

Economic

Review



SECOND QUARTER, APRIL 2020- JUNE 2020

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Malawi is facing an unprecedented health and economic crisis due to the COVID-19 shock. One that threatens to throw the country off its stride, reversing the stable macroeconomic fundamentals achieved in recent years. Furthermore, by exacting a heavy human toll, upending livelihoods, as well as damaging business and Government balance sheets, the crisis could retard the country's growth prospects in the years to come.

The shock is already exacerbating social conditions and aggravating existing economic vulnerabilities. The measures that Malawi has had to adopt to enforce social distancing are certain to imperil the livelihoods of a lot of vulnerable people. Given the limited social safety net available, people will suffer. Moreover, the pandemic has reached Malawi at a time when budgetary space to absorb such shocks is limited, thus complicating the appropriate policy response.

SECTION 1: REAL SECTOR DEVELOPMENTS

i. Economic Growth Prospects: Is there still hope? Or are we losing?

The Covid-19 pandemic has sharply weakened the 2020 growth prospects for Malawi and the rapid increase in confirmed cases simply means that the country is failing to contain the spread of the virus. According to data from the Ministry of Health as at 30th June, 2020, the country had a total number

of 1,265 COVID-19 confirmed cases. This comes at a time when other countries across the globe are easing restrictions and gradually returning to normal economic activity following the scaling down of confirmed cases. In Malawi's case, the rapid increase in the number of confirmed cases increases the likelihood of the growth prospects of the economy being much worse than already projected because the pace at which business activity can return to normalcy largely depends on how quickly the virus can be contained and defeated.

Prior to the rapid spread of the virus during the first quarter of 2020, the domestic economic environment and policy settings supported a continued growth of the economy in the medium term. However, during the second quarter of 2020, the spread of the pandemic rapidly extended to Malawi resulting in containment measures. Our neighboring countries and other countries across the globe also came up with containment measures which included countrywide lockdowns for some countries. These containment measures have resulted in disruptions of global value chains, provision of services as well as a slowdown of supply chains in the country as well as globally.

In light of these developments, the Ministry of Finance, Economic Planning and Development undertook a COVID-19 Impact Assessment Survey during the quarter under review and data from that survey suggest that real GDP growth is expected to fall sharply to 1.9 percent in 2020, compared with a growth of 5.5 percent anticipated prior to the Covid-19 pandemic. This projection was made on the assumption that the pandemic would fade in the second half of the year and that containment efforts both on

the domestic and international fronts would have been eased by then. However, with domestic cases of COVID-19 increasing on a daily basis, the pathway of the pandemic is expected to be longer than earlier anticipated thus a further revision of the current projection ought to be undertaken to take into account these new developments.

The general expectation for the third quarter of 2020 is an improvement in the global supply chains as well as a significant resumption of global value chains as countries across the globe slowly open up their economies. However, the increasing number of COVID-19 cases in the country, if not contained, threatens to lock our economy from the rest of the world. Furthermore, as long as the cases continue to increase, restrictions that have affected normal business activity will continue to be enforced. The economy will therefore continue to be under threat as long as COVID-19 cases are not contained.

Further to this, the business environment in the second quarter was also marred by a lot of uncertainty due to the threat of political instability emanating from the run up to the Fresh Presidential Elections in June, 2020. With the issue of the Fresh Presidential Election now concluded the expectation is that political stability will follow thereby easing the uncertainty which was emanating from that front. Going into the third quarter of 2020; the assumption is that decisions and policies relating to COVID-19 particularly those affecting businesses will be inclusive of private sector input and an economic recovery plan will be implemented in full regard of both the short-term and long-term effects.

ii. National Accounts Developments

In 2019, the good performance of the economy emanated from a number of factors including favourable rains, reduced effect of the fall army worms, stability of the exchange rate, reducing interest rates and headline inflation, improvement in electricity supply as well as continued good performance of the wholesale and retail trade sector. This momentum was expected to continue in 2020 but with the economic shock posed by COVID-19 taking full effect in the second quarter of 2020; the performance outlook for the various sectors of the economy does not look promising. The shock has come about due to the impact of containment efforts (both domestic and international) that have consequently slowed down economic activity.

According to results of the survey done by the Ministry of Finance; the pandemic is expected to have significant effects on the majority of the sectors; with the worst affected sectors being: tourism and accommodation; transportation and storage services; agriculture, forestry and fishing; wholesale and retail trade; and manufacturing activities. However, it is worth noting that there is a great likelihood of further downward revisions in growth projections in the ensuing months as the impact of the pandemic is likely to be much worse than earlier anticipated.

Going into the third quarter of 2020 and holding all other things constant; aggregate demand will likely remain subdued owing to downward pressure from domestic demand for new capital goods (private investment) as well as domestic demand for private consumption. Private investment will continue to be subdued as most businesses

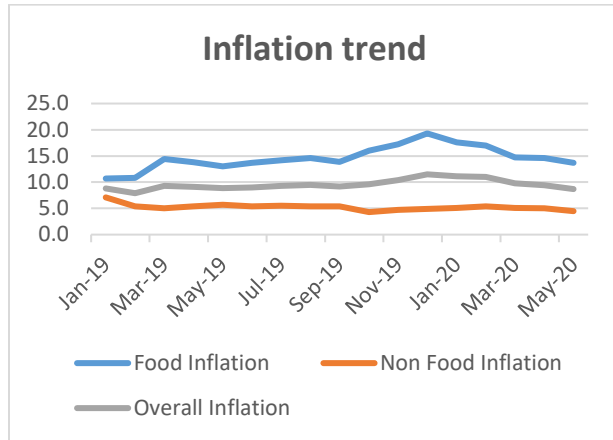
will be concerned with building resilience against the effects of the pandemic and buffering up savings that are crucial in business continuity plans. While on the part of consumers; uncertainty about their future income caused by job losses and the generally negative employment outlook that is marred by a lot of uncertainty about the security of jobs will cause precautionary saving and thus reduced consumption.

iii. Inflation

Headline inflation has been on a gradual declining trend since the first quarter of 2020 and this trend has continued in the second quarter of 2020 with the month of May recording a low single digit figure of 8.7 percent. The declining trend can be attributed to significant decrease in food inflation which has declined from 17.6 percent at the close of January, 2020 to 13.7 percent as at May, 2020 owing to declining maize prices.

On the other hand, the trend in non-food inflation was up and down during the previous quarter. However, during the quarter under review it has been on the declining trend. This comes as relief owing to the fact that disruption of global value chains and slowing down of global supply chains posed a significant threat to the prices of manufactured goods in the country due to our economy's heavy reliance on imported finished goods and raw materials.

Figure 1 below shows inflation trend in Malawi from January, 2019 to May 2020.



Source: Data from RBM & NSO

Figure 1 shows that despite worldwide COVID-19 restrictions negatively affecting domestic production as well as the wholesale and retail trade sector due to disruptions of global value chains and slowing down of global supply chains; Non-food Inflation has remained stable and on a downward trend during the second quarter of 2020.

Furthermore, with the good agricultural harvest enjoyed by the country, Food Inflation has also been on a downward trend over the whole second quarter and ultimately this has resulted in a declining trend for Headline Inflation. However, going into the third quarter of 2020 it is difficult to assume a continued declining trend for inflation due to the huge uncertainty in the duration and intensity of the COVID-19 shock.

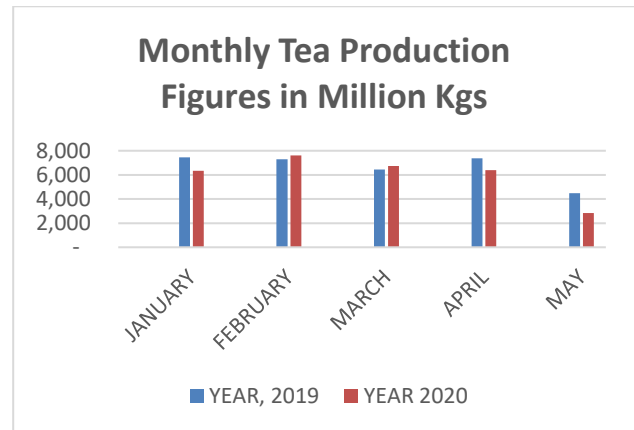
iv. Domestic Production and Sale of Selected Commodities

a) Tea

The tea industry has experienced low production in the first two months of the second quarter of 2020 compared to 2019 with figures produced by the Tea Association of Malawi showing that, so far; the country has produced 9.2 Million Kgs compared to

last year's output of 11.9 Million Kgs during the same period. Furthermore, moving from the first quarter of 2020 to the quarter under review; statistics show that production has been on a downward trend.

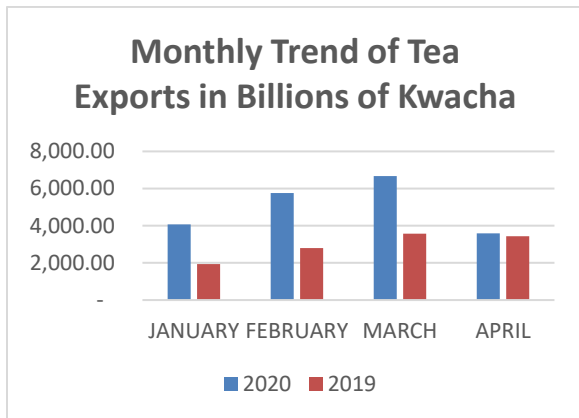
Figure 2: Trend of tea production during the first five months of the year in 2019 and 2020.



Source: Data from Tea Association of Malawi

In terms of sales, the overall turnover from exports has been higher in the first four months of 2020 compared to 2019 during the same period. On the other hand, the sales turnover for the first month of the quarter under review was significantly lower compared to the sales turnover in the last month of the previous quarter. This trend can be attributed to the sharp decline in tea prices at the Mombasa market during the quarter in review compared to the previous quarter as prices moved from 2.13 US\$/ Kg to 1.98 US\$/ Kg. Furthermore, the impact of COVID-19 related restrictions imposed by most African countries including our neighbors during the quarter under review disrupted the supply chains for the commodity with period of delivery taking longer as such transactions significantly declined.

Figure 3: Trend of tea exports during the first four months of the year in 2019 and 2020.



Source: Data from Tea Association of Malawi

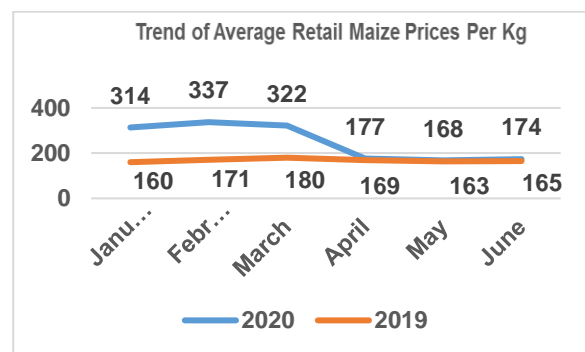
Looking at the coming quarter, it is expected that COVID-19 related restrictions will continue to negatively affect sale of this commodity. The continued increase in the number of COVID-19 domestic cases threaten operations at the local auction markets. As already witnessed in the month of April 2020, tea sales through the Limbe auction market significantly reduced owing to restrictions pertaining to the pandemic with the auction market only opening once a week.

b) Maize

During the quarter under review on 7th April, 2020; the Ministry of Agriculture and Food Security released the agricultural commodity farm gate marketing prices with the minimum prices for maize set at K200 per kg. This announcement came on the backdrop of a strong harvest season in the country. As at end of April, 2020; the International Food Policy Research Institution (IFPRI) statistics showed that the average retail maize price was at MK 177 per Kg; a significant decrease from the average retail maize price of 322 per Kg in March 2020. This declining trend

continued through the month of May 2020; however, the average price picked up in June and as at end June, 2020, the average retail maize price was at MK 174 per Kg. Compared to the previous quarter, the average retail maize prices in the quarter under review were significantly lower.

Figure 4: Trend of average retail maize prices during the first six months of the year in 2019 and 2020



Source: Data from IFPRI

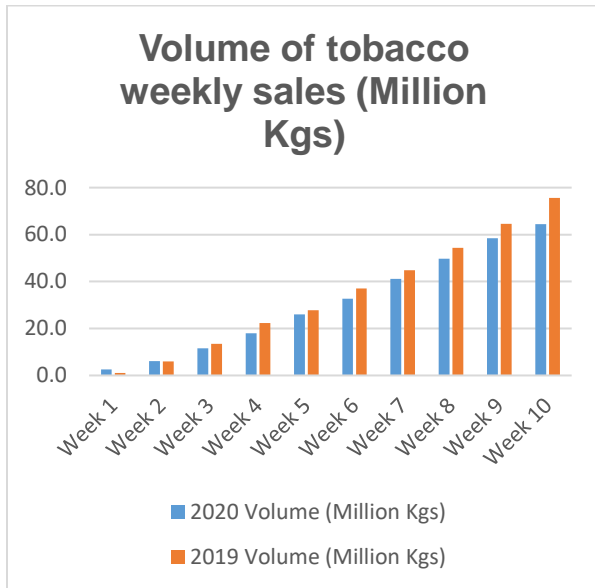
Further to this, a separate crowdsourcing exercise that was done by IFPRI showed that an average of 73 percent of farmers had sold their maize below the minimum farm gate price of MWK200/kg in the months of April, May and June, 2020. This is mainly due to the failure of the Agricultural Development and Marketing Cooperation (ADMARC) to purchase maize in most of the markets across the country such that farmers were forced to sell their produce to local traders. IFPRI statistics show that in April, May and June 2020; ADMARC purchases were recorded in 8, 13 and 15 out of the 26 markets monitored by IFPRI respectively.

c) Tobacco

The 2020 tobacco market season opened during the quarter under review on 20th April, 2020; albeit with so much uncertainty as to how the markets were going to operate due to the COVID-19 pandemic. However, the

market season has operated smoothly and the figures from the Tobacco Commission show that the cumulative volume of tobacco sales after 10 weeks of sales (as at 29th June, 2020) have decreased by 15 percent to 64.4 million kilograms compared to 75.6 million kilograms sold in the same period in 2019. The total sales comprised of Burley, Flue cured, NDDF and SDF tobacco of 56.8 million kilograms, 6.4 million kilograms, 1.07 million kilograms and 0.12 million kilograms respectively. Of the total volumes sold, 92.2 percent was sold under contract system whereas 7.8 percent was sold through the auction system.

Figure 5: Trend of volume tobacco sales after 10 weeks in the year in 2019 and 2020.

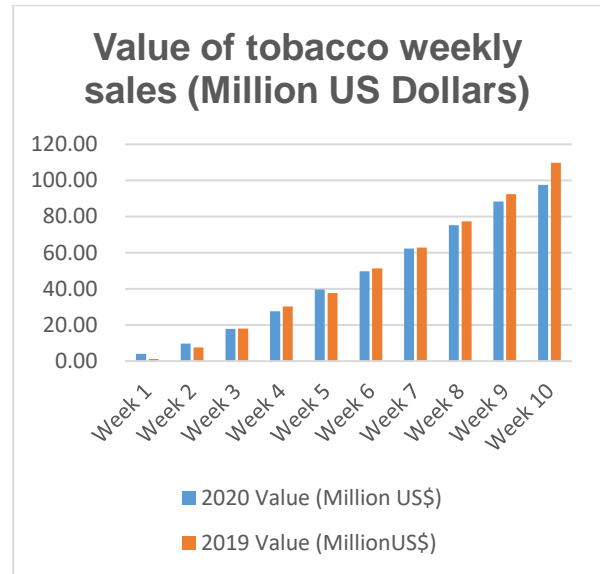


Source: Data from Tobacco Commission

After 10 weeks of sales, the total proceeds from tobacco sales were US\$97.5 million, 11 percent lower than US\$109.9 million realized in the corresponding period of 2019. Of the total earnings, 94.4 percent was realized through contract system amounting to US\$92.2 million whilst auction system sales

totaled US\$5.5 million representing 5.6 percent of total earnings.

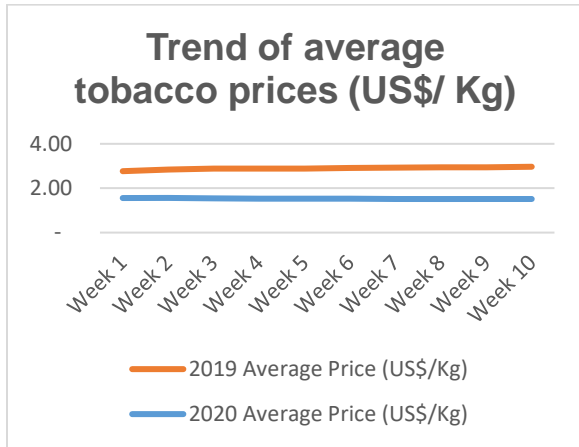
Figure 6: Trend of the value of tobacco sold after 10 weeks in the year in 2019 and 2020.



Source: Data from Tobacco Commission

On the other hand, the average prices at the markets have been on a declining trend in 2020; during the first week the average price was 1.55 US\$/ Kg however as at week 10 the average price was 1.51 US\$/ Kg. This trend is completely opposite to that of 2019 whereby prices took an upward as sales at the market dragged on; however compared to 2019; the average prices for 2020 are still relatively higher. Consequently, as at the 10th week of sales, the market recorded a 4 percent increase in the average prices compared to 2019 after the same period.

Figure 7: Trend of the average tobacco prices after 10 weeks in the year in 2019 and 2020.



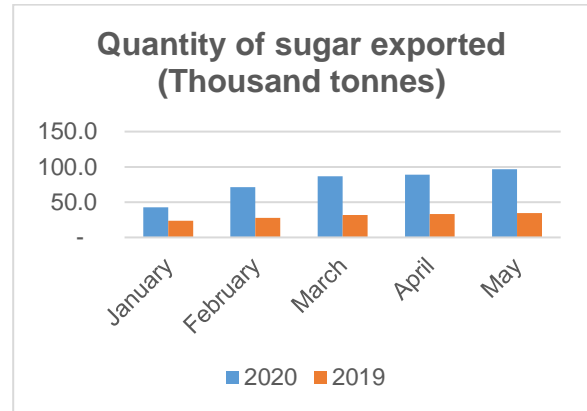
Source: Data from Tobacco Commission

d) Sugar

Sugar exports have been on an upward trend since the start of the previous quarter and have continued on this trend into the quarter under review with statistics from Illovo plc showing exports of 96.4 thousand tonnes as at end May, 2020 compared to exports of 42.6 thousand tonnes that were recorded end January, 2020. Compared to export figures over the same period in 2019; sugar exports are doing tremendously well in 2020. This trend is quite remarkable considering the various market and logistical challenges that are obviously present now due to global COVID-19 containment efforts.

The sugar industry is one of the key industries in the manufacturing sector and has massive linkages with other sectors through its extended value chains. Therefore, holding all other things constant this trend in exports will have positive spillover effects on the domestic economy.

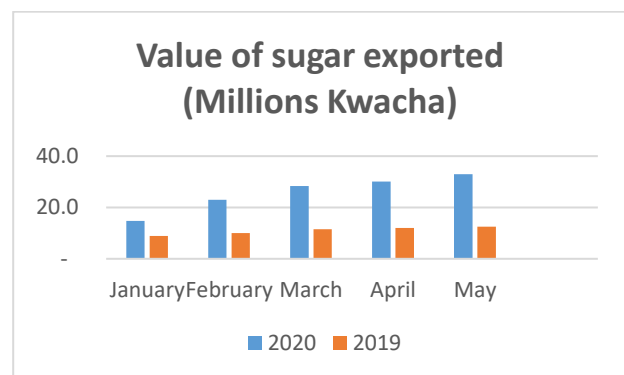
Figure 8 shows the quantity of sugar exported during the first five months of the year in 2019 and 2020.



Source: Data from Illovo plc

In terms of sales, the overall turnover from exports has been higher in the first five months of 2020 compared to 2019 during the same period. Revenue from sugar exports has also been on an upward trend since the first quarter and as at end May, 2020 the country had exported sugar worthy 32.9 million kwacha compared to 14.7 million at end January, 2020. This is a boost to the country's export earnings as sugar is one of the key export commodities in the country

Figure 9 shows the value of sugar exported during the first five months of the year in 2019 and 2020.



Source: Data from Illovo plc

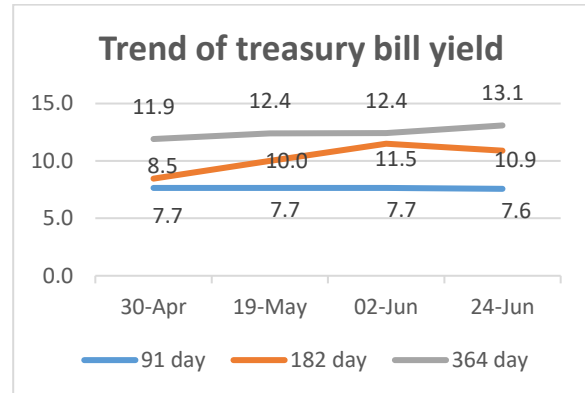
SECTION 2: FINANCIAL SECTOR DEVELOPMENTS

i. Interest rates

During the quarter in review; the Monetary Policy Committee decided to cut the Liquidity Reserve Requirement (LRR) on domestic currency deposits by 125 basis points to 3.75 percent; reduce the Lombard Rate by 50 percent to 0.2 percentage points above the Policy Rate; and maintain the Policy Rate at 13.5 percent. This decision was made in view of the economic implications of Covid 19 and the goal was to mitigate potential liquidity challenges that might ensue in the banking system.

During the quarter under review, Treasury bill average yields for 91-day were constant at 7.7 percent with a slight decrease to 7.6 percent only recorded at the end of June, 2020. While the Treasury bill average yields for 182-day recorded significant increase between April, 2020 and early June, 2020 moving from 8.5 percent to 11.5 percent. But at the end of June, 2020 there was a significant drop to 10.9 percent. On the other hand, the Treasury bill average yields for 364-day recorded an upward trend throughout the period starting from 11.9 percent as at 30th April, 2020 and closing at 13.1 percent as at 24 June, 2020.

Figure 10: Trend of Treasury bill average yields during the second quarter of 2020.



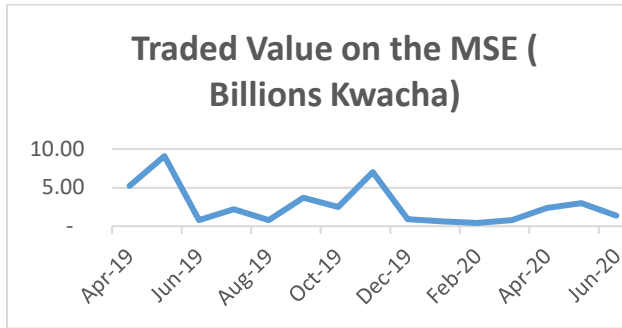
Source: Data from RBM

Going into the third quarter of 2020, with the shock of COVID-19 continuing to exert negative pressure on economic growth and with the economy slowly heading in the direction of a recession; this negative state of the economy, holding all other things constant, could negatively affect treasury bill rates as such we could see a downward trend in this market.

ii. Capital Market Developments

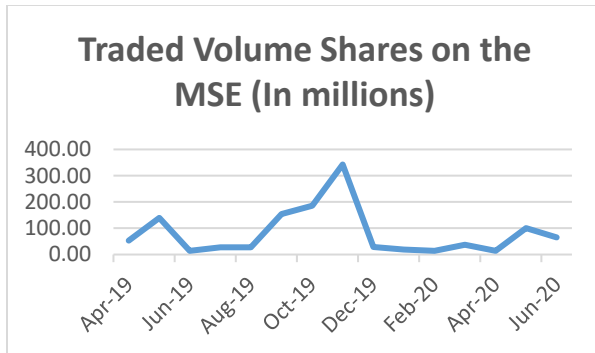
During this quarter there was no new listed company on the primary market and as a result the number of listed companies remained 15. On the secondary market; the total volume of shares traded was 179.3 million at a total consideration of MK 6.7 billion in 749 trades. This reflected the overall good performance of the market during this quarter compared to the previous quarter whereby the total volume of shares traded was 70.9 million at a total consideration of MK 1.8 billion in 761 trades. Thus, despite very few trades taking place in this quarter compared to the last quarter; volumes traded and turnover increased tremendously.

Figure 11: Trend of traded value (turnover) on the Malawi Stock Exchange (MSE) beginning April, 2019 to June, 2020



Source: Data from MSE Market Reports

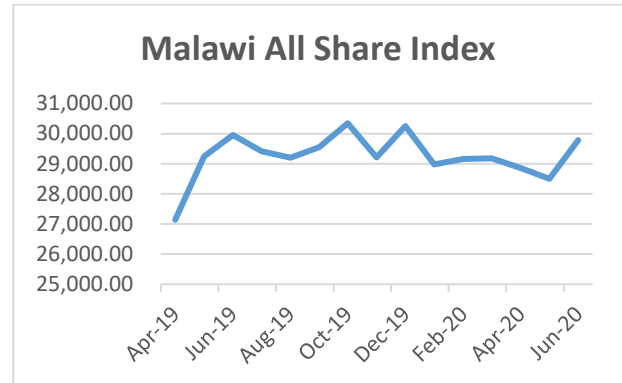
Figure 12: Trend of traded volume on the Malawi Stock Exchange (MSE) beginning April, 2019 to June, 2020



Source: Data from MSE Market Reports

Figures 11 and 12 show that despite the shock of COVID-19 taking full effect on the economy during the second quarter of 2020; capital markets remained resilient and made significant gains on the performance of the previous quarter in terms of volume traded and turnover. However, the performance for this quarter in terms of turnover is relatively poor compared to the performance in the same quarter in 2019.

Figure 13: Trend of the Malawi All Share Index on the Malawi Stock Exchange (MSE) beginning January, 2019 to June, 2020.



Source: Data from MSE Market Reports

In general, the market was bullish during this quarter with the Malawi All Share Index (MASI) registering a positive return on index of 2.09% and closing off the quarter at 29,784.70 points. This reflected a change in the trend for the MASI as it had been on a declining trend beginning March, 2020 up to end May, 2020.

iii. Private Sector Credit Developments

Moving from the previous quarter to the quarter under review; credit to the private sector continued to expand, supported by an accommodative monetary policy stance. In April, 2020 the annual growth rate of the private sector credit was recorded at 18.9 percent compared to 23.8 percent and 14.5 percent in March 2020 and April 2019, respectively. On a monthly basis, however, private sector credit expanded by K5.4 billion (1.0 percent) to K553.0 billion in the month of April, 2020, following a decline of K3.3 billion (0.6 percent) in the preceding month.

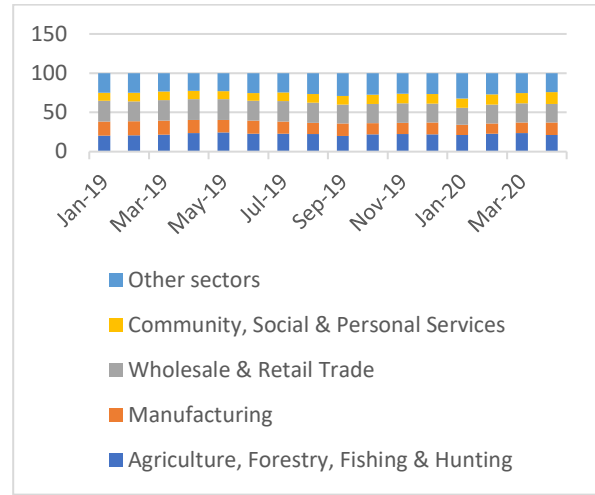
This outturn mirrored the seasonal uptick in economic activity, albeit somewhat subdued by COVID-19 pandemic. During the month of April 2020, individual and household loans, mortgages and commercial and industrial

loans rose by K14.5 billion, K1.8 billion and K752.5 million to K196.0 billion, K41.6 billion and K220.0 billion, respectively. While foreign currency denominated loans declined by K7.0 billion to K129.3 billion.

During this quarter the impact of COVID 19 as massively felt by the sectors that rely heavily on imports and social interaction through reduction in turnover and thus posing liquidity challenges for companies. Due to this development; it is no surprise that the monthly increase in private sector credit in the month of April 2020 was supported by Manufacturing; Community, social and personal services; Transport, storage and communications and Financial services sectors respectively; which recorded credit expansions amounting to K13.0 billion, K10.0 billion, K4.0 billion and K2.7 billion, respectively

Overall, the Wholesale and Retail trade sector continue to be the largest credit holder at 23.5 percent of the outstanding stock of private sector credit, followed by Agriculture sector at 21.2 percent, with Manufacturing at 16.1 percent and Community, social and personal services sector at 14.9 percent as at end April 2020.

Figure 14: Sectoral Composition of Private Sector Credit beginning January, 2019 to April, 2020.



Source: Data from RBM

iv. Public Debt Stock Developments

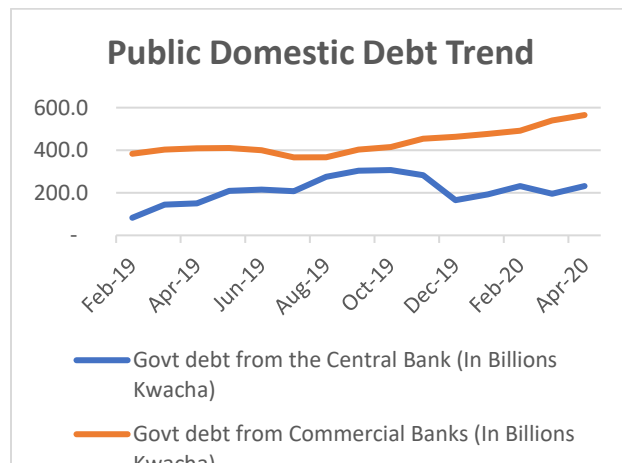
The public debt stock has been increasing at an alarming rate with official statistics from the Reserve Bank of Malawi (RBM) quoting the Debt/GDP ratio at 62 percent as at end December, 2019. Owing to this increase is mainly the rapid increase in public domestic debt with RBM statistics quoting it at MK1.4 trillion as at end December, 2019. This upward trend in public domestic debt has continued into the year 2020 mainly because government borrowing from commercial banks recorded monthly upturns throughout the first quarter of 2020 as well as at the beginning of the quarter in review. Thus, as at end April, 2020 Government borrowing from commercial banks was at MK565.2 billion.

On the other hand, Government borrowing from monetary authorities (RBM) recorded both an upward and downward trend over the first four months of the year 2020. As at end April, 2020 Net credit to Government from the RBM increased by K37.3 billion to K232.1 billion following increases in Ways and

Means advances as well as RBM holdings of Treasury notes of K24.3 billion and K5.6 billion to K75.2 billion and K348.5 billion, respectively.

In regards to Government external debt developments; on 1st May, 2020 the Executive Board of the International Monetary Fund (IMF) approved a disbursement under the Rapid Credit Facility (RCF) equivalent to US\$91 million to help Malawi meet the urgent Balance of Payment (BOP) needs stemming from the COVID-19 pandemic. This announcement came after the IMF had made another announcement earlier in April, 2020 that it had given Malawi a six-month debt service relief in the wake of the impact of COVID 19.

Figure 15: Trend in Public Domestic Debt based on two components: Government debt from central bank and Government debt from commercial banks beginning February 2019 to April, 2020.



Source: Data from RBM

Figure 15 shows from the start of the 2019/20 fiscal year (July, 2019) to April, 2020; Government debt from commercial banks

has been on an upward trend due to persistent fiscal deficits that have occurred during the same period as indicated in our Annex data table 1. It is obvious that the shock of COVID 19 is not only posing liquidity challenges to private sector companies but to the Central Government as well through reduced tax revenue. However going into the third quarter of 2020; Government should practice fiscal consolidation because continued increase in public domestic debt is crowding out financial resources that need to be directed to private sector companies at a time when they need them most. Therefore, Government must use the resources available to it prudently by focusing expenditure only on essentials.

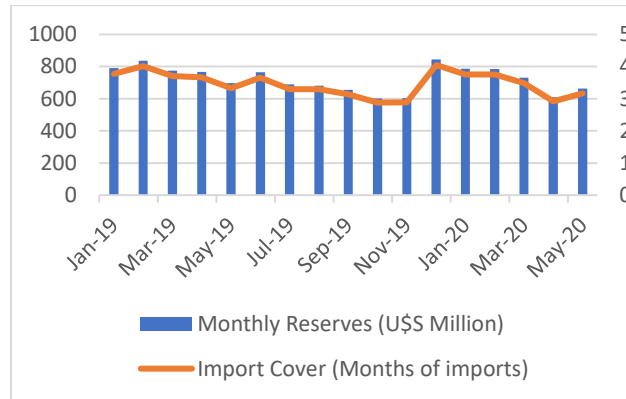
SECTION 3: FOREIGN EXCHANGE DEVELOPMENTS

i. Gross Official Foreign Reserves

Over the course of the previous quarter; gross official foreign exchange reserves had been on a declining trend owing to the domestic economy's high reliance on seasonal agricultural commodity exports that usually pick up during the second quarter of the year as well as heavy imports of manufactured products and raw materials for production. Consequently, at the end of March, 2020 gross official foreign exchange reserves were recorded at 730.17 million US Dollars covering 3.49 months of imports down from the figure recorded at the end of January, 2020 which was 786.71 million US Dollars covering 3.76 months of imports. At the start of the quarter in review; the declining trend continued with the figure recorded at the end of April, 2020 being 610.13 million US Dollars covering 2.92 months of import cover. However, as at end May, 2020 a slight upward trend was

recorded at 662.98 million US Dollars covering 3.17 months of import cover.

Figure 16: Trend of gross official foreign exchange reserves beginning January 2019 to May, 2020.



Source: Data from RBM

Going into the third quarter, it is difficult to assume with certainty the trend that gross official foreign exchange reserves will take due to the fact that there is still pervasive uncertainty around the forecast of global output which creates demand for local exports. Despite this fact; we are certain that global output is going to contract in 2020 as such they will be reduced global demand for the country's exports. With this thought in mind, it would be wise therefore for the country to engage in import substitution for certain products with domestically produced goods in order to reduce imports thereby easing pressure on forex.

ii. Exchange rate

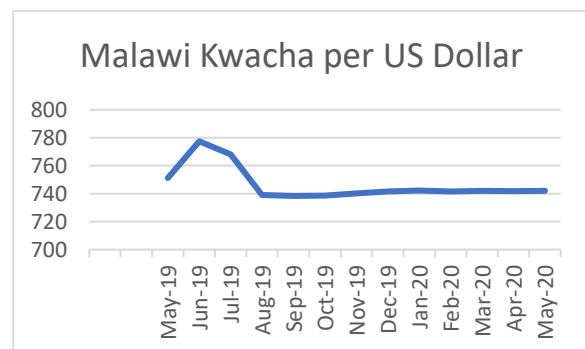
The Malawi kwacha remained broadly stable against the US dollar and traded at K737.19 per US dollar as at end June 2020 relatively unchanged from K741.02 per US dollar at the end of the preceding quarter. The average exchange rates for the Kwacha against the US Dollar, in the months of April and May 2020, were K741.90 per US dollar and

741.98 per US dollar respectively. In regards to the other major trading currencies, the Malawi Kwacha appreciated in value relative to the British Pound as the quarter dragged on after initially depreciating at the end of April, 2020.

The average exchange rates for the Kwacha against the British Pound in the months of April and May 2020, were recorded at K921.99 per Pound and 916.32 per Pound respectively and as at 30 June, 2020 the kwacha was trading at K904.75 per Pound.

Similarly, during this quarter the Malawi Kwacha performed stronger against the South African Rand; with the average exchange rates for the Kwacha against the South African Rand in the months of April and May 2020, recorded at K40.45 per Rand and 39.35 per Rand respectively and as at 30 June, 2020 the kwacha was trading at K42.55 per Rand. On the other hand, the performance of the Malawi Kwacha against the Euro was relatively poor in this quarter; the average exchange rates for the Kwacha against the Euro in the months of April and May 2020, were recorded at K809.72 per Euro and K 815.22 per Euro respectively and as at 30 June, 2020 the kwacha was trading at K826.69 per Euro.

Figure 17: Trend of the Malawi Kwacha against the US Dollar beginning May 2019 to May, 2020.



Source: Data from RBM

SECTION 4: EXTERNAL SECTOR DEVELOPMENTS

i. Global Economic Outlook

The COVID-19 pandemic has had a more negative impact on economic activity in the first half of 2020 than anticipated, and the recovery is projected to be more gradual than previously forecasted. In light of this, the International Monetary Fund (IMF) has revised its earlier projection made in April, 2020 that the **global economy would contract by 3 percent** in 2020 and thus the IMF now projects the **global economy to contract by 4.9 percent**. Similarly, to the projection made in April 2020, there is still pervasive uncertainty around this particular forecast. The forecast depends on the depth of the contraction in the second quarter of 2020 (for which complete data is not yet available) as well as the magnitude and persistence of the adverse shock. These elements, in turn, depend on several uncertain factors, among others including:

- The length of the pandemic and required lockdowns.
- Voluntary social distancing, which will affect spending.
- Displaced workers' ability to secure employment, possibly in different sectors.
- Scarring from firm closures and unemployed workers exiting the workforce, which may make it more difficult for activity to bounce back once the pandemic fades.
- Global supply chain reconfigurations that affect productivity as companies try to enhance their resilience to supply disruption.

- The extent of cross-border spillovers from weaker external demand as well as funding shortfalls.

Considering the extreme uncertainty regarding the pandemic and its implications for different sectors, the policy response from Governments will have to adapt as the situation evolves to maximize its effectiveness—for instance, Governments can consider shifting focus from saving firms to facilitating resource reallocation across sectors.

ii. Global Financial Developments

Over the course of the second quarter; global financial conditions have eased significantly following the sharp tightening early in the year. This easing has been driven by the combination of a marked fall in interest rates and a strong rebound in risk asset market valuation on the back of unprecedented central bank measures.

a) Equity Markets

Looking at economies with systemically important financial sectors, equity markets have bounced back from their March troughs, on balance, recovering to about 85 percent of their mid-January levels. However, on average, though there is some dispersion in that while some equity markets have recouped all of their losses, others are still about 25 percent lower than they were in mid-January. In tandem with the recovery in prices, equity market volatility has fallen from its peak in March, though it remains above its long-term average.

b) Credit Markets

In credit markets, spreads have narrowed significantly from their earlier peaks. On average, about 70 percent of the initial widening has been retraced. There is, however, some divergence in the level of

spreads across ratings and geography. Bond issuance has surged for higher-rated borrowers, and markets have reopened for speculative grade borrowers as well.

In general, this broad recovery in financial markets is a result of the following factors:

- Growing investor optimism about the prospects of a speedy economic recovery.
- Actions by central banks have boosted investor risk appetite.
- Fiscal and financial policy measures have also helped support investor sentiment.

This combination of unprecedented policy support appears to have been successful in maintaining credit flows. The lift to investor risk appetite has helped raise bond issuance in markets, and banks have also continued to lend in most major economies.

The current state of the global financial markets is a good development for the domestic economy as this increases opportunities for credit facilities through potential increase in inflows in the domestic financial markets as well as availability of direct external credit.

However, this trend in financial markets is clearly different from the trend in global economic output. Therefore, going into the third quarter of 2020; holding all other things constant; this disconnect between the financial markets and the real economy raises the risk of another correction in risk asset prices should investor risk appetite fade, posing a threat to the recovery.

What we have seen from the latest IMF global economic projection is that global real economic activity remains subdued and will continue to experience downward pressure in the coming months with even the

possibility of the downturn being much worse than 4.9 percent. Despite this forecast being uncertain due to the huge uncertainty in the pathway of the pandemic; the general consensus is that recovery of global economic output depends on the world defeating the pandemic. Therefore, should there be a second wave of the virus, and containment measures reinstated as a result; then market expectations about the extent and length of central banks' support to financial markets may turn out to be too optimistic, leading investors to reassess their appetite for, and pricing of, risk.

iii. Global Commodity Prices

According to World Bank statistics, Brent crude oil prices declined to an average of US\$31.4 per barrel in the second quarter of 2020 from an average of US\$50.5 per barrel in the first quarter of 2020. The prices have been on a downward trend since January 2020 as the shock of COVID-19 continues to slow down global economic activity. Likewise, tea prices on the Mombasa market declined to an average of US\$1.98 per kilogram in the review period from an average of US\$2.13 per kilogram in the previous quarter. Meanwhile, sugar prices on the European (EU) market remained unchanged at an average price of US\$0.36 per kilogram.

The falling tea prices at the Mombasa market is not a good development for the domestic economy as this will reduce export earnings from the commodity. While stability of the prices at the European sugar market means that the export earnings from sugar will remain stable holding all other things like demand for the commodity constant.

On the other hand, the falling Brent crude oil prices means that the price of fuel on the domestic economy will continue to

experience downward pressure and this will lead to continued stability in the domestic prices albeit despite other factors exerting upward pressure on the domestic prices.

SECTION 5: SPECIAL FEATURE: ACCELERATING DEVELOPMENT OF DIGITAL FINANCE BY GOVERNMENT IN THE FACE OF THE COVID-19 PANDEMIC

Technology is changing the landscape of the financial sector, increasing access to financial services in profound ways. These changes have been in motion for several years, affecting nearly all countries in the world. During the COVID-19 pandemic, technology has created new opportunities for digital financial services to accelerate and enhance financial inclusion, amid social distancing and containment measures. Just like most countries across the globe; on 2nd April, 2020, Malawi registered its first case of COVID-19 and subsequently the Government instituted a set of containment measures with social distancing being at the centre of the containment strategy.

As the second quarter of 2020 has dragged on; the COVID-19 Pandemic has proven to be a game changer for digital financial services in Malawi with Government strongly advocating for contactless and cashless transactions through use of digital finance over physical exchange of hard cash in business transactions.

Even though, for the most part it is quite obvious that physical exchange of cash is still being heavily practiced in most business transactions in the country; the crisis caused by the pandemic has strengthened things that we already knew that digital financial services are faster, more efficient and

overcome infrastructure limitations as well as mobility restrictions than traditional financial services.

In an effort to encourage the shift to digital finance; many countries around the world including Malawi have supported measures such as lowering fees and increasing limits on mobile money transactions. However, unlike most of these countries, Malawi has other underlining challenges such as: digital technology infrastructure deficits; a highly concentrated uncompetitive mobile industry and the presence of high taxes in the telecom sector all of which negatively impact the quality, cost and access of digital financial services.

As such even though a 40 percent reduction in fees and charges related to internet banking, mobile payments and any other related services was instituted; this will not do much in increasing usage of digital finance therefore the country risks missing out on the perfect opportunity to make upward gains in financial inclusion levels.

Government must thus act swiftly by starting to address some of these challenges for instance by revising the heavy taxes that it charges the telecom sector which in turn affect service delivery and make the final cost expensive for consumers. According to World Bank statistics entry level broadband packages cost 5.2 percent of per capita GDP in Uganda, 2 percent in Kenya and yet 19 percent of per capita GDP in Malawi. Surely the differences are too big to ignore and this high cost is what has created the biggest barrier to internet usage with World Bank statistics showing that as of 2017 only 13.8 percent of the population in Malawi had access to the internet. This statistic is less likely to have improved significantly since then.

NEWS HIGHLIGHTS

APRIL	
SRS Agro & Automotive Limited.	SRS Agro and Automotive Limited, has introduced on the market a disinfection chamber to help towards fighting Covid-19 pandemic. The machine is made of lightweight frames with five-point spraying system to ensure complete 360 degrees coverage and has an electric motor and 50 liters bucket.
IMF & World Bank	The International Monetary Fund (IMF) and World Bank have reaffirmed commitment to supporting Malawi and other African economies in cushioning possible effects of the novel Covid-19. In a joint statement, the institutions said official creditors have mobilized up to \$57 billion for Africa in 2020 alone including upwards of \$18 billion from the IMF and the World Bank each.
IMF & The Government	Malawi could save approximately \$9.8 million (about K7.2 billion) in the next six months following announcement by the International Monetary Fund (IMF) to give the country and 24 others a debt service relief in the wake of Covid-19 pandemic.
The Reserve Bank of Malawi	The Reserve Bank of Malawi (RBM) in conjunction with the Bankers Association of Malawi agreed a number of measures that are aimed at mitigating the impact of Covid 19 in the banking Industry. Some of the measures include: Three-month moratorium on interest and principal repayments for loans by borrowers on a case by case basis, Activation of the Emergency Liquidity Assistance Facility and make it available to banks on a case by case basis and Reduce by forty (40) percent fees and charges related to internet banking, mobile payments and any other related services, except for POS and visa and master card related payments, in order to encourage usage of electronic payment transactions.
MAY	
Icon Properties plc posts K7.4bn profit	The property development and management firm posted K7.4 billion profit in the first full year of its operation ended December 31, 2019. The board proposed to pay a final dividend of K734 million representing 11 tambala per share bringing the total dividend for the year to K1.403 billion representing K21 per share

<p>Tourism operators push for Covid-19 bailout packages</p>	<p>Malawi Tourism Council (MTC) met with Department of Tourism where it proposed possible bail out and other incentives for the tourism sector. The council asked government to either make a once-off payment or pay part of salaries of compliant tourism operators for three months to avert possible closures and massive retrenchments</p>
<p>Sugarcane bill under scrutiny</p>	<p>Sugarcane Growers Association of Malawi (Sugam) appealed to government to fast-track the review of Sugarcane Industry Bill in a bid to protect growers. The sugarcane industry has been operating without a regulatory framework which poses a threat to sustainable growth of smallholder sugar cane production</p>
<p>Illovo Sugar Malawi earnings down by 75 percent</p>	<p>Illovo Sugar (Malawi) plc reported a 75 percent decline in its earnings to K2 billion in the six months ended February 28 2020, from K8.1 billion recorded in the previous period. However, the firms' revenue increased from K62.4 billion to K73.5 billion during the same period last year.</p>
<p>JUNE</p>	
<p>Blantyre Hotels Ltd plc</p>	<p>Malawi Stock Exchange-listed Blantyre Hotels Limited plc which owns Ryalls Hotel, has registered a 12 percent drop in profit for the six months period ended March 31, 2020. This is according to an interim financial statement the firm published signed by the company's Chairman, Vizenge Kumwenda which shows that profit for the hospitality firm went down to K1.74 billion compared to K1.99 billion recorded during similar time last year.</p>
<p>COMESA</p>	<p>Malawi and fourteen other Common Market for East and Central Africa (COMESA) member states are earmarked for the piloting of the electronic certificate of origin (eCo) starting early next month. The facility is aimed enhancing ease of trade among the countries. A COMESA e-newsletter issued last week says the need to start implementing the eCo system has gained urgency given the challenges that movement of goods across borders is facing.</p>
<p>Sunbird</p>	<p>Malawi Stock Exchange (MSE)-listed hospitality giant, Sunbird on Friday disclosed that it posted an after-tax profit of K2.595 billion in 2019 up from K2.562 billion in 2018. Sunbird Board Chairperson, Phillip Madinga, said this during the firm's virtual annual general meeting. Madinga said the performance demonstrates the firm's resiliency and is attributed to prudent cost</p>

management, business process reengineering as well as a relatively improved and stable economic environment.

SELECTED ECONOMIC STATISTICS

ANNEX 1. DATA ON CENTRAL GOVERNMENT BUDGETARY OPERATIONS (in Billions MK)

	Jul-19	Aug-19	Sep-19	Oct-19	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20	Apr-20
Total Revenue	97.3	86.4	110.1	98.8	83.9	135.2	110.4	89.4	119.6	112.8
Tax Revenue	88.9	77.8	93.3	87.2	71.2	110.4	101.7	68.8	90.1	82.9
Non Tax revenue	5.7	3.6	7.6	3.3	6	6.3	2.9	4.7	19.2	5.1
Grants	2.6	5.0	9.2	8.3	6.6	18.4	5.8	15.9	10.3	24.8
Total Expenditure	131.4	127.5	127.7	111.7	109.9	169.1	125.2	151.3	154.5	175.7
Recurrent expenditure	118.5	113.4	113.8	96.9	99.5	148.4	112.3	124.6	127.5	145.7
Development	12.9	14.1	14	14.7	10.3	20.7	12.9	26.7	27	30
Deficit/Surplus	-34.1	-41.1	-17.6	-12.9	-26	-33.9	-14.8	-61.9	-34.9	-62.9

Source: Data from RBM

ANNEX 2. DATA ON GDP GROWTH RELEASED BY THE IMF

	2018	2019	*2020
World output	3.6	2.9	-4.9
USA	2.9	2.3	-8.0
UK	1.3	1.4	-10.2
Euro area	1.9	1.2	-8.0
Japan	0.3	0.7	-5.8
China	6.7	6.1	1.0
South Africa	0.8	0.2	-8.0
Sub-Saharan Africa	3.3	3.1	-3.2

Source: Data from IMF

ANNEX 3. DATA ON QUARTERLY AVERAGE COMMODITY PRICES

Commodity	2019			2020	
	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar	Apr-Jun
Brent crude oil (US\$/ bbl)	68.3	61.9	62.7	50.5	31.4
Tea, Mombasa (US\$/ Kg)	2.28	2.17	2.27	2.13	1.98
Soya Beans (US\$/ mt)	353	366	378	378	363
Rice (US\$/ Mt)	175.9	170.1	166.8	167.6	146.3

Sugar, EU (US\$/ Kg)	0.37	0.36	0.36	0.36	0.36
Groundnuts (US\$/ mt)	1,315	1,278	1,403	1,520	1,717
Groundnuts Oil (US\$/ mt)	1,387	1,451	1,435	1,393	1,604

Source: Data from World Bank

Note: US\$= US Dollars; bbl= barrel; Kg= Kilogram; mt= metric ton