

Economic review

Third quarter 2021



INVESTMENT BANK

www.cdh-malawi.com

Important disclaimer:

The views expressed in this report are those of the authors and are based on information believed but not warranted to be correct. Any views or information, whilst given in good faith, are not necessarily the views of CDH Investment Bank Limited (CDHIB) and are given with an express disclaimer of responsibility and no right of action shall arise against any of the authors, CDHIB, its directors or its employees either directly or indirectly out of any views, advice or information. The report presented is for information purposes only and does not constitute and should not be construed as investment advice or recommendation. The statistics have been obtained from third party data sources. We believe these sources to be reliable but cannot guarantee their accuracy or completeness. Recipients of this report shall be solely responsible for making their own independent appraisal and investigation into all matters herein.

<http://www.cdh-malawi.com>

Contents

1. Executive summary	5
2. Interbank market	5
3. Government securities	6
4. Foreign exchange market	7
5. Inflation	9
6. Monetary policy	9
7. COVID-19 and economic growth	10
8. Stock market performance	12
9. Political environment	13
10. Conclusions	14



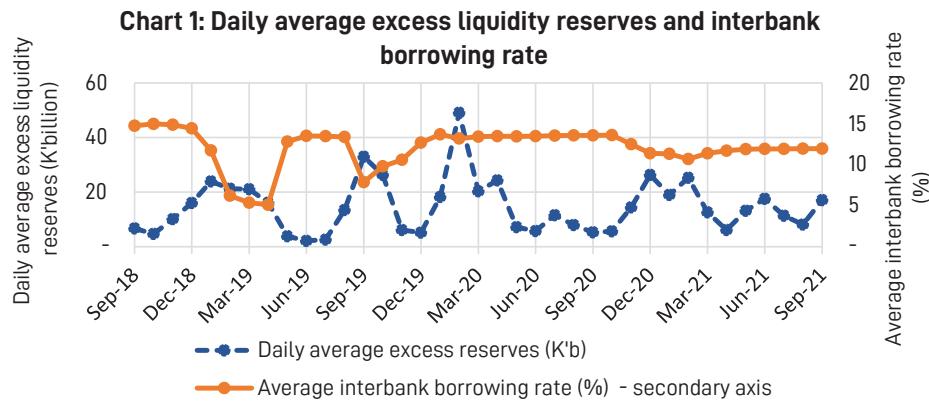
**Economic
review
Third quarter
2021**

1. Executive summary

- 1.1 The following economic environment prevailed during the third quarter of 2021:
 - 1.1.1 Relatively low liquidity levels on the interbank market.
 - 1.1.2 Continued shortage of forex and depreciation of the Kwacha.
 - 1.1.3 Moderate easing of inflationary pressures due to a post-harvest decline in food prices.
 - 1.1.4 Relatively stable market interest rates following a stable Policy rate at 12.0%.
 - 1.1.5 An improvement in stock market return, although traded volume and value decreased.
 - 1.1.6 Continued improvement in economic activity, with the country's real GDP growth rate for 2021 projected at 3.8% compared to 0.9% realised in 2020.
- 1.2 COVID-19 remains a key economic risk despite the easing of restrictions and implementation of the various vaccination programmes.

2. Interbank market

- 2.1 The level of liquidity on the interbank market, indicated by banks' excess reserves held with the Reserve Bank of Malawi (RBM), remained relatively low during the third quarter (Q3) of 2021, decreasing marginally to an average of K12.22 billion per day in Q3 of 2021 from the average of K12.28 billion per day in the second quarter (Q2) of 2021 (K8.27 billion per day in Q3 2020).
- 2.2 Due to low liquidity levels, the interbank borrowing rate increased slightly to an average of 11.97% in Q3 2021 from the average of 11.87% in Q2 2021 (13.59% in Q3 2020). The volume traded among banks on the interbank market decreased in nominal terms to a total of K819.16 billion in Q3 2021 from K884.88 billion in Q2 2021 and K709.37 billion in Q3 2020.
- 2.3 Further, funds accessed through the Lombard Facility of the RBM increased to K3.85 trillion in Q3 2021 from K2.43 trillion in Q2 2021 and K1.83 trillion in Q3 2020. The Lombard rate was stable at 12.20% as the Monetary Policy Committee (MPC) kept the rate unchanged during the period.
- 2.4 Chart 1 shows that the Interbank borrowing rate has been relatively stable since March 2021 while liquidity levels have been relatively low during the period.



(Data source: Reserve Bank of Malawi)

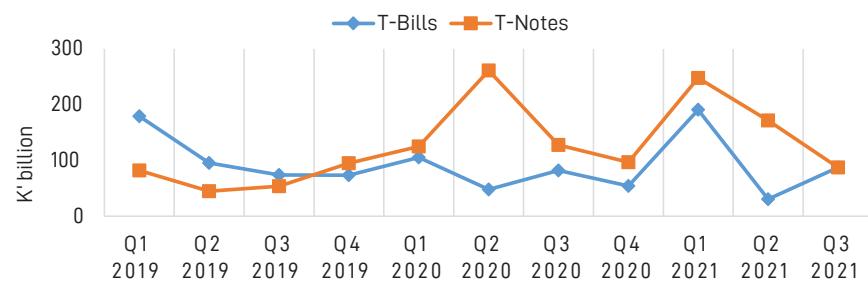
3. Government securities

3.1 The Government raised K87.59 billion in auctions of Treasury Bills (TB) during Q3 2021, representing an increase of 186.41% from K30.58 billion raised in Q2 2021, and an increase of 6.85% when compared to K81.98 billion raised in Q2 2020. Rejection rate was at 5.21%.

3.2 K87.44 billion was raised in auctions of Treasury Notes (TNs) in Q3 2021, compared to K171.67 billion in Q2 2021, representing a nominal decrease of 49.07% (K127.72 billion in Q3 2020).

3.3 Overall, Government domestic borrowing (TBs and TNs combined) decreased in Q3 2021 (K175.03 billion) relative to Q2 2021 (K202.25 billion) and Q3 2020 (K209.70 billion) as shown in Chart 2:

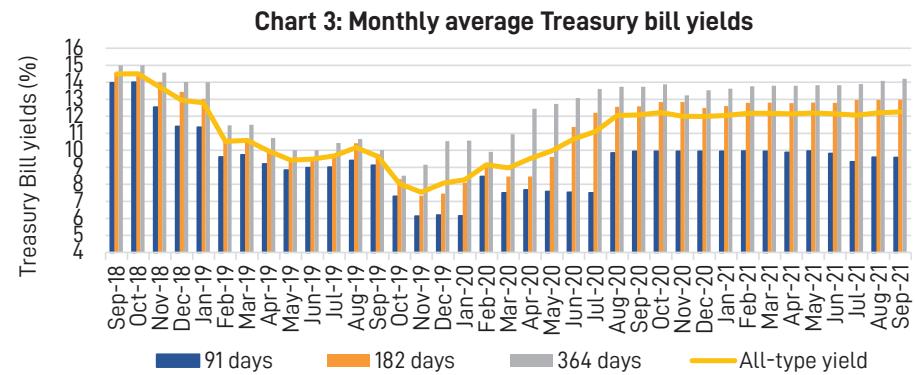
Chart 2: Comparative analysis of amounts raised in government securities



(Data source: Reserve Bank of Malawi)

3.4 Yields on TBs were relatively stable during Q3 2021, with the all-type average TB yield marginally increasing to 12.18% in Q3 2021 from 12.15% in Q2 2021 (11.75% in Q3 2020). The 182-day yield averaged 12.97% in Q3 2021, up from 12.79% in Q2 2021 (12.45% in Q3 2020); the 364-day yield increased to an average of 14.06% in Q3 2021 from 13.83% in Q2 2021 (13.69% in Q3 2020); while the 91-day yield decreased to 9.51% in Q3 2021 from 9.82% in Q2 2021 (9.10% in Q3 2020).

3.5 Chart 3 and Table 1 indicate that while yields have been relatively stable in 2021, the changes represent significant rises from the levels registered in 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
Q3 2021 yield	16.63%	18.99%	20.12%	21.36%	23.00%
Q2 2021 yield	16.55%	18.86%	20.01%	20.53%	22.28%
Q3 2020 yield	16.46%	18.02%	19.82%	20.75%	22.14%
2020 average	15.00%	16.29%	18.49%	19.85%	20.95%
2019 average	13.23%	13.28%	15.12%	18.43%	17.76%
%opt. increase: Q3 2021 vs Q2 2021	0.08	0.13	0.11	0.83	0.72
%opt. increase: Q3 2021 vs Q3 2020	0.17	0.97	0.30	0.61	0.86

(Data source: Reserve Bank of Malawi)

3.6 Looking ahead, we expect yields on Government securities to remain elevated within current levels for the rest of the year so long as the Policy rate remains constant. However, upward risks are high emanating from rising inflationary pressures with the hike in fuel prices effected on 10th October 2021 by the Malawi Energy Regulatory Authority (MERA).

4. Foreign exchange market

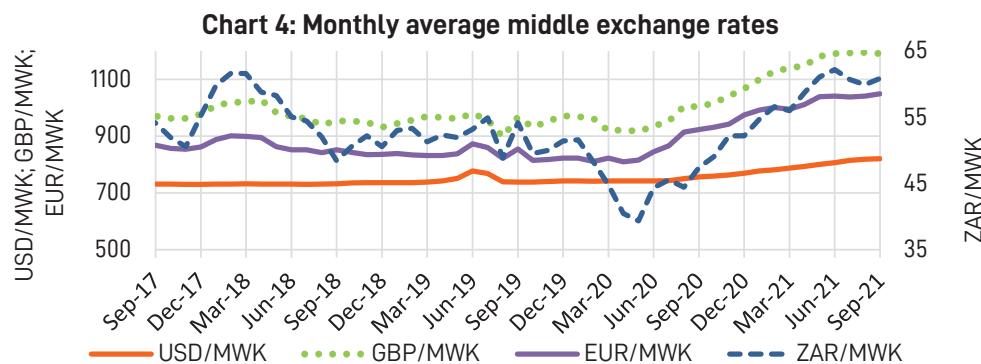
4.1 The Kwacha continued to depreciate against most of its major trading currencies during the quarter under review, on account of continued shortage of forex.

4.2 Table 2 and Chart 4 shows that the Kwacha has significantly depreciated against USD, GBP, EUR and ZAR since the second half of the year 2020.

Currency	Q3 2021	Q2 2021	Q1 2021	Q4 2020	Q3 2020	Q3 2021 - Q2 2021 Change	Q3 2021 - Q3 2020 Change
USD/MWK	818.15	800.42	782.05	764.23	749.97	↓ 2.22%	↓ 9.09%
GBP/MWK	1192.71	1173.53	1122.55	1041.66	987.07	↓ 1.63%	↓ 20.83%
EUR/MWK	1042.75	1030.45	995.57	949.50	901.21	↓ 1.19%	↓ 15.71%
ZAR/MWK	60.49	60.67	55.76	51.14	45.81	↑ -0.30%	↓ 32.04%

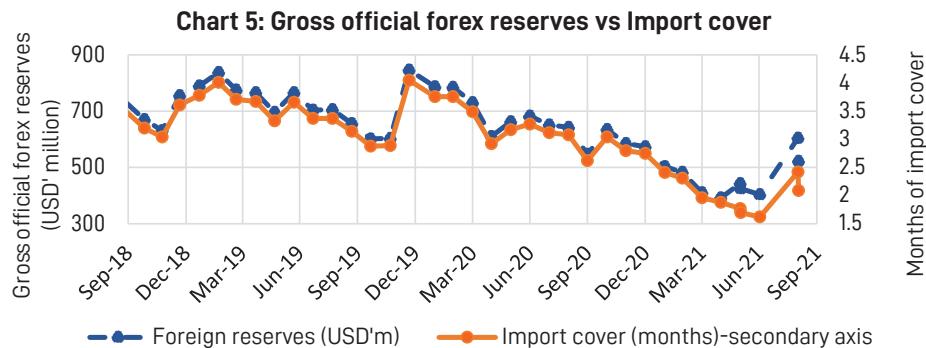
(Data source: Reserve Bank of Malawi)

(Downward and upward arrows represent depreciation and appreciation of the Kwacha, respectively)



(Data source: Reserve Bank of Malawi)

4.3 Gross official forex reserves stood at USD521.87 million (2.09 months of import cover) on 30th September 2021 compared to USD424.99 million (1.70 months of import cover) on 30th June 2021. The reserves have been below the recommended 3 months of import cover since November 2020.



(Data source: Reserve Bank of Malawi)

4.4 The tobacco market was officially closed on 9th September 2021 after 21 weeks. The country realised USD197.05m during the 2021 tobacco selling season, compared to USD174.97m realised in the 2020 season, representing an increase of 12.62%.

4.5 On 27th August 2021, RBM announced the re-introduction of mandatory sale of export proceeds by exporters to Authorised Dealer Banks (ADB). Exporters are now

required to sell at least 30% of their export proceeds to ADBs within 2 days of receipt of funds, and retain at most 70% in FCDAs. The directive was meant to help improve the forex situation.

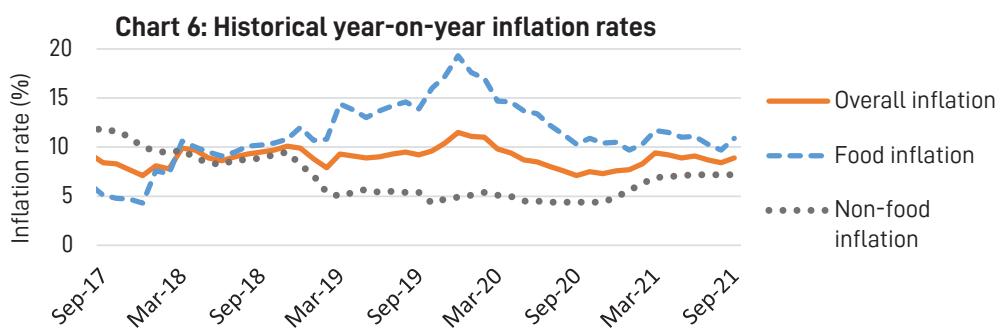
4.6 Looking forward, exchange rate pressures are expected to remain elevated in the quarter ahead as far as the shortage of forex situation remains.

5. Inflation

5.1 The headline inflation rate stood at 8.9% in September 2021 and averaged 8.7% in Q3 2021 compared to the average of 9.1% in Q2 2021 and 7.6% in Q3 2020. The decrease in Q3 2021 relative to Q2 2021 was largely attributed to a post-harvest decline in food prices.

5.2 However, a rise in inflation is expected in the quarter ahead following the recent hike in fuel prices. On 10th October 2021, the Malawi Energy Regulatory Authority (MERA) increased the price of petrol by 27.89% to K1,150.00 per litre from K899.20, diesel by 24.72% to K1,120.00 per litre from K898.00 and paraffin by 15.79% to K833.20 per litre from K719.60. The upward revision in fuel prices was necessitated by rising international oil prices as well as the depreciation of the Kwacha.

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



(Data source: National Statistical Office)

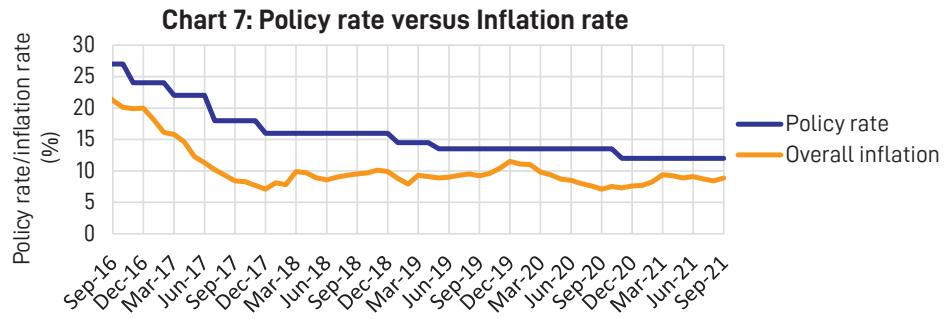
5.4 During the third MPC meeting in July 2021, the RBM projected an annual average headline inflation rate of 8.8% for 2021 and 8.2% for 2022 (2020 actual average: 8.6%).

5.5 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 maintained 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%) during its third meeting of 2021 held on 29th and 30th July. The decision considered the need to contain inflationary pressures

amid continued depreciation of the Kwacha and to support economic recovery from the impact of COVID-19.



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

- 6.2 Following MPC's July decision to maintain the Policy rate, market interest rates were relatively stable in Q3 2021 with the Reference lending rate for commercial banks stable at 12.2% throughout Q2 and Q3 of 2021, compared to the average of 13.47% in Q3 2020.
- 6.3 RBM could hold the Policy rate at 12.0% for the rest of 2021 in the face of existing pressures on the exchange rate, inflation rate and Government domestic borrowing, as it continues to support economic recovery from negative effects of COVID-19 and to stimulate further growth.

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 programs currently underway in many countries has improved global economic activity in 2021 so far from a slump in 2020.
- 7.2 According to the World Economic Outlook Report for July 2021 by the IMF, global economic growth is projected to recover to 6.0% in 2021 and 4.9% in 2022, from -3.2% in 2020. The Sub-Saharan African Region is projected to grow by 3.4% in 2021 and 4.1% in 2022 from -1.8% in 2020.
- 7.3 In the domestic economy, the Government projects that 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. The EIU's forecast is at 2.7% in 2021 and 4.0% in 2022.
- 7.4 Domestic economic growth during the period will be driven by agricultural production, increased regional trade and domestic economic activity, as well as 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

Source: Malawi Government Annual Economic Report 2021

*Projections

Table 3b: Real GDP growth projections

Institution	Region	2020	2021*	2022*
Government	Malawi	0.90%	3.80%	5.40%
IMF	World	-3.20%	6.00%	4.90%
	Malawi	0.60%	2.20%	6.50%
	Sub-Saharan Africa	-1.80%	3.40%	4.10%
EIU	Malawi	0.80%	2.70%	4.00%

* Projections

Malawi Government source: Annual Economic Report 2021

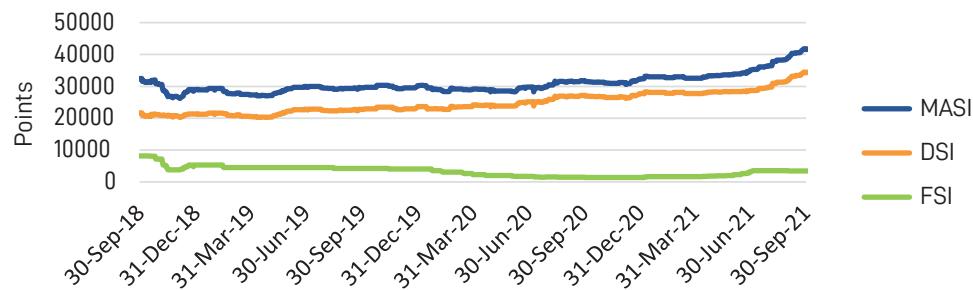
IMF source: World Economic Outlook Update- July 2021

EIU source: Country Report Malawi – Third quarter 2021

8. Stock market performance

- 8.1 The Malawi Stock Exchange (MSE) registered a better return in Q3 2021 relative to Q2 2021. The Malawi All Share Index (MASI) registered a return of 18.23% (16.79% in USD terms) in Q3 2021, compared to 7.93% (5.14% in USD terms) in Q2 2021 and 6.58% (5.19% in USD terms) in Q3 2020. The Domestic Share Index (DSI) registered a return of 19.23% in Q3 2021 compared to 3.71% in Q2 2021 and 7.90% in Q3 2020. The Foreign Share Index (FSI) registered a return of 6.81% in Q3 2021 compared to 100.36% in Q2 2021 and -16.88% in Q3 2020.
- 8.2 However, the market registered a decrease of 71.84% in volume of shares traded to 189,419,282 in Q3 2021 from 672,649,580 in Q2 2021 (551,047,767 in Q2 2020). The value of shares traded also decreased by 51.14% (66.03% in USD terms) to K8.30 billion (US\$7.23 million) in Q3 2021 from K16.99 billion (US\$21.27 million) in Q2 2021 (K12.39 billion in Q3 2020).
- 8.3 9 counters registered capital gains (7 in Q2 2021 and 5 in Q3 2021), 5 counters registered losses (4 in Q2 2021 and 8 in Q3 2020) while 2 counters registered no share price movement.
- 8.4 There were no trades on the listed debt securities during the quarter. In the previous quarter, the debt market registered 2 secondary trades.
- 8.5 Chart 8 shows a graphical analysis of the MASI, DSI and FSI over the past three years and Table 4 shows performance of individual companies in Q3 2021.

Chart 8: Malawi Stock Exchange share price indices



(Data source: Malawi Stock Exchange)

Table 4: Share trading summary							
	30-Sep-21	30-Jun-21	31-Dec-20	30- Sep-20	Q3 2021 - Q2 2021 price change (%)	Year-to-date price change (%)	Year-on-year price change (%)
Market indices							
MASI	41,550.15	35,144.56	32,392.84	31,743.36	↑ 18.23%	↑ 28.27%	↑ 30.89%
DSI	34,266.54	28,739.26	27,755.46	27,101.51	↑ 19.23%	↑ 23.46%	↑ 26.44%
FSI	3,454.70	3,234.45	1,363.88	1,460.99	↑ 6.81%	↑ 153.30%	↑ 136.46%
Gainers							
ILLOVO	265.00	104.72	80.48	80.50	↑ 153.06%	↑ 229.27%	↑ 229.19%
TNM	23.22	16.00	20.07	21.00	↑ 45.13%	↑ 15.70%	↑ 10.57%
MPICO	21.00	16.00	21.00	24.00	↑ 31.25%	↑ 0.00%	↓ -12.50%
PCL	1494.98	1199.94	1,309.47	1,343.99	↑ 24.59%	↑ 14.17%	↑ 11.23%
AIRTEL	39.99	32.53	27.98	30.00	↑ 22.93%	↑ 42.92%	↑ 33.30%
FM-BCH	64.49	59.82	22.04	24.00	↑ 7.81%	↑ 192.60%	↑ 168.71%
STANDARD	1250.00	1200.15	1,046.39	851.00	↑ 4.15%	↑ 19.46%	↑ 46.89%
NBM	676.00	650.08	650.00	618.75	↑ 3.99%	↑ 4.00%	↑ 9.25%
SUN-BIRD	90.01	90.00	105.00	120.00	↑ 0.01%	↓ -14.28%	↓ -24.99%
No movement							
BHL	11.00	11.00	12.94	12.94	➡ 0.00%	↓ -14.99%	↓ -14.99%
NICO	55.00	55.00	52.00	48.00	➡ 0.00%	↑ 5.77%	↑ 14.58%
Losers							
NITL	80.71	94.94	94.95	94.98	↓ -14.99%	↓ -15.00%	↓ -15.02%
NBS	25.07	26.40	21.60	19.44	↓ -5.04%	↑ 16.06%	↑ 28.96%
OMU	2100.00	2190.00	2,199.98	2,199.99	↓ -4.11%	↓ -4.54%	↓ -4.55%
FDHB	15.87	16.00	14.45	12.06	↓ -0.81%	↑ 9.83%	↑ 31.59%
ICON	12.11	12.13	12.27	12.49	↓ -0.16%	↓ -1.30%	↓ -3.04%

(Data source: Malawi Stock Exchange)

9. Political environment

- 9.1 The political environment is stable with no major concerns.
- 9.2 Malawi assumed chairmanship of the Southern African Development Community (SADC) in August 2021. The development is seen as an opportunity for Malawi to enhance its visibility on the international arena, as well as improve its international trade participation within the SADC region.

10. Conclusions

- 10.1 In the third 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, even during the agricultural marketing season.
- 10.2 In the quarter ahead, major risks to economic stability include rising inflationary pressures as the recent hike in fuel prices transmits through the economy, as well as continued depreciation of the Kwacha emanating from the persistent shortage of forex.
- 10.3 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.

Investment banking services

We provide specialised, well researched financial advice to organizations confronted with complex financial challenges. Our market leadership in investment banking is defined by a combination of determination and commitment to create value for our clients.



Commercial
paper programme

Lead arranger

2020



Bond issuance
programme

Co-lead arranger

2020



Trade finance
intermediary
Malawi

2019



Establishment of
a national development
finance institution
In Malawi

Lead arranger

2019



Commercial
paper programme

Lead arranger

2019



Secured
loan programme

Lead arranger

2019



INVESTMENT BANK



Banking innovations that help your business **grow**

info@cdh-malawi.com | www.cdh-malawi.com





CDH House, 5 Independence Drive
P.O. Box 1444, Blantyre, Malawi

Tel: +265 (0) 1 821 300

Fax: +265 (0) 1 822 826

Email: info@cdh-malawi.com

Website: www.cdh-malawi.com