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Economic Growth Prospects

1 Economic Growth Prospects
Beginning January of this year, the corona virus has devastated the world in so many extraordinary ways bringing big and small economies alike to their knees. Countries turned to extreme measures of shutting down their economies in a bid to contain the virus. As we approached the second quarter of the year most countries seemed to have the pandemic under control while some continued to struggle with it sparking fear of a second wave.

Unfortunately, as we entered into the fourth and last quarter of the year these fears have proven to come to pass. The month of October recorded significant rise in daily infections and deaths in more European countries prompting reintroduction of social distancing restriction measures. Going into November, a number of countries such as Italy, German, United Kingdom & Belgium announced a second lockdown in an attempt to contain the spread of the virus.

This is no doubt bad news for the local economy because as highlighted in our October Economic Review, the first two quarters of the year experienced reduced external financial inflows due to the world recession which affected import payments. This, coupled with the restriction in movement of goods, greatly affected the country’s manufacturing sector whose raw materials are imported as well as the retail and wholesale sector. While this is the case, the month of October saw a rise in official reserves which was as a result of the IMF extended credit facility. Nonetheless, the situation on the ground highlights a scarcity of forex as players are holding the USD in anticipation of a depreciation of the currency.

News of the second lockdown across the globe comes as a huge blow to the hospitality sector. As we approach the holiday season, the country receives tourists from across the world. The travel restrictions imposed in these countries mean the tourism sector will be devastated with cancelations. We should therefore anticipate further contraction in the
sector. On the other hand, the pandemic presents a unique opportunity to tap into local tourism as the cases in the country have been moderate.

**Inflation**

From January 2020 to September 2020, the inflation rate has been generally declining and the key contributing factor has been the decline in demand for consumer goods driven by COVID-19 uncertainty. The year witnessed major retrenchments in tourism and manufacturing sectors prompting consumers to spend less and save more.

However, in October, headline inflation rose to 7.5 percent from 7.1 percent registered in the month of September 2020 as seen in the graph below. Food inflation stood at 10.9 percent from 10.3 registered in September 2020. Non-Food Inflation also registered a rise in the month under review moving to 4.5 percent from 4.4 percent registered in September 2020.

**Domestic Production**

**Tea**

During the month under review, Tea production continued to decline from the amounts recorded in the month of October. According to Tea Association, a total of 1.3 million Kgs was produced in the month of November 2020 lower than 2.1 million Kgs produced in the month of October 2020. On the other hand, this was slightly higher than 1.1 million Kgs produced in the same period in 2019.

**Maize**

According to IFPRI, retail maize prices fell by 3 percent during November 2020 averaging MWK196 per Kg. This price is about 2 percent higher than in October and 23 percent lower than during the same time last year. Prices rose in 3 markets, remained constant in 10 markets, and fell in 13 markets. The largest price increase was recorded in Mzuzu market (6 percent) followed by Chiringa (5 percent) and Karonga (2 percent) markets. The largest price decline was recorded in Lunzu market (17 percent) followed by Salima (12 percent) and Chimbiya (9 percent) markets.
Retail maize prices remained highest in the South and lowest in the North as is the usual pattern. At the end of the month, prices in the Centre were MWK 36/kg higher than in the North and MWK 28/kg lower than in the South.

### 1.1 Capital Market Development

The market transacted a total of 22,670,196 shares at a total consideration of MK3.1 billion (US$3.9 million) in 223 trades. In the previous month of October 2020, the market transacted a total of 659,979,164 shares at a total consideration of MK13 billion (US$17.2 million) in 237 trades. This reflects a 96.57% decrease in terms of share volume traded and a 75.65% (76.88% in US Dollar terms) decrease in share value traded. Of the total volume of shares traded, 800,000 PCL shares were traded as negotiated deals.

The average daily turnover for November 2020 was MK151.6 million (US$190.3 thousand) compared to MK622.6 million (US$823.1 thousand) in October 2020, reflecting a decrease of 75.65% (76.88% in US Dollar terms).

There were 5 Corporate Medium-Term Notes by MyBucks Banking Corporation and 23 Malawi Government Treasury Notes with a total nominal value of MK916,585,046,576.00. There were no trades registered on the 28 listed debt securities.

### Interest Rates

As reported by the Reserve Bank of Malawi, the Monetary Policy Committee (MPC) met at its fourth meeting of 2020 held on 5th and 6th November 2020 and decided to reduce the Policy rate to 12.0 percent. The MPC maintained the Liquidity Reserve Requirement (LRR) ratio on domestic and foreign deposits at 3.75 percent and the Lombard rate at 20 basis points above the Policy rate. In arriving at this decision, the Committee noted that headline inflation has been declining since January 2020 and the inflation outlook appears favorable. This decision was aimed at supporting economic recovery and job creation.

This further reduction in the Policy rate should be looked at as a stimulus package for the private sector during this time of COVID-19. Businesses have incurred a lot of losses due to the overall decrease in global
demand hence this is an opportunity for them to borrow and reinvest in the recovery of their business as we learn to live in an ongoing global pandemic. And although low interest rates might be looked at as a disincentive for foreign investment, it is important now more than ever for local businesses to be supported by government.

**Gross Reserves**

Beginning January, gross official reserves have been on a declining trend. The economy faced limited import and export of goods due to restrictions on movement of goods and as of September, the gross reserves recorded its lowest levels in the year at K546 billion (2.63 months of import cover). Entering October, IMF disbursed funds under the Extended Credit Facility which saw gross reserves rise to K635 billion (3.04 months of import cover). Going forward, we should expect this artificial increase in reserves to decline as companies try to import during the month of November but the figures should remain high in December as most businesses close for the holidays and less cash exchange hands.

**Exchange Rate**

As we proceed towards the end of the year, the kwacha continues to face a lot of pressure from the widening negative trade balance. Depleting foreign reserves continue to put a strain on the local currency causing it to weaken against major trading currencies. It is clear that the central bank is cautiously holding the kwacha to minimize the devastating impact of a big loss in value all at once. As on 30th November 2020, the kwacha continued to depreciate against the US dollar closing at K765.92 per kwacha from K759.47 per kwacha recorded on 30th October 2020. The local currency also continued to depreciate against other major trading currencies selling at K1061.7 per kwacha against the British pound, K958.3 per kwacha against the Euro and K53 per kwacha against the SA rand.

**Figure 5: Trend of Foreign Reserves**

![Graph of Foreign Exchange Reserves & Import Cover](image)
### Business News

#### November 2020

<table>
<thead>
<tr>
<th>MITC Projects Rise in Pigeon Peas Demand</th>
<th>Following the removal of import restrictions in India, MITC projects a rise in demand from 404,466 to 550,000 tons in the growing season of 2020/21. In the past three seasons, India allowed import of pigeon peas in the region of only 200 metric tons and Malawi did not secure a quota on this import cap. Malawi remains the third largest producer of Pigeon peas in the world, exporting an average of 250,000 MT annually.</th>
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<tbody>
<tr>
<td>Pension Fund could Double by 2025 to K2 Trillion</td>
<td>Reserve Bank of Malawi projects pension funds in the country to double from current K1.02 trillion as of September 2020. The quarterly pension contributions average K27 billion and pension assets have earned investment income of around K100 billion. Pension members have also increased to 466,920 as of September 2020.</td>
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<tr>
<td>Malawi Prepares for Free Trade Area</td>
<td>Ministry of Trade in collaboration with Ministry of Justice is preparing instruments to be deposited with the African Union for the ratification of the African Free Trade Area AfCFTA. The free trade area is expected to rollout on January 1 2021. Once the agreement comes into effect, 90 percent of the products in Africa will enter the country duty free.</td>
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