either been dormant or declined, as better returns can be earned by both institutional and individual investors in treasury bills and term deposits.

## **STOCK MARKET**

Despite the unfavourable macroeconomic conditions prevailing during the year under review, the market has shown some remarkable growth as evidenced by an upward trend in the volume of shares traded in the secondary market. A total volume of 115,749,308 shares were traded during this year at a total turnover of K552,103,390 (US\$ 10,593,170 ) against the last year's level of 50,577,679 shares at a total value of K290,731,000 ( US\$6,602,000 ). In terms of share trading, this represents a 128.85 percentage increase from the previous year's level. Out of the total transacted shares, 53.82 percent were for NICO which saw the controlling interest change from Press Corporation Limited, and the least traded stock was BHL with 0.12 percent of the traded stocks. There were three stocks, which experienced a downward price movement and these were; NICO by 20 tambala, PCL by 75 tambala and SUCOMA by 70 tambala. NBM registered the highest upward price adjustment of 53.75 percent seconded by OML with 51.79 percent from K112.00 to K170.00 per share, after a high of K180.00 per share. The Table below attempts to show some of the statistics which could be used in making an analysis on the performance of the market by focusing on each listed stock on the market.

COMP.	SHARES TRADED	% OF SHARES TRADED	MKT. CAP MKmn.	PRICE MOVT.	PRICE CHANGE	% CHANGE
BHL	140,217	0.12	143.91	4.37 - 4.37	0.0	0.00
CBM	682,762	0.59	1420	5.65 - 7.10	1.45	25.66
NBM	5,259,900	4.54	2767.5	4.00 - 6.15	2.15	53.75
NICO	62,300,550	53.82	150	1.70 - 1.50	-0.2	-11.76
PCL	5,123,979	4.43	1816.75	17.25 - 16.50	-0.75	-4.35
PIM	7,811,655	6.75	181.58	2.60 - 2.70	0.10	3.85
SUCOMA	33,764,650	29.17	3567.97	6.20 - 5.50	-0.7	-11.29
OML	665,595	0.58	603703.58	112.00 - 170.00	58	51.79
<b>2000</b>	<b>115,749,308</b>	<b>100.00</b>	<b>613,751.29</b>			
<b>1999</b>	<b>50,577,679</b>		<b>367,037.45</b>			

### SHARE INDEX MOVEMENT

YEAR	MSE	DOMESTIC	FOREIGN
<b>2000 - January</b>	343.70	254.57	140.77
<b>December</b>	518.40	270.12	213.68
<b>1999 - January</b>	220.68	220.68	-
<b>December</b>	337.58	250.89	138.26

### YEAR 2001 OUTLOOK

The year 2001 starts on a bad note for the stock market with existing high interest rates and inflation expected to rise further. Prospects for new listings appear dim at the present.