

A photograph of a large-scale construction site. In the foreground, two workers wearing orange hard hats and red safety vests are standing on a metal structure. One worker is facing away from the camera, looking towards the sky. Above them, a red lattice-boom crane is positioned, with its hook and cables visible against a clear blue sky. In the background, there are several other construction workers and a complex network of scaffolding and steel beams. The overall scene conveys a sense of industrial activity and development.

Annual economic review

2021



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19th January 2022

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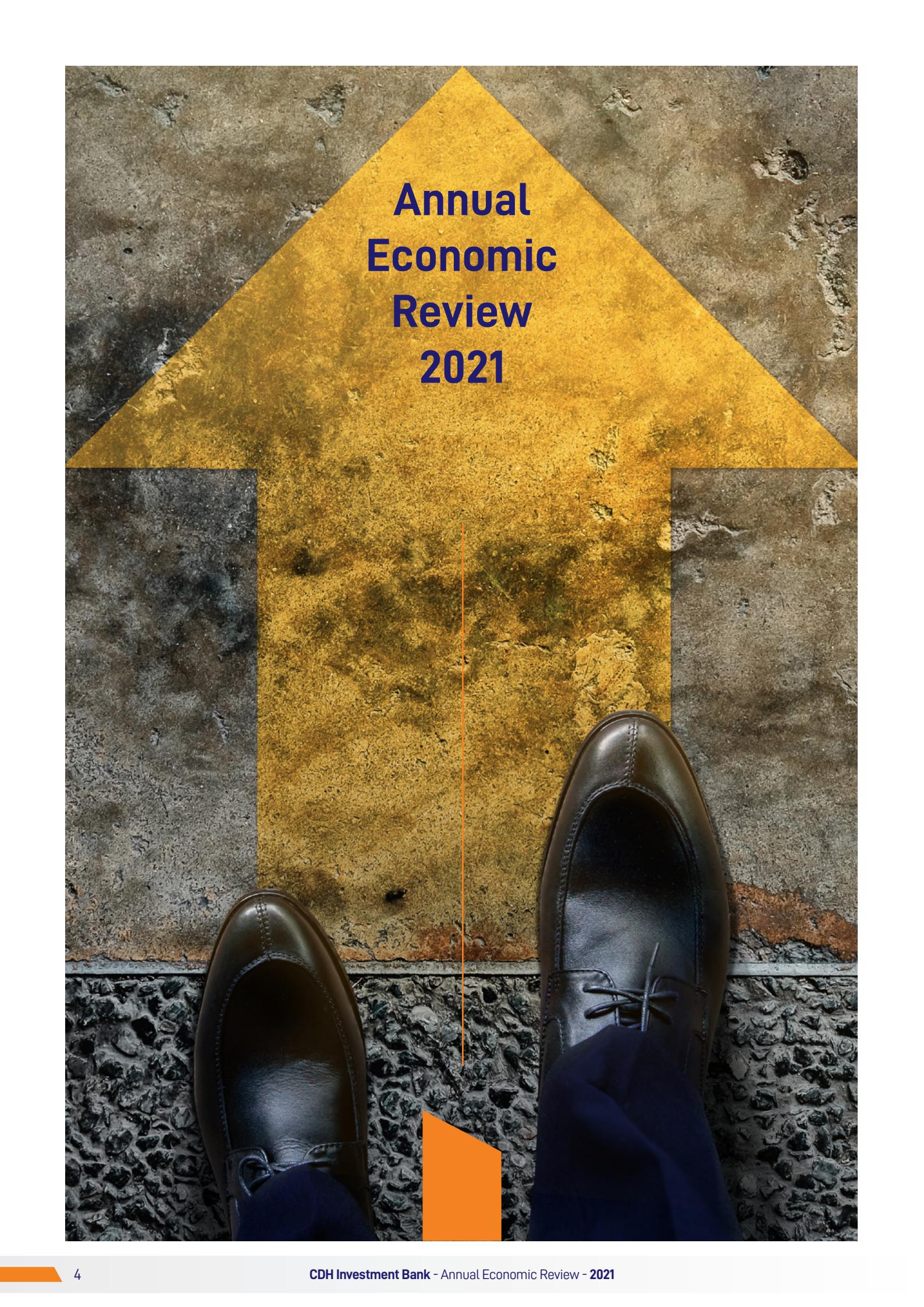
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Annual Economic Review 2021

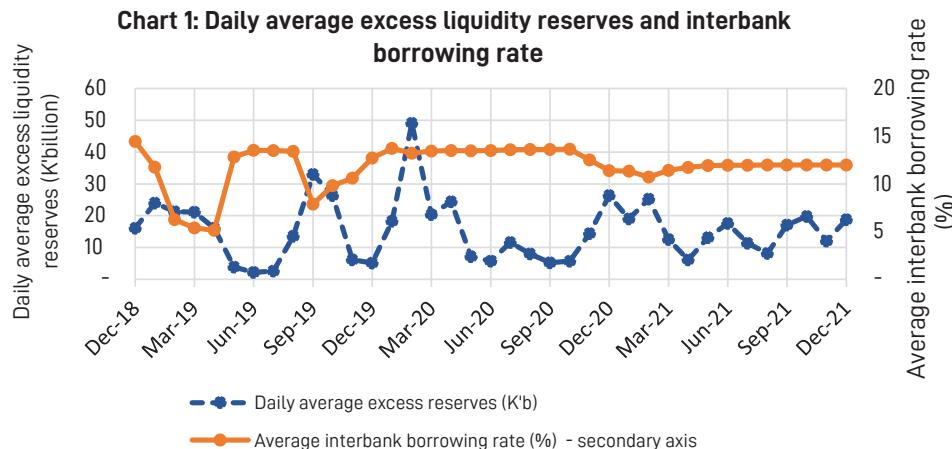
1. Executive summary

- 1.1 The following economic environment prevailed during the period from 1st January to 31st December 2021:
 - 1.1.1 Relatively low liquidity levels on the interbank market.
 - 1.1.2 A shortage of forex and the resultant depreciation of the Kwacha.
 - 1.1.3 Persistent inflationary pressures due to rising utility prices and exchange rate depreciation.
 - 1.1.4 Relatively steady market interest rates on account of a stable Policy rate at 12.0%.
 - 1.1.5 An improvement in stock market return, despite decreased traded volume and value.
 - 1.1.6 Opening of the economy and an improvement in economic activity following implementation of various COVID-19 vaccination programs and subsequent easing of restrictions, although the COVID-19 pandemic remained a key economic risk.
- 1.2 The country's real GDP growth rate for 2021 is estimated at 3.8% compared to 0.9% realised in 2020.

2. Interbank market

- 2.1 The level of liquidity on the interbank market, indicated by banks' excess reserves held with the Reserve Bank of Malawi (RBM), was lower in 2021 relative to 2020, decreasing by 7.76% to an average of K15.08 billion per day in 2021 compared to the average of K16.35 billion per day in 2020. As in the previous year, liquidity levels were highest in the first quarter of 2021 when excess liquidity reserves averaged K18.95 billion per day and were lowest in the third quarter when excess liquidity reserves averaged K12.22 billion per day.
- 2.2 Due to low liquidity levels, the volume of borrowing among banks on the interbank market increased by 41.38% in nominal terms to a total of K3.22 trillion in 2021 from K2.27 trillion in 2020. However, the interbank borrowing rate was largely stable during the year and averaged 11.74%, down from the average of 13.26% in 2020.
- 2.3 Funds accessed through the Lombard Facility of the RBM more than doubled to K13.00 trillion in 2021 compared to K6.03 trillion in 2020. The Lombard rate was stable at 12.20% as the Monetary Policy Committee (MPC) kept the rate unchanged throughout the year.
- 2.4 Further, the RBM issued OMO reverse repos amounting to K700.59 billion (K118.33 billion in 2020) and conducted outright purchases of securities amounting to K72.83 billion during 2021. These were aimed at injecting liquidity in the banking system.

2.5 Chart 1 provides a summary of excess liquidity reserves and overnight interbank rate movements over the immediate past three years. The Chart shows that the interbank borrowing rate was largely stable in 2021 while remaining low, the liquidity levels were generally erratic.



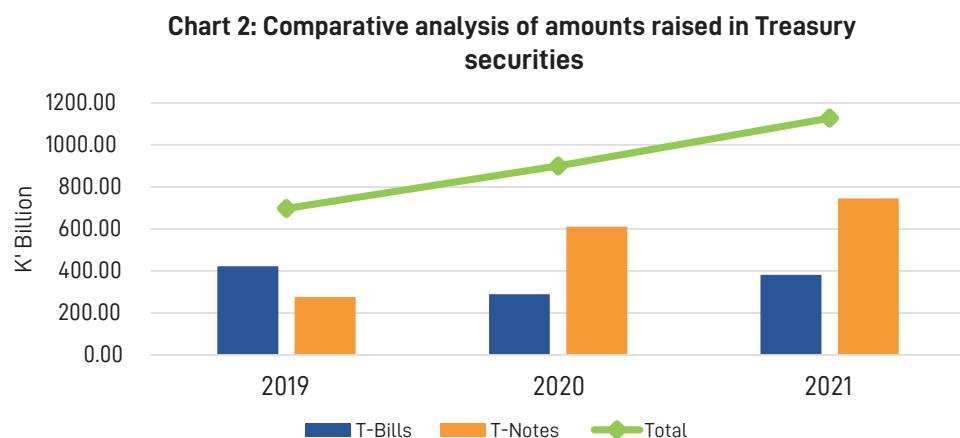
(Data source: Reserve Bank of Malawi)

3. Government securities

3.1 The Government raised K381.86 billion in auctions of Treasury Bills (TB) in 2021, representing an increase of 32.12% from K289.03 billion raised in 2020. The rejection rate was at 4.57% in 2021 compared to 40.99% in 2020.

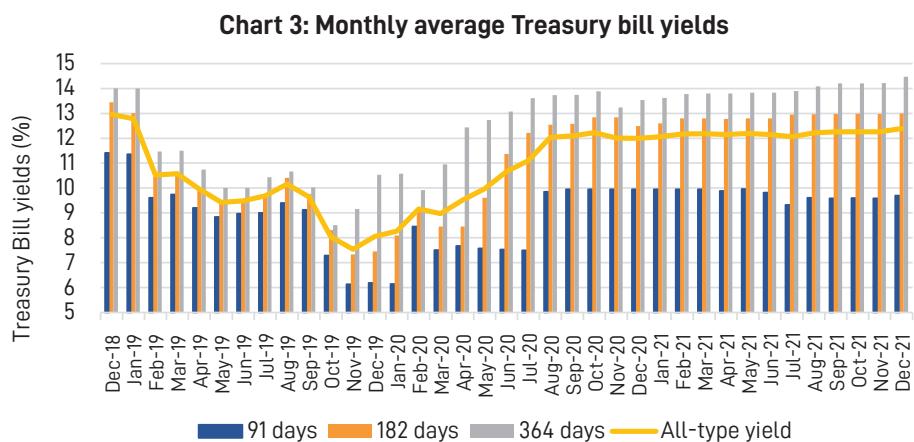
3.2 K745.86 billion was raised in auctions of Treasury Notes (TNs) during 2021, compared to K610.47 billion in 2020, representing a nominal increase of 22.18%. Rejection rate for TNs was at 5.16% in 2021, down from 19.53% in 2020.

3.3 Overall, Government domestic borrowing (TBs and TNs combined) increased in nominal terms in 2021 (K1,127.72 billion) relative to 2020 (K899.50 billion) as shown in Chart 2:



(Data source: Reserve Bank of Malawi)

3.4 In line with a stable Monetary Policy Rate, yields on Government securities were relatively stable in 2021. However, the yield levels registered in 2021 represent increases from the levels registered in 2020. The 91-day, 182-day and 364-day TB yields averaged 9.73%, 12.87% and 13.98%, respectively, increasing from 8.50%, 10.88% and 12.62% in 2020. The all-type average TB yield, consequently, increased to 12.19% in 2021 from 10.67% in 2020. Average yields for TNs also increased across all tenors. Chart 3 and Table 1 below depict the above trend.



(Data source: Reserve Bank of Malawi)

Table 1: Quarterly average yields of Treasury Notes					
Description	2 years	3 years	5 years	7 years	10 years
2021 average	16.58%	18.87%	20.17%	20.77%	22.57%
Q4 2021 yield	16.65%	19.03%	20.57%	20.94%	22.50%
Q3 2021 yield	16.63%	18.99%	20.12%	21.36%	23.00%
Q2 2021 yield	16.55%	18.86%	20.01%	20.53%	22.28%
Q1 2021 yield	16.50%	18.61%	19.97%	20.25%	22.50%
2020 average	15.00%	16.29%	18.49%	19.85%	20.95%
2019 average	13.23%	13.28%	15.12%	18.43%	17.76%
%pt. increase: 2021 vs 2020	1.58	2.58	1.68	0.92	1.62

(Data source: Reserve Bank of Malawi)

4. Foreign exchange market

4.1 The Kwacha depreciated against most of its major trading currencies during the year 2021, mainly due to a shortage of forex in the domestic market, emanating, among other factors, from weak export proceeds, foreign direct investment (FDI) and inflows from development partners, coupled with expanding import bills for agricultural inputs, fuel and COVID-19 related imports. The scaling back of foreign exchange

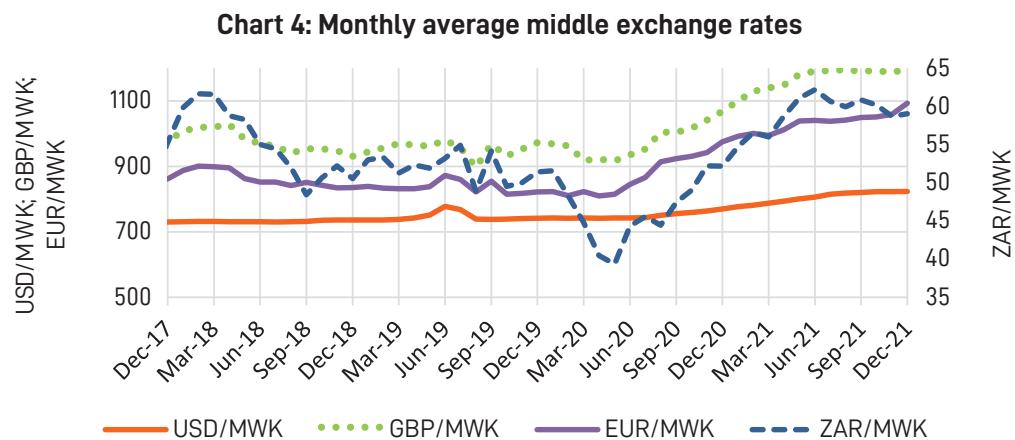
interventions by the RBM is also a key factor. According to the IMF's Malawi Country Report for December 2021, beginning July 2020 RBM scaled back currency swaps with regional development banks.

4.2 The USD/MWK middle rate averaged 805.89 in 2021, up by 7.59% from the average of 749.02 in 2020. The GBP/MWK average middle exchange rate increased by 20.35% to 1,170.34 from 972.48; the EUR/MWK average rate increased by 18.94% to 1,034.12 from 869.45; and the ZAR/MWK average rate increased by 26.78% to 59.05 from 46.58.

4.3 Table 2 and Chart 4 shows that the Kwacha has significantly depreciated against USD, GBP, EUR and ZAR since the second half of the year 2020. (Note: Downward arrows represent depreciation of the Kwacha).

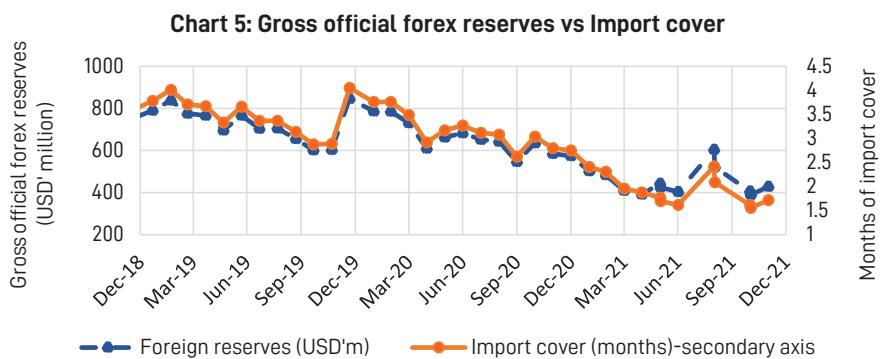
Currency	Annual average			End-year		
	2021	2020	Change	31-Dec-21	31-Dec-20	Change
USD/MWK	805.89	749.02	7.59%	819.44	776.82	5.49%
GBP/MWK	1170.34	972.48	20.35%	1208.01	1070.14	12.88%
EUR/MWK	1034.12	869.45	18.94%	1138.41	987.95	15.23%
ZAR/MWK	59.05	46.58	26.78%	57.68	56.43	2.22%

(Data source: Reserve Bank of Malawi)



(Data source: Reserve Bank of Malawi)

4.4 The shortage of forex saw a decline in gross official forex reserves to USD429.17 million (1.72 months of import cover) as at 31st December 2021 from USD574.26 million (2.75 months of import cover) as at 31st December 2020. The reserves have been below the recommended 3 months of import cover since November 2020.



(Data source: Reserve Bank of Malawi)

4.5 The country experienced a shortage of forex despite registering an improvement in tobacco sales during the year. The tobacco market was officially closed on 9th September 2021 after 21 weeks. The country realised USD197.05m during the season, compared to USD174.97m realised in the 2020 season, representing an increase of 12.62%, as shown in Table 2b below:

Table 2b: Cumulative tobacco sales – end of season

	2021	2020	Change
Volume (kg)	123.65 million	114.02 million	8.45%
Average price (USD/kg)	1.59	1.53	3.92%
Value (USD)	197.05 million	174.97 million	12.62%

(Source: Tobacco Control Commission (TCC)

4.6 On 27th August 2021, RBM announced the re-introduction of mandatory sale of export proceeds by exporters to Authorised Dealer Banks (ADB). Exporters are now required to sell at least 30% of their export proceeds to ADBs within 2 days of receipt of funds, and retain at most 70% in FCDAs. The directive was meant to help improve the forex situation.

4.7 Looking forward, exchange rate pressures are expected to remain elevated in 2022 as far as the shortage of forex situation remains.

4.8 The Economist Intelligence Unit (EIU) projects the following annual USD/MWK exchange rate averages:

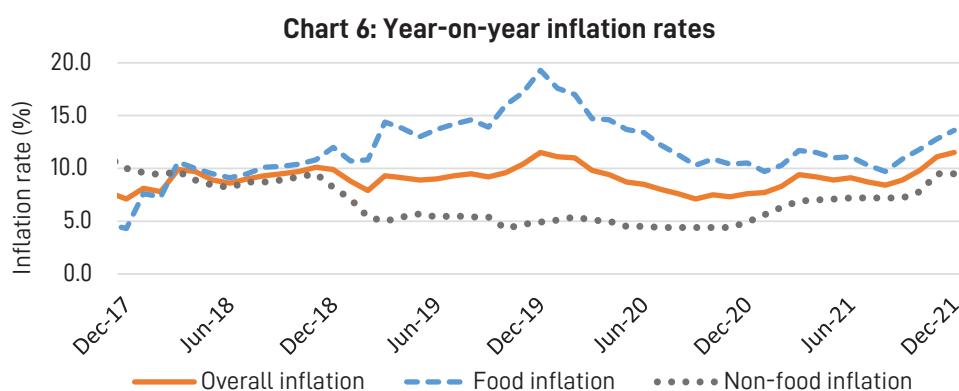
Table 2c: Economist Intelligence Unit forecasts

Year	2021	2022	2023	2024	2025	2026
USD/MWK annual average	804.1%	836.5%	868.8%	890.8%	911.7%	936.0%

5. Inflation

5.1 The rate of inflation increased in 2021, relative to 2020. Year-on-year headline inflation rate was estimated at 11.5% as at the end of the year from 7.6% as at the end 2020. The rate averaged 9.3% in 2021, up from the average of 8.6% in 2020. The increase in headline inflation rate was largely attributed to an increase in non-food inflation rate to the average of 7.4% in 2021 from 4.7% in 2020. The increase in non-food inflation rate emanated from upward revisions in prices of utilities: water, electricity and fuel, necessitated by rising international oil prices as well as the depreciation of the Kwacha. Food inflation rate, on the other hand, decreased to the average of 11.2% in 2021 from 13.1% in 2020, following a normal harvest during the year.

5.2 Chart 6 depicts the trend of inflation rate in the past four years.



(Data source: National Statistical Office)

5.3 We expect the upward risks to inflation to remain prominent in 2022 as the domestic and the world economies slowly recover from the effects of the Coronavirus pandemic. The RBM projects an annual average inflation rate of 10.4% in 2022, the International Monetary Fund (IMF) forecasts an average of 11.7% while the Economist Intelligence Unit (EIU) forecasts a rate of 10.3% from 9.3% in 2021.

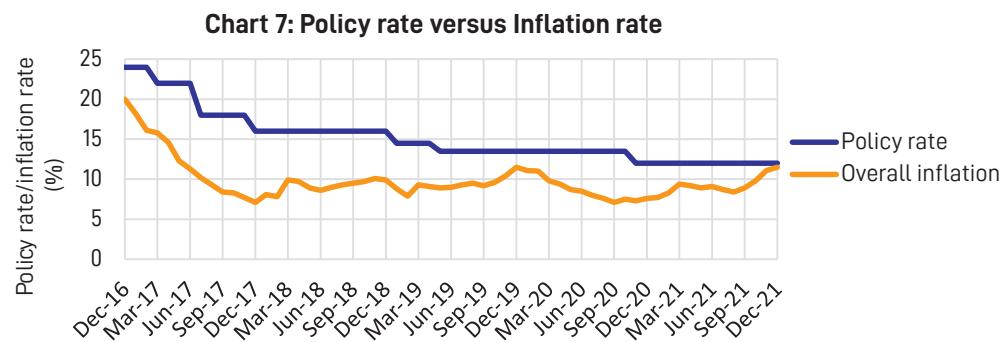
6. Monetary policy

6.1 The RBM continued to pursue an accommodative monetary policy in 2021. Monetary policy decisions focused mainly on containing inflation and supporting economic recovery from the negative effects of COVID-19.

6.2 The Monetary Policy Committee (MPC) met four times during the year: first on 25th and 26th January, second on 29th and 30th April, third on 29th and 30th July and fourth on 2nd and 3rd November 2021. During all the four meetings the MPC maintained the Policy rate at 12.0%, the Lombard rate at 0.2 percentage points above the Policy rate (12.2%) and the Liquidity Reserve Requirement (LRR) ratio at 3.75%.

6.3 Chart 7 depicts the trend of the Policy rate relative to inflation rate over the past five years. The chart shows that the Policy rate has been on a declining trend since 2016 and was last adjusted in November 2020. However, the chart indicates that the rise

in inflation in 2021 has left the RBM with little room for further easing or to hold the Policy rate at the current level.



(Data source: Reserve Bank of Malawi, National Statistical Office)

6.4 The Reference lending rate for banks averaged 12.1% in 2021, down from 13.3% in 2020, and closed the year at 12.2% compared to 12.3% in December 2020. The Reference rate was stable during most part of the year on account of a stable Policy rate.

7. COVID-19 and economic growth

7.1 The COVID-19 pandemic remained a major risk to economic activity across the world in 2021. However, the vaccination programs implemented in many countries improved global economic activity in 2021 from a slump in 2020.

7.2 According to the World Economic Outlook Report for October 2021 by the IMF, global economic growth is estimated to have recovered to 5.9% in 2021 from -3.1% in 2020 and is expected at 4.9% in 2022. The Sub-Saharan African Region is estimated to have grown by 3.7% in 2021 from -1.7% in 2020 and is expected to grow by 3.8% in 2022.

7.3 In the domestic economy, the Government estimates that real economic growth strengthened to 3.8% in 2021 from 0.9% in 2020 and is projected to grow by 5.2% in 2022. The IMF estimates real GDP growth rate of 2.2% in 2021 and projects the growth rate of 3.5% in 2022. The EIU's estimate is at 2.7% for 2021 and 3.1% for 2022.

7.4 Domestic economic growth in 2021 was driven by agricultural production, increased regional trade and domestic economic activity, as well as Government infrastructure development projects in the road, energy and agriculture sectors.

7.5 Key growth sectors in 2021 include Agriculture, Information & Communication, Financial & insurance services, Public administration & defense, Real estate activities, Manufacturing, and Electricity, gas & water supply, among others.

7.6 For 2022, key growth sectors include Agriculture, Education, Transport and storage, Information and communication, Financial and insurance activities, Manufacturing, Accommodation and food services and Public administration and defense, among others.

Table 3a: Annual percentage growth rates					
Sector	2018	2019	2020	2021e	2022f
Agriculture, forestry and fishing	0.3	5.9	4.2	5.5	6.2
Mining and quarrying	8.8	7.4	2.3	1.2	2.1
Manufacturing	6.8	7.6	4.3	3.7	5.8
Electricity, gas and water supply	8.3	7.9	4.6	3.5	4.2
Construction	7.2	7.8	3.6	2.5	4.2
Wholesale and retail trade	3.3	6.0	-1.3	2.0	4.4
Transportation and storage	6.3	8.7	-7.1	3.1	6.9
Accommodation and food services	4.0	3.4	-21.4	1.3	5.8
Information and communication	9.5	9.3	6.1	5.4	6.0
Financial and insurance activities	6.8	5.1	4.6	4.8	6.1
Real estate activities	-2.9	2.8	3.0	3.8	2.7
Professional and support services	8.1	9.5	-3.5	3.2	4.7
Public administration and defense	6.0	6.1	4.1	3.9	5.4
Education	4.6	4.7	-4.5	2.2	7.1
Health and social work activities	5.3	0.8	-3.0	2.5	3.4
Other services	8.0	15.0	-0.7	1.6	3.1
Sum of all industries	4.0	6.1	1.5	3.8	5.3
Plus: Taxes less subsidies on products	10.3	-2.7	-8.2	4.0	6.5
GDP in constant 2017 prices	4.4	5.6	0.9	3.8	5.4

Source: Malawi Government Annual Economic Report 2021. e Estimate; f Forecast

Table 3b: Real GDP growth projections					
Institution	Region	2020	2021e	2022f	
Government	Malawi	0.9%	3.8%	5.4%	
IMF	World	-3.1%	5.9%	4.9%	
	Malawi	0.9%	2.2%	3.5%	
	Sub-Saharan Africa	-1.7%	3.7%	3.8%	
World Bank	World	-3.4%	5.5%	4.1%	
	Malawi	0.8%	2.4%	3.0%	
	Sub-Saharan Africa	-2.0%	3.5%	3.6%	
EIU	Malawi	0.8%	2.7%	3.1%	

e Estimate; f Forecast
Malawi Government: Annual Economic Report 2021

8. Stock market performance

8.1 The Malawi Stock Exchange (MSE) registered a better return in 2021 relative to 2020. The Malawi All Share Index (MASI) registered a return of 40.05% (33.92% in US\$ terms) in 2021 compared to a return on index of 7.08% (2.21% in US\$ terms) in 2020. The Domestic Share Index (DSI) registered a return of 33.53% (28.56% in US\$ terms) in 2021 compared to 17.61% (12.26% in US\$ terms) in 2020. The Foreign Share Index (FSI) registered a return of 209.64% (151.46% in US\$ terms) in 2021 compared to -66.11% (-68.55% in US\$ terms) in 2020.

8.2 However, the market registered a decrease of 20.91% in volume of shares traded to 1,301,122,424 in 2021 from 1,645,194,139 in 2020. The value of shares traded also decreased by 8.26% (34.33% in US\$ terms) to K37.69 billion (\$43.75 million) in 2021 from K41.09 billion (\$54.52 million) in 2020.

8.3 12 counters registered capital gains (9 in 2020) while 4 counters registered losses (7 in 2020).

8.4 During the year, the MSE registered its first two secondary trades on the Debt market. The two trades were on a medium-term note (NFB03) issued by MyBucks Banking Corporation Limited, each with a nominal value of K5,000,000.00 at a price of K100.2026 giving a total value traded of K10,020,260.00.

8.5 The market also listed 26 Government of Malawi Treasury Notes, bringing the total number of listed debt securities to 46.

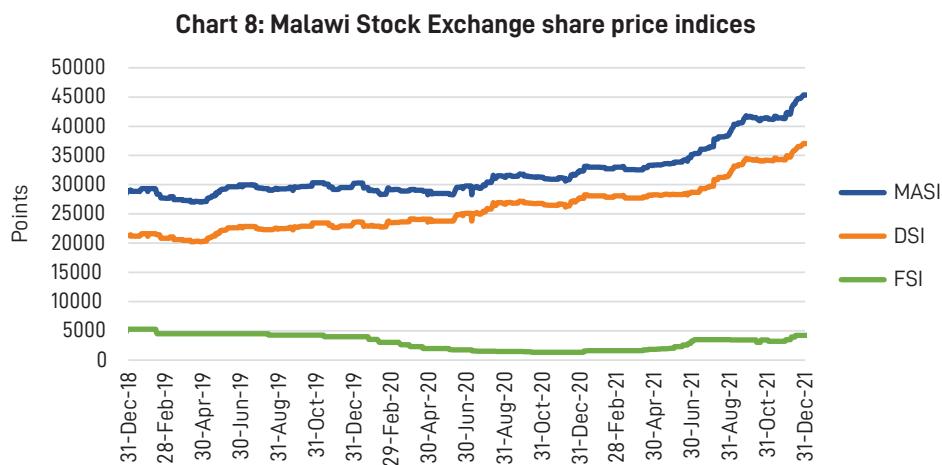
8.6 Table 4 shows performance of individual companies in 2021. Chart 8 shows a graphical analysis of the MASI, DSI and FSI over the past three years.

Table 4: Share trading summary

	31-Dec-21	31-Dec-20	Price change (%)
Market indices			
MASI	45,367.68	32,392.84 	40.05%
DSI	37,061.70	27,755.46 	33.53%
FSI	4,223.15	1,363.88 	209.64%
Gainers			
ILLOVO	300.00	80.48 	272.76%
FMBCH	80.00	22.04 	262.98%
PCL	1900.00	1,309.47 	45.10%
AIRTEL	40.00	27.98 	42.96%
STANDARD	1400.00	1,046.39 	33.79%
NBM	810.12	650.00 	24.63%

Table 4: Share trading summary				
TNM	22.92	20.07	↑	14.20%
FDHB	15.81	14.45	↑	9.41%
NBS	22.90	21.60	↑	6.02%
NICO	55.00	52.00	↑	5.77%
ICON	12.89	12.27	↑	5.05%
NITL	94.98	94.95	↑	0.03%
Losers				
MPICO	20.70	21.00	↓	-1.43%
OMU	2,099.99	2,199.98	↓	-4.55%
SUNBIRD	90.01	105.00	↓	-14.28%
BHL	11.01	12.94	↓	-14.91%

(Data source: Malawi Stock Exchange)



(Data source: Malawi Stock Exchange)

9. Political environment

9.1 The political environment was stable throughout the year. However, some groupings conducted demonstrations in the second half of the year in major cities of the country over delayed implementation of some campaign promises of the current administration.

9.2 Malawi assumed chairmanship of the Southern African Development Community (SADC) in August 2021. The development is seen as an opportunity for Malawi to enhance its visibility on the international arena, as well as improve its international trade participation within the SADC region administration.

10. Fiscal policy

10.1 The 2021/2022 financial year will be a nine-month period from 1st July 2021 to 31st March 2022 as Government transitions to a new set of financial years that will begin in April and end in March.

10.2 The budget for the 2021/2022 fiscal year was formulated in line with the country's long-term vision document, the Malawi 2063. Its main objectives include entrenching macroeconomic stability; attainment of a robust, inclusive and resilient economic growth; economic empowerment; infrastructure development; and mitigating the social and economic impact of the Covid-19 pandemic.

10.3 Focus is on programs with impact to achieve permanent food security, create jobs for the youth and create wealth for all.

10.4 The budget was formulated with an expectation that revenue performance will remain subdued in the short term but could rebound as the economy gradually recovers.

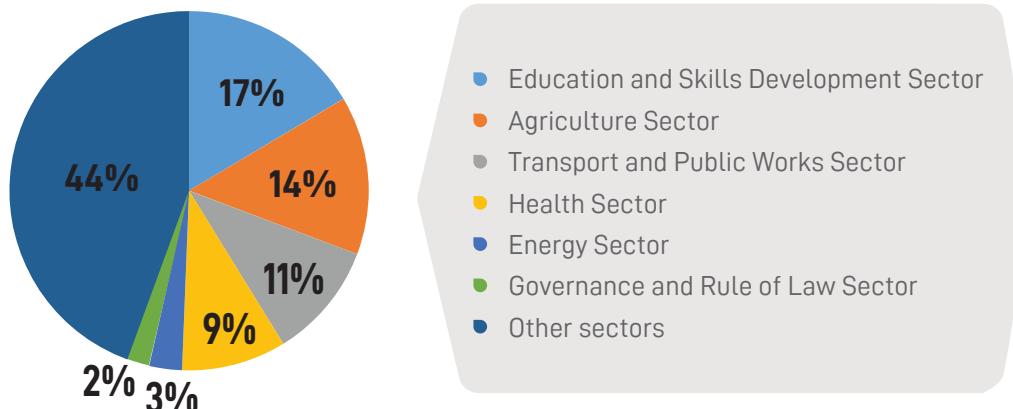
10.5 Below is a summary of the budget:

Table 5: Summary of 2021/2022 national budget

Category	2020/21 approved estimates	2020/21 end of year estimates	2021/22 estimates	% of total budget	% of 2020 GDP
Expenditure	2,190,180	2,332,599	1,989,579	100.0%	27.4%
Recurrent expenses	1,678,993	1,718,094	1,418,740	71.3%	19.5%
Fixed assets	511,188	614,505	570,838	28.7%	7.9%
Revenue	1,435,051	1,507,343	1,271,261	63.9%	17.5%
Domestic revenue	1,179,345	1,169,795	1,100,946	55.3%	15.2%
Grants	255,705	337,547	170,314	8.6%	2.3%
Deficit	-755,130	-825,256	-718,318	36.1%	9.9%
Net foreign financing	224,779	269,401	134,774	6.8%	1.9%
Net domestic borrowing	530,351	555,855	583,544	29.3%	8.0%

10.6 Key sector allocations include Education and skills development, Agriculture, Transport and public works, Health, Energy and Governance and rule of law.

Chart 9: Key sector allocations



11. Conclusions

- 11.1 Domestic economic activity improved in the year 2021 relative to 2020, although the Coronavirus pandemic remained a major risk. Real growth of the domestic economy is estimated to have improved to 3.8% in 2021 from 0.9% in 2020.
- 11.2 The RBM continued to pursue an accommodative monetary policy to support economic recovery. The MPC kept the Policy rate unchanged throughout the year, resulting in largely stable market rates, although the 2021 levels were higher than in 2020.
- 11.3 As the global and domestic economic activity picked up, however, some domestic fundamental variables showed some instability, including rising inflation rate and exchange rate depreciation.
- 11.4 In 2022, domestic economic activity is expected to improve further, backed by anticipated good agricultural production, continued improvement in economic and business confidence and ongoing Government infrastructural development projects, among others. However risks in inflation and exchange rates could remain elevated in 2022.

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2019



Commercial
paper programme

Lead arranger

2019



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