



Fuel crisis in Malawi

Transport is the axis in every economy as it acts as the main connectivity interface to different areas of commerce and industry. The current fuel shortage that has augmented the logistics and transport costs is bound to have a profound effect on the overall performance of the Malawian economy as highlighted in this newsletter.

Cause of the crisis

According to Petroleum Importers Limited (PIL), a consortium of five private companies that import fuel, the crisis has been attributed to logistical problems emanating from congestion at Beira and Dar es Salaam ports; hence failure by the suppliers to meet the country's daily loading requirements during the period of September to October. PIL has also attributed the crisis to insufficient forex reserves and limited storage facilities. While authorities at the ports in Mozambique have indicated that the ports' chronic problem is under usage rather than congestion, it is believed that the crisis emanated from the forex crisis such that PIL has sought credit facilities to cushion this constraint.

The impact and estimated cost of the fuel crisis

The impact of the fuel crisis is already evidenced by low productivity across sectors; escalated cost of doing businesses; inconveniences in both social and business arenas; and, a black market of fuel, where the commodity is being sold at very exorbitant prices. The crisis is also likely to cause inflationary pressures and distortions on the Gross Domestic Product (GDP). Furthermore it might affect potential investments and the tourism sector. In a recent report, the Economics Association of Malawi (ECAMA) confirmed that the cost of the crisis was pegged at K111 billion in November, 2009, without accounting for potential investments that might have been withheld because of the crisis.

Long term solution

With fuel reserves that can only last a minimum of 10 days, it has been proposed that storage capacity for the commodity should be increased to at least three months in order to hedge against shocks in the supply chain. It's also been proposed that the government should set aside foreign currency for strategic timely commodity imports to avoid such shortages. Nevertheless, the situation seems to gradually improve despite PIL's declining forex allocation.

MERA, PIL, and government etc need to involve the capital market to raise money through, say a ten year corporate bond secured and repaid by, inter alia, future fuel levies, to construct strategic fuel reserves. This will be a way to tackle this problem. A K10 billion Kwacha bond issue would be a good starting point. It is time Malawians stopped thinking small and moved to resolve the problems that affect the nation.

Market statistics

Treasury Bill Yields

Table with 3 columns: Tenor Days, Current %, Previous %

CDH Investment Rates

Table with 2 columns: Tenor/Period, Rate %

Inflation Rates

Table with 3 columns: Category, Sept.09, Oct.09

Middle Exchange Rates

Table with 2 columns: Date, Rate

Stock Exchange

Table with 3 columns: Index, Current points, Previous points

Nominal Treasury bill stock

Table with 3 columns: Month, June.09, July.09, Aug.09

African proverb: "If you are not part of the solution, you are part of the problem."

Consult CDH: diversity in financial solutions