Bridgepath Capital
Invest to Achieve

Malawi Annual Economic Report

2021

Table of Contents

Inflation

As at November 2021, headline inflation for 2021 averaged 9.0%, an increase from an annual average of 8.6% in 2020. The change was on account of an increase in non-food inflation which offset a decrease in food inflation during the period under review. The increase in non-food inflation was attributable to global and domestic price levels for petroleum products, increase in domestic water tariffs and the Malawi Housing Corporation's (MHC) upward revision of rental rates during the period. The decrease in food inflation was attributable to an above average maize harvest during the period which increased supply, consequently depressing maize prices during the period. The EIU anticipated non-food inflation to maintain an upward trajectory throughout the year and projects headline inflation to average 9.2% in 2021.

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. The MPC's inflation forecast for 2021 is likely to be within range although inflation for December 2021 is anticipated to be higher due to increases in food inflation as the country is in the lean season. 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 anticipate inflation to 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.

Month-on-month, headline inflation increased to 11.1% in November 2021 from 9.8% in October 2021. The increase in headline inflation was on account of increases in both food and non-food inflation to 12.8% and 9.5%, respectively.

Fiscal Policy

The 2021/22 budget is a nine-month budget running from July 2021 to March 2022. This is aimed at adjusting the fiscal year from one that starts on 1 July and ends on June 30, to one that starts 1 April and ends on 31 March. The change is to enable the government to fund public institutions that are involved in the agriculture production cycle. The 2021/22 budget had a projected total expenditure of MK1.99 trillion, a decrease from MK2.19 trillion in the 2020/21 budget. The total revenue and grants for the 2021/22 budget were projected at MK1.27 trillion, a decrease from MK1.44 trillion in the 2020/21 budget. This resulted in a projected fiscal deficit of MK720 billion for the 2021/22 budget, a decrease from a fiscal deficit of MK760 billion for the 2020/21 budget. The Ministry of Finance later made additional allocations amounting to MK5.5 billion to the 2021/22 budget. The allocations increased the projected expenditure to MK2.04 trillion and the fiscal deficit to MK775 billion.

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 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, throughout 2021. This was implemented to minimize 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 in November 2021. The Bill sought 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.

Stock Market

Year-on-year, the Malawi All Share Index (MASI) increased by 40.05% to 45,367.68 points as at 31 December 2021 from 32,392.84 points as at 31 December 2020. This was due to share price gains for ILLOVO, FMBCH, PCL, AIRTEL, Standard Bank, NBM, TNM, FDH Bank, NBS, NICO, ICON and NITL which offset share price losses for BHL, SUNBIRD, OMU and MPICO. In terms of market price movement, ILLOVO had the largest share price gain during the period to MK300.00 per share in December 2021 from MK80.48 per share in December 2020, representing a 272.76% increase. During the period under review, BHL had the largest share price loss to MK11.01 per share from MK12.94 per share, representing a 14.19% decrease during the period under review.

Exchange Rates

Based on middle rates, the Malawi Kwacha depreciated against the USD by 5.49% in 2021 to MK819.44/USD as at 31 December 2021 from MK776.82/USD as at 31 December 2020. Year-on-year, the Malawi Kwacha also depreciated against the British Pound by 12.88%, the Euro by 15.23% and the South African Rand by 2.22% during the same period.

As at December 2021, the gross official forex reserves were USD429.17 million, a decrease of 25.3% from USD574.26 million in December 2020. The private sector reserves were USD425.52 million as at December 2021, an increased by 12.6% to USD425.52 million from USD377.97 million as at 31 December 2020.

Government Securities

In 2021, the government awarded a total of MK1.14 trillion, an increase of 36% from a total of MK838 billion awarded in 2020 through Treasury Bills (TBs) and Treasury Notes (TNs) auctions. The TBs auctions had a rejection rate of 4.7% in 2021, a significant decrease from a rejection rate of 71.6% in 2020. Likewise, the TNs auctions had a rejection rate of 4.2% in 2021, a decrease from a rejection rate of 18.6% in 2020. The closing average TB yield increased to 12.41% from 11.99% during the same period. Similarly, the closing average TN yield increased to 19.89% from 19.47% during the same period.

Tobacco Sales

Following the 2020 tobacco market season, the Tobacco Commission estimated that a total volume of 122.41 million kgs would be sold in the 2021 tobacco market season. The TC's projection was in line with the actual volumes sold in the forecast period, with a 1.01% variance above the projection.

The 2021 tobacco market season closed with a cumulative volume of 123.65 million kgs sold, an increase of 8.4% from 114.02 million kgs sold in the 2020 tobacco market season. The volume was sold at a seasonal average price of USD1.59 per kg in the 2021 tobacco market season, an increase of 3.9% from a seasonal average price of USD1.53 per kg in the 2020 tobacco market season. This marked a cumulative value of USD197.05 million in the 2021 tobacco market season, an increase of 12.6% from a cumulative value of USD174.97 million in the 2020 tobacco market season.

Economic Growth

For 2021, the Ministry of Economic Planning, Development and Public Sector Reform revised the real GDP growth forecast downward to 2.5% from 3.8% projected in the 2021/22 budget. The revision was based on the anticipated effects of the prolonged COVID-19 pandemic as the economy experienced multiple waves of infections and associated restriction adjustments through the course of the year. The 2021 real GDP growth forecast is higher than the 0.9% reported for 2020. The improved growth rate is based on anticipated gains as the country recovers from the 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.

The revised real GDP growth forecast for 2021 is in line with an average forecast of 2.6% projected by the World Bank, IMF and EIU. The latter expect the economy to recover at this rate due to the protracted COVID-19 pandemic and its effects in 2021.

For 2022, the government of Malawi projects a real GDP growth rate of 5.2%. The forecast by the government of Malawi for 2020 is higher than the average of the projections made by the World Bank, IMF and EIU for 2022 at 3.3%. The latter's expectation is backed by anticipated improvements in COVID-19 vaccination administration, leading to eased restrictions, improvements in consumer demand and recovery of economic activity.

COVID-19 Status and Developments

In March 2021, the Malawi government commenced its COVID-19 vaccination efforts. The country experienced a third wave of COVID-19 infections between June 2021 and August 2021. Following the dissipation of the third wave, the country begun to experience a fourth wave of infections between October 2021 and December 2021. The fourth wave was driven by the recently discovered Omicron (B1.1.1529) variant.

As at 31 December 2020, the country had recorded total cumulative COVID-19 cases of 6,583 and the associated cumulative COVID-19 related deaths were 189. The total number of active cases as at 31 December 2020 were 505.

The total cumulative confirmed COVID-19 cases increased to 75,075 as at December 2021 from 61,946 as at 30 November 2021. Similarly, the cumulative COVID-19 related deaths increased to 2,364 in December 2021 from 2,306 in November 2021. These changes were accompanied by an increase in the daily positivity rate to 40.9% as at 31 December 2021 from 1.5% as at 30 November 2021, while the daily case fatality rate declined to 3.15% from 3.7% during the period under review. The daily recovery rate decreased to 80.11% from 95% from during the period under review.

Risks

The salient downside risks for the country are cessation of financing, depreciation of the Malawi Kwacha, higher inflation, unfavorable weather, a protracted COVID-19 pandemic and inadequate power supply.

According to the IMF, a sudden cessation of available financing from regional development banks poses risk to the outlook. The materialization of this risk could result in real exchange rate adjustments, compression of imports, affect economic growth and financial stability and have negative effects on the vulnerable population.

Global inflationary pressure adds to domestic exchange rate risk and the risk of higher import prices. Although Malawi experienced lower domestic food prices due to a strong harvest, exchange rate depreciation and inflationary trends on imported commodities would put upward pressure on the country's already elevated fiscal deficit.

There is risk to the successful implementation of the Affordable Inputs Programme (AIP) and agricultural productivity as global and domestic fertilizer prices trend upward. The implementation of the programme continues to face challenges including the backing out of 13 suppliers and calls by the World Bank for the government of Malawi to revise the budgetary allocation made to the programme.

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 and domestic increase in COVID-19 cases enhances the risk of a protracted COVID-19 pandemic and its effects. This would result in economic contractions and cause uncertainty in pace of economic recovery as exports and associated revenue may decrease, exchange rate pressure would intensify and result in accelerated currency depreciation.

Compounding these risks, is the risk of power supply insufficiency. The current electricity production capacity remains below the level of national demand. Despite this, there are positive strides being taken towards the attainment of sufficient electricity supply in the country such as the commissioning of the 60-megawatt solar power plant in Salima and the government of Malawi reaching an agreement with Elsewedy Electric of Egypt.

Economic overview

Inflation (Source: NSO, MERA, IFPRI, RBM)

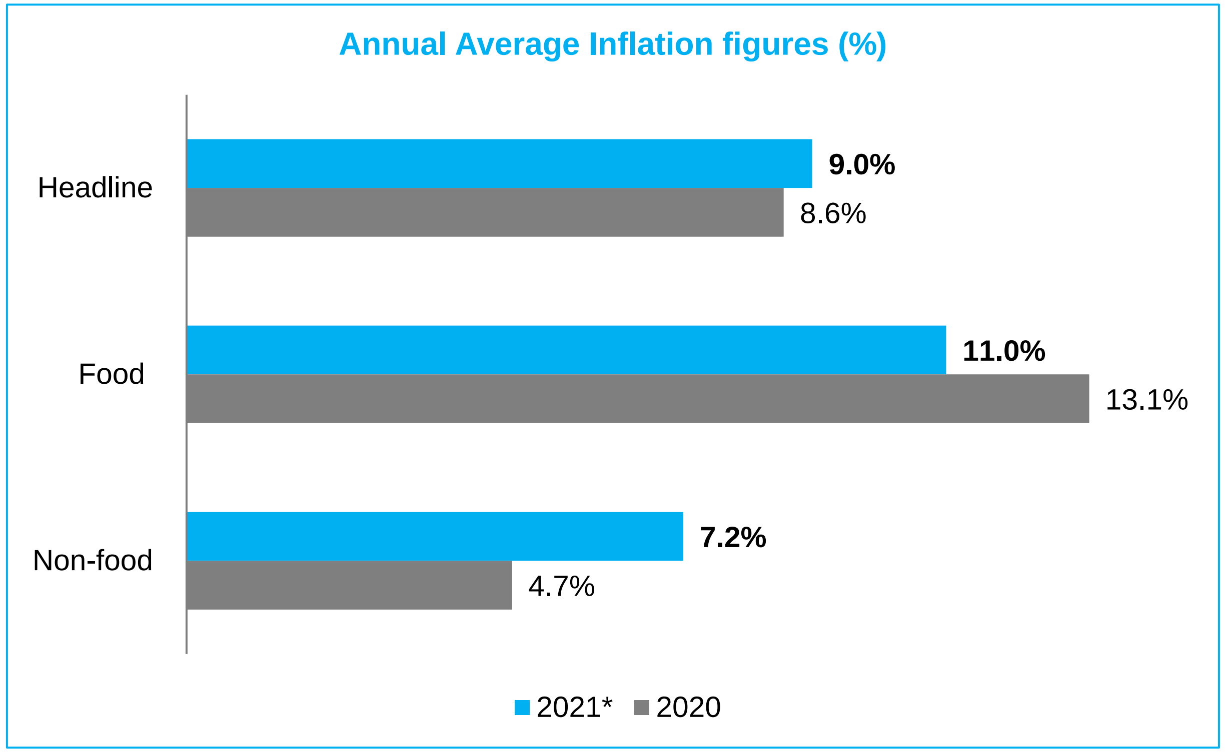
Annual average headline inflation increased to 9.0% in 2021 from 8.6% in 2020 on account of an increase in non-food inflation which offset a decrease in food inflation.

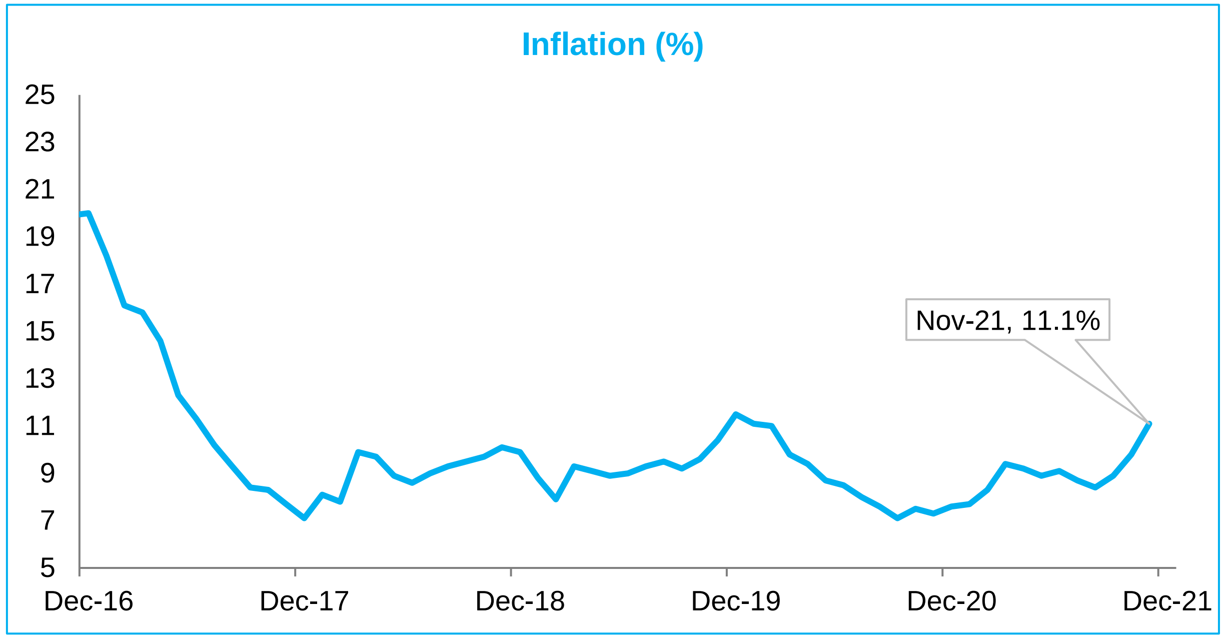
Month-on-month, headline inflation increased to 11.1% in November 2021 from 9.8% in October 2021. The increase was an account of increases in both food and non-food inflation.

As at November 2021, headline inflation for 2021 averaged 9.0%. This is an increase from an annual average headline inflation of 8.6% in 2020. The change in inflation in the 2021 period is on account of an increase in the average annual non-food inflation to 7.2% in 2021 from an average of 4.7% in 2020. The increase in non-food inflation offset a decrease in annual average food inflation to 11.0% in 2021 from 13.1% in 2020. On one hand, the increase in non-food inflation can be attributed to higher global price levels for petroleum products as a result of increased consumer demand and increases in domestic water tariffs and rental rates charged by the Malawi Housing Corporation's (MHC) in 2021. On the other hand, the decrease in food inflation can be attributed to an increase in the supply of maize due to an above average maize harvest during the period under review which depressed maize prices. The price of food contributes 45.2% to the Consumer Price Index (CPI) and according to the International Food Policy Research Institute (IFPRI), as at December 2021, the annual average maize price was MK155.42/kg, a decrease of 28.4% from an average price of MK217.50/kg in 2020.

The annual average headline inflation for 2021 is currently in line with the MPC's forecast for the year. The MPC, at its fourth meeting held on 2 and 3 November 2021, revised the annual inflation projections for 2021 and 2022 upwards to 9.1% (third MPC meeting: 8.8%) and 8.9% (third MPC meeting: 8.2%), respectively. The upward adjustments reflected increases in domestic fuel pump prices, a rise in maize prices in the fourth quarter of 2021 and disruptions to global supply chains during the period. The MPC's inflation forecast for 2021 is likely to be within range although inflation for December 2021 is anticipated to be higher due to increases in food inflation as the country is in the lean season.

Month-on-month, headline inflation increased to 11.1% in November 2021 from 9.8% in October 2021. in November 2020, headline inflation was 7.3%. The month-on-month increase in headline inflation was on account of increases in both food and non-food inflation to 12.8% (October 2021: 11.8%) and 9.5% (October 2021: 7.8%) in November 2021.





** : 2021 averages for the first 11 months as inflation for December 2021 was not published by the NSO at the time this report was prepared.*

Economic overview (Continued)

Government securities (Source: RBM)

The government awarded a total of MK1.14 trillion through Treasury Bills (TBs) and Treasury Notes (TNs) auctions in 2021, an increase of 36% from MK838 billion awarded through TBs and TNs auctions in 2020.

The TBs applications had a rejection rate of 4.7% in 2021, a decrease from a rejection rate of 71.6% in 2020. Similarly, the TNs applications had a rejection rate of 4.2% in 2021, a decrease from a rejection rate of 18.6% in 2020.

The closing average TB yield increased to 12.41% in 2021 from 11.99% in 2020. Likewise, the closing average TN yield increased to 19.89% in 2021 from 19.47% in 2020.

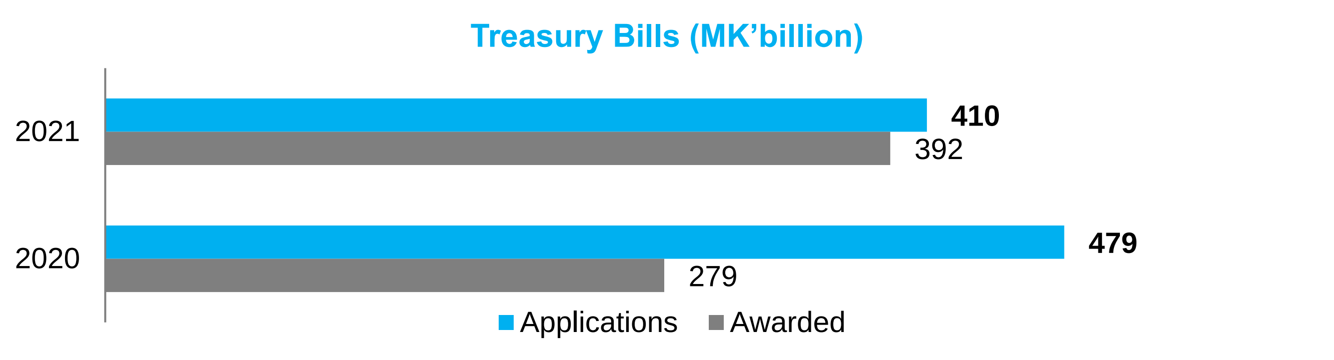
Treasury Bills (TBs)

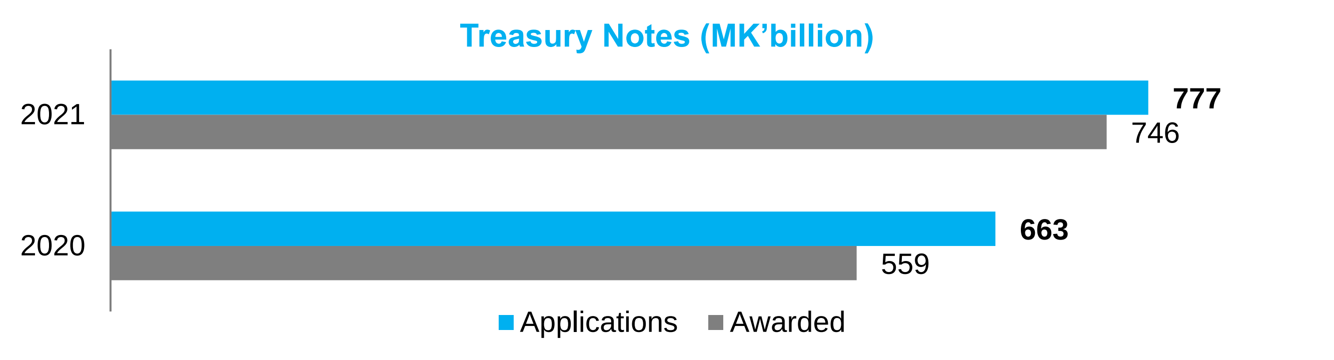
In 2021, participants applied to place a total of MK410 billion through the TBs auctions, a decrease of 14% from a total of MK479 billion applied for in 2020. During the period under review, the government awarded a total of MK392 billion, an increase of 41% from MK279 billion awarded in 2020. The TB applications had a rejection rate of 4.7% in 2021, a decrease from a rejection rate of 71.6% in 2020.

Treasury Notes (TNs)

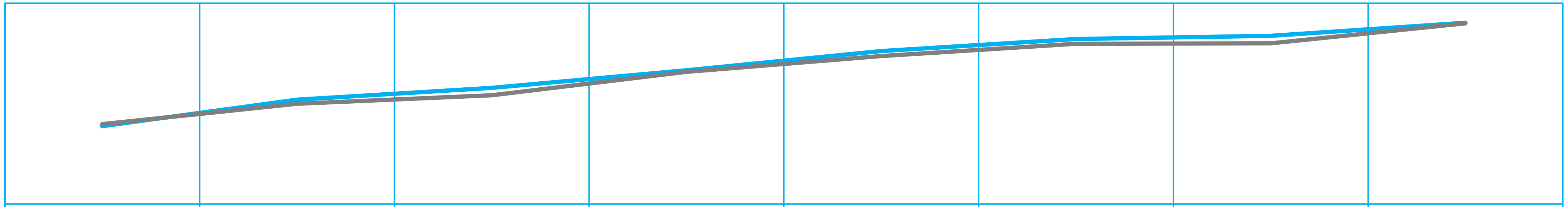
In 2021, participants applied to place a total of MK777 billion through the TNs auctions, an increase of 17.2% from a total of MK663 billion applications in 2020. During the period under review, the government awarded a total of MK746 billion, an increase of 33% from a total of MK559 billion awarded in 2020. The TN applications had a rejection rate of 4.2% in 2021, a decrease from a rejection rate of 18.6% in 2020.

The closing average TB yield increased to 12.41% in 2021 from 11.99% in 2020. Similarly, the closing average TN yield increased to 19.89% from 19.47% during the period under review.





Government securities yield curve as at closing yields (%)



	91-days TB	182-days TB	362-days TB	2-year TN	3-year TN	5-year TN	7-year TN	10-year TN
31-Dec-21	9.70%	13.00%	14.47%	16.66%	19.05%	20.54%	20.94%	22.56%
31-Dec-20	9.95%	12.49%	13.55%	16.46%	18.43%	19.95%	20.00%	22.50%

31-Dec-21 31-Dec-20

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

Year-on-year, the Malawi Kwacha has depreciated against the United States Dollar by 5.49%.

Year-on-year, the Malawi Kwacha has also depreciated against the British Pound by 12.9%, the Euro by 15.2% and the South African Rand by 2.2%.

The gross official forex reserves in December 2021 were USD429.17 million, a decrease of 25.3% from USD574.26 million in December 2020. This translates to an import cover of 1.72 months, a decrease of 37.5% from 2.75 months during the same period.

Foreign currency market

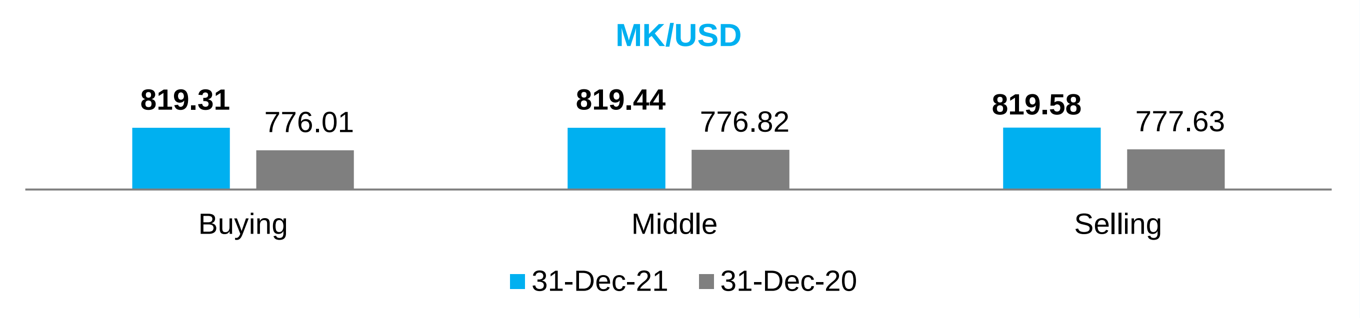
The Malawi Kwacha has been weakening against the United States Dollar (USD) and other currencies over the course of the year as foreign exchange demand and the current-account deficit continue to exert pressure on the currency. This was augmented by the decline in the country's gross official foreign exchange reserves in the year. As at 31 December 2021, the Kwacha had depreciated against the USD by 5.49%, to MK819.44/USD from MK776.82/USD as at 31 December 2020. In comparison to 31 December 2020, the Kwacha had depreciated against the USD by 5.14%, to MK776.82/USD from MK738.87/USD as at 31 December 2019. Year-on-year, the Malawi Kwacha also depreciated against the British Pound by 12.9%, the Euro by 15.2% and the South African Rand by 2.2% during the period under review.

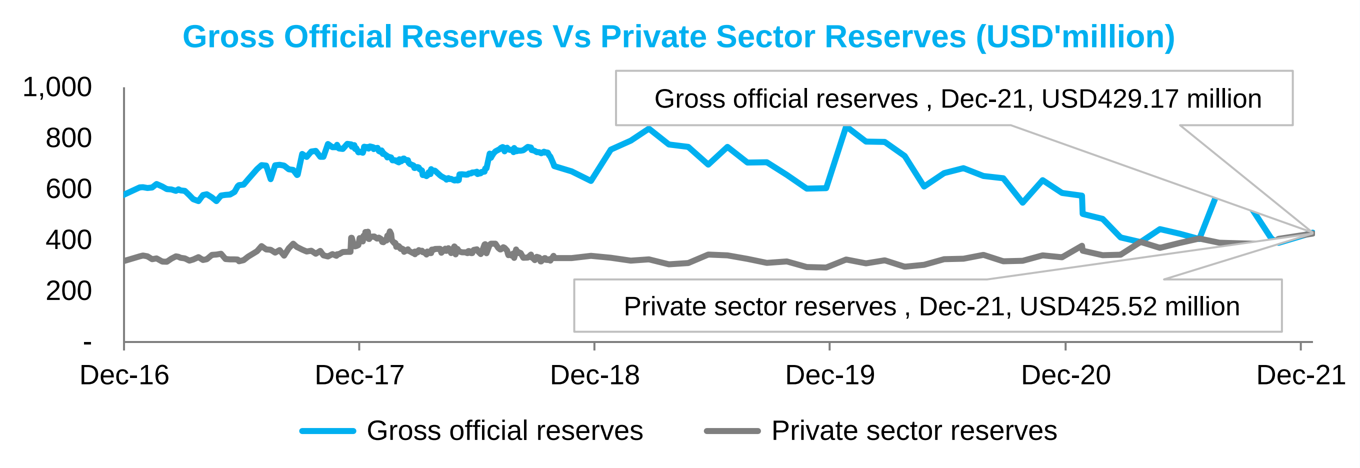
Foreign reserve position

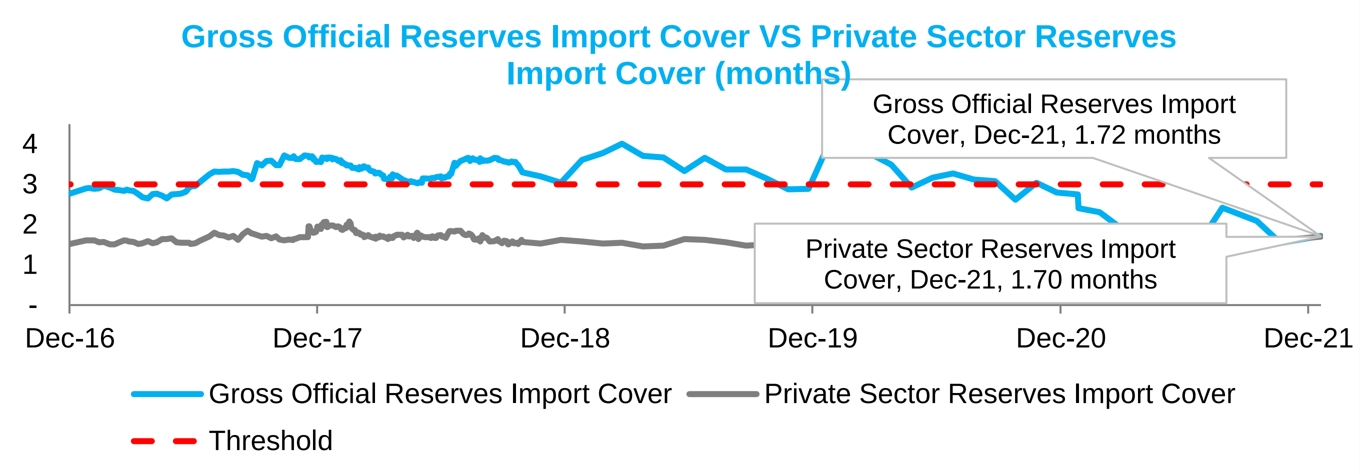
As at 31 December 2021, the country's gross official forex reserves decreased by 25.3% to USD429.17 million from a gross official forex reserve position of USD574.26 million as at 31 December 2020. The private sector forex reserves increased by 12.6% to USD425.52 million as at 31 December 2021 from USD377.97 million as at 31 December 2020. Overall, total foreign exchange reserves held in December 2021 were USD854.69 million, a decrease of 10.2% from the total foreign exchange reserves position of USD952.23 million in December 2020.

Import cover for gross official reserves for December 2021 was 1.72 months, a decrease of 37.5% from 2.75 months in December 2020. For private sector reserves, import cover for December 2021 was 1.70 months a decrease of 6.1% from 1.81 months in December 2020. Both the import cover for gross official and private sector reserves remained below the required threshold of 3 months as at 31 December 2021. The total foreign exchange reserves import cover decreased to 3.42 months in December 2021 from 4.56 months in December 2020.

The import requirement of foreign exchange reserves per month was revised to USD250 million in May 2021, an increase of 19.62% from USD209 million used from July 2020.







USD – United States Dollar

NB: The reported closing rates are actual trade-weighted market average Telegraphic Transfer rates.

Economic overview (Continued)

Stock market (Source: MSE)

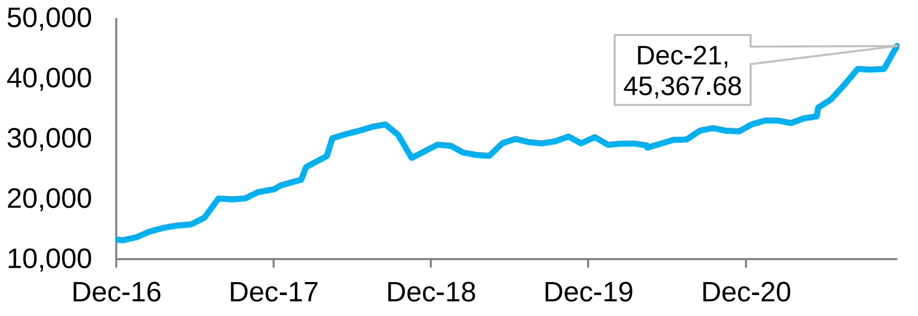
The stock market was bullish during the period under review with the MASI closing 31 December 2021 at 45,367.68 points from 32,392.84 points as at 31 December 2020.

The MASI year-on-year return was 40.05% as at 31 December 2021, an increase from 7.08% as at 31 December 2020.

The stock market was bullish over the year with the Malawi All Share Index (MASI) increasing by 40.05% year-on-year, to 45,367.68 points as at 31 December 2021 from 32,392.84 points as at 31 December 2020. This is in comparison to a MASI year-on-year increase of 7.08% as at 31 December 2020.

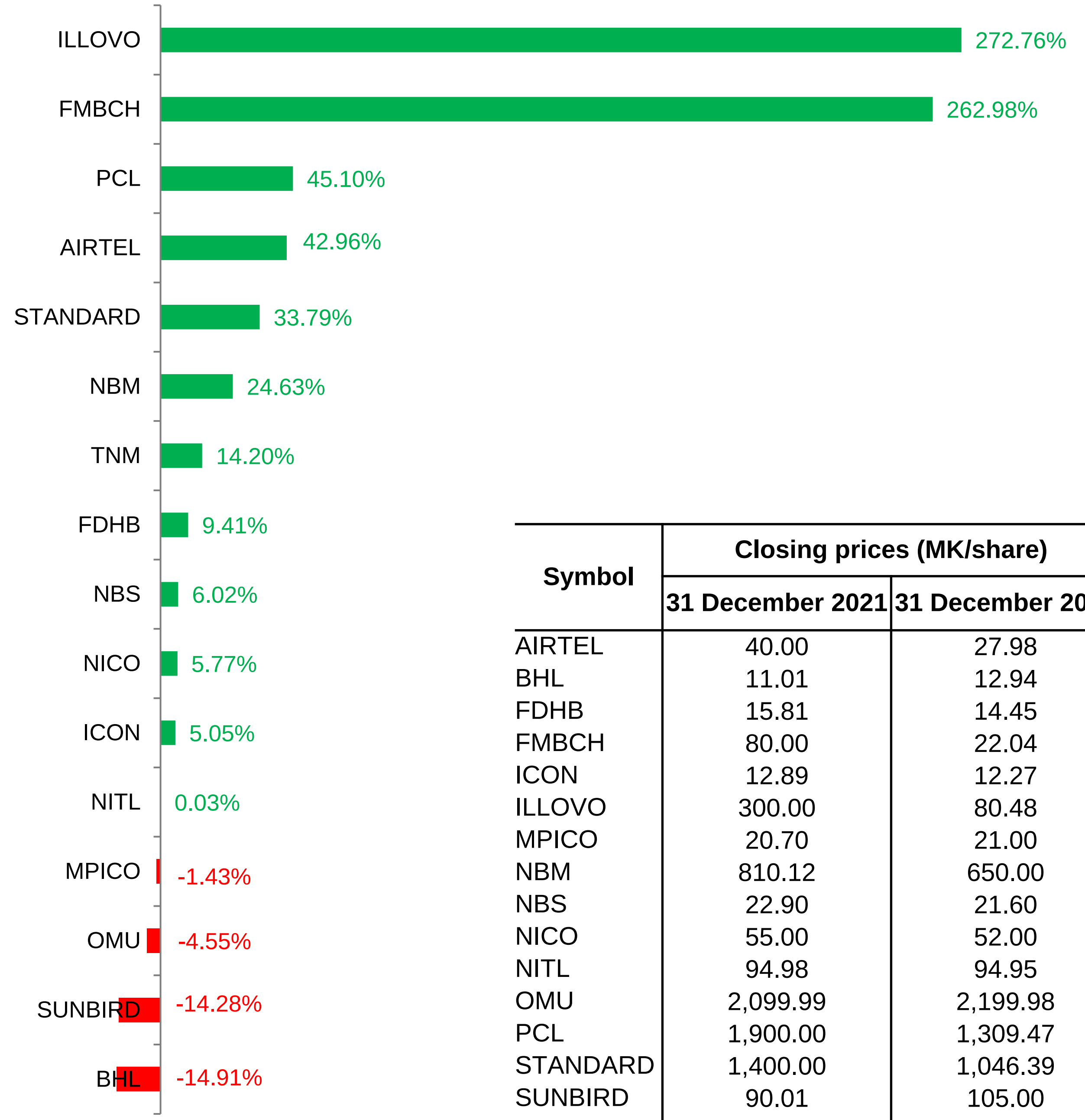
The largest gainer in 2021 was ILLOVO which closed the year at MK300.00 per share from MK80.48 per share in 2020. This marks a year-on-year increase of 272.76%. There were also share price gains for FMBCH, PCL, AIRTEL, Standard Bank, NBM, TNM, FDH Bank, NBS, NICO, ICON and NITL during the year under review. The largest loser was BHL whose share price decreased by 14.91% to MK11.01 per share as at 31 December 2021 from MK12.94 per share as at 31 December 2020. There were also share price losses for SUNBIRD, OMU and MPICO.

Malawi All Share Index (MASI)



MASI Y-o-y Return (%) – the MASI closed the year with a year-on-year return of 40.05% (it was 7.08% in the previous year).

Year-on-year Share Price Gains/Losses (%)



Symbol	Closing prices (MK/share)	
	31 December 2021	31 December 2020
AIRTEL	40.00	27.98
BHL	11.01	12.94
FDHB	15.81	14.45
FMBCH	80.00	22.04
ICON	12.89	12.27
ILLOVO	300.00	80.48
MPICO	20.70	21.00
NBM	810.12	650.00
NBS	22.90	21.60
NICO	55.00	52.00
NITL	94.98	94.95
OMU	2,099.99	2,199.98
PCL	1,900.00	1,309.47
STANDARD	1,400.00	1,046.39
SUNBIRD	90.01	105.00
TNM	22.92	20.07

Economic overview (Continued)

Stock market (Source: MSE)

The total value of shares traded decreased by 8% in 2021 to MK37.69 billion from MK41.09 billion in 2020.

The total nominal value of the listed debt securities increased to MK1.64 trillion in 2021, an increase of 78% from MK920.74 billion 2020.

ILLOVO Sugar Malawi's profit after tax for the year ended 31 August 2021 was MK20.57 billion, an increase of 651% from a profit after tax of MK2.74 billion in the previous year.

MSE Traded Volumes

There were MK37.69 billion worth of shares traded in 2021, a decrease of 8% from MK41.09 billion worth of shares traded in 2020. NBM and TNM had the highest value of shares traded at MK7.12 billion and MK5.91 billion respectively, during the period under review. Similarly, the volume of shares traded for 2021 was 1.30 billion, a decrease of 21% from a volume of shares of 1.65 billion traded in 2020. The total number of trades in the year under review increased to 3,304 trades from 3,114 trades in the previous year.

Listed Debt market

There were two trades registered in the listed debt market for 2021. The trades were in April 2021, in which the traded securities were Medium-term Notes (Trading symbol NFB03) listed by MyBucks Banking Corporation. A total number of 54 debt securities were on the listed debt market in 2021, an increase from 30 debt securities in 2020, Consequently, the total nominal value of all listed debt securities increased to MK1.64 trillion in 2021, an increase of 78% from MK920.74 billion registered in 2020.

Corporate Announcements

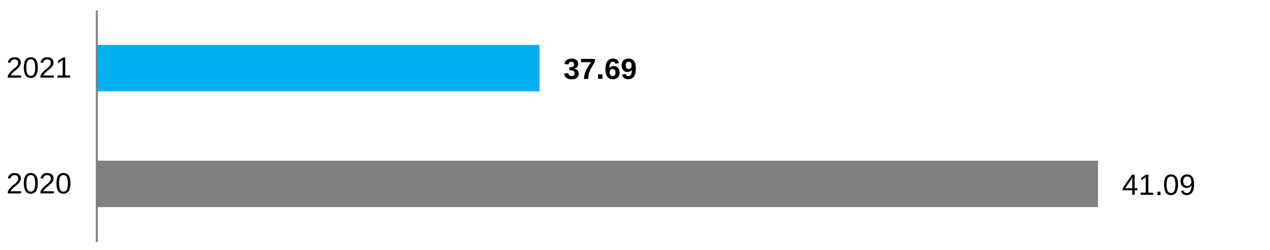
Financial year Trading Statements

The following companies wish to advise the public that their profit/loss after tax for the financial year is expected to be higher or lower than the previous corresponding period by the specified amount.

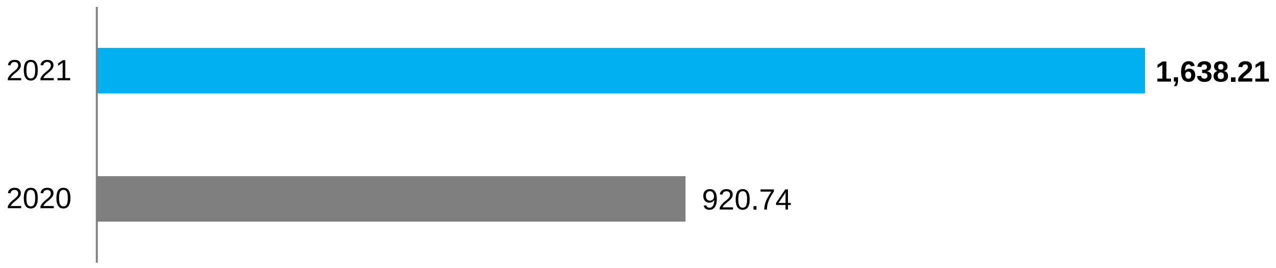
Amounts in billions of Malawi Kwacha unless specified otherwise.

Counter	31 December 2021	31 December 2020	Trading statement profit/loss expectation
Press Corporation Plc	29.8	19.9	50%
FMBCH Plc (USD'million)	29.8	21.3	40%
Sunbird Tourism Plc	0.59	(1.18)	150%
Airtel Malawi Plc	29.82	22.09	35%
MPICO plc	6.08	4.34	40%
BHL plc	(0.87)	(0.45)	(93%)
TNM plc	9.28	7.73	20%
NBM plc	29.19	22.45	30%
NITL plc	4.44	1.48	200%

Value of Shares Traded (MK'billion)



Listed Debt Market Nominal Value (MK'billion)



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	Proposed/declared	Dividend per share (MK)	Last day to register	Date of payment
Illovo	Final	Proposed	4.00	11 March 2022	31 March 2022
FDH	Second interim	Declared	0.43	31 December 2021	14 January 2022
TNM	Second interim	Declared	0.15	7 January 2022	21 January 2022

Other Market Developments

Fiscal Policy (Source: Ministry of Finance)

The fiscal deficit for the 2021/22 budget was projected at MK720 billion, a decrease of 5% from MK760 billion in the 2020/21 budget. This was on account of decreases in both total revenues and grants as well as total expenditure for the period.

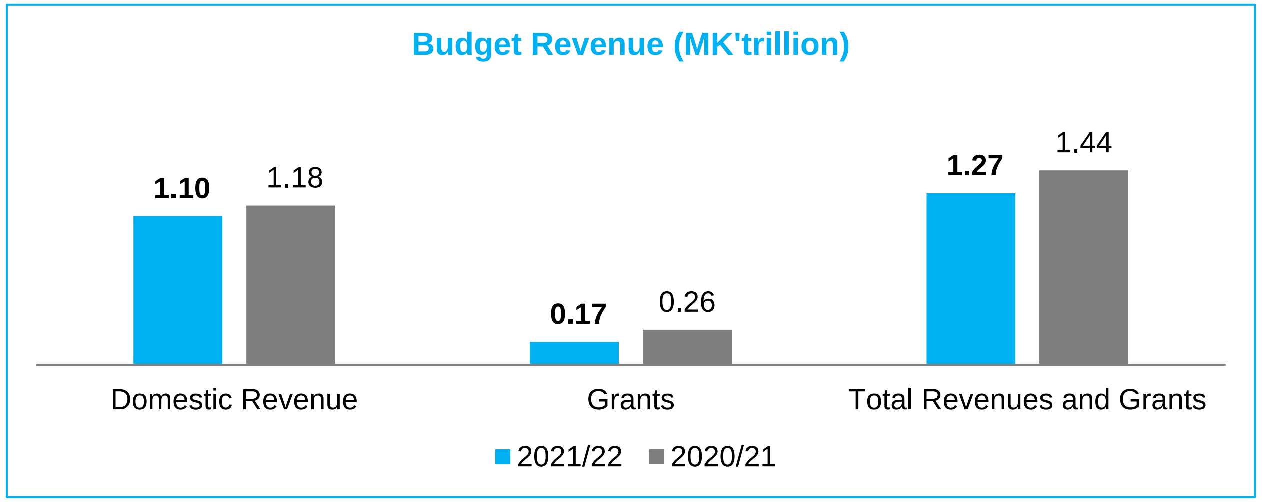
2021/22 Budget Statement

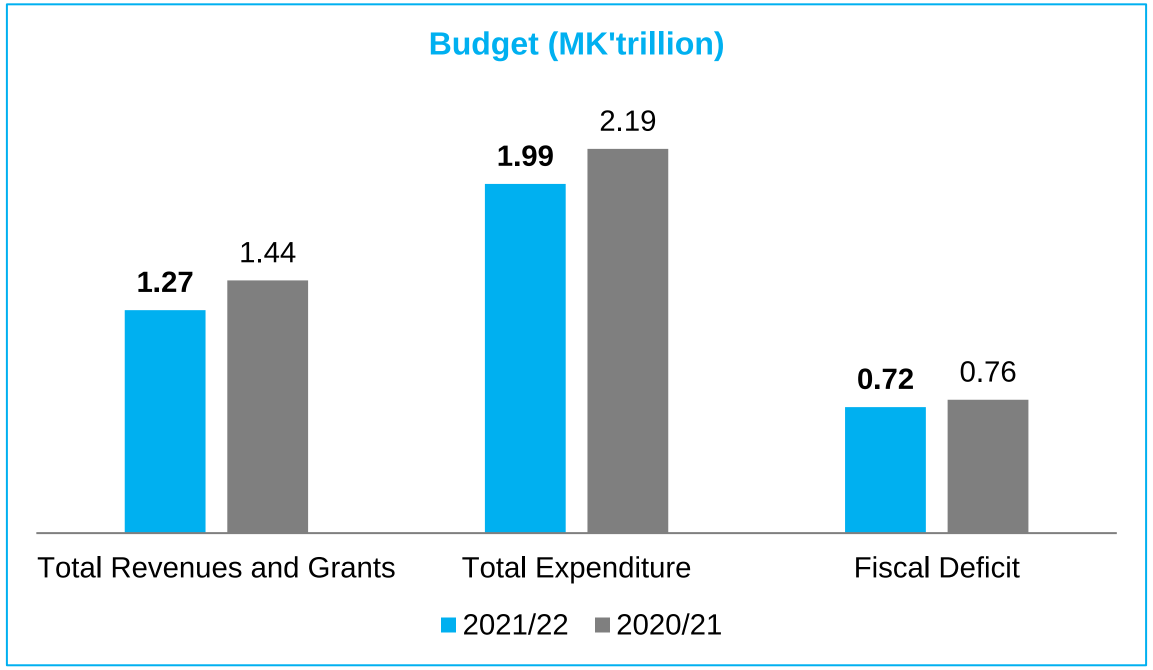
The 2021/22 budget is a nine-month budget running from July 2021 to March 2022. This is aimed at adjusting the fiscal year from the one that starts on 1 July and ends on 30 June, to one that starts 1 April and ends on 31 March. The change is to enable the government to fund public institutions that are involved in the agriculture production cycle.

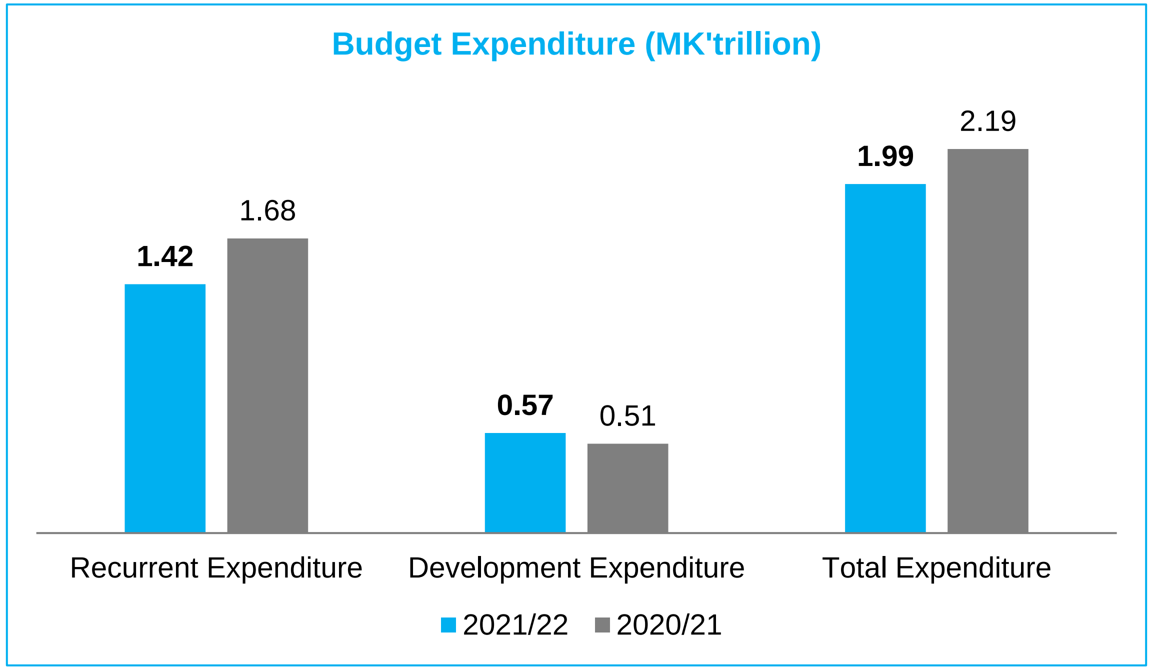
The 2021/22 budget had total revenue and grants projected at MK1.27 trillion, a decrease of 12% from a budgeted total revenue and grants of MK1.44 trillion in the 2020/21 budget. The decrease was on account of projected decreases in both domestic revenue and grants during the 2021/22 period. Domestic revenue was projected to be MK1.10 trillion in the 2021/22 budget, a decrease of 7% from MK1.18 trillion in the 2020/21 budget. Grants were projected to be MK170 billion in the 2021/22 budget, a decrease of 35% from MK260 billion in the 2020/21 budget.

Total expenditure for the 2021/22 budget was projected at MK1.99 trillion, a decrease of 9% from a budgeted MK2.19 trillion in the 2020/21 budget. The reduction was on account of a decrease in recurrent expenditure to MK1.42 trillion, a decrease of 15% from MK1.68 trillion in the 2020/21 budget. The decrease in recurrent expenditure offset an increase in development expenditure to MK570 billion, an increase of 12% from MK510 billion in the 2020/21 budget. The fiscal deficit for the 2021/22 budget was projected at MK720 billion, a decrease of 5.26% from MK760 billion in the 2020/21 budget.

The Ministry of Finance made adjustments following the 2021/22 budget statement by making additional expenditure allocations to various sectors. A total addition of MK5.5 billion were made, increasing the budgeted expenditure to MK2.05 trillion and the fiscal deficit to MK775 billion.







Other Market Developments (Continued)

Fiscal policy (Source: Ministry of Finance) (Continued)

The 2021/22 budget was projected to be funded by a total borrowing of MK718 billion, a decrease of 5.53% from MK760 billion in the 2020/21 budget. The decrease was on account of a projected decline in net foreign borrowing which offset an increase in domestic borrowing.

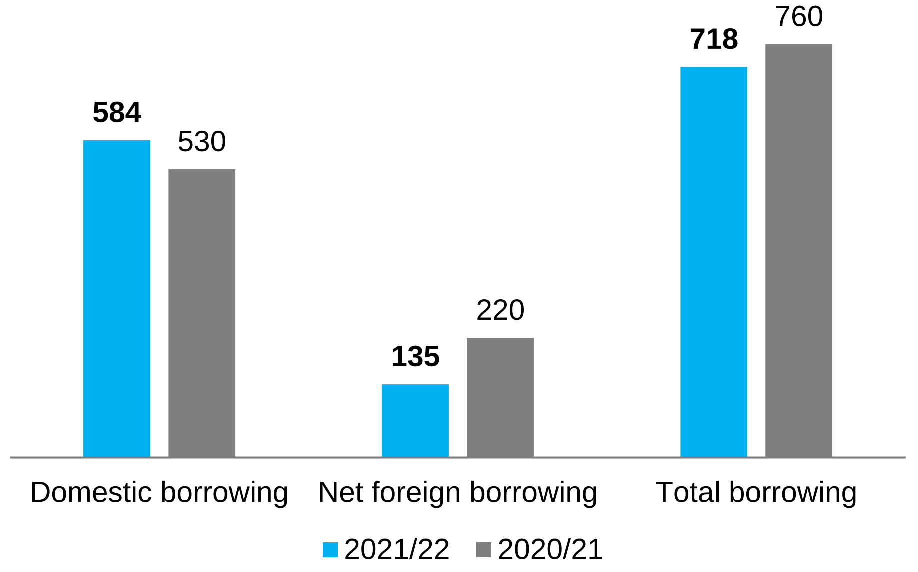
2021/22 Budget Statement (Continued)

In terms of financing, the 2021/22 budget was to be funded by a total borrowing of MK718 billion, a decrease of 5.53% from MK760 billion in the 2020/21 budget. The decrease was account of a projected decline in net foreign borrowing to MK135 billion, a decrease of 38.64% from MK220 billion during the same period. The decrease in net foreign borrowing offset an increase in the level of domestic borrowing to MK584 billion in the 2021/22 budget, an increase of 10.19% from MK530 billion in the 2020/21 budget.

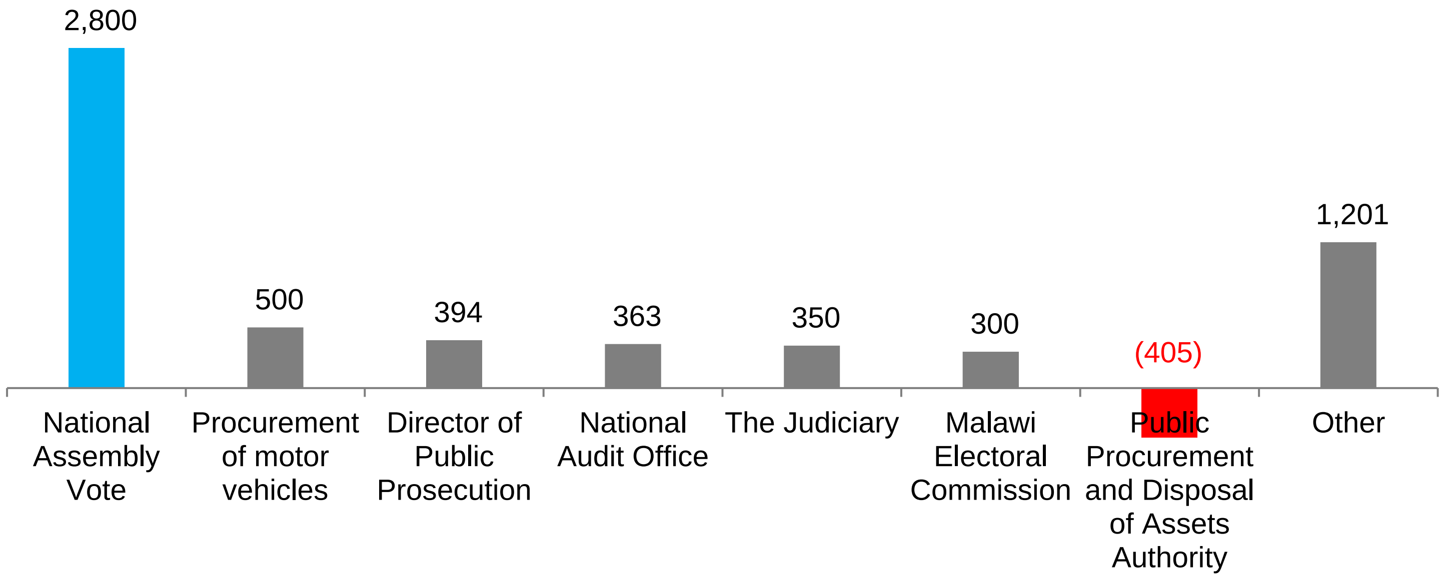
The 2021/22 budget's allocation to wages and salaries was MK436 billion, a decrease of 16.73% from MK524 billion in the 2020/21 budget. The allocation made to interest payments was MK300 billion, a decrease of 20.21% from MK376 billion in the 2020/21 budget. For pensions and gratuities, the 2021/22 budget made an allocation of MK78 billion, a decrease of 24.27% from MK103 billion in the 2020/21 budget. The government's allocation to the Affordable Inputs program (AIP) was budgeted at MK142 billion for the 2021/22 budget, a decrease of 11.25% from MK160 billion in the 2020/21 budget.

The Ministry of Finance made additional allocations following the 2021/22 budget statement amounting to MK5.5 billion. The largest allocation was MK2.8 billion made to the National Assembly Vote for its operations and oversight functions. The allocation made to the Public Procurement and Disposal of Assets Authority was revised downward by MK405 billion for the 2021/22 budget.

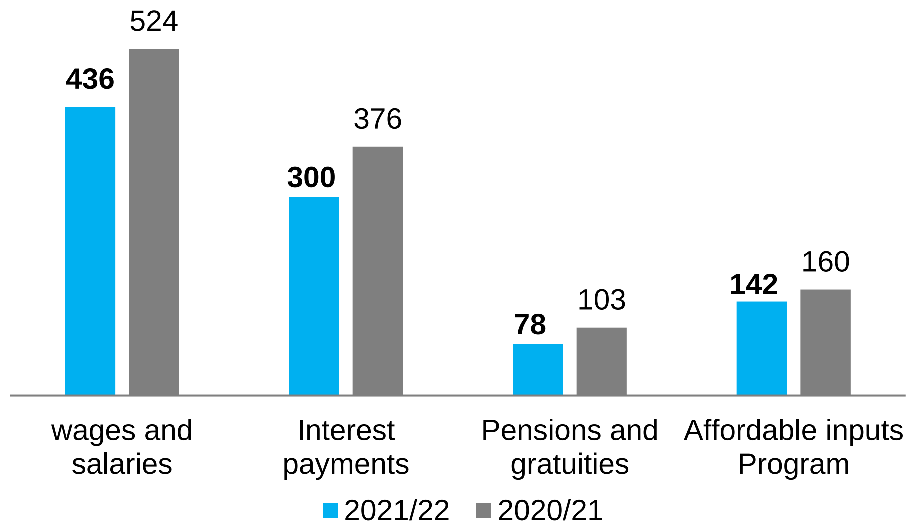
Budget Financing (MK'billion)



Additional 2021/22 budget allocations (MK'million)



Budget Allocations (MK'billion)



Other Market Developments (Continued)

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

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 MPC 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 throughout 2021. The last revision of the Policy rate was a in the November 2020 when the MPC revised it downward to 12% from 13.5%.

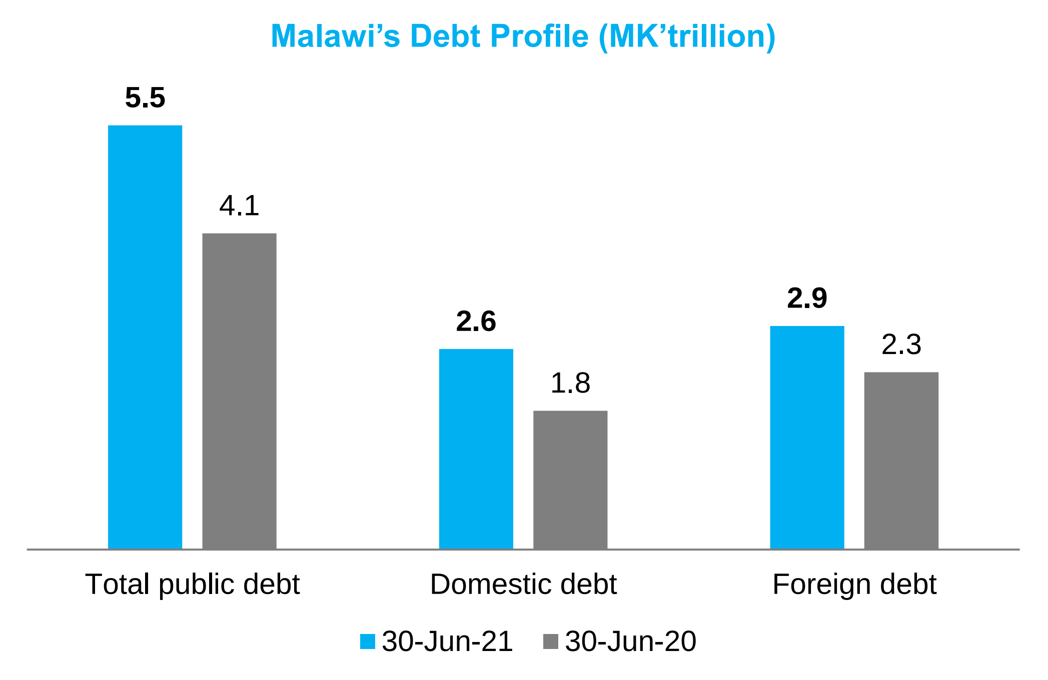
Malawi's Debt Profile as at 30 June 2021 (Source: Ministry of Finance)

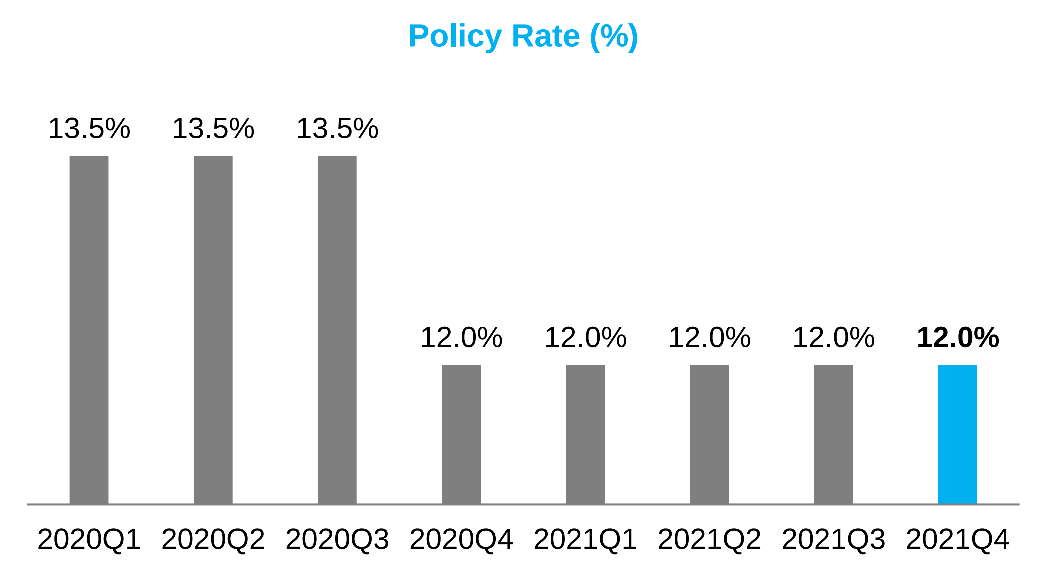
As at the end of June 2021, Malawi's total public debt stock stood at MK5.5 trillion, an increase of 32% from MK4.1 trillion in June 2020. The total public debt stock as a proportion of GDP increased in June 2021 as it was equivalent to 59% of fiscal year 2020/21 GDP, while the total public debt stock 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 (Source: RBM)

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. The rates have been maintained throughout 2021 with the aim of facilitating sustained domestic economic recovery and simultaneously managing 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 in line with that projection. For the period 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 sought to regulate interest rates on loans obtained from banks and other lending financial institutions. The Bill also sought 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.





Other Market Developments (Continued)

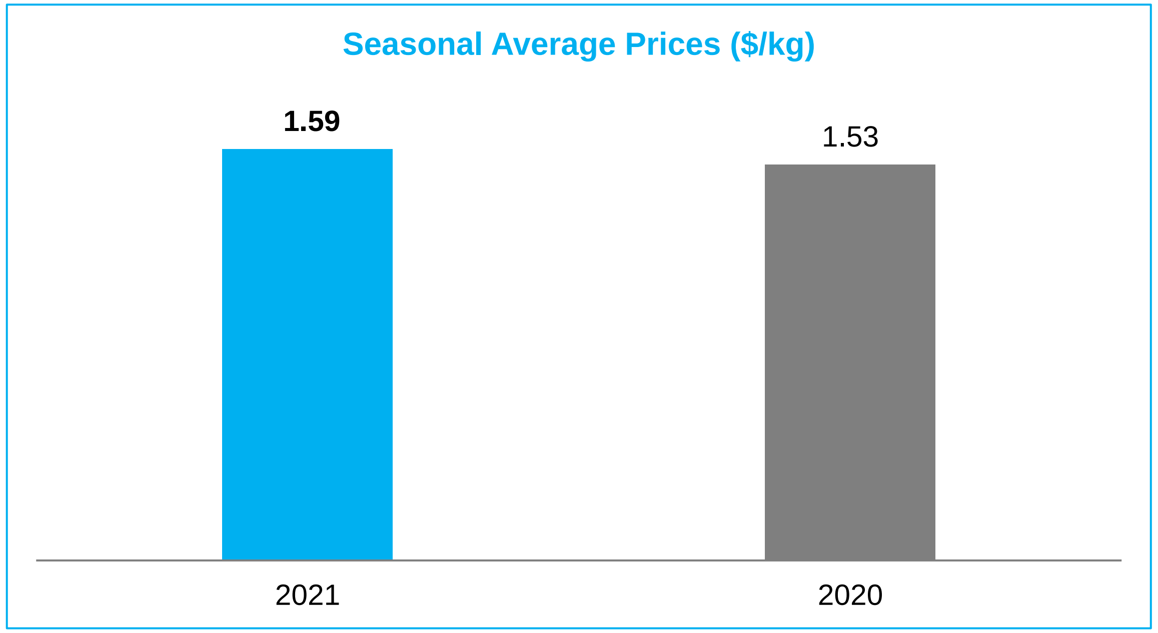
Tobacco Sales (Source: Auction Holdings Limited and TAMA Farmers Trust)

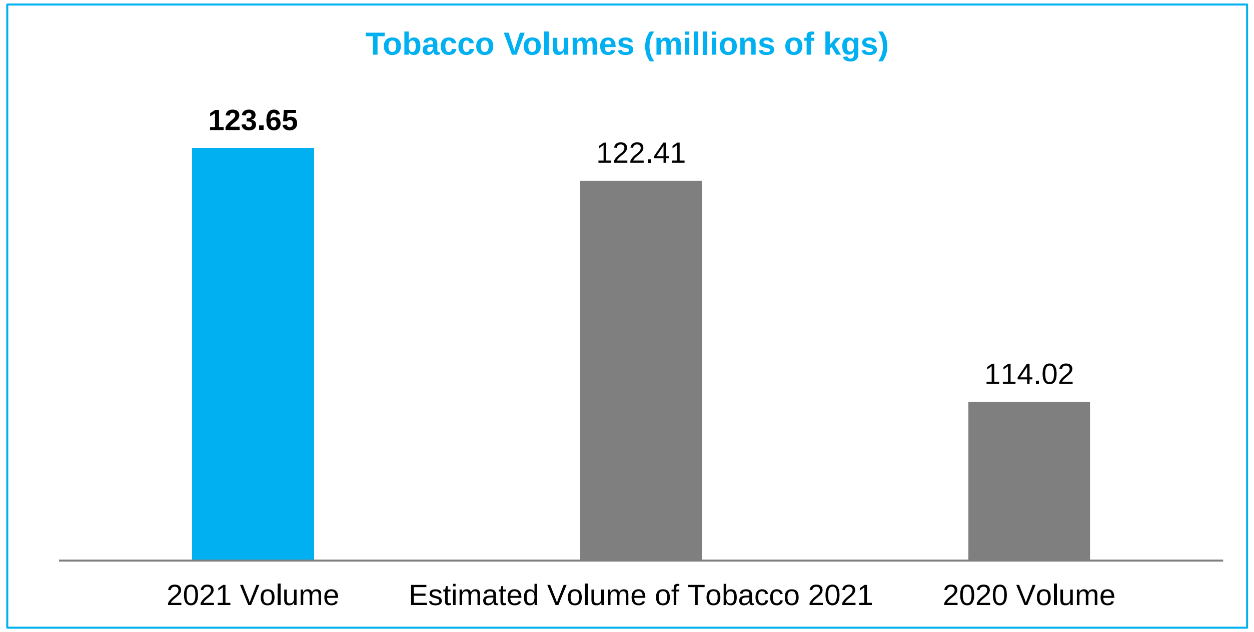
The total volume of tobacco sold during the 2021 season was 123.65 million kgs, an increase of 8.45% from a total volume of 114.02 million kgs sold during the 2020 season.

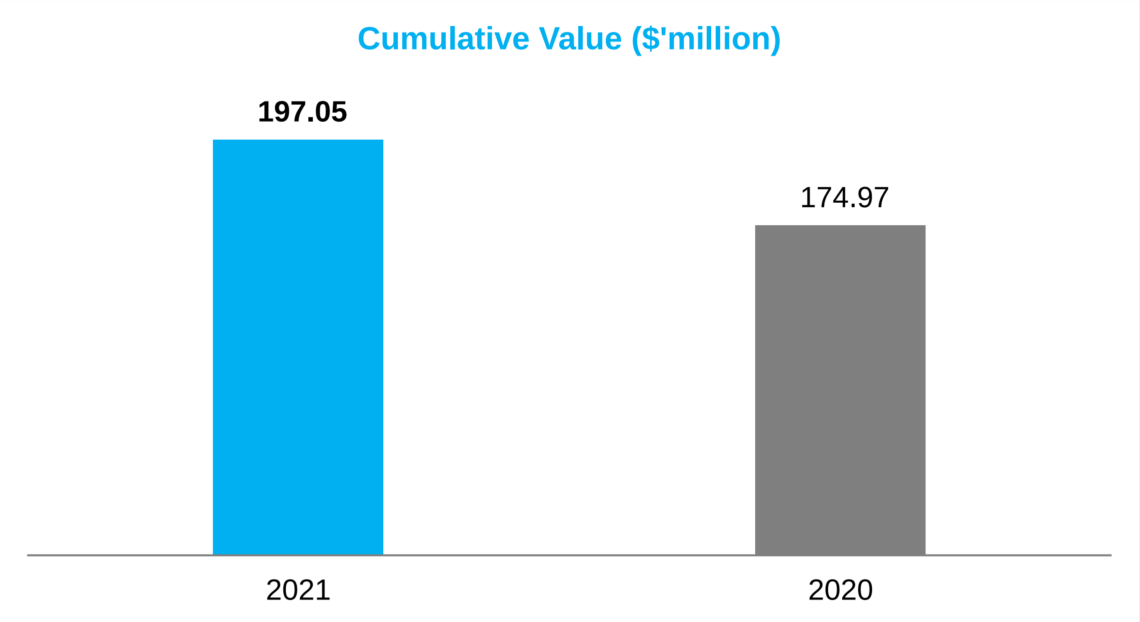
This marked a 2021 cumulative value of USD197.05 million sold, an increase of 12.63% from a cumulative value of USD174.97 million sold as at the close of the 2020 tobacco market season.

The 2021 tobacco market season closed with a cumulative volume of 123.65 million kgs sold, an increase of 8.45% from a cumulative volume of 114.02 million kgs sold in the 2020 tobacco market season. The cumulative volume was sold at a seasonal average price of USD1.59 per kg, an increase of 3.92% from a seasonal average of USD1.53 per kg in the 2020 tobacco season. This marked a cumulative value of USD197.05 million in the 2021 tobacco season, an increase of 12.63% from a cumulative value of USD174.97 million in the 2020 tobacco season, based on Auction Holdings Limited (AHL) tobacco sales figures. Receipts for tobacco remain Malawi's largest source of foreign exchange which exposes the country to shocks caused by poor weather conditions and declining global demand for tobacco.

In 2020, only 114.02 million kgs of tobacco were sold following the poor tobacco harvest. The subsequent regional production projections from the Tobacco Commission estimated that a total volume of 122.41 million kgs of tobacco would be sold during the 2021 tobacco market season. The volume of tobacco sold as at the close of the 2021 tobacco market season was within the regional production projections from the Tobacco Commission with a 1.01% variance above the projection. The projections of the volume sold during the 2021 tobacco market season were 7% higher than the volume sold during the 2020 tobacco market season.







Global and Domestic Market Developments

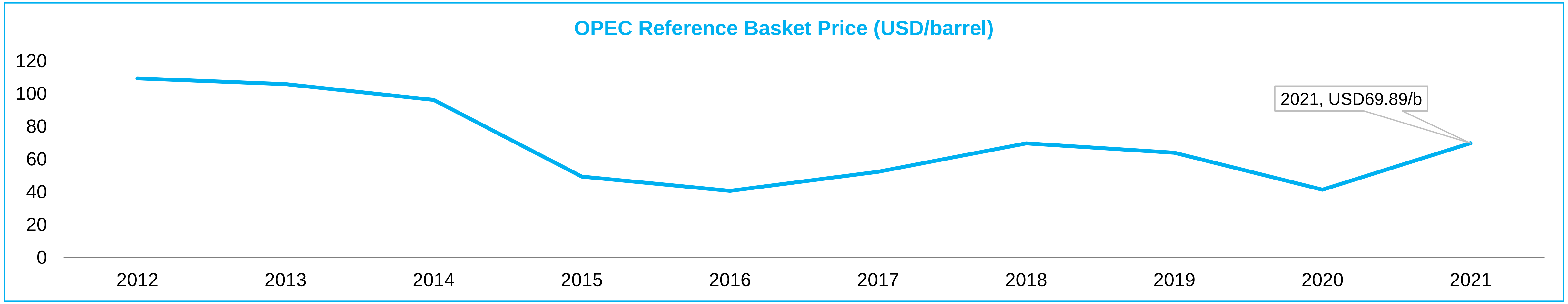
Global oil and domestic fuel developments (Source: OPEC, MERA)

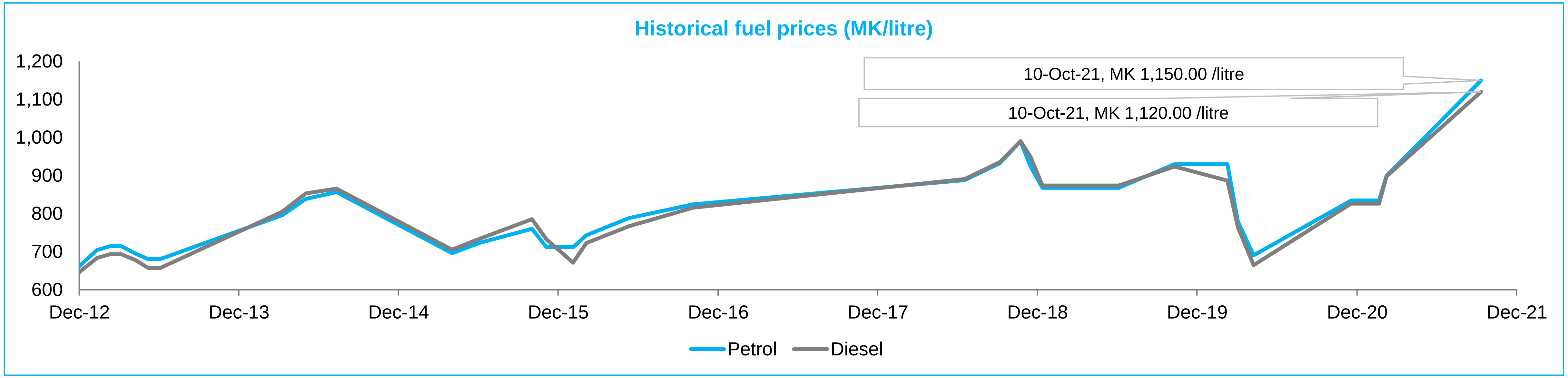
The OPEC Reference Basket (ORB) price increased by 68.5% to an annual average of USD69.89/b in 2021 from an annual average of USD41.47/b in 2020.

In October 2021, the Malawi Energy Regulatory Authority (MERA) revised the domestic fuel pump prices. The fuel pump prices of petrol and diesel were revised to MK1,150.00/litre and MK1,120.00/litre, respectively.

Year-on-year, the OPEC Reference Basket (ORB) price increased by 68.5% to an annual average of USD69.89/b in 2021 from an annual average of USD41.47/b in 2020. Global advances in COVID-19 vaccinations and decreases in COVID-19 cases relative to 2020 resulted in a relative increase in global demand for oil, and a subsequent increase in the global price of oil.

In 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 27.9% from MK899.20/litre and diesel is trading at MK1,120.00/litre, an increase of 24.7% from MK898.00/litre. MERA also revised the domestic pump price of paraffin to MK833.20/litre, an increase of 15.8% from MK719.60/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.





COVID-19 Update

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

As at 31 December 2021, 705,769 individuals had been fully vaccinated against the COVID-19 virus, an increase of 17.31% from 601,650 individuals fully vaccinated as at end November 2021. This represents 3.6% of the of the Malawian population.

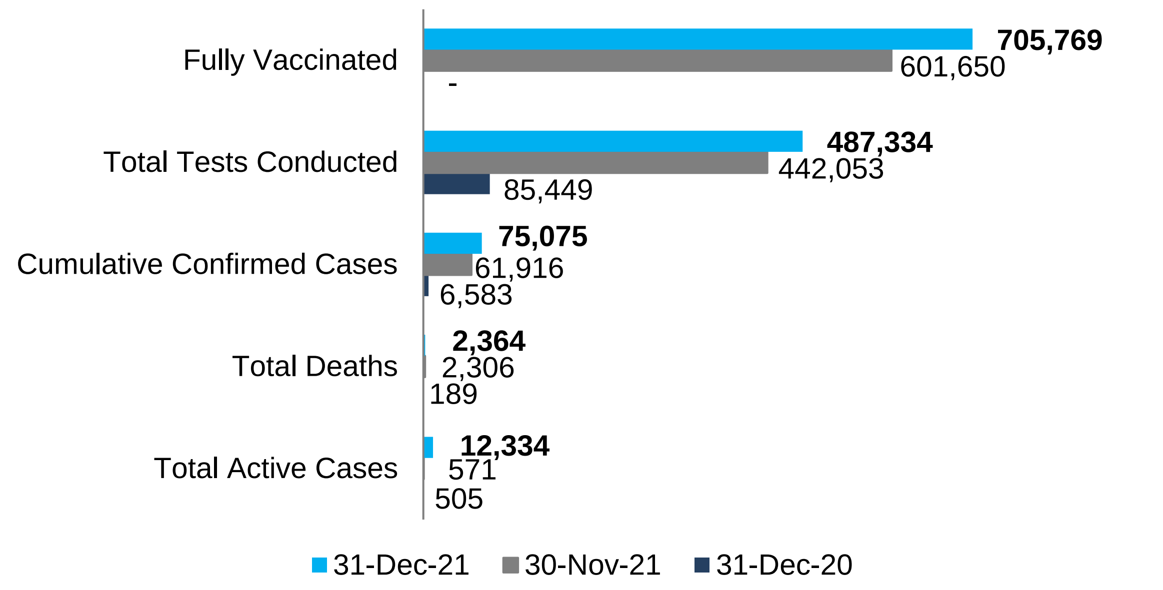
During the 2021 period, Malawi experienced a third wave of the COVID-19 pandemic between June and August. The country begun to experience a fourth wave between mid-October 2021 and mid-December 2021. The number of cases begun to accelerate and eventually peaked at 1,265 daily new cases recorded on 24 December 2021, up from 17 daily new cases recorded on 1 October 2021. The fourth wave of COVID-19 infections was driven by the recently discovered Omicron (B1.1.1529) variant. At the onset of the fourth wave of COVID-19 infections, the Malawi government revised its COVID-19 measures to Level 2 which among other measures, restricts indoor gatherings to 100 individuals.

According to the World Bank, seroprevalence surveys measuring the presence of antibodies against COVID-19 indicate that there has been widespread infection of the virus in Malawi. The World Bank further states that more than half of some segments of the population are estimated to have contracted the virus. This could essentially provide some degree of immunity to the individuals and the population as a whole.

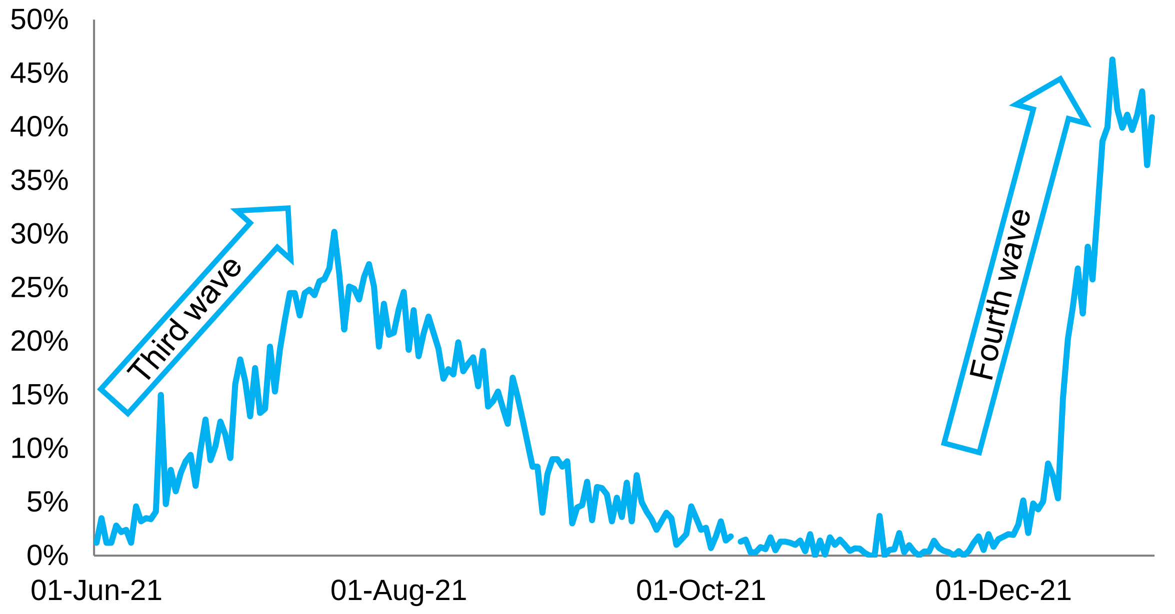
As at the end of December 2020, there were no vaccinated individuals as Malawi begun its COVID-19 vaccination efforts in March 2021. The total cumulative confirmed COVID-19 cases were 6,583 as at 31 December 2020. The total cumulative COVID-19 related deaths were 189 and the total number of active cases were 505 as at 31 December 2020 .

Month-on-month, as at end December 2021, 705,769 individuals had been fully vaccinated against the COVID-19 virus in Malawi, a 17% increase from 601,650 individuals fully vaccinated as at end November 2021. The number of fully vaccinated individuals represents 3.6% of the Malawian population. Due to the slow rate of the COVID-19 vaccine uptake, the country missed the Ministry of Health's objective of fully vaccinating 20% of the population by December 2021. An additional COVID-19 related objective that the Ministry of health has set, is to attempt to fully vaccinate 60% of the Malawian population by December 2022. The total cumulative confirmed COVID-19 cases increased to 75,075 as at 31 December 2021 from 61,916 as at 30 November 2021. Similarly, the cumulative COVID-19 related deaths increased to 2,364 from 2,306. These changes were accompanied by an increase in the daily positivity rate to 40.9% as at 31 December 2021 from 1.5% as at 30 November 2021, while the daily case fatality rate declined to 3.15% from 3.7% during the period under review. The daily recovery rate decreased to 80.11% from 95% during the same period.

COVID-19 Statistics as at 31 December 2021



Daily positivity rate (%) as at 31 December 2021



The International Monetary Fund's Special Drawing Rights (Source: IMF)

August 2021 Special Drawing Rights (SDR) Allocation

In August 2021, the IMF made a general SDR allocation worth SDR456.5 billion (USD650 billion) to its member countries.

Malawi was allocated a total of SDR133 million (USD188.91 million) during the August 2021 disbursement. This brought the cumulative SDR allocation to Malawi at SDR199.40 million (USD283.15 million).

The largest allocation was made to the United States of America with a total value of SDR79.55 billion (USD112.96 billion) billion. The largest allocation in Africa was made to South Africa with a total value of SDR2.92 billion (USD4.15 billion).

Purpose and benefits of the 2021 general allocation

In August 2021, the International Monetary Fund (IMF) made a general allocation of Special Drawing Rights to its member countries in proportion to each member country's quota. The SDR allocation had a total value of SDR456.5 billion (USD650 billion implemented) and was implemented on 23 August 2021 with the purpose of supplementing existing reserve assets, boosting buffers and bolstering international economic resilience. It benefitted all IMF member states and helped emerging market and low-income countries that were struggling to cope with the COVID-19 crisis.

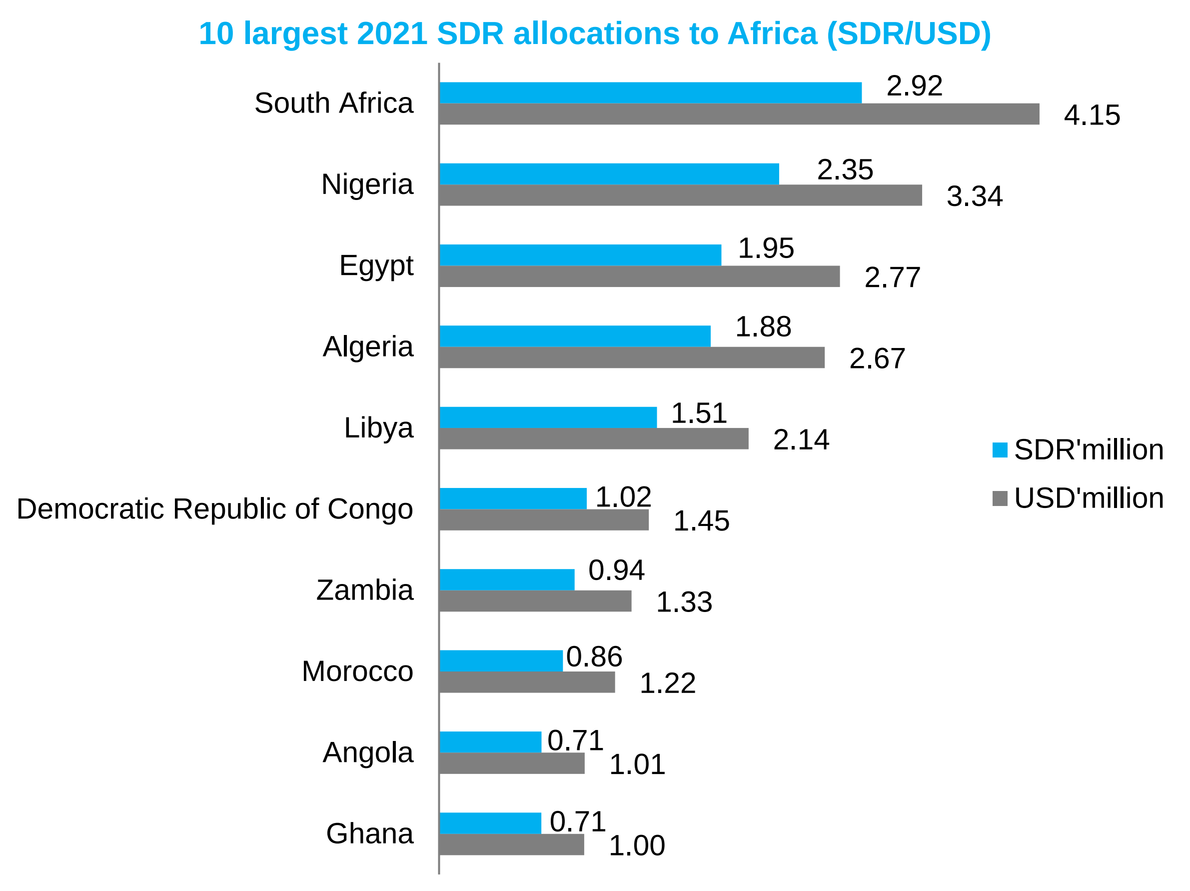
How it was distributed

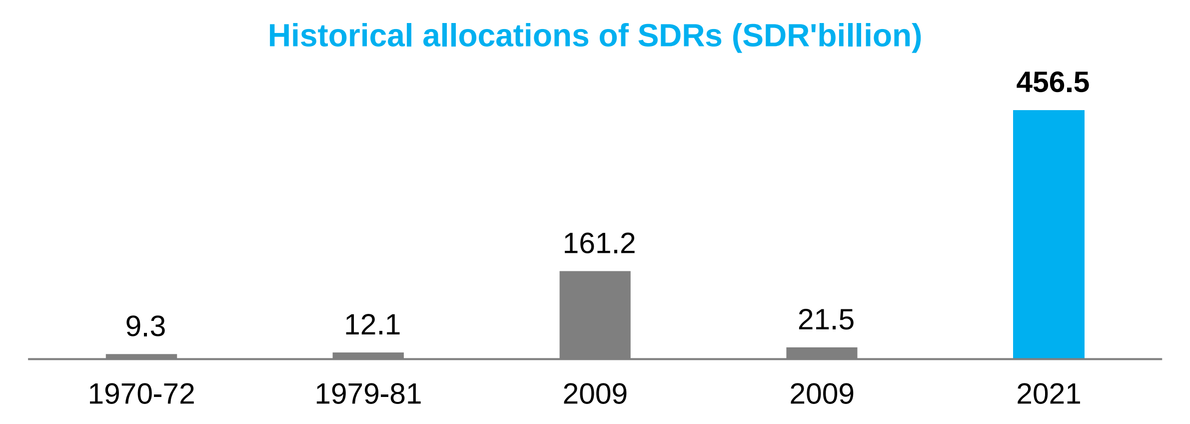
General allocations of SDRs are distributed across the IMF membership in proportion to IMF quota shares. Emerging markets and developing economies got a proportion of 42.2% (USD275 billion), of which 3.2% (USD21 billion) is for low-income countries. Malawi was allocated SDR133 million (USD188.91 million), 0.03% of the total value of the general allocation, in accordance with its quota. This brought Malawi's cumulative SDR allocation to SDR199.40 million (USD283.15 million). Globally, the highest allocation was made to the USA with SDR79.55 billion (USD112.96 billion) while the highest allocation in Africa was made to South Africa with SDR2.92 billion (USD4.15 billion).

Costs of SDR

An SDR allocation is 'cost free' as it involves two elements: an increase in the SDR Department participants' allocation of SDRs (liabilities) and a matching increase in its holdings of SDRs (assets). The SDR Department pays interest on SDR holdings to each member and levies charges on SDR allocations of each member at the same rate (the SDR interest rate: 0.05%). Thus, an SDR allocation is 'cost-free' for all members because charges and interest net out to zero if the countries do not use their SDR allocations.

The use of SDRs is not 'cost free'. When a country uses SDR, it reduces its SDR holdings in comparison with its cumulative SDR allocation. As such countries that trade SDR will incur charges on their allocation that exceed the interest earned on their reduced SDR holdings.





Bridgepath Capital
Invest to Achieve

The IMF's Article IV consultation to Malawi raised concerns on the level of debt and its sustainability, improving fiscal policy and enhancing fiscal discipline, maintaining price stability and financial soundness as well as rebuilding external buffers.

Press Release

The press release by the IMF indicated that the Malawi economy had been affected by the COVID-19 pandemic and had faced additional challenges. This had resulted in a real GDP contraction by 4.5% to 0.9% in 2020 relative to a pre-pandemic growth rate of 5.4% in 2019. For 2021, gradual recovery from the COVID-19 pandemic and a good harvest boosted the projected growth rate to 2.2%. Inflation was projected to increase to 9.0% in 2021 from 8.6% in 2020 driven by price increases for fuel, fertilizers and food.

The press release indicated that restoration of debt sustainability is critical. The restoration of debt sustainability would require addressing legacy debt burden and implementing a strong fiscal adjustment program. It also indicated that domestic revenue mobilization, curtailing and prioritizing current spending, and public finance management reform were critical. Further, there was the need for policy adjustment, rebuilding of external buffers and a reduction of poverty and inequality to improve social outcomes.

Furthermore, potential noncomplying disbursements during the 2018 Extended Credit Facility arrangement with the IMF raised concerns of potential misreporting ahead of a new program. As such, authorities were urged to deliver on their commitment to conduct a special audit of the foreign exchange reserves and prove the frequency and quality of data reporting.

In addition, the press release called for efforts to strengthen public sector governance and institutions in order to safeguard scarce resources, strengthen policy effectiveness and improve transparency and data provision.

Staff Report

The staff report reiterated various issues raised in the press release including improving fiscal policy and enhancing fiscal discipline, maintaining price stability and financial soundness and rebuilding external buffers.

On fiscal policy, the staff report indicated that there were expenditure overruns which were sustained by weak commitment controls, revenue target shortfalls as a result of optimistic budget forecasts and rising domestic borrowing had been persistent for several years. The IMF advised that addressing legacy debt burden and anchoring the fiscal program would aid in restoring debt sustainability. This could be pursued with the minimum goal of reaching a debt stabilizing primary balance, which would enable the country to return to moderate risk of debt distress within the medium term. In addition, implementation of domestic revenue mobilization strategy with the aim of raising an additional 2% pf GDP of revenue from tax policy, reforming excuse and carbon taxes, and further reforming the personal income tax.

To maintain price stability and financial soundness, the IMF suggested a monetary framework that aims at containing reserve money growth in order to stabilize inflationary pressure. The RBM could use deposit auctions, sales of government securities and issuance of its securities to mop up excess liquidity from the system.

In order to rebuild external buffers, allowing for greater foreign exchange flexibility, containing imbalances and rebuilding reserves were indicated as critical to reducing vulnerability to external shocks. Further, the recently introduced mandate for the liquidation 30% of export proceeds held in foreign currency denominated accounts should be used on a temporary basis. The development of a well-functioning foreign exchange interbank market that permits transparent currency exchange and facilitates price discovery is necessary. The formulation of a reserve management strategy that clarifies how the RBM will manage risks associated with reserve assets and reserve liabilities is essential. The strategy would also address plans to enhance recording, monitoring and reporting of the same.

The report also made notice that the current policies focused on a gradual and backloaded pace of fiscal and external adjustment. It also stated that there was heavy reliance on non-concessional borrowing from regional development banks as a way of addressing the country's financial needs. The staff report therefore urged authorities to take upfront policy adjustments and anchor Malawi's fiscal framework in a way that stabilizes debt as well as takes actions to restore debt sustainability.

The staff report also indicated although the Kwacha has appreciated in real effective terms in recent years, greater exchange rate flexibility accompanied with stronger monetary and fiscal policy would help address foreign exchange shortages and potential inflationary pressure.

According to the report, Malawi's external debt distress rating has changed from "moderate risk of debt distress" to "high risk of debt distress; and granularity in risk rating assess that external and public debt are unsustainable under current policies." This is based on threshold breaches on a debt stock and debt service indicators, including the presence of external arrears at the end of 2020 which had been rescheduled for 2021. Covering the financing needs would be achieved through disbursement of ratified but undisbursed concessional loans, additional non-concessional external borrowing and net domestic financing.

The World Bank indicated that although the economic growth forecast for 2021 is at 2.4%, an increase from 0.8% in 2020, it forecasts a contraction in national output as the population growth rate is estimated at 3% per annum.

The Malawi Government published the COVID-19 Socio-Economic Recovery Plan (SERP) which outlays the focus areas of intervention aimed at enhancing national capacity while recovering from negative COVID-19-induced negative effects. The total cost for implementation of the SERP is projected at MK580.8 billion, with the largest allocation made to building a resilient and sustainable health system at MK397.8 billion.

The World Bank's Malawi Economic Monitor, December 2021

The Malawi Economic Monitor report published by the World bank in December 2021 indicated that amidst a recovery in the growth rate, Malawi was experiencing a fourth wave of COVID-19 infections. On one hand, the World Bank indicated that the government's response to the third wave that was less stringent relative to previous waves and that businesses had began adapting to COVID-19 restrictions. Consequently, the third wave had less of an economic impact relative to earlier ones. On the other hand, increasing number of cases in mid-December 2021 indicated the onset of a fourth wave of infections driven by the Omicron variant.

The World Bank further stated that economic growth was on an upward trajectory. Economic growth is forecast to be 2.4% in 2021, an increase from 0.8% in 2020. Despite the projected growth, with a population growth rate of 3% per annum, the level of economic growth forecasts a contraction in national output per individual. A reduction in the domestic currency depreciation rate was also indicted by the World Bank. This was despite heightened concerns of foreign exchange availability. The allocation of USD189 million in SDR had a short-lived effect on the country's foreign exchange reserves as they continued to fall following the allocation.

Furthermore, the World Bank stated that macroeconomic imbalances increase risks to the outlook and need to be addressed. The country's public debt level is high and is expected to continue growing if government action is indecisive and imbalances in the foreign exchange market could lead to constraints in the private sector. To address this, the government may seek to reduce fiscal deficits while reining in fiscal risks in the 2022/23 budget. Adjustments may have to be made to the AIP, public financial management and improving oversight of state-owned enterprises.

In addition, the World Bank cites the reduction of gender gaps in economic opportunities as key in the process of unlocking Malawi's full inclusive growth potential. The country ranks 111 out of 151 countries in the Economic Participation and Opportunity Index, behind many other countries in the Sub-Saharan Africa region. Despite being an agricultural economy, there is a gender productivity gap as plots managed by men produce an average of 25% higher yields than those managed by women. According to the World Bank, closing the productivity gap could increase the country's total GDP by 2.1%. The COVID-19 pandemic further widened economic gender gaps as female-led firms experienced an average decline of 40%, compared to 35% in male-led firms.

To realize the country's full potential and improve economic development, Malawi will have to invest in improving women's economic opportunities through a wide ranging and comprehensive approach.

The COVID-19 Socio-Economic Recovery Plan (SERP) 2021-2023

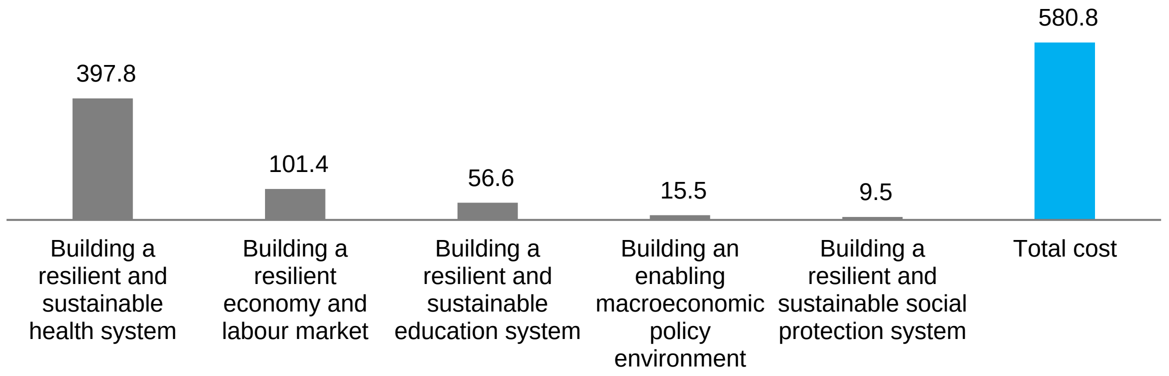
The COVID-19 pandemic poses several risks for Malawi. These risks include but are not limited to risk for the attainment of Malawi's development goals and the Sustainable Development Goals (SDGs), declined economic activity and growth rates, COVID-19-related deaths which erode the domestic institutional capacity, reversal of gains attained in health in education as well as reversal of trade and private sector investment streams. As such the SERP aims to enhance the capacity of Malawi to effectively recover from the adverse effects of the COVID-19 pandemic while facilitating the transition to the effective implementation and realization of Malawi's development objectives.

The SERP therefore prioritizes interventions within the country's long-term development agenda as stipulated in the Malawi 2063 Implementation Plan (MIP-1) that would speed up the recovery. One of the key principles driving the SERP is front-loading of interventions, especially economic infrastructure, that have high probability is stimulating private sector investments that can optimize production for local and export markets. This would consequently lead to job creation and stabilization of domestic prices.

The SERP identifies possible sources of development financing to aid the implementation of the interventions. These include domestic and international public and private finance; trade through global, continental, and regional initiatives; debt and debt sustainability; South-South and North-South cooperation; remittances and diaspora financing; foreign direct investment; corporate social responsibility and corporate social investment.

A framework has been developed to facilitate performance tracking over the three-year implementation period and covers implementation, coordination, monitoring and evaluation aspects of all the five focus areas illustrated in the figure below:

SERP focus area costs (MK'billion)



The National Export Strategy (NES II) aims to increase the contribution of exports to the economic and social transformation of the country, promote the diversification of products and markets, enhance the international competitiveness of Malawi's industries, enterprises and products.

National Export Strategy (NES II) 2021-2026

Facilitated by funding from the Commonwealth Secretariat, the National Export Strategy (NES II) 2021-2026 was designed and developed with reference to its predecessor National Export Strategy (NES I) 2013-2018. The NES II aims to increase the contribution of exports to the economic and social transformation of the country, promote the diversification of products and markets, enhance the international competitiveness of Malawi's industries, enterprises and products. This will enable Malawian products to compete and win at regional and global marketplace as well as build policy coherence and institutional alignment.

The NES I revealed structural and systemic challenges which were forecast to constrain export growth for the country. On one hand, the structural challenges include a small domestic market, low level of economic transformation and sophistication, unbalanced growth, inadequate infrastructure, challenging business environment, small private sector and over reliance on aid and development partners. On the other hand, the systemic challenges include poor governance structure, lack of policy coherence and institutional alignment, lack of collaborative approach, absence of effective resource mobilization, absence of monitoring and evaluation, access to finance , technology and markets.

The strengths of the NES I that were built upon include economic and social stability, a strong export track record, a range of supporting institutions and programmes, support of Development Partners and Donor Agencies, a dynamic private sector and an extensive network of preferential trade agreements.

In the implementation, while the key beneficiary of the NES II is expected to be the domestic exporters' community, the NES II makes an allocation for Medium, Small and Micro-Enterprises (MSMEs), women, youth as well as small-scale farmers.

For the NES II to be successfully implemented, there are a several enablers that have been identified. These enablers include infrastructure development, transport and logistics, access to finance, access to markets and digital transformation. Besides the identified enablers, other aspects that may affect export growth and development include the promotion of inclusive, balanced and sustainable development that takes environmental, equity and equality issues into account. This is expected to assist in the strengthening of competitiveness and productivity, enhancing digital preparedness, facilitating access to business information and intelligence, developing skills and competencies, building collaborative partnerships as well as mobilise quality investment.

In terms of sectors, the NES II prioritizes the mining; services; manufacturing; and agriculture, forestry and fishing sectors. Within the mining sector, the NES II is set to prioritize products such as uranium, gemstone, rare earth elements, phosphate and coal. In the services sector, the strategy aims to focus on products such as tourism, Information Communication Technology, creative industries and professional services. For the manufacturing sector, the NES II priorities agro-processing, plastic and plastic products, pharmaceuticals, wood and wooden products, textiles and apparel. The Agriculture, forestry and fishing sector is set to priorities traditional export products, food crop and value-added horticulture, livestock, hemp and cannabis products.

The NES II seeks to focus on exporting domestic products to the following markets:

i. Neighbouring countries (South Africa, Mozambique, Zambia and Tanzania)
ii. Regional markets of COMESA and SADC
iii. European Union (Belgium, Netherlands, Germany)
iv. United States of America
v. The Russian Federation
vi. The Middle East (UAE)
vii. Asian markets (China, India, Singapore, Japan)
viii. Emerging markets (Canada, Australia, Switzerland)

The critical challenges that may impede the successful implementation of the NES II have been categorized as Border-in, Border-out, Border and Development issues. Border-in issues refer to domestic/supply side challenges that may constrain NES II implementation while Border-out issues refer to external/demand side challenges. Border issues refer to challenges in the overall business environment.

Border-in Issues include:

i. Narrow export basket with prevalence of low-value added products
ii. High cost of doing business
iii. Low productivity, competitiveness, research and development as well as innovation
iv. High post-harvest losses

Border-out Issues include:

i. Limited market outreach and penetration
ii. Limited extent of marketing and sales support to MSMEs
iii. Difficulty searching for international buyers
iv. High fees and charges on imports
v. Challenging payment terms

Border Issues include:

i. Low trade facilitation services
ii. High cost of cross-border trade
iii. Extended duration for customs clearance on imports and exports
iv. High cost of transport and logistics

Development Issues include:

i. Effective inclusive growth
ii. Sustained growth for sustainable development
iii. Balanced development agenda
iv. Poverty alleviation and employment

Bridgepath Capital
Invest to Achieve

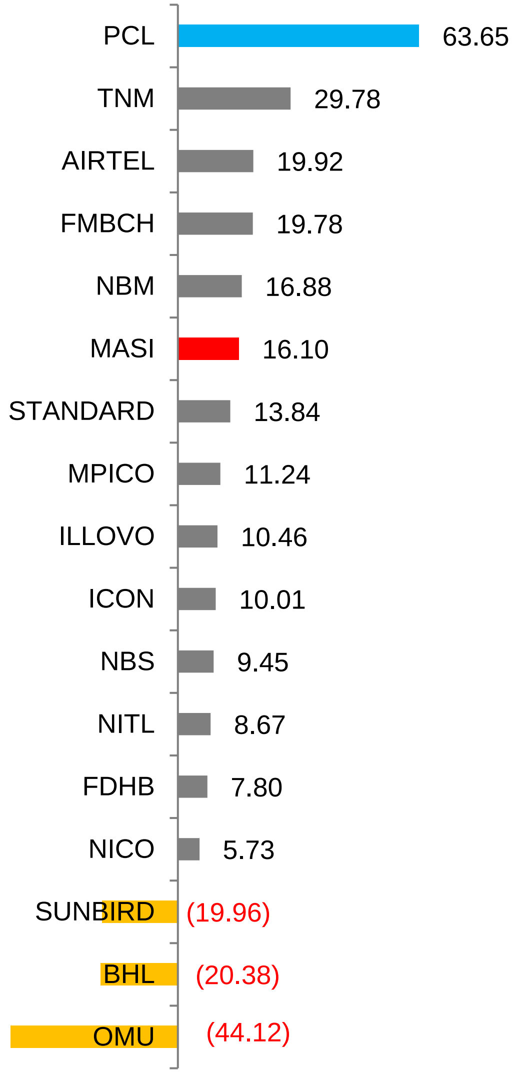
Appendix

Appendix 1: Historical Economic Indicators

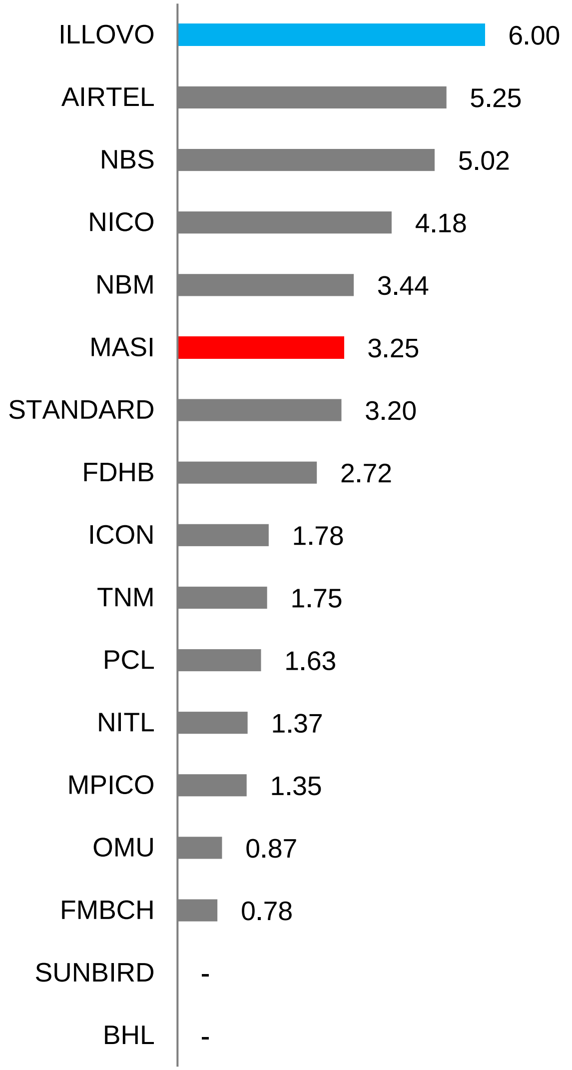
	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20	Jan-21	Feb-21	Mar-21	Apr-21	May-21	Jun-21	Jul-21	Aug-21	Sep-21	Oct-21	Nov-21	Dec-21
Exchange rates																	
MK/USD	754.71	756.93	759.47	765.92	776.82	776.49	787.03	790.30	797.66	800.17	811.95	817.43	820.40	822.17	821.34	822.88	**819.44**
MK/GBP	1,024.89	999.88	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	1,194.23	**1,208.01**
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	1,099.91	**1,137.95**
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	57.2107	**57.68**
Foreign Exchange Reserves																	
Gross Official Reserves (USD'million)	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	389.26	**429.17**
Private Sector Reserves (USD'million)	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	404.81	**425.52**
Total reserves (USD'million)	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	794.07	**854.69**
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	1.56	**1.72**
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%	9.8%	11.1%	**-**
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%	12.8%	**-**
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%	9.5%	**-**
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%	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%	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%	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%	9.58%	**9.70%**
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%	12.98%	**13.00%**
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%	14.22%	**14.47%**
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%	16.64%	**16.66%**
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%	19.00%	**19.05%**
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%	20.53%	**20.54%**
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%	21.15%	**20.94%**
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%	22.50%	**22.56%**
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	41,565.98	**45,367.68**
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	34,284.11	**37,061.70**
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	3,450.24	**4,223.15**

Appendix 2: Selected stock market statistics as at 31 December 2021

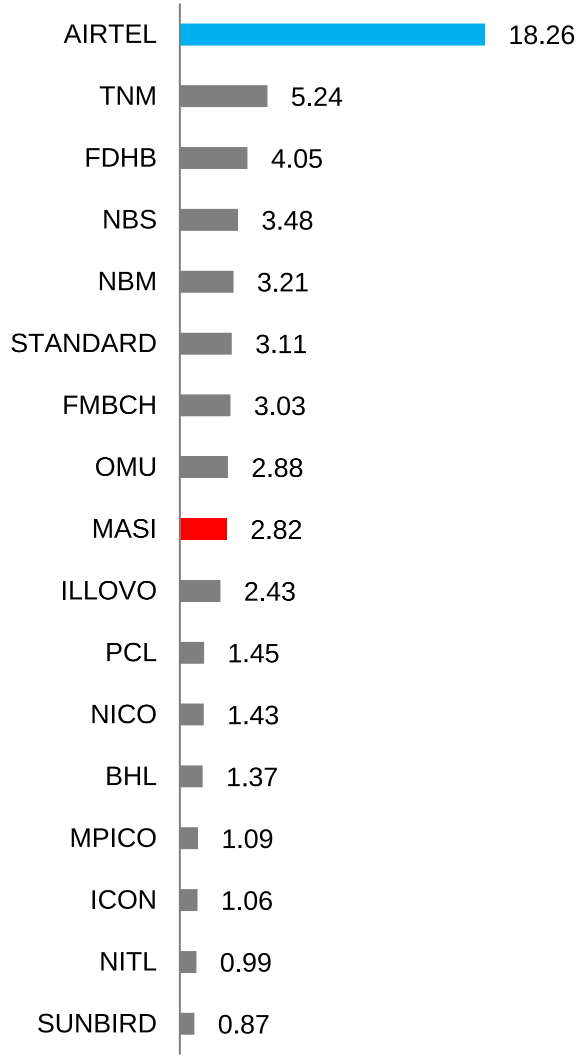
P/E ratio - the weighted average price to earnings ratio on the MSE was 16.10 in December 2021. PCL had the highest at 63.65 while OMU had the lowest at negative 44.12.



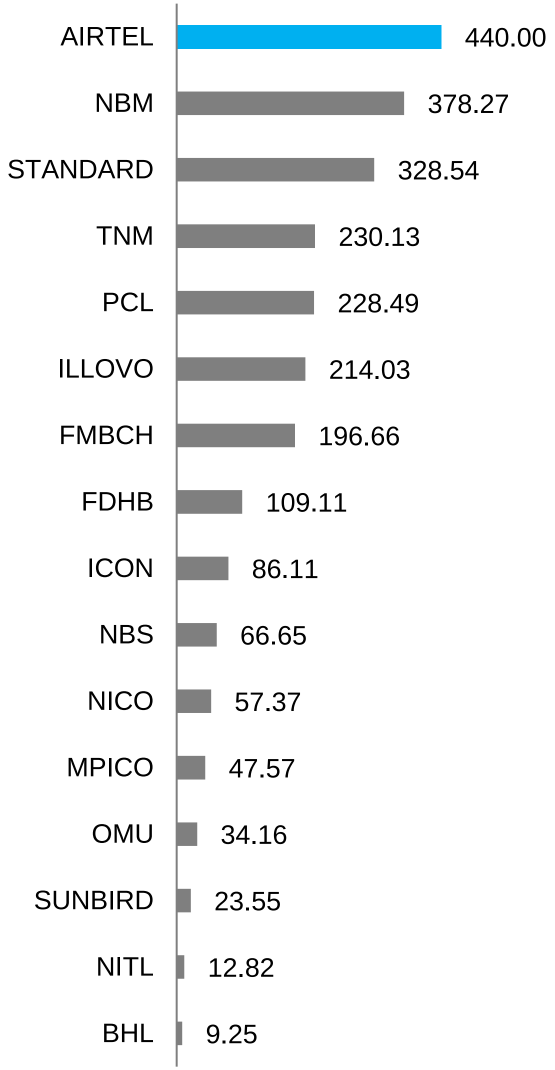
Dividend Yield (%) - the weighted average dividend yield on the MSE was 3.25% in December 2021. ILLOVO had the highest at 6.00% while SUNBIRD and BHL had the lowest at nil.



P/BV ratio - the weighted average price to book value ratio on the MSE was 2.82 in December 2021. Airtel had the highest ratio at 18.26 while SUNBIRD had the lowest ratio at 0.87.



Market Capitalisation (MK'billion) - AIRTEL had the largest market capitalization in December at MK440 billion while BHL had the lowest at MK9.25 billion.



Appendix 3: EIU Projections

Economic growth

%	2020	2021*	2022*	2023*	2024*	2025*
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

**: EIU forecasts*

Key indicators

	2020	2021*	2022*	2023*	2024*	2025*
Real GDP growth (%)	0.8	2.7	4.0	4.5	4.9	5.2
Consumer price inflation (av; %)	8.6	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

**: EIU forecasts*

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	65.5	61	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$:€ (av)	1.14	1.19	1.17	1.15	1.18	1.22
¥:US$	106.8	109.1	111.2	112.1	113.1	111.9

Appendix 4: IMF Projections

Bridgepath Capital
Invest to Achieve

	2020	2021	2022	2023	2024	2025	2026
National accounts and prices (percent change, unless otherwise indicated)							
Real GDP	0.9	2.2	3.5	4.5	4.0	4.0	4.1
Nominal GDP (MK'bn)	8,815	9,712	11,114	12,661	14,158	15,663	17,287
GDP deflator	8.5	7.8	10.6	9.0	7.5	6.4	6.0
CPI (annual average)	8.6	9.0	11.7	9.8	8.4	7.2	6.8
Central government (percent of GDP on a fiscal year)							
Revenue	14.9	14.8	14.3	14.3	14.4	14.4	14.3
Tax and nontax revenue	13.4	13.1	13.1	13.2	13.4	13.5	13.7
Expenditure and net lending	21.5	22.2	24.7	23.8	23.8	24.1	24.7
Overall balance (excl. grants)	-8.1	-9.1	-11.6	-10.6	-10.4	-10.6	-11.1
Overall balance (incl. grants)	-6.6	-7.4	-10.4	-9.5	-9.3	-9.7	-10.4
Financial gap/residual gap	0.8	-0.1	0.8	5.7	6.3	7.5	6.8
Domestic primary balance	-1.7	-2.5	-5.1	-3.0	-2.5	-2.2	-2.3
Money and credit (percentage change)							
Broad money	17.2	10.2	14.4	13.9	11.8	10.6	10.6
Credit to private sector	16.4	30.1	14.2	12.6	10.1	9.4	7.5
External sector (USD million, unless otherwise indicated)							
Exports (goods and services)	966	1,078	1,197	1,331	1,522	1,704	1,890
Imports (goods and services)	3,052	3,208	3,298	3,262	3,248	3,520	3,693
Gross official reserves	566	394	402	415	461	498	511
(months of imports)	2.1	1.4	1.5	1.5	1.6	1.6	1.6
Current account (% of GDP)	-13.6	-15.0	-14.3	-12.6	-10.8	-10.7	-10.4
Overall balance (% of GDP)	-3.2	-3.2	-4.2	-3.1	-2.3	-2.4	-3.5
Financing gap (% of GDP)	…	1.8	4.6	3.5	2.9	3.1	4.1
Debt stock and service (percent of GDP, unless otherwise indicated)							
External public debt	32.9	31.9	34.7	36.3	37.6	39.5	41.5
Total public debt	54.8	59.0	64.3	68.9	74.4	80.4	85.7
Ext. debt serv. (% of exports)	7.2	47.2	44.1	40.8	35.7	28.1	33.3

Appendix 5: List of Acronyms and Abbreviations

ADMARC:	Agricultural Development and Marketing Corporation
AHL:	Auction Holdings Limited
AIP:	Affordable Inputs Program
BHL:	Blantyre Hotels Plc
COMESA:	Common Market for East and Southern Africa
COVID-19:	Coronavirus disease
CPI:	Consumer Price Index
DSI:	Domestic Share Index
EIU:	Economist Intelligence Unit
EUR:	Euro
FDHB:	FDH Bank Plc
FMBCH:	FMB Capital Holdings Plc
FSI:	Foreign Share Index
GBP:	Great British Pound
GDP:	Gross Domestic Product
IFPRI:	International Food Policy Research Institute
IMF:	International Monetary Fund
LRR:	Liquidity Reserve Requirement
MASI:	Malawi All Share Index
Mb/d:	Million barrels per day
MERA:	Malawi Energy Regulatory Authority
MIP-1:	Malawi 2063 Implementation Plan
MK:	Malawi Kwacha
M-O-M:	Month-on-month
MPC:	Monetary Policy Committee
MSE:	Malawi Stock Exchange
MW:	Mega Watts
NBM:	National Bank of Malawi Plc
NES:	National Export Strategy
NICO:	NICO Holdings Plc
NITL:	National Investment Trust Limited Plc
NSO:	National Statistical Office
OMU:	Old Mutual Limited Plc
OPEC:	Organization of the Petroleum Exporting Countries
ORB:	OPEC Reference Basket
P/BV:	Price to book value
PCL:	Press Corporation Limited Plc
PCR:	Polymerase Chain Reaction
P/E:	Price to earnings
PSF:	Price Stabilisation Fund
RBM:	Reserve Bank of Malawi
SADC:	Southern African Development Community
SDR:	Special Drawing Rights
SERP:	Socio-Economic Recovery Plan
SUNBIRD:	Sunbird Tourism Plc
TAMA:	Tobacco Association of Malawi
TB:	Treasury Bill
TN:	Treasury Note
TNM:	Telekom Networks Malawi Plc
TT:	Telegraphic Transfer
UAE:	United Arab Emirates
USA:	United States of America
USD:	United States Dollar
Y-O-Y:	Year-on-year
YTD:	Year-to-date
ZAR:	South African Rand

Bridgepath Capital
Invest to Achieve

Disclaimer

Although every effort was made to ensure the information in this report is authentic, the report should only be used for indicative purposes. Bridgepath Capital Limited accepts no responsibility or liability resulting from usage of information from this report. Every recipient using this report should make independent efforts to ascertain the accuracy of the information.

Contact Information

Bridgepath Capital Limited

1st Floor (108), Development House

Corner Henderson Street Road

P.O. Box 2920

Blantyre

Tel No: + 265 1 828 355

Email: info@bridgepathcapitalmw.com

Website: www.bridgepathcapitalmw.com