



Economic review

Second quarter 2020



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**USD25 million
Medium term note**

Lead arranger and local
agent bank

2018



**USD15 million
Medium term note**

Lead arranger

2018



**Trade finance
intermediary,
Malawi**

2019



**Establishment of a
national development
finance Institution**

Lead arranger

2019



**K12 billion
Commercial paper
programme**

Lead arranger

2019



**K5 billion
Secured loan
programme**

Lead arranger

2019



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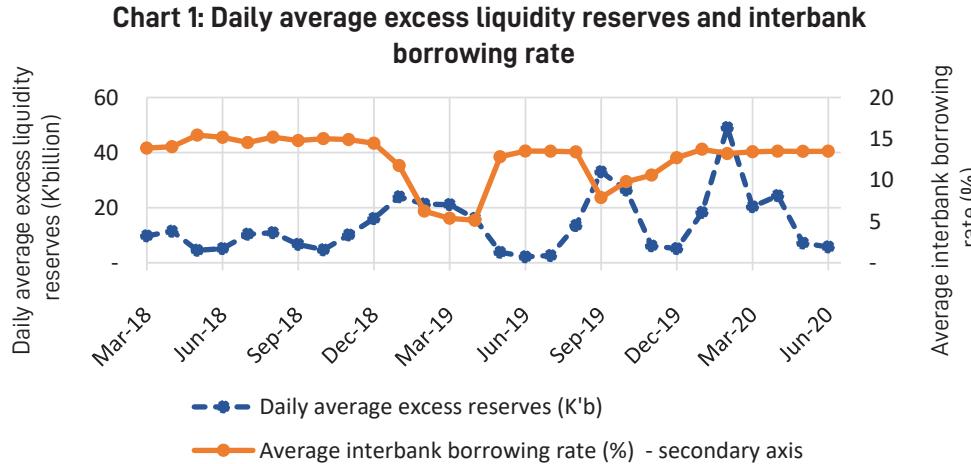
1. Executive summary

- 1.1 Risks associated with the global Coronavirus disease (COVID-19) pandemic dominated the business environment during the second quarter of 2020. Economic activity and business supply chains were heavily disrupted by various precautionary measures taken by countries, including movement restrictions, closing of borders and lockdowns in an effort to contain the spread of the virus.
- 1.2 In the domestic economy, the above environment coupled with political instability resulted in a reduction of liquidity levels in the banking system and an increase in market interest rates and yields in the second quarter compared to the previous quarter.
- 1.3 Despite the above environment, some economic fundamentals remained favourable. The Kwacha remained stable against the USD during the period supported by a robust forex reserves position which were recorded at 3.27 months of import cover at end of June 2020, and reduced demand of forex due to COVID-19 restrictions. Headline inflation rate decreased to 8.5% in June 2020 from 9.8% in March 2020 due to a decrease in both food and non-food inflation rates. The decrease in food inflation is largely due to a surge in the supply of maize and rice following the harvest season.
- 1.4 The Monetary Policy Committee (MPC) maintained the Policy rate at 13.5% during their second meeting of 2020 held on 1st April and during their third meeting held on 29th and 30th July 2020. However, during the second meeting, the Committee, reduced the Lombard rate to 13.7% from 13.9% and the Liquidity Reserve Requirement on domestic deposits to 3.75% from 5.0% in an effort to mitigate liquidity challenges ensuing in the banking system due to the negative impacts of COVID-19 on business.
- 1.5 A fresh presidential election was held on 23rd June 2020 following the nullification of the presidential election that was held on 21st May 2019. A new president was elected, marking a change in government.
- 1.6 Generally, the global Coronavirus pandemic will likely dampen economic growth this year, with the World Bank projecting an annual growth rate of 2.0% in 2020 compared to an estimated 4.4% in 2019, while the Reserve Bank of Malawi (RBM) projects a slowdown in annual growth rate to 1.9% in 2020 compared to their estimate of 5.0% in 2019.

2. Interbank market

- 2.1 Liquidity levels decreased during Q2 of 2020 relative to the previous quarter, largely on account of subdued business activity caused by the Coronavirus pandemic. Excess liquidity reserves for banks decreased from an average of K29.22 billion per day in Q1 of 2020 to K12.43 billion per day in Q2 of 2020. This was, however, higher compared to an average volume of K7.37 billion per day recorded during Q2 of 2019.
- 2.2 With the decrease in liquidity conditions during the quarter, the interbank borrowing rate slightly increased from an average of 13.46% in Q1 of 2020 to an average of 13.49% in Q2 of 2020, which was also higher than an average of 10.49% recorded in Q2 of 2019. Chart 1 provides a summary of excess liquidity reserves and overnight interbank rate

movements over the past year. The chart also shows that while liquidity conditions significantly decreased in Q2 of 2020, the interbank borrowing rate was generally stable.



(Data source: Reserve Bank of Malawi)

- 2.3 The volume traded among banks on the interbank market also decreased from an average of K9.71 billion per day in Q1 of 2020 to an average of K8.97 billion per day in Q2 of 2020, but slightly higher than an average of K8.68 billion per day recorded in Q2 of 2019.
- 2.4 Further, in line with lower liquidity levels, access to the Lombard facility increased from an average of K12.67 billion per day in Q1 of 2020 to an average of K21.90 billion in Q2 of 2020. In the previous year, access to the Lombard facility averaged K16.85 billion in Q2.
- 2.5 The Lombard rate averaged 13.71% in Q2 of 2020, down from an average of 13.90% in Q1 of 2020 after RBM reduced the Lombard rate from 13.90% to 13.70% in April 2020 as part of the measures to mitigate the impact of the COVID19 from the bank sector. In Q2 of 2019, the Lombard rate averaged 14.27%.
- 2.6 There were no open market operations (OMOs) in Q2 of 2020 as was the case in Q1 of 2020 and in Q2 of 2019.

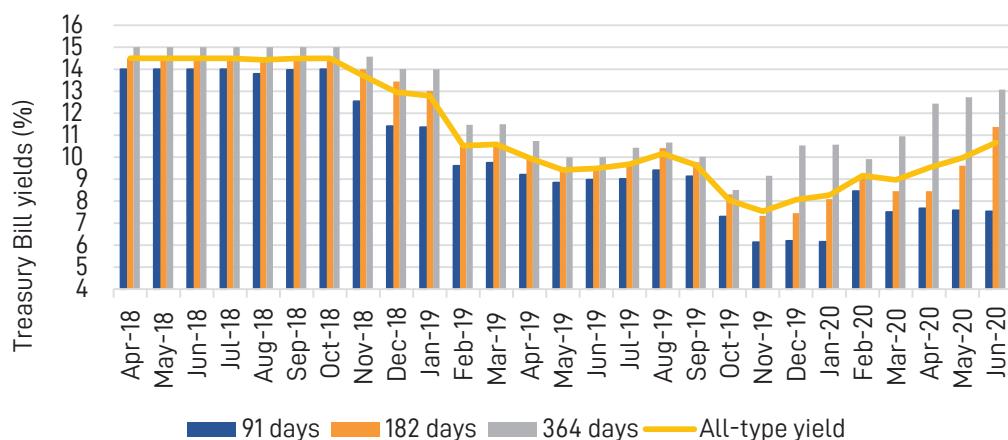
3. Government securities

- 3.1 Government raised a total of K47.77 billion in Q2 of 2020 through auctions for Treasury Bills (TB), a significant decrease when compared to a total of K105.09 billion raised in Q1 of 2020. Total applications for TBs for Q2 of 2020 amounted to K71.63 billion, representing a rejection rate of 33.31%, which is lower than a rejection rate of 57.59% recorded in Q1 of 2020. In Q2 of 2019, Government raised a total of K95.31 billion in TB auctions with a rejection rate of 64.84%.
- 3.2 TB yields increased during the period largely due to increased risks associated with the COVID-19 pandemic. The 91-day TB yield increased from an average of 7.37% in

Q1 of 2020 to an average of 7.59% in Q2 of 2020; the 182-day yield increased from an average of 8.55% in Q1 of 2020 to an average of 9.81% in Q2 of 2020; and the 364-day yield increased from an average of 10.48% in Q1 of 2020 to an average of 12.75% in Q2 of 2020. Consequently, the all-type (average) TB yield increased from 8.80% in Q1 of 2020 to 10.05% in Q2 of 2020. During Q2 in the previous year, the 91-day TB average yield was higher at 9.01% while the 182-day and 364-day average yields were lower at 9.61% and 10.25%, respectively, resulting in an all-type yield of 9.62%.

3.3 Chart 2 shows an upward trend in TB yields during 2020. This is mainly attributed to elevated liquidity risks in the Q1 and increased risks associated with COVID-19 in Q2.

Chart 2: Monthly average Treasury bill yields



(Data source: Reserve Bank of Malawi)

3.4 A total of K261.09 billion was raised through auctions for Treasury notes (TNs) compared to K124.84 billion that was raised in Q1 of 2020 and K44.86 billion that was raised in Q2 of 2019, representing nominal increases of 109.14% quarter-on-quarter and 482.02% year-on-year. The TNs traded at higher yields in Q2 of 2020 compared to those recorded in Q1 of 2020 and Q2 of 2019 as shown in the table below:

Table 1: Quarterly average yields of Treasury Notes

Description	2 years	3 years	5 years	7 years	10 years
Q2 2020 yield	14.71%	15.70%	18.72%	20.46%	21.70%
Q1 2020 yield	12.38%	13.27%	15.55%	18.22%	
Q2 2019 yield	12.20%	13.72%	16.19%	19.00%	

(Data source: Reserve Bank of Malawi)

3.5 Looking ahead, we expect the yields of Government securities and other interest rates to remain elevated in the short to medium term as far as the Government borrowings remain high.

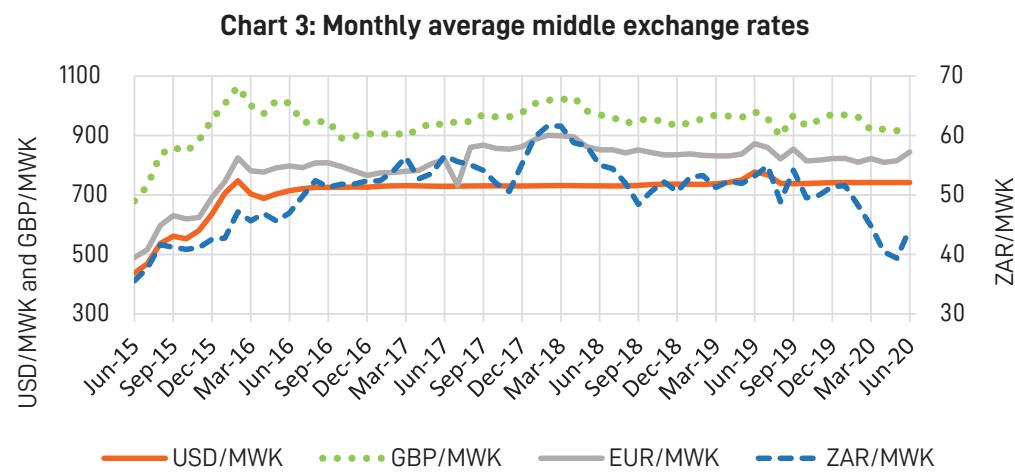
4. Foreign exchange market

4.1 During the quarter under review, the Kwacha was broadly stable against USD but appreciated against GBP and ZAR, and depreciated against EUR. The USD/MWK middle exchange rate averaged 741.95 in Q2 of 2020, slightly down from 741.96 in Q1 of 2020. The GBP/MWK average middle exchange rate decreased by 2.68% to 924.56 and the ZAR/MWK average middle exchange rate decreased by 14.16% to 41.38, representing appreciations. The EUR/MWK average middle rate increased by 0.56% to 823.26, representing depreciation. On a year-on-year basis, the Kwacha appreciated by 1.98% against the USD and appreciated against GBP, EUR and ZAR by 4.59%, 2.84% and 21.16%, 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	Q2 2020	Q1 2020	Q2 2019	Q/Q Change	YOY Change
USD/MWK	741.95	741.96	756.97	▲ -0.002%	▲ -1.98%
GBP/MWK	924.56	950.02	969.07	▲ -2.68%	▲ -4.59%
EUR/MWK	823.26	818.67	847.28	▼ 0.56%	▲ -2.84%
ZAR/MWK	41.38	48.20	52.48	▲ -14.16%	▲ -21.16%

(Data source: Reserve Bank of Malawi)

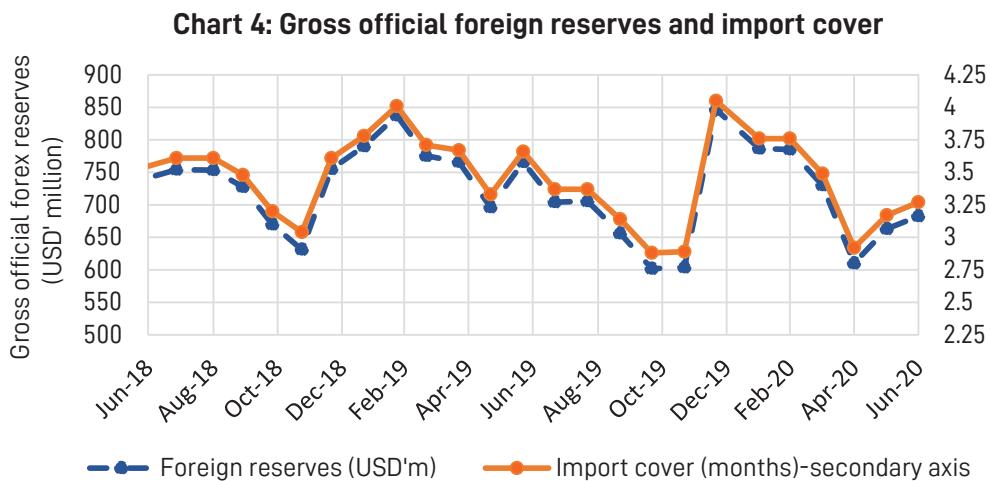
4.2 Chart 3 provide an overview of how the Kwacha has performed against the three major trading currencies in the last five years. The chart indicates that except for the bump immediately after the general election held on 21 May 2019, the Kwacha has been broadly stable against USD since mid-2016.



(Data source: Reserve Bank of Malawi)

4.3 The stability of the Kwacha against the USD during the quarter was largely supported by availability of forex despite increased uncertainties associated with the COVID-19 pandemic and a fairly unstable political environment. Gross official forex reserves were, however, lower in Q2 of 2020 compared to the previous quarter. The gross

official forex reserves decreased from USD730.17m (representing 3.49 months of import cover) as at end-March 2020 to USD610.13m (2.92 months of import cover) as at end-April 2020, before picking up to USD662.98m (3.17 months of import cover) as at end-May 2020 and USD682.66m (3.27 months of import cover) as at end-June 2020. In 2019, gross official reserves stood at USD765.82m (3.66 months of import cover) as at end-June.



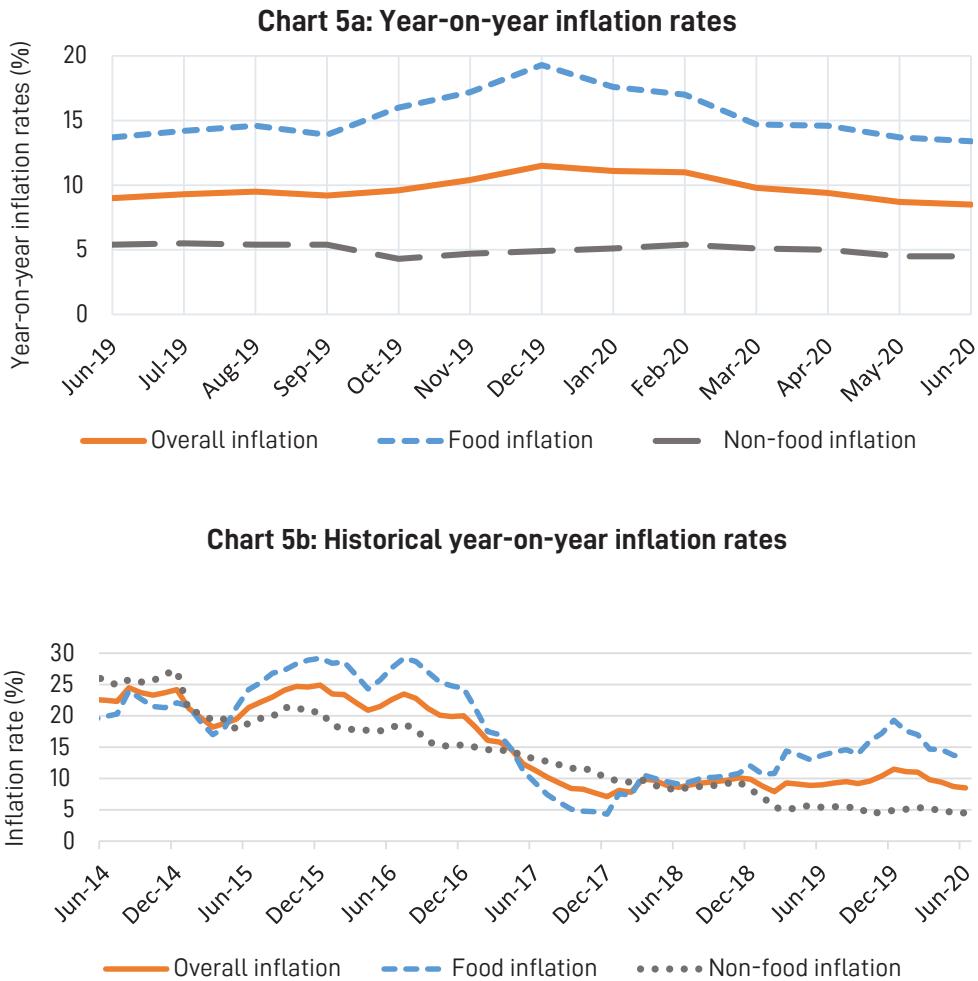
(Data source: Reserve Bank of Malawi)

4.4 Going forward, the exchange rate could remain stable in the short term anchored by increased forex inflows from the ongoing tobacco sales coupled with reduced forex demand in the face of COVID-19 restrictions. 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 continued to decrease in Q2 of 2020 after an uptick in Q4 of 2019 caused by seasonal upward pressures in food prices. Year-on-year headline inflation rate stood at 8.5% in June 2020, declining from 9.8% in March 2020 and 11.5% in December 2019. The decrease in headline inflation rate during the quarter was on account of a decrease in both food and non-food inflation rates. Year-on-year food inflation rate decreased to 13.4% in June 2020 from 14.7% in March 2020 while year-on-year non-food inflation rate decreased to 4.5% in June 2020 from 5.1% in March 2020. In the previous year, in June 2019, year-on-year headline inflation rate, food inflation rate and non-food inflation rate were all higher at 9.0%, 13.7% and 5.4%, 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 June 2014 and June 2020.



(Data source: National Statistical Office)

5.3 Looking forward, in the short term we expect inflation rate to be contained within the current levels largely supported by declining food inflation rate, a relatively stable domestic economic environment and falling international oil prices due to COVID-19. However, in the medium to long term, there are impending significant inflationary pressures emanating from uncertainties associated with the COVID-19 pandemic, including a gradual pick-up in food prices (largely maize), increased pressure on the exchange rate, increase in global oil prices and increased public sector financing requirements. RBM projects a rise in the annual inflation rate to 9.8% in 2020 from 9.4% obtained in 2019, although it remains committed to the 5±2 percent inflation objective in the long term.

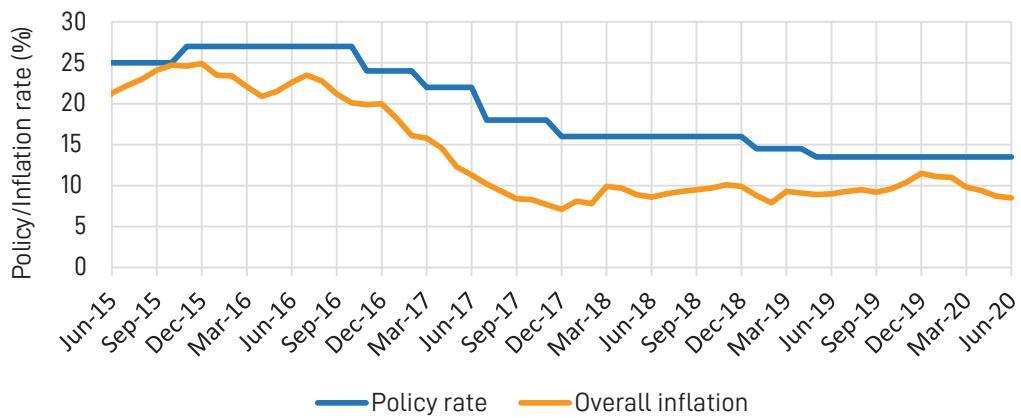
6. Monetary policy

6.1 The second Monetary Policy Committee (MPC) meeting of the year 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 liquidity challenges that would ensue in the banking system with the COVID-19 pandemic.

6.2 The MPC held its third meeting of 2020 on 30th and 31st July. During this meeting, the MPC maintained the Policy rate at 13.5%, the Lombard rate at 13.7% and the Liquidity Reserve Requirement (LRR) on both local currency and foreign currency deposits at 3.75%. In arriving at this decision, the MPC noted that economic outlook points to low growth prospects of 1.9% in 2020 due to negative effects of the COVID-19 pandemic. The Committee also noted that although inflation developments were favourable in the first half of the year, risks going forward remain elevated. The policy stance was, therefore, considered appropriate to contain the impending inflationary pressures whilst at the same time providing space for supporting recovery of the economy, in the wake of the COVID-19 pandemic. The Policy rate has been steady at 13.5% since May 2019.

6.3 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)

6.4 Despite the stable monetary Policy rate and the reduction in the Lombard rate, the Reference rate for banks slightly increased to an average of 13.30% in Q2 of 2020 from an average of 13.27% in Q1 of 2020 and 12.27% in Q4 of 2019. The increase mainly emanated from increases in Treasury bill yields and the interbank borrowing rate, reflecting elevated risks during the period.

6.5 Looking ahead, we expect monetary policy to remain cautious in the short to medium term as the monetary authorities work to contain negative effects of the COVID-19 pandemic. In the 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. Although the RBM remains committed to achieving lower interest rates, we expect a delay in the implementation of this objective due to uncertainties surrounding the evolution of the COVID-19 pandemic.

6.6 The next MPC meeting is scheduled for 29th and 30th October 2020.

7. COVID-19 and 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 key factors.

7.2 The COVID-19 pandemic, however, has resulted in slow economic activity both in Malawi and globally as business confidence, financial markets and supply chains have been heavily disrupted by uncertainties as well as the implementation of the various containment measures. Most sectors of the economy have been significantly affected by the pandemic, including tourism and accommodation, wholesale and retail trade, transport and storage, manufacturing, construction, real estate, financial services and health sectors.

7.3 It is therefore expected that Malawi's economy could expand at the slowest pace in 2020 compared to recent trends, although some of the anticipated negative effects of COVID-19 are expected to be cushioned by disaster recovery response by the Government in conjunction with the partners to help the country's recovery from the pandemic.

7.4 RBM expects the domestic economy to grow by 1.9% in 2020 and recover to 4.5% in 2021. The International Monetary Fund (IMF) expects real GDP growth rate of 1.0% in 2020 and 2.5% in 2021 for Malawi, while the World Bank projects a growth rate of 2.0% in 2020 and 3.5% in 2021. These projections are based on the assumption that Malawi will not experience a full national lockdown and that the disruptions to domestic activity will be felt in 2020 and not into 2021.

Table 3a: World Bank real GDP growth projections

	2017	2018	2019	2020*	2021*
World	3.2%	3.0%	2.4%	-5.2%	-4.2%
Malawi	4.0%	3.5%	4.4%	2.0%	3.5%
Sub-Saharan Africa	2.7%	2.5%	2.4%	-2.8%	3.1%

* Projections

(Source: Malawi Economic Monitor - July 2020)

Table 3b: International Monetary Fund real GDP growth projections for Malawi

2017	2018	2019	2020*	2023*	2024*	2025*
4.0%	3.2%	4.5%	1.0%	6.5%	6.3%	6.3%

*Projections

(Source: IMF Malawi Country Report May 2020)

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

Sector	2017	2018	2019	2020*	2021*
Agriculture, forestry and fishing	6.1	0.6	4.3	1.0	3.6
Mining and quarrying	1.6	2.3	4.0	3.0	3.0
Manufacturing	2.0	3.5	5.4	1.9	3.3
Electricity, gas and water supply	2.6	4.4	6.3	3.0	4.7

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

Sector	2017	2018	2019	2020*	2021*
Construction	4.4	4.8	5.8	3.7	4.2
Wholesale and retail trade	5.0	4.0	4.4	0.7	5.8
Transport and storage	6.0	4.9	0.8	0.9	3.8
Accommodation and food services	4.2	5.0	4.8	-9.9	6.6
Information and communication	6.5	7.2	6.1	4.5	5.8
Financial and Insurance activities	5.5	6.1	5.5	2.3	5.5
Professional and support services	4.0	4.9	5.4	3.8	6.1
Real estate activities	4.4	3.3	3.5	2.4	4.0
Public administration and defense	5.7	7.0	6.3	5.9	5.3
Education	6.6	8.7	8.0	3.3	5.0
Health and social work activities	5.3	6.9	6.7	3.5	4.6
Other services	4.3	5.3	5.0	3.8	3.4
GDP at constant market prices (2010)	5.2	3.9	5.0	1.9	4.5

* Projections

(Source: RBM)

7.5 Situation update of COVID-19

COVID-19 continues to spread across the globe since it was first discovered in China in December 2019. As at 28th June 2020, total confirmed cases of COVID-19 globally were more than 10.03m, with 5.08m recoveries and 500k deaths, up from about 863,184 confirmed cases, 178,168 recoveries and 44K deaths as at 31st March 2020. In Malawi COVID-19 confirmed cases were more than 1038 as at 28th June 2020 with 260 recoveries and 13 deaths (Source: Johns Hopkins University and Medicine). Malawi had not yet registered a COVID-19 case as at the end of the Q1, namely 31st March 2020.

8. Stock market performance

- 8.1 Performance of the Malawi Stock Exchange (MSE) improved in Q2 of 2020 from a subdued performance in Q1 of 2020. The market registered a positive return on index of 2.09% (1.96% in USD terms) quarter-on-quarter, as the Malawi All Share Index (MASI) increased to 29,784.70 points as at end-June 2020 from 29,176.23 points as at end-March 2020. This is compared to a negative return on index of -3.56% (-3.56% in USD terms) in Q1 of 2020. In Q2 of 2019, however, the stock market performed better with a positive return on index of 9.71% (4.05% in USD terms).
- 8.2 The market also registered a quarter-on-quarter increase in both total volume and value of shares traded in Q2 of 2020 compared to Q1 of 2020. The volume of shares traded increased by 152.97% to 179,323,974 in Q1 of 2020 compared to 70,886,329 in Q1 of 2020 and the value of shares traded increased by 270.78% to K6.76 billion in Q2 of 2020 from K1.82 billion in Q1 of 2020. However, on a year-on-year basis, the market registered a decrease of -13.28% in share volume and a decrease of -55.35% in share value, as it transacted a total of 206,786,591 shares at a total consideration of K15.14 billion in Q1 of 2019.

8.3 5 counters registered capital gains, 8 counters registered losses while 2 counters registered no share price movement during the quarter under review.

8.4 There was no trade on the debt market during Q2 of 2020 as was the case in Q1 of 2020.

8.5 As at end-June 2020, plans were at an advanced stage to list FDH Bank on the Malawi Stock Exchange. The target is to open the IPO in July 2020 and list on MSE early August this year.

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 30th June 2017 and 30th June 2020, and Table 4 shows performance of individual companies in Q2 of 2020.

Chart 7: Malawi Stock Exchange share price indices



(Data source: Malawi Stock Exchange)

Table 4: Share trading summary

	Jun-20	Mar-20	Jun-19	QOQ price change (%)	YOY price change (%)
Market indices					
MASI	29,784.70	29,176.23	29,956.00	▲ 2.09%	▼ -0.57%
DSI	25,117.92	24,138.22	22,877.77	▲ 4.06%	▲ 9.79%
FSI	1,757.76	2,290.78	4,520.31	▼ -23.27%	▼ -61.11%
Gainers					
NBS	19.50	16.00	9.00	▲ 21.88%	▲ 116.67%
AIRTEL	20.00	17.50		▲ 14.29%	
ICON	11.40	10.49	10.00	▲ 8.67%	▲ 14.00%
STANDARD	790.00	730.01	630.00	▲ 8.22%	▲ 25.40%
NBM	550.00	540.01	370.00	▲ 1.85%	▲ 48.65%
No movement					
BHL	12.94	12.94	12.95	► 0.00%	▼ -0.08%
ILLOVO	94.50	94.50	210.00	► 0.00%	▼ -55.00%
Losers					
SUNBIRD	120.00	120.01	138.00	▼ -0.01%	▼ -13.04%
NITL	94.99	95.00	75.01	▼ -0.01%	▲ 26.64%
PCL	1,399.76	1,400.00	1,400.00	▼ -0.02%	▼ -0.02%
MPICO	24.98	25.00	19.50	▼ -0.08%	▲ 28.10%
NICO	48.42	48.49	48.50	▼ -0.14%	▼ -0.16%
TNM	24.94	25.54	28.99	▼ -2.35%	▼ -13.97%
OMU	2,199.99	2,499.99	2,500.00	▼ -12.00%	▼ -12.00%
FMBCH	29.99	40.00	85.00	▼ -25.03%	▼ -64.72%

(Data source: Malawi Stock Exchange)

8.7 The performance of MSE in 2020 is generally expected to be negatively impacted by increased uncertainty and subdued economic activity in the wake of the global COVID-19 pandemic.

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 the acquisition of Nedbank Malawi Ltd in Q1 of 2020.

9.2 All banks posted an increase in profits in 2019 compared to 2018, except First Capital Bank Plc.

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.

Table 5a: Annual financial results for banks				
Company	2019 PAT (K'b)	Movement	2018 PAT (K'b)	
Listed banks				
FBM Capital Holdings Plc US\$' m)	10.291	⬇️	-73%	37.616
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
First Capital Bank Plc	6.630	⬇️	-38%	10.775
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)	
Airtel Malawi Plc	15.908		2.310	
Blantyre Hotels Plc	0.467	⬆️	33%	0.352
Icon Properties Plc	7.414	⬆️	481%	1.276
Il lovo Sugar Plc	10.083	⬇️	-39%	16.449
MPICO Plc	7.598	⬆️	12%	6.782
National investment Trust Plc	1.780	⬆️	25%	1.422
NICO Holdings Plc	14.730	⬆️	15%	12.774
Ol d 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	0.664	⬆️	9%	0.608
Continental Holdings Ltd	2.016	⬆️	101%	1.002
Cooperative General Insurance	(0.055)	⬇️	-31%	(0.042)

Table 5c: Annual financial results for unlisted non-bank financial institutions

Company	2019 PAT (K'b)	Movement	2018 PAT (K'b)
Cooperative Life Assurance Co.	(0.067) 	-128%	(0.029)
Emeritus Reinsurance Ltd	0.202 	262%	(0.125)
FDH Financial Holdings Ltd	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 Lt	0.121 	56%	0.078
NICO General Insurance Compa	1.821 	30%	1.403
NICO Life Insurance Company Lt	7.230 	-23%	9.420
Old Mutual (Malawi) Ltd	12.468 	-41%	21.030
Old Mutual Investment Group L	0.671 	35%	0.497
Old Mutual Life Assurance Co. L	7.925 	-16%	9.467
Old Mutual Pension Services Co	0.408 	10%	0.373
Reunion Insurance Company Lt	0.367 	48%	0.248
General Alliance Insurance Ltd	0.860 	-59%	2.095

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

9.4 Seven out of the eight banks operating in Malawi also published their financial results for the half year ended 30th June 2020. While all banks posted profits during the period, four banks reported an increase while three posted a decrease when compared to the profit figures reported in the corresponding period in 2019.

Table 5d: Published financial results for banks for the half year ended 30th June 2020

	H1 2020 PAT (K'm)	Movement	H1 2019 PAT (K'm)
CDH Investment Bank Ltd	927 	69%	549
Ecobank Ltd	4,004 	8%	3,692
FDH Bank Ltd	3,224 	-4%	3,351
First Capital Bank Plc	3,913 	-6%	4,153
National Bank of Malawi Plc	9,071 	-1%	9,127
NBS Bank Plc	2,844 	102%	1,406
MyBucks Banking Corporation Ltd	1,879 	130%	817

9.5 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 half year profit movements as at 30th June 2020, as summarized in Table 5e.

Table 5e: Expected financial results for half year ending 30 th June 2020			
Company	Expected lowest PTA for H1 2020 (K' m)	Expected PTA movement	H1 2019 PAT (K' m)
Airtel Malawi Plc		↑ 300%	
Blantyre Hotels Plc	98	↓ -50%	196
FMB Capital Holdings Plc (US\$'m)	9,652	↑ 90%	5,080
National Investment Trust Plc	168	↓ -75%	672
Press Corporation Plc	8,934	↓ -20%	11,168
Standard Bank Plc	12,141	↑ 50%	8,094
Sunbird Tourism Plc	(599)	↓ -150%	1,197
Telecom Networks Malawi Plc	5,370	↓ -20%	6,712

10. Tobacco sales

10.1 Malawi could realize lower earnings from tobacco in 2020 relative to the 2019 season. As at the end of week 10 of 2020 tobacco marketing season on 30th June 2020, tobacco had raked in USD97.49m compared to USD109.86m for the same period in 2019, representing a year-on-year decrease in value of 11.27%. Tobacco sales volumes for the same period amounted to 64.40m kg, lower than 75.59m Kg as at week 10 in 2019. However, average prices for tobacco have been higher for 2020 (K1.51/kg) compared to 2019 (K1.45/kg). Typically the trading season may last up to 30 weeks.

10.2 Lower forex revenue realised from tobacco could depress the Kwacha and has potential to increase imported inflation given that Malawi is a net importing country.

10.3 Table 9 below is a summary of cumulative tobacco sales figures up to 30th June 2020 (week 10) relative to a corresponding period in the previous year.

Table 10: Cumulative tobacco sales figures up to 30 th June 2020 (Week 10)			
	Week 10, 2019	Week 10, 2019	Change
Volume (kg)	64.40 million	75.59 million	(14.80%)
Average price (USD/kg)	1.51	1.45	4.14%
Value (USD)	97.49 million	109.86 million	(11.27%)

(Source: Tobacco Control Commission (TCC)

11. Political environment

- 11.1 Malawi held a fresh presidential election on 23rd June 2020 after the Constitutional Court nullified the May 2019 presidential election on 3rd February 2020, on account of severe irregularities in its management.
- 11.2 Dr Lazarus Chakwera of the Malawi Congress Party (MCP) and leader of the Tonse Alliance emerged as the winner in the fresh election and was sworn in office on 28th June 2020 together with his vice, Dr Saulosi Chilima.
- 11.3 There may be significant changes in policies and generally management of the country following the change in Government. The Tonse Alliance has promised good governance and public administration, economic transformation and social development, among other things.

12. Fiscal policy

- 12.1 Following the change in Government, a Provisional national budget was put in place as the new Government prepares a full budget for the fiscal year between 1st July 2020 and 30th June 2021. The provisional budget covers a period of four months from 1st July 2020 to 31st October.
- 12.2 The following is a summary of the Provisional budget:
 - 12.2.1 Total expenditure is estimated at K722.4 billion of which development expenditure is K169.8 billion representing 23.5% of the total budget. Only ongoing projects and existing contractual obligations have been provided for in the provisional budget.
 - 12.2.2 Total revenue and grants is estimated at K459.1 billion of which K407.3 billion is domestic revenue and K51.9 billion are grants.
 - 12.2.3 The Provisional budget has a Net Domestic Borrowing of K209.5 billion
- 12.3 Other highlights of the Provisional budget include the following:
 - 12.3.1 The tax-free band has been increased from K45,000 to K100,000.
 - 12.3.2 Affordable Inputs Programme (AIP) will be implemented whereby all smallholder farmers, estimated at 3.5 million, will access fertilizer at K4,495/50kg bag.
 - 12.3.3 The Malawi Enterprise Development Fund (MEDF) Youth loans provision has been increased from K15.0 billion to K40.0 billion. The amount will be increased gradually to K75.0 billion.
 - 12.3.4 ADMARC has been allocated resources to purchase maize and other farm produce from farmers. ADMARC will also be allowed to borrow from commercial banks.

- 12.3.5 Government is considering reviewing the minimum wage from K35,000 to K50,000 per month.
- 12.3.6 Government will continue and expand the Youth Internship Programme.
- 12.4 Key focus areas for the new government include curbing corruption, public sector reforms, agriculture commercialization, industrialization, economic transformation and social development among others.

13. Conclusions

- 13.1 The global Coronavirus pandemic remains the major risk to economic stability and growth in 2020. With increased risks associated with the pandemic, market interest rates and yields increased in the second quarter of 2020. However, some fundamental variables, including the exchange rate and inflation rate, remained favourable during the period, indicating some level of resilience in the economy.
- 13.2 The fresh presidential election held on 23rd June 2020 ushered in a new president. With the change in government, major changes are expected in policies and general management of the country.
- 13.3 Overall, we expect market interest rates and yields to remain elevated in the short to medium term as risks remain high. The exchange rate could remain stable in the short to medium term supported by a robust forex reserves position. This could help maintain inflation rate and Policy rate within current levels in the short to medium term



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