Bridgepath Capital
Invest to Achieve

Annual Economic Report

2020

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List of acronyms

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

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Executive Summary

Executive summary

Economic Growth

According to the World Bank, real GDP growth for Malawi is estimated to have contracted by 1.3% in 2020 and will grow by 3.3% in 2021. On the other hand, the IMF country report projected real GDP growth to average at 0.6% in 2020 and 2.2% in 2021. The IMF projects a gradual economic recovery during the period 2022-25, with growth averaging at 6.4%, while the EIU projects that the economy will gradually recover and grow by 2.3% in 2021 after which it will average at 4.6% per year in 2022-25.

According to the IMF, Malawi will continue to rely on its agricultural sector for growth of the economy in the short run. The IMF forecasts note that with declining global activity and a withering economic outlook, the effects of the COVID-19 pandemic are nowhere near their end. The government may have to continue to rely on debt for stimulating economic activity to increase aggregate demand and economic growth at the expense of possible inflation. This might result in greater fiscal pressure at a time where government revenue is likely to be impacted by slow business environment in the country.

Exchange Rates

At the close of the year 2020, the Kwacha depreciated against the USD by 5.14% to K776.82 per USD from K738.87 per USD at the close of 2019. The Malawi Kwacha depreciated against all the major trading currencies as the year ended because of the increasing demand for foreign exchange. There has also been a decline in foreign reserves and an increase in the debt-service ratio which has offset an improvement in commercial banks' net foreign-asset position.

Factors weighing on the foreign exchange reserve stock include the low growth in GDP, an underperforming tobacco season, a current-account deficit, and an increase in fuel imports due to the decline in the global oil price. The decline in foreign exchange inflows over the year is a consequence of the reduction in remittances as trade interruptions and severe socio-economic measures were adopted by the country's key trading partners which resulted in slower business activity.

According to the World Bank's Malawi Economic Monitor, remittances fell to US$150.4 million by October 2020, a 30% reduction from the same period in 2019. The IMF expects the Kwacha to continue to modestly depreciate. The unfavourable outlook is in view of Malawi's forex market which is characterised by large current account deficits owing to its undiversified export base (agriculture based) and its over reliance on imports. According to the IMF, an additional external financing gap projected at $243million has emerged in 2020.

Based on estimates from the EIU, the current-account deficit is projected to narrow by 17.8% in 2023, owing to a recovery in global oil prices and import demand. This deficit will further narrow to 17.4% of GDP in 2025 if the country's export base grows. The IMF, however, anticipates that large balance of payments needs related to the pandemic will persist in 2021, with the external financing gap for 2020-21 totaling 7.7% of GDP ($655 million). This reflects expectations of higher imports related to COVID-19 mitigation measures, lower remittances, exports, and tourism given the overall reduction in global growth.

Government Securities

The RBM has raised a total of K873.01 billion through this year's Treasury Bill (TB) and Treasury Note (TN) auctions, with K289.03 billion and K583.98 billion, respectively. Total allotments for TB decreased by 21.90% year-on-year, however, government increased its allotments for TN by 73.73% year-on-year. The average All Type Treasury bill yield increased to 10.71% in 2020 from 9.66% in the previous year. The average yield for the TNs also increased in 2020 to 18.78% compared to 15.51% in 2019 and this can be attributed to the increase in demand for funds by the government.

According to the 2020/21 budget statement, the fiscal deficit has been projected at K0.76 trillion. A total of K0.53 trillion, which is about 70% of the fiscal debt, will be financed by domestic borrowing and thus demand for funds by the governments will remain high. As such, keeping everything else equal, the average yields for the government securities are likely to remain high.

Executive summary (Continued)

Inflation

Based on data from the NSO, the average headline inflation for 2020 has decreased to 8.63% from an annual average of 9.38% in 2019. This is in line with estimates from RBM which projected inflation in 2020 to average at 8.6% for 2020, and ease to 8.1% in 2021.

The decrease in inflation in 2020 is mainly on account of lower maize prices in 2020 as compared to the previous year and the downward adjustments in fuel prices made over the year, which both lead to food and non-food inflation declining. According to the IMF, inflation for 2021 is projected to average at 9.5% given an average harvest in 2021 and higher international oil prices. The EIU also estimates inflation to grow in 2021-23, peaking at 10.6% in 2023 (inflation for 2021 is forecast at an average of 9.3%). This is based on expectations of rising global fuel prices and a recovery in private consumption.

The RBM on the other hand expects inflation to continue to decline in 2021. The RBM reduced the policy rate to 12% at the end of 2020 and expects to maintain this rate throughout 2021 according to the EIU. The reduction was done to bolster consumption and investment in the economy amidst the pandemic, which implies a favourable inflation outlook. Access to cheaper credit on the market may cause inflation to rise as there will be increased spending in the economy. Inflation will also continue to follow changes in fuel prices.

Stock Market

The stock market was bullish over the year 2020 as the Malawi All Share Index (MASI) increased by 7.08% to 32,392.84 points from 30,252.2 points in the previous year. The total value of the trades in 2020 decreased by 11.40% to K41.09 billion from K46.37 billion last year. Since their listings, both Airtel and FDH have experienced share price gains of up to 120.49% and 44.50% from their IPO, respectively. With an increase in liquidity, growing pension fund assets and a lower policy rate in the Malawian economy, investors may look for more avenues to invest in since decreasing interest rates are likely to deter saving. Despite demand, the equity market performance will also largely be dependent on the underlying performance of the listed companies.

Fiscal Policy

The 2020/21 Budget will have a fiscal deficit of K0.76 trillion, with total revenue and grants projected at K1.44 trillion while total expenditure is K2.19 trillion. The deficit is set to be financed by domestic and net foreign borrowing of K0.53 trillion and K0.22 trillion, respectively. In terms of expenditure, K1.68 trillion is recurrent expenditure while K0.51 trillion is from development expenditure. 20% of the development projects will be financed domestically, while 80% will be foreign financed projects.

According to the EIU, the fiscal deficit is expected to widen in 2020/21, to 9.4% of GDP as welfare measures to mitigate the impact of the pandemic will keep spending elevated. Furthermore, external debt is expected to increase steadily, from an estimated US$2.8bn in 2020 to US$3.3bn by the end of 2022. Domestic liquidity is expected to be channeled towards financing government expenditure and public debt is projected to reach 78% of GDP in 2021, based on forecasts by the World Bank. This shows that the country will continue to depend on donors for development which may also result in an external debt pressure given the large levels of debt that the country has accumulated till date owing to a tight fiscal space. Domestic borrowing may also result in increased interest rates and crowd out private investment.

Executive summary (Continued)

Monetary Policy

The monetary policy committee has decreased the Policy Rate from 13.5%, which persisted throughout its first three meetings, to 12.0% in November 2020. The Lombard Rate was set at 0.4% above the Policy Rate at the start of the year and was later reduced by 50% to 0.2% above the Policy Rate in April 2020. The Committee considered the macroeconomic risks originating from the COVID-19 pandemic and thus sought to mitigate potential liquidity challenges that could affect the banking system. The change was also an attempt to boost economic recovery and stimulate job creation.

According to the EIU and IMF reports, the RBM is expected to maintain this rate throughout 2021 in order to support domestic recovery. The RBM is further scheduled to adopt a tightening stance from 2022-25. However, the RBM will monitor its monetary policy stance due to the inflation implications that may be caused by increasing liquidity in the market caused by the reduction in interest rates. A reduction in the policy rate might also stimulate investment spending and greater demand for imports. This may subsequently cause an increase in the aggregate demand levels for foreign currency on the market possibly weakening foreign reserves further.

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 due to 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.

Other Developments

Oil prices

The price of Petrol, Diesel and Paraffin closed the year at MK834.60, MK826.40 and MK613.20, respectively. The prices for Petrol, Diesel and Paraffin declined in April and May and were later revised upwards in December 2020. Year-on-year the price of Petrol, Diesel and Paraffin have decreased by 10.26%, 10.56% and 13.70%, respectively. Local fuel prices fluctuated with exchange rate movements in the country and global fuel price movements. The annual average for the OPEC Reference Basket in 2020 is USD41.47/b which marks a 35.24% decrease from the previous year's average of USD64.04/b. The decline in global fuel prices is owing to the reduction in global oil demand over the year as lockdown restrictions created an increase in oil reserves which reduced prices. The world oil demand for 2021 has been forecasted to increase by 5.9 mb/d year-on-year to average at 95.9 mb/d due to the increase in economicc activity from the advanced economies towards the end of the year. Prospects of a second global wave in the COVID-19 pandemic may leave global oil prices subject to volatility and domestic fuel prices may also be impacted accordingly.

COVID-19 and Malawi

According to the Malawian Ministry of Health, of the 85,449 tests that had been conducted as of 31 December 2020, there were 6,583 confirmed cases. 5,705 of these cases had recovered leaving 505 active cases and 189 of the confirmed cases have resulted in death. The pandemic continues to take its toll on the economy as fiscal pressures continue to elevate due to the increase in government borrowing to offset the impacts of the pandemic. Malawi underwent several measures to cushion the financial sector from the effects of the pandemic such as, reducing the Lombard rate margin by 50%, a reduction of 40% off all fees related to internet banking, a 3-month suspension on interest rates and principal repayments for borrowers on case-by-case basis for both banks and microfinance institutions, social cash transfer programmes and a voluntary tax compliance window by the MRA.

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Executive summary (Continued)

Other Developments (Continued)

New Presidential Elections

Re-elections were held on 23 June. After rigorous scrutinization, results showed that, HE Dr Lazarus Chakwera, attained 58.57% of the votes thus claiming the majority of the electorate and making him the new president of the Democratic Republic of Malawi. The new government issued a new 2020/21 budget statement which is expected to have a fiscal deficit of K0.76 trillion from total revenue and expenditure of K1.44 trillion and K2.19 trillion, respectively.

Risks

Malawi’s major risk for 2021 are the spillover effects caused by a second wave of the COVID-19 pandemic which may impact economic growth recovery prospects in the year.

According to the EIU December 2020 country risk report, income levels are extremely low and public debt remains high. Slow economic activity and reduced trade has deterred incomes and lessened remittances. High government spending on COVID-19 mitigation will continue to increase government borrowing. According to the EIU, government is dependent on volatile aid inflows from foreign donors to cover its financing needs. According to the EIU, broad-based growth through economic diversification may not be a priority for the government, as it may focus on policies geared towards mitigating the impact of the pandemic which is at the expense of growing debt levels.

Malawi's exports earnings will continue to be concentrated in a narrow basket of agricultural goods. Tobacco which accounts for about 56% of total exports, will continue to be highly vulnerable to price and demand shocks as well as the declining demand for tobacco. The agricultural sector employs over 85% of the labour force and contributes about 28% to GDP. Adverse weather conditions may result in low harvests and trade revenues which may influence macroeconomic stability, leading to higher inflation, greater currency volatility and weaker economic growth. Despite the agriculturally intense economy, Malawi also still continues to suffer from food insecurity.

Risks of rising levels of non-performing loans during the pandemic could also impact banks negatively. A large proportion of banks’ credit is also extended to the agricultural sector leaving it subject to agriculture and trade underperformance, which could affect banks’ portfolios. Mining will also continue to face constraints related to external competition, fluctuations in global demand and limited power supply.

Inadequate access to power remains a problem for the country which results in decreased productivity and output. The large current account deficit also continues to exert pressure in the medium term, with high levels of public debt and a wide fiscal deficit adding to the economic challenges.

Economic Overview

Economic overview

Inflation (Source: NSO)

The average headline inflation for 2020 decreased to 8.63% from 9.38% in 2019. This is due to decreases in maize and fuel prices over the year compared to 2019's prices.

Headline inflation for 2020 is 8.63%. This is lower than the average headline inflation for 2019 of 9.38%. The decrease in inflation during the 2020 period is due to the decrease in food-inflation which stands at 13.05% from 14.30% in 2019. Non-food inflation has marginally declined to 4.71% in 2020 from 5.35% in 2019. The decrease in food-inflation can be largely attributed to lower price levels for maize over the period as compared to the previous year. The price of maize contributes about 45.2% to the Consumer Price Index (CPI). According to International Food Policy Research Institute (IFPRI) monthly maize report for December 2020, the average maize retail price was MWK 199/kg, which is 28% lower than in December 2019. The decrease in non-food inflation is on account of the downward adjustments in fuel prices made during the first half of the year as a result of a reduction in global oil prices. During the second half of the year, as lockdown restrictions were gradually eased and economies slowly begun to pick up, global demand for oil increased and Malawi's exchange rate position depreciated as foreign currency reserves dwindled. The domestic price of fuel was later revised upwards towards the close of 2020. This has implications that inflation figures could have increased towards the end of the year.

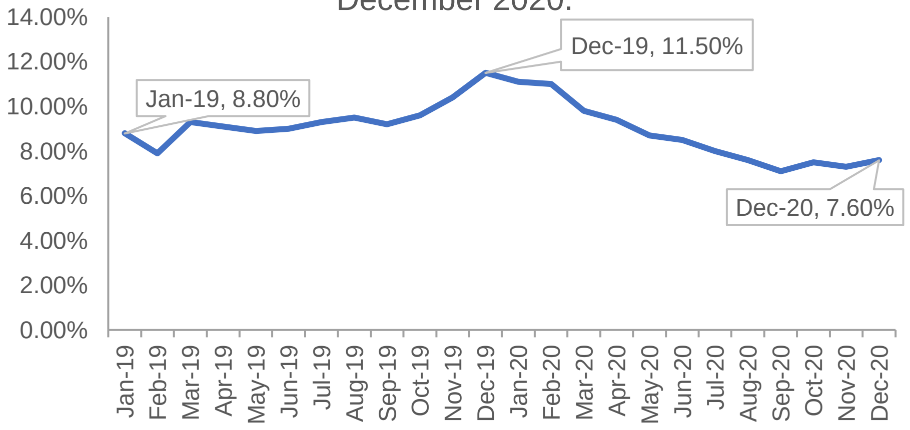
The RBM met its inflation target after projecting that headline inflation would average at 8.6% in 2020. This was a downward revision from the projection of 9.8% which it had made in an earlier statement by the Monetary Policy Committee. The RBM expects inflation to continue to decline in 2021.

The table below summarises the annual average inflation rates for 2020 and the average figures for 2019, while the graph illustrates the trend from 2019 to 2020.

Table 1: Inflation (%)

Inflation	2020	2019	Y-O-Y % Change
Headline	8.63%	9.38%	-8.00%
Food	13.05%	14.30%	-8.74%
Non-food	4.71%	5.35%	-11.96%

Figure 1: Inflation 2020 (%)- Headline inflation peaked at 11.5% in December 2019. Since then it has been decreasing, reaching 7.60% in December 2020.



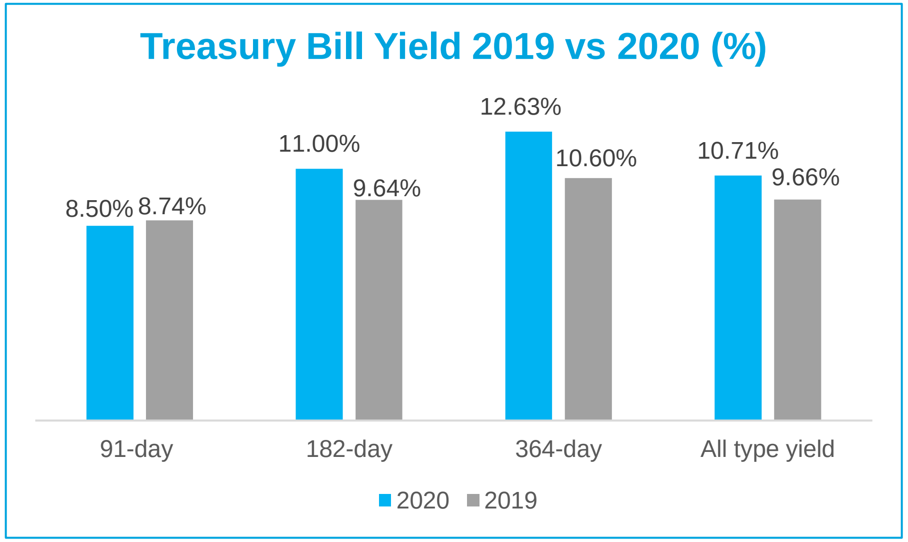
Economic Overview (Continued)

Government Securities (Source: RBM)

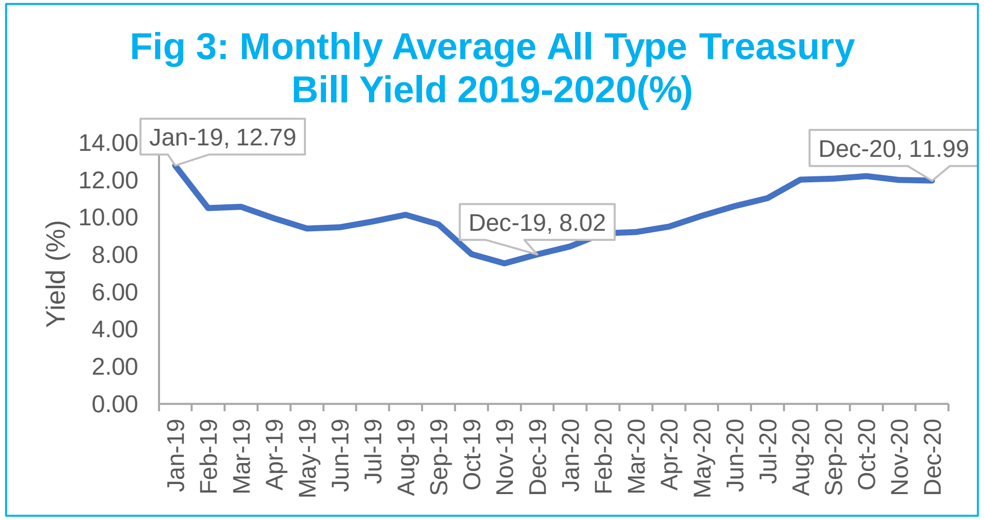
The average All Type Treasury bill yield increased to 10.71% in 2020 from 9.66% in 2019. The increase in the average yield may be attributed to government's increased financing needs over the period as a result of the fiscal pressures of the COVID-19 pandemic. The current fiscal deficit is being financed through domestic borrowing and external debt.

The average All-Type yield Treasury Bill (TB) increased to 10.71% in 2020 from 9.66% in the previous year. This represents a 10.86% year-on-year increase. This change was a result of growth in the average yield for both the 182 days TB and the 364 days TB, which increased to 11.00% and 12.63% in 2020, respectively. The average yields were 9.64% and 10.60% in 2019, respectively. However, the average yield for the 91 days TB decreased to 8.50% in 2020 from 8.74% last year. Figure 2 below traces the TB yields for the different tenures for 2019 against 2020.

Fig 2: Average Annual Treasury Bill Yields (%)



From Fig.3 it is noted that the average All-Type Treasury Bill (TB) yield experienced sharp declines during 2019, where it closed the year at 8.02%. Since the onset of the year 2020, the average All-Type yield has demonstrated considerable growth, peaking at 12.04% in August 2020 after which it has remained relatively stable and has closed the year at 11.99% in December 2020. Decrease in government revenue and financing needs as a result of the increased expenditure caused by the COVID-19 pandemic has resulted in shortfalls in government's borrowing needs. The current fiscal deficit will be mainly financed through domestic borrowing. This has adverse impacts on the economy as it could crowd out private investment but will also worsen Malawi's debt position.



Economic Overview (Continued)

The total applications and allotments have reduced by 51.39% and 21.90% y-o-y, respectively.

The 364 TB paper had the highest subscription rate in 2020 at 68.08%

Government Securities (Continued) (Source: RBM)

Treasury bill (TB) applications decreased year-on-year by 51.39% to K488.71 billion in 2020 from K1.01 trillion in the previous year. Allotments in 2020 also decreased on a year-on-year basis by 21.90% to K289.03 billion from the K370.06 billion raised in 2019. The y-o-y decreases in applications and allotments can be attributed to the higher number of Treasury Note (TN) auctions made this year. The annual rejection rate for 2020 is 20.86% which is lower than the rate of 63.19% in 2019.

The 364 days TB paper had the highest subscription rate in the year 2020 at 68.08% from 44.75% in the previous year. The subscription rate for both the 91 TB days paper and the 182 TB days paper has decreased from the previous year's rates. The 91 days TB paper had the lowest subscription rate this year at 6.74% from 13.91% in the previous year. The subscription rate for the 182 days TB paper was 25.18% in 2020 and 41.35% last year.

Figure 4:TB Applications (MK'Billions) – application decreased by 51.39% to MK488.71 billion in 2020.

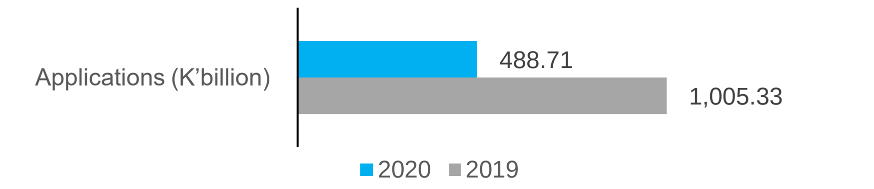


Figure 5: TB Allotments (MK'Billions) – allotments decreased by 21.90% to MK289.03 billion in 2020.

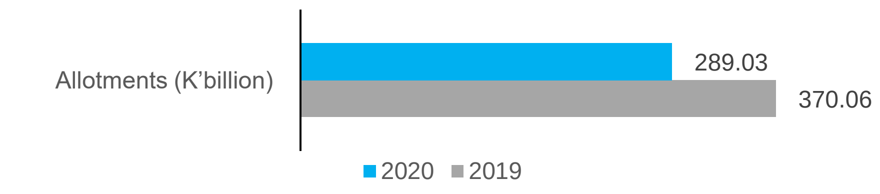


Figure 6: TB Rejection Rate (%) – the rejection rate decreased to 40.86% in 2020 from 63.19% in 2019.

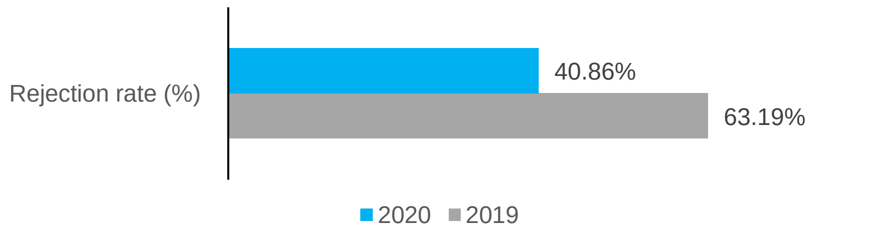
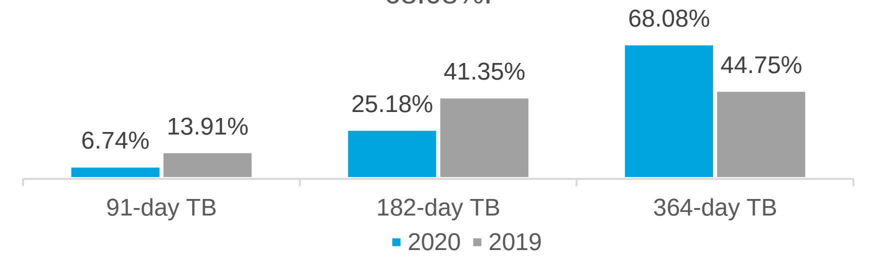


Figure 7: TB Subscription Rates (%) – the 364 days paper had the highest subscription rate in 2020 at 68.08%.



Economic Overview (Continued)

Government Securities (Continued) (Source: RBM)

A total of K583.98 billion was raised in the Treasury Note (TN) auctions in 2020, from K336 billion raised in the previous year.

The average yield for the 10-Year TN was 22.38% in 2020. The 10-Year TN was not auctioned in 2019.The increase in Treasury Notes in 2020 as compared to 2019 highlights the substantial rise in government spending and borrowing to finance fiscal deficits partly attributed to the pandemic. Stimulating economic activity through increased debt financing will be a key issue for post pandemic recovery

The government raised K583.98 billion in the Treasury Note (TN) auctions in 2020 which is 73.73% higher than the K336 billion that was raised in 2019. The average TN yield in 2020 increased to 18.78% from 15.51% in 2019. The increase in the overall yields could likely be attributed to gaps in government funding caused by public spending for COVID-19 mitigation measures and attempts at boosting economic productivity during the pandemic. Government's long-term financing needs have increased as the end of the pandemic is not clear and the road to economic recovery remains long. Table 2-4 outline the changes in Treasury Note yields, applications and allotments in 2019 and 2020.

Table 2: Treasury Note Yields (%)

Tenor	Yield (%) 2020	2019	Y-o-y%
2-Year	15.35%	12.35%	24.32%
3-Year	17.04%	13.76%	23.86%
5-Year	19.14%	15.42%	24.12%
7-Year	19.97%	20.51%	-2.62%
10-Year	22.38%	-	
Average	**18.78%**	**15.51%**	**21.07%**

*10-Yr TN was not auctioned in 2019

Table 3: Treasury Note Applications

Tenor	Applied Amount (K'Billion) 2020	2019	Y-o-y%
2-Year	82.08	197.91	-58.53%
3-Year	197.99	221.89	-10.77%
5-Year	200.66	174.58	14.94%
7-Year	195.42	194.95	0.24%
10-Year	23.58	-	-
Total	**699.73**	**789.33**	**-11.35%**

Table 4: Treasury Note Allotments

Tenor	Alloted Amount (K'Billion) 2020	2019	Y-o-y%
2-Year	73.05	68.93	5.98%
3-Year	176.84	101.54	74.16%
5-Year	162.66	78.13	108.19%
7-Year	151.64	87.55	73.20%
10-Year	19.79	-	-
Total	**583.98**	**336.15**	**73.73%**

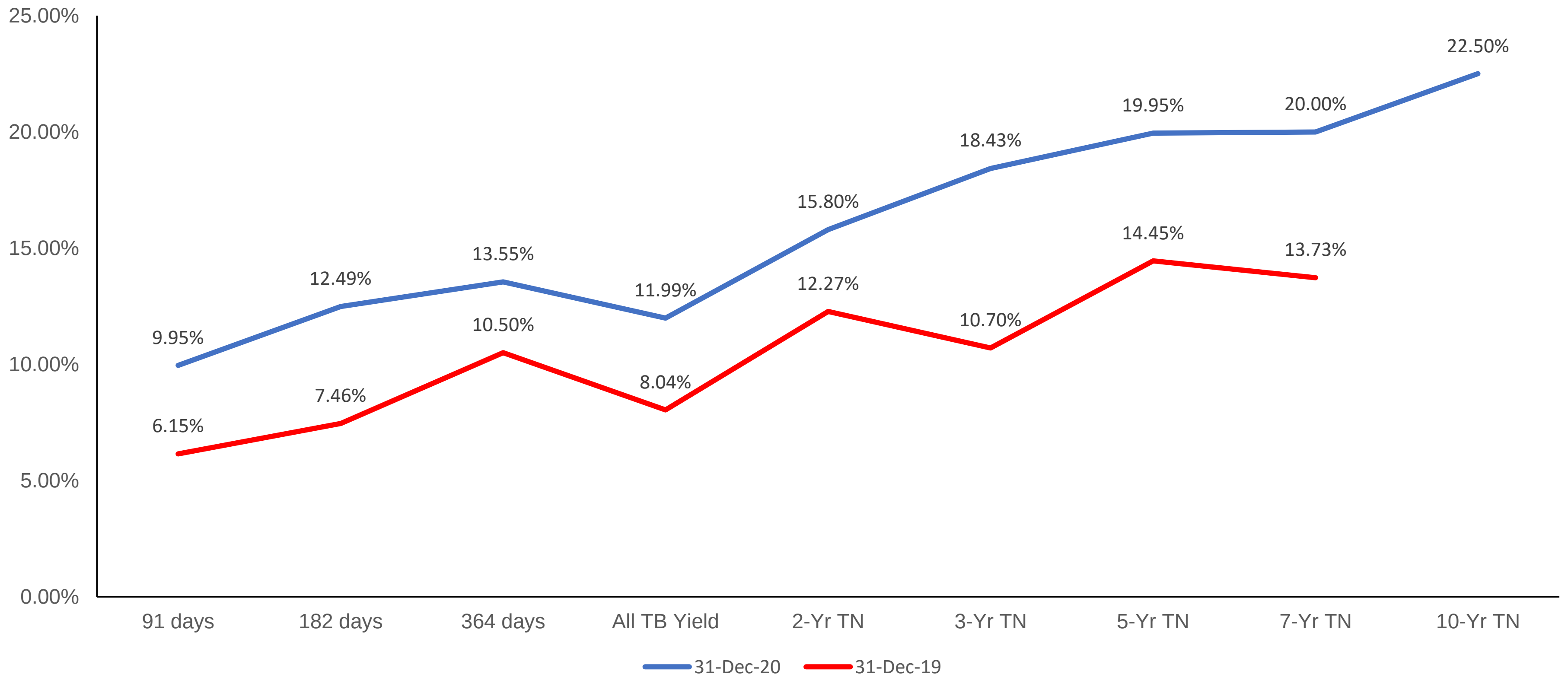
Economic Overview (Continued)

Government Securities (Continued) (Source: RBM)

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

The closing yields for the government securities have all increased in 2020. The most significant increase has been for the 3-Yr TN which increased to 18.43% from 10.71% in 2019. There were no 10Yr TN auctions in 2019.

Figure 8: Government Securities' Yield Curve as at Closing Yields



NB: 10-Year TNs were not issued in 2019

Economic Overview (Continued)

Government Securities (Continued) (Source: RBM)

The RBM increased liquidity in the economy by injecting a total of K178.71 billion in 2020 through Open Market Operations. The average OMO repo yield was 11.70% and the 60 days tenor had the highest subscription rate at 48.51%.

Figure 9.1: OMO Repo Applications

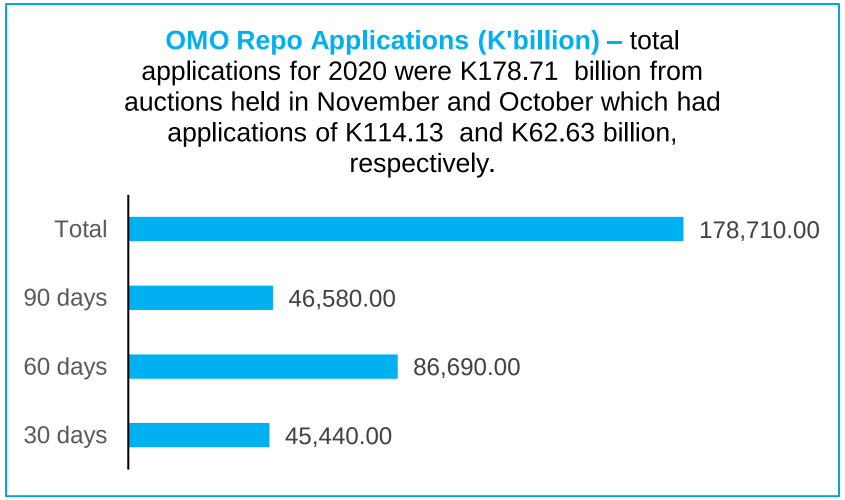


Figure 9.2: OMO Repo Allotments

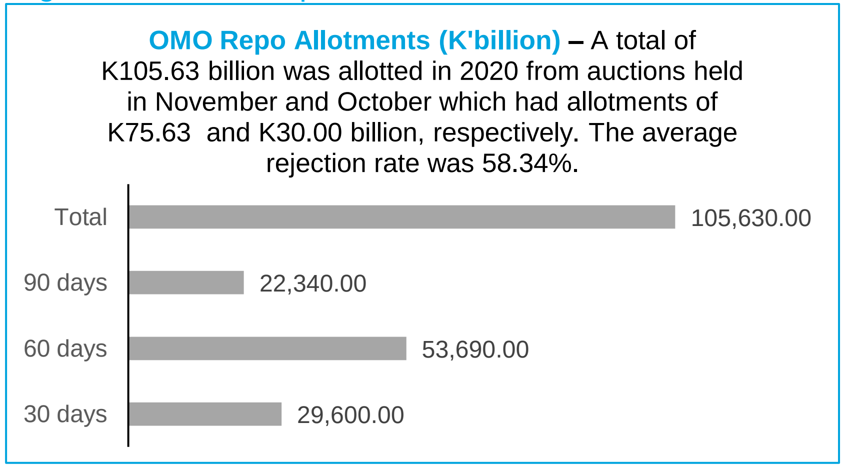


Figure 9.3: OMO Repo Subscription

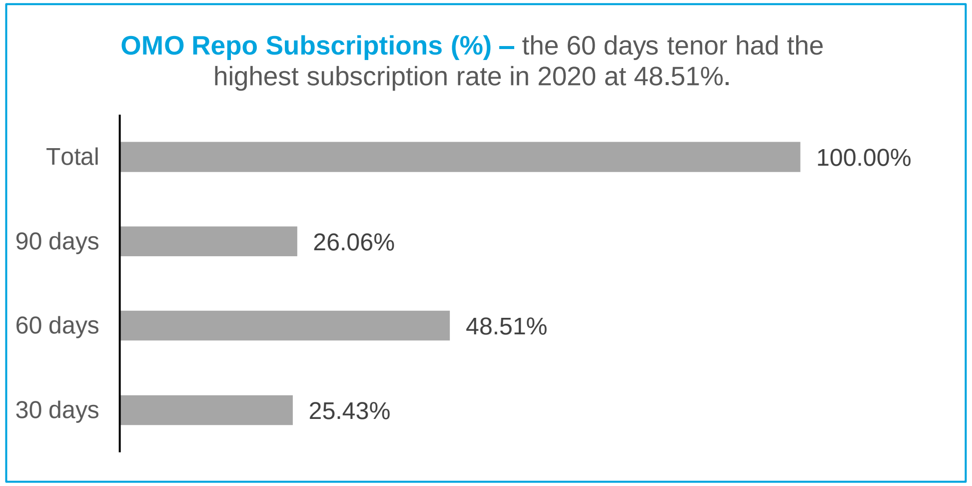
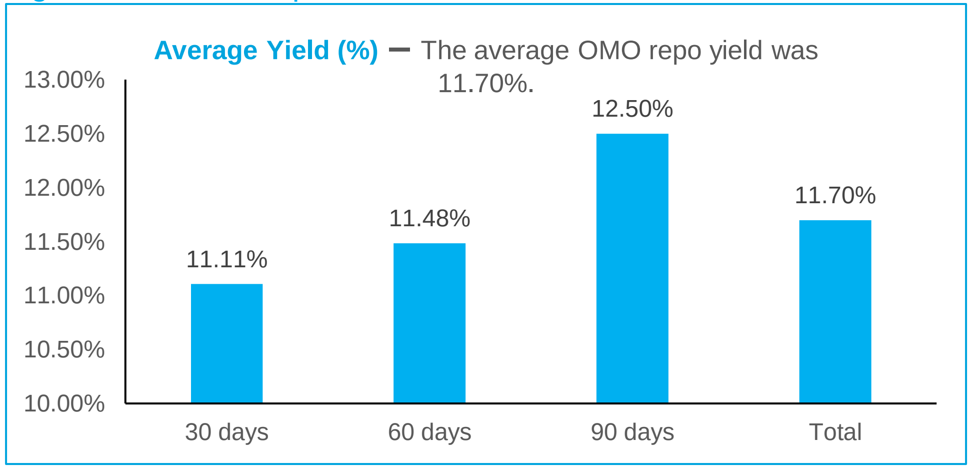


Figure 9.4: OMO Repo Yields



Economic overview (Continued)

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Y-o-y the Kwacha has depreciated against the USD by 5.14% to K776.82 per USD in 2020 from K738.87 per USD in 2019.

The depreciation of the Malawi Kwacha is due to lower tobacco and other commodity proceeds in 2020, declining foreign exchange inflows due to COVID-19 implications and rising import bills which has exerted pressure on the currency and subsequently reduced foreign currency reserves in 2020 to USD952.23 million from USD1,170.62 million in 2019.

Foreign currency market (Source: RBM and EUI)

As of 31 December 2019, the exchange rates closed the year at MK738.87 per USD, MK969.19 per GBP, MK52.43 per ZAR and MK825.65 per EUR. During the first quarter of the year 2020, the value of the Kwacha had gained against most of the major currencies from the previous year's closing figures. The kwacha gained by 4.65%, 24.03%, 2.87% against the GBP, ZAR and EUR, respectively, and depreciated by 0.69% against the USD. These changes were mainly on account of the COVID-19 pandemic which pushed countries worldwide into lockdown restrictions and shelled majority of their economic activities. However, as the year closed, the Malawi Kwacha depreciated against all the major trading currencies due to the increasing demand for foreign exchange and the increase in economic activity in the Euro zone and South Africa, as they eased their COVID-19 restrictions.

Table 5: Foreign Currency Market at Closing Dates

	Dec-20	Dec-19	Y-O-Y %	Y-T-D
MK:USD	776.82	738.87	5.14%	5.55%
MK:GBP	1,070.14	969.19	10.42%	11.38%
K:ZAR	56.43	52.43	7.62%	3.01%
MK:EUR	987.95	825.65	19.66%	17.04%

Y-O-Y the Kwacha has depreciated against the USD by 5.14% to K776.82 per USD in 2020 from K738.87 per USD in 2019. It also depreciated against the Great British Pound (to 1,070.14 per GBP in 2020 from K969.19 per GBP in 2019), the EUR (to K987.95 per EUR in 2020 from K825.65 per EUR in 2019) and South African Rand (from K52.43 to K56.43 per ZAR). Y-T-D the Kwacha has most significantly depreciated against the EUR by 17.04%. Table 5 summarizes the currency movement for the period.

According to the EIU country risk report, the Malawi Kwacha continues to be at risk of further depreciating against the US$ in the near future. The decline in foreign reserves and an increase in the debt-service ratio will offset an improvement in commercial banks' net foreign-asset position. Other factors weighing on the country's foreign currency position include growth in GDP which was estimated to be 1% in 2020, in addition to a current account deficit which was estimated at 16.8% of GDP in 2020. This is coupled with an increase in real interest rates. During the year, the decline in financial inflows, resulted in foreign direct investment (FDI) covering only 5.1% of the gross financing requirement over the past 12 months. Non-Governmental Organizations decreased activity in the country as the pandemic heightened and tourism levels almost came to a standstill. Lower revenues from the 2020 tobacco market also caused a decline in foreign currency revenue despite the effort of the US to keep export routes open. Imports in Malawi however remained stable despite the disruption of supply chains with trading partners due to the cheaper price of oil in the global market which led to increased fuel imports.

Economic overview (Continued)

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Y-O-Y the Kwacha has depreciated against the USD by 5.14% in to K776.82 per USD from K738.87 per USD in 2019. It also depreciated against the Great British Pound (from K969.19 per GBP to 1,070.14 per GBP), the Euro (from K825.65 per EUR to K987.95 per EUR) and South African Rand (from K52.43 to K56.43 per ZAR).

Foreign currency market (Continued) (Source: RBM)

Figure 10.1: MK:USD- Y-T-D the Kwacha has depreciated against the USD by 5.55%.

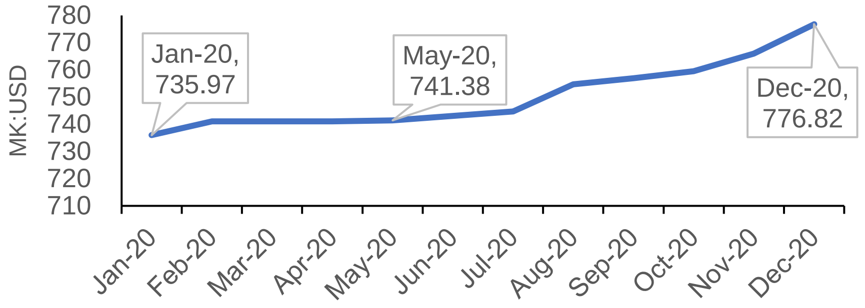


Figure 10.2: MK:GBP- Y-T-D the Kwacha has depreciated against the GBP by 11.38%.

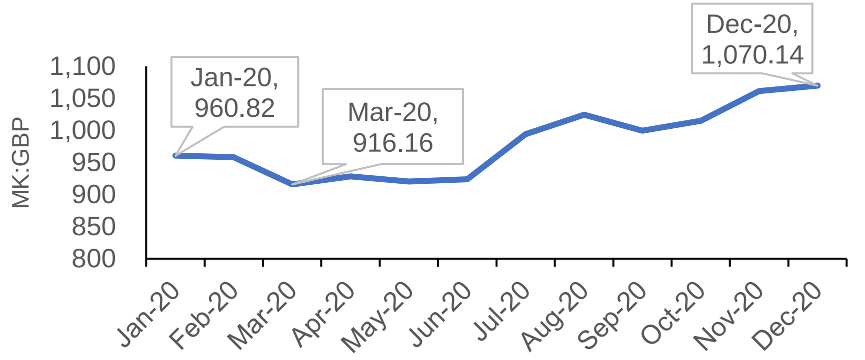


Figure 10.3: MK:ZAR- Y-T-D the Kwacha depreciated against the ZAR by 3.01%.

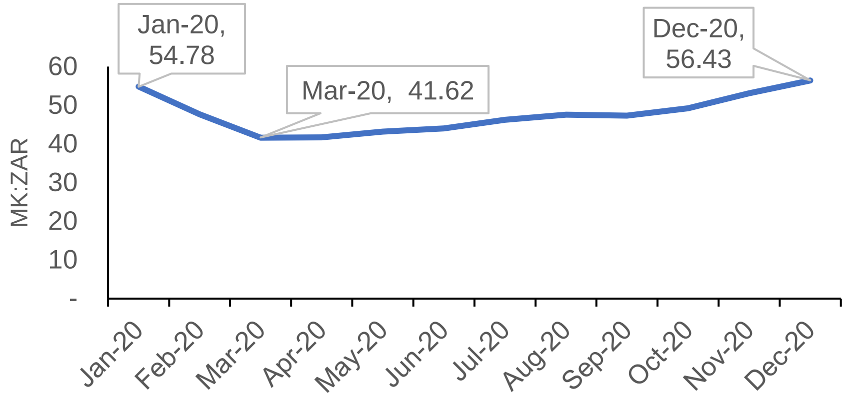
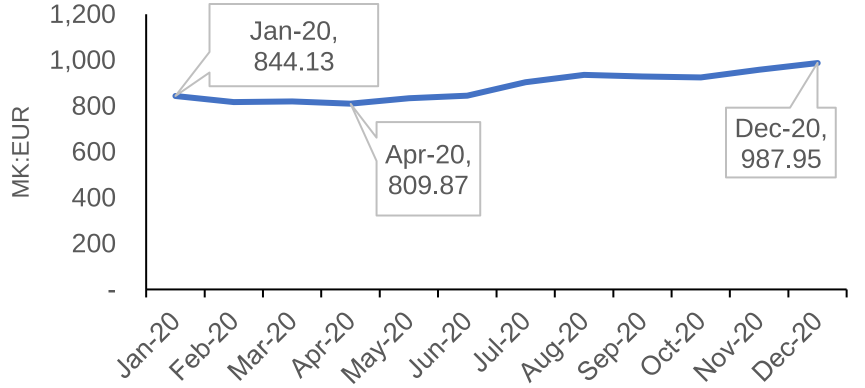


Figure 10.4: MK:EUR- Y-T-D the Kwacha has depreciated against the EUR by 17.04%.



Economic Overview (Continued)

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Due to the COVID-19 pandemic, Malawi's trade flows have been increased as a result of government's attempt to offset the economic impacts of the virus and procure health facilities. These trade outflows have not been offset by trade inflows as the tobacco season has produced low returns over the year and overall economic activity has lessened. This problem was further aggravated by disruptions in supply chains.

Foreign Currency Reserve Position Trend Graphs (Source: RBM)

The foreign exchange reserve is a stock of assets that are denominated in the reserve currency in USD. Foreign exchange reserves act as a cushion for central banks during an economic crisis or downturn. Foreign currency reserves are used to pay for the country's imports and servicing of external debt in foreign currencies. Due to the COVID-19 pandemic Malawi's trade flows have been exacerbated because of government's attempt to offset the economic impacts of the virus and procure health facilities. As of 31 December 2020, the country's total reserves were at USD952.23 million, which is a 18.66% decrease from the USD1,170.62 million held in December 2019.

The foreign reserve position is used to provide a level of confidence to markets that a country can meet its external obligations. Any volatility in foreign capital inflows can lead to the disruption of the foreign exchange reserve. According to statistics from the Malawi Economic Monitor, remittances fell to US$ 150.4 million through October 2020, which is a 30 % reduction from the same period in 2019. Revenue from exports were affected by restrictions on foreign and transit ports and the additional safety inspections necessitated by the pandemic which delayed supply chains. In 2020, tobacco exports also declined to US$237 million by the end of October, which represents a decline of 36 % compared to the same period in 2019, as this year's harvest was lower in volume compared to 2019 due to unfavorable weather conditions. According to the EIU, export receipts are estimated to have fallen by 29.9% in 2020. Although there was a significant decline in the imports over the period as a result of the COVID-19 pandemic, the fuel imports increased by 9 % to US$152.5 million from January to September 2020, as a result of the reduction in global fuel prices. As a result of the net export position, Malawi's current account deficit is projected to expand to 19.6 % of GDP in 2020, up from 17.8 % in 2019. To add to these pressures, remittances have declined as Non-Governmental Organization's (NGOs) activities have lessened as a result of the COVID-19 pandemic. Disruptions in global supply chains have also resulted in slower domestic business activity and procurement of goods and services. Some of Malawi's main trading partners China, USA and South Africa experienced severe economic downturns as a result of lockdown measures to curb the spread of the virus that had hit their economies hard.

Economic Overview (Continued)

Foreign Currency Reserve Position Trend Graphs (Source: RBM)

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

As of 31 December 2020, the country's forex reserves were at USD574.26 million, which is a 32.16% decrease from the USD846.55 million held in December 2019. The import cover for foreign exchange reserves decreased to 2.75 months in December 2020 from 4.05 months during the same time last year.

Figure 11.1: Gross Official Forex Reserves (USD million)

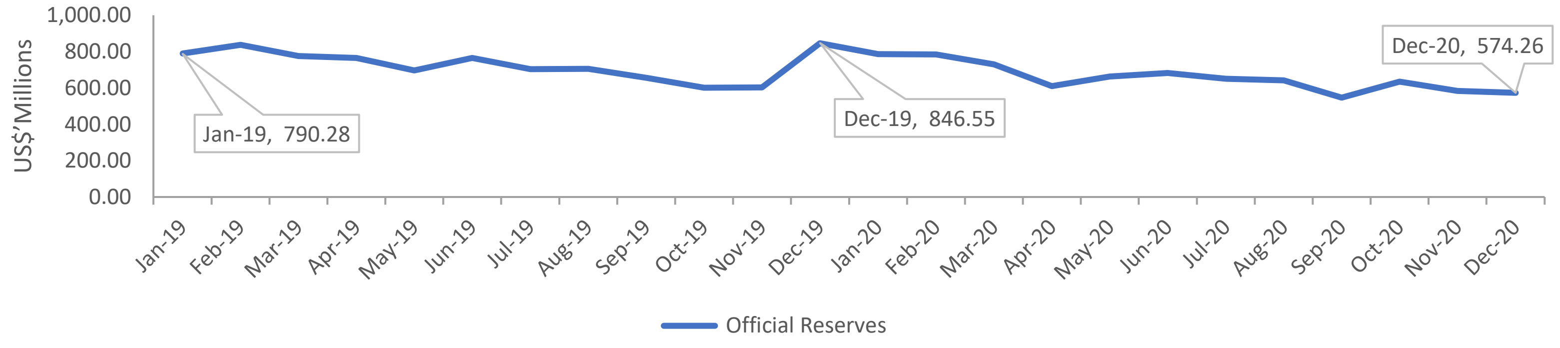
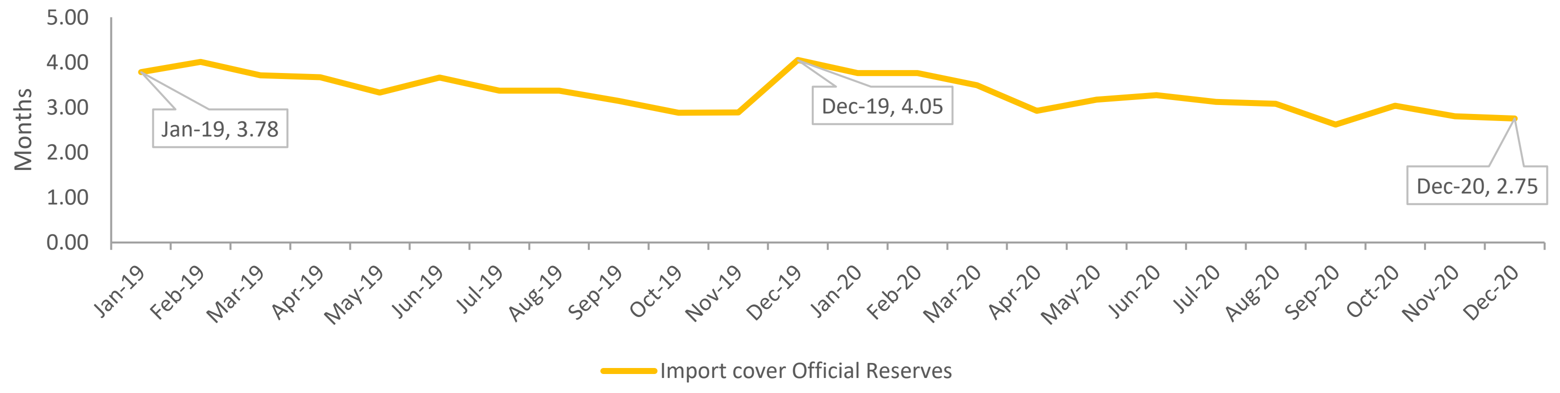


Figure 11.2:Official Reserves' Import Cover (Months)



Economic Overview (Continued)

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Foreign Currency Reserve Position Trend Graphs (Continued) (Source: RBM)

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

As of 31 December 2020, the country's private sector reserves were at USD377.97million, which is a 16.63% increase from the USD 324.07million held in December 2019. The import cover for private sector reserves increased to 1.81 months in December 2020 from 1.55 months in the previous year.

Figure 12.1: Private Sector Forex Reserves (USD million)

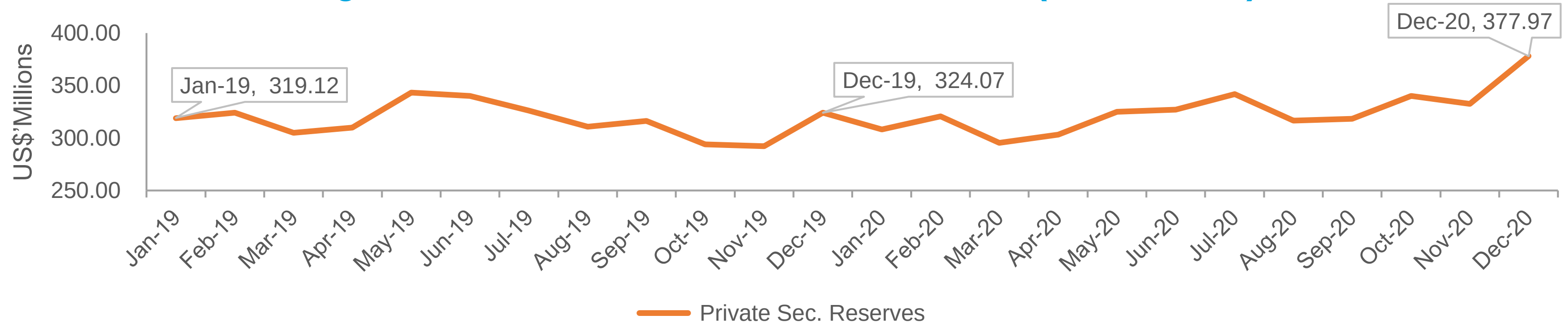
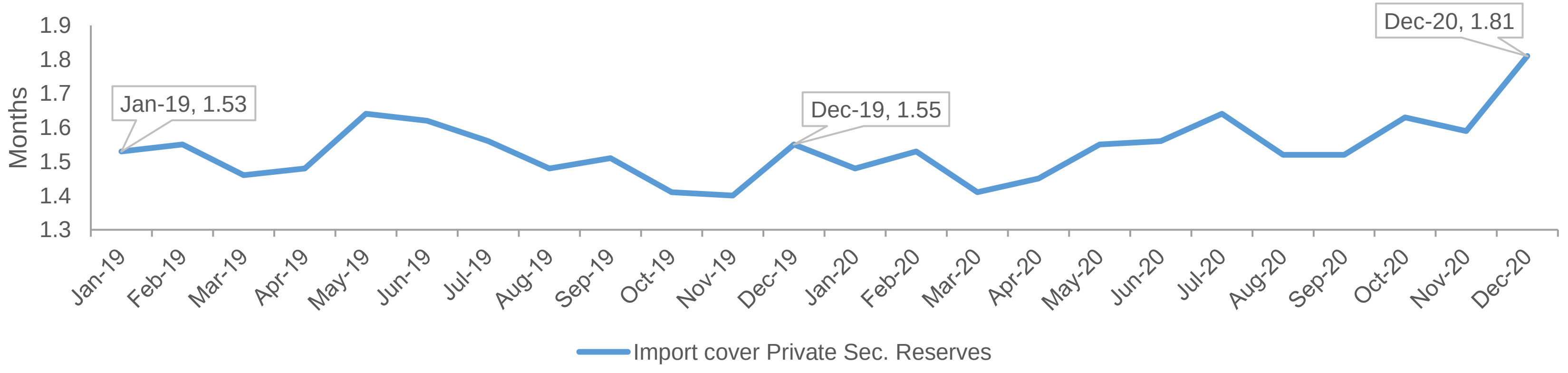


Figure 12.2: Private Sector Reserves' Import Cover (Months)



Economic Overview (Continued)

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As of 31 December 2020, the country's total reserves were at USD952.23 million, which is a 18.66% decrease from the USD1,170.62 million held in December 2019. The import cover for total reserves decreased to 4.56 months in December 2020 from 5.6 months during the same time last year

Foreign Currency Reserve Position Trend Graphs (Continued) (Source: RBM)

The total reserves and import cover are shown below.

Figure 13.1: Total Reserves (USD million)

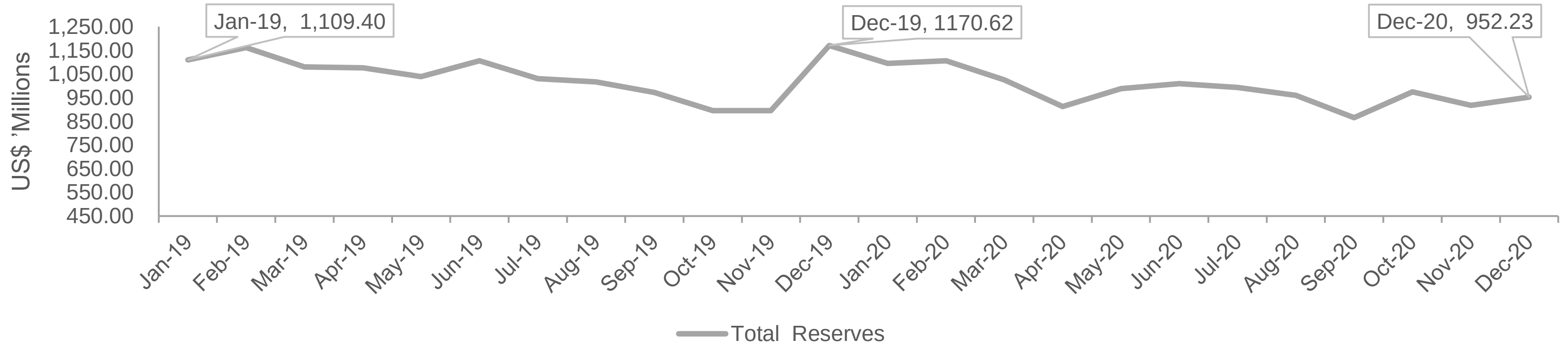
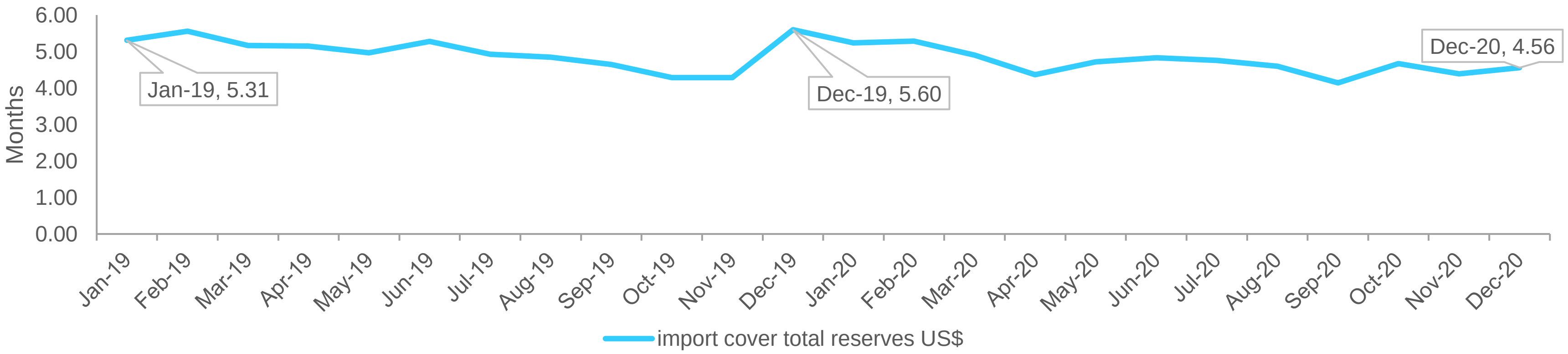


Figure 13.2: Total Reserves' Import Cover (Months)



Economic Overview (Continued)

Interbank Markets And Interest Rates (Source: RBM)

The annual average liquidity increased to K16.46 billion in 2020 from K14.98 billion in 2019. The Overnight (O/N) Interbank volume and the Discount Window borrowing volume also both increased to an annual average of K9.32 billion from K8.55 billion in 2019 and to K24.20 billion from K11.11 billion in 2019, respectively. The RBM reduced the policy rate in order to cushion the financial sector and stimulate economic activity amidst the pandemic.

The annual average overnight Interbank rate increased to 13.26% in 2020 from 10.20% in 2019.

There was a 9.86% increase in the annual average liquidity to K16.46 billion in 2020 from K14.98 billion in 2019. In the short run, the increasing liquidity in the market might compound inflationary pressure in the economy if supply of goods is constrained. Similarly, the Overnight (O/N) Interbank volume increased during the year to an annual average of K9.32 billion from last year's K8.55 billion. The Lombard facility (Discount Window borrowing) volume also increased to an annual average of K24.20 billion in 2020 from K11.11 billion last year. This marks a 117.76% increase year-on-year. This is largely attributed to a 50% reduction in the Lombard rate to 0.2 percentage points above the Policy Rate in April 2020. The figure below summarizes the annual average changes. Interbank borrowing has increased in 2020 due to the reduction in the policy rate which has prompted changes in interest rates on the market. The policy rate was reduced to cushion the banking sector amidst the pandemic.

Fig 14: Annual Average Volumes (K'Billions)

The Lombard rate started the year at 13.90% after which it dropped to 13.70% by mid-year and finally closed the year at 12.20%. The changes were on account of the decision by the Monetary Policy Committee to reduce the Lombard Rate by 50% to 0.2 percentage points above the Policy Rate on 1st April and to reduce the Policy rate to 12.00% from 13.50% on 6 November 2020. The annual average Lombard rate has increased to 13.56% from 12.91% last year. The annual average O/N Interbank rate also increased to 13.26% from 10.20%. The changes are shown in the figures below.

Fig 15.1: Annual Average Overnight Interbank Rates (%)

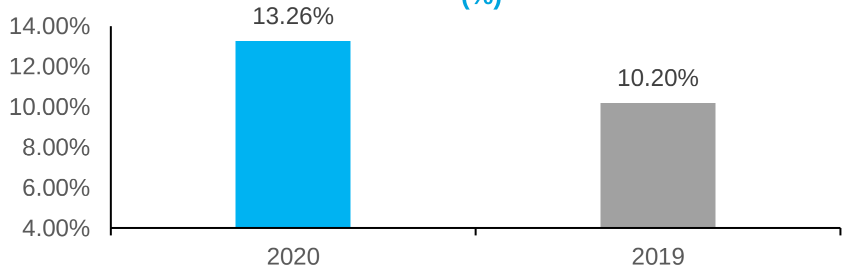
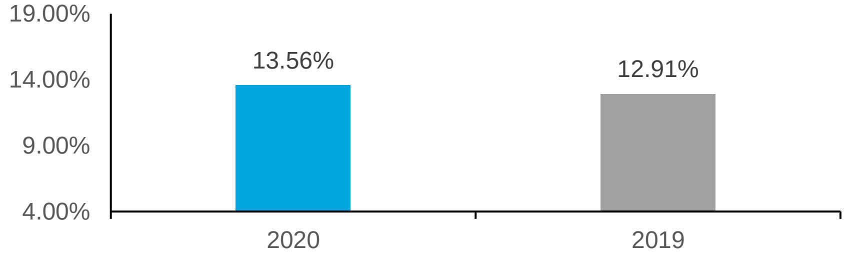


Fig 15.2: Annual Average Discount Window Rates (%)



Economic Overview (Continued)

In year-on-year terms, NBS had the largest share price gain by 60.00% to K21.60 in 2020 from K13.50 in 2019, followed by Standard Bank with a 43.34% increase to K1,046.39 in 2020 from K730.00 in 2019. FMBCH had the largest loss year-on-year of 70.61%. Its share price declined to K22.04 in 2020 from K75.00 in 2019.

Stock Market (Source: MSE)

The Malawi Stock Exchange saw two new counters being listed in the 2020 trading period, making a total of 16 counters listed on the Malawi Stock Exchange. AIRTEL MALAWI PLC listed 2,200,000,000 shares (20% of its shareholdings) at MWK12.69 per share on 14 February and FDH Bank listed 1,380,206,250 shares (20% of its shareholdings) at K10.00 per share on 28 July 2020.

Table 6: MSE Prices

MSE Code	Share Price		Y-O-Y % Change
	31-Dec-19	31-Dec-20	
Airtel	12.69**	27.98	↑120.49%
BHL	12.95	12.94	↓0.08%
FDHB	10.00**	14.45	↑44.50%
FMBCH	75.00	22.04	↓70.61%
ICON	10.50	12.27	↑16.86%
ILLOVO	153.00	80.48	↓47.40%
MPICO	19.53	21.00	↑7.53%
NBM	525.00	650.00	↑23.81%
NBS	13.50	21.60	↑60.00%
NICO	48.49	52.00	↑7.24%
NITL	80.00	94.95	↑18.69%
OMU	2,499.99	2,199.98	↓12.00%
PCL	1,400.00	1,309.47	↓6.47%
STANDARD	730.00	1,046.39	↑43.34%
SUNBIRD	118.00	105.00	↓11.02%
TNM	26.00	20.07	↓22.81%
MASI	30,252.20	32,392.84	↑7.08%
DSI	23,599.75	27,755.46	↑17.61%
FSI	4,024.86	1,363.88	↓66.11%

** IPO prices used instead of 31-Dec-19 Prices as counters were listed in 2020

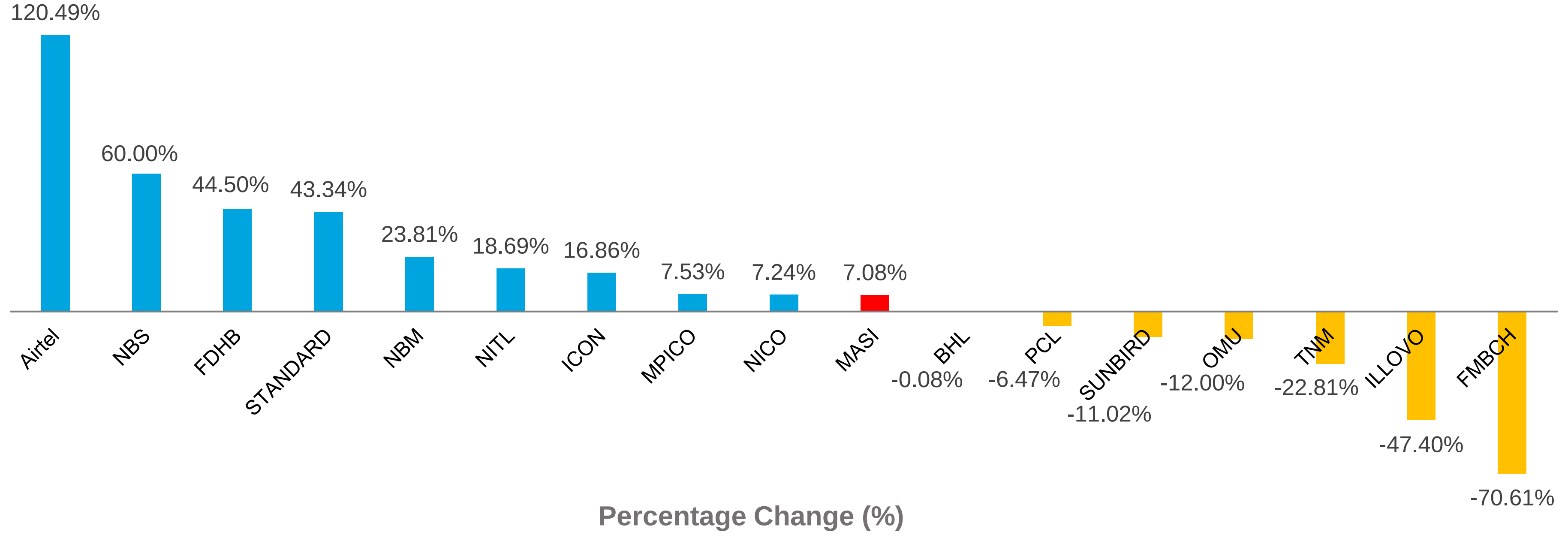
Economic Overview (Continued)

Since their listings, both Airtel and FDH have experienced share price gains. By the end of the year, the share price of Airtel was at K27.98 (a 120.49% share price increase) and K14.45 for FDH Bank (a 44.50% share price increase).

Stock Market (Source: MSE)

The largest gainer in 2020 was NBS which closed the year at K21.60 from K13.50 in the previous year. This marks a 60.00% increase. There was also a share price gain for Standard Bank (to K1,046.39 from K730.00), ICON (to K12.27 from K10.50), MPICO (to K21 from K19.53), NBM (to K650.00 from K525.00), NITL (to K94.95 from K80.00) and NICO (to K52.00 from K48.49). There were share price losses however for seven counters on the MSE. The largest losers were for FMBCH (to K22.04 from K75.00) and ILLOVO (to K80.48 from K153.00) and TNM (to K20.07 from K26.00). Since their listings, Airtel and FDH have both experienced share price gains, to K27.98 from an IPO of K12.69 and to K14.45 from an IPO of K10.00, respectively. The following table summarizes the share price changes during the period.

Fig 16: Share Price Change Y-O-Y % Change



Economic Overview (Continued)

Stock Market (Source: MSE)

The MASI increased by 7.08% to close at 32,392.84 points in December 2020 from 30,252.2 points in December 2019. Share prices gains offset share price losses.

A total of 1.65 billion shares were traded on the MSE by 31 December 2020 and this is 18.03% higher than last year's figure of 1.39 billion.

Fig 17.1: Malawi All Share Index (points)- The stock market was bullish over the year 2020 as the Malawi All Share Index (MASI) increased by 7.08% to 32,392.84 points from 30,252.2 points in the previous year.

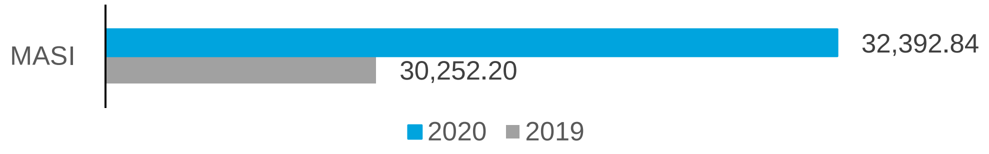


Fig 17.2: Domestic Share Index (points)- There was a year-on-year increase of 17.61% for the DSI to 27,755.46 points from 23,599.75 points

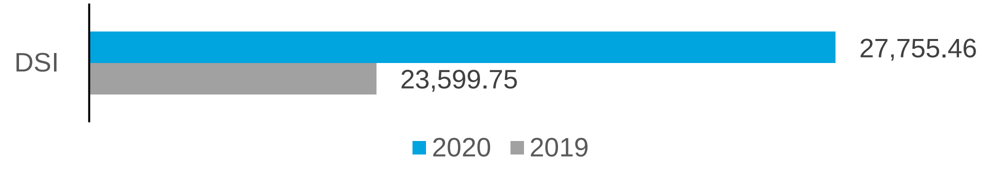


Fig 17.3: Foreign Share Index (points)- There was a 66.11% decrease in the FSI year-on-year to 1,363.88 points from 4,024.86 points

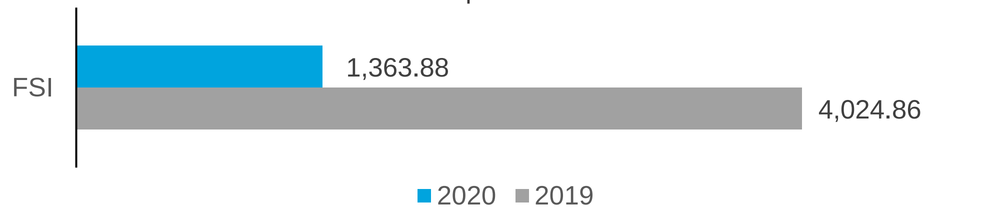
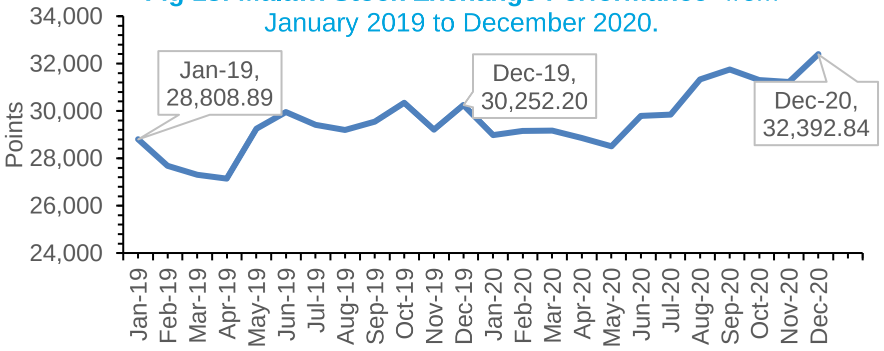


Fig 18: Malawi Stock Exchange Performance- from January 2019 to December 2020.



A total of 1.65 billion shares were traded on the MSE by 31 December 2020 and this is 18.03% higher than last year's figure of 1.39 billion. Similarly, the number of trades in the year under review increased by 1.63% from 3,064 trades to 3,114 trades by 31 December 2020. The total value of the trades in 2020 however decreased by 11.40% to K41.09 billion from K46.37 billion last year. The table below shows the summary of the trades.

Table 7: MSE Traded Volumes

	Dec-20	Dec-19	Y-O-Y % Change
Volume (Billions)	1.65	1.39	⬆ 18.03%
Value (K'Billion)	41.09	46.37	⬇ 11.40%
Trade Count	3,114	3,064	⬆ 1.63%

Economic Overview (Continued)

The Malawi All Share Index (MASI) closed the year 2020 with a dividend yield of 2.71 % and a P/E ratio of 15.94.

Stock Market (Source: MSE)

Figure 19.1: MSE Dividend Yield

Dividend Yield 2020- The weighted average Dividend Yield on the MSE closed at 2.71% on 31 December 2020 which was 1.99% during the same period last year. The counter with the highest dividend yield is AIRTEL at 4.47%.

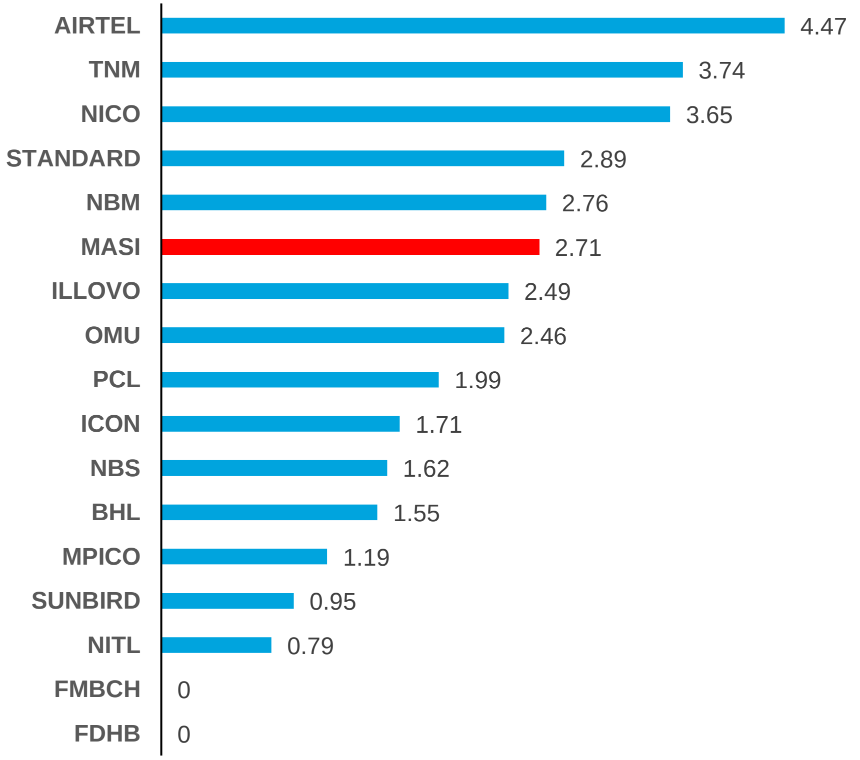
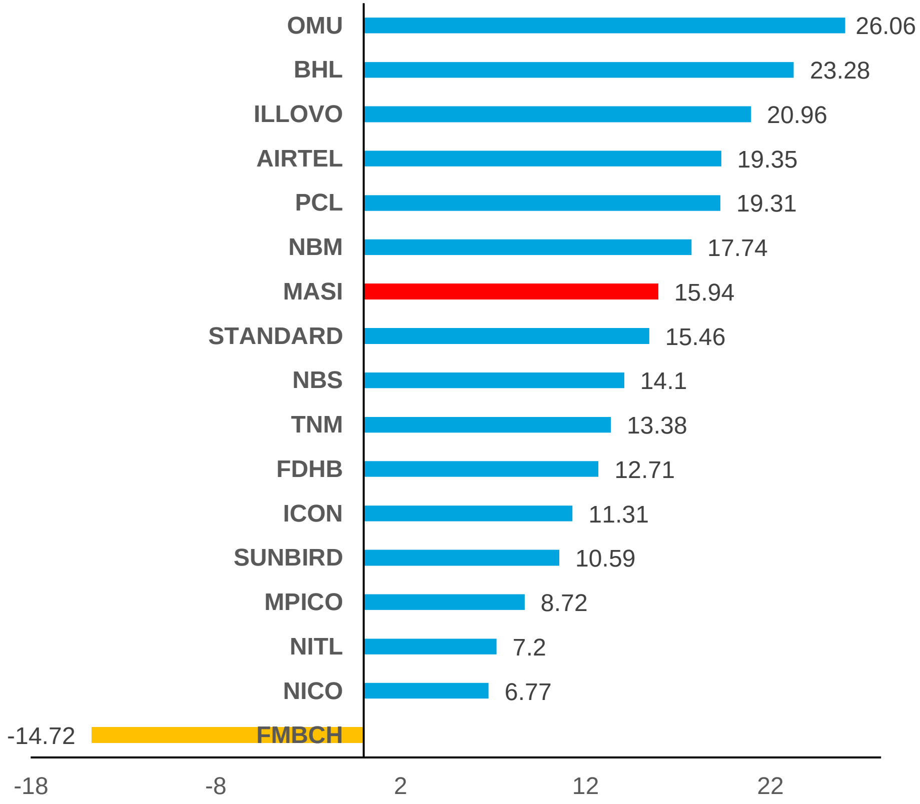


Figure 19.2: MSE P/E Ratio

P/E ratio 2020- The MSE closed December 2020 with a weighted average Price to Earnings ratio of 15.94 which was 13.4 during the same period last year. FMBCH had the lowest at negative 14.72 while OMU had the highest at 26.06.



Economic Overview (Continued)

At the end of December 2020, the MASI had a P/BV Ratio of 2.28. Total market capitalization stood at K1.76 trillion by the end of the year. Airtel led the MSE counters with a market capitalization of K308 billion.

Stock Market (Source: MSE)

Figure 19.3: MSE P/BV Ratio

P/BV Ratio 2020- The closing weighted average Price to Book Value ratio on the MSE was 2.28 as at 31 December 2020 which marks an increase of 6.54% (2.14) from the same period last year. Airtel had the highest P/BV ratio at 19.54.

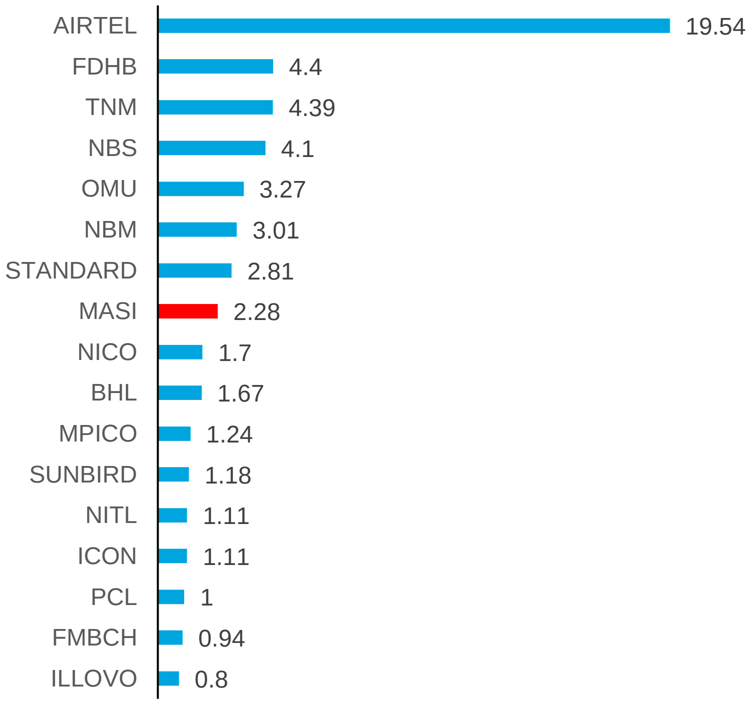
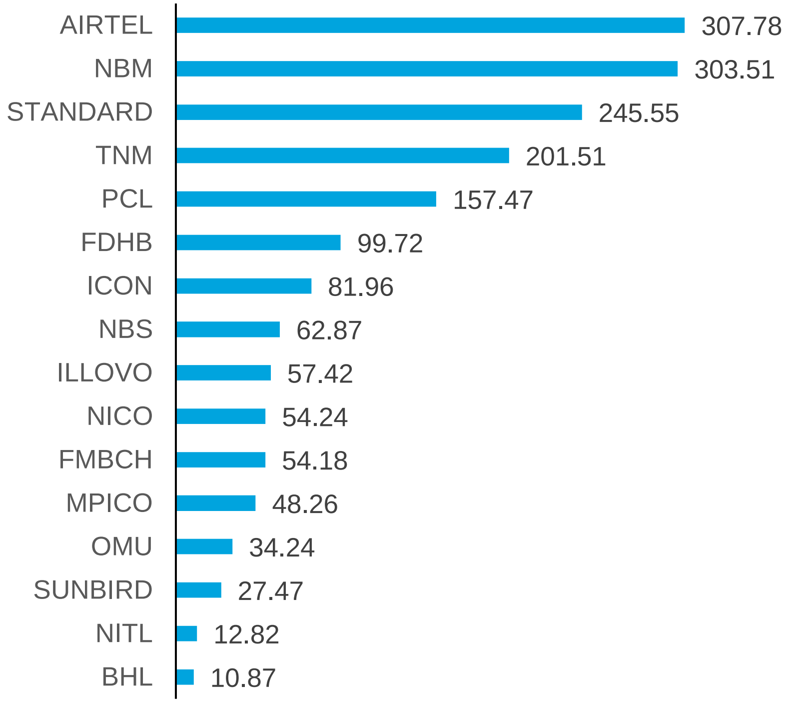


Figure 19.4: MSE Market Capitalisation (MKbn)

Market Capitalization 2020 (MK'Billions) - Airtel led the MSE counters this year, closing with a market capitalization of MK307.780 billion at the end of December 2020. The total market capitalization on 31 December 2020 was K1.76 trillion.



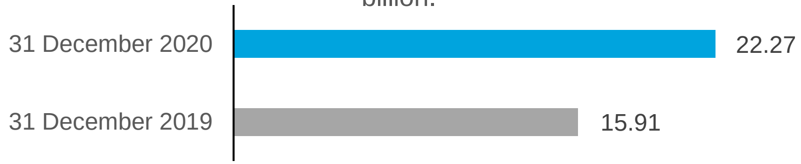
Economic Overview (Continued)

The tourism sector remains one of the hardest hit sectors globally by the COVID-19 pandemic. Sunbird expects a 150% decrease in profits for the period ending 31 December 2020. Likewise, BHL also anticipates its profits to decrease by 200% for the period ending 30 September 2020.

Corporate Announcements (Source: MSE)

1.

Fig 20.1: Airtel Profit After Tax (K'Billions) - according to their trading statement, they expect a 40% increase in profits for the period ending 31 December 2020 to at least K22.27 billion from K15.91 billion.



2.

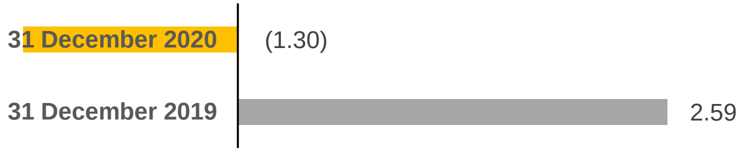
Figure 20.3: TNM Profit After Tax (K'Billions) - according to their trading statement, they expect a 25% decrease in PAT for the period ending 31 December 2020. As such , the PAT will decrease to at most K11.30 billion from K15.06 billion.

3.

Figure 20.5: Standard Bank Profit After Tax (K'Billions) - according to their trading statement, Standard Bank expects a 45% increase in profits for the period ending 31 December 2020 to at least K23.03 billion from K15.88 billion.

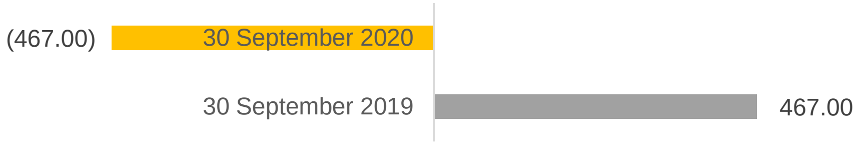
4.

Fig 20.2: Sunbird Profit After Tax (K'Billions) - according to their trading statement, they expect a 150% decrease in profits for the period ending 31 December 2020 to negative K1.3 billion from K2.59 billion.



5.

Fig 20.4: BHL Profit After Tax (MK'Millions) - according to their trading statement, they expect a 200% decrease in profits for the period ending 30 September 2020 to at most K1.07 billion from K1.07 billion.



6.

Fig 20.6: NBS Profit After Tax (K'Billions) - according to NBS's trading statement, they expect a 25% increase in profits for the period ending 31 December 2020 to at least K5.72 billion from K4.46 billion.

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Economic Overview (Continued)

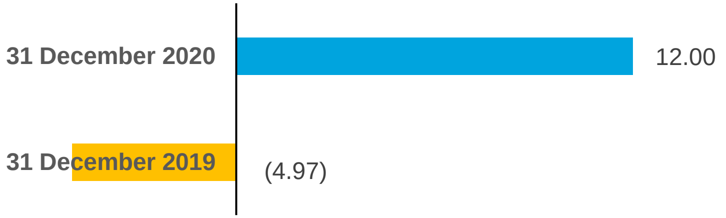
Corporate Announcements (Source: MSE)

FMBCH expects an increase in profit after tax of 200% to USD12 million from a loss of USD4.97 million for the period ending 31 December 2020.

ILLOVO's PAT for 2020 has decreased by 73%, to K2.74 billion from K10.08 billion, according to their audited financial statements.

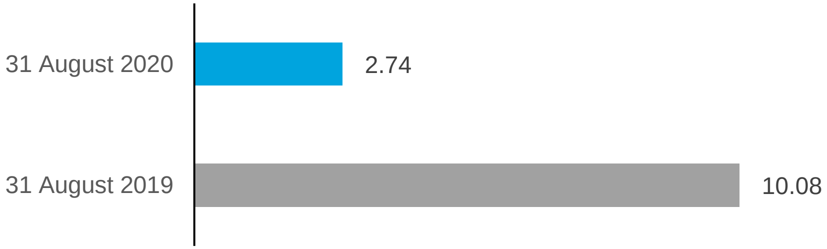
7.

Fig 20.7: FMBCH Profit After Tax (USD'Millions) - according to their trading statement, they expect a 200% increase in profits for the period ending 31 December 2020 to at least USD12 million (K9.25 billion) from a loss of USD4.97 million (K3.83 billion).



8.

Fig 20.8: ILLOVO Profit After Tax (K'Billions) - according to ILLOVO's audited financial statements for the period ending 31 August 2020, their profit after tax decreased by 73% to K2.74 billion from K10.08 billion.



9.

Fig 20.9: NITL Profit After Tax (K'Billions) - according to their trading statement, they expect a 40% decrease in profits for the period ending 31 December 2020 to at most K1.07 billion from K1.78 billion.

10.

Counters that did not release End of Year Trading Statements are listed below. These counters expect their PAT to be within 20% of the profit made in the previous period:

1	NICO	**5**	PCL
2	NBM	**6**	ICON
3	FDHB	**7**	MPICO
4	OMU		

Economic Overview (Continued)

Corporate Announcements (Source: MSE)

NBM is under discussions to possibly acquire a controlling stake in Akiba Commercial Bank from the Republic of Tanzania.

11. **National Bank of Malawi plc cautionary statement**

National Bank of Malawi plc wishes to advise the general public that discussions are still under way on the possible acquisition of a controlling stake in Akiba Commercial Bank, a financial institution registered and operating in the Republic of Tanzania, the outcome of which may affect the NBM plc share price. It is anticipated that the discussions will be concluded at the end of the month of January 2021.

12. **FDH Bank Plc cautionary statement**

FDH Bank Plc wishes to inform its shareholders and the general public that members of its majority shareholder, FDH Financial Holdings Limited, are engaged in shareholding negotiations. The negotiations may result in changes in the shareholding structure of FDH Financial Holdings Limited.

Shareholders are therefore advised to exercise caution in dealing in their shares and consult professional advisors before dealing in their shares until such time as the result of the negotiations is known.

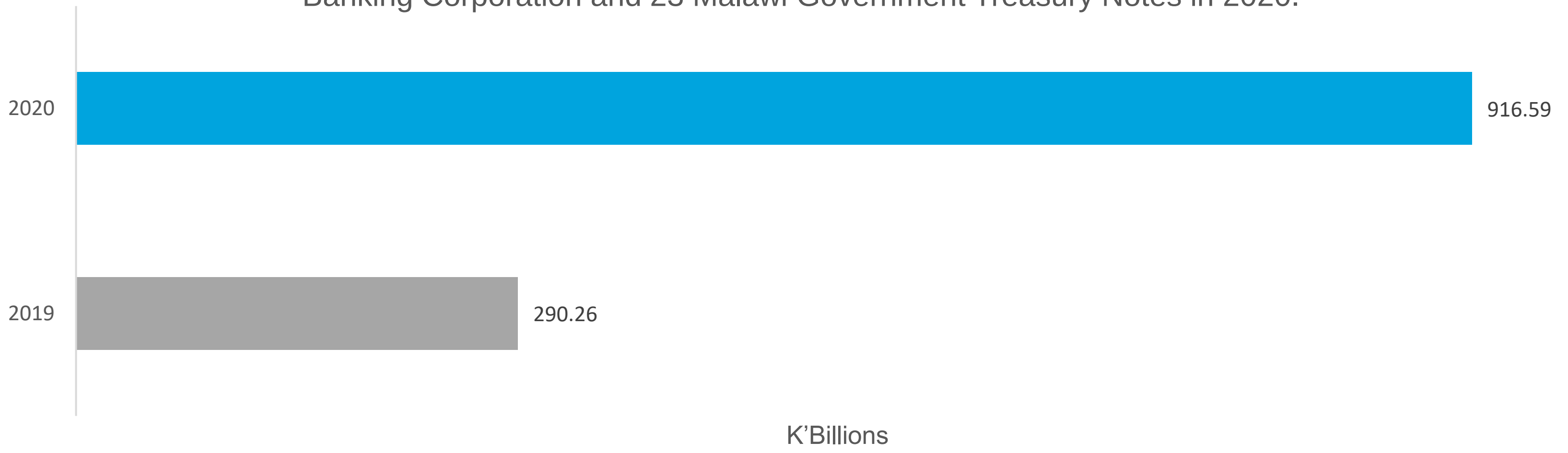
FDH Bank Plc is further informing the general public that all efforts will be made to communicate further developments as and when required.

Economic Overview (Continued)

Debt Market

The total number of listed debt securities on the MSE has grown from 14 debt securities in 2019 to 28 listed securities in 2020. The total nominal value of listed debt securities was K916.59 billion in 2020 which is 216% higher than the K290.26 billion in 2019.

Fig 21: Nominal Value (K'Billions) - Similar to 2019, there were no debt securities traded on the market in 2020. There were 5 Corporate Medium Term Notes by MyBucks Banking Corporation and 23 Malawi Government Treasury Notes in 2020.



Other Market Developments

Other Market Developments (Continued)

There was a 26% year-on-year decrease in total tobacco earnings in 2020 to USD175 million from USD237 million in 2019. Although this year's prices and demand on the market have been better than 2019, there was reduced tobacco output according to the Tobacco Commission. The decline in volumes may potentially also be a result of implementation challenges from the new Tobacco Act which may have reduced overall tobacco output. Tobacco accounts for 56% of Malawi's exports. The decrease in exports have reduced the country's foreign exchange reserves.

2020 Tobacco Market (Source: AHL Malawi and Tobacco Commission)

Figure 22.1: Tobacco sales

Sales (Kg'Mn)-Total sales decreased by 27% in 2020 to 114 million kgs from 166 million kgs in 2019. This was attributed to the reduced tobacco output.

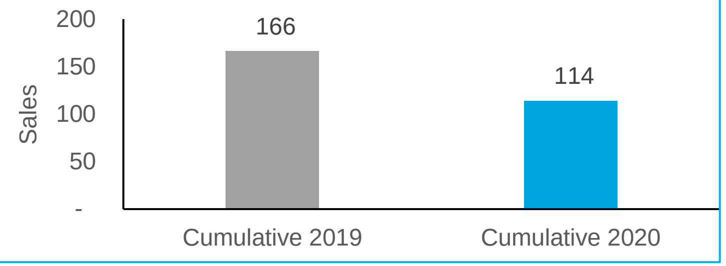


Figure 22.3: Tobacco revenue

Value (US$'Mn)-175 million was realized from the tobacco market in 2020. This is 26% lower than the USD237 million realized in the 2019 season.

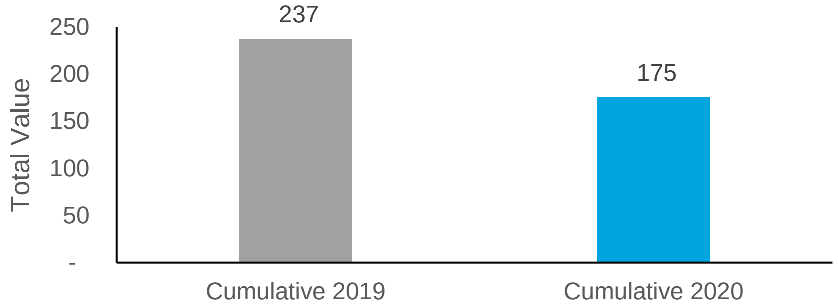


Figure 22.2: Tobacco prices

Price (US$/Kg): The price was 7% higher in 2020 compared to the last year. The higher price was mainly due to increased demand for bodied leaf, which is of higher value.

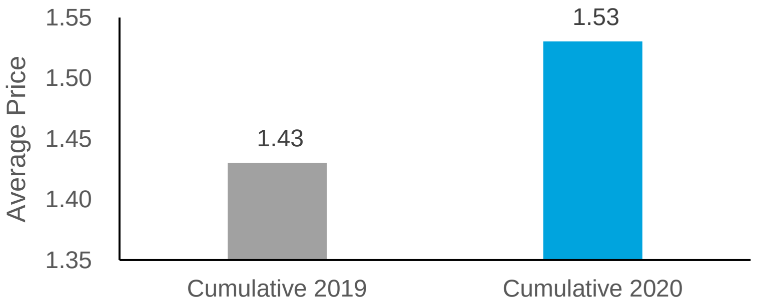
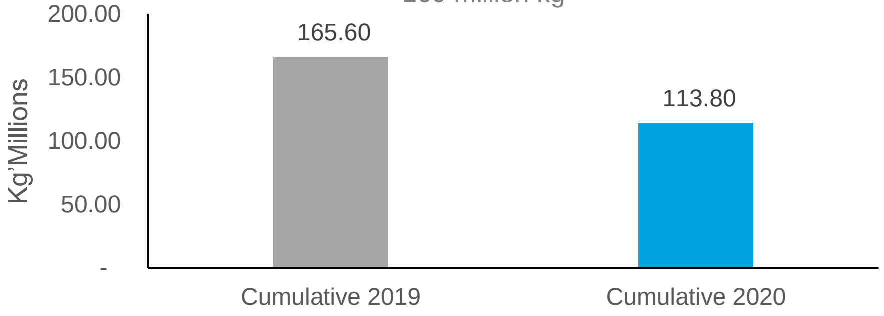


Figure 22.4: Tobacco volume

Volume of Tobacco Traded (Kg'Millions)-A total of 113.8 million kgs were sold in 2020 which is 31.3% lower than the 165.6 million kgs sold on the market in 2019. The initial plan was to produce 155 million kgs against a trade requirement of 160 million kg



Other Market Developments

Malawi Monthly Maize Market Report (Source: IFPRI)

The average retail price for maize was MWK199/kg in December 2020, which is 27.64% lower than the average retail price of MWK275/kg in December 2019.

The average retail price for maize in December 2020 was MWK199/kg. This price is about 1.53% higher than November's price of K196/kg and 27.64% lower than the average retail maize price of MWK275/kg in December 2019.

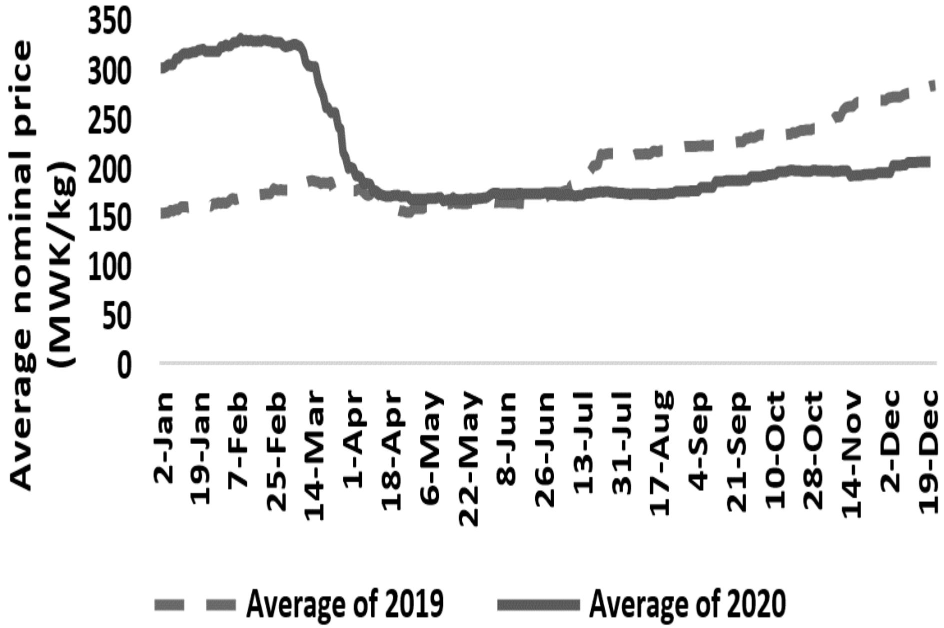
According to figure 23, the average nominal maize prices in the first quarter of 2020 were about twice as high as in 2019. Prices dropped significantly in March towards the onset of the main harvest season in April where they remained relatively stable. Towards the end of July 2020 prices were significantly lower than in 2019 and remained relatively stable until the end of the year.

Prices rose in 16 markets and remained constant in 10 markets. The largest price increases were recorded in northern markets: Chitipa (33%), Karonga (31%), and Rumphi (23%). By the end of December 2020, 19 out of 26 markets monitored reported prices equal or above MWK 200/kg. Retail maize prices remained highest in the South and lowest in the North. During the second week of the month, there was a sharp increase in prices in northern markets. The average price in the Centre was MWK 14/kg higher than in the North and MWK 30/kg lower than in the South.

In December 2020, no ADMARC purchases, or sales were reported in the 26 markets IFPRI monitors.

Retail maize prices in Malawi markets were higher than in most of the markets in Southern Africa. Prices in Lunzu were higher than in Kampala, Uganda, whereas prices in Karonga, Mitundu, and Mzuzu were higher than on SAFEX (the main grain futures market in South Africa) and the national average price in Zambia.

Figure 23: Daily average maize retail price trends 2019–2020



Other Market Developments (Continued)

COVID-19 and Malawi

The COVID-19 has disturbed the global economy disturbing worldwide productivity. The recovery of the global economy is heavily dependent on the availability of an effective vaccine.

The unexpected outbreak of the novel coronavirus (SARS-CoV2) took the global economy by surprise, disturbing international supply chains, economic productivity, employment, remittances, growth of human capital and global mobility. Malawi was not spared of its effects, registering its first case in April 2020. The less economically developed country was expected to suffer several shocks due to its financial inability to curb the aftermath of the pandemic. The socio-economic effects of the pandemic require a lot of resources to mitigate the impacts of the COVID-19 pandemic, of which Malawi does not have. The Government of Malawi put several measures in place to curb the spread of the virus and mitigate its impacts on the economy. A few of these measures are highlighted in the sections to follow.

source: WHO Coronavirus Disease (COVID-19) Dashboard as of 31 December 2020

Fig 24.1: Cases - Cumulative Total

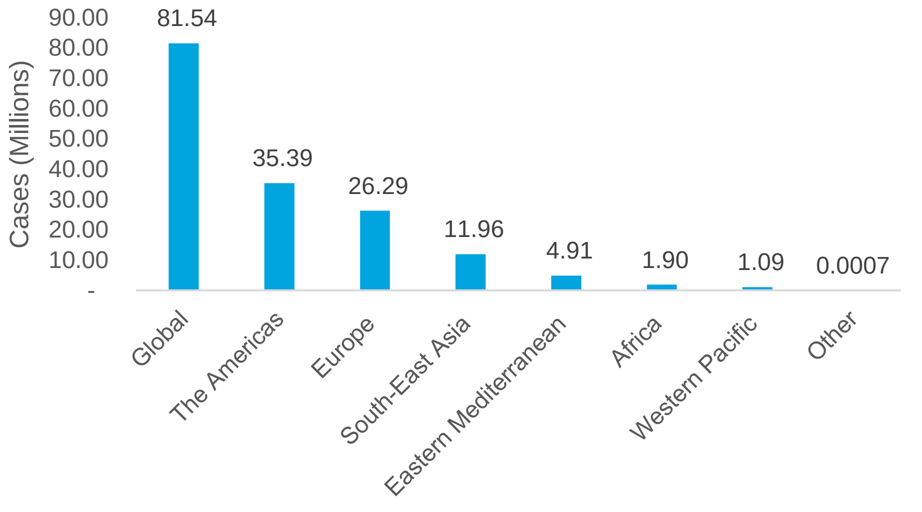
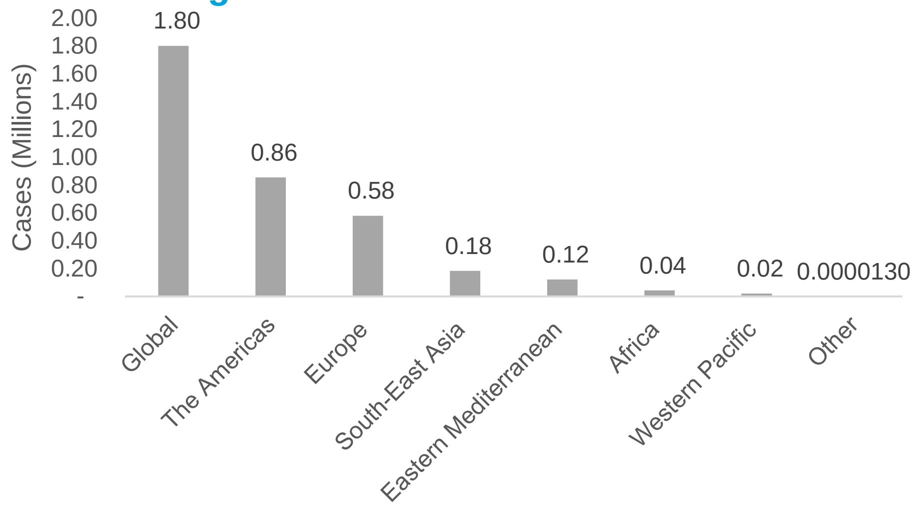


Fig 24.2: Deaths - Cumulative Total



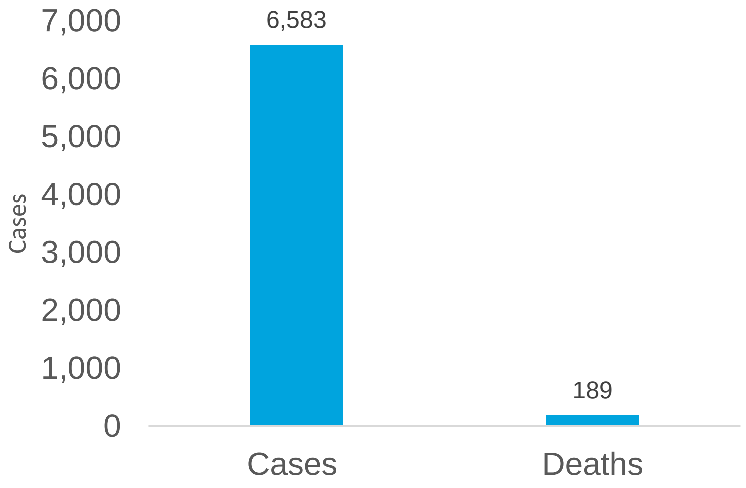
According to Visual Capitalists, globally, the winning economic sectors during 2020 were software applications, internet retail, basic materials, freight and logistics, and the semiconductors industry. The losers were, oil and gas, diversified banks, real estate – retail, airlines, and aerospace/defense. This list is however not exhaustive as various other sectors have also greatly succumbed to the economic toll of the COVID-19 pandemic such as manufacturing, transport, education, tourism and accommodation and labour.

Other Market Developments (Continued)

COVID-19 and Malawi (Source: Ministry of Health)

As of 31 December 2020, Malawi had recorded 6,583 COVID-19 cases since the onset of the pandemic and 189 of these cases had resulted in death.

Fig 25: Malawi COVID-19 Cases (thousands)- Cumulative Total as at 31 December 2020



According to the Malawian Ministry of Health, of the 85,449 tests that had been conducted as of 31 December 2020, there were 6,583 cases confirmed cases. 5,705 of these cases had recovered leaving 505 active cases and 189 of the confirmed cases have resulted in death.

According to insights of a report by the International Food Policy Research Institute (IFPRI), Malawi adopted social distancing measures for markets and public transport. Schools were closed and social gatherings were banned. The opening of the tobacco auctions was delayed, and all commercial flights were suspended from midnight on April 1 2020. Other measures included the reduction of the liquidity reserve ratio for banks, fuel taxes and waiving the non-tourist levy to support the tourism industry. The Malawi Revenue Authority was also instructed to open a voluntary tax compliance window for a period of six months to allow taxpayers with arrears to settle their tax obligations later. Detailed information on the measures to mitigate the COVID-19 pandemic have been highlighted in later sections. Most of these measures however were dropped within the year.

Other Market Developments (Continued)

COVID-19 and Malawi (Source: National COVID-19 Preparedness And Response Plan)

According to the National COVID-19 Preparedness and Response Plan April 2020, a total budget of US$213.16 million was necessary to assist all COVID-19 preparedness and economic recovery.

Table 8: Total Funding Requirement from the National COVID-19 Preparedness and Response Plan

Cluster	Total Requirements (USD'Millions)	Available (USD'Millions)	Gap In Funding (USD'Millions)
Coordination	0.45	0.04	0.41
Communication	1.54	-	1.54
Health	20.72	8.34	12.38
WaSH	16.08	0.57	5.50
Protection and Social Support	124.24	-	124.24
Employment	4.89	-	4.89
Security & Enforcement	11.22	-	1.22
Education	10.00	10.00	-
Food Security	22.30	0.04	22.25
Transport and Logistics	1.73	-	1.73
Total (USD)	213.16	18.99	194.17

According to the National COVID-19 Preparedness and Response Plan dated April 2020 and thus issued under the previous Government of Malawi, a total budget of US$213.16 million was necessary to satisfy all COVID-19 preparedness activities and economic recovery. Table 8 outlines the respective sectors that require funding. The then government, in partnership with the UN and NGOs for disaster preparedness, drafted response and recovery efforts at national and local levels, ultimately establishing a budget for emergency preparedness and capacity-building activities. According to the United Nations Financial Tracking Tool on Malawi's emergency financial appeal, as of November 2020, US$103.5m had been funded so far which is 48% of the total amount required for this activity.

Other Market Developments (Continued)

COVID-19 and Malawi (source: RBM)

Measures To Mitigate The Impact Of COVID-19 From The Banking Industry, The Mobile Network Operators And Microfinance Sector In Malawi (SOURCE: RBM)

Some of the actions taken by the Reserve Bank of Malawi were to reduce the Lombard rate margin by 50%, reduce all fees related to internet banking by 40% and a 3-month suspension on interest rates and principal repayments for borrowers by case.

On the 4 April 2020, the Bankers Association of Malawi (BAM) and the Governor and Registrar of Financial Institutions agreed on the following measures for commercial banks:

i. A three-month moratorium on interest and principal repayments for loans by borrowers on a case-by-case basis;

ii. To restructure and refinance or renegotiate loans for small and medium scale enterprises, corporates and other borrowers affected by COVID-19 on a case-by-case basis;

iii. To reduce by 40% fees and charges related to internet banking, mobile payments and any other related services, except for POS and visa and master card related payments, in order to encourage usage of electronic payment transactions; and

iv. To defer all payments of bonuses and dividends until the risk of COVID-19 is under control. However, this will be assessed by the Registrar of Financial Institutions on a case-by-case basis.

Actions by the Registrar of Financial Institutions:

i. Reduced the Liquidity Reserve Requirement (LRR) on domestic currency deposits, thereby releasing K12 billion as additional liquidity availed to banks to directly support borrowers that are distressed as a result of COVID-19;

ii. Reduced Lombard Rate margin by 50% to reduce the cost of accessing funds from the Central Bank and enable banks to pass on the benefits to borrowers;

iii. Activated the Emergency Liquidity Assistance Facility and made it available to banks on a case-by-case basis;

iv. Approved the recapitalisation plan under the Prompt Corrective Action (PCA) Directive beyond 90 days in the unlikely event of a bank breaching the Prudential Capital Requirement Directive as a result of COVID-19;

v. Granted relief to banks on the provision of restructured loans and loans on moratorium impacted by COVID-19.

Other Market Developments (Continued)

COVID-19 and Malawi (source: RBM)

Measures To Mitigate The Impact Of COVID-19 From The Banking Industry, The Mobile Network Operators And Microfinance Sector In Malawi (SOURCE: RBM) (continued)

Government of Malawi introduced an Emergency Cash Transfer Programme of about US$50m. Mobile Network Operators were to completely remove user fees and charges on person-to-person transfers on the same network and reduce user fees and charges across respective networks from a minimum of K120.00 to K20.00.

Actions by the Malawi Government

i. Engaged the donor community through Ministry of Finance, Economic Planning & Development for stimulus grants to the microfinance sector;

ii. Ensured that all outstanding pay-roll deductions being held by Ministries, Departments and Agencies (MDAs) are remitted to the respective microfinance institutions

iii. Set up the Emergency Cash Transfer Programme of about US$50m

The Governor & Registrar of Financial Institutions, Mobile Network Operators ('MNOs') and the microfinance sector agreed on the following measures: Actions by the MNOs:

i. Completely removing user fees and charges on person-to-person transfers on the same network;

ii. Reduced user fees and charges on person-to-person transfers across their respective networks from a minimum of K120.00 to K20.00 that will accrue to Natswitch;

Actions by the Reserve Bank of Malawi:

i. From the 4th of April 2020, daily transaction and account balance limits on non-bank mobile money services were revised upwards, as follows:

Fig 26.1: Changes to Maximum Account Balances effective 4 April 2020

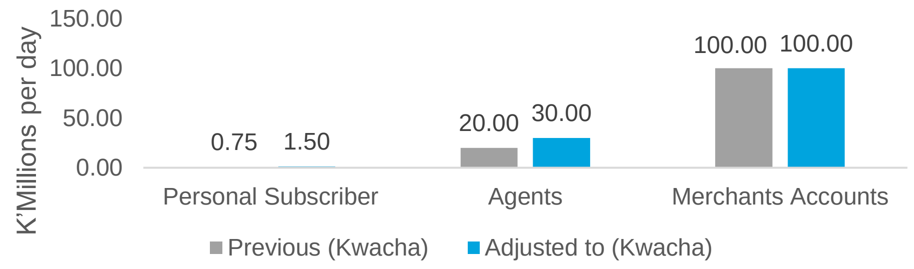
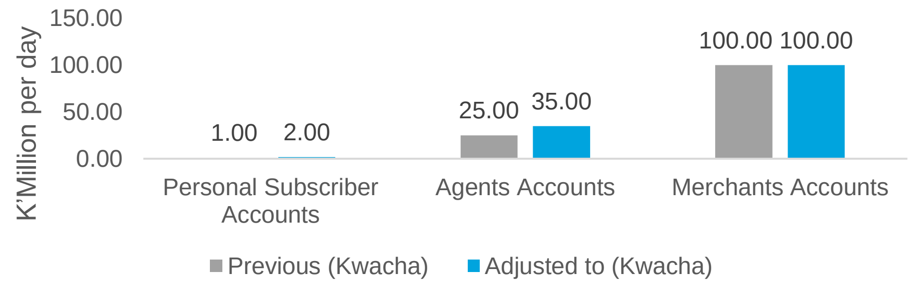


Fig 26.2: Daily Maximum Transaction Limit



Other market developments (Continued)

Microfinance Institutions were to provide a three-month moratorium on interest and principal repayments for microfinance loans by borrowers including pay-roll borrowers on a case-by-case basis. MRA also opened a Voluntary Compliance Window (VCW) for six months to allow non-compliant taxpayers to settle their tax obligations without paying penalties, interest or any changes.

COVID-19 and Malawi (source: RBM)

Measures To Mitigate The Impact Of COVID-19 From The Banking Industry, The Mobile Network Operators And Microfinance Sector In Malawi (SOURCE: RBM) (continued)

Actions by Microfinance Institutions including financial cooperatives

i. immediately provide a three-month moratorium on interest and principal repayments for loans by borrowers including pay-roll borrowers on a case-by-case basis;
ii. defer all payments of dividends until the risk of COVID-19 is under control;
iii. suspend all capital expenditure;
iv. restructure and refinance or renegotiate loans for all borrowers affected by COVID-19 on a case-by-case basis;
v. Innovate and encourage their customers to utilize digital platforms.

Actions by the Registrar of Financial Institutions

i. Provide reliefs that are within his mandate under the Financial Services Laws pertaining to compliance on a case-by-case basis

Actions Taken by the Malawi Revenue Authority:

i. The Malawi Revenue Authority (MRA) opened a Voluntary Compliance Window (VCW) for six months to allow non-compliant taxpayers to settle their tax obligations without paying penalties, interest or any changes.

Other Market Developments (Continued)

COVID-19 and Malawi (Source: National Address By President Lazarus Chakwera January 2021)

The COVID-19 Taskforce Administration under the newly elect government released K6.2 billion for use in combating the pandemic. The Ministry of Finance will allocate an additional K17.52 billion to the COVID-19 Task force in 2021.

A few weeks into office, the COVID-19 Taskforce Administration under the newly elect government released K6.2 billion for use in combating the pandemic. The recently disbursed funds were targeted at raising awareness through media platforms, joint border patrols, the enforcement of border preventive measures to sensitize the public on the increased risks and evils of gender-based violence during the pandemic. Some of these funds were also used to support victims and their families through materials and cash transfers. To protect the education sector, funds were allocated for the procurement of protective and disinfection supplies for schools. Finances were also directed towards the purchase of personal protective equipment (PPEs), setting up emergency treatment units, procuring oxygen and medical supplies for treatment, maintaining district isolation centers and enforcing contact tracing protocols in councils.

The Ministry of Finance is set to allocate an additional K17.52 billion to the COVID-19 Task force in 2021. A further K100 million will be allocated to the Christian Hospitals Association of Malawi (CHAM) to supplement the support to public hospitals in fighting the pandemic, in addition to the wages for CHAM healthcare workers and the additional 150 medical personnel for CHAM facilities that are being supplied by Government.

Table 9 summarises the allocation of funds by the new COVID-19 Task force.

Table 9: COVID-19 Task force Spending Under the New Government

Cluster	Total Requirements (K'Millions)
Coordination	60 million
Communication	185 million
Department of Disaster Management	535 million
Health	3 billion
Protection and Social Support	72 million
Employment and Labour Force Protection	50 million
Security & Enforcement	580 million
Shelter and Camp Management	50 million
Education	100 million
Local Government	1.4 billion
Agriculture	30 million (not yet spent)
Balance not yet allocated	3 million not yet allocated
Total (Kwacha)	approx. 6.2 billion

Other Market Developments (Continued)

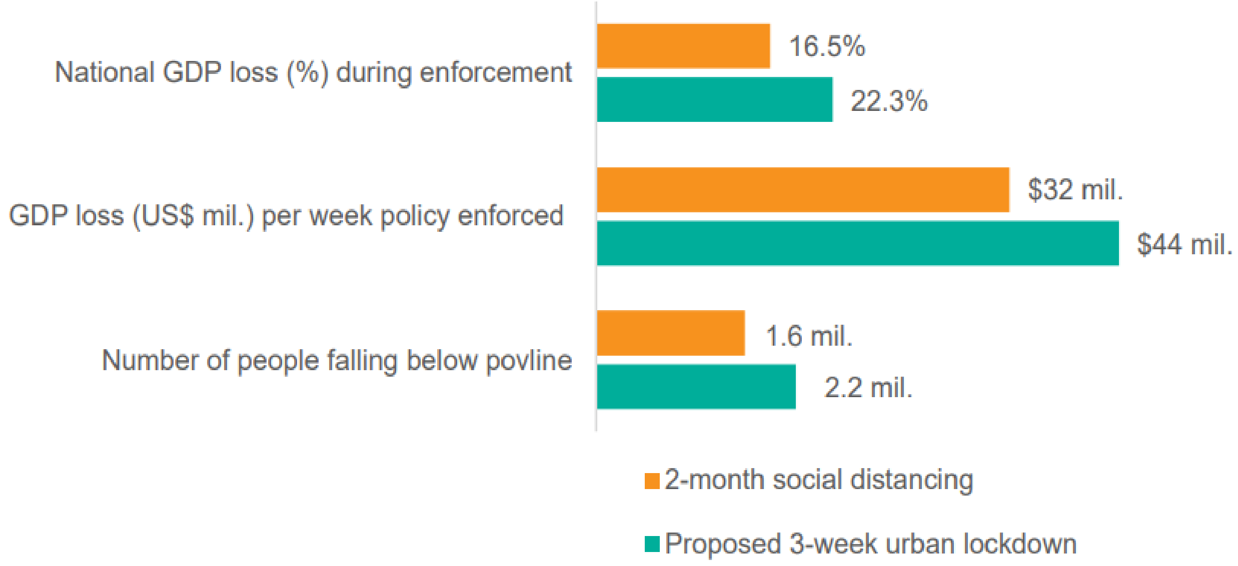
Malawi's GDP would decline by 8.3% to 11.3% in 2020 under the social distancing scenario according to The International Food Policy Research Institute (IFPRI).

Short-term Impacts Of COVID-19 On Malawian Economy 2020-2021 (Source: IFPRI Malawi)

In November 2020, IFPRI estimated national GDP losses of 16.5% due to two months of social distancing and 22.3% under a hypothetical 21-day urban lockdown. This equates to GDP losses of approximately US$32 million (MWK 24 billion) and US$44 million (MWK 33 billion) per week, respectively, during the periods these restrictions are enforced.

Between 1.6 and 2.2 million people fall temporarily into poverty under these two scenarios. Two recovery paths, involving the faster and slower easing of restrictions during the remainder of 2020 and 2021 were modeled. These suggest that Malawi's GDP would decline by 8.3% to 11.3% in 2020 under the social distancing scenario, before recovering to close to their pre-COVID-19 level by the end of 2021.

Fig 27: Headline economic impacts of social distancing versus urban lockdown



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 (USD8.45 billion) from K4.64 trillion (USD6.11 billion). If we use the EIU's 18.6 million population forecast for 2019, the estimated per capita real GDP for 2019 is USD511.

GDP Rebasing From 2010 To 2017 (Source: NSO)

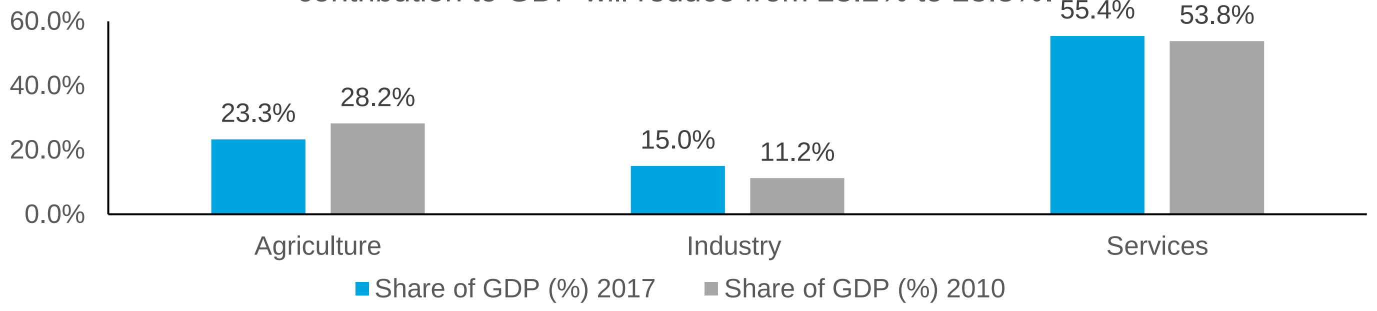
On the 14 of October 2020, the country's GDP was rebased to 2017 from 2010 in order to improve the quality and coverage of National Accounts since relative prices and the structure of the economy have changed over time. After rebasing, Malawi's nominal GDP for 2017 has been revised from K4.64 trillion to K6.42 trillion. This marks a 38.4% upward revision of the nominal GDP from that of 2010. 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. Table 10 below summarizes the changes.

Table 10: GDP rebasing figures

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%

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.

Figure 28: Share of GDP (%) – after GDP rebasing, the agriculture sector's contribution to GDP will reduce from 28.2% to 23.3%.



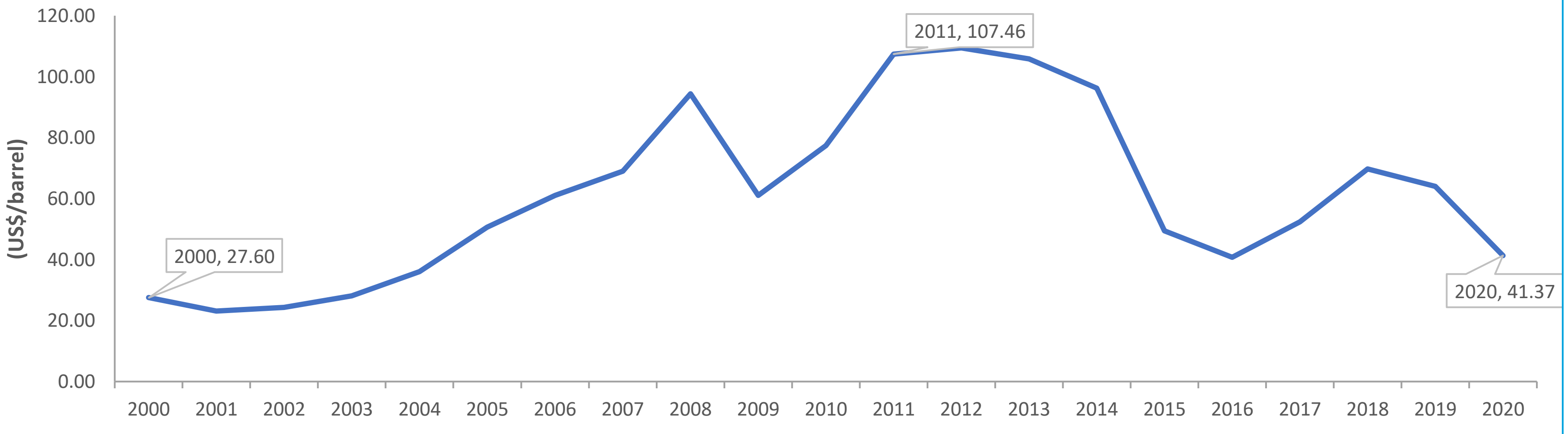
Other Market Developments (Continued)

Fuel Price Revisions 2020 (Source: MERA)

Decrease in global oil demand and changes in the exchange rates as a result of lockdown restrictions worldwide resulted in the adjustments in domestic fuel prices. As economies begun to recover, price of Petrol, Diesel and Paraffin increased.

Prices for Petrol, Diesel and Paraffin were revised downwards by the Malawi Energy Regulatory Authority (MERA) on three occasions during the year 2020 and rapidly shot up towards the year end. On 9 March 2020, the price for Diesel reduced to MK887.00 from MK924.00 and Paraffin to MK693.60 from MK710.51, with the price of Petrol maintained at MK930.00. The decline was caused by the growing cases of the COVID-19 pandemic which not only reduced individual and business productivity, as well as mobility, but also prompted countries worldwide into lockdown measures. As oil inventories begun to rise due to the reduced global oil demand, prices further declined for Petrol (from MK930 to MK780.00 in April and plummeting to MK690.50 in May), Diesel (from MK887.00 to MK765.00 in April and plummeting to MK664.80 in May), and Paraffin (from MK693.60 to MK625.00 in April and plummeting to MK441.70 May). According to MERA, the Automatic Pricing Mechanism (APM) requires prices to be adjusted when there is a 5% change in the product’s landed cost, therefore warranting these adjustments. Fig. 29 traces the movement of the OPEC Basket price from 2000-2020.

Fig 29: Nominal OPEC Basket price (US$/barrel)



Other Market Developments (Continued)

Fuel Price Revisions 2020 (continued) (Source: MERA)

The price of Petrol, Diesel and Paraffin closed the 2020 year at MK 834.60, MK 826.40, MK613.20, respectively. During the same period last year, the price of Petrol was MK930, Diesel MK 924.00 and Paraffin MK 710.51. Year-on-year the price of Petrol, Diesel and Paraffin have decreased by 10.26%, 10.56% and 13.70%, respectively.

By mid year, the average Free on Board (FOB) prices of petrol, diesel and paraffin increased in the month of June 2020 by 111.93%, 77.1% and 155.32%, respectively due to output cuts by the OPEC+, and increased demand of oil following the easing of COVID-19 lockdown restrictions in consuming countries. The landed costs of petrol, diesel and paraffin increased by 44.89%, 28.69% and 51.04%, respectively. However, MERA maintained its prices despite the increase in cost so that any losses would be offset by the Price Stabilization Fund. As the year closed, the prices of Petrol, Diesel and Paraffin were revised upwards. Following the depreciation of the Malawi Kwacha which represents a 3.41% change (to MK768.81/US$ from K743.43/US$), and an increase in the average FOB prices of petrol, diesel and paraffin by 65.91%, 42.39% and 62.32%, respectively which resulted in the landed costs of petrol, diesel and paraffin increasing by 123.66%, 81.38% and 185.02%, respectively when compared to the average prices. The price of Petrol, Diesel and Paraffin closed the year at MK 834.60, MK 826.40 MK613.20, respectively. Year-on-year the price of Petrol, Diesel and Paraffin have decreased by 10.26%, 10.56% and 13.70%, respectively.

Fig 30.1: Petrol Fuel Price Adjustments 2019-2020

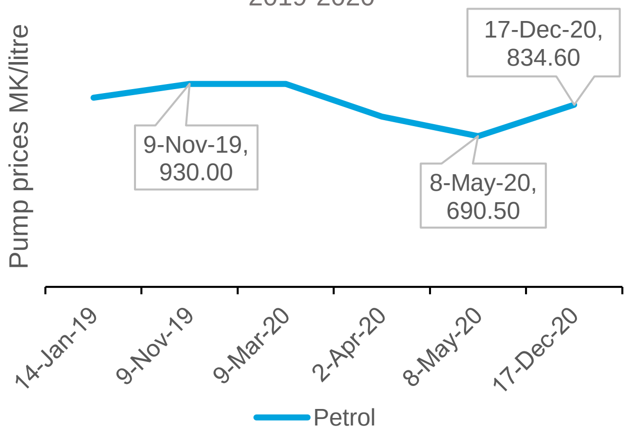


Fig 30.2: Paraffin Fuel Price Adjustments 2019-2020

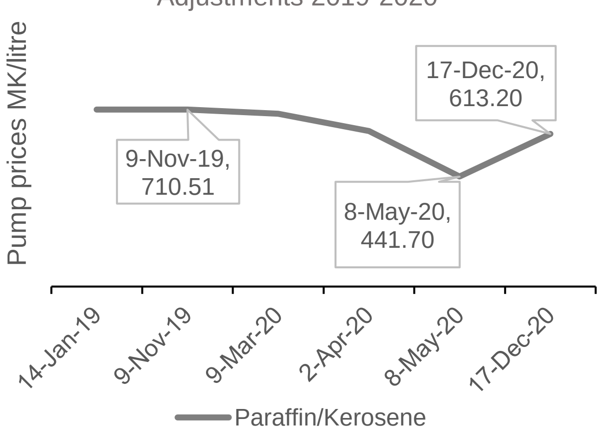
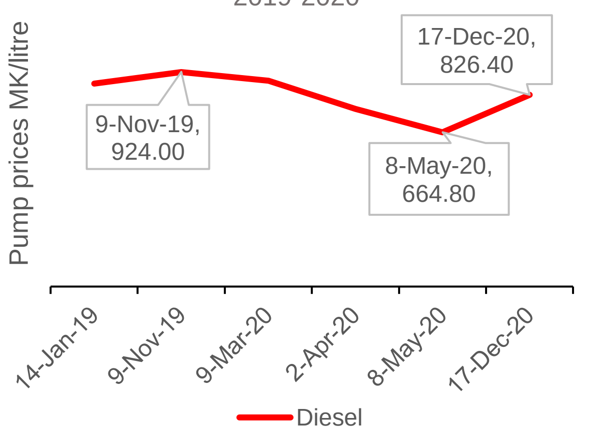


Fig 30.3: Diesel Fuel Price Adjustments 2019-2020



Other Market Developments (Continued)

IMF Approves Emergency Assistance to Countries to Address the COVID-19 Pandemic under the Rapid Credit Facility (Source: IMF)

The IMF made US$50 billion available through the Rapid Credit Facility to low income and emerging market countries. The RCF offered an alternative means to credit following Malawi's forfeit from the Extended Credit Facility.

The IMF approved financing for several low-income countries amidst the COVID-19 outbreak under the Rapid Credit Facility (RCF). The financing was expected to cater for each country's balance of payment needs that have been significantly affected by the economic slowdown caused by the COVID-19 pandemic. Some of the countries that received financing under the Rapid Financing Instrument were; Malawi (US$193 million), Ethiopia (US$411 million) and Nigeria (US$3.4 billion). Other disbursements were made under the Rapid Credit Facility. These were given to several countries like Mozambique (US$309 million), Mali (US$200 million), Democratic Republic of Congo (US$363 million) and Ghana (US$1 billion).

The IMF recommended a temporary widening of the budget deficit so that more funds can be allocated to health care and food assistance to the vulnerable groups. Another recommendation was for the central banks to increase liquidity to banks so that financial stability is maintained.

Midway through the year 2020, after acknowledging that the outbreak of the Coronavirus was negatively affecting the global economy, the IMF decided to make US$50 billion available through its rapid-disbursing emergency financing facilities for low income and emerging market countries who may need support. US$10 billion was available at zero interest for the poorest countries through the Rapid Credit Facility. To date, the virus has disrupted both supply and demand of products. Production has decreased due to morbidity and mortality caused by the virus. The uncertainty caused by the virus has also decreased demand for products. These effects will spill over across borders and industries, making the virus a big threat to the global economy. The fund will therefore help member countries to mitigate the effects of the virus, with preference given to the most vulnerable countries.

The RCF provided special emergency financial assistance for Malawi as the new government cancelled Malawi's Extended Credit Facility with the IMF. The RCF would help Malawi's financing needs caused by the fiscal deficit in the new government budget. Malawi forfeited US$70 million under the three-year Extended Credit Facility (ECF) programme with the International Monetary Fund (IMF) following the decision of the new government to end the programme. Details of Malawi's RCF disbarments are highlighted in the following sections.

Other Market Developments (Continued)

IMF Executive Board Approves US$193 Million Disbursement under the Rapid Credit Facility for Malawi to Address the COVID-19 Pandemic (Source: IMF)

IMF approved a total of USD193 million disbursement to Malawi to mitigate COVID-19 effects.

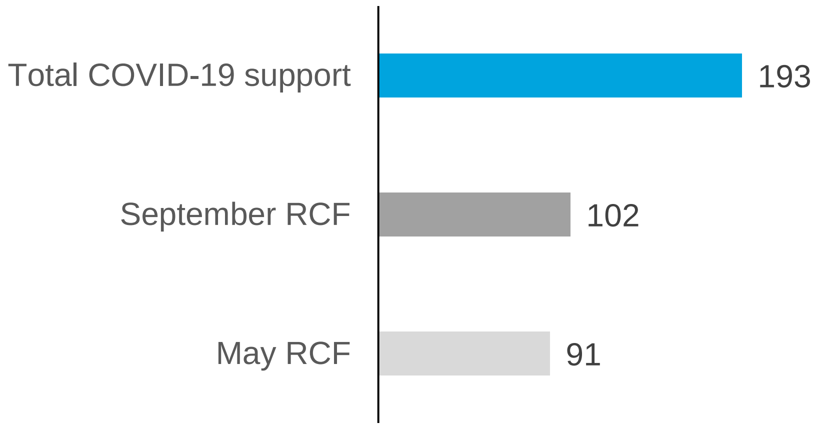
The Executive Board of the International Monetary Fund (IMF) approved its first disbursement under the Rapid Credit Facility (RCF) US$91 million to help Malawi meet the urgent balance of payment needs stemming from the COVID-19 pandemic in May 2020.

Another disbursement of USD101.96 million to Malawi was approved by IMF's Executive Board under RCF in October 2020. This money was launched to help the country in addressing its urgent balance of payment and fiscal needs. The funds were targeted to help fill part of the external financing gap that Malawi has and help it recover from the coronavirus pandemic. Combined with the RCF of USD91 million made on 1 May 2020, Malawi has received a total of USD193 million in IMF COVID-19 emergency support. The country's debt level is sustainable, according to the IMF's Debt Sustainability Analysis from April 2020.

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

Figure 31: IMF COVID-19 Support to Malawi

Amount (USD'million) – the IMF has provided a total of USD193 million in emergency COVID-19 support to Malawi in 2020.



Other Market Developments (Continued)

The World Bank disbursed USD86 Million to help MSMEs to continue supplying essential goods and services.

World Bank Approved USD86 Million to Improve Access to Financial Services for Micro, Small and Medium Enterprises in Malawi (Source: The World Bank)

The World Bank Board of Executive Directors approved USD86 million credit for the GoM. The fund was allocated to increase access to financial services and promote the entrepreneurship and capabilities of micro, small and medium enterprises (MSMEs) in the country. In addition, the funds were aimed to help address the negative impacts that the coronavirus has had on the county's economy.

The coronavirus pandemic has disrupted supply, subdued demand and tightened credit conditions in the economy. This has compounded the challenges that the MSMEs have in the country, like lack of access to finance. The funds should help the economy make a resilient recovery, according to the World Bank Country Manager for Malawi.

MSME will be able to use the credit line that the financial resources will provide. As a result, the MSMEs should be able to continue supplying essential goods and services. The MSMEs that have potential for growth will also benefit from the resources, especially for youth- and women-owned businesses. As a result, this will help address market failures that limit supply of affordable finance.

Other Market Developments (Continued)

Malawi Debt Securities (Source: World Bank)

Total external debt was US$2.43 billion (MK1,80 trillion) in 2019. Gross National Income and IMF credit was at US$ 7.49 billion (K5.53 trillion and US$0.34 billion (K251.22 trillion) by 2019, respectively.

Debt indicators are used to point out whether debt burdens may be key contributors to economic vulnerabilities of a country. External debt is the portion of a country's debt that is borrowed from foreign sources, including commercial banks, governments, or international financial institutions. According to a statement by President Chakwera, by the end of June 2020, public debt stock was at K4.1 trillion, which is 59% of nominal GDP. The total external debt graphed is taken from the International Debt Securities report by the World Bank. It is the sum of long-term external debt, short-term debt, and IMF credit. It represents the total debt owed to non-resident creditors and is repayable in both foreign and domestic currency. According to this World bank report, total external debt was US$2,433.9 million in 2019 which is 7.42% higher than the US$2,265.8 million which was borrowed in 2018. Gross National Income and IMF credit was at US$ 7,485.10million and US$339.5million by 2019, respectively. Foreign Direct Investment was US$88.8million in 2019. The ratio of external debt stocks to Gross National Income (GNI) for Malawi has slightly declined from 33.60% to 32.50%. Despite this decline, Malawi's debt levels are still considerably high. Table 11 below summarises key components of Malawi's Debt securities

Table 11: Key components of Malawi's Debt securities

	2009	2015	2016	2017	2018	2019
Gross National Income (GNI) (US$'Millions)	6,132	6,153	5,410	6,150	6,753	7,485
Total external debt stocks (US$'Millions)	1,144	1,721	1,847	2,162	2,266	2,434
IMF credit (US$'Millions)	231	255	296	319	314	340
Foreign direct investment (US$'Millions)	69	173	25	81	91	89

Fig 32.1: Gross National Income (US$ million)

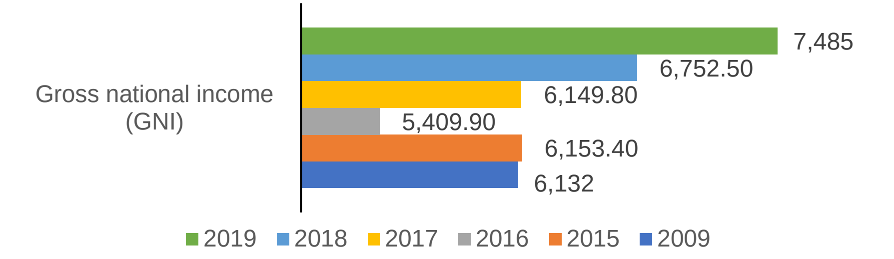


Fig 32.2: External debt Stocks to GNI (%)

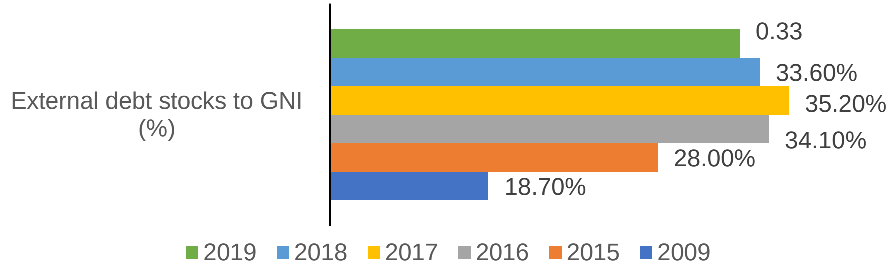
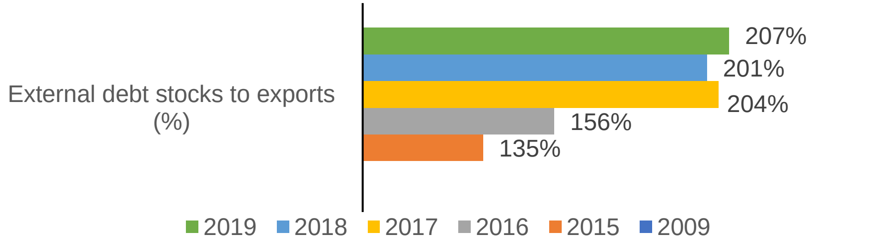


Fig 32.3: External Debt Stocks to exports (%)



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. The downward revision was an attempt to stimulate the economy and thus create more jobs.

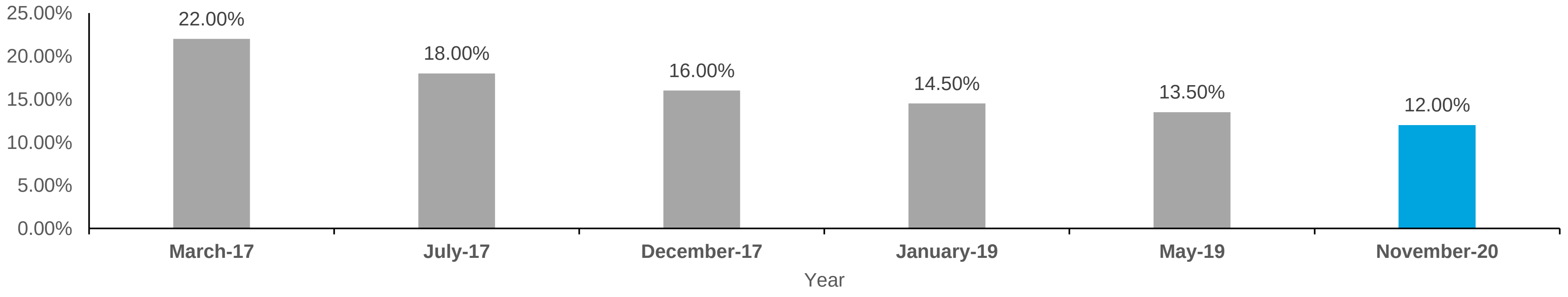
The Monetary Policy Committee Meetings 2020 (Source: RBM)

The Monetary Policy Committee met four times during the 2020 fiscal year. The committee decided to maintain the Policy Rate at 13.5% throughout its first three meetings after which it was reduced by 150 basis points to 12.0% in November 2020. The decision was aimed at stimulating economic recovery and job creation and was backed by the committee's assessment of headline inflation which they noted had been declining since January 2020 and thus inflation outlook was favourable. This decision was undertaken to support economic recovery and job creation. The Lombard Rate was set at 0.4 percentage points above the Policy Rate at the start of the year and was later reduced by 50% to 0.2 percentage points above the Policy Rate in April 2020. The Committee considered the macroeconomic risks originating from the COVID-19 pandemic and thus sought to mitigate potential liquidity challenges that could affect the banking system. They maintained the Liquidity Reserve Requirement (LRR) ratio on both domestic and foreign deposits at 3.75%.

Real GDP was estimated to have grown by 5.0% in 2019 from 4.0% in 2018, based on recovery in the agriculture sector. In their first meeting Real GDP growth for 2020 was projected between 5.0% and 6.0% in 2020 owing to further recovery in the agriculture sector as well as promising macroeconomic conditions. By their fourth meeting in November 2020, Real GDP growth was 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 USD1.5billion, which is higher than the USD1.1billion recorded in the corresponding period in 2019. There were exports of USD0.5billion while imports were USD2.0billion.

Figure 33: Monetary Policy rate (%)



Other Market Developments (Continued)

HE Dr Lazarus Chakwera, attained 58.57% of the votes and became the new President of Malawi in June 2020

2020/2021 Malawi Fresh Presidential Elections

Following a period of mass countrywide demonstrations and economic tensions, on 3 February 2020 the High Court of Malawi nullified the presidential election that was held on 21 May 2019, following the issuing of a complaint by the opposition parties with the support of the Human Rights Defense Coalition (HRDC) and other civil society organisations, regarding anomalies in the prior election. The court determined that the election had irregularities and ordered a fresh presidential election. Re-elections were held on 23 June 2020. After rigorous scrutinization, results on showed that, HE Dr Lazarus Chakwera, attained 58.57% of the votes thus claiming the majority of the electorate and making him the new president of the Democratic Republic of Malawi. HE Dr Lazarus Chakwera of the Tonse Alliance, superseded Prof Arthur Peter Mutharika of the Democratic Progressive party (DPP). According to the results, 4.4 million Malawians voted, out of the 6.86 million registered voters. Various reforms were ordered by the courts and legislated by Parliament, most notably a change in the electoral system, from a simple majority system to a two-round system where the winner must receive over 50% of the votes.

A change in government is ordinarily followed by changes in the economic structure and planning which led to a new issue of the 2020/21 budget statement.

As of June 2020, Malawi's debt stock was K4.1 trillion. The country's interest charges were about 36.60% of GDP.

First State Of The Nation Address – Restoring Warmth to the Heart of Africa (Source: Government of Malawi)

According to the State of the Nation Address made by the elect president, in September 2020 HE Lazarus Chakwera, the 2019/2020 fiscal year had an estimated deficit of K315 billion as total revenue and total expenditures were at K1.53 trillion and K1.84 trillion, respectively. Since a significant amount of the deficit was financed by domestic borrowing, the private sector was crowded out from accessing financial resources. In addition, arrears of K169.4 billion from unpaid bills by Ministries, departments and agencies of Government also constrained growth in the country.

By the end of June 2020, public debt stock was at K4.1 trillion, which is 59% of nominal GDP. The country's debt position is far from ideal, with K36.60 from every K100.00 generated being used to pay interest, excluding repayment of the principal amount. As of June, the country had a trade deficit of US$887.98 million which marks a 9.5% increase from previous year's figure, further worsening the country's balance of payments position.

Other Market Developments (Continued)

The New 2020/21 Budget Statement (Source: Ministry of Finance)

The 2020/21 budget is expected to have a fiscal deficit of K0.76 trillion from total revenue and expenditure of K1.44 trillion and K2.19 trillion, respectively.

Figure 34.1: 2021 Budget- The 2020/21 Budget will have a fiscal deficit of K0.76 trillion, with total revenue and grants at K1.44 trillion while total expenditure is K2.19 trillion.

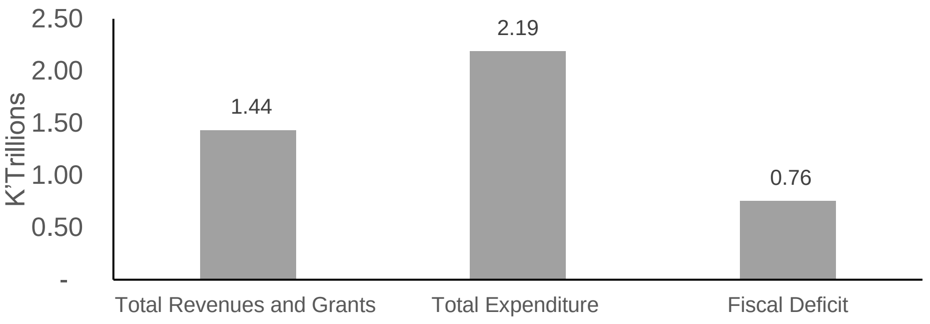


Figure 34.3: 2021 Budget Expenditure-
From the total expenditure of K2.19 trillion, K1.68 trillion is recurrent expenditure while K0.51 trillion is from development expenditure.

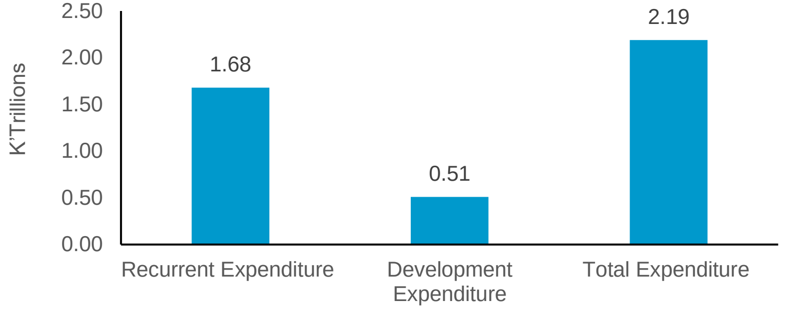


Figure 34.2: 2021 Budget revenue-
Domestic revenue was projected at K1.18 trillion, with 97% of the revenue from tax. K0.26 trillion will come from grants.

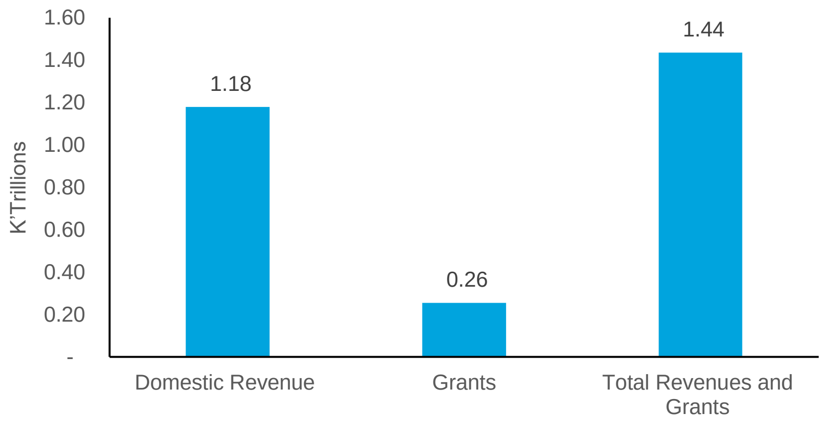
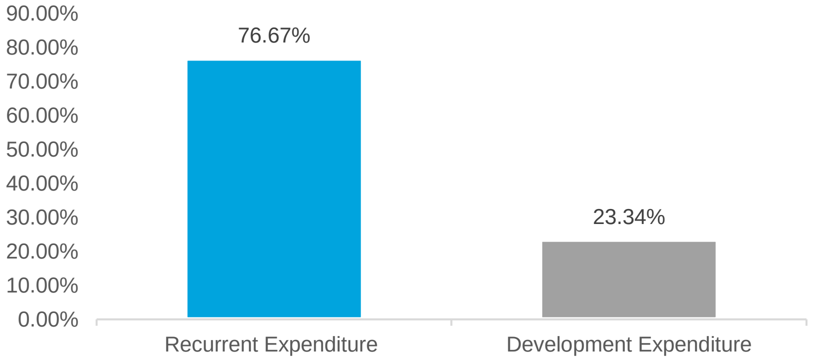


Figure 34.4: Recurrent vs development expenditure-
The budget allocated 23.34% to development expenditure, which is less than the recommended 25.00%. Recurrent expenditure has been allocated the lion's share at 76.67%.



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 34.5: 2021 Budget allocations-
Wage and salaries have been allocated K523.70 billion while Interest payments have been projected at K376 billion.

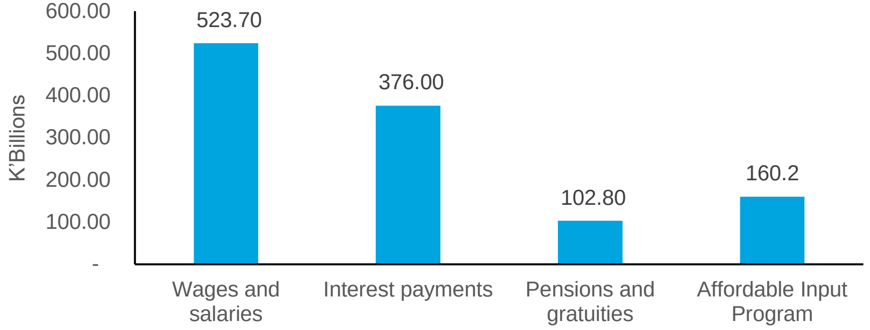


Figure 34.7: 2021 Budget financing-
Financing of the fiscal deficit (K'Trillions) - The fiscal deficit of K0.76 trillion will be financed by domestic and net foreign borrowing of K0.53 trillion and K0.22 trillion, respectively.

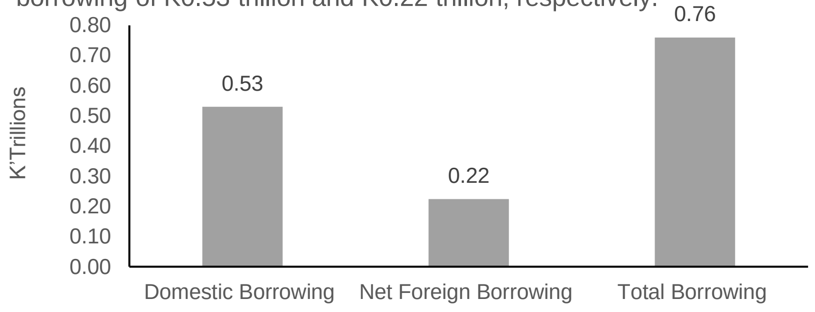


Figure 34.6: 2021 Major budget allocations-
Major budget allocations (%) - The highest allocation of total expenditure has gone to wages and salaries, at 23.9%. This is followed by interest payments at 17.2%.

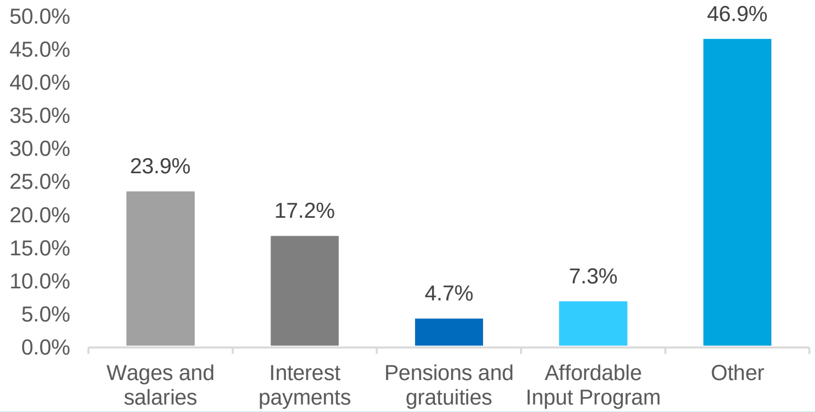
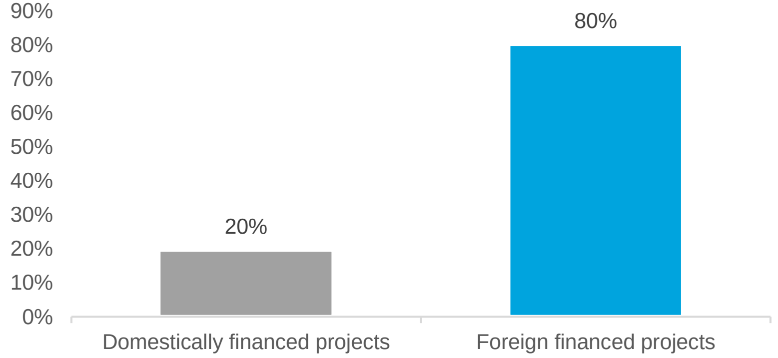


Figure 34.8: Financing of development expenditure-
Financing of development expenditure - 20% of the development projects will be financed domestically, while 80% will be foreign financed projects. This shows that the country will continue to depend on don



Other Market Developments (Continued)

2020/21 Budget Statement (Continued)

As of 30 June 2020, total public debt was at K4.10 trillion. Total public debt was 65% of GDP accumulated by 30 June 2020.

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

Figure 35.1: Debt profile as of 30 June 2020

Debt Profile as at 30 June 2020 (K'trillion) - As of 30 June 2020, total public debt was at K4.10 trillion. Domestic debt was at K2.35 trillion and foreign debt was at K1.75 trillion.

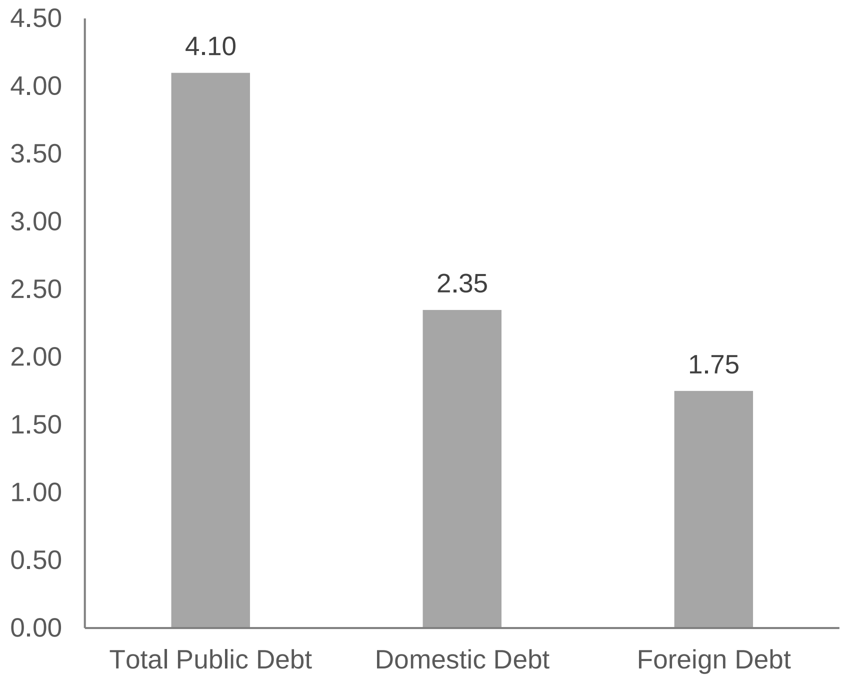


Figure 35.2: Debt as a percentage of GDP as at 30 June 2020 - Total public debt was 65% of GDP accumulated by 30 June 2020. Domestic debt and foreign debt were 37% and 28% of GDP.

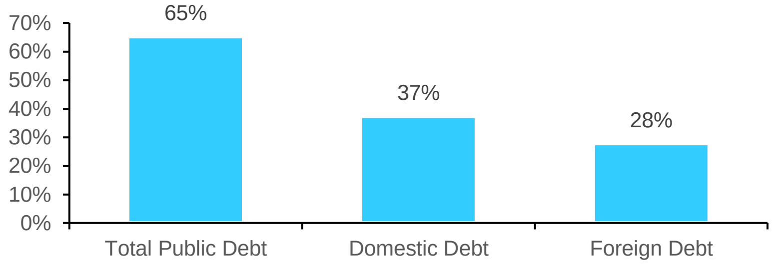
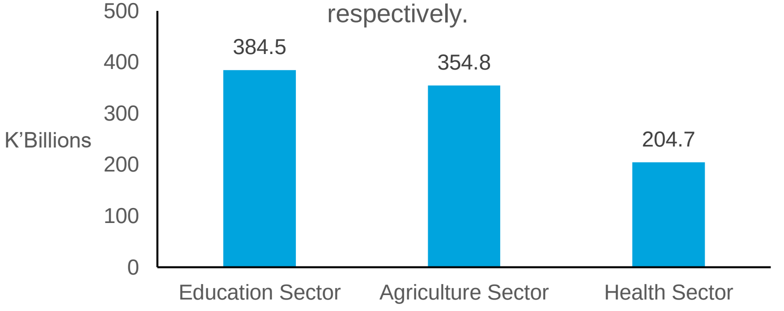


Figure 36.1: Key sector allocations- The Education sector has been allocated the most money at K384.5 billion, with the agriculture sector and health sector at K354.8 billion and K204.7 billion, respectively.

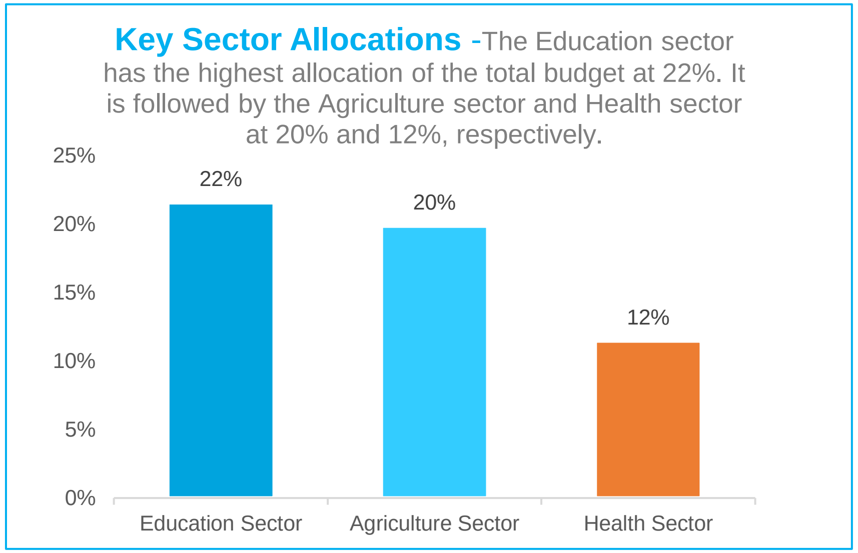


Other Market Developments (Continued)

2020/21 Budget Statement (Continued)

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

Figure 36.2: 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.

Other Market Developments (Continued)

Malawi Country Report (Source: EIU)

According to the EIU, Real GDP is expected to contract by an estimated 1% in 2020 from a previous projection of negative 3.9%.

Real GDP is expected to have contracted by an estimated 1% in 2020 from a previous projection of negative 3.9%. However, the economy is expected to recover gradually in 2021-22, through the support of the agricultural and services sectors. Growth will then average 4.8% a year in 2023-25. The country's current account deficit will widen from an estimated 16.8% of GDP in 2020 to 17.8% in 2023, owing to a recovery in global oil prices and import demand. This deficit will then narrow gradually to 17.4% of GDP in 2025, assuming broad-based export growth.

After declining to an estimated 8.5% in 2020, inflation is expected to average at 9.9% in 2021-25, which is lower than the 10.3% previously reported. Inflation expected to follow trends in global fuel prices. Fiscal deficit is forecasted at 9.4% of GDP for 2020/21, from a previously projected figure of 8.5% of GDP. Due to this the fiscal deficits for 2022-25 are expected to be wider than previously forecasted.

Economic policy in 2022-25 should be geared towards fiscal consolidation, improving debt management, increasing transparency, expanding private-sector activity and building public infrastructure.

Following parliament's issue of the latest budget of K2.1 trillion for fiscal year 2020/21, the fiscal deficit is expected to widen in 2020/21, to 9.4% of GDP, from an estimated 7.7% of GDP in 2019/20. This is owing to welfare measures to mitigate the impact of the outbreak which have kept spending elevated. The fiscal deficit however will contract gradually to 8.1% of GDP in 2024/25 as current spending gradually declines. With high local interest rates, the government will seek to finance the deficits externally, through multilateral concessional lending.

The current account deficit will exert downward pressure on the kwacha throughout the forecast period. Depreciation will be moderated by increasing foreign investment inflows and earnings from the agricultural sector. The kwacha is expected to weaken from an estimated MK745.5:US$1 in 2020 to MK786.4:US$1 in 2025.

The trade balance will remain in structural deficit throughout the forecast period. This is because Malawi depends on fuel and capital imports.

Other Market Developments (Continued)

Malawi Country Profile (Source: IMF Country Profile)

According to the IMF, economic growth for 2020 is projected to contract by 1.2%.The country will continue to rely on the agricultural sector for its growth. The impact of COVID-19 on Malawi will create fiscal pressure through a drop in revenue due to lower taxes, lower revenues from exports and an increase in expenditure to combat the pandemic, as well as the social relief programmes during the pandemic.

According to the IMF report, real GDP growth was expected to fall by 0.6% in 2020 and by 2.2% in 2021. Economic growth was robust in the first half of 2020 due to a strong harvest and substantial government spending but was projected to fall on account of a deterring global economic outlook and a resultant decline in exports. A gradual economic recovery was thus projected for 2022-25 with growth averaging 6.4%.

A rapid rise in unemployment, loss of incomes and purchasing power will increase poverty and food insecurity, which also means a drop in per capita incomes. Inflation for 2020 was projected to average at 9.1% in 2020 and 9.5% in 2021 assuming there is an average harvest next year and higher international oil prices.

The current account deficit is anticipated to widen, reaching 20.5% and 20.3% of GDP in 2020 and 2021, respectively. This reflects expectations of higher COVID-19 related imports, declines in remittances, exports, and tourism given reduced global growth. The contraction in imports due to slower domestic economic activity will only partially mitigate these effects.

An additional external financing gap projected at $243 million, which is 2.9% of GDP, has emerged in 2020. Large balance of payments needs, related to the pandemic are expected to persist in 2021, with the external financing gap for 2020-21 totaling 7.7% of GDP or about $655 million. The domestic primary deficit was projected to be 4.4% of GDP in 2020/21.

Social spending has increased by 2.4 % of GDP- mainly due to the new Agricultural Input Program. Consequently, public debt is projected to reach 78% of GDP in 2021. Financing a larger fiscal deficit will be challenging. Domestic liquidity is expected to be mainly channeled towards financing the government. However, liquidity is expected to tighten as households and businesses use their savings to compensate for reduced incomes during the pandemic and as banks endure nonperforming loans. Increased donor financing will mainly finance imports in health care. Foreign financing will play a larger role, especially health care and broader social spending-related project grants from development partners, budget support from the African Development Bank, and part of the RCF financing.

Regional And Global Market Developments

Global Oil Developments (Source: OPEC)

The annual average for the OPEC Reference Basket in 2020 is USD41.47/b which marks a 35.24% decrease from the previous year's average of USD64.04/b. The decline is on account of a decrease in global oil demand due to the economic slowdown caused by the COVID-19 pandemic worldwide.

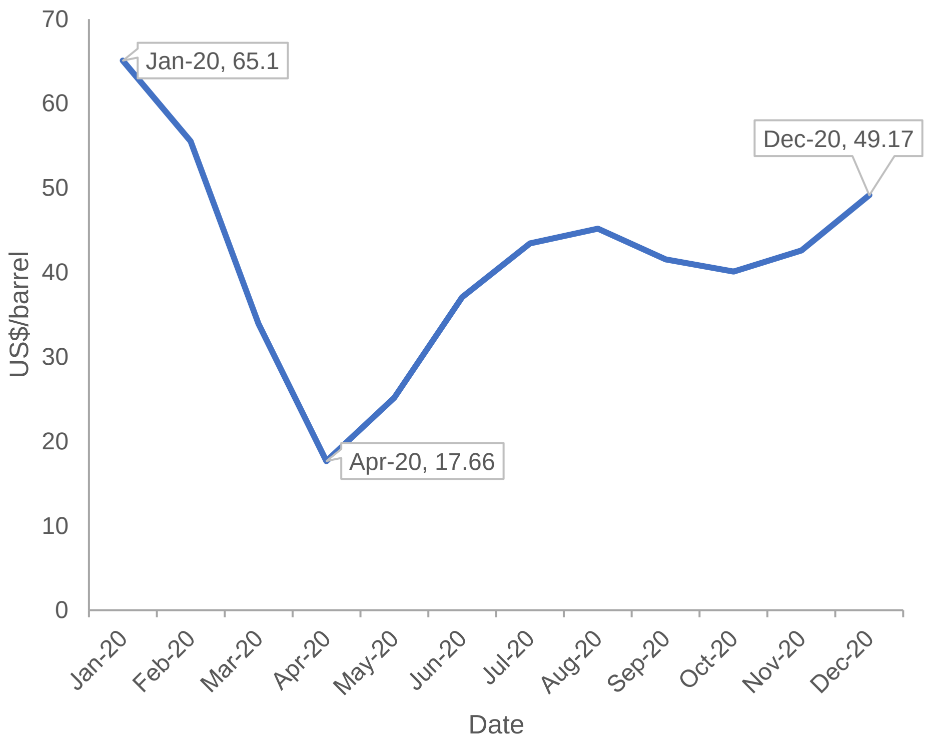
At the onset of 2020, the OPEC Reference Basket (ORB) averaged USD65.1 per barrel after which it substantially plummeted to USD17.66 per barrel in April 2020. This was because of severe reduction in demand for oil due to lockdown restrictions put in place in most countries to curb the spread of the COVID-19 pandemic. The reduction in demand resulted in increased stores of oil reserves, greatly reducing the price for oil.

The ORB stood at USD49.17/b in December 2020 which is 26.04% lower than the ORB for December 2019, which stood at USD66.48/b. The annual average for the OPEC Reference Basket in 2020 is USD41.47/b which marks a 35.24% decrease from the previous year's average of USD64.04/b.

The global economy is expected to contract by 4.1% in 2020, compared to the previous forecast of negative 4.2%. While the 2021 forecast remains at 4.4%.

Growth in world oil demand for 2020 is estimated to have declined by 9.8 million barrels per day (mb/d) year-on-year. Total oil demand for 2020 is estimated to have reached 90.0 mb/d from 89.99 mb/d in the November's projection. The lower demand over the year can be mainly attributed to lower transportation fuel demand in the US and OECD Europe, which led to downward revisions in oil prices. However, this has gradually been offset by upward adjustments due to increasing demand and economic recovery in China and India and other Asian countries. The world oil demand for 2021 has been forecasted to increase by 5.9 mb/d year-on-year to average at 95.9 mb/d.

Fig 37: OPEC Basket Price Movement 2020



Regional And Global Market Developments

Interest Rate Movements (Source: WSJ and ICE Benchmark Administration)

While the central banks for USA and UK have substantially decreased their interbank rates, the Central Bank of Europe continues to maintain their bank rate. The US 10-Year treasury bond yield decreased to 0.92% in December 2020 from 1.92% in December 2019. The benchmark yield decreased as investor fears amidst the COVID-19 pandemic heightened during the year especially after the speculation of a second Coronavirus wave.

The US Fed rate and the Bank of England Rate decreased in 2020, from 1.75% in December 2019 to 0.25% in December 2020 and 0.75% in December 2019 to 0.10% in December 2020, respectively. The European Central Bank rate however maintained last year's position at 0%. Both the 3 months US LIBOR and 6 months US LIBOR decreased to 0.24% and 0.27%, respectively. The respective rates in the previous year were both stationed at 1.91%. Finally, the US 10-Year treasury bill yield decreased to 0.92% in 2020 from 1.92% in 2019.

Table 12: Interest Rates

	December 2020 (%)	December 2019 (%)	% Change
US LIBOR (3 months)	0.24%	1.91%	⬇ -99.76%
US LIBOR (6 months)	0.27%	1.91%	⬇ -99.73%
US treasury bond yield (10 years)	0.92%	1.92%	⬇ -99.08%
US Fed rate	0.25%	1.75%	⬇ -99.75%
Bank of England Rate	0.10%	0.75%	⬇ -99.90%
European Central Bank Rate	0.00%	0.00%	➡ 0.00%

Fig 38.1: US Treasury Note yield:

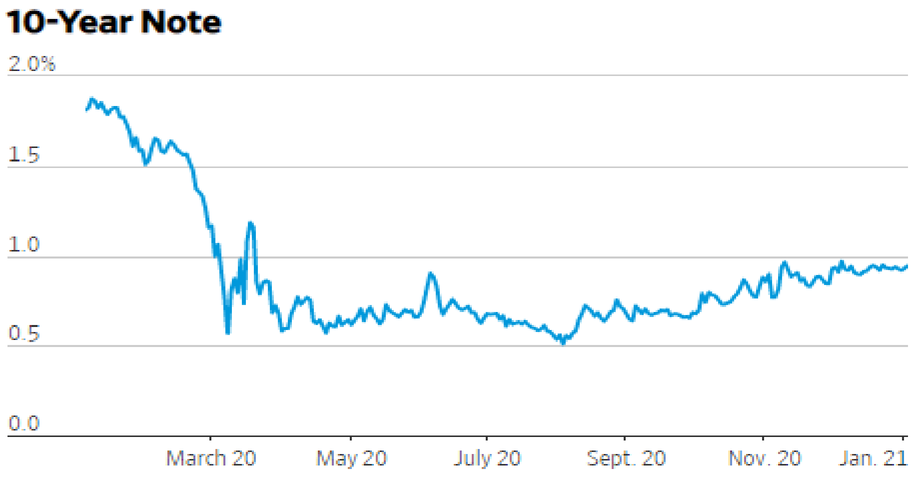
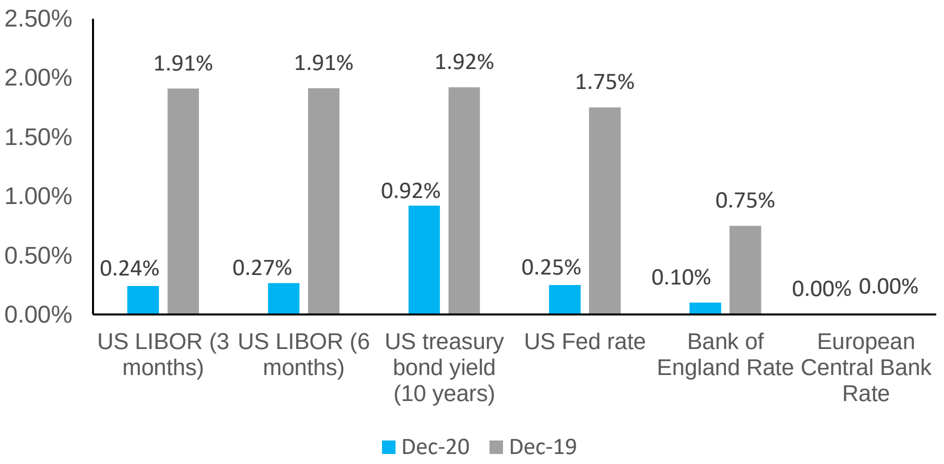


Fig 38.2: Interest Rate Movements



Regional And Global Market Developments

2021 Global Economic Outlook (source: World Bank Global Economic Prospects)

GDP for 2020 is estimated to have contracted to 1.3% for Malawi according to the World Bank. The global economy is expected to expand by 4% in 2021 following a collapse in global activity and the fundamental drivers of long-term economic growth such as labour productivity. This resulted in a decline in the global output potential as caused by the COVID-19 pandemic in 2020. Real GDP for Sub-Saharan Africa is estimated to have declined by 3.7% in 2020. Growth for SSA is forecasted to average at 3% in 2021-22. SSA was hit hard by the pandemic because of its underdeveloped healthcare systems and fiscal pressure.

The global economy is expected to expand by 4% in 2021, given the new COVID-19 vaccine rollout becomes widespread throughout the year. Economic recovery will likely remain restrained, unless policy makers implement investment-enhancing reforms.

GDP for 2020 is estimated to have contracted to 1.3% for Malawi. It is projected to increase to 3.3% in the first half of 2021 and there after picking up to 4.9% by 2022.

Although the global economy is growing again after a 4.3% estimated contraction in 2020, economic activity was substantially affected throughout the year. To support economic recovery, governments will have to stimulate investment but not at the expense of more government debt.

Sub-Saharan Africa (SSA) has been largely affected by the COVID-19 pandemic. Economic activity shrunk to an estimated 3.7% in 2020. Growth is forecasted to average at 3% in 2021-22 as persistent outbreaks in several countries continue to inhibit the recovery. Growth in SSA is expected to rebound only moderately to 2.7% in 2021, before firming to 3.3% in 2022. Government debt in SSA has significantly increased to an estimated 70% of GDP, on average, in 2020-up 8 percentage points from 2019- and is expected to rise further in 2021, elevating concerns about debt sustainability in some economies.

Many countries in the SSA region have less developed health care systems, food insecurity, political instability, limited capacity for remote work and virtual education, and constrained fiscal space. The SSA could not financially sustain the impacts of the pandemic.

If infections continue to rise and the rollout of a vaccine is delayed this could limit the global expansion to 1.6% in 2021. However, if the pandemic is controlled within time, global growth could accelerate to nearly 5%.

U.S. GDP is forecasted to expand by 3.5% in 2021, after an estimated 3.6% contraction in 2020. In the Euro area, output is anticipated to grow 3.6% in 2021, following a 7.4% decline in 2020.

Policymakers need to continue to sustain the recovery, gradually shifting from income support to growth-enhancing policies. In the longer run, in emerging market and developing economies, policies to improve health and education services, digital infrastructure, climate resilience, and business and governance practices will help mitigate the economic damage caused by the pandemic, reduce poverty and advance shared prosperity.

Regional And Global Market Developments

2021 Global Economic Outlook (Continued) (Source: IMF World Economic Outlook: A Long And Difficult Ascent)

The global economy is expected to contract by 4.4% in 2020 according to IMF estimates but grow to 5.2% in the following year. In the emerging market and developing economy group, inflation is projected at 5% in 2021.

Pre-COVID-19, global growth was projected to be 2.8% in 2020 according to estimates from the World Economic Outlook 2019. By mid-year, global growth was revised downwards to negative 4.9%. Since then, the global economy has been recovering from the coronavirus pandemic despite the virus still spreading in many countries. This is in light of better second quarter GDP outturns, mostly in developed economies, where activity has begun to improve sooner than expected after going into lockdowns back in May and June. There is also further indication of a stronger recovery in the third quarter. However, the global economy is still vulnerable to setbacks. The global economy is expected to contract by 4.4% in 2020 but grow to 5.2% in 2021. Wide output gaps and higher unemployment rates are expected to continue in 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.

World trade volumes are estimated to decline by 10.4% in 2020, which is lower than last year's forecast of 1.0%. World trade is projected to pick up by 8.3% in 2021.

According to World Economic Outlook, inflation is expected to rise in 2021, as global activity is expected to pickup. Inflation in the advanced economy group is projected at 0.8% in 2020, rising to 1.6% in 2021 as the recovery gains hold, and broadly steadying thereafter at 1.9%. In the emerging market and developing economy group, inflation is projected at 5% this year, declining to 4.7% next year, and moderating thereafter to 4% over the medium term, which is below the historical average for the group.

There will also be a great increase in the government debt and deficits as countries will increase expenditure to mitigate the effects of the pandemic.

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. Several 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. Hopes of economic recovery are heavily dependent on the pace at which a vaccine is rolled out.

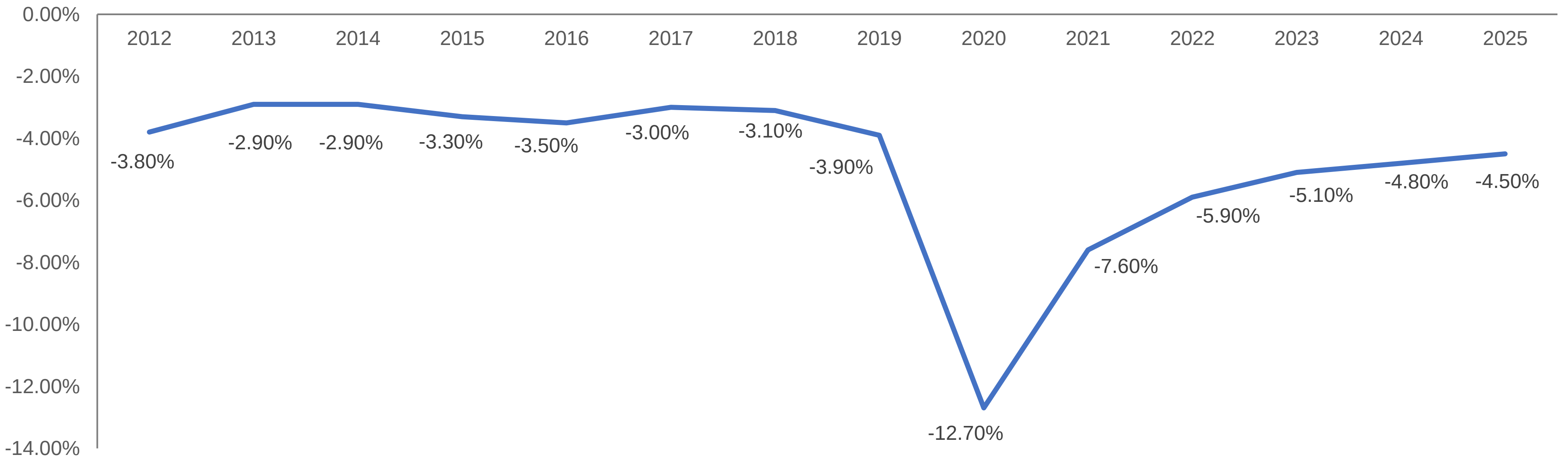
2021 Global Economic Outlook (Continued) (Source: World Bank Fiscal Monitor 2020)

The COVID-19 pandemic has impelled unexpected fiscal actions that have amounted to US$11.7 trillion globally, as of September 11, 2020.

Globally, the COVID-19 pandemic has impelled unexpected fiscal actions that have amounted to US$11.7 trillion, or close to 12% of global GDP, as of September 11, 2020. Half of these fiscal actions have consisted of additional spending or forgone revenue, such as temporary tax cuts, and injecting liquidity through loans, guarantees, and capital injections by the public sector. The Fiscal Monitor Report estimates that a 1% of GDP increase in public investment, in advanced economies and emerging markets, has the potential to push GDP up by 2.7%, private investment by 10% and, to create between 20 and 33 million jobs, directly and indirectly.

The headline fiscal deficit in low-income developing countries was projected to widen by more than 2% of GDP in 2020. For some countries, the primary deficit relative to GDP is estimated to have widen by 6% or more as a result of pandemic-related expenditures. So far, cash transfers have been particularly effective in protecting the poor and have had a larger impact on total consumption when targeted to those most in need, such as the unemployed. Income inequality within countries is expected to increase as the pandemic affects low-income individuals disproportionately.

Fig 39: The Total World Government Fiscal Balance, 2012–25: (Percentage of GDP)



**2020-2025 projections

The decline in regional growth for Sub-Saharan Africa in 2020 will contract by 3.3% in 2020. The COVID-19 pandemic could ultimately push the regional economy into its first-ever recession over the past 25 years

2021 Global Economic Outlook (Continued) (Source: World Bank Africa's Pulse October 2020 : An Analysis of Issues Shaping Africa’s Economic Future)

The World Bank report confirms that the COVID-19 pandemic has taken a large toll on economic activity in Sub-Saharan Africa (SSA). Economic activity in the region is expected to contract by 3.3% in 2020 after which it will average at 2.7% in 2021. Although net exports may increase, due to the overall decline in imports over the period, lower domestic consumption and investment due to the COVID-19 pandemic that is coupled with containment measures, will ultimately push the regional economy into its first-ever recession over the past 25 years.

Economic activity started to rebound in the third quarter of 2020 as the spread of COVID-19 began to abate and containment measures were uplifted. According to this World Bank report, by the end of 2021, the region’s Real Gross Domestic Product (GDP) per capita will reflect similar levels to that of 2008. Sub-Saharan Africa’s Real GDP growth is projected to pick up to 2.1% in 2021-22, which is below the 2.4% rate achieved in 2019 and below population growth. Under these assumptions, GDP growth could rise to 3.2% in 2022.

In SSA, COVID-19 may stand to push up to 40 million people into extreme poverty, at the expense of the past 5 years of progress towards fighting poverty. As a result of the COVID-19 crisis, governments will have to focus on fiscal policy due to the to deteriorating fiscal positions and increased public debt that has been accumulated over the year. Fiscal deficits in the region will widen, on average, by 3.5% of GDP in 2020 thus debt burdens will increase. The risk of debt default will start to pick up.

The road to recovery will be long and steep and will require sound economic policies. The report suggests that countries need to be resilient in stimulating economic recovery, improving debt management, and fighting corruption. Policy priorities should focus on three critical and interrelated channels: digital transformation, sectoral reallocation, and spatial integration. Lessons from the COVID-19 pandemic have proven the pivotal importance of the digital economy.

Outlook for Malawi

Outlook for Malawi

Inflation

According to the IMF, inflation for 2021 is projected to average at 9.5% given an average harvest in 2021 and higher international oil prices. Similar estimates from the EIU project inflation to grow in 2021-23, peaking at 10.6% in 2023 (inflation for 2021 is forecast at an average of 9.3%). This is also owing to rising global fuel prices and a recovery in private consumption. The possibility of a second global COVID-19 wave could also mean that global demand for oil may reduce if countries return to their lockdown restrictions.

The RBM on the other hand expects inflation to continue to decline in 2021. The RBM reduced the policy rate to 12% at the end of 2020 and is expected to maintain this rate throughout 2021 according to the EIU. The reduction was done to bolster consumption and investment in the economy amidst the pandemic, which implies a favourable inflation outlook. Access to cheaper credit on the market may cause inflation to rise as there will be increased spending in the economy. Inflation will also continue to follow changes in fuel prices.

Exchange Rates

The IMF expects the Kwacha to continue to modestly depreciate. The unfavourable outlook is on account of Malawi's forex market which is characterised by large current account deficits owing to its undiversified export base (agriculture based) and its over reliance on imports. According to the IMF, an additional external financing gap projected at $243million has emerged in 2020.

Based on estimates from the EIU, the current-account deficit is projected to narrow by 17.8% in 2023, owing to a recovery in global oil prices and import demand. This deficit is expected to further narrow to 17.4% of GDP in 2025 if the country's export base grows. The IMF however, anticipates that large balance of payments needs related to the pandemic may persist in 2021, with the external financing gap for 2020-21 totaling 7.7% of GDP ($655 million). This reflects expectations of higher COVID-19 related imports, lower remittances, exports, and tourism given the overall reduction in global growth. Government spending on the health sector may continue to increase in the medium term with growing COVID-19 cases. If the tobacco market produces yet another poor season in 2021, the strain will be felt in the country's current account which already has a poor balance of payments position.

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 trade-off for the lower adjustment of the policy rate however is higher inflation. According to the EIU and IMF report, the RBM is expected to maintain this rate throughout 2021 in order to support domestic recovery.

The RBM is further scheduled to adopt a tightened monetary policy stance from 2022-25. However, the RBM will monitor its monetary policy stance due to the inflation implications that may be caused by increasing liquidity in the market caused by the reduction in interest rates. A reduction in the policy rate ideally stimulates investment spending and greater demand for imports. This may subsequently cause an increase in the aggregate demand levels for foreign currency on the market possibly weakening foreign reserves further.

Outlook For Malawi (Continued)

Fiscal Policy

According to the EIU, the fiscal deficit is expected to widen in 2020/21, to 9.4% of GDP as welfare measures to mitigate the impact of the outbreak will keep government spending elevated. Furthermore, external debt is expected to increase steadily, from an estimated US$2.8bn in 2020 to US$3.3bn by the end of 2022. Public debt is projected to reach 78% of GDP in 2021, based on forecasts by the World Bank. This shows that the country will continue to depend on donors for national investment and development which may also result in an external debt crisis given the large levels of debt that the country has accumulated till date owing to a tight fiscal space.

Domestic borrowing may also result in increased interest rates and crowd out private investment. Over the years, domestic debt has overgrown the growth in GDP. When the government issues domestic debt, it makes use of private savings that would otherwise be available to finance private investment. As a result, interest rates are forced to increase and may subsequently reduce investment demand by the private sector or the smaller borrowers. 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 by the government.

Increased expansionary fiscal policy may result in inflationary process and the pressure to find fiscal escape may result in governments overlooking price stability policies in order to meet the growing pressure to finance COVID-19 shocks.

Economic Growth

According to the World Bank, real GDP growth for Malawi is estimated to grow by 3.3% in 2021. The IMF country report projects economic growth to average at 2.2% in 2021. It further projects a gradual economic recovery during the period 2022-25, with growth averaging at 6.4%, while the EIU projects that the economy will gradually recover and grow by 2.3% in 2021 after which it will grow at 4.6% per year in 2022-25.

Malawi's economy will continue to rely on agricultural harvest and trade revenues which are subject to shocks due to unprecedented weather conditions and a narrow export base. According to the IMF, Malawi will continue to rely on its agricultural and services sector for growth of the economy in the short run.

The IMF forecasts note that with declining global activity and a withering economic outlook, the effects of the pandemic are nowhere near their end. Government may have to continue to rely on stimulating economic activity to increase aggregate demand and economic growth in the economy at the expense of possible inflation. This might result in greater fiscal pressure at a time where government revenue is likely to be impacted by slow business environment in the country.

The pandemic continues to not spare Malawi of the fiscal pressure which has been felt by economies worldwide. The country continues to be nowhere near prepared to mitigate the magnitude of the health system shock and economic downturn that is being caused by the caused by the pandemic.

Government spending and increased liquidity in the economy will remain some of the key stimulants for increasing aggregate demand and consumption in the economy during the crisis. However, the IMF forecasts note that with declining global activity and a withering economic outlook, the effects of the pandemic are nowhere near their end which has implications for global trade. The decline in GDP for Malawi may likely to result in wide output gaps and lower GDP per capita levels given the countries already poor background.

Appendices

APPENDIX 1: EIU data and forecasts

Economic Growth

	2020	2021	2022	2023	2024	2025
Economic growth (%)						
US GDP	-3.8	3.2	2.5	2.3	1.9	2.0
OECD GDP	-5.8	3.7	2.8	2.1	1.9	1.9
World GDP	-4.7	4.2	3.4	3.0	2.8	2.7
World trade	-10.6	7.0	5.4	4.3	4.0	3.8
Inflation indicators (% unless otherwise indicated)						
US CPI	0.7	1.7	1.9	2.2	1.9	1.8
OECD CPI	1.0	1.6	1.9	2.1	2.0	2.0
Manufactures (measured in US$)	-2.0	3.9	3.1	4.0	2.4	2.5
Oil (Brent; US$/b)	41.7	45.0	53.0	57.5	55.0	50.0
Non-oil commodities (measured in US$)	1.2	7.9	3.0	-2.2	2.0	1.5
Financial variables						
US$ 3-month commercial paper rate (av; %)	0.6	0.1	0.2	0.2	0.6	1.0
US$:€ (av)	1.14	1.17	1.15	1.19	1.21	1.23
¥:US$	106.69	104.12	103.02	103.45	104.73	105.58

International Assumptions

%	2020[a]	2021[b]	2022[b]	2023[b]	2024[b]	2025[b]
GDP	-1.0	2.3	4.0	4.5	4.9	5.2
Private consumption	-1.5	1.5	3.0	4.0	4.3	4.8
Government consumption	2.0	2.0	3.0	4.0	2.0	3.0
Gross fixed investment	-5.0	5.0	5.0	8.0	8.0	7.0
Exports of goods & services	-12.0	3.6	5.0	5.2	6.5	7.2
Imports of goods & services	-5.0	3.0	4.0	5.0	5.8	6.5
Domestic demand	-1.6	2.0	3.2	4.5	4.5	4.9
Agriculture	3.0	3.0	3.1	4.0	4.5	5.0
Industry	-1.6	2.1	5.4	5.2	5.8	5.6
Services	-3.0	2.0	4.1	4.5	4.9	5.2

[a] Economist Intelligence Unit estimates. [b] Economist Intelligence Unit forecasts.

Key Indicators

	2020[a]	2021[b]	2022[b]	2023[b]	2024[b]	2025[b]
Real GDP growth (%)	-1.0	2.3	4.0	4.5	4.9	5.2
Consumer price inflation (av; %)	8.5	9.3	10.0	10.6	10.2	9.2
Government balance (% of GDP)	-7.7	-9.4	-9.1	-8.6	-8.3	-8.1
Current-account balance (% of GDP)	-16.8	-17.3	-17.5	-17.8	-17.6	-17.4
Money market rate (av; %)	13.5	13.5	15.5	15.8	16.5	17.5
Exchange rate MK:US$ (av)	745.5	755.7	764.0	770.0	779.0	786.4

[a] Economist Intelligence Unit estimates. [b] Economist Intelligence Unit forecasts.

APPENDIX 1: EIU data and forecasts

Annual data and forecast

	2016[a]	2017[a]	2018[a]	2019[a]	2020[b]	2021[c]	2022[c]
GDP							
Nominal GDP (US$ m)	5,433	6,303	6,917	7,671	8,184	8,972	10,103
Nominal GDP (MK m)	3,900,950	4,603,121	5,065,765	5,718,844	6,101,082	6,780,244	7,719,010
Real GDP growth (%)	2.5	4.0	3.2	4.4	-1.0	2.3	4.0
Expenditure on GDP (% real change)							
Private consumption	18.6	8.3	2.1	3.9	-1.5	1.5	3.0
Government consumption	-0.2	10.0	7.0	-3.6	2.0	2.0	3.0
Gross fixed investment	-2.1	29.7	-17.5	19.7	-5.0	5.0	5.0
Exports of goods & services	40.1	3.7	6.9	3.8	-12.0	3.6	5.0
Imports of goods & services	54.6	-1.5	6.4	3.6	-5.0	3.0	4.0
Origin of GDP (% real change)							
Agriculture	-2.3	5.0	0.8	4.3	3.0	3.0	3.1
Industry	2.4	2.2	2.2	3.8	-1.6	2.1	5.4
Services	5.2	4.0	4.8	4.5	-3.0	2.0	4.1
Population and income							
Population (m)	17.2	17.7[b]	18.1[b]	18.6[b]	19.1	19.6	20.3
GDP per head (US$ at PPP)	1,027	1,060[b]	1,090[b]	1,070[b]	1,071	1,103	1,132
Fiscal indicators (% of GDP)							
Public-sector balance	-6.0	-3.6	-7.3[b]	-6.4[b]	-7.7	-9.4	-9.1
Net public debt	54.6[b]	56.4[b]	60.8[b]	67.6[b]	69.6	72.9	71.8
Prices and financial indicators							
Exchange rate MK:US$ (end-period)	728.62	732.03	733.69	738.87	761.40	745.12	779.67
Exchange rate MK:€ (end-period)	768.04	877.92	840.08	830.05	898.46	849.44	908.32
Consumer prices (end-period, %)	20.0	7.1	9.9	11.6	7.0	9.0	10.0
Stock of money M1 (% change)	24.6	19.8[b]	15.1[b]	13.8[b]	10.0	16.7	20.8
Stock of money M2 (% change)	15.2	19.7	11.3	8.1[b]	9.0	15.0	17.3
Lending interest rate (av; %)	44.1	38.6	32.3	24.0[b]	23.0	22.0	23.0

	2016[a]	2017[a]	2018[a]	2019[a]	2020[b]	2021[c]	2022[c]
Current account (US$ m)							
Trade balance	-1,090	-1,577	-1,658	-1,857	-1,610	-1,662	-1,692
Goods: exports fob	1,066	910	945	983	888	910	966
Goods: imports fob	-2,156	-2,487	-2,604	-2,840	-2,498	-2,573	-2,658
Services balance	-135	-151	-154	-176	-260	-299	-340
Primary income balance	-95	-198	-263	-299	-254	-276	-299
Secondary income balance	315	388	457	495	745	684	565
Current-account balance	-1,006	-1,537	-1,618	-1,837	-1,379	-1,553	-1,766
External debt (US$ m)							
Debt stock	1,874	2,115	2,281	2,503	2,804	3,039	3,331
Debt service paid	75	71	84	102	86	89	153
Principal repayments	57	54	71	82	67	69	125
Interest	18	17	13	20	19	20	27
International reserves (US$ m)							
Total international reserves	631	793	782	847	656	684	700

[a] Actual. [b] Economist Intelligence Unit estimates. [c] Economist Intelligence Unit forecasts.

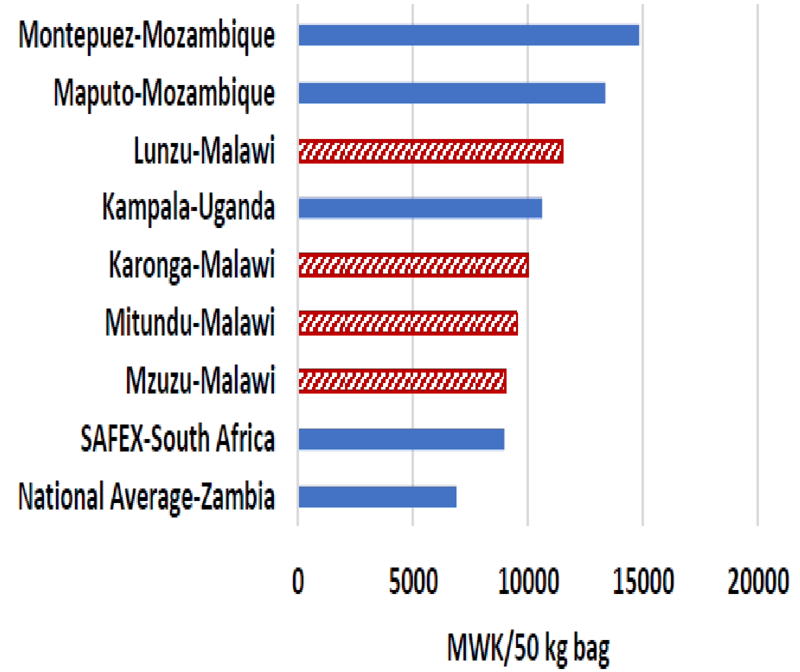
Sources: IMF, International Financial Statistics; Ministry of Finance, Budget statements; World Bank, Global Development Finance; Reserve Bank of Malawi, Economic reviews.

APPENDIX 2: Malawi monthly maize market report

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

Market	5-Dec-20	12-Dec-20	19-Dec-20	28-Dec-20	Change
Chitipa	150	150	200	200	33%
Karonga	153	160	200	200	31%
Rumphi	147	150	180	180	23%
Mzuzu	160	160	180	180	13%
Mzimba	150	150	173	173	16%
Jenda	160	160	180	180	13%
Salima	193	200	200	200	3%
Mchinji	180	180	180	188	4%
Nsungwi	200	200	200	200	0%
Mitundu	180	180	180	190	6%
Chimbiya	170	170	170	180	6%
Balaka	200	200	200	200	0%
M'baluku	213	213	213	213	0%
Mangochi	213	213	213	220	3%
Liwonde	200	200	200	200	0%
Chiringa	210	210	210	210	0%
Mpondabwino	230	230	230	230	0%
Lunzu	220	220	220	230	5%
Mbayani	220	220	220	220	0%
Mwanza	233	240	240	250	7%
Mulanje	220	220	220	220	0%
Luchenza	200	200	200	220	10%
Chikwawa	220	220	220	220	0%
Ngabu	217	217	217	220	2%
Bangula	230	230	230	230	0%
Nsanje	207	207	220	220	6%
All markets	**195**	**196**	**204**	**207**	**6%**

Figure 3. Retail maize prices in selected regional markets (as of end December 2020)



Note: Prices for Mozambique are as of November 2020.

APPENDIX 3: 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	

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APPENDIX 4: 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.

APPENDIX 5: Statistical Tables

Exchange Rate Monthly Closing Rates

MONTH	MK:US$	MK:GBP	MK:ZAR	MK:EUR
31-Dec-19	738.87	969.19	52.43	825.65
31-Jan-20	735.97	960.82	54.78	844.13
29-Feb-20	741.10	958.24	47.61	816.84
31-Mar-20	741.02	916.16	41.62	819.92
30-Apr-20	741.02	928.53	41.64	809.87
31-May-20	741.38	920.44	43.14	833.38
30-Jun-20	743.05	924.12	44.02	845.25
31-Jul-20	744.74	994.33	46.19	903.26
31-Aug-20	754.71	1,024.89	47.53	935.56
30-Sep-20	756.93	999.88	47.33	928.35
31-Oct-20	759.47	1,015.11	49.18	925.23
30-Nov-20	765.92	1,061.76	53.09	958.34
31-Dec-20	776.82	1,070.14	56.43	987.95

Monthly Average Inflation Figures (%)

Month	National	Food	Non-food
Dec-19	11.5	19.3	4.9
Jan-20	11.1	17.6	5.1
Feb-20	11.0	17.0	5.4
Mar-20	9.8	14.7	5.1
Apr-20	9.4	14.6	5.0
May-20	8.7	13.7	4.5
Jun-20	8.5	13.4	4.5
Jul-20	8.0	12.2	4.4
Aug-20	7.6	11.3	4.4
Sep-20	7.1	10.3	4.4
Oct-20	7.5	10.9	4.4
Nov-20	7.3	10.4	4.4
Dec-20	7.6	10.5	4.9

Monthly Treasury Bill Yields (%)

	91-day	182-day	364-day	All Type-Yield
Dec-19	6.19	7.33	10.54	8.02
Jan-20	6.15	8.73	10.67	8.46
Feb-20	8.46	9.11	9.91	9.16
Mar-20	7.50	9.11	10.95	9.23
Apr-20	7.67	8.46	12.44	9.52
May-20	7.58	10.00	12.73	10.10
Jun-20	7.54	11.29	13.00	10.61
Jul-20	7.50	12.07	13.57	11.05
Aug-20	9.85	12.55	13.73	12.04
Sep-20	9.94	12.58	13.74	12.09
Oct-20	9.95	12.87	13.88	12.23
Nov-20	9.95	12.73	13.40	12.03
Dec-20	9.95	12.49	13.53	11.99

Monthly Treasury Note Yields (%)

	Tenor				
DATE	2- Year	3-Year	5-Year	7-Year	10-Year
Dec-19	11.20	-	14.45	-	-
Jan-20	-	13.27	-	17.36	-
Feb-20	-	-	15.55	-	-
Mar-20	-	-	-	19.08	-
Apr-20	-	14.50	17.73	21.70	-
May-20	13.96	-	18.47	-	-
Jun-20	15.45	16.89	19.97	20.46	-
Jul-20	-	-	19.82	-	-
Aug-20	16.46	-	-	20.75	-
Sep-20	-	18.02	-	-	22.14
Oct-20	-	18.47	19.95	-	-
Nov-20	-	17.79	-	19.95	-
Dec-20	-	18.30	19.77	20.00	22.50

APPENDIX 5: Statistical Tables (continued)

Monthly Foreign Reserves

Week ending	Official Reserves (US$ million)	Import cover (months)	Private Sec. Reserves (US$ million)	Import cover (months)	Total reserves (US$ million)	Import cover (months)
Dec-19	846.55	4.05	324.07	1.55	1170.62	5.6
Jan-20	786.71	3.76	308.4	1.48	1,095.11	5.24
Feb-20	785.31	3.76	320.8	1.53	1,106.11	5.29
Mar-20	730.17	3.49	295.55	1.41	1,025.72	4.9
Apr-20	610.13	2.92	303.27	1.45	913.4	4.37
May-20	662.98	3.17	324.96	1.55	987.94	4.72
Jun-20	682.66	3.27	327.01	1.56	1,009.67	4.83
Jul-20	651.41	3.12	342.01	1.64	993.42	4.76
Aug-20	642.86	3.08	316.74	1.52	959.6	4.6
Sep-20	546.99	2.62	318.47	1.52	865.46	4.14
Oct-20	635.05	3.04	340.22	1.63	975.27	4.67
Nov-20	584.89	2.8	332.51	1.59	917.4	4.39
Dec-20	574.26	2.75	377.97	1.81	952.23	4.56

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