



Economic review

Second quarter 2021



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Economic Review Second quarter 2021



1. Executive summary

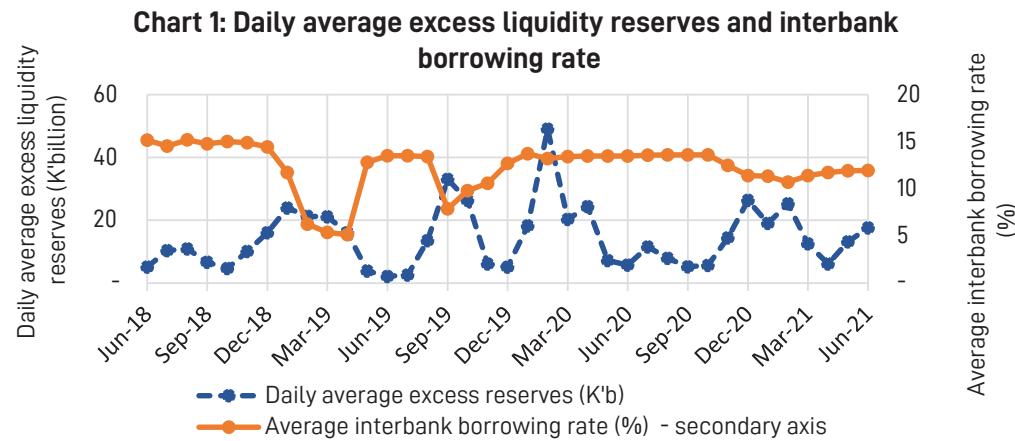
- 1.1 Overall, during the second quarter of 2021, the following situations prevailed:
 - 1.1.1 A decline in new COVID-19 infections from March to May 2021 which contributed to opening of economic activity during the period. However, there was a resurgence in COVID-19 spread from mid-June 2021 amid low vaccination rates and imported new cases.
 - 1.1.2 Shortage of forex and continued depreciation of the Kwacha despite the onset of the agricultural marketing season in April 2021.
 - 1.1.3 Easing inflationary pressures due to a decrease in food prices following a good harvest.
 - 1.1.4 Relatively stable market interest rates as the Monetary Policy Committee maintained the Policy rate at 12.0% during its second meeting held in April 2021.
 - 1.1.5 An improvement in stock market performance characterized by higher stock trading activity which resulted in increased traded volume, value and overall return.
 - 1.1.6 The economic growth outlook for 2021 remains positive, with the country's real GDP growth rate projected at 3.8% compared to 0.9% realised in 2020. The COVID-19 risk, however, remains high.

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), decreased in the second quarter of 2021 (Q2) relative to the first quarter of 2021 (Q1). Excess liquidity reserves averaged K12.28 billion per day during Q2 2021 compared to K18.95 billion per day during Q1 2021, representing a decrease of 35.19% (K12.43 billion per day in Q2 2020).
- 2.2 Consequently, the interbank borrowing rate increased slightly to an average of 11.87% in Q2 2021 from the average of 11.15% in Q1 2021 (13.59% in Q2 2020). The volume traded among banks on the interbank market increased in nominal terms to a total of K884.88 billion in Q2 2021 from K657.75 billion in Q1 2021 and K540.40 billion in Q2 2020.
- 2.3 Further, amount of funds accessed through the Lombard Facility of the RBM increased to K2.43 trillion in Q2 2021 from K824.49 billion in Q1 2021 and K1.30 trillion in Q2 2020. The Lombard rate, however, was stable at 12.20% as the Monetary Policy Committee (MPC) kept the rate unchanged during the review of monetary policy in April 2021.
- 2.4 RBM issued no Open Market Operations (OMOs) repos during the quarter as this was also the case in Q1 2021. However, there were OMO reverse repos amounting to K171.55 billion during Q2 2021 compared to K287.90 billion in Q1 2021. The reverse repos were aimed at injecting liquidity on the interbank market. There was also access on

Rediscounting Standing Facility of K1.89 billion during Q2 2021 compared to K56.73 billion in Q1 2021.

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)

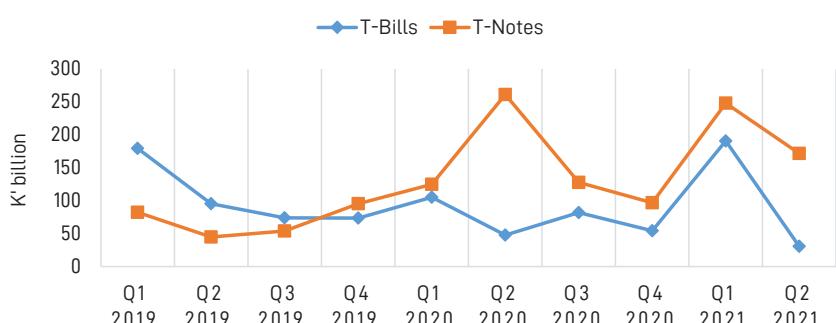
3. Government securities

3.1 Government raised K30.58 billion in auctions of Treasury Bills (TB) during Q2 2021, representing a decrease of 83.96% when compared to K190.67 billion raised in Q1 2021, and a decrease of 57.30% when compared to K71.63 billion raised in Q2 2020. Total applications for TBs for Q2 2021 amounted to K31.91 billion, representing a rejection rate of 4.16% which is higher than the rejection rate of 3.57% in Q1 2021 but lower than the rejection rate of 33.31% in Q2 2020.

3.2 K171.67 billion was raised in auctions of Treasury Notes (TNs) in Q2 2021, compared to K247.83 billion in Q1 2021, representing a nominal decrease of 30.73% (K261.09 billion in Q2 2020).

3.3 Overall, Government domestic borrowing (TBs and TNs combined) decreased in Q2 2021 (K202.25 billion) relative to Q1 2021 (K438.50 billion) and Q2 2020 (K308.86 billion) as shown in Chart 2:

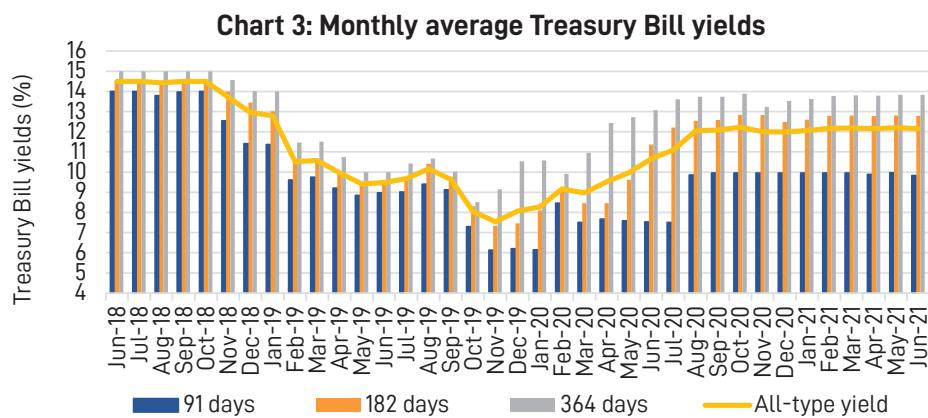
Chart 2: Comparative analysis of amounts raised in government securities



(Data source: Reserve Bank of Malawi)

3.4 Yields on Government securities were relatively stable during Q2 2021. The all-type average TB yield marginally increased to 12.15% in Q2 2021 from 12.14% in Q1 2021 (10.05% in Q2 2020). This is on account of an increase in the 364-day yield to an average of 13.83% in Q2 2021 from 13.73% in Q1 2021 (10.48% in Q2 2020); and an increase in the 182-day yield to an average of 12.79% in Q2 2021 from 12.73% in Q1 2021 (9.81% in Q2 2020). The 91-day yield decreased to 9.82% in Q2 2021 from 9.95% in Q1 2021 (7.59% in Q2 2020).

3.5 Chart 3 and Table 1 show that yields for TBs and TNs were relatively stable in Q2 2021, after a significant rise in the year 2020.



(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
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%
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%
2019 average	13.23%	13.28%	15.12%	18.43%	17.76%
%pt. increase: Q2 2021 vs Q1 2020	0.05	0.25	0.04	0.28	-0.22
%pt. increase: Q2 2021 vs Q2 2020	1.84	3.16	1.29	0.07	0.58

(Data source: Reserve Bank of Malawi)

3.6 Looking ahead, we expect yields of Government securities to remain elevated in the short term as far as Government domestic borrowing needs remain high and the RBM continues to pursue a cautious monetary policy in the face of high risks associated with COVID-19. In the long term, however, a possible Policy rate cut when macroeconomic conditions improve and aimed at supporting economic recovery from effects of COVID-19, could lead to a decrease.

4. Foreign exchange market

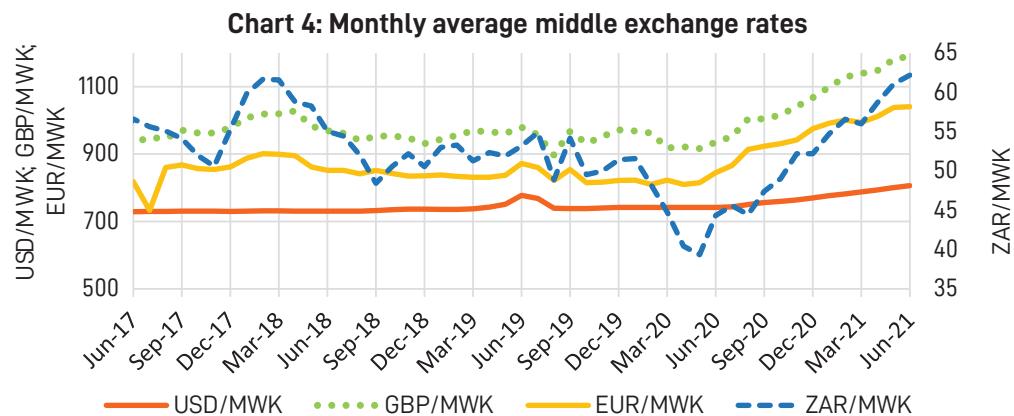
4.1 The Kwacha continued to depreciate against most of its major trading currencies during the quarter under review. The USD/MWK middle rate increased to an average of K800.42 in Q2 2021 from K782.05 in Q1 2021 and K741.95 in Q2 2020. The depreciation was on account of a shortage of forex in the domestic market, emanating mainly from weak export proceeds and foreign investment inflows which were negatively affected by the global COVID-19 pandemic during the 2020/2021 season. The import bill also expanded due to increased imports of COVID-19 mitigation items and strategic commodities under the Affordable Inputs Program (AIP).

4.2 Table 2 shows the average depreciation rates of the Kwacha in Q2 2021 relative to Q1 2021 and Q2 2020 (Note: downward arrow represents depreciation of the Kwacha):

Table 2: Average exchange rates								
Currency	Q2 2021	Q1 2021	Q4 2020	Q3 2020	Q2 2020	Q2 2021-Q1 2021 Change	Q2 2021-Q2 2020 Change	
USD/MWK	800.42	782.05	764.23	749.97	741.95	▼ 2.35%	▼ 7.88%	
GBP/MWK	1,173.53	1,122.55	1,041.66	987.07	924.56	▼ 4.54%	▼ 26.93%	
EUR/MWK	1,030.45	995.57	949.50	901.21	823.26	▼ 3.50%	▼ 25.17%	
ZAR/MWK	60.67	55.76	51.14	45.81	41.38	▼ 8.80%	▼ 46.62%	

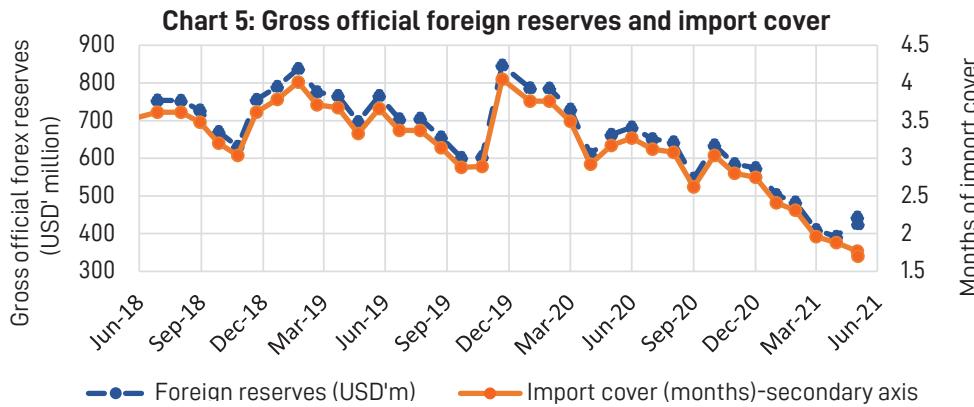
(Data source: Reserve Bank of Malawi)

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 Due to the shortage of forex, gross official forex reserves stood at USD424.99 million (1.70 months of import cover) as at 30th June 2021 compared to USD410.16 million (1.96 months of import cover) as at 31st March 2021 and USD682.66 million (3.27 months of import cover) as at 30th June 2020. The gross official forex reserves have been below the recommended 3 months of import cover since November 2020.



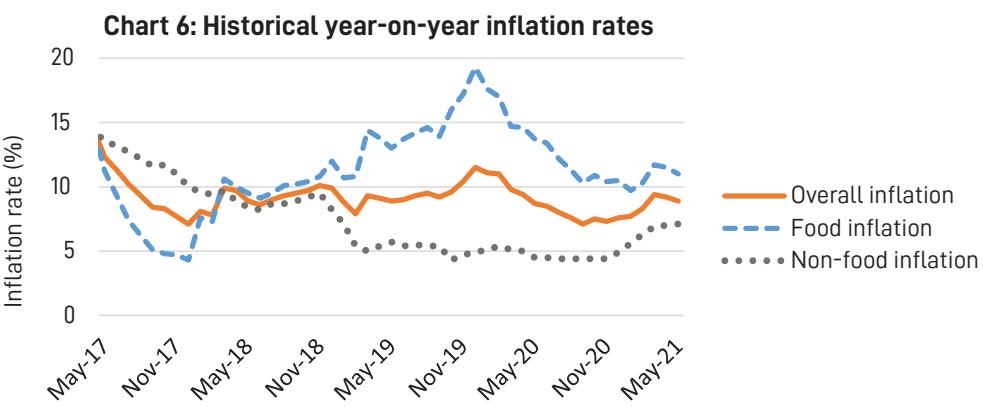
(Data source: Reserve Bank of Malawi)

4.5 Exchange rate pressures could moderate slightly in the period ahead on account of the realization of export proceeds during the ongoing agricultural marketing season. The tobacco market opened on 20th April 2021 and had cumulatively raked in USD140.04m as at 1st July 2021, compared to USD104.70m (33.75% increase) for the corresponding period in 2020. However, depreciation risks remain high with the persistent negative effects of the global COVID-19 pandemic.

5. Inflation

5.1 The headline inflation rate decreased to 8.9% in May 2021 after rising in the first quarter of 2021 to 9.4% in March 2021 from 7.6% in December 2020. The decrease in Q2 2021 was largely attributed to a post-harvest decline in food prices which is also expected to support a further decline of the inflation rate in the ensuing months.

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



(Data source: National Statistical Office)

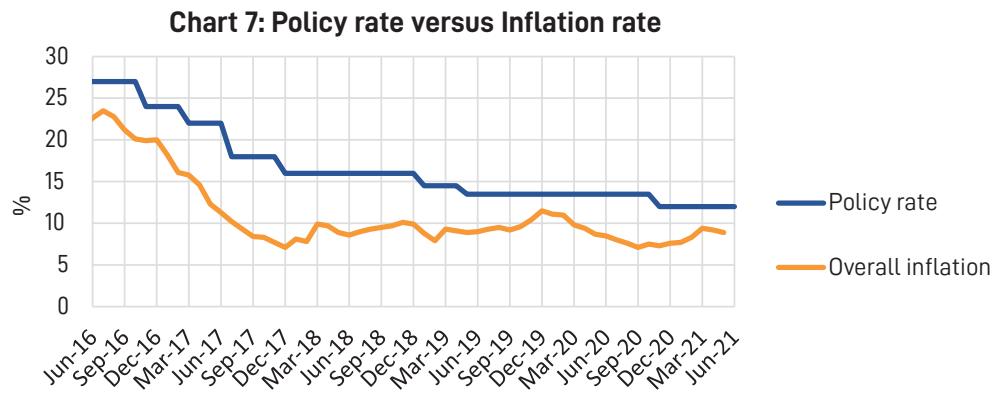
5.3 RBM revised its projection for annual average headline inflation rate for 2021 during the second Monetary Policy Committee (MPC) meeting in April 2021 to 8.4% (2020 actual average: 8.6%) from 7.6% projected during the first MPC meeting in January 2021. The upward revision reflected the impact of upward adjustments of fuel prices and electricity tariffs implemented in March 2021.

5.4 Government is targeting headline inflation rate of 5.0% in 2022 and 3.0% by 2025. Major risks to this target, 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 MPC held its second meeting of 2021 on 29th and 30th April, during which they decided to maintain the Policy rate at 12.0%, 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 decision considered the need to support and sustain economic recovery, while at the same time manage upside risks to inflation.

6.2 Chart 7 shows that the Policy rate has been declining 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 Following MPC's April decision to maintain the Policy rate, market interest rates were relatively stable in Q2 2021 with the Reference lending rate for commercial banks averaging 12.13% during the quarter, compared to the average of 12.00% in Q1 2021 and 13.30% in Q2 2020.

6.4 It is expected that the RBM will continue to pursue an accommodative monetary policy in the short to medium term as it continues to support economic recovery from negative effects of COVID-19 and stimulate further growth. However, risks to this outlook are high, including COVID-19, exchange rate and inflationary pressures, rising global oil prices, liquidity challenges, structural rigidities of the economy and Government of Malawi domestic borrowing.

7. COVID-19 and economic growth

7.1 The COVID-19 pandemic remains a major risk to economic activity across the world. However, the vaccination campaigns currently underway in many countries provide optimism for a global economic improvement in 2021 from a slump in 2020.

7.2 According to the April 2021 World Economic Outlook Report by the IMF, global economic growth is projected to recover to 6.0% in 2021 and 4.4% in 2022, from -3.3%

in 2020. The Sub-Saharan African Region is projected to grow by 3.4% in 2021 and 4.0% in 2022 from -1.9% in 2020.

7.3 In the domestic economy, the COVID-19 risk remains high with a low vaccination rate. Nevertheless, economic growth prospects for 2021 are positive relative to 2020. The Government projects that domestic real economic growth will strengthen to 3.8% in 2021 and 5.2% in 2022 from 0.9% in 2020. The IMF projects real GDP growth rates of 2.2% in 2021 and 6.5% in 2022.

7.4 Domestic economic growth will be enhanced by improving economic and business confidence, supported by good agricultural production during the 2020/21 season, as well as the on-going Government infrastructure development projects in the road, energy and agriculture sectors.

7.5 Projected key growth sectors include agriculture, information & communication, financial & insurance services, public administration & defense, real estate activities, manufacturing, and electricity, gas & water supply, among others.

Table 3a: Annual percentage growth rates

Sector	2018	2019	2020	2021*	2022*
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

* Projections

Source: Malawi Government Annual Economic Report

Table 3b: Real GDP growth projections						
Institution	Region	2018	2019	2020	2021*	2022*
Government	Malawi	4.40%	5.60%	0.90%	3.80%	5.40%
IMF	World	3.60%	2.80%	-3.30%	6.00%	4.40%
	Malawi	3.20%	4.50%	0.60%	2.20%	6.50%
	Sub-Saharan Africa	3.20%	3.20%	-1.90%	3.40%	4.00%

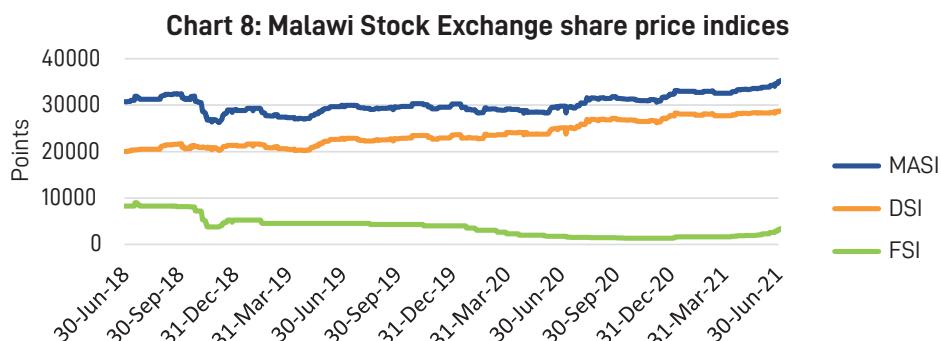
* Projections

Malawi Government source: Annual Economic Report 2021

IMF source: World Economic Outlook Update- April 2021

8. Stock market performance

- 8.1 The Malawi Stock Exchange (MSE) registered a better performance in Q2 2021 relative to Q1 2021. The Malawi All Share Index (MASI) registered a return of 7.93% (5.14% in USD terms) in Q2 2021, compared to 0.53% (-1.25% in USD terms) in Q1 2021 and 2.09% (1.95% in USD terms) in Q2 2020. The Domestic Share Index (DSI) registered a return of 3.71% in Q2 2021 compared to -0.16% in Q1 2021 and 4.06% in Q2 2020. The Foreign Share Index (FSI) registered a return of 100.36% compared to 18.36% in Q1 2021 and -23.27% in Q2 2020.
- 8.2 Further, the market registered an increase of 275.10% in volume of shares traded to 672,649,580 in Q2 2021 from 32,218,071 in Q1 2021 (179,323,974 in Q2 2020). The value of shares traded increased by 151.39% (131.92% in USD terms) to K16.99 billion (US\$21.27 million) in Q2 2021 from K1.19 billion in Q1 2021 (K6.76 billion in Q2 2020).
- 8.3 7 counters registered capital gains (5 in Q1 2021 and 5 in Q2 2021) while 4 counters registered losses (11 in Q1 2021 and 8 in Q2 2020).
- 8.4 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 Chart 8 shows a graphical analysis of the MASI, DSI and FSI over the three-year period between June 2018 and June 2021 and Table 4 shows performance of individual companies in Q2 2021.



(Data source: Malawi Stock Exchange)

Table 4: Share trading summary							
	30-Jun 2021	31-Mar 2021	31-Dec 2020	30-Jun 2020	Q2 2021 - Q1 2021 price change (%)	Year- to-date price change (%)	Year- on-year price change (%)
Market indices							
MASI	35,144.56	32,562.96	32,392.84	29,784.70	▲ 7.93%	▲ 8.49%	▲ 18.00%
DSI	28,739.26	27,710.72	27,755.46	25,117.92	▲ 3.71%	▲ 3.54%	▲ 14.42%
FSI	3,234.45	1,614.33	1,363.88	1,757.76	▲100.36%	▲137.15%	▲ 84.01%
Gainers							
FMBCH	59.82	27.12	22.04	29.99	▲120.58%	▲ 171.42%	▲ 99.47%
ILLOVO	104.72	80.46	80.48	94.50	▲ 30.15%	▲ 30.12%	▲ 10.81%
AIRTEL	32.53	27.95	27.98	20.00	▲ 16.39%	▲ 16.26%	▲ 62.65%
NBS	26.40	23.00	21.60	19.50	▲ 14.78%	▲ 22.22%	▲ 35.38%
NICO	55.00	51.93	52.00	48.42	▲ 5.91%	▲ 5.77%	▲ 13.59%
NBM	650.08	650.05	650.00	550.00	▲ 0.005%	▲ 0.01%	▲ 18.20%
STANDARD	1,200.15	1,200.12	1,046.39	790.00	▲ 0.002%	▲ 14.69%	▲ 51.92%
No movement							
NITL	94.94	94.94	94.95	94.99	► 0.00%	▼ -0.01%	▼ -0.05%
OMU	2190.00	2190.00	2,199.98	2,199.99	► 0.00%	▼ -0.45%	▼ -0.45%
PCL	1199.94	1199.94	1,309.47	1,399.76	► 0.00%	▼ -8.36%	▼ -14.28%
SUNBIRD	90.00	90.00	105.00	120.00	► 0.00%	▼ -14.29%	▼ -25.00%
BHL	11.00	11.00	12.94	12.94	► 0.00%	▼ -14.99%	▼ -14.99%
Losers							
ICON	12.13	12.18	12.27	11.40	▼ -0.41%	▼ -1.14%	▲ 6.40%
TNM	16.00	16.39	20.07	24.94	▼ -2.38%	▼ -20.28%	▼ -35.85%
FDHB	16.00	16.49	14.45		▼ -2.97%	▲ 10.73%	
MPICO	16.00	20.89	21.00	24.98	▼ -23.41%	▼ -23.81%	▼ -35.95%

(Data source: Malawi Stock Exchange)

9. The 2021/2022 national budget

- 9.1 The 2021/2022 national budget was presented in Parliament on 28th May 2021. 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.
- 9.2 The budget 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.

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

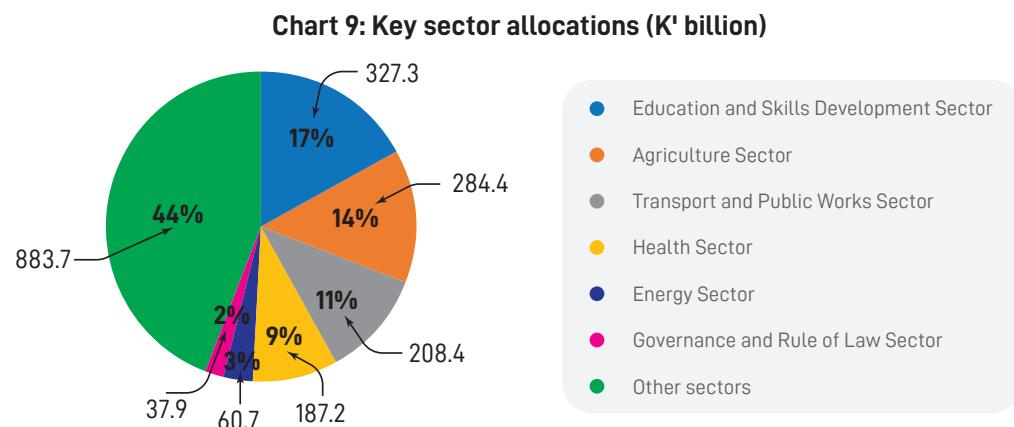
9.4 The budget was formulated with an expectation that revenue performance will remain subdued in the short term but could rebound as the economy gradually recovers.

9.5 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%

(Data source: Malawi Stock Exchange)

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



10. Conclusions

- 10.1 During the second quarter of 2021, the macroeconomic environment showed some positive signs with dissipating inflationary pressures due to increased availability of food, and relatively stable market interest rates. However, the shortage of forex persisted which led to continued depreciation of the Kwacha against major trading currencies, despite the onset of the agricultural marketing season.
- 10.2 COVID-19 remains a major risk to economic activity and macroeconomic stability in the country with the resurgence in new cases from mid-June 2021 amid low vaccination rates.
- 10.3 Pressure on expenditure is expected to continue owing to the continued need for resources to adequately respond to effects of COVID-19.
- 10.4 High and rising public debt remains a major concern for the Government.
- 10.5 The economic growth outlook for 2021, however, remains positive relative to 2020 performance, backed by good agricultural production, improving economic and business confidence and ongoing Government infrastructural development projects, among others.

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2020



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intermediary
Malawi

2019



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finance institution
In Malawi

Lead arranger

2019



Commercial
paper programme

Lead arranger

2019



Secured
loan programme

Lead arranger

2019



INVESTMENT BANK

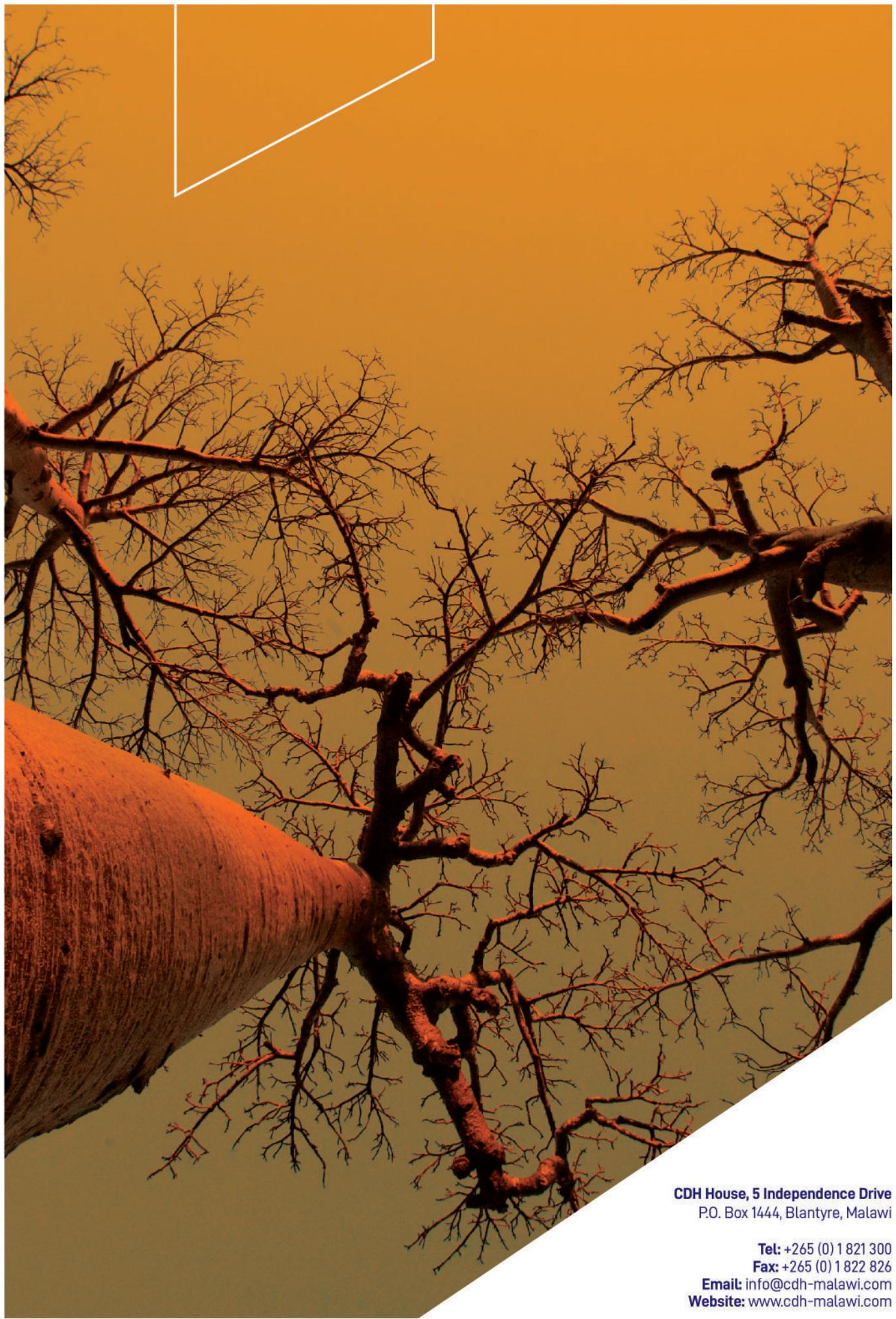


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