

Monthly Economic Report

| September 2020

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LIST OF ACRONYMS

AfDB	African Development Bank	NBM:	National Bank of Malawi Plc
BHL:	Blantyre Hotels Plc	NICO:	NICO Holdings Plc
COVID-19:	Coronavirus disease	NITL:	National Investment Trust Plc
DSI:	Domestic Share Index	NSO:	National Statistical Office
EIU:	Economic Intelligence Unit	OPEC:	Organization of the Petroleum Exporting Countries
EUR:	Euro	PCL:	Press Corporation Plc
FISP:	Farm Input Subsidy Program	RBM:	Reserve Bank of Malawi
FMBCH:	FMB Capital Holdings Plc	RCF:	Rapid Credit Facility
FSI:	Foreign Share Index	SSA:	Sub Saharan Africa
G20	Group of 20	Sunbird:	Sunbird Tourism Plc
GBP:	British Pound	TB:	Treasury Bill
GDP:	Gross Domestic Product	TC:	Tobacco Commission
IMF:	International Monetary Fund	TNM:	Telekom Networks Malawi Plc
MASI:	Malawi All Share Index	TN	Treasury Note
MB/D	Millions of Barrels per Day	WEO:	World Economic Outlook
MK/K:	Malawi Kwacha	UK:	United Kingdom
M-O-M:	Month-on-month	USA:	United States of America
MPC:	Monetary Policy Committee	USD:	United States Dollar
MSE:	Malawi Stock Exchange	Y-O-Y:	Year-on-year
MVAC:	Malawi Vulnerability Assessment Committee	YTD:	Year-to-date
		ZAR:	South African Rand

Executive Summary

Inflation

Headline inflation for August 2020 decreased to 7.6% from 8.0% in July 2020 as food inflation eased to 11.3% from 12.2% during the period. Non-food inflation remained steady at 4.4% in August 2020. The inflation rate may likely increase in the following months as the lean period starts. The Reserve Bank of Malawi projects headline inflation to average 9.8% in 2020 while the International Monetary Fund (IMF) projects a lower average of 9.2%.

Exchange Rates

The Kwacha slipped to K756.93 per USD in September 2020 from K754.71 per USD in August 2020. Lower revenue realized from the Tobacco market is likely to exert more pressure on the currency. The country's official foreign reserves have fallen from USD642.86 million in August 2020 to USD546.99 million in September 2020. This has led to a decline in the import cover to 2.62 months from 3.08 months. However, the USD102 million from IMF's Rapid Credit Facility and other grants provided should help ease the pressure on the currency. According to the EIU, the currency is expected to average at K770.10 per USD and K795.5 per USD in 2020 and 2021, respectively.

Fiscal Policy

The fiscal deficit is likely to worsen in 2020 as the Government increases expenditure on health in order to mitigate the coronavirus pandemic's effects. According to the 2020/21 budget statement, there will be a fiscal deficit of K0.78 trillion. This is from total revenue and grants of K1.44 trillion and total expenditure of K2.19 trillion. Since most of the fiscal deficit will be financed by domestic borrowing, the crowding out effect is likely to limit the private sector's recovery and thus compromise the total tax revenue collected. However, if the Government successfully implements their reforms, which aim to improve efficiency, then a smaller fiscal deficit will be actualized.

Monetary Policy

The policy rate remains at 13.5% and the Lombard rate has also been set at 0.2 percentage points above the policy rate. Likewise, the Liquidity Reserve Requirement ratio on both local and foreign currency deposits is still at 3.5%. The policy stance is expected to contain inflation in the country as lowering the policy rate would increase inflationary pressure. It is likely that the policy rate will be maintained at the next Monetary Policy Committee meeting which is scheduled for 29 and 30 October 2020.

Tobacco Market

There was a 26% drop in foreign exchange earnings from the Tobacco market in 2020 compared to 2019. A total of USD175 million was realized in 2020 from USD237 million in 2019. This was on account of reduced tobacco output. Tobacco sales decreased by 27% to 114 million kgs in 2020 from 166 million kgs in 2019. However, the price per kg increased by 7% in 2020 to USD1.53 from USD1.43 in 2019.

Economic Growth

The country is expected to have a real economic growth rate of 1.9% in 2020 according to the Government of Malawi (GoM). This projection is close to the 2.0% in 2020 from the World Bank but lower than the 1.3% growth projected by the African Development Bank (ADB). The International Monetary Fund (IMF) projects Malawi's growth to be 0.6% in 2020 and 2.5% in 2021. The coronavirus pandemic has led to downward revision of the projections.

Economic overview



Headline inflation eased to 7.6% in August 2020 from 8.0% in July 2020, mostly due to declines in food prices.

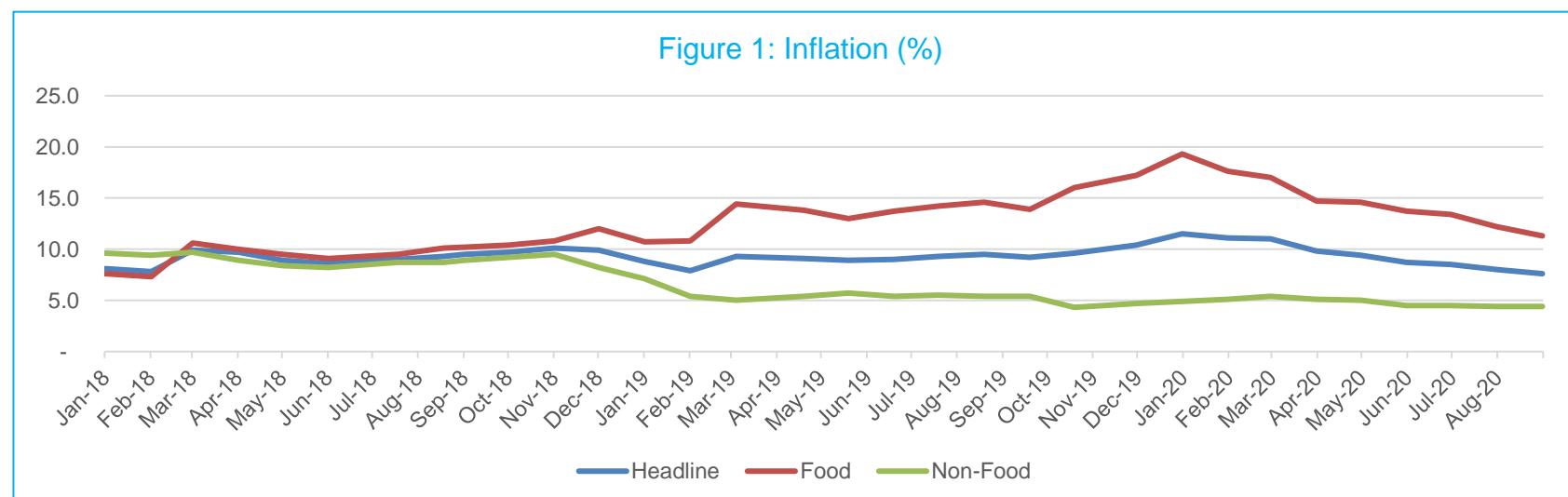
INFLATION (Source: NSO)

The headline inflation fell to 7.6% in August 2020 from 8.0% in July 2020. The inflation has been on a downward trajectory since the peak of 11.5% in December 2020. The decrease in headline inflation was due to the easing of the food-inflation to 11.3% from 12.2% during the period. Non-food inflation was stable at 4.4% in August 2020 and July 2020. Food inflation is expected to increase during the lean period as supply for maize decreases. This will in turn lead to an increase in headline inflation. The table below summarizes the inflation rates during the period while the graph illustrates the trend from January 2018 to July 2020.

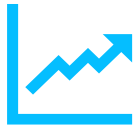
	Aug-20	Jul-20	Aug-19	m-o-m % Change	y-o-y % Change
Headline	7.6%	8.0%	9.5%	↓ -5.0%	↓ -20.0%
Food	11.3%	12.2%	14.6%	↓ -7.4%	↓ -22.6%
Non-food	4.4%	4.4%	5.4%	→ 0.0%	↓ -18.5%

Table 1: Inflation (%)

Headline inflation has been decreasing from 11.5% in December 2019 to 7.6% in August 2020.



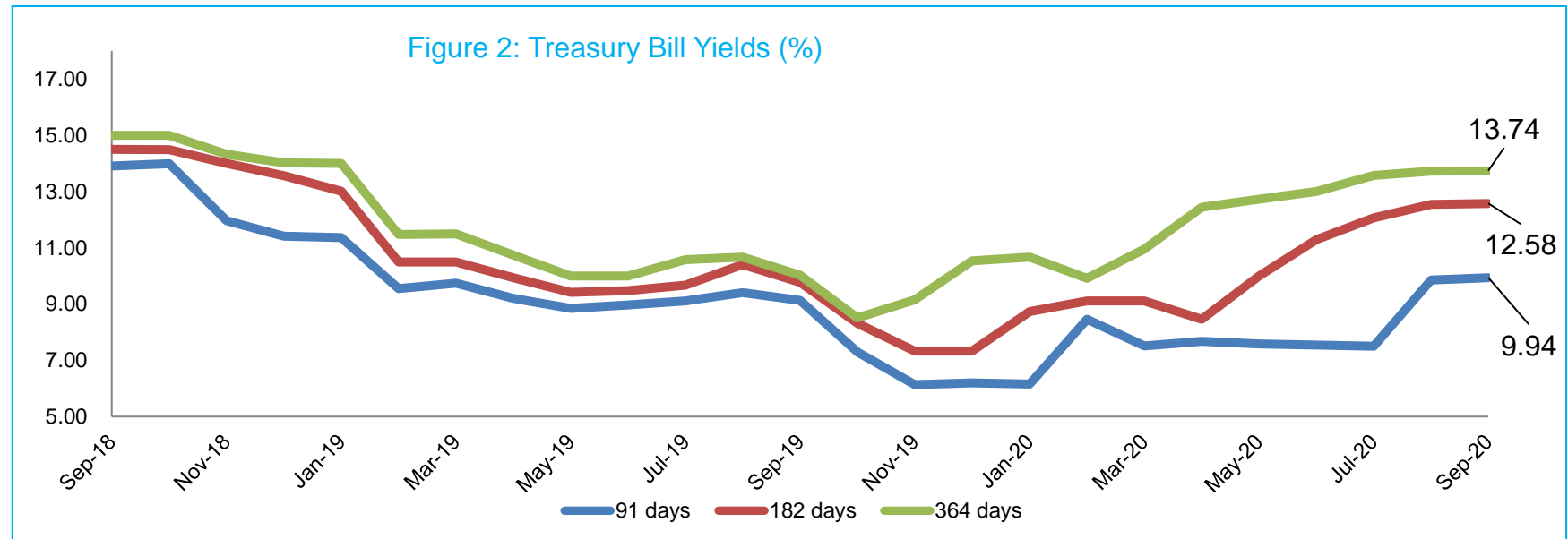
ECONOMIC OVERVIEW (Continued)



The average All Type Treasury bill yield increased to 12.09% in September 2020 from 12.04% in the previous month.

GOVERNMENT SECURITIES (Source: RBM)

The average All Type Treasury bill yield increased to 12.09% in September 2020 from 12.04% in the previous month. There was also a positive y-o-y change of 25.34%. The average yields for all the treasury bills increased in September 2020 from the previous month. The yields of the 91 days, 182 days and 364 days papers increased to 9.94%, 12.58% and 13.74%, respectively (from 9.85%, 12.55% and 13.73%). The figure below traces the Treasury bill yields for the different tenures from September 2018 to September 2020.



The treasury bill yields are summarized in the table below.

Table 2: Treasury Bill Yields (%)

Tenor	August-2020	July-2020	August-2019	m-o-m % Change	y-o-y % Change
91-day	9.94%	9.85%	9.13%	↑ 0.91%	↑ 8.87%
182-day	12.58%	12.55%	9.77%	↑ 0.24%	↑ 28.76%
364-day	13.74%	13.73%	10.03%	↑ 0.07%	↑ 36.99%
All Type yield	12.09%	12.04%	9.64%	↑ 0.36%	↑ 25.34%

ECONOMIC OVERVIEW (Continued)









There was a 4.48% decrease in treasury bills (TB) allotments in September 2020 in comparison to August 2020. The 364 days paper had the highest subscription rate of 70.22% over the period.

GOVERNMENT SECURITIES (Continued)







Treasury bill (TB) applications increased by 14.53% in September 2020. There were applications of K26.56 billion in September 2020 from K23.19 billion in the previous month. However, compared to September 2019 which had K132.45 billion applications, there was a 79.95% decrease. Allotments in September 2020 decreased both on a month-on-month and a year-on-year basis. The applications of K17.06 billion was lower than the K17.86 and K19.19 billion, respectively. There was a higher rejection rate in September 2020 at 35.76%, compared to the 23.00% from the previous month.

Table 3: TB Applications, Allotments and Rejection Rates

	Sep-20	Aug-20	Sep-19	m-o-m % Change	y-o-y % Change
Applications (K'billion)	26.56	23.19	132.45	 14.53%	 -79.95%
Allotments (K'billion)	17.06	17.86	19.19	 -4.48%	 -11.10%
Rejection rate (%)	35.76	23.00	85.51	 55.48%	 -58.18%

The 364 days paper had the highest subscription rate in September 2020 at 70.22% from 57.92% in the previous month. On the other hand, the 91 days paper had the lowest subscription rate at 3.77% from 2.25% during this period. The subscription rate for the 182 days paper was lower in September 2020 and August 2020 was 26.01% and 39.83%, respectively. The subscription rates for the treasury bills are summarized below.

Table 4: TB Subscription Rates

Tenor	Sep-20	Aug-20	Sep-19	m-o-m % Change	y-o-y % Change
91-day	3.77%	2.25%	27.47%	 67.6%	 -86.3%
182-day	26.01%	39.83%	36.81%	 -34.7%	 -29.3%
364-day	70.22%	57.92%	35.72%	 21.2%	 96.6%
Total	100.00%	100.00%	100.00%		

ECONOMIC OVERVIEW (Continued)



A total of K52.81 billion was raised in the Treasury Note (TN) auctions in September 2020, from K49.22 billion raised in the previous month.



The average yields for the 3-Year TN and 10-Year TN were 18.02% and 22.14%, respectively.

GOVERNMENT SECURITIES (Continued)

The government raised K52.81 billion in the Treasury Note (TN) auctions in September 2020, from the K49.22 billion that was raised in August 2020. There were two TN auction in both months. In September 2020, the 3-Year and 10-Year TN auction raised K41.35 billion and K11.46 billion, respectively. This was from respective applications of K43.55 billion and K14.24 billion. The 2-Year and 7-Year TN auctions held in August 2020 raised K24.15 billion and K25.07 billion, respectively. Applications for these TNs were K28.78 billion and 46.32 billion, respectively.

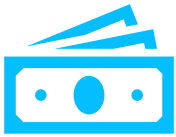
The 3-Year and 10-Year TN auctions had average yields of 18.02% and 22.14%, respectively. The 2-Year and 7-Year TNs had average yields of 16.46% and 20.75%. The coupon rates for the 2-Year, 3-Year, 7-Year and 10-Year TN auctions were 10.00%, 11.00%, 13.50% and 15.00%, respectively. The coupons are all paid semi-annually.

Table 4: Treasury Note Yields and Coupon Rates

Tenor	Yield (%)		Coupon Rate (%)	
	Sep-20	Aug-20	Sep-20	Aug-20
2-Year		16.46%		10.00%
3-Year	18.02%		11.00%	
5-Year				
7-Year		20.75%		13.50%
10-Year	22.14%		15.00%	
Average	20.08%	18.61%	13.00%	11.75%

Table 5: Treasury Note Allotments and Applications

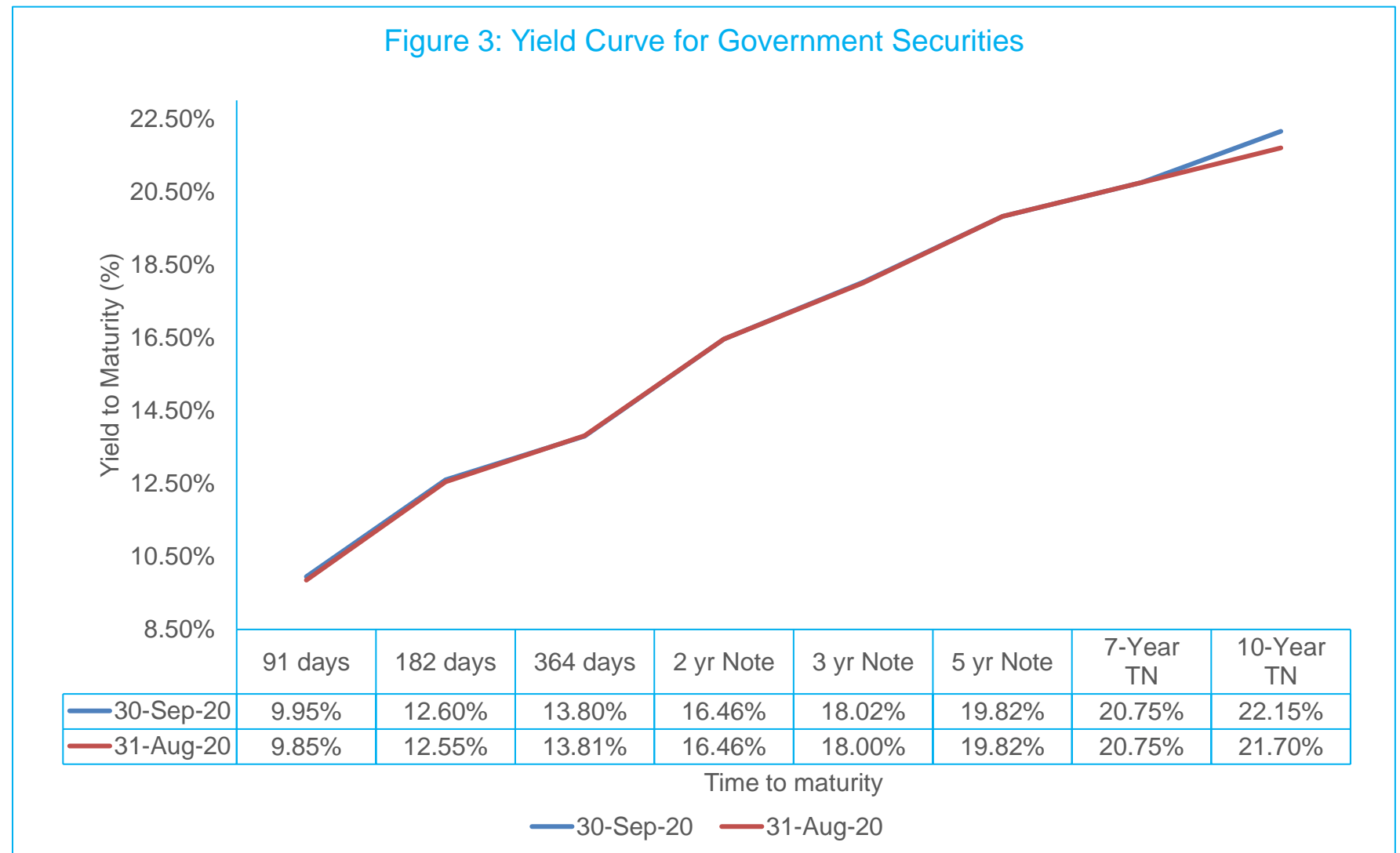
Tenor	Applied Amount (K'Billions)		Alloted Amount (K'Billions)	
	Sep-20	Aug-20	Sep-20	Aug-20
2-Year		28.78		24.15
3-Year	43.55		41.35	
5-Year				
7-Year		46.32		25.07
10-Year	14.24		11.46	
Total	57.79	75.10	52.81	49.22



There were increases in Treasury Bill yields and the 3-Year and 10-Year Treasury Note (TN) yields.

GOVERNMENT SECURITIES (Continued)

The changes in the yields for the Government Securities are shown in the yield curve below.





The Kwacha marginally depreciated against the United States Dollar as it closed September at K756.93 per USD from K754.71 per USD in the previous month.

Official foreign exchange reserves as at 30 September 2020 were at USD546.99 million, which is an import cover of 2.62 months. On 31 August 2020, it was USD642.86 million and an import cover of 3.08 months.

ECONOMIC OVERVIEW (Continued)

FOREIGN CURRENCY MARKET (Source: RBM)

The Kwacha depreciated against the USD from K754.71 per USD in August 2020 to K756.93 per USD in September 2020. However, it appreciated against the Great British Pound during this period (from K1,024.89 per GBP to K999.88 per GBP). The Kwacha also marginally appreciated against the Euro (from K935.56 per EUR to K928.35 per EUR) and the South African Rand (from K47.53 per ZAR to K47.33 per ZAR). The table below summarizes the currency movement for the period.

Table 6: Foreign Currency Market

	Sep-20	Aug-20	Sep-19	m-o-m % Change	y-o-y % Change
MK:USD	756.93	754.71	739.26	↓ -0.3%	↓ -2.4%
MK:GBP	999.88	1,024.89	906.12	↑ 2.4%	↓ -10.3%
MK:ZAR	47.33	47.53	48.80	↑ 0.4%	↑ 3.0%
MK:EUR	928.35	935.56	808.13	↑ 0.8%	↓ -14.9%

FOREIGN RESERVE POSITION (Source: RBM)

As at 30 September 2020, the country's forex reserves were at USD546.99 million, which is a decrease from the USD642.86 million on 31 August 2020. According to the RBM's assumption of a monthly import requirement of USD209.0 million, the country import cover decreased to 2.62 months from 3.08 months during this period. The wide current account deficit and less revenue actualized from the tobacco season are likely to lead to more downward pressure on the country's currency. However, the inflow of current transfers from donors to mitigate the effect of COVID-19 should offset the dwindling of the forex reserves. For example, the disbursement of USD101.96 million by the IMF will help slow down the depletion of the reserves.

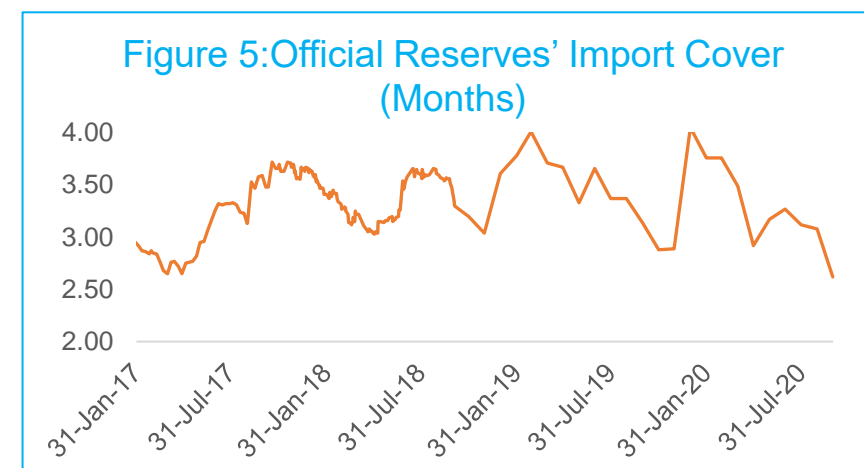
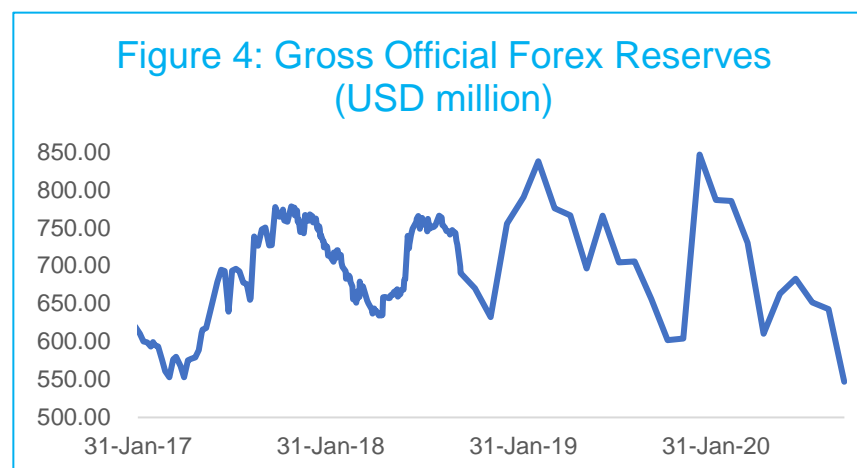
The private sector reserves increased to USD318.47 million in September 2020 from USD316.74 million in August 2020. However, the import cover was remained at 1.52 months during the period.



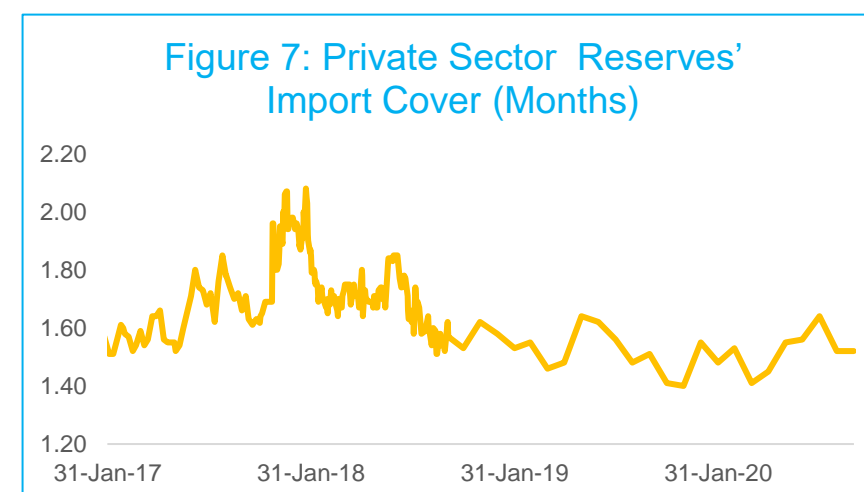
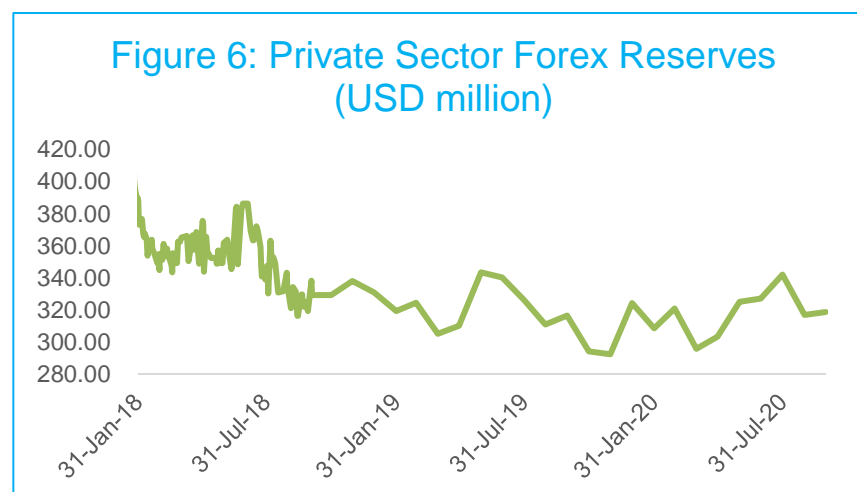
The Gross official reserves decreased by 14.91% in September 2020 from the previous month while the Private sector reserves increased by 0.55% during the same period.

FOREIGN RESERVE POSITION TREND GRAPHS (Source: RBM)

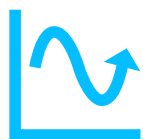
The gross official foreign exchange reserves and import cover are shown below.



The private sector foreign exchange reserves and import cover are shown below.



ECONOMIC OVERVIEW (Continued)



Overnight Interbank rate increased marginally to 13.61% in September 2020 from 13.59% in August 2020.

INTERBANK MARKETS AND INTEREST RATES (Source: RBM)

There was a 38.41% decrease in the daily average liquidity to K4.97 billion in September 2020 from K8.07 billion in August 2020. However, the daily average Overnight (O/N) Interbank volume increased by 5.65%, from K8.14 billion to K8.60 billion during the same period. Similarly, the respective rate increased marginally to 13.61% from 13.59%. On the Lombard facility (Discount Window borrowing), there was a 14.73% increase in the daily average volume raised from K34.49 billion in August 2020 to K39.57 billion in September 2020. The rate remained at 13.70%. The table below summarizes the monthly changes in the Interbank market and access to the Discount Window.

Table 7: Daily Average Rates (%)

	Sep-20	Aug-20	m-o-m % Change
Interbank O/N	13.61	13.59	↑ 0.15%
Discount Window Borrowing	13.70	13.70	→ 0.00%

Table 8: Daily Average Volumes (K'Billions)

	Sep-20	Aug-20	m-o-m % Change
Interbank O/N	8.60	8.14	↑ 5.65%
Discount Window Borrowing	39.57	34.49	↑ 14.73%
Liquidity	4.97	8.07	↓ -38.41%

Figure 8.1: Daily Liquidity Volume (K'Billions)

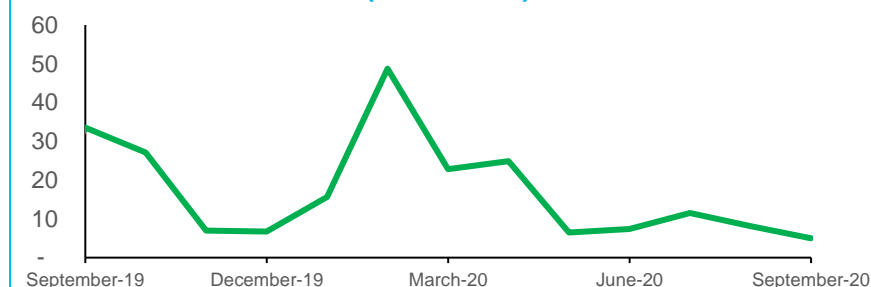


Figure 8.2: Daily Interbank Volume (K'Billions)

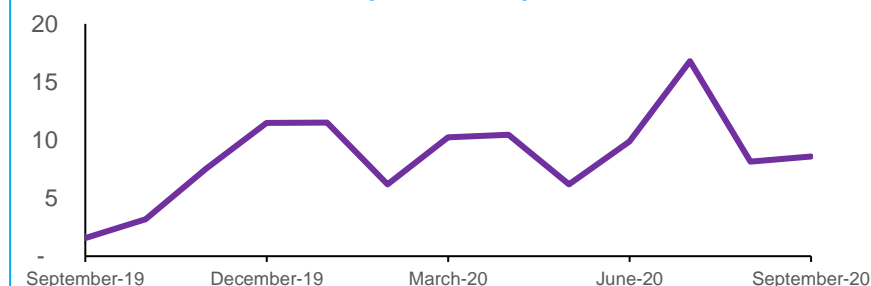
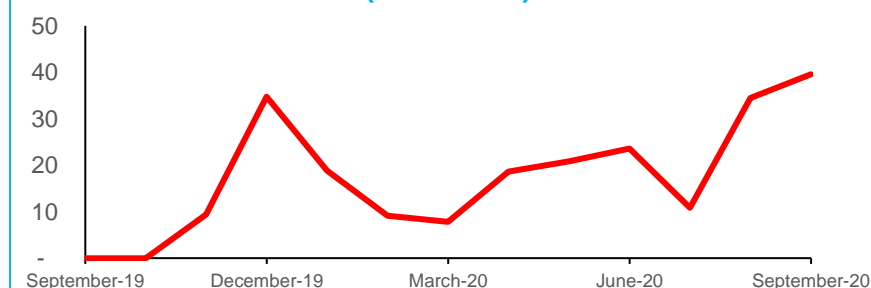


Figure 8.3: Daily Discount Window Volume (K'Billions)



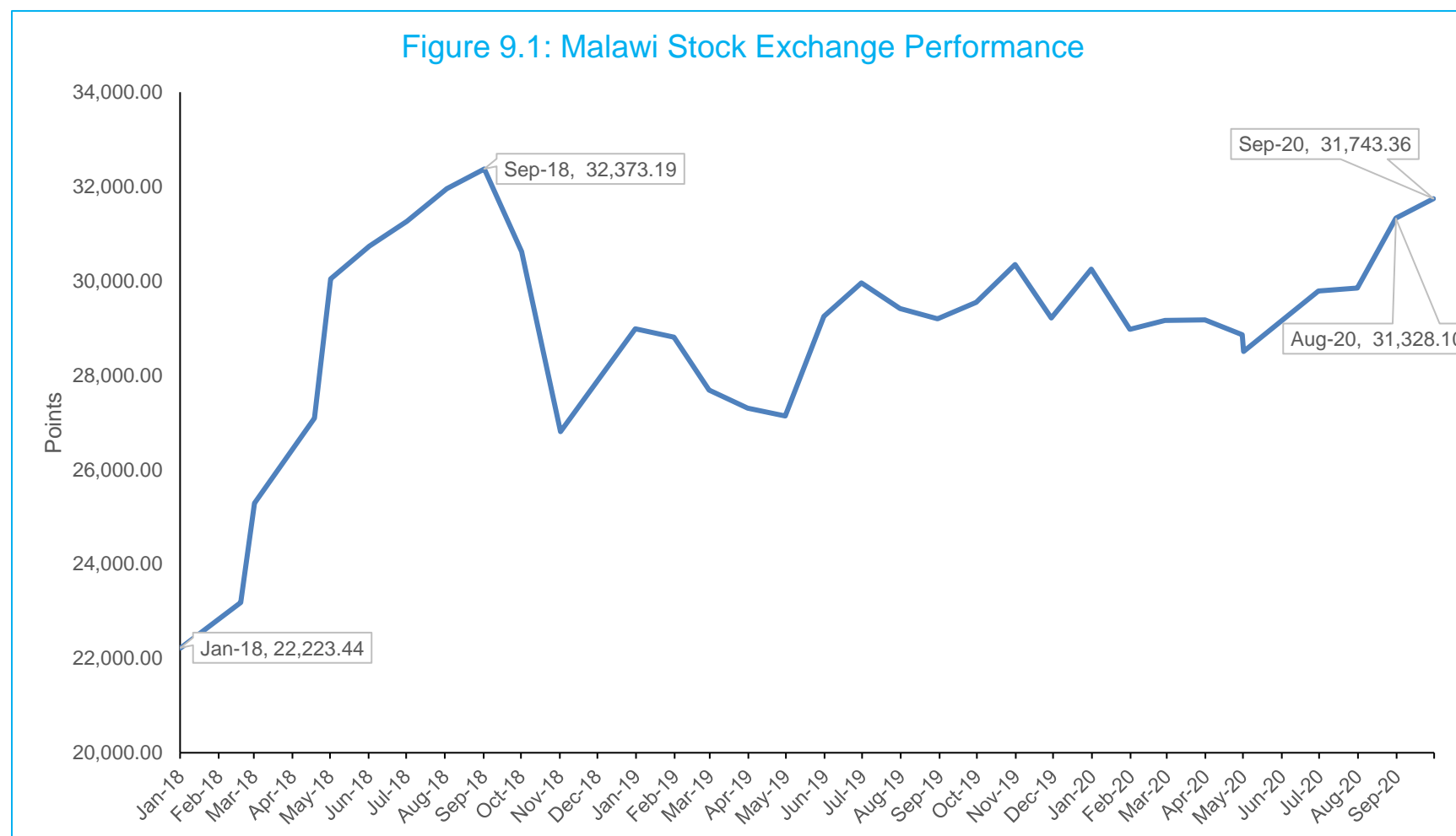
ECONOMIC OVERVIEW (Continued)



The MASI increased by 1.33% to 31,743.36 points in September 2020 from 31,328.10 points in August 2020. This was mainly due share price increases in Standard Bank and AIRTEL.

STOCK MARKET (Source: MSE)

The stock market was bullish in September 2020 as the Malawi All Share Index (MASI) increased by 1.33% to 31,743.36 points from 31,328.10 in the previous month. This is because of the increase in the Domestic Share Index (DSI), from 26,732.01 to 27,101.51. The Foreign Share Index (FSI) was steady at 1,460.99 points during this period. The graph below traces the MASI from January 2018 to September 2020.



ECONOMIC OVERVIEW (Continued)



AIRTEL had the largest share price gain in September 2020 at 10.99%, followed by Standard Bank at 2.53%. FDH Bank had the largest loss during this period at 6.51%.

STOCK MARKET (Source: MSE)

AIRTEL closed September 2020 at K30.00 from K27.03 in the previous month. The 10.99% share price gain was the largest gain for the period. There were also share price gains for Standard Bank and NICO at 2.53% and 0.02%, respectively. On the other hand, FDH Bank had the largest share price loss at 6.51% as it closed the month at K12.06 from K12.90 in the previous month. TNM, ICON and PCL also had share price losses during this period. The following table summarizes the share price changes during the period.

Table 9: MSE Prices

MSE Code	Share Price		m-o-m % Change	
	31-Aug-20	30-Sep-20		
Airtel	27.03	30.00	↑	10.99%
BHL	12.94	12.94	→	0.00%
FDHB	12.90	12.06	↓	-6.51%
FMBCH	24.00	24.00	→	0.00%
ICON	12.70	12.49	↓	-1.65%
ILLOVO	80.50	80.50	→	0.00%
MPICO	24.00	24.00	→	0.00%
NBM	618.76	618.75	→	0.00%
NBS	19.44	19.44	→	0.00%
NICO	47.99	48.00	↑	0.02%
NITL	94.98	94.98	→	0.00%
OML	2,199.99	2,199.99	→	0.00%
PCL	1,344.99	1,343.99	↓	-0.07%
STANDARD	830.00	851.00	↑	2.53%
SUNBIRD	120.00	120.00	→	0.00%
TNM	21.80	21.00	↓	-3.67%
MASI	31,328.10	31,743.36	↑	1.33%
DSI	26,732.01	27,101.51	↑	1.38%
FSI	1,460.99	1,460.99	→	0.00%

ECONOMIC OVERVIEW (Continued)



The Malawi All Share Index (MASI) closed the month of September 2020 with a dividend yield of 2.70% and a P/E Ratio of 14.64.

STOCK MARKET (Source: Continued)

Figure 9.2: MSE Dividend Yield

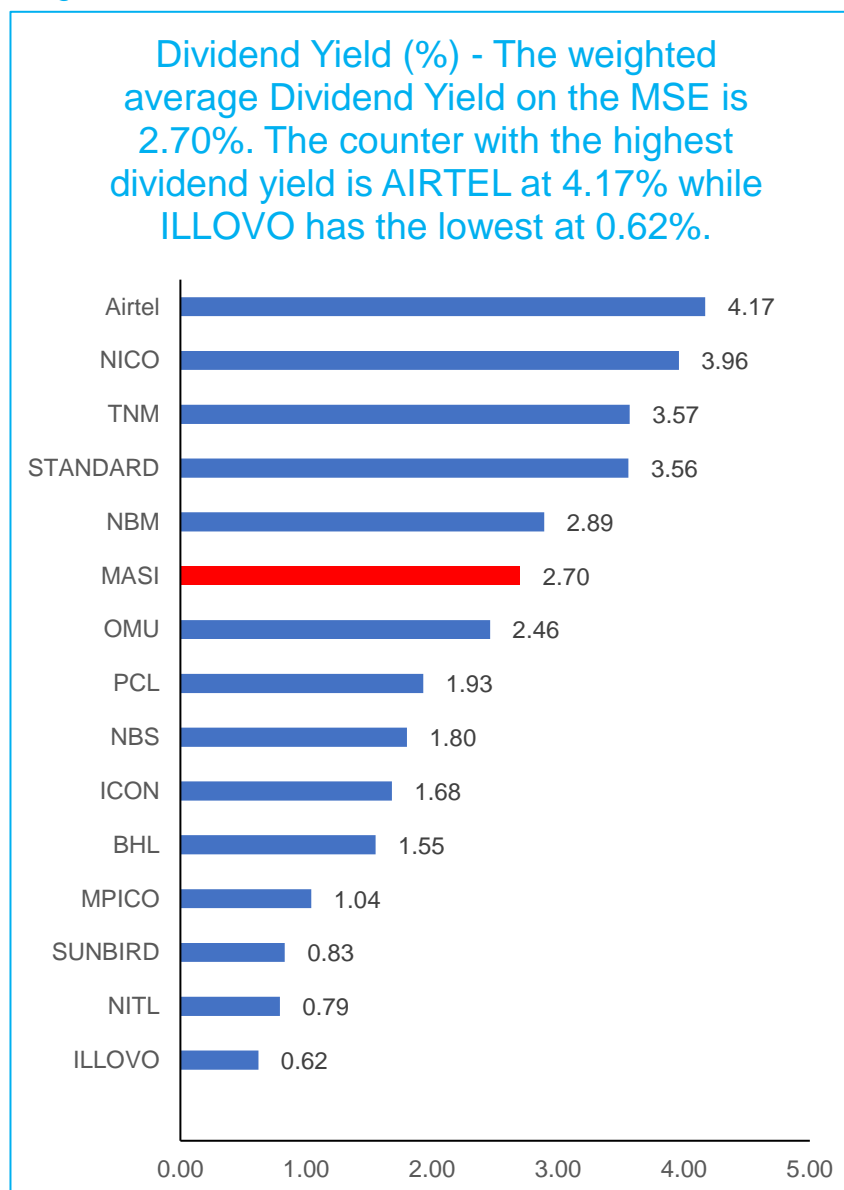


Figure 9.3: MSE P/E Ratio



ECONOMIC OVERVIEW (Continued)



At the end of September 2020, the MASI had a P/BV Ratio of 2.24 and a total market capitalization of K1.72 trillion. Airtel led the MSE counters with a market capitalization of K330 billion.

STOCK MARKET (Source: Continued)

Figure 9.4: MSE P/BV Ratio

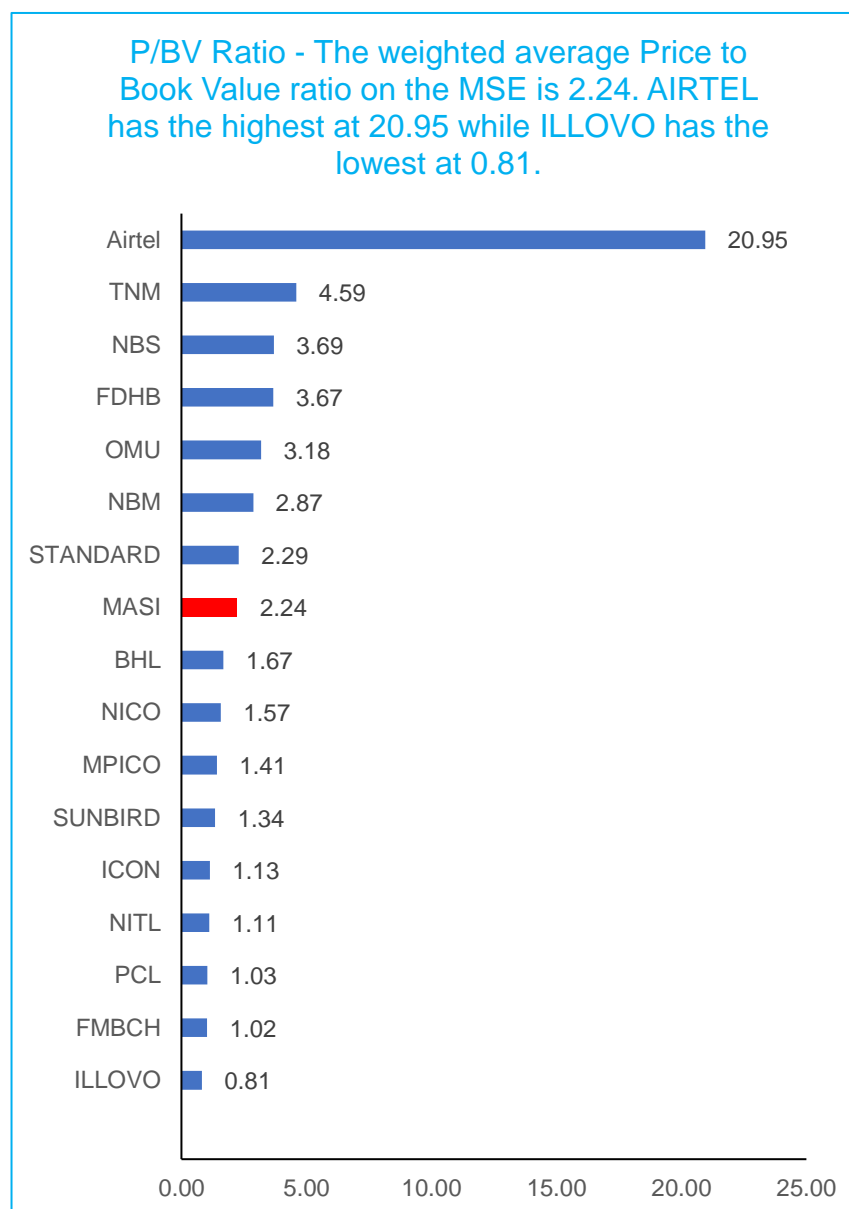
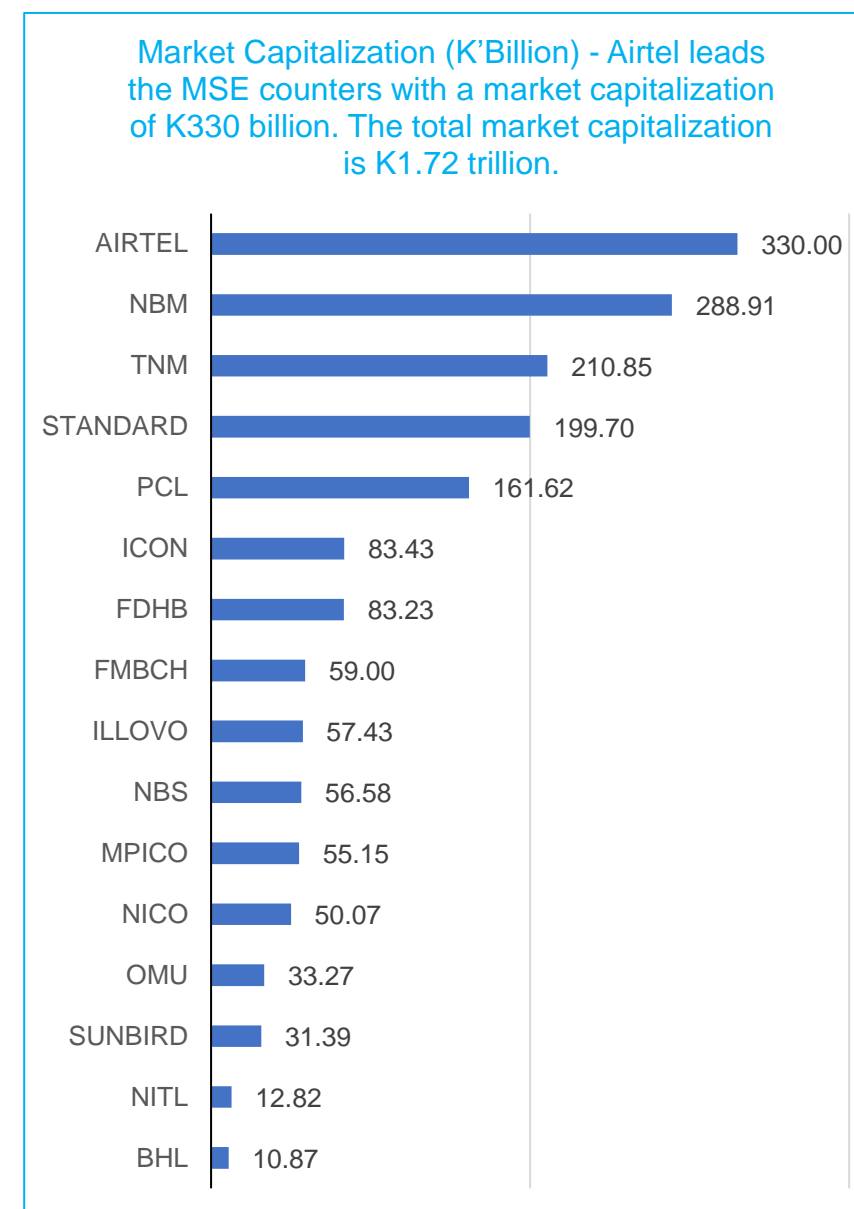


Figure 9.5: MSE Market Capitalization



ECONOMIC OVERVIEW (Continued)



The MASI closed the month of September 2020 with a year-to-date return of 4.93%. It was 1.94% in September 2019.

STOCK MARKET (Continued)

Table 10: MSE YTD Return

	30-Sep-20	31-Jan-20	30-Sep-19	Return YTD	y-o-y % Change	Previous Year's Return YTD
MASI	31,743.36	30,252.43	29,546.27	↑ 4.93%	↑ 7.44%	↑ 1.94%
DSI	27,101.51	23,599.95	22,735.48	↑ 14.84%	↑ 19.20%	↑ 6.65%
FSI	1,460.99	4,024.86	4,272.58	↓ -63.70%	↓ -65.81%	↓ -18.85%

A total of 174 million shares were traded on the MSE in September 2020 and this is 44.76% less than in the previous month. The number of trades in the month under review decreased by 21.13% from 407 to 321 trades. However, the total value of the trades in September 2020 increased by 28.81% to K6.26 billion from K4.86 billion. The table below shows the summary of the trades.

Table 11: MSE Traded Volumes

	30-Sep-20	31-Aug-20	year-to-date (2020)	year-to-date (2019)	m-o-m % Change	y-o-y % Change
Volume (Millions)	174	315	801	834	↓ -44.76%	↓ -3.96%
Trade Count	321	407	2,433	2,352	↓ -21.13%	↑ 3.44%
Value (K'Billion)	6.26	4.86	20.97	36.00	↑ 28.81%	↓ -41.75%



There was a 26% year-on-year decrease in Total Tobacco earnings in 2020 to USD175 million from USD237 million in 2019.

TOBACCO MARKET (Source: AHL Malawi and Tobacco Commission)

Figure 11: Tobacco sales

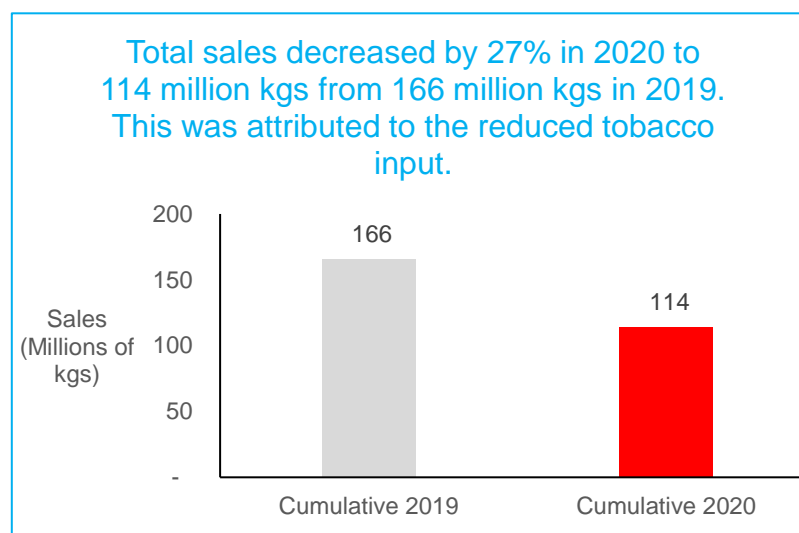


Figure 12: Tobacco prices

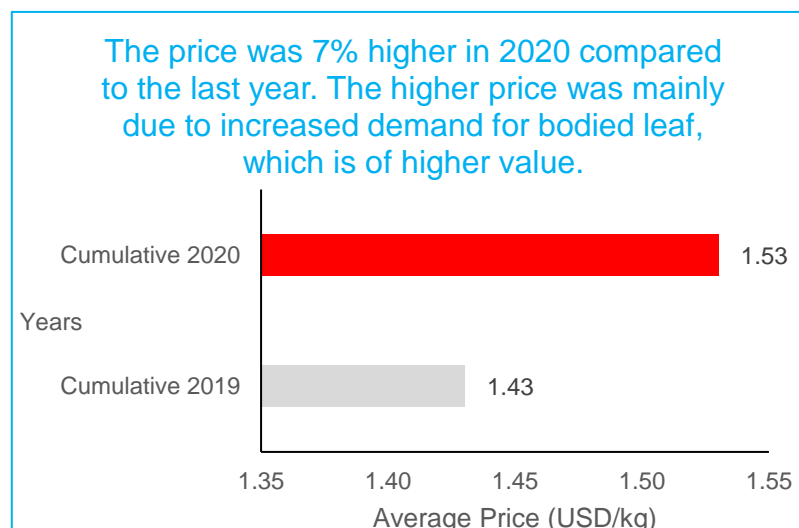
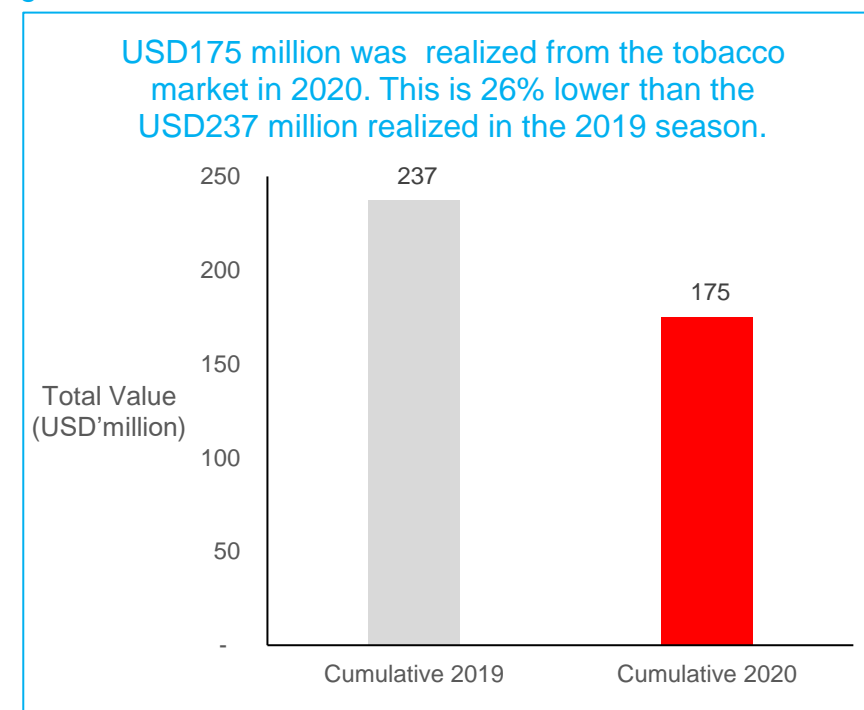


Figure 13: Tobacco revenue





OTHER MARKET DEVELOPMENTS (Continued)

The 2020/21 budget will have a fiscal deficit of K0.76 billion from total revenue and grants of K1.44 trillion and total expenditure of K2.19 trillion.

2020/21 BUDGET STATEMENT (Source: Ministry of Finance)

Figure 14: 2021 Budget

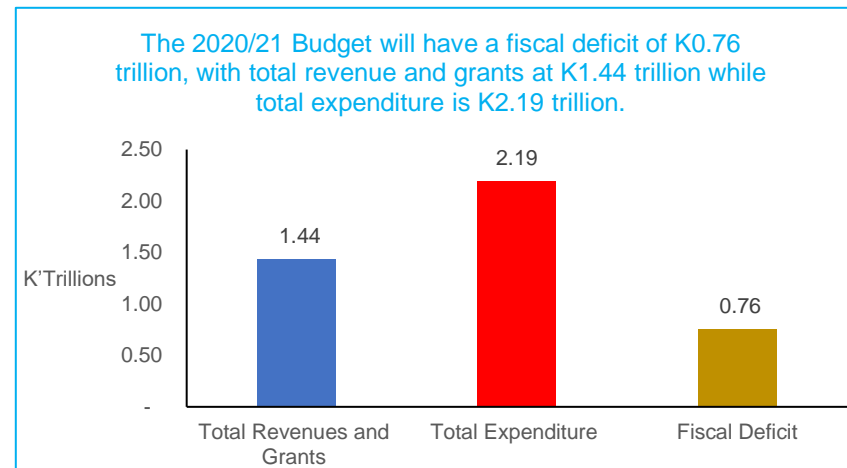


Figure 15: 2021 Budget revenue

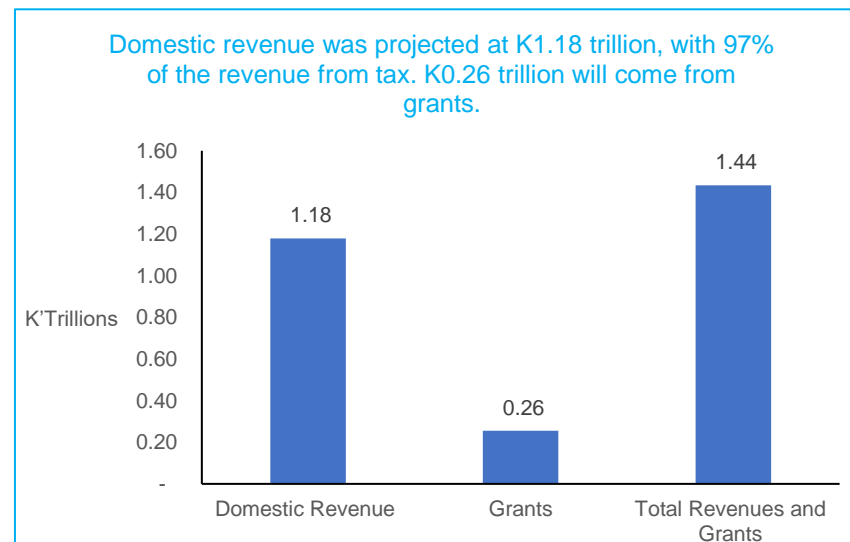


Figure 16: 2021 Budget Expenditure

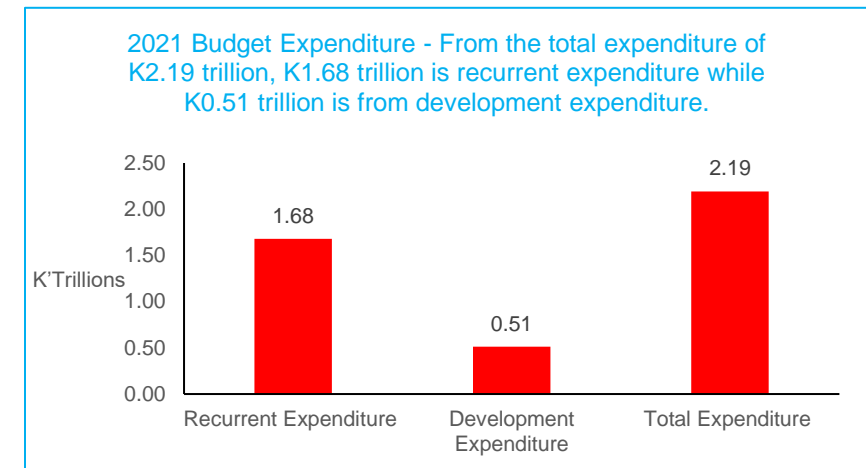
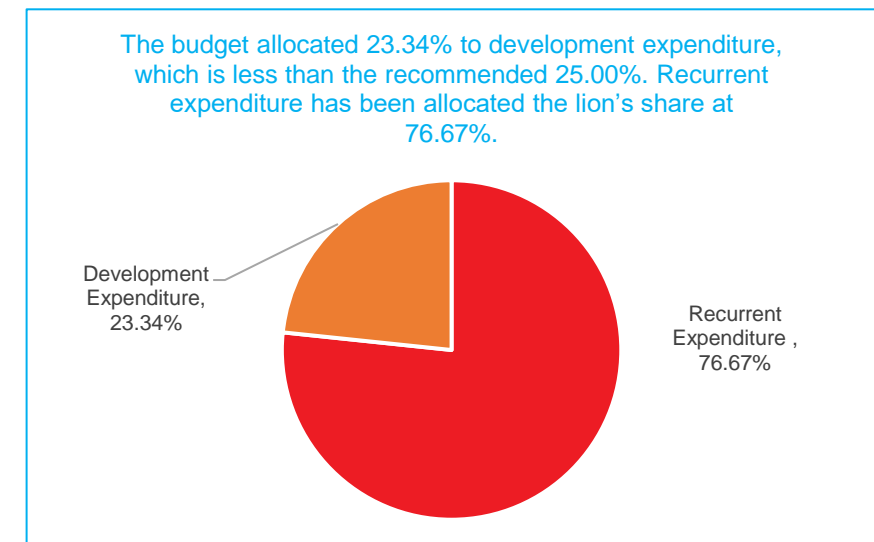


Figure 17: Recurrent vs development expenditure





OTHER MARKET DEVELOPMENTS (Continued)

2020/21 BUDGET STATEMENT (Continued)

The fiscal deficit of K0.76 trillion will be financed by domestic and net foreign borrowing of K0.53 trillion and K0.22 trillion, respectively.

Figure 18: 2021 Budget allocations

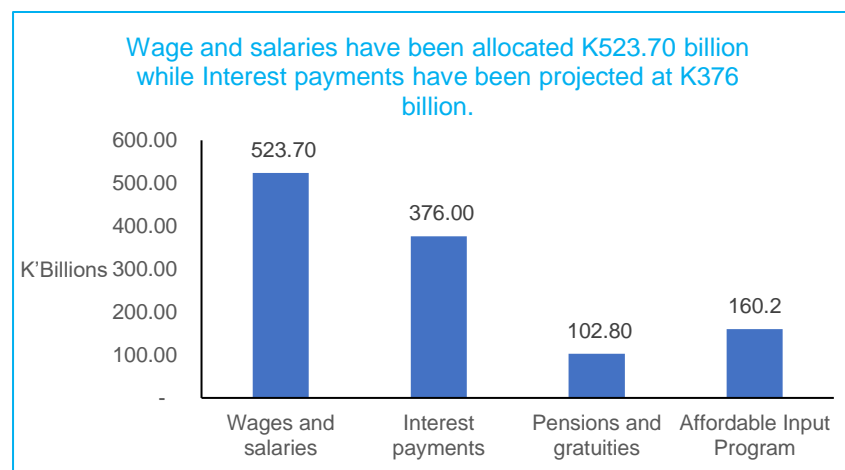


Figure 19: 2021 Major budget allocations

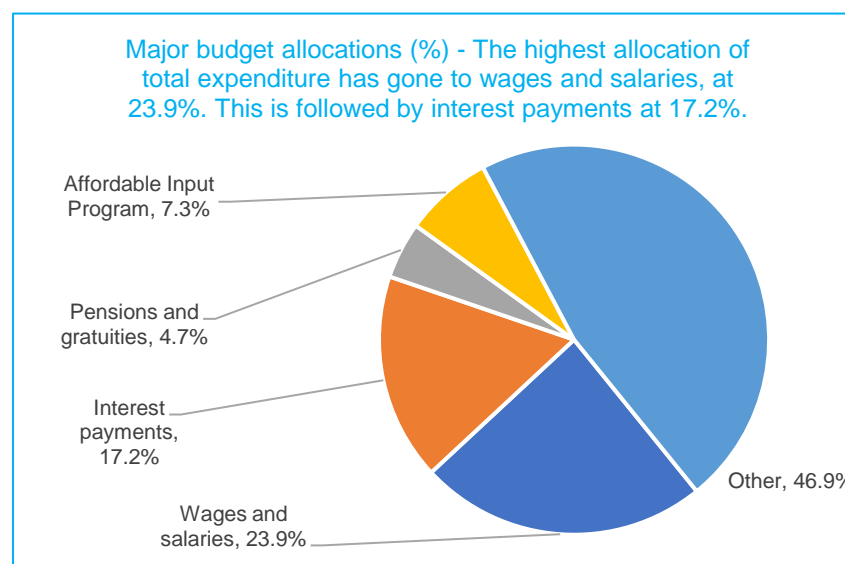


Figure 20: 2021 Budget financing

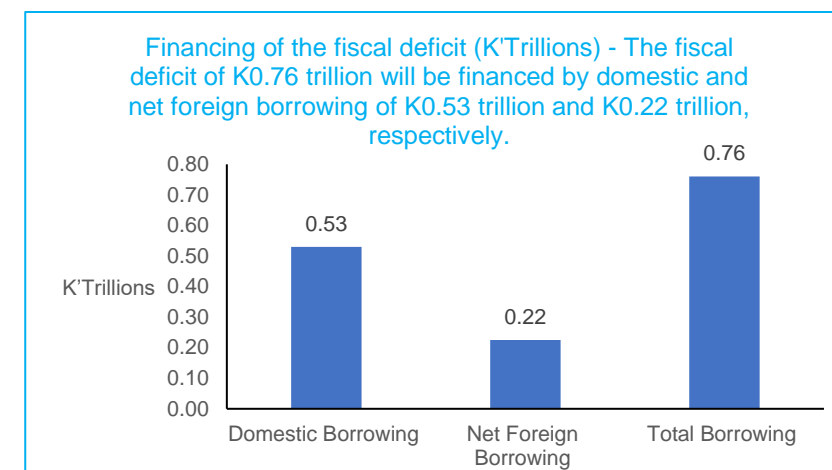
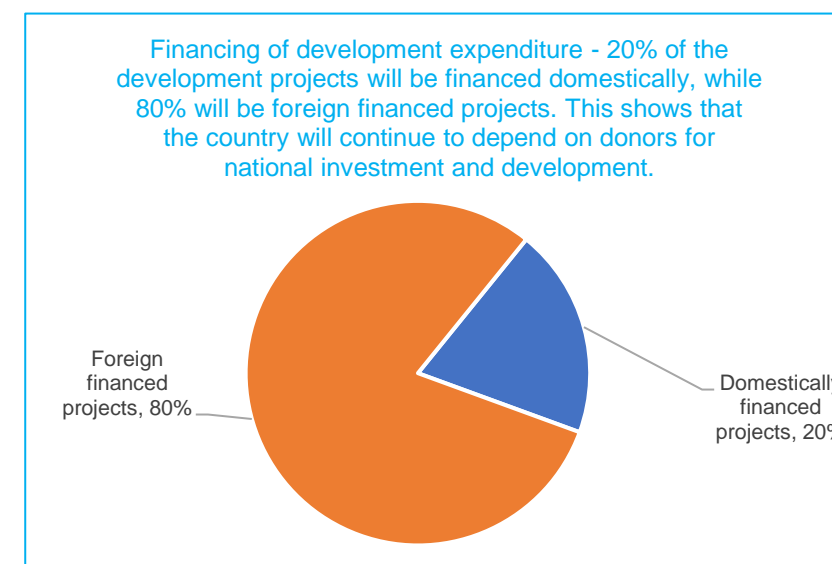


Figure 21: Financing of development expenditure





OTHER MARKET DEVELOPMENTS (Continued)

2020/21 BUDGET STATEMENT (Continued)

The Education sector has been allocated the most money at K384.5 billion in the 2020/21 budget.

Figure 22: Debt profile as at 30 June 2020

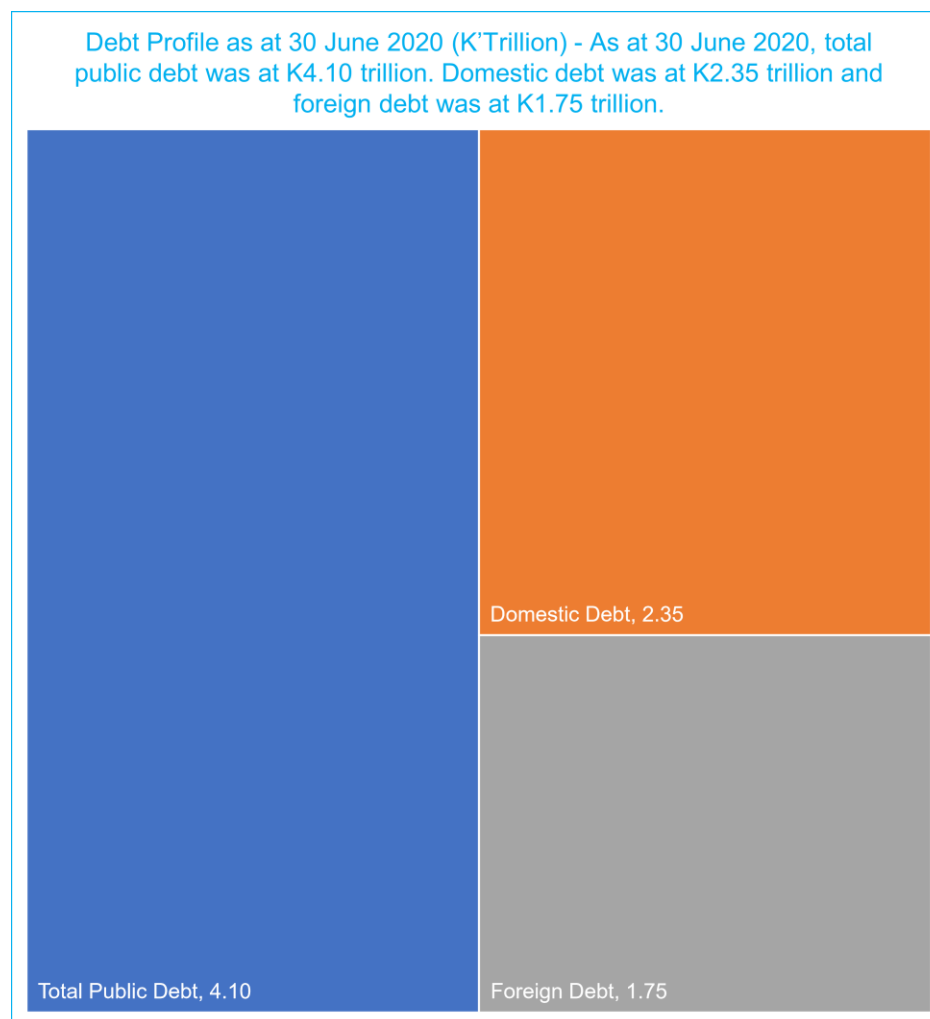


Figure 23: Debt as % of GDP

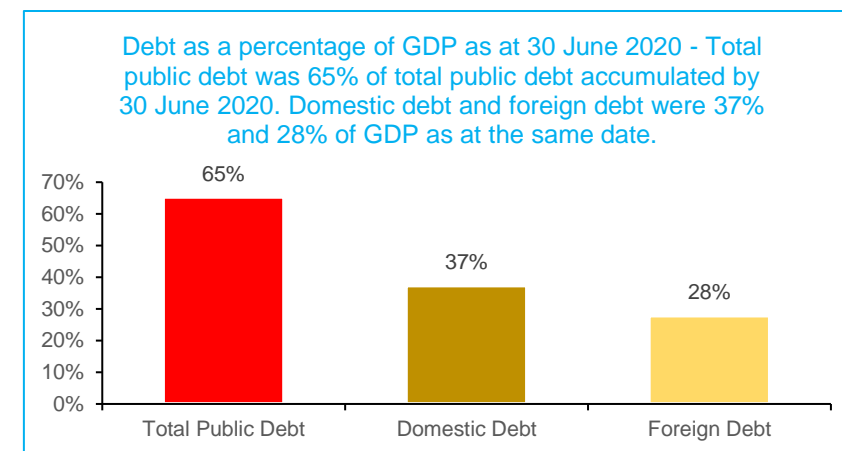
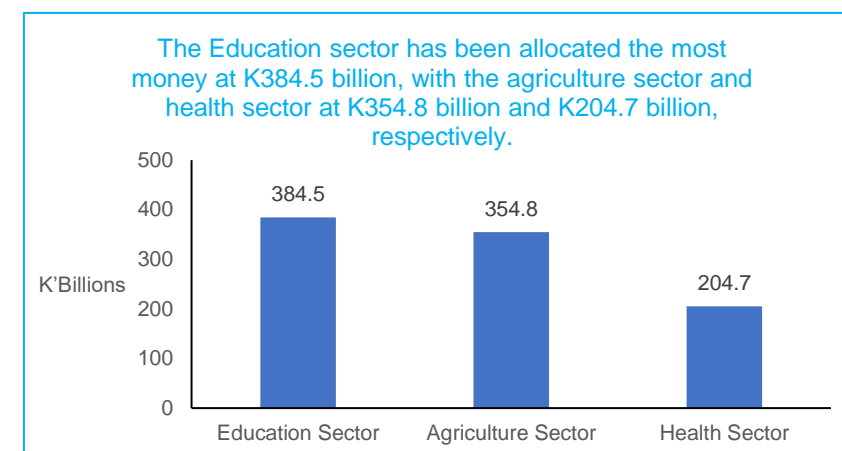


Figure 24: Key sector allocations



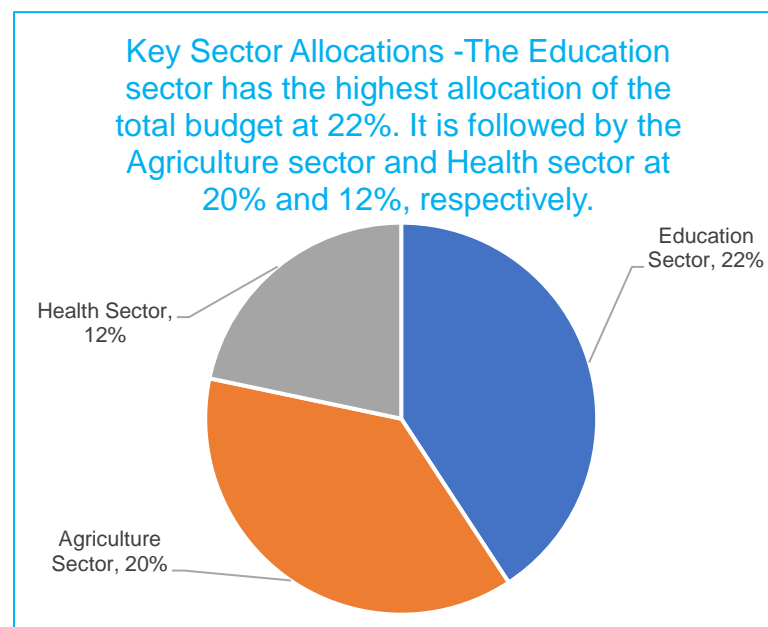


Government to issue a 15-year development bond for strategic projects and clearing outstanding payment arrears.

OTHER MARKET DEVELOPMENTS (Continued)

2020/21 BUDGET STATEMENT (Continued)

Figure 25: Key sector allocations (%)



Other Highlights

1. The 2020/2021 budget assumes the following:
 - i. Real GDP growth rate of 1.9% in 2020 and 4.5% in 2021;
 - ii. Average inflation rate of 9.9%; and
 - iii. A Policy rate of 13.5% during the fiscal year.
2. Establishment of Job Centres to enable job seekers to get jobs
3. Free water and electricity connections upon the completion of reforms of the concerned utility companies.
4. The Malawi Sovereign Wealthy Fund to be established from the Debt Retirement Fund that will be established to retire public debts.
5. An increase in the Pay As You Earn zero bracket from MK45,000.00 to MK100,000.00.
6. Government departments to submit monthly reports to the ministry of finance failing which monthly funding will be withheld.
7. Introduction of a 20% withholding tax on winnings from betting and gambling transactions.
8. Introduction of standard rate of 16.5% VAT on refined cooking oil
9. Reduction of passport fee and free driving License renewal.
10. Issuance of diaspora development bond as a way of encouraging Malawians in diaspora to invest in the country.
11. Establishment of treasury single account which is a unified structure of bank accounts where government resources are pooled and treated as fungible.
12. Engaging credit rating agencies for sovereign credit rating
13. Government to issue a 15-year development bond for strategic projects and clearing outstanding payment arrears
14. An increase in the wages and salaries allocation of 13.5% from last year's allocation due to increases in salaries, employer contribution to the contributory Pension scheme and recruitments.



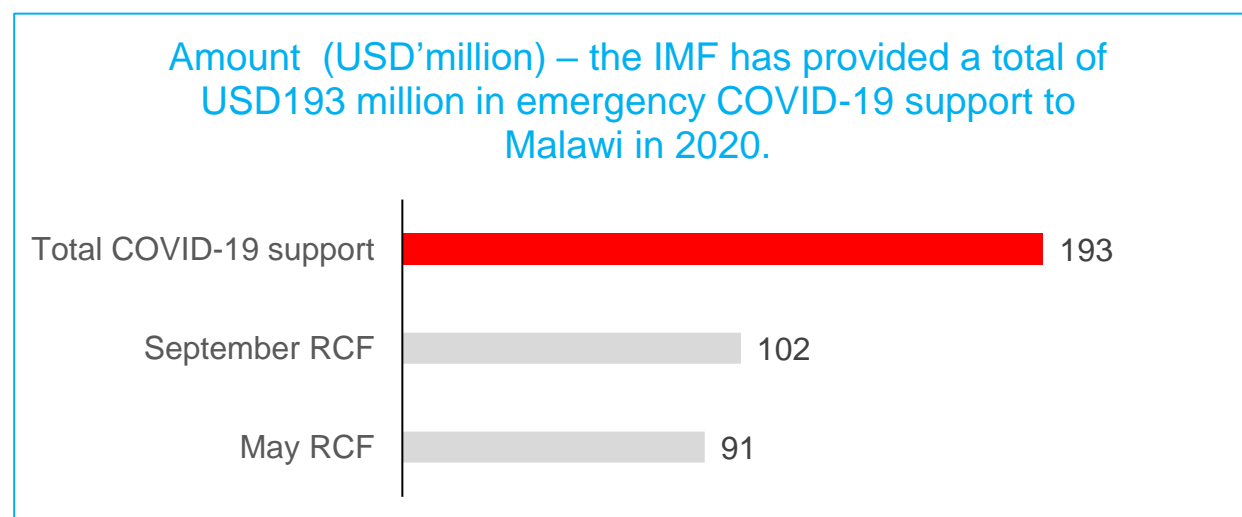
*IMF approves
USD101.96 million
disbursement to
Malawi to mitigate
COVID-19 effects.*

IMF Executive Board Approves an Additional US\$101.96 Million Disbursement under the Rapid Credit Facility for Malawi to Address the COVID-19 Pandemic (Source: IMF)

A disbursement of USD101.96 million to Malawi was approved by IMF's Executive Board under the Rapid Credit Facility (RCF). This money will help the country in addressing its urgent balance of payment and fiscal needs. Combined to RCF of USD91 million made on 1 May 2020, Malawi has received a total of USD193 million in IMF COVID-19 emergency support.

According to the Deputy Managing Director and Chair for the IMF, the funds will help mitigate the impact of the pandemic and preserve macroeconomic stability in the country. This will be done through strengthening the health system, stepping up social spending, ensuring food security and easing liquidity constraints in the banking system. The funds will help close the immediate external and fiscal financing gaps. In addition, the international community will also be critical in further narrowing the gap. This will help preserve the country's macroeconomic stability.

Figure 26: IMF COVID-19 Support to Malawi





Maize prices in September 2020 averaged K180/kg, which is 6% higher than the K175/kg average in the previous month.

OTHER MARKET DEVELOPMENTS (Continued)

MALAWI MONTHLY MAIZE MARKET REPORT (Source: IFPRI)

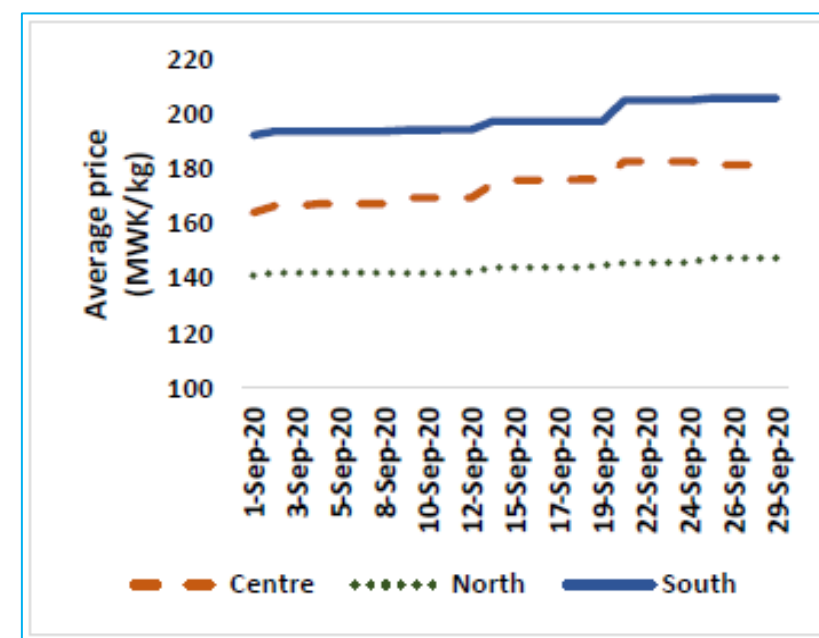
The average maize price was K180/kg in September 2020 from K175/kg in August 2020. This represents a month-on-month increase in prices of 6%. However, on a year-on-year basis, the current prices are 20% lower than in September 2019.

During September 2020, the price for maize remained constant in 8 markets and rose in 18 markets. There were no price decreases recorded during the period. The largest price increase was recorded in Mwanza at 21%. This was followed by a 17% increase in Mpondabwino and a 13% increase in Chimbiya.

The Ministry of Agriculture and Food Security increased the minimum farmgate price to K215/kg from K200/kg. This increase will help offset the transportation costs incurred by cooperatives when transporting maize to ADMARC.

After analyzing maize prices in the three regions of the country, prices were found to be higher in the South. The lowest prices are in the North. This is the usual trend. Prices in the Centre were K30/kg higher than in the North at the end of September 2020. However, they were K24/kg lower than in the South.

Figure 27: Daily average maize retail prices in September 2020 – Prices were higher in Southern region and lowest in the Northern region.





Real GDP to contract by 3.3% in 2020 and recover to a growth rate of 2.1% in 2021.

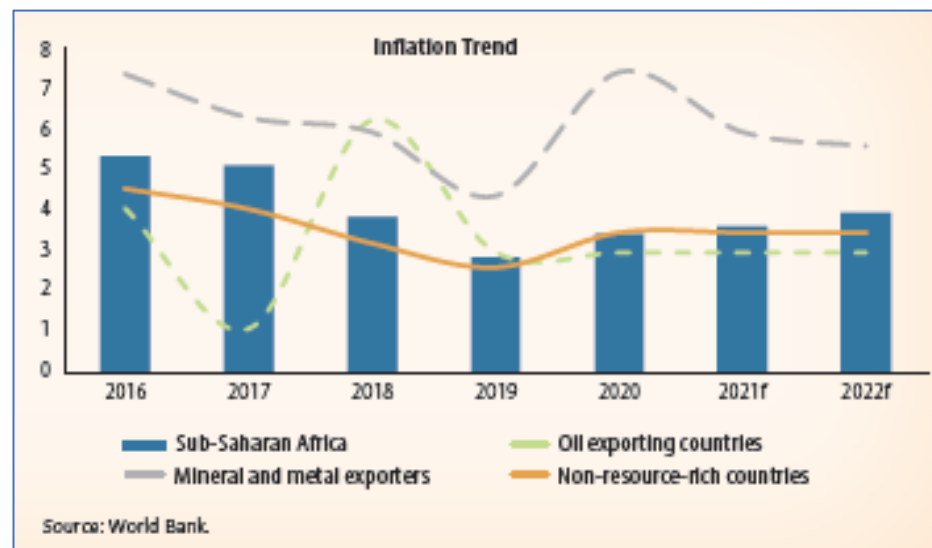
Africa's Pulse: An analysis of issues shaping Africa's future (Source: World Bank)

There is still a lot of uncertainty about the persistence of the spread of the COVID-19 virus, which has infected over 36 million people in the world and killed more than one million. The virus has not been as fatal in Sub-Saharan Africa as only 2.5% of those deaths were from the region. However, economic activity in the region has been significantly affected and the region is expected to contract by 3.3% in 2020 as a result. The region is then expected to recover and grow by 2.1% in 2021.

The pandemic is likely to push over 40 million people into extreme poverty. This will effectively erase over 5 years of progress in fighting poverty. According to the World Bank, sound economic policies, which will improve debt management and fight corruption, will be needed to stimulate recovery in the region. The region also needs to accelerate its use of digital technologies in order to be more resilient to shocks that require social distancing. In addition, improved technology improve agricultural productivity in the region.

The various steps needed to make Africa more resilient require a lot of resources. On average, the fiscal deficits in the region are projected to widen by 3.5% of GDP in 2020. Although this is lower than the fiscal deficits in both the United States (9.7%) and Euro Area (6.8%), the limited fiscal space of the countries in the SSA region require the international community to invest in the region.

Figure 28: SSA Consumer Price Inflation



There was a general increase in prices in most of the countries in the SSA region in 2020. The median inflation rate in the region was estimated to have picked up to 3.5% in 2020 from 2.3% in 2019. The rate is expected to increase in the next 2 years as shown in figure 12. Inflation increased more for countries that are non-resource-intensive. The respective central banks for most of these countries eased monetary policy in order to mitigate the effects of the coronavirus pandemic. This in turn increased inflationary pressures on the economies.



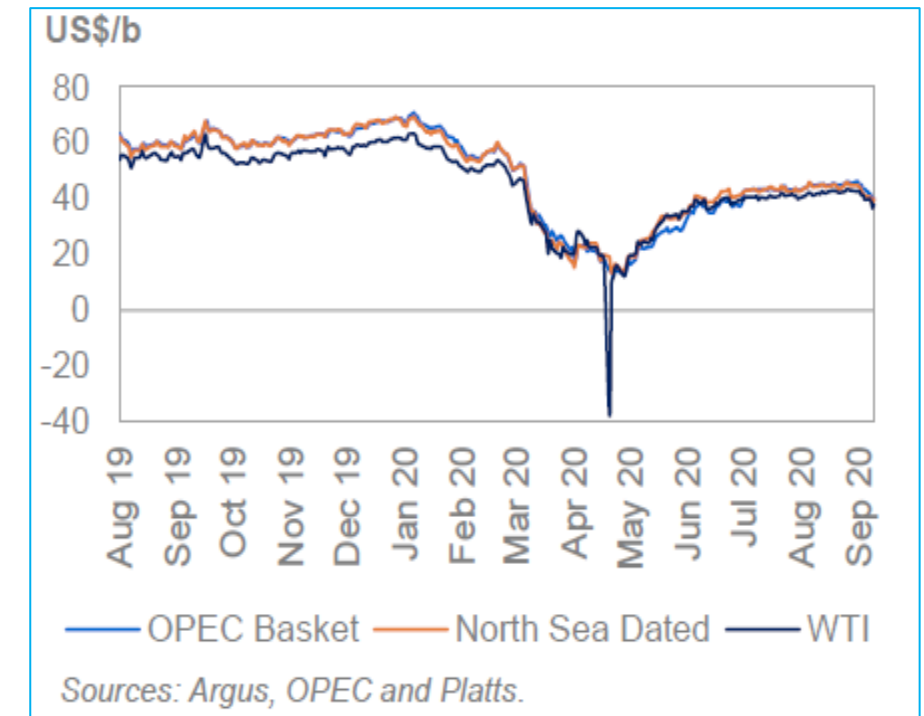
There was a 17.19% increase in oil prices to USD43.42 per barrel for the OPEC Reference Basket in July 2020 from USD37.05 per barrel in June 2020.

GLOBAL OIL DEVELOPMENTS (Source: OPEC)

The value of the OPEC Reference Basket (ORB) continued its upward trend and averaged at USD45.19 per barrel in August 2020 from USD43.42 per barrel in July 2020. The USD1.77 gain in price represents a 4.08% increase. The average price per barrel in August 2020 is also 24.29% lower than the USD59.69 price in August 2019.

There has been another downward revision in the global oil demand by 0.4 million barrels per day (mb/d). As such, the demand is expected to contract by 9.5 mb/d and average 90.2 mb/d. The rate at which the economies will recover from COVID-19 is uncertain and this impacts the projections of global oil demand.

Figure 29: Crude oil price movement



REGIONAL AND GLOBAL MARKET DEVELOPMENTS (Continued)



The central banks for USA, UK and Europe continue to maintain their bank rates while the US 10-Year treasury bond yield decreased to 0.70% in September 2020 from 0.71% in August 2020.

INTEREST RATE MOVEMENTS (Source: WSJ and Reuters)

The US Fed rate was maintained at 0.25% in September 2020. Similarly, the Bank of England Rate and the European Central Bank Rate were also maintained at 0.10% and 0.00% respectively. However, the US 6 months and 3 months Libor both decreased during this period to 0.27% and 0.22%, respectively. The US 10-Year treasury bill yield also decreased to 0.70 in September 2020 from 0.71 in August 2020.

	September 2020 (%)	August 2020 (%)	% Change
US Libor (3 months)	0.22	0.24	↓ -9.22%
US Libor (6 months)	0.27	0.31	↓ -12.50%
US treasury bond yield (10 years)	0.70	0.71	↓ -1.97%
US Fed rate	0.25	0.25	→ 0.00%
Bank of England Rate	0.10	0.10	→ 0.00%
European Central Bank Rate	0.00	0.00	→ 0.00%

Table 14: Interest Rates

The graphs below, figure 30, shows the 10-Year US treasury bond yield:



OUTLOOK FOR MALAWI

Inflation

Despite global oil prices recovering with potential negative headwinds on the country's inflation, the non-food inflation remained at 4.4% in August 2020. Food inflation should also lead to more upward pressure on headline inflation as maize supply in the country dwindles in the lean season. The RBM expects inflation for 2020 to average 9.8%, while the IMF projects an average of 9.2%.

Exchange Rates

There are several factors that are likely to negatively affect the foreign currency market in the short-term. These include dwindling proceeds from the tobacco market, COVID-19 spill over effects, lower forex reserves and current account deficits. The EIU projects the exchange rate to average K770.1 per USD in 2020, while in 2021 and 2024, it expects the exchange rate to average K793.5 and K898.1 per USD, respectively.

Fiscal Policy

The fiscal deficit is likely to worsen in 2020 as the Government increases expenditure on health in order to mitigate the coronavirus pandemic's effects. According to the 2020/21 budget statement, there will be a fiscal deficit of K0.76 trillion. This is from total revenue and grants of K1.44 trillion and total expenditure of K2.19 trillion. Since most of the fiscal deficit will be financed by domestic borrowing, the crowding out effect is likely to limit the private sector's recovery and thus compromise the total tax revenue collected.

Monetary Policy

The Policy Rate is likely to be maintained at 13.5% for the rest of 2020 as the MPC aims to achieve economic stability. Decreasing the Policy Rate may lead to higher inflation, which is against their medium-term goal of $5\pm 2\%$. With a slow-down in the number of new cases registered in the country, the central bank is likely to maintain the policy rate in the next Monetary Policy Committee meeting.

Economic Growth

The country is projected to have real growth of 1.9% according to the Government. This is close to the revised projection by the World Bank of 2.0%. The International Monetary Fund (IMF) projects Malawi's growth to be 0.6% in 2020 and 2.5% in 2021. However, the EIU expects a 3.9% contraction in 2020. Economic growth in 2020 is highly dependent on how the country manages the coronavirus pandemic.

Appendix

Appendix 1: EIU Data and Forecasts

Economic Growth on Malawi

%	2019 ^a	2020 ^b	2021 ^b	2022 ^b	2023 ^b	2024 ^b
GDP	4.1	-3.9	2.8	4.0	5.1	5.7
Private consumption	4.0	-1.0	1.5	3.0	4.5	5.0
Government consumption	7.0	6.0	4.0	3.0	4.0	3.0
Gross fixed investment	11.5	-1.0	5.0	5.0	8.0	8.0
Exports of goods & services	3.7	-10.1	3.8	5.0	5.2	6.5
Imports of goods & services	5.0	-5.0	3.0	4.0	5.0	5.8
Domestic demand	5.3	-0.2	2.3	3.3	4.9	5.2
Agriculture	3.3	0.5	1.0	3.1	4.0	4.5
Industry	4.1	-4.4	4.0	5.4	5.2	5.8
Services	4.5	-6.0	3.5	4.1	4.5	4.9

^a Economist Intelligence Unit estimates. ^b Economist Intelligence Unit forecasts.

Key Indicators on Malawi

	2019 ^a	2020 ^b	2021 ^b	2022 ^b	2023 ^b	2024 ^b
Real GDP growth (%)	4.1	-3.9	2.8	4.0	5.1	5.7
Consumer price inflation (av; %)	9.4	10.5	9.6	10.5	10.9	10.2
Government balance (% of GDP)	-6.2	-7.3	-8.0	-7.5	-6.8	-6.2
Current-account balance (% of GDP)	-16.7	-10.5	-11.0	-11.8	-12.4	-12.7
Money market rate (av; %)	15.5	13.5	14.5	15.5	15.8	16.5
Exchange rate MK:US\$ (av)	745.5 ^c	770.1	793.5	820.5	852.0	898.1

^a Economist Intelligence Unit estimates. ^b Economist Intelligence Unit forecasts. ^c Actual.

International Assumptions

	2019	2020	2021	2022	2023	2024
Economic growth (%)						
US GDP	2.3	-4.0	2.4	2.2	2.0	1.8
OECD GDP	1.6	-5.5	2.8	2.1	1.9	1.8
World GDP	2.2	-4.2	3.7	2.9	2.8	2.7
World trade	0.9	-24.8	20.9	4.0	3.8	3.8
Inflation indicators (% unless otherwise indicated)						
US CPI	1.8	0.6	1.5	1.7	2.0	1.9
OECD CPI	1.9	0.9	1.5	2.0	2.1	2.1
Manufactures (measured in US\$)	-1.4	-2.0	3.5	3.9	3.5	3.1
Oil (Brent, US\$/b)	64.0	38.1	44.0	58.5	65.0	62.5
Non-oil commodities (measured in US\$)	-6.3	-3.2	3.9	2.2	3.2	2.1
Financial variables						
US\$ 3-month commercial paper rate (av; %)	2.2	1.2	0.8	0.5	0.9	1.4
US\$:€ (av)	1.12	1.10	1.12	1.17	1.21	1.24
¥:US\$	109.03	108.96	107.76	104.18	102.40	98.45

Appendix 1: EIU Data and Forecasts

Annual data and forecast on Malawi

	2015 ^a	2016 ^a	2017 ^a	2018 ^a	2019 ^b	2020 ^c	2021 ^c
GDP							
Nominal GDP (US\$ m)	6,373	5,433	6,303	7,065	8,030	8,273	9,219
Nominal GDP (MK m)	3,184,094	3,900,950	4,603,121	5,173,908	5,986,343	6,370,793	7,315,000
Real GDP growth (%)	2.8	2.5	4.0	3.5	4.1	-3.9	2.8
Expenditure on GDP (% real change)							
Private consumption	4.9	18.6	8.3	2.4 ^b	4.0	-1.0	1.5
Government consumption	13.6	-0.2	6.0	6.1 ^b	7.0	6.0	4.0
Gross fixed investment	15.4	-2.1	33.3	3.1 ^b	11.5	-1.0	5.0
Exports of goods & services	16.4	40.1	3.7	-0.1 ^b	3.7	-10.1	3.8
Imports of goods & services	19.9	54.6	-1.5	8.7 ^b	5.0	-5.0	3.0
Origin of GDP (% real change)							
Agriculture	-2.0	-2.3	5.0	2.5 ^b	3.3	0.5	1.0
Industry	3.5	2.4	2.2	2.2 ^b	4.1	-4.4	4.0
Services	5.5	5.2	4.0	4.3 ^b	4.5	-6.0	3.5
Population and income							
Population (m)	16.8	17.2	17.7 ^b	18.1 ^b	18.6	19.1	19.6
GDP per head (US\$ at PPP)	1,018	1,026	1,059 ^b	1,094 ^b	1,042	1,057	1,084
Fiscal indicators (% of GDP)							
Public-sector balance	-6.4	-6.0	-3.6	-7.2 ^b	-6.2	-7.3	-8.0
Net public debt	40.3 ^b	54.6 ^b	56.6 ^b	59.6 ^b	64.5	67.0	67.1

	2015 ^a	2016 ^a	2017 ^a	2018 ^a	2019 ^b	2020 ^c	2021 ^c
Prices and financial indicators							
Exchange rate MK:US\$ (end-period)	672.68	728.62	732.03	733.69	741.68 ^a	818.80	758.71
Exchange rate MK:€ (end-period)	732.35	768.04	877.92	840.08	833.20 ^a	900.68	868.72
Consumer prices (end-period, %)	24.9	20.0	7.1	9.9	11.6	10.5	9.9
Stock of money M1 (% change)	16.8	24.6	19.8 ^b	18.6 ^b	13.8	9.6	22.2
Stock of money M2 (% change)	26.4	15.2	19.7	11.3	8.1	8.7	20.0
Lending interest rate (av; %)	44.4	44.1	38.6	32.3	24.0	23.8	24.8
Current account (US\$ m)							
Trade balance	-789	-1,090	-1,577	-1,668	-1,591	-1,275	-1,290
Goods: exports fob	1,431	1,066	910	951	1,158	887	1,037
Goods: imports fob	-2,220	-2,156	-2,487	-2,618	-2,749	-2,162	-2,327
Services balance	-213	-135	-151	-158	-165	-180	-201
Primary income balance	-327	-96	-153	-165	-218	-172	-187
Secondary income balance	398	268	467	564	635	756	659
Current-account balance	-930	-1,053	-1,414	-1,427	-1,339	-871	-1,019
External debt (US\$ m)							
Debt stock	1,721	1,877	2,134	2,270	2,479	2,685	2,814
Debt service paid	69	75	71	73	96	62	145
Principal repayments	54	57	54	56	74	51	122
Interest	16	18	17	17	22	11	23
International reserves (US\$ m)							
Total international reserves	702	631	793 ^b	782 ^b	847	709	839

^a Actual. ^b Economist Intelligence Unit estimates. ^c Economist Intelligence Unit forecasts.

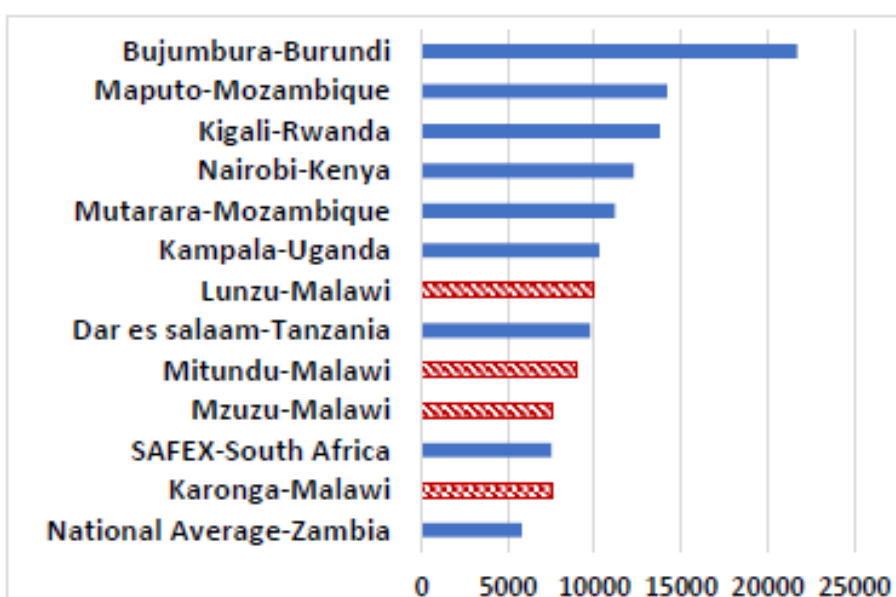
Sources: IMF, International Financial Statistics; Ministry of Finance, Budget statements; World Bank, Global Development Finance; Reserve Bank of Malawi, Economic reviews.

Appendix 2: Malawi monthly maize market report

Table 1. Maize retail prices (MWK/kg) by market

Market	5-Sep-20	12-Sep-20	19-Sep-20	26-Sep-20	Change
Chitipa	140	140	140	140	→ 0%
Karonga	143	140	140	150	↑ 5%
Rumphi	143	140	143	143	→ 0%
Mzuzu	150	150	150	150	↑ 0%
Mzimba	140	143	147	147	↑ 5%
Jenda	137	142	150	153	↑ 12%
Salima	180	187	187	200	↑ 11%
Mchinji	163	165	170	180	↑ 11%
Nsungwi	170	172	180	173	↑ 2%
Mitundu	170	170	170	180	↑ 6%
Chimbiya	155	156	167	175	↑ 13%
Balaka	173	170	173	190	↑ 10%
M'baluku	200	200	200	220	↑ 10%
Mangochi	195	195	200	207	↑ 6%
Liwonde	180	180	200	200	↑ 11%
Chiringa	193	193	200	200	↑ 3%
Mpondabwino	199	205	205	233	↑ 17%
Lunzu	195	195	195	200	↑ 3%
Mbayani	200	200	200	200	→ 0%
Mwanza	193	193	193	233	↑ 21%
Mulanje	200	200	200	200	→ 0%
Luchenza	200	200	200	200	→ 0%
Chikwawa	200	200	200	200	→ 0%
Ngabu	183	190	200	203	↑ 11%
Bangula	202	202	202	202	→ 0%
Nsanje	197	197	197	197	→ 0%
All markets	177	178	181	188	↑ 6%

Figure 3. Retail maize prices in selected markets in eastern and southern Africa (as of end September 2020)



Note: Price for Kigali is as of end August 2020.

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