



2019 annual economic review and outlook for 2020

Investment Banking

14th February 2020

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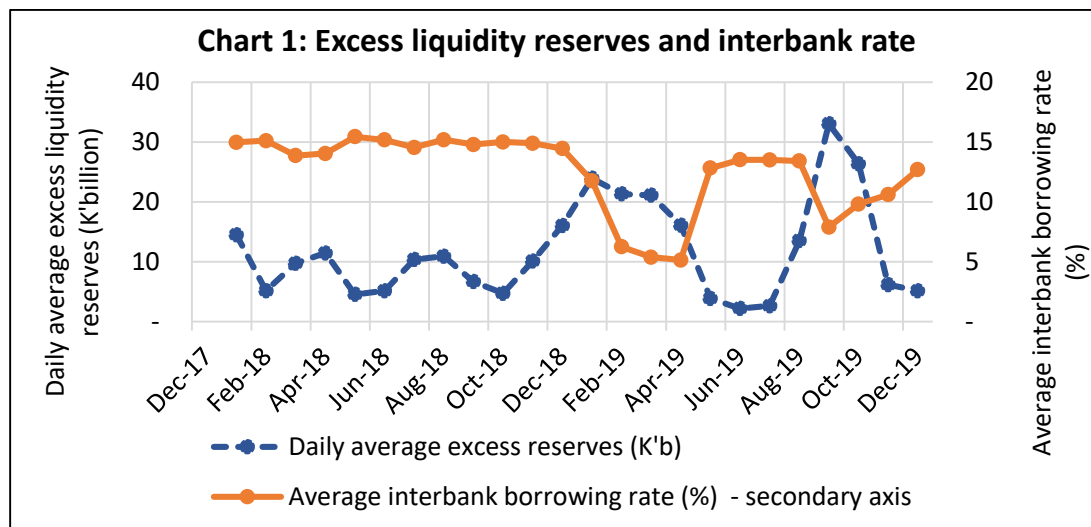
1. Executive summary

- 1.1 The macroeconomic environment was fundamentally positive in 2019 despite a few challenges.
- 1.2 The level of liquidity in the banking system was relatively higher than in 2018 largely due to the easing of monetary policy and low supply of Treasury securities in the primary market by the issuing counterparty. This resulted in a decrease in both interbank volumes and interbank rates during the year under review compared to the previous year.
- 1.3 The high levels of liquidity and Policy rate cuts pushed down Treasury Bill (TB) yields. Specifically, the average all-type TB yield decreased to 9.66% in 2019 from 14.30% in 2018.
- 1.4 The Kwacha was stable most part of the year, except for a short-lived depreciation in the two months after general elections in May 2019 due to political uncertainties.
- 1.5 The year-on-year headline inflation rate averaged 9.4% in 2019, increasing slightly from the average of 9.2% in 2018 on account of increasing food prices.
- 1.6 The Monetary Policy Committee (MPC) revised the Policy rate downwards twice in the first half of the year to 13.5% from 16.0% as at the beginning of the year, premised on a positive macroeconomic outlook for 2019 and beyond.
- 1.7 The economy is estimated to have grown by 5.0% in 2019 largely on account of improved agricultural output and a sustained favourable macroeconomic environment. Economic growth prospects for 2020 are positive, with RBM projecting a Real GDP growth rate of between 5.0% and 6.0% for the year.

2. Interbank market

- 2.1 The level of liquidity on the interbank market was higher in 2019 relative to 2018 largely because of monetary policy easing which included two Policy rate cuts and the reduction of Liquidity Reserve Ratio (LRR) from 7.5% to 5.0% for domestic currency deposits and from 7.5% to 3.75% for foreign currency deposits. In addition, there was reduced supply of Treasury securities on the primary market as Government implemented its programme of reducing and restructuring government debt. Excess liquidity reserves averaged K14.61 billion per day during the year compared to K9.11 billion per day in 2018, representing an increase of 60.37%. Liquidity levels were highest in September 2019 when excess liquidity reserves averaged K33.03 billion per day and were lowest in June 2019 when excess liquidity reserves averaged K2.17 billion per day.
- 2.2 With high liquidity levels and monetary policy easing, the overnight interbank rate decreased, averaging 10.23% during the year compared to the average of 14.79% in 2018.
- 2.3 Chart 1 provides a summary of excess liquidity reserves and overnight interbank rate movements over the last two years. The chart shows that while the interbank rate was within the RBM target band of +2/-4 percentage points of the Policy rate (averaged 13.80% in 2019) for the most part of the year, the rate fell out of the band in high liquidity periods, February, March, April and September 2019.
- 2.4 Furthermore, on account of high liquidity levels, interbank borrowing decreased in nominal terms to a total of K1.92 trillion in 2019 from K2.03 trillion in 2018. However, access on the Lombard Facility of the Reserve Bank increased to K2.35 trillion in 2019 from K1.33 trillion in 2018.

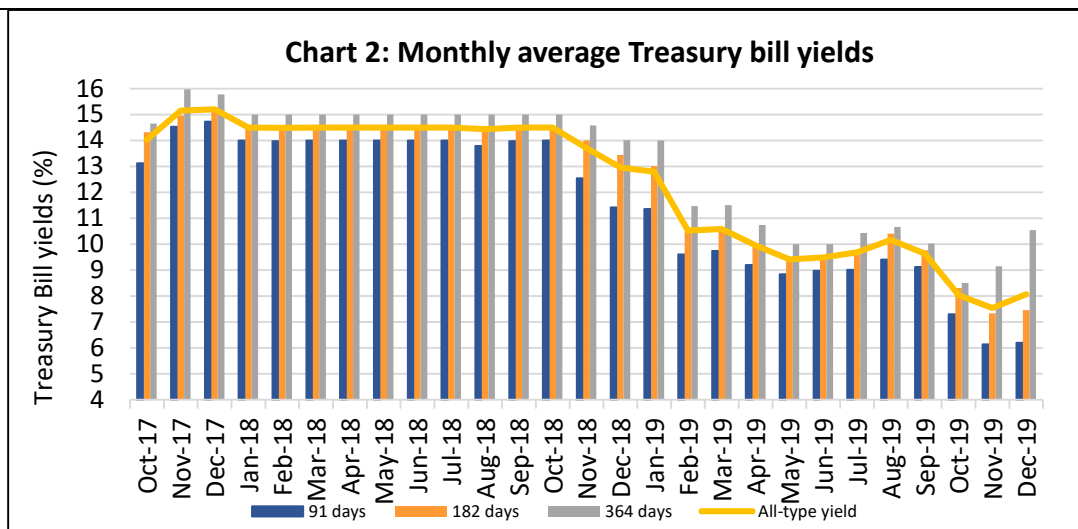
- 2.5** The Lombard rate decreased to an annual average of 14.20% in 2019 from 18.00% in 2018, after the MPC reduced the Lombard rate twice during the year, from 18% to 14.9% in January 2019 and to 13.9% in May 2019.
- 2.6** Despite the high liquidity levels, The Reserve Bank only conducted Open Market Operations (OMOs) amounting to K88.64 billion at an average rate of 10.10% in 2019 compared to a total of K337.60 billion at an average rate of 15.00% in the previous year.



(Data source: Reserve Bank of Malawi)

3. Government securities

- 3.1** During 2019, Government raised a total of K421.73 billion through auctions for Treasury Bills (TB) compared to K490.41 billion raised in 2018, representing a decrease of 14%. Total applications for Treasury bills for the year amounted to K1,008.93 billion (2018: K569.55 billion), representing a rejection rate of 58.20% (2018: 13.89%). There were more rejections of applications for TBs during the year relative to the previous year as Government continued to implement its debt reduction and restructuring programme which includes reducing short term debt in favour of long term debt.
- 3.2** Treasury Bill yields declined in 2019 from 2018 levels following two cuts of the Policy rate by the MPC in the first half of the year. The 91-day TB yield decreased to the average of 8.74% in 2019 from 13.64% in 2018, the 182-day TB yield averaged 9.64% from 14.37% and the 364-day TB yield averaged 10.59% from 14.88% in the previous year, thereby resulting in an all-type (average) yield of 9.66% which is lower than the all-type yield of 14.30% recorded in 2018.
- 3.3** Chart 2 shows that TB yields declined in 2019 from 2018 levels, although there was a slight bump in August 2019. The bump was mainly triggered by a short-lived depreciation of the Kwacha caused by political instability in the period immediately after the 21 May general elections.



(Data source: Reserve Bank of Malawi)

- 3.4 In implementing the debt restructuring programme from short term to longer term debt, the Government of Malawi also issued Treasury Notes in 2019. Specifically, TNs for the following tenors were conducted by RBM, namely 2-years, 3-years, 5-years, 7-years and 10-years. A total of K275.91 billion was raised through these auctions compared to K104.56 billion that was raised in the previous year, representing a nominal increase of 163.88%. However, the TNs traded at lower yields in 2019 than in 2018 as shown in the table below:

Table 1: Annual average yields of Treasury Notes					
Description	2 years	3 years	5 years	7 years	10 years
2019 yield	13.57%	13.28%	15.23%	18.43%	17.76%
2018 yield	17.98%	19.22%	20.42%	24.00%	

(Data source: Reserve Bank of Malawi)

- 3.5 Looking ahead, we expect the declining trend in yields of Government securities that has been exhibited in the last 3 years to continue in 2020 and beyond as monetary authorities aim to channel credit to the private sector in a bid to spur economic growth. Further, with the debt reduction programme, high rejection rates during auctions of Treasury securities are expected to continue in 2020.

4. Foreign exchange market

- 4.1 The Kwacha was stable most part of 2019, although there was a temporary depreciation in the two months after May 2019 general elections. The depreciation episode was mainly triggered by increased speculative demand of forex in light of increased political risk during the period.
- 4.2 The USD/MWK middle exchange rate averaged 745.54 in 2019, up from 732.21 in 2018, representing a depreciation rate of 1.82% between 2018 and 2019 levels.
- 4.3 The Kwacha, however, appreciated against other major trading currencies during the year, as shown in Table 2 below:

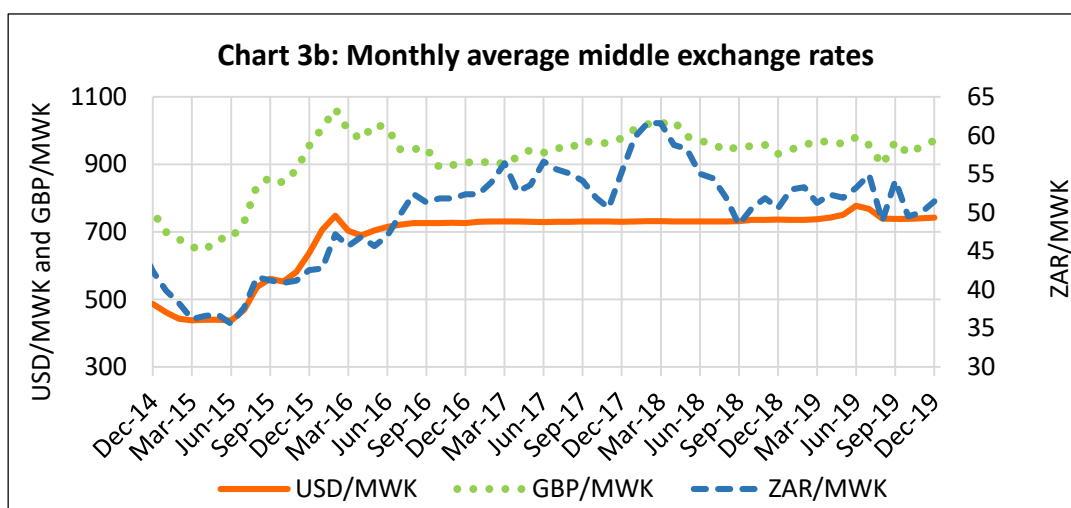
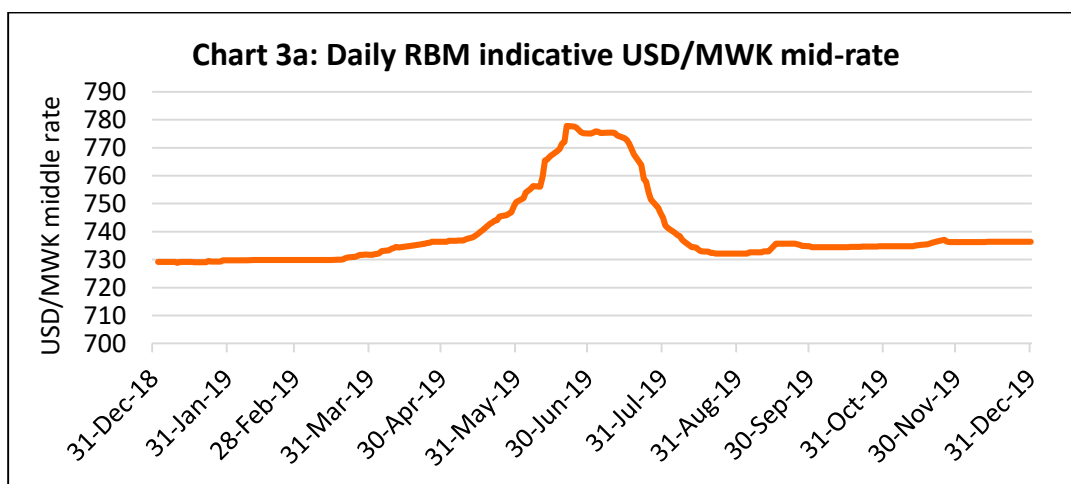
Table 2: Annual average exchange rates

Currency	2019	2018	Change
USD/MWK	745.54	732.21	1.82%
GBP/MWK	954.58	976.87	-2.28%
ZAR/MWK	51.99	55.25	-5.89%
ZMK/MWK	59.07	69.99	-15.60%

(Data source: Reserve Bank of Malawi)

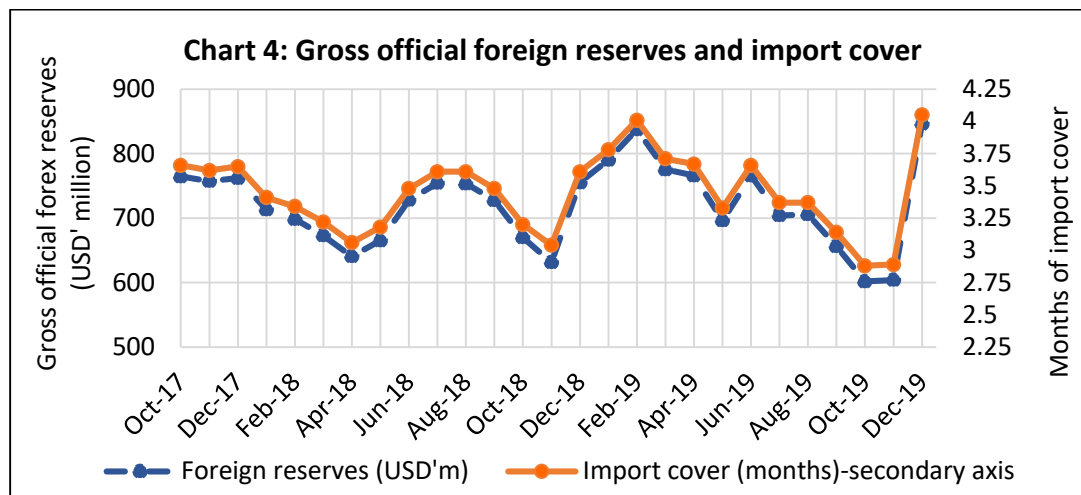
4.4

Chart 3a and 3b provide an overview of how the Kwacha has fared against the three major trading currencies in the last five years. The charts indicate that except for the bump immediately after the general elections held on 21 May 2019, the Kwacha has been stable since mid-2016, especially against the USD.



(Data source: Reserve Bank of Malawi)

- 4.5 The stability of the Kwacha over the past 3 years has been supported by consistent availability of forex in the market. Although there was a decline in the amount of forex realised from tobacco sales in 2019 relative to the previous year, gross official forex reserves were consistently above 3 months of import cover during the year, except in October and November 2019 when they fell slightly below 3 months. As on 31st December 2019, gross official forex reserves stood at USD846.55 million, representing 4.05 months of import cover. This is an increase from USD755.22m (3.61 months of import cover) as of end-December 2018.



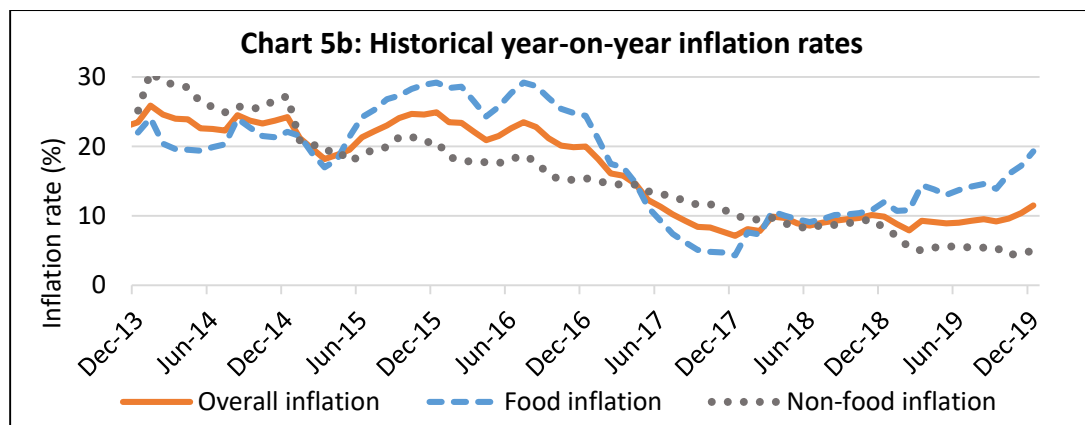
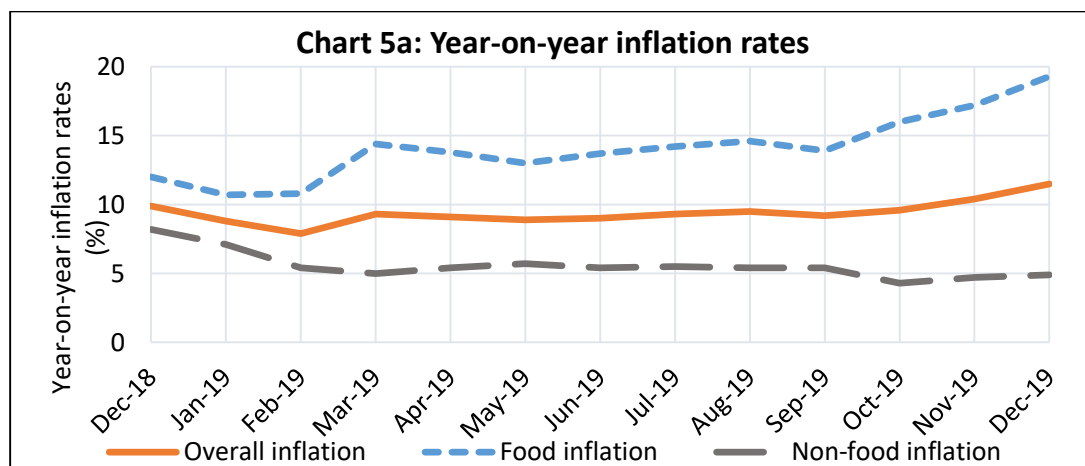
(Data source: Reserve Bank of Malawi)

- 4.6 Going forward, we expect the forex reserves position to remain healthy enough to prevent excessive volatility of the Kwacha in 2020, despite prevailing political risks. RBM is targeting an import cover of 6 months by 2021 which is expected to be supported by the recovering relationship of the country with its development partners, increasing foreign direct investment, as well as improvements in export diversification efforts. The exchange rate is therefore, expected to remain broadly stable in the short to medium term, registering minimal depreciations and appreciations in some instances. In the long term, however, depreciation risks still remain, including declining demand of tobacco on the international market and possible unfavorable weather conditions.

5. Inflation

- 5.1 2019 registered a relatively stable headline inflation rate despite unwavering pressures from elevated food prices. Headline inflation rate was within a single digit for the most part of the year, except in November and December 2019. It averaged 9.4% in 2019, up from the average of 9.2% in 2018 on account of an increase in food inflation rate which averaged 14.3% in 2019 compared to 9.8% in 2018, while non-food inflation rate decreased to the average of 5.4% in 2019 from 9.0% in 2018.

- 5.2** Non-food inflation was anchored by relatively favourable macroeconomic conditions in the domestic economy including stability in exchange rate and utility prices, among other factors.
- 5.3** Food inflation, on the other hand, was impacted by elevated maize prices. The major contributing factor to the increase in maize prices was increased demand for maize relative to its supply mainly on account of the following reasons:
- 5.3.1** Maize scarcity in some parts of the country due to poor harvests in the 2018/2019 season;
 - 5.3.2** Speculative buying of maize by private traders which commenced at the onset of the harvesting period;
 - 5.3.3** Hoarding of maize by some private traders waiting to sell the same at higher prices during the lean period (Nov 2019 - Mar 2020);
 - 5.3.4** Inadequate food intervention in deficit areas by government and/or NGOs; and
 - 5.3.5** Delayed opening of ADMARC depots in some markets.
- 5.4** Chart 5a depicts the trend of inflation rate in the past year and Chart 5b depicts a longer historical trend covering the period between December 2013 and December 2019.



(Data source: National Statistical Office)

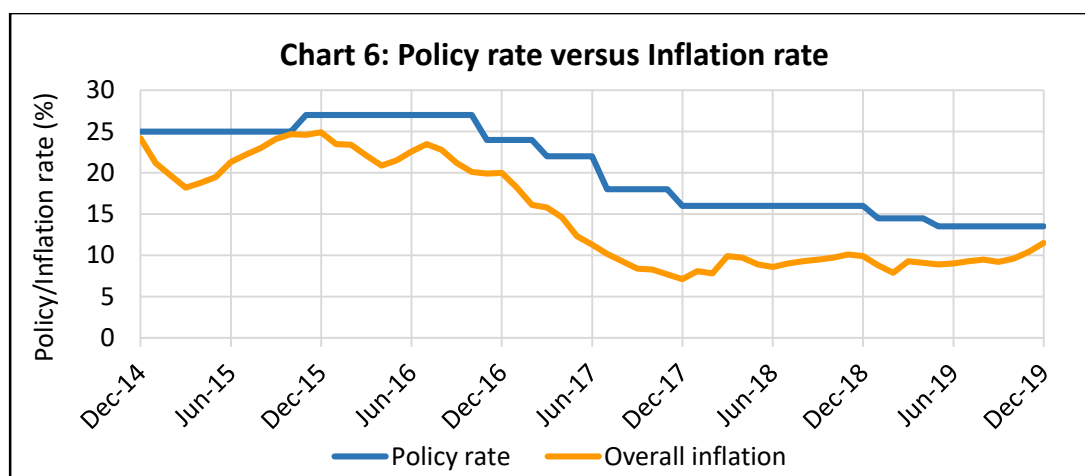
- 5.5 Looking forward, we expect food inflation rate to remain elevated in the first quarter of 2020 driven by high maize prices especially in Southern region areas which were hit by heavy rains and flooding in the last season. This is despite relief handouts by Government and other partners in heavily affected areas and ADMARC's commencement of maize trading. Maize prices are expected to start dissipating in April and May 2020 with the start of the harvest period, subject to favourable weather conditions.
- 5.6 Non-food inflation rate is expected to remain broadly stable in the first half of 2020. No significant upward adjustment in fuel prices is expected in the short term, MERA having last adjusted fuel prices on 9th November 2019. Besides, global oil prices are also expected to remain subdued in 2020 with rising global oil output and declining demand. We also expect the Kwacha to remain broadly stable in the first half of 2020 supported by a healthy forex reserves position.
- 5.7 Thus, we expect overall inflation to remain under pressure from the food component until the end of the lean season in March 2020. The rate could start to decline in April or May 2020 with commencement of the harvest season.
- 5.8 Power challenges, a possible rise in electricity tariffs and political uncertainties are major risks to this inflation outlook.
- 5.9 The RBM forecasts an average annual inflation rate of 8.8% for 2020 and is still targeting an average annual inflation rate of 5% by 2021.

6. Monetary policy

- 6.1 The Monetary Policy Committee (MPC) of the Reserve Bank of Malawi (RBM) met four times in 2019 to review developments in the local and global economy that inform monetary policy decisions.
- 6.2 During the first meeting of 2019 held on 29th and 30th January 2019, the MPC decided to loosen monetary policy as follows:
 - 6.2.1 Reduce the Policy rate (PR) from 16.0% to 14.5%;
 - 6.2.2 Reduce the Liquidity Reserve Requirement (LRR) ratio from 7.5% to 5.0% for domestic currency deposits and from 7.5% to 3.75% for foreign currency deposits;
 - 6.2.3 Reduce the Lombard rate from 18.0% to 14.9%; and
 - 6.2.4 Peg the Base lending rate for commercial banks at the Lombard rate.
- 6.3 These policy changes were based on a favourable macroeconomic outlook and aimed at assisting the financial sector and the private sector to harness synergies and effectively contribute to economic growth.
- 6.4 The MPC held a second meeting of 2019 on 2nd and 3rd May 2019, during which the Policy rate was revised further downwards from 14.5% to 13.5% based on a favourable macroeconomic outlook. The Committee, however, maintained the Lombard rate at 0.4 percentage points above the Policy rate, the Liquidity Reserve Requirement (LRR) on local currency deposits at 5% and the LRR on foreign currency deposits at 3.75%.
- 6.5 During the second meeting, the MPC also proposed further changes to the base lending rate for all banks by introducing a new reference rate. The new reference rate is calculated as the monthly weighted average of market rates, namely Lombard rate, 91-day TB rate, interbank rate and

savings rate. It became effective on 3rd September 2019 and is revised at the beginning of every month in line with market developments and is common for all banks. However, banks are free to add premiums to the reference rate depending on cost of funding/doing business. The Reference rate was at 13.4% in September 2019, 12.00% in October 2019, 12.3% in November 2019 and 12.5% in December 2019.

- 6.6 With a variable Reference rate, lending rates and deposit rates for commercial banks are also revalued every month and follow the trend of the Reference rate.
- 6.7 The third MPC meeting was held on 25th and 26th July 2019 and the fourth meeting was held on 29th and 30th October 2019. In both meetings the MPC decided to maintain the monetary policy stance.
- 6.8 Chart 6 below depicts the historical trend of the Policy rate relative to inflation rate. The chart shows that the Policy rate has been on a declining trend since November 2016.



(Data source: RBM, NSO)

- 6.9 Looking ahead, we expect a cautious monetary policy in the short term as the monetary authorities work to contain inflationary pressures. In the medium to long term, however, we expect further interest rate cuts when inflationary pressures subside and if possible shocks to the exchange rate will be contained. The RBM is targeting a Policy rate of 11% and a Reference rate of 10% by 2021.

7. Economic growth

- 7.1 Economic growth for 2019 is estimated to have been favourable, despite some challenges the country faced during the year, including low value realised from tobacco, power shortages, adverse weather conditions, and political tensions during and after the May 2018 elections. Real GDP is estimated by RBM to have grown by 5.0% in 2019 compared to the World Bank (WB) and the International Monetary Fund's estimates of 4.4% and 4.5%, respectively. This is an improvement from the growth rate of 4.0% in 2018.
- 7.2 The positive growth for 2019 was largely supported by improved performance of the agricultural sector relative to the previous year, improved power supply, a favourable macroeconomic

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environment, as well as the easing of monetary policy, among other factors. In addition to the agriculture sector, good performance is estimated to have been registered in the following economic activities: information and communication; electricity, gas and water supply; construction; transportation and storage; and real estate activities, among others.

7.3 For 2020, Real GDP growth is projected between 5.0% and 6.0% by RBM, owing to further recovery in the agriculture sector as well as favourable macroeconomic conditions.

Table3a. GDP growth projections for Malawi							
Institution	2017	2018	2019 ^e	2020 ^f	2021 ^f	2022 ^f	2023 ^f
Government/Reserve Bank	5.20%	4.10%	5.00%	5.10%	N/A	N/A	N/A
World Bank (GEP)	4.00%	3.50%	4.40%	4.80%	5.20%	5.30%	N/A
International Monetary Fund (WEO)	4.00%	3.20%	4.50%	5.10%	N/A	N/A	N/A
Economist Intelligence Unit (EIU)	4.00%	3.50%	4.10%	4.40%	4.70%	5.10%	5.20%
Average	4.30%	3.58%	4.50%	4.85%	4.95%	5.20%	5.20%

^e Estimate; ^f Forecasts

Table 3b: Annual percentage growth rates (in percent) - Constant 2010 prices					
Sector	2016	2017	2018	2019 ^e	2020 ^f
Agriculture, forestry and fishing	-0.1	6.1	0.9	3.9	5.1
<i>Crop and animal production</i>	-1.2	7.3	-0.3	5.5	6.6
<i>Forestry and logging</i>	2.3	3.3	2.8	-0.9	0.4
<i>Fishing and aquaculture</i>	1.6	5.7	6.2	3.6	5.8
Mining and quarrying	0.4	1.6	2.1	3.6	5.8
Manufacturing	1.3	2.0	3.6	4.6	3.7
Electricity, gas and water supply	0.1	2.6	4.3	5.1	5.4
Construction	3.4	4.4	4.5	5.1	3.5
Wholesale and retail trade	2.3	5.0	4.1	4.5	3.9
Transport and storage	4.9	6.0	4.9	5.5	4.4
Accommodation and food services	5.7	4.2	5.9	4.0	3.8
Information and communication	5.0	6.5	6.7	7.0	6.3
Financial and Insurance services	5.9	5.5	6.9	5.5	5.9
Real estate activities	3.1	4.4	3.8	4.3	3.1
Professional and support services	3.6	4.0	5.4	5.5	5.7
Public administration and defense	6.2	5.7	7.0	6.3	7.4
Education	7.9	6.6	8.5	7.5	6.6
Health and social work activities	7.2	5.3	6.0	6.4	6.5
Other services	5.5	4.3	5.2	5.0	5.6
GDP at constant market prices (2010)	2.7	5.2	4.0	5.0	5.1
GDP at current prices	18.7	21.6	13.6	13.4	10.4

(Source: Ministry of Finance, Economic Planning and Development - 2019 Economic Report)

^e Estimate; ^f Forecast

7.4 The above growth estimates and projections for Malawi for 2019 are above the average estimates and projections for the Sub-Saharan Africa region. The World Bank and IMF estimate that the Sub-Saharan Africa region grew by 2.9% and 3.2%, respectively, in 2019, compared to 2.5% and 3.2%, respectively, in 2018. Economic activity in the region is estimated to be slightly better than the previous year despite subdued commodity prices, somewhat civil strife in some cases and adverse weather conditions experienced in the southern part of the region. In non-resource-intensive economies, growth was supported by better agricultural production and continued infrastructure investment, while oil exporters benefited from higher oil production. However, weaker metals prices and subdued external demand is estimated to have contributed to a sluggish recovery in metals exporters.

Table 3c: GDP growth estimates and projections for Sub-Saharan Africa				
	2017	2018	2019^e	2020^f
World Bank (GEP)	2.60%	2.50%	2.90%	3.30%
International Monetary Fund (WEO)	3.00%	3.20%	3.20%	3.60%

^e Estimate ^f Forecast

7.5 Growth in the two largest economies in the region, South Africa and Nigeria, according to IMF, is estimated to have decelerated to 0.7% in 2019 from 0.8% in 2018 for South Africa and accelerated to 2.3% in 2019 from 1.9% in 2018 for Nigeria. Malawi's neighboring countries, Zambia, Tanzania, Mozambique and Zimbabwe, are all estimated by IMF to have registered lower growth rates in 2019 compared to 2018, as shown in Table 2d below:

Table 3d: IMF GDP growth estimates and projections for selected countries in Sub-Saharan Africa					
	2017	2018	2019^e	2020^f	2024^f
Sub-Saharan Africa	3.00%	3.20%	3.20%	3.60%	4.20%
Malawi	4.00%	3.20%	4.50%	5.10%	6.50%
South Africa	1.40%	0.80%	0.70%	1.10%	1.80%
Nigeria	0.80%	1.90%	2.30%	2.50%	2.60%
Zambia	3.50%	3.70%	2.00%	1.70%	1.50%
Tanzania	6.80%	7.00%	5.20%	5.70%	6.50%
Mozambique	3.70%	3.30%	1.80%	6.00%	11.50%
Zimbabwe	4.70%	3.50%	-7.10%	2.70%	2.20%

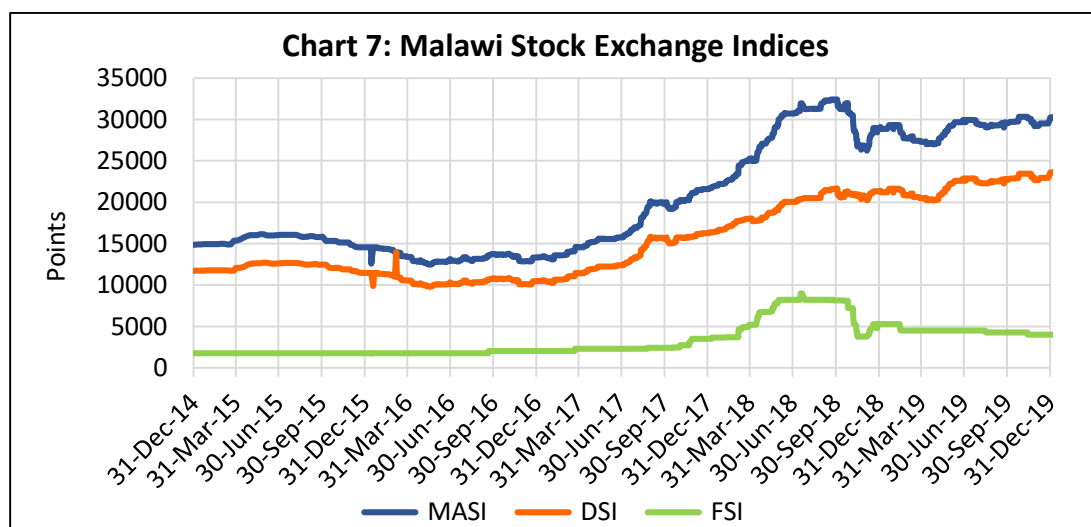
(Source: IMF World Economic Outlook - October 2019)

^e Estimate; ^f Forecasts

7.6 The relative strong growth expectations for Malawi puts the country in a good position for sustained economic recovery.

8. Stock market performance

- 8.1 Performance of the Malawi Stock Exchange (MSE) was subdued in 2019 although the market registered a positive return on index of 4.38% (3.41% in US\$ terms). This is compared to a positive return on index of 34.19% (33.42% in US\$ terms) in 2018 and 62.14% in 2017. The Malawi All Share Index (MASI) closed the year 2019 at 30,252.20 points compared to 28,983.53 points as at the beginning of the year.
- 8.2 The market registered an increase of 45.46% in volume of shares traded to 1,393,849,808 in 2019 from 958,247,064 in 2018, despite registering a decrease of 4.77% in total value traded to K46.37 billion in 2019 from K48.70 billion in 2018.
- 8.3 Eight counters registered capital gains while six counters registered losses.
- 8.4 One company, ICON Properties Plc, was listed on the MSE on 21 January 2019 bringing the total number of listed companies on MSE to 14 as at the end of the year.
- 8.5 In the same period, two Corporate Medium-Term Notes by MyBucks Banking Corporation Limited and three Treasury Notes were listed on the MSE bringing the total number of listed debt securities to 14.
- 8.6 Chart 7 shows a graphical analysis of the MASI, DSI (Domestic Share Index) and FSI (Foreign Share Index), over the five-year period between December 2014 and December 2019, and Table 4 shows performance of individual companies in 2019.



(Data source: Malawi Stock Exchange)

Table 4: Share trading summary					
		Dec-19	Dec-18	% Price change	
Market indices					
MASI		30,252.20	28,983.53	↑	4.38%
DSI		23,599.75	21,318.07	↑	10.70%
FSI		4,024.86	5,265.12	↓	-23.56%
Gainers					
NBM		525.00	332.02	↑	58.12%
MPICO		19.53	13.20	↑	47.95%
NBS		13.50	10.00	↑	35.00%
PCL		1,400.00	1,140.00	↑	22.81%
ICON		10.50	8.75	↑	20.00%
NICO		48.49	43.00	↑	12.77%
STANDARD		730.00	670.00	↑	8.96%
NITL		80.00	75.00	↑	6.67%
Losers					
BHL		12.95	13.00	↓	-0.38%
OMU		2,499.99	2,513.25	↓	-0.53%
TNM		26.00	28.00	↓	-7.14%
SUNBIRD		118.00	145.00	↓	-18.62%
ILLOVO		153.00	200.00	↓	-23.50%
FMBCH		75.00	100.00	↓	-25.00%











(Data source: Malawi Stock Exchange)

9. Financial results for financial institutions and listed companies

- 9.1 A number of MSE-listed companies and financial institutions which include 9 banks operating in Malawi, published their half-year financial results to June 2019.
- 9.2 While all banks except one posted profits during the period, CDH Investment Bank Ltd, First Capital Bank Plc, MyBucks Banking Corporation Ltd and Nedbank registered lower profits compared to the corresponding period in 2018 as shown in Table 5a.
- 9.3 Table 5b shows the 2019 half-year financial results for the non-banking institutions with a comparative analysis as at half-year 2018.

Table 5a: Published financial results for banks for the half year ended 30th June 2019				
	H1 2019 PAT (K'm)		Movement	H1 2018 PAT (K'm)
CDH Investment Bank Ltd	549	↓	-18%	672
Ecobank Ltd	3,692	↑	74%	2,120
FDH Bank Ltd	3,351	↑	150%	1,342
First Capital Bank Plc	4,153	↓	-37%	6,580
National Bank of Malawi Plc	9,127	↑	7%	8,541
NBS Bank Plc	1,406	↑	194%	479
Nedbank Ltd	(666)	↑	37%	(1,053)
MyBucks Banking Corporation Ltd	817	↓	-0.3%	820
Standard Bank (Malawi) Plc	8,094	↑	46%	5,532

(Sources: MSE and The Nation and Daily Times newspapers)

Table 5b: 2019 half-year published financial results for non-bank institutions			
	H1 2019 PAT (K'm)	Movement	H1 2018 PAT (K'm)
Listed			
Blantyre Hotels Plc	196 	19%	165
First Capital Holdings Plc (US\$'000)	5,080 	-75%	20,116
ICON Properties Plc	2,520		
ILLOVO Sugar Plc	8,123 	17%	6,957
MPICO Plc	3,582 	-6%	3,799
National Investment Trust Plc	672 	-53%	1,429
NICO Holdings Plc	7,294 	22%	5,973
Press Corporation Plc	11,168 	-52%	23,079
Sunbird Tourism Plc	1,197 	2%	1,172
Telekom Networks Malawi Plc	6,712 	-3%	6,942
Unlisted			
First Discount House Ltd	1,194 	661%	157

(Sources: MSE and The Nation and Daily Times newspapers)

10. Commodities

10.1 Tobacco

- 10.1.1** Malawi realized lower earnings from tobacco during the 2019 season which ended on 27th September 2019, relative to the 2018 season. The country sold 165.70 million kilograms (kgs) of tobacco in 2019 season, compared to 202.00 million kgs sold in 2018 season, representing a 17.97% decrease in volume.
- 10.1.2** The country's major foreign exchange earner also faced a slump in prices in the 2019 season. The price averaged USD1.43 per kg, down by 14.37% when compared to the average price of USD1.67 per kg in the previous season. Consequently, tobacco revenue went down by 29.78% to USD237.00 million, compared to USD337.50 million in 2018.
- 10.1.3** Table 6 below is a summary of cumulative tobacco sales figures for 2019, relative to 2018.

Table 6: Cumulative tobacco sales as at end of season in 2019 versus end of season in 2018

	Final 2019	Final 2018	Change
Volume (kg)	165.70 million	202.00 million	(17.97%)
Average price (USD/kg)	1.43	1.67	(14.37%)
Value (USD)	237.00 million	337.50 million	(29.78%)

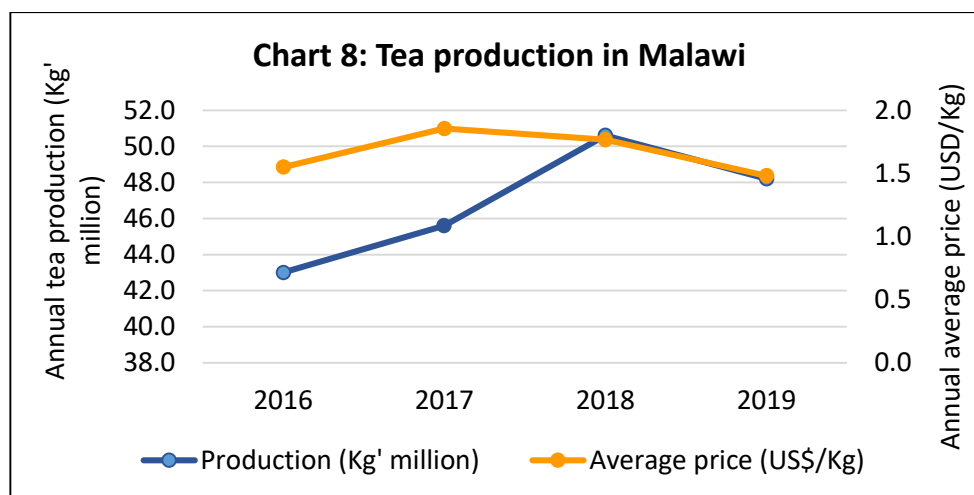
(Source: Tobacco Control Commission (TCC))

- 10.1.4** Tobacco has not been performing well in recent years because of the global anti-smoking campaign. Malawi is intensifying efforts to diversify away from tobacco.

10.2 Tea

10.2.1 Malawi realised lower proceeds from tea sales in 2019 compared to 2018 due to a decrease in both production volumes and prices. According to the RBM Monthly Economic Reviews, Malawi's tea production amounted to 48.20 million kilograms in 2019, down by 4.74% from 50.60 million kilograms in 2018. In terms of pricing, tea auction prices averaged US\$1.48 per kilogram in 2019 compared to the average of US\$1.77 per kilogram in 2018, representing a decrease of 16.18%.

10.2.2 Chart 8 below depicts Malawi's annual tea production in the last four years.



(Data source: Reserve Bank of Malawi's Monthly Economic Reviews)

10.3 Cotton

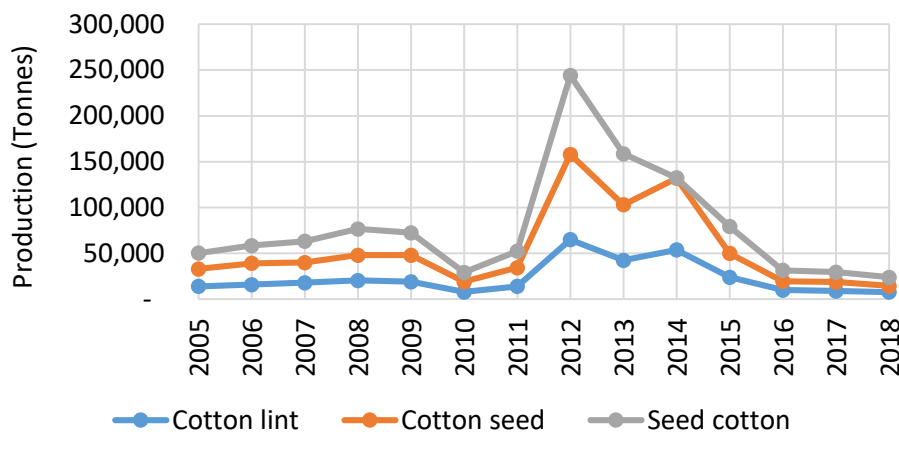
10.3.1 Cotton production remains low in Malawi, with seed cotton averaging 85,379 metric tonnes per year in the last decade. It is only in 2012, 2013 and 2014 that the country produced significant amounts when Government of Malawi rolled out a K1.6 billion support initiative. Since then cotton production in Malawi has been declining reaching 24,010 metric tonnes in 2018.

10.3.2 A slight improvement is expected in 2019 and 2020 as Government allocated K1 billion to the industry in the 2019/2020 national budget. Cotton is one of the cash crops, besides tea and sugar, which the Government of Malawi is promoting, with tobacco facing challenges on the international market.

10.3.3 Cotton prices ranged between K375 and K420 per kilogram in 2018 and 2019 after the Government of Malawi set K375 as the minimum price.

10.3.4 Chart 9 depicts the historical trend of cotton production in Malawi.

Chart 9: Malawi cotton production



(Data source: Food and Agriculture Organisation of the United Nations)

11. Political environment

- 11.1 The country went to the polls on 21st May 2019 during which the sitting president Professor Arthur Peter Mutharika of the Democratic Progressing Party (DDP) was re-elected President of the Republic of Malawi. He was sworn in office on 28th May 2018 and inaugurated on 31st May 2019.
- 11.2 However, since the Malawi Electoral Commission (MEC) announced results of the general elections on 27th May 2019, Malawi's political environment has been fragile. Two opposition parties, namely the Malawi Congress Party (MCP) and the United Transformation Movement (UTM) disputed the results of the General Election in court. While the electoral case was in court, the Human Rights Defenders Coalition (HRDC) organized several demonstrations across the country petitioning the MEC Chairperson to resign, alleging that the electoral process was marred with irregularities. The demonstrations turned violent in some instances, affecting businesses in major cities.
- 11.3 The Constitutional Court commenced hearing of the presidential election case in July 2019 and concluded the hearing process in December 2019. Judgement was passed on 3rd February 2020 in favour of the petitioners. According to the court judgment, the court nullified the May 2019 results and ordered fresh elections to take place within 150 days from the day of judgement. The court also stated that parliament should reconsider the current first-past-the-post electoral system and recommended that the next president be elected with a minimum of 50% of the vote. However, President Mutharika and MEC lodged an appeal against the ruling to the Supreme Court which will be held later in the year 2020.