Economic review

First quarter 2020

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Contents

Economic review First quarter 2020

1. Executive summary

1.1 The economic environment remained fragile during the first quarter of 2020 mainly due to prevalence of inflationary pressures which pushed up market interest rates slightly. The inflation rate, however, started to decline towards the end of the quarter on account of the onset of the harvest period. The headline inflation rate stood at 9.8% in March 2020 compared to 11.5% recorded as at the end of Q4 in 2019.

1.2 Despite the above environment, the Kwacha remained stable during the period, supported by robust forex reserves which were last recorded at 3.76 months of import cover as at the end February 2020.

1.3 The Monetary Policy Committee (MPC) maintained the Policy rate at 13.5% during their first meeting of 2020 held on 29th and 30th January 2020 and their second meeting held on 1st April 2020. The Committee, however, reduced the Lombard rate at 13.9% and the Liquidity Reserve Requirement (at 5% for local currency deposits and 3.75% for foreign currency deposits) during the second meeting in an effort to mitigate liquidity challenges that would ensue in the banking system in the wake of the Coronavirus pandemic.

1.4 The political landscape also remained fragile during the period. In February 2020, the constitutional court nullified the May 2019 presidential election and ordered a fresh election within 150 days from the day of judgement. The election has been set for 2nd July 2020.

1.5 The global Coronavirus pandemic continues to pose major risks to economic growth prospects for 2020. As at end of March 2020, there were 863,184 reported cases with 44,043 deaths and 178,168 recoveries.

2. Interbank market

2.1 Liquidity levels increased during Q1 of 2020. Excess liquidity reserves for banks increased from an average of K12.56 billion per day in the fourth quarter (Q4) of 2019 to K29.22 billion per day in the first quarter (Q1) of 2020, which were also higher compared to the average volume of K22.13 billion per day recorded in Q1 of 2019.

2.2 Despite the increase in liquidity conditions, the interbank borrowing rate increased from the average of 11.04% in Q4 of 2019 to an average of 13.46% in Q1 of 2020 on account of inflation pressures. In 2019, the interbank borrowing rate averaged 7.79% in Q1. Chart 1 provides a summary of excess liquidity reserves and overnight interbank rate movements over the past year.

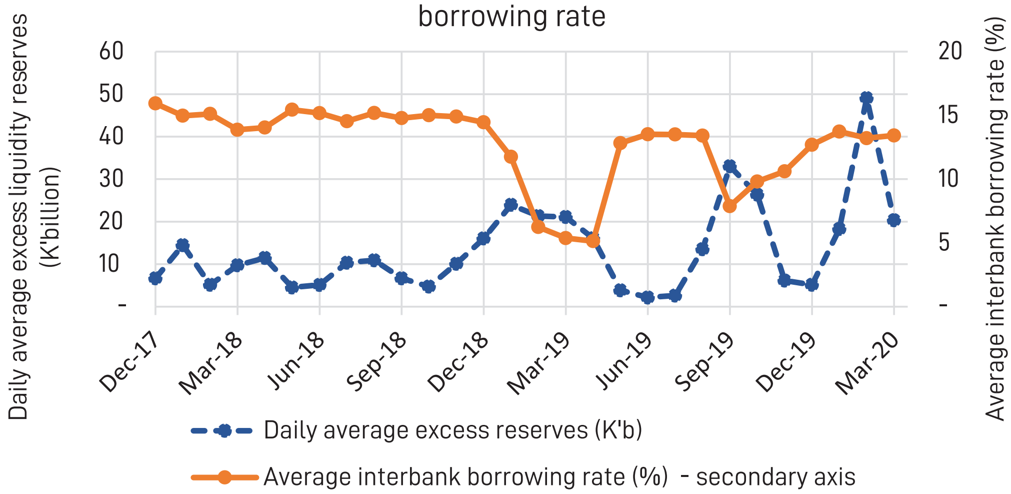
2.3 The volume traded among banks on the interbank market increased to the average of K9.71 billion per day in Q1 of 2020 from the average of K8.03 billion per day in Q4 of 2019 and K8.51 billion per day in Q1 of 2019.

2.4 Further, in line with higher liquidity levels, access to the Lombard facility decreased from a total of K905.45 billion in Q4 of 2019 to a total of K673.02 billion in Q1 of 2020. In the previous year, access to the Lombard facility totaled K55.90 billion in Q1.

2.5 The Lombard rate was constant at 13.90% in Q1 of 2020 and Q4 of 2019. In Q1 of 2019, the Lombard rate averaged 15.73% after RBM reduced it from 18.00% to 14.90% in January 2019.

2.6 While RBM withdrew a total of K16.50 billion from the market at the average rate of 13.72% in Q4 of 2019, there were no open market operations (OMOs) in Q1 of 2020. In Q1 of 2019, OMOs amounted to K47.64 billion at the average rate of 11.46%

Chart 1: Daily average excess liquidity reserves and interbank borrowing rate



(Data source: Reserve Bank of Malawi)

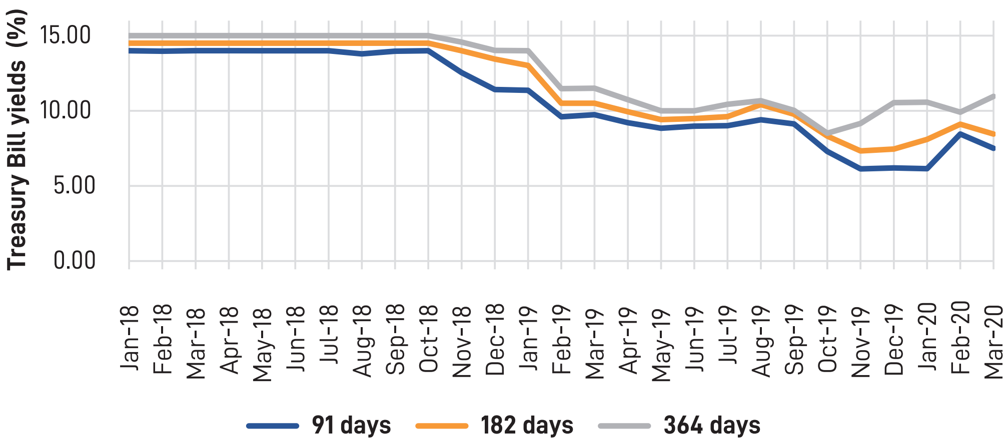
3. Government securities

3.1 Government raised a total of K105.09 billion in Q1 of 2020 through auctions for Treasury Bills (TB), registering a significant increase when compared to a total of K73.37 billion raised in Q4 of 2019. Total applications for TBs for Q1 of 2020 amounted to K247.79 billion, representing a rejection rate of 57.59%, which is slightly lower than a rejection rate of 66.67% recorded in Q4 of 2019. In Q1 of 2019, Government raised a total of K179.22 billion in TB auctions with a rejection rate of 38.10%.

3.2 TB yields increased in the period under review mainly due to prevalence of inflationary pressures. The 91-day TB yield increased from the average of 6.54% in Q4 of 2019 to the average of 7.37% in Q1 of 2020; the 182-day yield increased from the average of 7.70% in Q4 of 2019 to the average of 8.55% in Q1 of 2020; and the 364-day yield increased from the average of 9.40% in Q4 of 2019 to the average of 10.48% in Q1 of 2020. Consequently the all-type (average) TB yield increased from 7.88% in Q4 of 2019 to 8.80% in Q1 of 2020. During Q1 in the previous year, TB yields were higher, with the 91-day average yield at 10.24%, the 182-day average yield at 11.34% and the 364-day average yield at 12.32%; resulting in an all-type yield of 11.30%.

3.3 Chart 2 shows that after declining for the most past of 2019, TB yields started to increase in Q4 of 2019 and continued rising in Q1 of 2020. However, the 91-day and 182-day yields, started to decline in March 2020 as inflationary pressures started to dissipate with the onset of the agricultural harvesting period.

Chart 2: Monthly average Treasury Bill yields



(Data source: Reserve Bank of Malawi)

3.4 In the period under review, Treasury Notes (TNs) for the following tenors were conducted by RBM: 2-years, 3-years, 5-years and 7-years. A total of K124.84 billion was raised through these auctions compared to K95.16 billion that was raised in Q4 of 2019 and K82.09 billion that was raised in Q1 of 2019, representing nominal increases of 31.19% quarter-on-quarter and 52.08% year-on-year . The TNs traded at higher yields in Q1 of 2020 than in Q4 of 2019 but lower than those recorded in Q1 of 2019 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
Q1 2020 yield	12.38%	13.27%	15.55%	18.22%	
Q4 2019 yield	11.20%	10.70%	14.45%	13.73%	17.47%
Q1 2019 yield	17.32%	14.77%	16.27%	24.00%	

(Data source: Reserve Bank of Malawi)

3.5 Looking ahead, we expect the yields of Government securities to remain elevated in the short to medium term on account of increased uncertainties brought on by the global Coronavirus pandemic (COVID-19).

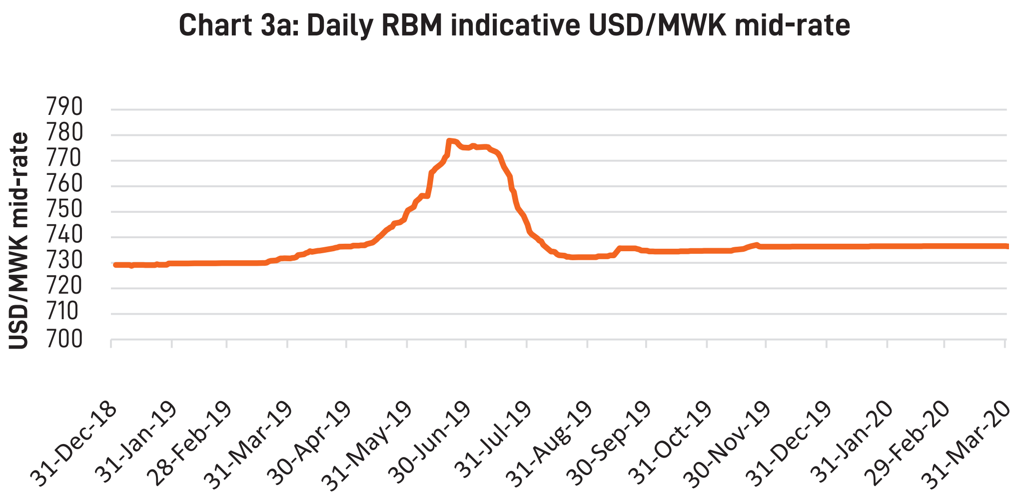
4. Foreign exchange market

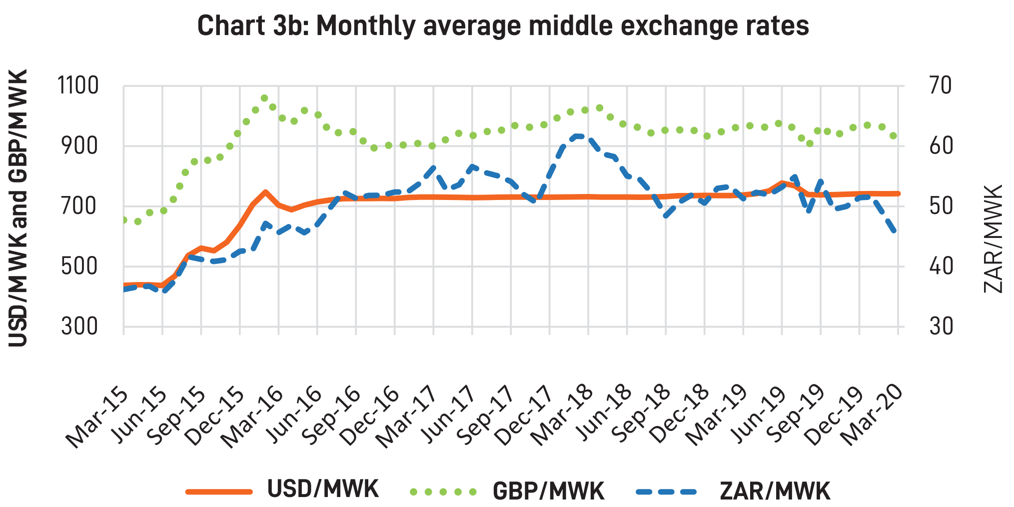
4.1 The Kwacha was broadly stable against USD during the quarter under review but appreciated against other major trading currencies largely due to seasonality factors and instability of global currencies emanating from uncertainties associated with COVID-19. The USD/MWK middle exchange rate averaged 741.96 in Q1 of 2020, slightly up from 740.17 in Q4 of 2019, representing a depreciation rate of 0.24% quarter-on-quarter. The GBP/MWK average middle exchange rate decreased by 0.21% to 949.78 and the ZAR/MWK average middle exchange rate decreased by 4.19% to 48.21, representing appreciations. On a year-on-year basis, the Kwacha depreciated by 0.74% against the USD and appreciated by 0.72% and 8.21% against GBP and ZAR, respectively, As shown in Table 2 below: (Note: Upward arrow represents appreciation and downward arrow represents depreciation of the Kwacha).

Table 2: Average middle exchange rates					
Currency	Q1 2020	Q4 2019	Q1 2019	Q/Q Change	YOY Change
USD/MWK	741.96	740.17	736.48	▼ 0.24%	▼ 0.74%
GBP/MWK	949.78	951.77	956.64	▲ -0.21%	▲ -0.72%
ZAR/MWK	48.21	50.32	52.52	▲ -4.19%	▲ -8.20%

(Data source: Reserve Bank of Malawi)

4.2 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 broadly stable against USD since mid-2016. Further, while remaining stable against USD, the Kwacha depreciated against GBP and ZAR during Q1 of 2020 under review.

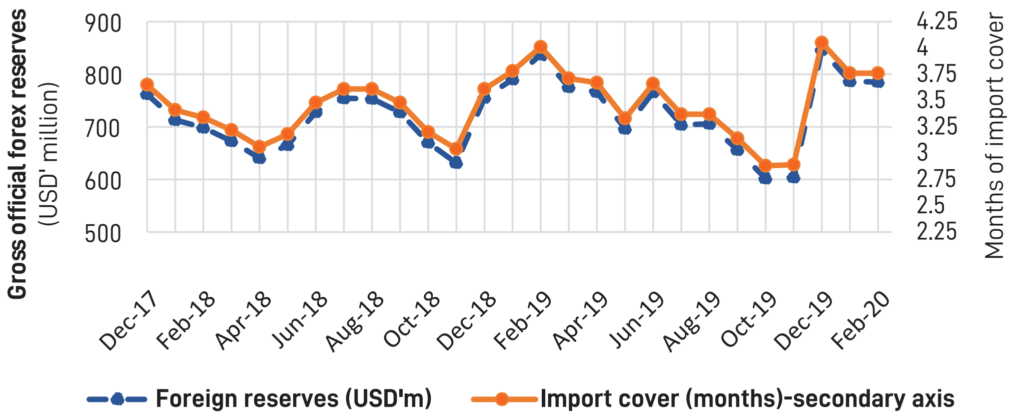




(Data source: Reserve Bank of Malawi)

4.3 The stability of the Kwacha during the quarter was supported by consistent availability of forex in the market. Gross official forex reserves remained above 3 months of import cover during the quarter. As of end-February 2020, gross official forex reserves stood at USD785.31 million, representing 3.76 months of import cover. This is a decrease from USD846.55m (4.05 months of import cover) as of end-December 2019.

Chart 4: Gross official foreign reserves and import cover



(Data source: Reserve Bank of Malawi)

4.4 Going forward, we expect the forex reserves position to improve in the ensuing months, especially with the commencement of the agricultural marketing season in April 2020. The robust forex reserves position is expected to continue to prevent excessive volatility of the Kwacha in the short term, despite prevailing uncertainties associated COVID-19 and the political environment. In the long term, however, depreciation risks could emanate from long-term domestic and global economic effects of COVID-19, declining demand of tobacco on the international market and possible unfavorable weather conditions, among other factors.

5. Inflation

5.1 The rate of inflation started to dissipate in Q1 of 2020 after an uptick in Q4 of 2019 due to seasonal upward pressures in food prices. Year-on-year headline inflation rate stood at 9.8% in March 2020, declining from 11.5% in December 2019 largely on account of a decrease in food inflation rate. Year-on-year food inflation rate decreased to 14.7% in March 2020 from 19.3% in December 2019 while year-on-year non-food inflation rate slightly increased to 5.1% in March 2020 from 4.9% in December 2019. In the previous year, in March 2019, year-on-year headline inflation rate, food inflation rate and non-food inflation rate were all lower at 9.3%, 14.4% and 5.0%, respectively.

5.2 Chart 5a depicts the trend of inflation rate in the past year and Chart 5b depicts a longer historical trend covering the period between March 2014 and March 2020.

Chart 5a: Year-on-year inflation rates

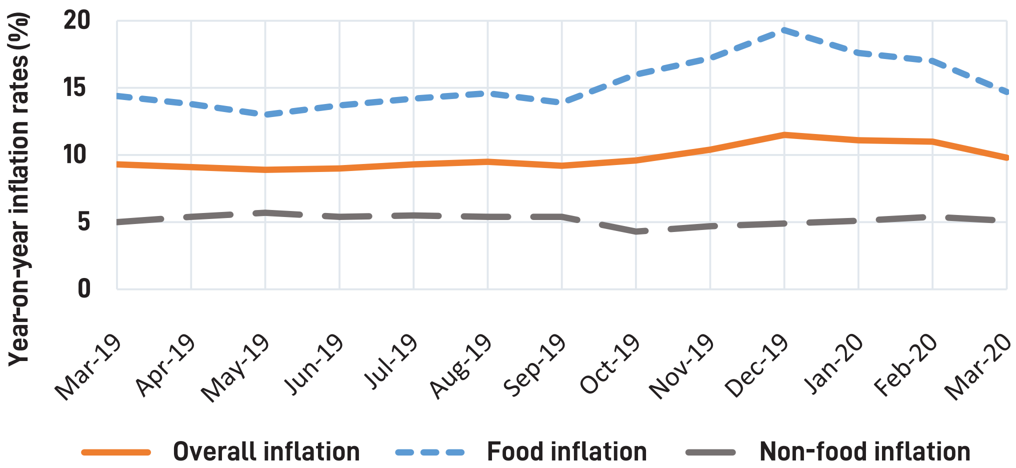
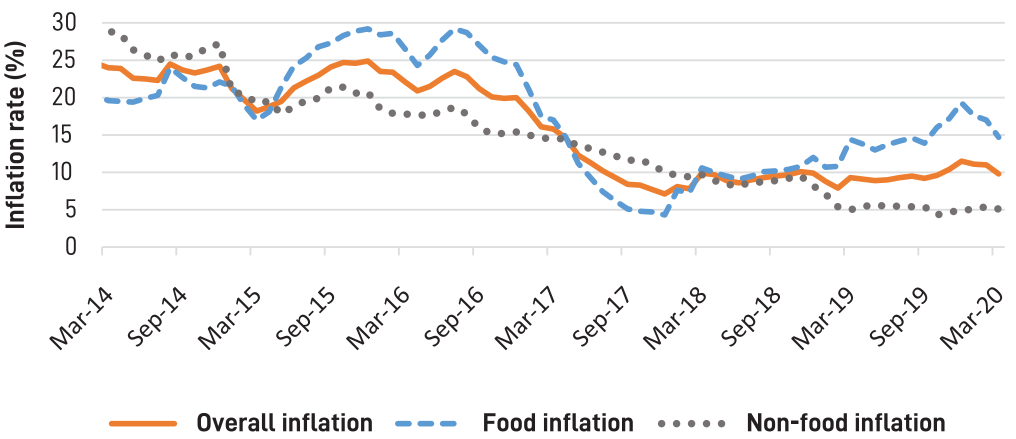


Chart 5b: Historical year-on-year inflation rates



(Data source: National Statistical Office)

5.3 Looking forward, we expect inflation to decelerate further in the short to medium term largely supported by a decline in food prices during and after the harvesting period. The Ministry of Agriculture, Irrigation and Water Development estimated an improved harvest in the 2019/2020 season compared to the previous season as result of a better rainfall pattern in the 2019/2020 season. Non-food inflation is also expected to remain low in the short term supported by relatively stable economic environment and falling international oil prices due to COVID-19. However, uncertainties associated with the COVID-19 pandemic poses a high risk to this inflation outlook as business activity worldwide has been heavily disrupted. Another major risk to the inflation outlook is increased political uncertainties with the upcoming presidential election on 2nd July 2020.

5.4 Before the COVID-19 pandemic, RBM forecasted an average annual inflation rate of 8.8% for 2020 and a medium term target of 5% by 2021. These forecasts have not yet been revised as research about effects of COVID-19 on the economy is still underway.

6. Monetary policy

6.1 The Monetary Policy Committee (MPC) held their first meeting of 2019 on 29th and 30th January 2020 to review developments in the domestic and global economy as well as the macroeconomic outlook for 2020 and beyond. During the meeting, the MPC observed that rising maize prices that had pushed up inflation rate in the fourth quarter of 2019, would likely continue pushing up headline inflation in the first part of Q1 2020. However, the elevation in maize prices was deemed temporary and was not expected to pose significant risks to the medium-term inflation outlook. The Committee thus decided to maintain the Policy Rate at 13.5% and the Lombard Rate at 0.4 percentage points above the Policy Rate. The Committee also maintained the Liquidity Reserve Requirement (LRR) on local currency deposits at 5% and the LRR on foreign currency deposits at 3.75%. This policy stance was deemed adequately tight to deal with emerging risks while also aiding the growth momentum.

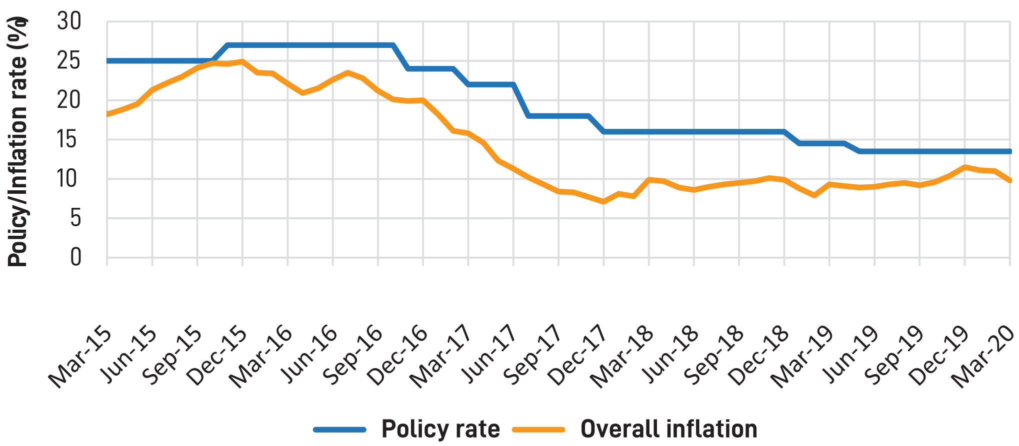
6.2 Further, during the first MPC meeting, RBM adopted a symmetric band of 2.0 percentage points around the inflation rate point target, in line with international best practice. For 2020, the inflation target was pegged at 8.8%+/-2%.

6.3 The second MPC meeting was held on 1st April 2020. Initially the meeting had been scheduled for 29th and 30th April 2020, but the MPC decided to advance it in the wake of the COVID-19 pandemic. During the meeting, the MPC reduced the Liquidity Reserve Requirement (LRR) on domestic currency deposits to 3.75% from 5.0% and the Lombard Rate to 13.7% from 13.9%. The Policy rate was, however, maintained at 13.5%. The decisions were deemed necessary to mitigate potential liquidity challenges that could ensue in the banking system with the COVID-19 pandemic.

6.4 The Reference rate for banks was at 13.3% in March 2020, up from 12.5% in December 2019. The increase mainly emanated from increases in Treasury bill yields and the interbank borrowing rate, reflecting elevated inflation risks during the period.

6.5 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 and was last revised downwards in May 2019.

Chart 6: Policy rate versus Inflation rate



(Data source: RBM, NSO)

6.6 Looking ahead, we expect a cautious monetary policy in the short term as the monetary authorities work to contain potential effects of the COVID-19 pandemic. In the medium to long term, however, we expect interest rate cuts aimed at stimulating economic growth recovery from the COVID-19 shock. Before COVID-19, RBM was targeting a Policy rate of 11% and a Reference rate of 10% by 2021.

7. Economic growth

7.1 Prior to the COVID-19 pandemic, Malawi's economy was projected to grow between 5% and 6% in 2020, largely supported by strong performance in the agricultural sector which would anchor other sectors, as well as continued macroeconomic stability and robust monetary policy, among other factors. Good performance was also expected in the following economic activities: information and communication; electricity, gas and water supply; construction; transportation and storage; and real estate activities, among others.

Table 3a: Annual percentage growth rates (in percent) - Constant 2010 prices

Sector	2016	2017	2018	2019*	2020*
Agriculture, forestry and fishing	-0.1	6.1	0.9	3.9	5.1
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
**Projections*

7.2 Although the IMF has maintained a high growth rate for Malawi, estimated to be between 6% and 7% in the medium term, it has remained cautious and has indicated that the COVID-19 pandemic could result in slowed economic activity which could threaten the sectoral growth projections for 2020 due to the spillover effects from the regional and global economies.

7.3 Generally, some of the anticipated negative effects are expected to be cushioned due to disaster recovery response by the Government in conjunction with the partners to help the country's recovery from the pandemic.

8. Stock market performance

8.1 Performance of the Malawi Stock Exchange (MSE) was subdued in Q1 of 2020. The market registered a negative return on index of -3.56% (-3.56% in US$ terms) quarter-on-quarter, compared to a negative return on index of -5.80%(-5.97% in US$ terms) in the corresponding period in 2019. The Malawi All Share Index (MASI) decreased to 29,176.23 points as at 31st March 2020 from 30,252.20 points as at 31st December 2019.

8.2 The market also registered a decrease in both total volume and value of shares traded in Q1 of 2020 compared to the corresponding period in 2019. The volume of shares traded decreased by 83.15% to 70,886,329 in Q1 of 2020 compared to 420,679,180 in Q1 of 2019 and the value of shared traded decreased by 87.13% to K1.82 billion in Q1 of 2020 from K14.16 billion in Q1 of 2019.

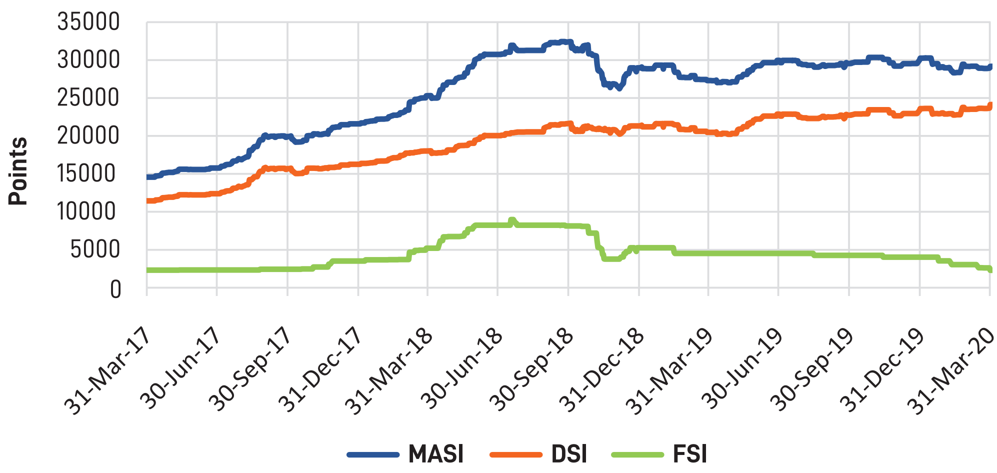
8.3 7 counters registered capital gains, 5 counters registered losses while 3 counters registered no share price movement.

8.4 The market listed one company, Airtel Malawi Plc, on the Main Equity Board on 24th February 2020, whose share price inched upwards by 39.56% on first day of trading. The total number of listed companies on MSE now stands at 15.

8.5 There was neither any listing nor a trade on the debt market during Q1 of 2020.

8.6 Chart 7 shows a graphical analysis of the MASI, DSI (Domestic Share Index) and FSI (Foreign Share Index), over the three year period between 31st March 2017 and 31st March 2020, and Table 4 shows performance of individual companies in Q1 of 2020.

Chart 7: Malawi Stock Exchange Indices



(Data source: Malawi Stock Exchange)

Table 4: Share trading summary					
	Mar-20	Dec-19	Mar-19	QOQ price change (%)	YOY price change (%)
Market indices					
MASI	29,176.23	30,252.20	27,303.65	-3.56%	6.86%
DSI	24,138.22	23,599.75	20,483.29	2.28%	17.84%
FSI	2,290.78	4,024.86	4,521.94	-43.08%	-49.34%
Gainers					
AIRTEL	17.50	12.69		37.90%	
MPICO	25.00	19.53	13.07	28.01%	91.28%
NITL	95.00	80.00	75.00	18.75%	26.67%
NBS	16.00	13.50	9.90	18.52%	61.62%
NBM	540.01	525.00	315.01	2.86%	71.43%
SUNBIRD	120.01	118.00	138.00	1.70%	-13.04%
STANDARD	730.01	730.00	569.00	0.001%	28.30%
No movement					
PCL	1,400.00	1,400.00	1,200.00	0.00%	16.67%
NICO	48.49	48.49	41.97	0.00%	15.53%
OMU	2,499.99	2,499.99	2,513.23	0.00%	-0.53%
Losers					
FMBCH	40.00	75.00	85.00	-46.67%	-52.94%
ILLOVO	94.50	153.00	200.00	-38.24%	-52.75%
TNM	25.54	26.00	25.05	-1.77%	1.96%
ICON	10.49	10.50	11.00	-0.10%	-4.64%
BHL	12.94	12.95	12.96	-0.08%	-0.15%

(Data source: Malawi Stock Exchange)

8.7 Looking ahead, not much improvement in MSE's performance is expected in 2020 relative to 2019's performance largely due to increased uncertainty in the wake of the global COVID-19 pandemic and a fragile political environment.

9. Financial results for financial institutions and listed companies

9.1 A number of MSE-listed companies and financial institutions which include 8 banks operating in Malawi, published their annual financial results for 2019. There are now 8 banks in Malawi after MyBucks Banking Corporation Ltd completed acquisition of Nedbank Malawi Ltd in Q1 of 2020.

Table 5a: Annual financial results for banks			
Company	**2019 PAT (K'b)**	**Movement**	**2018 PAT (K'b)**
Listed Banks			
National Bank of Malawi Plc	17.155 ↑	7%	15.965
NBS Bank Plc	4.458 ↑	162%	1.699
Standard Bank Plc	15.879 ↑	50%	10.582
Unlisted banks			
CDH Investment Bank Ltd	2.309 ↑	139%	0.965
Ecobank Ltd	7.097 ↑	42%	5.011
FDH Bank Ltd	7.846 ↑	32%	5.965
MyBucks Banking Corporation Ltd	1.469 ↑	79%	0.822

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

Table 5b: Annual financial results for listed non-bank companies			
Company	**2019 PAT (K'b)**	**Movement**	**2018 PAT (K'b)**
BHL Plc	0.467 ↑	33%	0.352
MPICO Plc	7.598 ↑	12%	6.782
National Investment Trust Plc	1.780 ↑	25%	1.422
NICO Holdings Plc	14.730 ↑	15%	12.774
Old Mutual Group Plc (Rm)	208.300 ↓	-74%	788.100
Press Corporation Plc	24.758 ↑	-33%	36.713
Sunbrid Tourism Plc	2.595 ↓	1%	2.562
Telcom Networks Malawi Plc	15.063 ↓	-10%	16.666

(Sources: MSE)

Table 5c: Annual financial results for unlisted non-bank financial institutions			
Company	**2019 PAT (K'b)**	**Movement**	**2018 PAT (K'b)**
Cedar Capital Ltd	0.120 ↓	-55%	0.268
Continental Capital Ltd	0.094 ↑	267%	0.026
Continental Asset Management Ltd	0.664 ↑	9%	0.608
Continental Holdings Ltd	2.016 ↑	101%	1.002
Cooperative General Insurance Co	(0.055) ↓	-31%	(0.042)
Cooperative Life Assurance Co. Ltd	(0.067) ↓	-128%	(0.029)
Emeritus Reinsurance Ltd	0.202 ↑	262%	(0.125)
FDH Financial HoldingsLtd	11.270 ↑	44%	7.820
First Discount House Ltd	2.241 ↑	99%	1.125
NBM Capital Markets Ltd	0.521 ↑	27%	0.411
NBM Pension Administration Ltd	0.121 ↑	56%	0.078

Table 5c: Annual financial results for unlisted non-bank financial institutions			
Company	2019 PAT (K'b)	Movement	2018 PAT (K'b)
NICO Life Insurance Company Ltd	7.230 ↓	-23%	9.420
Old Mutual (Malawi) Ltd	12.468 ↓	-41%	21.030
Old Mutual Investment Group Ltd	0.671 ↑	35%	0.497
Old Mutual Life Assurance Co. Ltd	7.925 ↓	-16%	9.467
Old Mutual Pension Services Co. Ltd	0.408 ↑	10%	0.373
Reunion Insurance Company Ltd	0.367 ↑	48%	0.248
General Alliance Insurance Ltd	0.860 ↓	-59%	2.095

(Sources: The Nation and Daily Times newspapers)

9.2 All banks posted an increase in profits in 2019 compared to 2018, except First Capital Bank which has not yet published its financial results.

9.3 Tables 5a to 5c show the 2019 annual financial results for banks, listed companies and non-banking financial institutions, with a comparative analysis as at end-year 2018.

10. Coronavirus pandemic

10.1 Situation update

10.1.1 COVID-19 continues to spread across the globe since it was first discovered in China in December 2019. As at 31st March 2020, there were more than 863,184 confirmed cases of COVID-19 worldwide with more than 178,168 recoveries and 44,043 deaths (Source: Worldometer). Malawi had not yet registered any COVID-19 case as at 31st March 2020.

10.1.2 In an effort to contain the COVID-19 and prevent its further spread, most countries, Malawi inclusive, have been implementing precautionary measures, including travel restrictions, bans on large gatherings and shut down of schools, restaurants, clubs and other places that attract large crowds.

10.2 Expected impact on the economy

10.2.1 The COVID-19 pandemic is set to have an adverse impact on the global economy as business confidence, financial markets and supply chains continue to be heavily disrupted by uncertainties as well as the implementation of the various prevention measures. Prior to the outbreak, the Malawian economy was set to grow by 6% to 7%. The increased economic uncertainty is likely to dampen the country's growth prospects.

10.2.2 A number of sectors are set to be negatively impacted by the pandemic. The hospitality sector is expected to bear the brunt of the economic slowdown due to the reduced number of travelers in the country. Construction is set to slow down as firms delay new projects and supply chains of building materials remain disrupted. Manufacturers will also be negatively impacted by potential disruptions in supply chains.

10.2.3 Financial services are likely to experience loan losses as businesses experience financial distress. Credit institutions such as banks and microfinance institutions face a higher probability of interest rate cuts as one of the growth stimulating measures monetary central bank authorities will consider. Interest rate cuts could negatively affect revenue growth among lenders as the net interest margin tightens and lending activity to decline due to reduced business confidence. The spread of coronavirus is also likely to decrease consumer sentiment and thus reduce consumer demand for new loans. Furthermore a general slowdown in economic activity means that financial service providers could face liquidity challenges, pressure on cash reserves and scarcity of forex.

11. Political environment

11.1 The political environment remains fragile. The Constitutional Court concluded hearing of the presidential case in December 2019 and passed judgement on 3rd February 2020 in favour of the petitioners. 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 first-past-the-post electoral system and recommended that the next president be elected with a minimum of 50% of the vote.

11.2 In view of the court ruling Parliament convened to deliberate on the recommendations by the court. The 50+1 electoral bill was passed and the elections date was initially set for 21st May 2020 and later 2nd July 2020. Further, Parliament recommended to the President that current commissioners should be relieved of their duties and that new commissioners should be appointed to run the 2020 elections.

11.3 The President and the Malawi Electoral Commission launched an appeal against the judgment of the Constitutional Court and sought to extend the time period to hold the elections beyond 150 days.

11.4 Combined with the effects of COVID-19, the political impasse is likely to increase economic uncertainty in the country. A protracted political impasse is likely to:

11.4.1 Compel companies to forestall new projects;

11.4.2 Dampen prospective international investment; and

11.4.3 Increase the likelihood of multilateral donors to withhold aid until there is greater clarity.

12. Conclusions

12.1 The economic and political environment remained fragile in Q1 of 2020. Inflation pressures remained elevated which ended up pushing up market interest rates during the quarter, including interbank rates and yields on Government securities. However, despite the above environment, the exchange rate remained broadly stable during the quarter supported by a robust forex reserves position. The inflation rate started to decelerate towards the end of the quarter with the onset of the harvesting period.

12.2 The Monetary Policy Committee maintained the Policy rate at 13.5% during its first and second meetings held on 29th-30th January 2020 and 1st April 2020. The Committee, however, reduced the Lombard rate to 13.7% from 13.9% and the Liquidity Reserve Requirement on local currency deposits to 3.75% from 5% during the second meeting in an effort to mitigate effects COVID-19 on the banking industry.

12.3 COVID-19 continues to spread across the globe and poses a major risk to macroeconomic stability and economic growth prospects for 2020, besides a fragile political environment with the court nullifying results of May 2019 elections and ordering fresh elections on 2nd July 2020.

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