

Annual economic review

2020



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	6
3. Government securities	7
4. Foreign exchange market	8
5. Inflation	11
6. Monetary policy	12
7. COVID-19 and economic growth	13
8. Stock market performance	15
9. Financial results for financial institutions and listed companies	17
10. Tobacco sales	18
11. Political environment	19
12. Fiscal policy	19
13. Conclusions	20

Annual Economic Review 2020

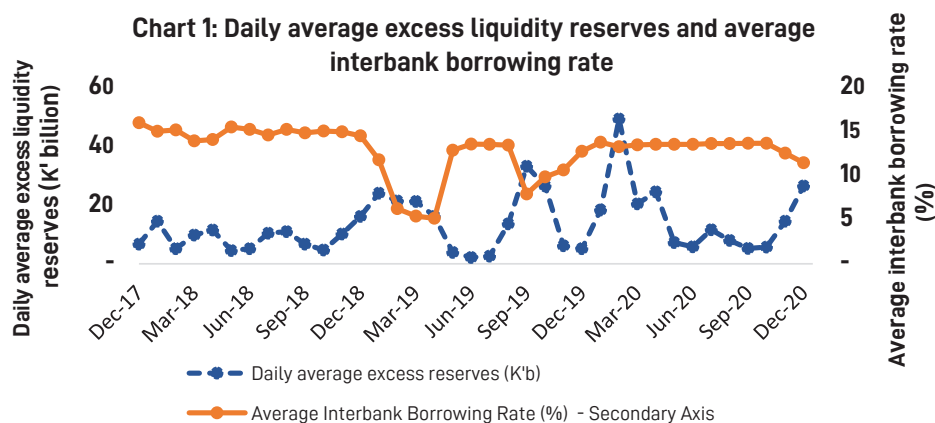


1. Executive summary

- 1.1 The Coronavirus disease (COVID-19) was a major risk to the global and Malawi economy in 2020. Its effects combined with political uncertainties that prevailed in the first half of the year dampened the country's economic activity. Key sectors of the economy including accommodation and food services, education, transport and wholesale and retail trade were heavily affected.
- 1.2 During the year 2020, the following situations prevailed:
 - 1.2.1 Slow economic activity due to global and domestic COVID-19 restrictions as well as political uncertainties in the first half of the year.
 - 1.2.2 Liquidity squeeze and increased Government domestic borrowing which pushed up market interest rates and yields on Government securities.
 - 1.2.3 Shortage of forex in the second half of the year 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.
 - 1.2.5 Expansionary monetary policy with a reduction in the Liquidity Reserve Requirement ratio from 5.0% to 3.75% in April 2020; a reduction in the Lombard rate from 13.9% to 13.7% in April 2020 and to 12.2% in November 2020; and a Policy rate cut from 13.5% to 12.0% in November 2020.
 - 1.2.6 Subdued stock market performance generally characterized by lower stock trading activity.
 - 1.2.7 A change in Government administration following a presidential election re-run in June 2020.
 - 1.2.8 Some policy shifts following change in the Government leadership.
- 1.3 As a result of the negative effects brought about by COVID-19, Malawi's real GDP growth rate is estimated by the Reserve Bank of Malawi to have slowed down to 1.2% in 2020 compared to the real growth rate of 5.0% in 2019. The World Bank and the International Monetary Fund, on the other hand, estimate 2020 annual growth rates of 1.3%% and 0.6%, respectively.
- 1.4 However, economic recovery is expected from 2021 as the global economy slowly recovers from the effects of COVID-19 amid hopes provided by the development of various vaccines. COVID-19 vaccination campaigns are currently underway in many parts across the world.

2. Interbank market

- 2.1 The average level of liquidity on the interbank market, measured by banks excess reserves held with the Reserve Bank, was higher in 2020 relative to 2019. Excess liquidity reserves averaged K16.35 billion per day during the year compared to K14.61 billion per day in 2019, representing an increase of 11.91%. Liquidity levels were highest in the first quarter of the year when excess liquidity reserves averaged K29.22 billion per day and were lowest in the third quarter when excess liquidity reserves averaged K8.27 billion per day.
- 2.2 Despite high liquidity levels and monetary policy easing, the overnight interbank rate increased, averaging 13.26% during the year compared to 10.23% in 2019. This was due to increased risks associated with COVID-19 and increased Government borrowing where yields have generally been high. Further, the volume traded among banks on the interbank market increased in nominal terms to a total of K2.27 trillion in 2020 from K1.92 trillion in 2019.
- 2.3 Access on the Lombard Facility of the Reserve Bank increased to K6.03 trillion in 2020 from K2.35 trillion in 2019. The Lombard rate decreased to an annual average of 13.55% in 2020 from 14.20% in 2019, after the MPC reduced the Lombard rate twice during the year, from 13.9% to 13.7% on 30th April 2020 and from 13.7% to 12.2% on 6th November 2020.
- 2.4 The Reserve Bank issued no Open Market Operations (OMOs) repos during the year, compared to a total of K88.64 billion OMO repos which were issued at an average rate of 10.10% in 2019. However, there were OMO reverse repos amounting to K118.33 billion in the fourth quarter of the year aimed at injecting liquidity on the interbank market.
- 2.5 Chart 1 provides a summary of excess liquidity reserves and overnight interbank rate movements over the last three years. The chart shows that while liquidity levels were higher in the first and fourth quarters of the year 2020 and were generally low in the second and third quarters of the year, the interbank borrowing rate was broadly stable between January 2020 and October 2020 and only significantly decreased in November and December 2020 following a Policy rate cut in November 2020.

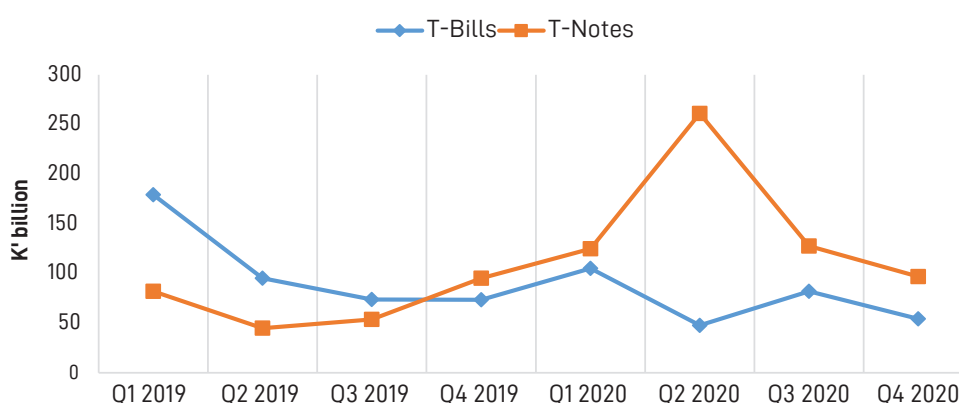


(Data source: Reserve Bank of Malawi)

3. Government securities

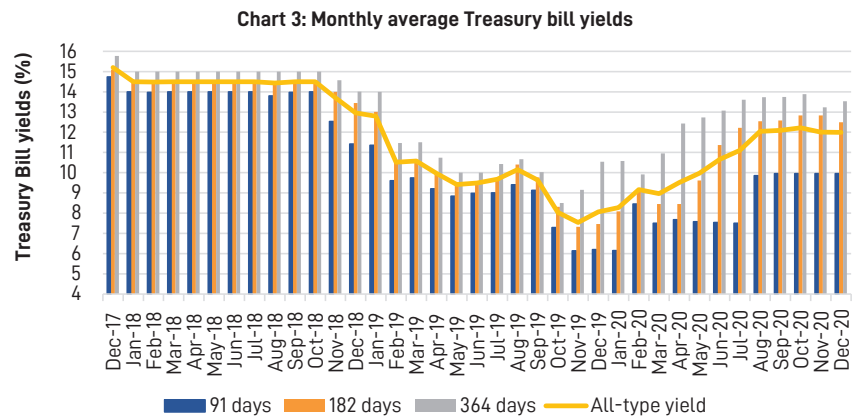
- 3.1 Government raised a total of K289.03 billion in 2020 through auctions for Treasury Bills (TB), a decrease of 31.47% when compared to the total of K421.73 billion raised in 2019. Total applications for TBs for 2020 amounted to K489.79 billion, representing a rejection rate of 40.99%, which is lower than a rejection rate of 58.20% recorded in 2019.
- 3.2 A total of K610.47 billion was also raised in 2020 through auctions for Treasury notes (TNs) compared to K275.91 billion that was raised in 2019, representing a nominal increase of 121.26%.
- 3.3 Overall, Government domestic borrowing (TBs and TNs combined) increased in 2020 (K899.50 billion) relative to the previous year (K697.64 billion), while it 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 risks associated with the COVID-19 pandemic, yields on Government securities increased during the year. The 182-day yield increased from an average of 9.64% in 2019 to an average of 10.88% in 2020; the 364-day yield increased from an average of 10.59% in 2019 to an average of 12.62% in 2020; while the 91-day TB yield slightly decreased from an average of 8.74% in 2019 to an average of 8.50% in 2020. Consequently, the all-type (average) TB yield increased from 9.66% in 2019 to 10.67% in 2020.
- 3.5 Chart 3 and Table 1 show that yields for TBs and TNs 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
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%
2020 average	15.00%	16.29%	18.49%	19.85%	20.95%
Q4 2019 yield	11.20%	10.70%	14.00%	13.73%	17.47%
Q3 2019 yield	12.20%	13.94%	14.00%	17.00%	18.04%
Q2 2019 yield	12.20%	13.72%	16.19%	19.00%	
Q1 2019 yield	17.32%	14.77%	16.27%	24.00%	
2019 average	13.23%	13.28%	15.12%	18.43%	17.76%
<i>Annual percentage point increase</i>	1.77	3.01	3.37	1.42	3.19

(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 2021 as far as Government borrowing and COVID-19 associated risks remain high. However, a possible further Policy rate cut during the year aimed at supporting economic recovery from effects of COVID-19 could lead to a slight decline. One of the recent RBM's policy statements was targeting a Policy rate of 11% and a Reference rate of 10% by 2021.

4. Foreign exchange market

- 4.1 During the year under review, the Kwacha depreciated against most of its major trading counterparts. The USD/MWK middle rate averaged 749.02 in 2020, up by 0.47% from the average of 745.54 in 2019. The GBP/MWK average middle exchange rate increased by 1.87% to 972.48 from 954.66; and the EUR/MWK increased by 3.96% to 869.45 from 836.33, representing depreciations. However, the ZAR/MWK average

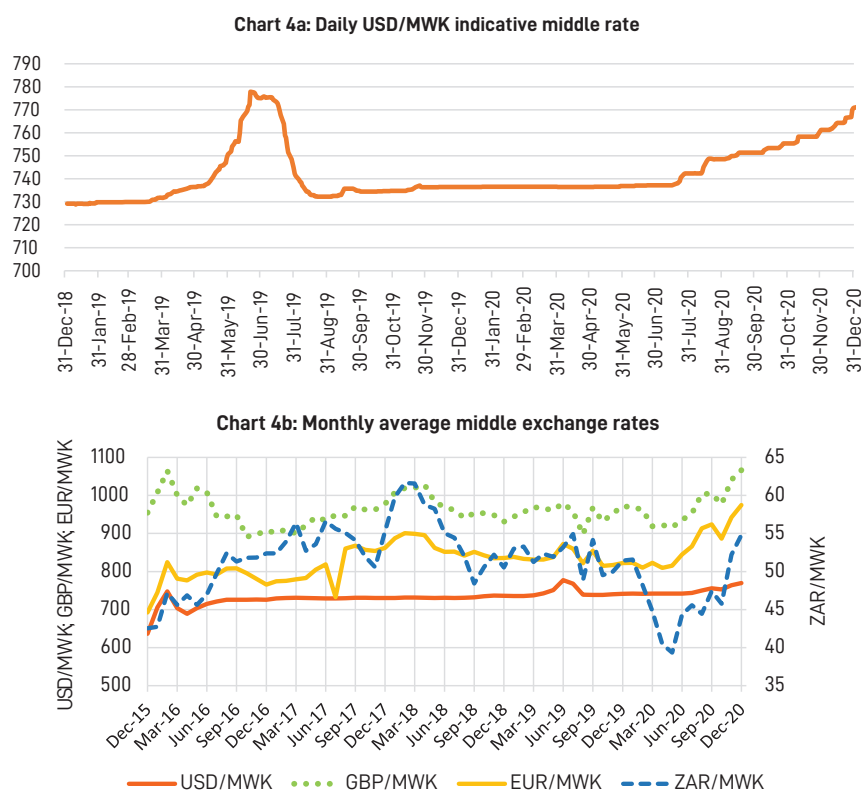
middle exchange decreased by 10.41% to 46.58 in 2020 from 51.99 in 2019, representing appreciation.

- 4.2 Comparing end-year exchange rates, the Kwacha depreciated by 5.14% against USD, 10.42% against GBP, 19.66% against EUR and by 7.62% against ZAR between 31st December 2019 and 31st December 2020, as shown in Table 2a below:

Table 2a: Exchange rates						
Currency	Annual average			End-year		
	2020	2019	Change	31-Dec-20	31-Dec-19	Change
USD/MWK	749.02	745.54	0.47%	776.82	738.87	5.14%
GBP/MWK	972.48	954.66	1.87%	1070.14	969.19	10.42%
EUR/MWK	869.45	836.33	3.96%	987.95	825.65	19.66%
ZAR/MWK	46.58	51.99	-10.41%	56.43	52.43	7.62%

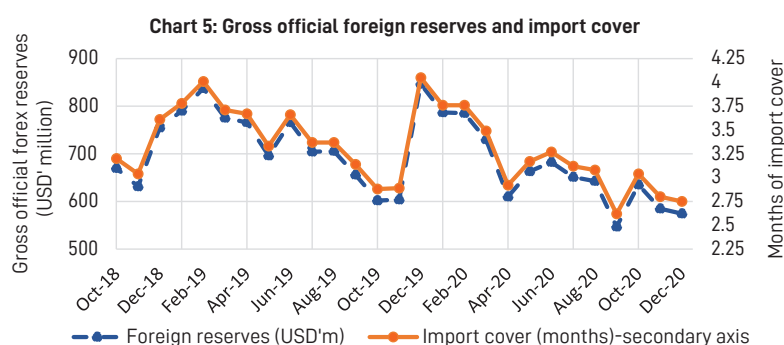
(Data source: Reserve Bank of Malawi)

- 4.3 Chart 4a and 4b provide an overview of how the Kwacha has performed against the four major trading currencies in the last five years. The charts indicate that the Kwacha significantly depreciated against USD, GBP, EUR and ZAR especially in the second half of the year 2020 under review.



(Data source: Reserve Bank of Malawi)

- 4.4 The depreciation of the Kwacha was mainly due to a shortage of forex in the domestic market emanating, among other factors, from weak export proceeds, reduced foreign direct investment (FDI), reduced inflows from development partners and reduced inward remittances, which were all negatively affected by the global COVID-19 pandemic. The import bill also expanded due to increased importation of medical equipment, pharmaceutical products and personal protective equipment (PPEs) associated COVID-19, in addition to already large import bills for agricultural inputs and fuel which are commodities of strategic nature.
- 4.5 The shortage of forex saw a decline in gross official forex reserves from USD846.55 million (4.05 month of import cover) as at 31st December 2019 to USD574.26 million (2.75 months of import cover) as at 31st December 2020 which is below the recommended 3 months of import cover.



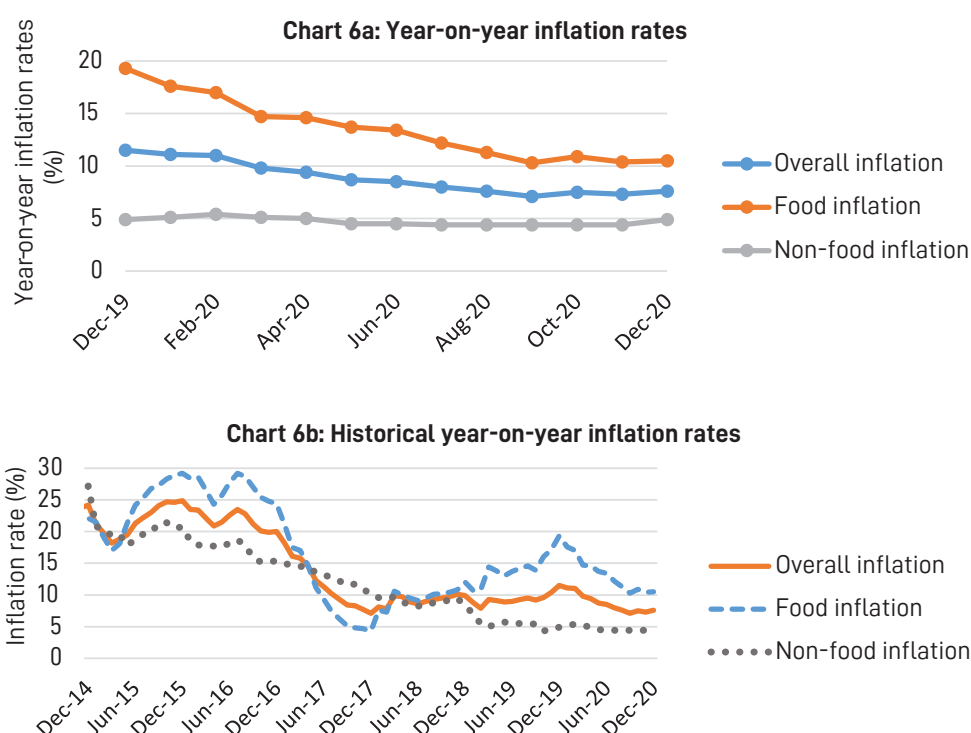
(Data source: Reserve Bank of Malawi)

- 4.6 It is generally expected that the Kwacha will continue to depreciate against the USD and other currencies in the first quarter of 2021 until the onset of the agricultural marketing season. The health sector import bill is expected to expand further with the spike in COVID-19 cases in the country which has made the importation of medical equipment, PPEs and pharmaceutical products very urgent. Further, we expect more flexibility in the exchange rate since, with low forex reserves, the Reserve Bank may have a thin buffer to defend the Kwacha against volatility on a sustained basis.
- 4.7 The Kwacha may begin to appreciate in the second quarter of the year as the forex reserves position improves with the onset of the agricultural export selling season. However, demand and prices for exports, FDIs, remittances and inflows from development partners could remain weak in 2021 with the persistent global COVID-19. We, therefore, expect not much appreciation even during and after the agricultural selling season. Additionally, the health sector import bill could remain high with expected importation of COVID-19 vaccines.
- 4.8 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	2025
USD/MWK annual average	745.5%	755.7%	764.0%	770.0%	779.0%	786.4%

5. Inflation

- 5.1 The rate of inflation decreased in 2020. Year-on-year headline inflation rate was estimated at 7.6% as at the end of the year from 11.5% as at the end 2019. The rate averaged 8.6% in 2020, down from the average of 9.4% in 2019. The decrease in headline inflation rate was on account of decreases in both food and non-food inflation rates following a normal harvest during the year and decreasing international prices for oil. Food inflation rate averaged 13.1% in 2020 compared to 14.3% in 2019, while non-food inflation rate averaged 4.7% in 2020 from 5.4% in 2019.
- 5.2 Chart 6a depicts the trend of inflation rate in the past year and Chart 6b depicts a longer historical trend covering the period between December 2014 and December 2020.

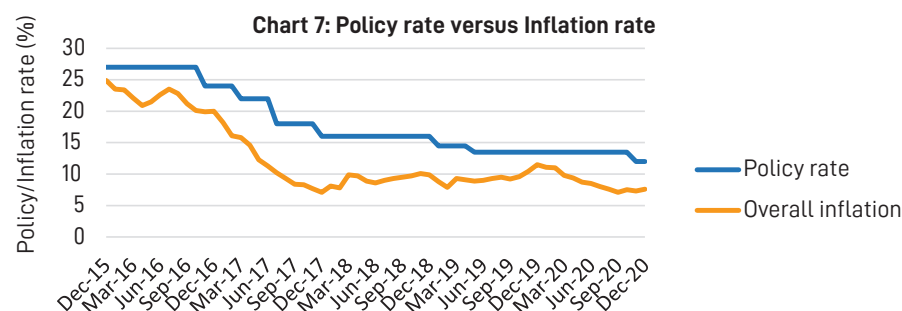


(Data source: National Statistical Office)

- 5.3 We expect inflation rate to remain under control in 2021 supported by an expected normal agricultural harvest which will boost food availability. The RBM forecasts a further decline to an annual average of 7.8% in 2021 while the World Banks forecasts an annual average of 8.0%. Major risks to this outlook, however, include uncertainties associated with the COVID-19 pandemic, upward pressures on the exchange rate, increasing global oil prices and increasing public sector financing requirements.
- 5.4 The RBM has a medium-term inflation rate objective of 5% with a symmetric band of 2.0 percentage points.

6. Monetary policy

- 6.1 Monetary Policy in 2020 mainly focused on containing inflation and mitigating against the negative effects of COVID-19. The Monetary Policy Committee (MPC) met four times during the year. The first meeting was held on 29th and 30th January during which the MPC maintained the Policy rate at 13.5%, the Lombard rate at 0.4 percentage points above the Policy rate (13.9%), the Liquidity Reserve Requirement (LRR) ratio on local currency deposits at 5%, and the LRR on foreign currency deposits at 3.75%. This policy stance was deemed adequately tight to deal with emerging inflationary risks while also aiding growth momentum. Further, RBM adopted a symmetric band of 2.0 percentage points around the inflation rate point target, in line with international best practice. For 2020, the inflation target was pegged at 8.8% \pm 2%.
- 6.2 The second MPC meeting was held on 1st April. 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 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 potential liquidity challenges that could ensue in the banking system with the COVID-19 pandemic.
- 6.3 The MPC held its third meeting of 2020 on 30th and 31st July during which the Policy rate was maintained at 13.5%, the Lombard rate at 13.7% and the LRR on both local currency and foreign currency deposits at 3.75%. The policy stance was considered appropriate to contain impending inflationary pressures whilst at the same time providing space for supporting recovery of the economy, in the wake of the COVID-19 pandemic.
- 6.4 The fourth and last meeting of 2020 was held on 5th and 6th November. During the meeting, the MPC reduced the Policy rate to 12.0% from 13.5%, after being on that level since May 2019. The MPC, however maintained the Lombard rate at 20 basis points above the Policy rate, effectively reducing it to 12.2% from 13.7%. The LRR on both local currency and foreign currency deposits was maintained at 3.75%. The decision was aimed at supporting economic recovery and job creation.
- 6.5 Chart 7 below depicts the historical trend of the Policy rate relative to inflation rate. The chart shows that the Policy rate has been on a declining trend since November 2016 and was stable at 13.5% for the most part of 2020 before being revised downwards to 12.0% in November 2020.



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

- 6.6 The Reference rate for banks, which was introduced in September 2019, averaged 13.3% in 2020 and closed the year at 12.3%, down from 12.5% as at December 2019. The Reference rate remained elevated during most part of 2020 mainly because of the rise in yields on Government securities, reflecting increased risks in the economy associated with COVID-19.
- 6.7 We expect a further decline in interest rates in 2021. Before the COVID-19 shock, RBM was targeting a Policy rate of 11% and a Reference rate of 10% by 2021. This objective has become more important given the need to create jobs and resuscitate economic sectors negatively affected by COVID-19. Our forecast is that the MPC could consider reducing the Policy rate from the second quarter so that the timing coincides with the harvest period and the tobacco selling season which would anchor inflation rate and the exchange rate. Uncertainties surrounding the evolution of the COVID-19 pandemic are the greatest risk to this outlook.

7. COVID-19 and economic growth

- 7.1 Economic growth in 2020 was dampened by the global Coronavirus pandemic (COVID-19) which disrupted economic activity across the world. Global value chains, trade, logistics, tourism and remittances were all heavily affected by uncertainties as well as the implementation of the various containment measures. The World Bank estimates that global output shrank by 4.3% in 2020 while the IMF estimate a contraction of 3.5%. The Sub-Saharan African region's economic output is estimated by the World Bank to have contracted by 3.7%.
- 7.2 In Malawi, the services and industry sectors of the economy were particularly hard hit by the pandemic, including tourism and accommodation, wholesale and retail trade, transport and storage, manufacturing, construction, real estate, financial services and health sectors. It is estimated that Malawi's economy expanded at the slowest pace in 2020 compared to recent trends, although some of the anticipated negative effects of COVID-19 were cushioned by disaster recovery response by the Government in conjunction with the partners to help the country's recovery from the pandemic. A strong agricultural harvest also somewhat supported growth.
- 7.3 RBM estimates that the domestic economy grew by 1.2% in 2020 compared to the growth rate of 5.0% in 2019. The World Bank and IMF also estimate some growth for the Malawi economy, namely, real GDP growth rate of 1.3% for the World Bank and a growth rate of 0.6% for the IMF.
- 7.4 In 2021, it is expected that the world economic output will begin to recover, premised on an expected limited impact of the COVID-19 pandemic compared to 2020 as most countries get access to vaccines as well as continued policy support in some large economies. The IMF forecast a global economic expansion of 5.5% in 2021 while the World Bank project an expansion of 4.0%. The Sub-Saharan African region output is expected to expand by 2.7% as the region lags in vaccination.
- 7.5 Output growth for Malawi could remain subdued in 2021 as the COVID-19 pandemic remains a major challenge. In January 2021, COVID-19 infections and fatalities increased sharply in the second wave of the pandemic, forcing the Government to re-impose strict containment measures. Economic activity which started to pick up

in the second half of 2020 started to moderate. However, the Government announced that it expects to roll out COVID-19 vaccines in the country in March 2021. Domestic economic growth in 2021, will therefore largely depend on how the COVID-19 will be contained, although we expect agriculture to anchor output growth, supported by forecasted normal rainfall pattern and the Affordable Farm Inputs Programme. The World Bank and the IMF project a real GDP growth rate of 3.3% and 2.5%, respectively, for Malawi in 2021.

Table 3a: World Bank real growth projections by sector

Sector	2017	2018	2019	2020*	2021*
Agriculture	5.0%	2.4%	4.3%	3.4%	4.1%
Industry	2.2%	2.2%	3.8%	1.2%	2.8%
Services	4.0%	4.3%	4.5%	-0.4%	2.9%

* Projections

Source: Malawi Economic Monitor - December 2020

Table 3b: Real GDP growth projections

Institution	Region	2018	2019	2020*	2021*	2022*
World Bank	World	3.0%	2.3%	-4.3%	4.0%	3.8%
	Malawi	3.2%	4.4%	1.3%	3.3%	4.9%
	Sub-Saharan Africa	2.6%	2.4%	-3.7%	2.7%	3.3%
IMF	World	3.5%	2.8%	-3.5%	5.5%	4.2%
	Malawi	3.2%	4.5%	0.6%	2.5%	6.5%
	Sub-Saharan Africa	3.3%	3.2%	-2.6%	3.2%	3.9%

* Projections

World Bank source: Global Economic Prospects- January 2021

IMF source: World Economic Outlook Update- January 2021

7.6 Situation update of COVID-19

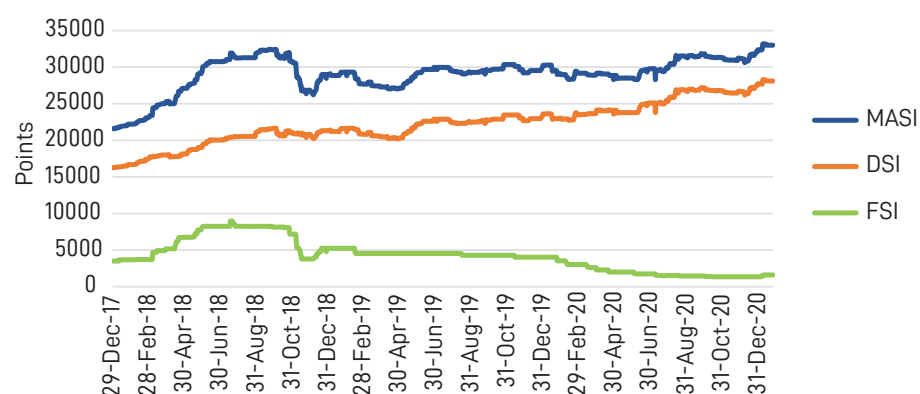
- 7.6.1 Malawi registered its first three cases of COVID-19 on 2nd April 2020. Since then, there was a rise in the transmission of the disease between June and August 2020, with a peak in July 2020. In an effort to contain the COVID-19 and prevent its further spread, the Government implemented precautionary measures, including travel restrictions, bans on large gatherings and shut down of schools, restaurants, clubs and other public places. Malawi, however, never implemented a lock down as was the case in other countries.
- 7.6.2 Between August 2020 and December 2020, there was a decrease in number of new infections which prompted Government to lift some of the restrictions in order to support economic recovery. As of 31st December 2020, cumulative confirmed COVID-19 cases in Malawi stood at 6,583 with 5,705 recoveries and 189 deaths (Source: Ministry of Health).

- 7.6.3 In January 2021, however, the country started registering a significant rise in number of new infections and deaths in the second wave of the pandemic. This forced the Government to enforce strict preventive measures, including closure of schools, 9pm to 5am curfew, mandatory wearing of masks and closure of markets by 5pm. Cumulative COVID-19 cases amounted to 25,449 as at 4th February 2021, with 9,814 recoveries and 761 deaths (Source: Johns Hopkins University and Medicine).
- 7.6.4 Globally, total confirmed cases of COVID-19 amounted to 104.61m, with more than 58.16m recoveries and 2.28m deaths as at 4th February 2021 (Source: Johns Hopkins University and Medicine).
- 7.6.5 Many countries rolled out vaccines for COVID-19 in the 4th quarter of 2020. As at 4th February 2021, the number of COVID-19 vaccine doses administered stood at 86.14 million, with more than 8.29 million people fully vaccinated, representing 0.10% of the world population. In Malawi, vaccines are expected to roll out in March 2021, with healthy workers and people with opportunistic conditions prioritized.
- 7.6.6 Herd vaccination is expected to control the pandemic.

8. Stock market performance

- 8.1 Performance of the Malawi Stock Exchange (MSE) slightly improved in 2020 from a subdued performance in 2019. The market registered a positive return on index of 7.08% (2.21% in US\$ terms) in 2020 compared to a return on index of 4.38% (3.41% in US\$ terms) in 2019. This is, however, significantly lower than the return on index of 34.19% (33.42% in US\$ terms) registered in 2018 and 62.14% in 2017. The Malawi All Share Index (MASI) closed the year 2020 at 32,392.84 points compared to 30,252.20 points as at the beginning of the year.
- 8.2 The market also registered an increase of 18.03% in volume of shares traded to 1,645,194,139 in 2020 from 1,393,849,808 in 2019, despite registering a decrease of 11.40% in total value traded to K41.09 billion in 2020 from K46.37 billion in 2019.
- 8.3 Nine counters registered capital gains (eight in 2019) while seven counters registered losses (six in 2019).
- 8.4 Two companies, Airtel Malawi Plc and FDH Bank Plc got listed on 24th February 2020 and 3rd August 2020, respectively, bringing the total number of listed companies on MSE to 16 as at the end of the year.
- 8.5 In the same period, 16 Government of Malawi Treasury Notes were listed on the Debt market, bringing the total number of listed debt securities to 28, of which 5 are Corporate Medium Term Notes by MyBucks Banking Corporation. There was no trade on any of the 28 listed debt securities during the year.
- 8.6 Chart 8 shows a graphical analysis of the MASI, DSI (Domestic Share Index) and FSI (Foreign Share Index) over the three-year period between December 2017 and December 2020, and Table 4 shows performance of individual companies in 2020.

Chart 8: Malawi Stock Exchange share price indices



(Data source: Malawi Stock Exchange)

Table 4: Share trading summary

	Dec-20	Dec-19	Price change (%)
Market indices			
MASI	32,392.84	30,252.20 ↑	7.08%
DSI	27,755.46	23,599.75 ↑	17.61%
FSI	1,363.88	4,024.86 ↓	-66.11%
Gainers			
AIRTEL	27.98	12.69 ↑	120.49%
NBS	21.60	13.50 ↑	60.00%
FDHB	14.45	10.00 ↑	44.50%
STANDARD	1,046.39	730.00 ↑	43.34%
NBM	650.00	525.00 ↑	23.81%
NITL	94.95	80.00 ↑	18.69%
ICON	12.27	10.50 ↑	16.86%
MPICO	21.00	19.53 ↑	7.53%
NICO	52.00	48.49 ↑	7.24%
Losers			
BHL	12.94	12.95 ↓	-0.08%
PCL	1,309.47	1,400.00 ↓	-6.47%
SUNBIRD	105.00	118.00 ↓	-11.02%
OMU	2,199.98	2,499.99 ↓	-12.00%
TNM	20.07	26.00 ↓	-22.81%
ILLOVO	80.48	153.00 ↓	-47.40%
FMBCH	22.04	75.00 ↓	-70.61%

(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 and three posted a decrease when compared to the profit figures reported in the corresponding period in 2019.
- 9.3 Tables 5a 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 5a: Published financial results for the half year ended 30th June 2020			
Company	H1 2020 profit after tax (K'm)	Change (%)	H1 2019 profit after tax (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

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

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

Table 5b. Expected financial results for the year ended 31st December 2020			
Company	Expected lowest profit after tax for 2020 (K'm)	Expected change	2019 profit after tax (K'm)
Airtel Malawi Plc	22.271 ↑	40%	15.908
FMB Capital Holdings Plc (USDm)	30.872 ↑	200%	10.291
National Bank of Malawi Plc	20.586 ↑	20%	17.155
NBS Bank Plc	5.572 ↑	25%	4.458
NITL	1.068 ↓	-40%	1.780
Standard Bank Malawi Plc	23,025 ↑	45%	15,879
Sunbird Tourism Plc	(1.297) ↓	-150%	2.595
Telekom Networks Malawi Plc	11.297 ↓	-25%	15.063

(Data source: Malawi Stock Exchange)

10. Tobacco sales

- 10.1 The tobacco selling season closed on 28th August 2020 after 19 weeks. In 2020 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 the second half of the year.
- 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%)

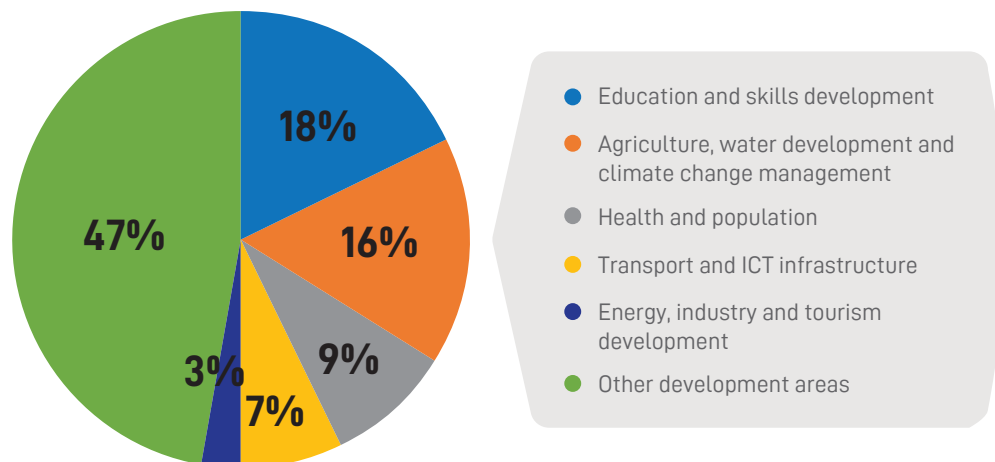
(Data source: Tobacco Control Commission (TCC))

11. Political environment

- 11.1 The Constitutional Court nullified the May 2019 presidential election and ordered the Malawi Electoral Commission to hold a fresh election in June 2020. The Tonse Alliance, led by President Dr Lazarus Chakwera of the Malawi Congress Party (MCP), won the re-run and took over Government administration from the Democratic Progressive Party.
- 11.2 The new Government administration has committed itself to good governance and public administration, economic transformation and social development, among other things. Immediately after taking over administration, the new Government initiated an anti-corruption drive which saw the cancellation of most major contracts awarded by the previous government pending a review. Reforms aimed at ensuring efficiency and productivity in the public sector are also being implemented in various Government institutions.
- 11.3 The maiden budget of the new Government administration, the 2020/21 budget, is focused on the delivery of the Alliance's promise to the citizens and key developmental stakeholders. However, implementation of the budget and the Tonse Alliance promise has been facing challenges, including the COVID-19 crisis and a large domestic debt burden which it inherited from the previous Government administration.

12. Fiscal policy

- 12.1 The national budget for the fiscal year between 1st July 2020 and 30th June 2021 was formulated amid COVID-19. It is an inclusive budget aimed at supporting the recovery of the economy.
- 12.2 Specifically, the budget focuses on the following three areas:
 - 12.2.1 Sustainable and inclusive economic growth;
 - 12.2.2 Macroeconomic stability in key economic fundamentals, including inflation and exchange rate; and
 - 12.2.3 Sound fiscal management.
- 12.3 The following is a summary of the budget:
 - 12.3.1 Total expenditure is estimated at K2.19 trillion of which development expenditure is K511.2 billion representing 23.3% of the total budget.
 - 12.3.2 Total revenues and grants are estimated at K1.44 trillion of which K1.18 trillion is domestic revenue and K255.7 billion are grants.
 - 12.3.3 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.
 - 12.3.4 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 was 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 2020 compared to the previous year. However, some fundamental variables, including inflation rate, remained favourable during the period, indicating some level of resilience in the Malawi economy.
- 13.2 The change in government in June 2020 has prompted major changes in the general management of the country, although the COVID-19 pandemic and limited fiscal space due to high domestic public debt has affected implementation of some of the new Government's development promises.
- 13.3 Overall, real growth of the domestic economy is estimated to have slowed down to 1.2% in 2020 from 5.0% in the previous year. Malawi is, however, one of the few countries that registered a positive growth in 2020 when most of countries went into a recession.
- 13.4 Global economic recovery is expected from 2021 supported by limited impact of the COVID-19 disease as countries get access to vaccines of the disease.

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



Malawi's best
investment bank
2020

Blantyre Banking Centre
Tel: +265 (0) 1832 269

Capital City Banking Centre
Tel: +265 (0) 1776 188

Lilongwe Banking Centre
Tel: +265 (0) 1753 464



INVESTMENT BANK



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