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Socio-Economic Determinants of the Availability of Foreign Exchange: The Case Study of Blantyre and Lilongwe, Malawi

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ABSTRACT

The study examines the challenges that Malawians face in terms of foreign exchange availability. The continuous scarcity of forex currency in Malawi has led to several challenges against all local business actors. Importation of raw materials is, thus, difficult, stifling industrial productivity.

This research investigates the socio-economic determinants influencing the availability of foreign exchange in Blantyre and Lilongwe urban centers. It aims to identify socio-economic determinants which include political stability, institutional strength, fiscal and monetary policies, level of industrialization, and significance of foreign aid and donor support.

The study examines how socio-economic factors impact export diversification, trade imbalances, remittance inflows, fiscal policy, private sector confidence and the parallel forex market and how they shape the forex availability landscape in Blantyre and Lilongwe.

This research employs a mixed-methods approach, integrating quantitative data sourced from financial institutions and government reports with qualitative insights obtained through interviews with relevant stakeholders.

Preliminary findings indicate that economic activity, population density, and business dynamics exhibit notable disparities between Blantyre and Lilongwe, which significantly impact the availability of foreign exchange.

Lilongwe has a population density of 1,482 people per square kilometer and has experienced major infrastructure developments due to greater land availability, unlike Blantyre, which is smaller and more densely populated because of limited land.

Geographical location also determines level of economic activity done the respective cities of Malawi. As such, Lilongwe being at the center experiences more production and trade than Blantyre. Furthermore, the city is in the most fertile region of the country making it the hub of agriculture business, notably tobacco farming and trade.

The city of Blantyre, on the other hand, is mainly associated with service industry. It has wealthy and accomplished business owners driving finance, banking, and communication and transport industries. It is often referred to as the "Millionaires Town" among the locals.

Malawi's main dependency is on the agricultural sector. The major export crops of tea, tobacco and cotton, over the years, have not been scaled up to meet the current needs of foreign exchange income leading to a prolonged state of balance of payments deficit the country finds itself into.

Monetary policy effectiveness is also weakened. The scarcity of forex remains a huge constraint on economic development, particularly in urban economies heavily dependent on imports and global financial linkages.

INTRODUCTION

The availability of foreign exchange in Blantyre and Lilongwe is shaped by a collection of socio-economic forces that influence both the supply and demand in the local markets. This is a crucial factor in the development of Malawi which is a developing country as well as any other country.

One of the key determinants is the Reserve Bank of Malawi's intervention in the foreign exchange market of which studies show both the exchange rate level and its volatility (Simwaka and Mkandawire, 2012).

Furthermore, limited financial inclusion reduces the effectiveness of monetary-policy transmission that is restricting the availability of foreign exchange for business owners and firms in both cities. Hence the past periods of devaluation have improved parallel-market percentages and further shortages of the availability of forex. (Pauw, Dorosh and Mazunda, 2013).

The fluctuations in the official exchange rate with the currency depreciation tend to expand the banking and hence improve foreign exchange availability in Blantyre and Lilongwe. A further structural factor is the high degree of dollar currency in Malawi's financial system with over 30% of the bank loans and deposits denominated in the foreign currencies. This intensifies reliance on external funds and limits the domestic supply of foreign exchange (Mecagni et al. 2015).

Concurrently, the concentration of the peri-urban youth engaged in agri-business in Lilongwe and Blantyre generates additional demand for imported inputs and thereby causing upward pressure on foreign exchange requirements (Mkandawire et al.2023).

A constrained access to formal credit hampers agricultural capacity to finance the imported inputs which increases the dependency on foreign exchange resources. Some policies promoting a broader financial presence could also improve this pressure by providing alternative financing mechanisms for business operators in Malawi.

Malawi is a low-income country; Malawi is heavily dependent on imports with only limited export diversification. Foreign exchange enables countries to engage in international trade, finance imports of essential goods and services and support private sector investments as well as maintain macro-economic stability.

For the past few years, Malawi has faced determined challenges in maintaining adequate supply of foreign exchange which leads to inflation, shortages of essentials like fuel, medicine, fertilizers, and industrial inputs as well as the overall economic tension.

LITERATURE REVEIW

Malawi is a small landlocked import dependent country which has a long history of forex shortages. This scarcity of forex has crippled most of the businesses, and has caused economic growth, which has led to an increase in balance of payment crises.

Even though the issue is national its manifestations are most pronounced in major urban areas like Lilongwe and Blantyre where most of its economic activities take place

Most of the existing studies in Malawi examine forex availability at the national macroeconomic level mainly focusing on variables such as trade balances, monetary policy, inflation, and foreign reserves but does not address how these manifest at the city or sub-national scale.

For example, Malawi's foreign exchange reserves have recently improved following a 30% currency devaluation in late 2023, whereby economic growth projections for 2024 and 2025 and this analysis remains nationally aggregated (Economic Analysis and Policy, December 2021).

2.1 Theoretical Framework

The following theoretical surveys explain how macroeconomic policies, institutional quality and trade structure contribute to the influence of the availability of foreign exchange determination which includes:

2.1.1 Balance of payment theory

This study draws from the balance of payment where it posits that foreign exchange availability results from the net effect of a country's international transactions. Forex shortages are commonly attributed to insistent trade deficits where imports are consistently outstripping exports.

Malawi's balance of payment is by the extension of its forex availability which is primarily driven by its export performance relative to its import demand. Trade deficit arises when import expenditure exceeds export earnings whereby putting pressure on the forex reserves.

In a country like Malawi, this theory is directly relevant given by its thin export base which is dominated by a few agricultural commodities like tobacco and its high dependence on imports for essential goods as well as industrial materials.

Malawi mainly depends on imports more that exports which leads to imbalance, research confirms that a country's export performance and terms of trade significantly influence the availability of foreign exchange.

Exchange rate and forex availability are driven by the equilibrium between demand and supply in the foreign exchange market, determined by the country's balance of payment status.

The choice and management of exchange rate regimes are critical; studies indicate that overvalued exchange rates in developing countries like Malawi can discourage exports and lead to a buildup distortion that complicates the balance of payments adjustments. The shortages can lead to currency depreciation which in import- dependent economies this can drive cost push inflation.

The financial variables include inflation, interest rates and monetary supply. High inflation rates tend to wear away currency value and negatively impact the reserves. Research on developing economies, which include some in Africa, indicated that an increase in money supply can influence the exchange rate changes.

Persistent current account deficits, caused by low export earnings and high import dependence, leading to forex shortages and currency depreciation. Malawi faces consistent BOP challenges due to heavy reliance on agricultural exports and high import costs, contributing to forex pressures

The classical, elastic, Keynesian and monetarist approaches describe how countries adjust BOP imbalances via exchange rate, fiscal policy, and price flexibility as well as monetary interventions (Economic Letters, August 2025)

DISCUSSION

The study holds significant importance for several stakeholders. The most important are policymakers, for whom the study provides crucial insights for formulating targeted and effective policies to address the scarcity of foreign exchange in Malawi.

Businesses in Blantyre and Lilongwe gain a better understanding of how forex scarcity affects their financial performance and operations, including disruptions to the supply chain and price hikes. Small and medium enterprises are facing numerous challenges such as difficulties in accessing foreign exchange and higher costs associated with international trade.

The analysis of structural weaknesses and policy environments offers valuable information for potential investors, influencing their perception of risk and stability in Blantyre and Lilongwe. A stable forex environment attracts foreign direct investment.

By studying the variables of socio-economic factors with foreign exchange availability, the study would develop the understanding of how local dynamics, such as trade patterns or resource allocation, impact currency stability. This raises a more comprehensive understanding of the instruments driving exchange rate instability and its effects on the economy.

The research focuses on identifying the determinants of the availability of foreign exchange rather than the broader forex market or exchange rate volatility whereby the dependent variable in foreign exchange availability and the independent variable is the mixture of socio-economic indicators.

The research dwells much on data from January 2021 to August 2025, the five years are selected to capture recent trends and potential impacts of various economic activities on foreign exchange availability and provide a relevant and current situation that is on the ground.

The study draws upon various economic theories including the balance of payments models and currency crisis and it will also go beyond macro - economic framework to incorporate socio-economic dimensions which include social inequality, institutional quality and political stability of Malawi.

The study adopts a mixed-methods approach, which includes both qualitative data which includes macro-economic data, trade statistics, foreign exchange reserves and quantitative data which consists of the financial analysts, business leaders and officials.

This research will adopt a mixed-methodology approach, integrating household surveys and bank transaction records to assess the socio-economic determinants of the availability of foreign exchange in Lilongwe and Blantyre.

Survey instruments were administered to a stratified random sample of 2000 business owners, 1000 households across urban and peri-urban centers. Transaction data were obtained from the three major commercial banks and foreign exchange agents in the two cities.

Subsequent econometric modelling employs panel regressions to quantify the influence of identified socio-economic variables on foreign-exchange access at the household level. The regression framework incorporates variables such as household income, education, asset ownership, and access to mobile-money services to isolate their respective contributions to foreign exchange procurement.

This strategy combines quantitative and qualitative research to gain a comprehensive understanding of both the broad economic trends and the specific local experiences.

The research employs a mixed-method research design. This approach is suitable because it enables the researcher to systematically describe the socio-economic factors affecting the availability of foreign exchange at a specific moment. It also offers insights for a comprehensive and detailed analysis that leverages the strengths of both qualitative and quantitative methods.

The first phase will be a quantitative study to identify major socio-economic determinants of the availability of forex; a second, qualitative phase will follow to explain the findings from the quantitative phase by exploring the experiences of businesses and individuals.

The data for this study will be collected from primary data, where collectively from individuals, business owners, banks and government agencies in Blantyre and Lilongwe and secondary data from the Reserve Bank of Malawi, Malawi policy reports. This is a mixed case study.

Quantitative data from the IMF, Reserve Bank national statistics office, International Monetary Fund, World Bank, and academic journal.

Data from NSO is analyzed alongside qualitative interviews with economists, policy makers, exporters and business operators in Malawi. Quantitative methods help in analyzing statistically the macroeconomic data to identify the similarities between specific socioeconomic indicators and the foreign exchange trends, which helps to give an objective generalization insight. This phase aims to identify and measure the key macro- economic and socio-economic factors influencing forex availability. Data collected includes the inflation rates, interest rates, ratio of export prices to import prices, balance of trade, and official exchange rate movements.

Qualitative data explores the underlying mechanisms and contextual factors, includes implementation, governance issues and some business realities that shape the statistical relationships this helps to know the “why” behind the quantitative findings.

The triangulation of data from both qualitative and quantitative sources can validate the findings and increase the study's reliability and credibility. An econometric time-series analysis be employed to examine the long-term relationships and short-run dynamics between socioeconomic determinants and foreign exchange availability.

The main aim of this study is to identify the key socio-economic determinants influencing the availability of foreign exchange in Lilongwe and Blantyre. The research also investigates the impact of foreign exchange shortages on businesses and the general population in these cities.

The study also explores the effectiveness of current government policies and interferences in addressing foreign exchange availability. The study also proposes policy recommendations for improving foreign exchange availability and mitigating the adverse effects of shortages in Lilongwe and Blantyre, Malawi.

The researcher utilizes the deductive research approach, which involves formulating a hypothesis based on the existing economic theories and testing it with quantitative data, this helps to build new theories.

The study also includes a quantitative research approach and is supplemented by several qualitative insights. The quantitative aspect involves the collection and statistical analysis of structured data on the key socio-economic indicators affecting the availability of forex hence, the qualitative component, which be through interviews, assist in explaining the patterns observed and to provide a related interpretation.

This mixed-method approach ensures an in-depth understanding of the determinants of forex availability. A mixed-methods approach, (Mwita, 2022) reports that combining both qualitative and quantitative approaches allows researchers to collect comprehensive data that addresses both the numerical and descriptive aspects of the phenomenon under study.

The study uses an econometric analysis strategy, where statistical methods are employed analyze economic data. This transforms the data into an ideal tool for testing relationships between the availability of foreign exchange and its socio-economic determinants. This phase allows for the measurement of causal relationships and the development of forecasting models.

The target population of this research includes individuals, business owners, and institutions that are directly or indirectly involved in the foreign exchange ecosystem in Lilongwe and Blantyre, Malawi. This includes bureau de change operators, relevant government departments, commercial banks, selected households receiving remittances, small and medium enterprises involved in international trade, and import and export businesses.

The total population is estimated to be 5,000 individuals or institutions; this depends on the preliminary assessment and registries from financial regulatory bodies and trade associations.

The sampling frame is developed from official records and directories such as list of registered forex bureaus and commercial banks, NGO and community organization lists for households receiving remittances, business registries for SME's who are involved in international trade and government employees in related departments.

The study collects both qualitative and quantitative data using non-probability sampling technique for practical feasibility. Convenience sampling is used based on respondents' accessibility and willingness to participate in the study. This allows for quick and cheap data collection.

The scarcity of foreign exchange is impacting negatively on the economy of Malawi; this has contributed to the deterring growth of the private sector investments. Competition reduced due to the un- unattractiveness of the economy.

The Malawian kwacha demotivates the formal exports, driving traders to informal markets. Devaluation of the currency lead to higher inflation rates. Businesses in the urban cities are facing significant difficulties in accessing financing due to the high currency, businesses in both cities are experiencing a decrease in profits that the business produces.

While the government is implementing measure, there is a need to introduce a mandatory export revenue rates and stricter verification requirements on imports.

The combination of reforms is needed as a solution which includes fiscal discipline, structural reforms in-order to diversify exports to mining boosting the forex reserves.

The imbalance between imports and exports is structural difficult issue to solve within a short period of time, even though new measures are implemented, reducing mandatory forex conversion ratios. The study indicates that many businesses, small and medium enterprises adopt a reactive strategy which includes the local sourcing.

The struggles of urban businesses in Blantyre and Lilongwe have effects on rural economies including the supply chain.

FINDINGS AND OBSERVATIONS

Connecting the quantitative and the qualitative findings the results from the findings which are the high sensitivity of foreign reserves to donor aid are contextualized and explained by the qualitative data which included insights from interviews with officials regarding policy shifts and governance issues.

The study provides a clear identification of the key socio-economic factors influencing foreign exchange availability in Malawi, the study also help to understand the context of foreign exchange shortages and their impacts on businesses and individuals in the targeted centers.

The research provides an insight into the socio-economic drivers affecting foreign exchange and enabling policymakers to design targeted interventions and policies to stabilize the economy as well as improving the overall business environment.

The study also assesses the effectiveness of the existing government policies and Interventions aimed at managing foreign exchange availability, formulation of evidence based policy recommendations to address foreign exchange in Blantyre and Lilongwe.

A case study of Blantyre and Lilongwe. The data was collected through a structured questionnaire and interviews administered to a sample size of 357 respondents across Blantyre and Lilongwe; these were selected from a range of professionals, different age groups and different educational back grounds.

Based on the preliminary data, literature review, economic trends and expert interviews the study is expected to uncover both quantitative and qualitative insights on the major socio-economic drivers impacting forex availability in Malawi in Blantyre and Lilongwe.

The sample included respondents aged from 18 to 45 plus, whereby 200 representing 56% from Blantyre and 157 representing 44% from Lilongwe. This balance provided a balanced perspective on urban forex access in Malawi's major business centers which are Blantyre and Lilongwe.

The trends in the nominal exchange rate between the Malawian kwacha and the two key currencies, the United States dollar and the South African rand, the study shows that pressures on the Malawian kwacha remained steady since 1994 leading to a persistent downward trend in the value of the domestic currency.

The trend continued up to 2006 when authorities clearly opted to allow very limited variability in relation to the US dollar. The Malawian kwacha depreciated from mk118 per US dollar in 2005 to about mk139 per dollar by May 2006.

Blantyre due to its larger concentration of manufacturing and import-heavy businesses, Blantyre experiences a more intense demand for official forex. Blantyre appears to have a more established and active informal forex market which is driven by commercial trade and regional border activities.

Lilongwe as the administrative capital, Lilongwe's demand for forex is also very high but is potentially more influenced by government contracts and services. The unreliable evidence found on the parallel markets scale suggests it may be different from Blantyre even though they are equally essential for local businesses.

The study also shows that the businesses in both cities have demonstrated resilience by adopting various managing strategies, this includes the diversification of revenue streams and local sourcing. Hence their ability to implement sophisticated risk management strategies like hedging remains limited.

The declining foreign exchange reserves secondary data from the Reserve Bank of Malawi and international bodies like the International monetary fund and World Bank confirms that significant and persistent decline in Malawi's gross official foreign exchange reserves between 2020 and 2025.

The reserves have regularly remained below the targeted level of at least 3 months of import cover and often dropping to less than one month. A quantitative analysis shows a period of extreme volatility and often linked to fluctuations in tobacco export revenue and the donor funds which highlights the fragile nature of the official forex market.

The study also reveals that the analysis of the secondary data from the Reserve Bank of Malawi and the National statistics shows the consistent and widening trade deficits. For example, the data from late 2024 and early 2025 revels that Malawi's import bill consistently outpaced its export earnings and a trend that directly limits the national forex reserves.

The analysis demonstrates that the country's reliance on external financing, which includes the donor aid and the foreign direct investment which creates a volatile foreign exchange environment. The instabilities in donor aid as seen during periods of aid suspension have noticeably advanced national forex crises.

Secondary data also shows the analysis would show that past fixed exchange rates policies and official market constraints have led to the persistent existence of a parallel market, where forex is traded at a significantly higher rate. The recent policy shifts towards a more market-based rate may have reduced the premium, hence qualitative data which would likely show that the parallel market still remains a significant factor in Lilongwe and Blantyre.

The primary data was collected from interviews, survey and focus groups that were conducted these two cities demonstrated that qualitative interviews with both formal and informal business owners reveals that the high concentration of import-dependent businesses in the two cities creates an intense demand for foreign currency.

The findings from the business owners indicated that the high concentration of commercial and industrial activities in these two urban cities are driving the demand for forex and overwhelming the limited official supply. Forex scarcity is a top operational challenge or urban businesses which leads to supply chain disruptions and lower capacity consumption.

Manufacturing companies reported that severe production constraints due to a lack of dollars to import raw materials and machinery, this is causing the retailers to experience stock outs of imported goods leading to a reduced sales and profitability.

Lilongwe, which is mainly the administrative hub as compared to Blantyre government suppliers also reported that there are facing challenges but their forex demand was often less intense than Blantyre's imports.

The findings from the surveys with the forex traders shows that the analysis of informal market activity revels that a significant portion of forex transaction occur outside official channels, the study states that the parallel market activity which is driven by the inability of the formal market to meet demand and the lower transactions costs and faster access offered by informal/parallel networks. Informal remittances which bypass formal banks further contribute to this dynamic.

The business owners also reported that relying on in-person currency exchange network and informal remittances channels to fund their cross-border activities further blurring the lines between formal and informal forex flows.

Some business owners experienced navigating cumbersome regulations and bureaucratic hurdles when attempting to access forex through official channels pushing them toward parallel markets. The existence of this widespread heavily influences business decisions in Lilongwe and Blantyre. This has resulted in businesses to absorb the higher costs from the parallel markets which passes it on to the consumers by increasing the prices of goods and services.

Some interviewees stated and suggested that the parallel markets undermines the power and effectiveness of Reserve Bank of Malawi's monetary and exchange rate policies, as market –based price discovery happens outside official channels.

For the SME's the qualitative interviews stated that Blantyre and Lilongwe are disproportionately affected by forex shortages compared to larger corporations where- by they often lack the capital to use formal hedging instruments and absorb the high cost of the informal markets.

The primary reasons cited were also the faster transaction times, lower costs and better exchange rates compared to official channels. This means a large volume of potential forex for the official market remains outside the formal system.

Reports from the research also indicated that the financial sectors and government related business owners stated that rent-seeking and corruption is where political connections are and they influence the gain preferential access to official forex. This practice undermines the fair allocation of scarce forex.

The interviews with the informal traders and key informants reported that a substantial portion of forex which is diverted through informal channels bypassing the official banking system.

The researcher noted that there are disparities in how businesses access forex based on size and sector. Larger formal businesses may be better, though they still limited access to official bank channels while small medium enterprises and informal traders are heavily reliant on the parallel markets.

CONCLUSION AND RECOMMENDATION

The availability of foreign exchange in Malawi is merely an economic issue but a complex socio-economic challenge with deep structural roots. A case study of Blantyre and Lilongwe shows how the socio-economic shocks, ineffective policies and institutional weaknesses contribute to the scarcity of foreign exchange.

A systematic policy shifting's are needed to move beyond traditional cash crops and promote value-added in the manufacturing, mining and tourism sectors.

The Reserve Bank of Malawi must prioritize transparency and consistency in their monetary and exchange rate policies to build investor confidence and formalize the forex market.

Small targeted businesses should be assisted in Blantyre and Lilongwe to develop a proactive risk management strategies and access to financial resources.

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