

# Economic review

First quarter 2021



INVESTMENT BANK

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# Economic Review

## First quarter 2021



## 1. Executive summary

1.1 Overall, during the first quarter of 2021, the following situations prevailed:

- 1.1.1 There was a second wave of the COVID-19 pandemic in January and February 2021 which moderated gains in economic activity registered in the third and fourth quarters of 2020.
- 1.1.2 The market experienced a seasonal shortage of forex and the resultant depreciation of the Kwacha.
- 1.1.3 A rise in inflation due to seasonal increase in food prices and an increase in energy prices.
- 1.1.4 Following a reduction in the Policy rate in November 2020, the market experienced declining market interest rates although yields on Government securities remained elevated, reflecting high Government borrowing.
- 1.1.5 Subdued stock market performance generally characterized by lower stock trading activity.

1.2 As a result of the negative effects brought about by COVID-19, Malawi's real GDP growth rate is estimated by Government to have slowed down to 0.9% in 2020 compared to the real growth rate of 5.0% achieved in 2019. The International Monetary Fund, on the other hand, estimates 2020 annual growth rate of 0.6%.

1.3 Economic recovery is expected from 2021 as the domestic and global economies slowly recover from the effects of COVID-19 supported by vaccination campaigns currently underway in many parts of the world.

## 2. Interbank market

2.1 The average level of liquidity on the interbank market, measured by banks' excess reserves held with the Reserve Bank of Malawi (RBM), increased in the first quarter of 2021 (Q1) relative to the fourth quarter (Q4) of 2020. Excess liquidity reserves averaged K18.95 billion per day during Q1 of 2021 compared to K15.48 billion per day in Q4 of 2020, representing an increase of 22.42%. However, the level of liquidity in Q1 of 2021 was lower compared to the average excess reserves of K29.22 billion per day recorded in Q1 of 2020.

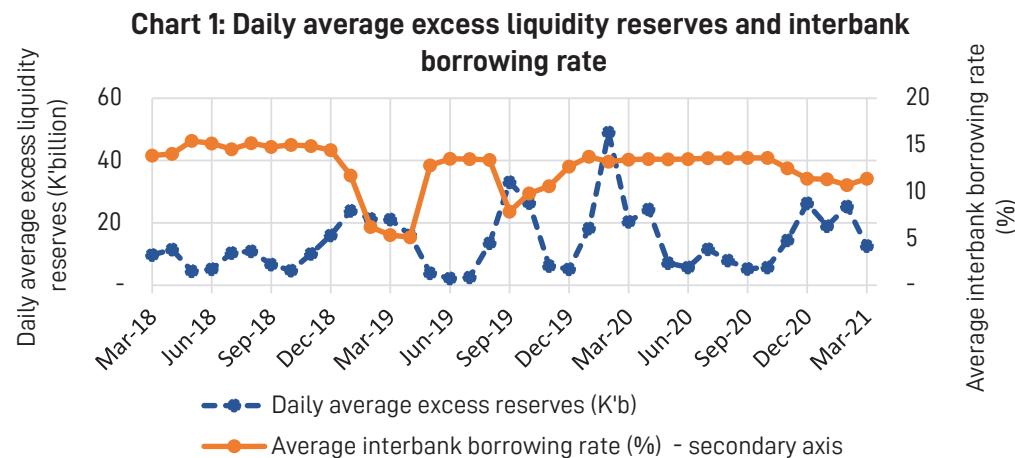
2.2 In line with the increase in liquidity conditions in Q1 of 2021 relative to Q4 of 2020, coupled with the reduction of the Policy rate in November 2020, the interbank borrowing rate decreased to an average of 11.15% in Q1 of 2021 from the average of 12.51% in Q4 of 2020 and 13.46% in Q1 of 2020. However, the volume traded among banks on the interbank market increased in nominal terms to a total of K657.75 billion in Q1 of 2021 from K472.80 billion in Q4 of 2020 and K552.42 billion in Q1 of 2020.

2.3 Further, on account of increased liquidity conditions, access on the Lombard Facility of the RBM decreased to K824.49 billion in Q1 of 2021 from K2.22 trillion in Q4 of 2020. In Q1 of 2020, access on the Lombard Facility amounted to K673.02 billion. The Lombard

rate was stable at 12.20% during Q1 of 2021 as the Monetary Policy Committee (MPC) kept the rate unchanged during the review of monetary policy in January 2021. The Lombard rate was last reduced to 12.20% from 13.70% on 6th November 2020.

2.4 RBM issued no Open Market Operations (OMOs) repos during the quarter as this was also the case in Q4 of 2020. However, there were OMO reverse repos amounting to K287.90 billion during Q1 of 2021 compared to K118.33 billion in Q4 of 2020. The reverse repos were aimed at injecting liquidity on the interbank market. There were also outright purchases of securities amounting to K59.41 billion and access on Rediscounting Standing Facility of K56.73 billion during the quarter.

2.5 Chart 1 provides a summary of excess liquidity reserves and overnight interbank rate movements over the last three years.



(Data source: Reserve Bank of Malawi)

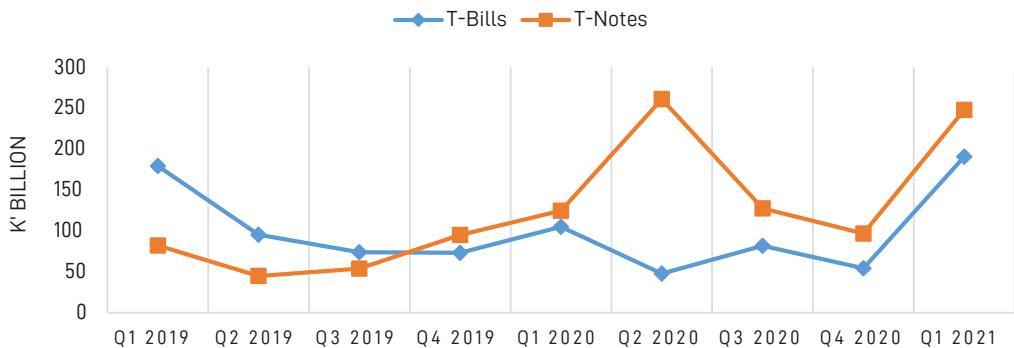
### 3. Government securities

3.1 Government raised a total of K190.67 billion in Q1 of 2021 through auctions of Treasury Bills (TB), representing an increase of 251.92% when compared to the total of K55.06 billion that was raised in Q4 of 2020, and an increase of 81.43% when compared to K105.09 billion raised in Q1 of 2020. Total applications for TBs for Q1 of 2021 amounted to K197.74 billion, representing a rejection rate of 3.57% which is higher than the rejection rate of 1.60% in Q4 of 2020 but lower than the rejection rate of 57.59% in Q1 of 2020.

3.2 A total of K247.83 billion was also raised in Q1 of 2021 through auctions of Treasury Notes (TNs) compared to K96.82 billion that was raised in Q4 of 2020, representing a nominal increase of 155.97%. In Q1 of 2020, a total of K124.84 billion was raised through TN auctions.

3.3 Overall, Government domestic borrowing (TBs and TNs combined) increased in Q1 of 2021 (K438.50 billion) relative to Q4 of 2020 (K151.88 billion) and Q1 of 2020 (K229.93 billion) as shown in Chart 2 below:

### Chart 2. Comparative analysis of amounts raised in Government securities

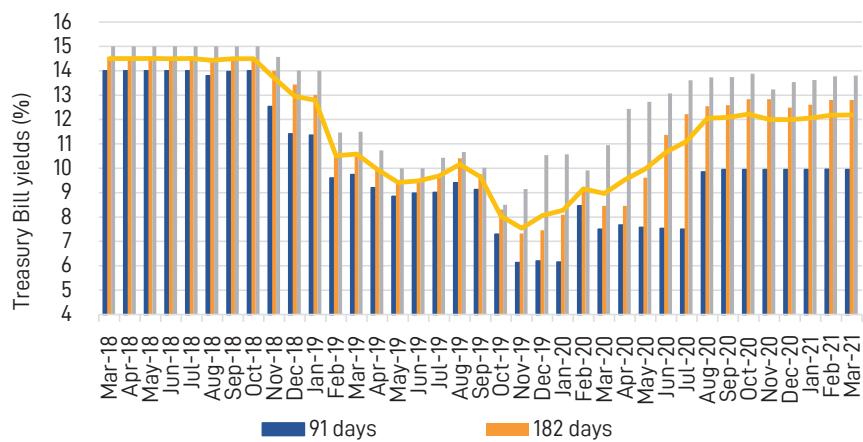


(Data source: Reserve Bank of Malawi)

3.4 In line with increased Government domestic borrowing, yields on Government securities remained elevated during Q1 of 2021 despite the reduction of the Policy rate in November 2020. The all-type average TB yield increased to 12.14% in Q1 of 2021 from 12.07% in Q4 of 2020 and 8.80% in Q1 of 2020. This is on account of an increase in the 364-day yield to the average of 13.73% in Q1 of 2021 from 13.55% in Q4 of 2020 and 10.48% in Q1 of 2020; and an increased in the 182-day yield to an average of 12.73% in Q1 of 2021 from 12.72% in Q4 of 2020 and 8.55% in Q1 of 2020. The 91-day yield was stable at 9.95% in Q1 of 2021 and Q4 of 2021, which is higher than the average of 7.37% recorded in Q1 of 2020.

3.5 Chart 3 and Table 1 show that yields for TBs and TNs increased substantially across tenors since Q4 of 2019 and remained elevated since Q4 of 2020.

### Chart 3: Monthly average Treasury bill yields



(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
<b>Q1 2021 yield</b>	<b>16.50%</b>	<b>18.61%</b>	<b>19.97%</b>	<b>20.25%</b>	<b>22.50%</b>
Q4 2020 yield	16.46%	18.19%	19.86%	19.98%	22.50%
Q3 2020 yield	16.46%	18.02%	19.82%	20.75%	22.14%
Q2 2020 yield	14.71%	15.70%	18.72%	20.46%	21.70%
Q1 2020 yield	12.38%	13.27%	15.55%	18.22%	17.47%
<b>2020 average</b>	<b>15.00%</b>	<b>16.29%</b>	<b>18.49%</b>	<b>19.85%</b>	<b>20.95%</b>
Q4 2019 yield	11.20%	10.70%	14.00%	13.73%	17.47%
Q3 2019 yield	12.20%	13.94%	14.00%	17.00%	18.04%
Q2 2019 yield	12.20%	13.72%	16.19%	19.00%	
Q1 2019 yield	17.32%	14.77%	16.27%	24.00%	
<b>2019 average</b>	<b>13.23%</b>	<b>13.28%</b>	<b>15.12%</b>	<b>18.43%</b>	<b>17.76%</b>
<b>%pt increase in Q1 2021 relative to Q4 2020</b>	0.04	0.42	0.11	0.27	0.00
<b>%pt increase in Q1 2021 relative to Q1 2020</b>	4.12	5.34	4.42	2.03	5.03

(Data source: Reserve Bank of Malawi

3.6 Looking ahead, we expect the yields of Government securities to remain elevated in the short term as far as Government borrowing remains high. However, a possible Policy rate cut after the harvest period when macroeconomic conditions improve and aimed at supporting economic recovery from effects of COVID-19, could lead to a decrease.

## 4. Foreign exchange market

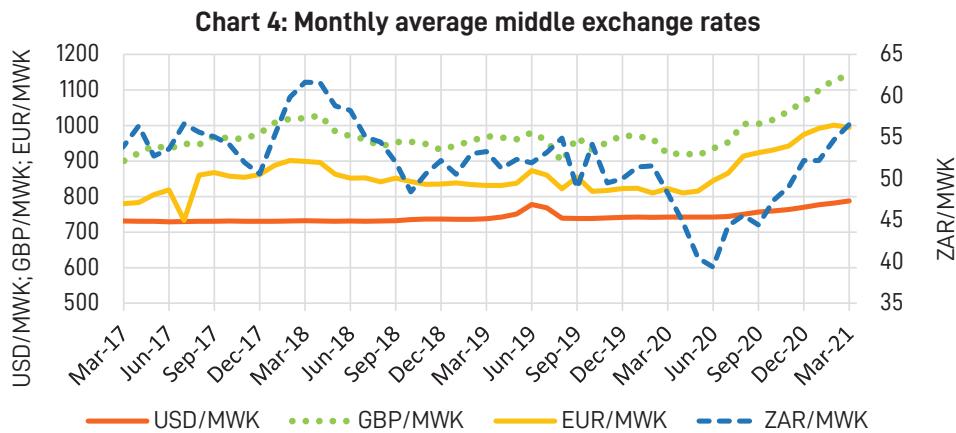
4.1 During the quarter under review, the Kwacha depreciated against most of its major trading counterparts on account of a seasonal shortage of forex in the domestic market, emanating mainly from weak export proceeds which were negatively affected by the global COVID-19 pandemic. The import bill also expanded due to increased imports of items for COVID-19 management as well as strategic commodities such as fertiliser under the Affordable Inputs Program (AIP) for the 2020/2021 agricultural season.

4.2 The USD/MWK middle rate averaged 782.05 in Q1 of 2021, up by 2.33% from the average of 764.23 in Q4 of 2020 and by 5.40% from 741.96 in Q1 of 2020, representing depreciation of the Kwacha. The Kwacha also depreciated against GBP, EUR and ZAR as shown in Table 2 below (Note: downward arrow represents depreciation of the Kwacha):

Currency	Q1	Q4	Q3	Q2	Q1	Q1 2021-Q4 2020 Change	Q1 2021-Q1 2020 Change
	2021	2020	2020	2020	2020		
USD/MWK	782.05	764.23	749.97	741.95	741.96	▼ 2.33%	▼ 5.40%
GBP/MWK	1122.55	1041.66	987.07	924.56	950.02	▼ 7.77%	▼ 18.16%
EUR/MWK	995.57	949.50	901.21	823.26	818.67	▼ 4.85%	▼ 21.61%
ZAR/MWK	55.76	51.14	45.81	41.38	48.20	▼ 9.04%	▼ 15.68%

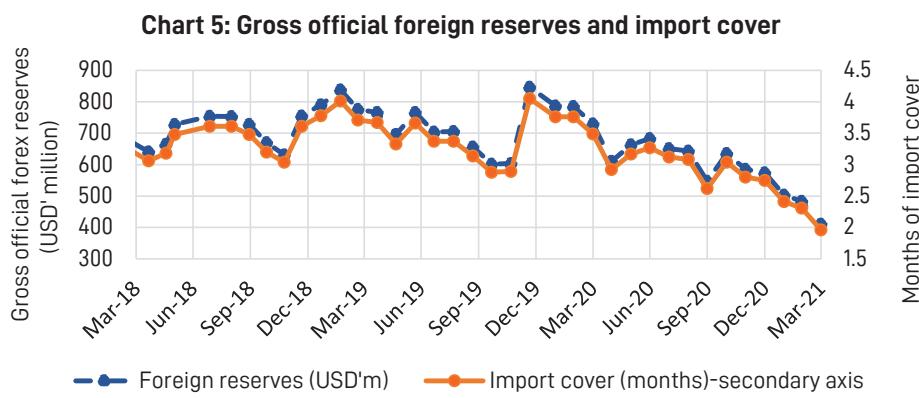
(Data source: Reserve Bank of Malawi)

4.3 Chart 4 indicates that the Kwacha has significantly depreciated against USD, GBP, EUR and ZAR since the second half of the year 2020.



(Data source: Reserve Bank of Malawi)

4.4 The shortage of forex resulted in a decline in gross official forex reserves from USD574.26 million (2.75 months of import cover) as at 31st December 2020 to USD410.16 million (1.96 months of import cover) as at 31<sup>st</sup> March 2021 which is below the recommended 3 months of import cover.



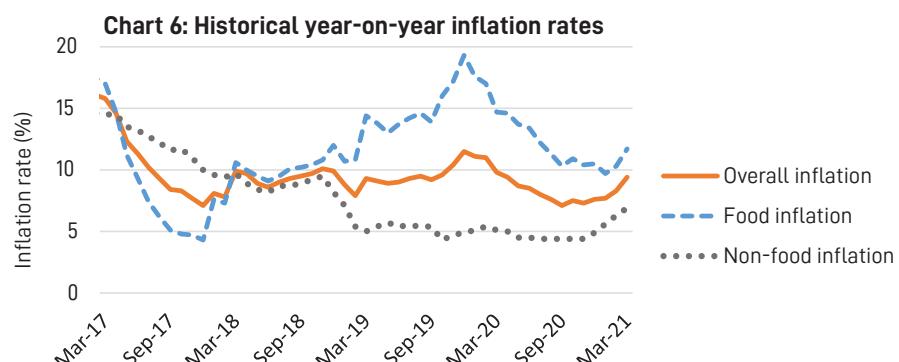
(Data source: Reserve Bank of Malawi)

4.5 It is generally expected that the Kwacha will begin to appreciate in the second quarter of the year as the forex reserves position improves with the onset of the

agricultural export selling season for the year 2021. However, the appreciation may be weak with the persistent negative effects of the global COVID-19 pandemic, including weak demand and prices for exports, and weak foreign direct investment (FDIs) and remittance inflows. Additionally, the import bill for the health sector could remain high with the continued importation of COVID-19 mitigation materials.

## 5. Inflation

- 5.1 The rate of inflation increased in Q1 of 2021 relative to Q4 of 2020. Year-on-year headline inflation rate increased to 9.4% in March 2021 from 7.6% in December 2020 due to an increase in both food and non-food inflation rates following a seasonal rise in food prices during the lean period and an upward adjustment in energy prices in December 2020 and March 2021. However, the headline inflation rate of 9.4% for March 2021 is slightly lower than the rate of 9.8% registered in March 2020.
- 5.2 Food inflation rate stood at 11.7% in March 2021 compared to 10.5% in December 2020 and 14.7% in March 2020, while non-food inflation rate stood at 6.9% in March 2021, up from 4.9% in December 2020 and 5.1% in March 2020.
- 5.3 Chart 6 depicts the trend of inflation rate in the past four years.



(Data source: National Statistical Office)

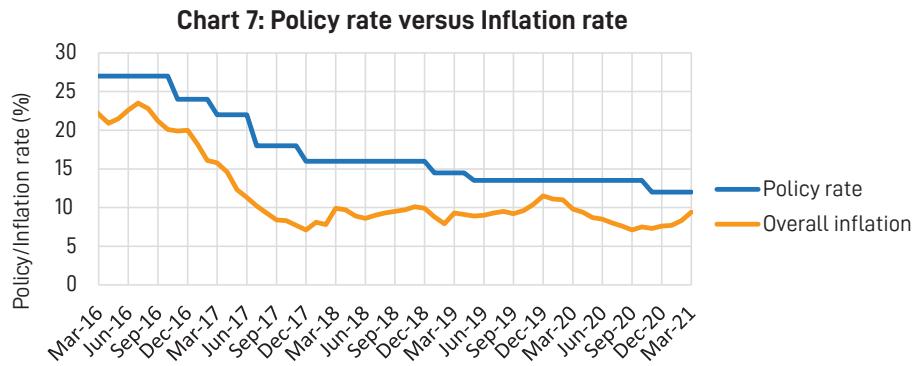
- 5.4 It is expected that inflation will begin to decelerate in Q2 of 2021 supported by an expected normal agricultural harvest which will boost food availability. The RBM, in its Monetary Policy Report for January to June 2021, projects a decline in inflation rate from an annual average of 8.6% in 2020 to an average of 7.8% in 2021 before a further decline to an average of 7.6% in 2022. Major risks to this outlook, however, include effects from the COVID-19 pandemic, upward pressures on the exchange rate, increasing global oil prices and increasing public sector financing requirements.

## 6. Monetary policy

- 6.1 The Monetary Policy Committee (MPC) held its first meeting of 2021 on 25th and 26th January. During the meeting, the MPC decided to maintain the Policy rate at 12.0%, after a reduction from 13.5% on 6th November 2020. The MPC also maintained 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 (12.2%). The MPC decision was meant to allow the impact of the November 2020 Policy rate

reduction to transmit through the economy and to support economic recovery from the COVID-19 shock.

6.2 Chart 7 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 stable at 13.5% for the most part of 2020 before being revised downwards to 12.0% in November 2020.



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

6.3 The monthly Malawi Reference Rate (MRR) for commercial banks decreased to 11.90% in March 2021 from 12.30% in December 2020 and 13.30% in March 2020 as the Policy rate and Lombard rate cuts in November 2020 transmitted through the banking system.

6.4 It is expected that interest rates could decrease further in 2021. Before the COVID-19 shock, RBM was targeting a Policy rate of 11% and a Reference rate of 10% by 2021. This objective has become more important given the need to create jobs and support economic recovery from the negative effects of COVID-19. The MPC could consider reducing the Policy rate from the second quarter so that the timing coincides with the harvest period and the tobacco selling season which would anchor inflation rate and the exchange rate. The COVID-19 pandemic remains the greatest risk to this outlook.

6.5 In the Monetary Policy Report for January to June 2021, the RBM indicated that monetary policy in the first half of 2021 will focus on maintaining inflation in single digits, anchoring inflation expectations, entrenching the economy's recovery from the COVID-19 pandemic, supporting the accumulation of international reserves and providing room for sufficient credit to the private sector.

## 7. COVID-19 and economic growth

7.1 The Government estimates that the Malawi economy grew marginally by 0.9% in 2020 due to the COVID-19 pandemic which disrupted economic activity across the world. The services and industry sectors of the economy were particularly hard hit by the pandemic, including Accommodation and food services, Transportation and storage, Wholesale and retail trade, Education and Manufacturing sectors, as shown in the table below:

Table 3a: Estimated growth rates for selected sectors		
Sector	2019	2020
Accommodation and food services	3.40%	-24.30%
Transportation and storage services	8.80%	-7.10%
Wholesale and retail trade	6.00%	-0.20%
Manufacturing	7.60%	3.80%

Source: *RBM Monetary Policy Report- January 2021*

7.2 The COVID-19 pandemic is expected to remain the major risk to economic growth in 2021, although the outlook is more positive for 2021 compared to 2020. The Government projects a domestic GDP growth rate of 3.5% for 2021, supported by an expected increase in agriculture output due to the normal to above normal rains that this country received in the 2020/2021 agricultural season and the impact of the Affordable Inputs Program (AIP). Growth will also be enhanced by the on-going Government infrastructure development projects in the road, energy and agriculture sectors, as well as the COVID-19 vaccine which is expected to spur business and economic confidence. The World Bank and the IMF project a real GDP growth rate of 3.3% and 2.2%, respectively, for Malawi in 2021.

7.3 On the one hand, Table 3b below compares GDP growth projections for Malawi with projections for the Sub-Saharan Africa region and the world. On the other hand, Table 3c presents World Bank growth projections for three main sectors, namely, Agriculture, Industry and Services.

Table 3b: Real GDP growth projections						
Institution	Region	2018	2019	2020	2021*	2022*
Government	Malawi	3.9%	5.0%	0.9%	3.5%	N/A
World Bank	World	3.0%	2.3%	-4.3%	4.0%	3.8%
	Malawi	<b>3.2%</b>	<b>4.4%</b>	<b>1.3%</b>	<b>3.3%</b>	<b>4.9%</b>
	Sub-Saharan Africa	2.6%	2.4%	-3.7%	2.7%	3.3%
IMF	World	3.6%	2.8%	-3.3%	6.0%	4.4%
	Malawi	<b>3.2%</b>	<b>4.5%</b>	<b>0.6%</b>	<b>2.2%</b>	<b>6.5%</b>
	Sub-Saharan Africa	3.2%	3.2%	-1.9%	3.4%	4.0%

\* Projections

World Bank source: *Global Economic Prospects- January 2021*

IMF source: *World Economic Outlook April 2021*

Table 3c: World Bank real growth projections by sector					
Sector	2017	2018	2019	2020	2021*
Agriculture	5.0%	2.4%	4.3%	3.4%	4.1%
Industry	2.2%	2.2%	3.8%	1.2%	2.8%
Services	4.0%	4.3%	4.5%	-0.4%	2.9%

\* Projections

Source: *Malawi Economic Monitor - December 2020*

#### 7.4 COVID-19 situation update

7.4.1 After a decrease in the number of new infections of the COVID-19 in the third and fourth quarters of 2020, Malawi started registering a significant rise in the number of daily new infections and deaths in the second wave of the pandemic in January 2021. This forced the Government to enforce strict preventive measures, including closure of schools, 9pm to 5am curfew, mandatory wearing of masks and closure of markets by 5pm. These measures helped to control the spread of the virus such that the numbers started to decline towards the end of February 2021. As at 31st March 2021, cumulative COVID-19 cases amounted to 33,551, with 30,272 recoveries, 2,028 active cases and 1,117 deaths. This is compared to a total 6,583 cumulative cases, 5,705 recoveries, 505 active cases and 189 deaths as at 31st December 2020 (Source: Ministry of Health).

7.4.2 Globally, total confirmed cases of COVID-19 amounted to 129.46m, with more than 110.62m recoveries and 2.83m deaths as at 31st March 2021 (Source: Worldometer).

7.4.3 Malawi rolled out vaccines for COVID-19 in March 2021 with healthy workers and people with opportunistic conditions prioritized. As at 31st March 2021, the number of COVID-19 vaccine doses administered stood at 134,289. Herd vaccination is expected to control the pandemic.

### 8. Stock market performance

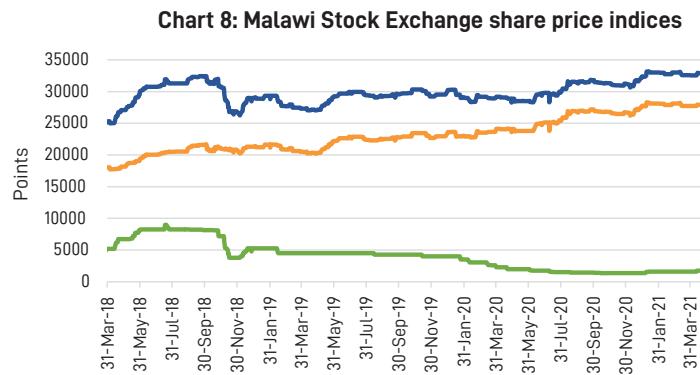
8.1 The Malawi Stock Exchange (MSE) registered a subdued performance during the quarter under review. The market registered a positive return on index of 0.53% (-1.25% in USD terms) in Q1 of 2021, a slight improvement from the negative return on index of -3.56% (-3.56% in USD terms) in the corresponding period in 2020. The Malawi All Share Index (MASI) stood at 32,562.96 points as at 31st March 2021 compared to 32,392.84 points as at 31st December 2020. The Domestic Share Index (DSI) registered a negative return on index of -0.16% while the Foreign Share Index (FSI) registered a positive return on index of 18.36% during the quarter.

8.2 Further, the market registered a decrease of -54.55% in volume of shares traded to 32,218,071 in Q1 of 2021 from 70,886,329 in Q1 of 2020. The value of shares traded also decrease by -34.70% (-38.14% in USD terms) to K1.19 billion in Q1 of 2021 from K1.82 billion in Q1 of 2020.

8.3 During the quarter, 5 counters registered capital gains (7 in Q1 of 2020) while 11 counters registered losses (5 in Q1 of 2020).

8.4 There was no trade nor any listing on the debt market during the quarter.

8.5 Chart 8 shows a graphical analysis of the MASI, DSI and FSI over the three-year period between March 2018 and March 2021 and Table 4 shows performance of individual companies in Q1 of 2021.



(Data source: Malawi Stock Exchange)

**Table 4: Share trading summary**

Mar-21	Mar-21	Dec-20	Mar-20	Year-to-date price change (%)	Year-on-year price change (%)
<b>Market indices</b>					
MASI	32,562.96	32,392.84	29,176.23	▲ 0.53%	▲ 11.61%
DSI	27,710.72	27,755.46	24,138.22	▼ -0.16%	▲ 14.80%
FSI	1,614.33	1,363.88	2,290.78	▲ 18.36%	▼ -29.53%
<b>Gainers</b>					
FMBCH	27.12	22.04	40.00	▲ 23.05%	▼ -32.20%
STANDARD	1200.12	1,046.39	730.01	▲ 14.69%	▲ 64.40%
FDHB	16.49	14.45		▲ 14.12%	▲
NBS	23.00	21.60	16.00	▲ 6.48%	▲ 43.75%
NBM	650.05	650.00	540.01	▲ 0.01%	▲ 20.38%
<b>Losers</b>					
NITL	94.94	94.95	95.00	▼ -0.01%	▼ -0.06%
ILLOVO	80.46	80.48	94.50	▼ -0.02%	▼ -14.86%
AIRTEL	27.95	27.98	17.50	▼ -0.11%	▲ 59.71%
NICO	51.93	52.00	48.49	▼ -0.13%	▲ 7.09%
OMU	2190.00	2,199.98	2,499.99	▼ -0.45%	▼ -12.40%
MPICO	20.89	21.00	25.00	▼ -0.52%	▼ -16.44%
ICON	12.18	12.27	10.49	▼ -0.73%	▲ 16.11%
PCL	1199.94	1,309.47	1,400.00	▼ -8.36%	▼ -14.29%
SUNBIRD	90.00	105.00	120.01	▼ -14.29%	▼ -25.01%
BHL	11.00	12.94	12.94	▼ -14.99%	▼ -14.99%
TNM	16.39	20.07	25.54	▼ -18.34%	▼ -35.83%

(Data source: Malawi Stock Exchange)

## 9. Financial results for financial institutions and listed companies

- 9.1 Most financial institutions including 8 banks operating in Malawi, published their financial results for the year ended 31st December 2020.
- 9.2 All banks posted an increase in profits in 2020 when compared to the profit figures reported in the corresponding period in 2019.
- 9.3 Tables 5a shows the 2020 annual financial results for banks, listed companies and non-bank financial institutions, with a comparative analysis as at the end of the year 2019.

**Table 5a: Published financial results for the year ended 31st December 2020**

Company	2020 profit after tax (K'b)	Movement	2019 profit after tax (K'b)
<b>Banks</b>			
CDH Investment Bank Ltd	3.086	▲ 34%	2.309
Ecobank Ltd	7.750	▲ 9%	7.097
FDH Bank Plc	14.956	▲ 188%	5.193
First Capital Bank Plc	8.026	▲ 21%	6.630
Mybucks Banking Corporation	2.243	▲ 53%	1.469
National Bank Of Malawi Plc	22.450	▲ 31%	17.155
NBS Bank Plc	7.050	▲ 58%	4.458
Standard Bank Plc	23.743	▲ 50%	15.879
<b>Listed Non-Bank Companies</b>			
Airtel Malawi Plc	22.091	▲ 39%	15.908
Blantyre Hotels Plc	0.252	▼ -46%	0.464
Illovo Sugar Plc	2.739	▼ -73%	10.083
National Investment Trust Plc	1.480	▼ -17%	1.780
Nico Holdings Plc	18.596	▲ 26%	14.730
Old Mutual Group Plc (Rb)	5.097	▼ -46%	9.386
Sunbird Tourism Plc	1.180	▼ -53%	2.530
<b>Unlisted Non-Bank Financial Institutions</b>			
Bridgepath Capital Ltd (12 Months In 2020 Vs 3 Months In 2019)	0.037	▲ 306%	0.009
Continental Asset Management Ltd	0.729	▲ 76%	0.414
Continental Capital Ltd	0.064	▼ -28%	0.089
Continental Holdings Ltd	3.251	▲ 96%	1.660
Emeritus Reinsurance Company Ltd	0.266	▼ -30%	0.380
First Discount House Ltd	3.258	▲ 45%	2.241

Company	2020 profit after tax (K'b)	Movement	2019 profit after tax (K'b)
NBM Capital Markets Ltd	0.416	⬇ -20%	0.521
NBM Development Bank Ltd	0.060	⬆ 378%	(0.022)
NBM Pensions Administration Ltd	0.059	⬇ -51%	0.121
Nico Asset Managers Ltd	2.098	⬇ -53%	4.426
Old Mutual Life Assurance Company (Malawi) Ltd	8.735	⬆ 10%	7.925
Old Mutual (Malawi) Ltd	16.971	⬆ 36%	12.468
Old Mutual Pension Services Company Ltd	0.560	⬆ 37%	0.408
Reunion Insurance Company Ltd	0.434	⬆ 18%	0.367
Select Financial Services Ltd	0.948	⬆ 27%	0.747
Smile Life Insurance Company Ltd	0.110	⬆ 6%	0.104

(Data source: MSE and The Nation and Daily Times newspapers)

9.4 In accordance with the listing rules of MSE requiring listed companies to publish a trading statement when there is reasonable degree of certainty that profits will differ by 20% from the previous corresponding period, the following listed companies published trading statements on expected annual profit movements as at 31st December 2020, summarized in Table 5b.

Company	Expected lowest profit after tax for 2020	2019 profit after tax
FMB Capital Holdings Plc (USDm)	⬆ 200%	10.291
ICON Properties Plc	⬆ 20%	7.414
Illovo Sugar Malawi Plc (HY2021)	⬆ 200%	2.049
MPICO Plc	⬇ -40%	7.598
Telekom Networks Malawi Plc	⬇ -25%	15.063

(Data source: Malawi Stock Exchange)

## 10. Political environment

10.1 The political environment is stable and the Tonse Alliance administration has settled well.

10.2 The maiden budget of the Tonse Alliance, the 2020/21 budget, is focused on the delivery of the Alliance's promise to the citizens and key developmental stakeholders. However, implementation of the budget and the Tonse Alliance promise has been facing challenges, including the COVID-19 crisis and a large domestic debt burden which it inherited from the previous Government administration and is limiting its fiscal space.

## 11. Mid-year review of the 2020/2021 national budget

- 11.1 Government completed an assessment of the performance of the national budget in the first half of the 2020/21 fiscal year. The assessment covers the outturn of Government revenues and expenditures in the first half of the fiscal year in relation to projections as at formulation of the budget. It also covers projections for the second half of the year.
- 11.2 During the first half of the fiscal year (1st July to 31st December 2020), total revenues and grants amounted to K647.56 billion against budget of K626.34 billion, representing an over-performance of 3.4%. Domestic revenue collections underperformed by 6.0% while Grants over-performed by 217.4%.
- 11.3 Total expenditure amounted to K998.54 billion against budget of K974.64 billion, representing an over-expenditure of 2.5%: - Recurrent expenditure underperformed by 7.0% while Development expenditure over-performed by 105.3%.
- 11.4 Overall deficit amounted to K350.98 billion against budget of K348.31 billion, representing a variance of 0.8%: - Domestic borrowing amounted to K303.97 billion against budget of K365.83 billion, representing a negative variance of -16.9%; Net foreign borrowing amounted to K47.01 billion against budget of negative K17.52 billion, representing negative variance of 368.3%.
- 11.5 For the second half of the fiscal year, total revenue and grants is projected at K875.8 billion. Total expenditure and net lending is projected at K1,335.5 billion, resulting in a projected overall deficit of K459.7 billion to be financed by foreign borrowing of K199.3 billion and net domestic borrowing of K260.4 billion.
- 11.6 Overall, the 2020/2021 national budget was revised upwards by 6.6% from K2.19 trillion to K2.33 trillion. Total revenues and grants were revised upwards by 6.2% from K1.44 trillion to K1.52 trillion. Expected deficit was revised upwards by 7.4% from K755.1 billion to K810.7 billion.

## 13. Conclusions

- 12.1 During the first quarter of 2021, the macroeconomic environment was dominated by seasonal effects including shortage of forex which led to depreciation of the Kwacha against major trading currencies and rising food prices which contributed to a rise in inflation. However, market interest rates declined during the quarter as the Policy rate cut in November 2020 transmitted through the system, although yields on Government securities remained elevated on account of high Government domestic borrowing.
- 12.2 The observed trends in exchange rate and inflation rate are expected to start reversing after the harvest period in the second quarter as forex inflow and food supply improve.

12.3 COVID-19 remains a major risk to economic activity. Overall, real growth of the domestic economy is estimated to have slowed down to 0.9% in 2020 from 5.0% in the previous year. Economic recovery is expected from 2021 supported by limited impact of the COVID-19 disease following successful development of vaccines and subsequent roll-out of vaccination programs across the world.

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