



Monthly Economic Report and a special brief on MERA and fuel pricing

September 2021



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Inflation

Headline inflation eased to 8.4% in August 2021 from 8.7% in July 2021 due to a decline in food inflation. Food inflation declined to 9.7% from 10.3% in the previous month whilst non-food inflation was flat at 7.2%.

The Monetary Policy Committee (MPC), projected annual inflation for 2021 to be 8.8%. This forecast was supported by elevated non-food inflation trends underpinned by continued weakening of the Malawi Kwacha to United States Dollar exchange rate and higher import prices.

The EIU anticipates elevated non-food inflation and projects inflation to be 9.2% in 2021 and peak at 10.0% in 2022 then gradually ease to 8.5% by 2025. Lower global fuel prices are expected to be the main driver of lower inflation from 2023 onwards.

Monetary Policy

The MPC, at its third meeting of 2021, maintained the Policy rate at 12%; the Liquidity Reserve Requirement (LRR) ratio on domestic and foreign deposits at 3.75%; and the Lombard rate at 20 basis points above the Policy rate to support economic recovery.

The EIU expects the MPC to maintain the policy rate at 12% throughout 2021 then adopt a tightening monetary policy stance from 2022-25 to curb rising inflation.

Fiscal Policy

Total revenue and grants for the 2021/22 fiscal year are estimated to be MK1.27 trillion representing 12.4% of GDP and comprising MK1.15 trillion in revenue and MK170 billion in grants. The corresponding total expenditure is projected to be MK2 trillion, representing 19.5% of GDP. This results in a deficit of MK724 billion which amounts to 7.1% of GDP. The deficit was budgeted to be funded by domestic and foreign borrowing of MK583 billion and MK135 billion, respectively.

The government maintained the allocation to the Affordable Inputs Programme (AIP) at MK142 billion with budgetary allocations made for fertilizer, seed and goat purchases. Beneficiary farming households are to contribute MK7,500, while the government contributes MK19,500, to access a 50kg bag of fertilizer trading at MK27,000 per bag.

The IMF is yet to commit to a new Extended Credit Facility (ECF) programme with Malawi as it is still assessing economic trends and other related developments. The ECF is aimed at providing financial support to countries with protracted balance of payment problems and the previous programme was discontinued in June 2020.

Exchange Rates

Based on middle rates, the Malawi Kwacha marginally depreciated against the USD by 0.22% in September 2021. As at 30 September 2021, the Kwacha was trading at MK822.17/USD from MK820.40/USD as at 31 August 2021. Year-to-date, the Malawi Kwacha has depreciated against the USD by 5.84%, higher than the year-to-date depreciation of 2.44% in the same period in 2020.

The country's gross official forex reserves decreased by 13.67% to USD521.87 million in September 2021 from USD604.50 million in August 2021, which lowered gross official forex reserves' import cover to 2.09 months from 2.42 months during the period under review. The total foreign exchange reserves position was USD907.92 million in September 2021 which represented an 8.66% decrease from USD993.97 million in August 2021. Total foreign exchange reserves import cover was 3.63 months in September 2021.

The RBM states that the Malawi Kwacha is under pressure as demand for foreign exchange continues to surpass supply and continued shortage of foreign exchange supply is a downside risk to the currency. Similarly, the EIU states that continued low levels of foreign exchange reserves are putting pressure on the Malawi Kwacha just as Malawi's import spending is increasing.

Stock Market

The Malawi All Share Index (MASI) increased by 6.69% to 41,550.15 points in September 2021 from 38,945.62 points in August 2021. This was due to share price gains in FDH Bank, ILLOVO, NBM, NITL, SUNBIRD and TNM which offset share price losses in AIRTEL, FMBCH, ICON, NBS and PCL. The MASI year-to-date return was 28.27% in September 2021, it was 4.93% during the same period in the previous year. In terms of market price movement, ILLOVO had the largest share price gain during the period to MK265.00 per share in September 2021 from MK175.29 per share in August 2021, representing a 51.18% increase. While NBS had the largest share price loss during the same period to MK25.07 per share from MK26.33 per share, representing a 4.79% decrease.

Government Securities

The government awarded MK52 billion in September 2021 from MK88 billion in the previous month through Treasury Bill (TB) and Treasury Note (TN) auctions. The TBs had a nil rejection rate while the TNs had a 25.23% rejection rate. The net liquidity for the month was MK16.61 billion as maturities from government securities for September 2021 were MK35.39 billion. The average Treasury Bill and Treasury Note yields for August 2021 were 12.25% and 20.10%, respectively.

Economic Growth

The RBM expects real GDP growth to be 3.8% in 2021 as Malawi recovers from the Covid-19 pandemic induced slump in 2020. Economic recovery will be bolstered by a strong harvest in the 2020/21 agriculture season.

The RBM's real GDP growth forecast is significantly higher than the average of 2.5% of the forecasts by The World Bank, IMF and EIU. The latter expect the economy to recover at a slower rate due to a protracted Covid-19 pandemic.

COVID-19 Status and developments

During the month of September 2021, the continued reinforcement of Covid-19 preventative and containment measures, coupled with the vaccination effort, led to slow down of the pandemic outbreak. The country fully vaccinated an additional 896,391 individuals in September 2021 from 410,484 individuals in August 2021, bringing the number of fully vaccinated individuals to 496,875.

The total number of confirmed Covid-19 cases increased to 61,580 in September 2021 from 60,494 in August 2021. Similarly, the total COVID-19 related deaths increased to 2,282 in September 2021 from 2,177 in August 2021. These changes were accompanied by a decrease in the positivity rate to 3.5% as at 30 September 2021 from 7.6% as at 31 August 2021, while the Case Fatality Rate (CFR) increased to 3.7% from 3.6% during the period under review. The recovery rate increased to 89.9% from 79.0% during the same period.

Risks

The salient downside risks for the country are depreciation of the Malawi Kwacha, fiscal slippage, higher inflation, unfavorable weather and inadequate power supply. Further, a protracted COVID-19 pandemic will exacerbate these risks.

As the global economy recovers from the pandemic, increased production levels are likely to lead to an increase in global oil prices. Holding other factors constant, this could increase non-food inflation as both oil and fertilizer imports become more expensive. Food inflation may also start trending upwards due to an increase in maize prices despite a bumper harvest in the previous agricultural season. Unfavorable weather and a weak harvest in the next agriculture season may heighten inflation risk in the forecast period.

The increasing global prices for both oil and fertilizer, which are likely to result in an increase in the demand of the Malawi Kwacha, may lead to further depreciation of the local currency. This is because oil and fertilizer are the largest two imports by value for Malawi.

The protracted COVID-19 pandemic is likely to increase the fiscal deficit through the government's allocation of resources to mitigate the effects of the pandemic. This could compound other risks that the private sector faces in the country such as inadequate power and poor infrastructure. However, projects to increase electricity generation and expand key infrastructure should mitigate this risk in the long-term.



Economic overview

Inflation (Source: NSO, IFPRI)

Headline inflation eased to 8.4% in August 2021 from 8.7% in July 2021 on account of a decrease in food inflation.

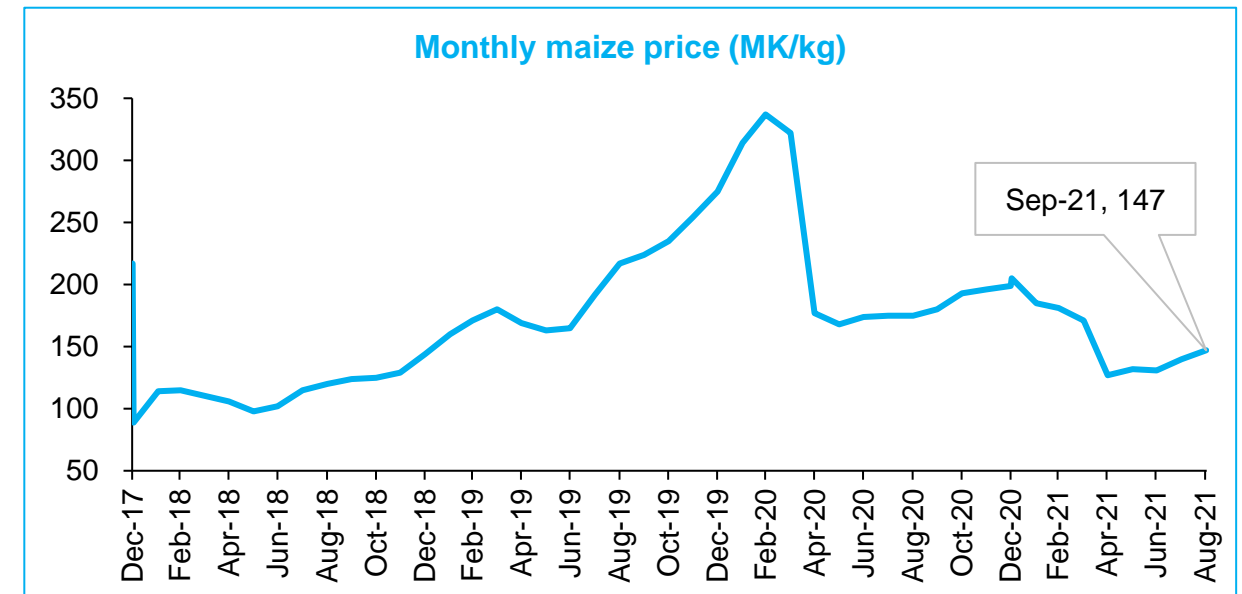
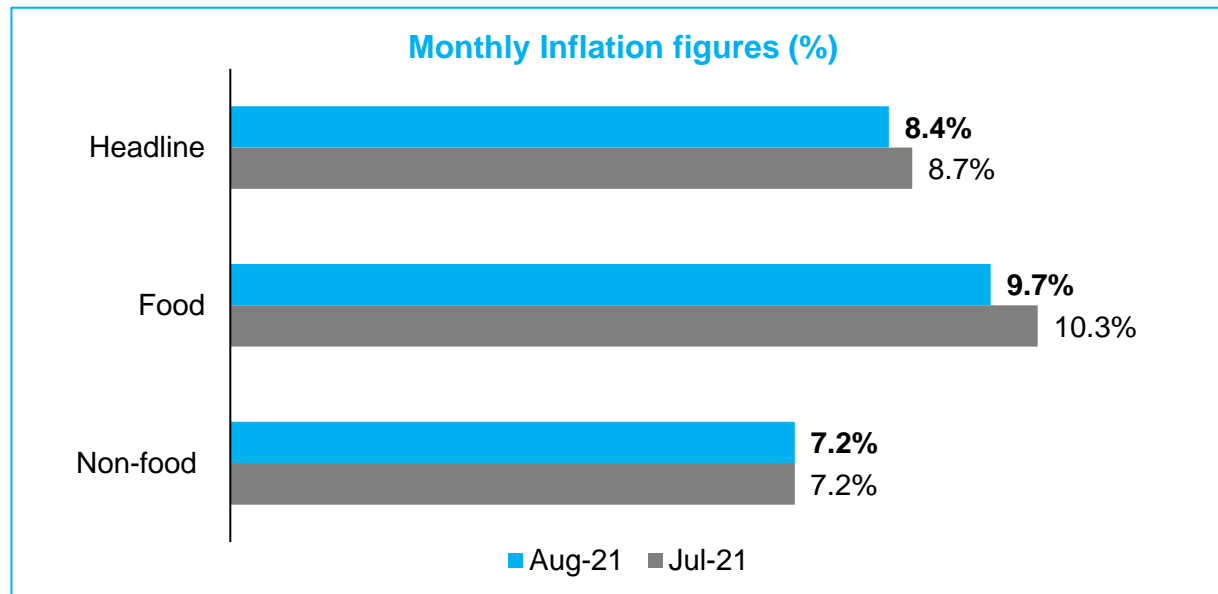
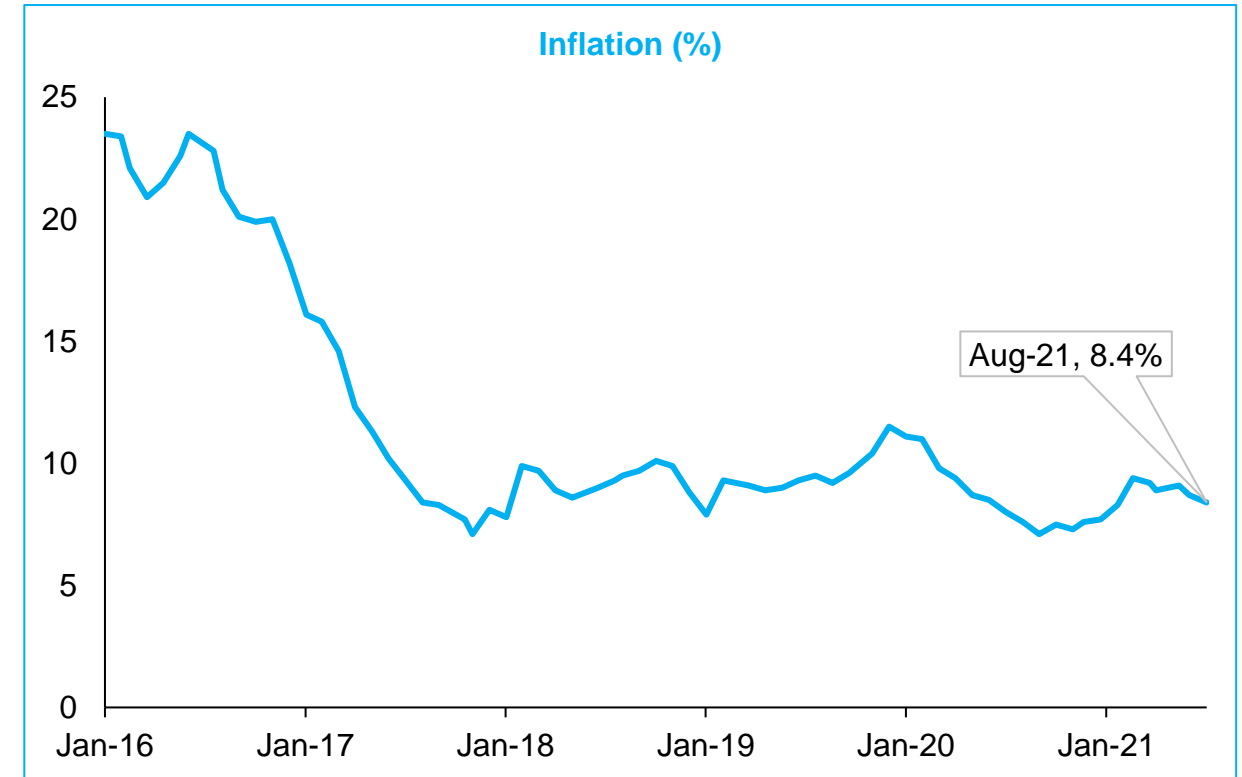
ADMARC increased its maize selling price by 28% to MK205/kg from MK160/kg.

MERA informed the public to expect an upward fuel pump price adjustment as the landed costs for petrol, diesel and paraffin have exceeded the ±5% trigger of the automatic fuel pricing mechanism.

Headline inflation eased to 8.4% in August 2021 from 8.7% in July 2021. In August 2020, headline inflation was 7.6%. The m-o-m decrease in headline inflation was on account of a decrease in food inflation which averaged 9.7% (July 2021: 10.3%) while non-food inflation maintained its position at 7.2% (July 2021: 7.2%) in the month of August 2021. The MPC projects annual inflation to be 8.8% for 2021.

Food-inflation was previously forecasted to be stable due to lower maize prices on account of a strong harvest and higher maize availability. However, ADMARC has just increased its maize price by 28% from MK160/kg to MK205/kg on 24 September 2021 due to higher procurement costs. ADMARC has maintained its buying price at MK150/kg and aims to use its profits to repay debt and ease its debt burden. The monthly average retail maize price increased by 5.00% to MK147.00/kg in September 2021 from MK140.00/kg in August 2021.

Non-food inflation is already on an elevated path as a result of imported inflation and the pass-through of the Kwacha depreciation. A development that compounds non-food inflation risk is the recent announcement by The Malawi Energy Regulatory Authority (MERA) of a likely increase in the fuel pump price. The last fuel price revision was in March 2021 and petrol, diesel and paraffin prices increased by 7.74%, 8.66% and 17.35%, respectively. Since then, the landed costs of fuel have increased by 20% for petrol, and by 12% for both diesel and paraffin which necessitates fuel pump price revisions. The likelihood of the increase is also supported by the price stabilization fund's (PSF's) low balance of MK1.5 billion as at 7 September 2021 which is significantly below the recommended MK5 billion.





Economic overview (Continued)

Government securities (Source: RBM)

The government awarded MK35.83 billion through TB auctions in September 2021, a decrease of 3.71% from MK37.21 billion awarded in August 2021.

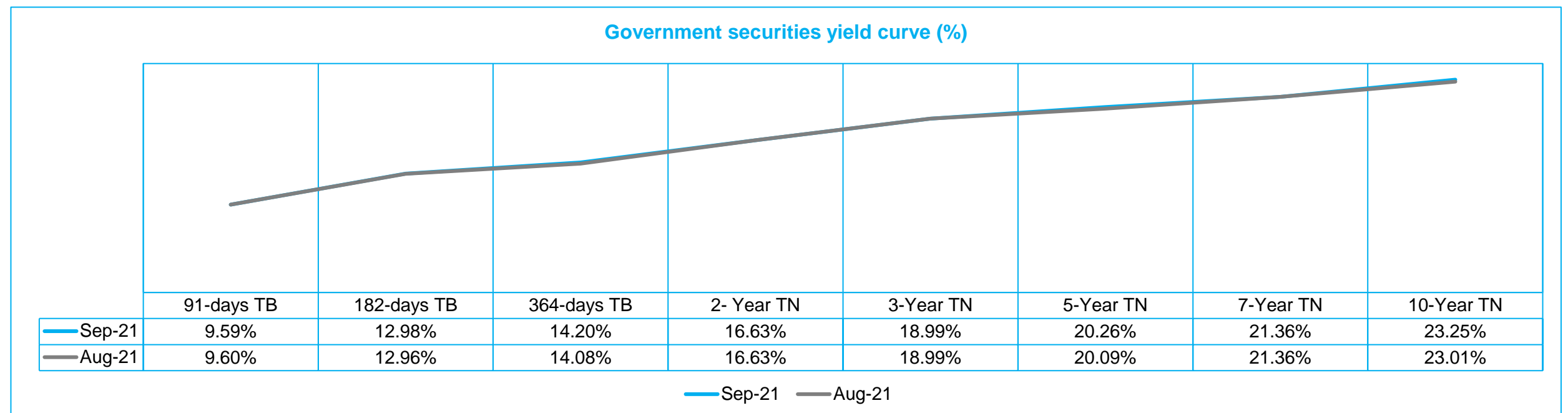
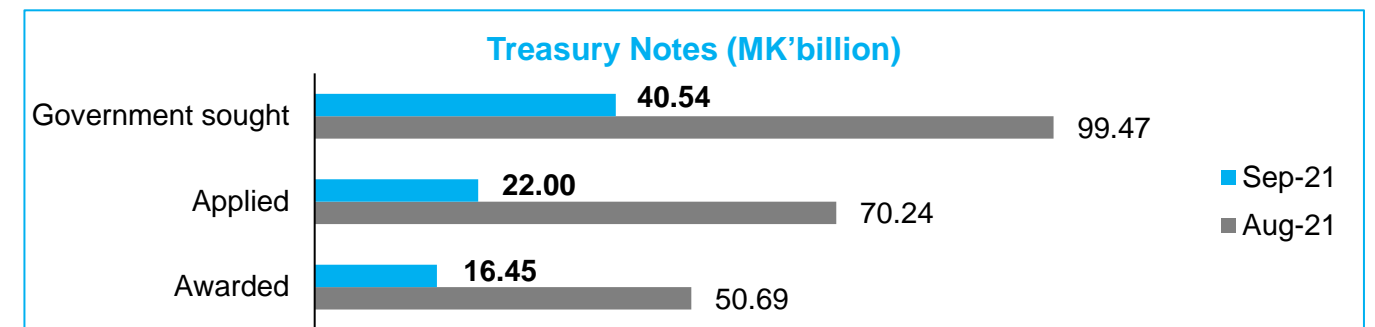
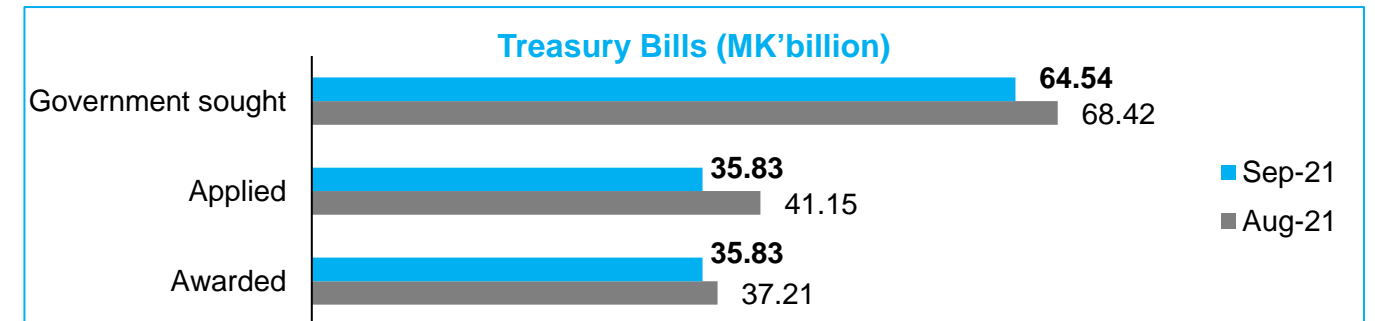
It also awarded MK16.45 billion through TN auctions in September 2021, a decrease of 67.55% from MK50.69 billion awarded in August 2021.

Treasury Bills (TBs)

In September 2021, the Treasury Bills (TBs) applications had a nil rejection rate. The government sought to borrow MK64.54 billion through Treasury Bill (TB) auctions, a decrease of 5.67% from MK68.42 billion sought in August 2021. Participants applied to place MK35.83 billion through the TB auctions in September 2021, a decrease of 12.93% from MK41.15 billion applications in August 2021. From the applications, the government awarded MK35.83 billion through the TB auctions, a decrease of 3.71% from MK37.21 billion awarded in August 2021.

Treasury Notes (TNs)

In September 2021, the government sought to borrow MK40.54 billion through Treasury Note (TN) auctions, a decrease of 59.24% from MK99.47 billion sought in August 2021. Participants applied to place MK22.00 billion through the TN auctions, a decrease of 68.68% from the MK70.24 billion applications in August 2021. From the applications, government awarded MK16.45 billion through the TN auctions, a decrease of 67.55% from MK50.69 billion awarded in August 2021. The applications had a 25.23% rejection rate during the period under review.





Economic overview (Continued)

Foreign currency market and Foreign reserve position (Source: RBM)

Year-to-date, the Malawi Kwacha has depreciated against the United States Dollar by 5.84%.

The gross official reserves were USD521.87 million as at 30 September 2021, a decrease of 13.67% from USD604.50 million as at 31 August 2021.

The import cover for the gross official reserves decreased to 2.09 months from 2.42 months during the same period.

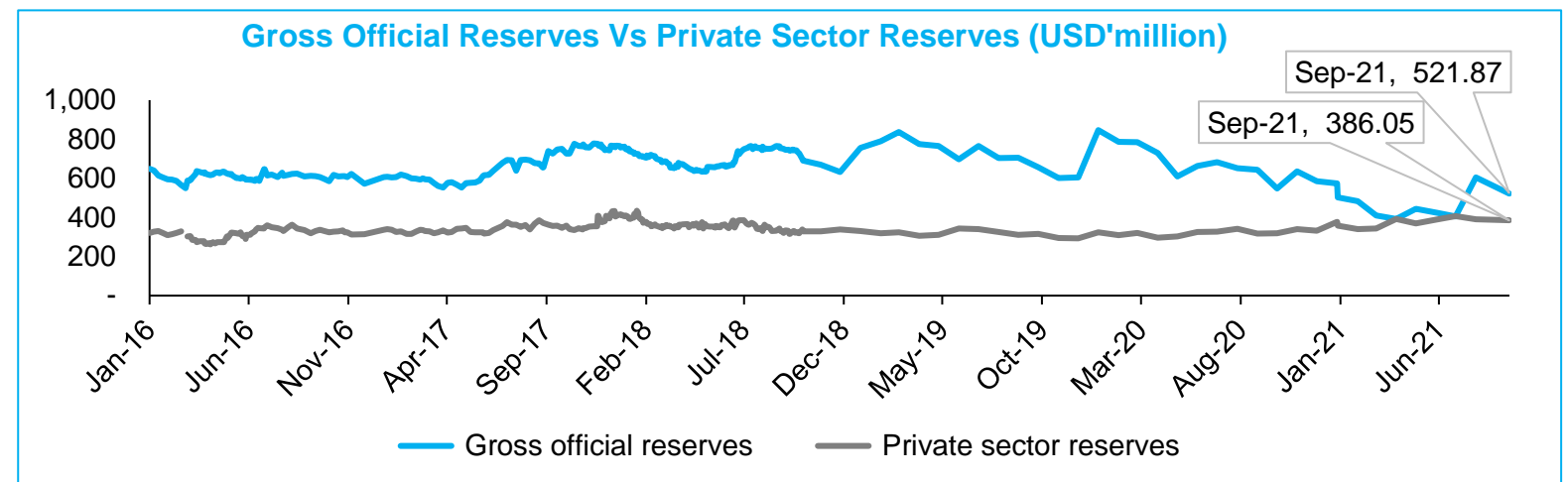
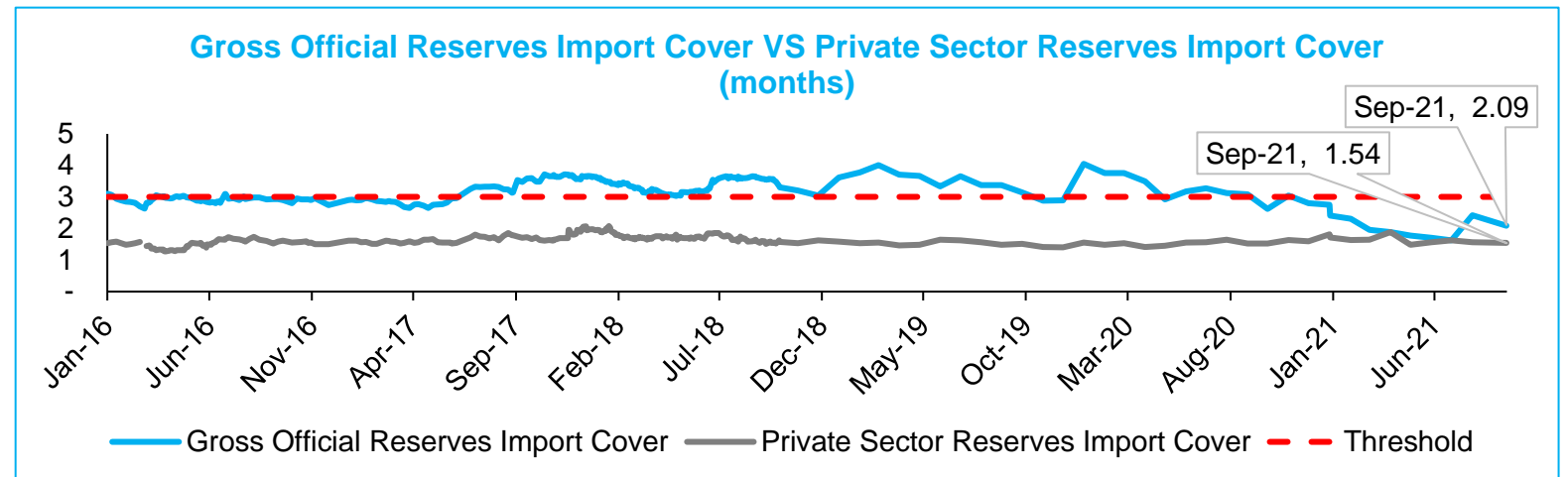
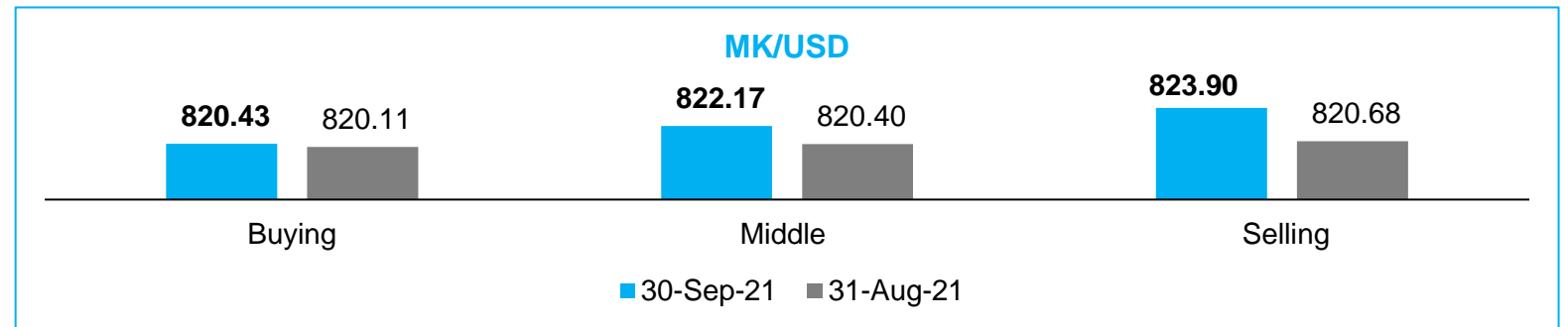
Foreign currency market

The Malawi Kwacha has been weakening over the course of the year as the current-account deficit continues to exert pressure on the currency. This is on the back of COVID-19 spillover effects and rising prices of imports including fertilizer and fuel. As at 30 September 2021, the Kwacha had marginally depreciated by 0.22% against the USD to MK822.17/USD from MK820.40/USD as at 31 August 2021. Year-to-date, the Kwacha has depreciated against the United States Dollar by 5.84%, which is higher than the year-to-date depreciation of 2.44% during the same period in 2020.

Foreign reserve position

As at 30 September 2021, the country's gross official forex reserves decreased by 13.67% to USD521.87 million from a gross official forex reserve position of USD604.50 million as at 31 August 2021. The private sector forex reserves decreased by 0.88% to USD386.05 million as at 30 September 2021 from USD389.47 million as at 31 August 2021. Overall, total foreign exchange reserves held in September 2021 were USD907.92 million, which is a 8.66% decrease from the total foreign exchange reserves position of USD993.97 million held in August 2021.

Import cover for gross official reserves for September 2021 was 2.09 months, an decrease of 13.64% from an import cover of 2.42 months in August 2021. For private sector reserves, import cover for September 2021 was 1.54 months, a 1.28% decrease from 1.56 months in August 2021. Both the import cover for gross official and private sector reserves continued to remain below the required threshold of 3 months as at 30 September 2021. The total foreign exchange reserves had an import cover of 3.63 months in September 2021.





Economic overview (Continued)

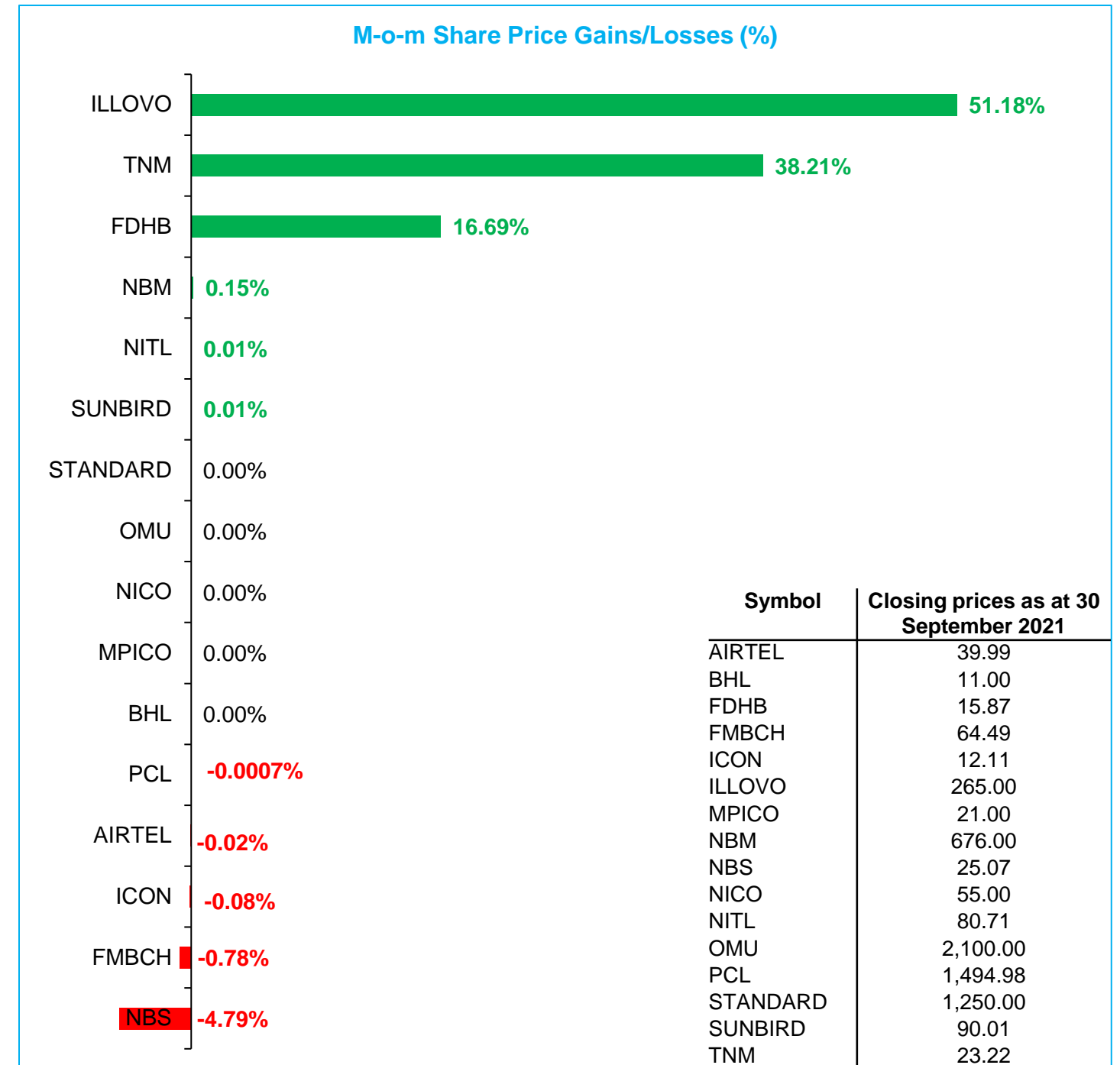
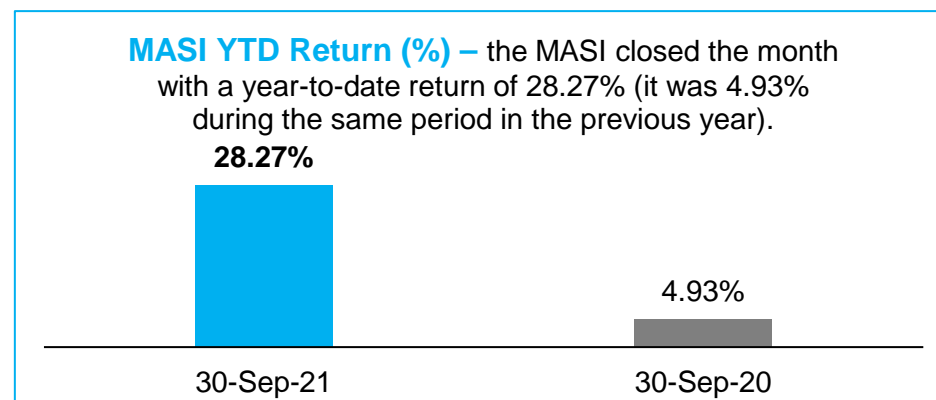
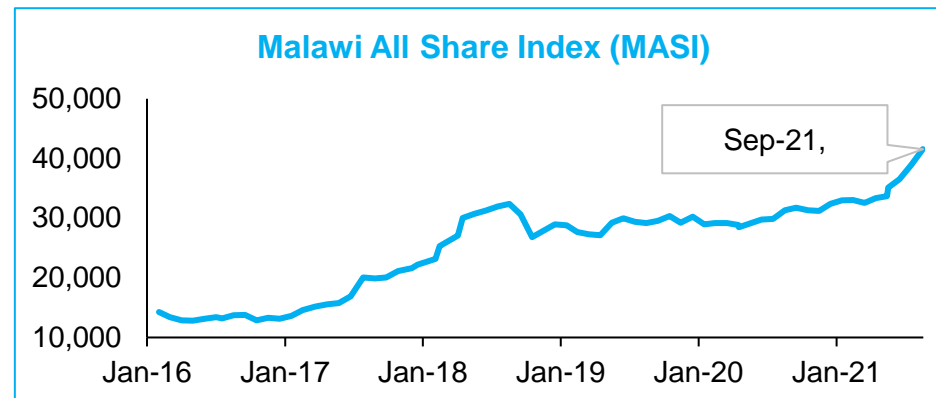
Stock market (Source: MSE)

The stock market continues to show growth with the MASI closing the month of September 2021 at 41,550.15 points.

The MASI year-to-date return was 28.27% in September 2021, and it was 4.93% during the same period in the previous year.

The stock market was bullish over the period with the Malawi All Share Index (MASI) reaching 41,550.15 points in September 2021 from 31,743.36 points in September 2020, representing a y-o-y increase of 30.89%. The MASI has increased by 6.69% m-o-m, as it was 38,945.62 points in August 2021.

The largest gainer in September 2021 was ILLOVO which closed the month at MK265.00 per share from MK175.29 per share in August 2021. This marks a m-o-m increase of 51.18%. There were also share price gains for TNM, FDH Bank, NBM, NITL and SUNBIRD. A total of five counters closed the month at the same price as the previous month. These counters were: BHL, MPICO, NICO, OMU and Standard Bank. The largest loser was NBS whose share price decreased by 4.79% to MK25.07 per share as at the close of September 2021 from MK26.33 per share as at the close of August 2021. There were also share price losses for PCL, AIRTEL, ICON and FMBCH.



Symbol	Closing prices as at 30 September 2021
AIRTEL	39.99
BHL	11.00
FDHB	15.87
FMBCH	64.49
ICON	12.11
ILLOVO	265.00
MPICO	21.00
NBM	676.00
NBS	25.07
NICO	55.00
NITL	80.71
OMU	2,100.00
PCL	1,494.98
STANDARD	1,250.00
SUNBIRD	90.01
TNM	23.22



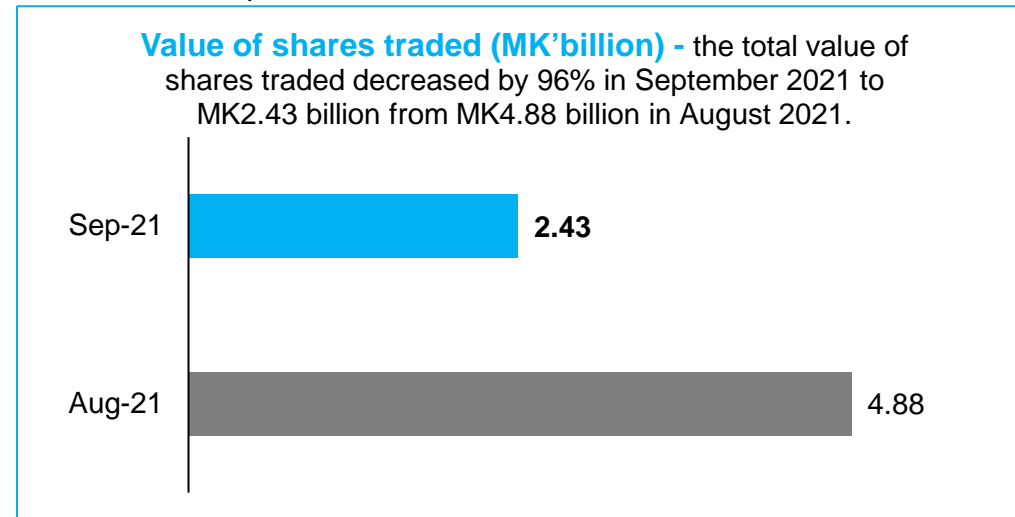
Economic overview (Continued)

Stock market (Source: MSE)

Sunbird closed the half-year ended 30 June 2021 with a loss after tax of MK475 million, a decrease of 64% from a loss after tax of MK1.34 billion for the half year ended 30 June 2020.

MSE Traded Volumes

There were MK2.43 billion worth of shares traded in September 2021 compared to the MK4.88 billion worth of shares traded in August 2021. MPICO and TNM had the highest value of shares traded at MK932.98 million and MK820.55 million respectively, during the period under review. The total number of trades in the month under review increased to 382 trades from 295 trades August 2021. The figure below traces the total value of shares traded on the MSE in September 2021.



Corporate Announcements

Published half-year financial statements

Amounts in billions of Malawi Kwacha unless specified otherwise.

Counter	28 February 2021	28 February 2020	Actual Change in Profit/Loss	Trading statement profit/loss expectation
Illovo	6.12	2.05	199%	200%

Counter	31 March 2021	31 March 2020	Actual Change in Profit/Loss	Trading statement profit/loss expectation
BHL (MK'million)	(390.65)	70.01	-658%	-500%

Counter	30 June 2021	30 June 2020	Actual Change in Profit/Loss	Trading statement profit/loss expectation
NITL	1.23	0.36	234.5%	239%
FDH Bank	4.55	3.22	41%	34%
National Bank	12.8	9.1	41%	20%
Standard Bank	11.59	12.63	-8%	N/A
NBS Bank	4.40	2.84	55%	40%
Press Corporation	12.87	11.68	10%	N/A
Airtel Malawi	11.35	11.42	-0.61%	N/A
TNM	4.51	3.78	19%	N/A
NICO	7.03	7.64	8%	N/A
ICON	3.07	2.11	45%	20%
MPICO	2.84	2.51	13%	N/A
Sunbird	(0.48)	(1.34)	-64%	-65%
Old Mutual (ZAR'billions)	3.16	4.22	-25%	N/A
FMBCH (USD'million)	13.09	14.29	-8%	N/A



Economic overview (Continued)

Stock market and debt market (Source: MSE)

The listed debt market did not register any trades in September 2021. The total nominal value of all listed debt securities was MK822.78 billion as at 30 September 2021.

Corporate Announcements (continued)

Dividends:

Below is a summary of the dividends that have been declared and proposed by listed companies:

Company	Declared/Proposed	Type	Dividend (MK)	Last Day To Register	Payable
NICO	Declared	Interim	0.75	24-Sep-21	1-Oct-21
OMU	Declared	Interim	13.96	14-Sep-21	11-Oct-21
TNM	Declared	Interim	0.18	17-Sep-21	24-Sep-21
MPICO	Declared	Interim	0.12	8-Oct-21	22-Oct-21
ICON	Declared	Interim	0.12	8-Oct-21	22-Oct-21
FMBCH*	Declared	Interim	\$0.08	15-Oct-21	22-Oct-21
PCL	Declared	Interim	6.00	15-Oct-21	29-Oct-21
NICO	Declared	Special	0.50	22-Oct-21	4-Nov-21

Listed Debt market

There were no trades registered in the debt market for the month of September 2021. The last trades were in April 2021, in which the debt market registered two trades for one of the Medium-term Notes (Trading symbol NFB03) by MyBucks Banking Corporation. The corporate bonds had a nominal value of K5 million each and were traded at a price of MK100.20 per par value, giving a total traded value of MK10 million.

Listed Debt Market Nominal Value (MK'billion) - in the period under review, there were no trades on the 4 Corporate Medium-Term Notes by MyBucks Banking Corporation and the 21 Malawi Government Treasury Notes. The total Nominal value of all listed debt securities was MK822.78 billion as at 30 September 2021.



*FMBCH plc Malawi Kwacha equivalent will be made available by issuer on 15-Oct-21



Other Market Developments (Continued)

Fiscal and Monetary Policy (Source: RBM, Ministry of Agriculture)

Farming households to contribute MK7,500 to access a 50kg bag through the government's Affordable Inputs Programme (AIP).

The budgetary allocations for the AIP include MK124.74 billion for the purchase of fertilisers, MK12.25 billion for the purchase of seeds and MK1.26 billion for the purchase of goats.

The IMF is assessing economic trends and related developments before committing to a new ECF programme since the discontinuation of the previous programme in June 2020.

Fiscal policy

The government maintained the number of beneficiaries in the Affordable Inputs Programme (AIP) at 3.7 million farming households. To achieve this, the government maintained the allocation of funds to the AIP at MK142 billion, and reduced the value of the subsidy to each beneficiary. As a result, beneficiaries are expected to contribute MK7,500, an increase of 66% from MK4,495 in the previous year, to access a 50kg bag of fertilizer. This was done with the expectation that fertilizer would be traded at the cost of MK27,000 per bag, thus the government contribution will be MK19,500 per bag.

Following the release of the statement on the AIP, fertilizer suppliers, through the Fertiliser Association of Malawi rejected the cited cost of MK27,000 per bag as not being a feasible cost. This was on the basis of rising global costs of fertilizer as well as increases in logistical costs, which have led to the increase in the domestic prices of fertilizer. Despite not explicitly stating at what cost the fertilizer suppliers would be willing to provide the commodity, the Association stated that further discussions would be held with the government to reach a more feasible supply cost.

IMF Extended Credit Facility Update

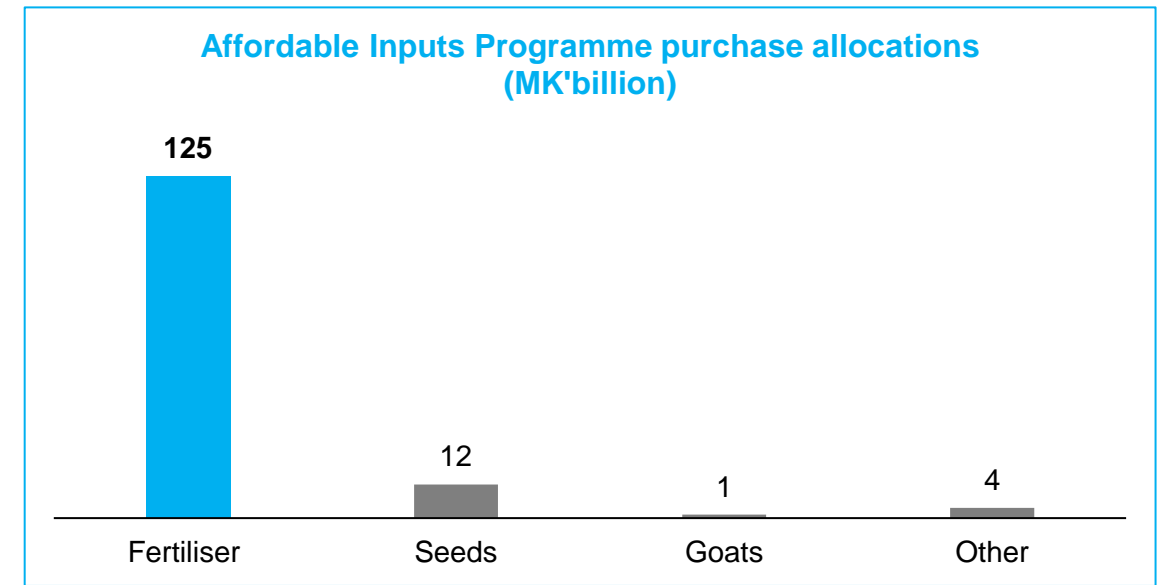
In another development, the IMF maintained its position that it is still assessing broader economic trends and related developments before committing to a new Extended Credit Facility (ECF) programme with Malawi. The IMF highlighted the level of public debt and the long-term development bonds that the government intends to issue on a quarterly basis, as some of the variables being considered. Malawi cancelled its previous ECF programme in June 2020 and has been working toward the establishment of a new programme. The IMF's ECF is intended to provide financial support to countries with protracted balance of payment problems. Due to the absence of the ECF programme, the country has been unable to access USD300 million (MK247 billion) for the Development Policy Operation of the World Bank. The World Bank's Development Policy Financing provides rapidly-disbursing financing to help borrowers address actual or anticipated development financing requirements.

Monetary Policy

The MPC, at its third meeting of 2021, maintained the Policy rate at 12%; the Liquidity Reserve Requirement (LRR) ratio on domestic and foreign deposits at 3.75%; and the Lombard rate at 20 basis points above the Policy rate to support economic recovery.

The EIU expects the MPC to maintain the policy rate at 12% throughout 2021 then adopt a tightening monetary policy stance from 2022-25 to curb rising inflation.

Affordable Inputs Programme purchase allocations





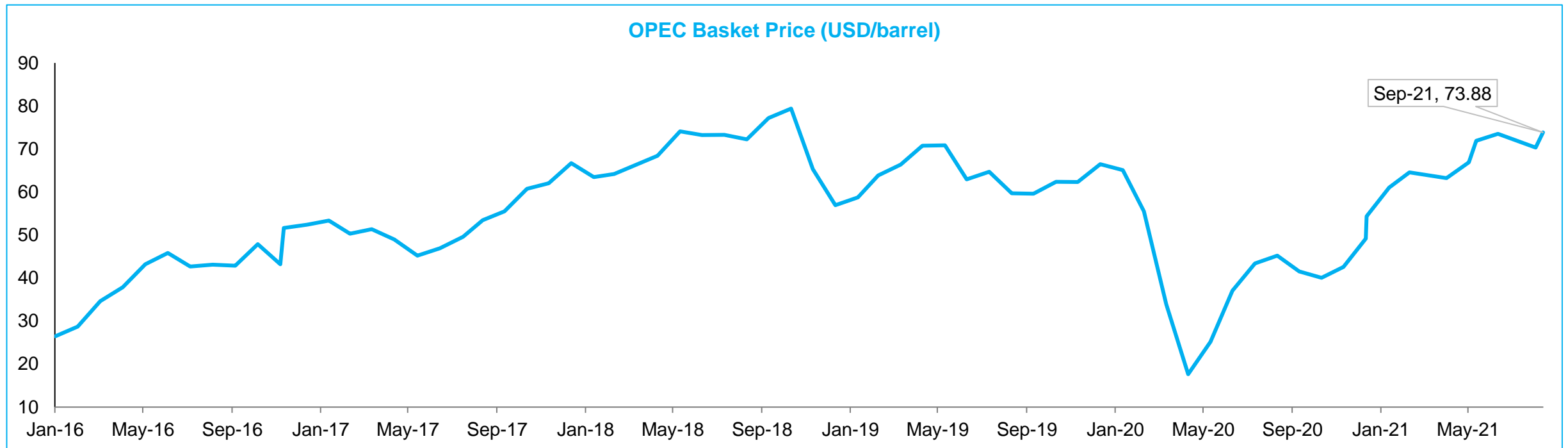
Regional And Global Market Developments

Global oil developments (Source: OPEC)

The OPEC Reference Basket (ORB) increased to USD73.88/b in September 2021 from USD70.33/b in August 2021. Oil prices in the current period are expected to be on the decline as a result of increases in oil output by global oil producers.

M-o-m, the OPEC Reference Basket (ORB) increased to USD73.88/b in September 2021 from USD70.33/b in August 2021. Similarly, the ORB has increased by 77.85% y-o-y as it was USD41.54/b in September 2020. Oil prices in the current period are expected to be on the decline as a result of increases in oil output by global oil producers.

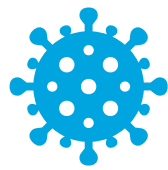
In 2021, world oil demand growth is expected to increase by 6.0 mb/d y-o-y. Oil demand in the second half of 2021 is projected to be positively impacted by a stronger economic rebound which will be supported by stimulus programmes and a further easing of COVID-19 lockdown measures, amid an acceleration in the vaccination rollout.



Interest rate movements (Source: WSJ)

The 3-month and the 6-month US LIBOR rate increases to 0.13% and 0.16%, respectively, in September 2021.

	September 2021 (%)	August 2021 (%)
US LIBOR (3 months)	0.13%	0.12%
US LIBOR (6 months)	0.16%	0.15%



COVID-19 Update

Latest COVID-19 statistics and vaccine developments (Source: Malawi Ministry of Health)

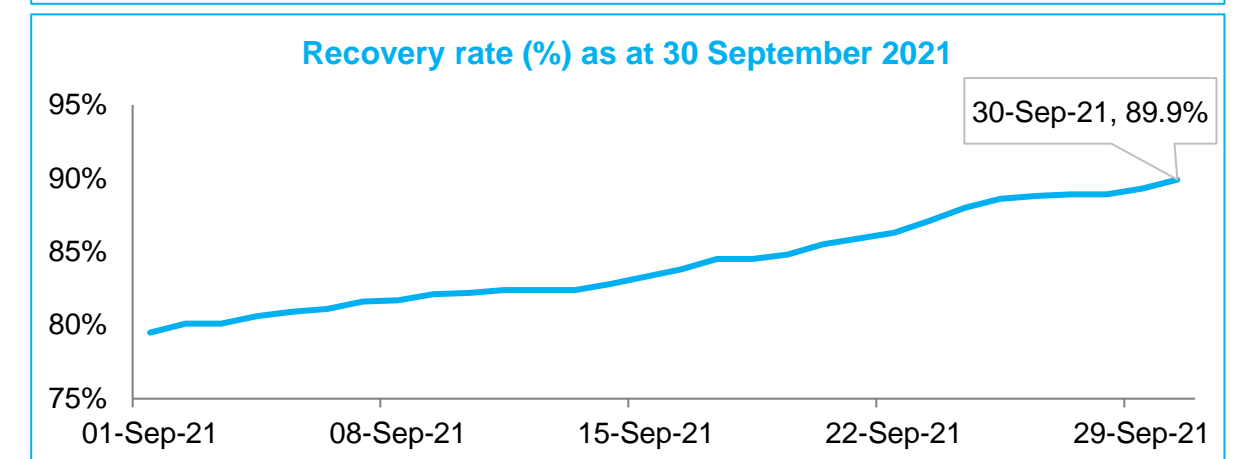
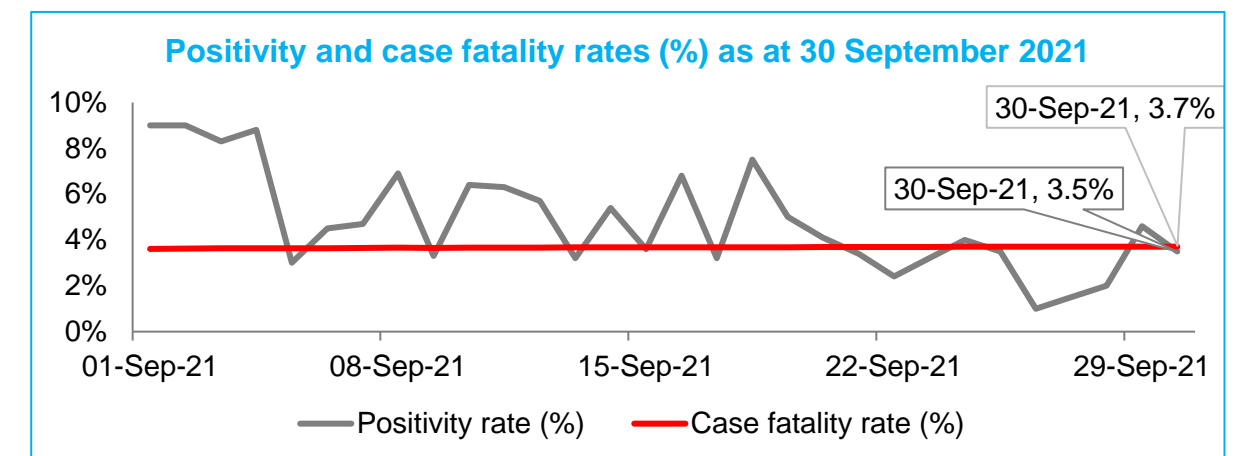
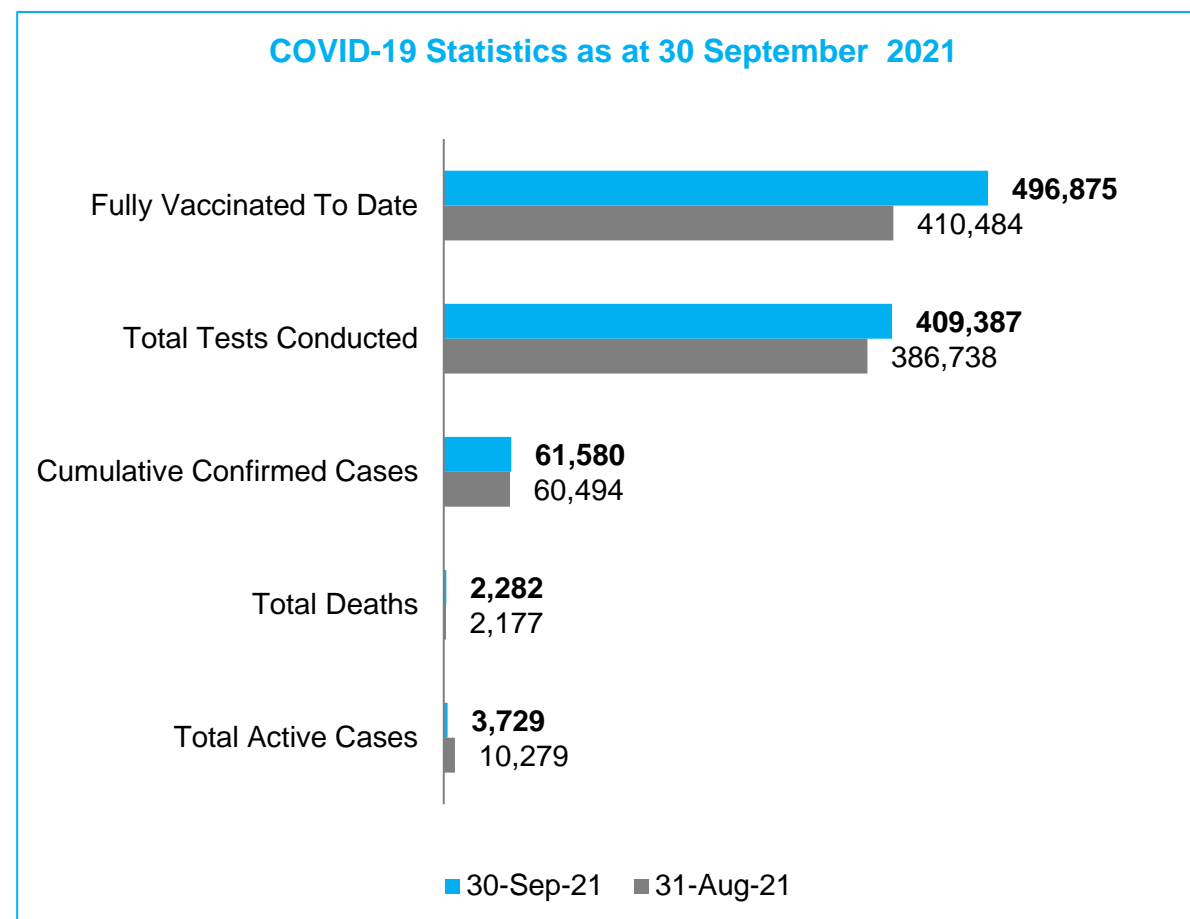
As at 30 September 2021, 496,875 individuals had been fully vaccinated against the Covid-19 virus, an increase of 21% from 410,484 individuals fully vaccinated as at end August 2021.

As at 30 September 2021, 2% of the Malawian population had been fully vaccinated against Covid-19 infection.

During the month of September 2021, the continued reinforcement of Covid-19 preventative and containment measures, coupled with the vaccination effort, led to slow down of the pandemic outbreak. This is evidenced by a decline in both active cases and new infections.

As at end September 2021, 496,875 individuals had been fully vaccinated against the Covid-19 virus in Malawi. This is an increase of 21% from 410,484 fully vaccinated individuals as at end August 2021. Despite the increase in the number of fully vaccinated individuals, they represent only 2% of the Malawian population. This is in line with the Ministry of Health's short-term objectives of vaccinating 20% of the population by December 2021 and vaccinating 60% of the population by December 2022. This attempts to achieve herd immunity which would result in the protection of the entire population from infection. In order to achieve these objectives, 66 thousand individuals (0.35% of the population) must be fully vaccinated on a monthly basis.

The total number of confirmed Covid-19 cases increased to 61,580 in September 2021 from 60,494 in August 2021. Similarly, the total COVID-19 related deaths increased to 2,282 in September 2021 from 2,177 in August 2021. These changes were accompanied by a decrease in the positivity rate to 3.5% as at 30 September 2021 from 7.6% as at 31 August 2021, while the case fatality rate (CFR) increased to 3.7% from 3.6% during the period under review. The recovery rate increased to 89.9% from 79.0% during the same period.





Special Topic

Malawi Energy Regulatory Authority (MERA) and fuel pricing mechanisms (Source: MERA)

MERA is established as the Energy Sector Wide Regulator in Malawi.

The prevailing fuel pump prices of petrol and diesel are MK899.20/litre and MK898.00/litre respectively.

What is the Malawi Energy Regulatory Authority (MERA)?

MERA was established as the Energy Sector Wide Regulator in Malawi for the benefit of consumers and operators. MERA is responsible for the management of licenses, approval of tariffs and prices in the energy sector as well as monitoring and enforcement of compliance with energy regulations. This report is an overview of the procedures used by MERA in setting fuel prices with a focus on petrol.

The Automatic Pricing Mechanism

MERA regulates fuel prices through the automatic pricing mechanism that was re-adopted in June 2012 following its discontinuation in 2004. The automatic pricing mechanism uses an explicit formula to determine domestic fuel prices. Changes in components of the formula result in fuel price adjustments at pre-specified and regular intervals.

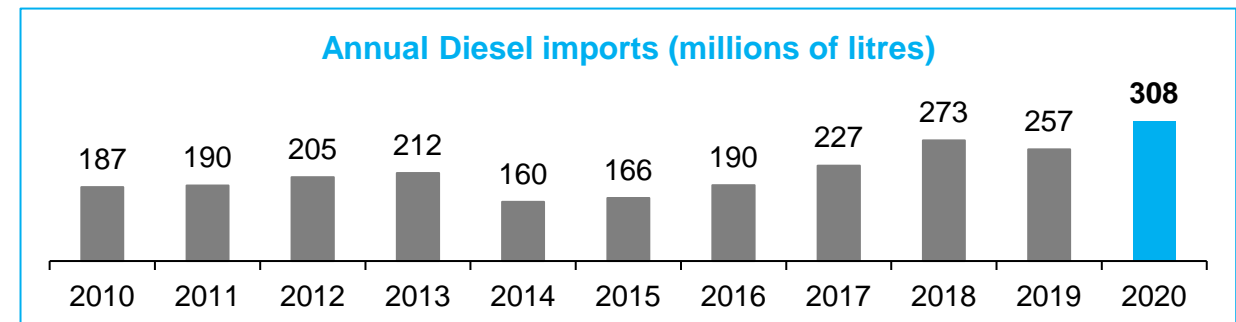
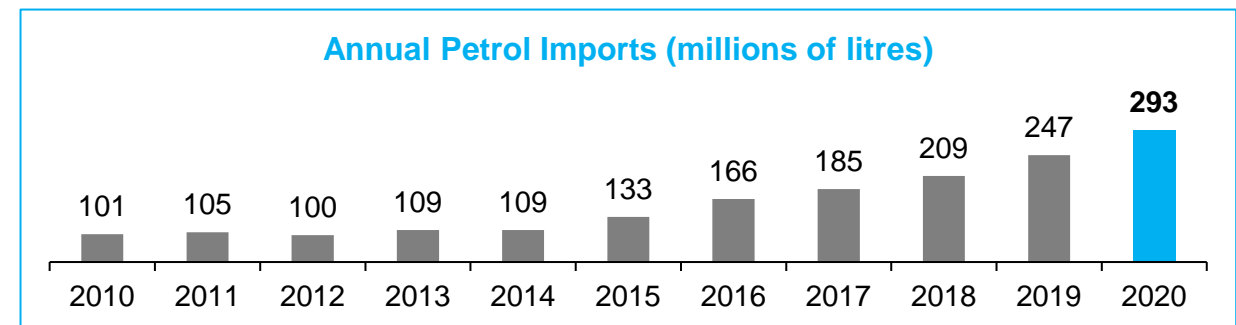
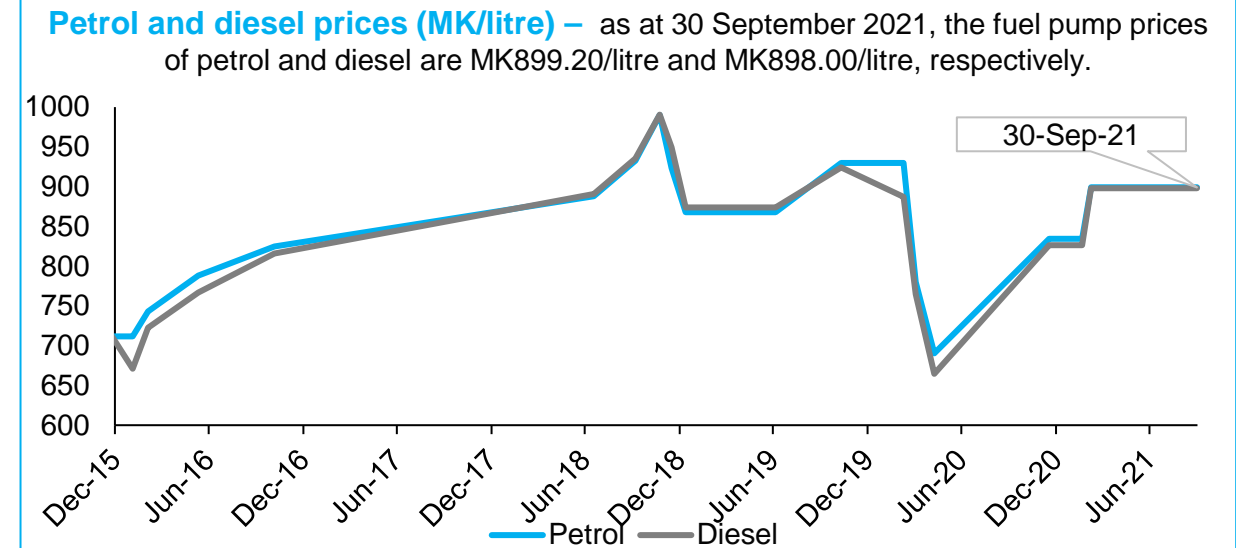
There is an accompanying methodology that specifies the rules that must be satisfied by changes in the formula components including circumstances under which fuel price revisions are necessary. MERA uses a price band to smoothen domestic fuel prices by setting upper and lower limits within which fuel prices can be adjusted. MERA's price band necessitates a price adjustment when the landed costs of fuel, in local currency, vary by more than $\pm 5\%$.

The Price Stabilization Fund (PSF)

MERA has an energy pricing committee that convenes at the beginning of each month to review the landed cost and domestic currency movements in relation to the prevailing fuel pump price. For changes in the landed costs that are smaller than $\pm 5\%$, MERA utilizes a price stabilization fund. The PSF is funded by a levy that is charged on all fuel sales. MERA currently has a 4.85% levy on petrol prices to fund the PSF. The recommended balance for the price stabilization fund is MK5 billion. This balance can then be utilized to compensate importers for losses when landed costs increase.

Benefits of Automatic Pricing Mechanisms

Automatic pricing mechanisms enable MERA to meet the needs of both consumers and operators by reducing in fuel price volatility. Both consumers and operators enjoy stable prices without impromptu price revisions. The mechanism also ensures full pass through of landed costs to end users of various fuel products.





Special Topic (Continued)

Malawi Energy Regulatory Authority (MERA) and fuel pricing mechanisms (Source: MERA)

Free on board contributes the highest proportion to the price per litre of petrol at 36.37% of the prevailing fuel pump price.

Petrol price build up (Source: MERA, 2020)

Free On Board (FOB) – this means that the buyer of the fuel pays for the fuel and delivery of the same to the ship. The supplier is only liable for damages up to the point where the ship leaves the port.

Road Levy – the tax that the government collects to fix the wear and tear of the road network.

Road Freight – the cost of transferring the fuel on roadways with use of a vehicle.

Retail and Wholesaler Gross Margin – the surplus of fuel revenue over the cost of selling the fuel for the Retailer and Wholesaler, respectively.

Excise Duty – a tax on specific goods, within a country, such as fuel.

Price Stabilization Fund – a proportion of the fuel price is devoted to absorb extreme volatility of fuel prices.

Duty – a tax on the imported fuel as it enters the country.

Rural Electrification Levy – the tax that is allocated to the Rural Electrification program to accelerate the access of electricity in rural areas.

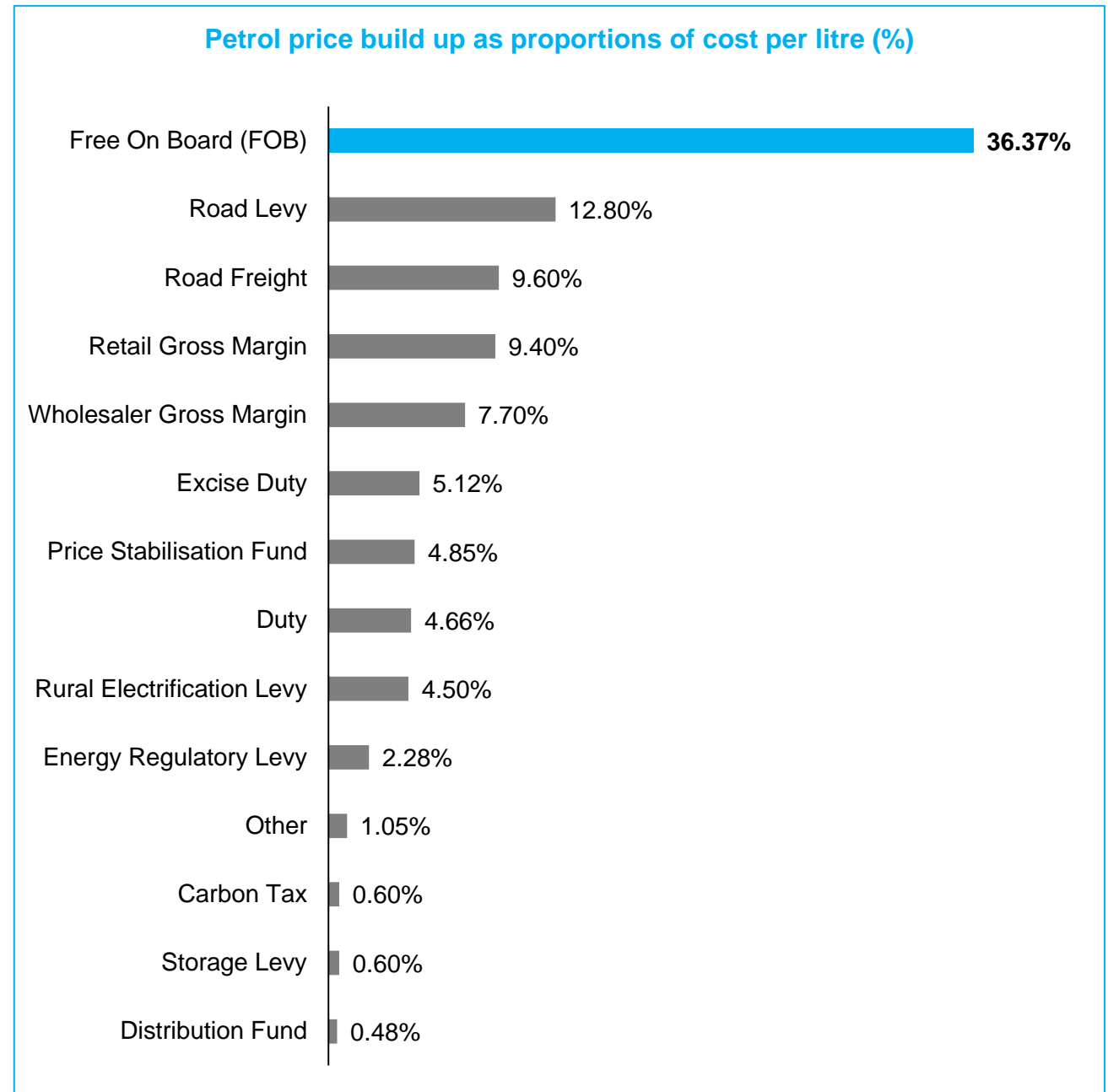
Energy Regulatory Levy – this tax is allocated to MERA to be used in regulating the sector.

Other – this covers miscellaneous items such as losses and handling costs.

Carbon Tax – a tax on greenhouse gas pollution which is mainly caused by burning fossil fuels.

Storage Levy – this tax is used to cover fuel storage costs.

Distribution Fund – this is the proportion of the fuel price that is used to incentivize and compensate oil marketing companies that distribute fuel beyond agreed radius from their operating depots.



Appendix

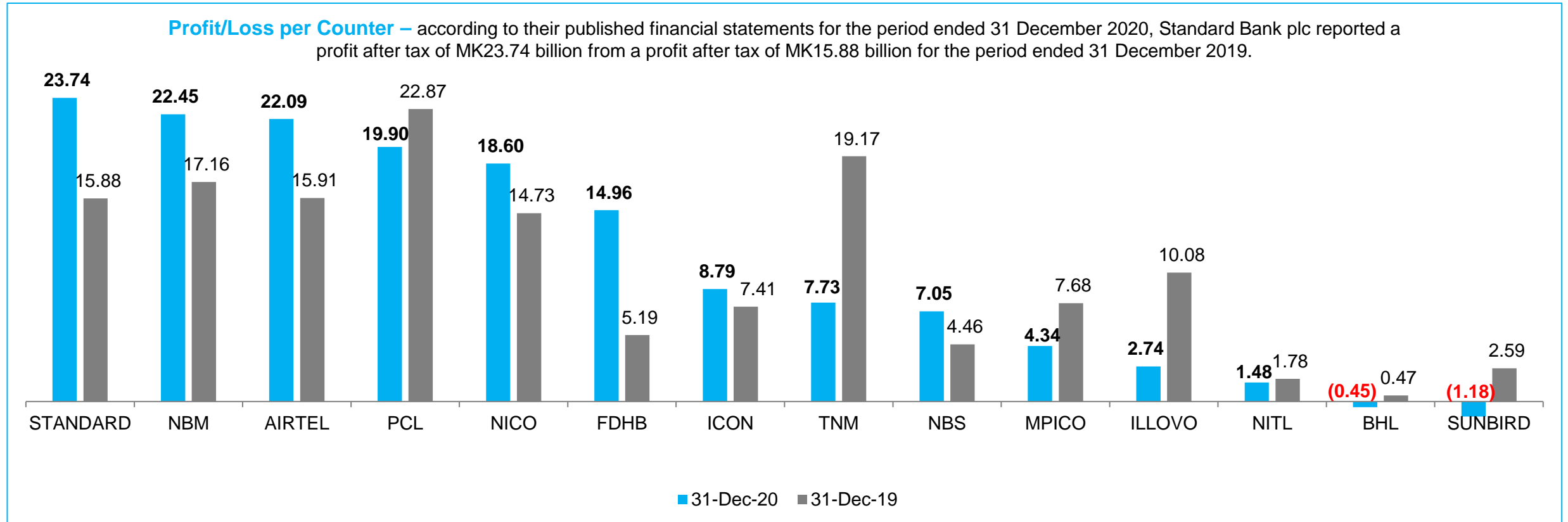


Appendix 1

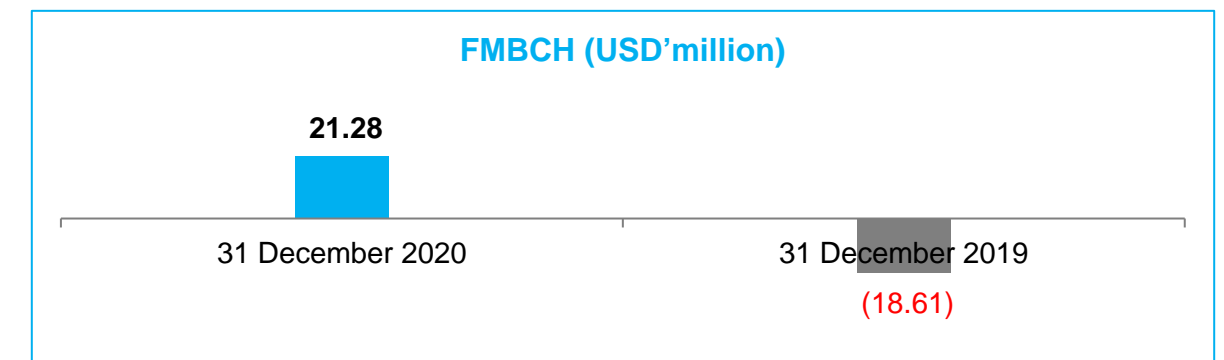
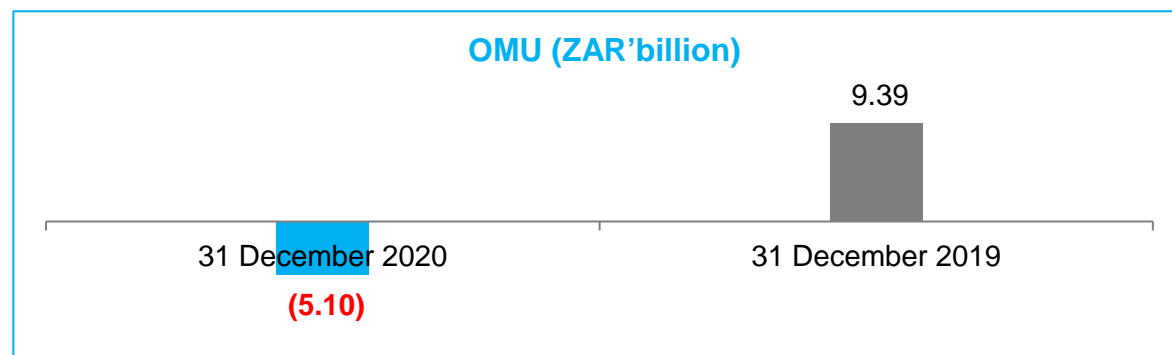
Published Financial Statements for the year ending 31 December 2020 - Domestic counters (Source: MSE)

Standard Bank plc closed the period ended 31 December 2020 with a profit after tax of MK23.74 billion, an increase of 49% from a profit after tax of MK15.88 billion for the period ended 31 December 2019.

Amounts in billions of Malawi Kwacha.



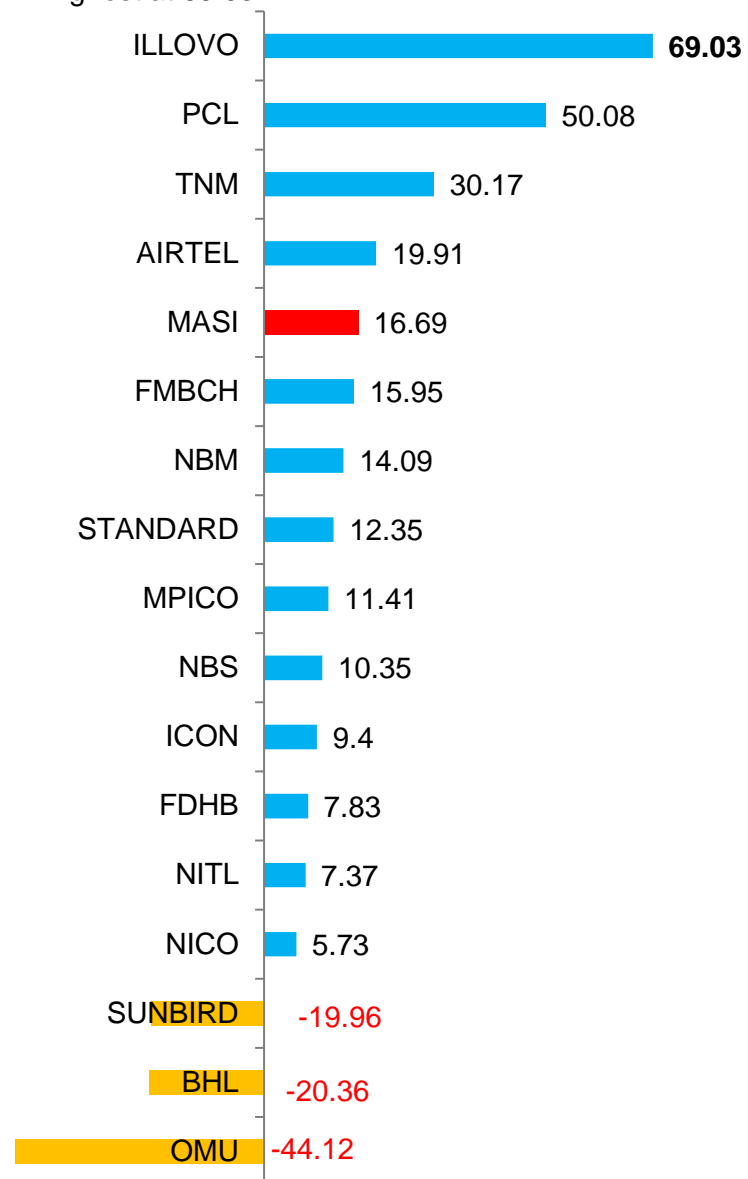
Published Financial Statements for the year ending 31 December 2020 - Foreign counters



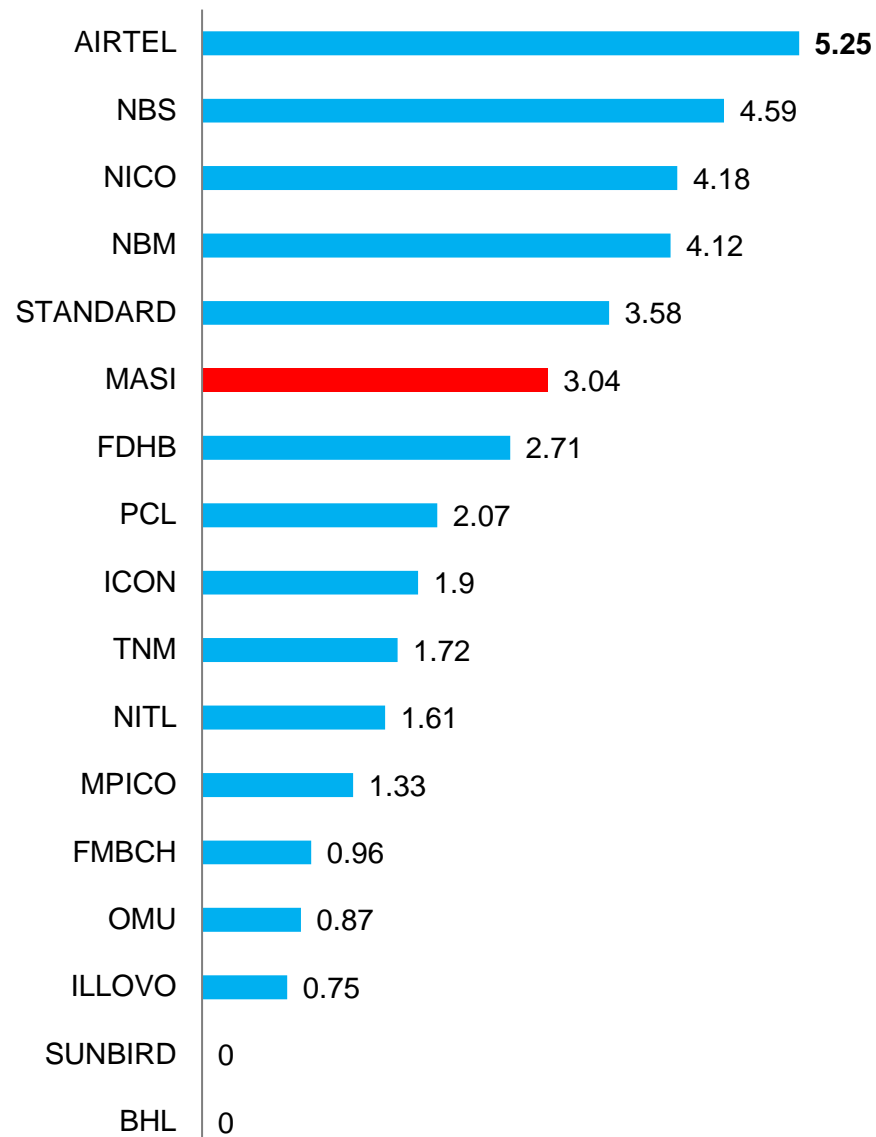
Appendix 2: Historical Economic Indicators

	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20	Jan-21	Feb-21	Mar-21	Apr-21	May-21	Jun-21	Jul-21	Aug-21	Sep-21
Exchange rates														
MK/USD	754.71	756.93	759.47	765.92	776.82	776.49	787.03	790.30	797.66	800.17	811.95	817.43	820.40	822.17
MK/GBP	1,024.89	999.88	1,015.11	1,061.76	1,070.14	1,107.24	1,140.90	1,139.62	1,164.37	1,191.58	1,192.94	1,203.74	1,196.67	1,168.72
MK/EUR	935.56	928.35	925.23	958.34	987.95	991.78	1,006.72	993.04	1,035.48	1,042.52	1,042.52	1,048.56	1,044.60	1,026.14
MK/ZAR	47.53	47.33	49.18	53.09	56.43	54.60	55.69	56.13	59.33	62.28	62.28	60.79	60.90	58.90
Foreign Exchange Reserves														
Gross Official Reserves (USD'mn)	642.86	546.99	635.05	584.89	574.26	502.98	483.38	410.16	392.01	443.25	424.99	404.18	604.50	521.87
Private Sector Reserves (USD'mn)	316.74	318.47	340.22	332.51	377.97	358.29	340.50	342.58	392.61	369.64	388.78	405.79	389.47	386.05
Total reserves (USD'mn)	959.6	865.46	975.27	917.4	952.23	861.27	823.88	752.74	784.62	812.89	813.77	809.97	993.97	907.92
Gross Official Reserves Import cover (months)	3.08	2.62	3.04	2.80	2.75	2.41	2.31	1.96	1.88	1.77	1.70	1.62	2.42	2.09
Inflation														
Headline	7.60%	7.10%	7.50%	7.30%	7.60%	7.70%	8.30%	9.40%	9.2%	8.9%	9.1%	8.7%	8.4%	-
Food	11.30%	10.30%	10.90%	10.40%	10.50%	9.70%	10.30%	11.70%	11.5%	11.0%	11.1%	10.3%	9.7%	-
Non-food	4.40%	4.40%	4.40%	4.40%	4.90%	5.60%	6.30%	6.90%	7.0%	7.1%	7.2%	7.2%	7.2%	-
Interest Rates														
Monetary Policy rate	13.50%	13.50%	13.50%	12.00%	12.00%	12.00%	12.00%	12.00%	12.00%	12.00%	12.00%	12.00%	12.00%	12.00%
Average Interbank rate	13.59%	13.61%	13.62%	12.51%	11.41%	11.34%	10.67%	11.37%	11.72%	11.92%	11.94%	11.96%	11.97%	11.98%
Average base lending rate	13.40%	13.60%	13.60%	13.60%	12.30%	12.10%	12.00%	11.90%	12.10%	12.10%	12.20%	12.20%	12.20%	12.20%
Government Securities' Yields														
91-days Treasury Bill	9.85%	9.94%	9.95%	9.95%	9.95%	9.95%	9.95%	9.95%	9.88%	9.98%	9.62%	9.33%	9.60%	9.59%
182-days Treasury Bill	12.55%	12.58%	12.87%	12.73%	12.49%	12.59%	12.80%	12.80%	12.77%	12.80%	12.81%	12.96%	12.96%	12.98%
364-days Treasury Bill	13.73%	13.74%	13.88%	13.40%	13.53%	13.64%	13.77%	13.80%	13.80%	13.83%	13.87%	13.90%	14.08%	14.20%
2-year Treasury Note	16.46%	16.46%	16.46%	16.46%	16.46%	16.50%	16.50%	16.50%	16.50%	16.51%	16.65%	16.63%	16.63%	16.63%
3-year Treasury Note	16.89%	18.02%	18.47%	17.79%	18.30%	18.56%	18.66%	18.66%	18.80%	18.80%	18.97%	19.00%	18.99%	18.99%
5-year Treasury Note	19.82%	19.82%	19.82%	19.82%	19.77%	19.95%	19.97%	19.98%	19.98%	19.98%	20.08%	20.25%	20.09%	20.26%
7-year Treasury Note	20.75%	20.75%	20.75%	19.95%	20.00%	20.00%	20.50%	20.50%	20.50%	20.50%	20.59%	20.98%	21.36%	21.36%
10-year Treasury Note	-	22.14%	22.14%	22.14%	22.50%	22.50%	22.50%	22.50%	22.50%	22.50%	21.85%	22.54%	23.01%	23.25%
Stock Market Indices														
MASI	31,328.10	31,743.36	31,303.78	31,225.08	32,392.84	32,988.58	33,009.75	32,562.96	33,380.63	33,676.89	35,144.56	36,496.03	38,945.62	41,681.86
DSI	26,732.01	27,101.51	26,787.57	26,717.15	27,755.46	28,090.02	28,108.19	27,710.72	28,257.89	28,376.03	28,739.26	29,749.56	31,929.22	34,383.73
FSI	1,460.99	1,460.99	1,362.39	1,362.89	1,363.88	1,613.58	1,614.45	1,614.33	1,844.72	2,030.51	3,234.45	3,479.97	3,479.97	3,454.70

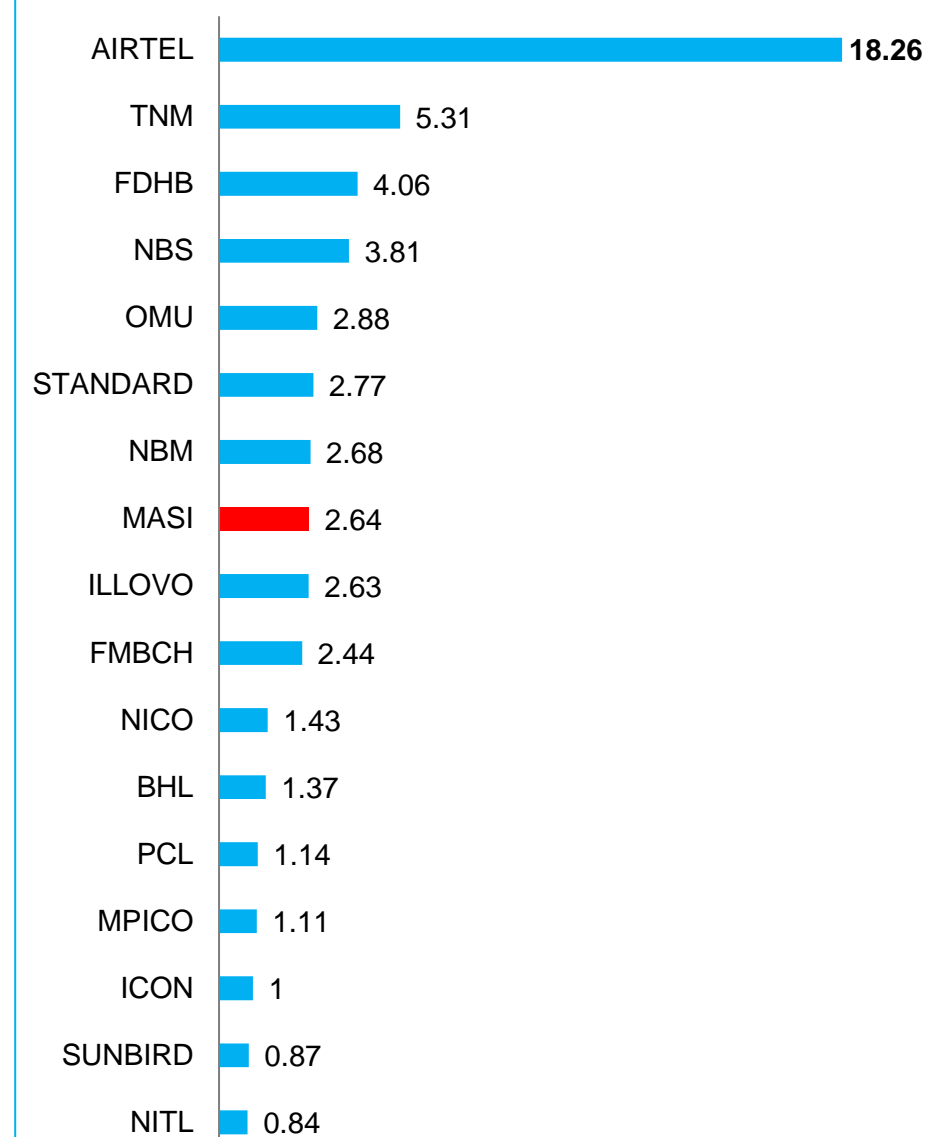
P/E ratio - the MSE had a weighted average Price to Earnings ratio of 16.99 in September 2021. OMU had the lowest at negative 44.12 while ILLOVO had the highest at 69.03.



Dividend yield (%) - the weighted average dividend yield on the MSE was 3.04% in September 2021. The counter with the highest dividend yield is AIRTEL at 5.25%.



P/BV ratio - the weighted average Price to Book Value ratio on the MSE in September 2021 was 2.64. Airtel had the highest ratio at 18.26 while NITL had the lowest ratio at 0.84.



Economic Growth

%	2020 ^a	2021 ^b	2022 ^b	2023 ^b	2024 ^b	2025 ^b
GDP	0.8	2.7	4.0	4.5	4.9	5.2
Private consumption	-0.1	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	-3.5	5.0	5.0	8.0	8.0	7.0
Exports of goods & services	-11.9	4.1	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	-0.3	2.0	3.2	4.5	4.5	4.9
Agriculture	1.0	4.0	4.3	4.5	4.5	5.0
Industry	0.7	2.1	4.4	5.1	5.7	5.5
Services	1.0	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 (%)	0.8	2.7	4.0	4.5	4.9	5.2
Consumer price inflation (av; %)	8.6 ^c	9.2	10.0	9.5	9.0	8.5
Government balance (% of GDP)	-7.7	-12.6	-10.3	-8.4	-6.9	-6.4
Current-account balance (% of GDP)	-19.5	-19.3	-18.5	-18.1	-18.1	-16.9
Money market rate (av; %)	8.5	9.9	10.3	10.8	16.5	17.5
Exchange rate MK:US\$ (av)	749.5 ^c	807.9	850.9	883.7	906.2	927.4

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

International Assumptions

	2020	2021	2022	2023	2024	2025
Economic growth (%)						
US GDP	-3.5	6.0	3.7	2.2	1.9	2.1
OECD GDP	-4.8	4.9	3.8	2.2	2.0	2.0
World GDP	-3.8	5.4	4.1	3.0	2.8	2.7
World trade	-8.1	8.9	5.7	4.8	4.3	4.1
Inflation indicators (% unless otherwise indicated)						
US CPI	1.2	3.6	2.2	2.2	1.9	2.0
OECD CPI	1.2	3.0	2.3	2.1	2.0	2.1
Manufactures (measured in US\$)	0.2	7.6	1.8	1.5	2.0	2.5
Oil (Brent, US\$/b)	42.3	68.5	71.0	65.5	61.0	55.5
Non-oil commodities (measured in US\$)	2.9	32.0	-1.6	-0.7	-8.7	-0.1
Financial variables						
US\$ 3-month commercial paper rate (av; %)	0.6	0.1	0.1	0.3	1.1	1.6
US\$:€ (av)	1.14	1.19	1.17	1.15	1.18	1.22
¥:US\$	106.77	109.09	111.17	112.10	113.05	111.85

Appendix 5: List of Acronyms and Abbreviations

ADB:	Authorized Dealer Bank	MERA:	Malawi Energy Regulatory Authority	Sunbird:	Sunbird Tourism Plc
ADMARC:	Agricultural Development and Marketing Corporation	MGDS:	Malawi Growth and Development Strategy	TB:	Treasury Bill
AIP:	Affordable Inputs Program	MK:	Malawi Kwacha	TBA:	To Be Announced
APES:	Agricultural Production Estimates	M-O-M:	Month-on-month	TC:	Tobacco Commission
BHL:	Blantyre Hotels Plc	MPC:	Monetary Policy Committee	TNM:	Telekom Networks Malawi Plc
COVID-19:	Coronavirus disease	MSE:	Malawi Stock Exchange	TN:	Treasury Note
DSI:	Domestic Share Index	NBM:	National Bank of Malawi Plc	TT:	Telegraphic Transfer
ECF:	Extended Credit Facility	NICO:	NICO Holdings Plc	WEO:	World Economic Outlook
EIU:	Economic Intelligence Unit	NITL:	National Investment Trust Plc	WHO:	World Health Organisation
EUR:	Euro	NSO:	National Statistical Office	UK:	United Kingdom
FCDA:	Foreign Currency Denominated Account	OPEC:	Organization of the Petroleum Exporting Countries	USA:	United States of America
FMBCH:	FMB Capital Holdings Plc	OMO:	Open Market Operations	USD:	United States Dollar
FOB:	Free on board	PCL:	Press Corporation Plc	Y-O-Y:	Year-on-year
FSI:	Foreign Share Index	PPP:	Public-Private Partnership	YTD:	Year-to-date
GBP:	Great British Pound	PSF:	Price Stabilisation Fund	ZAR:	South African Rand
GDP:	Gross Domestic Product	RBM:	Reserve Bank of Malawi		
IFPRI:	International Food Policy Research Institute	SDR:	Special Drawing Rights		
IMF:	International Monetary Fund	SSA:	Sub Saharan Africa		
LRR:	Liquidity Reserve Requirement				
MASI:	Malawi All Share Index				
Mb/d:	Million barrels per day				

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