



Monthly Economic Report and a special brief on the Affordable Inputs Programme (AIP)

October 2021



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Inflation

Headline inflation increased to 8.9% in September 2021 from 8.4% in August 2021 due to an increase in food inflation. Food inflation increased to 10.9% from 9.7% in the previous month whilst non-food inflation remained flat at 7.2%.

The Monetary Policy Committee (MPC) at its fourth meeting of 2021, held on 2 and 3 November 2021, revised the annual inflation projection for 2021 to 9.1% from 8.8% projected during its third meeting. Similarly, the MPC's inflation projection for 2022 was revised upwards to 8.9% from 8.2%. These revisions were underpinned by the effects of a recent increase in domestic fuel pump prices, a rise in maize prices in the fourth quarter of 2021 and continued disruption to global supply chains.

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

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.

In October 2021, the government of Malawi signed agreements to receive grants from the United States of America (USA) and Japan. The USA committed USD1.2 billion (MK1 trillion) in a five-year bilateral Development Objective Agreement Grant (DOAG). The government of Japan committed a MK23.1 billion grant to the government of Malawi for capacity building in the energy sector. The funds from the grants will be aimed towards supporting Malawi in attaining the goals set out in its Vision 2063.

The International Monetary Fund (IMF) Executive Board is yet to approve the extension of a debt repayment break for Malawi under the Catastrophe Containment and Relief Trust (CCRT). The last extension was approved in April 2021 and was valid until 15 October 2021. Approval of the extension would cover the period between 16 October 2021 and 13 April 2022.

Monetary Policy

The MPC during its fourth meeting decided to maintain 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. This was implemented to minimise policy trade-off, manage inflationary pressure and facilitate economic recovery.

This decision materialised the EIU's expectation that the MPC would maintain the Policy rate at 12% throughout 2021. For 2022-25, the EIU expects the MPC to adopt a tightening monetary policy stance to curb rising inflation.

Exchange Rates

Based on middle rates, the Malawi Kwacha marginally appreciated against the USD by 0.10% in October 2021. As at 31 October 2021, the Kwacha was trading at MK821.34/USD from MK822.17/USD as at 30 September 2021. Year-to-date, the Malawi Kwacha has depreciated against the USD by 5.73%, higher than the year-to-date depreciation of 2.79% in the same period in 2020.

The country's gross official forex reserves decreased by 22.27% to USD405.66 million in October 2021 from USD521.87 million in September 2021, which lowered gross official forex reserves' import cover to 1.62 months from 2.09 months during the period under review. The total foreign exchange reserves position was USD790.41 million in October 2021, which represented a 12.94% decrease from USD907.92 million in September 2021. Total foreign exchange reserves import cover decreases to 3.16 months in October 2021 from 3.63 months in September 2021.

The Reserve Bank of Malawi (RBM) stated 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 stated that continued low levels of foreign exchange reserves put pressure on the Malawi Kwacha just as Malawi's import spending is increasing.

Stock Market

The Malawi All Share Index (MASI) decreased by 0.22% to 41,458.37 in October 2021 from 41,550.15 points in September 2021. This was due to share price losses in NBS, AIRTEL, TNM, FMBCH, SUNBIRD and PCL which offset share price gains in NITL, ICON, NBM and FDH Bank. The MASI year-to-date return was 27.99% in October 2021, it was 3.48% during the same period in the previous year. In terms of market price movement, NITL had the largest share price gain during the period to MK94.99 per share in October 2021 from MK80.71 per share in September 2021, representing a 17.69% increase. During the period under review, NBS had the largest share price loss to MK22.98 per share from MK25.07 per share, representing an 8.34% decrease.

Government Securities

The government awarded MK67 billion in October 2021 from MK52 billion in September 2021 through Treasury Bill (TB) and Treasury Note (TN) auctions. The TBs and TNs had 14.40% and 0.52% rejection rates, respectively. The net liquidity for the month was MK41 billion as maturities from government securities for October 2021 were MK108 billion. The average TB and average TN yields for October 2021 were 12.26% and 20.09%, respectively.

Economic Growth

In 2021, the RBM expects real GDP growth to be 3.8% as the country recovers from a Covid-19 pandemic induced slump in 2020. Economic recovery is expected to be bolstered by recovering consumer and business confidence as Covid-19 cases decline.

This RBM's real GDP growth forecast is significantly higher than the average of 2.6% 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 in 2021. For 2022, the sources cited above expect improvements in the pace of economic recovery as real GDP is projected to grow at an average of 3.3%. The expectation is backed by progress in Covid-19 vaccinations, leading to eased restrictions, improvements in consumer demand and recovery of economic activity.

COVID-19 Status and Developments

In October 2021, Covid-19 restrictions were eased, and the country moved to level one from level three of response to the Covid-19 pandemic. The revised restrictions permit the resumption of normal occupancy in workplaces, indoor gatherings can operate at 50% occupancy and travel restrictions have been lifted. Despite the ease in restrictions, the use of masks remains mandatory. The ease follows a decline in Covid-19 cases, as well as advances in the Covid-19 vaccination effort.

In October 2021, the country fully vaccinated an additional 59,461 individuals, increasing the number of the fully vaccinated to 556,336 individuals, an increase of 11.97% from 496,875 individuals in September 2021.

The total cumulative confirmed Covid-19 cases increased to 61,796 as at 31 October 2021 from 61,580 as at 30 September 2021. Similarly, the cumulative COVID-19 related deaths increased to 2,301 in October 2021 from 2,282 in September 2021. These changes were accompanied by a decrease in the daily positivity rate to 0.4% as at 31 October 2021 from 3.5% as at 30 September 2021, while the daily case fatality rate maintained its position at 3.7% during the period under review. The daily recovery rate increased to 92.8% as at 31 October 2021 from 89.9% as at 30 September 2021.

Risks

The salient downside risks for the country are depreciation of the Malawi Kwacha, fiscal slippage, higher inflation, unfavorable weather and inadequate power supply.

There is exchange rate risk compounded by global inflationary pressure emanating from higher import prices. Despite lower domestic food prices on the back of a strong harvest, exchange rate depreciation and inflationary trends on imported commodities would exert upward pressure on a fiscal deficit that is already high.

There is risk to the successful implementation of the Affordable Inputs Programme (AIP) and agricultural productivity as global and domestic fertiliser prices trend upward. The government has since responded to the fertiliser price increase by reducing the value of the subsidy given to AIP beneficiary households. As such, AIP beneficiary households are to contribute MK7,500.00 per 50kg bag of fertiliser from MK4,495.00 per 50kg bag in the previous season.

Risk is also emanating from imported fuel price inflation as global oil prices increase. The increase in global oil prices is on account of global demand outweighing global supply. Since fuel imports constitute 8% of annual imports, these global price increases exert upward pressure on domestic prices and on government expenditure.

The delayed commitment of IMF to a new Extended Credit Facility (ECF) programme is an additional risk. This reduces the inflow of foreign currency from the IMF as well as other international organisations that utilise the presence of the ECF as a basis of providing financial aid.

In addition, weather shocks remain a salient risk in the forecast period as Malawi's economy is dependent on rain-fed agriculture. As climate change models point to risks associated with increased frequency of droughts and water shortages in southern Africa, the risk poses short- and long-term consequences on the domestic and global economies.

Compounding these risks, is the risk of power supply insufficiency. According to the World Bank's Malawi Economic Monitor, the expected electricity demands for 2020, 2030 and 2040 are estimated at 719 mega-watts (MW), 1,873 MW and 4,620 MW, respectively. As at August 2021, the national power generation capacity was at 442 MW, which remains below 2020 estimated demand.

A protracted Covid-19 pandemic would result in further economic contractions. The pandemic would decrease export revenue and intensify exchange rate pressure resulting in accelerated currency depreciation.



Economic overview

Inflation (Source: NSO, MERA)

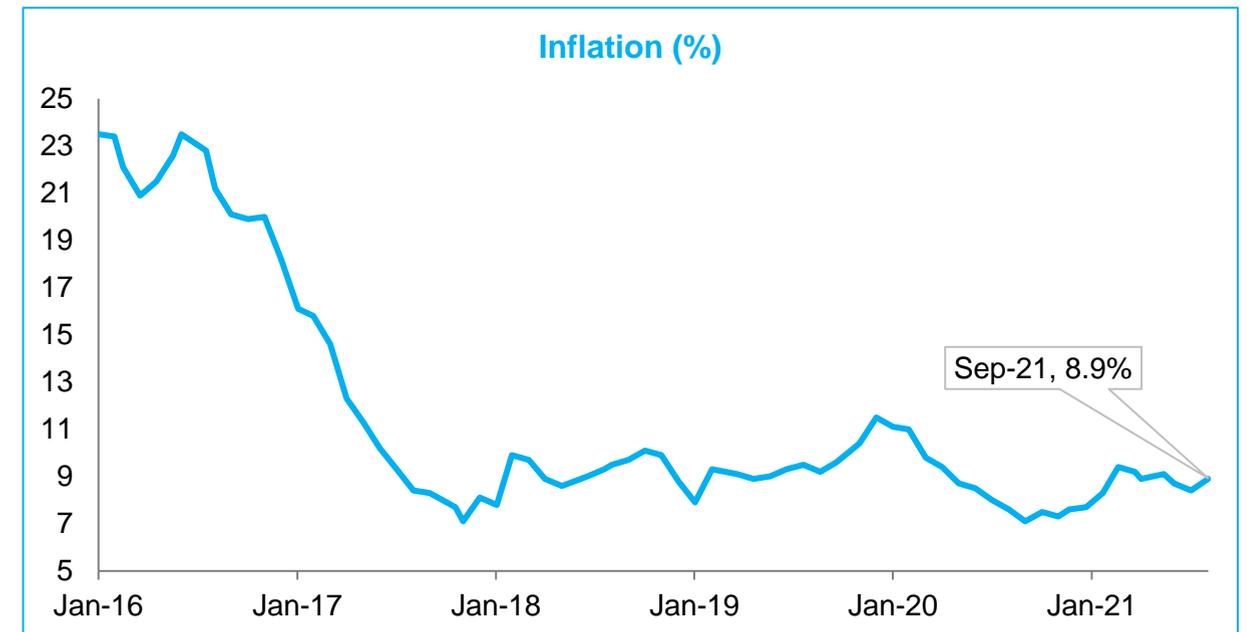
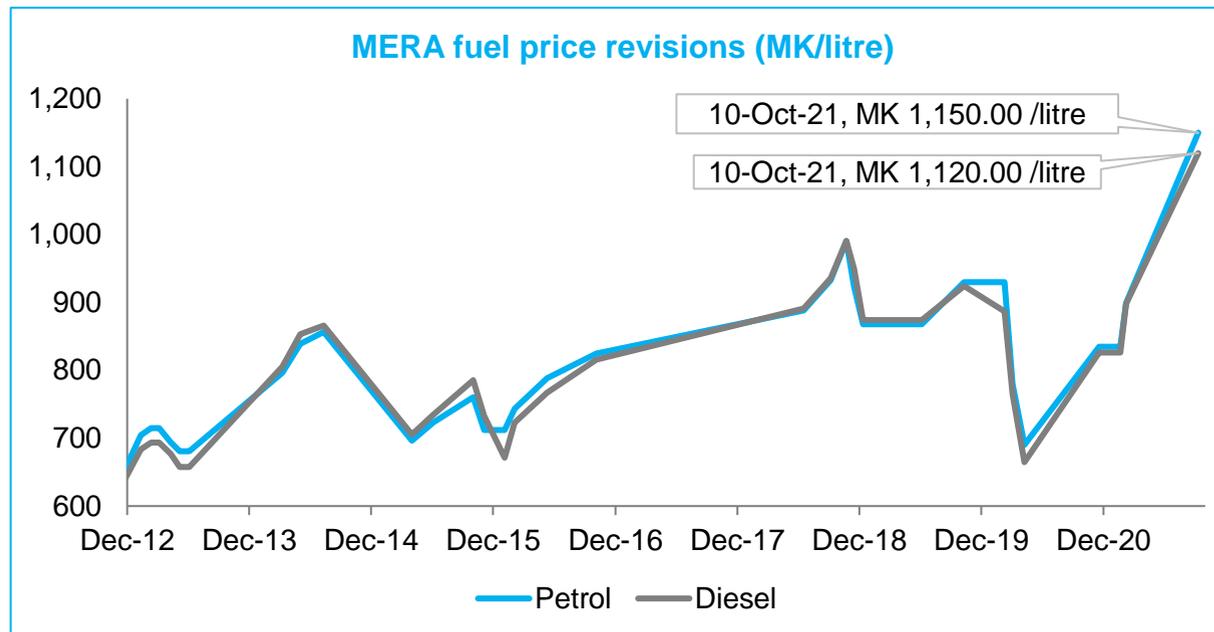
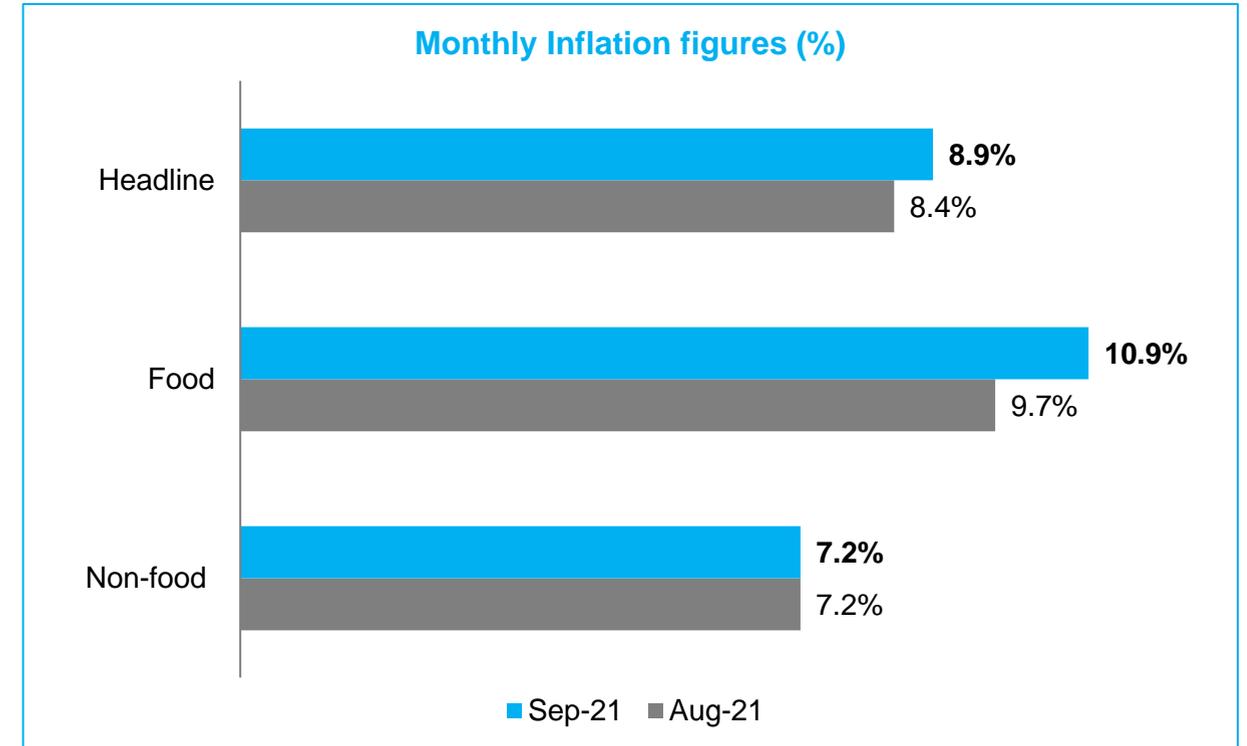
Headline inflation increased to 8.9% in September 2021 from 8.4% in August 2021 on account of an increase in food inflation.

MERA announced an upward revision of the domestic fuel pump prices of petrol (to MK1,150.00/litre from MK899.20/litre) and diesel (to MK1,120.00/litre from MK898.00/litre) on 10 October 2021. The fuel pump prices of petrol and diesel increased by an average of 26.31%.

Headline inflation increased to 8.9% in September 2021 from 8.4% in August 2021. In September 2020, headline inflation was 7.1%. The m-o-m increase in headline inflation was on account of an increase in food inflation which averaged 10.9% (August 2021: 9.7%) while non-food inflation maintained its position at 7.2% (August 2021: 7.2%) in the month of September 2021.

At the fourth MPC meeting held on 2 and 3 November 2021, the annual inflation projections for 2021 and 2022 were revised upwards to 9.1% (third MPC meeting: 8.8%) and 8.9% (third MPC meeting: 8.2%), respectively. The upward adjustments are a reflection of a recent increase in domestic fuel pump prices, a rise in maize prices in the fourth quarter of 2021 and disruptions to global supply chains.

On 10 October 2021, the Malawi Energy Regulatory Authority (MERA) announced an upward revision of domestic fuel pump prices. From the said date, petrol is trading at MK1,150.00/litre, an increase of 27.89% from MK899.20/litre and diesel is trading at MK1,120.00/litre, an increase of 24.72% from MK898.00/litre. The pump price revision was necessitated by increases in the landed costs of the petroleum products by 20% for petrol, and by 12% for diesel. A low balance in the Price Stabilisation Fund (PSF) of MK1.5 billion as at 7 September 2021, against the recommended MK5 billion also influenced the upward price revision. Non-food inflation is expected to maintain an elevated path as a result of imported inflation and the pass-through of the Kwacha depreciation.





Economic overview (Continued)

Government securities (Source: RBM)

The government awarded MK30.20 billion through TB auctions in October 2021, a decrease of 15.71% from MK35.83 billion awarded in September 2021.

It also awarded MK36.63 billion through TN auctions in October 2021, an increase of 123% from MK16.45 billion awarded in September 2021.

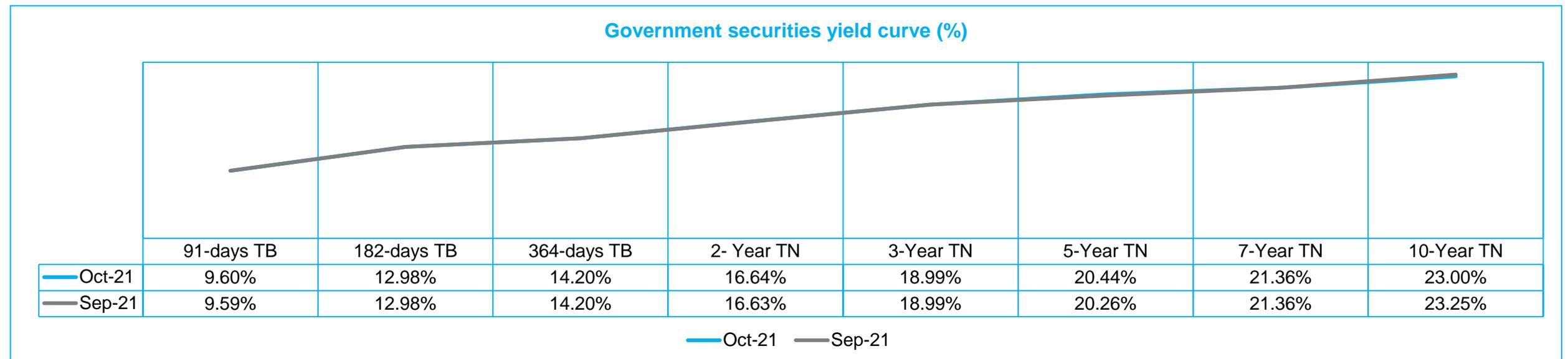
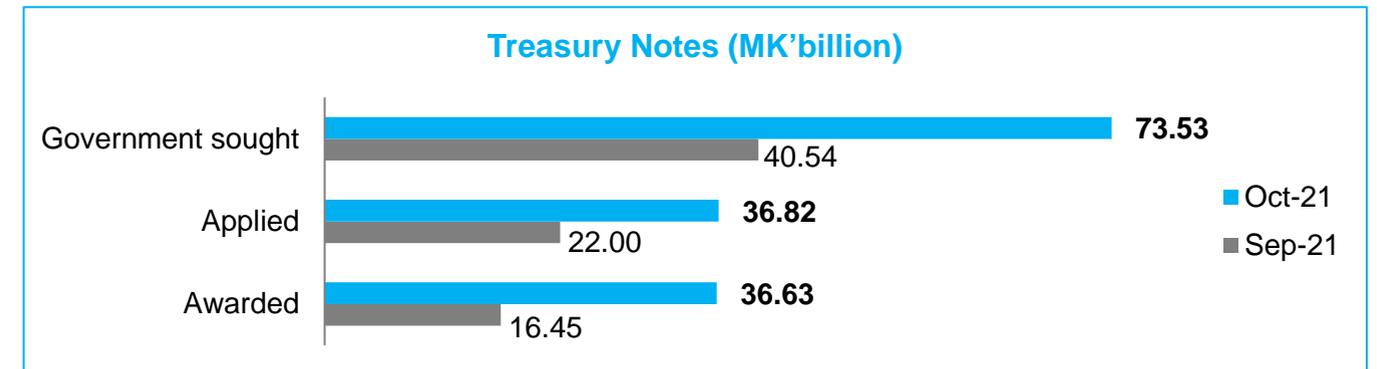
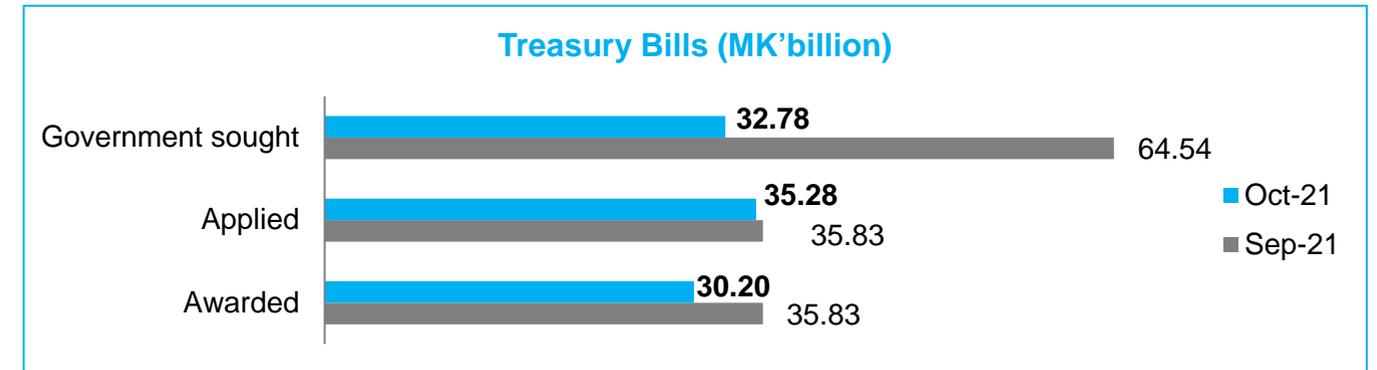
Treasury Bills (TBs)

In October 2021, the government sought to borrow MK32.78 billion through Treasury Bill (TB) auctions, a decrease of 49.21% from MK64.54 billion sought in September 2021. Participants applied to place MK35.28 billion through the TB auctions in October 2021, a decrease of 1.53% from MK35.83 billion applied for in September 2021. From the applications, the government awarded MK30.20 billion, a decrease of 15.71% from MK35.83 billion awarded in September 2021. The applications had a 14.40% rejection rate during the period under review.

Treasury Notes (TNs)

In October 2021, the government sought to borrow MK73.53 billion through Treasury Note (TN) auctions, an increase of 81.38% from MK40.54 billion sought in September 2021. Participants applied to place MK36.82 billion through the TN auctions, an increase of 67.36% from MK22.00 billion applications in September 2021. From the applications, the government awarded MK36.63 billion, an increase of 123% from MK16.45 billion awarded in September 2021. The applications had a 0.52% rejection rate during the period under review.

The average Treasury Bill yield increased to 12.26% from 12.25%, while the average Treasury Note yield decreased to 20.09% from 20.10% 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 5.73%.

The gross official reserves were USD405.66 million as at 31 October 2021, a decrease of 22.27% from USD521.87 million as at 30 September 2021.

The import cover for the gross official reserves decreased to 1.62 from 2.09 months during the same period.

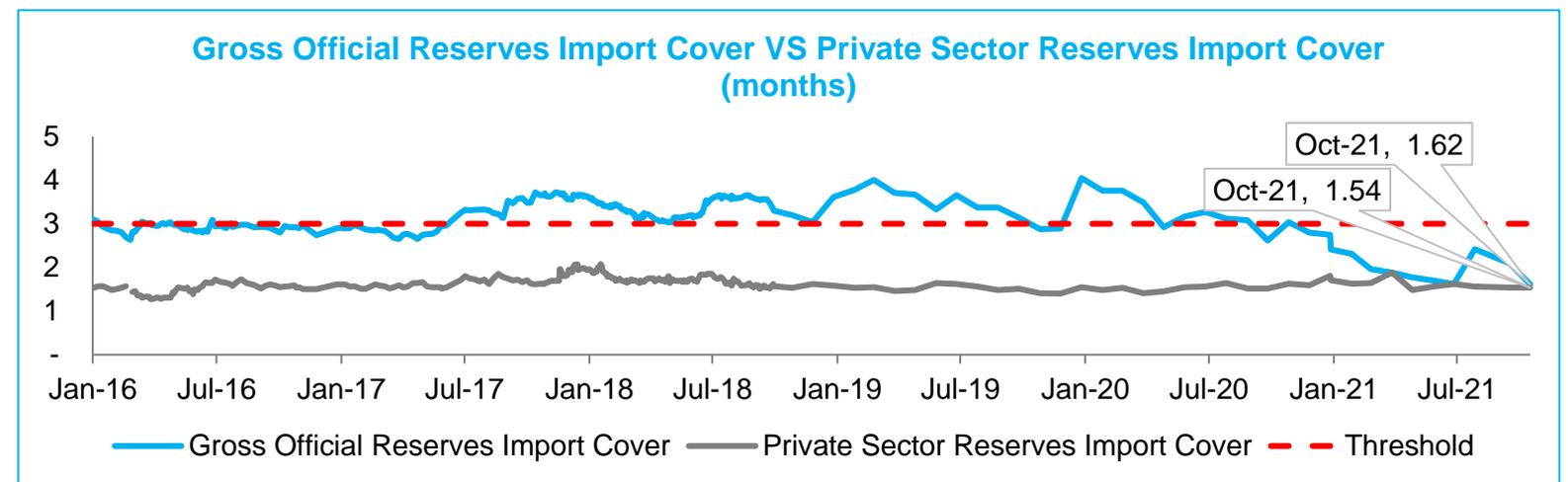
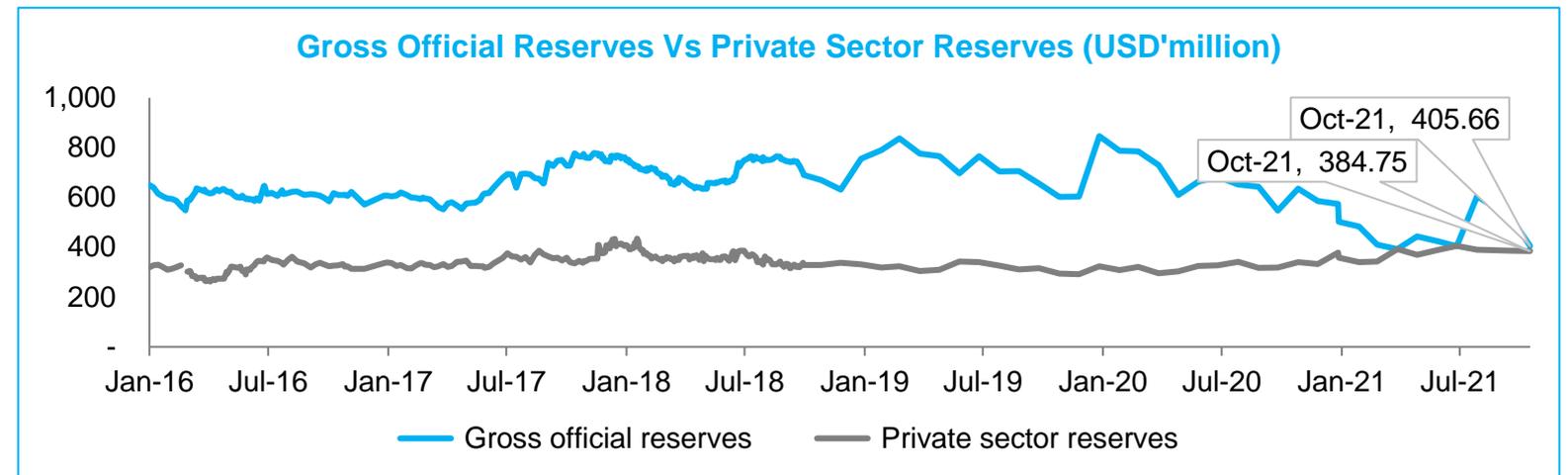
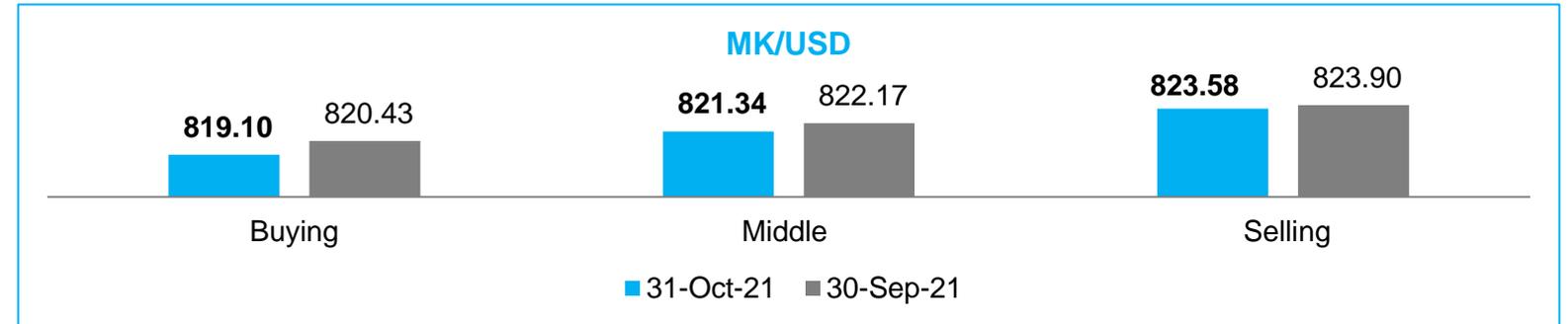
Foreign currency market

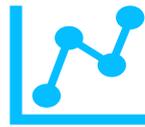
The Malawi Kwacha has been weakening over the course of the year as foreign exchange demand and the current-account deficit continue to exert pressure on the currency. This is on the back of COVID-19 spillover effects and rising prices of imports including fertiliser and fuel. But as at 31 October 2021, the Kwacha had marginally appreciated against the USD by 0.10%, to MK821.34/USD from MK822.17/USD from 30 September 2021. Year-to-date, the Kwacha has depreciated against the United States Dollar by 5.73%, which is higher than the year-to-date depreciation of 2.79% during the same period in 2020.

Foreign reserve position

As at 31 October 2021, the country's gross official forex reserves decreased by 22.27% to USD405.66 million from a gross official forex reserve position of USD521.87 million as at 30 September 2021. The private sector forex reserves decreased by 0.34% to USD384.75 million as at 31 October 2021 from USD386.05 million as at 30 September 2021. Overall, total foreign exchange reserves held in October 2021 were USD790.41 million, which is a 12.94% decrease from the total foreign exchange reserves position of USD907.92 million in September 2021.

Import cover for gross official reserves for October 2021 was 1.62 months, a decrease of 22.49% from 2.09 months in September 2021. For private sector reserves, import cover for October 2021 remained flat at 1.54 months during the period under review. Both the import cover for gross official and private sector reserves continued to remain below the required threshold of 3 months as at 31 October 2021. The total foreign exchange reserves import cover decreased to 3.16 months in October 2021 from 3.63 months in September 2021.





Economic overview (Continued)

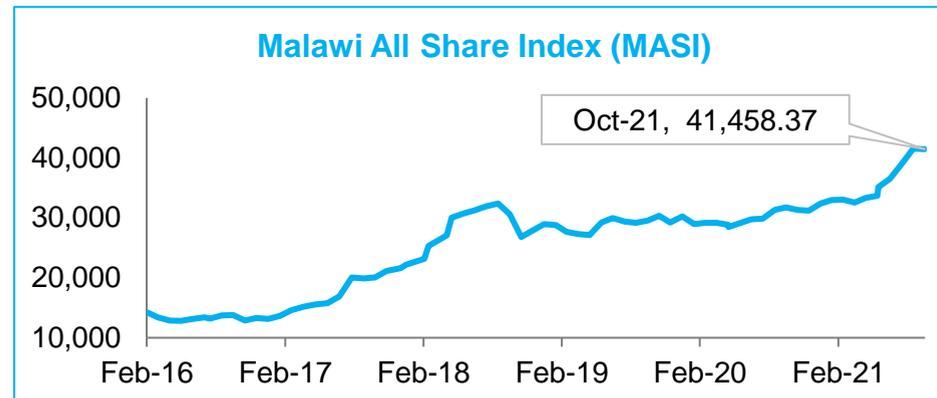
Stock market (Source: MSE)

The stock market was bearish during the period under review with the MASI closing the month of October 2021 at 41,458.37 points.

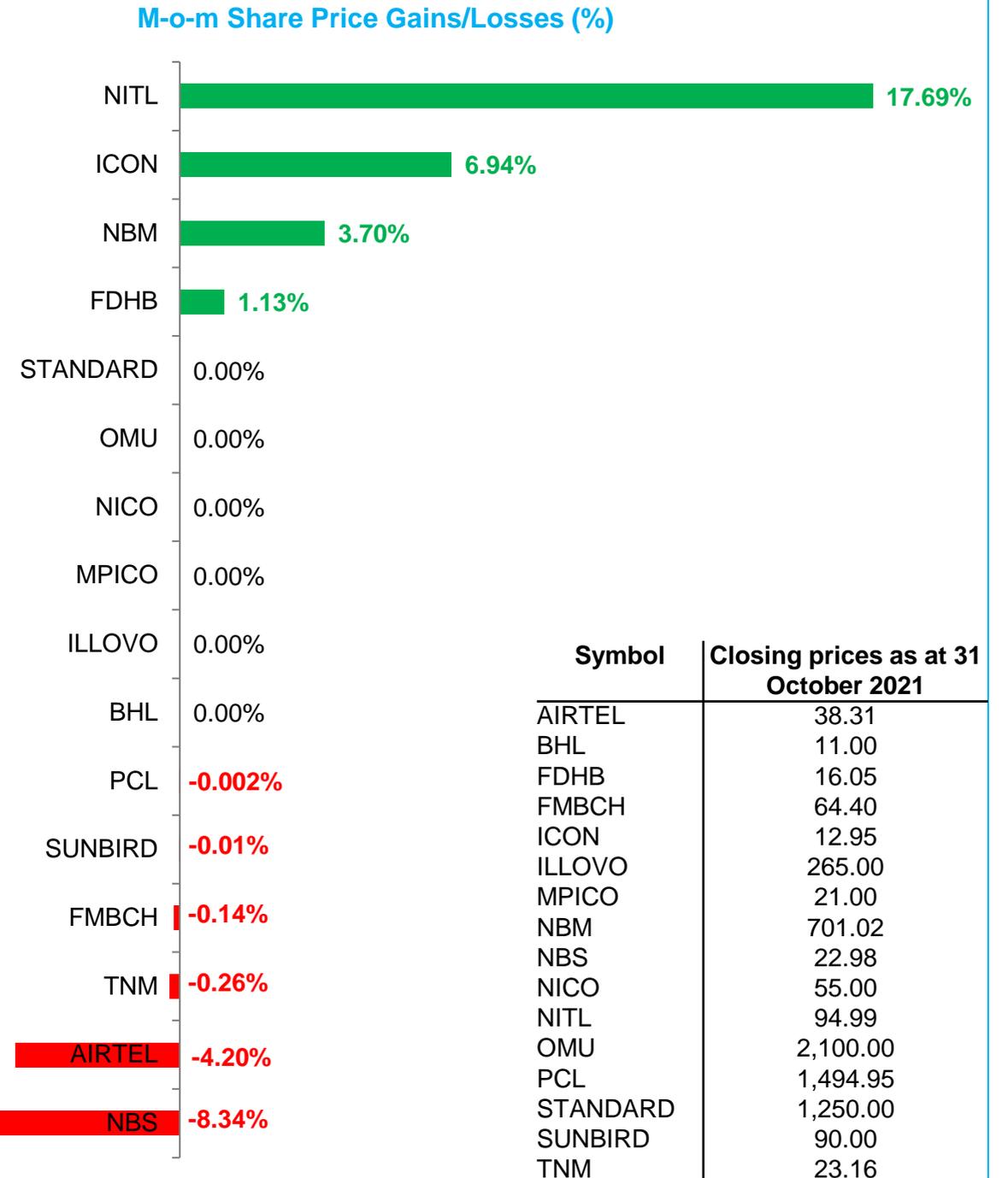
The MASI year-to-date return was 27.99% in October 2021, and it was 3.48% during the same period in the previous year.

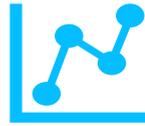
The stock market was bearish over the period with the Malawi All Share Index (MASI) decreasing by 0.22% m-o-m to 41,458.37 points in October 2021 from 41,550.15 points in September 2021. Y-o-y, the MASI increased by 32.44%, as it was 31,303.78 points in October 2020.

The largest gainer in October 2021 was NITL which closed the month at MK94.99 per share from MK80.71 per share in September 2021. This marks a m-o-m increase of 17.69%. There were also share price gains for ICON, NBM and FDH Bank. A total of six counters closed the month at the same price as the previous month. These counters were: Standard Bank, OMU, NICO, MPICO, ILLOVO and BHL. The largest loser was NBS whose share price decreased by 8.34% to MK22.98 per share from MK25.07 per share as at the close of September 2021. There were also share price losses for AIRTEL, TNM, FMBCH, SUNBIRD and PCL.



MASI YTD Return (%) – the MASI closed the month with a year-to-date return of 27.99% (it was 3.48% during the same period in the previous year).





Economic overview (Continued)

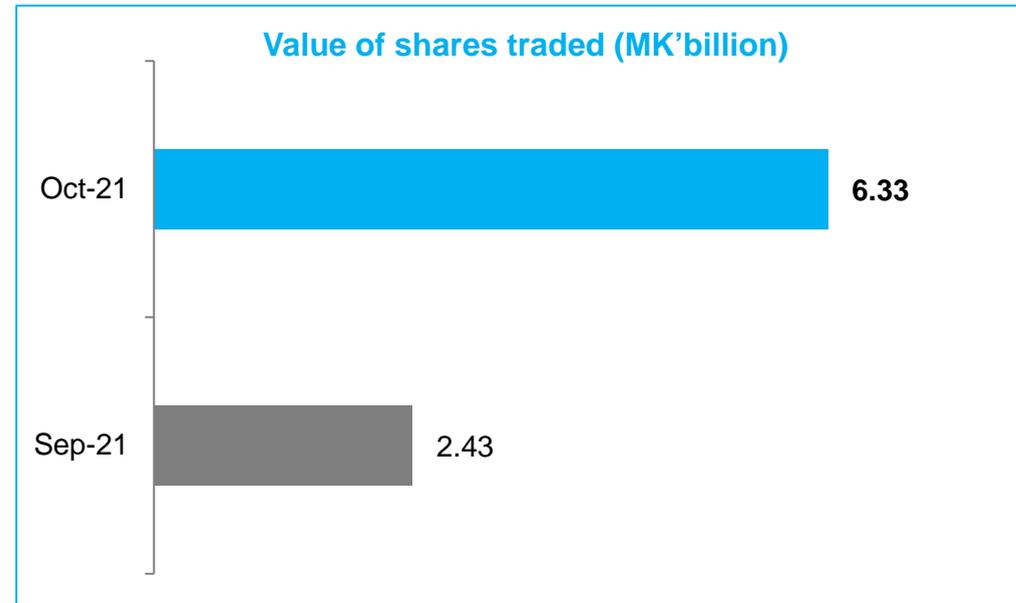
Stock market (Source: MSE)

The total value of shares traded increased by 161% in October 2021 to MK6.33 billion from MK2.43 billion in September 2021.

In October 2021, there were no trades registered in the listed debt market. The last trades were in April 2021.

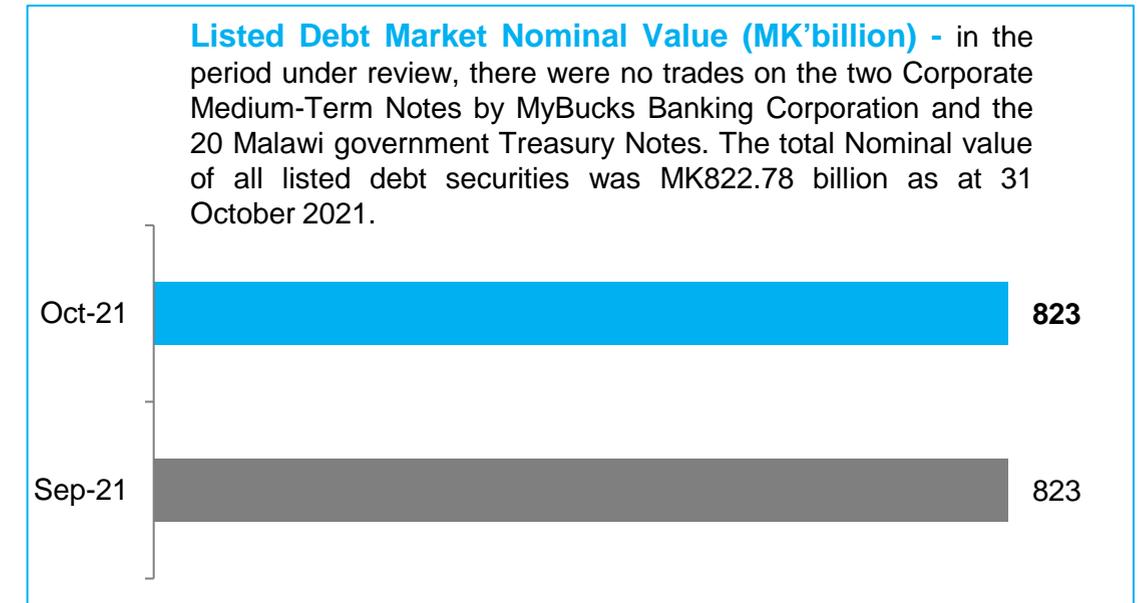
MSE Traded Volumes

There were MK6.33 billion worth of shares traded in October 2021 compared to MK2.43 billion worth of shares traded in September 2021. Standard Bank and ICON had the highest value of shares traded at MK2.82 billion and MK1.56 billion respectively, during the period under review. The total number of trades in the month under review decreased to 274 trades from 382 trades in September 2021. The figure below traces the total value of shares traded on the MSE in October 2021.



Listed Debt market

There were no trades registered in the listed debt market for the month of October 2021. The last trades were in April 2021, in which the listed 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 MK5 million each and were traded at a price of MK100.20 per par value, giving a total traded value of MK10 million.



Corporate Announcements

FDH Bank Plc cautionary statement

FDH Bank, through a cautionary announcement, informed its shareholders and the general public that shareholders of the Bank's holding company, FDH Financial Holdings Limited, were engaged in shareholding discussions. The discussions may result in changes in the shareholding structure of FDH Financial Holdings Limited. Shareholders were therefore advised to exercise caution and consult their professional advisors before dealing in their shares until such time as the result of the discussions are known.



Other Market Developments (Continued)

Fiscal and Monetary Policy (Source: Malawi Government, EIU, IMF)

The Malawi government and the USA signed a USD1.2 billion (MK1 trillion) five-year bilateral Development Objective Agreement Grant.

The Malawi government is awaiting the IMF Executive Board to approve a debt repayment extension under the Catastrophe Containment and Relief Trust (CCRT) for the period 16 October 2021 to 13 April 2022.

Fiscal policy

In the 2021/22 national budget, grants were estimated at MK170.3 billion, representing 1.7% of GDP and comprise MK58.4 billion from foreign governments and MK111.9 billion from international organisations.

In October 2021, the government of Malawi and the USA signed a USD1.2 billion (MK1 trillion) five-year bilateral Development Objective Agreement Grant (DOAG). The grant will aim to support the country in attaining the goals set out in the Vision 2063 and is set to run between 2021 to 2025. Funds worth over MK200 billion will be channeled to various development projects through the United States Agency for International Development (USAID) annually, under its new Country Development Cooperation Strategy (CDCS).

During the period under review, the government of Japan committed to a MK23.1 billion grant to the government of Malawi for capacity building in the energy sector. The funds will be aimed towards rebuilding and refurbishing the Kanengo and Old Town power substations in Lilongwe. The completion of this project is set to improve the efficiency and effectiveness of energy supply within the City. According to the World Bank's Malawi Economic Monitor, electricity demand estimates are 719 MW, 1,873 MW and 4,620 MW for 2020, 2030 and 2040, respectively.

Monetary Policy

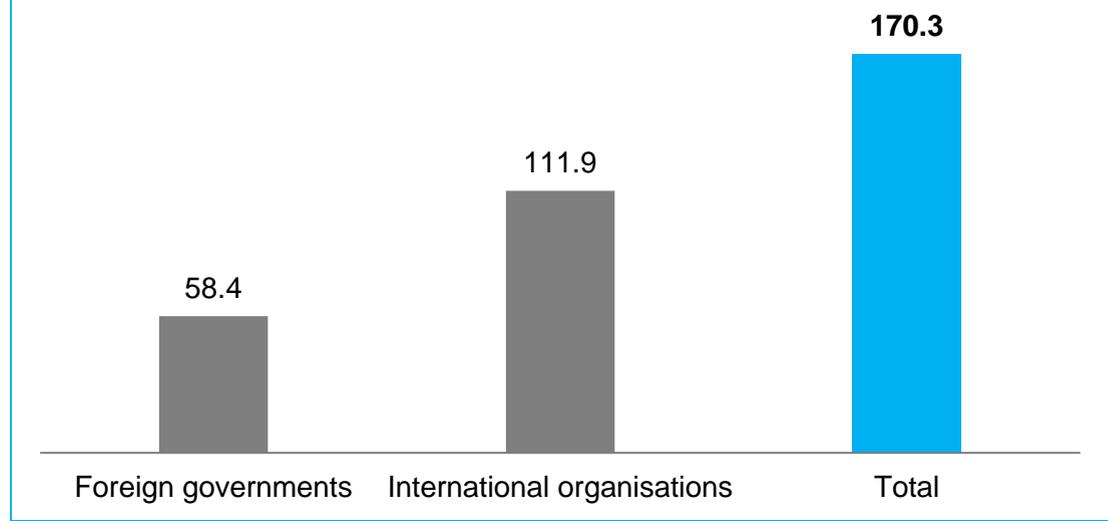
The MPC at its fourth meeting held on 2 and 3 November 2021, decided to maintain the Policy rate at 12%; the Liquidity Reserve Requirement (LRR) ratio on domestic and foreign deposits at 3.75%; and the Lombard rate at 20 basis points above the Policy rate to support economic recovery. This decision was based on the goals of minimising policy trade-off and managing inflationary pressure while supporting domestic economic recovery.

This decision materialised the EIU's expectation that the MPC would maintain the Policy rate at 12% throughout 2021. For 2022-25, the EIU expects the MPC to adopt a tightening monetary policy stance to curb rising inflation.

International Monetary Fund (IMF) update

The Malawi government is awaiting the IMF Executive Board to approve a debt repayment extension under the Catastrophe Containment and Relief Trust (CCRT). The CCRT provides eligible low-income IMF member countries with grants to pay debt service owed to the IMF. These grants are given to counter the effects of natural and public health disasters such as the Covid-19 pandemic. In April 2021, the IMF Executive Board approved a debt repayment break under the CCRT to run until 15 October 2021. Approval of a new extension is subject to availability of resources in the CCRT and could provide SDR680 million (USD964 million) to the government of Malawi for the period 16 October 2021 to 13 April 2022.

Grants 2021/22 National Budget Statement (MK'billion)





Other Market Developments (Continued)

Malawi Monthly Maize Market Report (Source: IFPRI)

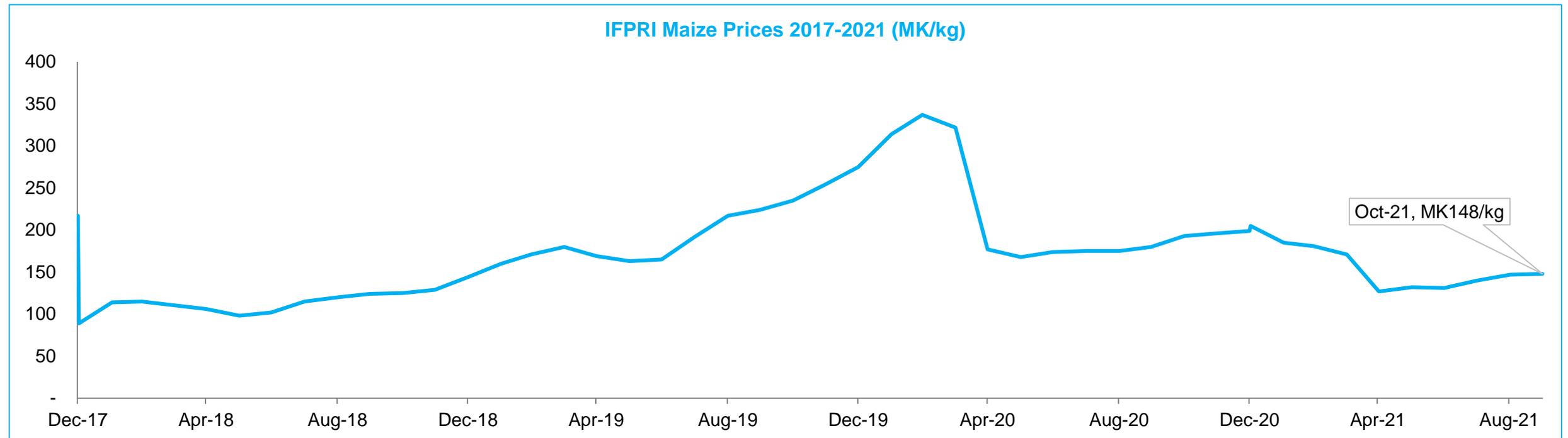
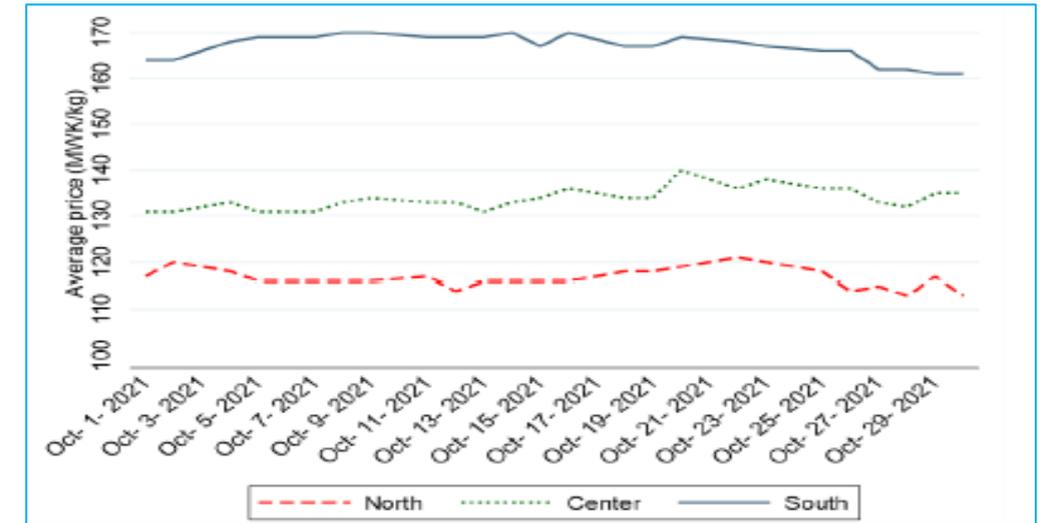
The average retail price for maize in October 2021 was MK148/kg which is a 0.68% increase from an average retail price of MK147/kg in September 2021. Therefore, a standard 50kg bag of maize was selling for an average of MK7,400.00 in October 2021.

The monthly average retail maize price increased by 0.68% to MK148/kg in October 2021 from MK147/kg in September 2021. This means that on average, a standard 50kg bag of maize was selling for MK7,400.00 in October 2021 from an average price of MK7,350.00 in September 2021. Y-o-y, the monthly average retail maize price decreased by 23.32% as it was MK193/kg in October 2020.

ADMARC purchases were reported in 15 out of the 26 markets monitored by IFPRI while sales were reported in 11 out of the 26 markets. ADMARC purchases were more concentrated in the markets from the North during the period under review. ADMARC sold maize at MK205/kg, which was 38.51% higher than the average retail maize price for October 2021.

During the period under review, the retail prices of maize in the Malawian markets were lower than in selected regional markets in eastern Africa and on the South African Futures Exchange (SAFEX) which is the main grain futures market in South Africa.

Daily average maize retail prices in October 2021 (MK/kg)





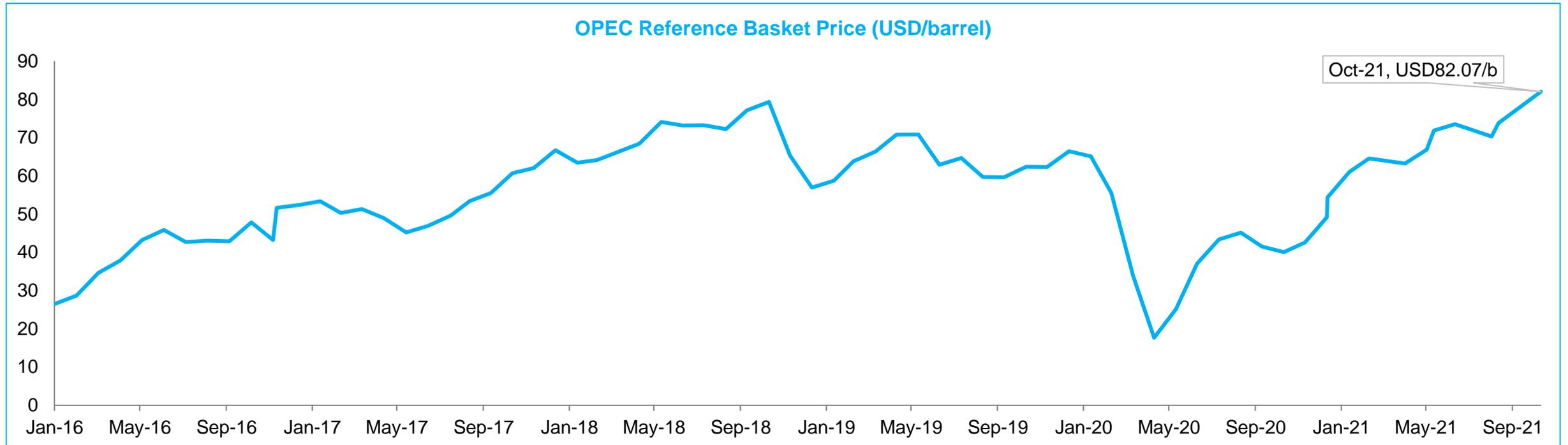
Regional And Global Market Developments

Global oil developments (Source: OPEC, World Bank)

The OPEC Reference Basket (ORB) increased by 11.09% to USD82.07/b in October 2021 from USD73.88/b in September 2021.

M-o-m, the OPEC Reference Basket (ORB) increased by 11.09% to USD82.07/b in October 2021 from USD73.88/b in September 2021. Similarly, the ORB has increased by 105% y-o-y as it was USD40.08/b in October 2020.

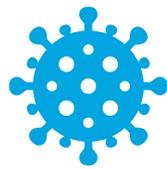
Oil prices in the current period are expected to be on an upward trend due to supply constraints and an increase in global demand. Crude oil prices have also risen in 2021 with Brent crude oil reaching a 7-year high of USD85/b in October 2021. These inflationary trends have been underpinned by production disruptions in the USA due to effects of Hurricane Ida and by OPEC+ maintaining its oil production increases at 400,000 barrels a day despite global demand surpassing current global supply levels.



Interest rate movements (Source: WSJ)

The 3-month US LIBOR rate maintained its position at 0.13% in October 2021, while the 6-month US LIBOR rate increased to 0.20% in October 2021.

	October 2021 (%)	September 2021 (%)
US LIBOR (3 months)	0.13%	0.13%
US LIBOR (6 months)	0.20%	0.16%



COVID-19 Update

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

As at 31 October 2021, 556,336 individuals had been fully vaccinated against the Covid-19 virus, an increase of 11.97% from 496,875 individuals fully vaccinated as at end September 2021.

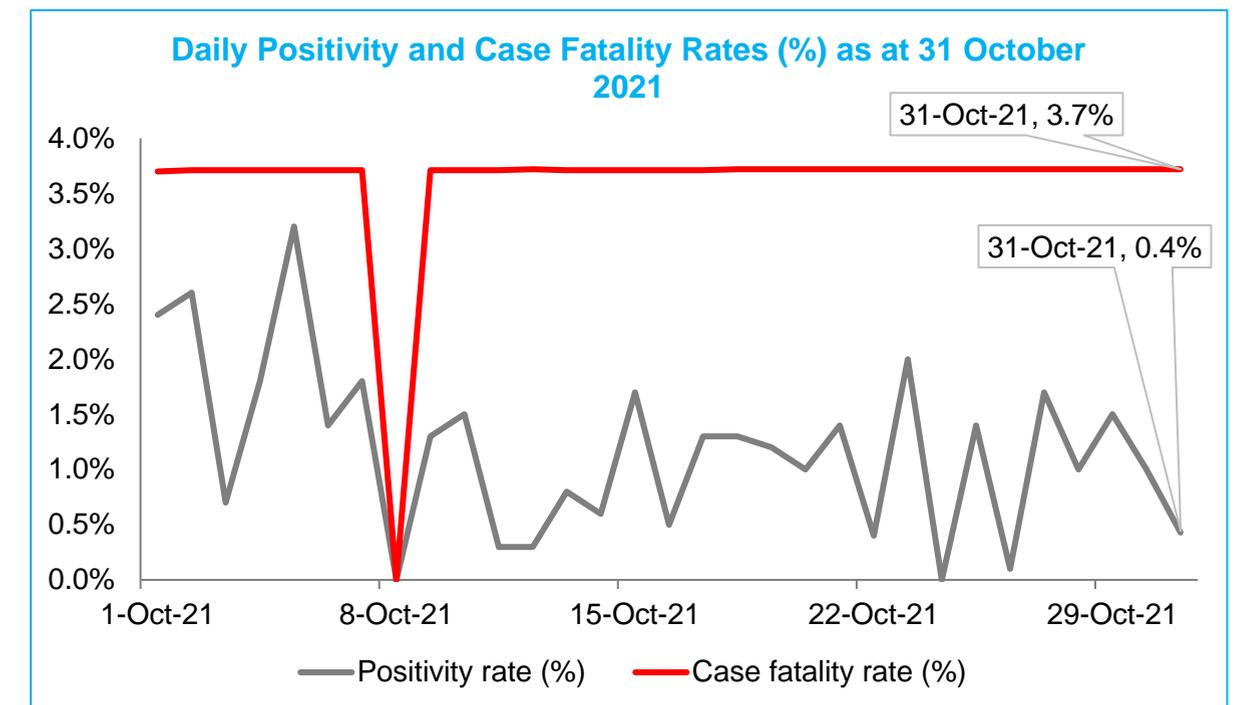
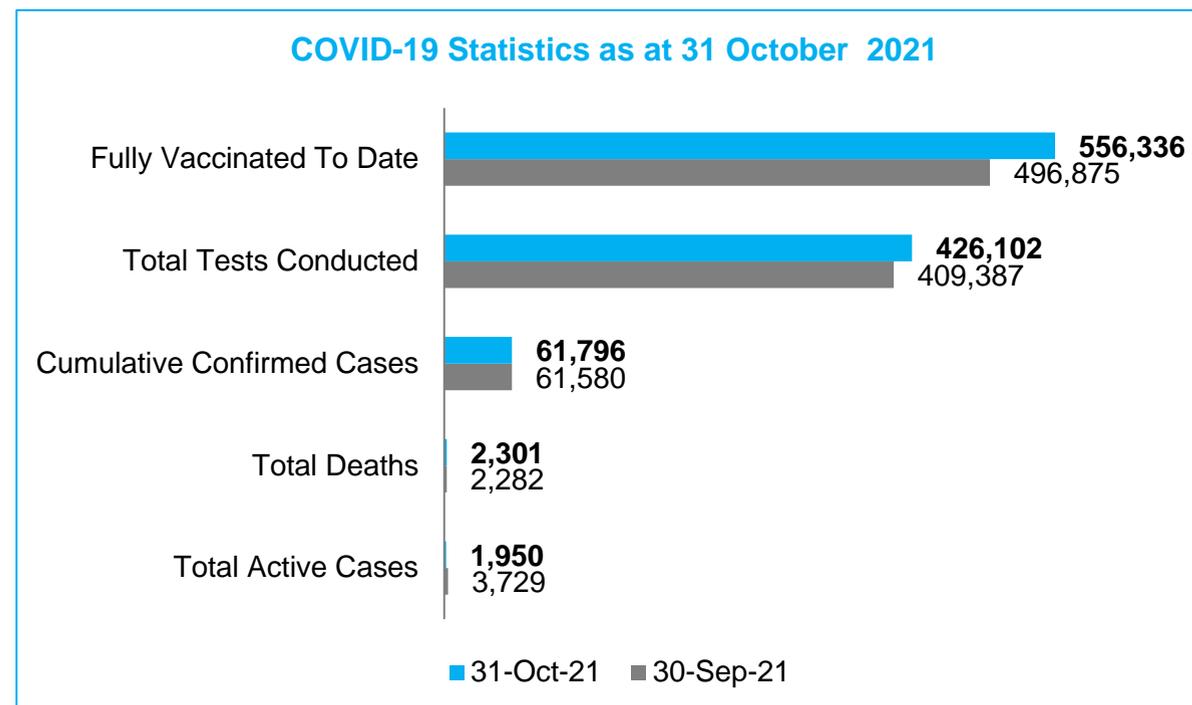
As at 31 October 2021, 2.8% of the Malawian population had been fully vaccinated against Covid-19 infection.

On 8 October 2021, the Ministry of Health eased the Covid-19 restrictions and the country moved to level one from level three of response to the Covid-19 pandemic. The eased restrictions permit the resumption of normal working occupancy without the enforcement of working in shifts, indoor gatherings can operate at 50% occupancy and travel restrictions have been lifted. As such immigration is unrestricted upon presentation of a negative Covid certificate by a traveler. Despite the ease in restrictions, the wearing of masks remains mandatory. The ease in restrictions follows a decline in Covid-19 cases, as well as advances in the Covid-19 vaccination effort.

As at end October 2021, 556,336 individuals had been fully vaccinated against the Covid-19 virus in Malawi. This is an 11.97% increase from 496,875 individuals fully vaccinated as at end September 2021. The number of fully vaccinated individuals represents 2.8% of the Malawian population. Despite the increase, attaining the Ministry of Health's objective of vaccinating 20% of the population by December 2021 may be out of reach. At the current pace, in order to achieve the objective, over 700,000 individuals (3.6% of the population) must be fully vaccinated on a monthly basis. Furthermore, the Ministry is targeting to vaccinate 60% of the Malawian population by December 2022. This is aimed at reaching herd immunity which would result in the protection of the entire population.

The total cumulative confirmed Covid-19 cases increased to 61,796 as at 31 October 2021 from 61,580 as at 30 September 2021. Similarly, the cumulative COVID-19 related deaths increased to 2,301 in October 2021 from 2,282 in September 2021. These changes were accompanied by a decrease in the daily positivity rate to 0.4% as at 31 October 2021 from 3.5% as at 30 September 2021, while the daily case fatality rate maintained its position at 3.7% during the period under review. The daily recovery rate increased to 92.8% from 89.9% during the same period.

The country received 696,000 doses of the Covid-19 vaccine of which 360,000 doses were AstraZeneca vaccines and 336,000 doses were Johnson & Johnson vaccines. Within the fourth quarter of 2021, the country expects an additional 700,830 doses of the Pfizer-BioNTech (Pfizer) vaccine. For full immunization, the Pfizer vaccine requires the administration of 2 doses, to be taken within a 21-day interval.





Special Topic

Affordable Inputs Programme (AIP) (Source: Malawi Government, Ministry of Agriculture, IFPRI)

FISP was established in the 2005/06 period following food supply shortages influenced by adverse weather in the previous period.

In the 2020/21 period, the AIP replaced FISP and increased the number of beneficiary farming households to 4.2 million from 0.9 million in the previous period.

Inception of the Farm Input Subsidy Programme (FISP)

Malawi's economy has been and remains dominated by rain-fed agriculture. This makes the economy and agricultural productivity susceptible to weather and climate shocks. In the 2005/06 period, the Farm Input Subsidy Programme (FISP) was introduced following the adverse weather induced food crisis in 2004. The programme sought to enhance individual and national food security, as well as to reduce poverty levels through increased access, allocation and distribution of fertiliser, as well as provision of high-yielding modern maize seed varieties to resource-poor Malawians.

According to IFPRI, following the implementation of FISP, the average increase in maize yield experienced by farming households that received both fertiliser and seeds was 447kg/ha, which was twice the gain experienced by farming households that only received fertiliser. This suggested that FISP may have placed a lot of emphasis on fertiliser relative to hybrid seed.

Challenges to FISP

Exchange rate risk was one of the challenges that FISP faced. As a net commodities importer, the value of the Malawi Kwacha relative to international currencies significantly impacted the costs of FISP implementation. This was especially apparent for fertiliser importation, as it comprised the largest proportion of the subsidised inputs.

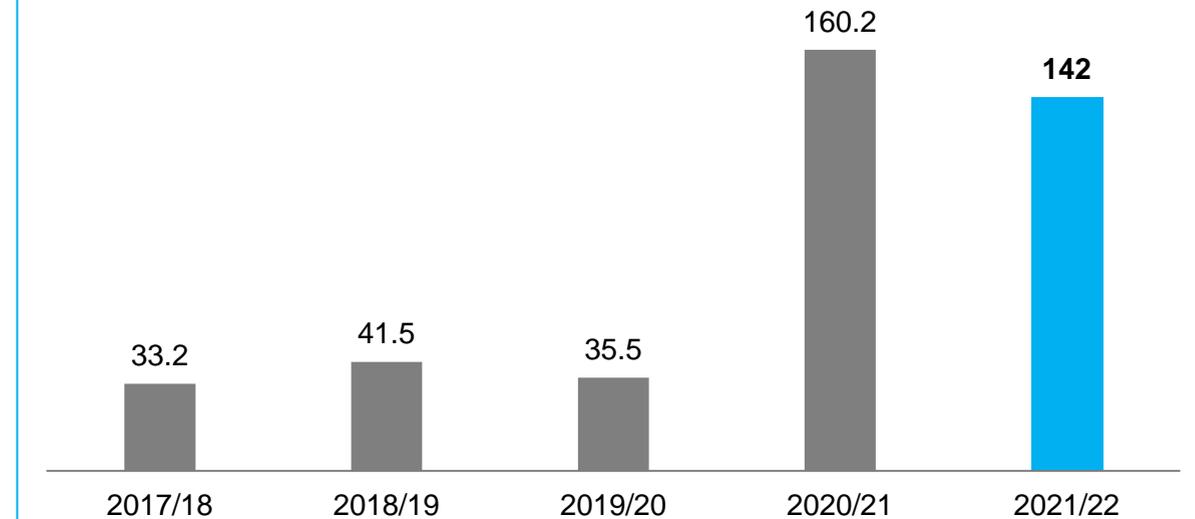
Inflationary trends in global fertiliser and other agricultural input prices was an additional risk to FISP. In the 2008/09 period, global inflationary trends in fertiliser prices led to an increase in the budgetary allocation to FISP by 89.6% to MK31.1 billion from MK16.4 billion in the 2007/08 period.

Affordable Inputs Programme (AIP)

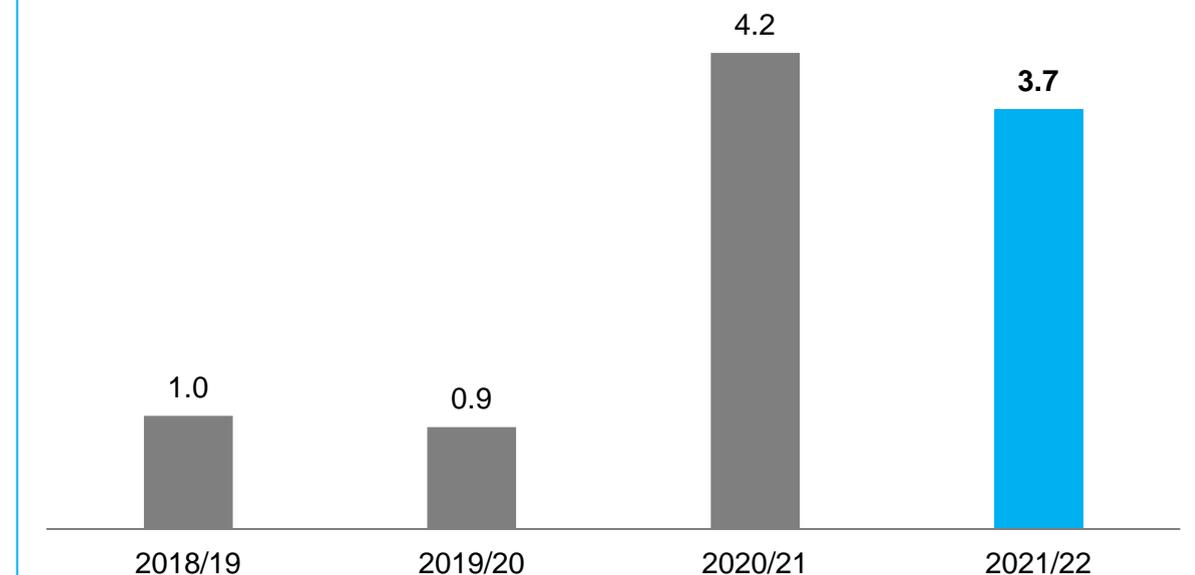
The Affordable Inputs Programme (AIP) replaced FISP in the 2020/21 period. In the first year of its implementation, the AIP was allocated MK160.2 billion, an increase of over 350% from a budgetary allocation of MK35.5 billion made with FISP in the 2019/20 period. The AIP was set to benefit 4.2 million farming households nation-wide. Through the AIP, each beneficiary farming household was set to contribute MK4,495.00 to access a 50kg bag of fertiliser.

Currently in its second year of implementation, the AIP budgetary allocation has been reduced by 11.36% to MK142.0 billion for the 2021/22 period, from MK160.2 billion allocated in the previous period. The number of beneficiary farming households has also been revised downward by 10.9% to 3.7 million from 4.2 million.

Historic Budget Allocations to Subsidy Programmes (MK'billion)



Number of Beneficiary Farming Households (million)





Special Topic (Continued)

Affordable Inputs Programme (AIP) (Source: Malawi Government, Ministry of Agriculture, IFPRI)

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

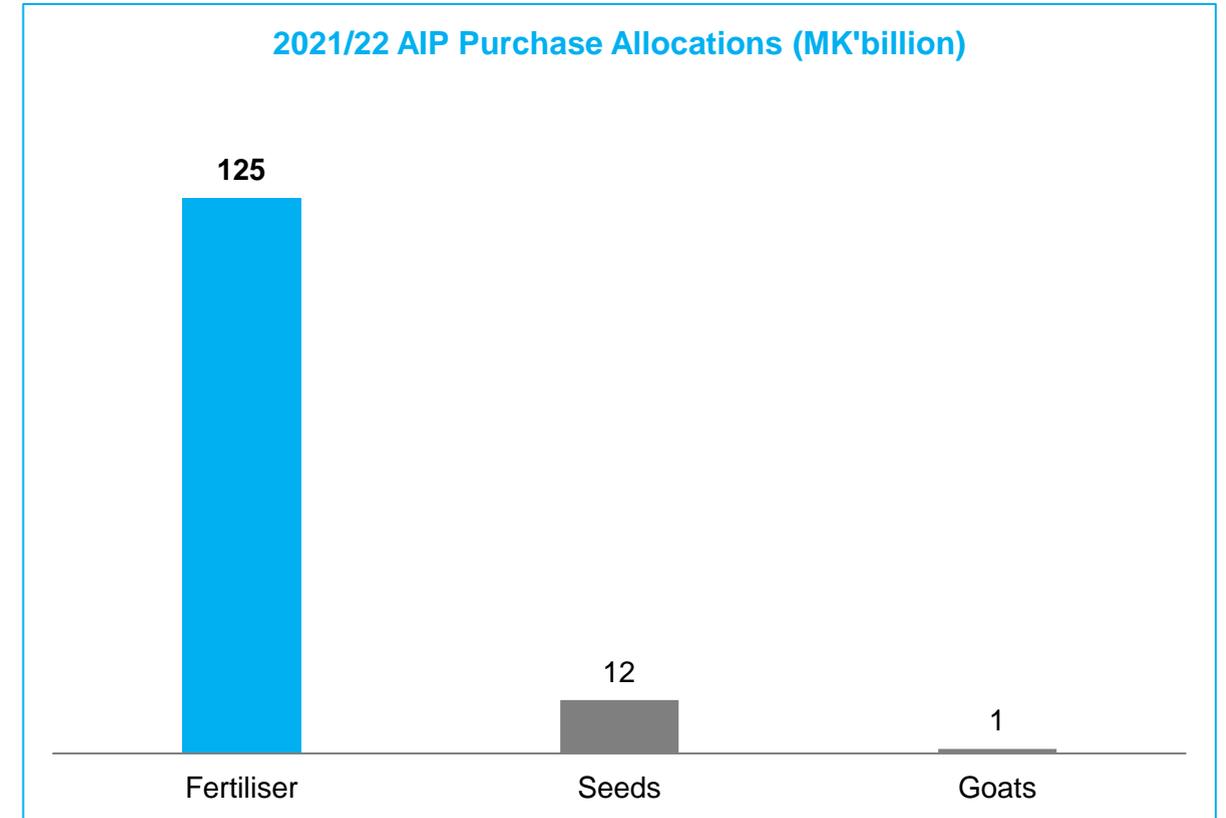
In the current implementation, the AIP has allocated MK124.74 billion to the purchase of fertilisers, MK12.25 billion to the purchase of seeds and MK1.26 billion to the purchase of goats.

Marred with global inflationary trends in fertiliser prices, the current implementation of the AIP has undergone some revision from the previous year. An increase in global fertiliser prices was mirrored in domestic fertiliser prices which reached MK40,000.00 per 50 kg bag in August 2021 from MK21,000.00 in June 2021. On one hand, for the number of beneficiaries and the value of the subsidy to remain unchanged given the fertiliser price increase, the AIP required an increase in the value of its budgetary allocation. On the other hand, without an increase the AIP's budgetary allocation, either the number of beneficiary farming households was to be reduced from 3.7 million to 2.8 million, or the value of the subsidy offered to beneficiaries was to be reduced. In response, the government reduced the value of the subsidy offered to beneficiaries, as such, for a 50 kg bag of fertiliser that would be supplied at MK27,000.00, beneficiaries are to contribute MK7,500.00, an increase of 66.85% from MK4,495.00 per bag in the previous period.

Challenges to AIP

Exchange rate risk remains a salient risk factor to AIP implementation. With declining foreign exchange reserves and the demand for foreign exchange persistently outweighing its supply, there is significant currency depreciation risk which could increase the cost of AIP implementation.

Volatility in global fertiliser prices is also a risk to the implementation of the AIP. As the global economy recovers from a Covid-19 induced downturn, increases in consumer demand for food, rising input costs, production reductions and increasing fertiliser demand from key crop-growing regions have exerted inflationary pressure on global fertiliser prices in 2021. The World Bank's Fertiliser Price index increased by 18% in the third quarter of 2021 and is expected to remain elevated in the 2022.



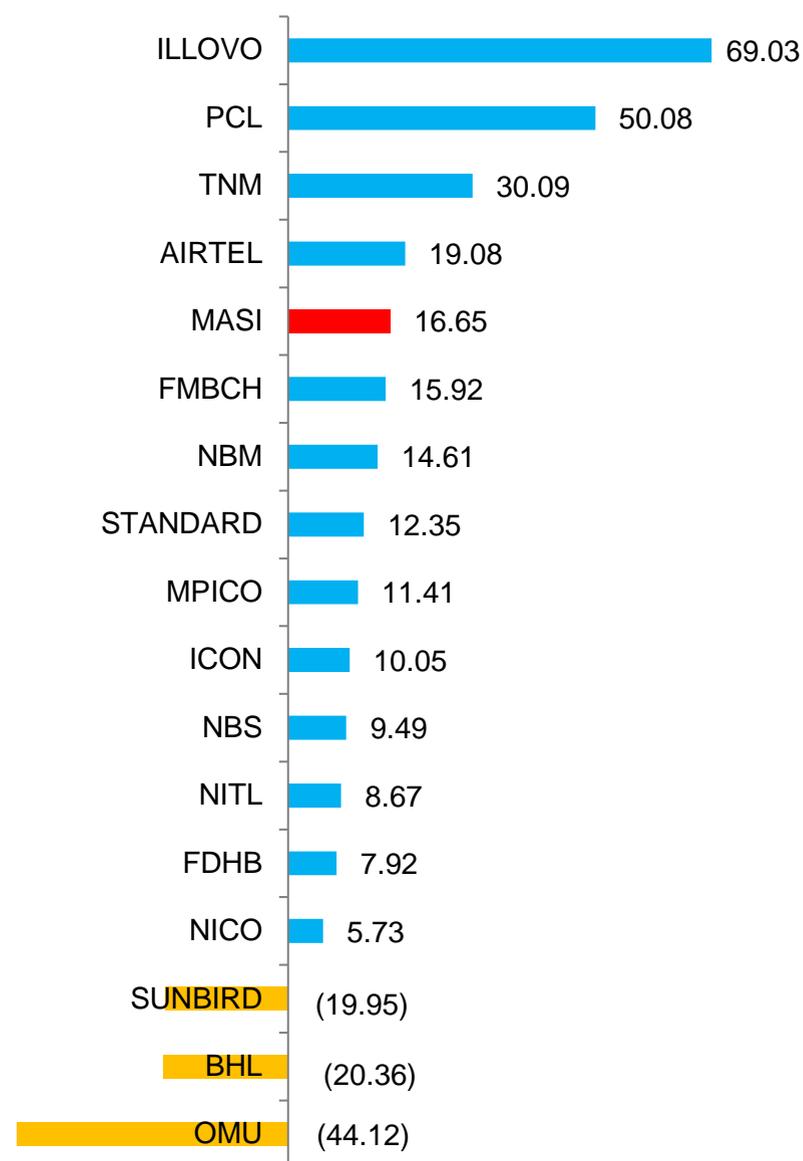
Appendix

Appendix 2: Historical Economic Indicators

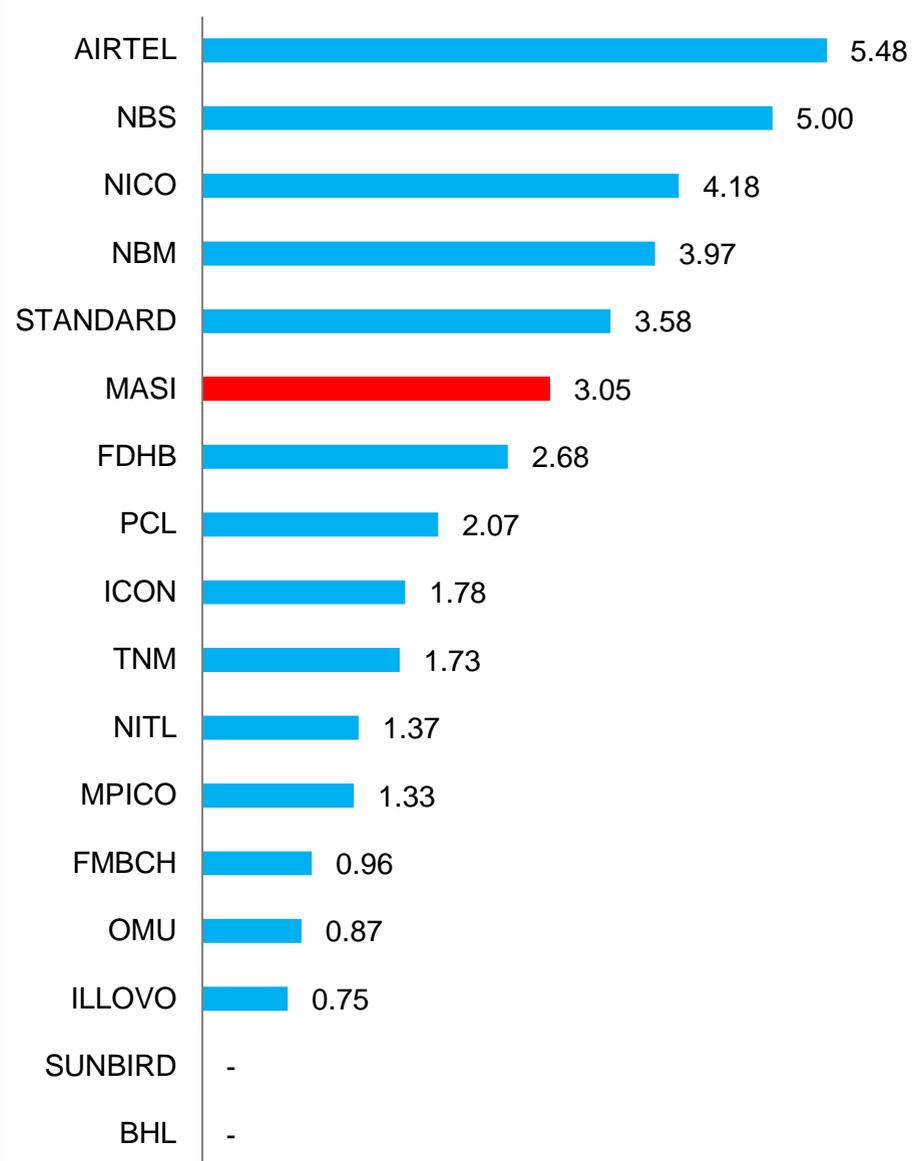
	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20	Jan-21	Feb-21	Mar-21	Apr-21	May-21	Jun-21	Jul-21	Aug-21	Sep-21	Oct-21
Exchange rates															
MK/USD	754.71	756.93	759.47	765.92	776.82	776.49	787.03	790.30	797.66	800.17	811.95	817.43	820.40	822.17	821.34
MK/GBP	1,024.89	999.88	1,015.11	1,061.76	1,070.14	1,107.24	1,140.90	1,139.62	1,164.37	1,191.58	1,192.94	1,203.74	1,196.67	1,168.72	1,201.21
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	1,037.74
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	59.04
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	405.66
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	384.75
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	790.41
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	1.62
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%	8.9%	-
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%	10.9%	-
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%	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%	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%	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%	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%	9.60%
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%	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%	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%	16.64%
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%	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%	20.44%
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%	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%	23.00%
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	41,458.37
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	34,188.36
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	3,450.25

Appendix 3: Selected stock market statistics as at 31 October 2021

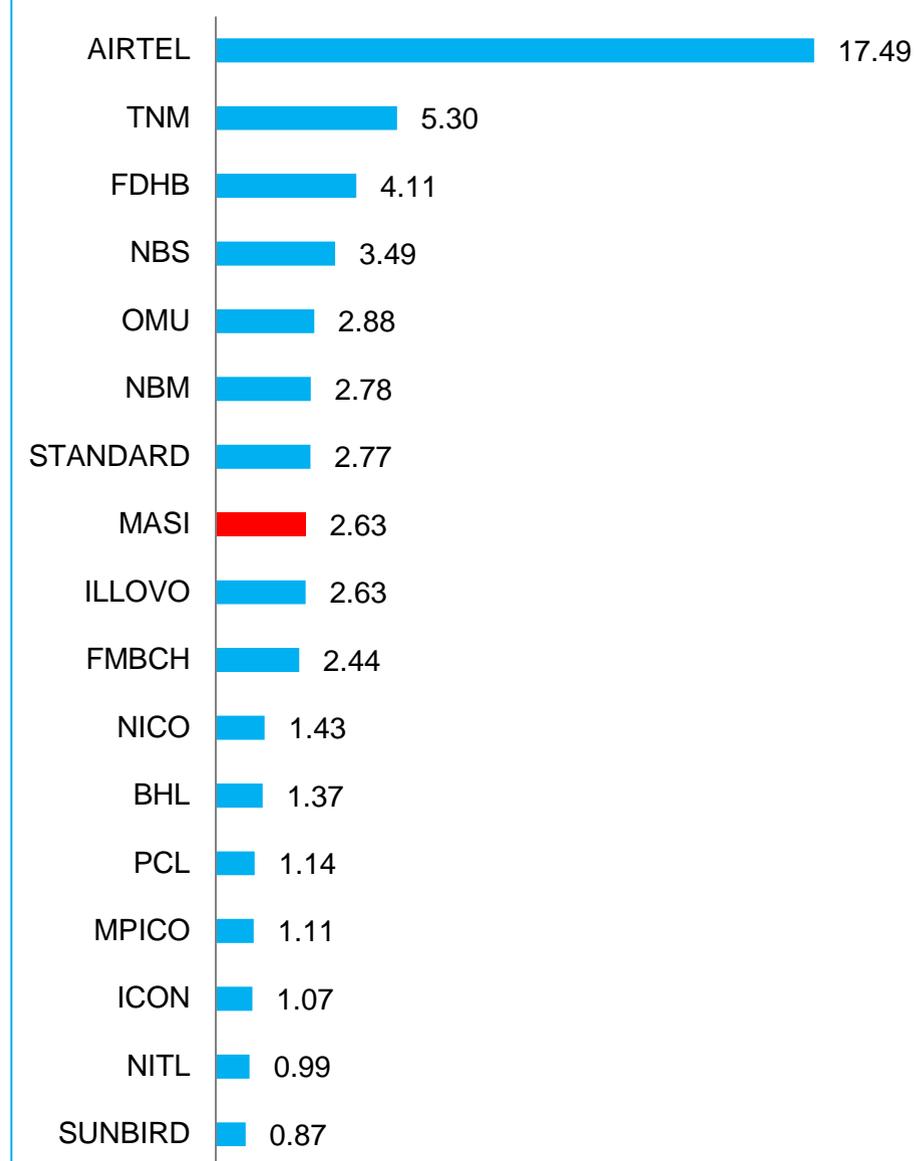
P/E ratio - the weighted average price to earnings ratio on the MSE was 16.65 in October 2021. OMU had the lowest at negative 44.12 while ILLOVO had the highest at 69.03.



Dividend yield (%) - the weighted average dividend yield on the MSE was 3.05% in October 2021. The counter with the highest dividend yield was AIRTEL at 5.48%.



P/BV ratio - the weighted average price to book value ratio on the MSE was 2.63 in October 2021. Airtel had the highest ratio at 17.49 while SUNBIRD had the lowest ratio at 0.87.



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

ADMARC:	Agricultural Development and Marketing Corporation	MASI:	Malawi All Share Index	SUNBIRD:	Sunbird Tourism Plc
AIP:	Affordable Inputs Program	Mb/d:	Million barrels per day	TB:	Treasury Bill
BHL:	Blantyre Hotels Plc	MERA:	Malawi Energy Regulatory Authority	TN:	Treasury Note
CCRT:	Catastrophe Containment and Relief Trust	MK:	Malawi Kwacha	TNM:	Telekom Networks Malawi Plc
CDCS:	Country Development Cooperation Strategy	M-O-M:	Month-on-month	TT:	Telegraphic Transfer
COVID-19:	Coronavirus disease	MPC:	Monetary Policy Committee	WEO:	World Economic Outlook
DOAG:	Development Objective Agreement Grant	MSE:	Malawi Stock Exchange	UK:	United Kingdom
DSI:	Domestic Share Index	MW:	Mega Watts	USA:	United States of America
ECF:	Extended Credit Facility	NBM:	National Bank of Malawi Plc	USD:	United States Dollar
EIU:	Economist Intelligence Unit	NICO:	NICO Holdings Plc	Y-O-Y:	Year-on-year
EUR:	Euro	NITL:	National Investment Trust Limited Plc	YTD:	Year-to-date
FDHB:	FDH Bank Plc	NSO:	National Statistical Office	ZAR:	South African Rand
FISP:	Farm Input Subsidy Programme	OMU:	Old Mutual Limited Plc		
FMBCH:	FMB Capital Holdings Plc	OPEC:	Organization of the Petroleum Exporting Countries		
FSI:	Foreign Share Index	PCL:	Press Corporation Limited Plc		
GBP:	Great British Pound	PSF:	Price Stabilisation Fund		
GDP:	Gross Domestic Product	RBM:	Reserve Bank of Malawi		
IFPRI:	International Food Policy Research Institute	SAFEX:	South African Futures Exchange		
IMF:	International Monetary Fund	SDR:	Special Drawing Rights		
LRR:	Liquidity Reserve Requirement	SSA:	Sub Saharan Africa		

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