

A man with dark hair and a beard, wearing a white polo shirt and dark blue jeans, is sitting on a large, plush yellow sofa. He is looking down at a silver laptop on his lap and typing. The room has light-colored wooden flooring and a large window in the background showing a balcony with a railing. A white radiator is visible on the right. A small white side table with three wooden legs is next to the sofa, holding a glass of iced coffee and a smartphone.

Economic review

Third quarter 2020



INVESTMENT BANK

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Economic review Third quarter 2020

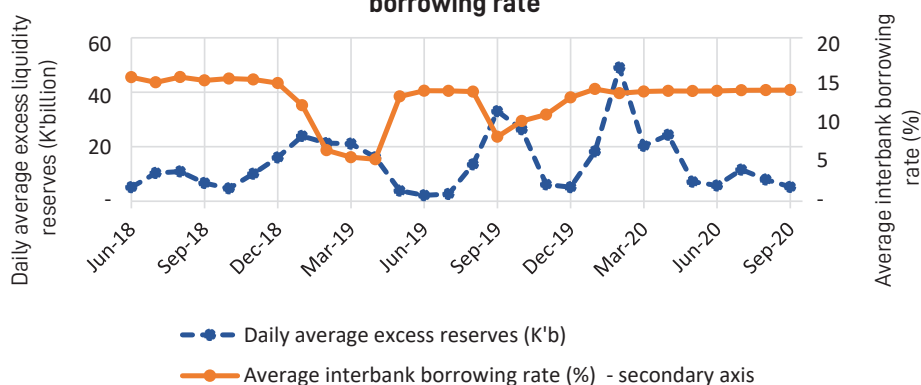
1. Executive summary

- 1.1 The Coronavirus disease (COVID-19) remains a major risk to the global and Malawi economy. Its effects combined with political uncertainties that prevailed in the first half of the year have dampened economic activity. Sectors such as accommodation and food services, education, transport and wholesale and retail trade have been showing signs of major distress.
- 1.2 In the third quarter of 2020, the following situations prevailed:
 - 1.2.1 Slow economic activity due to global and domestic COVID-19 restrictions and postponement of investments and business decisions.
 - 1.2.2 Liquidity squeeze which pushed up market interest rates and yields on Government securities.
 - 1.2.3 Shortage of forex due to lower than anticipated export revenues and the resultant depreciation of the Kwacha.
 - 1.2.4 Looming inflation pressures, although the inflation rate remained relatively low.
- 1.3 The third meeting of the Monetary Policy Committee (MPC) for the year was held on 30th and 31st July 2020 during which the Policy rate was maintained at 13.5%, the Lombard rate at 13.7% and the Liquidity Reserve Requirement (LRR) on both local and foreign currency deposits at 3.75%. The decisions were aimed at containing the impending inflationary pressures and supporting recovery of the economy in the wake of the COVID-19 pandemic.
- 1.4 The new Tonse Alliance Government administration has so far focused on framing and implementing reforms aimed at ensuring efficiency and productivity in the public sector. The 2020/2021 budget is focused on the delivery of the Alliance's promise to the citizens and key developmental stakeholders; namely, sustainable and inclusive economic growth, macroeconomic stability and sound fiscal management.
- 1.5 On account of COVID-19 effects, the GDP growth forecast for 2020 have been revised downwards. On the one hand, the Reserve Bank of Malawi (RBM) projects a slowdown in annual growth rate of real Gross Domestic Product (GDP) for Malawi to 1.9% in 2020 compared to an estimate of 5.0% in 2019. On the other hand, the World Bank and the International Monetary Fund (IMF) project annual growth rates of 2.0% and 0.6%, respectively, for 2020. However, economic recovery is expected from 2021 as the economy recovers from the effects of COVID-19.

2. Interbank market

- 2.1 Liquidity levels decreased during Q3 of 2020 relative to the previous quarter, largely on account of subdued business activity caused by COVID-19. Excess liquidity reserves for banks decreased from an average of K12.43 billion per day in Q2 of 2020 to an average of K8.27 billion per day in Q3 of 2020. This was also lower compared to an average volume of K16.39 billion per day recorded during Q3 of 2019.
- 2.2 With the decrease in liquidity conditions during the quarter, the interbank borrowing rate slightly increased from an average of 13.49% in Q2 of 2020 to an average of 13.59% in Q3 of 2020, which was also higher than an average of 11.60% recorded in Q3 of 2019. Chart 1 provides a summary of excess liquidity reserves and overnight interbank rate movements over the past year. While liquidity conditions significantly decreased in Q2 and Q3 of 2020, the interbank borrowing rate increased only slightly.

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



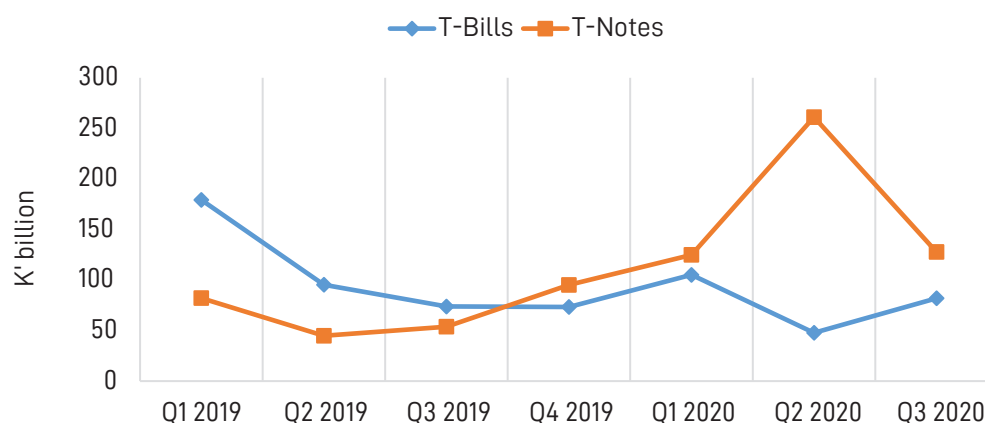
(Data source: Reserve Bank of Malawi)

- 2.3 In line with lower liquidity levels, the volume traded among banks on the interbank market increased from an average of K8.97 billion per day in Q2 of 2020 to an average of K11.29 billion per day in Q3 of 2020, also higher than an average of K7.94 billion per day recorded in Q3 of 2019.
- 2.4 Further, access to the Lombard facility increased from an average of K21.90 billion per day in Q2 of 2020 to an average of K28.32 billion in Q3 of 2020. In the previous year, access to the Lombard facility averaged K8.55 billion in Q3.
- 2.5 The Lombard rate averaged 13.70% in Q3 of 2020, marginally down from an average of 13.71% in Q2 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 Q3 of 2019, the Lombard rate was at 13.90%.
- 2.6 There were no open market operations (OMOs) in Q3 of 2020 as has been the case since the beginning of this year. In Q3 of 2019, OMOs amounted to K12.25 billion.

3. Government securities

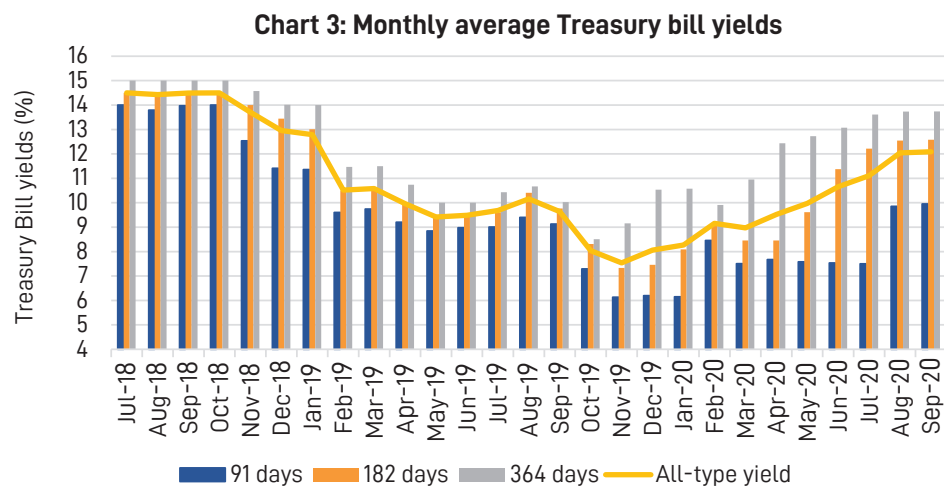
- 3.1 Government raised a total of K81.98 billion in Q3 of 2020 through auctions for Treasury Bills (TB), an increase of 71.59% when compared to the total of K47.77 billion raised in Q2 of 2020. Total applications for TBs for Q3 of 2020 amounted to K115.31 billion, representing a rejection rate of 28.90%, which is lower than a rejection rate of 33.31% recorded in Q2 of 2020. In Q3 of 2019, Government raised a total of K73.83 billion in TB auctions with a rejection rate of 67.65%.
- 3.2 A total of K127.72 billion was also raised in Q3 of 2020 through auctions for Treasury notes (TNs) compared to K261.09 billion that was raised in Q2 of 2020 and K53.80 billion that was raised in Q3 of 2019, representing a nominal decrease of 51.08% quarter-on-quarter and an increase of 137.40% year-on-year.
- 3.3 Government domestic borrowing has increased this year relative to the previous year, while it has expanded borrowing in longer term TNs as shown in Chart 2 below:

Chart 2. Comparative analysis of amounts raised in treasury securities



(Data source: Reserve Bank of Malawi)

- 3.4 In line with increased Government domestic borrowing, coupled with increased liquidity risks and other risks associated with the COVID-19 pandemic, yields on Government securities increased during the period. The 91-day TB yield increased from an average of 7.59% in Q2 of 2020 to an average of 9.10% in Q3 of 2020; the 182-day yield increased from an average of 9.81% in Q2 of 2020 to an average of 12.45% in Q3 of 2020; and the 364-day yield increased from an average of 12.75% in Q2 of 2020 to an average of 13.69% in Q3 of 2020. Consequently, the all-type (average) TB yield increased from 10.05% in Q2 of 2020 to 11.75% in Q3 of 2020. During Q3 in the previous year, the 91-day TB average yield was slightly higher at 9.18% while the 182-day and 364-day average yields were lower at 9.93% and 10.37%, respectively, resulting in an all-type yield of 9.83%.
- 3.5 Chart 3 and Table 1 below show that yields for TBs and TNs have increased substantially across tenors since Q4 of 2019.



(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
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%
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%

(Data source: Reserve Bank of Malawi)

- 3.6 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 and COVID-19 associated risks remain high. However, we expect more stability in yields and interest rates in the medium term to long term as economic activity slowly picks up with some COVID-19 measures relaxed.

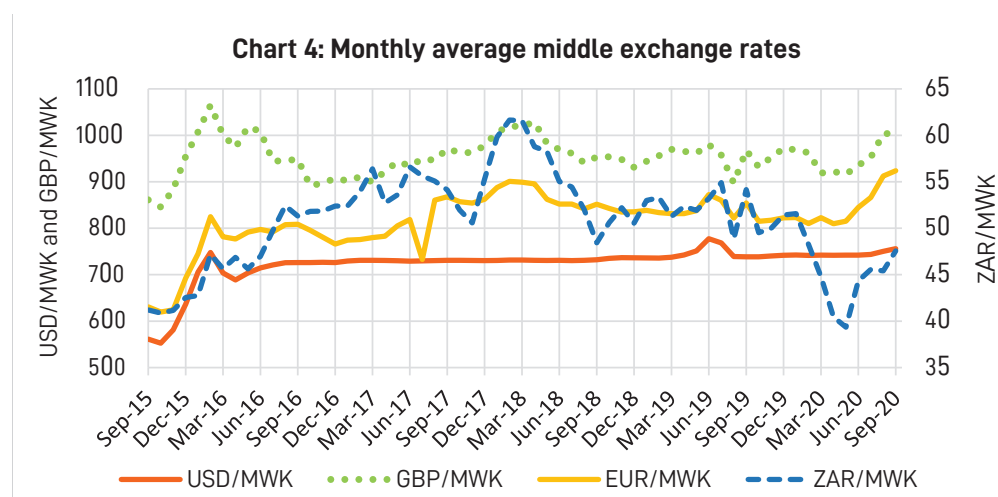
4. Foreign exchange market

- 4.1 During the quarter under review, the Kwacha depreciated against most of its major trading counterparts. The USD/MWK middle exchange rate averaged 749.96 in Q3 of 2020, up by 1.08% from 741.95 in Q2 of 2020. The GBP/MWK average middle exchange rate increased by 6.73% to 986.76, the EUR/MWK increased by 9.41% to 900.75 and the ZAR/MWK increased by 11.61% to 46.18, representing depreciations. On a year-on-year basis, the Kwacha depreciated by 0.19% against USD, 4.88% against GBP and 6.54% against EUR. It however, appreciated by 12.28% against ZAR, year-on-year, 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	Q3 2020	Q2 2020	Q3 2019	Q/Q Change	YOY Change
USD/MWK	749.96	741.95	748.56	1.08% ↓	0.19% ↓
GBP/MWK	986.76	924.56	940.84	6.73% ↓	4.88% ↓
EUR/MWK	900.75	823.26	845.48	9.41% ↓	6.54% ↓
ZAR/MWK	46.18	41.38	52.64	11.61% ↓	-12.28% ↑

(Data source: Reserve Bank of Malawi)

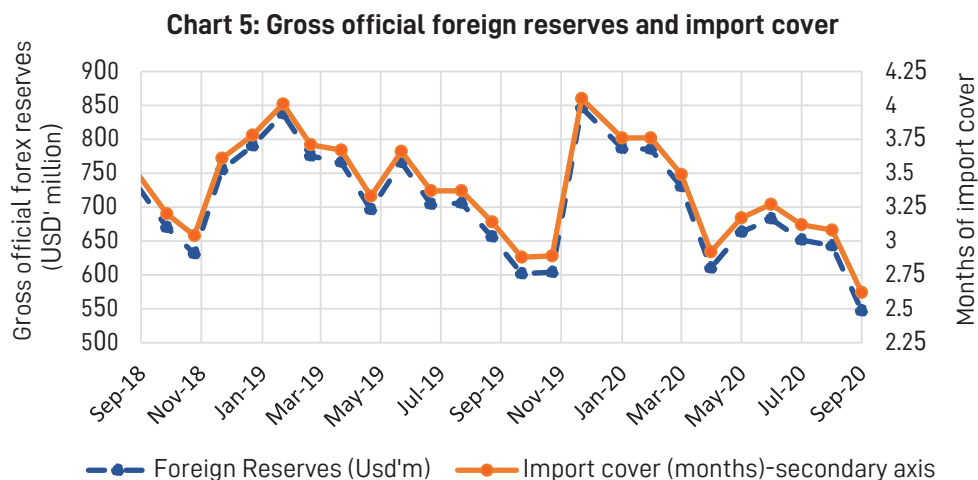
- 4.2 Chart 3 provides an overview of how the Kwacha has performed against the three major trading currencies in the last five years. The chart indicates that the Kwacha significantly depreciated against USD, GBP, EUR and ZAR in Q3 of 2020 under review.



(Data source: Reserve Bank of Malawi)

- 4.3 The depreciation of the Kwacha during the quarter was largely due to a gain in value of global currencies as countries began to relax COVID-19 restrictions, and a shortage of forex in the domestic market as forex inflows from exports were negatively affected by logistical challenges, reduced demand as well as reduced production in the face of the global COVID-19 pandemic.
- 4.4 Gross official forex reserves decreased from USD682.66m (representing 3.27 months of import cover) as at end-June 2020 to USD546.99m (2.62 months of import cover) as

at end-September 2020. In 2019, gross official reserves were higher at USD656.04m (3.14 months of import cover) as at end-September.



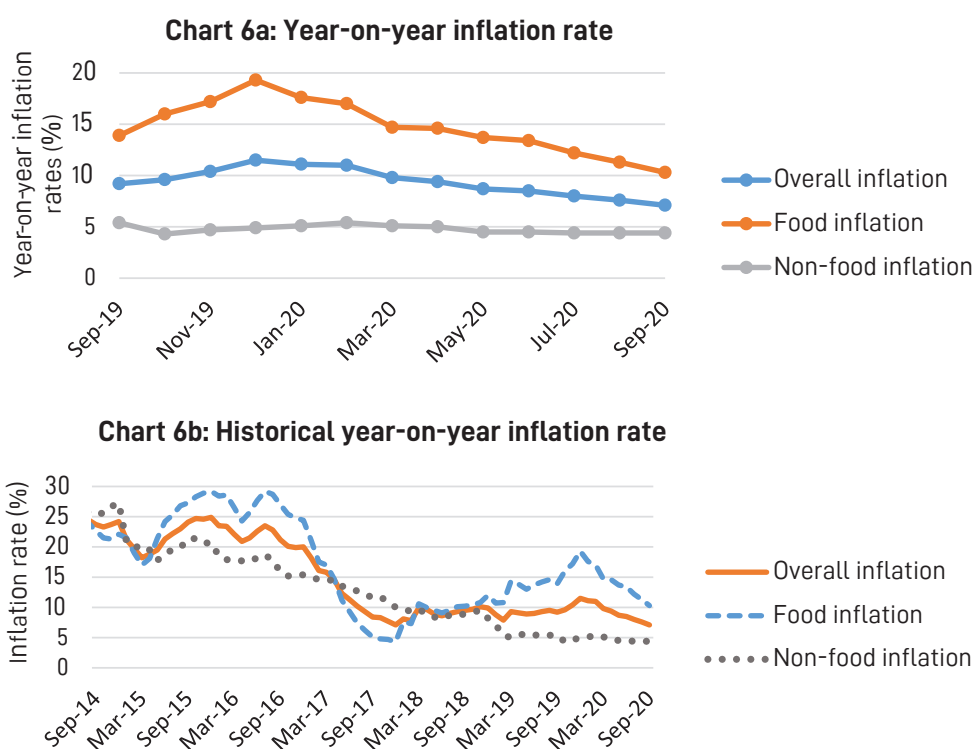
(Data source: Reserve Bank of Malawi)

- 4.5 Going forward, the exchange rate could continue to face depreciation pressures in the short to medium term emanating from reduced export earnings. The rate of depreciation could, however, be moderated by increased inflows in form of grants and credit extensions from development partners, such as the International Monetary Fund (IMF) and the World Bank, directed towards shielding the economy from devastating effects of COVID-19. In the long term, depreciation risks could come from long-term domestic and global economic effects of COVID-19 and a wide current account deficit, among other factors. The rate of long-term depreciation of the Kwacha could be moderated by increased aid inflows, improved investor confidence and increased agricultural export earnings, among others.
- 4.6 The Economist Intelligence Unit (EIU) projects the following annual USD/MWK exchange rate averages:

Table 2b: Economist Intelligence Unit forecasts					
Year	2020	2021	2022	2023	2024
USD/MWK annual average	747.5%	752.7%	781.7%	788.2%	791.7%

5. Inflation

- 5.1 The rate of inflation continued to decrease in Q3 of 2020. Year-on-year headline inflation rate stood at 7.1% in September 2020, declining from 8.5% in June 2020, 9.8% in March 2020 and 11.5% in December 2019. The decrease in headline inflation rate during Q3 was largely on account of a decrease in food inflation rate to 10.3% in September 2020 from 13.4% in June 2020 while non-food inflation rate decreased to 4.4% from 4.5% during the same period. In the previous year, in September 2019, year-on-year headline inflation rate, food inflation rate and non-food inflation rate were all higher at 9.2%, 13.9% 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 September 2014 and September 2020.

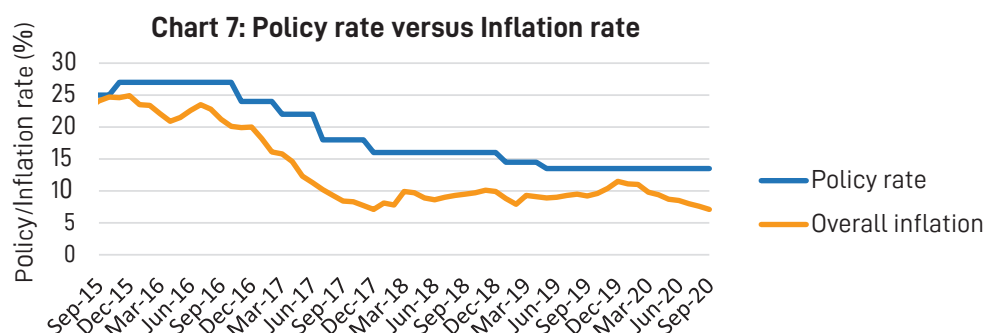


(Data source: National Statistical Office)

- 5.3 In the ensuing months, there are impending inflationary pressures emanating from uncertainties associated with the COVID-19 pandemic, including a gradual pick-up in food prices, 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. On the other hand, the IMF projects an annual inflation rate of 9.3% for 2020 and 9.5% for 2021.

6. Monetary policy

- 6.1 The Monetary Policy Committee (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 favorable 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.
- 6.2 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.



(Data source: RBM, NSO)

- 6.3 With the stable monetary Policy rate and the Lombard rate during the quarter, the Reference rate for banks was also stable at 13.40% in July and August 2020. The Reference rate, however, increased to 13.60% in September 2020, resulting in an average of 3.47% for the quarter. This is an increase from the average of 13.30% in Q2 of 2020, 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.
- 6.4 We expect monetary policy to remain cautious in the short term as the monetary authorities work to contain negative 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. 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.
- 6.5 The next MPC meeting is scheduled for 29th and 30th October 2020.

7. COVID-19 and economic growth

- 7.1 Prior to COVID-19, 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. International Monetary Fund (IMF) and World Bank also expect some growth for the national economy. However, the estimates are conservative, namely real GDP growth rate of 0.6% in 2020 and 2.5% in 2021 for the IMF and a growth rate of 2.0% in 2020 and 3.5% in 2021 for the World Bank. These projections assume that Malawi will not experience a full national lockdown and that the disruptions to domestic activity will only be felt in 2020.

Table 3a: 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
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

Table 3a: Annual percentage growth rates (in percent) - Constant 2010 prices					
Sector	2017	2018	2019	2020*	2021*
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

Table 3b: 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 3c: IMF GDP growth projections for Malawi					
2017	2018	2019	2020*	2021*	2025*
4.0%	3.2%	4.5%	0.6%	2.5%	6.2%

* Projections

Source: IMF World Economic Outlook, October 2020

7.5

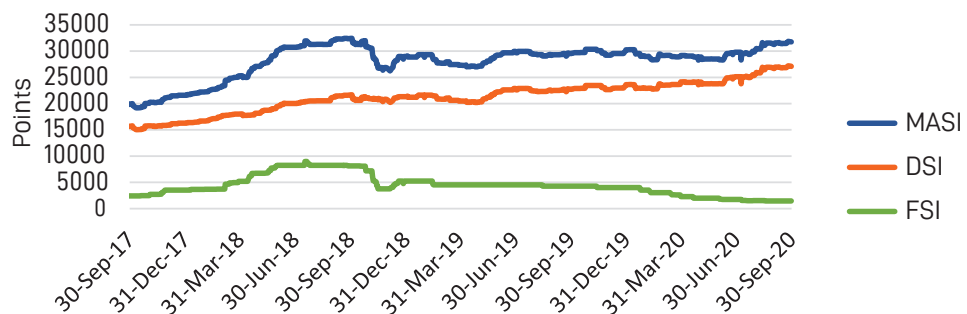
Situation update of COVID-19

Cumulative confirmed COVID-19 cases in Malawi stood at 5,803 as at 8th October 2020 from 1,152 as at 28th June 2020. The country registered a spike in cases in July 2020. In recent weeks, however, there has been a decrease in number of new infections. Consequently, schools and borders started reopening in phases on 7th September 2020. So far, 4,575 have recovered while 180 have died from the disease. Globally, total confirmed cases of COVID-19 amounted to 36.20m, with more than 25.26m recoveries and 1.06m deaths as at 8th October 2020 (Source: Johns Hopkins University and Medicine). While most countries across the world are easing restrictions due to a decrease in daily new infections, countries in the EURO Zone have started reinstating some measures as the region has been registering a daily rise in new infections recently.

8. Stock market performance

- 8.1 Performance of the Malawi Stock Exchange (MSE) continued to improve in Q3 of 2020 from a subdued performance in Q1 of 2020. The market registered a return on index of 6.58% (5.19% in USD terms) quarter-on-quarter, as the Malawi All Share Index (MASI) increased to 31,743.36 points as at end-September 2020 from 29,784.70 points as at end-June 2020. This is an increase from a return on index of 2.09% (1.96% in USD terms) in Q2 of 2020 and -3.56% (-3.56% in USD terms) in Q1 of 2020. In Q3 of 2019, the stock market registered a negative return on index of -1.37% (3.74% % in USD terms).
- 8.2 The market also registered a quarter-on-quarter increase in both total volume and value of shares traded in Q3 of 2020 compared to Q2 of 2020. The volume of shares traded increased by 207.29% to 551,047,767 in Q3 of 2020 compared to 179,323,974 in Q2 of 2020 and the value of shared traded increased by 163.20% to K12.39 billion in Q3 of 2020 from K6.76 billion in Q2 of 2020. On a year-on-year basis, the market registered an increase of 83.28% in share volume and an increase of 84.65% in share value, as it transacted a total of 209,366,267 shares at a total consideration of K6.71 billion in Q3 of 2019.
- 8.3 5 counters registered capital gains, 8 counters registered losses while 3 counters registered no share price movement during the quarter under review.
- 8.4 There was no trade on the debt market during Q3 of 2020 as was the case in Q2 of 2020.
- 8.5 FDH Bank Plc (FDHB) was listed on the Malawi Stock Exchange (MSE) on 3rd August 2020 at the IPO price of K10.00, following full subscription of 1,380,206,250 shares (representing 20% of the company's shareholding) which were offered to the public during the IPO. This brings the total number of equity-listed companies on MSE to 16. As at 30th September 2020, FDHB's share price was at K12.06.
- 8.6 On 28th September 2020, the Exchange also listed 16 Malawi Government Treasury Notes on the debt market bringing the total number of listed debt securities to 28.
- 8.7 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 September 2017 and 30th September 2020, and Table 4 shows performance of individual companies in Q3 of 2020.

Chart 8: Malawi Stock Exchange share price indices



(Data source: Malawi Stock Exchange)

Table 4: Share trading summary

	Sep-20	Jun-20	Sep-19	QOQ price change (%)		YOY price change (%)	
Market indices							
MASI	31,743.36	29,784.70	29,546.27	↑	6.58%	↑	7.44%
DSI	27,101.51	25,117.92	22,735.48	↑	7.90%	↑	19.20%
FSI	1,460.99	1,757.76	4,272.58	↓	-16.88%	↓	-65.81%
Gainers							
AIRTEL	30.00	20.00		↑	50.00%		
FDHB	12.06	10.00		↑	20.60%		
NBM	618.75	550.00	390.98	↑	12.50%	↑	58.26%
ICON	12.49	11.40	10.00	↑	9.56%	↑	24.90%
STANDARD	851.00	790.00	670.00	↑	7.72%	↑	27.01%
No movement							
SUNBIRD	120.00	120.00	118.00	→	0.00%	↑	1.69%
BHL	12.94	12.94	12.95	→	0.00%	↓	-0.08%
OMU	2,199.99	2,199.99	2,500.00	→	0.00%	↓	-12.00%
Losers							
NITL	94.98	94.99	75.00	↓	-0.01%	↑	26.64%
NBS	19.44	19.50	12.01	↓	-0.31%	↑	61.87%
NICO	48.00	48.42	48.50	↓	-0.87%	↓	-1.03%
MPICO	24.00	24.98	19.50	↓	-3.92%	↑	23.08%
PCL	1,343.99	1,399.76	1,400.00	↓	-3.98%	↓	-4.00%
ILLOVO	80.50	94.50	210.00	↓	-14.81%	↓	-61.67%
TNM	21.00	24.94	26.00	↓	-15.80%	↓	-19.23%
FMBCH	24.00	29.99	80.00	↓	-19.97%	↓	-70.00%

(Data source: Malawi Stock Exchange)

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 financial results for the half year ended 30th June 2020.
- 9.2 While all banks posted profits during the period, five banks reported an increase while three posted a decrease when compared to the profit figures reported in the corresponding period in 2019.
- 9.3 Tables 5 shows the 2020 half-year financial results for banks, listed companies and non-bank financial institutions, with a comparative analysis as at half-year 2019.

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

Company	H1 2020 PAT (K'm)		Movement	H1 2019 PAT (K'm)
Listed banks				
FDH Bank Plc	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
Standard Bank (Malawi) Plc	12,633	↑	56%	8,094
Unlisted banks				
CDH Investment Bank Ltd	927	↑	69%	549
Ecobank Ltd	4,004	↑	8%	3,692
MyBucks Banking Corporation Ltd	1,879	↑	130%	817
Listed non-bank institutions				
Airtel Malawi Plc	11,415	↑	466%	2,016
First Capital Holdings Plc (US\$'000)	14,290	↑	181%	5,080
ICON Properties Plc	2,112	↓	-16%	2,520
Illovo Sugar (Malawi) Plc	2,049	↓	-75%	8,123
MPICO Plc	2,507	↓	-30%	3,582
National Investment Trust Plc	364	↓	-46%	672
NICO Holdings Plc	7,642	↑	5%	7,294
Press Corporation Plc	12,693	↑	14%	11,168
Sunbird Tourism Plc	(1,336)	↓	-212%	1,197
Telekom Networks Malawi Plc	4,790	↓	-29%	6,712

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

10. Tobacco sales

- 10.1 The tobacco selling season closed on 28th August 2020 after 19 weeks. This year the country's main export commodity raked in USD174.52 million compared to USD237.05 million in 2019, representing a decrease in value of 26.38%. Tobacco sales volumes amounted to 113.85m kg in 2020, lower than 165.61m kg as at the close of the 2019 season. However, average prices were higher for 2020 (K1.53/kg) compared to 2019 (K1.43/kg).
- 10.2 Lower forex revenue realised from tobacco contributed to the depreciation of the Kwacha in Q3 of 2020 and has potential to increase imported inflation given that Malawi is a net importing country.
- 10.3 Table 6 below is a summary of cumulative tobacco sales figures as at the end of the 2020 season relative to the 2019 season.

Table 6: Cumulative tobacco sales – end of season			
	2020	2019	Change
Volume (kg)	113.85 million	165.61 million	(31.26%)
Average price (USD/kg)	1.53	1.43	6.99%
Value (USD)	174.52 million	237.05 million	(26.38%)

(Data source: Tobacco Control Commission (TCC))

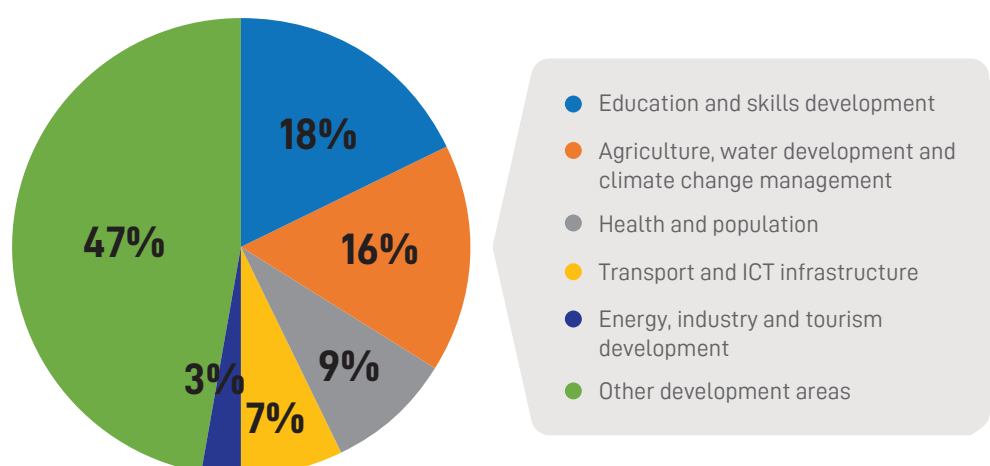
11. Political environment

- 11.1 The new Tonse Government administration, led by President Dr Lazarus Chakwera of the Malawi Congress Party (MCP), is settling well.
- 11.2 The new Government administration has committed itself to good governance and public administration, economic transformation and social development, among other things. It has so far initiated an anti-corruption drive which has seen the cancellation of most major contracts awarded by the previous government pending a review and appointment of new parastatal boards. Reforms aimed at ensuring efficiency and productivity in the public sector are also being implemented in various Government institutions.
- 11.3 The 2020/21 budget is focused on the delivery of the Alliance's promise to the citizens and key developmental stakeholders.

12. Fiscal policy

- 12.1 The national budget for the fiscal year between 1st July 2020 and 30th June 2021, was presented in September 2020. Formulated amid COVID-19, it is an inclusive budget aimed at supporting the recovery of the economy. Specifically, the budget focuses on the following three areas: -
- 12.1.1 Sustainable and inclusive economic growth: strong growth is projected for Malawi (4.5%), the region (3.4%) and global economy (5.4%) for 2021.
 - 12.1.2 Macroeconomic stability in key economic fundamentals, including inflation and exchange rate.
 - 12.1.3 Sound fiscal management. Government will continue to adhere to the principles of prudent fiscal management in line with the Public Finance Management Act (2003) and best practices of sovereign debt management.
- 12.2 The following is a summary of the budget:
- 12.2.1 Total expenditure is estimated at K2,189.9 billion of which development expenditure is K511.2 billion representing 23.3% of the total budget.
 - 12.2.2 Total revenues and grants are estimated at K1,435.1 billion of which K1,179.3 billion is domestic revenue and K255.7 billion are grants.
 - 12.2.3 Overall fiscal deficit is estimated at K754.8 billion (34.5% of total budget) of which K224.8 billion is net foreign borrowing and K530.1 billion is net domestic borrowing.
 - 12.2.4 Key sector allocations are summarized in the chart below:

Chart 9: Key sector allocations of 2020/2021 budget



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, yields and foreign exchange rates increased in the third quarter of 2020. However, some fundamental variables, including inflation rate, remained favourable during the period, indicating some level of resilience in the economy.
- 13.2 With the change in government, major changes in policies and general management of the country are taking place.
- 13.3 Overall, we expect market interest rates, yields and foreign exchange rates to remain elevated in the short to medium term as risks remain high. This, coupled with an expected seasonal shortage of food in the fourth quarter, could exert an upward pressure on the inflation rate in the ensuing months. The Policy rate could remain within current levels in the short term.

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