

Monthly Economic Report

| October 2020

	Page
1. List Of Acronyms	3
2. Executive Summary	4-5
3. Economic overview	6
1. Inflation	7
2. Government Securities	8-11
3. Foreign Currency Market	12
4. Foreign Reserve Position	12-13
5. Interbank Markets and Interest Rates	14
6. Stock Market	15-19
4. Other Market Developments	
1. Statement of the monetary policy committee	20
2. Request for disbursement under the rapid credit facility	21
3. GDP Rebasing	22
4. Malawi Monthly Maize Market Report	23
5. Regional And Global Market Developments	
1. Global Oil Developments	24
2. Interest Rate Movements	25
3. World Economic Outlook: A Long and Difficult Ascent	26
6. Outlook for Malawi	27
7. Appendix	
1. Appendix 1: EIU Data and Forecasts	29
2. Appendix 2: Malawi monthly maize market report	31
3. Appendix 3: GDP Rebasing Table	32
4. Appendix 4: IMF Projections	33
5. Contact Information	34

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
GoM:	Government of Malawi	TNM:	Telekom Networks Malawi Plc
IMF:	International Monetary Fund	TN	Treasury Note
MASI:	Malawi All Share Index	WEO:	World Economic Outlook
MB/D	Millions of Barrels per Day	UK:	United Kingdom
MK/K:	Malawi Kwacha	USA:	United States of America
M-O-M:	Month-on-month	USD:	United States Dollar
MPC:	Monetary Policy Committee	Y-O-Y:	Year-on-year
MSE:	Malawi Stock Exchange	YTD:	Year-to-date
MVAC:	Malawi Vulnerability Assessment Committee	ZAR:	South African Rand

Executive Summary

Inflation

Headline inflation for October 2020 decreased to 7.1% from 7.6% in September 2020 on account of food inflation easing to 10.3% from 11.3% during the period. Non-food inflation remained steady at 4.4% in October 2020. With the RBM cutting the policy rate to 12.0% from 13.5%, inflationary pressure will be increased. This will also be compounded by the decrease in the maize supply as the lean period continues since maize prices will continue to rise. The Reserve Bank of Malawi made a downward revision on the projected headline inflation for 2020 to 8.6% from 9.8%. This is lower than the 9.2% projection made by the International Monetary Fund (IMF).

Exchange Rates

The Kwacha slipped to K759.47 per USD in October 2020 from K756.93 per USD in September 2020. Despite lower revenue realized from the Tobacco market, donor transfers and the disbursement made by the IMF have helped increase the country's foreign reserve position to an import cover of 3.04 months in October 2020 from 2.62 months in September 2020. On the other hand, the lower policy rate of 12.0% is likely to exert pressure on the country's 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 its reforms, which aim to improve efficiency, then a smaller fiscal deficit will be actualized.

Monetary Policy

The policy rate has been cut to 12.00% from 13.50% after the fourth Monetary Policy committee meeting on 5 and 6 November 2020. The new Lombard rate is 12.02% whilst the Liquidity Reserve Requirement ratio on both local and foreign currency deposits is still at 3.75%. The lower policy rate is likely to stimulate the economy and create more jobs; however, it may also lead to higher inflation.

Economic Growth

The RBM expects the country's real economic growth to be 1.2% in 2020, which is lower than the 1.9% growth projected by the Government of Malawi (GoM). The World Bank and African Development Bank projected growth of 2.0% and 1.3% in 2020, respectively. The International Monetary Fund (IMF) made a lower projection of 0.6% in 2020 but they expect the economy to recover to 2.5% in 2021. All the growth projections are lower than the pre-coronavirus pandemic which has substantially slowed down economic growth.

Economic overview



Headline inflation eases to 7.1% in September 2020 from 7.6% in September 2020, due to declines in food prices.

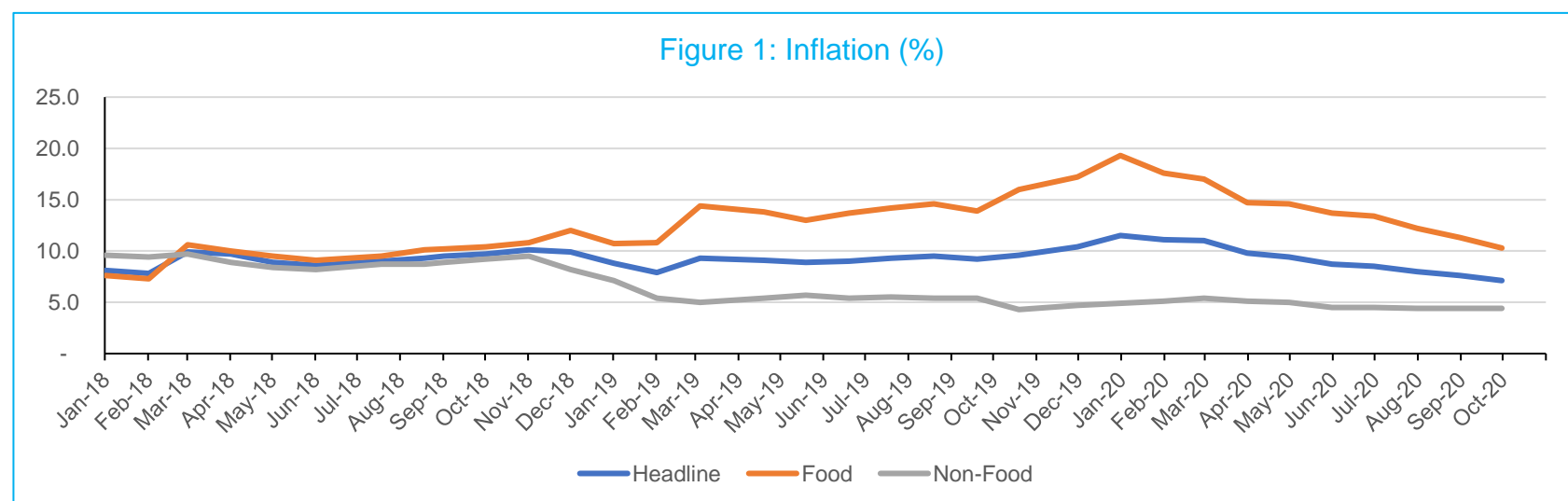
INFLATION (Source: NSO)

The headline inflation fell to 7.1% in September 2020 from 7.6% in August 2020. The inflation has been on a downward trajectory since the peak of 11.5% in December 2019. The easing of food-inflation to 10.3% from 11.3% during the period led to the decrease in headline inflation. Non-food inflation has been steady at 4.4% for the past 3 months. As the global economies recover and the maize supply in the country decreases, both non-food and food inflationary pressure may increase. With the global economy recovering and other factors staying constant, demand for fuel may increase and this may lead to higher fuel prices. As a result, this is likely to increase non-food inflation. This may lead to higher headline inflation in the short run. The table below summarizes the inflation rates during the period while the graph illustrates the trend from January 2018 to September 2020.

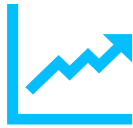
	September-20	Aug-20	Sep-19	m-o-m % Change	y-o-y % Change
Headline	7.1%	7.6%	9.2%	↓ -6.6%	↓ -22.8%
Food	10.3%	11.3%	13.9%	↓ -8.8%	↓ -25.9%
Non-food	4.4%	4.4%	5.4%	→ 0.0%	↓ -18.5%

Table 1: Inflation (%)

Headline inflation continues to decrease. It reached 7.1% in September 2020 from a peak of 11.5% in December 2019.



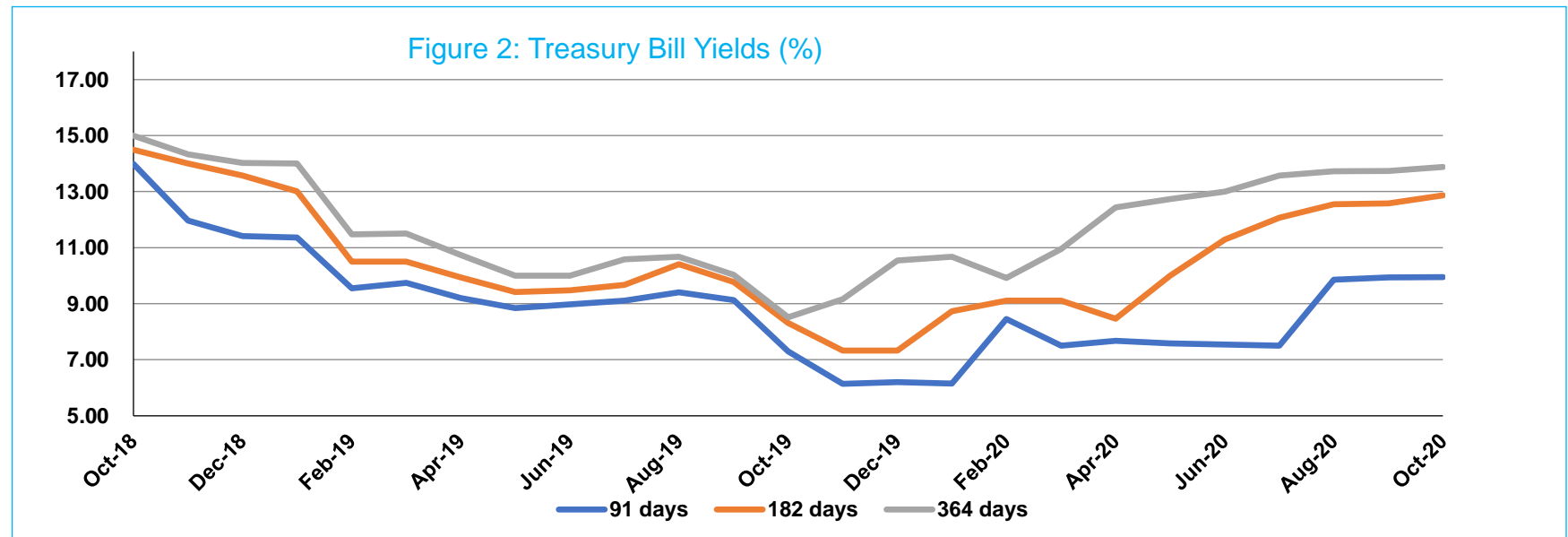
ECONOMIC OVERVIEW (Continued)



The average All Type Treasury bill yield increased to 12.23% in October 2020 from 12.09% in the previous month.

GOVERNMENT SECURITIES (Source: RBM)

The average All Type Treasury bill yield increased to 12.23% in October 2020 from 12.09% in the previous month. There was also a positive y-o-y change of 52.22%. The average yields for all the treasury bills increased in October 2020 from the previous month. The yields of the 91 days, 182 days and 364 days papers increased to 9.95%, 12.87% and 13.88%, respectively (from 9.94%, 12.58% and 13.74%). The figure below traces the Treasury bill yields for the different tenures from Jan 2018 to October 2020.



The treasury bill yields are summarized in the table below.

Tenor	September-2020	August-2020	September-2019	m-o-m % Change	y-o-y % Change
91-day	9.95%	9.94%	7.29%	↑ 0.10%	↑ 36.49%
182-day	12.87%	12.58%	8.31%	↑ 2.31%	↑ 54.87%
364-day	13.88%	13.74%	8.51%	↑ 1.02%	↑ 63.10%
All Type yield	12.23%	12.09%	8.04%	↑ 1.21%	↑ 52.22%

Table 2: Treasury Bill Yields (%)

ECONOMIC OVERVIEW (Continued)



There was a 74.62% decrease in treasury bills (TB) applications in October 2020 in comparison to September 2020. The 364 days paper had the highest subscription rate of 66.35% over the period.

GOVERNMENT SECURITIES (Continued)

Treasury bill (TB) applications decreased by 74.62% in October 2020. There were applications of K6.74 billion in October 2020 from K26.56 billion in the previous month. Similarly, October 2019 had applications of K127.08 billion, which represents a year-on-year decrease of 94.70%. Allotments in October 2020 also decreased both on a month-on-month and a year-on-year basis. The allotments of K6.74 billion was lower than the K17.06 in September 2020 and K21.17 billion in October 2019, respectively. There were no rejections in the month of October 2020, compared to the 35.77% rejection rate in September 2020.

Table 3: TB Applications, Allotments and Rejection Rates

	Oct-20	Sep-20	Oct-19	m-o-m % Change	y-o-y % Change
Applications (K'billion)	6.74	26.56	127.08	↓ -74.62%	↓ -94.70%
Allotments (K'billion)	6.74	17.06	21.17	↓ -60.49%	↓ -68.16%
Rejection rate (%)	0.00%	35.77%	83.34%	↓ -100.00%	↓ -100.00%

The 364 days paper had the highest subscription rate in October 2020 at 66.35% from 70.23% in the previous month. On the other hand, the 91 days paper had the lowest subscription rate at 8.95% from 3.77% in the previous month. The subscription rate for the 182 days paper was 24.69% in October 2020 and 26.01% in September 2020. The subscription rates for the treasury bills are summarized below.

Table 4: TB Subscription Rates

Tenor	Oct-20	Sep-20	Oct-19	m-o-m % Change	y-o-y % Change
91-day	8.95%	3.77%	21.31%	↑ 137.76%	↓ -57.98%
182-day	24.69%	26.01%	32.66%	↓ -5.05%	↓ -24.40%
364-day	66.35%	70.23%	46.03%	↓ -5.52%	↑ 44.15%
Total	100.00%	100.00%	100.00%		

ECONOMIC OVERVIEW (Continued)



A total of K15.52 billion was raised in the Treasury Note (TN) auctions in October 2020, from K52.81 billion raised in the previous month.



The average yields for the 3-Year TN and 5-Year TN were 18.47% and 19.95%, respectively.

GOVERNMENT SECURITIES (Continued)

The government raised K15.52 billion in the Treasury Note (TN) auctions in October 2020, from the K52.81 billion that was raised in September 2020. There were two TN auction in both months. In October 2020, the 3-Year and 5-Year TN auction raised K12.20 billion and K3.32 billion, respectively. This was from respective applications of K13.03 billion and K11.20 billion. The 3-Year and 10-Year TN auctions held in September 2020 raised K41.35 billion and K11.46 billion, respectively. Applications for these TNs were K43.55 billion and K14.24 billion, respectively.

The 3-Year and 5-Year TN auctions held in October 2020 had average yields of 18.47% and 19.95%, respectively. Their respective coupon rates were 11.00% and 12.50%. In the previous month, the 3-Year and 10-Year TNs had average yields of 18.02% and 22.14%, respectively. Their coupon rates were 11.00% and 15.00%, respectively.

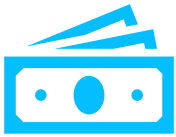
Table 4: Treasury Note Yields and Coupon Rates

Tenor	Yield (%)		Coupon Rate (%)	
	Oct-20	Sep-20	Oct-20	Sep-20
2-Year				
3-Year	18.47%	18.02%	11.00%	11.00%
5-Year	19.95%		12.50%	
7-Year				
10-Year		22.14%		15.00%
Average	19.21%	20.08%	12.83%	13.00%

Table 5: Treasury Note Allotments and Applications

Tenor	Applied Amount (K'Billions)		Alloted Amount (K'Billions)	
	Oct-20	Sep-20	Oct-20	Sep-20
2-Year				
3-Year	13.03	43.55	12.20	41.35
5-Year	11.20		3.32	
7-Year				
10-Year		14.24		11.46
Total	24.23	57.79	15.52	52.81

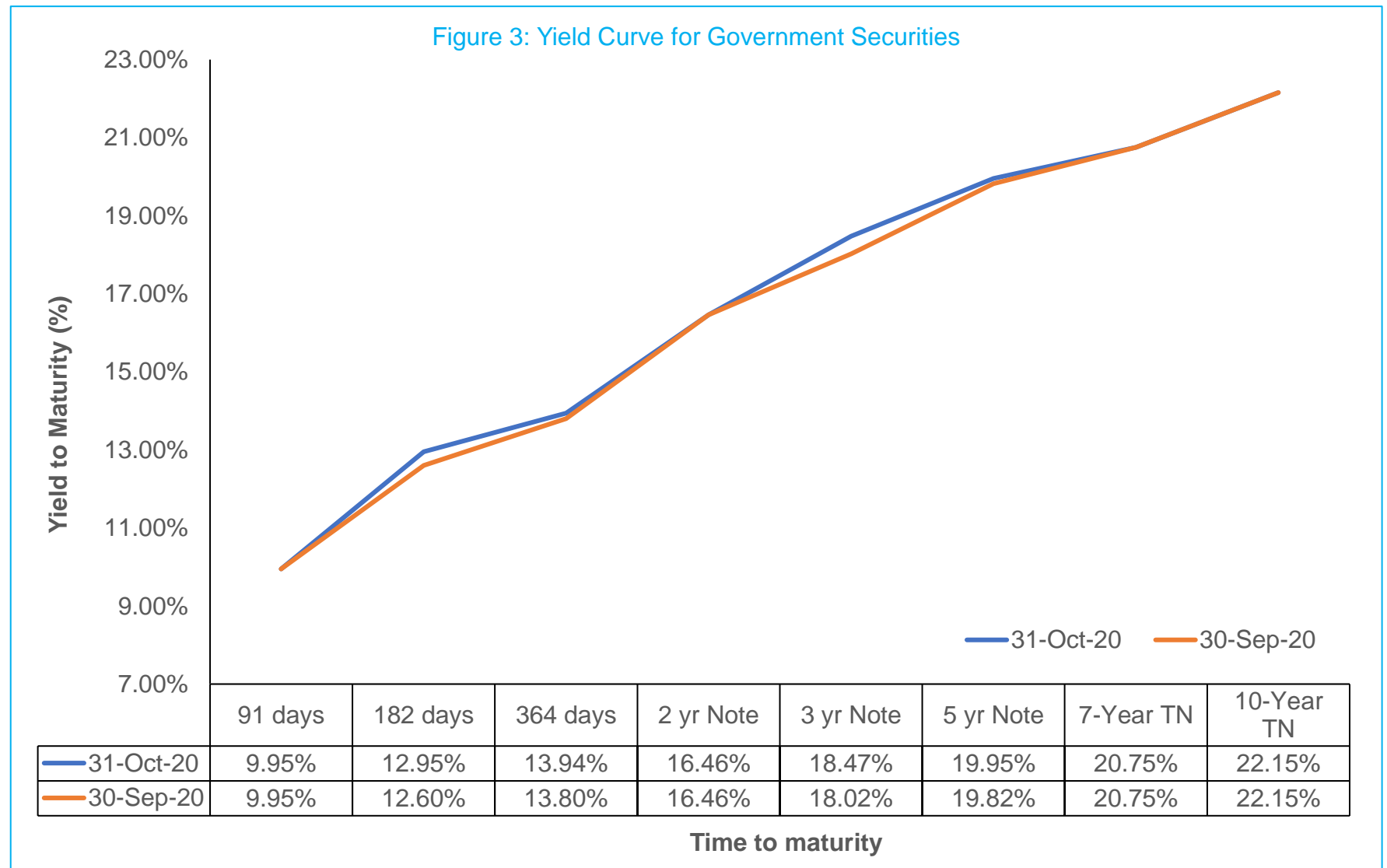
ECONOMIC OVERVIEW (Continued)



There were increases in yields for the Treasury Bills, the 3-Year Treasury Note (TN) and the 5-Year TN.

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 October at K756.93 per USD from K754.71 per USD in the previous month.









Official foreign exchange reserves as at 31 October 2020 were at USD636.05 million, which is an import cover for 3.01 months. On 30 September 2020, it was USD546.99 million and an import cover for 2.62 months.

ECONOMIC OVERVIEW (Continued)

FOREIGN CURRENCY MARKET (Source: RBM)

The Kwacha marginally depreciated against the USD from K756.93 per USD in September 2020 to K759.47 per USD in October 2020. It also depreciated against the Great British Pound (from K999.88 per GBP to K1,015.00 per GBP) and South African Rand (from K47.33 per ZAR to K49.18 per ZAR). However, it appreciated marginally against the Euro (from K928.35 per EUR to K925.23 per EUR). The table below summarizes the currency movement for the period.

Table 6: Foreign Currency Market

	Oct-20	Sep-20	Oct-19	m-o-m % Change	y-o-y % Change
MK:USD	759.47	756.93	737.96	 -0.3%	 -2.9%
MK:GBP	1,015.11	999.88	953.95	 -1.5%	 -6.4%
MK:ZAR	49.18	47.33	49.13	 -3.9%	 -0.1%
MK:EUR	925.23	928.35	823.41	 0.3%	 -12.4%

FOREIGN RESERVE POSITION (Source: RBM)

As at 31 October 2020, the country's forex reserves were at USD635.05 million, which is an increase from the USD546.99 million on 30 September 2020. According to the RBM's assumption of a monthly import requirement of USD209.0 million, the country's import cover increased to 3.04 months from 2.62 months during the previous month. This is likely due to donor transfers to the country. These funds have slowed down the rate at which the reserves are being depleted.

The private sector reserves increased to USD340.22 million in October 2020 from USD318.47 million in September 2020. Consequently, the private sector import cover increased to 1.63 months from 1.52 months during the period.

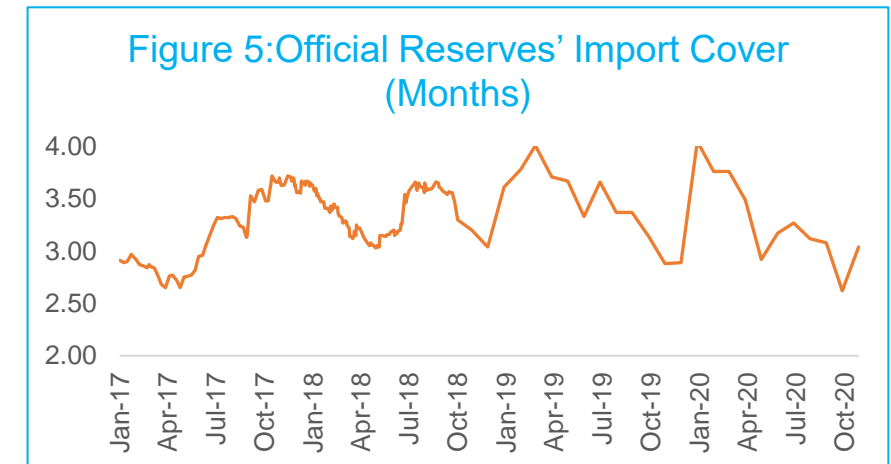
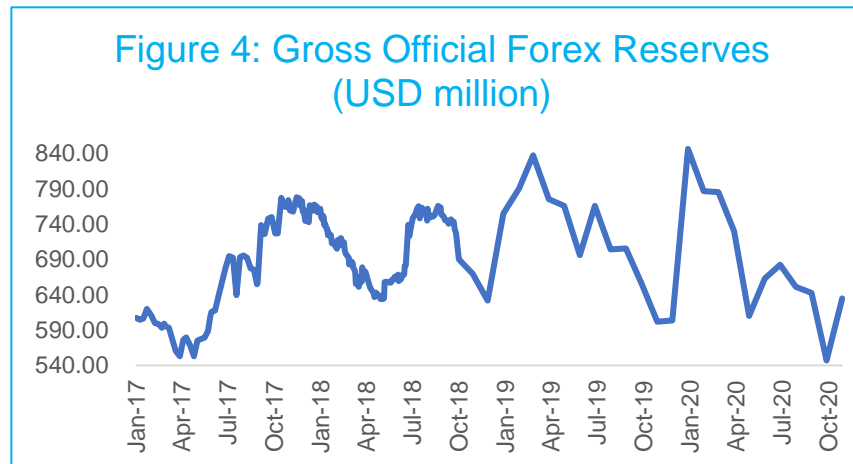


ECONOMIC OVERVIEW (Continued)

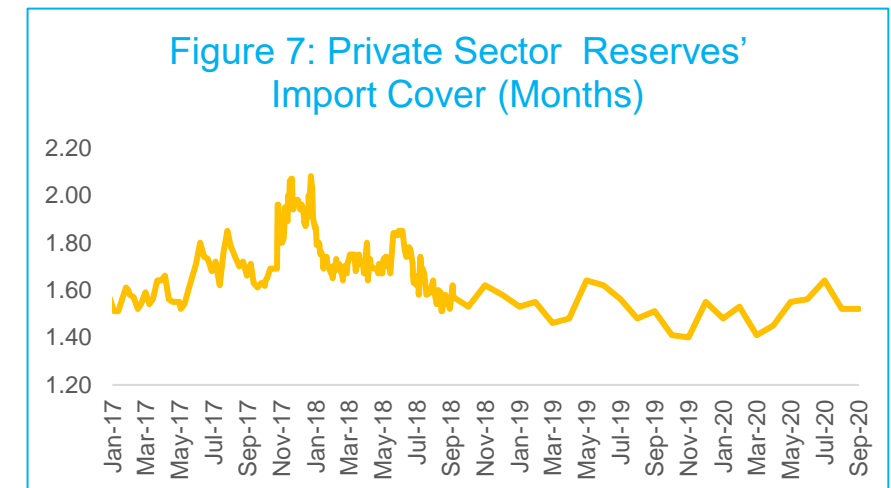
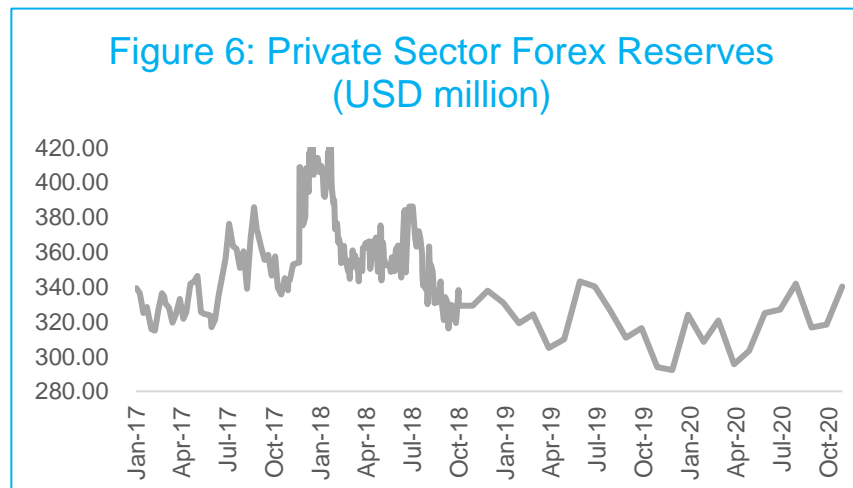
Both the Gross official reserves and Private sector reserves increased in October 2020 from the previous month. They increased by 16.10% and 6.83%, respectively.

FOREIGN RESERVE POSITION TREND GRAPHS (Source: RBM)

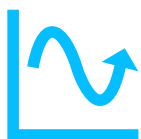
The gross official foreign exchange reserves and import cover are shown below.



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



ECONOMIC OVERVIEW (Continued)



Overnight Interbank rate increased marginally to 13.62% in October 2020 from 13.61% in September 2020.

INTERBANK MARKETS AND INTEREST RATES (Source: RBM)

There was a 39.19% increase in the daily average liquidity to K6.92 billion in October 2020 from K4.97 billion in September 2020. Similarly, the Lombard facility (Discount Window borrowing) had a higher daily average in October 2020 at K48.96 billion from K39.57 billion. This is a 23.74% increase. The Lombard rate remained at 13.70%. However the Overnight (O/N) Interbank volume decreased during the period to a daily average of K4.39 billion from K8.60 billion. The rate moved in the opposite direction to 13.62% from 13.61%. The table below summarizes the monthly changes in the Interbank market and access to the Discount Window.

Table 7: Daily Average Rates (%)

	Oct-20	Sep-20	m-o-m % Change
Interbank O/N	13.62%	13.61%	↑ 0.07%
Discount Window Borrowing	13.70%	13.70%	→ 0.00%

Table 8: Daily Average Volumes (K'Billions)

Daily aAverages	Oct-20	Sep-20	m-o-m % Change
Interbank O/N	4.39	8.60	↓ -48.98%
Discount Window Borrowing	48.96	39.57	↑ 23.74%
Liquidity	6.92	4.97	↑ 39.19%

Figure 8.1: Daily Liquidity Volume (K'Billions)

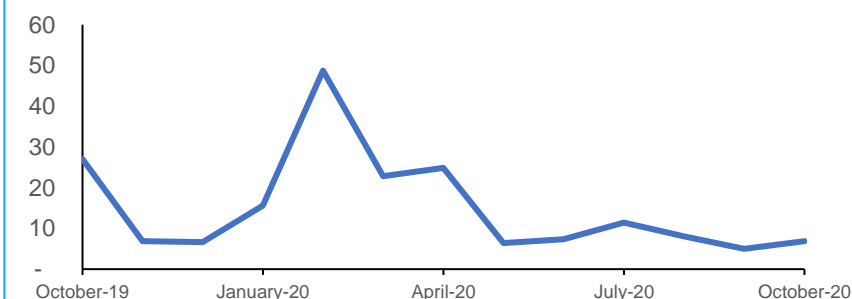


Figure 8.2: Daily Interbank Volume (K'Billions)

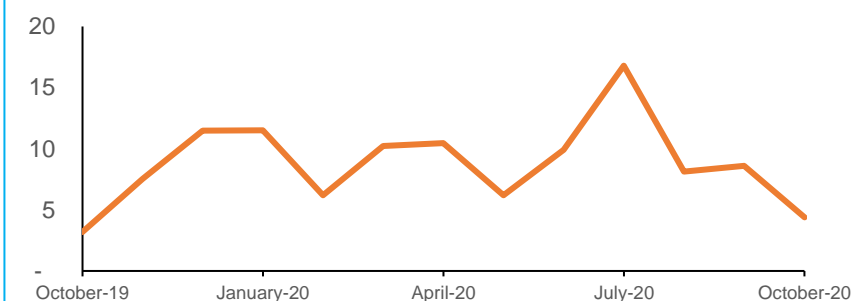
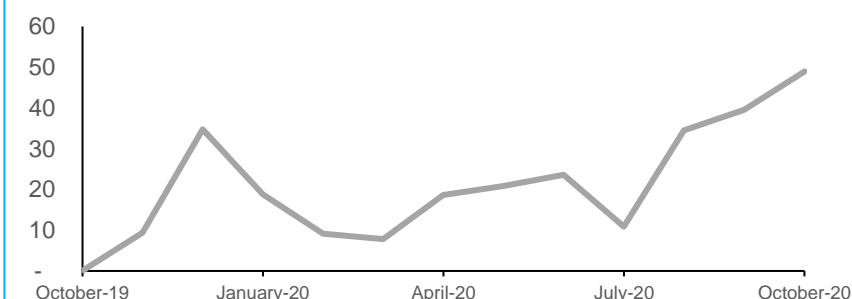


Figure 8.3: Daily Discount Window Volume (K'Billions)



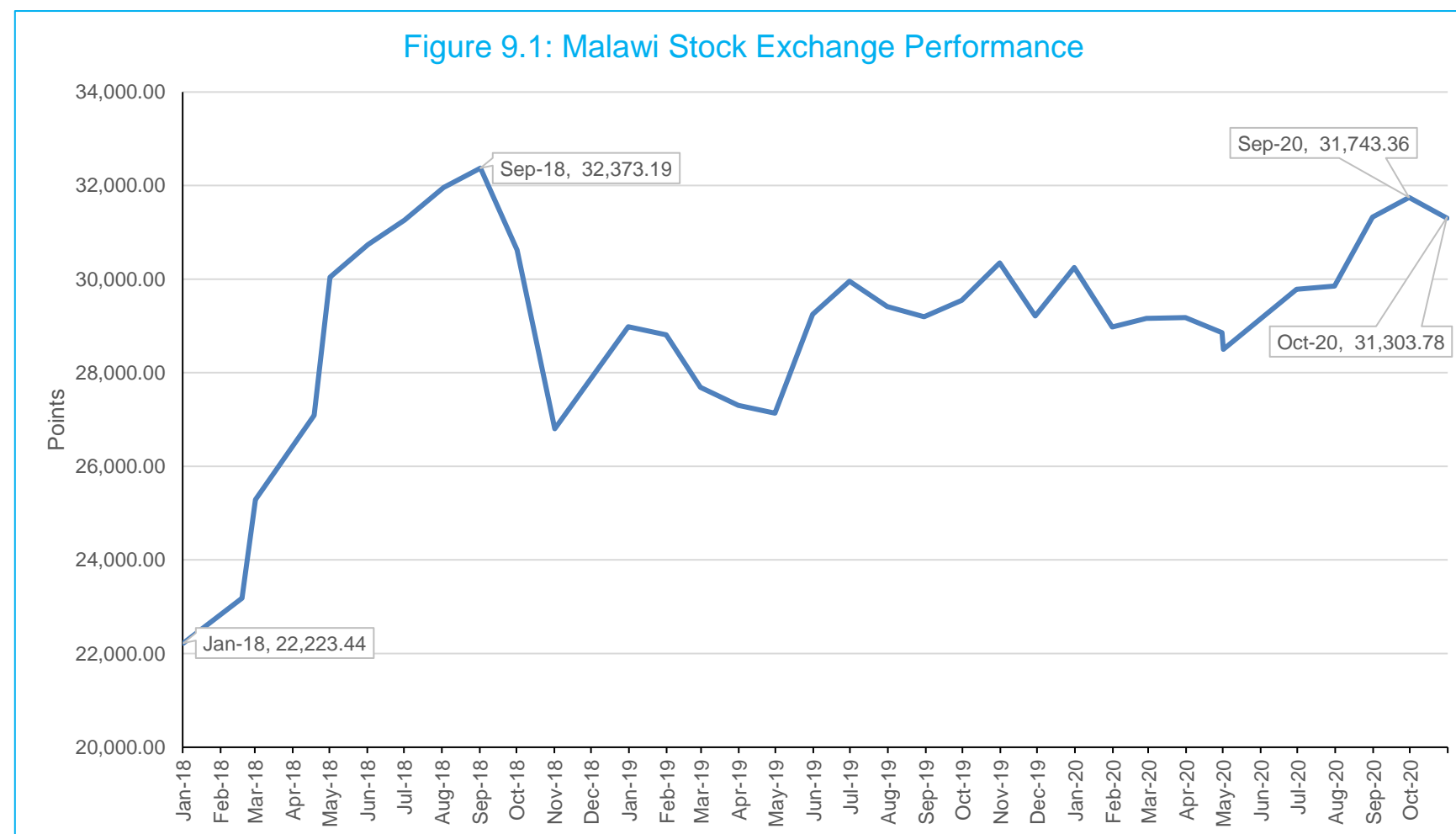


The MASI decreased by 1.38% to 31,303.78 points in October 2020 from 31,743.36 points in September 2020.

There were 10 counters with share price losses while 2 counters had share price gains in October 2020.

STOCK MARKET (Source: MSE)

The stock market was bearish in October 2020 as the Malawi All Share Index (MASI) decreased by 1.38% to 31,303.78 points from 31,743.36 points in the previous month. This is because of the decrease in both the Domestic Share Index (DSI) and the Foreign Share Index (FSI) by 1.16% and 6.75%, respectively. The DSI closed the month at 26,787.57 from 27,101.51 points while the FSI closed the month at 2,362.39 points from 1,460.99 points. The graph below traces the MASI from January 2018 to October 2020.





NICO had the largest share price gain in October 2020 at 8.33%, followed by NBS at 7.77. TNM had the largest loss during this period at 12.50%.

STOCK MARKET (Source: MSE)

The largest gainer in October 2020 was NICO which closed the month at K52.00 from K48.00 in the previous month. This is an 8.33% increase. There was also a share price gain for NBS to K20.95 from K19.44 during this period. A total of four counters closed the month at the same price as the previous month. These counters are FDH Bank, ILLOVO, PCL and Standard Bank. Finally, there were share price losses for the remaining 10 counters on the MSE. The largest losers were TNM and FMBCH, whose losses were 12.50% and 8.29%, respectively. The following table summarizes the share price changes during the period.

Table 9: MSE Prices

MSE Code	Share Price		m-o-m % Change	
	31-Oct-20	30-Sep-20		
Airtel	28.95	30.00	↓	-3.50%
BHL	12.94	12.94	→	0.00%
FDHB	12.00	12.06	↓	-0.50%
FMBCH	22.01	24.00	↓	-8.29%
ICON	12.30	12.49	↓	-1.52%
ILLOVO	80.50	80.50	→	0.00%
MPICO	23.93	24.00	↓	-0.29%
NBM	617.70	618.75	↓	-0.17%
NBS	20.95	19.44	↑	7.77%
NICO	52.00	48.00	↑	8.33%
NITL	94.97	94.98	↓	-0.01%
OMU	2,199.98	2,199.99	↓	0.00%
PCL	1,343.99	1,343.99	→	0.00%
STANDARD	851.00	851.00	→	0.00%
SUNBIRD	105.00	120.00	↓	-12.50%
TNM	19.99	21.00	↓	-4.81%
MASI	31,303.78	31,743.36	↓	-1.38%
DSI	26,787.57	27,101.51	↓	-1.16%
FSI	1,362.39	1,460.99	↓	-6.75%

ECONOMIC OVERVIEW (Continued)



The Malawi All Share Index (MASI) closed the month of October 2020 with a dividend yield of 2.75% and a P/E Ratio of 14.31.

STOCK MARKET (Source: Continued)

Figure 9.2: MSE Dividend Yield

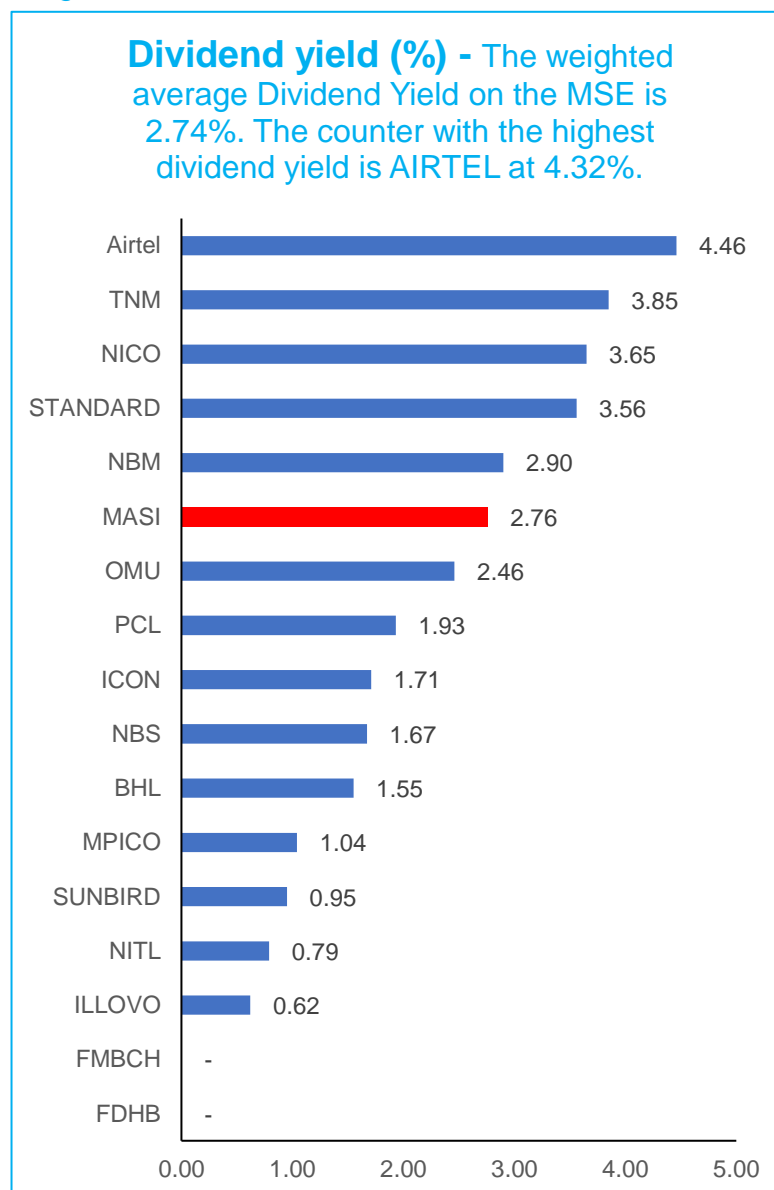
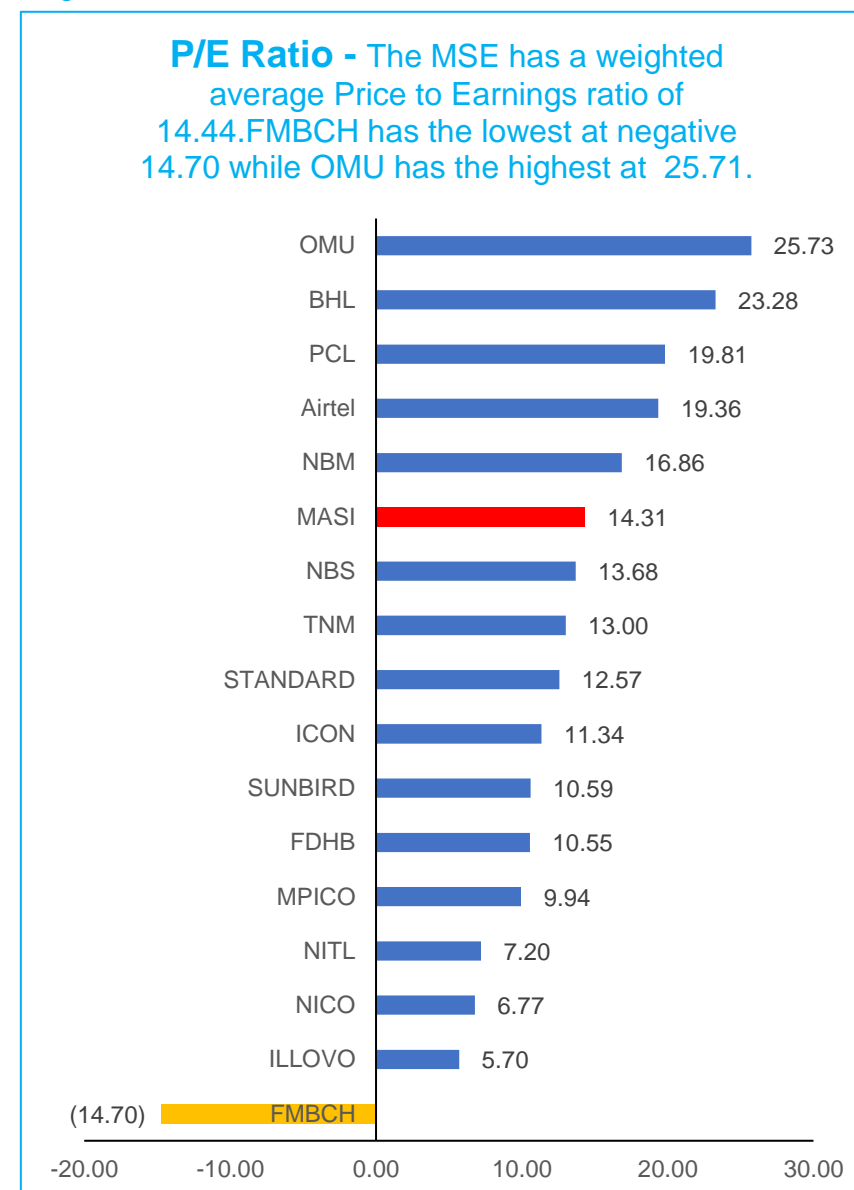


Figure 9.3: MSE P/E Ratio



ECONOMIC OVERVIEW (Continued)



At the end of October 2020, the MASI had a P/BV Ratio of 2.19 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

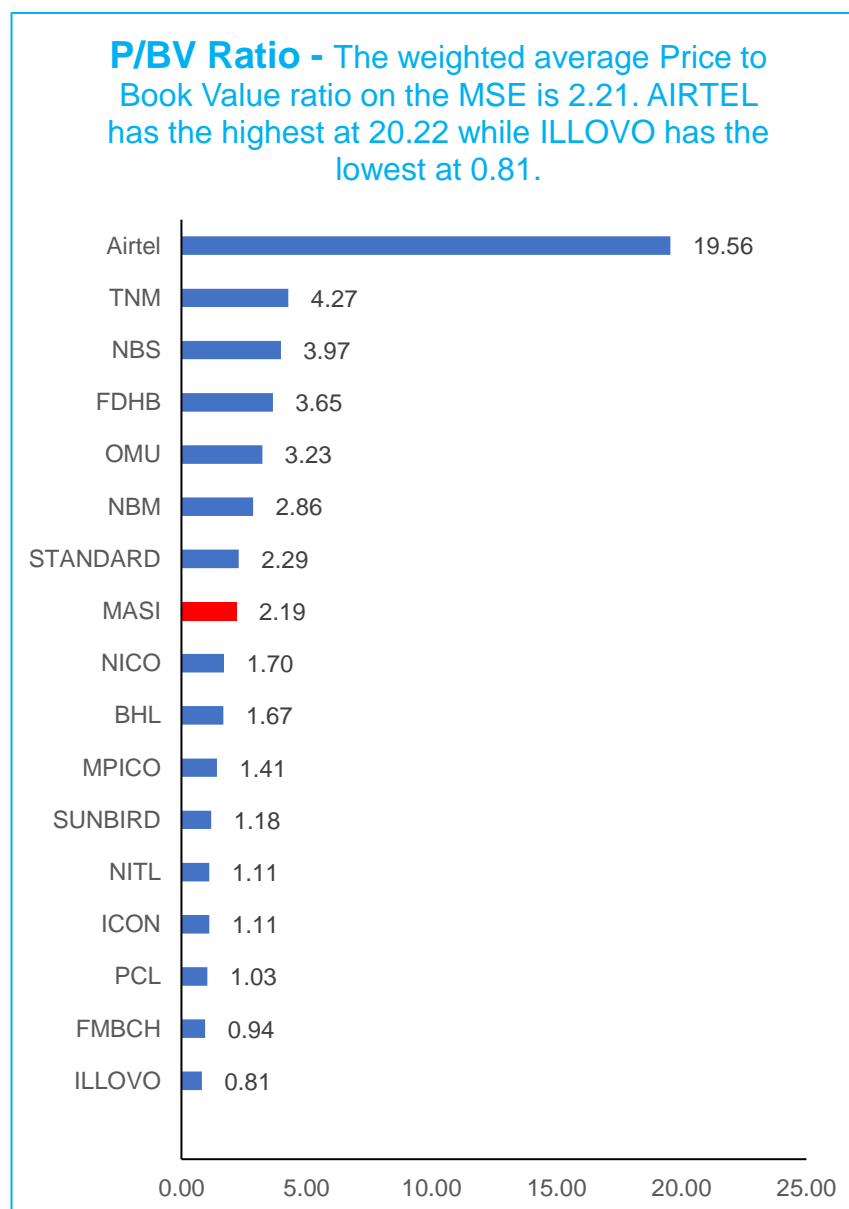
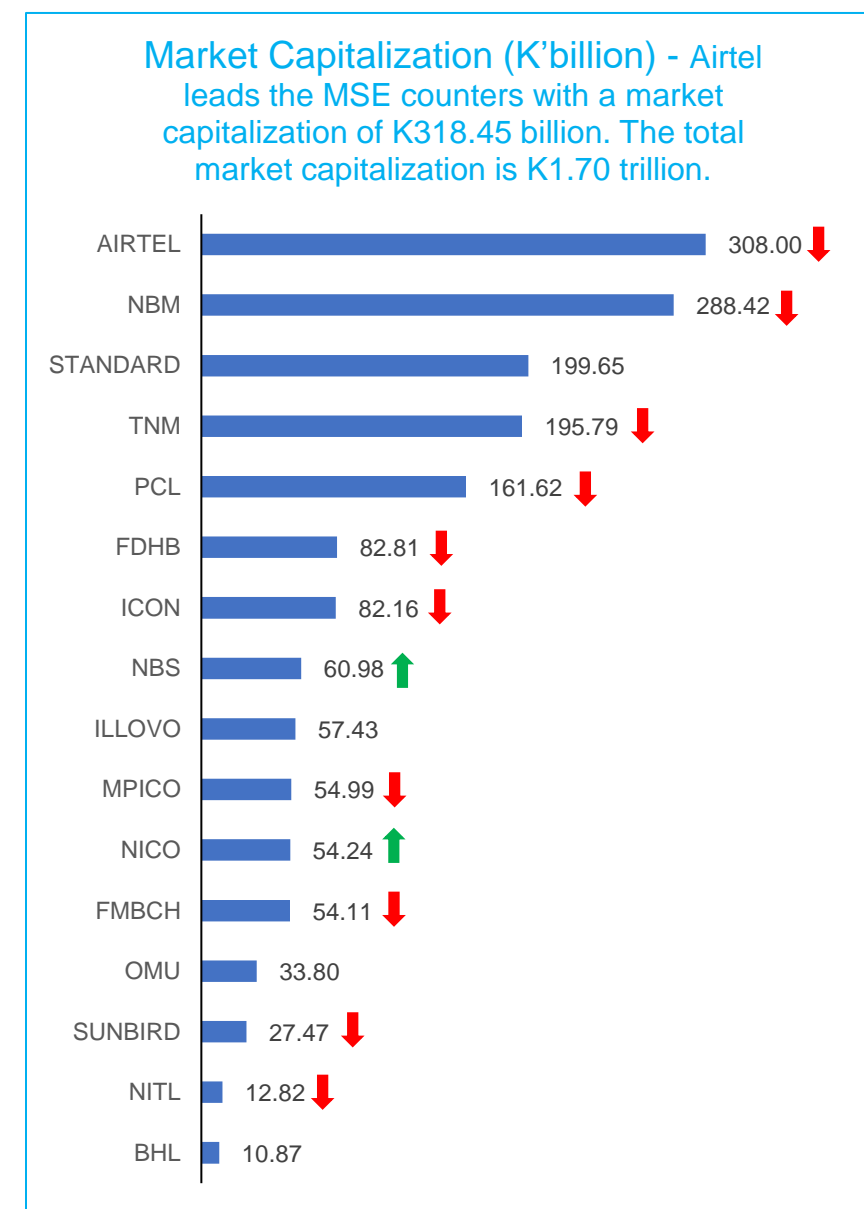


Figure 9.5: MSE Market Capitalization



ECONOMIC OVERVIEW (Continued)



The MASI closed the month of October 2020 with a negative year-to-date return of 1.38%. It was positive 4.70% in October 2019.

STOCK MARKET (Continued)

Table 10: MSE YTD Return

	31-Oct-20	31-Jan-20	31-Oct-19	Return YTD	y-o-y % Change	Previous Year's Return YTD
MAI	31,303.78	31,743.36	30,344.49	↓ -1.38%	↑ 3.16%	↑ 4.70%
DSI	26,787.57	27,101.51	23,455.64	↓ -1.16%	↑ 14.21%	↑ 10.03%
FSI	1,362.39	1,460.99	4,272.58	↓ -6.75%	↓ -68.11%	↓ -18.85%

A total of 660 million shares were traded on the MSE in October 2020 and this is 279% higher than in the previous month. However, the number of trades in the month under review decreased by 26.17% from 321 to 237 trades. The total value of the trades in October 2020 increased by 108.87% to K13.08 billion from K6.26 billion. The table below shows the summary of the trades.

Table 11: MSE Traded Volumes

	31-Oct-20	30-Sep-20	year-to-date (2020)	year-to-date (2019)	m-o-m % Change	y-o-y % Change
Volume (Millions)	660	174	1,461	1,022	↑ 279.31%	↑ 42.95%
Trade Count	237	321	2,670	2,595	↓ -26.17%	↑ 2.89%
Value (K'Billion)	13.08	6.26	34.04	38.50	↓ 108.87%	↓ -11.58%

OTHER MARKET DEVELOPMENTS (Continued)



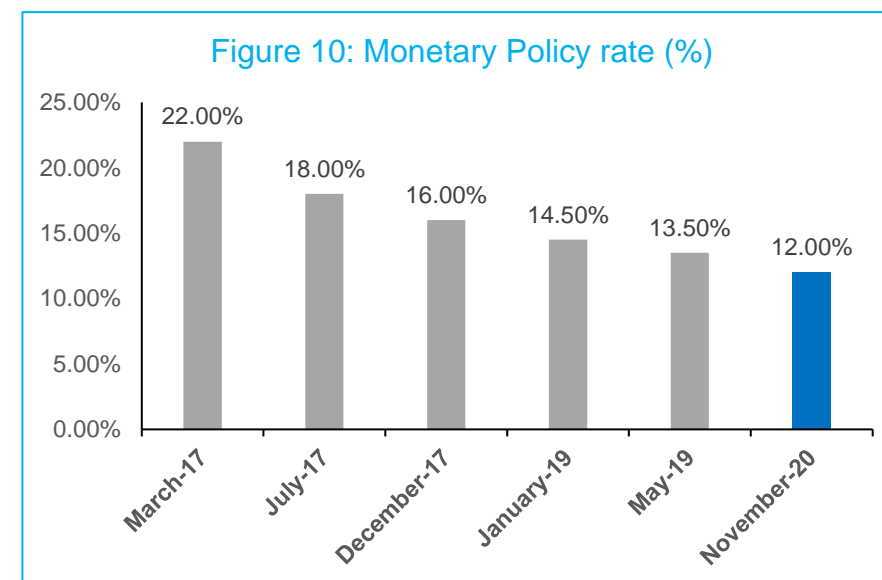
The Monetary Policy Committee decided to cut the Policy rate to 12.00% from 13.50% at its fourth meeting of the year on 5 and 6 November 2020.

STATEMENT OF THE MONETARY POLICY COMMITTEE (Source: RBM)

The Monetary Policy Committee reduced the Policy rate to 12.00% from 13.50% at its fourth meeting of the year on 5 and 6 November 2020. However, they maintained the Liquidity Reserve Requirement (LRR) ratio on both domestic and foreign deposits at 3.75%. Similarly, they kept the Lombard rate at 12.20% (20 basis points above the Policy rate). These decisions were made after observing that the headline inflation in the country has been decreasing throughout the year. With the lower rate, the RBM aims to stimulate the economy and create jobs.

Real GDP growth has been projected to 1.2% in 2020 from 5.1% in the previous year, on account of the adverse effects of the coronavirus pandemic. The country's trade deficit for the first 9 months of 2020 was USD1.5 billion, which is higher than the USD1.1 billion recorded in the corresponding period in 2019. There were exports of USD0.5 billion while imports were USD2.0 billion.

Inflation has been projected to average 8.6% in 2020 from an earlier projection of 9.8%. The RBM expects inflation to continue declining in the following year.



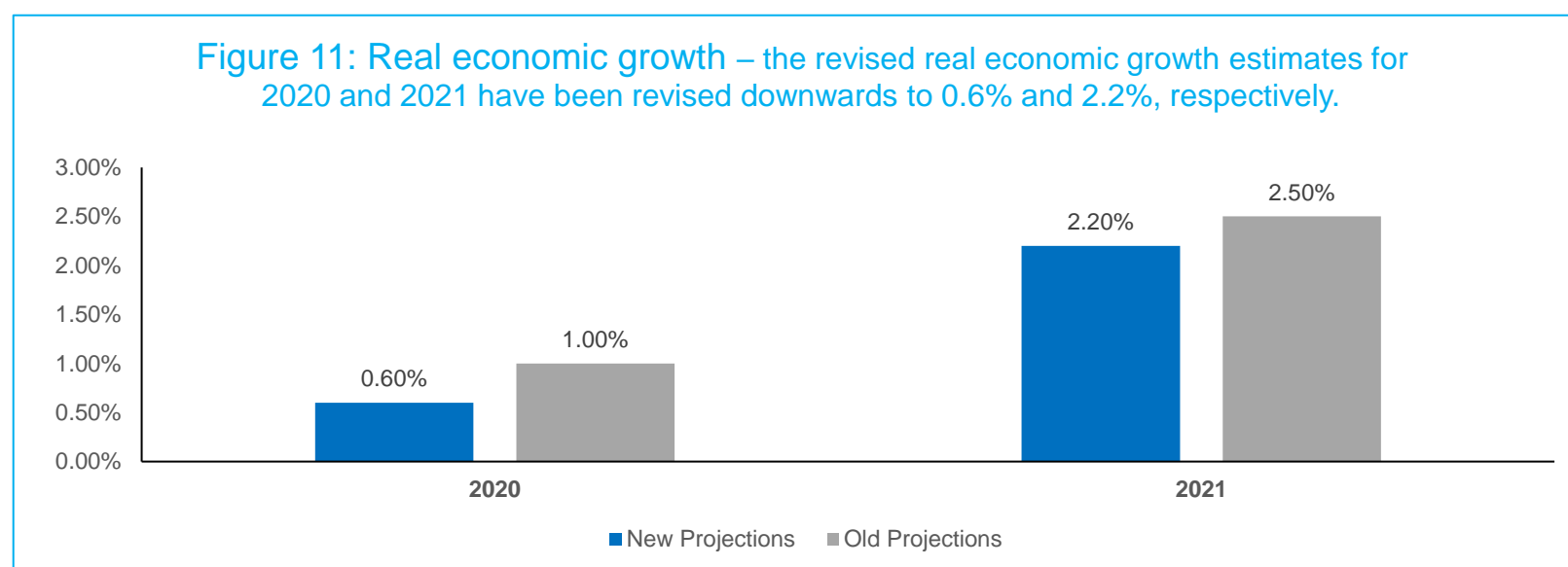


The IMF projects real economic growth of 0.6% in 2020 and 2.2% in 2021. The economic performance in the country has suffered significantly due to the deteriorating global outlook.

REQUEST FOR DISBURSEMENT UNDER THE RAPID CREDIT FACILITY (Source: IMF)

The IMF's Executive Board approved a disbursement of USD102 million on 2 October 2020 under the Rapid Credit Facility (RCF). This followed the USD91 million made on 1 May 2020. The funds will help fill part of the external financing gap that Malawi has and help it recover from the coronavirus pandemic. The country's debt level is sustainable, according to the IMF's Debt Sustainability Analysis from April 2020.

Real economic growth in the country is projected at 0.6% in 2020 and 2.2% in 2021. Respectively, these rates are 0.4 and 0.3 percentage points lower than the previous projections made. Despite the country having a robust performance in the first half of 2020, the economic performance in the second half of the year has suffered because of the deteriorating global outlook. However, the global economy is expected to recover by an average real economic growth of 6.4% between 2022 and 2025.



The country's outlook remains uncertain with a number of downside risks available. Some of the risks are the further spread of the coronavirus and a slower global recovery of the economy. These may further worsen the inequalities and food security in the country. Another risk that might worsen the outlook is a climate shock, which would lead to less agricultural production. In order to mitigate the effects of the pandemic, the country is strengthening its health system by investing in medical equipment and supplies. It has also increased social spending in order to help the vulnerable households.

OTHER MARKET DEVELOPMENTS (Continued)



Malawi's nominal GDP has been rebased to 2017 from 2010. The new nominal GDP is 38.4% higher at K6.42 trillion from K4.64 trillion.

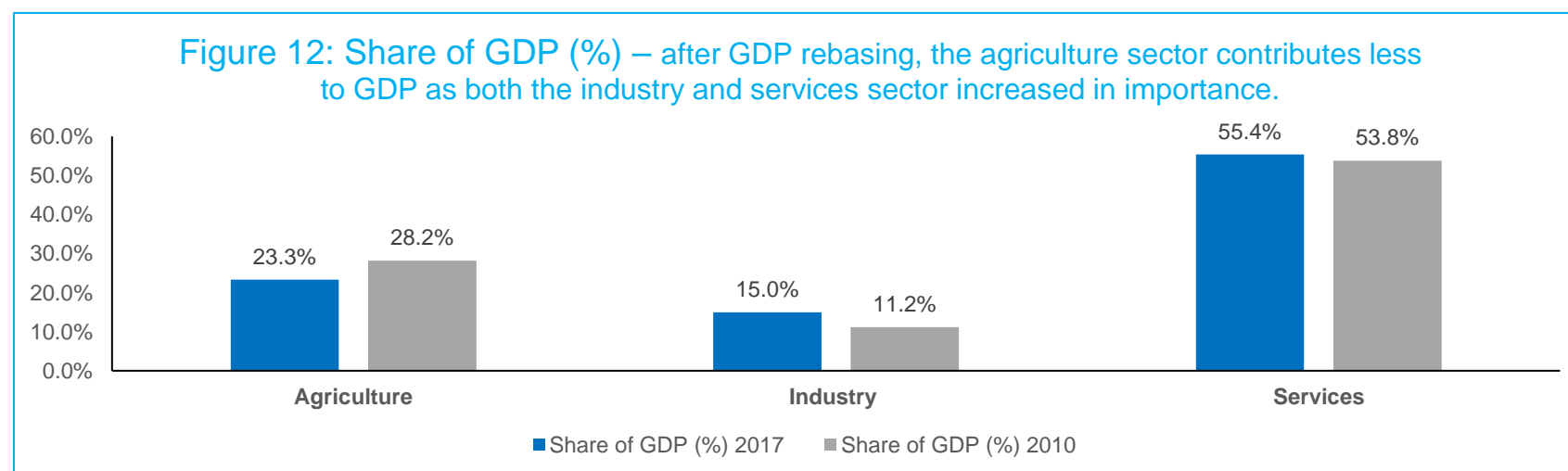
GDP REBASING FROM 2010 TO 2017 (Source: NSO)

The country's GDP has been rebased to 2017 from 2010 in order to improve the quality and coverage of National Accounts. After rebasing, Malawi's nominal GDP for 2017 has been revised from K4.64 trillion to K6.42 trillion. This is a 38.4% upwards revision of the nominal GDP in 2017. Using the new base, the country had a nominal GDP growth of 10.8% to K7.11 trillion in 2018. Subsequently, it grew by 13.9% in 2019 to K8.10 trillion. The greatest growth was recorded in the agriculture and human health services activities at 20.8% and 16.4%, respectively. The table below summarizes the changes.

Year	Nominal GDP		Real GDP		% Growth	
	K'Billion	USD'Billion	K'Billion	USD'Billion	Nominal	Real
2010 (Old Base)	4,635.4	6.4				
2017 (New Base)	6,417.3	8.8				
2018	7,113.1	9.7	6,701.0	9.2	10.8%	4.4%
2019	8,098.5	10.9	7,084.4	9.5	13.9%	5.7%

Table 12: GDP rebasing figures

In real terms, GDP for 2018 and 2019 grew to K6.7 trillion and K7.1 trillion, respectively. This represents real GDP growth of 4.4% and 5.7%, respectively. The agriculture industry contributed 23.3% while the industry and services sector contributed 15.0% and 55.4%, respectively. The graph below shows the changes in sector contribution between the 2010 and 2017 base years.





Maize prices in October 2020 averaged K193/kg, which is 7% higher than the K180/kg average in the previous month.

OTHER MARKET DEVELOPMENTS (Continued)

MALAWI MONTHLY MAIZE MARKET REPORT (Source: IFPRI)

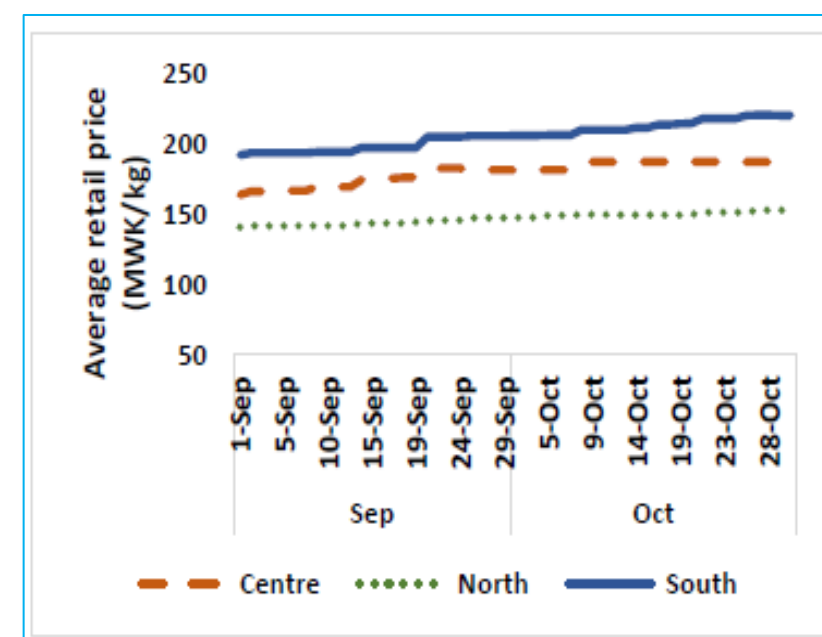
Maize prices increased to K193/kg in October 2020 from K180/kg in September 2020. This is a 7% price increase. However, there was also an 18% decrease in prices when compared to October 2019.

During October 2020, the price for maize rose in 16 markets and remained constant in the remaining markets. The largest price increase was recorded in Lunzu market at 25%. This was followed by Bangula and Mulanje which had price increases of 14% and 13%, respectively.

There were no ADMARC purchases recorded in October 2020 but there were sales reported in 8 of the markets being monitored. The NFRA announced that it would start purchasing maize for restocking at a price of K215/kg in late September 2020, but the purchases were halted in early October.

The South closed the month with the highest average price. Prices in the central region were K36/kg lower than in the South but K27/kg higher than the prices in the North. In eastern and southern Africa, Bujumbura in Burundi is the market with the highest price for a 50kg bag of maize. Zambia had the lowest price for the region.

Figure 13: Daily average maize retail prices in September 2020





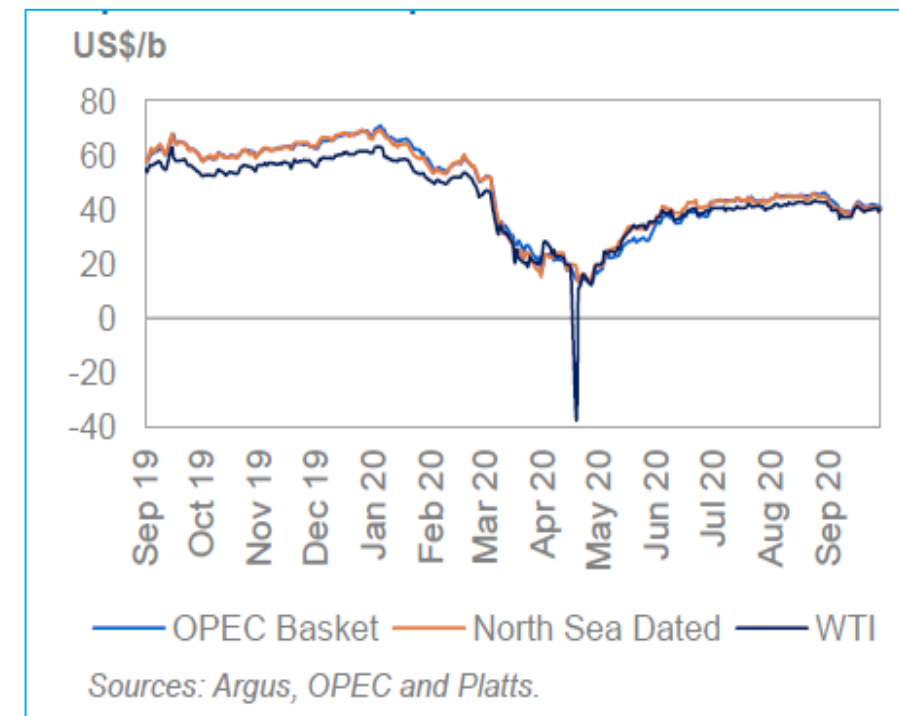
There was an 8.1% decrease in oil prices to USD41.54 per barrel for the OPEC Reference Basket in September 2020 from USD45.19 in August 2020.

GLOBAL OIL DEVELOPMENTS (Source: OPEC)

The OPEC Reference Basket (ORB) decreased to USD41.54 per barrel from an average of USD45.19 per barrel in August 2020. The USD3.65 price drop represents an 8.1% change. The price was on an upward trend for the last four months. In September 2019, the price was USD59.62, which shows a year-on-year price drop of 30.33%.

World oil demand projections for 2020 have slightly been revised up to 90.3 million barrels per day (mb/d) from 90.2 mb/d. The lower demand is due to lower transportation needs in US and parts of Europe, which results in lower fuel consumption. Meanwhile, the world oil supply's forecast has been revised upwards by 0.31 mb/d from the previous month's projections. Supply will mostly increase because of the US, Canada, Brazil and Norway due to recovery of production in those countries.

Figure 14: 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 increased to 0.88% in October 2020 from 0.71% in September 2020.

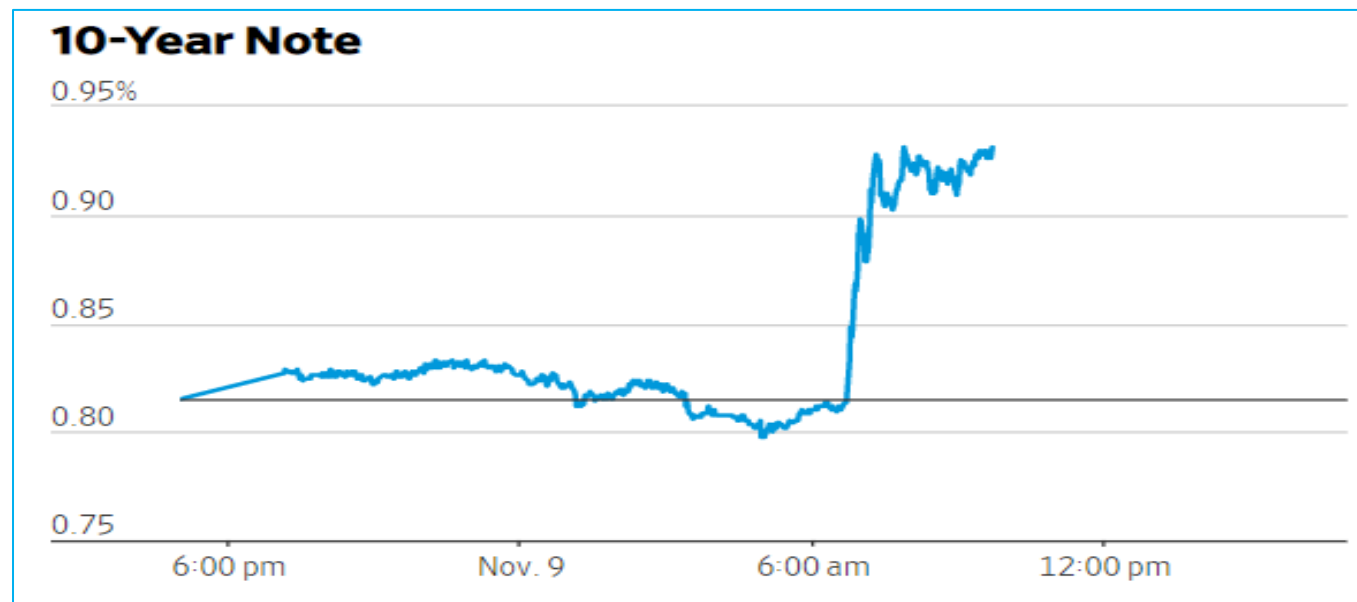
INTEREST RATE MOVEMENTS (Source: WSJ and Reuters)

The US Fed rate was maintained at 0.25% in October 2020. Similarly, the Bank of England Rate and the European Central Bank Rate were also maintained at 0.10% and 0.00% respectively. Similarly, the 3 months US LIBOR remained at 0.22%. However, 6 months US LIBOR decreased to 0.24% from 0.27% while the US 10-Year treasury bill yield increased to 0.88% from 0.70% during this period.

	October 2020 (%)	September 2020 (%)	% Change
US LIBOR (3 months)	0.22%	0.22%	→ 0.00%
US LIBOR (6 months)	0.24%	0.27%	↓ -10.32%
US treasury bond yield (10 years)	0.88%	0.70%	↑ 25.57%
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%	→ -

Table 13: Interest Rates

The graphs below, figure 15, shows the 10-Year US treasury bond yield:



REGIONAL AND GLOBAL MARKET DEVELOPMENTS (Continued)



The global economy is expected to contract by 4.4% in 2020 but grow by 5.2% in the following year.

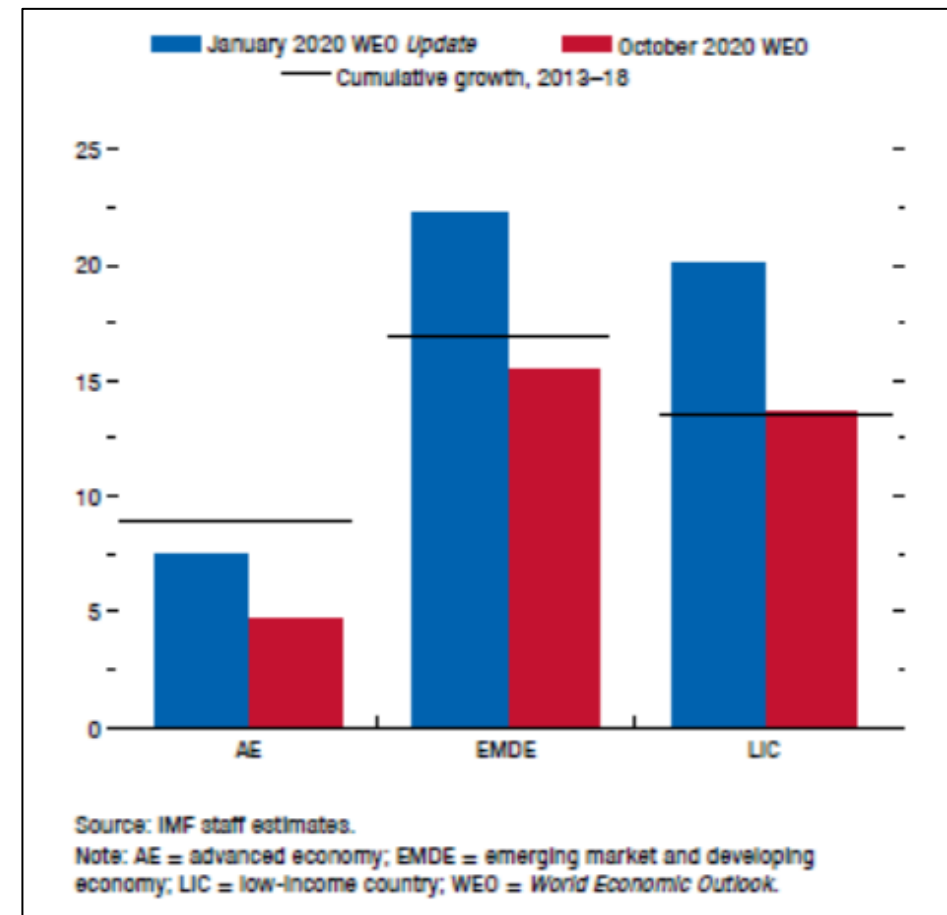
World Economic Outlook: A Long and Difficult Ascent (Source: The World Bank)

The global economy is recovering from the coronavirus pandemic despite the virus still spreading in many countries. However, the global economy is still vulnerable to setbacks. The global economy is expected to contract by 4.4% in 2020 but grow by 5.2% in the following year. Wide output gaps and higher unemployment rates are expected in 2020 and 2021 in both advanced and emerging economies. In the medium term, the economy is expected to grow by 3.5%. Changes in public health and economic factors will need a revision of the projections. The spillover effects of the pandemic are also very difficult to predict, thus making the global economic projections difficult to determine.

Countries face a tradeoff between stimulating the economy and keeping their debt levels low, during this period. Resources must be allocated to projects that will help increase the tax base of the countries and not ill-targeted subsidies or wasteful current spending. A number of countries, particularly low-income countries, will need multilateral efforts to supplement their resources in order for them to mitigate the impacts that the pandemic has brought on their respective economies.

Figure 16: Per Capita GDP: Cumulative Growth, 2019-25 (%)

Subdued medium-term growth prospects imply a severe setback to the projected pace of improvement in average living standards across all country groups.



OUTLOOK FOR MALAWI

Inflation

Non-food inflation continues to remain steady at 4.4% despite global oil prices recovering in September 2020. With the lower policy rate of 12.0%, it is likely that inflation will increase in the short run as there will be increased consumption. Food inflation may also pick up as we advance further into the lean period. Ultimately, more inflationary pressure may be expected in the short term. The RBM expects inflation for 2020 to average 8.6%, while the IMF projects an average of 9.2%. The IMF projects an average inflation of 9.5% in 2021 and 7.7% in the following year. They then expect inflation to ease to 5.5% in 2023 and 5.0% in both 2024 and 2025. The RBM plans to gradually transition to an inflation targeting framework by 2025. These projections assume that there will be an average harvest and higher international oil prices.

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, a lower policy rate 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 effects of coronavirus pandemic. 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

With the policy rate cut to 12.00% from 13.50%, there may be more consumption in the economy. According to the RBM, this is likely to stimulate the economy and create more jobs. The tradeoff for a lower policy rate is higher inflation. As such, the RBM may likely to not achieve its medium-term inflation goal of $5\pm 2\%$. With the high levels of government borrowing, there might be a need for the RBM to further lower the policy rate in order to have a substantial impact on stimulating the economy.

Economic Growth

The country is projected to have real economic growth of 1.9% according to the Government while the RBM projects growth of 1.2% in 2020. The World Bank projects growth of 2.0% while 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 and manages its debt.

Appendix

Appendix 1: EIU Data and Forecasts

Economic Growth

%	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

	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

	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.

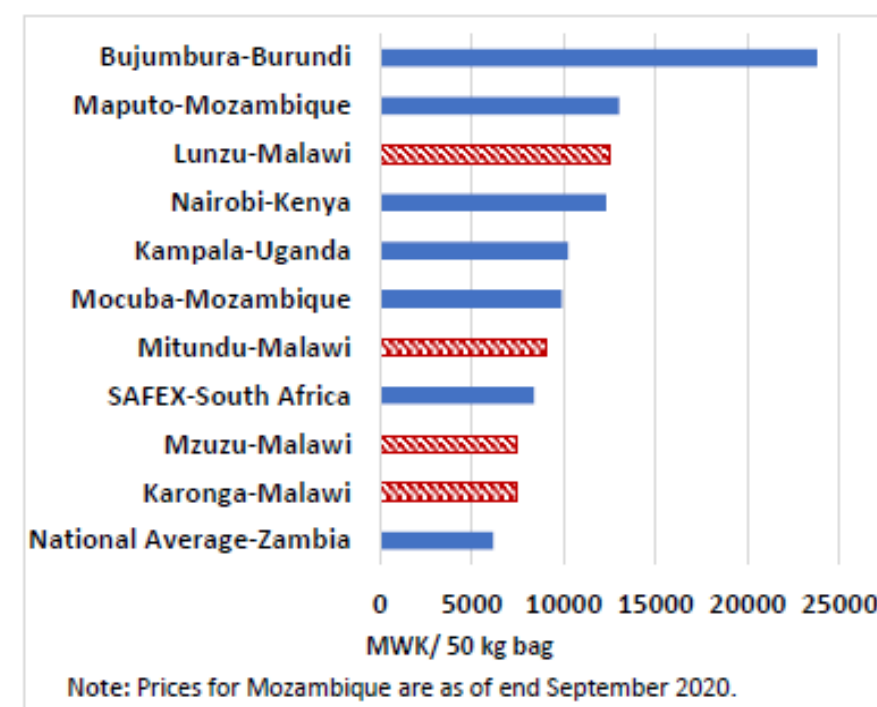
Sources: IMF, International Financial Statistics; Ministry of Finance, Budget statements; World Bank, Global Development Finance; Reserve Bank of Malawi, Economic reviews.

Appendix 3: Malawi monthly maize market report

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

Market	3-Oct-20	10-Oct-20	17-Oct-20	24-Oct-20	31-Oct-20	Change
Chitipa	140	140	140	150	150	↑ 7%
Karonga	150	150	150	150	150	→ 0%
Rumphi	143	150	148	150	150	↑ 5%
Mzuzu	150	150	150	150	150	→ 0%
Mzimba	150	150	150	150	150	→ 0%
Jenda	153	160	160	160	163	↑ 7%
Salima	200	220	220	220	220	↑ 10%
Mchinji	180	180	180	180	180	→ 0%
Nsungwi	173	180	180	180	187	↑ 8%
Mitundu	180	180	180	180	180	→ 0%
Chimbiya	175	180	180	180	177	↑ 1%
Balaka	193	193	193	200	200	↑ 3%
M'baluku	220	220	220	220	220	→ 0%
Mangochi	207	207	220	220	213	↑ 3%
Liwonde	200	200	200	200	200	→ 0%
Chiringa	200	200	200	200	200	→ 0%
Mpondabwino	233	242	245	245	245	↑ 5%
Lunzu	200	200	220	220	250	↑ 25%
Mbayani	200	220	220	220	220	↑ 10%
Mwanza	233	250	250	250	233	→ 0%
Mulanje	200	200	225	225	225	↑ 13%
Luchenza	200	200	200	200	200	→ 0%
Chikwawa	200	200	200	200	220	↑ 10%
Ngabu	203	210	210	210	220	↑ 8%
Bangula	202	210	210	210	230	↑ 14%
Nsanje	197	197	197	250	220	↑ 12%
All markets	188	192	194	197	198	↑ 6%

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



Appendix 4: Malawi GDP rebasing

GDP REBASING TABLES, OCTOBER 2020

TABLE 4: GDP FOR 2017 BY ACTIVITY IN CURRENT MARKET PRICES (IN MK' MILLION)			
ITEM DESCRIPTION	2017 BASE ESTIMATE (MK' MILLION)	2010 BASE ESTIMATE (MK' MILLION)	REVISION (%)
A Agriculture, forestry and fishing	1,497,363.6	1,306,117.7	14.6
01 Crop and animal production, hunting and related service activities	1,405,026.6	902,691.2	55.6
011 Crop production	1,007,254.6		
014 Animal production	397,772.0		
02 Forestry and logging	8,760.0	331,903.8	- 97.4
03 Fishing and aquaculture	83,577.0	71,522.7	16.9
B Mining and quarrying	45,128.9	39,919.0	13.1
C Manufacturing	737,836.4	423,310.1	74.3
D+E Electricity, gas, steam and air conditioning supply; Water supply	176,900.9	55,290.5	219.9
F Construction	199,293.0	130,252.8	53.0
G Wholesale and retail trade; repair of motor vehicles and motorcycles	830,463.0	738,914.7	12.4
H Transportation and storage	291,631.8	127,388.4	128.9
I Accommodation and food service activities	100,252.0	91,200.9	9.9
J Information and communication	341,015.0	208,181.3	63.8
K Financial and insurance activities	383,575.9	244,531.2	56.9
L Real estate activities	464,962.0	356,504.6	30.4
M+N Professional, scientific and technical activities; Administrative and support service activities	78,093.0	14,016.5	457.1
O Public administration and defence; compulsory social security	194,711.9	96,659.4	101.4
P Education	280,920.0	126,919.7	121.3
Q Human health and social work activities	278,972.0	127,084.0	119.5
R+S+T Arts, entertainment and recreation; Other service activities; Activities of households as employers	111,032.0	232,827.3	- 52.3
Sum of All Industries	6,012,151.4	4,319,118.1	39.2
Plus: Taxes less Subsidies on products and production	405,170.0	316,266.9	28.1
Plus: Taxes on products and production	405,170.0		
Less: Subsidies on products and production			
GDP IN CURRENT MARKET PRICES (MK' MILLION)	6,417,321.4	4,635,385.0	38.4
Period Average Exchange Rates (MK/US\$1)	730.27	730.27	
GDP IN CURRENT MARKET PRICES (US\$' MILLION)	8,787.6	6,347.5	

Appendix 5: IMF Country Report

	2018	2019	2020	2021	2022	2023	2024	2025
National accounts and prices (percent change, unless otherwise indicated)								
GDP at constant market prices	3.2	4.5	0.6	2.2	6.5	6.5	6.3	6.3
Nominal GDP (billions of Kwacha)	5,060	5,711	6,252	6,933	7,884	8,816	9,790	10,856
Consumer prices (annual average)	9.2	9.4	9.1	9.5	7.7	5.5	5.0	5.0
Central government (percent of GDP on a fiscal year basis) ¹								
Revenue	21.0	21.1	21.2	20.0	21.3	22.9	24.1	25.5
Expenditure and net lending	28.9	28.2	30.6	33.0	32.6	31.9	32.1	31.2
Overall balance (including grants)	-7.9	-7.0	-9.4	-13.0	-11.4	-9.0	-8.0	-5.8
External sector (US\$ millions, unless otherwise indicated)								
Exports (goods and services)	1,112	1,250	1,132	1,245	1,331	1,438	1,563	1,694
Imports (goods and services)	2,927	3,014	3,204	3,402	3,460	3,606	3,759	3,921
Gross official reserves	750	815	873	958	993	1,044	1,114	1,210
(months of imports)	3.0	3.1	3.1	3.3	3.3	3.3	3.4	3.5
Overall balance (percent of GDP)	-0.2	0.6	-4.5	-1.4	0.3	0.6	0.9	1.4
Debt stock and service (percent of GDP, unless otherwise indicated)								
External debt (public sector)	31.2	29.5	31.8	34.4	34.7	34.9	34.9	34.7
NPV of public external debt (percent of exports)	123.3	117.4	150.5	148.6	145.5	141.2	152.7	145.9
Domestic public debt	28.2	30.0	37.3	43.8	46.5	48.1	48.9	48.3
Total public debt	59.4	59.5	69.1	78.2	81.3	83.0	83.8	83.0
External debt service (percent of exports)	9.8	6.5	8.3	8.8	10.4	9.8	9.6	8.8
External debt service (percent of revenue excl. grants)	9.7	5.7	5.3	6.6	7.9	7.3	7.0	6.5

Sources: Malawian authorities; IMF staff estimates.

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