



# Malawi Monthly Economic Report and a special brief on Central Bank Currency Issuance

November 2021



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### Inflation

Headline inflation increased to 9.8% in October 2021 from 8.9% in September 2021. The increase was due to increases in food and non-food inflation. Food inflation increased to 11.8% from 10.9%, and non-food inflation increased to 7.8% from 7.2% during the period under review.

The Monetary Policy Committee (MPC) at its fourth meeting of 2021, held in November, revised the annual inflation projection for 2021 to 9.1%, up from a projected 8.8% during its third meeting. Similarly, the MPC's inflation projection for 2022 was adjusted upward to 8.9% from 8.2%. The revisions made by the MPC reflected changes in the macroeconomic environment from adjustments in domestic fuel pump prices, increase in maize prices in the fourth quarter of 2021 and continued disruption to global supply chains.

The EIU anticipates non-food inflation to maintain an upward trajectory throughout the year 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

As at the end of June 2021, Malawi's total public debt stock stood at MK5.5 trillion, an increase of 32% from MK4.1 trillion, in June 2020. Of the total debt stock, USD3.6 billion (MK2.9 trillion) was external debt and USD3.2 billion (MK2.6 trillion) was domestic debt. External debt grew by 14% during the period, lower than an increase in domestic debt by 42%.

### 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.

A Private Member's Bill to amend the Financial Services Act, Cap 44:05 of the Laws of Malawi was introduced into Parliament on 12 November 2021. The Bill seeks to regulate interest rates on loans obtained from banks, other lending financial institutions, the Reserve Bank of Malawi as well as the Treasury. Currently, the Bill has been deferred to provide time for further consultation.

### Exchange Rates

Based on middle rates, the Malawi Kwacha marginally depreciated against the USD by 0.19% in November 2021. As at 30 November 2021, the Kwacha was trading at MK822.88/USD from MK821.34/USD as at 31 October 2021. Year-to-date, the Malawi Kwacha has depreciated against the USD by 5.93%, higher than the year-to-date depreciation of 3.66% in the same period in 2020.

The country's gross official forex reserves decreased by 4.04% to USD389.26 million in November 2021 from USD405.66 million in October 2021, which lowered the gross official forex reserves' import cover to 1.56 months from 1.62 months during the period under review. The total foreign exchange reserves position was USD794.41 million in November 2021, which represented a 0.46% increase from USD790.41 million in October 2021. Total foreign exchange reserves import cover marginally increased to 3.18 months in November 2021 from 3.16 months in October 2021.

### Stock Market

The Malawi All Share Index (MASI) increased by 0.26% to 41,565.98 points in November 2021 from 41,458.37 points in October 2021. This was due to share price gains for PCL, ILLOVO, NBM and Standard Bank which offset share price losses for MPICO, FDH Bank, TNM, ICON, NBS, AIRTEL and OMU. The MASI year-to-date return was 28.32% in November 2021, it was 3.22% during the same period in the previous year. In terms of market price movement, PCL had the largest share price gain during the period to MK1,712.62 per share in November 2021 from MK1,494.95 per share in October 2021, representing a 14.56% increase. During the period under review, MPICO had the largest share price loss to MK18.00 per share from MK21.00 per share, representing a 14.29% decrease during the period under review.

According to their audited financial statements for the year ended 31 August 2021, ILLOVO Sugar Malawi closed the year with a profit after tax of MK20.57 billion, an increase of 651% from a profit after tax of MK2.74 billion in 2020.

### Government Securities

The government awarded MK44.94 billion in November 2021 from MK67 billion in October 2021 through Treasury Bills (TBs) and Treasury Notes (TNs) auctions. The TBs and TNs auctions had nil rejection rates during the period under review. The average TB yield maintained its position at 12.26% while the average TN yield decreased to 19.96% from 20.09% during the period under review.

### Economic Growth

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

It is noteworthy to indicate that RBM's real GDP growth forecast is 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 and its effects 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 improvements in COVID-19 vaccination administration, leading to eased restrictions, improvements in consumer demand and recovery of economic activity.

### COVID-19 Status and Developments

With the emergence of a new COVID-19 variant and rising cases of COVID-19 globally, the government of Malawi has reassured the citizenry of the efficacy of its disease surveillance system. The disease surveillance system has been built for many years on the back of surveillance mechanisms for other communicable diseases. The government further stated that the country has the capacity to monitor the spread through routine screening as well as the capacity to study variants using reference laboratories at the Public Health Institute of Malawi and the Malawi Liverpool Welcome Trust.

In November 2021, the country fully vaccinated an additional 45,314 individuals, increasing the number of the fully vaccinated to 601,650 individuals, an increase of 8.15% from 556,336 individuals in October 2021.

The total cumulative confirmed COVID-19 cases increased to 61,946 as at 30 November 2021 from 61,796 as at 31 October 2021. Similarly, the cumulative COVID-19 related deaths increased to 2,306 in November 2021 from 2,301 in October 2021. These changes were accompanied by an increase in the daily positivity rate to 1.5% as at 30 November 2021 from 0.4% as at 31 October 2021, while the daily case fatality rate maintained its position at 3.7% during the period under review. The daily recovery rate increased to 95% from 92.8% during the period under review.

### Risks

The salient downside risks for the country are depreciation of the Malawi Kwacha, fiscal slippage, higher inflation, unfavorable weather, a protracted COVID-19 pandemic 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 inflationary risk for the remainder of the year as water tariffs and rentals charged by the Water Boards and the Malawi Housing Corporation (MHC) respectively, were revised upwards in November 2021. This is anticipated based on the 23.1% contribution that Housing, water and Electricity collectively contribute to the National Statistical Office's (NSO's) computation of the inflation rate. This contribution is the second highest proportion, superseded by a 45.2% contribution of food.

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 implementation of the programme continues to face challenges including the backing out of 13 suppliers who were selected to provide fertilizer. This could result in a shortfall of 800,000 bags of fertilizer as the companies were expected to collectively supply 40,000 metric tonnes for 400,000 beneficiaries.

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.

The emergence of a new, more transmissible COVID-19 variant and the global increase in COVID-19 cases enhances the risk of a protracted COVID-19 pandemic and its effects. This would result in further economic contractions and a dampened pace of economic recovery through decreases in exports and associated revenue, intensify exchange rate pressure and result in accelerated currency depreciation.

Compounding these risks, is the risk of power supply insufficiency. Although there are positive strides being taken towards sufficient supply of electricity in the country such as the commissioning of the 60 megawatt solar power plant in Salima, the current electricity production capacity remains below national demand.



## Economic overview

### Inflation (Source: NSO, MERA)

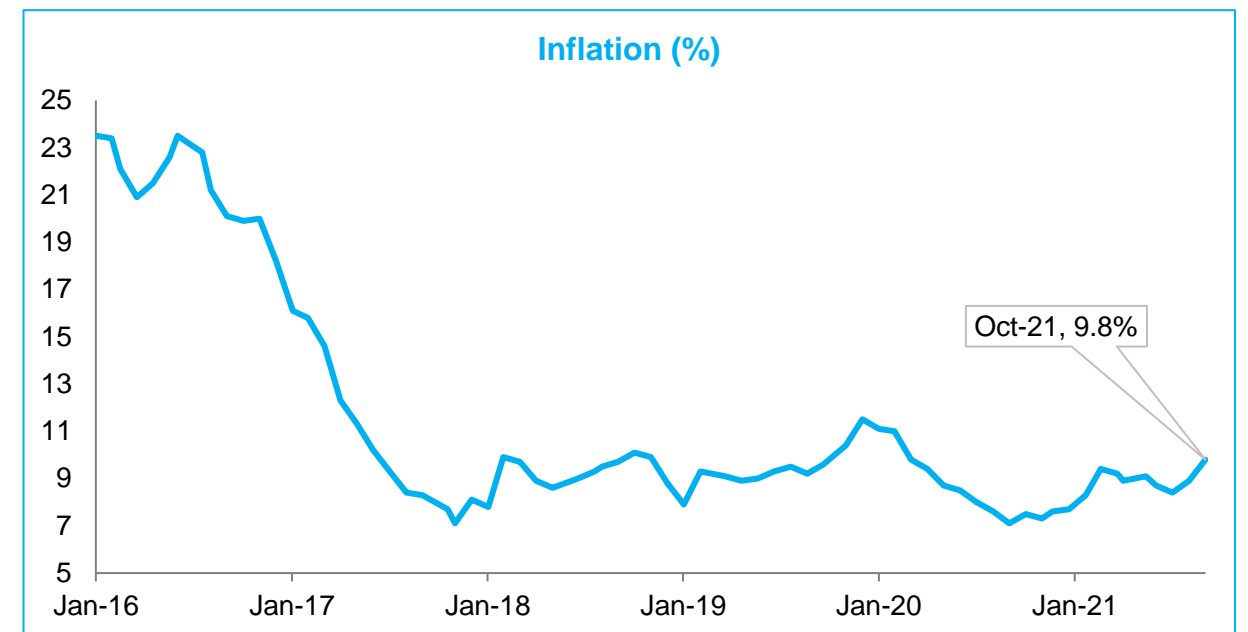
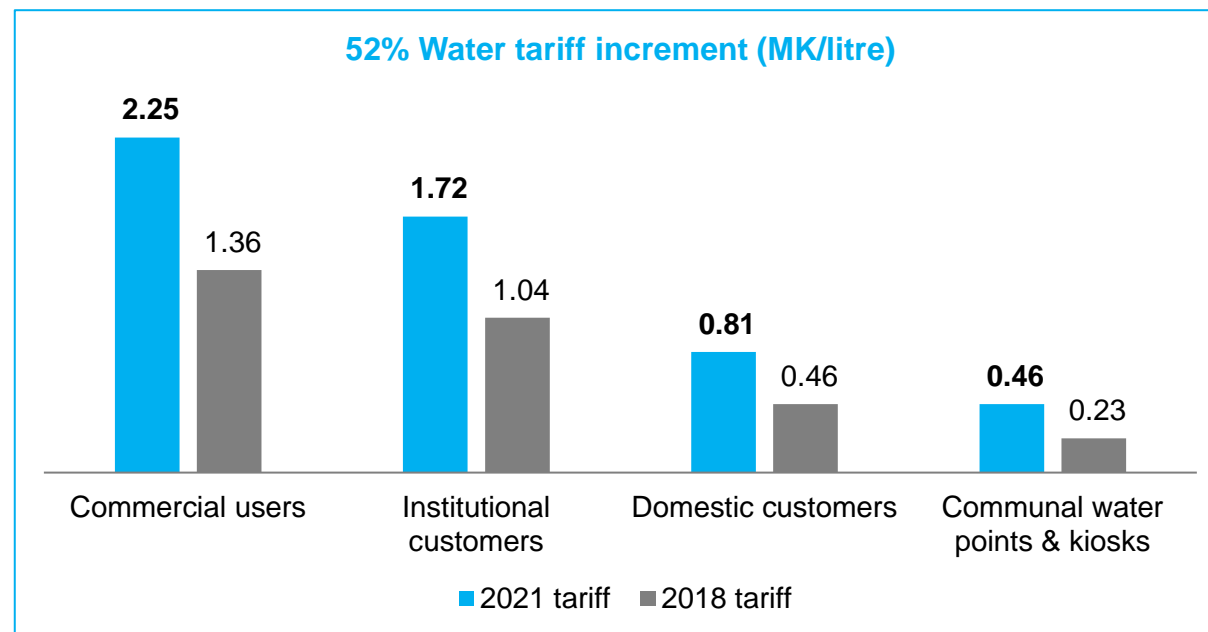
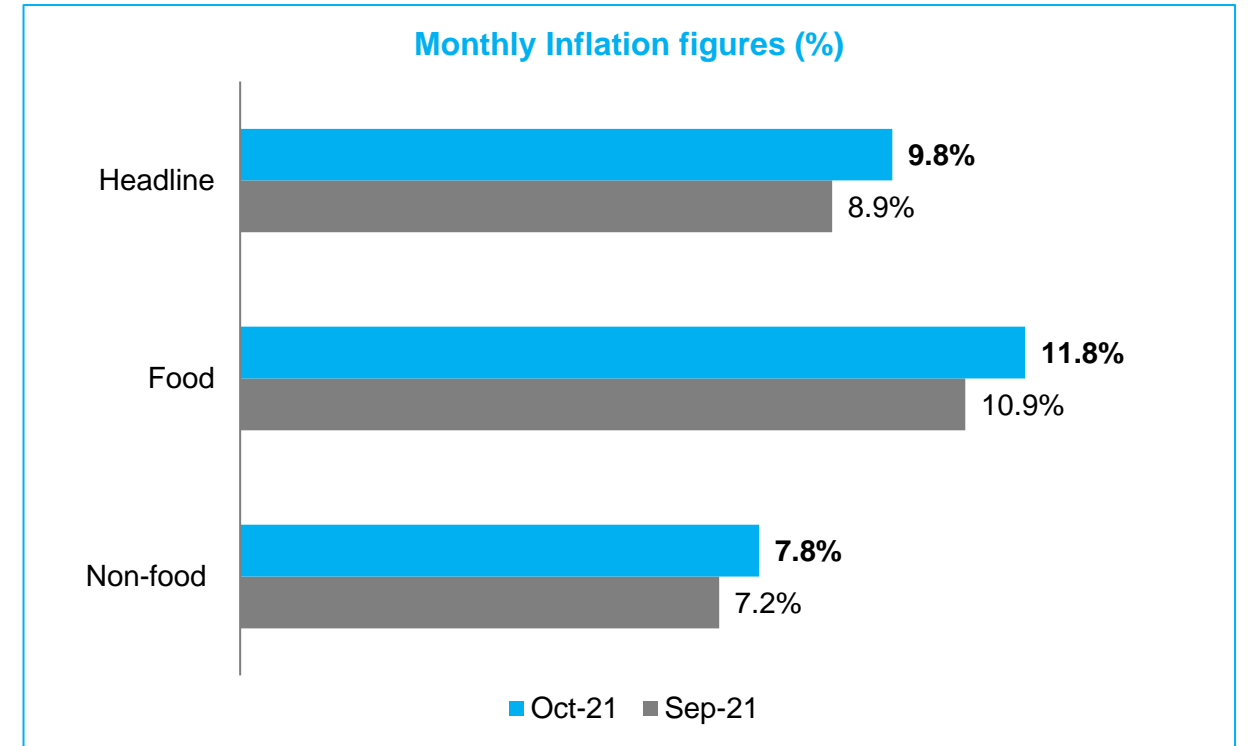
Headline inflation increased to 9.8% in October 2021 from 8.9% in September 2021 on account of increases in food and non-food inflation.

The country's water boards revised the water tariffs upwards by an average of 52% effective 1 November 2021. According to the BWB, the last water tariff revision was in 2018.

Headline inflation increased to 9.8% in October 2021 from 8.9% in September 2021. In October 2020, headline inflation was 7.5%. The m-o-m increase in headline inflation was on account of increases in food inflation which averaged 11.8% (September 2021: 10.9%) and non-food inflation which averaged 7.8% (September 2021: 7.2%) in the month of October 2021.

Effective 1 November 2021, the country's water boards agreed to revise the water tariffs upwards by an average of 52%. With the new tariff structures, Blantyre Water Board (BWB) consumers will pay 40% more, while Southern Region Water Board (SRWB) consumers will pay 50% more and Central Region Water Board (CRWB) consumers will pay 65% more. In the National Statistical Office's (NSO's) computation of inflation, housing, water and electricity collectively contribute the second largest proportion at 23.1% of the overall weight. It is the second largest proportion behind that of food at 45.2%. As such, this is expected to exert upward pressure on headline inflation for November 2021 through an increase in the non-food component.

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 reflect 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.





## Economic overview (Continued)

### Government securities (Source: RBM)

The government awarded a total of MK44.94 billion through Treasury Bills (TBs) and Treasury Notes (TNs) auctions in November 2021, a decrease of 33% from MK67 billion awarded through TBs and TNs auctions in October 2021.

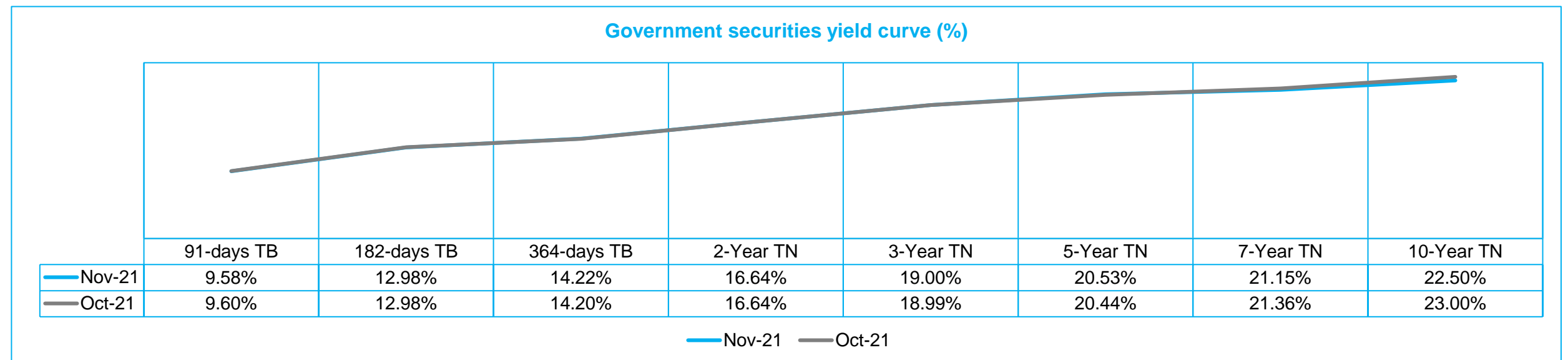
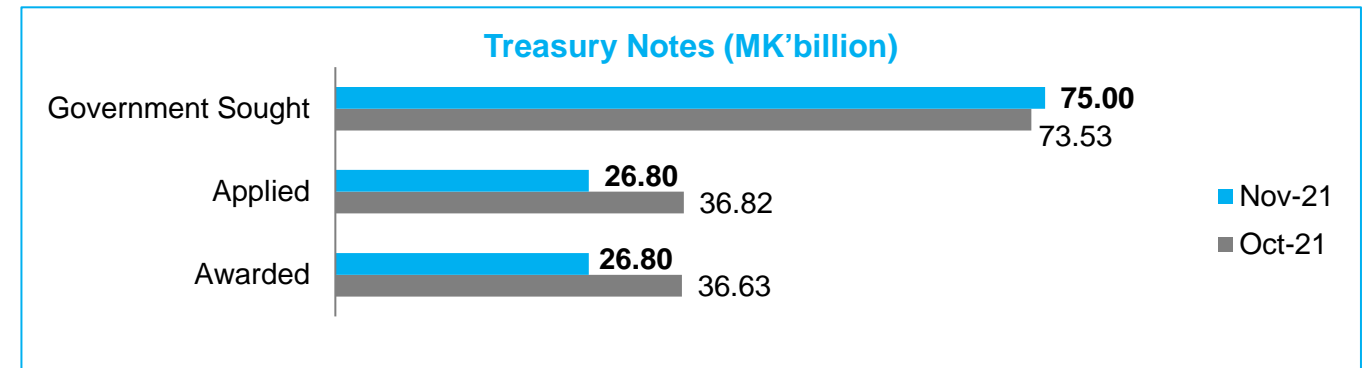
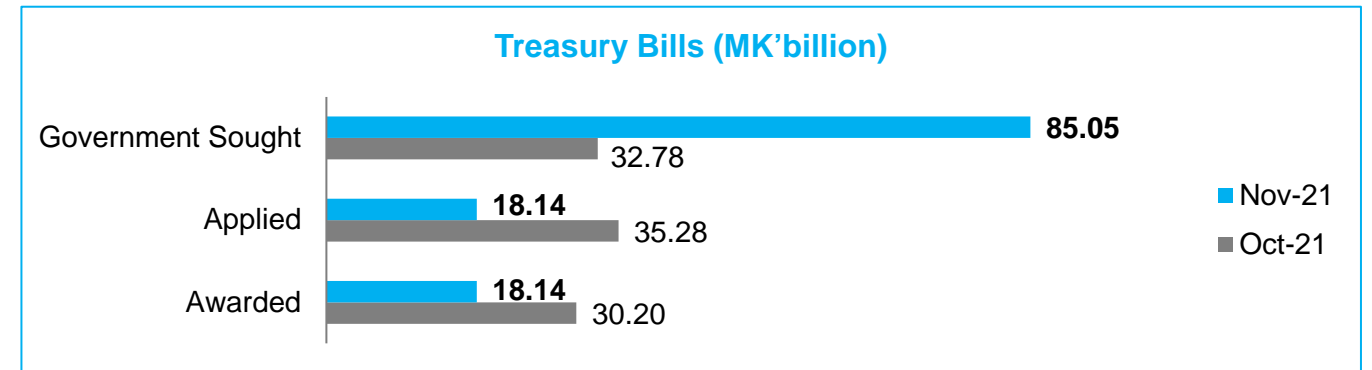
#### Treasury Bills (TBs)

In November 2021, the government sought to borrow MK85.05 billion through Treasury Bills (TBs) auctions, an increase of 159% from MK32.78 billion sought in October 2021. Participants applied to place MK18.14 billion through the TBs auctions in November 2021, a decrease of 49% from MK35.28 billion applied for in October 2021. During the period under review, the government awarded MK18.14 billion, a decrease of 40% from MK30.20 billion awarded in October 2021. The applications had a nil rejection rate during the period under review.

#### Treasury Notes (TNs)

In November 2021, the government sought to borrow MK75 billion through Treasury Notes (TNs) auctions, an increase of 2% from MK73.53 billion sought in October 2021. Participants applied to place MK26.80 billion through the TNs auctions, a decrease of 27% from MK36.82 billion applications in October 2021. During the period under review, the government awarded MK26.80 billion, a decrease of 27% from MK36.63 billion awarded in October 2021. The applications had a nil rejection rate during the period under review.

The average TB yield maintained its position at 12.26%, while the average TN yield decreased to 19.96% from 20.09% 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 5.93%.*

*The gross official reserves were USD389.26 million as at 30 November 2021, a decrease of 4.04% from USD405.66 million as at 31 October 2021.*

*The import cover for the gross official reserves decreased to 1.56 months from 1.62 months during the same period.*

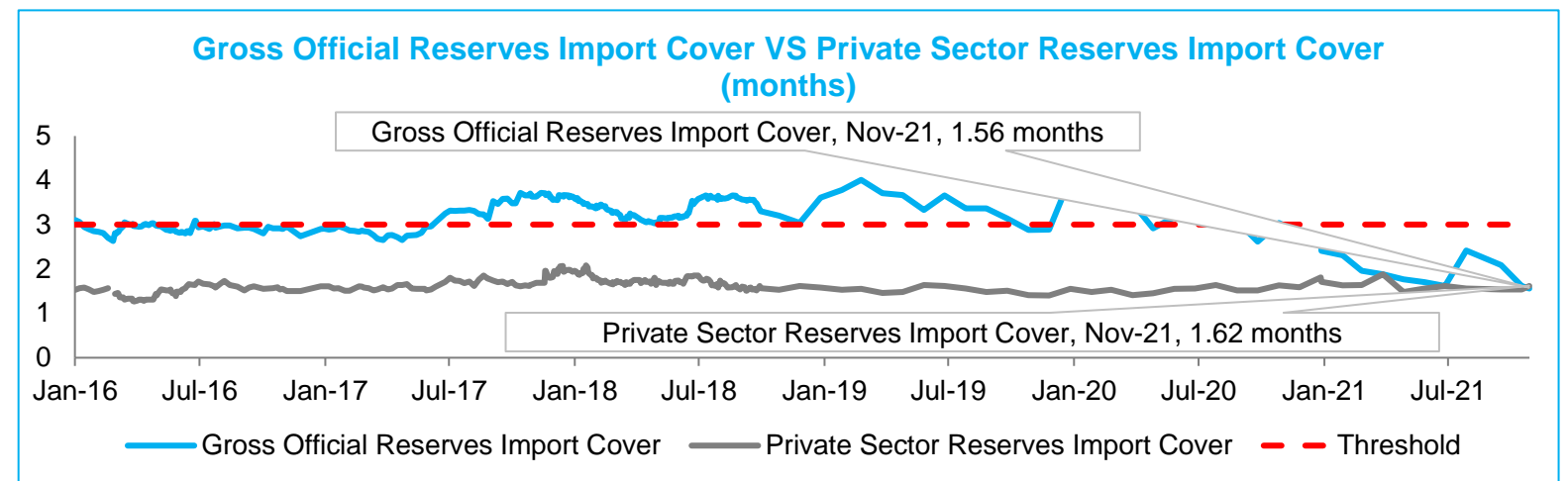
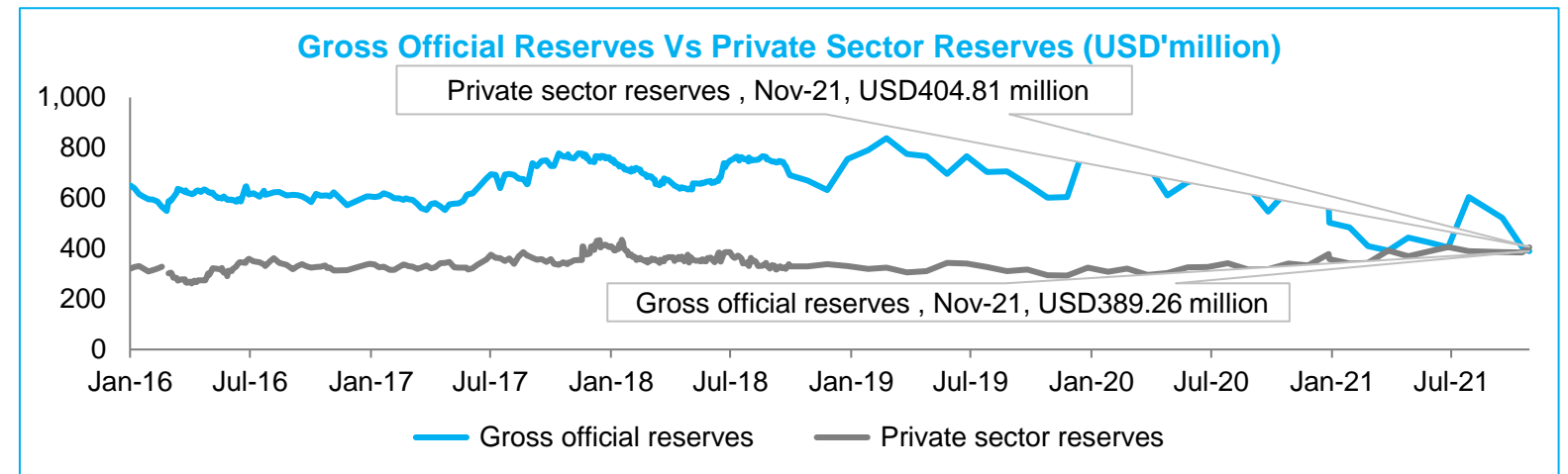
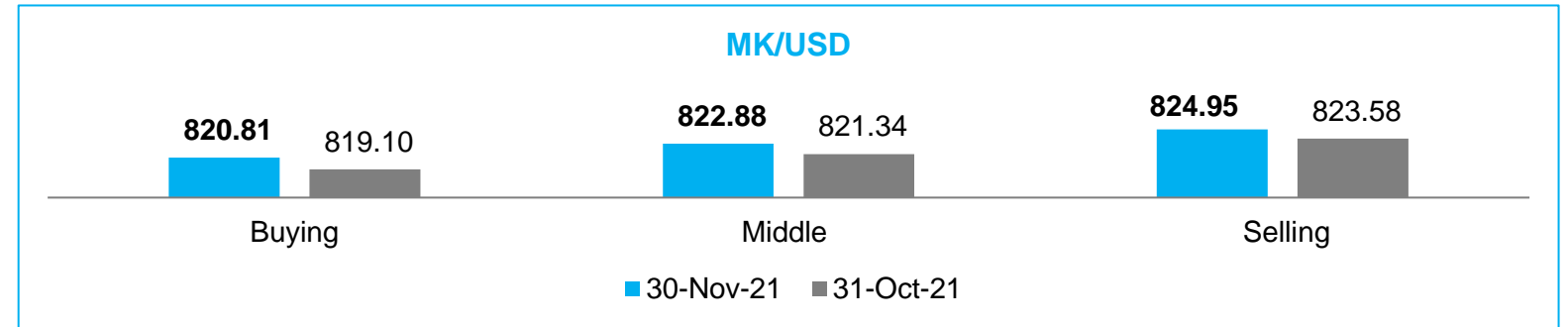
#### Foreign currency market

The Malawi Kwacha has been weakening against the United States Dollar (USD) over the course of the year as foreign exchange demand and the current-account deficit continue to exert pressure on the currency. This is augmented by the decline in the country's gross official foreign exchange reserves. As at 30 November 2021, the Kwacha had marginally depreciated against the USD by 0.19%, to MK822.88/USD from MK821.34/USD as at 31 October 2021. Year-to-date, the Kwacha has depreciated against the USD by 5.93%, which is higher than the year-to-date depreciation of 3.66% during the same period in 2020.

#### Foreign reserve position

As at 30 November 2021, the country's gross official forex reserves decreased by 4.04% to USD389.26 million from a gross official forex reserve position of USD405.66 million as at 31 October 2021. The private sector forex reserves increased by 5.21% to USD404.81 million as at 30 November 2021 from USD384.75 million as at 31 October 2021. Overall, total foreign exchange reserves held in November 2021 were USD794.07 million, an increase of 0.46% from the total foreign exchange reserve position of USD790.41 million in October 2021.

Import cover for gross official reserves for November 2021 was 1.56 months, a decrease of 3.70% from 1.62 months in October 2021. For private sector reserves, import cover for November 2021 increased to 1.62 months, an increase of 5.19% from 1.54 months in October 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 November 2021. The total foreign exchange reserves import cover marginally increased to 3.18 months in November 2021 from 3.16 months in October 2021.





## Economic overview (Continued)

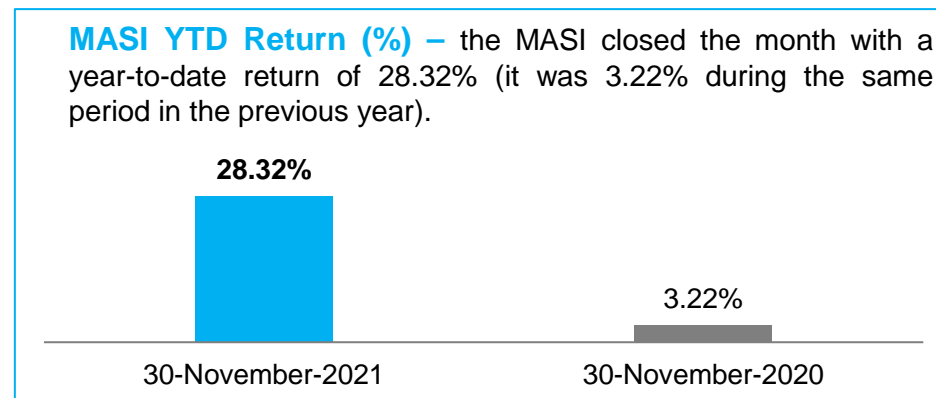
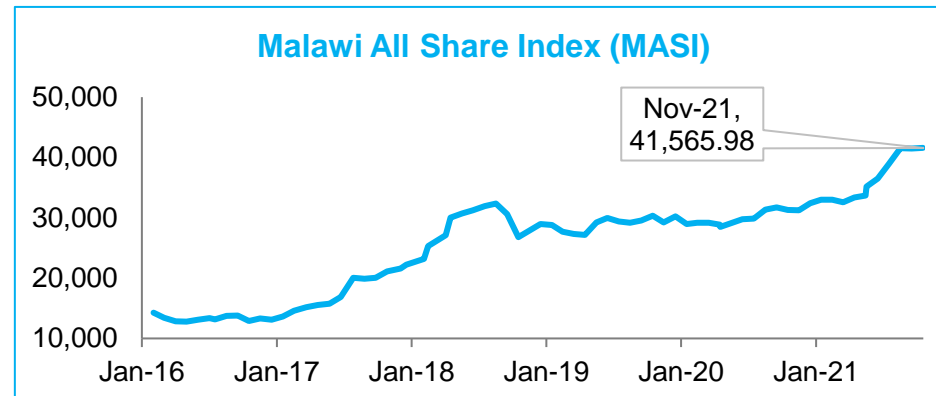
### Stock market (Source: MSE)

The stock market was bullish during the period under review with the MASI closing the month of November 2021 at 41,565.98 points.

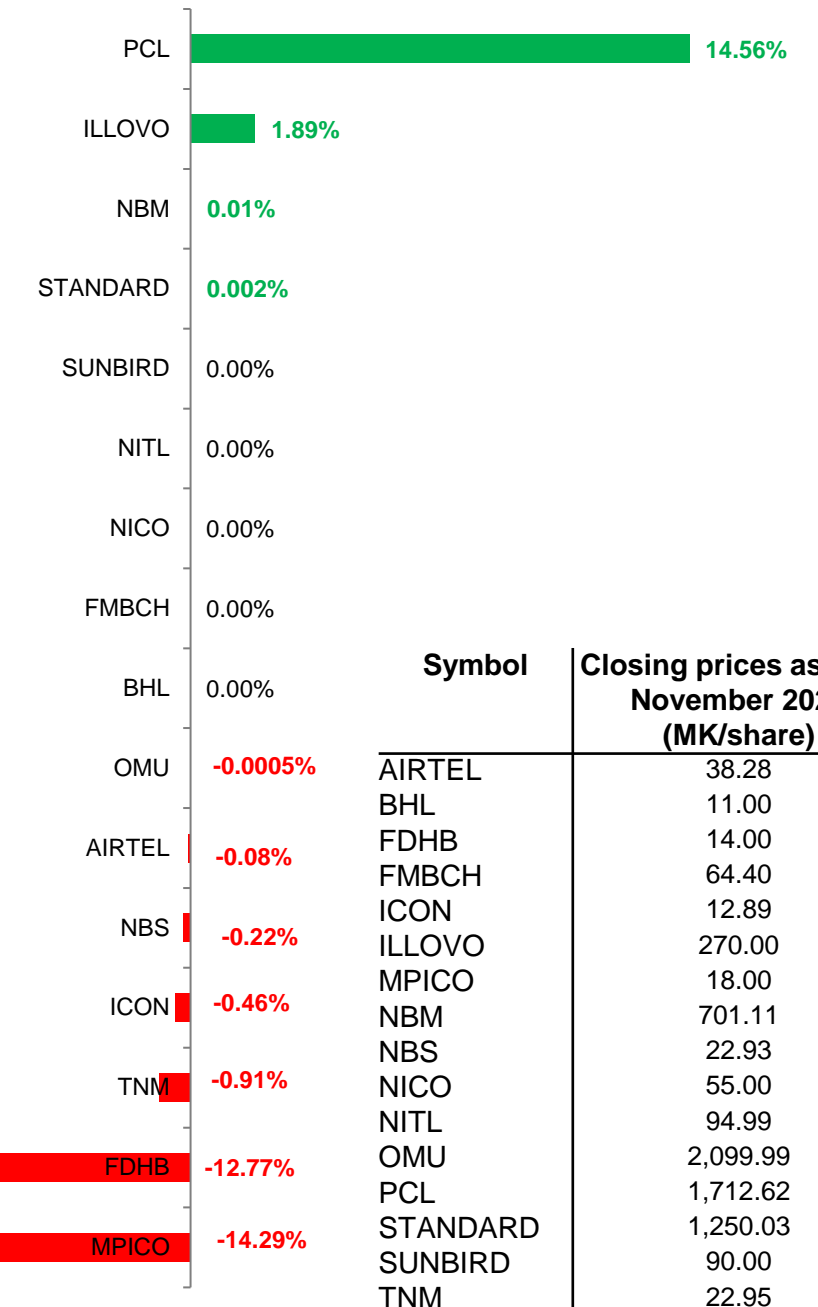
The MASI year-to-date return was 28.32% in November 2021, and it was 3.22% during the same period in the previous year.

The stock market was bullish over the period with the Malawi All Share Index (MASI) increasing by 0.26% m-o-m to 41,565.98 points from 41,458.37 points in October 2021. Y-o-y, the MASI increased by 33.12%, as it was 31,225.08 points in November 2020.

The largest gainer in November 2021 was PCL which closed the month at MK1,712.62 per share from MK1,494.95 per share in October 2021. This marks a m-o-m increase of 14.56%. There were also share price gains for ILLOVO, NBM and Standard Bank during the period under review. A total of five counters closed the month at the same price as the previous month. These counters were: Sunbird, NITL, NICO, FMBCH and BHL. The largest loser was MPICO whose share price decreased by 14.29% to MK18.00 per share from MK21.00 per share as at the close of October 2021. There were also share price losses for FDH Bank, TNM, ICON, NBS, AIRTEL and OMU.



### M-o-m Share Price Gains/Losses (%)







## Economic overview (Continued)

### Stock market (Source: MSE)

The total value of shares traded decreased by 35% in November 2021 to MK4.10 billion from MK6.33 billion in October 2021.

In November 2021, there were no trades registered in the listed debt market. The total nominal value of the listed debt securities decreased to MK764.74 billion as at 30 November 2021 from MK799.16 billion as at 31 October 2021.

ILLOVO Sugar Malawi closed the financial year ended 31 August 2021 with a profit after tax of MK20.57 billion, an increase of 651% from MK2.74 billion in 2020.

#### MSE Traded Volumes

There were MK4.10 billion worth of shares traded in November 2021 compared to MK6.33 billion worth of shares traded in October 2021. FDH Bank and ICON had the highest value of shares traded at MK1.86 billion and MK744 million respectively, during the period under review. The total number of trades in the month under review increased to 304 trades from 274 trades in October 2021.

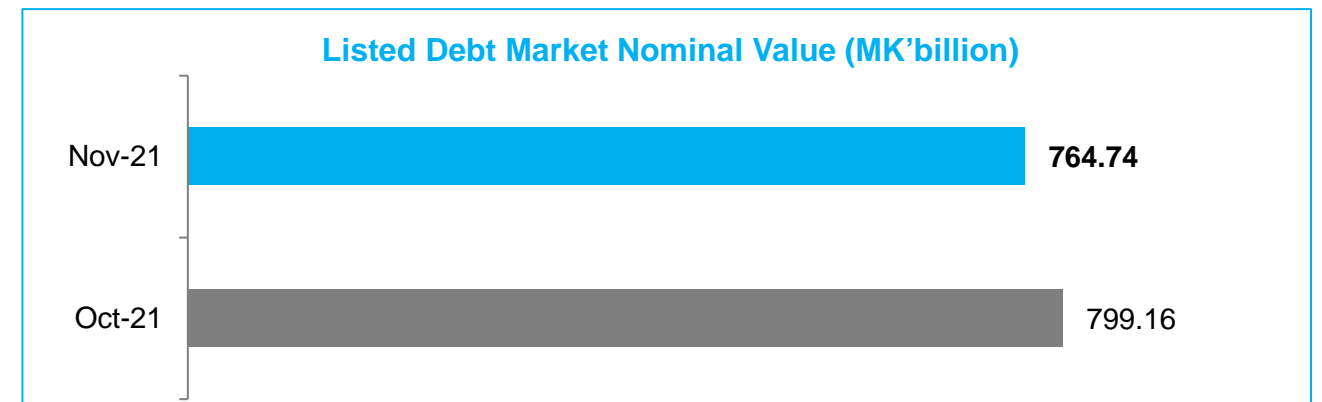
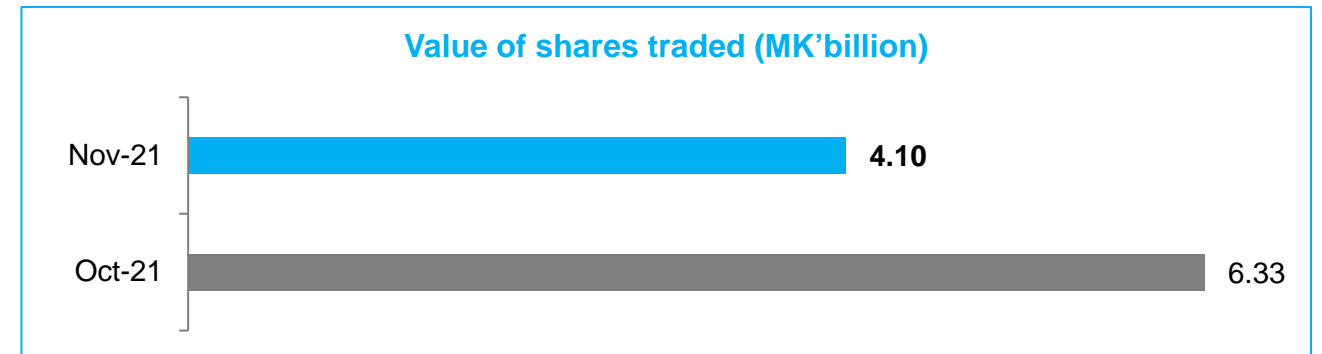
#### Listed Debt market

There were no trades registered in the listed debt market for the month of November 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 number of securities on the listed debt market declined to 20 as at 30 November 2021 from 22 as at 31 October 2021. Consequently, the total nominal value of all listed debt securities declined to MK764.74 billion from MK799.16 billion during the period under review.

#### 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.



#### Published Financial year Trading Statements

ILLOVO's profit after tax for the financial year ended 31 August 2021 increased by 651% against a trading statement profit/loss expectation of 630%.

Amounts in billions of Malawi Kwacha unless specified otherwise.

Counter	31 August 2021	31 August 2020	Actual change in profit/loss for the year	Trading statement profit/loss expectation
Illovo Sugar Malawi	20.57	2.74	651%	630%

#### Dividends

Counter	Dividend type	Dividend per share (MK)	Last day to register	Date of payment
Illovo Sugar Malawi	Second interim	10.00	10 December 2021	13 December 2021



## Other Market Developments

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

*As at the end of June 2021, Malawi's total public debt stock stood at MK5.5 trillion, an increase of 32% from MK4.1 trillion in June 2020.*

#### Fiscal policy

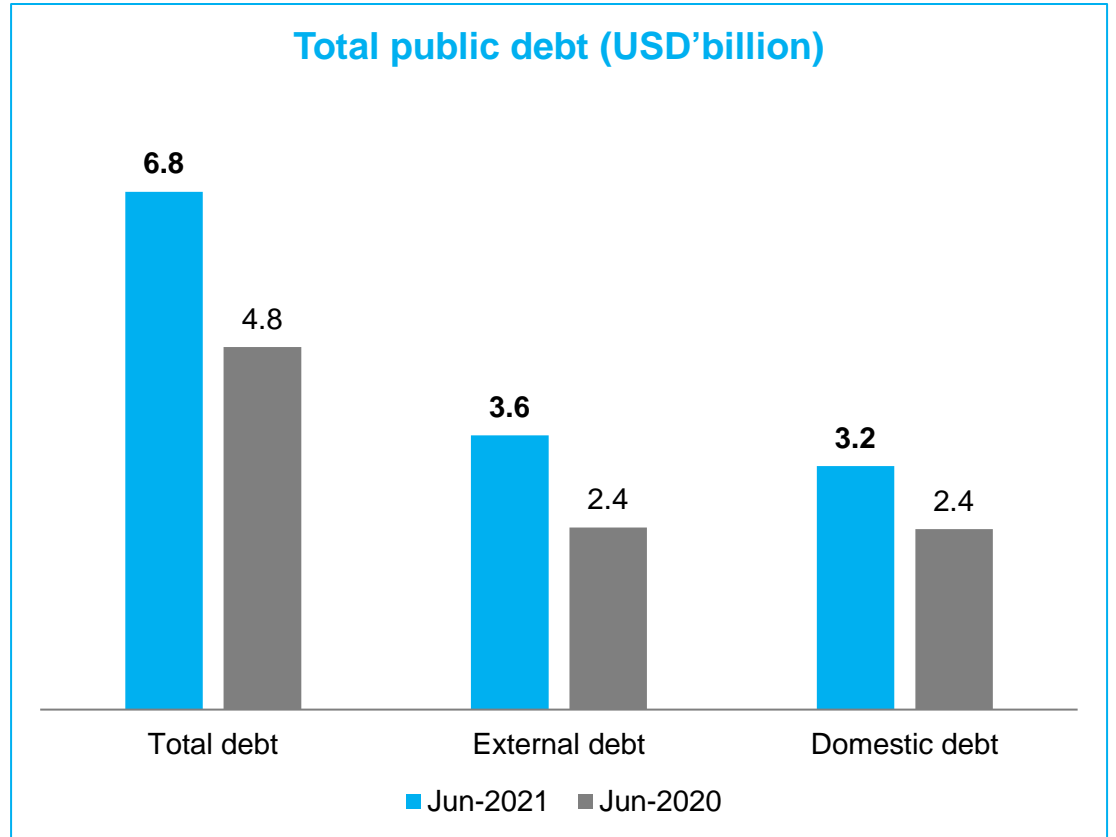
As at the end of June 2021, Malawi's total public debt stock stood at MK5.5 trillion, an increase of 32% from MK4.1 trillion in June 2020. The total public debt stock as a proportion of GDP increased in June 2021 as it was equivalent to 59% of fiscal year 2020-21 GDP, while the total public debt stock in June 2020 represented 48% of GDP. Of the total debt stock for June 2021, USD3.6 billion (MK2.92 trillion) was external debt and USD3.2 billion (MK2.6 trillion) was domestic debt. In terms of GDP, external debt was equivalent to 31% of GDP and domestic debt was equivalent to 28% of GDP. External debt grew by 14% during the period, lower than an increase in domestic debt by 42%.

#### Monetary Policy

The Monetary Policy Committee (MPC) at its fourth meeting held in November 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. This was reached to facilitate sustained domestic economic recovery and simultaneously manage domestic and imported inflationary pressure. The EIU had forecast that the Policy rate would be maintained at 12% throughout 2021 as such the decision reached by the MPC was inline with that projection. For 2022-25, the EIU expects the MPC to adopt a tightening monetary policy stance to curb rising inflation.

A Private Member's Bill to amend the Financial Services Act, Cap 44:05 of the Laws of Malawi was introduced into Parliament on 12 November 2021. The Bill seeks to regulate interest rates on loans obtained from banks and other lending financial institutions. The Bill will also seek to regulate the maximum chargeable policy rate by the Reserve Bank of Malawi at 3% above the inflation rate if the inflation rate is below 10%, and to cap it at 10% if the inflation rate is above 10%. Currently, the Bill has been deferred to provide time for further consultation.

**Total public debt (USD billion)**





## Other Market Developments (Continued)

### Malawi Monthly Maize Market Report (Source: IFPRI)

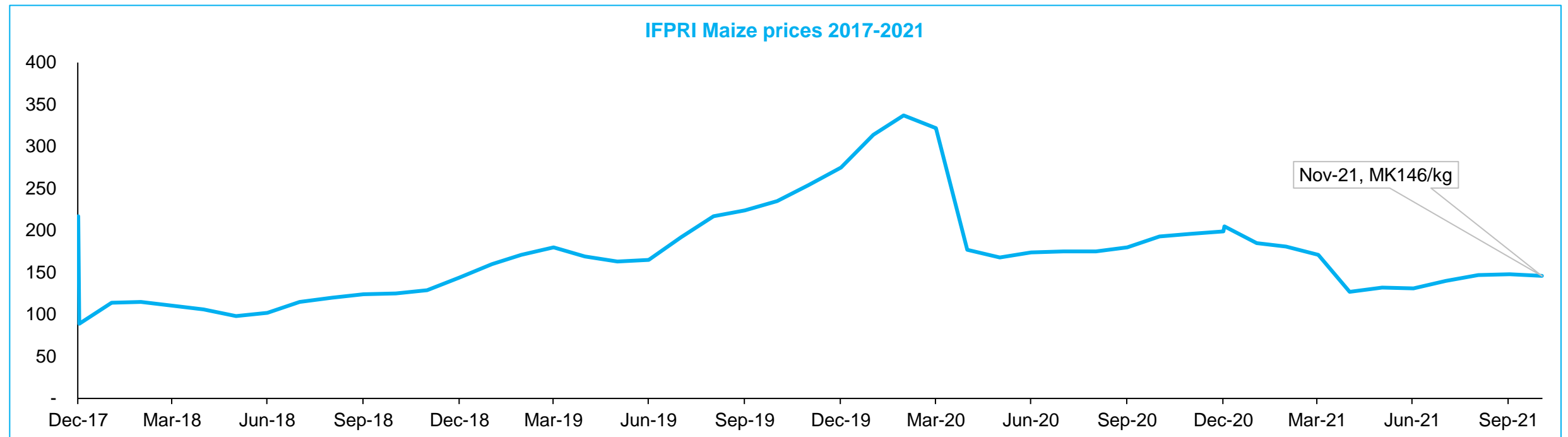
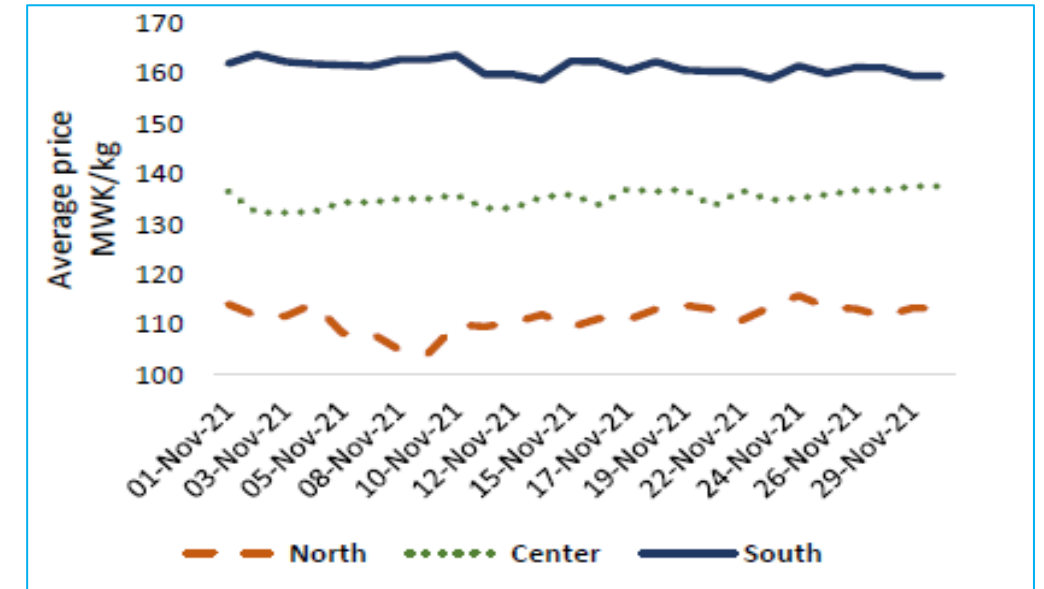
*The average retail price for maize in November 2021 was MK146/kg, a decrease of 1.35% from an average retail price of MK148/kg in October 2021. Therefore, a standard 50kg bag of maize was selling for an average of MK7,300.00 in November 2021.*

The monthly average retail maize price decreased by 1.35% to MK146/kg in November 2021 from MK148/kg in October 2021. This means that on average, a standard 50kg bag of maize was selling for MK7,300.00 in November 2021 from an average price of MK7,400.00 in October 2021. Y-o-y, the monthly average retail maize price decreased by 25.51% as it was MK196/kg in November 2020.

Agricultural Development and Marketing Corporation (ADMARC) sales were reported in 11 out of the 26 markets monitored by International Food Policy Research Institute (IFPRI). ADMARC is selling maize at MWK 205/kg, 39% higher than average retail price in November 2021.

As of the end of November 2021, retail prices of maize in the Malawian markets were lower than in selected regional markets in eastern Africa and on the main grain futures market in South Africa, the South African Futures Exchange (SAFEX).

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





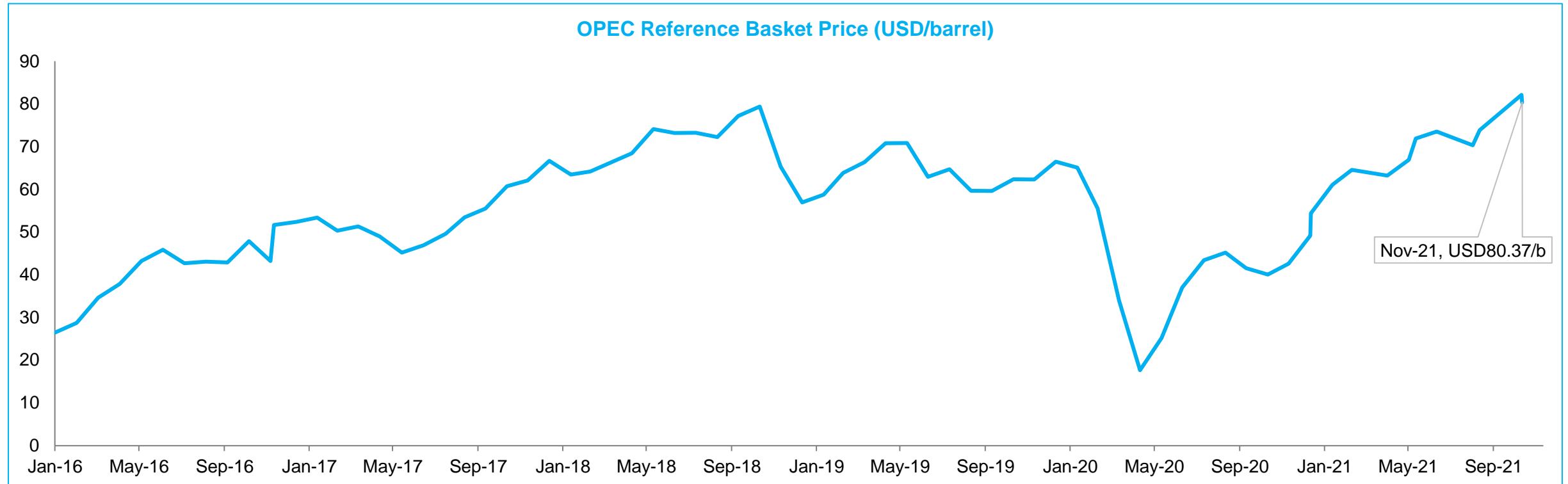
## Regional And Global Market Developments

### Global oil and interest rate developments (Source: OPEC, World Bank)

*The OPEC Reference Basket (ORB) price decreased by 2.12% to USD80.37/b in November 2021 from USD82.11/b in October 2021. An increase in COVID-19 cases in Europe spurred a decrease in demand for oil, which underpinned the ORB price decrease during the period under review. Year-on-year, the ORB price has increased by 89% as it was USD42.61/b in November 2020.*

M-o-m, the OPEC Reference Basket (ORB) price decreased by 2.12% to USD80.37/b in November 2021 from USD82.11/b in October 2021. An increase in COVID-19 cases in Europe spurred a decrease in demand for oil, which underpinned the ORB price decrease during the period under review. Year-on-year, the ORB price has increased by 89% as it was USD42.61/b in November 2020.

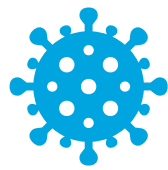
The Declaration of Cooperation (DoC) is an agreement between OPEC member countries and 11 non-OPEC oil producing countries that is aimed towards accelerating the stabilization of the global oil market. OPEC together with other countries participating in the DoC, having proved its value in helping stabilize the market in unprecedented circumstances during the pandemic and its fall-out, have extended the decision of the 10th OPEC and non-OPEC Ministerial Meeting (April 2020) until the end of 2022.



### Interest rate movements (Source: WSJ)

The 3-month and the 6-month US LIBOR rates increased to 0.17% from 0.13%, and 0.24% from 0.20%, respectively in November 2021 from October 2021.

	November 2021 (%)	October 2021 (%)
US LIBOR (3 months)	0.17%	0.13%
US LIBOR (6 months)	0.24%	0.20%



# COVID-19 Update

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

*As at 30 November 2021, 3.1% of the of the Malawian population had been fully vaccinated against COVID-19.*

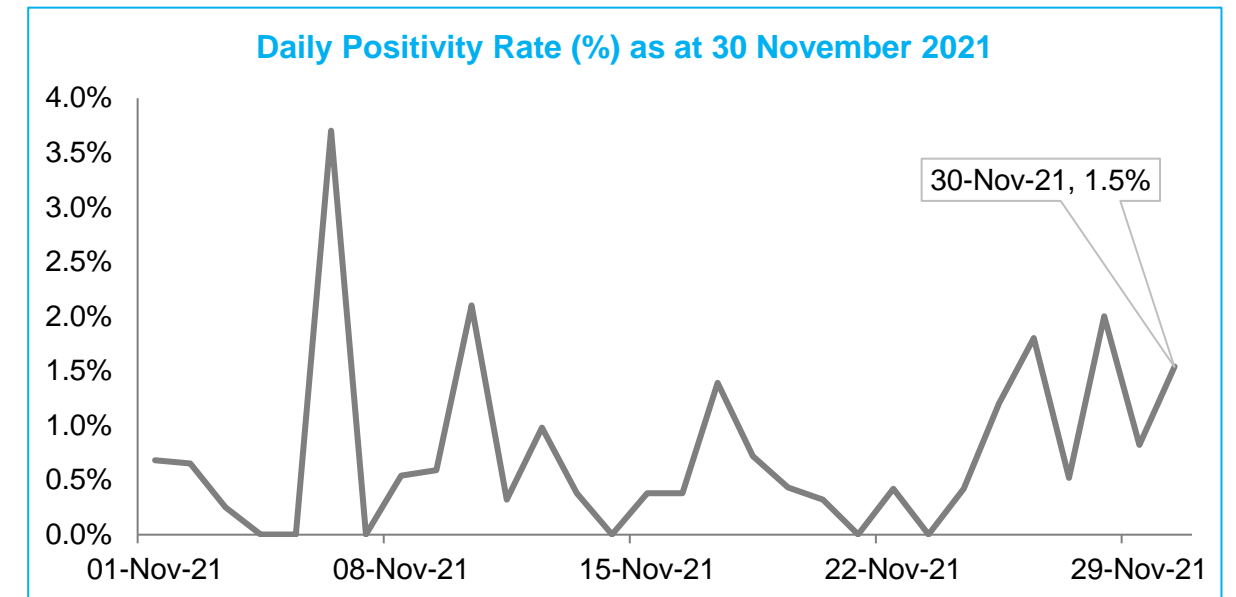
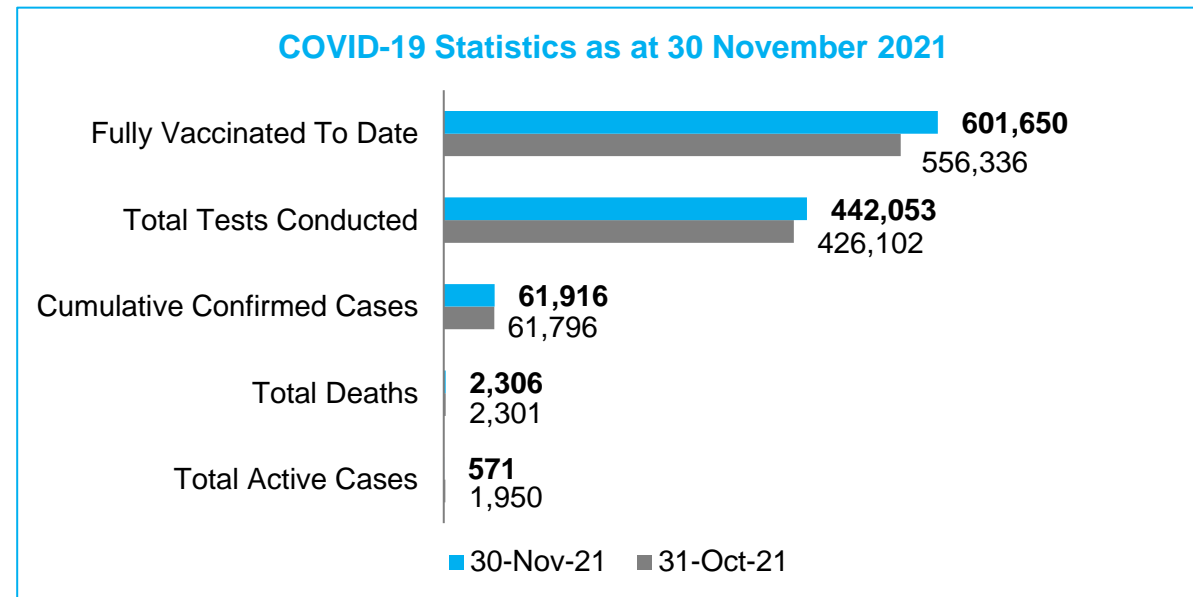
*As at 30 November 2021, 601,650 individuals had been fully vaccinated against the COVID-19 virus, an increase of 8.15% from 556,336 individuals fully vaccinated as at end October 2021.*

In light of evolving domestic, regional and global COVID-19 conditions, the Presidential Taskforce on Coronavirus met in November 2021 to review the status of the pandemic and the adequacy of the measures that were in place. The Taskforce decided that the level of the pandemic in the country remained at Level 1 and that preventative measures associated with Level 1 would continue to be reinforced. These measures include the lifting of inbound travel restrictions upon the production of a negative Polymerase Chain Reaction (PCR) based COVID-19 test certificate. The certificate must be no older than 72 hours on the day of arrival into the country. Other measures are that offices and public transportation can function at normal occupancy, indoor events are subject to a maximum of 500 people and outdoor events may be subject to a maximum of 2,000 people.

With respect to the recently identified COVID-19 variant which the World Health Organisation (WHO) has called Omicron (B1.1.529) and the rising COVID-19 cases in notable regions such as the United Kingdom, Europe, North America and the South Africa, the Taskforce reassured the citizenry of the efficacy of its disease surveillance system. The disease surveillance system has been built over many years on the back of HIV, Tuberculosis, Malaria and Cholera surveillance mechanisms. The Taskforce further stated that the country has the capacity to monitor the spread through routine screening as well as the capacity to study variants using reference laboratories at the Public Health Institute of Malawi and the Malawi Liverpool Welcome Trust. Currently, there have been no unusual variants detected in the country, including the new Omicron (B1.1.529) variant.

As at end November 2021, 601,650 individuals had been fully vaccinated against the COVID-19 virus in Malawi. This is an 8.15% increase from 556,336 individuals fully vaccinated as at end October 2021. The number of fully vaccinated individuals represents 3.1% of the Malawian population. With the slow rate of the COVID-19 vaccine uptake, the country is on a path to miss the Ministry of Health's objective of fully vaccinating 20% of the population by December 2021. At the current pace, in order to achieve the objective, the remaining 16.9% of the targeted population would have to be fully vaccinated within the last month of 2021. An additional objective that the Ministry has set, is to attain herd immunity by fully vaccinating 60% of the Malawian population by December 2022.

The total cumulative confirmed COVID-19 cases increased to 61,916 as at 30 November 2021 from 61,796 as at 31 October 2021. Similarly, the cumulative COVID-19 related deaths increased to 2,306 from 2,301 during the same period. These changes were accompanied by an increase in the daily positivity rate to 1.5% as at 30 November 2021 from 0.4% as at 31 October 2021, while the daily case fatality rate maintained its position at 3.7% during the period under review. The daily recovery rate increased to 95% from 92.8% during the same period.





## Special Topic

### Central Bank Currency Issuance (Source: RBM, Government of Malawi, IMF)

*The Reserve Bank of Malawi announced that new banknotes will be introduced into circulation from 24 February 2022. The banknotes include a MK5,000 banknote and an upgraded MK2,000 bank note.*

#### The Mandate of the Reserve Bank of Malawi (RBM)

The Reserve Bank of Malawi (RBM) Act states that the RBM reserves the sole right of issuing banknotes and coins throughout Malawi and that no other party is permitted to issue any notes and coins which are likely to pass as legal tender. Furthermore, the RBM utilizes its currency management policy as a guide on what actions to be taken in response to various economic developments. It is under this authority that the RBM has made several introductions of new banknotes and coins to serve as legal tender over the years.

The most recent announcement of the introduction of new banknotes was made by the RBM on 23 November 2021. During the announcement, it was indicated that the RBM would introduce a MK5,000 note and an upgraded MK2,000 note into circulation from 24 February 2022. The RBM further stated that the development had been necessitated by an excessive supply of the current highest value denomination, the MK2,000 note, in circulation. The value of MK2,000 notes in circulation accounts for over 80% of the total value of the currency in circulation and this is in excess of the recommended 60% upper limit.

Another factor cited to have necessitated the introduction of new banknotes is to increase portability. Portability refers to the ease with which money can be transported by its users. With the introduction of the new notes, consumers would need a single MK5,000 banknote to settle a MK4,000 payment as opposed to requiring two MK2,000 banknotes. This simultaneously reduces the banknotes-issue costs for the RBM.

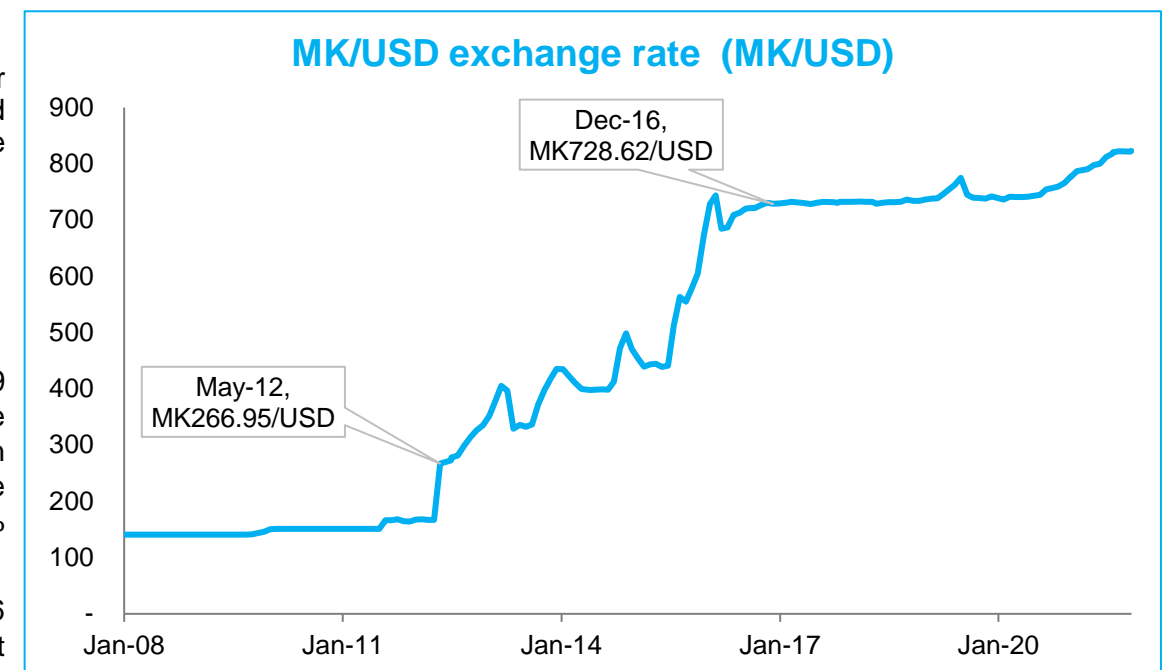
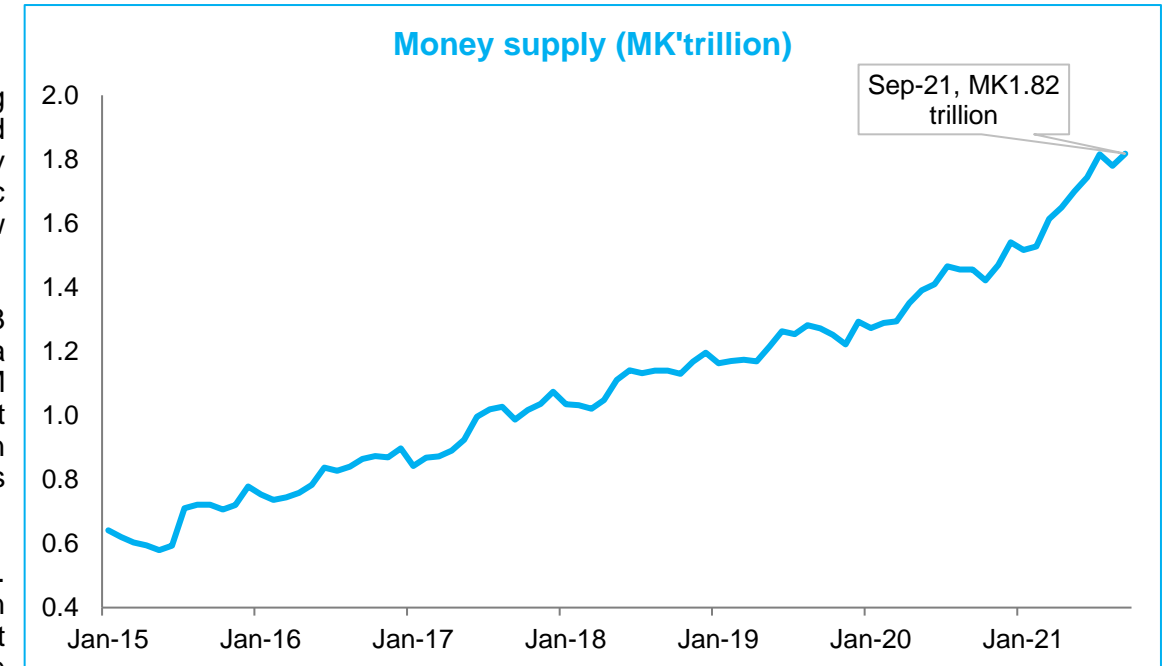
Additionally, the RBM considered the increase in demand for the MK2,000 banknotes as an indicator that the current highest value denomination was being used for transactional purposes as opposed to being used as a store of value as should be the case for higher denominations. This therefore compelled the RBM to introduce a higher denomination banknote to function as a store of value.

#### Historic currency issuance:

##### December 2016

The immediate previous introduction of a highest value denomination into circulation was on 19 December 2016. At the time, the RBM introduced the current highest value denomination, the MK2,000 note and stated that this had been necessitated by the domestic currency's depreciation and the prevailing inflation. Looking at the exchange rate as at the close of December 2016, the Malawi Kwacha to United States Dollar exchange rate was trading at MK728.62/USD, a 173% depreciation from MK266.95/USD traded in May 2012 when the the MK1,000 note was introduced.

With month-on-month inflation trending downward throughout 2016, from 23.5% as at January 2016 to close the year with 20.0% as at December 2016, average annual inflation for the year was at 21.8%.





## Special Topic (Continued)

### Central Bank Currency Issuance (Source: RBM, Government of Malawi, IMF)

*In 2012, the introduction of a new currency series was implemented to reduce the costs of printing money, upgrade the security of the currencies and add features that would ease currency use by the visually impaired.*

#### May 2012

In May 2012, the RBM introduced new banknotes and coins for all denominations in circulation and begun the process to withdraw all previously issued banknotes and coins that preceded the latest series. In addition to this development, the RBM introduced the MK1,000 banknote as the highest value denomination in circulation.

According to the RBM, the introduction of the new currency series was implemented to reduce the costs of printing money as the physical sizes of the new currencies had been significantly reduced. It was also aimed at upgrading the security of the currencies as well as adding features that would ease currency use by the visually impaired.

With month-on-month inflation trending upward for 2012, from 10.3% as at January 2012 to close at its highest value for the year at 34.6% as at December 2012, average annual inflation for the year was at 21.4%.

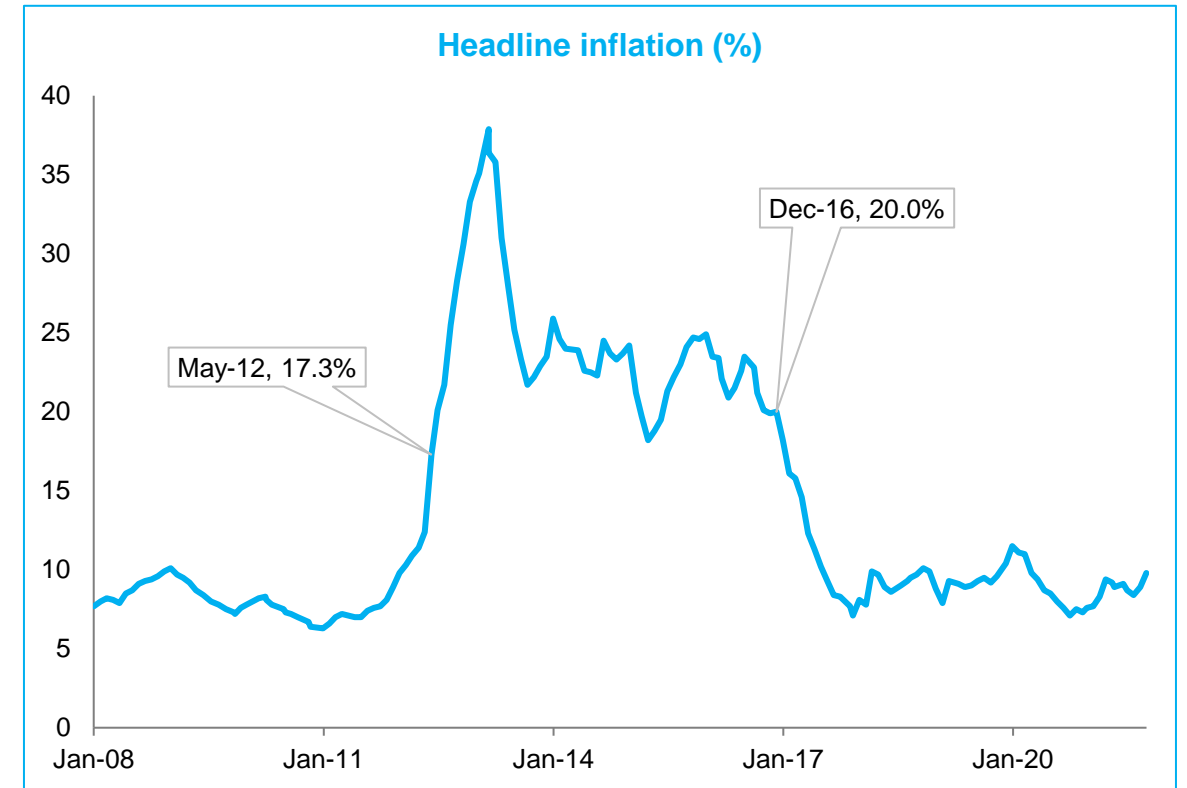
In terms of the exchange rate, the Malawi Kwacha to United States Dollar exchange rate depreciated by 100% to MK335.13/USD as at December 2012 from MK167.43/USD as at January 2012. This was largely impacted by policy implementation which led to a 33% devaluation of the Malawi kwacha from MK167/USD to MK250/USD, and the adoption of a floating exchange rate regime.

#### Implications

Factors that affect the level of demand for banknotes include population growth and inflation. The relationship between the population growth and demand for banknotes is positively correlated, with increases in the population growth spurring increases in the overall demand for banknotes.

There is a similar relationship between inflation and demand for banknotes. As inflation increases and the purchasing power of a currency is eroded, consumers may demand more banknotes to fulfil transactions of the same real value, and additionally, they may demand more notes to store the same real value than before the increase in inflation.

Therefore, the introduction of new bank notes by the RBM is in response to observed trends in economic conditions.



## Appendix

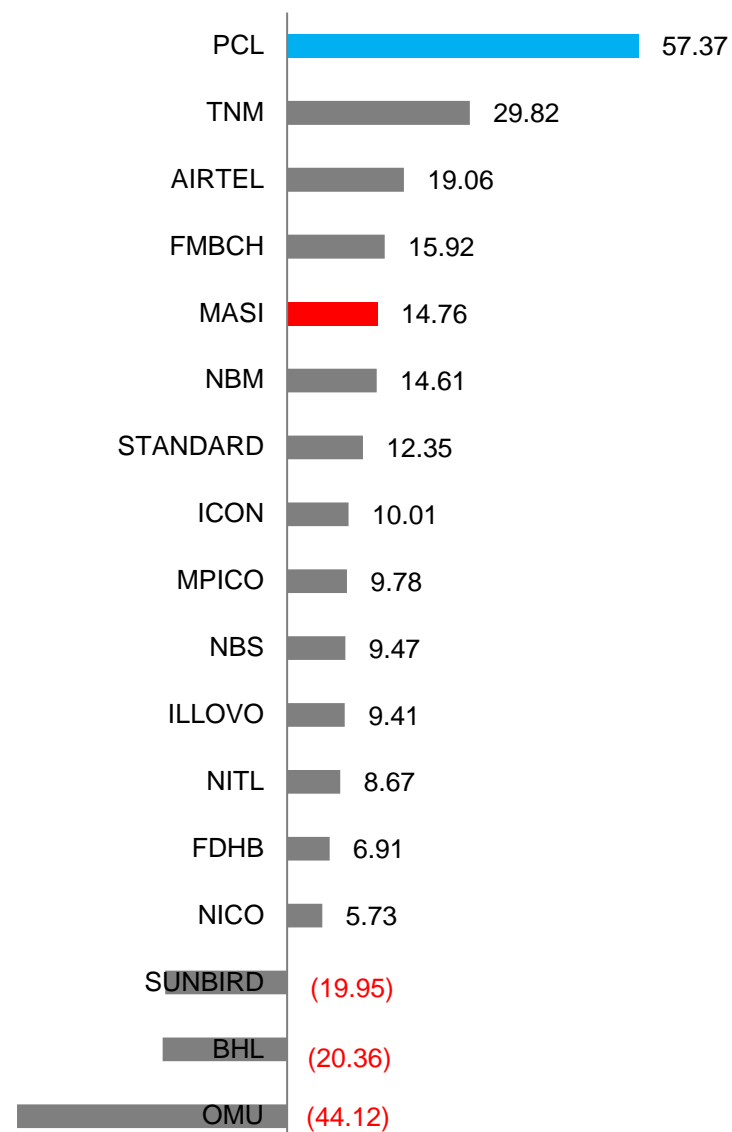


## Appendix 1: Historical Economic Indicators

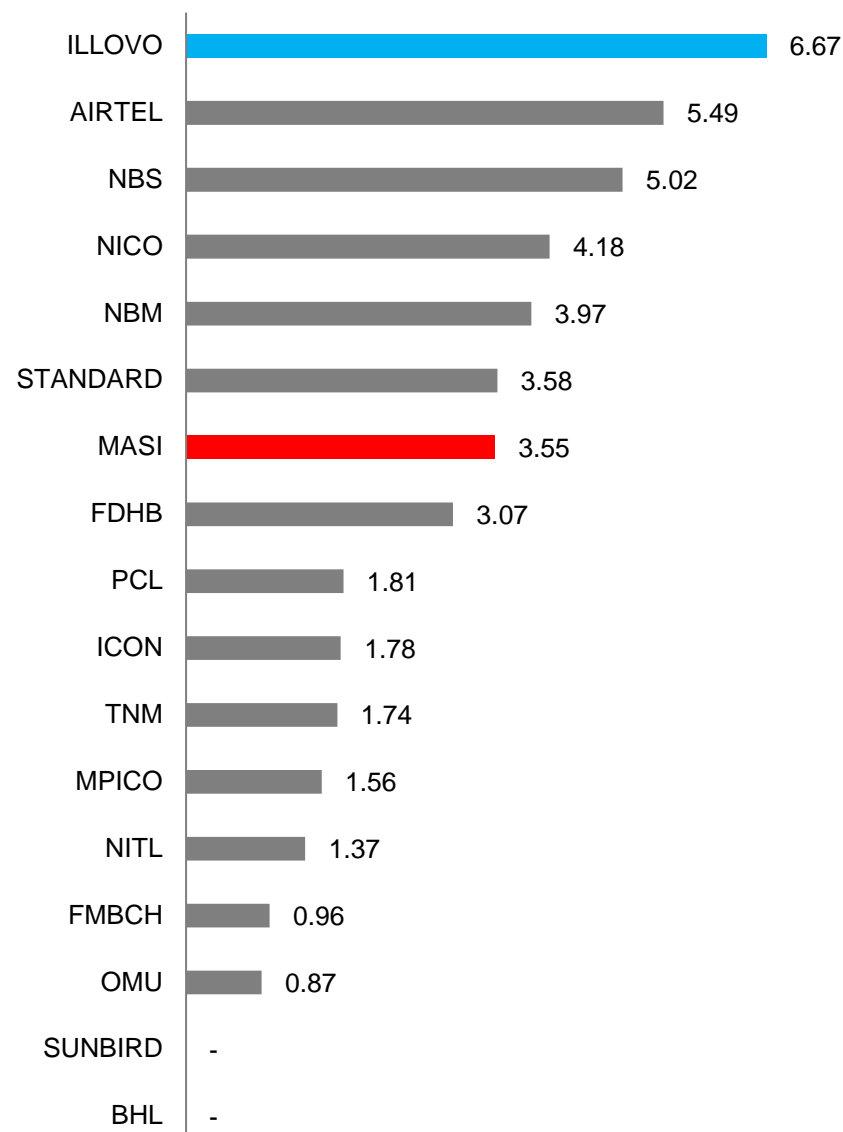
	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20	Jan-21	Feb-21	Mar-21	Apr-21	May-21	Jun-21	Jul-21	Aug-21	Sep-21	Oct-21	Nov-21
<b>Exchange rates</b>																
MK/USD	754.71	756.93	759.47	765.92	776.82	776.49	787.03	790.30	797.66	800.17	811.95	817.43	820.40	822.17	821.34	<b>822.88</b>
MK/GBP	1,024.89	999.88	1,015.11	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	<b>1,194.23</b>
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	<b>1,099.91</b>
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	<b>57.2107</b>
<b>Foreign Exchange Reserves</b>																
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	<b>389.26</b>
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	<b>404.81</b>
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	<b>794.07</b>
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	<b>1.56</b>
<b>Inflation</b>																
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%	9.8%	-
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%	11.8%	-
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%	7.8%	-
<b>Interest Rates</b>																
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%	<b>12.00%</b>
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%	<b>11.98%</b>
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%	<b>12.20%</b>
<b>Government Securities' Yields</b>																
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%	<b>9.58%</b>
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%	<b>12.98%</b>
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%	<b>14.22%</b>
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%	<b>16.64%</b>
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%	<b>19.00%</b>
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%	<b>20.53%</b>
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%	<b>21.15%</b>
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%	<b>22.50%</b>
<b>Stock Market Indices</b>																
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	<b>41,565.98</b>
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	<b>34,284.11</b>
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	<b>3,450.24</b>

## Appendix 2: Selected stock market statistics as at 30 November 2021

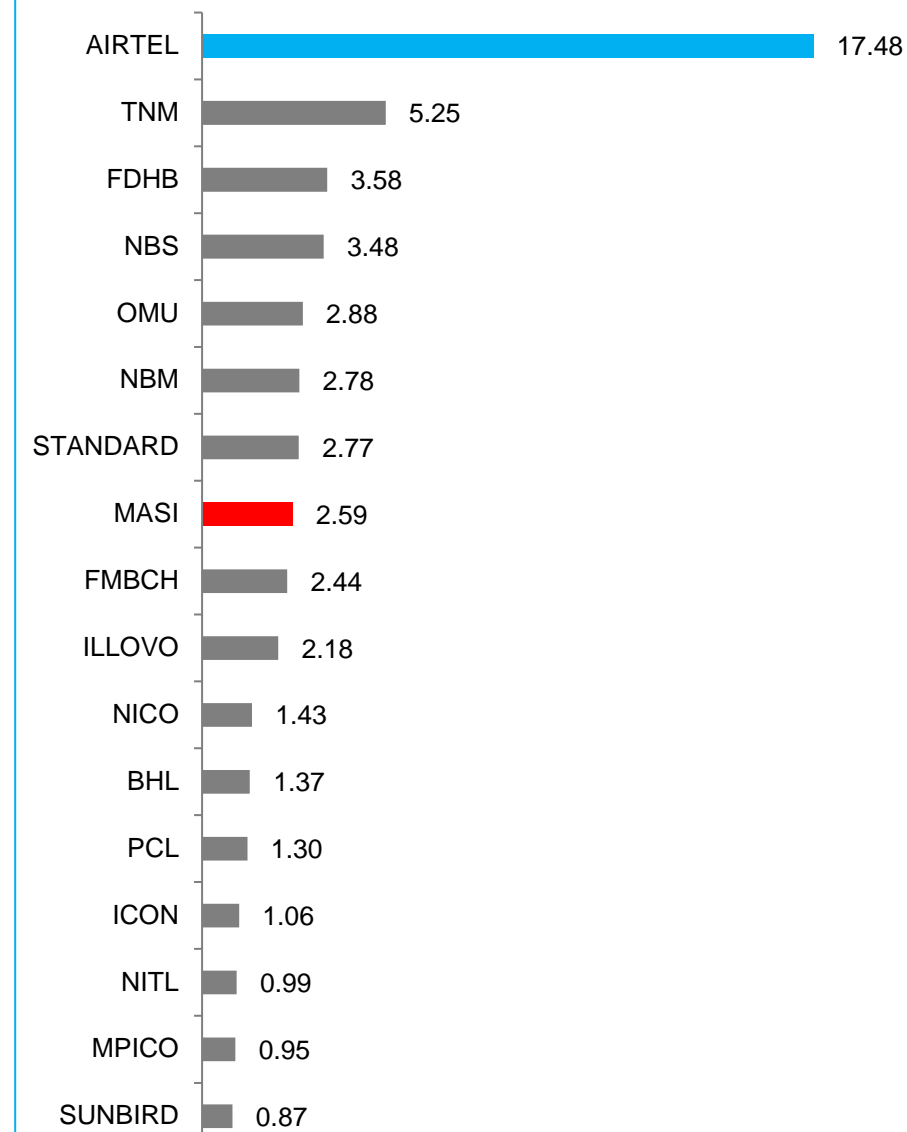
**P/E ratio** - the weighted average price to earnings ratio on the MSE was 14.76 in November 2021. PCL had the highest at 57.37 while OMU had the lowest at negative 44.12.



**Dividend yield (%)** - the weighted average dividend yield on the MSE was 3.55% in November 2021. The counter with the highest dividend yield was ILLOVO at 6.67%.



**P/BV ratio** - the weighted average price to book value ratio on the MSE was 2.59 in November 2021. Airtel had the highest ratio at 17.48 while SUNBIRD had the lowest ratio at 0.87.



### Economic Growth

%	2020 <sup>a</sup>	2021 <sup>b</sup>	2022 <sup>b</sup>	2023 <sup>b</sup>	2024 <sup>b</sup>	2025 <sup>b</sup>
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

<sup>a</sup> Economist Intelligence Unit estimates. <sup>b</sup> Economist Intelligence Unit forecasts.

### Key Indicators

	2020 <sup>a</sup>	2021 <sup>b</sup>	2022 <sup>b</sup>	2023 <sup>b</sup>	2024 <sup>b</sup>	2025 <sup>b</sup>
Real GDP growth (%)	0.8	2.7	4.0	4.5	4.9	5.2
Consumer price inflation (av; %)	8.6 <sup>c</sup>	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 <sup>c</sup>	807.9	850.9	883.7	906.2	927.4

<sup>a</sup> Economist Intelligence Unit estimates. <sup>b</sup> Economist Intelligence Unit forecasts. <sup>c</sup> Actual.

### International Assumptions

	2020	2021	2022	2023	2024	2025
<b>Economic growth (%)</b>						
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
<b>Inflation indicators (% unless otherwise indicated)</b>						
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
<b>Financial variables</b>						
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 4: List of Acronyms and Abbreviations

ADMARC:	Agricultural Development and Marketing Corporation	MPC:	Monetary Policy Committee	USA:	United States of America
AIP:	Affordable Inputs Program	MSE:	Malawi Stock Exchange	USD:	United States Dollar
BHL:	Blantyre Hotels Plc	MW:	Mega Watts	Y-O-Y:	Year-on-year
BWB:	Blantyre Water Board	NBM:	National Bank of Malawi Plc	YTD:	Year-to-date
COVID-19:	Coronavirus disease	NICO:	NICO Holdings Plc	ZAR:	South African Rand
CRWB:	Central Region Water Board	NITL:	National Investment Trust Limited Plc		
DoC:	Declaration of Cooperation	NSO:	National Statistical Office		
DSI:	Domestic Share Index	OMU:	Old Mutual Limited Plc		
EIU:	Economist Intelligence Unit	OPEC:	Organization of the Petroleum Exporting Countries		
EUR:	Euro	P/BV:	Price to book value		
FDHB:	FDH Bank Plc	PCL:	Press Corporation Limited Plc		
FMBCH:	FMB Capital Holdings Plc	PCR:	Polymerase Chain Reaction		
FSI:	Foreign Share Index	P/E:	Price to earnings		
GBP:	Great British Pound	RBM:	Reserve Bank of Malawi		
GDP:	Gross Domestic Product	SAFEX:	South African Futures Exchange		
IFPRI:	International Food Policy Research Institute	SRWB:	Southern Region Water Board		
IMF:	International Monetary Fund	SUNBIRD:	Sunbird Tourism Plc		
LRR:	Liquidity Reserve Requirement	TB:	Treasury Bill		
MASI:	Malawi All Share Index	TN:	Treasury Note		
Mb/d:	Million barrels per day	TNM:	Telekom Networks Malawi Plc		
MERA:	Malawi Energy Regulatory Authority	TT:	Telegraphic Transfer		
MK:	Malawi Kwacha	WEO:	World Economic Outlook		
M-O-M:	Month-on-month	WHO:	World Health Organisation		
		UK:	United Kingdom		

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